

MARKETVIEW
PHILADELPHIA INDUSTRIAL,
Q2 2021

Limited supply drives rents, new construction

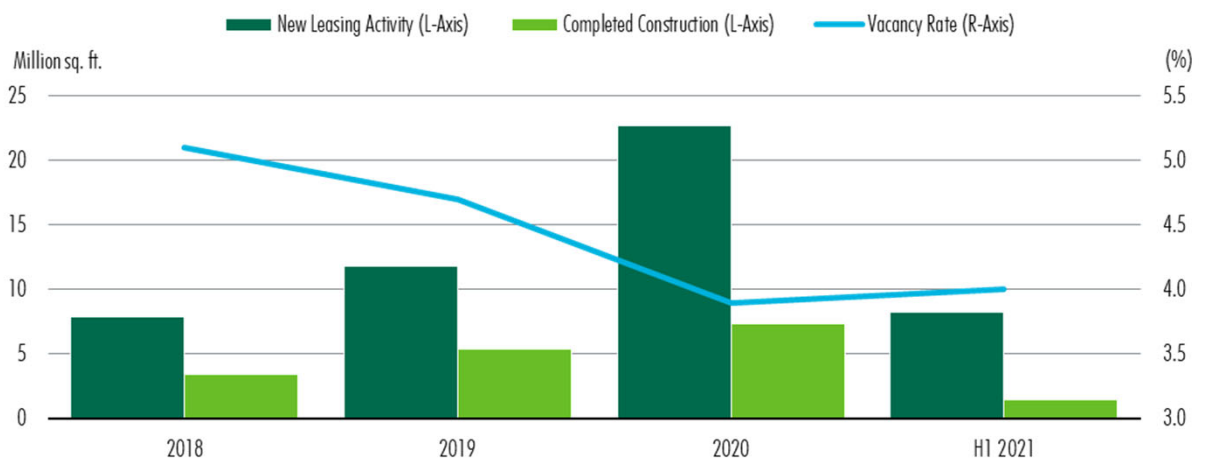
▲ Vacancy Rate
4.0%

▲ Overall Asking Rent
\$7.11

▼ YTD Net Absorption
0.4 MSF

▲ Under Construction
19.0 MSF

Figure 1: Leasing Activity over Average Asking Rate



Source: CBRE Research, Q2 2021

- The Metro Philadelphia industrial market recorded nearly one million sq. ft. of net absorption from a variety of industries.
- Transportation and logistics occupiers made up a large majority of overall leasing activity in Q1 2021.
- Overall average asking lease rates in the Metro Philadelphia industrial market recorded an all-time high of \$6.90-per-sq.-ft. across all product types.
- Capital investment volumes in Q1 2021 totaled over \$685 million nearly exceeding all capital investment during 2020 for the region.

The Philadelphia Metro Industrial market waded into unfamiliar territory during the first half of 2021. As demand growth proved unrelenting during the first half of 2021, supply quickly dwindled, especially within the Class A warehouse sector, leaving occupiers with little-to-no existing spaces. As such, current construction sits at 54.4% pre-leased levels leaving little relief in sight during the near term. Beyond new construction, developers were also eyeing renovations. For instance, MLP Ventures purchased the former Philadelphia Inquirer printing facility at 800 River Road in King of Prussia with rumors that it will redevelop the site into life sciences space. This marks the latest in a series of acquisitions and

repositioning of product in the southwest corner of King of Prussia. The Inquirer’s move-out represented most of the negative absorption posted in the Southeast PA submarket. To note, net absorption softened during Q2 2021 as a result of the lack of supply available to occupy.

As for new supply coming to market, the development pipeline grew to 19.0 million sq. ft. during the past three months as developers rush to bring new product to market. This represents a net increase of seven million sq. ft., quarter-over-quarter. As noted, more than half of construction underway was pre-leased, a trend expected to sustain during the rest of the year as we tracked more than 13 million sq. ft. of requirements touring the market at quarter’s end.

From a demand perspective, third-party logistics (3PLs) companies dominated leasing activity during Q2 2021 with e-commerce and

retail users comprising the remaining portion of new or expansion leases signed. This continued a long-established trend as a function of traditional retailers seeking to expand their online presence, a strategy that often utilizes 3PLs.

Finally, rents continued to rise as tenants increasingly competed for scarce available space in the Metro. Overall asking rents increased to \$7.11 per sq. ft., an increase of More than 10%, quarter-over-quarter. Class A asking rents grew even more dramatically to \$7.88 per sq. ft. As demand for Class A logistics space persists, outpacing new supply deliveries, pricing will continue to trend higher.

Figure 2: Class A Warehouse Asking Rents



Source: CBRE Research, Q2 2021

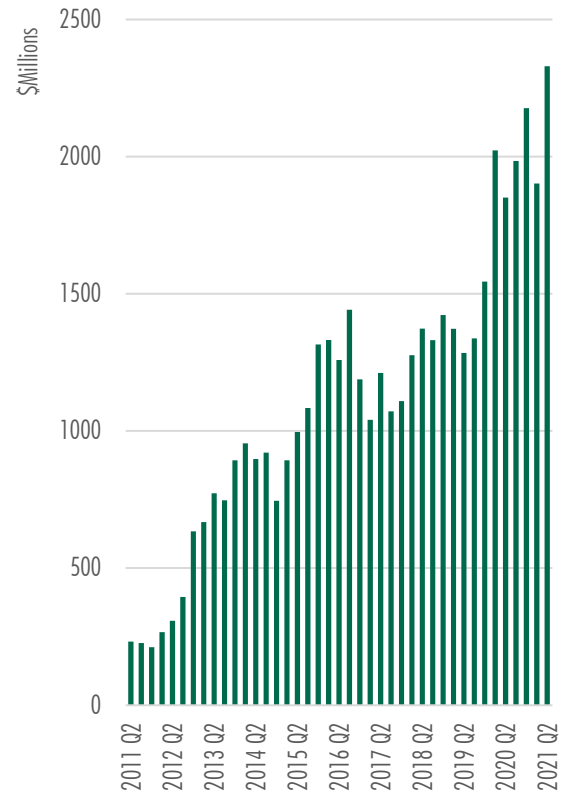
Figure 3: Philadelphia Metro Industrial Market Statistics

District	Inventory (Sq. Ft.)	Total Vacancy Rate (%)	Under Construction (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Avg. Asking Lease Rate (\$/Sq.-Ft./Yr.)	Avg. Class A Asking Lease Rate (\$/Sq.-Ft./Yr.)
Bucks County	48,654,480	3.6	580,440	256,496	\$7.02	\$7.95
Chester County	24,965,685	6.3	-	27,336	\$8.65	-
Delaware County	20,307,701	3.5	1,339,000	-14,710	\$5.31	\$10.00
Montgomery County	57,676,785	7.4	352,592	-1,205,479	\$10.06	\$7.50
Philadelphia County	55,501,352	2.3	768,737	297,698	\$5.81	\$10.00
Southeastern PA Subtotal	207,106,003	4.6	3,040,769	-638,659	\$7.34	\$9.08
Burlington County	49,194,084	2.1	6,407,852	364,679	\$8.09	\$8.81
Camden County	26,784,943	3.9	211,250	-202,683	\$6.10	-
Gloucester County	30,863,255	3.1	2,095,758	706,597	\$5.86	\$7.49
Salem County	4,986,054	4.9	1,725,500	-87,349	\$5.95	\$6.76
Southern NJ Subtotal	111,828,336	2.9	10,440,360	781,244	\$7.19	\$7.94
New Castle County	26,811,673	4.0	5,468,950	269,062	\$5.69	\$5.05
Northern DE Subtotal	26,811,673	4.0	5,468,950	269,062	\$5.69	\$5.05
Total	345,746,012	4.0	18,950,079	411,647	\$7.11	\$7.88

Source: CBRE Research, Q2 2021

The quick recovery and strong performance of the industrial asset class amid the global pandemic proved promising for capital markets in the Metro Philadelphia market. The first quarter of 2021 saw total quarterly volume greater than \$685 million in investment capital nearly exceeding all capital investment across the market for 2020 total volume. The Philadelphia Metro industrial overall market fundamentals attracted institutional and private investors alike as asking lease rates continued to rise, total vacancy remained low, and demand remained strong. Foreign capital interest in Philadelphia industrial real estate saw a resurgence from the start of the pandemic making up nearly a quarter of total volume in Q1 2021. Notable investment firms from Canada and Singapore made up all the foreign capital investment for the region. We expect the rest of 2021 to continue to attract investors to the asset class as cap rates remain at historic lows and demand remains strong post-pandemic.

Figure 4: Sales Volume, 4-Quarter Aggregate

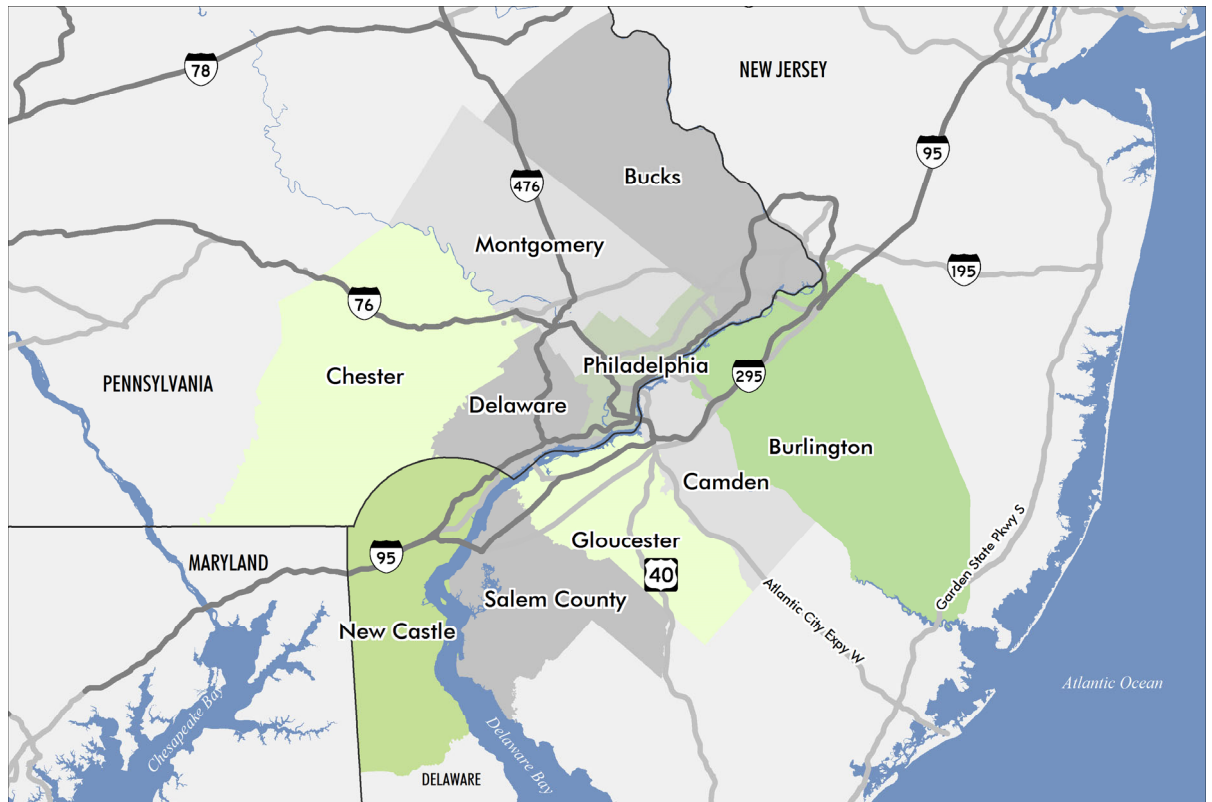


Source: Real Capital Analytics, CBRE Research, Q2 2021

Figure 5: Significant Lease Transactions

Tenant	Building	Size (Sq. Ft.)	Transaction Type
Western Post	3280 US-206	768,750	New Lease
Walmart	100 Western Dr	634,400	New Lease
Amazon.Com	1150 Commerce Blvd	599,500	New Lease
Western Post (Us) Inc.	107 Elbow Ln	266,966	New Lease
Us Elogistics	150	250,000	New Lease
Holt Logistics	445 Pattison Ave	201,621	New Lease
The Chemours Company	401 Pencader Dr	191,008	Renewal
Penn Medicine	411 Swedeland Rd	150,000	New Lease
UPS	2303 Center Square Rd	121,709	New Lease
Good Buy Gear	8 Lee Blvd	121,575	New Lease

Source: CBRE Research, Q2 2021



CONTACTS

JOE GIBSON
 Associate Director of Research, PA
 +1 610 727 5922
 joseph.gibson@cbre.com

CHARLIE DONLEY
 Field Research Analyst
 +1 610 727 5921
 charlie.donley@cbre.com

CBRE OFFICES

50 S. 16th St.
 Philadelphia, PA 19102
 +1 215 561 8900
www.cbre.com/philadelphia

1007 N. Orange St.
 Wilmington, DE 19801
 +1 302 661 6700
www.cbre.com/wilmington

1275 Glenlivet Dr
 Allentown, PA 18106
 +1 610 389 6900
www.cbre.com/allentown

555 E. Lancaster Ave.
 Radnor, PA 19087
 +1 610 251 0820

1000 Howard Blvd.
 Mount Laurel, NJ 08054
 +1 856 359 9501
www.cbre.com/newjersey

5 Capital Dr
 Harrisburg, PA 17110
 +1 717 540 2700
www.cbre.com/harrisburg

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