

# MARKET REPORT

## INDUSTRIAL

Washington, D.C., Metro Area

IPA

INSTITUTIONAL  
PROPERTY  
ADVISORS

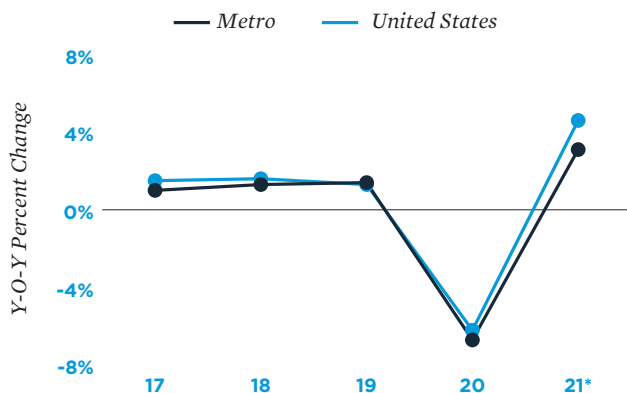
2Q/21

### Fundamentals Withstand Health Crisis Shock; New and Existing Space Being Actively Leased

**Tenants continue to fill industrial space across the Beltway.** Despite the health crisis, industrial properties in Washington, D.C., performed modestly better in 2020 than the year before. Space absorption largely kept pace with increased construction activity to keep vacancy unchanged year over year. The measure has since tightened, down 20 basis points to 5.9 percent in March, well below levels recorded following the previous recession. Rent growth also accelerated last year after a modest dip in 2019. The surge in e-commerce spending as well as disrupted supply chains have underscored the need for industrial space in the market, sustaining new leasing activity. Besides Amazon, which has occupied over 1.3 million square feet so far this year, other firms committing to large floor plans include Costco, Volkswagen and transportation company A&A Transfer.

**Planned arrivals concentrated in key submarkets.** As the demand for industrial space increases, limited land availability continues to push developers farther out of the Beltway. The current development pipeline is centered northwest of the metro in Maryland's Frederick and Washington counties. While large-scale arrivals are rapidly expanding inventories in those locales, a high level of pre-leasing limits the broader impact on fundamentals, with vacancies declining and rents rising in both submarkets. Other focal points of construction include the northern Virginia cities of Sterling and Manassas.

#### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

### Industrial 2021 Outlook



**96,000  
JOBS**

*will be created*

#### EMPLOYMENT:

The addition of 31,500 jobs through the first four months of the year sets the stage for a 3.1 percent rate of employment growth in 2021. Renewed hiring will bring the total employment base to within 5 percent of the pre-pandemic total by December.



**3,250,000  
SQ. FT.**

*will be completed*

#### CONSTRUCTION:

Total completions will remain above the 3 million-square-foot level for the second consecutive year in 2021. While inventory metrowide will grow by a modest 1.5 percent, local supply in Washington County, Maryland, will expand by 9 percent this year.



**10  
BASIS POINT**

*decrease in vacancy*

#### VACANCY:

Following a year where positive net absorption kept vacancy stable despite broader economic disruptions, vacancy is expected to dip to 6.0 percent in 2021. While above levels recorded in recent years, the rate is still well below the 1996-2019 average of 7.7 percent.



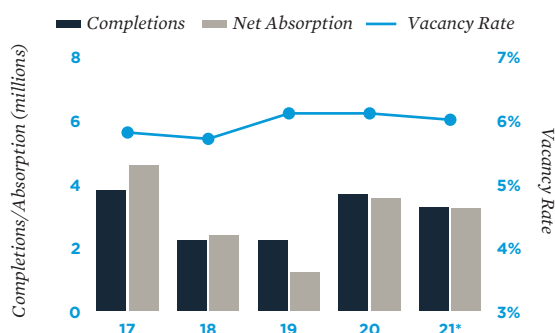
**2.6%  
INCREASE**

*in asking rent*

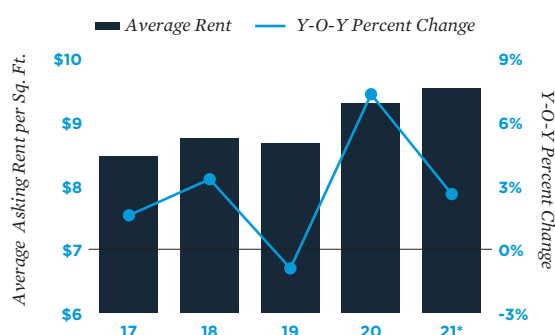
#### RENT:

Rent growth has continued throughout the health crisis, rising 7.3 percent in 2020. The metro average asking rent will climb by a smaller margin this year to \$9.53 per square foot, a new multidecade high.

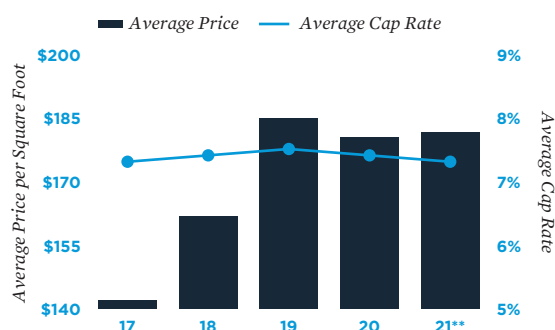
## Supply and Demand



## Rent Trends



## Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Industrial

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## 1Q21 – 12-Month Period



### CONSTRUCTION

**3,553,000** square feet completed

- The I-81 Industrial Center for Amazon in Hagerstown, Maryland, was the largest single completion made over the four-quarter period ended in March at 1.2 million square feet.
- Frederick County, Virginia, also welcomed over 600,000 square feet of deliveries, along with smaller pipelines in other Virginia submarkets.



### VACANCY

**20** basis point increase in vacancy Y-O-Y

- Vacancy across the metro was at 5.9 percent at the end of March. While the rate has climbed up from where it was a year prior, it is 60 basis points below the pandemic high of 6.5 percent in June 2020.
- Year over year, vacancy fell by over 100 basis points in the Dulles and Manassas-I-66 corridors as well as in Frederick County, Maryland.



### RENT

**5.5%** increase in the average asking rent Y-O-Y

- About 2.9 million square feet of net absorption over the past four quarters helped push the average asking rent up to \$9.42 per square foot.
- Modest levels of vacant stock led to above-market rent gains in several submarkets, including the Manassas I-66 and I-270 corridors as well as Frederick County, Maryland, and North Prince George's County.

## Investment Highlights

- Sales velocity slowed by a modest 3 percent between 2019 and 2020 as a strong fourth quarter compensated for a slower spring period. Trading activity was more subdued in the first three months of this year, leading to a 9 percent annual decline for the trailing 12-month span.
- Properties in suburban Maryland represented a comparatively larger share of transactions for the four-quarter period ended in March. Within the region, buyers were most focused on Prince George's County assets, including numerous sub-50,000-square-foot warehouses. First-year returns were in the high-5 percent to high-7 percent range. Sales velocity slowed notably over the past year in northern Virginia, while opportunities within the District remain limited.
- The higher concentration of Maryland trades, where entry costs are lower, likely contributed to the 1 percent dip in the overall market average price over the past yearlong span to \$181 per square foot. Within each submarket however, competition for available listings led to an overall 20-basis-point drop in the mean cap rate to 7.3 percent.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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