

COMMERCIAL REAL ESTATE REPORT



ISSUE #019



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

Corporate M&A Activity Is Having an Impact on Lehigh Valley's Industrial Market

By this point, everyone knows that Lehigh Valley is an in-demand market for industrial development and manufacturing space, but recent headlines make it clear just how important the region has become. The news of Prologis acquiring Liberty Property Trust continues a trend of institutional investors entering and is another sign of the strategic importance of the Lehigh Valley.

Prologis owns 8.1 million square feet of industrial space in the Lehigh Valley and announced in July an agreement to acquire the assets of Black Creek Group, which include 2.6 million square feet in the region. When that deal closes, Prologis would become the second largest owner of industrial space in this market after Liberty Property Trust. With the announced agreement to acquire Liberty's 17.5 million square feet, Prologis would own more industrial space than any other company in the market.

That market has grown to 124 million square feet of as of the third quarter of 2019, with a vacancy rate of 5.1%. Developers have delivered nearly 2 million square feet of space through the first

three quarters of the year, with another 6.44 million square feet currently under construction. The overall average asking rent for industrial space in the Lehigh Valley is \$5.52 per square foot as of Q3 2019. The average asking rent for buildings over 300,000 square feet is 4.7% and is 4.2% for buildings under 150,000 square feet.

On the office side, the Lehigh Valley office market currently includes 27.37 million square feet, with another 629,000 square feet currently under construction. Excluding owner-occupied and medical office space, the regional office market encompasses 16.41 million square feet of space, with another 104,000 square feet under construction.

The Lehigh Valley office market has an overall vacancy rate of 8%, and a 10.1% vacancy rate excluding owner-occupied and medical office space. The addition of the 295,000 square foot Five City Center building in Allentown is the biggest addition to the regional office market so far this year.

BROKER PERSPECTIVE

"From an industrial standpoint, we continue to see high demand from both users and institutional capital. The Lehigh Valley is well positioned to capitalize on the ever-changing supply chain landscape as user strategies are adjusting to facilitate consumer demand. E-commerce, manufacturing, and consumer product distribution will continue to drive the market for the foreseeable future. Large users and institutional landlords alike see the Lehigh Valley and Eastern PA as a top-tier global market."

Sean Bleiler, Senior Vice President, CBRE



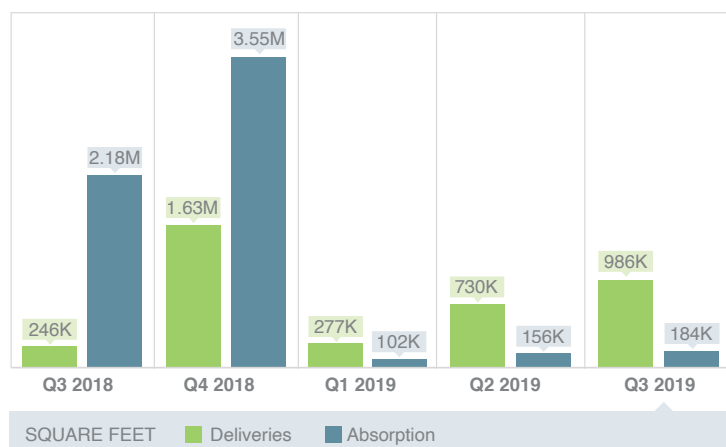
Lehigh Valley SNAPSHOT: INDUSTRIAL SPACE

MARKET SUMMARY

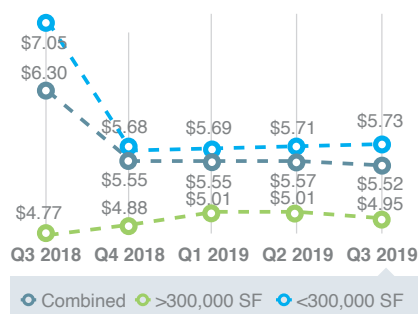
The region added 985,000 square feet of industrial space in Q3.

| | | | |
|--|---|--|---|
| 124 Million Total Space (SF) | 183.8K Q3 Net Absorption (SF) | \$5.52 Average Asking Rent (NNN) | 6.4 Million Total Under Construction (SF) |
| 5.1% Total Vacancy | 442K 2019 Net Absorption (SF) | -12.4% YOY Rent Growth | 2 Million 2019 Deliveries (SF) |

SUPPLY & DEMAND (SF)



ASKING RATE (PER SF)



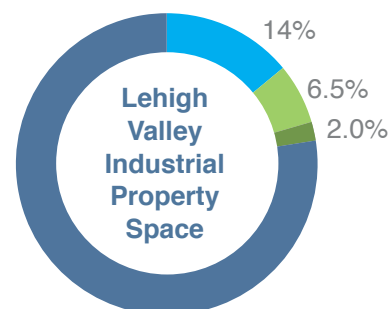
Industrial rents overall have been steady for the first three quarters of 2019.

PROLOGIS & LIBERTY MERGER

Prologis Inc. and Liberty Property Trust announced that the two companies have entered into a definitive merger agreement by which Prologis will acquire Liberty. When the deal closes, the combined companies will own more than 28 million square feet of industrial space in the Lehigh Valley, including holdings of Black Creek Group, which Prologis had previously announced it was acquiring. This combination of properties would give Prologis a 23% share of the region's industrial/flex market.

| | LPT | Prologis | BCG ¹ | Lehigh Valley |
|---------------------|-----------------|----------------|------------------|------------------|
| Buildings | 37 | 22 | 12 | 1,898 |
| Space | 17.5 Million SF | 8.1 Million SF | 2.6 Million SF | 124.3 Million SF |
| Market Share | 14% | 6.5% | 2% | |

¹Industrial real estate holdings of Black Creek Group. The Prologis acquisition of Black Creek Group is expected to close by the end of Q1 2020.



Sources: CoStar, LVEDC Research





Lehigh Valley SNAPSHOT: OFFICE SPACE

MARKET SUMMARY

One office building totaling 295,000 square feet has been added in 2019.



| | | | |
|---|--|---|--|
| 27.4 Million Total Space (SF) | 137K Q3 Net Absorption (SF) | \$15.68 Average Asking Rent (NNN) | 629K Total Under Construction (SF) |
| 8.0% Total Vacancy | -533.7K 2019 Net Absorption (SF) | 5.2% YOY Rent Growth | 295K YTD Deliveries (SF) |

The office market, excluding owner-occupied and medical offices, totals 16.4 million square

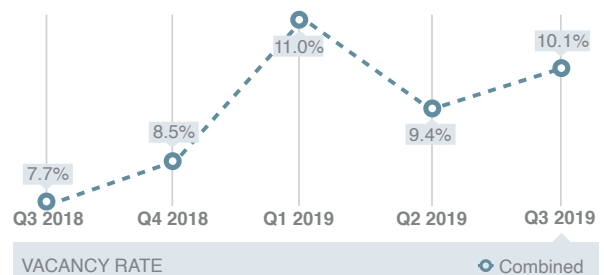
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| 16.4 Million Office Space (SF) | 128K Q3 Net Absorption (SF) | \$15.74 Average Asking Rent (NNN) | 104K Total Under Construction (SF) |
| 10.1% Total Vacancy | -509K 2019 Net Absorption (SF) | 5.2% YOY Rent Growth | 295K YTD Deliveries (SF) |

ASKING RATE (PER SF)

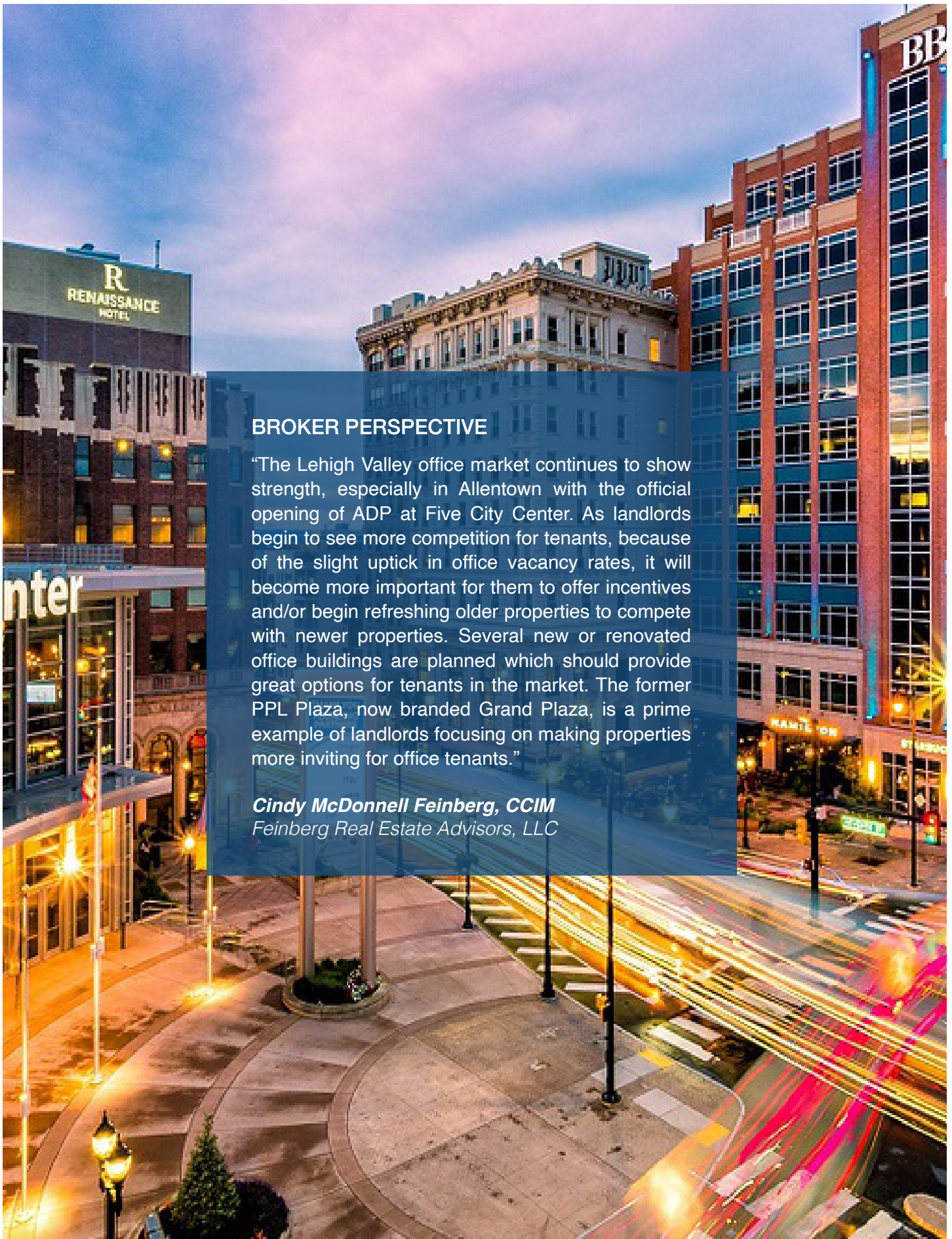


Asking rents for office space, excluding owner-occupied and medical offices, have increased 5.2% year-over-year.

VACANCY RATE



The vacancy rate for office space, excluding owner-occupied and medical offices, increased to 10.1% in Q3.



BROKER PERSPECTIVE

“The Lehigh Valley office market continues to show strength, especially in Allentown with the official opening of ADP at Five City Center. As landlords begin to see more competition for tenants, because of the slight uptick in office vacancy rates, it will become more important for them to offer incentives and/or begin refreshing older properties to compete with newer properties. Several new or renovated office buildings are planned which should provide great options for tenants in the market. The former PPL Plaza, now branded Grand Plaza, is a prime example of landlords focusing on making properties more inviting for office tenants.”

Cindy McDonnell Feinberg, CCIM
Feinberg Real Estate Advisors, LLC



Q3 2019 COMMERCIAL REAL ESTATE TRANSACTIONS



NOTABLE SALES

| PROPERTY | BUYER | SELLER | SALE PRICE | MUNICIPALITY | CLASS |
|-------------------------|-----------------------------------|------------------------------------|--------------|-------------------------|------------|
| 9775 Commerce Circle | Brookfield Asset Management | GRE Lehigh LLC | \$21,150,000 | Weisenberg Twp. | Industrial |
| River Road (26 parcels) | River Pointe Logistics Center LLC | Sithe Pennsylvania Holdings LLC | \$17,050,000 | Upper Mount Bethel Twp. | Industrial |
| 2860 Bath Pike | Airlite Plastics Co. | EREG 2860 Bath LP | \$11,000,000 | Upper Nazareth | Industrial |
| 1621 E. Race St. | Dosdarbs LLC | Bomboy Inc. | \$1,525,000 | Hanover Twp. (Lehigh) | Industrial |
| 1026 MacArthur Rd. | Elias Property Group | LVD Realty Inc. | \$1,350,000 | Whitehall | Industrial |
| 1240 Win Dr. | Winn Drive LLC | 6380 Brackbill Associates | \$1,350,000 | Bethlehem | Industrial |
| 6695 Sullivan Trail | Wind Gap Investors LLC | Wind Gap Professional Building LLC | \$1,300,000 | Plainfield Twp. | Office |
| 302 S. 4th St. | Ridgewood Group Emmaus LLC | Fourth Furnace Center LLC | \$1,130,000 | Emmaus | Industrial |
| 1300 Sherman St. | Meals on Wheels | Semper Properties LLC | \$1,060,000 | Allentown | Industrial |

NOTABLE LEASES

| PROPERTY | SF | LANDLORD REPRESENTATIVE | TENANT | MUNICIPALITY | CLASS |
|-----------------------|-----------|-------------------------|-------------------|---------------------|------------|
| 7352 Industrial Blvd. | 1,541,280 | CBRE | Keurig Dr. Pepper | Upper Macungie Twp. | Industrial |
| 2595 Brodhead Road | 71,679 | Cushman & Wakefield | | Bethlehem Twp. | Industrial |
| 6370 Hedgewood Dr. | 34,000 | Liberty Property Trust | | Upper Macungie Twp. | Industrial |

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



“The recently-announced acquisition of Liberty Property Trust by Prologis is very significant for the Lehigh Valley. Liberty has long been the largest owner of industrial real estate in the region and Prologis has had a large presence here as well. The combined companies will become an even more significant entity in our market. The purchase shows the strategic importance of the Lehigh Valley in the industrial and manufacturing sectors.”

Don Cunningham

President & CEO, Lehigh Valley Economic Development Corporation (LVEDC)

LEHIGH VALLEY ECONOMIC CONDITIONS

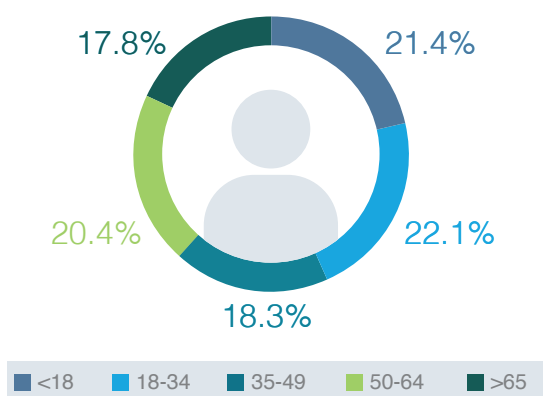
LEHIGH VALLEY POPULATION



672,907

Population among the 18-to-34 age group has increased by 5% in the last five years; this age group is now the largest segment of the region's population.

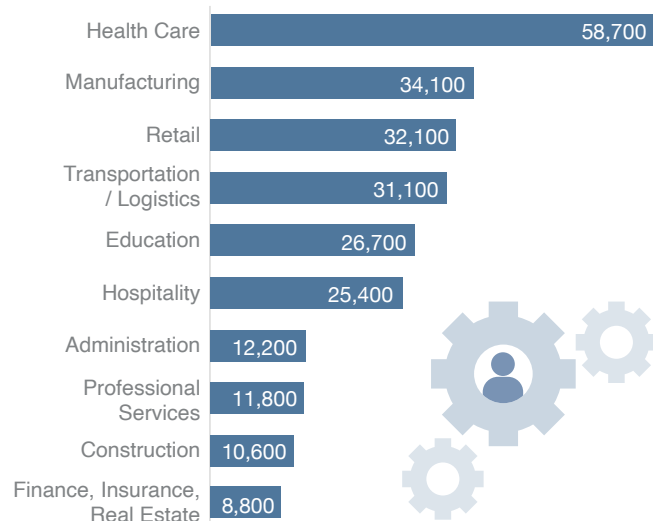
POPULATION BY AGE GROUP



POPULATION AGE 18-34

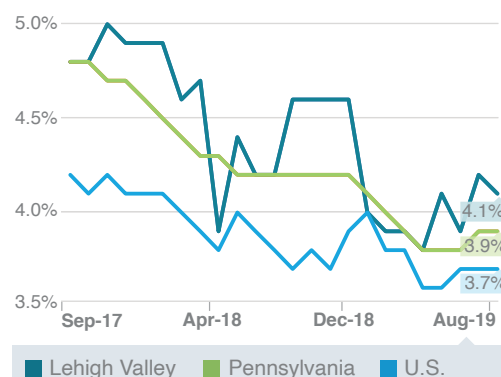


EMPLOYMENT BY INDUSTRY



UNEMPLOYMENT RATE

Seasonally Adjusted



Over the last 24 months, Lehigh Valley unemployment has dropped from 4.8% to 4.1%.

Sources: Census Bureau 2018 Population Estimates, American Community Survey 1-Year Estimates, Pennsylvania Department of Labor and Industry, Q1 2019





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

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