

COMMERCIAL REAL ESTATE REPORT



ISSUE #022



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 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 Lehigh Valley. This report focuses on the region's office, industrial, and flex markets.

CURRENT CONDITIONS

The coronavirus crisis has created unprecedented economic challenges not only in Lehigh Valley, but across the nation and the world.

Nevertheless, economic development activity has continued in the region over the past few months, including projects and expansions that had been in the pipeline before the COVID-19 outbreak, as well as new potential projects that have arisen during the pandemic.

As of the end of Q2 2020, LVEDC was tracking 24 active projects in Lehigh Valley, including 13 since mid-March when the pandemic reached the region. Of those two dozen prospects, 18 are manufacturing projects and six are in distribution. Together they have the potential to create 2,528 jobs and result in \$1.26 billion in investment.

Lehigh Valley has 126.9 million square feet of industrial inventory, with more than 9 million additional square feet currently under construction. The region saw an increase of 170,000 square feet in absorption in Q2, and a net increase of 1 million square feet for the year to date. The vacancy rate for smaller industrial buildings is about 3%, and rents have increased more than 8% in the last year.

The office market currently includes 16.2 million square feet of inventory, excluding medical and owner-occupied space. The only major construction project in the region is the new 625,000 square-foot headquarters Air Products is building that the company will own and occupy in Upper Macungie Township.

Average asking rents have increased 5.4% in the past year, but remain well below the U.S. average for office space.

The population has grown by nearly 4.2% since the 2010 Census, primarily due to international migration. Lehigh County has seen a 5.6% growth, and Northampton County a 2.5% growth, making them two of only 21 counties in Pennsylvania to have seen an increase in population in that time period.

Additionally, for the first time, the Millennial and Generation Z populations born since 1981 represent nearly half of both the Lehigh Valley and the U.S. population. In Lehigh Valley, the population under age 39 is 334,654, representing 50% of the region's total 674,603 population.

This report also includes a list of notable transactions and leases in Lehigh Valley during Q2 2020, including the \$62.5 million sale of LogistiCenter at 33 at 4200 Braden Blvd. The 475,800 square-foot industrial property was purchased by Black Creek Group, a Denver-based real estate investment management firm. Also, the Brennan Investment Group from Chicago made its entry into the market, purchasing three industrial buildings totaling 380,000 square feet in Hanover Township, Lehigh County.



Lehigh Valley SNAPSHOT: INDUSTRIAL SPACE

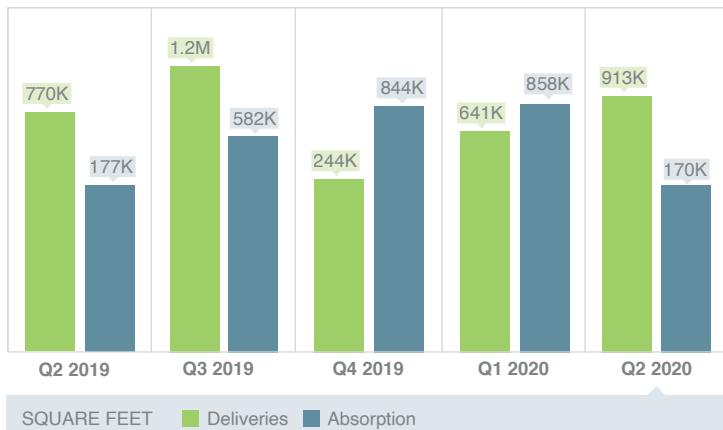
MARKET SUMMARY

More than 9 million square feet of industrial space is under construction.



126.9 Million Total Space (SF)	170K Q2 Net Absorption (SF)	\$6.10 Average Asking Rent (NNN)	9.4 Million Total Under Construction (SF)
5.9% Total Vacancy	1 Million 2020 Net Absorption (SF)	8.2% YOY Rent Growth	1.6 Million 2020 Deliveries (SF)

SUPPLY & DEMAND (SF)



VACANCY RATE (PER SF)



Vacancy rate for smaller industrial buildings is about 3%.

LVEDC PROSPECT PIPELINE



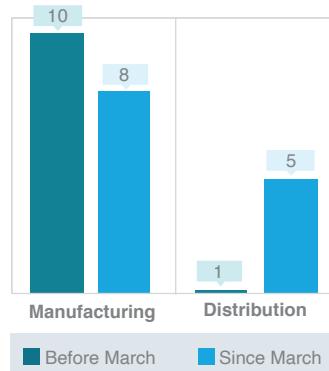
**24 ACTIVE
PROSPECTS**

**2,500
NEW JOBS**

**\$1.26 BILLION
IN INVESTMENT**

**13 NEW PROSPECTS
SINCE MARCH 13**

PROSPECTS BY TYPE



ASKING RATE (PER SF)



Rents have increased more than 8% in the last year.

Sources: CoStar, LVEDC Research

Lehigh Valley SNAPSHOT: OFFICE SPACE

MARKET SUMMARY

Average asking rent has increased 5.4% in the past year.



16.2 Million* Total Space (SF)	48.4K Q2 Net Absorption (SF)	\$16.17 Average Asking Rent (NNN)	0 Total Under Construction (SF)
10.4% Total Vacancy	43.2K 2020 Net Absorption (SF)	5.4% YOY Rent Growth	0 YTD Deliveries (SF)

*Excludes medical and owner-occupied office space.

SUPPLY & DEMAND (SF)



VACANCY RATE (PER SF)



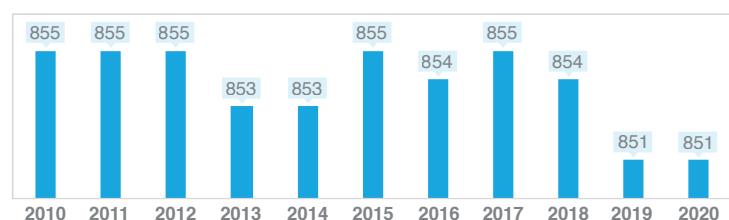
Vacancy rate has remained steady at just over 10% in recent quarters.

CONSTRUCTION

The only major office construction in Lehigh Valley is the 625,000 square-foot new headquarters for which Air Products will be the owner-occupier.



OFFICE BUILDING INVENTORY (SINCE 2010)



ASKING RATE (PER SF)



Lehigh Valley rents are well below the U.S. average for office space.

Sources: CoStar, LVEDC Research



BROKER PERSPECTIVE

“On the macro level, the Lehigh Valley office market currently parallels the national sector’s uncertainty, which is reflected in limited leasing activity (both renewals and new direct leases), landlord/tenant existing lease renegotiations, and tenants peering into a murky future to gauge a balance between the impact of work-at-home and less density in the office due to COVID-19 distancing requirements. Investment sale velocity is down as well while appraisers, lenders, and buyers struggle with how to underwrite building rent rolls and expenses. But even now life goes on. The pandemic will be resolved, and stakeholders will collaborate to create a new office paradigm that works just fine in the post-COVID-19 world.”

Jeff Algatt, Senior Vice President,
Philadelphia Capital Markets | Investment Services,
Colliers International



BROKER PERSPECTIVE

"After a very short lull in activity due to the initial COVID-19 shutdown, we have seen a dramatic resurgence in industrial activity across all sectors in Lehigh Valley. Manufacturing and logistics inquiries are extremely active raising optimism that the industrial sector's growth will be strong through the second half of 2020 and into 2021. The activity is coming from large corporations as well as small and mid-size companies, strengthening our assessment that the industrial sector will remain resilient across all asset classes."

William Wolf, Executive Vice President, CBRE Advisory & Transaction Services

Q2 2020 COMMERCIAL REAL ESTATE TRANSACTIONS

NOTABLE SALES

PROPERTY	BUYER	SELLER	SALE PRICE	MUNICIPALITY	CLASS
4200 Braden Blvd.	BCI IV Logistics Center at 33	LC 33 Owner LLC	\$62,500,000	Forks Twp.	Industrial
202 Cascade Dr.	Brennan Investment Group	The Magellan Group Inc.	\$13,038,107	Hanover Twp. (Lehigh)	Industrial
100 Cascade Dr.	Brennan Investment Group	The Magellan Group Inc.	\$12,735,394	Hanover Twp. (Lehigh)	Industrial
6923 Schantz Rd.	NFI Industries Inc.	Shallcross Investments LLC	\$9,100,000	Upper Macungie Twp.	Industrial
894 Marcon Blvd.	Lehigh Valley Flex Park LLC	CD Marcon Associates LP	\$4,000,000	Hanover Twp. (Lehigh)	Flex
2015 City Line Rd.	City Line Road Associates	Trans-Bridge Lines Inc.	\$3,485,000	Bethlehem City	Industrial
257 Brodhead Rd.	Brodhead Road Holdings LLC	First Commonwealth FCU	\$2,600,000	Hanover Twp. (Northampton)	Office
5480 Oak View Dr.	Smyth Unlimited LLC	Swallow Associates	\$1,540,000	Upper Macungie Twp.	Industrial
212 Cascade Dr.	Brennan Investment Group	The Magellan Group Inc.	\$1,251,498	Hanover Twp. (Lehigh)	Industrial

NOTABLE LEASES

PROPERTY	SF	LANDLORD		MUNICIPALITY	CLASS
		REPRESENTATIVE	TENANT		
951 Willowbrook Rd.	1,031,524	JLL	Geodis	Allen Twp.	Industrial
8451 Willard Dr.	530,534	Colliers	FedEx	Upper Macungie Twp.	Industrial
2834 Schoeneck Rd.	270,000	JLL	Silgan Containers	Lower Macungie Twp.	Industrial
2251 Newlins Mill Rd.	233,438	Exeter Property Group	II-VI Advanced Materials	Palmer Twp.	Industrial
200 Cascade Dr.	114,400	JLL		Hanover Twp. (Lehigh)	Industrial
6923 Schantz Rd.	100,000	Gelcor Realty	BMS Logistics	Upper Macungie Twp.	Industrial
7520 Morris Ct.	66,700	Colliers	Allen Distribution	Upper Macungie Twp.	Industrial

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



“Despite the coronavirus pandemic, LVEDC has continued to work on projects and expansions that had been in the pipeline before the COVID-19 crisis, as well as fielding inquiries about potential projects for after the pandemic ends. Economic development activity has continued at a strong pace in Lehigh Valley even in these uncertain times because companies and site selectors know the fundamentals of the regional economy have not changed. On the contrary, they are more important than ever.”

Don Cunningham

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

LEHIGH VALLEY ECONOMIC CONDITIONS

LEHIGH VALLEY POPULATION



674,603

The region has grown by nearly 4.2% since the 2010 Census, primarily due to international migration.

POPULATION CHANGE (2010-2019)

Lehigh County

↑5.6%

2019 369,318
2010 349,675

BIRTHS 38,570

DEATHS 31,025

DOMESTIC MIGRATION -4,995

INTERNATIONAL MIGRATION 17,308

Northampton County

↑2.5%

2019 305,285
2010 297,712

BIRTHS 26,191

DEATHS 27,026

DOMESTIC MIGRATION 3,284

INTERNATIONAL MIGRATION 5,446

Two of only 21 Pennsylvania counties that have increased in population since 2010.

POPULATION AGE

Millennials and Gen Z, those born after 1980, are the **largest segment of Lehigh Valley's labor force**, and based on 2019 population estimates now make up **50% of Lehigh Valley's total population.**

POPULATION UNDER AGE 39



Source: U.S. Census Bureau



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