

# Greater Philadelphia Industrial Market Overview

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# Market Observations

## Economy

- Philadelphia continues to experience a historically tight labor market, with the unemployment rate dropping by 120 basis points from August to November 2023, reaching a low of 3.3%. The average unemployment rate in 2023 was 3.8%, which is the lowest recorded in the past 30 years.
- Strong hiring in blue collar and service industries drove employment gains in the Philadelphia MSA. The trade, transportation and utilities industry added 12,500 jobs between August and November of 2023. The education and health Service sector gained 37,500 jobs in the same span.
- Only one major layoff affecting logistics workers happened in the fourth quarter of 2023. Matheson Flight Extenders, Inc. laid off 75 employees at its shuttered Sharon Hill facility.

## Major Transactions

- In October, GIC acquired the 1.05M SF warehouse at 5 Gateway Blvd. in Predrickstown, NJ from NFI for \$139.4M or \$133/SF. This is the largest known industrial sale in Greater Philadelphia in 2023. Per RCA data, sales volume in Greater Philadelphia during 4Q23 was \$413.8M, a 50% quarter-over-quarter increase.
- Amazon inked a lease renewal for its 1.0M-square-foot warehouse at 560 Merrimac Avenue in Middletown, DE. The online retail giant has a major presence in the first state, with 9.8M square feet of industrial space under lease.
- The groundbreaking of The Bellwether District in Southwest Philadelphia occurred in the fourth quarter of 2023. Construction on 2 buildings totaling over 1.0M square feet began, kickstarting the development of 10.5M-square-foot logistics campus.

## Leasing Market Fundamentals

- Absorption in Greater Philadelphia was 4.1M square feet in the fourth quarter of 2023, the highest quarterly total for the year and brought year-to-date absorption to 7.1M square feet. Over 1.9M square feet of the quarter's 7.2M square feet of deliveries were leased at time of delivery, which boosted absorption totals.
- The market's vacancy rate was 5.8% at the end of 2023, 70 and 190 basis points higher than the previous quarter and year, respectively. Much of the 19.8M square feet of deliveries throughout the year were unoccupied upon completion, leading to a surge in vacancy rates.
- The rapid addition of supply to a market previously supply-constrained has caused asking rate growth to moderate. Greater Philadelphia's average asking rate was \$11.68/SF at the end of the fourth quarter of 2023, virtually unchanged from the previous quarter.

## Outlook

- The 7.2M square feet of deliveries was the highest quarterly total in Greater Philadelphia's recorded history; however, this has depleted the construction pipeline. Over 11.2M square feet remains under development, which is less than half of the pipeline's peak in the fourth quarter of 2022. New deliveries will wane as 2024 progresses.
- Only 28.5% of the pipeline was preleased at the end of 2023. The anticipated addition of new supply paired with moderated demand will put downward pressure on rent growth.
- After years of record growth, the market is beginning to normalize. However, it is important to recognize the strength of Greater Philadelphia's fundamentals as growth returns to a more sustainable level. Vacancy for the market is in the single digits and a shrinking pipeline could ease fears of oversupply. It will take time for all the new product to be absorbed but the market remains on stable footing.



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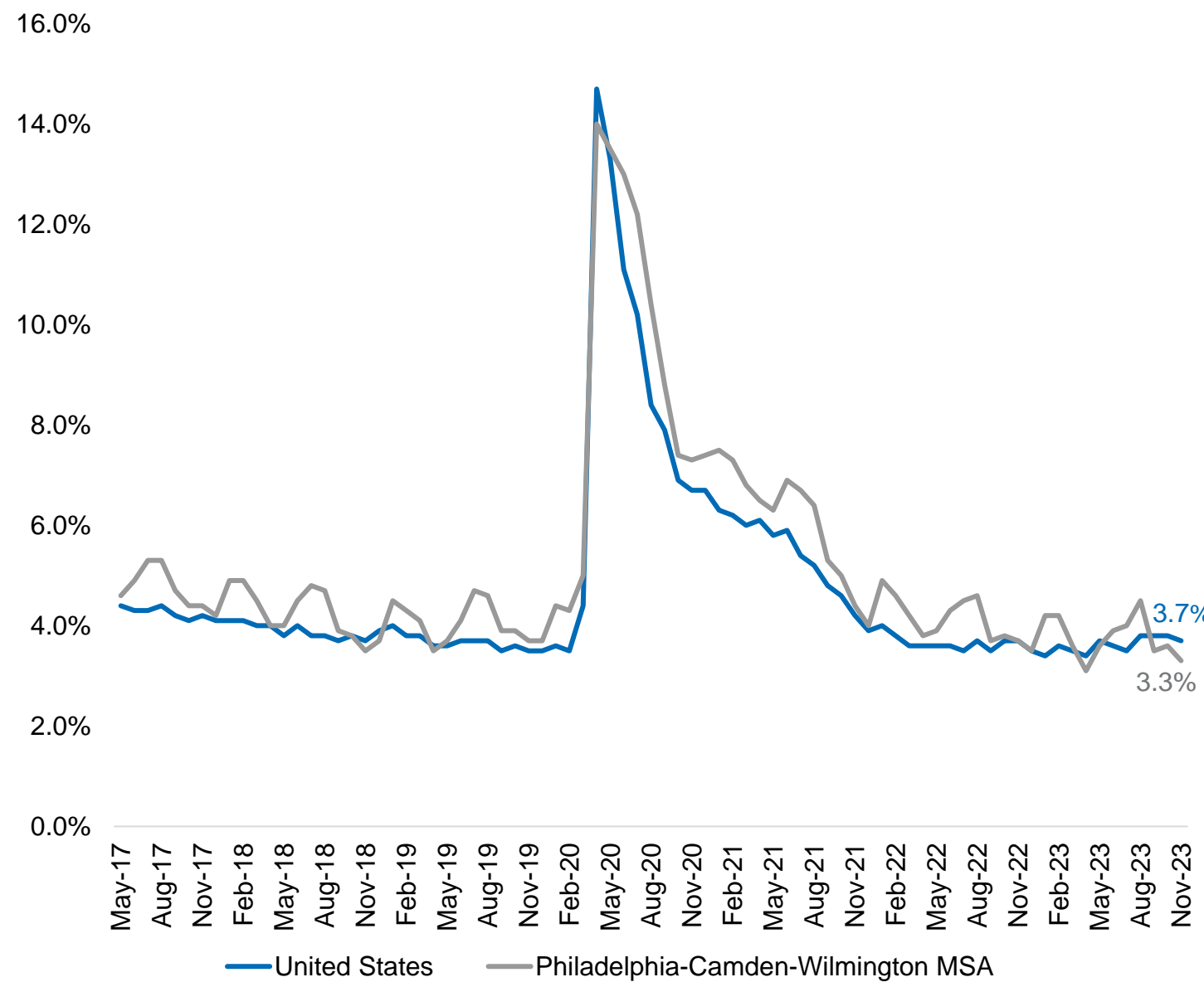
# Economy



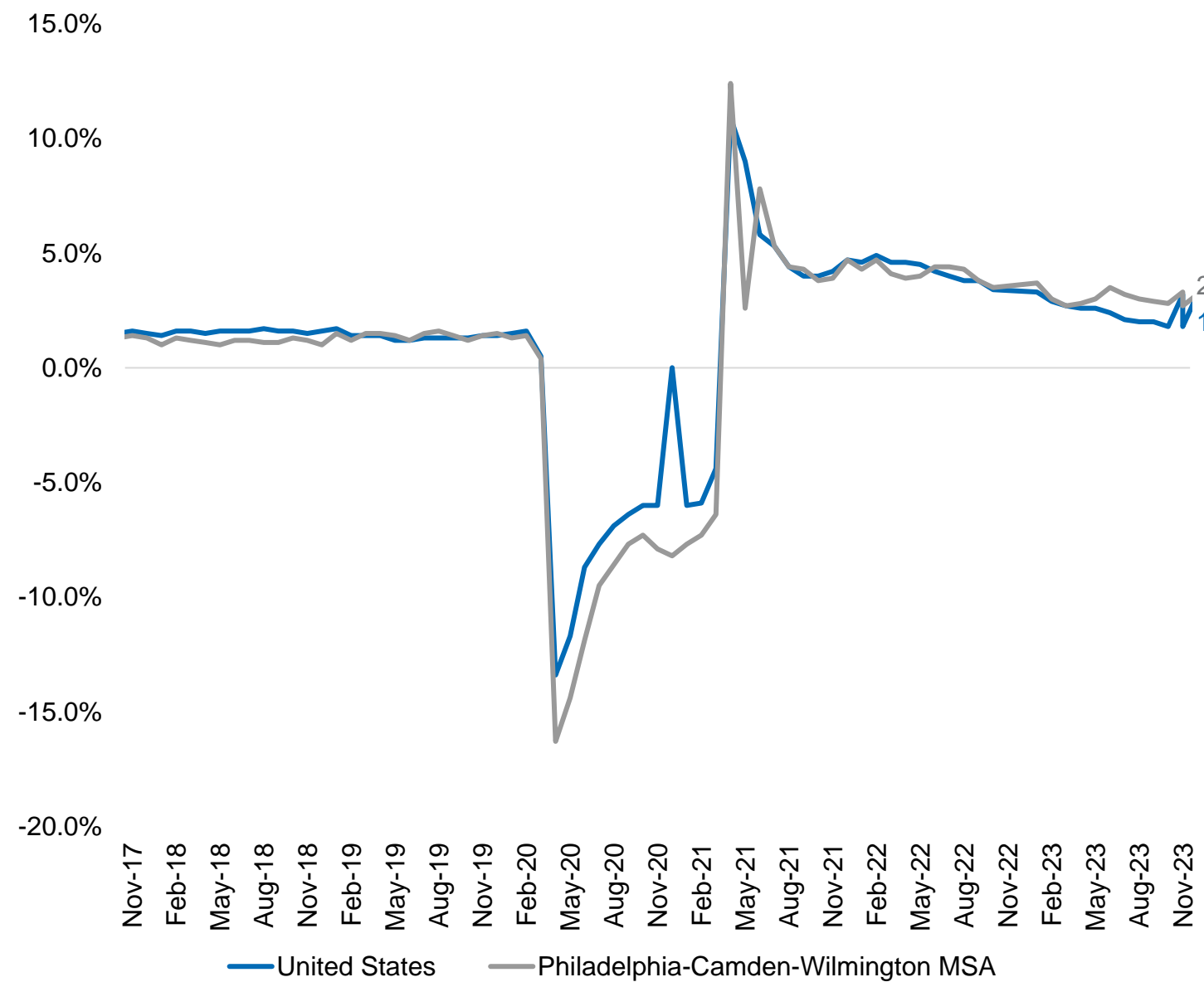
# Philadelphia's Economy Outperforms the Nation

Philadelphia's economy had a robust fourth quarter of 2023. The 3.3% unemployment rate in November was 40 basis points below the national rate and 120 basis points less than its peak in August of 2023. Annual job gains also outperformed the nation. The 2.7% annual increase in employment was a testament to strong employment growth in service and blue-collar industries.

Unemployment Rate, Seasonally Adjusted



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



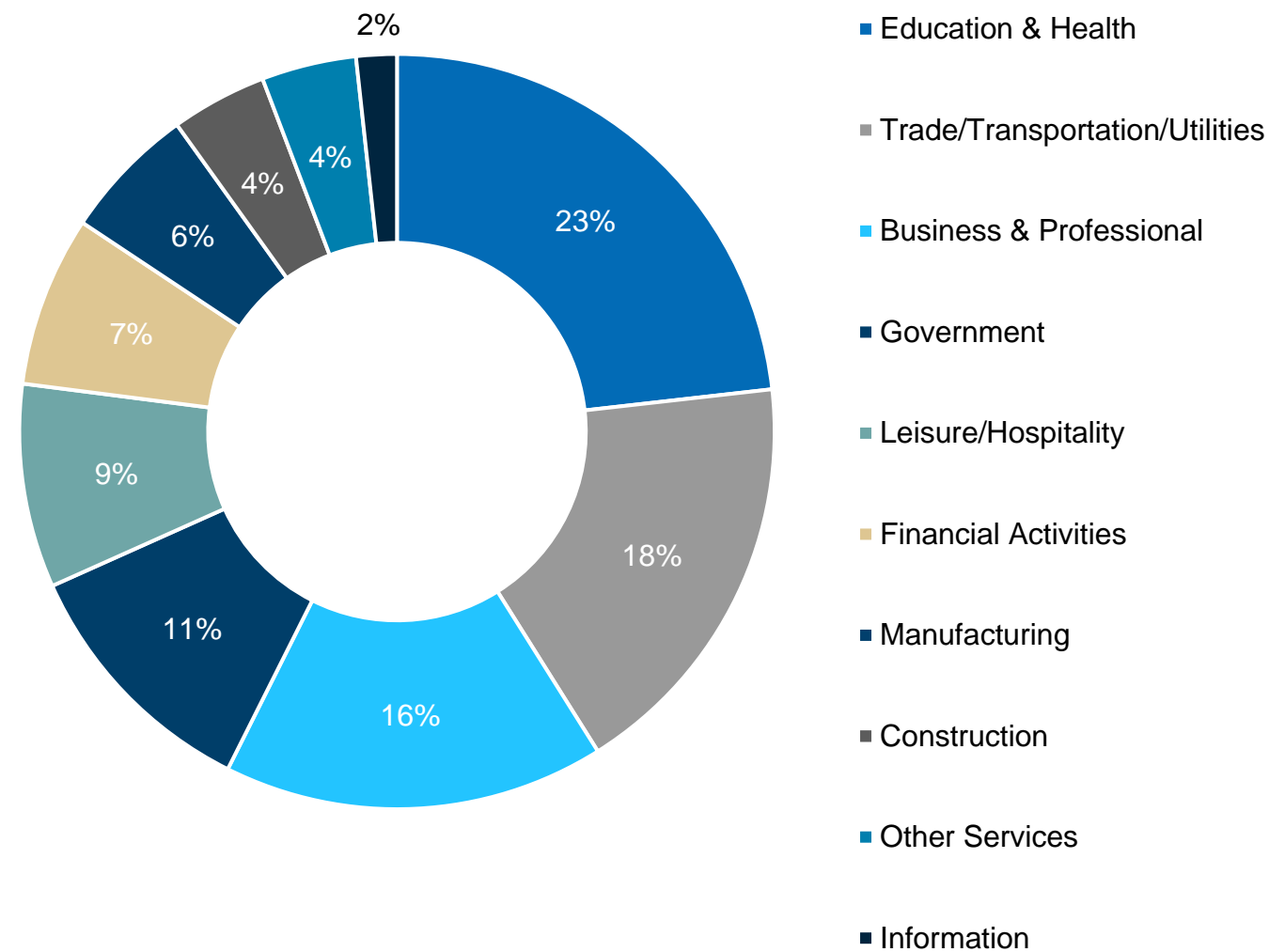
Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA



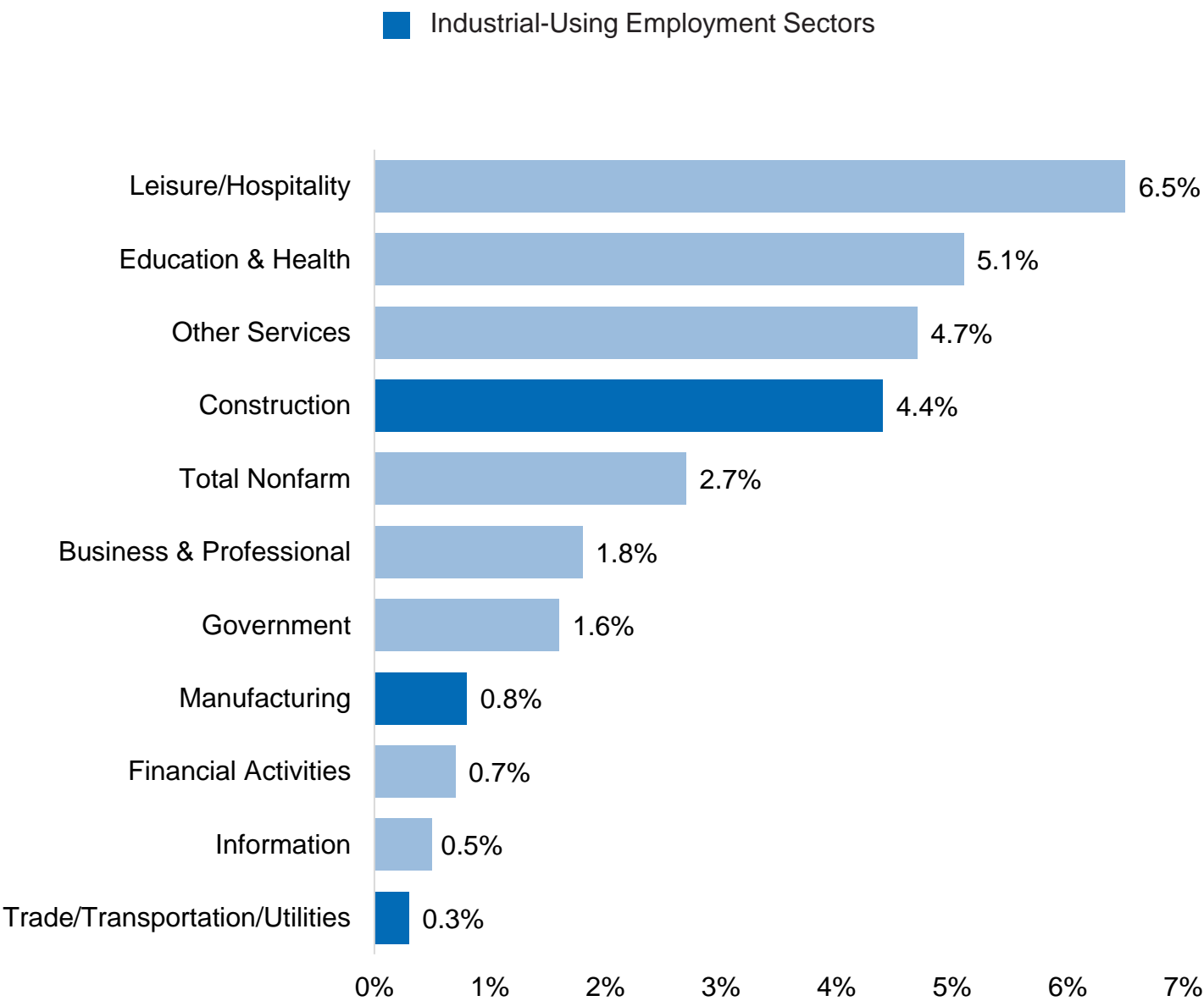
# Service and Blue-Collar Industries Lead Employment Gains

The leisure and hospitality industry continued to lead the metro in annual job gains. This sector was heavily impacted by the pandemic and employment counts recovered to pre-pandemic levels by the second quarter of 2023.

Employment by Industry, November 2023



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

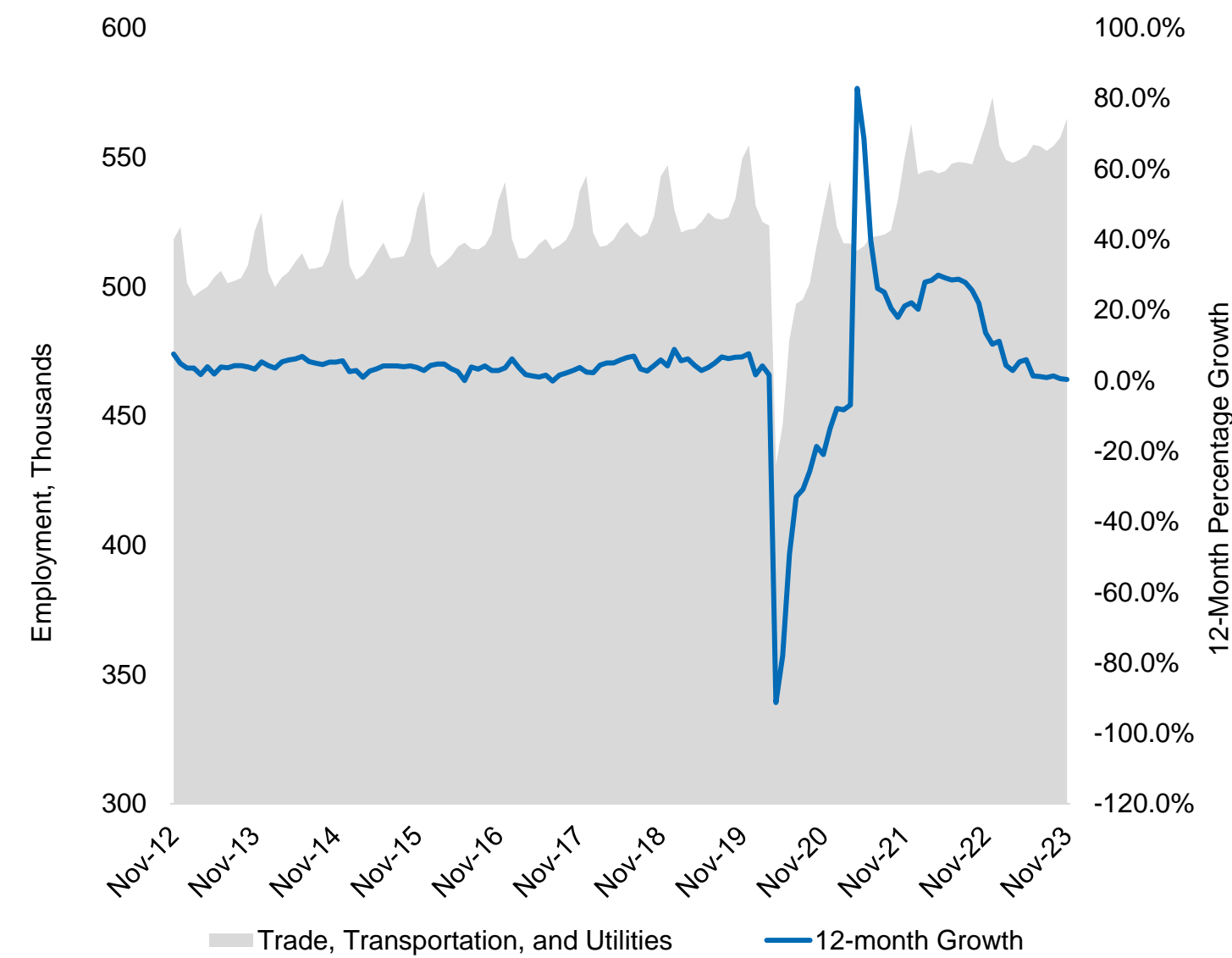


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

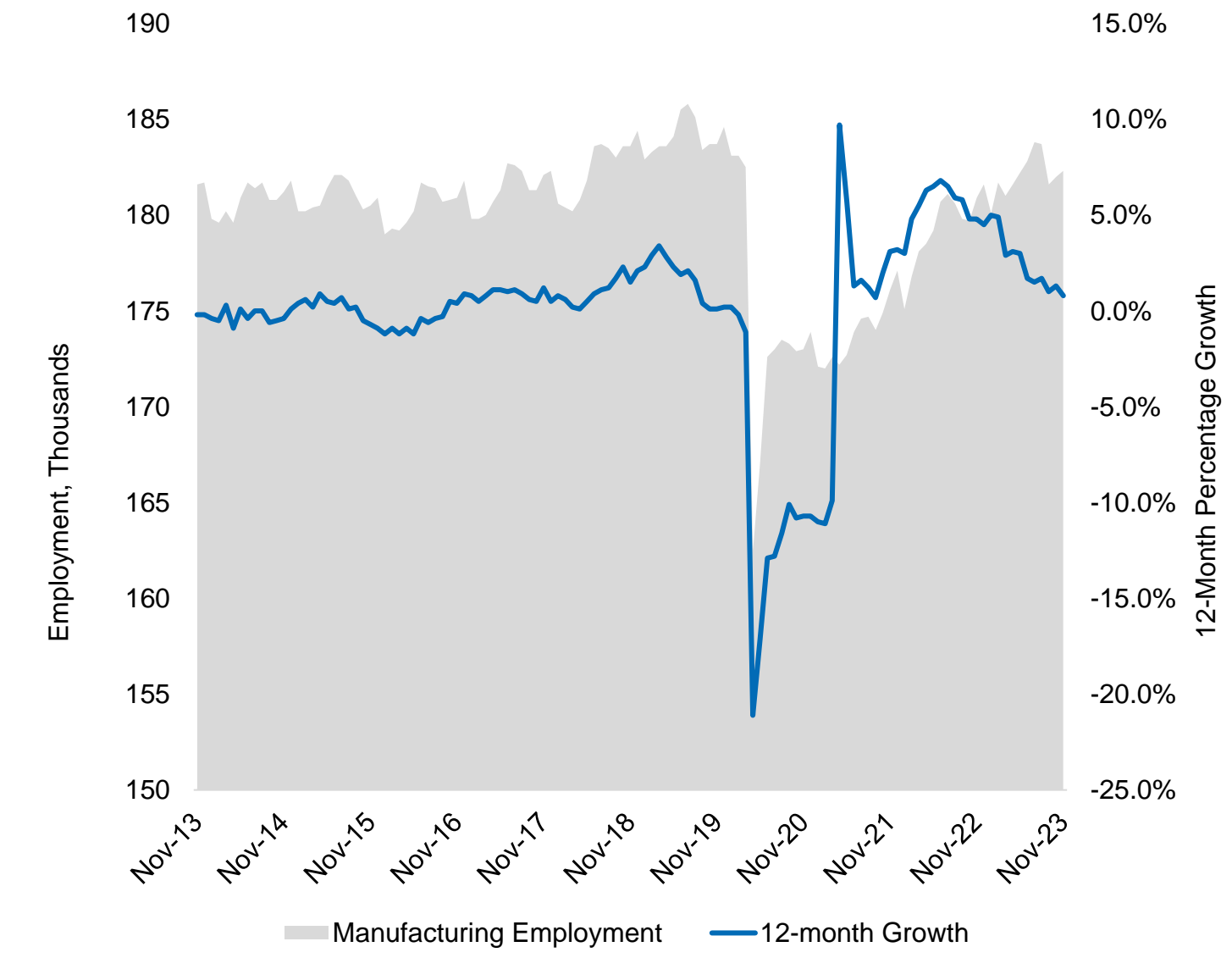
# Industrial Employment Gains Begin to Flatline

There was an uptick in industrial employment at the end of the year, especially for the trade and transportation industry. Logistics employment typically peaks in December of each year due to increased shipping demand.

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

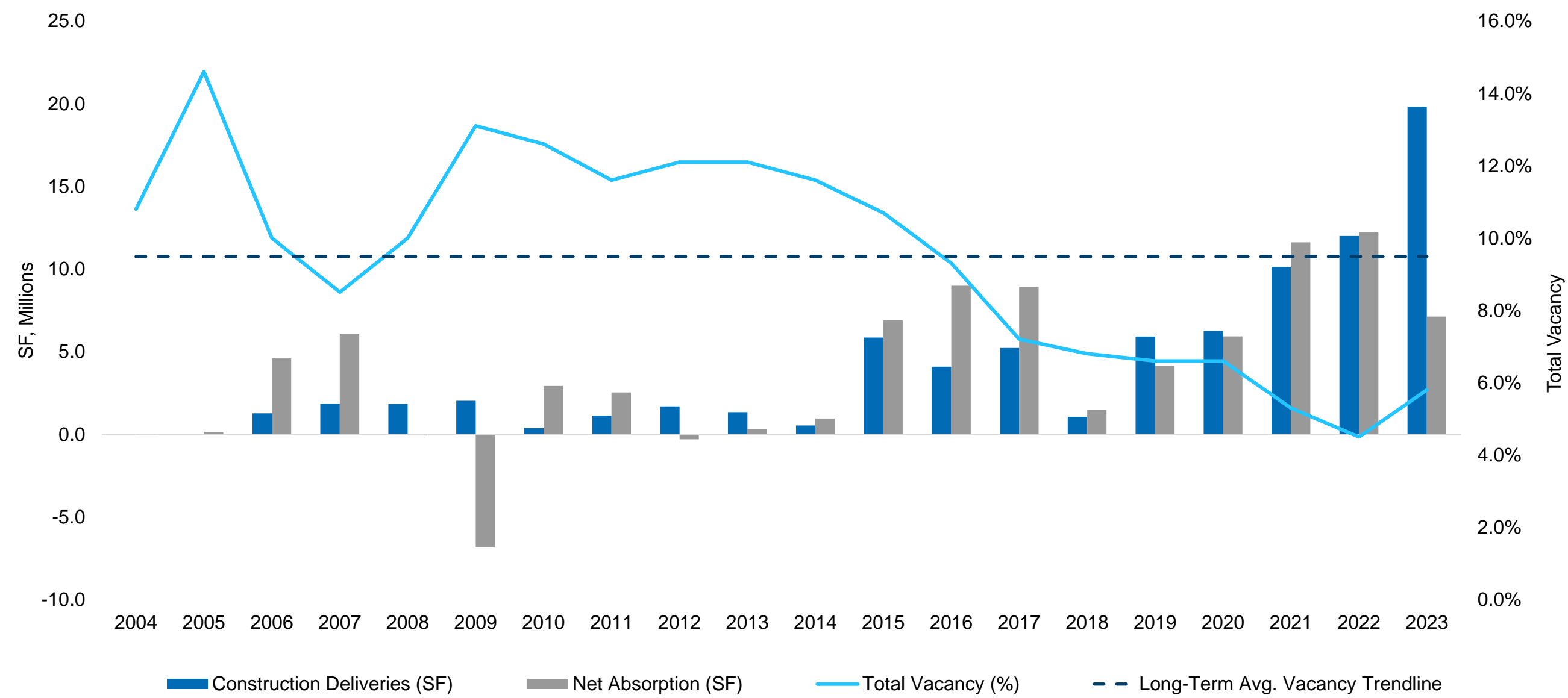




# 2023 Was a Banner Year For Deliveries

In 2023, 19.8M square feet was delivered with 7.2M square feet of that total coming in the fourth quarter. Each figure set annual and quarterly delivery records, respectively. Significant influx of new supply in 2023 led to a rise in vacancy rates over the course of the year. The year-end vacancy rate of 5.8% represents an increase of 130 basis points compared to the previous year and 70 basis points since the third quarter of 2023.

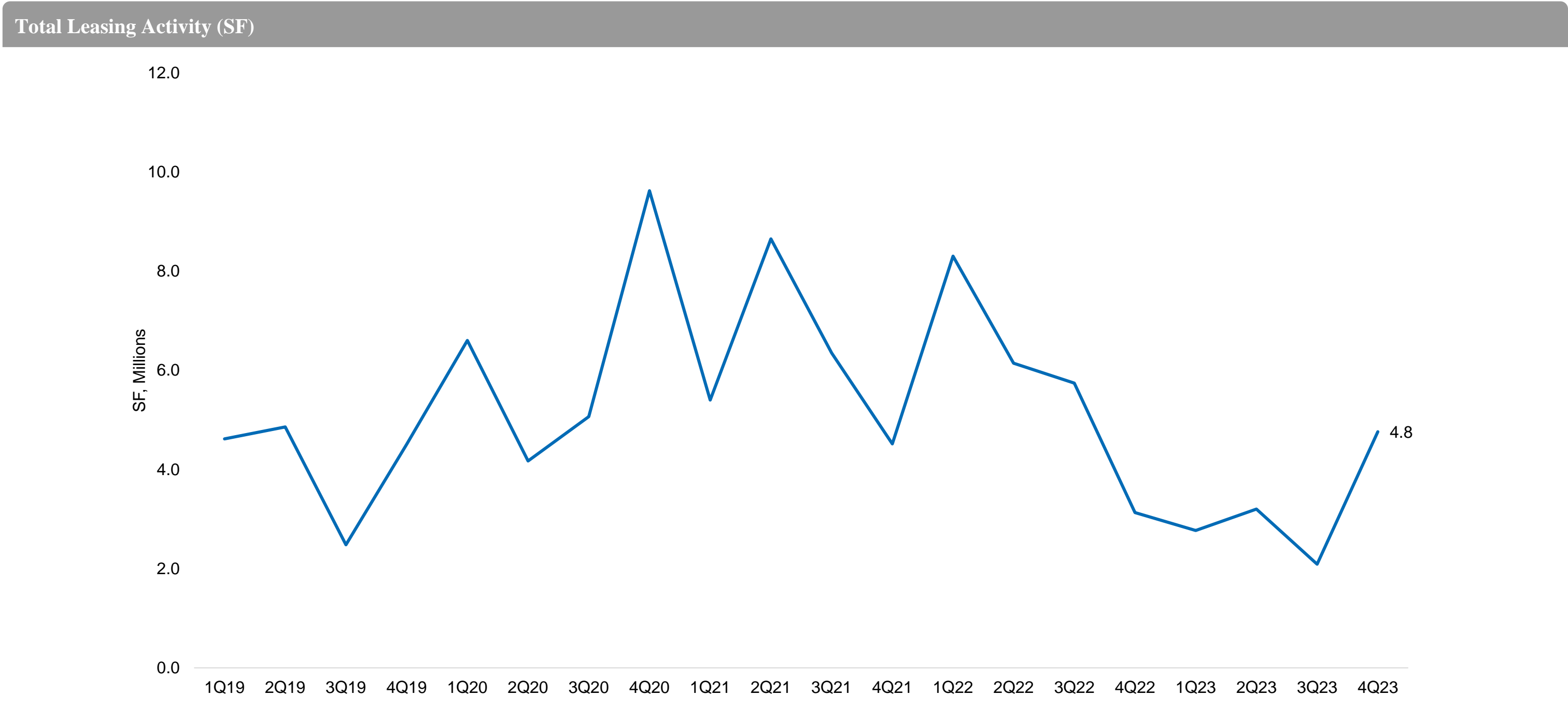
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Industrial Leasing Activity Rebounds at the End of the Year

Industrial leasing activity was 4.8M in the fourth quarter of 2023 which brought total leasing volume to 12.8M square feet. Quarterly leasing activity was the highest recorded since the third quarter of 2022; however, annual leasing activity in 2023 was 55% of 2022’s total. Amazon’s 1.0M-square-foot lease renewal accounted for over 20% of Greater Philadelphia’s fourth quarter leasing volume.



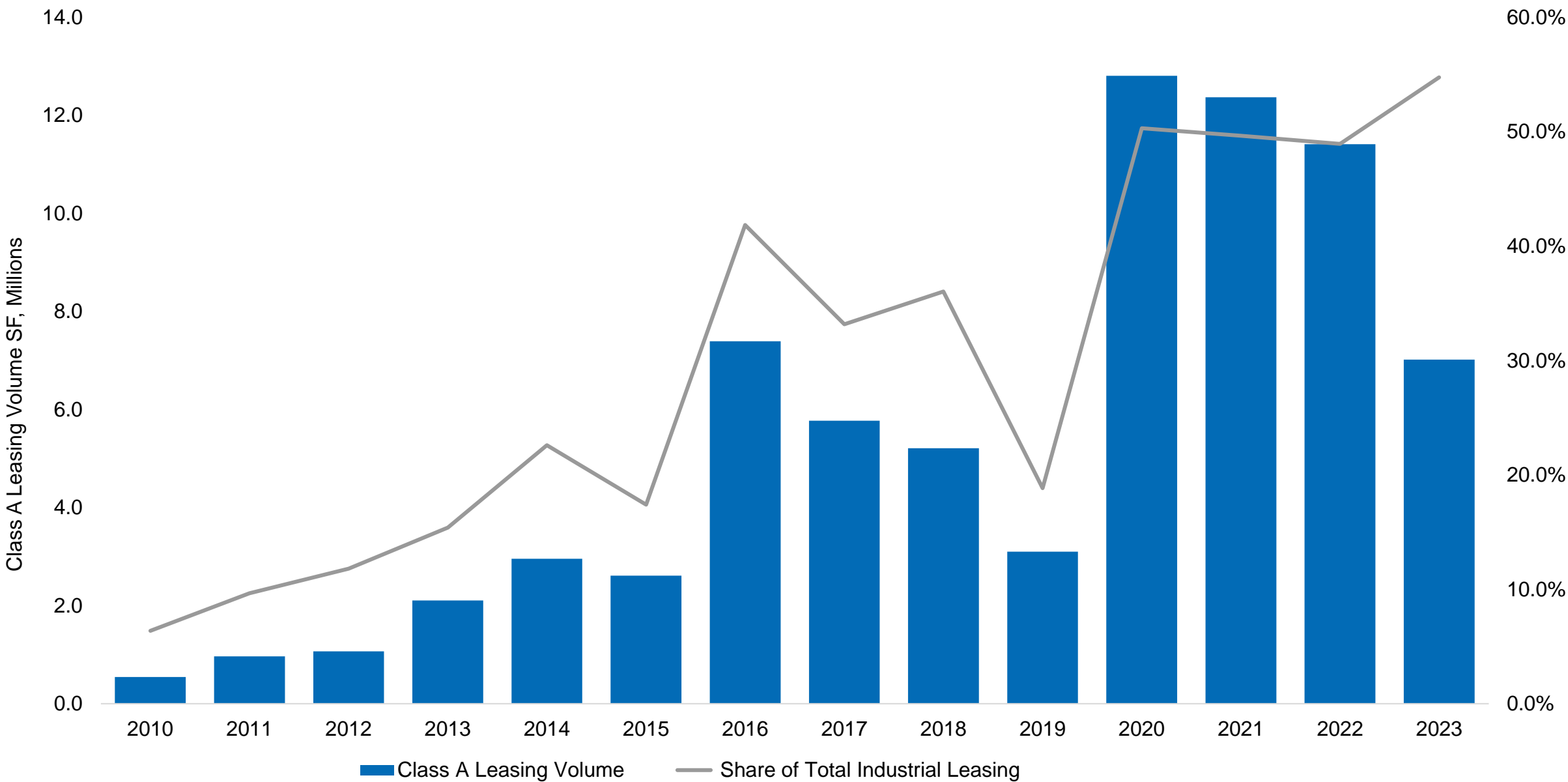
Source: Newmark Research, CoStar



# Class A Warehouse Leasing Volume Declines but Increases Market Share

Over 7.0M square feet of Class A warehouse space was leased in 2023, a decline of 38% compared to 2022. This is a significant slowdown compared to the previous three years but significantly higher than historical averages. Between 2010 and 2019, Class A leasing activity averaged 3.2M square feet which is only 45% of 2023's volume. Greater Philadelphia's industrial market is beginning to normalize; however, it has grown significantly since 2020.

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

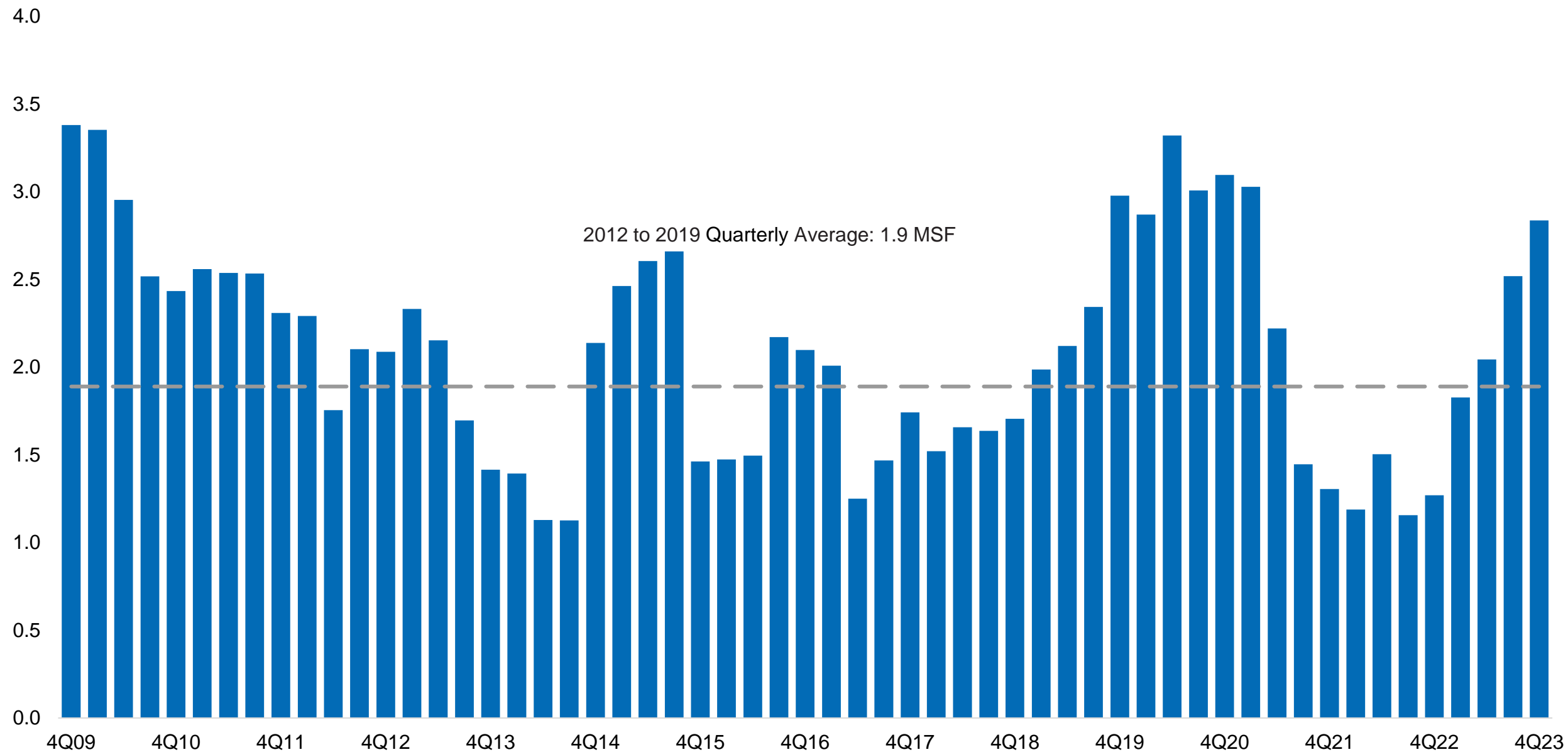


Source: Newmark Research, CoStar  
Note: Newmark defines Class A warehouses as buildings constructed since 2000 and over 100,000 square feet

# Industrial Sublease Availability Continues to Increase Gradually

Sublease volume increased for the fifth straight quarter in the fourth quarter of 2023. The 2.8M square feet of sublease inventory is the highest since the first quarter of 2021. Tenants have begun to right-size their footprints in 2023; however, sublease additions have limited impact to the market, accounting for only 0.5% of Greater Philadelphia’s inventory.

Available Industrial Sublease Volume (msf)



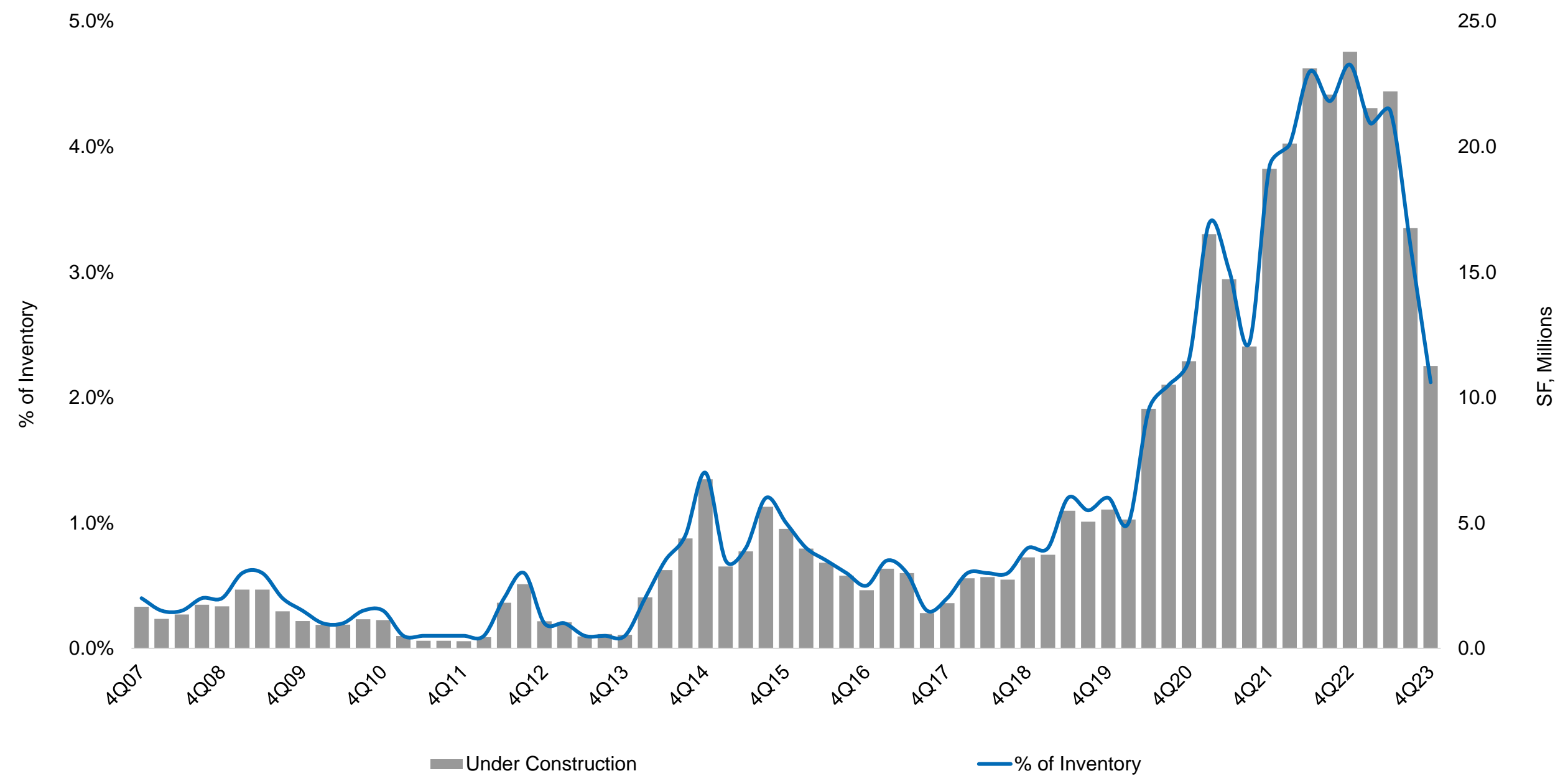
Source: Newmark Research, CoStar



# Industrial Supply Pipeline Eases as Construction Starts Dwindle

The industrial pipeline now contains only 11.3M square feet, the smallest the pipeline has been since 2020. Moderating demand paired with the rising costs of capital and construction have dramatically slowed construction starts. Approximately 8.2M square feet of industrial product broke ground in 2023, which is less than half of the volume of groundbreakings in 2022. Despite new construction headwinds, notable projects did start in the fourth quarter of 2023. The development of two warehouses totaling over 1.0M square feet commenced at Hilco’s Bellwether District in Southwest Philadelphia.

Industrial Under Construction and % of Inventory

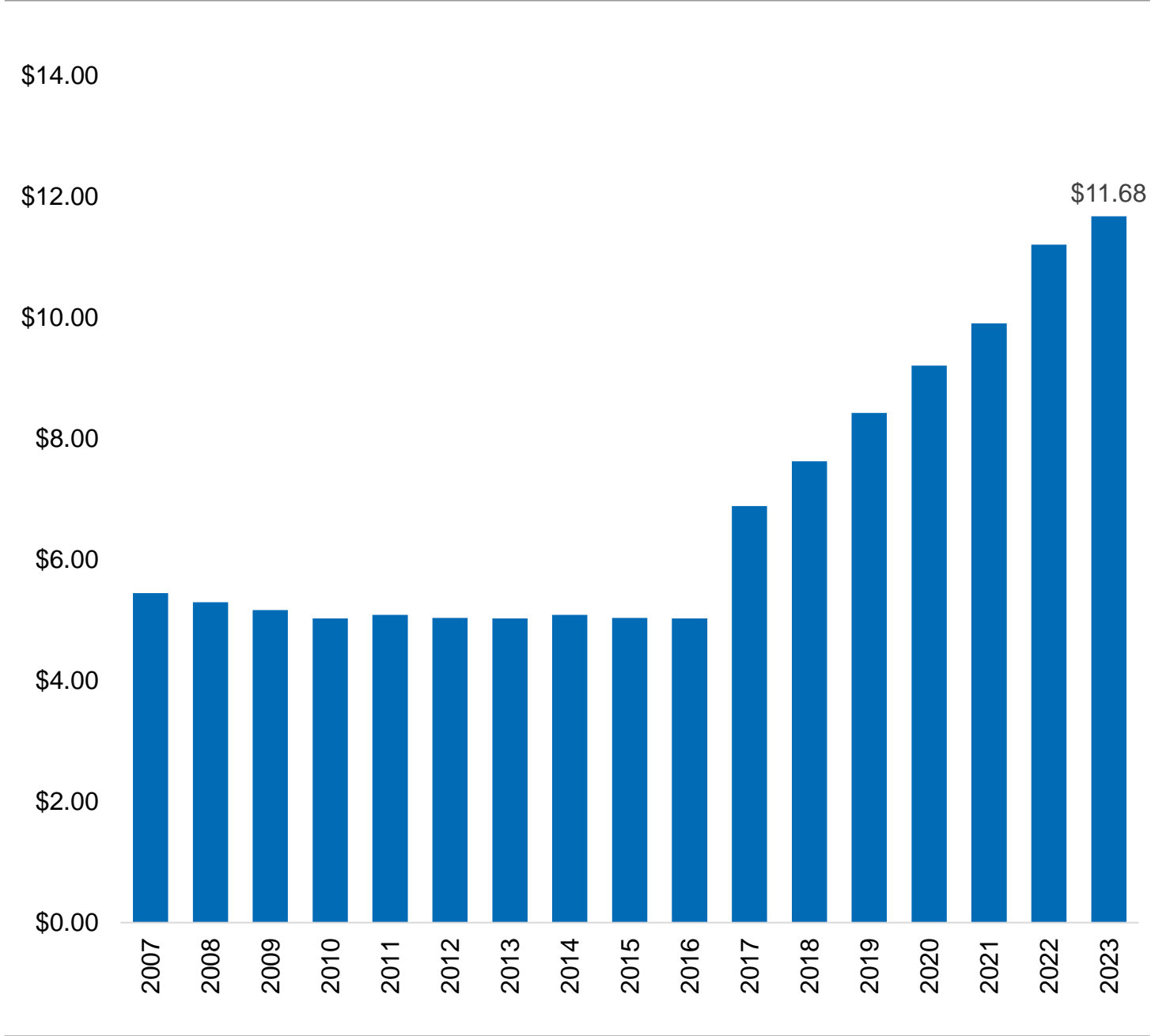


Source: Newmark Research, CoStar

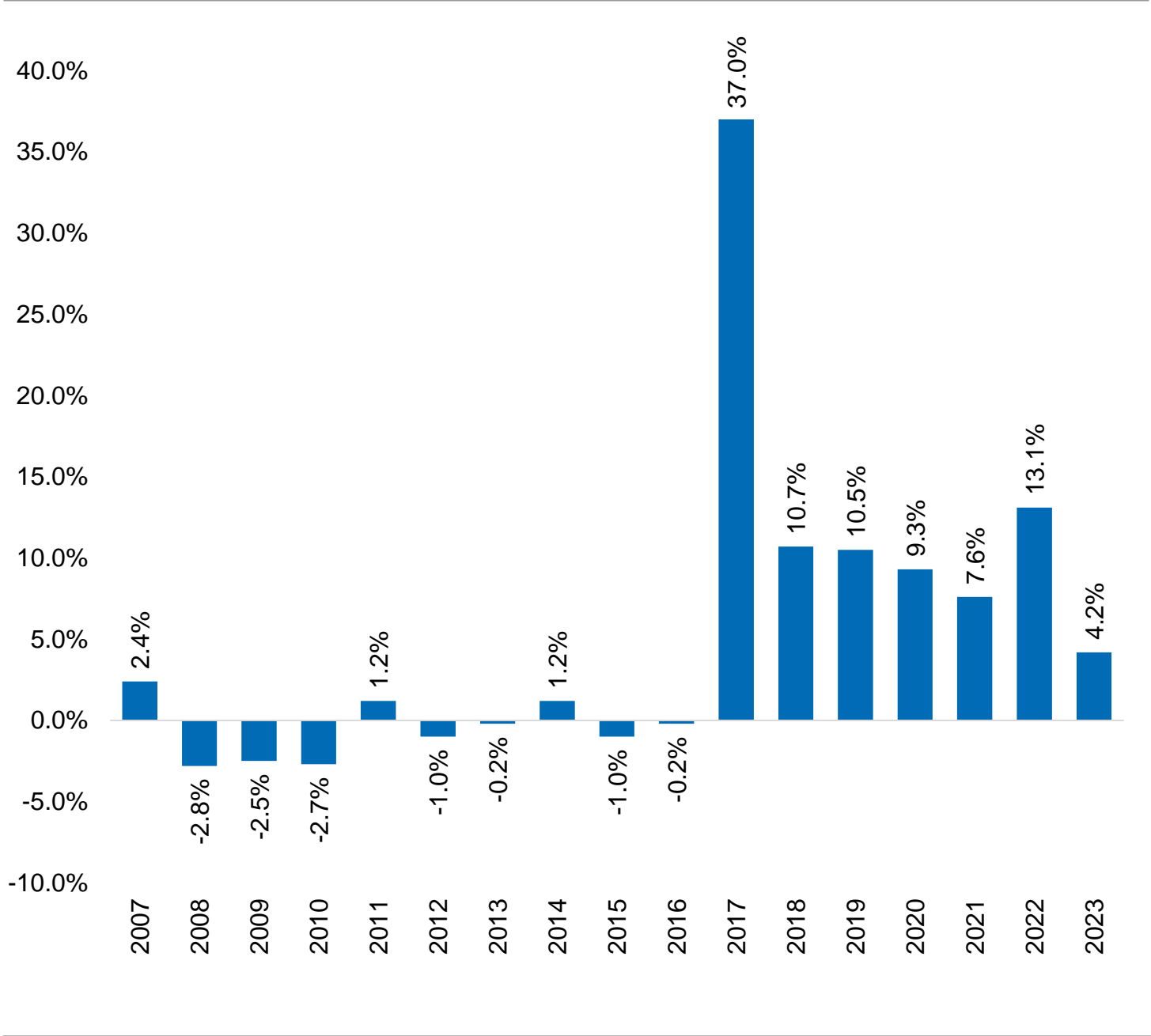
# Industrial Asking Rates Begin to Flatline

Greater Philadelphia’s average asking rate of \$11.68/SF in the fourth quarter of 2023 was the highest year-end asking rate in the market’s history, however, the pace of rent growth is beginning to show signs of slowing. Rates grew by 4.2% year-over-year and rents are virtually unchanged since the third quarter of 2023. Higher availability rates caused by the robust pace of deliveries and normalizing demand have put downward pressure on rent growth in 2023.

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 4Q23 Lease Transactions

Amazon headlined leasing in Greater Philadelphia in the fourth quarter of 2023. Notable consumer brands and 3PL users headlined the largest remaining leases. Greater Philadelphia’s access major highways and nearly 60 million people within 250 miles makes it a prime location for distribution operations.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Amazon	560 Merrimac Avenue, Middletown, DE	New Castle County	Lease Renewal	1,015,740
US Elogistics	1620 River Road, Burlington, NJ	Burlington County	Direct Lease	477,736
Interstate Batteries	New Road, Quakertown, PA	Bucks County	Direct Lease	264,600
Pepperidge Farm Inc	2919 Old Tree Drive, Lancaster, PA	Lancaster County	Lease Renewal	240,528
Scrub Daddy, Inc.	104 Woodcrest Road, Cherry Hill, NJ	Camden County	Direct Lease	162,150

Source: Newmark Research

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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	33,544,992	3,043,175	1.9%	196,470	59,478	385,000	385,000	\$10.64
Southern New Jersey	145,424,265	3,940,727	9.7%	1,309,292	1,594,406	2,990,245	10,748,963	\$12.33
Greater Philadelphia	351,794,333	4,272,881	4.5%	2,604,463	4,457,357	3,848,552	8,680,778	\$11.20
Market	530,763,590	11,256,783	5.8%	4,110,225	6,111,241	7,223,797	19,814,741	\$11.68

## 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	249,560,804	196,000	3.4%	1,656,494	1,157,094	2,107,787	3,887,501	\$10.72
R&D/Flex	81,310,316	58,935	4.6%	323,079	172,962	-	240,500	\$13.66
Warehouse/Distribution	199,892,470	11,001,848	9.3%	2,130,652	4,781,185	5,116,010	15,686,740	\$11.75
Market	530,763,590	11,256,783	5.8%	4,110,225	6,111,241	7,223,797	19,814,741	\$11.68

Source: Newmark Research

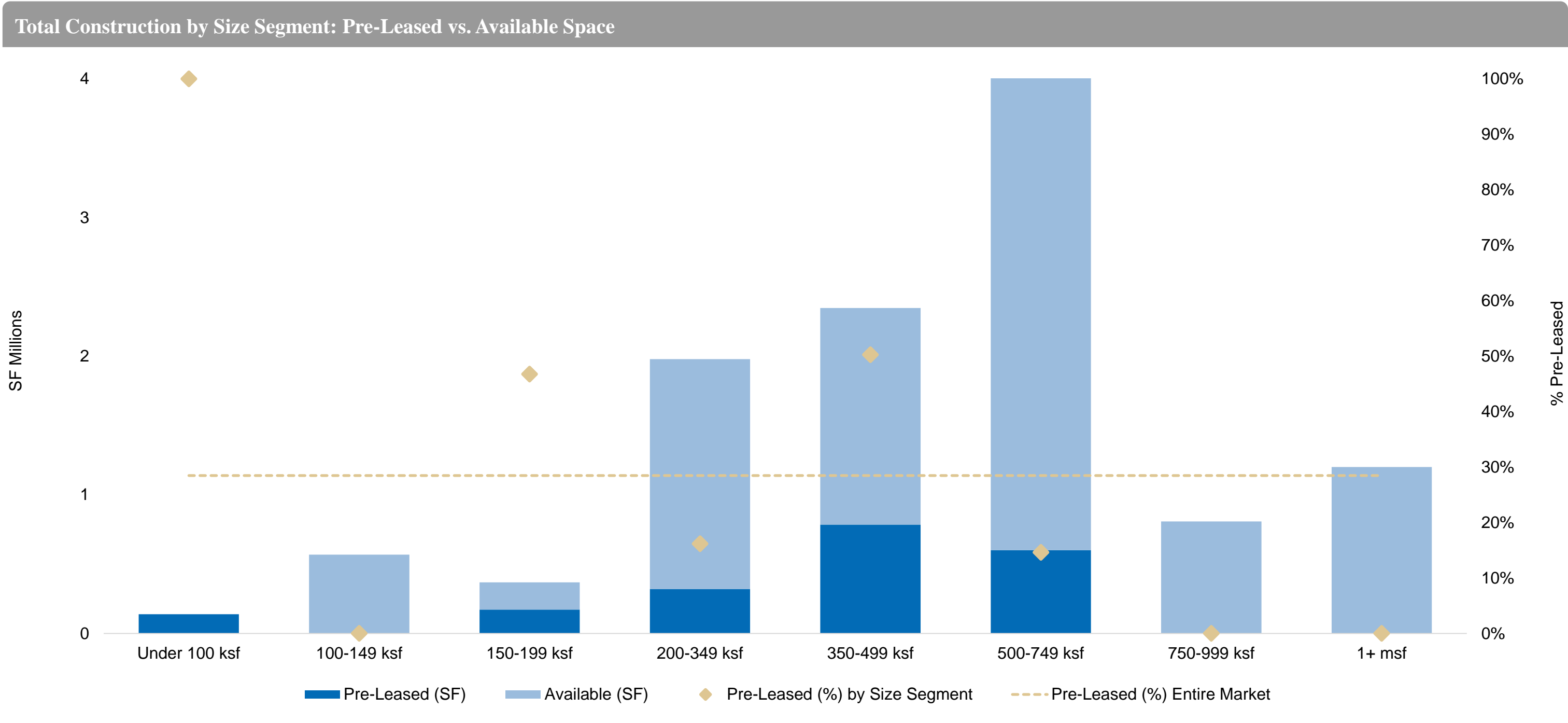
# Submarket Overview (page 2 of 2)

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	63,551,150	281,108	5.5%	1,470,275	2,266,538	3,548,312	5,175,752	\$11.35
Chester County	37,846,817	-	3.3%	176,544	355,473	-	205,500	\$11.17
Delaware County	30,663,303	479,400	3.3%	-46,910	742,810	-	125,500	\$12.45
Lancaster County	59,843,758	602,040	3.3%	87,310	472,130	300,240	1,672,958	\$8.57
Montgomery County	73,713,582	308,500	5.8%	264,900	51,209	-	345,039	\$12.65
Philadelphia County	86,175,723	2,601,833	4.6%	652,344	569,197	-	1,156,029	\$10.08
Greater Philadelphia	351,794,333	4,272,881	4.5%	2,604,463	4,457,357	3,848,552	8,680,778	\$11.20
Burlington County	68,861,399	730,670	15.2%	948,982	237,064	1,669,910	6,730,876	\$12.69
Camden County	33,380,735	-	2.5%	-14,140	-138,673	162,150	162,150	\$10.23
Gloucester County	35,042,578	1,422,050	4.9%	374,450	1,588,015	996,585	2,897,187	\$11.90
Salem County	8,139,553	1,788,007	12.9%	-	-92,000	323,750	958,750	\$11.30
Southern New Jersey	145,424,265	3,940,727	9.7%	1,309,292	1,594,406	2,990,245	10,748,963	\$12.33
New Castle County	33,544,992	3,043,175	1.9%	196,470	59,478	385,000	385,000	\$10.64
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Source: Newmark Research

# Preleased Space Remains Stable Despite Record Deliveries in Greater Philadelphia's Construction Pipeline

The completion of the Keystone Trade Center in Bucks County took significant space out of the 1+M square feet category, leaving the 500-749K-square-foot tranche as the largest in Greater Philadelphia's construction pipeline. There was not a significant quarterly change in the percentage of space that is preleased even with the record number of deliveries in the fourth quarter. At the end of 2023, 28.5% of Greater Philadelphia's pipeline is leased; only 55 basis points less than the previous quarter.



Source: Newmark Research



*For more information:*

**Carolyn Bates**

*Director  
Mid-Atlantic Research*

carolyn.bates@nmrk.com

**Trae Hoffner**

*Research Analyst  
Philadelphia Research*

trae.Hoffner@nmrk.com

**Philadelphia**

2005 Market St, Ste 900  
Philadelphia, PA 19103  
t 215-561-8300

**King of Prussia**

610 Freedom Business Center Drive, Suite 310  
King of Prussia, PA 19406  
t 610-265-0600

**New York Headquarters**

125 Park Ave.  
New York, NY 10017  
t 212-372-2000

**nmrk.com**

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