Construction continues, vacancy falls, and Philadelphia avoids the rising sublease trend

▼ 8.0% Vacancy Rate

▲ 1.5M SF Net Absorption

▲ 15M SF Construction

▼ $11.93 NNN/ Lease Rate

Note: Arrows indicate change from previous quarter.

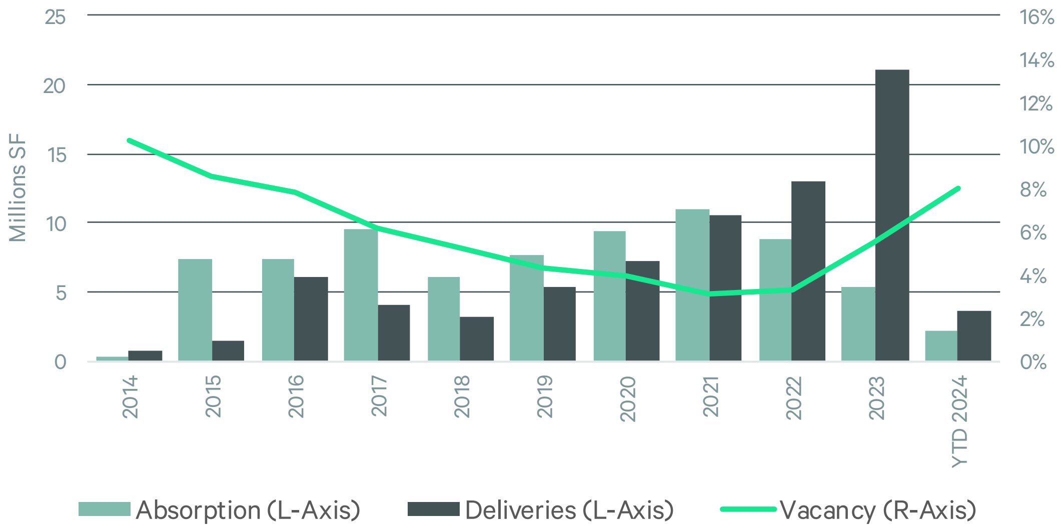
— After consecutive quarters of muted absorption, there was an uptick in occupancy growth with absorption surpassing one million sq.-ft. (sq-ft.).

— Development continued, mirroring 2022's pace – the most active construction year on record in the Philadelphia Metro.

— Third-party logistics (3PL) tenants continue to dominate the bulk of leasing activity within the market.

Following a start to the year that saw relatively modest absorption numbers – 363,000 square feet (sq. ft.) and 237,000 sq. ft. in the first and second quarters, respectively – occupancy growth pushed absorption north of one million sq-ft. in Q3 2024. While this uptick underscored a relatively healthy, albeit slower-than-pre-pandemic market, the notable trend this quarter was the persistent development story that continued within the Philadelphia market. At its current pace, the 10.5 million sq-ft of construction starts this year falls just behind the COVID-19-era development boom of 2022. Most of this development is connected to the continued rise of third-party logistics (3PL) tenants within the market, with nearly 80% of leasing activity coming from 3PL firms.

FIGURE 1: Net Absorption, Construction Deliveries & Vacancy



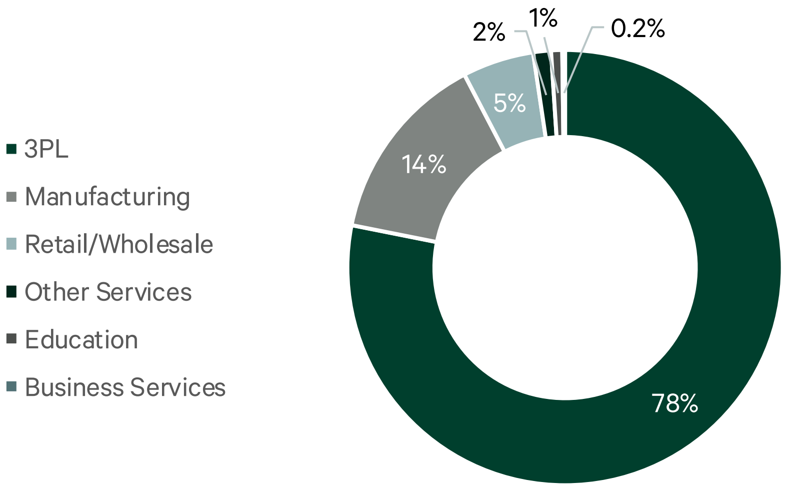
Source: CBRE Research, Q3 2024

Supply

Developers continued to break ground on new logistics projects despite indicators of slowing demand relative to previous levels posted during the pandemic-era boom. In total, 4 projects completed this quarter, delivering 1.1 million sq-ft. of new inventory, while 40 buildings totaling 15.0 million sq-ft. of projects remained under construction. On top of this, the 3.5 million sq-ft. of starts this quarter pushed total construction year-to-date above 10.5 million sq. ft. – nearly triple the construction output of Q3 2023 and outpacing last year's output of 10 million sq.-ft. While the market has since moved past the pandemic-era boom, the current construction pipeline fits squarely into the 14.2 million sq.-ft. average seen since the start of the pandemic.

Southeastern Pennsylvania (SEPA) and Southern New Jersey (SNJ) represented the bulk of construction in the Philadelphia metro, with 5.8 million sq.-ft. and 8.3 million sq.-ft., respectively. Burlington county led the way in SNJ, with 2.3 million of the total 1.7 million sq.-ft. of construction

FIGURE 2: Leasing Activity by Industry



Source: CBRE Research, Q3 2024

FIGURE 3: Top Lease Transactions

Tenant	Building	Size (SF)	Transaction Type
Lecangs	1900 River Rd	845,280	New Lease
US Elogistics Service Corporation	1183 Florence Columbus Rd	806,000	New Lease
US Elogistics Service Corporation	1170 Florence Columbus Rd	698,500	Renewal/Expansion
Domtar Paper Company	2900 Cindel Dr	465,000	Renewal
Undisclosed Bottling Company	4145 Philadelphia Pike	358,848	New Lease
Zenith Logistics	2057 US Highway 322	336,700	New Lease
Veho	2951 Orthodox St	148,611	New Lease
YHE Logistics	780 Coopertown Rd	127,535	New Lease
Patiomall	111 Mount Holly Bypass	106,000	New Lease
Rx Source	1240 Forest Pkwy	48,048	New Lease

Source: CBRE Research, Q3 2024

starts, headlined by the 704,000 sq.-ft. Tac-Pal Logistics Center in Palmyra. In SEPA, around 1.5 million sq.-ft. of projects were spread across Bucks, Chester, and Philadelphia counties, with the 973,000 sq.-ft. South Penn Logistics Center in Morrisville breaking ground this quarter – pulling year-to-date project starts in Bucks County up to 2.5 million sq.-ft. These trends reinforce the existing "go now" inclination amongst developers along the I-95 corridor and in the face of resident push-back recently seen in Gloucester County's Harrison Township.

Despite the continuing increase in supply within the metro, increasing positive absorption saw the vacancy rate fall by 20 basis points (bps.) to 8.0%, while overall availability fell in tandem, dropping 40 bps to 8.0%. Alongside these stats, the average time to lease new construction more than doubled this quarter to 15 months – a possible agent of near-term oversupply in the market. Despite this notable increase, the overall picture on the supply side trends positive, most notably from ongoing construction and the lack of sublease prevalence seen in other neighboring markets – just 2.2 million sq.-ft. of sublease space is available within the Philadelphia metro.

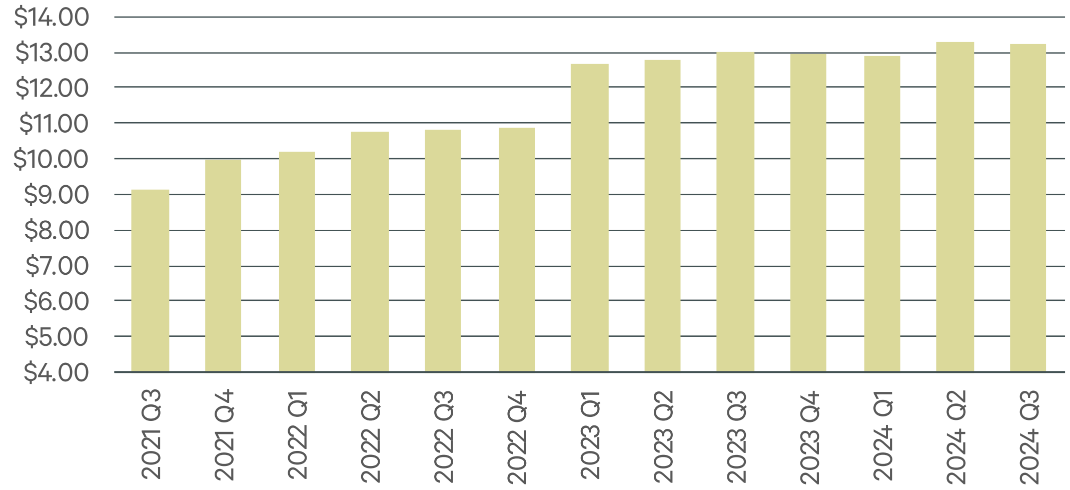
Demand

After consecutive quarters of relatively low absorption totaling 600,000 sq.-ft., the Philadelphia metro posted 1.5 million sq.-ft. of positive absorption in Q3 2024. This increase was traced to the continued strong leasing activity from 3PL tenants. Overall, total leasing activity was up quarter-over-quarter, to 3.4 million sq.-ft. from 2.1 million sq.-ft. in Q2 2024. Year-to-date, the 9.3 million sq.-ft. of total leasing activity already surpassed 2023's total of 9 million sq.-ft. With a flurry of late September leases signed in Burlington County, activity seemed poised to be in line with 2022's total.

As noted, 3PL tenants remained the big driver of leasing activity within the Philadelphia Metro, having accounted for almost 2.5 million sq.-ft. of the 3.6 million total sq.-ft. leased in Q3 2024. Six of the top ten transactions within the market involved 3PL tenants, headlined by Lecangs, two e-Logistics leases at Florence Columbus Road in Burlington County, Zenith Logistics' lease in Woolwich Township, and Veho Logistics at 2951 Orthodox Street in Philadelphia.

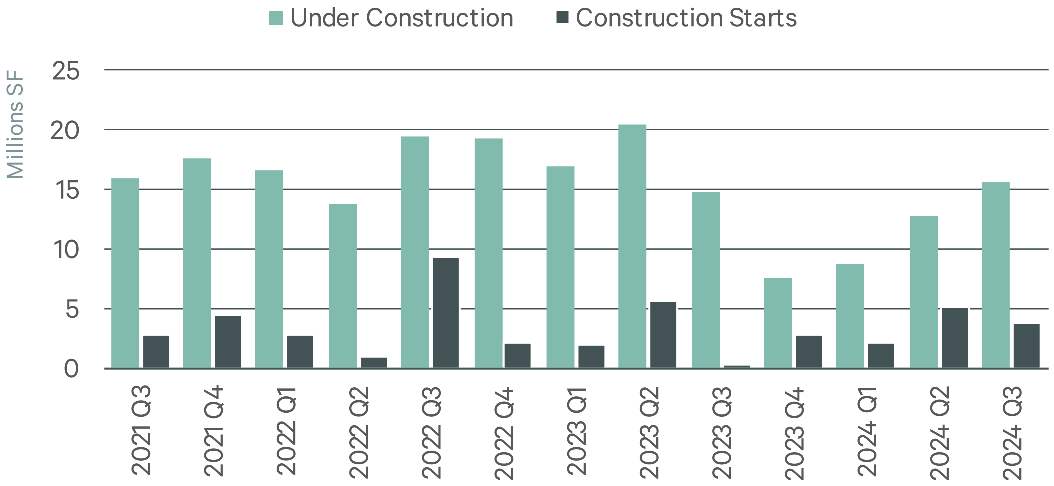
At the end of the quarter, several positive trends headlined the transition to year-end, but most notable was the improving economic outlook. In the new post interest rate cut environment, with more softening expected, this new reality might serve as a boon to leasing activity or certain occupiers like e-commerce firms. The extent to which these trends might be observed before year's end remain to be seen.

FIGURE 4: Average Class A Logistics[1] 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



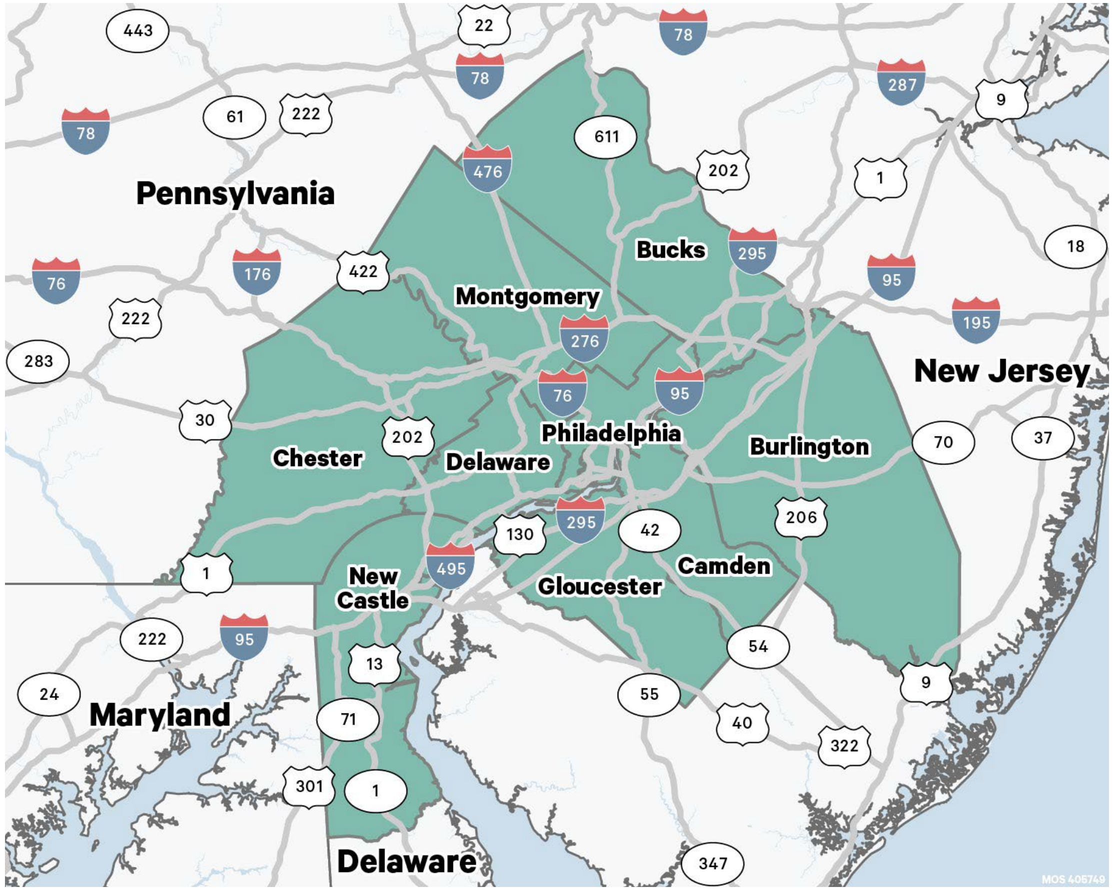
Source: CBRE Research, Q3 2024

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	54,047,105	7.7	79,000	2,438,017	-99,635	$11.34	$12.61
Chester County	22,543,384	3.8	0	636,120	-38,641	$13.04	$14.00
Delaware County	21,463,981	6.1	0	105,000	93,146	$14.58	$16.34
Montgomery County	55,758,414	7.9	0	-	-600,217	$11.63	$12.03
Philadelphia County	56,553,052	5.2	0	2,663,051	247,253	$11.58	$16.30
Southeast PA Subtotal	**210,406,936**	**6.5**	**79,000**	**5,842,188**	**-398,094**	**$11.89**	**$14.26**
Burlington County	64,822,557	14.2	730,670	2,395,242	1,850,004	$12.73	$13.16
Camden County	26,869,538	4.4	0	585,000	-399,856	$10.53	$16.00
Gloucester County	36,377,350	7.1	336,700	1,493,550	308,406	$11.92	$12.56
Salem County	8,295,619	18.4	0	3,795,234	22,170	$11.64	$12.07
Southern NJ Subtotal	**136,365,064**	**10.6**	**1,067,370**	**8,269,026**	**1,780,724**	**$12.23**	**$12.72**
New Castle	33,468,090	6.8	0	933,000	749,267	$10.46	$11.85
Northern DE Subtotal	**33,468,090**	**6.8**	**0**	**933,000**	**749,267**	**$10.46**	**$11.85**
Total	**380,240,090**	**8.0**	**1,146,370**	**15,044,214**	**2,131,897**	**$11.93**	**$13.26**

Source: CBRE Research, Q3 2024

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)

3711 Kennett Pike
Suite 210
Wilmington, DE 19807

Joe Gibson
Associate Director of Research, Pennsylvania
+1 610 727 5922
joseph.gibson@cbre.com

Luke Lawlor
Field Research Analyst
+1 445 448 8720
luke.lawlor@cbre.com