

COMMERCIAL REAL ESTATE REPORT



ISSUE #029



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

The Lehigh Valley's commercial real estate market delivered encouraging signs of recovery in the first quarter of 2022 amid uncertainty caused by the pandemic and global supply chain issues.

The industrial market, among the nation's busiest, expanded even as vacancy rates remained low and rents ticked upward. Inventory grew by a million square feet, totaling 141.2 million square feet. Another 5.4 million square feet was under construction.

Nearly a fifth of the construction is for nationally recognized logistics provider Unis. Its lease is among the largest since the pandemic began, with only Geodis and Nike signing for larger spaces since 2020.

Underscoring the continued strength of the industrial real estate market, global logistics operator Realterm purchased a fully-leased facility in Bethlehem for a sum that CoStar puts at \$96.7 million – the largest sale of in the first quarter.

While logistics gets much of the attention, most of the new leases were for under 100,000 square feet as the Lehigh Valley landed manufacturers that promise to bring hundreds of jobs:

- Australian-owned Easy Signs, which makes high-quality printed signage, is opening its first U.S. manufacturing operation in Upper Macungie Township, creating 130 new jobs.
- Spot & Tango, a pet health and wellness company, will operate its first manufacturing facility, bringing 96 new jobs to Upper Macungie.
- Olympus Corporation's new subsidiary Evident, which makes products such as videoscopes and X-ray analyzers, will operate a microscopy distribution and service center at Lehigh Valley Industrial Park VII in Bethlehem.

While the future of remote work and COVID-19 variants continued to cause uncertainty in the office market, two companies made significant commitments in the Lehigh Valley:

- Air Products, a Fortune 500 company, began moving into its new 625,000-square-foot corporate headquarters in Lower and Upper Macungie townships.
- FLSmidth, which supplies engineering, equipment and service solutions to the mining and cement industries, sold its offices in Bethlehem and subleased space at Patriot American Park, the former Agere headquarters adjacent to Route 22 and Lehigh Valley International Airport.

The economic conditions are improving as the Lehigh Valley continued to drive Pennsylvania's jobs recovery. At the end of March, the Lehigh Valley metro region regained 99% of the jobs lost since April 2020, trending above state and U.S. levels.

The Lehigh Valley grew amid a historic population shift away from urban centers in a time when social distancing was key at slowing COVID-19's spread and the rise of remote work made employees more mobile. As nearby cities Philadelphia and New York City lost population, the Lehigh Valley experienced a notable net gain of people moving domestically between July 2020 and June 2021, pushing the population to nearly 690,000, according to U.S. Census Bureau data.

"Realterm's new Lehigh Valley facility is advantageously located in one of the fastest growing industrial markets in the country due to the region's transportation infrastructure, low operating costs, parcel/freight hubs, abundant labor, and unmatched regional connectivity. This asset is an excellent example of our continued strategy of acquiring the most functional industrial properties across the country."

Stephen Panos, Senior Vice President and Fund Manager, Realterm



Lehigh Valley SNAPSHOT: INDUSTRIAL SPACE

MARKET SUMMARY

The Lehigh Valley's industrial and flex footprint has grown by more than 11.5 million square feet since the first quarter of 2020.



141.2 M Total Space (SF)	582.6K Q1 Net Absorption (SF)	\$7.86 Average Asking Rent (NNN)	5.4 M Total Under Construction (SF)
4.7% Total Vacancy	582.6K 2022 Net Absorption (SF)	+18.9% Rent Change Since Q1 2021	1.4 M 2022 Deliveries (SF)

INDUSTRIAL FOOTPRINTS

	Asking Rent		Vacancy Rate	
	20-80k	> 300K SF	20-80k	> 300K SF
Q1 2021	\$7.19	\$6.40	3%	4.8%
Q2 2021	\$7.60	\$6.25	2.6%	4.1%
Q3 2021	\$8.45	\$6.00	3.1%	3.2%
Q4 2021	\$7.48	\$6.00	3%	3.4%
Q1 2022	\$7.88	\$6.00	3.3%	5.2%

The median size for manufacturing prospects in March was 50,000 square feet. The data shows asking rent for industrial property of smaller footprints command more per square foot and have lower vacancy rates in the Lehigh Valley.

The Lehigh Valley offers more affordable space for Research and Development than nearby markets in New Jersey and suburban Philadelphia

Lehigh Valley, PA	\$7.36
Northeastern Pennsylvania	\$8.21
I-287 Corridor in New Jersey	\$10.83
Northern New Jersey	\$12.02
Bucks County, PA	\$12.07
Montgomery County, PA	\$17.36

Source: Newmark



New Olympus spinoff Evident Corporation is opening a new microscopy distribution and service center in Lehigh Valley Industrial Park VII in Bethlehem because of its central Northeast location, well-developed transportation structure, proximity to the Lehigh Valley International Airport, and attractiveness to its workforce.

EVIDENT
OLYMPUS

Sources: CoStar, LVEDC Research, Newmark

Lehigh Valley SNAPSHOT: OFFICE SPACE

MARKET SUMMARY

The market summary includes total office space, which includes owner-occupied and medical offices.



28M Total Space (SF)	51K Q1 Net Absorption (SF)	\$15.82 Average Asking Rent (NNN)	138.3K* Total Under Construction (SF)
9.1% Total Vacancy	51K 2022 Net Absorption (SF)	-1.2% Rent Change Since Q1 2021	625K** YTD Deliveries (SF)
Rentable Office Space Excluding Owner-Occupied and Medical		16.9M Total Space (SF)	\$16.09 Average Asking Rent (NNN)

“Major local employers continue to encourage employees to return to the office, and many have already begun implementing their plans to do so. For those tenants in the market, there is a flight to quality with most now considering longer-term deals. That is a trend we’re seeing throughout the region: as the office market normalizes, higher quality spaces are seeing more lease-up and vacancy stabilization.”

Philip M. Schenkel, Executive Vice President – Associate Director, Jones Lang LaSalle

VACANCY RATE (PER SF)



Vacancy rates for office space have remained steady over the last four quarters.

ASKING RATE

Class A Office Space

Lehigh Valley, PA	\$23.86
King of Prussia, PA	\$28.84
Essex County, NJ	\$33.69
Conshohocken, PA	\$40.10
University City, Philadelphia	\$44.27
Madison/Fifth Avenue, NYC	\$103.96

The Lehigh Valley offers more affordable rent for Class A Office space than nearby markets.

Sources: CoStar, LVEDC Research, Cushman & Wakefield

*Includes an office building at The Waterfront project in Allentown.

**Air Products has completed a new corporate campus in Upper and Lower Macungie townships.





FLSmidth, a leading supplier of engineering, equipment and service solutions to customers in the mining and cement industries, signed a sublease in the first quarter for office space at Patriot American Park, once the global headquarters for Agere Systems. FLSmidth employs 200 in the Lehigh Valley.

"We're excited to move into our new offices. They offer a much more modern space with a lower carbon footprint, which is in keeping with our sustainability ambitions. Crucially, we're staying local to our customers, and we look forward to welcoming them into the new offices in due course."

Rafael Martinez, Vice President of Cement, FLSmidth

PROSPECT PIPELINE

The Lehigh Valley Economic Development Corporation had an active pipeline of 47 companies considering a move to or expansion in the Lehigh Valley as of the end of Q1 2022.



Manufacturing Prospects
35



Jobs in the Pipeline
4,191



Potential Capital Investment
1.3B

Of the 27 manufacturing prospects that indicated a size requirement:

Total SF Required	6.6M
Median SF Requested	50,000
Average SF Requested	243,259
Prospects seeking 500K SF+	4
Prospects seeking <150K	19

Source: LVEDC Research. *Not all prospects identified square footage requirements and job estimates.

Q1 2022 COMMERCIAL REAL ESTATE TRANSACTIONS

NOTABLE SALES

PROPERTY	BUYER	SELLER	SALE PRICE	MUNICIPALITY	CLASS
1245 Easton Rd	Rrif Easton Rd Spe LLC	SDC Bethlehem Property LLC	\$96,700,000	Bethlehem	Industrial
1139 Lehigh Ave	Riverside at Whitehall Holding LLC	1788/Riverside Business Center LLC	\$32,550,000	Whitehall	Industrial
2040 Avenue C	LV Academy Regional Charter School	Fuller Company	\$15,376,490	Bethlehem	Office
2302-2310 26th St SW	Triple Net Investments XCIV LLC	MKD Real Estate LLC	\$4,100,000	Allentown	Industrial
15 McFadden Rd	St James Re Holdings LLC	Kasapov LLC	\$2,500,000	Palmer Township	Industrial
1403 Jacobsburg Rd	Colton Wind Gap Properties LLC	Triple Net Investments XXIV LP	\$3,350,000	Bushkill Township	Industrial
1055 Win Dr	Java SD Steel LLC	Lawrence Bruce J	\$1,320,000	Bethlehem	Industrial
732 N 16th St	RST2 Holdings LLC	Z & M Realty Management LLC	\$1,300,000	Allentown	Industrial
4988 East Valley Dr	H & Z Holding LLC	GMT Transport INC	\$1,025,000	Lehigh Township	Industrial
2141 Downyflake Ln	City Center Investment Corporation	People First Federal Credit Union	\$1,000,000	Allentown	Office

NOTABLE LEASES

PROPERTY	SF	LANDLORD REPRESENTATIVE	TENANT	MUNICIPALITY	CLASS
175 Cesanek Rd	953,336	CBRE	Unis	Allen Township	Industrial
7132 Daniels Dr	292,092	Cushman & Wakefield	Five Star Apparel	Upper Macungie Township	Industrial
2900 Brodhead Rd	267,120	Lee & Associates		Bethlehem Township	Industrial
3943 Easton-Nazareth Hwy	256,474	JLL		Lower Nazareth Township	Industrial
1520 Van Buren Rd	142,569	CBRE		Palmer Township	Industrial
130 Commerce Ln	95,382	CBRE		Tatamy	Industrial
2109 City Line Rd	72,260	Veyron & Co. LLC	Dr. Pepper Snapple Group	Bethlehem	Industrial
7346 Penn Dr	72,000	Gelcor Real Estate	Easy Signs	Upper Macungie Township	Industrial
4741 Chapmans Rd	67,750	Lee & Associates		South Whitehall Township	Industrial
7520 Morris Ct	66,700	Colliers International	Spot & Tango	Upper Macungie Township	Industrial
1150 Center St	54,000	NAI Summit		Williams Township	Industrial
240 Emery St	39,950	CBRE	Evident Corporation	Bethlehem	Flex
1110 American Parkway NE	16,708	JLL	FLSmidth	Hanover Township, Lehigh	Office
3101 Emrick Blvd	15,945	CBRE		Bethlehem Township	Office
1240 N. Sherman St	13,600	SVN		Allentown	Industrial

Source: CoStar



"The Lehigh Valley is becoming more vibrant, more diverse, and growing in population and economic output. Since 2010, the Lehigh Valley's population rose by more than 6% to about 690,000 people making it one of Pennsylvania's fastest growing regions and in the top 25 percent of growing regions in the United States. More importantly, the population between the ages 18 to 34 years old – who now are the largest generation in our workforce – grew by 10.7% during that time."

Don Cunningham

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

MARKET INDICATORS

LEHIGH VALLEY POPULATION TRENDS 2012-2021

 Births
70,326

 Deaths
65,279

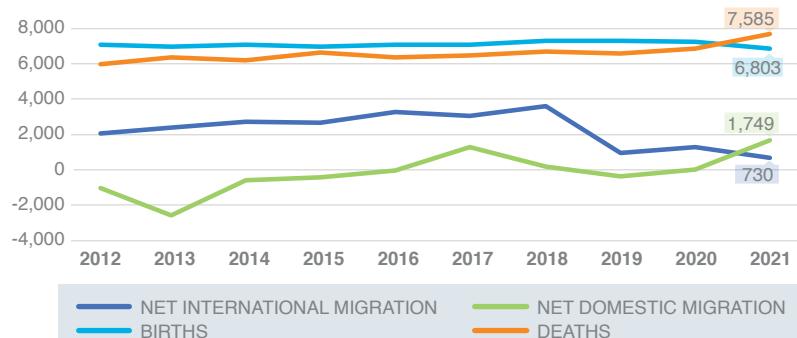
 Domestic Migration
-946

 International Migration
23,034

Population Change
 5.7%

MIGRATION CHANGES

Like 58% of U.S. counties, the **Lehigh Valley grew in population during the pandemic** mainly because of net domestic migration as people moved from the nation's largest metro regions. **International migration had been the historic driver of growth in the region.**



Source: U.S. Census, Population Estimates Program, for Lehigh and Northampton counties

TRACKING THE LEHIGH VALLEY'S RECOVERY

LABOR FORCE

The economic downturn induced by the pandemic was particularly affected by the number of people who dropped out of the workforce. Data shows the number of people employed and seeking employment reached pre-pandemic levels in March, though the labor force recovery may not be equal across all industry sectors.

	Employed	Unemployed
March 2022	346,200	15,900
April 2020	286,100	56,800
February 2020	342,300	16,400

PERCENTAGE OF JOBS RECOVERED SINCE APRIL 2020

The Lehigh Valley's jobs recovery is trending above Pennsylvania's and the nation's.

Lehigh Valley	99%
Pennsylvania	83%
United States	93%

Sources: PA Department of Industry & Labor (Seasonally-Adjusted Data for Lehigh and Northampton counties.), U.S. Bureau of Labor Statistics for the Lehigh Valley metro region (Lehigh, Northampton, Carbon & Warren counties)



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.

