

Is The Lehigh Valley Becoming Overbuilt With Warehouses?

With its prime location, able workforce and robust highway network, the Lehigh Valley has become one of the nation's hottest markets for distribution centers, as developers have built or proposed more than 40 million square feet of new warehouse space just since 2013.

But as available land near major highways like Route 22 and Interstate 78 becomes increasingly scarce, developers have ventured farther into rural regions causing some to ask, is the Lehigh Valley becoming overbuilt with warehouses? Experts say, it depends on how you look at it.

"The Lehigh Valley remains a very hot market for warehouse and distribution," said Bill Wolf, a CBRE Group Executive Vice President specializing in industrial and logistics developments. "But I think these developers going too far from the [highway] may get stuck with that square footage. In their race to find land, I just don't think they're taking an educated approach."

Wolf explained that the region's proximity to the New York market, combined with consumers preference to have their online purchases delivered in 1-2 days, make it one of the nation's fastest-growing freight corridors. It's one of the few places in the country that sits within a single trucker shift of 100 million people.

But as warehouse development exploded over the past six years, and developers began to run out of available land close to Routes 22 and 33, or Interstate 78, they've started to propose warehouses on two-lane rural roads, in some cases several miles from the nearest highway, in areas without public sewer and water service. That not only taxes local infrastructure, potentially sending trucks through suburban and rural areas not built for such traffic, but Wolf said, from a market standpoint, trucks that take 15-20 minutes to get to and from the interstate begin to defy the timeliness that's made the region a national focal point of new warehouse development.

In the past three years alone, several large warehouses have been proposed for rural sites in Allen, Upper Nazareth and Bushkill townships.

Lee Fittipaldi, Associate Vice President of Industrial Services at JLL commercial real estate company, had a view similar to Wolf's.

"Vacancy rates have risen a little bit, but the Lehigh Valley is still a very healthy market," Fittipaldi said. "All of its numbers remain at healthy levels, but I wouldn't want to be in one of those remote locations holding a million square feet."

The LVPC tracks all development plans, and issues advisory opinions on whether the plans are consistent with the region's comprehensive plan, but all decisions on projects approvals are done at the municipal level.

Since 2013, developers have proposed more than 42 million square feet of warehouse space, about 70% which has been approved by municipal governments so far, according to LVPC records and analysis. That's already pushed the region's warehouse and distribution inventory to roughly 90 million square feet – nearly doubling the total inventory in a decade -- according to 2019 first quarter reports by JLL and CBRE. Both reports also show that vacancy rates have been rising since 2016, even as another more than 12 million square feet of proposed warehouses await approval. While JLL had the vacancy rate rising from about 5% in 2016 to about 7% this year, CBRE had the vacancy rate bulging to almost 8%. Artificially raising those rates is a Berks County – which both companies include in the market with the Lehigh Valley market – that Wolf says has been overbuilt. But even with Berks numbers out of the equation, Valley vacancies have risen, as more warehouses come online - resting now at about 5%, according to CBRE.

So, what does that mean for the near future?

“The Lehigh Valley is a great market. That's not going to change, but there's essentially no undeveloped land left for this type of development,” Wolf said. “They're going to have to start redeveloping existing sites. That's the answer. If they insist on building in remote locations, those buildings will sit.”

Some redevelopment has been proposed. Earlier this month, a developer proposed demolishing a 300,000 square foot former Bon-Ton distribution center in Whitehall Township to replace it with a 500,000 warehouse on the same site.

There's little question that developers intend to keep building. From January through June of 2019, nearly 2 million square feet of warehouse space has been approved, and another 3.7 million square feet has been proposed, according to the LVPC's BuildLV monthly subdivision reports. That puts 2019 on pace to be the second-busiest warehouse development year, behind only 2016, when nearly 9 million square feet of distribution centers were approved.