

I-81/78 Corridor Industrial Market Overview

Market Observations

Economy

- At the conclusion of 2023, the labor market in the Corridor experienced an unprecedented tightening, with the unemployment rate reaching a historic low of 3.1%, the lowest ever recorded in the region. Recent hiring in the logistics and education and health services industry drove employment higher.
- Hiring in the Corridor continued to outperform the national average in the fourth quarter of 2023. The 12-month percent change in employment was 2.5% in November, 70 basis points higher than the nation's.
- The closure of Hood Packaging Corporation's Hazle Township facility led to the layoff of 58 workers, one of the largest recent layoffs in the I-81/78 Corridor according to Pennsylvania's WARN notices.

Major Transactions

- Two leases over one million square feet were signed in the final quarter of 2023. Broadrange Logistics inked a 1.24M-square-foot lease in Shoemakersville and logistics giant, Amazon committed to 1.0M square feet in Olyphant.
- Prologis acquired a 1.0M-square-foot warehouse at 84 Zions View Road in Manchester for \$110.25M or \$110.21/SF. GLP Capital Partners was the selling party, and the building was fully leased at time of sale.
- Newland Capital Group broke ground on its 1.2M-square-foot warehouse in Mount Pocono in the fourth quarter of 2023. The logistics facility is the largest project under development in the I-81/78 Corridor and is a build-to-suit for a 3PL company.

Leasing Market Fundamentals

- Over 5M square feet was delivered in the fourth quarter of 2023, bringing year-to-date deliveries to 24.5M square feet; a new yearly record for deliveries. Over 75% of 2023's deliveries were vacant at time of delivery, which increased the market's vacancy rate.
- The onslaught of new product to the market brought the Corridor's vacancy rate to 6.4%, a 60 and 240 basis point increase quarter-over-quarter and year-over-year, respectively.
- In the fourth quarter of 2023, asking rates in the market remained steady. The average rate of \$9.49/SF was 12% higher from a year ago. Annual rent growth in 2023 has been notably lower than the averages observed between 2020 and 2022, which consistently ranged between 20% to 25%.

Outlook

- Recently, deliveries have greatly outpaced construction starts. At the end of 2023, the Corridor's construction pipeline contained 8.0M square feet; the lowest recorded since 2018 and 70% lower year-over-year. New projects are earmarked for 2024 starts but the higher cost of capital, rising availability, and tepid demand will prevent the pipeline from reaching the heights observed in 2022 in the near future.
- Asking rate growth moderated in 2023 and this trend is expected to continue into 2024. The 53M square feet of product delivered since 2021 and easing demand has improved the supply-demand imbalance that originally caused rapid rent escalations.

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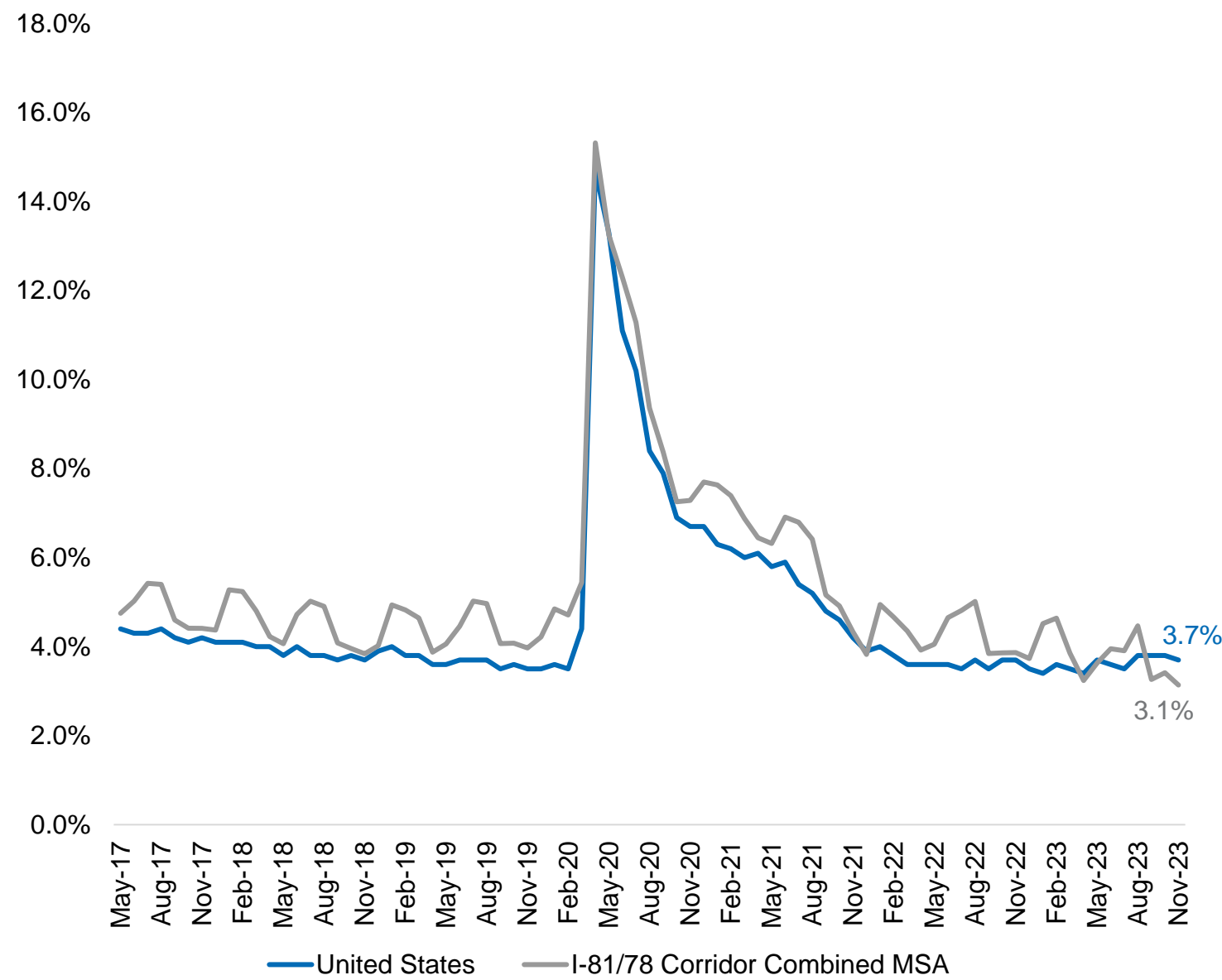
Economy



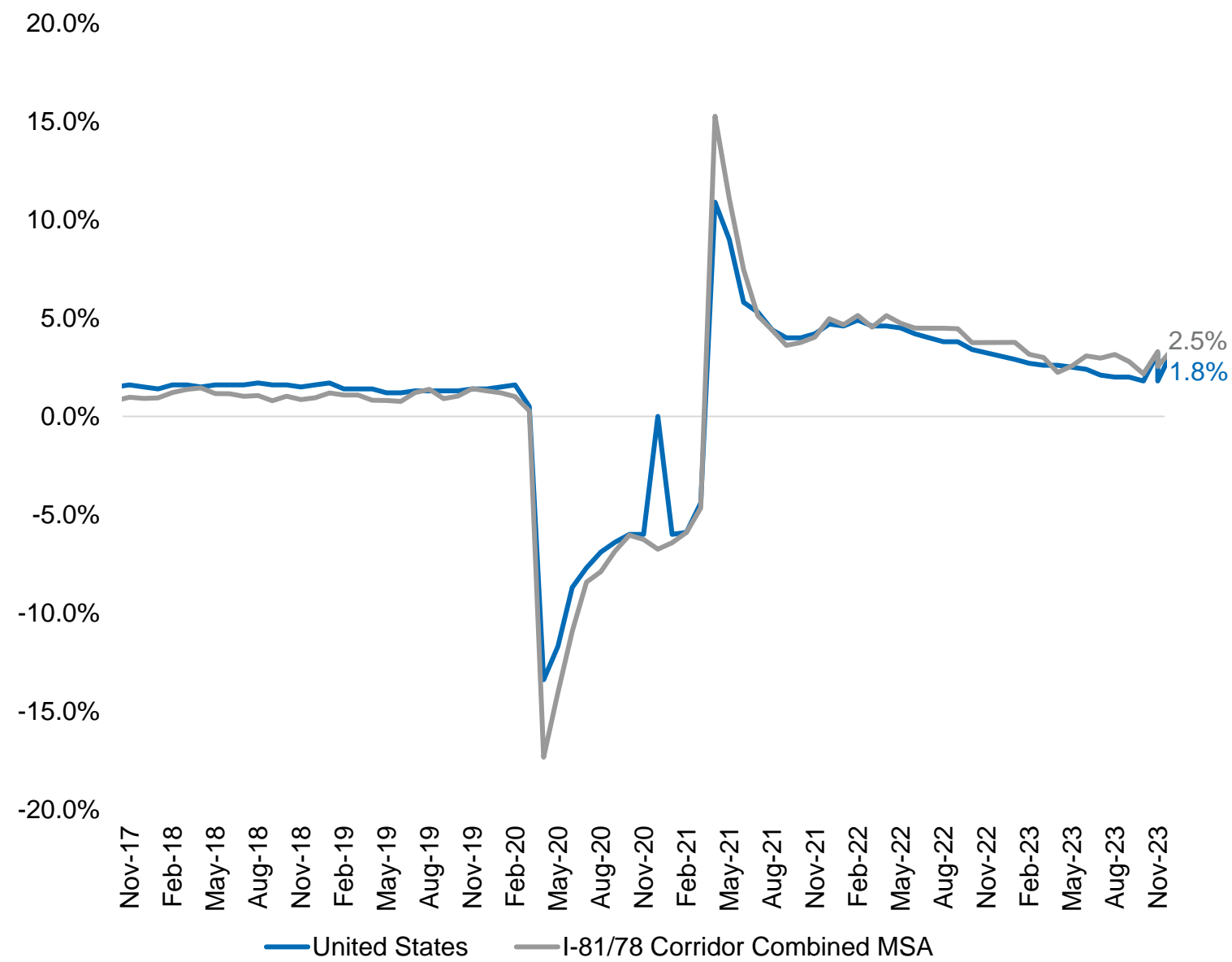
Unemployment Reaches Historic Lows

Record-breaking low unemployment in November 2023 was fueled by robust seasonal hiring in the transportation sector, as well as sustained growth in the leisure and hospitality, and education and health industries. Employment gains in these industries has been strong post-pandemic and has caused the Corridor to add jobs at a higher annual rate than the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

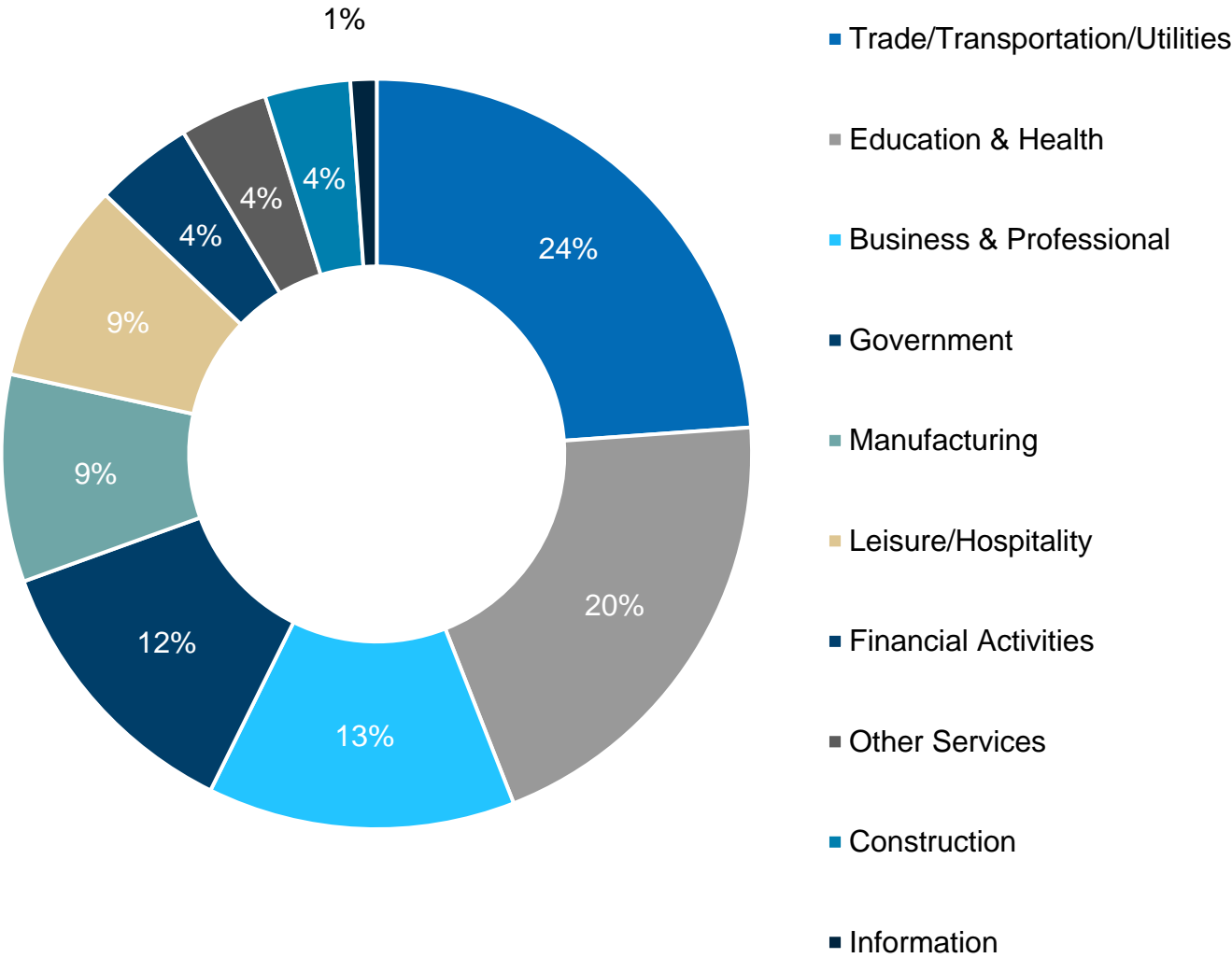


Source: U.S. Bureau of Labor Statistics, Combined MSA's of Harrisburg-Carlisle, Allentown, Scranton

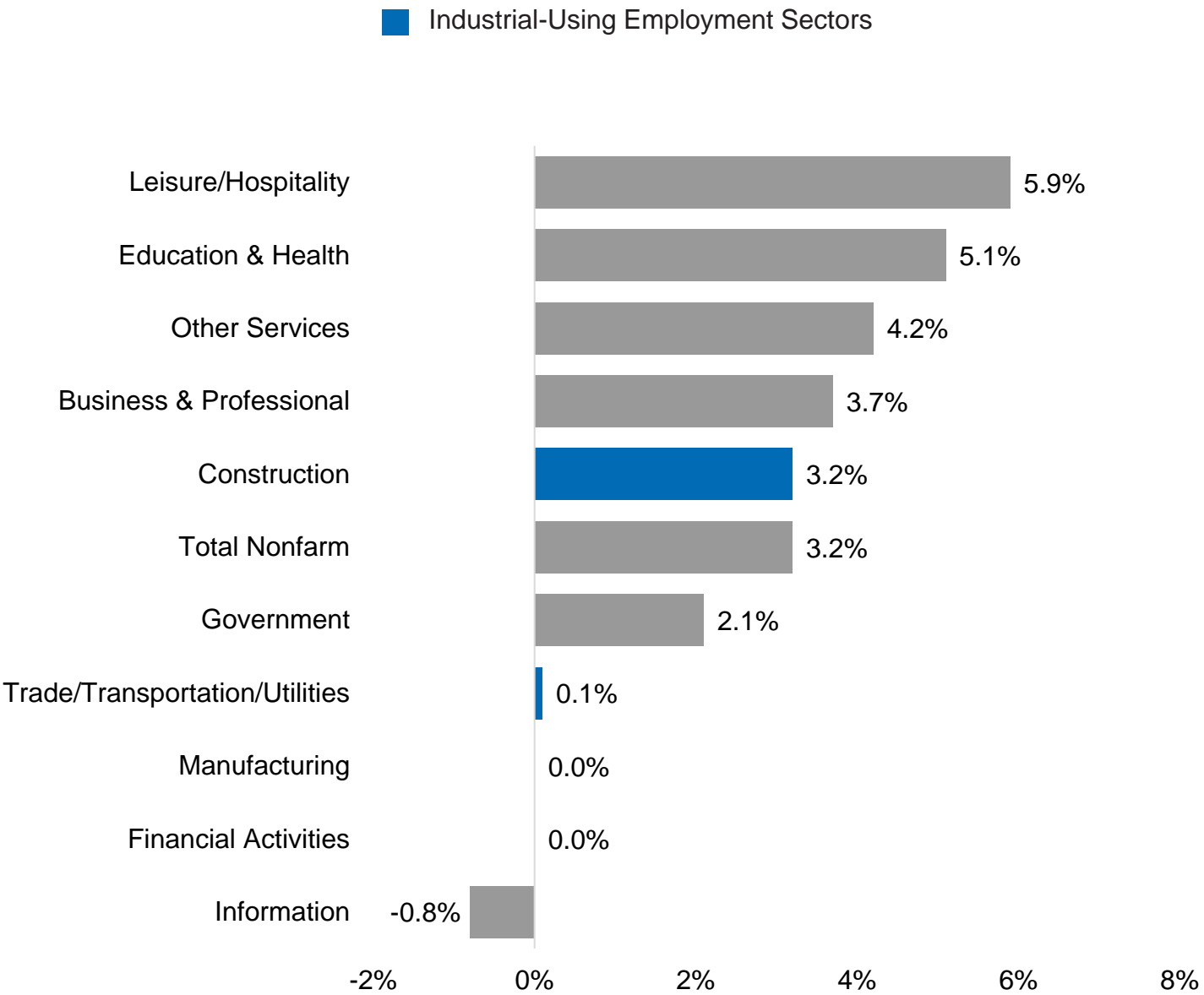
Annual Job Growth Remains Robust in the Health and Service Industries

Industrial-using employment sectors such as trade and manufacturing saw minimal annual growth in the fourth quarter of 2023. However, the lack of growth is in part due to strong hiring in 2022. In the previous year, the manufacturing and transportation industries reached all time highs in total employment. The stability of employment in these sectors is a testament to the strength of industrial-using trades.

Employment by Industry, November 2023



Employment Growth by Industry, 12-Month % Change, November 2023

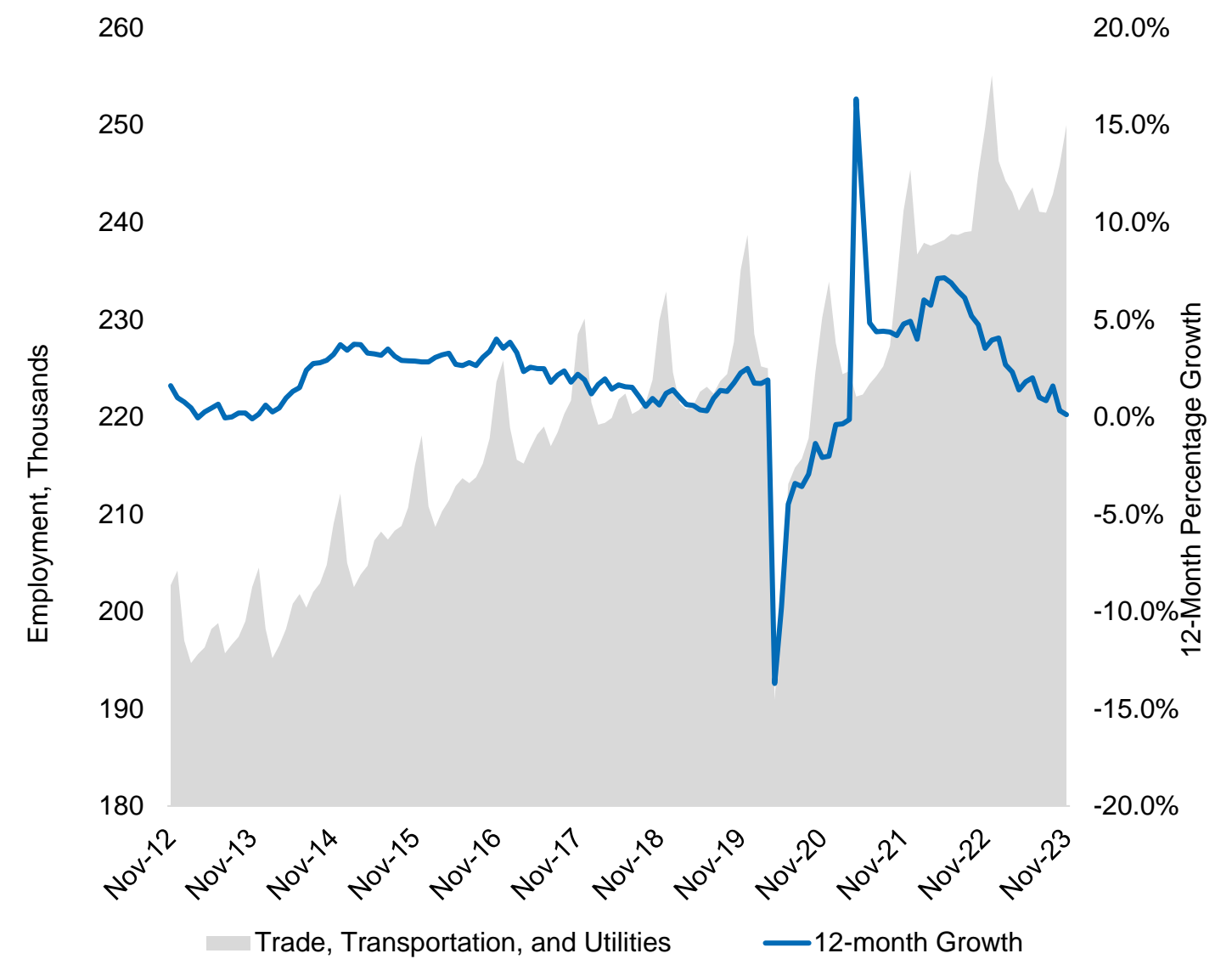


Source: U.S. Bureau of Labor Statistics, Combined MSA's of Harrisburg-Carlisle, Allentown, Scranton

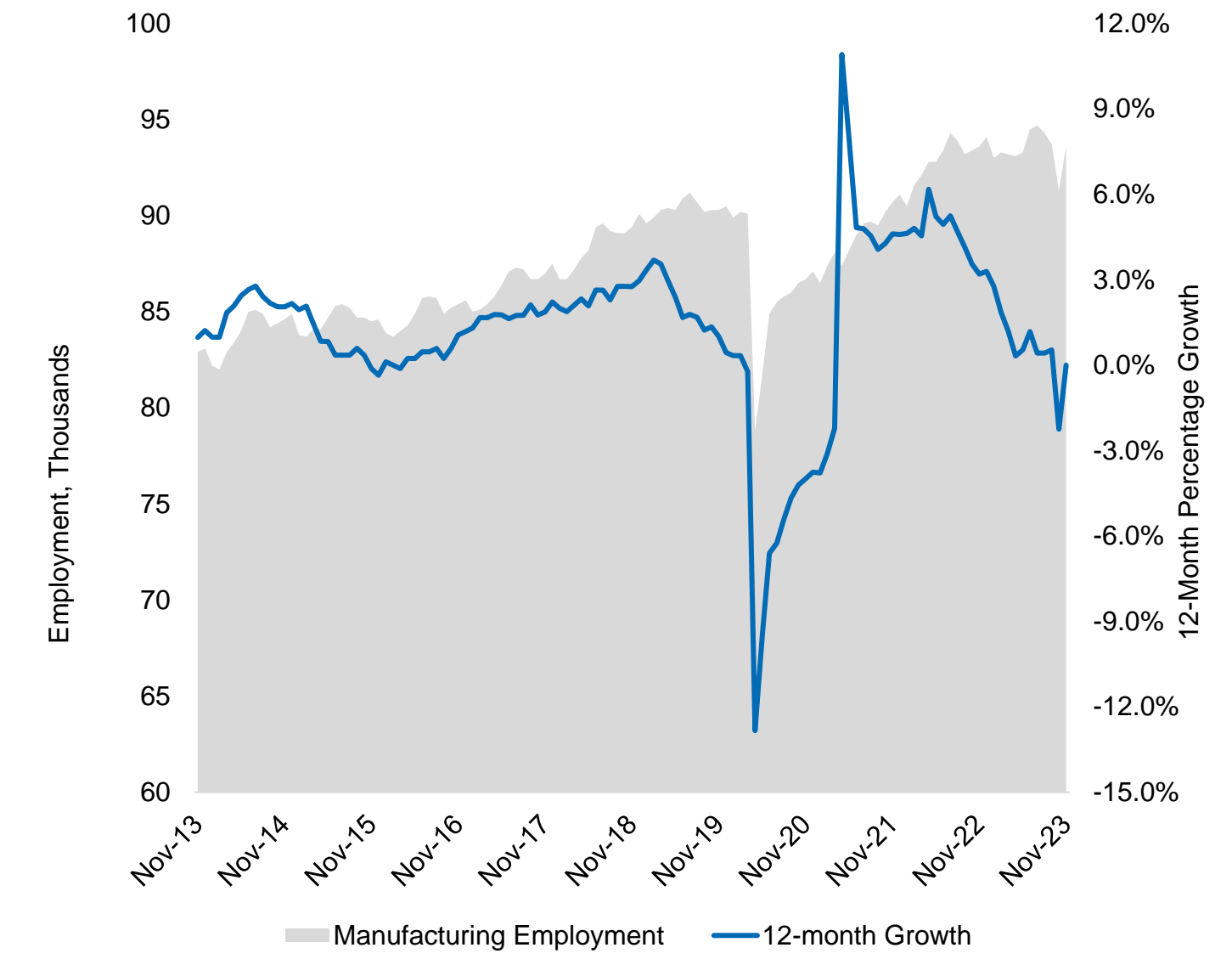
The Transportation Industry Continues Historic Employment Patterns

Employment trends of the Corridor’s transportation industry are highly seasonal, with employment peaking at the end of each year due to increased shipping and transportation demand spurred by holiday shopping. This occurred again in 2023 with employment reaching approximately 245,900 jobs in November, an all-time high for the month.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Combined MSA's of Harrisburg-Carlisle, Allentown, Scranton

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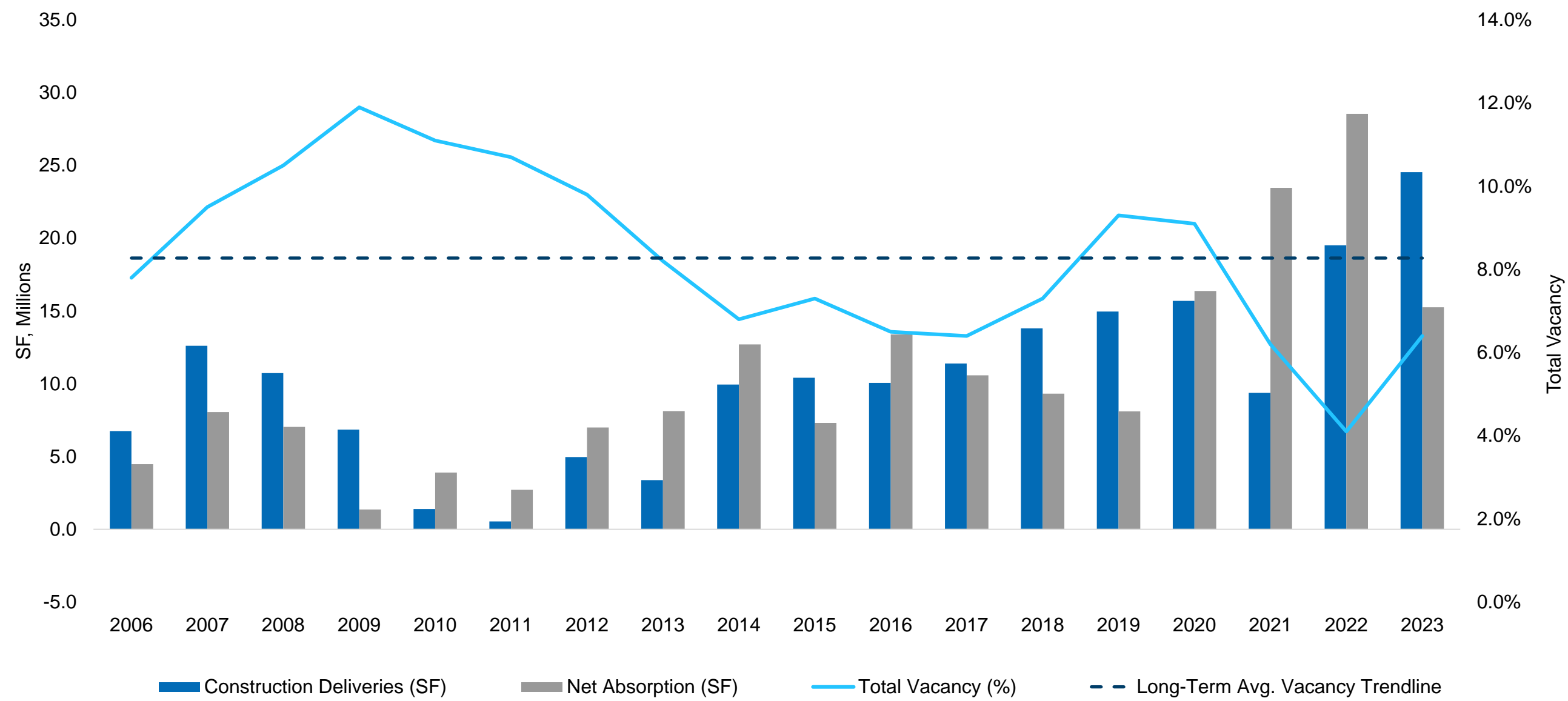
Leasing Market Fundamentals



Vacancy Rises as Annual Construction Deliveries Set Records

Just over 40% of the 24M square feet delivered in 2023 was unleased at time of completion. The sudden addition of vacant space caused vacancy rates to increase dramatically over the course of the year. Still, the Corridor’s 6.4% vacancy rate is 190 basis points below the long-term average and the shrinkage of the construction pipeline will limit the amount of vacancy additions to the market in 2024.

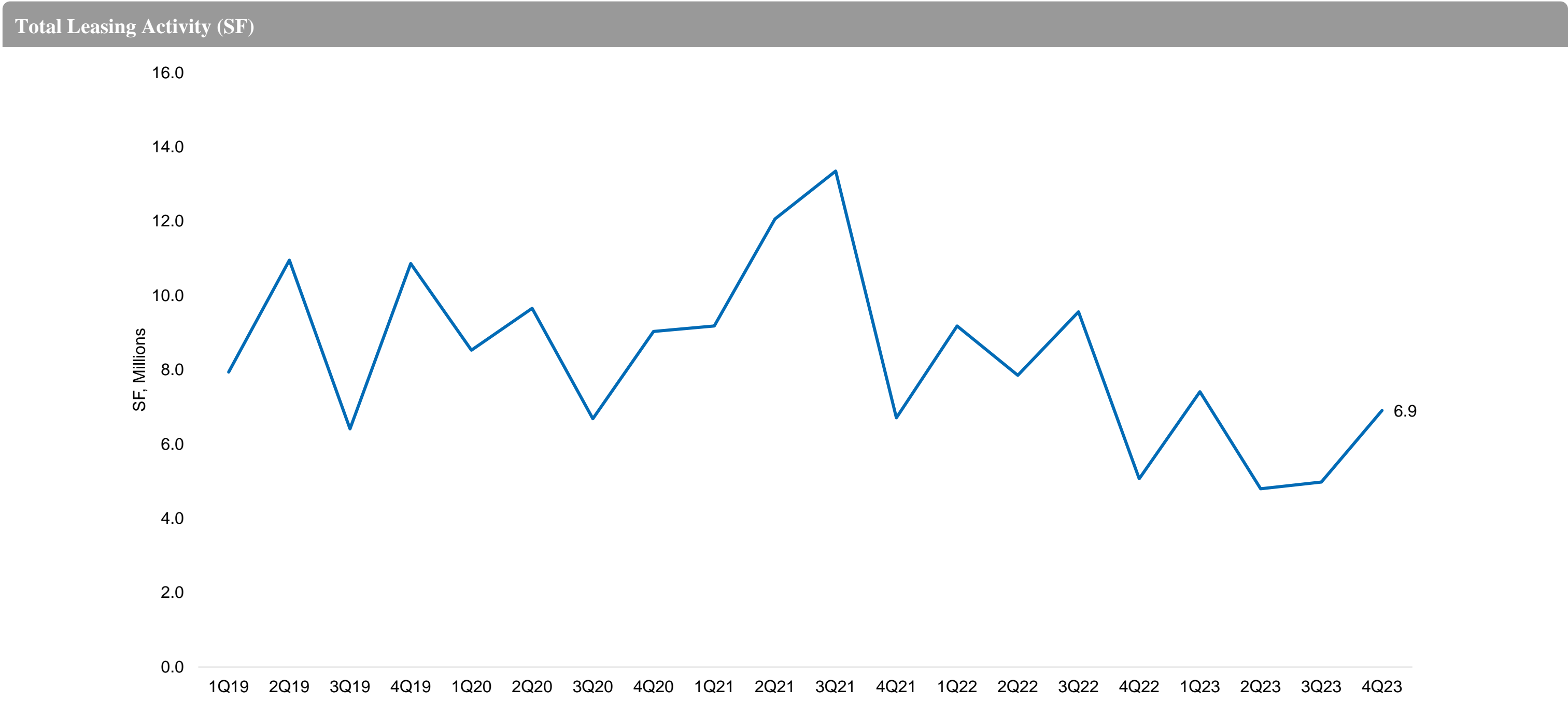
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Improves to End the Year

Massive leases by Broadrange Logistics and Amazon buoyed leasing activity in the fourth quarter of 2023, bringing total 2023 leasing activity to 33.9M square feet. This was a 5.1% decrease compared to 2022. This decline is admirable considering the myriad of headwinds industrial markets faced in 2023, such as rising interest rates, inflation, and geopolitical turmoil.

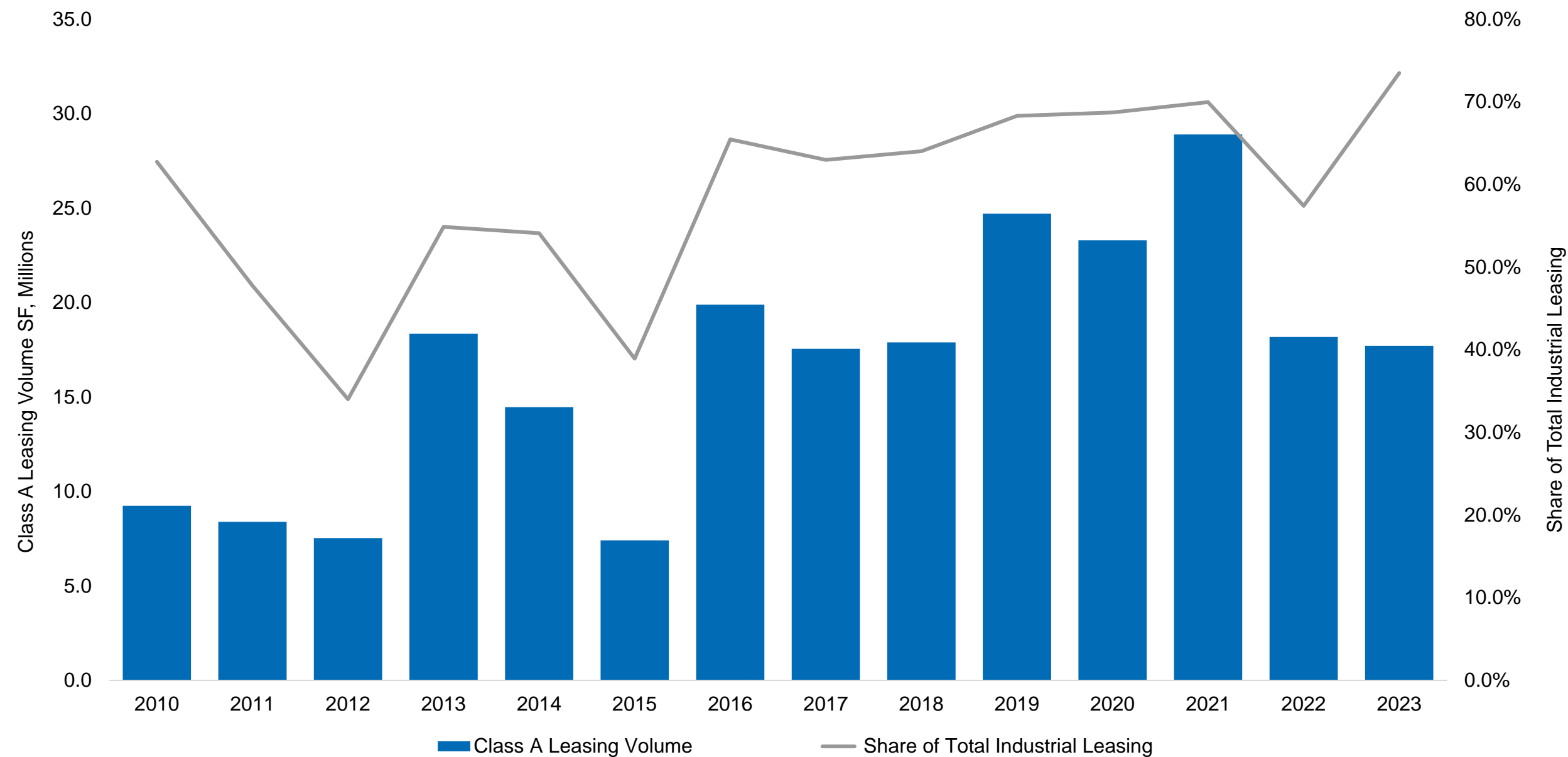


Source: Newmark Research, CoStar

Class A Warehouse Leasing Above Long-Term Average

In the fourth quarter of 2023, leasing activity for Class A logistics space exceeded 5 million square feet, resulting in an annual total of 17.7 million square feet. This accounted for 75% of the total industrial leasing in the market. Notable leases by Broadrange Logistics and Church & Dwight Co., Inc. were highlights of Class A leasing in 4Q23. Additionally, Amazon secured over 2M square feet of modern warehouse facilities in the Corridor throughout the year.

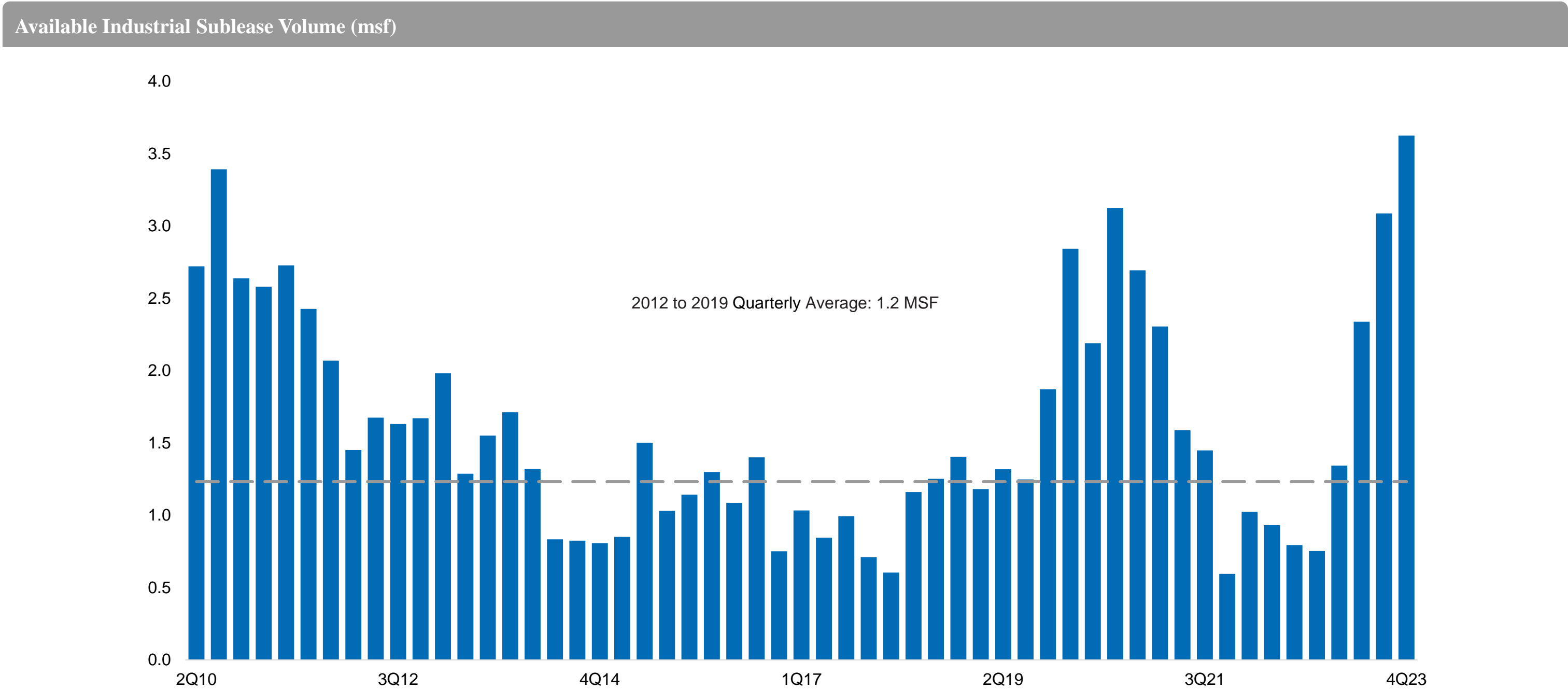
Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar

Industrial Sublease Availability Spikes to Historic Highs

The aggressive pace of leasing between 2020 and 2022 caused some companies to overestimate space requirements. Industrial occupiers reassessed space needs in 2023, thus leading to a 2.9M-square-foot increase in sublease inventory since the end of 2022. Although sublease availability is currently at historically high levels, it poses no significant threat to the market considering it only accounts for 0.8% of total industrial inventory.

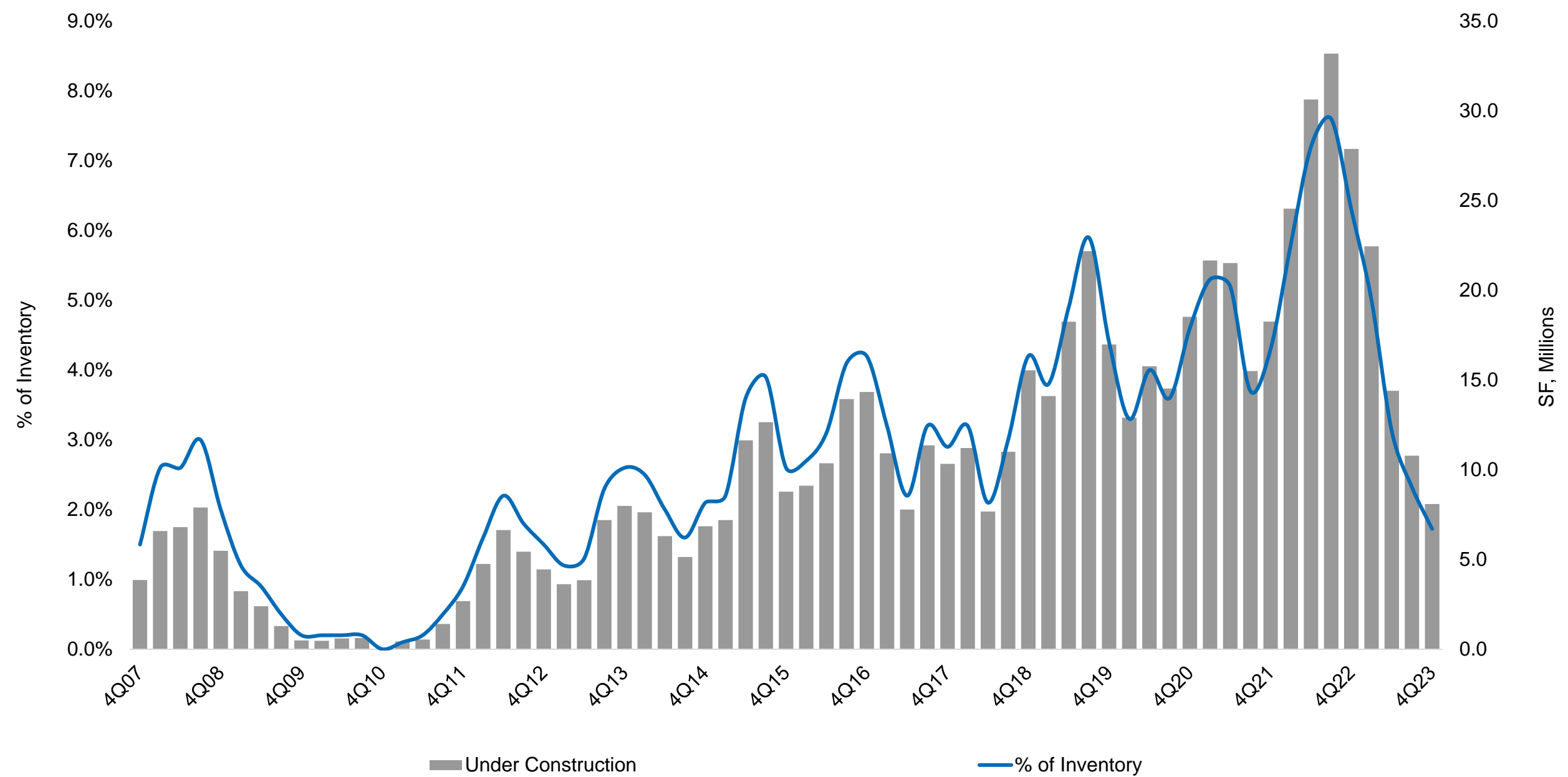


Source: Newmark Research, CoStar

As Construction Starts Decline, the Supply Pipeline Experiences a Sharp Decrease

Approximately 8.0M square feet remained in the construction pipeline at the end of 2023. The lowest level recorded since the second quarter of 2018. Construction starts totaled 7.6M square feet in 2023, marking a 66% decline compared to 2022. The anticipated reduction in the volume of future deliveries will allow the market a chance to absorb the 84M square feet that has been added over the last five years.

Industrial Under Construction and % of Inventory

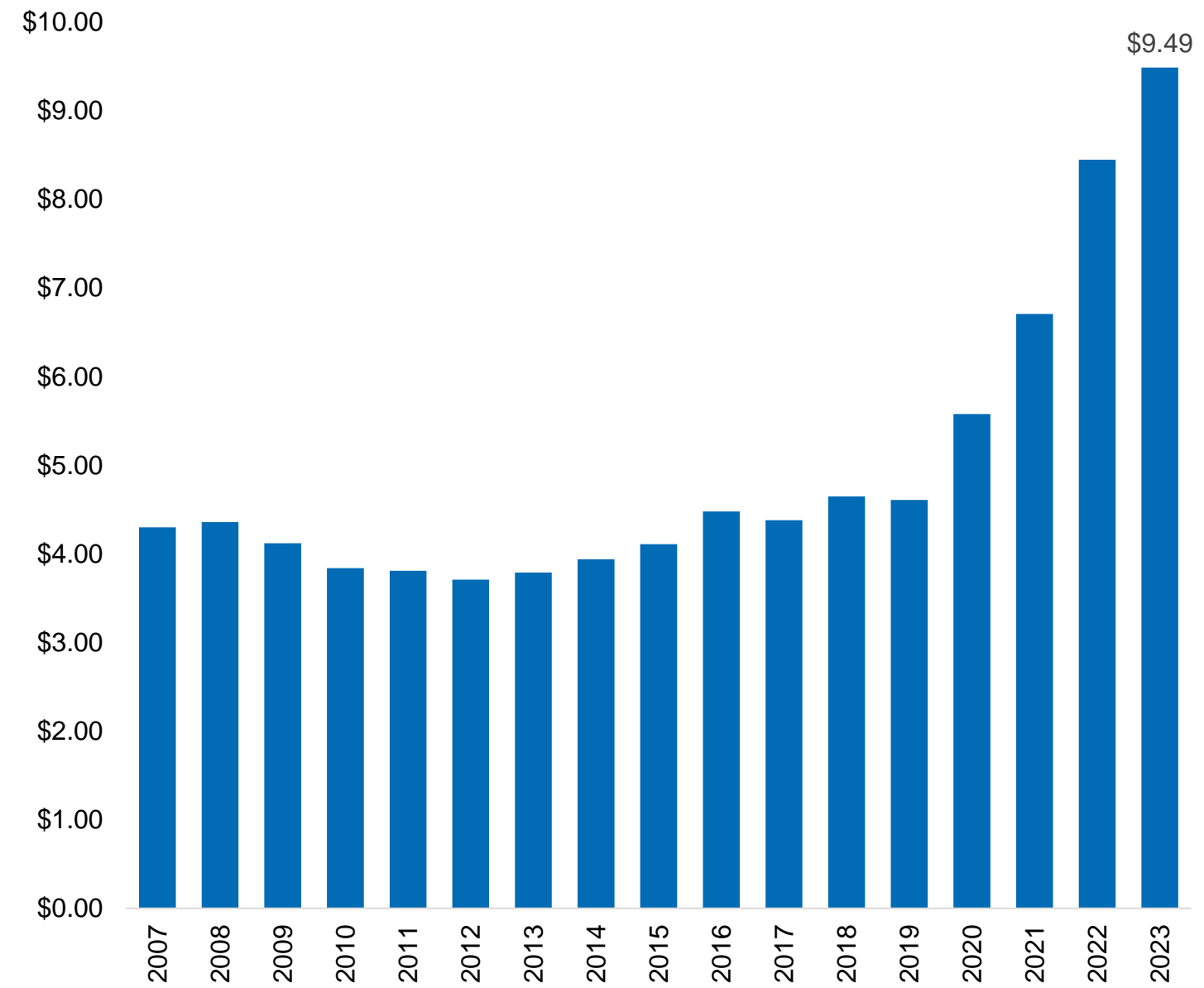


Source: Newmark Research, CoStar

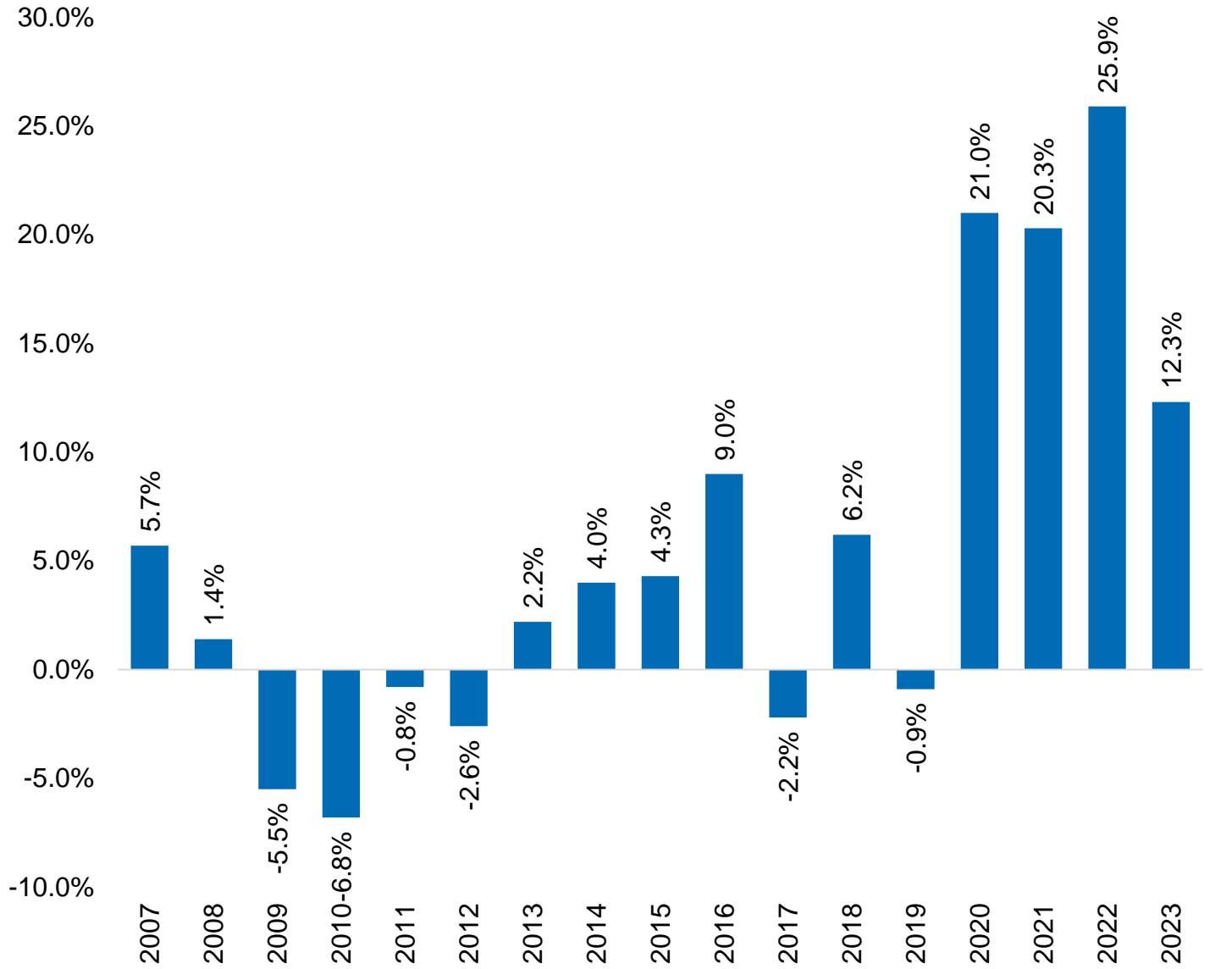
Rent Growth Moderates After Years of Aggressive Increases

In 2023, the growth of asking rates was more restrained compared to the previous three years. This can be attributed to an increase in supply and a decrease in space demand, resulting in a more balanced market that is beginning to offer some reprieve to tenants.

Industrial Average Asking Rent, \$/SF, NNN*



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar
*: Asking rates from 2021-2023 are sampled from lease comps

Notable 4Q23 Lease Transactions

Broadrange Logistics and Amazon accounted for nearly a third of the fourth quarter’s total leasing activity. Additionally, all five of the largest leases signed during the quarter were in Class A buildings.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Broadrange Logistics	29 Ludwig Ct, Shoemakersville	Lehigh Valley	Direct Lease	1,240,000
Amazon	1300 Corporate Way, Olyphant	Northeastern Pennsylvania	Direct Lease	1,000,000
Church & Dwight Co., Inc.	250 Cloverleaf Road, York	Central Pennsylvania	Direct Lease	764,400
Moran Logistics, LLC	825 Locust Point Road, York	Central Pennsylvania	Direct Lease	667,510
Henkel Corp	610 Oak Ridge	Northeastern Pennsylvania	Direct Lease	619,898

Source: Newmark Research, Esri

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Appendix / Tables



Submarket Overview

Submarket Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Qtr. Construction Deliveries (SF)	YTD Construction Deliveries (SF)	Total Asking Rent (Price/SF)
Central PA	212,553,654	2,454,317	5.6%	1,129,642	7,764,835	2,117,818	12,927,054	\$7.76
Lehigh Valley	161,630,981	3,034,428	7.2%	26,778	4,014,872	668,213	6,673,665	\$10.18
Northeastern PA	95,150,702	3,442,823	7.0%	560,013	3,442,823	2,227,136	2,603,214	\$6.75
I-81/78 Market	469,335,337	8,091,959	6.4%	1.716,433	15,222,530	5,013,167	24,545,491	\$8.57

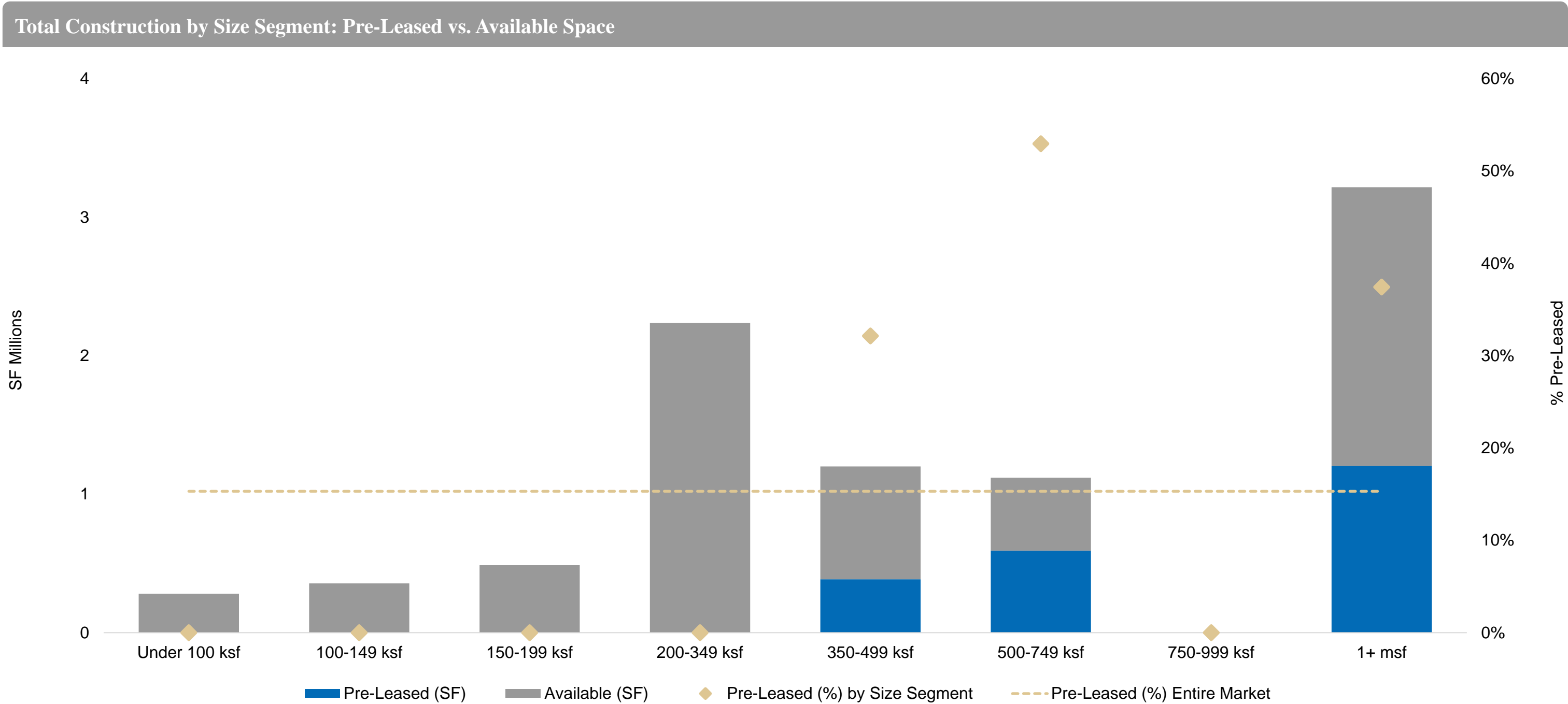
Submarket Statistics By Subtype

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Qtr. Construction Deliveries (SF)	YTD Construction Deliveries (SF)	Total Asking Rent (Price/SF)
General Industrial	122,539,482	1,238,307	5.9%	-66,590	2,287,827	297,023	3,932,170	\$8.01
R&D/Flex	14,067,579	0	3.3%	117,969	178,329	0	0	\$9.33
Warehouse/Distribution	332,728,276	6,853,652	6.8%	1,665,054	12,756,374	4,716,144	20,613,321	\$8.75
Market	469,335,337	8,091,959	6.4%	1.716,433	15,222,530	5,013,167	24,545,491	\$8.57

Source: Newmark Research

The Bulk of Construction is Concentrated in the 1+ msf Segment

Close to 60% of the space delivered in the fourth quarter of 2023 was pre-leased at time of delivery. Only 15.3% of the existing construction pipeline is pre-leased. Newland Capital Group’s 1.2M-square-foot build-to-suit warehouse accounts for over half of pre-leased space in the market.



Source: Newmark Research, CoStar

4Q 2023 Lehigh Valley Submarket Snapshot

Statistical Summary

	Current Quarter	Prior Quarter	Prior Year
Total Inventory (SF)	161.6M	160.9M	154.6M
Availability Rate	7.2%	6.8%	5.2%
Quarterly Net Absorption (SF)	26,778	1,548,752	2,934,719
Average Asking Rent/SF*	\$10.69	\$10.53	\$10.19
Under Construction (SF)	3,034,428	2,559,071	6,622,216
Deliveries (SF)	668,213	1,011,808	2,387,518

Current Market Trends

- The boom in construction in the Lehigh Valley has begun to taper off. Just over 3.0M SF remained in the construction pipeline at the end of 2023; a 54% decrease from the prior year. Construction starts have wanned from the heights reached in 2021-2022 due to moderating demand and the rising costs of capital and construction
- Vacancy has risen by 40 basis points quarter-over-quarter and 190 since the previous year to settle at 7.2%. The increase in vacant space is caused by the rush of new deliveries to the market. At the end of the year, approximately two-thirds of the Lehigh Valley's 6.7 million square feet of deliveries in 2023 remained unoccupied.

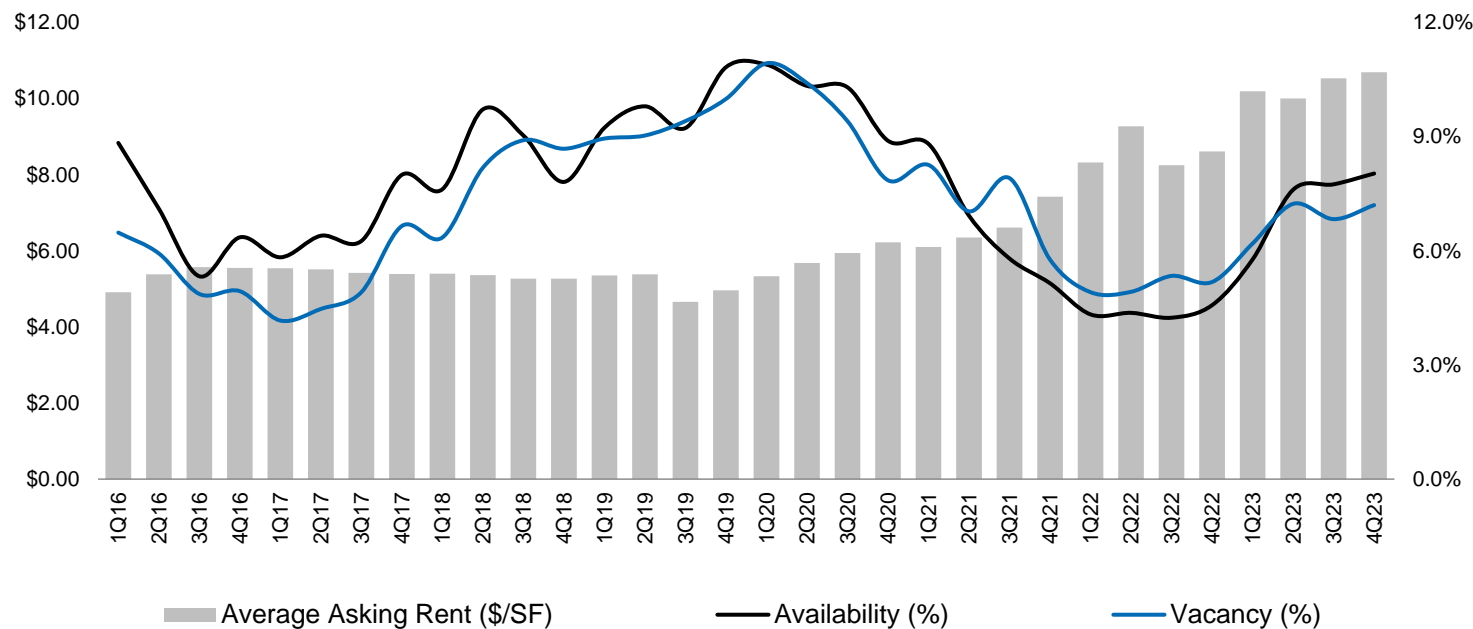
Top Recent Transactions

Tenant	Building	Type	SF
Just Born Inc	2625 Brodhead Road	Lease Renewal	208,000
Glenmark Pharmaceuticals	749 Route 100	Direct Lease	159,865
Niagara Bottling, LLC	111 Logistics Drive	Downsizing	132,300
Happy Returns	247 Zion Church Road	Direct Lease	91,555
Hawe Manufacturing	2500 Emrick Boulevard	Direct Lease	50,000

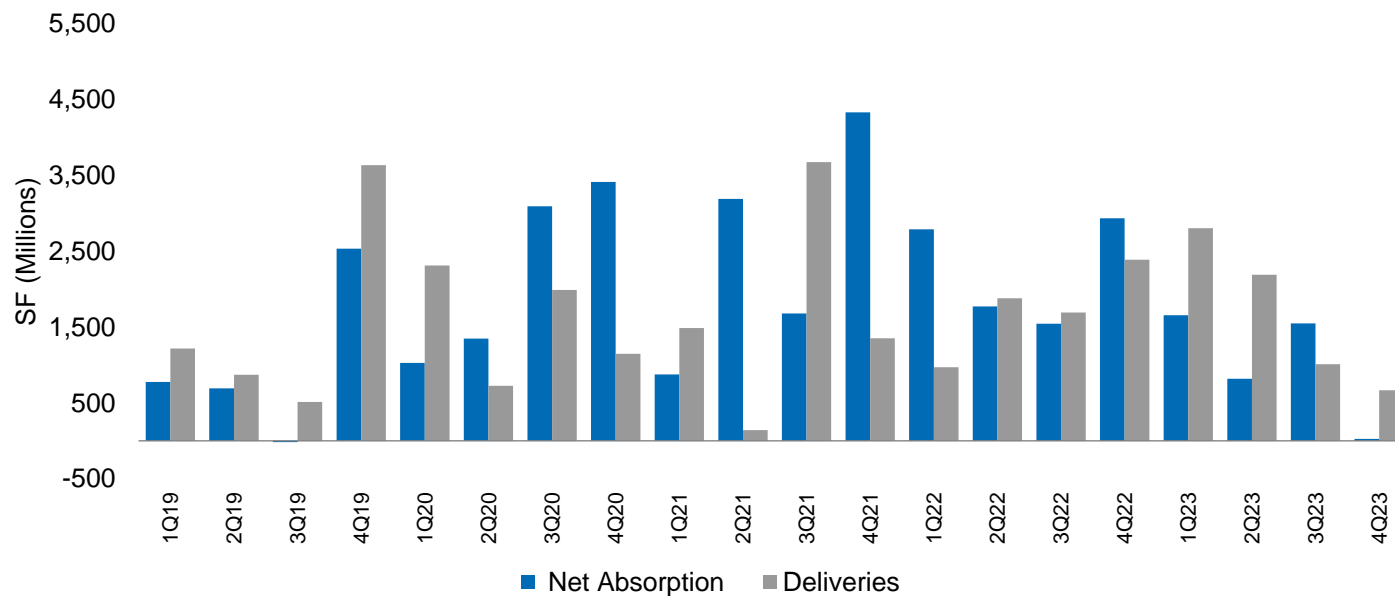
Source: Newmark Research

*:Asking rents are for Class A Industrial Properties

Weighted Average Asking Rent, Availability and Vacancy



Net Absorption (Square Feet, Thousands)



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