

FIGURES | NORTHERN VIRGINIA INDUSTRIAL | Q4 2022

Another Strong Year Despite Choppy Waters in Capital Markets



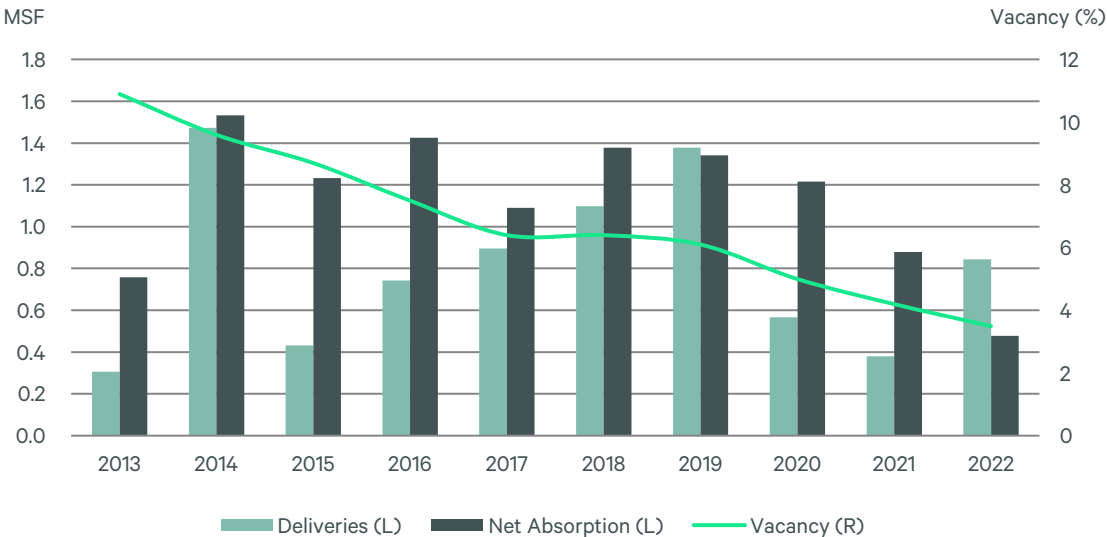
Note: Arrows indicate change from previous quarter.

Long material delays, labor challenges, and concerns of an impending recession put into question the resilience of the market. However, demand continues to outpace supply for the moment, and rents continue to climb.

Northern Virginia saw moderate leasing activity in Q4, although tenant demand slowed, particularly in the bulk sector. Quarterly absorption posted negative, but Northern Virginia has reached its 10th consecutive year of positive net absorption for the year. Meanwhile, vacancy dropped 60 basis points (bps) to a new record low of 3.5%. Despite the projections of persistent economic headwinds, [CBRE has reported](#) that global demand for e-commerce activity will drive an additional 2 billion sq. ft. of logistics space demand over the next 5 years.

The fourth quarter saw a slight backtrack from the record-breaking previous 8 quarters. Deliveries outpaced leasing activity for the first time in 3 years due to a moderate slowdown of tenant demand, however limited availability has continued to push upward momentum on rents through the quarter.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Sector Snapshot

Supply Chain

After many tumultuous months in the ocean shipping, labor, and raw materials markets, supply chains are finally starting to unclog. A surge of effort to bolster onshore manufacturing of crucial goods occurred in 2022, resulting in additional warehouse demand downstream of significant government contracts. New Class A space near ports of entry like Dulles Airport continue to command premium rents and strong preleasing activity well beyond the initial challenges of 2020.

Third Party Logistics (3PL)

As supply chain headaches and unpredicted raw material prices inundate various industries, third-party logistics (3PL) companies have gained significant traction across the country, comprising 17.1% in Northern Virginia (27% in 2021) and as much as 35% in other markets. The ‘just-in-time’ supply chain technique left many companies unprepared for the significant demand shifts caused by the pandemic. Consumer shopping habits have changed the requirements for many tenants, leading to this gradual national rise in logistics outsourcing. As a result, many now lean heavily on 3PL companies to bridge the gap between their warehouses and customers.

Wholesale Distribution

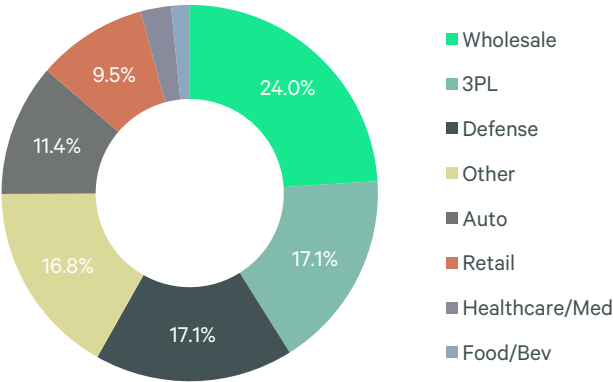
Wholesale distributors took advantage of the persistent surge of online and in-person shopping for the holiday season, trailing only 3PL’s nationally in total 2022 leasing activity. Larger retailers like Home Depot and Lowe’s also occupied space in Northern Virginia, taking down a combined 156,303 sq ft.

FIGURE 2: Select 2022 Lease Transactions

Tenant	Industry	Address	Submarket	Lease Type	SF
PODS Enterprises, LLC,	3PL	10225 Golf Academy Dr	Manassas	New Lease	209,201
Itrenew Inc.	Other	45120 Global Plz	Route 28/Dulles North	Renewal	96,868
Rosendin Electric	Wholesale	23001 Ladbrook Dr	Route 28/Dulles North	Renewal	87,397
Lowe’s	Retail	10245 Golf Academy Dr	Manassas	New Lease	78,457
Home Depot	Retail	7286 Wellington Rd	Route 29/I-66	New Lease	77,846
Keystone Automotive Industries	Auto	23750 Pebble Run Dr	Route 28/Dulles North	Renewal	72,600
Vomela Specialty Company	Wholesale	8000 8080 Grainger Ct	Newington	New Lease	71,875
Raytheon	Defense	23010 Ladbrook Dr	Route 28/Dulles North	Renewal	70,173
Iron Mountain Information Management	Other	403 Glenn Dr	Route 28/Dulles North	Renewal	68,911
Raytheon	Defense	22750 Ladbrook Dr	Route 28/Dulles North	Renewal	68,101

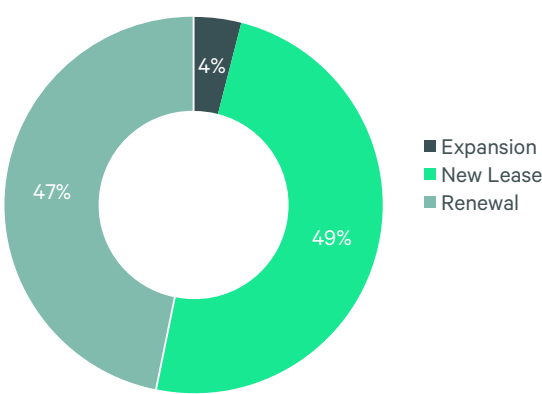
Source: CBRE

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



Source: CBRE

FIGURE 4: YTD 2022 Gross Leasing by Transaction Type (Share by SF)



Source: CBRE

Development Activity

The Northern Virginia industrial development pipeline remains very active with 795,231 sq. ft. currently under construction, all slated for completion by the Q2 2023. More than 700,000 sq. ft. of construction activity is underway in the Route 29/I-66 corridor submarket, the largest submarket in Prince William County.

Four projects totaling over 350,000 sq. ft. broke ground at the end of 2021. As with many markets across the country, high construction costs combined with labor constraints have temporarily sidelined some construction projects. With warehouse vacancy sitting at a tight 2.7% and no available spaces above 500,000 sq. ft. in size, future developments and rollovers should help to alleviate the upward pressure on rent growth.

Spontaneous and unpredictable supply chain disruptions have left developers struggling with project timelines, while lead times for various construction materials (such as roofing materials) have surpassed the 52-week mark.

Pricing

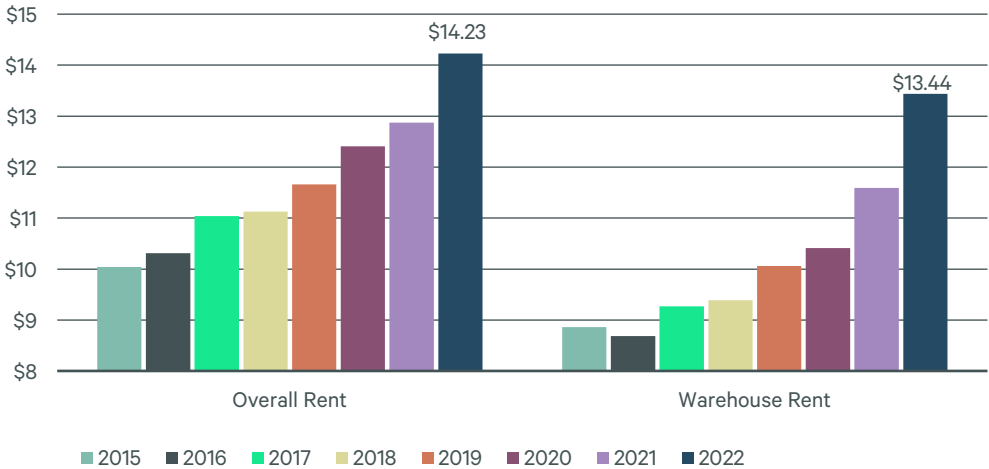
Asking rents have continued to see upward momentum and gradual increases through the fourth quarter, reaching \$14.23 per sq. ft. per annum, up 11% year-over-year. Warehouse asking rents rose across the board, up 16% year-over-year, the highest annual increase on record. Rents are expected to continue to rise slowly as the market eases with new deliveries.

FIGURE 5: Select Notable Development Projects

Address	Submarket	SF	Delivery	Developer(s)
10201 Golf Academy Dr. - Building A	Rt 29/I-66	209,193	Mar-23	Trammel Crow
10201 Golf Academy Dr. - Building B	Rt 29/I-66	127,853	Mar-23	Trammel Crow
7300 Century Park Dr – Bldg 3	Rt 29/I-66	127,420	Jan-23	West Dulles Properties
7300 Century Park Dr – Bldg 2	Rt 29/I-66	114,760	Jan-23	West Dulles Properties
7300 Century Park Dr – Bldg 1	Rt 29/I-66	108,730	Jan-23	West Dulles Properties
22913 Indian Creek Dr	Rt 28/Dulles North	76,275	Jan-23	Foulger Pratt
12001 Wilton Meadows Ct	Rt 29/I-66	31,000	Feb-23	Benfield & Dressler

Source: CBRE

FIGURE 6: Historical Rent

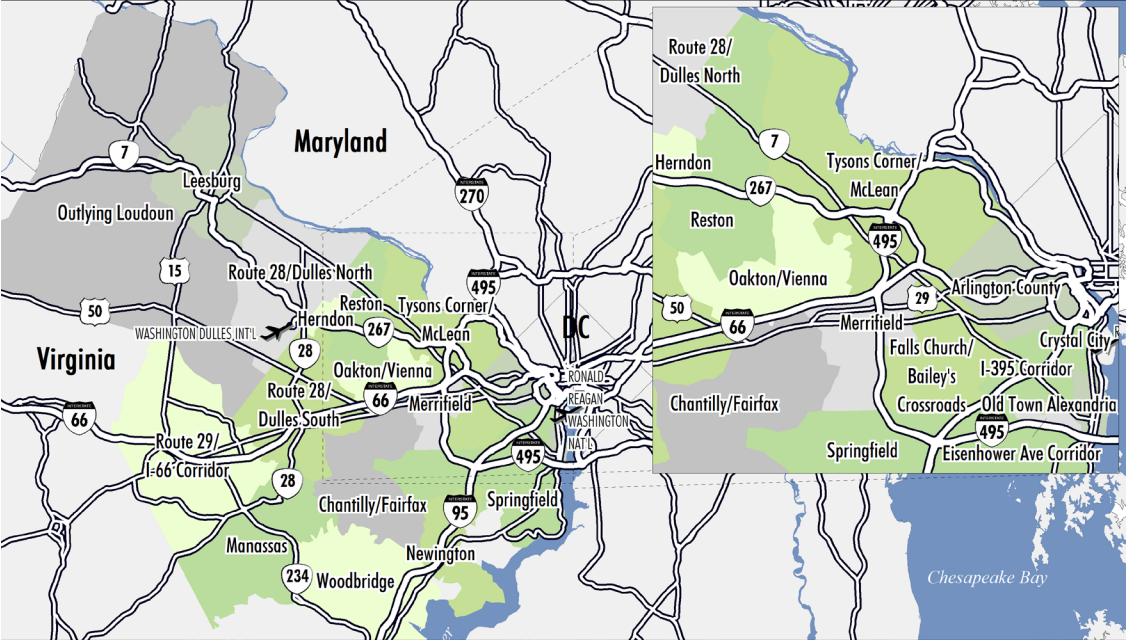


Source: CBRE

FIGURE 7: Key Market Statistics

Overall	Number of Buildings	Inventory (SF)	Overall Vacancy Rate (%)	Q4 2022 Net Absorption (SF)	2022 Net Absorption	Gross Asking Rent (\$/SF)	Under Construction (SF)
Overall Industrial	City of Alexandria	4,414,983	4.2	(104,525)	(23,006)	12.94	-
	Arlington County	869,717	-	-	3,375	-	-
	Fairfax County	34,222,835	5.2	(125,135	(38,250)	14.40	-
	Loudoun County	23,000,989	2.3	(22,059)	(172,290)	13.43	76,275
	Prince William County	16,490,011	1.8	(14,526)	363,694	14.53	718,956
	Total	78,998,535	3.5	(266,245)	478,103	14.23	795,231
Warehouse	City of Alexandria	3,695,838	4.6	(102,160)	(11,778)	12.42	-
	Arlington County	730,908	-	-	-	-	-
	Fairfax County	19,508,088	3.1	(72,935)	(95,365)	14.04	-
	Loudoun County	13,626,151	2.8	(39,428)	(10,614)	14.38	76,275
	Prince William County	10,660,768	1.5	(12,882)	105,439	13.25	718,956
	Total	48,221,753	2.7	(227,405)	(8,943)	13.44	795,231
Flex	City of Alexandria	719,145	2.4	(2,365)	(11,228)	22.00	-
	Arlington County	138,809	-	-	-	-	-
	Fairfax County	14,714,747	8.0	(52,200)	57,115	14.78	-
	Loudoun County	9,374,838	1.5	17,369	182,904	12.68	-
	Prince William County	5,829,243	2.5	(1,644)	258,255	15.35	-
	Total	30,776,782	4.8	(38,840)	487,046	14.73	-

Source: CBRE



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