

Metro Philadelphia Industrial, Q1 2020

Market continued to expand during first months of 2020

Vacancy Rate
4.5%

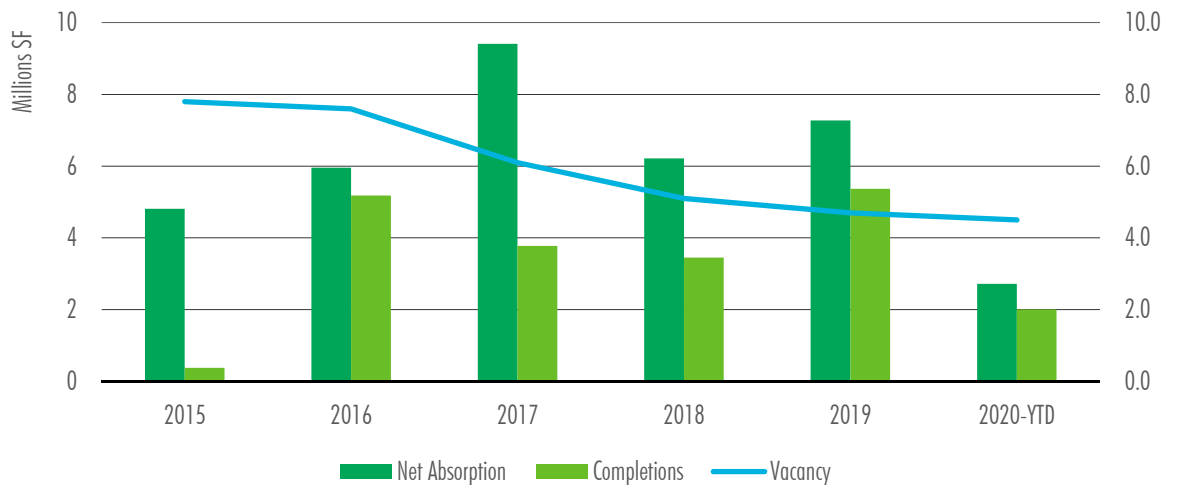
Overall Average Asking Rent
\$5.94 PSF

Net Absorption
2.7 MSF

Under Construction
5.8 MSF

Figure 1: Supply vs. Demand

*Arrows indicate change from previous quarter.



Source: CBRE Research, Q1 2020.

- Outsized demand growth compared to supply deliveries continued to push overall vacancy down throughout the metro area while rents for new leases continued to rise.
- E-commerce, retailers and third-party logistics companies drove leasing activity during the first quarter. E-commerce, specifically, is expected to drive demand growth in the coming quarters as more Americans rely on online delivery service in the face of stay-at-home orders from many state governments.
- Capital investment volumes remained elevated compared to the 10-year average. New product coming to market, largely pre-leased, assures future supply for investment demand.

MARKET OVERVIEW

Ahead of the COVID-19 outbreak, Philadelphia Metropolitan’s industrial market started 2020 with more than 2.7 million square feet (sq. ft.) of occupancy gains. This outpaced the 2.0 million sq. ft. of new construction deliveries which ultimately pushed vacancy down 20 basis points to settle at 4.5%. Much of this demand was driven by e-commerce companies, retailers and third-party logistics companies. E-commerce and logistics users are expected to see the most amount of demand growth in the coming quarters as many Americans relied more on food and grocery deliveries as many state governments are asking people to quarantine-in-place in the face of the COVID-19 outbreak.

While e-commerce’s share of retail sales steadily grew during the past two decades, there may be a jump in adoption by people who may have been reluctant prior to the outbreak to order online, specifically grocery items.

DEVELOPMENT

Nearly 1.7 million sq. ft. of new construction broke ground during Q1 2020, nearly replenishing the 2.0 million square feet delivered during that time. And while most construction activity still concentrates in the Southern NJ portion of the market, it was notable that the built-to-suit project for Solo Cups near the intersection of Routes 1 & 72 broke ground this quarter. The project measures just more than 1 million sq. ft. and is being developed by NorthPoint Development.

From a completion standpoint, 54.5% of the more than 2.0 million sq. ft. that delivered was already

leased with the majority of remaining available space in buildings delivered within Southern NJ. Given Southern NJ’s low 5.0% warehouse/distribution vacancy rate, added available supply is welcome in that expanding market.

RENTS

Overall contract rents for new leases pushed into the mid-\$6.00 range, settling at \$6.55 per-sq.-ft. Southern NJ, most notably, saw contract rents on new leases grow by 33% during the past three years, coinciding with the onset of the construction boom taking place there. Average lease terms held steady around the 8 year mark while average transaction sizes grew to just over 100,000 sq. ft.

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

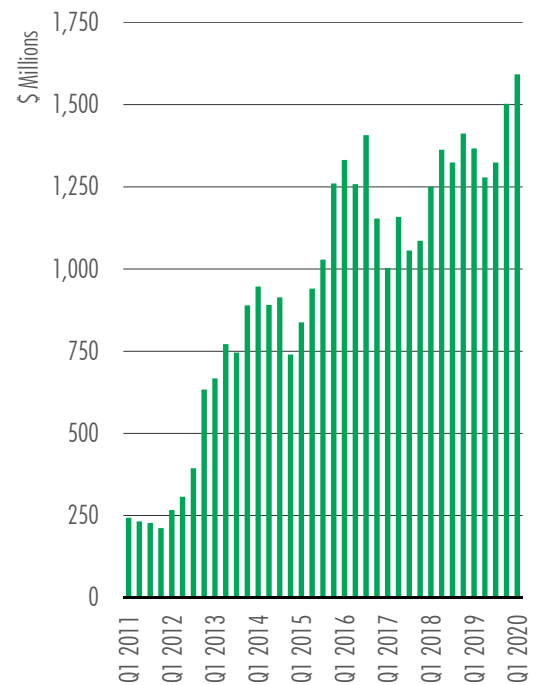
Submarket	Inventory (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Completions (SF)	Under Construction (SF)	2020 YTD Total Net Absorption (SF)	Avg. Asking Lease Rate (\$/NNN/PSF/YR)
Bucks County, PA	48,207,043	4.0	7.2	235,340	309,840	98,713	6.14
Chester County, PA	24,900,857	5.6	8.2	0	0	114,823	9.46
Delaware County, PA	20,407,701	4.9	7.8	135,000	0	15,877	5.29
Montgomery County, PA	59,402,746	5.3	8.1	0	176,700	294,944	6.43
Philadelphia County, PA	55,016,689	3.0	6.6	0	829,405	183,385	4.74
Southeastern PA Subtotal	207,935,036	4.4	7.5	370,340	1,315,945	707,742	6.16
Burlington County, NJ	46,771,929	3.6	7.8	688,953	2,447,524	1,494,940	5.37
Camden County, NJ	26,784,943	3.7	5.3	0	61,250	35,350	5.29
Gloucester County, NJ	29,570,305	7.7	8.3	205,637	963,430	-220,755	5.42
Salem County NJ	4,986,054	7.5	10.8	213,900	0	176,400	5.95
Southern NJ Subtotal	108,113,231	4.9	7.5	1,108,490	3,472,204	1,485,935	5.41
New Castle County, DE	25,053,756	3.2	5.6	522,609	1,002,841	522,609	6.67
Total	341,102,023	4.5	7.3	2,001,439	5,790,990	2,716,286	5.94

Source: CBRE Research, Q1 2020.

CAPITAL MARKETS

Investors continued to acquire Philadelphia Metropolitan industrial product at a historically high rate to start 2020. Overall sales volumes were up 30.3% compared to Q1 2019 and representing the most active first quarter since the 2007-2009 recession. While an appreciable amount of that volume resulted from Prologis’s acquisition of Liberty Property Trust and IPT, plenty of interest from private and institutional investors drove a significant amount of demand. Looking forward, the addition of product via a steady construction stream along with tightening fundamentals should continue to attract investment dollars to the region. While the COVID-19 impact on capital markets in the mid-term is unclear, one should expect the investor class to continue to seek product in the greater Philadelphia metropolitan region as industrial product here is being perceived as more and more institutional-grade.

Figure 3: Sales Volume (Rolling 4-Quarter Total)

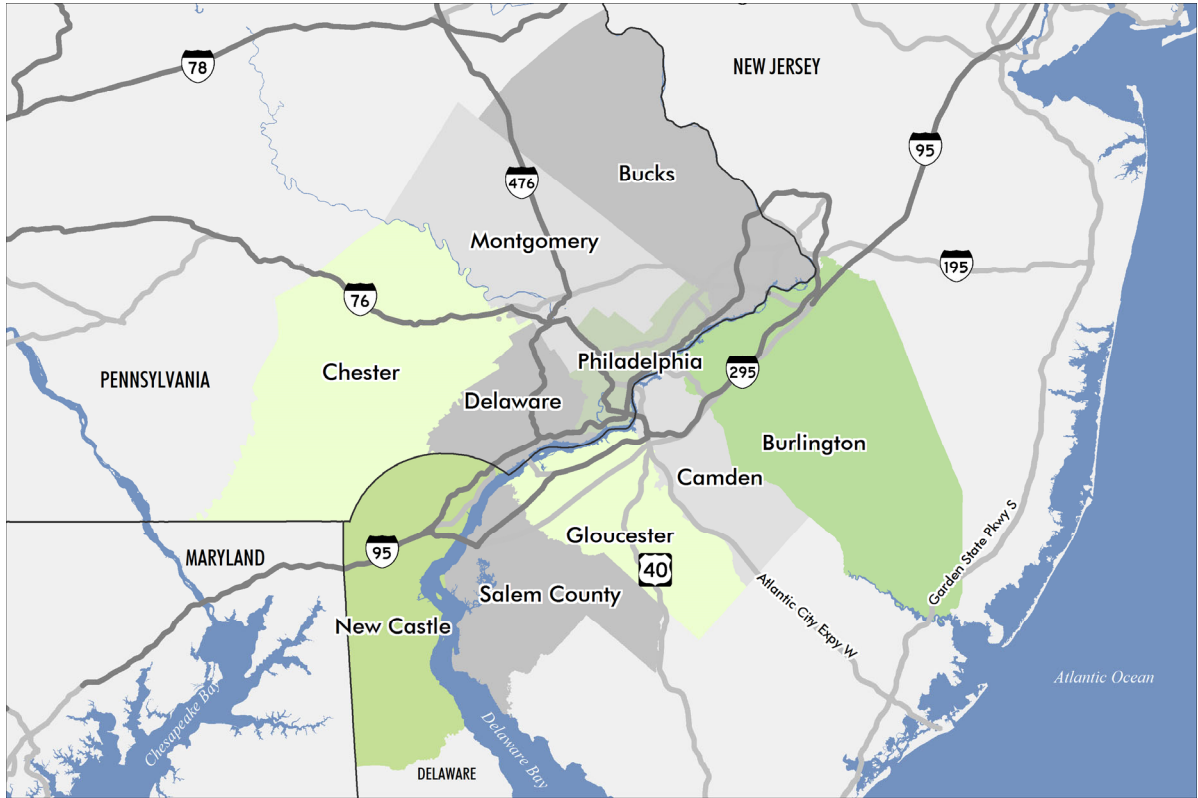


Source: Real Capital Analytics, Q1 2020.

Figure 4: Significant Quarterly Occupier Transactions

Tenant/Buyer	Building	Size (Sq. Ft.)	Transaction Type
KLS Logistics, Inc.	11601 Roosevelt Blvd	465,405	New Lease
Amazon	3750 State Rd	235,240	New Lease
Globus Medical	475 N Lewis Rd	167,000	User Sale
EDA International	1620 River Rd	130,208	New Lease
Western Post	301 Grove Rd	121,857	New Lease
McCollister Transportation	1200 Highland Dr	120,113	New Lease
Max Finkelstein Tire	2473 Old York Rd	102,003	New Lease
Jaynet, Inc.	1265 Glen Ave	79,930	New Lease
Moore Products	1300 Metropolitan Ave	76,196	New Lease
East Coast Rack	1350 Welsh Rd	23,641	Renewal

Source: CBRE Research, Q1 2020



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