Slow but Steady Activity While Headwinds Weaken

▲ 4.8%
Vacancy Rate

▲ 68,905
SF Net Absorption

▼ 448,357
SF Under Construction

▲ $16.79
Average NNN Asking Rate

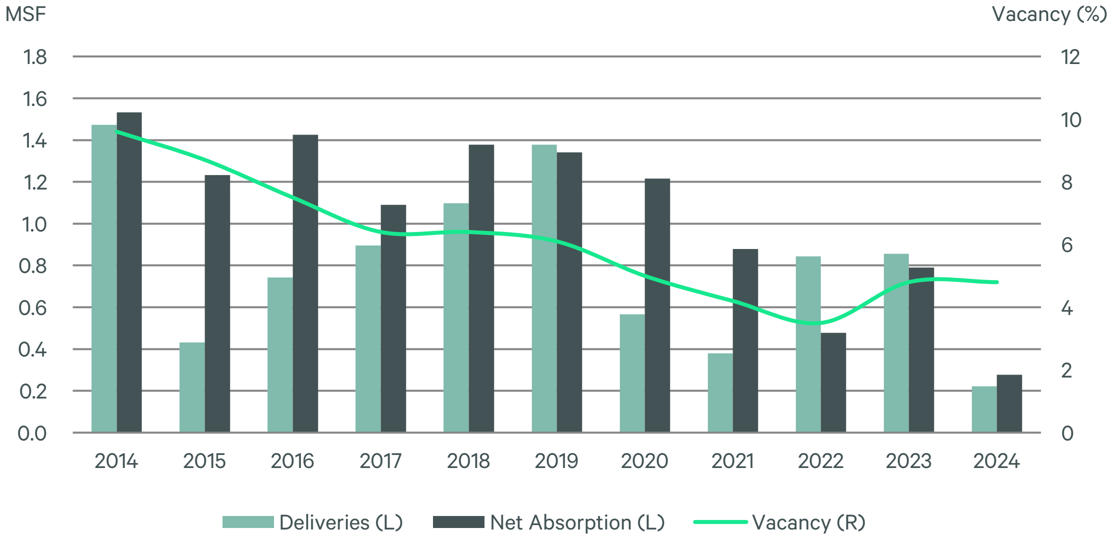
Note: Arrows indicate change from previous quarter.

During a period of economic uncertainty, Northern Virginia's industrial market continually posted strong fundamentals. In September, the Federal Reserve cut interest rates for the first time since 2020, which should positively impact commercial real estate markets across the nation. Despite the rate cut happening towards the end of the quarter, market fundamentals remain healthy in Northern Virginia.

The market posted occupancy gains through the third quarter, recording 69,000 sq. ft. of positive absorption. The vacancy rate increased 10 basis points (bps) quarter-over-quarter to 4.8% despite the positive absorption, due to a vacant delivery. Asking rates increased moderately to $16.79 per sq. ft. per annum on a triple-net basis. The market commands premium rates, due in large part to the prime location and low vacancy rates.

The development pipeline in Northern Virginia has decreased to 448,000 sq. ft. under construction for delivery through early 2025, with no properties breaking ground during the third quarter. While 2024 is projected to see the lowest level of new construction since 2021, multiple projects are expected to break ground over the next six months.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Leasing Snapshot

During the third quarter, 28 tenants signed industrial leases totaling 943,000 sq. ft., a 33% increase from Q2 levels. Two transactions exceeded 100,000 sq. ft., a notable uptick from the first half of the year which had no leases in that size range. Of the largest leases signed in Northern Virginia during the third quarter, 63% were relocations and 50% were signed along the Route 28 Dulles Corridor.

Third-Party Logistics (3PLs)

In the largest transaction of the quarter, Victory Van Corporation signed a new lease at 110 Terminal Drive. The tenant will occupy two warehouses totaling 151,000 sq. ft. in the Route 28/Dulles North submarket. This quarter, 3PLs accounted for 21% of gross leasing activity.

Business Services

Business Services tenants accounted for 23% of gross leasing activity during the third quarter. Templemore signed two leases at the recently delivered Commerce Place at Oaklawn, comprising two flex properties of 35,861 sq. ft. Further, Meta Platforms expanded its footprint within 22775 Ladbrook Drive to 68,739 sq. ft.

Wholesale

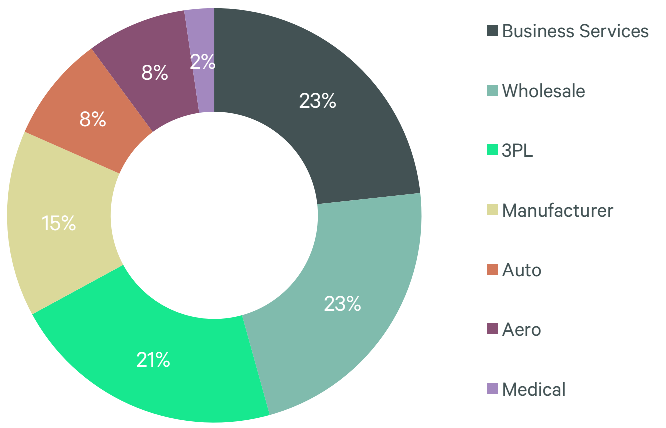
Wayfair signed the second largest lease of the quarter in its 137,350 sq. ft. renewal at 7375 Merritt Park Drive. The furniture wholesaler has been located at the property since its delivery in 2020. Wholesalers accounted for 23% of leasing activity during the third quarter and 26% year-to-date.

FIGURE 2: Select Q3 2024 Lease Transactions

Tenant	Industry	Address	Submarket	Lease Type	SF
Victory Van Corporation	3PL	110 Terminal Dr	Route 28/Dulles North	New Lease	151,424
Wayfair	Wholesale	7375 Merritt Park Dr	Route 29/I-66	Renewal	137,350
Euro Stone Craft	Manufacturer	3900 Stonecroft Blvd	Route 28/Dulles South	New Lease	78,857
Templemore	Business Services	101 Oaklawn | 105 Oaklawn Dr	Leesburg	New Lease	71,722
Meta Platforms	Business Services	22775 Ladbrook Dr	Route 28/Dulles North	Expansion	68,739
Keystone Automotive Industries	Auto, Tires, & Parts	8233 Buckeye Timber Dr	Route 29/I-66	New Lease	42,549
Raytheon	Aerospace & Defense	23011 Ladbrook Dr	Route 28/Dulles North	Renewal	32,518
Armed Services YMCA	Business Services	2640 Shirlington Rd	I-395 Corridor	New Lease	30,617

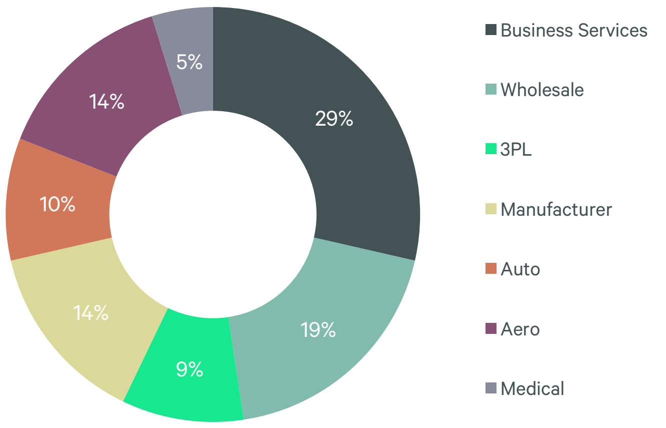
Source: CBRE

FIGURE 3: Q3 2024 Gross Leasing by Sector (Share by SF)



Source: CBRE

FIGURE 4: Q3 2024 Gross Leasing by Sector (Share by Total Leases)



Source: CBRE

Development Activity

One industrial property delivered during the third quarter. Brookfield Properties completed a 130,020 sq. ft. warehouse at 25435 Pleasant Valley Road. The Class A property delivered vacant in Loudoun County, which poses a low 3.9% vacancy rate and has little bulk space available.

No properties broke ground during the third quarter. Four properties totaling 448,000 sq. ft. remain in the pipeline, all scheduled to deliver through the first quarter of 2025.

In total, 58% of the space currently under construction is located within the Route 28/Dulles North submarket. With federal interest rates dropping, additional industrial projects are expected to hit the pipeline over the next year.

Pricing

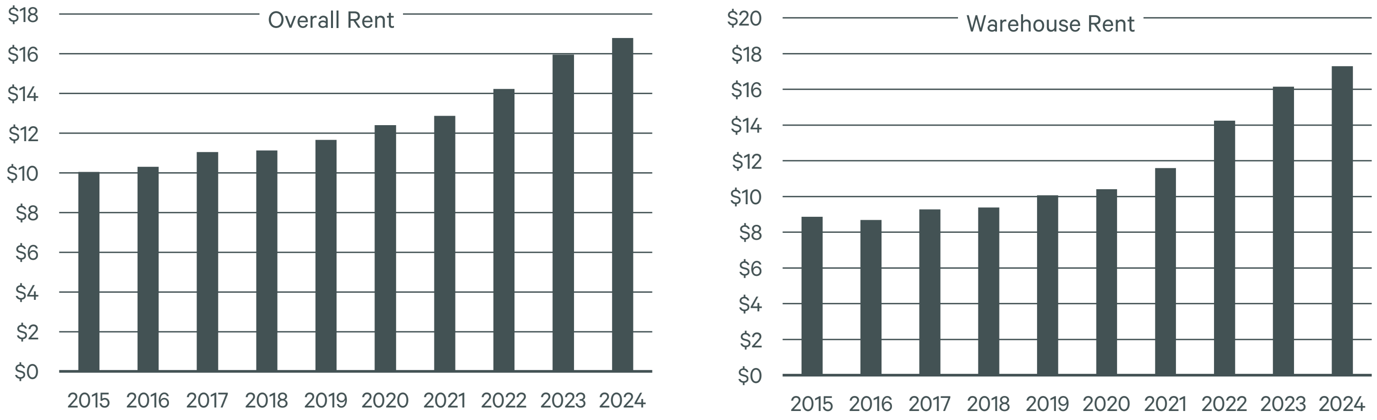
Asking rates saw another 2.0% increase quarter-over-quarter, rising to $16.79 per sq. ft. per annum on a triple-net basis. Average warehouse rents saw a slightly higher 2.5% increase quarter-over-quarter, hitting $17.29 per sq. ft. per annum on a triple-net basis through the first half of 2024. Rate increases seem to be slowing, in line with nearby Mid-Atlantic markets.

FIGURE 5: Select Notable Development Projects

Address	Submarket	SF	Expected Delivery	Developer(s)
43035 John Mosby Hwy	Rt 28/Dulles North	232,500	Q4 2024	Elion Partners
22810 Quicksilver Dr	Rt 28/Dulles North	28,709	Q4 2024	JK Land Holdings
13700 Dabney Rd	Woodbridge	109,200	Q2 2025	IDI Group
10671 University Blvd	Rt 29/I-66	77,948	Q2 2025	Buchanan Partners

Source: CBRE

FIGURE 6: Historical Asking Rents



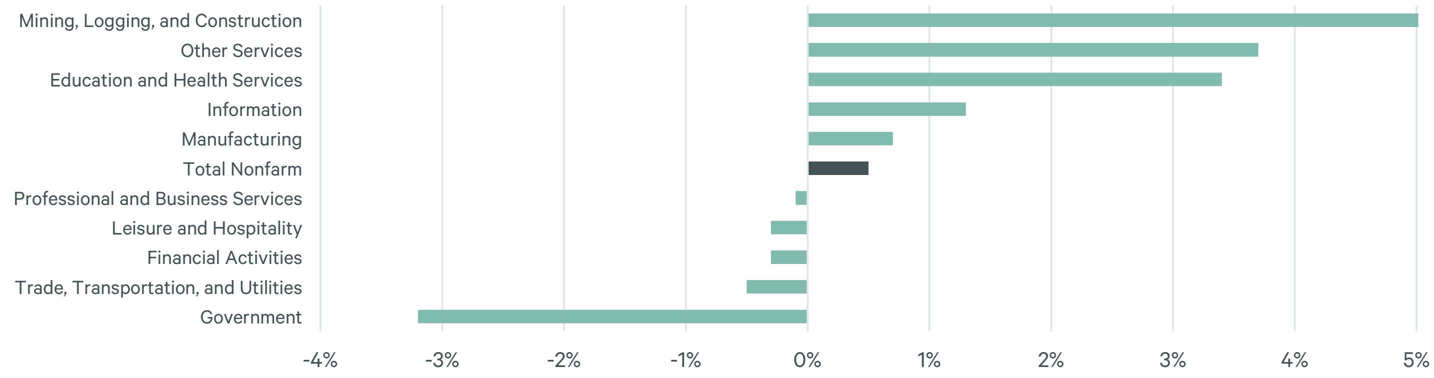
Source: CBRE

Economic Outlook

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is holding its own and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a rollover in the labor market although the recent bump in unemployment appears benign, mainly driven by an increase in participation. A reason for concern is the decline in the share of private industries that are creating jobs. On the other hand companies are not shedding workers at a particularly high rate. The labor market has slowed, but it is not slumping.

While many are focused on November's election the most consequential policy lever has already been pulled via the FOMC's 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.

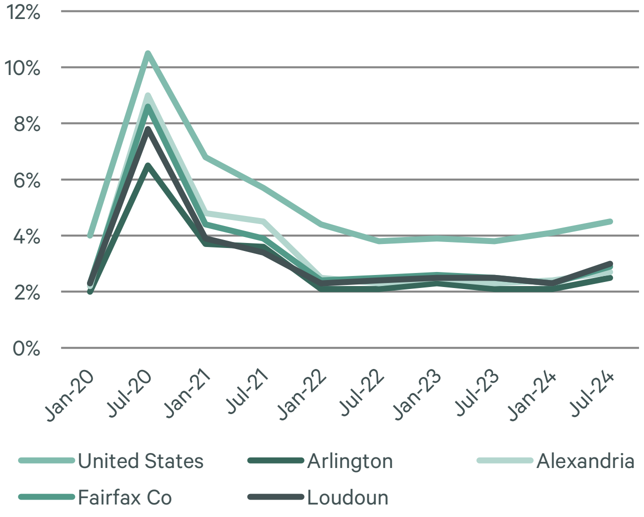
FIGURE 7: Employment Growth by Industry, 12-Month Percent Change



Source: BLS

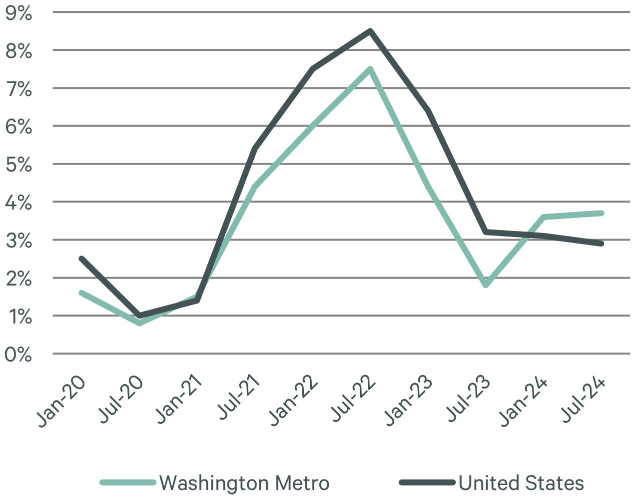
*includes Arlington, Clarke, Fairfax, Fauquier, Loudoun, Prince William, Spotsylvania, Stafford, and Warren Counties and Alexandria, Fairfax, Falls Church, Fredericksburg, Manassas, and Manassas Park Cities in Virginia.

FIGURE 8: Unemployment Rate for Selected Counties



Source: BLS

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



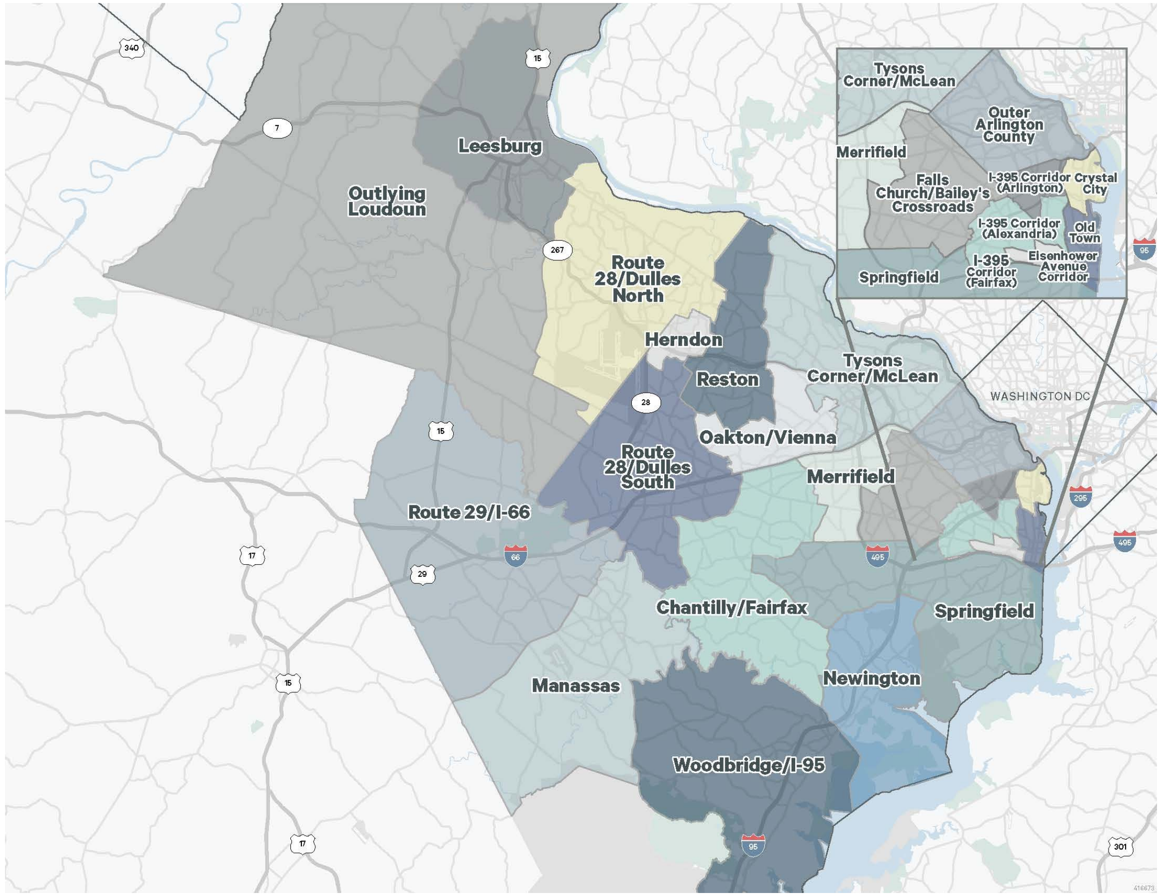
Source: BLS

FIGURE 10: Key Market Statistics

Overall	Number of Buildings	Inventory (SF)	Overall Vacancy Rate (%)	Q3 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	NNN Asking Rent/Class A ($/SF)	Under Construction (SF)
Overall Industrial	City of Alexandria	3,732,260	6.2%	(13,028)	(21,701)	15.35	-
	Arlington County	512,693	-	-	-	-	-
	Fairfax County	33,138,268	5.6%	102,693	122,222	16.43	-
	Loudoun County	20,087,788	3.9%	26,262	29,607	18.28	261,209
	Prince William County	18,196,303	3.9%	(47,022)	147,459	16.44	187,148
	Total	75,667,312	4.8%	68,905	277,587	16.79 / 20.86	448,357
Warehouse	City of Alexandria	3,181,248	6.1%	-	(6,671)	15.48	-
	Arlington County	400,784	-	-	-	-	-
	Fairfax County	19,269,764	4.5%	45,799	55,529	16.65	-
	Loudoun County	13,333,617	3.9%	9,236	(28,192)	19.38	261,209
	Prince William County	13,744,527	4.5%	(67,770)	116,629	16.49	187,148
	Total	49,929,940	4.4%	-12,735	137,295	17.29	448,357
Flex	City of Alexandria	551,012	6.5%	(13,028)	(15,030)	14.68	-
	Arlington County	111,909	-	-	-	-	-
	Fairfax County	13,868,504	7.2%	56,894	66,693	16.25	-
	Loudoun County	6,754,171	3.8%	17,026	57,799	15.56	-
	Prince William County	4,451,776	2.3%	20,748	30,830	16.20	-
	Total	25,737,372	5.4%	81,640	140,292	16.09	-

Source: CBRE

MARKET AREA OVERVIEW



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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