

INVESTMENT FORECAST

Industrial
Philadelphia

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

Unprecedented Demand Surge Prompts Historic Supply Wave Across the Philadelphia Metro

Net absorption soars to record high. The need for space to distribute the growing number of retail goods sold online, coupled with the metro's proximity to other major East Coast markets, is bolstering industrial demand in Philadelphia. Additionally, the Port of Philadelphia saw double-digit growth in container volume, break bulk cargo and overall port tonnage last year, further strengthening the need for space in the metro. Leasing activity skyrocketed, with firms taking 15.5 million square feet off the market in 2021 — the largest demand spike in over two decades. Facilities in Northern Delaware and Southern New Jersey have been coveted as of late, accounting for roughly two-thirds of all absorption over the past year. Developers have responded to this recent surge in demand by elevating construction activity across the metro. Supply additions for 2022 are expected to reach the highest volume this century, with only 30 percent of the pipeline pre-leased entering this year. The boost in speculative supply will place upward pressure on vacancy; the rate, however, will remain 170 basis points below the trailing 10-year average.

Pricing surges as competition for assets intensifies. Lower entry costs relative to other major Northeast metros, coupled with tight vacancy, stimulated investor interest in Philadelphia. Deal flow skyrocketed over the past year, resulting in the largest annual transaction total in over two decades. Elevated competition for properties resulted in a 13 percent boost in the average sale price over the past year. Assets are most often changing hands in Bucks County, due to the area's sub-2 percent vacancy rate and proximity to Interstate 95. Here, investors targeted pre-1990 constructed warehouses, with cap rates that average in the mid-6 percent range. Double-digit rent growth in Burlington and Camden counties have stimulated buyer activity in Southern New Jersey as well.

2022 Market Forecast

- Employment**
up 3.0%

Employers will create 86,000 new positions in 2022, after bolstering staffs by 131,100 workers last year.
- Construction**
13 million sq. ft.

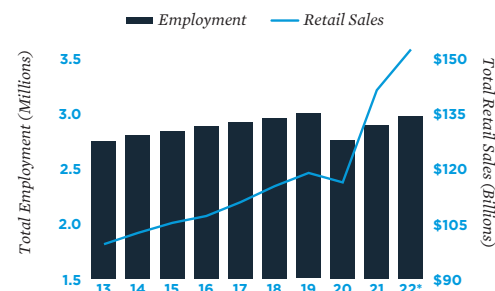
Construction remains robust this year as developers expand the metro's industrial inventory by 2.6 percent. The bulk of completions are concentrated in Burlington County.
- Vacancy**
up 20 bps

Supply additions will outpace leasing activity in 2022, pushing vacancy up slightly to 4.3 percent. Last year, the rate contracted 100 basis points.
- Rent**
up 7.6%

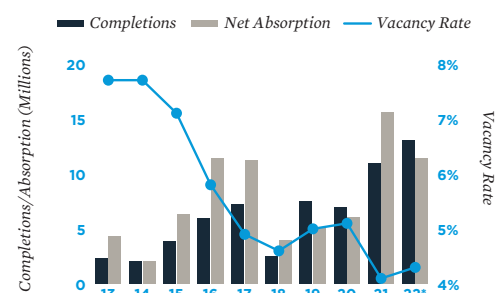
The average asking rent increases by over 7 percent for the fifth consecutive year in 2022, as the rate rises to \$8.97 per square foot. Last year, an 18.8 percent surge was recorded.
- Investment**

Philadelphia International Airport is planning to nearly triple its cargo building square footage. As a result of this, warehouse facilities near the airport will likely garner heightened interest.

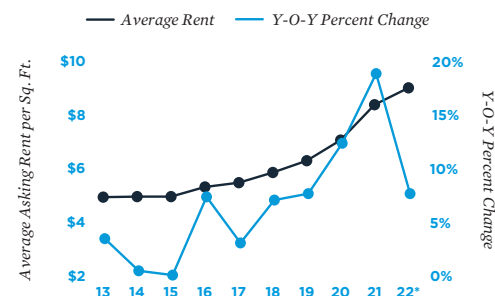
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.