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

ISSUE # 014

Q3
2018

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 now exceeds 120 million square feet as of the second quarter of 2018.

The region has seen 2.57 million square feet in deliveries to the industrial market so far, and another 3.44 million square feet are currently under construction. Overall industrial vacancy rates in the region held steady at 6.5 percent.

While much public focus on commercial real estate development has been on large industrial buildings, **out of 1,838 industrial buildings in the Lehigh Valley, only 89 buildings – or about 5 percent – are larger than 300,000 square feet.** Only three industrial buildings larger than that size have been added so far in 2018, and only four were added in the entire year 2017. These buildings, modern centers of distribution, fulfillment and manufacturing in the Lehigh Valley, **have a real estate tax revenue potential of \$46 million.**

The office market of the Lehigh Valley has also continued to show growth, having reached 26.8 million square feet as of Q2 2018. There have been 281,250 square feet of office market deliveries in 2018 so far, and another 295,000 are currently under construction.

Overall regional vacancy rates in the office market are 8.2 percent.

The majority of new office space construction in the Lehigh Valley is taking place in the region's urban centers. Ninety-six percent of the office buildings constructed in 2018 so far have been built in either Allentown, Bethlehem, or Easton, and all of the 295,000 square feet of office space currently under construction are in the cities.

The Lehigh Valley's unemployment rate as of May 2018 has dropped to 3.9 percent, compared to 5.0 percent a year earlier. That is roughly consistent with the national unemployment rate of 3.8 percent, and lower than the Pennsylvania rate of 4.5 percent. 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 continues to be one of the most desirable Industrial real estate locations in the U.S. for institutional capital and corporate tenants alike. Tenant demand remains strong as evidenced by over 4 million square feet of year-to-date leasing activity. Meanwhile, the capital markets have set new records with recent trading at mid-4 percent cap rates and stabilized building values at +/- \$130 per square foot. These dynamics combined with further increased barriers to entry for new development have resulted in more focus on the redevelopment of older, infill, industrial real estate."

Gerard Blinebury
Executive Managing Director, Brokerage Services at Cushman & Wakefield



MARKET SUMMARY

The Lehigh Valley's industrial property market exceeds 120 million square feet as of Q2 2018.



| | | | |
|--|--|--|---|
| 120.6 Million Total Inventory (SF) | 1 Million Net Absorption (SF) | \$5.76 Average Asking Rent (NNN) | 3.4 Million Total Under Construction (SF) |
| 6.5% Total Vacancy | 755,663 2018 Net Absorption (SF) | 5.9% YOY Rent Growth | 2.6 Million YTD Deliveries (SF) |

SUPPLY & DEMAND (SF)



ASKING RATE (PER SF)



Industrial property rents increased by 5.9 percent in the past year.



INDUSTRIAL BUILDINGS (OVER 300,000 SF)

Buildings of over 300,000 SF make up 4.8% of the Lehigh Valley's total industrial buildings.



Under 300,000 SF
1,749

Over 300,000 SF
89

Buildings >300,000 SF added since 2014



CURRENTLY
UNDER
CONSTRUCTION
3

| | |
|------|---|
| 2018 | 3 |
| 2017 | 4 |
| 2016 | 8 |
| 2015 | 6 |
| 2014 | 4 |

\$46 million¹

Real estate tax revenue potential of buildings over 300,000 SF

¹Based on assessed values of land and buildings, excluding effects of tax-abatement programs
Sources: CoStar, Lehigh and Northampton County Assessment Offices, and LVEDC Research

Lehigh Valley SNAPSHOT: OFFICE MARKET

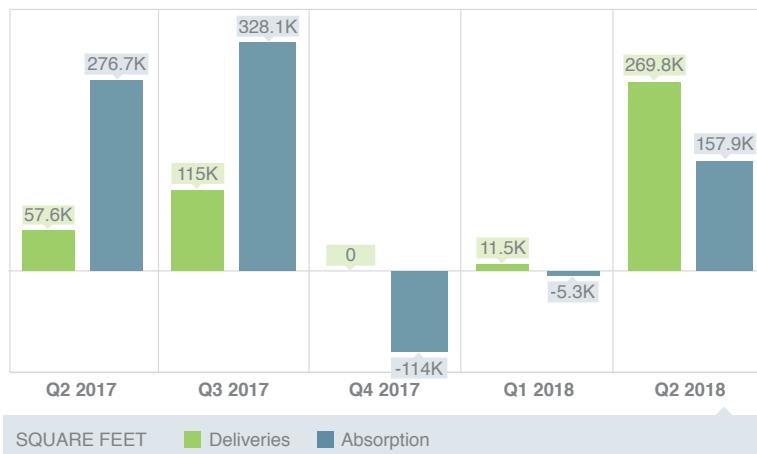
MARKET SUMMARY

The urban centers of the Lehigh Valley are driving office space construction in the region.



| | | | |
|---|---|---|--|
| 26.8 Million Total Inventory (SF) | 157.9K Net Absorption (SF) | \$14.59 Average Asking Rent (NNN) | 295K Total Under Construction (SF) |
| 8.2% Total Vacancy | 152.6K 2017 Net Absorption (SF) | -4.9% YOY Rent Growth | 281.3K YTD Deliveries (SF) |

SUPPLY & DEMAND (SF)



ASKING RENT RATE



\$ Lehigh Valley office rents decreased slightly year over year.

URBAN OFFICE SPACE

| | Allentown | Bethlehem | Easton |
|---------------------|-----------|-----------|---------|
| Buildings | 335 | 162 | 89 |
| Space | 5.1M SF | 3.1M SF | 1.1M SF |
| Occupancy | 87.2% | 95.6% | 96.5% |
| Average asking rent | \$11.16 | \$14.04 | \$11.52 |

Office Space Added in Lehigh Valley

| | SF | % in urban centers |
|--------------------|---------|--------------------|
| Under Construction | 295,000 | 100% |
| 2018 YTD | 281,000 | 96% |
| 2017 | 181,000 | 4% |
| 2016 | 373,000 | 18% |
| 2015 | 225,000 | 93% |
| 2014 | 374,000 | 82% |

Includes ZIP Codes 18101, 18102, 18015, 18018 and 18042
Sources: CoStar, LVEDC Research





BROKER PERSPECTIVE

“Allentown’s NIZ continues to fuel construction and leasing activity in the Lehigh Valley, especially as overall Class A office conditions remain relatively tight. We expect the market to remain landlord favorable for high quality, well-located assets, especially as economic expansion continues nationally and the industrial and logistics market focuses the national spotlight on the region.”

Lauren Gilchrist

Senior Vice President, Senior Director of Research for Philadelphia, JLL

Q2 2018 COMMERCIAL REAL ESTATE TRANSACTIONS

NOTABLE SALES

| PROPERTY | BUYER | SELLER | SALE PRICE | MUNICIPALITY | CLASS |
|--------------------------|--------------------------------|---|--------------|----------------------------|------------|
| Brodhead Road | IPT Brodhead DC LLC | Brodhead Holdings LP | \$14,800,000 | Bethlehem Twp. | Industrial |
| 95 Highland Ave. | DLP Lehigh Valley Building LLC | Highland Plaza LLC | \$6,457,500 | Hanover Twp. (Northampton) | Office |
| 4631 S. Church St. | HRS Properties LLC | Air Products | \$2,500,000 | Whitehall Twp. | Industrial |
| 1146 S. Cedar Crest Blvd | Yasin Khan | Robert E. Cloonan | \$1,900,000 | Salisbury Twp. | Office |
| 1815 Schadt Ave. | Schadt Avenue Associates LLC | Sarah A. Perrotta and Katherine A. Steciw | \$1,600,000 | Whitehall Twp. | Office |
| 1002 MacArthur Rd. | Whitehall Sunrise LLC | Protica Inc. | \$1,585,000 | Whitehall Twp. | Industrial |
| 3045, 3065 Avenue B | Barrow Street LLC | Pendleton Associates Ltd. | \$1,557,500 | Bethlehem | Office |
| 2100 Union Blvd. | Macritchie Storage LLC | A-Treat Bottling Co. | \$1,400,000 | Allentown | Industrial |
| 211 Lloyd St. | Lloyd Street Associates LLC | Estate of Howard John Krapf | \$1,050,000 | Hanover Twp. (Lehigh) | Industrial |

NOTABLE LEASES

| PROPERTY | SF | LANDLORD REPRESENTATIVE | TENANT | MUNICIPALITY | CLASS |
|-----------------------|---------|--------------------------------------|------------------------------|-----------------------|------------|
| 9611 West Hills Court | 336,000 | CBRE | NFI | Weisenberg Twp. | Industrial |
| 1540 VanBuren Rd. | 242,515 | Cushman & Wakefield | iHerb | Palmer Twp. | Industrial |
| 740 Hamilton St. | 221,220 | City Center Allentown | ADP | Allentown | Office |
| 2100-2184 Union Blvd. | 84,607 | Brixmor Property Group | Aetna | Bethlehem | Office |
| 2120 Spillman Dr. | 80,000 | CBRE | Alpla Inc. | Bethlehem | Industrial |
| 8014 Industrial Blvd. | 37,000 | Liberty Property Trust | Feather River Doors | Upper Macungie Twp. | Industrial |
| 997 Postal Rd. | 24,020 | Lehigh-Northampton Airport Authority | | Hanover Twp. (Lehigh) | Industrial |
| 1830 E. Race St. | 21,638 | NAI Summit | New Castle Building Products | Hanover Twp. (Lehigh) | Industrial |

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



"We are fortunate the Lehigh Valley has seen tremendous growth in industrial development. In recent years, a large part of this has been driven by the growth of direct-to-consumer retail or e-commerce in the form of fulfillment centers and logistics and distribution operations. These centers are generically referred to as warehouses. In reality, there are very few true warehouses – where inventory is merely stored – in the Lehigh Valley. The new large industrial buildings are beehives of employment where goods are moved quickly in and out direct to consumers, stores or businesses. They are providing more than 30,000 jobs today most of which have a starting minimum wage of \$15 per hour."

Don Cunningham
President & CEO, LVEDC

Lehigh Valley ECONOMIC CONDITIONS

POPULATION GROWTH (2010-2017)

Lehigh and Northampton are two of only 19 Pennsylvania counties to experience population growth from 2010 to 2017.

| County | Rank | Growth |
|-------------|----------|--------|
| Lehigh | 3 of 67 | 4.8% |
| Northampton | 13 of 67 | 1.9% |



Source: Census Bureau, American Community Survey 2017 Population Estimates and Pennsylvania State Data Center

AGE DISTRIBUTION

| Percentage of population | 2017 | 2010 |
|--------------------------|-------|-------|
| <20 | 24.4% | 26.0% |
| 20-39 | 25.3% | 24.5% |
| 40-59 | 26.4% | 29.2% |
| >60 | 23.8% | 20.2% |

Source: Census Bureau, American Community Survey 2017 Population Estimates

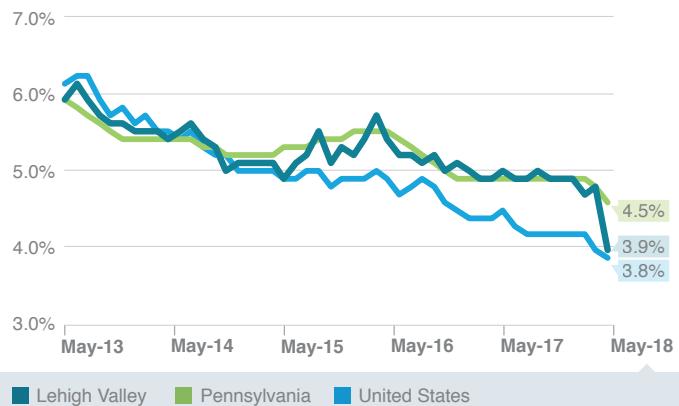
COMMUTING PATTERNS



- Live and work in Lehigh Valley
- Live in Lehigh Valley, work elsewhere
- Work in Lehigh Valley, live elsewhere

Source:
Census Bureau, Center for Economic Studies

UNEMPLOYMENT RATE



Total nonfarm, Seasonally-adjusted figures.
Source: PA Dept of Labor and Industry



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