



**AVISON
YOUNG**

New Jersey and Philadelphia industrial insight report

Q3 2021

AVANT
by AVISON YOUNG



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U.S. industrial drivers

NEW JERSEY AND PHILADELPHIA
INDUSTRIAL INSIGHT REPORT

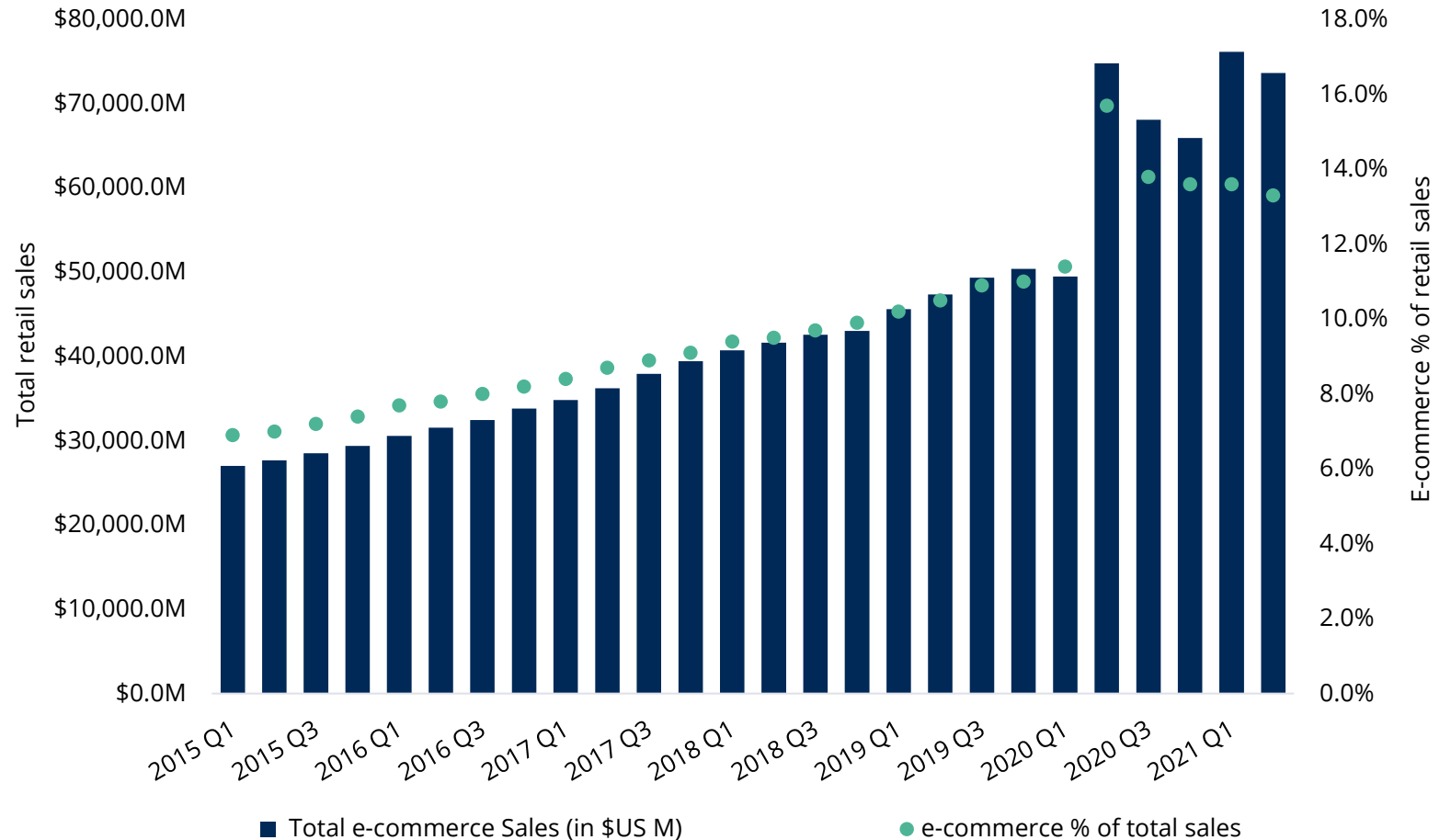
Q3 2021

U.S. total retail and e-commerce sales

13.3%

E-commerce share of overall retail sales in Q2 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.



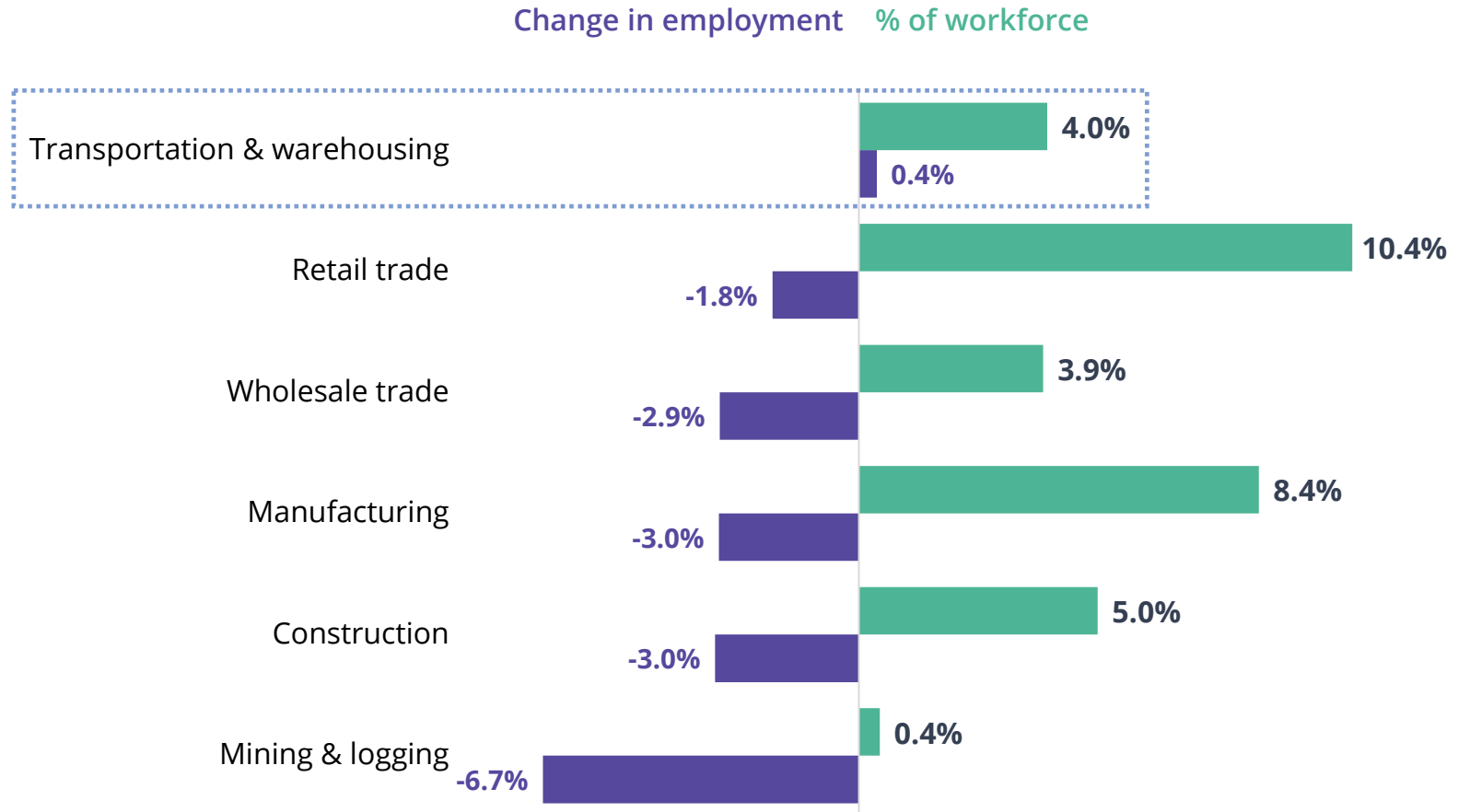
Source: Federal Reserve Bank of St. Louis
*Most recent update August 17, 2021

Industrial sector job gains and losses

+0.4%

Change in transportation and warehousing employment, February 2020 to July 2021

The transportation and warehousing employment sector has been resilient throughout the pandemic. Manufacturing, construction and wholesale trade comprise similar proportions of total U.S. employment but have contracted since February 2020.



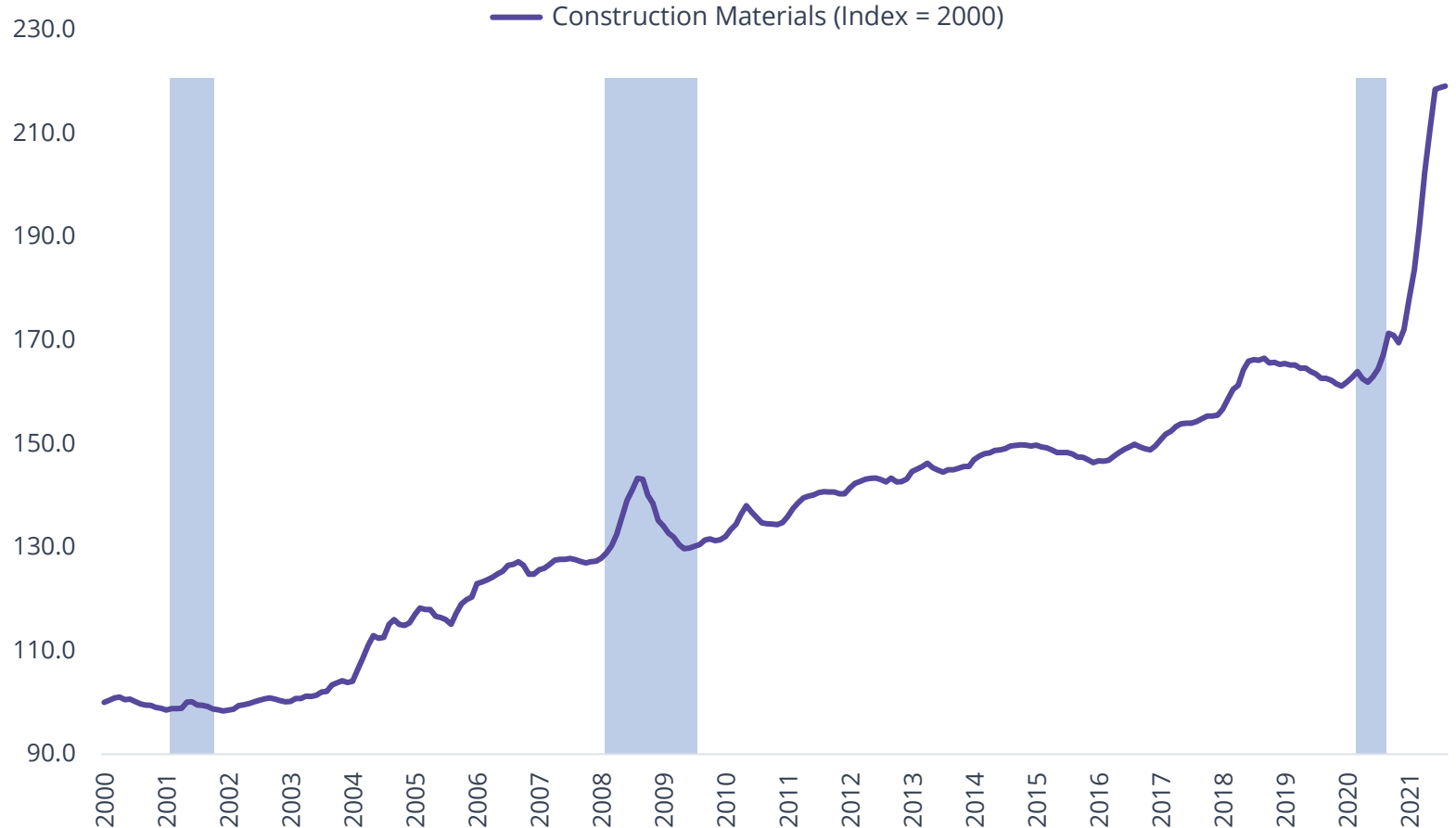
Note: Seasonally adjusted data.
Source: Bureau of Labor Statistics

Cost of construction materials

+35.3%

Construction Material Index cost from year-end 2020 to August 2021

Construction material costs have surged to start 2021, applying upward pressure on industrial pro forma rents. However, recent activity in August and September suggest that pricing is poised to moderate to 2020 levels in the coming months.



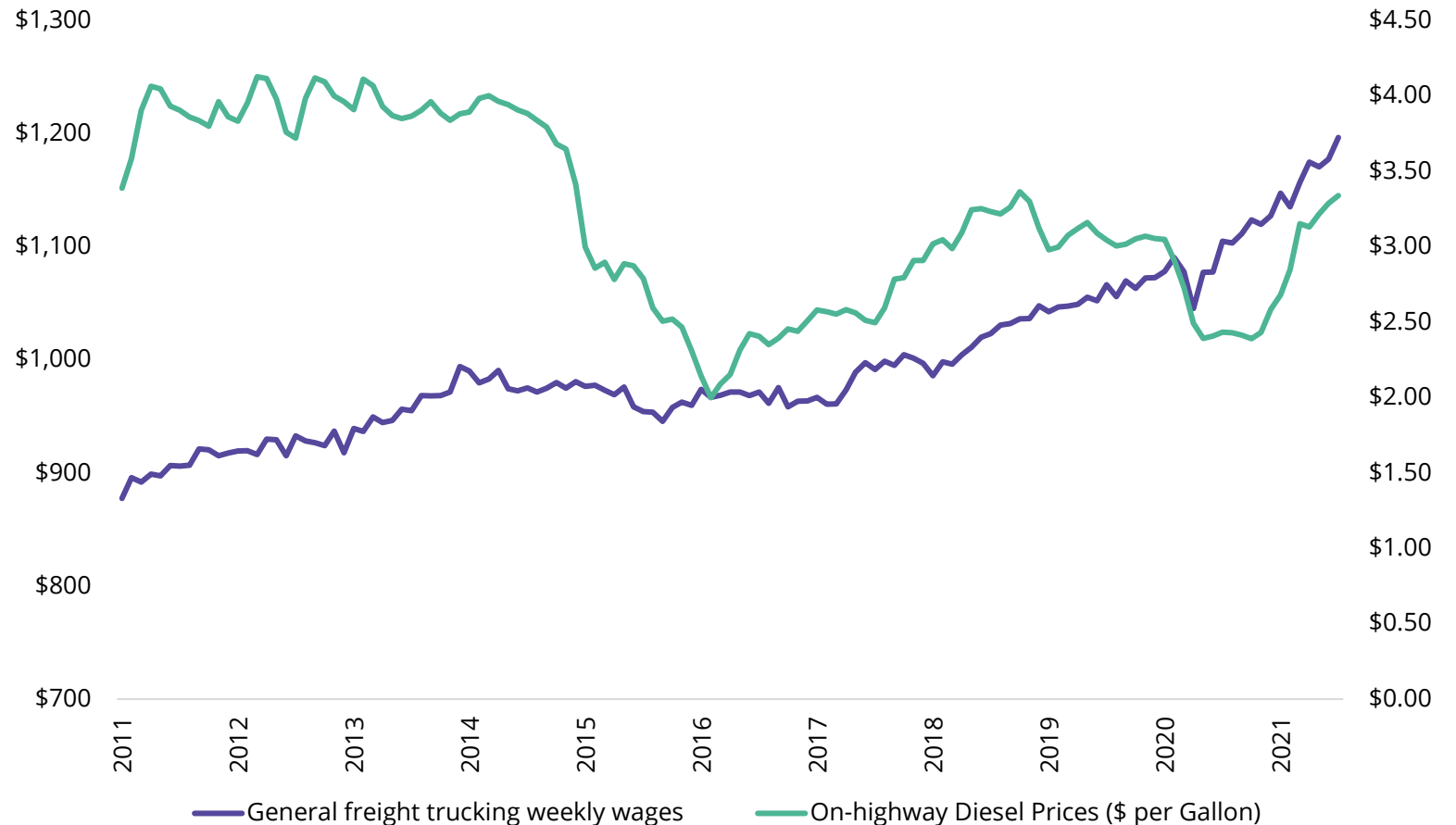
Source: Bureau of Labor Statistics

Fuel costs and freight trucking driver wages

+39.8%

**Diesel prices since
May 2020**

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.



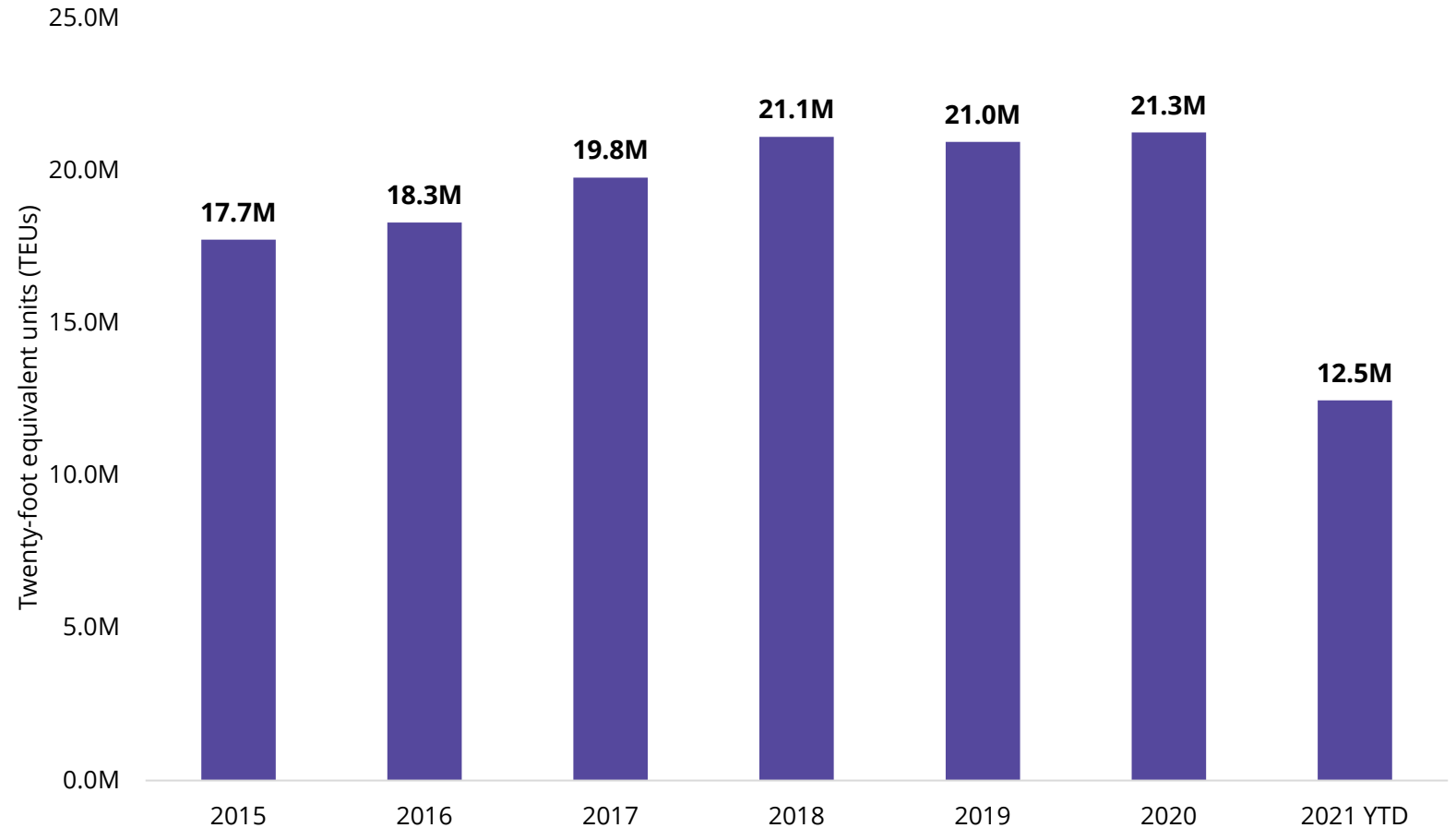
Source: Bureau of Labor Statistics, U.S. Energy Information Administration, AVANT by Avison Young

Loaded import container volumes

+24.0%

**Change in cargo volumes,
H1 2020 vs. H1 2021**

Through June, loaded imports at major U.S. seaports are up significantly over the same period last year. While activity in 2020 was impacted by the pandemic, freight flows this year have been marred by supply chain disruptions at ports.



Note: Includes Los Angeles, Long Beach, New York / New Jersey, Savannah, Virginia, Houston, Charleston, Oakland, Seattle / Tacoma, Miami, Baltimore, Jacksonville ports.
Source: individual port authority websites

New Jersey market fundamentals

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Key industrial takeaways



Economic conditions

- Reopening efforts and high vaccination rates have allowed the New Jersey unemployment rate to rebound from a high of 16.6 percent in May 2020 to **6.7 percent** in August 2021.
- Industrial jobs have risen **3.3 percent** since August 2020 with the Transportation, warehousing & utilities sector leading the way with 5.3 percent growth.
- The consumer price index has risen by **3.7 percent** since August 2020 in the New York-Newark- Jersey City MSA. Rapidly rising inflation has become a major concern for companies and consumers over the past several months.



Recovery rate

- Total year-to-date cargo volume is up **29.1 percent** at the Port of New York and New Jersey compared to the prior five-year year-to-date average. Total cargo volume is expected to be the highest it has been in the last 15 years.



Industrial demand

- Annualized leasing activity has been stable during the pandemic, sitting at **7.3 percent** higher than the long-term average of the preceding 20 years.
- Absorption through the third quarter has been extremely strong at **12.4 million sf**, on pace to surpass the 20-year high set in 2018.

Key industrial takeaways



Industrial supply

- Approximately **50.6 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 continued to drop with vacancy at a 20-year low of **2.7 percent**.



Pricing trends

- Asking rents have increased by **21.6 percent** since the start of the pandemic and 92.2 percent since the second quarter of 2015.
- Landlord-favorable market conditions have caused concession rates to steadily decline in recent years, averaging approximately **\$1.25 per square foot** of tenant improvement allowance and one month of free rent for 10-year deals.



Capital markets

- Industrial investment activity stayed strong in 2021 with **\$1.9 billion** transacting through the third quarter. The year is expected to finish off strong, as uncertainty regarding potential changes to federal capital gains taxes may push sellers to move quickly.
- High rents and low vacancy rates continue to attract investors, leading to higher valuations, which increased by **21.8 percent** since April 2020.

Employment and unemployment rate

6.7%

New Jersey unemployment rate as of August 2021, the lowest rate reported since the start of the pandemic

Before the pandemic, unemployment was at historical lows. Since the pandemic high in May 2020, the unemployment rate has dropped 990 basis points while approximately 414,000 jobs have been added.



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

Industrial job gains and losses

+ 1.8%

Change in industrial employment from January 2021 to August 2021

New Jersey has added 3.1 percent 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/(losses)

August 2020 to August 2021



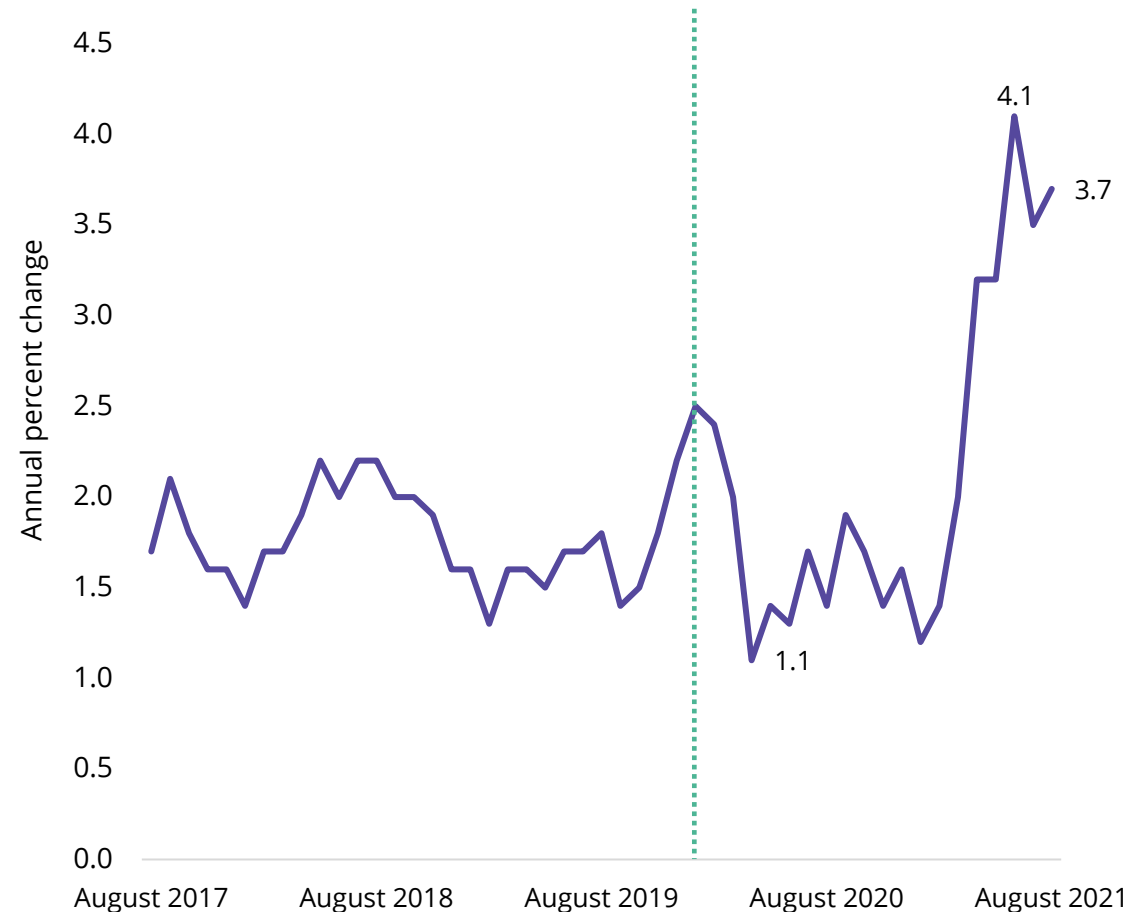
Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Inflation rates

+3.7%

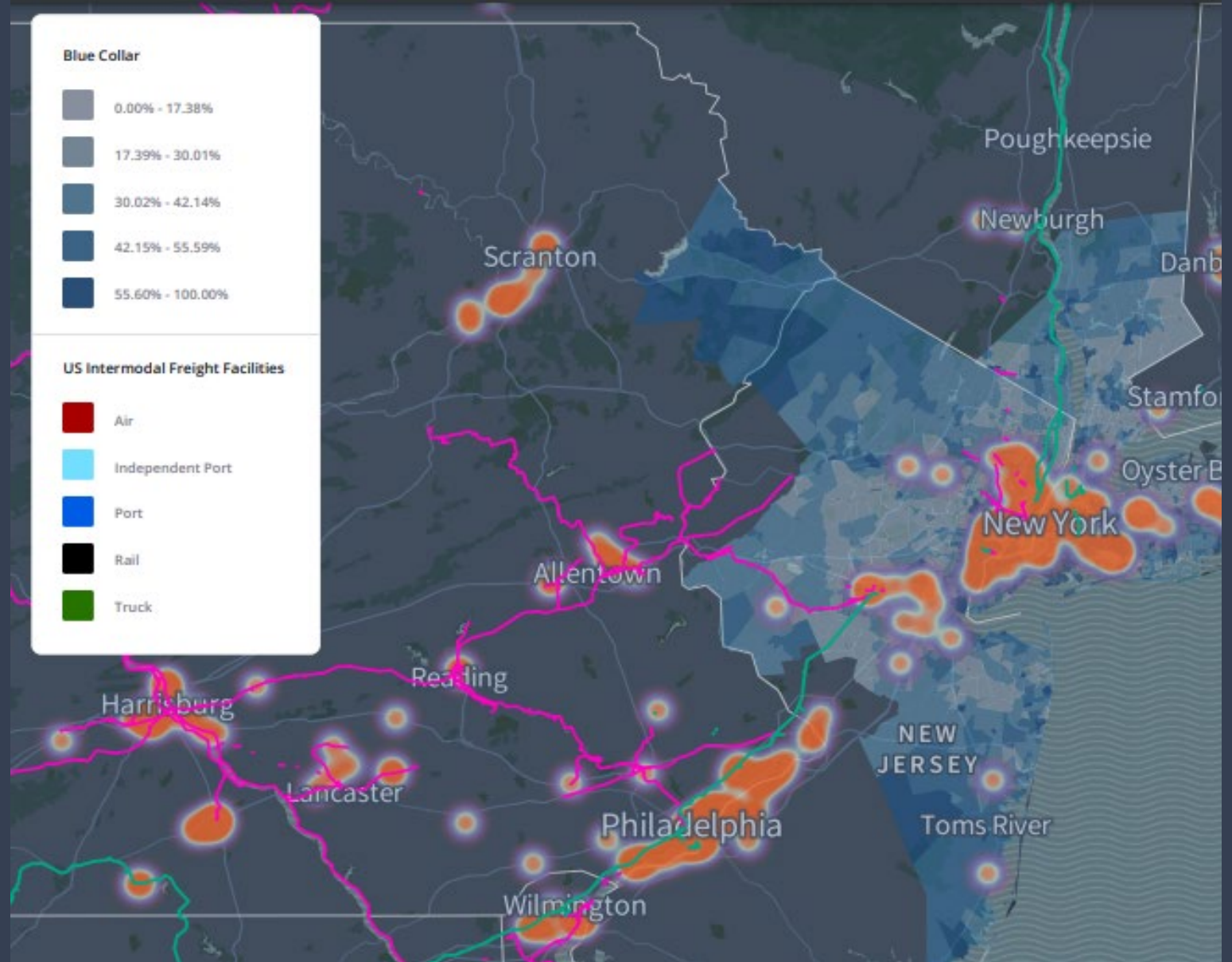
Year-over-year change in Consumer Price Index for New York-Newark-Jersey City MSA, all items

Consumer prices have risen dramatically since January 2021, with 3.0 percent year-over-year increases every month since April 2021. Food prices rose 0.5 percent and are now up 3.8 percent since August 2020. Energy costs have also risen this month, increasing by 2.1 percent in August or 21.7 percent over the last year. The index for all items, less food and energy, rose 2.6 percent year-over-year.



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

Freight rail & intermodal facilities



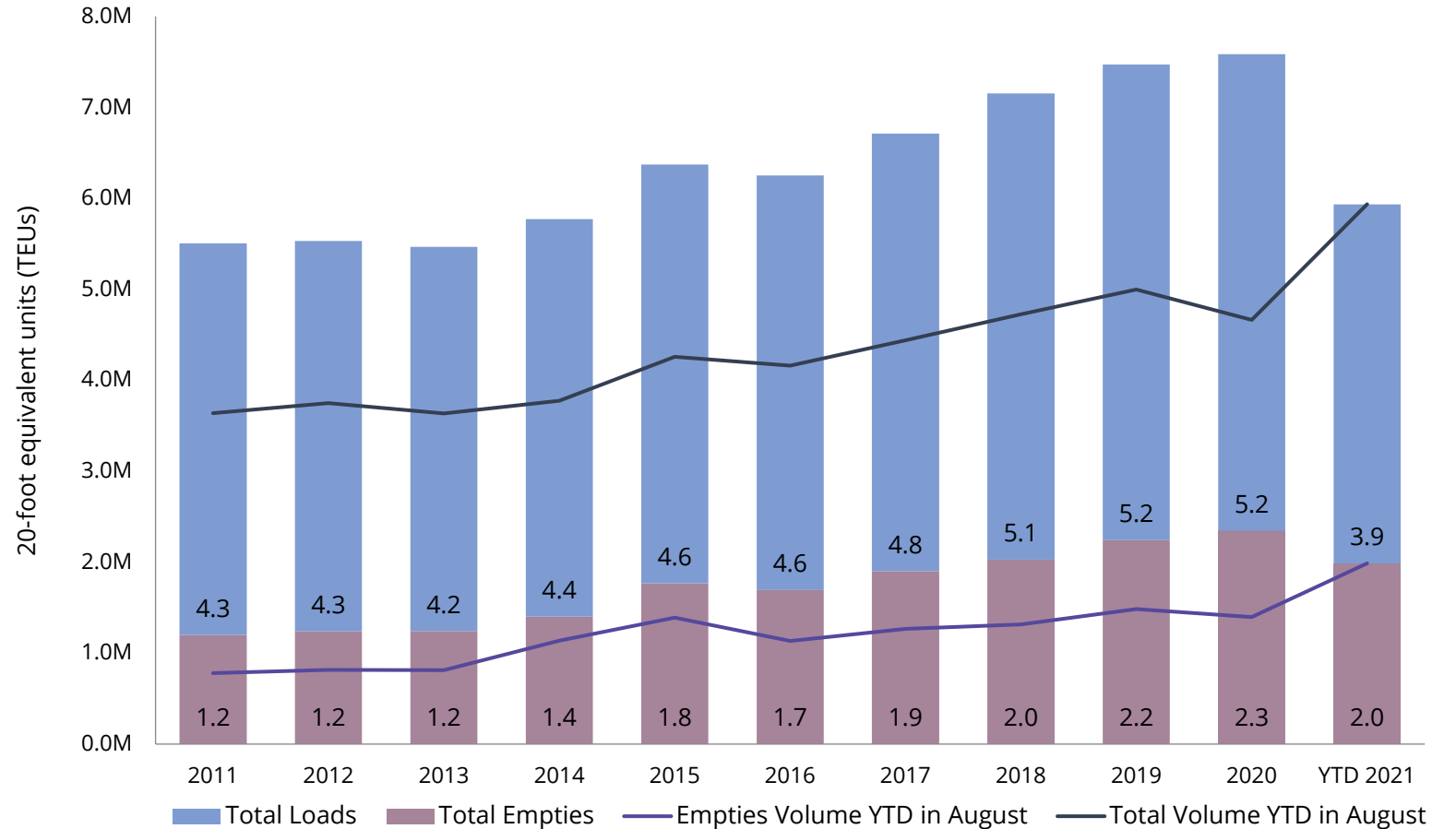
Source: AVANT by Avison Young, ESRI
 Intermodal facilities are clustered around seaport submarkets and major throughout corridors, with Class I rail lines providing connectivity throughout the country

Port of New York & New Jersey cargo volume

42.4%

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

The total number of empties through August has surpassed the number of empties for the entire year in seven of the last 10 years and continues to put a strain on the global supply chain. Total cargo volume is expected to surpass 15-year highs.



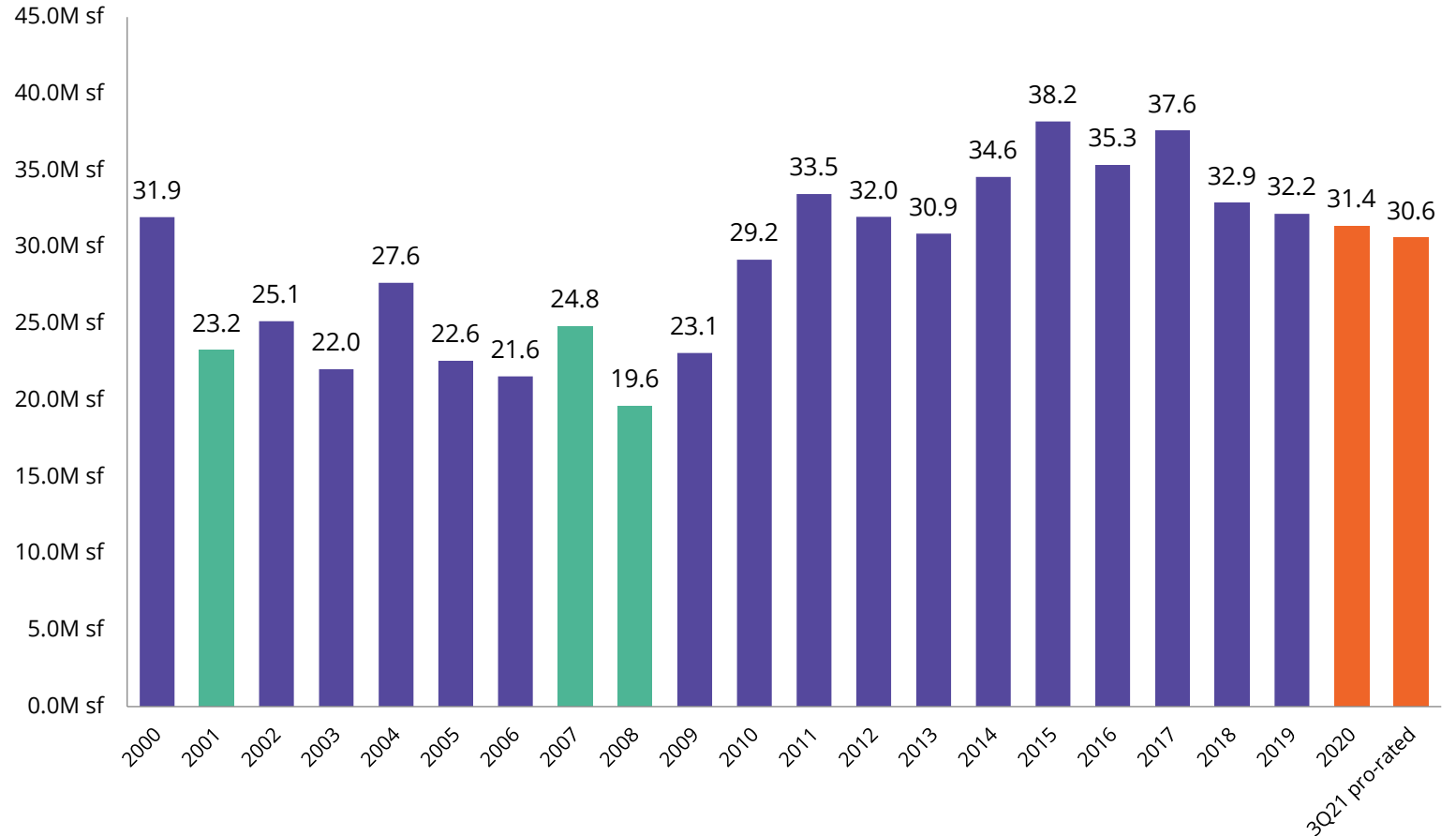
Source: Port of New York and New Jersey

Industrial leasing activity

+7.3%

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

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



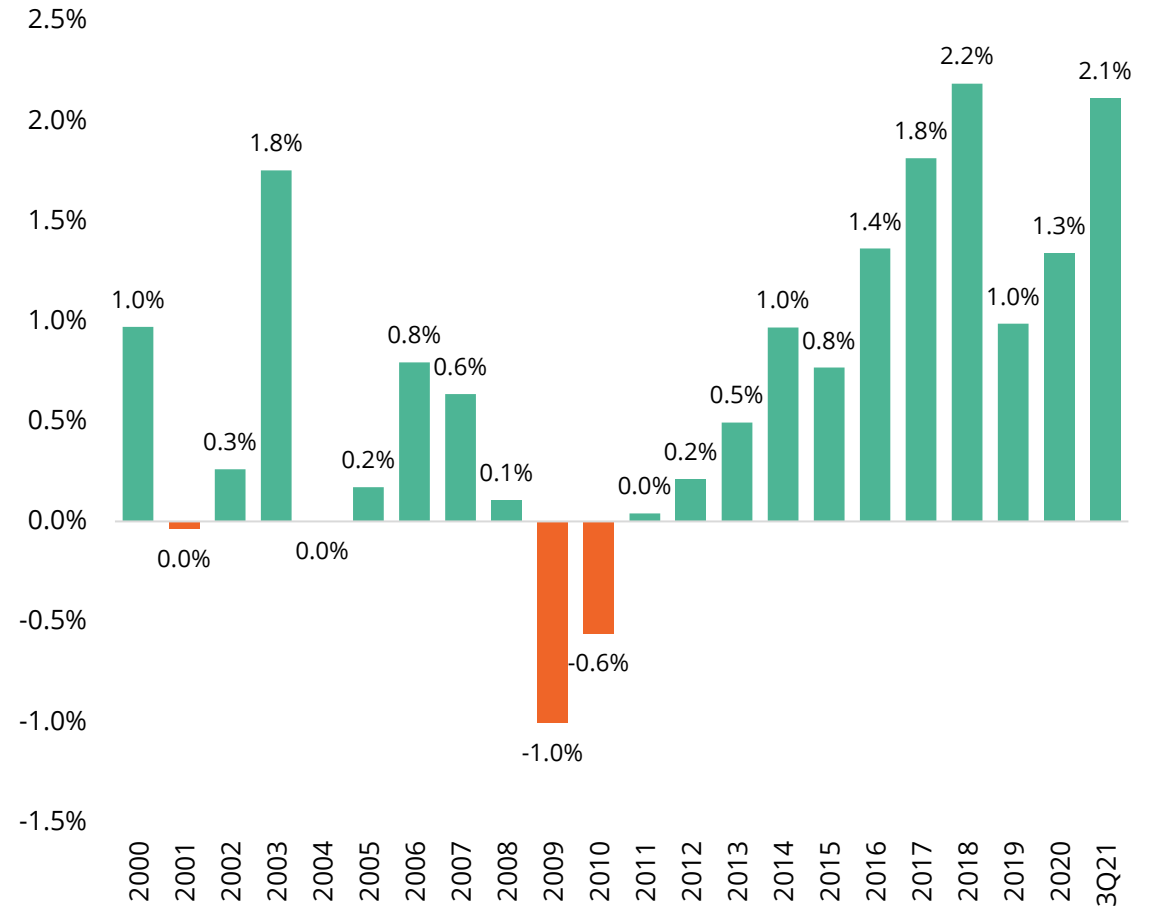
Source: CoStar

Industrial net absorption

3.4%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Absorption through the third quarter has been extremely strong and at 12.4 million sf has almost surpassed the 20-year high set in 2018. Net absorption is expected to remain healthy in the near-term as demand is positioned to outstrip supply.



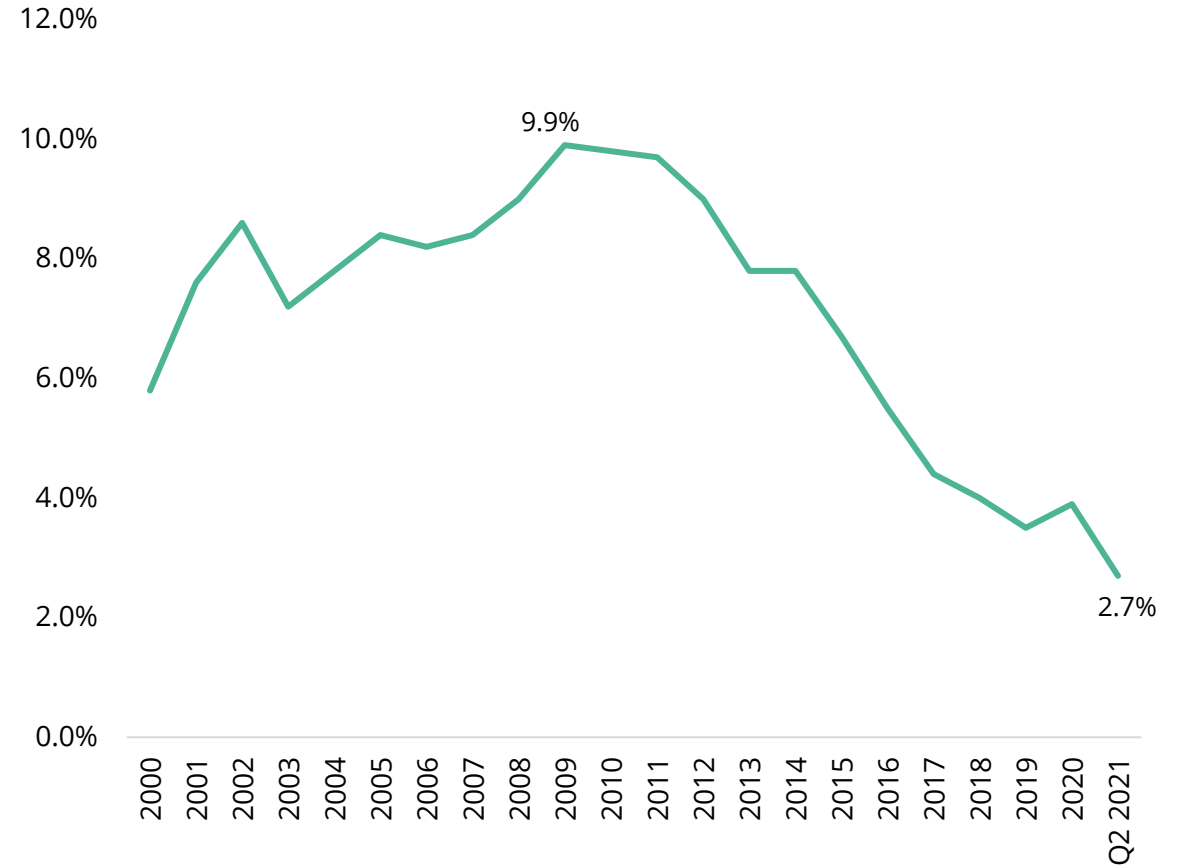
Note: Absorption is measured as the year-over-year change in occupied square feet.
Source: CoStar

Industrial vacancy rate

2.7%

**20-year record low
vacancy as of Q3 2021**

The Q3 2021 total vacancy rate reached a 20-year low, decreasing by 720 basis points from the high in 2009. These supply constraints placed limitations on leasing velocity and applied continued upward pressure on rents.



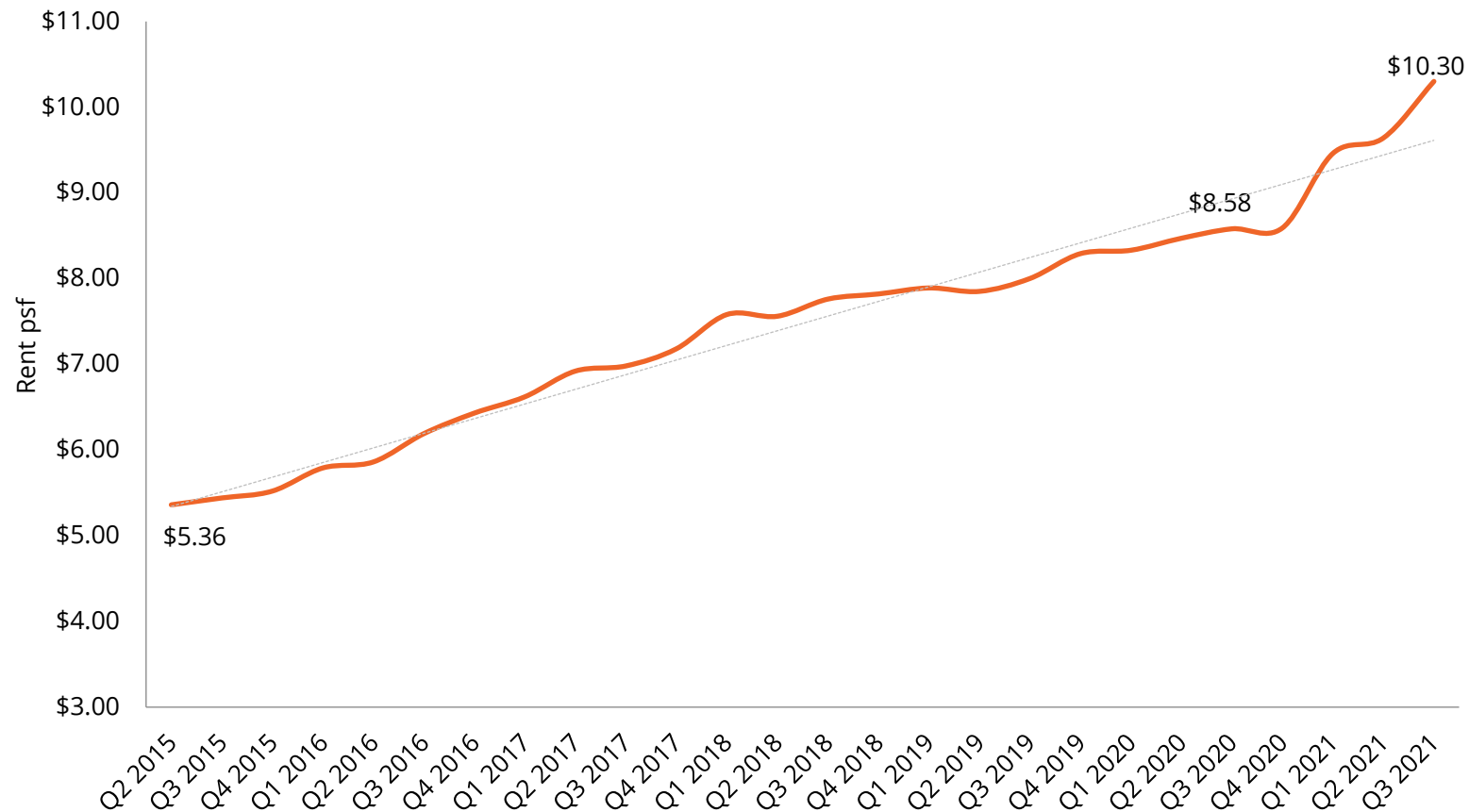
Source: CoStar

Asking rents

+21.6%

Asking rents since the onset of the pandemic

Asking rents have nearly doubled, increasing by 92.2 percent since the second quarter of 2015, and have increased by 19.9 percent year-to-date.



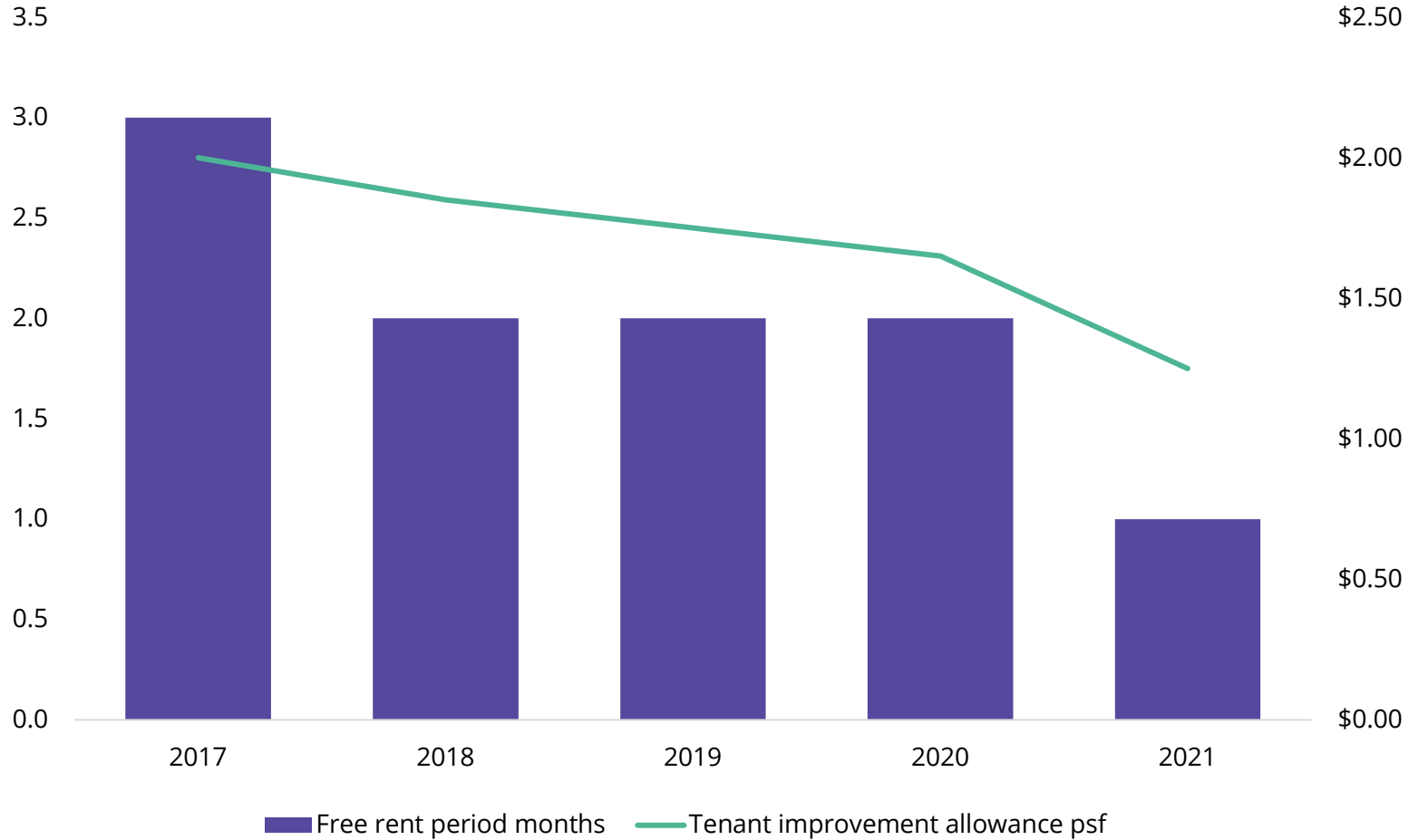
Source: AVANT by Avison Young

Concessions

-37.5%

Change in tenant improvement allowance, 2017 to Q3 2021

Landlord-favorable market conditions have caused concession rates to steadily decline in recent years, dipping to an average of \$1.25 psf for tenant improvement allowances and one month of free rent for 10-year leases.



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

Industrial development pipeline

159 properties

Proposed, under construction
or under renovation

49.5 msf

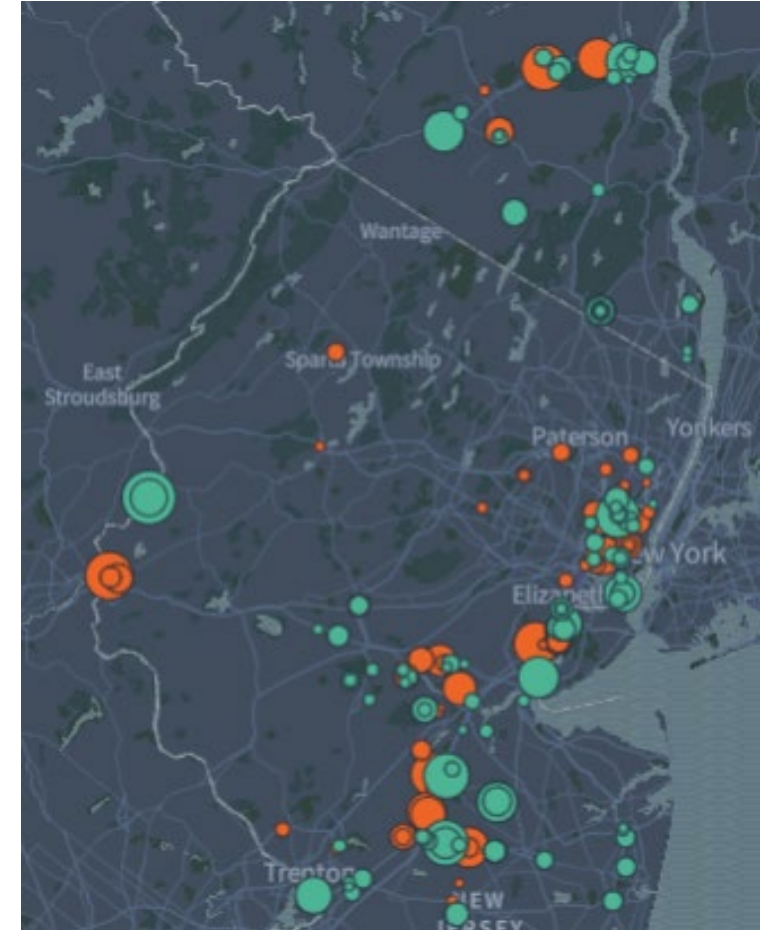
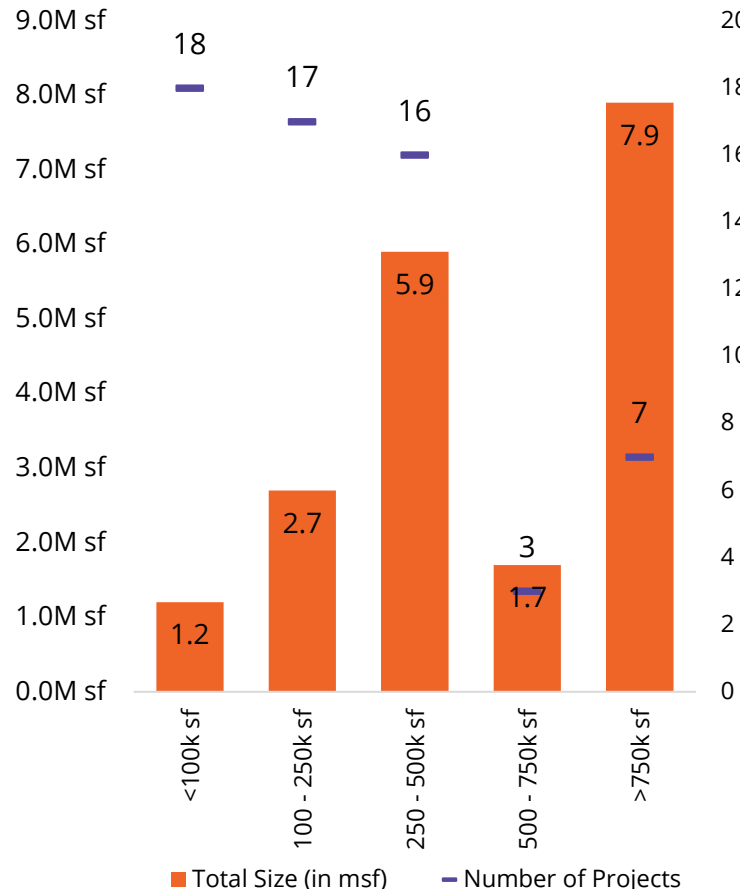
proposed or under
construction

8.4%

share of industrial
inventory

Exit 8A

Submarket with most
ground-broken projects at
six



Source: AVANT by Avison Young
Note: Green dots are Proposed; Orange dots are Under Construction; Yellow dots are Under Renovation

Investment dollar volume

\$1.9B

**Industrial dollar volume,
year-to-date 2021**

Investment sales of industrial properties have remained strong both pre- and post-pandemic as investors continue to view the New Jersey industrial market as a safe haven. Sales volumes could continue to rise during the fourth quarter of 2021 as sellers may be concerned with the uncertainties regarding potential changes to federal capital gains taxes.



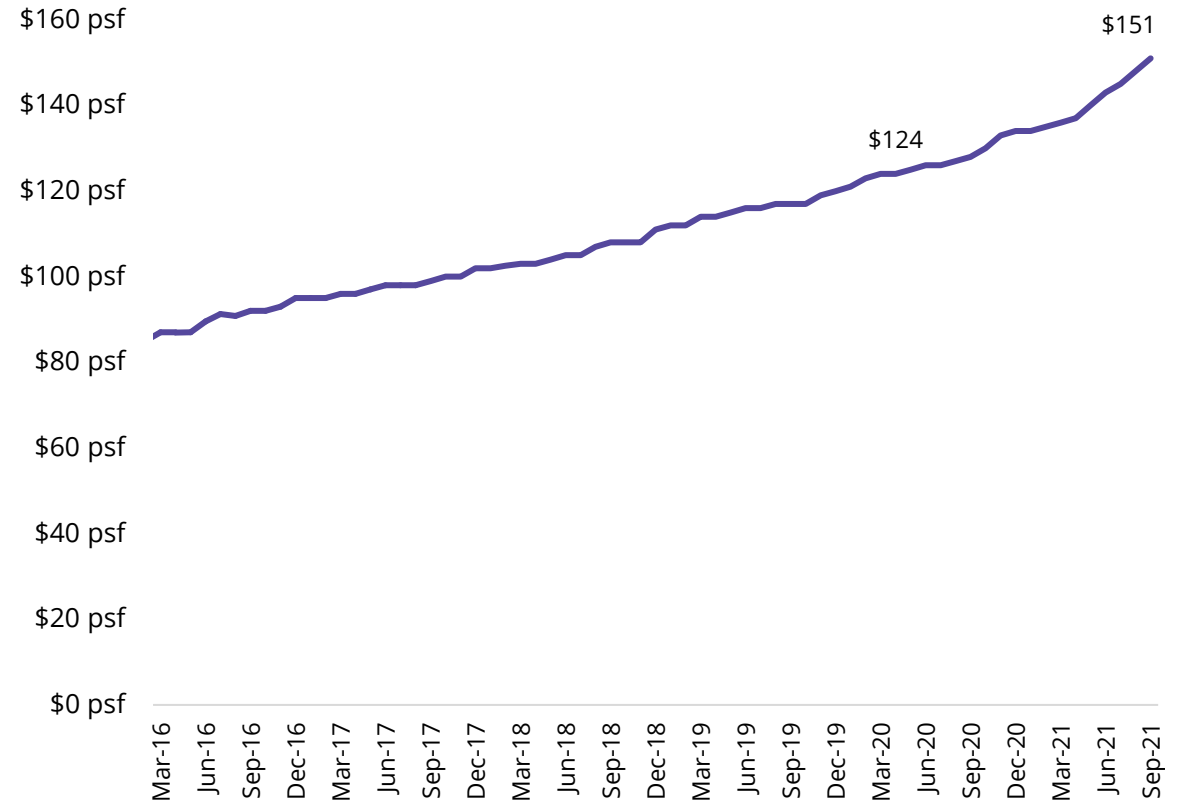
Source: AVANT by Avison Young
RCA

Industrial asset pricing

+21.8%

**New Jersey industrial asset pricing,
April 2020 to September 2021**

Pricing for New Jersey industrial assets has continued to rise as investors remain attracted to rising rental rates and stability in the market.



Source: AVANT by Avison Young
RCA



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Philadelphia market fundamentals

NEW JERSEY AND PHILADELPHIA
INDUSTRIAL INSIGHT REPORT

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Key industrial takeaways



Economic conditions

- The Philadelphia MSA unemployment rate has fallen to **6.7 percent** in August 2021, dropping 830 basis points since its pandemic high of 15.0 percent in April 2020.
- The consumer price index rose **4.6 percent** on all products since August 2020 in the Philadelphia-Camden-Wilmington MSA. One major concern is the sharp rise of energy costs, which have risen 19.2 percent over the course of the year.
- Industrial jobs have risen **1.9 percent** since January 2021 and have risen 2.9 percent year-over-year, with all three industrial job sectors showing improvement since August 2020.



Recovery rate

- Total year-to-date cargo volume is up **29.1 percent** at the Port of New York and New Jersey compared with the prior five-year average and 41.2 percent over the prior 10-year average.



Industrial demand

- Leasing activity has accelerated during the pandemic, increasing by **103.8 percent** on an annualized basis versus the prior 20-year average and 37.8 percent over the prior five-year average.
- Net absorption has been very strong through the third quarter, totaling approximately **35.0 million square feet**, already surpassing the 20-year annual high set in 2018.

Key industrial takeaways



Industrial supply

- Approximately **68.7 percent** of the square footage under construction are buildings greater than 500K square feet.
- The total vacancy rate continued its recent downward trend, falling to a 20-year low of **5.0 percent**.



Pricing trends

- Asking rents have increased by **18.0 percent** since the start of the pandemic and have continued a steady upward trajectory since 2015.
- Concessions have dipped slightly during the pandemic, with landlords offering approximately **\$1.50 per square foot** and **two months of free rent** on 10-year deals.



Capital markets

- Industrial investment activity has surged to **\$2.6 billion year-to-date** as investors have been attracted to the sector's strong underlying fundamentals.
- Investment demand has led to lower cap rates and higher valuations. Asset pricing has increased by **27.0 percent** since April 2020.

Employment and unemployment rate

6.7%

Philadelphia unemployment rate as of August 2021

The unemployment rate has fallen by 830 basis points since its high in April 2020. Reopening efforts have allowed the economy to add over 110,000 jobs since August 2020, bringing the total number of people employed to 94.4% of pre-pandemic levels.



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

Industrial job gains and losses

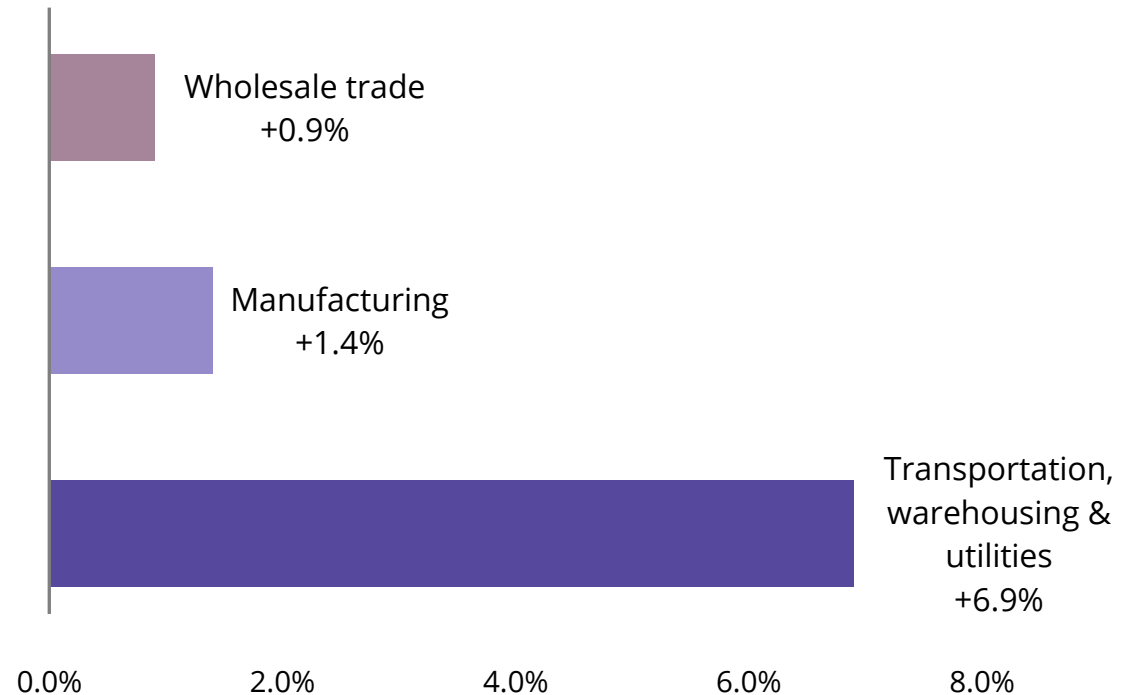
+ 1.9%

Change in industrial employment from January 2021 to August 2021

Philadelphia’s industrial labor market has expanded by 2.9 percent year-over-year, demonstrating a continued dearth of blue-collar workers. All three of the industrial job sectors are up year-over-year with Transportation, warehousing & utilities jobs leading the way with 6.9 percent growth.

Total change in Philadelphia MSA* job gains/(losses)

August 2020 to August 2021



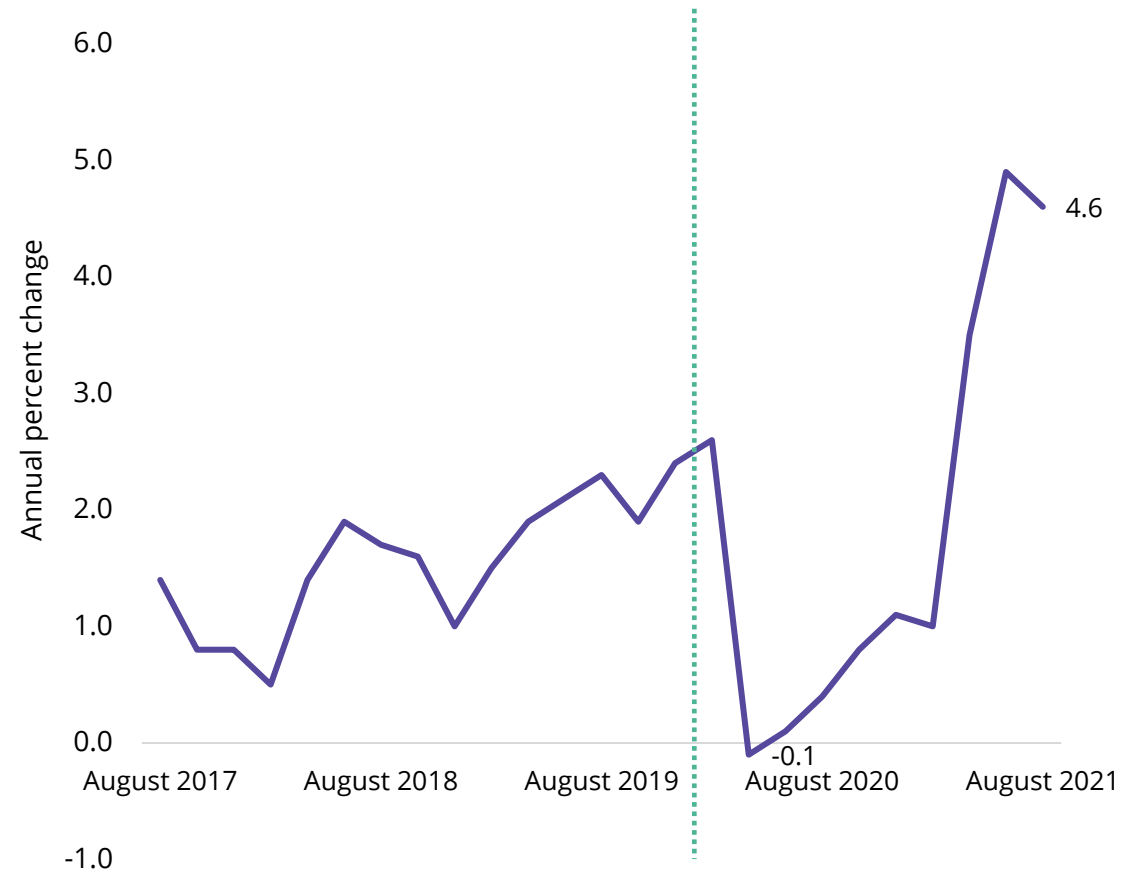
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Inflation rates

+4.6%

Year-over-year change in Consumer Price Index for Philadelphia-Camden-Wilmington MSA, all items

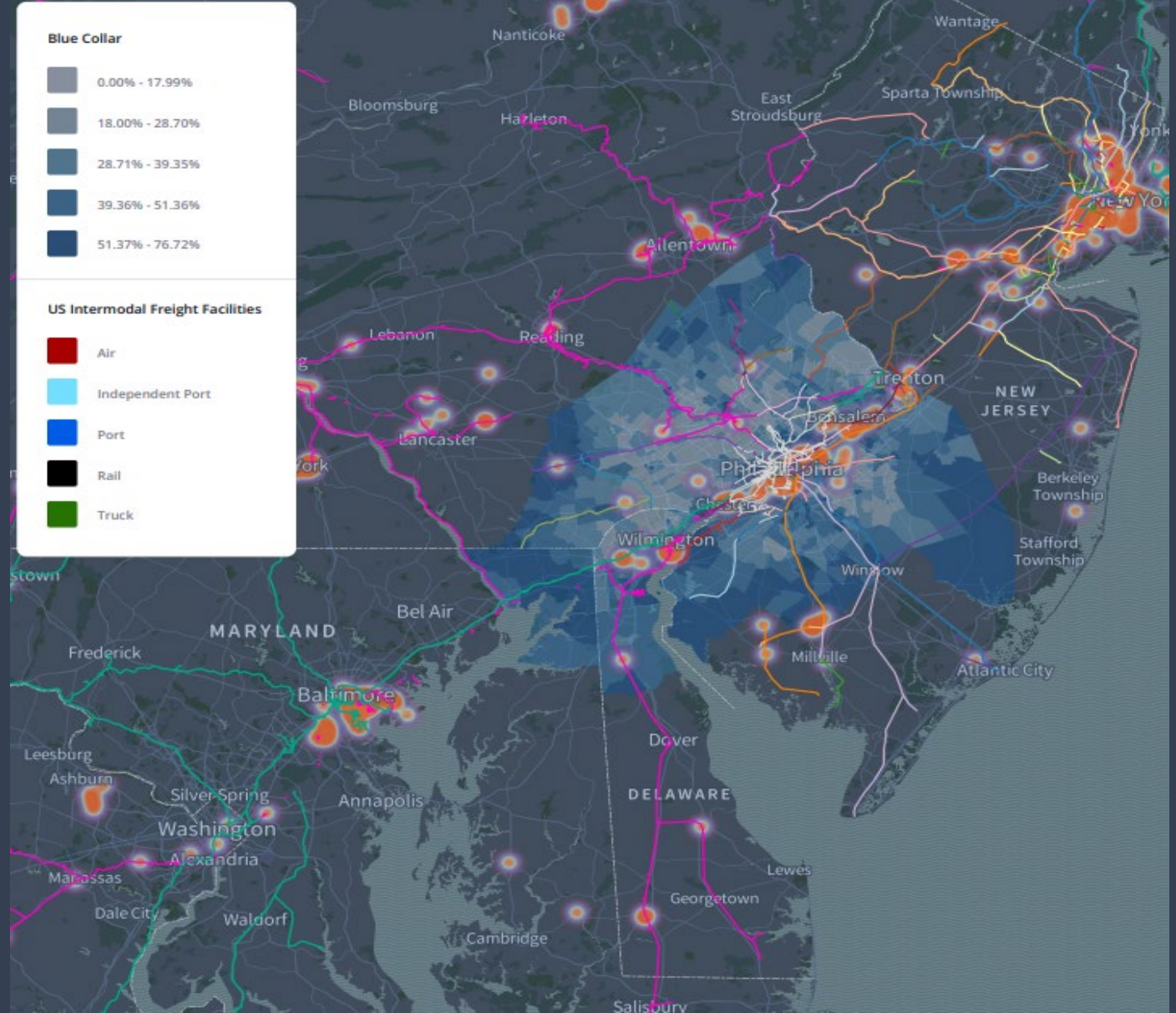
Philadelphia-area consumer prices have been increasing markedly since the beginning of the year. Energy costs have risen 19.2 percent in 2021, while food costs have increased 1.7 percent over the same period. Since August 2020, the index for all items, less food and energy, have advanced 4.1 percent.



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

Freight rail & intermodal facilities

Source: AVANT by Avison Young, ESRI
Intermodal facilities are clustered around seaport submarkets and major throughout corridors, with Class I rail lines providing connectivity throughout the country

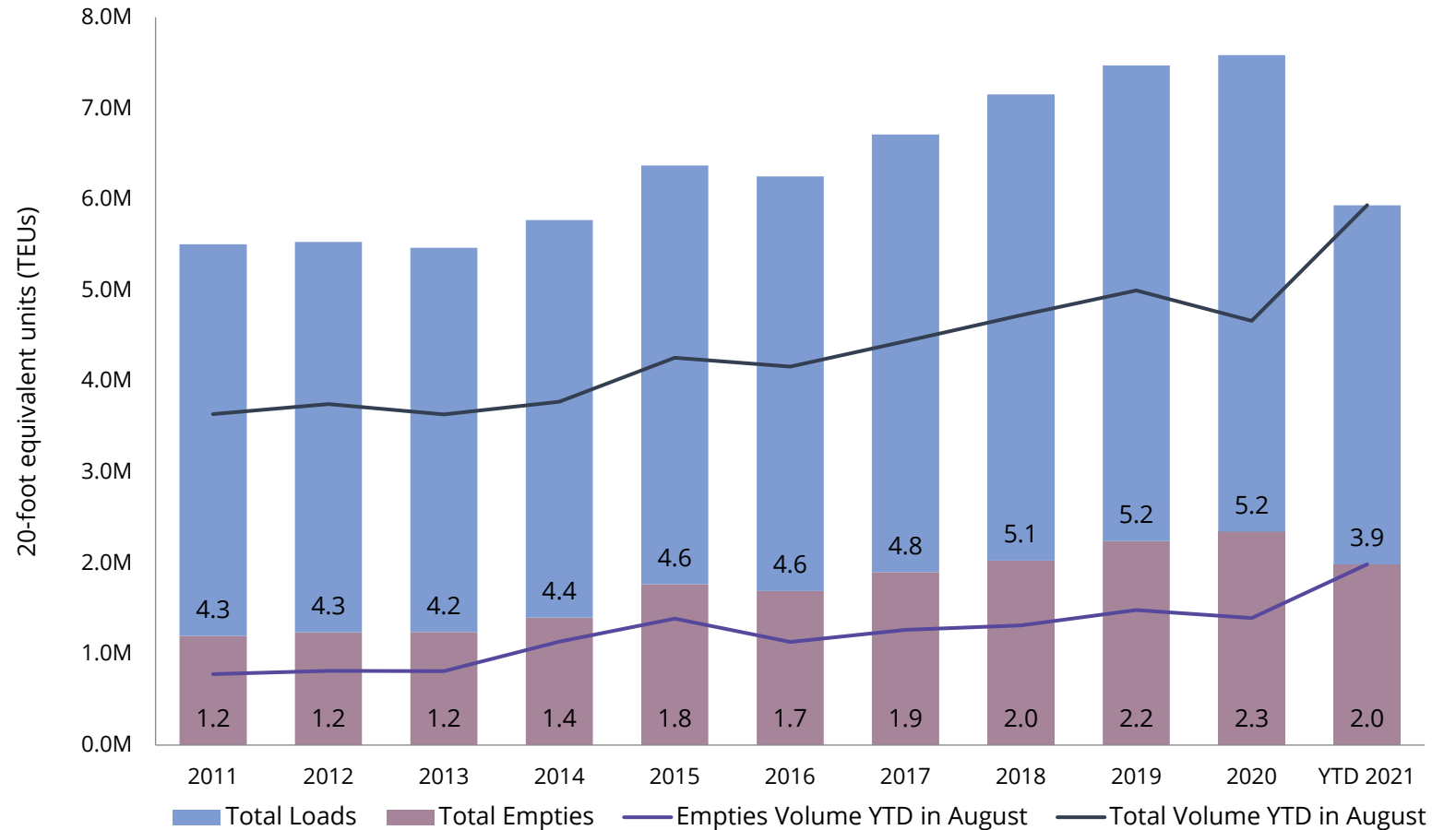


Port of New York & New Jersey cargo volume

42.4%

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

The total number of empties through August has surpassed the number of empties for the entire year in seven of the last 10 years and continues to put a strain on the global supply chain. Total cargo volume is expected to surpass 15-year highs.



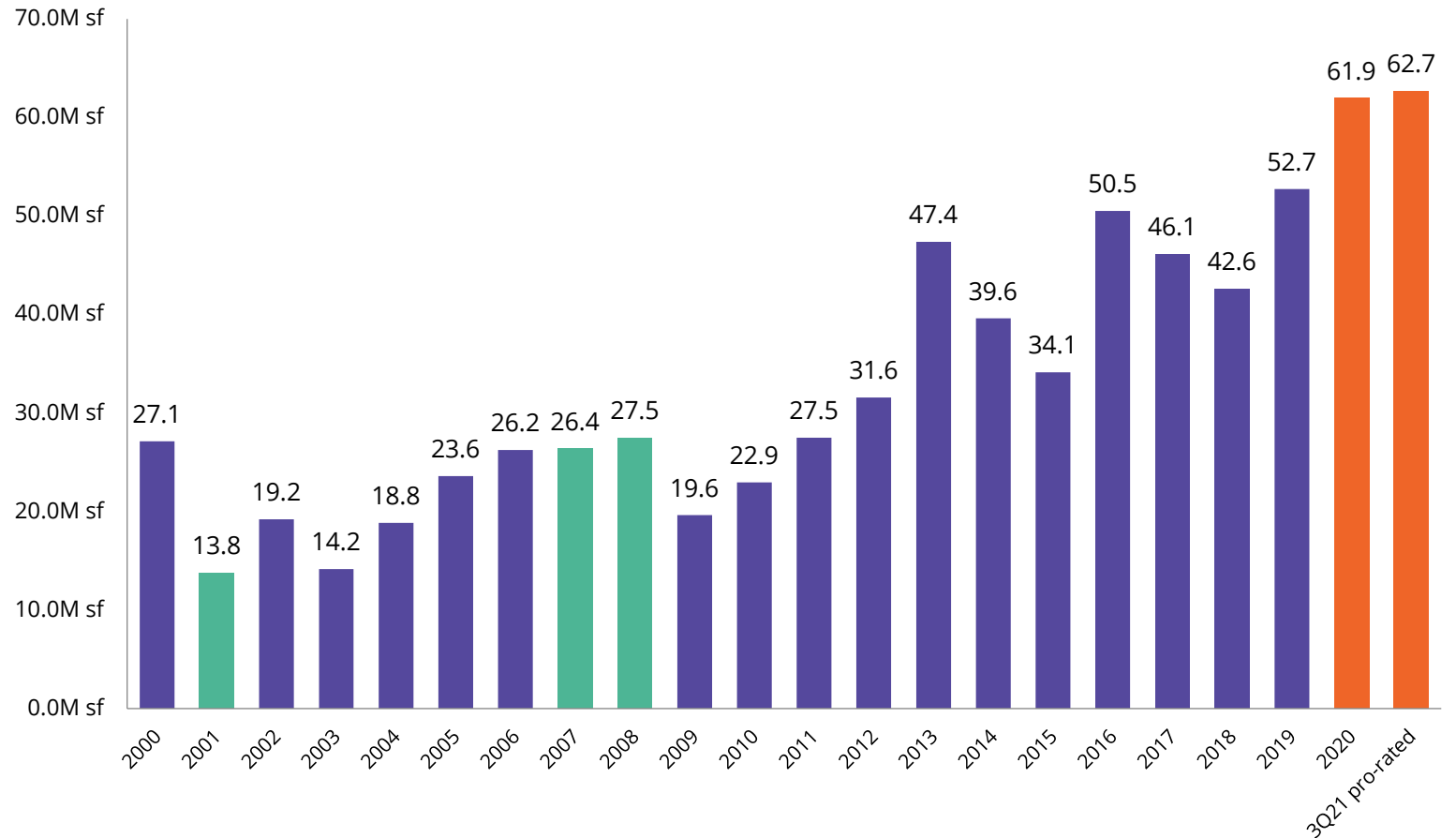
Source: Port of New York and New Jersey

Industrial leasing activity

2.0x

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 surpass it.



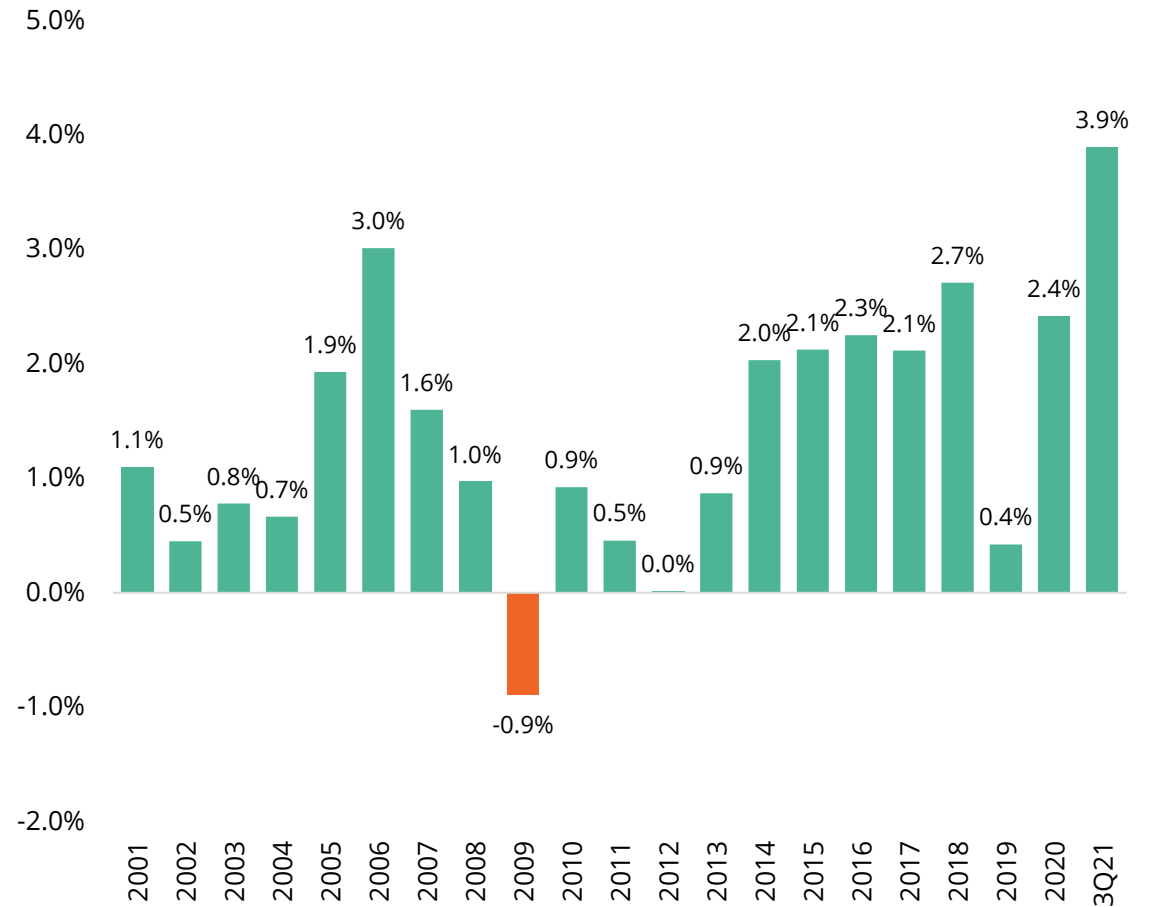
Source: CoStar

Industrial net absorption

6.3%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Absorption through the third quarter has been extremely strong, already surpassing the year-end totals for each of the past 20 years.



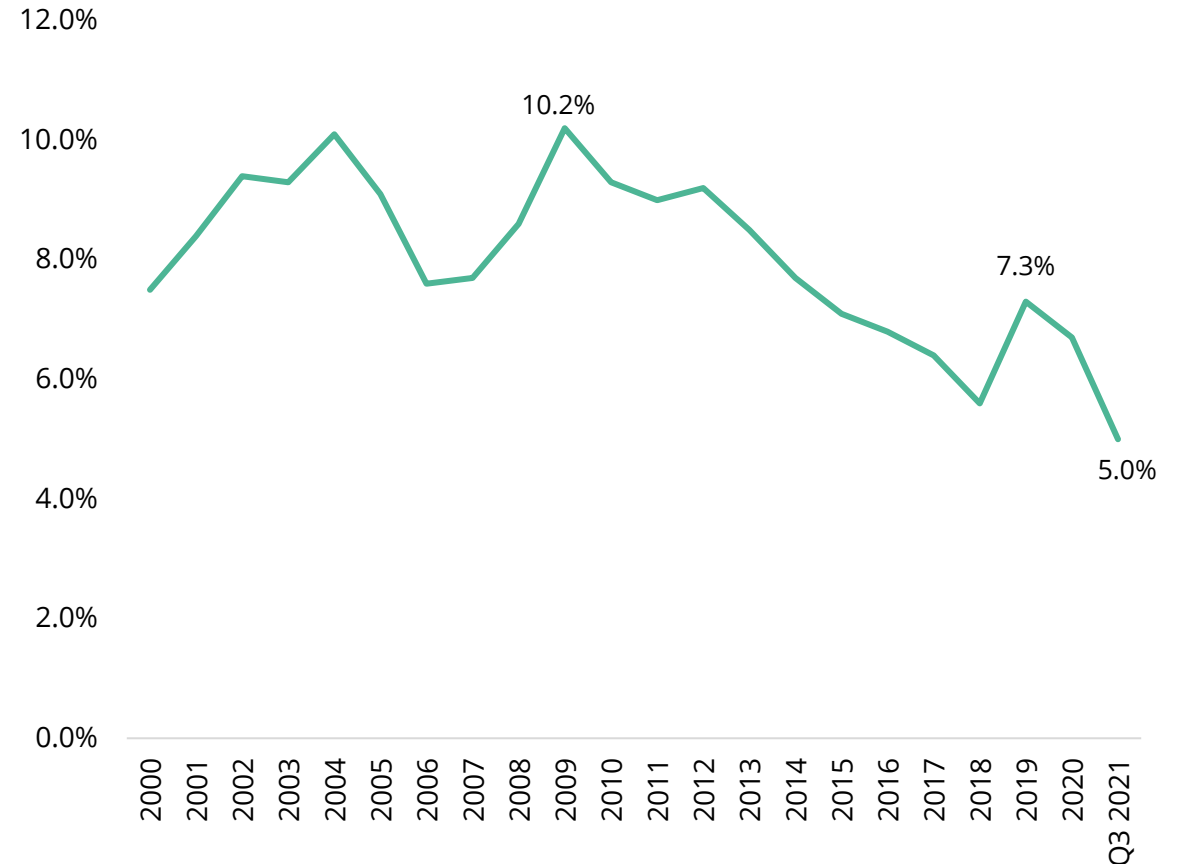
Note: Absorption is measured as the year-over-year change in occupied square feet.
Source: CoStar

Industrial vacancy rate

5.0%

**20-year record low
vacancy as of Q3 2021**

The Q3 2021 total vacancy rate set a 20-year low of 5.0%, representing a decrease of 520bp from its peak in 2009. Average asking rents have increased by 74.1 percent over that same period, underscoring how strong industrial demand has not been offset by supply additions in the Philadelphia market.



Source: CoStar

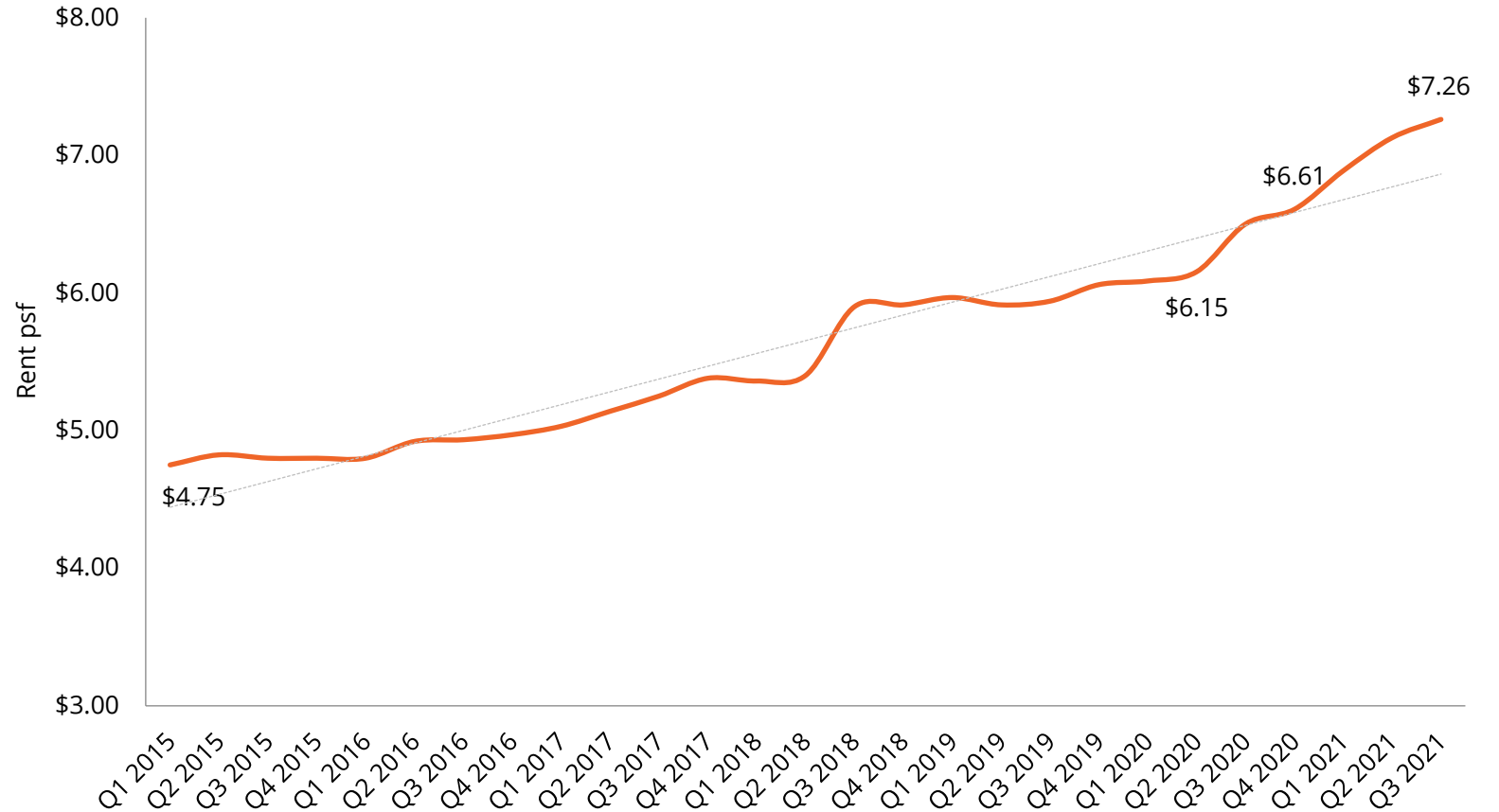
Asking Rents

+ 18.0%

Asking rents since the onset of the pandemic

Asking rents have continued their upward trajectory in the third quarter. Asking rents have increased 52.9 percent over the past 6 years.

Asking rents are positioned to continue to rise, assuming still-tightened labor and real estate conditions.



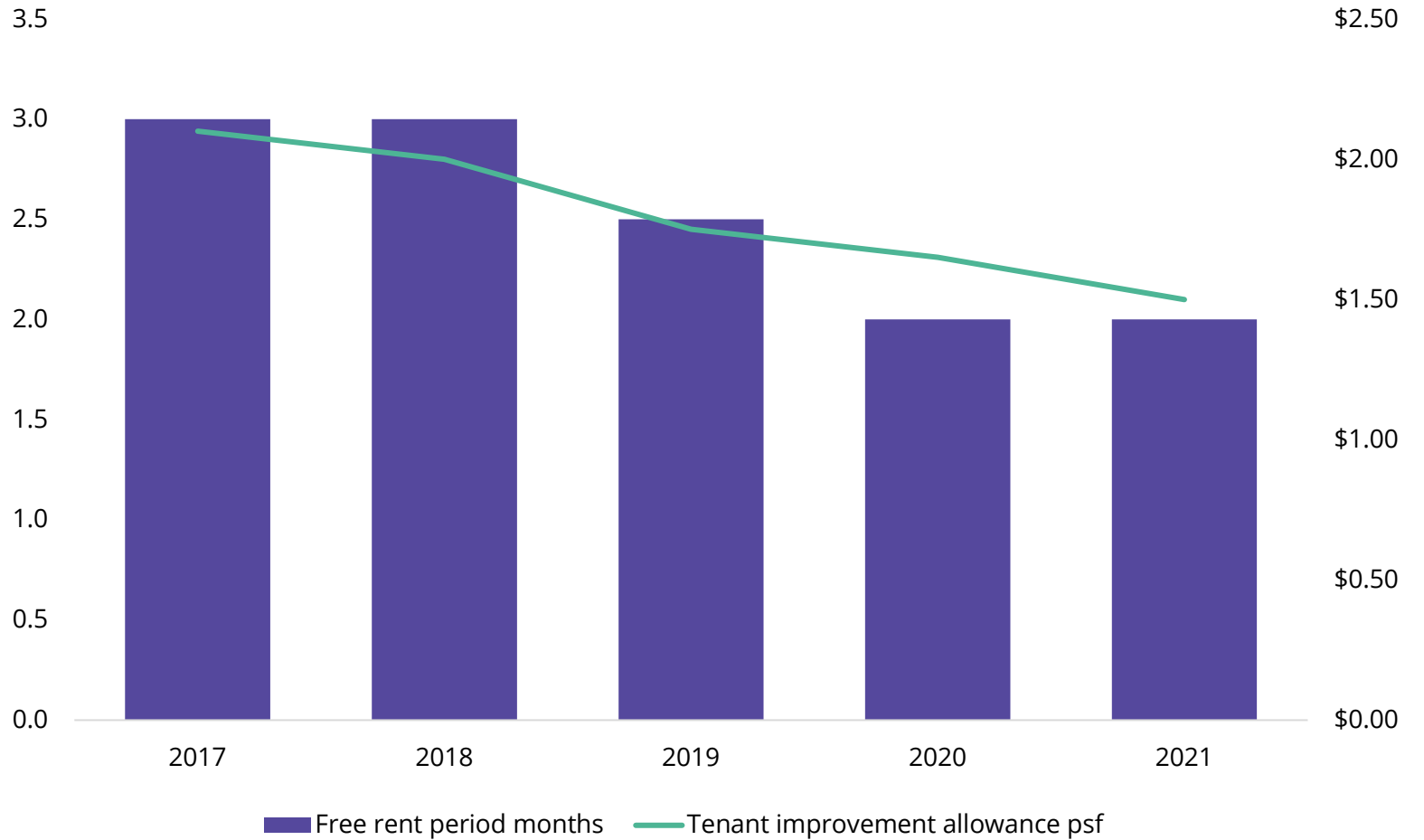
Source: AVANT by Avison Young

Concessions

-28.6%

Change in tenant improvement allowance, 2017 to Q3 2021

Concession rates have steadily declined as the market has become more favorable for landlords.



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

Industrial development pipeline

342 properties

Proposed, under construction
or under renovation

146.8 msf

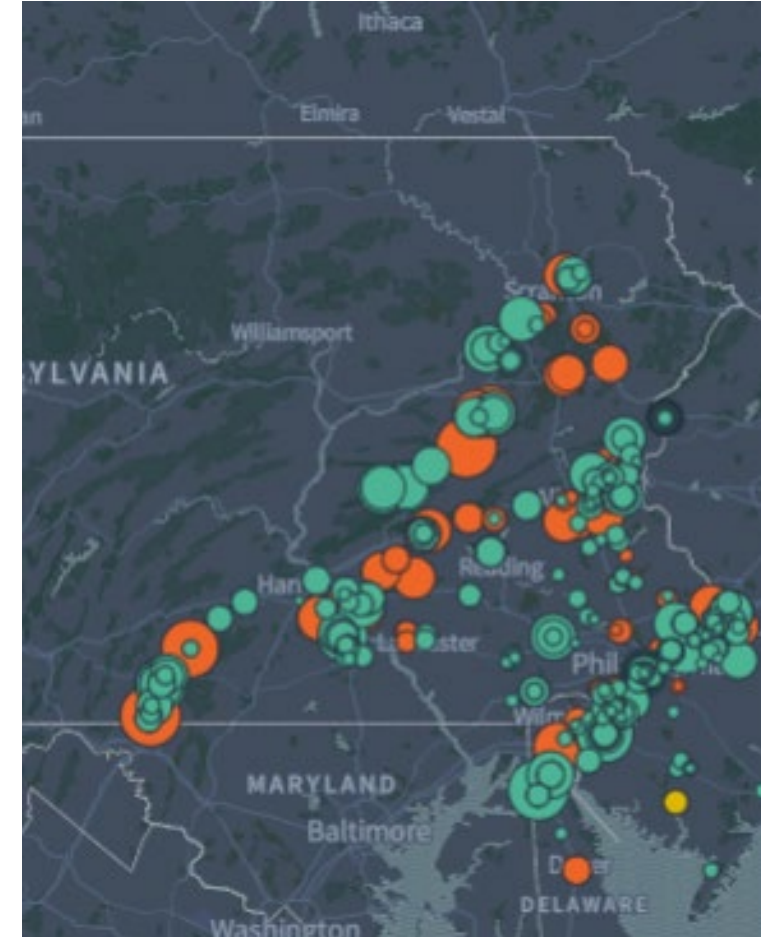
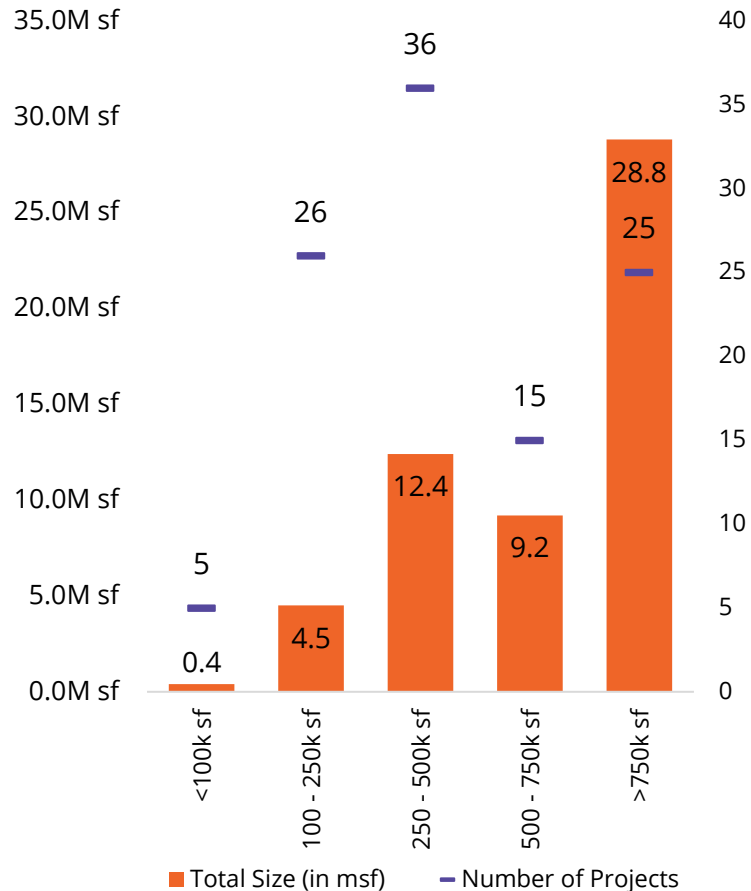
proposed or under
construction

16.8%

share of industrial
inventory

Burlington

Submarket with most
ground-broken projects at 15



Source: AVANT by Avison Young.
Note: Green dots are Proposed; Orange dots are Under Construction; Yellow dots are Under Renovation

Investment dollar volume

\$2.6B

**Industrial dollar volume,
year-to-date 2021**

Investment volume has remained strong during the pandemic, with 2021 expected to set a new seven-year high. Investment volume as of the third quarter has already surpassed the total dollar amounts reported in four of the last six years. Sales volume may increase during the last quarter of 2021, as sellers may be concerned with the uncertainties regarding potential changes to federal capital gain taxes.



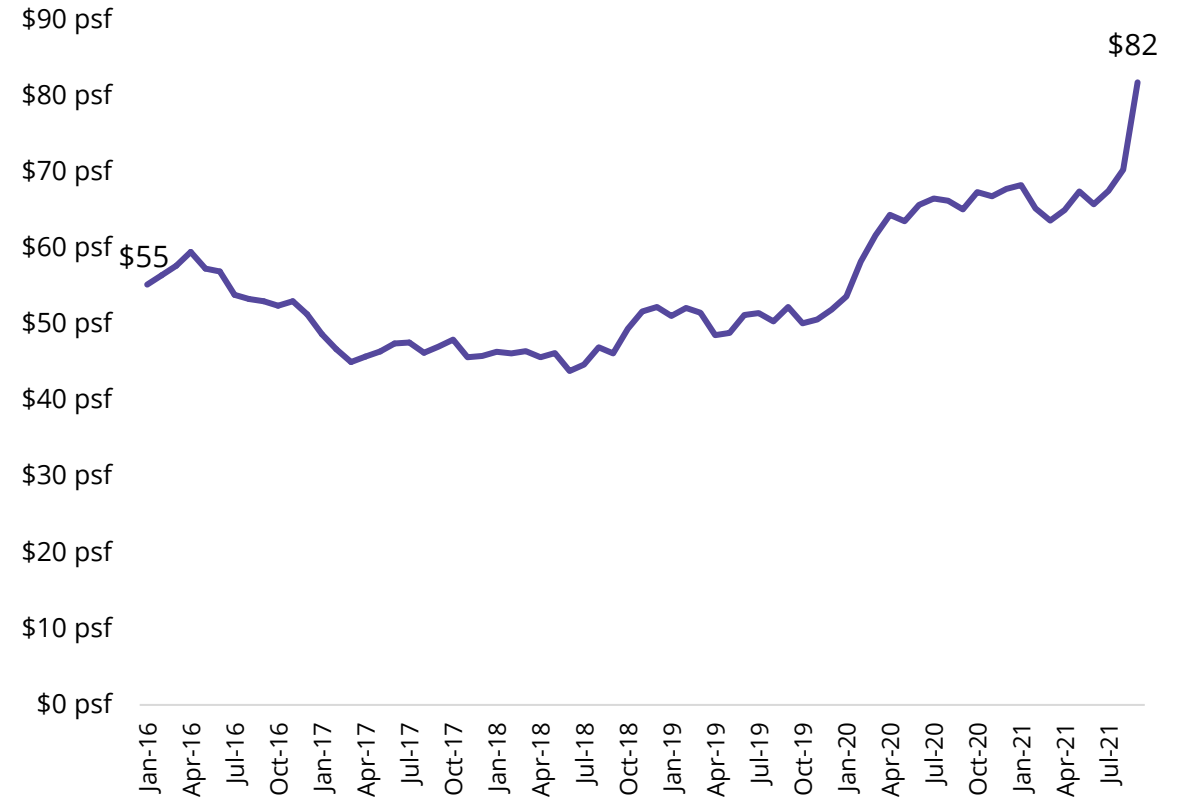
Source: AVANT by Avison Young
RCA

Industrial asset pricing

+27.0%

**Philadelphia industrial asset pricing,
April 2020 to September 2021**

Pricing for the Metro Philadelphia industrial market has continued to rise as investors and occupiers are attracted to the region’s population density, which supports last-mile distribution and logistics operations. Additionally, the region has seen an influx of new occupiers seeking value alternatives to the more expensive Northern New Jersey market.



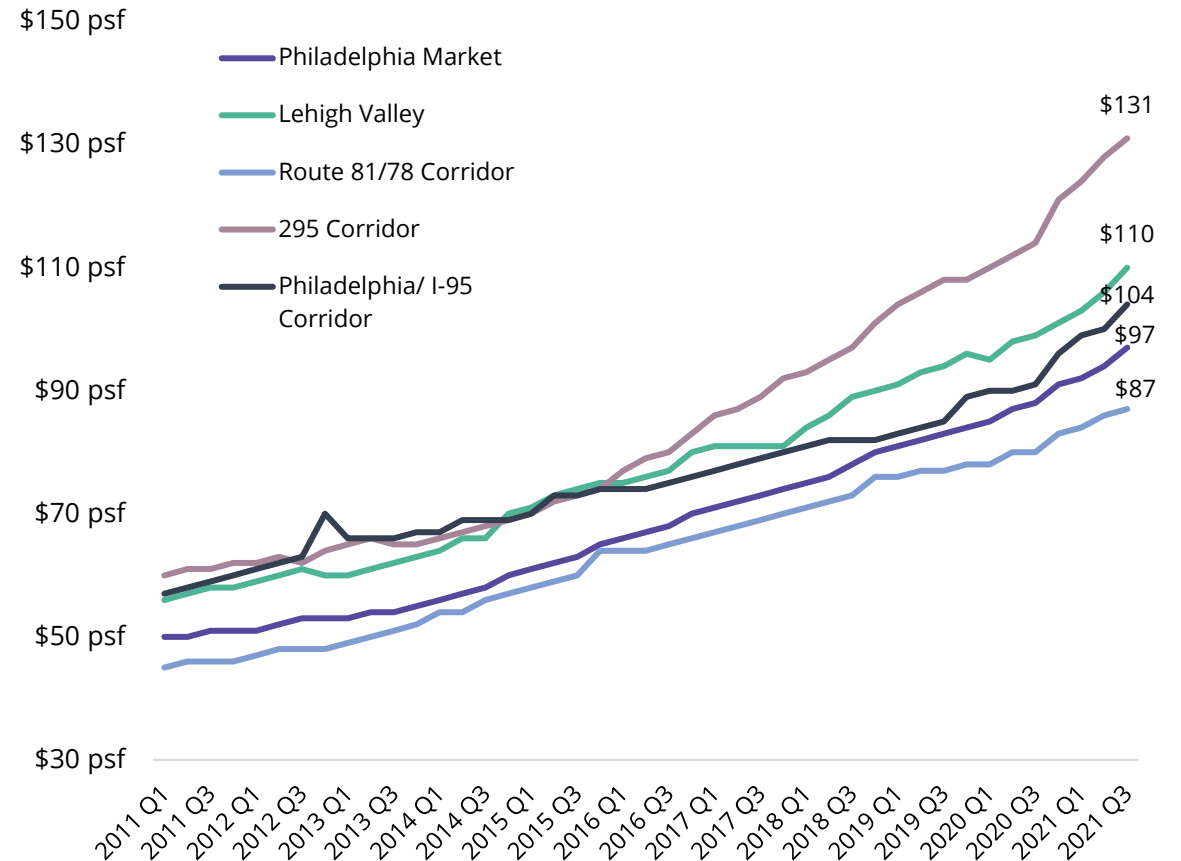
Source: AVANT by Avison Young
RCA

Industrial asset pricing for select submarkets

+ 14.1%

Philadelphia industrial pricing, April 2020 to September 2021

Pricing for new class A industrial properties continues to rise. The 295 Corridor has led the way, as the value of industrial properties sold has increased by 118.3 percent over the past 10 years.



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

Select submarket cluster fundamentals

| Submarket | Existing Inventory (SF) | Q3 2021 Vacancy % | Q3 2021 Net Absorption (SF) | Under Construction (SF) | Avg Asking Lease Rate |
|----------------------------|-------------------------|-------------------|-----------------------------|-------------------------|-----------------------|
| Philadelphia/I-95 Corridor | 5,608,334 | 2.9% | 131,522 | 5,881,764 | \$6.90 |
| Interstate 295 Corridor* | 36,826,549 | 3.4% | 2,966,912 | 7,303,422 | \$7.42 |
| Interstate 81/78 Corridor | 64,570,299 | 8.2% | 2,064,745 | 6,232,248 | \$5.62 |
| Northeastern Pennsylvania | 27,563,533 | 12.2% | 2,216,951 | 7,306,828 | \$5.43 |
| Lehigh Valley | 58,999,037 | 6.0% | 5,186,670 | 6,342,698 | \$7.25 |

Source: AVANT by Avison Young, CoStar

Note: Class A Buildings built after 2000

* Includes New Castle County, DE



Looking forward and contacts

NEW JERSEY AND PHILADELPHIA
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Looking forward



Here's what we can expect

- **The gas tax in New Jersey was lowered in October by 8.3 cents per gallon** to 42.4 cents on gasoline and 49.4 cents on diesel. Pennsylvania currently charges 58.7 cents per gallon on gasoline, though legislators are exploring transitioning from a per-gallon to a vehicle-miles-traveled tax.
- Even with the significant scale of projects in the development pipeline, **demand is expected to outstrip supply.**
- With the continued growth of rental rates, **owners have been hesitant to renew tenants early**, instead waiting until the renewal notice deadline to start negotiations.
- **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** if sellers become wary of potential changes to capital gains tax structures.



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**AVISON
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Let's talk

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