Philadelphia Regional

Industrial 24Q2

Key Takeaways

- The regional vacancy rate increased for the 5th consecutive quarter to 6.96%
- Absorption increased following an occupancy loss in Q1, but was still well below pre-pandemic levels
- Asking rent growth continued to level off, increasing by only 0.5% for the quarter
- Sales activity is beginning to gain momentum, and an uptick is expected in the second half of 2024 as regional players expand and divest holdings

		YOY	FORECAST
Vacancy Rate	6.96%	▲	▲
Net Absorption	0.62M SF	▼	–
Under Construction	16.7M SF	▼	▼
Overall Asking Lease Rates (NNN)	$11.19/SF	▲	▲

Highlights

Vacancy increased overall during the second quarter as leasing activity remained sluggish and 3.7 million square feet of speculative construction was delivered. The dynamics within the third-party logistics (3PL) sector have been particularly volatile. Companies serving ports in Burlington County and the Lehigh Valley maintained robust activity levels, contrasting with regional 3PLs specializing in specific industries, which have been downsizing their footprint. Despite increased activity in many market segments, the duration to finalize deals has been progressively lengthening. Numerous prospective transactions, which were nearing completion, experienced delays, postponements, or cancellations altogether. Contributing factors include ongoing uncertainty surrounding interest rates and reluctance among occupiers to absorb the elevated rental costs associated with new construction. The absence of recent transactions establishing market comparables further compounded these challenges.

Market Indicators

3.6-6.7% Unemployment Rates

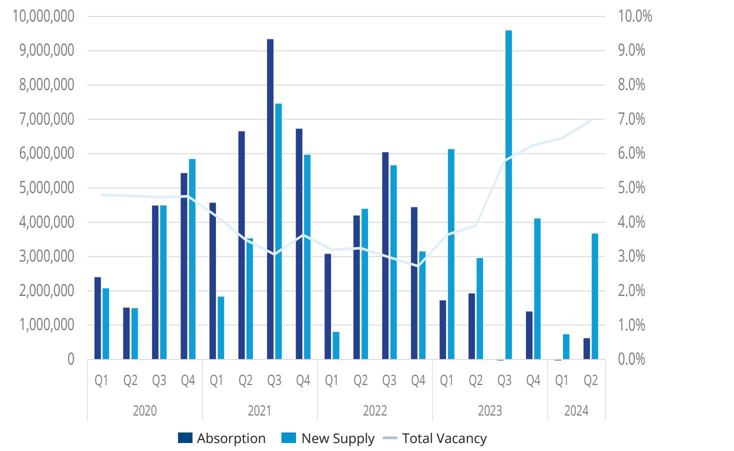
1.9%-3.3% GDP - Quarterly % change yr/yr

4.402% U.S. 10 Year Treasury Note

Historic Comparison

	23Q2	24Q1	24Q2
Total Inventory (in Millions of SF)	523.97	538.95	542.62
New Supply (in Millions of SF)	2.96	0.74	3.67
Net Absorption (in Millions of SF)	1.93	-0.35	0.62
Overall Vacancy	3.91%	6.45%	6.96%
Under Construction (in Millions of SF)	22.0	14.4	16.7
Overall Asking Lease Rates (NNN)	$10.90	$11.13	$11.19

Market History



Forecast

A further uptick in the vacancy rate is anticipated with 4.4 million square feet of speculative construction slated for Q3 delivery. Particularly affected will be larger buildings in Philadelphia, Salem County, and tertiary areas of Burlington County. Despite the projected increase in vacancy, a decline in asking rents is not in the immediate future. Instead, landlords are likely to offer longer free rent periods and higher tenant improvement allowances, before any adjustment in face rents occurs.

Recent Transactions

Lease Renewal
American Craft Brewery
Lehigh Valley
582k SF

Lease
Carbel
Lehigh Valley
469k SF

Lease
HYTK Logistics
South Jersey
595k SF

Sale
1 Lee Boulevard
Chester County
442k SF

Sale
10500 Drummond/
7601 State Road
Philadelphia
252k SF

Sale
1 Gateway Boulevard
South Jersey
247k SF

Colliers

Market Snapshots

Philadelphia County

The vacancy rate in Philadelphia County experienced a notable increase, rising from 4.7% to 6.1% primarily attributed to the completion of the Bridge Point Philadelphia complex, comprising two buildings. This newly delivered space also pushed up the average asking rent, and there is a sizeable delta between rents for new construction and older Class B and C space.

As of the end of Q2, Philadelphia had a higher volume of speculative construction underway compared to the Lehigh Valley region, indicating that new developments will continue to exert pressure on vacancy rates over the next twelve months.

Suburban Philadelphia

Vacancy rates in the suburban market showed varied trends across different counties in the recent period. Bucks County maintained stability with a steady rate of 6.0%, while Chester and Montgomery Counties experienced decreases in vacancy. Delaware County saw an uptick in vacancy levels, primarily driven by the completion of two speculative projects: ProLogis' 374,000 square feet in Marcus Hook and Alliance Partners HSP's 105,000-square-foot Commodore Logistics Center.

There was an increase in absorption following two consecutive quarters of negative trends. The majority of leasing activity centered on tenants requiring spaces between 20,000 and 60,000 square feet, underscoring a consistent demand pattern within this segment.

Investment sales volume is predicted to increase as a few larger multi-tenant buildings trade. Investor interest has also gravitated towards smaller single and multi-tenant buildings as an avenue to diversify regional portfolios.

Southern New Jersey

The vacancy rates in South Jersey have shown a consistent downward trend since Q3 2023; however, this trend is expected to reverse as approximately 2.8 million square feet of speculative construction is set to be completed in the upcoming quarter. Salem County, in particular, is poised to experience the largest increase in vacancy with the completion of 1.7 million square feet at the Garden State Logistics Center. Additionally, Walmart's relocation of its 705,000 square foot operation from Oldmans Township to the Southern I-81 corridor is anticipated to impact vacancy levels significantly.

The second quarter had notable transactions from Asian-based third-party logistics companies (3PLs) securing larger blocks of space in Burlington and Camden County. These recent deals highlight continued influx of international logistics companies drawn to South Jersey by its proximity to the Ports of NY/NJ, coupled with more competitive rental rates compared to markets further north along the New Jersey Turnpike.

Lehigh Valley

The vacancy rate in the Valley rose from 5.1% to 6.6% due to a combination of speculative construction completions and the return of previous-generation space to the market. This shift resulted in absorption dipping into negative territory for the second consecutive quarter, an uncommon occurrence for this historically robust market.

Despite these challenges, the Valley continues to be highly favored distribution and manufacturing hub, pointing to a rebound in demand moving forward. Moreover, the current level of space under construction is at its lowest level in nearly a decade, and over 20% of 1.5 million square feet underway is dedicated to an onsite expansion for Americold.

New Castle County, DE

New Castle County's vacancy decreased from 7.7% to 7.4%. Almost 60% of the existing space is in three spec buildings completed in the last half of 2023, heavily impacting the vacancy rate.

There has been an uptick in demand for spaces smaller than 100,000 square feet, exemplified by companies like DaSTOR securing leases.

Middletown is following communities in the Lehigh Valley and Southern New Jersey in strongly opposing warehouse development, most recently stalling the 2.4 million-square-foot LogistiCenter project.

Colliers

Lease Deals
Q2

Tenant	Building	Submarket	Type	Square Feet
American Craft Brewery	8801 Congdon Hill Drive	Lehigh Valley	Renewal	582,500
Carbel	3965 Easton-Nazareth Highway	Lehigh Valley	New	469,259
HYTX Logistics	5206 US Highway 130	Southern New Jersey	New	295,363
UPS	200 Birch Creek Road	Southern New Jersey	Renewal	251,044
CSC Sugar	300 Dean Sievers Place	Bucks County	Land lease	249,850
Anmei Group	1515 Burnt Mill Road	Southern New Jersey	Sublease	220,000
ESONG CHM	989 Coopertown Road	Southern New Jersey	New	218,670
Bazzini Nuts	860 Nestle Way	Lehigh Valley	New	129,890
S.P. Richards Company	336 New Albany Road	Southern New Jersey	Renewal	110,340
Chadwell Supply	181 Walter A. Gaines Way	Southern New Jersey	New	87,500
Global Furniture	181 Walter A. Gaines Way	Southern New Jersey	New	87,500
Tesla	201 S. Gulph Road	Montgomery County	New	82,000

Sale Transactions
Q2

Buyer	Building	Submarket	Sale Price	Square Feet
Carson Companies	1 Lee Boulevard	Chester County	$58,753,711	442,500
Catalyst Investment Partners	10500 Drummond Road, 7601 State Road	Philadelphia County	$21,850,000	251,689
Galvanize Real Estate	1 Gateway Boulevard	Southern New Jersey	$28,850,000	247,220
Ammo International	540 N. Laurel Road	Southern New Jersey	Debt assumption	250,000
Baldwin Richardson Foods	1550 & 1600 John Tipton Blvd	Southern New Jersey	$22,950,000	240,000
Cabot Properties	2411 N. Kistler Court	Lehigh Valley	$22,550,000	105,000
EQT Exeter	501 Gunnard Carlson Drive	Chester County	$7,750,000	75,000
J.G. Petrucci Co., Inc.	7072 Snowdrift Road	Lehigh Valley	$8,870,000	61,157

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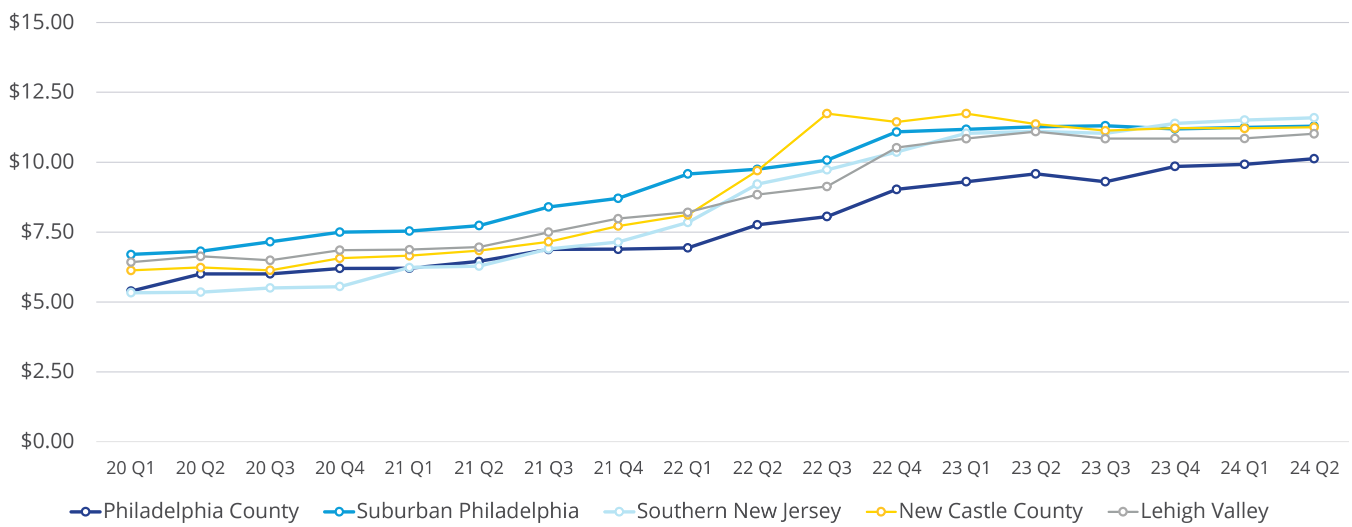
Submarket	Total Inventory SF	Total Vacant	Vacancy Rate	Vacancy Rate Previous Qtr.	Net Absorption Quarter	Deliveries YTD	Under Construction	Avg Asking Rate (NNN)
Philadelphia County								
TOTAL	76,228,448	4,685,418	6.1%	4.7%	-261,632	1,059,429	3,295,857	$10.13
Suburban Philadelphia								
Bucks	60,296,168	3,638,441	6.0%	6.0%	-19,889	100,984	2,517,150	$11.47
Chester	24,678,149	819,779	3.3%	3.5%	32,876	0	636,120	$13.05
Delaware	22,146,200	1,865,089	8.4%	6.5%	28,011	479,000	0	$11.44
Montgomery	56,077,944	3,850,568	6.9%	7.2%	208,757	0	266,880	$10.66
TOTAL	163,198,461	10,173,877	6.2%	6.1%	249,755	579,984	3,420,150	$11.29
Southern New Jersey								
Burlington	66,081,273	7,641,709	11.6%	12.2%	513,051	120,120	1,894,700	$12.23
Camden	28,844,572	637,320	2.2%	2.7%	131,667	0	359,600	$10.67
Gloucester	36,276,306	2,094,710	5.8%	5.3%	-172,283	336,700	1,094,391	$11.14
Atlantic	9,109,483	240,904	2.6%	5.4%	250,000	0	0	$6.73
Cumberland	2,644,352	252,000	9.5%	11.6%	53,761	0	0	$8.86
Salem	8,119,702	1,694,470	20.9%	14.8%	9,610	587,500	3,795,741	$10.71
TOTAL	151,075,688	12,561,113	8.3%	8.4%	785,806	1,044,320	7,144,432	$11.59
New Castle County								
TOTAL	35,075,812	2,609,891	7.4%	7.7%	89,005	0	1,288,992	$11.25
Lehigh Valley								
TOTAL	117,045,938	7,762,806	6.6%	5.1%	-239,733	420,105	1,535,872	$11.02
GRAND TOTAL	**542,624,347**	**37,793,105**	**6.96%**	**6.45%**	**623,201**	**3,103,838**	**16,685,303**	**$11.19**

Note: the average asking rate is a weighted average of all building classes and types: warehouse, flex and manufacturing

Asking Rents

Weighted Average, NNN



For More Information

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