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Philadelphia Logistics Outlook . Q1 2011

## Driven by strong tenant demand, the market outlook remains optimistic

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With the U.S. economy finally finding its footing, confidence is beginning to bloom in the industrial property sector

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Investment activity continued to be strong across the Philadelphia market



## Foreword

Welcome to the fifth edition of the Jones Lang LaSalle Philadelphia Logistics Outlook, and thank you for choosing us as a resource.

Our goal with regard to this report is to provide a consolidated resource that moves a step beyond simply commenting on the broader industrial asset class by focusing on warehouse and distribution space at the exclusion of other industrial asset types such as manufacturing plants and service centers, drawing comparisons to similar 'sister' markets throughout the United States, and providing a snapshot view of selected economic indicators and trade flow data.

The geography covered in this report consists of over 13,200 square miles and includes the majority of Eastern Pennsylvania, Southern New Jersey and Delaware. To facilitate data collection and benchmarking, we have tried to mirror submarket conventions used by CoStar, the market's leading independent research firm. However, a number of changes to CoStar's market characterizations were necessary in order to capture the essence of the competitive marketplace and provide an appropriate framework for future data collection and analysis. To aid you in your review of this report, we have provided a comparative outline of CoStar and Jones Lang LaSalle market hierarchy and nomenclature in the Appendix section.

The Philadelphia Logistics Outlook includes aggregate statistics on over 1,400 buildings. Due to the tight focus of the report relative to asset class, we have eliminated buildings with less than 100,000 square feet of rentable building area, manufacturing plants, truck terminals, service centers and industrial flex facilities from the dataset. While the report does not cover active military installations, it does include user owned facilities in addition to investor owned properties.

This report is very much a work in progress, and we hope in future quarterly editions to incorporate additional metrics on net absorption, owner type, and insights on asking rental rates and operating expenses as our data set matures. Due to the refinement of our dataset, several submarkets experienced changes in building stock during the first quarter. With our sights firmly set on the improving this report, we would absolutely welcome your feedback on the included content, organization and utility of the report.

*John Bown*  
*Research Analyst*

*John Van Buskirk*  
*Managing Director*

*Brian Knowles*  
*Managing Director*

## Overview of Jones Lang LaSalle's logistics and industrial services

From manufacturing plants to round-the-clock distribution centers, industrial real estate the backbone of the global economy. Today's financial and competitive pressures demand that your industrial property—whether leased or owned—delivers maximum flexibility and efficiency. Our logistics and industrial professionals understand the current business environment and offer innovative, profitable strategies for supply chain optimization, site selection, sales, leasing, acquisition, financing, construction, project management, and property and facility management of industrial properties and portfolios.

Our experts know all the issues that impact your industrial real estate decisions and apply proven best practices to address such challenges as increasing energy, transportation, and labor costs; heightened security needs; tough new environmental requirements; and profound changes in global supply chains. Because of our depth of in-house talent, we can quickly assemble just the right team for your particular need. Regardless of the size and scope of the assignment, you'll have a single point of contact who manages all service delivery and is responsible for producing the measurable results that are agreed to up front.

### Our Philadelphia team

With direct experience in tenant representation, portfolio leasing, development and investment, the Philadelphia Industrial Team brings a unique blend of expertise to bear on projects large and small. Lead by John Van Buskirk and Brian Knowles, the team consists of nine full time industrial specialists operating from physical offices in Suburban Philadelphia, Harrisburg and Southern New Jersey.

The team's focus on supply chain related projects is reflected in its continuing commitment to the industry, evidenced by individual recognition in the form of certificates in Supply Chain Management and Supply Chain Leadership (Pennsylvania State University), as well as participation in trade associations such as CSCMP, WERC, IARW, IAMC, SIOR and CCIM.

The team is also a routine participant in and supporter of symposia and seminars conducted by Lehigh University's Center for Value Chain Research and Pennsylvania State University's Center for Supply Chain Research.

Initially formed in 2009, the team has quickly emerged as a 3<sup>rd</sup> party leading provider of occupier and owner services throughout the Philadelphia markets, with mission critical projects completed on behalf of:

Whirlpool (800,000 s.f.)	USAA Real Estate Company (833,300 s.f.)
GlaxoSmithKline (624,000 s.f.)	Liberty Property Trust (1,300,000 s.f.)
Dotcom Distribution (400,000 s.f.)	Ollie's Bargain Outlets (603,000 s.f.)
Tree of Life (311,000 s.f.)	Iron Mountain (225,000 s.f.)
Tootsie Roll (250,000 s.f.)	PPG Industries (90,000 s.f.)
Appleton Paper (212,000 s.f.)	Walgreens (645,000 s.f.)

Successfully representing both tenants and landlords, the team completed over 5.5 million square feet of warehouse and distribution center lease transactions in 2010. Currently, the team has tenant agency assignments on over 3.5 million square feet of active projects, over 3 million square feet of landlord agencies, and a marketed inventory of over 1,800 acres of available industrial land.

### 3850 ProLogis Parkway, Nazareth, PA

Acting on behalf of ProLogis as exclusive leasing agent and as the tenant representative of Walgreens, Jones Lang LaSalle's Philadelphia Industrial Team negotiated a long term lease totaling 645,000 square feet, which included 510,000 square feet of existing space and a 135,000 square foot expansion of the building.



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## Economic overview



## Economic overview

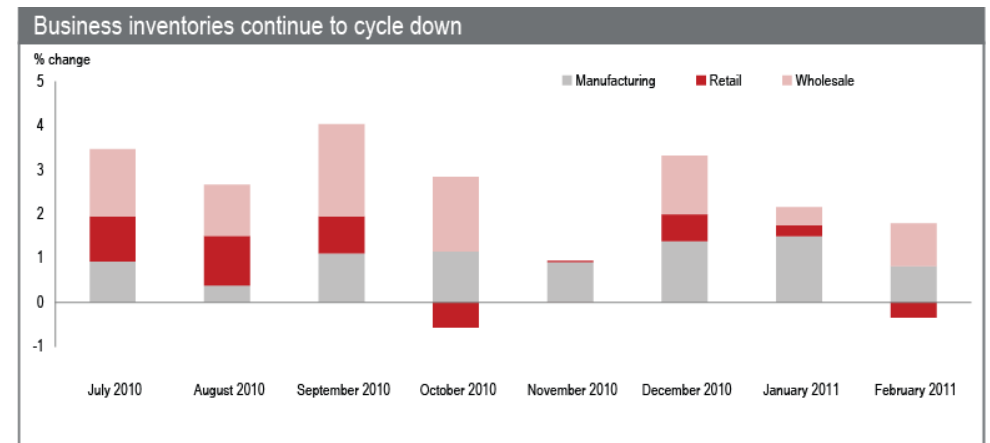
### Finding its footing

With the U.S. economy finally finding its footing, confidence is beginning to bloom in the industrial property sector. Improving fundamentals have been boosted by healthier credit flows, payroll growth, and the continual rise of corporate profits. Expansion in labor markets and business investment are helping create a healthier environment for both households and consumers, and this confidence is beginning to impact spending plans. However, the risks to further recovery are both numerous and significant. Rising transportation prices, natural disasters, political turmoil in the Middle East, a domestic housing glut and growing federal budget deficit are only a few of the variables that could stress this fragile market upturn.

### Swinging into a self-sustaining economic recovery

Advance estimates for first quarter gross domestic product (GDP) indicate a slowdown in growth from the end of last year, increasing at only a 1.8 percent clip due to stronger imports, weaker fixed business investment and less export volume.

Some of this lackluster output growth was likely due to harsh winter weather throughout the United States, as well as the impact of higher gas prices cutting into consumers' wallets and a growing trade deficit. General consensus expectations from economists are that GDP growth should resume as the year goes along, given a strengthening of the jobs market which will support increasing consumer confidence and a favorable lending environment with low costs of financing. Additionally, as the country works through its supply of new homes, residential construction is expected to slowly pick back up, providing a generous lift to overall economic output.



Source: U.S. Census Bureau, Moody's economy.com

### Inventories are still lean

Despite the fact that companies are still adding to their allotments, total business inventory growth slowed in consecutive months throughout the first quarter according to the Census Bureau. Through February, inventories were 9.1 percent higher than a year ago, with the wholesale and manufacturing subdivisions leading in accumulation.

Retail inventories have pulled back the most, and even diminished in February, pulled down mostly by autos, but also by negative growth in housing-centric segments like furniture, home-related goods and electronics. At an inventory-to-sales ratio of 1.31 in February, stocks of retail goods on hand are now at their leanest levels since the early 1990s.

### *Economic recovery upside and downside risks*

#### Positives

- Labor market improvement
- Further opening of lending markets
- Increased business investment in inventories
- Buoyant consumer optimism

#### Negatives

- Quickly rising fuel costs
- Inventories remain lean, especially retail
- Federal budget & deficit uncertainty
- Housing market stagnation

## Economic overview

### Employment is critical to growth

Unemployment continues to slowly come off its November 2010 peak, dropping to 8.8 percent in March on the heels of two consecutive months of solid payroll growth. While the economy has been adding payroll positions, it is not expected to regain all of the jobs lost in the recession until sometime in 2013. Labor force participation is lagging, but signs point toward continued optimism on the part of businesses to begin hiring again.

### Consumers' outlook better, but still tentative

The Conference Board's measure of consumer confidence has fluctuated somewhat since the end of the year, but still remains well above its third quarter 2010 lows. After increasing 7.2 points to a total of 72 in February, the index dipped in March as events in Japan and the Middle East clouded consumer outlook. Buying plans also increased sharply across the board, particularly for homes and appliances. While concerns about rising gasoline prices and current housing conditions continue to undermine more pronounced growth, accelerating job gains will act as a strong catalyst for future improvements.

### Healthier corporate balance sheets, but hiring only now beginning

Corporate profits have nearly returned to pre-recession levels. However, the preference for cost-control and increasing margins has been dominant for more than a year, and hiring is only now beginning to firm. This trend is expected to increase in 2011 as low labor costs, low interest rates, available credit, and high productivity levels make it easier for businesses to expand.

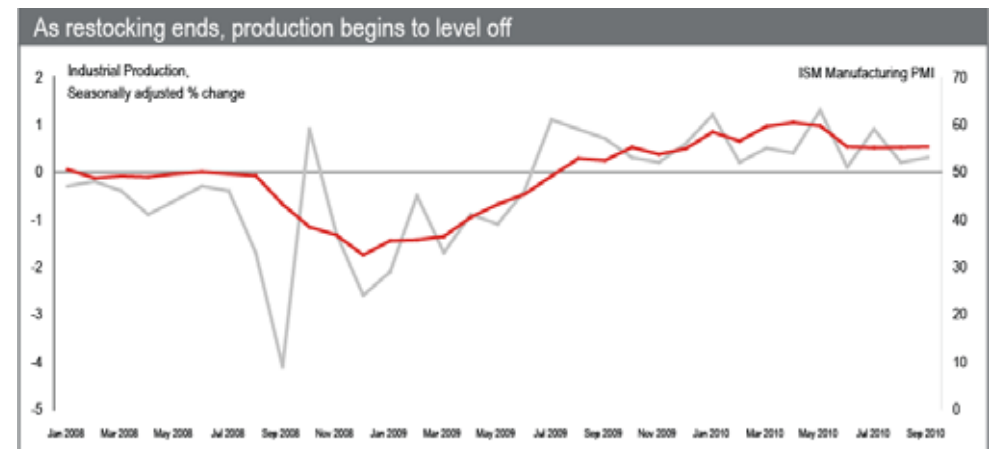
### Watching inflation for signs it could run away

While core inflation remains within the Federal Reserve's target to keep monetary policy loose and not jeopardize any momentum in the economic recovery, strengthening food, but more so energy and fuel prices, bear the need for close monitoring. Escalating food and gasoline prices could erode some of the economy's early recovery gains, in addition to sapping consumer's discretionary spending. With wage growth relatively flat, 'pain at the pump' is a continued concern.

Commodity prices are beginning to put more pressure on manufacturers, and these will likely be passed through to consumers. Rampant top-line inflation seems to not be an alarming concern currently, but given the unprecedented level of federal involvement placed in this recovery and the pricing spikes now occurring in the energy sector with oil prices, the threats to derail future growth become more and more credible.

### With restocking over, what are the long-term effects on production?

Spending on durable goods has provided another boost, with new orders up 2.5 percent in March. This investment also supports near-term growth in production in manufacturing to help drive the economy forward in 2011. Industrial production growth is still likely to continue to slow as companies realign inventories to current sales levels, and the current inventory restocking cycle is now nearly complete.



Source: United States Federal Reserve, Institute for Supply Management, Moody's economy.com

The Institute for Supply Management's Purchasing Managers' Index has been resilient thus far in 2011, remaining above 60.0 all year. While this indicates expansion in the industry, the index has been softening as of late as inventory replacement becomes less of a factor and while final demand for products is not yet strong enough.

### A prolonged dawn for recovery, but long-term optimism is intact

While rising fuel and transportation costs pose significant threats to a general economic recovery, the scales are beginning to tip in the favor of optimism. With consumer spending picking back up and businesses resuming hiring, economic stability is likely to follow. International trade has supported economic growth, despite problems in the Middle East and Japan. Commodity price inflation could be a damper, and the U.S. federal budget deficit will likely play a continued role in any further monetary policy changes.

## Economic overview

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
<b>Employment</b>						
Total Nonfarm Employment (Mil.)	129.6	129.4	130.0	129.8	130.3	130.5
Unemployment Rate - National	10.0%	9.7%	9.5%	9.6%	9.6%	8.8%
Unemployment Rate – Philadelphia Industrial Market Area	8.6%	9.4%	9.4%	8.6%	8.3%	8.3%
<b>Consumer Markets</b>						
Avg. Private Hourly Earnings	\$22.38	\$22.48	\$22.55	\$22.68	\$22.77	\$22.87
Personal Income (Bil.)	\$12,239.00	\$12,350.30	\$12,517.10	\$12,592.80	\$12,724.10	\$12,980.00
Consumer Expenditures (Bil.)	\$10,131.50	\$10,230.80	\$10,285.40	\$10,366.30	\$10,513.60	\$10,683.80
Retail Sales (Bil.)	\$1,056.28	\$1,077.31	\$1,089.39	\$1,098.26	\$1,134.44	\$1,160.79
Personal Saving Rate	5.5%	5.5%	6.2%	6.0%	5.6%	5.7%
Consumer Confidence	53.6	52.3	54.3	48.6	53.3	63.4
Wholesale Inventory to Sales Ratio	1.28	1.25	1.25	1.27	1.26	1.24
Housing Starts (Thousands)	1,694	1,851	1,806	1,765	1,603	1,689
<b>Prices</b>						
CPI, All Urban Consumers	215.9	217.6	218.0	218.4	220.2	223.5
Construction Cost Index (2001=100.0)	142.5	141.8	142.2	142.6	142.6	142.8
FOB West Texas Int. Crude Oil (Per barrel)	\$74.47	\$81.20	\$75.34	\$75.24	\$89.15	\$102.86
Diesel Fuel (Per gallon)	\$2.74	\$2.85	\$3.03	\$2.94	\$3.24	\$3.91
Gasoline Retail Price (Per gallon including taxes, regular grade)	\$2.60	\$2.71	\$2.81	\$2.72	\$2.99	\$3.56

## Economic overview

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
<b>Financial Markets</b>						
Commercial Bank Prime Rate	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Moody's Aaa Corp. Bond Yield	5.2%	5.3%	4.9%	4.5%	5.0%	5.1%
10-Year Treasury Note Yield	3.5%	3.7%	3.2%	2.7%	3.3%	3.4%
Conv. Mortgage Rate, FHLMC	4.9%	5.0%	4.7%	4.4%	4.7%	4.8%
Euro/US\$	1.48	1.38	1.27	1.29	1.36	1.40
Yuan/US\$	6.83	6.83	6.82	6.77	6.66	6.56
Pound/US\$	1.63	1.56	1.49	1.55	1.58	1.62
Yen/US\$	89.86	90.65	92.08	85.74	82.53	81.65

<b>Industrial Markets</b>						
Industrial Production, Total (2007=100.0)	86.3	88.0	89.5	91.0	91.7	93.1
Capacity Utilization, Total	70.3	72.3	74.0	75.5	76.1	77.1
ISM Manufacturing Index (PMI)	56.4	60.4	55.3	55.3	58.5	61.2

<b>Trade Flow (laden TEUs)</b>						
Port of New York/New Jersey	936,356	917,413	1,037,511	1,096,074	1,046,612	1,026,972
Port of Savannah	535,803	515,912	556,383	571,860	556,242	574,619
Ports of Long Beach and Los Angeles	2,419,076	2,283,669	2,642,530	2,845,826	2,734,439	2,462,344
Ports of Seattle and Tacoma	532,490	497,877	573,761	599,938	590,730	548,436
Port of Metro Vancouver, BC	504,800	472,574	555,415	575,086	575,086	513,655

# Market overview



## National peer markets

Greater balance between supply and demand came to the U.S. industrial market in the first quarter as more markets gained traction and began to post positive net absorption. While the major markets are still attracting 'big-box' industrial tenants, stronger leasing activity is filtering down into the next tier of cities, especially those with the logistics and distribution infrastructure to service a significant regional population.

Following the same pace as last quarter, vacancy fell to an even 10.0 percent for the overall U.S. industrial market. Anchored by the distribution markets of the Inland Empire on the west coast and Philadelphia / Harrisburg metro area on the east, vacancy continued to fall, declining 80 basis points and 40 basis points respectively. However, in the first quarter, these markets were joined by major U.S. cities like Atlanta and Dallas as well as key logistics markets like Indianapolis, Miami, Phoenix and Seattle in addition to other core geographies like Denver and Pittsburgh. Detroit experienced strong and welcomed leasing activity that pushed vacancy in the hard-hit city down by 70 basis points in the first quarter.

Net absorption has been steady over the past six months, and the U.S. industrial market posted 28.1 million square feet of positive absorption during the first quarter. The Chicago market experienced the most dramatic surge in positive net absorption, spiking to 7.7 million square feet in the first quarter on the heels of strong 3PL leasing activity. Additionally, the Dallas / Fort Worth market continues to benefit from consistent demand, ending the first quarter with 3.1 million square feet of net new occupancy. The Inland Empire and the Philadelphia / Harrisburg market posted 2.4 million and 1.9 million square feet of positive absorption during the first quarter.



During the first quarter, construction remained muted throughout the country with only 16.6 million square feet of projects currently underway, slightly higher than last quarter. Across the country, 85.0 percent of all construction projects underway is preleased. 6.2 million square feet of new deliveries came online in the first quarter. Given the amount of existing, high efficiency, Class A product that has been absorbed over the past four quarters, it is anticipated that additional new supply of Class A product will be required to satisfy future demand from corporate industrial occupiers. Major markets like the Inland Empire in Southern California and Central Pennsylvania market are anticipating an increase in build-to-suit projects and speculative development in the near future, if not imminently. Developers in other markets are shoring up land positions for potential build-to-suit opportunities later in the year.

While the broad U.S. industrial markets witnessed a continued reduction in average asking rents in the first quarter, some markets have seemingly turned the corner and are in the midst of pricing stabilization. Aggressive landlord pricing and concessions are commonplace in markets that have not yet seen demand improve, but in most markets where the large-block segment of the market has tightened, leasing concessions are already being curtailed.

Market	Total stock (s.f.)*	Q4 2010 vacancy rate	Q1 2011 vacancy rate
Philadelphia/Harrisburg	813,379,572	9.4%	9.0%
Southern California	1,221,919,471	6.7%	6.4%
Northern California	382,941,029	10.5%	9.9%
Chicago	1,119,275,583	12.3%	12.1%
Atlanta	502,533,273	14.6%	14.1%
Dallas/Forth Worth	516,868,529	12.1%	11.6%
No. & Central New Jersey	730,364,827	9.2%	9.4%
Houston	376,510,756	5.5%	5.7%
Seattle-Tacoma	226,437,028	7.8%	7.4%
Miami-Dade	126,839,687	9.9%	10.4%

\* Includes all asset classes, building size greater than 30,000 square feet



### 3300 Espresso Way, York, PA

Acting on behalf of Ollie's Bargain Outlet and Triple Crown Corporation as a tenant representative, Jones Lang LaSalle's Philadelphia Industrial Team successfully negotiated the construction of a 603,000 square foot build-to-suit distribution center with Kinsley Properties.

## Philadelphia market

The Philadelphia market started 2011 off strongly posting just over 1.2 million square feet of positive absorption. The majority of the absorption can be attributed to the delivery of two large build-to-suit projects that were completed during the first quarter. Despite the positive absorption, there were several new vacancies in the market that pushed the vacancy rate slightly higher to 11.4 percent during the first quarter.\* This is a 20 basis point increase from the fourth quarter of 2010. In a positive sign to the market, the availability rate improved to 15.4 percent during the first quarter, from 15.9 percent during the fourth quarter.

There were several large leases signed during the first quarter and the Suburban Philadelphia submarket was by far the most active. Domtar Paper signed a lease for 299,192 square feet, Estee Lauder leased 241,977 square feet, and National Fulfillment Services leased 125,000 square feet. Other large leases across the Philadelphia market included Boise Cascade leasing 307,000 square feet in New Jersey, Diapers.com exercised their 468,000 square foot expansion option and now occupies a total of 1.2 million square feet in Gouldsboro, and Barry Callebaut signed a 157,500 square foot lease in the Lehigh Valley.

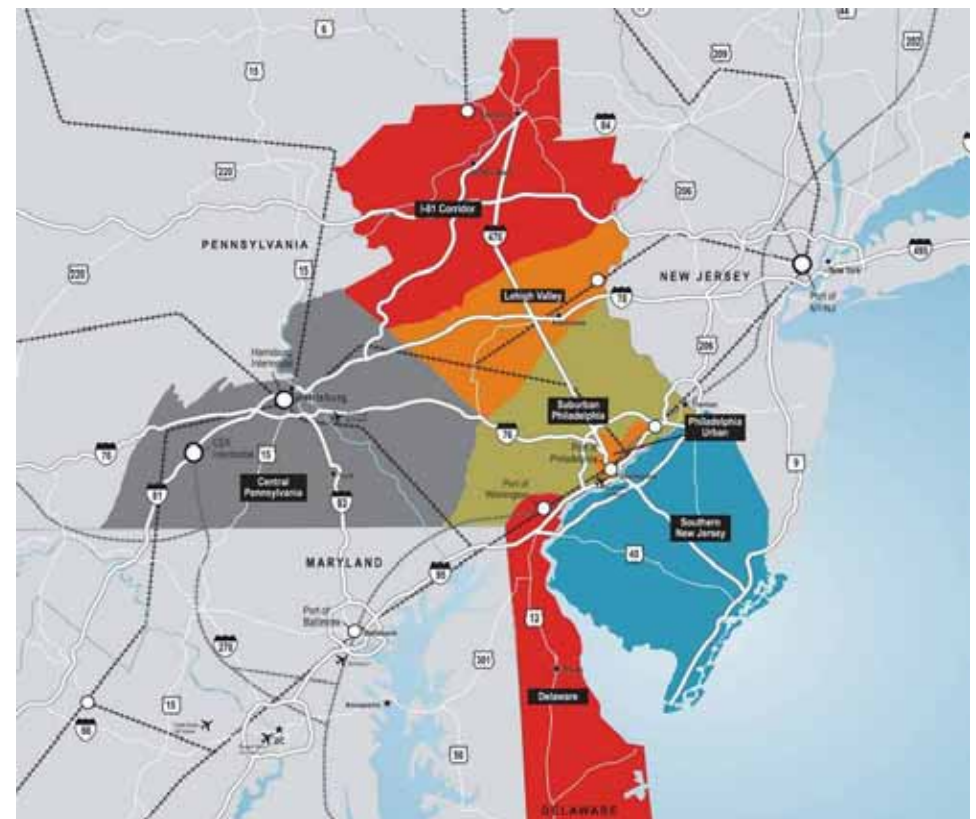
Investment activity continued to be strong across the Philadelphia market. In a four building portfolio sale, Mericle sold over 1.6 million square feet to KBS Real Estate Investment Trust II for \$90 million. The four buildings were fully leased at the time of sale. In Central Pennsylvania, Hillwood Investment Properties purchased 950 Centerville Road in Newville for \$46.75 per square foot, which is above replacement cost. The building is 1,170,000 square feet and had 570,000 square feet vacant at the time of sale. In Southern New Jersey, DP Partners purchased 1109 Commerce Boulevard from Lexington Realty Trust for \$35.00 per square foot.

Market	Number of buildings	Total stock* (s.f.)	YTD net absorption	Vacancy rate	Availability rate	Unemployment rate
Central Pennsylvania	359	110,855,204	-30,151	12.2%	16.9%	7.1%
I-81	205	58,923,658	479,238	14.9%	15.8%	9.5%
Lehigh Valley	204	61,431,828	-184,195	9.1%	12.8%	8.5%
Suburban Philadelphia	230	53,252,455	507,341	5.7%	10.9%	7.1%
Urban Philadelphia	97	24,089,709	661,208	9.7%	13.1%	9.9%
Southern New Jersey	245	57,810,082	-132,663	13.6%	17.3%	9.9%
Delaware	75	14,353,903	-18,300	16.3%	25.5%	8.3%
TOTAL	1415	380,716,839	1,282,478	11.4%	15.4%	8.3%

\*Only includes leased and owned warehouse/distribution assets greater than or equal to 100,000 square feet

There were two large built-to-suit projects that were delivered to the market during the first quarter. Kinsley Properties completed construction on Ollie's Bargain Outlet's 603,000 square foot distribution center in York. In Philadelphia, O'Neill Properties Group completed construction of the 667,000 square foot Philadelphia Wholesale Produce Market. There were no new construction starts during the first quarter of 2011.

As the market continues to tighten and large blocks of quality space remain in short supply, expect to see Class A, big box distribution rental rates begin to rise across the region. In some submarkets, the rates for Class A space have already begun to increase. As rental rates strengthen and property values continue to increase, expect to see the return of speculative construction in several submarkets during the latter half of 2011 and 2012.



# Philadelphia submarkets



# Central Pennsylvania

Key market indicators		
Stock	↑	110,855,204 s.f.
Vacancy rate	↑	12.2%
Availability rate	↓	16.9%
YTD net absorption	↓	-30,151 s.f.

## Available buildings



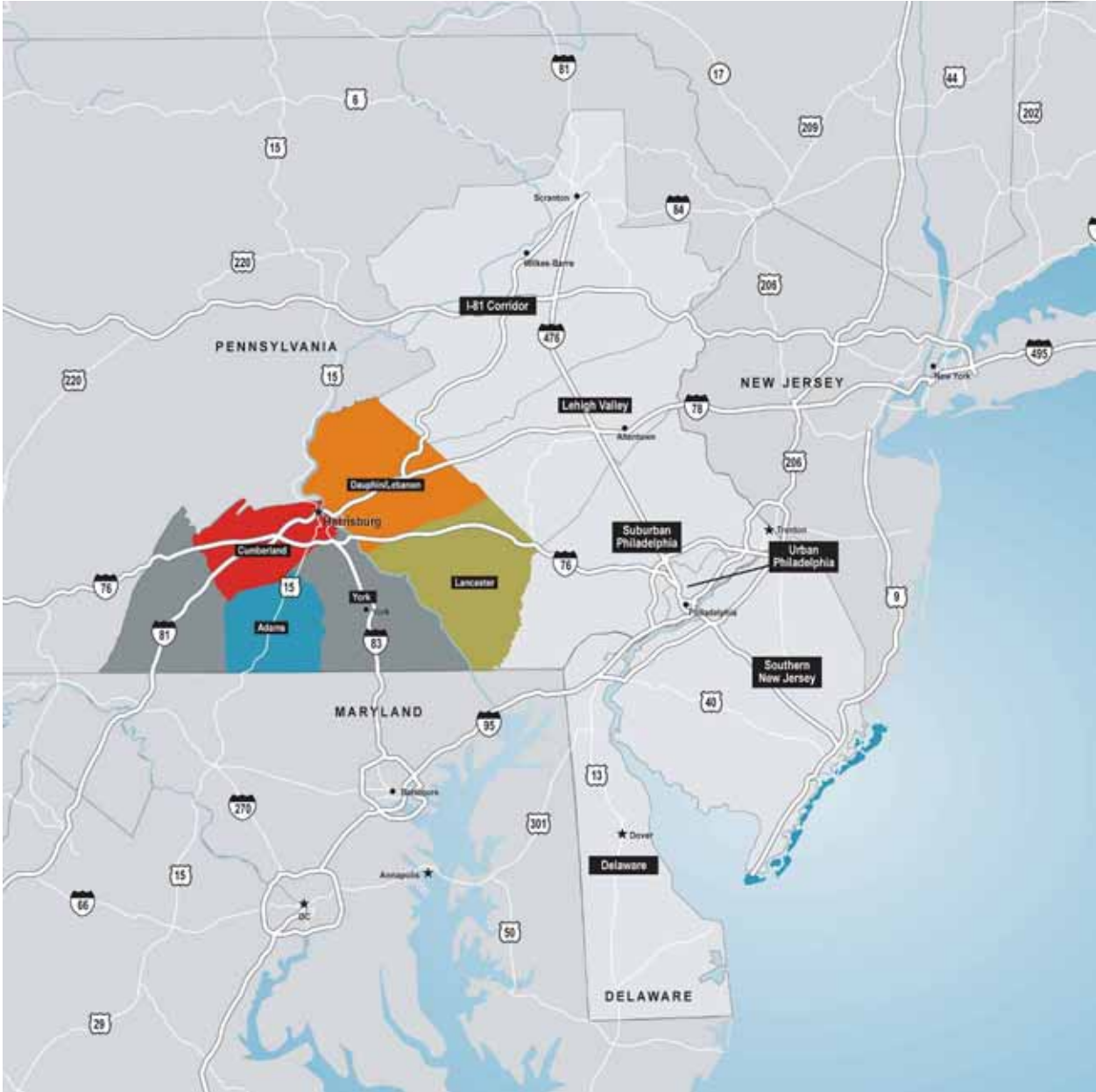
**AEW Capital Management**  
 500 Independence Ave, Mechanicsburg, PA  
 - 342,500 s.f. front load facility  
 - 104,000 - 342,500 s.f. available  
 - 32' clear height  
 - 35 dock doors  
 - ESFR Sprinkler  
 - 83 trailer drops  
 - Separate car and truck entrances



**ProLogis**  
 1400 Distribution Drive, Carlisle, PA  
 - 550,800 s.f. cross dock facility  
 - 137,814 s.f. available  
 - 32' clear height  
 - 36 dock doors  
 - ESFR Sprinkler  
 - 33 trailer drops  
 - 32 car spaces



**Industrial Development International (IDI)**  
 100 Louis Parkway, Carlisle, PA  
 - 400,596 s.f. cross dock facility  
 - 187,286 s.f. available  
 - 32' clear height  
 - 42 existing dock doors, 4 drive-in doors  
 - ESFR Sprinkler  
 - 152 trailer drops



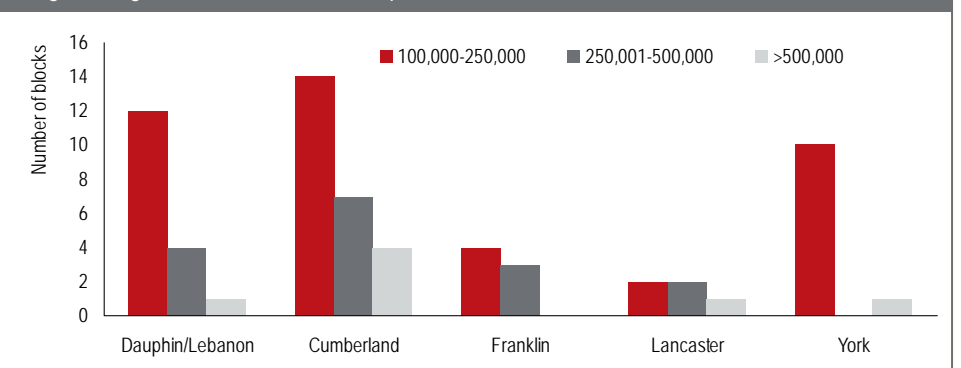
## Central Pennsylvania

Statistics summary								
Submarket	Total		Vacancy		Availability		Construction	
	stock (s.f.)	Rate	Trend	Rate	Trend	New deliveries (s.f.)	Under construction (s.f.)	
Dauphin/Lebanon	17,857,608	14.1%	↑	24.8%	↓	0	385,000	
Cumberland	36,859,491	16.1%	↑	21.0%	↓	0	0	
Franklin	10,964,095	15.2%	↑	16.7%	↓	0	0	
Lancaster	20,850,415	6.8%	↑	9.5%	↓	0	0	
York	24,323,595	8.1%	↔	11.6%	↑	603,000	0	

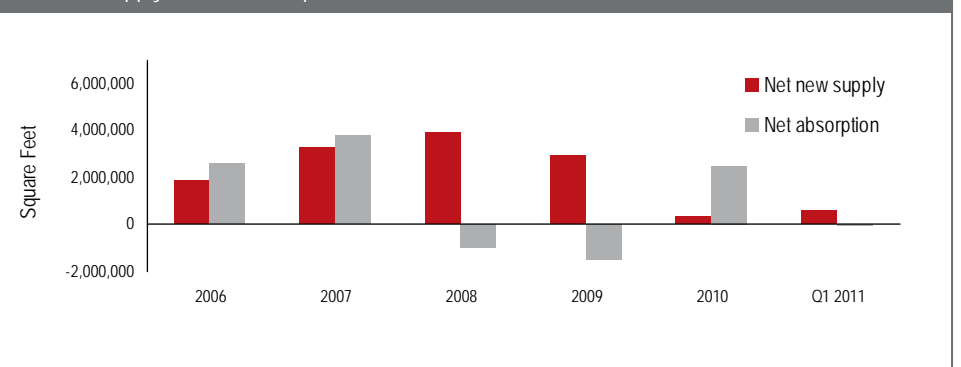
### Market commentary

- The Central Pennsylvania industrial market started 2011 with 30,151 square feet of negative absorption. The vacancy rate increased to 12.2 percent during the first quarter but the availability rate improved to 16.9% from 17.4% due to an increase in renewal activity.
- SC Johnson renewed in place for 511,000 square feet at 5 True Temper Drive in Carlisle and Exel renewed for 507,634 square feet at 6345 Brackbill Boulevard in Mechanicsburg.
- In new leasing activity, York Casket signed at 3400 Industrial Road in Harrisburg for 70,000 square feet and CNS Clarks leased an additional 65,000 square feet at 26 Barnhart Drive in Hanover.
- In an important investment sale, 950 Centerville Road, in Newville, traded from Lauth Property Group to Hillwood Investment Properties for \$46.75 per square foot, slightly above replacement cost. The building is 1.17 million square feet and had 570,000 square feet vacant at the time of sale. In other sales, SK Realty purchased 34 E. Main Street in New Kingston (179,200 s.f.) for \$20.37 per square foot, Pet Food Experts purchased 180 Greenfield Road in Lancaster(136,452 s.f.) for \$27.00 per square foot in an REO sale, and O'Brien Development purchased 3775 Hempland Road in Mountville(111,820 s.f.) for \$30.85 per square foot.
- Kinsley Properties completed construction of Ollie's Bargain Outlet 603,000 build-to-suit distribution facility in York. The 385,00 square foot expansion project at 500 N. Lingle Road is still under construction.
- There continues to be a shortfall of quality big box space in the Central PA market which is expected to lead to more build-to-suit projects and the return of speculative construction during 2011.

### Large, contiguous blocks of available space



### Net new supply and net absorption



# I-81 Corridor

Key market indicators		
Stock	↑	58,923,658 s.f.
Vacancy rate	↓	14.9%
Availability rate	↓	15.8%
YTD net absorption	↑	479,238 s.f.

## Available buildings



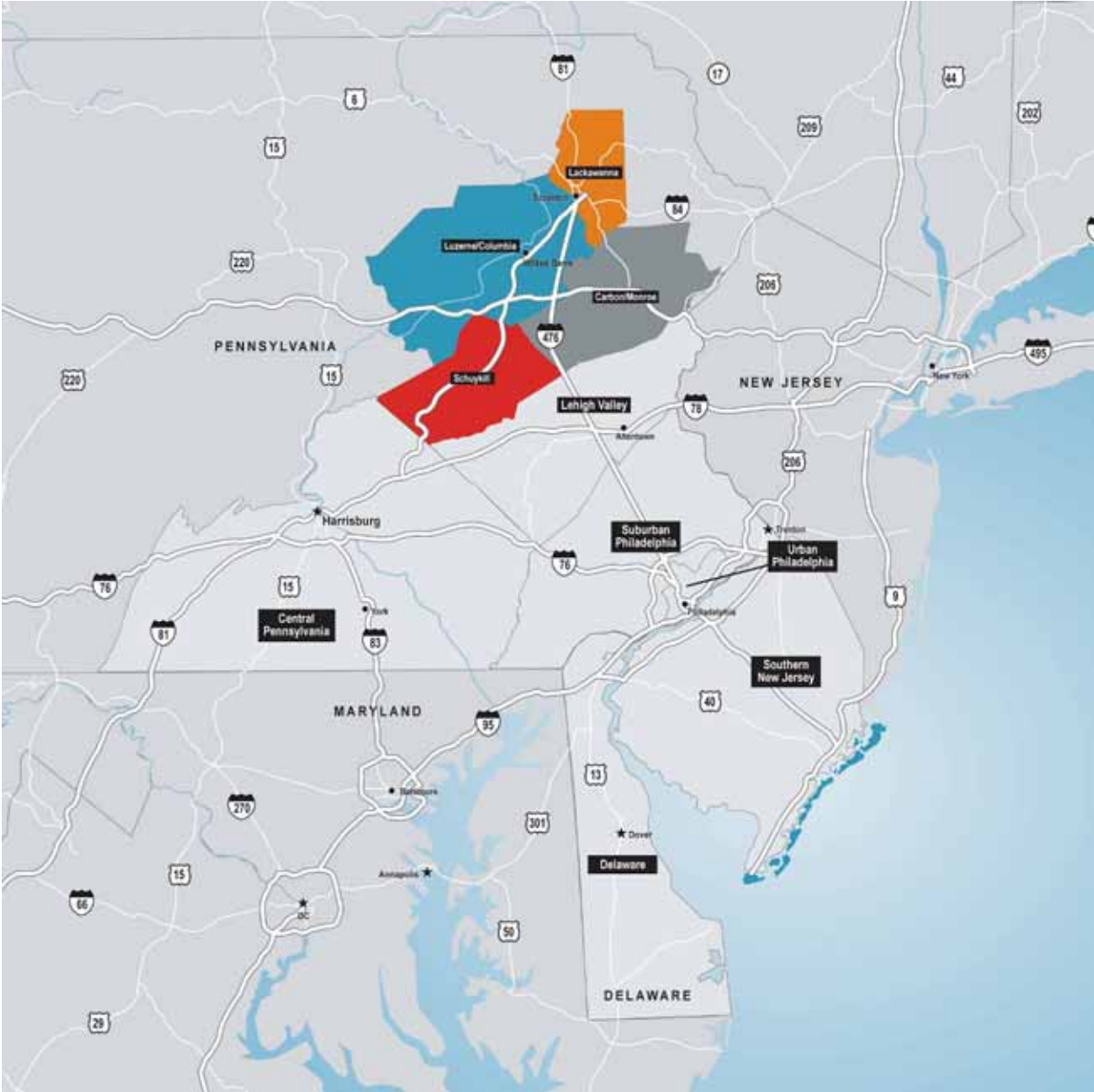
**Long Island Industrial**  
 100 First Avenue, Gouldsboro, PA  
 - 390,000 s.f. distribution center  
 - 390,000 s.f. available, expandable to 550,220 s.f.  
 - 30' clear height  
 - 42 docks  
 - ESFR sprinkler  
 - 250 trailer drops  
 - 60 employee parking spaces



**Mericle Commercial Real Estate**  
 1200 E Lackawanna Avenue, Olyphant, PA  
 - 365,114 s.f. cross dock facility  
 - 182,557 to 365,114 s.f. available  
 - 40' clear height  
 - 20 docks  
 - ESFR sprinkler  
 - 100+ employee parking spaces



**Exeter Property Group**  
 68 Green Mountain Road, Hazelton, PA  
 - 400,260 s.f. cross dock facility  
 - 231,630 s.f. available  
 - 32' clear height  
 - 84 docks  
 - ESFR sprinkler  
 - KOZ status through 2017  
 - EPDM roofing system

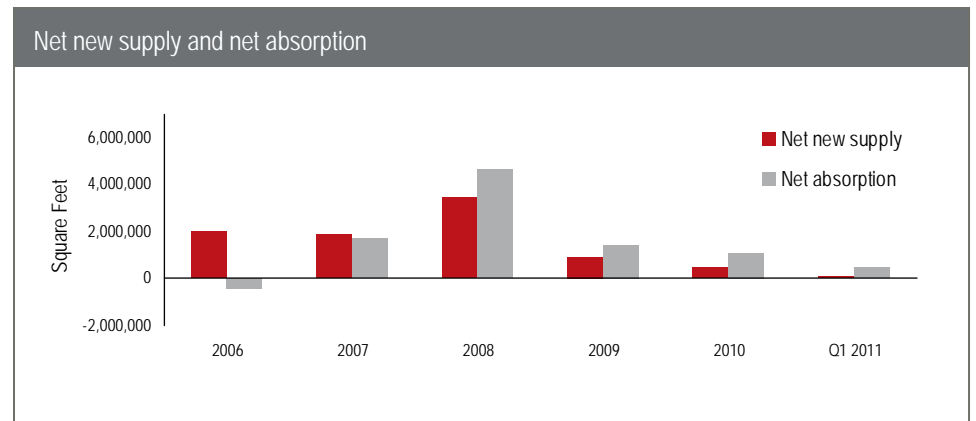
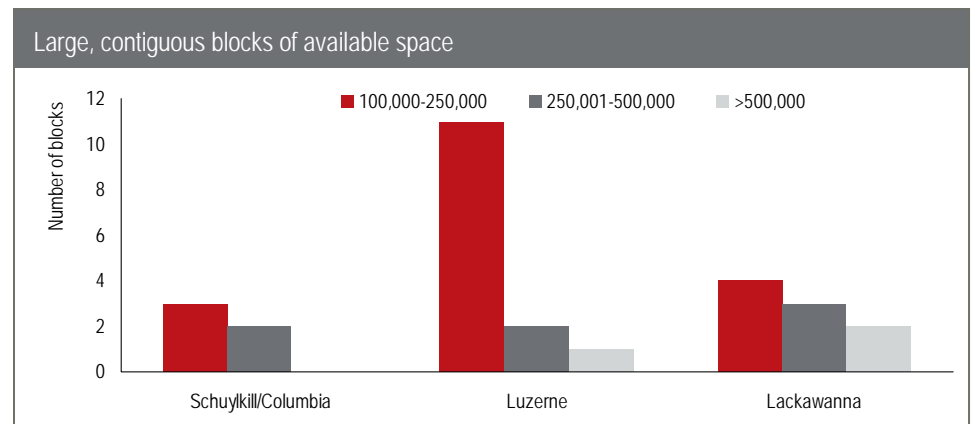


# I-81 Corridor

Statistics summary							
Submarket	Total	Vacancy		Availability		Construction	
	stock (s.f.)	Rate	Trend	Rate	Trend	New deliveries (s.f.)	Under construction (s.f.)
Schuylkill/Columbia	14,689,566	9.0%	↗	9.2%	↗	0	0
Luzerne	30,116,772	12.4%	↘	13.8%	↘	74,000	0
Lackawanna	14,117,320	26.6%	↗	27.1%	↘	0	0

## Market commentary

- Market conditions in the I-81 Corridor improved during the first quarter of 2011 with the submarket experiencing 479,238 square feet of positive absorption, which can be largely attributed to Diapers.com expansion.
- The vacancy rate dropped by 40 basis points to 14.9 percent, as compared to 15.3 percent during the fourth quarter of 2010.
- In one of the most significant investment sales of the first quarter, KBS Real Estate Investment Trust II purchased four properties from Mericle Commercial Real Estate totaling over 1.6 million square feet for \$90 million or \$55 per square foot. The buildings were all fully leased at the time of sale.
- In a significant lease transaction, Diapers.com, owned by Amazon.com, exercised their option to expand into the remaining 468,000 square feet at 298 First Avenue in Gouldsboro. Diapers.com now occupies the entire building, totaling just over 1.2 million square feet. HD Supply also leased 70,000 square feet at 5-11 Elmwood Road in Mountain Top.
- Mericle completed the 74,000 square foot expansion of British clothier Boden's U.S. Headquarters in CenterPoint East. This was the only construction completion during the first quarter.
- Like the rest of the region, blocks of space over 500,000 square feet are in short supply. However, unlike the Central PA and Lehigh Valley submarkets there are several buildings just under 500,000 square feet that can be expanded to accommodate a larger tenant.



# Lehigh Valley

Key market indicators		
Stock	↑	61,431,828 s.f.
Vacancy rate	↑	9.1%
Availability rate	↑	12.8%
YTD net absorption	↓	-184,195 s.f.

## Available buildings



**Panattoni**  
 3041 Schoeneck Road, Macungie, PA  
 -- 580,000 s.f. cross dock facility  
 -- 36' clear height  
 -- 74 docks  
 -- ESFR sprinkler  
 -- 2 drive in doors  
 -- 279 surface spaces



**DCT Industrial Trust**  
 9750 Commerce Circle, Kutztown, PA  
 -- 503,423 s.f. cross dock facility  
 -- Up to 503,423 s.f. available  
 -- 32' clear height  
 -- 50 docks  
 -- ESFR sprinkler  
 -- 112 trailer drops  
 -- 117 employee parking spaces



**Seagis**  
 7533 Industrial Park Way, Macungie, PA  
 -- 535,000 s.f. cross dock facility  
 -- 535,000 s.f. available  
 -- 32' clear height  
 -- 55 docks  
 -- ESFR sprinkler  
 -- 142 trailer drops  
 -- 151 employee parking spaces



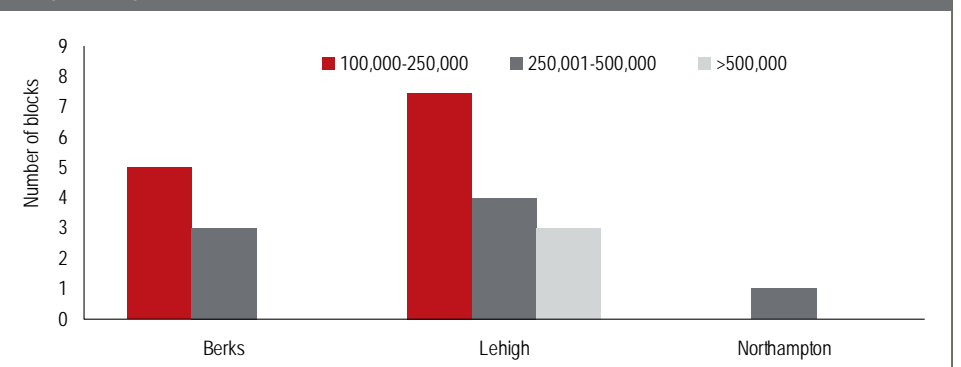
# Lehigh Valley

Statistics summary							
Submarket	Total stock (s.f.)	Vacancy		Availability		Construction	
		Rate	Trend	Rate	Trend	New deliveries (s.f.)	Under construction (s.f.)
Berks	13,376,345	16.8%	↑	19.5%	↑	0	0
Lehigh	34,779,152	8.4%	↓	13.4%	↑	0	0
Northampton	13,276,331	3.2%	↑	4.5%	↑	0	135,000

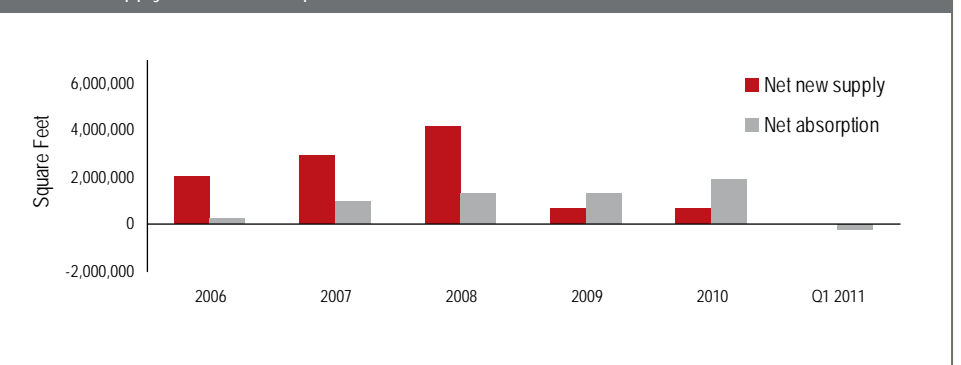
## Market commentary

- During the first quarter, Lehigh County continued to be a strong performer and posted 266,774 square feet of positive absorption. In contrast, Berks County had just under 451,000 square feet of negative absorption with Advanced H2O (90,185 s.f.) vacating their temporary space in Reading, and Cooper Automotive (272,929 s.f.) vacating their building in Boyertown. The overall Lehigh Valley submarket had 184,195 square feet of negative absorption during the first quarter, as compared to over 1 million square feet of positive absorption during the fourth quarter of 2010.
- The overall vacancy rate for the Lehigh Valley increased slightly by 20 basis points to 9.1 percent during the first quarter.
- Significant leases during the first quarter included Barry Callebaut leasing 157,500 square feet at 7570 Industrial Park Way in Macungie, Nestle Waters leasing 400,000 square feet of temporary overflow space at 2027 S. 12<sup>th</sup> Street in Allentown, and Crayola leasing 100,000 square feet of temporary space in 202-210 Cascade Drive, also located in Allentown.
- In an investment sale, Endurance Real Estate Group purchased 2834 Schoeneck Road in Macungie for \$41.11 per square foot. The building was fully leased by the Lehigh Group at the time of sale. In a user sale, Daiichi Sankyo purchased a 140,000 square foot building located at 2400 Baglyo Circle in Bethlehem from Amcor for \$64.29 per square foot.
- There were no new construction starts in the Lehigh Valley during the first quarter of 2011. ProLogis continued to make progress on the 135,000 square foot expansion for Walgreens at Park 33.

## Large, contiguous blocks of available space



## Net new supply and net absorption



# Suburban Philadelphia

Key market indicators		
Stock	↑	53,252,455 s.f.
Vacancy rate	↓	5.7%
Availability rate	↓	10.9%
YTD net absorption	↑	507,341 s.f.

## Available buildings



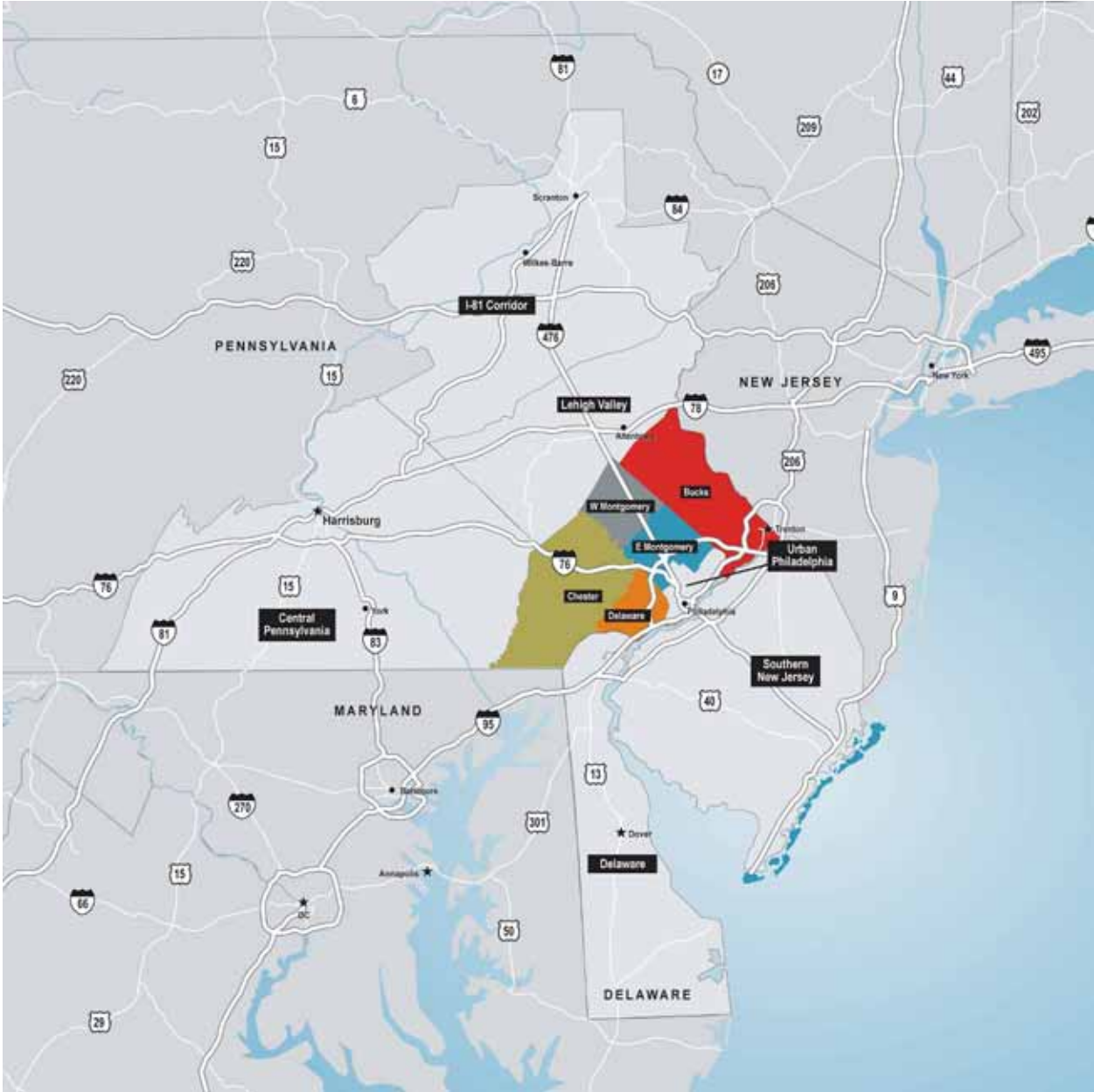
**J. Loew Associates**  
 520 Lincoln Avenue, Downingtown, PA  
 - 200,000 s.f.  
 - 200,000 s.f. available  
 - 207 employee parking spaces  
 - parking ratio 1.03/1000 s.f.  
 - 11.11 acres



**BPG Properties, Ltd**  
 2750 Morris Road, Lansdale, PA  
 - 705,092 s.f. manufacturing/R&D facility  
 - 705,092 s.f. available  
 - 100,000 s.f. of office space  
 - 18'-23' ceiling height  
 - 1,350 parking spaces



**F. Greek Development**  
 33 Runway Road, Levittown, PA  
 - 384,000 s.f. cross dock facility  
 - 111,000 s.f. available  
 - 32' clear height  
 - 52 loading docks (total building)  
 - 78 trailer drops  
 - ESFR



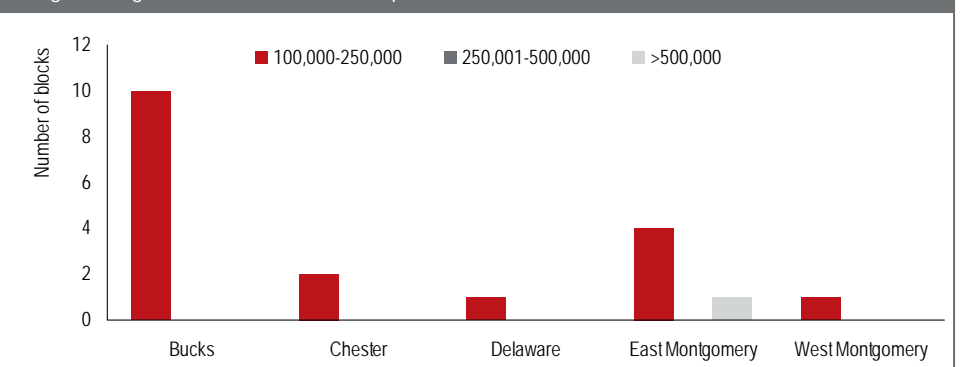
## Suburban Philadelphia

Statistics summary							
Submarket	Total	Vacancy		Availability		Construction	
	stock (s.f.)	Rate	Trend	Rate	Trend	New deliveries (s.f.)	Under construction (s.f.)
Bucks	22,636,053	5.4%	↑	11.4%	↑	0	0
Chester	7,989,409	4.3%	↔	8.5%	↔	0	0
Delaware	7,531,398	4.8%	↓	10.3%	↓	0	0
East Montgomery	8,632,647	9.3%	↓	15.5%	↓	0	0
West Montgomery	6,462,948	4.9%	↓	6.8%	↓	0	0

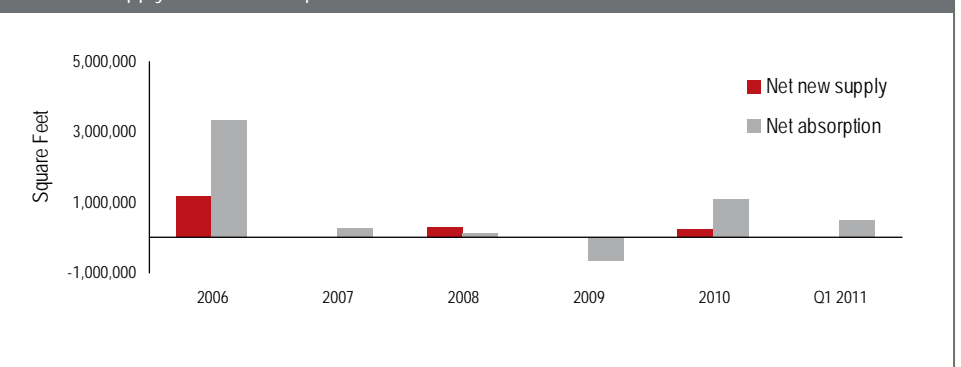
### Market commentary

- The Suburban Philadelphia industrial submarket was one of the most active submarkets during the first quarter of 2011 and posted over a half million square feet of positive net absorption.
- The overall vacancy rate improved from 6.0 percent during the fourth quarter of 2010, to 5.7 percent in the first quarter. Montgomery County posted the largest drop in vacancy during the first quarter improving from 10.0 percent to 7.4 percent.
- Leasing activity was strong during the first quarter with several large leases being completed. Domtar Paper leased just under 300,000 square feet at 16 E. Cabot Boulevard in Langhorne, Estee Lauder signed for 241,977 square feet at 250 Rittenhouse Circle in Bristol, and National Fulfillment Services leased 125,000 square feet at 105 Commerce Drive in Aston.
- Investment activity remains subdued in the Suburban Philadelphia submarket. There were no significant sales during the first quarter.
- There were no new construction starts during the first quarter.
- There is currently only one block of space greater than 500,000 square feet available in the Suburban Philadelphia submarket and no blocks of space available from 251,000 square feet to 500,000 square feet. Tenants looking in this size range will be forced to consider other markets or to construct a new building.

### Large, contiguous blocks of available space



### Net new supply and net absorption



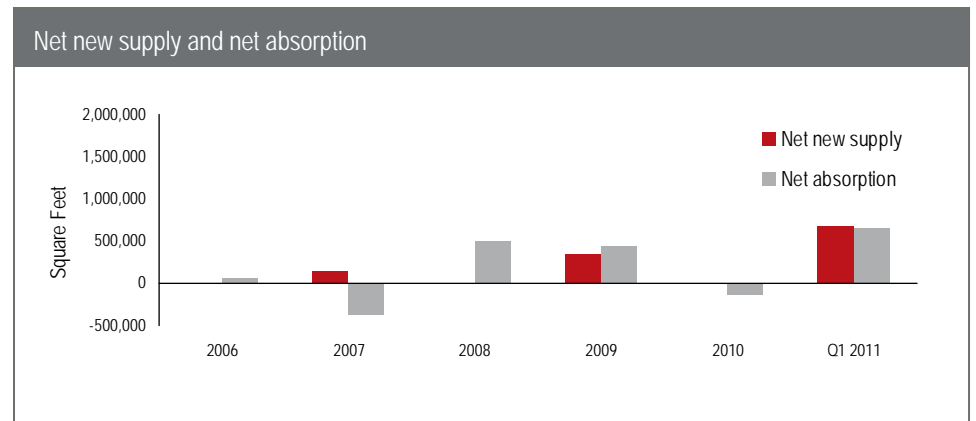
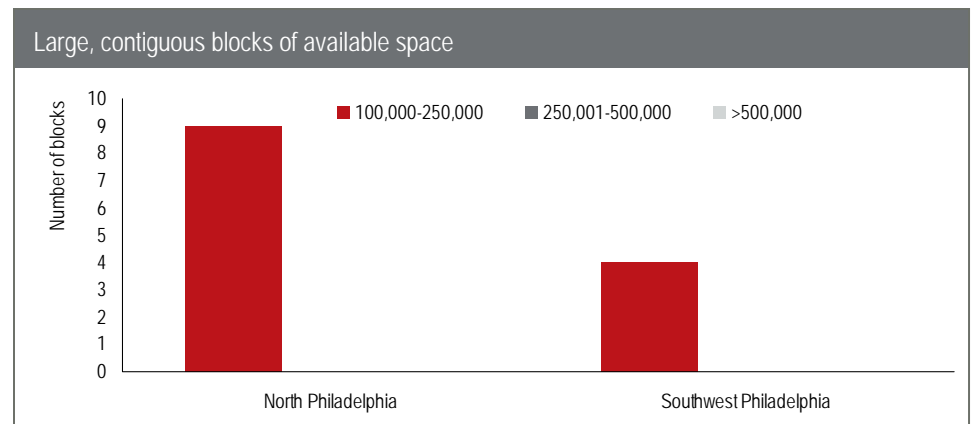


# Urban Philadelphia

Statistics summary							
Submarket	Total stock (s.f.)	Vacancy		Availability		Construction	
		Rate	Trend	Rate	Trend	New deliveries (s.f.)	Under construction (s.f.)
North Philadelphia	18,412,888	9.7%	↓	13.9%	↑	0	255,336
Southwest Philadelphia	5,676,821	9.8%	↓	10.7%	↓	667,000	0

## Market commentary

- The Urban Philadelphia industrial submarket started 2011 strongly by posting 661,208 square feet of positive absorption during the first quarter, which can be attributed to the delivery of the 667,000 square foot Philadelphia Wholesale Produce Market.
- The vacancy rate continued to decline and ended the first quarter at 9.7 percent, as compared to 10.0 percent during the fourth quarter of 2010. While the vacancy rate declined during the first quarter, the availability rate increased slightly to 13.1 percent.
- The 667,000 square foot Philadelphia Wholesale Produce market was completed and delivered to the market during the first quarter. The facility was constructed by O'Neill Properties Group and is one of the largest of its kind in the United States.
- Construction continued on DP Partner's 255,336 square foot build-to-suit for Penn Jersey Paper's new headquarters and distribution facility located at 9355 Blue Grass Road. The building is expected to be completed during the second quarter of 2011.
- There were no significant leases signed during the first quarter of 2011.
- There are currently no blocks of space greater than 250,000 square feet available in the Urban Philadelphia submarket.



# Southern New Jersey

Key market indicators		
Stock	↗	57,810,082
Vacancy rate	↗	13.6%
Availability rate	↘	17.3%
YTD net absorption	↘	-132,663 s.f.

## Available buildings



**DP Partners**  
 1109 Commerce Boulevard, Swedesboro, NJ  
 -- 259,910 s.f. modern high bay distribution center  
 -- 259,910 s.f. available  
 -- 31' - 33' clear height  
 -- 60 docks  
 -- ESFR sprinkler  
 -- 125 trailer drops  
 -- 150 employee parking spaces



**Dolan Contractors**  
 90 Stemmers Lane, Westhampton, NJ  
 -- 159,022 s.f. double side load facility  
 -- 159,022 s.f. available  
 -- 30' clear height  
 -- 19 docks  
 -- ESFR sprinkler  
 -- 20 trailer drops



**Whitesell Construction**  
 321 Dulty's Lane, Burlington, NJ  
 -- 188,294 s.f. front side load facility  
 -- 188,294 s.f. available  
 -- 32' - 37' clear height  
 -- 56 trailer drops  
 -- ESFR sprinkler



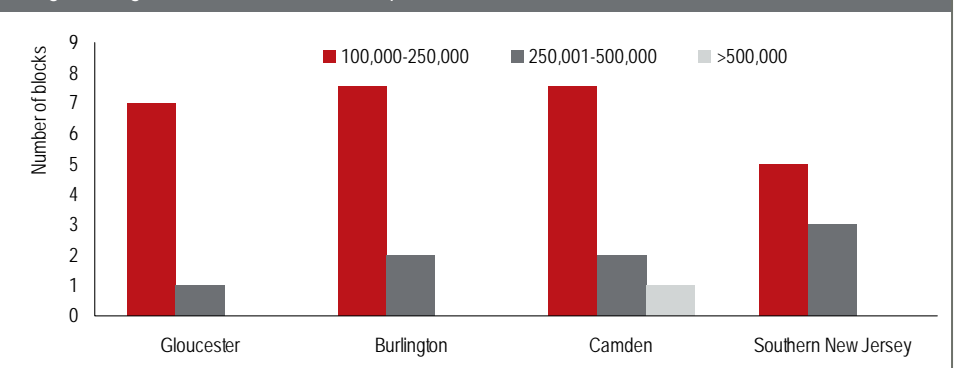
## Southern New Jersey

Statistics summary							
Submarket	Total stock (s.f.)	Vacancy		Availability		Construction	
		Rate	Trend	Rate	Trend	New deliveries (s.f.)	Under construction (s.f.)
Gloucester	15,662,777	9.5%	↓	13.8%	↑	0	0
Burlington	19,088,700	12.5%	↑	12.7%	↓	0	0
Camden	13,497,139	17.0%	↑	23.2%	↑	0	0
Southern New Jersey	9,561,466	17.8%	↑	24.0%	↑	0	0

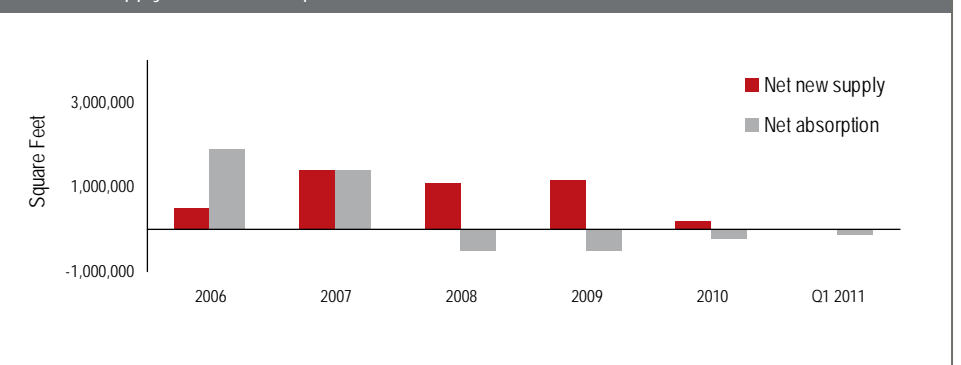
### Market commentary

- The Southern New Jersey market continues to struggle compared to other submarkets across the Philadelphia Region. Vacancy increased by 30 basis points during the first quarter, bringing the rate to 13.6 percent. While the vacancy rate increased slightly during the first quarter, the availability rate decreased by 130 basis points to 25.5 percent.
- The Southern New Jersey market had negative net absorption of 132,663 square feet during the first quarter of 2011. The negative absorption can be attributed to L'Oreal vacating 164,915 square feet in Burlington.
- On a positive note, several large leases were signed during the first quarter of 2011, which will positively impact absorption upon occupancy. Boise Cascade signed a lease for 307,000 square feet at 2700 Burlington Avenue in Delanco, and American Tire leased 112,000 square feet at 111 Ikea Drive in Westhampton. Other leases were signed by Tech Tube (50,000 s.f.) in Vineland and KSI Auto Parts (41,200 s.f.) in Pennsauken.
- In an investment sale, 1109 Commerce Boulevard in Logan Township (259,910 s.f.) traded from Lexington Realty Trust to DP Partners for \$35.00 per square foot during the first quarter. The building was vacant at the time of sale.
- There were no new buildings delivered and no new construction starts during the first quarter.
- Like other submarkets across the Philadelphia region, there is a limited number of large blocks of space available in the Southern New Jersey market. There is only one block of space available greater than 500,000 square feet.

### Large, contiguous blocks of available space



### Net new supply and net absorption



# Delaware

Key market indicators		
Stock	↑	14,353,903
Vacancy rate	↑	16.3 %
Availability rate	↑	25.5 %
YTD net absorption	↓	(18,300) s.f.

## Available buildings

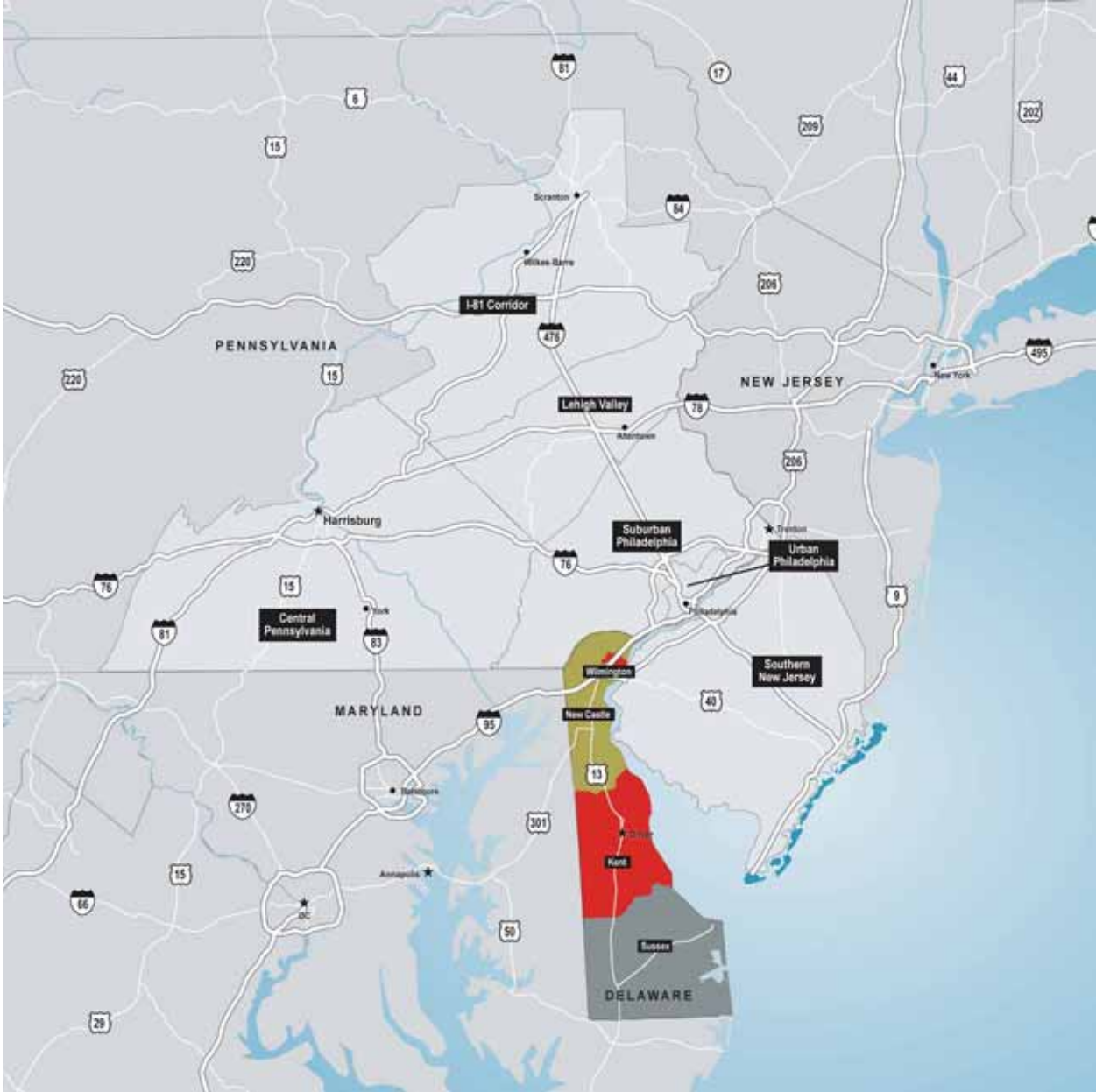


**Mattei Corporation**  
 231 Executive Drive, New Castle, DE  
 - 190,500 s.f. cross docking facility  
 - 89,000 s.f. available  
 - 28' ceiling height  
 - 16 loading docks  
 - 13.7 acres



**D & S Warehousing, Inc.**  
 104 Alan Drive, Newark, DE  
 - 550,000 s.f. facility  
 - 30,000 s.f. available  
 - 5 drive ins – 10'w x 14' h  
 - 22'-26' ceiling height  
 - 7.75 acres

**Pennco Corporation**  
 1810 Dulaney Street (Bldg1), Seaford, DE  
 - 327,750 s.f. facility  
 - Up to 327,750 s.f. available  
 - 14 loading docks  
 - 20' ceiling height  
 - Rail served  
 - 13.27 acres



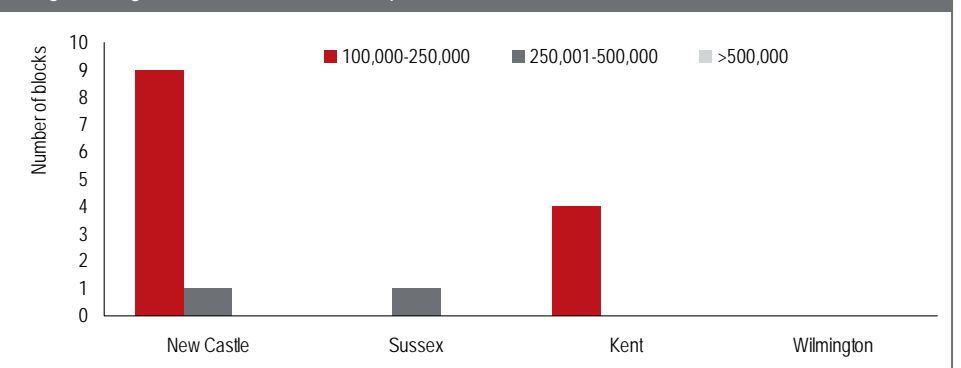
# Delaware

Statistics summary							
Submarket	Total stock (s.f.)	Vacancy		Availability		Construction	
		Rate	Trend	Rate	Trend	New deliveries (s.f.)	Under construction (s.f.)
Kent	1,498,364	24.9%*	↑	49.3%*	↓	0	0
New Castle	9,592,262	15.8%	↑	25.3%	↑	0	0
Sussex	1,458,750	26.6%	→	26.6%	→	0	0
Wilmington	1,804,527	3.7%	↑	6.0%	↑	0	0

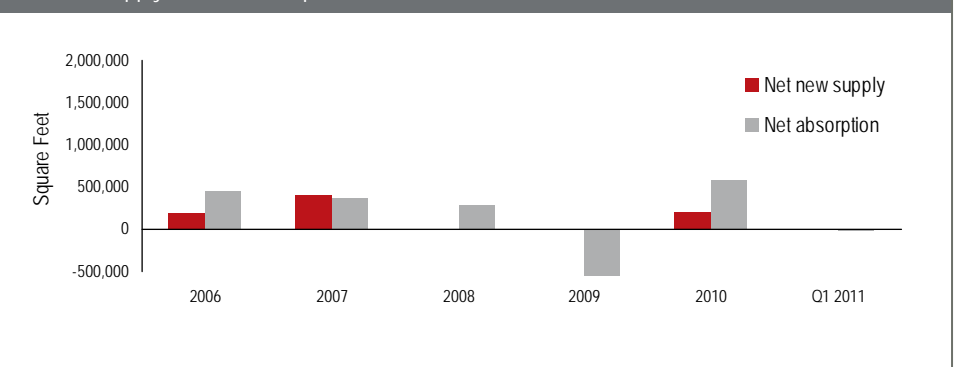
## Market commentary

- The Delaware industrial submarket started 2011 slowly, posting a negative net absorption of 18,300 square feet. This is a step backwards from the submarkets' strong performance during the fourth quarter of 2010 when it posted 227,000 square feet of positive absorption.
- The overall vacancy rate increased slightly by 30 basis points, bringing it to 16.3 percent during the first quarter of 2011. This vacancy rate is the highest of all of the Philadelphia industrial submarkets.
- The availability rate also increased during the first quarter and now sits at 25.5 percent, as compared to 24.2 percent during the fourth quarter of 2010.
- There were no significant building sales or leases signed during the first quarter of 2011.
- New construction continues to be nonexistent and no new construction starts are forecasted through 2011.
- There continue to be no available blocks of space greater than 500,000 square feet, which has forced large users to either search for space elsewhere or consider build-to-suit opportunities.

## Large, contiguous blocks of available space



## Net new supply and net absorption



\*The large discrepancy b/w vacancy and availability rates in Kent County can be attributed to the small sample size of the data set.



*Real value in a changing world*

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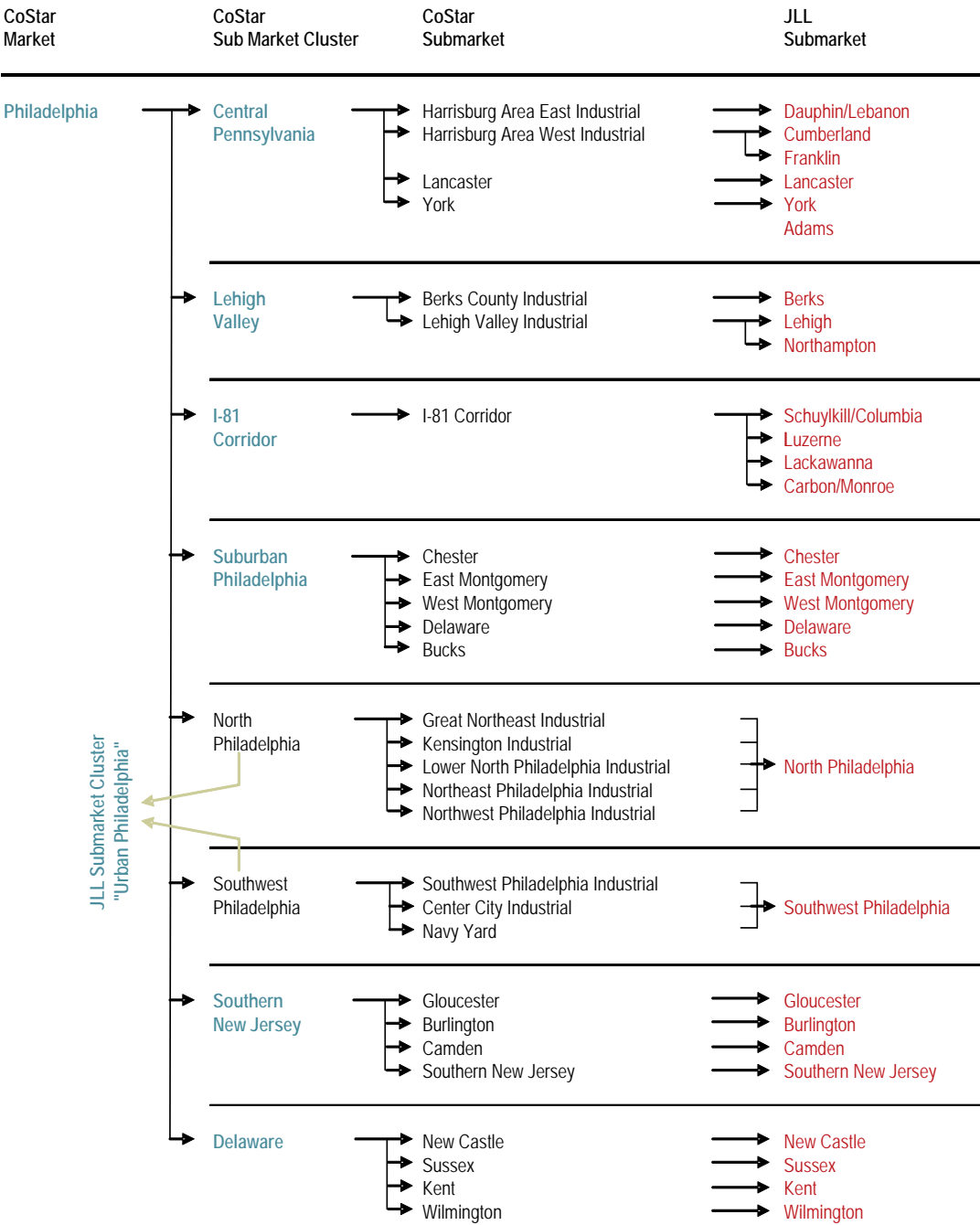
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# Appendix



JLL Submarket Cluster "Urban Philadelphia"

Report to Address Market, Submarket Clusters (Blue), and Submarkets (Red) as noted above

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