

GREATER PHILADELPHIA INDUSTRIAL MARKET

RENTS AND DEVELOPMENT LEVELS MAKE DRAMATIC JUMPS

Average asking rents for industrial space leapt to an all-time high in the Greater Philadelphia industrial market during the second quarter of 2019, precipitated almost entirely by dramatic rate increases in the R&D/flex sector. The construction pipeline increased by 2.4 million square feet as new product broke ground across Southern New Jersey and Greater Philadelphia markets, and only one project delivered. Quarterly net absorption totaled 1.8 million square feet and was mainly driven by occupancies in recently completed warehouse space. Market-wide vacancy, down 30 basis points from the first quarter at 5.1%, is expected to hover in the low 5.0% range through the rest of the year, while pent-up demand in the market for modern logistics space continues to absorb new additions to the inventory. Yet, only 34.0% of the current construction volume is preleased, so some developers with proposed projects in submarkets with significant development already underway may delay new groundbreakings to see how the market reacts as space delivers.

PHILADELPHIA AND SOUTHEASTERN PENNSYLVANIA SUBMARKETS

Construction was underway during the second quarter in every one of the seven counties that comprise the market. New warehouses broke ground in Bucks, Montgomery and Berks counties, with the largest volume of construction underway in the region, a total of 1.9 million square feet, occurring in Berks County. Construction activity in Berks County continued to mirror development trends of the neighboring I-81/78 Corridor market, such as an emphasis on larger-scale, big-box speculative warehouse development. The submarket is likely to veer more toward tenant-favorable conditions as new deliveries hit the market; 3.4 million square feet, comprising 13.4% of overall submarket inventory, completed in the past two years, and only 21.0% of that space has so far been occupied. Overall vacancy in the submarket was 18.3% in the second quarter; no other submarket in the region had a vacancy rate greater than 6.0%.

The greater region's substantial average asking rent gains this quarter were driven almost entirely by dramatic pricing changes in the Southeastern Pennsylvania market. Most substantial was the rent jump witnessed in the R&D/flex segment. Newly established asking rents of \$31.00/SF on nearly 700,000 square feet of R&D/lab space at the former GSK campus on Swedeland Road sent average asking rents for that sector of space skyrocketing from \$8.80 to \$12.47/SF in the span of a quarter. The site, which is being repositioned as "Discovery Labs", a

CURRENT CONDITIONS

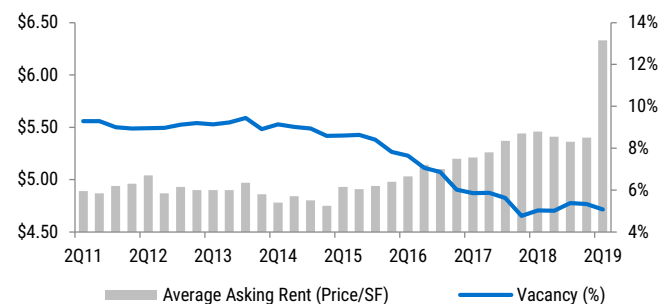
2.4 MSF broke ground in the second quarter, driving the supply pipeline up to 7.3 MSF. Berks County maintained the highest levels of development.

Rents witnessed the largest quarterly growth on record, to an average of \$6.33/SF. This is almost entirely due to newly established rates on R&D/flex space at the rebranded and repositioned Discovery Labs complex.

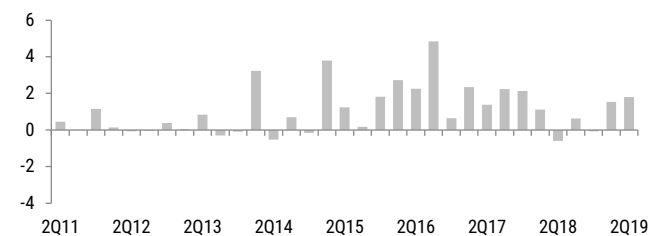
The overall market tallied 1.8 MSF of net absorption, pushing vacancy down from 5.3% last quarter, to 5.1%.

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	496 MSF	492 MSF	↑
Vacancy Rate	5.1%	5.3%	5.0%	↑
Quarterly Net Absorption	1.8 MSF	1.5 MSF	-0.6 MSF	↑
Average Asking Rent	\$6.33	\$5.40	\$5.46	↑
Under Construction	7.3 MSF	4.9 MSF	5.0 MSF	↓
Deliveries	0.7 MSF	2.3 MSF	1.1 MSF	↑

large-scale collaborative lab campus, has already secured leasing commitments from Thomas Jefferson University, Tosoh Biosciences and Crown Castle, among others. Overall pricing for warehouse space is set to increase as well: asking rates for new, modern warehouses under construction across the market are in the \$6.50-\$7.50/SF range, a notable premium over asking rates for existing inventory.

The market's largest occupancies this quarter included: Complete Liquidators taking 142,443 square feet at 2207 Radcliffe Street in Bucks County; Keystone Technologies' move into 159,000 square feet at 2750 Morris Road in Montgomery County; and Gallagher Tire's occupancy of 143,092 square feet at 36 Anderson Road in Chester County. All told, new tenants occupied just over 900,000 square feet. Leasing activity this quarter indicated net absorption should remain elevated through the latter half of 2019.

SOUTHERN NEW JERSEY SUBMARKETS

Second-quarter absorption in Southern New Jersey totaled 922,411 square feet, driving vacancy down from 4.5% to 4.2% quarter over quarter. In keeping with last quarter's largest driver of new occupancy, e-commerce giant Amazon yet again represented the largest quarterly move-in, taking possession of the 650,000-square-foot warehouse at 240 Mantua Grove Road upon its completion. The company also occupied approximately 40,000 square feet for a last-mile requirement

at 281 Benigno Boulevard. While the new development focus has largely been on the warehouse sector in Southern New Jersey as of late, a significant manufacturing project was launched in the market this quarter: ResinTech broke ground on a \$138M global HQ in Camden County, which will be used to consolidate multi-state operations when complete in 2020. It will be the largest facility of its kind on the East Coast, with the expectation of bringing more than 265 jobs to Camden.

NEW CASTLE COUNTY

Delaware's industrial vacancy registered 2.7% in second-quarter 2019, and has hovered below 5.0% since the start of 2018. Available space is about as scarce as can be in the market. There were two construction projects underway in New Castle County in the second quarter, but both already spoken for. Average asking rents responding to the market's tightness crept up past the \$5.00 mark this quarter for the first time ever, increasing from \$4.98 to \$5.03/SF, quarter over quarter.

A persistent lack of institutional developer interest in the market has kept supply additions limited, yet that looks to change in the near future. This quarter, a 190-acre industrial site in New Castle sold to Northpoint Development, which plans to construct multiple warehouses ranging in size from nearly 1.0 million square feet to around 200,000 square feet on the site. This would be the first large supply addition to the market since 2012.

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
CarbonLITE	4030 Pottsville Pike	Berks County	Direct	270,000
JAKO Enterprises	7601 State Road	Philadelphia County	Direct	201,456
Gallagher Tire	36 Anderson Road	Chester County	Direct	143,092
Complete Liquidators	2207 Radcliffe St	Bucks County	Expansion	142,443
Misfits Market	500 Griffin Morgan Rd	Camden County	Direct	140,800

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
2760 Red Lion Rd	Philadelphia County	\$83,200,000 (allocated)	\$82	1,015,500
1 Commerce Drive	Camden County	\$43,000,000	\$46	931,682
58 Cabot Boulevard	Bucks County	\$14,100,000	\$60	235,000
200 Pattison Avenue	Philadelphia County	\$7,200,000	\$23	312,400

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	1,868,000	18.3 %	256,014	812,570	\$4.24	\$4.59	\$4.04
Bucks County	56,475,211	1,031,360	3.8 %	-12,580	19,178	\$5.12	\$9.67	\$6.73
Chester County	37,282,175	60,000	4.4 %	267,736	317,848	\$5.95	\$9.29	\$7.94
Delaware County	29,141,193	95,000	5.0 %	150,660	203,402	\$5.07	\$7.24	\$5.44
Lancaster County	56,255,009	905,520	1.9 %	-100,171	-63,761	\$4.11	\$8.98	\$4.55
Montgomery County	71,446,991	176,700	5.9 %	379,507	390,811	\$4.31	\$21.23	\$10.20
Philadelphia County	85,647,273	302,500	5.6 %	-38,817	81,543	\$4.79	\$5.29	\$4.62
Suburban Total	361,664,570	4,439,080	5.5 %	902,349	1,761,591	\$4.69	\$12.47	\$6.75
Burlington County	48,469,287	1,638,346	2.7 %	84,555	1,267,870	\$4.55	\$7.61	\$5.26
Camden County	32,555,672	338,000	2.9 %	189,813	236,116	\$2.98	\$5.68	\$4.26
Gloucester County	28,433,886	369,000	8.2 %	648,043	83,380	\$4.91	\$5.94	\$4.99
Southern NJ	109,458,845	2,345,346	4.2 %	922,411	1,587,366	\$4.46	\$6.69	\$4.95
New Castle County	25,096,912	500,609	2.7 %	-30,089	-12,047	\$5.71	\$7.65	\$5.03
Delaware Total	25,096,912	500,609	2.7 %	-30,089	-12,047	\$5.71	\$7.65	\$5.03
Market Totals	496,220,327	7,285,035	5.1 %	1,794,671	3,336,910	\$4.65	\$11.53	\$6.33

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	158,302,243	6,378,115	5.9 %	1,104,804	2,442,733	\$4.65
R&D/Flex	82,184,151	630,000	6.1 %	167,200	275,427	\$11.53
General Industrial	255,733,933	276,920	4.2 %	522,667	618,750	\$4.87
Total	496,220,327	7,285,035	5.1 %	1,794,671	3,336,910	\$6.33

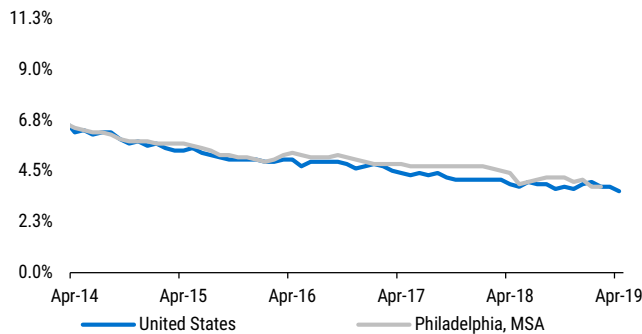
ECONOMIC CONDITIONS

In the second quarter of 2019, unemployment in the Philadelphia Metro fell to 3.1% (not seasonally adjusted), the lowest level recorded in the market since the U.S. BLS began publishing the figure in 1990. A total of 17,900 new jobs were added since May of 2018, with gains driven mostly by construction, leisure & hospitality, and “eds & meds” industries. The economy will soon be dealt a significant blow in the industrial sector, however.

Philadelphia Energy Solutions’ oil refinery, the largest of its kind on the East Coast and employer of more than 1,000 people, will shut down later this year following a catastrophic fire in June. The closure will not only have a big effect on the local economy but also the greater region’s fuel supply. Refinery work is highly specialized, and a large portion of the employees were unionized. While employers in other industrial sectors are experiencing difficulty finding workers, it may be equally difficult for former refinery workers to find new positions that offer similar wages. What will become of the 1,400-acre site of the shuttered plant is another big question, the answer to which remains to be seen.

UNEMPLOYMENT RATE

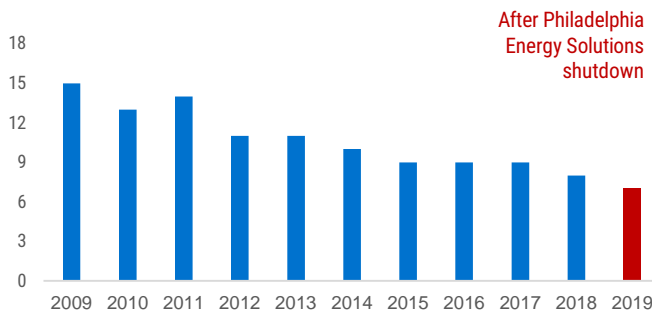
Seasonally Adjusted



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

East Coast Oil Refinery Landscape

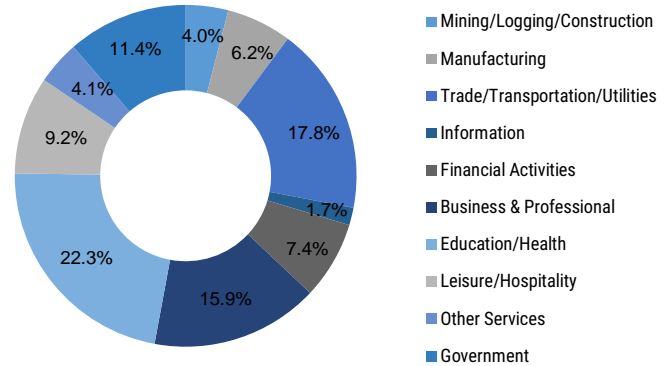
Total in Operation



Source: U.S Energy Information Administration

EMPLOYMENT BY INDUSTRY

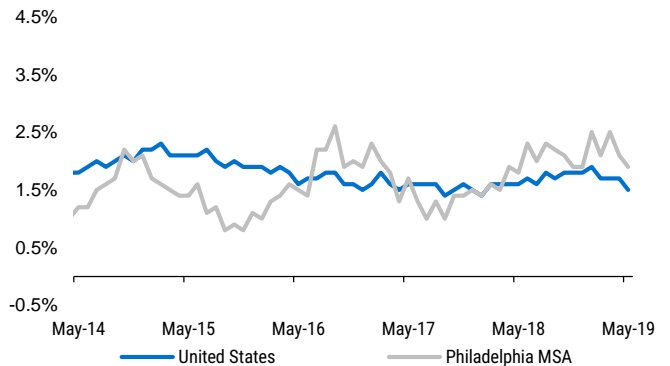
Philadelphia MSA, Annual Average 2018



Source: U.S Bureau of Labor Statistics

PAYROLL EMPLOYMENT

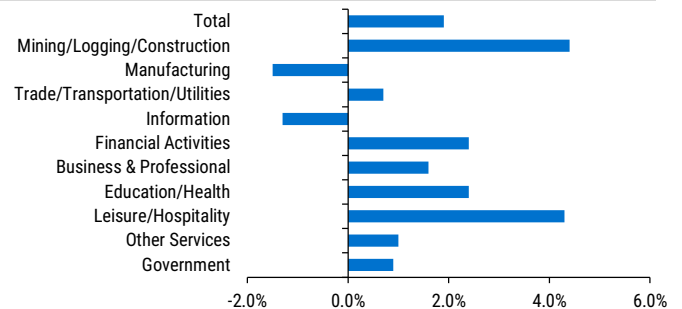
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



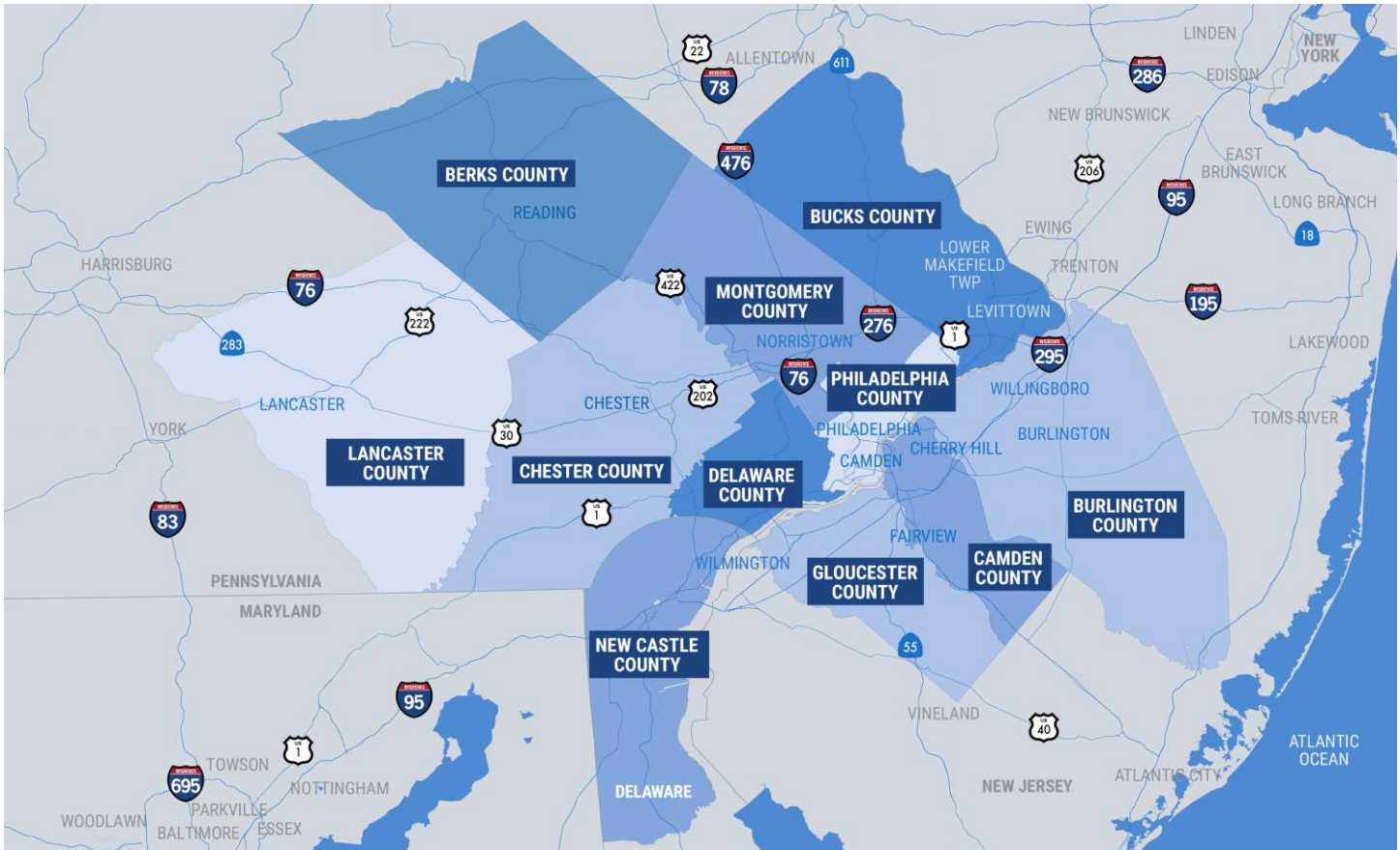
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics



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