



New Jersey and Philadelphia industrial insights

Q4 2021

AVISON
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Let's look at U.S. industrial drivers

Supply chain disruptions have taken the spotlight at the end of 2021, but industrial real estate fundamentals remain strong.

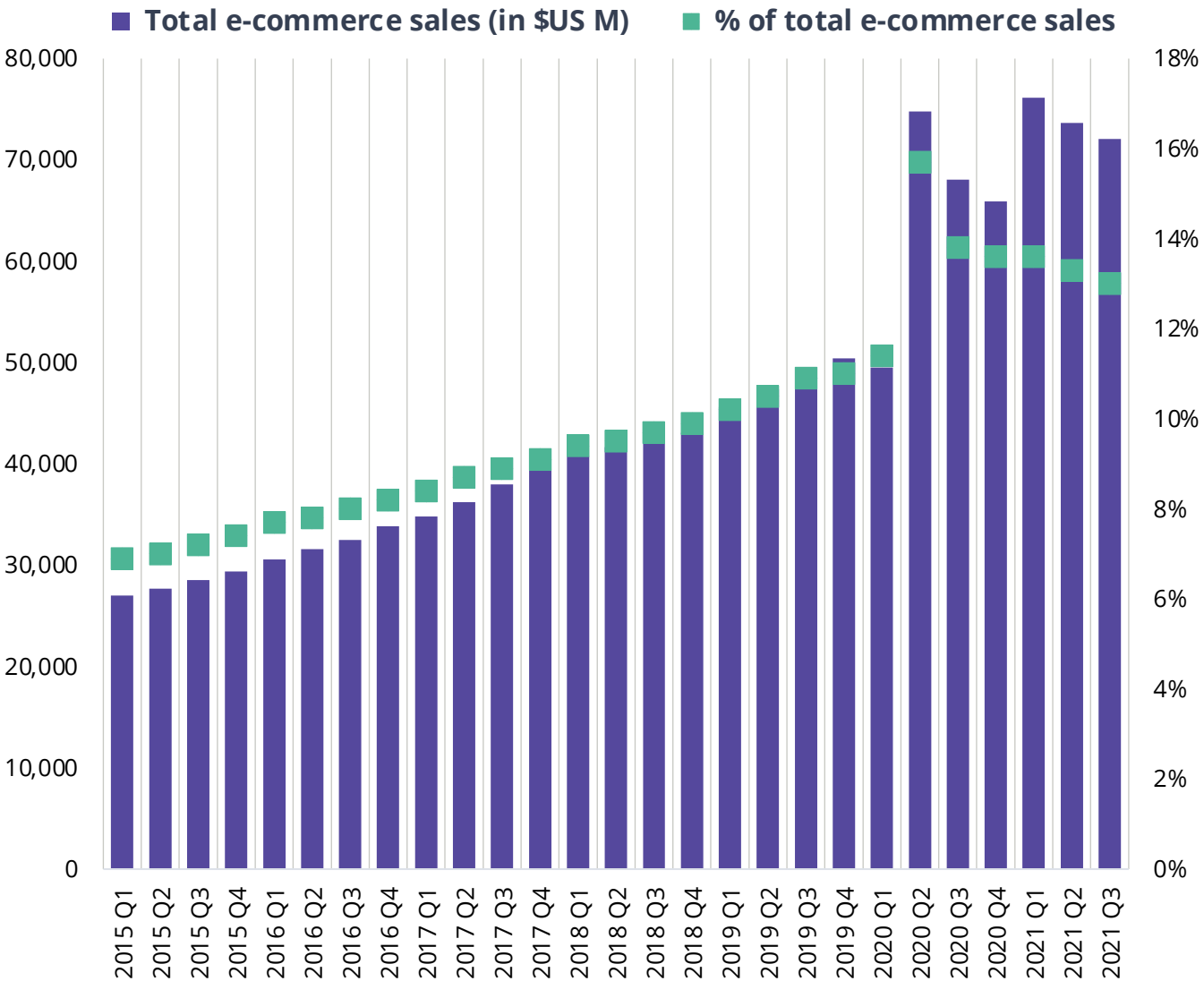


U.S. total retail and e-commerce sales

13.0%

e-commerce share of overall retail sales in Q3 2021.

Online sales as a percentage of total retail activity have continued to normalize over the course of the year, but remain significantly elevated over 2019 levels. This underscores a resetting of consumer buying habits as e-commerce spending remains sustainable and supports continued demand for industrial space in most U.S. markets.



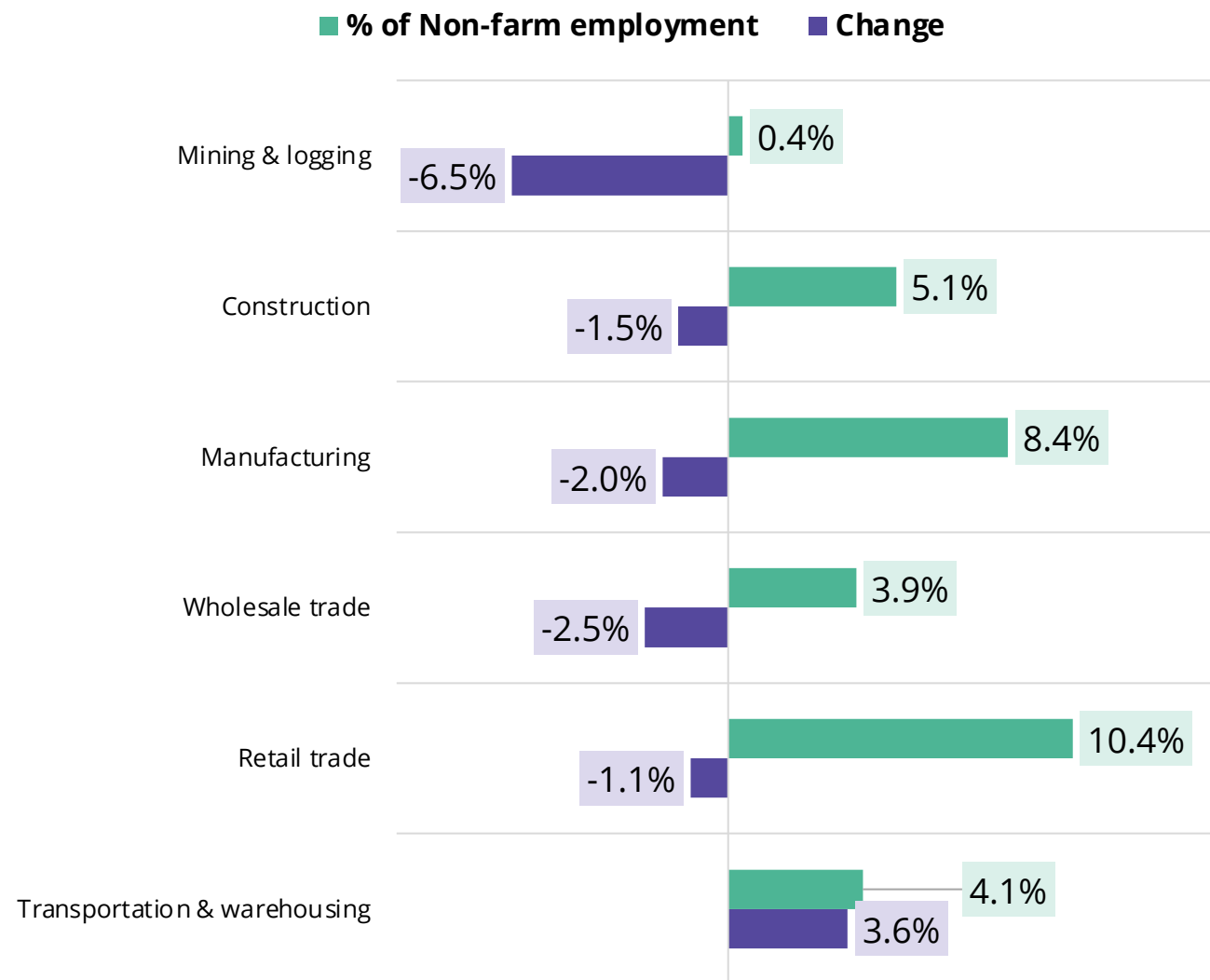
Source: Federal Reserve Bank of St. Louis as of December 15, 2021

Industrial sector job gains and losses

3.6%

change in transportation and
warehousing employment,
February 2020 to November 2021.

The Transportation & warehousing employment sector has been resilient throughout the pandemic and performed ahead of other sectors in the latter part of this year. Manufacturing, Construction and Wholesale trade comprise similar proportions of total U.S. employment, but jobs have continued to contract since February 2020.



Note: Seasonally adjusted data.
Source: Bureau of Labor Statistics

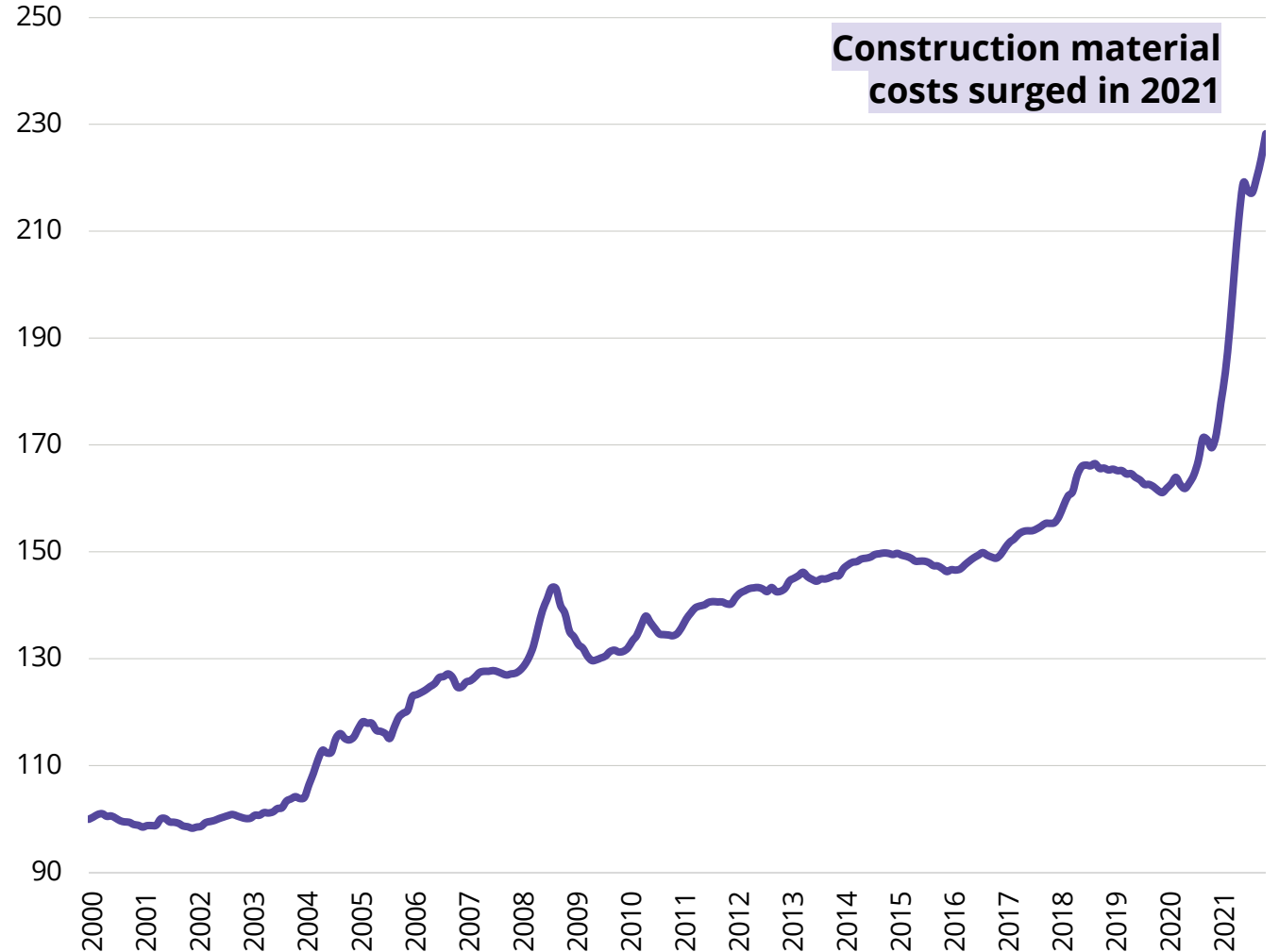
Cost of construction materials

+32.6%

increase in Construction Material Index cost from year-end 2020 to November 2021.

Construction material costs have continued to surge throughout 2021, pressuring industrial new construction pro forma rents. While the third quarter offered some reprieve in pricing, scarcity and supply chain disruptions have injected additional uncertainties.

Construction materials
(index = 2000)



Fuel costs and freight trucking driver wages

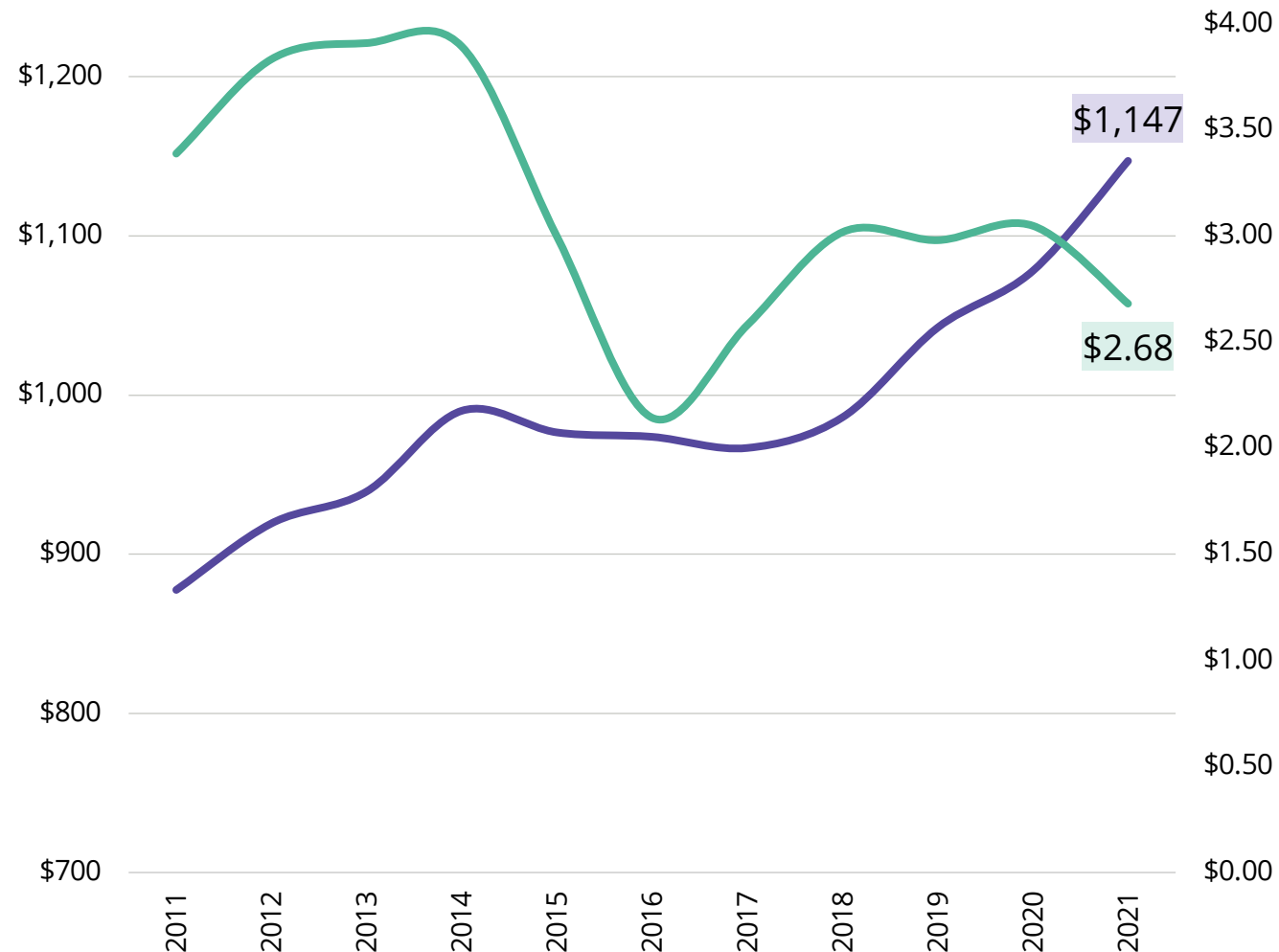
+35.3%

Uptick in diesel fuel prices since May 2020 has multifaceted impact.

Rising diesel fuel prices and wage rates, for short- and long-haul trucking, are exacerbating pressures on shipping costs for companies that may have also faced international supply chain disruptions.

General freight trucking weekly wages

On-highway diesel prices (\$ per gallon)

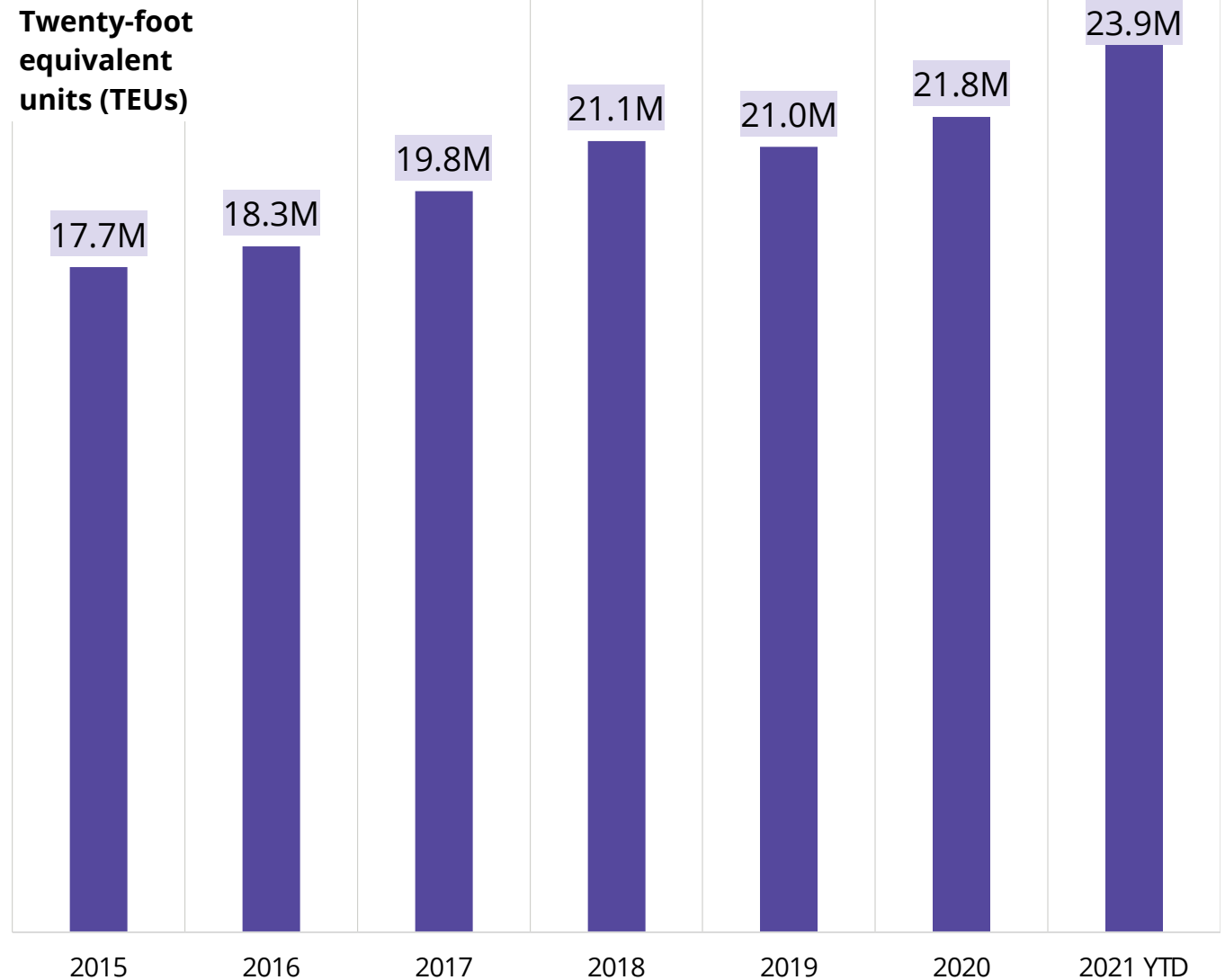


Loaded import container volumes

+9.9%

year-over-year increase in cargo volumes, despite supply chain disruptions and port congestion.

Through November, loaded imports at major U.S. seaports are up significantly over the same period last year. Despite heavy reporting in mainstream news and solutions still being conceptualized, throughput activity is being processed and moving into domestic supply chains.



Let's look at the industrial market fundamentals in New Jersey



Key industrial takeaways



Economic conditions

- Unemployment across New Jersey has **declined to 5.5 percent**, the lowest since March 2020.
- Employment across New Jersey reached **4.2 million individuals**, reaching its highest level since the pandemic began.



Recovery rate

- New Jersey industrial employment sectors have risen **6.8 percent** in 2021, with the Transportation, warehousing & utilities sector leading the way with **5.3 percent** growth.
- The year-over-year change in Consumer Price Index for New Jersey **increased by 4.4 percent**.



Industrial demand

- Annualized leasing activity has been stable during the pandemic, sitting at **0.7 percent** higher than the long-term average of the preceding 20 years.
- At **3.0 percent**, absorption as a percentage of existing inventory was at its highest level during 2021.

Key industrial takeaways



Industrial supply

- Approximately **51.5 percent** of the square footage under construction are buildings less than 500K square feet, diluting potential new construction-driven supply concerns.
- The overall vacancy rate for the New Jersey industrial market continued to decrease through Q4 2021, **reaching a twenty-year low of 2.3%.**



Pricing trends

- Base **rents have increased by 17.1 percent** since the start of 2021 and over \$14 per square foot.
- Free rent concessions and tenant improvement allowances have decreased **24.8 percent** through the end of 2021. Free rent averaged 1.2 months and tenant improvements were \$2.45 as tenants quickly scooped up more space.



Capital markets

- New Jersey Industrial **investment activity has surged to \$5.7B** since 2020 as investors are attracted to sector fundamentals that largely benefited from the COVID environment.
- High rents and low vacancy rates continue to attract investors, leading to higher valuations, which increased by **13.8 percent** since the end of 2020.

Employment and unemployment rate

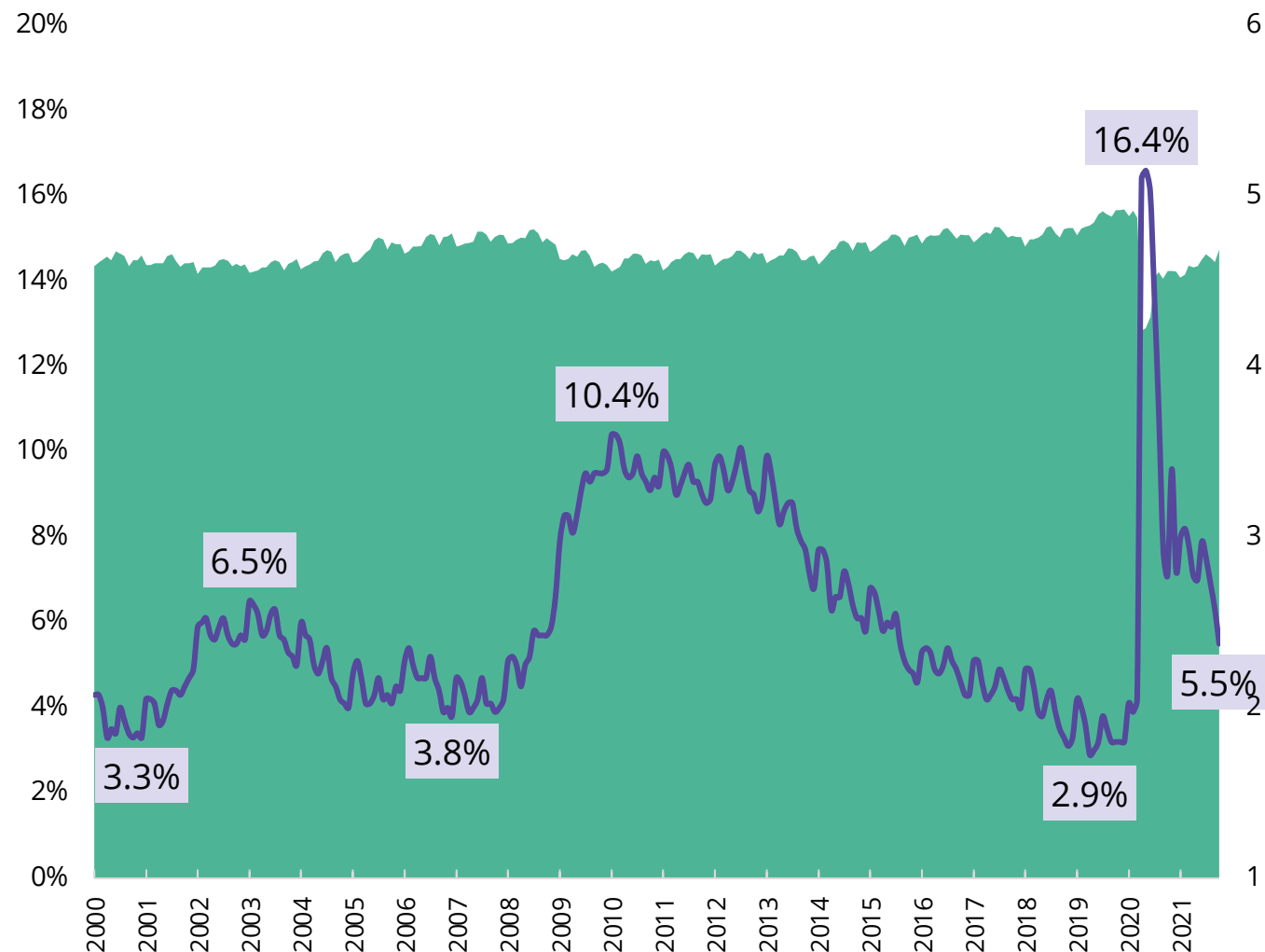
5.5%

New Jersey unemployment rate as of November 2021.

New Jersey unemployment fell to 5.5% in December 2021, a new low since the pandemic began. Since the pandemic began employment has grown from 3.7 million to 4.2 million, increasing 12.8%.

Unemployment %

Employment (millions)



Source: Bureau of Labor Statistics

Employment and unemployment rate

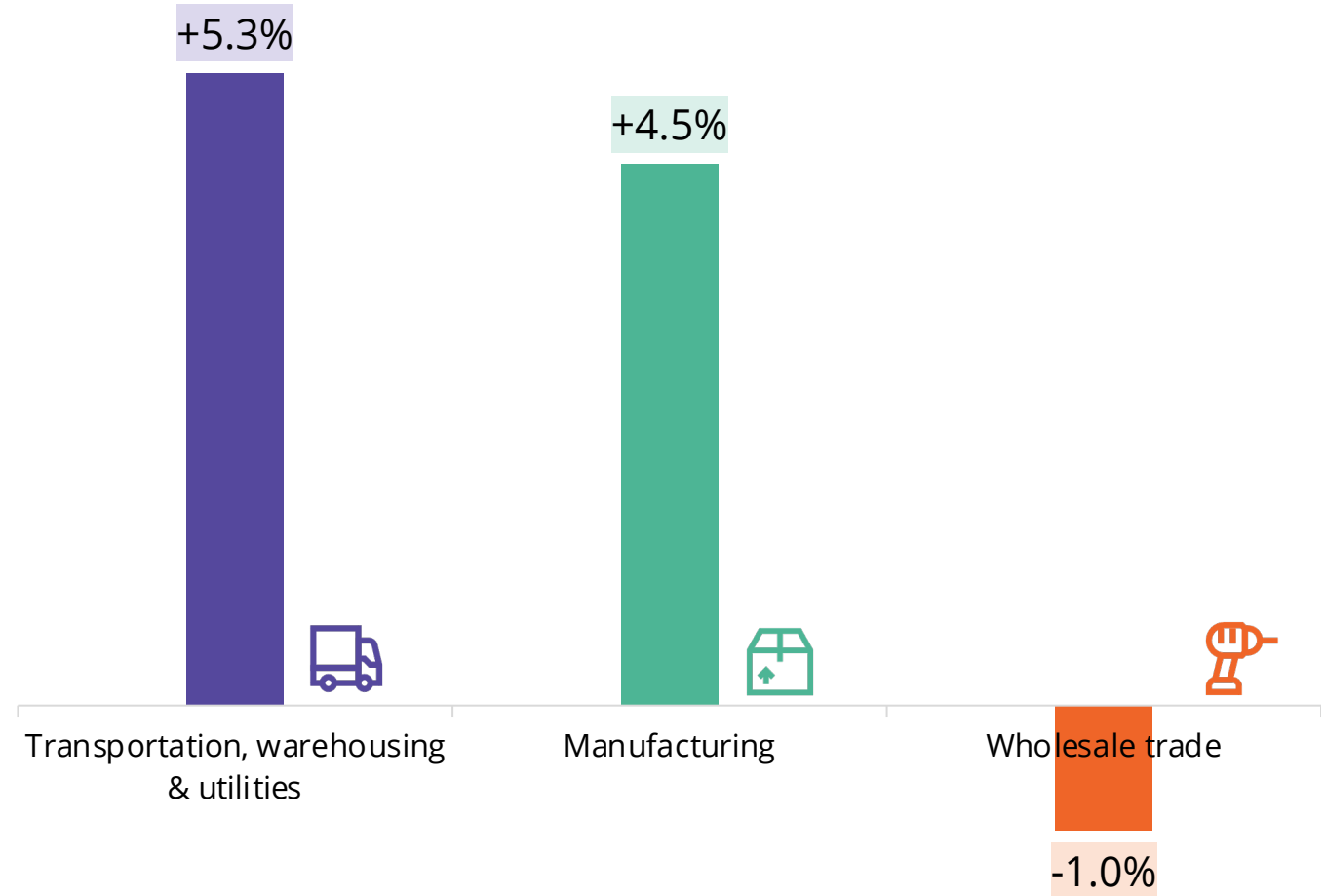
+6.8%

change in New Jersey industrial employment sectors from January 2021 to November 2021.

New Jersey has added 3.2% industrial jobs year-over-year, anchored by employment gains in the Transportation, warehousing & utilities and Manufacturing sectors. This employment momentum demonstrates the continued competitive labor market environment for blue collar talent.

Total change in New Jersey job gains and losses

November 2020 to November 2021



Source: Bureau of Labor Statistics

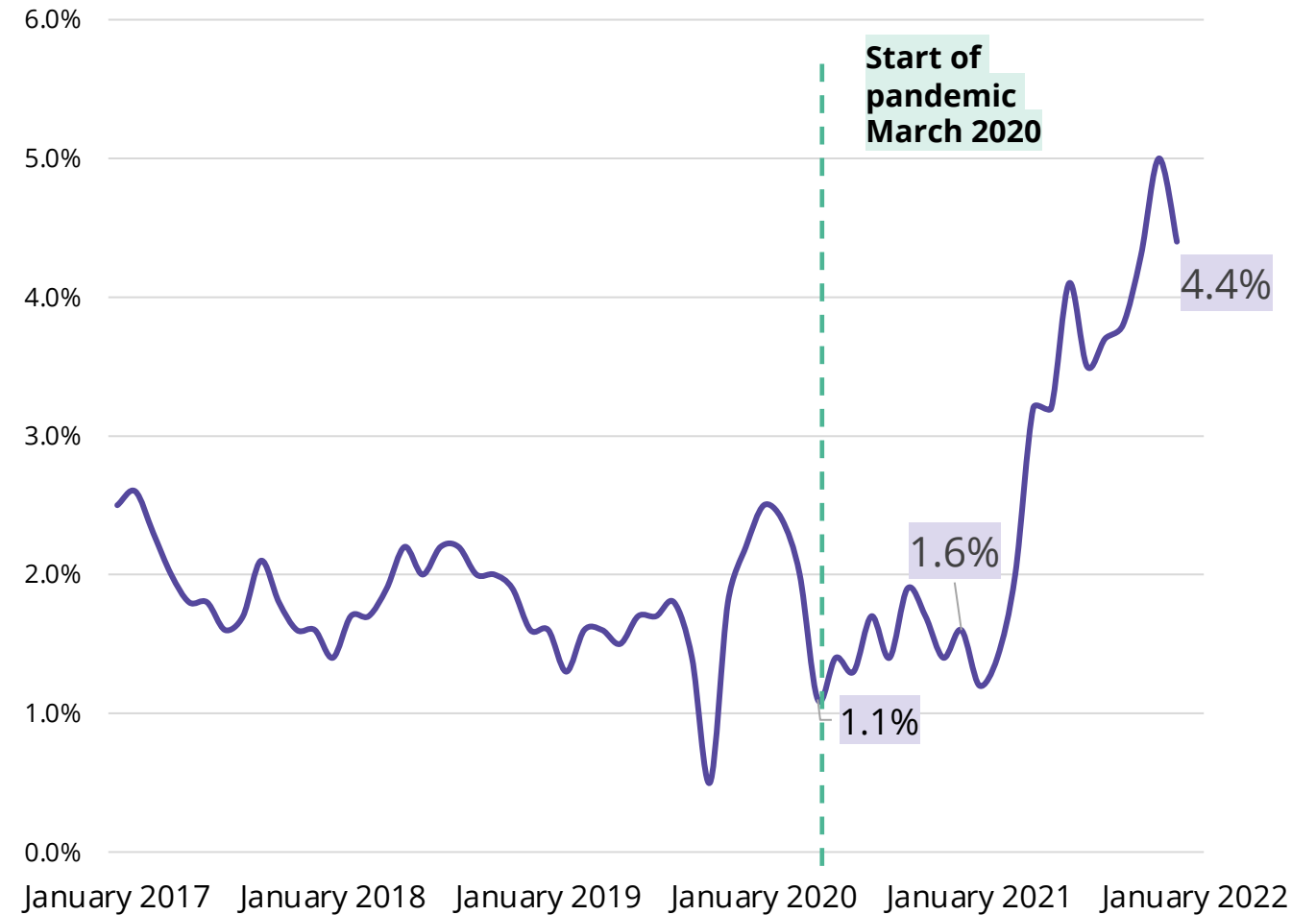
Consumer prices and inflation rates

+4.4%

year-over-year change in Consumer Price Index for New Jersey, all items.

New Jersey-area consumer prices have been increasing sharply as its economy has reopened and employment flourishes, but supply chain issues remain. Energy prices increased 21.8% year over year. This can be attributed to the 50.9% increase in gasoline prices. In addition, food prices over the year have increased by 6.4%. Over the last year, the index for all items less food and energy increased 3.0%.

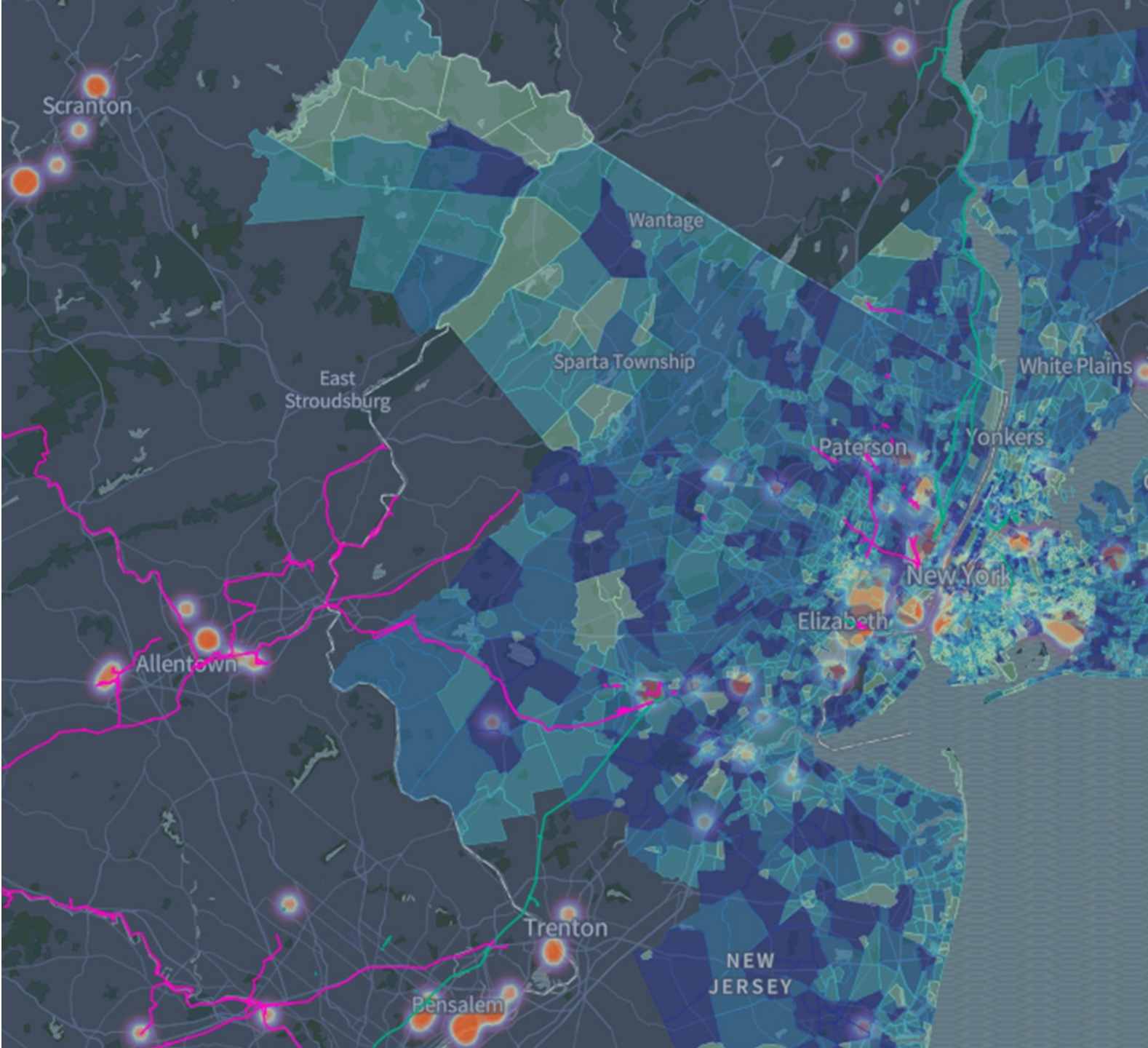
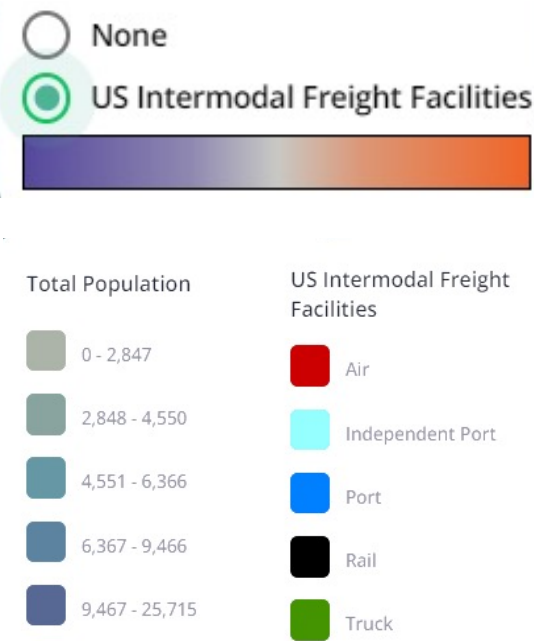
Annual % change



Note: Not seasonally adjusted Metropolitan Statistical Area data
Source: Bureau of Labor Statistics

Freight rail and intermodal facilities

Toggle heatmap

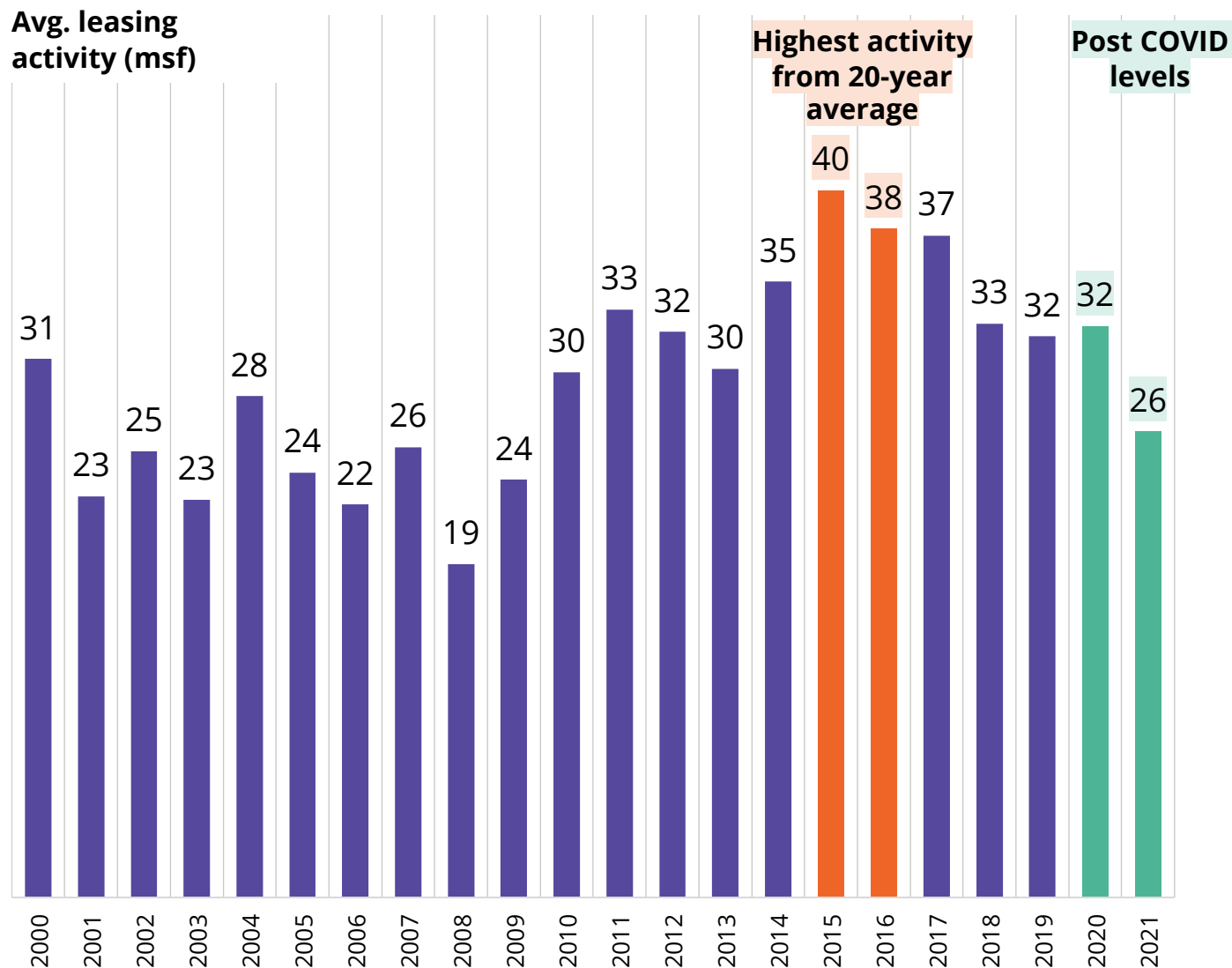


Industrial leasing activity

+0.7%

2020-2021 vs. prior 20-year annual average leasing activity.

Leasing activity has remained steady during the pandemic but has not reached pre-COVID heights due to the lack of available supply.

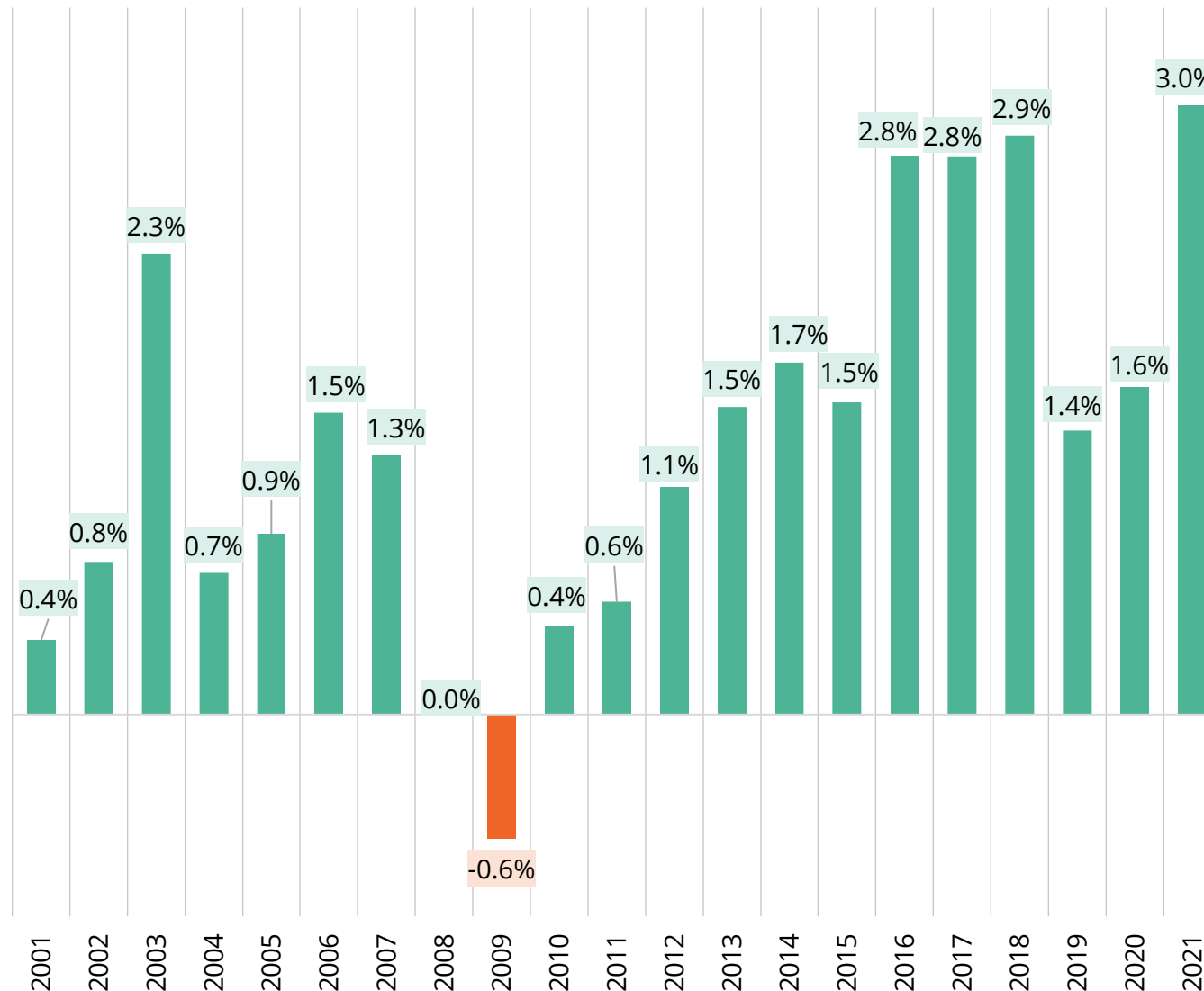


Industrial net absorption

4.6%

net absorption as a percentage of inventory, from 2020 to 2021.

At 3.0%, absorption as a percentage of existing inventory was at its highest post-2001 recorded level in 2021 due to the high demand for industrial properties. Absorption in New Jersey has totaled almost 14.5 msf, a post-2001 high.

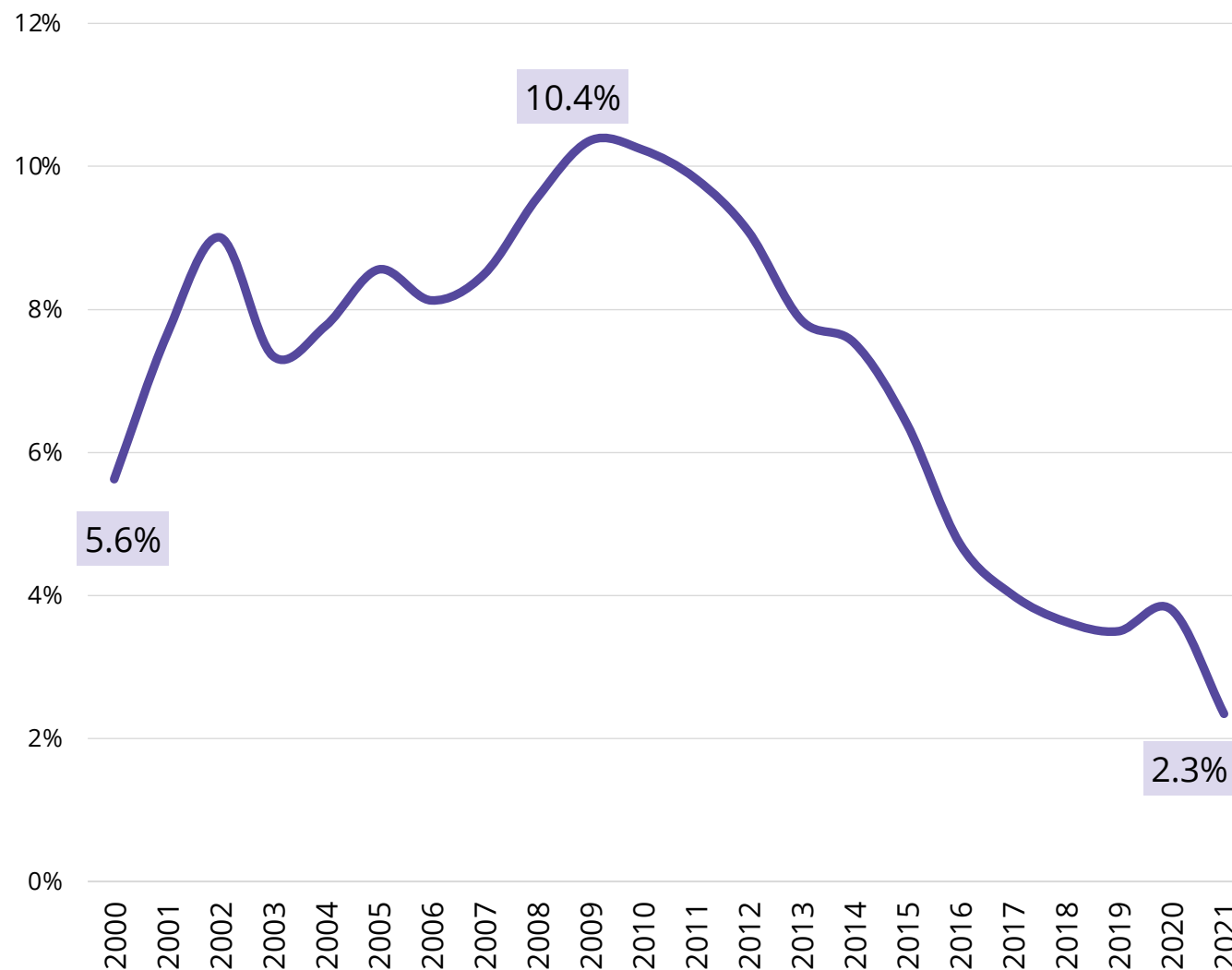


Industrial vacancy rate

2.3%

New Jersey vacancy rate as of year-end 2021.

The vacancy rate has compressed (-38.3%) year over year and has fallen to a 20-year record low of 2.3%.



Source: CoStar

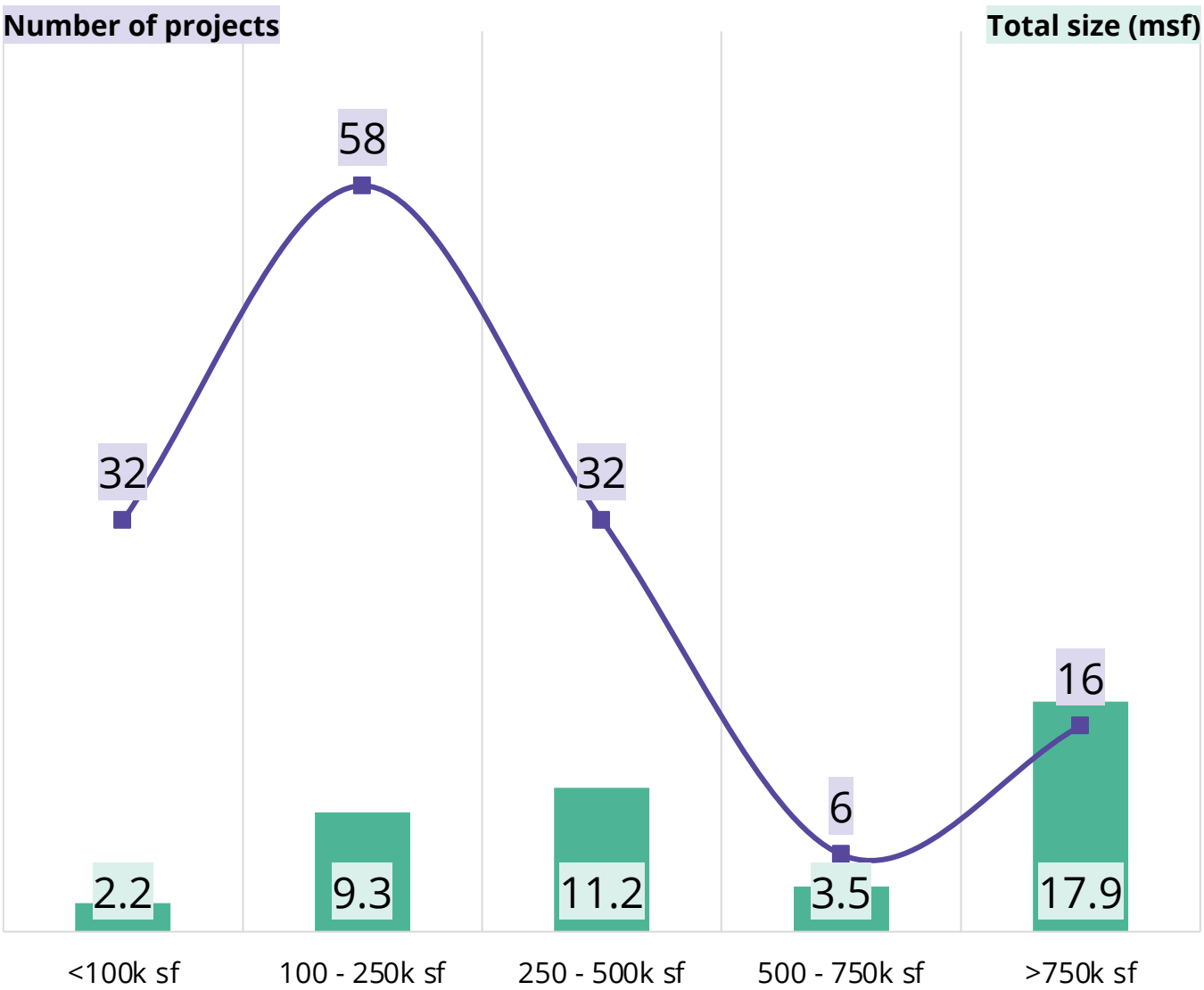
Industrial development pipeline

22 properties
proposed, under construction / renovation
over 500k sf

48.5%
proposed, under construction / renovation
over 500k sf

16 properties
proposed, under construction / renovation
over 750k sf

40.6%
proposed, under construction / renovation
over 750k sf



Source: AVANT by Avison Young

Industrial development pipeline

144 properties

proposed, under construction / renovation

44.1 msf

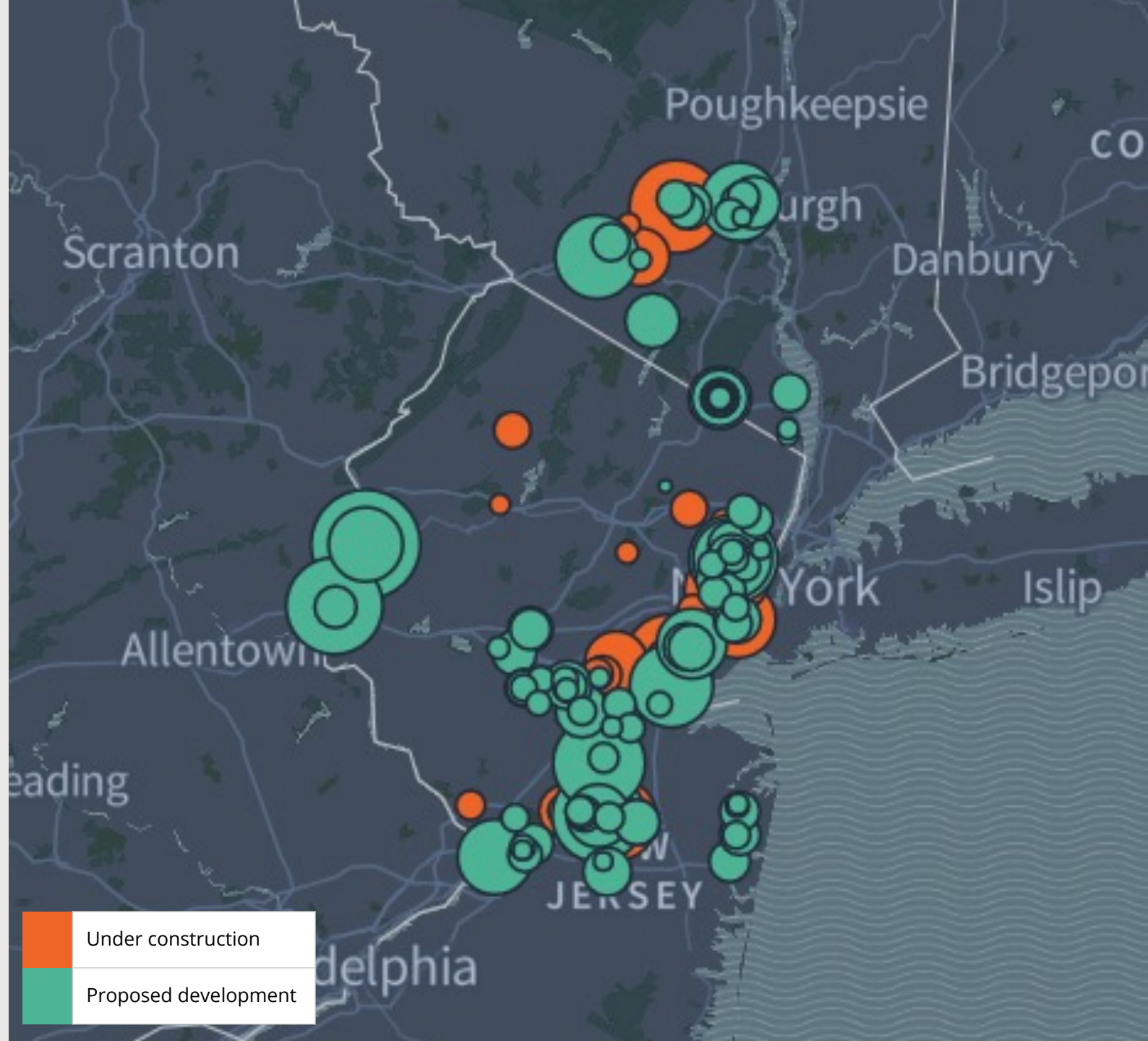
proposed, under construction

7.5%

share of industrial inventory

Linden

has the most ground-broken projects at 6

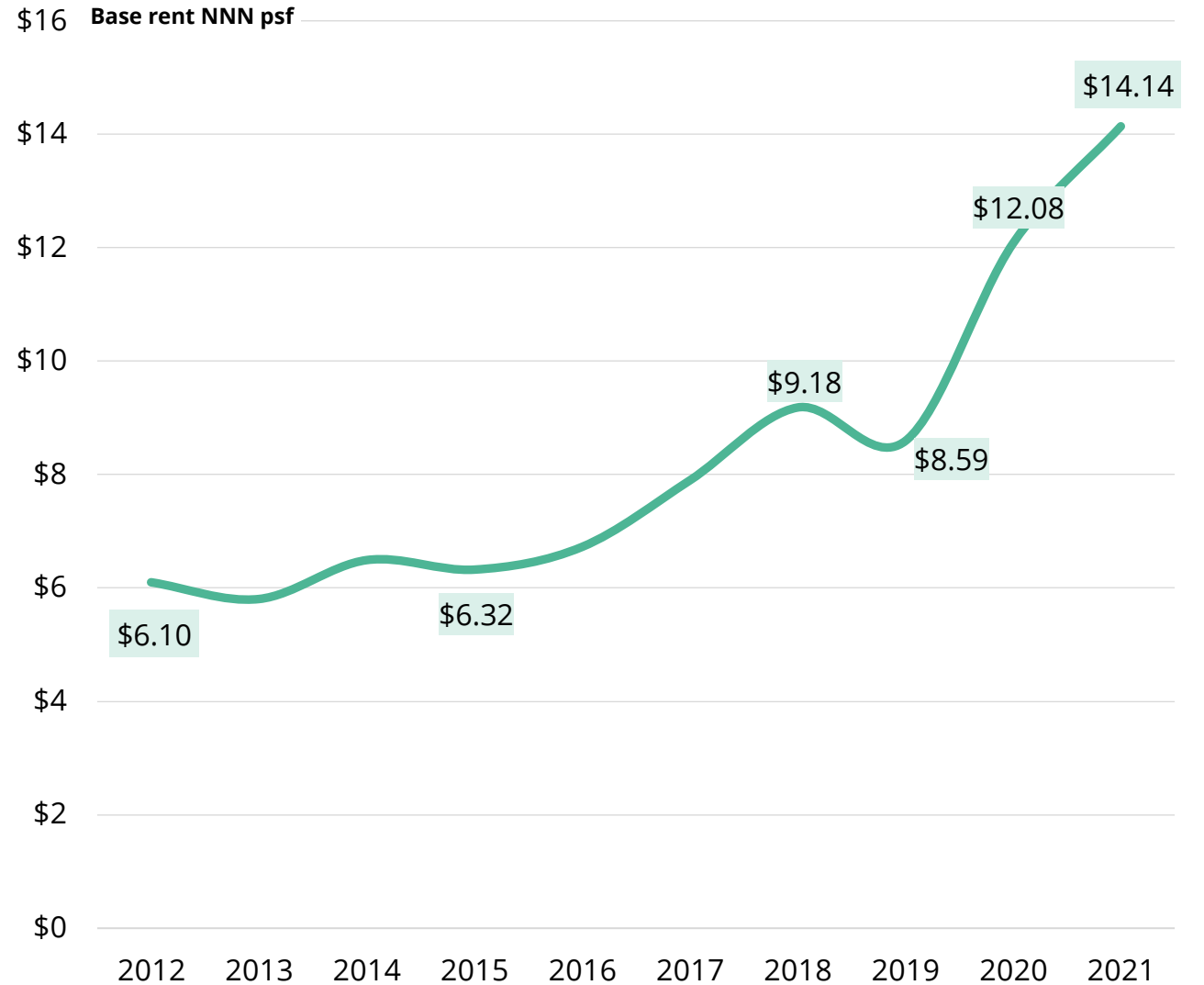


Industrial base rents

+17.1%

year-over-year change in base rents for industrial assets.

Rents have continued to increase after the pandemic as demand for industrial space has risen at a drastic rate. An average rent of \$14.14 is at the highest level over the past decade.

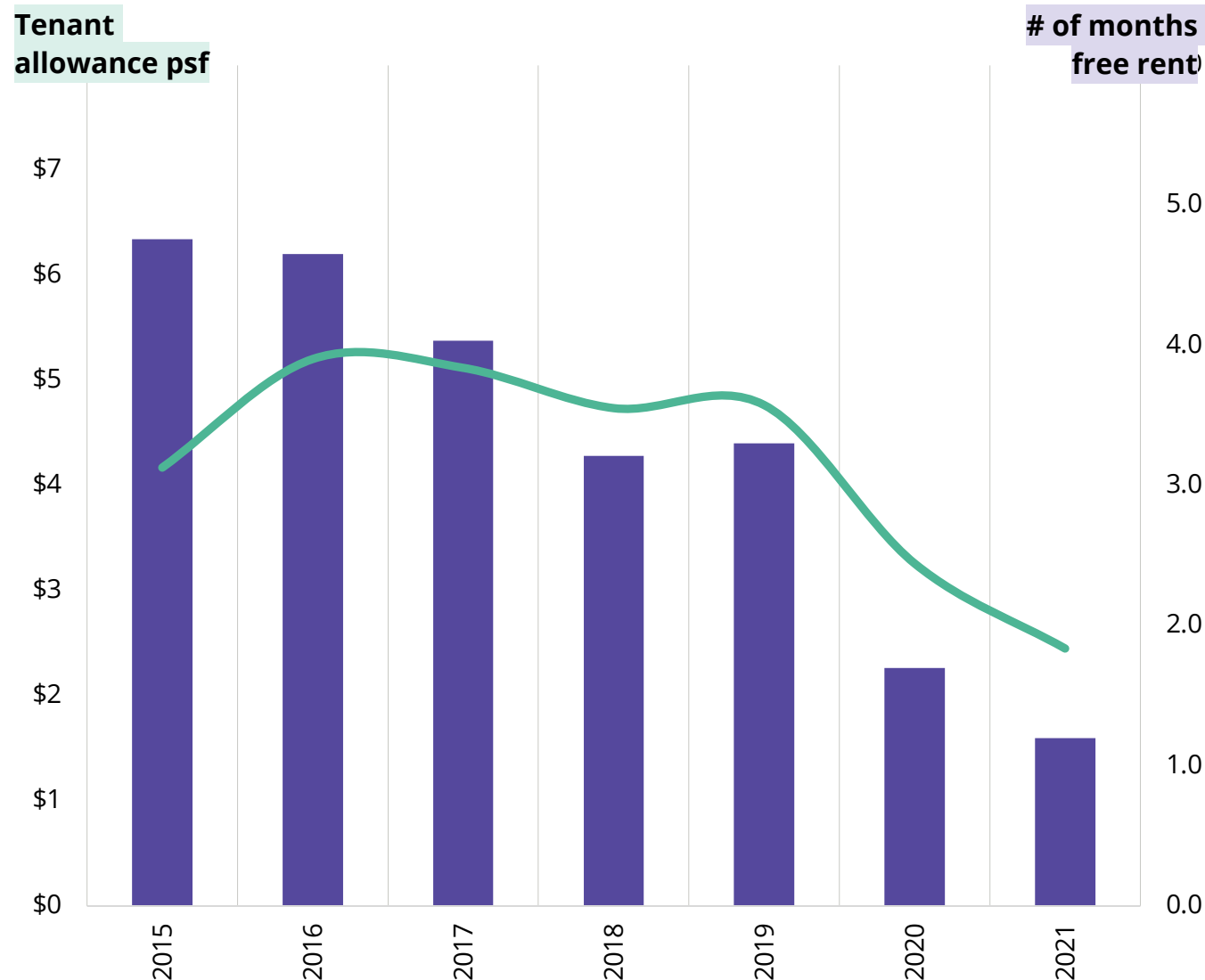


Industrial concessions packages

-24.8%

year-over-year change in tenant improvement allowances.

Sharp increases in demand along with low supply have allowed landlords to withhold concessions. Tenant improvement allowances are down -24.8% since 2020, sitting at an average of \$2.45 psf, and 1.2 months of free rent are being offered for 10-year leases.



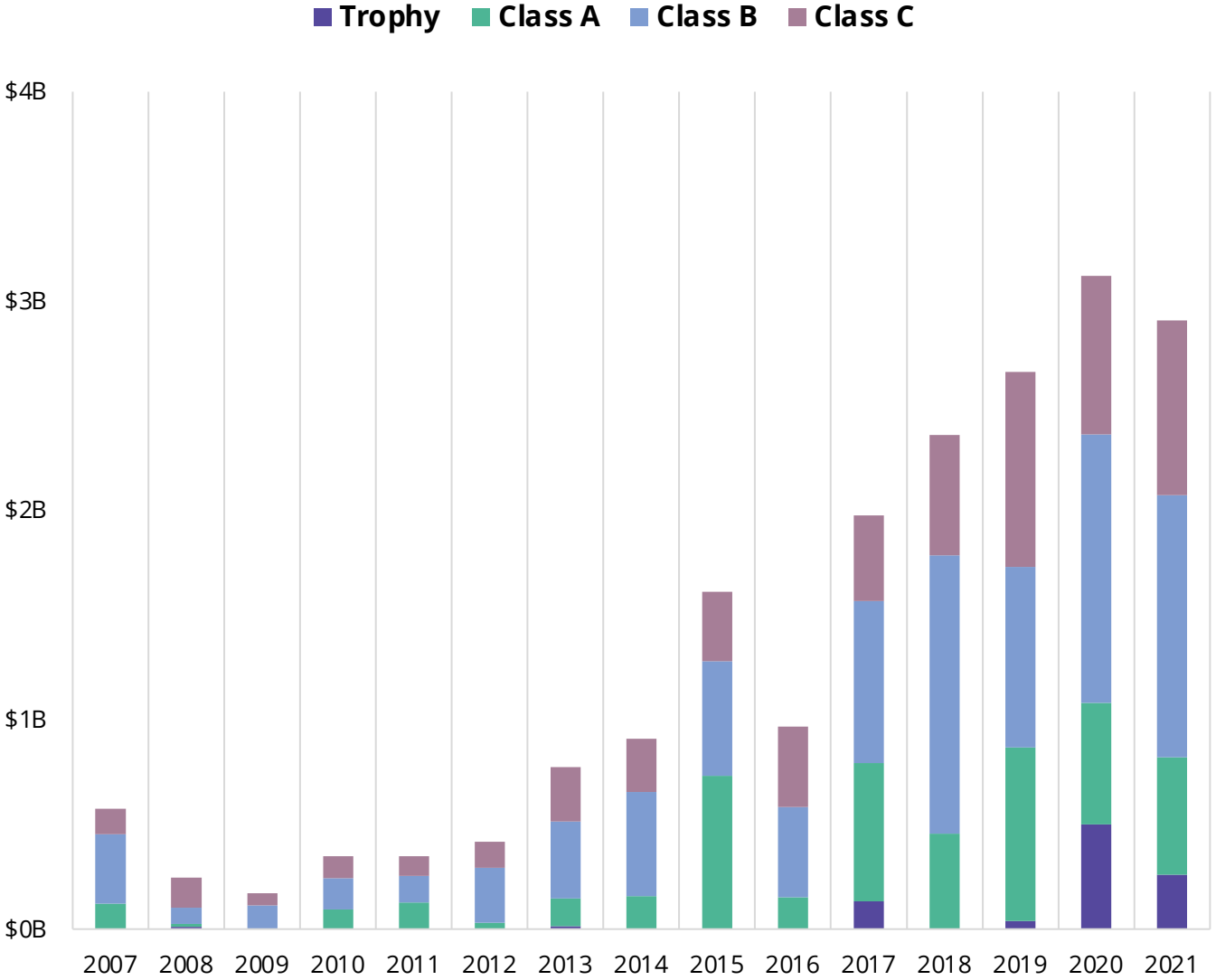
Source: AVANT by Avison Young

Industrial investment dollar volume

\$5.7B

New Jersey industrial dollar volume from 2020 to 2021.

Investment activity has remained strong as investors continue to view the New Jersey industrial market as a safe haven. Sales volumes continued to rise during the fourth quarter as sellers were still concerned with the uncertainties regarding potential changes to federal capital gains taxes.

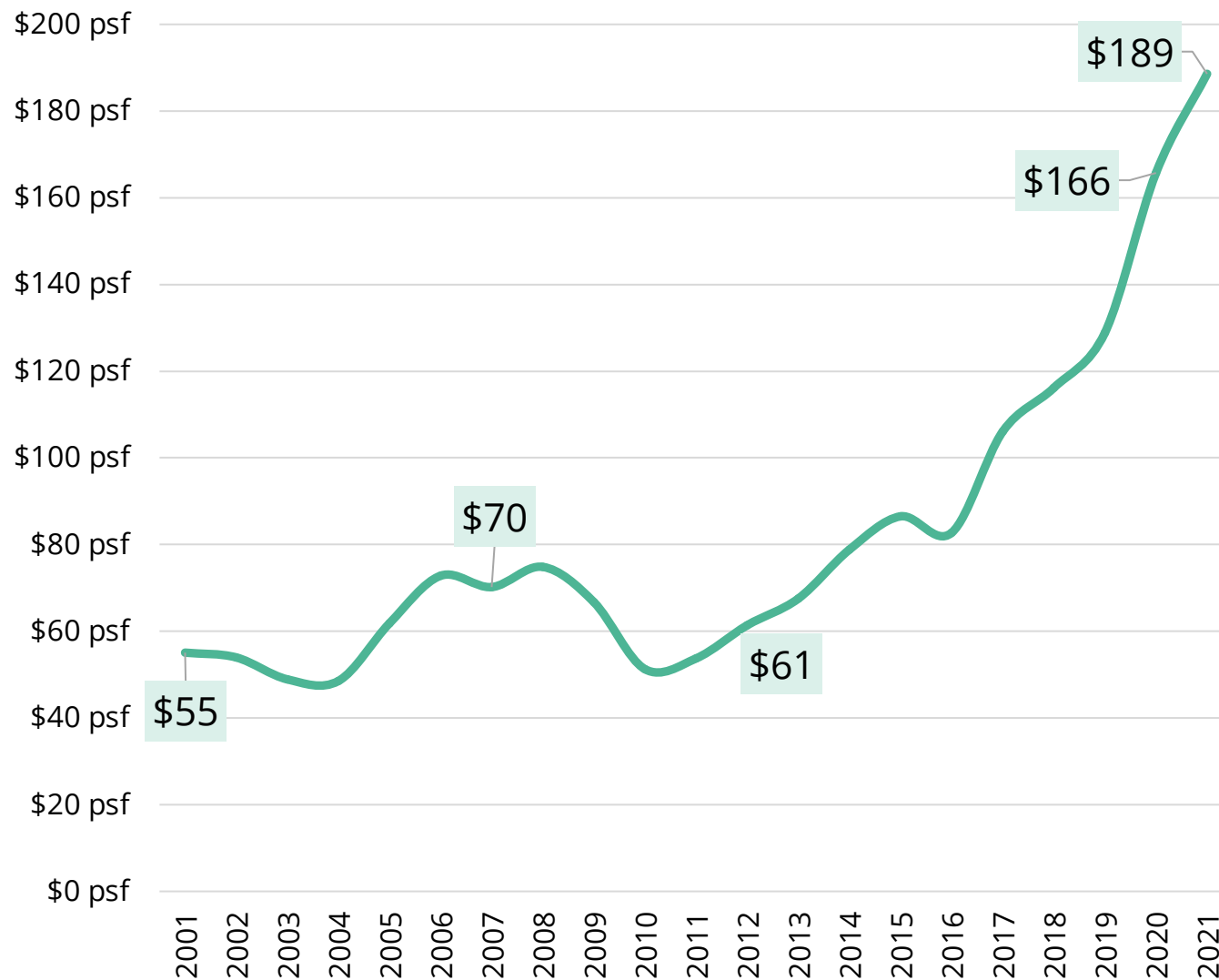


Industrial asset pricing

13.8%

New Jersey industrial pricing from 2020 to 2021.

Pricing for New Jersey industrial assets have continued to appreciate as underlying fundamentals remained strong.



Let's look at the industrial market fundamentals in Philadelphia



Key industrial takeaways



Economic conditions

- The Philadelphia MSA unemployment rate has decreased to **4.1 percent** reaching a new low since the pandemic began, and just shy from the twenty-year low of 3.4%.
- There are just under 3 million actively employed individuals across the PHL MSA, currently at **2.9 million**.



Recovery rate

- Philadelphia industrial employment sectors have risen **2.9 percent** in 2021, with the manufacturing sector leading the way with **1.8 percent** growth.
- Over the course of 2021, the index for all items less food and energy **increased by 5.6 percent**.



Industrial demand

- Leasing activity has accelerated during the pandemic, increasing by **103.7 percent** on an annualized basis versus the prior 20-year average.
- Philadelphia saw a record high positive absorption that has totaled almost **45.0 msf, or 5.5 percent** of the existing stock.

Key industrial takeaways



Industrial supply

- Approximately **63.8 percent** of the square footage under construction are buildings greater than 500k square feet.
- The overall vacancy rate for the Philadelphia industrial market has continued to weaken with vacancy now at a twenty-year record low of **4.5 percent**.



Pricing trends

- In 2021, Industrial base rents psf **increased by \$1.44 or 23.9 percent** year-over-year.
- Healthy demand and exceptionally tight supply led to a decrease in free rent concessions and tenant improvement allowances by **40 percent through Q4 2021**.



Capital markets

- Philadelphia Industrial **investment activity has surged to \$6.5B** since 2020 as investors have been attracted to the sector's strong underlying fundamentals.
- Pricing for Philadelphia industrial assets **rose by 28.4 percent** as demand for industrial properties remained elevated.

Employment and unemployment rate

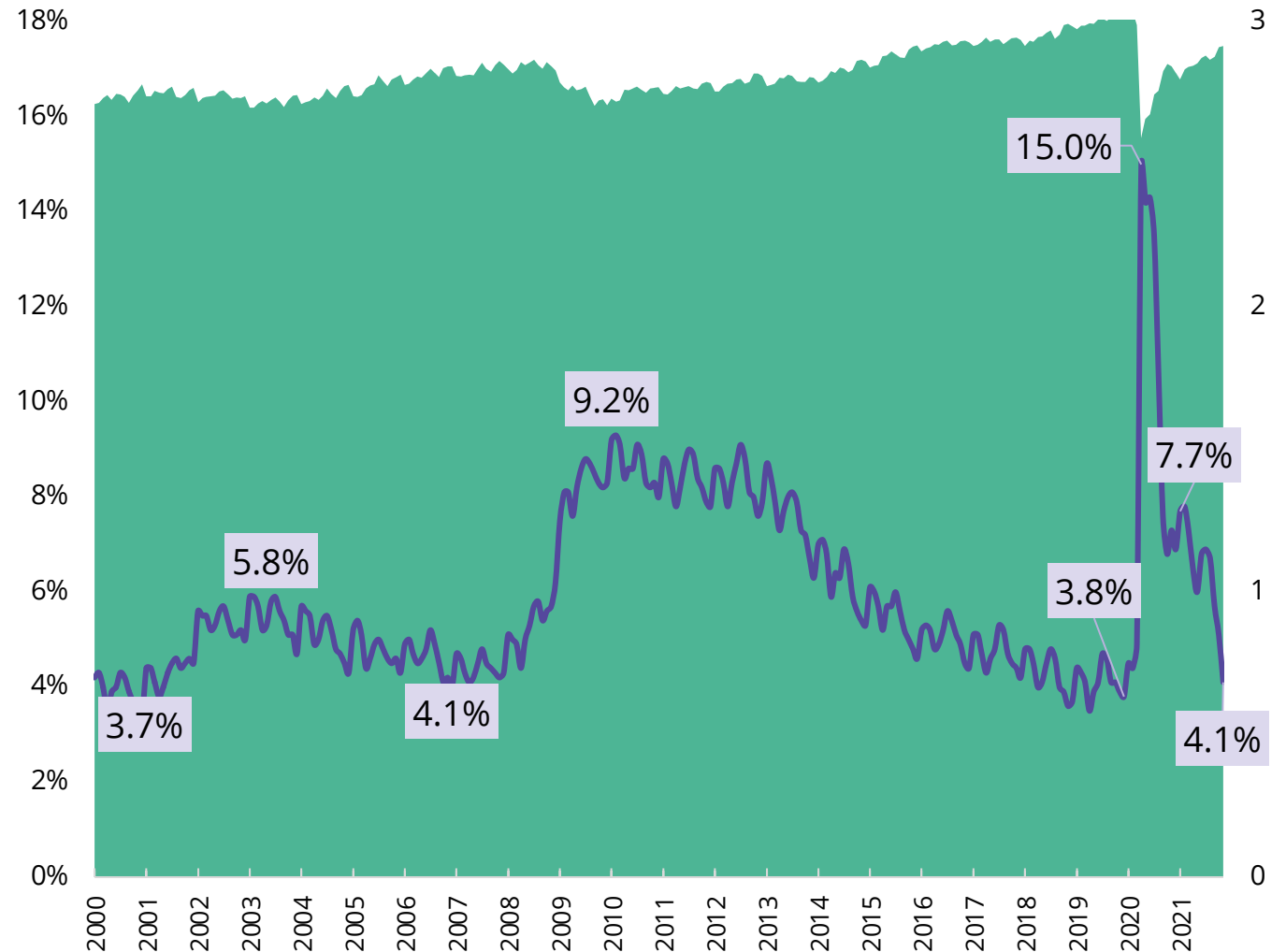
4.1%

Philadelphia unemployment rate in November 2021, nearing pre-pandemic levels.

Unemployment rates have continued to decrease as more employers seek to increase employee capacities. Philadelphia is among the cities that has seen many workers change jobs in response to decreasing economic stimulus packages provided by the federal government.

Unemployment %

Employment (millions)



Source: Bureau of Labor Statistics

Employment and unemployment rate

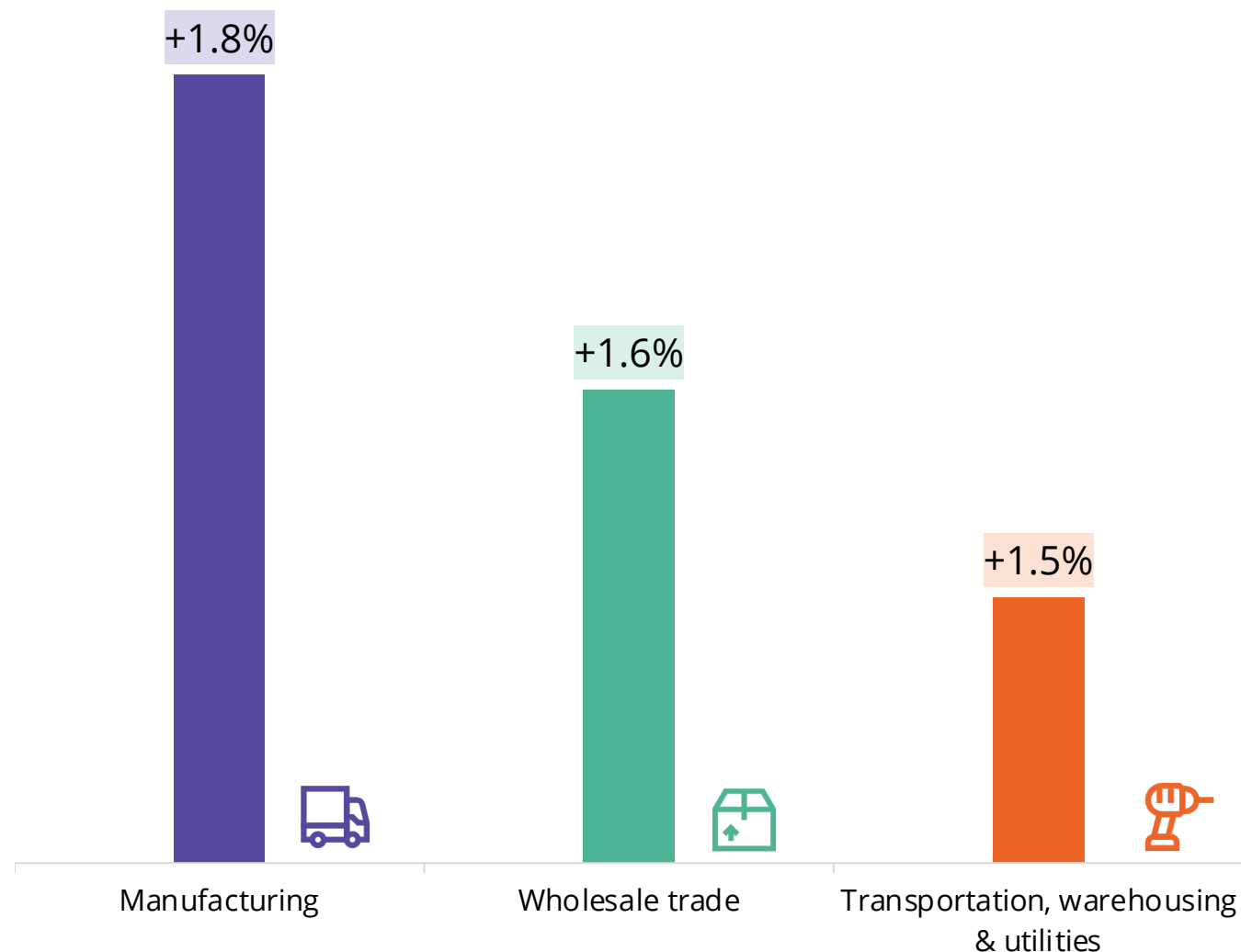
+2.9%

change in Philadelphia industrial employment from January 2021 to November 2021.

Philadelphia's industrial labor market has expanded by 1.5% year-over-year, demonstrating its continued dependency on the blue-collar. Employment in all three major industrial job sectors is up year-over-year, with Manufacturing jobs leading the way with 1.8% growth.

Total change in Philadelphia MSA job gains and losses

November 2020 to November 2021



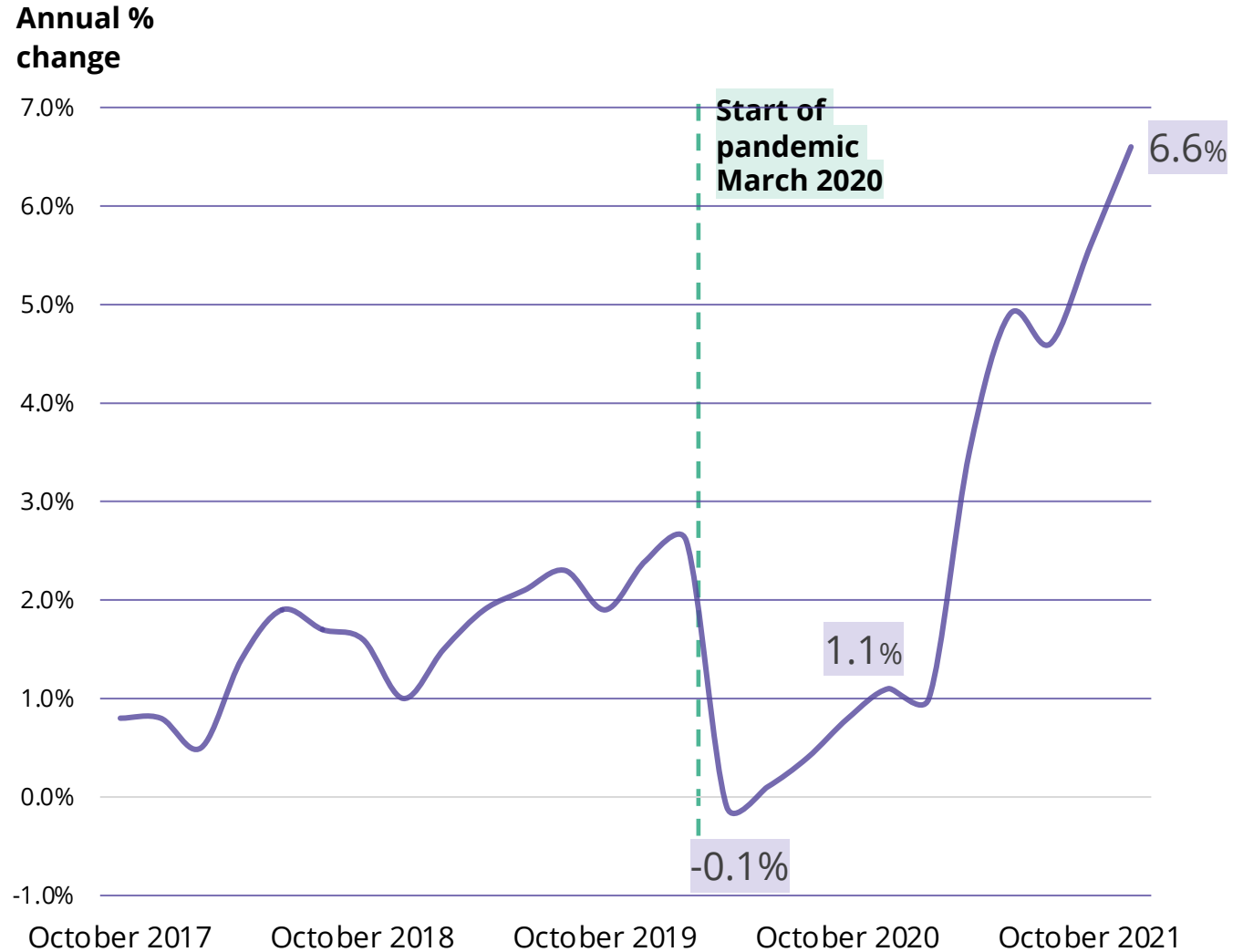
Source: Bureau of Labor Statistics

Consumer prices and inflation rates

+6.6%

year-over-year change in Consumer Price Index for Philadelphia, all items.

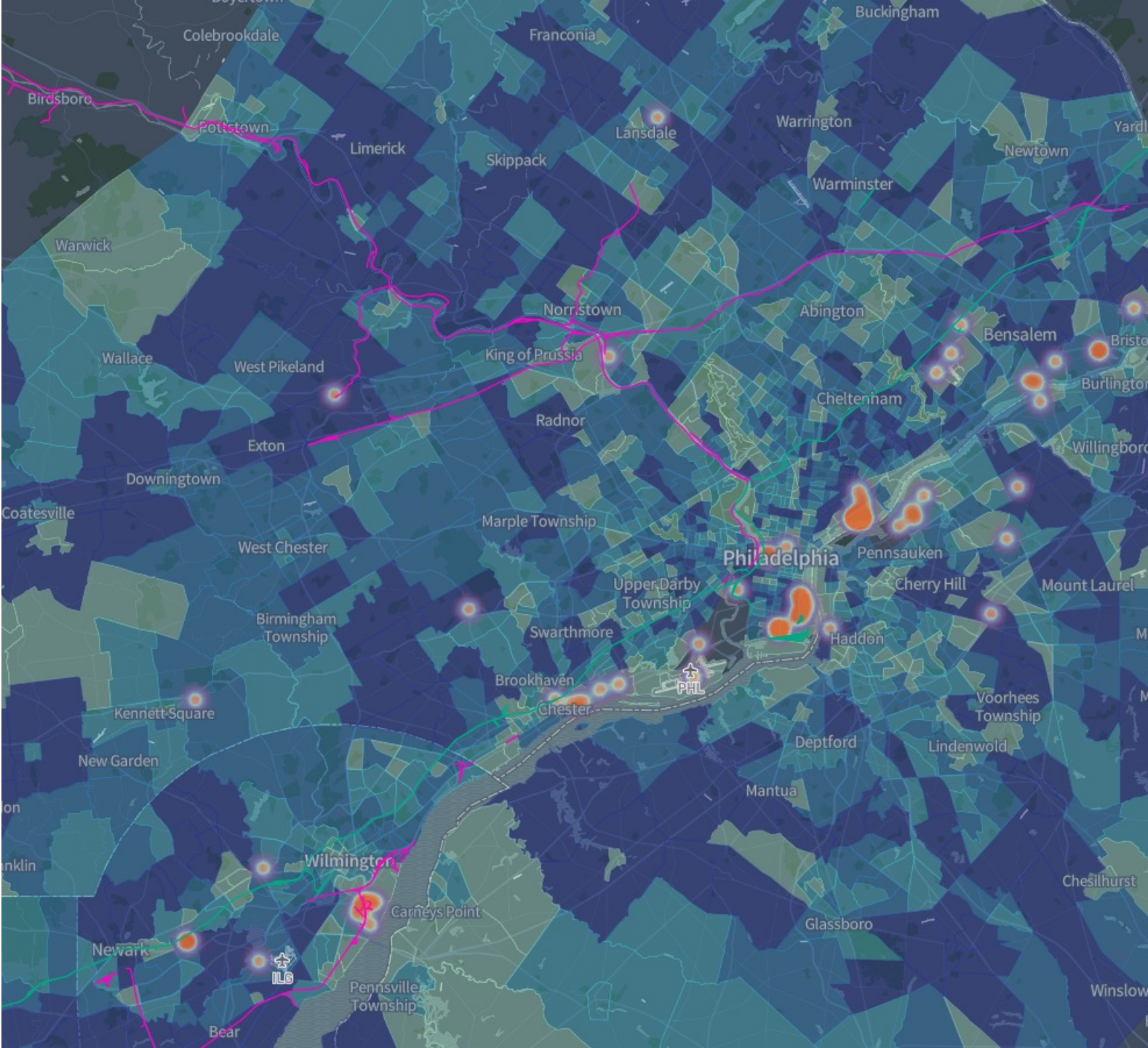
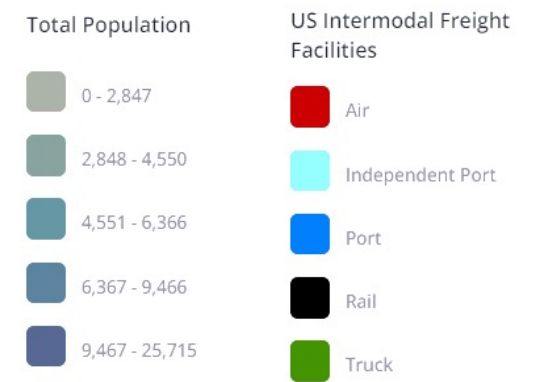
Over the year, the energy index increased 25.1%. This can be attributed to gasoline prices increased 37.4%, utility gas service increasing 21.8% which is the highest amount since 2006. Over the year, the index for all items less food and energy increased by 5.6%. Lingering supply chain disruptions have impacted many sectors and could keep inflation at higher-than-normal levels.



Note: Not seasonally adjusted Metropolitan Statistical Area data
Source: Bureau of Labor Statistics

Freight rail and intermodal facilities

Toggle heatmap

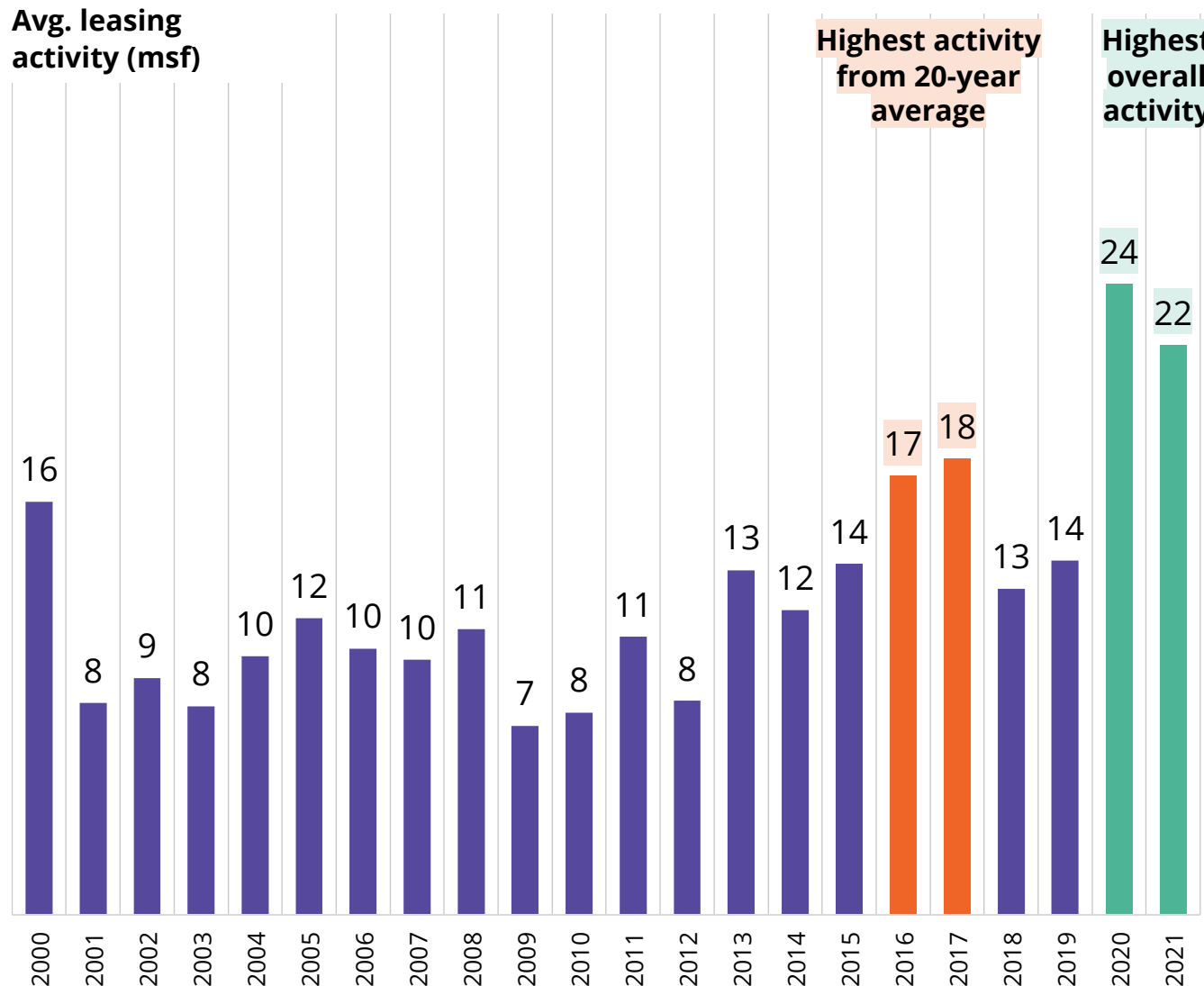


Industrial leasing activity

2.0x

2020-2021 vs. prior 20-year annual average leasing activity.

Leasing activity has accelerated during the pandemic, with 2020 reaching a 20-year high and 2021 closely following behind.

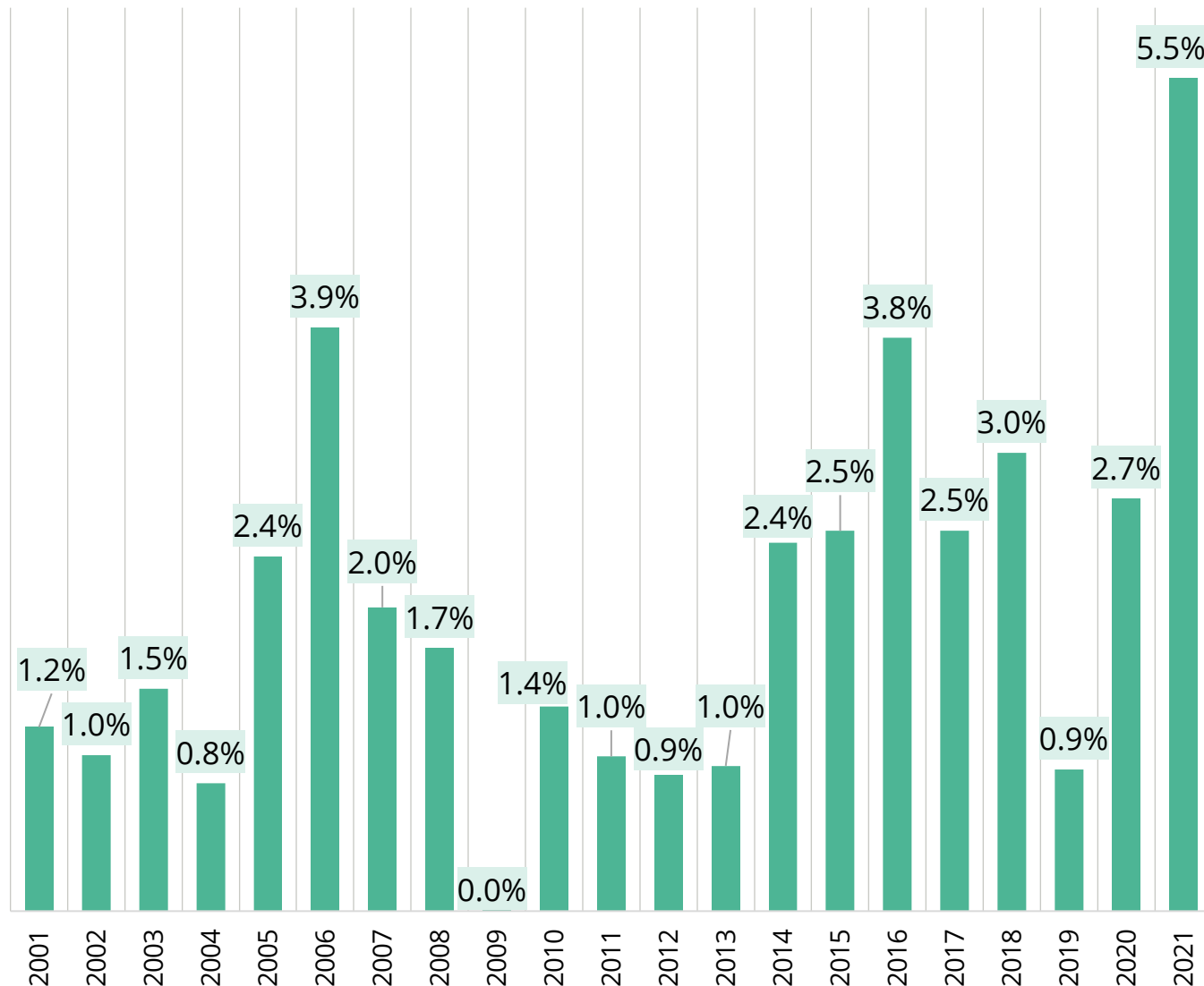


Industrial net absorption

8.2%

net absorption as a percentage of inventory, from 2020 to 2021.

Absorption in Philadelphia has totaled almost 45.0 msf, or 5.5% of the existing stock – a post-2001 record.

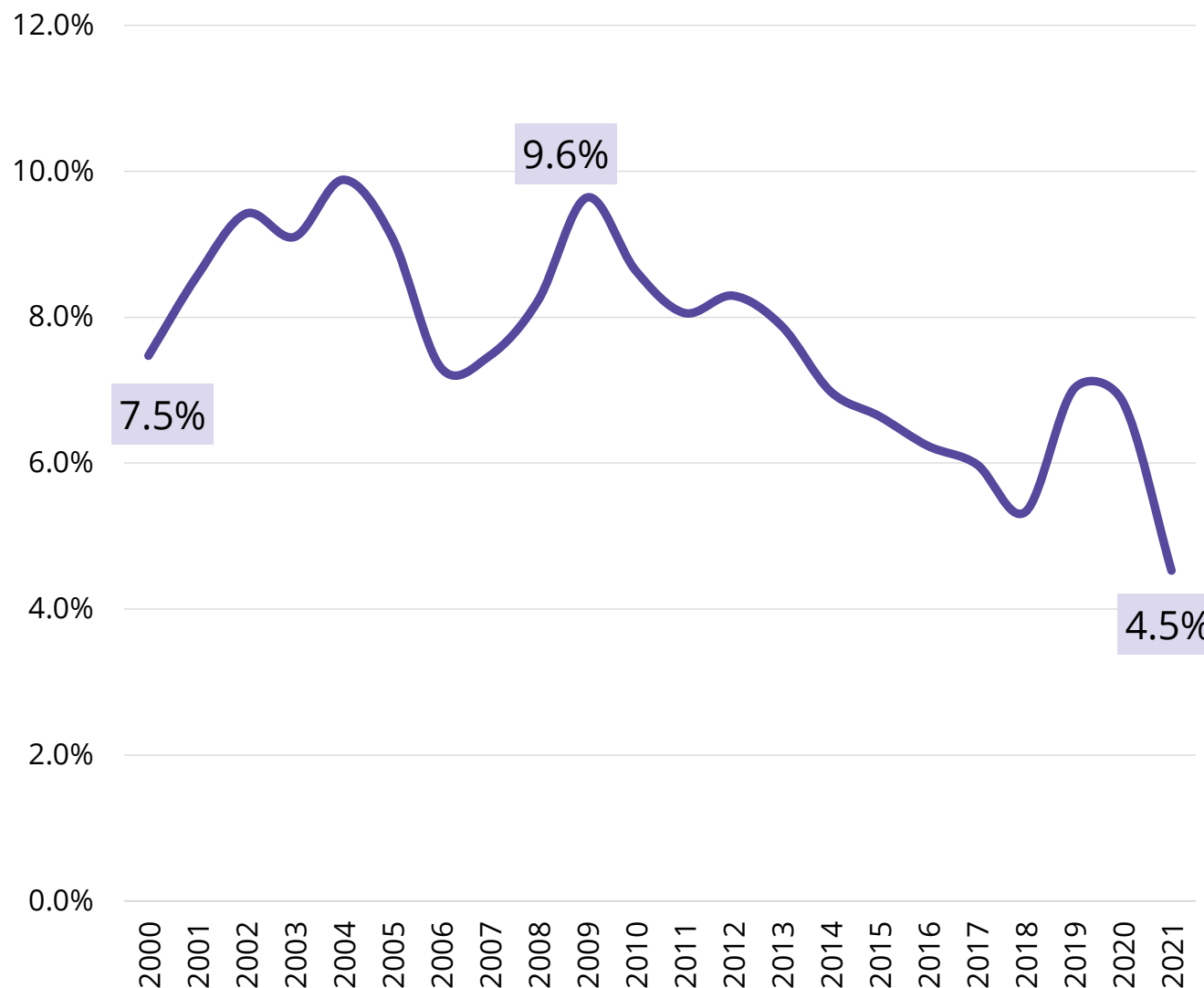


Industrial vacancy rate

4.5%

Philadelphia MSA vacancy rate as of year-end 2021.

Across the Philadelphia MSA, the vacancy rate has compressed (-33.8%) year over year and has fallen to a 20-year record low of 4.5%.



Source: CoStar

Industrial development pipeline

76 properties

proposed, under construction / renovation
over 500k sf

63.8%

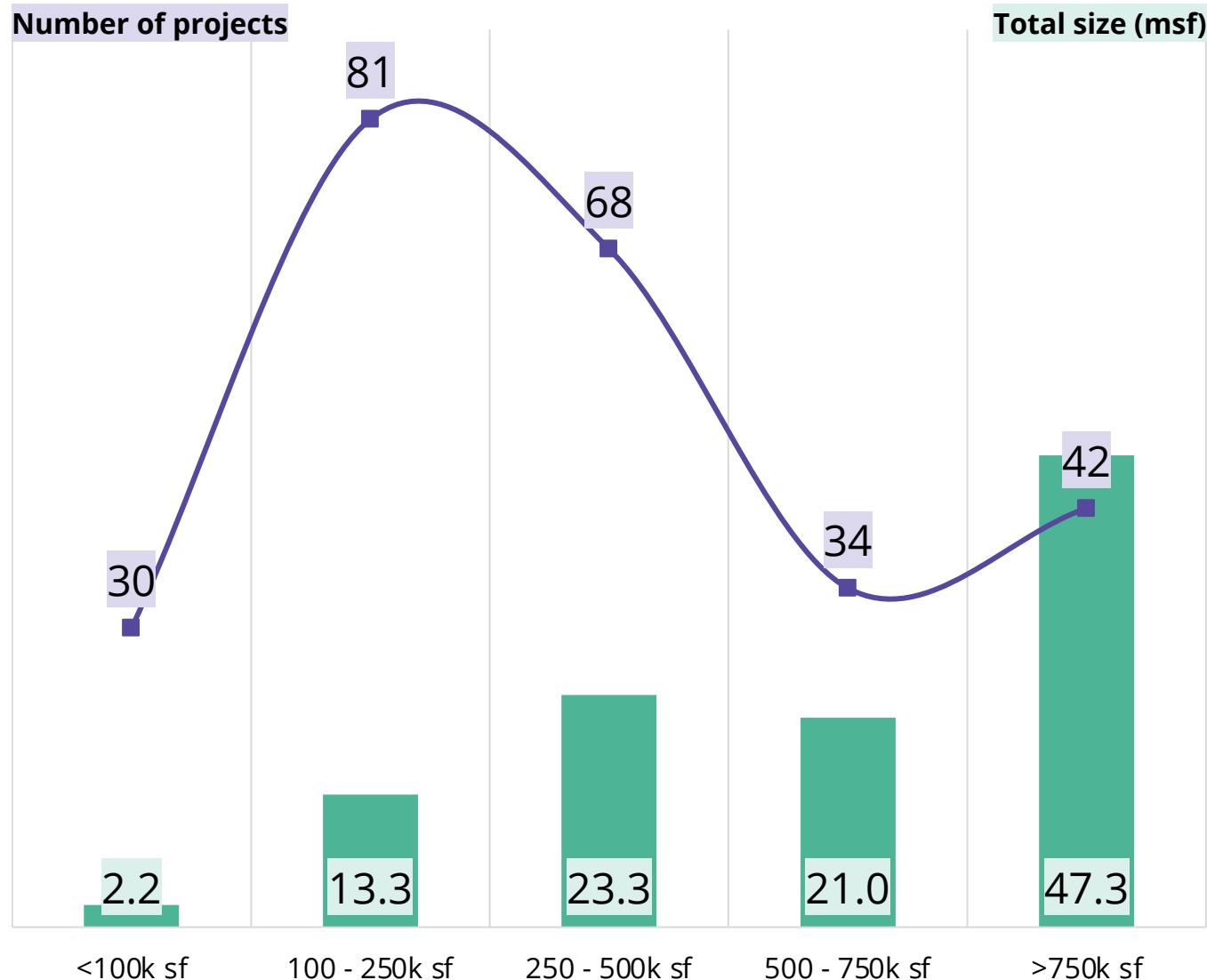
proposed, under construction / renovation
over 500k sf

44 properties

proposed, under construction / renovation
over 750k sf

44.2%

proposed, under construction / renovation
over 750k sf



Source: AVANT by Avison Young

Industrial development pipeline

255 properties

proposed, under construction / renovation

107.1 msf

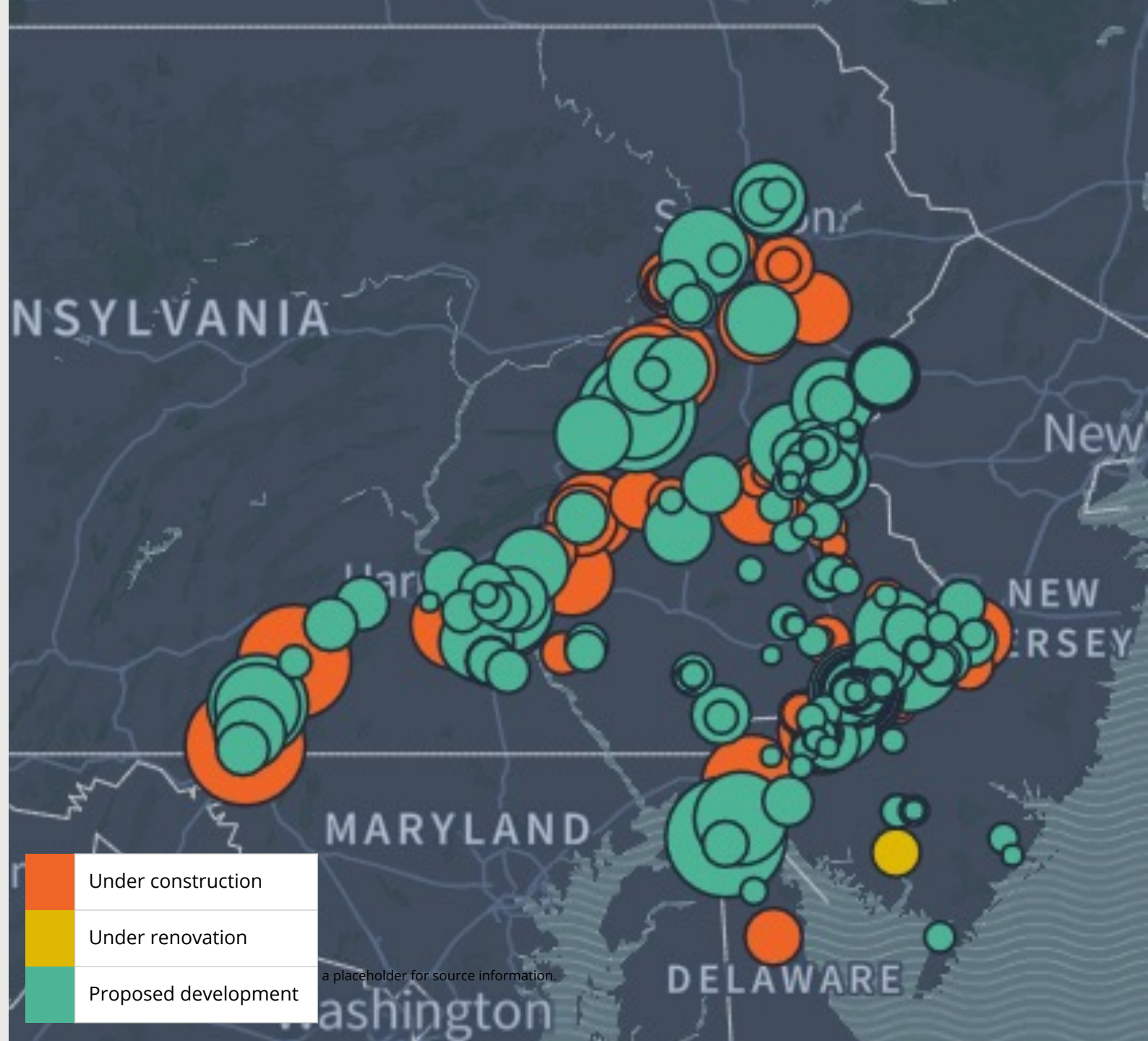
proposed, under construction

12.4%

share of industrial inventory

Burlington

has the most ground-broken projects at 16

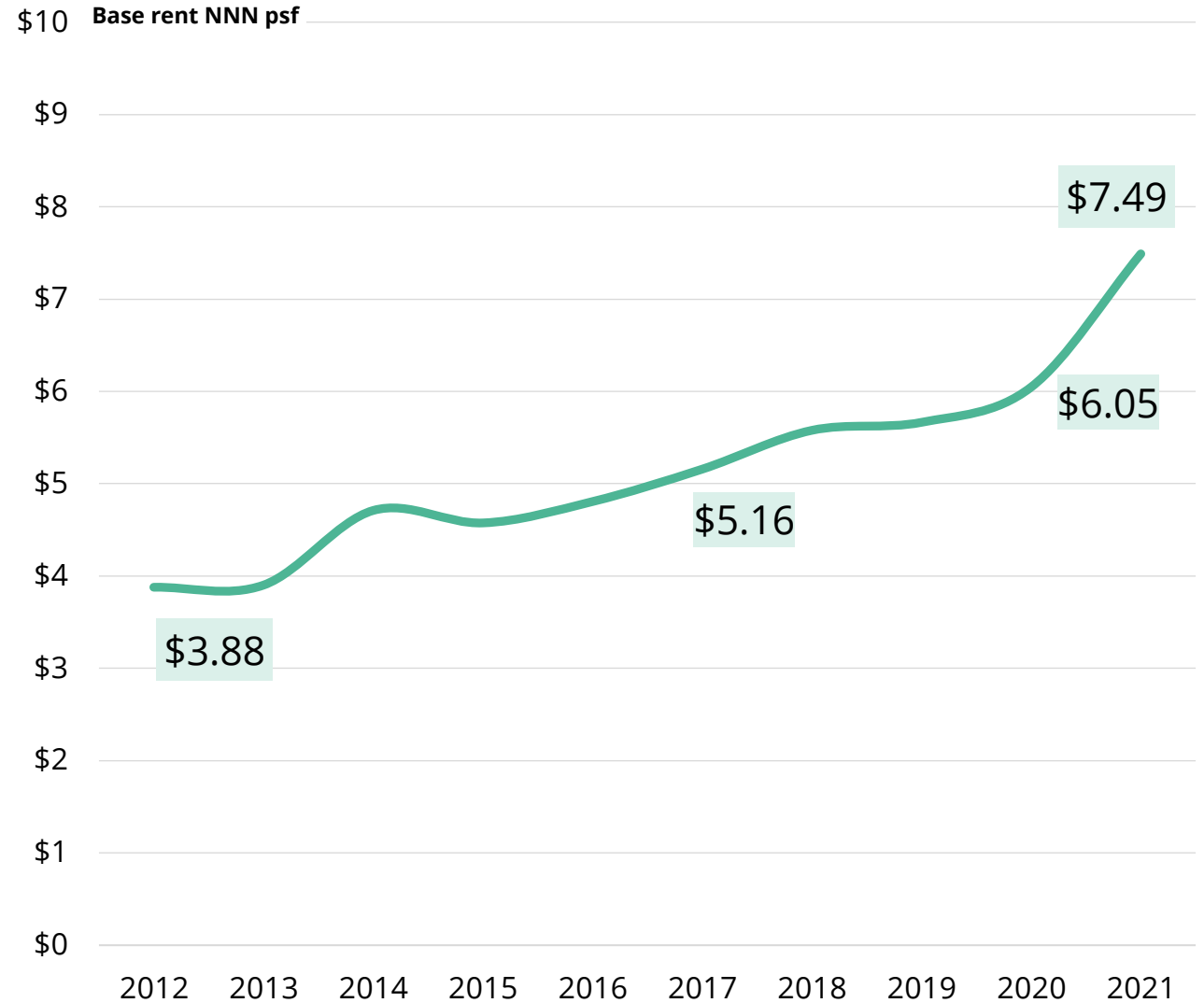


Industrial base rents

+23.9%

year-over-year increase in base rents for industrial assets.

Industrial base rents have increased each year since 2015, embodying how demand has consistently outstripped demand. In 2021, rents increased by \$1.44 psf or 23.9% year-over-year.

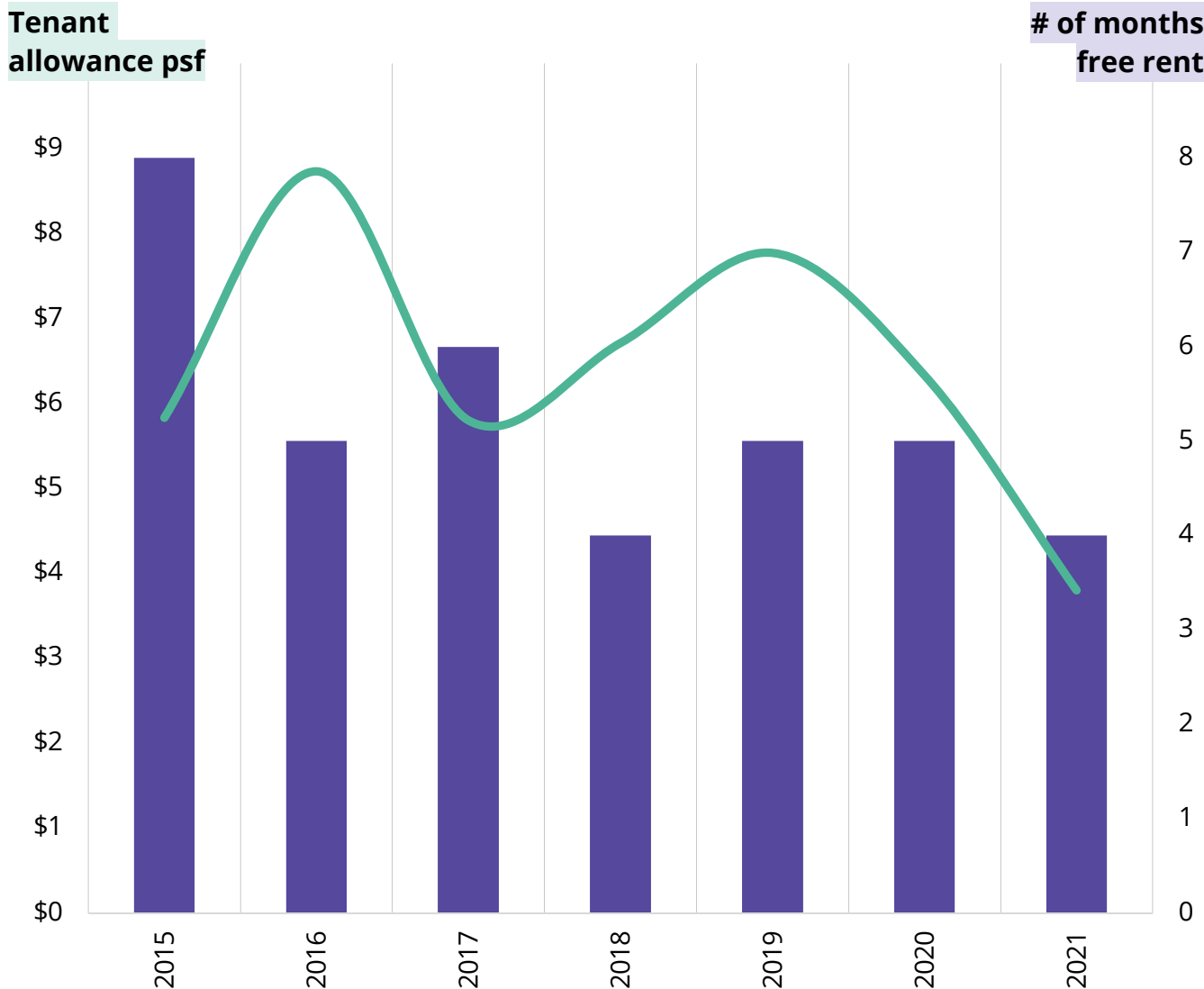


Industrial concessions packages

-40.0%

year-over-year change in tenant improvement allowances.

Tenant improvement allowances decreased by 40.0% to an average of \$3.80 psf from 2020 to 2021. Average free rent periods of 4 months are being offered for 10-year lease terms.



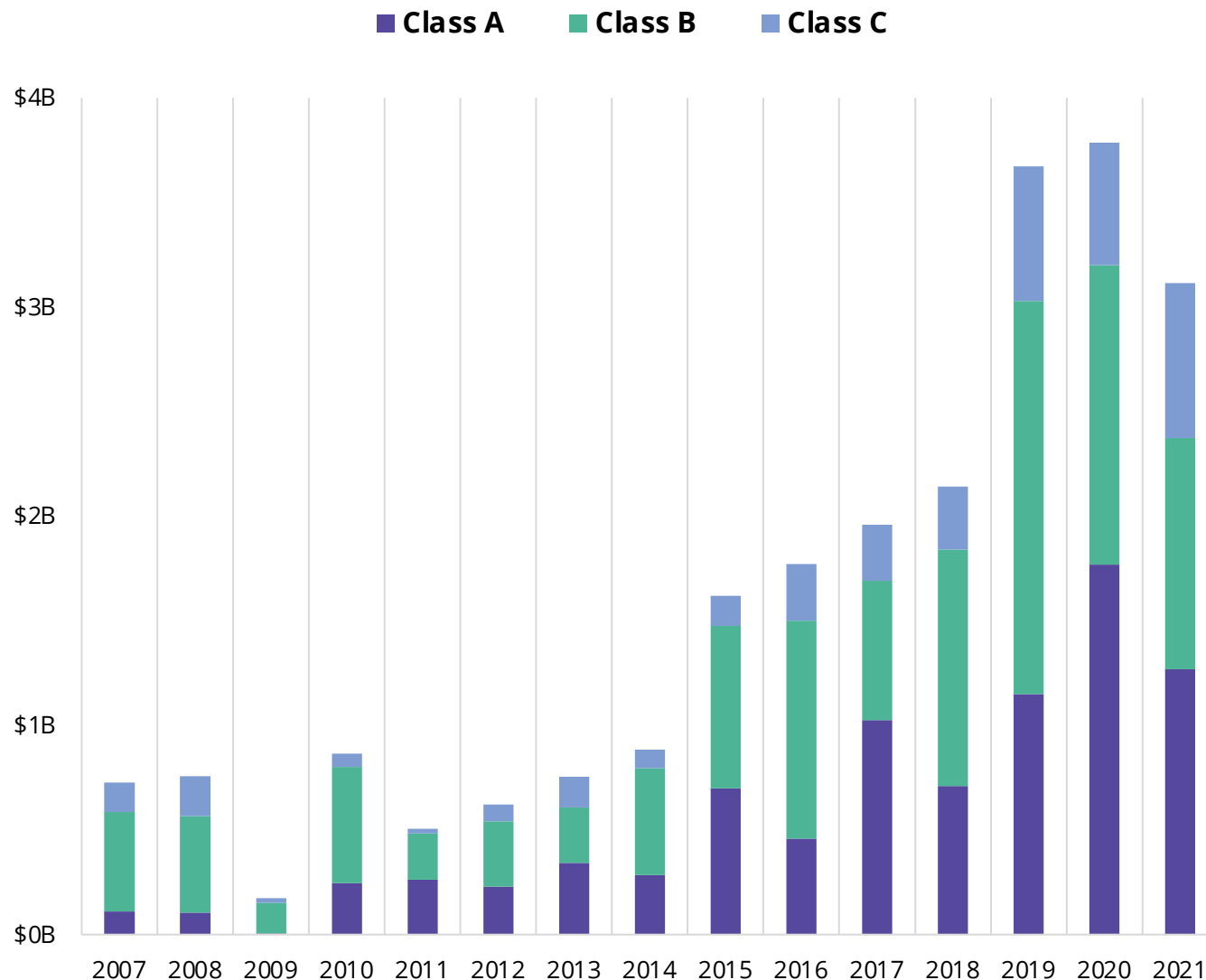
Source: AVANT by Avison Young

Industrial investment dollar volume

\$6.5B

Philadelphia industrial dollar volume from 2020 to 2021.

Investment volume dipped below 2020 levels but remain healthy compared with pre-2019 levels. Sales volume may continue to increase as a result of continued uncertainties regarding potential changes to federal capital gain taxes, strong underlying occupier fundamentals and near-record levels of uncommitted capital.

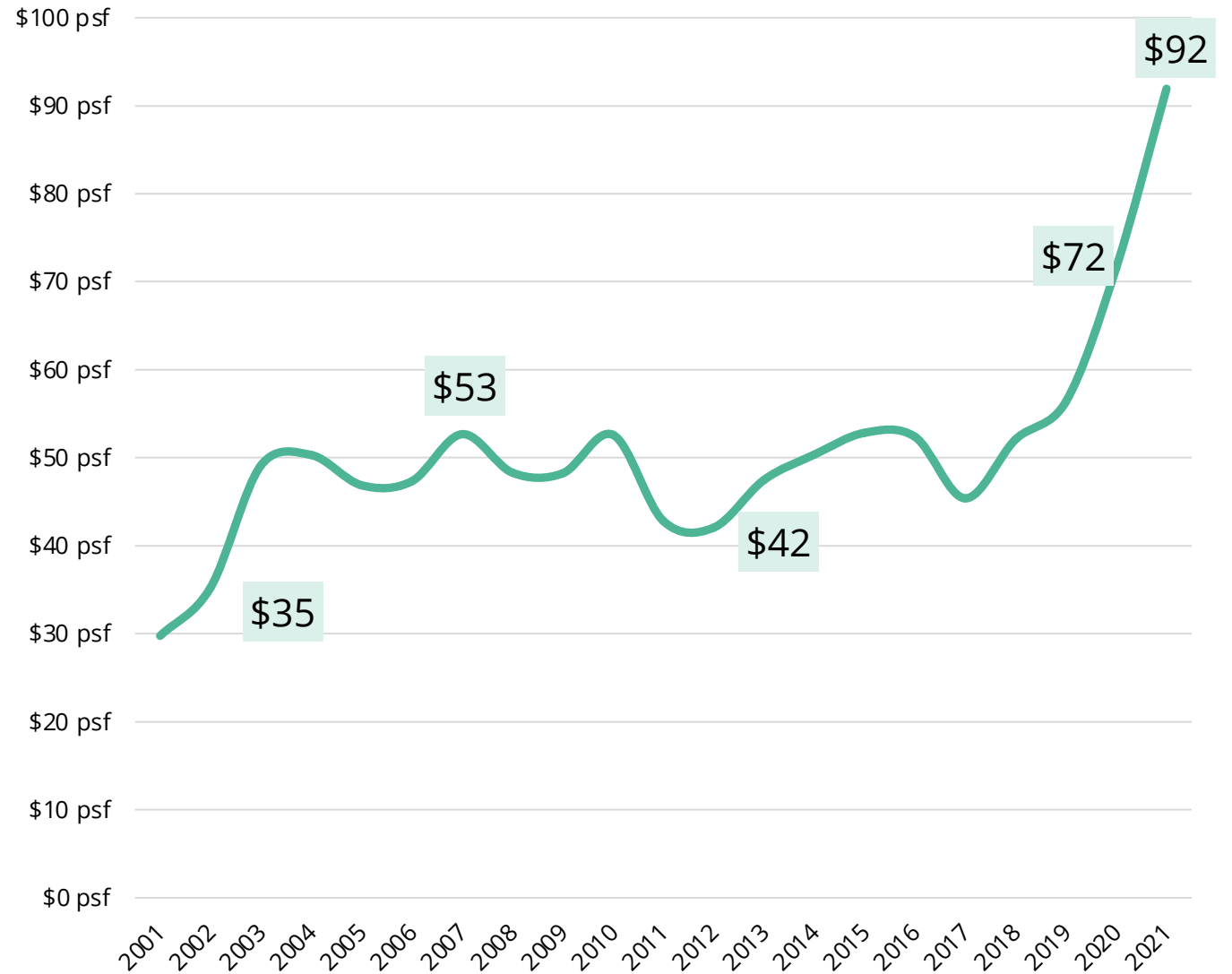


Industrial asset pricing

+28.4%

Philadelphia industrial pricing from 2020 to 2021, including Class A, B, and C vacant building sales.

Pricing for Philadelphia industrial assets has continued to rise as demand for industrial properties remained elevated.



Now, let's see what we can expect looking forward

New Jersey and Philadelphia
industrial insight report
Q4 2021



Here's what we can expect looking forward

- **Shorter deal terms are becoming more appealing for landlords** as they can reset rents on a more frequent pace. This is being seen through 5-7 year deals as opposed to 10 year deals.
- **The lease term on value-add sale- lease-back transactions should shorten** as investors look to upgrade their properties and capitalize on rising rental rates.
- **Sales volumes are likely to rise** in 2022 in both the New Jersey and Philadelphia markets.
- There is an **unprecedented amount of activity** in the sector due to post Covid industrial demand.
- Even with the significant scale of projects in the development pipeline, **demand is expected to continue to outstrip supply.**
- There is a major shift underway for antiquated **office buildings being redeveloped into industrial projects** as the market for industrial space continues to develop.



You have questions. We have answers.

New Jersey and Philadelphia
industrial insight report
Q4 2021



Get in touch

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Explore the latest data and insights

The retail vitality index

Measuring retail activity and how people shop

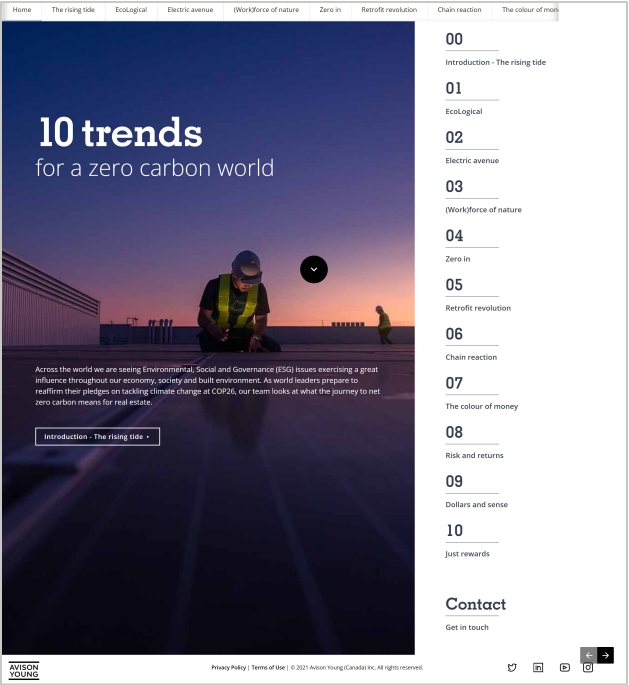
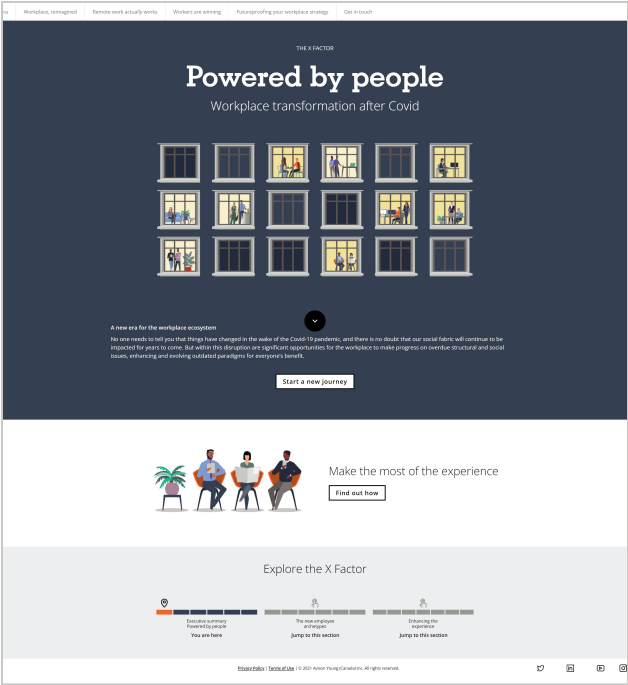
Our team analyzes how in-person and online shopping habits have evolved across North America using cell phone mobility data.

U.S. employment overview

Tracking trends in real-time

Our team takes a look at real-time movement of people in major cities across North America, and how the volume of foot traffic compares to pre-pandemic levels.

Deep-dive into the thought capital shaping real estate



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