

FIGURES | PA I-78/I-81 CORRIDOR INDUSTRIAL | Q4 2024

Right-sizing grew vacancy during 2024 despite a shrinking construction pipeline

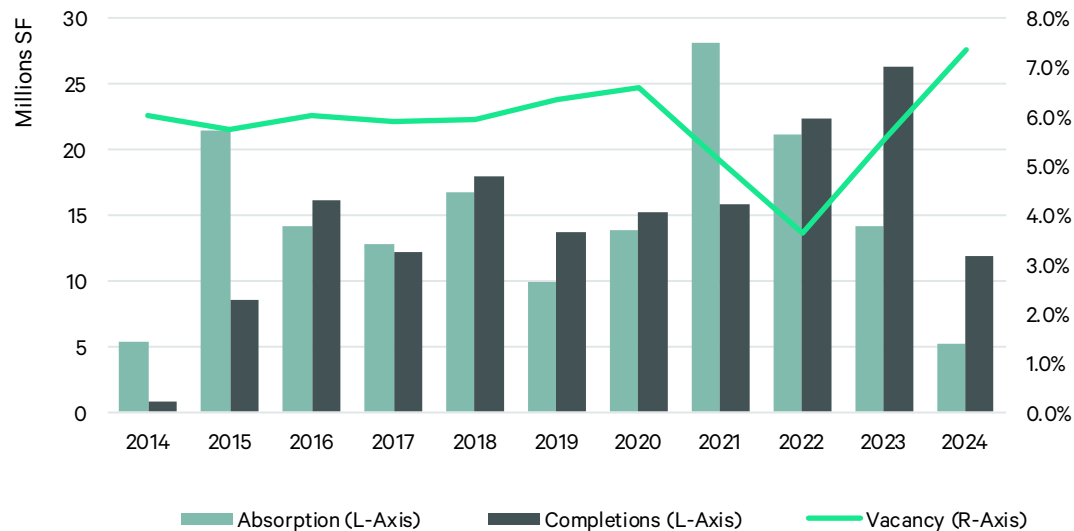


Note: Arrows indicate change from previous quarter.

- An uptick in sublease availability throughout the PA I-78/I-81 Corridor resulted from tenants “right-sizing,” as they shed excess space leased during the pandemic boom.
- Construction starts declined in 2024 as concerns of vacancy and construction costs grew.
- Overall leasing activity continued to decline. As a result, contract rents stalled while concessions signed into leases grew.

Growing availability via right-sizing dampened construction activity during 2024 as owners and investors took a conservative approach to the market. Developers’ slowing construction starts since the beginning of the year was a direct effect of increased direct and sublease vacancies throughout the corridor. Total vacancy rose 100 basis points (bps) year-over-year and sublease space on the market more than doubled since end of 2023. For reference in Q3 2022 sublease availability sat at just 1.2 million sq. ft. compared to 10.9 million sq. ft. at the end of 2024. As the right-sizing trend persists, more consolidations will occur throughout the corridor putting downward pressure on near term construction while stalling rent growth.

FIGURE 1: Net Absorption, Construction Deliveries & Vacancy



Source: CBRE Research, Q4 2024

Leasing

This quarter saw the least amount of leasing activity post-pandemic and capped off the fourth consecutive year of decreasing activity. From an industry perspective, third-party logistics (3PL) tenants accounted for 36% of leasing activity in the corridor during all of 2024 although that share dropped to just 13% of leases signed in Q4 2024. 3PL companies became disciplined in their real estate strategies even though they remained heavily active in the corridor. Manufacturing claimed nearly one-fourth of this year’s leasing while wholesale/retail demand remained largely muted compared to pandemic-era levels.

From a lease fundamentals perspective, average lease terms shortened during 2024 from eight years to seven although still longer than leases signed in late 2021 and early 2022. From a size perspective, leases held around 300,000 sq. ft. on average. Contract rents were relatively stable, just north of \$8.00 per-sq.-ft., mirroring asking rent performance. Concessions remained the primary lever landlords used to win leases as overall effective rents softened somewhat during 2024.

Supply

As noted, recent rapid sublease additions along with high interest rates, barriers for development approvals, long decision timelines and lower tenant demand led to a stark decline in new construction. The construction pipeline was at its lowest level since mid-year 2019 with construction deliveries down 55% since last year. It was clear that developers reacted to slowing demand as only 11.8 million sq. ft delivered in 2024, whereas 26.2 million sq. ft delivered in 2023. Unlike the years following the Great Financial Crisis, the mere 4.9 million sq. ft. of new construction underway precludes oversupply from a development perspective whereas 2009 and 2010 saw vacancy spike because of a robust construction pipeline built up in 2007 and 2008.

FIGURE 4: Average Asking Class A Lease Rates

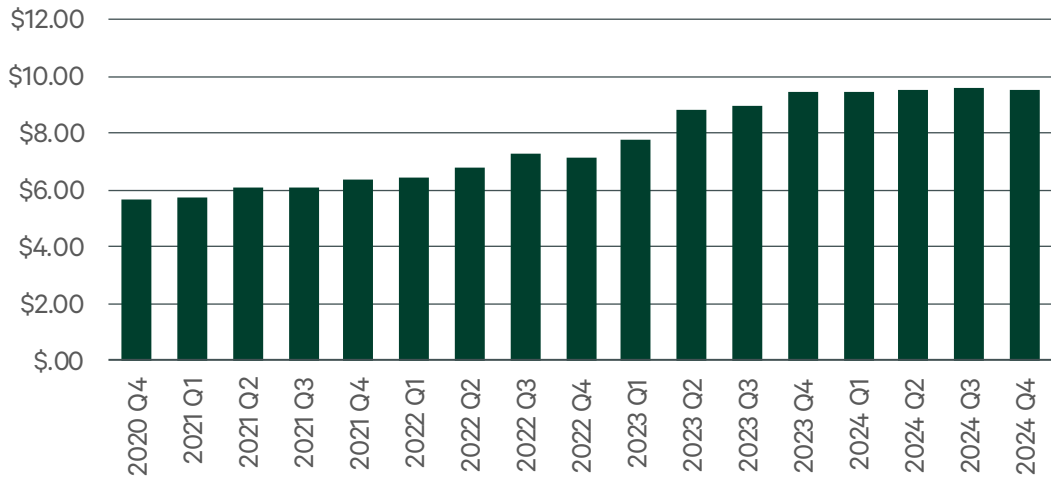
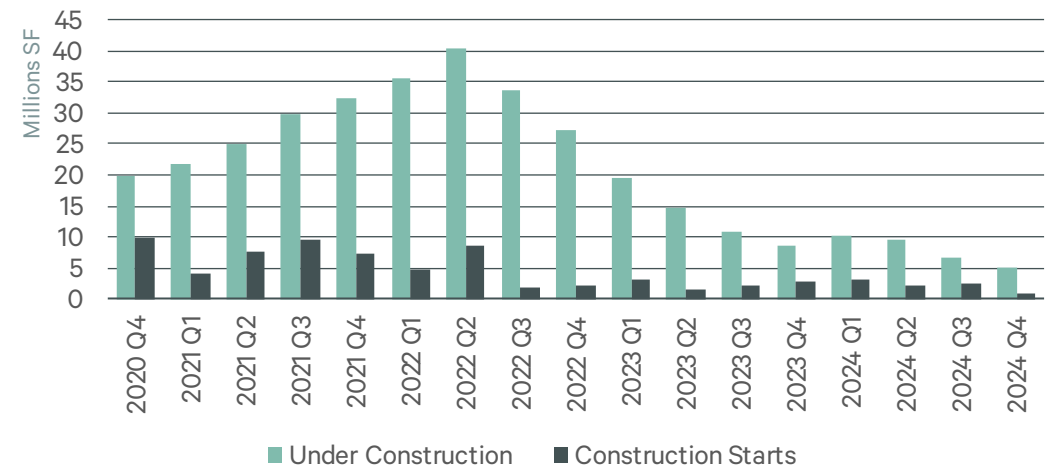


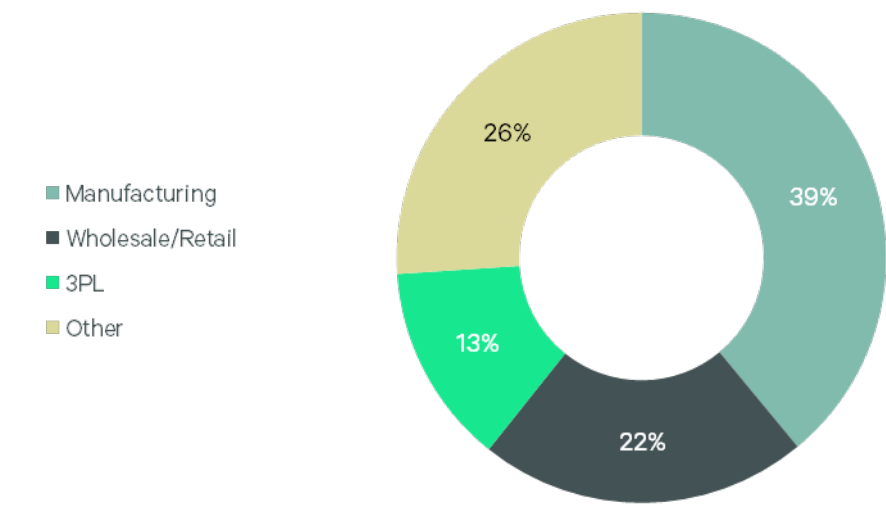
FIGURE 5: Construction Pipeline



Source: CBRE Research, Q4 2024

While construction presented no near-term supply concerns, tenant right-sizing during the year added more than 6.6 million sq. ft. of availability to the market. At year’s end, sublease availabilities claimed nearly one-fourth of all available space in the market. While overall vacancy and availability rates are below levels following the Great Financial Crisis, a significant number of leases signed during the boom of 2020-2022 are slated to expire in the next two years. How much space will be given back, if any, following these lease expirations will largely form the supply picture in the PA I-78/I-81 Corridor during the next few years.

FIGURE 2: Leasing Activity by Industry



Source: CBRE Research, Q4 2024

FIGURE 3: Top Lease Transactions

Tenant	Building	Size (SF)	Transaction Type
Primark US	2485 Commerce Center Blvd	677,088	Renewal
Kohler Co.	221 Allen Rd	425,000	New Lease
PAC Worldwide	4863 Hanoverville Rd	420,380	Renewal
Kiyocera	2701 N Market St	349,638	New Lease
Valvoline	1200 Corporate Way	282,557	Expansion
Meyer Distributing	5 Logistics Dr	205,090	Renewal
US General Services Administration	1 Passan Dr	163,400	Renewal
Kuriyama of America, Inc.	1600 Distribution Dr	119,310	New Lease
Brandfox	400 Capital Ln	103,217	Renewal
KeHE Distributors	860 Nestle Way	98,280	New Lease

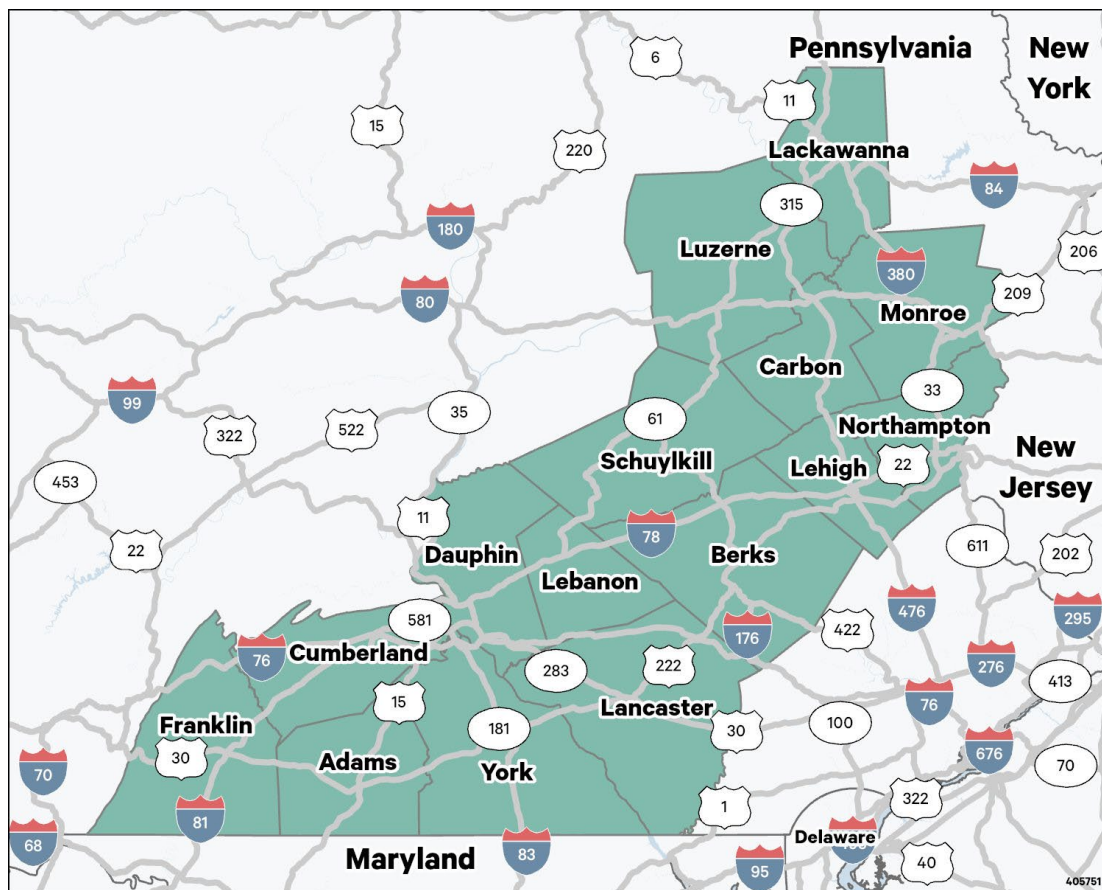
Source: CBRE Research, Q4 2024

FIGURE 6: Submarket Statistics

District	Inventory (SF)	Total Vacancy Rate (%)	Completions (SF)	Under Construction (SF)	YTD Net Absorption (SF)	Avg. Asking Rent (\$/SF/Yr.)
Adams County	2,916,961	0.0%	0	0	400,000	-
Cumberland County	66,061,816	4.7%	0	0	-1,857,909	\$8.08
Dauphin County	32,314,474	8.2%	328,000	0	1,105,791	\$8.05
Franklin County	25,654,376	12.1%	0	0	329,880	\$7.16
Lancaster County	56,869,925	5.3%	0	399,280	872,339	\$8.85
Lebanon County	18,217,308	7.5%	0	0	1,277,802	\$8.39
York County	73,145,018	5.3%	586,780	863,267	335,500	\$8.13
Central PA Subtotal	275,179,878	6.2%	914,780	1,262,547	2,463,403	\$8.01
Berks County	40,103,348	7.9%	0	0	1,383,141	\$8.99
Lehigh County	63,938,061	5.2%	0	224,000	-827,655	\$11.71
Northampton County	54,436,817	12.3%	474,115	174,444	-168,442	\$11.78
Lehigh Valley PA Subtotal	158,478,226	8.3%	474,115	398,444	387,044	\$11.29
Carbon County	1,253,747	0.0%	0	699,847	0	-
Lackawanna County	20,282,530	8.3%	0	0	-401,997	\$5.18
Luzerne County	56,216,818	6.5%	1,047,587	1,488,902	1,036,098	\$7.50
Monroe County	9,263,345	21.7%	0	0	659,314	\$6.02
Schuylkill County	17,667,338	11.4%	0	1,040,540	1,030,875	\$7.40
Northeast PA Subtotal	104,683,778	8.9%	1,047,587	3,229,289	2,324,290	\$6.79
Total	538,341,882	7.4%	2,436,482	4,890,280	5,174,737	\$9.09

Source: CBRE Research, Q4 2024

Market Area Overview



PHILADELPHIA DOWNTOWN

50 S 16th Street
Suite 3000
Philadelphia, PA 19102

PHILADELPHIA SUBURBAN

555 E Lancaster Avenue
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Radnor, PA 19087

HARRISBURG

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ALLENTOWN

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