
1Q24

Greater Philadelphia Industrial Market Overview

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Market Observations

Economy

- Some signs of a slowing economy emerged in Greater Philadelphia at the beginning of 2024. The 12-month annual growth rate in non-farm payrolls was 1.1% in February 2024, the lowest recorded since March 2021. Unemployment also increased 50 basis points from the prior quarter to reach 3.8%. However, regional unemployment is still 40 basis points below the national average.
- Industrial employment has begun to trend downward over the past several months. In February, overall industrial employment shrunk by 1.2% annually, the lowest reading since the pandemic-era. Employment losses were most pronounced in the Construction and Trade, Transportation, and Utility sectors.

Major Transactions

- Southern New Jersey was the center of major leasing activity in the first quarter of 2024, as many of the largest leases were executed in this market. Loctek Ergonomic and Slyvamo North America took approximately 1.1M square feet in Burlington County, and Rivian Automotive leased 371,000 square feet in Salem County.
- Alliance HP made a strategic move in March 2024, acquiring a vacant 143,000 square foot office building at 1 Innovation Drive in Plymouth Meeting for industrial conversion. The purchase, for \$11.3M, or \$79.20/SF, demonstrates the potential for adaptive reuse in the market.
- A 704,000 square foot warehouse developed by Crow Holdings was the most significant groundbreaking of the first quarter. Since hitting its nadir in the second quarter of 2023, construction starts have steadily trended upwards, culminating in a four-quarter high of 2.8M square feet in the first quarter of 2024.

Leasing Market Fundamentals

- The lease-up of Class A space coupled with normalizing demand has put some downward pressure on asking rates. The \$11.32/SF asking rate at the end of the first quarter marked a decline of 1.2% year-over-year and 2.1% from the prior quarter.
- For the second consecutive quarter, leasing volumes remained at 4.8M square feet. After bottoming at 2.1M square feet in the third quarter of 2023, leasing activity has recovered to pre-2020 levels. In 2019, the average quarterly leasing volume was 4.1M square feet, further suggesting the market is returning to a normalized state of demand.
- Construction starts trended upward for the fourth-consecutive quarter, reaching 2.8M square feet. However, this is 35% less than the 2020-2022 average.

Outlook

- Early signs of future development, like site work and land acquisitions, were evident in the first quarter of 2024. Key projects set to bolster the market's pipeline include Northpoint Development's nearly 1.0M square foot warehouse in Salem County, and the joint venture between Rockefeller Group and PCCP, which plans to add over 650,000 square feet of new warehouse space in Northeast Philadelphia.
- According to the Manufacturing Business Outlook Survey of the Federal Reserve Bank of Philadelphia, firms surveyed expected manufacturing activity and employment to increase in the next six months. This is welcome news, considering industrial employment has trended downwards over the last several months.

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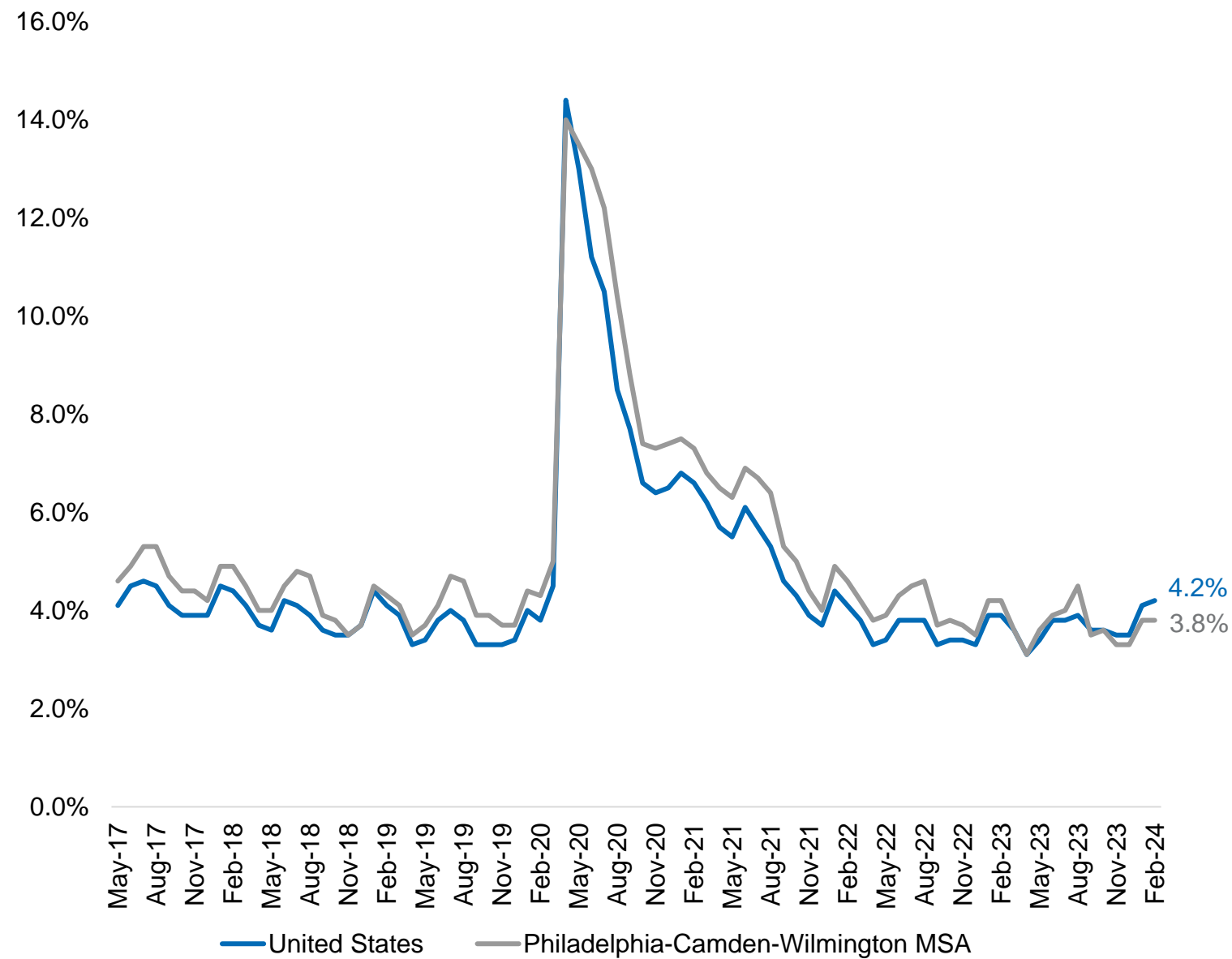
Economy



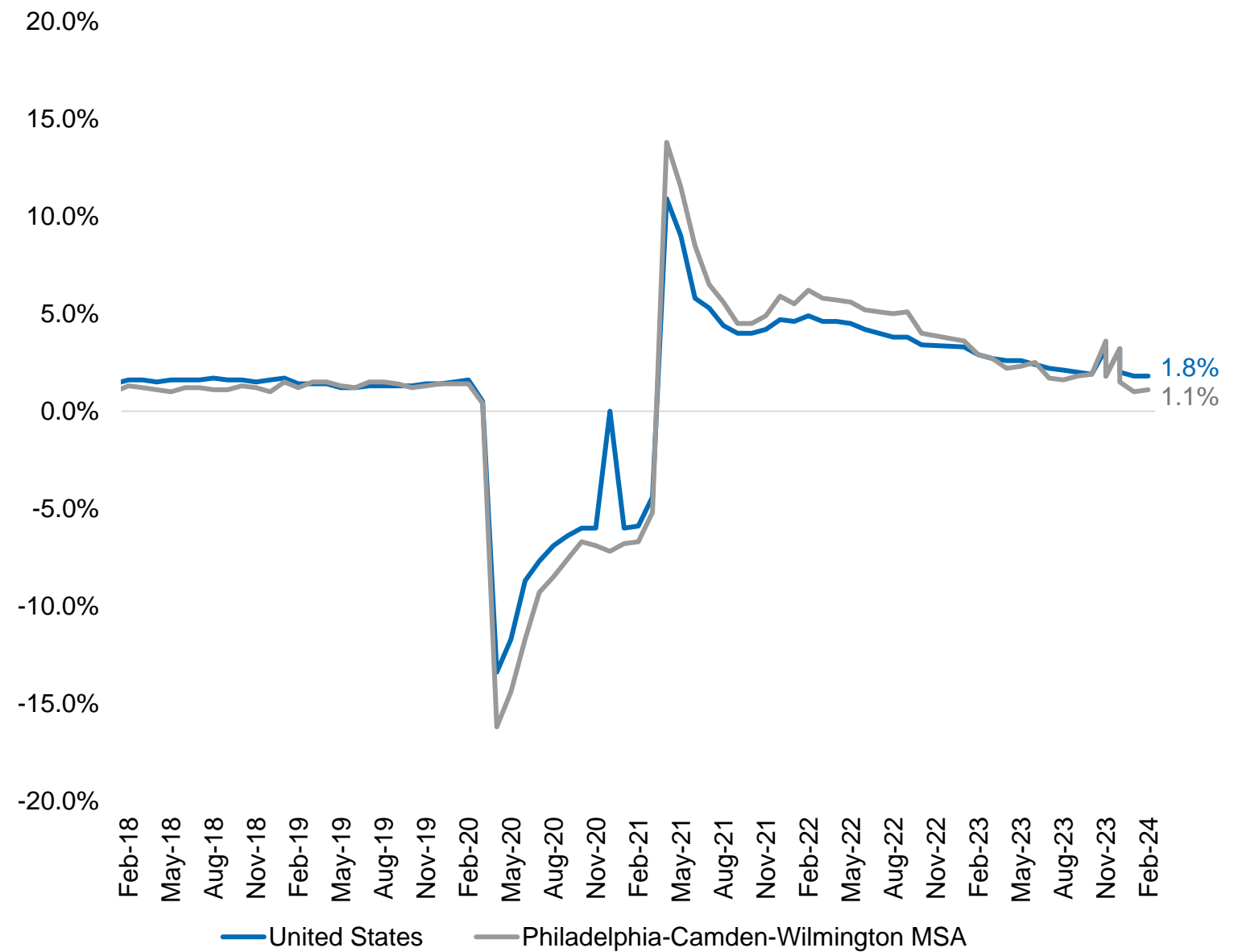
Philadelphia's Economy Outperforms the Nation

The Greater Philadelphia economy saw a slight increase in unemployment in the first quarter of 2024 but is still 40 basis points below the national unemployment rate. Annual nonfarm payroll employment grew 1.1% in February 2024, the lowest recorded since March 2021. Greater Philadelphia's largest industry, Education and Health Services, drove employment growth.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

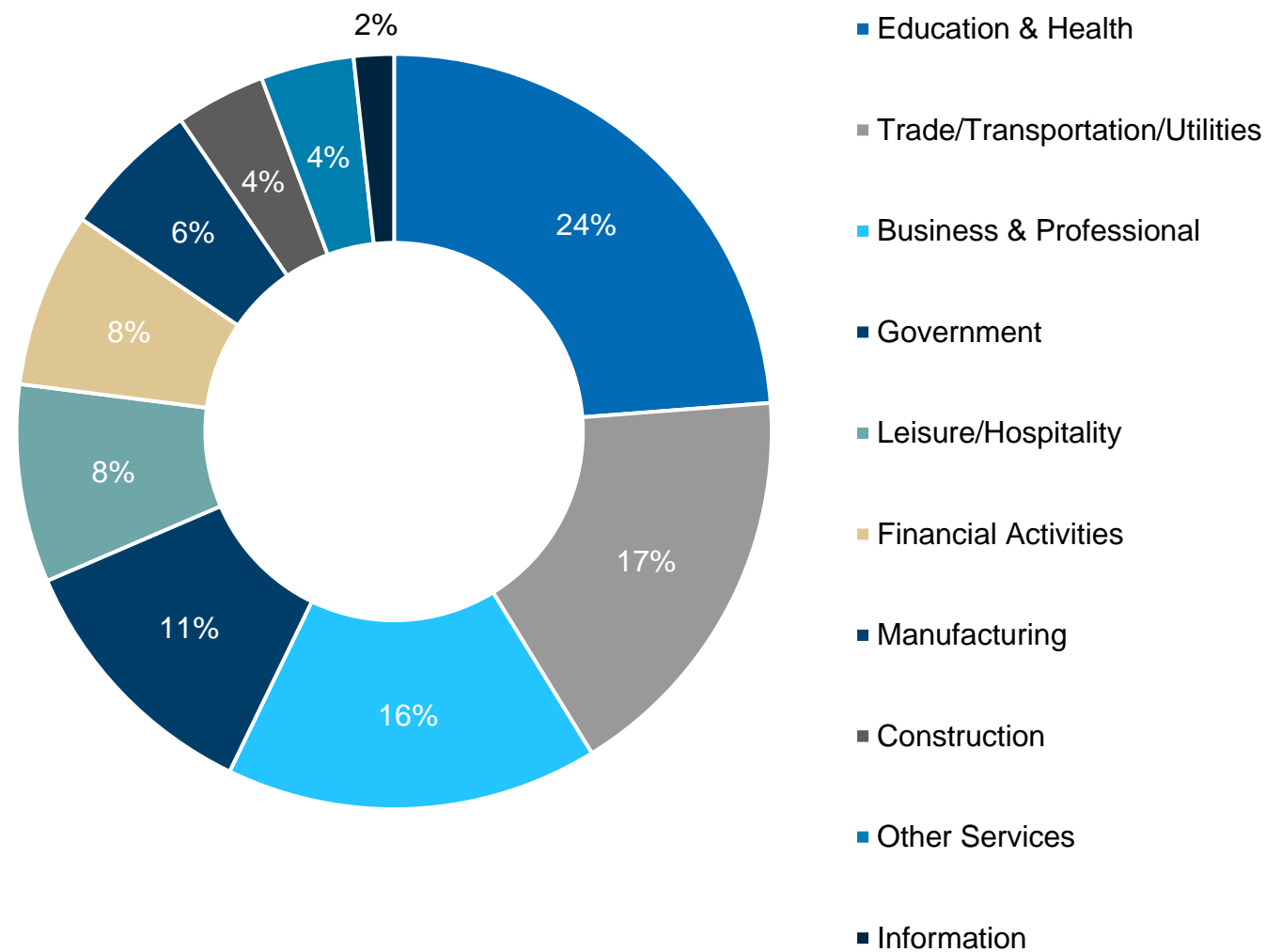


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

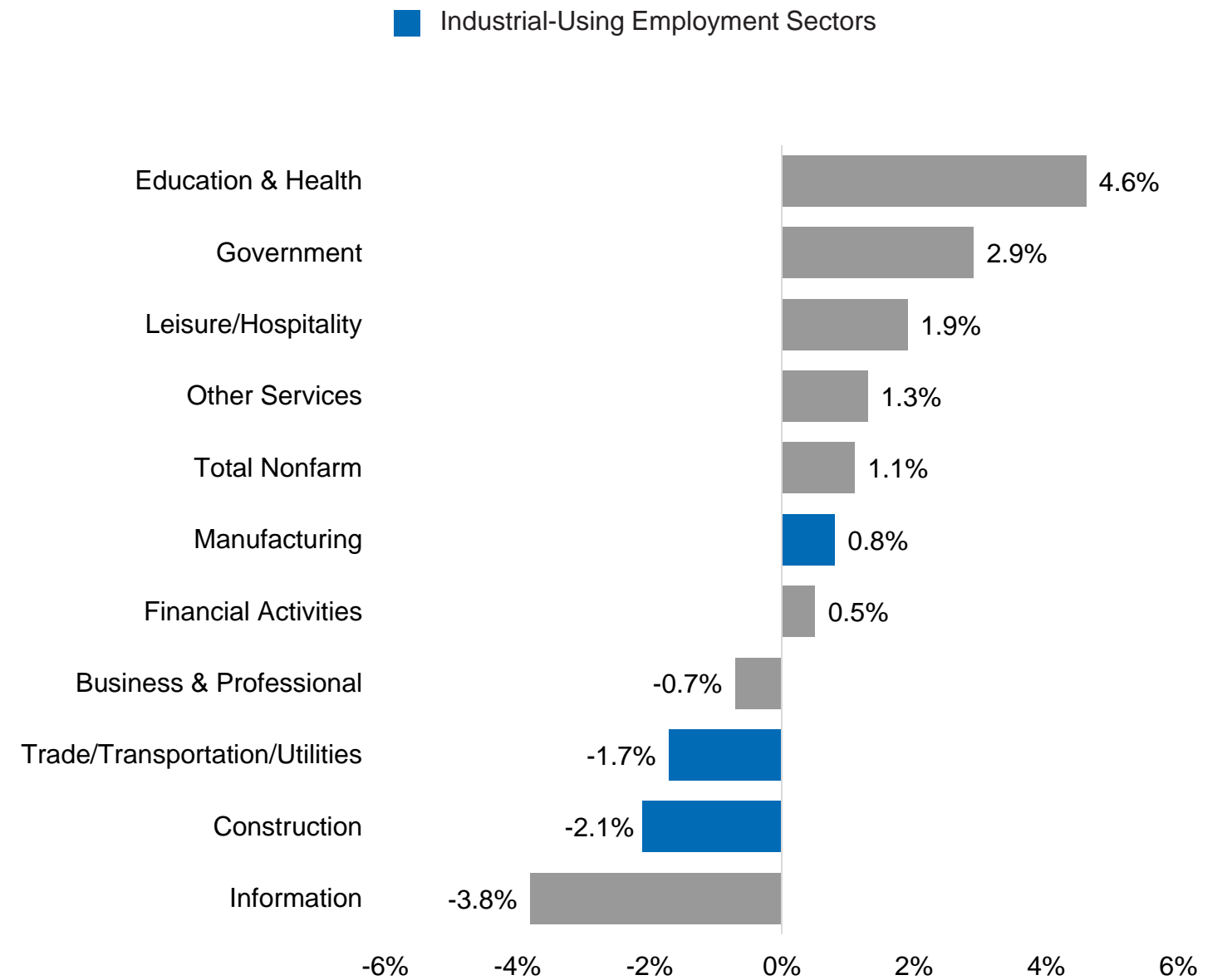
Industrial-Using Sectors Decline While Healthcare and Education Lead the Way

As of February 2024, total employment in Greater Philadelphia grew by 1.1% annually; however, most gains were in non-industrial sectors such as Education and Health Services and Government. Overall, industrial-using employment declined by 1.2%.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

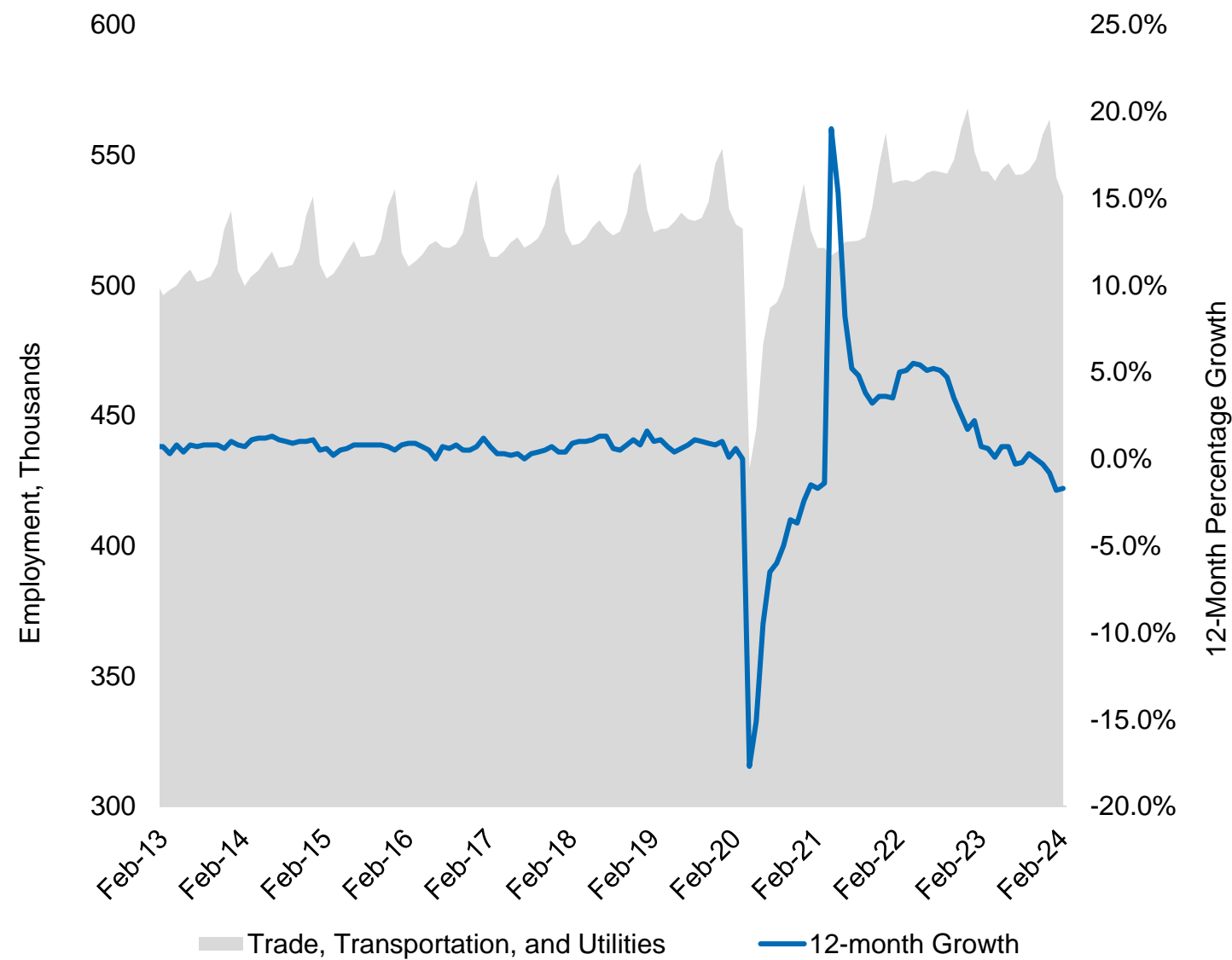


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

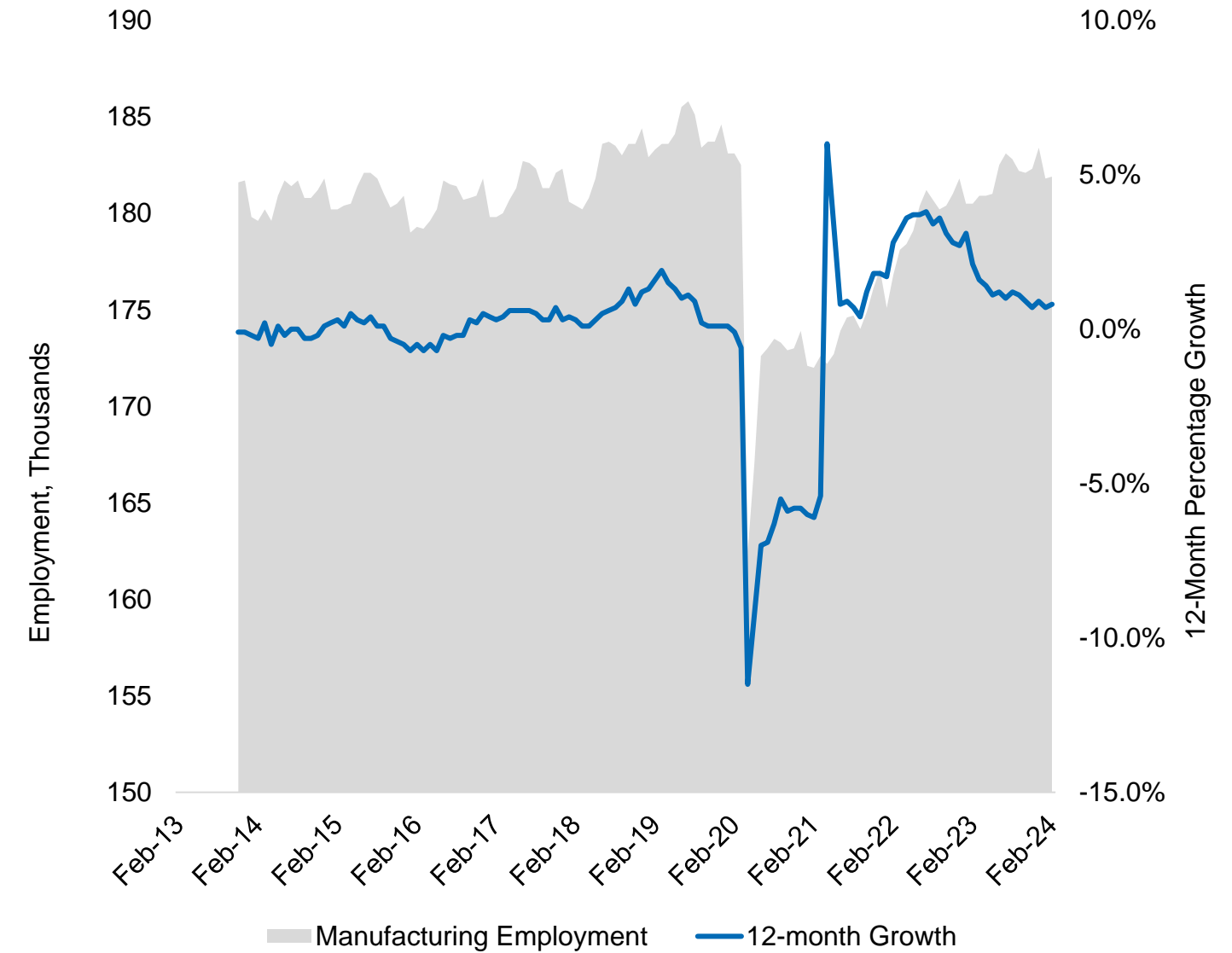
Steady Manufacturing Employment Growth Continues

Employment in the Trade, Transportation, and Utility industry continued its downward trend, which started in 2022. Despite the seasonal nature of employment in this sector, the annual net change of -1.7% in employment is the lowest since February 2021. Meanwhile, the manufacturing sector has experienced stable annual growth, but signs of weakness have begun to appear. Total manufacturing employment has decreased by 0.2% from three months earlier, marking the fifth negative change in the past six months.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

Manufacturers Anticipate Improved Activity

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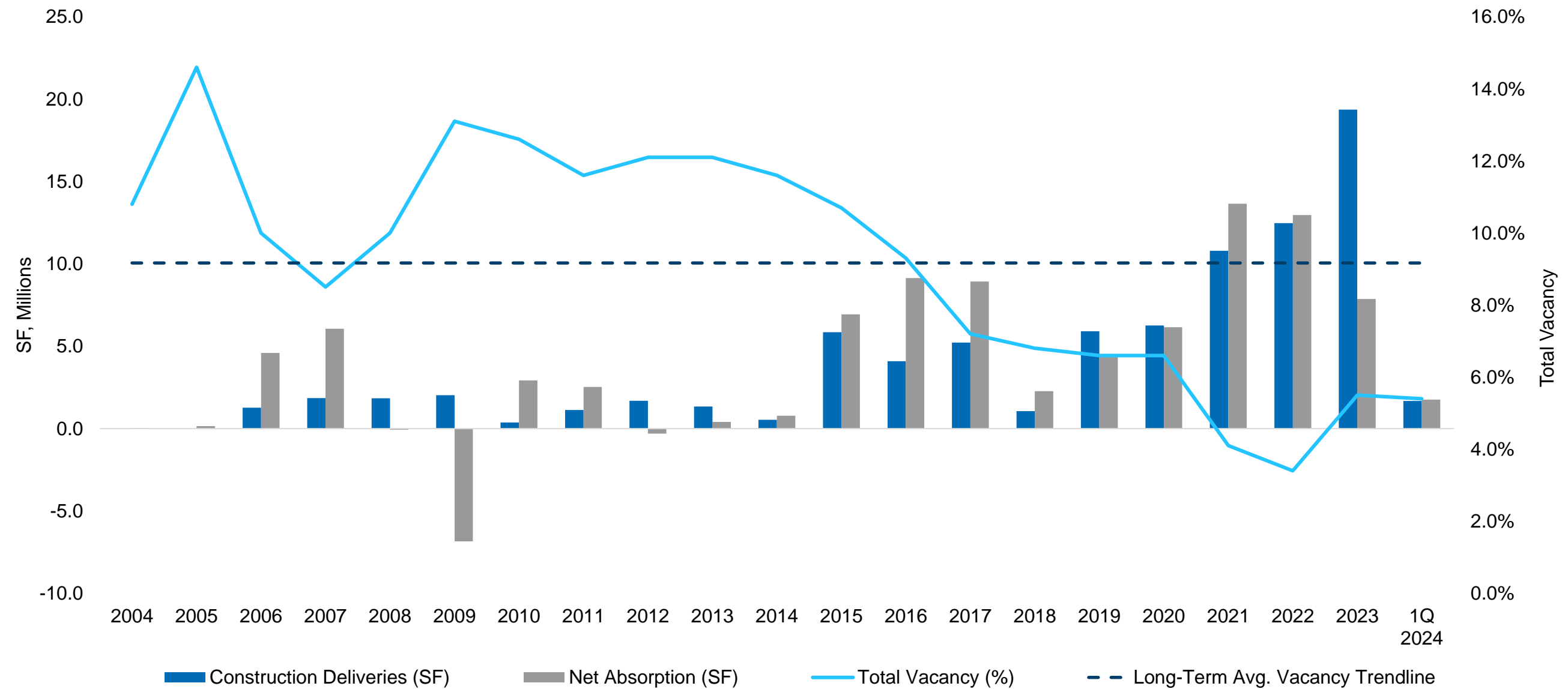
Leasing Market Fundamentals



A Slowdown in Deliveries Gives the Market a Chance to Absorb New Supply

Deliveries fell precipitously in the first quarter of 2024. The 1.7M square feet of new supply is the lowest amount delivered since the second quarter of 2021. Absorption in the Greater Philadelphia market was slightly higher, totaling 1.8M square feet. This is the first instance since the second quarter of 2022 that absorption exceeded deliveries, and a slight decrease in vacancy was a positive effect. Occupancy gains were strongest in the Burlington County submarket as Loctek Ergonomic, Cirro, and Rivian Automotive all occupied their new warehouses.

Historical Construction Deliveries, Net Absorption, and Vacancy

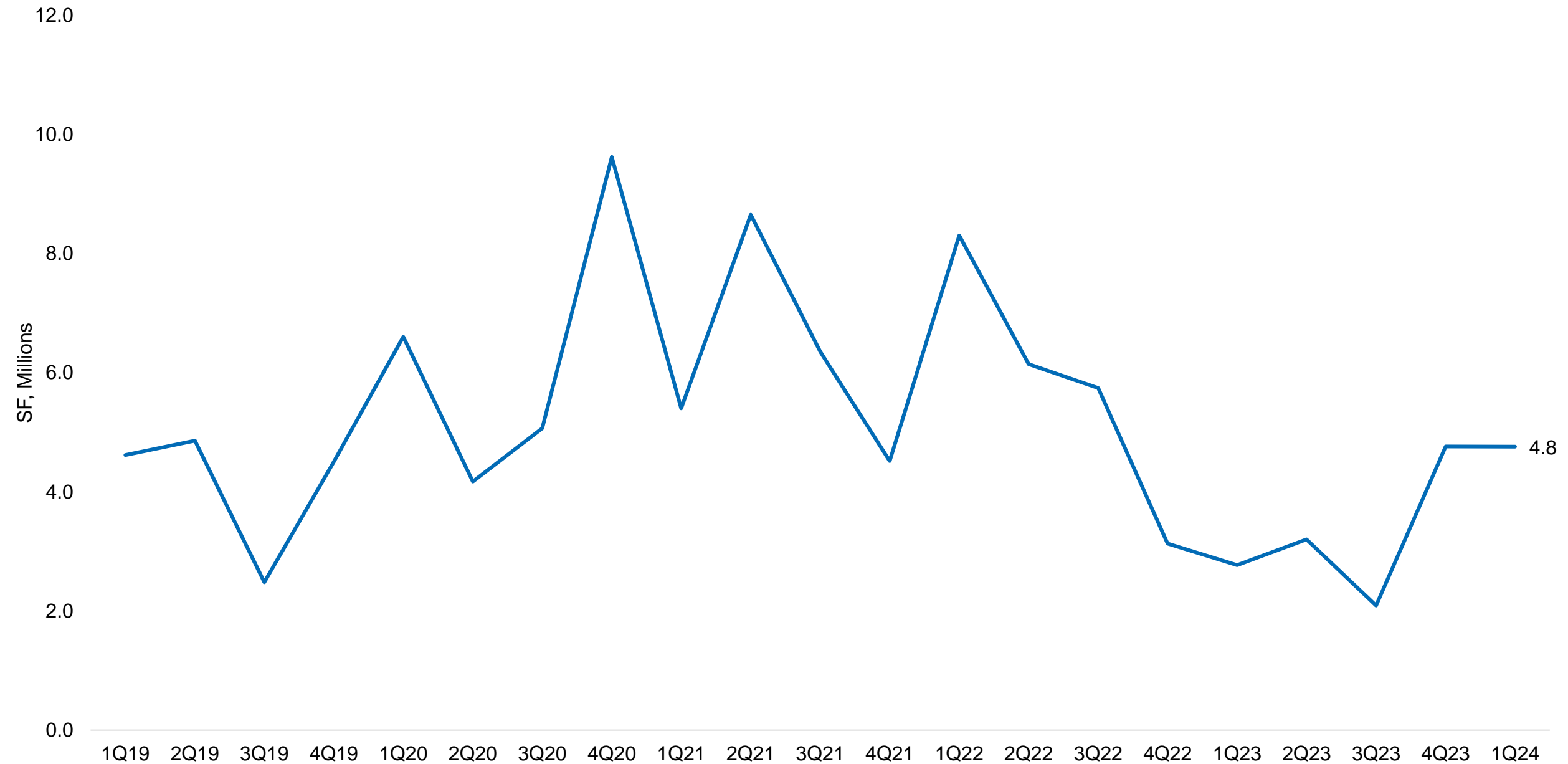


Source: Newmark Research

Industrial Leasing Activity Remains Consistent

Industrial leasing activity stayed consistent with the previous quarter's levels. Following a year-and-a-half trend of decreasing leasing activity, transaction volumes are returning to pre-2020 norms. The first quarter's 4.8M square feet leasing volume and the trailing four-quarter average of 3.7M square feet align more closely with the 2019 average quarterly volume of 4.1M square feet than the 2020-2022 average of 6.1M square feet.

Total Leasing Activity (SF)

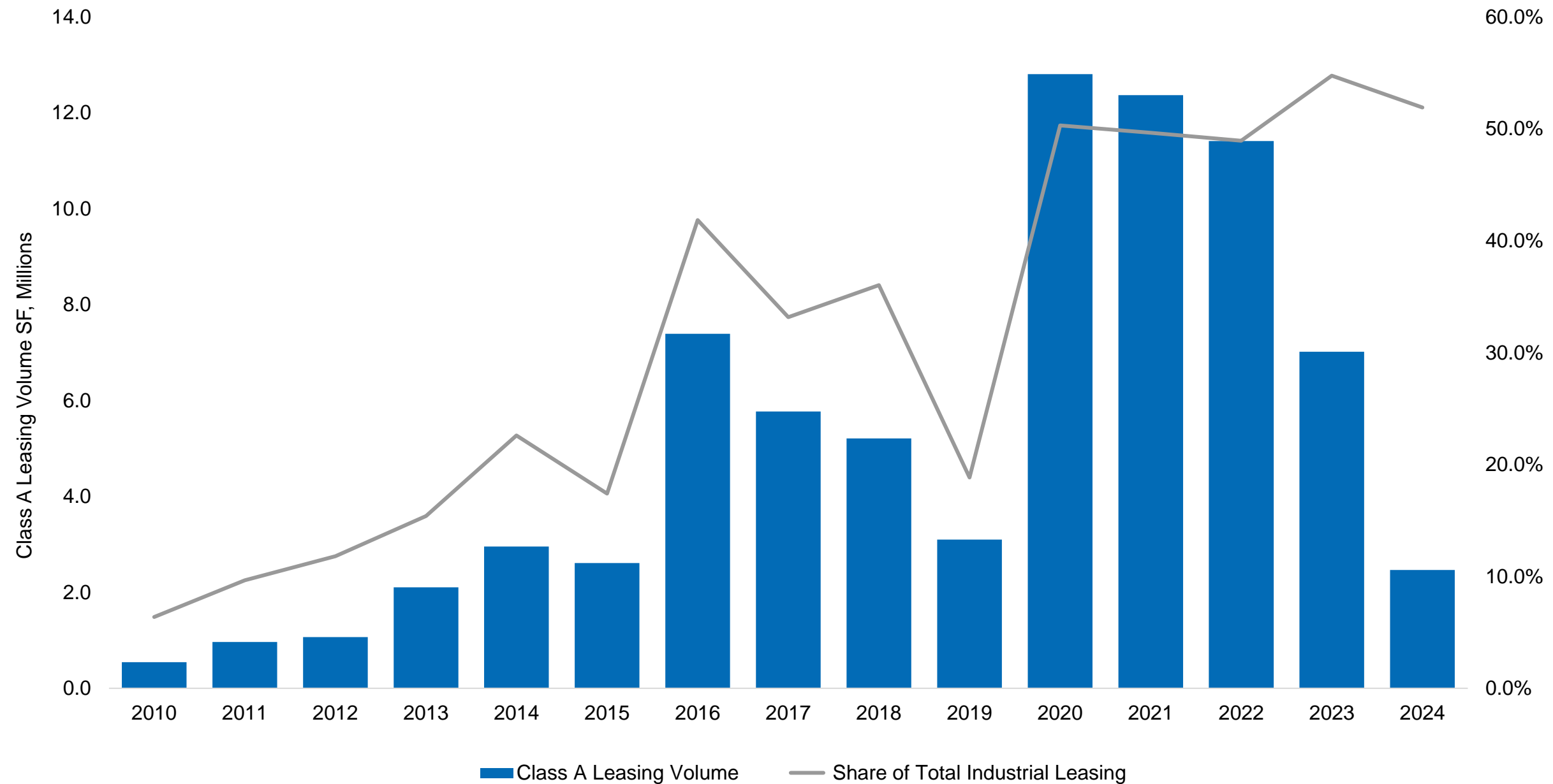


Source: Newmark Research, CoStar

Class A Industrial Captures 52% of Quarterly Leasing Volumes

Buoyed by three of the largest leases of the quarter, Class A product captured 51.9% of industrial leasing volume in the Greater Philadelphia region. Since 2020, Class A industrial assets have netted 51.1% of the market's leasing activity. Separating Class A product from the rest of the market are higher clear heights, wider column spacing, and greater power capacity. All of which are attractive to industrial users who are noticeably shifting to more automated and power-intensive operations.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



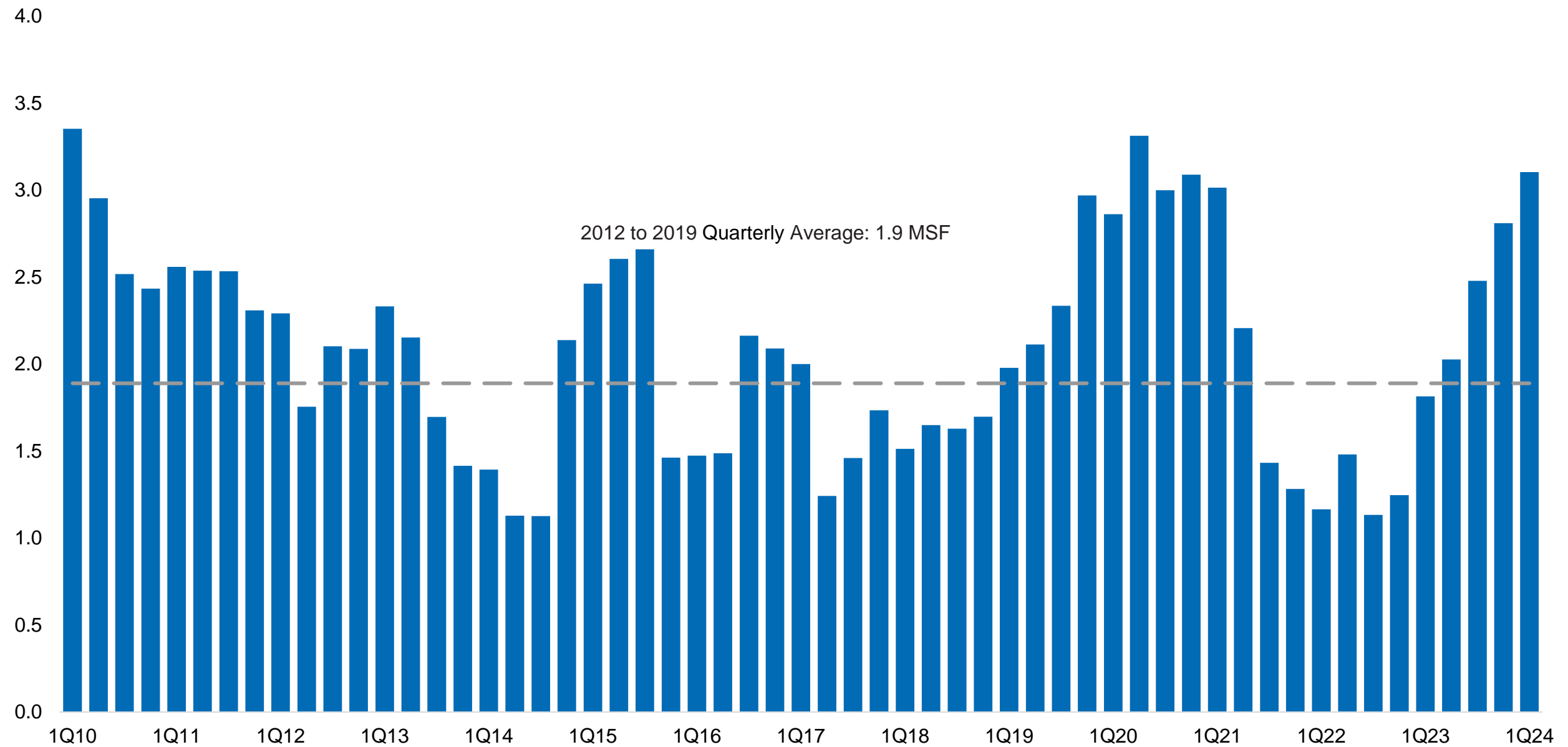
Source: Newmark Research, CoStar

Note: Newmark defines Class A warehouses as buildings constructed since 2000 and over 100,000 square feet

Industrial Sublease Availability Continues to Increase Gradually

For the sixth consecutive quarter, sublease volume increased, reaching 3.1 million square feet in Q1 2024. This marks the first time sublease inventory has surpassed 3 million square feet since Q1 2021. Southern New Jersey constitutes 58% of the market's sublease availabilities, with 67% of that inventory concentrated in the Burlington County submarket. However, sublease inventory does not pose a significant threat to the Greater Philadelphia industrial market as it only accounts for 0.6% of all inventory.

Available Industrial Sublease Volume (msf)

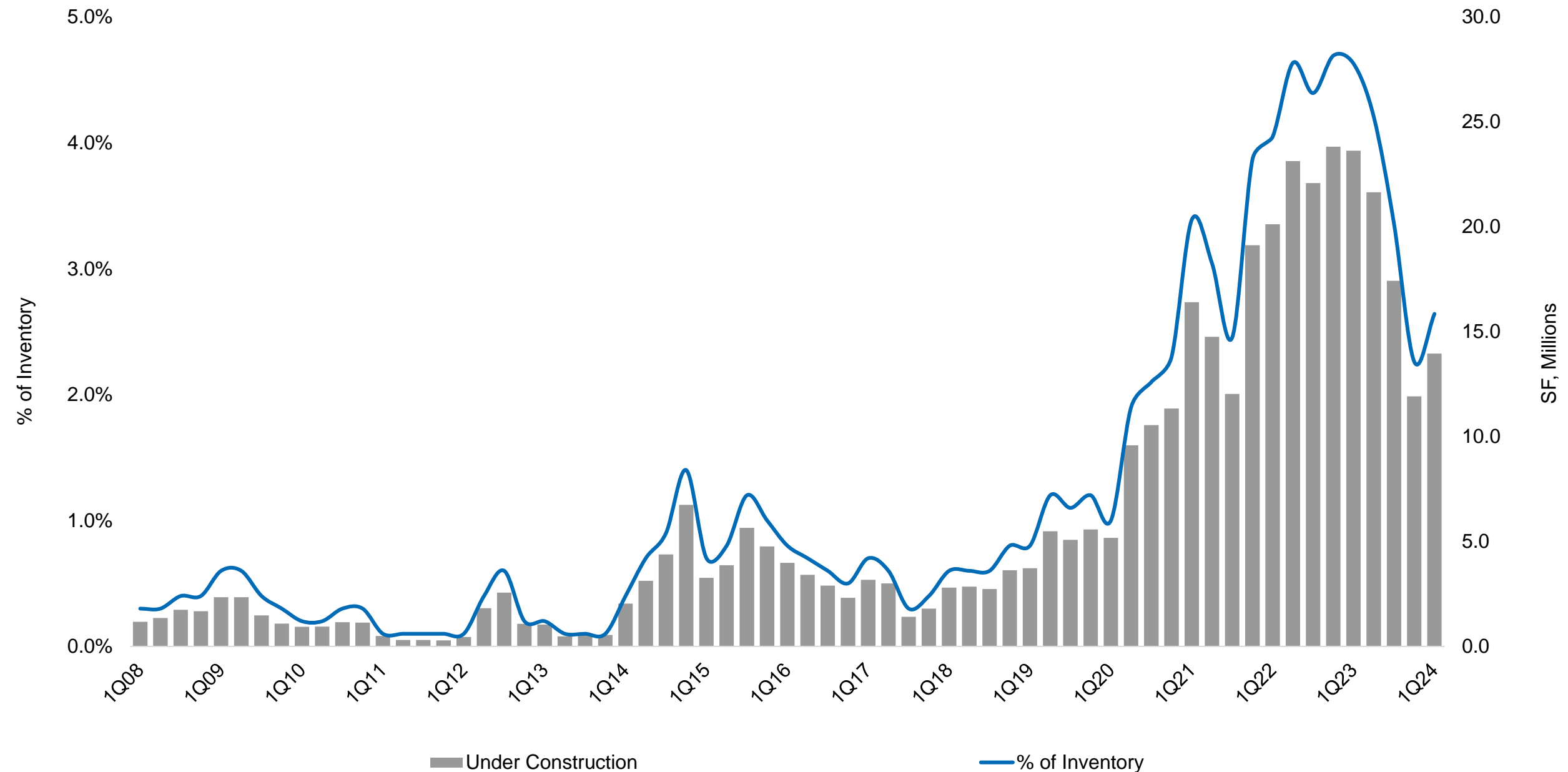


Source: Newmark Research, CoStar

Industrial Construction Pipeline Shows Signs of Growth

The total construction pipeline for the Greater Philadelphia market was 14.0M square feet at the end of the first quarter of 2024, a 2.0M square foot increase from the quarter prior. Yet-to-start developments are anticipated to backfill upcoming completions. Sitework for Northpoint Development's nearly 1.0M square foot warehouse in Salem County commenced in the first quarter and a joint venture between Rockefeller Group and PCCP bought a 50-acre site in Northeast Philadelphia to build over 650,000 square feet of new warehouses.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

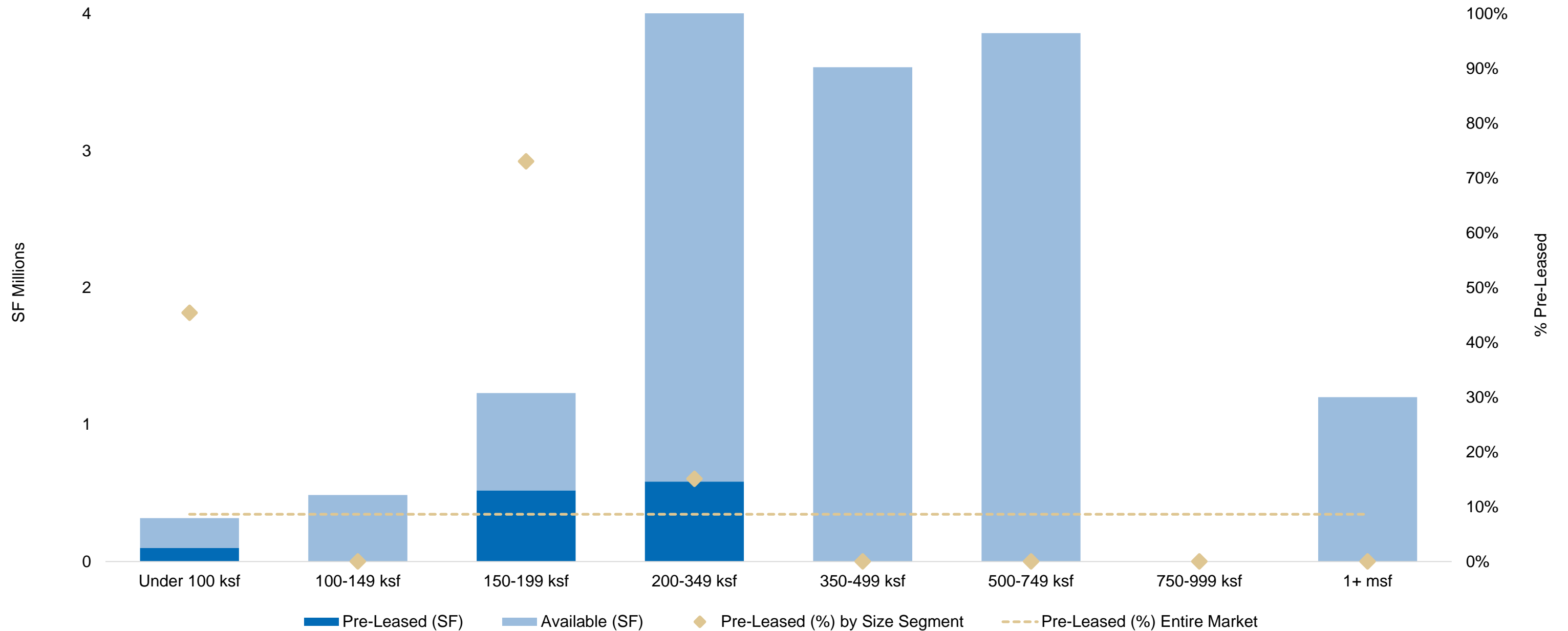
Construction Starts Begin to Pick Up Steam

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Over 90% of the Pipeline Remains Available

The delivery of pre-leased warehouses and groundbreakings of speculative developments caused available space in the construction pipeline to increase from 91.0% to 91.4%. The sub-200,000 square foot tranches have experienced the best pre-leasing activity of the pipeline. These smaller developments are well positioned to capture market demand given the average industrial lease size has averaged just over 75,000 square feet since 2022.

Total Construction by Size Segment: Pre-Leased vs. Available Space

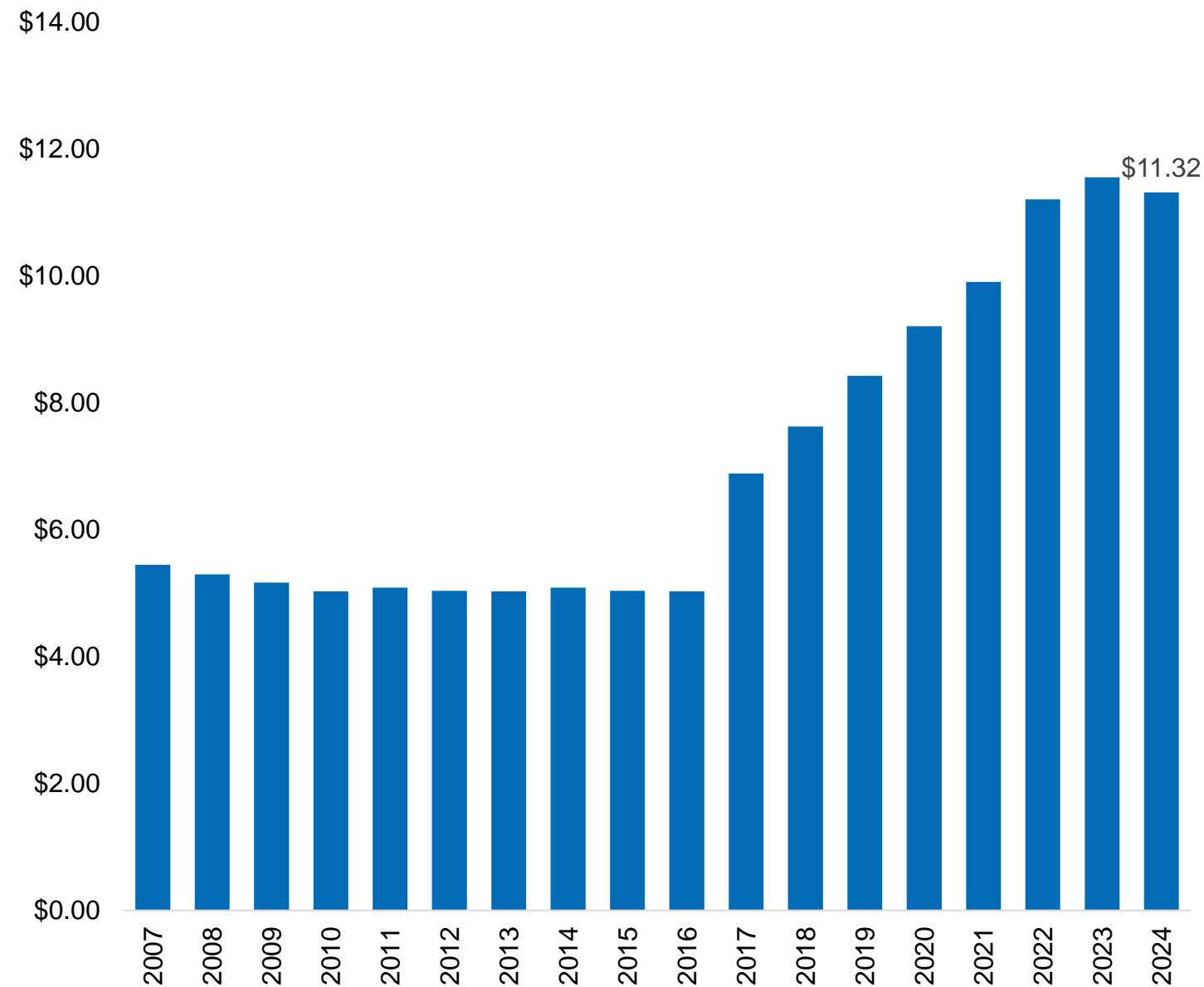


Source: Newmark Research

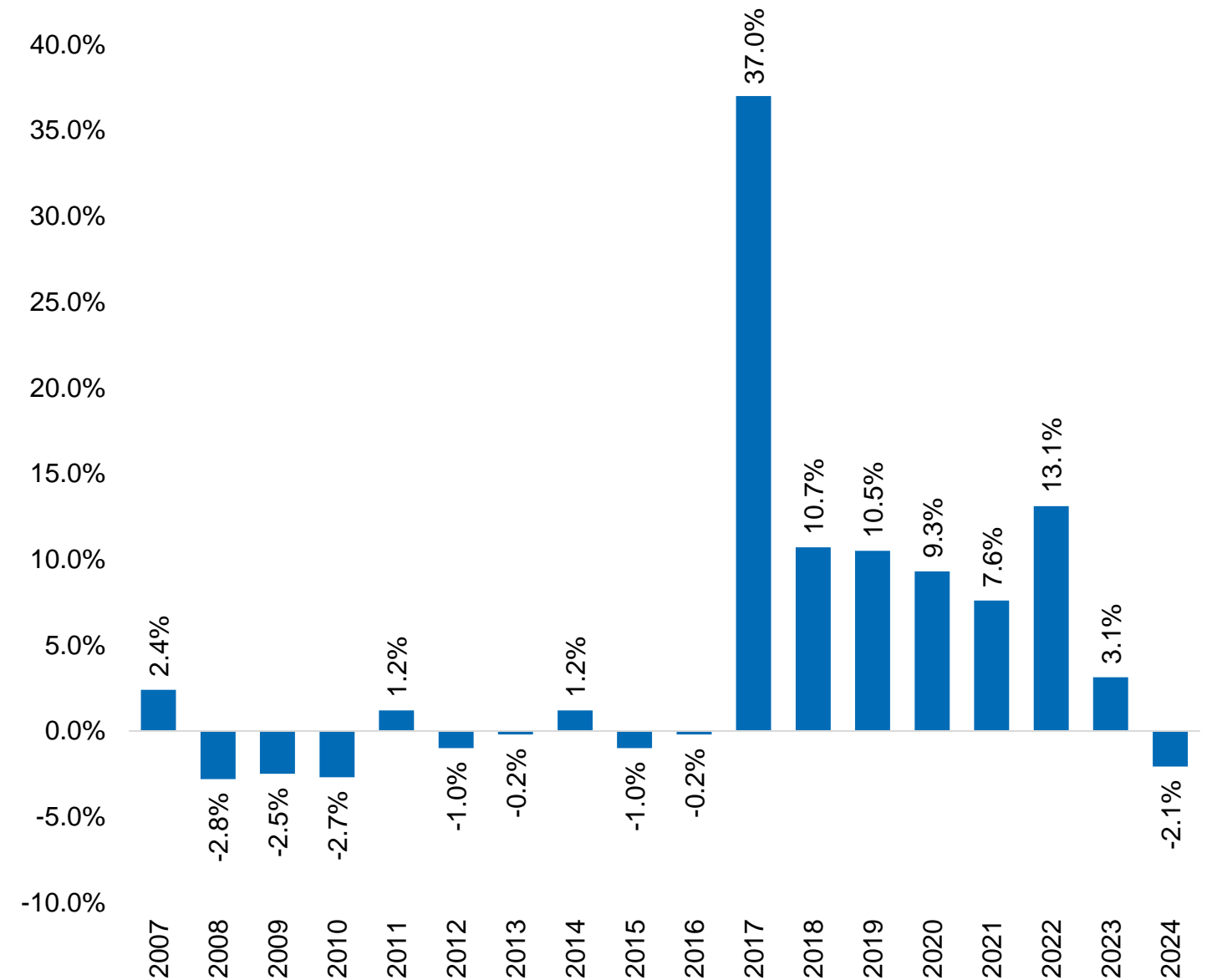
Asking Rates Decline Slightly, Providing Some Relief to Tenants

The lease-up of Class A space in Burlington County and moderating demand put downward pressure on asking rates in the Greater Philadelphia market. Compared to year-end 2023, rents have dipped by 2.1% after growing steadily for the last seven years. This dip is not expected to be part of a longer-term decline in industrial asking rates. Over 12.8M square feet of the market's construction pipeline is still available for lease and has a weighted average asking rent of \$13.77/SF. New supply will buoy market averages despite normalizing leasing activity.

Industrial Average Asking Rent, \$/SF, NNN*



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Note: Asking rates for periods between 2017 and 2022 were derived from lease comps

Asking rates between 2023 and 2024 are overall market averages

Southern New Jersey Dominates Leasing Activity

Many of the largest leases inked in the first quarter of 2024 were in Southern New Jersey. The lease-up of new supply in this market is crucial to the overall health of the Greater Philadelphia market. Since 2020, over half of Greater Philadelphia's 50.6M square feet of deliveries have occurred in Southern New Jersey, causing vacancy to rise from 5.6% to 8.4%.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Loctek Ergonomic	1900 River Road	Burlington County	Direct Lease	667,560
Slyvamo North America	1500 John Galt Way	Burlington County	Lease Renewal	431,720
Rivian Automotive	25 Golfwood Avenue	Salem County	Direct Lease	371,000
Amazon	2279 Center Square Road	Gloucester County	Lease Renewal	203,250
Nellis Auction	400 Delran Parkway	Burlington County	Sublease	177,650

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Appendix / Tables



Submarket Overview (page 1 of 2)

Submarket Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Qtr. Construction Deliveries (SF)	YTD Construction Deliveries (SF)	Total Asking Rent (Price/SF)
New Castle County	34,296,002	1,502,935	5.5%	(40,332)	(40,332)	1,215,240	1,215,240	\$11.24
Southern New Jersey	145,338,275	5,705,122	8.4%	1,754,894	1,754,894	262,200	262,200	\$12.09
Greater Philadelphia	348,714,275	6,745,518	4.2%	49,770	49,770	202,108	202,108	\$10.81
Market	528,348,552	13,953,575	5.4%	1,764,332	1,764,332	1,679,548	1,679,548	\$11.32

Submarket Statistics By Subtype

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Qtr. Construction Deliveries (SF)	YTD Construction Deliveries (SF)	Total Asking Rent (Price/SF)
General Industrial	246,660,460	451,000	3.1%	329,595	329,595	-	-	\$9.64
R&D/Flex	81,643,619	58,935	4.7%	54,274	54,274	-	-	\$13.38
Warehouse/Distribution	200,044,473	13,443,640	8.5%	1,380,463	1,380,463	1,679,548	1,679,548	\$11.77
Market	528,348,552	13,953,575	5.4%	1,764,332	1,764,332	1,679,548	1,679,548	\$11.32

Source: Newmark Research

Submarket Overview (page 2 of 2)

Submarket Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Qtr. Construction Deliveries (SF)	YTD Construction Deliveries (SF)	Total Asking Rent (Price/SF)
Bucks County	63,650,919	1,213,817	6.2%	(122,605)	(122,605)	262,108	262,108	\$11.69
Chester County	37,553,756	-	2.9%	151,490	151,490	-	-	\$10.98
Delaware County	30,777,703	479,000	3.5%	(202,753)	(202,753)	-	-	\$13.38
Lancaster County	59,531,473	602,040	2.6%	410,079	410,079	-	-	\$7.41
Montgomery County	73,061,516	476,500	5.1%	(195,809)	(195,809)	-	-	\$12.30
Philadelphia County	84,138,908	3,648,261	3.7%	9,368	9,368	-	-	\$9.81
Greater Philadelphia	348,714,275	6,745,518	4.2%	49,770	49,770	202,108	202,108	\$10.81
Burlington County	68,703,054	1,905,790	12.8%	971,698	971,698	-	-	\$12.38
Camden County	33,179,809	534,600	2.5%	91,542	91,542	-	-	\$10.74
Gloucester County	35,304,778	1,476,725	4.6%	311,044	311,044	262,200	262,200	\$11.73
Salem County	8,150,634	1,788,007	11.4%	380,610	380,610	-	-	\$11.41
Southern New Jersey	145,338,275	5,705,122	8.4%	1,754,894	1,754,894	262,200	262,200	\$12.09
New Castle County	34,296,002	1,502,935	5.5%	(40,332)	(40,332)	1,215,240	1,215,240	\$11.24
Market	528,348,552	13,953,575	5.4%	1,764,332	1,764,332	1,679,548	1,679,548	\$11.39

Source: Newmark Research

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