TRANSWESTERN

DISTRICT OF COLUMBIA INDUSTRIAL MARKET

Q1 2024

TRENDLINES

	Q1 2024	Q1 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.8	4.4	↑	5.9	↓
NET ABSORPTION (THOUSANDS SF)	(49.0)	(36.0)	↓	0.5	↔
DIRECT VACANCY RATE	4.2%	4.1%	↑	4.7%	↓
DIRECT VACANT SF (MSF)	0.3	0.3	↔	0.4	↓
UNDER CONSTRUCTION (MSF)	0.0	0.0	↔	0.0	↔
ASKING RENT, NNN (PSF)	$18.02	$16.82	↑	$14.84	↑

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

INDUSTRIAL MARKET CONDITIONS DECREASED IN Q1 2024

The District of Columbia industrial market weakened during the first quarter of 2024. Net absorption totaled negative 49,000 SF while the direct vacancy rate increased 60 basis points to 4.2%. This was due to limited lease signings being offset by moveouts. Despite this, the chronically low vacancy rate continued to push asking rents up 1.7%, ending the quarter at $18.02 PSF.

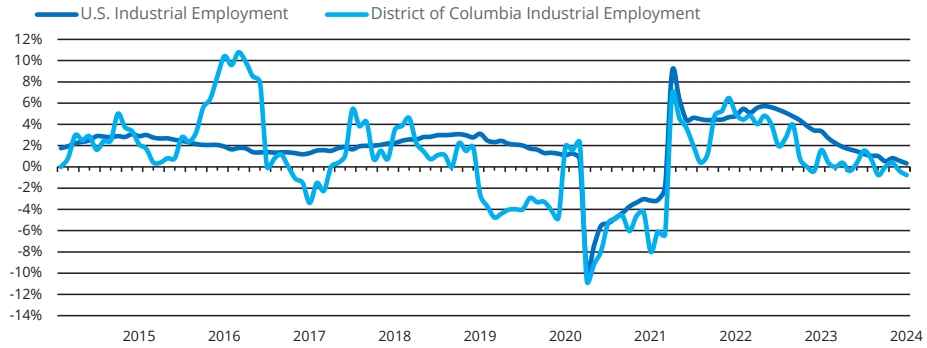
We expect the industrial market to normalize during 2024, as demand cools in the wake of elevated interest rates and economic uncertainty. The vacancy rate should remain low enough in 2024 to push rents up, albeit at a decelerating pace. Long-term drivers of this property type are strong, boosted by healthy demand for distribution and service product types, which will keep rent growth steady in the years to come.

ECONOMY

Industrial Job Growth Declines to Start 2024

- 4,300 new jobs were added to the District of Columbia economy during the 12-months ending January 2024, which is below the pre-pandemic 5-year average of 9,800. This was driven by the federal government and healthcare/social assistance industry.
- Industrial-using jobs lost 200 positions during the 12 months ending January 2024, below the pre-pandemic 5-year average of 300. Most of this loss occurred within the construction sector.
- The unemployment rate for the District of Columbia is currently at 5.2% as of January 2024 and averaged 4.8% for the past three months. The rate is up from 4.9% 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.

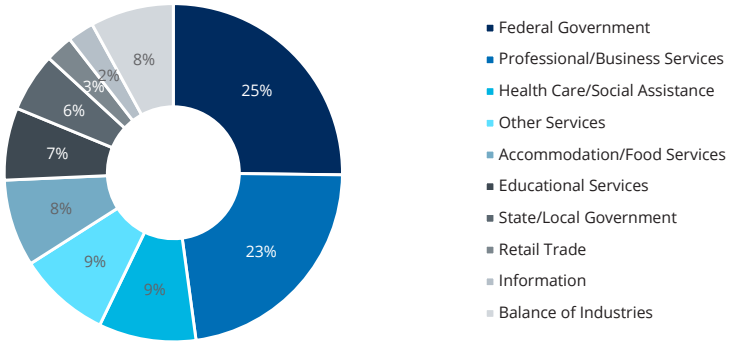
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

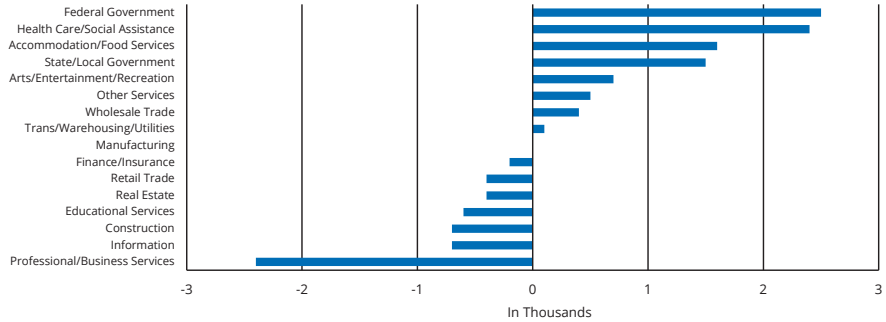
District of Columbia | January 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

District of Columbia



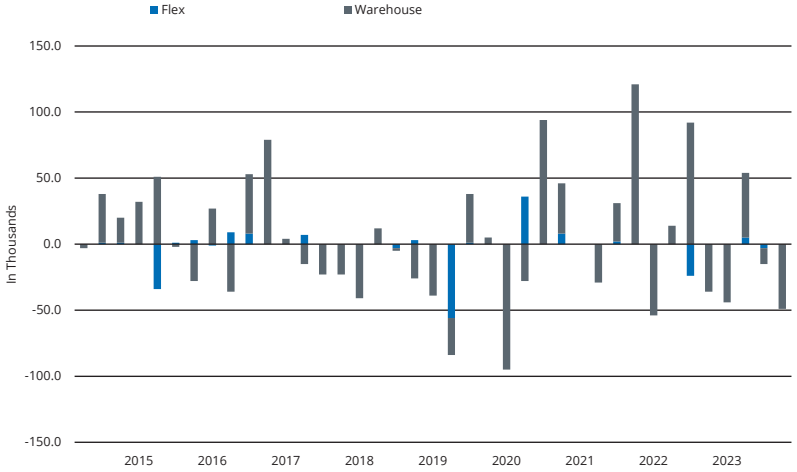
Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION AND VACANCY

Vacancy Increases While Net Absorption Trends Downward in Q1 2024

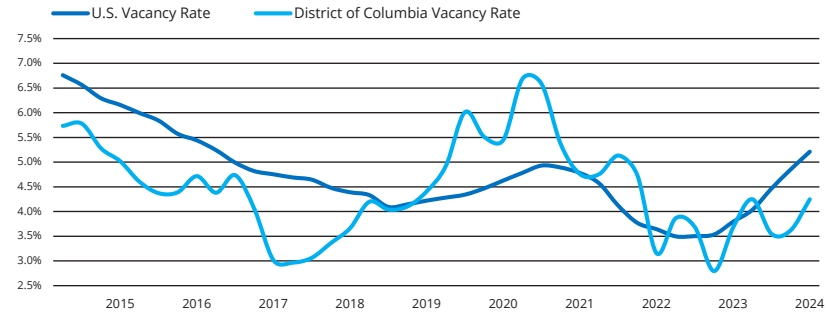
- Net absorption totaled negative 49,000 SF during the quarter, with year-over-year totaling negative 23,000 SF.
- The negative net absorption was due to limited leases signed outweighed by a couple of midsized moveouts.
- The direct vacancy rate increased to 4.2% this quarter, up from 3.6% the quarter prior, and is up from 3.7% 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



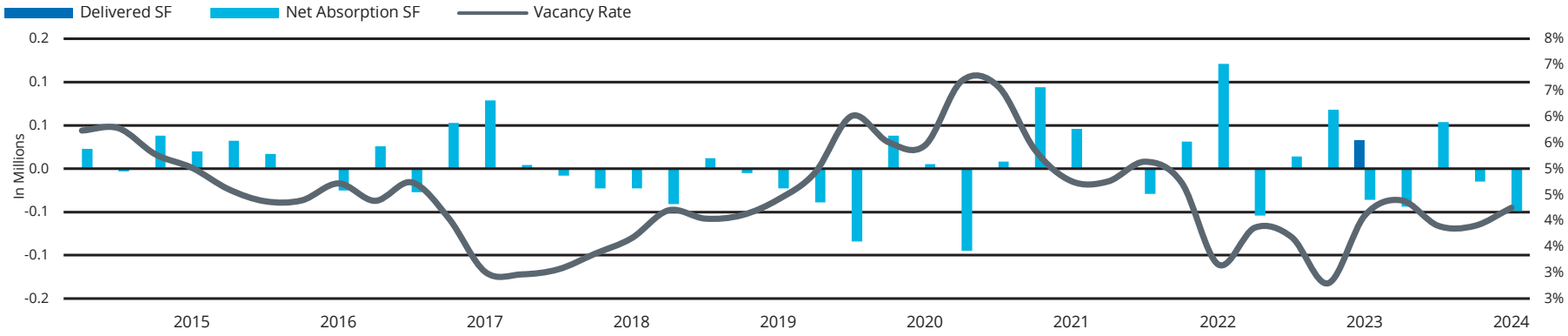
Source: CoStar, Transwestern

DIRECT VACANCY RATE



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



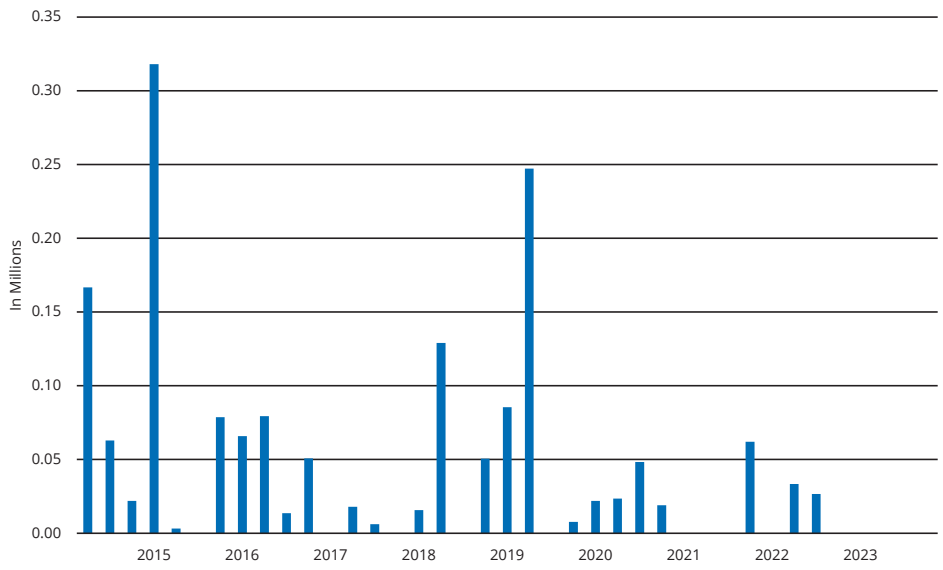
Source: CoStar, Transwestern

UNDER CONSTRUCTION AND RENTAL RATES

Rental Rates Continue to Grow Given Tight Market

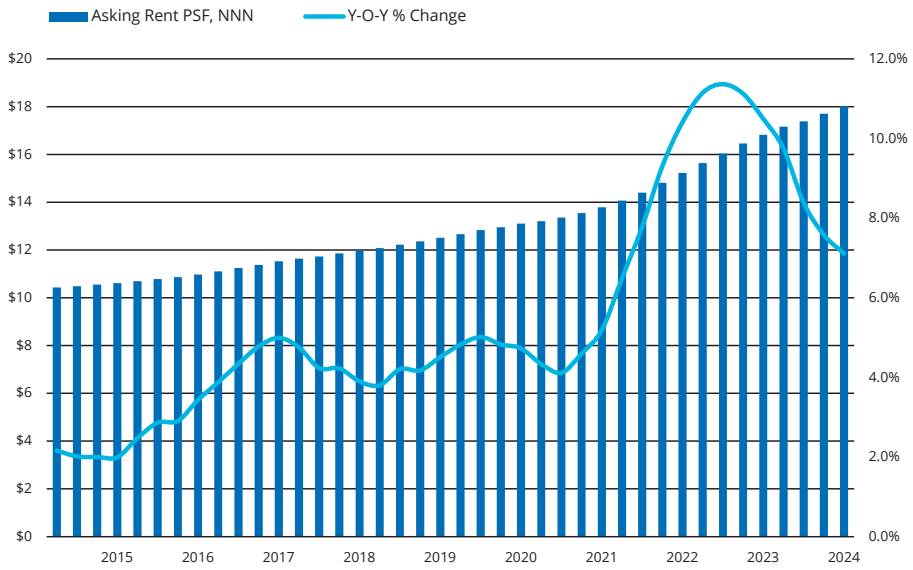
- There are currently no industrial properties under construction in the District of Columbia. We expect the pipeline to remain empty for the short run.
- We expect demolitions of obsolete industrial product to persist and overall industrial inventory to stabilize if not decrease. Over the past 10 years, a total of 1.7 million SF has been demolished and therefore removed from the inventory. In most cases, multifamily has been built in its place, followed by office. However, this has recently shifted, and developers are focused more on multifamily given current office market conditions.
- Asking rents increased 170 basis points during the first quarter of 2024, landing at $18.02 PSF. Over the past year asking rents rose 7.1%, which is healthy, and above the five-year annual average of 4.1%.
- Rent growth remains strong, despite restricted 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 | Q1 2024

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
BULK WAREHOUSE	1,203,363	50,309	4.2%	4.2%	0	0	33,000	$21.21
FLEX/INDUSTRIAL	6,550,494	279,066	4.3%	4.9%	0	(49,000)	(56,000)	$17.25
TOTAL	**7,753,857**	**329,375**	**4.2%**	**4.8%**	**0**	**(49,000)**	**(23,000)**	**$18.02**

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

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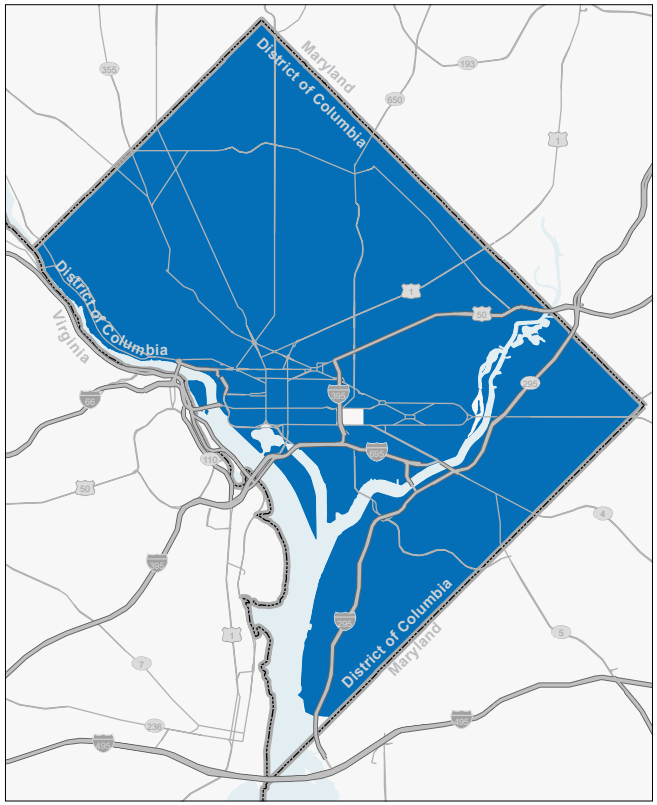

District of Columbia Industrial Submarkets

District of Columbia

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