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LEHIGH VALLEY
COMMERCIAL REAL ESTATE REPORT
OFFICE & INDUSTRIAL
MARKETS

ISSUE # 014



Q2 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



Lehigh Valley SNAPSHOT: INDUSTRIAL MARKET

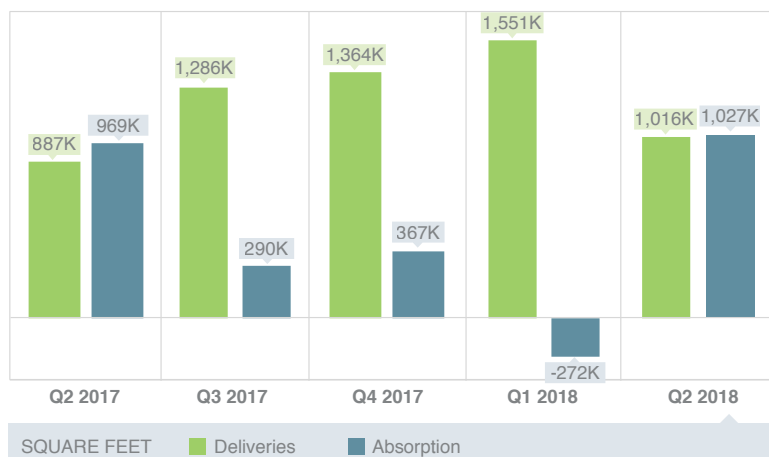
MARKET SUMMARY

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

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



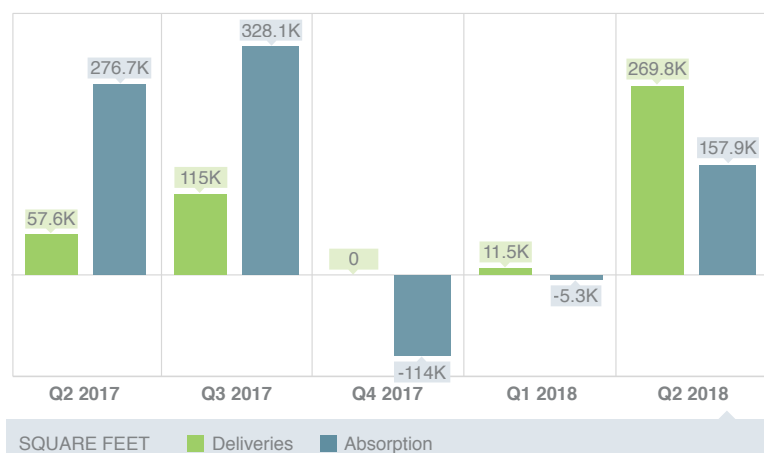
Lehigh Valley SNAPSHOT: OFFICE MARKET

MARKET SUMMARY

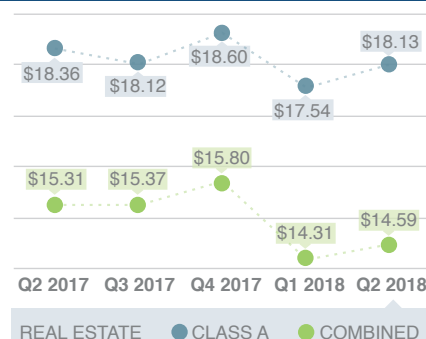
The urban centers of the Lehigh Valley are driving office space construction in the region.

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 with 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%



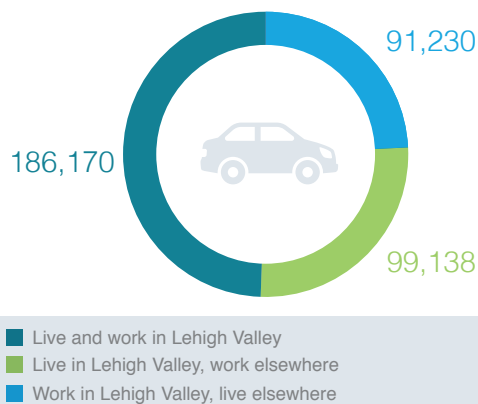
Source: Census Bureau, American Community Survey 2017 Population Estimates and Pennsylvania State Data Center

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%

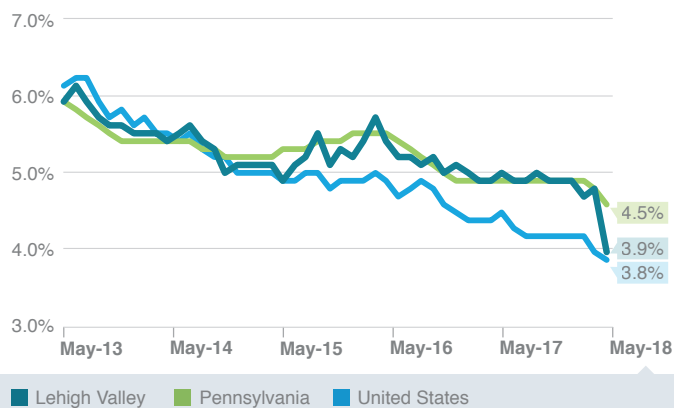
Source: Census Bureau, American Community Survey 2017 Population Estimates

COMMUTING PATTERNS



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

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Lehigh Valley

Come here. Start here. Grow here.

