

DISTRICT OF COLUMBIA INDUSTRIAL MARKET

Q3 2024



TRENDLINES

	Q3 2024	Q3 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	6.2	5.3	↑	5.9	↓
NET ABSORPTION (THOUSANDS SF)	(184.0)	54.0	↓	(3.3)	↔
DIRECT VACANCY RATE	5.1%	3.5%	↑	4.6%	↓
DIRECT VACANT SF (MSF)	0.4	0.3	↑	0.4	↓
UNDER CONSTRUCTION (MSF)	0.0	0.0	↔	0.0	↔
ASKING RENT, NNN (PSF)	\$18.49	\$17.38	↑	\$15.39	↑

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

INDUSTRIAL MARKET WEAKENS IN Q3 2024

The District of Columbia industrial market struggled during the third quarter of 2024. Net absorption totaled negative 184,000 SF while the direct vacancy rate increased 230 basis points to 5.1%. Asking rents increased 110 basis points on average during the past three months, ending the quarter at \$18.49, which is a 6.4% increase year-over-year.

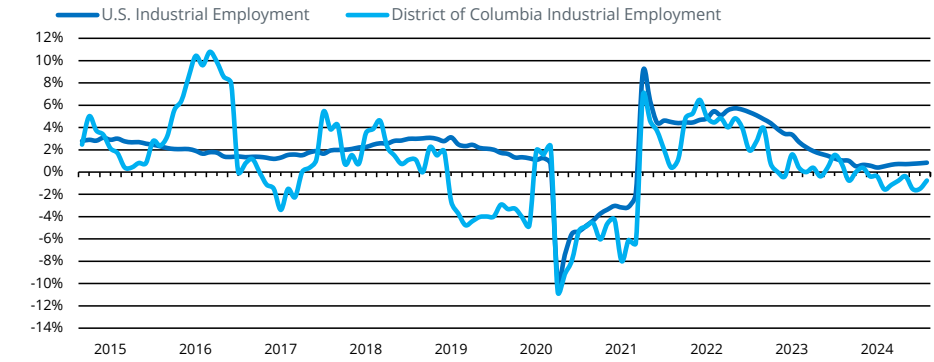
Industrial fundamentals remain strong, but demand will likely oscillate over the next several quarters, as the market normalizes. The Fed cut rates by 50 basis points at the most recent meeting with intention to keep the economy humming. This could pave a positive path for the industrial market. The vacancy rate should remain low enough during the balance of 2024 to push rents up, albeit at a decelerating pace.

ECONOMY

Industrial Job Growth Continues to Struggle in Q3 2024

- 5,500 jobs were added to the District of Columbia economy during the 12-months ending August 2024, which is below the pre-pandemic 5-year average of 9,800 jobs-added. Most of this activity is due to increasing job growth for the federal government and professional/business services sector adding 2,200 jobs.
- Industrial-using jobs lost 200 positions during the 12 months ending August 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 200 net jobs.
- The unemployment rate for the District of Columbia is currently at 6.3% as of July 2024 and averaged 6.2% for the past three months. The rate is up from 5.2% 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. Most of the limited growth will occur within construction and consumer services.

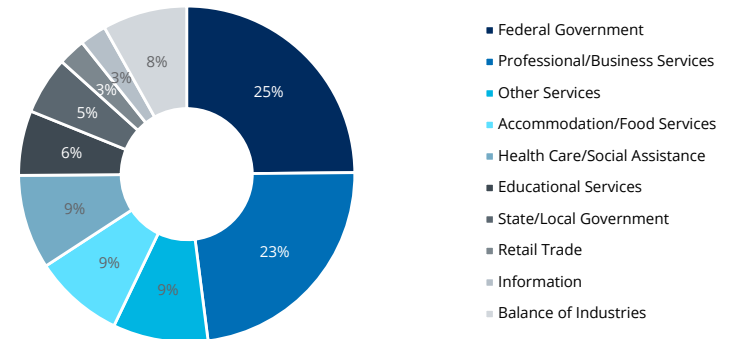
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

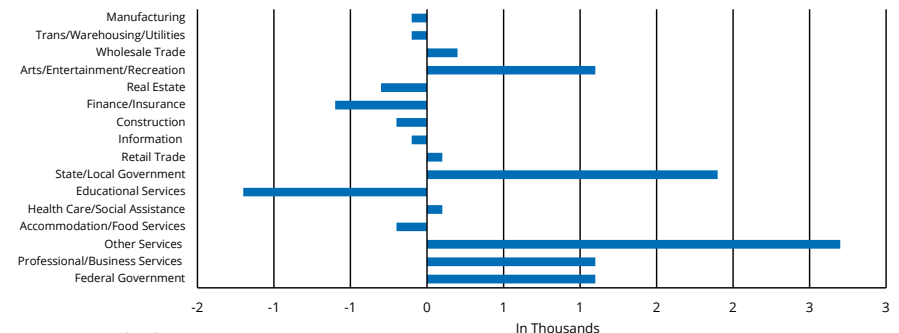
District of Columbia | August 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

District of Columbia



Source: Bureau of Labor Statistics, Transwestern

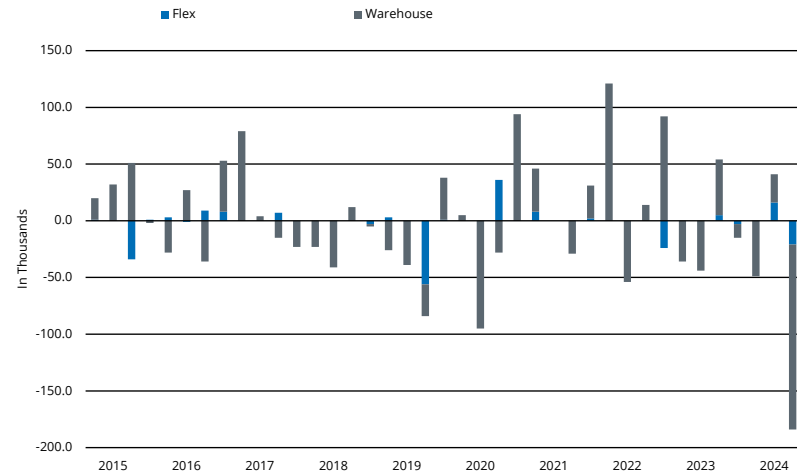


NET ABSORPTION AND VACANCY

Vacancy Rate Increases to 5.1% during Q3

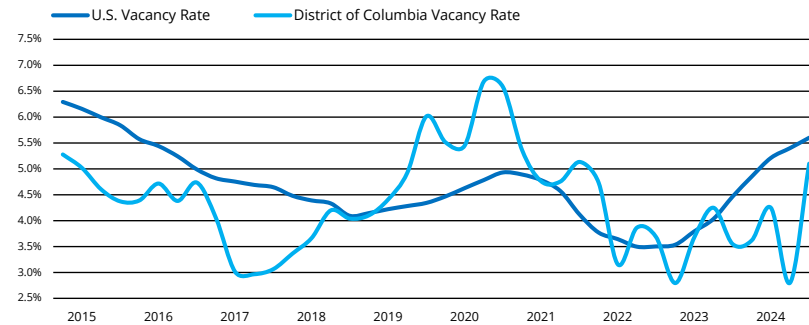
- Net absorption totaled negative 184,000 SF during the quarter, with year-over-year totaling negative 175,000 SF.
- The negative net absorption is due to several mid to large-sized moveouts outweighing minimal lease signings. For example, Battle's Transportation vacated 29,000 SF at 3000 V Street, NE.
- The direct vacancy rate increased to 5.1% this quarter, up from 2.8% the quarter prior, and is up from 3.5% 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



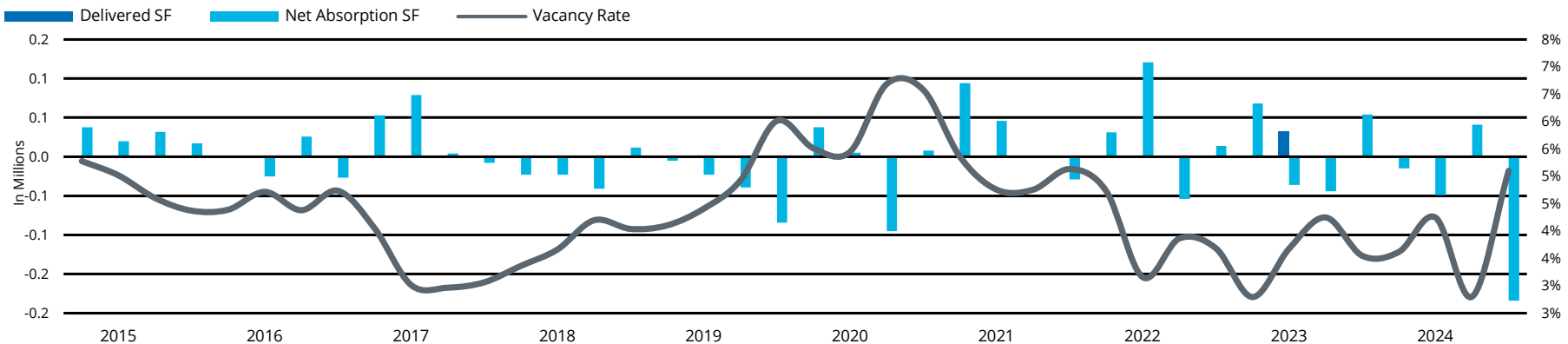
Source: CoStar, Transwestern

DIRECT VACANCY RATE



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

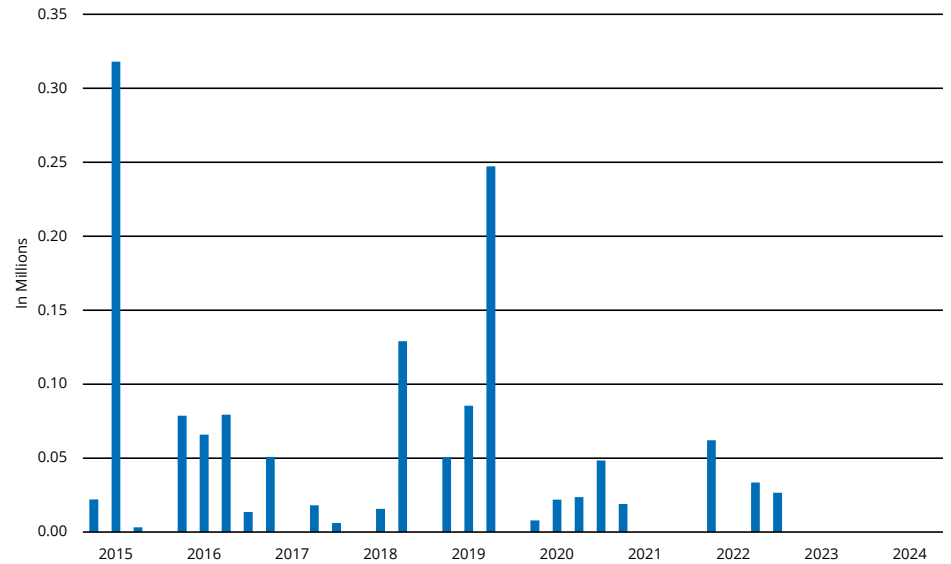


UNDER CONSTRUCTION AND RENTAL RATES

Rental Rates Continue to Grow Given Tight Market

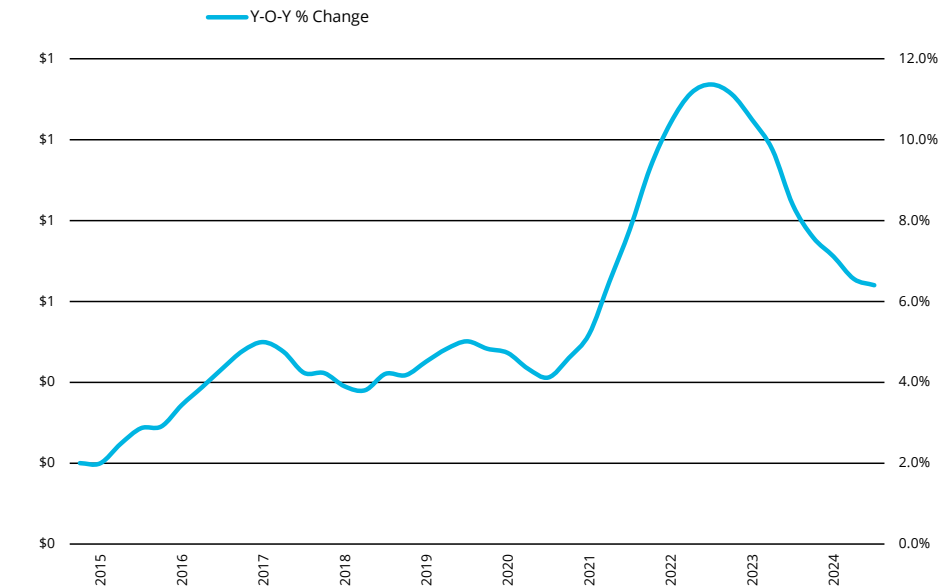
- There are currently no industrial properties under construction in the District of Columbia. We expect the pipeline to remain empty for the short run.
- We expect demolitions of obsolete industrial product to persist and overall industrial inventory to decrease over time. Over the past 10 years, a 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 110 basis points during the third quarter of 2024, landing at \$18.49 PSF. Over the past year asking rents rose 6.4%, 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 maintain a healthy level.

DEMOLISHED



Source: CoStar, Transwestern

ASKING RENT



Source: CoStar, Transwestern



MARKET INDICATORS

All Product Types | Q3 2024

PRODUCT TYPE	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	1,203,363	49,000	4.1%	4.1%	0	(21,000)	23,000	\$21.44
INDUSTRIAL	6,550,494	349,877	5.3%	6.2%	0	(163,000)	(198,000)	\$17.52
TOTAL	7,753,857	398,877	5.1%	5.9%	0	(184,000)	(175,000)	\$18.49

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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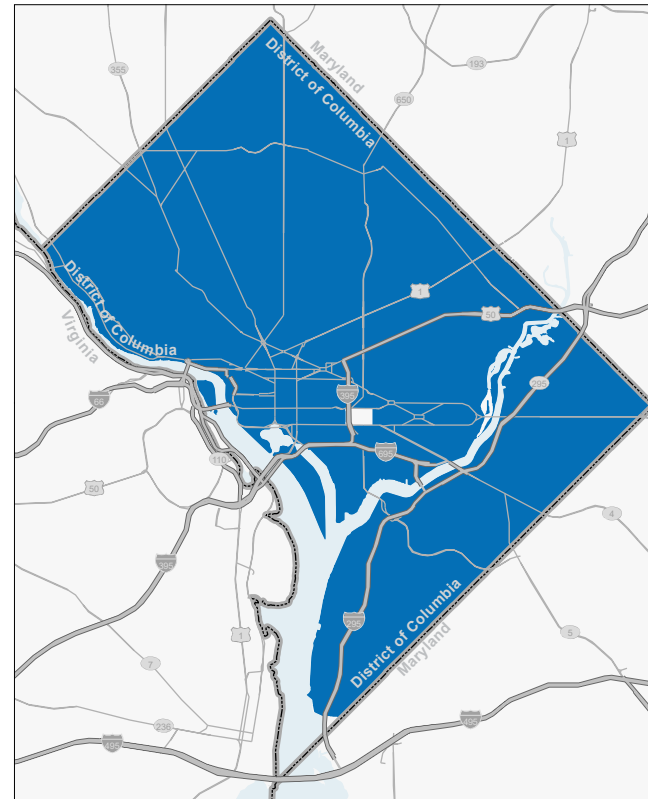
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District of Columbia Industrial Submarkets

 District of Columbia