

# MARKETBEAT

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

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q09

### ECONOMY

Pennsylvania's industrial economy continued to suffer throughout the second quarter of 2009. Although in comparison to the first quarter, things appear to be better. The first quarter experienced a dramatic increase in unemployment rates from 5.4% to 8.0%, where this quarter only experienced a jump from 8.0% to 8.1%. It has also been reported that manufacturing firms, a sector that has been devastated by the economic recession, has experienced its best business conditions since the third quarter of 2008. Numbers were still in the negative territory, but showed significant improvement. The I-81/I-78 sector experienced large retail tenants abandon their industrial facilities over the past few quarters, but in the second quarter of 2009, no significant tenants left the region demonstrating a more stable business environment.

### OVERVIEW

Lehigh Valley produced a healthy amount of leasing activity in the second quarter of 2009. The most significant transactions include the 311,928-square foot (sf) lease to Tree of Life at 860 Nestle Way located in Lehigh Valley West Park, the 168,000-sf lease to Warehouse Specialist Inc. in the Boulder Business Center in Macungie, PA and the 156,000-sf lease at 800 Quarry Road in the AMB I-78 Distribution Center. Lehigh Valley produced just under its first quarter leasing numbers, but still leads the I-81/I-78 region with the most activity year-to-date, with nearly 2.0 million sf leased so far this year. This more than doubles last year's mid-year numbers demonstrating the stability of the region. Overall vacancy rates dropped even further this quarter to 13.2% the lowest Lehigh Valley has produced in nearly two years. Overall Absorption numbers for the year are at 903,912 sf, the only submarket with positive absorption in the region, demonstrating the health of Lehigh Valley. Rental rates were unchanged since last quarter at \$4.39 per square foot(psf) triple net, but are down from an average of \$4.44 psf in 2008. 500 Silvercrest Road finished construction this quarter in the Arcadia East Industrial Park which was built for Trader Joe's.

Northeastern PA received a slight boost this quarter compared to the previous quarter in leasing activity. The market signed the largest lease of the quarter to Electrolux taking the entire 455,000-sf building at 25 Keystone Boulevard in the Pottsville Distribution Center. Northeastern PA saw its first new building deliver in 2009 with the new 396,800-sf warehouse/distribution building at 160 Research Boulevard in the Centerpoint East Industrial Park. The entire building is currently available for lease. Unfortunately, vacancy numbers are still up significantly since last year at 17.9% up from 12.1% a year ago. This was mostly due to the rough first quarter of the year where vacancy rates were driving up to 18.9%, the highest the submarket has witnessed in nearly five years. With the rates dropping from last quarters high, Northeastern PA appears to be heading in the right direction.

Leasing activity is down in Central PA this quarter since last year at this time going from 1.1 million square feet (msf) to 405,000 sf. There were a few significant deals done, including the 220,000-sf lease by Bridgestone Firestone at 1055 Strickler Road in the Cornerstone Business Center, the 140,000-sf deal by Newgistics at 2750 Hempland Road in Lancaster, PA and York Container Company taking 45,000 sf of space at 2800 Concord Road. The most significant activity this quarter in Central, PA was the addition of several new warehouse/distribution facilities. A brand new 1.2-msf facility in the Key Logistics Park delivered this quarter in Newville, PA, the 575,000-sf building at 70 Logistics Drive in the Carlisle Distribution Center completed, and the 342,160-sf building at 275 Cross Farm Lane in the Greenspring Industrial Park finished construction. All of these buildings are completely vacant and available to be leased.

### FORECAST

The I-81/I-78 market will continue to struggle throughout 2009, although activity appears to be improving. The first quarter of 2009 was the most difficult quarter for the region since the recession struck, but the second quarter was a definite improvement. The important thing to look at for the remainder of 2009 is the distressed assets due to struggling developers or overly aggressive underwriting. Many buildings that continue to finish construction have little or no pre-leasing or leasing activity which continues to put a strain on vacancy rates. Therefore new buildings continue to deliver new and attractive space to the market, but remain empty. Approximately 2.5 msf of new space delivered to the market thus far in 2009 remain unoccupied, and another 543,075 sf are set to finish construction this year and have pre-leasing lined up yet.

### BEAT ON THE STREET

" In light of the present market conditions the I-81/I-78 corridor had an up tick in activity posting it's best quarter so far for 2009 in terms of vacancy rate and leasing activity. With that said, landlords are still aggressively chasing leasing transactions with increased tenant concessions and decending rental rates."

-Jeff Williams, Director

### ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	1.1%	-3.0%	1.2%
CPI Growth	3.8%	-0.6%	1.7%

Regional	2008	2009F	2010F
Unemployment	5.4%	8.1%	8.8%
Employment Growth	0.2%	-2.3%	-0.5%

Source: Moody's | Economy.com

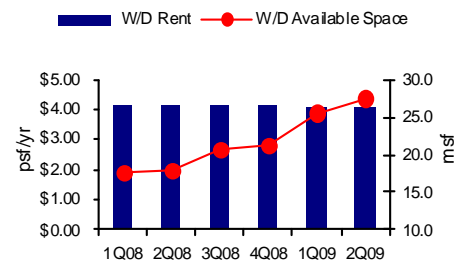
### MARKET FORECAST

**LEASING ACTIVITY** increased in the second quarter, although activity will continue to produce below historical numbers throughout the remainder of 2009. ↓

**DIRECT ABSORPTION** is expected to remain in the negative territory as speculative projects continue to hit the market with little or no-preleasing. ↓

**CONSTRUCTION** activity will decrease as proposed projects will not start construction until conditions improve. 2009 continues to see new developments deliver with no pre-leasing. ↓

### 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 OVERALL ABSORPTION	**HT	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*		
									MF	OS	WD
Lehigh Valley	49,330,161	154	13.2%	1,916,142	580,000	531,000	903,912	N/A	\$3.90	\$4.78	\$4.45
Northeastern PA	55,841,610	193	17.9%	482,000	663,400	396,800	(3,067,350)	N/A	\$3.43	N/A	\$3.76
Central PA	102,681,684	336	14.7%	717,017	2,402,000	2,087,160	(2,359,898)	N/A	\$3.25	N/A	\$4.02
**I81-78 Distribution Corr.	207,853,455	683	15.2%	3,115,159	3,645,400	3,014,960	(4,523,336)	N/A	\$3.55	\$4.78	\$4.03

\*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 2Q09 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
25 Keystone Boulevard-Pottsville Distribution Center	Northeastern PA	Electrolux	455,000	Warehouse/Distribution
860 Nestle Way-Lehigh Valley West Park	Lehigh Valley	Tree of Life	311,928	Warehouse/Distribution
1055 Strickler Road-Cornerstone Business Center	Central PA	Bridgestone Firestone	220,000	Warehouse/Distribution
651 Boulder Drive-Boulder Business Center	Lehigh Valley	Warehouse Specialist	168,000	Warehouse/Distribution
SIGNIFICANT 2Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
4000 Township Line Road	Lehigh Valley	Just Born	600,710	\$13,450,000
SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Centerville Road-Key Logistics Park - Bldg. C	Central PA	N/A	1,170,000	4/09
500 Silvercrest Road-Arcadia East Industrial Park	Lehigh Valley	Trader Joe's	531,000	4/09
160 Research Boulevard-Centerpoint East Parcel #25 Phase IIA	Northeastern PA	N/A	396,800	6/09
SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
260 Hidden Lane	Central PA	Church & Dwight Co. Inc.,	1,600,000	12/09
7335 Albutis Road-Lehigh Valley Macungie Crossings	Lehigh Valley	N/A	580,000	12/09
Center Point Commerce & Trade Park West	Northeastern PA	N/A	465,000	11/09
1055 Strickler Road-Cornerstone Business Center Lot 10	Central PA	Bridgestone Firestone	302,000	8/09



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

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