MARKET IN MINUTES
Savills Research

Q3 2022 - Industrial

Pennsylvania I-81/78 Corridor

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I-81/78 Corridor's market fundamentals are strong despite worries of future recession

Fears of the economy entering a recession have yet to affect market fundamentals in the I-81/78 Corridor. Vacancy is at record-low levels. Year over year, the overall vacancy rate fell 340 basis points (bps) to 3.5%, with the largest decline in the Northeast submarket. Of the three submarkets tracked, the Northeast vacancy rate fell 440 bps over 12 months to 5.5%. However, in the Central Pennsylvania submarket, the vacancy rate of 2.2% is the tightest. Overall, rent trajectory moved upward, attributed to the large amount of new construction delivered to the market. Year over year, the average asking rental rate increased almost 41% to $6.95 per square foot (psf) NNN . Class A rates range between $7.75 and $10.00 psf NNN across the I-81/78 Corridor.

Absorption slightly below 5-year average

Pennsylvania's I-81/78 Corridor recorded 8.4 million square feet (msf) in occupancy gains for the third quarter. Third-quarter absorption was less than the five-year average of almost 9 msf of positive absorption. However, occupancy is considerably higher than it was five years ago. Central Pennsylvania reported 3.4 msf of positive absorption — the highest of the three tracked submarkets. Notable transactions executed during the quarter included Lowe's 1.2 msf prelease at 209 Dziak Dr. and Saks Fifth Avenue's 822,771-square-foot lease at 250 Highland Park Blvd. — both in the Northeast Pennsylvania submarket. Online retailer Boohoo took almost 1.1 msf at 2771 N. Market St. in Central Pennsylvania.

Construction starts are steady, but that could change

At the end of the third quarter, 36.4 msf of warehouse/distribution space was under construction. This was an increase of 14 msf compared with the third quarter of 2021. However, high inflation has put pressure on consumer spending, and with headwinds pointing to a recession, there may be pullback in future construction starts. Recently, Amazon announced plans to close several warehouses across the country in response to reduced e-purchases. Amazon warehouses that closed in the region included 40 Logistics Dr. in Carlisle, 1465 Nitterhouse Dr. in Chambersburg, 6455 Allentown Blvd. in Harrisburg and 1 Commerce Rd. in Pittston.

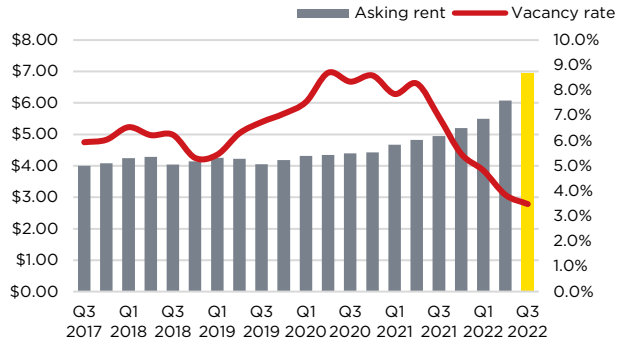
Outlook

- Expect more retailers to reassess their real estate footprint and sublet space if consumer spending continues to contract
- Rents will continue to climb for new construction despite warnings of a recession as costs for materials and labor remain high
- Despite economic ups and downs, e-commerce will continue to be important for the retail sector, and investors will still gravitate toward warehouse/distribution properties

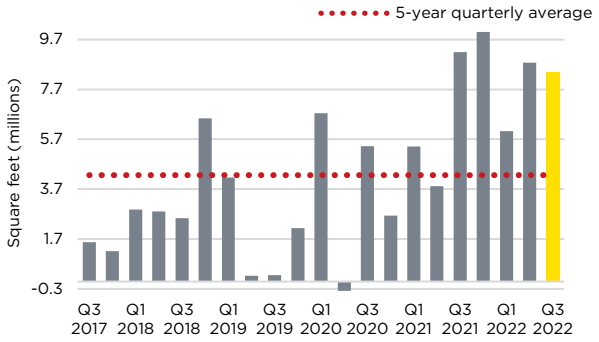
KEY STATISTICS

	Q3 2021	Q3 2022	y-o-y Change
Inventory	503.0 MSF	529.4 MSF	▲
Vacancy Rate	6.9%	3.5%	▼
Quarterly Net Absorption	9.2 MSF	8.4 MSF	▼
Under Construction	21.9 MSF	36.4 MSF	▲
Deliveries	2.7 MSF	6.6 MSF	▲
Asking Rental Rate	$4.94	$6.95	▲

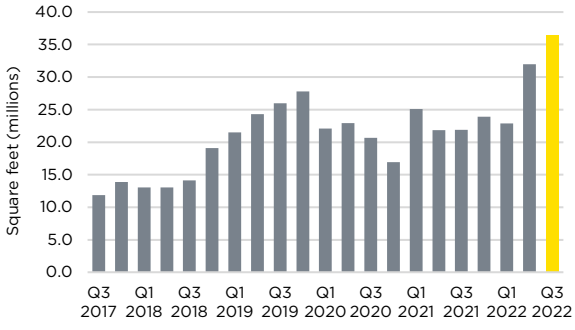
ASKING RENT AND VACANCY



NET ABSORPTION



UNDER CONSTRUCTION



BY THE NUMBERS

36.4M
square feet under construction, well above the historical average

41.0%
asking rent growth over the past 12 months

2.2%
Central PA has the tightest vacancy of all I-81/78 Corridor submarkets

TOP TRANSACTIONS

Leases

Tenant	Square Feet	Address	Transaction Type	Submarket	Landlord
Lowe's	1,229,136	209 Dziak Drive	New	Northeast PA	NP BGO Tradeport Industrial LLC
boohoo	1,085,280	2771 N Market Street	New	Central PA	First Industrial Realty Trust, Inc.
Saks Fifth Avenue	822,771	250 Highland Park Boulevard	New	Northeast PA	Mack Real Estate Group, LLC
Amazon Web Services	551,030	121 Commerce Avenue	New	Central PA	Matrix Development Group
GOAT	341,400	3895 Eastgate Boulevard, Building A	New	Lehigh Valley	First Industrial Realty Trust

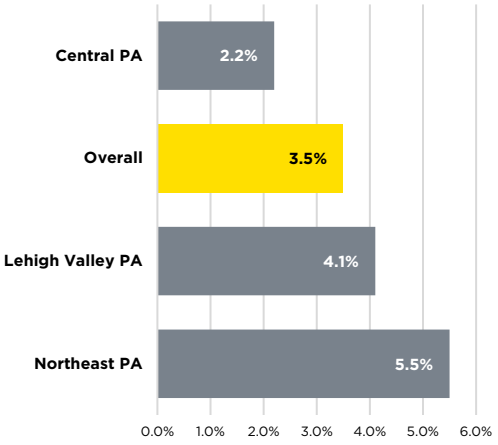
Sales

Owner/Buyer	Square Feet	Address	Price	Submarket	Seller
Ponte Gadea USA, Inc.	1,045,153	555 Nestle Way	$137,605,000	Lehigh Valley	Realty Income Corporation
Mack Real Estate Group, LLC	822,771	250 Highland Park Boulevard	$110,000,000	Northeast PA	Hudson's Bay Company
BentallGreenOak	310,238	323 Logistics Drive	$54,500,000	Lehigh Valley	The Keith Corporation
Dalfen Industrial	251,250	791 Stony Battery Road	$28,900,000	Central PA	Catalyst Commercial Development, LLC
Jersey Holdings	255,827	1629-1915 S 12th Street	$13,163,049	Lehigh Valley	Lehigh Valley Logistics

Source: Savills Research

VACANCY RATE COMPARISON

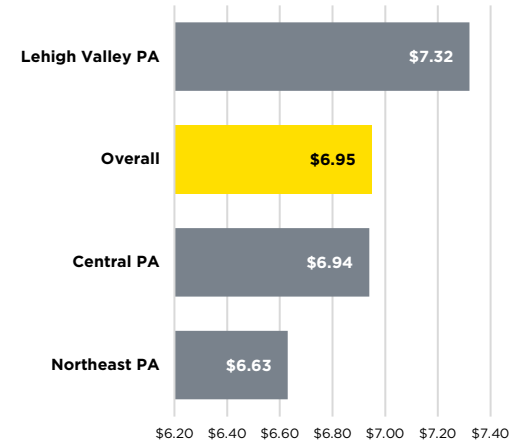
I-81/78 Corridor Industrial Submarkets



RENTAL RATE COMPARISON ($/SF)*

I-81/78 Corridor Industrial Submarkets

Class A Pricing Guidance: $7.75 - $10.00 PSF



*Based on all classes of available inventory

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 vacancy 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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