



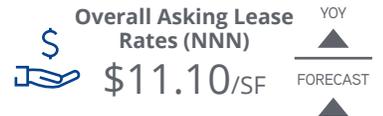
Philadelphia Regional

Industrial

23Q4

## Key Takeaways

- The regional vacancy rate increased from 5.7% to 6.1% between Q3 and Q4
- Although still down year over year, quarterly absorption rebounded to 1.8 million square feet
- The weighted average asking rent rose by 2.0% for the quarter, with multiple submarkets flattening
- Investment volume more than doubled in Q4 boosted by two portfolio sales



## Highlights

Vacancy increased for the 4th consecutive quarter as the delivery of new construction outpaced demand, but the pipeline of new construction was slowing. Just under 1.6 million square feet was completed in the fourth quarter, a sharp decline from the robust 9.3 million square feet delivered in the previous quarter. Additionally, the pipeline of projects under construction was at the lowest level since the pandemic shutdown in mid-2020. Following a slow first half, leasing activity during the fourth quarter demonstrated an uptick with additional larger deals spilling over into 2024. Larger occupiers, aware of the influx of new supply, entered negotiations with heightened expectations of gaining more leverage than developers were prepared to concede. The main concession has been additional free rent in order to maintain face rates. Additionally, multiple developers have become more willing to divide buildings in order to capture smaller deals.

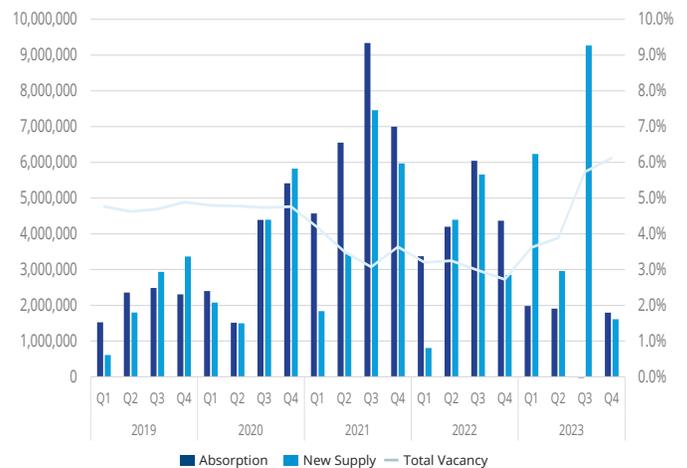
## Market Indicators



## Historic Comparison

	22Q4	23Q3	23Q4
<b>Total Inventory (in Millions of SF)</b>	513.69	534.06	538.17
<b>New Supply (in Millions of SF)</b>	2.85	9.27	1.61
<b>Net Absorption (in Millions of SF)</b>	4.36	-0.16	1.79
<b>Overall Vacancy</b>	2.72%	5.74%	6.12%
<b>Under Construction (in Millions of SF)</b>	26.1	19.1	13.4
<b>Overall Asking Lease Rates (NNN)</b>	\$10.42	\$10.88	\$11.10

## Market History



## Forecast

The next two quarters will bring an increase in new supply, although at a lower volume. Despite a forecast increase in leasing activity, there will be an rise in vacancy particularly with the delivery of larger format buildings, which have had limited demand. Expectation from sellers is normalizing and with debt and equity loosening, sales volume will continue to pick up. Asking rents may continue to increase, particularly for Class B spaces under 100,000 square feet, but at a more moderate pace.

## Recent Transactions



**Lease**  
Performance Team  
Burlington County |  
940k SF



**Lease**  
Cirro  
Burlington County |  
478k SF



**Lease Renewal**  
Sylvamo North America  
Burlington County |  
431k SF



**Sale**  
Whitesell Delran/  
Pennsauken  
South Jersey | 1.2 MSF



**Sale**  
7378 Airport Road  
Lehigh Valley | 450k SF



**Sale**  
3400 E. Walnut Street  
Montgomery County |  
342k SF

## Market Snapshots

### Philadelphia County

The vacancy rate in Philadelphia County remained at 4.4% between Q3 and Q4 as activity remained slow. Philadelphia was the outlier in the region, with a sharp uptick in new construction towards the conclusion of 2023. Eight speculative buildings between 148,611 and 740,701 square feet were underway with additional projects set to commence.

Although the timeline for completion of these new buildings is spread out until early 2025, there is still likely to be a sharp increase in vacancy over the next several quarters.

### Suburban Philadelphia

The vacancy for the four suburban counties increased from 4.7% to a still relatively low 5.4%. This increase in Bucks County was primarily attributable to the delivery of new construction. The uptick in Chester, Delaware, and Montgomery Counties was driven by the re-entry of previous generation spaces into the market. The increase in older product vacancies combined with the absorption of multiple blocks of 2022 and 2023 construction resulted in a slight dip in the weighted average asking rent. However, this does signal a broader downward trend in rental prices.

New construction was down by over 75% from a year earlier, even as new projects were commencing in Langhorne and Exton.

### Southern New Jersey

The vacancy rate in Southern New Jersey dropped from 9.4% to 8.9% in Q4 resulting from an increase in leasing combined with fewer construction deliveries. While an oversupply of new spaces between 450,000 and 1,00,000 square feet persisted, the market saw notable activity in the 200,000 to 400,000-square-foot segment, with additional deals pending. Large renewals from prominent tenants, including Express Scripts, Sylvamo, Performance Food Group, and International Paper, also contributed to the positive momentum.

Performance Food Group and TD Synnex are expanding their facilities in Gloucester County, showing organic growth potential in the market.

The volume of new construction reached the lowest level since mid-2020 at 3.9 million square feet. While a substantial number of these projects are slated for delivery in the first two quarters of 2024, there was a noticeable slowdown in the commencement of new projects.

### Lehigh Valley

The Lehigh Valley vacancy rate increased slightly from 3.9% to 4.2%. The completion of three speculative buildings totaling 576,990 square feet contributed to this uptick, although one of them was fully leased upon delivery. There has been a steady decline in construction activity since Q3 2022. Lease deals were taking longer to finalize, but there remained a health activity pipeline.

This sustained demand for industrial spaces has continued to attract investors, with over 30% of regional investment activity concentrated in the Lehigh Valley during the third and fourth quarters.

Despite the increasing number of municipalities fighting additional warehouse construction and more restrictive zoning codes, developers continued to secure land sites.

### New Castle County, DE

New Castle County's vacancy increased from 3.8% to 7.4% in the fourth quarter. Two fully vacant speculative buildings were delivered in Claymont and New Castle, adding over 1.1 million square feet of new supply.

While there was movement in some of the new projects, such as Accredo Health's lease of over 200,000 square feet at First State Logistics, and the completion of build-to-suits for DuPont and Emile Henry, overall activity in the county lagged. This trend extended to existing product in smaller size ranges.

## Lease Deals

Q3 and Q4

Tenant	Building	Submarket	Type	Square Feet
Performance Team	Mount Holly Road-Building 940	Southern New Jersey	New	939,918
Cirro	1620 River Road	Southern New Jersey	New	477,736
Sylvamo North America	1500 John Galt Way	Southern New Jersey	Renewal	431,270
Supply House	1170 Florence Columbus Road	Southern New Jersey	New	412,320
Performance Food Group	1109 Commerce Boulevard	Southern New Jersey	Renewal/ Expansion	300,618
International Battery	2001 Interchange Way	Bucks County	New	264,600
Accredo Health	2051 Old Coochs Bridge Road	New Castle County	New-BTS	201,328
EMR Supply	1847 Crown Point Road	Southern New Jersey	New	280,000
Amazon	7101 Milnor Street	Philadelphia County	New	251,029
Express Scripts	2040 Route 130 North	Southern New Jersey	Renewal	239,000
United Fulfillment	2605 Rancocas Road	Southern New Jersey	New	217,986
International Paper	200 Arlington Boulevard	Southern New Jersey	Renewal	196,560
Wasserstrom	4779 Hanoverville Road	Lehigh Valley	Renewal/ Expansion	174,510

## Sale Transactions

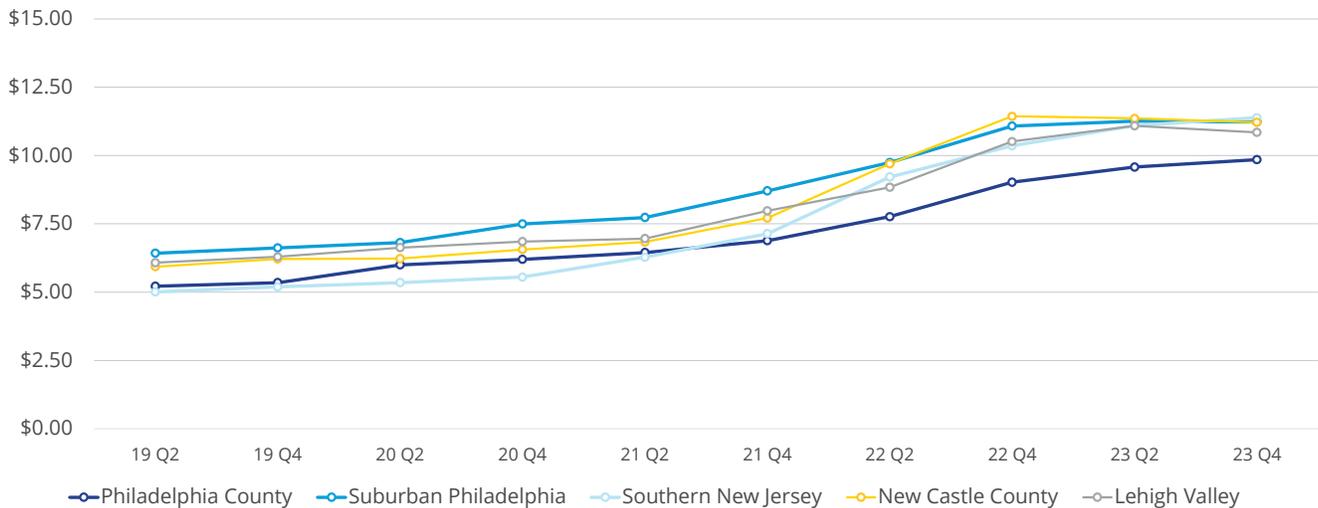
Q3 and Q4

Buyer	Building	Submarket	Sale Price	Square Feet
ARES Management	Whitesell Portfolio Delran/ Pennsauken	Southern New Jersey	\$115,000,000	1,123,325
Prologis	7378 Airport Road	Lehigh Valley	\$60,250,000	449,500
Velocity Venture Partners, LLC	3400 E. Walnut Street	Montgomery County	\$30,700,000	342,000
Taurus Investment Holdings, LLC	Endurance Swedes Run/ Pureland Portfolio	Southern New Jersey	\$28,700,000	339,136
Case Paper	401 E. Tioga Street, Unit 3	Philadelphia County	\$2,575,000	200,000
Vantage Capital Partners	7575 Brewster Avenue	Philadelphia County	\$27,500,000	163,936
DH Property Holdings	4 E. Stow Road	Southern New Jersey	\$16,750,000	156,634
STAG Industrial	1510 Gehman Road	Montgomery County	\$14,827,000	152,625
Lineage Logistics	1000 Centerpoint Boulevard	New Castle County	\$5,906,250	135,000
Seyon Group Acquisitions, LLC	720 Hylton Road	Southern New Jersey	\$10,205,000	106,000

Submarket	Total Inventory SF	Total Vacant	Vacancy Rate	Vacancy Rate Previous Qtr.	Net Absorption Quarter	Net Absorption YTD	Deliveries YTD	Under Construction	Avg Direct Asking Rate (NNN)
<b>Philadelphia County</b>									
<b>TOTAL</b>	75,496,030	3,292,076	4.4%	4.4%	25,743	461,996	857,229	3,646,378	\$9.85
<b>Suburban Philadelphia</b>									
<b>Bucks</b>	60,398,380	3,365,226	5.6%	4.5%	463,127	2,181,410	4,910,105	633,094	\$11.32
<b>Chester</b>	24,695,236	893,712	3.6%	3.1%	-117,137	68,061	205,500	636,120	\$13.18
<b>Delaware</b>	21,620,386	1,036,097	4.8%	3.4%	-292,651	370,116	0	479,000	\$10.94
<b>Montgomery</b>	56,036,208	3,567,956	6.4%	6.0%	-233,031	-105,255	1,048,962	0	\$10.75
<b>TOTAL</b>	162,750,210	8,862,991	5.4%	4.7%	-179,692	2,514,332	6,164,567	1,748,214	\$11.23
<b>Southern New Jersey</b>									
<b>Burlington</b>	65,529,309	9,445,125	14.4%	14.5%	245,231	1,187,938	8,217,412	730,670	\$11.83
<b>Camden</b>	28,926,263	704,998	2.4%	2.4%	-8,693	202,310	337,150	0	\$10.46
<b>Gloucester</b>	35,939,106	1,674,812	4.7%	5.7%	637,449	809,932	1,904,420	856,611	\$10.93
<b>Atlantic</b>	9,089,435	525,296	5.8%	6.4%	52,406	-143,024	0	0	\$6.89
<b>Cumberland</b>	2,640,352	294,450	11.2%	10.1%	-28,000	-62,150	0	0	\$10.81
<b>Salem</b>	7,441,812	679,750	9.1%	13.4%	317,000	481,830	904,750	2,299,942	\$10.96
<b>TOTAL</b>	149,566,277	13,324,431	8.9%	9.4%	1,215,393	2,476,836	11,363,732	3,887,223	\$11.39
<b>New Castle County</b>									
<b>TOTAL</b>	35,072,628	2,601,125	7.4%	3.8%	552,906	268,755	2,432,943	1,125,000	\$11.21
<b>Lehigh Valley</b>									
<b>TOTAL</b>	115,287,551	4,867,940	4.2%	3.9%	179,170	-198,325	3,306,240	3,036,460	\$10.85
<b>GRAND TOTAL</b>	<b>538,172,696</b>	<b>32,948,563</b>	<b>6.1%</b>	<b>5.7%</b>	<b>1,793,520</b>	<b>5,523,594</b>	<b>24,124,711</b>	<b>13,443,275</b>	<b>\$11.10</b>

## Asking Rents

Weighted Average, NNN



### For More Information

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