

INVESTMENT OUTLOOK

Industrial

Washington, D.C. Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

MIDYEAR 2025

Fundamentals Approaching Historic Norms; Hagerstown Masks Largely Balanced Market

Rapid construction decline aids supply-demand rebalancing. After more than 21 million square feet came to market from 2022 to 2024, openings will fall to just 3.2 million square feet in 2025. While soft demand will prevent vacancy tightening, this signals a realignment with pre-pandemic delivery norms and a considerable narrowing of recent disparities between new supply and tenant demand. With firms such as Amazon, DB Schenker and CertainTeed moving into spaces this summer and fall, fundamentals may be positioned to achieve balance for the first time since the health crisis. Slowing construction is proving particularly impactful in Hagerstown, which posted no notable openings in the three quarters ended in March. Inventory there expanded by nearly 40 percent between 2021 and the second quarter of 2024, leaving over 25 percent of the market's vacant inventory in a single submarket. Excluding Hagerstown, vacancy in the metro stood at 7.3 percent in March — just 20 basis points above the national rate — indicating that most submarkets have stayed tighter than the metrowide figure suggests.

Established industrial hubs demonstrate sturdy sales activity. Transaction velocity over the 12 months ended in March accelerated nearly 40 percent year over year, resulting in one of the metro's most active periods on record. A rising cap rate indicates more buyers and sellers are coming to agreement, which should help sustain sales activity later this year despite high borrowing costs. Rent growth of nearly 10 percent since 2023 — the second-largest increase among major metros in that time — may also encourage investors. With a steep drop in construction starts positioning the market for strengthened fundamentals, many buyers are looking to the Interstate 66 and Dulles corridors seeking warehousing and light distribution spaces of pre-1990 vintage.

2025 MARKET FORECAST

+0.2%



EMPLOYMENT: The creation of 7,800 jobs in 2025 undercuts the past-decade average by 75 percent. Total gains through May have been limited by the shedding of over 15,000 government positions.

3.2 million



sq. ft.

CONSTRUCTION: Completions fall to the lowest level since 2019 as inventory expands just 1.3 percent year over year. This delivery slate marks a return to historic norms for the metro.

+30 bps



VACANCY: As net absorption slows for a fourth straight year, falling slightly below typical pre-pandemic levels, vacancy will edge up to 8.2 percent — the metro's highest overall rate in a decade.

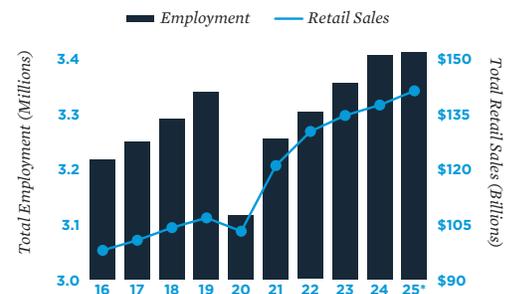
+2.9%



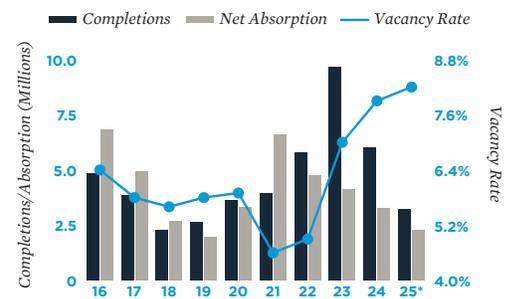
RENT: Asking rent growth will improve slightly from 2024's pace as the mean marketed rate rises to \$13.76 per square foot. The metric will be up over 56 percent from the 2019 figure.

INVESTMENT: *The I-66 corridor may draw more attention after local vacancy fell 140 basis points year over year to 2.9 percent in March — the lowest rate of any D.C. submarket with over 10 million square feet of stock.*

Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Al Pontius

Senior Vice President

National 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 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 guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.