

# GREATER PHILADELPHIA INDUSTRIAL MARKET

## NEW YEAR, SAME STORY: MORE INDUSTRIAL MARKET GROWTH

The Greater Philadelphia industrial market experienced a very active first quarter of 2019, accumulating 1.6 million square feet of positive absorption and growing overall inventory by 2.3 million square feet upon construction deliveries, the largest quarterly delivery volume since mid-year 2017. The addition of new speculative space to the market has slightly outpaced demand during the past year, pushing vacancy incrementally to 5.3% in first-quarter 2019—little relief, however, for the tight market, just 50 basis points above the all-time record low of 4.7% charted in the first quarter of 2018.

High-profile occupancies, new leases, investment sales and a pause in new product construction starts during the past 90 days all indicate healthy market conditions will continue in 2019. Market wide vacancy is expected to hover around the mid-5.0% range, as demand and new supply additions continue at a considerable pace. Average asking rents, at \$5.40/SF in first-quarter 2019, essentially moved sideways quarter-over-quarter but are expected to grow throughout the year, particularly in the warehousing and R&D/flex sectors in core submarkets, where demand is strongest.

### PHILADELPHIA AND SOUTHEASTERN PENNSYLVANIA SUBMARKETS

The Southeastern Pennsylvania market posted 950,494 square feet of positive absorption in the first quarter of 2019, driven primarily by more than 550,000 square feet of occupancy gains in Berks County. This submarket has increasingly taken on characteristics of the adjacent big-box warehouse market, the I-81/I-78 Corridor, in terms of deal size and development. Interstate 78 threads the top of the county, and it was near that stretch of this key logistics highway that some of the largest new occupancies took place this quarter: Niagara Bottling and Fleetwood Fixtures occupied a total of 336,000 square feet in Hamburg Logistics Park. Additionally, 41 Martha Drive and 270 Midway Road in Berks County accounted for two of the properties traded in the \$1.2 billion bulk-and-last-mile logistics facilities portfolio that Colony Capital acquired in the first quarter, which also included numerous properties in the I-81/I-78 Corridor market.

Construction on 6 new developments totaling 2.1 million square feet continued throughout the region; approximately a fifth of the space is pre-leased. Overall vacancy in the market remained low at 5.7% in the first-quarter. Even if all available speculative construction delivers this year without a signed tenant, the jump in vacancy will be minimal, as it

### CURRENT CONDITIONS

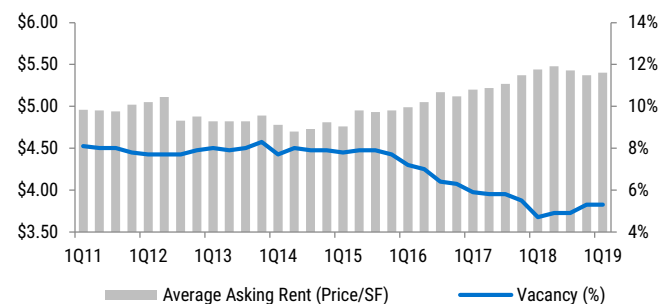
Greater Philadelphia's industrial market kicked off 2019 in growth mode: 1.6 million square feet of new occupancy and 2.3 million square feet of new inventory.

Southeastern Pennsylvania, specifically Berks County, led the market in positive net absorption, with two major move-ins from Niagara Bottling and Fleetwood Fixtures in first-quarter 2019.

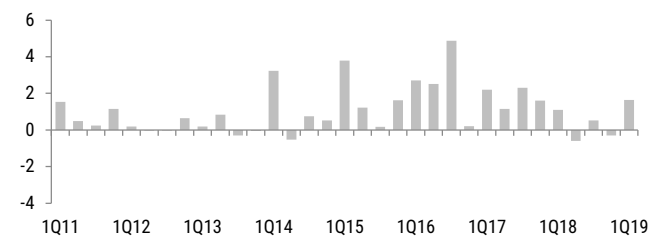
Development levels dipped to 3.5 million square feet in first-quarter 2019, the lowest since mid-year 2017. More groundbreakings are anticipated this year.

### MARKET ANALYSIS

#### Asking Rent and Availability



#### Net Absorption (SF, Millions)



### MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	496 MSF	494 MSF	491 MSF	↑
Vacancy Rate	5.3%	5.3%	4.7%	↑
Quarterly Net Absorption	1.6 MSF	-0.1 MSF	1.1 MSF	↑
Average Asking Rent	\$5.40	\$5.37	\$5.44	↑
Under Construction	3.5 MSF	5.7 MSF	5.5 MSF	↑
Deliveries	2.3 MSF	1.8 MSF	0.04 MSF	↑

represents such a small portion of inventory. Market fundamentals support further speculative construction, and more is expected to break ground in future quarters.

Although warehouse space is the undisputed darling of the industrial sphere, R&D/flex product is experiencing its own success in the Southeastern Pennsylvania region. At the recently renovated Spring House Innovation Park, among the latest leases and occupancies, Thomas Jefferson University will be opening a ~25,000-square-foot R&D facility later this year. This quarter, the approximately 1.0 million-square-foot former GSK campus in King of Prussia, rebranded Discovery Labs, set lab space rates at \$31.00/SF, the highest rate for this product type in the suburban counties. Discovery Labs is poised to capitalize on the burgeoning growth taking place in the region's life sciences sector. How tenants react to Discovery Labs' pricing and large-block availability will be telling for developers considering opportunities to add more R&D/Flex space to the market.

### SOUTHERN NEW JERSEY SUBMARKETS

First-quarter absorption in Southern New Jersey totaled 664,955 square feet, driven, not surprisingly, by tenant demand for new, modern warehouse space. The two largest occupancies of the quarter were Amazon and Trane, both of which moved into newly delivered buildings (1.1 million square feet at 1101 East Pearl Street and 310,690 square

feet at 600 Richards Run, respectively). Although absorption was strong this quarter, two significant retractions occurred: Nine West and Sears vacated a combined total of 600,655 square feet in the market. These retailers were among the wave of recent national bankruptcies, precipitated by structural shifts in consumer purchasing habits related to e-commerce penetration. Diverse and voluminous demand for industrial space in Southern New Jersey will likely erase that vacancy this year. Another very tangible example of the shifting relationship between retail and industrial space took shape this quarter when Clarion Partners announced plans to purchase the suffering Burlington Center Mall and redevelop the site for industrial use.

### NEW CASTLE COUNTY

New Castle County's industrial market experienced a quiet start to 2019, as approximately 18,000 square feet was absorbed during the first quarter. The market's vacancy rate, at 2.6%, can hardly tighten further. A lack of institutional owners in the market has kept construction activity muted compared with the rest of the region and confined mostly to build-to-suits and owner-constructed facilities. Local developers may change this prolonged period of stasis, however, as activity at the former Boxwood GM site progressed this quarter to create a viable site for new industrial product.

### LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Trane	600 Richards Run	Burlington County	Direct	310,960
Niagara Bottling, LLC	111 Logistics Drive	Berks County	Direct	207,900
Keystone Technologies	2750 Morris Road	Montgomery County	Direct	159,000
Undisclosed Tenant	1515 Garnet Mine Road	Delaware County	Direct	126,785
Amazon.com	2001 Gehman Road	Montgomery County	Direct	97,987

### SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Colony Capital Portfolio (2 of 54 Properties)	Berks County	\$103.2 million	\$56/SF	1.8 MSF
240 Mantua Grove Road	Gloucester County	\$77.9 million	\$119/SF	652,411
5501 Whitaker Avenue	Philadelphia County	\$30.6 million	\$24/SF	1,300,000
2650 Oldmans Creek Road	Gloucester County	\$17.6 million	\$91/SF	194,072
540 Glen Avenue	Burlington County	\$13.6 million	\$62/SF	219,304

## SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Warehouse Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Berks County	25,416,718	1,240,000	19.3 %	556,556	556,556	\$4.47	\$4.60	\$4.12
Bucks County	56,475,211	569,200	3.6 %	124,932	124,932	\$4.82	\$9.75	\$6.35
Chester County	37,282,175	60,000	4.8 %	50,112	50,112	\$4.95	\$9.32	\$7.80
Delaware County	29,141,193	-	5.5 %	52,742	52,742	\$5.17	\$7.77	\$5.50
Lancaster County	56,255,009	-	1.7 %	34,488	34,488	\$4.13	\$7.13	\$4.62
Montgomery County	71,526,091	-	6.6 %	11,304	11,304	\$4.34	\$10.56	\$6.24
Philadelphia County	85,647,273	207,500	5.5 %	120,360	120,360	\$5.00	\$5.28	\$4.31
<b>Suburban Total</b>	<b>361,743,670</b>	<b>2,076,700</b>	<b>5.7%</b>	<b>950,494</b>	<b>950,494</b>	<b>\$4.68</b>	<b>\$8.80</b>	<b>\$5.56</b>
Burlington County	48,469,287	471,380	2.9%	1,183,315	1,183,315	\$4.93	\$7.16	\$5.17
Camden County	32,555,672	-	3.6%	46,303	46,303	\$3.61	\$5.39	\$4.51
Gloucester County	27,783,886	650,000	8.4%	-564,663	-564,663	\$5.00	\$5.94	\$5.05
<b>Southern NJ</b>	<b>108,808,845</b>	<b>1,121,380</b>	<b>4.5%</b>	<b>664,955</b>	<b>664,955</b>	<b>\$4.70</b>	<b>\$6.19</b>	<b>\$4.96</b>
New Castle County	25,096,912	312,000	2.6%	18,042	18,042	\$5.42	\$8.60	\$4.98
<b>Delaware Total</b>	<b>25,096,912</b>	<b>312,000</b>	<b>2.6%</b>	<b>18,042</b>	<b>18,042</b>	<b>\$5.42</b>	<b>\$8.60</b>	<b>\$4.98</b>
<b>Market Totals</b>	<b>495,649,427</b>	<b>3,510,080</b>	<b>5.3%</b>	<b>1,633,491</b>	<b>1,633,491</b>	<b>\$4.80</b>	<b>\$8.15</b>	<b>\$5.38</b>

## SUBMARKET STATISTICS BY SUBTYPE

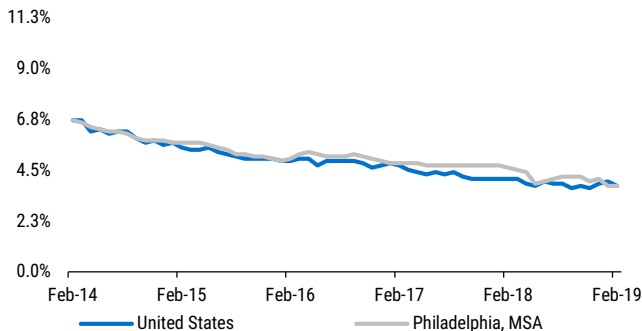
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
Warehouse/Distribution	157,652,243	3,138,080	6.2%	1,337,929	1,337,929	\$4.72
R&D/Flex	82,184,151	372,000	6.1%	106,305	106,305	\$8.36
General Industrial	255,813,033	-	4.5%	189,257	189,257	\$4.57
<b>Total</b>	<b>495,649,427</b>	<b>3,510,080</b>	<b>5.3%</b>	<b>1,633,491</b>	<b>1,633,491</b>	<b>\$5.38</b>

## ECONOMIC CONDITIONS

As the nation moves toward ostensible full employment, a common concern across all industries is labor availability, and the Philadelphia-Camden-Wilmington metropolitan statistical area's overall labor supply is certainly growing tighter. The reported February unemployment rate of 3.7% was nearly a full percentage point lower than one year ago. According to the U.S. Bureau of Labor Statistics, the Philadelphia Metropolitan Division, representative of the city of Philadelphia and Delaware County, experienced the largest year-over-year decline in unemployment of any of the 28 metropolitan divisions nationwide that saw unemployment rate decreases. On the one hand, this current employment situation stands to benefit the industrial sector, as a tight labor market will put upward pressure on wages, providing consumers with more disposable income and fostering additional need for warehouse/distribution space. On the other hand, the industrial sector will face the same challenges in finding quality labor.

### UNEMPLOYMENT RATE

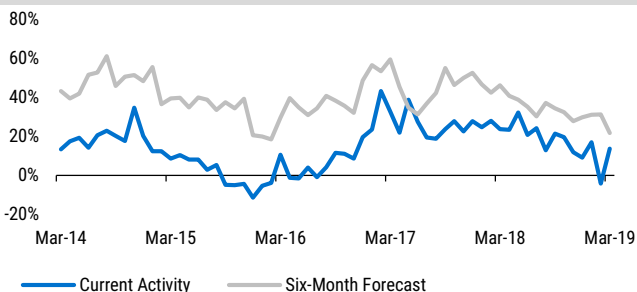
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, U.S. Dept. of Labor, Philadelphia Federal Reserve Bank

### MANUFACTURING BUSINESS OUTLOOK SURVEY

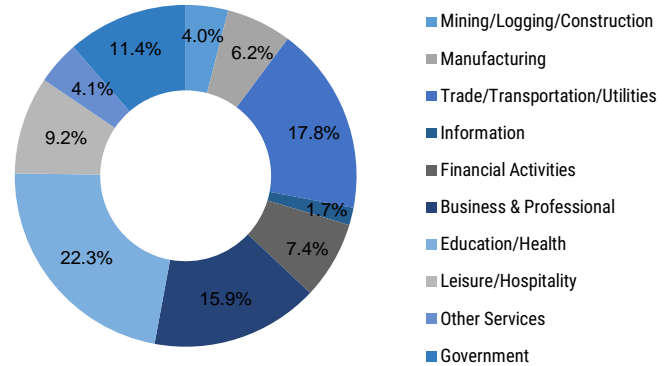
Current and Future General Activity Indexes\*



Source: Philadelphia Federal Reserve Bank  
\* Percentage of respondents indicating an increase minus percentage indicating a decrease

### EMPLOYMENT BY INDUSTRY

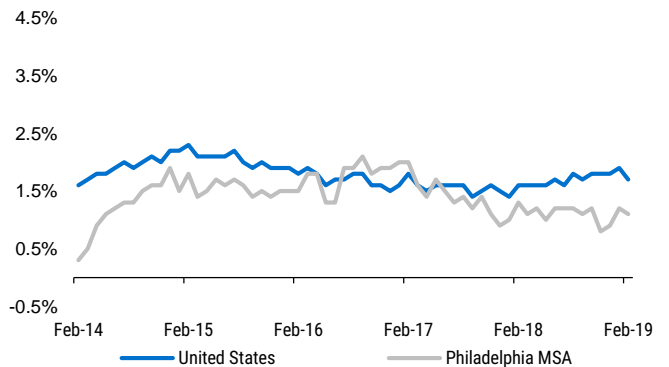
Philadelphia MSA, Annual Average 2018



Source: U.S. Bureau of Labor Statistics

### PAYROLL EMPLOYMENT

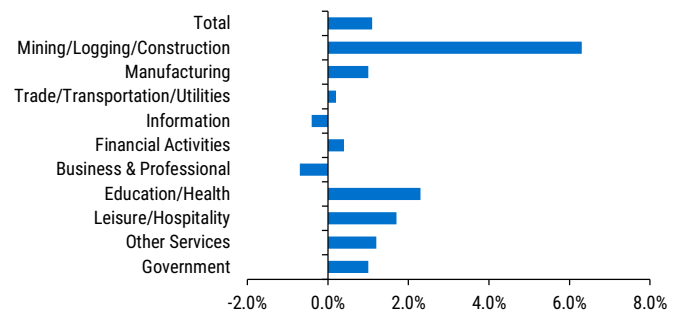
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



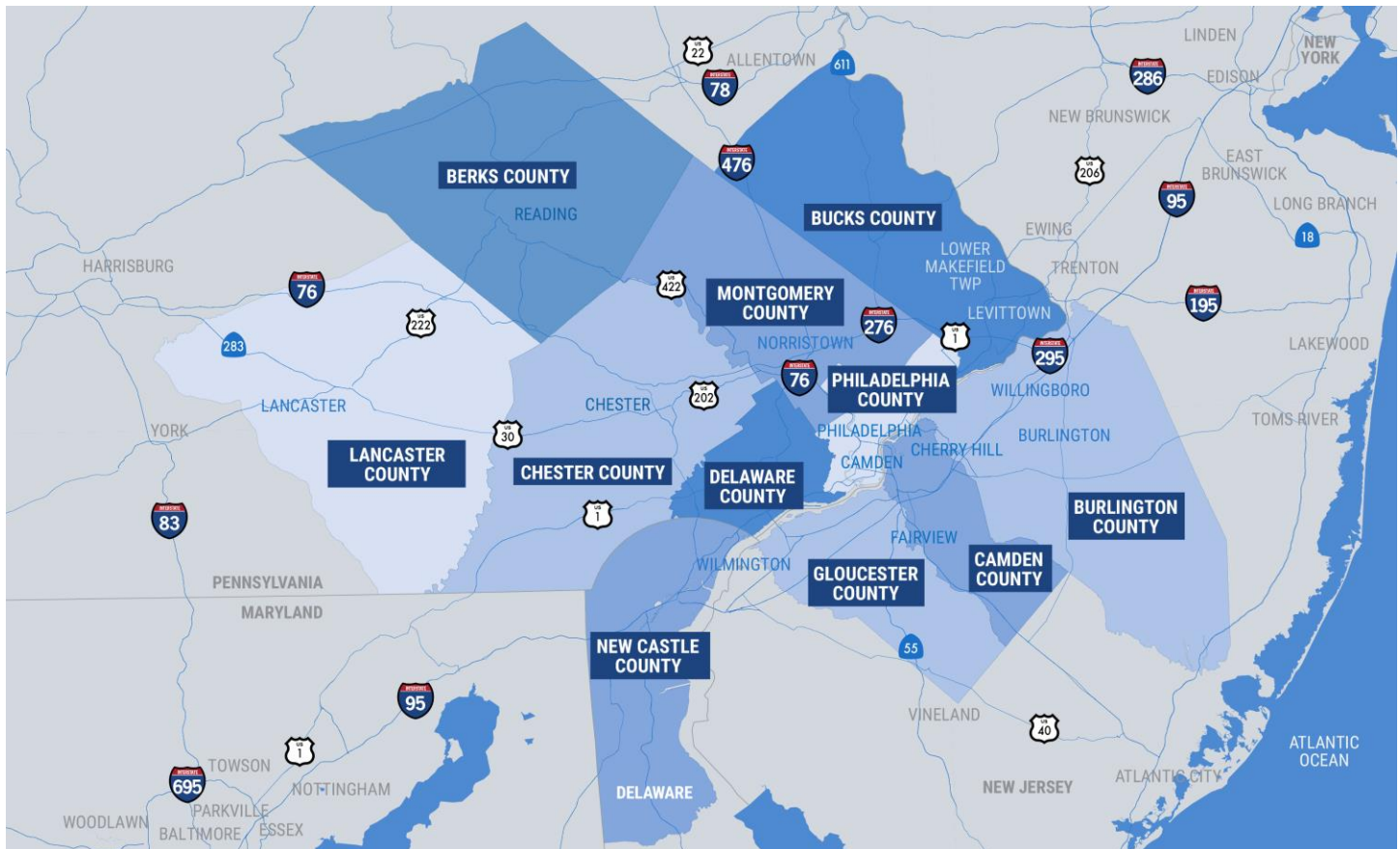
Source: U.S. Bureau of Labor Statistics

### EMPLOYMENT GROWTH BY INDUSTRY

Philadelphia MSA, February, 2019, 12-Month % Change



Source: U.S. Bureau of Labor Statistics



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