

DISTRICT OF COLUMBIA INDUSTRIAL MARKET

Q2 2024



TRENDLINES

	Q2 2024	Q2 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.8	4.4	↑	5.9	↓
NET ABSORPTION (THOUSANDS SF)	41.0	(44.0)	↑	3.6	↔
DIRECT VACANCY RATE	2.8%	4.2%	↓	4.5%	↓
DIRECT VACANT SF (MSF)	0.2	0.3	↓	0.3	↓
UNDER CONSTRUCTION (MSF)	0.0	0.0	↔	0.0	↔
ASKING RENT, NNN (PSF)	\$18.28	\$17.16	↑	\$15.12	↑

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

INDUSTRIAL MARKET IMPROVES IN Q2 2024

The District of Columbia industrial market improved during the second quarter of 2024. Net absorption totaled 41,000 SF while the direct vacancy rate decreased 140 basis points to 2.8%. The chronically low vacancy rate pushed asking rents up 1.5% during the past three months, ending the quarter at \$18.28 PSF.

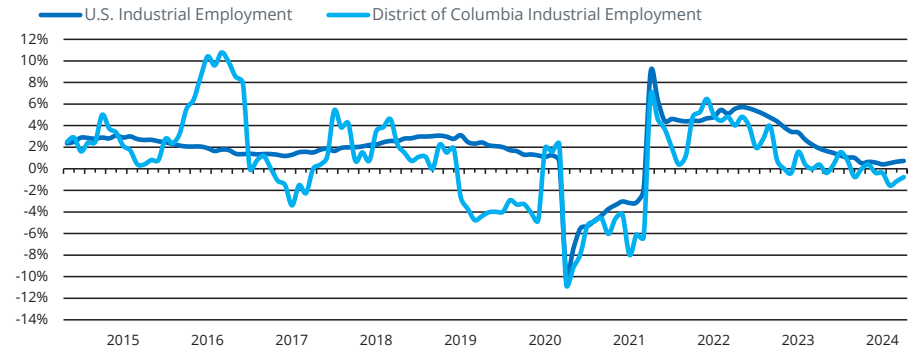
We expect the industrial market to normalize during 2024, as demand cools in the wake of elevated interest rates and economic uncertainty. Businesses are watching the Fed, as a rate cut could come if inflation lowers to their target rate of 2.0% later this year. The vacancy rate should remain low enough 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 in Q2 2024

- 2,400 new jobs were added to the District of Columbia economy during the 12-months ending April 2024, which is below the pre-pandemic 5-year average of 9,800. Most of this activity is due to government services, with a mix of federal and local government hiring.
- Industrial-using jobs lost 200 positions during the 12 months ending April 2024, below the pre-pandemic 5-year average of a 300 gain. Most of this loss occurred within the construction sector which lost a total of 500 net jobs.
- The unemployment rate for the District of Columbia is currently at 4.6% as of April 2024 and averaged 5.0% for the past three months. The rate is up from 4.1% one year ago and is down notably from 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.

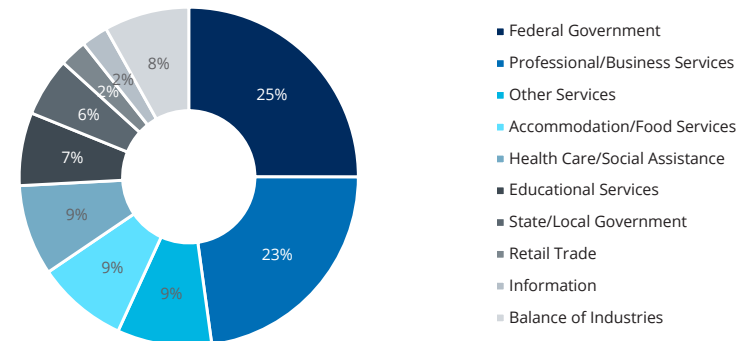
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

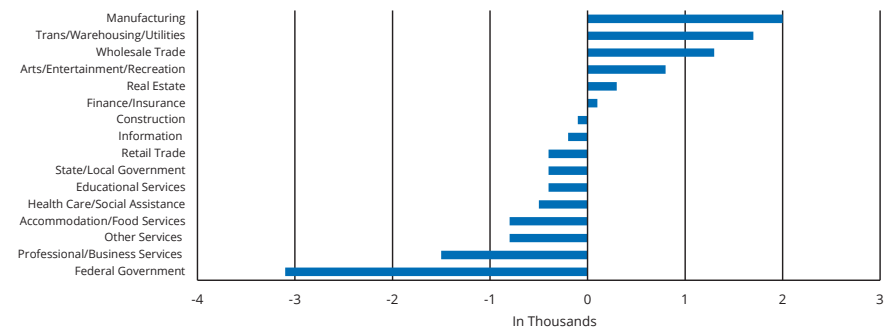
District of Columbia | April 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

District of Columbia



Source: Bureau of Labor Statistics, Transwestern

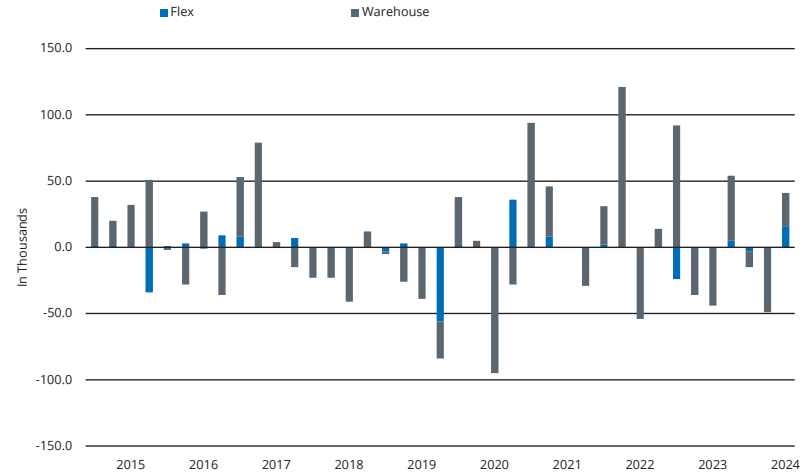


NET ABSORPTION AND VACANCY

Vacancy Decreases to 2.8% at Q2 2024

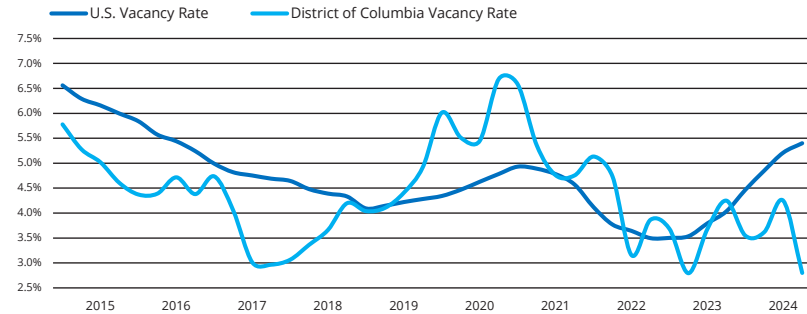
- Net absorption totaled 41,000 SF during the quarter, with year-over-year totaling 62,000 SF.
- The positive net absorption is due to several mid-sized lease signings outweighing minimal moveouts.
- The direct vacancy rate decreased to 2.8% this quarter, down from 4.2% the quarter prior, and is down from 4.2% one year ago.
- With the limited amount of available inventory, coupled with future industrial demolitions, we expect the vacancy rate to remain relatively steady with restricted net absorption.

NET ABSORPTION BY PRODUCT TYPE



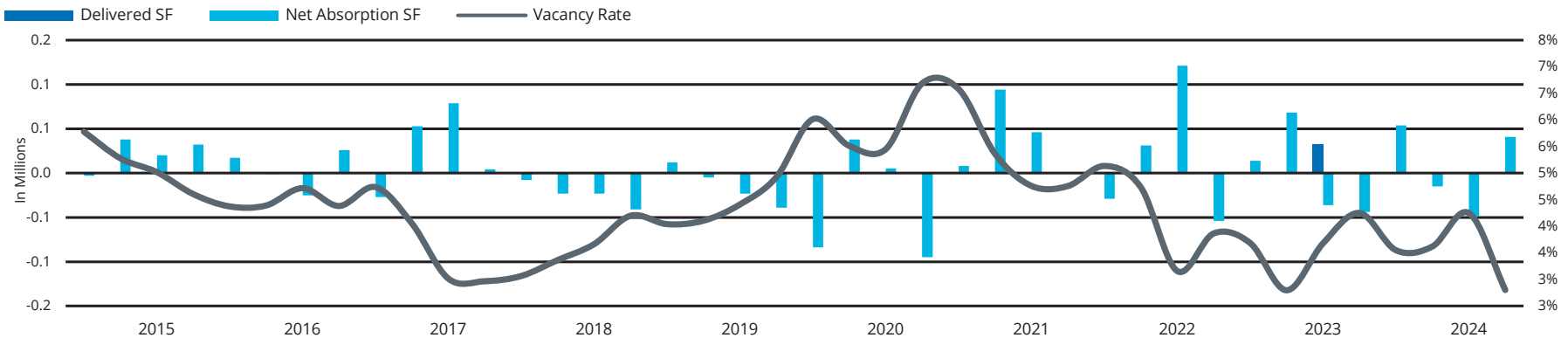
Source: CoStar, Transwestern

DIRECT VACANCY RATE



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

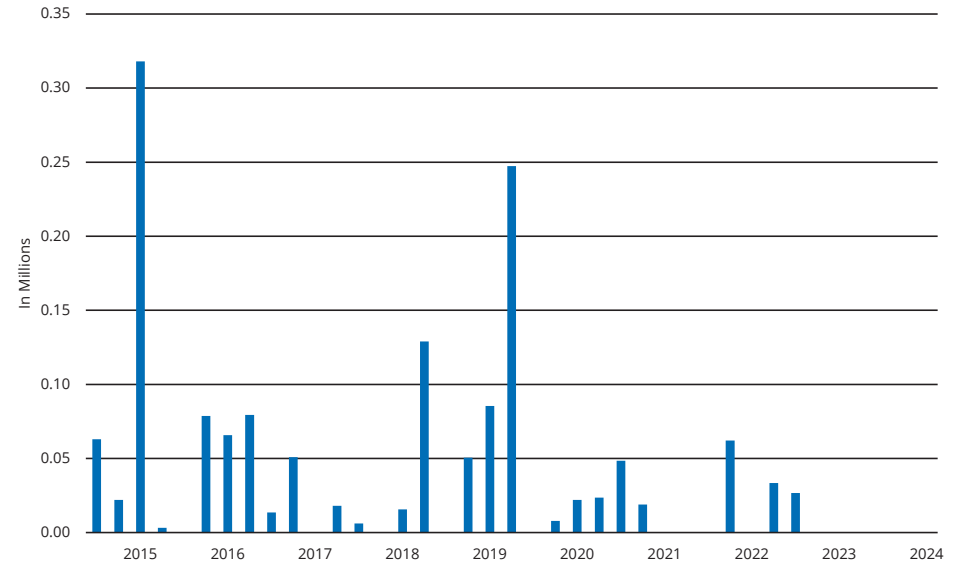


UNDER CONSTRUCTION AND RENTAL RATES

Rental Rates Continue to Grow Given Tight Market

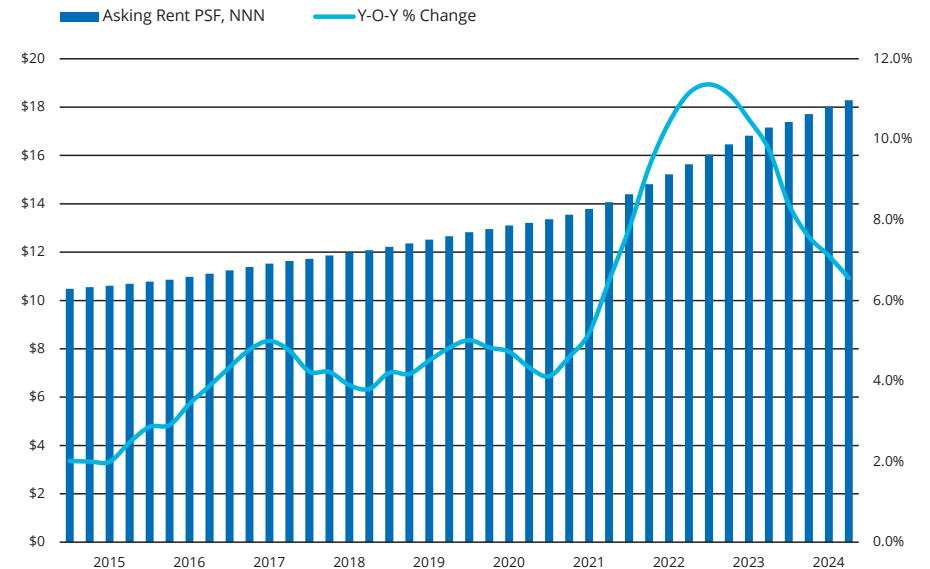
- There are currently no industrial properties under construction in the District of Columbia. We expect the pipeline to remain empty for the short run.
- We expect demolitions of obsolete industrial product to persist and overall industrial inventory to decrease over time. Over the past 10 years, a 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.
- Asking rents increased 150 basis points during the second quarter of 2024, landing at \$18.28 PSF. Over the past year asking rents rose 6.6%, 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 | Q2 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	28,309	2.4%	2.4%	0	16,000	49,000	\$21.44
FLEX/INDUSTRIAL	6,550,494	187,363	2.9%	3.2%	0	25,000	13,000	\$17.52
TOTAL	7,753,857	215,672	2.8%	3.1%	0	44,000	62,000	\$18.28

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.

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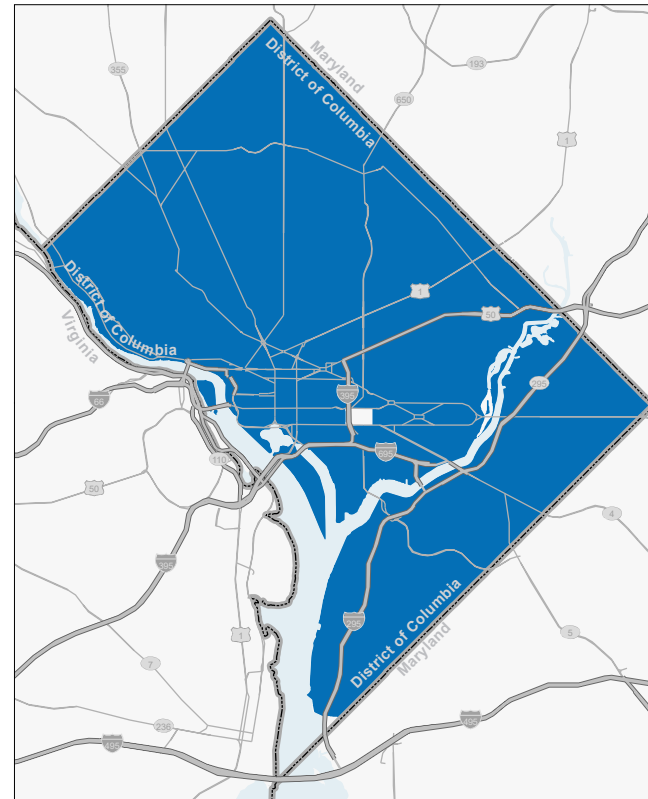
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District of Columbia Industrial Submarkets

 District of Columbia