

FIGURES | NORTHERN VIRGINIA INDUSTRIAL | Q2 2023

# Increase in New Supply Drives Rents Up

▲ 4.0%

Vacancy Rate

▼ 134,589

SF Net Absorption

▲ 1.2 MSF

SF Under Construction

► \$15.78

Average NNN Asking Rate

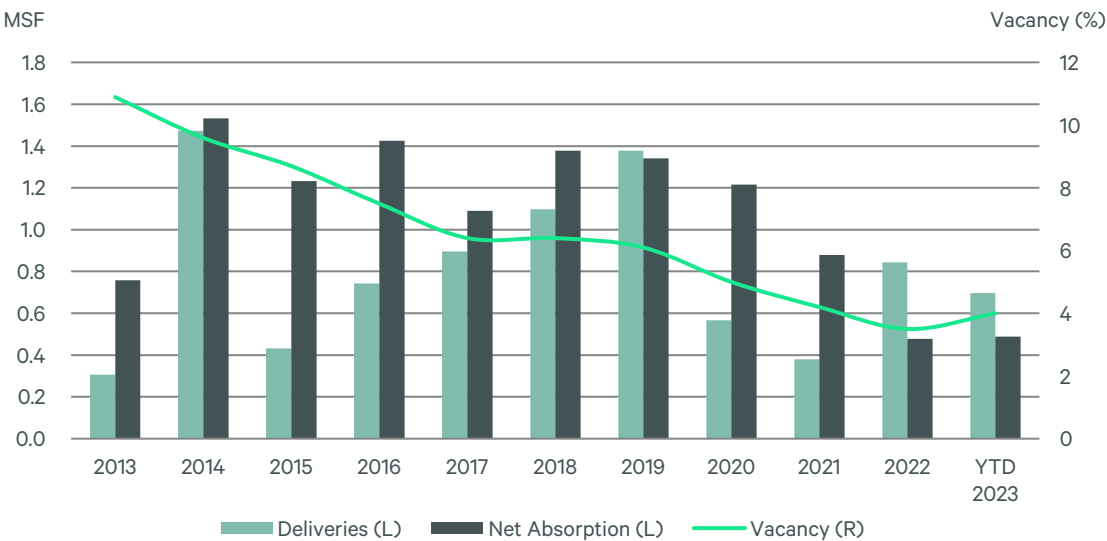
Note: Arrows indicate change from previous quarter.

Deliveries across Northern Virginia outpaced absorption during the second quarter, causing the vacancy rate to rise 60 basis points to 4.0%. Overall, the market recorded 134,589 sq. ft. of occupancy gain during the quarter. Of note, Cassels Sports signed a 58,000 sq. ft. lease at 42714 Trade West Drive, where they will relocate from Renaissance Park in Herndon.

Industrial tenants signed leases totaling just 572,000 sq. ft. during Q2, a significant slowdown from the prior quarter and well below the 5-year quarterly average of 3.5 million sq. ft. The slowdown was driven by low availability of quality space. However, 1.2 million sq. ft. of space is under construction and expected to deliver by the second quarter of 2024, which will alleviate some constraints. Tenants in the Food and Beverage, Technology, and Contractor sectors accounted for a combined 80% of leasing.

Rents continued to climb across the Northern Virginia industrial market. With low net absorption came an increase in the vacancy rate, strong absorption combined with limited vacancy will likely continue to push rents up.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

## Sector Snapshot

### Food and Beverage

The largest lease signed during the second quarter was Diaz Wholesale & Manufacturing Company’s 100,337 sq. ft. renewal at 6894 Wellington Road. Despite being the only food and beverage lease signed during the quarter, the deal accounted for 17% of total leasing activity. Year-to-date, food and beverage companies have been the most active, accounting for 21% of gross leasing. Nationally, despite the obstacles the food industry faces such as increased food costs, labor shortages, and higher rents, [CBRE reports](#) sales are up 15% year-over-year.

### Technology

Technology was the second most active sector during the quarter, with two tenants signing leases totaling 133,168 sq. ft. Of note, ITRenew, Inc. renewed its 96,868 sq. ft. lease at 45120 Global Plaza. New to the Northern Virginia market is Electra.Aero, a company specializing in aircraft design. The aerospace tenant signed a 36,200 sq. ft. lease at 10761 James Payne Court in Manassas.

### Contractors

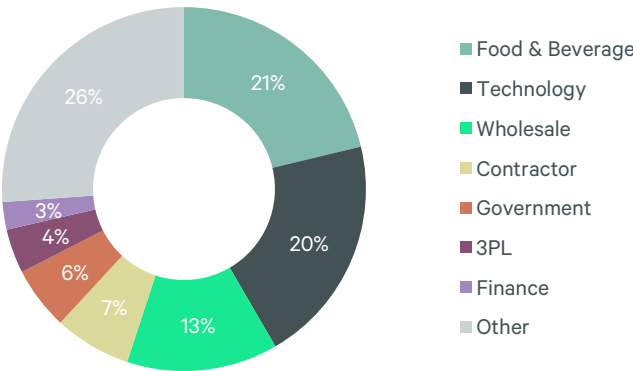
While government contractors only account for 7% of total leasing this year, numerous contractors committed to space in the Northern Virginia market during the second quarter. Notably, Booz Allen Hamilton signed a new 24,245 sq. ft. lease at 8500 Cinder Bed Road.

FIGURE 2: Select Q2 2023 Lease Transactions

Tenant	Industry	Address	Submarket	Lease Type	SF
Diaz Wholesale	Food/Bev	6894 Wellington Rd	Route 29/I-66	Renewal	100,337
ITRenew, Inc.	Technology	45120 Global Plz	Route 28/Dulles North	Renewal	96,868
Goodwill	Nonprofit	13600 Dabney Rd	Woodbridge/I-95	New Lease	83,753
Cassels Sports	Manufacturing	42714 Trade West Dr	Route 28/Dulles North	New Lease	58,000
Electra.Aero	Technology	10761 James Payne Ct	Manassas	New Lease	36,200
Booz Allen Hamilton, Inc.	Contractor	8500 Cinder Bed Rd	Newington	New Lease	24,245
JPMorgan Chase Bank	Banking	43791 Devin Shafron Dr	Route 28/Dulles North	Renewal	16,000
Redi Carpet Sales of Virginia	Contractor	14801 Willard Rd	Route 28/Dulles South	New Lease	11,836

Source: CBRE

FIGURE 3: YTD 2023 Gross Leasing by Transaction Type (Share by SF)



Source: CBRE

FIGURE 4: 2023 Typical Logistics Costs P&L Line Items



\* Includes rent. \*\* Includes payroll.

Source: CBRE

## Development Activity

The Northern Virginia industrial pipeline remains active despite numerous challenges in the market. Overall, 466,613 sq. ft. delivered during the second quarter and an additional 1.2 million sq. ft. is expected to deliver over the next year.

Trammell Crow delivered 209,193 sq. ft. at 10225 Golf Academy Drive, fully preleased to PODS Enterprises, Inc. Another Trammell Crow property is expected to deliver at 10245 Golf Academy Drive during the third quarter. Later this year, West Dulles Properties is scheduled to deliver three properties at 7300 Century Park Drive in Manassas.

## Pricing

Rents continue to push upward in Northern Virginia as supply constraints persist and landlords still look to capitalize on investments. Despite economic headwinds, rental rates are expected to continue to rise over the coming months.

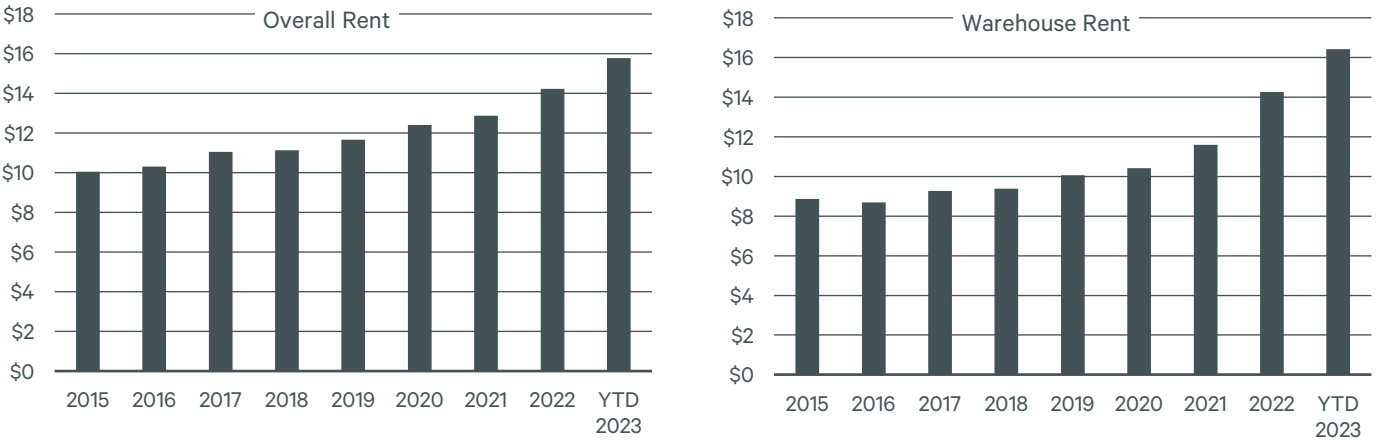
Rental rates for Class A properties are at a premium, averaging \$21.29 per sq. ft., up \$5.51 per sq. ft. from the overall market. Class A properties are primarily concentrated in Loudoun County.

FIGURE 5: Select Notable Development Projects

Address	Submarket	SF	Expected Delivery	Developer(s)
11501 University Blvd Building A	Manassas	103,500	Q3 2023	Matan
11501 University Blvd Building B	Manassas	138,500	Q3 2023	Matan
10245 Golf Academy Dr., Building B	Rt 29/I-66	127,853	Q3 2023	Trammell Crow
7300 Century Park Dr	Rt 29/I-66	127,420	Q4 2023	West Dulles Properties
7300 Century Park Dr	Rt 29/I-66	114,760	Q4 2023	West Dulles Properties
7300 Century Park Dr	Rt 29/I-66	108,730	Q4 2023	West Dulles Properties
12001 Wilton Meadows Ct	Rt 29/I-66	31,000	Q3 2023	Benfield & Dressler

Source: CBRE

FIGURE 6: Historical Asking Rents



Source: CBRE

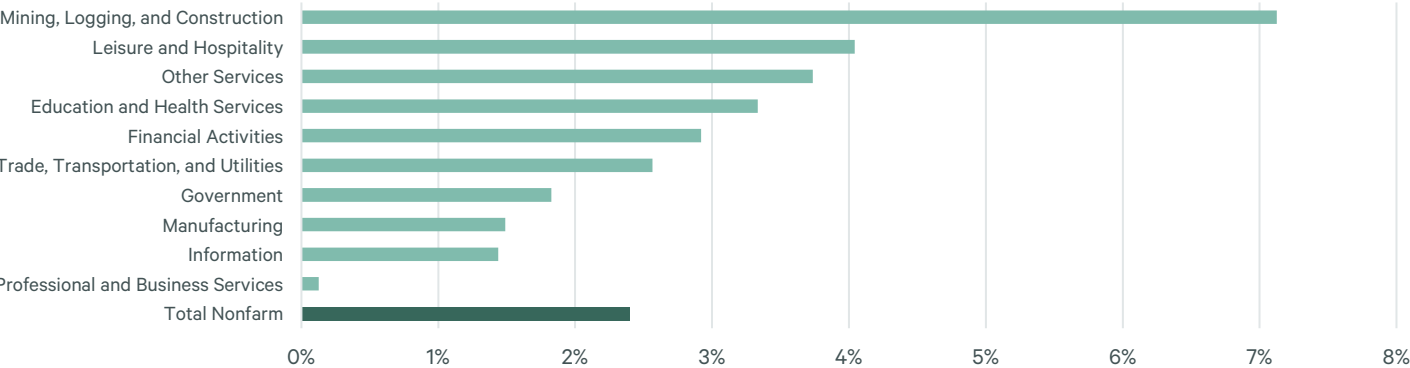
## Economic Outlook

For the last six months the consensus amongst economists has been that H2 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range (p.a.). Beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

The chief concern is credit conditions tightening at a magnitude that typically precedes a recession. The consequences are already manifest in the housing market, and particularly across the Western U.S. where valuations are most disconnected from local incomes. Other rate sensitive sectors, such as manufacturing, are also under pressure—both domestic and abroad—exemplified by cooling capital goods orders and PMI data. And while the labor market is objectively tight, it is softer than one year ago when we saw higher quit rates and stronger wage growth. Tighter credit conditions are also likely to catch up with America’s small and medium sized industries (restaurants, cafes) in the service sector in the next two quarters.

Perhaps the key question is: Will inflation slow fast enough to avert further rate hikes? CBRE’s baseline view is that there is no need for further rate hikes because inflation is coming under control, but because of strong recent data the Fed will make one more rate hike, just to make sure the job is done. This will slightly exacerbate the coming slowdown and lead the Fed to begin cutting rates at the end of the year. The long expected slowdown in the U.S. economy is still on track, but will start in earnest at the end of Q3, and last through to the end of Q1 2024 by which time, inflation will have slowed up, and rates will be falling.

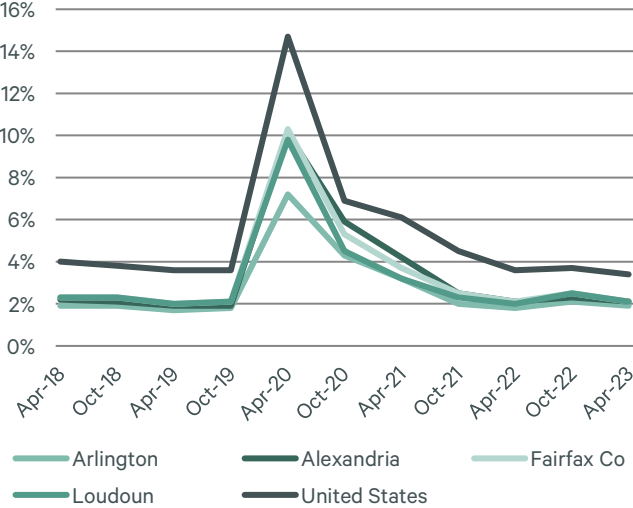
FIGURE 7: Employment Growth by Industry, 12-Month Percent Change



Source: BLS

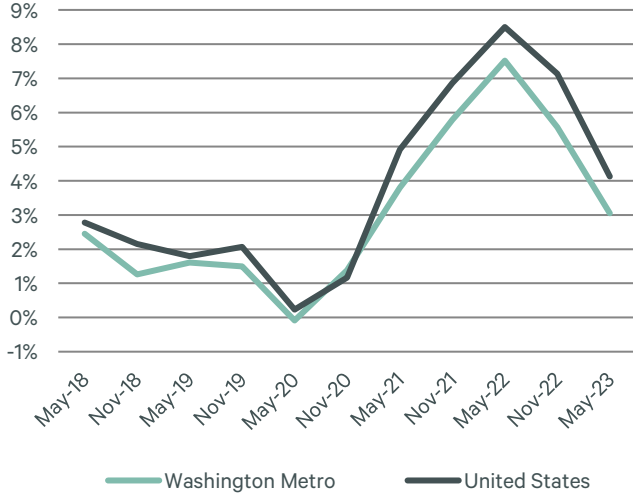
\*includes Arlington, Clarke, Fairfax, Fauquier, Loudoun, Prince William, Spotsylvania, Stafford, and Warren Counties and Alexandria, Fairfax, Falls Church, Fredericksburg, Manassas, and Manassas Park Cities in Virginia.

FIGURE 8: Unemployment Rate for Selected Counties



Source: BLS

FIGURE 9: Consumer Price Index, 12-Month Percent Change



Source: BLS

FIGURE 10: Key Market Statistics

Overall	Number of Buildings	Inventory (SF)	Overall Vacancy Rate (%)	Q2 2023 Net Absorption (SF)	2023 YTD Net Absorption	NNN Asking Rent/Class A (\$/SF)	Under Construction (SF)
Overall Industrial	City of Alexandria	4,414,983	3.8	9,957	4,749	15.58	-
	Arlington County	869,717	0.4	(3,195)	(3,195)	-	-
	Fairfax County	34,326,639	5.4	274	140,319	15.66	-
	Loudoun County	23,479,108	2.4	146,667	319,145	16.96	338,574
	Prince William County	17,039,781	3.7	(19,114)	27,507	15.40	875,037
	Total	78,998,535	4.0	134,589	488,525	15.78 / 21.29	1,213,611
Warehouse	City of Alexandria	3,695,838	4.5	5,663	2,790	15.43	-
	Arlington County	730,908	-	0	0	-	-
	Fairfax County	19,646,548	4.1	(77,160)	(123,981)	16.11	-
	Loudoun County	13,968,490	1.7	151,918	416,001	20.02	338,574
	Prince William County	11,210,538	4.0	19,529	47,936	15.45	875,037
	Total	48,221,753	3.8	99,950	342,746	16.42	
Flex	City of Alexandria	719,145	-	4,294	1,959	16.96	-
	Arlington County	138,809	2.3	(3,195)	(3,195)	-	-
	Fairfax County	14,680,091	7.1	77,434	264,300	15.33	-
	Loudoun County	9,510,618	3.5	(5,251)	(96,856)	12.95	-
	Prince William County	5,829,243	2.8	(38,643)	(20,429)	15.30	-
	Total	30,776,782	5.0	34,639	145,779	15.05	-

Survey Criteria:

Includes all classes of competitive single and multi-tenant, non-owner-occupied industrial buildings 10,000 sq. ft. and greater in Northern Virginia

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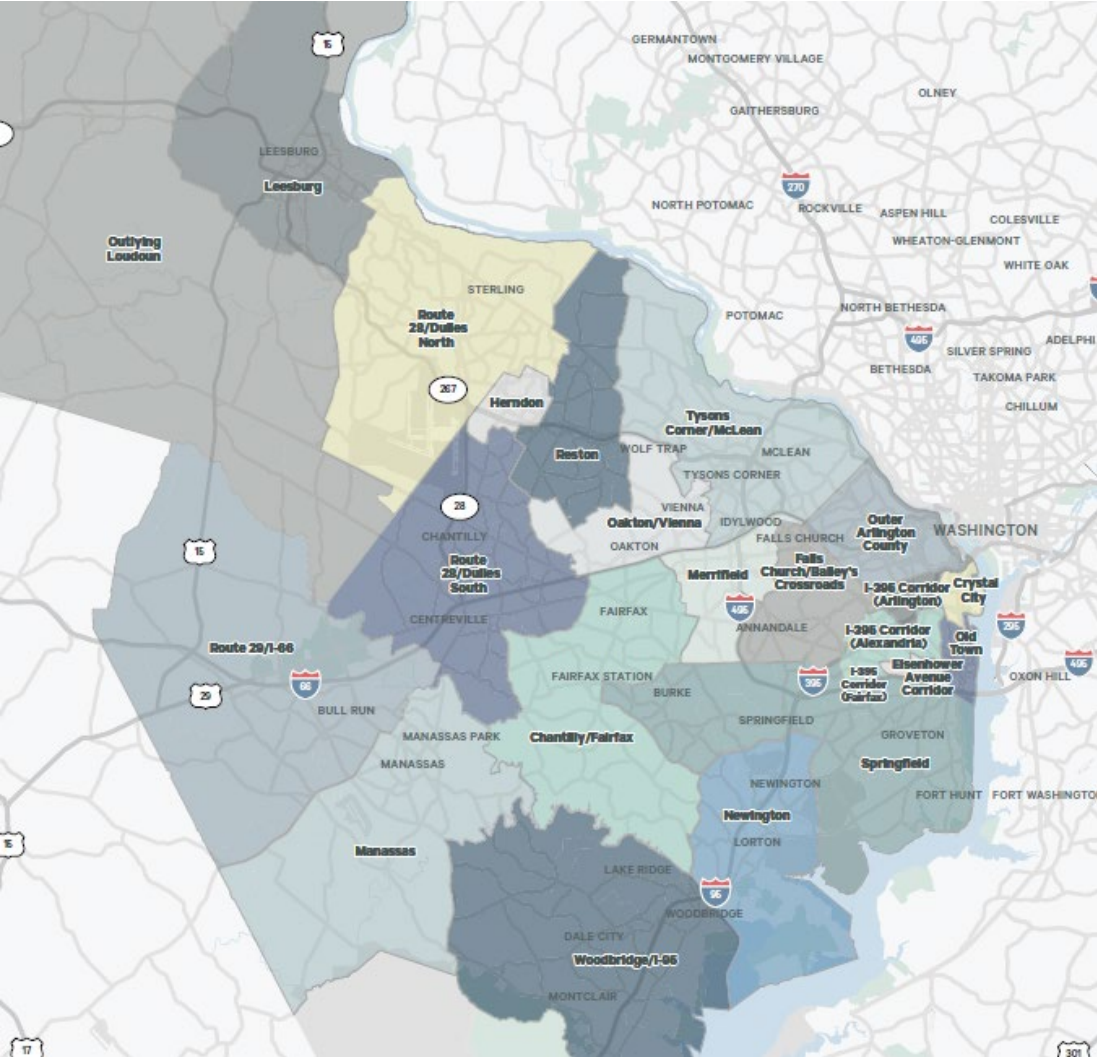
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MARKET AREA OVERVIEW



Source: CBRE