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$105M spec industrial project highlights confidence in South Jersey market

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A St. Louis real estate company is betting on the continued strength of the South Jersey industrial market and is moving forward with a $105 million, 702,000-square-foot speculative project in Palmyra.

SANSONE GROUP

A rendering of Tac-Pal Logistics Center in Palmyra, N.J.

It's the first phase of what Sansone Group is calling the Tac-Pal Logistics Center that is being built off Route 73 across from F.C. Kerbeck. The second phase will involve 1 million square feet of additional space. Sansone is developing the property in partnership with Crow Holdings Capital.

"There's unprecedented demand and only two buildings of this scale are under construction or undergoing the development process," said Matthew Marshall, a broker with Avison Young who is overseeing leasing at Tac-Pal with Chuck Fern of Cushman & Wakefield.

Just about every industrial market throughout the region — from the Lehigh Valley and Central Pennsylvania to Philadelphia and South Jersey — is experiencing extraordinary demand. The South Jersey market is considered a "new frontier" market compared to some more established markets, according to CBRE Inc. It also includes Northern Delaware as another emerging market.

"While the most sought-after locations for distribution facilities remain the Meadowlands and the Hudson Waterfront in the North

Jersey market, Burlington, New Jersey, between Exits 6 and 7 on the N.J. Turnpike, and the Lehigh Valley, occupiers and developers are increasingly looking for — and finding — attractive growth opportunities in the frontiers of the region," a CBRE report said.

At the end of the first quarter of this year, the vacancy rate in the five-county South Jersey industrial market stood at 2.9% with 1.79 million square feet being absorbed, according to Colliers International research. A tad more than 7 million square feet of industrial space is under construction and, when completed, will push the market to more than 130 million square feet.

“Over 96% of the speculative construction completed in 2020 was leased, and over 25% of the spec space under construction has been pre-leased,” Colliers said in its first-quarter report.

The South Jersey industrial market continues to grow as a result of a dearth of developable land north of Exit 8A of the New Jersey Turnpike. South Jersey has benefitted from its availability of land and continued growth during the pandemic. Overall asking rents in South Jersey stand at $6.23 a square foot and, in Burlington County, where Tac-Pal is being built, they are pushing to $7 a square foot.

“The stats speak for themselves,” said Marc Isdaner, an industrial broker with Colliers who represents landlords and tenants in South Jersey. “They reflect what has happened. Anything over 200,000 square feet, if it’s already started construction, it is leased or will be leased before the building is completed. There is such a shortage of space now, tenants are looking at what’s coming out of the ground and want to know if you have your steel and delivery dates. We’re at the very beginning stages of steel delaying delivery of buildings.”

While there has been no widespread reports of steel causing construction delays, the rising cost of the material is impacting pricing of projects. It added $3 million to the overall cost of the Tac-Pal development.

The demand for space, shortage of it, scarcity of developable sites and low vacancies have pointed to rising rents, which have helped offset some of the added steel and other material costs. It has also meant it’s been a landlord’s market.

“Each time a lease gets done in Burlington County, it sets a new high-water mark,” Isdaner said.

Marshall is confident that Tac-Pal will achieve rents north of $8 a square foot based on market conditions and location. The two-building complex is within a short drive of Philadelphia, positioning it as a last-mile distribution center. It’s also in proximity to major highways and expected to attract other e-commerce companies that want to be within a day's drive of the Northeast and Mid-Atlantic.

“A year ago, during the teeth of Covid, everyone was concerned about the future but the one thing that didn’t stop was the growth in warehouse distribution,” Marshall said.

Natalie Kostelni
Reporter
Philadelphia Business Journal