

# MARKETBEAT

## PA I-81 & I-78 DISTRIBUTION CORRIDOR INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q10

### ECONOMY

After regaining its stability in the later part of 2009, the I-81/I-78 corridor continues to head in the right direction at the mid-year point of 2010. Job growth is the moving theme of 2010 instead of facility closures and mass layoffs experienced throughout 2009. In Lehigh Valley alone, there were 1,600 new jobs created in the month of June. Amazon.com, Office Depot, Alacer Corporation, and Ollie's Bargain Outlet are all anticipated to add more jobs to the region over the next three years. Despite these economic bright spots, there are still some lingering effects from last year's troubles including Harley Davidson's plan to cut 200 more jobs over the next few months. Hershey also recently announced that they are planning to lay off 500-600 workers at its Chocolate Avenue facility in Central Pennsylvania. However, the reason for these job cuts has more to do with Hershey's modernization effort and relocation to its more efficient West Heshey facility, rather than current economic conditions.

### OVERVIEW

At the mid-year point of 2010, the I-81/I-78 Industrial Corridor continues to outperform 2009's level of activity. 2010 year-to-date leasing activity is more than a million square feet (msf) better than last year's total at this time with 4.1 msf leased currently. The overall vacancy rate for the region is down 2 full points from the second quarter of 2009 dropping from 15.2% to 13.2% presently. Absorption levels continue to hover on the positive side at 3.1 msf, the highest year-to-date total since the fourth quarter of 2008. Rental rates for warehouse/distribution space remained under the \$4.00 per square foot (psf) for the third consecutive quarter at \$3.98 psf. While the current asking rental rate is the lowest value for warehouse/distribution space since 2006, the depressed value has been crucial for restoring tenant demand. Tenants hesitant about signing new deals have been enticed into action by these more affordable rents, generating new leasing activity over the course of the past year.

Lehigh Valley's overall vacancy rate dropped to 15.7% after climbing to 16.5% in the first quarter of 2010. Because of Lehigh Valley's consistency in producing new leasing activity quarter after quarter, even throughout a difficult 2009, there has been only minor shifts in rental rates over the past two years. At a current rate of \$4.41 psf, rental rates are the exact same as the mid-year point of 2008. The largest lease in the region for the second quarter of 2010 was in Lehigh Valley with FedEx leasing 389,866 sf of space at 8451 Willard Drive in the Liberty Business Center in Upper Macungie, PA. Another notable lease was by Schutt Sports at 100 Cascade Drive in Allentown, PA. The only new construction added to the region this quarter was the building at 3041 Schoeneck Road in the Lehigh Valley Macungie Crossings for a total of 580,000 sf.

After a strong first quarter of 2010, Northeastern PA saw a limited amount of activity in the second quarter of 2010. There were no new significant leases this quarter, however there was a building sale at 68 Green Mountain Road in the Northeast Distribution Center sold from Higgins Development Partners to Exeter Property Group. The 400,000 sf building sold for \$13.0 million (32.48 psf). The overall vacancy rate came in at 14.6% better than the 17.9% seen last year at this time.

After peaking at 14.7% in the second quarter of 2009, Central PA has improved its overall vacancy rate every quarter since then to 11.2%, the lowest overall vacancy since the fourth quarter of 2008. Year-to-date leasing activity is on par with 2008 values at nearly 2.0 msf leased thus far in 2010. Central PA saw six new leases over 100,000 sf each completed in the second quarter of 2010. Syncreon leased 225,000 sf of space at 515 Zarfoss Drive in York PA, Nestle took 187,000 sf of space at 6360 Brackbill Boulevard, Viega leased 165,000 sf at 1490 Commerce Avenue and Alacer leased 150,360 sf at 219 Allen Road in Carlisle PA.

### FORECAST

The I-81/I-78 Industrial corridor will continue to exceed 2009 activity, driving vacancy rates down and keeping absorption numbers on the positive side. Rental rates are likely to stay below the \$4.00 psf mark, however evidenced by several quarters of increasing tenant demand, those rates could improve sooner than later. Construction activity will be more apparent in build-to-suit projects as few proposed speculative developments will move forward in the immediate future, as most will remain stalled until next year.

### BEAT ON THE STREET

"Slow and Steady"....Those are the words that best describe the current market conditions. Occupancy rates are steadily increasing, although at a slow pace. Rents have remained firm in all but the most over supplied building sizes. We expect to see rents edging upward in the building sizes in shortest supply, 300,000 SF and up, by Q3 or Q4. 2010."

-Stephen A. Cooper, Senior Director


### ECONOMIC INDICATORS


National	2009	2010F	2011F
GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.8%	2.1%


Regional	2009	2010F	2011F
Unemployment	7.9%	8.9%	8.6%
Employment Growth	-3.3%	-0.9%	1.3%

Source: Moody's | Economy.com

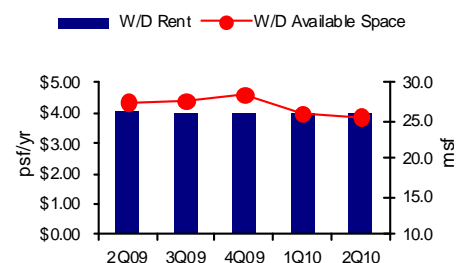
### MARKET FORECAST

**LEASING ACTIVITY** will continue to increase throughout 2010. Tenant demand looks to be returning especially in the Central PA and Lehigh Valley submarkets. 

**DIRECT ABSORPTION** will remain on the positive side for the remainder of 2010 as leasing activity continues to outweigh new availabilities returning to the market. 

**CONSTRUCTION** activity will remain low for the remainder of 2010. Speculative development will improve sometime in 2011. 

### I-81-I-78 RENTAL VS. VACANCY RATES



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## MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT ABSORPTION	YTD OVERALL ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
									**HT	MF	OS	WD
Lehigh Valley	50,270,759	158	15.7%	1,570,846	0	693,526	505,107	505,107	N/A	\$3.59	\$3.72	\$4.41
Northeastern PA	56,871,057	197	14.6%	655,488	0	465,000	697,776	697,776	N/A	\$3.51	N/A	\$3.74
Central PA	105,495,152	345	11.2%	1,943,039	711,000	122,500	1,937,669	1,937,669	N/A	N/A	N/A	\$3.87
**I81-78 Distribution Corr.	212,636,968	700	13.2%	4,169,373	711,000	1,281,026	3,140,552	3,140,552	N/A	\$3.54	\$3.72	\$3.98

\*Rental rates reflect \$psf/year

\*\* HT inventory does not exist in this market

HT = High Tech MF = Manufacturing OS = Office Service W/D = Warehouse/Distribution

## MARKET HIGHLIGHTS

### SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
8451 Willard Drive	Lehigh Valley	FedEx	389,866	Warehouse/Distribution
515 Zarfoss Drive	Central PA	Syncreon	225,000	Warehouse/Distribution
6360 Brackbill Boulevard	Central PA	Nestle	187,000	Warehouse/Distribution
1490 Commerce Avenue	Central PA	Viega	165,000	Warehouse/Distribution

### SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
68 Green Mountain Road	Northeastern PA	Exeter Property Group	400,260	\$13,000,000
415 Zarfoss Drive	Central PA	Flowers Food	160,745	N/A

### SIGNIFICANT 2Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
7335 Albutis Road- Lehigh Valley Macungie Crossings	Lehigh Valley	N/A	580,000	6/10

### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
3300 Espresso Way-Orchard Business Park	Central PA	Ollie's Bargain Outlet	603,000	12/10
250 Cross Farm Lane- Green Spring Industrial Park-Lot 1A	Central PA	Unilife	108,000	9/10



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\*Market terms & definitions based on BOMA and NAIOP standards.

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