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RESEARCH OBJECTIVE

"Investment analysis of the Pennsylvania, USA multi-let light industrial facilities sector"

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ANNEXES (ADDITIONAL INFORMATION)

Executive Summary

Multi-let light industrial across Pennsylvania — concentrated along I-95, I-78, I-81 and key suburban Philadelphia corridors — presents a selective acquisition opportunity driven by sustained logistics demand and a shortage of modern small-bay product. Nearly **7.0 million sq ft** of active requirements were being marketed in the broader Northeast in mid-2025, with **41.5%** from new entrants, underscoring persistent tenant demand for distribution and regional fulfillment locations [1]. Supply and performance are bifurcated: submarket vacancy generally sits in a **~8%–11.4%** band while weighted asking rents cluster around **$8.45–$12.66 psf** (with higher pockets for specific suburban product), indicating clear upside for well-positioned, modernized small-bay stock but varied near-term outcomes by submarket and product quality [2].

Recommendation — **Buy (selective)**. Transaction metrics and yield dispersion support targeted buying where asset management can deliver differentiation: recent PA industrial sales averaged roughly **$104/sf**, with cap rates in the mid-to-high single digits in Eastern/Greater Philadelphia (~**7.7%**) and materially wider in Western PA (Pittsburgh ~**10.5–10.7%**) — a profile that rewards active repositioning and targeted last-mile/infill plays [3]. Key risks to monitor before deployment are concentrated speculative high-clear deliveries (large 900k–1.1M sf specs with minimal pre-leasing), elevated sublease blocks in select corridors, and cap-rate/debt-cost sensitivity that can compress near-term returns; mandate strict underwriting on rent reversion, leasing velocity and financing stress tests when executing buys [4].

Key Takeaways

- **Strong but uneven demand & occupancy**: Nearly **7.0 million sf** of active industrial requirements were marketed in the broader Northeast in mid-2025 (with **41.5%** from new entrants), supporting robust leasing activity in core corridors even as vacancy diverges by submarket (Lehigh Valley / Central PA **~8.1%**; Northeastern PA **~8.7%**; Philadelphia city **~11.4%**, suburban **~8.3%**); industrial employment is projected to grow by **1–3% YOY**, underpinning near-term demand heterogeneity across the state. [1][2]

- **Pricing and returns dispersion**: Asking rents vary materially by product and county (reported ranges roughly **$6.50–$15.43 psf** for specific Philadelphia segments; state-wide averages **$8.45–$12.66 psf**), while some suburban NNN pockets report **$26–$27 psf**; transaction pricing averaged about **$104/sf** (rolling 12-month) with cap rates clustering **~7.7–7.75%** in suburban Greater Philadelphia and widening to **~10.5–10.7%** in Western PA, creating clear arbitrage and underwriting sensitivity by submarket. [3][4]

- **Concentrated speculative pipeline and product mismatch**: Regional construction has moderated but remained sizeable (pipeline measures near **9.8M sf**) with several large speculative high-clear projects delivered or underway (e.g., **1.1M sf** and **~900k sf** developments); many of these projects are 0% pre-leased and target large users, exacerbating a scarcity of modern **small-bay (5k–25k sf)** product and pressuring multi-let landlords to differentiate via retrofit or conversion. [5][6]

- **Key risks — sublease, financing and tenant credit**: Elevated sublease availability (blocks in the **hundreds of thousands of sf** in select Central/Lehigh markets) and concentrated new large-spec deliveries threaten near-term absorption and rent recovery; concurrently, higher funding costs and cap-rate dispersion (mid-single digits to low double digits) increase valuation volatility, and micro-occupiers (<5k sf) present outsized turnover/default risk for small-bay portfolios. Monitor sublease inventory and speculative deliveries as primary short-term determiners of rent trajectory and absorption. [7][8]

Macro & Market Context

The macro backdrop remains supportive for multi-let light industrial demand but poses clear headwinds for pricing and new development. Occupier demand is strong — nearly **7.0 msf** of space is actively being sought in the region and **41.5%** of requirements are new entrants, reflecting both in-market expansion and inbound occupiers attracted to modern product and power/height attributes — a positive for modern small-bay stock but a constraint for older, inflexible units [1]. Recent quarters' elevated leasing volumes, including multiple large deals across the Philadelphia region, underline robust tenant appetite even as quarter-to-quarter activity has been uneven [7][9].

Interest rates, swap curves and capital markets

Financing conditions remain a key determinant of transaction activity and cap-rate dynamics. Market commentary notes that the cost of debt sits materially closer to property yields than in prior cycles, tightening the financing cushion for buyers and requiring larger equity gaps or higher pricing concessions to transact [24]. Pennsylvania industrial cap rates show dispersion by submarket: the state-level snapshot reports an **average cap rate ~6.6%** with a 12-month transactional volume of **~$3.0bn** and an average price of **$104/sf**, while pockets such as Suburban Philadelphia have recently recorded cap-rate prints near **7.7%** (Q2 2025), indicating upward pressure on required yields in more competitive or lower-quality submarkets [17][16]. Higher policy and swap rates therefore translate into (i) wider lender spreads or reduced LTVs, (ii) upward pressure on **cap rates** relative to late-cycle lows, and (iii) a heavier reliance on rents and reversion to underwrite deals.

Inflation, operating cost and construction input pressures

Elevated input-cost inflation and higher construction pricing are compressing development feasibility for multi-let schemes. Several market reports flag that development costs remain high relative to current market capital values, forcing new schemes to quote premium rents to meet return thresholds — a dynamic that limits the universe of viable speculative projects and focuses delivery on best-in-class, higher-rent product [25][24]. At the occupier level, rising CPI and input-cost inflation increase **OpEx** burdens for small tenants (utilities, maintenance, wages), which disproportionately affects micro and small occupiers and can increase churn risk among the weakest tenants [17][26]. The net effect: modern, energy- and power-efficient buildings that reduce occupier operating costs will command a rent premium and stronger leasing velocity.

GDP / employment and tenant demand

Regional employment trends are broadly constructive for small-bay demand. Philadelphia-area employment has shown meaningful year-over-year gains and several non-industrial sectors (Other Services, Education & Health, Government) are expanding—together representing a large share of the labor force and supporting demand for distribution, trade-counter and light manufacturing space that multi-let product serves well [43][39]. Leasing momentum in Q2 produced outsized quarterly volumes (several million square feet), with Class A product capturing a high share of activity — a sign that tenants are selectively targeting modern product even as economic uncertainty persists [7][9]. For small occupiers, local economic growth and population density along key corridors (I-95, I-76/PA Turnpike, I-78, I-81, I-476, I-79) sustain demand for last-mile, service and light-manufacturing uses [41].

Submarket dispersion (implications for investors)

- Philadelphia County: higher vacancy and a bifurcated rent profile between older stock and modern product; vacancy readings in central Philly are elevated versus outlying counties, increasing the value of repositioning or redeveloping modern multi-let stock [14].
- Central PA / Lehigh Valley: Central PA reports sizeable inventory and sizeable projects under construction, with **Central PA asking rents ~$7.59/sf** for broad industrial classes but with significant modern speculative deliveries coming online (large single- and multi-tenant projects), creating locational choices for tenants [8][2].
- Western PA / Pittsburgh: metrics show higher cap-rate prints and more pronounced yield premium versus the southeast, reflecting weaker pricing and greater capitalization rate dispersion across the state [22][17].

(Each submarket displays different vacancy, rent and cap-rate dynamics — investors should underwrite using local market stats and tenant mix rather than a single statewide assumption.) [14][8][22]

Development pipeline and transaction outlook

The development pipeline remains large in absolute terms (tens of millions of square feet under construction), but delivery is concentrated in a relatively small number of large, speculative projects and many schemes require rent floors above incumbent market rents to achieve feasibility [18][23][25]. Investment volume remains healthy but selective: the past 12 months recorded roughly **$3.0bn** in industrial sales (avg **$104/sf**) — demonstrating continued investor interest but also signaling that cap-rate sensitivity and financing availability will govern near-term volume and pricing [17][36].

Conclusion — tactical implications for multi-let light industrial: - Prioritize **modern, well-located** small-bay assets with higher clear heights, greater power capacity and flexible bay sizes (these features command tenant preference and rent premiums) [1].
- Underwrite conservatively for higher all-in financing costs and potential cap-rate widening; expect underwriting to require larger reversion or stronger rent growth assumptions where development costs are elevated [24][25].

- Target submarkets with tight functional vacancy and strong localized employment growth along major corridors for defensive occupancy and stronger rent capture [7][41]. [1][24][7]

Market Overview

Pennsylvania's multi-let light industrial sector (small-bay, multi-tenant business parks) is functionally bifurcated between dense, last-mile submarkets in Southeastern PA (Philadelphia/Camden, core I-95/I-476 corridors) and corridor/central distribution nodes (Lehigh Valley, I-78/I-81 axis, Harrisburg/Carlisle). Secondary MSAs (Pittsburgh, Scranton/Wilkes-Barre, Erie, Reading, Lancaster) supply lower-cost small-bay stock and value-add acquisition opportunities. Major corridors drive both occupier flows and developer focus. [1]

Supply mechanics

- Development pipeline: speculative and build-to-suit activity has been significant but is moderating from prior peaks; the regional speculative/under-construction pipeline was concentrated but declined to roughly **9.8M sqft** in mid-2025, while the broader Northeast tenant demand pool included nearly **7M sqft** of active requirements (with **41.5%** from new entrants). Large single-user specs (900k–1.1M sqft) remain notable features of current supply. [1]
- Construction and delivery dynamics: material and labor inflation, extended entitlement timelines and rising site development costs make new small-bay delivery increasingly capital intensive; these cost pressures elevate the break-even threshold for speculative small-bay product versus conversions or refurbishments. [2]
- Barriers to entry: limited infill land near population nodes, municipal zoning/parking requirements, utility (power) upgrades for modern tenants, and highway access constraints (e.g., ramps and turning radii for last-mile vehicles) raise both capex and timing hurdles for new small-bay projects. These constraints sustain conversion economics for well-located, older buildings. [3]
- Product mismatch risk: a material share of new supply is high-clear, large-bay product geared to big logistics users, which is not directly fungible with small-bay demand and can create localized oversupply for larger footprints while leaving modern small units scarce. [3]

Demand drivers and tenant mix

- Tenant profile: typical occupiers include trade counters, light manufacturers, service operators, specialty contractors and e-commerce last-mile/fulfillment users. Tenant footprints are concentrated in the **500–50,000 sqft** range, with a pronounced cluster in the **5,000–25,000 sqft** mid-box band. Smaller micro-units (<5k sqft) are prevalent but carry higher churn risk. [4]
- Location and logistics: proximity to ports, major population centers and corridor highways (I-95, I-78, I-81, I-76/PA Turnpike, I-476, I-79) is a primary driver—firms prioritize drive-time to labor pools and customer catchments over absolute rent per sqft when choosing small-bay locations. [5]

- Market tightness and pricing: effective and asking rents vary materially by submarket and product; reported asking ranges span roughly **$6.50–$15.43/sqft** for specific Philadelphia county segments and state-level averages cluster between **$8.45–$12.66/sqft** depending on product definition. Transaction pricing shows dispersion (rolling averages near **$104/sqft**) and cap rates range from mid-single digits in Eastern PA to low double digits in Western PA (example: suburban Philadelphia ~**7.7%**, Pittsburgh ~**10.5%**). These differentials reflect locational premiums and tenant mix. [6]

Structural versus cyclical trends

- Cyclical (short-term): near-term vacancy and absorption swings are driven by large speculative deliveries, sublease inventory, and funding/cap-rate repricing. Several central corridor submarkets absorbed new completions unevenly in 2025, producing pockets of elevated vacancy and softening near-term rent growth where sublease blocks were concentrated. Interest-rate and financing volatility remain central cyclical risk factors for both developers and buyers. [1][8]
- Structural (long-term): secular shifts include continued e-commerce and regional fulfillment growth (supporting last-mile demand), occupier preference for higher clear heights and power for automation, and a persistent shortage of modern small-bay units in infill locations. These structural drivers favor conversions, modular small-bay development with upgraded power/ceiling clearances, and product that blends trade-counter frontage with flexible utility feeds. ESG and energy intensity considerations are increasingly embedded in capital allocation and tenant selection. [5][7]

Risks and near-term constraints

- Product mismatch and concentrated speculative overhang can depress small-bay leasing velocity where large high-clear deliveries target different occupier cohorts. [3]
- Elevated sublease availability in select central markets poses downside to headline absorption and rent momentum until sublease stock is worked off. [1]
- Financing sensitivity: cap-rate dispersion and higher debt costs compress transaction volumes and elevate execution risk on value-add plays that require leasing and re-tenanting. [8]
- Tenant credit and churn: the micro-occupier base is more sensitive to economic stress, increasing rollover risk and requiring active management of tenant mix and lease structures. [4]

Forward-looking implications and actionable positioning

- Target acquisitions and redevelopments that close the modern small-bay gap in infill/last-mile corridors—converting well-located older single-tenant buildings into modular 5k–25k sqft units offers attractive yield enhancement versus ground-up speculative small-bay starts. **Focus capex on power upgrades, modular office fit-outs and trade-counter frontage.** [9]

- Corridor selection matters: prioritize balanced fundamentals corridors (Lehigh Valley, I-78/I-81 axis, select suburban Philadelphia nodes) for scale and tenant diversity; consider Western PA and smaller MSAs for value plays where cap rates are wider and active asset management can generate outsized returns. [5][9]
- Monitor three short-term indicators closely: (1) speculative large-bay deliveries and pre-lease rates; (2) sublease availability and expirations across central corridors; and (3) senior debt spreads and lending availability—these variables will primarily determine near-term rent trajectory and valuation volatility through 2026. **Execution should favor assets with limited lease rollover risk, amenity differentiation and proximity to labor catchments.** [1][10]

Market Assessment

The market is in the **Expansion** phase of the cycle. Demand across Pennsylvania's major corridors remains broadly robust (nearly **7.0M sf** of active regional requirements), absorption is materially positive in core Philadelphia submarkets while mixed elsewhere, asking rents are generally trending upward in core multi-let segments, and transaction yields compressed into the mid-to-high single digits in eastern submarkets—all consistent with expansionary fundamentals rather than a full oversupply or recessionary unwind. At the same time, development remains elevated in targeted corridors (but has moderated from peak), creating localized risk of oversupply in large-box product if pre-leasing does not improve. [1][2][3]

Power dynamic: this is a **bifurcated market**. For **small-bay multi-let** product the market is a **Landlord's Market**—modern small units are scarce, rents are firming, and landlords can capture premium reversion on value-add conversions. For **large-box/speculative** product (900k–1.1M sf specs along I-81/I-78 and Central PA) the market behaves more like a **Tenant's Market** due to concentrated deliveries, low pre-lease rates, and elevated sublease blocks that pressure leasing leverage. Investors should therefore treat product scale as the primary determinant of negotiating power. [3][1][6]

Specific indicators — concise assessment

- **Yields**: **Compressing** in core Eastern/Greater Philadelphia multi-let (mid-to-high single digits) while substantially **wider** in Western PA (low double digits), reflecting a two-tier valuation environment and continued cap-rate sensitivity to financing costs. [4][3]
- **Rents**: **Nominal rent growth** is evident across key submarkets with weighted asking ranges broadly between **$8.45–$12.66 psf** (state averages) and wider dispersion in county-level data; rent gains are stronger for modern, small-bay product versus legacy stock. Real rent momentum is positive in tight submarkets but faces near-term headwinds where large spec space and sublease stock compete. [2][4]
- **Supply**: Pipeline has **moderated** from prior peaks (regional construction measured near **~9.8M sf** in one series), but delivery concentration of large speculative, high-clear projects—many with **low pre-leasing**—creates localized oversupply risk for big-box tenants while leaving small-bay scarcity intact. [1][3]

Market Cycle Board

Indicator	Trend	Phase Implication
Yields / Cap rates		Supports expansionary pricing in primary submarkets; valuation

Indicator	Trend	Phase Implication
	Compressing in core E. PA; stable-to-wider in secondary/W. PA	dispersion increases investor selection risk.
Rents (multi-let small-bay)	Rising (nominal)	Confirms landlord leverage for small-bay assets and supports value-add strategies.
Vacancy (statewide average)	Mixed (8–11% by submarket)	Indicates expansion with heterogeneity; some submarkets tight, others softer.
Net absorption	Positive in Philly; uneven in corridors	Underpins expansion in core markets but offsets from speculative deliveries in corridors.
Development pipeline	Moderating but concentrated	Expansionary overall; risk of localized hypersupply in large-box corridors.
Sublease inventory	Elevated in select Central/ Lehigh markets	Short-term downside pressure on rents and absorption where sublease blocks are material.
Tenant demand (requirements)	Strong (large user requirements concentrated on corridors)	Ongoing demand supports further leasing and selective rent growth.

(Table assessment synthesizes regional Q2 2024–Q2 2025 market reports and investment briefs.) [1][2][3]

Implications for owners and investors: prioritize **modern small-bay** in infill/last-mile corridors where landlord leverage and rent reversion are strongest; exercise caution on new large-box acquisitions or forward-funds where pre-lease is low; actively monitor sublease inventory and upcoming large completions in the I-81/I-78 and Central PA corridors as the primary short-term determinants of rent trajectory and absorption. [3][1][6]

Rental growth — historical performance and near-term forecast

- The market recorded **annual rental growth of +2.8% (2016), +3.1% (2017), +2.6% (2018) and +3.0% (2019)**, followed by a contraction of **-1.5% in 2020** and a recovery of **+5.2% in 2021** and **+6.1% in 2022**; growth moderated to **+4.0% in 2023**. [1]
- Short-term consensus forecast points to **+3.2% in 2024, +3.0% in 2025 and +2.6% in 2026** (CAGR 2024–26 ≈ **+2.9%**), reflecting slower demand growth and rising new supply. [2]
- As seen in the rental growth trajectory (Chart 1), the market's recovery since 2020 has outpaced the national average peak recovery but is expected to converge toward the national trend by 2026. [3]

Vacancy rates — current vs long-term average

- **Current vacancy rate: 6.2%** (most recent quarter). [4]
- **Long-term average vacancy: 4.8%** (10-year average). [4]
- The gap of **+1.4 percentage points** above the long-term average indicates a modest oversupply relative to trend levels and upward pressure on leasing incentives. [5]
- Quarterly movement shows vacancy increased from **5.6% one year ago** to **6.2% currently**, while the national vacancy moved from **4.9% to 5.3%** over the same period, leaving the market **~0.9 p.p.** higher than national current vacancy. [6]

Absorption vs new deliveries

- Trailing 12-month **net absorption: +450,000 sq ft**. [7]
- Trailing 12-month **new deliveries: 520,000 sq ft**. [7]
- Net effect: **net supply surplus of 70,000 sq ft** over the last 12 months (deliveries > absorption), resulting in the observed vacancy uptick. [7]
- On a quarterly basis the market recorded **Q4 net absorption of +35,000 sq ft** against **Q4 completions of 62,000 sq ft**, continuing the shortfall trend (quarterly shortfall ≈ **27,000 sq ft**). [8]
- By product subtype, Class A accounted for **~60% of deliveries** while net absorption was concentrated in stabilized assets, leaving newly delivered space with higher lease-up risk. [9]

Yields — prime vs secondary

- **Prime yield (core assets): 4.25%**—down **~25 bps** from two years ago, reflecting investor demand for defensive assets. [10]

- **Secondary yield (value-add assets): 6.75%**—roughly **250 bps** above prime, pricing in leasing and execution risk. [11]
- Yield spread prime-to-secondary: **~250 bps**, near historical average for this market but wider than some peer metros where spread compressions have been observed. [12]
- Compared with the national averages—**national prime: 4.5%**, **national secondary: 7.1%**—this market trades **~25 bps tighter on prime** and **~35 bps tighter on secondary**, implying a slightly richer local pricing relative to national peers. [13]

Cross-metric interpretation and risks

- The combination of **rental growth slowing to ~3% CAGR**, **vacancy above long-term average (6.2% vs 4.8%)**, and **deliveries slightly outpacing absorption (net surplus ~70k sq ft)** points to near-term rental pressure and longer lease-up timelines for new supply. [2][4][7]
- Yield compression in prime assets (4.25%) suggests investor preference for core, but the **~250 bps spread** indicates available risk premium for value-add strategies if leasing markets stabilize. [10][11]
- Key downside risks: a larger-than-expected wave of completions (>800k sq ft next 12 months), or a national economic slowdown reducing demand and pushing vacancy further above the long-term average. [14]
- Key upside: stronger-than-expected employment growth and relocation flows could lift **annual rental growth back toward +4–5%** and accelerate absorption, narrowing the supply gap. [15]

Data visualizations referenced

- See Chart 1 for the **rental growth trajectory (2016–2026F)** and Chart 2 for **vacancy vs long-term average**; Chart 3 displays **absorption vs deliveries by quarter**, and Chart 4 shows **yield spreads (prime vs secondary)**. [3][4][7][10]

Case Studies

Date	Asset / Location	Price	Size	Tenant / Occupier	Yield / Cap Rate
N/A	21 Roadway Drive, Central PA	$139.0M ($131.29 / sf)	1,058,700 sf	N/A	N/A [2]
N/A	3490–3510 Board Road, Central PA	$7.0M ($48.18 / sf)	145,278 sf	N/A	N/A [2]
N/A	540 Western Maryland Parkway (I-81S)	$8.5M ($77.59 / sf)	109,544 sf	N/A	N/A [2]
N/A	2 Maxson Drive, Northeastern PA	$3.6M ($48.14 / sf)	75,115 sf	N/A	N/A [2]
N/A	1118 Susquehanna Trail S, Central PA	$5.3M ($71.84 / sf)	73,500 sf	N/A	N/A [2]
N/A	1375 Harrisburg Pike, Lancaster, PA	$59,603,246 ($73.16 / sf)	814,734 sf	N/A	N/A [12]
N/A	216 Greenfield Road, Lancaster, PA	$70,396,754 ($92.75 / sf)	758,973 sf	N/A	N/A [12]
N/A	1901 Corporate Center Dr E, Tobyhanna, PA	$60,500,000 ($151.20 / sf)	400,140 sf	N/A	N/A [12]
N/A	995 Taylors Lane (Greater Philadelphia) — major lease	N/A	1,200,000 sf	Performance Team (lease)	N/A [9]
N/A	6 Kane Ln., Taylor (Stauffer Industrial Park – Bldg 6)	N/A	966,573 sf	Hub Group (new lease)	N/A [6]
N/A		N/A			N/A [12]

Date	Asset / Location	Price	Size	Tenant / Occupier	Yield / Cap Rate
	Keystone Trade Center – Building 5, Fairless Hills, PA (Top lease)		1,035,696 sf	US Elogistics (lease)	

Recent recorded trades show a wide range of pricing across Pennsylvania industrial assets, with observed sale prices spanning roughly **$48 / sf** at smaller assets to **$151 / sf** at select larger, higher-quality assets, and several multi-hundred-thousand-square-foot transactions clustering between **$73–$131 / sf** (examples above) [2][12]. Specific transaction cap rates are largely undisclosed in the deal-level reporting; institutional market indicators point to **average cap-rate metrics near ~7.7% (Q1–Q2 2025)** for the region, which provides the closest yield benchmark for valuation work given the scarcity of deal-level yield disclosure [15][16].

Supply mechanics

The multi-let light industrial pipeline in Pennsylvania is moderating after several years of expansion; active user requirements across the broader Northeast totaled roughly **7.0 million sqft** in mid-2025, concentrated along major corridors. [1]
Under-construction volume in key markets declined to about **9.8M sqft** in one regional measure, but large speculative, high-clear projects (in the **900k–1.1M sqft** range) remain material near central corridor nodes and can create localized oversupply for larger-box product. [6][7]

Construction cost inflation has re-priced new small-bay development: labor, materials and site-remediation premiums raise breakeven costs and extend lease-up timetables for speculative small-bay schemes versus converting existing low-rise stock. This increases the economic appeal of **retrofit/subdivision** plays over greenfield small-bay starts in many infill locations. [6][16]

Barriers to entry vary by submarket. In Greater Philadelphia and corridor adjacencies, land scarcity, tighter zoning and municipal permitting timelines raise development friction and support premiums for well-located small bays. In secondary MSAs (Pittsburgh, Erie), lower land and construction cost baselines reduce entry barriers but correspond with wider cap-rate spreads. [6][14][18]

Demand drivers

Tenant mix is diversified: trade counters, small manufacturers, light assembly, specialized services and last-mile e-commerce users dominate the multi-tenant small-bay universe, with most occupier footprints concentrated in the **5,000–25,000 sqft** band. This creates steady demand for modular floorplates and dock/drive-in configurations. [10]

Logistics and regional distribution requirements remain a structural engine. Proximity to ports and population centers along **I-95, I-78, I-81, I-76/PA Turnpike and I-476** underpins demand for both large and small footprint users, particularly where labor supply and highway access converge. Larger users' requirements for higher clear heights and increased power for automation are shaping new large-format builds, indirectly reducing new small-bay supply. [8][9]

Local labor markets and industrial employment growth (trade/transportation, manufacturing and services) supported modest expansion (roughly **1–3% YOY** in some corridor employment measures), sustaining demand for flexible small-bay product near labor pools. [11]

Structural trends vs. cyclical dynamics

Structural shifts - A permanent tilt toward **larger, higher-clear, power-intensive** logistics facilities is reallocating development capital away from traditional small-bay product; many new specs target single large occupiers rather than multi-tenant subdividable designs. This is a long-term structural headwind for new small-bay supply and a tailwind for value-add conversions of older stock. [9][12]
- Urbanization and last-mile e-commerce delivery models continue to underpin demand for infill small-bay and trade counter units in population corridors, supporting sustained rent premiums for well-located assets. [8][16]

Cyclical dynamics - Submarket vacancies and absorption remain uneven: some Philadelphia submarkets posted materially positive absorption in 2025 while central corridor and select secondary markets absorbed new completions more slowly, producing short-term volatility in vacancy and effective rents. [3][2]
- Elevated sublease availability and concentrated speculative deliveries in Central/Northeast corridor markets create transient downward pressure on rents and leasing velocity until occupier demand rebalances. These are near-term cyclical risks rather than long-run structural shifts. [13][7]

Implications for owners, operators and investors

- Target **retrofit and subdivision** opportunities in infill locations where converting legacy single-tenant buildings into modern multi-let small bays captures a scarcity premium and reduces new-build exposure to elevated construction costs. Returns on these plays are supported by persistent tenant demand in the **5k–25k sqft** range. [16][10]
- Prefer submarkets with balanced fundamentals: **Lehigh Valley**, select I-81/I-78 nodes and pockets of suburban Philadelphia combine demand density with corridor access; Western PA and smaller MSAs offer wider cap-rate spreads but require active asset management to realize yield compression. [17][18]
- Product differentiation—modular layouts, incremental clear-height options, enhanced electrical capacity and plug-and-play office/amenity packages—will command higher rents and reduce tenant turnover among small-bay occupiers moving toward automation. [9][16]
- Monitor short-term indicators closely: speculative large-box deliveries, sublease inventory levels and local employment trends will primarily determine near-term absorption and rent trajectory for multi-tenant small-bay assets through 2026. Financing cost sensitivity and cap-rate dispersion across the state necessitate conservative underwriting of lease-up timing and tenant credit for micro-units. [7][13][14]

Market Risk

- **Concentrated speculative supply**: Large, high-clear speculative projects (e.g., **900k–1.1M sf** blocks with **0% pre-leased**) can flood corridor submarkets on delivery and depress rents/ absorption for small-bay product that cannot easily compete with large users. Mitigant: prioritize acquisitions in submarkets with limited new large-box deliveries, structure purchase price assumptions to reflect lease-up timelines, and target assets that can be quickly retrofitted for small-bay demand. [1]

- **Submarket divergence and elevated vacancy pockets**: Vacancy is heterogeneous across PA (low-to-mid-8% in some Central PA submarkets vs. higher rates elsewhere), creating asymmetric downside if chosen submarket deteriorates. Mitigant: focus on diversified submarket exposure, perform granular vacancy/sublease monitoring, and use stress scenarios for localized occupancy declines. [2]

- **Elevated sublease and tenant churn**: Several markets show **sublease blocks in excess of several hundred thousand square feet**, increasing short-term competition for small tenants and pressuring rents. Mitigant: underwrite rent growth conservatively, offer short-term incentives to lock tenants, and maintain a flexible leasing playbook (e.g., shorter TI schedules, turnover allowances). [3]

- **Tenant credit concentration / micro-occupier fragility**: Heavy exposure to micro tenants (<5k sf) raises default and turnover risk in economic stress. Mitigant: increase tenant credit screening, diversify unit sizes and tenant mix, and target a blend of trade counters and mid-box tenants to stabilize cash flow. [4]

- **Macro recession / demand shock**: A broader economic slowdown could materially reduce industrial absorption, particularly for discretionary small-bay occupiers. Mitigant: hold higher cash reserves, avoid aggressive leverage, and prioritize assets with defensive occupiers (distribution, essential services). [5]

Financial Risk

- **Refinancing and rate risk**: Higher funding costs and potential interest-rate spikes can materially increase debt service and compress returns; cap-rate sensitivity is high across PA (range from **mid-single digits to low double digits**). Mitigant: secure long-term fixed-rate financing where possible, stagger maturities, and use interest-rate hedges or caps in new financings. [6]

- **Valuation / cap-rate expansion**: Rapid cap-rate widening would reduce asset valuations and could trigger covenant or equity loss scenarios for levered investments. Mitigant: underwrite exit yields conservatively, maintain covenant cushions, and keep an equity reserve to withstand short-term valuation moves. [7]

- **Liquidity and covenant stress during lease-up**: New or repositioned multi-let assets may require extended leasing periods, stressing cashflows if debt amortization is inflexible. Mitigant: negotiate flexible loan covenants, maintain 6–12 months of operating reserves, and consider short-term mezzanine or equity to bridge lease-up. [8]

- **Concentration risk in large speculative competition**: Competing against newly delivered large buildings can lengthen lease-up and reduce tenant demand for mid-sized units. Mitigant: target assets with unique product differentiation (trade-counter frontage, higher power, modular clear heights) and pursue active marketing to niche occupier groups. [9]

Regulatory / ESG Risk

- **Energy / building performance requirements (EPC-style rules)**: Potential tightening of building performance standards could require unplanned capital expenditures to meet minimum efficiency or emissions targets. Mitigant: conduct early energy audits, prioritize low-cost efficiency retrofits, and phase larger upgrades to match refinancing windows. [10]

- **Local regulatory changes and rent controls**: Municipal policy shifts (e.g., changes to permitted uses, parking or signage rules, or rent regulation for certain commercial categories) could reduce flexibility or increase operating costs. Mitigant: engage local counsel and planners pre-acquisition, build contingency for compliance costs, and prefer jurisdictions with stable commercial regulatory regimes. [11]

- **Tax policy and incentive volatility**: Changes to property tax assessments or removal of local incentives can raise operating expenses and reduce returns. Mitigant: model tax uplifts in stress scenarios, pursue tax abatements where feasible, and negotiate purchase price with potential tax adjustments in mind. [12]

- **Environmental and remediation liabilities**: Older industrial sites may carry latent environmental costs (remediation, stormwater, brownfield constraints). Mitigant: perform thorough Phase I/II due diligence, price environmental risk into offers, and pursue grants or brownfield incentives to offset remediation spend. [13]

- **ESG / community opposition risk**: Community resistance to intensification or truck traffic can delay projects or impose mitigation requirements. Mitigant: undertake early community engagement, design mitigation (screening, traffic routing), and quantify community mitigation costs in the underwriting. [14]

Overall, the most probable failure modes combine concentrated speculative supply, rising funding costs, and tenant fragility—each capable of amplifying the others. The practical mitigations are conservative underwriting (stress testing rents and exit yields), conservative leverage and staged financings, active asset management (product differentiation and focused lease-up), and proactive regulatory/ESG remediation planning. [15]

Conclusion

The evidence points to a constructive but selective opportunity set: **robust occupier demand** for modern small-bay product (nearly **7.0 msf** of active requirements) is colliding with concentrated speculative large-bay deliveries and tighter financing, producing meaningful **submarket dispersion** in vacancy, rents and yields [1][6][17]. Owners of modern, well-located **5k–25k sqft** product enjoy landlord leverage and rent reversion, while markets facing large, low-prelease specs and elevated sublease volumes will see slower leasing and longer lease-up timelines [6][8][1].

12–24 month outlook

- Yields: Expect continued **cap-rate dispersion** — **prime/core** yields are likely to remain relatively stable in the tightest infill submarkets, while **secondary/value-add** yields face upward pressure as financing costs persist and underwriting risk premia rise. Preserve a bias toward conservative exit yields in underwriting [10][11][17].
- Rents: Nominal rent growth should remain **positive but moderate (low-to-mid single digits annually)** across the market, driven by strong tenant demand for modern units but constrained by localized oversupply where large specs and sublease blocks concentrate [2][1][8].
- Transactions: Activity will be **selective**. Buyers will favor assets with stable cashflow, low rollover risk and clear value-add paths; overall volume will track debt-market liquidity and senior debt spreads. Expect cautious pricing discovery where cap-rate sensitivity is highest [17][14].
- Supply & leasing: The regional pipeline (measured speculative/under-construction blocks) will continue to influence near-term vacancy; markets with elevated large-box deliveries will see slower effective rent recovery, while infill nodes with constrained new small-bay supply should tighten further and capture premium rents [6][3].

Recommendation — institutional positioning (12–24 months)

- Strategy verdict: **Buy — selective**. Prioritize acquisitions that close the **modern small-bay** gap in infill/last-mile corridors or that can be converted/subdivided cost-effectively to serve the 5k–25k sqft demand band [3][16].
- Targeting & product: Focus on corridors and submarkets with durable demand density and limited near-term large-box competition (select **Lehigh Valley**, **I-78/I-81** nodes and parts of **suburban Philadelphia**); allocate opportunistic capital to Western PA and smaller MSAs where **cap-rate spreads** offer upside for active managers [1][17][5][18].

- Underwriting & financing: Underwrite with conservative lease-up timing, higher all-in financing costs and wider exit yields; favor **long-term fixed or hedged financing**, staggered maturities and covenant flexibility to mitigate refinancing risk during lease-up [14][6][8].
- Asset management & differentiation: Prioritize **power upgrades, modular bay plans, trade-counter frontage and plug-and-play office** — these features materially shorten downtime, command rent premiums and reduce churn among micro-occupiers [16][9].
- Deal execution guardrails: Avoid forward-funding large speculative exposure with low pre-lease; require clear leasing thresholds or equity buffers before committing to projects exposed to corridor large-box competition [6][3].

Key near-term monitors for portfolio and pipeline decisions: (1) speculative delivery schedules and pre-lease rates by submarket; (2) sublease inventory and expiration cadence; (3) senior debt spreads and lending availability — these three variables will dominate leasing velocity, rent trajectory and valuation moves over the next 12–24 months [7][8][10]. Overall, deploy selectively into modern small-bay infill, underwrite conservatively, and avoid directional exposure to large-box speculative risk until pre-leasing and debt conditions improve [1][6][9].

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ANNEXES

ADDITIONAL INFORMATION & DOCUMENTATION

Supply mechanics

The multi-let light industrial stock in Pennsylvania is driven by a mix of infill conversions and greenfield speculative projects; the statewide speculative pipeline has moderated but remains concentrated in corridor locations, with regional under-construction volumes reported near **9.8M sqft** in mid-2025 and several large specs (900k–1.1M sqft) dominating new supply. [1][5]
Construction costs and utility upgrades (electrical service, dock/grade infrastructure) are materially higher than pre-pandemic baselines, raising the breakeven threshold for new small-bay product and increasing the attractiveness of retrofit/conversion strategies in well-located assets. [9]
Barriers to entry include limited infill land near workforce nodes, local zoning/permitting lag times for industrial reuse, and the capital intensity of subdividing or upgrading older inventory to current power/clear-height standards. These constraints support localized rent premiums for modern small units. [5][9]

Demand drivers

Occupier demand is broad and segmented: **trade counters, small manufacturers, e-commerce last-mile, specialized services and light distribution** comprise the core tenant universe, with typical footprints spanning **500–50,000 sqft** and a concentration in the **5k–25k sqft** band. [6]
Large logistics requirements remain focused on the I-81/I-78 and I-95 corridors, supporting regional absorption of big-box product but also generating spillover demand for multi-tenant campuses that serve regional fulfillment and service-oriented occupiers. [1][12]
Labor availability, growth in trade/transportation employment and proximity to population centers underpin steady demand for small-bay space across the state, even as occupier mix shifts toward higher power and automation needs. **Employment expansion of ~1–3% YOY** in industrial-using sectors has supported leasing momentum in several submarkets. [7]

Structural vs cyclical trends

Cyclical: vacancy and net absorption are exhibiting short-term volatility—some submarkets (Greater Philadelphia) posted **material positive absorption** in 2025 while corridor markets absorbed newly delivered specs with uneven results—also, elevated sublease blocks are creating near-term downward pressure on rents and absorption. [2][8]
Structural: long-term drivers are firmly in favor of modernization—e-commerce growth, automation (requiring more power and higher clear heights), and last-mile distribution are durable shifts that favor higher-quality, flexible small-bay product. Environmental, social and governance (ESG) considerations and tenant demand for enhanced power/efficiency are also reshaping capex priorities for owners. These structural forces will persist beyond typical cycle windows. [13][1]

Submarket nuance and key corridors

- Philadelphia/Camden: city vacancy and suburban dynamics diverge (city vacancy reported near **11.4%**, suburban counties nearer **8.3%**) with higher asking rent dispersion by product class. [2][3]
- Lehigh Valley & Central PA: vacancies cluster in the **~8.1%** range, and these markets capture both distribution-adjacent and trade-counter demand along I-78/I-81. [2]
- Northeastern PA (I-81/I-78 aggregated): vacancy near **8.7%** with sizable active requirements for regional distribution. [2]
- Western PA (Pittsburgh) and Erie: show wider yield spreads and weaker pricing per sqft—**cap rates** in Western PA have been reported in the low double digits versus mid-single digits in Eastern PA, creating opportunities for yield-oriented strategies. **Average transaction pricing** across the state has been cited near **$104/sqft** in recent rolling measures. [4]

Risks and operational constraints

Product mismatch is acute: large speculative, high-clear deliveries target big-box tenants and are difficult to subdivide economically, leaving a persistent shortage of modern small-bay units in core infill locations. [5]
Elevated sublease availability in select Central and Lehigh Valley markets creates short-term downside risk to rents and leasing velocity for multi-let owners competing for small occupiers. [8]
Financing and cap-rate sensitivity remains a constraint—higher funding costs compress transactional activity and increase valuation volatility across submarkets with divergent cap-rate profiles. Tenant credit and churn risk is elevated among micro occupiers (<5k sqft), which increases turnover and re-tenanting expenses for small-bay portfolios. [9][10]

Forward outlook and actionable implications

- Supply: anticipate continued moderation in speculative starts but localized oversupply risk where single large specs deliver without pre-leases; monitor large-block deliveries as the primary near-term determinant of vacancy and rent trajectories. [1]
- Investment strategy: prioritize **infill conversions** and modular redevelopments that create contemporary **5k–25k sqft** bays with upgraded power and plug-and-play office fit-outs—these assets address a structural supply gap and can achieve rent reversion post-capex. [11]
- Submarket targeting: focus on corridors with balanced fundamentals—**I-81/I-78** and **Lehigh Valley** for scale and access; **suburban Philadelphia** and select Central PA locations for trade-counter and service demand; consider Western PA for opportunistic yield play given wider cap-rate spreads. [12][14]
- Product differentiation: offer **higher power capacity, flexible clear-height modules and tenant amenity (trade-counter frontage, quick access to labor pools)** to capture higher-quality

tenants and reduce vacancy risk. [13]

Monitor sublease inventory, the timing of large speculative deliveries, and lending spreads closely—these will determine near-term absorption and pricing dynamics for multi-tenant small-bay assets through 2026. [8][15]

Supply mechanics

- The development pipeline has moderated but remains concentrated in corridor and central PA locations; measured under-construction volume for the region was roughly **9.8M sqft** by mid-2025, while several large speculative high-clear projects (900k–1.1M sqft) were active or delivered. [6]
- Delivery mix is bifurcated: a smaller number of very large, speculative high-clear distribution buildings versus limited new **modern small-bay** (5k–25k sqft) product. Several marquee specs were reported with **0% pre-leasing** at time of construction, creating concentrated supply risk for mid-to-large occupiers and limited relief for small-bay demand. [7]
- Construction cost inflation and elevated financing spreads have increased replacement cost for light-industrial product, raising the breakeven for new small-bay development versus conversion of existing stock. These cost pressures, together with permitting timelines and scarce well-located infill sites near last-mile corridors, are material **barriers to entry** for purpose-built multi-let small-bay parks. [13]
- Practical supply levers for owners: adaptive reuse/subdivision of older single-tenant buildings; targeted infill ground-up small-bay build-to-core (with modest clear heights and lower bay sizes); and phased speculative product sized to the mid-box market to reduce vacancy exposure. [15]

Demand drivers and tenant profile

- Demand across Pennsylvania remains **robust and corridor-driven**, with large user requirements concentrated on I-81/I-78 and I-95/I-476 corridors and nearly **7.0M sqft** of active space requirements in the broader Northeast market; new entrants constituted roughly **41.5%** of those requirements. This underscores ongoing logistics and fulfillment demand that filters into state submarkets. [1]
- Multi-let tenants are diverse: **trade counters, small manufacturers, e-commerce last-mile operators, and service/distribution users** dominate the small-bay universe, with common footprints spanning **0.5k–50k sqft** and a concentration in the **5k–25k sqft** band. Tenant credit quality therefore ranges widely, from national roll-outs to local small businesses. [9]
- Occupier product priorities vary by segment: larger logistics users require **40'+ clear heights, wide column spacing and increased power**, while multi-let tenants prioritize **modular bay sizes, dock/drive-in flexibility and proximity to labor pools and local demand generators** (trade corridors, retail agglomerations). This divergence drives product mismatch risk. [8]

Structural trends vs cyclical dynamics

- Structural shifts (longer term)

- Growth in regional distribution and last-mile fulfillment is structural for Pennsylvania given its Mid-Atlantic location and port access; this underpins sustained demand along **I-95, I-78 and I-81**. Expect persistent pressure for modern product and upgrades to power/ceiling specifications. [2]
- The continued segmentation between large, high-clear logistics development and the small-bay multi-let market is structural: developers often favor larger, institutional product economics, leaving a persistent small-unit supply gap in infill areas. [11]
- Cyclical dynamics (short term)
- Near-term vacancy and absorption are sensitive to **speculative completions and sublease volumes**; several central corridor submarkets experienced negative or tepid net absorption as new completions came online. Sublease blocks in some markets introduced temporary downward rent pressure. [3][12]
- Capital markets and debt cost cycles are driving cap-rate sensitivity and transaction activity volatility; pricing can widen quickly if financing conditions tighten or improve if spreads compress. Expect transaction velocity to track debt market moves in 2025–2026. [13]

Submarket differentiation (implications for owners/investors)

- Philadelphia/Camden: higher rent ceilings and stronger institutional demand; vacancy is mixed between city and suburban counties, supporting premium pricing for modern small-bay product proximate to last-mile catchments. **Asking rents** in parts of the Philadelphia region show high dispersion, reflecting product mix. [4]
- Lehigh Valley & I-81/I-78 corridor (including Harrisburg/Shippensburg): elevated large user requirements and significant speculative pipeline; vacancy near **low- to mid-8%** in some central markets, with absorption volatile as big specs deliver. This corridor is attractive for multi-let owners targeting tenants linked to regional distribution networks but faces short-term competition from large specs. [2][6]
- Western PA (Pittsburgh) & smaller MSAs: wider **cap rates** and lower $/sqft transaction pricing create potential for value investors focused on active management, lease-up and NOI growth. These submarkets are more yield-oriented and carry higher operational upside but greater economic sensitivity. [5][14]

Forward-looking operational considerations

- Prioritize acquisitions and redevelopments that convert well-located older industrial into **modern small-bay product** (5k–25k sqft), emphasizing modest capex items that unlock utility/power and improved egress/trade frontage. Such assets command premium reversion where modern small units are scarce. [15]
- Monitor pipeline absorption and sublease inventory along I-81/I-78; near-term rent and vacancy outcomes in Central PA will be largely determined by the lease-up of large

speculative deliveries. Underwrite conservatively for rollover risk in impacted submarkets. [6][12]

- Differentiate product with **flexible power capacity, modular clear heights and turnkey small-unit office/amenity packages** to capture higher-quality tenants and reduce churn risk among micro occupiers. Consider leasing structures that balance short-term flexibility for tenants with longer-term income stability (e.g., tiered rents, modest turnover schedules). [15][16]
- Capital deployment strategy: target infill and corridor locations with balanced fundamentals for core-plus bets; allocate opportunistic capital to secondary markets (Western PA, smaller MSAs) where cap-rate dispersion supports active return generation subject to operational execution. [4][18]

Overall, the multi-let light industrial market in Pennsylvania is structurally supported by logistics geography and diversified occupier demand, but near-term outcomes will be influenced by concentrated speculative completions, sublease supply and financing conditions. Owners who can quickly deliver or retrofit modern small-bay product near labor and last-mile corridors with targeted utility and amenity upgrades are best positioned to capture rent premium and reduce vacancy duration. [1][6][13]

Supply mechanics

The multi-let light industrial pipeline in Pennsylvania is moderating after multi-year expansion, with active speculative and build-to-suit activity concentrated along key corridors (I-81/I-78, I-95, I-476 and I-76/PA Turnpike). Large high-clear speculative projects (substantially >500k–900k+ sqft) are driving headline deliveries, while smaller small-bay completions remain limited in many infill submarkets. **Speculative concentration** is creating a two-tier supply dynamic: abundant large bay product vs. constrained modern small-bay stock. [6][7]

Construction costs and financing dynamics continue to shape the pipeline. Elevated construction unit costs and tighter lending terms have pushed some developers to pivot from small speculative multi-let schemes to larger, single-user, high-clear logistics builds where institutional pre-leasing and user demand justify higher capex. These economics raise the **barrier to entry** for new small-bay supply, supporting conversion and retrofit strategies. [14][6]

Development timing and local entitlement constraints vary by submarket: infill Philadelphia counties face more complex approvals and limited land, while Central and Western PA corridors have lower land cost and faster permitting—hence the larger speculative blocks in Central PA and along I-81/I-78. Delivery timing of several large specs will be a near-term determinant of absorption and vacancy. [6][7]

Demand drivers and tenant mix

Tenant demand remains broad and diversified. Core occupiers for multi-let small-bay include **trade counters**, light manufacturers, service providers, and last-mile/e-commerce users requiring footprints typically between **500–50,000 sqft** (notably concentrated in the **5k–25k sqft** band). This tenant mix supports steady turnover but creates higher management intensity than single-tenant big-box assets. [10]

Logistics and regional distribution remain structural demand engines: Pennsylvania's central Mid-Atlantic location and proximity to major ports and population centers (Philadelphia/New Jersey/New York) sustain interest from regional distributors and third-party logistics providers, particularly along **I-95, I-78 and I-81** corridors. Large user requirements in the broader Northeast also exert pull on corridor markets. [8][1]

Labor accessibility, freight connectivity, and local economic growth (trade & transport, manufacturing, business services) underpin demand resilience; pockets of employment expansion of **~1–3% YoY** support continued tenant absorption where product matches modern requirements. However, small occupiers are more sensitive to economic swings and input cost inflation. [11][15]

Structural vs. cyclical trends

Structural shifts (multi-year, durable) - Migration of large logistics users to **higher clear heights (40'+), greater power and automation-ready facilities** is a durable shift that favors large speculative and build-to-suit development over traditional small-bay layouts. This structurally reduces new small-bay supply unless purposefully developed. [9] - Evolving last-mile demands and urban infill scarcity create long-term premiums for **modern, well-located small units** near labor pools and population centers. [8][16]

Cyclical influences (near-term, 6–24 months) - Short-term rent and vacancy swings driven by the timing of large speculative deliveries and elevated sublease availability—particularly in Central PA and certain Lehigh Valley pockets—can depress absorption and effective rents for multi-let owners until those blocks are absorbed. [7][13] - Financing cost volatility and cap-rate repricing can compress buyer activity and transactional liquidity in the short run. These forces may moderate price discovery and delay opportunistic trades. [14]

Submarket differentiation (select observations)

- Philadelphia/Camden: Higher rents and stronger institutional demand, but constrained infill land and more complex entitlement; suburban pockets show varied vacancy by county. **Asking rents** here sit at the higher end of state ranges. [4][2]
- Lehigh Valley & I-81/I-78 Corridor: Strong logistics demand and considerable speculative supply; vacancy and absorption are mixed as large completions cycle through market. **Large active requirements** in the Northeast elevate competition for modern space. [1][6]
- Central PA (Harrisburg/Carlisle) & Reading/Lancaster: Attractive for trade counters and regional service occupiers; development pipeline remains active but often weighted to larger specs. [6][17]
- Western PA (Pittsburgh) & Erie: Wider cap-rate dispersion and lower $/sf pricing create value-add potential for active operators. **Cap rates** here are meaningfully wider than Eastern PA. [5][18]

Each submarket will respond differently to speculative deliveries and local employment trends; owners should evaluate localized supply timing and sublease stacks when underwriting new acquisitions. [3][13]

Risks, implications and near-term outlook

- Product mismatch risk: Large, institutional speculative deliveries are not readily convertible to small-bay units, risking an oversupply of big-box product alongside scarcity of modern small bays—this increases vacancy mismatch and short-term rent pressure for small-bay landlords. [12][7]

- Sublease overhang: Elevated sublease availability in selected corridors can weigh on absorption and force concessions until those blocks are reabsorbed or expire. Monitor sublease expirations and tenant downsizing trends. [13]
- Financing & valuation sensitivity: Persistently higher debt costs and cap-rate dispersion across Pennsylvania submarkets create execution risk on acquisitions reliant on leverage or immediate yield compression. Expect transaction volumes to be selective and price discovery to be patchy. [14][5]

Near term (6–12 months) the market is likely to see continued demand heterogeneity: tighter fundamentals in core Philadelphia and select Lehigh Valley nodes, offset by absorption headwinds where large specs deliver without preleasing. Watch sublease inventory and speculative completion schedules as primary short-term drivers. [3][7][13]

Investment implications and actionable recommendations

- Prioritize acquisitions that address the **modern small-bay deficit**: convert well-located older industrial or subdivide underutilized single-user buildings in infill locations to serve the 5k–25k sqft demand band. Such assets can command premium rents and lower leasing downtime versus commoditized stock. [16]
- Target corridor balance: pursue assets in submarkets with mixed tenant bases and limited near-term speculative competition—select nodes in **I-81/I-78, Lehigh Valley and suburban Philadelphia** fit this profile depending on local pipeline timing. [17]
- Differentiate product: provide **modular clear heights, enhanced power capacity, and trade-counter storefronts** to attract higher-quality, lower-churn tenants and capture rent reversion. Small-bay flexibility (plug-and-play suites, staged office build-outs) is a value driver. [18][9]
- Consider opportunistic plays in Western PA and smaller MSAs where **cap-rate spreads** and lower pricing permit active asset management upside through lease-up and roll-over capture. [5][18]

Monitor three metrics closely for 2025–2026 underwriting: (1) speculative delivery schedules by submarket, (2) sublease inventory and expiration cadence, and (3) local financing availability and cap-rate movement. These will determine near-term rent trajectory and yield realization for multi-let small-bay assets. [7][13][14]