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An interesting year ahead... 2008 New Jersey region industrial market

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Southern New Jersey - especially Burlington and Gloucester Counties - has also proven attractive to businesses seeking an advantageous location for their logistics and supply chain needs in the Northeast. Emblematic of this trend is Bed Bath and Beyond's new 760,000 s/f facility in Florence which features a clear ceiling height towering 68 ft.

We expect this market to continue to perform well in relation to other parts of the metro area. Anticipated increases in toll rates along the New Jersey Turnpike, coupled with already higher occupancy costs in Central and North Jersey, will improve South Jersey's rankings for companies seeking operating advantages and cost reductions. The anticipated deepening of the Delaware River channel will increase demand for port-related facilities.

The largest industrial park project in Southern New Jersey, DP Partners' 1,000 acre LogistiCenter at Logan, is positioned to capitalize on trends in the warehouse and distribution market by offering fully approved and improved sites for "big box" facilities, turn-key design/build capabilities, rail service from two Class 1 carriers, and an eagerness to provide LEED certified buildings to prospective tenants. DP is currently constructing a 365,760 s/f "spec" facility that will be available in mid 2008 - and has just obtained approval for a 677,560 s/f cross dock distribution building that can be ready for occupancy in early 2009.

Philadelphia traditionally had a strong manufacturing base. As manufacturing first moved to the South, and then overseas, the city's industrial properties were forced to adapt. Some were demolished for retail and residential development. Others were repositioned for lofts and back office.

Demand for new urban housing emerged from a variety of demographic groups. Baby boomers capitalized on the equity of their suburban homes and became urban dwellers. Young professionals found several of the city's neighborhoods attractive. But this demand was limited - causing over-speculation. As the mortgage market contracted lenders reconsidered, and halted, several planned redevelopment projects.

Even though traditional manufacturing has waned, it has not disappeared. Rotem USA recently leased 300,000 s/f in South Philadelphia to manufacture rail cars for customers like the Southeastern Pennsylvania Transportation Authority and the Southern California Regional Rail Authority. And Tasty Baking Company announced plans to relocate its local operations and headquarters to a new 345,000 s/f plant at the Philadelphia Navy Yard Business Center.

The warehousing and distribution sector has been a strong driver in markets surrounding Philadelphia. The Lehigh Valley, Harrisburg, and Northeast Pennsylvania have been especially buoyant because they offer shovel-ready sites, a strong labor pool, and excellent highway and rail connectivity. Three recent transactions demonstrate the potency of these markets: Lowe's chose

Pittston for development of a 1.5 million s/f distribution center, Sears selected Scranton for the site for its 1 million s/f hub, and Johnson & Johnson positioned a 1.4 million s/f facility in Mt. Pocono.

To put this all into perspective, existing industrial buildings in the Greater Philadelphia market have been selling for between $65 and $110 per s/f. There has been strong demand for build-to-suit projects which, in many cases, can be brought on-line within range of the value of existing properties. Healthy competition, coupled with low interest rates, have kept increases in warehouse and distribution rents to a modest 2-3%. Today typical rents range from $4 to $4.50 per s/f.

With 2007 in our rear view mirror we can now begin to look at the coming year and ponder what the market holds. It is clear that businesses will be considerably affected by expected recessionary forces. This will translate into slower economic growth, generally, and will amplify the need by most businesses to reign in spending to respond to earnings pressures - while still improving quality to remain competitive. The result will be some reduction in demand for industrial property - and less demand almost invariably results in lower prices. This will be felt first in areas already experiencing an oversupply of speculative development - notably Central New Jersey. Construction costs should modulate as demand tapers. Debt costs should remain relatively attractive unless inflation causes the Fed to increase the funds rate - however underwriting requirements will tighten.

A great unknown is whether the residential mortgage crisis will spill over into the commercial sector - particularly retail (in which a significant sector downsizing is expected) and office (which will be affected by perturbations in the financial markets). If it does, values in some market areas and product classifications could be hit sharply - which will create some excellent "buy low" opportunities.

Another, of course, is the election. But that's a much longer story . . .

It's going to be an interesting year.

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