

Greater Philadelphia Industrial Market Overview

Market Observations

Economy

- The region’s labor market showed signs of weakness in the third quarter. Unemployment increased 60 basis points since the end of the second quarter to reach 4.5%, a 12-month high.
- Year-over-year, job gains in the Philadelphia metro have outperformed the national average, growing 3.0% year-over-year compared to the nation’s 2.0% growth rate. The leisure and hospitality industry continues to lead the region’s labor market in job gains.
- While still above the Federal Reserve’s 2.0% target, the region’s 12-month percentage change in CPI for the month of August was 3.9%. This is significantly lower than the 8.1% rate observed in August 2022.

Major Transactions

- In September, a JV between Core5 Industrial Partners and Arbok Partners purchased close to 160 acres in Carney’s Point, NJ. Current plans for the newly acquired site is a 1.75M SF warehouse, which would be the largest industrial building in Southern New Jersey.
- The e-commerce retailer Amazon had a bustling quarter in the Greater Philadelphia market. It leased 251,029 SF at 7101 Milnor Street in Philadelphia, sublet its 97,987-square-foot building at 2001 Gehman Road in Harleysville to ParcelJet, and withdrew the 577,829-square-foot sublease listing for 1290 S Dupont Highway and will reoccupy the warehouse. In total, this is 926,845 SF worth of activity.
- The market’s cold storage inventory is set to grow after major announcements in the third quarter of 2023. Agile Cold Storage announced a two-building 318,000-square-foot project in northern New Castle County, and Bristol Group will construct a 261,000-square-foot cold storage facility near the Philadelphia International Airport.

Leasing Market Fundamentals

- Absorption in the third quarter totaled 505,795 square feet, which brought year-to-date absorption up to 2.4M square feet. This is just over 20% of year-to-date absorption in the third quarter of 2022.
- Fourteen buildings totaling 5.5M square feet delivered in the third quarter. The construction pipeline is 17.4M square feet, 22.7% less than the pipeline in the third quarter of 2023.
- Vacancy and rents both increased year over year. Vacancy grew to 5.5% as deliveries outpaced absorption. Higher-priced deliveries caused rents to rise slightly, as the \$11.34/SF average rate was 1.2% higher than last year’s average.

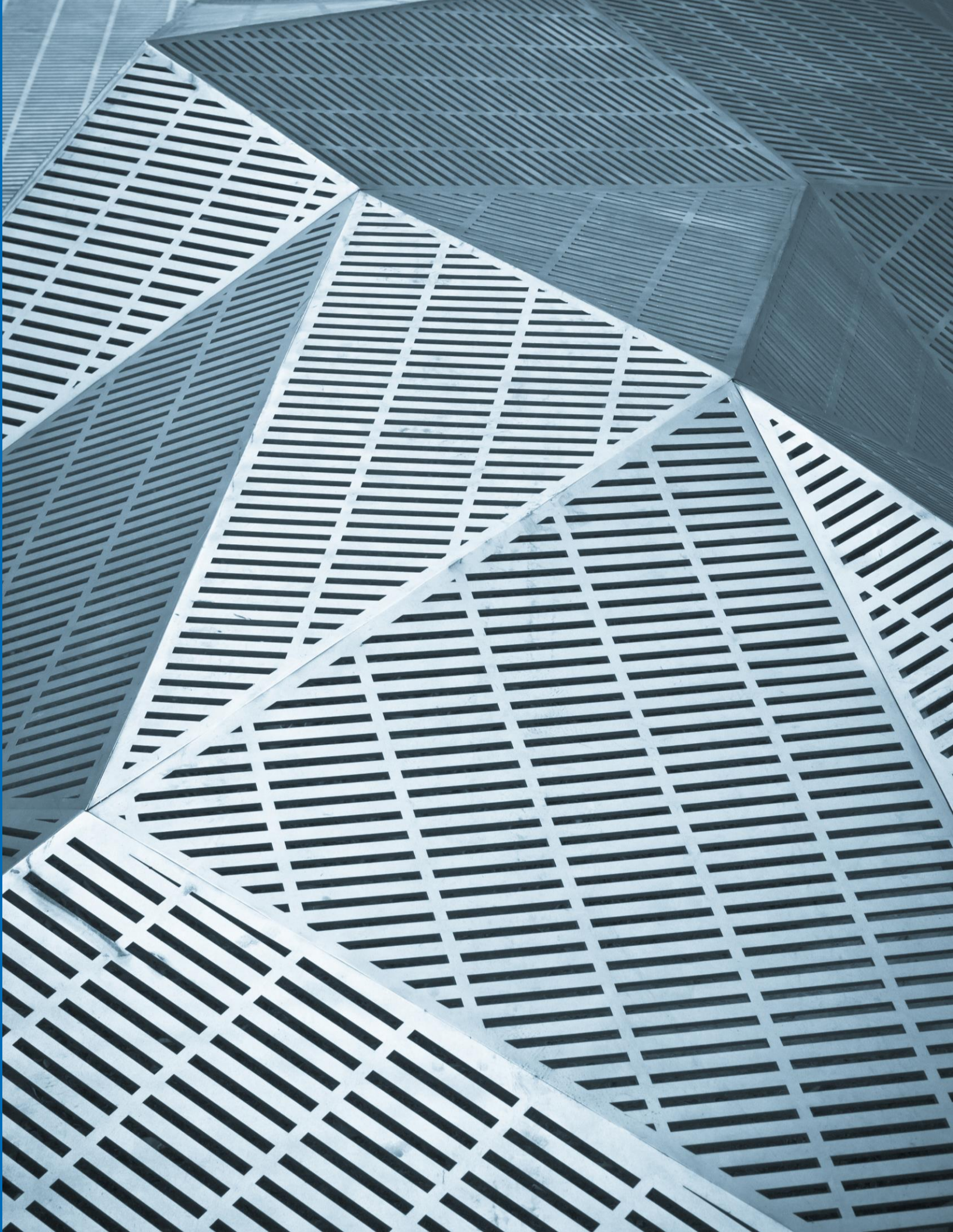
Outlook

- Economic uncertainty has caused large retail and logistic companies to pull back their leasing activity after a few years of solid demand. A clearer macroeconomic outlook could spur improved leasing activity.
- Market vacancy will increase further as record volumes of new construction will be delivered this year and in 2024. Currently, 71% or 12.8M square feet of the construction pipeline remains available. The addition of this available product would increase vacancy to 7.7%.
- Rent growth, aggressive since the pandemic outbreak, has decelerated and will continue to cool throughout the year due to demand normalization.

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2. Leasing Market Fundamentals
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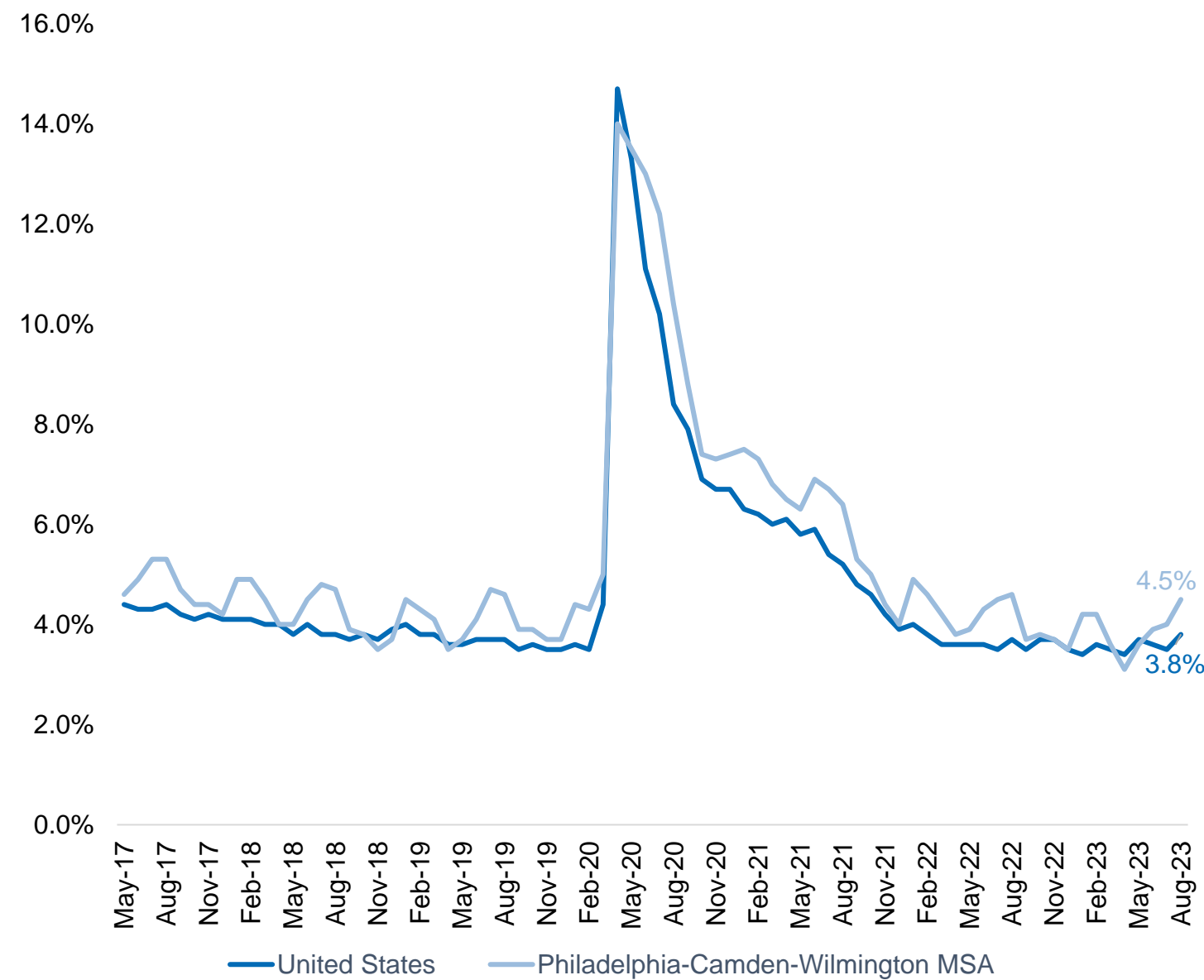
Economy



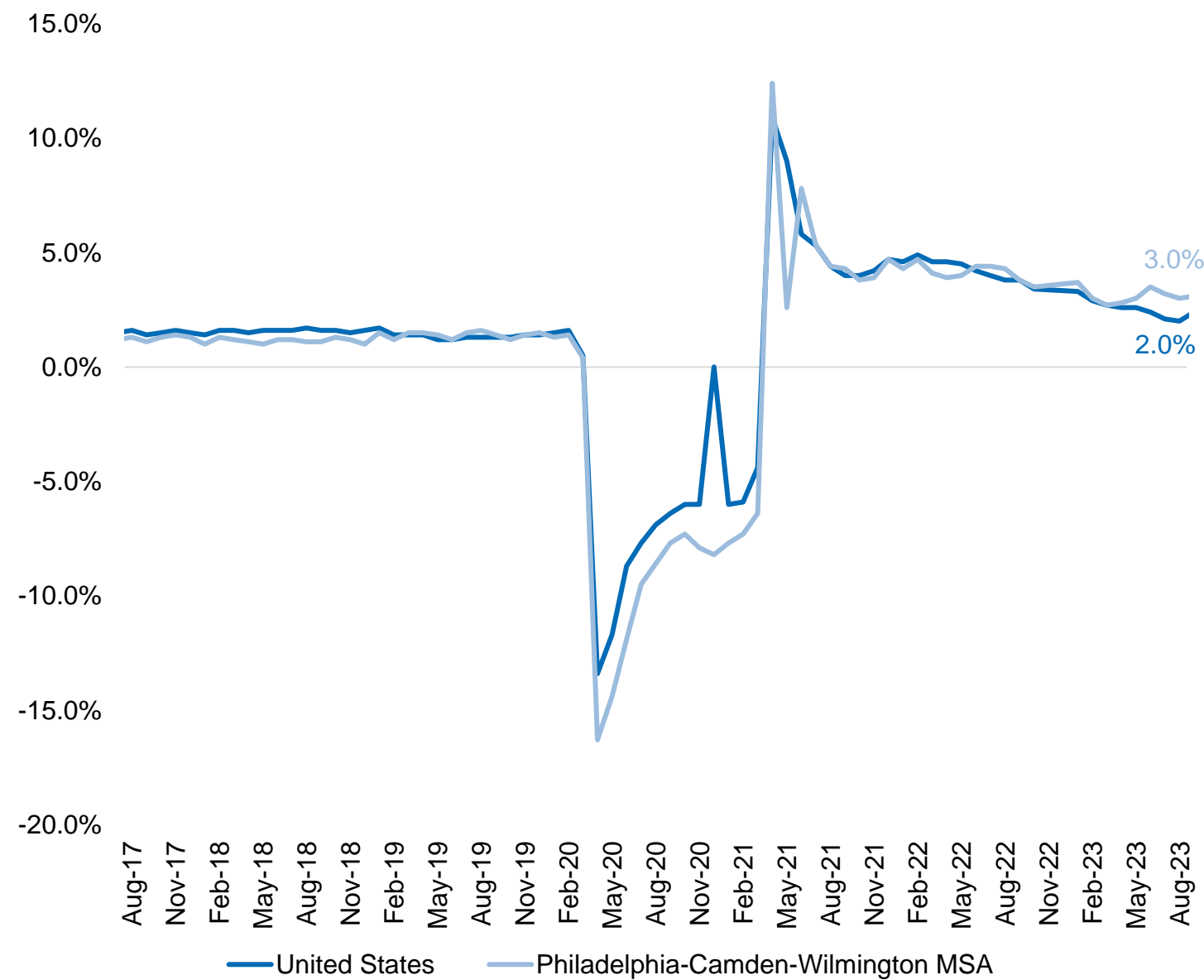
Metro Employment Trends Signal A Slowing Economy

The Philadelphia Metro’s unemployment rate rose to 4.5% in the third quarter of 2023. This is the highest it's been since August of 2022. Employment reductions have been observed in the education and health services industry as well as in government.

Unemployment Rate, Seasonally Adjusted



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

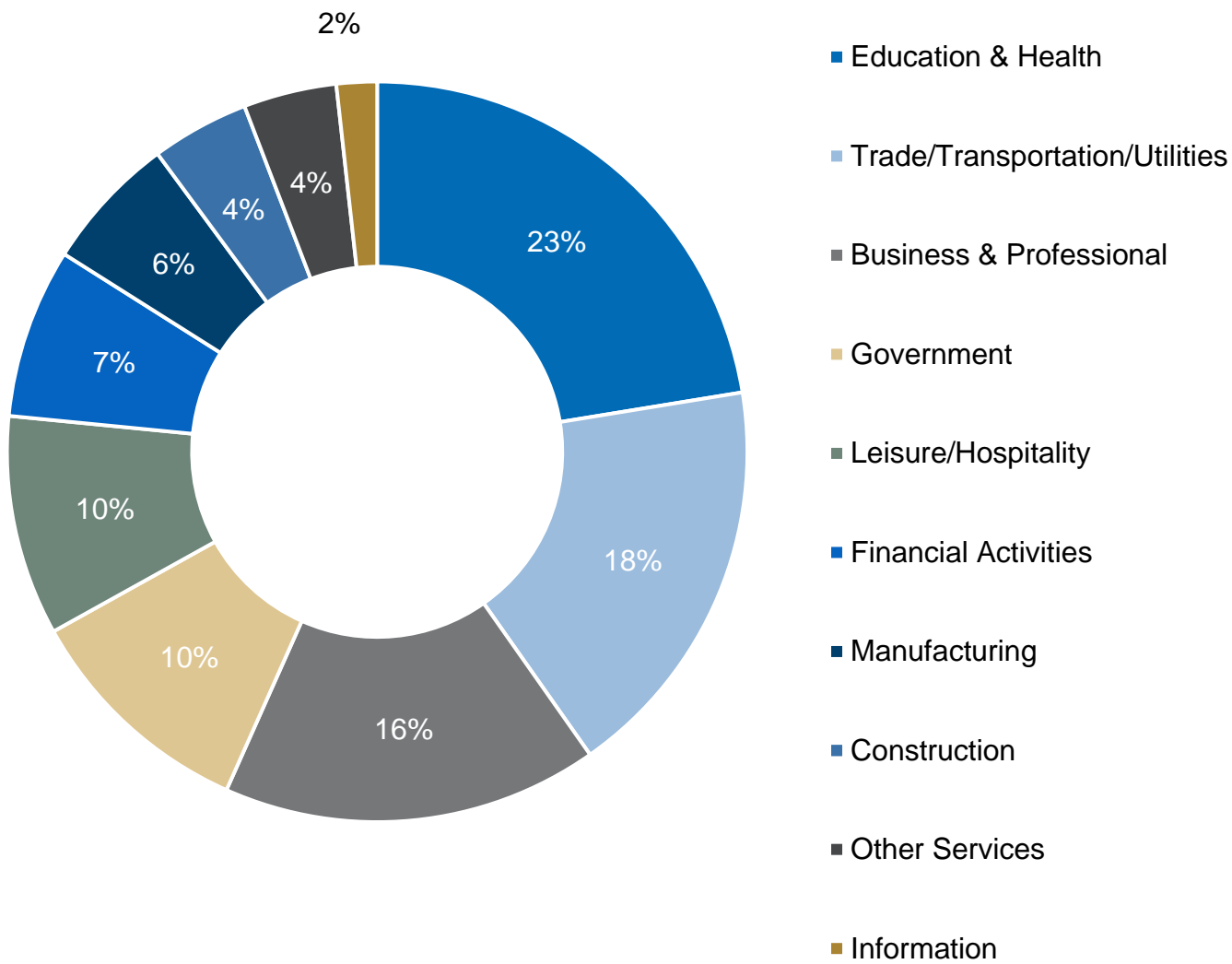


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

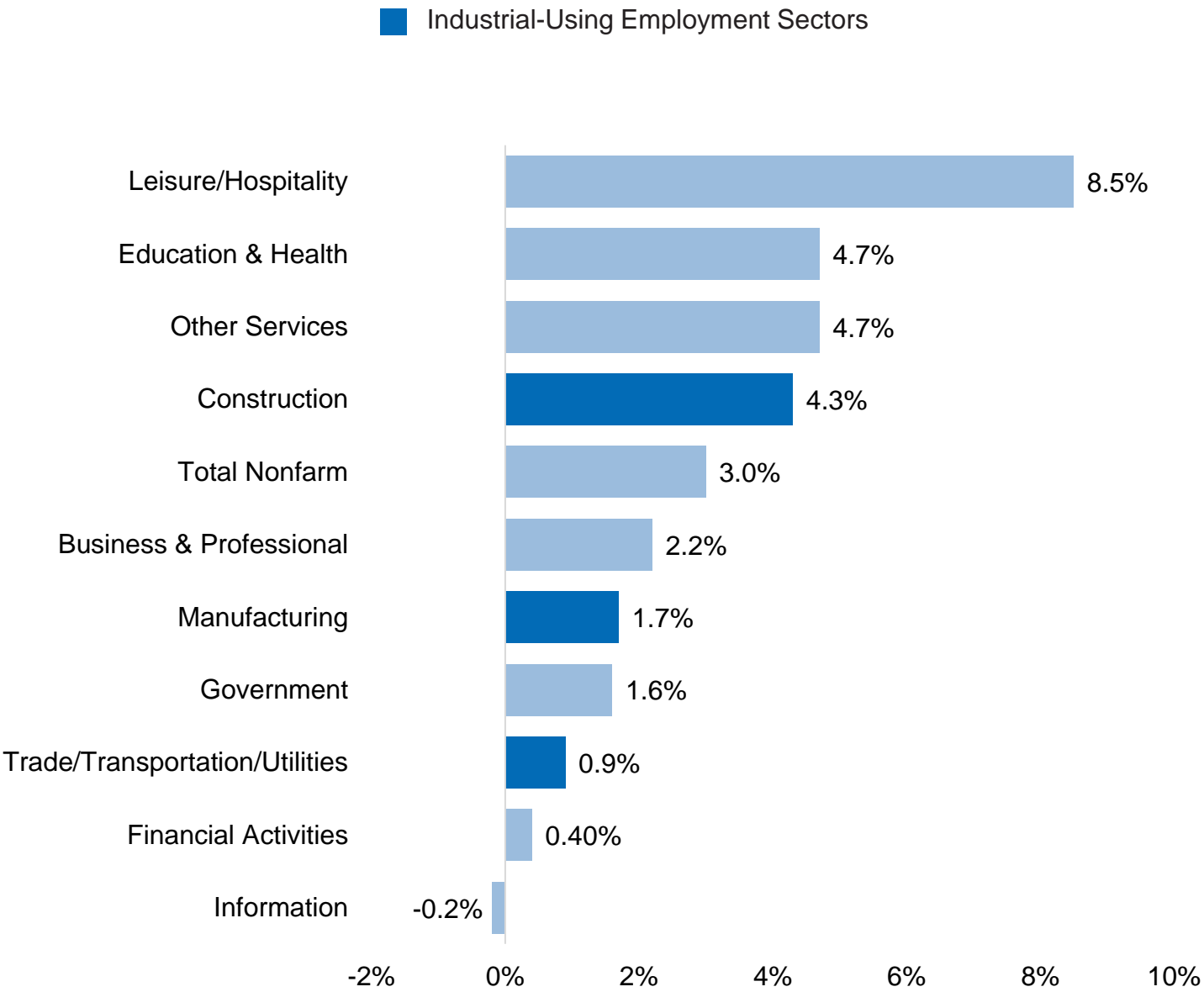
Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

Strong hiring in the leisure and hospitality industry has brought employment in that sector above pre-pandemic highs. Employment in this industry is highly seasonal, with employment losses averaging 5.3% between June and December in the seven years before the pandemic. The combination of weakening travel demand in colder months and tightening household budgets due to inflation could cause this pattern to repeat itself.

Employment by Industry, August 2023



Employment Growth by Industry, 12-Month % Change, August 2023

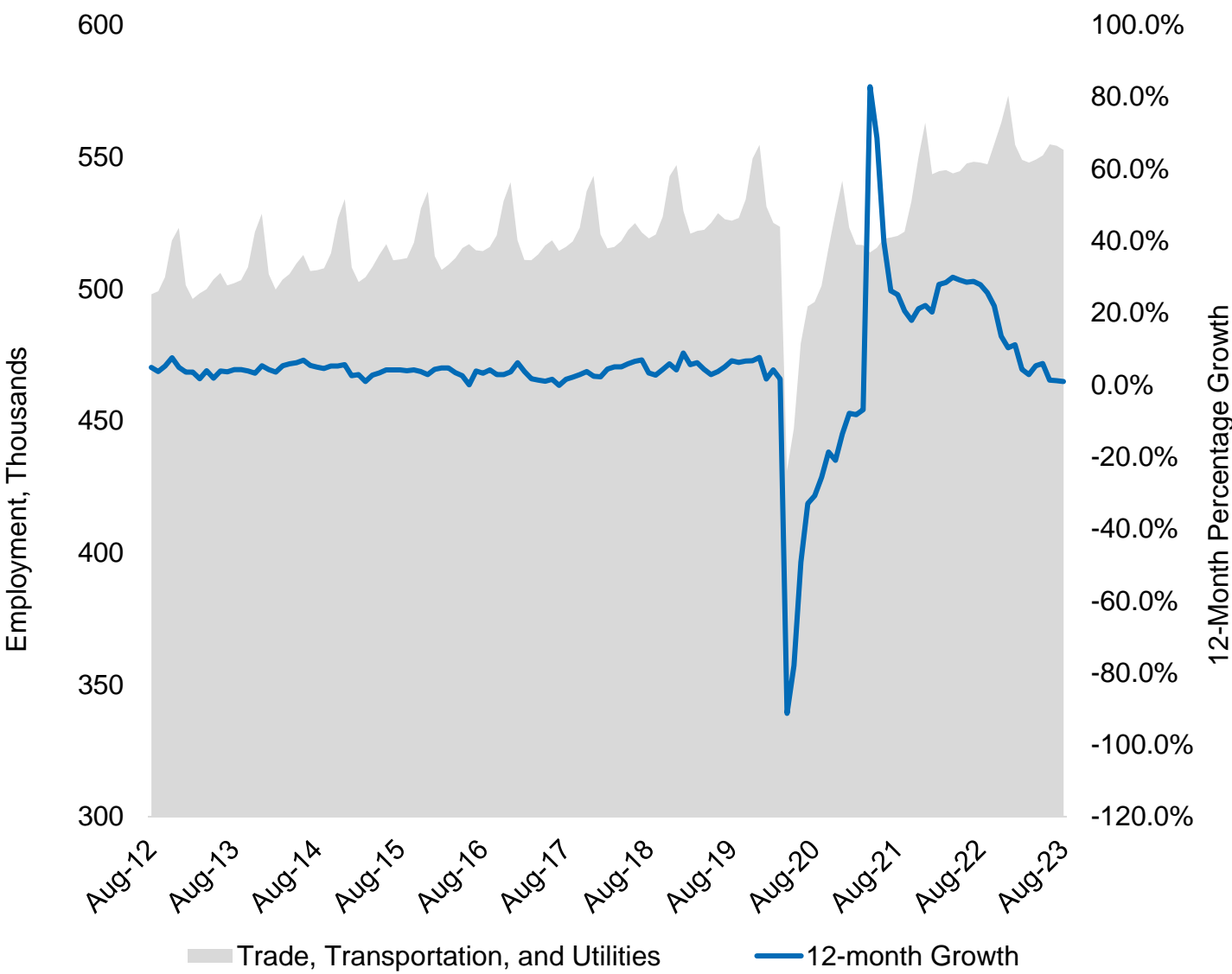


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

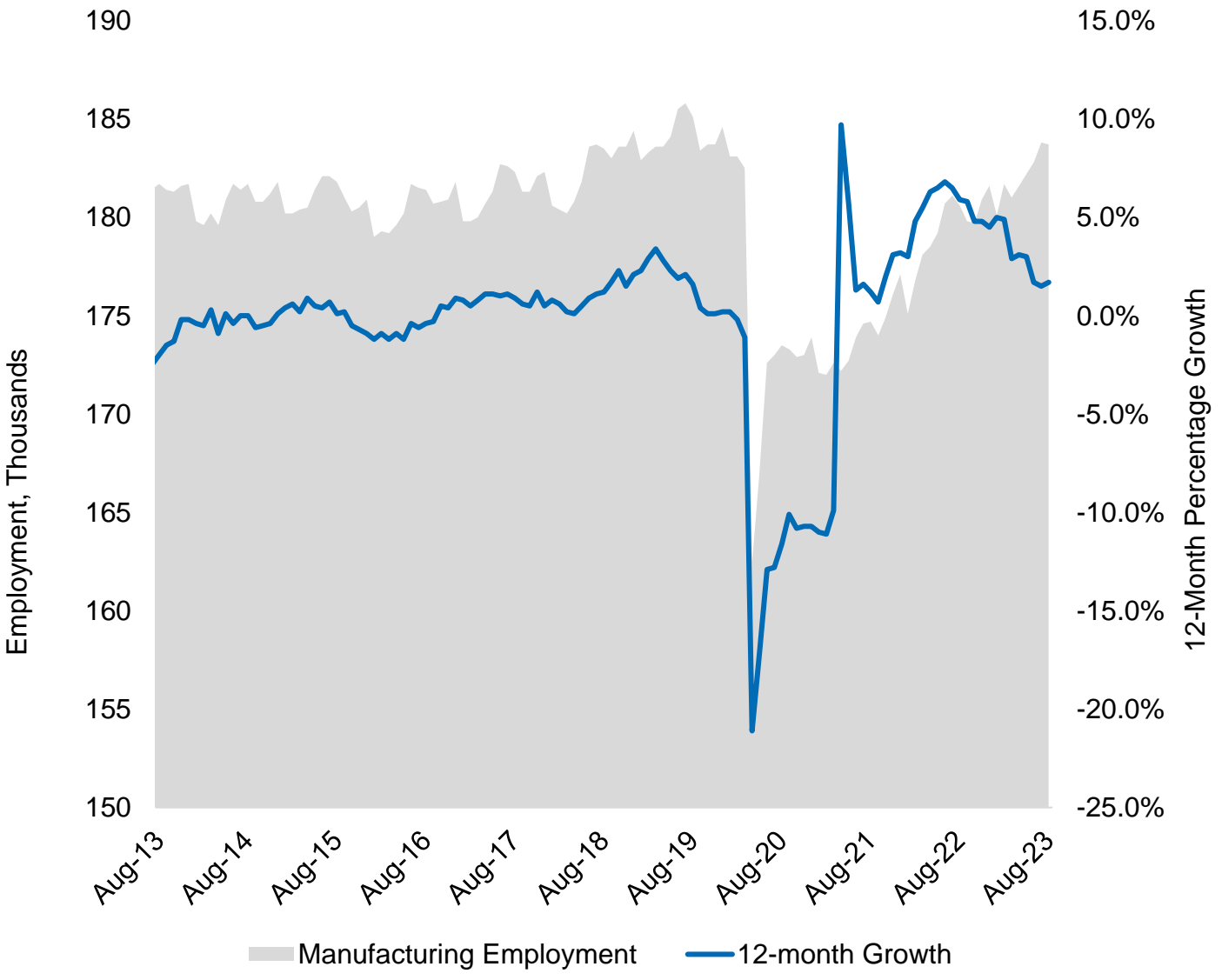
Industrial Employment

Manufacturing employment has nearly fully recovered after losing more than 20% of its jobs during the onset of the pandemic. Trade, transportation, and utilities employment recovered lost jobs in 2021, and annual growth in this sector is moving closer to pre-pandemic figures. This industry is highly seasonal and typically peaks in December due to holiday shopping. In the five years before the pandemic, the trade and transportation sector grew nearly 5% between the end of the third and fourth quarters.

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



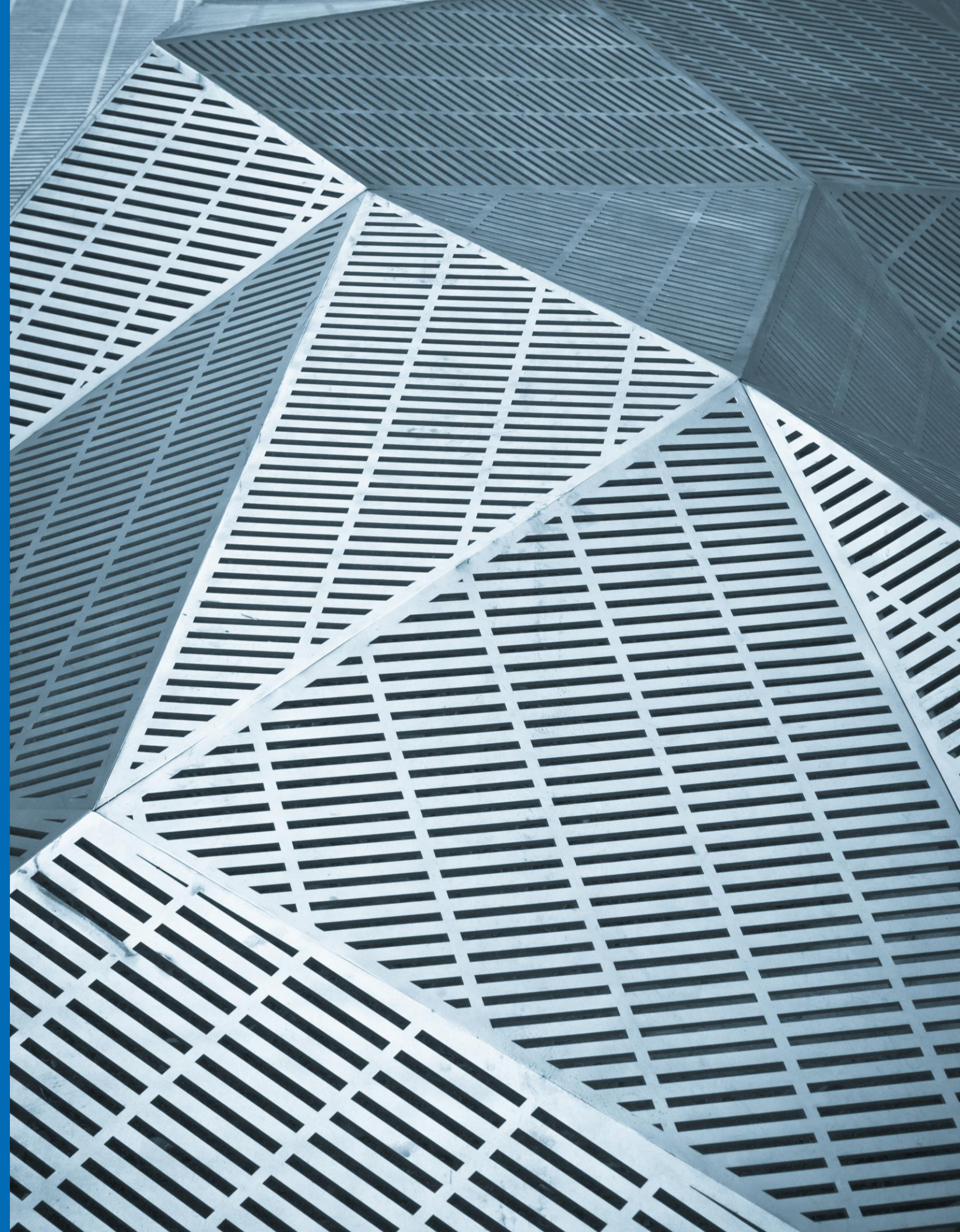
Total Employment and 12-Month Growth Rate, Manufacturing



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

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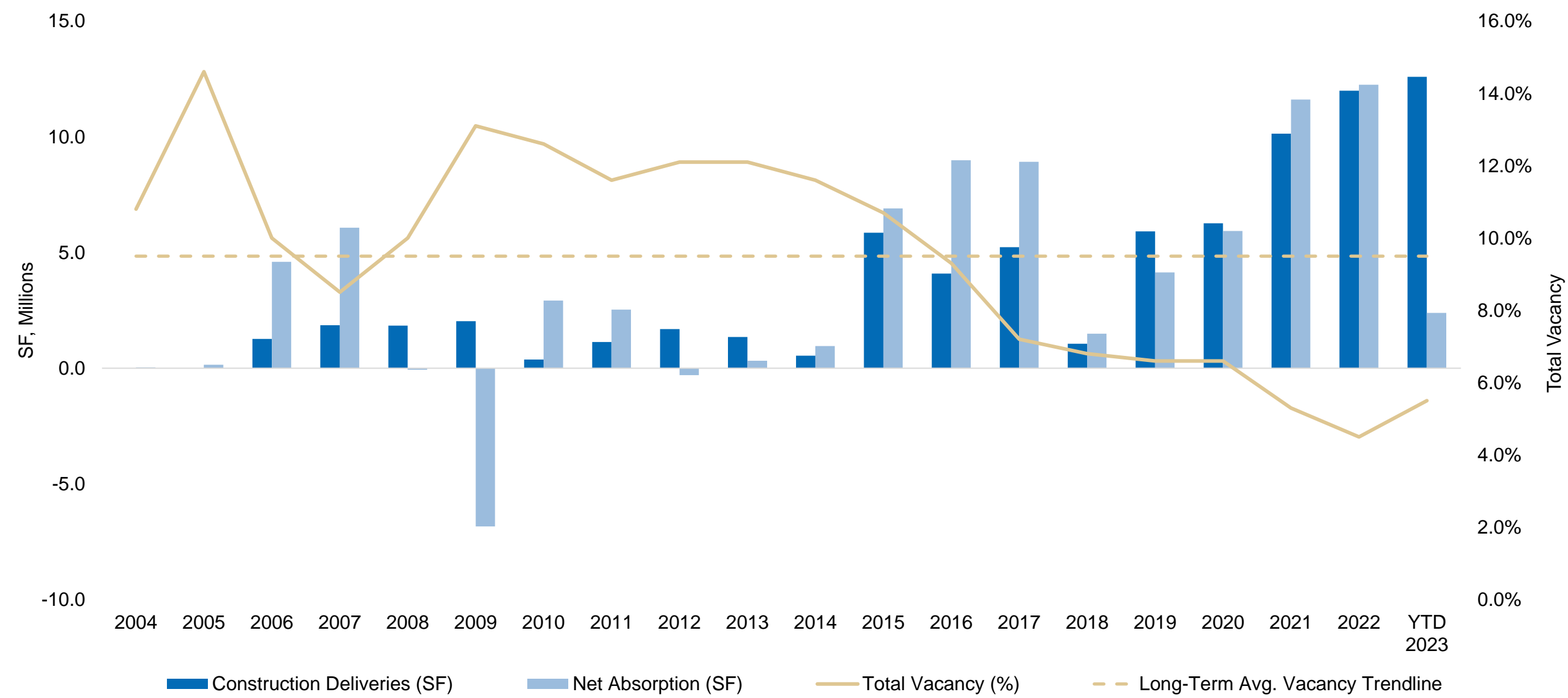
Leasing Market Fundamentals



Vacancy Rises as Record Construction Deliveries Outpace Net Absorption

At the end of the third quarter, annual construction deliveries totaled 12.6M SF, a new record for yearly deliveries. To put this in perspective, total deliveries in 2023 exceeded the sum of all deliveries in the three years before the pandemic, and there is still one quarter remaining. The downside of record volumes coming online is increased vacancy, as industrial buildings constructed in 2023 have a vacancy rate of 63.4%.

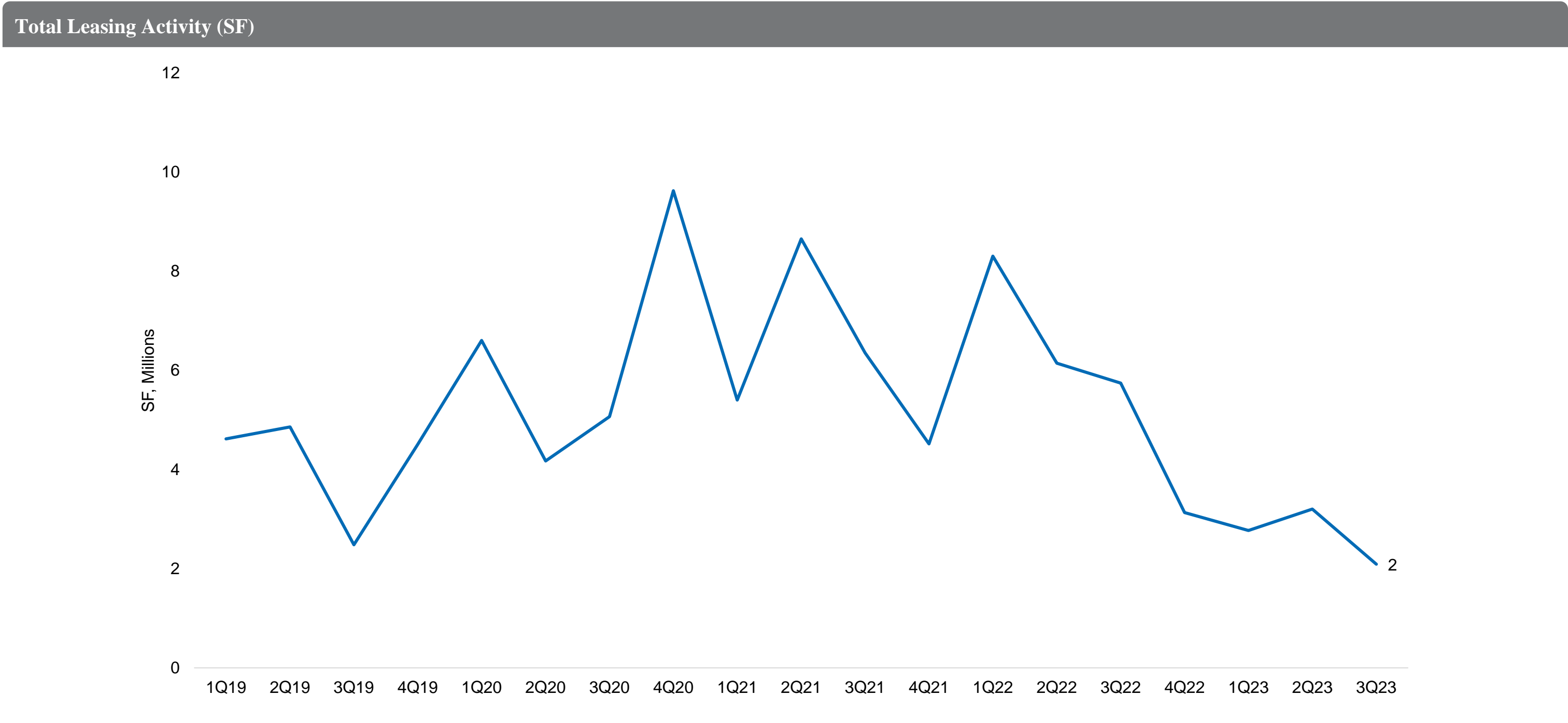
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Continues to Decelerate

Total industrial leasing edged just over 2M square feet in the third quarter of 2023. A cooling leasing market stems from an uncertain macroeconomic environment grappling with inflation, rising interest rates, and geopolitical conflicts.

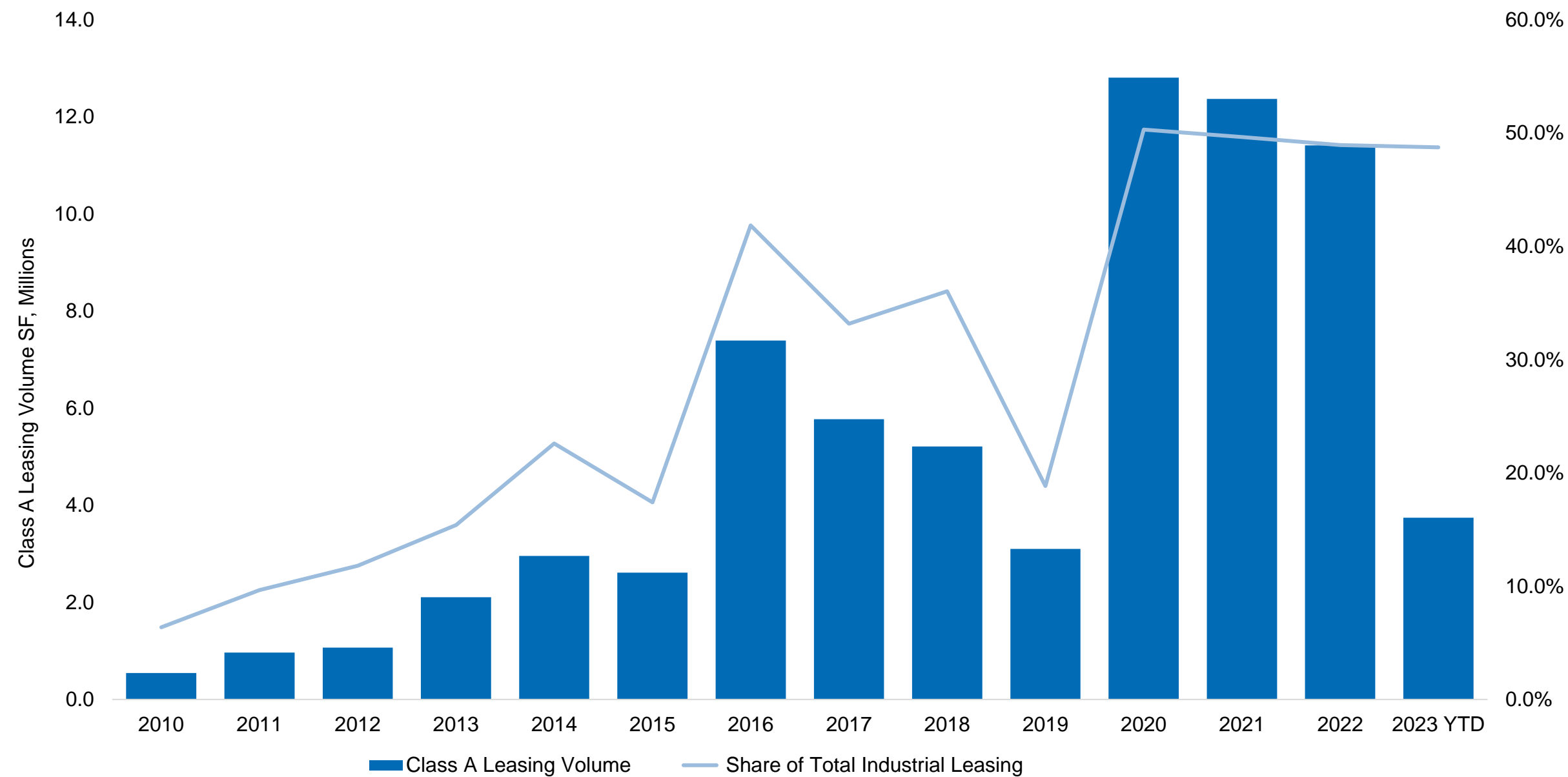


Source: Newmark Research, CoStar

Class A Warehouse Leasing Remains Stable

Despite a cooling leasing market, Class A warehouse space demand has remained consistent. Around half of all industrial leasing activity has occurred in Class A product since 2020, which is impressive given that less than 16% of all industrial space in Greater Philadelphia is of Class A quality.

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

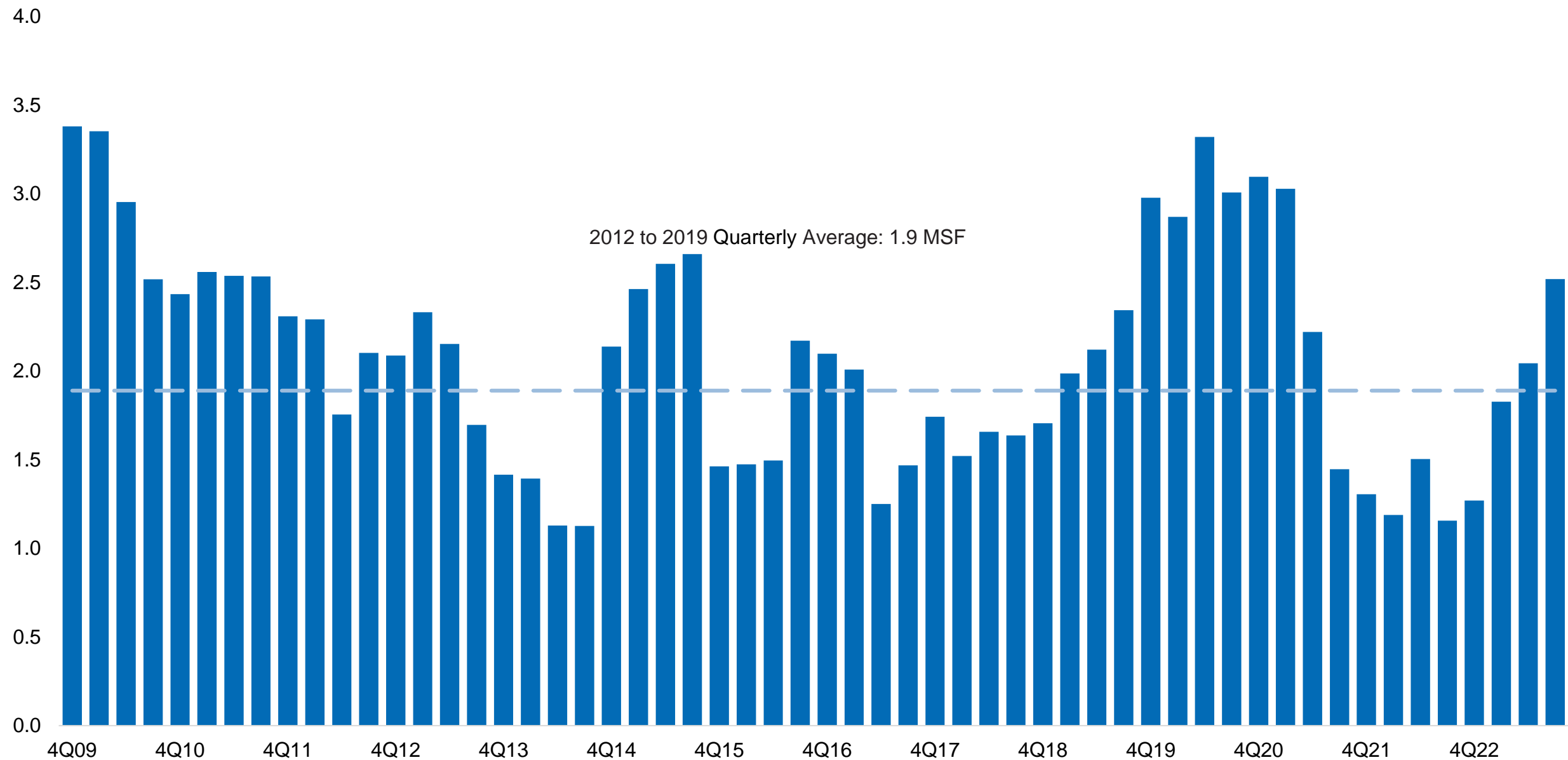


Source: Newmark Research, CoStar
Note: Newmark defines Class A warehouses as buildings constructed since 2000 and over 100,000 square feet

Industrial Sublease Availability Continues to Increase Gradually

Sublease volume increased for the fourth straight quarter. The 2.5M square feet of sublease availability is the highest recorded since the first quarter of 2021. A 524,000-square-foot sublease addition by Titan Warehousing in Pemberton, NJ, was the main contributor to the quarter-over-quarter increase. Despite rising sublease availabilities, some space is being taken off the market. Amazon will reoccupy its 577,829 SF building in Delaware, and ParcelJet subleased nearly 100,000 square feet in Montgomery County.

Available Industrial Sublease Volume (msf)

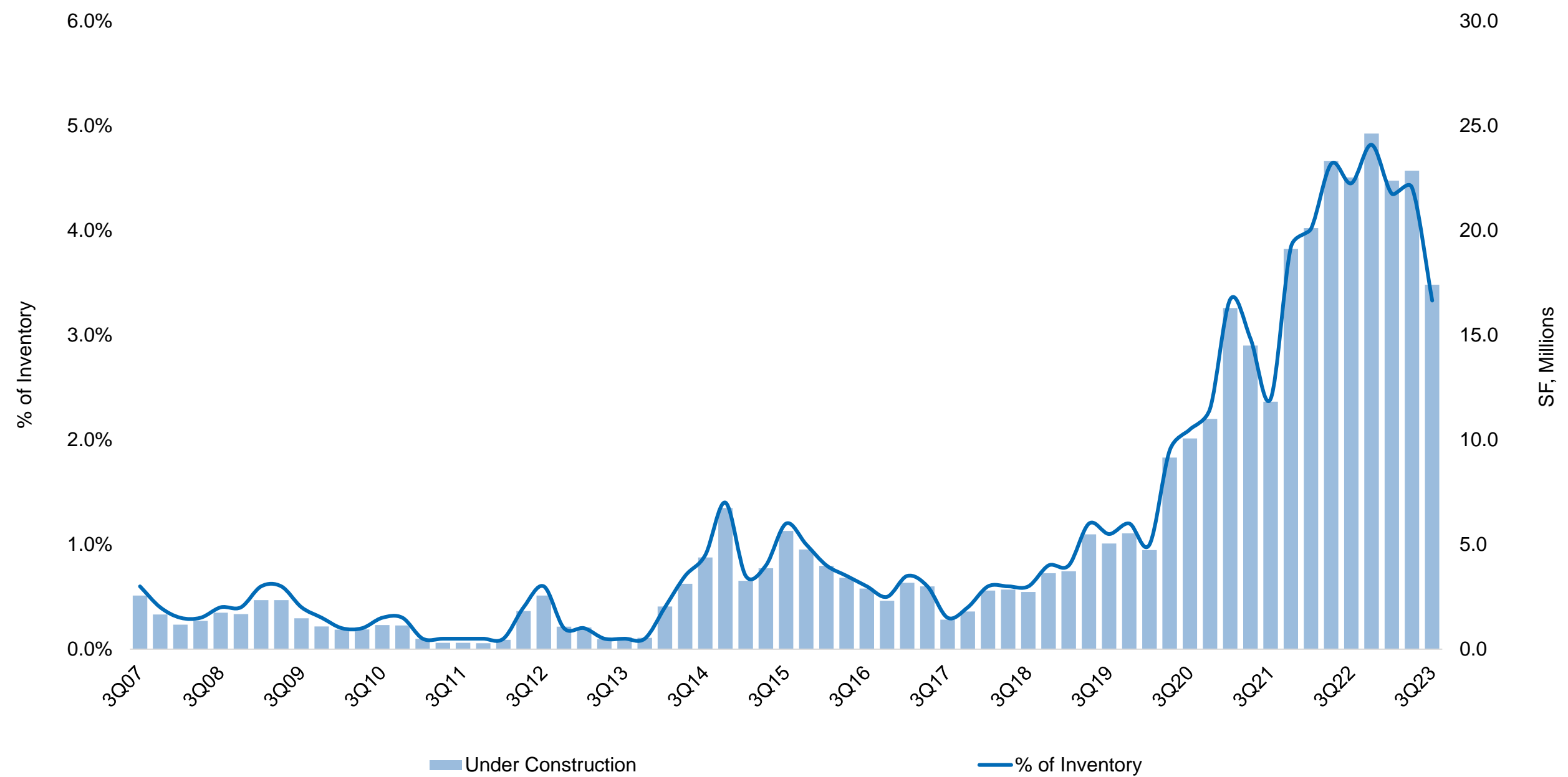


Source: Newmark Research, CoStar

Industrial Supply Pipeline Eases as Construction Starts Dwindle

Over 5.5M square feet of space delivered in the third quarter brought the pipeline down to 17.4M square feet. The construction pipeline will continue to decline in the coming quarters as very few projects have broken ground in 2023 compared to the boom periods observed during the pandemic’s peak. Looking forward, a few exciting projects will add significant volume to the construction pipeline. The 1.9M-square-foot industrial facility proposed by Portman Holdings in Chester County and the 1.75M-square-foot warehouse proposal in Carney’s Point, NJ, headline future projects announced this quarter.

Industrial Under Construction and % of Inventory

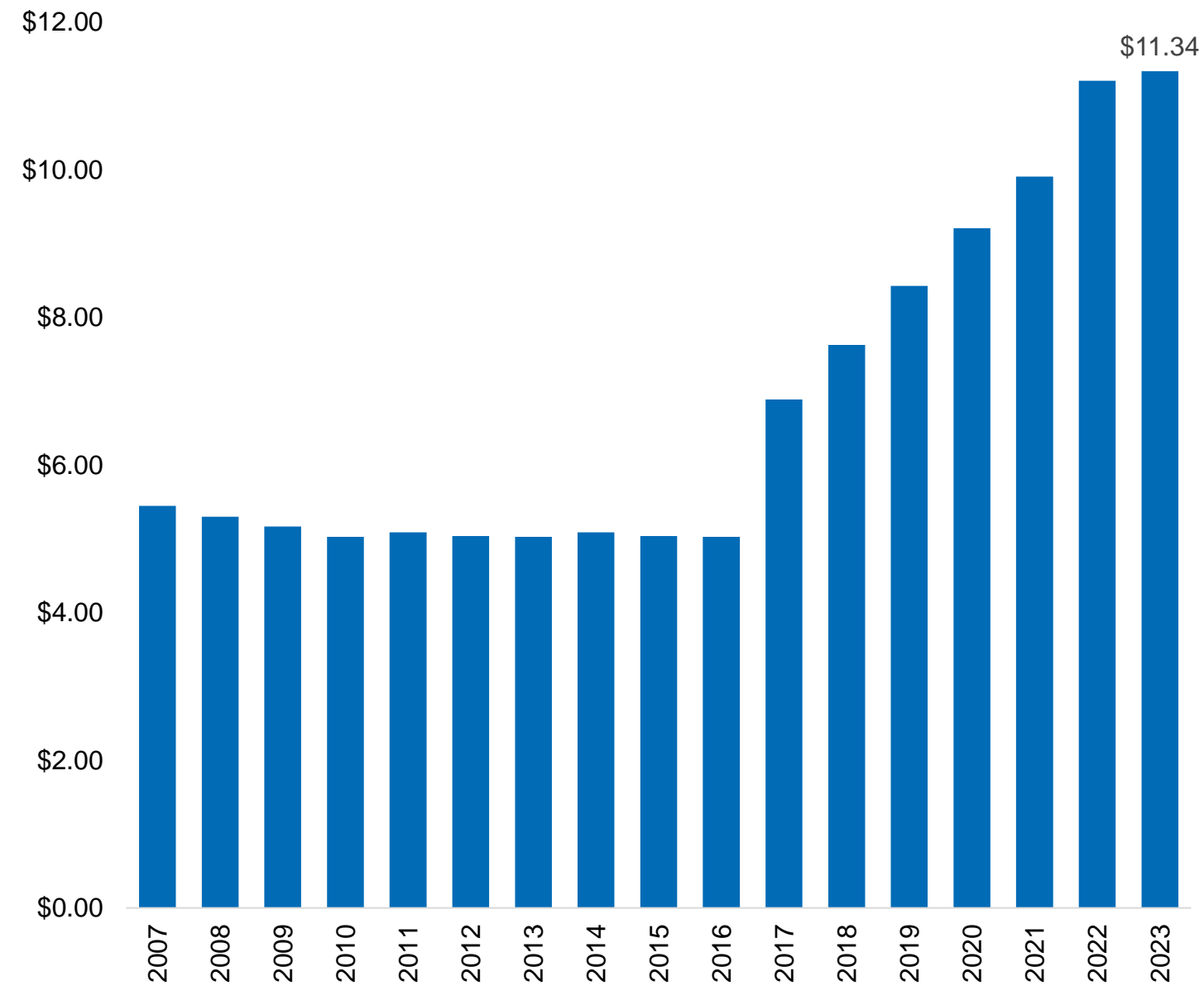


Source: Newmark Research, CoStar

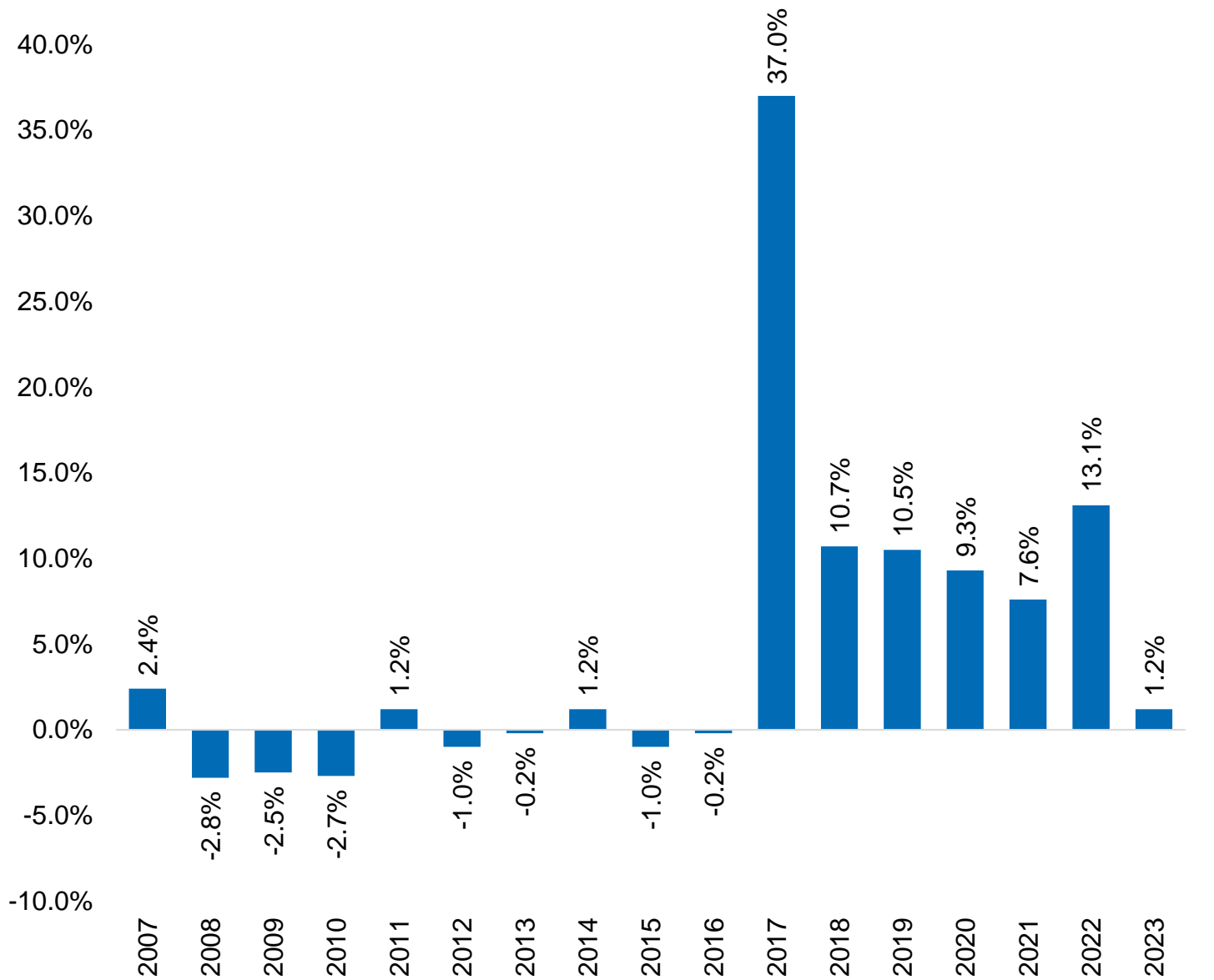
Industrial Asking Rates Begin to Flatline

Surging demand and the addition of Class A space to the market caused rents to increase dramatically over the last several years; however, a cooling leasing market and record amounts of supply coming online have pumped the breaks on rent growth for now. Asking rates will likely increase slightly in the coming quarters as more Class A warehouse space delivers.

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

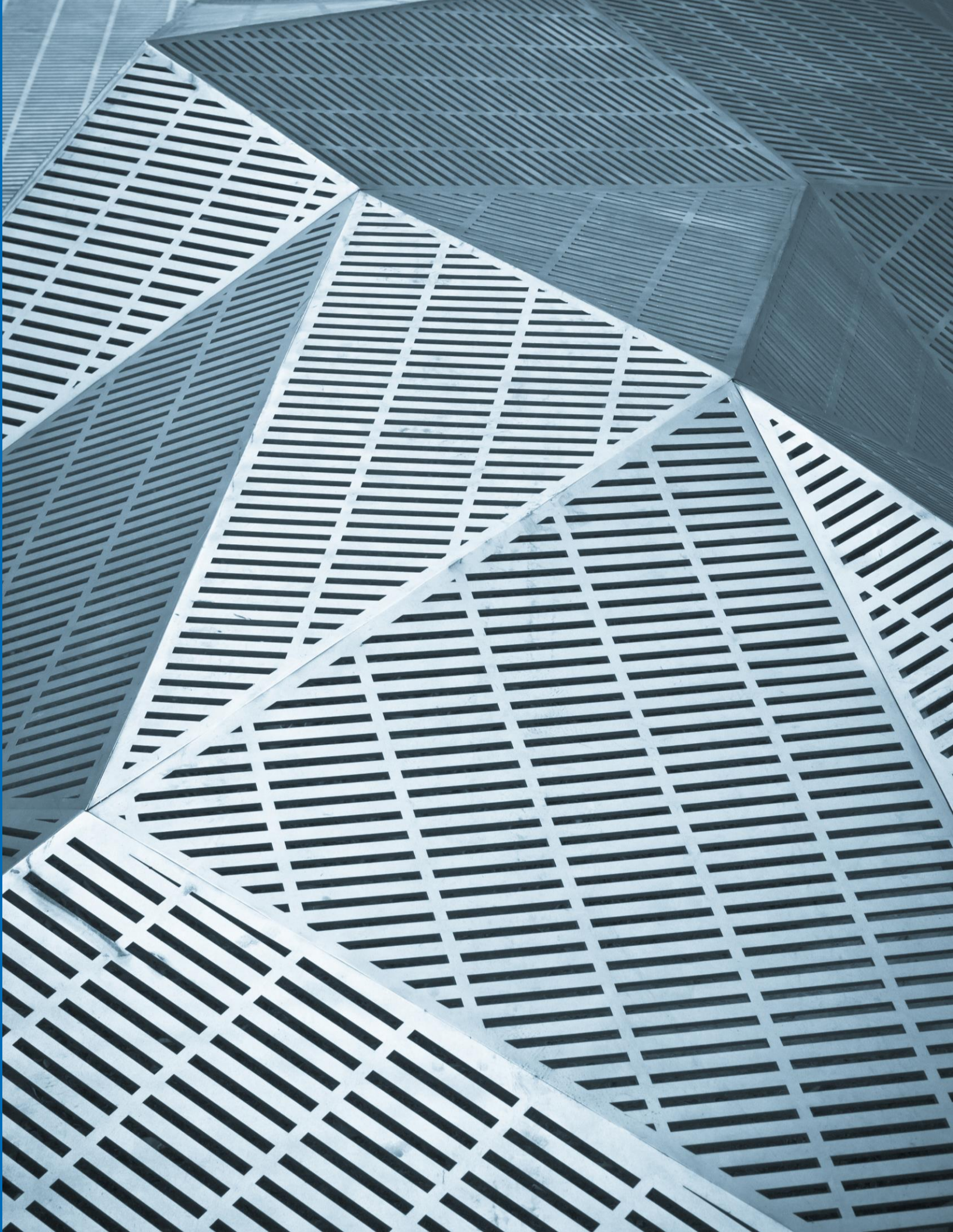
Notable 3Q23 Lease Transactions

Amazon headlines announced leases in the third quarter of 2023, a slower quarter compared to recent years. New product owners in less traditional and riskier submarkets are having more difficulty leasing space than owners in infill markets.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Amazon	7101 Milnor Street, Philadelphia	Philadelphia County	Direct Lease	251,029
The online retail giant has greatly impacted the Philadelphia market in 3Q23. Amazon also took its 577,829-square-foot warehouse at 1290 S Dupont Hwy in New Castle, DE off the sublease market.				
United Fulfillment	2605 Rancocas Road, Burlington	Burlington County	Direct Lease	217,986
Performance Food Group	1109 Commerce Blvd, Logan Township	Gloucester County	Lease Renewal	100,283
The food distributor renewed its lease in the rapidly growing industrial market for an additional 15 years.				
ParcelJet	2001 Gehman Road, Harleysville	Montgomery County	Sublease	97,987
ParcelJet subleased the space Amazon vacated in the summer of 2022				
Angle World, LLC	9800 Bustleton Avenue, Philadelphia	Philadelphia County	Lease Expansion/Extension	82,870
The commercial foorer expanded its space by 12,200 square feet and renewed the term on its 70,670 –square-foot existing premise				

Source: Newmark Research

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	33,158,553	3,428,175	1.5%	475,355	-155,792	0	0	\$10.48
Southern New Jersey	141,809,735	8,119,855	8.5%	669,183	1,091,837	4,307,327	7,758,718	\$12.00
Greater Philadelphia	347,859,932	5,867,993	4.7%	-638,743	1,450,944	1,202,973	4,832,226	\$10.83
Market	522,828,220	17,416,023	5.5%	505,795	2,386,989	5,510,300	12,590,944	\$11.34

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	247,855,408	2,164,222	3.6%	-115,845	-773,520	371,000	1,779,714	\$10.39
R&D/Flex	81,352,066	58,935	5.2%	-152,126	-228,022	42,500	240,500	\$13.03
Warehouse/Distribution	193,620,746	15,192,866	8.2%	773,766	3,388,531	5,096,800	10,570,730	\$11.49
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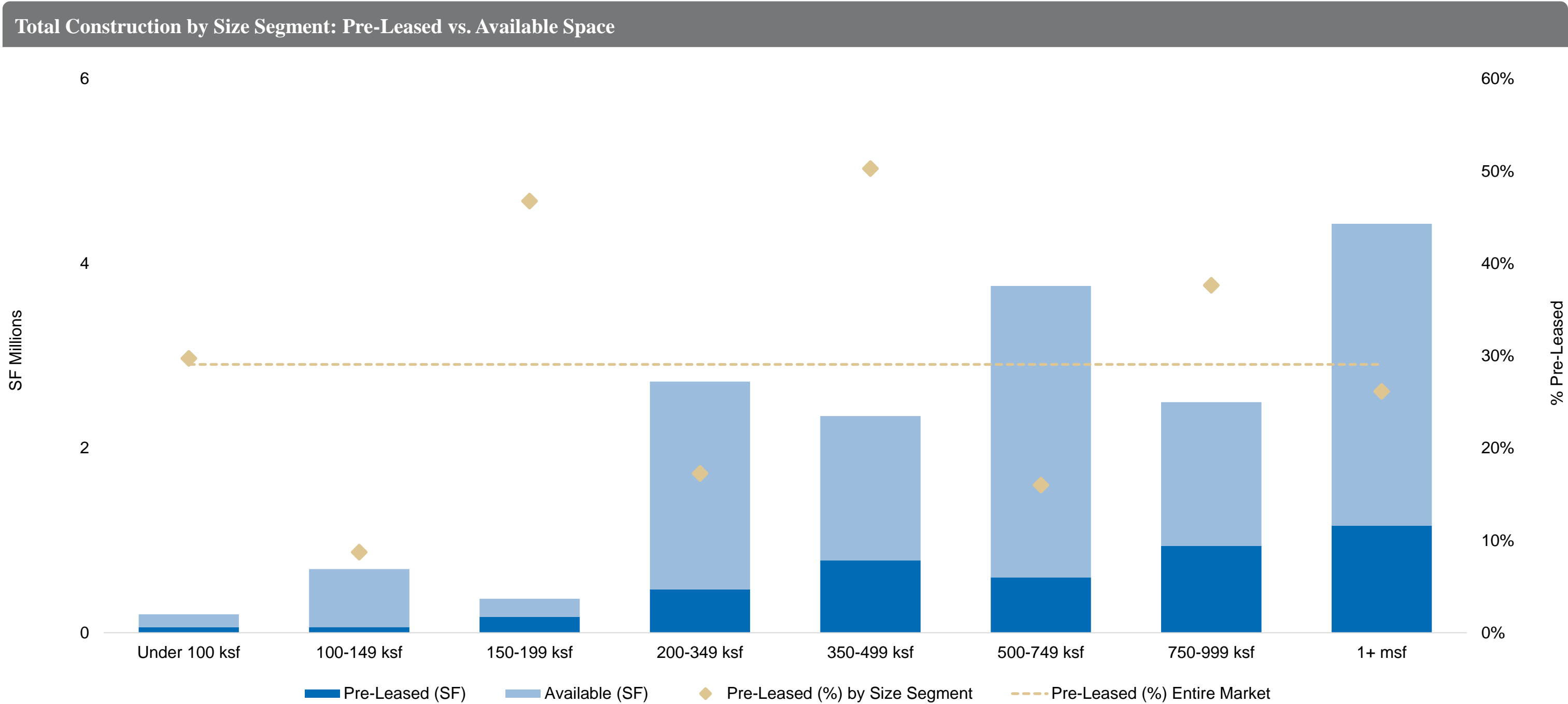
Submarket Overview (page 2 of 2)

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	59,941,858	3,629,420	2.9%	-359,181	748,743	210,564	1,627,440	\$12.72
Chester County	37,869,211	0	4.0%	149,796	195,509	42,500	205,500	\$10.95
Delaware County	30,700,503	479,400	3.3%	48,212	750,420	125,000	125,000	\$12.59
Lancaster County	59,611,930	300,240	3.0%	42,864	367,195	698,000	1,372,718	\$8.46
Montgomery County	73,762,928	196,000	6.8%	-202,716	-433,976	0	345,039	\$10.80
Philadelphia County	85,973,502	1,262,933	6.2%	-317,718	-176,947	251,029	1,156,029	\$10.22
Greater Philadelphia	347,859,932	5,867,993	4.7%	-638,743	1,450,944	1,202,973	4,832,226	\$10.83
Burlington County	66,274,571	3,693,028	13.3%	30,568	228,000	1,731,075	5,060,966	\$12.49
Camden County	33,380,735	0	2.8%	-295,756	-249,040	162,150	162,150	\$9.48
Gloucester County	34,338,626	2,315,070	4.4%	934,371	1,204,877	1,779,102	1,900,602	\$10.72
Salem County	7,815,803	2,111,757	9.3%	0	-92,000	635,000	635,000	\$11.08
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Source: Newmark Research

Total Construction is Concentrated in the 1+ MSF Segment

Close to 30% of construction is preleased, with most preleased space being in the 150,000 to 500,000-square-foot segments. Significant availability for upcoming new supply is expected, given that 90% of the pipeline is speculative construction.



Source: Newmark Research

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