

FIGURES | PA I-78/I-81 CORRIDOR INDUSTRIAL | Q1 2025

# Economic uncertainty and shifting post-pandemic strategies dampen activity



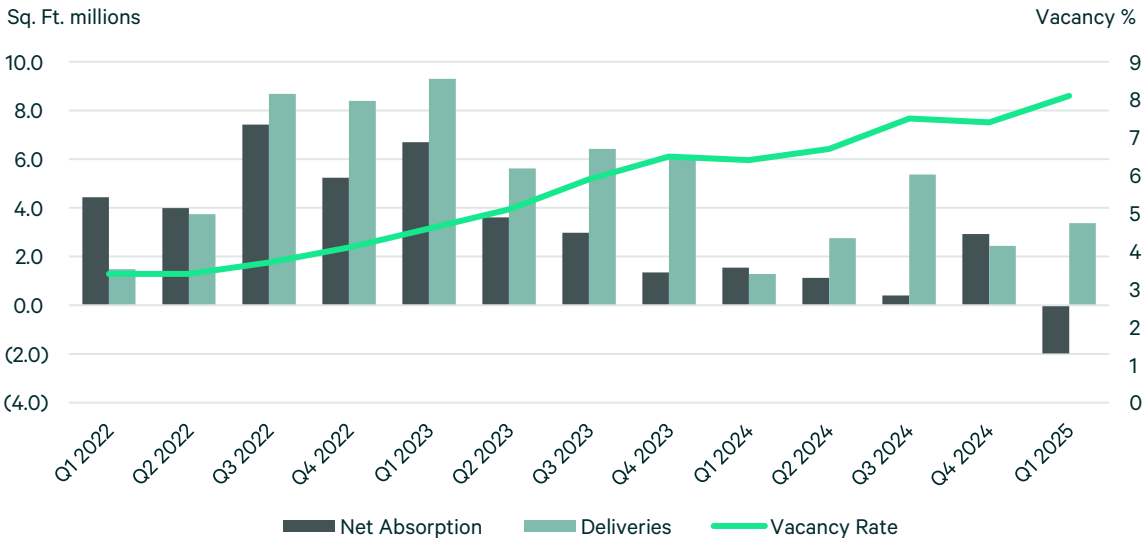
Note: Arrows indicate change from previous quarter.

SUMMARY

- Minimal deal activity was a byproduct of tenants prolonging the leasing process to properly reassess their footprints, but activity was expected to tick upward in coming quarters given the number pending leases out for signature at quarter’s end.
- Looming tariffs created a sense of uncertainty amongst tenants and landlords regarding the potential macroeconomic impact of such policies.
- Developers remained cautious of adding supply to the market with an already high vacancy rate, culminating in just 743,000 sq. ft. of new construction starts.

The PA I-78/I-81 Corridor industrial market struggled with waning demand resulting from economic uncertainty created by trade policy in Q1 2025. As leasing activity remained muted while new, unleased space was delivered to the market, albeit at a slowing pace, vacancy crested the 8.0% mark. But developers maintained their wait-and-see stance before starting new projects, offering some relief to rising oversupply concerns. For existing product, some landlords became more aggressive with leasing strategies, offering larger concession packages and, in some instances, discounted base rents.

FIGURE 1: Historical Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q1 2025

Demand

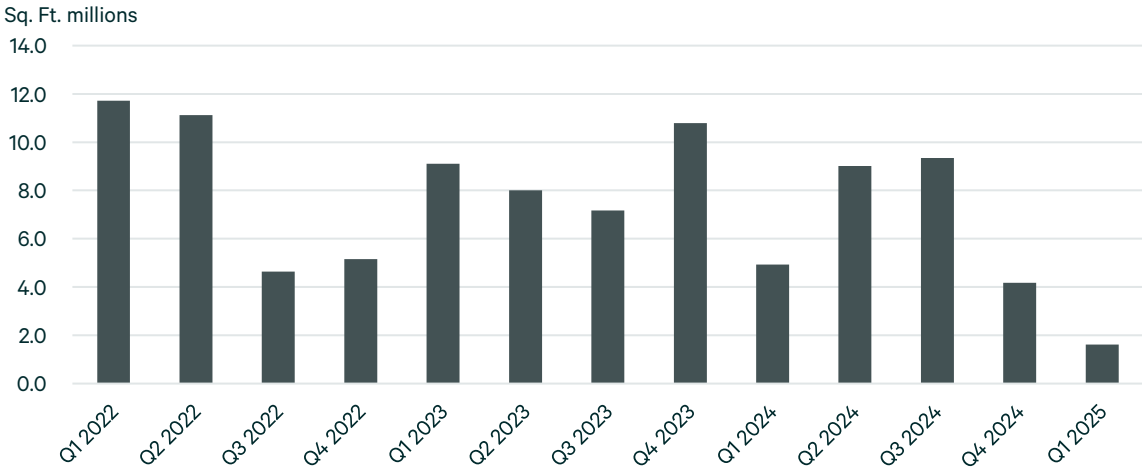
In recent quarters, discernment became pivotal to the leasing process for tenants in the wake of higher pricing, ultimately extending decision-making timelines. For context, the average contract rent in 2020 was \$5.09. That figure is now \$9.50, an 87% increase over the last five years. Tenants with near-term lease expirations containing pre-pandemic pricing created long-term strategies for next steps to best mitigate future cost increases. This long-term planning resulted in lengthy touring and programing steps in the overall process. Additionally, conversations surrounding tariffs dominate business headlines, making tenants and landlords alike weary about the macroeconomic implications those policies may bring.

As a result of protracting lease processes and economic uncertainty, leasing activity fell for the third consecutive quarter. Most notably, demand from third-party logistics (3PL) providers fell precipitously since pandemic highs. This sector averaged nearly 2 million sq. ft. of leasing activity per quarter from the start of the pandemic through mid-2022 when the Federal Reserve started raising the target interest rate. Since then, 3PL leasing activity averaged around 1 million sq. ft. per quarter with Q1 2025 tallying less than 500,000 sq. ft. While demand from pandemic stalwarts such as wholesale/retail waned early in the cycle, 3PLs made up some of this difference. As this sector cools, leverage further pushes toward tenants which is evident in rising concessions and cooling rent growth.

Supply

Developers remained weary of oversupply in the development pipeline as active construction stood at only 2.6 million sq. ft in the first quarter of 2025. Only 743,000 sq. ft. of new projects broke ground during the quarter, the least amount of construction starts since the third quarter of 2013. The stark drop-off in construction activity may be a result of lessons learned following the great financial crisis in 2007-2009. Following the start of that recession, the PA I-78/I-81 Corridor, specifically Central PA, saw a wave of vacant, new construction come to market, spiking vacancy. While current demand erosion is adding to rising vacancies in the short-term, this market is shielded from long-term oversupply resulting from overdevelopment with little active construction in the pipeline.

FIGURE 2: Leasing Activity Trend – Leases 50,000 sq. ft. and up



Source: CBRE Research, Q1 2025

FIGURE 3: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Toyo Tire Group	409,976	New Lease	1055 Woods Rd	Central PA
Langham Logistics	224,595	New Lease	1571 Van Buren Rd	Lehigh Valley PA
Warehousing Specialists	167,000	New Lease	2800 Liberty Dr	Lehigh Valley PA
Ship Hero	150,598	Renewal	6736 Tilghman St	Lehigh Valley PA
Reitnouer Trailers	106,749	New Lease	5 E Pointe Dr	Lehigh Valley PA
K&A Appliances	91,400	New Lease	215 Diller Ave	Central PA
Federal Express	90,078	Renewal	200 Fulling Mill Rd	Central PA
Unicorn Tire	82,944	New Lease	9770 Commerce Cir	Lehigh Valley PA
Savers Value Village	81,250	New Lease	4730 Hanoverville Rd	Lehigh Valley PA

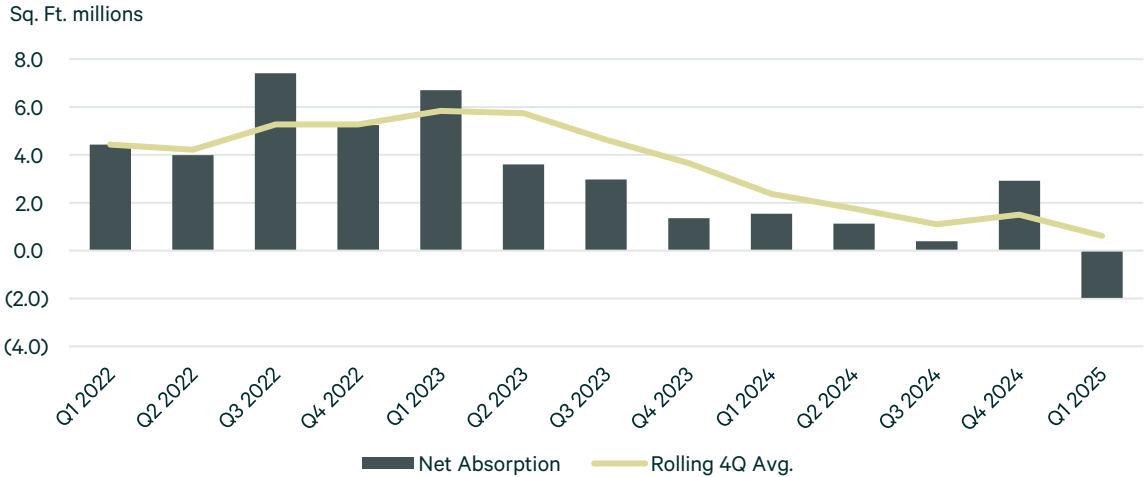
Source: CBRE Research, Q1 2025

## Economic Overview

Policy speculation and announcements are now the key drivers of macro expectations and financial markets. The reality of material trade conflicts this year is now paired with realized softer economic data. Some of this could be due to firms taking a ‘wait-and-see’ approach as they digest changing trade policy. Consumer sentiment has declined noticeably, albeit much more than actual spending. Consequently, CBRE has revised its GDP growth outlook for this year down to just below 2%.

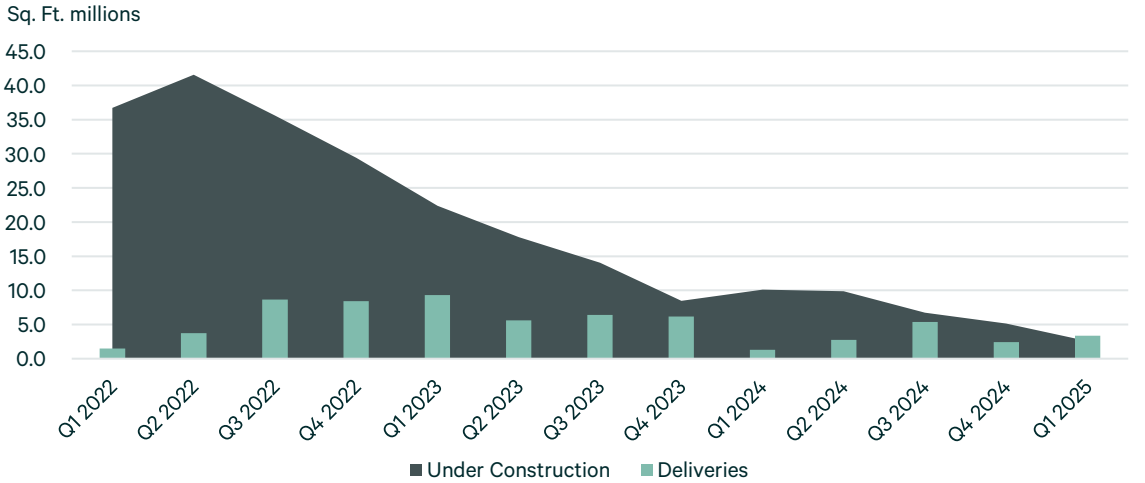
Despite policy uncertainty, credit markets are more accommodative, with tighter spreads and more issuance compared to a few quarters ago. More fluid credit markets have yet to translate into stronger sales volume, as many institutional owners and reams of dry powder capital remain on the sidelines. The continuation of accretive credit trends and eventual deployment of dry powder will depend on the impact of new policies. Should they prove more inflationary, this would erode recent capital markets progress. If not, and macro impacts are limited, this could give the Fed a green light for further cuts and help unlock monies waiting on the sidelines.

FIGURE 4: Net Absorption Trend



Source: CBRE Research, Q1 2025

FIGURE 5: Construction Activity



Source: CBRE Research, Q1 2025

Market Statistics by Submarket

	Net Rentable Area	Total Vacancy	Total Availability	Direct Availability	Sublease Availability	Avg. Direct Asking Rate (NNN/YR)	Current Quarter Net Absorption	YTD Net Absorption	Deliveries	Under Construction
Central PA	276,021,054	6.5	8.0	5.8	2.2	7.96	(1,287,706)	(1,287,706)	670,147	1,064,248
Lehigh Valley PA	158,558,680	8.8	9.6	8.5	1.1	11.06	(825,992)	(825,992)	174,444	814,100
Northeast PA	108,512,621	11.0	11.3	8.9	2.4	7.38	136,162	136,162	2,529,442	699,847
Total	543,092,355	8.1	9.1	7.2	1.9	8.91	(1,977,536)	(1,977,536)	3,374,033	2,578,195

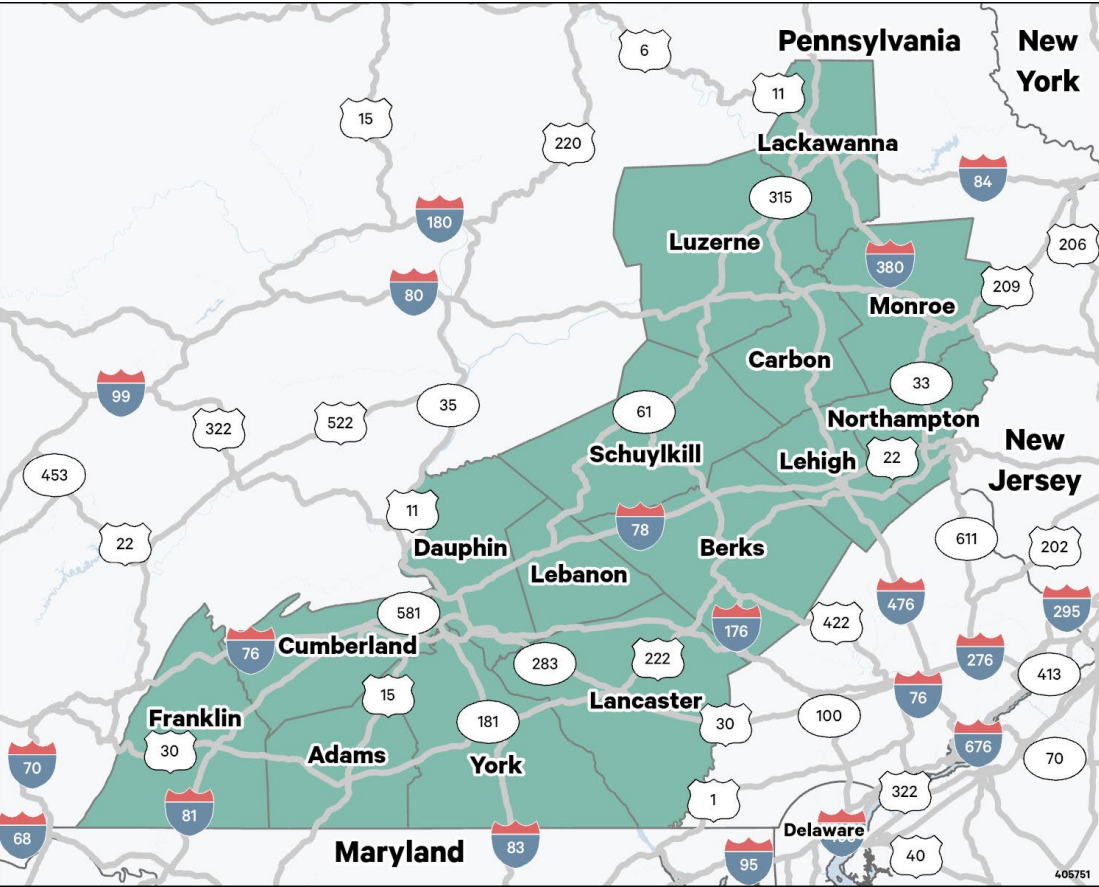
Market Statistics by Product Type

	Net Rentable Area	Total Vacancy	Total Availability	Direct Availability	Sublease Availability	Avg. Direct Asking Rate (NNN/YR)	Current Quarter Net Absorption	YTD Net Absorption	Deliveries	Under Construction
Distribution / Logistics	452,238,668	9.0	10.2	8.0	2.1	9.02	(1,876,584)	(1,876,584)	3,374,033	2,078,195
Manufacturing	75,778,930	3.5	4.2	3.3	0.9	6.66	(174,324)	(174,324)	0	500,000
R&D / Flex	10,601,953	2.0	2.0	1.6	0.4	11.39	117,497	117,497	0	0
Other Industrial	4,472,804	3.3	3.3	3.3	0.0	8.79	(44,125)	(44,125)	0	0
Total	543,092,355	8.1	9.1	7.2	1.9	8.91	(1,977,536)	(1,977,536)	3,374,033	2,578,195

Market Statistics by Size

	Net Rentable Area	Total Vacancy	Total Availability	Direct Availability	Sublease Availability	Avg. Direct Asking Rate (NNN/YR)	Current Quarter Net Absorption	YTD Net Absorption	Deliveries	Under Construction
Under 100,000 sq. ft.	72,790,679	3.5	3.3	2.9	0.4	8.73	(229,692)	(229,692)	50,000	156,100
100,000-199,999 sq. ft.	79,076,048	4.5	5.1	4.5	0.6	7.93	(121,401)	(121,401)	344,944	0
200,000-299,999 sq. ft.	59,167,642	9.8	10.4	8.3	2.1	9.89	232,292	232,292	480,786	695,848
300,000-499,999 sq. ft.	86,151,905	11.6	12.7	11.2	1.5	9.03	(1,134,012)	(1,134,012)	399,280	0
500,000-749,999 sq. ft.	78,597,565	12.8	14.2	11.9	2.3	8.85	(564,685)	(564,685)	0	1,726,247
750,000 sq. ft.	167,308,516	7.1	8.8	5.7	3.1	8.65	(160,038)	(160,038)	2,099,023	0
Total	543,092,355	8.1	9.1	7.2	1.9	8.91	(1,977,536)	(1,977,536)	3,374,033	2,578,195

Market Area Overview



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