



Commercial real estate: Room for more strong growth this year

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Big-box warehouses, manufacturing facilities and office buildings will continue to see strong growth throughout the Greater Lehigh Valley this spring and summer.

Out-of-state tenants will continue to flock to the region, inventory will continue to decline and vacancies will be at historic lows, experts say.

Furthermore, food production companies will continue to flourish, and tax incentives such as the City Revitalization and Improvement Zone in Bethlehem will draw commercial tenants and could spur redevelopment and construction of commercial projects.

In Berks County, distribution centers are going strong, particularly along Interstate 78, and in places such as Reading, the overall commercial market is stabilized, with more responsible owners arriving to build and restore vacant properties.

It's all part of a vibrant picture for commercial real estate in the Greater Lehigh Valley in 2014.

"All sectors of the market [retail, office, and industrial] have been improving over the last couple quarters, and our indicators show a continued trend of positive net

absorption and declining vacancy rates into 2015," said Matt Dorman, vice president of NAI Summit of South Whitehall Township.

The end result bodes well for businesses looking to expand locally or locate from afar, construction firms eyeing new projects and developers searching for a site to fulfill their vision.

It's likely that this commercial growth will continue at least into the next few years.

WHERE THERE'S GROWTH

Areas that show robust growth in the commercial sector include Lehigh Valley Industrial Park VII in Bethlehem near Route 412, Lower Macungie Township and Downtown Allentown, according to Amy Hawley, president, broker of record for Hawley Realty Inc. of Hanover Township, Lehigh County. Trends include an increasing amount of tenants moving to the Greater Lehigh Valley from out of state, she added.

"There's still growth in the big box category," Hawley said. "There still seems to be some demand. It's still very healthy."

Hawley said her agency is getting inquiries from manufacturing plants that want to own or lease their own property. The size of these facilities typically ranges from

THERE'S ROOM IN THE BOOM

Reasons why the commercial real estate expansion is expected to continue this year and beyond throughout the Greater Lehigh Valley, including in industrial, manufacturing and office:

- Declining vacancy rates into 2015.
- Tax advantages continue to attract tenants.
- Food production facilities stay fruitful.
- Inventory will drop.
- Warehouse/big box still booming.
- Out-of-state influx.

30,000-to-70,000 square feet, with ceilings reaching 24 feet or higher, she said.

Smaller companies are looking for industrial space in the range of 10,000-to-20,000 square feet and are not focused on ceiling height.

On the other hand, big box warehouses

are looking for space that's 100,000 square feet or larger, she said.

HEALTHY INTEREST

Available office property tends to run in the 1,500-to-10,000 square-foot range, Hawley said.

Because of the tax advantages and types of businesses that want to be downtown, growing areas of office space in the region include the Neighborhood Improvement Zone in Downtown Allentown, she said.

The region also shows a healthy interest in suburban markets, including West Allentown, Bethlehem near Route 512 and areas surrounding Lehigh Valley International Airport.

"This area [the airport] always [shows] a healthy demand for office space because it's central to the rest of the region," Hawley said.

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TOP: Trammell Crow Co., a Texas-based company, is developing a 40-acre site at 2485 Commerce Center Blvd. on former Bethlehem Steel land in Lehigh Valley Industrial Park VII, near Route 412 in Bethlehem. The 677,088-square-foot warehouse is a speculative development project that will cost about \$38 million to build. The Norwood Co. of Malvern is building the site and should complete construction by May or June, officials at Norwood said. PHOTO BY BRIAN PEDERSEN

GROWTH

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Available land near the airport also offers potential space for warehouse and light industrial users.

"I anticipate seeing an increase in development opportunities for warehouse properties to help keep pace with the needs of owners and tenants," said Cindy McDonnell Feinberg, co-owner of Feinberg Real Estate Advisors LLC in South Whitehall Township. "Development opportunities are increasing. We'll see major development of the land currently owned by the Lehigh Northampton Airport Authority for warehouse, office and light industrial."

This area includes properties on Airport Road which could provide opportunities for a variety of office and light industrial uses, including manufacturing, she said. Retail uses would not be a good fit for those properties, McDonnell Feinberg said.

THE GRASS IS GREENER HERE

Out-of-state tenants will continue to eye commercial space in Allentown, Easton and Bethlehem.

Companies from central and northern New Jersey also are looking to move into commercial space in the Easton area because it can still be an easy commute for employees who live in New Jersey, Hawley said.

Out-of-state interest should continue to grow, she said.

"We do see the commercial real estate



Workers start building the walls that will surround the 677,088-square-foot warehouse that's going up in Lehigh Valley Industrial Park VII, near Route 412 in Bethlehem.

PHOTO/ERIAN FEDERSEN

market improving," McDonnell Feinberg said. "The NIZ in Allentown is creating lots of opportunities for office users. In several months, we'll see a new vibrant environment in the city of Allentown, which should help generate additional opportunities in the city."

Similar development opportunities can be found with the CRIZ in Bethlehem over the next few years, she added. Most significantly, the CRIZ will enhance the region's ability to recruit out-of-state businesses.

TRENDING NOW

Trends also show modest gains in rental rates across the industry as the existing inventory is occupied with fewer options available to tenants, Dorman said.

With fewer options available to tenants, the task of finding suitable space becomes

a major challenge, and this is a result of a lack of inventory, he added.

"Typically the market would recognize this opportunity, however the cost of construction and banks requiring pre-leasing for financing has several projects on hold, and we are not seeing the speculative building we have been accustomed to over the last couple decades," Dorman said.

"In the big picture, the Lehigh Valley remains a very strong area for distribution and a very attractive place for businesses in general; that's why we continue to see tenants from out of state focused on locating here."

FULFILLING A NEED

The industry is seeing an across-the-board growth in industrial, manufacturing and commercial office real estate in the Greater Lehigh Valley, said William Wolf, executive vice president of CBRE Inc., a global real estate firm with an office in Fogelsville.

Distribution centers and manufacturing facilities will continue to grow as companies show greater interest in increased trailer storage, fulfillment operations and a greater focus on retailers sending products to customers faster.

Food production also will continue to stay strong, with the planned openings of Bimbo Bakery and Ocean Spray in Breinigsville early this year, the growth of water bottling companies such as Nestle and the recent opening of FreshPet, a fresh pet food manufacturer that unveiled a facility in Hanover Township, Northampton County, in 2013.

"Everything is geared for fresher products

and getting them to the consumer faster," Wolf said.

COMPANIES OF ALL KINDS

Strong demand on the commercial front will continue with the medical industry and financial services companies, including stock brokerage firms, wealth management and insurance companies.

"In Berks [County], I think that with the industrial market there, mostly internal companies have gobbled up all the space," Wolf said.

The banking industry and engineering offices will continue to show strong growth in Berks, Wolf added.

"Overall, we're seeing strong growth as everything shifts to a seller's or landlord's market again as inventory will decrease," Wolf said.

HISTORICALLY LOW VACANCIES

Wolf said he has seen more speculative development in the Greater Lehigh Valley. In both Berks and the Lehigh Valley, there are not any existing buildings that are more than 150,000 square feet, he said.

"So vacancies are probably at historic lows," he said.

Another trend in the commercial real estate forecast is the reduction in available warehouse space for lease or purchase, McDonnell Feinberg said.

"Investment properties are difficult to find as there is a conflict between investors seeking a satisfactory return on investment and sellers retaining their properties in hopes of greater capital appreciation," she said. ■

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