

Metro Philadelphia Industrial, Q3 2018

# Metro Philadelphia industrial vacancy hits historic lows

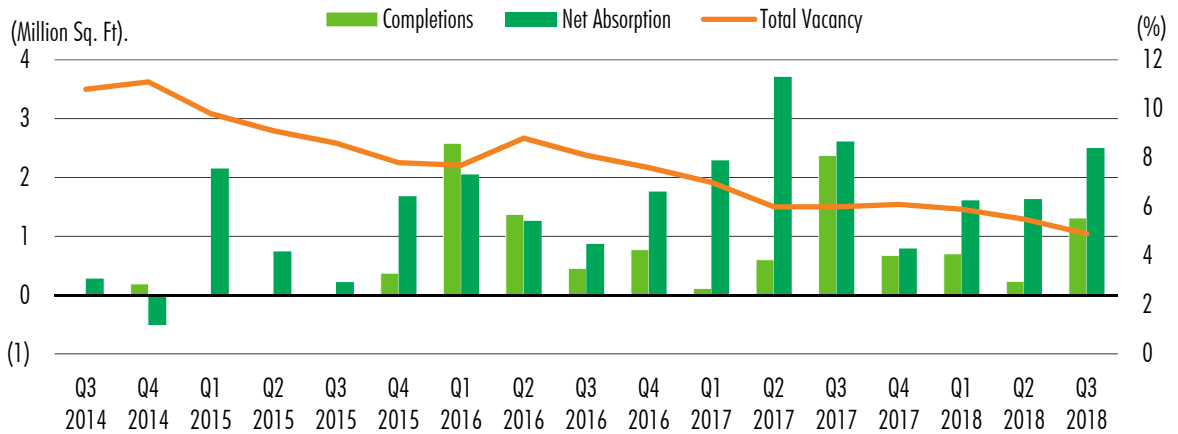
▲ Net Absorption  
2.5 Million sq. ft.

▼ Vacancy Rate  
4.9%

▲ Asking Lease Rate (NNN)  
\$5.86

▼ Development  
3.9 Million sq. ft.

Figure 1: Philadelphia Metro Industrial Supply vs. Demand



Source: CBRE Research, Q3 2018. Metro Phila. Industrial reflect all inventory.

- Vacancy within the Metro Philadelphia market declined from 5.5% to 4.9%, a historic low for the market. This trend is expected to continue throughout the rest of the year, but, as new product is added to the market, expect vacancy rates to fluctuate but remain near historic lows in the coming quarters.
- Lease rates continued to rise in Q3 2018 to \$5.86 from \$5.74 in Q2 2018. A persistent lack of supply helped buoy rents in recent years.
- Developers in South Jersey remained optimistic as about 3.5 million sq. ft. were under construction in the market with Burlington County accounting for 1.9 million sq. ft. alone.
- Over \$156 million of investment sales occurred in the Metro Philadelphia market in Q3 2018. Private investors made up a large portion of sales at 50%, and foreign investment drove investments sales at 19%.

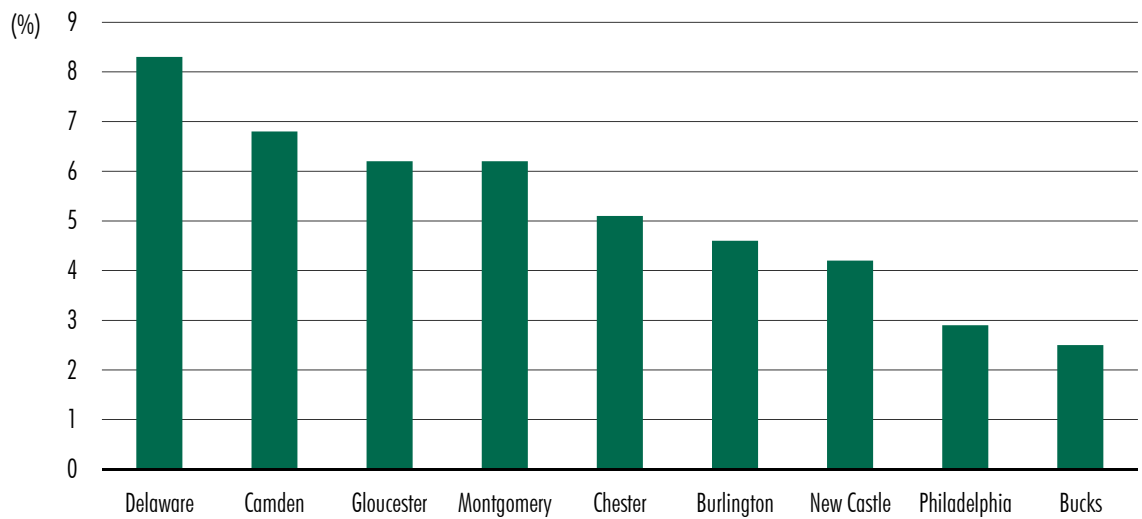
Construction activity remained elevated during Q3 2018 as more than 3.9 million sq. ft. of industrial product awaits completion – product the Philadelphia Metro market will gladly absorb. Demand continued to outpace the addition of new supply this quarter. Despite the delivery of 1.3 million sq. ft., the vacancy rate fell below 5%, a historic low. Each of the markets comprising the Philadelphia Metro saw vacancy drop to an unprecedented level. In Southeastern PA, occupancy reached 95.4% in Q3 2018, with 63,000 sq. ft. under construction, or 0.1% of its total inventory. Northern DE vacancy dropped 60 basis points quarter-over-quarter to 4.2% with a single 334,000 sq. ft. build-to-suit project under construction. Southern New Jersey, still the hotbed of new construction, also saw vacancy decline to 5.6%, with 3.5 million sq. ft. under construction. As new stock delivers, vacancy may fluctuate, but the gap between supply and demand will persist.

Figure 2: Industrial Market Statistics for All Properties Greater than 40,000 sq. ft.

Submarket	Inventory (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Completions (SF)	Under Construction (SF)	2018 YTD Total Net Absorption (SF)	Avg. Asking Lease Rate (\$/NNN/PSF/YR)
Bucks County, PA	47,168,083	2.5	4.6	0	0	592,083	6.16
Chester County, PA	24,673,548	5.1	7.5	80000	0	518,640	8.92
Delaware County	20,729,412	8.3	11.5	0	63,000	380,801	5.17
Montgomery County, PA	58,051,282	6.2	9.9	49,100	0	-60,586	7.12
Philadelphia County, PA	56,028,937	2.9	7.2	0	0	1,208,889	4.97
<b>Southeastern PA Subtotal</b>	<b>206,651,262</b>	<b>4.6</b>	<b>7.8</b>	<b>129,100</b>	<b>63,000</b>	<b>2,586,284</b>	<b>6.17</b>
Burlington County, NJ	43,665,090	4.6	6.4	535,940	1,989,466	1,052,167	4.87
Camden County, NJ	26,834,943	6.8	8.5	0	0	699,966	4.67
Gloucester County, NJ	30,289,688	6.2	8.1	650,000	1,553,372	824,357	4.80
<b>Southern NJ Subtotal</b>	<b>100,789,721</b>	<b>5.6</b>	<b>7.5</b>	<b>1,185,940</b>	<b>3,542,838</b>	<b>1,829,993</b>	<b>4.77</b>
New Castle County, DE	24,531,147	4.2	6.1	0	334,000	347,264	6.78
<b>TOTAL</b>	<b>331,972,130</b>	<b>4.9</b>	<b>7.6</b>	<b>1,235,040</b>	<b>3,939,838</b>	<b>4,763,541</b>	<b>5.86</b>

Source: CBRE Research, Q3 2018.

Figure 3: Vacancy Rates by County



Source: CBRE Research, Q3 2018.

**ABSORPTION**

Q3 2018 finished off strong with a total 2.5 million sq. ft. of positive net absorption, but is not on pace to match last year’s performance of 9.4 million sq. ft. of occupancy growth. This is largely due to a lack of supply rather than demand. Some of the occupancy gains that did occur this quarter include companies such as Tri State Container, LaserShip, Inc, and a user sale from University of Pennsylvania in Southeastern PA. Leasing activity from Imperial Dade Paper, XPO Logistics, and NDS, Inc resulted in significant absorptions in Southern NJ, as well as leasing from FS.com in Northern DE.

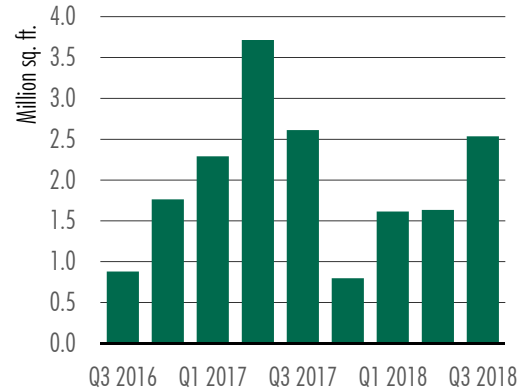
**VACANCY**

The vacancy rate for Metro Philadelphia reached a historic low this quarter, settling at 4.9%. The Southeastern PA submarket saw the largest change from the previous quarter with a 60 basis point drop. With increasing demand in Northern DE, vacancy continued to drop down to 4.2%. While 334,000 sq. ft. of new space remains under construction in Northern DE, a single build-to-suit property accounts for all of it, offering no relief to supply constraints.

**DEVELOPMENT PIPELINE**

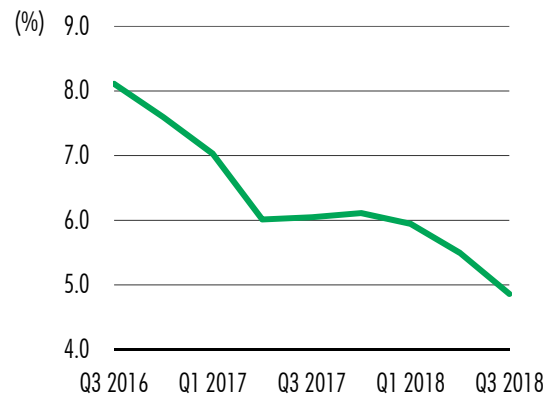
The Metro Philadelphia market had over 3.9 million sq. ft. of product under construction with more than 3.5 million sq. ft. of new development in Southern NJ alone. New development in Southeastern PA came in at only 63,000 sq. ft., after delivering 129,100 sq. ft. this past quarter in Chester and Montgomery counties. There were rumors in the market that a few speculative buildings will break ground in Bucks and Montgomery counties in the quarters to come, with new developments planned in Quakertown and Hatfield.

**Figure 4: Net Absorption**



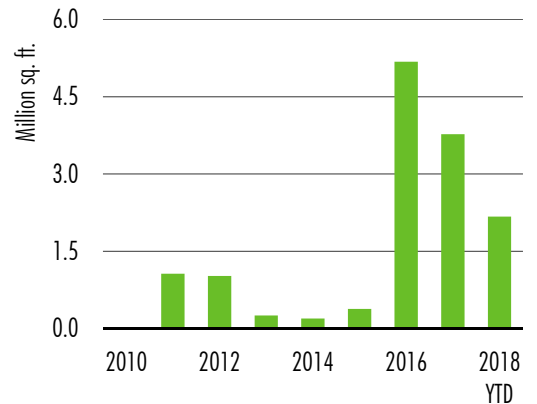
Source: CBRE Research, Q3 2018.

**Figure 5: Vacancy Rate**



Source: CBRE Research, Q3 2018.

**Figure 6: Completions**



Source: CBRE Research, Q3 2018.

**LEASE RATES**

Overall, average asking lease rates continued to rise during Q3 2018, to \$5.86 per sq. ft. – a new benchmark for the market. Rents in Northern DE fluctuated quarter-over-quarter but were up almost a dollar and a quarter year-over-year. Similarly, Southern NJ asking rents, at \$4.77 per sq. ft., essentially moved sideways quarter-over-quarter but grew significantly from Q3 2017. Southeastern PA rent growth was the most notably driven by ongoing supply/demand imbalance, up \$0.19 over last quarter to \$6.17 per sq. ft. Rents should continue their upward trajectory until enough supply is added to meet demand.

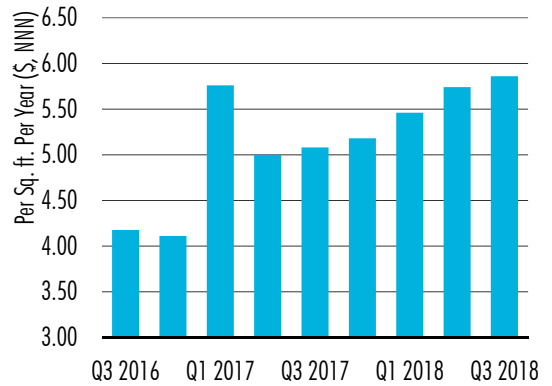
**CAPITAL MARKETS**

More than \$156 million of investment sales took place in the greater Philadelphia Metro area during Q3 2018, about half of Q2 2018’s \$300 million. Private capital accounted for nearly 50.0% of the buyer pool, according to Real Capital Analytics, while institutional and foreign dollars claimed the rest. Notably, foreign investment dropped in Q3 2018 with buyer composition at 19.0% mainly originating from China, Canada, and Bahrain. Although interest remains high, there are fewer opportunities for investors to add Philadelphia Metro industrial product to their portfolios.

**PHILADELPHIA METROPOLITAN EMPLOYMENT INCREASES**

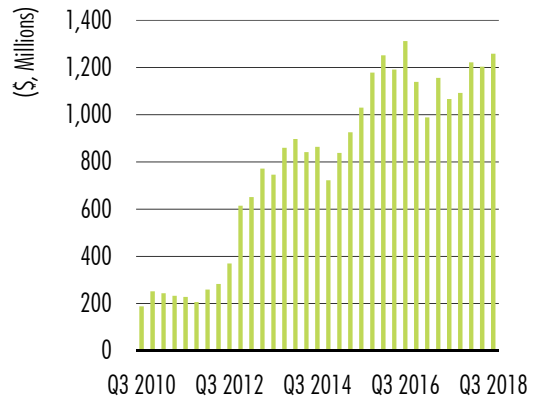
Employment growth in the Metro Philadelphia area outpaced that of similar metros such as Los Angeles, New York, and Washington, DC. The Philadelphia metropolitan area consists of nearly 3 million jobs with Q3 2018 concluding the 24<sup>th</sup> quarter of consecutive year-over-year job growth. Trade, transportation and warehousing, and manufacturing employment in the Philadelphia Metro witnessed above-average growth compared to the same industry growth in the U.S. The positive effect on the Philadelphia Metro is two-fold; more demand for warehousing and manufacturing jobs will directly benefit the industrial sector, and more overall jobs means more overall consumers, driving further demand for warehouse space in particular.

**Figure 7: Industrial Lease Rates**



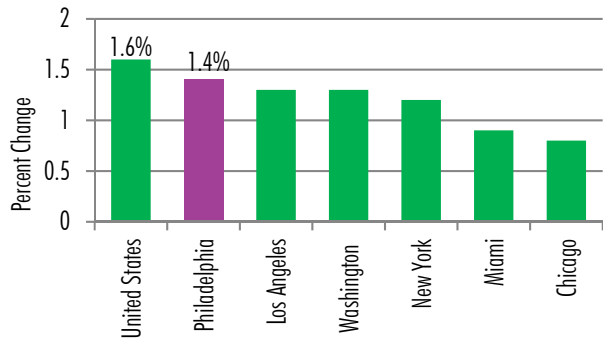
Source: CBRE Research, Q3 2018.

**Figure 8: Industrial Sales Transactions**

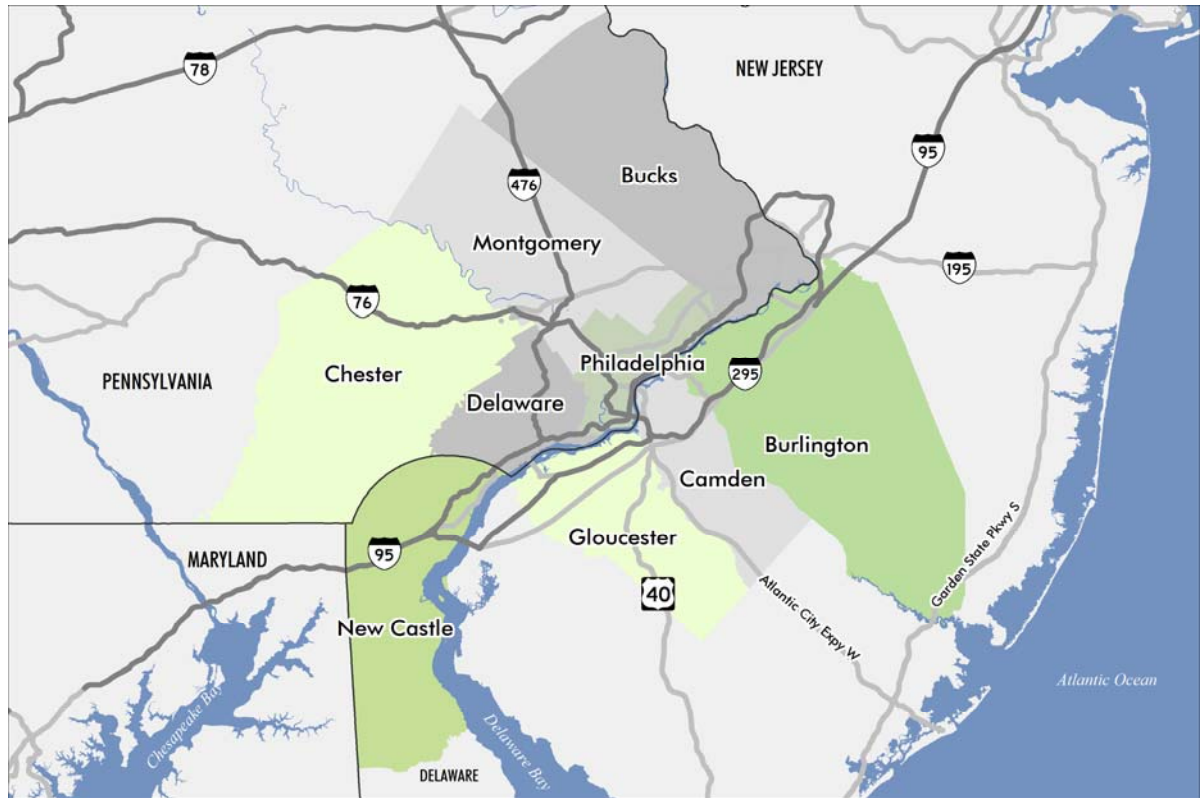


Source: Real Capital Analytics, Q3 2018 (4-Qtr. Aggregate).

**Figure 9 :Total Percent Change of Employment Growth Y-O-Y**



Source: Bureau of Labor Statistics., 2018.


**CONTACTS**

**Ian Anderson**  
*Director of Research and Analysis*  
 +1 215 561 8997  
 ian.anderson2@cbre.com

**Joseph Gibson**  
*Research Operations Manager*  
 +1 610 727 5922  
 joseph.gibson@cbre.com

**Lisa DeNight**  
*Senior Research Analyst*  
 +1 215 561 8932  
 lisa.denight@cbre.com

**Richard Bieniek**  
*Researcher*  
 +1 610 727 5885  
 richard.bieniek@cbre.com

**LOCAL OFFICES**

**Allentown, PA**  
 +1 610 398 6900

**Center City Philadelphia**  
*Two Liberty Place*  
 +1 215 561 8900

**Harrisburg, PA**  
 +1 717 540 2700

**Mt. Laurel, NJ**  
 +1 856 359 9500

**Radnor, PA**  
 +1 610 251 0820

**Wilmington, DE**  
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