

FIGURES | PA I-78/I-81 CORRIDOR INDUSTRIAL | Q2 2023

# Market approaching equilibrium, nuances in demand arise

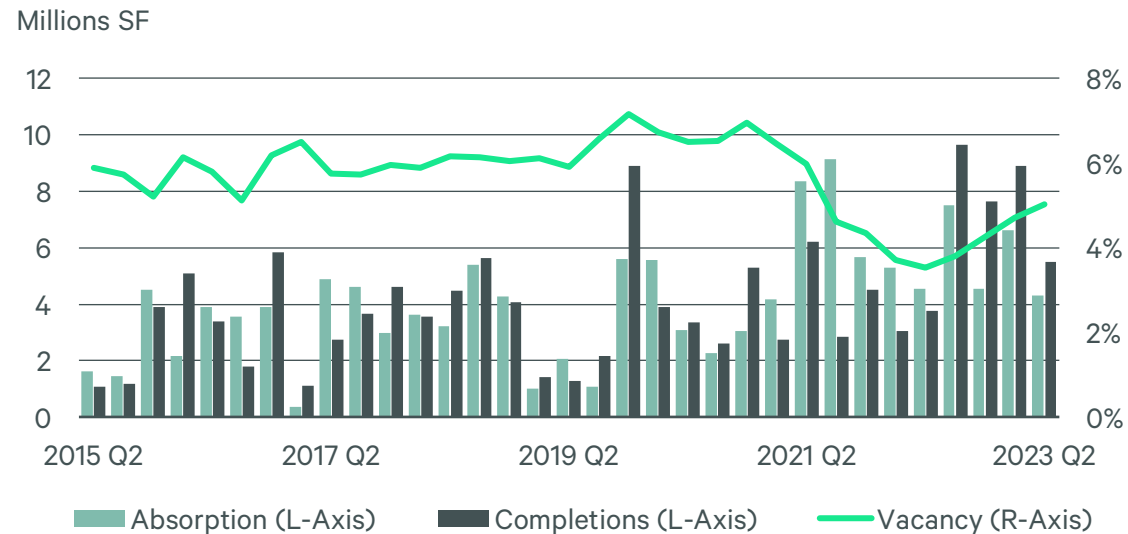


Note: Arrows indicate change from previous quarter.

- Vacancy ticked up for the fourth consecutive quarter but settled well-below pre-pandemic levels that averaged closer to the 6.0% mark.
- Average Class A asking rents grew 31.4%, year-over-year, to settle at \$8.70 per-square-foot per-year. As pricing lags supply and demand trend shifts, rent growth should slow in the coming quarters.
- Developers slowed the pace of new developments significantly as only two buildings measuring a combined 470,000 sq. ft. broke ground in Q2 2023.

Starting around 8 years ago, the market showed signs of sustained equilibrium when overall vacancy tended closely around the 6% mark, mostly staying within 100 basis points (bps) during that time. Spurred by the pandemic, higher rates of online shopping, tighter labor markets, and government stimulus resulted in significant supply/demand imbalance within the PA I-78/I-81 Corridor's logistics market. From 2021 through mid-2022 vacancy fell 340 bps to 3.5%, the lowest historical measure. In reaction, developers broke ground on projects at a pace that pushed overall construction over 37 million square feet (sq. ft.) by Q2 2022. Since then, both supply and demand cooled.

FIGURE 1: Net Absorption, Construction Deliveries & Vacancy



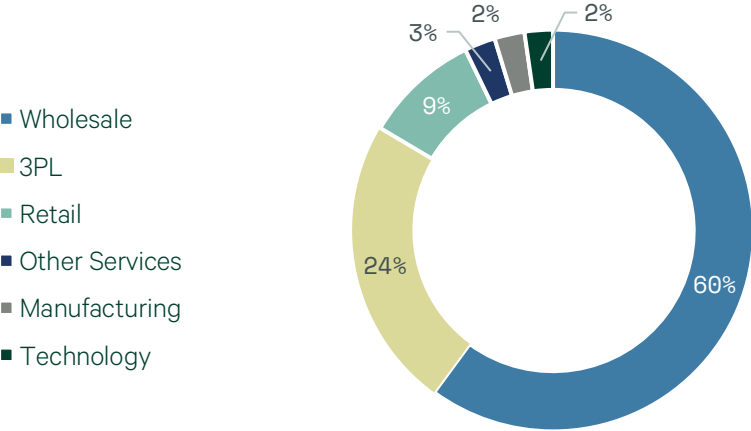
Source: CBRE Research, Q2 2023.

During the prior four quarters, occupancy grew by a little more than 16 million sq. ft. compared to the more than 29 million sq. ft. added during the four-quarter period prior to that. Similarly, only 6.6 million sq. ft. of new construction broke ground during the past four quarters compared to 28.1 million sq. ft. the period prior. Comparing the difference in net absorption and construction completions since vacancy started rising in mid-2022 reveals these dynamics coming closer to parity, implying the market may be nearing an equilibrium.

### Leasing Activity

Retail/Wholesale continued to be the largest active industry for new deals, in addition to third-party logistics companies (3PLs). Overall leasing activity during the first half of 2023 was down nearly 40% compared to the same period in 2022. But nuance existed within those numbers as some size tranches saw slower activity than others. Specifically, 500,000 sq.-ft. to 1 million sq.-ft. buildings saw significant drops in leasing activity while less than 500,000 sq.-ft. and greater than 1 million sq.-ft. buildings saw little drop in demand. Notably, the under 500,000 sq.-ft. set claimed 90% of new deals by count.

FIGURE 2: Leasing Activity by Industry, Q4 2022



Source: CBRE Research, Q2 2023.

FIGURE 3: Top Lease Transactions, Q2 2023

Tenant	Building	Size (SF)	Transaction Type
Harley-Davidson Motor Company Operations, Inc.	601 Memory Ln	785,308	Renewal
Schneider Electric IT Corp.	201 Fulling Mill Rd	650,761	Renewal
Allen Distribution LP	217 Allen Rd	382,985	New Lease
Aurora Parts & Accessories	135 Mundis Race Rd	302,830	New Lease
Saddle Creek Logistics Services	Central Boulevard	276,800	New Lease
Aldi	651 Cesanek Rd	261,527	New Lease
Progressive Converting Inc.	1104 N Park Dr	212,964	Renewal
Ameripac	4500 Westport Dr	178,660	Renewal
WEG Electric Corp.	35 Dauphin St	171,325	Renewal
Viega LLC	1490 Dennison Cir	165,000	Renewal

Source: CBRE Research, Q2 2023.

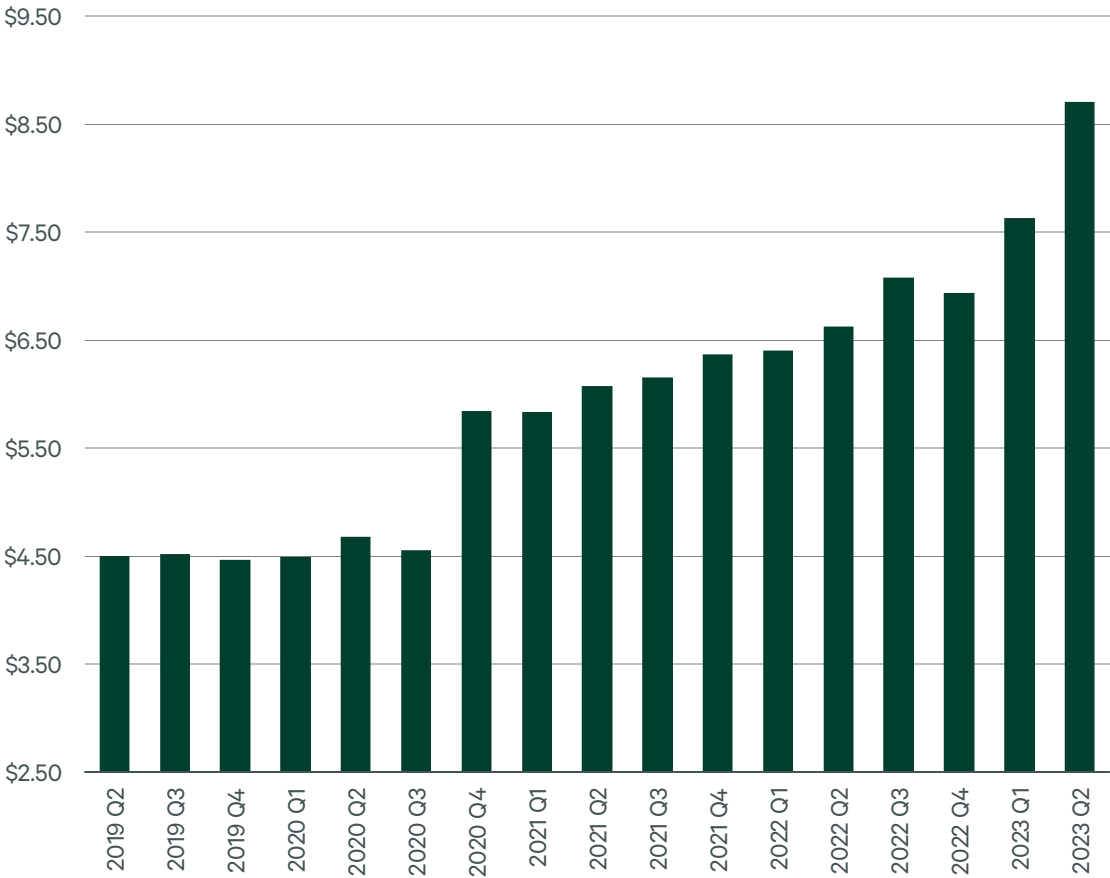
## Asking Rents

Leasing slowdowns in neighboring markets, due to lack of availability, and the replacement of aging inventory has led to successive quarters of significant asking rent growth – 20% this quarter. The most recent measures saw rent growth accelerate faster than rent gains posted early in the pandemic. This was a reaction, specifically, to vacancy reaching sub-4% levels by mid-2022. As pricing generally reacts to changes in supply and demand, the most recent gains are predicated on the amount of supply in the market a quarter or two ago. Given the uptick in vacancy during the past few quarters, expect pricing growth to slow as the market adjusts to vacancy closer to pre-pandemic levels.

## Construction

Limited groundbreakings cooled construction levels compared to recent highs brought on by the pandemic. At 11.7 million sq. ft., the active development pipeline was down to only 32% of the volume underway a year ago, a reaction to demand growth slowing compared to levels posted in 2020 through mid-2022. During that time more than 38 million sq. ft. of projects delivered new space to the market. These additions were not enough to meet demand as overall vacancy bottomed-out at 3.5% in Q2 2022. But the pace of construction projects completing since accelerated as developments started in 2021 and 2022 completed. Fully 31 million sq. ft. of new supply was added to the market during the past 12 months alone. Ultimately this new supply along with cooling demand pushed the market closer to a more sustainable equilibrium that defined this market pre-pandemic.

FIGURE 4: Average Asking Class A Lease Rates



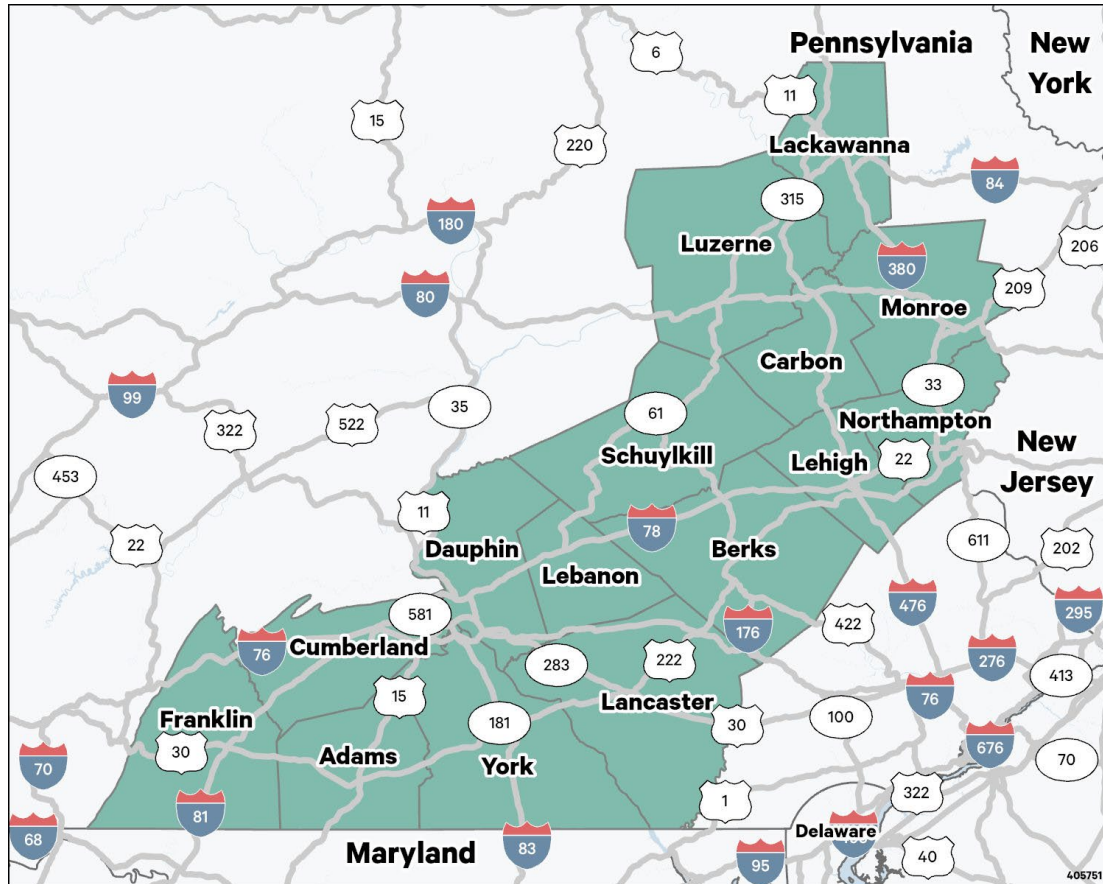
Source: CBRE Research, Q2 2023.

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	0.2	0	0	0	4.00
Cumberland County	65,604,519	2.8	382,985	100,000	-703,550	7.62
Dauphin County	29,345,325	5.4	0	1,917,901	353,070	7.35
Franklin County	23,652,936	4.3	0	1,957,580	2,984,160	6.40
Lancaster County	55,625,630	4.7	57,000	856,578	-1,367,980	7.59
Lebanon County	15,955,130	2.4	0	1,113,178	170,827	7.61
York County	71,562,876	5.0	1,721,992	257,865	2,307,265	7.74
<b>Central PA Subtotal</b>	<b>264,263,377</b>	<b>4.2</b>	<b>2,161,977</b>	<b>6,203,102</b>	<b>3,743,792</b>	<b>7.43</b>
Berks County	39,658,402	11.3	1,049,992	743,635	122,497	8.86
Lehigh County	64,640,886	3.2	159,865	310,800	-402,983	10.45
Northampton County	51,492,150	6.6	1,745,530	366,190	2,761,483	10.65
<b>Lehigh Valley PA Subtotal</b>	<b>155,791,438</b>	<b>6.4</b>	<b>2,955,387</b>	<b>1,420,625</b>	<b>2,480,997</b>	<b>9.94</b>
Carbon County	1,253,747	73.5	0	0	0	6.50
Lackawanna County	19,396,434	5.0	160,200	1,000,000	512,800	5.59
Luzerne County	52,307,952	3.4	227,500	1,836,500	2,547,833	7.32
Monroe County	7,513,711	10.4	0	0	586,100	6.51
Schuylkill County	16,446,202	3.6	0	1,229,136	1,184,585	5.69
<b>Northeast PA Subtotal</b>	<b>96,918,046</b>	<b>5.2</b>	<b>387,700</b>	<b>4,065,636</b>	<b>4,831,318</b>	<b>6.56</b>
<b>Total</b>	<b>516,972,861</b>	<b>5.0</b>	<b>5,505,064</b>	<b>11,689,363</b>	<b>11,056,107</b>	<b>8.46</b>

Source: CBRE Research, Q2 2023

## Market Area Overview



## PHILADELPHIA DOWNTOWN

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

## PHILADELPHIA SUBURBAN

555 E Lancaster Avenue  
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