

INVESTMENT FORECAST

Industrial

Washington, D.C. Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2024

Concentrated Construction in Suburban Maryland Belies Otherwise Well-Performing Sector

Market dynamics largely in balance, outside of certain areas. After five years of accelerating construction, openings will fall in 2024 and allow time for tenant demand to catch up to supply. Development has been most pronounced in Hagerstown, where local inventory grew by 46 percent between 2019 and 2023. Volvo, Hitachi Rail, Conair and Walmart have all entered the area within the past two years. Yet, the opening of other speculative projects has led to over 6.6 million vacant square feet here as of this January, 40 percent of the marketwide total. Vacancy entering this year across the rest of the metro, excluding Hagerstown, was 4.7 percent, reflecting a better balance between demand and supply elsewhere in the metro. Frederick County, VA, the Dulles Corridor and the Manassas-Interstate 66 submarket all began 2024 with sub-4 percent vacancy rates. What infill industrial space that exists within the District of Columbia is highly coveted as well. Northern Virginia is also continuing to welcome new data centers, underscoring the market's strategic position with both the physical and digital highways of the country.

Established industrial hubs demonstrate sturdy sales activity. Continued rent growth, even amid rising vacancy, has helped many industrial investors withstand higher borrowing costs to pursue opportunities in the metro. As in past years, buyers looked to the Dulles and Interstate 66 corridors most often, although Hagerstown has drawn more attention since 2020. As developers have deposited new space, local private buyers and out-of-state organizations have mostly focused on pre-2000-built manufacturing and warehouse space. The market's industrial assets also have international appeal, highlighted most recently by a portfolio acquisition by a Canada-based buyer.

2024 MARKET FORECAST

+0.8%



EMPLOYMENT: The creation of 28,000 jobs in 2024 represents about 60 percent of the yearly average from 2014 to 2019, following the financial crisis recovery, but preceding the pandemic.

3.6 million

sq. ft.



CONSTRUCTION: Completions fall to the lowest level in four years as the greater Fredericksburg area, Hagerstown and the I-270 Corridor welcome the largest share of openings.

+70 bps



VACANCY: As net absorption slows to its lowest level since 2010, vacancy will climb to a nine-year high of 7.5 percent, leaving some larger recent speculative builds still on the hunt for tenants.

+5.1%

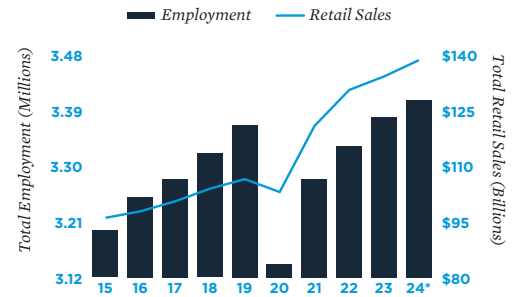


RENT: Asking rent growth continues to normalize, following a 14.4 percent surge in 2022. This year's mean marketed rate of \$13.35 per square foot represents a 52 percent premium relative to 2019.

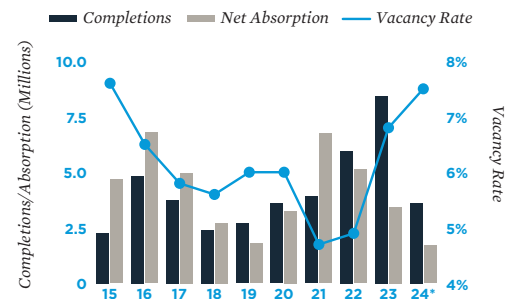
INVESTMENT:

Sizable inventory, a major airport, and multiple business hubs distinguish the Dulles Corridor to out-of-state buyers, who are likely to continue favoring the area even amid recent negative net absorption.

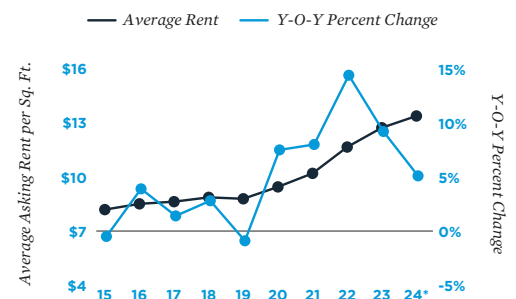
Economic Trends



Supply and Demand



Rent Trends



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

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2023. Effective rent is equal to asking rent less concessions. 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. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth 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.