

FIGURES | PHILADELPHIA METRO INDUSTRIAL | Q4 2023

Record construction deliveries push vacancy higher but pipeline cooling

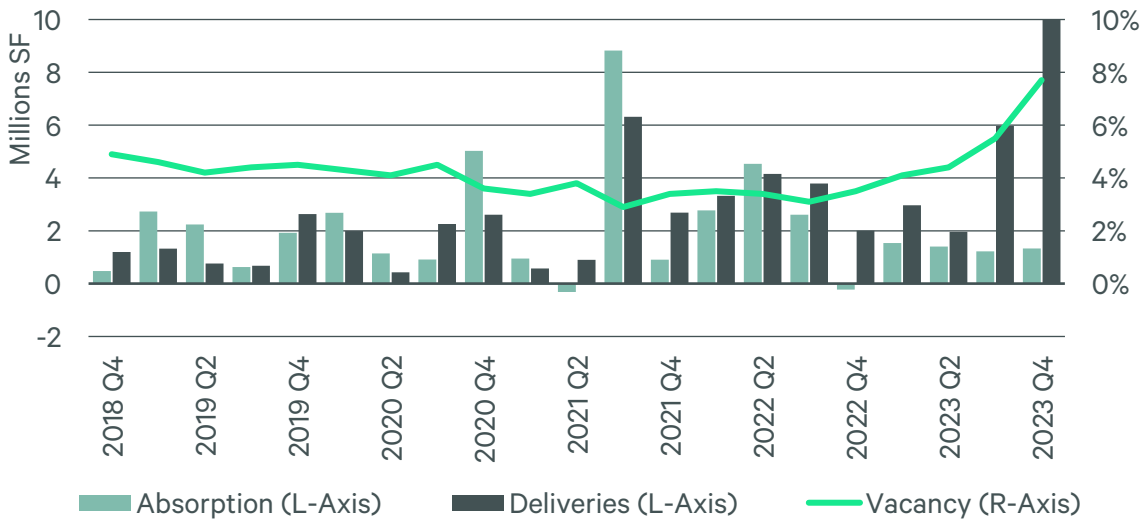


Note: Arrows indicate change from previous quarter.

- While overall leasing activity was down compared to the prior three years, demand remained positive and stable, showing signs of persistence.
- Single-quarter construction deliveries reached an all-time high at 9.98 million sq. ft., pushing year-to-date totals to more than 20 million sq. ft.
- Overall rents continued to climb, albeit slower while Class A logistics rents were flat.

Having posted several quarters of vacancy growth starting in Q3 2022, the Philadelphia industrial market saw that measure spike in Q4 2023 as 70% of the active construction pipeline reported in Q3 2023 delivered, adding another 9.98 million square feet (sq. ft.) to the inventory. Rising vacancy had pushed leverage toward tenants in recent quarters as asking rent growth decelerated while landlords became willing to offer greater concessions, especially among Class A properties where vacancy rose sharpest since 2022. Investors who took advantage of a 40% rent increase over the last two years were content to fill vacancies at moderating market rates. In total, the Philadelphia Metro gained 20.1 million sq. ft. of new Class A space during 2023 while posting 16% rent gains, year-over-year. Despite cooling demand, the market still absorbed 5.5 million sq. ft. of vacancy during the year, a pace similar to pre-pandemic measures.

FIGURE 1: Net Absorption, Construction Deliveries & Vacancy

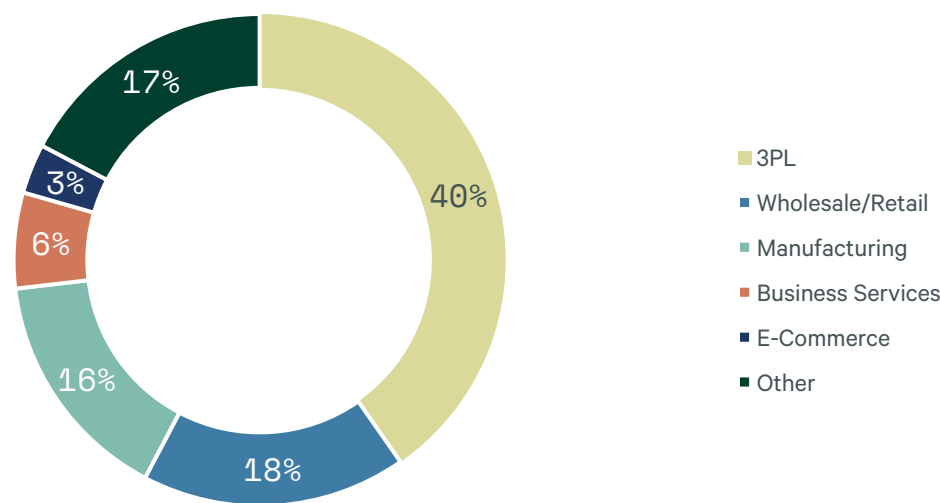


Source: CBRE Research, Q4 2023.

Leasing Activity

Leasing activity was noticeably down in 2023 compared to the prior three years. Pandemic stalwarts such as third-party logistics (3PL), wholesale/retail, and manufacturing companies all posted smaller leasing totals than the prior year, most often by a half. E-commerce, a category that was silent all of 2022, re-emerged as a demand driver, albeit modestly with only 250,000 sq. ft. of activity tallied in 2023. The upside to the slowdown is its consistency. In Q4 2023, two million sq. ft. of new or expansion leases were signed which was just shy of 2023's average of 2.1 million sq. ft. In fact, all of 2023's quarters' leasing activity was within less than 20% of that average. This implies a market that certainly cooled from the pandemic highs posted in 2020 and 2021 but maintained reasonably healthy demand levels.

FIGURE 2: Leasing Activity by Industry, 2023 Total.



Source: CBRE Research, Q4 2023.

FIGURE 3: Top Lease Transactions, Q4 2023

Tenant	Building Submarket	Size (SF)	Transaction Type
US Elogistics	1620 River Rd Southern NJ	477,460	New Lease
Supply House	1170 Florence Columbus Rd Southern NJ	412,320	New Lease
Cigna Health and Life Insurance Co.	700 Dusk Run Rd Northern DE	200,293	New Lease
International Paper	200 Arlington Blvd Southern NJ	196,000	Renewal
Scrub Daddy, Inc.	106 102 Woodcrest Rd Southern NJ	162,150	New Lease
IFM Efector, Inc.	15 25 Great Valley Pkwy Southeast PA	89,431	New Lease
Barton & Cooney, LLC	300 Richards Run Southern NJ	85,390	Renewal
Tesla Power & Automation	201 S Gulph Rd Southeast PA	81,687	New Lease
W.B. Mason Co.	151 Heller Pl Southern NJ	80,760	Renewal
Gallo Wine Sales of New Jersey Inc.	3101 Sylon Blvd Southern NJ	78,408	Renewal

Source: CBRE Research, Q4 2023.

Construction

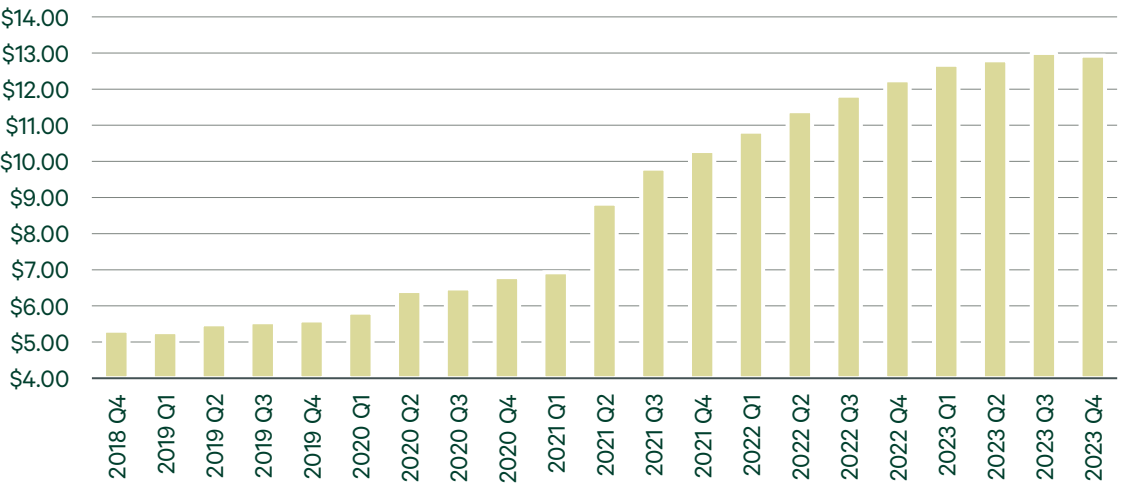
The active construction pipeline at the start of 2023 was running at historically high levels. But by late 2022, developers reacted to rising vacancy by generally pausing any plans in early stages, choosing to move forward only on fully approved, fully funded projects that were in late stages of development. As a result, by the end of 2023 the pipeline shrank to only 6.7 million sq. ft., the slowest amount of activity since the start of the pandemic. Developers' discipline paid off as rents retained ground gained in recent quarters and vacancy, while high, remained relatively moderate from a long-term perspective. Not long ago, the Philadelphia Metro was in desperate need of more modern logistics facilities. But for the time being, existing supply seems sufficient for current demand levels.

The remaining projects in the pipeline will largely deliver by mid-2024. And while leasing activity slowed compared to recent years, its well near long-term averages. Current requirements in the market suggest demand should persist near current levels through 2024, removing some of the new supply added to the market. The combination of muted construction starts in early 2024 along with demand remaining positive, expect developers to move forward with well-located projects already through some portion of the approval process.

Rents

Overall distribution/logistics rents stabilized during the fourth quarter while Class A vacancy grew. Throughout 2023, landlords remained firm on asking rents while pushing back on concessions, determined to achieve the highest effective rents possible, spurred by underwriting assumptions on debt. And while both asking rents and contract rents written into leases continued to grow at 2023's end, the pace of growth was slowing with the expectation of somewhat stable rents through 2024 until an appreciable portion of new logistics product is absorbed.

FIGURE 4: Average Class A Logistics¹ Asking Lease Rates



¹ Criteria: Warehouses measuring 100,000 SF+ (under construction or existing), 2004 delivery date or later, 32' clear or more, 1 dock per 7,500 SF of NRA, ESFR Sprinklered.

FIGURE 5: Development pipeline

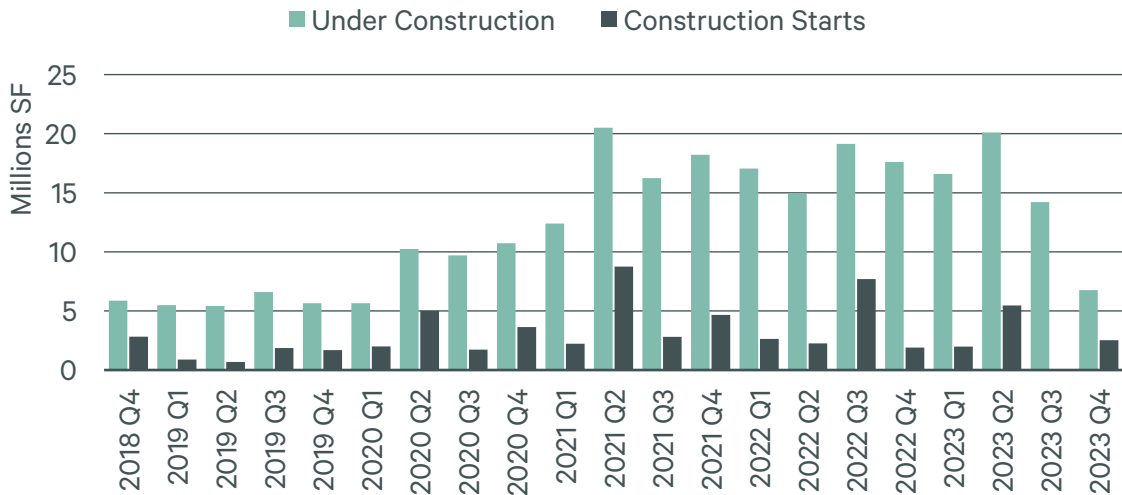
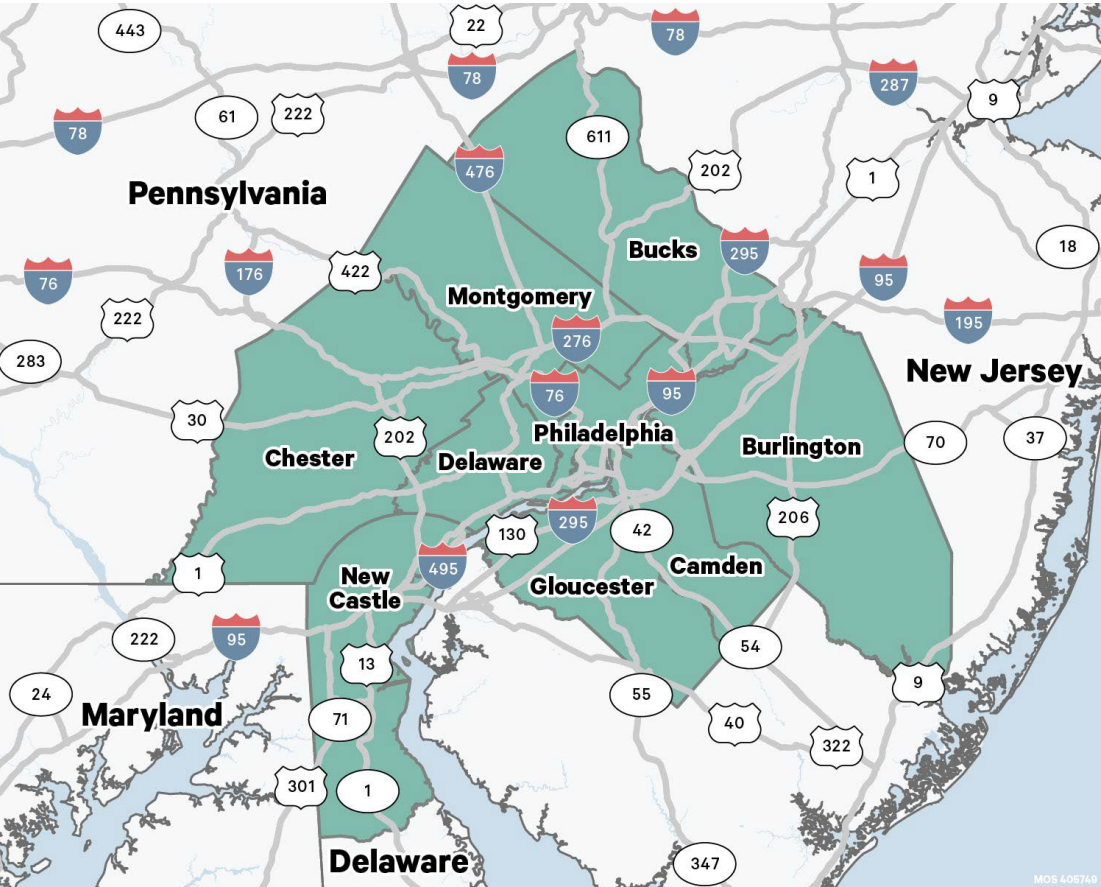


FIGURE 6: Submarket Statistics

District	Inventory (SF)	Total Vacancy Rate (%)	Completions (SF)	Under Construction (SF)	YTD Net Absorption (SF)	Avg. Asking Rent (\$/SF/Yr.)	Class A Logistics Asking Rent (\$/SF/Yr.)
Bucks County	53,770,951	7.1	1,155,656	177,584	2,078,955	11.23	11.40
Chester County	22,599,817	4.5	0	0	-5,953	12.59	N/A
Delaware County	20,984,581	4.4	0	479,400	728,885	12.85	16.38
Montgomery County	55,538,109	6.1	0	0	77,707	11.38	11.43
Philadelphia County	56,329,175	5.8	910,818	1,246,800	11,401	12.00	14.86
Southeast PA Subtotal	209,222,633	5.9	2,066,474	1,903,784	2,890,995	11.68	12.93
Burlington County	64,108,887	16.2	4,621,834	1,081,670	1,847,937	13.35	13.44
Camden County	27,219,538	3.7	162,150	80,400	-248,085	9.82	N/A
Gloucester County	36,005,068	6.6	1,094,785	653,575	444,268	12.03	12.36
Salem County	7,708,119	12.4	587,750	2,312,500	256,830	11.58	12.03
Southern NJ Subtotal	135,041,612	10.9	6,466,519	4,128,145	2,300,950	12.84	12.96
New Castle County	32,813,117	6.4	1,446,448	807,240	208,317	11.30	12.11
Northern DE Subtotal	32,813,117	6.4	1,446,448	807,240	208,317	11.30	12.11
Total	377,077,362	7.7	9,979,441	6,839,169	5,400,262	12.31	12.91

Source: CBRE Research, Q4 2023.

Market Area Overview



PHILADELPHIA DOWNTOWN

50 S 16th Street
Suite 3000
Philadelphia, PA 19102

PHILADELPHIA SUBURBAN

555 E Lancaster Avenue
Suite 120
Radnor, PA 19087

MT. LAUREL (SOUTHERN NJ)

1000 Howard Blvd.
Suite 104
Mt. Laurel, NJ 08054

WILMINGTON (NORTHERN DE)

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