2Q24

I-81/78 Corridor Industrial Market Overview

NEWMARK

Market Observations

Economy

- Unemployment in the I-81/78 Corridor registered 3.3% as of May 2024, 40 basis points lower than the national rate. Employment in the I-81/78 Corridor has tracked closely with national trends. It grew by 1.7% for the 12 months ending in May, essentially even with the national rate.
- Job gains in the Education & Health Services, Leisure/Hospitality and Government sectors drove annual employment gains in the Corridor through May. Industrial-using employment contracted across all three industrial sectors for this period, with the greatest losses in the Construction and Trade, Transportation & Utilities sectors.

Leasing Market Fundamentals

- Absorption year-to-date has measured 3.8M square feet, leading to a 40-basis-point decline in vacancy rates from the end of 2023. Major drivers of second-quarter absorption included Moran Logistics and S&S Activewear, which each occupied approximately 650,000-square-foot warehouse spaces in the Lehigh Valley.
- Year-to-date in 2024, just over 0.8M square feet of industrial space has been delivered, marking the lowest first-half volume of new deliveries since 2012.
- While leasing activity during the first half of 2024 was lower than historical averages, demand for Class A product remained strong, capturing 69.2% of total industrial leasing volume.

Major Transactions

- Carbel LLC had two of the largest lease transactions of the quarter as it renewed its 246,400-square-foot lease at 2900 Broadhead Road in Bethlehem and signed a new 469,259-square-foot lease at JW Industrial Park in Nazareth.
- Lehigh Valley has been the strongest submarket in the corridor year-to-date, with 1.9 million square feet of net absorption. Four of the top five largest transactions of the second quarter were recorded in the submarket.

Outlook

- After an unprecedented period of record demand, signs of market normalization continue as the rolling four-quarter average absorption measured 2.4M square feet in the second quarter of 2024. This represents a 5.7% decline from a quarter ago and 60.1% from a year prior.
- Approximately 8.3M square feet was leased through the first half of 2024, significantly below the first-half average of 17.5 million square feet over the past five years. 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.

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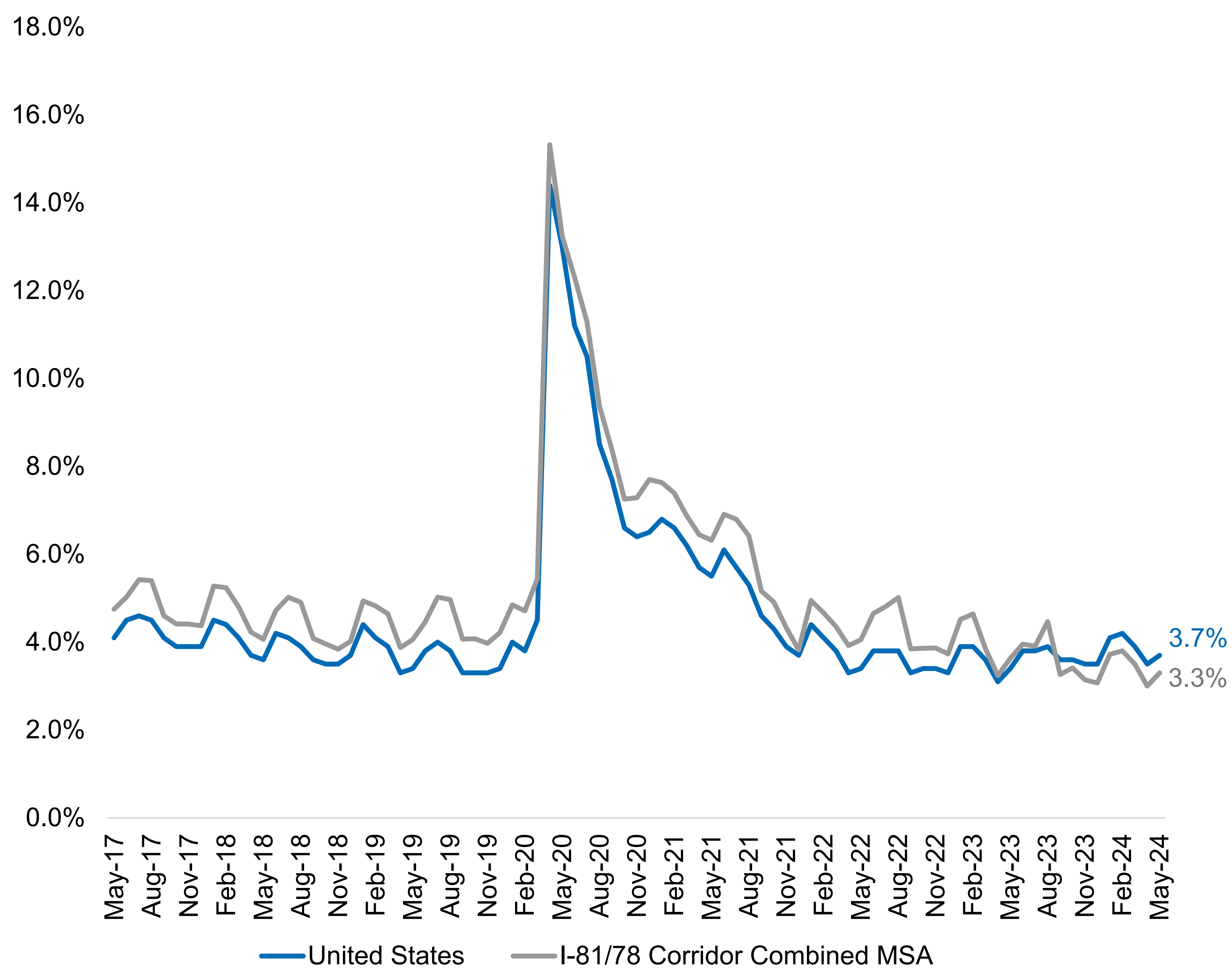
Economy

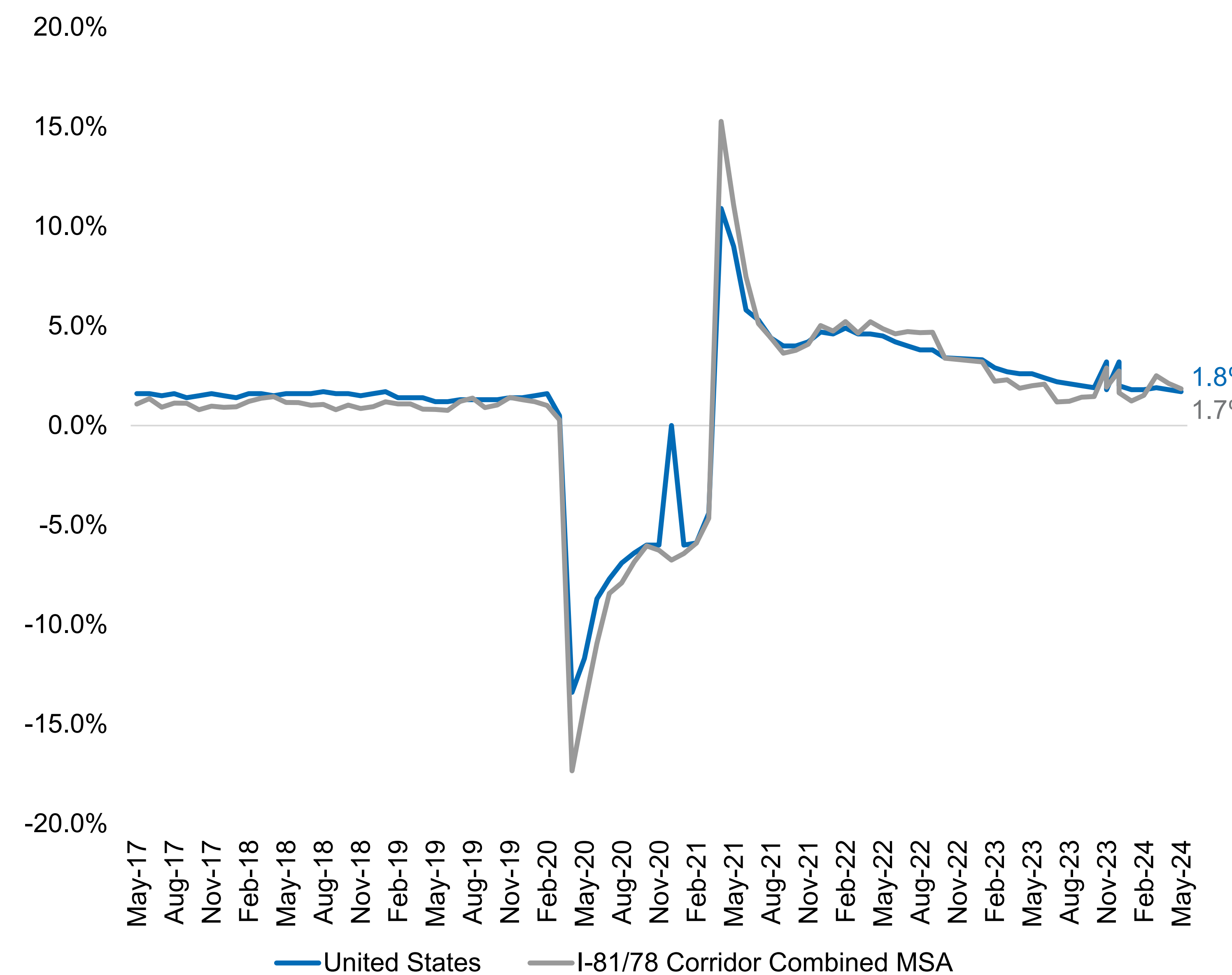
Unemployment Remains At Healthy Levels

Unemployment in the I-81/78 Corridor registered 3.3% as of May 2024, 40 basis points lower than the national rate. Employment in the I-81/78 Corridor has tracked closely with national trends. It grew by 1.7% for the 12 months ending in May, essentially even with the national rate.

Unemployment Rate, Non-Seasonally Adjusted



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

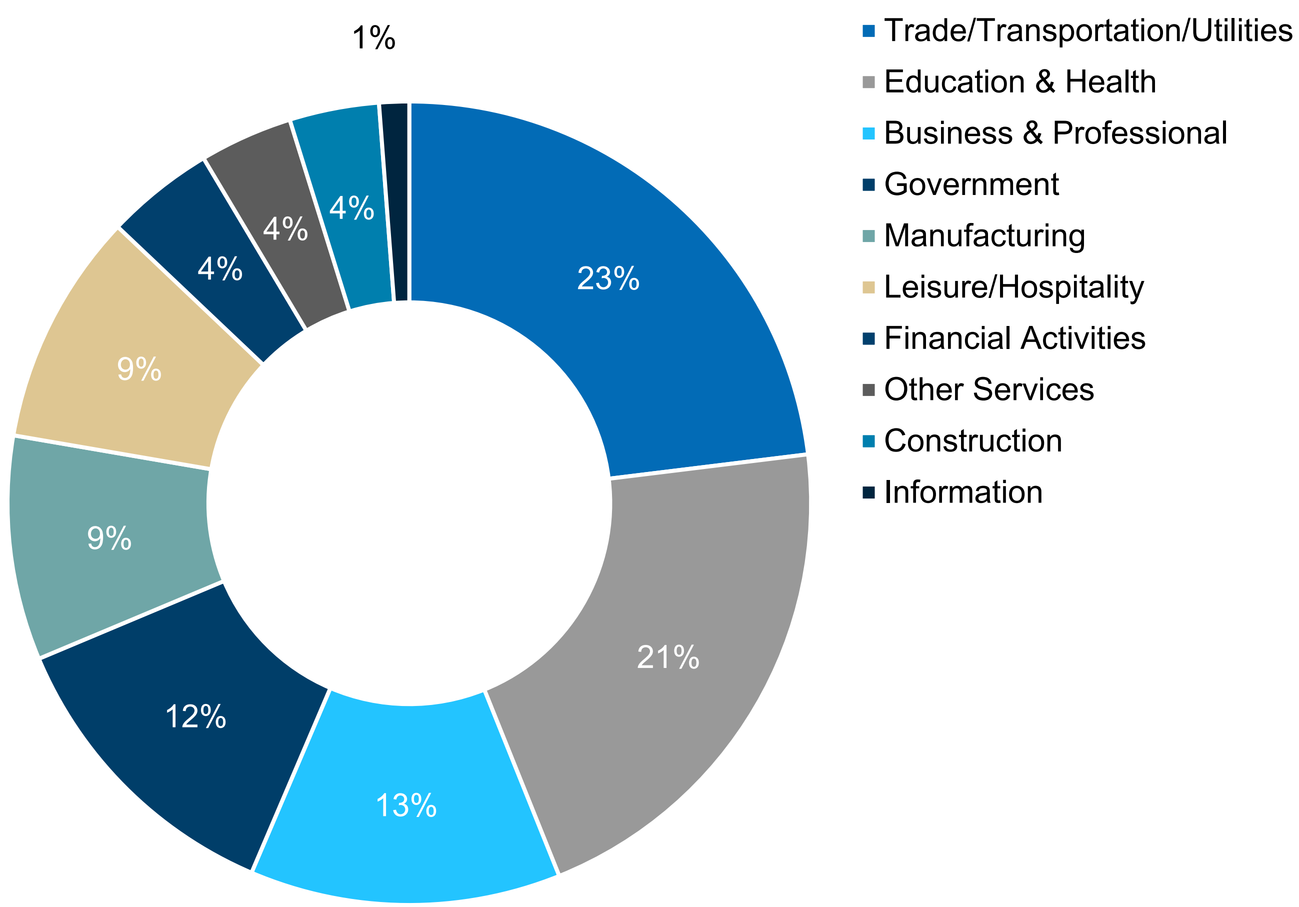


Source: U.S. Bureau of Labor Statistics, Combined MSA's of Harrisburg-Carlisle, Allentown, Scranton

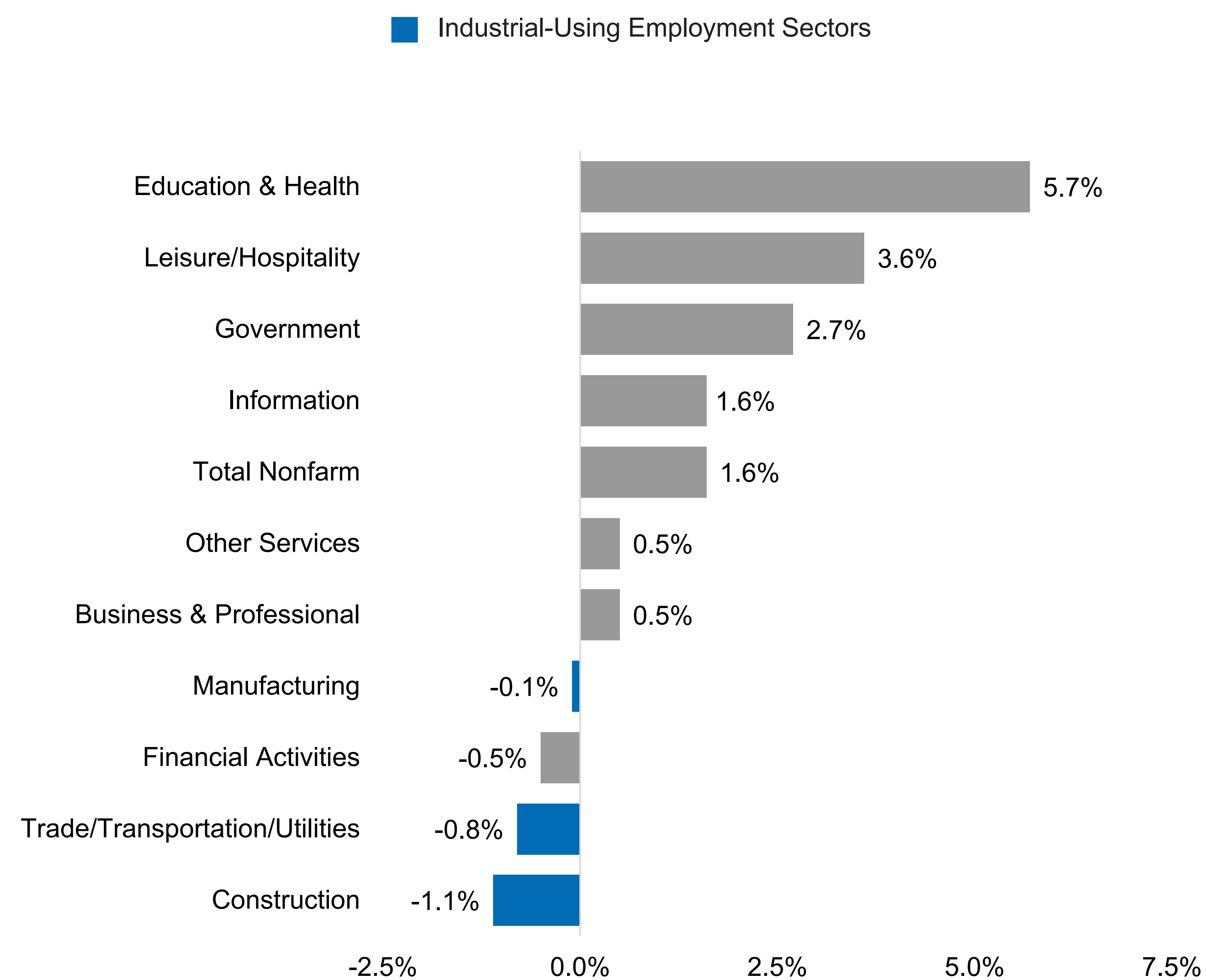
Industrial-Using Employment Experiences Annual Losses

Job gains in the Education & Health Services, Leisure/Hospitality and Government sectors drove annual employment gains in the Corridor through May. Industrial-using employment contracted across all three industrial sectors for this period, with the greatest losses in the Construction and Trade, Transportation & Utilities sectors.

Employment by Industry, May 2024



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

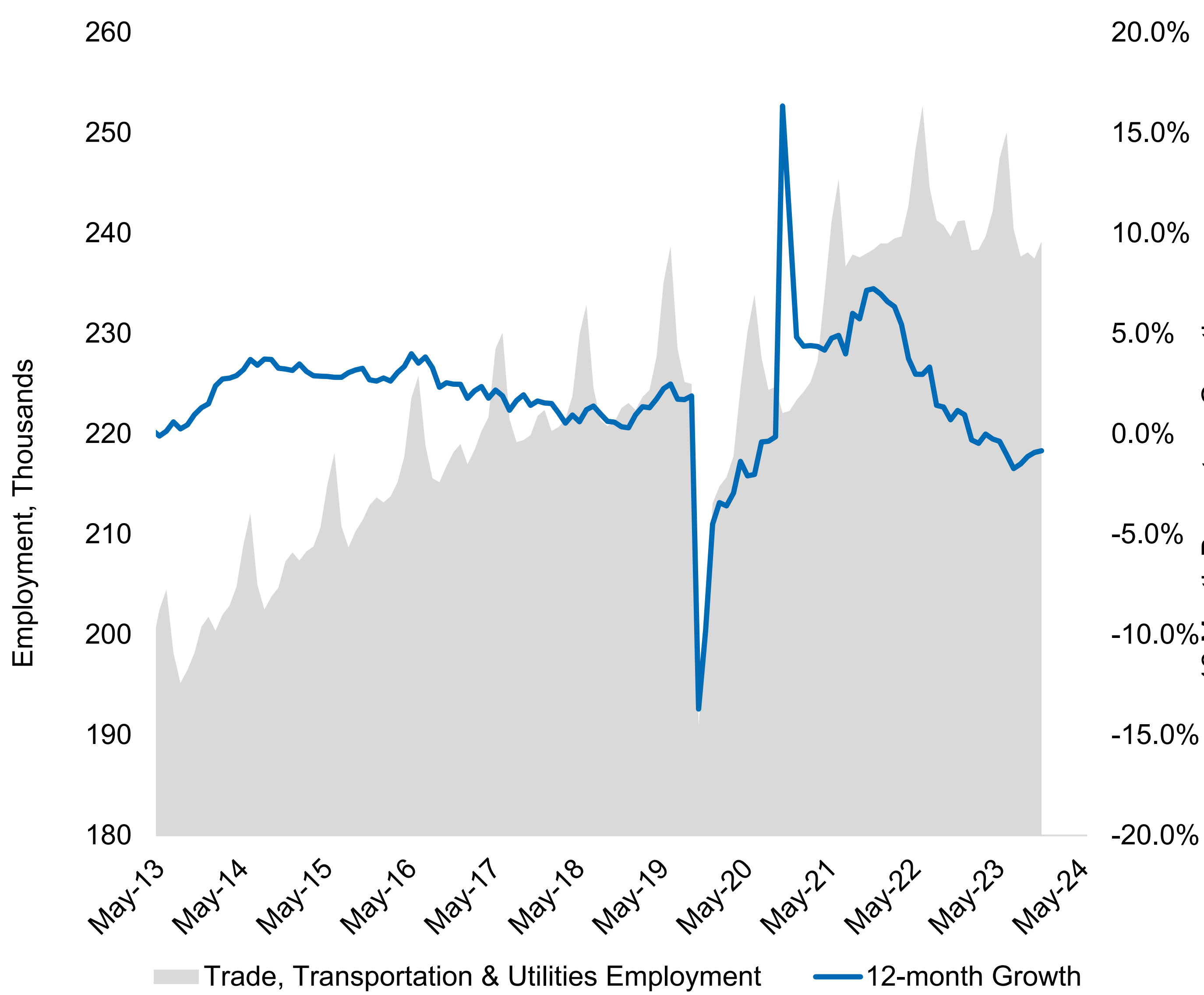


Source: U.S. Bureau of Labor Statistics, Combined MSA's of Harrisburg-Carlisle, Allentown, Scranton

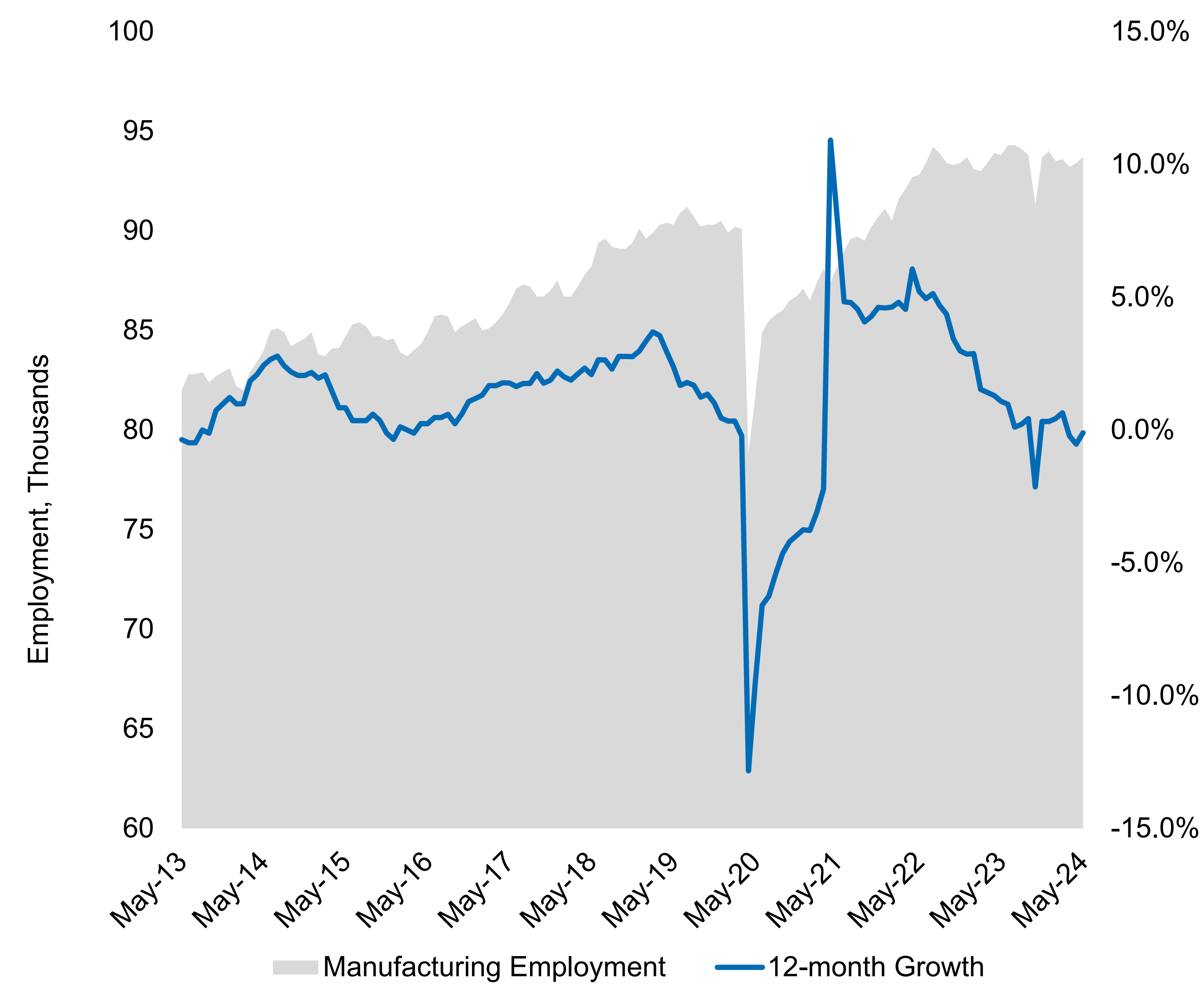
Total Employment In Industrial-Using Industries Continues To Decline

The I81/78 Corridor experienced net job losses in both the Trade, Transportation & Utilities industry (-0.8%) and the Manufacturing industry (-0.1%) for the 12 months ending in May. The declines have been greater in the region's Trade, Transportation & Utilities sector, which has had 11 consecutive months of annual job growth being negative or neutral. Meanwhile, the region's Manufacturing industry has experienced three consecutive months of negative annual 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

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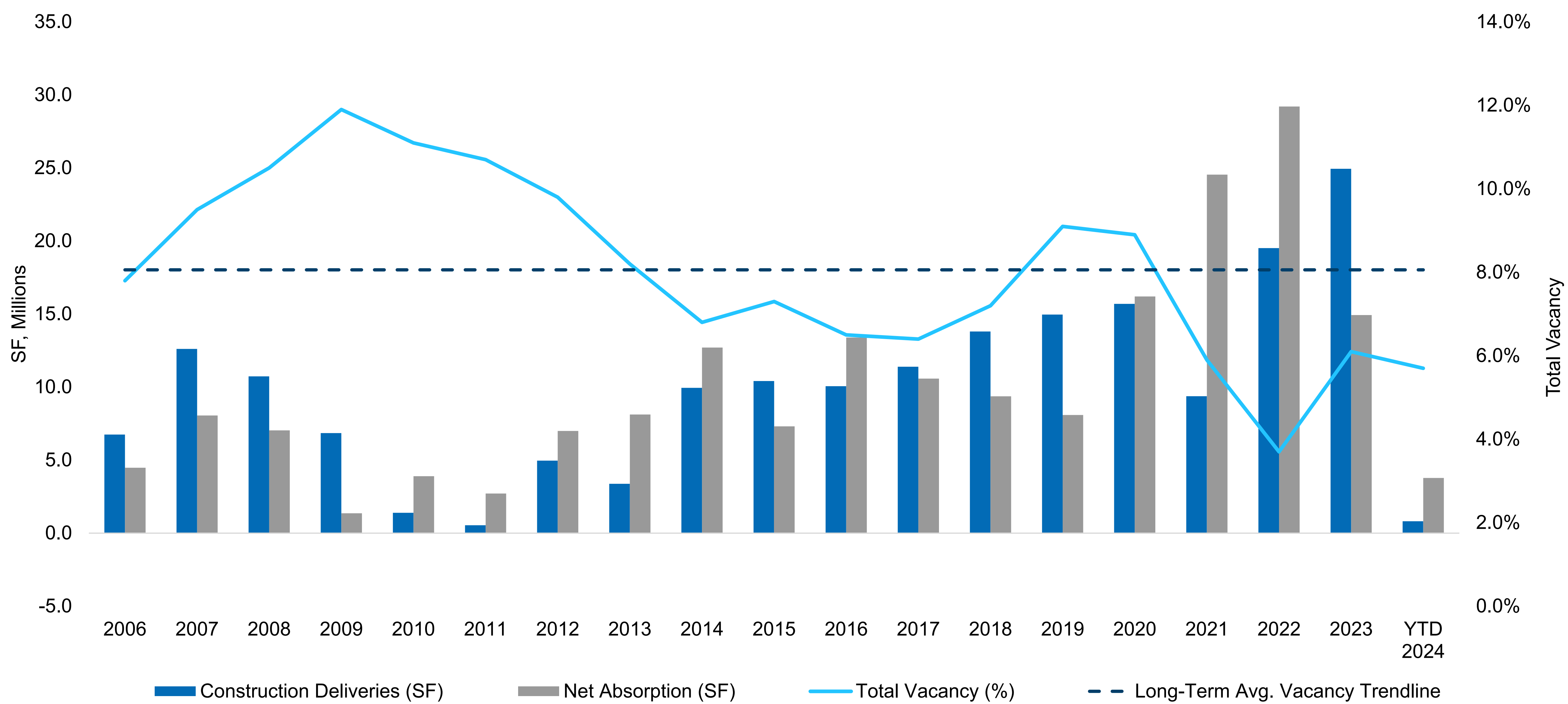
Leasing Market Fundamentals

A Slowdown In Deliveries Leads To Vacancy Declines

Year-to-date, in 2024, just over 0.8M square feet of industrial space has been delivered, marking the lowest first-half volume of new deliveries since 2012. Meanwhile, absorption year-to-date has measured 3.8M square feet, leading to a 40-basis-point decline in vacancy rates from the end of 2023. Signs of market normalization continued as the rolling four-quarter average absorption was 2.4M square feet in the second quarter of 2024. This represents a 5.7% decline from a quarter ago and 60.1% from a year prior.

Historical Construction Deliveries, Net Absorption, and Vacancy

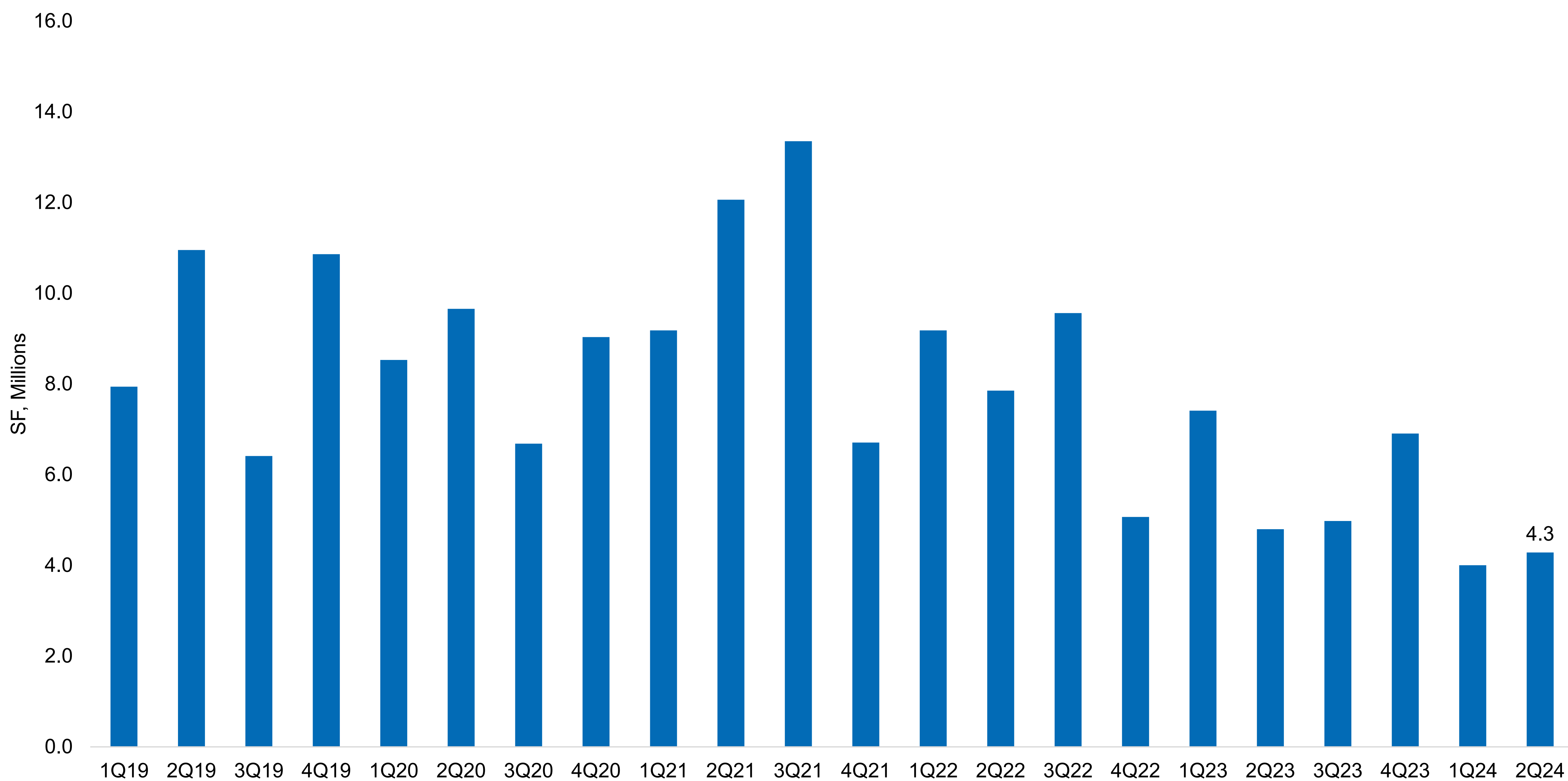


Source: Newmark Research

Industrial Leasing Activity Declines From 3Q 2021 Peak

Approximately 4.3M square feet of industrial space was leased during the second quarter of 2024, a slight uptick from the 4.0M square feet leased in the prior quarter, which marked the lowest recorded quarterly leasing volume in the last five years. 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)

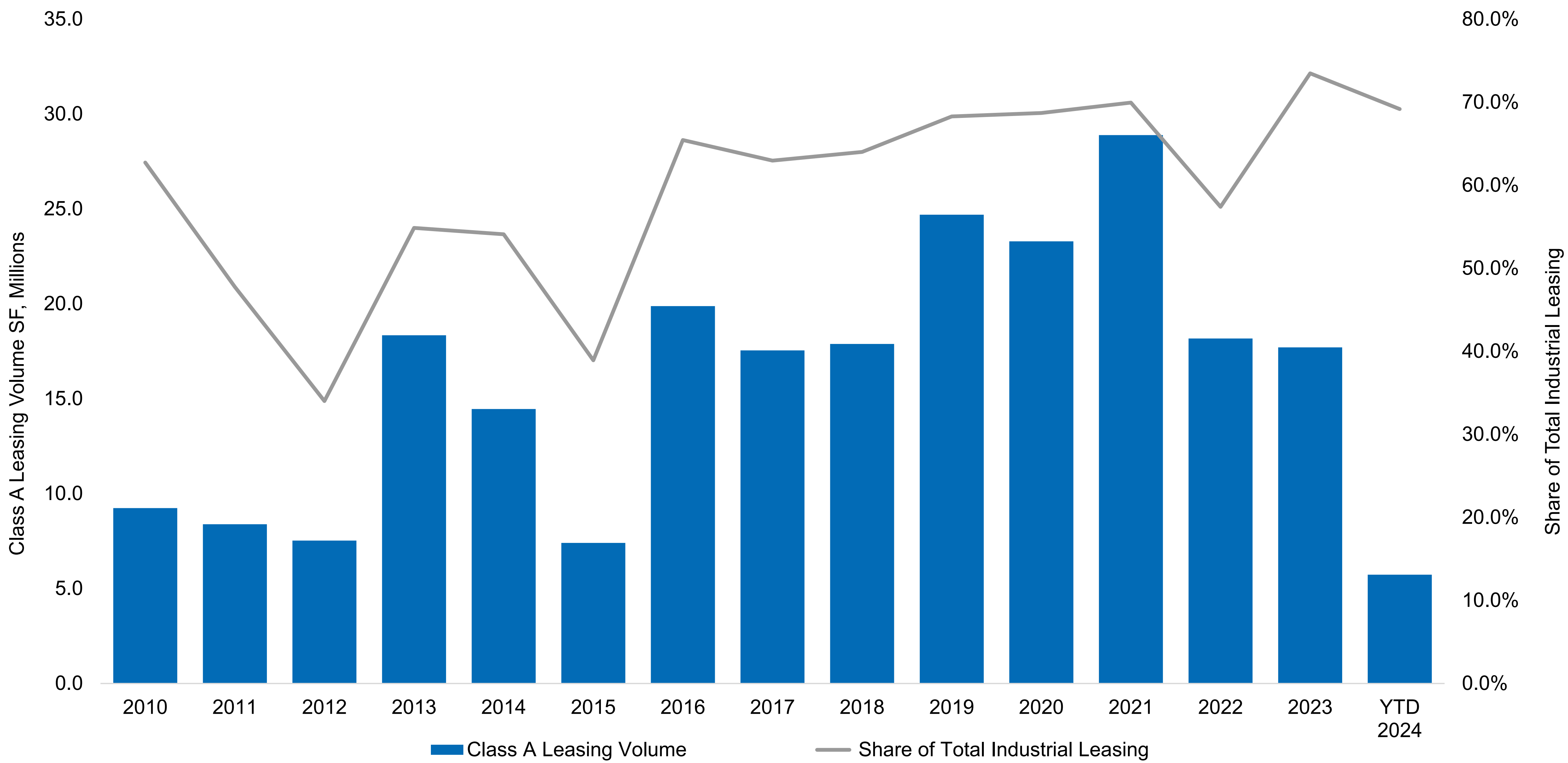


Source: Newmark Research, CoStar

Class A Warehouse Captures 73 Percent Of Leasing Volume

While leasing activity during the first half of 2024 was lower than historical averages, demand for Class A product remained strong, capturing 69.2% 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 second-quarter moves included Moran Logistics' occupancy of the recently-built, 667,500-square-foot warehouse at 825 Locust Point Road in York.

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

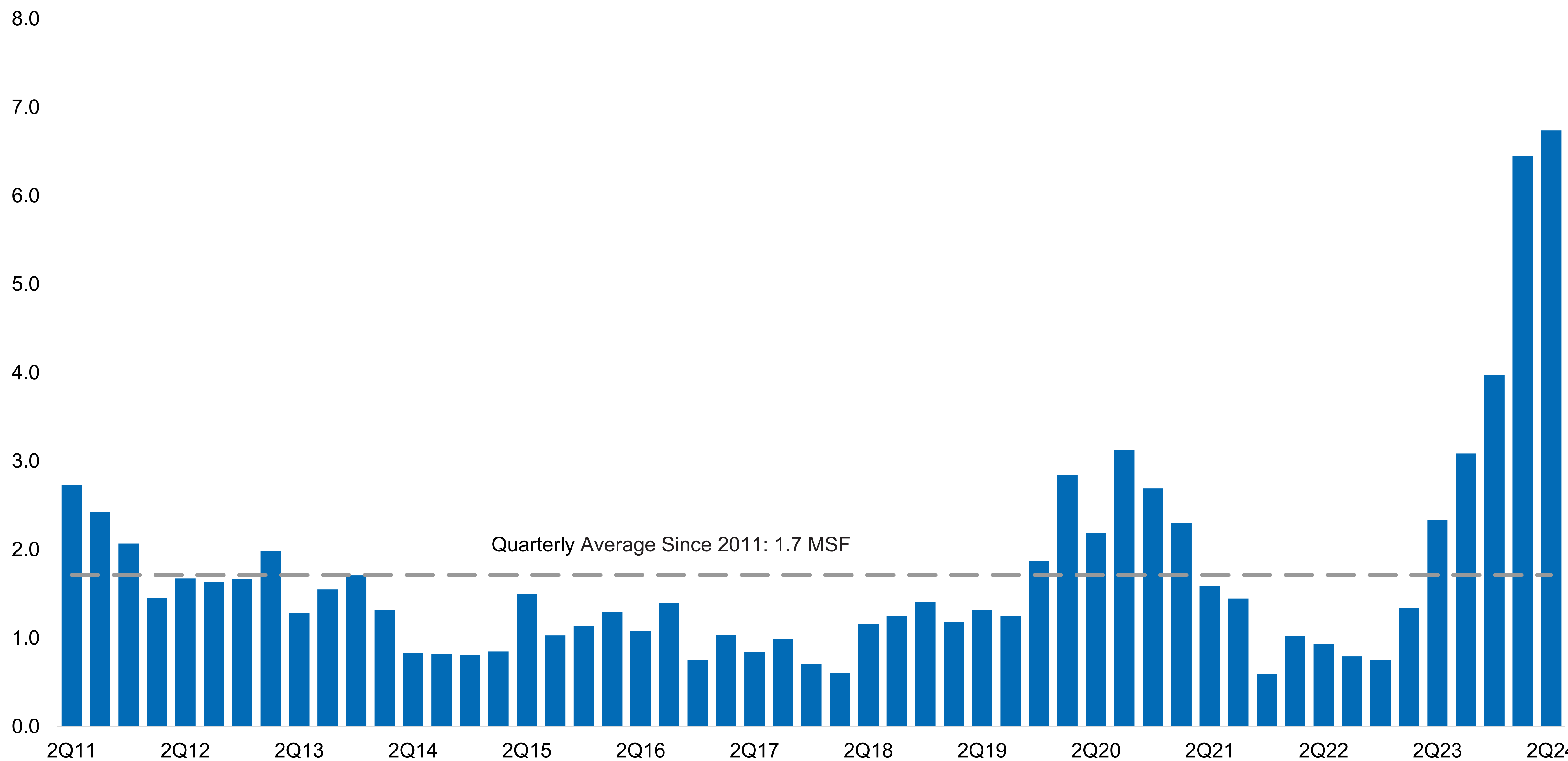


Source: Newmark Research, CoStar

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. 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. The second quarter saw a much more modest increase, with approximately 290,000 square feet of new sublease availabilities.

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

BROADRANGE LOGISTICS

801 Centerville Road– Newville

Market:	Central PA
Sublease Available	1,138,400 SF
Brought to Market	2Q24

THE J.M. SMUCKER Co

180 First Avenue – Gloudsboro

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

all-ways

2294 Molly Pitcher Highway– Chambersburg

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

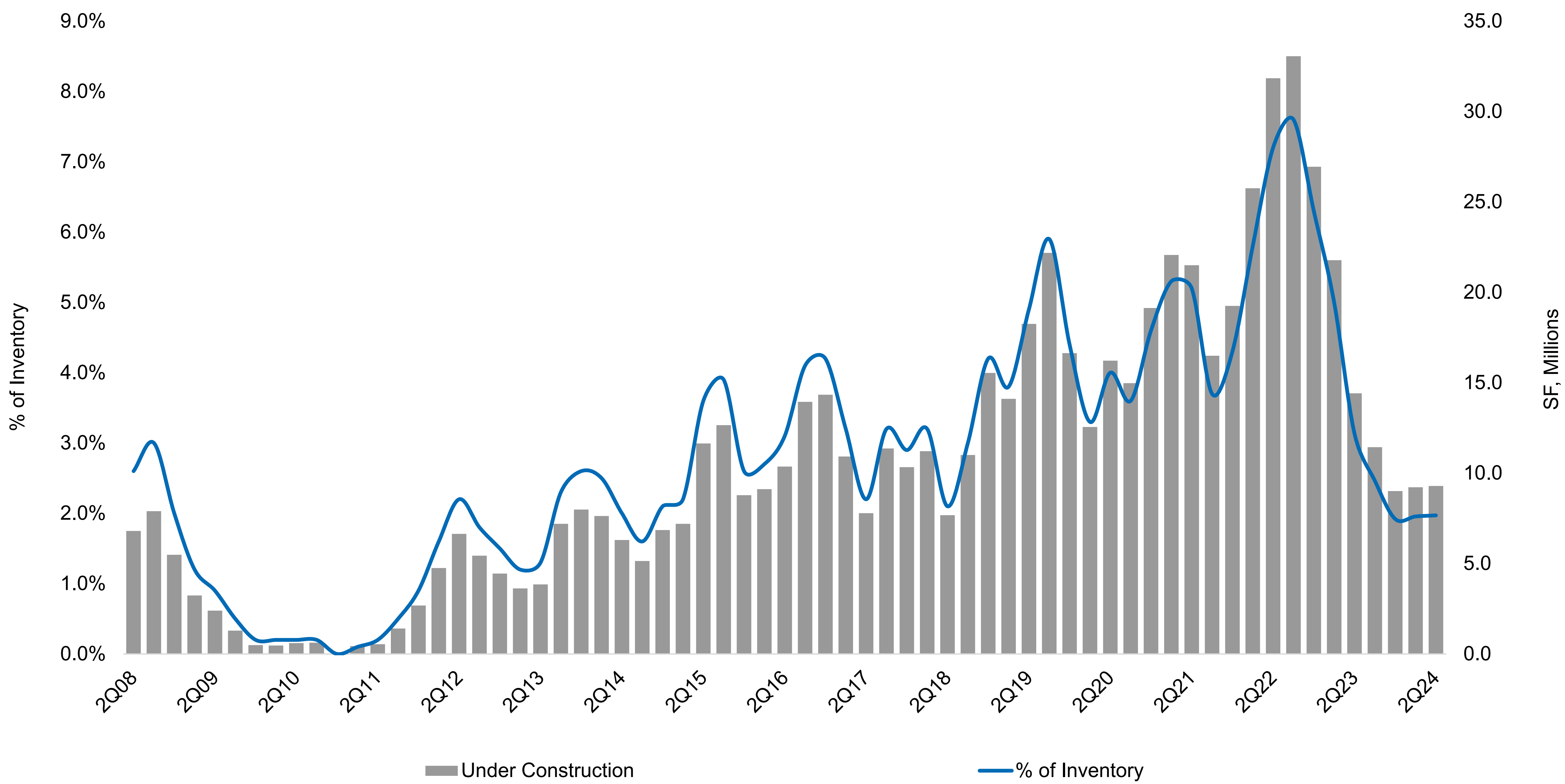
bowman LOGISTICS

Source: Newmark Research, CoStar

Limited Construction Starts And Deliveries Keep Pipeline Stable

Construction starts outpaced deliveries by 1.2 million square feet through the first half of 2024, leading to a slight increase in the construction pipeline. While pipeline inventory has experienced slight quarter-over-quarter increases through the first half of the year, 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 over the past four quarters is 23.8% of the 2020-2022 quarterly average.

Industrial Under Construction and % of Inventory

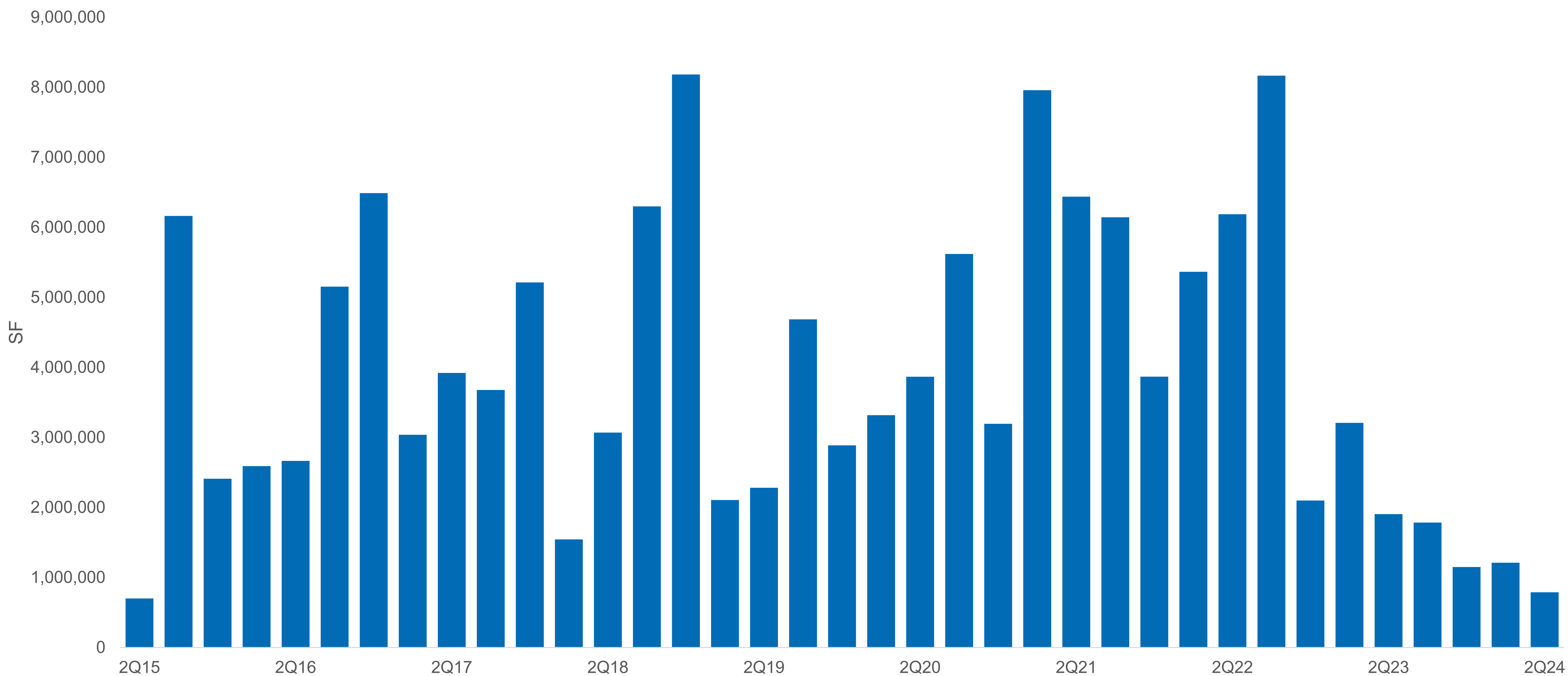


Source: Newmark Research, CoStar

Reduction In Construction Starts As Construction Pipeline Tapers

Construction began on 788,600 square feet of industrial developments during the second quarter of 2024, marking the fifth consecutive quarter of sub-2.0M square feet of quarterly groundbreakings. Increasing availability, moderating leasing activity, and higher costs of capital have all contributed to a decline in construction.

Construction Starts per Quarter (SF)

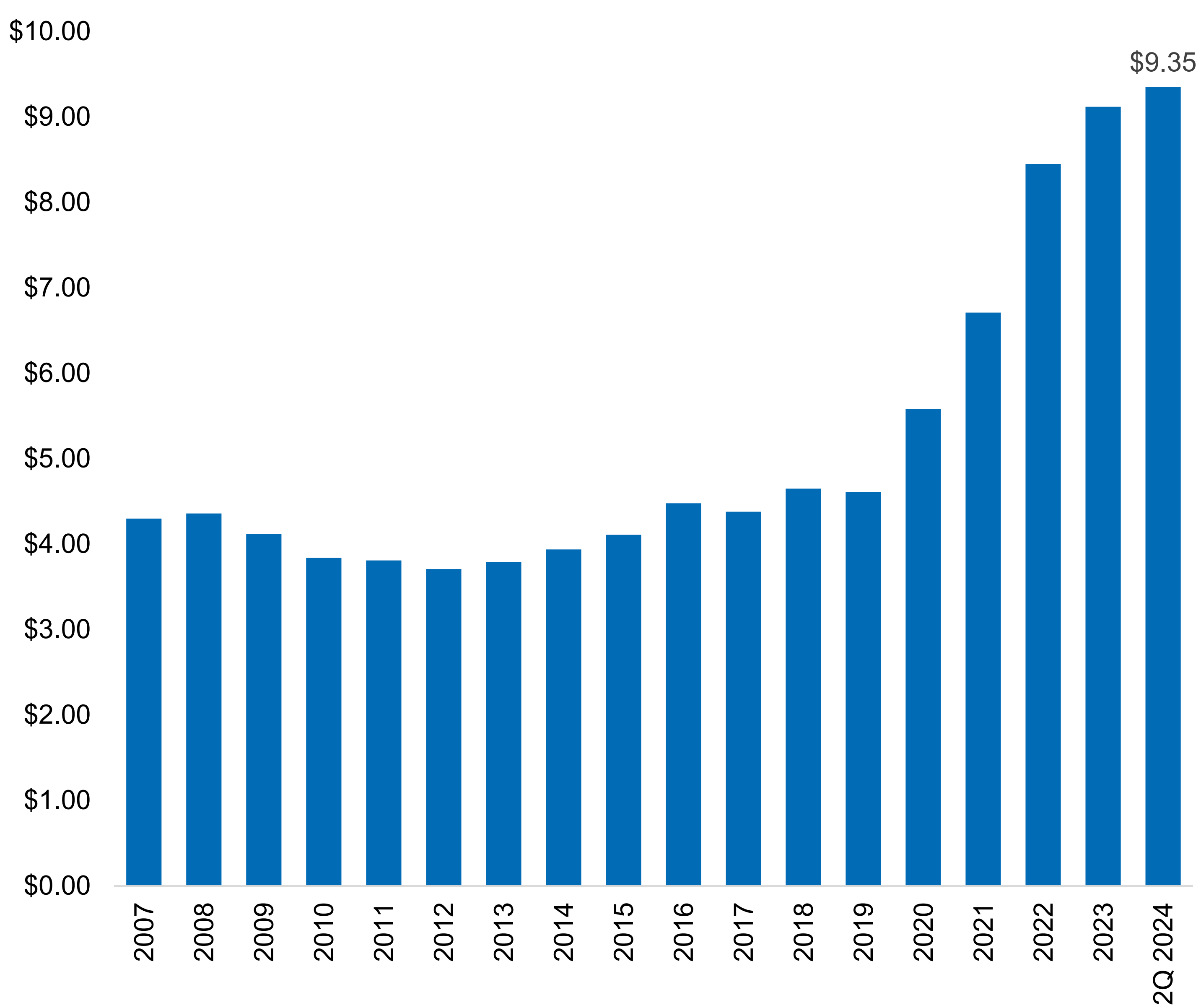


Source: CoStar

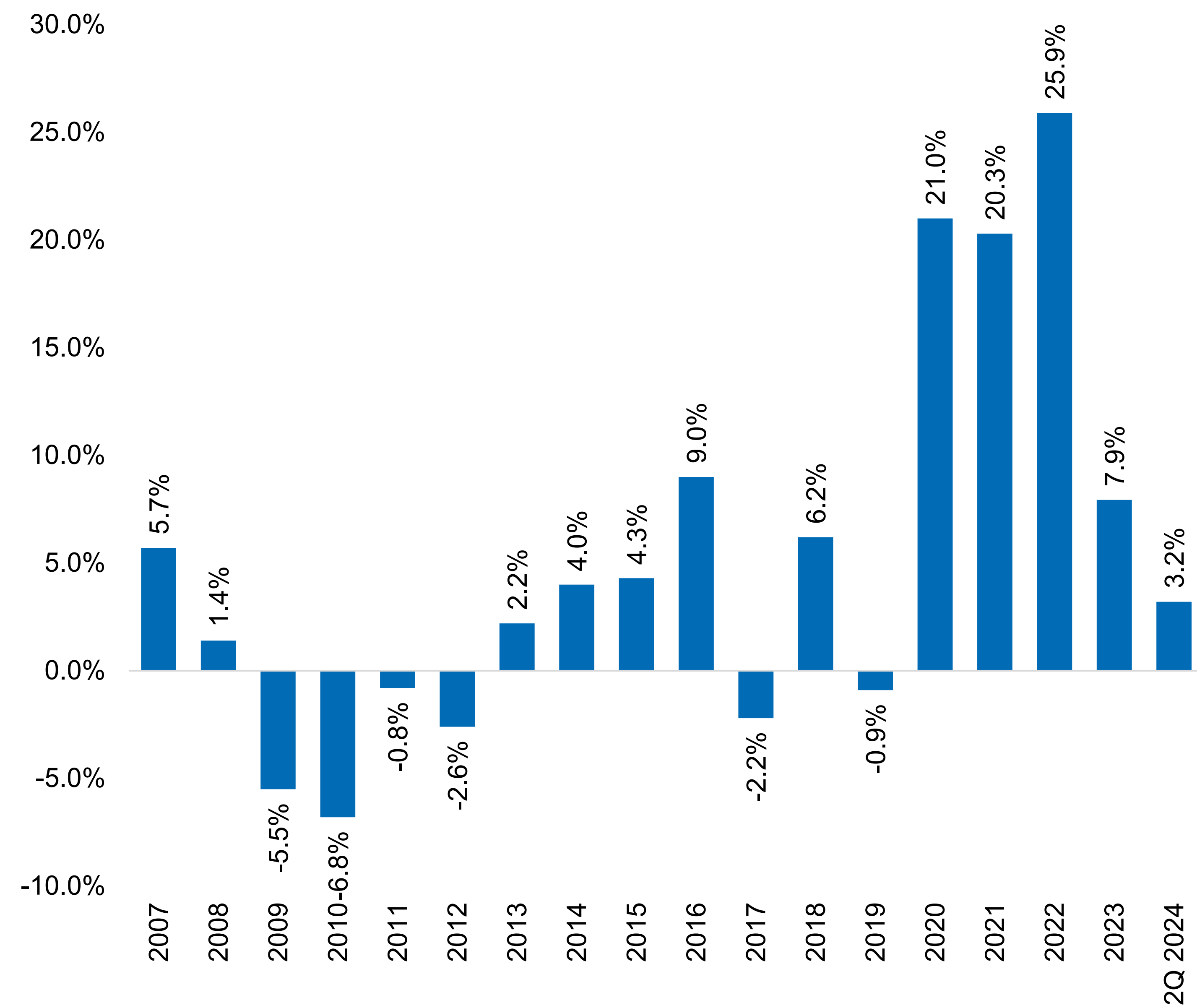
Rent Growth Moderates After Years Of Aggressive Increases

As of the second quarter of 2024, annual asking rent growth was 3.2%, 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.

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 2Q24 Lease Transactions

Please reach out to your
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2Q24

Appendix / Tables

Submarket Overview

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2Q 2024 Lehigh Valley Submarket Snapshot

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