

FIGURES | PHILADELPHIA METRO INDUSTRIAL | Q1 2024

Developers continued to break ground on new projects in the face of rising vacancy.

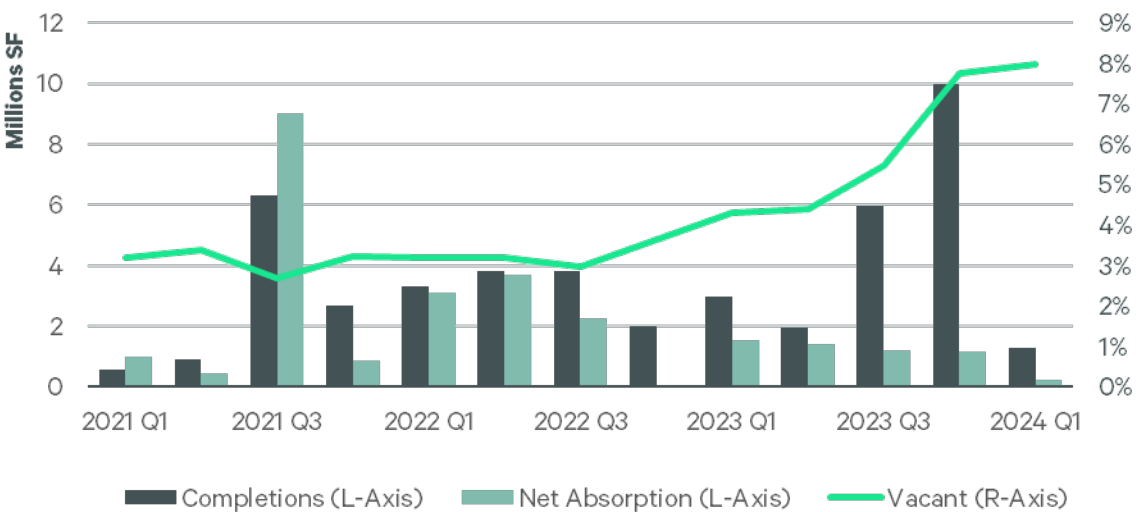


Note: Arrows indicate change from previous quarter.

- Vacancy rose for the sixth straight quarter, as developers continued to add new supply to the market at a rate that outpaced persistent demand.
- Third-party logistics companies and manufacturers comprised the bulk of new leases signed, in line with recent trends.
- Oversupply stopped rent growth and signs of softening in effective rents appeared.

Despite rising vacancy and plateauing rents, developers continued to break ground on new projects in order to avoid potential impediments to development brought about by municipalities and their residents. Vacancy ticked up for the sixth quarter in a row as construction completions continued to outpace net absorption. Leasing activity was relatively stable, quarter-over-quarter, as it had been during the past six quarters. Developers continuing to break ground on new projects even in the backdrop of growing supply accounted for the 500 basis point increase in vacancy since mid-2022, settling at 8.0% in Q1 2024. Fears of construction moratoriums and rising opposition to warehouse development, specifically within the Southern NJ portion of the market, motivated some market players to break ground on approved projects to evade any potential unforeseen impediments.

FIGURE 1: Net Absorption, Construction Deliveries & Vacancy



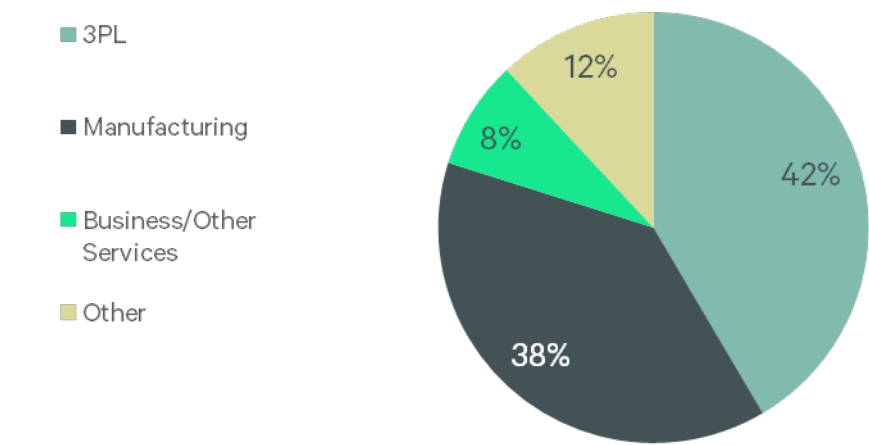
Source: CBRE Research, Q1 2024

Leasing Activity

Rising vacancy has been a function of new supply while overall leasing activity remained strong during the past 18 months since the start of rising vacancy. Following recent trends, third-party logistics (3PL) and manufacturing accounted for the bulk of leasing activity (80%) during the quarter. Lecang’s lease at Clarion Partners’ and MRP Realty’s JV project at 1900 River Rd in Burlington was the largest lease this quarter. Lecang is a 3PL spun out of Loctek in 2020 and continued the trend of Asian 3PL operators growing their footprints in the greater Northeast U.S. region.

Lecang’s lease was the first 500,000 square-foot (sq.-ft.) lease signed since Maersk’s 950,000 sq.-ft. lease at the former Burlington Center Mall site. About half of demand tallied this quarter

FIGURE 2: Leasing Activity by Industry, Q1 2024



Source: CBRE Research, Q1 2024

FIGURE 3: Top Lease Transactions,

Tenant	Building	Size (SF)	Transaction Type
Undisclosed E-Commerce	560 Merrimac Ave Middletown, DE	1,015,740	Renewal
Lecang	1900 River Rd Burlington, NJ	667,560	New Lease
Sylvamo	1500 John Galt Way Florence, NJ	431,720	Renewal
Rivian Automotive	25 N Golfwood Ave Penns Grove, NJ	371,000	New Lease
Victory Brewing Co.	3127-3137 Lower Valley Rd Parkesburg, PA	212,000	Sale/Leaseback
Nellis Auction	400 Delran Pkwy Riverside, NJ	177,650	New Lease
PODS Moving & Storage	50 Harbor View Dr New Castle, DE	129,168	New Lease
Sardo & Sons Warehousing	300 White Clay Center Dr Newark, DE	125,000	Renewal
AramSCO	301 Crossroads Blvd Swedesboro, NJ	117,452	New Lease
Siemens Mobility	800 Centerpoint Blvd New Castle, DE	43,520	Renewal

Source: CBRE Research, Q1 2024

was driven by 300,000 sq. ft. or smaller leases. Nearly two-thirds of space leased during the past 12 months were for leases smaller than 300,000 sq. ft. Looking forward, this trend may wane as there are several requirements in the market searching for 500,000 sq.-ft. or larger spaces.

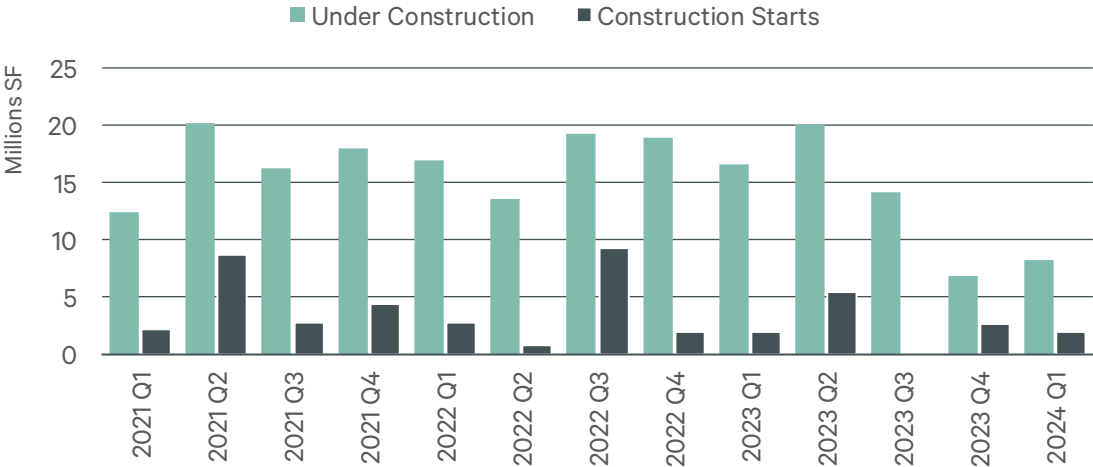
Construction

Despite persistent supply-demand imbalance starting in Q3 2022, growing opposition to warehouse development by residents and municipalities in some portions of the market put pressure on developers to break ground on new, approved projects in order to avoid any unforeseen impediments. Overall vacancy rose to 8.0%, well above 2.7% tallied in Q3 2021 and average pre-pandemic levels. Class A warehouse space showed the largest change having posted less than 1% vacancy in Q3 2021 but posting 23.5% vacancy in Q1 2024. This is predicated entirely on the construction pipeline as demand for Class A warehouse space, while muted compared to 2021 through mid-2022, average quarterly absorption since then was above levels leading up to the pandemic. Current projects under construction were largely not pre-leased, pointing toward vacancy rising in the short term.

Rents

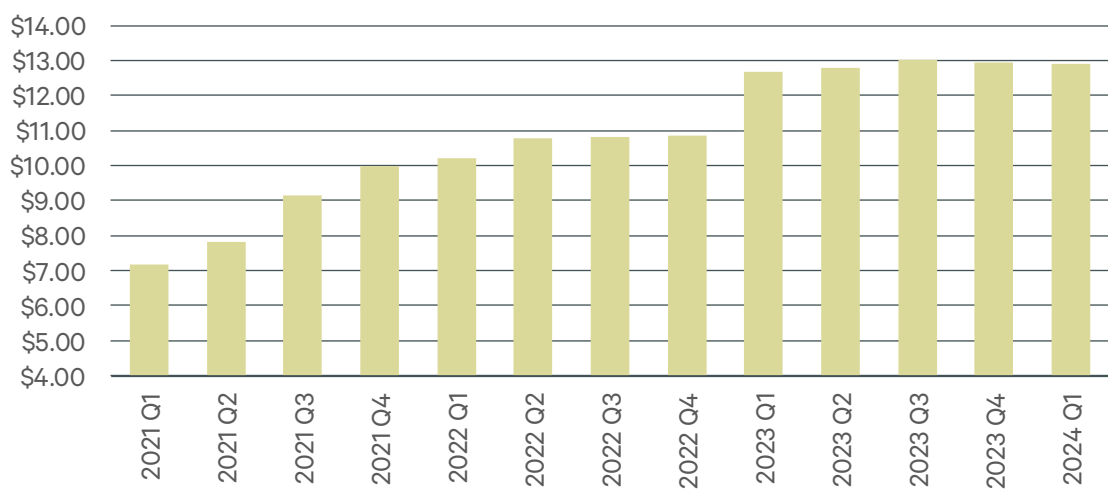
Rents softened for the first time since the start of the pandemic but remain more than twice the average in Q1 2020. Supply-side pressure pushed leverage toward tenants. Class A asking rents were mostly unchanged but still down from the peak posted in Q3 2023. First-year rents for Class A leases signed during Q1 2024 still showed signs of growth, but effective rents were largely unchanged as more TI and free rent were written into agreements. Tenants will most likely maintain a certain level of leverage during the near term as developers continued to add space to the market while they could.

FIGURE 4: Construction Pipeline



Source: CBRE Research, Q1 2024

FIGURE 5: Average Class A Logistics¹ Asking Lease Rates



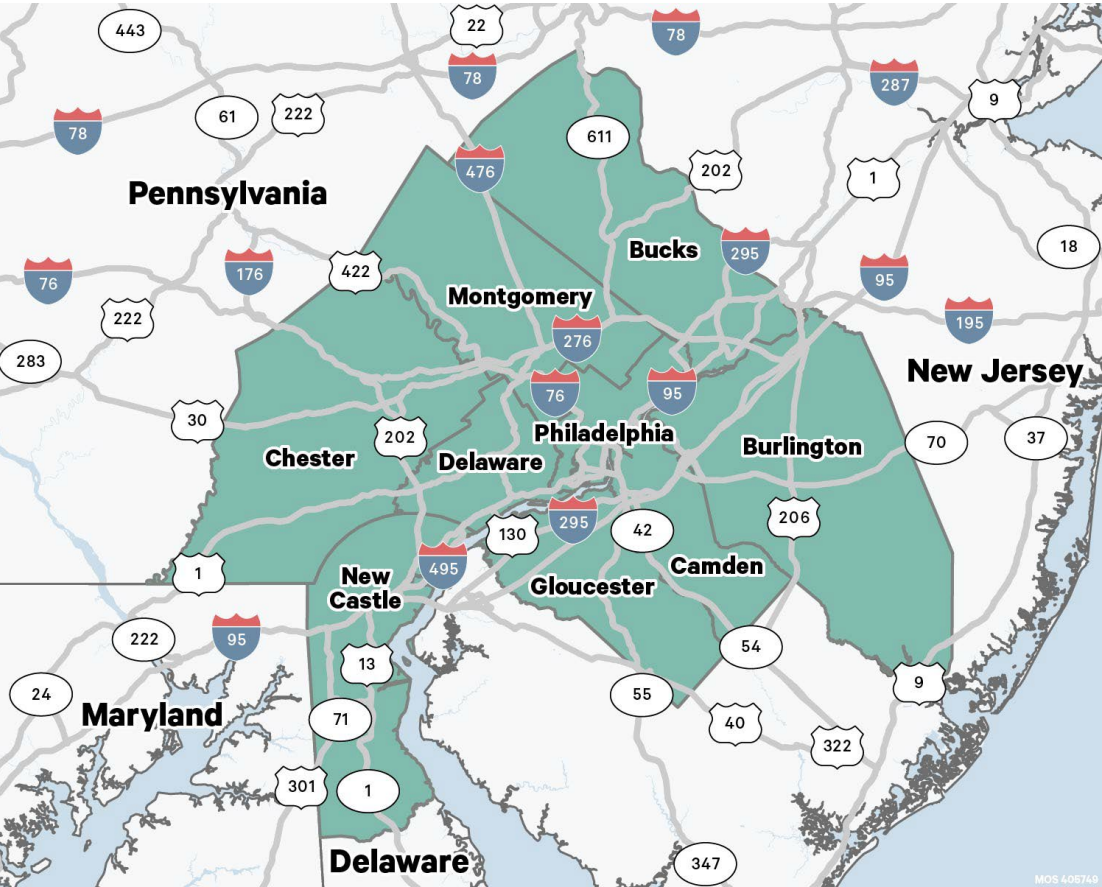
¹ Criteria: Warehouses measuring 100,000 SF+ (under construction or existing), 2004 delivery date or later, 32' clear or more, 1 dock per 7,500 SF of NRA, ESFR Sprinklered.

FIGURE 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	54,140,705	7.1%	98,584	893,567	153,445	\$11.23	\$11.40
Chester County	22,543,384	4.9%	0	-	-10,698	\$12.41	-
Delaware County	20,984,581	4.9%	0	479,400	-110,476	\$12.58	\$16.38
Montgomery County	55,988,414	7.8%	0	-	-582,505	\$10.69	\$11.52
Philadelphia County	56,787,265	5.9%	0	1,246,800	10,931	\$11.71	\$14.86
Southeast PA Subtotal	210,485,349	6.5%	98,584	2,619,767	-539,303	\$11.46	\$12.99
Burlington County	64,091,887	15.5%	0	1,956,670	376,528	\$13.29	\$13.41
Camden County	27,219,538	2.2%	0	80,400	399,014	\$11.11	-
Gloucester County	35,903,295	6.9%	0	1,228,055	-73,636	\$11.97	\$12.34
Salem County	7,708,119	12.2%	0	2,312,500	22,170	\$11.39	\$12.03
Southern NJ Subtotal	134,922,839	10.4%	0	5,577,625	724,076	\$12.86	\$12.95
New Castle	33,432,857	8.4%	1,166,088	-	96,742	\$11.27	\$12.11
Northern DE Subtotal	33,432,857	8.4%	1,166,088	-	96,742	\$11.27	\$12.11
Total	378,841,045	8.0%	1,264,672	8,197,392	281,515	\$12.20	\$12.92

Source: CBRE Research, Q1 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

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