

COMMERCIAL REAL ESTATE REPORT



ISSUE #021



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

It's a very different world since the last issue of the Lehigh Valley Commercial Real Estate Report was released.

In the previous edition, we reported that the Lehigh Valley economy was surging, with a gross domestic product that had surpassed \$41 billion and unemployment hovering at record lows. But the outbreak of the coronavirus and the mitigation efforts due to the pandemic have drastically changed the economic outlook not just in Lehigh Valley, but throughout the nation and the world.

However, analysts believe the Lehigh Valley industrial real estate market is well-positioned to weather the economic downturn. Lehigh Valley's industrial market was strong before the disruption caused by the coronavirus, and the region's economic fundamentals will not have changed, and will in fact be more important than ever, analysts said.

Distribution, shipping, and logistics are among the strengths of Lehigh Valley's industrial real estate market, and those sectors are expected to do particularly well when the national economy reopens. The national growth of e-commerce will only accelerate due to the coronavirus pandemic as more people become accustomed to shopping online, and the greater use of online grocery services will lead to a higher demand for cold storage facilities. Lehigh Valley is well-positioned to benefit from those trends.

In addition, analysts say Lehigh Valley also could benefit from a growth in manufacturing as companies, especially those in the medical equipment and life sciences sectors, seek to reduce supply chain risks by bringing more supply production back to the United States.

The Lehigh Valley has 125.7 million square feet of industrial inventory, and 6.2 million of additional space had been under construction before work on some projects was suspended due to COVID-19. Pennsylvania issued guidance for the state's construction industry as it prepared to resume operation on May 1.

This report also includes a list of the most notable commercial real estate transactions from the first quarter of 2020. This includes the completion of Prologis' acquisition of Liberty Property Trust, resulting in the largest single owner of industrial real estate in Lehigh Valley. Liberty is now part of a Prologis portfolio that includes 814 million square feet across 19 countries.

Economic development activity has continued in the Lehigh Valley during the pandemic, with LVEDC continuing to work in recent weeks on more than 30 ongoing projects that had been in the pipeline before COVID-19 crisis, as well as fielding inquiries about potential new projects for after the pandemic ends.



Lehigh Valley SNAPSHOT: INDUSTRIAL SPACE

MARKET SUMMARY

Average asking rent increased 5.5% compared with Q1 2019.



125.7 Million Total Space (SF)	856.7K Q1 Net Absorption (SF)	\$5.94 Average Asking Rent (NNN)	6.2 Million* Total Under Construction (SF)
4.3% Total Vacancy	856.7K 2020 Net Absorption (SF)	5.5% YOY Rent Growth	1 Million 2020 Deliveries (SF)

*Includes active construction projects and projects on which work had been suspended because of COVID-19.

SUPPLY & DEMAND (SF)

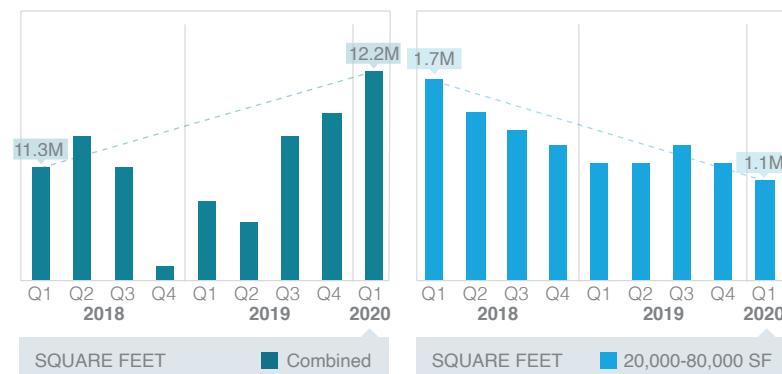


ASKING RATE (PER SF)



Rents for both large-footprint and small-footprint industrial buildings increased in Q1.

AVAILABLE INDUSTRIAL SPACE



Overall available industrial space has increased, but available small-footprint space has declined steadily over the last eight quarters.



LVEDC staff remains in contact with more than 30 ONGOING DEVELOPMENT PROJECTS to help ensure that they remain on-track through the coronavirus outbreak.

Sources: CoStar, LVEDC Research

Lehigh Valley SNAPSHOT: OFFICE SPACE

MARKET SUMMARY

The summary excludes owner-occupied and medical office space.



16.2 Million Total Space (SF)	-5.2K Q1 Net Absorption (SF)	\$16.10 Average Asking Rent (NNN)	0 Total Under Construction (SF)
10.6% Total Vacancy	-5.2K 2020 Net Absorption (SF)	8.1% YOY Rent Growth	0 YTD Deliveries (SF)

ASKING RATE (PER SF)



Average rents per square foot have increased in each of the last four quarters.

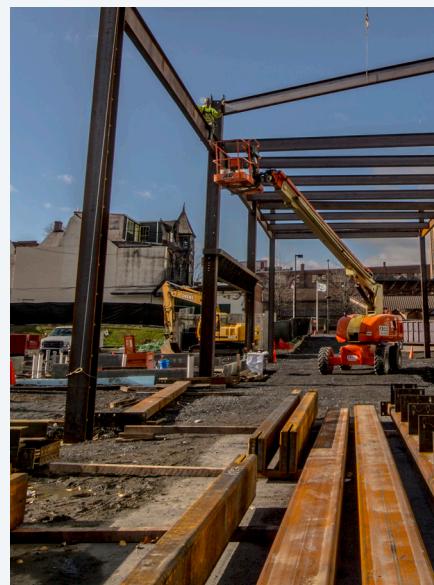
VACANCY RATE



The office vacancy rate remained steady in Q1, but is down from one year ago.

OFFICE INVENTORY BUILT AFTER 2000

Buildings	67
Percentage of Total Inventory	8%
Total Space (SF)	4.4 million
Percentage of Total Office Space	27%
Percentage of Space Available	17%
Average Asking Rent	\$17.35/SF
Year-over-Year Rent Growth	10%



Sources: CoStar, LVEDC Research



BROKER PERSPECTIVE

“Owners, developers, brokers, and tenants across the country are almost unanimous in agreement that the shipping and logistics market will recover quickly from the coronavirus shutdown. While Lehigh Valley does have a lot of space set to deliver, its location for shippers is ideal. It appears entirely possible that e-commerce’s growth will accelerate in the coming year, as people are essentially being forced to adapt to shopping online. Retail experts were stating before the virus that e-commerce had eaten away at 11% of brick and mortar profits, and expected that figure to rise to 20% eventually. Even if they are wrong, and online shopping increases by 1%-2%, that is still enough to fill Lehigh Valley’s empty industrial buildings.”

Ben Atwood

CoStar Group, Market Analyst II - Philadelphia

Q1 2020 COMMERCIAL REAL ESTATE TRANSACTIONS

NOTABLE SALES

PROPERTY	BUYER	SELLER	SALE PRICE	MUNICIPALITY	CLASS
2780 Route 100	Mack Trucks Inc.	Hoover Avenue Development Co.	\$4,575,000	Lower Macungie Twp.	Industrial
6810 Tilghman St.	6810 Tilghman LLC	LHV Portfolio Investors LLC	\$4,500,000	Upper Macungie Twp.	Industrial
7429 Industrial Park Way	SMRents LLC	Polaris South Realty LP	\$4,465,000	Lower Macungie Twp.	Industrial
2285 Avenue A	Jane Street LLC	Rose Valley Partnership	\$2,865,000	Bethlehem	Office
2591 Mitchell Ave.	2591 Mitchell Ave Realty LLC	JD Companies	\$1,887,500	Allentown	Industrial
1633 Airport Rd.	VRD at Allentown LLC	Calumet Enterprises LLC	\$1,500,000	Allentown	Flex
123 S. Third St.	Rayben Bradley Enterprises LLC	Bradley Pulverizer Co.	\$1,400,000	Allentown	Industrial
3370 Fox Hill Rd.	John Botti LLC	Jacobsburg Realty LLC	\$1,368,000	Palmer Twp.	Industrial
603 Gremar Rd.	603 Gremar Road Holdings LLC	Frax Management Corp.	\$1,012,500	Lower Nazareth Twp.	Industrial

NOTABLE LEASES

PROPERTY	SF	LANDLORD REPRESENTATIVE	TENANT	MUNICIPALITY	CLASS
8783 Congdon Hill Rd.	816,000	Prologis	Knoll	Lower Macungie Twp.	Industrial
2600 Brodhead Rd.	528,670	Prologis	DSC Logistics	Bethlehem Twp.	Industrial
5 McFadden Rd.	197,181	Lee & Associates	Scholastic Inc.	Palmer Twp.	Industrial
1198 Feather Way	189,721	CBRE	TwinMed	Bethlehem	Industrial
4 McFadden Rd.	141,384	NAI Summit	Grimco Inc.	Palmer Twp.	Industrial
6980 Snowdrift Rd.	99,782	CBRE	Niagara Bottling	Upper Macungie Twp.	Industrial
7144 Daniels Dr.	50,000	Warehouse Specialists LLC	Warehouse Specialists Inc.	Upper Macungie Twp.	Industrial
2500 Emrick Blvd.	50,000	NAI Summit	Flexicon	Bethlehem Twp.	Industrial
954 Marcon Blvd.	30,140	PennCap Properties	B Braun Medical	Hanover Twp. (Lehigh)	Office

*Not included in the list of property sales are 17.5 million square feet owned by Liberty Property Trust and 2.6 million square feet owned by Black Creek Group that were acquired in separate transactions by Prologis, Inc. during the first quarter of 2020.

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



"The solid and diverse base of the Lehigh Valley economy will limit the overall impact of the quarantine and recession here. Some cornerstones of the economy — health care, manufacturing and production, and distribution and e-commerce — will grow in value and importance. Development in these areas has continued and demand for land and buildings remains high. Job creation in these growth markets will help to absorb some job losses in other areas. While GDP will drop and unemployment will rise this year, the foundation of the Lehigh Valley economy will remain strong and recover faster than much of the country."

Don Cunningham

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

LEHIGH VALLEY ECONOMIC CONDITIONS

LEHIGH VALLEY POPULATION



674,603

POPULATION CHANGE (2010-2019)

Lehigh County

Two of only 20 Pennsylvania counties that have increased in population since 2010.

2019 369,318

2010 349,675

↑ 5.6%

Northampton County

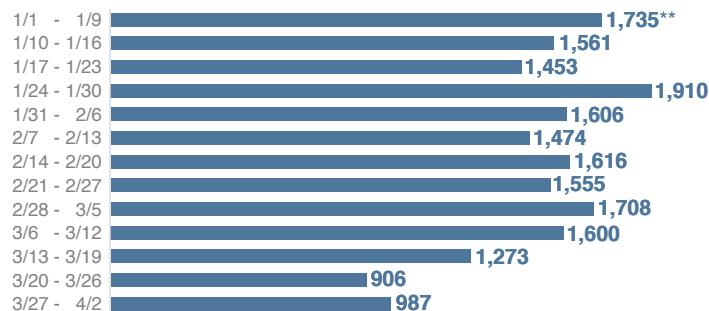
2019 305,285

2010 297,712

↑ 2.5%

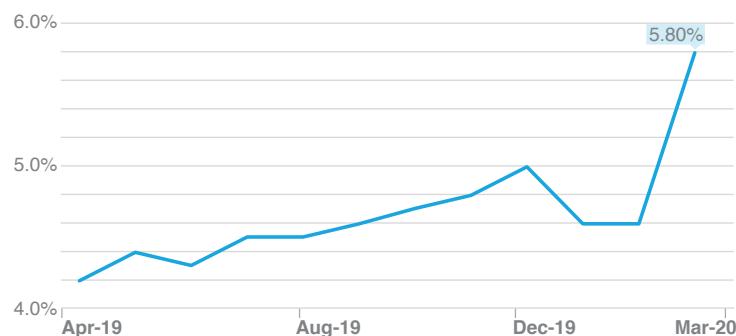
Source: U.S. Census Bureau

NEW JOB POSTINGS (BY WEEK)*



UNEMPLOYMENT RATE

Seasonally Adjusted



Effects of the economic slowdown resulting from the COVID-19 pandemic began to show in Lehigh Valley unemployment figures for March. Based on the weekly number of new unemployment claims reported by the Pennsylvania Department of Labor and Industry, the unemployment rate is expected to be in double digits in the second quarter.

*Calculated Friday through Thursday

**Includes two days from the previous week.

Sources: JobsEQ and Pennsylvania Department of Labor and Industry



Our Mission

The mission of Lehigh Valley Economic Development Corporation is to market the economic assets of 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 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.

