

FIGURES | PA I-78/I-81 CORRIDOR INDUSTRIAL | Q3 2024

# Shrinking construction pipeline counteracts rising sublease availabilities

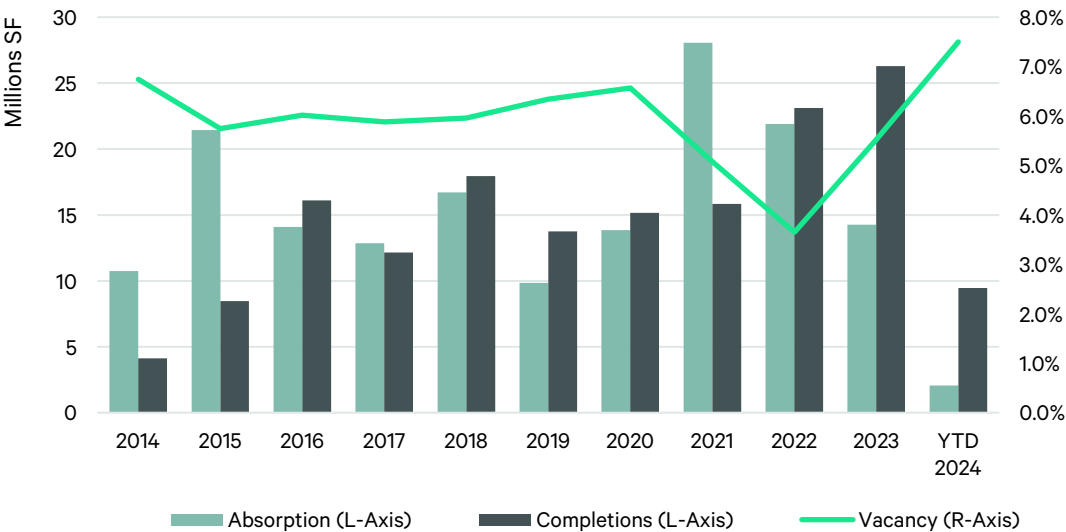


Note: Arrows indicate change from previous quarter.

- Sublease space continued to rise, topping out at a statistical high – nearly six times the mid-2022 rate.
- The development pipeline slowed with less than one million sq.ft. of projects starting in Q3.
- The Federal Reserve’s recent interest rate cuts, and with more anticipated before year-end, should be a boon to logistics and e-commerce occupiers.

While new sublease offerings and completed available construction drove vacancy higher in Q3 2024, additional construction deliveries will have less of an impact as the market heads towards recovery in the near term. Vacancy rose 80 basis points (bps) to 7.5% during the quarter as available sublease space rose to 9.7 million sq.ft. – a growing trend within the market. While leasing activity was down somewhat quarter-over-quarter, Q3’s levels were in line with the “new normal” established after the pandemic-era highs. On the construction front, over five million sq.ft. of new inventory was delivered, but just 894,000 sq. ft. of construction started last quarter. Overall, despite the emergence of some softening market stats, the improving macroeconomic picture with interest rate cuts and cooling inflation will help reduce headwinds in the market.

FIGURE 1: Net Absorption, Construction Deliveries & Vacancy



Source: CBRE Research, Q3 2024

## Supply

The story on the supply-side was rising sublease availability at levels not seen before in the market. Recent additions include Iron Mountain’s 233,280 sq.ft. sublease in Wind Gap, PA, along with Boohoo and Geodis’ partial subleases in Central PA for a combined 365,000 sq.ft. Both Boohoo and Iron Mountain were tenants that leased space at the peak of the market during the COVID-19 pandemic and were looking to right size their industrial portfolios via sublease offerings – a common thread amongst tenants subleasing space within the PA I-78/I-81 Corridor.

While sublease availabilities rose, Q3 2024 saw the lowest number of new projects break ground since Q2 2018. While over five million sq.ft. of new inventory delivered this quarter, only 894,000 sq. ft. of space broke ground. Combined with the previous two quarters, construction starts year-to-date are at their lowest point since Q3 2019. In total, just under five million sq.-ft. of projects are under construction, a stark juxtaposition from the “pandemic boom” in the PA I-78/I-81 Corridor that saw some 40 million sq.-ft. of total inventory under construction in Q2 2022. Given such a relatively muted construction pipeline, all else equal, if the five million sq.ft. currently under construction delivered next quarter at its current pre-lease rate of 22.7%, vacancy would rise to 8.1%. This is 470 bps lower than the previous cycle’s peak of 12.8% and precludes over-development as the culprit of any near-term over-supply issues, which was the case between 2009-2010.

## Demand

Leasing activity was down quarter-over-quarter, at just four million sq.-ft., but still in line with the five million sq.ft. weighted four-quarter average posted since Q4 2022. Third-party logistics (3PL) tenants continued to dominate leasing, claiming 60% of the activity in the market, nearly all of which occurred in the Lehigh Valley. This continued trend started in early 2022 with logistics carriers accounting for the bulk of new activity and their flight-to-quality amongst the Class A, modern, high-efficiency warehouses that make up so much of the market.

To date, despite 3PL tenants’ preference for the Lehigh Valley, Central Pennsylvania (CPA) has outpaced all other submarkets in total leasing activity through Q3. With 9.4 million sq.ft. of leasing activity so far, CPA is already outpacing last year’s 7.9 million sq. ft. of activity through Q3 2023 and is approaching the 11.1 million sq. ft. leasing activity mark that was seen at the peak of the market in 2022.

FIGURE 4: Average Asking Class A Lease Rates

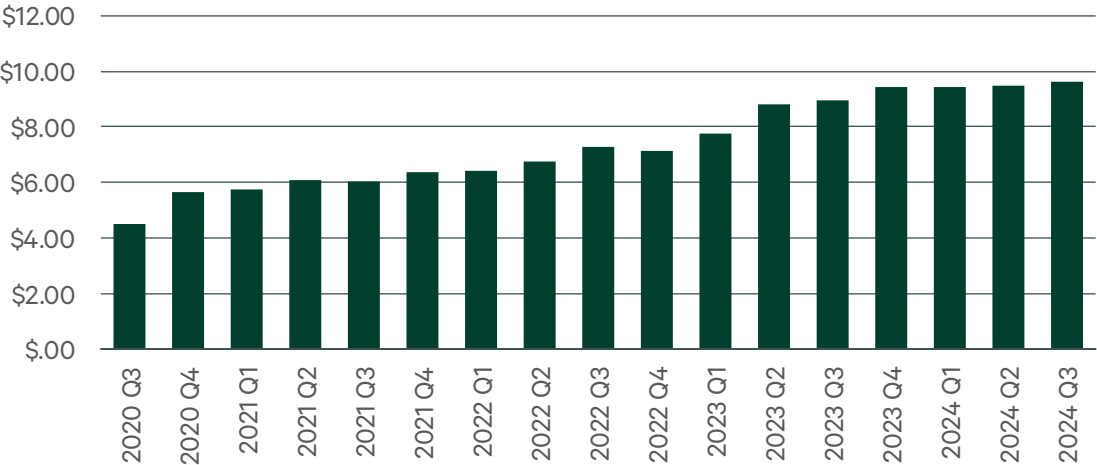
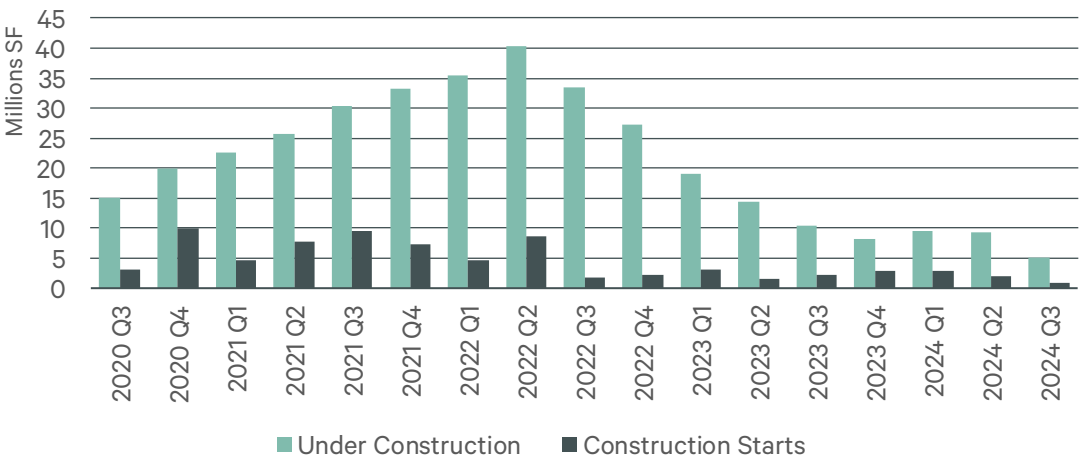


FIGURE 5: Construction Pipeline

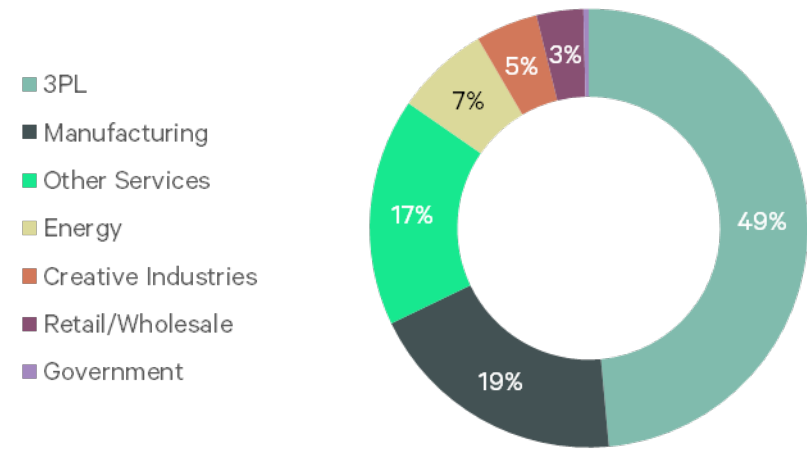


Source: CBRE Research, Q3 2024

While leasing posted a slight dip in Q3, the fundamentals of the market were still healthy. The average deal size rose slightly to 278,000 sq. ft., with average lease terms remaining at seven-to-eight years. And despite increased sublease availabilities, the average Class A logistics rent grew \$0.13 to \$9.62. A lack of construction pipeline countered growing sublease additions to maintain recent pricing trends of modest growth.

As we look long-term, the improving economic outlook motivated by the Federal Reserve’s interest rate cuts in September project as a net-positive for demand and amongst certain industrial occupiers, like 3PL carriers, and e-commerce related tenants. With further rate cuts expected by year-end and an upcoming presidential election that has paused occupier decision-making, CBRE anticipates a more positive, wholistic outlook within the PA I-78/I-81 Corridor by year-end.

FIGURE 2: Leasing Activity by Industry



Source: CBRE Research, Q3 2024

FIGURE 3: Top Lease Transactions

Tenant	Building	Size (SF)	Transaction Type
Western Post (US)	3363 Gun Club Rd	1,006,128	New Lease
Ryder Logistics	15651 Greenmount Rd	951,080	New Lease
Reckitt Benckiser	360 Independence Ave	812,425	Renewal
CEVA Logistics	100 Quality Cir	770,000	Renewal
Georgia-Pacific	180 Kost Rd	487,080	Renewal
CEVA Logistics	8032 Pennsylvania 183	470,781	New Lease
Lennox	745 Killinger Rd	453,429	New Lease
GEODIS	1485 Dennison Cir	439,088	Renewal
Boxzooka	100 Capital Ln	321,333	Sublease
Rowan Electric Appliance	1901 Corporate Center Dr E	280,000	New Lease

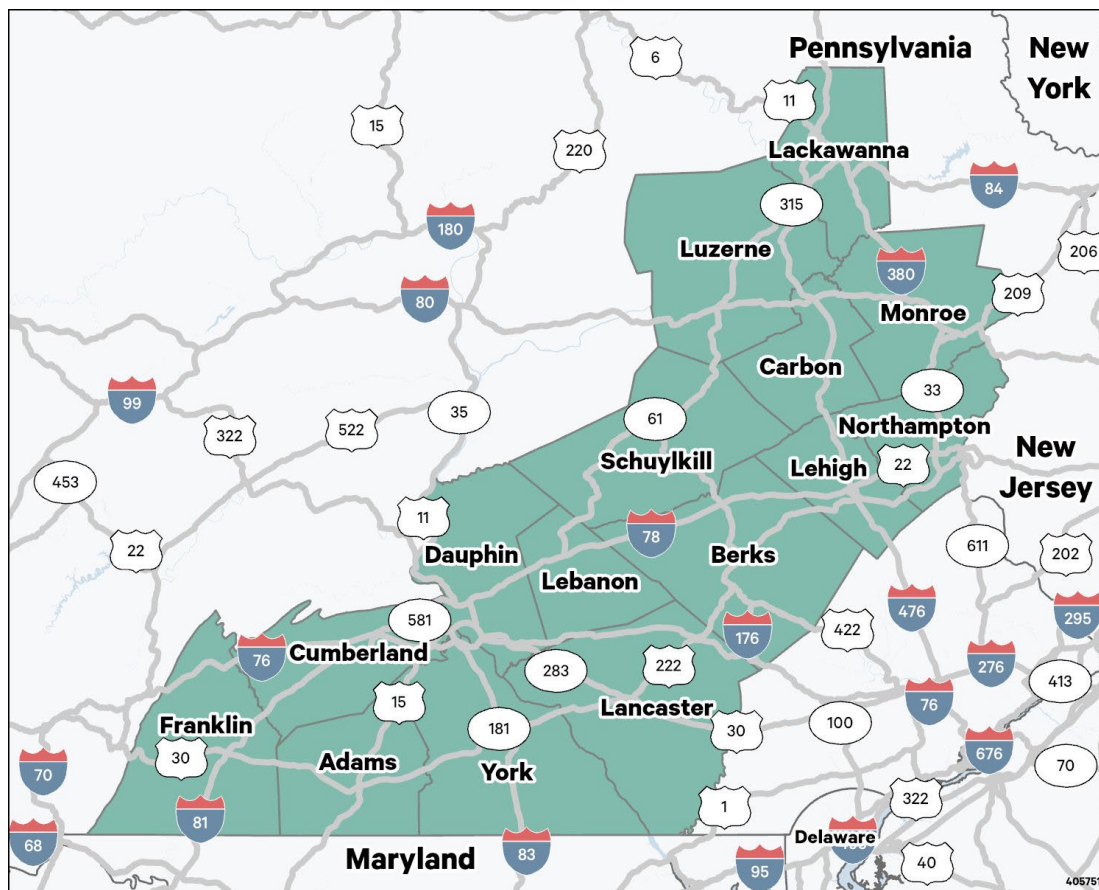
Source: CBRE Research, Q3 2024

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%	400,000	0	400,000	-
Cumberland County	65,441,816	4.2%	0	0	-1,469,048	\$8.54
Dauphin County	31,986,474	8.5%	418,608	328,000	709,052	\$8.01
Franklin County	25,654,376	15.3%	0	0	-496,200	\$7.16
Lancaster County	56,869,925	6.6%	210,000	399,280	102,789	\$8.99
Lebanon County	18,217,308	8.1%	450,000	0	1,158,187	\$8.07
York County	73,178,238	4.6%	1,386,945	1,384,047	262,113	\$8.10
<b>Central PA Subtotal</b>	<b>274,265,098</b>	<b>6.6%</b>	<b>2,865,553</b>	<b>2,111,327</b>	<b>666,893</b>	<b>\$8.02</b>
Berks County	40,103,348	8.7%	234,830	0	1,050,833	\$9.10
Lehigh County	63,938,061	4.4%	0	224,000	-308,893	\$11.67
Northampton County	53,962,702	11.8%	683,480	648,559	-279,866	\$11.81
<b>Lehigh Valley PA Subtotal</b>	<b>158,004,111</b>	<b>8.0%</b>	<b>918,310</b>	<b>872,559</b>	<b>462,074</b>	<b>\$11.38</b>
Carbon County	1,253,747	0.0%	0	0	0	-
Lackawanna County	20,282,530	8.3%	0	0	-400,697	\$5.16
Luzerne County	55,169,231	5.1%	387,500	970,099	683,694	\$7.92
Monroe County	9,263,345	35.1%	1,204,494	0	-584,220	\$6.36
Schuylkill County	17,667,338	10.2%	0	1,040,540	1,231,005	\$7.25
<b>Northeast PA Subtotal</b>	<b>103,636,191</b>	<b>9.2%</b>	<b>1,591,994</b>	<b>2,010,639</b>	<b>929,782</b>	<b>\$6.84</b>
<b>Total</b>	<b>535,905,400</b>	<b>7.5%</b>	<b>5,375,857</b>	<b>4,994,525</b>	<b>2,058,749</b>	<b>\$9.18</b>

Source: CBRE Research, Q3 2024

## Market Area Overview



## PHILADELPHIA DOWNTOWN

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

## PHILADELPHIA SUBURBAN

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