

# SUBURBAN MARYLAND INDUSTRIAL MARKET

Q1 2024

## TRENDLINES

	Q1 2024	Q1 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.3	3.5	↓	5.0	↓
NET ABSORPTION (THOUSANDS SF)	(2.0)	(140.0)	↑	337.2	↑
DIRECT VACANCY RATE	3.8%	3.3%	↑	4.5%	↓
DIRECT VACANT SF (MSF)	3.6	3.1	↑	4.2	↓
UNDER CONSTRUCTION (MSF)	2.4	2.8	↓	1.7	↑
ASKING RENT, NNN (PSF)	\$16.06	\$14.97	↑	\$13.18	↑
SALES VOLUME (MILLIONS)	\$6.1	\$45.6	↓	\$88.1	↑

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

## INDUSTRIAL MARKET GROWTH DECELERATES TO START 2024

Suburban Maryland industrial market conditions were mixed during the first quarter of 2024 with flat absorption at negative 2,000 SF as larger move-outs weighed down the overall market. The absorption would have been worse without a fully pre-leased delivery coming online. The direct vacancy rate increased 40 basis points to 3.8% and is up from 3.3% one year ago. Asking rents rose 170 basis points over the past three months to \$16.06 PSF and are up 7.3% over the year, as heightened demand and a low vacancy rate continues to increase prices.

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.



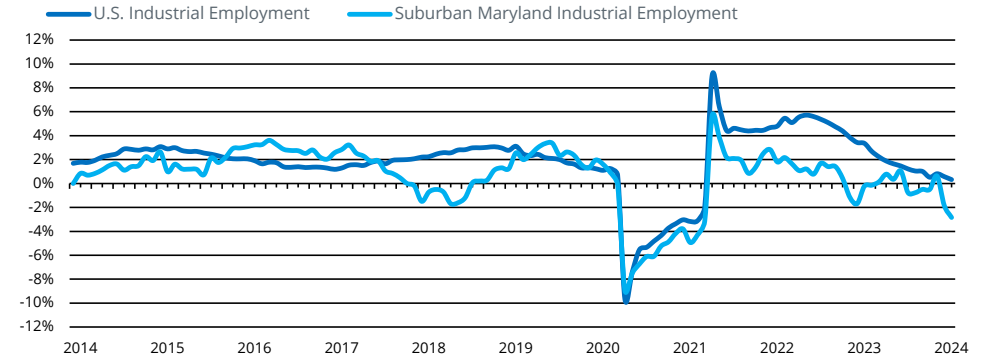


### ECONOMY

#### Industrial Jobs Were Challenged Over the Year

- 1,800 jobs were lost in the Suburban Maryland economy during the 12-months ending January 2024, which is below the pre-pandemic 5-year average of 9,900. This was driven by Montgomery/Frederick Counties which lost 2,700 jobs while Calvert/Charles/Prince George’s Counties added 900 new jobs.
- Industrial-using jobs lost 1,300 positions during the 12 months ending January 2024, which is behind the pre-pandemic 5-year average of 4,000. Most of the loss during the past year occurred within the construction sector.
- The unemployment rate in Suburban Maryland is currently at 2.9% in January 2024 which is just above with the average over the past three months. The rate has improved significantly from the peak of 10.4% in July 2020.
- We expect industrial-using job growth in Suburban Maryland to remain steady over the next five years. Growth should be concentrated within local delivery/distribution services and pharmaceutical manufacturing.

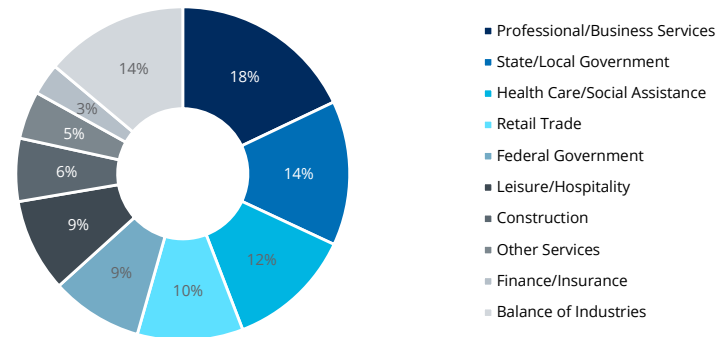
### Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

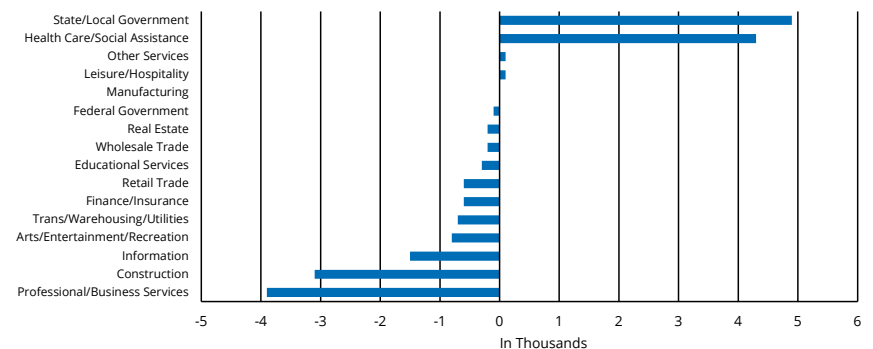
Suburban Maryland | January 2024



Source: Bureau of Labor Statistics, Transwestern

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

Suburban Maryland



Source: Bureau of Labor Statistics, Transwestern

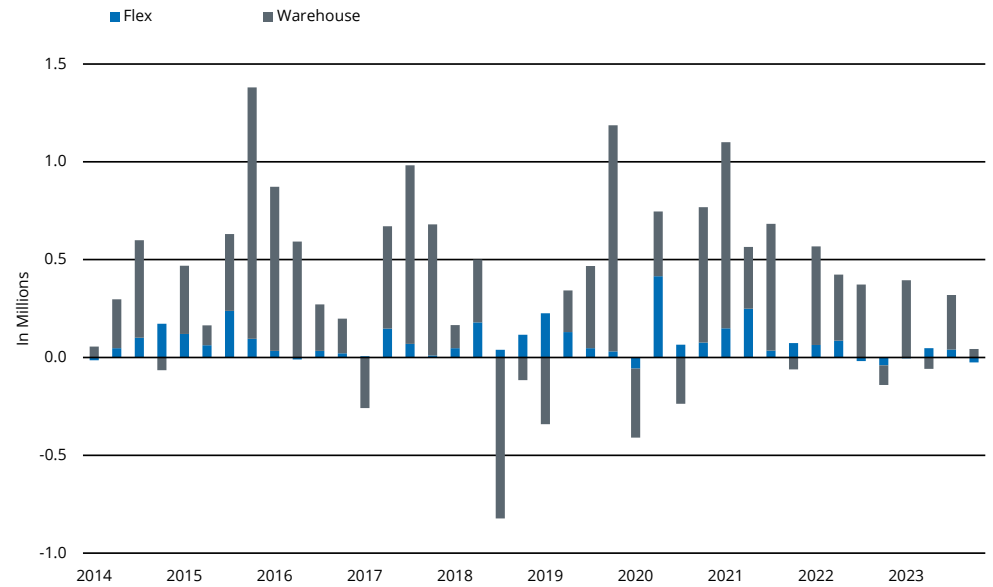


### NET ABSORPTION

#### Net Absorption Was Limited to Start the Year

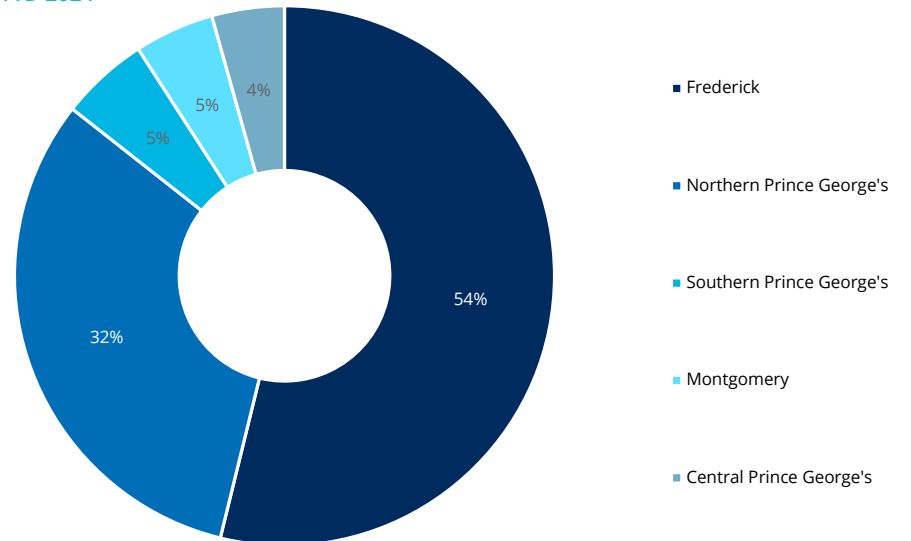
- Net absorption was flat during the first quarter of 2024 with negative 2,000 SF, after totaling negative 108,000 SF during the fourth quarter of 2023.
- Northern Prince George’s County had the strongest net absorption for the quarter with 133,000 SF and positive 54,000 SF year-over-year.
- One of the largest deals of the quarter was Southland Industries executing a 93,000 SF lease at 12051 Indian Creek Court in Northern Prince George’s County. Another notable deal was the pre-leased delivery of 3700 Forestville Road where Amazon occupies the whole building for 130,000 SF.
- Countering this positive net absorption slightly were a couple of larger move outs that occurred over the quarter. Capital Electric vacated 224,000 SF at 8511 Pepco Place in South Prince George’s County. Another notable moveout was Brooks Furniture Rental & Distribution Center vacating 58,709 SF at 8210 Penn Randall Place in Southern Prince George’s County.
- We expect net absorption to remain healthy in 2024. However, it is likely to decelerate due to less consumer spending compared to the pandemic which will lead to less industrial leasing.

### NET ABSORPTION BY PRODUCT TYPE



Source: CoStar, Transwestern

### SHARE OF LEASING ACTIVITY BY SUBMARKET YTD 2024



Source: CoStar, Transwestern

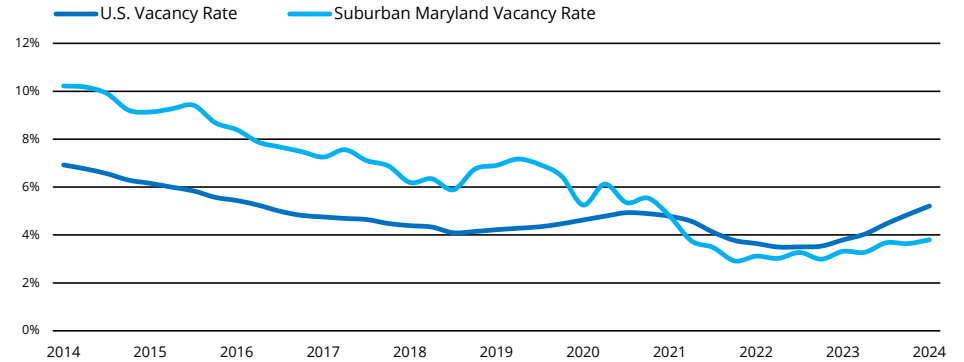


### VACANCY

#### Vacancy Rate Increases in Q1

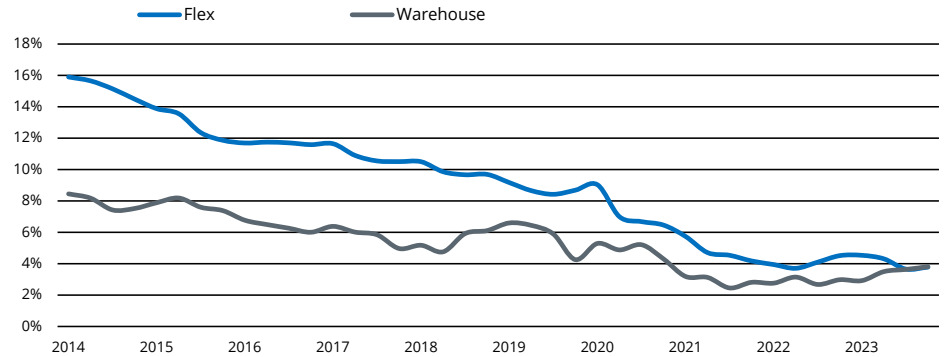
- The direct vacancy rate increased 40 basis points during the quarter to 3.8% at March 2024, but is up from 3.3% one year ago.
- Frederick County holds the highest vacancy rate at 5.8%, which increased 40 basis points from last quarter, which was due in part to moveouts outpacing leasing. Southern Prince George’s County followed at 5.6% which is a 1.9% increase from last quarter.
- Southern Prince George’s County’s flex product direct vacancy rate is the lowest of the quarter sitting at 0.6%, the same as last quarter due to limited supply followed by Northern Prince George’s County flex product which finished the quarter with a 1.9% direct vacancy rate, a 10-basis point decrease from last quarter.
- The vacancy rate should remain stable through 2024. However, if pipeline product delivers without pre-leasing in place, the rate could rise in the short-run.

### DIRECT VACANCY RATE



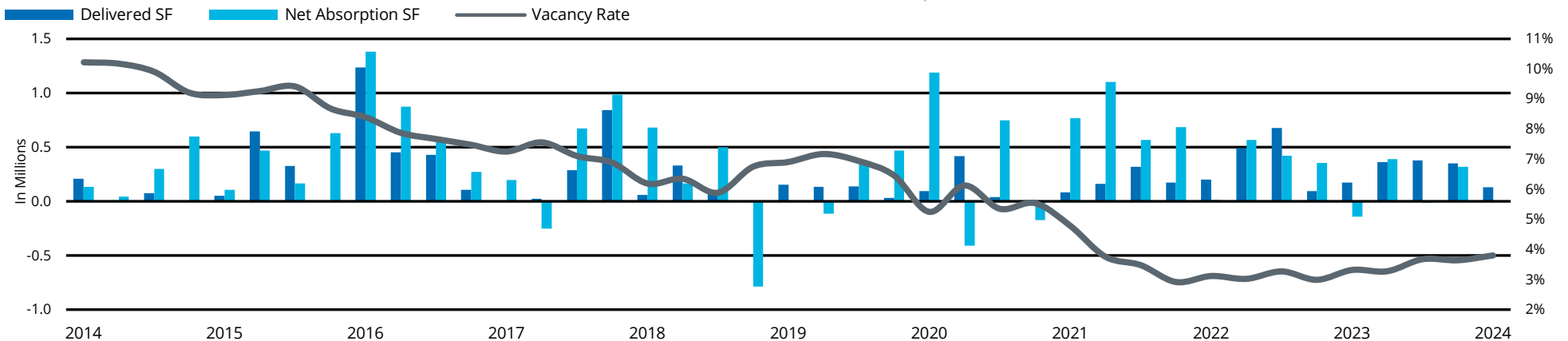
Source: CoStar, Transwestern

### DIRECT VACANCY RATE BY PRODUCT TYPE



Source: CoStar, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

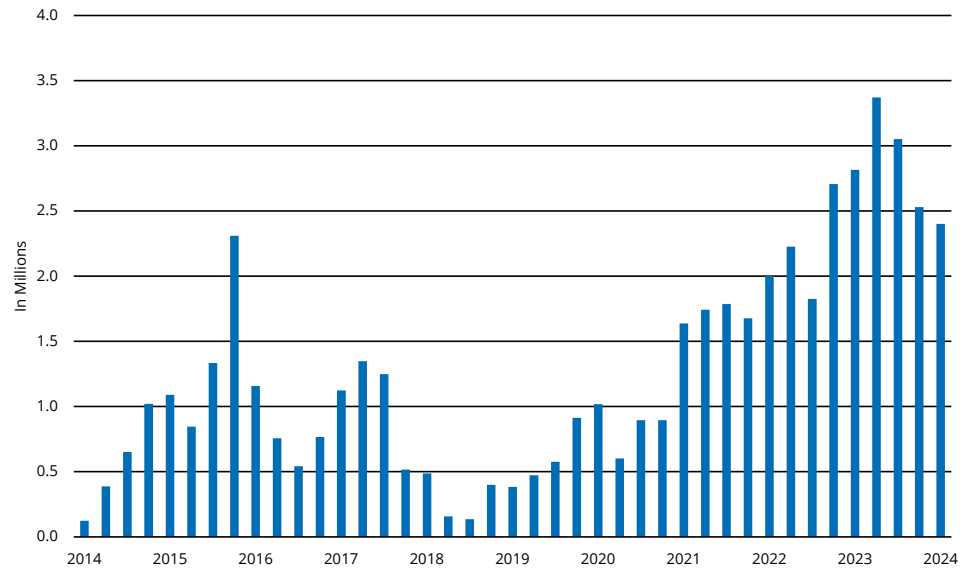


### UNDER CONSTRUCTION

#### Construction Activity Slows in Q1 2024

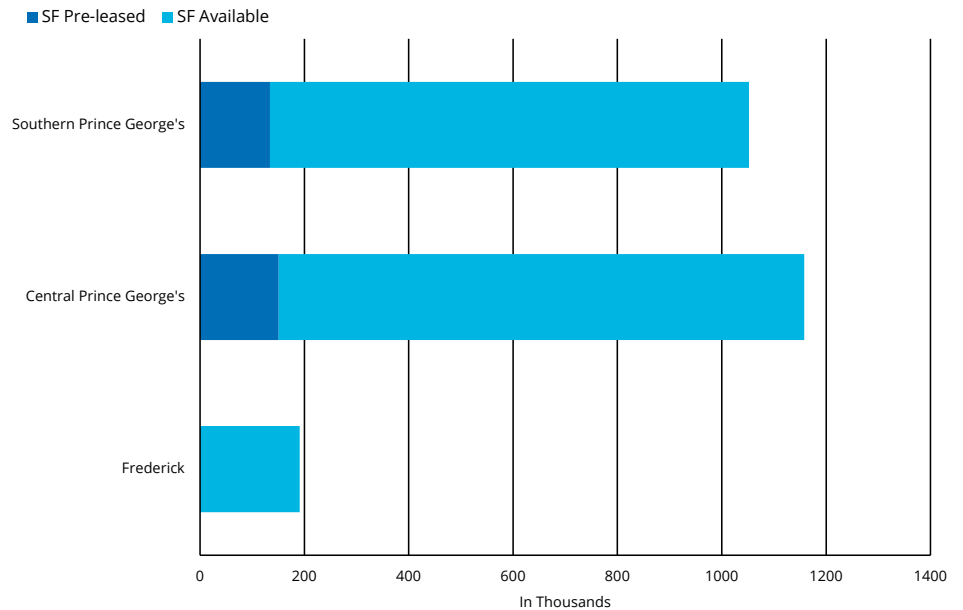
- One project delivered during the first quarter of 2024, totaling 130,000 SF. This project came online at 100% pre-leased to Amazon.
- There is 2.7 million SF under construction at 15% pre-leased as of March 2024. Central Prince George’s County now has the most construction volume underway with 1.2 million SF.
- The most notable project in the pipeline is 16001 Mattawoman Drive, an 801,500 SF warehouse project in Southern Prince George’s County. The building, with a 40-foot ceiling height, is expected to deliver by 2025. Another notable project in Central Prince George’s County is 6400 Sheriff Road, a 133,200 SF warehouse, which was recently fully pre-leased to an undisclosed tenant and expected to deliver this year.
- Future groundbreakings could reduce slightly in 2024, due to increased construction costs and lead times, as well as zoning issues which might deter select developers. In addition, some projects will stall or stop completely as developers continue to wait for when the Federal Reserve decides to cut interest rates.

### UNDER CONSTRUCTION



Source: CoStar, Transwestern

### UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

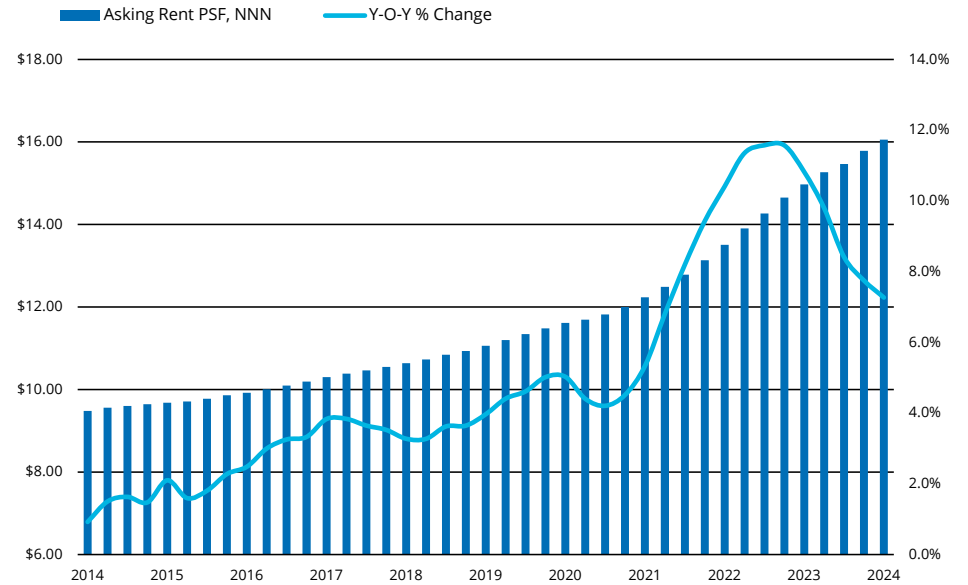


### RENTAL RATES

#### With Excess Demand, Rents Continue to Increase in Q1 2024

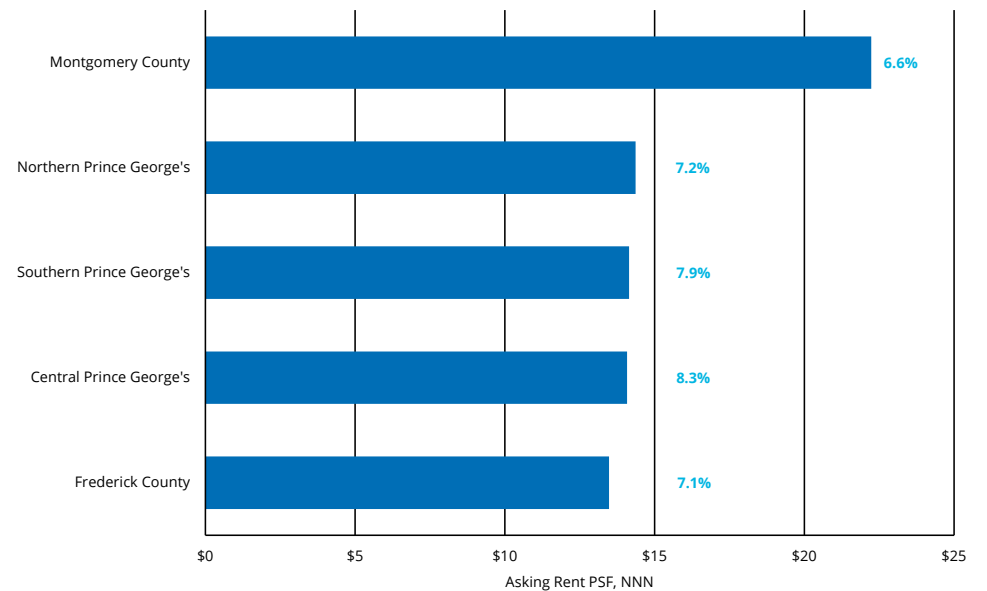
- Industrial asking rents increased 1.7% during the first quarter of 2024, landing at \$16.06 PSF. Rent growth remains strong at 7.3% year-over-year.
- Rents increased for warehouse during the quarter by 1.9%, settling at \$15.00 PSF. Flex rose 1.3% to \$18.83 PSF during the quarter.
- Rents continue to increase across all submarkets, with Prince George's County Central achieving the highest increase, with asking rates finishing the quarter at \$14.08 PSF, up 8.3% year over year.
- We expect continued rent growth through 2024 as the vacancy rate is low enough to justify rent gains. Growth will remain strongest in the close to the core submarkets and along the I-270 Corridor. However, rent growth has likely reached its peak and growth, although strong, will likely decelerate slightly.

### ASKING RENT



Source: CoStar, Transwestern

### ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

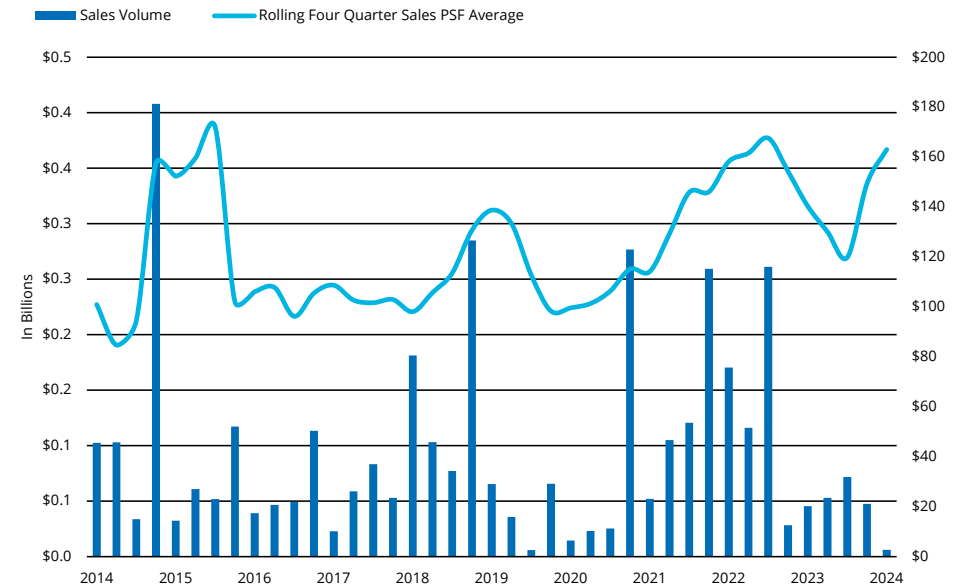


### SALES

#### Sales Volume Continues to be Limited in Q1

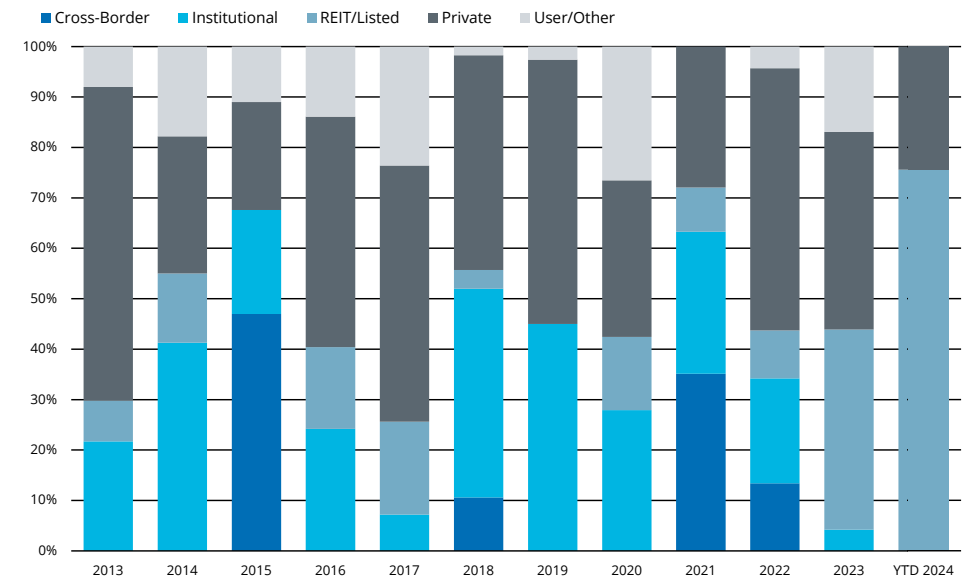
- Investment sales totaled \$6.1 million or \$170 PSF during the first quarter of 2024 on two transactions. This compares to six transactions at \$47.5 million or \$230 PSF during the fourth quarter of 2023. This is the lowest total investment sales amount since 2015.
- One deal to highlight during the quarter was at 7631 Jefferson Avenue in Central Prince George’s County. Grenaco Partners, LLC purchased this 18,012 SF industrial distribution asset from Promark Partners for \$3.9 million or \$218 PSF.
- We expect investment sales volume to remain steady but limited through 2024 as investors remain cautious of market conditions but also remain hopeful for the Fed to cut interest rates sometime this year.

### 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
<b>ABOVE AIR</b>	6413 English Muffin Way	Frederick	Sublease	109,043
<b>SOUTHLAND INDUSTRIES</b>	12051 Indian Creek Ct	Northern Prince George's	New Lease	93,000
<b>RXO, INC.</b>	6801 Mid Cities Ave	Northern Prince George's	New Lease	70,600
<b>XPRESSBIO</b>	4635 Wedgewood Blvd	Frederick	New Lease	33,150
<b>MARKOOL HEATING &amp; COOLING</b>	5304 Kings Ct	Frederick	New Lease	32,500
<b>FALCON EXPRESS</b>	12200 Indian Creek Ct	Northern Prince George's	Renewal	31,903

= Transwestern deal  
 Source: CoStar, CompStak, Transwestern.

**NOTABLE SALES**

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
<b>13611 CHERRY TREE CROSSING RD</b>	Southern Prince George's	Feb-24	\$2,200,000	18,000	\$122	Gazit Management, LLC	Theresa Maroudas-Lewis
<b>7631 JEFFERSON AVE</b>	Central Prince George's	Jan-24	\$3,926,033	18,012	\$218	Grenaco Partners, LLC	Promark Partners
<b>4107 HARVARD PL</b>	Frederick	Dec-23	\$2,000,000	16,520	\$121	Michael W. Fanning	M & O Exterior Applicators
<b>10208-10212 SOUTHARD DR</b>	Northern Prince George's	Dec-23	\$3,900,000	21,891	\$178	Longpoint Realty Partners	Southard Drive Ltd Partnership
<b>8601 ASHWOOD DR</b>	Central Prince George's	Dec-23	\$4,700,000	31,779	\$148	Shaila Farooque and Zia Hasan	Robert M Morgan
<b>2320 BROADBIRCH DR</b>	Montgomery	Dec-23	\$12,500,000	25,865	\$483	Agree Realty Corporation	Dunphy Properties

= Transwestern deal  
 Source: CoStar, CompStak, Transwestern.

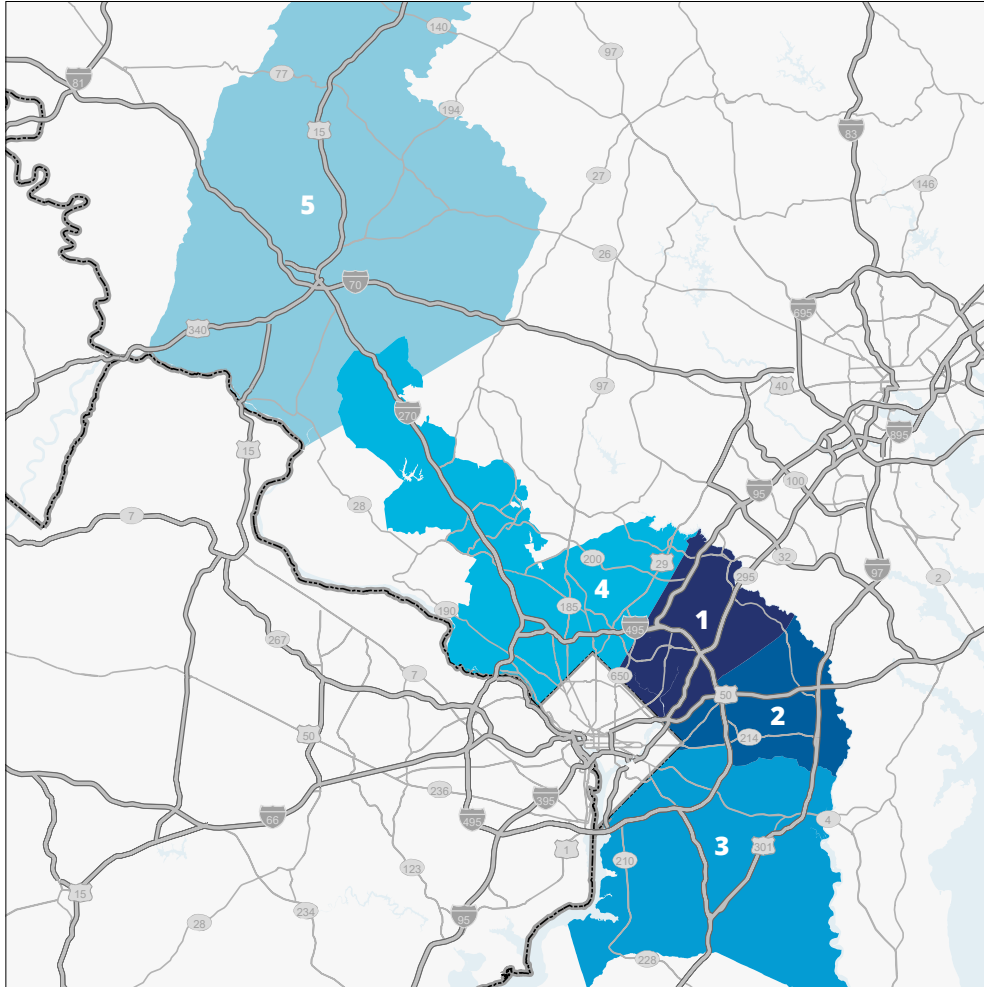


**MARKET INDICATORS**

All Classes of Space | 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	3,687,938	68,974	1.9%	3.0%	0	6,000	11,000	\$15.28
WAREHOUSE	15,559,463	606,225	3.9%	3.9%	0	127,000	43,000	\$14.12
NORTHERN PRINCE GEORGE'S	19,247,401	675,199	3.5%	3.8%	0	133,000	54,000	\$14.36
FLEX	3,847,095	112,556	2.9%	2.9%	59,640	5,000	28,000	\$15.06
WAREHOUSE	23,944,120	562,077	2.3%	3.0%	1,098,252	(10,000)	(55,000)	\$13.92
CENTRAL PRINCE GEORGE'S	27,791,215	674,633	2.4%	3.0%	1,157,892	(5,000)	(27,000)	\$14.08
FLEX	961,132	5,740	0.6%	0.6%	0	0	(3,000)	\$15.50
WAREHOUSE	8,285,080	510,766	6.2%	12.9%	1,052,024	(165,000)	43,000	\$13.99
SOUTHERN PRINCE GEORGE'S	9,246,212	516,506	5.6%	11.6%	1,052,024	(165,000)	40,000	\$14.15
FLEX	7,366,586	314,006	4.3%	4.9%	0	13,000	(69,000)	\$23.37
WAREHOUSE	12,321,285	341,516	2.8%	3.0%	0	39,000	26,000	\$20.39
MONTGOMERY COUNTY	19,687,871	655,522	3.3%	3.7%	0	52,000	(43,000)	\$22.24
FLEX	4,966,995	286,726	5.8%	5.9%	55,002	(49,000)	(20,000)	\$14.25
WAREHOUSE	14,313,470	831,344	5.8%	5.9%	136,106	32,000	(88,000)	\$13.10
FREDERICK COUNTY	19,280,465	1,118,070	5.8%	5.9%	191,108	(17,000)	(108,000)	\$13.48
FLEX	20,829,746	788,002	3.8%	4.2%	114,642	-25,000	-53,000	\$18.83
WAREHOUSE	74,423,418	2,851,928	3.8%	4.8%	2,286,382	23,000	-31,000	\$15.00
<b>TOTAL</b>	<b>95,253,164</b>	<b>3,639,930</b>	<b>3.8%</b>	<b>4.7%</b>	<b>2,401,024</b>	<b>(2,000)</b>	<b>(84,000)</b>	<b>\$16.06</b>

Source: CoStar, Transwestern



**Suburban Maryland Industrial Submarkets**

- 1** Northern PG County
- 2** Central PG County
- 3** Southern PG County
- 4** Montgomery County
- 5** Frederick County

**RESEARCH METHODOLOGY**

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

**FOR MORE INFORMATION**

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