

Outsized rent growth sparks sharp rate increases for occupiers at renewal

By Charlie Donley

Industrial rents soared across the Philadelphia Metro and PA I-78/I-81 Corridor markets over the last 5 years as consumer expenditure rose and businesses pushed hard to match supply to consumer demand. The rising rents subjected occupiers relocating and expanding their logistics operations to a fiercely competitive market with a shrinking pool of modern large block supply.

Tenants looking to renew in place faced their own challenge: sharp rental rate increases at renewal. For a typical 5-year lease signed in 2016, tenants renewing in 2021 experienced an average increase of 11.2% at renewal.¹ Some tenants in the most coveted submarkets experienced rate hikes over 60% at renewal, a steep increase in real estate costs. Renewal offers were aggressive on price and included shorter windows to execute as, as landlords exercised their leverage to quickly fill spaces with higher paying tenants.

Philadelphia Metro
Q4 2021 Vacancy Rate

3.7%

PA I-78/I-81 Corridor
Q4 2021 Vacancy Rate

4.3%

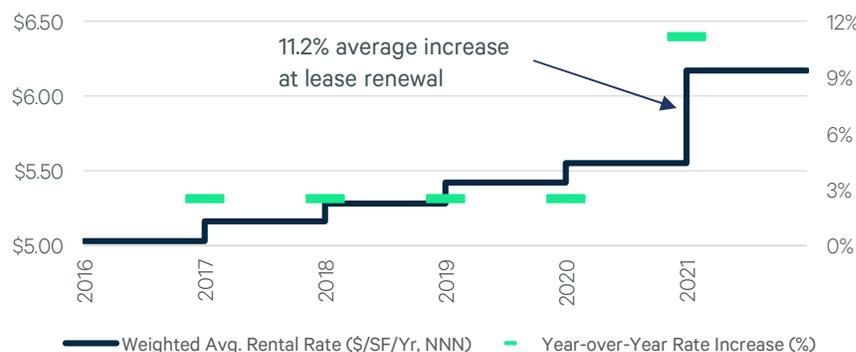
Greater Philadelphia Avg.
Rate Increase in 2021

11.2%

Delaware County PA Avg.
Rate Increase in 2021

67.6%

FIGURE 1: Greater Philadelphia* Sample Annual Rent Schedule, 2016–2021



Source: CBRE Research

*Greater Philadelphia includes the Philadelphia Metro and PA I-78/I-81 Corridor markets.

¹ **Methodology:** All rental rate calculations are based on aggregated lease comp data, assuming a 2.5% annual escalation, and five-year lease term. Individual lease terms vary.

For many existing tenants across Greater Philadelphia, the booming industrial real estate market may not be a concern until their leases come up for renewal. It is then that they experience the “sticker shock” of their landlords’ renewal offers. These tenants then proceed through the various decision-making stages: can we negotiate the rate? Can we relocate and find a better rate? While exploring their options, tenants may find that their relocation options are limited or non-existent. Many go back to their landlord and find that they cannot negotiate down, but in fact the previous renewal offer expired, and the new rate is now even higher.

The magnitude of rent increases at renewal varies by location. While the overall average increase at renewal was 11.2% across Greater Philadelphia in 2021, tenants in the most sought-after submarkets adjacent to major transportation nodes experienced markedly higher price tags. In Delaware County, the average rent increase between the final rent period and the renewal base rent was a whopping 67.6%, a major jump in real estate costs for tenants. Districts in dense industrial submarkets – Southern NJ, Southeast PA, and Lehigh Valley PA – saw the highest rent increases at renewal as competition for scarce available space enabled owners and developers to push prices higher.

FIGURE 2: Top 5 Districts by Rate Increase at Renewal

DISTRICTS	2016 Base Rent (\$/SF/Yr, NNN)	2021 Final Rent Step	2021 Renewal Base Rent	% Increase in Rent at Renewal
Delaware County	\$5.46	\$6.03	\$10.11	67.6%
Burlington County	\$4.85	\$5.35	\$7.77	45.1%
Gloucester County	\$5.10	\$5.63	\$7.24	28.6%
Northampton County	\$4.87	\$5.37	\$6.81	26.7%
Camden County	\$4.93	\$5.45	\$6.84	25.5%

Source: CBRE Research

Calculations assume 2.5% escalations and a 5-year term. All figures are based on aggregated lease comps, specific lease terms vary.

Given the confluence of outsized demand for industrial space and scarce supply, tenants looking to renew their leases must be proactive in their decision-making process and understand current market conditions to ensure they find the best deal possible that fulfills their space and geographic requirements. Landlords are in a strong price-setting position, both for new leases and renewals, as demand surges and availability remains tight. As such, negotiating power for existing tenants is limited, and prolonging the renewal process can lead to even higher rates as initial renewal offers expire.

CBRE Research expects significant rental increases at renewal to persist as average asking rates are markedly higher than when tenants executed their previous lease.

PA I-78/I-81 Corridor Q4 2021
Avg. Asking Rent | 5-Yr Growth

\$5.79 | 38.2%

Philadelphia Metro Q4 2021
Avg. Asking Rent | 5-Yr Growth

\$8.42 | 104.8%

Contacts

Charlie Donley

Field Research Analyst

Greater Philadelphia Research

Charlie.Donley@cbre.com

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