

Eastern & Central PA

2022 finishes with record fundamentals despite economic headwinds

- Net absorption gains surpassed 35.0 million s.f., just below 2021's peak of 36.3 million s.f.
- Leasing velocity in H2 normalized back to pre-pandemic levels, as occupiers have become more judicious given the greater economic uncertainty.
- Construction volumes have dropped nearly 33.0% over the past 12 months due to a tougher entitlement and financing environment.
- Despite the uncertain economic environment, constrained vacancy and longer-term occupier demands are expected to keep the market favorable for landlords.

The Eastern & Central Pennsylvania market reached record heights in 2022, despite economic headwinds normalizing activity in the second half of the year. As the global economy emerged from the pandemic, the market recorded 36.2 million s.f. of leasing activity in H1, the highest level in the history. However, interest rate hikes, a financial market selloff and recessionary fears began to regulate tenant activity in the second half of the year, which resulted in 19.1 million s.f. of leasing in H2 (which is in line with pre-pandemic leasing volumes). The slowdown in leasing was largely due to a normalization in the 600,000+ size segment. From H1 2020-H1 2022, the market averaged 11.4 leases over 600,000 s.f. In H2 2022 there were just 3 leases signed over 600,000 s.f.

Although leasing volumes came off their breakneck pace, net absorption nearly matched 2021's all-time high and outpaced new supply for the third consecutive year, which drove vacancy to hyper-low levels of 2.4%. The tightness across the market has combined with inflationary pressures to cause asking rents to rise 22.6% year-over-year market-wide. The rise in rents has been broad-based, as all submarkets have seen 20.0%+ rent growth. Similarly, the rent growth has been consistent Class-wide, with the Class A segment growing 22.9% year-over-year.

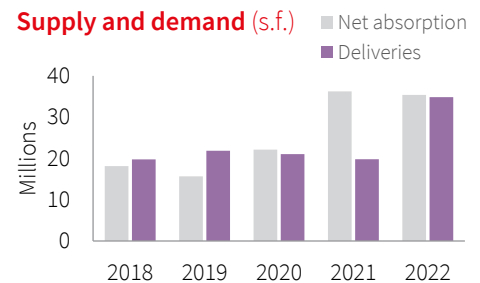
Outlook

JLL continues to track 43.9 million s.f. of active tenant requirements, which remains above pre-pandemic levels. The trends toward supply chain resiliency, port and population accessibility, on-shoring, and quicker delivery timelines all bode well for demand over the long-term. With that said, the economic situation's impact on near-term demand isn't entirely clear and will continue to play-out in 2023. Nonetheless, the market is expected to remain landlord favorable for years to come. The entitlement environment, combined with a challenged capital environment has already slowed construction activity to nearly 33.0% lower than year-end 2021. This, combined with the market's record low vacancy, will keep availability constrained. As a result, we expect continued rent growth, granted at a more regulated pace.

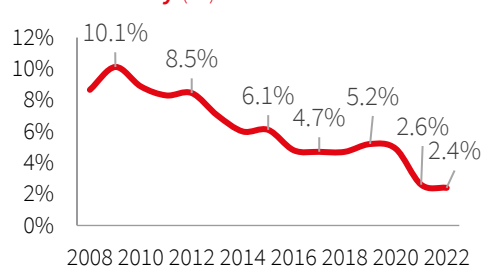
Fundamentals

	Forecast
YTD net absorption	35,369,625 s.f. ▲
Under construction	30,750,111 s.f. ►
Total vacancy	2.4% ►
Sublease vacancy	669,582 s.f. ▲
Direct asking rent	\$8.04 p.s.f. ▲
Sublease asking rent	\$7.20 p.s.f. ▲
Concessions	Stable ►

Supply and demand (s.f.)



Total vacancy (%)



Average asking rent (\$ p.s.f.)



Industrial Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly Completions (s.f.)	YTD Completions (s.f.)	Under construction (s.f.)
Eastern & Central PA total										
Warehouse & Distribution	634,424,090	2,789,604	34,496,180	5.4%	2.7%	7.4%	\$8.09	7,138,599	34,827,796	30,750,111
Manufacturing	180,309,613	56,434	873,445	0.5%	1.6%	2.8%	\$6.96	0	0	0
Overall Total	814,733,703	2,846,038	35,369,625	4.3%	2.4%	6.4%	\$8.02	7,138,599	34,827,796	30,750,111
Central Pennsylvania										
Warehouse & Distribution	195,686,901	1,500,885	10,919,773	5.6%	1.6%	8.1%	\$7.39	2,450,940	9,320,908	11,857,901
Manufacturing	60,236,554	-131,087	475,768	0.8%	1.3%	1.9%	\$6.04	0	0	0
Overall Total	255,923,455	1,369,798	11,395,541	4.5%	1.5%	6.7%	\$7.31	2,450,940	9,320,908	11,857,901
Delaware										
Warehouse & Distribution	34,791,839	0	2,116,619	6.1%	1.3%	5.4%	\$7.85	0	1,832,837	1,218,522
Manufacturing	9,330,330	0	-162,600	-1.7%	4.6%	8.9%	\$6.08	0	0	0
Overall Total	44,122,169	0	1,954,019	4.4%	2.0%	6.2%	\$7.49	0	1,832,837	1,218,522
Lehigh Valley										
Warehouse & Distribution	150,803,059	1,361,382	10,126,540	6.7%	4.0%	7.6%	\$9.34	2,377,423	12,285,253	5,489,514
Manufacturing	19,665,226	140,900	171,764	0.9%	2.3%	2.9%	\$5.76	0	0	0
Overall Total	170,468,285	1,502,282	10,298,304	6.0%	3.8%	7.1%	\$9.20	2,377,423	12,285,253	5,489,514
Northeast Pennsylvania										
Warehouse & Distribution	101,106,099	-153,589	7,821,905	7.6%	3.6%	9.7%	\$6.36	2,135,236	8,404,880	6,774,241
Manufacturing	25,004,154	16,000	572,000	2.3%	0.0%	0.6%	\$4.95	0	0	0
Overall Total	126,110,253	-137,589	8,393,905	6.5%	2.9%	8.0%	\$6.36	2,135,236	8,404,880	6,774,241
Philadelphia Urban										
Warehouse & Distribution	54,756,799	-88,252	1,219,937	2.2%	1.6%	3.9%	\$10.66	0	741,358	1,636,629
Manufacturing	19,151,894	26,150	163,665	0.9%	1.1%	3.7%	\$6.90	0	0	0
Overall Total	73,908,693	-62,102	1,383,602	1.9%	1.5%	3.8%	\$9.76	0	741,358	1,636,629
Suburban Philadelphia										
Warehouse & Distribution	97,279,393	169,178	2,291,406	2.4%	2.9%	5.6%	\$10.46	175,000	2,242,560	3,773,304
Manufacturing	46,921,455	4,471	-347,152	-0.7%	2.1%	3.3%	\$10.06	0	0	0
Overall Total	144,200,848	173,649	1,944,254	1.3%	2.6%	4.9%	\$10.41	175,000	2,242,560	3,773,304