

FIGURES | PA I-78/I-81 CORRIDOR INDUSTRIAL | Q3 2023

Shrinking construction pipeline; persistent demand stabilize market

▲ 6.0%
Vacancy Rate

▼ 1.9M
SF Net Absorption

▼ 9.6M
SF Construction

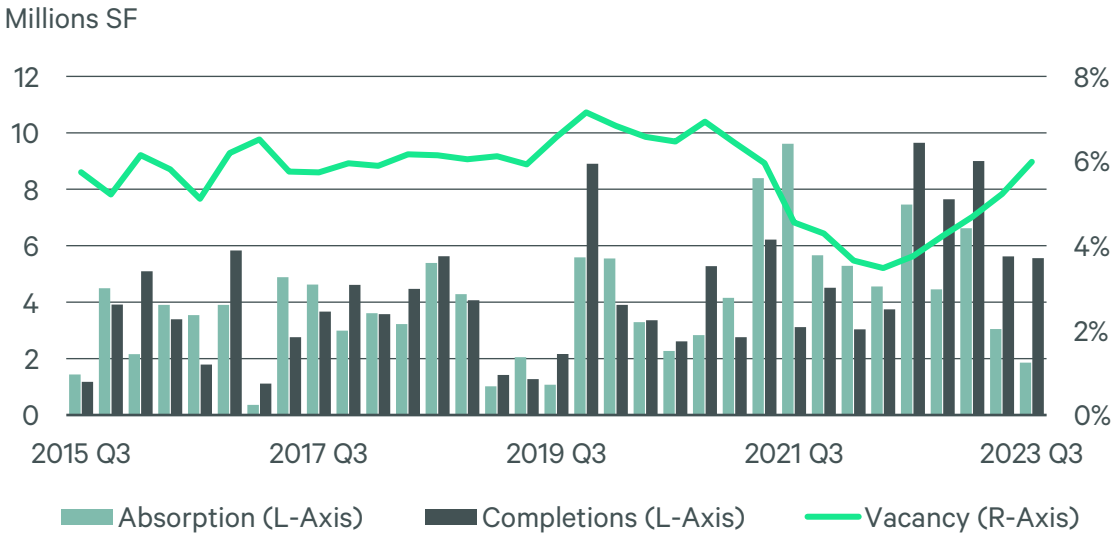
▲ \$8.55
NNN/ Lease Rate

Note: Arrows indicate change from previous quarter.

During the second quarter of last year, the PA I-78/I-81 Corridor pipeline reached peak supply with 37.4 million square feet (sq. ft.) under construction while posting its lowest pandemic-era vacancy rate, 3.7%. That limited vacancy and the delivery of new premium space spurred rent appreciation on the order of 10% per quarter over the last 4 quarters. Over the same period, construction starts declined as developers reacted to rising vacancy with class A sitting at 11.2% at the end of Q3 2023. With fewer barriers to entry than the neighboring Philadelphia Metro market, developers are leery of creating oversupply, preferring to wait for build-to-suit projects. And while an uptick in new supply drove vacancy higher, If delivered today the current 9.6 million sq. ft. under construction would require 2.5 quarters to be fully absorbed, based on 2023 absorption levels. In total, the market was nearing a more balanced supply and demand landscape.

Year-over-year class A distribution/logistics rents realized similar levels of rate gains across the market. Looking forward, Class A rent gains will predominantly come from the core districts in Central PA and the Lehigh Valley (LHV). Both maintain low class B vacancy, 1.8% in LHV, and being in core markets, landlords are willing to leverage market fundamentals rather than increase concessions.

FIGURE 1: Net Absorption, Construction Deliveries & Vacancy



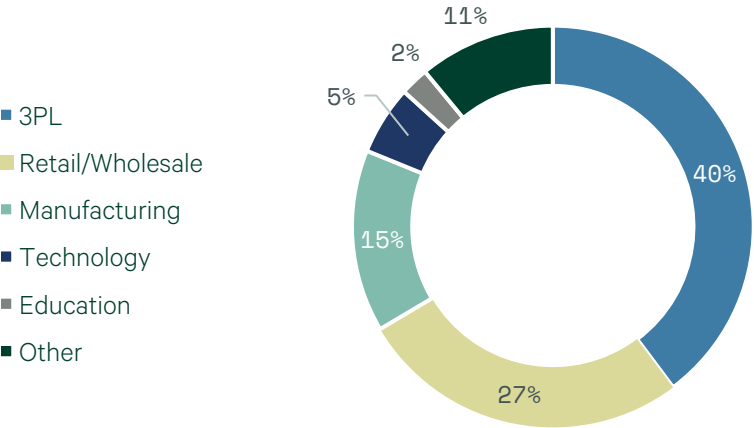
Source: CBRE Research, Q3 2023.

Leasing Activity

The PA I-78/I-81 Corridor tallied 11.9 million sq. ft. of net absorption so far in 2023, 4.3 million sq. ft. lower than through the third quarter of last year. Leasing activity in Q3 2023 outperformed Q3 2022 despite slowdowns in transaction completion timelines. Lease velocity has been driven by tenants with immediate needs as those with flexibility prioritize finding lower rents or greater concessions, no longer fearing needed supply will not be available.

Third-party logistics (3PL) firms, retailers, and manufacturers were the top leasing industries in Q3, with Ryder Logistics’ (Verizon) 1.2 million sq.-ft. & Kane Warehousing’s 921,000 sq.-ft. deals. Leasing activity is expected to stay close to its current “pre-pandemic” level, driven by activity from essential markets: healthcare/pharma, food/beverage, auto parts and 3PLs. And while more future space deliveries will add to a growing supply of Class A space, persistent activity levels along with an uptick in interest for larger deals noticed in recent tours will begin to curb class A vacancy growth.

FIGURE 2: Leasing Activity by Industry, Q3 2023



Source: CBRE Research, Q3 2023.

FIGURE 3: Top Lease Transactions, Q3 2023

| Tenant | Building | Size (SF) | Transaction Type |
|-------------------------------------|-------------------------|-----------|------------------|
| Ryder Integrated Logistics | 8620 Congdon Hill Dr | 1,200,000 | Renewal |
| Kane Warehousing, LLC | Route 940 | 921,356 | New Lease |
| US LUMBER GROUP LLC | Commonwealth Drive | 868,000 | New Lease |
| Midea Group | 7345 Airport Rd | 452,400 | New Lease |
| Pioneer Hi-Bred International, Inc. | 600 Hunter Ln | 216,387 | Renewal |
| Mr. Brands | 1 Keystone Dr | 211,358 | New Lease |
| R.C. Moore, Inc. | 32 Earth Conservancy Dr | 124,024 | New Lease |
| ShipNetwork | Stony Creek | 115,500 | New Lease |
| Return Management Services, Inc. | 53 Commerce Dr | 105,647 | Renewal |
| Amcors Ridge Packaging USA | 2411 N North Kistler Ct | 105,112 | New Lease |

Source: CBRE Research, Q3 2023.

Asking Rents

While rents continued to grow across the market, rental rate appreciation was outsized in the core markets where few Class B options existed. Over the last two quarters the counties with the lowest class B vacancy Berks County, 0.7%, & Lancaster County, 0.8%, achieved the highest Class A rent growth, 31% & 36% respectively. Markets where enough Class B supply existed to pressure landlords to compete on price saw slower Class A rent growth. For core portions of the market within the Lehigh Valley or Central PA where supply is limited almost exclusively to Class A options, tenants still retain little leverage in spite of rising vacancy. In other portions of the market where both an appreciable amount of Class A and Class B options exist, landlords may have to offer more concessions to fill vacancies while holding steady on current pricing.

Construction

In Q2 2022 the PA I-78/I-81 Corridor reached peak supply under construction at 37.4 million sq. ft. leading to about 38 million sq. ft. delivering during the next five quarters. In comparison, it took twice that time to deliver the last 38 million sq. ft. to the market and yet vacancy sits at 6.0%, on par with 2018. At 9.8 million sq. ft. currently under construction, the bulk of new supply additions in the short term already took place and the market should begin to absorb space as fast as it delivers, pointing toward supply/demand equilibrium.

While overall construction starts slowed in recent quarters, new construction will continue to break ground as developers opt to go vertical on selective sites in core markets. Overall developer activity around land purchases as well as site work increased as developers hoped to time future construction completions to the potential waning of availabilities some point next year.

FIGURE 4: Average Asking Class A Lease Rates

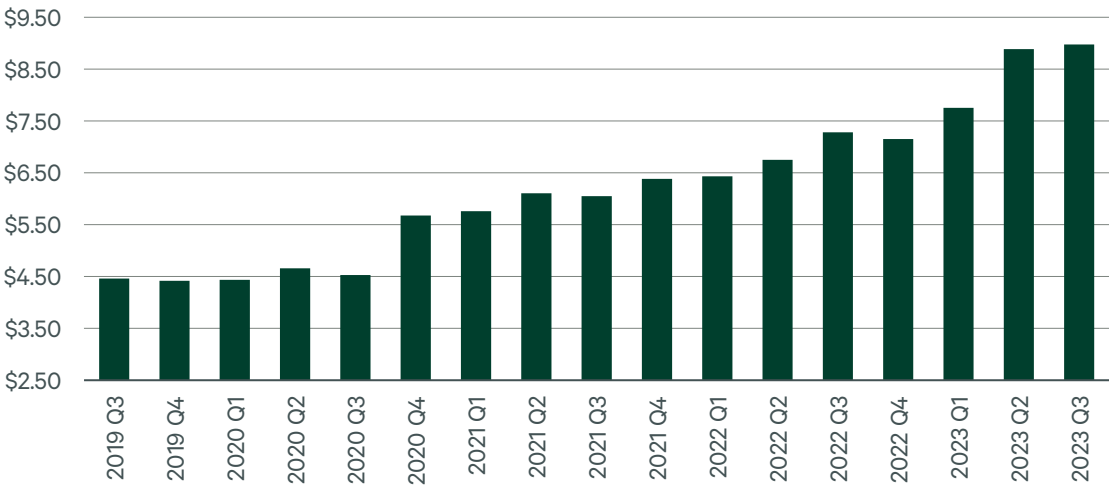
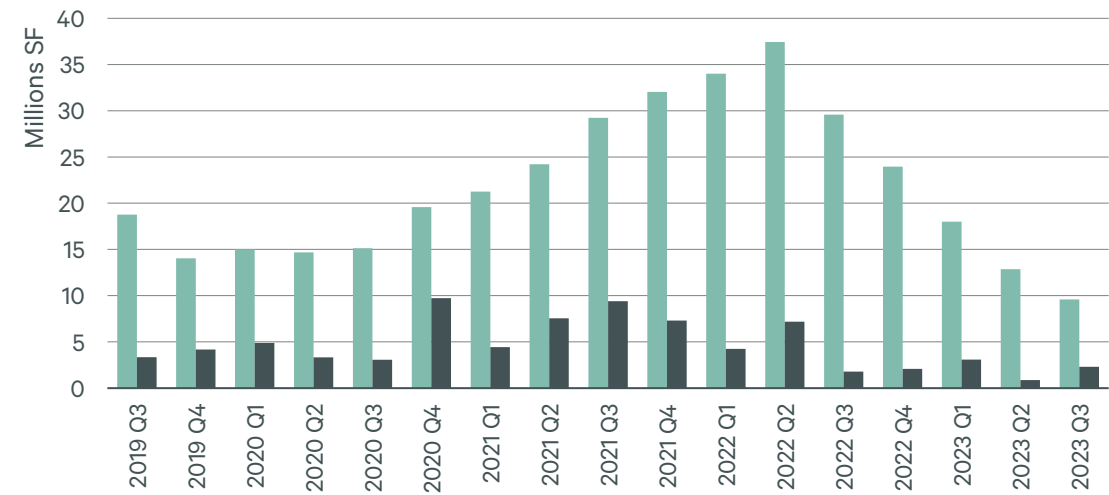


FIGURE 5: Construction Pipeline



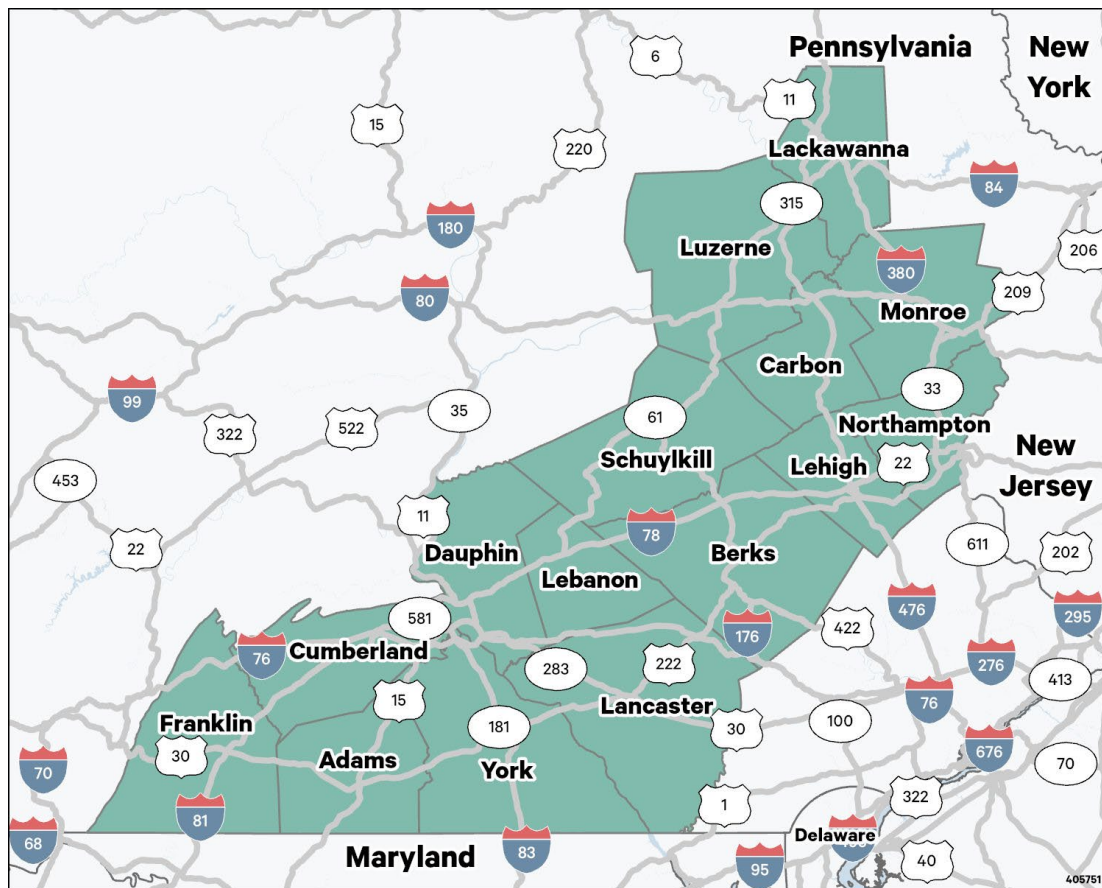
Source: CBRE Research, Q3 2023.

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 | 0.2 | 0 | 0 | 4,840 | 4.00 |
| Cumberland County | 65,604,519 | 2.8 | 0 | 100,000 | -498,270 | 8.16 |
| Dauphin County | 31,263,226 | 10.9 | 1,917,901 | 0 | 1,000,871 | 8.12 |
| Franklin County | 24,604,016 | 9.8 | 951,080 | 1,006,500 | 2,553,347 | 7.05 |
| Lancaster County | 55,856,968 | 5.2 | 231,338 | 625,240 | -1,469,825 | 8.26 |
| Lebanon County | 15,955,130 | 2.4 | 0 | 1,113,178 | 173,327 | 7.13 |
| York County | 71,766,716 | 4.9 | 203,840 | 923,145 | 2,958,549 | 7.46 |
| Central PA Subtotal | 267,567,536 | 5.4 | 3,304,159 | 3,768,063 | 4,722,839 | 7.77 |
| Berks County | 40,254,893 | 13.1 | 652,080 | 91,555 | 40,894 | 9.14 |
| Lehigh County | 64,211,811 | 2.8 | 0 | 310,800 | 149,232 | 11.34 |
| Northampton County | 51,592,150 | 8.0 | 0 | 1,559,695 | 2,210,871 | 11.24 |
| Lehigh Valley PA Subtotal | 156,058,854 | 7.2 | 652,080 | 1,962,050 | 2,400,997 | 10.38 |
| Carbon County | 1,253,747 | 0.0 | 0 | 0 | 921,328 | - |
| Lackawanna County | 20,396,434 | 10.2 | 1,000,000 | 0 | 416,477 | 6.00 |
| Luzerne County | 52,612,281 | 3.5 | 201,000 | 2,640,000 | 2,904,508 | 7.20 |
| Monroe County | 7,913,851 | 14.0 | 400,140 | 0 | 586,100 | 7.30 |
| Schuylkill County | 16,446,202 | 3.5 | 0 | 1,229,136 | 1,266,585 | 6.90 |
| Northeast PA Subtotal | 98,622,515 | 5.7 | 1,601,140 | 3,869,136 | 6,094,998 | 6.72 |
| Total | 522,248,905 | 6.0 | 5,557,379 | 9,599,249 | 13,218,834 | 8.55 |

Source: CBRE Research, Q3 2023

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
Suite 201
Harrisburg, PA 17110

ALLENTOWN

1275 Glenlivet Drive
Suite 320
Allentown, PA 18106

Joe Gibson

Associate Director of Research,
Pennsylvania
+1 610 727 5922
joseph.gibson@cbre.com

Mitchell Flugstad-Clarke

Field Research Analyst
+1 610 727 5944
mitchell.flugstadclarke@cbre.com