

## In Philly, Time Ticking For Warehouse Buyers

PHILADELPHIA—With an overall 14% vacancy rate, as per CB Richard Ellis, it may seem like space users have the upper hand when it comes to the Greater Philadelphia region's 350-million-square-foot industrial market. However, closer inspection reveals that isn't necessarily the case.

That vacancy figure can be misleading in that "a large segment of available space is in mega warehouses along the I-81 corridor from Harrisburg to Scranton, or in the Exits 7A and 8A markets in Central New Jersey," says Lou Battagliese Jr., a partner at King of Prussia, PA-based Jackson Cross Partners/ONCOR International. "In the core eight county markets surrounding and including Philadelphia, industrial vacancy rates range from 6% to 9%, and below 60,000 square feet to 40,000 square feet, vacancy rates are under 5%."

Over the past 18 months, transactions have been predominately with user-buyers, Battagliese says. "Companies that were being priced out of the market by investors for most of the decade have found waning competition for vacant buildings," he observes. "Prices for existing buildings that were approaching 85% to 90% of replacement cost have settled back to 60% to 70%."

Similar to sale prices, rental rates have dropped 20% to 30% over the past two years. "Space that was leasing for \$4 to \$4.50 a square foot is now being leased for \$3.25 to \$3.50 per square foot," Battagliese relates.

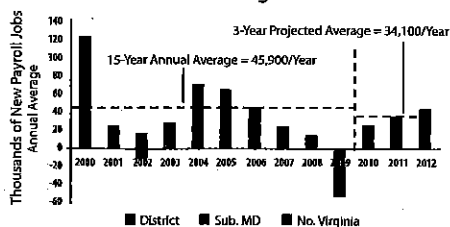
With these conditions, why does Battagliese think the window of opportunity for industrial tenants and buyers will be a short one? The quick answer is inventory. "One of the primary impacts of the recent economic and financial calamities has been the complete shutdown of new speculative development," he comments. "For the Greater Philadelphia industrial market, new construction has averaged 2.5 to three million square feet of spec development per year since 2000. With no new inventory planned for 2010 or 2011, the swing from a demand-constrained market to a supply-constrained one could be as short as 12 to 15 months."—*Alyson Grala*

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## Vital Signs

### Jobs Gain Ground in Metro DC

Payroll Job Growth  
Washington Metro Area  
2000 Through 2010



Note: Data restated since 2000 consistent with redefinition of metro area in March 2005

Source: Dr. Stephen Fuller and Delta Associates; March 2010

Consumer confidence will edge up moderately this year, but will not experience significant gains until 2011, according to Delta Associates. In consultation with Dr. Stephen Fuller of George Mason University, Delta projects 24,200 payroll jobs will be added to the Metro Washington, DC economy during 2010, followed by 34,900 in 2011 and 42,400 in 2012.

## Multifamily Has a Bright Future

While the multifamily industry may be facing some challenges in this current market, the outlook for the sector remains exceedingly bright. The current young adult generation—Gen Y, whose members are in their prime years for renting—is extremely large. Once employed, they are likely to move out of their parents' homes, or away from roommates, and look for an apartment of their own. Newly empty-nester parents may then decide that the big house with the sprawling yard is a burden, and opt instead for a lower-maintenance multifamily lifestyle.

The number of immigrants in the US is also projected to be very strong, at 1.2 million per year for the next several years. Since immigrants typically rent for the beginning of their tenure in this country, they will also be in the market for apartments.

But when will we start seeing this uptick in demand? It all hinges on job creation. While we are still not generating enough employment growth to bring us back to pre-recession levels, we are at least starting to move in that direction. And because of the large number of expected renters, a small percentage of new jobs will have a major impact on our markets.

The National Association of Home Builders is forecasting that unemployment will drop almost 1.5% by the end of 2011.

Our expectation, though, is that the increased demand for apartments will come on line before we've had a chance to provide enough supply. Current production is well under the industry's average starts of 200,000 to 300,000 apartments per year. While we see that activity beginning to ramp up over the next two years, the number of new apartment communities developed will still be well short of what will be needed to both replace obsolete units and accommodate new and existing renters.

The next few years, then, should be an extremely opportune time to build apartments, if only capital were more available. Debt financing at today's interest rates is attractive even by historical measures. NAHB forecasts that the rate on the 10-year Treasury, now 3.73%, will move to only about 4.75% by the end of 2011.

While we are beginning to see a thaw in the debt and equity markets, and some new developments are moving forward, we will need significant improvement in order for the supply/demand imbalance to be properly addressed.

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