



I-81/78 Corridor – Pennsylvania Industrial Market

Rents, Construction, and Absorption Strong to Close Out 2022

Activity in the I-81/78 industrial market remains strong. New speculative development that delivers each quarter continues to lease up rapidly as the combined occupancy rate across all three submarkets is nearly 95%. Supply chain issues and high construction costs continue to be a challenge for developers, as some proposed projects have been pushed out to later in 2023; however, demand from tenants in the market for sizable blocks of space remains strong. With so much new product coming online, a possible slowdown could be looming as experienced in other markets; however, for the time being, conditions remain favorable in the I-81/78 industrial market. Rental rates continue to climb to record highs; however, some older product available in the market continues to drag rents down. Class A rental rates have risen significantly over the past two years, garnering the most activity by tenants in the market.

The overall vacancy rate for the I-81/78 industrial corridor declined to 5.1% quarter over quarter from 5.3%. Comparatively, vacancy is down 210 basis points from a year ago, when the rate was 7.2%. Year-to-date absorption climbed to 25.6 million square feet in the fourth quarter, surpassing last year's total market absorption of 19.6 million square feet. Overall, asking rents increased significantly to \$5.96/SF in the fourth quarter, up from last quarter's average of \$5.31/SF. Construction activity remains robust, with 24.5 million square feet underway and 18.5 million square feet of new construction delivered in 2022.

Current Conditions

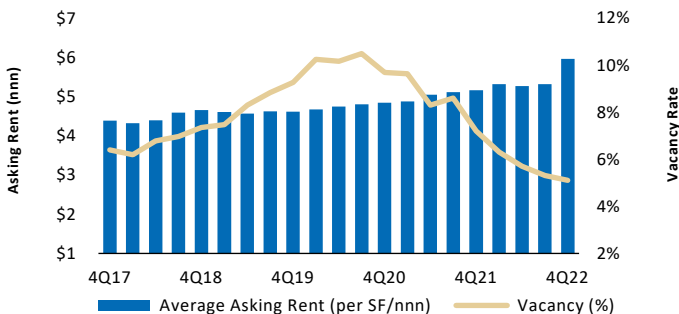
- Average asking rents were at \$5.96/SF in the fourth quarter, up from \$5.31/SF in the third quarter.
- 24.5 million square feet is currently under construction.
- Overall vacancy declined to 5.1% in the fourth quarter, down from 5.3% in the previous quarter.

Market Summary

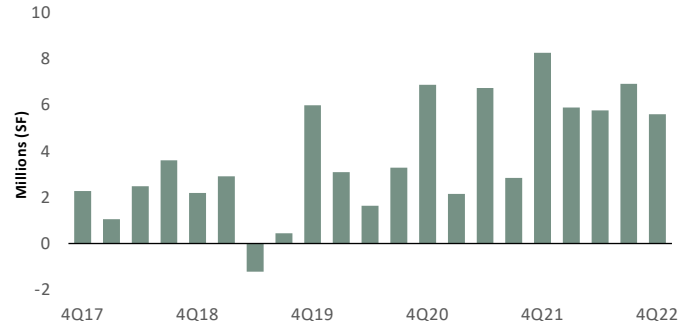
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	442.2M	435.8M	421.6M	↑
Vacancy Rate	5.1%	5.3%	7.2%	↓
Quarterly Net Absorption (SF)	5.6M	6.9M	8.2M	↑
Average Asking Rent/SF	\$5.96	\$5.31	\$5.16	↑
Under Construction (SF)	24.5M	29.6M	18.6M	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Central Pennsylvania

The Central Pennsylvania submarket experienced 2.0 million square feet of positive absorption in the fourth quarter, bringing the year-to-date total to 10.6 million square feet, the most of the three tracked submarkets in the I-81/78 industrial corridor. Notable tenants in the fourth quarter included Boohoo moving into its new 1.1-million-square-foot building at 2771 North Market Street in Elizabethtown and Amazon taking occupancy at 121 Commerce Avenue in Greencastle for a total of 551,030 square feet. For new leases signed in the fourth quarter, Spencer Gifts signed the largest, taking 550,000 square feet at 2869 Route 22 in Fredericksburg.

The overall vacancy rate in the Central Pennsylvania submarket declined further this quarter, going from 3.7% in the third quarter to 3.3% in the fourth quarter. Asking rental rates for warehouse and distribution space increased by 5.3% since the third quarter to a current rate of \$5.41/SF. New construction activity remains strong, with nearly 12 million square feet underway; 6.6 million square feet of new inventory delivered in 2022 in the Central Pennsylvania submarket, the most of all tracked submarkets.

Lehigh Valley

The Lehigh Valley submarket's overall vacancy rate declined to 7.2% in the fourth quarter, down 60 basis points from the third quarter. Asking rental rates for warehouse and distribution space rose to an average of \$6.24/SF in the fourth quarter, a 16.9% increase quarter over quarter. Construction activity continues to be robust in the Lehigh Valley submarket, totaling 7.8 million square feet currently under construction.

Year-to-date absorption climbed to 4.1 million square feet in the fourth quarter due to another 1.3 million square feet of positive absorption in the fourth quarter alone. Notable tenants that took occupancy this quarter included Unis, moving into its newly constructed building at 175 Cesanek Road in Northampton for 953,336 square feet, and ID Logistics, taking occupancy of the recently built facility in the Lehigh Valley Trade Center II in

Bethlehem for 526,662 square feet. Additional leases inked this quarter included Sysco leasing 453,000 square feet at 800 Willowbrook Road in Northampton, Iron Mountain taking 427,919 square feet at 433 East Moorestown Road in Wind Gap, and Grainger leasing 406,801 square feet at 1051 Carson Court in Palmer Township. Construction for that building is scheduled for completion during the first quarter of 2023, which will contribute to positive absorption numbers in 2023.

Northeastern Pennsylvania

The overall vacancy rate in the Northeastern Pennsylvania submarket increased to 5.3% in the fourth quarter, up from 4.3% last quarter, due to some new speculative development finishing construction. Year-to-date absorption reached 8.1 million square feet, with 1.7 million square feet of positive absorption coming in the fourth quarter of 2022. The most significant contributor to this quarter's positive absorption was Samsung moving into its newly completed 1.4-million-square-foot building at 1037 Mile Hill Road in the Hazleton Logistics Park in Hazleton. Much like the other two submarkets, asking rental rates increased considerably in the Northeastern Pennsylvania submarket to \$5.95/SF for warehouse and distribution space, an increase from an average of \$4.69/SF in the third quarter. Construction activity also remains strong, with 8.7 million square feet underway. The largest lease signed in the Northeastern Pennsylvania submarket this quarter was by ShipMonk, taking 398,700 square feet at 160 Research Drive in Pittston.

Select Lease Transactions

Tenant	Submarket	Building	Type	Square Feet
Spencer Gifts	Central Pennsylvania	2869 Route 22	New Lease	550,000
ID Logistics	Lehigh Valley	Lehigh Valley Trade Center II	New Lease	526,662
Sysco	Lehigh Valley	800 Willowbrook Road	New Lease	453,000
Iron Mountain	Lehigh Valley	433 East Moorestown Road	New Lease	427,919
Grainger	Lehigh Valley	1051 Carson Court	New Lease	406,801
ShipMonk	Northeastern Pennsylvania	160 Research Drive	New Lease	398,700

Select Sale Transactions

Buyer	Submarket	Building	Sale Price	Square Feet
Pennsylvania Steel Company	Northeastern Pennsylvania	1100 Marshwood Road	\$3M	122,000
York Storage Conversion LLC	Central Pennsylvania	333 East 7 th Avenue	\$6.3M	113,150

Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Warehouse Asking Rent (Price/SF)	Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Central Pennsylvania	197,898,506	11,908,755	3.3%	2,039,740	10,651,564	\$5.41	\$10.66	\$5.68
Lehigh Valley	154,807,061	6,339,121	7.2%	1,823,154	6,862,324	\$6.24	\$7.14	\$6.30
Northeastern Pennsylvania	89,473,690	6,302,772	5.3%	1,732,141	8,150,537	\$5.95	\$6.18	\$5.69
Market	442,179,257	24,550,648	5.1%	5,595,035	25,664,425	\$5.87	\$7.91	\$5.96

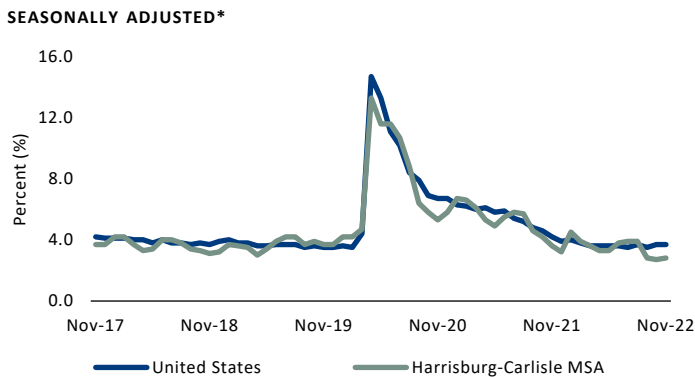
Submarket Statistics By Type						
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
Total	442,179,257	24,550,648	5.1%	5,595,035	25,664,425	\$5.96
Warehouse/Distribution	309,364,644	19,209,482	4.9%	4,784,980	21,684,955	\$5.87
Flex	14,133,081	-	6.2%	-14,878	342,367	\$7.91
General Industrial	118,681,532	5,341,166	5.3%	824,933	3,637,103	\$5.69

Economic Conditions

The Harrisburg-Carlisle metropolitan statistical area’s unemployment rate declined to 2.8% in November, the lowest unemployment rate experienced in the market since the second quarter of 2019. Comparatively, the national unemployment rate is currently at 3.7%. In addition, total nonfarm employment increased by 4.3% year over year, with the largest gains seen in the leisure and hospitality sector by 10.9%. Other sectors that experienced the highest growth over the past year included trade, transportation, and utilities (+7.0%), construction (+5.0%), and manufacturing (+5.0%) industries.

As the I-81/78 industrial market heads into 2023, there is some concern regarding current economic conditions, increasing inflation, and a recent decline in consumer spending. Supply chain issues also continue to negatively impact the industrial market, particularly projects planning to break ground or in the middle of construction. There has been a tremendous amount of construction in the market over the past three years and record high absorption. However, it will be essential to see if this slows in 2023 due to economic uncertainty.

Unemployment Rate



*Local data not seasonally adjusted
Source: U.S. Bureau of Labor Statistics, November 2022.

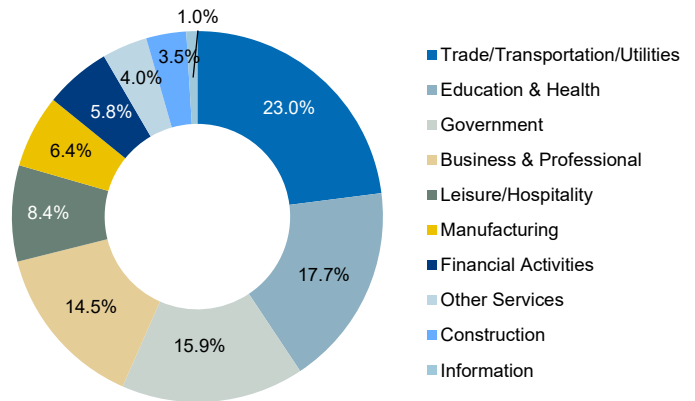
Labor Force Participation Rate



Source: Federal Reserve, August 2022.

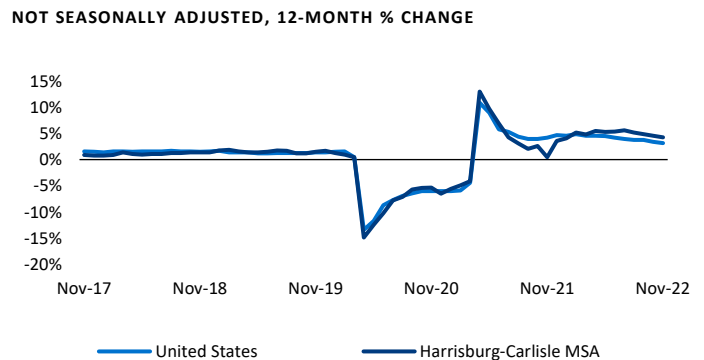
Employment by Industry

HARRISBURG-CARLISLE MSA, ANNUAL AVERAGE 2022



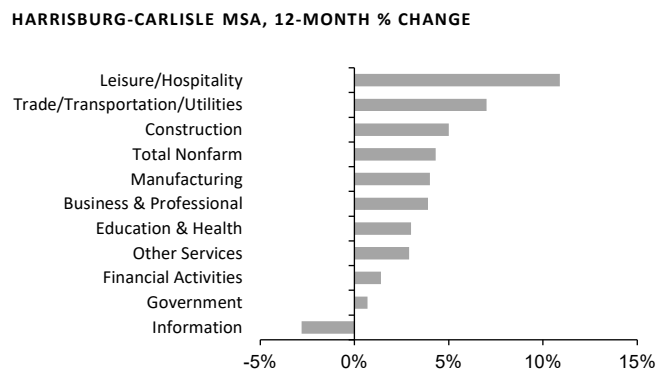
Source: U.S. Bureau of Labor Statistics, November 2022.

Payroll Employment, Total Nonfarm



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

Employment Growth by Industry, November 2022



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

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