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1Q24

# I-81/78 Corridor Industrial Market Overview

**NEWMARK**

# Market Observations

## Economy

- The labor market in the I-81/78 Corridor, which has been tight, showed signs of easing in early 2024. Unemployment rose by 70 basis points over the last three months, reaching 3.8%—a peak not seen since August 2023. Despite this increase, the labor market continues to demonstrate strength, with the latest unemployment rate still 20 basis points below the 24-month average.
- The worst-performing sector of the I-81/78 economy was the Trade, Transportation, and Utilities industry. The annual and prior three-month percent change in unemployment were -1.5% and -4.0% in February, respectively. A sharp three-month drop in employment is not abnormal for this industry early in the year. Historically, since 2000, the industry's three-month percent change in employment in February averages -3.6% as employers shed the jobs they added in the prior holiday season.

## Major Transactions

- Amazon purchased a 1,200-acre campus with a 300,000-square-foot building near the Susquehanna Steam Electric Station, a nuclear power plant in Northeastern Pennsylvania. The e-commerce giant acquired the site to create a data center for its Amazon Web Services business line. The recorded purchase price was \$650M, making it the largest commercial sale of the year so far.
- Amazon also leased a 1.2 million-square-foot warehouse in Middletown. This marks the second consecutive quarter that Amazon signed a lease for over 1.0M square feet in the I-81/78 Corridor.

## Leasing Market Fundamentals

- Sublease inventory in the market has continued to rise, notably accelerating in the first quarter of the year. The Corridor now has approximately 6.5M square feet available for sublease, accounting for 1.4% of total market inventory. This marks an increase of 2.5M square feet and a 60 basis point rise compared to the fourth quarter of 2023. Notably, spaces made available by BroadRange Logistics, All-Ways Forwarding, and Kohler accounted for 62% of the market's new sublease availabilities.
- Total leasing in the first quarter of 2024 was 4.0M square feet, 42% less than the quarter prior. Despite a decrease in demand, tenants are still actively targeting Class A industrial space. High-quality assets captured 72.9% of leasing volume this quarter, which is in line with 2023 averages.

## Outlook

- Just over 1.2M square feet of construction began in the first quarter of 2024, reducing the trailing four-quarter average to 1.5M square feet. This marks the lowest level recorded in the last 10 years and 25% less than the fourth quarter of 2023. A reduction in future supply eases concerns of the market becoming oversupplied.
- Direct asking rates saw an uptick in the first quarter of 2024, reaching an average of \$8.81/SF, which is a \$0.16/SF increase from the previous quarter. This increase is largely attributed to Class A space constituting 67% of available direct inventory and the delivery of unoccupied new product. With 73% of the market's construction pipeline still available with a weighted average asking rate of \$9.64/SF, this trend of artificially inflated rents is anticipated to persist.

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1. Economy
  2. Leasing Market Fundamentals
  3. Appendix / Tables



1Q24

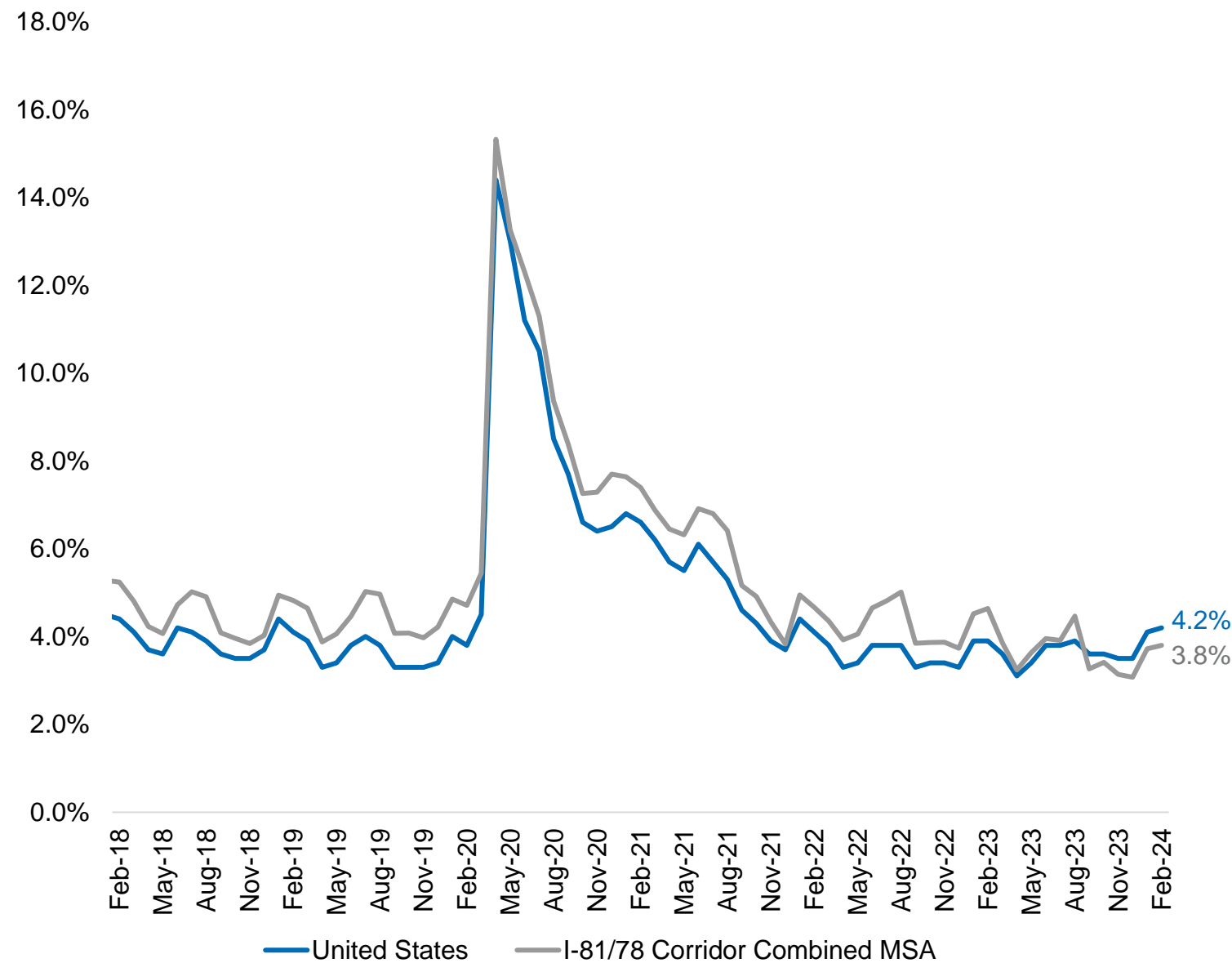
# Economy



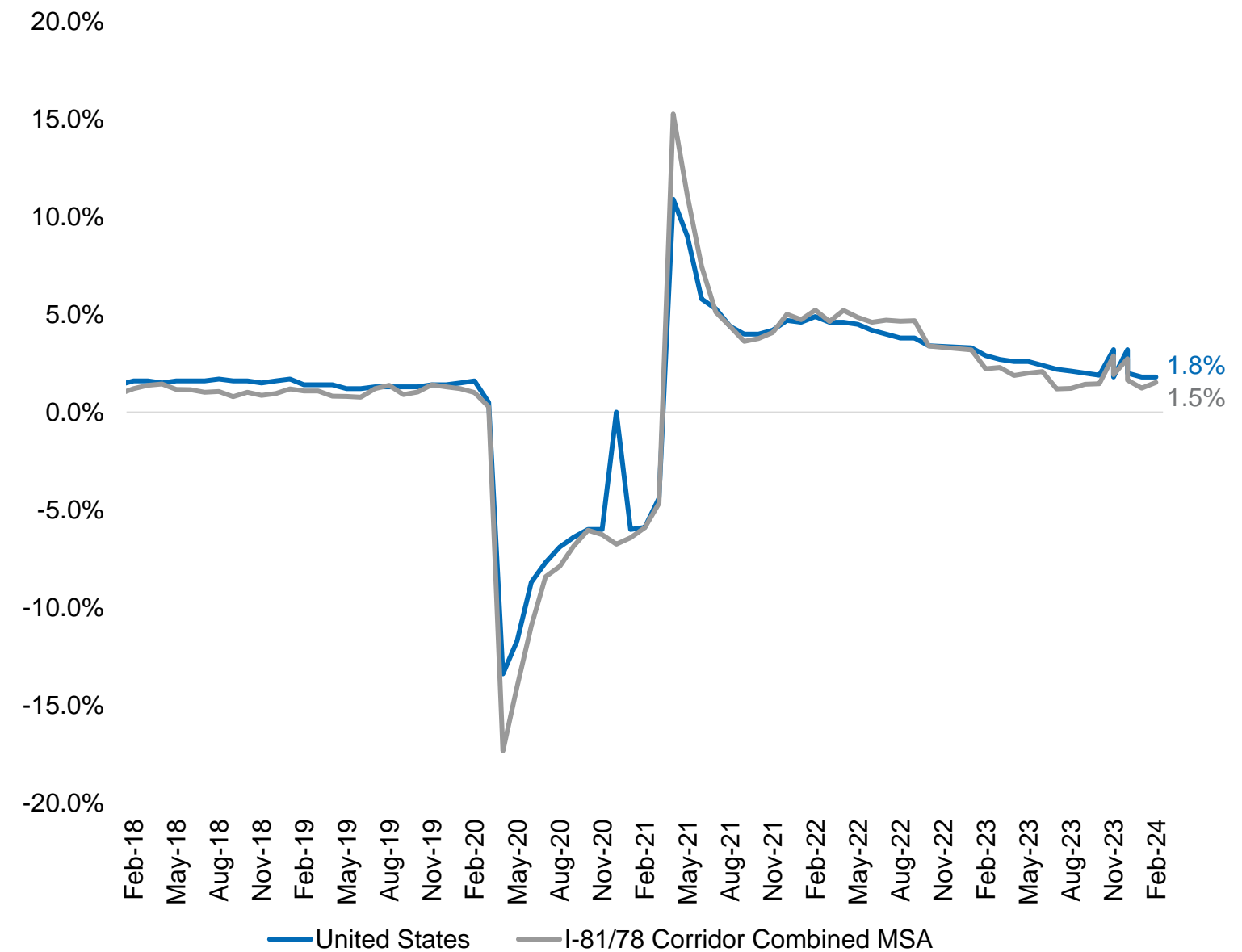
# Unemployment Increases but Remains at Healthy Levels

Unemployment rose in the I-81/78 Corridor in part due to seasonal Trade, Transportation, and Utility sector losses; however, the market's unemployment rate remained lower than the nation's for the sixth consecutive month.

Unemployment Rate, Non-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

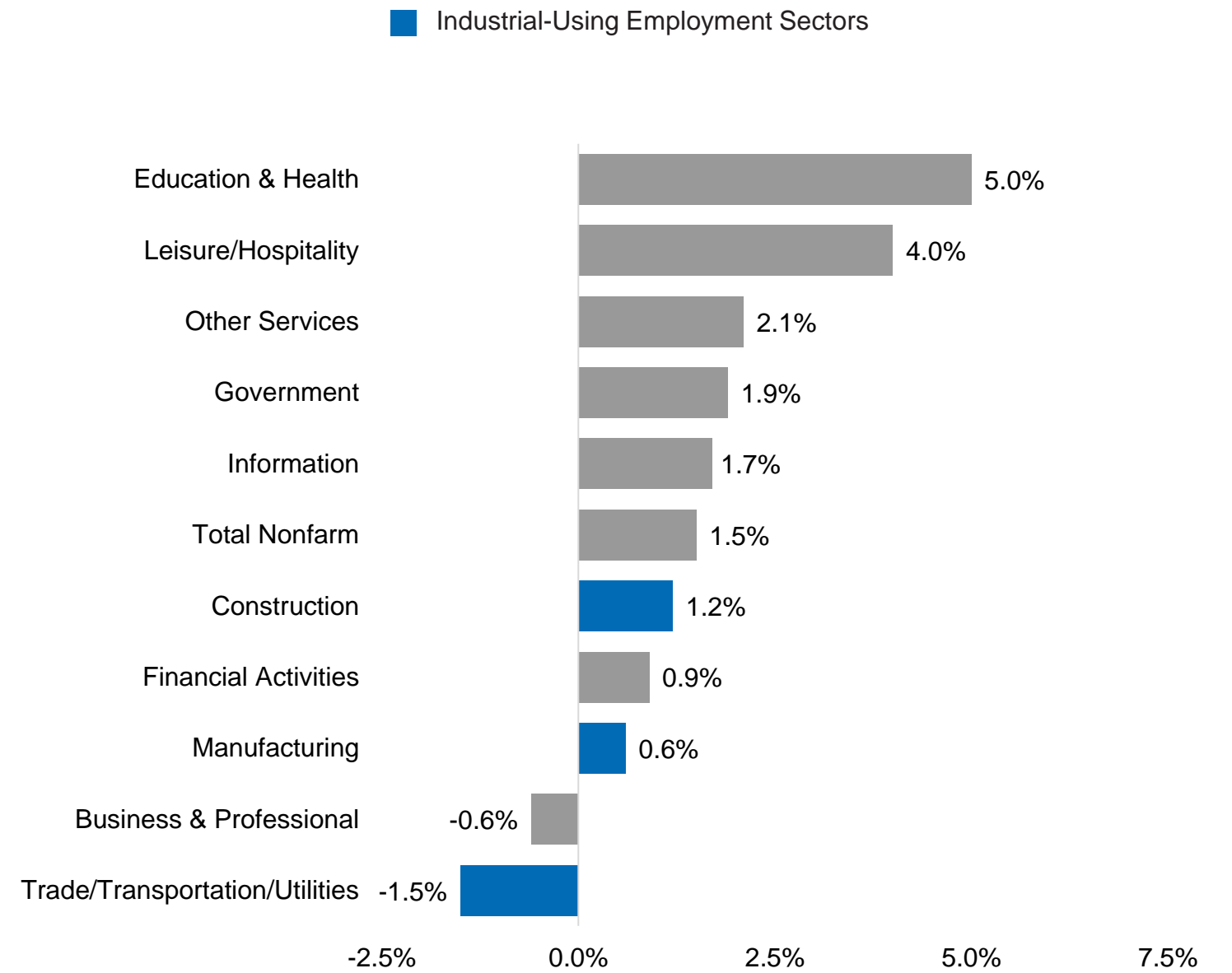
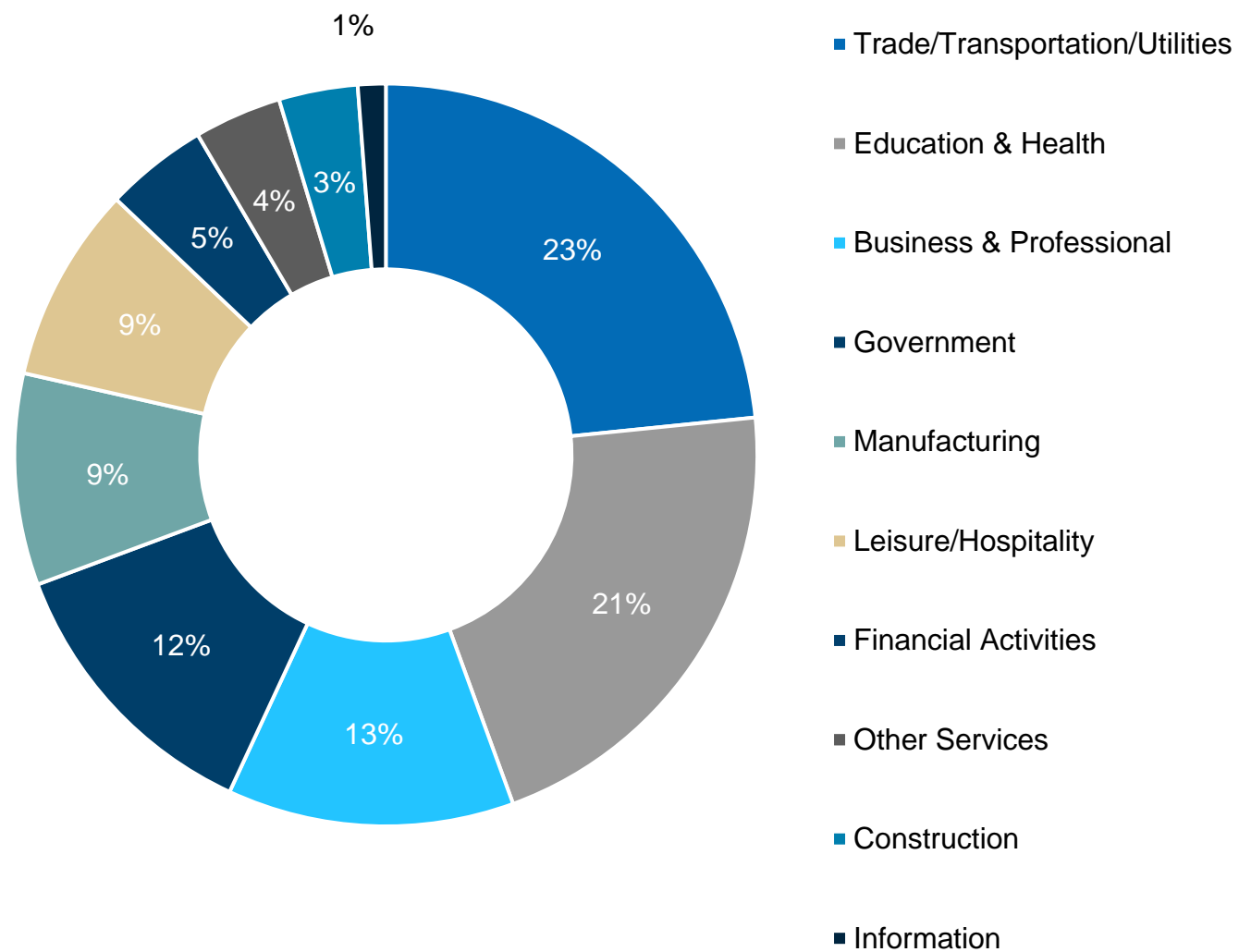


# Industrial Employment Grows in Spite of Trade & Transportation's Annual Losses

Industrial-using employment grew 0.8% from the year prior in February 2024, the highest since June 2023. Job gains in Education and Health Services drove annual employment gains in February.

Employment by Industry, February 2024

Employment Growth by Industry, 12-Month % Change, February 2024

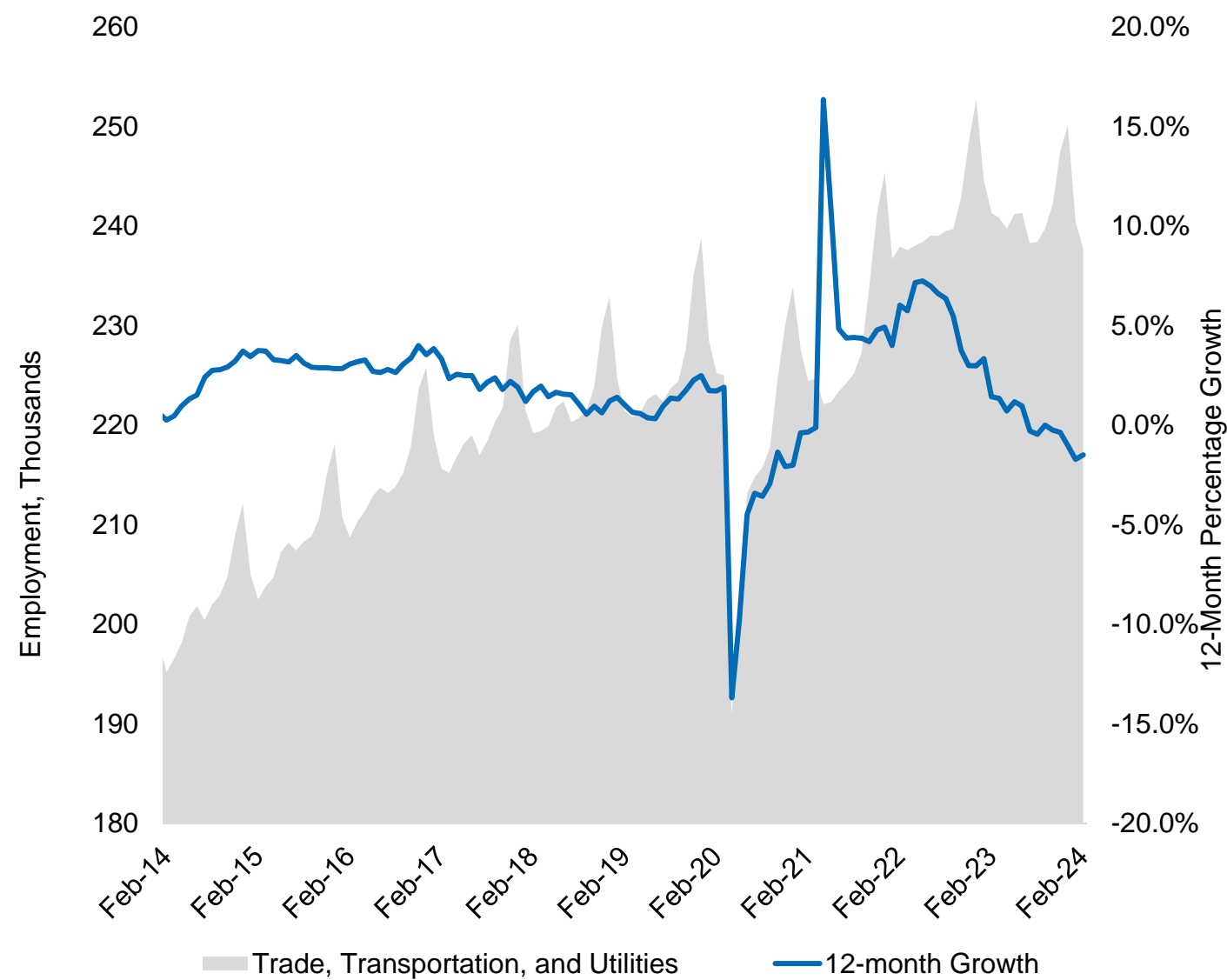


Source: U.S. Bureau of Labor Statistics, Combined MSA's of Harrisburg-Carlisle, Allentown, Scranton

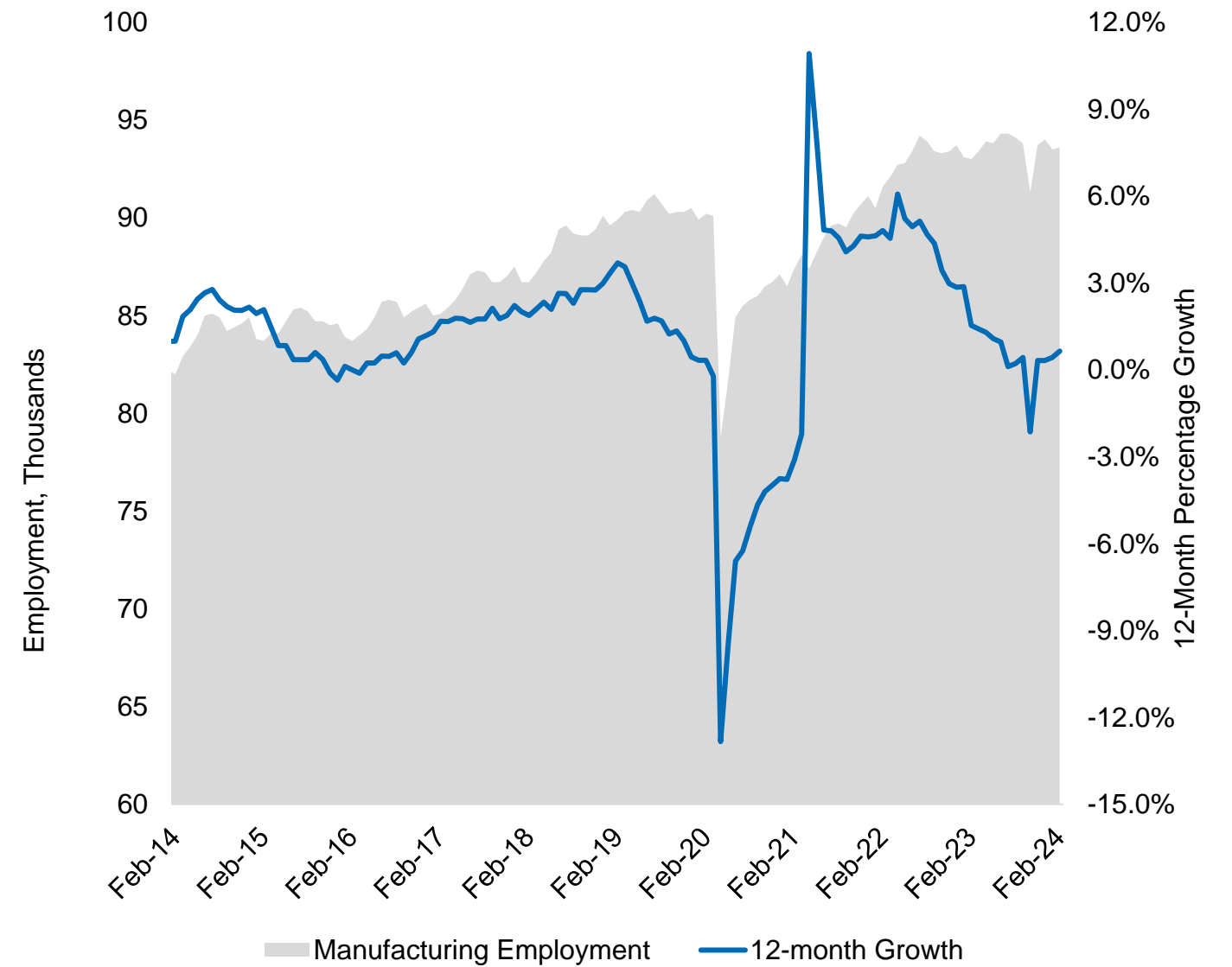
# Total Employment in the Transportation Industry Continues to Decline

While seasonal hiring trends for the Trade, Transportation, and Utility industry continued in 2024, total employment remained on its downward trend. Annual employment growth was -1.5%, marking the eighth-consecutive month of annual job growth being negative or neutral. Conversely, the Manufacturing industry experienced a strong start to the year, achieving an annual growth rate of 0.6%—the highest since June 2023 and marking the fourth consecutive month of annual employment growth.

**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



1Q24

# Leasing Market Fundamentals

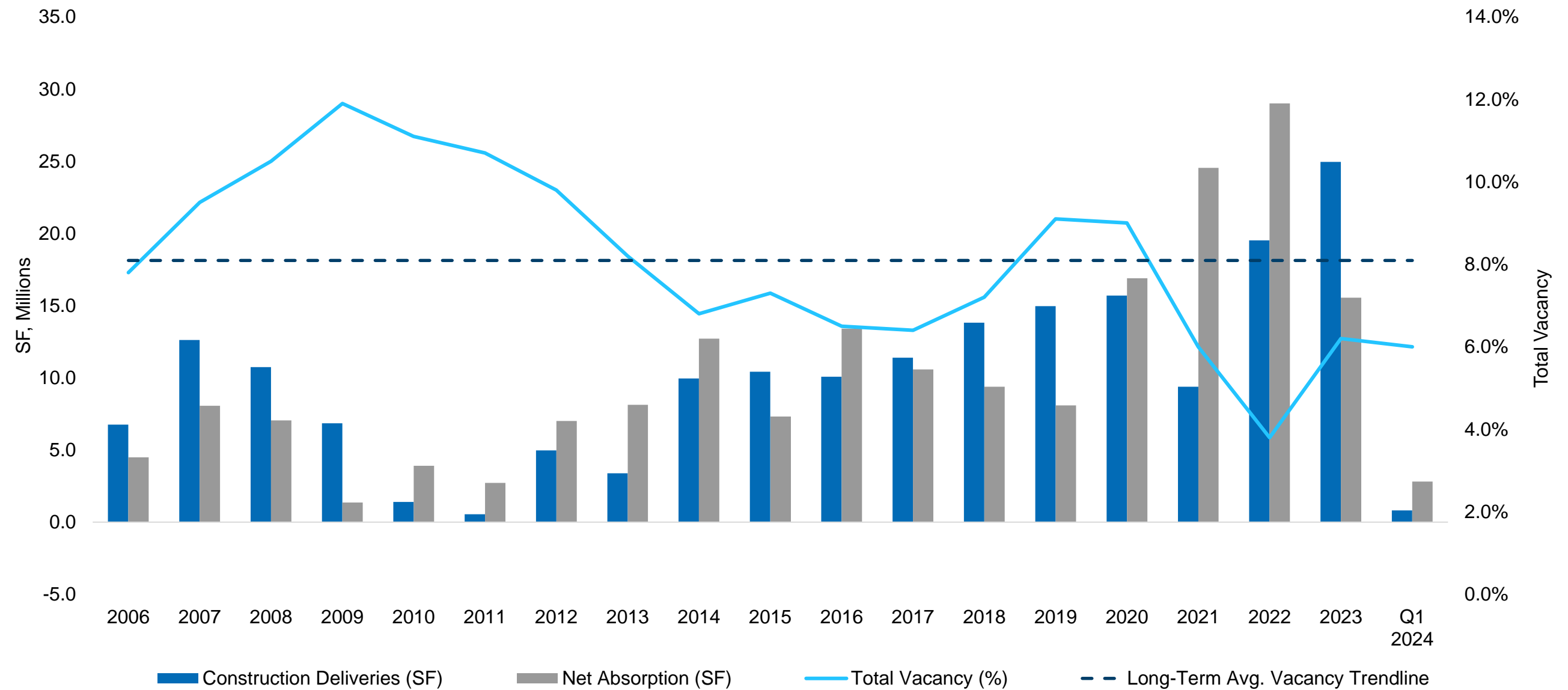




# A Slowdown in Deliveries and Improved Absorption Leads to Vacancy Declines

In the first quarter of 2024, just over 0.8M square feet of industrial space was completed, marking the lowest volume of new deliveries since the first quarter of 2022. Meanwhile, absorption reached 2.8M square feet, leading to a 20 basis point decline in vacancy rates from the end of 2023. This marks the first quarter-over-quarter decrease in vacancy rates since the second quarter of 2022. Signs of market normalization continued as the rolling four-quarter average absorption was 2.6M square feet in the first quarter of 2024. This is a 33% decline from a quarter ago and 65% from a year prior.

## Historical Construction Deliveries, Net Absorption, and Vacancy

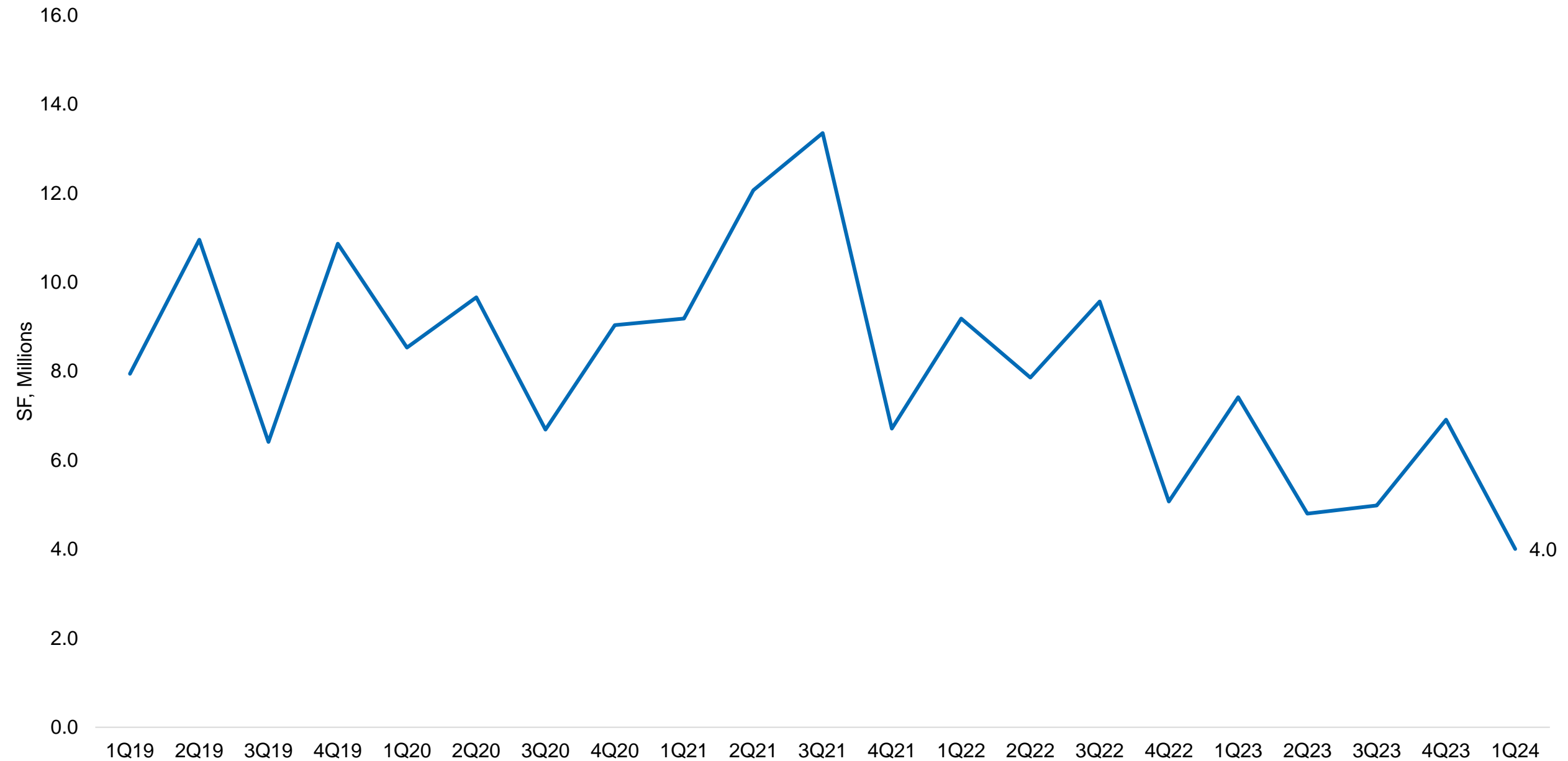


Source: Newmark Research

# Industrial Leasing Activity Declines from 3Q 2021 Peak

Approximately 4.0M square feet was leased at the beginning of 2024, marking the lowest recorded quarterly leasing volume in the last five years. Amazon accounted for 30% of the market's leasing totals. The downward trend of leasing activity does not diminish the market's inherent strengths, such as proximity to major ports, population centers, and an industrial labor pool that constitutes nearly a quarter of the market's total labor force. These traits will ensure that the I-81/78 Corridor will remain a major industrial market on the East Coast.

Total Leasing Activity (SF)



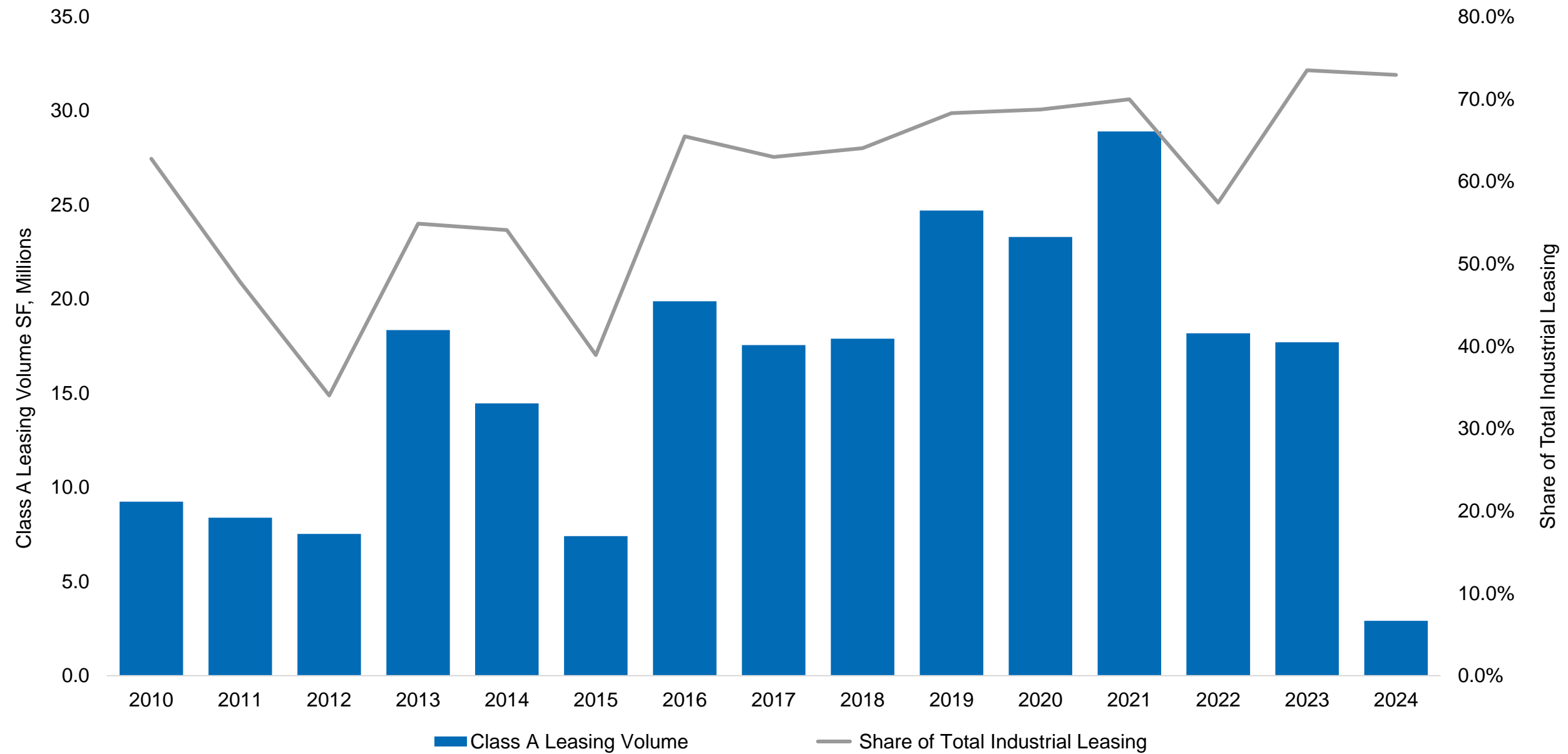
Source: Newmark Research, CoStar



# Class A Warehouse Captures 73 Percent of Leasing Volume

While leasing activity in the first quarter of 2024 was lower than historical averages, demand for Class A product remained strong, capturing 72.9% of total industrial leasing volume. Attributes such as higher clear heights, wider column spacing, and greater power capacity are attractive to industrial users who are noticeably shifting to more automated and power-intensive operations.

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

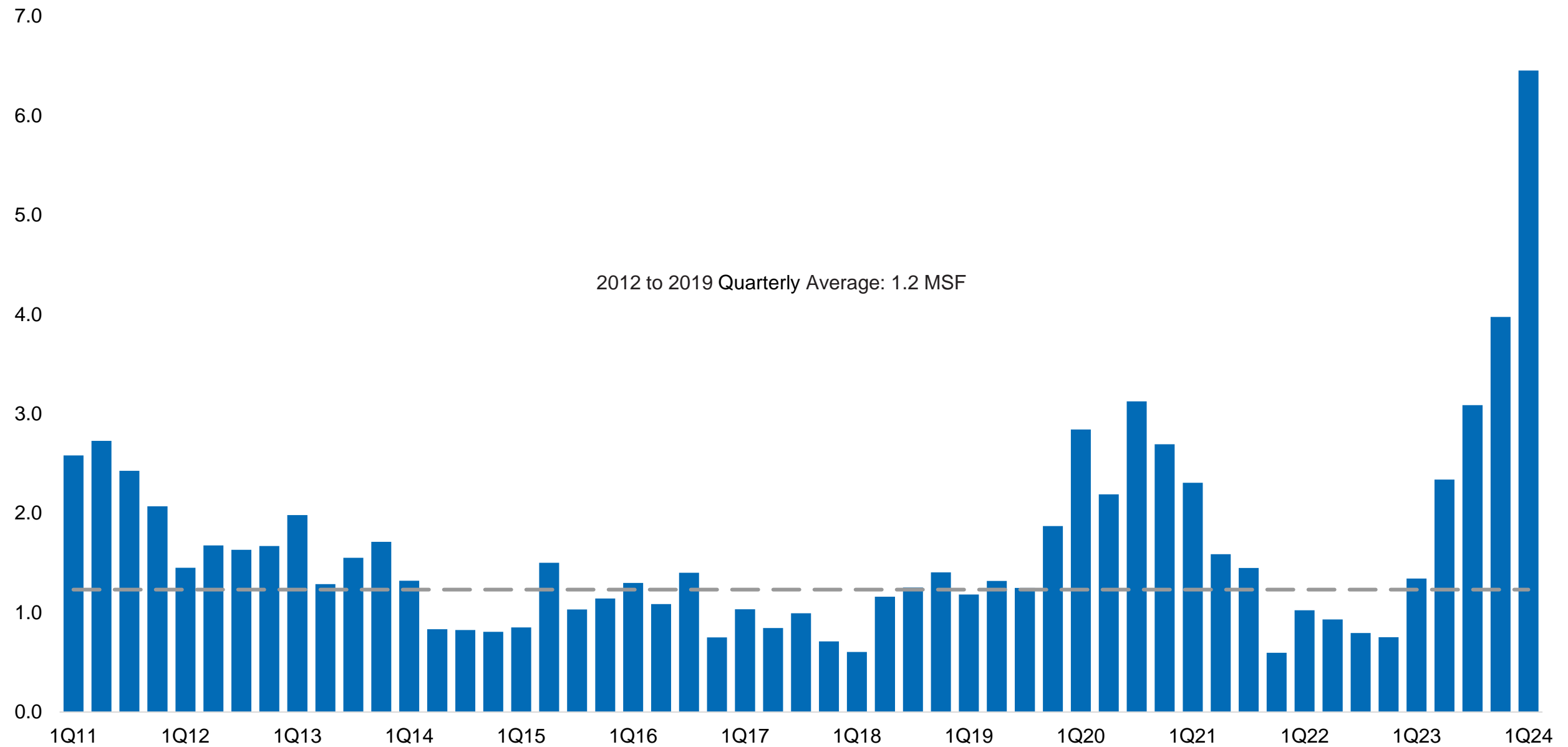


Source: Newmark Research, CoStar

# Industrial Sublease Availability Spikes to Historic Highs

The first quarter of 2024 had the largest quarter-over-quarter increase in sublease availabilities in recent history. Companies such as BroadRange Logistics, All-Ways Forwarding, and Kohler accounted for 62% of the market's 2.5M square feet of new sublease availabilities. Approximately 81% of this inventory is concentrated in the Class A market segment. Empirical evidence suggests that this is not a sign that companies are downsizing but rather a cost mitigation strategy. Growth projections for some companies have not gone as planned, but in case of an upturn, companies can decide to reoccupy.

Available Industrial Sublease Volume (msf)



Source: Newmark Research, CoStar



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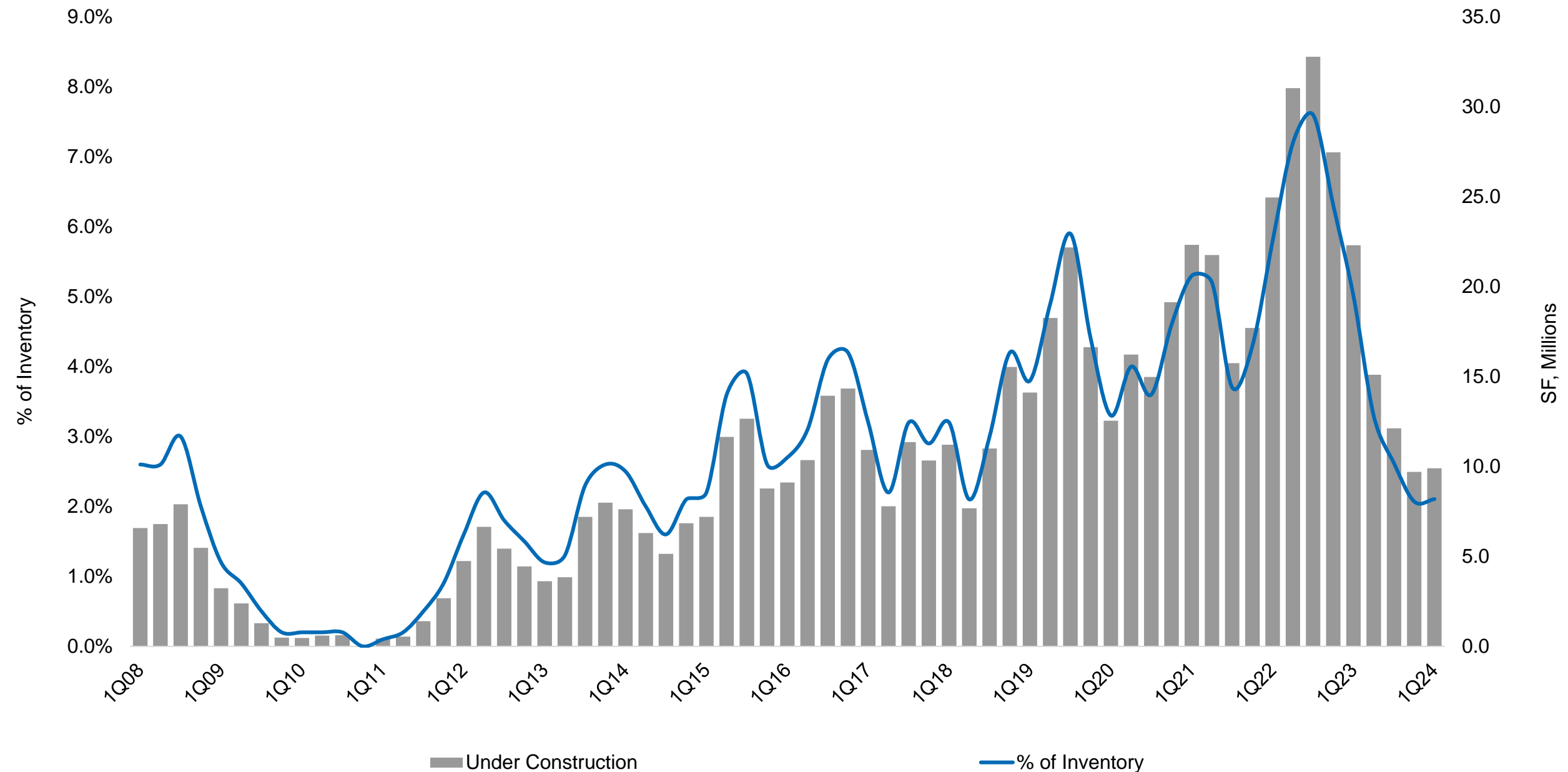
## Notable Sublease Blocks

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# Limited Construction Starts and Deliveries Keep Pipeline Stable

Construction starts outpaced deliveries by 400,000 square feet at the beginning of 2024, leading to a slight increase in the construction pipeline. This is the first quarter-over-quarter increase in pipeline inventory since the third quarter of 2022. It is not anticipated that this is the start of a ramp-up in construction. Numerous projects are expected to finish in upcoming quarters, and the pace of groundbreakings in the past four quarters is 30% of the 2020-2022 quarterly average.

## Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar



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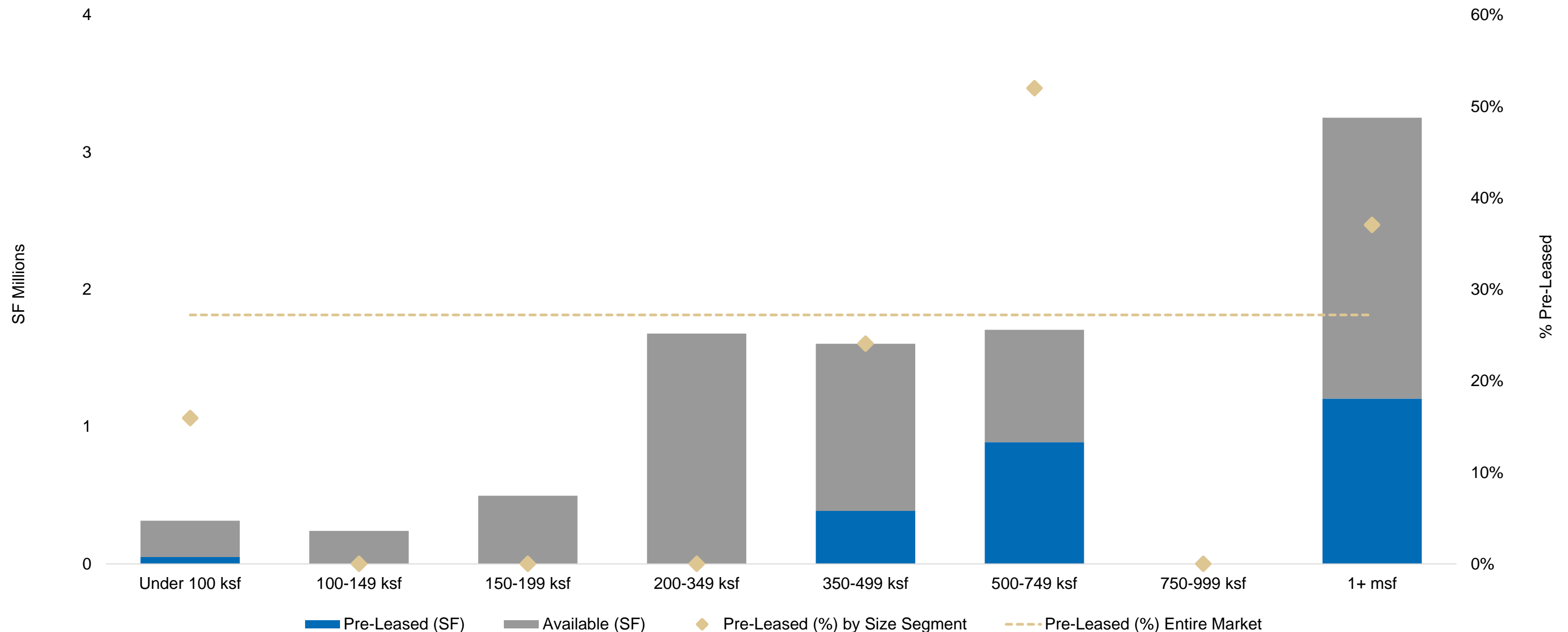
# Reduction in Construction Starts Promises a Smaller Construction Pipeline

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# Over One Quarter of Development Pipeline is Preleased

At the end of the first quarter of 2024, 27% of the Corridor's construction pipeline was either pre-leased or owned, representing a 59% increase from the previous quarter. This growth was predominantly driven by the 500K-749K square foot segment of the construction pipeline, of which 52% is pre-leased or owned. Such space commitments play a crucial role in mitigating the increase in vacancies that new deliveries might cause. Notably, nearly 65% of the market's vacant inventory is located in buildings that were constructed in the last five years.

Total Construction by Size Segment: Pre-Leased vs. Available Space

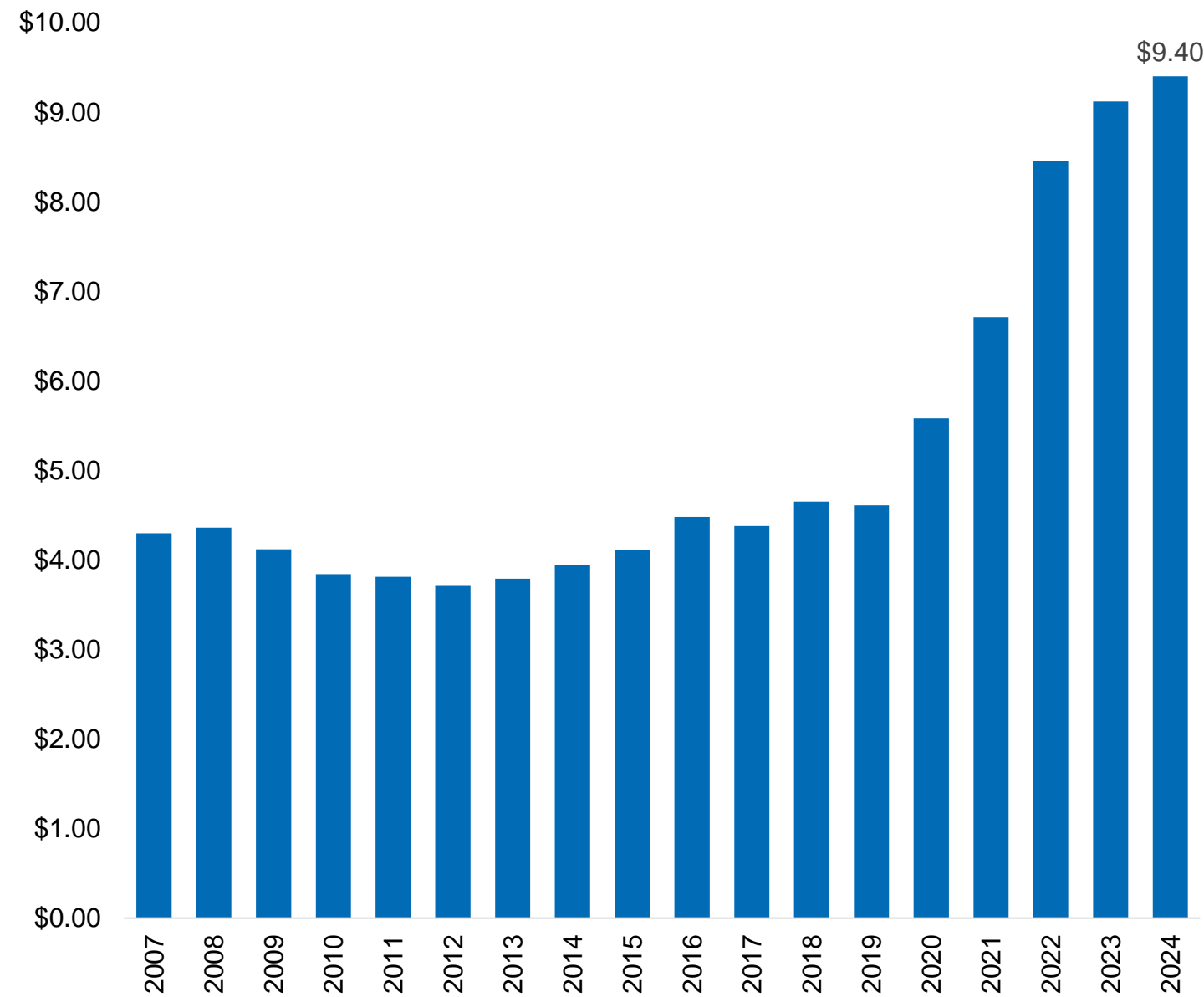


Source: Newmark Research, CoStar

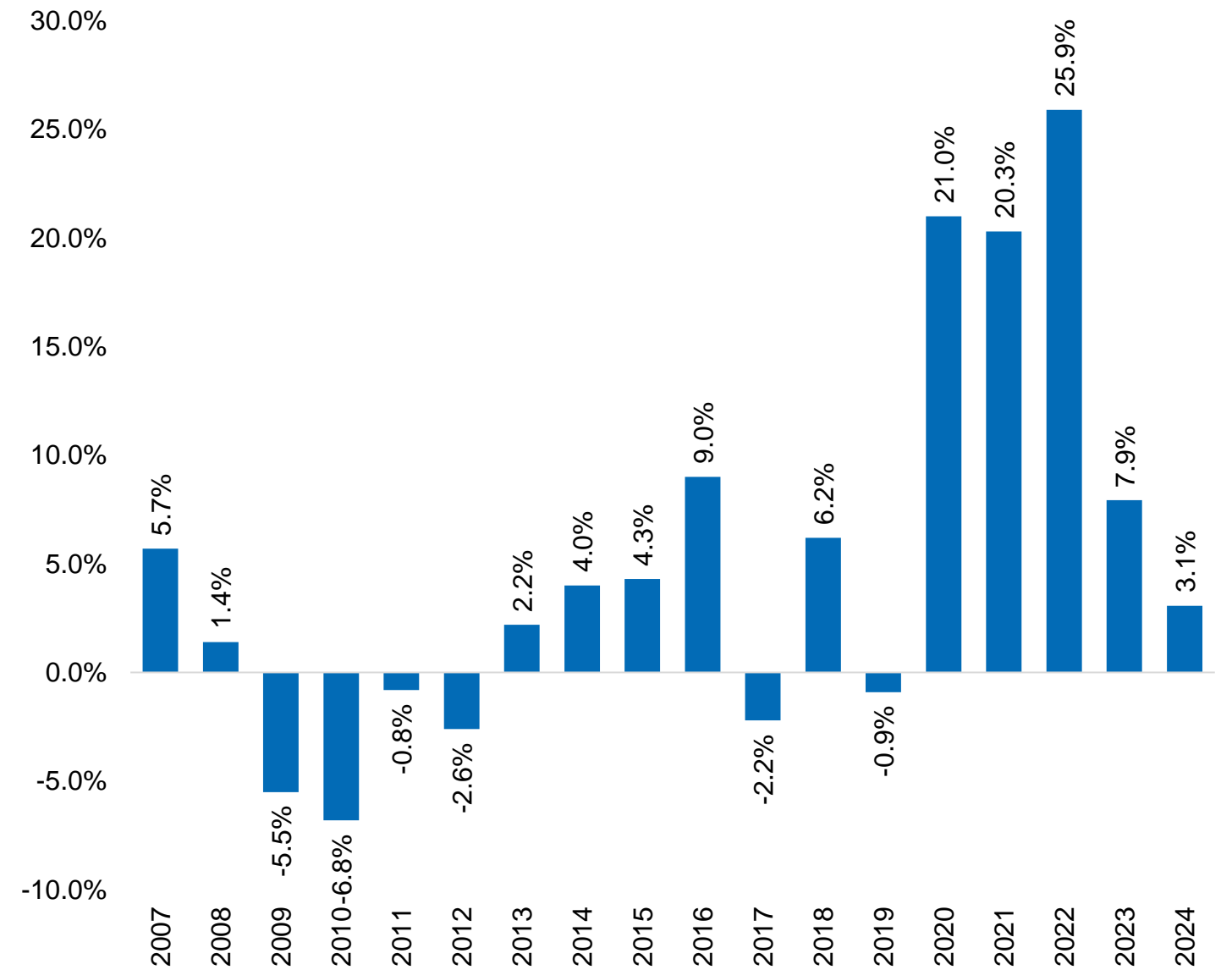
# Rent Growth Moderates after Years of Aggressive Increases

At the start of 2024, annual asking rent growth was 3.1%, closely aligning with the 3.3% five-year average observed between 2015 and 2019. Moderating demand and a surge in new supply have brought the current pace of rent growth back in line with pre-pandemic era averages. Marginal gains in asking rates are expected in upcoming quarters, driven by the delivery of new supply. Currently, 73% of the market's construction pipeline remains available, with a weighted average asking rate of \$9.64/SF.

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



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

\*: Asking rates from 2023-2024 are Class A rents

\*Asking rates in 2021-2022 are sampled from lease comps



# Notable 1Q24 Lease Transactions

Amazon inked the largest lease in the Corridor when it leased a 1.2M-square-foot warehouse in Central Pennsylvania. This marks the second consecutive quarter that Amazon signed a lease for over 1.0M square feet in the I-81/78 Corridor.

## Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Amazon	36 Beagle Road, Middletown	Central Pennsylvania	Direct Lease	1,219,021
Andersen Windows	40 Dauphin Drive, New Kingstown	Central Pennsylvania	Direct Lease	600,000
Woodstream, LLC	1 Bear Road	Central Pennsylvania	Direct Lease	586,780
Noviland	1220 Oak Hill Road, Mountain Top	Northeastern Pennsylvania	Direct Lease	200,000
Clearly Clean Products LLC	420 Forest Road, Hazle Township	Northeastern Pennsylvania	Direct Lease	105,000

Source: Newmark Research, Esri

1Q24

## 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	212,325,804	4,409,192	5.4%	818,870	818,870	0	0	\$7.78
Lehigh Valley	161,833,593	2,910,008	6.5%	905,592	905,592	814,402	814,402	\$10.76
Northeastern PA	96,322,942	2,586,214	6.3%	1,080,820	1,080,820	0	0	\$6.73
<b>I-81/78 Market</b>	<b>470,482,339</b>	<b>9,905,414</b>	<b>6.0%</b>	<b>2,805,282</b>	<b>2,805,282</b>	<b>814,402</b>	<b>814,402</b>	<b>\$8.81</b>

## 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	122,193,346	2,471,567	4.9%	1,025,212	1,025,212	<b>224,000</b>	<b>224,000</b>	\$8.26
R&D/Flex	13,938,003	<b>0</b>	3.9%	-96,814	-96,814	0	0	\$9.98
Warehouse/Distribution	334,350,990	7,503,847	6.4%	1,876,884	1,876,884	<b>590,402</b>	<b>590,402</b>	\$8.94
<b>Market</b>	<b>470,482,339</b>	<b>9,905,414</b>	<b>6.0%</b>	<b>2,805,282</b>	<b>2,805,282</b>	<b>814,402</b>	<b>814,402</b>	<b>\$8.81</b>

Source: Newmark Research



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# 1Q 2024 Lehigh Valley Submarket Snapshot

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