

MARKETBEAT

Philadelphia

Industrial Q4 2017



PHILADELPHIA INDUSTRIAL

Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Philadelphia Employment	2.903M	2.933M	▲
Philadelphia Unemployment	5.1%	4.7%	▼
U.S. Unemployment	4.7%	4.1%	▼

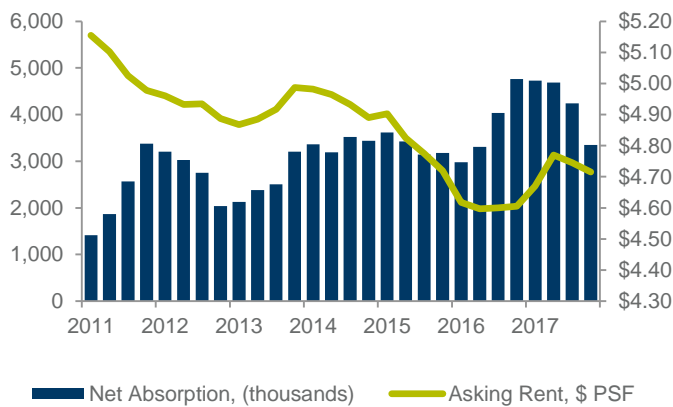
Market Indicators (Overall, All Property Types)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	4.2%	4.0%	■
YTD Net Absorption (sf)	8.5M	4.9M	▲
Under Construction (sf)	3.5M	3.6M	▲
Average Asking Rent*	\$4.63	\$4.51	▲

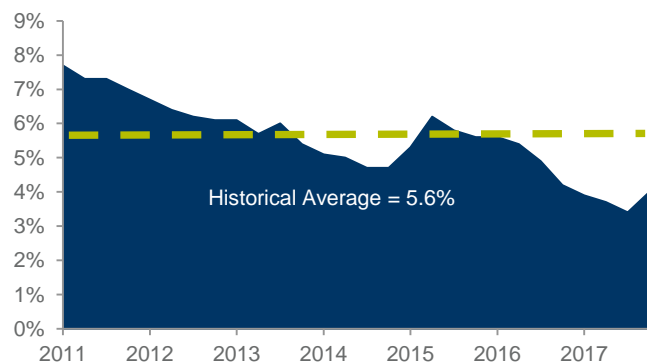
*Rental rates reflect net asking \$psf/year

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 fourth quarter of 2017, a 40-basis-point (bp) drop from the fourth quarter of 2016. Total nonfarm employment increased by 1.0% year-over-year, with the education and health services sector experiencing the largest growth over that period, adding 10,800 jobs to the market. Philadelphia's manufacturing index increased to a reading of 26.2 in December, up from 22.7 in November and has been positive every month since July of 2016.

Market Overview

The Philadelphia industrial market's overall vacancy rate declined to 4.0% in the fourth quarter of 2017, down 20 bps from the fourth quarter of 2016. While overall net asking rental rates for warehouse and distribution space declined to \$4.10 per square foot (psf) for the Philadelphia MSA, a 2.8% drop year-over-year, rates increased by 5.3% in the Southern New Jersey industrial market to \$4.50 psf in 2017. Absorption was positive in 2017 with 4.9 million square feet (msf) absorbed. 65.8% of the 2017 absorption total was in the Southern New Jersey industrial market. The bulk of the market's new construction also remains concentrated in the Southern New Jersey industrial market with 3.1 msf constructed this year, accounting for 97.1% of the Philadelphia MSA's total construction for 2017.

For the fifth consecutive year, the Burlington County submarket led the way in leasing activity. B&H Photo Video leased 577,200 square feet (sf) at the newly constructed building at 400 Cedar Lane in Florence, Medline Industries, Inc. leased just over 300,000 sf at 100 Highland Drive in Westampton, and PFG Customized Distribution renewed for 127,340 sf at 500 Highland Drive in Westampton. Activity was also robust in the Gloucester County submarket as well, with Amazon signing the largest lease of the year for the entire 652,411-sf building under construction at 240 Mantua Grove Road in West Deptford. Amazon is scheduled to occupy the building during the second half of 2018, once the building delivers. Additional new leases in Gloucester County included, Kenco Group, Inc. taking 401,008 sf at 395 Pedricktown Road in Logan Township and LKQ Corp. leasing 183,570 sf at 119 Crown Point Road in Thorofare.

Outlook

While asking rents exhibited minimal growth in the Philadelphia suburbs in 2017, rents should continue to trend upwards in the Southern New Jersey industrial market in 2018. Vacancy should also remain stable despite the 2.0 msf of new speculative (spec) construction scheduled for completion in 2018, as 76.3% of that future product 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	1,225,056	174,038	7.7%	200,387	0	0	\$2.80	\$8.01	\$3.27
Lower Bucks County	588	38,450,938	989,798	586,058	2.2%	894,646	0	0	\$5.23	\$10.62	\$4.53
Upper Bucks County	394	19,816,373	333,401	164,440	2.3%	244,638	0	92,000	N/A	\$10.89	\$4.21
Montgomery County	759	46,881,472	1,107,857	343,632	3.3%	385,459	0	0	\$5.08	\$9.91	\$4.58
Chester County	478	26,916,632	562,753	353,662	3.3%	-242,718	90,400	0	N/A	\$9.25	\$6.54
Delaware County	259	15,302,169	333,747	0	3.0%	189,970	0	0	N/A	\$4.93	\$5.61
SUBURBAN PHILADELPHIA	2,478	147,367,584	3,327,556	1,447,792	2.9%	1,471,995	90,400	92,000	\$5.11	\$8.06	\$4.72
Burlington County	409	39,776,267	1,881,943	90,100	4.8%	1,894,931	1,900,381	1,850,348	\$2.95	\$7.39	\$4.66
Camden County	458	27,069,765	435,367	401,253	1.3%	245,673	600,000	0	\$4.07	\$7.80	\$5.56
Gloucester County	229	23,571,137	1,506,299	0	3.5%	1,076,716	1,014,048	1,291,330	N/A	\$7.59	\$3.81
SOUTHERN NEW JERSEY	1,096	90,417,169	3,823,609	491,353	3.4%	3,217,320	3,514,429	3,141,678	\$3.49	\$7.48	\$4.50
Northern Delaware***	355	26,254,688	887,160	178,221	5.9%	774,121	322,000	0	\$4.50	\$6.41	\$4.86
PHILADELPHIA MSA TOTALS	4,290	296,281,456	8,376,221	2,113,183	4.0%	4,889,702	3,604,829	3,233,678	\$3.43	\$7.87	\$4.10

*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 2017

PROPERTY	SF	TENANT	PROPERTY TYPE	SUBMARKET
240 Mantua Grove Road	652,411	Amazon	Warehouse/Distribution	Gloucester County
400 Cedar Lane	577,200	B&H Photo Video	Warehouse/Distribution	Burlington County
395 Pedricktown Road	401,008	Kenco Logistics	Warehouse/Distribution	Gloucester County

Key Sales Transactions 2017

PROPERTY	SF	SELLER/BUYER	PROPERTY TYPE	PRICE / \$PSF	SUBMARKET
Mack-Cali Realty Portfolio Sale	1,264,205	Mack-Cali Realty / Brennan Investment Group	Multiple	\$74,950,000 / \$59	Burlington County
3000 AM Drive	936,000	ProLogis / WPT Industrial REIT	Warehouse/Distribution	\$74,300,000 / \$79	Upper Bucks County

Key Construction Completions 2017

PROPERTY	SF	SUBMARKET	MAJOR TENANT	PROPERTY TYPE	COMPLETION DATE
32 Springside Road	682,708	Burlington County	Camuto Group	Warehouse/Distribution	Q3 2017
400 Cedar Lane	577,200	Burlington County	B&H Photo Video	Warehouse/Distribution	Q1 2017

Key Projects Under Construction

PROPERTY	SF	SUBMARKET	MAJOR TENANT	PROPERTY TYPE	COMPLETION DATE
1101 East Pearl Street	1,016,000	Burlington County	Speculative	Warehouse/Distribution	Q3 2018
240 Mantua Grove Road	652,411	Gloucester County	Amazon	Warehouse/Distribution	Q3 2018

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