
3Q24

I-81/78 Corridor Industrial Market Overview

NEWMARK

Market Observations

Economy

- Unemployment in the I-81/78 Corridor registered 4.3% as of August 2024, just 10 basis points higher than the national rate. Employment in the I-81/78 Corridor has tracked closely with national trends but saw slower growth over the past 12 months than the national average. Employment in the region grew by only 0.3% for the 12 months ending in August, compared with 1.6% growth nationally.
- Job gains in the Education & Health, Leisure/Hospitality and Business & Professional Services sectors drove annual employment gains in the Corridor through August. Industrial-using employment saw growth in the Construction sector but slight contraction in the Trade/Transportation/Utilities and Manufacturing sectors.

Major Transactions

- The third quarter of 2024 saw a slight uptick in leasing activity from the first half of the year. Significant new leases signed by Western Post and Ryder Logistics will contribute 2.0 million square feet to absorption upon occupancy during the fourth quarter.
- Lehigh Valley captured the most demand during the third quarter, with nearly 1.0 million square feet of net absorption. Four of the top five largest transactions of the third quarter were recorded in the submarket.
- Major third-quarter moves included Amazon's occupancy of the recently-built, 1.2 million-square-foot warehouse at 36 Beagle Road in Middletown.

Leasing Market Fundamentals

- Through the first three quarters of 2024, just over 3.0M square feet of industrial space has delivered, marking the lowest volume of new deliveries since 2013. Meanwhile, absorption year-to-date has measured -324,952 square feet, leading to a 130-basis-point increase in vacancy rates since the first quarter.
- Over 3.8 million square feet of industrial inventory has delivered through the first three quarters of 2024, outpacing construction starts and leading to a continued decline in the construction pipeline.
- As of the third quarter of 2024, the annual average asking rent declined by 1.6%, following four years of historically high rent growth. Moderating demand, a surge in new supply, and a swift uptick in sublease availability have brought the current pace of rent change back in line with pre-pandemic era averages.

Outlook

- The third quarter of 2024 saw a 60% increase in sublease availabilities, the largest quarter-over-quarter increase in recent history. Companies such as BroadRange Logistics, All-Ways Forwarding, Bowman Logistics, Church & Dwight, and At Home accounted for 57% of the market's 4.0M square feet of new sublease availabilities. With tepid demand in the market for sublease space, it is likely sublease availability will remain elevated for the near future.
- While leasing activity during the first three quarters of 2024 was lower than historical averages, demand for Class A product accelerated, capturing 80.7% 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.

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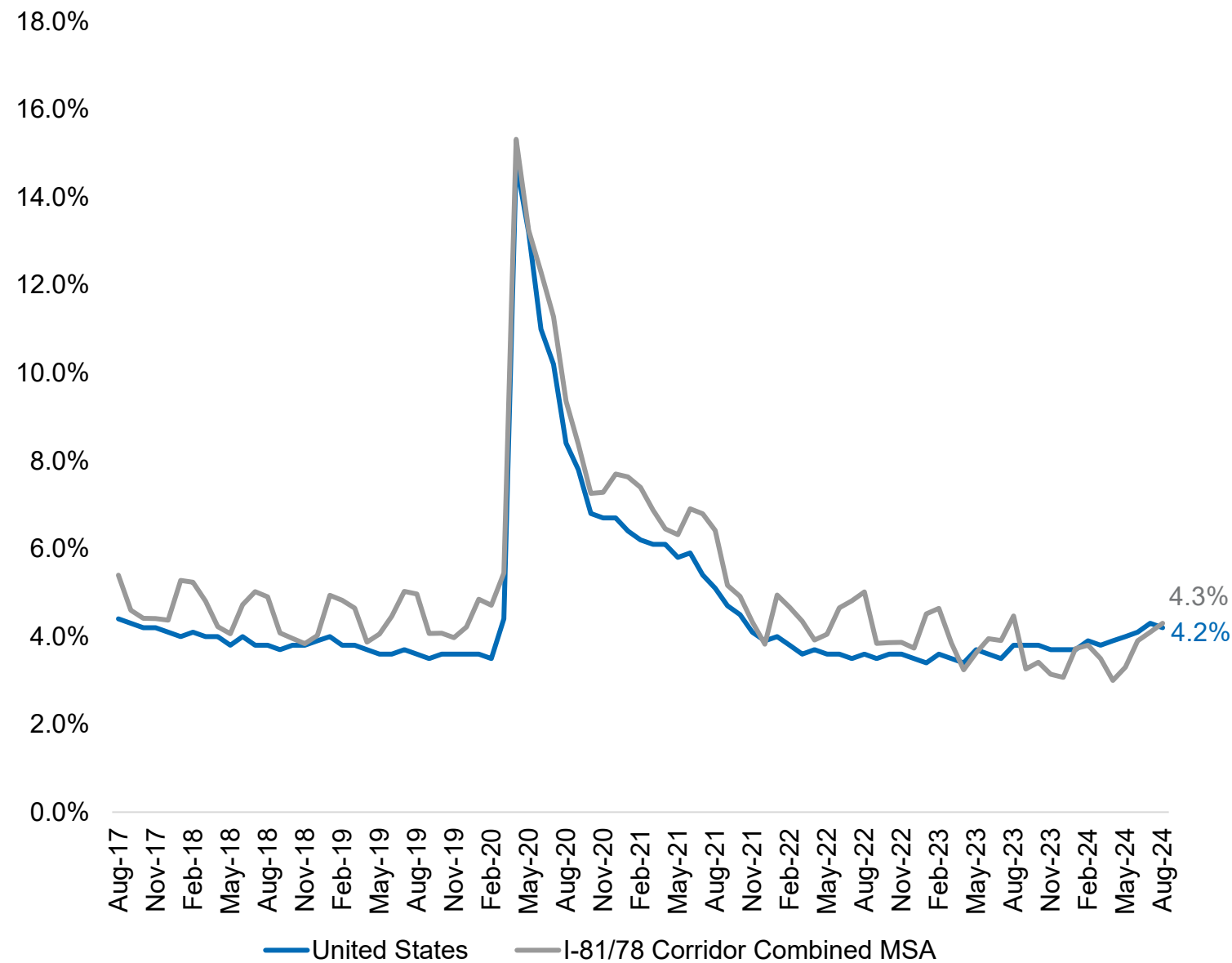
Economy



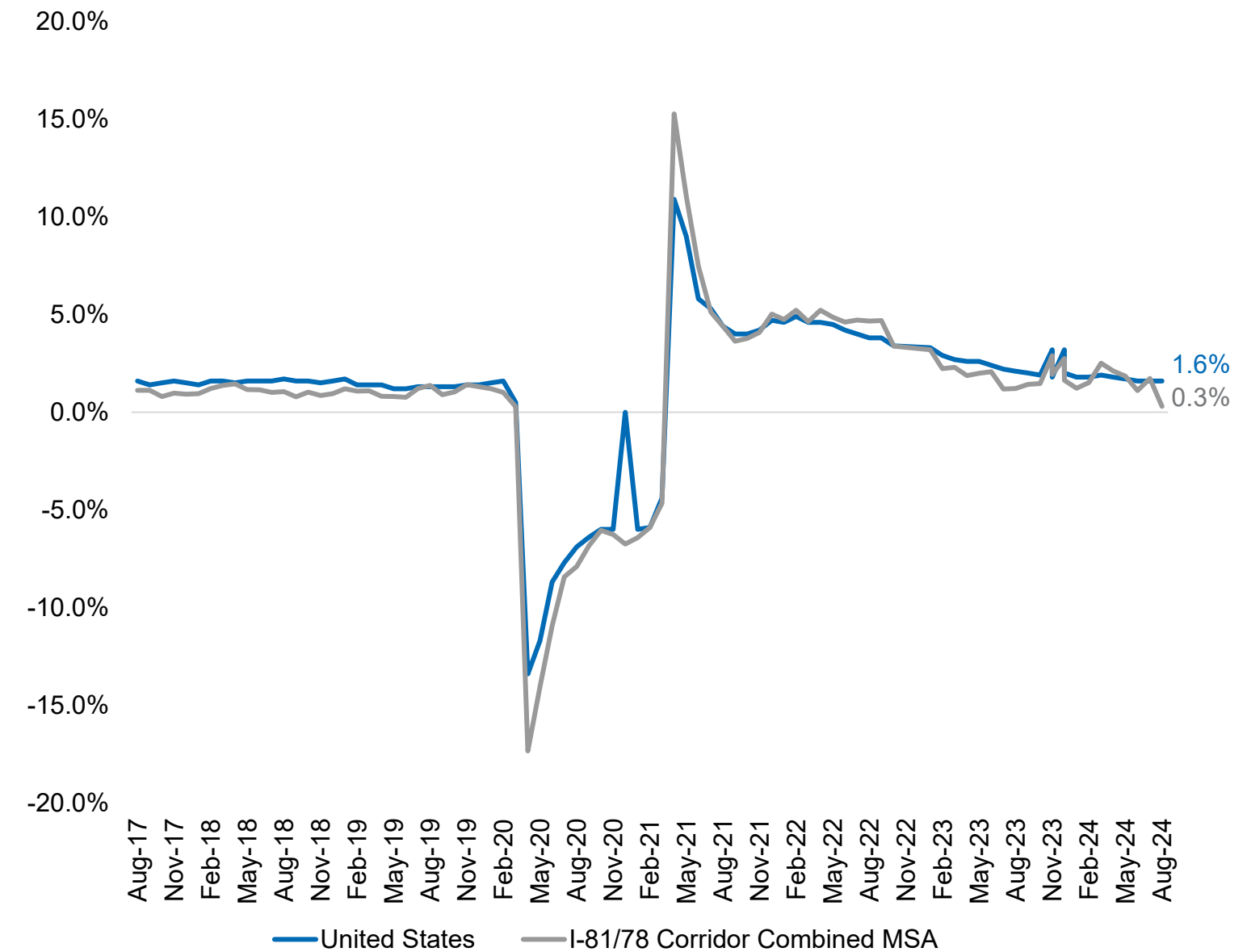
Unemployment Remains at Healthy Levels

Unemployment in the I-81/78 Corridor registered 4.3% as of August 2024, just 10 basis points higher than the national rate. Employment in the I-81/78 Corridor has tracked closely with national trends but saw slower growth over the past 12 months than the national average. Employment in the region grew by only 0.3% for the 12 months ending in August, compared with 1.6% growth nationally.

Unemployment Rate, Seasonally Adjusted



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



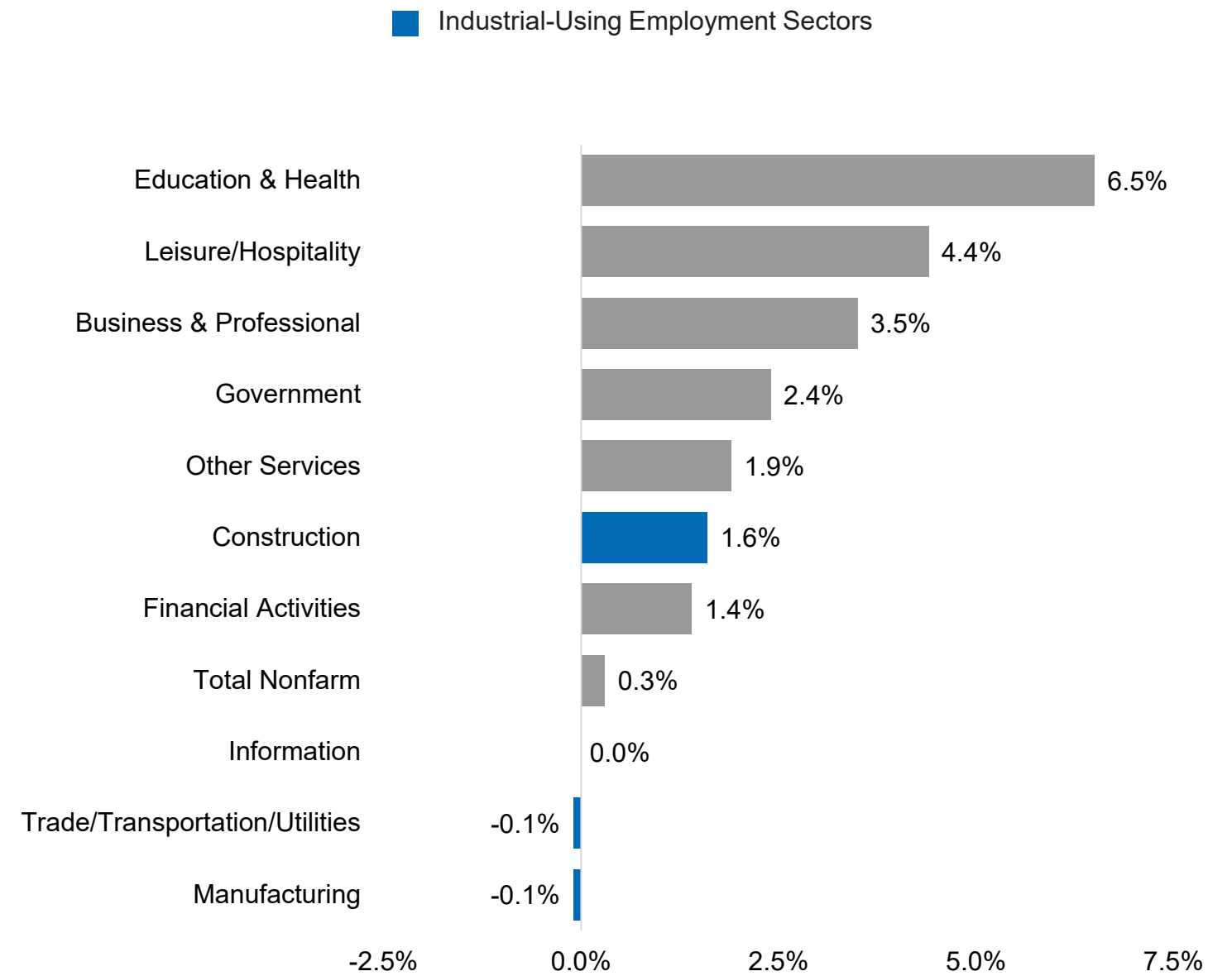
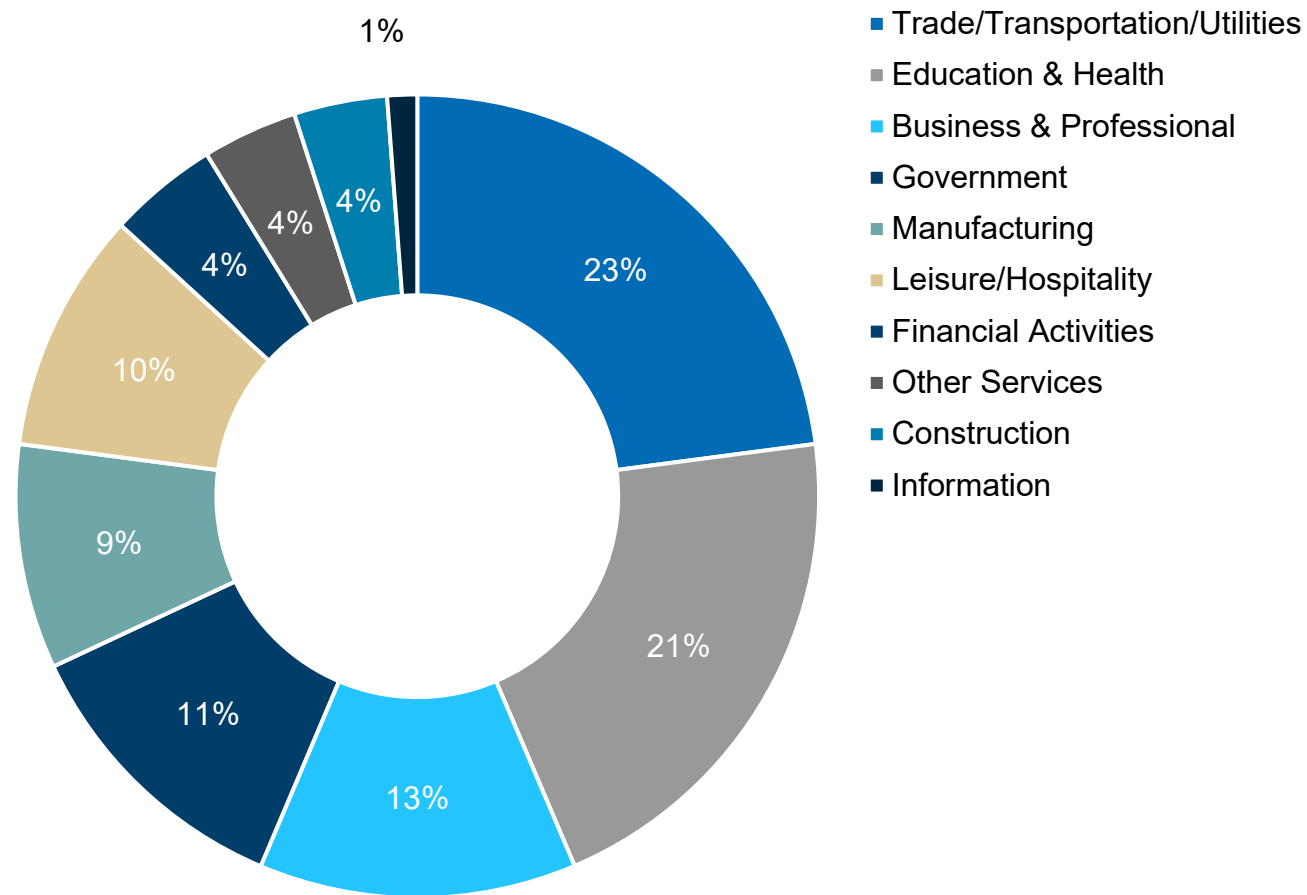
Source: U.S. Bureau of Labor Statistics, Combined MSA's of Harrisburg-Carlisle, Allentown, Scranton

Industrial-Using Employment Experiences Annual Losses

Job gains in the Education & Health, Leisure/Hospitality and Business & Professional Services sectors drove annual employment gains in the Corridor through August. Industrial-using employment saw growth in the Construction sector but slight contraction in the Trade/Transportation/Utilities and Manufacturing sectors.

Employment by Industry, August 2024

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

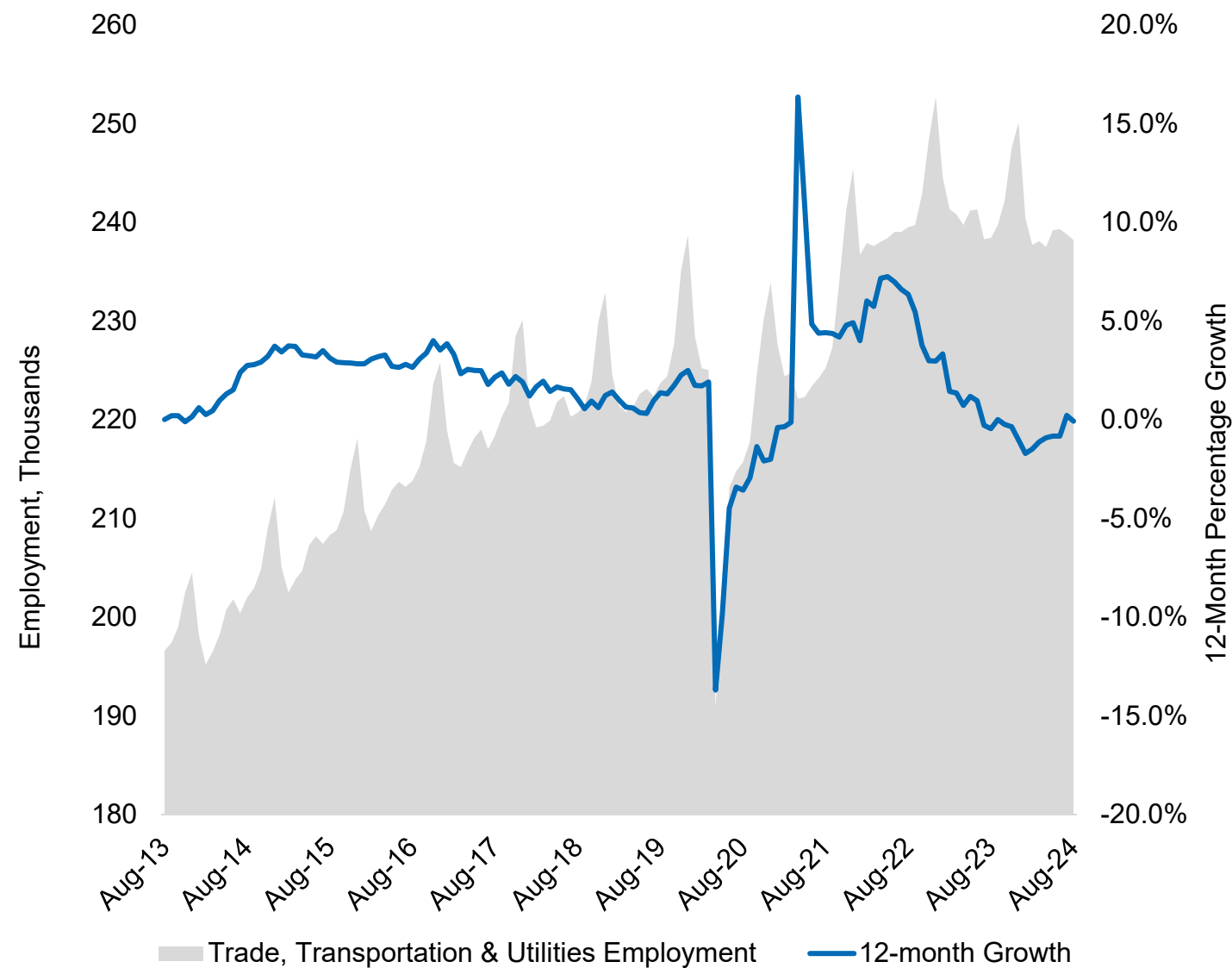


Source: U.S. Bureau of Labor Statistics, Combined MSA's of Harrisburg-Carlisle, Allentown, Scranton

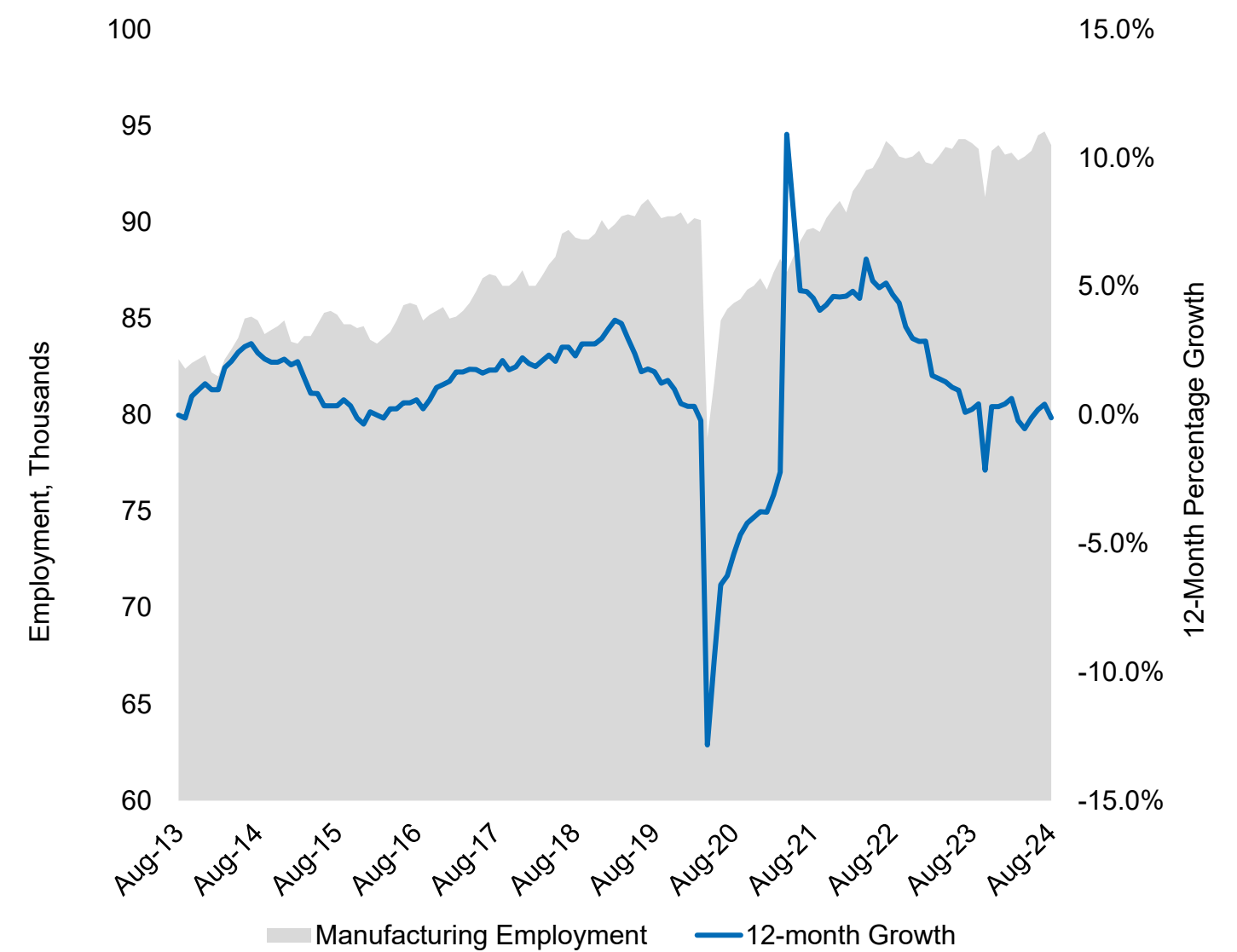
Total Employment in Industrial-Using Industries Continues to Decline

The I-81/78 Corridor experienced net job losses in both the Trade, Transportation & Utilities and the Manufacturing industries, which both contracted 0.1% for the 12 months ending in August. The declines have been greater in the region's Trade, Transportation & Utilities sector, which has had 14 consecutive months of annual job growth being negative or neutral. Meanwhile, the region's Manufacturing industry has experienced six consecutive months of annual growth below 0.5%.

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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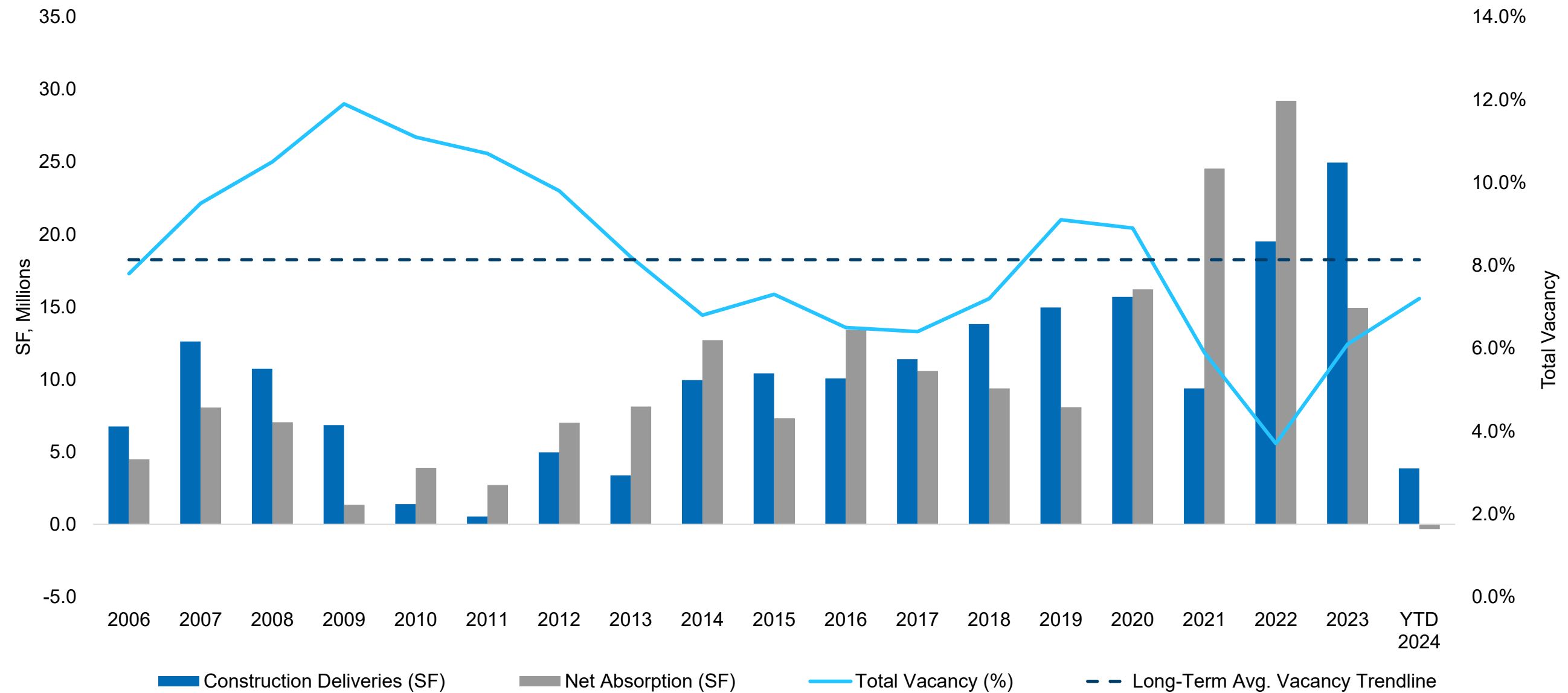
Leasing Market Fundamentals



A Slowdown in Deliveries Leads to Vacancy Declines

Through the first three quarters of 2024, just over 3.0M square feet of industrial space has delivered, marking the lowest volume of new deliveries since 2013. Meanwhile, absorption year-to-date has measured -324,952 square feet, leading to a 130-basis-point increase in vacancy rates since the first quarter. Signs of market normalization continued as the third-quarter absorption total of 306,500 square feet was down significantly from the rolling four-quarter average absorption of 2.8M square feet over the past eight quarters.

Historical Construction Deliveries, Net Absorption, and Vacancy

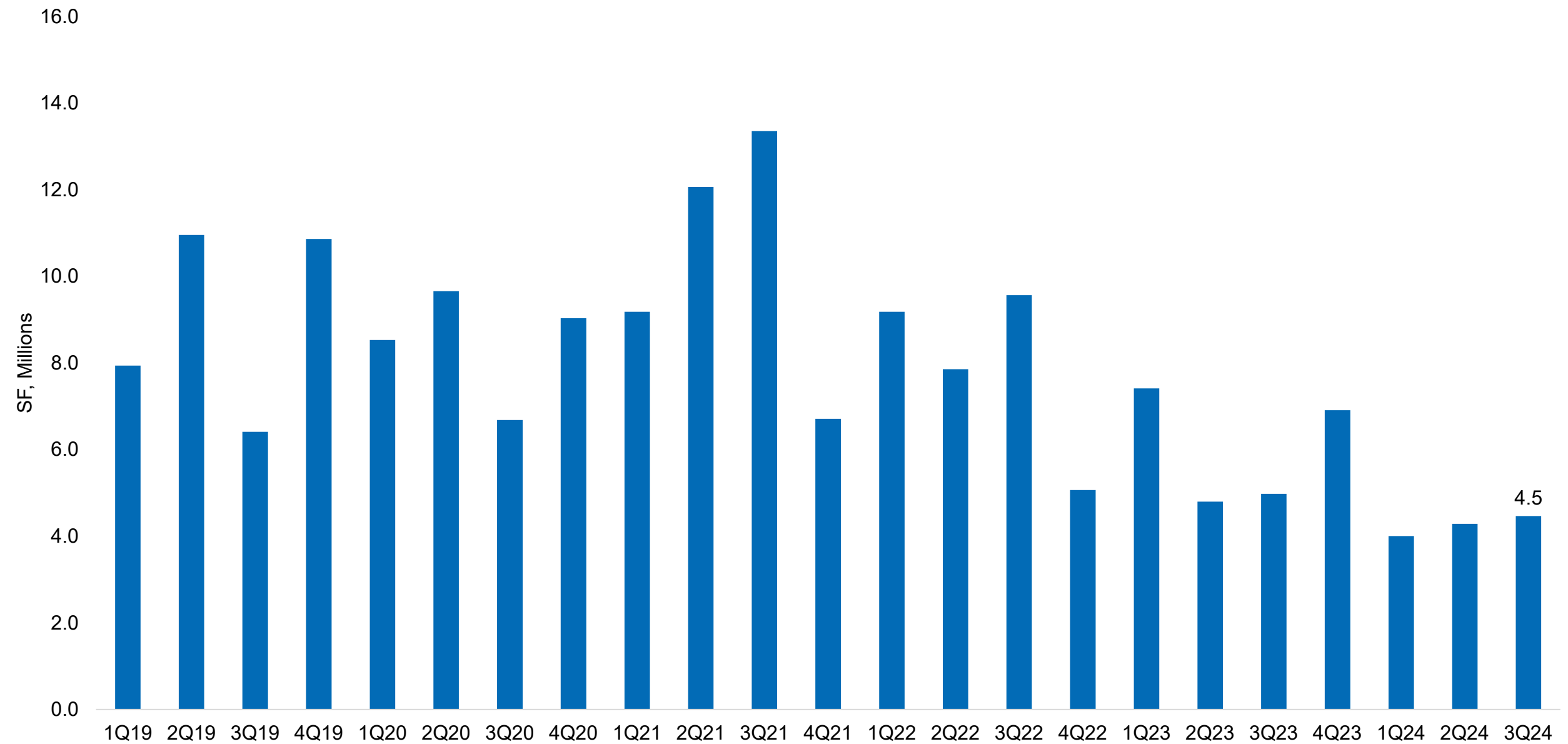


Source: Newmark Research

Industrial Leasing Activity Declines from 3Q 2021 Peak

Approximately 4.5M square feet was leased during the third quarter of 2024, a gradual uptick from the 4.0M square feet leased during the first quarter, which marked the lowest recorded quarterly leasing volume over the past five years. The lower-than-average leasing activity year-to-date 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)

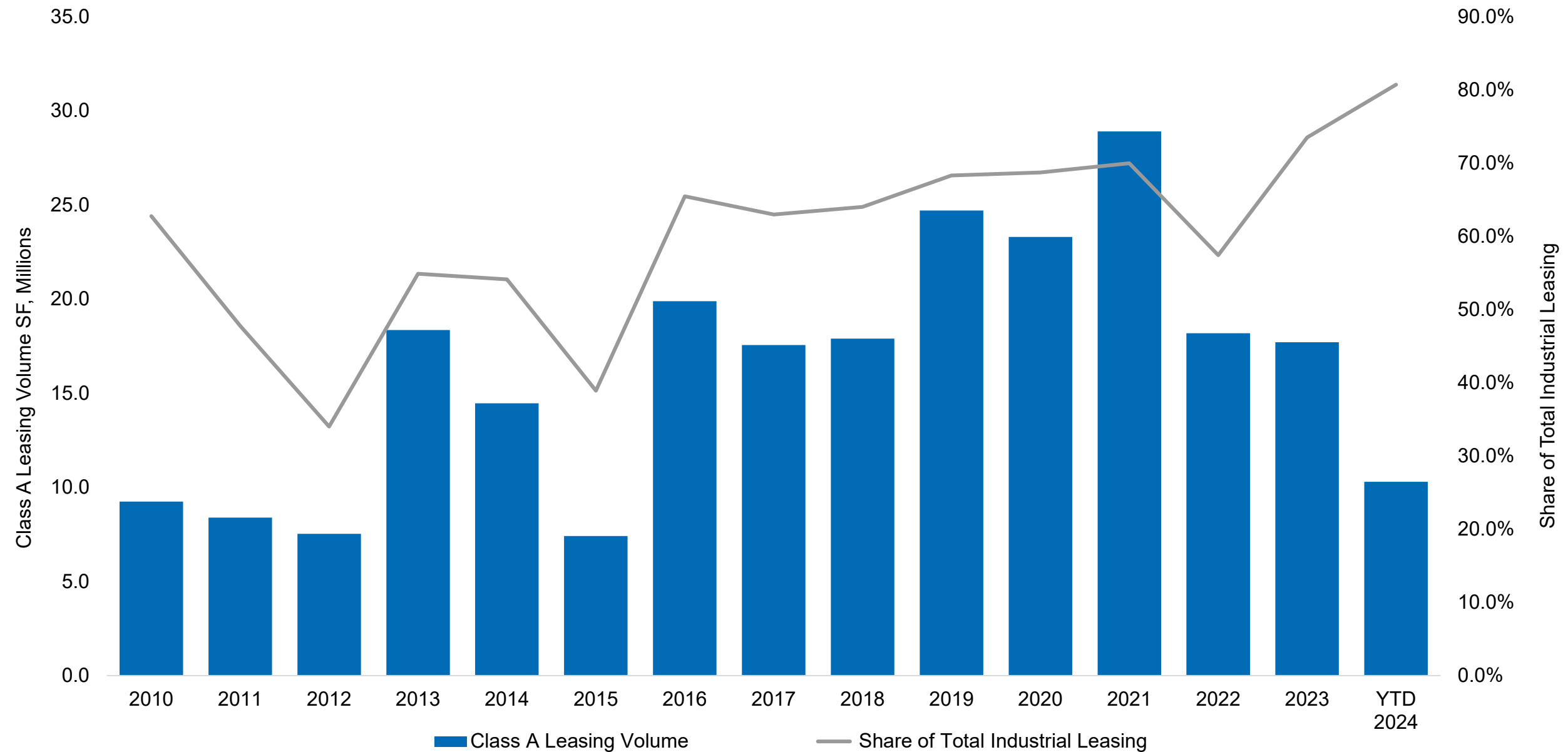


Source: Newmark Research, CoStar

Class A Warehouse Captures 73 Percent of Leasing Volume

While leasing activity during the first three quarters of 2024 was lower than historical averages, demand for Class A product accelerated, capturing 80.7% 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. Major third-quarter moves included Amazon's occupancy of the recently-built, 1.2 million-square-foot warehouse at 36 Beagle Road in Middletown.

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

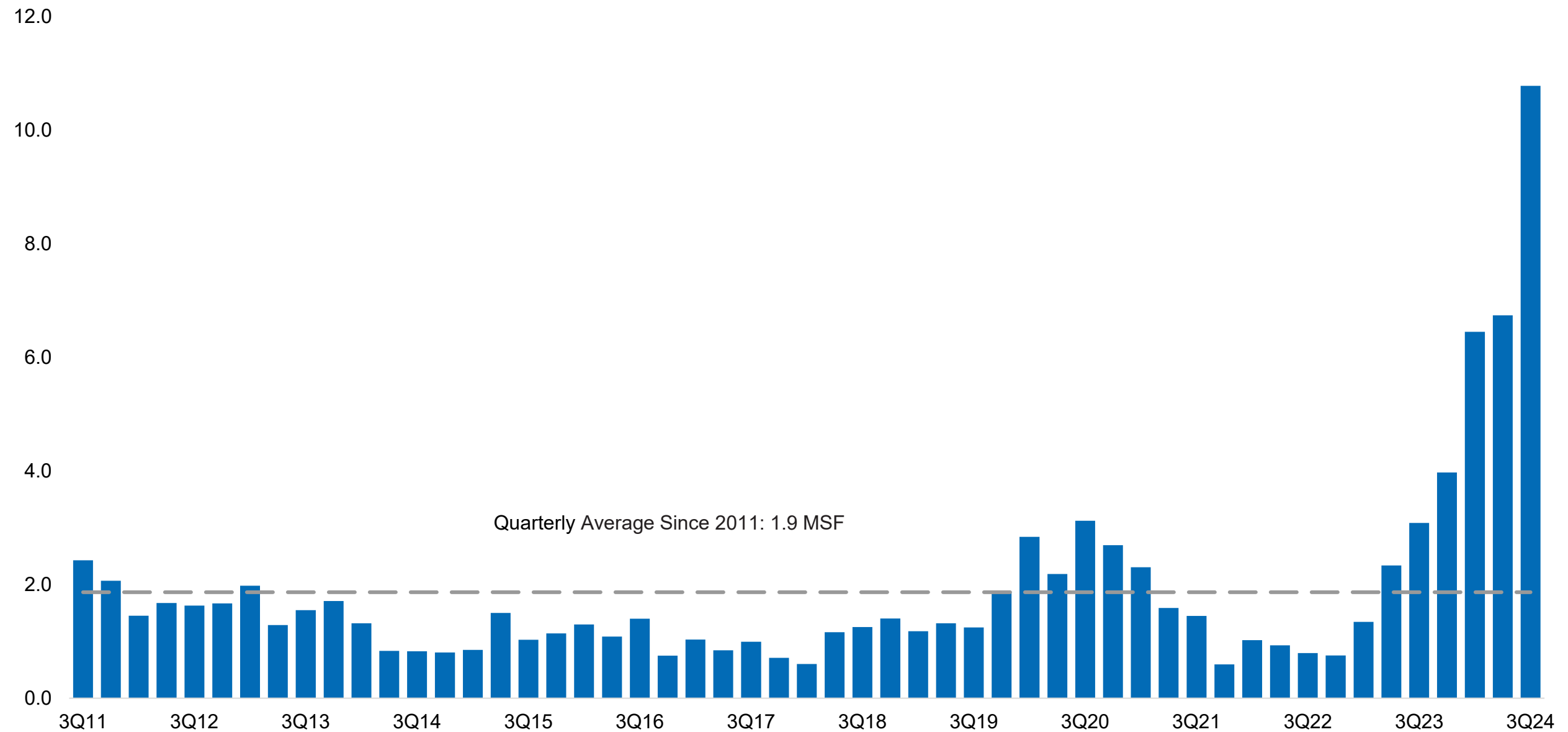


Source: Newmark Research, CoStar

Industrial Sublease Availability Spikes to Historic Highs

The third quarter of 2024 saw a 60% increase in sublease availabilities, the largest quarter-over-quarter increase in recent history. Companies such as BroadRange Logistics, All-Ways Forwarding, Bowman Logistics, Church & Dwight, and At Home accounted for 57% of the market's 4.0M square feet of new sublease availabilities. 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. With tepid demand in the market for sublease space, it is likely sublease availability will remain elevated for the near future.

Available Industrial Sublease Volume (msf)



Source: Newmark Research, CoStar

Notable Sublease Blocks

29 Ludwig Court – Shoemakersville



Market:	Lehigh Valley
Sublease Available	600,000 SF
Brought to Market	1Q24



250 Cloverleaf Road– York



Market:	Central PA
Sublease Available	364,000 SF
Brought to Market	3Q24



180 First Avenue – Gouldsboro



Market:	Northeastern PA
Sublease Available	501,600 SF
Brought to Market	1Q24



2294 Molly Pitcher Highway– Chambersburg



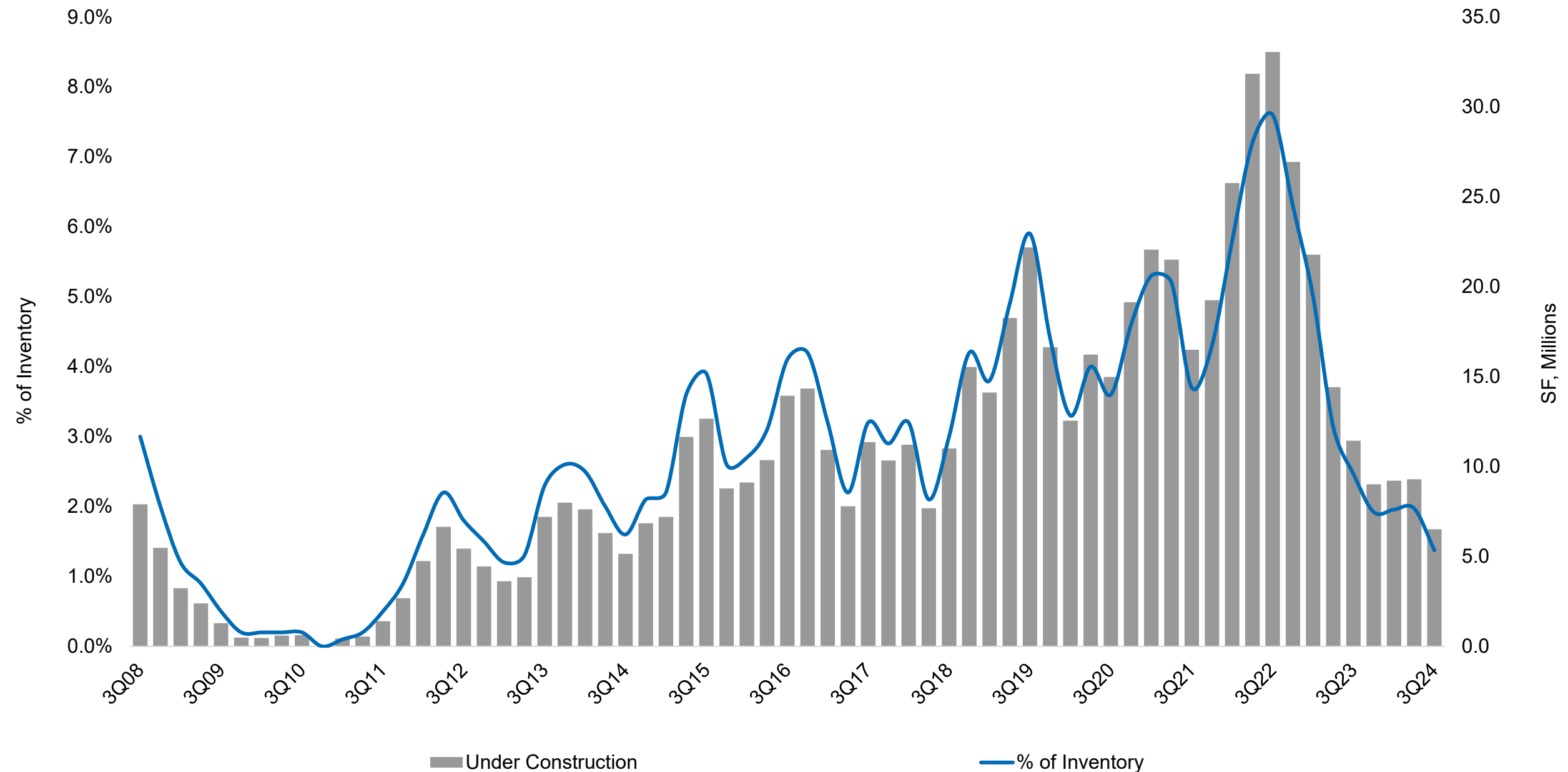
Market:	Central PA
Sublease Available	447,000 SF
Brought to Market	2Q24



Limited Construction Starts and Deliveries Keep Pipeline Stable

Over 3.8 million square feet of industrial inventory has delivered through the first three quarters of 2024, outpacing construction starts and leading to a continued decline in the construction pipeline. With numerous projects expected to finish in upcoming quarters and a slowing pace of groundbreakings, the industrial pipeline is expected to remain near its current rate of 1.4% of inventory for the near future.

Industrial Under Construction and % of Inventory

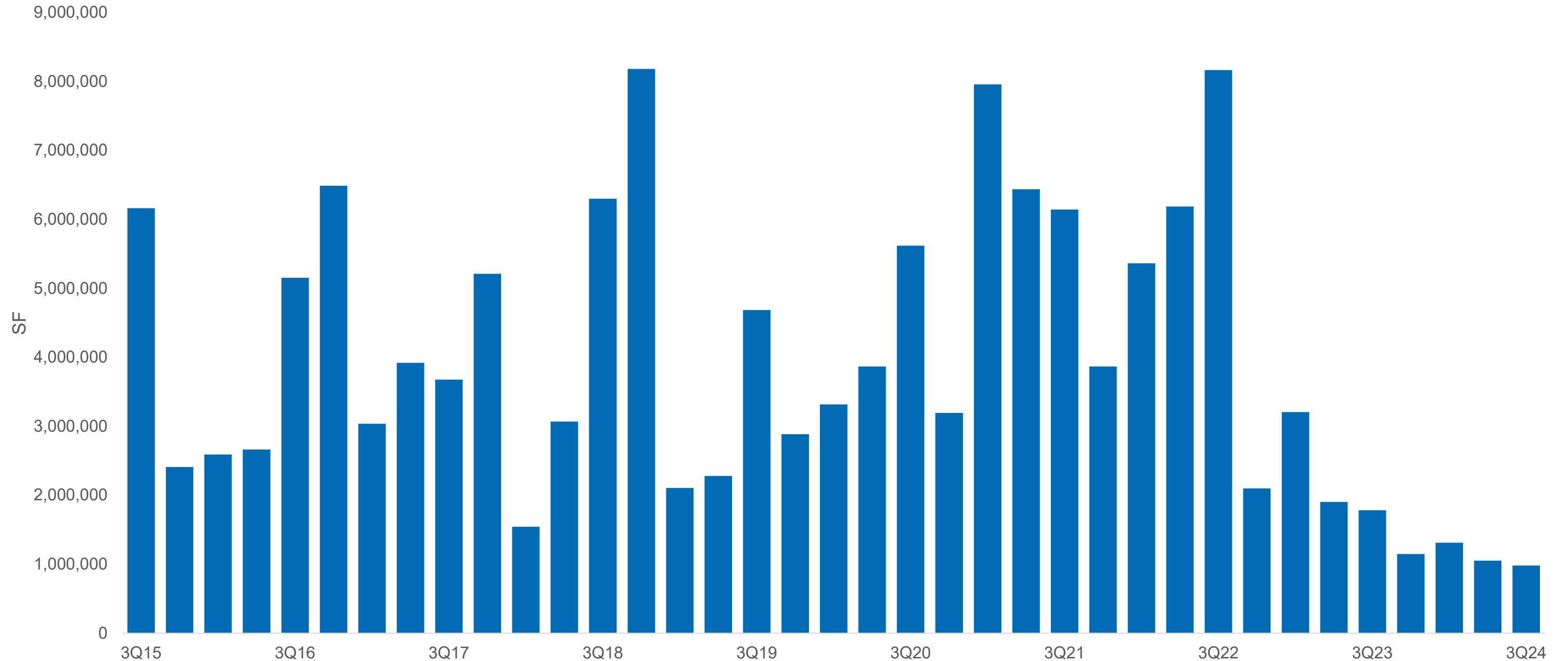


Source: Newmark Research, CoStar

Reduction in Construction Starts as Construction Pipeline Tapers

Construction began on 982,000 square feet of industrial developments during the third quarter of 2024, marking the sixth consecutive quarter of sub-2.0M square feet of quarterly groundbreakings. Increasing sublease availability, moderating leasing activity, and higher costs of capital have all contributed to a decline in construction.

Construction Starts per Quarter (SF)

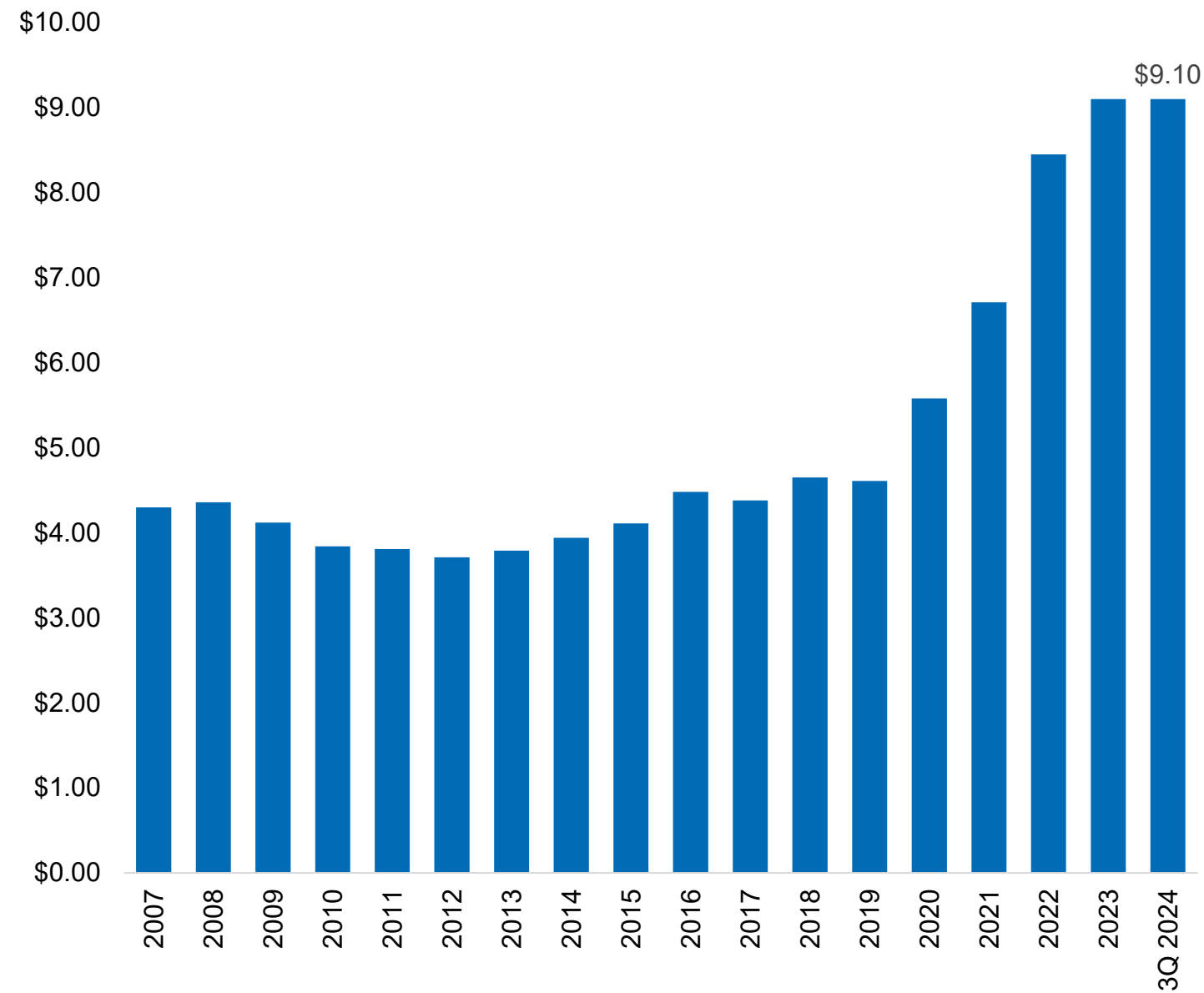


Source: CoStar

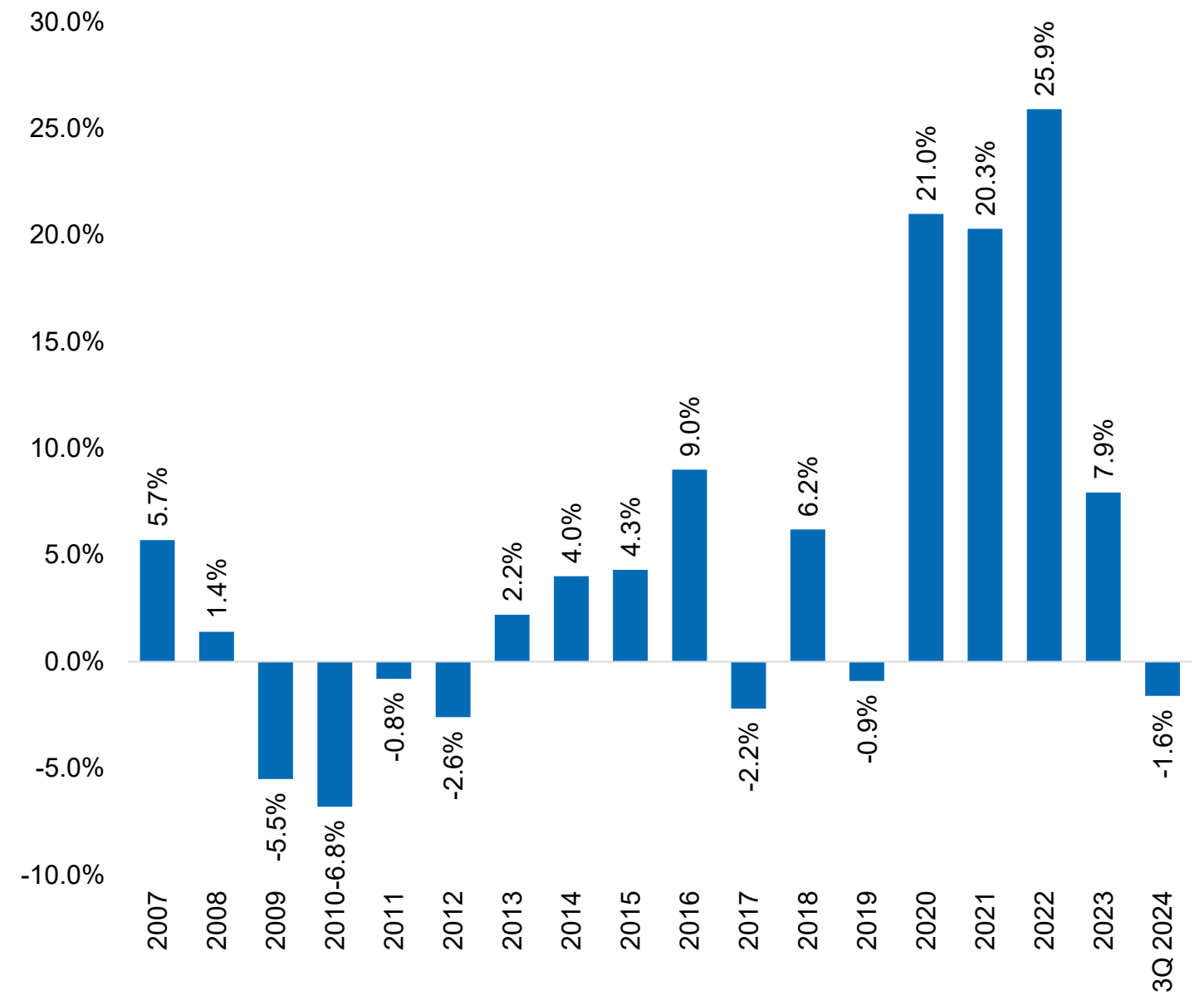
Rent Growth Moderates After Years of Aggressive Increases

As of the third quarter of 2024, the annual average asking rent declined by 1.6%, following four years of historically high rent growth. Moderating demand, a surge in new supply, and a swift uptick in sublease availability have brought the current pace of rent change back in line with pre-pandemic era averages. While marginal gains in asking rates driven by the delivery of new supply are possible in the coming quarters, it is likely rent growth will remain tepid in the face of unprecedented sublease availability.

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



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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	214,929,896	2,445,324	7.6%	-1,343,639	-2,428,914	1,801,868	1,801,868	\$7.67
Lehigh Valley	162,852,943	1,643,103	7.1%	959,654	890,655	1,006,050	1,820,452	\$10.48
Northeastern PA	96,555,442	2,425,714	6.3%	690,485	1,213,334	232,500	232,500	\$6.16
I-81/78 Market	474,338,281	6,514,141	7.2%	306,500	-324,925	3,040,418	3,854,820	\$8.51

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	122,206,646	2,473,567	3.7%	599,388	2,314,035	0	224,000	\$7.37
R&D/Flex	13,938,003	0	4.0%	-34,961	-128,674	0	0	\$8.49
Warehouse/Distribution	338,193,632	4,040,574	8.6%	-257,927	-2,510,286	3,040,418	3,630,820	\$8.70
I-81/78 Market	474,338,281	6,514,141	7.2%	306,500	-324,925	3,040,418	3,854,820	\$8.51

Source: Newmark Research

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