

NORTHERN VIRGINIA INDUSTRIAL MARKET

Q1 2024



TRENDLINES

	Q1 2024	Q1 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.6	2.5	↑	3.3	↓
NET ABSORPTION (THOUSANDS SF)	76.0	157.0	↓	436.2	↑
DIRECT VACANCY RATE	3.6%	3.5%	↑	4.4%	↓
DIRECT VACANT SF (MSF)	3.3	3.2	↑	3.9	↓
UNDER CONSTRUCTION (MSF)	0.7	1.9	↓	1.2	↑
ASKING RENT, NNN (PSF)	\$18.00	\$17.19	↑	\$15.24	↑
SALES VOLUME (MILLIONS)	\$0.0	\$76.2	↓	\$150.0	↑

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

INDUSTRIAL MARKET STARTS OFF 2024 WITH MIXED RESULTS

The Northern Virginia industrial market remained relatively stable in the first quarter, totaling 76,000 SF of positive absorption. This was primarily driven by pre-leased deliveries. The direct vacancy rate edged-up 10-basis points to 3.6%. Asking rental rates declined by 20-basis points to \$18.00 PSF, the first deceleration of rental rates in recent history.

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. Rents could start to flatten in select submarkets. 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.

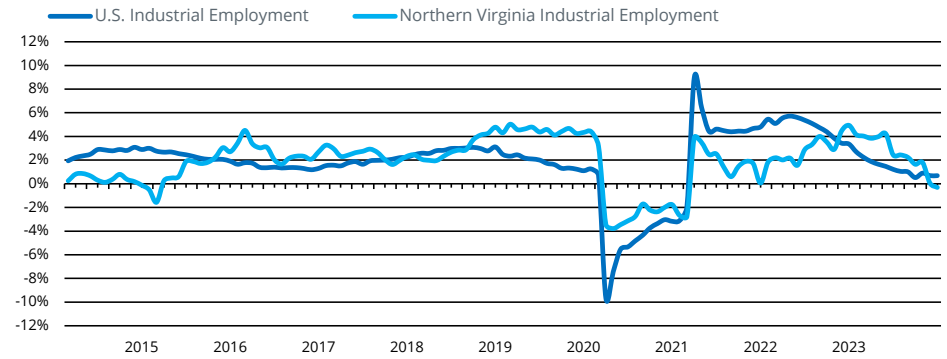


ECONOMY

Industrial-Using Jobs Experience Losses to Start Year

- 14,900 new jobs were added to the Northern Virginia economy during the 12-months ending in January 2024, which is well below the pre-COVID average of 27,100. The industry sector that experienced the largest growth continues to be healthcare, which added 7,500 new jobs in that timespan.
- Industrial-using jobs lost 600 jobs in the 12-months ending in January 2024, marking the first negative year-over-year average since March 2021. The transportation, warehousing, and utilities sector had the largest degree of job loss, losing 1,400 jobs.
- The unemployment rate in Northern Virginia is 2.4% in January 2024 and averaged 2.5% over the past three months. Arlington County continues to have the lowest unemployment rate in Northern Virginia, at 2.1%.
- We expect industrial-using jobs in Northern Virginia to regain tepid growth throughout 2024 as demand for industrial services remain high but available space remains tight, forcing some tenants to look outside of the Washington metro area.

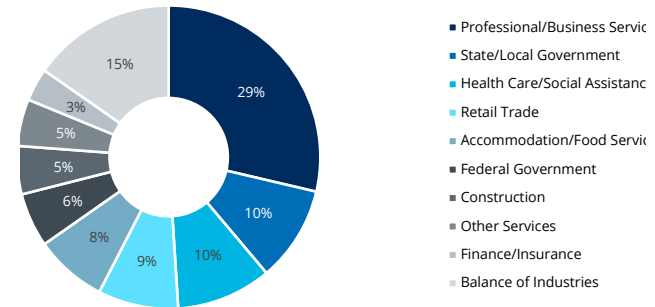
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

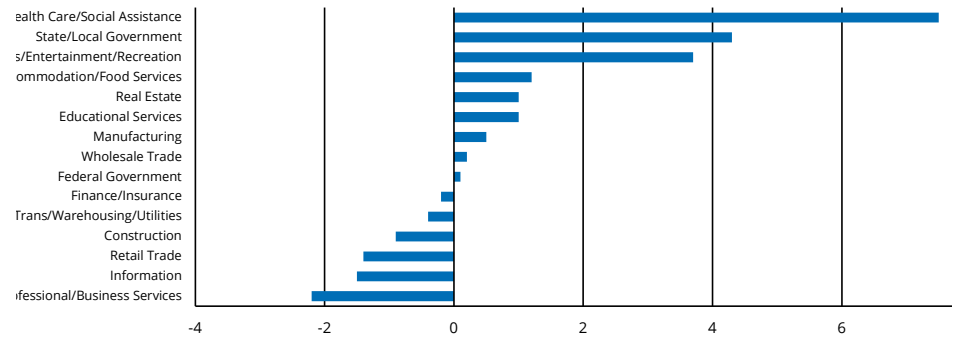
Northern Virginia | January 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Northern Virginia



Source: Bureau of Labor Statistics, Transwestern

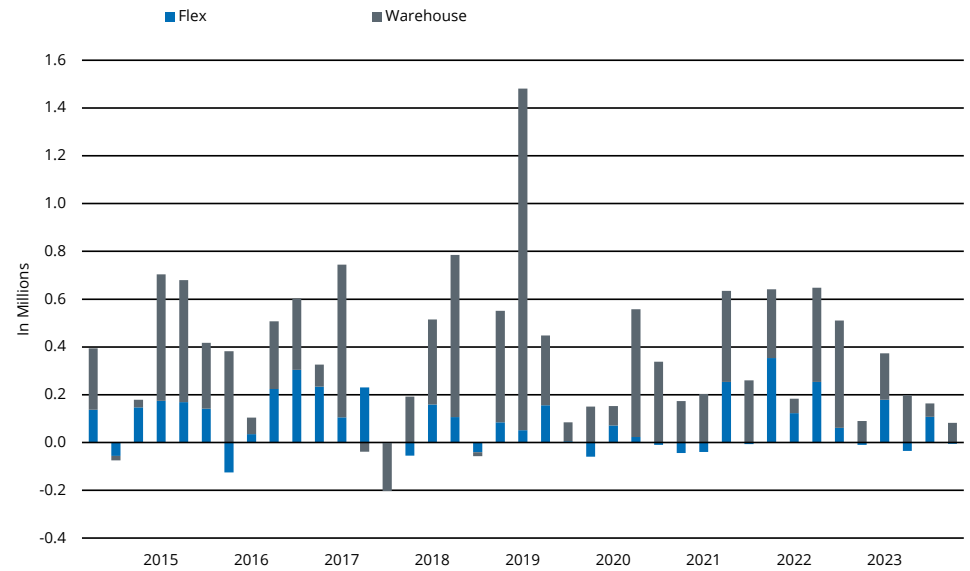


NET ABSORPTION

Industrial Market Absorption Maintains Growth

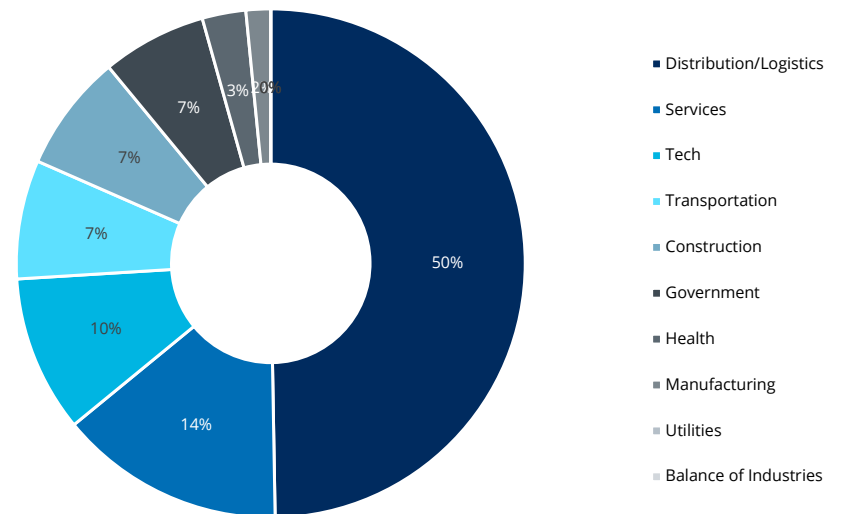
- The industrial market remained stable in the quarter, totaling a modest 76,000 SF of positive absorption. This marks the lowest absorption since the fourth quarter of 2018.
- Notable transactions included two pre-leased deliveries, such as Goodwill occupying their at 83,753 SF space 13600 Dabney Road in the I-95 Corridor. Also an undisclosed tenant inked 81,501 SF at 11501 University Boulevard – Building A in the Dulles Corridor.
- Manassas/Gainesville was the largest source of positive absorption totaling 192,000 SF, primarily aided by the undisclosed tenant’s leasing transaction at University Boulevard – Building A. This was also aided by little to no moveouts occurring in the quarter for the submarket.
- We anticipate net absorption to remain positive in the quarters of 2024 albeit at a sluggish rate as very low vacancy rates leave the market extremely tight with limited options for tenants.

NET ABSORPTION BY PRODUCT TYPE



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2024



Source: CoStar, Transwestern

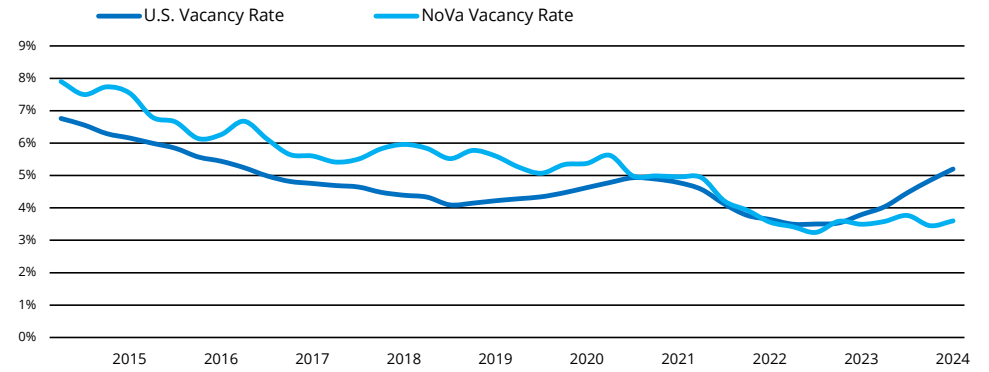


VACANCY

Vacancy Rate Trends Upward

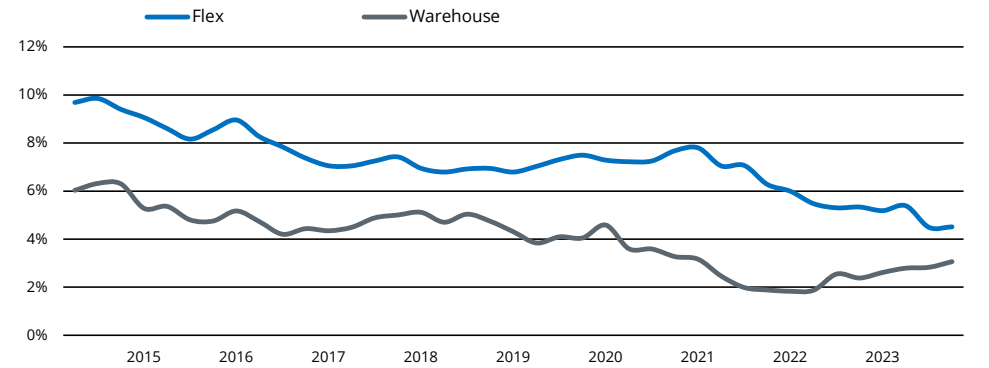
- The industrial market direct vacancy rate increased by 10-basis points to 3.6% in the quarter. This marks the second quarter in the last four to have the vacancy rate trend upward.
- Flex properties stabilized in the quarter with the vacancy rate unchanged at 4.5%. Warehouse properties experienced a vacancy rate increase, rising 30-basis points to 3.1%.
- Manassas/Gainesville has the lowest vacancy rate in the market, declining 40-basis points down to 2.2%. The I-95 Corridor has the highest vacancy rate, totaling 5.6%, a 40-basis point increase from the previous quarter.
- The vacancy rate is likely to remain low throughout 2024. While pre-leasing levels continue to be limited, even if delivered vacant, the vacant space would likely be filled quickly due to demand.

DIRECT VACANCY RATE



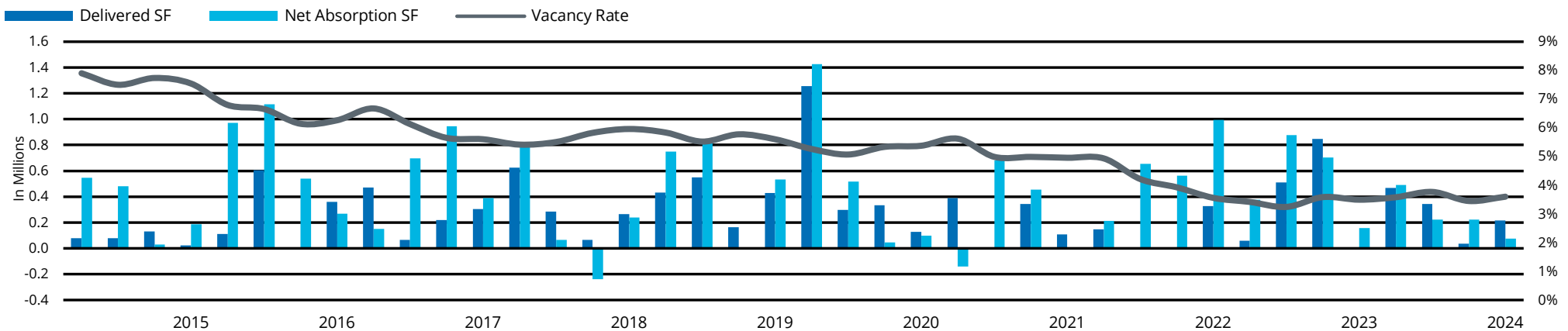
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY PRODUCT TYPE



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

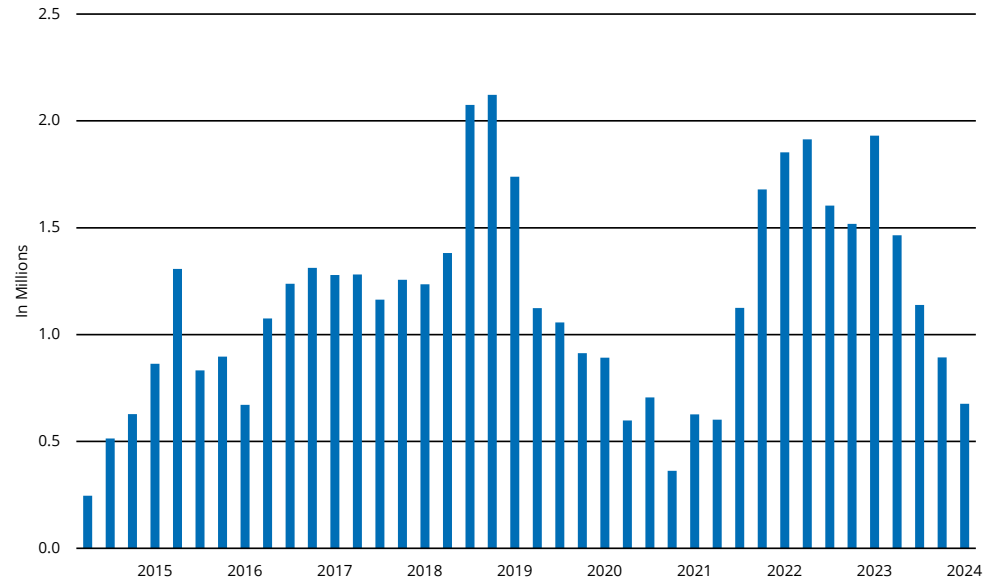


UNDER CONSTRUCTION

Two Projects Deliver in The Quarter with High Levels of Pre-Leasing

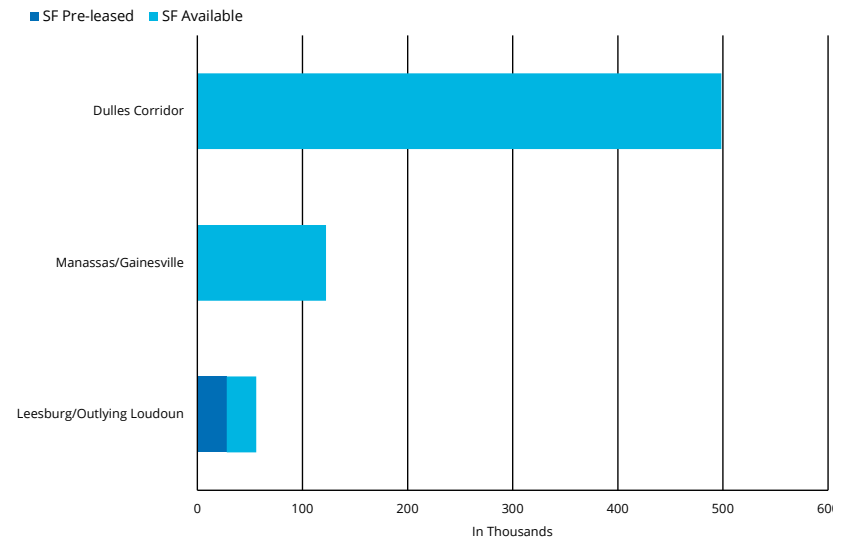
- Two projects delivered in the first quarter, adding 216,990 SF to the inventory with 76% pre-leased. The delivered projects include 13600 Dabney Road in the I-95 Corridor and 11501 University Boulevard – Building A in Manassas/Gainesville.
- The current pipeline has 676,892 SF under construction with 4.0% pre-leased across seven projects. The largest project underway continues to be 43035 John Mosby Highway in the Dulles Corridor, totaling 232,500 SF and is anticipated to deliver by the third quarter of 2024.
- Of the seven projects, the Dulles Corridor has the most under construction, totaling five projects that will add 498,520 SF when delivered throughout 2024.
- Six out of the seven projects are anticipated to deliver in 2024, with three potentially delivering in the second quarter of 2024. These three projects, 254435 Pleasant Valley Road in the Dulles Corridor, 245 Shepardstown Court in Leesburg/Outlying Loudoun, and 8233 Buckeye Timber Drive in Manassas/Gainesville will add 277,192 SF and is currently 10.1% preleased.
- We expect construction to remain constant throughout 2024 as several proposed properties may break ground as recent deliveries lease up. However, economic headwinds such as high interest rates may give some developers pause before pushing forward.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

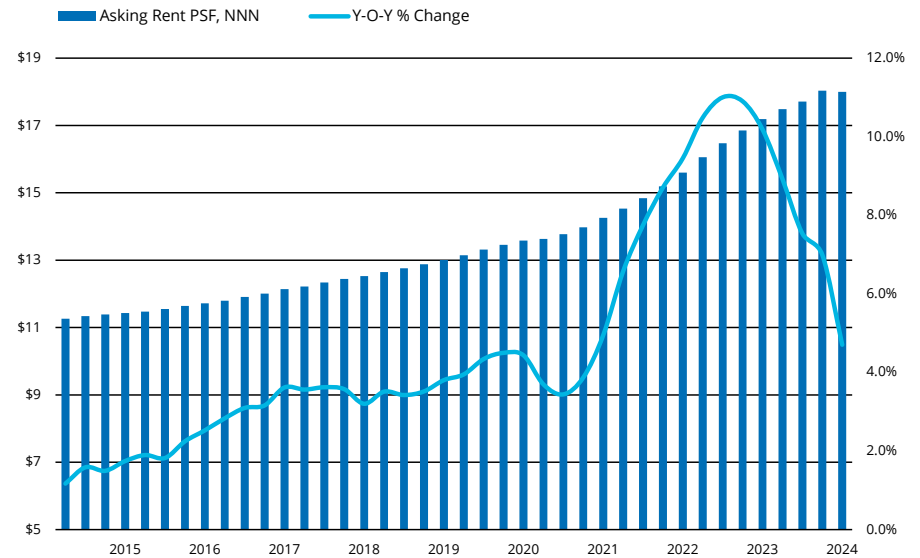


RENTAL RATES

Asking Rents Swing Downward at Start of 2024

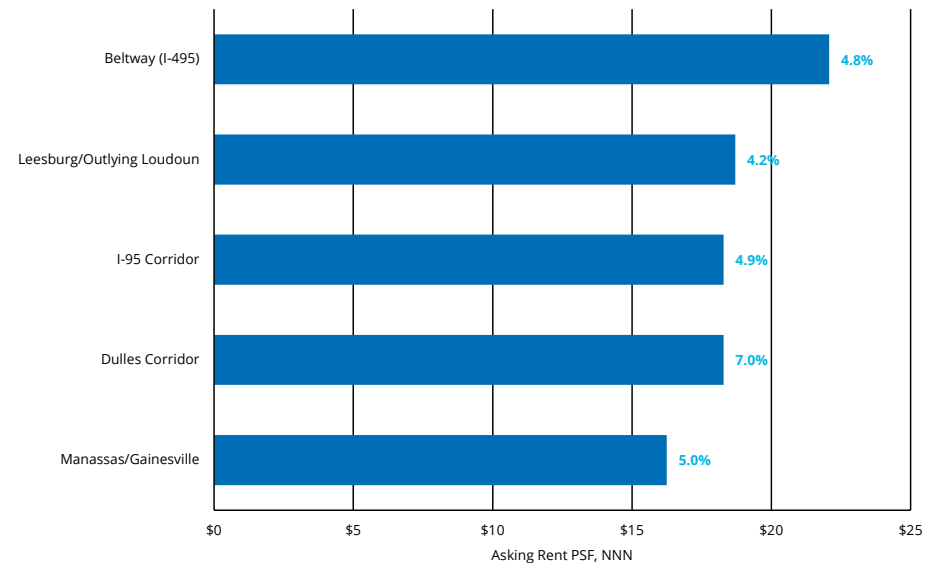
- Asking rents declined in the quarter, edging down 20-basis points to \$18.00 PSF. Warehouse product experienced a slight decrease of 10-basis points in the quarter, averaging \$17.57 PSF. Flex product rental rates declined 20-basis points to \$18.45 PSF.
- All submarkets experienced a decline in asking rental rates, however all have seen significant year-over-year growth led by the I-95 Corridor which has risen 5.0% to \$18.29 PSF, up from \$17.43 PSF in the first quarter of 2023.
- Despite experiencing a 20-basis point decrease in the quarter, the Beltway (I-495) submarket continues to have the highest asking rent at \$22.08 PSF. Leesburg/Outlying Loudoun had the smallest drop in rental rate, declining 10-basis points to \$18.71 PSF, which is the second highest average in the market.
- Despite this recent lull, we expect rent growth to bounce back to positive, but decelerating in 2024. Demand for industrial space remains very tight, allowing landlords leverage in negotiations to keep rates elevated.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

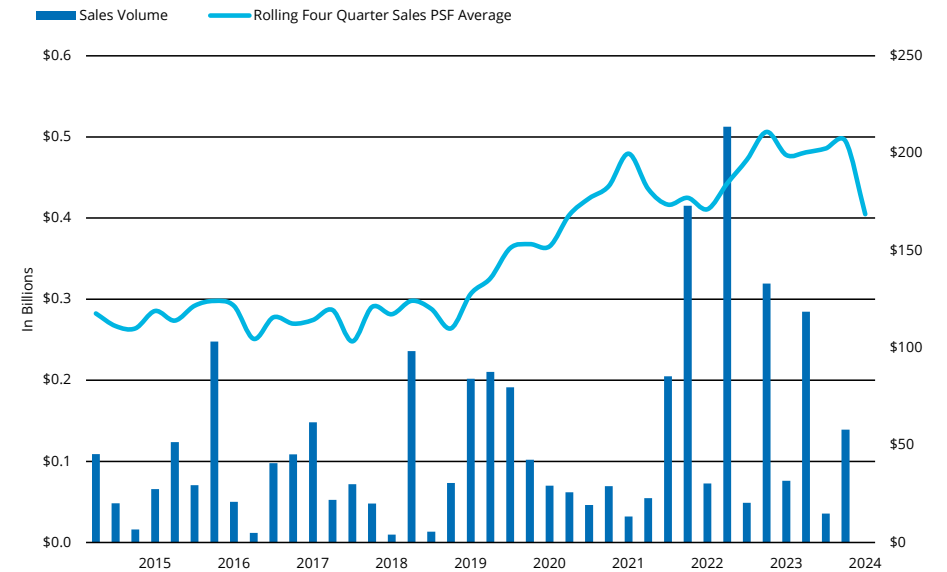


SALES

Industrial Investment Sales Halt in First Quarter

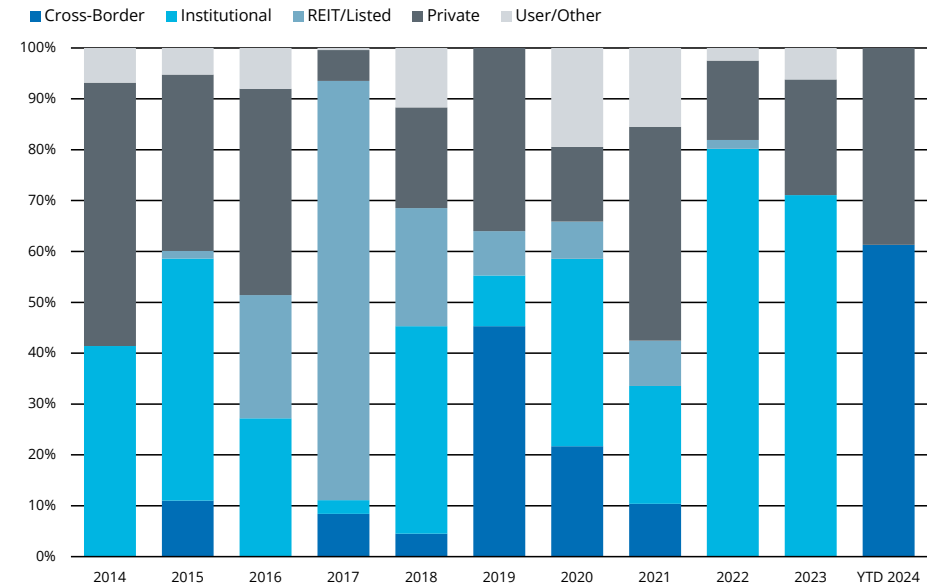
- There were no industrial investment sales that occurred in the first quarter of 2024, marking a low in recent history.
- The largest sales that occurred in the past 12 months were both in the Manassas/Gainesville submarket. The most expensive deal was Caliber Partners purchasing 12875 Randolph Ridge Lane in for \$37.3 million, or \$307 PSF. The second highest deal was Amazon purchasing 7780 Doane Drive for \$32.6 million, or \$315 PSF.
- We anticipate the sales transaction volume to remain low but slowly pick up throughout 2024 as the Federal Reserve could begin to lower interest rates in their meetings in late April and early May.

SALES VOLUME



Source: CoStar, Real Capital Analytics, Transwestern


BUYER CAPITAL COMPOSITION




Source: CoStar, Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
DHL ECOMMERCE	11400 University Blvd	Manassas/Gainesville	New Lease	138,078
SUPERIOR DISTRIBUTION	3920 Stonecroft Blvd	Dulles Corridor	Renewal	55,318
STONE BASYX 	14801 Willard Rd	Dulles Corridor	New Lease	52,937
PROLIFT RIGGING CO	10245 Golf Academy Dr	Manassas/Gainesville	New Lease	49,396
FEMA	405 Glenn Dr	Dulles Corridor	New Lease	44,095
TOTAL TRUCK TRANSPORT	45080 Old Ox Rd	Dulles Corridor	Renewal	30,485

 = Transwestern deal
 Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
45900 OLD OX RD	Dulles Corridor	Nov-23	\$4,250,000	19,684	\$216	Hafsa Demirkiran	CRI Properties
22510 S STERLING BLVD	Dulles Corridor	Oct-23	\$13,200,000	42,901	\$308	Oppidan	Sterling Trade Group
12875 RANDOLPH RIDGE	Manassas/Gainesville	Oct-23	\$37,350,000	121,672	\$307	Caliber Partners	Principal
7780 DOANE DR	Manassas/Gainesville	Oct-23	\$32,697,063	103,850	\$315	Amazon	Link Logistics Real Estate
7760 DOANE DR	Manassas/Gainesville	Oct-23	\$28,792,937	96,710	\$298	Amazon	Link Logistics Real Estate
21301 BEAUMEADE CIR	Dulles Corridor	Oct-23	\$15,132,000	69,983	\$216	Equinix	Inter-American Development Bank

Source: CoStar, CompStak, Transwestern.

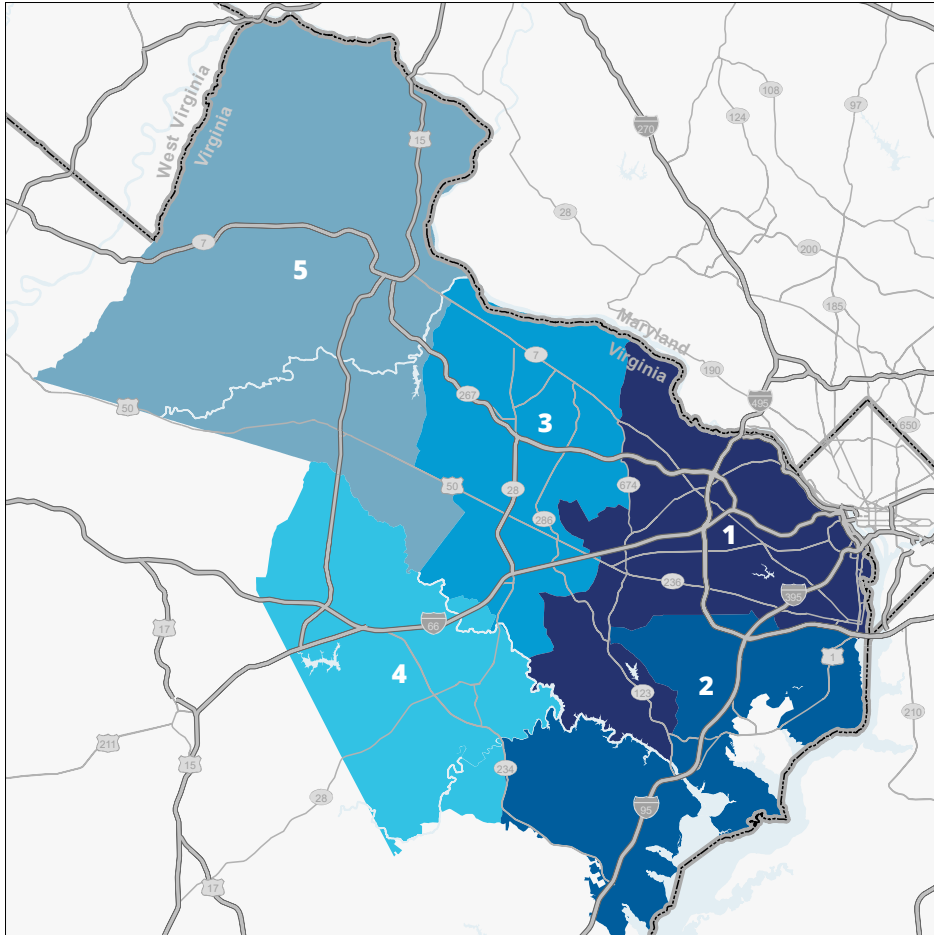


MARKET INDICATORS

All Property 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
FLEX	2,621,739	173,367	6.6%	6.7%	0	(42,000)	(78,000)	\$22.57
WAREHOUSE	5,484,787	186,748	3.4%	3.4%	0	27,000	14,000	\$21.84
BELTWAY (I-495)	8,106,526	360,115	4.4%	4.5%	0	(15,000)	(64,000)	\$22.08
FLEX	8,394,838	539,414	6.4%	6.6%	0	88,000	274,000	\$19.39
WAREHOUSE	16,034,820	818,896	5.1%	5.1%	0	(68,000)	(97,000)	\$17.67
I-95 CORRIDOR	24,429,658	1,358,310	5.6%	5.6%	0	20,000	177,000	\$18.29
FLEX	16,683,895	664,503	4.0%	4.2%	30,000	(33,000)	27,000	\$18.30
WAREHOUSE	21,441,607	415,454	1.9%	2.8%	468,520	(83,000)	(247,000)	\$17.13
DULLES CORRIDOR	38,125,502	1,079,957	2.8%	3.4%	498,520	(116,000)	(220,000)	\$17.87
FLEX	1,084,739	44,239	4.1%	4.1%	0	(5,000)	(5,000)	\$19.06
WAREHOUSE	359,604	35,861	10.0%	10.0%	56,000	0	0	\$17.77
LEESBURG/OUTLYING LOUDOUN	1,444,343	80,100	5.5%	5.5%	56,000	(5,000)	(5,000)	\$18.71
FLEX	5,387,373	120,332	2.2%	2.4%	0	(14,000)	25,000	\$16.22
WAREHOUSE	13,960,931	297,778	2.1%	2.4%	122,372	206,000	860,000	\$16.27
MANASSAS/GAINESVILLE	19,348,304	418,110	2.2%	2.4%	122,372	192,000	885,000	\$16.25
FLEX	34,172,584	1,541,855	4.5%	4.7%	30,000	(6,000)	243,000	\$18.45
WAREHOUSE	57,281,749	1,754,737	3.1%	3.5%	646,892	82,000	530,000	\$17.57
NORTHERN VIRGINIA TOTAL	91,454,333	3,296,592	3.6%	3.9%	676,892	76,000	773,000	\$18.00

Source: CoStar, Transwestern



Northern Virginia Industrial Submarkets

- 1** Beltway (I-495)
- 2** I-95 Corridor
- 3** Dulles Corridor
- 4** Manassas/Gainesville
- 5** Leesburg/Outlying Loudoun

RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on flex and industrial properties located in the Northern Virginia. 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.

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