

NORTHERN VIRGINIA INDUSTRIAL MARKET

Q2 2024



TRENDLINES

	Q2 2024	Q2 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.3	2.4	↓	3.3	↓
NET ABSORPTION (THOUSANDS SF)	74.0	492.0	↓	414.3	↑
DIRECT VACANCY RATE	3.5%	3.6%	↓	4.3%	↓
DIRECT VACANT SF (MSF)	3.2	3.3	↓	3.8	↓
UNDER CONSTRUCTION (MSF)	1.0	1.5	↓	1.1	↑
ASKING RENT, NNN (PSF)	\$18.23	\$17.49	↑	\$15.49	↑
SALES VOLUME (MILLIONS)	\$95.7	\$284.5	↓	\$146.3	↑

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

INDUSTRIAL MARKET SHOWS SIGNS OF POSITIVITY IN Q2 2024

The Northern Virginia industrial market remained relatively stable in the second quarter, totaling 74,000 SF of positive absorption. This was aided by several large-scale leases and minimal moveouts. The direct vacancy rate declined 10-basis points to 3.5%. Given the low vacancy rate, asking rental rates jumped by 130-basis points to \$18.23 PSF. There was also one construction delivery for the second quarter in Manassas/Gainesville, delivering 91,172 SF of space.

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.

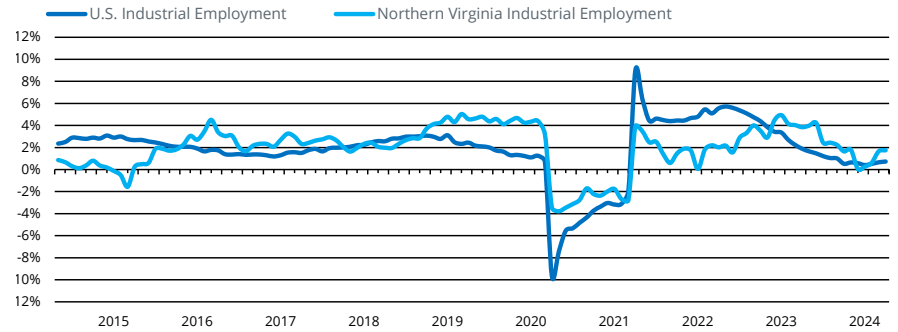


ECONOMY

Industrial-Using Jobs Grow Over the Past Year

- 20,900 new jobs were added to the Northern Virginia economy during the 12-months ending in April 2024, which is below the pre-COVID average of 27,100. The industry sector that experienced the largest growth continues to be healthcare and social services, which added 5,400 new jobs in that timespan.
- Industrial-using jobs gained 3,400 jobs in the 12-months ending in April 2024. The construction/mining sector saw the biggest gain with 2,400 net new jobs, while the wholesale trade sector was the only one that lost jobs, losing net 400 jobs.
- The unemployment rate in Northern Virginia is 2.1% in April 2024 and averaged 2.3% over the past three months. Arlington County continues to have the lowest unemployment rate in Northern Virginia, at 1.7%, with Prince William County being the highest at 2.2%.
- We expect industrial-using jobs in Northern Virginia to continue to slowly grow in the remainder of 2024 as demand for industrial services remain high but available space remains tight, forcing some tenants to look outside of the Washington metro area.

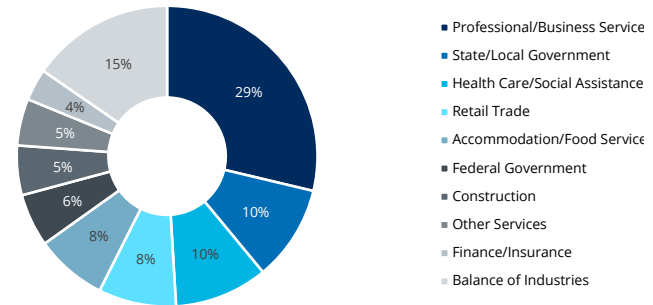
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

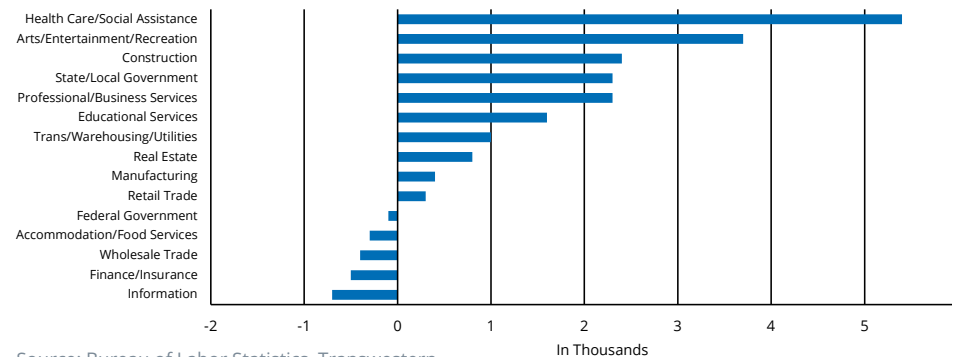
Northern Virginia | April 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Northern Virginia



Source: Bureau of Labor Statistics, Transwestern

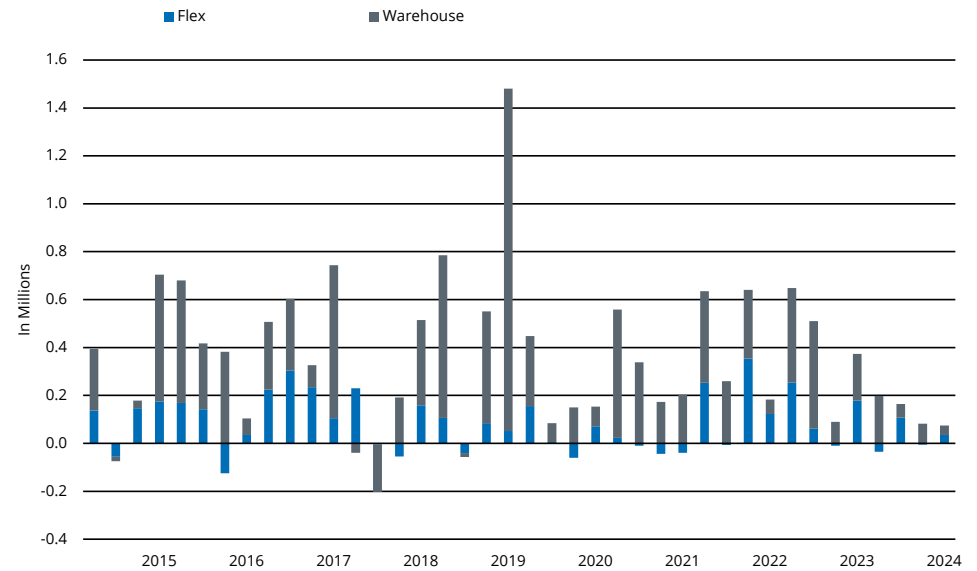


NET ABSORPTION

Industrial Market Growth Limited With Low Positive Absorption

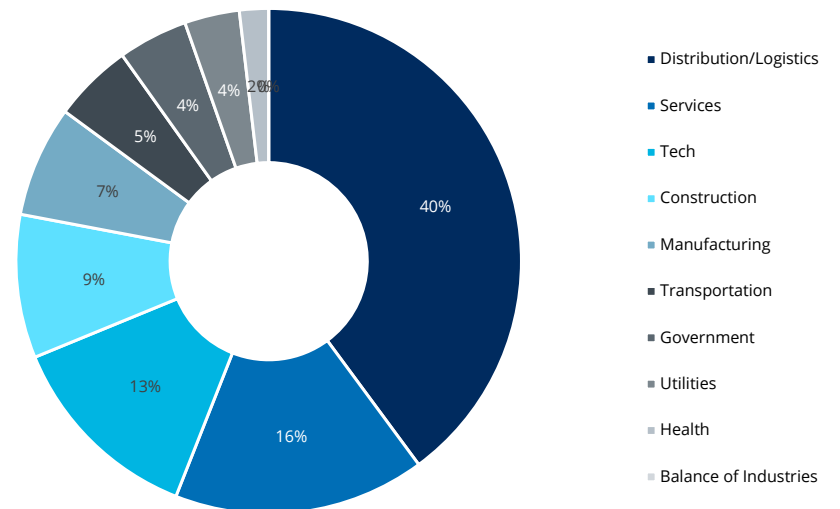
- The industrial market continues to remain stable in the quarter totaling a humble 74,000 SF of positive absorption, marking the lowest amount of absorption growth since the fourth quarter of 2018.
- Notable transactions included Beanstalk signing a 33,030 SF lease at 7315 Groveton Road in Manassas/Gainesville and Idemia signing for 30,000 SF at 6441 General Green Way in the I-95 Corridor. California Closets also executed 25,598 SF at 3901 Stonecroft Boulevard in the Dulles Corridor.
- The I-95 Corridor was the largest source of positive absorption totaling 98,000 SF, primarily aided by the 30,000 SF lease signed at 6441 General Green Way by Idemia. This was also aided by minimal to no moveouts occurring in the quarter for the submarket.
- We anticipate net absorption to remain positive in the coming quarters. However, with limited options for tenants, the level of absorption could be restrained.

NET ABSORPTION BY PRODUCT TYPE



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2024



Source: CoStar, Transwestern

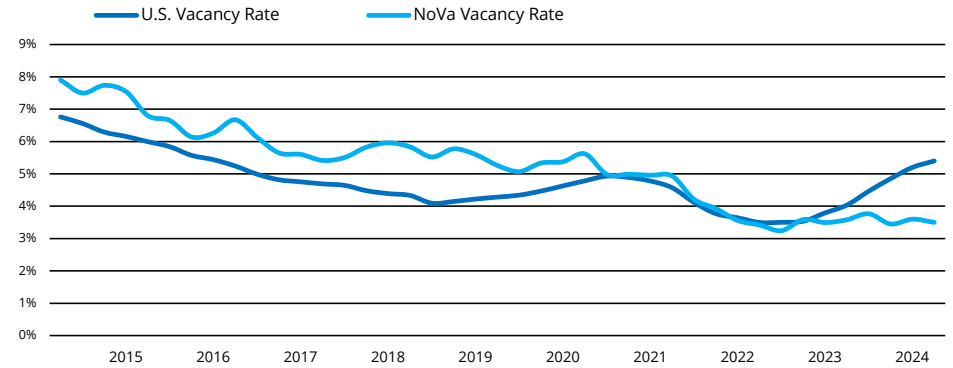


VACANCY

Vacancy Rate Declines Slightly

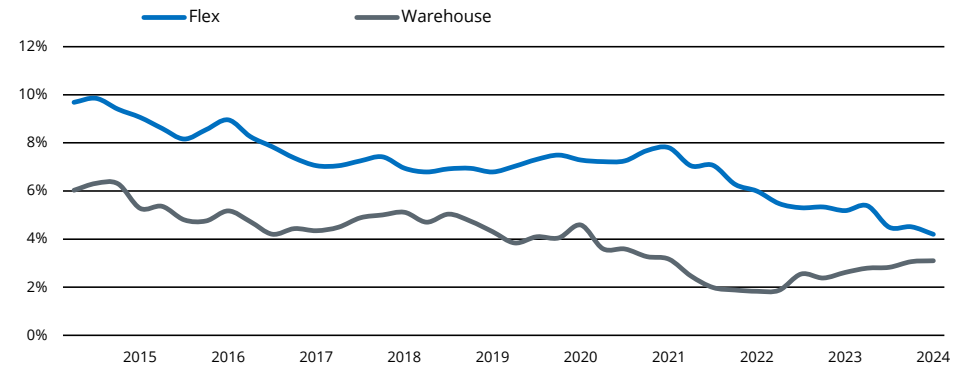
- The industrial direct vacancy rate decreased by 10-basis points to 3.5% in the quarter. This marks the third quarter since the start of 2023 to have the vacancy rate trend downward.
- Flex properties declined 30-basis points in the quarter with a vacancy rate of 4.2%. Warehouse properties were stable as vacancy rates were unchanged staying at 3.1%.
- Manassas/Gainesville has the lowest vacancy rate in the market, remaining unchanged from last quarter at 2.2%. The I-95 Corridor and Leesburg/Outlying Loudoun County decreased by 40-basis points and 30-basis points, respectively, securing the top spot for highest vacancy rate at 5.2%.
- The vacancy rate is likely to stay low in the remainder of 2024 as demand for industrial product remains high and vacant delivered product will be filled quickly.

DIRECT VACANCY RATE



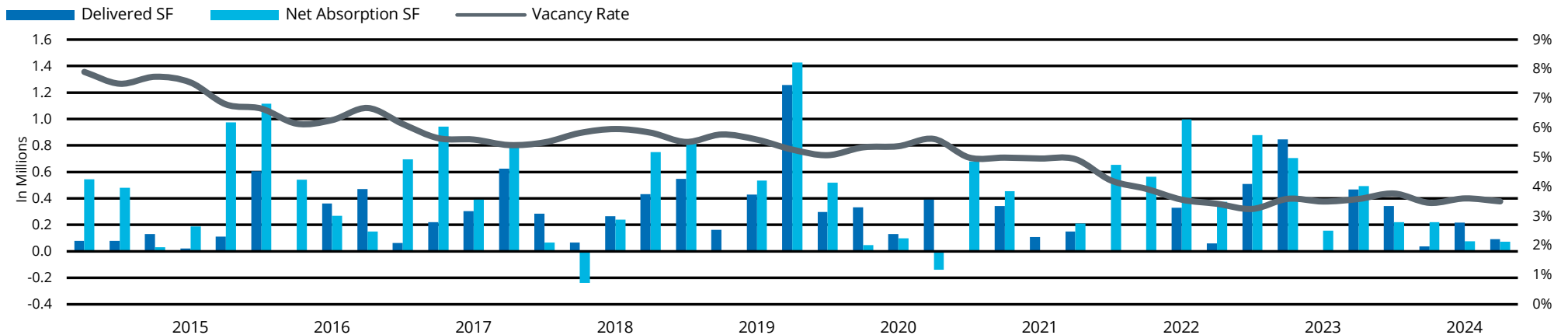
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY PRODUCT TYPE



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

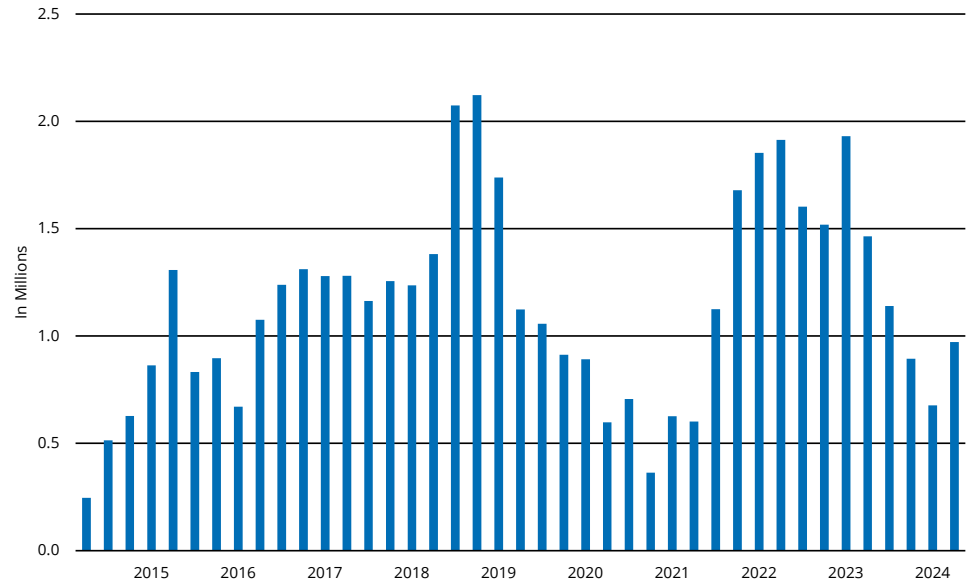


UNDER CONSTRUCTION

One Project Delivers in Q2 with No Pre-Leasing

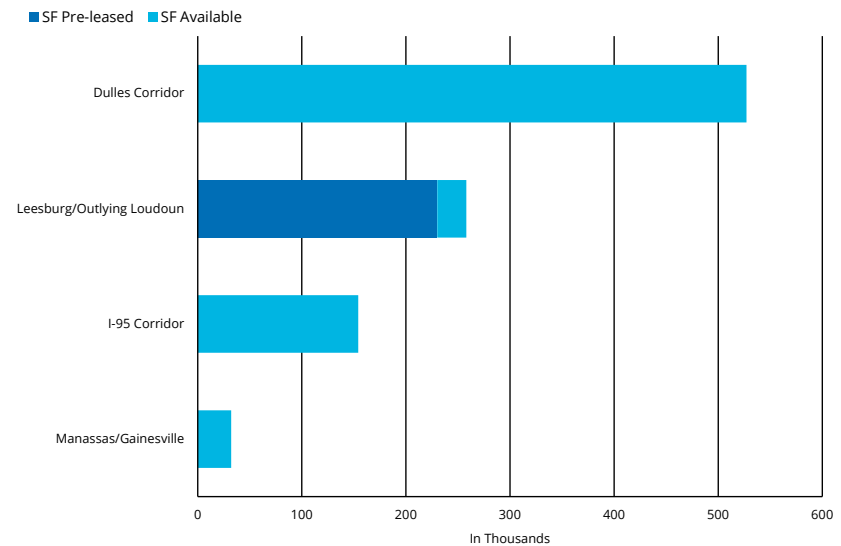
- One project that delivered in the second quarter occurred in Manassas/Gainesville at 8233 Buckeye Timber Road, adding 91,172 SF to the inventory with 0% pre-leased.
- The current pipeline has 971,531 SF under construction with 24.0% pre-leased across 11 projects. The largest project underway is 43035 John Mosby Highway in the Dulles Corridor, totaling 232,500 SF and is anticipated to deliver by the third quarter of 2024.
- Of the 11 projects under construction, the Dulles Corridor has the most volume, totaling six projects that will add 527,229 SF when delivered.
- In the latter half of 2024, there are nine projects expected to deliver, totaling 830,229 SF of space. Two of those projects have pre-leasing activity while the other seven are 0% pre-leased. This will bring 600,229 SF online when delivered.
- We expect the construction pipeline to remain stable in the coming quarters as planned projects could begin to break down due to industrial demand and current projects deliver. However, elevated interest rates could deter select developers.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

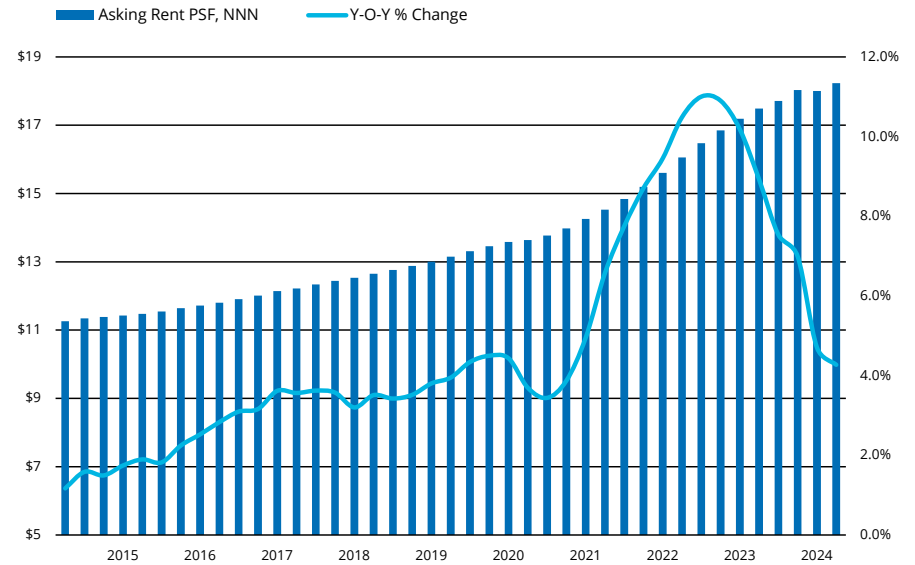


RENTAL RATES

Asking Rents Rise During Q2 2024

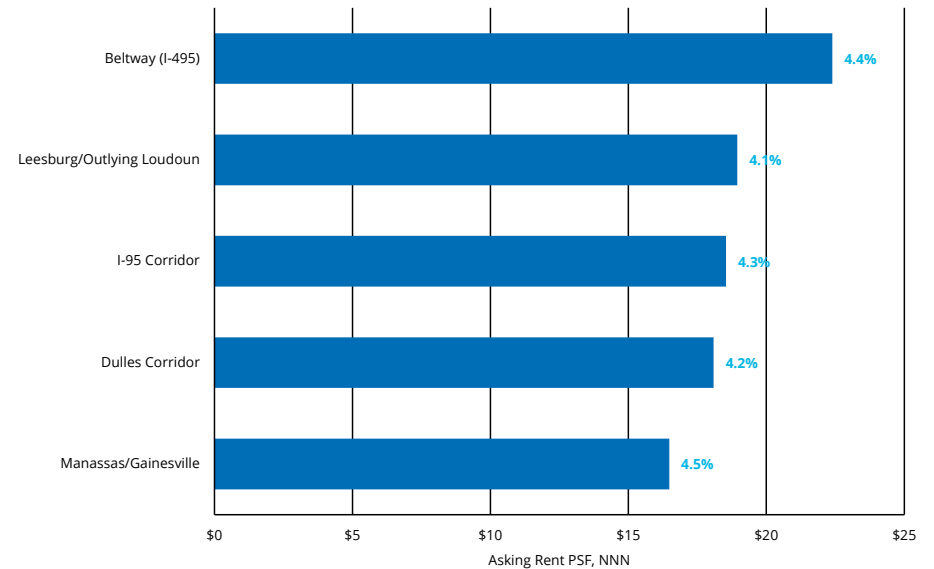
- Asking rents jumped 130-basis points in the quarter to \$18.23 PSF. Warehouse product rose 150-basis points in the quarter, averaging \$17.84 PSF compared to the \$17.57 PSF from last quarter. Flex product rates also increased 110-basis points to \$18.64 PSF up from \$18.45 PSF last quarter.
- All submarkets experienced a rise in asking rental rates, along with significant year-over-year growth led by Manassas/Gainesville which has risen 6.5% to \$16.48 PSF, up from \$15.77 PSF in the second quarter of 2023.
- After rising 140-basis points, the Beltway (I-495) submarket continues to have the highest asking rent at \$22.39 PSF. Manassas/Gainesville and the I-95 Corridor tied the Beltway with quarterly rate growth, leading the submarkets at 1.4%. The Dulles Corridor had the smallest increase in rental rates, up 120-basis points to \$18.09 PSF, which is the second lowest average in the market.
- 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. 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

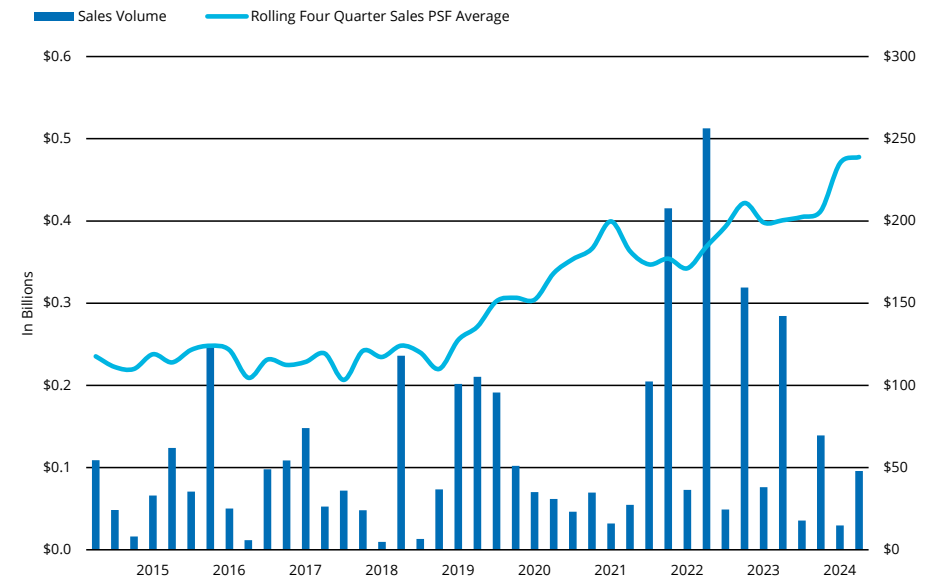


SALES

Industrial Investment Sales More Active in Q2

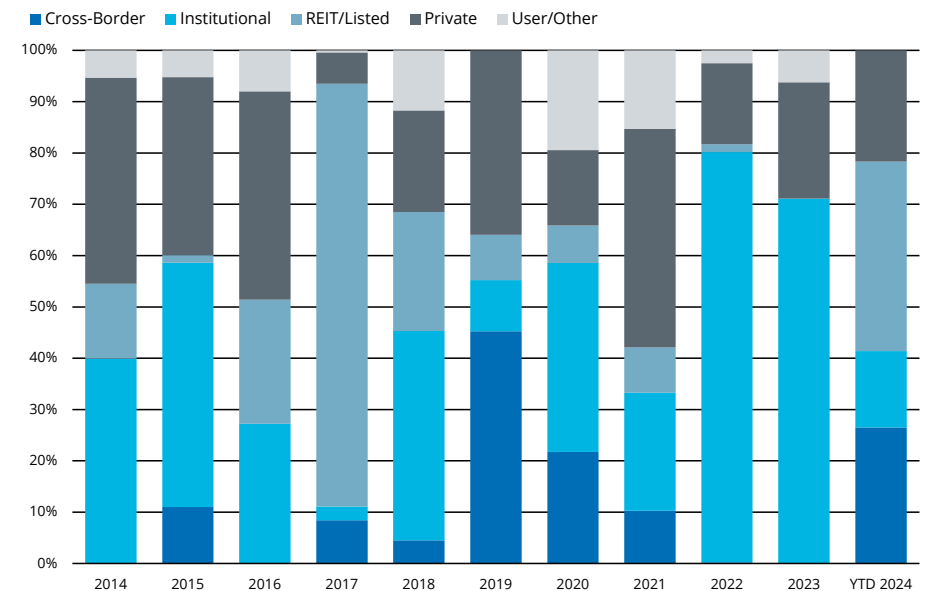
- Industrial investment sales volume was boosted by a portfolio sale in the second quarter and recorded five transactions. Four of the sales were in the I-95 Corridor, with the other remaining sale happening in the Dulles Corridor.
- The largest sale that occurred in the quarter was a portfolio sale of four properties at Fleet Industrial Park in the I-95 Corridor. The sale totaled \$84.25 million, or \$236 PSF. Terreno Realty was the buyer in the transaction of the four buildings at 6584-6698 Fleet Drive.
- The other investment sale in the quarter happened at 108 Powers Court in the Dulles Corridor. Peterson Companies purchased the 72,084 SF flex building for \$11.45 million, or \$159 PSF.
- We expect investment sales volume to remain steady but limited through 2024 as investors remain cautious about the economy. However, investors are paying attention to potential rate cuts later 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
DYNALECTRIC	3900 Stonecroft Blvd	Dulles Corridor	Renewal	34,268
DIRECT AUTO	9075-9125 Antique Way	Manassas/Gainesville	New Lease	34,000
BEANSTALK	7315 Groveton Rd	Manassas/Gainesville	New Lease	30,030
IDEMIA	6441 General Green Way	I-95 Corridor	New Lease	30,000
SCP POOLS	23700 Pebble Run Pl	Dulles Corridor	New Lease	29,426
GRABBER	7370 Merritt Park Dr	Manassas/Gainesville	Sublease	26,954

TI = Transwestern deal
 Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
108 POWERS CT	Dulles Corridor	May-24	\$11,450,000	72,084	\$159	Peterson Companies	Fernau LeBlanc Investment Partners
6636-6672 FLEET DR	I-95 Corridor	Apr-24	\$26,298,068	112,108	\$235	Terreno Realty	STRS Ohio CA Real Estate
6602-6634 FLEET DR	I-95 Corridor	Apr-24	\$24,882,477	106,939	\$233	Terreno Realty	STRS Ohio CA Real Estate
6674-6698 FLEET DR	I-95 Corridor	Apr-24	\$20,901,767	91,554	\$228	Terreno Realty	STRS Ohio CA Real Estate
6584-6600 FLEET DR	I-95 Corridor	Apr-24	\$12,167,688	46,463	\$262	Terreno Realty	STRS Ohio CA Real Estate
45935 HORSESHOE DR	Dulles Corridor	Mar-24	\$22,701,875	71,753	\$316	TA Realty	Stewart Investment Partners

Source: CoStar, CompStak, Transwestern.

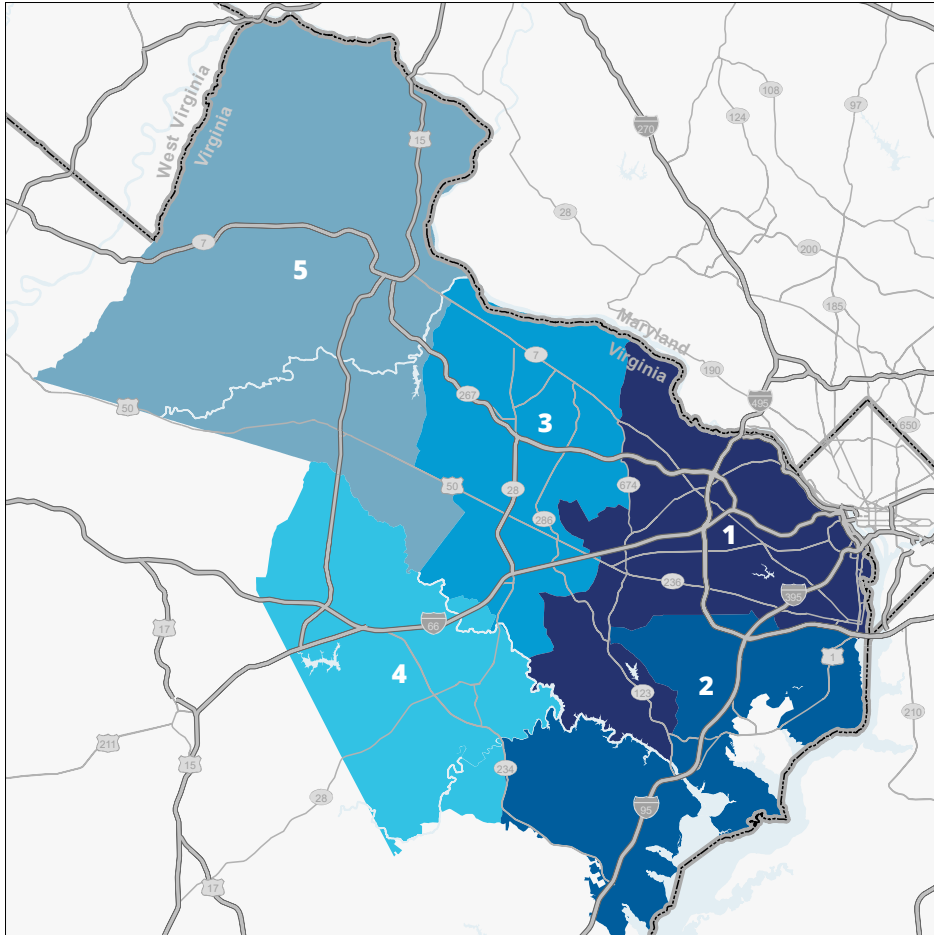


MARKET INDICATORS

All Property 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
FLEX	2,621,739	142,143	5.4%	5.4%	0	(1,000)	(72,000)	\$22.81
WAREHOUSE	5,484,787	211,651	3.9%	3.9%	0	(26,000)	(40,000)	\$22.19
BELTWAY (I-495)	8,106,526	353,794	4.4%	4.4%	0	(27,000)	(112,000)	\$22.39
FLEX	8,394,838	515,586	6.1%	6.3%	0	24,000	254,000	\$19.59
WAREHOUSE	16,034,820	744,202	4.6%	4.7%	154,200	74,000	78,000	\$17.95
I-95 CORRIDOR	24,429,658	1,259,788	5.2%	5.2%	154,200	98,000	332,000	\$18.54
FLEX	16,683,895	668,422	4.0%	4.1%	30,000	(34,000)	(90,000)	\$18.50
WAREHOUSE	21,441,607	457,871	2.1%	3.0%	497,229	(43,000)	(216,000)	\$17.39
DULLES CORRIDOR	38,125,502	1,126,293	3.0%	3.5%	527,229	(77,000)	(306,000)	\$18.09
FLEX	1,084,739	39,574	3.6%	3.6%	0	5,000	0	\$19.27
WAREHOUSE	359,604	35,861	10.0%	10.0%	258,000	0	0	\$18.07
LEESBURG/OUTLYING LOUDOUN	1,444,343	75,435	5.2%	5.2%	258,000	5,000	0	\$18.95
FLEX	5,387,373	79,403	1.5%	1.7%	0	41,000	6,000	\$16.40
WAREHOUSE	14,052,103	355,028	2.5%	2.5%	32,102	34,000	555,000	\$16.52
MANASSAS/GAINESVILLE	19,439,476	434,431	2.2%	2.3%	32,102	75,000	561,000	\$16.48
FLEX	34,172,584	1,445,128	4.2%	4.4%	30,000	35,000	98,000	\$18.64
WAREHOUSE	57,372,921	1,804,613	3.1%	3.5%	941,531	39,000	377,000	\$17.84
NORTHERN VIRGINIA TOTAL	91,545,505	3,249,741	3.5%	3.8%	971,531	74,000	475,000	\$18.23

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.

ABOUT TRANSWESTERN

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