



# I-81/78 Corridor – Pennsylvania Industrial Market

## Asking Rents Climb Higher; Positive Absorption for 2021

Activity in the I-81/78 Industrial Corridor remains robust. Absorption climbed to an all-time high with 19.6 million square feet in 2021. Overall vacancy declined to 7.2% in the fourth quarter, a 260-basis-point drop from the 9.8% rate reported a year ago. Asking rental rates for all property types continue to soar, increasing to an average of \$5.16/SF, up by 6.6% from a year ago when the average rate was \$4.84/SF. Construction activity remains strong with 18.6 million square feet underway, 96.0% of which is scheduled to deliver in 2022. Just over 10.0 million square feet of new construction delivered in 2021; 2.6 million square feet of that total was introduced in the fourth quarter.

Tenant demand in the I-81/78 Industrial Corridor remains strong, especially for sizable newly constructed buildings. E-commerce activity continues to drive the market and tenants have been aggressive in pursuit of space to fulfill their needs. New Class A building options larger than 500,000 square feet are typically preleased or leased upon delivery. There are few smaller vacancies available as most space options are designed for larger requirements.

### Current Conditions

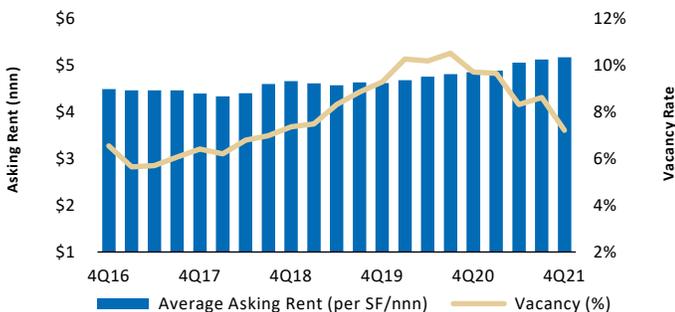
- Average asking rents settled at \$5.16/SF in the fourth quarter, up from \$5.11/SF the previous quarter.
- 18.6 million square feet is under construction with 96.0% of that total inventory expected to deliver in 2022.
- Overall vacancy declined to 7.2% year-end 2021, down from 8.6% in the previous quarter.

### Market Summary

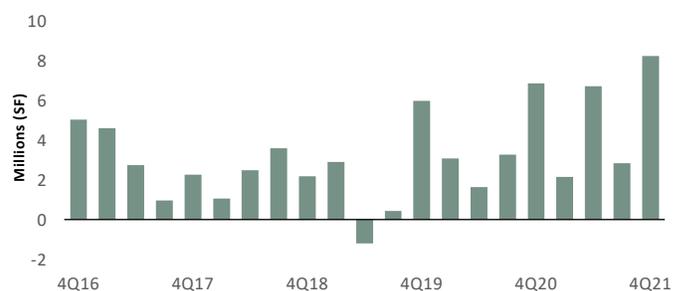
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	421.6M	417.5M	407.2M	↑
Vacancy Rate	7.2%	8.6%	9.8%	→
Quarterly Net Absorption (SF)	8.2M	2.8M	6.8M	↑
Average Asking Rent/SF	\$5.16	\$5.11	\$4.84	↑
Under Construction (SF)	18.6M	15.5M	17.8M	→

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



## Central Pennsylvania

The Central Pennsylvania submarket experienced a significant boost in positive absorption during the fourth quarter, totaling 3.7 million square feet, bringing the year-to-date total up to 8.2 million square feet. The increase can be largely attributed to the 1.0 million square feet of positive absorption at the Goodman Logistics Center – Newberry at 699 Yorktown Road in Lewisberry. The two-building park recently finalized construction and the tenants — Chewy (732,000 square feet) and Amazon (277,000 square feet) — took occupancy this quarter. Also impacting absorption significantly, Moran Logistics moved into its new 507,045-square-foot facility at 2040 North Union Street in Middletown.

The overall vacancy rate in the Central Pennsylvania submarket declined to 6.4% in the fourth quarter of 2021, down from 7.8% in the third quarter. Asking rental rates for warehouse and distribution space increased by 5.7% year-over-year from \$4.52/SF to \$4.78/SF.

Construction activity remains strong with 6.3 million square feet underway. Significant fourth quarter leases included Hormel Foods - 348,000 square feet at 101 Commerce Drive in Mechanicsburg, and FedEx Supply Chain - renewing 207,833 square feet at 221 South 10th Street in the Lemoyne Industrial Park.

## Lehigh Valley

The Lehigh Valley submarket finished the year on strong momentum. The overall vacancy rate declined to 8.0% this quarter, down from 9.1% in the third quarter. Year-to-date absorption climbed to 6.8 million square feet with 2.7 million square feet of that total being realized in the fourth quarter. The biggest contributor to this quarter's positive absorption was Romark Logistics which took occupancy of its new 1.0-million-square-foot building at 20 Martha Drive in Bethel. Asking rental rates for warehouse and distribution space remained relatively flat year-over-year, declining by only 0.9% to an average of \$5.73/SF.

Construction activity remains robust in Lehigh Valley with 6.6 million

square feet underway, the highest under-construction total of the three tracked submarkets. The largest leases signed this quarter in the submarket included Blue Triton Brands - 526,260 square feet at 2460 Brodhead Road in Bethlehem, and the 152,358-square-foot renewal by Allen Distribution at 7267 Schantz Road in Allentown.

## Northeastern Pennsylvania

The overall vacancy rate for the Northeastern PA submarket declined further this quarter from 9.5% in the third quarter to 7.6%. Positive absorption totaled 1.8 million square feet in the fourth quarter bringing the yearly total up to 4.2 million square feet. The biggest contributors to the increase in positive absorption included Amazon taking occupancy of its 1.0-million-square-foot building in the Valley View Trade Center in Jessup and Lowe's moving into its new 744,000-square-foot building at 325 CenterPoint Boulevard in the CenterPoint Commerce & Trade Park East in Jenkins Township. Asking rental rates for warehouse and distribution space increased from an average of \$4.22/SF year-end 2020 to \$4.25/SF in the fourth quarter of 2021. The largest lease signed during the fourth quarter was by Praxis Modular, taking 275,556 square feet of space at 1055 Hanover Street in Wilkes-Barre.

## In Conclusion

Tenant demand is showing no signs of slowing as we enter 2022. Asking rents for warehouse and distribution space are projected to continue to increase. With vacancy rates under 10% in all three submarkets, expect new construction activity to increase, particularly speculative developments. Much of the 18.6 million square feet currently under construction is being built on a speculative basis, so expect the vacancy rate to increase slightly in 2022 until these buildings are spoken for. Over the past several years, new speculative projects have rapidly leased after delivery, so expect vacancy to remain elevated for a short amount of time.

## Select Lease Transactions

Tenant	Submarket	Building	Type	Square Feet
Blue Triton Brands	Lehigh Valley	2460 Brodhead Road	New Lease	526,260
Hormel Foods	Central PA	101 Commerce Drive	New Lease	348,000
Praxis Modular	Northeastern PA	1055 Hanover Street	New Lease	275,556
FedEx Supply Chain	Central PA	221 South 10 <sup>th</sup> Street	Renewal	207,833
Allen Distribution	Lehigh Valley	7267 Schantz Road	Renewal	152,358

## Select Sale Transactions

Buyer	Submarket	Building	Sale Price	Square Feet
ASB Real Estate Investments	Central PA	601 Memory Lane	\$91.0M	1.5M
Walton Street Capital	Central PA	501 Old Forge Road	59.0M	405,000

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	192,011,902	6,293,655	6.4%	3,722,087	8,211,387	\$4.78	\$9.11	\$5.24
Lehigh Valley	146,172,456	6,634,184	8.0%	2,747,705	7,221,752	\$5.73	\$7.25	\$5.75
Northeastern Pennsylvania	82,597,009	5,634,443	7.6%	1,767,677	4,158,296	\$4.25	\$7.26	\$4.15
<b>Market</b>	<b>420,781,367</b>	<b>18,562,282</b>	<b>7.2%</b>	<b>8,237,469</b>	<b>19,591,435</b>	<b>\$4.84</b>	<b>\$8.01</b>	<b>\$5.16</b>

Submarket Statistics By Type						
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
<b>Total</b>	<b>420,781,367</b>	<b>18,562,282</b>	<b>7.2%</b>	<b>9,064,758</b>	<b>20,034,224</b>	<b>\$5.16</b>
Warehouse/Distribution	291,811,830	15,989,751	7.9%	8,149,490	19,519,080	\$4.84
R&D/Flex	14,133,081	-	8.7%	15,854	48,681	\$8.01
General Industrial	114,836,456	2,572,531	5.3%	72,125	23,674	\$5.09

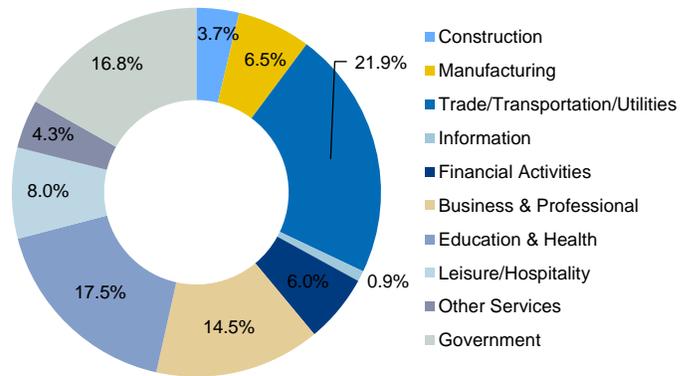
### Economic Conditions

The Harrisburg-Carlisle metropolitan statistical area's (MSA) unemployment rate declined to 4.1% in October of 2021, down 170 basis points from July of 2021 and down from 6.9% a year ago. Payroll employment has been positive for seven consecutive months and was 2.6% for the month of October. Of all tracked sectors in the Harrisburg-Carlisle MSA, leisure and hospitality (+17.6%), information (+6.7%) and manufacturing (+4.2%) all exhibited the most growth over the past 12 months.

With the recent rise of the Omicron variant, employers are once again facing return-to-office issues. There was an expected increase in the migration of workers back to the office after the new year, however the new variant may cause further delay. Despite the new Omicron variant, employment in the Harrisburg-Carlisle MSA has been strong over the past several months. Expect a further decline in unemployment and continued payroll employment growth moving into the new year.

### Employment by Industry

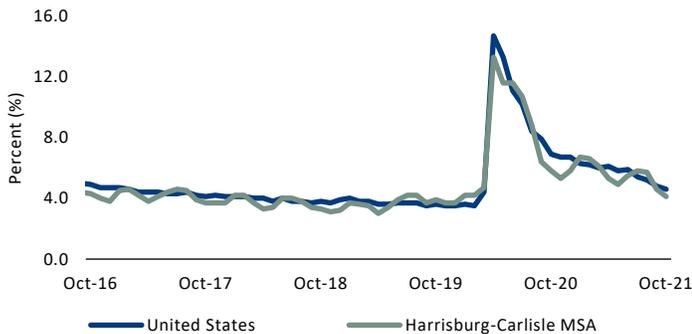
HARRISBURG-CARLISLE MSA, ANNUAL AVERAGE 2021



Source: U.S. Bureau of Labor Statistics, October 2021.

### Unemployment Rate

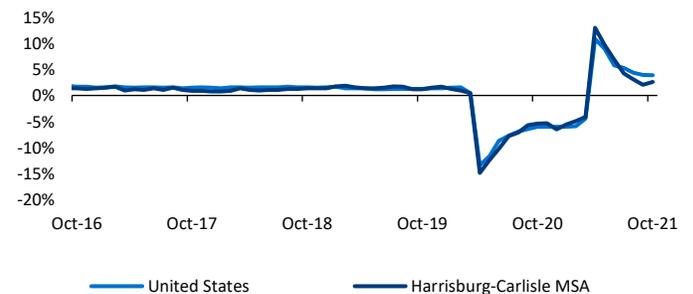
SEASONALLY ADJUSTED\*



\*Local data not seasonally adjusted  
Source: U.S. Bureau of Labor Statistics, October 2021.

### Payroll Employment, Total Nonfarm

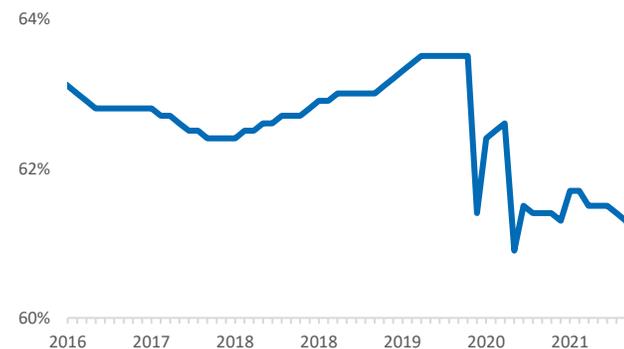
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, October 2021.

### Labor Force Participation Rate

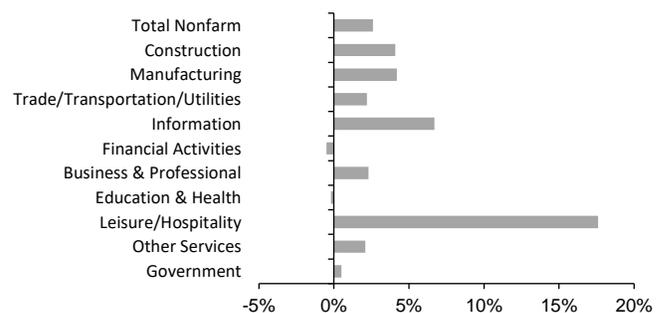
PENNSYLVANIA



Source: Federal Reserve, October 2021.

### Employment Growth by Industry, October 2021

HARRISBURG-CARLISLE MSA, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, October 2021.

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