

GREATER PHILADELPHIA INDUSTRIAL MARKET

A POSITIVE FIRST QUARTER, BUT THE MARKET WILL PAUSE DUE TO COVID-19

While the global COVID-19 pandemic and ensuing economic disruption dominated the narrative by mid-March 2020, the Greater Philadelphia industrial market realized a strong start to the first quarter with occupancy growth, robust leasing, and rent gains. Across the region, approximately 832,000 square feet in new occupancy was accumulated, pushing down market vacancy 30 basis points from the previous quarter to 5.0%.

By the close of the first quarter, however, COVID-19 had spurred the start of a nationwide recession. How the local industrial sector will be affected by the ongoing economic turbulence remains to be seen. On one hand, millions of residents sheltering in place across the region are turning to ecommerce as an essential resource. As a result, major ecommerce providers and third-party logistics firms are vigorously hiring workers to try to meet demand and will have growing industrial space needs. At the end of March, Amazon announced it was in advanced negotiations to lease yet another suburban Philadelphia warehouse in an effort to further build out their last-mile supply chain, and there is likely to be pent-up demand in this sector. On the other hand, however, many retailers are being challenged in unprecedented ways; people are unable to shop in "non-essential" stores and furthermore, may be stripped of spending power in the light of sweeping job losses. The ripple effect to retailers' warehousing and distribution footprint could lead to vacancy rising if bankruptcies begin to accumulate. Broadly forecasting, these two scenarios could potentially balance each other out, leading to negligible overall change in the market in the mid-term.

In the short-term: developers, owners and occupiers alike are almost entirely sidelined from effectively conducting industrial real estate-related business and may take a cautious approach to re-entering the market when the immediate health crisis is resolved. This market pause will likely affect leasing volume throughout the balance of the year, causing an uptick in vacancy and potentially a slight softening in rents.

SOUTHEASTERN PENNSYLVANIA

The Southeastern Pennsylvania industrial market registered approximately 134,000 square feet of negative absorption in the first quarter, due to a number of large tenant retractions and a lull in between significant move-ins scheduled for later in the year. As such, vacancy

CURRENT CONDITIONS

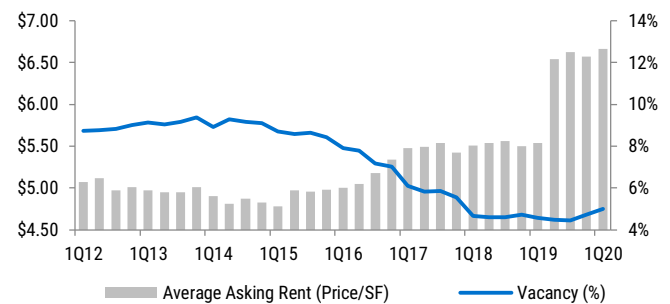
Quarterly net absorption measured 832,365 SF market-wide prior to the economic disruption caused by COVID-19

The development pipeline totaled 4.9 MSF in the first quarter, and 1.6 MSF of industrial space delivered

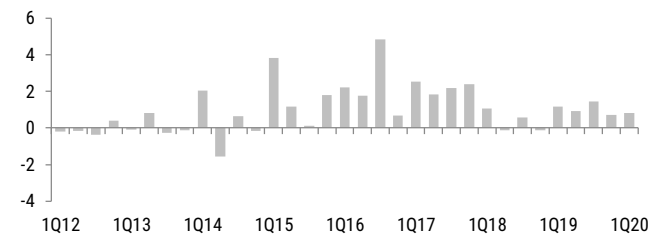
Average asking rents moved slightly by \$0.09 quarter over quarter to \$6.66/SF

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	477 MSF	474 MSF	470 MSF	↑
Vacancy Rate	5.0%	4.7%	4.6%	↑
Quarterly Net Absorption	832K SF	704K SF	1.2 MSF	↓
Average Asking Rent	\$6.66	\$6.57	\$5.54	↔
Under Construction	4.9 MSF	5.5 MSF	3.7 MSF	↔
Deliveries	1.6 MSF	2.6 MSF	1.3 MSF	↑

increased slightly by 10 basis points to 5.0% but remained at near-record lows. Among the quarter's larger retractions included Milford Enterprises, vacating 115,000 square feet at 450 Commerce Boulevard after relocating into smaller space also within Bucks County last quarter. In Montgomery County, Albertson's closed their Plated operations at the 56,186-square-foot warehouse at 2323 Koffel Road and Harriet Carter Gifts vacated the 92,000-square-foot building at 425 Stump Road.

As explored in NKF Research's March 2020 whitepaper **Pandemic: A Period in Time and the Path Forward**, because of the size and location of many warehouses, underutilized distribution space may provide value in the fight against the spread of COVID-19 as short-term warehousing opportunities for medical supplies or other emergency needs. In mid-March, Bryn Mawr-based landlord Alliance Partners HSP offered temporary use of a 130,000-square-foot warehouse at 401 Domino Lane in Roxborough rent-free for any usage responding to the health emergency until its full-time tenant, Night Shift Brewing, commences its lease in May. The city of Philadelphia accepted the offer and will use it as warehousing for food-bank operations.

SOUTHERN NEW JERSEY

Southern New Jersey's industrial market tallied a little over 671,000 square feet of net absorption in the first quarter, leading the three markets comprising the Greater Philadelphia industrial region. New quarterly deliveries eclipsed demand, however, which pushed vacancy slightly higher from 4.9% to 5.2% quarter-over-quarter.

Southern New Jersey had the largest volume of new construction underway in the first quarter with multiple new groundbreakings pushing the pipeline up to measure 2.7 MSF. Construction timelines are being disrupted by ongoing social distancing and non-essential business closure mandates in the wake of COVID-19 and it is likely developers will pause to see how industrial occupiers react to the first wave of new deliveries once business resumes before deciding to break ground on new projects. The current batch of development underway in the market stands at 28% pre-leased.

NEW CASTLE COUNTY

New Castle County saw a particularly active quarter in which two developments, facilities for Chemours and Dot Foods, completed construction and were occupied. This propelled the market to realize nearly 300,000 square feet of net absorption, the largest quarterly volume since 2017. Construction commenced this quarter on another significant project, DART Container's 1MSF distribution facility at 1386 Schoolhouse Road, and plans are in the works for Amazon's multistory warehouse at the former Boxwood site. New Castle County is in the midst of a sustained construction boom for the first time in well over a decade due to the market's distribution-friendly attributes: land, infrastructure, labor, and lower costs.

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
School Specialty, Inc	140 Marble Drive	Lancaster County	Renewal	125,000
Giant Direct	3501 Island Avenue	Philadelphia County	Direct	123,446
McCollister Transportation	1200 Highland Drive	Burlington County	Direct	120,113
Western Post	301 Grove Road	Gloucester County	Direct	121,857

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
2000 Bishop's Gate Boulevard	Burlington County	\$32.2 million	\$110	292,466
100 Friars Boulevard	Gloucester County	\$20.2 million	\$111	181,370
475 N. Lewis Road	Montgomery County	\$10.2 million	\$60	169,312

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)
Bucks County	57,597,278	125,000	6.0 %	64,848	64,848	\$6.36	\$8.35	\$6.36
Chester County	37,581,115	183,217	4.4 %	45,981	45,981	\$7.32	\$9.82	\$8.56
Delaware County	29,346,843	-	4.2 %	174,737	174,737	\$5.65	\$7.52	\$5.20
Lancaster County	57,133,529	-	1.8 %	60,428	60,428	\$4.02	\$10.41	\$5.13
Montgomery County	71,443,576	-	7.2 %	-345,824	-345,824	\$5.44	\$20.25	\$10.53
Philadelphia County	84,750,886	795,981	5.2 %	-133,763	-133,763	\$5.15	\$5.94	\$4.83
Southeastern PA Total*	337,853,227	1,104,198	5.0 %	-133,593	-133,593	\$5.45	\$13.19	\$7.21
Burlington County	50,794,028	2,313,932	5.7 %	398,847	398,847	\$6.18	\$7.41	\$6.06
Camden County	32,555,672	338,000	2.4 %	9,286	9,286	\$3.72	\$6.83	\$4.89
Gloucester County	29,142,069	95,872	7.5 %	263,045	263,045	\$5.12	\$6.43	\$5.22
Southern NJ Total	112,491,769	2,747,804	5.2 %	671,178	671,178	\$5.34	\$7.05	\$5.51
New Castle County	26,144,743	1,002,841	4.5 %	294,780	294,780	\$4.59	\$11.01	\$5.69
Delaware Total	26,144,743	1,002,841	4.5 %	294,780	294,780	\$4.59	\$11.01	\$5.69
Market Totals	476,489,739	4,854,843	5.0 %	832,365	832,365	\$5.38	\$12.18	\$6.66

*Data Note: the Berks County submarket was relocated from the Southeastern Pennsylvania market to the PA I-78/81 Corridor's Lehigh Valley submarket in 1Q 2020.

SUBMARKET STATISTICS BY SUBTYPE

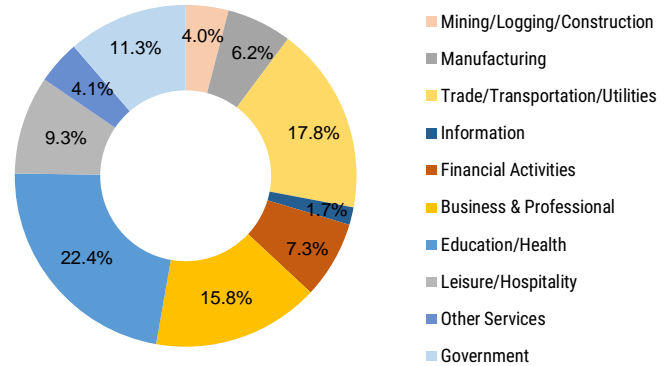
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
Warehouse/Distribution	153,644,865	4,286,029	6.5 %	757,738	757,738	\$5.38
R&D/Flex	80,425,309	393,814	7.0 %	276,261	276,261	\$12.18
General Industrial	242,419,565	175,000	3.4 %	-201,634	-201,634	\$5.15
Total	476,489,739	4,854,843	5.0 %	832,365	832,365	\$6.66

ECONOMIC CONDITIONS

At the start of the first quarter of 2020, economic conditions in the Philadelphia Metropolitan Statistical Area were strong. Approximately 26,500 new jobs were added year-over-year in a diversity of industries, and job growth was likely to continue. By the end of the first quarter, however, the COVID-19 pandemic and ensuing economic disruption effectively ended the country's longest expansion period on historical record. The Bureau of Labor Statistics reported that in the first half of March 2020, over 700,000 jobs were lost, and that number will increase. An economic contraction in 2Q20, locally and nationally, is coming. Yet, numerous economists and institutions are predicting a rebound in the second half of the year when business is projected to resume, reopening the economy. Goldman Sachs, for example, forecasts a 24% contraction in the second quarter followed by 12% growth in the third. However, timelines for recovery could fluctuate on a day to day basis; short term volatility is all that is certain.

EMPLOYMENT BY INDUSTRY

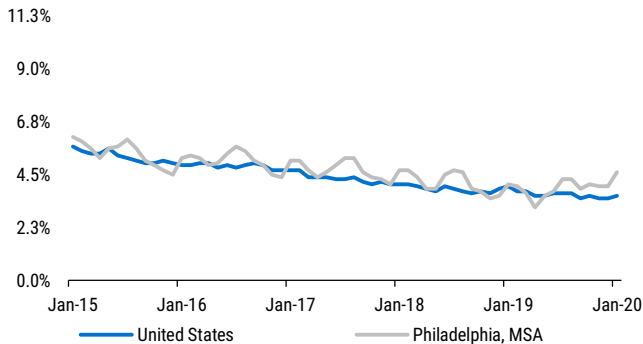
Philadelphia MSA, Annual Average 2019



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

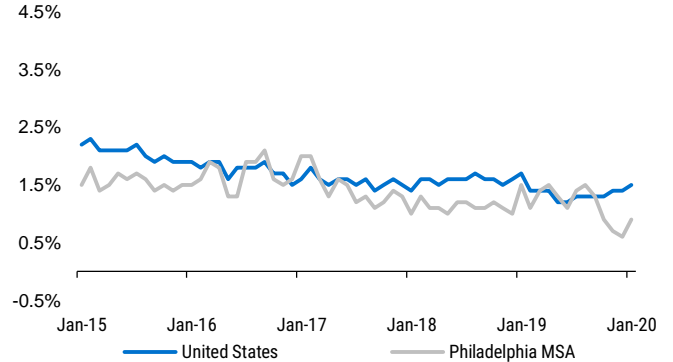
Seasonally Adjusted*



Source: U.S. Bureau of Labor Statistics. Local data not seasonally adjusted.

PAYROLL EMPLOYMENT

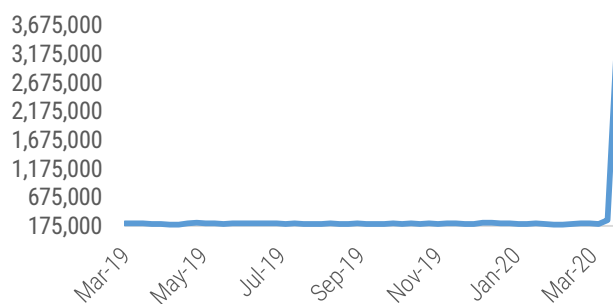
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

NATIONAL UNEMPLOYMENT CLAIMS

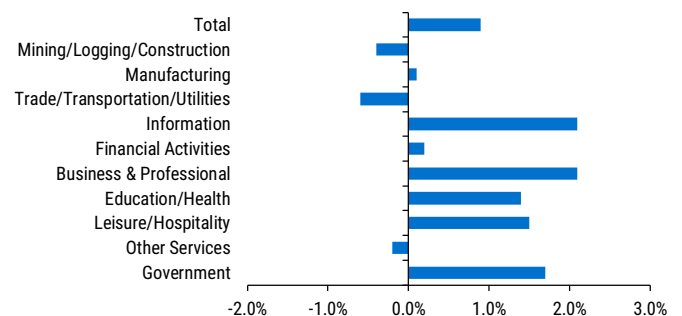
As of mid-March 2020



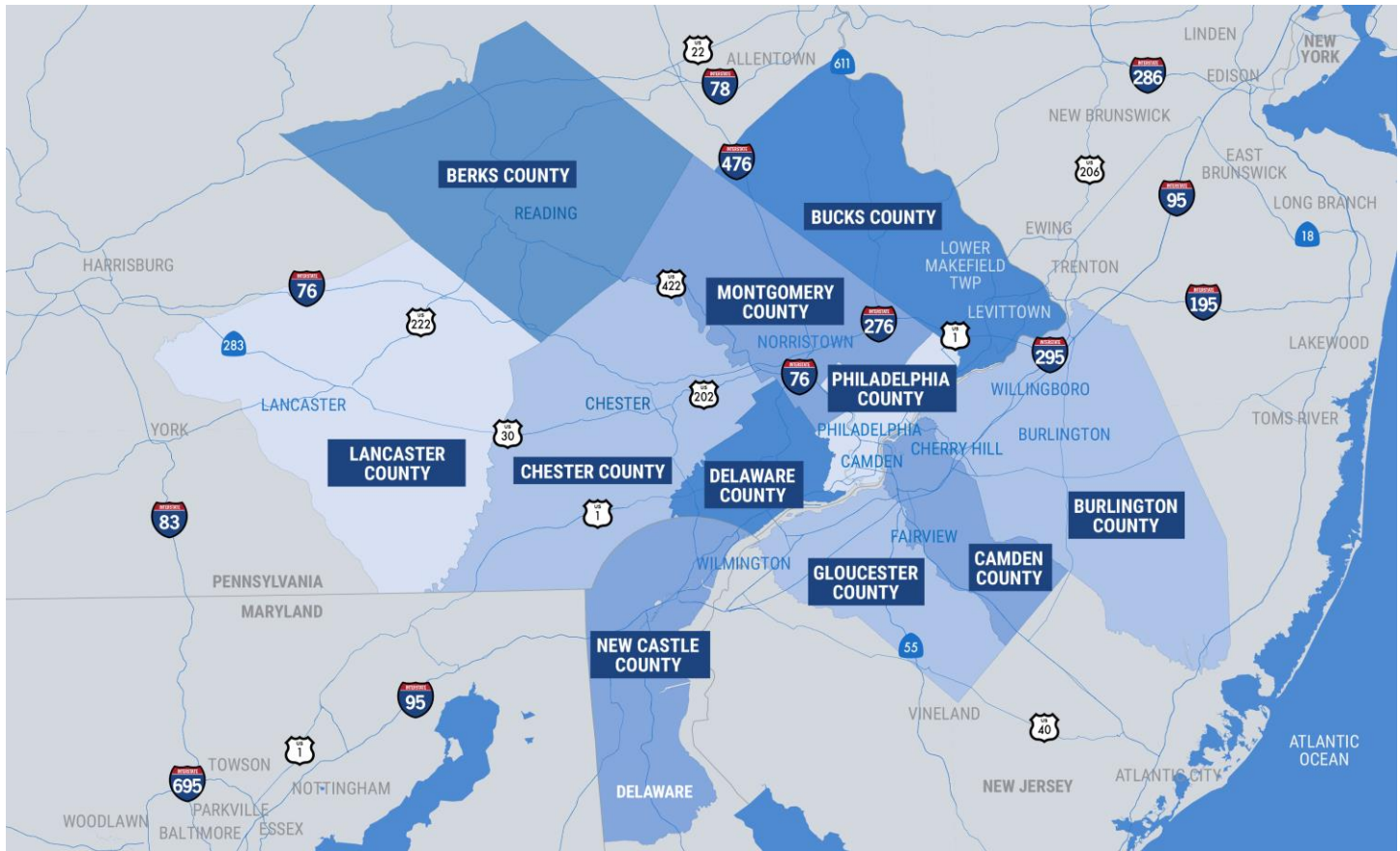
Source: US Department of Labor

EMPLOYMENT GROWTH BY INDUSTRY

Philadelphia MSA, January, 2020, 12-Month % Change



Source: U.S. Bureau of Labor Statistics



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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

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