

# INVESTMENT FORECAST

INDUSTRIAL  
Philadelphia Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2019

## Span of Robust Absorption Extends; Investors Target Warehouses Along Major Transportation Routes

**Stout market demand for strategically located space exists throughout the metro.** Philadelphia's extensive transportation network and proximity to other major East Coast markets makes it a prime locale for retailers and logistics firms focused on optimizing supply chains in order to provide same- or next-day deliveries. Recent expansions by these industrial users supported the absorption of 34 million square feet over the past four years, negating the delivery of 20 million square feet of space and reducing metro vacancy to the low-5 percent band. Facilities along the New Jersey Turnpike have been coveted of late, with more than 5 million square feet absorbed last year in Southern New Jersey counties. Declining availability within these markets during 2019 will force more industrial users to look across the Delaware River to Philadelphia and Montgomery counties, where vacancy rates rest just above the metro's average. A boost in leasing velocity in these areas allows metro vacancy to reach a cyclically low level, prompting additional speculative construction proposals.

**Areas of below-average pricing steer deal flow.** Tight vacancy, a central location and the lowest price points among major Mid-Atlantic markets have buyers competing for sub-\$5 million Class B and C warehouses. These assets, which will have notable NOI growth potential moving forward, are obtainable at 7 to mid-8 percent first-year returns. Various-sized warehouses near Roosevelt Boulevard and Interstate 95 in North Philadelphia and Bucks County are in high demand while lower price points persist in these locales. Low availability and strong asking rent growth along the New Jersey Turnpike has heightened competition for larger properties in Burlington and Camden counties, with below-average pricing prevalent in the latter locale.

## 2019 Market Forecast

- Employment  
up 1.2%
 

 Metro employers create 35,000 positions in 2019 after bolstering staffs by 54,400 workers last year.
- Construction  
2.6 million sq. ft.
 

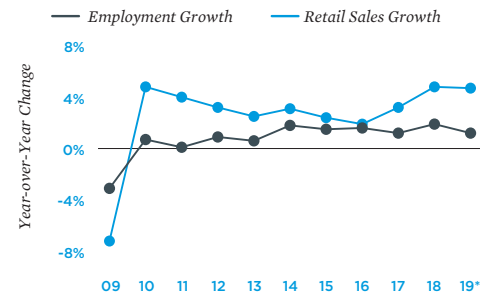
 Delivery volume mirrors 2018. Bucks County represents a top spot for completions this year.
- Vacancy  
down 10 bps
 

 Metro vacancy compresses for a seventh straight year, falling to 5.0 percent. Last year, a decline of 10 basis points was recorded.
- Rent  
up 2.4%
 

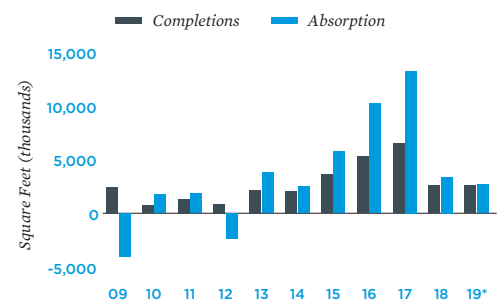
 Positive asking rent growth persists in 2019 albeit at a more subdued pace than last year, when an uptick of 7.6 percent was noted. At \$5.59 per square foot, the metro's year-end rent sits 5 percent above the previous cycle's peak.
- Investment
 

 The recent wealth of sub-\$5 million transactions in core Philadelphia and Southern New Jersey forces some buyers to outlying Lehigh and Lancaster counties when looking to deploy more than \$10 million for larger properties.

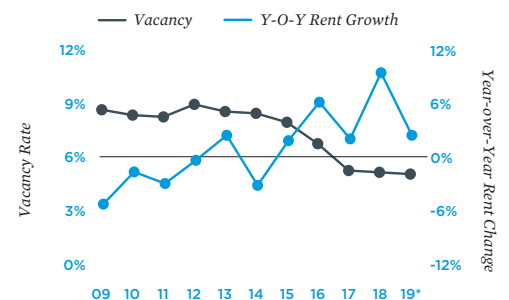
### Employment vs. Retail Sales Trends



### Industrial Completions



### Asking Rent and Vacancy Trends



\* Forecast;

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2018. Asking rent is based on the full-service marketed rental rate. 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. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.