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Industrial Market Fundamentals are Strong Going into 2020

Wayne, PA (January 17, 2020) — Newmark Knight Frank (NKF) released its fourth-quarter 2019 industrial market reports for Greater Philadelphia and the I-81/78 Corridor. Both markets hit notable milestones in the final quarter of the decade. The I-81/78 Corridor realized 6.2 million square feet of positive net absorption, the single largest quarterly total in this economic cycle. In the Greater Philadelphia industrial market, 5.6 million square feet of new industrial product delivered, the largest quarterly addition to the inventory in the 21st century to date.

In the I-81/78 Corridor industrial market, the fourth quarter of 2019 had numerous large occupancies of recently-delivered speculative and build-to-suit warehouses, including DHL's arrival at the 1.0 million-square-foot warehouse located at 84 Zions View Drive. This marked the region's most significant fourth-quarter occupancy. The heightened activity brought the market's vacancy rate below the 8.0 percent mark attained in the third quarter, to close the year at 7.8 percent.

Development levels in the I-81/78 Corridor remained elevated at 17.0 million square feet, divided relatively equally among the region's three submarkets, Northeastern Pennsylvania, Central Pennsylvania, and the Lehigh Valley, which all posted construction levels above 5.0 million square feet. Yet, for the first time in over a decade, the Northeastern Pennsylvania submarket led in total development underway, with 6.1 million square feet in the pipeline, half of which is preleased.

According to NKF Executive Managing Director Jim Belcher, "Construction activity is pushing northward because there are few prime developable sites left in the Lehigh Valley. You can't make new dirt in the Valley, but there's still plenty of available land with excellent regional access in the Northeast."

In Greater Philadelphia's industrial market, a significant amount of new supply deliveries in the fourth quarter boosted annual inventory additions

to nearly 10 million square feet, the majority of which was constructed speculatively. At year-end, 55 percent of the space delivered across the tri-state Greater Philadelphia market in 2019 was available for lease.

Speaking about the new supply landscape, NKF Managing Director Justin Bell said, "Many local occupiers are not equipped to move into modern high-bay space. Developers are building these properties largely with national-scale, credit tenants in mind, and these are the types of tenants most likely to lease the new supply."

In the fourth quarter, multiple leases were signed at newly-delivered or under-construction properties, and still more were in advanced negotiations with tenants, so occupancy rates for new construction will increase in 2020. Demand for new space is strongest in Southern New Jersey, where all buildings constructed in the first three quarters of the year have been fully leased.

The Greater Philadelphia market accumulated 575,000 square feet in quarterly absorption, with each submarket – Southeastern Pennsylvania, Southern New Jersey, and Delaware – positively contributing to the total. The market's largest fourth-quarter occupancy was Kellogg's move into the 905,520-square-foot build-to-suit in Lancaster County.

In the Delaware submarket, the fourth-quarter industrial vacancy rate of 2.5 percent kept market activity very modest with little room for movement. Yet, two new projects announced in the second half of 2019 made a significant splash: Dart Container chose Delaware as the location for a new million-square-foot facility, which will break ground in early 2020, and a major ecommerce provider is reportedly in advanced negotiations for a planned multi-story warehouse. This latter project will join the ranks of only a handful of other such modern multi-story warehouses in the country, putting the Delaware market on the map.

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