

# GREATER PHILADELPHIA INDUSTRIAL MARKET

## DESPITE CHALLENGES, GREATER PHILADELPHIA'S INDUSTRIAL SECTOR PROVES RESILIENT DURING PANDEMIC

During the second quarter of 2020, the Greater Philadelphia industrial market accumulated 1.1 million square feet in net absorption, realized healthy leasing activity and witnessed a handful of new groundbreakings, including an ecommerce-driven project of national prominence. These metrics demonstrated the viability of the local industrial sector and suggest that activity in the second half of the year will be as robust as the first. Shelter-in-place orders throughout the region during the past few months prompted consumers to increasingly rely on ecommerce for safe shopping from home. This in turn drove demand for first- and last-mile distribution facilities alike as operators such as Target and Amazon mobilized to take advantage of this surge in online ordering. Amazon alone was responsible for multiple occurrences of significance in the market this quarter, occupying a last-mile warehouse at 7575 Brewster Avenue in Philadelphia and leasing two other last-mile facilities in Southeastern Pennsylvania. Amazon is also set to occupy the region's first multi-story warehouse, which broke ground this quarter in New Castle County, Delaware.

While ecommerce demand has accelerated, the current economic environment's impact on some industrial and retail occupiers has caused disruption. An out-of-market brewery that planned to occupy a Roxborough warehouse for production and distribution canceled the effort, and a couple of other tenants committed to leases and set to move in this quarter did not assume occupancy due to financial considerations and opted instead to list those spaces for sublease. There were also numerous vacancies that took place across the region, albeit on a much smaller scale than new occupancies. Despite challenges, the outlook for the local industrial market is positive; market participants even noted some short-term industrial occupancies this quarter directly related to COVID-19 support services had to weather through competition from tenants with longer-term requirements. The market outlook could evolve based on how severely the sharp uptick in coronavirus cases in many parts of the country impacts economic reopening and consumer spending. By the end of the second quarter, Greater Philadelphia's increase in infections was not enough of a concern for governing authorities to pivot back to a shelter-in-place scenario.

### CURRENT CONDITIONS

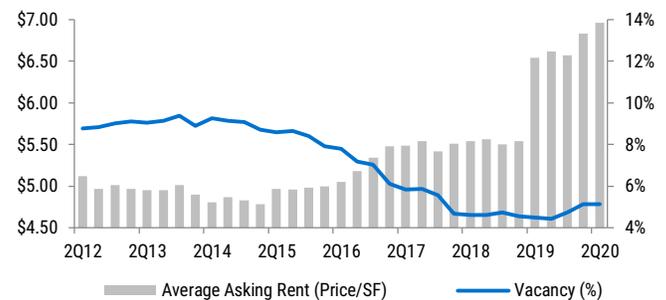
Construction completions and positive net absorption both totaled 1.1 MSF, causing market vacancy to remain stable at 5.1%

The development pipeline totaled 5.8 MSF in the second quarter

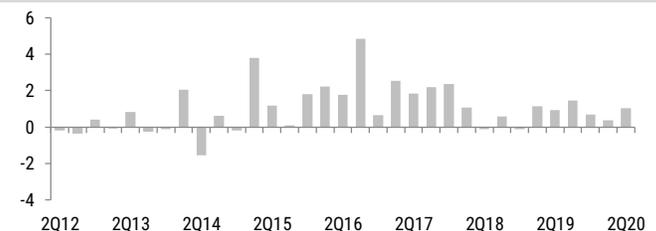
Average asking rents closed the quarter at \$6.96/SF

### MARKET ANALYSIS

#### Asking Rent and Vacancy



#### Net Absorption (SF, Millions)



### MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	478 MSF	477 MSF	471 MSF	↑
Vacancy Rate	5.1%	5.1%	4.5%	↔
Quarterly Net Absorption	1.1 MSF	390K SF	931K SF	↔
Average Asking Rent	\$6.96	\$6.83	\$6.54	↔
Under Construction	5.8 MSF	4.9 MSF	5.5 MSF	↔
Deliveries	1.1 MSF	1.6 MSF	650K SF	↔

## SOUTHEASTERN PENNSYLVANIA

The Southeastern Pennsylvania industrial market registered approximately 120,000 square feet of positive absorption in the second quarter. Among the notable new occupancies were manufacturer USSC, which moved into the newly-delivered 183,000-square-foot warehouse at its complex on Gordon Drive in Chester County, and Amazon, which occupied the aforementioned last-mile warehouse at 7575 Brewster Avenue in Philadelphia. In addition, the 95,000-square-foot R&D/flex build-to-suit for WuXi Aptec delivered this quarter and, once tenant fit-out is complete, will be occupied by the swiftly-expanding life sciences firm.

Construction completions slightly outpaced net absorption, which caused vacancy to increase by a nominal 10 basis points from the previous quarter to 5.1%. New leases signed in the second quarter and planned tenant occupancies delayed from earlier until the third quarter will likely trim the already-low market vacancy rate further in the second half of the year.

## SOUTHERN NEW JERSEY

Southern New Jersey's industrial market tallied 937,630 square feet of net absorption in the second quarter, leading the three markets comprising the Greater Philadelphia industrial region. This strong showing was dominated by Target's move into the 913,000-square-foot warehouse at 1800 North Route 30. Target added to its expansion in the

Southern New Jersey market with a new lease commitment for a 1.1-million-square-foot warehouse at 2858 US Route 322, on which construction began this quarter. While COVID-19 did cause at least one tenant (Clutter), scheduled to occupy a recently-delivered warehouse in Bordentown, to cancel move-in plans and offer the space for sublease, the overall market remains remarkably healthy with vacancy at 5.3%, increasing rents, and a parity between supply additions and demand.

## NEW CASTLE COUNTY

In the second quarter, a state-of-the-art multistory warehouse project commenced construction in the New Castle County industrial market, a project of unprecedented scope for the greater region. The 818,000-square-foot warehouse at 801 Boxwood Road will have 3.8 million cubic feet between five floors. Amazon will occupy it upon completion, and the ecommerce giant will employ more than 1,000 people at the site. Only a handful of multistory warehouses have been constructed across the country; this project brings an exciting new prominence to the region.

Otherwise, the New Castle County market was quiet during the quarter, tallying just a few thousand square feet of negative absorption. The latter half of the year stands to be more active, as it will bring the completion of DART Container's 1.0-million-square-foot warehouse on Schoolhouse Road.

## LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Target	2858 US Route 322	Gloucester County	Direct	1,105,000
Amazon	2400 S. Weccacoe Avenue	Philadelphia County	Direct	283,500
Amazon	3750 State Road	Bucks County	Direct	235,240
Caesarstone USA	2525 Monroe Boulevard	Montgomery County	Direct	172,649

## SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
9801 Blue Grass Road	Philadelphia County	\$10.5 million	\$23	448,681
3445-3535 S Front Street	Philadelphia County	\$8.75 million	\$101	86,315

## SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Warehouse Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Bucks County	57,597,278	125,000	6.1 %	-58,389	6,459	\$6.12	\$8.51	\$6.44
Chester County	37,764,332	-	4.5 %	135,896	181,877	\$7.32	\$9.68	\$8.45
Delaware County	29,346,843	-	4.4 %	-51,958	122,779	\$5.88	\$7.56	\$5.23
Lancaster County	57,133,529	-	1.7 %	27,453	87,881	\$4.02	\$10.41	\$5.10
Montgomery County	71,503,576	213,592	7.4 %	-118,035	-463,859	\$5.33	\$19.86	\$10.75
Philadelphia County	84,946,053	600,814	5.2 %	184,555	50,792	\$5.37	\$6.10	\$5.04
<b>Southeastern PA Total</b>	<b>338,291,611</b>	<b>939,406</b>	<b>5.1 %</b>	<b>119,522</b>	<b>-14,071</b>	<b>\$5.43</b>	<b>\$13.25</b>	<b>\$7.32</b>
Burlington County	51,330,281	1,777,679	5.7 %	950,919	907,185	\$5.84	\$7.41	\$5.88
Camden County	32,555,672	338,000	2.5 %	-27,969	-18,683	\$3.72	\$6.81	\$4.97
Gloucester County	29,237,941	331,768	7.8 %	14,680	277,725	\$5.09	\$6.43	\$5.23
<b>Southern NJ Total</b>	<b>113,123,894</b>	<b>2,447,447</b>	<b>5.3 %</b>	<b>937,630</b>	<b>1,166,227</b>	<b>\$5.08</b>	<b>\$7.04</b>	<b>\$5.41</b>
New Castle County	26,193,672	2,399,202	4.7 %	-5,598	289,182	\$4.59	\$14.53	\$8.66
<b>Delaware Total</b>	<b>26,193,672</b>	<b>2,399,202</b>	<b>4.7 %</b>	<b>-5,598</b>	<b>289,182</b>	<b>\$4.59</b>	<b>\$14.53</b>	<b>\$8.66</b>
<b>Market Totals</b>	<b>477,609,177</b>	<b>5,786,055</b>	<b>5.1 %</b>	<b>1,051,554</b>	<b>1,441,338</b>	<b>\$5.27</b>	<b>\$12.47</b>	<b>\$6.96</b>

## SUBMARKET STATISTICS BY SUBTYPE

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
Warehouse/Distribution	154,609,303	5,312,241	6.7 %	1,115,618	1,430,775	\$5.27
R&D/Flex	80,580,309	298,814	7.1 %	48,639	324,900	\$12.47
General Industrial	242,419,565	175,000	3.5 %	-112,703	-314,337	\$5.20
<b>Total</b>	<b>477,609,177</b>	<b>5,786,055</b>	<b>5.1 %</b>	<b>1,051,554</b>	<b>1,441,338</b>	<b>\$6.96</b>

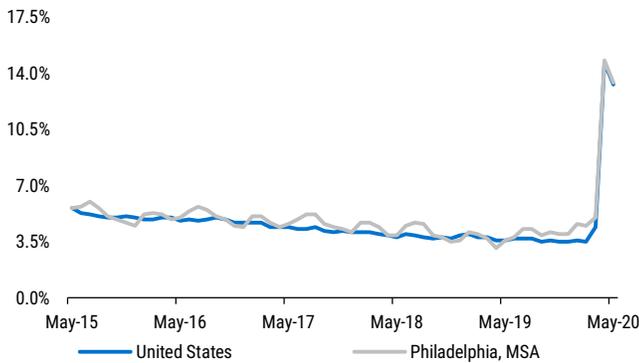
## ECONOMIC CONDITIONS

In second-quarter 2020, the country, and the Philadelphia metropolitan statistical area, was devastated by the effects of COVID-19. Unemployment rose to historic highs, consumer confidence and retail sales plummeted, and the National Bureau of Economic Research officially confirmed the country was in a recession. In both May and June 2020, as economic reopening began across the country, jobs were added back. Whether this positive momentum can sustain itself is unknown as coronavirus cases spike to heights not seen since March in parts of the country.

Pre-pandemic, ecommerce was already a major demand driver in the Greater Philadelphia industrial market. Projections for ecommerce penetration growth have jumped over three percentage points for 2020 directly because of COVID-19. Online retail sales require more than three times the logistics space of brick-and-mortar retail sales, so the local ecommerce industrial footprint is expected to further expand.

## UNEMPLOYMENT RATE

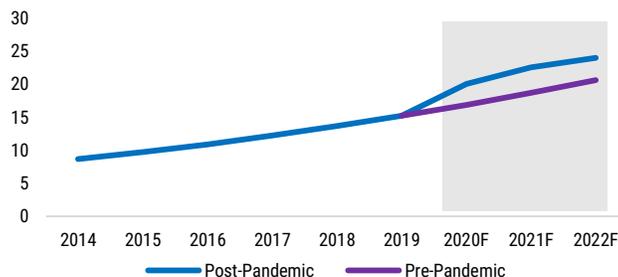
Seasonally Adjusted\*



Source: U.S. Bureau of Labor Statistics. Local data not seasonally adjusted.

## ECOMMERCE AS A PERCENTAGE OF TOTAL RETAIL SALES

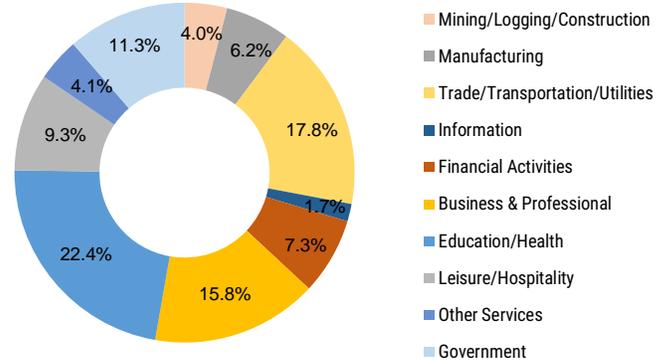
### United States



Source: U.S. Census Bureau, Euromonitor, Prologis Research

## EMPLOYMENT BY INDUSTRY

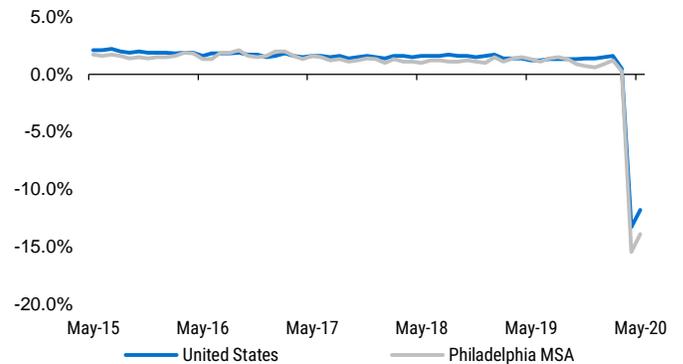
### Philadelphia MSA, Annual Average 2019



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

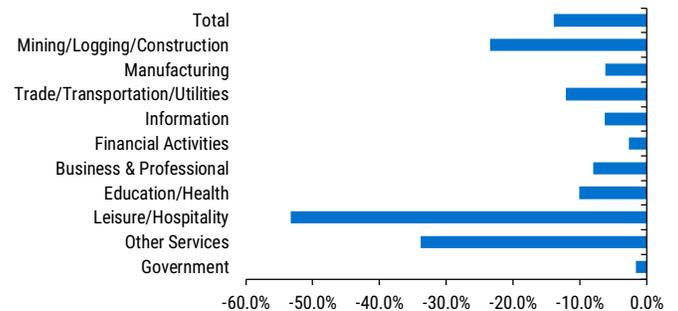
### Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## EMPLOYMENT GROWTH BY INDUSTRY

### Philadelphia MSA, May, 2020, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

