

GREATER PHILADELPHIA INDUSTRIAL MARKET

DEMAND OUTPACES SUPPLY

Greater Philadelphia's vacancy, at 5.8%, remained flat from the second quarter. However, vacancy is well below the 10-year average of 7.6%. The regional market recorded 557,923 square feet of new occupancy gains for all property types in the third quarter. Year-to-date absorption totaled positive 1.1 million square feet, but this was well below the 5.6 million square feet of year-to-date absorption reported for the first three quarters of 2017.

Most gains in occupancy were centered in the warehouse sector thanks to demand from e-commerce, retail tenants and logistics providers. Over the past five years, 23.2 million square feet of warehouse space has been absorbed by the greater Philadelphia market. The R&D/flex and general industrial sectors have absorbed only 4.4 million square feet and 2.4 million square feet, respectively, during the same period. Warehouse rents across the region have risen with the growing demand. The overall average direct asking rental rate has increased \$0.71/SF from the first quarter of 2013 to \$4.70/SF.

Unfortunately, there is not enough supply of warehouse inventory to meet the growing demand. Twenty-four million square feet of new warehouse inventory delivered over the past decade, with 19.0 million square feet constructed in the last five years alone. Those properties built over the past decade reported a 5.3% vacancy rate in the third quarter. There is currently 3.1 million square feet of speculative warehouse space under construction in the greater Philadelphia region, which is 26.4% pre-leased.

PHILADELPHIA AND SOUTHEASTERN PENNSYLVANIA SUBMARKETS

Tenants have few options in Philadelphia County because there is not enough existing warehouse and distribution space to meet growing demand. In addition, there are few sites available for industrial development. In areas such as Lower Kensington and Fishtown, demand for multifamily space among young professionals has caused competition between residential and industrial developers for available development sites.

In the first quarter, the old Teva site off Red Lion Road sold to Commercial Development Company Inc. There are preliminary plans to turn the site into a distribution hub consisting of three warehouse buildings totaling 1.9 million square feet. In addition, the last large piece of land for industrial development—almost 16 acres off Meeting

CURRENT CONDITIONS

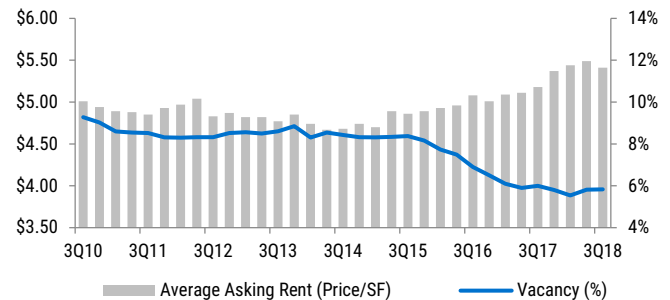
A lack of product has slowed absorption in the Southern New Jersey market.

The last large parcel of land in Philadelphia designated for industrial development is under contract.

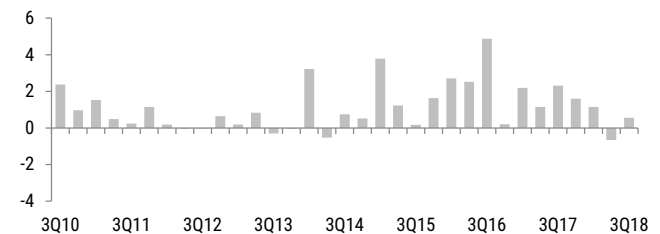
High demand has led to a sellers market in Greater Philadelphia.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	498MSF	498 MSF	495 MSF	↑
Vacancy Rate	5.8%	5.8%	6.0%	↓
Quarterly Net Absorption	557,923	-655,849	2,158,058	↑
Average Asking Rent	\$5.41	\$5.49	\$5.18	↑
Under Construction	5.1 MSF	4.5 MSF	2.6 MSF	↑
Deliveries	0.6 MSF	1.2 MSF	2.6 MSF	↑

House Road offered by PIDC—is under contract. Preliminary plans include the construction of a 230,000-square-foot warehouse building with a 30-foot ceiling height.

Philadelphia County's overall industrial vacancy rate is 6.8%, which is up 20 basis points from the second quarter but down 100 basis points from one year ago. Warehouse vacancy remained flat at 7.2%. Year-to-date absorption for the entire Philadelphia County industrial submarket totaled 930,430 square feet.

In the Southeastern Pennsylvania suburbs, a lack of warehouse and construction labor along with a lack of product are hindering the execution of large deals. The combined warehouse vacancy for the suburban submarkets grew 30 basis points from the second quarter to 6.7%, while year-to-date absorption totaled negative 413,549 square feet. For businesses such as Amazon which offer expedited delivery, accommodating last-mile needs has been challenging.

Cabot Properties is building two warehouses off West Pumping Station Road in Quakertown. The properties will measure 114,400 square feet and 145,800 square feet, respectively, and should be included in early 2019. Nappen & Associates owns land in Quakertown but has no plans to begin construction on any speculative projects. In addition, J.G. Petrucci has approximately 16 acres, located at 59 Fretz Road in Montgomery County, under agreement. The developer's initial plans are to construct a 150,000-square-foot warehouse.

The combined average direct asking rental rate for Philadelphia and Southeastern Pennsylvania remained flat at \$5.58/SF. Quarter-over-quarter, the average direct asking rent for warehouse space climbed \$0.08/SF to \$4.75/SF but increased \$0.64/SF from one year ago. New space under construction will command prices closer to \$6.00/SF and in some cases as high as \$7.50/SF.

SOUTHERN NEW JERSEY SUBMARKETS

Tenant demand for industrial space remains high, but the lack of product in the Southern New Jersey market has started to curb absorption momentum. Southern New Jersey also continues to receive interest from tenants in the New York City and Northern New Jersey markets, where rents are much higher, but the lack of space limits the new incoming tenant opportunities. Quarter-over-quarter, the overall vacancy rate for all property types fell 30 basis points to 3.6%. Vacancy in warehouse and distribution properties was at an all-time low of 3.0% but could rise slightly if the 398,000 square feet of speculative space currently under construction is not pre-leased.

Year-to-date absorption totaled 927,404 square feet. At this time last year, total absorption was 5.3 million square feet. Most of the year's occupancy gains centered in the Burlington County and Gloucester County submarkets. Imperial Dade Paper occupied 333,348 square feet

feet at the newly delivered 425 Rising Sun Road located in Burlington County. In Gloucester County, Ryder Logistics moved into 80,750 square feet at 395 Pedricktown Road, while Amazon occupied 45,000 square feet at 1225 Forest Parkway.

The average direct asking rental rate for warehouse space increased \$0.38/SF quarter-over-quarter to \$5.01/SF. Rental rates for new warehouse space in central and southern Burlington County average around \$6.25/SF with some spaces commanding rents as high as \$8.00/SF.

NEW CASTLE COUNTY

New Castle County's industrial market is not as large or as active as Southeastern Pennsylvania's or Southern New Jersey's. However, vacancy in New Castle County tightened for a ninth consecutive quarter, as its overall vacancy rate fell 30 basis points to 13.8% during the third quarter of 2018. The market reported 84,198 square feet of positive quarterly absorption with most of the occupancy gains in the general industrial and R&D/flex sectors.

There will be a future expansion of warehouse inventory once the redevelopment of the Boxwood site is underway. Harvey Hanna & Associates has plans to demolish the 2.8 million-square-foot former General Motors plant and redevelop the site as a state-of-art distribution center. The new development will consist of 3.0 million square feet spread over four buildings.

Warehouse rents have risen continuously since the second quarter of 2017. Quarter-over-quarter, the average warehouse rent increased \$0.09/SF to \$5.08/SF, a record high for the market. The R&D/flex average climbed \$1.36/SF to \$7.87/SF. This increase resulted from 46,000 square feet of available space coming off the market at 300 Centerpoint Boulevard with a below-average rent of \$4.75/SF. In addition, 26,000 square feet became available at 18 Boulden Circle at \$9.00/SF. Both properties are located in the town of New Castle.

INVESTMENT SALES

Industrial and multifamily cap rates continue to compress, but office cap rates remain flat. However, investors have considerable capital to spend, and value-add opportunities are in high demand. There remains intense competition among lenders that are pushing aggressive debt terms to win deals.

In Southeastern Pennsylvania, the market is thin for those looking to purchase properties in the 100,000 to 150,000-square-foot range. During the third quarter, High Street Equity sold a 607,890-square-foot, 12-property portfolio located in Bucks County for \$44.9 million, or \$74/SF. The sale included office, flex and industrial properties located at the Bucks County Business Park.

Cambridge Hanover sold the 247,447-square-foot building at 3250 South 76th Street in Philadelphia to the University of Pennsylvania Health System. The flex property traded for \$14.3 million, or \$58/SF. It had last traded in May 2007 for \$38/SF. In addition, Lannett Company, Inc. sold 11501 & 11601 Roosevelt Boulevard, a total of 728,000 square feet, to NorthPoint Development for \$14.6 million, or \$20/SF. It had last sold in December 2013 for \$8/SF.

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Imperial Dade Paper	425 Rising Sun Road	Burlington County	Warehouse/ Distribution	333,348
NDS Inc.	1651 River Road	Burlington County	Warehouse/ Distribution	95,473
Harvey Industries	250 Long Road	Montgomery County	R&D/flex	42,300
Archive Systems	70 Sewell Street	Gloucester County	Warehouse/ Distribution	28,705
Associated Materials	311 Carroll Drive	New Castle County	R&D/Flex	28,585

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
High Street Equities Portfolio	Bucks County	\$44,875,000	\$73.85	607,635
3250 S 76th Street	Philadelphia County	\$14,343,239	\$57.96	247,447
11501 & 11601 Roosevelt Boulevard	Philadelphia County	\$10,004,464	\$20.09	498,000
2001 County Line Road	Bucks County	\$5,400,000	\$46.82	115,342

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	23,120,313	2,376,937	13.9%	(69,698)	(237,303)	\$4.38	\$5.75	\$4.27
Bucks County	56,490,182	330,200	4.0%	(78,390)	(114,873)	\$4.93	\$10.27	\$6.61
Chester County	37,249,675	-	4.8%	(92,062)	184,885	-	\$9.49	\$8.00
Delaware County	29,876,080	-	8.0%	(129,288)	(262,694)	\$5.06	\$7.50	\$5.36
Lancaster County	56,333,829	-	1.7%	(37,789)	71,098	\$4.03	\$6.82	\$4.59
Montgomery County	71,483,624	-	6.6%	111,795	(672,806)	\$4.54	\$9.58	\$5.94
Philadelphia County	88,296,876	-	6.8%	31,748	930,430	\$5.03	\$5.47	\$4.58
Suburban Total	362,850,579	2,707,137	5.9%	(263,684)	(101,263)	\$4.75	\$8.71	\$5.58
Burlington County	46,956,285	1,266,350	3.1%	405,843	556,129	\$5.01	\$6.61	\$5.09
Camden County	32,509,212	-	4.2%	41,613	(153,311)	\$3.49	\$5.23	\$4.50
Gloucester County	27,651,234	844,072	3.7%	289,953	524,586	\$4.72	\$3.66	\$4.72
Southern NJ	107,116,731	2,110,422	3.6%	737,409	927,404	\$4.46	\$5.79	\$4.83
New Castle County	28,296,912	312,000	13.8%	84,198	225,729	\$5.08	\$7.87	\$4.68
Delaware Total	28,296,912	312,000	13.8%	84,198	225,729	\$5.08	\$7.87	\$4.68
Market Totals	498,264,222	5,129,559	5.8%	557,923	1,051,870	\$4.70	\$8.25	\$5.41

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	155,526,389	3,905,772	5.6%	551,652	501,266	\$4.70
R&D/Flex	82,325,448	382,000	6.7%	16,263	343,336	\$8.25
General Industrial	260,412,385	841,787	5.7%	(9,992)	207,268	\$4.64
Total	498,264,222	5,129,559	5.8%	557,923	1,051,870	\$5.41

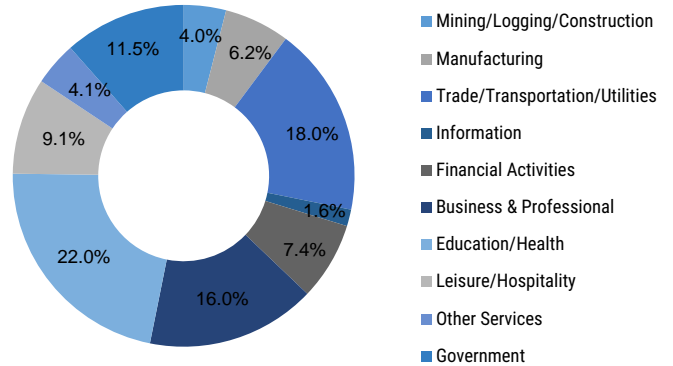
ECONOMIC CONDITIONS

The national economy is moving full steam ahead with unemployment at record-low levels. September's unemployment rate, at 3.7%, declined 20 basis points from August 2018. According to the U.S. Bureau of Labor Statistics, the number of unemployed persons decreased by 270,000 to 6.0 million, while the labor-force participation rate remained at 62.7%.

The Federal Reserve Bank of Philadelphia's September Beige Book noted that economic activity within the region grew at a modest pace, with a tight labor market leading to moderate wage growth. Thirty-five percent of manufacturers surveyed reported an increase in shipments, although some manufacturers noted price hikes or supply disruptions caused by tariffs or the threat of tariffs.

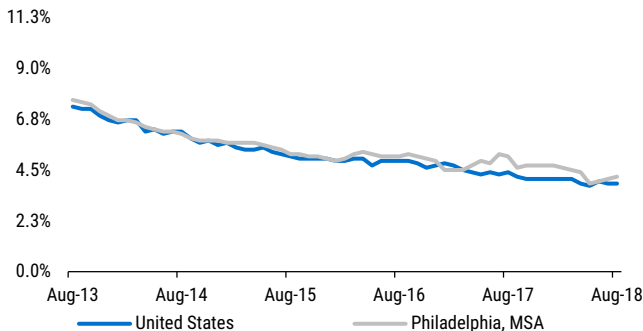
EMPLOYMENT BY INDUSTRY

Philadelphia MSA, Annual Average 2017



UNEMPLOYMENT RATE

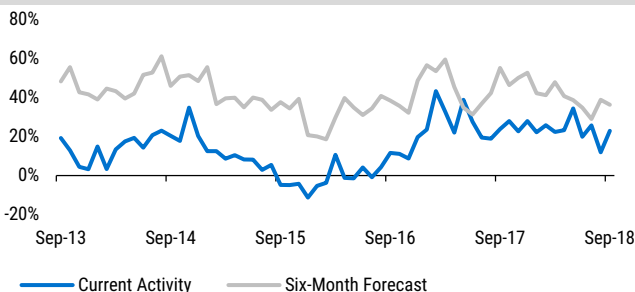
Seasonally Adjusted



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*

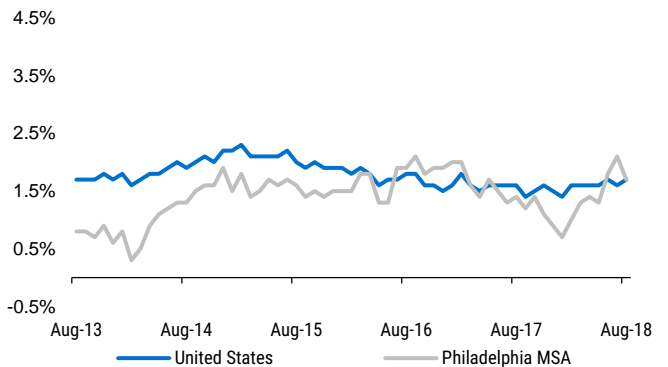


Source: Philadelphia Federal Reserve Bank
* Percentage of respondents indicating an increase minus percentage indicating a decrease

Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

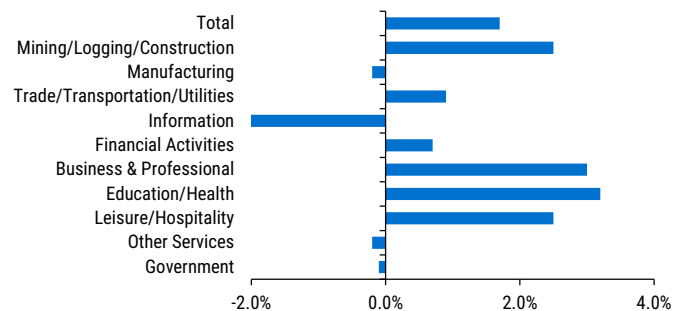
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



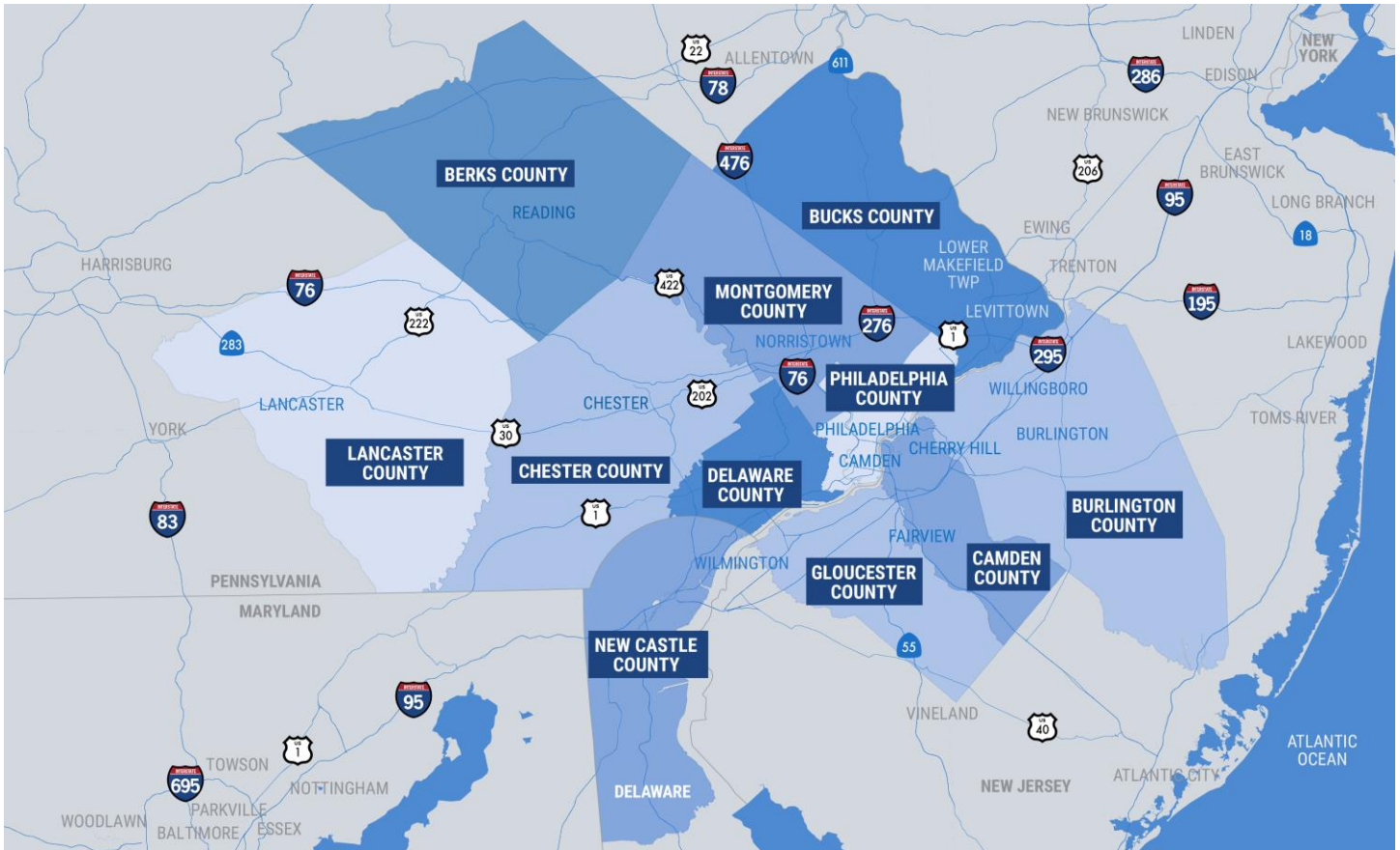
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Philadelphia MSA, August, 2018, 12-Month % Change



Source: U.S. Bureau of Labor Statistics



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