



Washington Metro Area Industrial Market

Industrial Fundamentals Steady; Economic Headwinds Introduce Uncertainty

Washington metro area industrial market fundamentals remain relatively tight in the first quarter of 2023. Rental rates in Northern Virginia, in particular, have continued increasing at a steady pace and now exceed \$15 per square-foot. Overall rental rates have increased by 6.0% year-over-year, while vacancy has decreased by 20 basis points since Q1 2022. The market recorded negative 172,583 square feet of net absorption in the first quarter of 2023, down from the nearly 75,000 square feet of positive absorption recorded in the fourth quarter of 2022. The Washington metro area industrial market continues to show optimism for steady demand growth and investment performance.

Northern Virginia currently holds the lowest vacancy rate in the tri-state area, measuring just 3.0% in the first quarter of 2023. Though Suburban Maryland has the highest vacancy at 7.3%, the metro area overall remains strong and forecasted demand will outpace supply in the pipeline.

Across the metro, 3.1 million square feet of new supply is under construction. That represents 1.2% of the total exiting inventory. Elevated inflation has been a challenge for material costs, but supply chain disruptions are subsiding and overall enthusiasm for modern warehouse and distribution space should continue to support a sturdy overall market stability.

Current Conditions

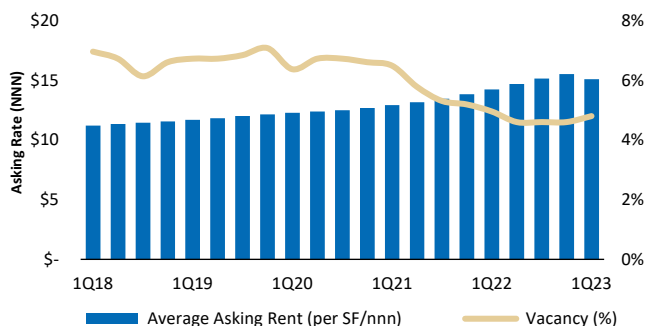
- Since Q1 2022, the vacancy rate has decreased 20 basis points from 5.0%. The vacancy rate increased by 20 basis points during the first quarter of 2023, to 4.8%.
- The average asking rent is 6.0% higher than in the first quarter of 2022, currently measuring \$15.08/SF in the first quarter of 2023.
- Annual net absorption in the market measured nearly 6 million square feet in 2022. First-quarter 2023 absorption saw a decline quarter-over-quarter, yet lease transaction volume ensures net new absorption in coming quarters upon tenants occupying signed space.

Market Summary

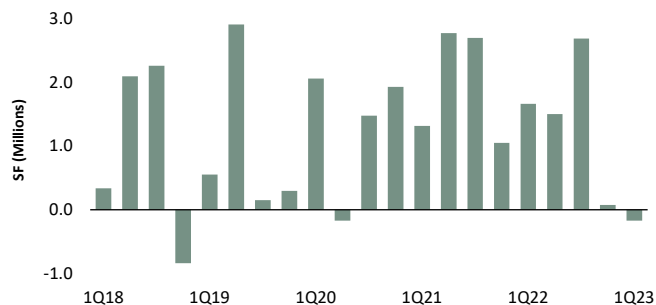
	Current Quarter	Prior Quarter	Year-Ago Period	12-Month Forecast
Total Inventory (SF)	263.4 M	262.7	257.7	↑
Vacancy Rate	4.8%	4.6%	5.0%	→
Quarterly Net Absorption (SF)	-172,583	73,988	1,659,811	↑
Average Asking Rent/SF (NNN)	\$15.08	\$15.50	\$14.23	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Frederick Helping Washington Metro Industrial Thrive

While it is no secret that the Washington metro area industrial market is bolstered by the popularity of suburban Maryland’s industrial product, that trend has expanded further. Long valued by life science tenants due to the proximity to government entities and medical institutions like the National Institutes of Health, Suburban Maryland has also become increasingly popular for general industrial, as well as R&D/flex tenants. A consistent reason for this demand is the efficient access to both the large Port of Baltimore, as well as to the Beltway, leading to I-495, a reliable option for travel up and down the Eastern seaboard, just as Northern Virginia industrial assets also greatly benefit from their proximity to major trucking and logistics routes. Consequently, Frederick County has become an even more popular location for warehouse needs, along with the more traditional life science and biotechnology tenants.

As a sign of Frederick’s continued growth and positive outlook, a new, nearly 450,000 square-foot industrial project is in development, called Lincoln West at Jefferson Station. The entire project will comprise four buildings, with the largest being over 200,000 square feet and the smallest just over 20,000 square feet. Phase I of the project delivered in the fourth quarter of 2022 and, along with the second phase, can accommodate both logistics tenants, as well as life science and biotechnology needs. This developing trend of industrial space that can cater to multiple asset and tenant types is a positive indication of the Washington metro area industrial market’s strength, efficacy, and popularity.

Despite Vacancy Increase, Leasing Remains Strong

The Washington metro area industrial market continues to exhibit strong fundamentals. Although economic uncertainty, recessionary pressures, and high construction and material costs continue to weigh sternly on markets nationwide, the Washington industrial market continues to show relative resistance to softening. Though still relatively low, overall vacancy did increase slightly in the first quarter of 2023, though there is not great concern at the writing of this report.

This reflects the vacancies as a result of Amazon, among others, downsizing. These tenants are not leaving the area, but are right-sizing, after increased leasing during the pandemic ecommerce boom. Vacancy across the metro area has been relatively consistent over the last year and has trended downwards. The recent decrease in occupancy should not last, though, and leasing activity in early 2023 is strong enough to show that companies are still making leasing decisions. Declines in market activity in the coming quarters are likely to be more tied to adjustment relative to the unsustainably high, early pandemic activity, and not evidence of decreasing market popularity. For much of the last couple years since the onset of the pandemic, industrial activity has been rampant as ecommerce and last-mile needs have exploded. Nonetheless, it is expected that this pace will slow through 2023, leading to a decreased but strong and more sustainable leasing market.

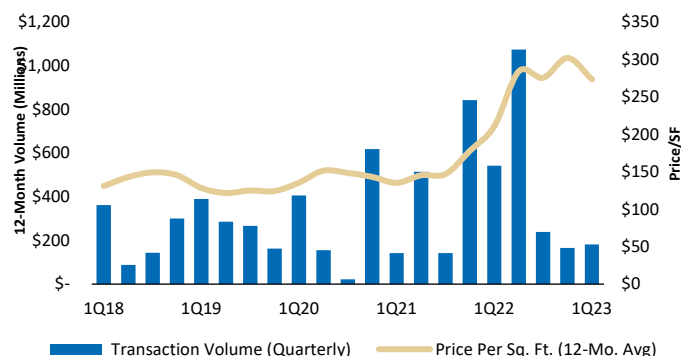
Washington Industrial Outlook

As markets hold steady through early 2023, Washington’s industrial market should remain relatively sturdy. With logistics and lab-industrial space demand remaining strong, despite economic headwinds, recessionary pressures, and high material costs, Washington’s industrial market fundamentals are tight, even with some softening this quarter. Northern Virginia’s industrial market continues to be a boon for the metro area, as its overall market activity and vacancy remains relatively strong compared to the rest of the region. Northern Virginia’s access to a strong logistics and last-mile infrastructure in the Mid-Atlantic keeps it a high priority among investors and decision makers. Recessionary pressures and high inflation continue to balance the tightness of the market. Yet, the increasing demand for a variety of industrial space near the tech, life science, and logistics hubs of the Washington metro ensures that the market should see continued stability throughout the first half of 2023.

For additional information on the Mid-Atlantic economy and commercial real estate market outlook, please visit the [Mid-Atlantic Market Reports](https://www.nmrk.com/mid-atlantic-market-reports) page at nmrk.com.

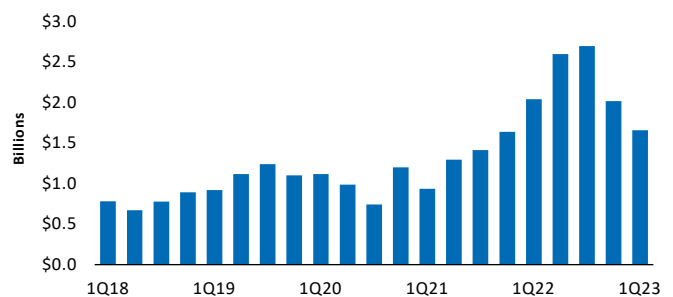
Investment Sales Market

INVESTMENT SALE VOLUME AND PRICE PER SQ FT



Note: Price/SF is a trailing 12-month trailing average
Source: Real Capital Analytics, Newmark Research

TRAILING 12-MONTH TRANSACTION VOLUME



Source: Real Capital Analytics, Newmark Research

Submarket Statistics—All Classes

	Total Inventory (SF)	Overall Vacancy Rate	1Q 2023 Net Absorption (SF)	YTD 2023 Absorption (SF)	Average Asking Rent (NNN)	R&D/Flex Avg. Asking Rent (NNN)	Warehouse/Dist. Avg. Asking Rent (NNN)
Washington Metro Area	263,408,740	4.8%	-172,583	-172,583	\$15.08	\$18.46	\$10.02
District of Columbia	3,513,017	5.2%	0	0	NA	NA	NA
Suburban Maryland	109,978,260	7.3%	-62,576	-62,576	\$15.78	\$21.12	\$8.94
Frederick County	12,256,258	8.4%	5,340	5,340	\$28.92	\$30.29	\$8.50
Montgomery County	23,338,076	5.6%	-87,741	-87,741	\$24.26	\$27.21	\$18.20
Prince George's County	50,884,724	5.2%	57,193	57,193	\$10.39	\$12.41	\$8.49
Outlying MD Counties	23,499,202	12.8%	-37,368	-37,368	\$5.18	\$6.75	NA
Northern Virginia	149,917,463	3.0%	-110,007	-110,007	\$15.06	\$16.43	\$14.18
Alexandria & Arlington Industrial	7,350,000	10.80%	21,575	21,575	\$16.81	\$23.37	\$15.00
Dulles Industrial	50,167,185	2.2%	-125,648	-125,648	\$13.55	\$14.07	NA
Fairfax County	22,549,500	7.6%	-117,231	-117,231	\$16.45	\$17.39	\$9.50
Loudoun & Prince William Counties	16,757,695	2.1%	36,754	36,754	\$13.64	\$14.71	NA
Outlying VA Counties	53,093,083	0.9%	74,543	74,543	\$11.66	NA	NA

Note: Asking rents are quoted on a triple net basis.

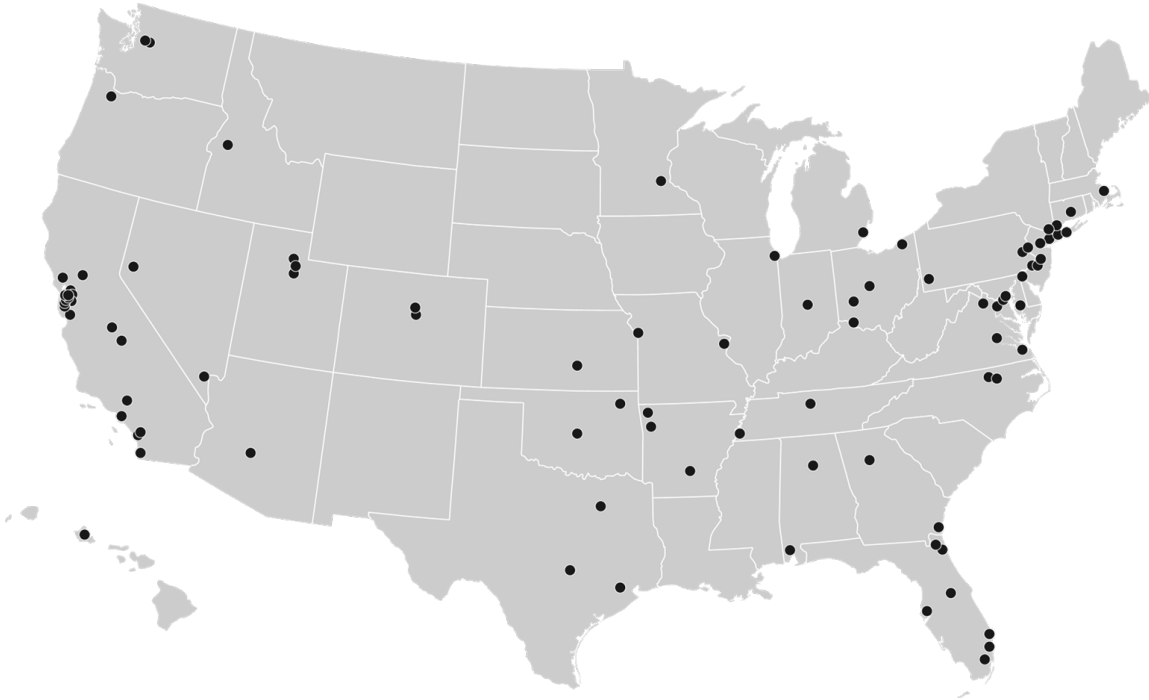
Notable Recent Sales Transactions

Building	Submarket	Sale Price (Millions)	Price/SF	Square Feet
14251 John Marshall Highway	Loudoun & Prince William Counties	\$56.3	\$154	365,235
3500 Bladensburg Road	Prince George's County	\$20.0	\$109	183,815
311 Kellys Ford Plaza SE	Loudoun & Prince William Counties	\$16.0	\$287	55,754

Notable Recent Lease Transactions

Tenant	Building	Quarter Signed	Type	Square Feet
1-800-Packrat	8422 Wellington Road	1Q 2023	Direct	119,952
J.K. Land Holdings	11101 University Boulevard	1Q 2023	Direct	105,032
WMATA	6304 Sheriff Road	1Q 2023	Direct	90,898

Newmark United States Office Locations



Methodology

Market statistics are calculated from a base building inventory of industrial properties 10,000 SF and larger that are deemed to be competitive in the Baltimore Metro Area industrial market. This includes multi-tenant, single-tenant and owner-occupied buildings.

Glossary

Asking Rental Rate: The dollar amount asked by landlords for direct available space (not sublease), expressed in dollars per square foot per year. Average asking rents are calculated on a weighted average basis, weighted by the amount of available space. Asking rents are quoted on a triple net basis, meaning all costs of operation are paid by the tenant on a pro rata basis.

Deliveries: Projects that have completed construction and received a certificate of occupancy.

General Industrial: Properties characterized by 10–30% office build out, clear heights 16 feet and higher, up to 200 foot typical bay depth, dock or ground loading, and 10,000 SF and up typical suite size. Typical uses include manufacturing, warehouse, transportation, service and construction.

Net Absorption: The net change in physically occupied space from one quarter to the next. Year-to-Date (YTD) Net Absorption is the net change in physically occupied space from the start of the calendar year to the current quarter. Net absorption is counted upon physical occupancy, not upon execution of a lease.

R&D/Flex: Properties characterized by 30% and higher office build

out, clear heights up to 16 feet, up to 120-foot typical bay depth, ground loading, and 5,000 SF and up typical suite size. Typical uses include back office, R&D/lab, light assembly and retail/showroom.

Under Construction: Properties undergoing ground-up construction in which work has begun on the foundation. Properties that have only undergone grading or other site work are not included as under construction.

Vacancy Rate: The amount of space that is physically vacant, expressed as a percentage of inventory. (Space that is being marketed as available for lease but is largely occupied is not included in the vacancy rate.) The Overall Vacancy Rate includes all physically vacant space, both direct and sublease.

Warehouse/Distribution: Properties characterized by 5-10% office build out, clear heights 16 feet and higher, up to 400 foot typical bay depth, dock loading, and 25,000 SF and up typical suite size. Typical uses include warehouse and distribution.

For more information:

Washington DC

1899 Pennsylvania Avenue
Suite 300
Washington, DC 20006
t 202-331-7000

Carolyn Bates

Director, Research

t 612-408-7512

carolyn.bates@nmrk.com

Raymond Moussazadeh

Senior Research Analyst

t 202-664-5894

Raymond.moussazadeh@nmrk.com

Adam Reiskin

Research Analyst

t 202-312-5763

adam.reiskin@nmrk.com

nmrk.com

ALABAMA

Birmingham

ARIZONA

Phoenix

ARKANSAS

Bentonville

Fayetteville

Little Rock

CALIFORNIA

El Segundo

Fresno

Irvine

Los Angeles

Newport Beach

Pasadena

Sacramento

San Francisco

San Jose

San Mateo

Santa Rosa

Visalia

COLORADO

Denver

CONNECTICUT

Stamford

DELAWARE

Wilmington

DISTRICT OF COLUMBIA

FLORIDA

Boca Raton

Jacksonville

Jupiter

Miami

Palm Beach

Tampa

GEORGIA

Atlanta

St. Simons Island

ILLINOIS

Chicago

INDIANA

Indianapolis

KENTUCKY

Louisville

LOUISIANA

New Orleans

MARYLAND

Baltimore

Salisbury

MASSACHUSETTS

Boston

MICHIGAN

Detroit

MINNESOTA

Minneapolis

MISSOURI

Kansas City

Lee's Summit

St. Louis

NEVADA

Las Vegas

Reno

NEW JERSEY

East Brunswick

Morristown

Rutherford

NEW YORK

Buffalo/Amherst

New York

NORTH CAROLINA

Charlotte

OHIO

Cincinnati

Cleveland

Columbus

OKLAHOMA

Oklahoma City

Tulsa

OREGON

Portland/Lake

Oswego

PENNSYLVANIA

Allentown

Philadelphia

Pittsburgh

TEXAS

Austin

Dallas

Houston

UTAH

Salt Lake City

VIRGINIA

Tysons Corner

WASHINGTON

Seattle

WISCONSIN

Milwaukee

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/research.

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark has not verified any such information, and the same constitutes the statements and representations only of the source thereof and not of Newmark. Any recipient of this publication should independently verify such information and all other information that may be material to any decision the recipient may make in response to this publication and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download or in any other way reproduce this publication or any of the information it contains. This document is intended for informational purposes only, and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter.