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**LEHIGH VALLEY
COMMERCIAL REAL ESTATE REPORT**
OFFICE & INDUSTRIAL
MARKETS

ISSUE # 013

Q1 2018



LEHIGH VALLEY
economic development

One of the core principles of the Lehigh Valley Economic Development Corporation (LVEDC) is to serve as the leading source of economic data and market intelligence on the Lehigh Valley's economic assets and resources to serve our economic strategies, marketing efforts, and the needs of our stakeholders. To that end, LVEDC prepares a series of quarterly reports about the real estate climate in the Lehigh Valley. This report focuses on the region's office, industrial, and flex markets.

CURRENT CONDITIONS

The Lehigh Valley's industrial market continues to grow, and has surpassed 11 million square meters.

The region's industrial market has reached a total inventory of 11.1 million square meters as of the first quarter of 2018, with 99,000 square meters in deliveries so far this year, and another 335,000 square meters currently under construction. Overall industrial vacancy rates in the region are 6.3 percent.

The Lehigh Valley continues to experience a shortage of small-footprint industrial buildings in the 3,750 to 7,500 square meter range. More than 55 percent of the 1.2 million square meters of inventory within this range was built prior to 1980, and of the 111 buildings constructed after that time, 94 are 100 percent occupied.

The regional office market stands at 2.5 million square meters, with 1,061 square meters in year-to-date deliveries as of the first quarter of 2018. Lehigh Valley office rents have decreased, both in Q1 2018 and year-over-year.

All of the office space added in the Lehigh Valley in 2017 was medical office space, and 316,000 square meters (or 12.8 percent) of the total 2.5 million office space in the Lehigh Valley is medical.

The Lehigh Valley has added more than 24,000 jobs in the last five years. The region's unemployment rate as of February 2018 is 4.9 percent, which is roughly consistent with the state of Pennsylvania and slightly higher than the national rate. The Lehigh Valley is the 65th largest economy in the United States, with an economic output of \$39.1 billion that is larger than the states of Wyoming (\$38.5 billion) and Vermont (\$31.5 billion), as well as 108 other countries in the world.

- Jarrett Witt,
LVEDC Director of Business Development

BROKER PERSPECTIVE

"The Lehigh Valley's industrial market has started 2018 with encouraging leasing activity. The core market area's (Lehigh & Northampton counties) vacancy rate should be sufficient to satisfy a number of prospective tenants in the market and to propel 2018's net absorption toward a typical annual level (370,000 to 560,000 square meters). A dearth of smaller industrial spaces is being addressed by the construction of a handful of buildings in infill locations. Market participants have generally optimistic long-term projections as the manufacturing cluster appears to be growing while retail supply chains continue to evolve in response to ecommerce and new customer expectations. Labor supply is an inhibitor to growth, particularly for employers wanting to fill higher-skilled and technical positions."

- Michael Alderman, *Vice President, Market Officer Pennsylvania at Liberty Property Trust*

Lehigh Valley SNAPSHOT: INDUSTRIAL MARKET

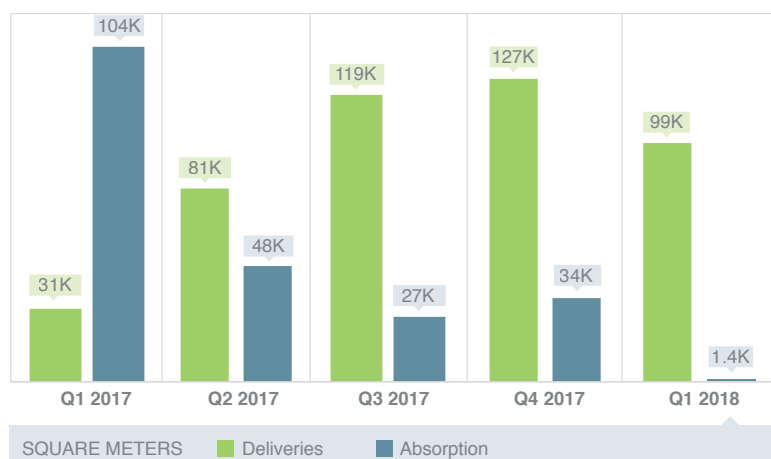
MARKET SUMMARY

The Lehigh Valley's industrial property market exceeds 11 million square meters.



11.1 Million Total Inventory (SM)	1,359 Net Absorption (SM)	\$62.22 Average Asking Rent (NNN)	338,000 Total Under Construction (SM)
6.3% Total Vacancy	1,359 2018 Net Absorption (SM)	8.4% YOY Rent Growth	99,000 YTD Deliveries (SM)

SUPPLY & DEMAND (SM)



ASKING RATE (PER SM)



SMALL-FOOTPRINT INDUSTRIAL BUILDINGS (3,750 - 7,500 SM)

55.3%
built prior to 1980



44.7%
built since 1980

UNDER
CONSTRUCTION
0

111 BUILDINGS
BUILT SINCE 1980

94 are 100% occupied
13 are 50-100% occupied
4 are 0-50% occupied

Average asking rent increased 10.2% in the past year, and 34.6% in the last 5 years.



Includes Flex. Source: CoStar 3-31-18 data set, LVEDC Research



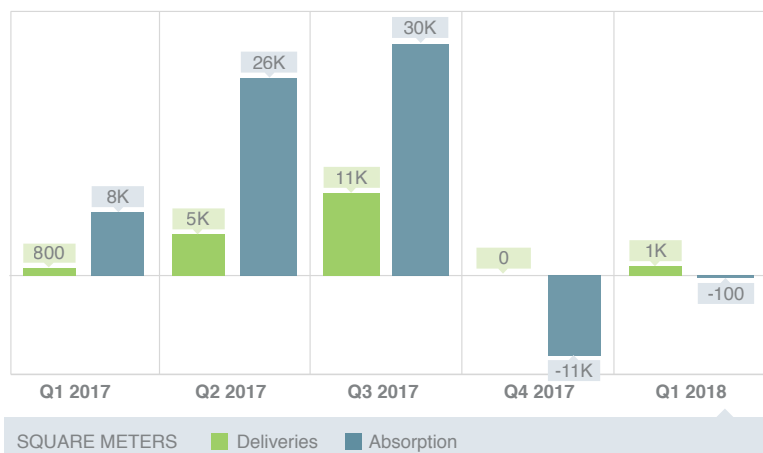
Lehigh Valley SNAPSHOT: OFFICE MARKET

MARKET SUMMARY

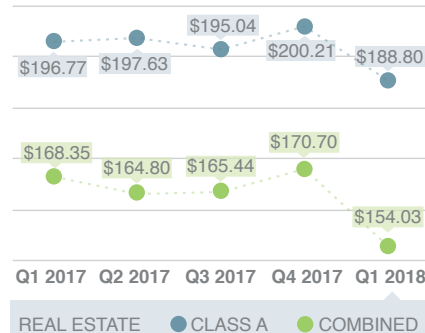
The office vacancy rate has decreased from 9.2 percent to 7.9 percent in the past year.

2.5 Million Total Inventory (SM)	-107 Net Absorption (SM)	\$154.03 Average Asking Rent (NNN)	62,000 Total Under Construction (SM)
7.9% Total Vacancy	-107 2017 Net Absorption (SM)	-8.5% YOY Rent Growth	1,061 YTD Deliveries (SM)

SUPPLY & DEMAND (SM)



ASKING RENT RATE



\$ Lehigh Valley office rents decreased in the first quarter, and year-over-year.

MEDICAL OFFICE SPACE



12.8%
of Total Office Inventory
or 316,000 SM

100%
of the office space added
in the Lehigh Valley in 2017

Average Asking Rent

Medical Office Space
Increased by
5%
since Q1 2017

Office Space
Decreased by
8.5%
since Q1 2017

**LEHIGH VALLEY'S LARGEST
EMPLOYMENT SECTOR**
**Health Care &
Social Assistance**
Employs 55,830 People

Sources: CoStar 3-31-18 data set, JobsEQ®, LVEDC Research





BROKER PERSPECTIVE

“We’ve had recent success in attracting leading companies with airy spaces featuring floor-to-ceiling glass that are also technologically advanced. This has been done without compromise to energy-efficiency or low operating costs. When such space is built in a vibrant live-work community, companies take notice. Today’s tenants, whether they’re large publicly traded companies, mid-size tech companies or small professional services firms, seek a compelling set of economics, but they also value amenities, efficiencies and a collaborative environment.”

Jarrett Laubach

Director of Leasing

City Center Investment Corporation

Q1 2018 COMMERCIAL REAL ESTATE TRANSACTIONS

NOTABLE SALES

PROPERTY	BUYER	SELLER	SALE PRICE	MUNICIPALITY	CLASS
700 Uline Way	Route 222 LLC	Liberty Property LP	\$249,045,260	Upper Macungie Twp.	Industrial
2929 Schoeneck Rd.	Black Creek Group	DC Industrial Liquidating Trust	\$38,581,812	Lower Macungie Twp.	Industrial
3100 Alburtis Rd.	Black Creek Group	DC Industrial Liquidating Trust	\$21,105,482	Lower Macungie Twp.	Industrial
1139 Lehigh Ave.	1788 Riverside Business Center LLC	Whitehall Riverside LP	\$11,650,000	Whitehall Twp.	Industrial
2918 Schoeneck Rd.	Black Creek Group	DC Industrial Liquidating Trust	\$10,218,643	Lower Macungie Twp.	Industrial
2916 William Penn Hwy.	Manhasset Bay Associates	Easton Industrial Affiliates	\$10,010,000	Palmer Twp.	Industrial
77 S. Commerce Way	St. Luke's Hospital Bethlehem	KNK Associates	\$8,200,000	Hanover Twp. (Northampton)	Industrial
601-699 E. Broad St.	601 Broad Development Group	220 Ingraham Operating Corp.	\$5,963,126	Bethlehem	Industrial
100 Kuebler Rd.	Lowe Enterprises Inc.	AIC Ventures	\$5,732,193	Forks Twp.	Industrial
2320 Avenue A	Gargantua LLC	Bosch Rexroth Corp.	\$4,750,000	Bethlehem	Industrial
644 S. 10th St.	Bulldog LLC	Paikes Enterprises Inc.	\$4,000,000	Allentown	Industrial
1135 N. Plymouth St.	Plymouth Real Estate LLC	Secured Properties LLP	\$3,163,250	Allentown	Industrial

NOTABLE LEASES

PROPERTY	SM	LANDLORD REPRESENTATIVE	TENANT	MUNICIPALITY	CLASS
400 Nestle Way	110,551	JLL	Kellogg's	Upper Macungie Twp.	Industrial
9750 Commerce Circle	46,768	CBRE	One Kings Lane	Weisenberg Twp.	Industrial
9747 Commerce Circle	19,614	Cushman & Wakefield	Teva Pharmaceuticals USA	Weisenberg Twp.	Industrial
7267 Schantz Road	14,154	Exeter Property Group	Allen Distribution	Upper Macungie Twp.	Industrial
9784 Commerce Circle	8,872	297 Getty Ave. Associates	Carpenter Technology Corp.	Weisenberg Twp.	Industrial
6831 Ruppsville Road	7,463	JLL	Consolidated Container	Upper Macungie Twp.	Industrial
1139 Lehigh Ave.	6,968	NAI Summit	Pennsylvania Steel	Whitehall Twp.	Industrial
1455 Valley Center Parkway	3,894	PennCap Properties	Cigna	Hanover Twp. (Northampton)	Office
2202 N. Irving St.	2,578	JLL	United Bank Card Inc.	Hanover Twp. (Lehigh)	Office
7450 Tilghman St.	2,255	Colliers International	JetPay	Upper Macungie Twp.	Office
7450 Tilghman St.	2,255	Colliers International	Versum	Upper Macungie Twp.	Office
4315 Independence Dr.	1,858	PF Weiss Realty LLC	Siemens Electronics	North Whitehall Twp.	Industrial

Source: Lehigh and Northampton County Real Estate Tax Records, LVEDC Research, CoStar

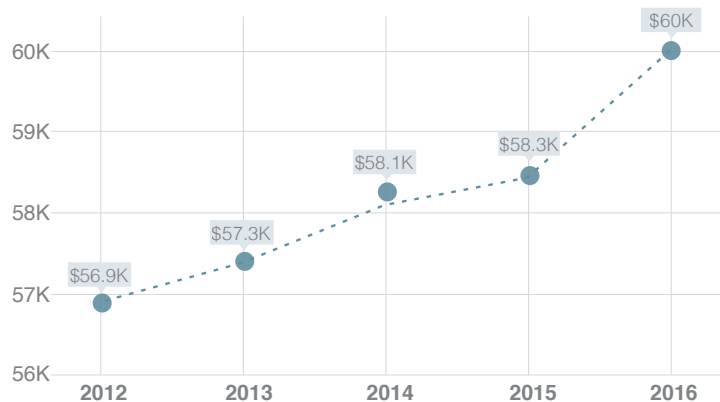


“Economic growth is about balance: the balance of jobs in cities and suburbs, in manufacturing and offices, and for workers of both low and high skills. It’s also about the balance of jobs created by companies staying and growing at home and companies from other states and countries entering the market. We are fortunate to have a balanced and growing economy in the Lehigh Valley.”

- **Don Cunningham**, President & CEO of LVEDC

Lehigh Valley ECONOMIC CONDITIONS

MEDIAN HOUSEHOLD INCOME



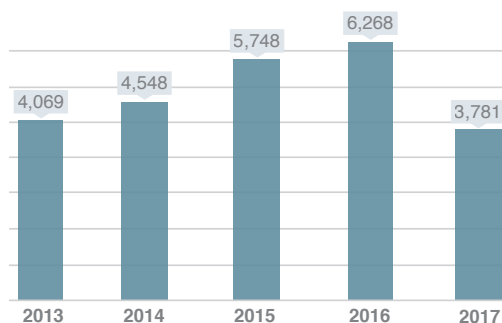
ECONOMIC OUTPUT

The Lehigh Valley is the 65th largest economy in the United States.

Its economic output of \$39.1 billion is larger than the states of Vermont and Wyoming.

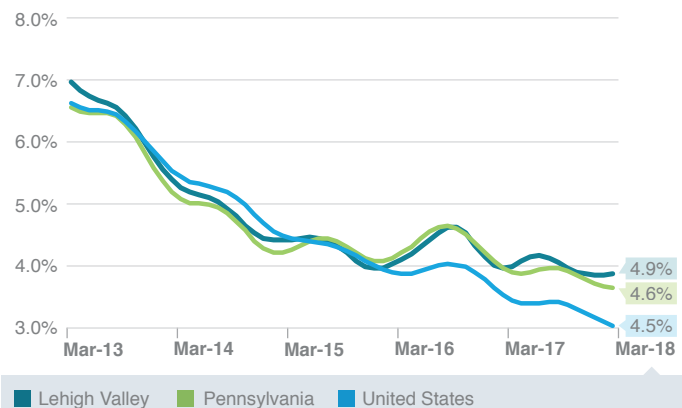
If the Lehigh Valley were a country, its economy would be the 87th largest in the world.

JOB GROWTH



The Lehigh Valley has added more than 24,000 jobs in the last five years.

UNEMPLOYMENT RATE



Total nonfarm, Seasonally-adjusted figures.

Sources: U.S. Census Bureau American Community Survey, Bureau of Economic Analysis, World Bank, JobsEQ®.





Our Mission

The mission of the Lehigh Valley Economic Development Corporation is to market the economic assets of the Lehigh Valley and to create partnerships to lead the recruitment, growth, and retention of employers.

Our Vision

Our vision is of a diverse Lehigh Valley economy that provides economic growth and opportunity for people of all skills and education and strengthens all our cities, boroughs, and townships.

Our Priorities

- Market the economic assets of the Lehigh Valley
- Recruit companies in targeted economic sectors
- Support the growth and retention of new and existing employers
- Promote and coordinate a skilled and prepared workforce
- Provide intelligence and data on the Lehigh Valley economy
- Expand public and private LVEDC investment and build partnerships for economic growth

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Lehigh Valley

Come here. Start here. Grow here.

