

COMMERCIAL REAL ESTATE REPORT



ISSUE #023



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. The region has already begun to show signs of recovery, and the industrial market in particular has fared much better than other regions.

Due to the COVID-19 crisis, employment in the Lehigh Valley dropped faster and sharper than it did during the Great Recession. But the market already has regained nearly half the jobs lost this spring.

Total employment in the region dropped from 384,800 in January 2020 to a low of 322,100 in April, according to the U.S. Bureau of Labor Statistics. But by the end of the third quarter, the total had risen to 356,900.

Likewise, the Lehigh Valley unemployment rate reached a historic high of 16.6% in April, but has since dropped to 8% as of September. That number is consistent with both Pennsylvania and U.S. rates.

Lehigh Valley has also ranked in the Top 5 markets for industrial space under construction as a percentage of total industrial space (about 6%) in the third quarter of 2020. It is the only Northeast market to make the Top 20, according to CoStar.

There are currently 35 active industrial projects in the pipeline, according to the Lehigh Valley Economic Development Corporation. While not all of these projects will be completed, they represent \$1.3 billion in investment and 4,400 potential jobs.

The regional industrial market currently encompasses 128.8 million square feet of inventory, with 2.5 million square feet having been added in 2020 alone, despite the pandemic. Total industrial space in the region has grown by more than 30 million square feet in the past decade.

The overall industrial vacancy rate is 5.8%, according to CoStar. For smaller industrial buildings in the range of 80,000 square feet or less, the vacancy rate is even lower at 3.1%, showing that such buildings are still in short supply.

The Lehigh Valley office market, excluding medical and owner-occupied office space, is 16.2 million square feet. The vacancy rate for leased space has increased to 10.9%, and the average asking rent has increased 2.8% in the last 12 months. Total office space in the region is 27.2 million square feet, with about 800,000 square feet under construction.

The average rent for office space in Lehigh Valley is significantly lower than other major metropolitan areas in the Northeast, coming in at \$22.32 per square foot for Class A space. That's compared to \$86.69 in New York City, \$35.47 in Philadelphia, and \$32.91 in North Jersey.



Lehigh Valley SNAPSHOT: INDUSTRIAL SPACE

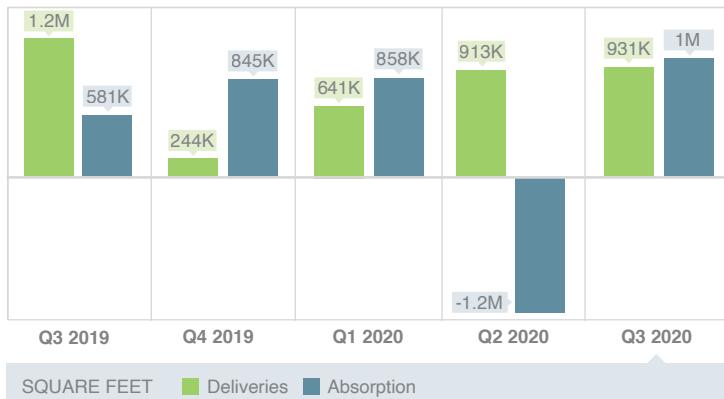
MARKET SUMMARY

2.5 million square feet has been added to the market in 2020, even with the pandemic.



128.8 Million Total Space (SF)	1 Million Q3 Net Absorption (SF)	\$6.52 Average Asking Rent (NNN)	7.9 Million Total Under Construction (SF)
5.8% Total Vacancy	698K 2020 Net Absorption (SF)	16.8% YOY Rent Growth	2.5 Million 2020 Deliveries (SF)

SUPPLY & DEMAND (SF)



VACANCY RATE (PER SF)



The vacancy rate for smaller industrial buildings remains ~3%.

PROJECT PIPELINE

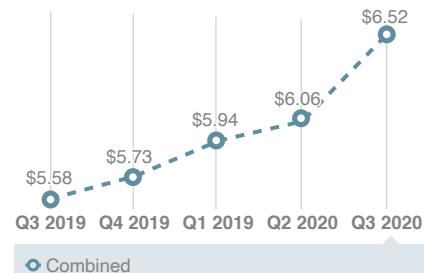


10-YEAR GROWTH

Total industrial space has increased by over 30 million square feet in the past decade.

2020	128.8M SF
2015	106M SF
2010	97M SF

ASKING RATE (PER SF)



Rent growth in the last 12 months is nearly 17% and averages \$6.52 per square foot.

Lehigh Valley ranked in the top 5 U.S. markets for industrial space under construction as a percentage of total industrial space (about 6%) in Q3 and is the only Northeast market in the top 20.

Sources: CoStar, LVEDC Research

Lehigh Valley SNAPSHOT: OFFICE SPACE

MARKET SUMMARY

Vacancy rate for leased space increased to 10.9%.



16.2 Million* Total Space (SF)	-91.7K Q3 Net Absorption (SF)	\$16.05 Average Asking Rent (NNN)	0K Total Under Construction (SF)
10.9% Total Vacancy	-59.3K 2020 Net Absorption (SF)	2.8% YOY Rent Growth	0K YTD Deliveries (SF)

*Excludes medical and owner-occupied office space.

TOTAL OFFICE SPACE

27.2 Million Total Space (SF)
8.5% Total Vacancy
796K Total Under Construction (SF)
119K YTD Deliveries (SF)

These figures reflect the total office market in Lehigh Valley, including owner-occupied and medical office space.

ASKING RATE (PER SF)



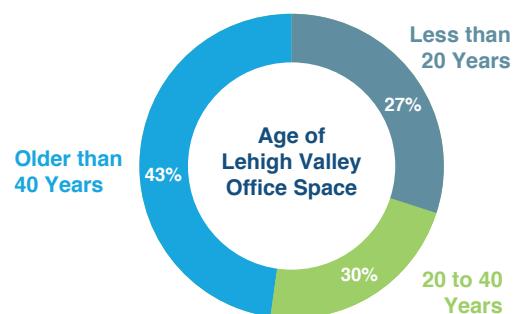
Average asking rent for all types of office space has increased 2.8% in the last 12 months.

AVERAGE RENT (PER SF)



Compared with other metropolitan areas in the Northeast, the average rent for Class A office space in Lehigh Valley is significantly lower.

OFFICE SPACE AGE



More than 70% of the multi-tenant, leased office space in Lehigh Valley was built over 20 years ago.

Sources: CoStar, Colliers International, LVEDC Research



BROKER PERSPECTIVE

“Five years ago, skeptics said no one would move to downtown Allentown. But City Center has built more than 800 apartments since 2016 and has 600 more in planning and development. These are semi-luxury apartments catering to an educated workforce that wants to live and work in a vibrant urban community. And as we know, companies follow talent, so Allentown is on the radar of many businesses.”

Jarrett Laubach
Director of Leasing
City Center Investment Corporation



Photo Credit: City Center

BROKER PERSPECTIVE

“Despite the pandemic, and unlike the office and retail markets, we continue to see strong demand for industrial space in Lehigh Valley, especially with e-commerce, logistic, and manufacturing organizations. Without question, we are seeing this year’s market demands outpacing 2019. Lehigh Valley continues to lead the way due to our geographic location and strong workforce. Companies continue to broaden their footprint in the region, which has led to increased leasing activity and rental rates, as well as decreased vacancy rates within the industrial sector despite the economic fallout of the pandemic.”

Joseph Correia, Project Executive at J.G. Petrucci Company Inc.

Q3 2020 COMMERCIAL REAL ESTATE TRANSACTIONS

NOTABLE SALES

PROPERTY	BUYER	SELLER	SALE PRICE	MUNICIPALITY	CLASS
2320 Newlins Mill Rd.	Exeter 2320 Newlins Mill LP	G&I IX Newlins Mill LLC	\$40,000,000	Palmer Twp.	Industrial
3435 Winchester Rd.	Hammes Partners	3435 Winchester LP	\$12,250,000	South Whitehall Twp.	Office
1621 N. Cedar Crest Blvd.	Hammes Partners	1621 Holdings LP	\$12,250,000	South Whitehall Twp.	Office
1401 N. Cedar Crest Blvd.	Hammes Partners	1401 Holdings LP	\$12,239,485	South Whitehall Twp.	Office
1411 Jacobsburg Rd.	Hammes Partners	Wind Gap Holdings LP	\$11,900,000	Plainfield Twp.	Office
3100 Emrick Blvd.	Hammes Partners	3100 Emrick LP	\$11,850,000	Bethlehem Twp.	Office
4710 Freemansburg Ave.	St. Luke's Hospital	NND LP	\$9,000,000	Bethlehem Twp.	Industrial
3700 Glover Rd.	AP Deauville	SK Realty Management	\$8,725,000	Forks Twp.	Industrial
8 McFadden Rd.	Congdon Investments LLC	Alan and Sandra Abeshaus Trust	\$4,783,750	Palmer Twp.	Industrial
7035 Schantz Rd.	7035 LLC	Pony Partners LP	\$3,825,000	Upper Macungie Twp.	Flex
1405 N. Cedar Crest Blvd.	Hammes Partners	1405 Holdings LP	\$3,600,000	South Whitehall Twp.	Office
601 East St.	Kitov in Easton	West Easton One LP	\$2,400,000	West Easton	Industrial
925 Conroy Place	Daniels Easton PA LLC	JERC Partners XIV LP	\$2,250,000	Forks Twp.	Industrial
3440 Lehigh St.	Allentown-Lehigh Street LLC	Penn Treaty Network America Insurance Co.	\$2,250,000	Salisbury Twp.	Office
1885 Weaversville Rd.	Weaversville Road Holdings LLC	Joseph Bennett	\$1,250,000	Hanover Twp. (Lehigh)	Industrial
1 Adamson St.	Precision Property Holdings LLC	Adamson Street LLC	\$1,250,000	Easton	Industrial
446 Union Blvd.	446 Union Blvd LLC	First Commonwealth FCU	\$1,023,120	Allentown	Office

NOTABLE LEASES

PROPERTY	SF	LANDLORD REPRESENTATIVE	TENANT	MUNICIPALITY	CLASS
7058 Snowdrift Rd.	540,000	CBRE	Allen Distribution	Upper Macungie Twp.	Industrial
6736 Tilghman St.	150,000	Markward Group	ShipHero	Upper Macungie Twp.	Industrial
250 Radar Rd.	135,650	JLL	Pet Supplies Plus	Allen Twp.	Industrial
4779 Hanoverville Rd.	34,000	NAI Summit	Innovative Office Products	Lower Nazareth Twp.	Industrial

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



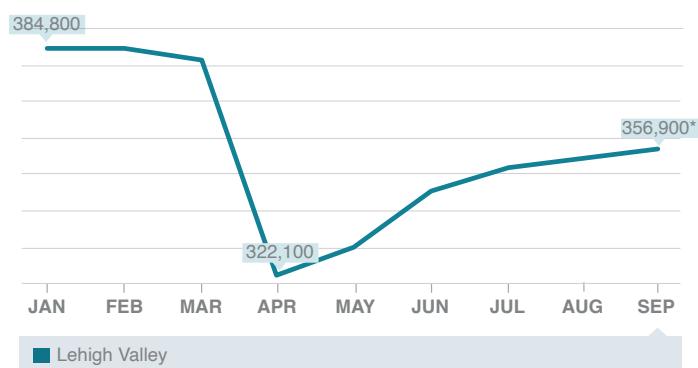
"The COVID-19 pandemic has certainly impacted the Lehigh Valley economy, but not all industrial sectors have been impacted equally. Restaurants and hospitality businesses are shuttered while online retailers and manufacturers based here are experiencing record growth and new ones are coming. The stock market keeps rising and residential home sales are on such a torrid pace that basic houses in the Lehigh Valley sell in 2 days at 20% above asking price with dozens of offers."

Don Cunningham

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

LEHIGH VALLEY ECONOMIC CONDITIONS

EMPLOYMENT RATE



Employment in the Lehigh Valley plummeted faster and sharper than it did during Great Recession, but nearly half the jobs lost this spring have recovered.

*Preliminary data.

Source: U.S. Bureau of Labor Statistics:
Total nonfarm employment, seasonally adjusted

Not all industrial sectors have been affected equally.

PERCENTAGE RECEIVING UNEMPLOYMENT BENEFITS BY SECTOR

Accommodation & Food Services	15.70%
Health Care & Social Assistance	15.20%
Administrative & Waste Services	12.70%
Retail Trade	11.30%
Transportation & Warehousing	10.80%
Manufacturing	9.40%
Educational Services	3.50%
Construction	3.20%
Professional & Technical Services	3.10%
Wholesale Trade	3.00%
Finance & Insurance	1.40%

Source:
Pennsylvania Department of Labor and Industry

Employment among lower wage workers hasn't recovered at the rate of higher wage workers.

	LEHIGH COUNTY	NORTHAMPTON COUNTY
Workers Earning Over \$60,000	↑ 2.1%	↓ 3.7%
Workers Earning Under \$27,000	↓ 6.7%	↓ 16%

Source: Opportunity Insights (Percent Change from January to July)

Younger workers are also feeling the brunt of the employment losses.

	PERCENTAGE RECEIVING UNEMPLOYMENT BENEFITS BY AGE GROUP
16-34	39.0%
35-44	20.0%
45-54	16.4%
55 & Over	24.5%

Source:
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.

