

FIGURES | PA I-78/I-81 CORRIDOR INDUSTRIAL | Q4 2023

# Consistent demand and slowing construction activity point toward peak vacancy in 2024

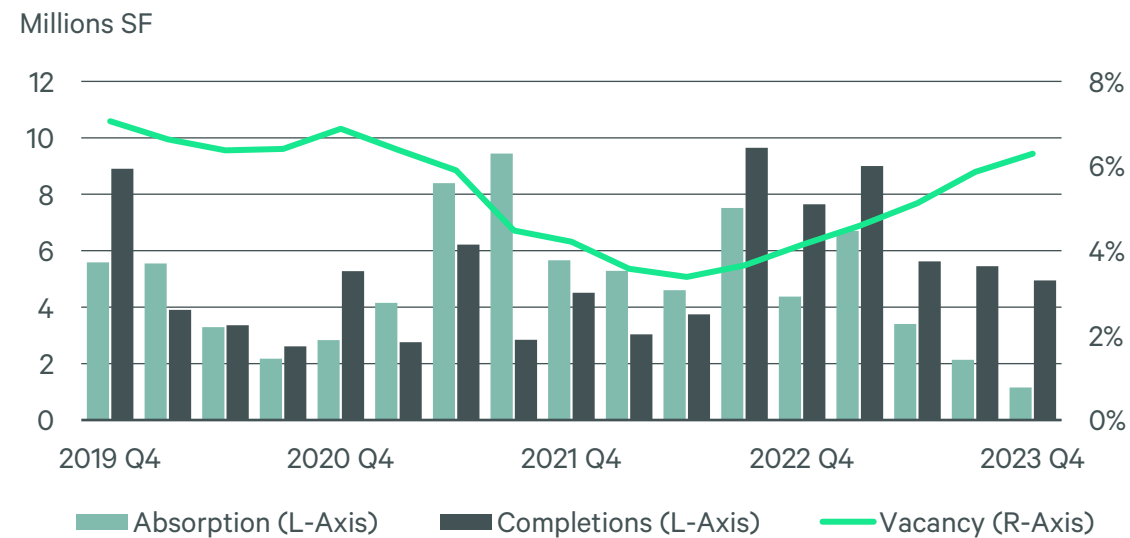


Note: Arrows indicate change from previous quarter.

- Vacancy growth decelerated during the last quarter of the year, suggesting peak vacancy could be reached by mid-2024.
- Rent growth showed signs of slowing, specifically contract rents signed for new or expansion leases.
- Industries including food & beverage, home improvement, packaging companies and 3PL’s continued to drive occupancy growth, consistent with the last few years and pointing toward stable demand during the coming quarters.

Vacancy continued to move upward at the end of 2023, but supply and demand trends will lead to peak vacancy by mid-2024 while rent growth abates until 2025. Overall, the vacancy rate grew by 290 basis points (bps) since reaching a bottom in Q2 2022. But the pace of vacancy growth slowed in recent quarters as construction projects delivered with few new buildings breaking ground and demand persisting near pre-pandemic levels. As a result, overall asking rents grew only 4.2% quarter-over-quarter compared to 41% since this time last year. CBRE expects rent growth to slow, somewhat, in the coming year but reviving in 2025 as a reaction to the vacancy rate falling for a few quarters starting in late 2024.

FIGURE 1: Net Absorption, Construction Deliveries & Vacancy



Source: CBRE Research, Q4 2023.

## Supply

While vacancy rose for the past six quarters to 6.3% in Q4 2023, it was still below the 6.6% posted before the start of the pandemic. As has been the case since vacancy started rising, construction completions outpaced demand with 4.9 million square feet (sq. ft.) of new industrial space completed construction in Q4 2023 with only 1.2 million sq. ft. absorbed. The overall effect pushed vacancy up 40 bps since last quarter.

An appreciable portion of the existing vacancy on the market was situated in one-million sq.-ft. or greater buildings, mostly located in frontier portions of the market such as Schuylkill or Franklin Counties. Fully 20% of existing vacancy lies within one of these big-box offerings. And while there is more vacancy in these larger boxes than there had been since prior to the pandemic, 2023 also saw the most amount of demand for one million sq.-ft. or larger spaces since 2021 and on par with pre-pandemic levels as six new leases for these spaces took down more than nine million sq. ft. of vacancy.

As we move into 2024 new construction will add less than five million sq. ft. of vacancy to the market as the pace of new projects breaking ground slowed in recent quarters, leaving just 4.6 million sq. ft. of space in the active construction pipeline. This was less than the total amount of new construction delivering in Q4 2023 alone. A dearth of new projects starting, and subsequently delivering, will contribute to the market reaching peak vacancy by mid-2024.

## Demand

Overall leasing activity in 2023 fell compared to 2022, but only by 12%, a significantly smaller drop compared to the 37% fall in 2022 versus 2021. As a sign of strength and resilience, the core industry sectors contributing to leasing activity in 2023 posted levels similar to recent historic averages. At five million sq. ft., wholesale/retail saw its share of activity grow by 40% compared to 2022. Third-party logistics (3PL) companies tallied 4.2 million sq. ft. of activity, on par with its 4.4 million sq.-ft. five-year average. Manufacturing notably was down 14% compared to 2022, but that industry played a much smaller part in the Corridor's growth in recent years compared to wholesale/retail and 3PL companies. As consumer spending grows, albeit slower than in recent years, demand for logistics space from retailers, wholesalers, and 3PL companies should remain stable throughout 2024.

FIGURE 2: Average Asking Class A Lease Rates

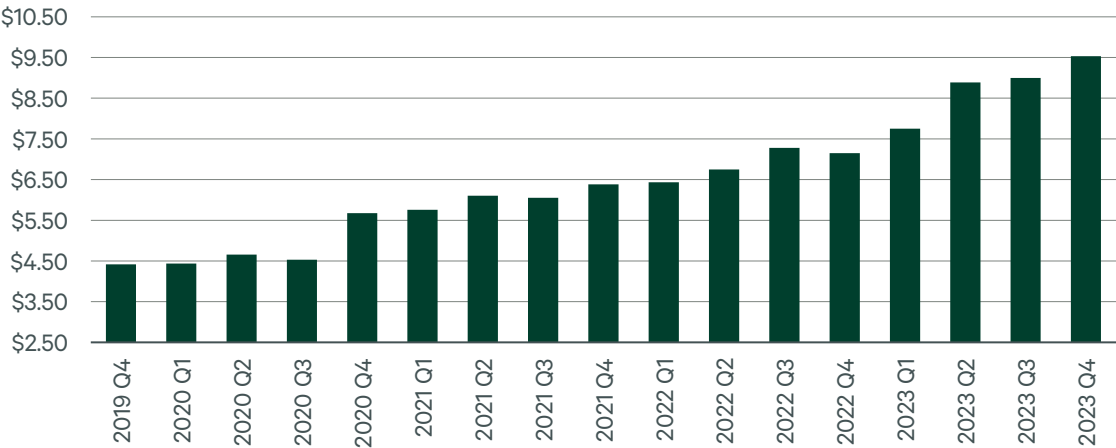
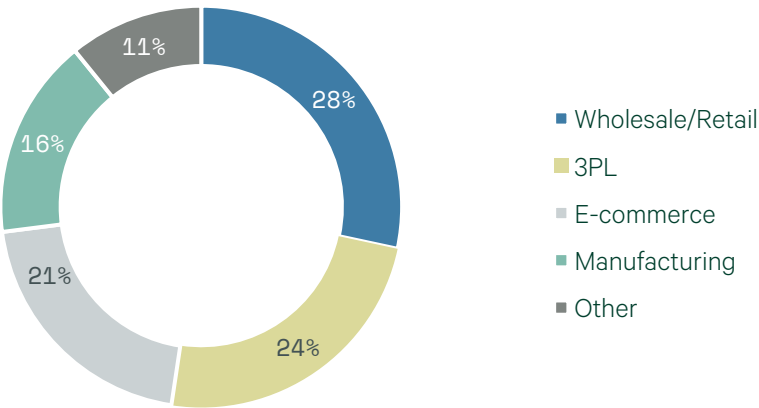


FIGURE 3: Leasing Activity 2023 Total



Source: CBRE Research, Q4 2023.

## Pricing

While vacancy continued to rise at year's end, so had asking rents. Nearly five million sq. ft. of construction deliveries added to the inventory in Q4 2023 accounted for rising prices as most previously available space saw asking rents hold steady. Furthermore, a look at lease contract rents negotiated in new and expansion deals shows signs of price plateauing and even softening to some degree. Class A logistics space, specifically, saw average taking rents fall \$0.17, quarter-over-quarter, while concessions such as free rent ticked up. Leverage had been slowly shifting back toward tenants in recent quarters and Q4 2023's lease comp metrics suggest the scales may have finally shifted to modestly favoring occupiers.

## Outlook

Vacancy will rise through the first half of 2024 as construction projects deliver while demand remains muted compared to the prior three years, albeit stable. As lower and middle-income households see wage growth slowing along with lower savings rates, consumer spending growth is expected to cool to some degree but remain at or near current levels, propping up logistics demand from wholesalers, retailers, and e-commerce companies. This persistent demand will begin to chip away at vacancy and potentially provide some modest upward pricing pressure by the end of 2025.

FIGURE 4: Top Lease Transactions, Q4 2023

Tenant	Building	Size (SF)	Transaction Type
General Mills	350 N Lingle Ave	1,413,445	Renewal
Broadrange Logistics, LLC	29 Ludwig Ct	1,240,000	New Lease
Undisclosed E-Commerce	1300 Corporate Way	1,000,000	New Lease
Church & Dwight Co.	620 Green Springs Rd	764,400	New Lease
Undisclosed E-Commerce	2 Ames Dr	700,000	Renewal
Moran Logistics	150 E Andes Rd	667,510	New Lease
S&S Activewear	5291 Pottsville Pike	652,080	New Lease
Henkel Corporation	610 608 Oak Ridge Rd	619,389	New Lease
Box Packaging	1 Route 81	561,000	New Lease
Schneider Electric	201 Cumberland Pkwy	340,000	Renewal

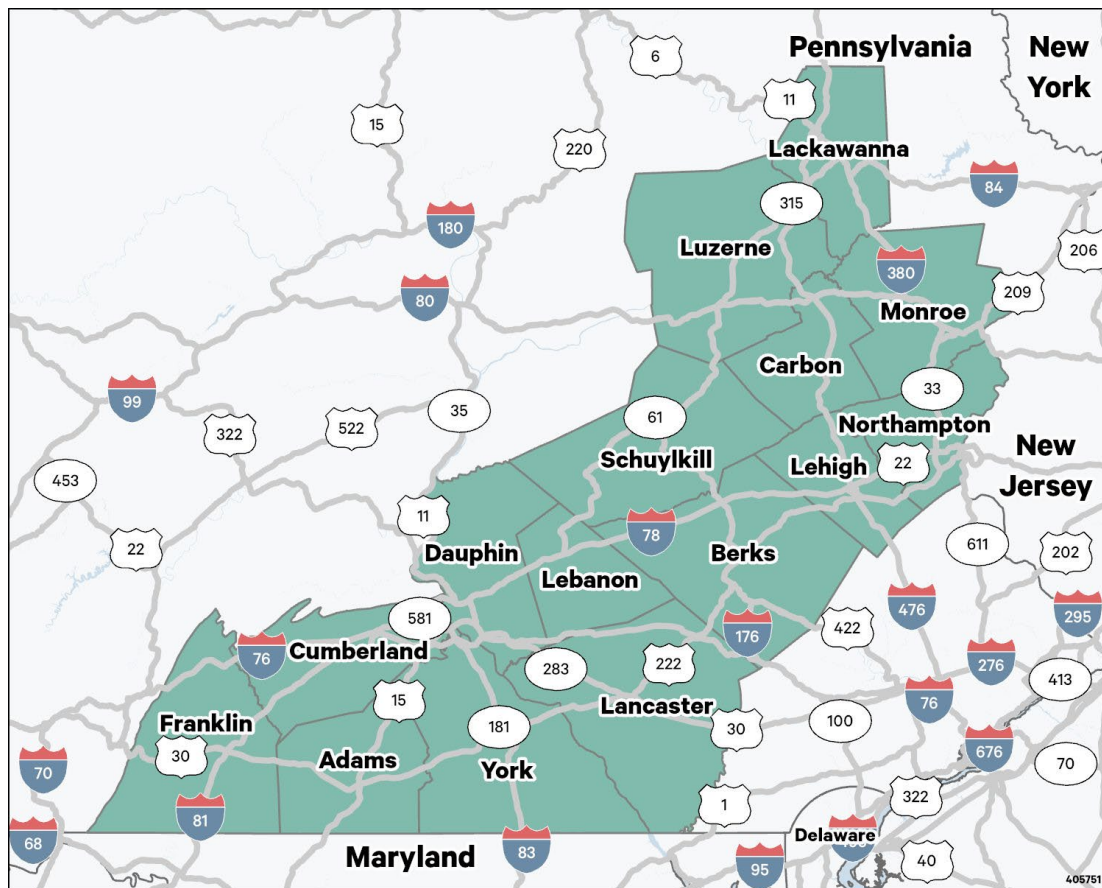
Source: CBRE Research, Q4 2023.

FIGURE 5: Submarket Statistics

District	Inventory (SF)	Total Vacancy Rate (%)	Completions (SF)	Under Construction (SF)	YTD Net Absorption (SF)	Avg. Asking Rent (\$/SF/Yr.)
Adams County	2,516,961	0.0	0	0	4,840	-
Cumberland County	65,704,519	2.1	100,000	0	-240,456	8.33
Dauphin County	31,263,226	8.8	0	0	1,008,967	8.41
Franklin County	25,610,516	13.4	1,006,500	0	2,530,947	7.28
Lancaster County	56,157,208	5.6	300,240	325,000	-1,488,791	8.68
Lebanon County	15,955,130	2.4	0	1,113,178	173,327	7.18
York County	71,820,741	3.0	54,025	869,120	3,740,282	6.64
<b>Central PA Subtotal</b>	<b>269,028,301</b>	<b>4.9</b>	<b>1,460,765</b>	<b>2,307,298</b>	<b>5,729,116</b>	<b>7.92</b>
Berks County	40,346,448	12.8	91,555	0	-46,381	9.55
Lehigh County	64,029,411	4.0	310,800	0	-324,876	11.58
Northampton County	51,597,078	7.4	0	1,859,848	2,043,425	11.63
<b>Lehigh Valley PA Subtotal</b>	<b>155,972,937</b>	<b>7.4</b>	<b>402,355</b>	<b>1,859,848</b>	<b>1,672,168</b>	<b>11.01</b>
Carbon County	1,253,747	0.0	0	0	921,328	-
Lackawanna County	20,396,434	6.3	0	0	1,172,179	5.63
Luzerne County	54,364,781	4.7	1,857,500	437,500	3,724,944	7.54
Monroe County	7,913,851	18.5	0	0	307,000	7.32
Schuylkill County	17,667,338	17.2	1,229,136	0	-131,398	7.00
<b>Northeast PA Subtotal</b>	<b>101,596,151</b>	<b>8.2</b>	<b>3,086,636</b>	<b>437,500</b>	<b>5,994,053</b>	<b>6.95</b>
<b>Total</b>	<b>526,597,389</b>	<b>6.3</b>	<b>4,949,756</b>	<b>4,604,646</b>	<b>13,395,337</b>	<b>9.02</b>

Source: CBRE Research, Q4 2023

## Market Area Overview



## PHILADELPHIA DOWNTOWN

50 S 16<sup>th</sup> Street  
Suite 3000  
Philadelphia, PA 19102

## PHILADELPHIA SUBURBAN

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