

MARKETBEAT

Philadelphia

Industrial Q3 2017



PHILADELPHIA INDUSTRIAL

Economic Indicators

	Q3 16	Q3 17	12-Month Forecast
Philadelphia Employment	2.883M	2.927M	▲
Philadelphia Unemployment	5.1%	4.7%	▼
U.S. Unemployment	4.9%	4.4%	▼

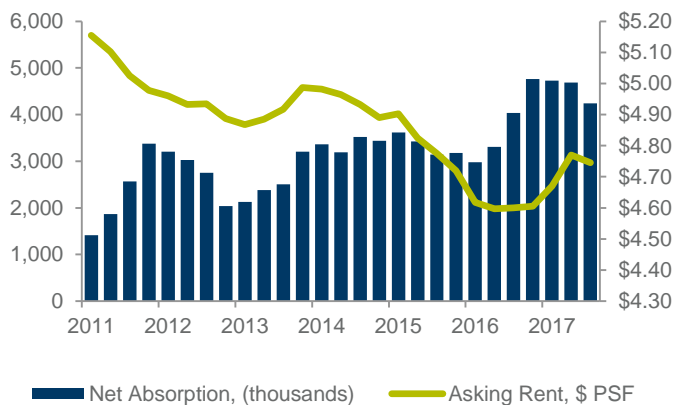
Market Indicators (Overall, All Property Types)

	Q3 16	Q3 17	12-Month Forecast
Vacancy	4.9%	3.4%	▼
YTD Net Absorption (sf)	6.9M	4.6M	▲
Under Construction (sf)	3.1M	2.5M	▲
Average Asking Rent*	\$4.65	\$4.59	▲

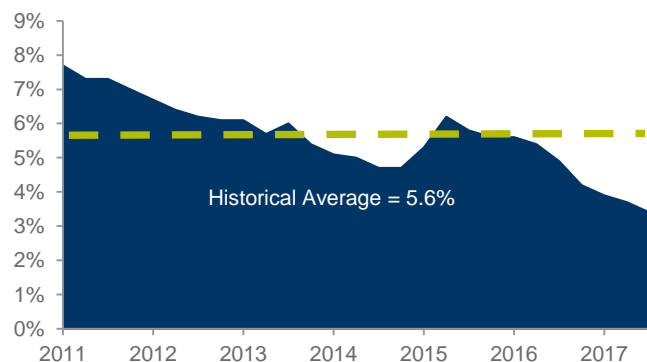
*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Philadelphia Metropolitan Area's (MSA) unemployment rate declined to 4.7% in the third quarter of 2017, a 40-basis-point (-bp) drop from the third quarter of 2016. Total nonfarm employment increased by 1.5% year-over-year, with the professional and business services sector having the largest growth over that period, adding 16,700 jobs to the market. Philadelphia's manufacturing index increased to a reading of 23.8 for the month of September, up from 18.9 in August and has been positive for 14 consecutive months.

Market Overview

The Philadelphia industrial market's overall vacancy rate dropped to 3.4% in the third quarter of 2017, down 150 bps from the third quarter of 2016. Overall asking rental rates declined slightly year-over-year by 1.3% to \$4.59 per square foot (psf) for all industrial property types. The reason for the decline is due to the strong activity in the Class A market, leaving more Class B and C product available in the market for lease, which is dragging the overall rental rate average down. Overall net absorption climbed to 4.6 million square feet (msf) in the third quarter of 2017, but lags behind 2016 year-to-date totals by 33.0%. Construction activity remains healthy with 2.7 msf delivered thus far in 2017, with all of that new product constructed in the Southern New Jersey market.

The bulk of the market's leasing activity continues to be concentrated in the Southern New Jersey market, with both Burlington and Gloucester counties already topping the 1.0-msf mark in total activity year-to-date. In Gloucester County, the largest lease of the quarter was inked by Amazon at 240 Mantua Grove Road in West Deptford for 652,411 square feet (sf). The building is currently under construction and is set to deliver in September of 2018. In Burlington County, PFG Customized Distribution renewed for 127,340 sf at 500 Highland Drive in Westhampton and Premier Packaging leased 65,000 sf at 334 Rising Sun Road in Bordentown. In the Philadelphia suburbs, the Lower Bucks County submarket had two large deals signed in the third quarter including National Powersport Auctions leasing 112,000 sf at 2578 Pearl Buck Road in Bristol and XPO Logistics taking 93,174 sf at 900 Wheeler Way in Langhorne.

Outlook

Asking rental rates are forecasted to increase by an annual average of 1.7% over the next 5 years in the Philadelphia industrial market. The overall vacancy rate is expected to increase over the next six to nine months as there is over 1.1 msf of new spec development set to hit the market over that period and only 5.0% of this future inventory has been preleased.

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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	YTD LEASING ACTIVITY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT (MF)	OVERALL WEIGHTED AVG. NET RENT (OS)	OVERALL WEIGHTED AVG. NET RENT (W/D)
Philadelphia County**	716	58,496,703	724,928	57,938	6.9%	177,435	0	0	\$2.80	\$8.01	\$3.27
Lower Bucks County	588	38,393,772	693,179	442,528	1.5%	988,849	0	0	\$8.91	\$10.62	\$4.73
Upper Bucks County	393	19,724,373	301,279	150,000	0.6%	274,669	50,000	0	N/A	\$9.66	\$4.95
Montgomery County	758	46,850,185	886,477	288,235	2.8%	328,272	0	0	\$5.54	\$9.92	\$4.58
Chester County	478	26,916,632	349,571	285,789	3.0%	-138,485	90,400	0	N/A	\$9.25	\$6.54
Delaware County	259	15,302,169	319,470	0	3.0%	125,120	0	0	N/A	\$5.95	\$5.61
SUBURBAN PHILADELPHIA	2,476	147,187,131	2,549,976	1,166,552	2.2%	1,578,425	140,400	0	\$5.68	\$8.50	\$4.91
Burlington County	410	40,076,267	1,458,311	90,100	4.4%	1,955,898	443,941	1,850,348	\$2.95	\$6.99	\$4.61
Camden County	458	27,069,765	283,066	242,577	1.4%	234,163	600,000	0	\$4.07	\$9.27	\$5.56
Gloucester County	227	22,986,657	1,093,241	0	3.1%	639,920	1,285,091	810,850	N/A	\$7.59	\$3.33
SOUTHERN NEW JERSEY	1,095	90,132,689	2,834,618	332,677	3.2%	2,829,981	2,329,032	2,661,198	\$4.07	\$7.99	\$4.64
Northern Delaware***	355	26,254,688	676,936	178,221	5.9%	765,221	322,000	0	\$7.00	\$6.41	\$5.27
PHILADELPHIA MSA TOTALS	4,287	295,816,523	6,109,522	1,557,167	3.4%	4,585,841	2,469,432	2,661,198	\$3.46	\$7.99	\$4.01

*Rental rates reflect asking \$psf/year **Philadelphia County not included in Suburban Philadelphia Totals

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

*** Northern Delaware market not included in Philadelphia MSA Totals

Key Lease Transactions Q3 2017

PROPERTY	SF	TENANT	PROPERTY TYPE	SUBMARKET
240 Mantua Grove Road	652,411	Amazon	Warehouse/Distribution	Gloucester County
500 Highland Drive	127,340	PFG Customized Distribution	Warehouse/Distribution	Burlington County
2578 Pearl Buck Road	112,000	National Powersport Auctions	Warehouse/Distribution	Lower Bucks County

Key Sales Transactions Q3 2017

PROPERTY	SF	SELLER/BUYER	PROPERTY TYPE	PRICE / \$PSF	SUBMARKET
3000 AM Drive	936,000	ProLogis / WPT Industrial REIT	Warehouse/Distribution	\$74,300,000 / \$79	Upper Bucks County
14700 Townsend Road	300,000	AFL-CIO Building Investment Trust / Gladstone Commercial Corporation	Warehouse/Distribution	\$26,400,000 / \$88	Philadelphia County

Key Construction Completions Q3 2017

PROPERTY	SF	SUBMARKET	MAJOR TENANT	PROPERTY TYPE	COMPLETION DATE
32 Springside Road	682,708	Burlington County	Camuto Group	Warehouse/Distribution	Q3 2017
2030 Route 130	377,440	Burlington County	Quality Packaging Specialists	Warehouse/Distribution	Q3 2017

Key Projects Under Construction

PROPERTY	SF	SUBMARKET	MAJOR TENANT	PROPERTY TYPE	COMPLETION DATE
240 Mantua Grove Road	652,411	Gloucester County	Amazon	Warehouse/Distribution	Q3 2018
Holtec Technology Campus	600,000	Camden County	Holtec International	Manufacturing	Q4 2017

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