

# MARKET REPORT

## INDUSTRIAL

Washington, D.C., Metro Area

# IPA

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## 2H/19

## Lack of Space Limits Construction and Investment Options, Driving Strong Rent and Sale Price Appreciation

**Less development contributes to stronger performance in Maryland and the District.** A growing population and diversifying economy sustain demand for industrial properties in and around Washington, D.C. Manufacturers, logistics companies and other firms are moving into spaces across the market, including near Dulles International Airport, along the I-95 and I-270 corridors, and outside Landover. Less recent construction activity in Suburban Maryland, where roughly half as much space has opened since 2010 as in Northern Virginia, is contributing to lower vacancy in the area. An exception is Washington County, where the upcoming arrival of a 1.2 million-square-foot warehouse, the largest delivery of the year, will add upward pressure to availability. Other notable 2019 completions include several properties near the Route 28 Corridor, each spanning more than 100,000 square feet. These and other openings will place downward pressure on asking rents, particularly in Northern Virginia, while the lack of available space inside the District continues to drive marketed rates up by more than 10 percent annually, which will lift the overall metro average this year.

**High entry costs and fewer options direct investors toward Maryland and Virginia.** Improving property performance continues to support historically elevated trading activity and upward momentum in sales prices. A slightly higher number of trades occurred in Northern Virginia than in Maryland, focused primarily in Fairfax County. Multiple Class C and B warehouses built more than 30 years ago changed hands for an average sale price of \$140 per square foot with cap rates that could extend above 7 percent. In Maryland, the majority of transactions took place in Prince George's County, with investors in the \$1 million to \$10 million price tranche targeting assets in Forestville, Hyattsville and Marlboro most often. Entry costs fall below \$100 per square foot in most markets, reflecting the greater age of some of the facilities. The highest sales prices continue to be found within the District, where among limited listings, a handful of Class C assets in the northeastern part of the metro were exchanged for more than \$200 per square foot.

## 2019 Market Forecast

**Employment**  
up 1.1%



Job growth modestly improves in 2019 as about 35,000 new positions will be added to payrolls, compared with a 1.0 percent gain in 2018.

**Construction**  
2.1 million  
sq. ft.



Roughly 20,000 more square feet of industrial space will open in the market this year compared with 2018, with annual deliveries falling well below the cycle peak of 4.3 million square feet completed in 2016.

**Vacancy**  
up 50 bps



The addition of more than 12 million square feet of new industrial space over the past four years has started to affect vacancy as the metrowide rate rises to 6.3 percent in 2019. Last year, availability declined 20 basis points.

**Rent**  
up 1.1%



The average asking rent advances to \$8.64 per square foot this year as growth slows following a 4.5 percent rate of appreciation in 2018.

**Investment**

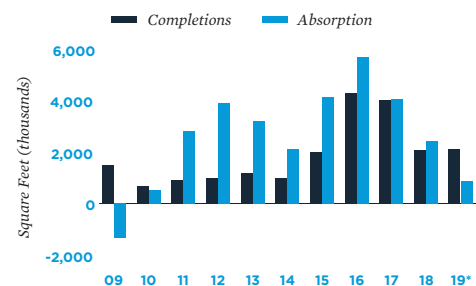


The growing consumer expectation for short delivery periods will continue to drive demand for last-mile distribution centers near population hubs, even in the higher cost pockets of the District and surrounding submarkets.

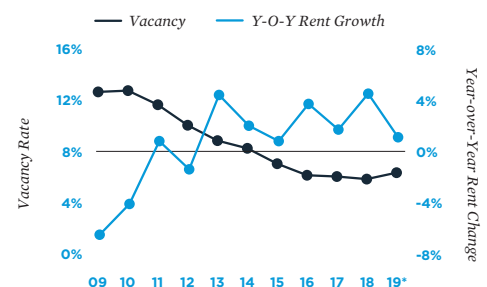
### Employment vs. Retail Sales Trends



### Industrial Completions



### Asking Rent and Vacancy Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; Moody's Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of September 2019. 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 industrial data are made during the third 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.