

2020 North America Industrial Big Box

Review & Outlook

CBRE RESEARCH



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Southern New Jersey/ Eastern Pennsylvania



The Philadelphia and I-78/I-81 Corridor industrial markets are centrally located in the Northeast, allowing for one-day access to millions of consumers. Demand outpaces supply in every submarket. There has been an aggressive shift in consumer buying patterns with the food & beverage and home furnishings categories leading the charge. As a result, both private and institutional investors are increasingly attracted to the region's industrial & logistics sector.”

– **Jake Terkanian, Senior Vice President,
CBRE Philadelphia**





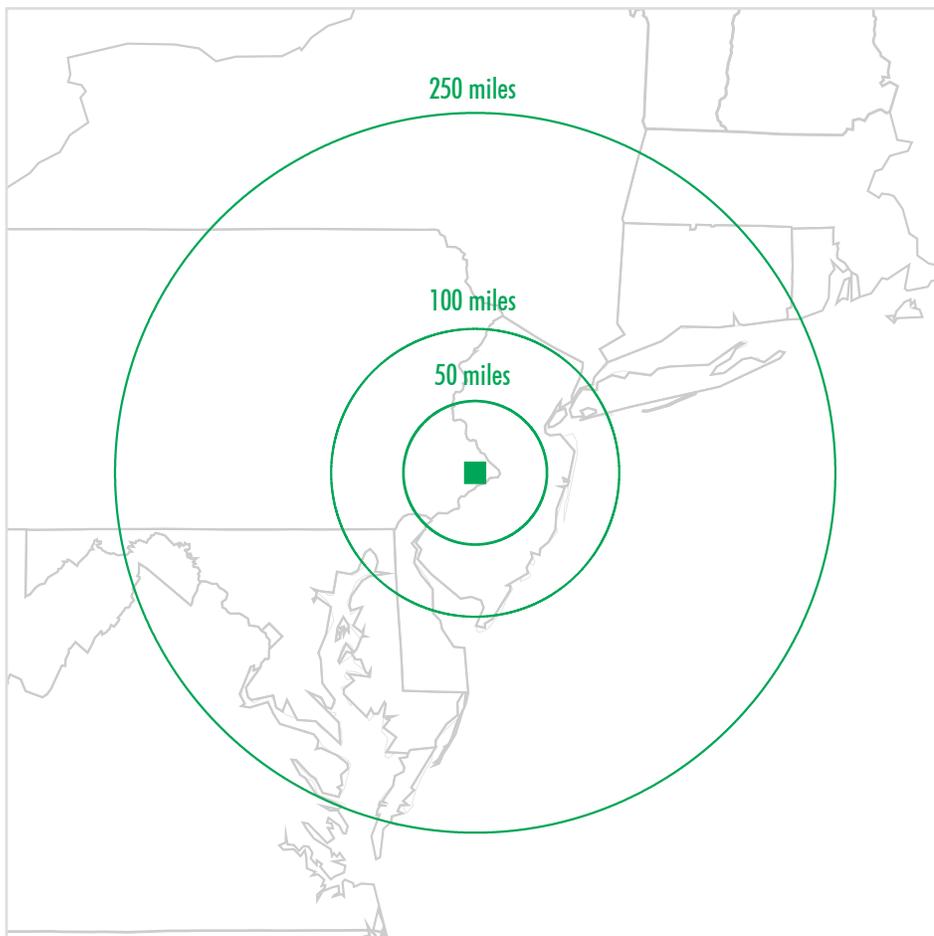
Southern New Jersey/Eastern Pennsylvania

Demographics

More than 8 million people live within 50 miles of the market core, expanding to 60 million within a 250-mile radius—the second most in the U.S. Population growth is expected to be much lower compared with Sun Belt markets, averaging 1.7% in the next five years.

According to [CBRE Labor Analytics](#), the region's warehouse labor force of 190,457 is expected to grow by 13.4% over the next decade. The average wage for a non-supervisory warehouse worker is \$14.84 per hour, 5.5% above the national average.

Figure 1: Southern New Jersey/Eastern Pennsylvania Population Analysis



Distance from Philadelphia Core	2020 Total Population	5 Year Growth
50 miles	8,209,485	1.7%
100 miles	30,127,464	1.6%
250 miles	59,198,237	1.7%

Source: CBRE Location Intelligence.

Figure 2: Southern New Jersey/Eastern Pennsylvania Warehouse & Storage Labor Fundamentals



Source: CBRE Labor Analytics.

*Median Wage (1 year experience); Non-Supervisory Warehouse Workers (forklift, warehouse workers).

Location Incentives

Over the past five years, there have been 452 economic incentives deals totaling more than \$1.7 billion at an average of \$37,587 per new job in the Philadelphia metropolitan area, according to Wavteq.

According to [CBRE's Location Incentives Group](#), among the top incentive programs offered in metro Philadelphia is the Job Creation Tax Credit (JCTC), which provides corporate income tax credits to companies that create at least 25 new jobs or expand existing employment by 25%. The tax credit ranges

from \$1,000 to \$3,000 per employee for each new job created.

The state of New Jersey recently enacted new legislation under the Economic Recovery Act of 2020 that replaces the Grow NJ program. This new program provides state corporate income tax credits for new and retained jobs for up to seven years. Target industries must create at least 25 net new full-time jobs, and non-targeted industries must create at least 35 net new full-time jobs.

Figure 3: Southern New Jersey/Eastern Pennsylvania Top Incentive Programs

Program (Pennsylvania)	Description
Job Creation Tax Credit	Non-refundable State corporate income tax credits ranging from \$1,000 to \$3,000 per new job
Pennsylvania First	Performance-based cash grant ranging between \$1,000 and \$3,000 per new job
Keystone Opportunity Zone (KOZ)	Tax credits and refunds when locating to a building or causing new construction in a special designated zone
Low Interest Capital Loans	Loan programs to help fund infrastructure and other capital projects

Source: CBRE Location Incentives Group.

Note: The extent, if any, of state and local offerings depends on location and scope of the operation.

Southern New Jersey/Eastern Pennsylvania

Logistics Driver

The region is centrally located along the East Coast, with access to three major ports: The Port of New York and New Jersey, the Port of Baltimore and the Port of Philadelphia. Two Class 1 railroads serve the region: Norfolk Southern and CSX. The region has 100 major interstate interchanges and direct

access to several international airports that make it one of the top air cargo markets in the country. [Lehigh Valley International](#) was ranked the fastest growing cargo airport in the U.S. by Airports Council International in 2019.

Capital Markets



As a result of positive operating fundamentals in Philadelphia and the PA I-78/I-81 Corridor's robust demand, the region is attracting significant interest from institutional investors and private equity funds. Cap rates for Class A core properties were in the +/- 4.5% range, but the next large core profile property should achieve a low-4% cap rate. The region will continue to garner outsized investor demand and pricing and should remain a solid performer.”

– Michael Hines, Vice Chairman

Figure 4: Cap Rate Comparison

	Class A	Class B
2020	4.25% - 5.00%	5.50% - 6.25%
2019	4.25% - 5.00%	5.00% - 6.25%

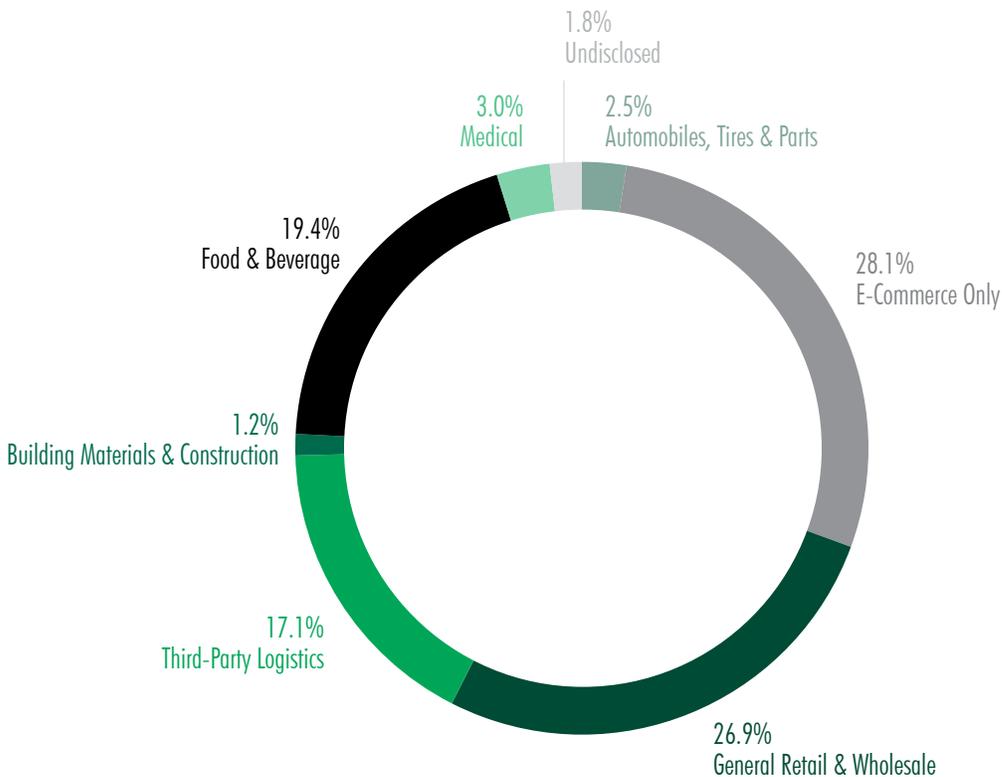
Source: CBRE Research.

Supply & Demand

With 470 million sq. ft. of total inventory, Southern New Jersey/Eastern Pennsylvania is the second largest big-box region in North America. The I-78/I-81 Corridor still has a significant amount of land for development, where nearly 20 million sq. ft was built in 2020. Developers are constructing at breakneck pace to keep up with robust demand totaling 41.8 million sq. ft. in 2020.

Despite the large amount of development, the direct vacancy rate dropped by 30 bps year-over-year in 2020 to 6.6%. Another 25.2 million sq. ft. is currently under construction, the most in North America.

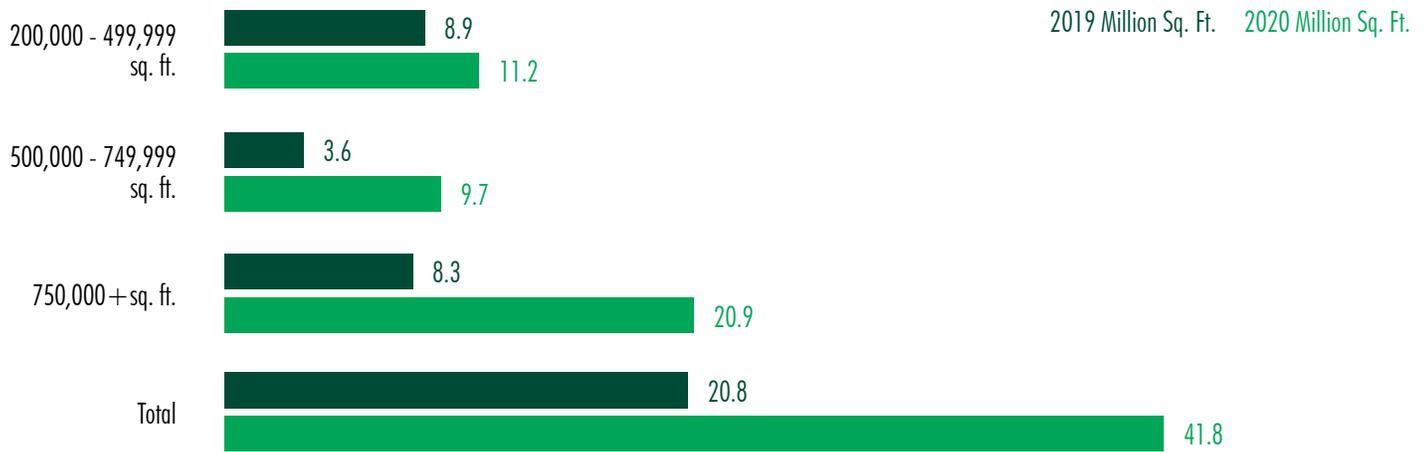
Figure 5: 2020 Occupier Transaction Market Share



Source: CBRE Research.

Southern New Jersey/Eastern Pennsylvania

Figure 6: Transaction Volume



Note: Includes new leases, renewals, and user sales transactions 200,000 sq. ft. and above.
Source: CBRE Research.

Figure 7: Big Box Year-Over-Year Data Comparison

2020						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	701	209,411,861	6.6%	5,661,077	7,310,526	\$5.86
500,000-749,999 SF	157	94,431,411	5.3%	3,492,578	2,933,655	\$5.67
750,000+ SF	151	166,222,179	7.3%	9,322,310	8,785,913	\$5.96
Total	1,009	470,065,451	6.6%	18,475,965	19,030,094	\$5.84
2019						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	677	202,119,257	6.1%	3,061,628	3,807,452	\$5.51
500,000-749,999 SF	153	92,017,756	6.2%	3,883,944	4,916,450	\$4.92
750,000+ SF	144	159,191,866	8.4%	6,989,732	9,083,846	\$4.97
Total	974	453,328,879	6.9%	13,935,304	17,807,748	\$5.19

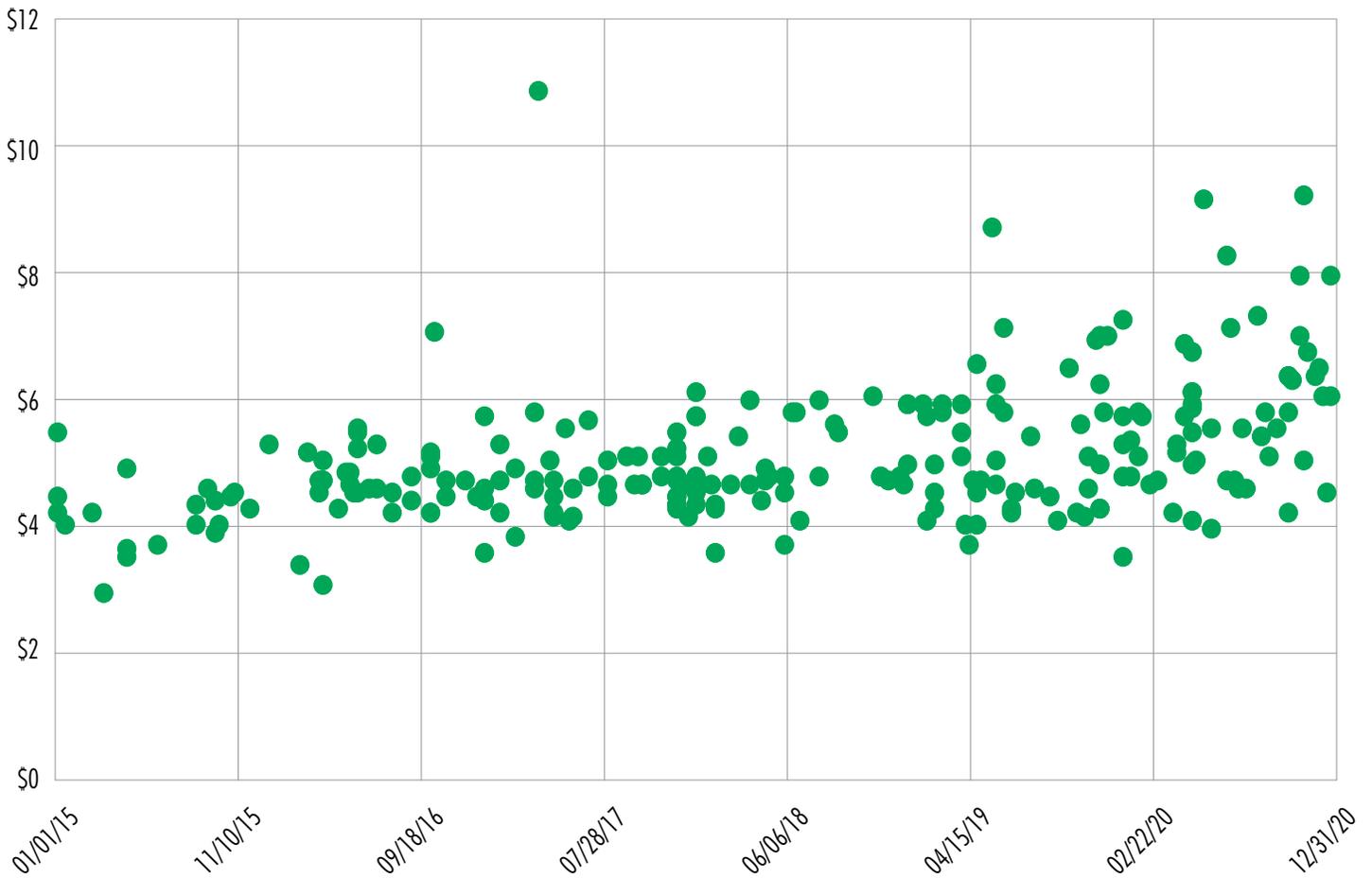
Source: CBRE Research.

Figure 8: Under Construction & Percentage Released

	2020 Under Construction Sq. Ft.	% Released
200,000-499,999 sq. ft.	6,141,722	12.0%
500,000-749,999 sq. ft.	5,090,439	17.1%
750,000+ sq. ft.	13,956,700	70.5%
Total	25,188,861	45.4%

Source: CBRE Research.

Figure 9: First Year Taking Rents (psf/yr)



Note: Includes first year taking rents for leases 200,000 sq. ft. and above.
Source: CBRE Research.

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