

FIGURES | PA I-78/I-81 CORRIDOR INDUSTRIAL | Q1 2024

Market fundamentals returning to pre-pandemic trends

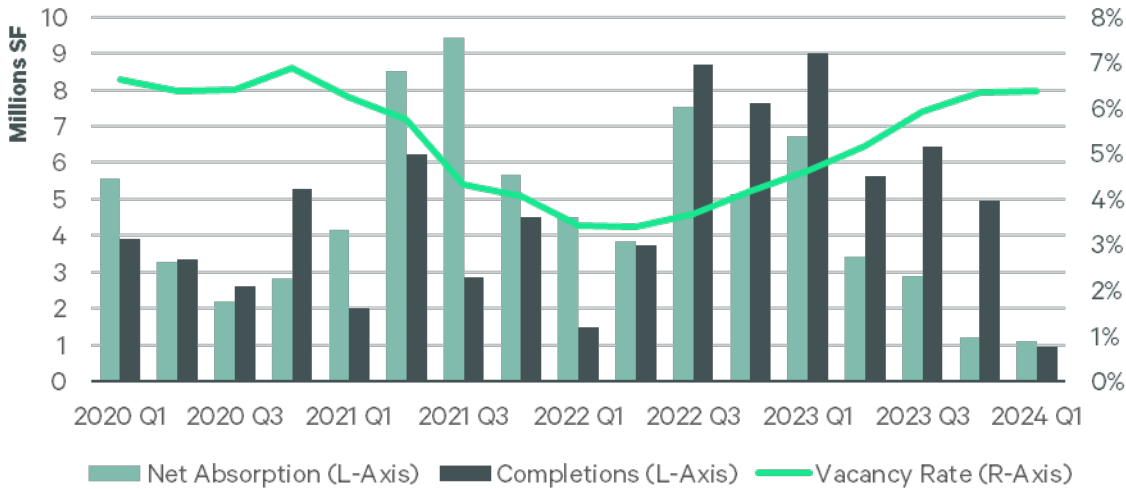


Note: Arrows indicate change from previous quarter.

- Leasing activity was muted but limited construction deliveries left vacancy unchanged at 6.4%.
- Current requirements in the market align with supply from a size perspective, suggesting continued balance in the near term.
- As the market settled into a new equilibrium, rents generally went unchanged as leverage shifted away from landlords and toward balance.

The PA I-78/I-81 Corridor showed signs of returning to its pre-pandemic trend of supply and demand balance while pricing moderated. Leasing was somewhat muted this quarter, marked by a few large leases driving activity. But the construction pipeline had been constricting starting in mid-2022. The resulting low levels of deliveries coupled with modest net absorption left the vacancy rate unchanged at 6.4% quarter-over-quarter. This balance was expected to persist as the available existing and under construction spaces aligned with requirements in the market from a sizing perspective. With the market settling into a new phase of equilibrium, rents mostly stayed unchanged with some nuance in leases where contract rents rose while effective rents softened. This demonstrated that leverage was coming closer to balance after being dominated by landlords since late 2020.

FIGURE 1: Net Absorption, Construction Deliveries & Vacancy



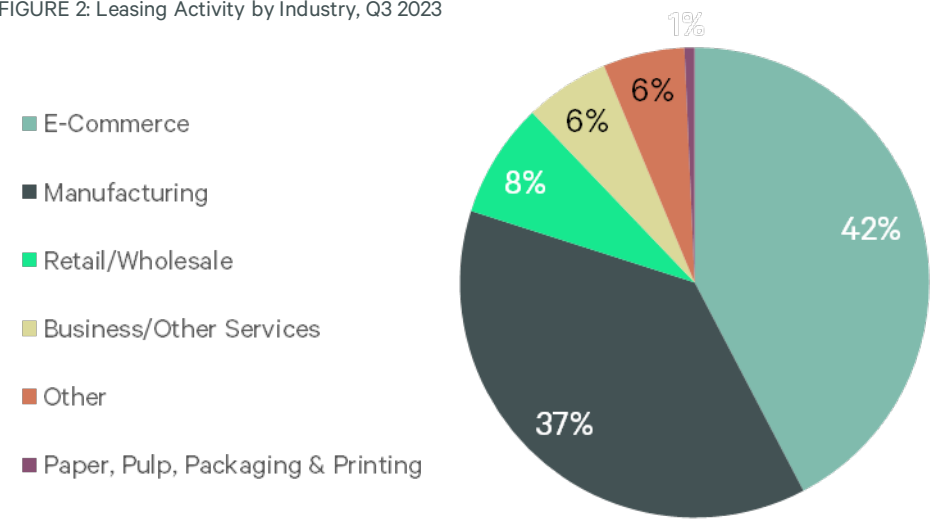
Source: CBRE Research, Q1 2024

Leasing Activity

E-commerce and manufacturing accounted for almost all new leasing activity in Q1 2024. Anderson Windows’ lease at 40 Dauphin Dr in Kingstown, PA and Woodstream Corporation’s lease at NorthPoint Development’s project in Manchester Commerce center represented most of that manufacturing’s activity while an undisclosed e-commerce company leased two buildings at Core5 Industrial Partners’ project in Middletown, PA. More recently, leasing had been somewhat evenly distributed among third-party logistics (3PL) providers, wholesale/retail, and manufacturers.

From a sizing perspective, the 750,000 sq.-ft. or larger tenants accounted for nearly half of leasing activity since the start of 2023. Examining current tenants in the market revealed this trend would persist in the near term while the industries comprising these requirements were also more analogous to recent activity. This trend toward diverse, persistent demand had created a relatively steady-state vacancy environment during the pre-pandemic era and points toward a return to more stable market fundamentals.

FIGURE 2: Leasing Activity by Industry, Q3 2023



Source: CBRE Research, Q1 2024

FIGURE 3: Top Lease Transactions, Q1 2024

Tenant	Building	Size (SF)	Transaction Type
Undisclosed E-Commerce	Core5 at Middletown	1,219,021	New Lease
Anderson Windows	40 E Main St	600,000	New Lease
Woodstream Corporation	300 Regional Way	586,780	New Lease
National Distribution Centers	9611 W Hills Ct	336,901	Renewal
National Business Furniture	45 Logistics Dr	276,249	Renewal
JM Rapp	250 Boulder Dr	210,000	New Lease
Continental Automotive Systems	6755 Snowdrift Rd	125,000	Renewal
RevCopack	160 Reasearch Dr	124,100	New Lease
R.C. Moore	32 Earth Conservancy Dr	124,024	Renewal
Cross Roads Beverage	5480 Allentown Pike	47,955	New Lease

Source: CBRE Research, Q1 2024

Supply

Construction completions on the order of 1 million sq. ft. were offset by net absorption of equal scale, leaving vacancy unchanged at 6.4%. Class A vacancy, which started rising rapidly in late 2022, ticked up a modest 10 basis points as developers realigned with market demand. Much of the existing or under construction available spaces were in the larger size tranches, similar to both historic activity and current requirements in the market. This alignment of supply and demand was not a new state for the market; rather, it drove the stability seen during the five years leading up to the pandemic where vacancy hovered near the mid-5% to mid-6% range. A steady construction pipeline added about 3.5 million sq. ft. of supply per quarter while the same absorption on average took vacancy down. The construction pipeline in Q1 2024 was smaller than pre-pandemic averages and muted land sales suggest it will remain constrained in the near term, assuaging any fears of over-supply.

Rents

Overall asking rents remained relatively flat after growing 63% since the start of the pandemic. Class A asking rents behaved similarly, but mostly as a function of geography. Class A rents in Central PA and the Lehigh Valley both posted gains, quarter-over-quarter. Class A rents within Northeast PA went down as a result of supply pressure. Available Class A space nearly doubled-year-over-year in that portion of the market as vacant, newly constructed space was added. From a signed lease perspective, overall taking rents were up in both Central PA and the Lehigh Valley while effective rents were down as tenants negotiate for more concessions within leases. Vacancies rising during the past two years has pushed leverage away from landlords and more towards a balance with tenants driving rents to moderate from recent, aggressive growth trends.

FIGURE 4: Construction Pipeline

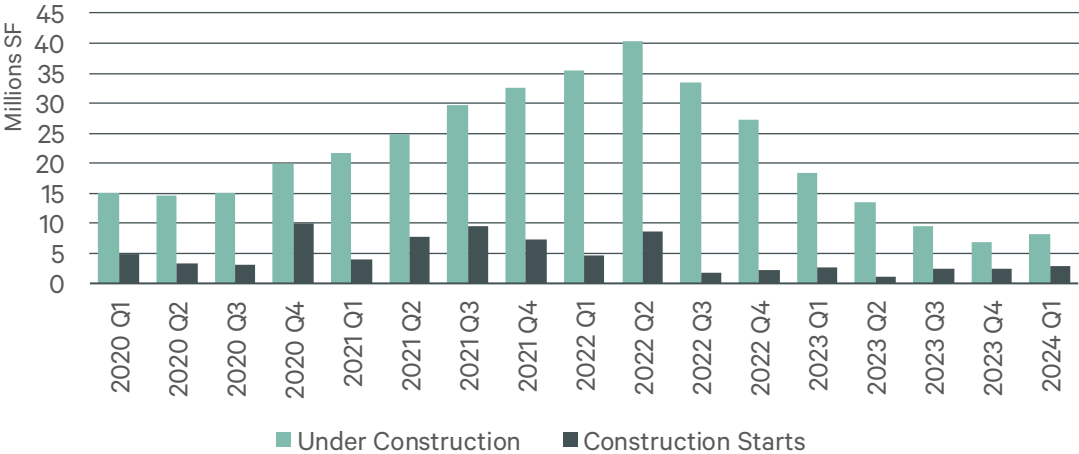
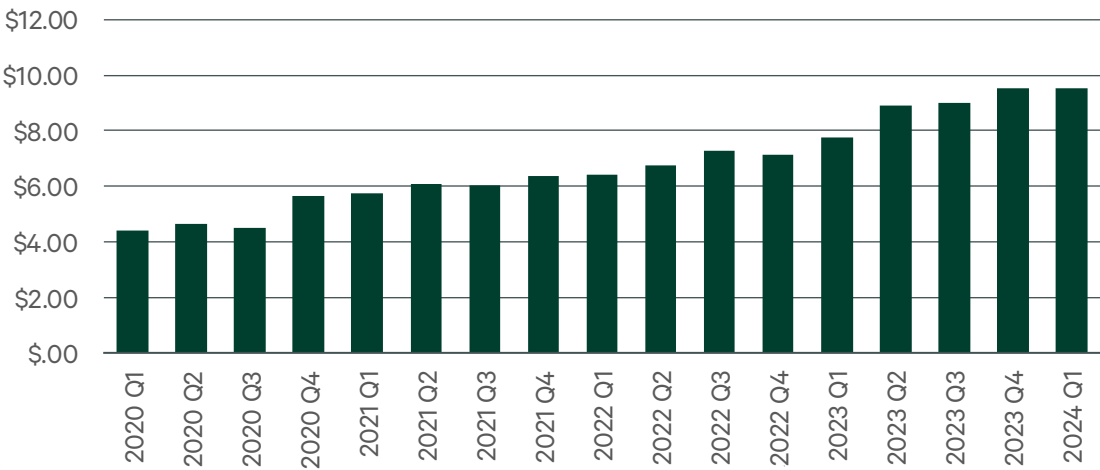


FIGURE 5: Average Asking Class A Lease Rates



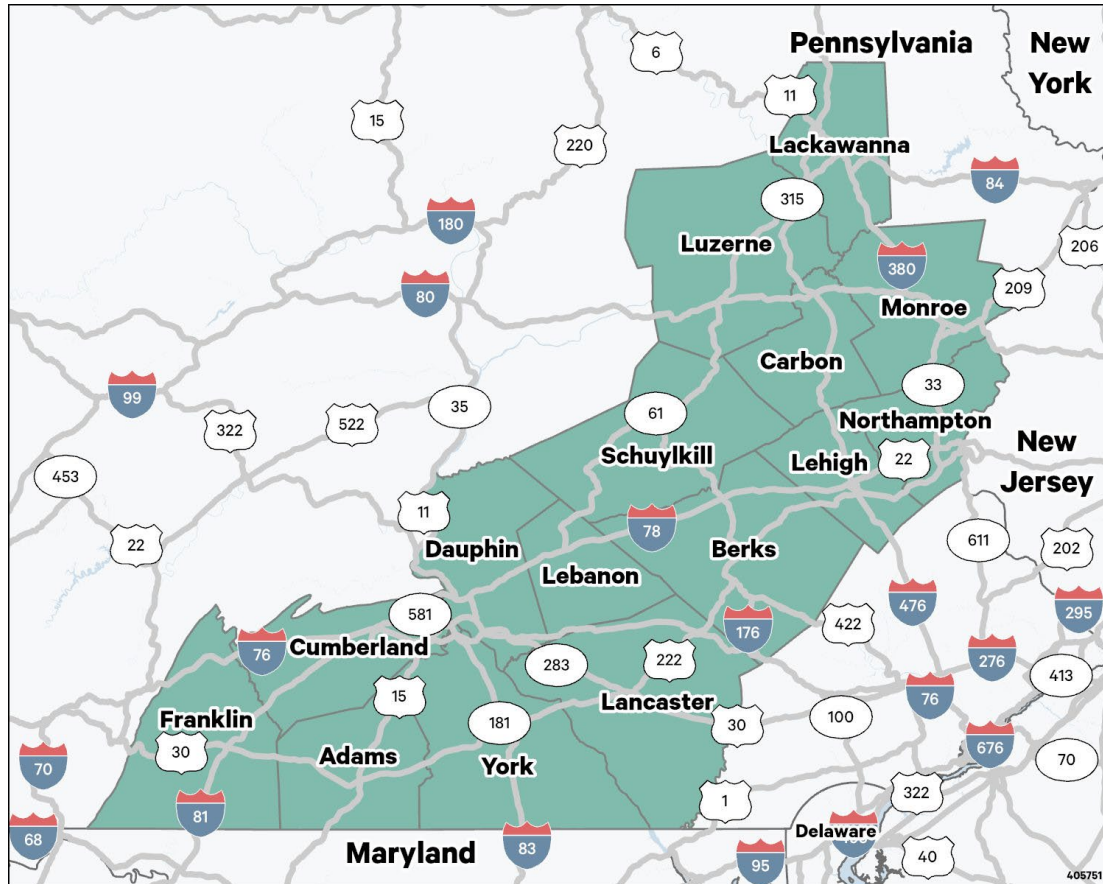
Source: CBRE Research, Q1 2024

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	2,516,961	0.0%	0	400,000	0	-
Cumberland County	65,441,816	2.6%	0	0	-401,205	\$8.52
Dauphin County	31,263,226	8.7%	0	496,608	10,200	\$8.41
Franklin County	25,654,376	13.4%	0	0	0	\$7.28
Lancaster County	56,433,177	6.4%	0	602,040	-20,621	\$8.82
Lebanon County	15,955,130	1.1%	0	1,113,178	211,358	\$4.82
York County	71,791,293	2.0%	0	1,386,945	690,453	\$6.75
Central PA Subtotal	269,055,979	4.9%	0	3,998,771	490,185	\$7.90
Berks County	40,567,518	8.0%	0	234,830	1,933,832	\$9.50
Lehigh County	63,938,061	4.2%	0	0	-179,172	\$11.59
Northampton County	52,558,954	10.5%	853,798	1,651,595	-800,263	\$11.67
Lehigh Valley PA Subtotal	157,064,533	7.2%	853,798	1,886,425	954,397	\$11.12
Carbon County	1,253,747	0.0%	0	0	0	-
Lackawanna County	20,282,530	8.6%	0	0	-459,723	\$5.61
Luzerne County	54,645,231	4.2%	105,000	1,169,180	652,598	\$7.66
Monroe County	7,913,851	24.9%	0	1,204,494	-510,510	\$6.72
Schuylkill County	17,667,338	17.4%	0	0	-33,993	\$7.00
Northeast PA Subtotal	101,762,697	8.9%	105,000	2,373,674	-351,628	\$6.81
Total	527,883,209	6.4%	958,798	8,258,870	1,092,954	\$9.00

Source: CBRE Research, Q1 2024

Market Area Overview



PHILADELPHIA DOWNTOWN

50 S 16th Street
Suite 3000
Philadelphia, PA 19102

PHILADELPHIA SUBURBAN

555 E Lancaster Avenue
Suite 120
Radnor, PA 19087

HARRISBURG

5 Capital Drive
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Harrisburg, PA 17110

ALLENTOWN

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