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New Warehouse Deliveries Drive Absorption Gains

Philadelphia, PA (October 16, 2017) — Newmark Knight Frank (NKF) released its third-quarter 2017 reports for the Greater Philadelphia region and the I-81/78 Corridor industrial markets this week. Greater Philadelphia's industrial market, including I-81/78, closed the third quarter of the year with just shy of two million square feet in positive absorption. Quarter-over-quarter the vacancy rate rose 30 basis points to 6.9 percent, and the market, especially in the Southern Pennsylvania region, remains extremely tight. Several warehouse buildings also delivered: three in the Southern New Jersey market totaling 2.2 million square feet, and four in the I-81/78 Corridor market totaling 2.1 million square feet. The I-81/78 Corridor continued to capture the majority of the construction pipeline.

The Southern New Jersey market recorded 1.5 million square feet in positive absorption. Specifically, the Gloucester County submarket contributed the bulk of the gains with 1,037,511 square feet, as Amazon occupied 1,181,240 square feet at a newly delivered building at 2651 Oldman's Creek Road. Despite the Amazon move, vacancy in the Southern New Jersey warehouse/distribution market increased for the first time since fourth-quarter 2016, rising 70 basis points to end at 3.8 percent. The rise in vacancy is mainly attributed to 302,400 square feet of space vacated at 200 Arlington Boulevard. The rate remains among the lowest in recent years. Kurt Montagano, NKF senior managing director stated, "While vacancy for warehouse buildings rose slightly, rents rose as well. The warehouse and distribution market in Southern New Jersey remains very active."

In the Delaware market, tenant activity within the warehouse sector slowed some after a strong second quarter. The sector reported 20,663 square feet in positive absorption, lowering the vacancy rate by 20 basis points to 9.4 percent. Overall rents in Delaware fell \$0.07 per square foot to \$4.44 per square foot, with general industrial rents falling the most (\$0.10 per square foot to end at \$4.22 per square foot).

Southeastern Pennsylvania's vacancy rate remained at 6.8 percent for the fifth consecutive quarter. According to Eustace Wolfington, NKF senior managing director, "The market remains a strong seller's / landlord's market, as the lack of available product trickles down to higher prices on marginal properties. This is a mature market, with the lack of virgin ground suffocating new development. Real vacancy on decent product is closer to 3 percent." The third quarter closed with 144,094 square feet in positive absorption for the market. Delaware County posted the largest positive absorption with 219,370 square feet of occupancy gains, followed by Chester County with 86,543 square feet. Tenant moves include Parigi vacating 132,405 square feet at 330 S. Warminster Road in Montgomery County and Wedderspoon occupying 21,794 square feet at 17 Lee Boulevard.

Vacancy for I-81/78 Corridor warehouse/distribution properties rose 80 basis points in the third quarter of 2017 to 8.2 percent. Tim Brogan, NKF senior managing director, noted “Construction has yet to slow down in the I-81/78 Corridor warehouse market. Two million square feet delivered this quarter, with another 2.2 million added on to the 9.5 million already in the pipeline. E-commerce companies remain the market drivers.” Rents for warehouse product remained steady at \$4.38 per square foot. Overall, the Central Pennsylvania submarket recorded 132,064 square feet of negative absorption, while the Lehigh Valley and Northeastern Pennsylvania submarkets recorded 170,709 square feet and 177,386 square feet of positive absorption, respectively.

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