

PA I-81/78 Corridor

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New construction contends with slowing tenant demand

Weak tenant demand hindered the removal of new speculative space from the market. Vacancy in the Pennsylvania I-81/78 Corridor increased for the seventh consecutive quarter. The overall vacancy rate rose 30 basis points (bps) from the first quarter of 2024 to 6.5%. Vacancy in the Central PA submarket increased 50 bps to 5.6%, Northeast PA's vacancy rate rose 30 bps to 7.5%, and Lehigh Valley's vacancy posted a 10-bps uptick to 7.3%.

The amount of new warehouse space under construction declined compared to one year ago. There is 13.6 million square feet (msf) of new inventory under construction compared to 16.8 msf reported at mid-year 2023. Northeast PA has the largest amount of square footage under construction (5.9 msf), followed by the Central PA submarket with 4.5 msf.

Rent growth was mixed compared to the first quarter

Quarter over quarter, the overall average asking rental rate declined less than 1.0% to \$8.17 per square foot (psf). There was a 3.8% decrease in Central PA's average rental rate to \$7.51 psf. However, Northeast PA's average rate grew 2.1% from the first quarter to \$6.93 psf. Rent growth was flat for Lehigh Valley (\$10.13 psf).

Occupancies decrease in the second quarter

Occupancies decreased in the second quarter. The I-81/78 Corridor recorded negative 536,036 square feet (sf) of overall net absorption for the second quarter. Central PA was responsible for 482,166 sf of the quarter's negative absorption, followed by Lehigh Valley's posting 69,022 sf in lost occupancy. At 801 Centerville Road in the Central PA submarket, CJ Logistics vacated and put 1.1 msf on the market for sublease.

On the leasing activity front, an undisclosed tenant leased the 1.0-msf 71 Mall Road located in the Northeast PA submarket. In addition, logistics company Hub Group took 966,753 sf at 6 Kane Lane, also located in Northeast PA.

Key Statistics

	Q2 2023	Q2 2024	Y-0-Y
Inventory	567.7 msf	585.9 msf	+18.2 msf
Vacancy Rate	4.7%	6.5%	+180 bps
Asking Rental Rate	\$8.13	\$8.17	+0.5%
Net Absorption	7.5 msf	-0.5 msf	-7.0 msf
Under Construction	16.8 msf	13.6 msf	-3.2 msf
Deliveries	11.3 msf	0.4 msf	-10.9 msf

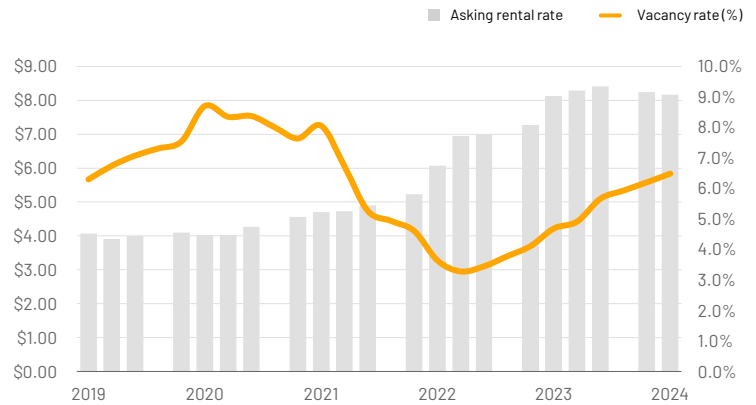
Outlook

01 High inflation's impact on consumer spending and international pressures on the supply chain will weaken tenant demand

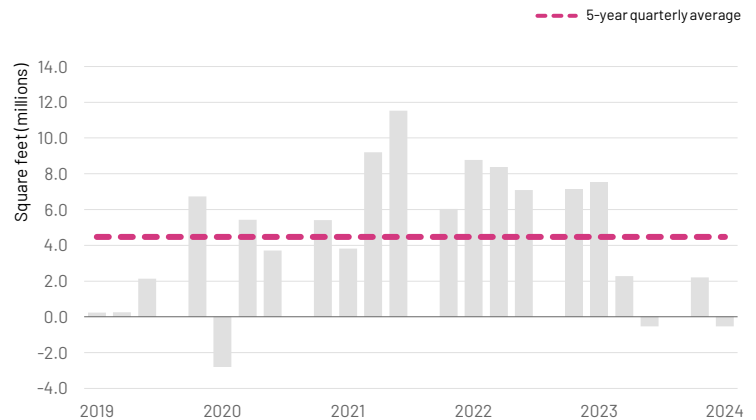
02 Landlords of 1.0-msf-plus properties will start dividing space into smaller blocks if unable to secure a sole tenant

03 Debt obligations will hinder owners' ability to lower asking rent, making concessions key to securing a tenant

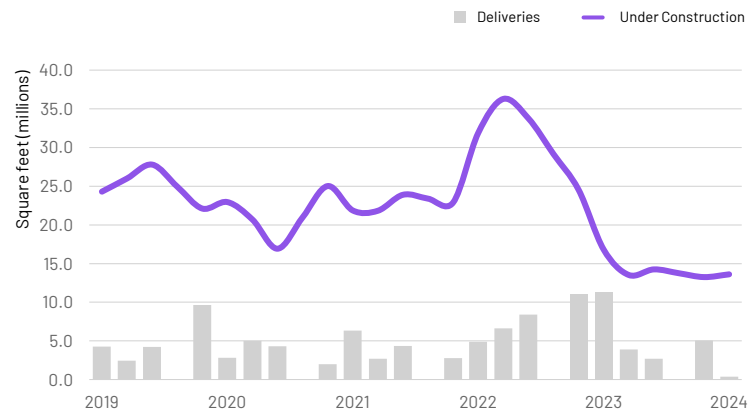
Asking Rent and Vacancy



Net Absorption



Deliveries and Under Construction



Top Leases

Source: Savills Research

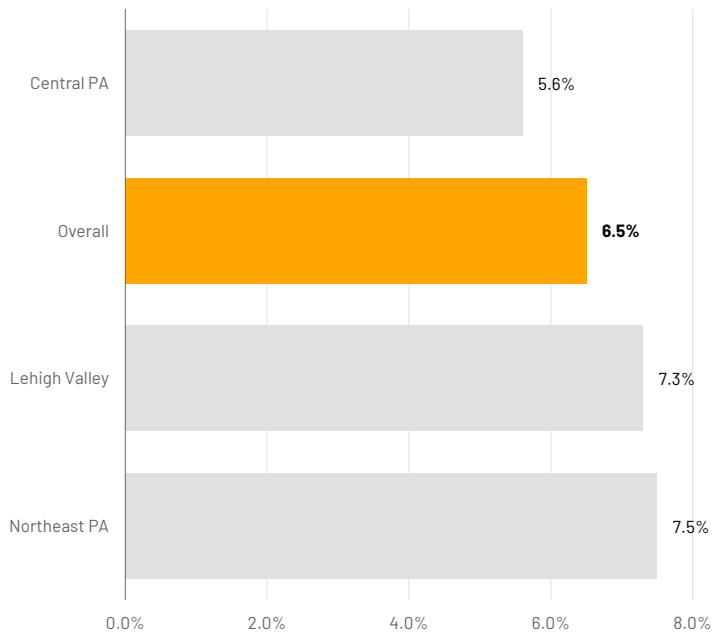
TENANT	SIZE (SF)	SUBMARKET	ADDRESS	TRANSACTION TYPE	INDUSTRY
Kane Warehouse	1,014,913	Northeast PA	71 Mall Road	New Lease	Logistics & Distribution/3PLs
Hub Group	966,753	Northeast PA	6 Kane Lane	New Lease	Logistics & Distribution/3PLs
Synchreon	554,260	Central PA	1495 E Harrisburg Pike	New Lease	Logistics & Distribution/3PLs
Carbel LLC	469,259	Lehigh Valley	3965 Easton-Nazareth Highway	New Lease	Logistics & Distribution/3PLs
Bazzini	129,890	Lehigh Valley	860 Nestle Way	New Lease	Food & Beverage

Top Sales

OWNER/BUYER	SIZE (SF)	SUBMARKET	ADDRESS	PRICE / \$/SF	SELLER
Ares Management Corp	251,200	Central PA	2070 N Union Street	\$38.0 M / \$151	Endurance Real Estate Group, LLC
Cabot Properties	105,000	Lehigh Valley	2411 N Kistler Court	\$22.6 M / \$215	Hillwood Investment Properties
Cabot Properties	91,555	Lehigh Valley	201 Zions Church Road-Bldg 4	\$17.4 M / \$190	The Keith Corporation
Adam Smith	80,784	Central PA	600 S 17 th Street	\$3.6 M / \$44	Robert F. McClure
JG Petrucci Co Inc	61,157	Lehigh Valley	7072 Snowdrift Road	\$8.9 M / \$145	STAG Industrial

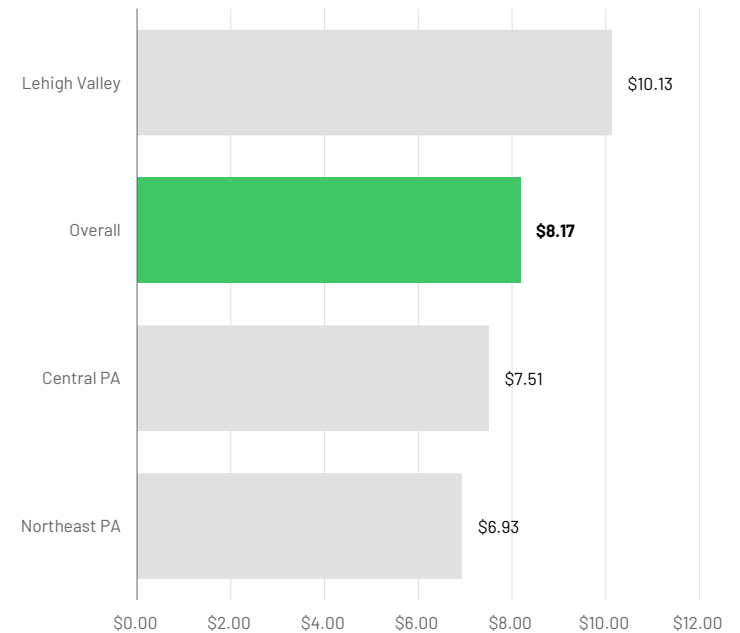
Vacancy Rate Comparison (%)

PA I-81/78 CORRIDOR SUBMARKETS



Rental Rate Comparison (\$/sf)*

PA I-81/78 CORRIDOR SUBMARKETS



*based on all classes of available inventory

PA I-81/78 Corridor Q2 2024 - Industrial

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Unless otherwise noted, all rents quoted throughout this report are average asking net (NNN) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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