

Greater Philadelphia Industrial, Q1 2016

Supply outpaces demand; vacancy makes a rare jump

Net Absorption
5.3 Million sq. ft.

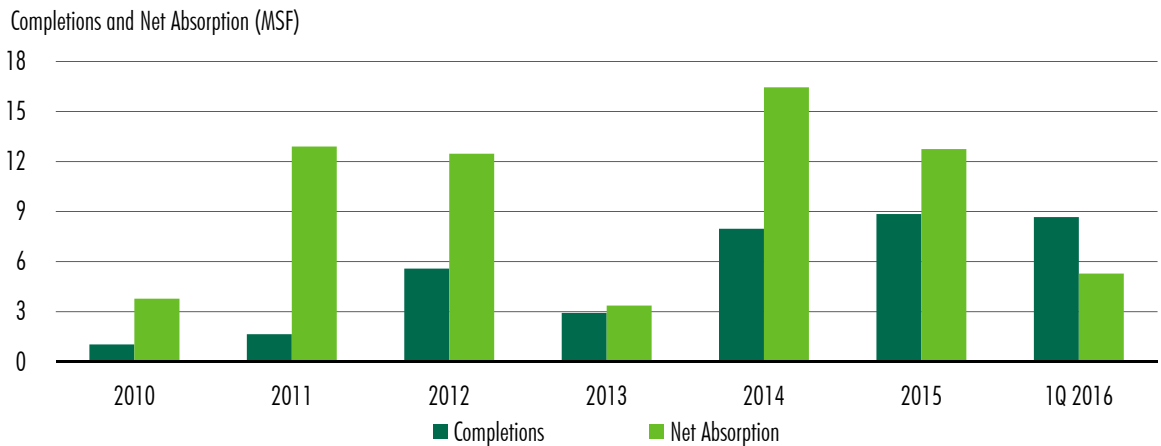
Vacancy Rate
7.0 %

Asking Lease Rate (NNN)
\$4.09

Development
14.0 Million sq. ft.

Figure 1: Greater Philadelphia Industrial Supply and Demand

*Arrows indicate change from previous quarter



Source: CBRE Research, Q1 2016.

- After 12 consecutive quarters of falling, the vacancy rate rose 70 basis points (bps) to settle at 7.0% as completed construction outpaced demand for industrial space during the first quarter. While one instance of vacancy appreciate does not prove a shift in trends, the potential for the vacancy rate to rise in the short term is real if demand begins to deteriorate below recent years' levels.
- Overall asking lease rates continued to rise, driven by new product delivered in key logistics nodes such as the Lehigh Valley, Central PA and Southern NJ. The latter posted the largest quarter-over-quarter increase, 5.5%, after delivering 2.8 Million sq. ft. of new product during the first quarter.
- Investment sales activity posted the second highest first-quarter level of activity since 2007, second only to 2015's first quarter. With \$275 million in sales volume, investors continue to show interest in core-stabilized industrial assets located within key logistics corridors.

Vacancy in Q1 2016 rose for the first time in 12 quarters as 8.6 million sq. ft. of completed construction outpaced the 5.3 million sq. ft. of demand posted. And while one data point cannot indicate a trend, the potential for an imbalance of supply over demand cannot be dismissed without analyzing these factors for the coming year. On the supply side, 14 million sq. ft. of new industrial space is slated to deliver in the short term. For demand, during 2014 and 2015, occupancy grew by nearly 30 million sq. ft. and future demand shows little signs of waning given the more than 23 million sq. ft. of requirements currently touring the market. CBRE Research tracked similar levels of active tenants during the past two years, pointing toward sustained levels of demand growth. This, along with consistently growing consumer expenditures which helps drive logistics demand, indicates that the expansion phase may persist in the short term.

Figure 2: Industrial Market Statistics for All Properties Greater than 100,000 sq. ft.

Submarket	Inventory	Total Vacancy Rate (%)	Total Availability Rate (%)	Completions	Under Construction	2016 YTD Total Net Absorption (SF)	Avg. Asking Lease Rate (\$/NNN/PSF/YR)
Cumberland County, PA	47,997,136	6.9	7.4	1,631,850	2,768,028	276,718	4.60
Dauphin County, PA	14,240,054	9.3	11.7	0	0	303,839	3.94
Franklin County, PA	11,831,160	4.9	4.9	0	0	0	4.60
Lancaster County, PA	34,914,577	1.3	1.9	0	0	100,000	4.15
Lebanon County, PA	4,677,193	13.8	13.8	500,000	1,278,600	(117,160)	2.64
York County, PA	45,762,005	8.2	8.4	1,632,300	0	100,600	3.57
Central PA Subtotal	159,422,125	6.3	6.9	3,764,150	4,046,628	663,997	4.17
Berks County, PA	18,004,590	3.8	4.0	0	133,232	500,400	4.50
Lehigh County, PA	35,582,119	3.7	4.9	241,500	3,520,000	304,759	4.36
Northampton County, PA	14,396,747	12.7	13.1	1,587,803	2,514,400	684,476	4.65
Lehigh Valley PA Subtotal	67,983,456	5.6	6.4	1,829,303	6,167,632	1,489,635	4.45
Lackawanna County, PA	12,369,047	15.7	17.4	0	0	0	3.54
Luzerne County, PA	28,176,385	5.7	6.4	0	990,856	126,358	3.57
Monroe County, PA	3,539,901	0.4	0.4	0	0	0	2.75
Schuylkill County, PA	6,734,876	8.6	10.1	0	0	455,000	3.95
Northeast PA Subtotal	50,820,209	8.1	9.1	0	990,856	581,358	3.62
Bucks County, PA	27,491,195	5.9	10.8	0	0	104,713	4.23
Chester County, PA	12,209,553	1.3	3.4	0	0	151,112	3.25
Delaware County	10,605,300	7.7	9.7	247,452	0	311,152	4.01
Montgomery County, PA	30,081,350	6.0	7.3	0	305,733	278,192	5.08
Philadelphia County, PA	31,228,988	10.4	13.3	0	145,000	(177,646)	3.96
Southeastern PA Subtotal	111,616,386	6.8	9.6	247,452	450,733	667,523	4.26
Burlington County, NJ	24,050,957	11.7	12.0	2,454,793	1,785,915	1,513,621	3.87
Camden County, NJ	15,103,405	4.5	6.1	0	600,000	0	3.47
Gloucester County, NJ	16,129,696	10.1	10.9	382,200	0	302,848	4.07
Southern NJ Subtotal	55,284,058	9.3	10.1	2,836,993	2,385,915	1,816,469	3.86
New Castle County, DE	14,306,828	8.8	13.6	0	0	73,360	4.16
TOTAL	459,433,062	7.0	8.3	8,677,898	14,041,764	5,292,342	4.09

Source: CBRE Research, Q1 2016.

ABSORPTION

Occupancy grew by 5.3 million sq. ft. during the first quarter marking the 11th consecutive quarter of demand growth. Retailers comprise a significant portion of that growth as companies such as Target, Samsung, and Behr Paint expanded their regional footprint. Third-party logistics companies also added to tenancy gains, but at a lower rate than in recent years. This points toward retailers confidence in consumer spending and overall economic health.

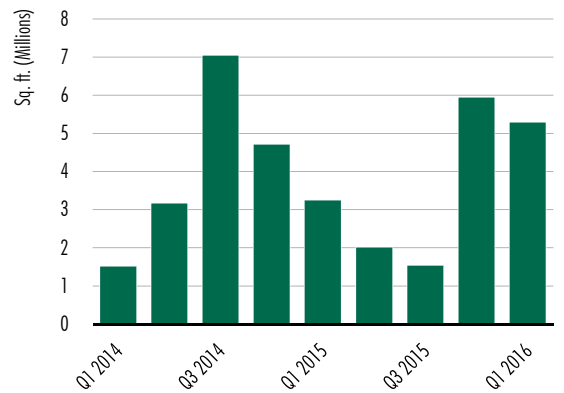
VACANCY

Overall vacancy rose 70 basis points (bps) to settle at 7.0%. As cited prior, the increase is a supply-side phenomenon as historically high amounts of new warehouse space are added to the Central PA, Lehigh Valley, and Southern NJ submarkets. While this quarter's jump in vacancy came as no surprise, the pace of demand growth is expected to mirror recent years' levels which will take down much of the added space. If this occurs, vacancy should continue to hover in the 6% to 7% range. If demand slows in the short term, vacancy could climb back into the 7% to 8% range, effectively erasing 2015's occupancy rate gains.

DEVELOPMENT PIPELINE

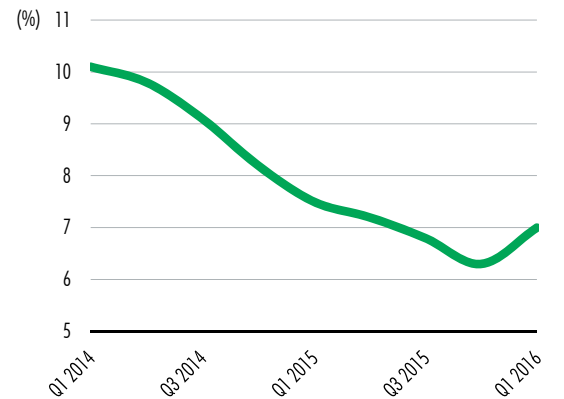
The Greater Philadelphia region delivered 8.7 million sq. ft. of product during Q1 2016, 36% of which was either built-to-suit or pre-leased speculative construction. In spite of this large amount of new supply, another 14 million sq. ft. of construction is underway with the bulk of new product located in the Central PA, Lehigh Valley, and Southern NJ submarkets. In these submarkets, developers maintain a bullish outlook as 10.0 million sq. ft. of the 12.6 million sq. ft. under construction is on a speculative basis. Barring a significant downturn in demand growth, expect developers to continue to add supply in the short term.

Figure 4: Net Absorption



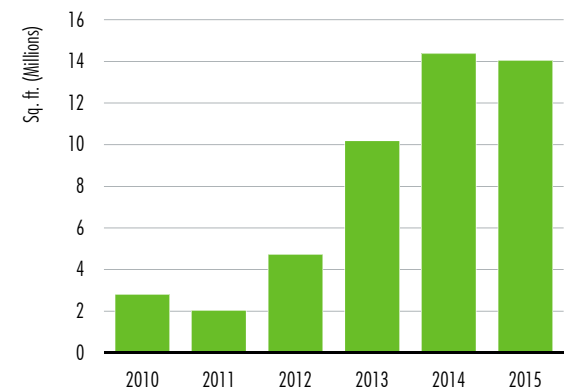
Source: CBRE Research, Q1 2016.

Figure 5: Vacancy Rate



Source: CBRE Research, Q1 2016.

Figure 6: Development Pipeline



Source: CBRE Research, Q1 2016.

LEASE RATES

Average asking lease rates across the Greater Philadelphia region continue to rise steadily, up \$0.01 in Q1 2016 to \$4.09 NNN. Southern NJ showed the largest quarter-over-quarter increase in asking rents with a 5.5% jump to \$3.86 NNN. As new product enhances the quality of inventory, we expect the average asking lease rate to continue trending upward during the near future. Class A average asking lease rates are \$4.47 NNN. Lehigh Valley is setting the bar at \$4.96 NNN, with most other submarkets not far behind.

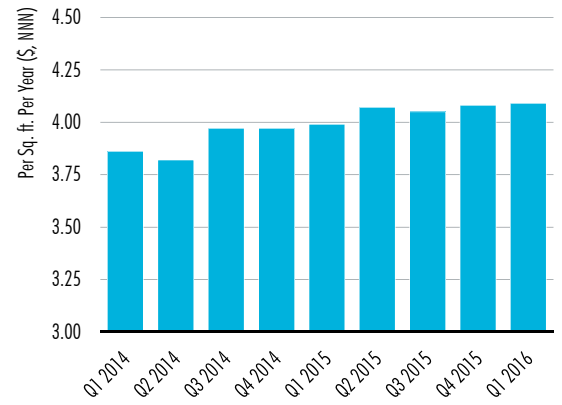
CAPITAL MARKETS

The Greater Philadelphia region followed up record-breaking sales volume during Q4 2015 with \$275 million in sales volume during Q1 2016. Although this lowers the four-quarter average to \$526 million, it is still the second strongest Q1 since 2007, trailing only Q1 2015. The Philadelphia Metro Area was the most active subset across the region, posting \$221million in sales volume during Q1 2016. A few notable building sales include STAG Industrial’s purchase of 1900 River Rd in Burlington, NJ from UrbanAmerica JV Fisher Brothers for \$61.5 million and US Cold Storage’s purchase of 4000 Am Dr in Quakertown, PA from CFC Logistics for \$25.4 million.

ECONOMIC GROWTH

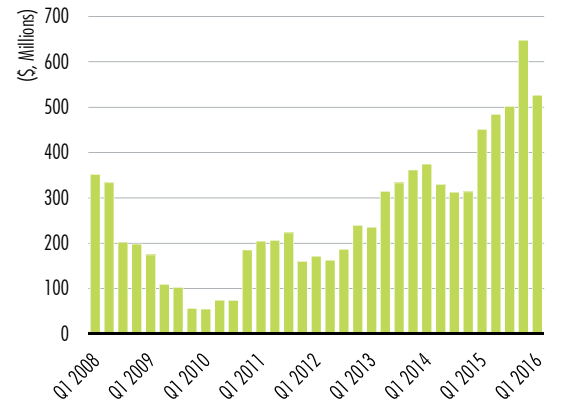
The regional forecast for economic growth remains very favorable, with the next two years expecting an average GDP growth rate of 3.3%. Industrial occupancy, while down quarter-over-quarter, remains high, mirroring the region’s GDP growth. Furthermore, with a low unemployment rate country-wide, along with more participants re-entering the workforce, continued consumer spending growth is expected. This should translate directly into more occupied warehouse space in the region.

Figure 7: Industrial Lease Rates



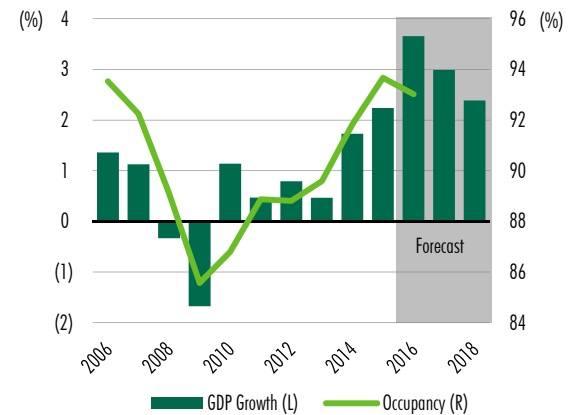
Source: CBRE Research, Q1 2016.

Figure 8: Industrial Sales Transactions

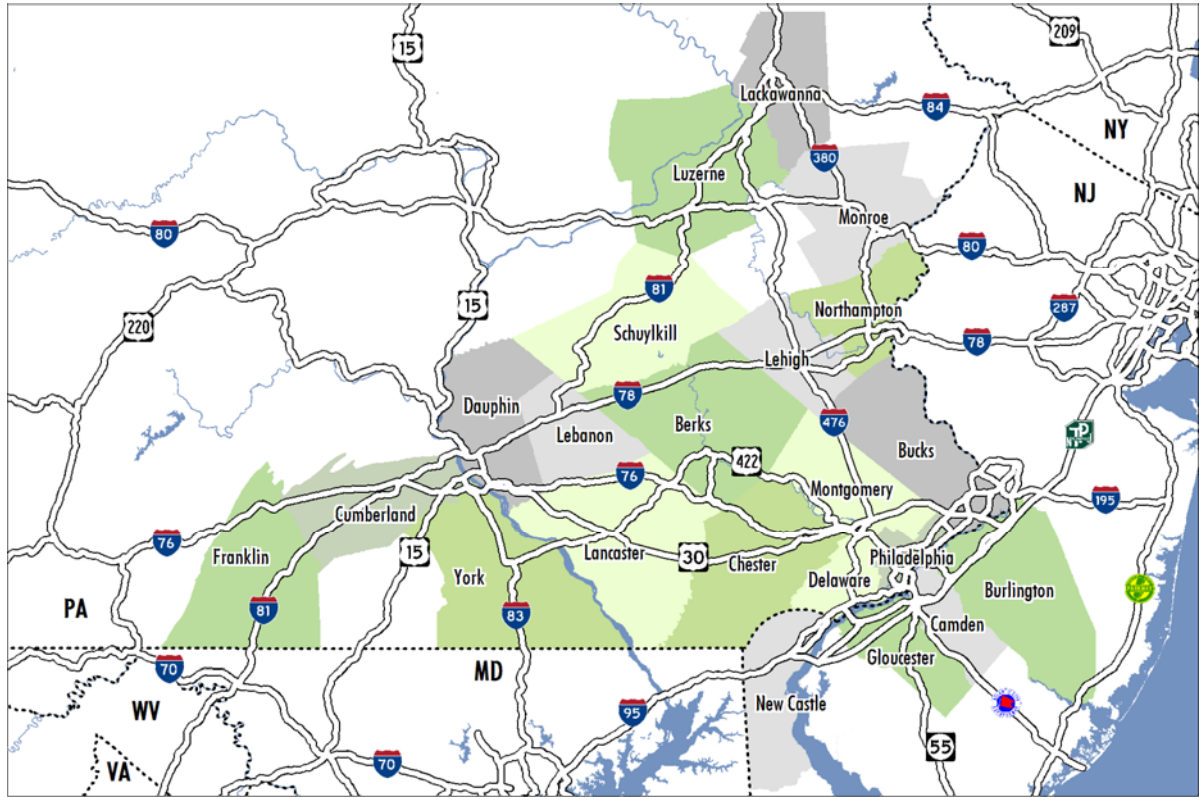


Source: Real Capital Analytics (4-qtr. Average) (Q1 2016 Estimated).

Figure 9: Regional Economic Growth



Source: CBRE Research, Q1 2016; BEA; U.S. Bureau of Labor Statistics; Moody’s Analytics (2016-2018 Forecasted).



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