
2Q23

Greater Philadelphia Industrial Market Overview



NEWMARK

Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. May’s 3.6% unemployment rate was significantly lower than the 5.6% 10-year historical average.
- Year-over-year, job gains have been most pronounced in the services industry, which now employs more people than it did pre-pandemic. Leisure/hospitality led all sectors in job gains during the past 12 months.
- Some cracks are beginning to show as the Federal Reserve continues its tightening policies. Philadelphia-area employers like David’s Bridal and Forman Mills announced large-scale layoffs and store closures.

Major Transactions

- Twinbridge Industrial Park, a 37-building, 1.3 million-SF industrial portfolio in Camden County, New Jersey, sold for \$194.5 million or \$149.62/SF. DRA Advisors purchased the properties from a JV between Wharton Industrial and Walton Street Capital. This was the most significant trade of the second quarter of 2023 in Greater Philadelphia.
- AmerCareRoyal, LLC signed a lease expansion for its site at 420 Clover Mill Road. The expansion will increase the wholesaler’s footprint by 66,145 SF to 229,154 SF.
- Velocity Venture Partners acquired a 225,000-square-foot retail center at 733 S. West End Boulevard in a redevelopment sale for \$16.7 million or \$74.22/SF.

Leasing Market Fundamentals

- Absorption in the second quarter of 2023 totaled 389,331 SF, which is the lowest quarterly absorption figure recorded since the second quarter of 2021. Large space givebacks by Noble House Furniture in Burlington County and Amazon in Delaware were primarily responsible.
- Leasing activity in 2023 is down compared to the first half of 2022. Uncertainty in the macroeconomic outlook has caused tenants in the market to approach deals with greater caution.
- Sublease inventory grew 11.9% quarter-over-quarter; however, this is not a major concern for the market, as it makes up only 0.4% of total inventory.

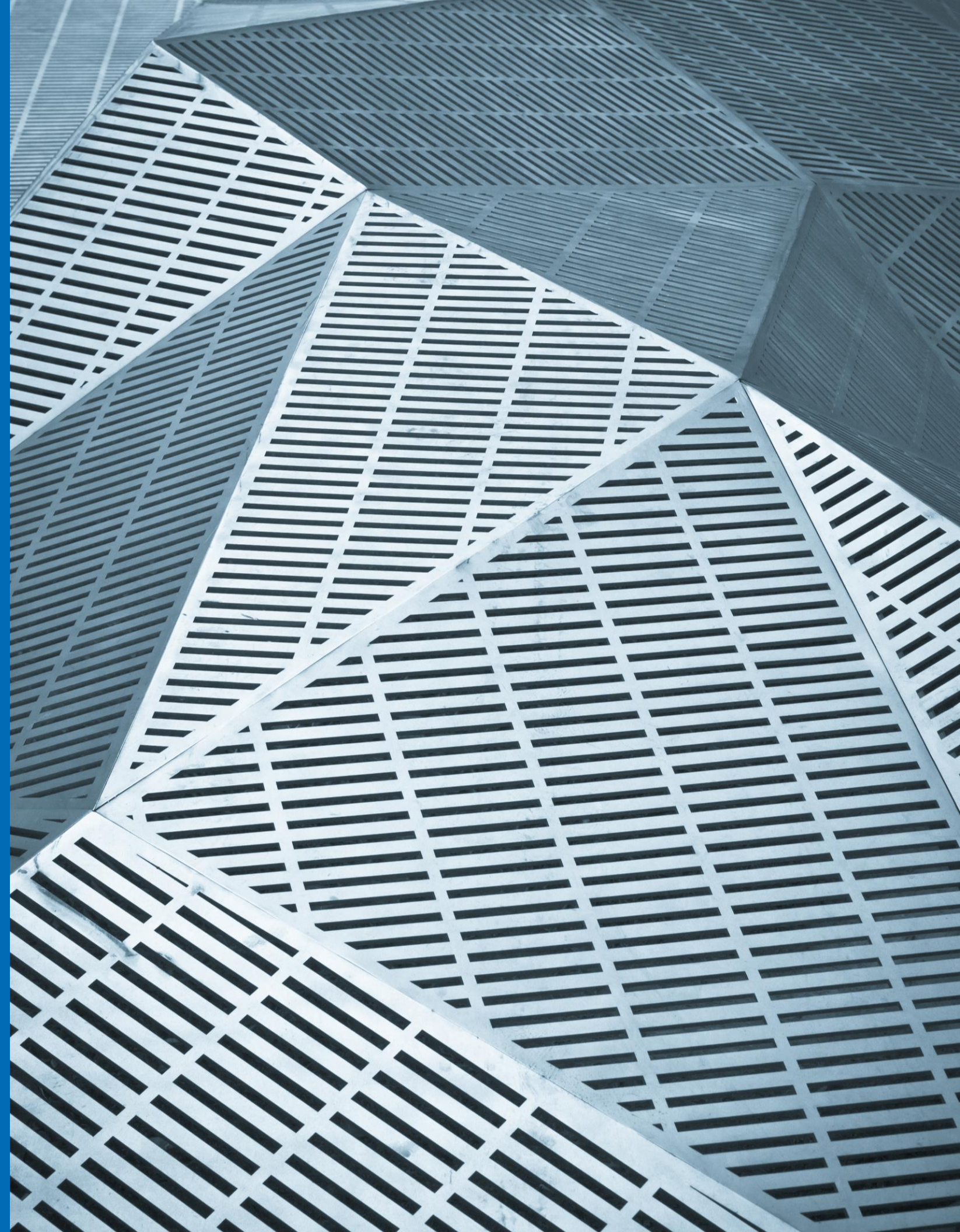
Outlook

- A lower-than-usual absorption figure and a slight uptick in vacancy indicate a softening industrial market; however, markets are returning to normal conditions. The pace of rent growth and absorption between 2021 and 2022 was unsustainable over the long term.
- Construction starts are slowing in Greater Philadelphia. Higher financing and construction costs, along with contracting land availability, have dissuaded some developers.
- Asking rents have risen by 267% in the past 10 years, causing sticker shock to tenants in the market on expiring leases signed before the rapid rent growth.

1. Economy
2. Leasing Market Fundamentals

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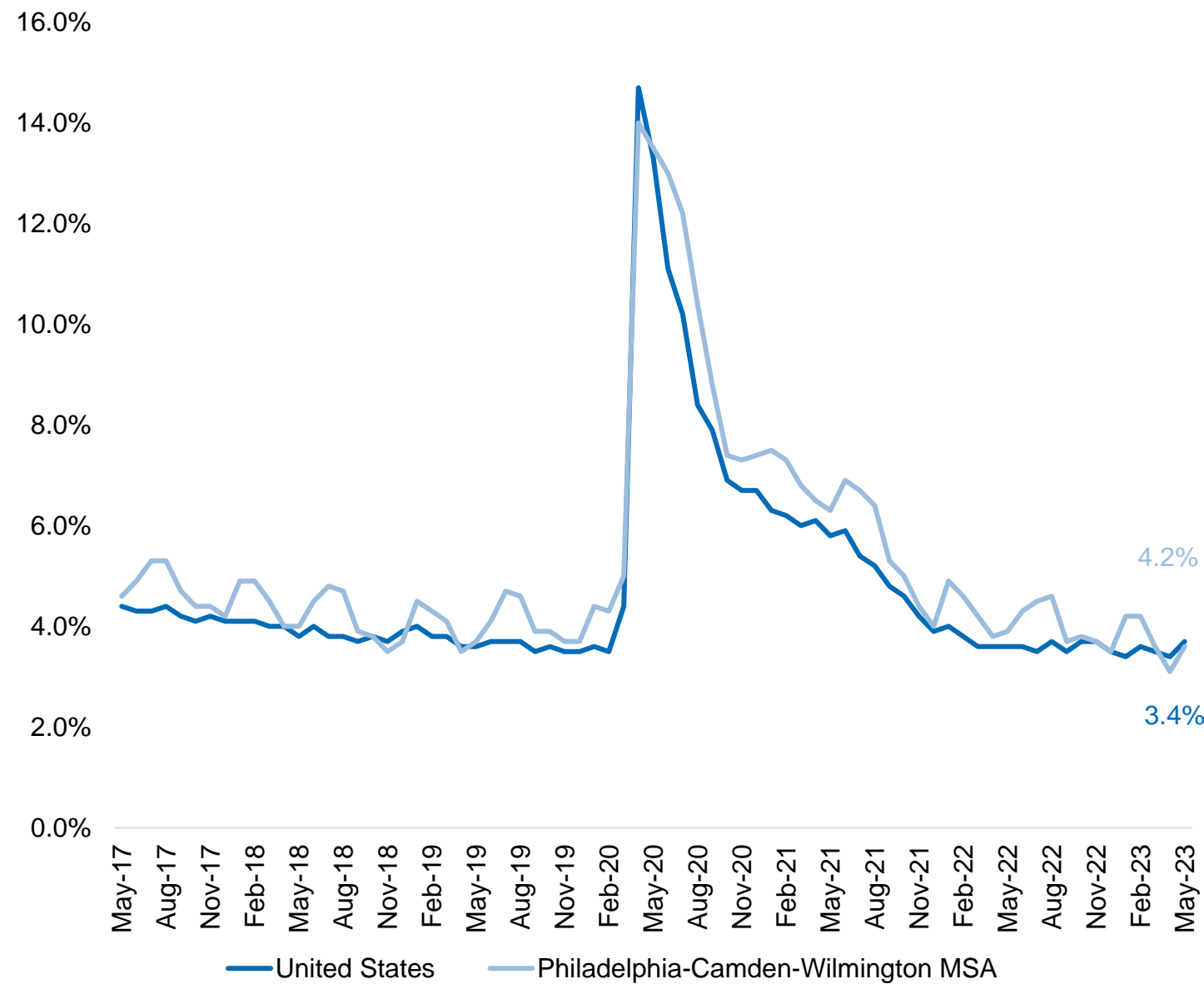
Economy



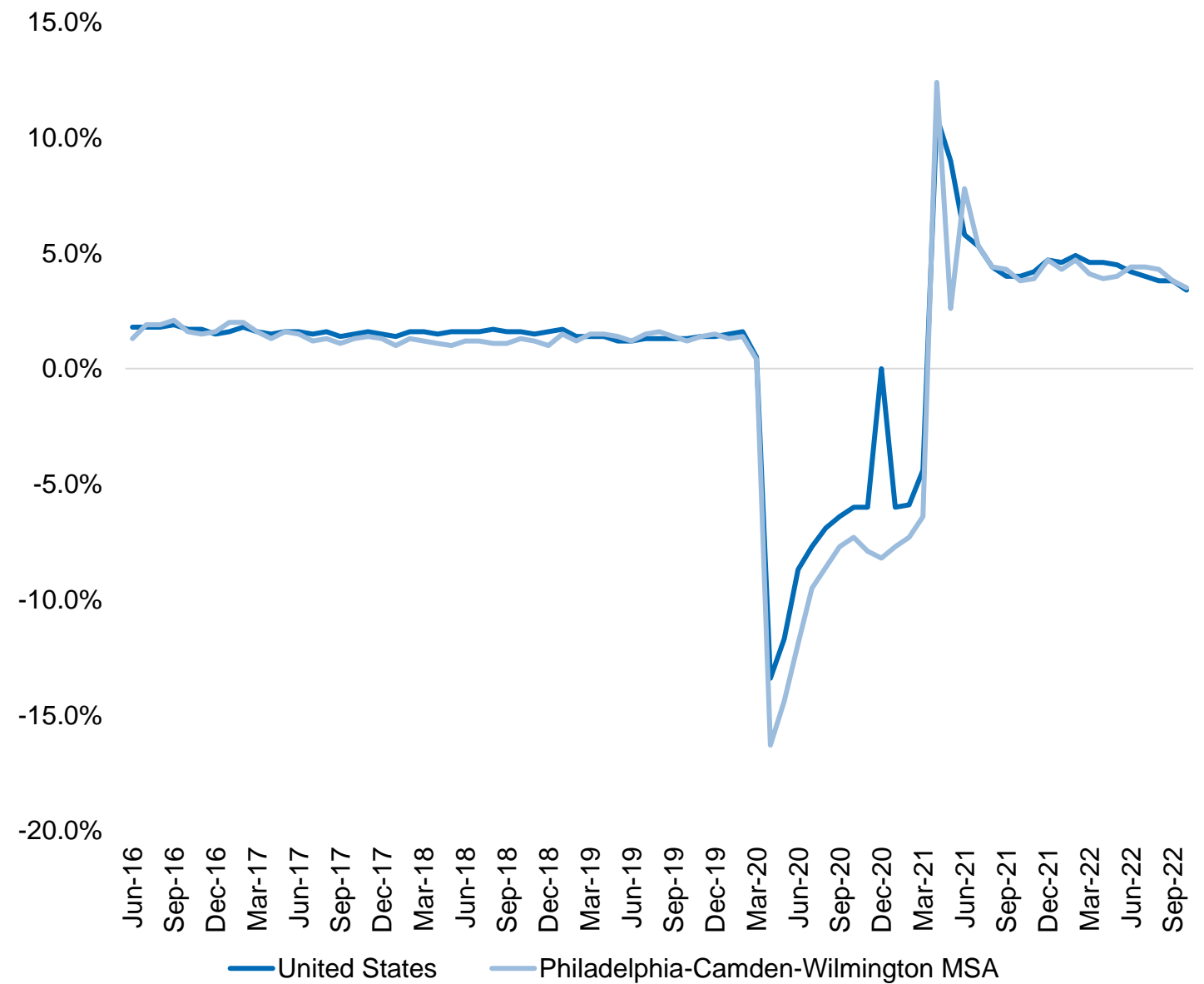
Metro Employment Trends Signal a Slowing Economy

Many economic measurements indicate that the Philadelphia metro's labor market is outperforming national averages; however, employment growth is expected to slow in the quarters ahead due to the Federal Reserve's expected rate hikes in the second half of the year and other macroeconomic headwinds.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

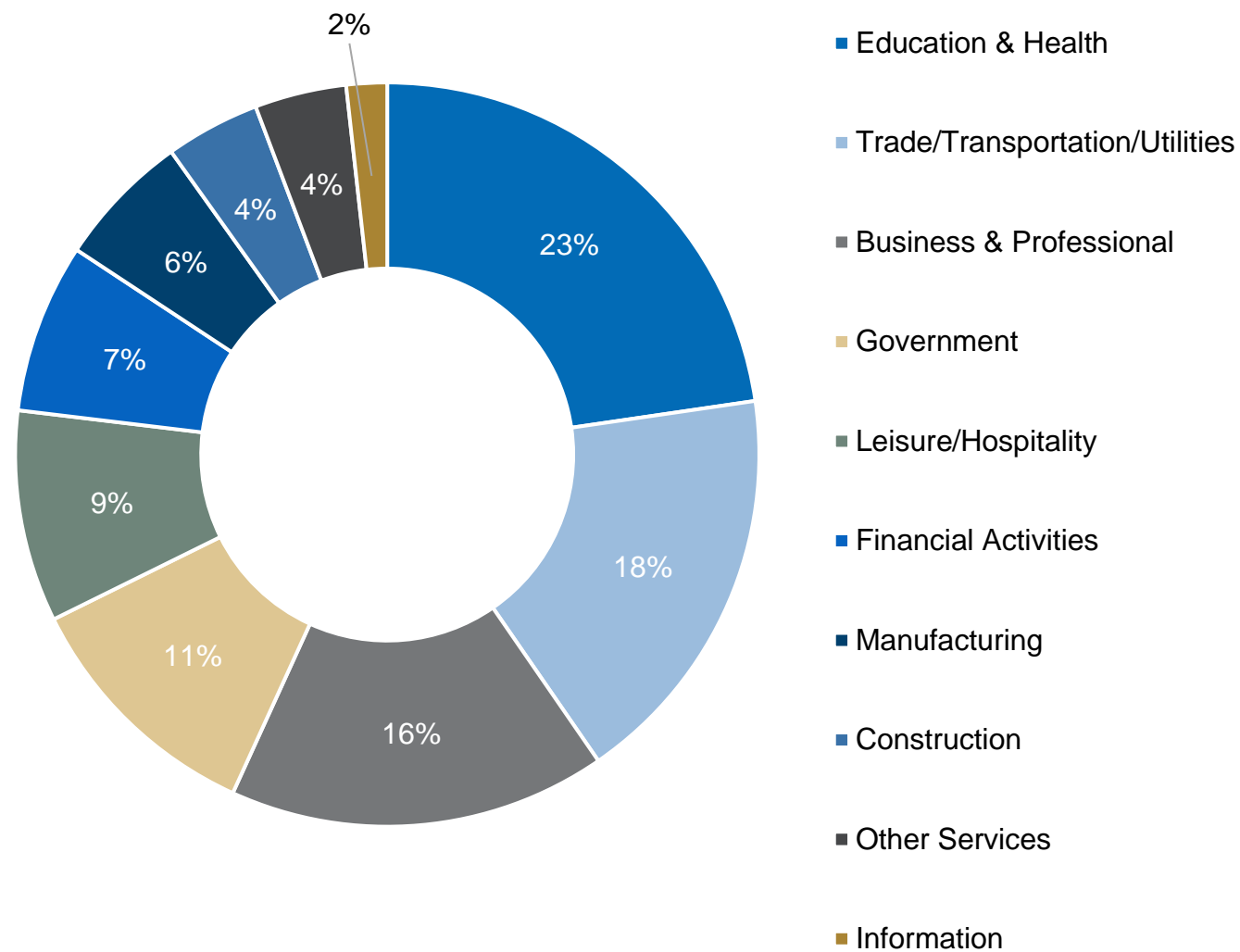


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

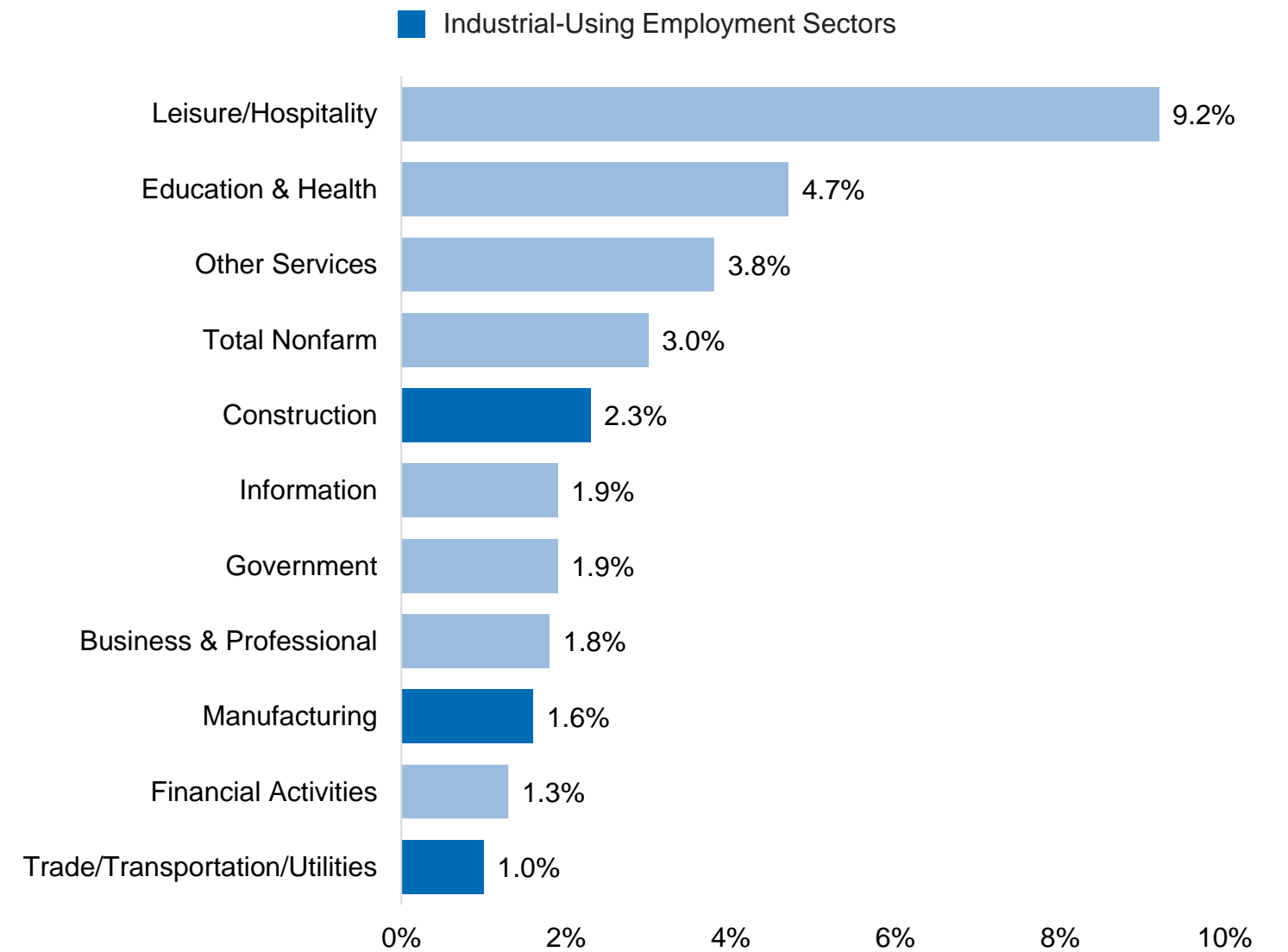
Job Growth Driven in Large Part by Services Still Making up for Pandemic Losses

The leisure and hospitality industry has led the region's post-pandemic recovery. Since the end of the first quarter of 2023, this sector has added over 23,600 jobs. Employment in industrial-related sectors has growth as well; in 2023, these industries combined added around 5,000 jobs.

Employment by Industry, May 2023



Employment Growth by Industry, 12-Month % Change, May 2023

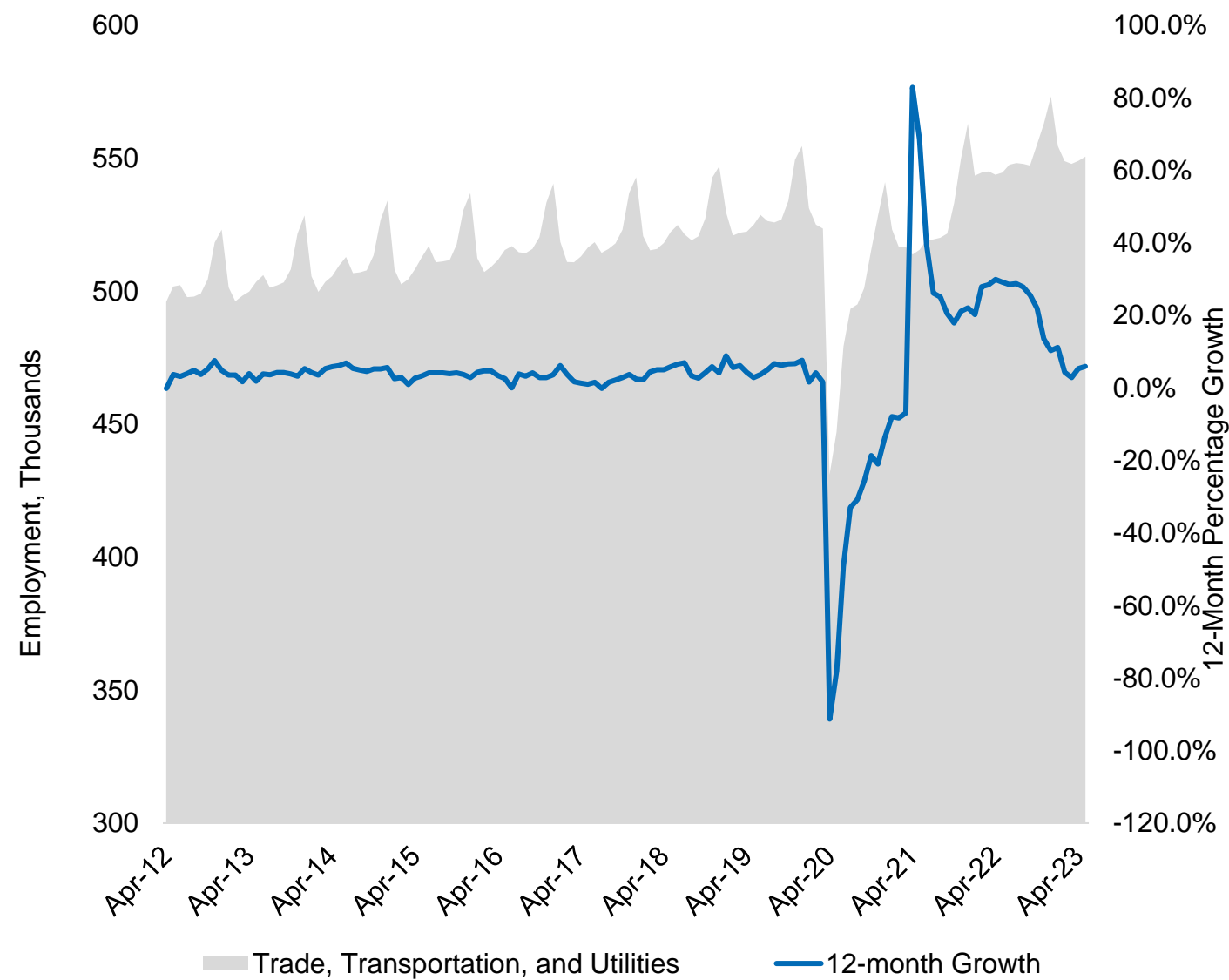


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

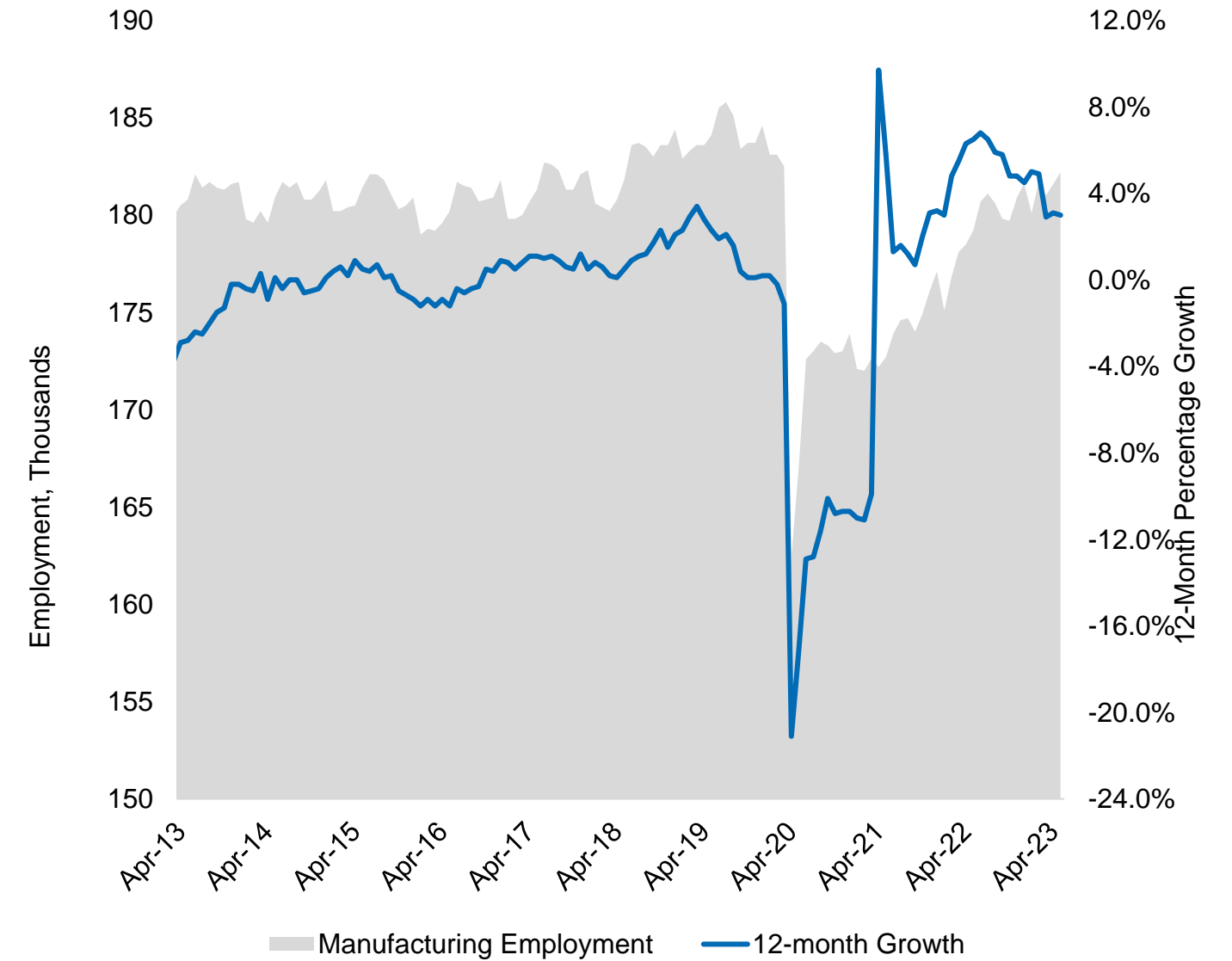
Industrial Employment Strong but Is Returning to Normal Conditions

Industrial employment growth is still occurring but not at the pace seen in 2021 and 2022. In the trade and transportation sector, the 5.9% 12-month change in job growth is nearly identical to growth rates seen in the year prior to the pandemic.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



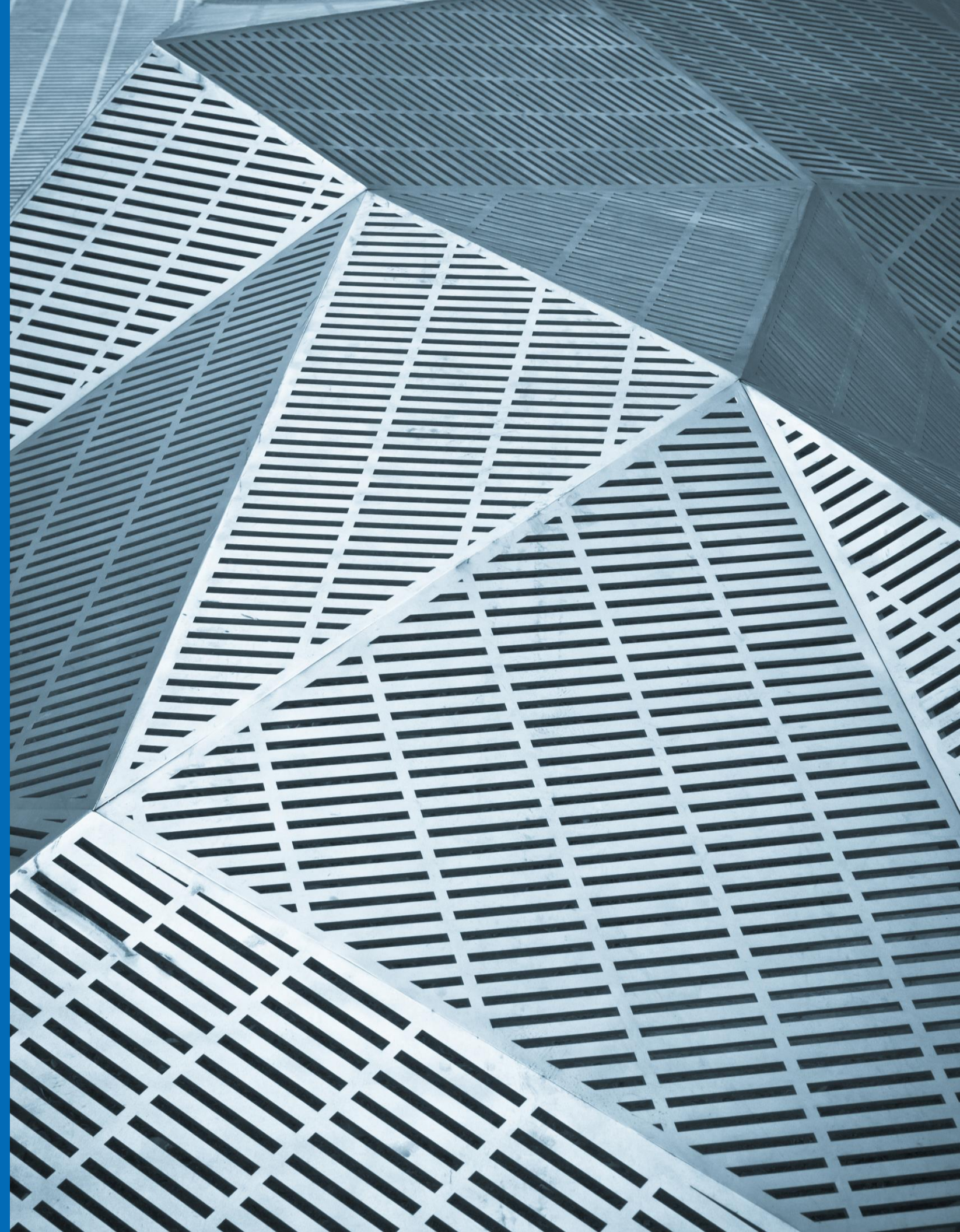
Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

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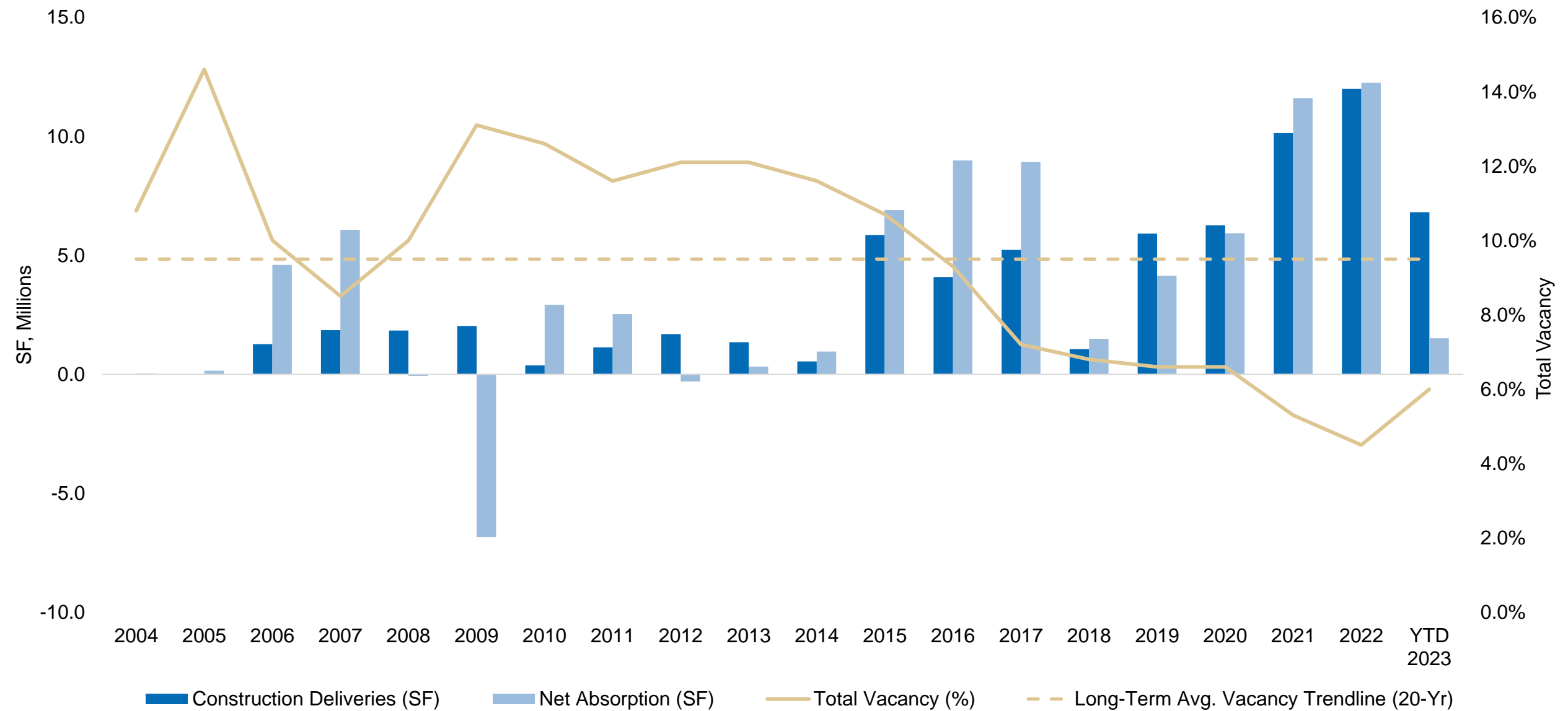
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption

Just over 6.8 million SF have been delivered since the beginning of 2023, compared to just 1.5 million SF of absorption. The lease-up of newer buildings has been slower than in previous quarters, as properties built in 2023 have a vacancy rate of 59.6%.

Historical Construction Deliveries, Net Absorption, and Vacancy

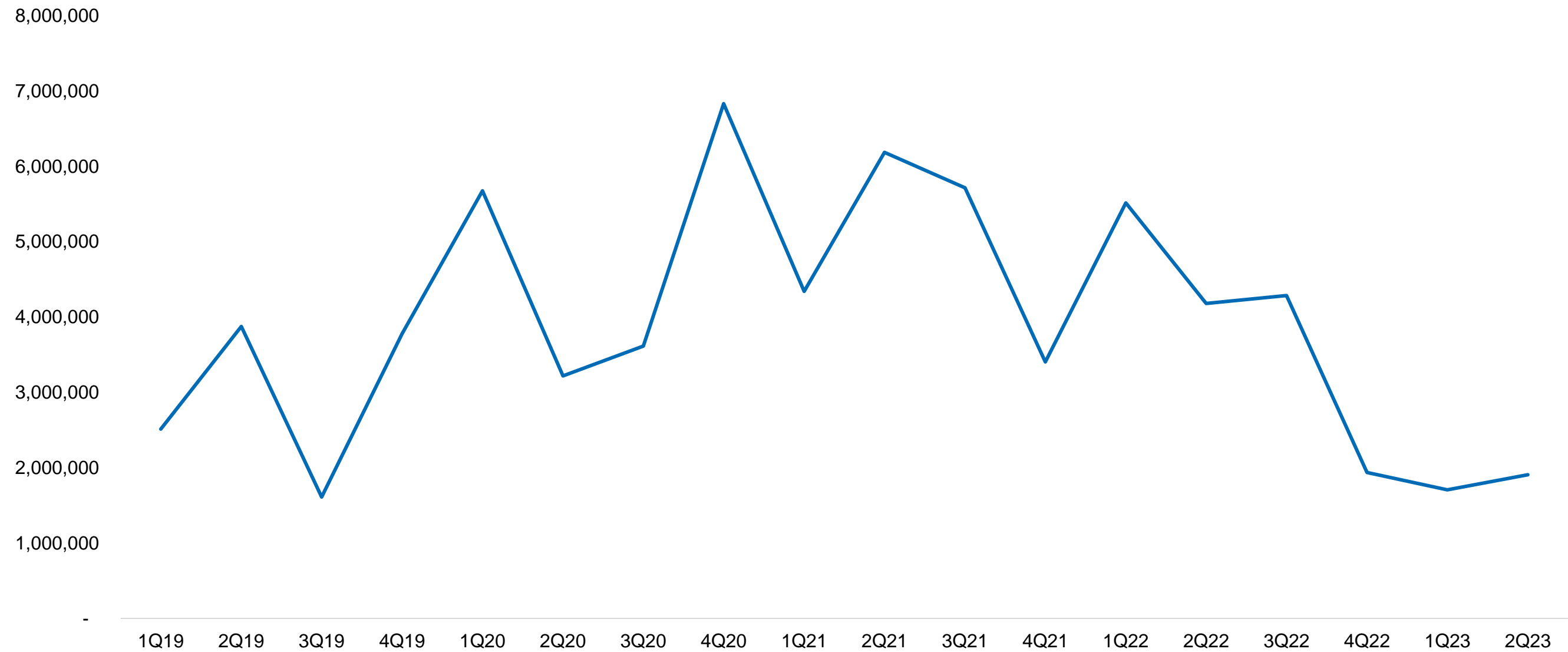


Source: Newmark Research

Industrial Leasing Activity Decelerates to Pre-Pandemic Measures

Over the past three quarters, leasing activity has hovered just under the 2.0 million SF mark. Big-box leases from large companies like Amazon or 3PLs that were common in 2021 and parts of 2022 have become less frequent in 2023.

Total Leasing Activity (SF)



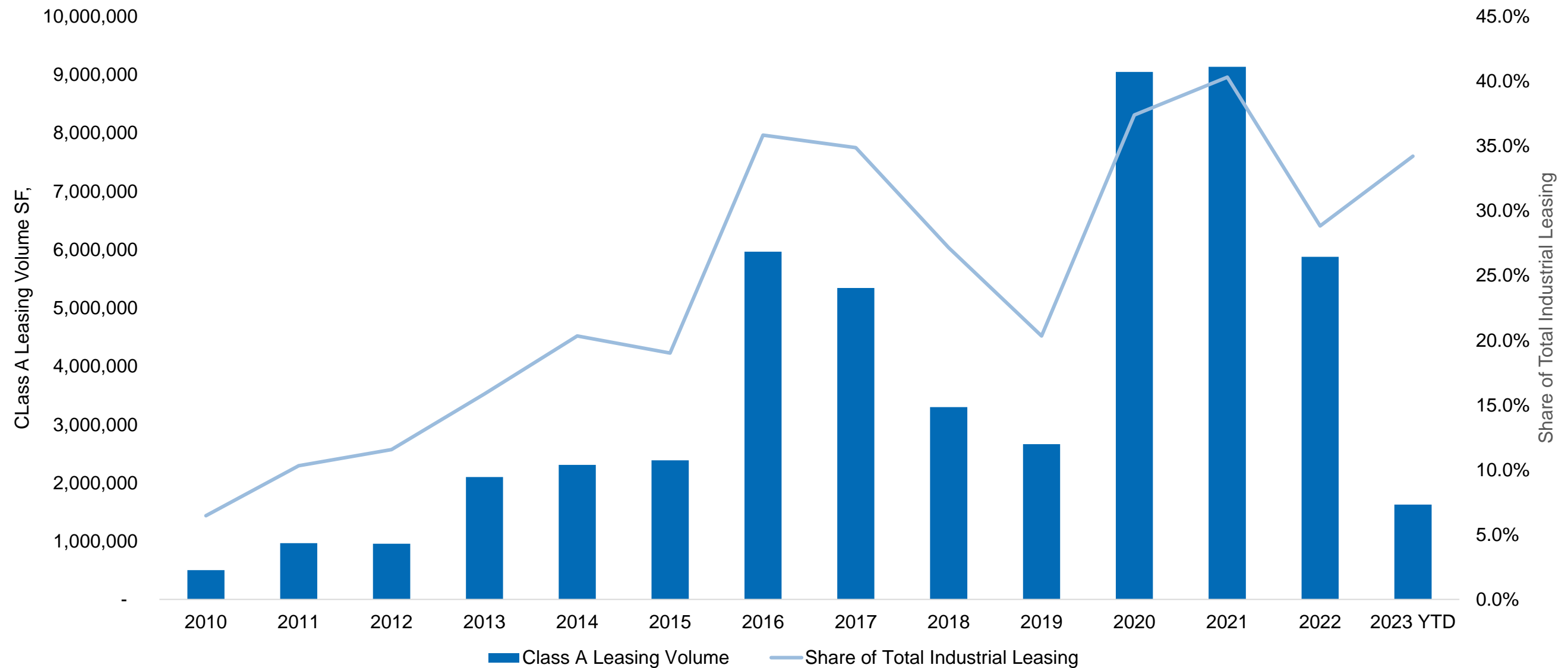
Source: Newmark Research, CoStar

Note: Leasing activity reflects all transactions for industrial buildings 50,000 SF or more in the Greater Philadelphia market

Class A Warehouse Leasing Still Above Historic Averages as Deal Velocity Slows

Despite declining deal velocity for Class A product in Greater Philadelphia, leasing activity for newer builds still accounts for a considerable portion of the market's total leasing volume. In the first half of 2023, Class A's market share of 34.2% is 280 and 570 basis points higher than the five- and 10-year average. Tenants are increasingly drawn to modern space since high clear heights, wide column spacing, and efficient power systems significantly benefit the user's day-to-day operations.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



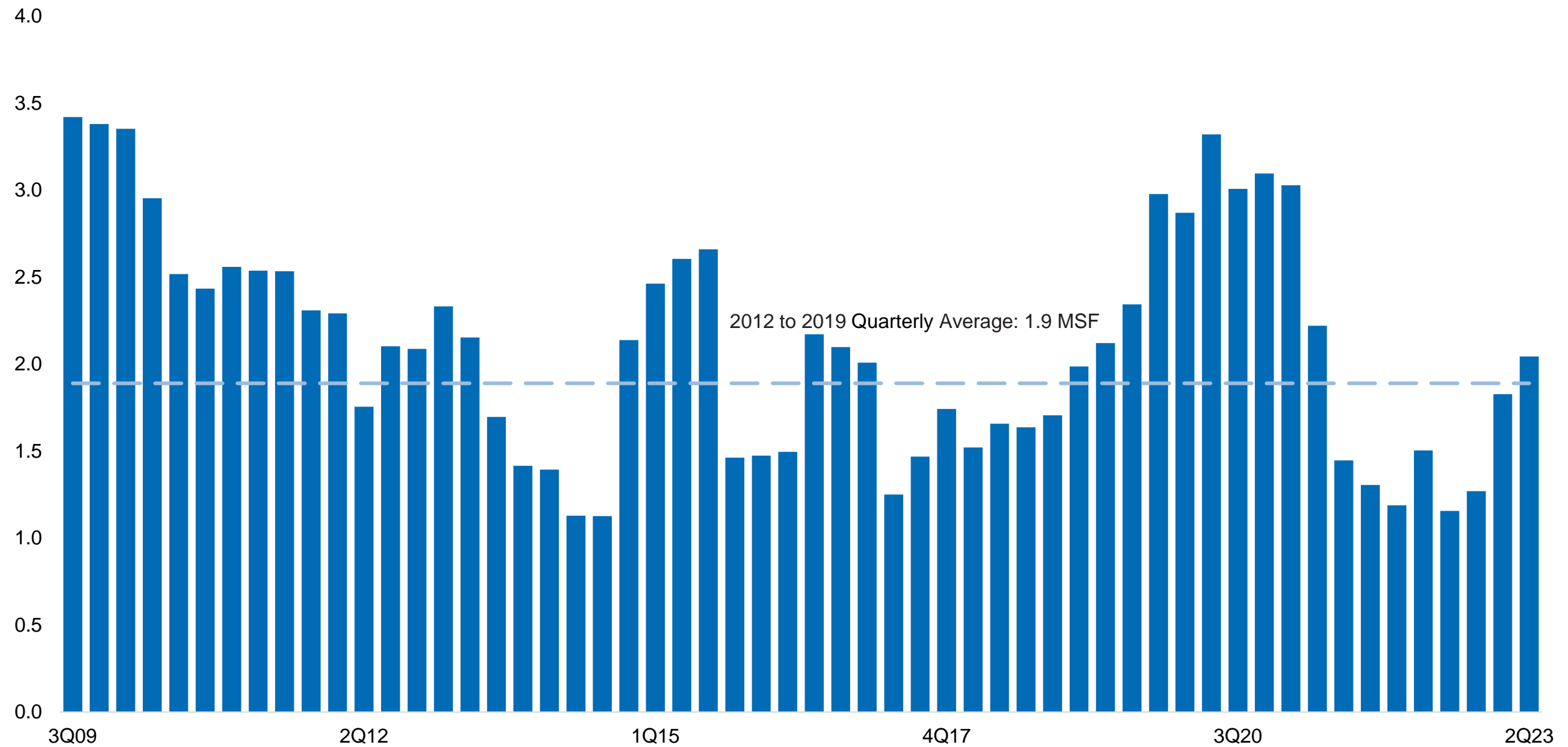
Source: Newmark Research, CoStar

Note: Newmark considers Class A buildings to be 100,000 SF or more and built in the 21st century

Industrial Sublease Availability Spikes Above Pre-Pandemic Levels

Sublease volume in Greater Philadelphia peaked above the pre-pandemic average in the second quarter of 2023. Pushing the market above this threshold was Amazon's recently listed sublease at 1290 S. Dupont Highway in New Castle, Delaware. Some large industrial users that acquired bulk space during the boom of 2020 to 2022 are beginning to tighten their footprints and right-size operations.

Available Industrial Sublease Volume (msf)

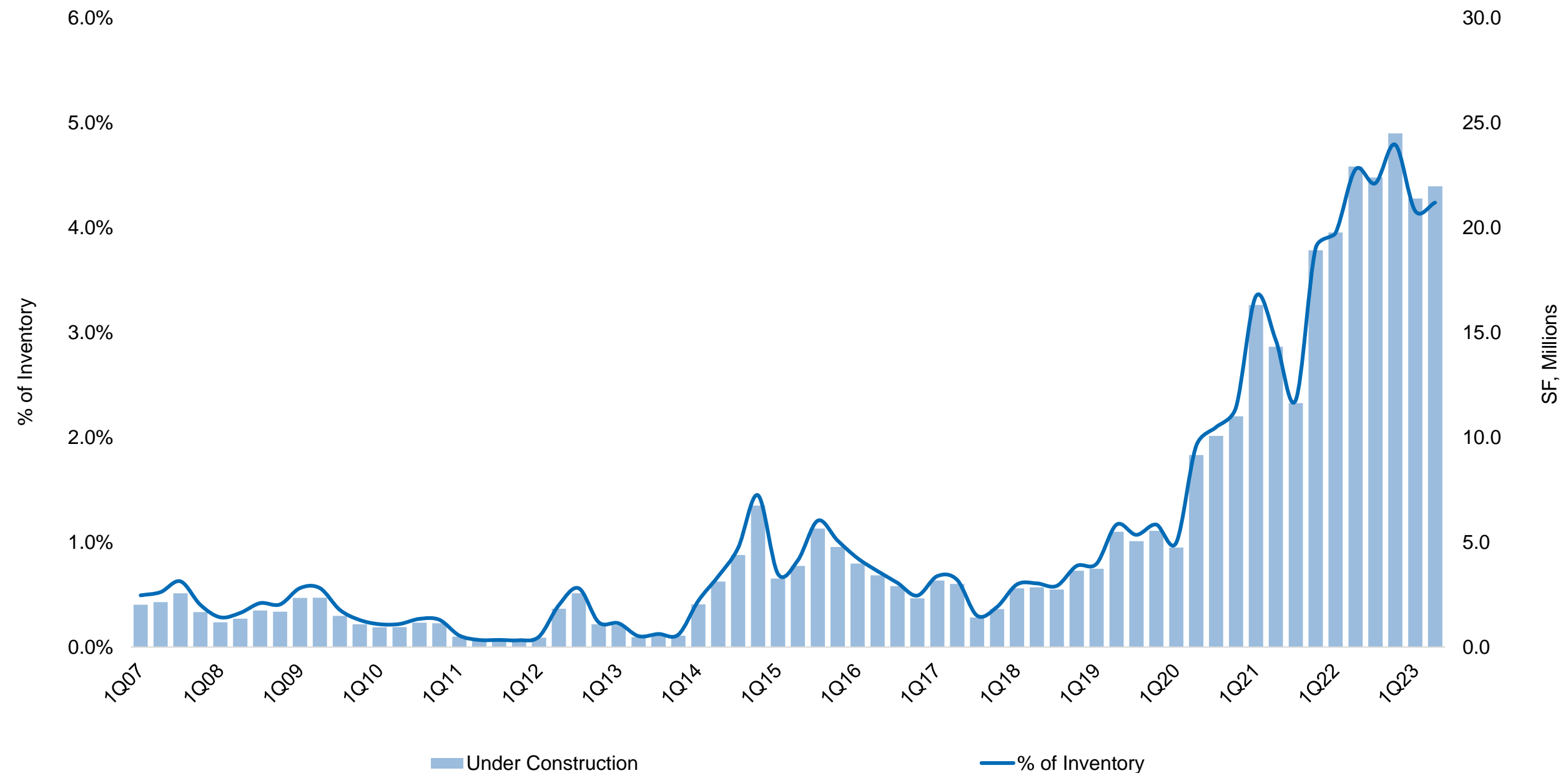


Source: Newmark Research, CoStar

Industrial Supply Pipeline Remains Elevated but Construction Starts Slow

Currently, there are 21.9 million SF under construction in Greater Philadelphia, which is the third-highest figure in market history; however, this is expected to shrink in subsequent quarters since second-half deliveries will likely exceed 7.0 million SF. In the second quarter of 2023, only 910,637 SF of projects broke ground, which is the lowest figure since the first quarter of 2019.

Industrial Under Construction and % of Inventory

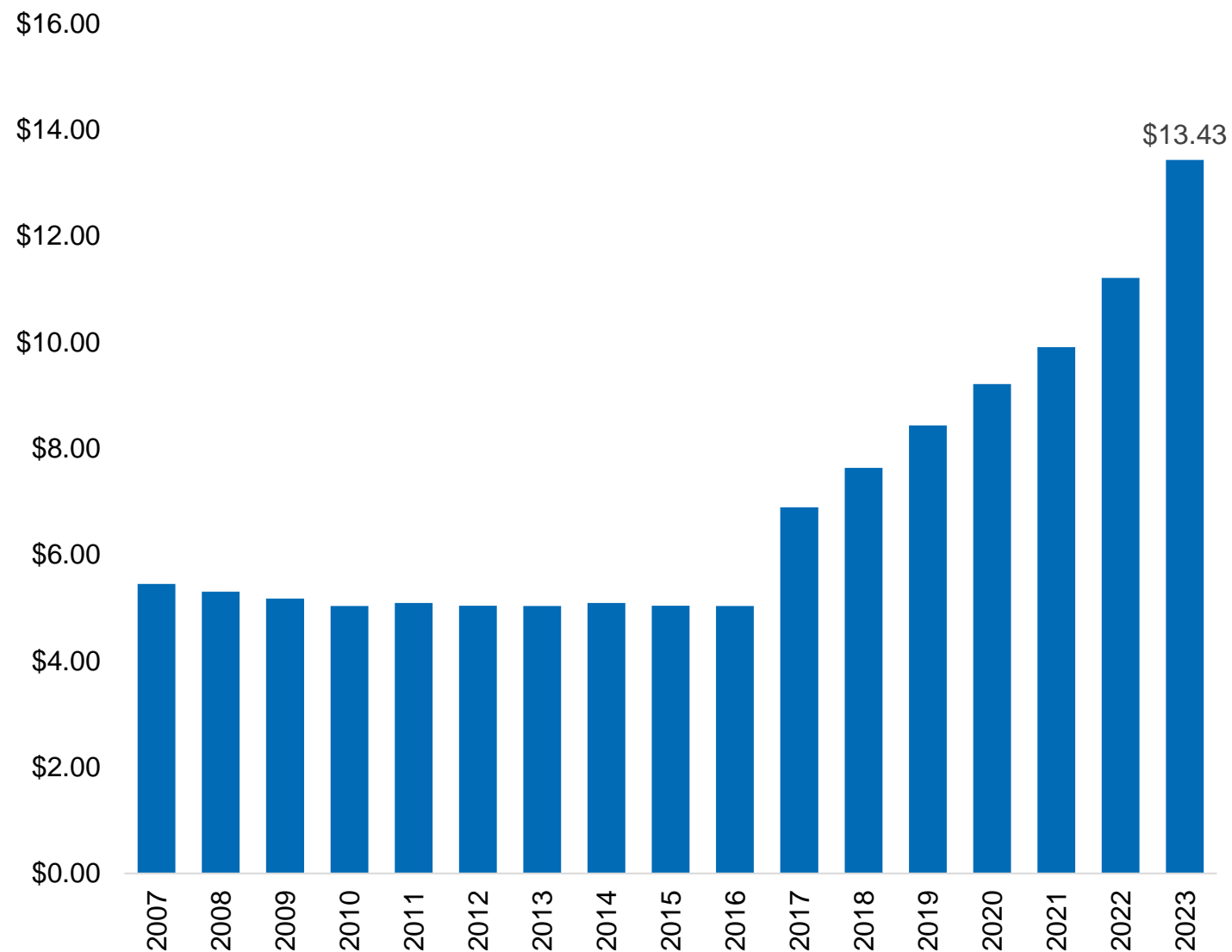


Source: Newmark Research, CoStar

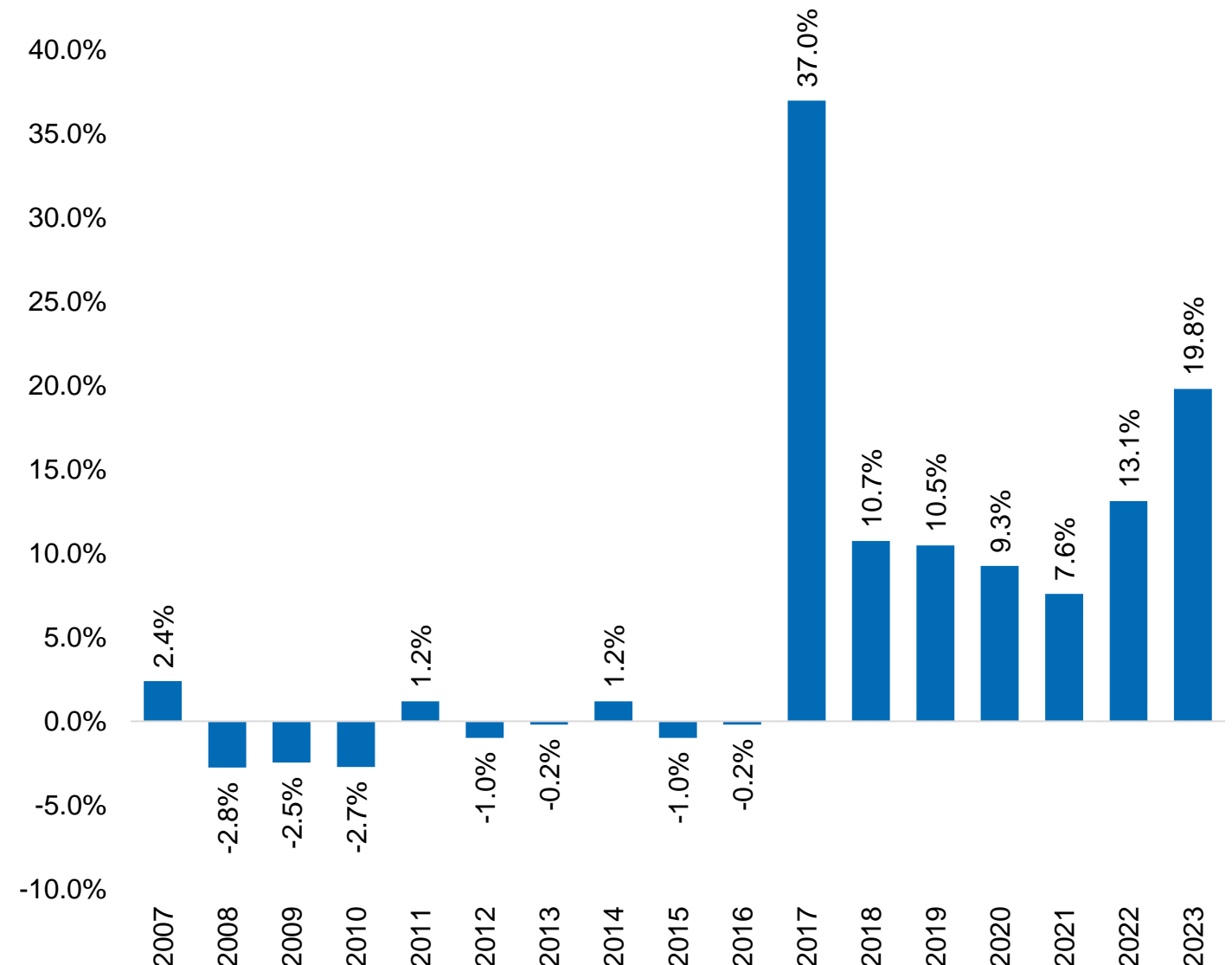
Industrial Rents Continue to Grow in Face of Rising Vacancy Rates

Industrial rents continued their upward trajectory in 2023, growing 19.8% year over year, now averaging \$13.43/SF. Due to the rapid increase in rents over the past few years, tenants in the market on expiring deals signed five to 10 years ago are beginning to experience sticker shock. Current asking rates could be more than double those tenants previously paid.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Note: Asking rates for periods between 2017 and 2023 were derived from lease comps

Notable 2Q23 Lease Transactions

Greater Philadelphia's leasing activity was strong in major submarkets like Burlington, Bucks and Delaware County. Greater Philadelphia is a significant hub for logistic companies, and proximity to major highways like I-95 and the New Jersey Turnpike is critical.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
ID Logistics <i>ID Logistics subleased the cold storage building from Misfits Market</i>	1000 Coopertown Rd.	Burlington County	Sublease	255,000
AmerCareRoyal, LLC <i>AmerCareRoyal, LLC previously occupied 163,009 SF at premise</i>	420 Clover Mill Rd.	Chester County	Lease Expansion	229,154
dfYoung	1500 E 2 nd Street	Delaware County	Direct New	190,000
Apria Healthcare LLC	16 Creek Parkway	Delaware County	Lease Extension	84,928
Polycab	1100 N Ridge Rd.	Bucks County	Direct New	58,800

Source: Newmark Research, CoStar

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