

COMMERCIAL REAL ESTATE REPORT



ISSUE #027



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 Lehigh Valley economy has been experiencing a steady and consistent recovery from the COVID-19 crisis over the past year.

The region's unemployment rate dropped to 5.7% in September 2021, compared to 7.3% in September 2020, according to the U.S. Bureau of Labor Statistics. Employment in the Lehigh Valley is 367,100 as of September 2021, compared to 353,200 a year earlier.

Still, Lehigh Valley employers say that they have challenges attracting and retaining workers. The Lehigh Valley Economic Development Corporation (LVEDC), through its Education and Talent Supply Council, is conducting a new study of the regional talent market to understand the issues employers are facing, and how they may have changed due to the pandemic and other factors since the previous study in 2018. Talent supply is a primary concern of Lehigh Valley employers. LVEDC has led a coalition of employers, educators, and community leaders focused on attracting, retaining, and training talent since 2015.

Industrial and economic growth remains strong in the region. LVEDC is tracking an active pipeline of 40 companies considering a move to or expansion in the region as of the end of Q3 2021, 28 of which are manufacturing companies.

There is 4.2 million square feet of industrial space currently under construction in the Lehigh Valley. The region has a total of 137.7 million square feet of industrial inventory as of Q3 2021, with an overall vacancy rate of 4.5%. A total of 7.7 million square feet of industrial space has been added in the Lehigh Valley in 2021 so far.

Despite all this activity, the Lehigh Valley continues to need smaller-footprint industrial space -- buildings of 50,000 to 100,000 square feet -- that can house manufacturers. One of the challenges we face is finding building space to meet the need of our growing life sciences and advanced manufacturing sectors.

The Lehigh Valley remains a key point for distributing goods into the densely-populated I-95 corridor from Washington, D.C., up through New York City.

Industrial space in the Lehigh Valley in the past 12 months has leased at a rate 1.3 times higher than the annual average of the last three years. Market rents in logistics are up an average of 8% nationally, according to CoStar.

Vacancy rates for office space in the region are still higher than when the pandemic was declared last year and more office workers shifted to remote work. There are signs of improvement. Leasing deals are picking up. While it doesn't outpace the amount of space being vacated, the drop in that net absorption rate is slowing down. The net absorption rate fell from negative 173,000 square feet in the first quarter to negative 14,600 square feet in the third quarter.

The Lehigh Valley currently has 27.7 million square feet in total office space, with an overall vacancy rate of 9.4%. There are 1 million square feet of office space currently under construction, driven by Air Products' new campus in Upper Macungie Township and two office buildings at The Waterfront project in Allentown.

The Lehigh Valley is the fastest-growing region in Pennsylvania for the population between age 18 and 34. Since 2010, the Lehigh Valley has seen a 6.2% overall population increase, compared to 2.4% growth in the state of Pennsylvania.

The Hispanic population has fueled Lehigh Valley's growth, with a 47.8% change in Lehigh County in that demographic compared to 2010, and a 43% change in Northampton County.



Lehigh Valley SNAPSHOT: INDUSTRIAL SPACE

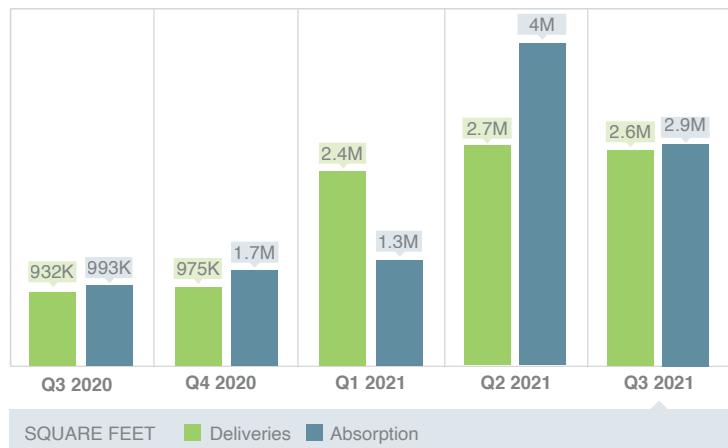
MARKET SUMMARY

There is nearly 4.2 million square feet of industrial space under construction.



137.7M Total Space (SF)	2.9M Q3 Net Absorption (SF)	\$8.14 Average Asking Rent (NNN)	4.2M Total Under Construction (SF)
4.5% Total Vacancy	8.3M 2021 Net Absorption (SF)	+25% Rent Change Since Q3 2020	7.7M 2021 Deliveries (SF)

SUPPLY & DEMAND (SF)



ASKING RATE (PER SF)



Asking rate for smaller industrial footprints are rising at a faster rate than in the overall industrial inventory.

INDUSTRIAL SPOTLIGHT

"Scranton, Reading, Lehigh Valley and Hagerstown, for example, are all key points for distributing goods into the densely populated I-95 corridor from Washington, D.C., up through New York."

Adrian Ponson
Director of Industrial Market Analytics
CoStar

Regional Distribution Leases

Industrial space leased in the last 12 months compared to the annual average of the last three years:

Scranton, PA	2.3 times
Reading, PA	1.7 times
Hagerstown, MD	1.5 times
Lehigh Valley, PA	1.3 times

Market Rents in logistics are up an average of 8% nationally.

Northern New Jersey	14.2%
Philadelphia	14.2%
Columbus	10%
Boston	9.8%
Lehigh Valley	9.4%

Sources: CoStar, LVEDC Research

Lehigh Valley SNAPSHOT: OFFICE SPACE

MARKET SUMMARY

The market summary includes total office space.

27.7M Total Space (SF)	-14.6K Q3 Net Absorption (SF)	\$15.96 Average Asking Rent (NNN)	763.3K Total Under Construction (SF)
9.4% Total Vacancy	-225K 2021 Net Absorption (SF)	+1.6% Rent Change Since Q3 2020	0 YTD Deliveries (SF)
 Rentable Office Space Excluding Owner-Occupied and Medical		16.9M Total Space (SF)	\$16.20 Average Asking Rent (NNN)

VACANCY RATE (PER SF)



Vacancy rates for office space have increased since the spring of 2020 as more office workers shifted to remote work.

UNDER CONSTRUCTION (SF)

	Total Office	Excluding Medical, owner-occupied
Q3 2020	625,000	0
Q4 2020	625,000	0
Q1 2020	625,000	138,305
Q2 2021	763,305	138,305
Q3 2021	763,305	138,305

Office construction is driven by Air Products new campus in Upper Macungie Township and an office building at The Waterfront project in Allentown.

LEASING DEALS

	No. of Deals	SF
Q3 2021	50	101,815
Q2 2021	42	111,355
Q1 2021	43	88,679
Q4 2020	25	59,350
Q3 2020	34	62,708
Q2 2020	36	105,707
Q1 2020	52	132,672

Office leasing deals are picking up in the Lehigh Valley.

YTD TOTAL NET ABSORPTION

	% of Stock
Lehigh Valley	-2.3%
Valley Forge	-10.1%
Philadelphia (CBD)	-2.6%
Newark	-3.2%
Monmouth	0%
Cambridge	-3.7%
Baltimore (Midtown)	1.7%

Negative net absorption indicates more office space is being vacated than filled.

Sources: CoStar, JLL, LVEDC Research



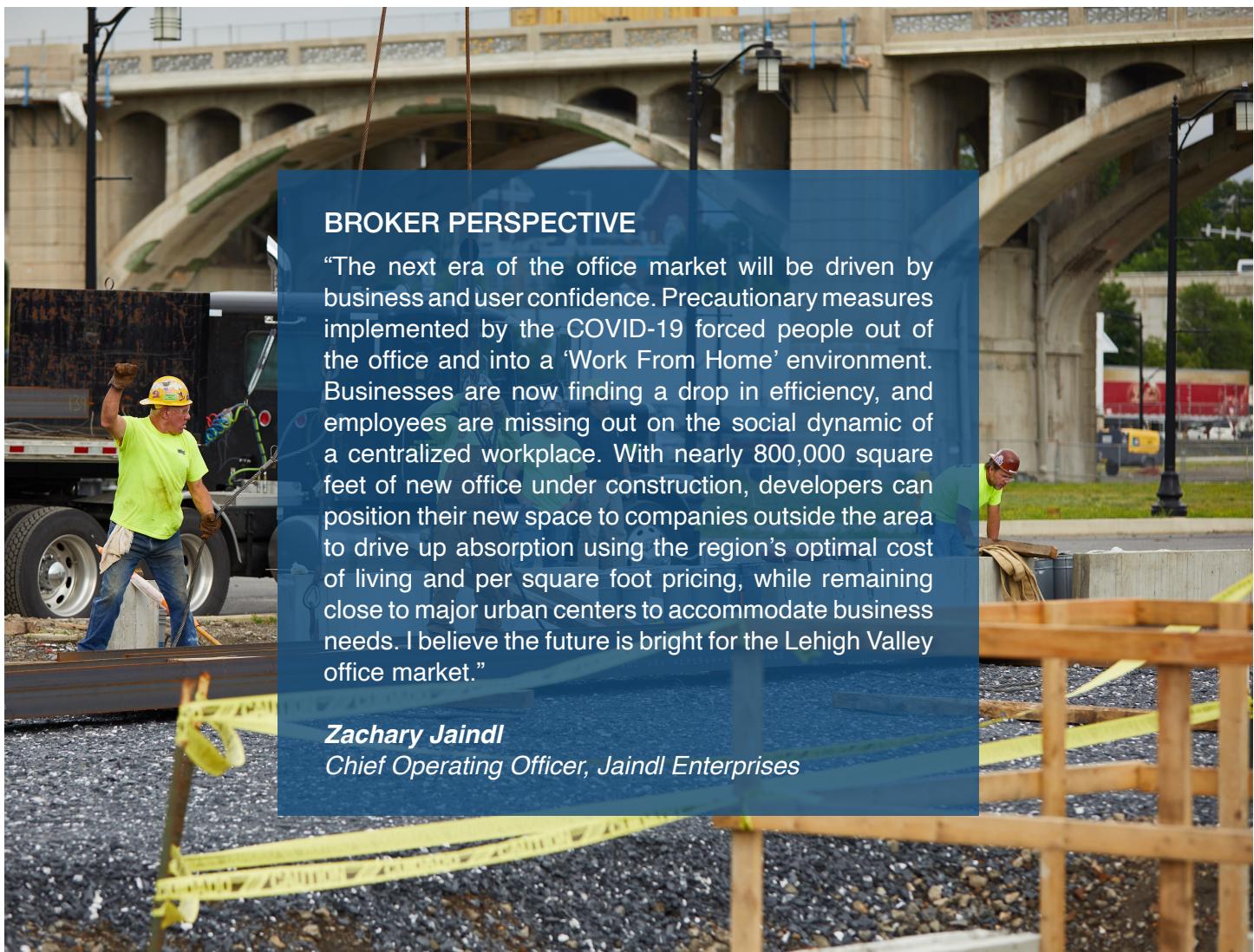


Photo courtesy of Jaindl Enterprises

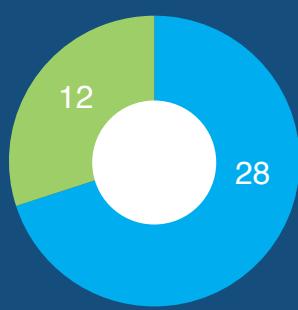
BROKER PERSPECTIVE

"The next era of the office market will be driven by business and user confidence. Precautionary measures implemented by the COVID-19 forced people out of the office and into a 'Work From Home' environment. Businesses are now finding a drop in efficiency, and employees are missing out on the social dynamic of a centralized workplace. With nearly 800,000 square feet of new office under construction, developers can position their new space to companies outside the area to drive up absorption using the region's optimal cost of living and per square foot pricing, while remaining close to major urban centers to accommodate business needs. I believe the future is bright for the Lehigh Valley office market."

Zachary Jaindl
Chief Operating Officer, Jaindl Enterprises

PROSPECT PIPELINE

The Lehigh Valley Economic Development Corporation had an active pipeline of 40 companies considering a move to or expansion in Lehigh Valley as of the end of Q3 2021.



*Number of Manufacturing Prospects
Number of Non-Manufacturing Prospects*

Here's how much space industrial prospects (distribution and manufacturing) indicated they needed:

Total Square Footage Requested	3,380,000
Average Square Footage Requested	125,185
Median Square Footage Requested	62,500
Total Square Footage Requested by Manufacturers	1,835,000
Total Square Footage Requested by Distributors	1,545,000

Source: LVEDC Research. *Not all prospects identify a square footage requirement.

BROKER PERSPECTIVE

“With the acceleration of e-commerce sales spurred by COVID-19, the demand for industrial space nationwide is continuing to outpace supply and will continue for the foreseeable future. The Lehigh Valley and Eastern Pennsylvania, by example, have absorbed more industrial space than any other region of the country.”

Michael Zerbe, Senior Managing Director & Principal, Colliers International

Q3 2021 COMMERCIAL REAL ESTATE TRANSACTIONS

NOTABLE SALES

PROPERTY	BUYER	SELLER	SALE PRICE	MUNICIPALITY	CLASS
3700 Glover Road	CIVF VI-PA1W01 LLC	3700 Glover Partners LLC	\$20,040,000	Forks Township	Industrial
2651 Baglyos Circle	2651 Baglyos Circle LLC	General Supply Company	\$4,990,000	Bethlehem Township	Industrial
1417 Hanover Ave	FSC CSL Allentown PA DST	1417 Hanover Avenue LLC	\$4,015,000	Allentown	Office
2124 Hanover Ave	KSG Allentown 2118 LLC	Banko Frank LII	\$2,575,000	Allentown	Industrial
623 W Union Blvd	Billstone LLC	LFC Realty LLC	\$2,200,000	Bethlehem	Office
3865 Adler Place	90 Highland LLC	Stiegler Wells LLC	\$2,100,000	Hanover Township, Northampton	Office
1621 Race Street	Lehigh-Northampton Airport Authority	DOSDARBS LLC	\$1,968,000	Hanover Township, Lehigh	Industrial
231 Moorestown Road	AMS-WCC LLC	Tara Star LLC	\$1,400,000	Moore Township	Office
1414 Millard St	Industrial Archives & Library	Notre Dame High School Inc	\$1,350,000	Bethlehem	Office
928 N. Fourth Street	Silkwerks LLC	Triple T VN Properties LLC	\$1,250,000	Allentown	Office
3760 Brookside Rd	PDP AMITY LLC	PDP Amity LLC	\$1,095,610	Lower Macungie Township	Office
4240 Fritch Drive	Cinder Properties LLC	Meal On Wheels	\$1,100,000	Bethlehem	Flex
1510 Richmond Road	Spencer Industrial Properties LLC	Eisenhardt Mills Inc	\$950,000	Bethlehem	Office

NOTABLE LEASES

PROPERTY	SF	LANDLORD REPRESENTATIVE	TENANT	MUNICIPALITY	CLASS
8449 Congdon	925,910	CBRE	Uline	Lower Macungie Township	Industrial
5185 Crackersport	640,305	Gelcor	Radial	South Whitehall	Industrial
150 Cesanek Road	601,836	CBRE	Kenco Logistics	Allen Township	Industrial
3585 S. Church St	504,900	JLL	Loctek	Whitehall Township	Industrial
460 E. Moorestown Road	207,900	Lee and Associates	Mainfreight	Bushkill Township	Industrial
7520 Morris Court	66,700	Colliers	Breuer Premium Pet Food	Upper Macungie Township	Industrial
200 Cascade Drive	28,800	JLL	Lindenmeyr Munroe	Hanover Township, Lehigh	Industrial
1550 Pond Road	9,245	JLL	PayChex	South Whitehall	Office

Source: CoStar



"In the past, regions recruited companies and the people followed. Today, companies want to know the talent is in a market or that the market is attractive enough to recruit new workers before deciding to stay or move. The emphasis is particularly on the young population, which bodes well for the Lehigh Valley: The latest U.S. Census data shows Lehigh and Northampton counties are among Pennsylvania's top five counties with the fastest growing population of 18 to 34-year-olds."

Don Cunningham

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

LEHIGH VALLEY DEMOGRAPHICS

LEHIGH VALLEY POPULATION

687,508



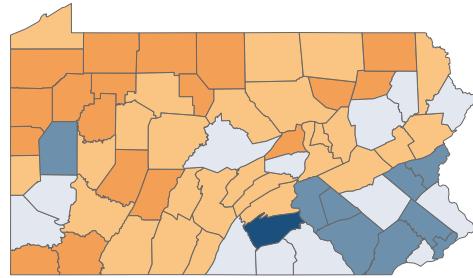
POPULATION GROWTH SINCE 2010

Lehigh Valley

↑ 6.2%

Pennsylvania

↑ 2.4%



Percent Change

- 10.0 to 19.9
- 5.0 to 19.9
- 0.0 to 4.9
- 4.9 to -0.1
- 5.0 or less

The number of residents under 18 in the Lehigh Valley has decreased in the last decade which is in line with national trends. The Lehigh Valley will rely on migration, as it has in the last decade, to continue the growth trend.

DEMOGRAPHIC SPOTLIGHT: UNDER 18 POPULATION

Lehigh County 2020	82,622
Change since 2010	-58
% Changes since 2020	-0.1%
Northampton County 2020	61,275
Change since 2010	3,902
% Change since 2010	-6.0%

HISPANIC POPULATION FUELED LEHIGH VALLEY'S GROWTH

Lehigh County 2020	96,981
Change since 2010	31,366
% Changes since 2020	47.8%
Northampton County 2020	44,597
Change since 2010	13,418
% Change since 2010	43%

TRACKING LEHIGH VALLEY'S RECOVERY

	Sept. 2021	Sept. 2020
Employment	367,100	353,200
Manufacturing	38,800	37,800
Logistics	36,500	31,300
Retail	36,800	37,400
Professional/Business Services	47,000	45,100
Health Care/Social Assistance	64,600	63,000
Leisure/Hospitality	32,900	29,100

Sept. 2021 **Sept. 2020**

Unemployment Rate 5.7% 7.3%

*The unemployment rate is for Northampton and Lehigh counties. Employment numbers are for Lehigh Valley metro region, which also includes Carbon and Warren counties. The unemployment rate and total employment statistics are seasonally adjusted. Employment by industrial sector is not seasonally adjusted.

Sources: PA Department of Labor and Industry, U.S. Bureau of Labor Statistics.



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 support the recruitment, growth and retention of employers and the creation of jobs for people of all skills and educations.

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 Values

Find a way: We do what it takes to solve the problem or find the answer

Build the team: We work with each other and all partners to find solutions

Collaborate: We are the region's economic connector

Inspire trust: Treat all equally and fairly and focus on the big picture

Results first: Focus our work and efforts on outcomes, not on process

Our Principles

To Create Value and Use What We're Given...

We will serve the people, the employers, and the governments of the Lehigh Valley by maximizing the financial resources and partnerships that are available to us in an efficient, professional, and value-added manner.

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Lehigh Valley

Come here. Start here. Grow here.

