

# PA I-81 & I-78

Industrial Q4 2020

YoY Chg 12-Mo. Forecast

**7.4%**  
Vacancy Rate



**23.5M**  
YTD Net Absorption, SF



**\$5.04**  
Asking Rent, PSF



Overall, Triple Net Asking Rent

## ECONOMIC INDICATORS Q4 2020

YoY Chg 12-Mo. Forecast

**944.8K**  
PA I-81 & I-78  
Employment



**7.0%**  
PA I-81 & I-78  
Unemployment Rate



**6.7%**  
U.S.  
Unemployment Rate



Source: BLS

## ECONOMY

Since the onset of COVID-19 in March 2020, the PA I-81 & I-78 distribution corridor shed 30,600 jobs. Total nonfarm employment for the third quarter of 2020 was 5.7% lower than the same period a year ago, as unemployment increased 230 basis points (bps) during that time hitting 7.0%. The transportation and warehousing sector outperformed the overall economy and rebounded strongly, adding 9,000 jobs since February 2020. This represents a 7.2% increase during this period, while total non-farm jobs fell by 3.1%.

## SUPPLY AND DEMAND

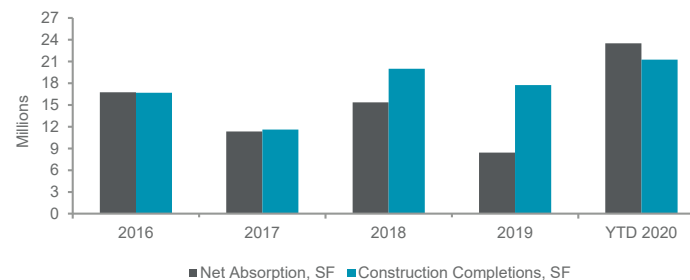
Despite the onset of COVID-19 and the economic downturn, 2020 was a record-breaking year for the PA I-81 & I-78 distribution corridor. Driven by strong demand for space, leasing activity hit 23.2 million square feet (msf), 20% more than the previous record set by the market in 2016. A third of all 2020 leases happened in Q4, driven by the Central PA submarket, where 58.0% of all transactions took place. This included a 1.1-msf lease signed by Lowes, the largest new lease of the year for existing product. Overall net absorption also set a new high watermark for the corridor at 23.5 msf, 40% more than the previous record and two times the preceding three-year average. More than half of the 5.8 msf of absorption in Q4 was attributed to the delivery of seven fully occupied buildings. Strong absorption drove vacancy down 190 bps since year-end 2019, hitting 7.4% in Q4 2020.

On the supply side, construction deliveries also set a record for the market, hitting 21.3 msf in 2020, 1.25 msf more than the previous high watermark in 2018. As of the end of Q4, only 39.0% of the new space remained vacant. Despite the record level of deliveries in 2020, net absorption still exceeded construction completions by 2.5 msf, as demand outpaces supply in the I-81 & I-78 distribution corridor. This is putting upward pressure on asking rents, which in Q4 increased 5.9% year-over-year.

## OUTLOOK

The I-81 & I-78 distribution corridor's strategic location with easy access to the most densely populated areas in the country make it a necessary site for companies building an East Coast distribution strategy. With COVID-19 accelerating consumer demand for e-commerce, the need for warehousing space with quick access to multiple population centers is at a premium. Healthy demand for space in the I-81 and I-78 distribution corridor will likely continue, as the pandemic has magnified the trends that were driving growth in the market pre-COVID-19, while available space and developable land remains at a premium. The approval timeline in PA combined with the surge in demand for developable dirt has resulted in a pricing spike for both entitled and unentitled industrial land. The increasing land basis and rising construction costs are pushing the value of vacant assets upwards, while the capital markets remain frothy for stabilized product as cap rates compressed significantly throughout the 2020 calendar year.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



### MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)***	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (OS)	OVERALL WEIGHTED AVG NET RENT (W/D)
Lehigh Valley	85,678,292	5,717,536	6.70%	7,648,690	6,213,919	4,935,665	10,246,840	N/A	N/A	\$6.27
Northeastern PA	63,999,850	6,407,641	10.00%	4,611,008	2,723,462	1,989,416	5,086,860	N/A	\$4.50	\$4.46
Central PA	134,213,848	7,401,357	5.50%	7,347,096	10,606,129	5,417,542	2,978,279	N/A	N/A	\$4.78
Split	40,481,704	4,587,828	11.30%	3,891,730	3,658,397	4,053,553	2,938,874	N/A	N/A	\$4.96
<b>PA I-81 &amp; I-78 TOTALS***</b>	<b>324,373,694</b>	<b>24,114,362</b>	<b>7.40%</b>	<b>23,498,524</b>	<b>23,201,907</b>	<b>16,396,176</b>	<b>21,250,853</b>	<b>\$N/A</b>	<b>\$4.50</b>	<b>\$5.04</b>

\*Rental rates reflect weighted net asking \$psf/year \*\*Does not include renewals

\*\*\*Net absorption is not reflective of the U.S. Overview

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

### KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1605 Barlett Drive	Central PA	Starbucks	1,209,000	Renewal*
1 Walnut Bottom Way	Central PA	Lowe's	1,100,500	New
951 Centerville Road	Central PA	Confidential	981,598	New

\*Renewals not included in leasing statistics

### KEY SALES TRANSACTIONS 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
140 Industrial Dr	Central PA	Endurance Real Estate Group/Ball Corporation	1,078,200	\$96M / \$89.00

### KEY CONSTRUCTION COMPLETIONS Q4 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
3633 Commerce Center Blvd	Lehigh Valley	Speculative	1,041,600	Majestic Realty
1 Valley View Drive	Northeastern	Speculative	1,027,660	Trammell Crow
951 Centerville Road	Central PA	Confidential	981,598	Ridge Development

### KEY PROJECTS UNDER CONSTRUCTION 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
2281 United Drive	Central PA	Speculative	1,823,600	Matrix Development
8783 Congdon Hill Drive	Lehigh Valley	Knoll Furniture	1,090,000	Prologis
Martha Drive	Split	Speculative	1,011,615	Northpoint Development
8449 Congdon Hill Drive	Lehigh Valley	Speculative	918,194	Prologis
735 Killinger Road	Split	Hershey	800,000	Hershey Company
145 Markey Way	Northeastern	Speculative	749,736	Logistics Property Company
Rosedale Avenue	Central PA	D&H Distributing	745,200	D&H Distributing

#### CASANDRA DOMINGUEZ

Director of Research

+1 215 963 4077/[casandra.dominguez@cushwake.com](mailto:casandra.dominguez@cushwake.com)

#### DAVID SPRAGG

Senior Analyst

+1 410 347 7552/[david.spragg@cushwake.com](mailto:david.spragg@cushwake.com)

#### A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

©2021 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.