

AVISON YOUNG

New Jersey and Philadelphia industrial insight report

Q2 2021

AVANT
by AVISON YOUNG



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U.S. industrial drivers

NEW JERSEY AND PHILADELPHIA

INDUSTRIAL INSIGHT REPORT

Q2 2021

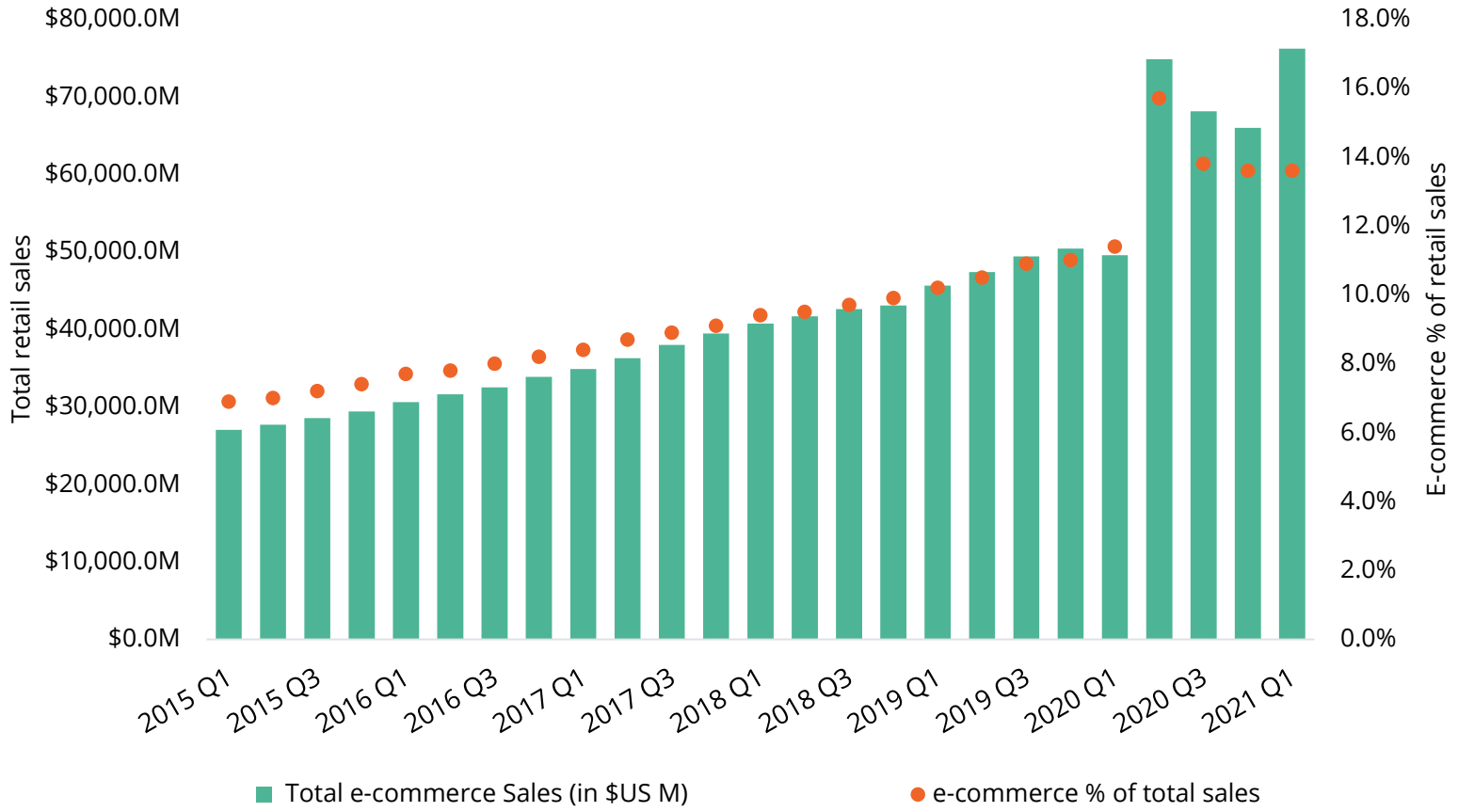
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U.S. total retail and e-commerce sales

15.7%

E-commerce share of overall retail sales in Q1 2021

Demand for e-commerce surged during the initial shock of lockdowns, driving industrial demand to record levels. As the economy begins to reopen, the rate of e-commerce growth is nearly double pre-COVID levels, suggesting accelerated e-commerce demand is sustainable.



Source: Federal Reserve Bank of St. Louis

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Property type job gains and losses

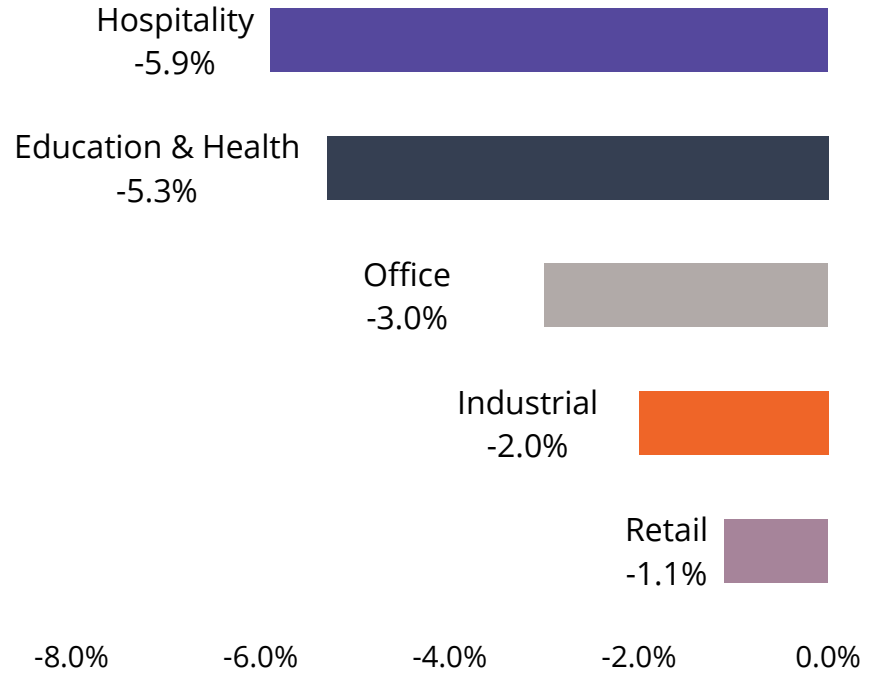
-2.9%

Change in total industrial employment during the pandemic

Post-COVID industrial job losses have been mild compared with other segments of the labor market, underscoring the industry's comparative strength as cities and economies reopen.

VIEW DASHBOARD

Total change in U.S. job gains/(losses)
February 2020 to May 2021



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

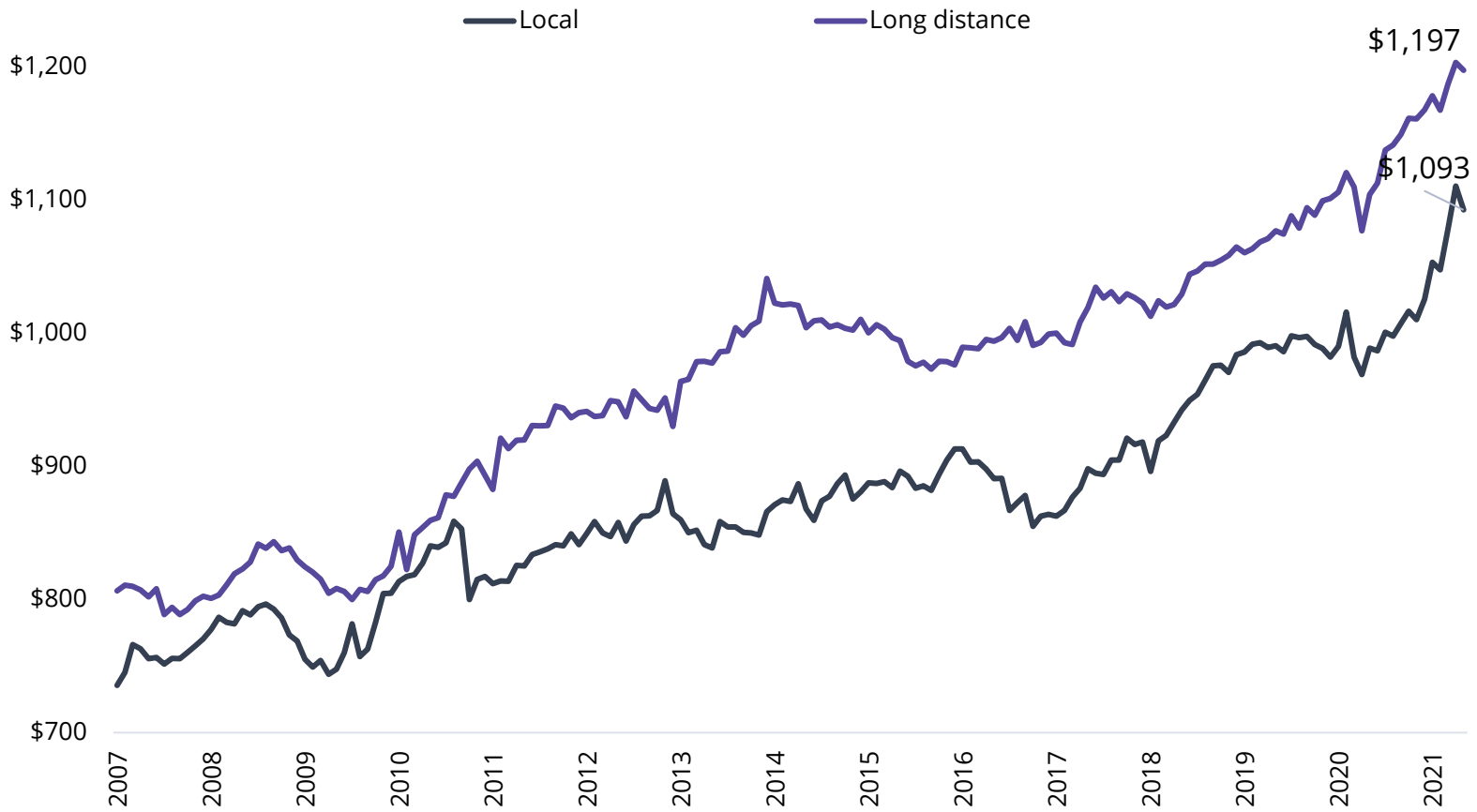
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Weekly earnings for U.S. trucking employees

+10.5%

Annual change in local trucking weekly earnings, 2007 to 2021

As employers compete to fill vacant positions, wage pressure for trucking has accelerated sharply over the past 15 months. Initially focused on long-distance truckers in the early stages of the pandemic, the trend has increasingly spread to local trucking.



Source: Bureau of Labor Statistics

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New Jersey market fundamentals

NEW JERSEY AND PHILADELPHIA INDUSTRIAL

INSIGHT REPORT

Q2 2021

Key industrial takeaways

Economic conditions

- Industrial jobs have risen **9.5 percent** since April 2020 with Mining, Logging and Construction leading the way with 14.2 percent growth.
- The New Jersey labor participation rate was **62.5 percent** as of June 2021, decreasing by 220 basis points since February 2020.

Recovery rate

- Reopening efforts and high vaccination rates have allowed the New Jersey unemployment rate to rebound from a high of 16.6 percent in April 2020 to **7.0 percent** in May 2021.
- Total year-to-date cargo volume is up **31.4 percent** at the Port of New York and New Jersey compared with the prior five-year year-to-date average.

Industrial demand

- Annualized leasing activity has been sustained throughout the pandemic, currently sitting at **7.8 percent** over the prior 20-year annual average.
- At **6.1 million square feet**, net absorption has been strong during the first half of the year. If the market continues to absorb space at this pace, this measure could surpass the 20-year high reported in 2018.

Key industrial takeaways

Industrial supply

- Approximately **47.1 percent** of the square footage under construction are buildings greater than 750K square feet.
- The overall vacancy rate continued to drop with vacancy at a 15-year low of **3.2 percent**.

Pricing trends

- Base rents have increased by **13.8 percent** since the start of the pandemic and have continued a steady upward trajectory since 2015.
- Landlord-favorable market conditions have caused concessions rates to steadily decline in recent years and are now approximately **$1.25 per square foot** and 1-month free rent on a 10-year deal.

Capital markets

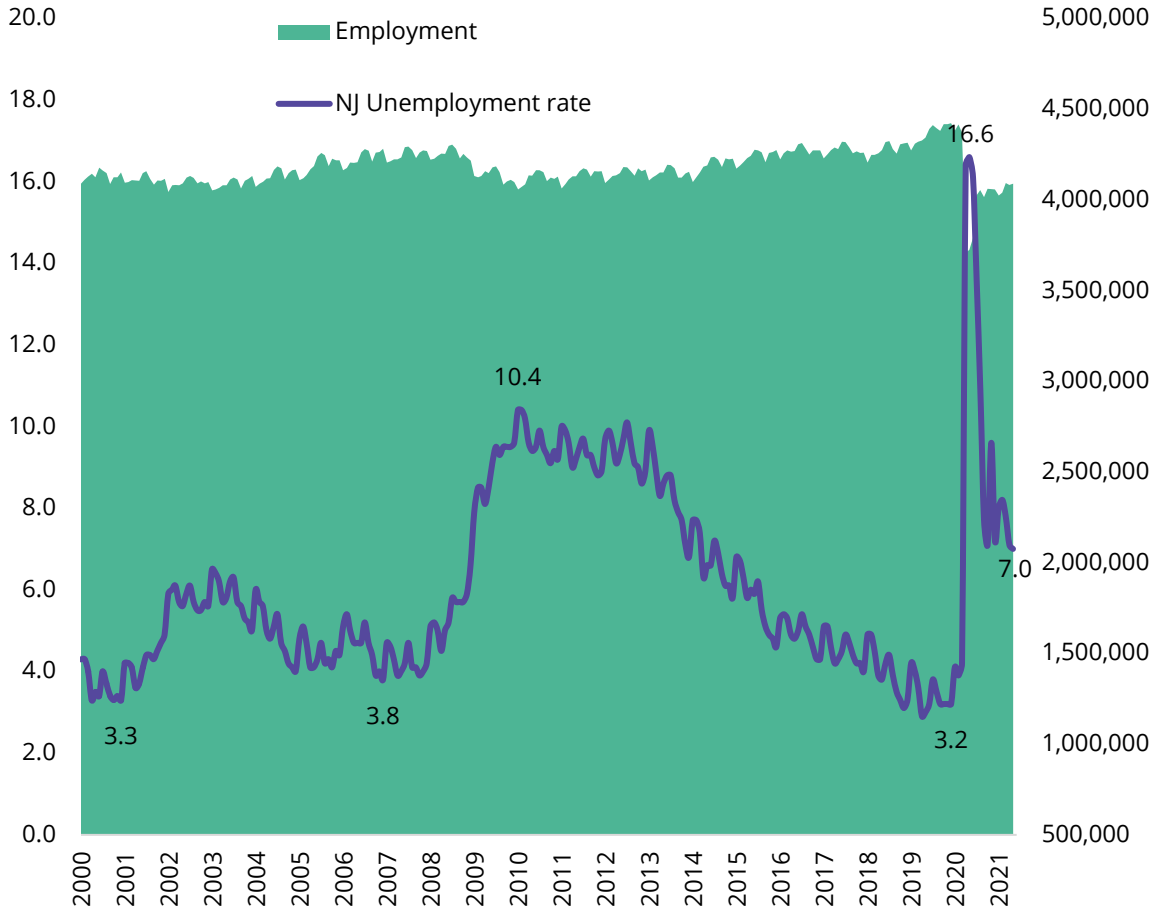
- Industrial investment activity stayed strong at **$3.9 billion since 2020** as investors are attracted to the sector's fundamentals that largely benefited from the COVID environment. However, the lack of supply on the sales side may prevent dollar volumes from escalating in the near term.
- The lack of supply and investors' attraction to the sector also translated into higher valuations, which increased by **31.4 percent** since Q1 2020.

Employment and unemployment

7.0%

New Jersey unemployment rate as of May 2021

Historically tightened labor market conditions were halted by the pandemic with nearly 705,000 jobs lost between February and April 2020. However, nearly 380,000 jobs returned since the employment low reported in April 2020.



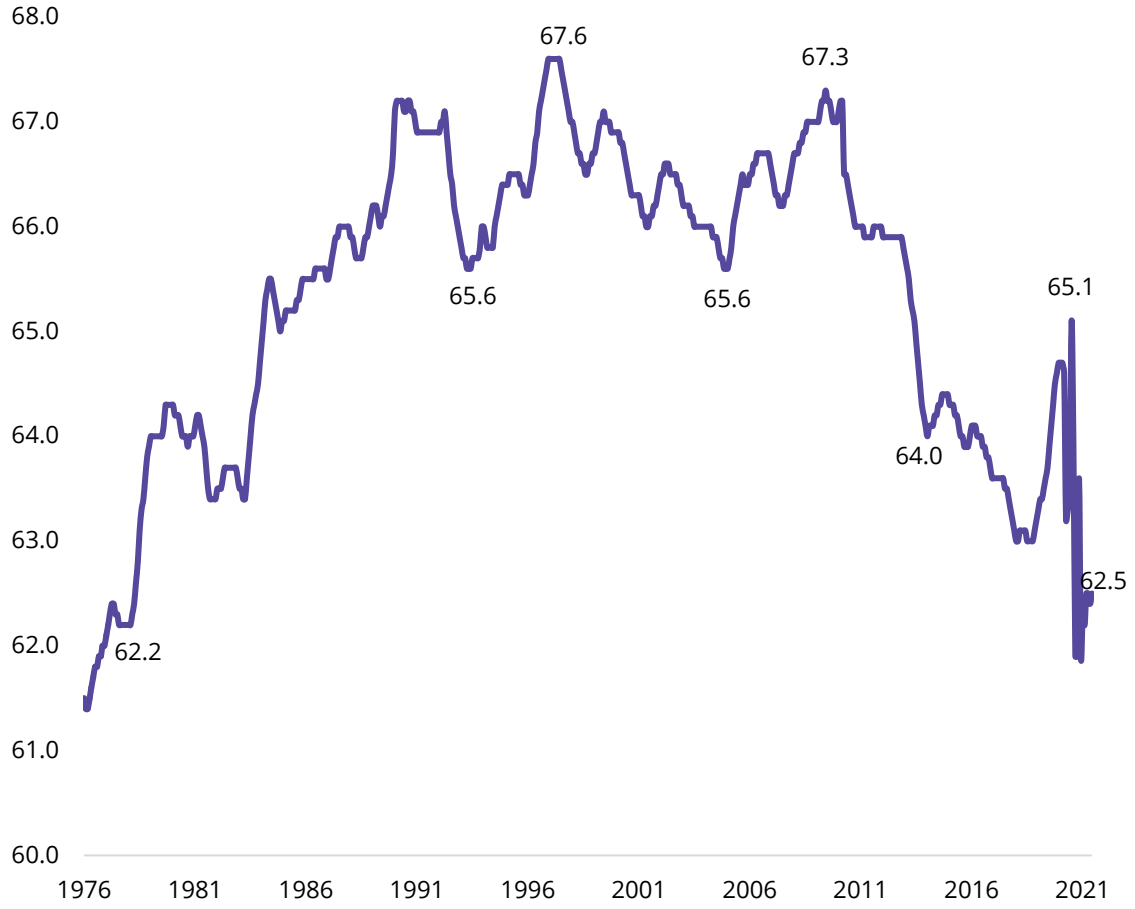
Note: Not seasonally adjusted data. State of New Jersey.
Source: Bureau of Labor Statistics

Labor force participation rate

62.5 %

New Jersey labor force participation rate as of June 2021, falling 220bp since February 2020

The post-pandemic New Jersey labor force participation rate achieved levels not seen since 1978 but has rebounded by 60bp since September 2020. More adults are expected to return to the labor force after Labor Day, when children are likely to return to class and unemployment benefits are likely to expire.



Note: Not seasonally adjusted data. State of New Jersey.
Source: Bureau of Labor Statistics

Property type job gains and losses

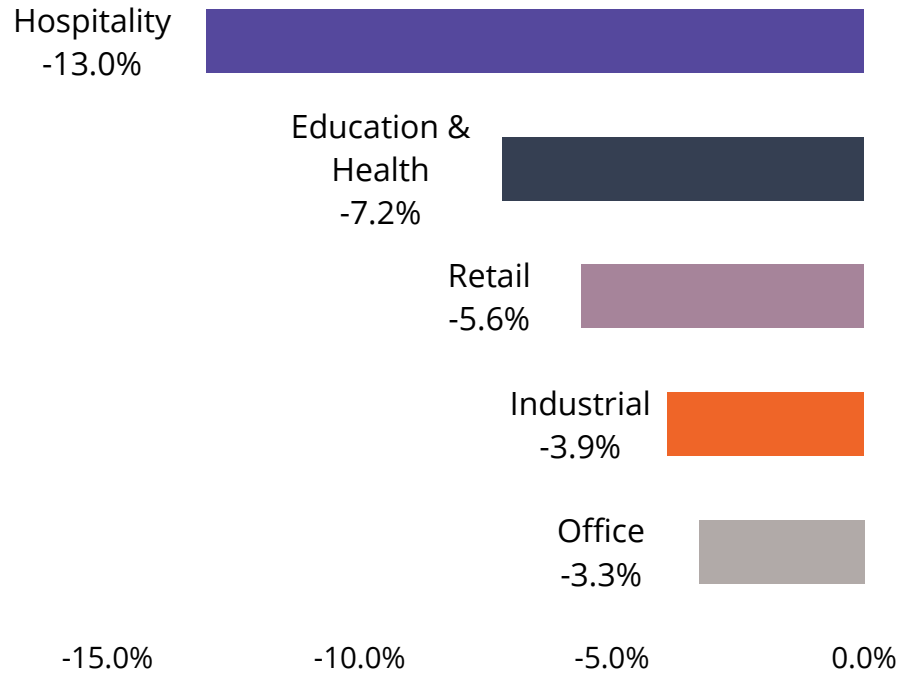
-5.2%

Change in total employment during the pandemic

The New Jersey area lost 5.2% of its total labor force since the pandemic began, though industrial losses were comparatively subdued. Industrial job gains in recent months demonstrate that a significant recovery is likely in that sector in the near term.

VIEW DASHBOARD

Total change in New Jersey job gains/(losses)
February 2020 to May 2021



Note: Not seasonally adjusted data. State of New Jersey.
Source: Bureau of Labor Statistics

Industrial job losses

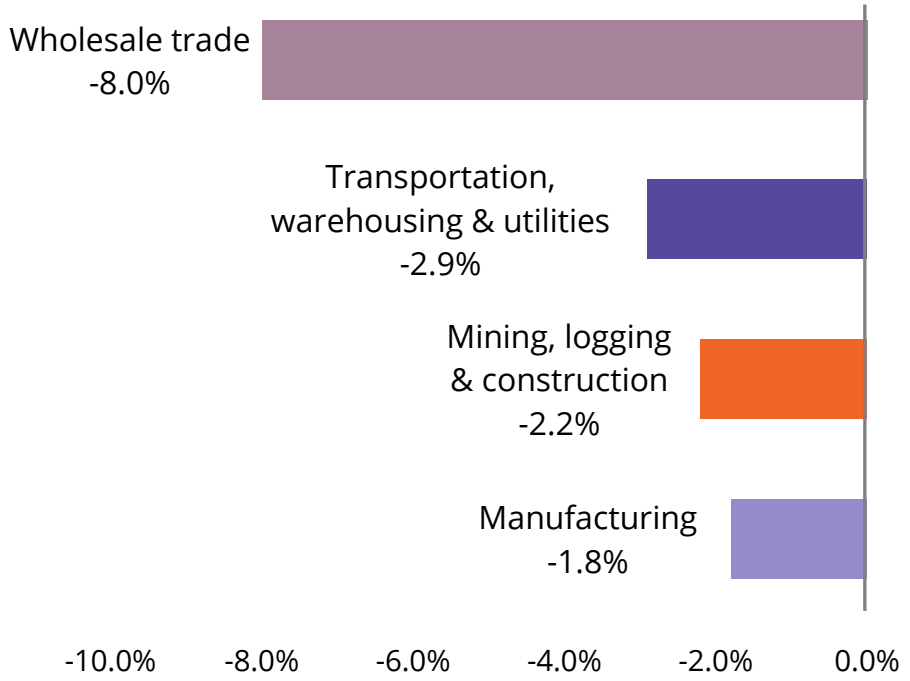
-3.9%

Change in industrial employment during the pandemic

New Jersey lost 3.9% of industrial employment since the pandemic began, anchored by a sharp decline in jobs early in 2020. However, Since April 2020, the market has recovered 9.5% of those losses, specifically in the Mining, Logging & Construction sector.

VIEW DASHBOARD

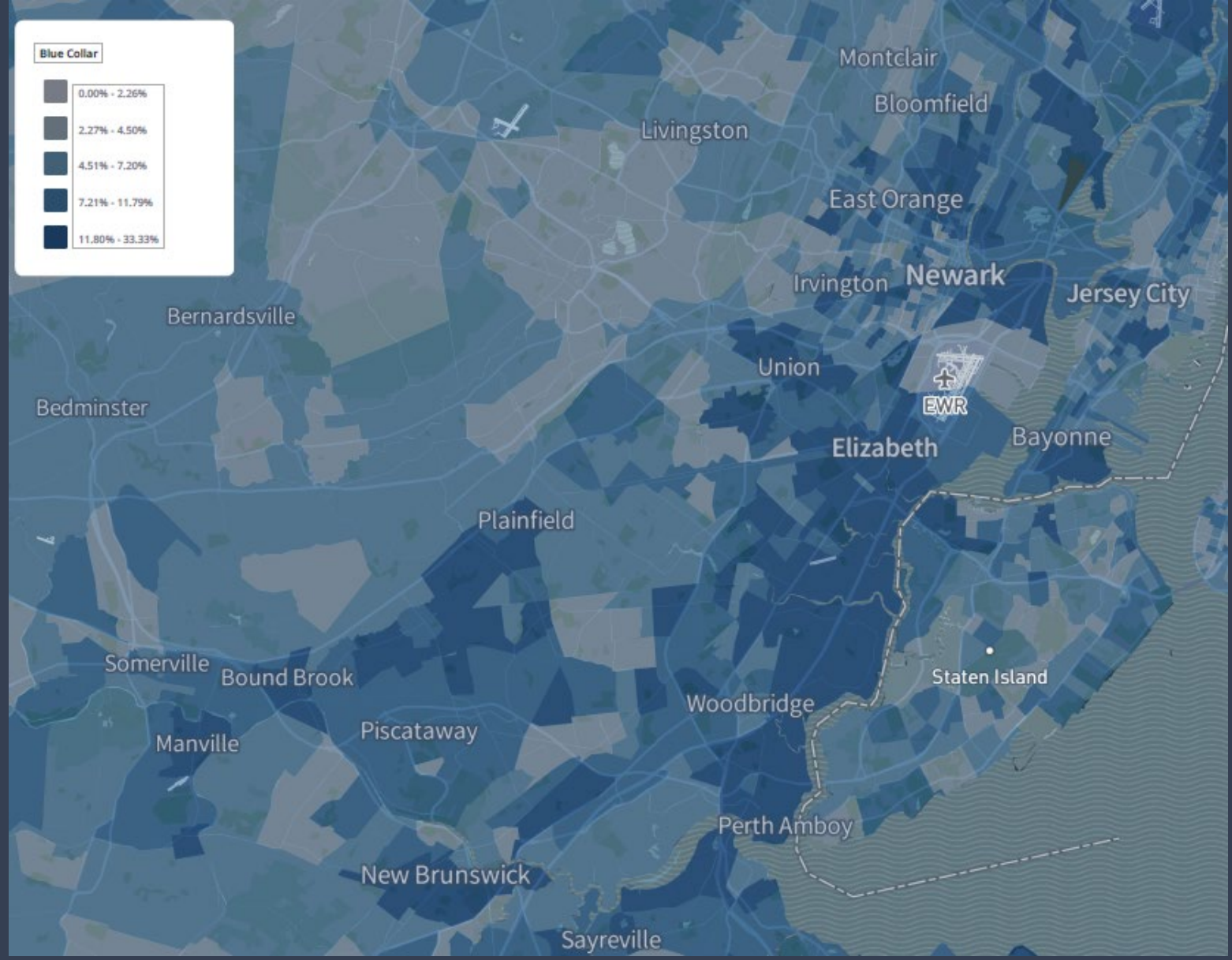
Total change in New Jersey job gains/(losses)
February 2020 to May 2021



Note: Not seasonally adjusted data. State of New Jersey.
Source: Bureau of Labor Statistics

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Blue-collar workforce concentration



Source: AVANT by Avison Young, ESRI
Large pockets of blue-collar workforce are found throughout New Jersey's largest Industrial submarkets

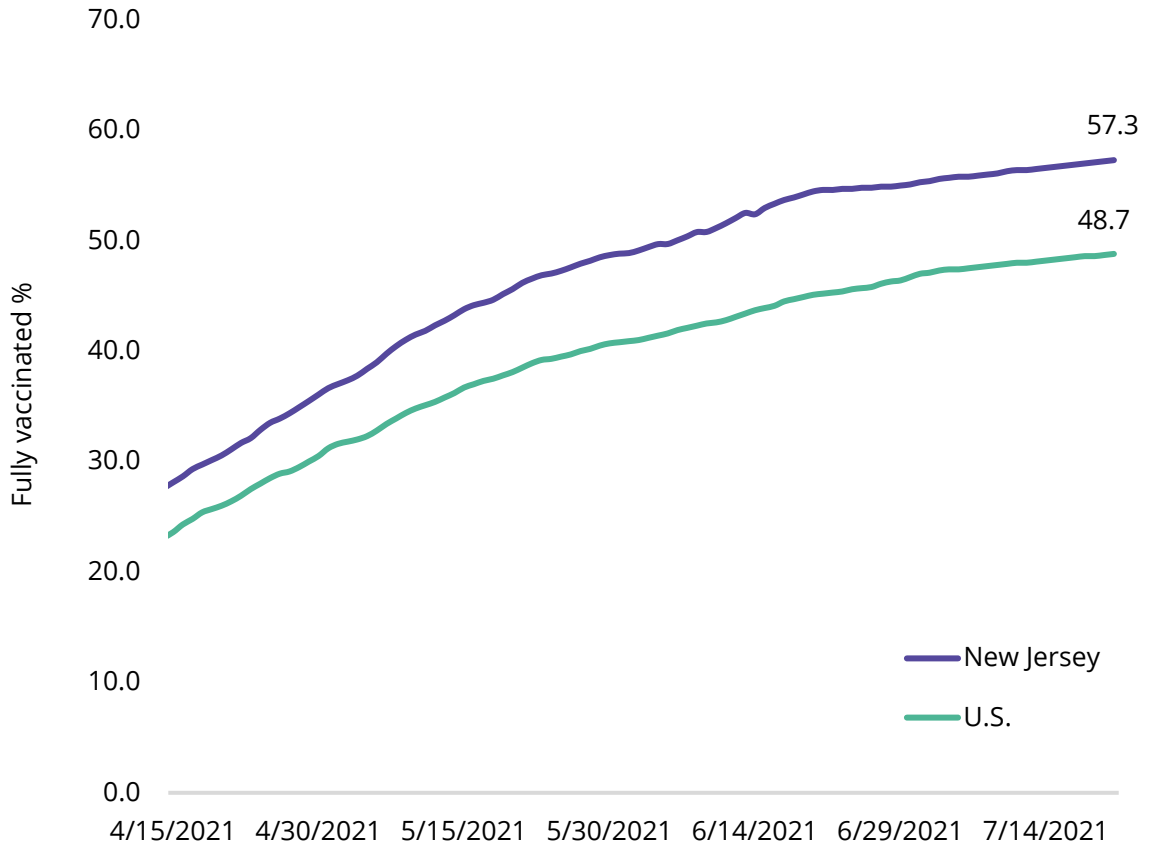
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Vaccination rates

57.3%

Share of total New Jersey population that is fully vaccinated

New Jersey proportionate vaccination rates have surpassed the U.S. average, an important metric that has allowed the state to loosen restrictions.



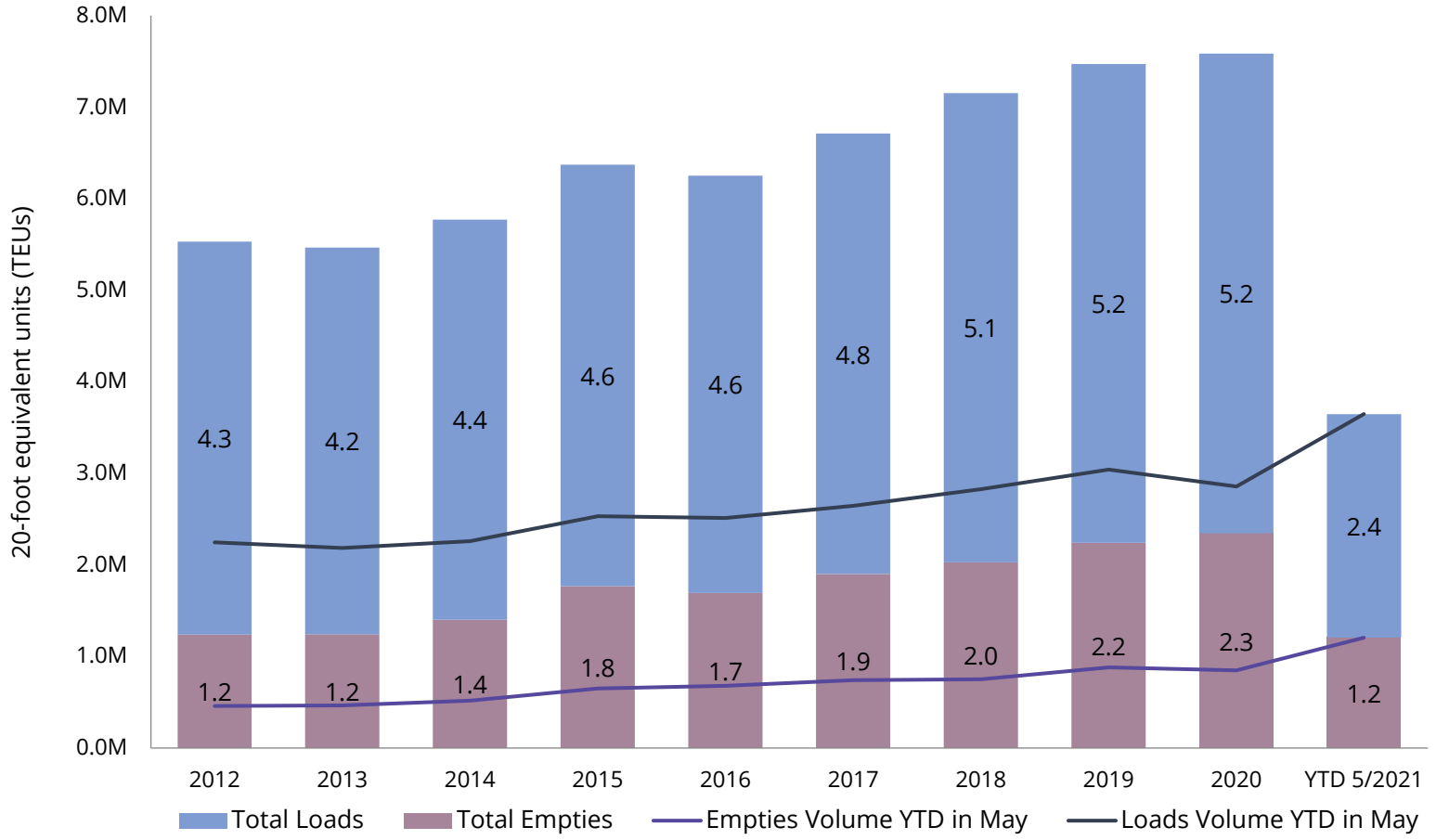
Source: CDC

Port of New York & New Jersey cargo volume

42.1%

Year-over-year rise in year-to-date empty cargo containers

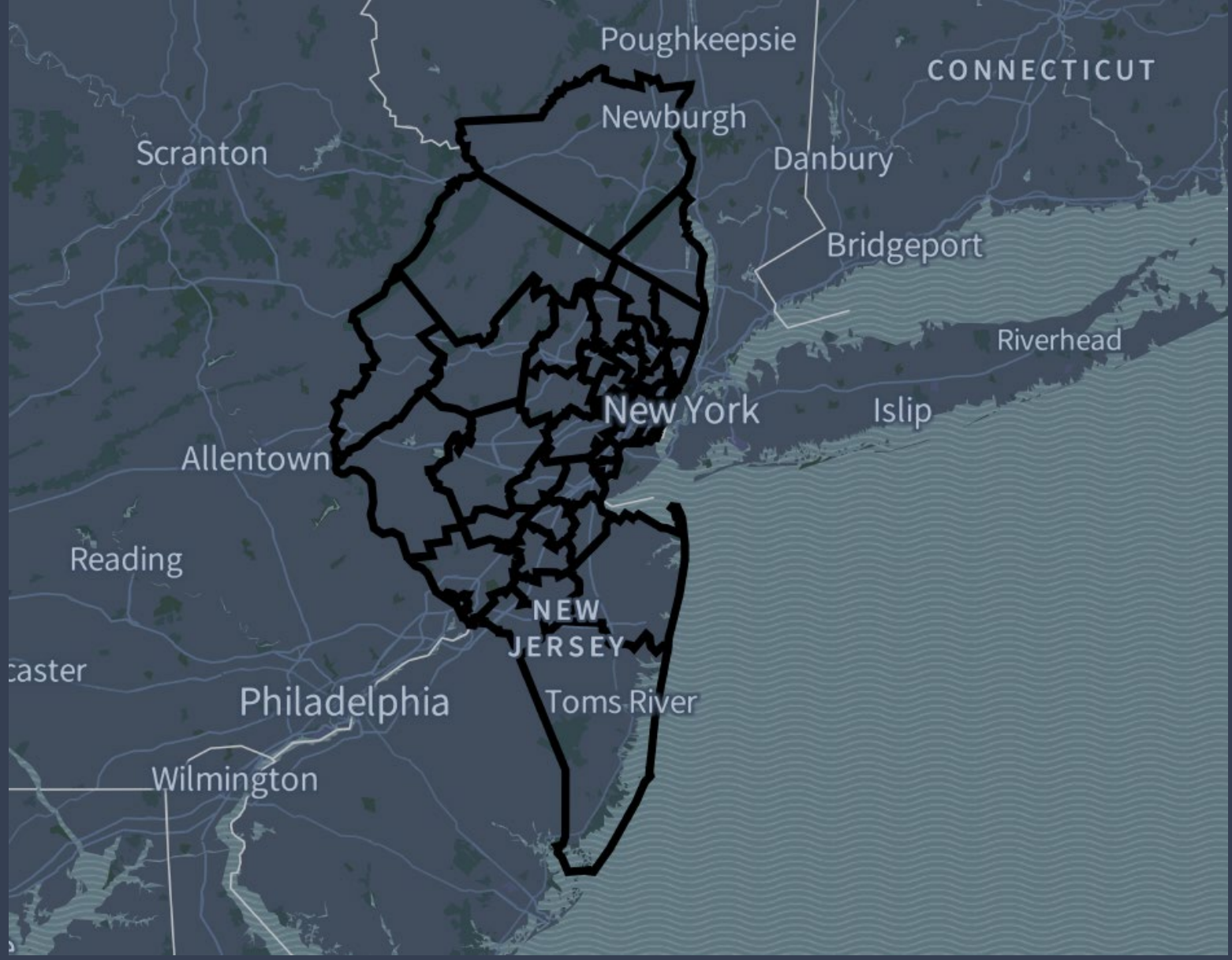
The rising number of empty containers may continue to strain the global supply chain. Total year-to-date cargo volume is up 31.4 percent compared with the prior five-year year-to-date average.



Source: Port of New York and New Jersey

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New Jersey submarket boundaries



Source: AVANT by Avison Young

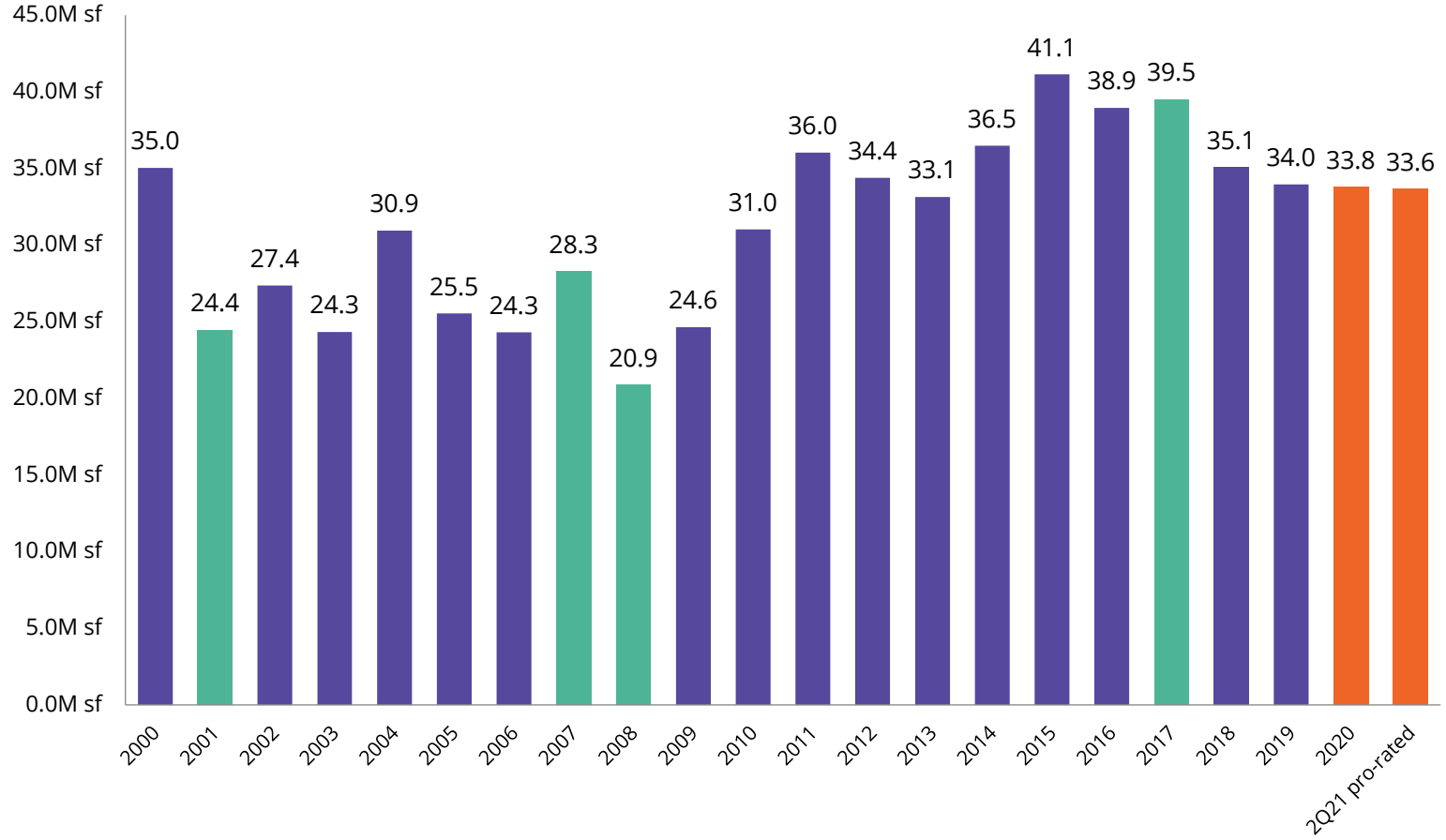
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Industrial leasing activity

+7.8%

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

Leasing has not let up during the pandemic, proportionately sitting just under the highs of the 2015 to 2017 period.



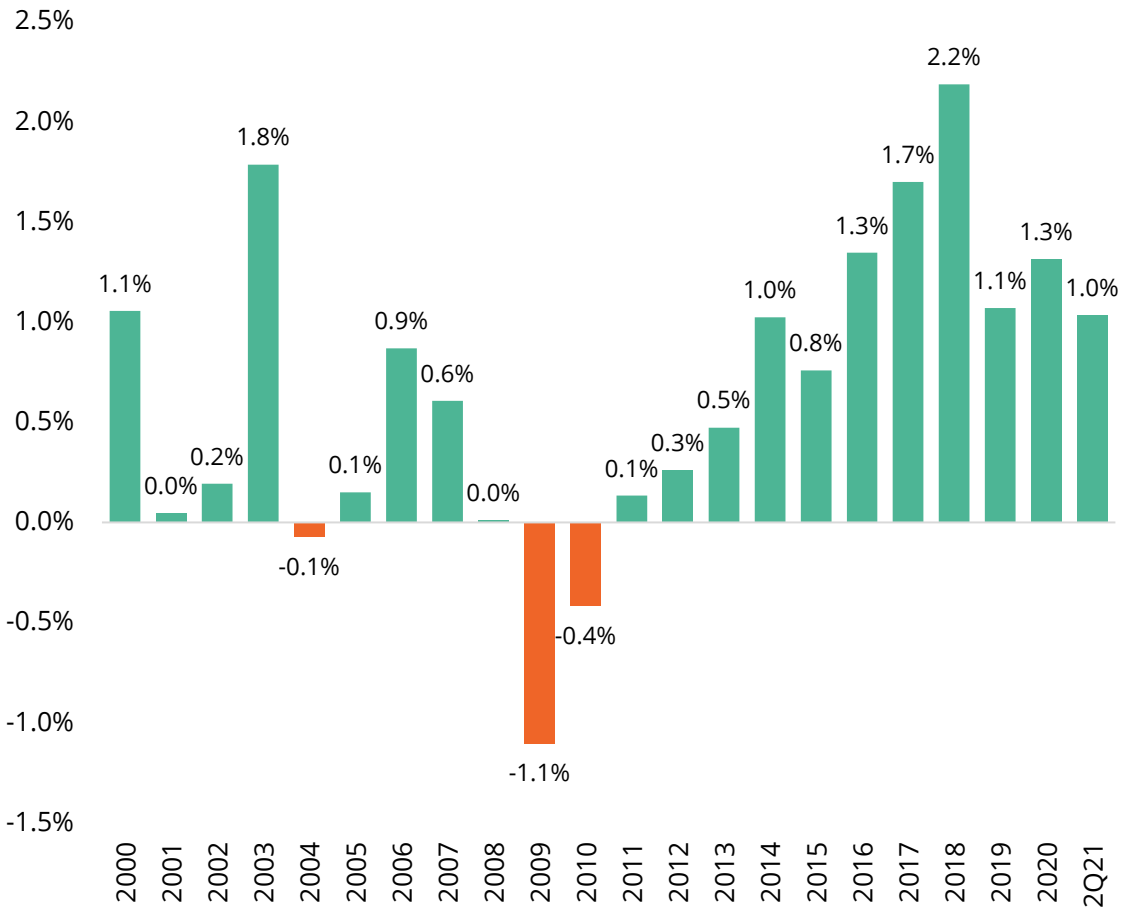
Source: CoStar

Industrial net absorption

2.3%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Absorption through mid-year remains quite healthy and is on pace with levels reported in the prior decade. At 6.1 million sf through the first half of the year, aggregate 2021 net absorption could surpass the 20-year high achieved in 2018.



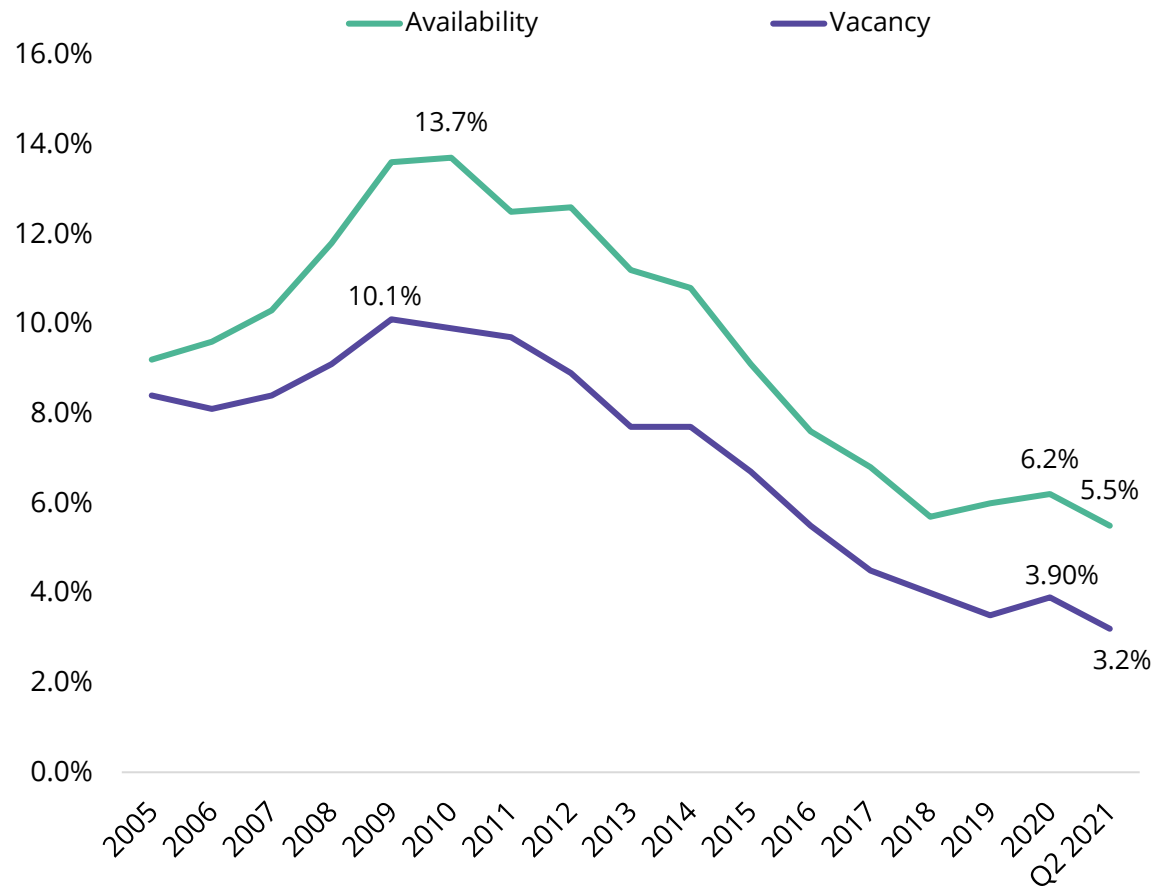
Source: CoStar

Industrial vacancy rate

3.2%

15-year record low vacancy as of Q2 2021

The Q2 2021 total vacancy rate reached a 15-year low, decreasing by 690 basis points from its high in 2009. Average asking rents have nearly doubled in that timeframe, increasing by 89.4%, underscoring how strong industrial demand has been in New Jersey.



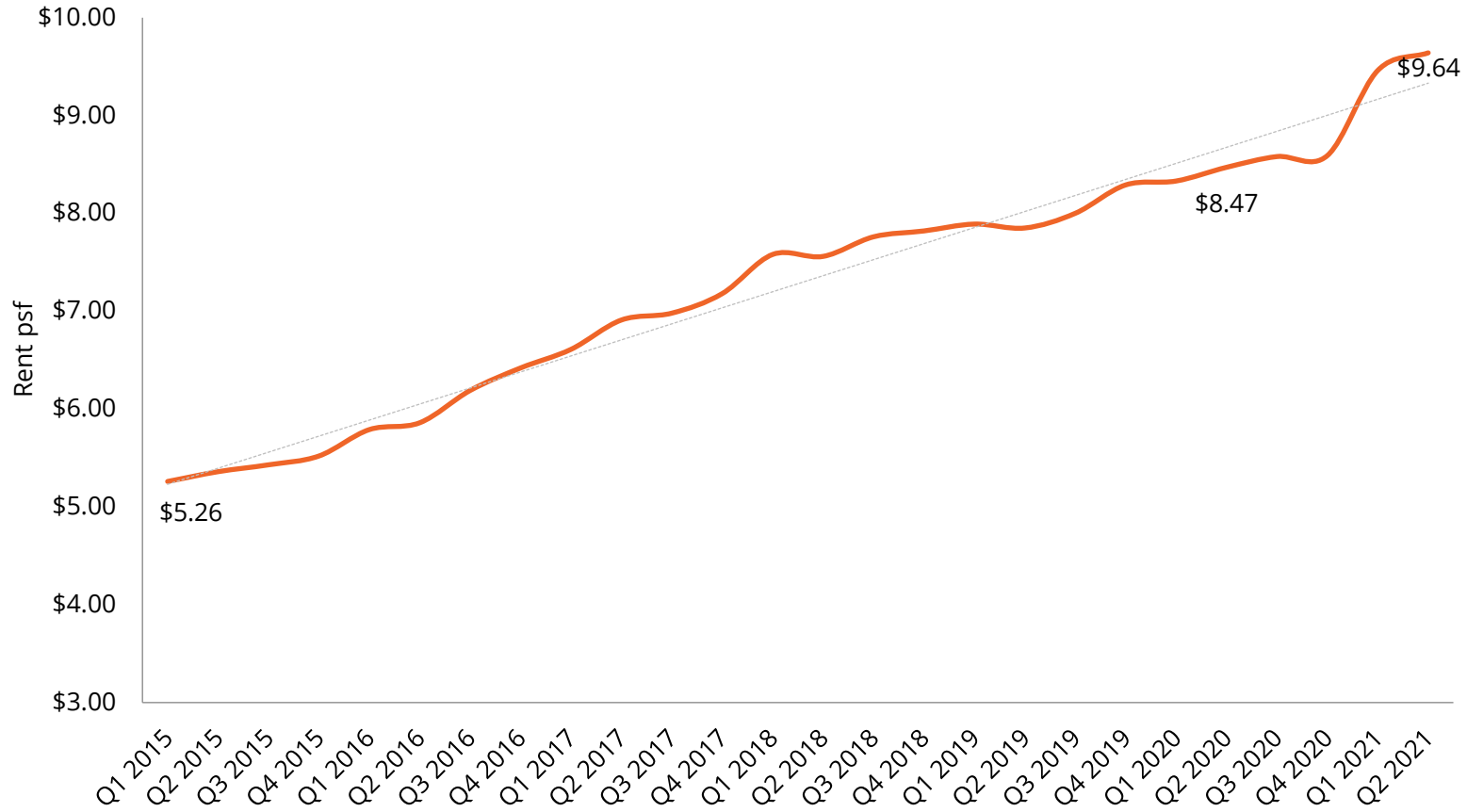
Source: CoStar

Asking rents

+13.8%

Asking rents since the onset of the pandemic

Asking rents have continued their upward trajectory, increasing by 83.3% over the last six years.



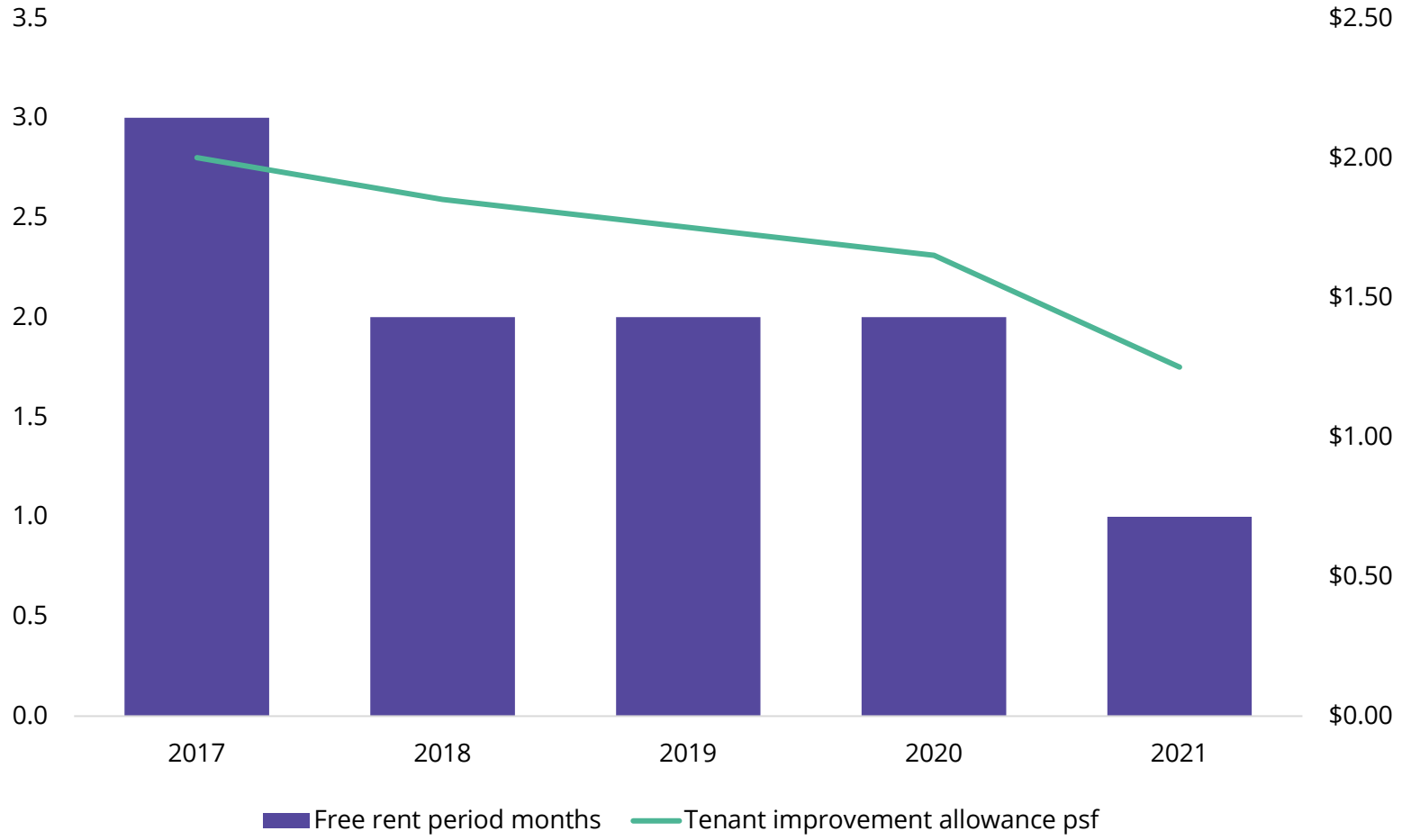
Source: Costar

Concessions

$1.25

Average per-square-foot tenant improvement allowance

Landlord-favorable market conditions have caused concessions rates to steadily decline in recent years.



Normalized to 10-year lease terms. Source: AVANT by Avison Young

Big-box demand drives construction

147 properties

Proposed, under construction or under renovation

51.9 msf

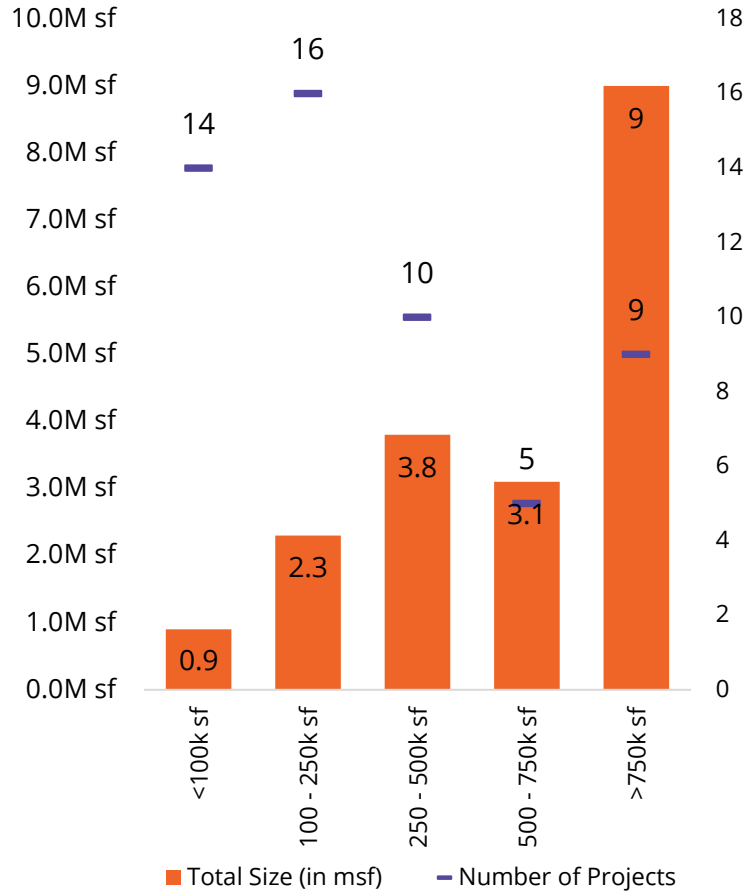
proposed or under construction

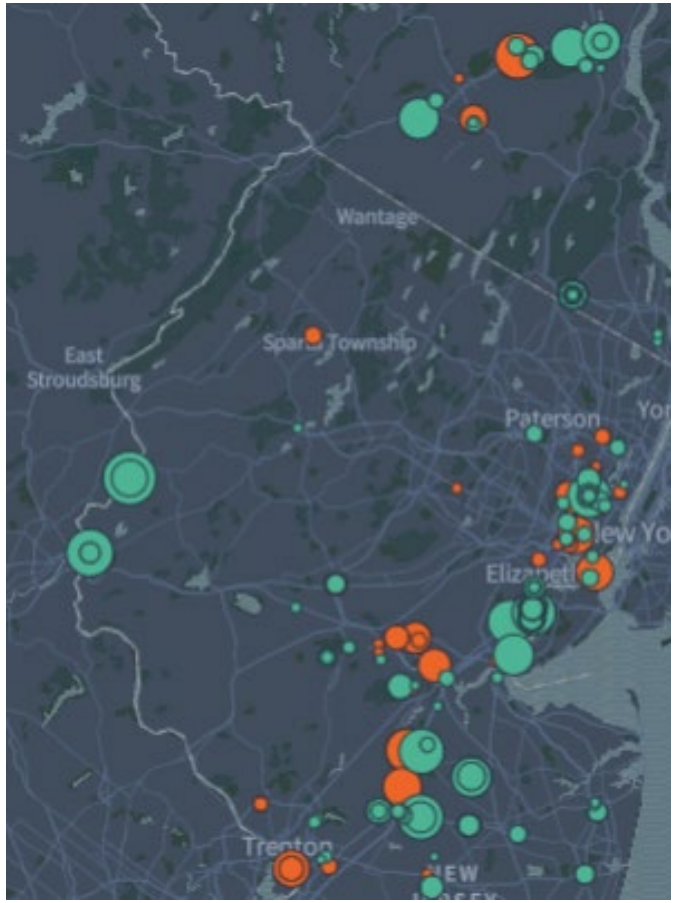
9.8%

share of industrial inventory

Exit 12

Submarket with most ground-broken projects at six





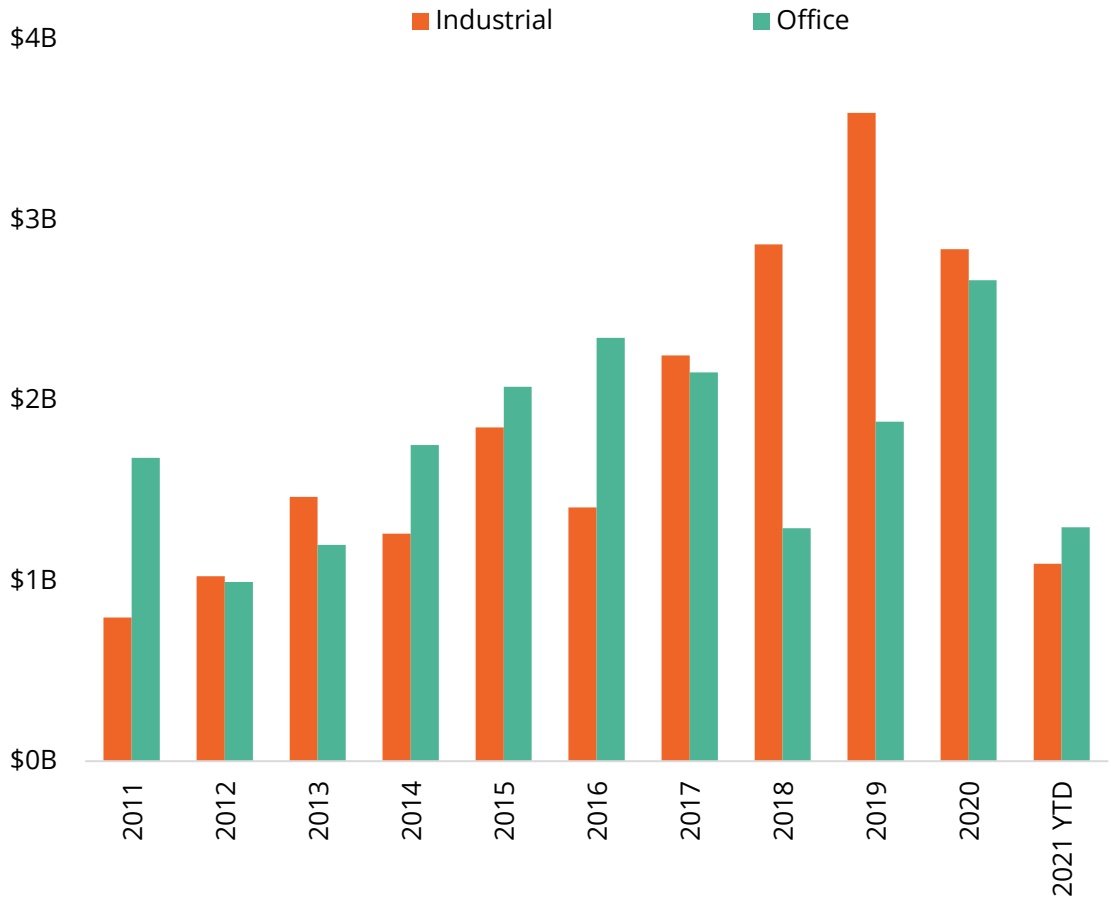
Source: AVANT by Avison Young

Investment dollar volume

$3.9B

Industrial dollar volume, 2020 to Q2 2021

While both the office and industrial investment volume have remained steady since the beginning of 2020, the industrial sales market has been impeded by a lack of supply. Since 2011, the number of industrial listings available for sale has fallen by 68.5 percent.



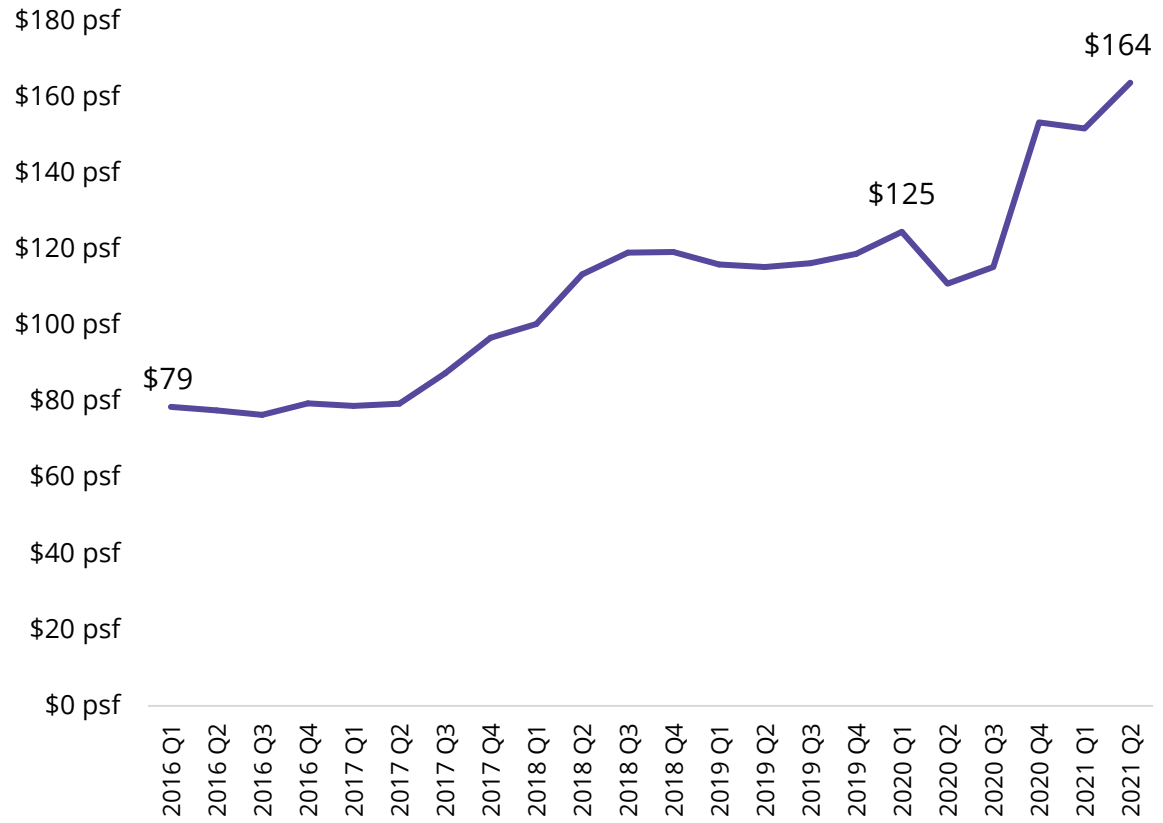
Source: AVANT by Avison Young
RCA & Costar

Industrial asset pricing

+31.4 %

New Jersey industrial pricing, Q1 2020 to Q2 2021

Pricing for New Jersey industrial assets has continued to elevate since 2016, particularly since the pandemic. Asset pricing has increased as an influx of investors seek exposure to properties that can accommodate demand by e-commerce distributors.



Source: AVANT by Avison Young, RCA and Costar

Looking forward

Here's what we can expect

- **The recent spike in inflation has raised costs across the supply chain**, including freight, wages, and raw materials, straining industrial users' profitability. It remains to be seen if the rise in inflation is just a near-term hurdle or part of the new normal.
- **Market rents have continued to rise and are outpacing escalations**. This might lead to the possibility of shorter-term leases to allow owners to reset the rent more often. The speed in which rates are rising has caused some institutional owners to reduce the shelf life of their proposals.
- In May, the New Jersey Senate Committee **rejected a bill** co-sponsored by Senate President Stephen Sweeney **that would have weakened local power over warehouse development**. The bill required towns to seek the approval of neighboring municipalities before they approved new industrial construction to stem fears of overdevelopment and over-taxation of local roads and recourses. A new version of the bill may be introduced in the future.





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Philadelphia market fundamentals

NEW JERSEY AND PHILADELPHIA INDUSTRIAL

INSIGHT REPORT

Q2 2021

Key industrial takeaways

Economic conditions

- Reopening efforts have allowed the Philadelphia MSA unemployment rate to rebound from a high of 15.0 percent in April 2020 to **6.1 percent** in May 2021, predominantly driven by a rebound from the Leisure and Hospitality industry.
- Industrial jobs have risen **6.1 percent** since April 2020 with Mining, Logging and Construction leading the way with 10.2% growth.

Recovery rate

- Philadelphia County's vaccination rates at **43.5 percent** are below the national average. Vaccination rates have been a leading indicator of loosened pandemic restrictions, this exposes Philadelphia to the risk of falling behind other areas in their recovery efforts.
- Total year-to-date cargo volume is up **31.4 percent** at the Port of New York and New Jersey compared with the prior five-year year-to-date average.

Industrial demand

- Leasing activity has spiked during the pandemic, increasing by **104.4 percent** on an annualized basis versus the prior 20-year average.
- Net absorption has been strong during the first half of the year, totaling approximately **15.0 million square feet**. If the market continues to absorb space at this pace, this indicator will surpass the 2018 high.

Key industrial takeaways

Industrial supply

- Approximately **57.6 percent** of the square footage under construction are buildings greater than 750K square feet.
- The overall vacancy rate for the Philadelphia industrial market continued to show resilience with vacancy at **6.2 percent**, continuing its recent downward trend.

Pricing trends

- Base rents have increased by **17.9 percent** since the start of the pandemic and have continued a steady upward trajectory since 2015
- Concessions have remained stable throughout the pandemic, ranging between **2-3 months of free rent** and $1-2 per square foot of tenant improvement allowance on ten-year deals.

Capital markets

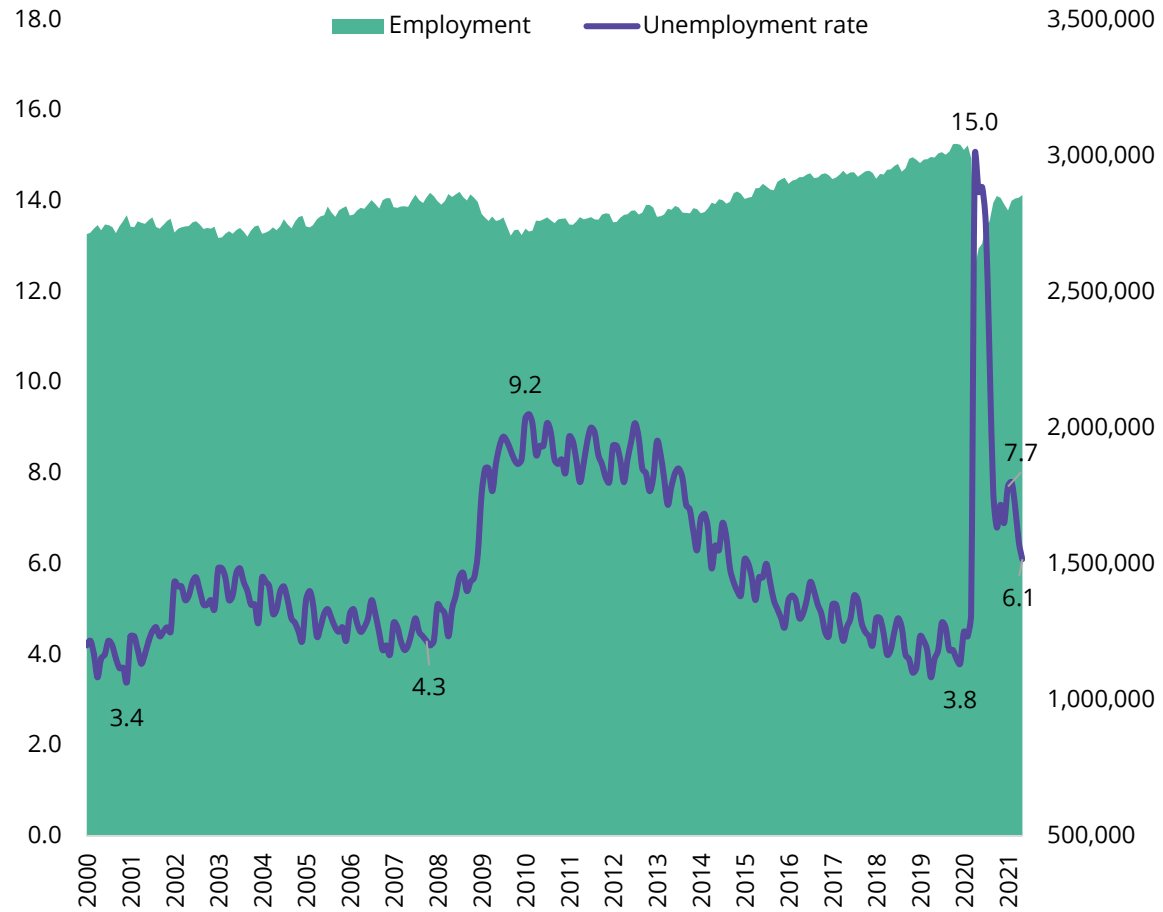
- Industrial investment activity has surged to **$4.8 billion since 2020** as investors are attracted to the sector's strong underlying fundamentals.
- Investors continued their capital deployment efforts on industrial assets at an annualized rate from 2020 to Q2 2021 that is **38.5 percent** higher than the preceding five-year average.

Employment and unemployment

6.1%

Philadelphia MSA unemployment rate as of May 2021

Historically tightened labor market conditions were halted by the pandemic, which caused more than 446,000 job losses between February 2020 and April 2020. However, reopening efforts have enabled the economy to add 10.2% jobs since the low reported in April 2020.



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

AVANT by AVISON YOUNG

Property type job losses

-5.2%

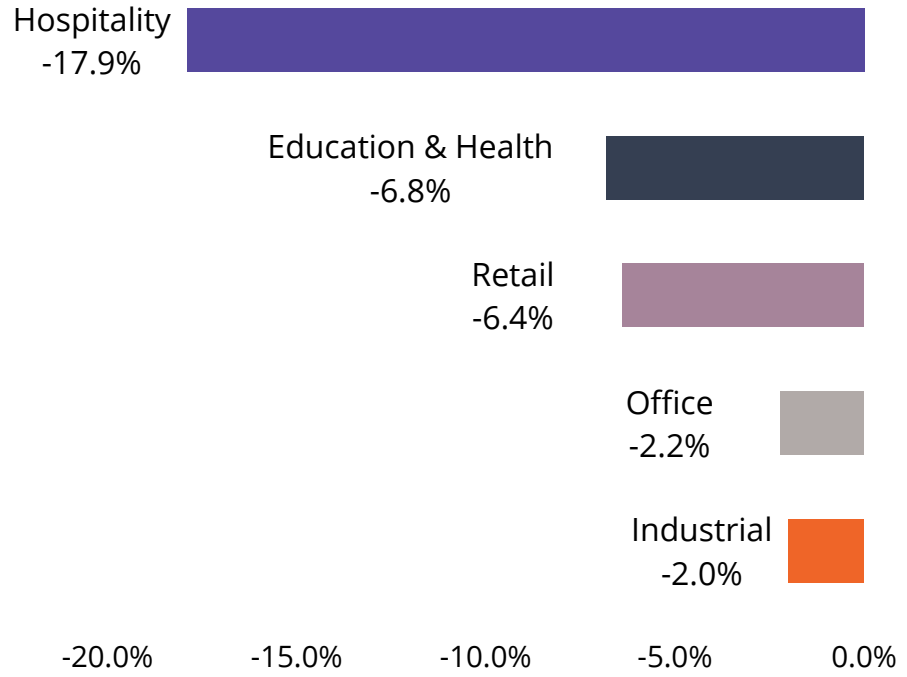
Change in total employment during the pandemic

The Philadelphia area lost 5.2% of its total labor force since the pandemic began, though industrial losses were comparatively subdued. Industrial job gains in recent months demonstrate that a significant recovery is likely in that sector in the near term.

VIEW DASHBOARD

Total change in Philadelphia MSA job losses

February 2020 to May 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Industrial job gains and losses

-2.0%

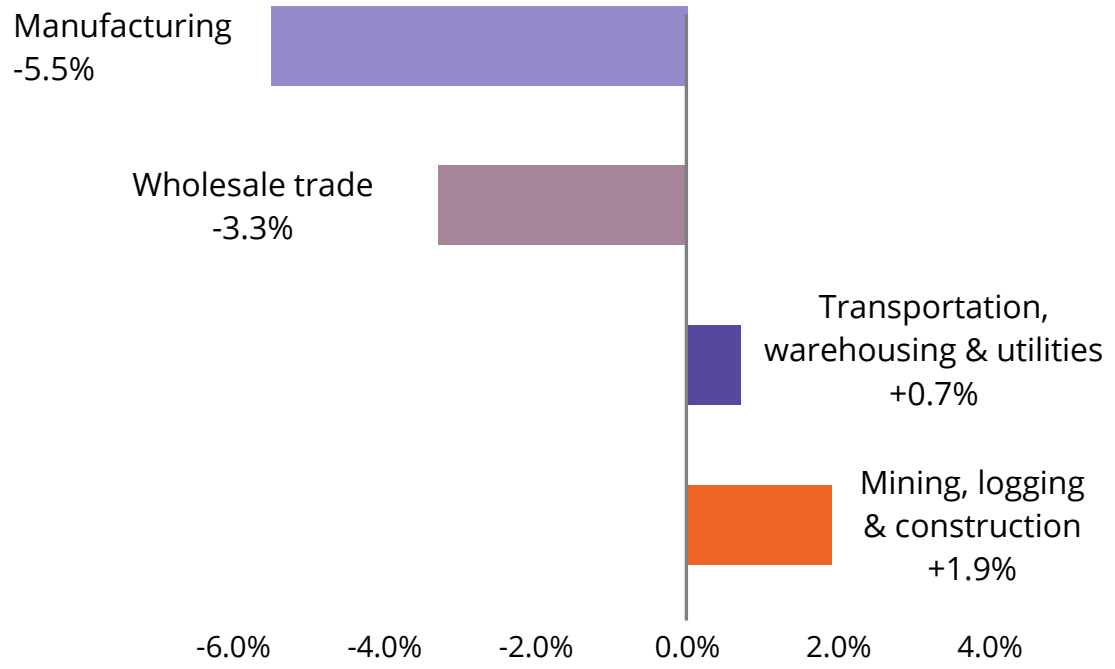
Change in industrial employment during the pandemic

The Philadelphia area's industrial labor force decreased by 2.0% of industrial employment since the pandemic, anchored by a sharp decline in jobs early in 2020. However, in the past 12 months, the market recovered 10.4% of those losses.

VIEW DASHBOARD

Total change in Philadelphia MSA job losses

February 2020 to May 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

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Blue-collar workforce concentration



Source: AVANT by Avison Young, ESRI
Large pockets of blue-collar workforce are found throughout Philadelphia 's largest Industrial submarkets

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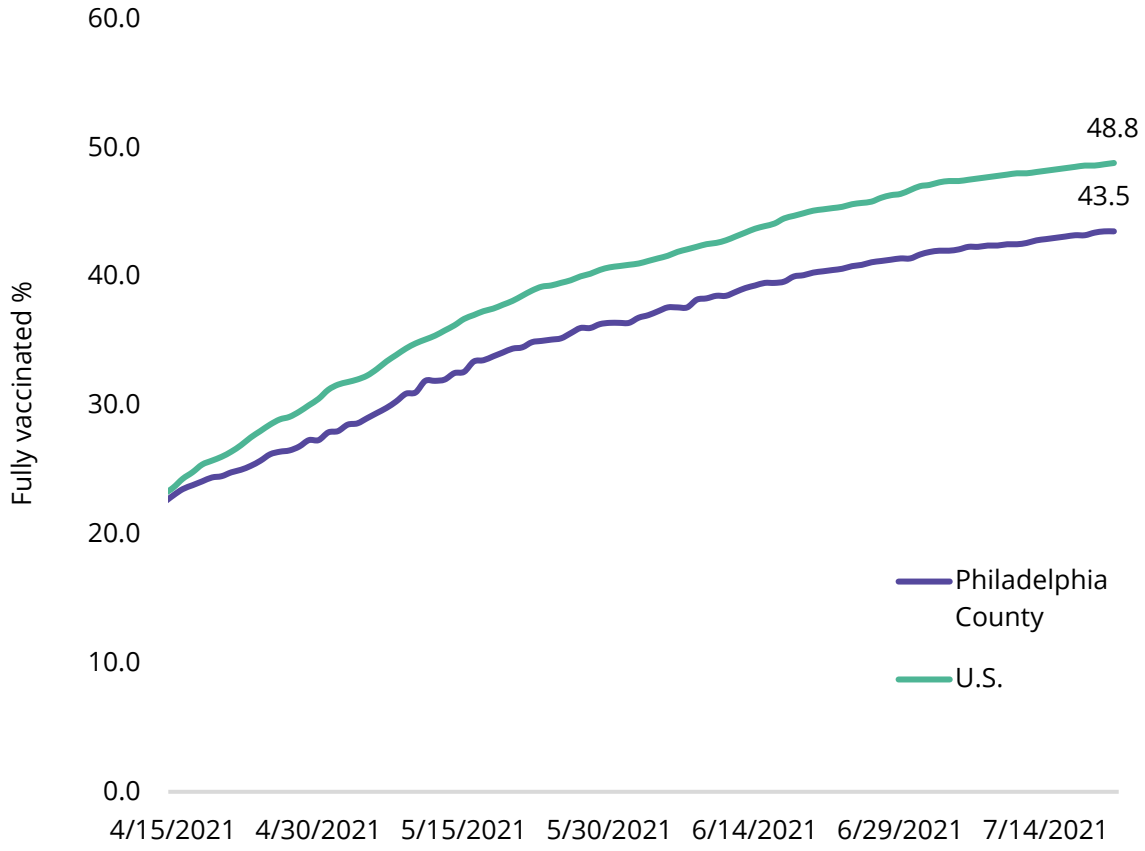
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Vaccination rates

43.5%

Share of total Philadelphia County population that is fully vaccinated

Philadelphia County's proportionate vaccination rates generally mirror but remain slightly below the U.S. average. This metric, a leading indicator of loosened pandemic restrictions, demonstrates that Philadelphia's economic recovery could be prolonged compared with other gateway cities.



Source: CDC

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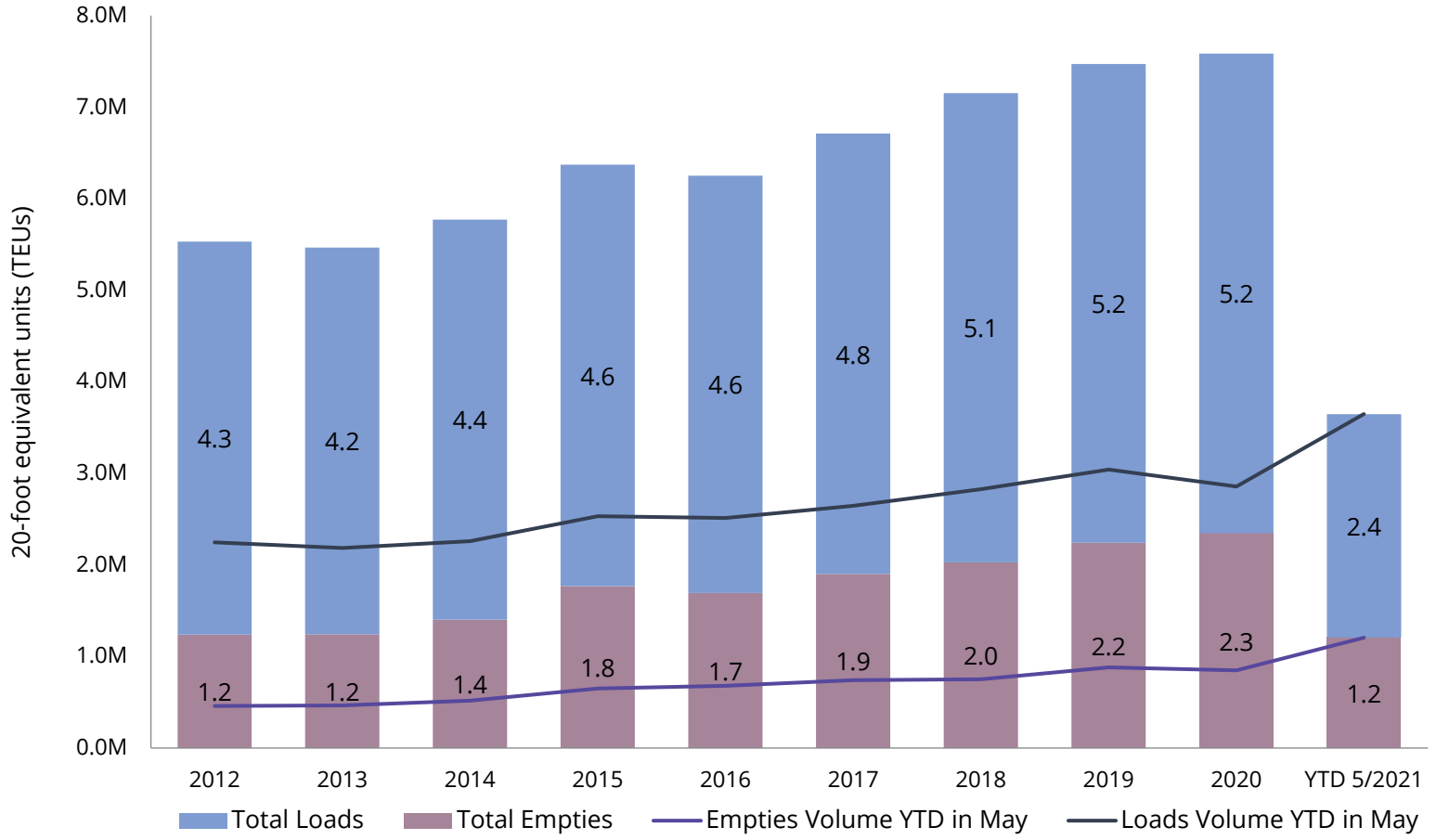
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Port of New York & New Jersey cargo volume

42.1%

Year-over-year rise in year-to-date empty cargo containers

The rising number of empty containers may continue to strain the global supply chain. Total year-to-date cargo volume is up 31.4 percent compared with the prior five-year year-to-date average.

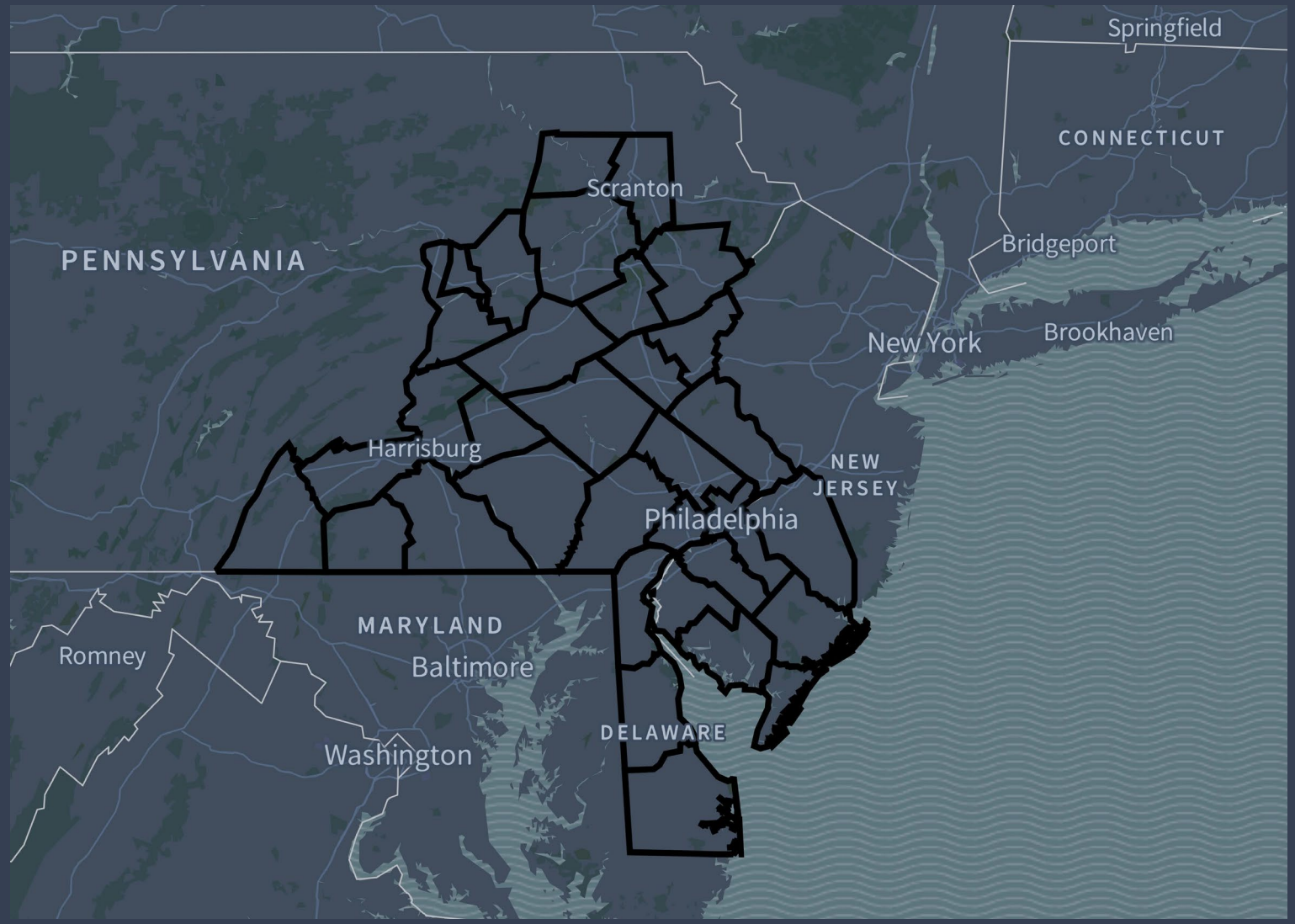


Source: Port of New York and New Jersey

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Philadelphia submarket boundaries



Source: AVANT by Avison Young

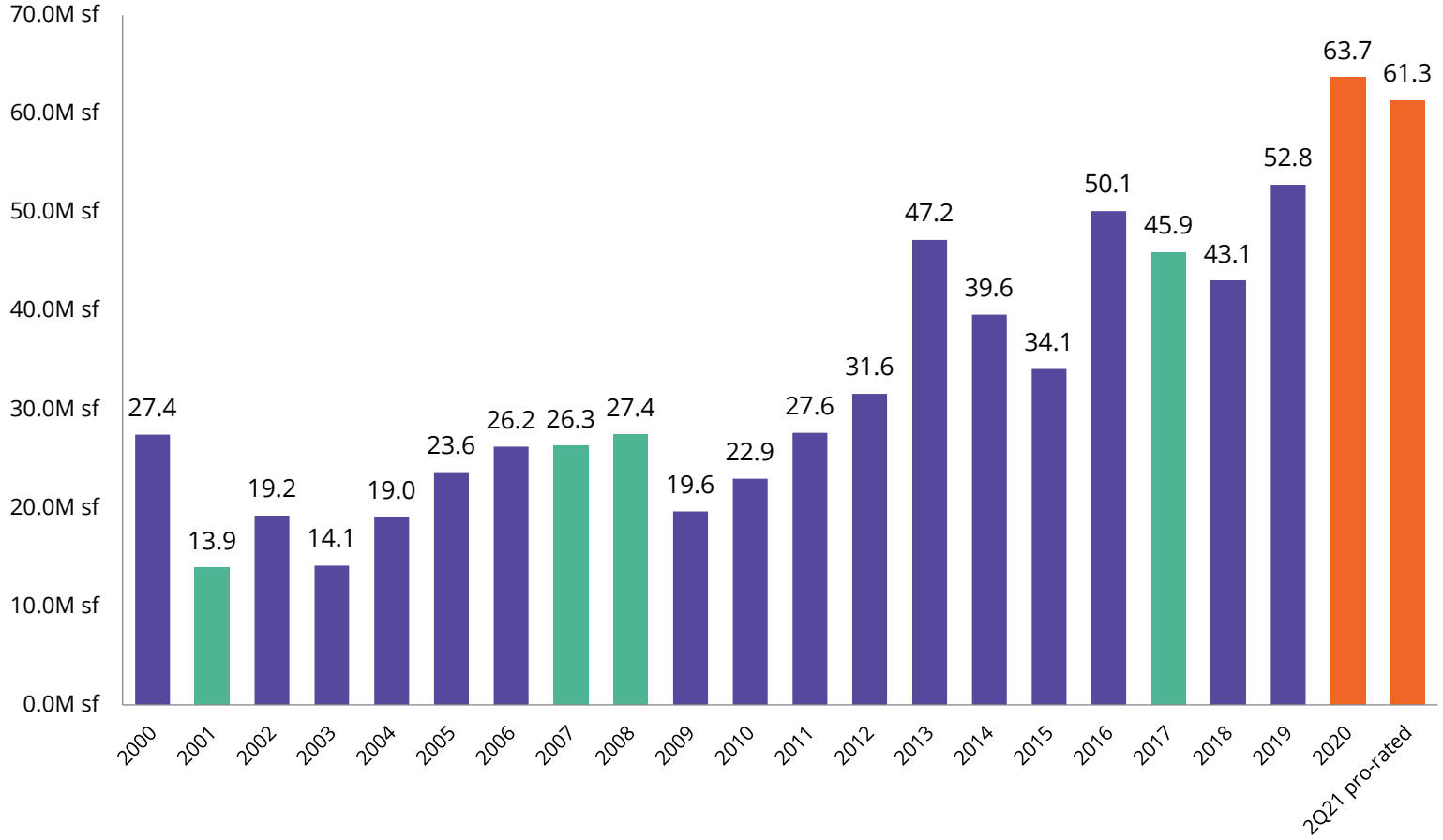
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Industrial leasing activity

+104.4%

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

Leasing activity has increased during the pandemic, with 2020 reaching a 20-year high and 2021 on pace to match it.



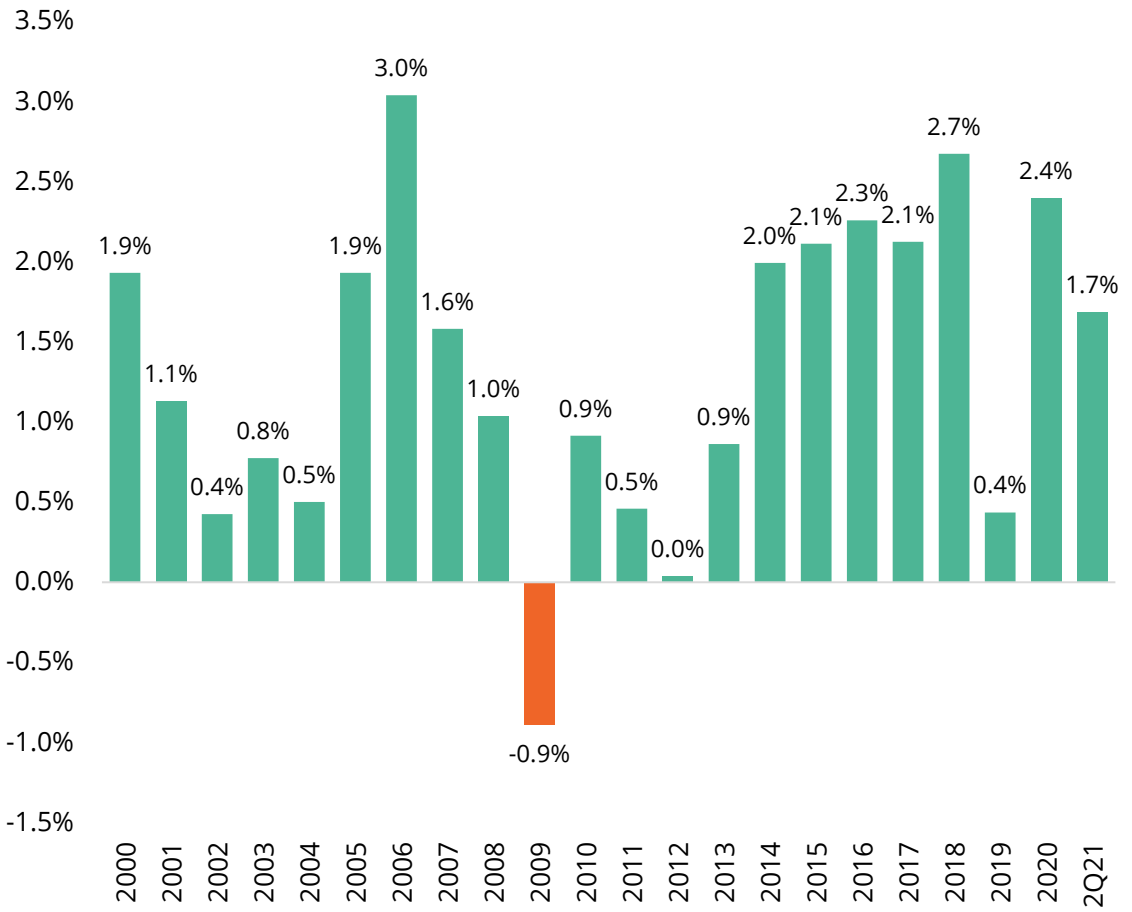
Source: CoStar

Industrial net absorption

4.1%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Absorption through mid-year 2021 remains healthy and on pace with levels reported in the prior decade. At 15.0 million sf year-to-date, aggregate 2021 net absorption could surpass the 20-year high reported in 2018.



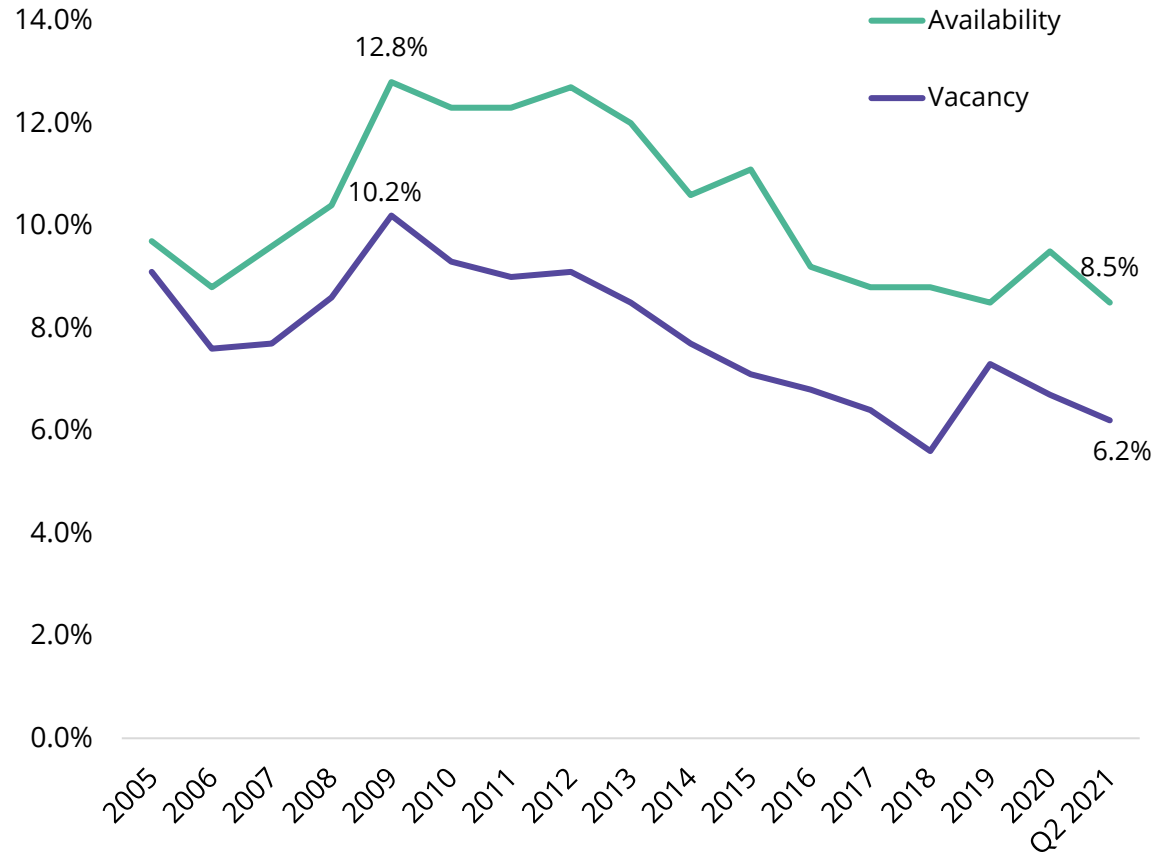
Source: CoStar

Industrial vacancy rate

6.2%

vacancy as of Q2 2021

The Q2 2021 total vacancy rate approached the 15-year low of 5.6% reported in 2018 after deceasing by 400 basis points from its peak in 2009. Average asking rents have increased by 35.8% over that same period, underscoring how strong industrial demand has been in the Philadelphia market.



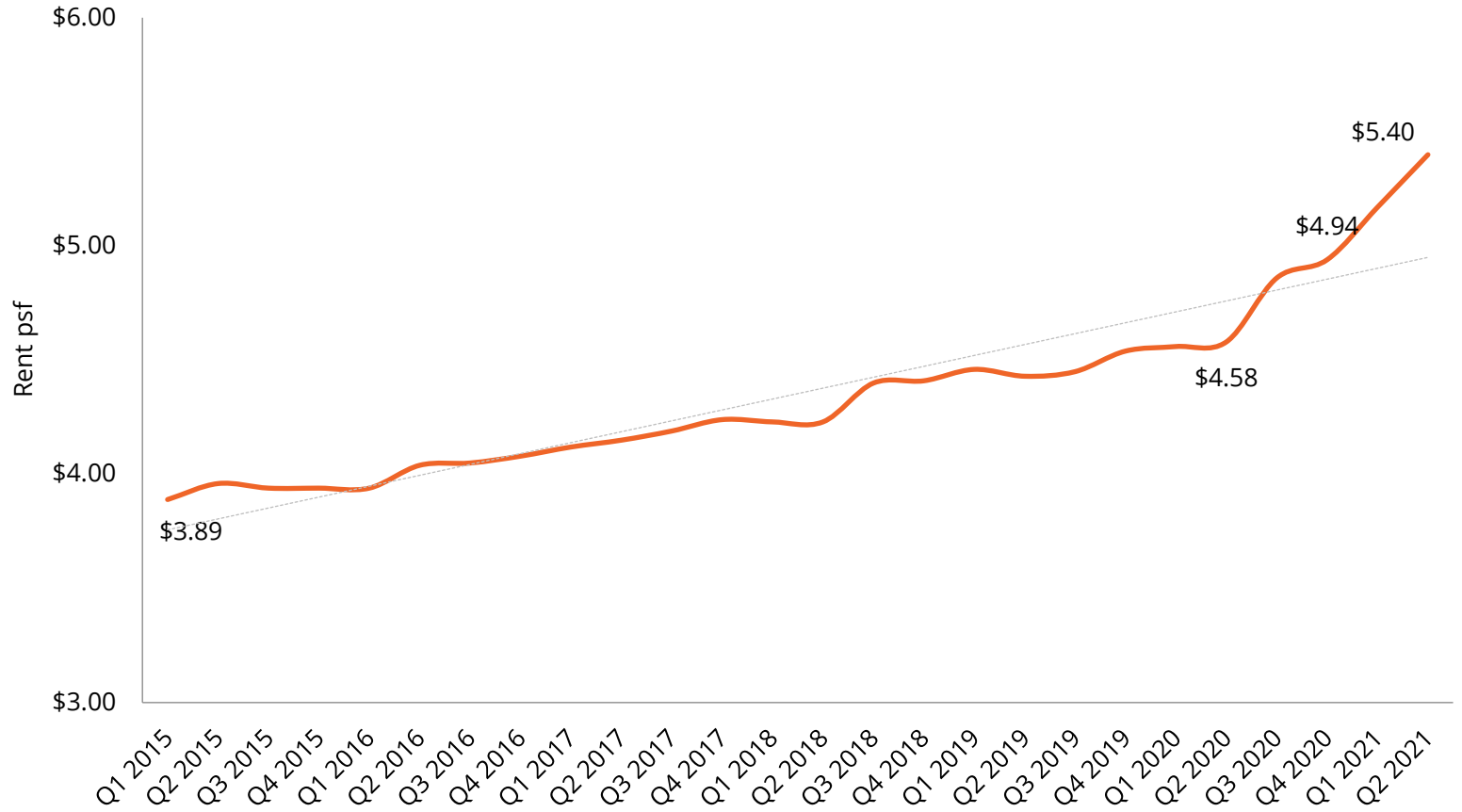
Source: CoStar

Asking rents

+17.9%

Asking rents since the onset of the pandemic

Base rents have continued to rise throughout the pandemic and have risen 38.8% over the last six years.



Source: Costar

Big-box demand drives construction

253 properties

Proposed, under construction or under renovation

104.9 msf

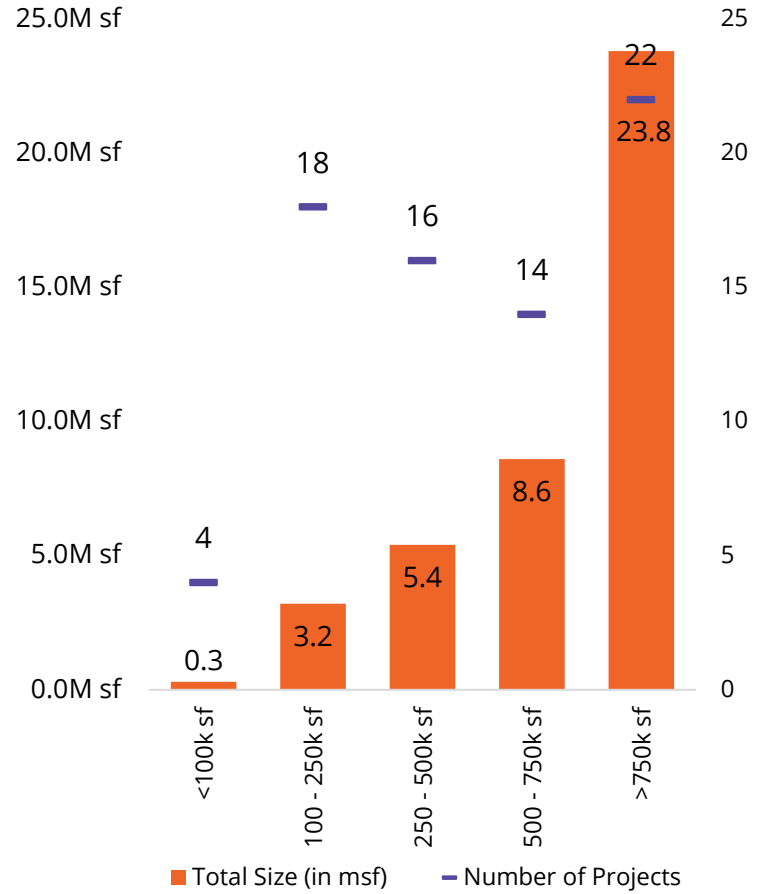
proposed or under construction

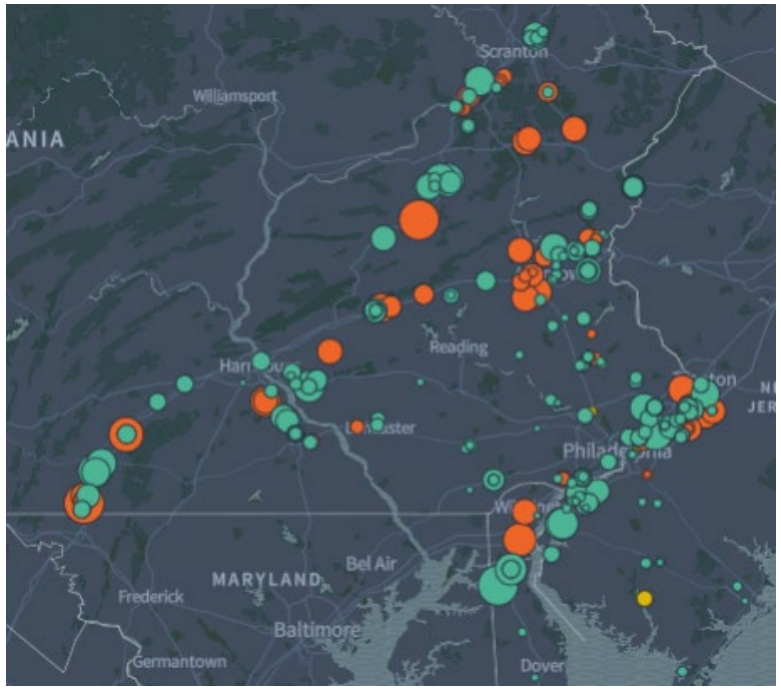
12.2%

share of industrial inventory

Burlington

Submarket with most ground-broken projects at 15





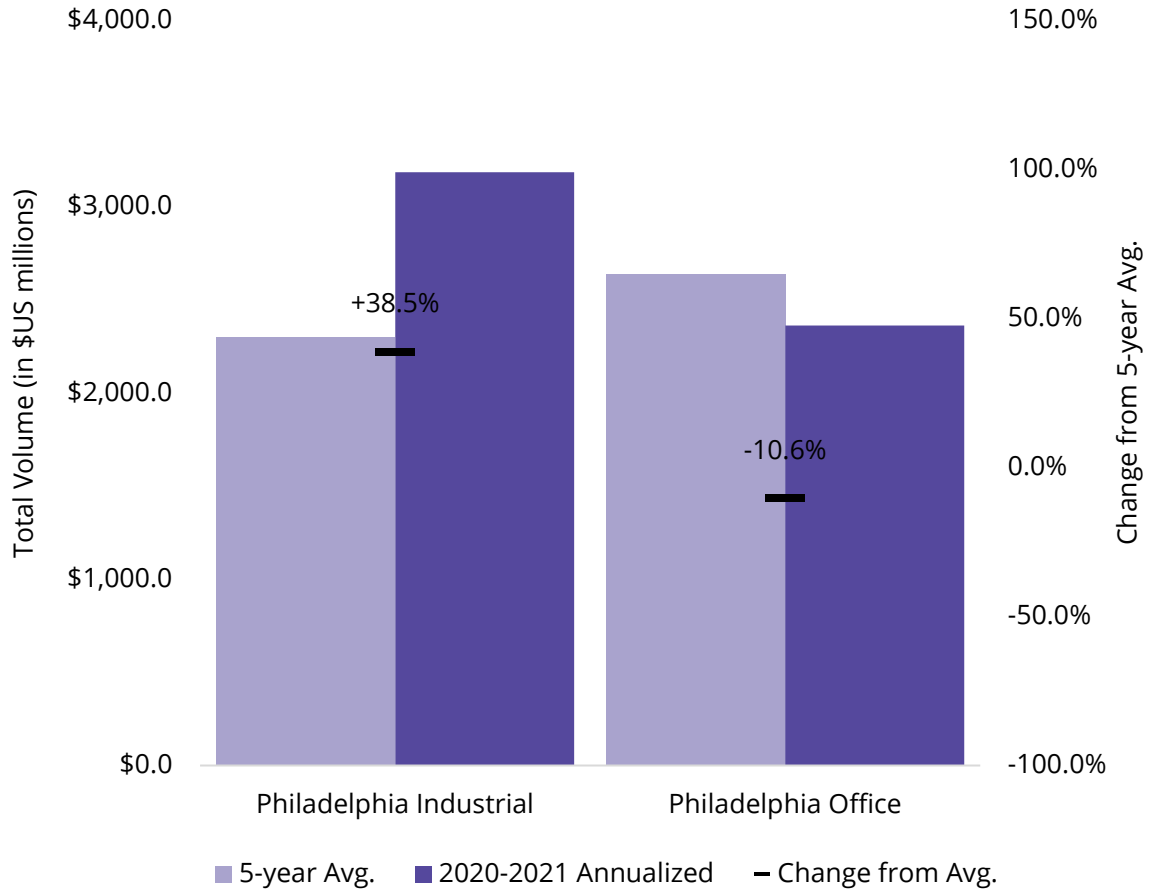
Source: AVANT by Avison Young

Investment dollar volume

$1.3B

Industrial dollar volume, YTD 2021

Since the beginning of 2020, the annualized industrial sales volume rose 38.5% against the prior five-year average. This rate of investment activity is strong compared with office sales activity, which has temporarily paused during a temporary risk-pricing crisis and therefore has decreased by an annualized rate of 10.6% compared with the prior five-year average dollar volume.



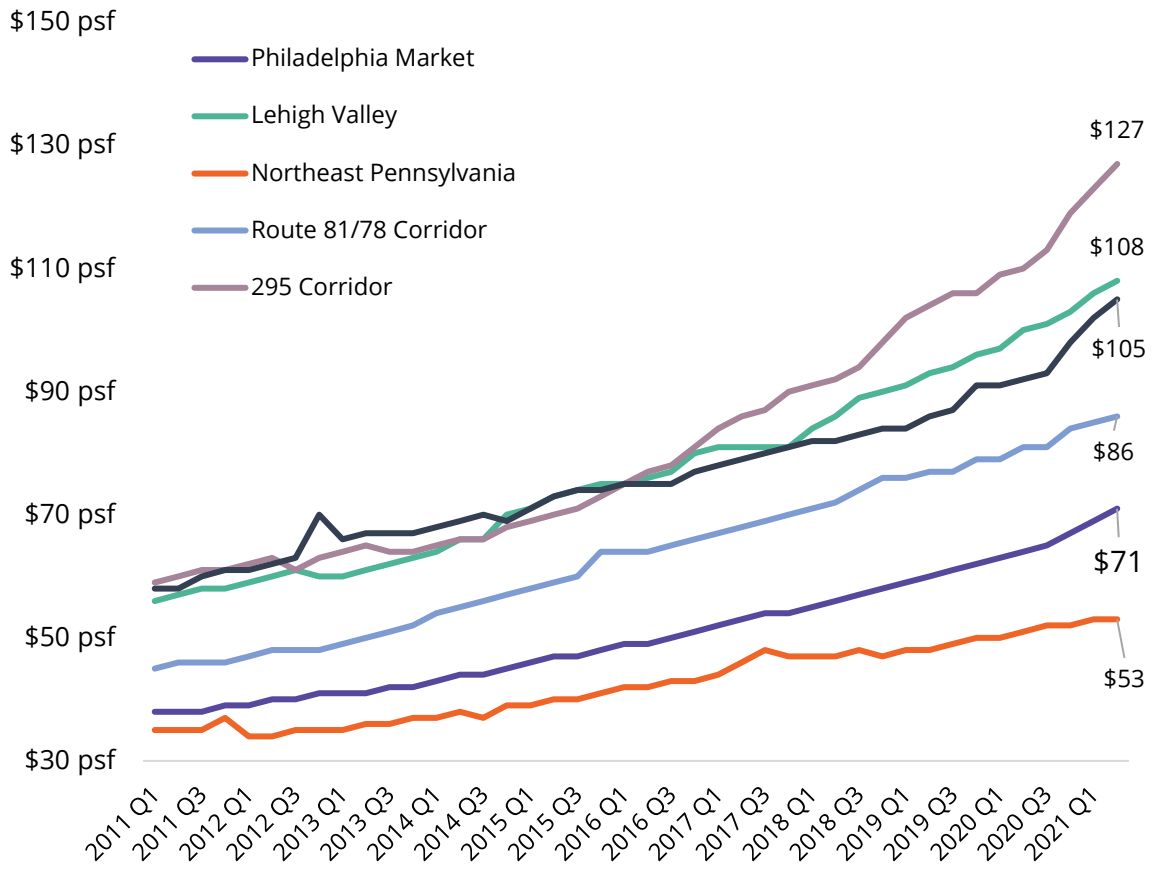
Source: AVANT by Avison Young
RCA, CoStar

Industrial asset pricing

+12.7%

Philadelphia industrial pricing, April 2020 to June 2021

Pricing for Philadelphia industrial assets has continued to elevate since 2016, despite potential headwinds throughout the pandemic, as an influx of investors seeks exposure to properties that can accommodate the rise of e-commerce distribution.



Source: AVANT by Avison Young, RCA and Costar
Note: Submarket properties include only Class A Buildings built after 2000

Select submarket clusters fundamentals

$7.07 psf	$6.68 psf	$4.62 psf	$4.50 psf	$7.25 psf
Greater Philadelphia Area NNN Direct Asking Rent	Interstate 295 Corridor* NNN Direct Asking Rent	Interstate 81/78 Corridor NNN Direct Asking Rent	Northeastern Pennsylvania NNN Direct Asking Rent	Lehigh Valley NNN Direct Asking Rent
5.3%	**6.3%**	**9.9%**	**20.1%**	**10.3%**
Greater Philadelphia Area Vacancy Rate	Interstate 295 Corridor* Vacancy Rate	Interstate 81/78 Corridor Vacancy Rate	Northeastern Pennsylvania Vacancy Rate	Lehigh Valley Vacancy Rate

Source: AVANT by Avison Young and Costar
Note: Class A Buildings built after 2000
* Includes New Castle County, DE

Select submarket clusters fundamentals

175K sf Greater Philadelphia Area Q2 Net Absorption	**884K sf** Interstate 295 Corridor* Q2 Net Absorption	**918K sf** Interstate 81/78 Corridor Q2 Net Absorption	**344K sf** Northeastern Pennsylvania Q2 Net Absorption	**5.0 msf** Lehigh Valley Q2 Net Absorption
5.9 msf Greater Philadelphia Area Under Construction	**1.1 msf** Interstate 295 Corridor* Under Construction	**6.1 msf** Interstate 81/78 Corridor Under Construction	**4.5 msf** Northeastern Pennsylvania Under Construction	**10.7 msf** Lehigh Valley SF Under Construction

Source: AVANT by Avison Young and Costar
Note: Class A Buildings built after 2000
* Includes New Castle County, DE

Looking forward

Here's what we can expect

- **The recent spike in inflation has raised costs across the supply chain**, including freight, wages, and raw materials, straining industrial users' profitability. It remains to be seen if the rise in inflation is just a near-term hurdle or part of the new normal.
- **Market rents have continued to rise and are outpacing escalations**. This might lead to the possibility of shorter-term leases to allow owners to reset the rent more often. The speed in which rates are rising has caused some institutional owners to reduce the shelf life of their proposals.
- In May, the New Jersey Senate Committee **rejected a bill** co-sponsored by Senate President Stephen Sweeney **that would have weakened local power over warehouse development**. The bill required towns to seek the approval of neighboring municipalities before they approved new industrial construction to stem fears of overdevelopment and over-taxation of local roads and recourses. A new version of the bill may be introduced in the future.





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Get in touch

NEW JERSEY AND PHILADELPHIA INDUSTRIAL

INSIGHT REPORT

Q2 2021

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Let's talk

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