

INVESTMENT FORECAST

Industrial
Washington, D.C.

IPA
INSTITUTIONAL
PROPERTY
ADVISORS






2022

Distributors Expand Their Presence in Maryland to Service the Nation's Growing Capital

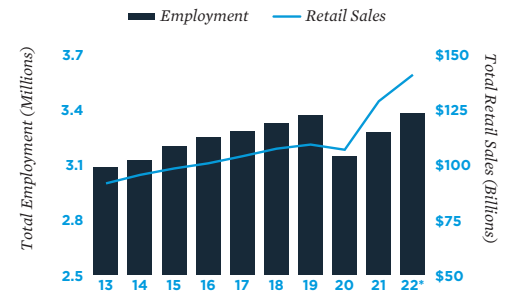
Expedited delivery schedules spur leasing. Since the onset of the pandemic, more e-commerce companies started offering same-day or next-day shipping to gain market share amid surging demand for goods purchased online. This spearheaded leasing in the metro, as many of these firms were unable to distribute goods to the region from neighboring markets in this expedited time frame. Tenants absorbed over 6 million square feet in 2021, compressing vacancy to the lowest level in over two decades entering this year. The surge in demand also stimulated construction activity, with over 5.6 million square feet slated to deliver across the region in 2022. Land constraints near primary population hubs have developers targeting outlying submarkets in the region, like Washington County and Fredericksburg. Although the rise in development will cause a slight uptick in vacancy this year, the rate will remain 140 basis points below the trailing 10-year average.

Residential growth stokes deal flow. Robust rent growth and the potential for higher yields relative to other major markets in the Northeast are stimulating investor interest in the metro. Deal flow increased by over 40 percent in 2021 relative to the previous year, and with the metro expected to add 40,000 residents in each of the next five years, this uptick in buyer demand will likely be sustained long term. In Virginia, assets in Manassas-I-66, Dulles Corridor and Springfield-Newington submarkets are highly sought after, due to their ease of access to major residential hubs within the region. Warehouses under 100,000 square feet often change hands here, with first-year returns averaging in the mid-6 percent range. In Maryland, buyers are targeting older warehouse assets in Prince George's County, particularly in Capitol Heights, Forestville and Upper Marlboro. Entry costs here often fall below the metro average of \$187 per square foot.

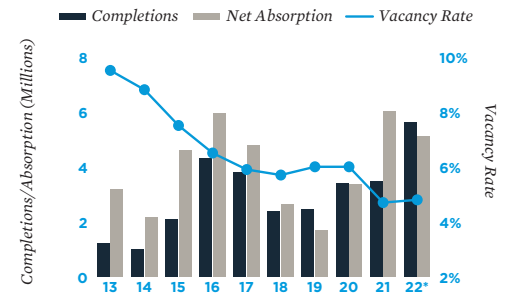
2022 Market Forecast

- Employment** up 3.2%  Firms will hire 105,000 employees this year, building on the 131,200 jobs that were created in 2021.
- Construction** 5.6 million sq. ft.  Deliveries will surpass 5 million square feet for the first time since 2005. Roughly two-thirds of the current pipeline is slated for delivery in suburban Maryland.
- Vacancy** up 10 bps  The uptick in construction outpaces leasing activity this year, pushing vacancy up to 4.8 percent. In 2021, the rate contracted 130 basis points.
- Rent** up 5.4%  The average asking rent will establish a new high, reaching \$10.45 per square foot in 2022. The rate of growth slows moderately from last year's 9.5 percent increase.
- Investment**  Robust development in Washington County and Fredericksburg may present more opportunities for investors to find newer, larger facilities. This may potentially increase buyer interest for assets in these submarkets.

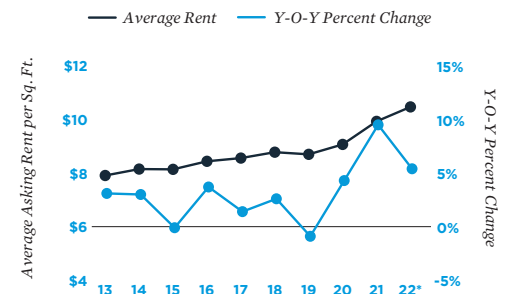
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Al Pontius

Senior Vice President
Director IPA Industrial
Tel: (415) 963-3000 | apontius@ipausa.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.