

RetailResearch

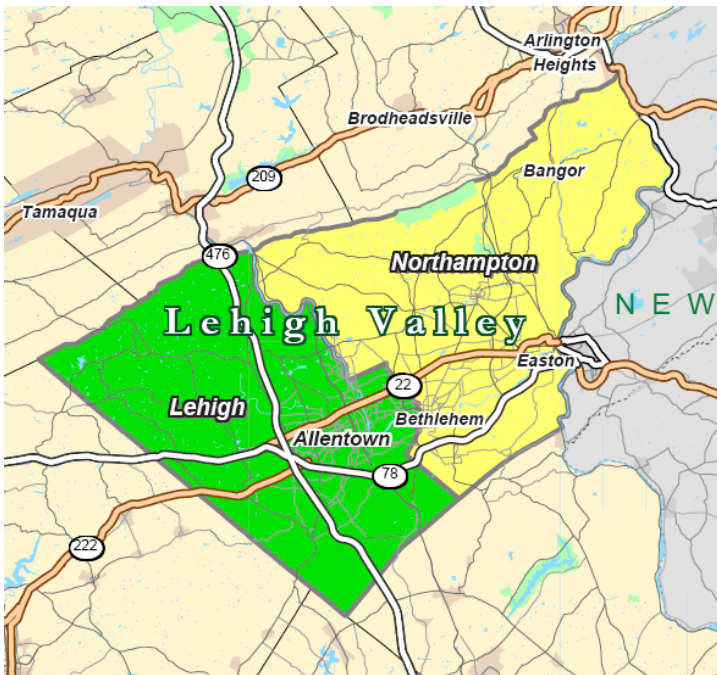
SUBMARKET REPORT

Marcus & Millichap

Lehigh Valley, PA

Second Quarter 2008

Submarket Map



Submarket Update

While Lehigh and Northampton counties border the Philadelphia MSA, the area's critical mass of population, employment and incomes have created a self-sustaining economy within Lehigh Valley. As a result, national single-tenant retailers persist in targeting the submarket, constituting the bulk of recent development. Since owners have been reluctant to sell, new construction is an alternative strategy to enter the Lehigh Valley retail market. Despite the small pool of sellers, investment speculation has been high, with non-local investors usually having to compete for retail assets. Although the number of transactions remains low, sales velocity has accelerated during the past 12 months. Local owners' abilities to increase their revenues through rents and occupancy gains over the next year will likely deter many owners from selling their properties. The Lehigh Valley's own relatively stable economy and proximity to employment centers in Philadelphia and New York City, are anticipated to insulate local residents and businesses from a prolonged economic downturn. Consequently, out-of-state investors will continue to pay a premium for local retail assets, which is anticipated to boost sales prices and could modestly elevate velocity.

Submarket Facts

	Submarket	Philadelphia
Population	633,596	5,876,616
Avg. Annual Five-Year Chg.	1.0%	0.4%
Total Households	239,808	2,177,207
Avg. Annual Five-Year HH Chg.	0.8%	0.3%
Median HH Income	\$54,098	\$58,880
Median Age	39.8	38.1
Employment	284,457	2,787,997

In the News

- The Sands Bethworks is the most notable current project in the Lehigh Valley. The complex is located at the old Bethlehem Steel site and is being developed by the Las Vegas Sands Corp. The keystones of the project will be a 3,000-slot machine casino and a 300-room hotel. Also included in the developer's plans are an industrial history museum, a youth arts center and 200,000 square feet of retail space, which is currently under construction and anticipated to be completed in the third quarter of 2009. Although the Las Vegas Sands Corp. has yet to announce which major retailers will anchor the project, investment speculation has increased in the surrounding south Bethlehem area. Employment gains from both the construction and eventual operation of the facility, as well as increased tourism, are forecast to boost nearby property prices as investors attempt to catch spill over retail and residential demand.

Construction Highlights*

Project Title	Address	City	Phase	Square Feet	Owner/ Developer Name	Target Completion
CVS	Blue Barn & Tilghman Rds.	Allentown	Completed	20,000	CVS Inc.	1Q 2007
Red Robin	Hamilton & Lehigh Sts.	Allentown	Completed	7,000	Red Robin Inc.	2Q 2007
Lowe's Home Center	2650 MacArthur Rd.	Whitehall	Completed	171,000	Lowe's Co.	3Q 2007
Outdoor Shops at Lehigh Valley Mall	Rts. 22 & 145	Whitehall	Completed	110,000	PREIT	4Q 2007
Airport Center	Airport Rd. & Rt. 22	Hanover Twp.	Under Way	500,000	Metro Commercial	4Q 2008
Wal-Mart Supercenter	State Rts. 512 & 33	Wind Gap	Under Way	190,000	Wal-Mart Inc.	4Q 2008
CVS	Beth Bath Pk. & Hanoverville	Bethlehem	Under Way	13,000	CVS Inc.	4Q 2008
Sands Bethworks	Rts. 378 & 412	Bethlehem	Under Way	200,000	Las Vegas Sands Corp.	3Q 2009
Summit Lehigh Valley Shopping Center	Freemansburg Ave. & Rt. 33	Bethlehem	Planning	700,000	Bayer Properties	N/A
Commons Shopping Center	Rt. 248 & Corrierte Rd.	Lwr. Nazareth	Planning	235,000	Regency Centers	N/A
Multi-tenant Retail Project	MacArthur & Mickley Rds.	Whitehall	Planning	195,000	Regency Centers	N/A
Target	Freemansburg Ave. & Rt. 33	Bethlehem	Planning	145,000	Target Stores Inc.	N/A
Best Buy	Freemansburg Ave. & Rt. 33	Bethlehem	Planning	30,000	Best Buy Inc.	N/A
Strip Mall	Jandy Blvd. & Rt. 191	Lwr. Nazareth	Planning	12,000	J.G. Petrucci Inc.	N/A

* Selected projects

N/A: No completion date available

- Builders brought 326,000 square feet of retail space online in 2007. Developers are expected accelerate their efforts and bring 703,000 square feet online this year, all of which is scheduled to arrive in the fourth quarter.
- Mirroring the increase in construction this year, developers continue to add projects to the planning pipeline. There are nearly 30 projects in the design phases, totaling more than 4.3 million square feet.

Retail Sales Highlights**

Sale Date	Tenancy	Property Name	Address	City	Sales Price	Square Feet	Price per Square Foot
05/15/07	Single	Rite Aid	1405 W. Tilghman St.	Allentown	\$5,561,112	14,564	\$382
05/30/07	Multiple	Retail Property	4330 Lehigh Dr.	Walnutport	\$1,000,000	21,600	\$46
05/31/07	Single	Former Pizza Hut	2302 Union Blvd.	Allentown	\$535,000	2,275	\$235
07/03/07	Multiple	Dorneyville Shopping Center	3245 Hamilton Blvd.	Allentown	\$14,300,000	106,843	\$130
07/18/07	Single	Retail Property	1826 W. Tilghman St	Allentown	\$825,000	7,840	\$105
07/31/07	Multiple	The Shoppes at Hellertown	25 Main St.	Hellertown	\$5,300,000	58,995	\$90
11/27/07	Single	Retail Property	580 S. Broad St	Nazareth	\$591,460	2,485	\$238
11/28/07	Single	Ragona's Lighthouse	1547 Lehigh St	Allentown	\$698,500	6,800	\$103
01/09/08	Single	Pizza Hut	1010 Chestnut St	Emmaus	\$591,460	2,398	\$247
01/09/08	Single	Retail Property	3940 Nazareth Pk.	Bethlehem	\$1,795,538	6,252	\$287
02/08/08	Single	Sherwin-Williams	1751 Stefko Blvd.	Bethlehem	\$638,810	5,602	\$114
03/18/08	Single	Lowe's (Ground Lease)	2650 MacArthur Road	Whitehall	\$13,216,750	166,610	\$79

* Selected transactions

- Extrapolating meaningful sales velocity and pricing trends is difficult given the small pool of both single- and multi-tenant sales last year. In 2007, single-tenant retail assets sold from \$103 per square foot to \$556 per square foot, while multi-tenant properties traded from \$46 per square foot to \$130 per square foot.