

Greater Philadelphia Industrial Market

Rents Increase to Close Out 2022; New Construction Remains Strong

Activity in the Philadelphia industrial market was vigorous in 2022. The occupancy rate across all tracked markets and submarkets remains above 96%. Year-to-date absorption closed out the year at 13.3 million square feet of positive absorption, topping 2021's total by nearly 3 million square feet. Asking rental rates climbed further northward in 2022 to an average asking rate of \$8.27/SF, up from \$7.66/SF a year ago. Construction activity remains robust, with 26.0 million square feet under construction and 11.3 million square feet of new product delivered in 2022.

With e-commerce growth slowing nationwide during the second half of 2022, tenants are becoming more cautious about expansion within the market. Speculative development remains robust in the Philadelphia industrial market; however, new development is expected to slow in 2023, as tenants will likely not lease space at the pace they have over the past few years since the start of the pandemic. In addition, supply chain issues still need to be solved as some projects planned or in the early stages of construction may experience a delay in 2023. As a result, developers constructing on speculation will continue to evaluate demand in the market. Fortunately, compared to other markets in the country, Philadelphia has not experienced a significant slowdown in activity. With 26.0 million square feet underway, the highest in the market's history, confidence is still strong among local developers; however, it will be essential to monitor the pace of new speculative development leased in 2023.

Current Conditions

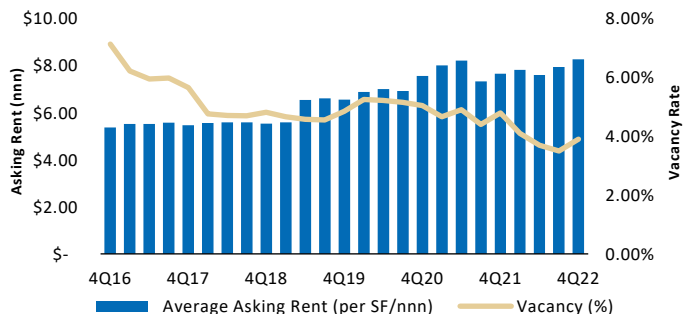
- Asking rental rates increased to \$8.27/SF in the fourth quarter, up from \$7.94/SF in the third quarter.
- The overall vacancy rate declined from 4.8% to 3.9% year-over-year.
- There is 26.0 million square feet currently under construction.

Market Summary

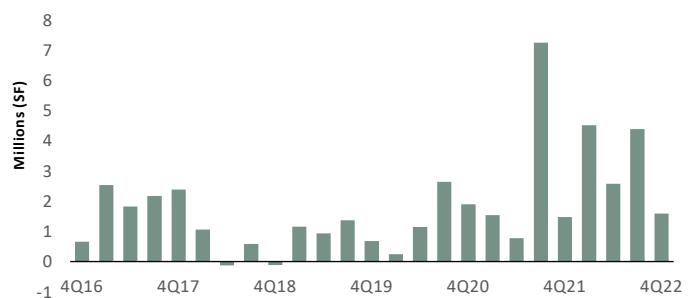
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	510M	506M	497M	↑
Vacancy Rate	3.9%	3.5%	4.8%	↓
Quarterly Net Absorption (SF)	1.6M	4.4M	1.5M	↑
Average Asking Rent/SF	\$8.27	\$7.94	\$7.66	↑
Under Construction (SF)	26.0M	20.1M	20.0M	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q4 2022

Southeastern Pennsylvania

The overall vacancy rate for the Southeastern Pennsylvania market increased by ten basis points quarter over quarter to 4.0% due to new speculative construction delivered during the fourth quarter of 2022. Year-to-date absorption climbed to 6.0 million square feet, topping 2021's total by nearly 1 million square feet. Notable tenants that took occupancy of their new spaces in 2022 included: A. Duie Pyle, moving into 415,000 square feet of space at 1 Geoffrey Road in Bucks County; DSV Global Transportation Logistics taking occupancy at 1000 North Cannon Avenue in Montgomery County for 302,554 square feet; and NFI moving into its newly constructed building in the Quakertown Logistics Center in Bucks County for 264,600 square feet. Asking rental rates increased further this quarter to an average of \$8.69/SF, up from \$8.29/SF in the third quarter. There are 12.8 million square feet under construction in the market, and nearly 4.0 million square feet of new product delivered in 2022.

The largest lease signed this quarter within the Southeastern Pennsylvania submarket was Jillamy taking 505,850 square feet in the Keystone Trade Center in Bucks County. Additionally, Savino Del Bene leased 506,269 square feet within the building earlier in 2022. Once the building finishes construction during the first quarter of 2023, both tenants will take occupancy. As a result, they will contribute to over 1 million square feet of positive absorption in the Bucks County submarket.

Southern New Jersey

The overall vacancy rate for the Southern New Jersey industrial market increased quarter over quarter to 4.3%, up from 3.1%. Much like the Southeastern Pennsylvania market, the increase in vacancy this quarter can be attributed to new speculative development finishing construction. Southern New Jersey closed out the year with 5.7 million square feet in absorption, 56.0% higher than in 2021. Notable tenants

that took occupancy in 2022 included: Performance Team moving into 721,000 square feet at 270 Daniels Way in Burlington County; Noble House Furniture taking occupancy of its newly constructed building in Edgewater Park in Burlington County for 704,700 square feet; and UPS moving into its newly constructed building in Swedesboro within the Gloucester County submarket for 455,280 square feet. Asking rental rates increased to an average of \$6.52/SF, up from \$6.32/SF in the third quarter of 2022 and 5.2% higher than a year ago. Construction activity remains robust in the Southern New Jersey industrial market, with 11.8 million square feet underway and 6.1 million square feet delivered in 2022.

Significant leases inked in the Southern New Jersey industrial market included: Royal Wine taking 185,340 square feet at 9130 Griffith Morgan Lane in Camden County; The Chefs' Warehouse leasing 168,494 square feet at 333 Swedesboro Avenue in Gloucester County; Premier Packaging signing for 149,504 square feet at 2 Sorbello Road in Salem County; and Nimble Robotics taking 131,700 square feet at 105 Elbow Lane in Burlington County.

New Castle County, Delaware

New Castle County posted a 99.0% occupancy rate to close out 2022. Comparably, the overall vacancy for industrial space was at 1.9% year-end 2021. Year-to-date positive absorption was at 1.6 million square feet, primarily due to Amazon's 1.3-million-square-foot building completion at 780 South Dupont Highway in New Castle in early 2022. The market saw 1.4 million square feet of new construction break ground in the fourth quarter, adding some needed new warehouse and distribution space. Due to a lack of available inventory, leasing activity was limited in 2022. Asking rental rates increased to an average of \$10.05/SF in the fourth quarter, up from \$9.71/SF in the third quarter of 2022.

Select Lease Transactions

Tenant	Market	Building	Type	Square Feet
Jillamy	Bucks County	Keystone Trade Center	New Lease	505,850
Royal Wine	Camden County	9130 Griffith Morgan Lane	New Lease	185,340
The Chefs' Warehouse	Gloucester County	333 Swedesboro Avenue	New Lease	168,494
Premier Packaging	Salem County	2 Sorbello Road	New Lease	149,504
Nimble Robotics	Burlington County	105 Elbow Lane	New Lease	131,700

Select Sales Transactions

Buyer	Market	Building	Type	Sale Price	Square Feet
Velocity Ventures	Delaware County	6250 Baltimore Avenue	Investment Sale	\$41.8M / \$89/SF	468,000
TESCO	Bucks County	925 Canal Street	User Sale	\$14.4M / \$53/SF	270,000

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Warehouse Asking Rent (Price/SF)	Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Southeastern PA Total	343,529,807	12,772,963	4.0%	836,151	6,004,334	\$8.18	\$11.62	\$8.69
Bucks County	58,962,218	7,872,368	2.5%	498,884	1,528,663	\$9.89	\$11.65	\$9.50
Chester County	37,788,332	163,000	4.1%	-224,153	145,059	-	\$11.01	\$9.19
Delaware County	30,600,843	1,258,859	6.1%	35,139	428,641	\$7.32	\$10.24	\$8.79
Lancaster County	58,121,601	1,429,718	1.5%	253,469	1,359,466	\$4.25	\$9.99	\$7.15
Montgomery County	73,028,506	936,959	5.4%	-18,709	1,481,005	\$8.48	\$14.28	\$9.66
Philadelphia County	85,028,307	1,112,059	5.0%	291,521	1,061,500	\$8.03	\$8.96	\$7.52
Southern NJ Total	133,579,020	11,828,903	4.3%	816,893	5,726,342	\$6.57	\$7.46	\$6.52
Burlington County	59,584,278	7,638,428	4.7%	620,164	3,712,932	\$5.75	\$8.29	\$6.09
Camden County	33,295,385	-	2.3%	58,011	148,640	\$4.50	\$6.92	\$6.12
Gloucester County	33,518,554	2,990,475	6.4%	-10,786	1,314,766	\$10.78	\$4.89	\$8.98
Salem County	7,180,803	1,200,000	0.0%	149,504	550,004	-	-	-
Delaware Total	33,161,198	1,407,240	1.0%	-56,507	1,596,353	\$5.90	\$13.05	\$10.05
New Castle County	33,161,198	1,407,240	1.0%	-56,507	1,596,353	\$5.90	\$13.05	\$10.05
Market	510,270,025	26,009,106	3.9%	1,596,537	13,327,029	\$7.32	\$11.20	\$8.27

Submarket Statistics By Type						
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
Total	510,270,025	26,009,106	3.9%	1,596,537	13,327,029	\$8.27
Warehouse/Distribution	182,716,824	21,805,296	4.8%	1,815,921	10,560,823	\$7.32
Flex	81,153,731	198,000	4.6%	-168,184	851,612	\$11.20
General Industrial	246,399,470	4,005,810	3.0%	-51,200	2,082,778	\$7.25

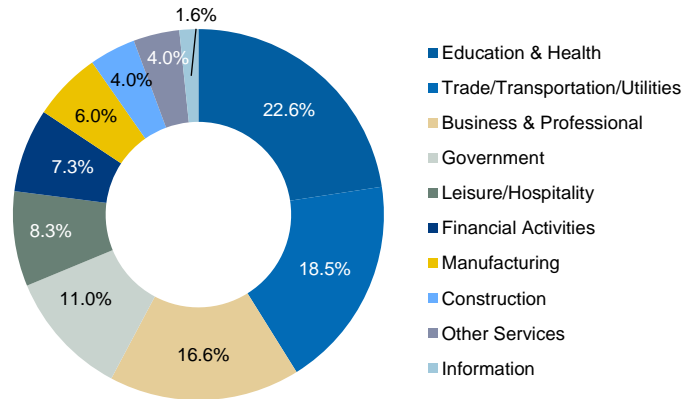
Economic Overview

The unemployment rate for the Philadelphia Metropolitan area dropped to 3.4% in the fourth quarter, down from 4.5% in the third quarter. Comparatively, the national unemployment rate for the fourth quarter was 3.7%, which is the first time since 2018 that the unemployment rate for Philadelphia was lower than the national rate. In addition, of all tracked sectors in the Philadelphia Metropolitan area, the professional and business services sector experienced the most significant growth year over year, 4.9%. Other sectors that saw positive growth in 2022 included education and health services by 4.7%, leisure and hospitality by 4.2%, and manufacturing by 3.6%.

Supply chain issues and increasing inflation will continue to pose concerns in Philadelphia’s industrial sector moving into 2023. Construction remains strong; however, with consumer spending slowing in recent months, tenant demand may also decline, leaving new speculative development slow to lease up.

Employment by Industry

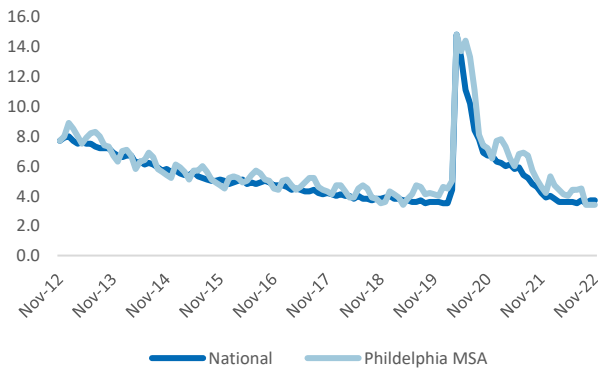
PHILADELPHIA MSA, ANNUAL AVERAGE, 2022



Source: U.S. Bureau of Labor Statistics, November 2022.

Unemployment Rate

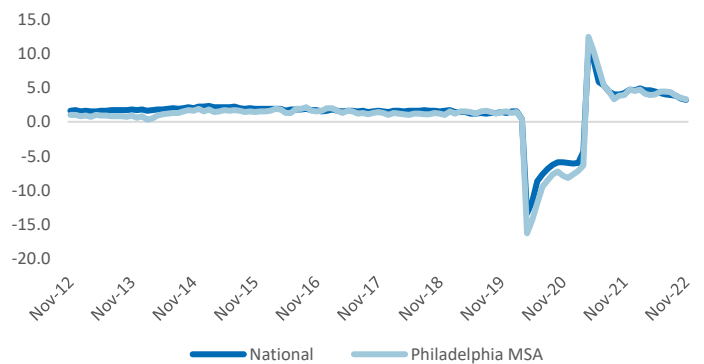
SEASONALLY ADJUSTED*



*Local data not seasonally adjusted
Source: U.S. Bureau of Labor Statistics, November 2022

Payroll Employment, Total Nonfarm

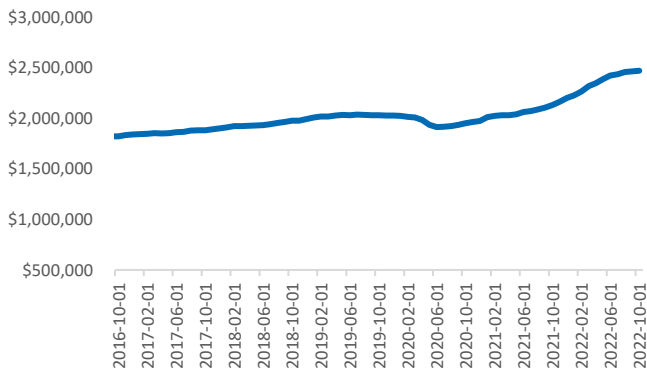
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, November 2022

Total Business Inventories

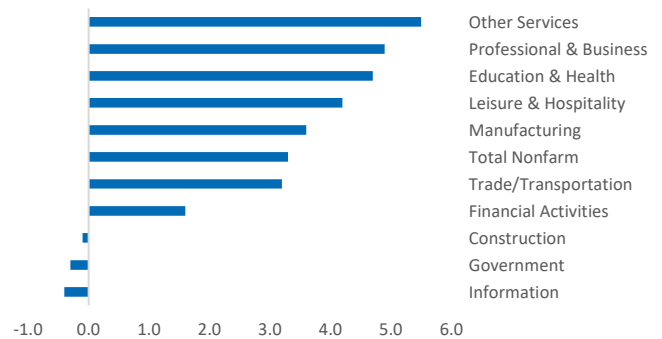
TOTAL, IN \$MILLIONS



Source: St. Louis FRED, October 2022

Employment Growth by Industry

PHILADELPHIA MSA, November 2022, 12 MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, November 2022.

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