

FOR IMMEDIATE RELEASE

Inventory Fails to Keep Up With Demand

Wayne, PA (October 29, 2018) — Newmark Knight Frank (NKF) released its third-quarter 2018 industrial market reports for Greater Philadelphia and the I-81/78 Corridor. The combined markets closed the period with 5.0 million square feet of positive absorption. Warehouse properties accounted for 4.5 million square feet of this quarter's occupancy gains. Overall vacancy declined 10 basis points to 6.2 percent, while warehouse vacancy decreased 20 basis points to 7.0 percent. 4.3 million square feet delivered during the third quarter with most of it centered in the I-81/78 Corridor market.

The Southeastern Pennsylvania market closed the third quarter of 2018 with 263,684 square feet in negative absorption. Total vacancy for all property types increased 20 basis points from the second quarter to 5.9 percent. Philadelphia County and Montgomery County were the only submarkets in Southeastern Pennsylvania with quarterly positive absorption reporting occupancy gains of 31,748 square feet and 111,795 square feet, respectively. During the third quarter, AgustaWestland began its move into 47,750 square feet at 9230-9250 Ashton Road in Philadelphia County. The tenant will occupy its remaining space in October. In Montgomery County, Cambria moved into 65,000 square feet at 780 3rd Avenue.

The negative absorption in the Southeastern Pennsylvania suburban market is not a sign that demand has slowed, quite the opposite. Demand remains high particularly for warehouse space. Justin Bell, NKF managing director notes, "A lack of warehouse product along with a shortage of warehouse and construction labor has impeded the execution of large deals." Southeastern Pennsylvania's overall average direct asking rental rate fell \$0.03 per square foot from the second quarter to \$5.58 per square foot. The average direct asking rental rate for warehouse space, at \$4.75 per square foot, was up \$0.08 per square from the prior quarter and \$0.63 per square foot higher than one year ago.

The I-81/78 Corridor recorded 4.5 million square feet of positive quarterly absorption. Warehouse properties accounted for the majority of the market's occupancy gains with 3.9 square feet absorbed in the third quarter. As a result, warehouse vacancy slipped 40 basis points from the second quarter to 7.9 percent. The Central Pennsylvania and Lehigh Valley submarkets continue to be

the center of activity. In the third quarter, Syncreon moved into 1.0 million square feet at 100 Goodman Drive in Central Pennsylvania, while UPS occupied 1.0 million square feet at 1620 Van Buren Road in the Lehigh Valley.

Rents increased across all property types in the I-81/78 Corridor for the fourth consecutive quarter, with the overall rent rising \$0.19 per square foot to \$4.72 per square foot. Warehouse rents rose \$0.18 per square foot to \$4.70 per square foot on the strength of rents of newer properties. Said Tim Brogan, NKF senior managing director, “Don’t expect a market correction in the near future. Inventory is tight and demand shows no sign of slowing.”

The Southern New Jersey market recorded a total of 927,404 square feet of positive absorption for the first three quarters of the year. This time last year, the market reported 5.3 million square feet of positive absorption. Said Kurt Montagano, NKF senior managing director, “There is still strong demand, particularly for Southern New Jersey warehouse product, from New York City and Northern New Jersey tenants attracted by the market’s comparatively less expensive rental rates. However, these incoming tenants are encountering fewer space options.” The overall vacancy rate for all property types declined 60 basis points from the first quarter to 3.6 percent. During the third quarter, Imperial Dade Paper occupied 333,348 square feet at the newly constructed warehouse located at 425 Rising Sun Road (440,440 square feet) in Burlington County.

The average direct asking rental rate for warehouse space increased \$0.38 per square foot quarter-over-quarter to \$5.01 per square foot. Rental rates for new warehouse space in central and southern Burlington County average around \$6.25 per square foot, with some spaces commanding rents as high as \$8.00 per square foot.

Vacancy in the New Castle County, Delaware, industrial market declined for a ninth consecutive quarter. Despite warehouse vacancy climbing 20 basis points to 3.6 percent, the sector remains very tight. Warehouse rents continued their ascent increasing \$0.09 per square foot from the second quarter to a record-high of \$5.08 per square foot. New Castle County’s warehouse inventory will expand once the redevelopment of the Boxwood site gets underway. Harvey Hanna & Associates plans to demolish the 2.8-million-square-foot former General Motors plant and replace it with 3.0 million square feet of distribution space spread over four buildings.

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