

I-81/78 CORRIDOR - PA INDUSTRIAL MARKET

HISTORIC HIGH FOR NEW DEVELOPMENT

Demand for modern logistics space has continued unabated in the I-81/I-78 Corridor for nearly a decade, due to a wealth of developable land along key transportation roadways that support timely distribution to major East Coast population centers. Net absorption totaled 2.4 million square feet in the first quarter of 2019, an auspicious start to what will likely be another year of impressive growth in the market. Three new industrial groundbreakings during the past 90 days drove the development pipeline to a historic high, at 14.9 million square feet. Yet, the volume of tenant space requirements in the market is still nearly at parity with planned construction deliveries.

Vacancy, at a near-record low of 6.2% in 1Q19, is likely to incrementally rise throughout the year as the record amount of speculative space delivers and provides tenants with a variety of options, therefore lengthening the time between a new industrial delivery and lease-up.

CENTRAL PENNSYLVANIA

The I-81/I-78 Corridor's largest submarket captured the most sizeable share of tenancy gains in the first quarter, garnering 2.2 million square feet of net absorption. Occupier appetite for new, modern construction was clear in absorption analysis; approximately three-fourths of total new occupancy this quarter occurred in buildings completed in the past two years. Significant occupancies of recently delivered space included At Home's move-in at the 800,000-square-foot 6 Logistics Drive, Allen Distribution's occupancy of its 507,400-square-foot property at 75 Logistics Drive, and Westco's 345,600-square-foot occupancy of 70 Bordnersville Road, which completed construction this quarter.

5.3 million square feet of new development was underway throughout Central PA in 1Q19, including three 1-million-square-foot speculative, available warehouses. Over the past two years, Central PA has been the epicenter of mega-warehouse development, with five such properties added to the inventory – and only a sliver of availability left in any (~150,000 square feet at Antrim Commons). This is a strong indicator that developers are in tune with tenant space requirements in Central PA and the new space, when delivered, will not sit vacant for long.

Overall vacancy in Central PA was 5.7% in 1Q19, down a full 1.1 percentage point year-over-year despite 6.2 million square feet of new construction delivered during the same period. Average asking rents remained stable quarter-over-quarter, posting \$4.63/SF in 1Q19.

CURRENT CONDITIONS

The construction pipeline measured 14.9 MSF in 1Q19, the highest quarterly volume recorded in the market.

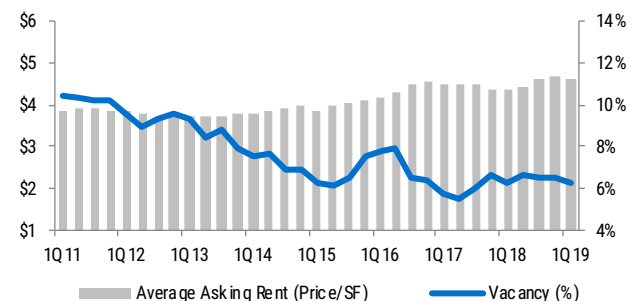
Central Pennsylvania led the region in occupancy gains, tallying 2.2 MSF.

Demand will remain high but vacancy is likely to tick up in 2019 due to large volumes of speculative construction set to deliver.

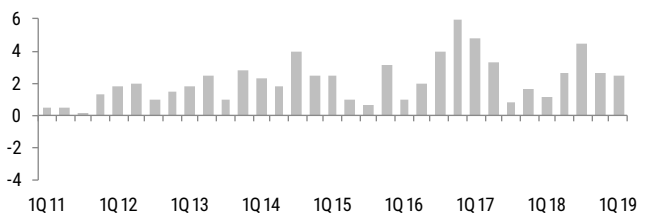
MARKET ANALYSIS

Asking Rent and Vacancy

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	345 MSF	344 MSF	333 MSF	↑
Vacancy Rate	6.2%	6.5%	6.3%	↑
Quarterly Net Absorption	2.4 MSF	2.6 MSF	4.4 MSF	↑
Average Asking Rent	\$4.63	\$4.68	\$4.41	↑
Under Construction	14.9 MSF	14.4 MSF	9.4 MSF	↑
Deliveries	1.0 MSF	2.4 MSF	4.4 MSF	↑

Yet, this figure belies the fact that new deals for Class A warehouse space are being struck at rates nearing \$6.00/SF. Warehouses are frequently leased before delivery in Central Pennsylvania, which prevents the higher asking rates from being tallied in the statistical survey.

Lehigh Valley

The Lehigh Valley submarket remained the hotbed of new development in the Corridor in 1Q19. Under-construction activity totaled 6.0 million square feet, which was spread across 12 projects ranging from 141,000 square feet to more than 1.0 million square feet in size. Among these projects was the Valley's sole new groundbreaking this quarter, a 450,000-square-foot speculative warehouse at 7378 Airport Roads. The amount under construction in the first quarter was nearly triple that of a year ago and comprised a full 6.0% of current inventory, underscoring the submarket's incredible growth. Demand was positive in first-quarter 2019 with 219,633 square feet of net absorption, driven primarily by e-commerce company Lulu's Fashion Lounge occupying 258,232 square feet at 2505 Hollo Road upon its delivery this quarter. This was the quarter's only new delivery. New occupancy has averaged more than 700,000 square feet per quarter for the past two years, and it is likely that absorption will pick up when new stock delivers.

Although construction has increased over the past year in the Lehigh Valley, well-located, viable sites for future development are dwindling and land prices have grown substantially as a result. This will likely limit current construction levels from climbing much higher throughout 2019, which stands to ultimately benefit rent growth. Average asking rates have stalled for the past three quarters in the submarket around an average of \$5.60/SF (still the highest average rent of the Corridor's three submarkets).

Northeastern Pennsylvania

After several quarters of 1.0 million-square-foot-plus occupancy growth tied to new construction deliveries, demand in Northeastern Pennsylvania paused in the first quarter of 2019, and the submarket registered near-zero net absorption. Vacancy was unchanged from the previous quarter at 8.0%. As the four projects under construction in the first quarter deliver throughout the year, net absorption will increase: One of the buildings is already leased, to third-party logistics (3PL) company NFI.

While smaller-scale inventory and similarly-sized tenant footprints have characterized this submarket historically, recent growth in Northeastern PA has been driven by larger (500,000-square-foot or more) warehouses for regional and national retail distribution, and 3PLs that service them. This supply chain strategy is in response to a confluence of highly elevated consumer confidence (according to the University of Michigan Consumer Sentiment Index) and growing e-commerce penetration on the national level and cheaper rents and less depleted labor pools on the Northeastern Pennsylvania submarket level.

An interesting example of the macro shift in importance from retail space to distribution space that is manifesting on the local level is Northpoint's 1.0 million-square-foot speculative warehouse under construction on Schuylkill Road. Once the site of the Schuylkill Mall, the highest and best use for the site has shifted to industrial usage. Upon delivery, it is likely that a 3PL or regional/national/online retail distributor will eventually occupy, following market trends. The mall's former retail space was purposed to facilitate the sale of goods to consumers; it will simply be a different type of space facilitating the same movement.

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Lowes	4532 United Drive	Central Pennsylvania	Direct	1,200,000
Lulus	2505 Hollo Road	Lehigh Valley	Direct	258,232
Zep Manufacturing	860 Nestle Way	Lehigh Valley	Renewal	98,246
Undisclosed Tenant	8250 Industrial Boulevard	Lehigh Valley	Direct	70,000
Undisclosed Tenant	3735 Board Road	Central Pennsylvania	Direct	43,320

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Dermody Portfolio (8 of 56 buildings)	Central Pennsylvania	\$142,740,169	\$57.00/SF	2,504,011
1380 Jacobsburg Road	Lehigh Valley	\$41,250,000	\$118.19/SF	349,012
4500 Westport Drive	Central Pennsylvania	\$12,075,000	\$67.59/SF	178,660
420 Emig Road	Central Pennsylvania	\$10,350,000	\$60.85/SF	170,090

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	W/D Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Central PA	175,937,945	5,303,880	5.7 %	2,230,811	2,230,811	\$4.60	\$8.20	\$4.63
Lehigh Valley	99,904,078	6,019,638	5.6 %	219,633	219,633	\$5.48	\$7.64	\$5.60
Northeastern PA	69,491,833	3,547,300	8.0 %	-6,950	-6,950	\$4.13	\$8.50	\$3.97
Market Total	345,333,856	14,870,818	6.2 %	2,443,494	2,443,494	\$4.58	\$8.02	\$4.63

SUBMARKET STATISTICS BY SUBTYPE

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
Warehouse/Distribution	231,390,306	13,923,818	7.1 %	2,231,779	2,231,779	\$4.58
R&D/Flex	11,651,021	-	7.2%	31,675	31,675	\$8.02
General Industrial	102,292,529	947,000	4.0%	180,040	180,040	\$4.23
Total	345,333,856	14,870,818	6.2 %	2,443,494	2,443,494	\$4.63

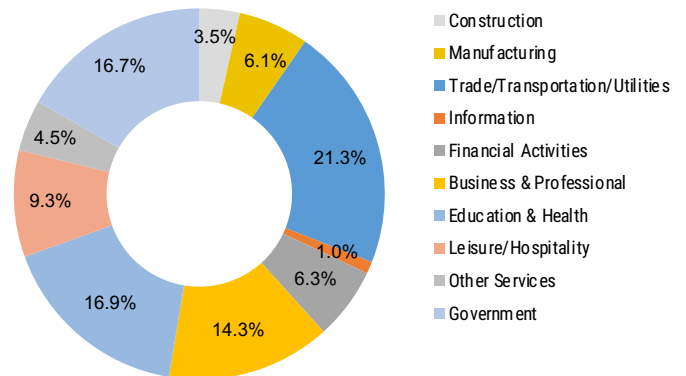
ECONOMY

The unemployment rate for the Harrisburg-Carlisle area tightened to 3.2% in the first quarter of 2019, largely because of gains in the healthcare and education sectors. The University of Michigan's Consumer Sentiment Index showed consumer confidence remained at near-record highs in this cycle, improving throughout first-quarter 2019, with consumers noting favorable growth prospects for the overall economy. This confidence supports future expansion of distribution and logistics occupancy in the region, and the brokerage community reports upwards of 10.0 million square feet of requirements for space in the market.

Transportation and warehousing employment grew significantly throughout the latter part of 2018 yet has tapered off so far in 2019, even adjusting for seasonality. It will be an important sector to watch, as an historic amount of warehouse space is under construction in the I-81/I-78 Corridor; labor will be the key element in prospective tenant site selection.

METRO EMPLOYMENT BY INDUSTRY

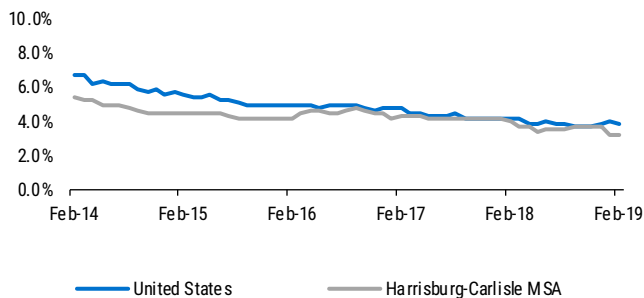
Harrisburg-Carlisle MSA, Annual Average 2018



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

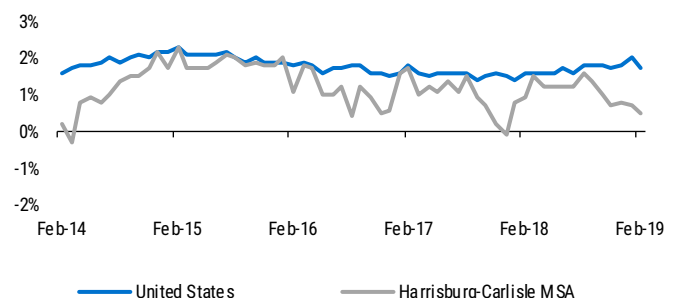
Seasonally Adjusted



Source: U.S. Dept. of Labor, Philadelphia Federal Reserve

PAYROLL EMPLOYMENT

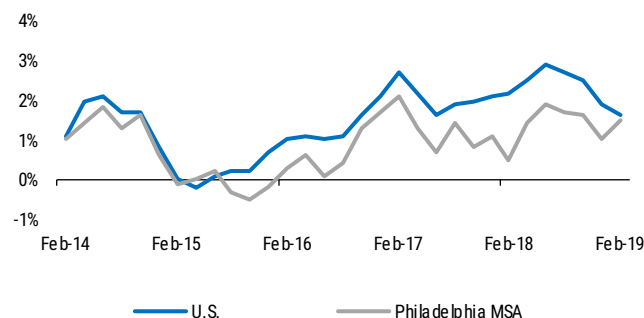
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX

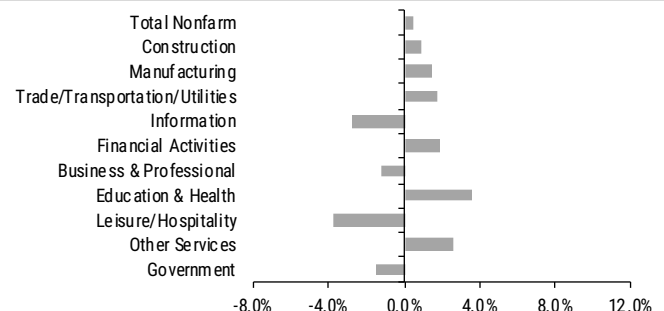
All Items, 12-Month % Change, Not Seasonally Adjusted



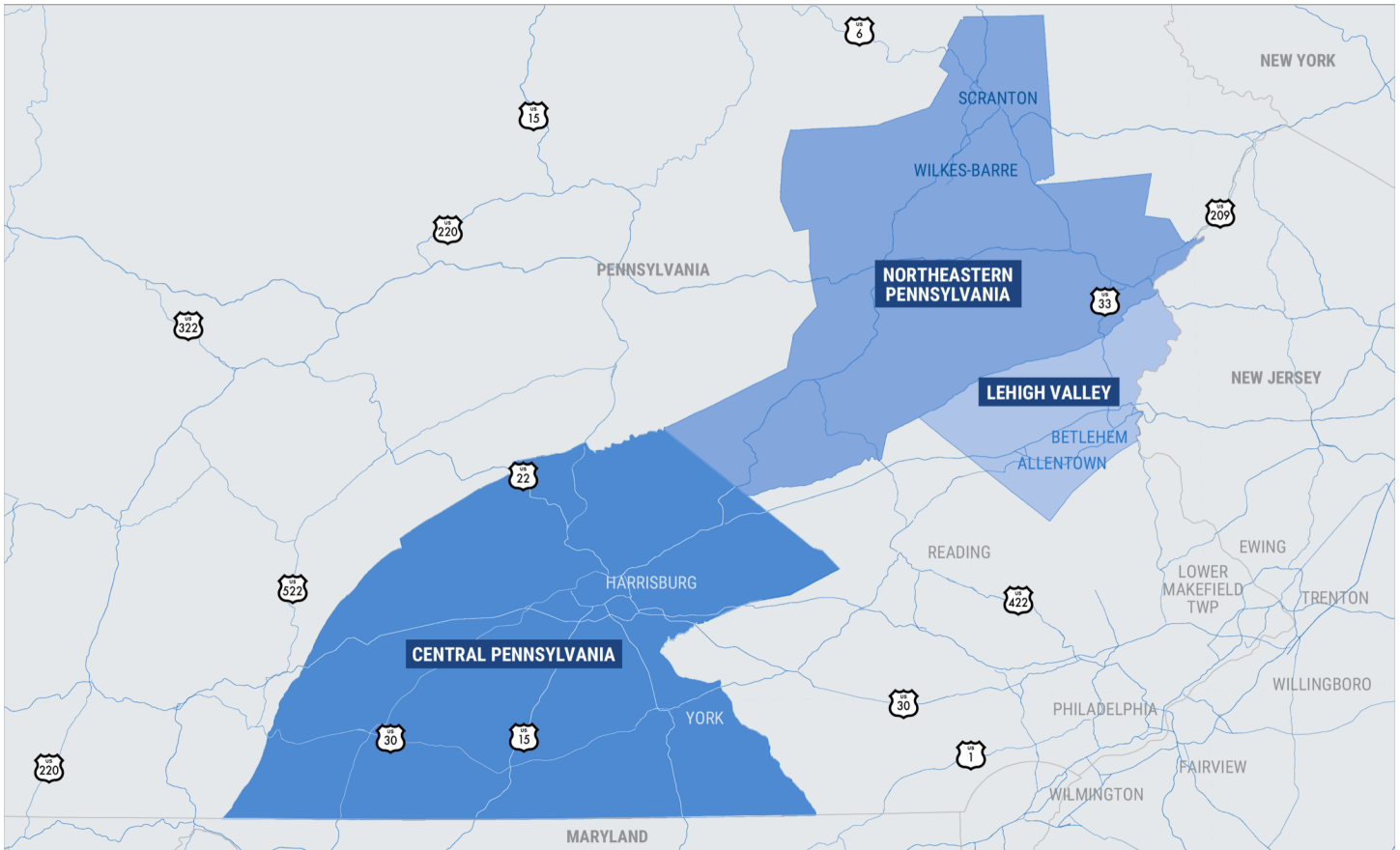
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Harrisburg-Carlisle MSA, February 2019, 12-Month % Change



Source: U.S. Bureau of Labor Statistics



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