

FIGURES | SUBURBAN MARYLAND INDUSTRIAL | Q4 2022

Key Suburban Maryland Submarkets Still Command Premium Rents



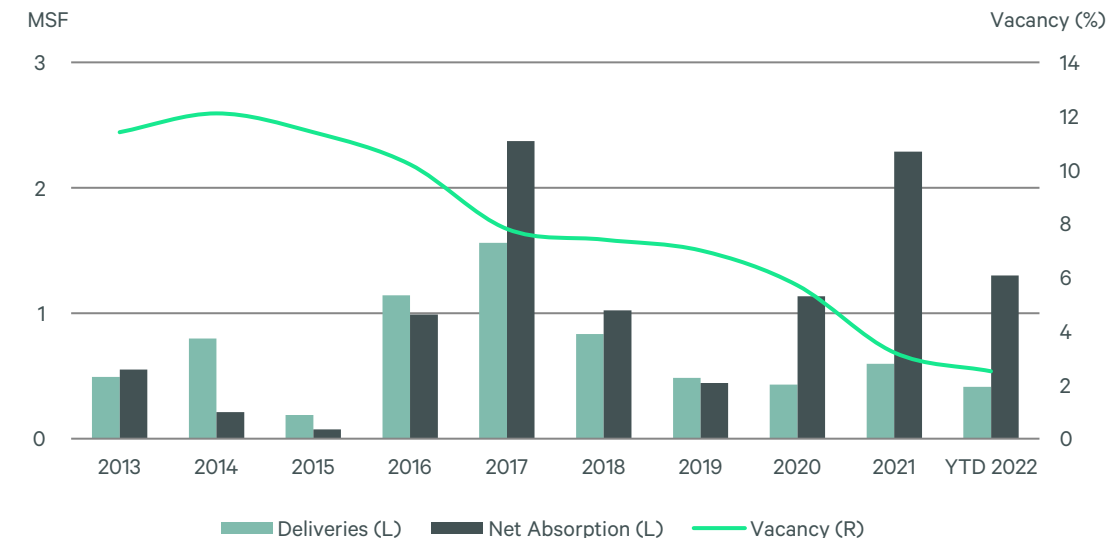
Note: Arrows indicate change from previous quarter.

After another whirlwind year, 2023 is expected to see continued positive momentum for industrial real estate fundamentals across the country. Global supply chains are still in flux due to uncertainty with Chinese Covid-19 policies, the conflict in Ukraine, and labor issues in domestic ports. Companies will look to diversify their product sourcing to navigate these challenges, and industrial demand is expended to keep pace with supply in the coming quarters.

Suburban Maryland, like many other markets, has seen a moderate slowdown of tenant demand in the fourth quarter, but an overall net positive movement for fundamentals in 2022. With the benefit of proximity to Baltimore’s deep-water port, as well as Washington, D.C.’s highly educated labor force, Suburban Maryland offers tenants a unique competitive advantage over many of its neighboring markets, and commands higher rent premiums compared to those areas.

Suburban Maryland, comprised of Frederick, Montgomery, and Price George’s counties, posted a moderate 413,138 sq. ft. of net absorption in the fourth quarter. Vacancy has parked itself near the historic low set last year, ending 2022 at 2.5%. Prince George's County, with 1.9% warehouse vacancy and historically limited land availability, has experienced astounding rent growth, over 31% in the last 18 months.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Sector Snapshot

Overview

E-commerce activity has seen recent dramatic growth, eclipsing 20% share of total U.S. retail sales in 2022, up from 16.2% before the pandemic and only 2% in 2002. This, in turn, has fueled substantial warehouse demand growth across the country. More than 80% of items stored in warehouses are distributed to brick-and-mortar retailers. Traditional retail sales remain just as important to industrial demand as online sales, as the need to keep stores fully stocked will fuel demand for additional warehouse and distribution space.

3PLs

As shipping and transportation becomes an increasingly challenging task for retailers and manufacturers, third-party logistics companies (3PLs) have seen a spike in demand for their services. Industrial demand is slowly wandering farther from the CBD of major markets and toward key secondary logistics routes. 3PLs that have specialized in bridging this gap have been driving leasing activity in these strategic submarkets. Figure 4 compares warehouse leasing costs to other costs in a company’s supply chain. When looking to mitigate supply chain costs, warehouse space tends to be a relatively affordable line item.

Food & Beverage

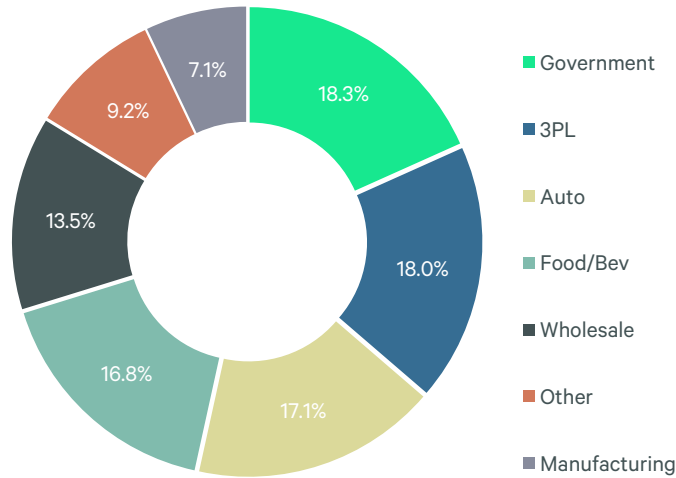
Demand for specialty industrial real estate, including cold storage facilities, is expected to increase this year. Many 3PLs have sought growth by expanding into the freezer/cooler market, and the current low supply in Suburban Maryland has led to increased interest in conversions from dry to cold warehouses.

FIGURE 2: Select Notable Q4 2022 Lease Transactions

Tenant	Industry	Address	Submarket	Lease Type	Size (SF)
Baldor Specialty Foods	Food/Bev	4500 Hargrove Dr	Lanham	New Lease	101,000
Rivian, LLC	Auto	716 Ritchie Road	Capitol Heights	New Lease	83,955
Design Foundry	Manufacturing	1701 Brightseat Rd	Landover/Largo	New Lease	75,767
Brady Janitorial	Wholesale	1200 Hampton Park Blvd	Capitol Heights	New Lease	35,475
RENTEX INCORPORATED	Wholesale	8420 Westphalia Rd	Pennsylvania Ave Corridor	New Lease	29,283
TSI Incorporated	Manufacturing	15800 Commerce Ct	Bowie	New Lease	20,923
Stantec Consulting Services Inc.	Engineering	6110 Frost Place	Laurel	Renewal	12,743

Source: CBRE

FIGURE 3: YTD 2022 Gross Leasing by Sector (Share by SF)



Source: CBRE

FIGURE 4: 2022 Typical Logistics Costs P&L Line Items



* Includes rent. ** Includes payroll.

Source: CBRE

Development Activity

All-time low vacancy rates, shifted consumer shopping habits, and strong logistics capabilities are just a few of the demand drivers for new inventory in Suburban Maryland. While new product deliveries were numerous in previous quarters, challenging financial markets and economic uncertainty has put a pause on new construction starts for the second half of the year. One building, Matan’s 4910 Executive Ct. South delivered last quarter, bringing 276,000 sq. ft. of new product to the market. Four buildings totaling 412,042 sq. ft. delivered in the first half of the year, and Elion Partners recently broke ground on the first building of their new 3 millions sq. ft. development project in Brandywine in Southern Prince George’s County. While many occupiers have signaled a pause in expansion plans, [CBRE predicts](#) that overall, the lack of new groundbreakings this year will become apparent in 2024, when many tenants will be returning to the market, driving another episode of tremendous rent growth.

Pricing

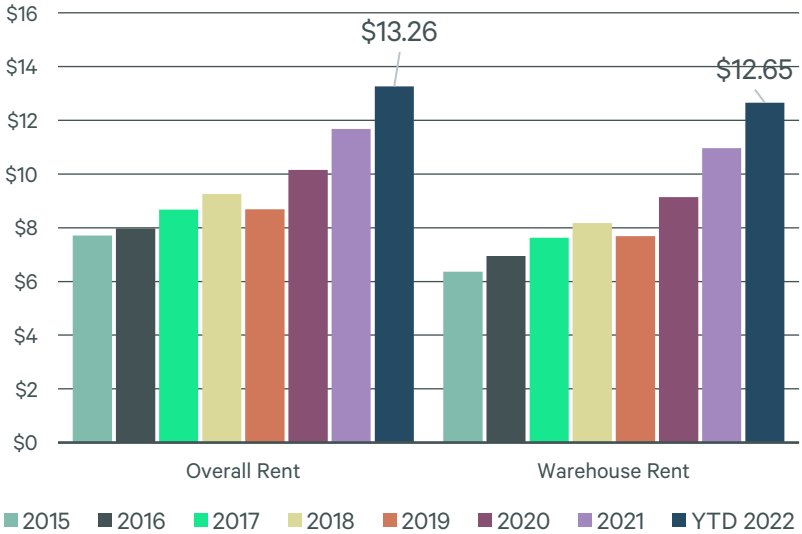
After explosive growth in the past 24 months, rents in Suburban Maryland are starting to see downward pressures like slowing tenant demand to round off the year. Q4 saw a net positive movement of 70 basis points across the three counties amid both limited leasing activity and development. Also notably, 4% annual rent escalations seem to be approaching ‘new normal’ status in Suburban Maryland as developers try to keep pace with rent hikes.

FIGURE 5: Development Pipeline

Address	Submarket	SF	Expected Delivery	Developer(s)
700 N. Frederick Ave - Building 1	Gaithersburg	197,400	Q1 2023	Matan
700 N. Frederick Ave - Building 2	Gaithersburg	197,400	Q2 2023	Matan
2300 Craftsman Cir	Hyattsville	182,500	Q2 2023	Atapco Properties
6400 Sherriff Rd	Landover	133,200	Q4 2023	Trammell Crow
801 Prince George’s Blvd	Upper Marlboro	102,377	Q2 2023	TSC Properties
8711 Westphalia Dr	Upper Marlboro	362,880	Q1 2023	Trammell Crow
8908 Gas House Pike	Frederick	686,577	Q4 2023	Trammell Crow
Fair Oaks Dr	Frederick	216,028	Q1 2023	Lincoln Property Company
Elion Logistics Park	Brandywine/PG South	800,000	Q4 2023	Elion Partners

Source: CBRE

FIGURE 6: Historical Rent Growth



Source: CBRE

FIGURE 8: Key Market Statistics

		Inventory (SF)	Overall Vacancy Rate (%)	Q4 Net Absorption (SF)	YTD Net Absorption (SF)	Gross Asking Rent (\$/SF)	Under Construction (SF) n
Warehouse	Prince George's	42,374,551	1.9	296,375	1,120,355	11.91	1,668,602
	Frederick	7,359,731	2.2	5,289	(50,141)	10.35	1,297,405
	Montgomery	10,911,772	3.8	29,230	55,556	15.03	-
	Total	60,646,054	2.3	330,894	1,125,770	12.65	2,966,007
Flex	Prince George's	8,984,201	3.3	40,820	11,736	12.76	-
	Frederick	4,117,128	2.8	4,909	88,149	13.64	-
	Montgomery	10,518,740	3.3	36,515	54,958	16.85	-
	Total	23,620,069	3.2	82,244	154,843	14.36	-
Total Industrial	Prince George's	51,358,752	2.1	337,195	1,132,091	12.15	1,668,602
	Frederick	11,476,859	2.4	10,198	38,008	12.13	1,297,405
	Montgomery	21,430,512	3.6	65,745	110,514	15.75	-
	Total	84,266,123	2.5	413,138	1,280,613	13.26	2,966,007

Source: CBRE

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