



I-81/78 Corridor – Pennsylvania Industrial Market

I-81/78 Industrial Market Posts Strong First Quarter; Asking Rents Increase

As a result of hearty demand and soaring occupancy rates in the I-81/78 industrial market, landlords have been able to ink deals at record-high rental rates with annual increases of over 3.0% for longer-term transactions. Land pricing has also reached record highs as tenants are less focused on cost and more on obtaining the right land option to suit their requirements. Even the current elevated gas prices have not curbed demand for warehouse and distribution product. The largest challenge for warehouse occupiers in the I-81/78 industrial market has been a shortage of workers. As the cost of labor continues to rise, automation has become a realistic option for tenants.

After a strong finish to 2021, the momentum carried into the first quarter of this year. Absorption was positive, climbing to 5.9 million square feet, and the overall vacancy rate declined 90-basis points year-over-year from 9.6% to 6.3%. Average asking rents continued to move upward from \$5.16/SF last quarter to \$5.31/SF currently. Last year at this time, average asking rents were \$4.87/SF, representing an increase of 9.0%. Construction activity is booming, with 23.7 million square feet currently in the pipeline.

Current Conditions

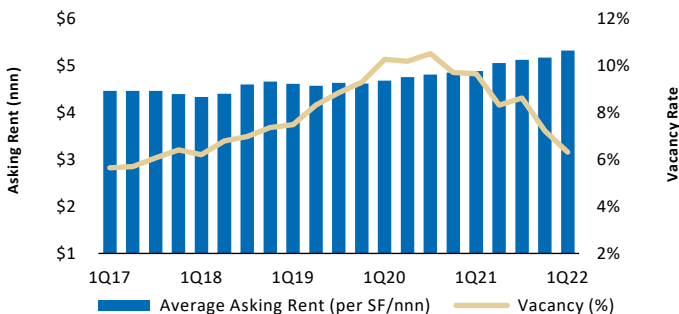
- Average asking rents increased to \$5.31/SF in the first quarter, up from \$5.16/SF the previous quarter.
- 23.7 million square feet is currently under construction.
- Overall vacancy declined to 6.3% in the first quarter, down from 7.2% in the previous quarter.

Market Summary

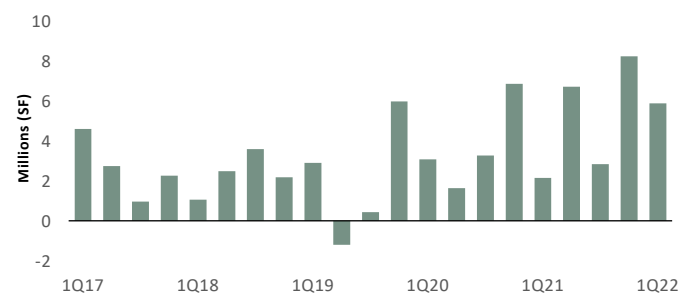
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	424.0M	421.6M	410.7M	↑
Vacancy Rate	6.3%	7.2%	9.6%	↓
Quarterly Net Absorption (SF)	5.9M	8.2M	2.1M	↑
Average Asking Rent/SF	\$5.31	\$5.16	\$4.87	↑
Under Construction (SF)	23.7M	18.6M	20.3M	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Central Pennsylvania

The Central Pennsylvania submarket posted another strong quarter of positive absorption to kick off the year totaling 1.4 million square feet. Significant contributors to the boost in absorption included: Harley Davidson taking occupancy of its 352,000-square-foot building at 693 North Hills Road in York, and Hormel Foods moving into its new location at 101 Commerce Drive in Mechanicsburg, totaling 348,000 square feet. In addition, Georgia Pacific took possession of its new 250,200-square-foot building at 122 Bordnersville Road in the First Logistics Center @ I-78/81 in Jonestown.

The overall vacancy rate in Central Pennsylvania declined to 5.8% in the first quarter, down 60-basis points from the fourth quarter, when vacancy was 6.4%. Asking rental rates for warehouse and distribution space increased by 6.3%, going from an average of \$4.78/SF in the fourth quarter to \$5.08/SF. Of the three tracked submarkets (Central Pennsylvania, Lehigh Valley and Northeastern Pennsylvania), the Central Pennsylvania submarket is leading with new construction activity, totaling 8.6 million square feet. The largest lease this quarter was inked by Sun Run taking 423,000 square feet at 10874 2nd Amendment Drive in the Susquehanna Logistics Center in Glen Rock.

Lehigh Valley

The Lehigh Valley submarket experienced 1.9 million square feet of absorption in the first quarter of 2022. United Natural Foods recently moved into its two-building complex in the North Valley Trade Center in Schnecksville totaling 1.3 million square feet. In Allentown, Radial moved into its newly constructed 640,305-square-foot building at 5185 Crackersport Road contributing significantly toward positive absorption totals.

The overall vacancy rate for the Lehigh Valley submarket declined 60-basis points quarter-over-quarter, from 8.0% to 7.4%. During the quarter, average asking rates for warehouse and distribution space declined slightly by 2.9%, although the Lehigh Valley continues to post the highest average asking rates in the I-81/78 Corridor at \$5.57/SF.

Both the largest lease and investment sale transactions were signed in the Lehigh Valley this quarter. Unis leased nearly 1.0 million square feet at 175 Cesanek Road in Northampton. With delivery scheduled for the fourth quarter of 2022, this project will contribute significantly to year-end positive absorption totals. Five Star Apparel also leased 292,092 square feet at 7132 Daniels Drive in Allentown. The largest investment sale of the quarter was 1002 Patriot Parkway in the Riverview Industrial Park in Reading. The 609,000-square-foot asset traded for \$80.5 million and was purchased by TA Realty.

Northeastern Pennsylvania

The overall vacancy rate for the Northeastern Pennsylvania submarket declined from 7.6% at year end to 5.5% currently. Absorption climbed to 2.6 million square feet in the quarter, the highest increase of this metric in all three tracked submarkets. Average asking rental rates increased 6.1% quarter-over-quarter to \$4.51/SF; this is 11.1% higher than a year ago. The Northeastern Pennsylvania submarket has nearly 8.0 million square feet currently under construction, all of which is expected to deliver over the next 12 months.

Significant first quarter leases included, Ingram Micro - 470,000 square feet at 101 Commerce Drive in Hazleton and Wren Kitchens - 395,296 square feet at 1055 Hanover Street in Wilkes-Barre.

Select Lease Transactions

Tenant	Submarket	Building	Type	Square Feet
Unis	Lehigh Valley	175 Cesanek Road	New Lease	953,336
Ingram Micro	Northeastern Pennsylvania	101 Commerce Drive	New Lease	470,000
Sun Run	Central PA	10874 2 nd Amendment Drive	New Lease	423,000
Wren Kitchens	Northeastern Pennsylvania	1055 Hanover Street	New Lease	395,296
Five Star Apparel	Lehigh Valley	7132 Daniels Drive	New Lease	292,092

Select Sale Transactions

Buyer	Submarket	Building	Sale Price	Square Feet
TA Realty	Lehigh Valley	1002 Patriot Parkway	\$80.5M	609,000
Riverside at Whitehall Holding	Lehigh Valley	1139 Lehigh Avenue	\$32.5M	423,879

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Warehouse Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Central Pennsylvania	192,273,702	8,619,555	5.8%	1,382,525	1,382,525	\$5.08	\$8.75	\$5.46
Lehigh Valley	147,726,556	7,177,970	7.4%	1,888,714	1,888,714	\$5.57	\$7.36	\$5.69
Northeastern Pennsylvania	83,505,009	7,920,827	5.5%	2,605,720	2,605,720	\$4.51	\$8.21	\$4.39
Market	424,023,407	24,498,292	6.3%	5,876,959	5,876,959	\$5.04	\$8.05	\$5.31

Submarket Statistics By Type						
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
Total	424,023,407	23,718,352	6.3%	5,876,959	5,876,959	\$5.31
Warehouse/Distribution	294,145,870	18,926,741	6.9%	4,055,362	4,055,362	\$5.04
R&D/Flex	14,133,081	-	7.6%	145,609	145,609	\$8.05
General Industrial	115,744,456	4,791,611	4.6%	1,675,988	1,675,988	\$5.12

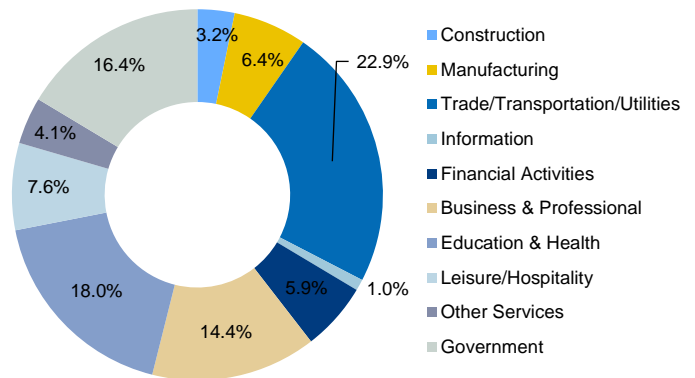
Economic Conditions

The Harrisburg-Carlisle metropolitan statistical areas (MSA) unemployment rate declined to 3.8% in February of 2022, down 10-basis points from December of 2021 and 6.2% from a year ago. Payroll employment was +2.0% for the month of January and has been positive every month since April 2021 with the exception of last December. Of all tracked sectors in the Harrisburg-Carlisle MSA, leisure and hospitality (+17.4%), trade, transportation and utilities (+9.0%) and manufacturing (+4.2%) all exhibited the most growth over the past year.

With the Omicron variant waning, employers are becoming more confident in a return to the workplace. With the dwindling number of Omicron cases, payroll employment is expected to increase and the unemployment rate should continue to decline. Pennsylvania’s labor force participation rate remains down compared to pre-pandemic levels, so an increase in this metric is anticipated in the coming months.

Employment by Industry

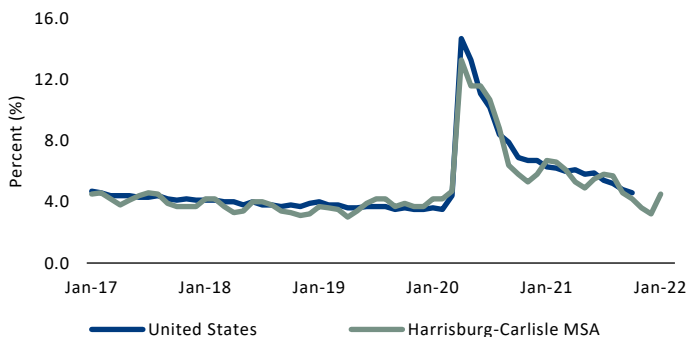
HARRISBURG-CARLISLE MSA, ANNUAL AVERAGE 2022



Source: U.S. Bureau of Labor Statistics, February 2022.

Unemployment Rate

SEASONALLY ADJUSTED*

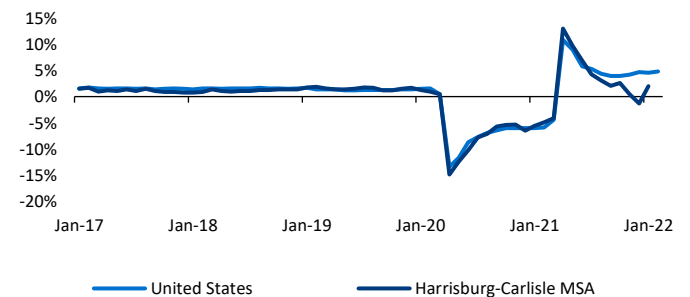


*Local data not seasonally adjusted

Source: U.S. Bureau of Labor Statistics, February 2022.

Payroll Employment, Total Nonfarm

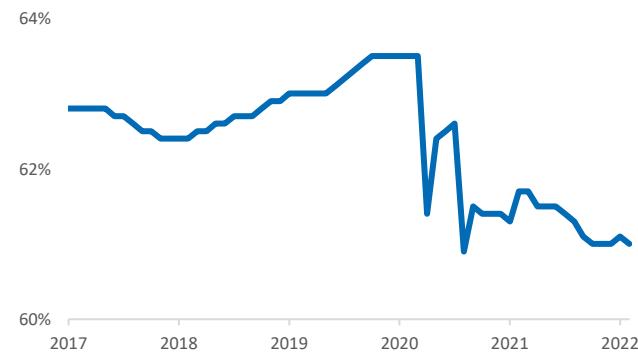
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, February 2022.

Labor Force Participation Rate

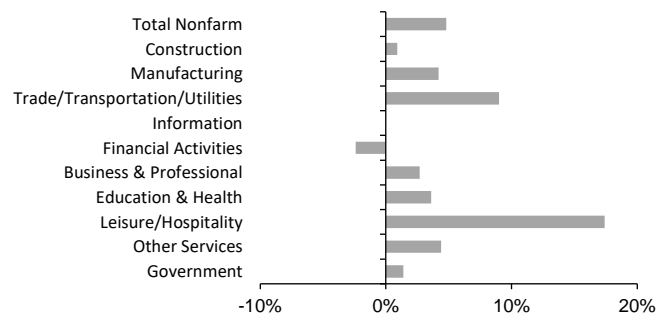
PENNSYLVANIA



Source: Federal Reserve, February 2022.

Employment Growth by Industry, February 2022

HARRISBURG-CARLISLE MSA, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, February 2022.

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