

Greater Philadelphia



Quick Stats

5.2%

Vacancy Rate

328,639 sf

Of Year-to-Date
Net Absorption

2.1 msf

Currently Under
Construction

2.1 msf

Of Year-to-Date
Leasing Activity

\$6.75

Overall Average Asking
Net Rent

Overview

Throughout the second quarter the Greater Philadelphia industrial market garnered 1.0 million square feet in net absorption. The market currently holds 147.8 msf of existing industrial inventory. Total vacancy in the eight county Philadelphia MSA is 5% which is up slightly from last year due to several construction deliveries yet to be leased. In the first half of 2020, there has been over 2 msf of leasing activity and an average rental rate of \$6.06 psf mainly due to the increase tenant activity in Burlington County. There is currently over 2 msf of active construction projects in the market which should deliver by Q2 of 2020.

Report Criteria

The search criteria for this Q2 2020 Greater Philadelphia industrial market report includes all industrial buildings that are classified as class A or B buildings with ceiling heights greater than 24'.

Submarket	Inventory (sf)	Overall Vacancy Rate	Net Absorption (sf)	Leasing Activity (sf)	Under Construction (sf)	Average Asking Rent (nnn)	Class A Inventory (sf)	Class A Vacancy Rate	Class A Asking Rent (nnn)
Southern New Jersey <i>Burlington, Camden County, Gloucester County, Salem County</i>	105,958,722	5.20%	1,155,416	222,876	3,690,126	\$5.23	32,693,043	10.50%	\$5.86
Northeast Philadelphia & Lower Bucks County <i>Greater NE Philadelphia, Kensington, Lower Bucks County, Lower N Philadelphia, NE Philadelphia, NW Philadelphia</i>	94,543,580	6.70%	-514,854	355,550	565,572	\$4.78	1,567,430	21.00%	\$6.50
South Philadelphia & Delaware County <i>Center City Philadelphia, Navy Yard, SW Philadelphia, Delaware County</i>	38,110,136	6.80%	99,545	403,700	0	\$4.45	1,240,333	5.80%	\$8.75
Western Suburban Philadelphia <i>Chester County, Montgomery County, Upper Bucks County</i>	71,894,543	5.60%	23,767	310,513	338,592	\$6.00	4,302,550	7.50%	\$6.77

Current Market Trends

Ahead of the COVID-19 outbreak, the Greater Philadelphia industrial market started Q1 2020 with more than 300,000 sf of occupancy gains. This absorption barely outpaced the square feet of new construction deliveries, which ultimately resulted in a vacancy of 7.0%.

As of Q2 2020, 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 considerable demand growth in the coming quarters. Many Americans rely more on food and grocery deliveries in response to state governments' stay-in-place orders in the face of the COVID-19 pandemic.

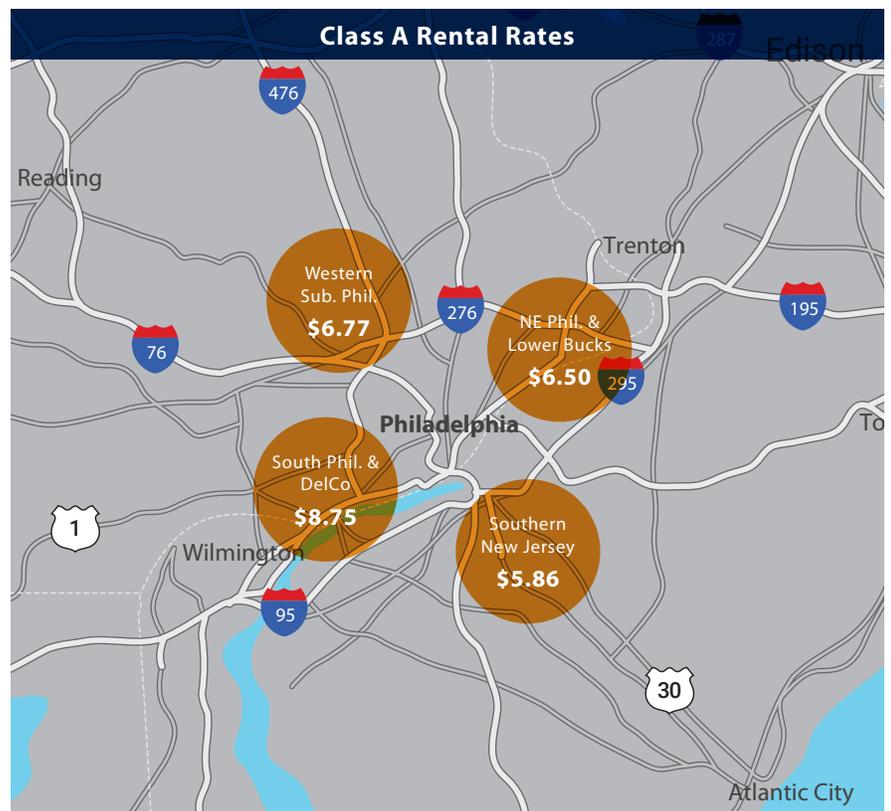
As consumers return to spending, the industrial & logistics (I&L) real estate is experiencing an uptick. As of May 2020, multiple reports have recorded a 17.7% increase in U.S. retail sales shows that this area of the economy is slowly bouncing back. Improved sales were seen in apparel, furniture, sporting goods, and building materials. While e-commerce's share of retail sales steadily grew during the past two decades, recently, consumer studies have shown increased online purchases by 28% globally and buy online/pick up in-store is expected to increase by more than 60% in 2020. Increase in online sales, which is significant to the acceleration of e-commerce retail and online food purchasing, specifically grocery items, at the household level. As evident in increased cases of COVID-19 online sales and newly adopted consumer behavior is expected to impact the industrial market positively.

Related Article Links

- [Warehouse Automation Investment Up Due to COVID-19](#) (via MH&L)
- [Industrial, Logistics Real Estate in Demand](#) (via MH&L)

Rents

There has been a clear uptrend in retailer's e-commerce platforms storing more goods in distribution centers close to their customers, to facilitate faster home delivery times. Over the past four years, asking rent gains averaged 5.1% annually in Philadelphia. However, during the first six months of 2020, Greater Philadelphia industrial rents have taken a 4-5% reduction during the COVID-19 pandemic. In a forecast study completed by a leading commercial real estate provider, rents are expected to more than recover prior to the end of 2021. Analyst predict rents to resume quickly to pre COVID-19 levels. Industrial properties over 100,000 SF in the South and Central New Jersey portions of the Greater Philadelphia industrial market, listed asking rents average approximately \$6.00 - \$6.50 psf NNN.



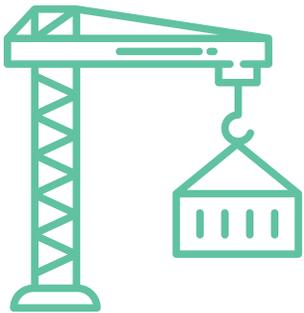
Notable Lease Transactions

Tenant	Address	Size (sf)
Target	2858 Route 322, Logan Township, NJ	1,100,000
Target	1800 N Route 130, Burlington, NJ	913,000
DHL	11601 Roosevelt Boulevard, Philadelphia, PA	498,000
Amazon	2400 Weccacoe Avenue, Philadelphia, PA	283,500
Amazon	3750 State Road, Bensalem, PA	235,000



Construction

The development pipeline continues to expand with nearly 22 million sf of projects planned to deliver by 2023. Nearly 1.9 msf of new construction broke ground during Q2 2020. Developers continue to search for larger sites which will accommodate trailer and associate parking needs required by the tenants. There are only a handful of projects planned for over 500,000 SF while tenant demand for these sites remain at an all-time high. From a completion standpoint, 54.5% of the more than 2.0 msf delivered has been absorbed, with the majority of the remaining space being within Southern NJ. Given Southern NJ's low 6.0% warehouse/distribution vacancy rate, added available supply is welcome in the expanding market.



Largest Active Construction Projects

Address	Size (sf)	Developers
2858 Route 322, Logan Township, NJ	1,100,000	Greek Development & Advance Realty (<i>Leased</i>)
1100 West Front Street, Florence, NJ	528,000	BlackCreek (<i>Available</i>)
11601 Roosevelt Boulevard, Philadelphia, PA	498,000	NorthPoint Development (<i>Leased</i>)
1950 River Road, Burlington Township, NJ	486,812	The Carson Companies (<i>Available</i>)
198 Democrat Road, East Greenwich, NJ	330,000	Johnson Development (<i>230,000 sf Available</i>)

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, 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 modern industrial buildings in the greater Philadelphia metropolitan region as industrial product here is being perceived as more and more institutional-grade. Sales for vacant buildings, those with long term leases with credit tenants, and sale leasebacks for manufacturing and distribution buildings were active as highlighted in the sales below.

Top Industrial Investment Trades

Address	City	State	Size (sf)	Sale Price	Commentary
3750 State Road	Bensalem	PA	235,000	\$27,965,000 (<i>\$119 psf</i>)	Vacant upon sale, but leased by Amazon shortly after.
7575 Brewster Avenue	Philadelphia	PA	165,000	\$19,635,000 (<i>\$119 psf</i>)	12 year lease in place with Amazon. Sold by Avison Young.
100 Friars Road	Thorofare	NJ	183,000	\$20,130,000 (<i>\$110 psf</i>)	10 year sale leaseback transaction with ICS Corporation.



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