



TRANSWESTERN

# DISTRICT OF COLUMBIA INDUSTRIAL MARKET

## Q4 2023



### TRENDLINES

	Q4 2023	Q4 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.1	4.2	↑	5.9	↓
NET ABSORPTION (THOUSANDS SF)	(15.0)	68.0	↓	3.0	↔
DIRECT VACANCY RATE	3.9%	2.8%	↑	4.7%	↓
DIRECT VACANT SF (MSF)	0.3	0.2	↑	0.4	↓
UNDER CONSTRUCTION (MSF)	0.0	0.0	↔	0.0	↔
ASKING RENT, NNN (PSF)	\$17.71	\$16.46	↑	\$14.68	↑

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

### INDUSTRIAL MARKET CONDITIONS DECLINED SLIGHTLY IN Q4 2023

The District of Columbia industrial market diminished during the fourth quarter of 2023. Net absorption totaled negative 15,000 SF while the direct vacancy rate increased 10 basis points to 3.6%. Due to limited lease signings being offset by moveouts. Despite this, the chronically low vacancy rate continued to push asking rents up 1.9%, ending the quarter at \$17.71 PSF.

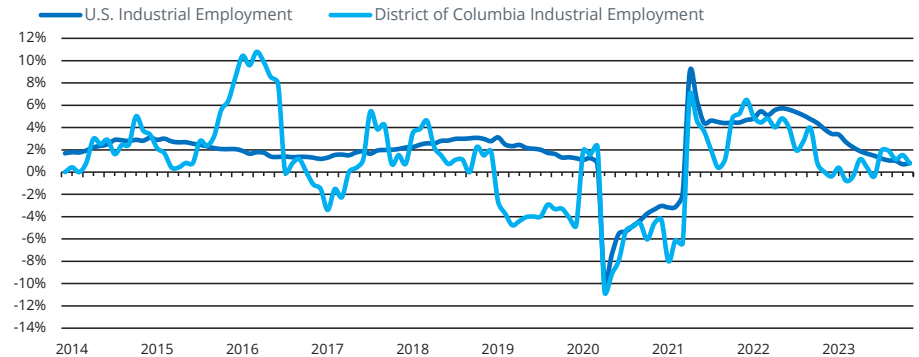
We expect the vacancy rate will remain low enough in 2024 to push rents up, albeit at a slowing pace. Demand for industrial space should remain strong over the next 12 months, but will likely normalize compared to recent years. E-commerce and service product should fuel demand in the years to come. However, economic uncertainty could pause some consumer spending, thereby softening leasing activity.

**ECONOMY**

**Industrial Job Growth Remains Moderate in Q4**

- 7,300 new jobs were added to the District of Columbia economy during the 12-months ending November 2023, which is below the pre-pandemic 5-year average of 9,800. This was driven by the restaurant/bars, social/civic nonprofits, and educational services.
- Industrial-using jobs added 200 positions during the 12 months ending November 2023, just below the pre-pandemic 5-year average of 300. Most of this gain occurred within the construction sector.
- The unemployment rate for the District of Columbia is currently at 5.2% as of October 2023 and averaged 5.3% for the past three months. The rate is up from 4.3% one year ago and is down notably since the peak of 10.4% in April 2020.
- We expect industrial job growth in the District of Columbia to be minimal over the next several years, due to limited industrial space in the District as compared to the surrounding suburban area. Most of the limited growth will occur within construction and consumer services.

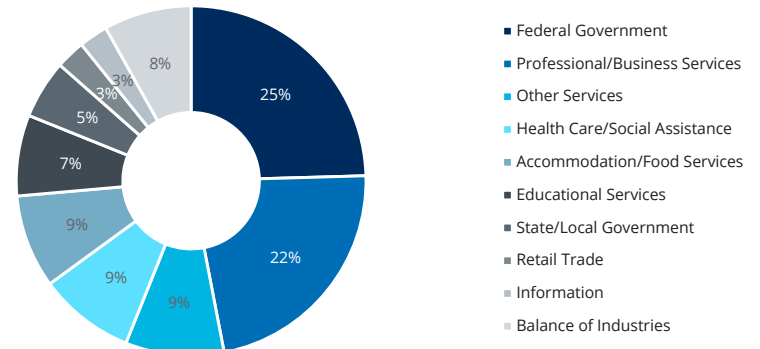
**Y-O-Y CHANGE IN INDUSTRIAL JOBS**



Source: Bureau of Labor Statistics, Transwestern

**SHARE OF EMPLOYEES BY INDUSTRY**

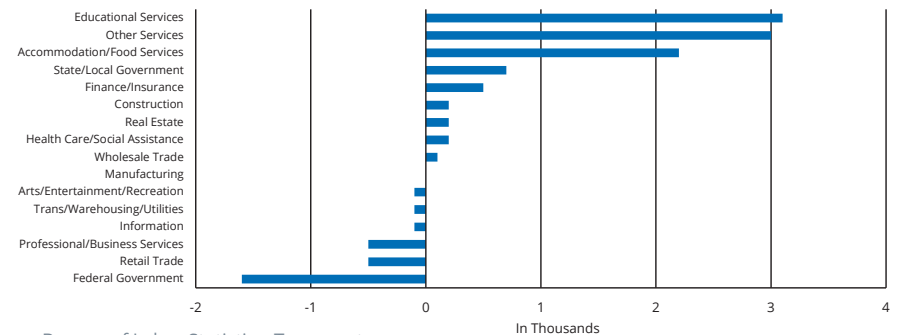
District of Columbia | November 2023



Source: Bureau of Labor Statistics, Transwestern

**Y-O-Y CHANGE IN JOBS BY INDUSTRY**

District of Columbia



Source: Bureau of Labor Statistics, Transwestern

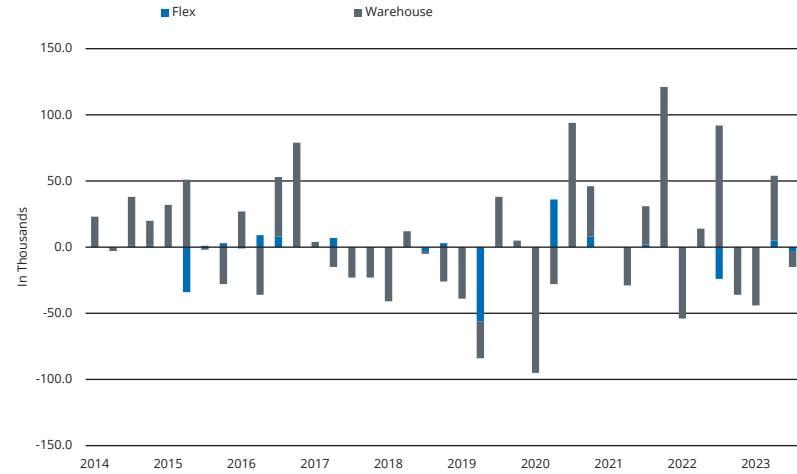


### NET ABSORPTION AND VACANCY

#### Vacancy Elevates Slightly While Net Absorption is Negative for Q4

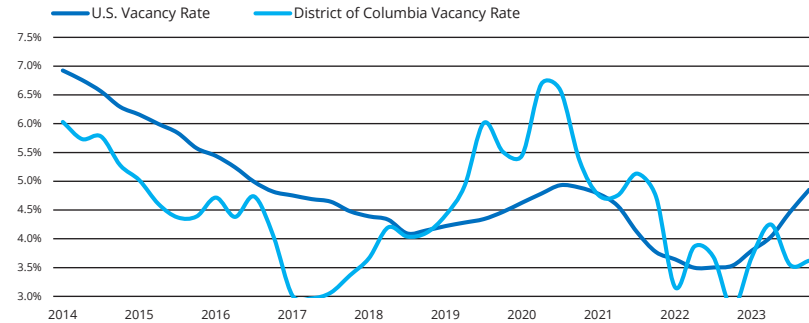
- Net absorption totaled negative 15,000 SF during the quarter, with year-over-year totaling negative 41,000 SF.
- The negative net absorption was due to limited leases signed outweighed by a couple of mid-sized moveouts.
- The direct vacancy rate increased to 3.6% this quarter, up from 3.5% the quarter prior, and is up from 2.8% one year ago.
- With the limited amount of available inventory, coupled with future industrial demolitions, we expect the vacancy rate to remain steady with restricted net absorption.

### NET ABSORPTION BY PRODUCT TYPE



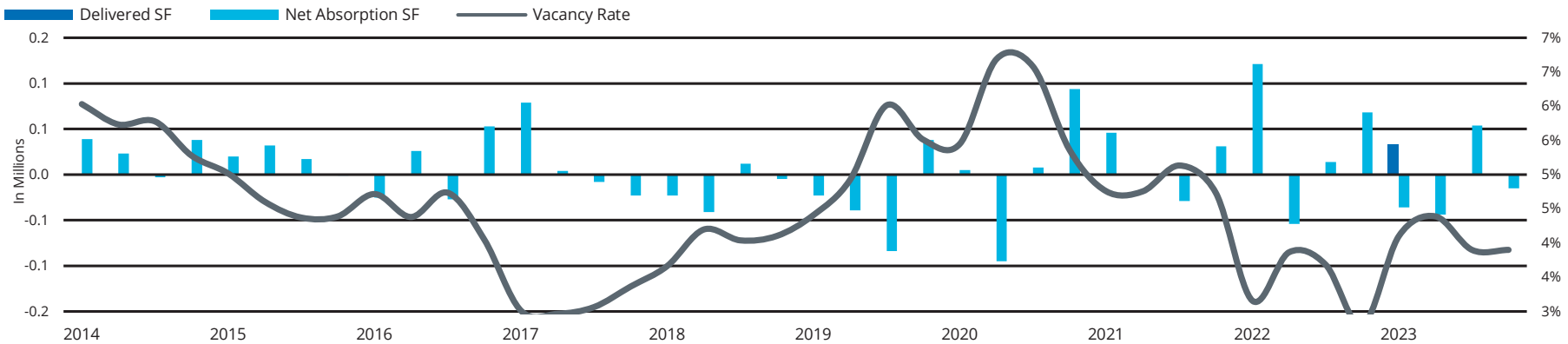
Source: CoStar, Transwestern

### DIRECT VACANCY RATE



Source: CoStar, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

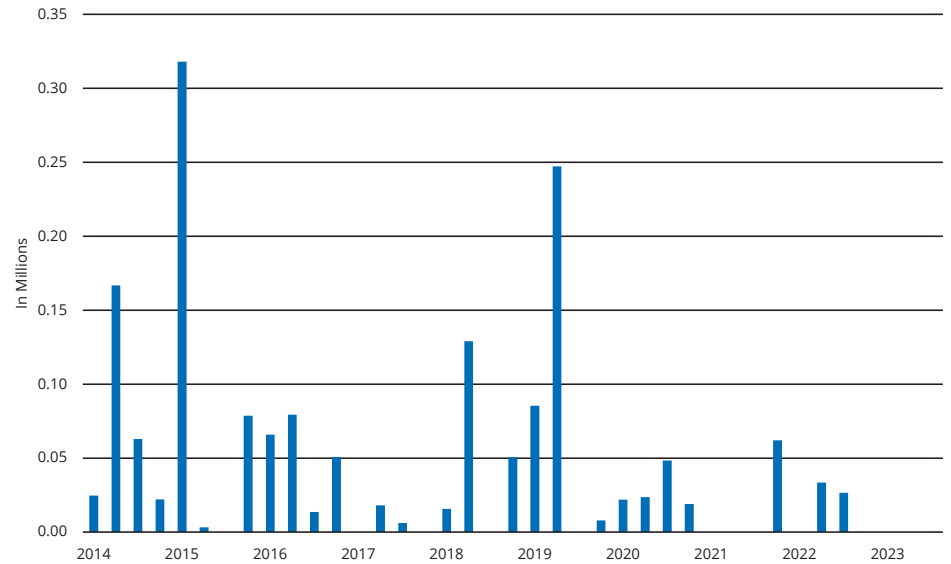


### UNDER CONSTRUCTION AND RENTAL RATES

#### Rental Rates Continue to Increase Given Tight Market

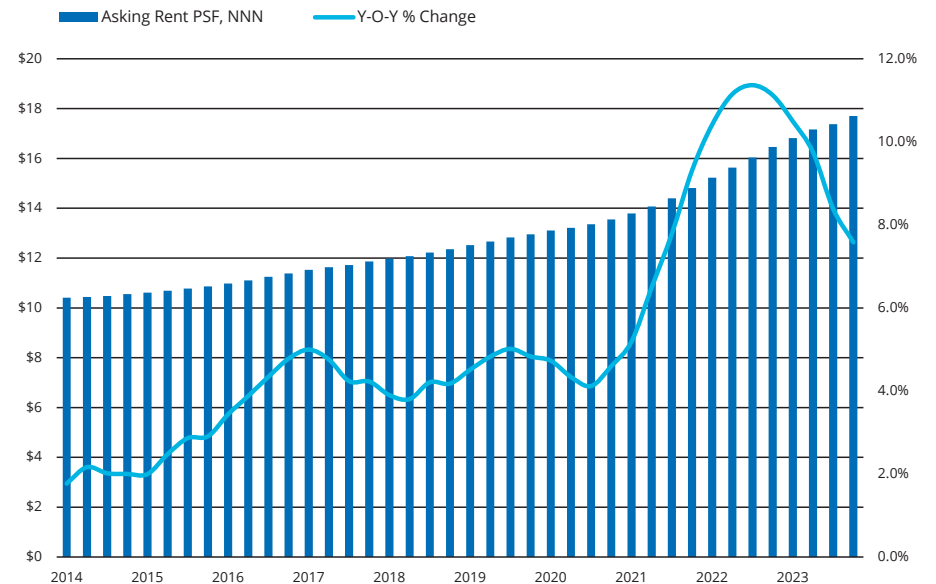
- There are currently no industrial properties under construction in the District of Columbia. We expect the pipeline to remain empty for the short run. We expect demolitions of obsolete industrial product to persist and overall industrial inventory to continue to decrease. Over the past 10 years, a total of 1.6 million SF has been demolished and therefore removed from the inventory. In most cases, multifamily has been built in its place, followed by office.
- Asking rents increased 190 basis points during the fourth quarter of 2023, landing at \$17.71 PSF. Over the past year asking rents rose 7.6%, which is healthy, and above the five-year annual average of 4.1%.
- Rent growth remains strong, despite constrained market activity, as the vacancy rate remains low enough to support rent increases. As the inventory tightens due in part to demolitions, we expect rents to increase further due to limited quality options and zoning challenges.

### DEMOLISHED



Source: CoStar, Transwestern

### ASKING RENT



Source: CoStar, Transwestern



### MARKET INDICATORS

All Product Types | Q4 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF, NNN
<b>BULK WAREHOUSE</b>	1,203,363	50,309	4.2%	4.2%	0	(3,000)	2,000	\$20.96
<b>FLEX/INDUSTRIAL</b>	6,550,494	230,282	3.5%	4.0%	0	(12,000)	(43,000)	\$16.92
<b>TOTAL</b>	<b>7,753,857</b>	<b>280,591</b>	<b>3.6%</b>	<b>4.0%</b>	<b>0</b>	<b>(15,000)</b>	<b>(41,000)</b>	<b>\$17.71</b>

Source: CoStar, Transwestern



### RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on flex and industrial properties located in the District of Columbia. This report includes single tenant, multi-tenant and owner-user properties 15,000 SF and larger, excluding data centers, biotech, and properties owned by a government agency.

### ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from 33 U.S. offices, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at [transwestern.com](https://transwestern.com) and @ Transwestern.

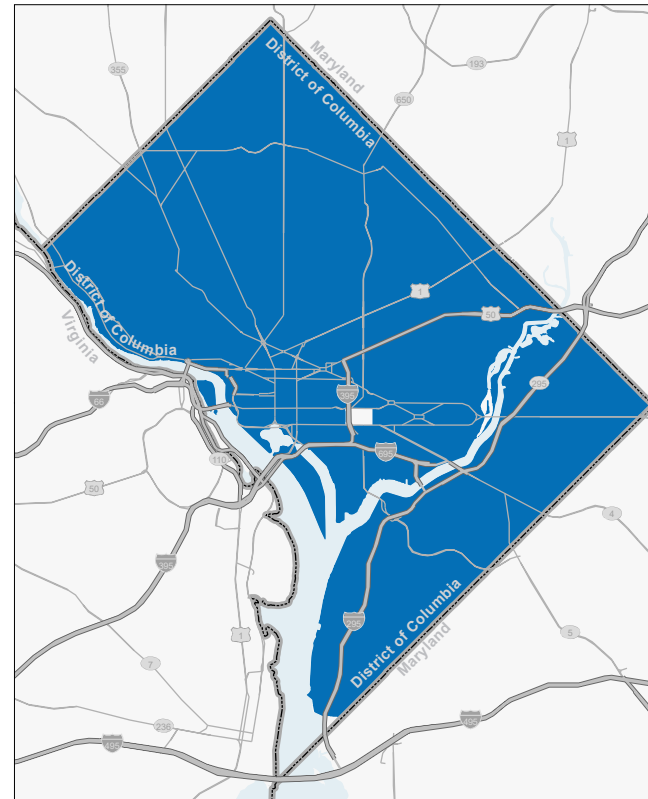
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District of Columbia Industrial Submarkets

District of Columbia