



Lancaster Commercial & Industrial Real Estate Market Presentation

Presented By: High Real Estate Group LLC
February 10, 2021

Welcome



8:15 – 9:15 AM **Presentation**

9:15 – 9:30 AM **Questions and Answers**



Mark Fitzgerald
President &
Chief Operating Officer



Michael Lorelli
Sr. Vice President
Commercial Asset Management



Bill Boben
Sr. Vice President
Sales/Leasing



Powell Arms
Sr. Vice President, Managing Director
Retail Division



David Aungst
President
High Hotels



Brad Mowbray
Sr. Vice President, Managing Director
Residential Division

Mark Fitzgerald



President & Chief Operating Officer
High Real Estate Group LLC

Overall Economy

- COVID-19 update
- GDP projections
- Disposable income and saving rate
- Employment

Nationwide Real Estate

- Acquisition/
Development sentiment
- Cap Rate trends
- Underwriting criteria
- Real Estate cycle for each asset class

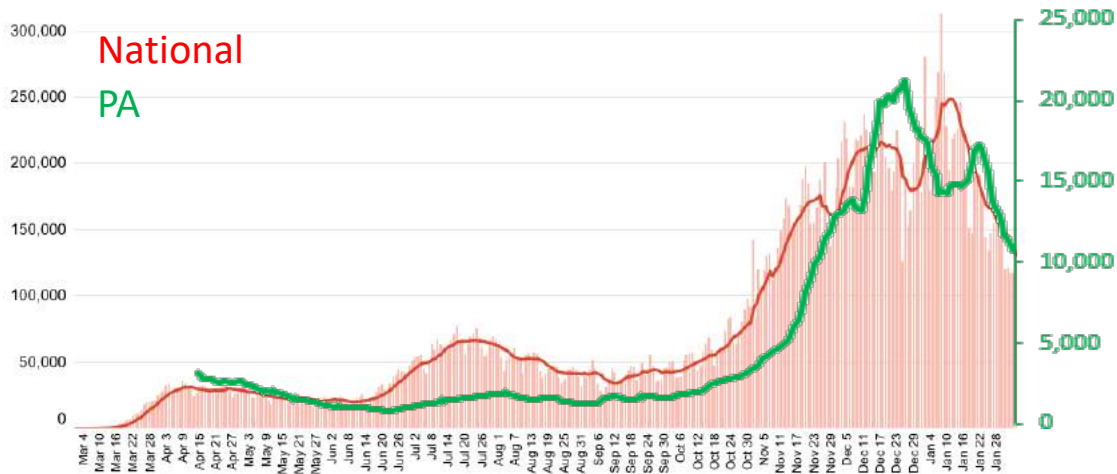
Lancaster Real Estate

- Office
- Industrial

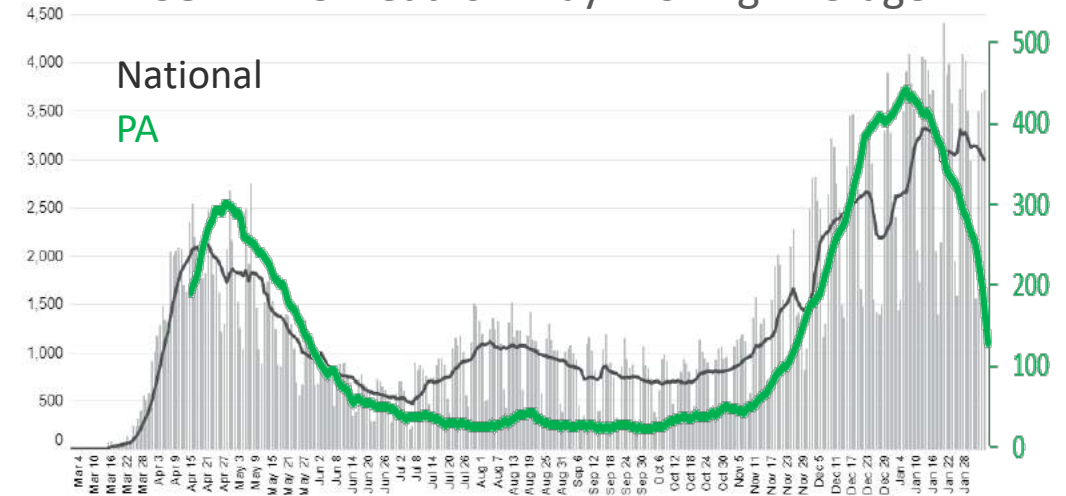
Cases, Hospitalizations, and Deaths All Declining from December



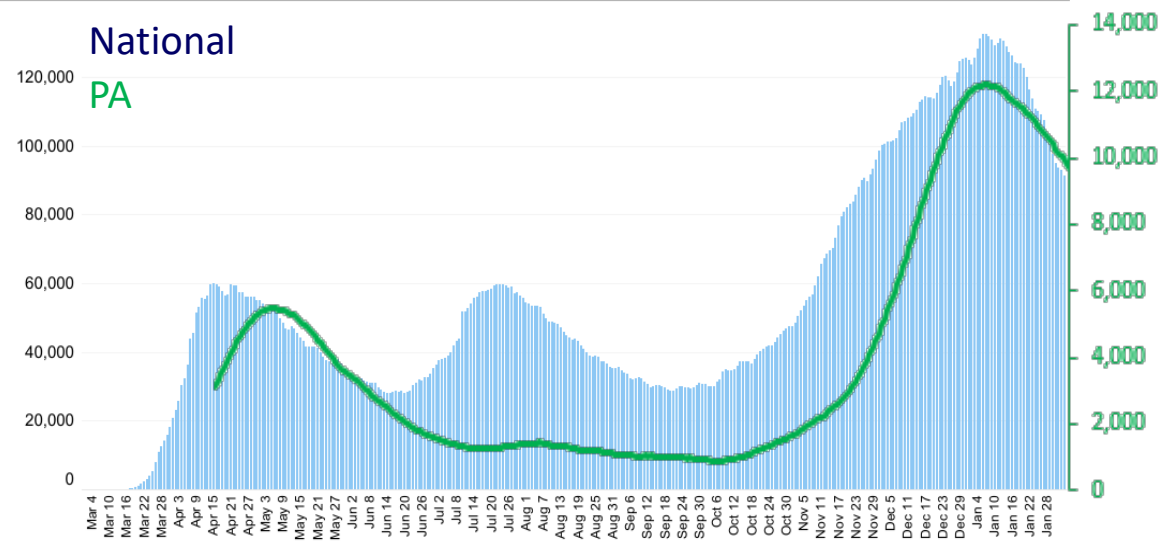
New Confirmed Cases 7-Day Moving Average



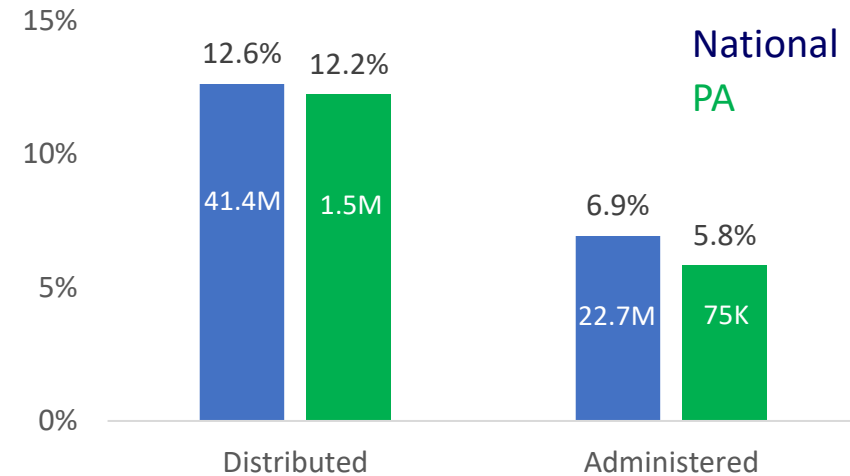
COVID-19 Deaths 7 Day Moving Average



Hospitalizations

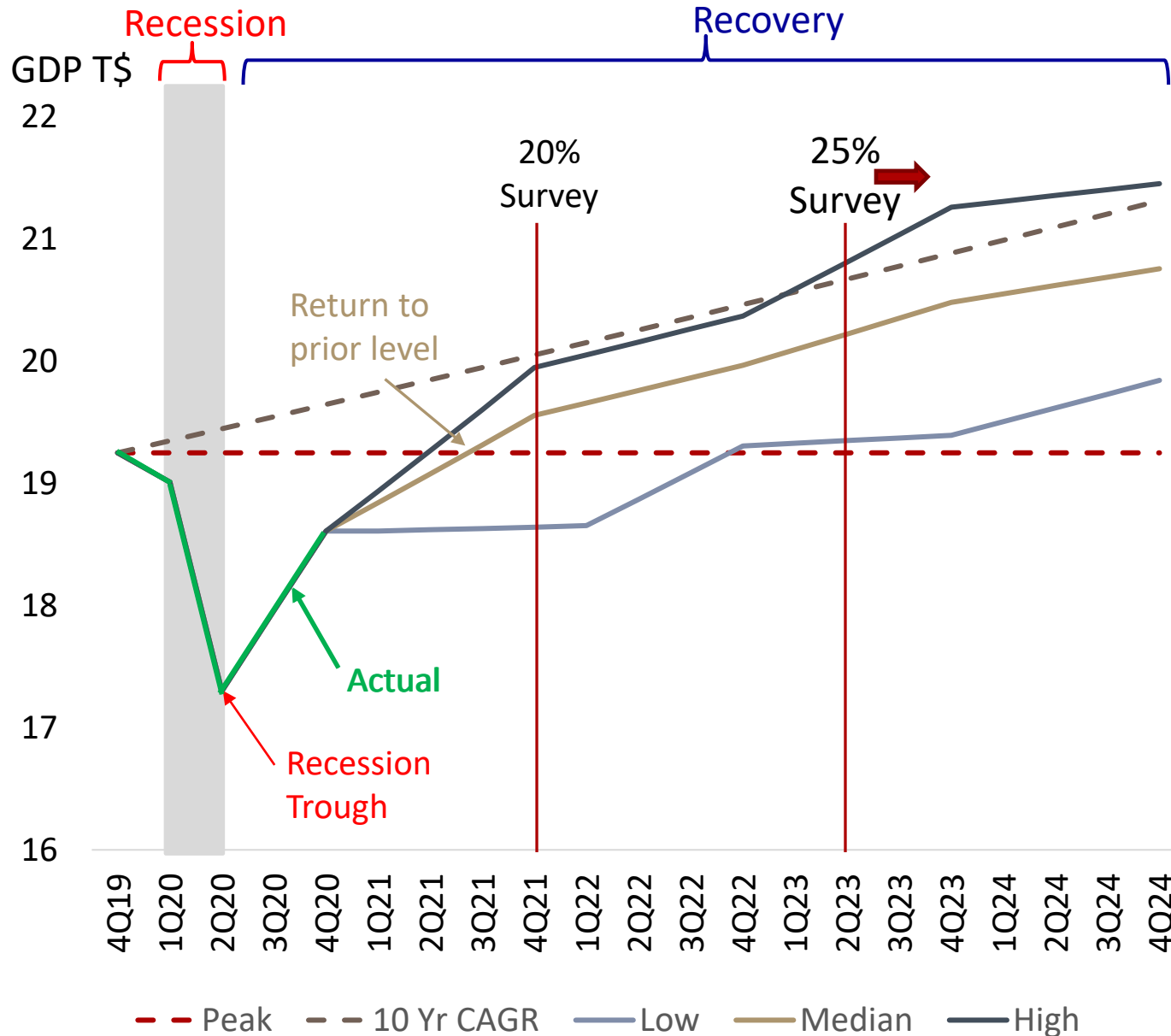


% of Population Vaccinated Through January 25, 2021



Source: Becker's Hospital Review; CDC, US Bureau of Labor Statistics, The COVID Tracking Project

Uncertain Timeline for Economic Recovery



FOMC December 2020
Annual GDP Growth Projections

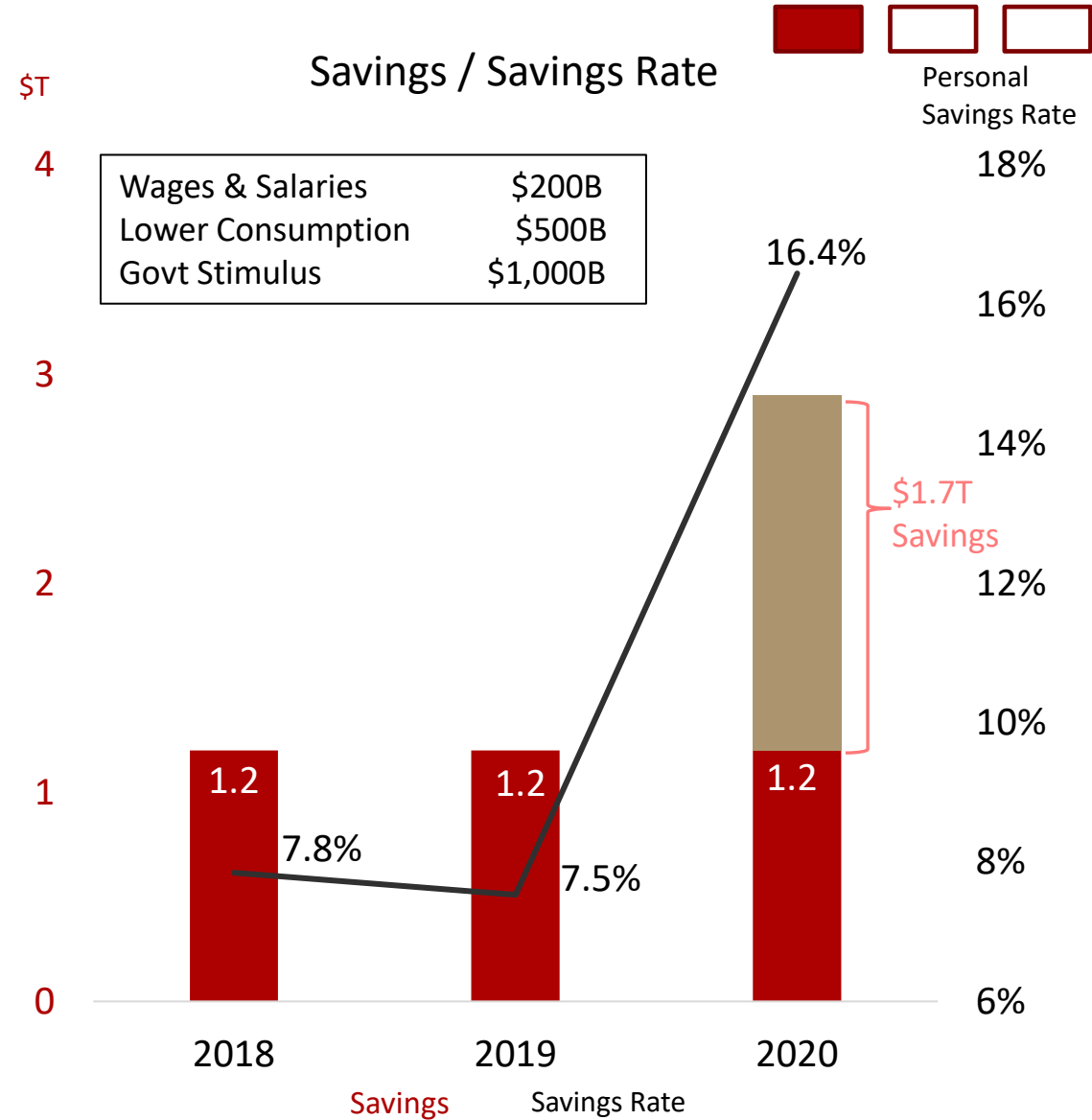
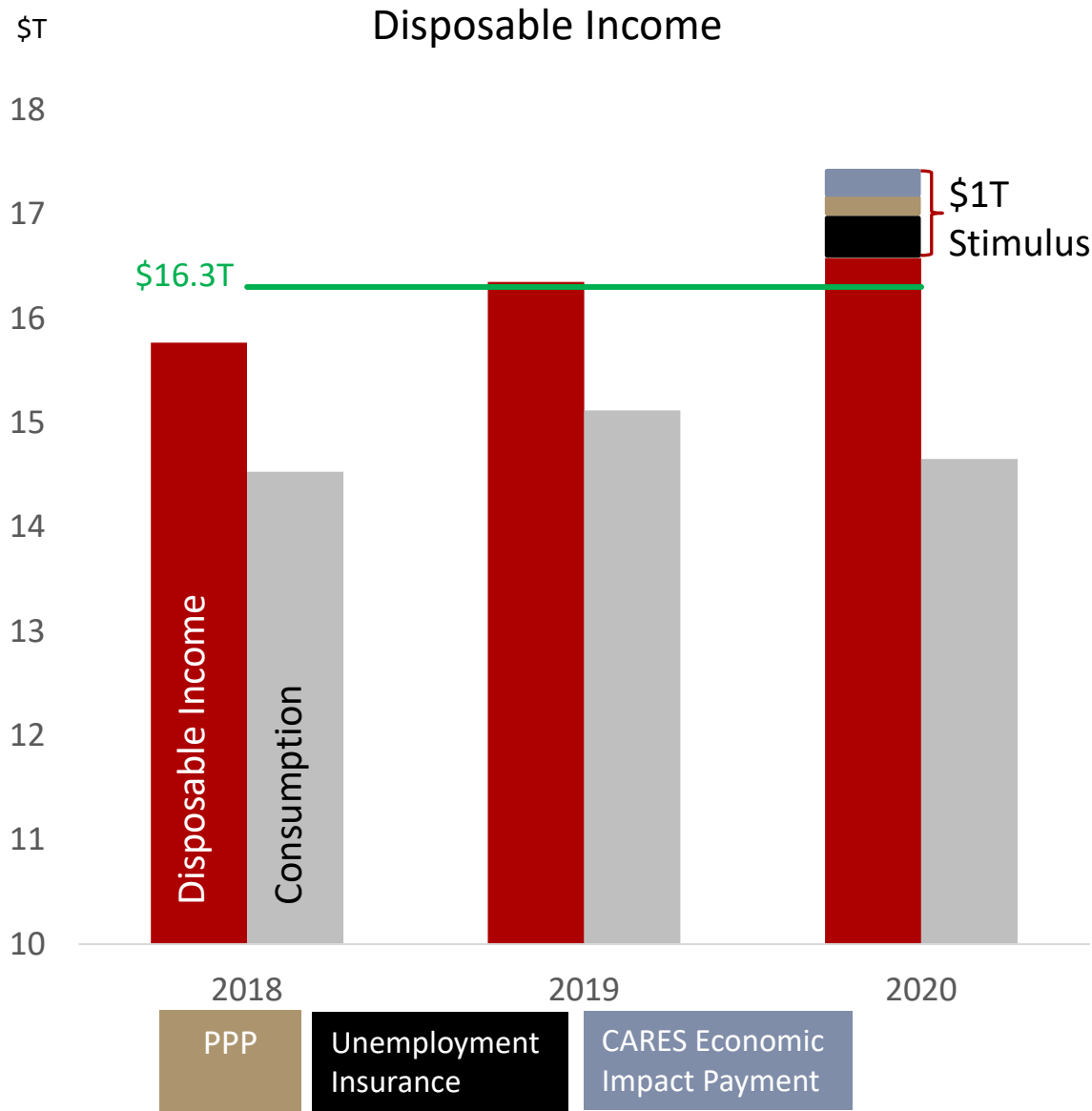
	Low	Median	High	Survey
2020	-3.3%	-2.4%	-1.0%	
2021	0.5%	4.2%	5.5%	2.90%
2022	2.5%	3.2%	4.0%	
2023	2.0%	2.4%	3.5%	
2024	1.6%	1.8%	2.2%	

Actual 2020: -3.5%

Speed of Recovery Depends on:

- Effective delivery and acceptance of vaccines
- Potential impact of variant strains
- Transition to new administration
- Disruptive Brexit process (impact on EU)
- Global trade tensions

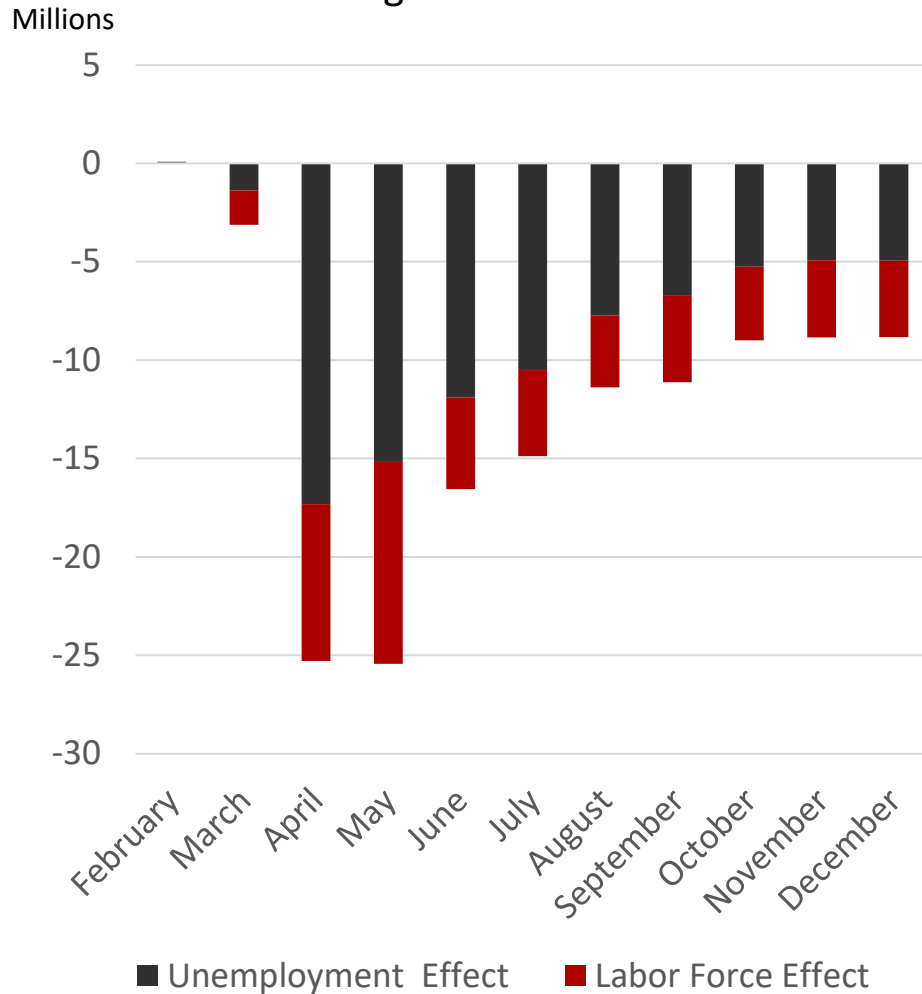
Personal Disposable Income and Saving Up



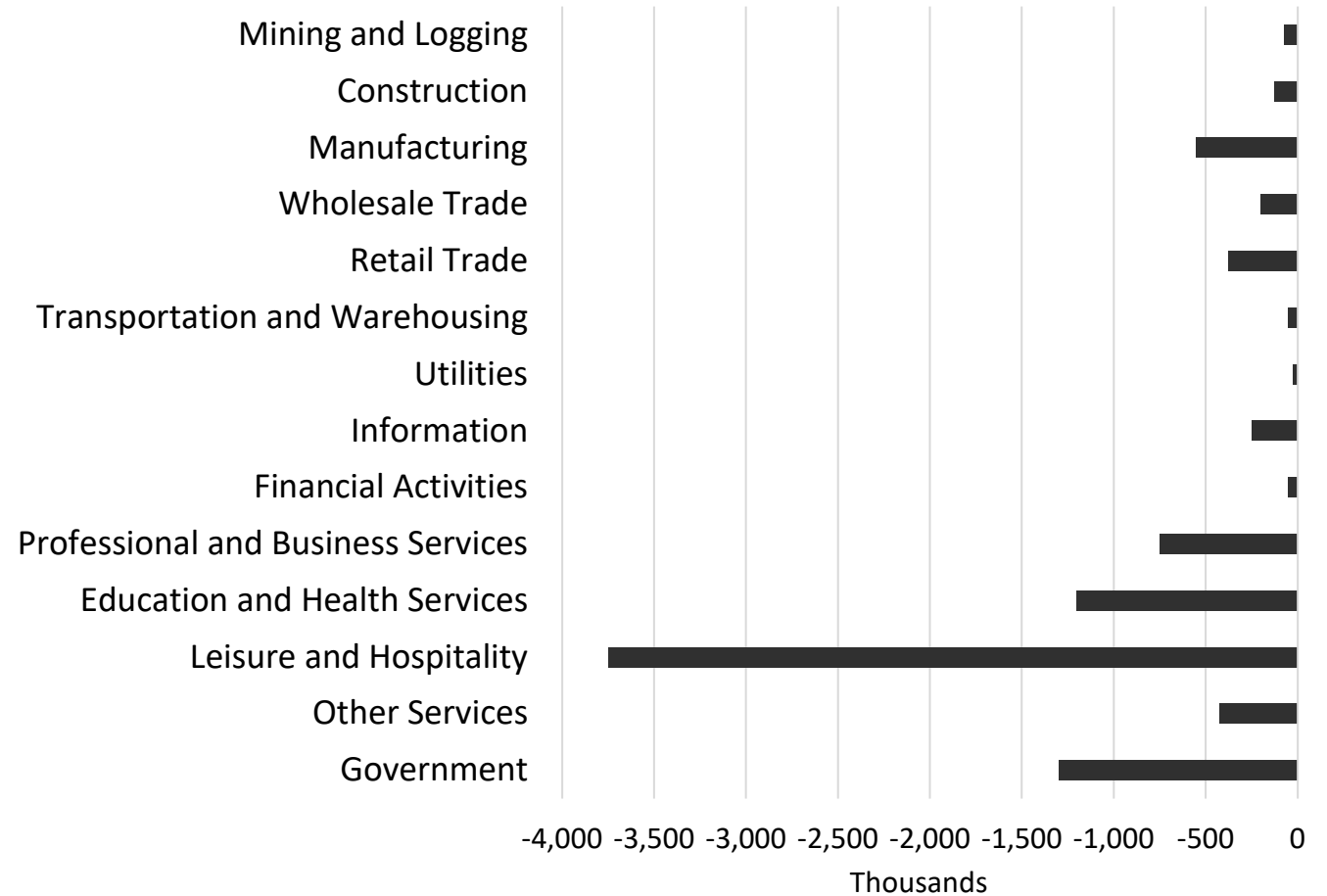
Nearly 9 Million Remain Unemployed/Left the Workforce

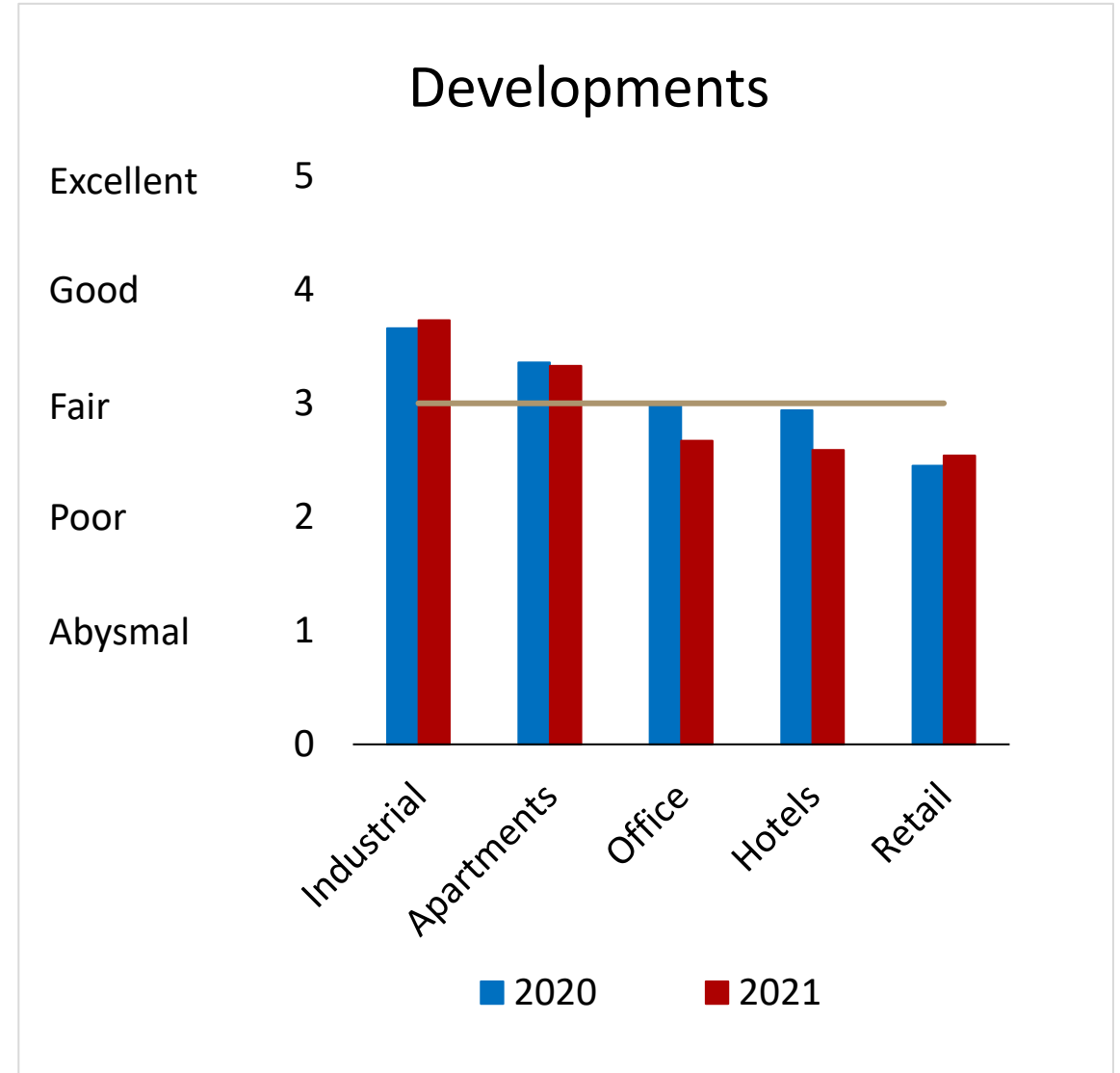
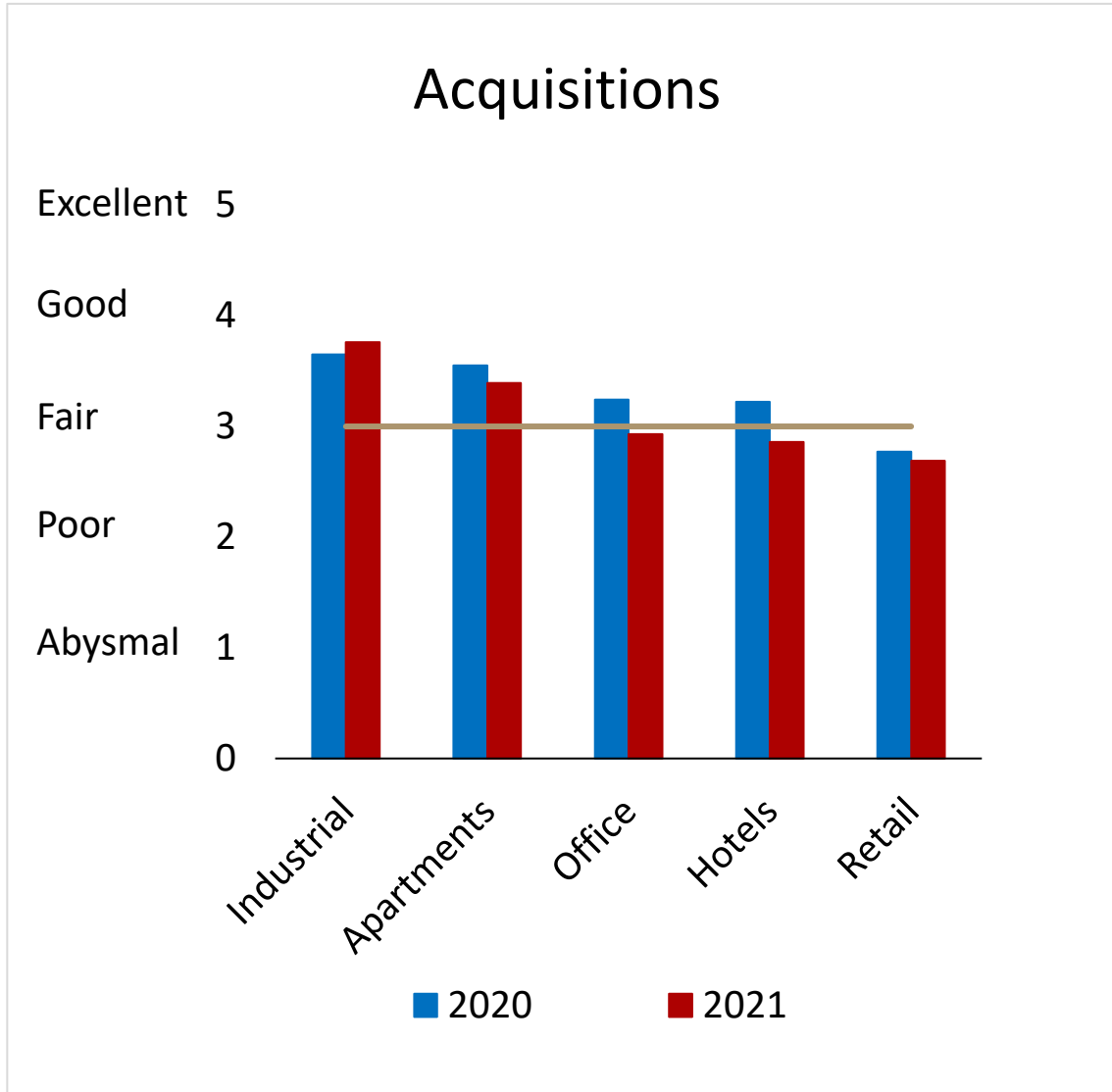


People Out of Work During the Pandemic



Seasonally Adjusted Job Loss by Industry January through December 2020



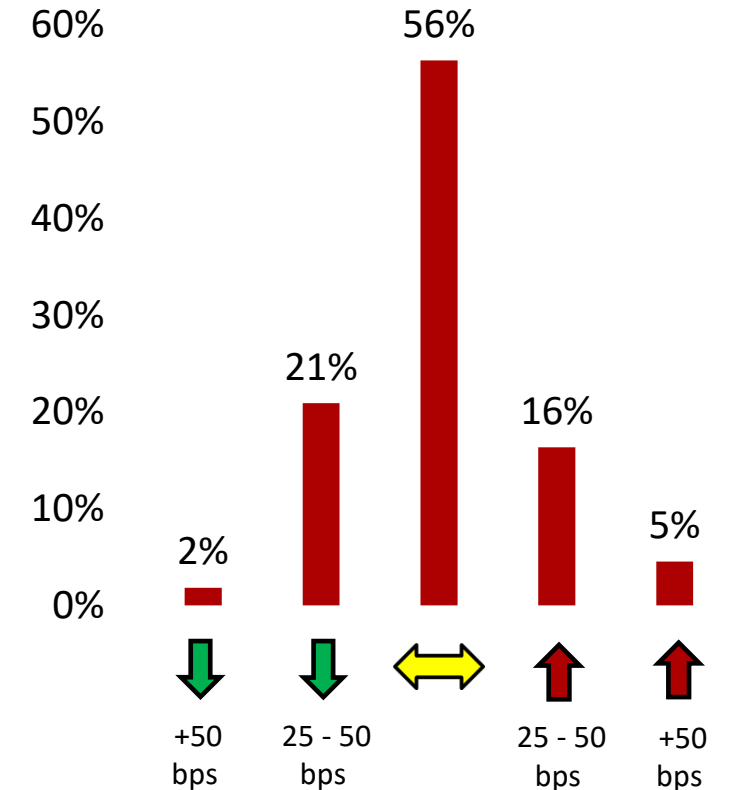


National Real Estate Overview: Cap Rate Moving Higher



	Range	2020 Average	Change from 2019	BPS
Apartments	3.50 – 8.00%	5.25%	↔	7 bps
Warehouse	3.40 – 7.00%	4.83%	↔	-2 bps
Suburban Office	4.00 – 7.75%	6.00%	↓	-36 bps
CBD Office	3.75 – 8.00%	5.65%	↑	13 bps
Neighborhood/ Strip Centers	5.00 – 10.00%	7.30%	↑	55 bps
Limited-Service Hotels	7.50 – 12.00%	9.50%	↑	35 bps

C&I All Asset Class Survey Results



- Ranges widened on all assets, except Suburban Office
- Market fundamentals for CBD Office, Retail and Hospitality deteriorating in most markets
- Debt & Equity remain available, but more focused



	Max LTV	Vacancy		Cap Rate		Spread		All in Rate	
Residential	65-75%	5-10%	↑	5.0-6.5%	↔	1.75-2.50%	↑	2.85-3.60%	↓
Industrial	65-75%	5-10%	↔	5.5-7.0%	↔	1.75-2.50%	↑	2.85-3.60%	↓
Office Suburban	60-70%	10-15%	↔	6.5-8.5%	↓	2.10-3.10%	↑	3.20-4.20%	↔
Retail (“Anchored”)	65-75%	10-15%	↑	6.0-8.0%	↔	2.00-3.00%	↑	3.10-4.10%	↔
Hotel	50-60%	40-50%	↑	10.0-15.0%	↑	3.00-4.00%	↑	4.10-5.10%	↑

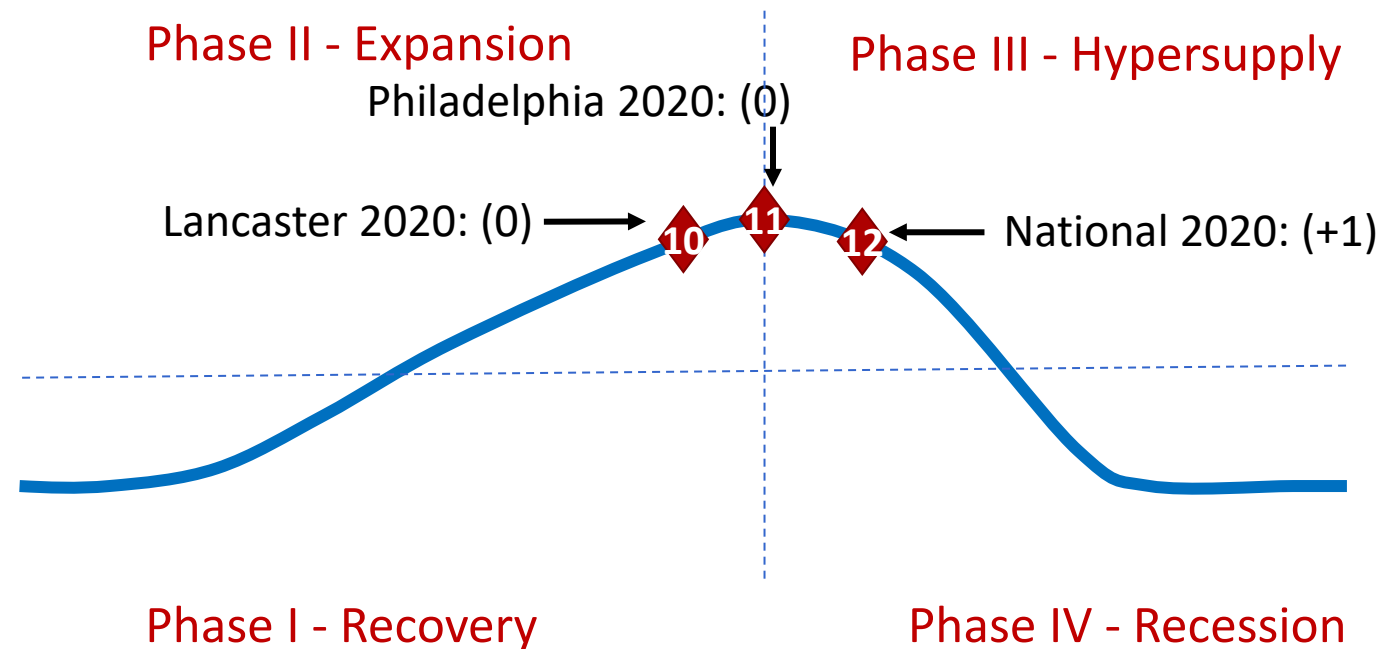
- Debt capital available for acquisitions and refinancing of all asset classes, except hotels
- Debt capital for new development will become more challenging

Range for 10-year treasury projections = 1.1– 1.5%

Major Trends

- E-commerce continues to drive demand
 - Sales grew by 20% to \$150B in 2020
- “Just in Time” transitioning to “Just in Case”
 - Supply chain concerns and unexpected increase in demand increases inventory on hand from 15 days to 60 days
- Last mile/(touch) and refrigerated warehouse are fast growing segments
- Demand for warehouse space could grow by 400M SF over next few years
- Factors driving location decisions: land availability, workforce, affordable housing, amenities (athletic space, breakrooms, food offerings)

Third Quarter 2020

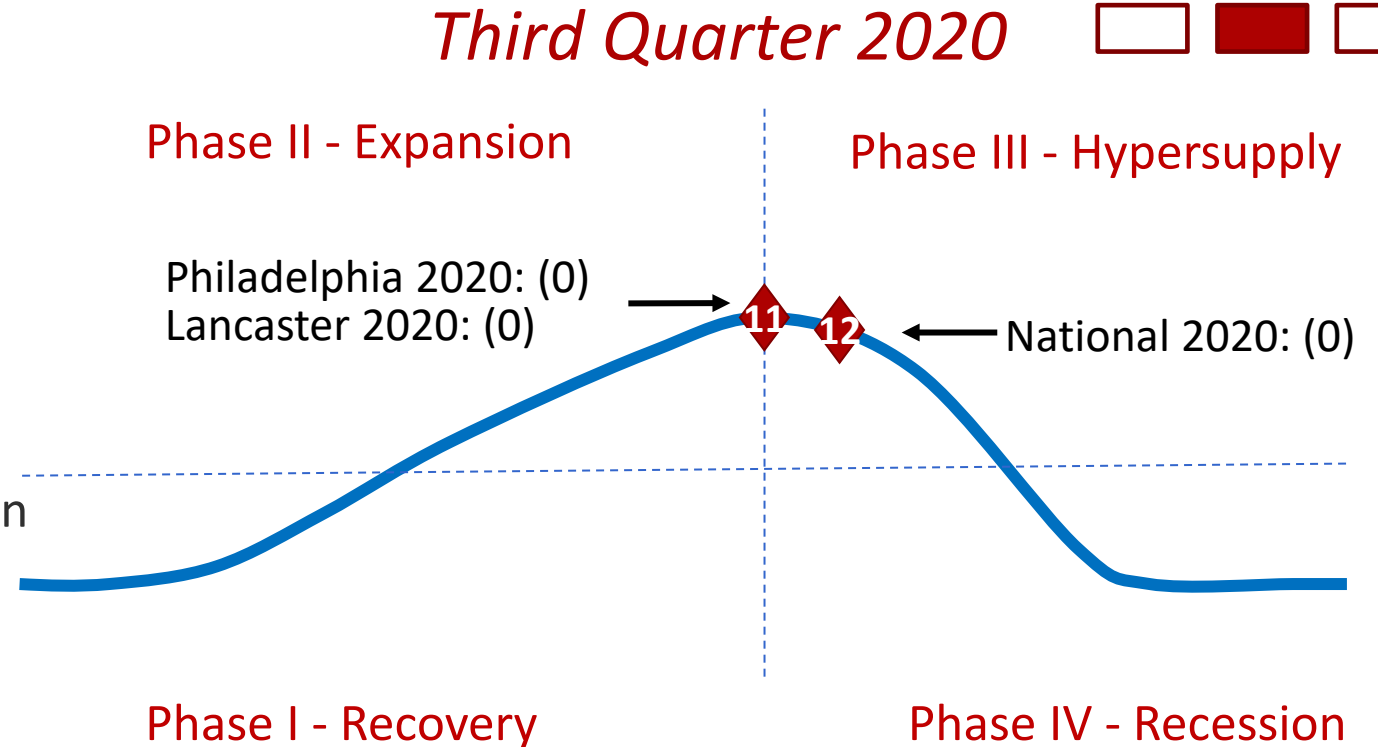


YOY National Change

	Actual 2020	Projected 2021
Occupancy	(0.8%)	0%
Rents	4.8%	4.1%

Major Trends

- Demographics support mid & long-term demand for “traditional” and “renter by choice” segments
- Short-term employment uncertainty could impact cash flow stability and market valuations
- Demand shifting from dense urban to suburban garden/low rise infill properties
- Design trends include greater focus on access to high-speed internet, larger unit size, extra bedrooms/dens, fitness & health
- Biggest challenge will be meeting the increased demand for quality work-force and affordable housing
- Supply constraints
 - State and local regulations
 - Low availability of zoned land
 - Increased construction cost



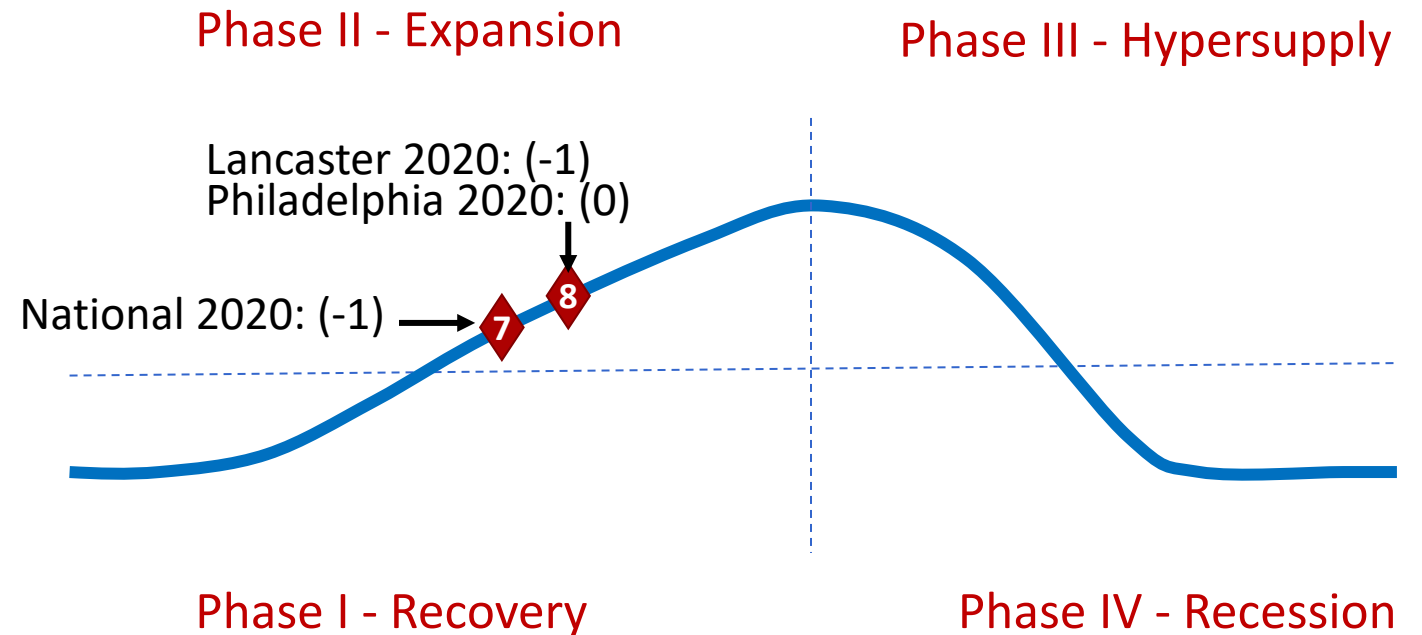
YOY National Change

	Actual 2020	Projected 2021
Occupancy	0.2%	(0.4%)
Rents	2.0%	0.1%

Major Trends

- Work from Home (WFH)
 - Potential Change Over Next Decade**
 - “Sometime” (1-3 days) from 10% to 25%
 - “Usually” (4-5 days) from 5% to 10% (Finland/Netherlands represent upper limit)
- Suburban office will rebound quicker than CBD office
- Rents/Occ. will bottom Q1/ Q2 2022, respectively
- Office Trends:
 - Moving toward decentralized location, less dense space plans, more private offices with less shared work area and more technology
- Medical office will be strongest segment

Third Quarter 2020



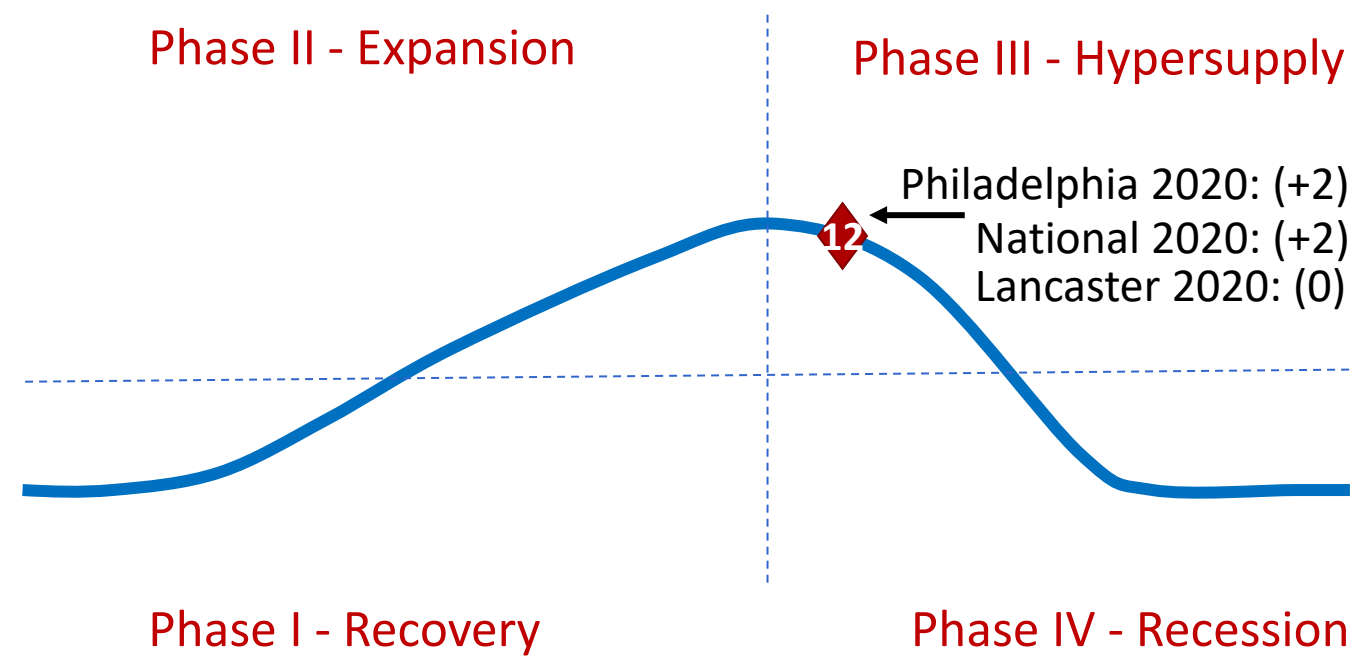
YOY National Change

	Actual 2020	Projected 2021
Occupancy	(1.0%)	(1.8%)
Rents	(1.0%)	(1.5%)

Major Trends

- Demand for bricks & mortar stores declining at accelerating rate due to:
 - Increase in e-commerce
 - Aging baby boomers (travel vs purchase)
 - Millennials have less discretionary income
 - Stagnant wage growth
- Bars & restaurants are the only in store retailer to exceed GDP growth over the last 10yrs
- Over half of retailers have less than 20 employees. Many may not survive the pandemic
- B, C & D malls will be repositioned or demolished at an accelerating rate

Third Quarter 2020

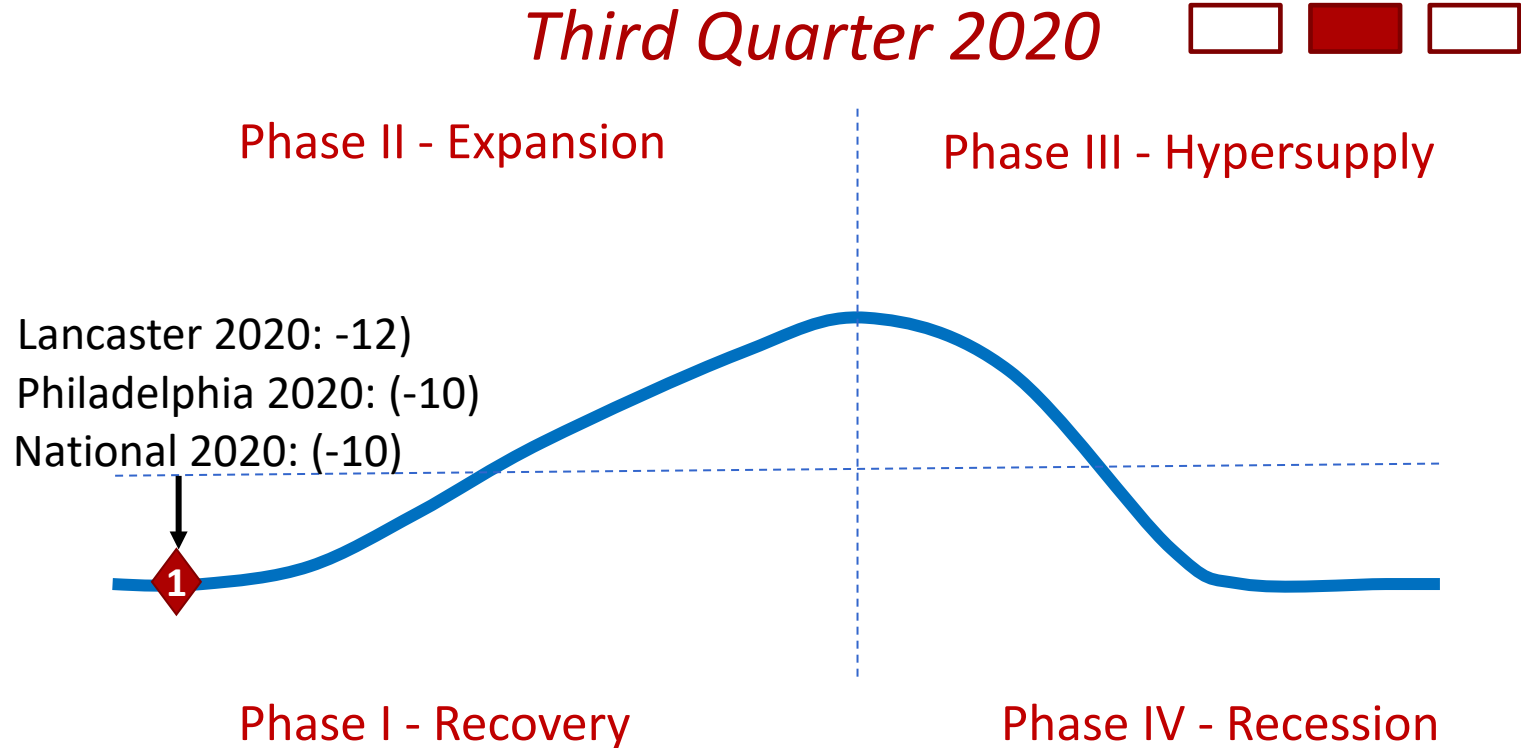


YOY National Change

	Actual 2020	Projected 2021
Occupancy	(0.5%)	(0.4%)
Rents	(0.5%)	0

Major Trends

- Industry may face unprecedented number of foreclosures. Capital is only available for the strongest operators
- Return to 2019 demand levels in 2023. ADR to return to 2019 levels in 2024
- Limited projected demand in 2021
 - Leisure is primary demand generator
 - Last-minute bookings are increasing
 - Business travel anticipated in 2021 Q2/Q3
- Extended stay properties in leisure markets have strongest performance
- Pressure to balance cleanliness and guest experience expectations with cash flow pressures



YOY National Change

	Actual 2020	Projected 2021
Occupancy	(36%)	27%
Rate	(21%)	6%
RevPAR	(50%)	35%

Michael Lorelli



Sr. Vice President Commercial Asset Management
High Associates Ltd.



- Research – Primary Research
 - Secondary sources (CoStar, MLS)
 - Owner occupied properties are excluded (e.g. Nordstrom and Urban Outfitters)
- Office – Institutional-grade, for lease (244 buildings, 5.6M SF)
 - Over 5,000 SF in size
 - Lancaster City, Manheim Township, East Hempfield, and East Lampeter Townships
- Industrial – Institutional-grade, for lease (383 buildings, 24.1M SF)
 - Over 10,000 SF in size
 - Lancaster County



- Two projects totaling 31,500 SF completed in 2020
- Four new office projects in construction or proposed totaling 165,209 SF
- Class A existing market rental rates remained flat in 2020:
 - Existing space \$23-\$26/SF Gross
 - New space \$32-\$35/SF Gross

Lancaster Market Comparison: Single Digit Vacancy For All Products





		2016	2017	2018	2019	2020	5-Year Average
Class "A" Office	Absorption	87,988	75,273	83,039	116,300	(25,491) ↓	67,422
	Vacancy	10.9%	10.2%	5.9%	5.5%	7.6%	
	Amount Constructed	28,000	0	12,000	126,666	0	33,333
	Available Supply	207,503	132,230	61,191	71,546	97,037	
"B/C" Office	Absorption	59,167	36,732	136,537	70,723	(44,651) ↓	51,702
	Vacancy	13.2%	8.5%	5.3%	3.2%	4.3%	
	Amount Constructed	0	0	0	0	0	0
	Available Supply	360,527	323,795	187,258	116,535	161,186	
Business Center	Absorption	14,873	32,739	(20,828)	105,507	(12,069) ↓	18,944
	Vacancy	11.2%	13.2%	15.8%	8.1%	13.4%	
	Amount Constructed	0	0	0	32,000	31,500	6,400
	Available Supply	134,082	101,343	122,171	48,664	86,233	



- Two new projects completed totaling 342,800 SF
 - 2220 Embassy Dr: 90,000 SF
 - 601 Stony Battery Rd: 252,800 SF
- Four buildings under construction or shovel-ready, totaling 628,394 SF
- Three buildings totaling 964,000 SF actively marketed as available or soon to be
- Existing market rate increased 2.0% for industrial:
 - Existing space \$5.95/SF NNN
 - New space \$6.05-\$7.00/SF NNN
- Market rate increased 3%-5% for flex, average \$9.50/SF NNN
- Gap between increased construction costs and market rates is closing

Lancaster Market Comparison: Industrial Enters Fourth Strong Year

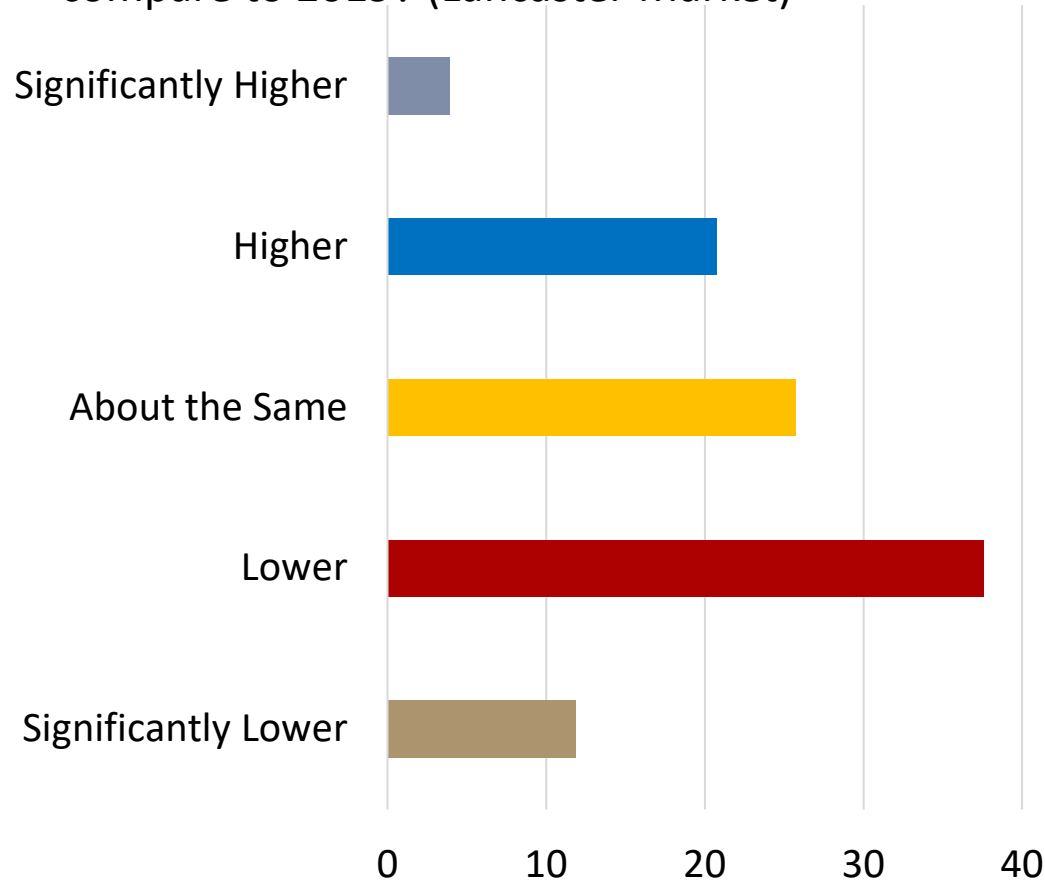


		2016	2017	2018	2019	2020	5-Year Average
Industrial Space	Absorption	(232,207)	552,062	109,123	989,704	13,233 	286,383
	Vacancy	7.5%	3.2%	3.5%	5.2%	6.6%	
	Amount Constructed	199,800	0	120,718	1,487,671	342,800	430,198
	Available Supply	1,311,020	758,958	770,553	1,268,570	1,598,137	
Flex Space	Absorption	23,125	21,899	(9,339)	58,654	11,101 	21,088
	Vacancy	10.2%	4.1%	4.5%	1.4%	0.7%	
	Amount Constructed	0	0	0	0	0	0
	Available Supply	94,831	72,932	82,271	23,617	12,516	

C & I Survey Results, Questions 5 & 7



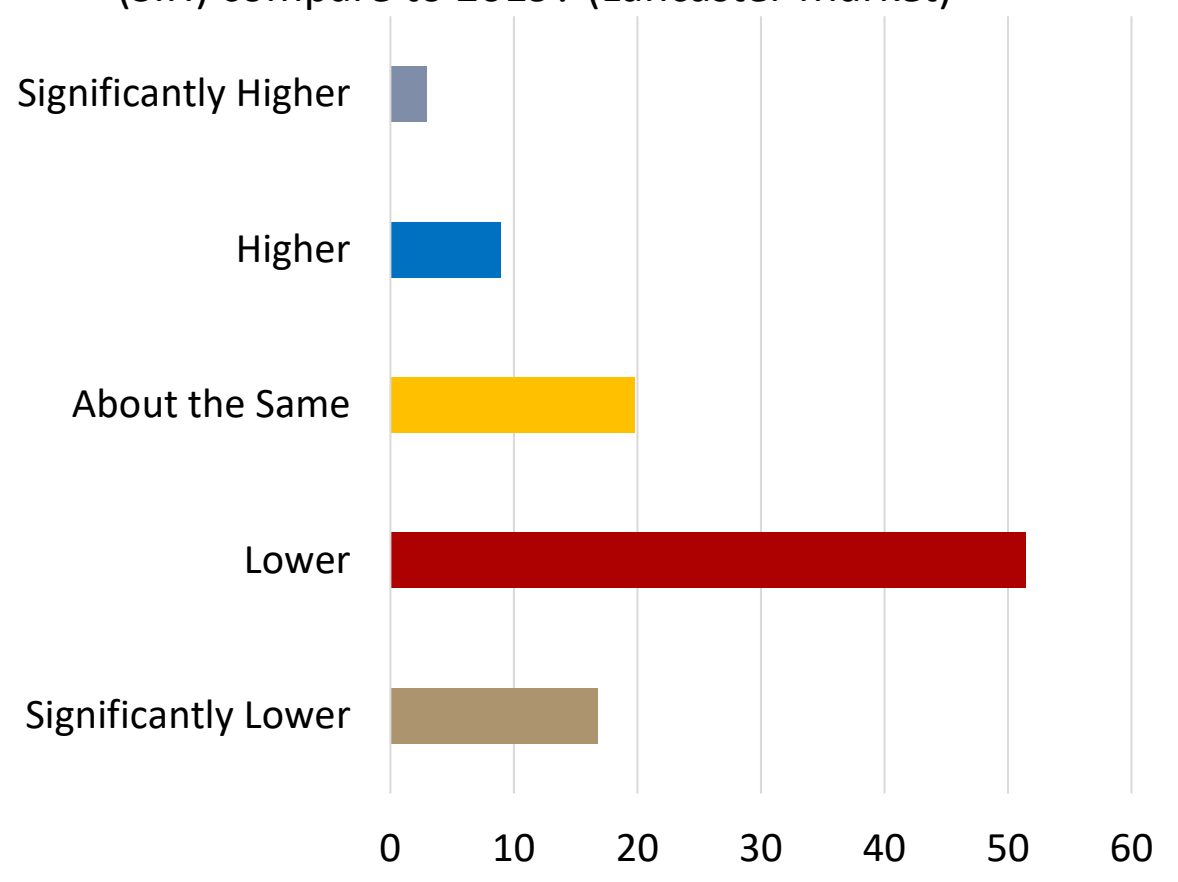
How will the 2020 Commercial & Industrial sales volume (\$) compare to 2019? (Lancaster Market)



Results:

- 2019 \$521M volume
- 2020 \$302M volume (42%) ↓

How will the 2020 Commercial & Industrial leasing volume (S.F.) compare to 2019? (Lancaster Market)



Results:

- 2019 4.85M S.F.
- 2020 2.25M S.F. (53.6%) ↓

Powell Arms



Sr. Vice President, Managing Director Retail Division
High Associates Ltd.



- Online sales are accelerating in both dollars and type of purchases (grocery/non-grocery), but pace of growth is unsustainable
- C&I survey response
 - 69% felt food & entertainment was 1st or 2nd most impacted
 - 73% felt grocery least impacted
 - Online grocery sales in Lancaster increased 12.5% vs 40% nationally (on top of 25% growth in 2019)
- There will be an unprecedented shakeout of retailers
- Industry remains bullish on recovery of experiential retail, and reimagined grocery when it is safe to return to stores

David Aungst



President
High Hotels Ltd.



- Timing of recovery varies by location and type (RevPar = 2019)
 - Suburban vs Urban
 - Select Service vs Full Service
 - Leisure vs Business/Group
- Central PA RevPAR decline (2020 vs 2019)
 - York (44%)
 - Reading (46%)
 - Lancaster (51%)
 - Harrisburg (56%)
- Factors impacting Lancaster recovery
 - Stabilized supply (finally)
 - Strong drive to leisure market
- Limited national transactions in 2020
 - Large bid / ask spreads
 - Distress is to come

Questions?





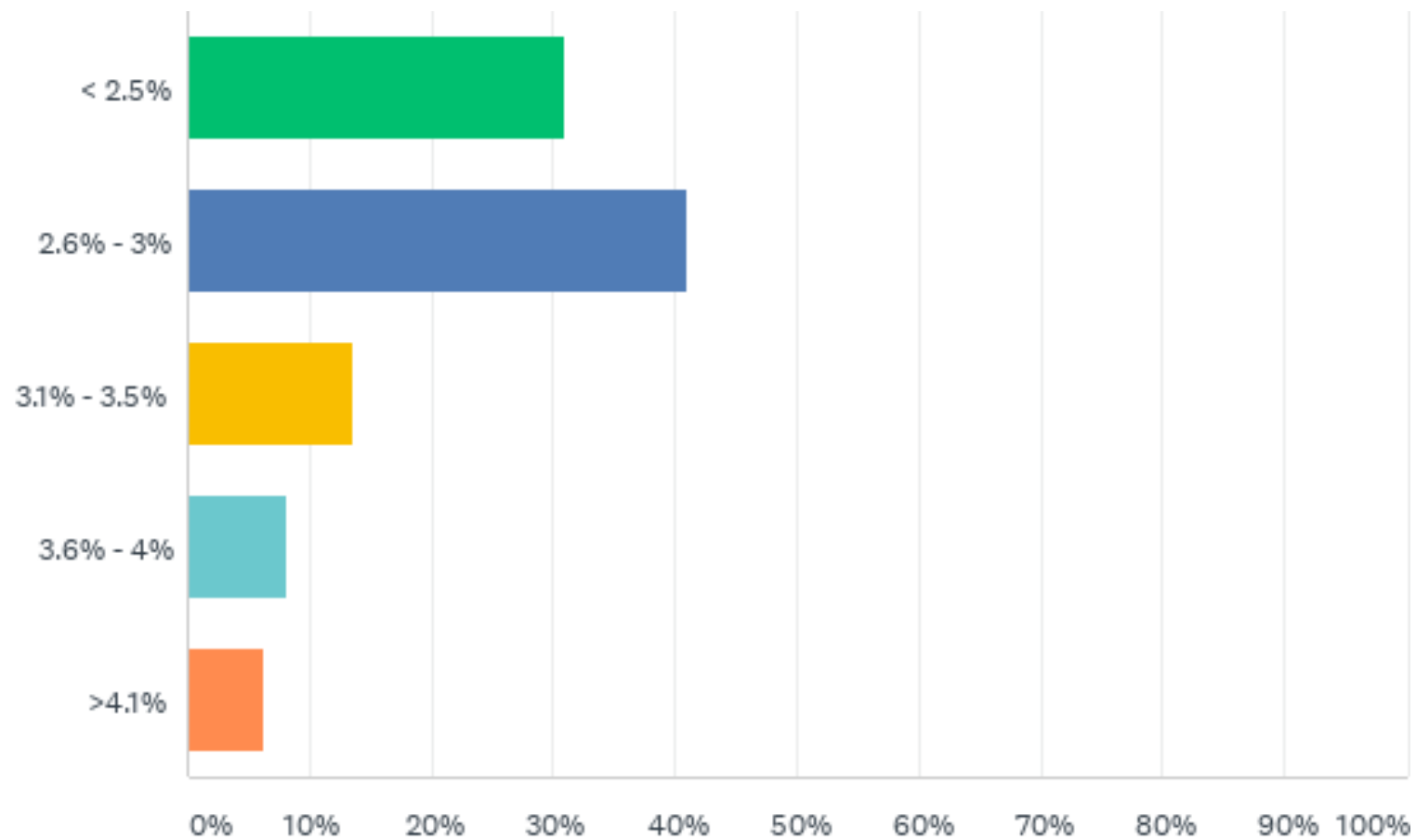
Annual C&I Council Meeting Pre- Presentation Survey

Thank you to the 100+ respondents who completed the survey to provide consumer insight and sentiment as we look ahead.

Q1: What will the national GDP growth rate be in 2021?



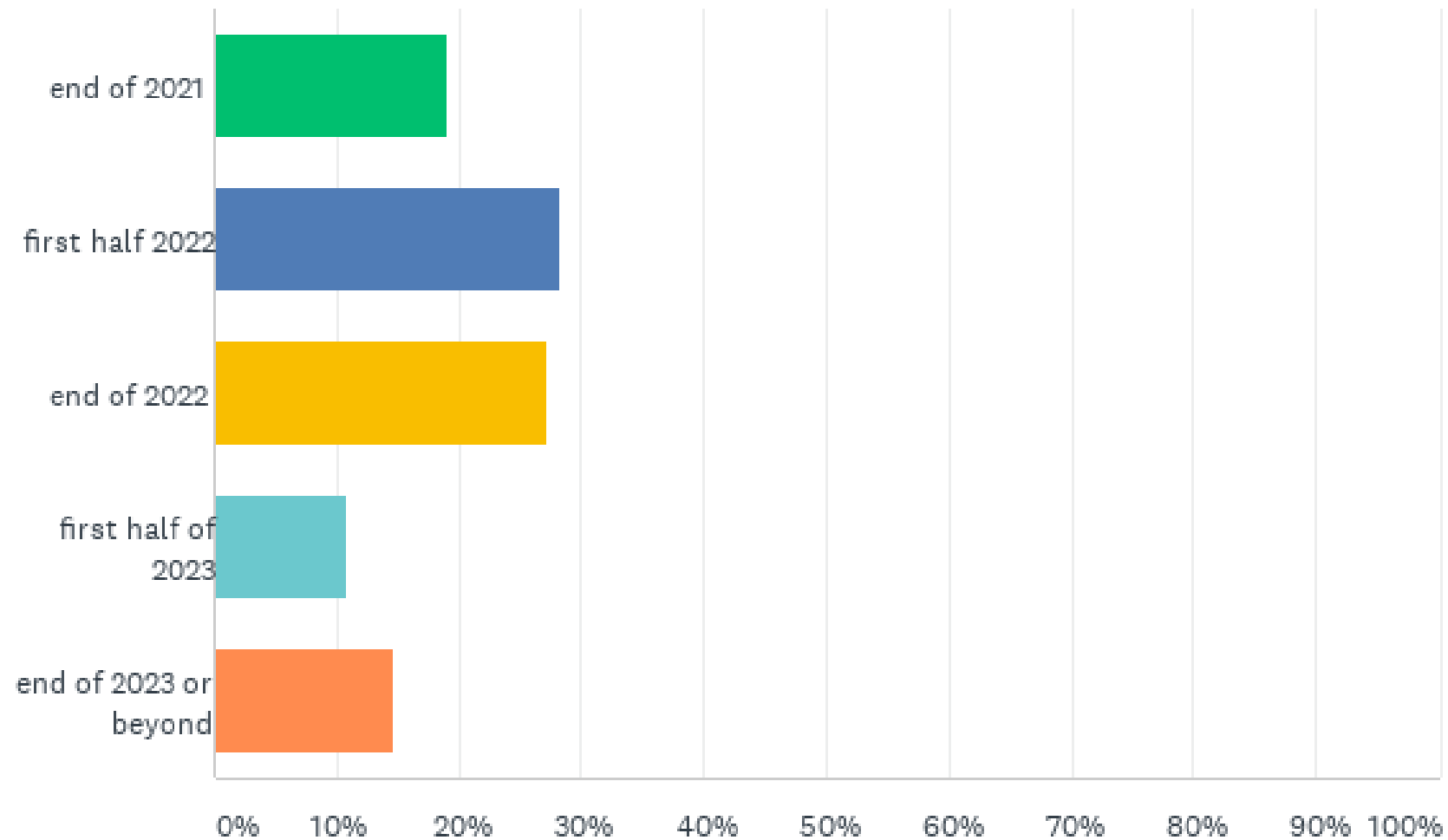
➤ Answered: 110 Skipped: 2



Q2: When will the national GDP output return to pre-pandemic levels?



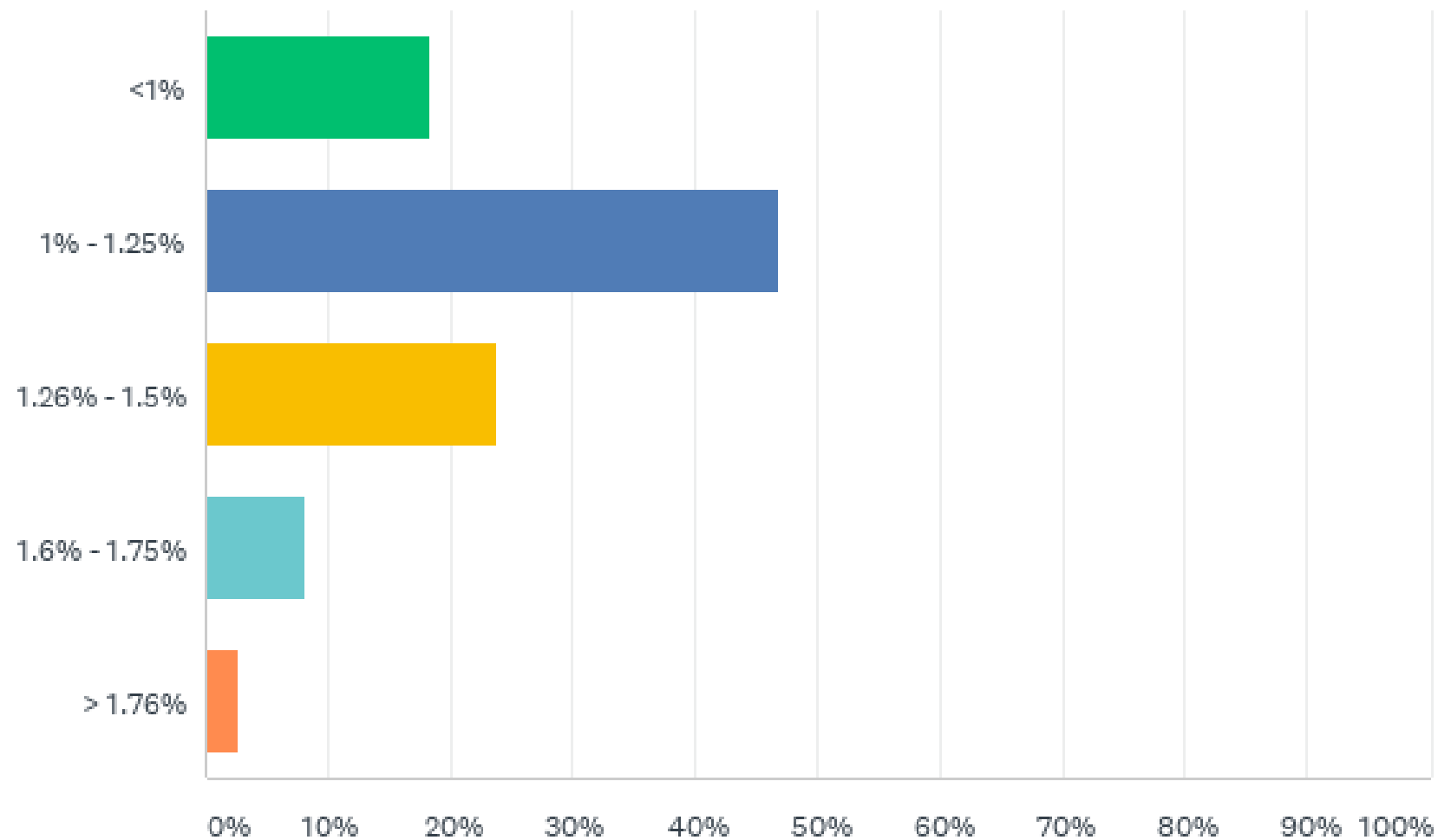
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Q3: What will interest rates be in 2021? (10-year Treasury)



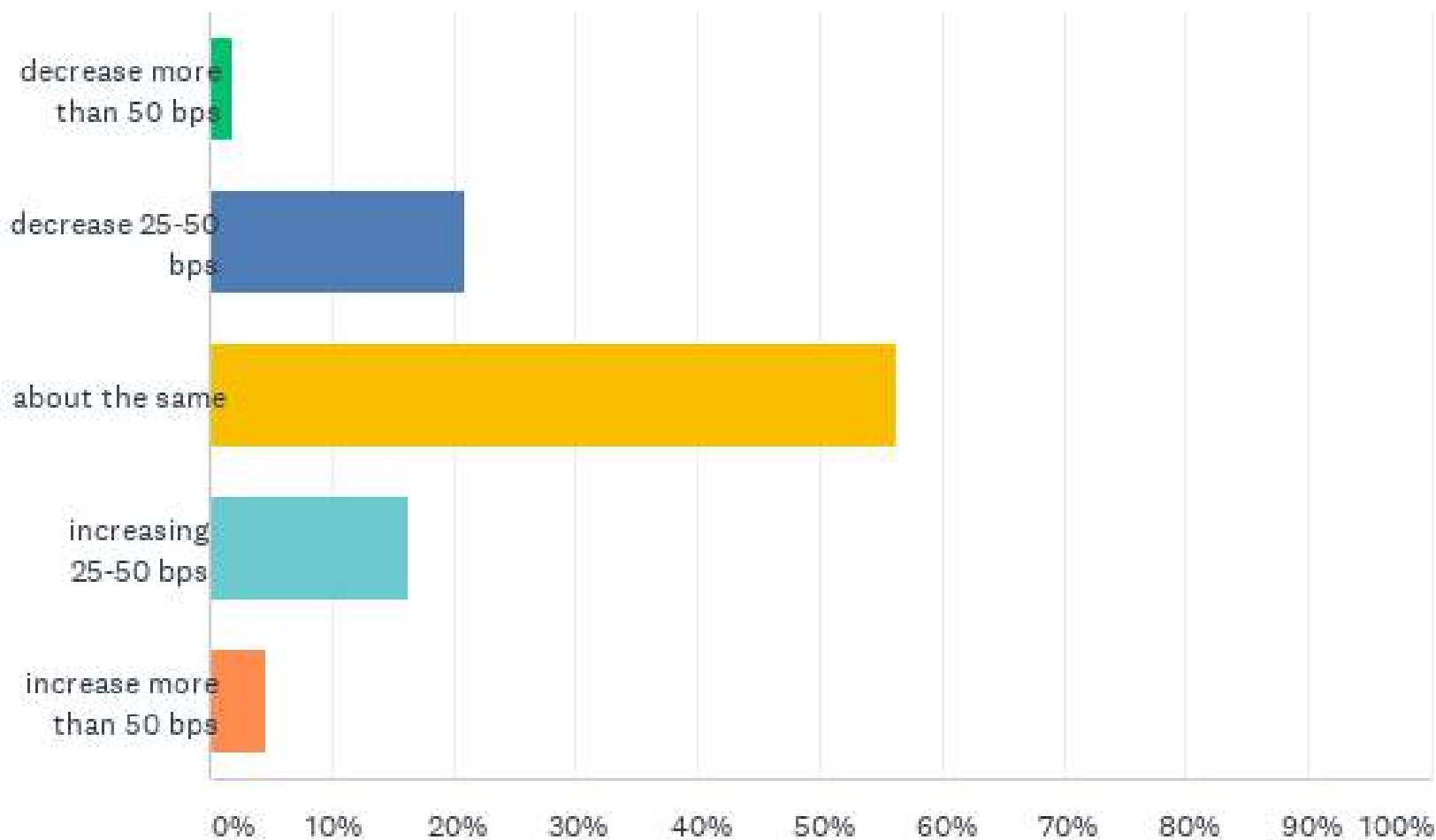
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Q4: What will CAP rates be in 2021 vs 2020? (all asset classes)



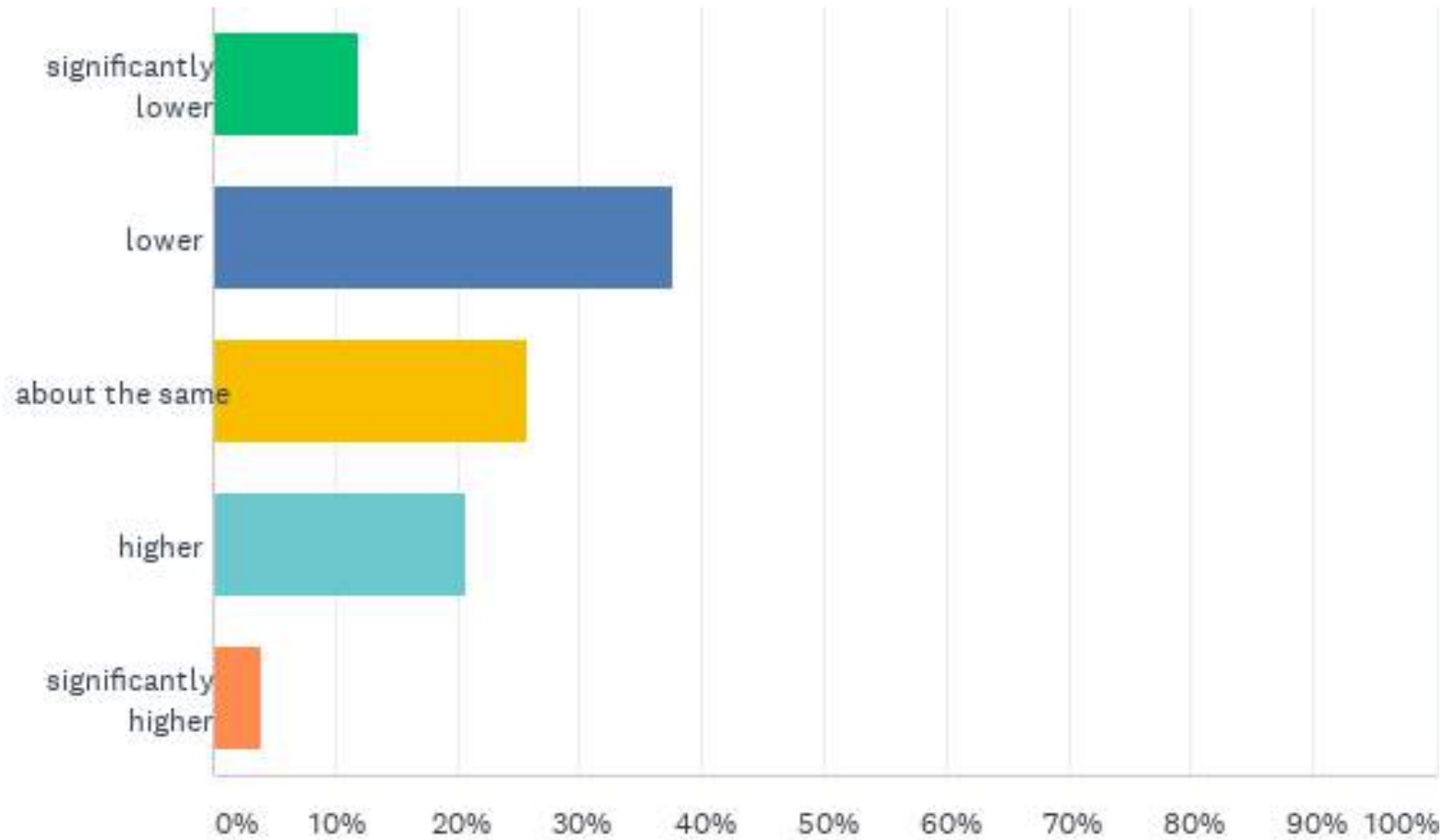
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Q5: How will the 2020 Commercial & Industrial sales volume (\$) compare to 2019? (Lancaster Market)



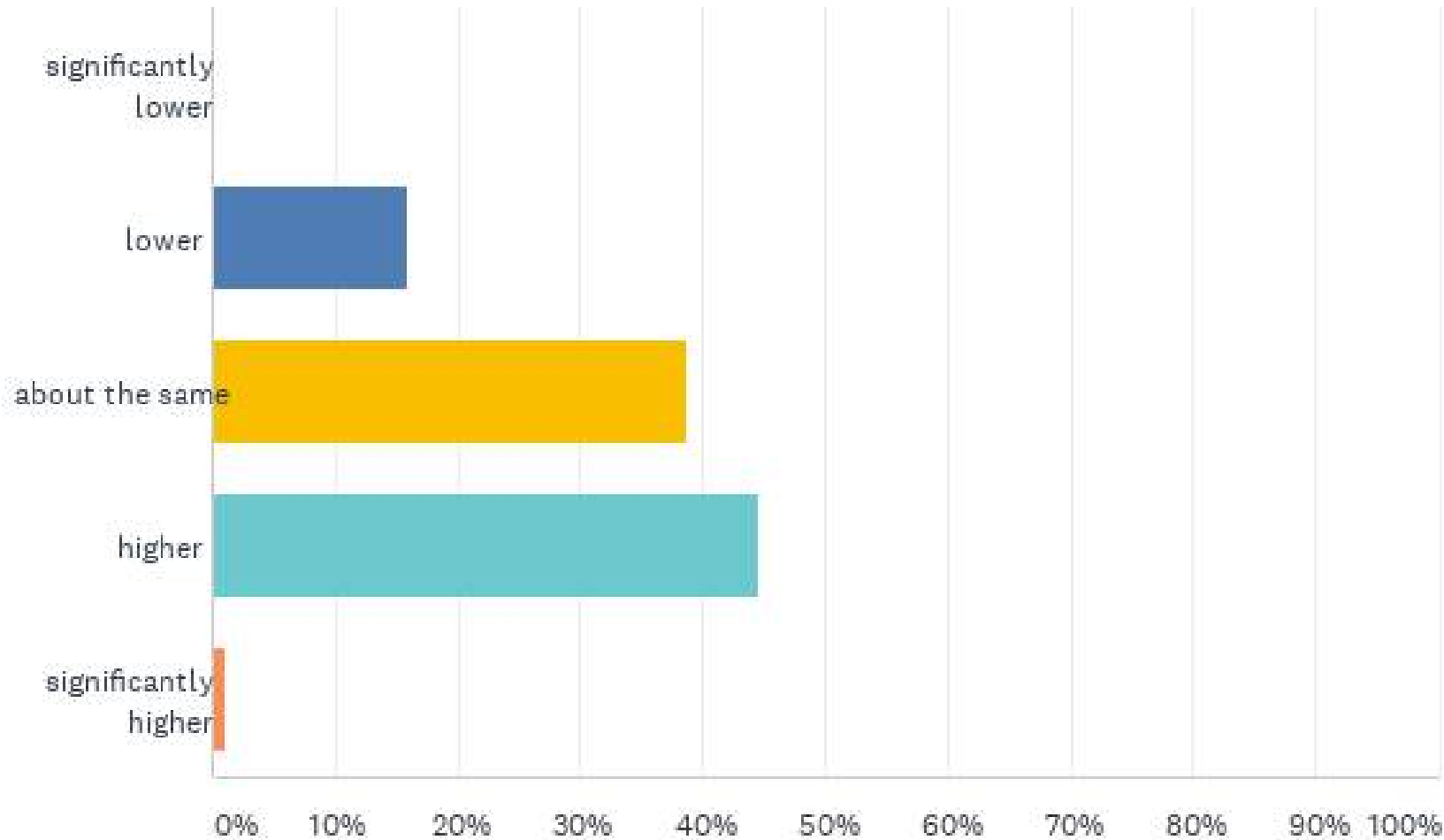
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Q6: How will the 2021 Commercial & Industrial sales volume (\$) compare to 2020? (Lancaster Market)



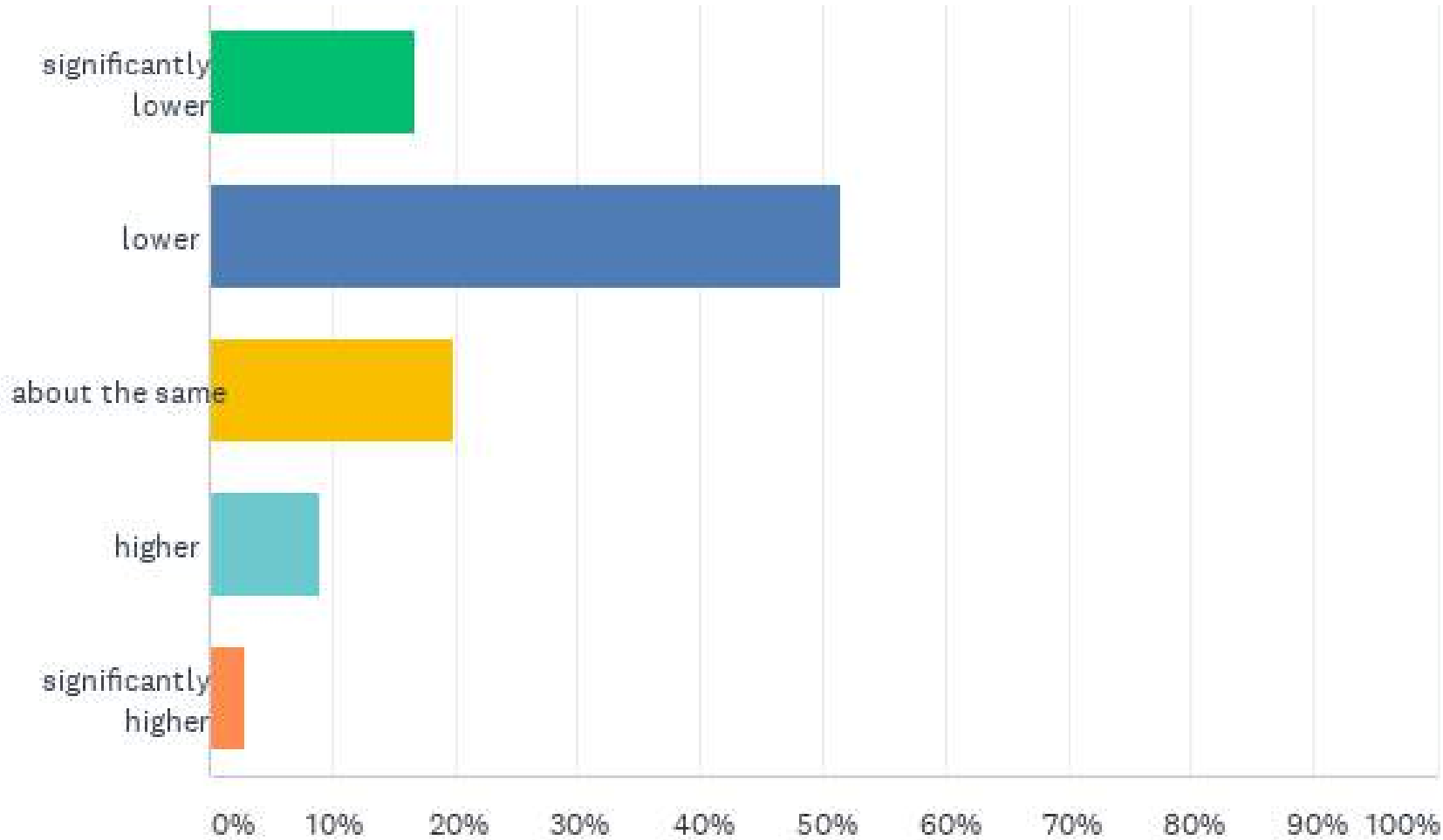
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Q7: How will the 2020 Commercial & Industrial leasing volume (S.F.) compare to 2019? (Lancaster Market)



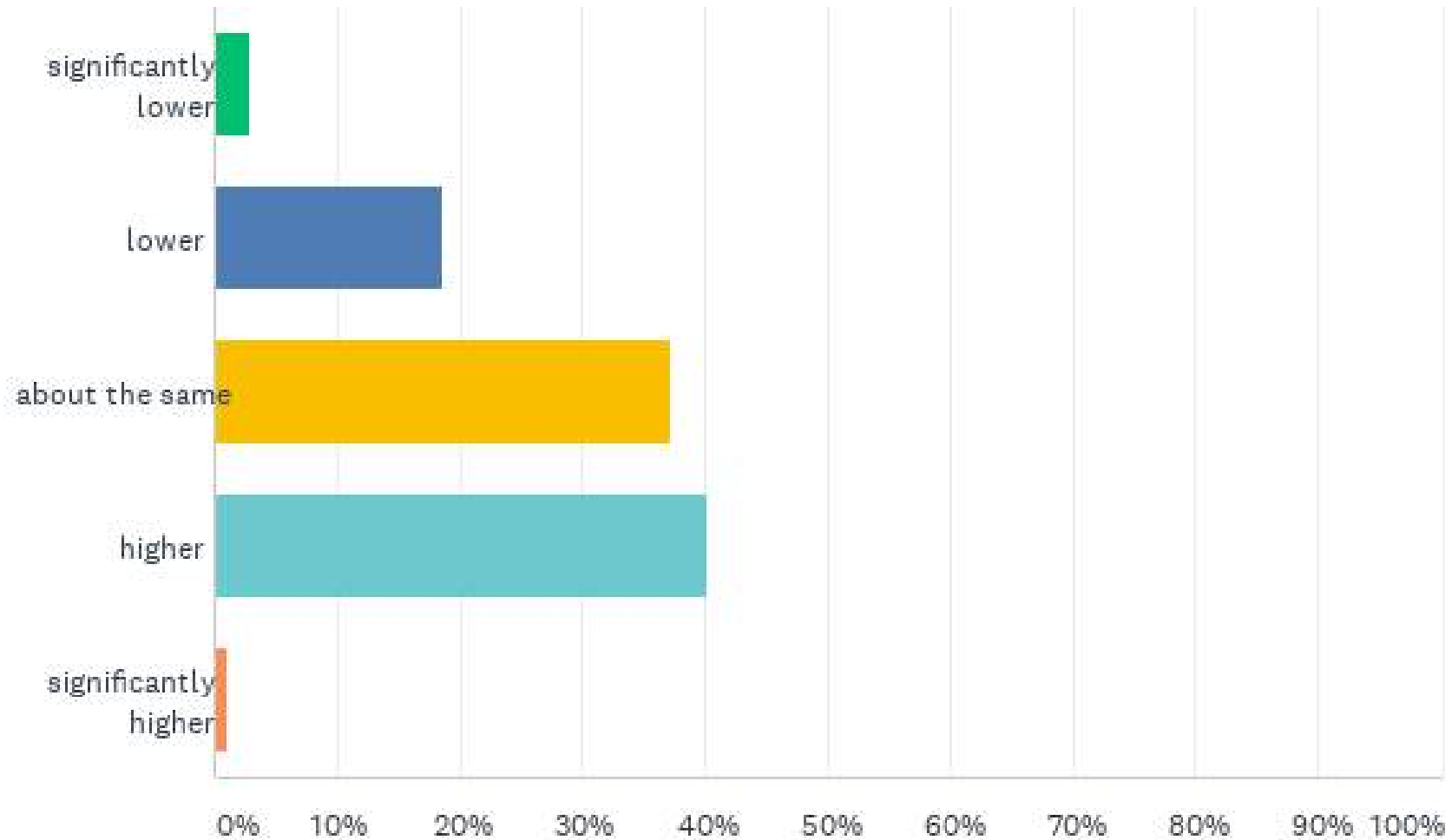
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Q8: How will the 2021 Commercial & Industrial leasing volume (S.F.) compare to 2020? (Lancaster Market)



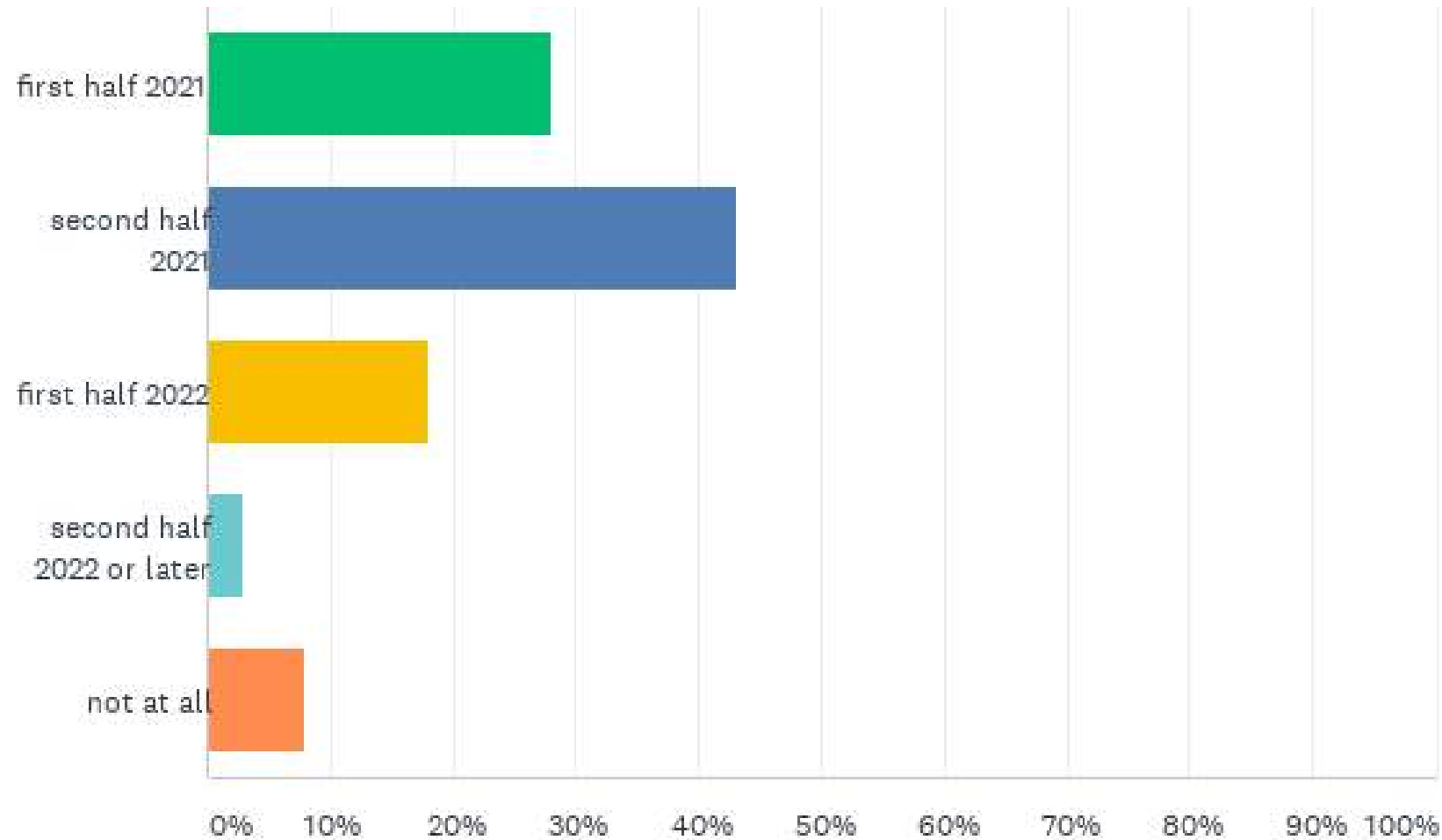
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Q9: When do you anticipate returning to the workplace on a consistent basis? (Lancaster Market)



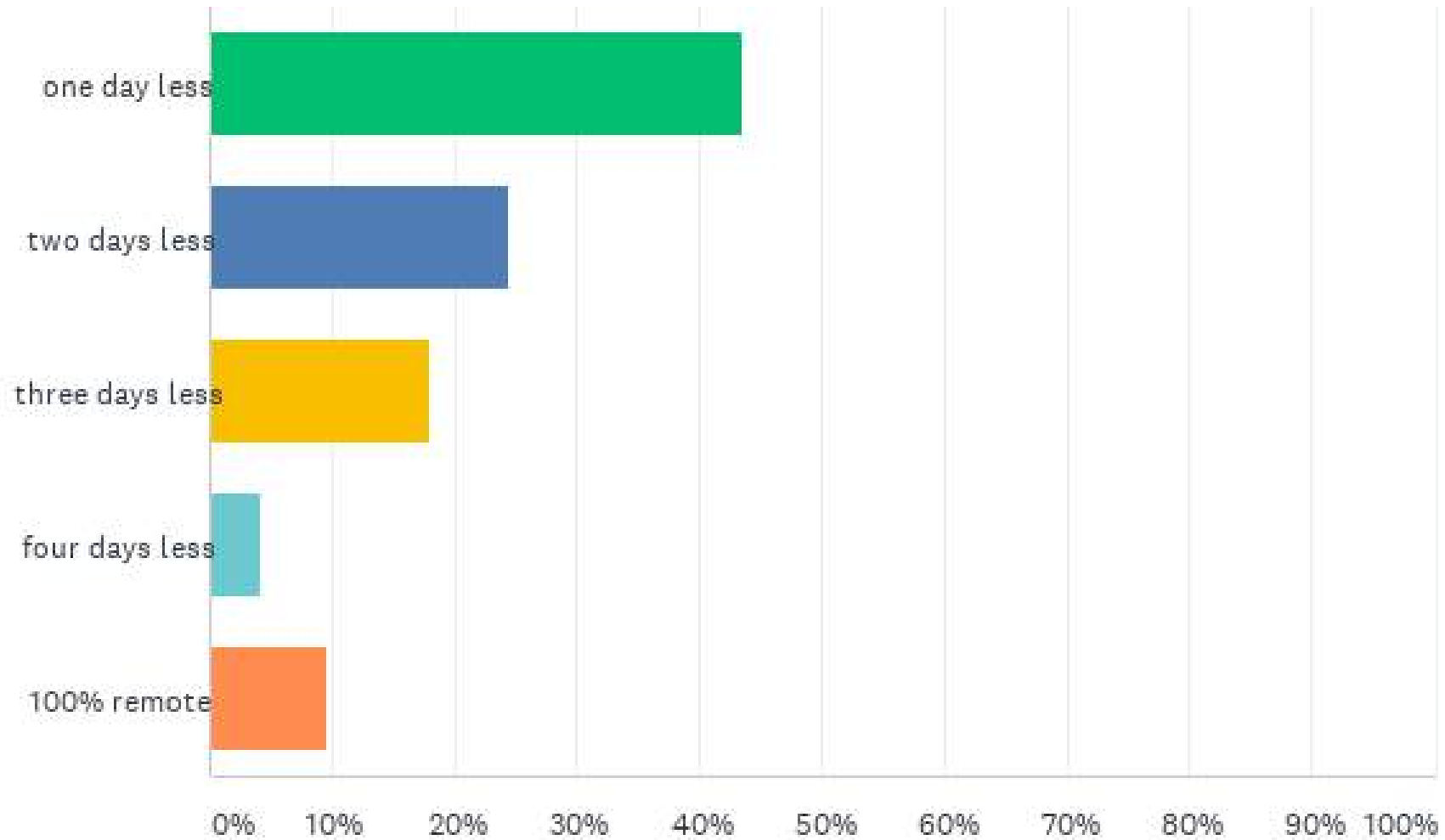
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Q10: After returning to workplace on a consistent basis, how frequently will you be working from the workplace compared to pre-pandemic levels?
(Lancaster Market)



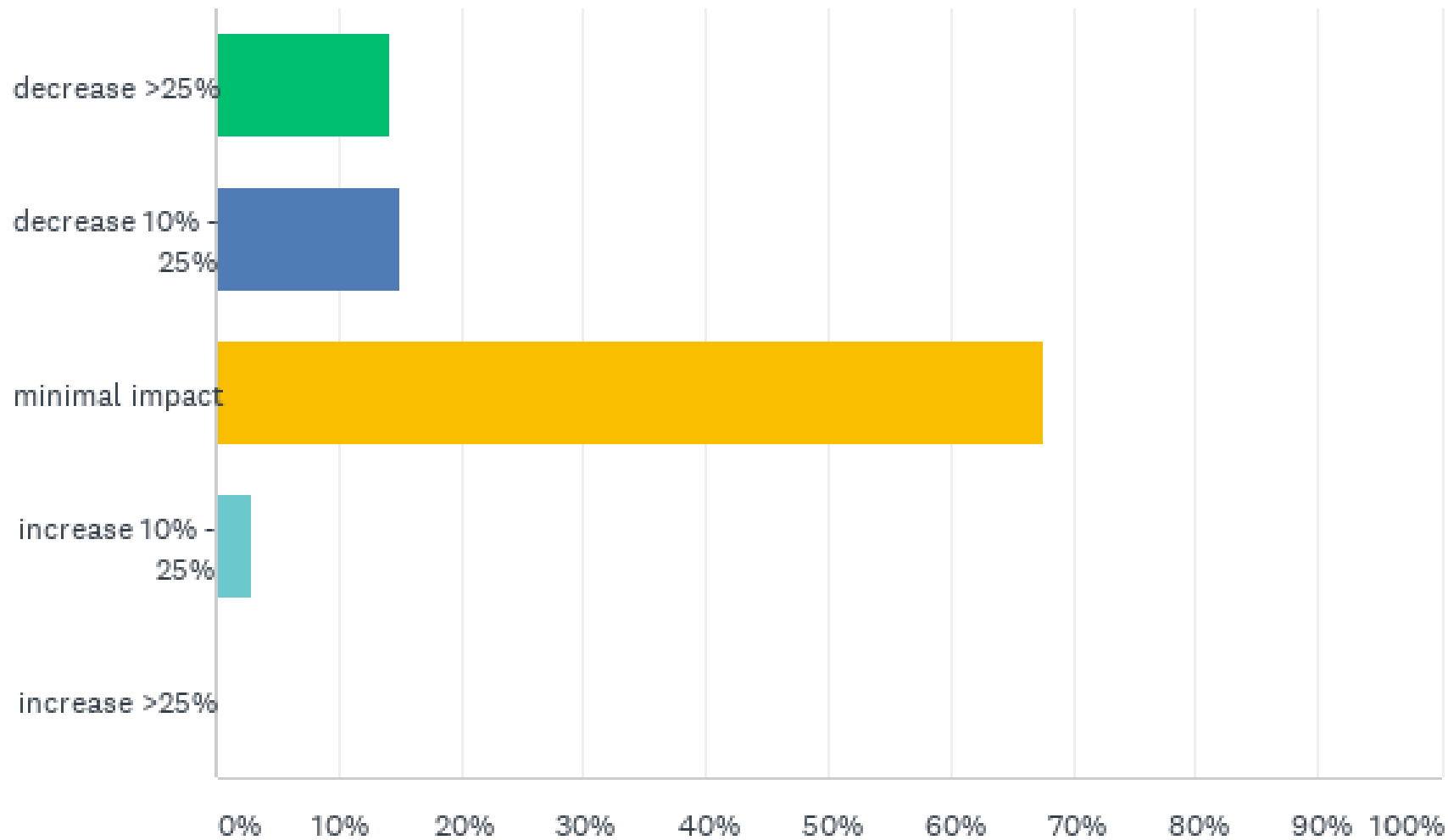
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Q11: What impact will the pandemic have on the square feet of office space occupied by your organization?



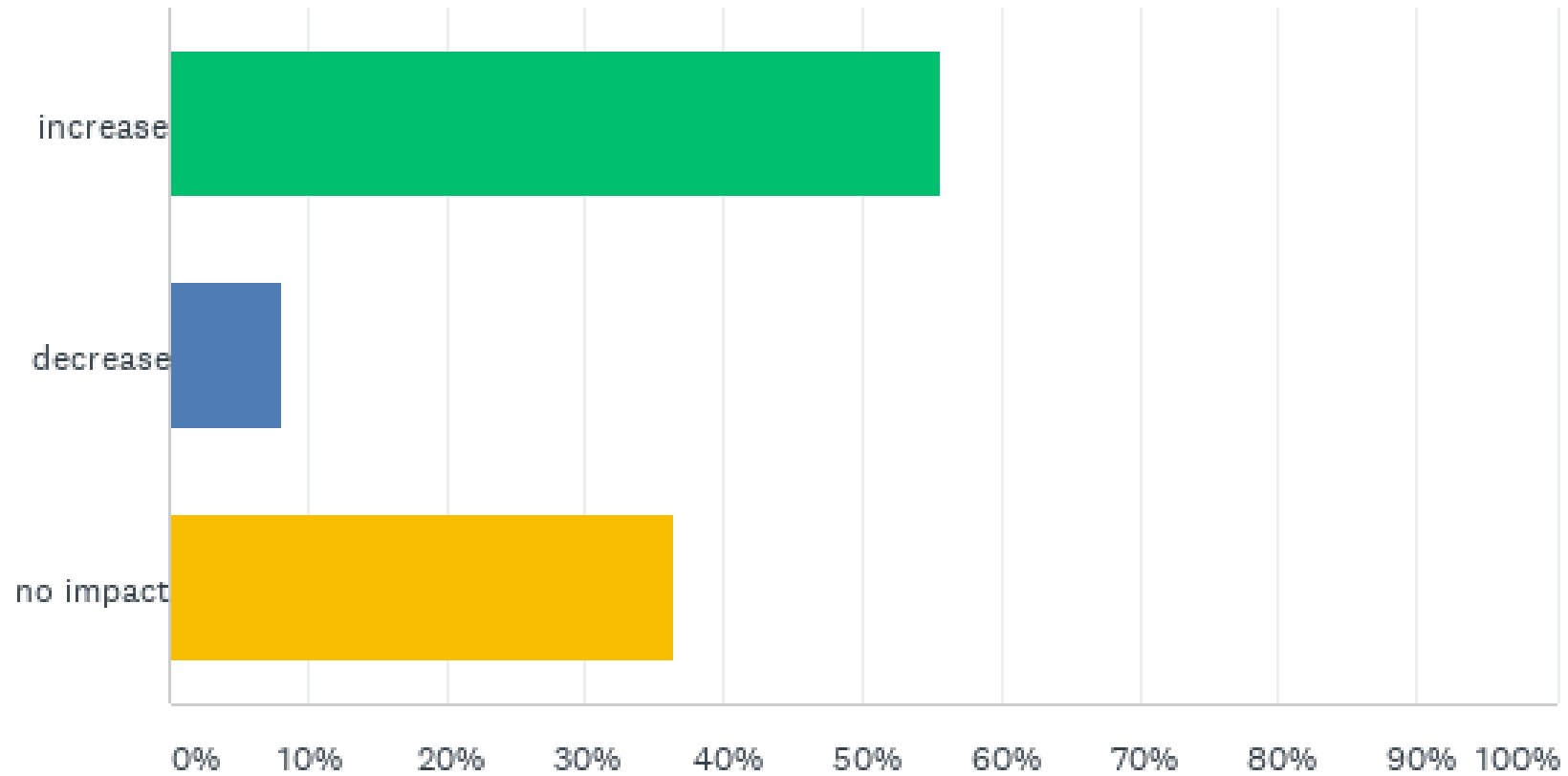
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Q12: How do you think the pandemic has impacted demand for multi-family residence in the Lancaster market?



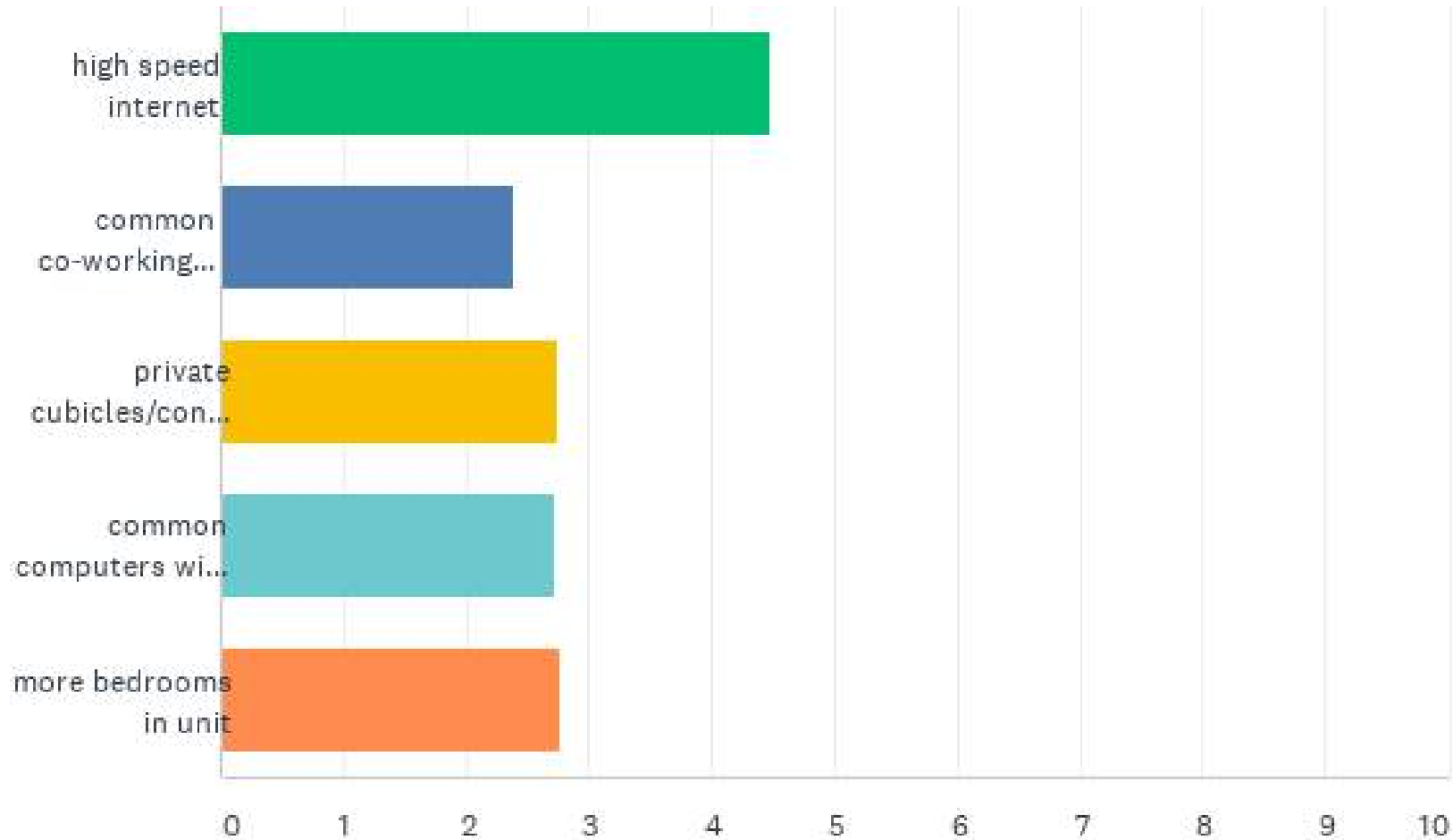
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Q13: If you anticipate working from home more than pre-pandemic levels, rank the amenities you would require within your living space (rank from most to least important).



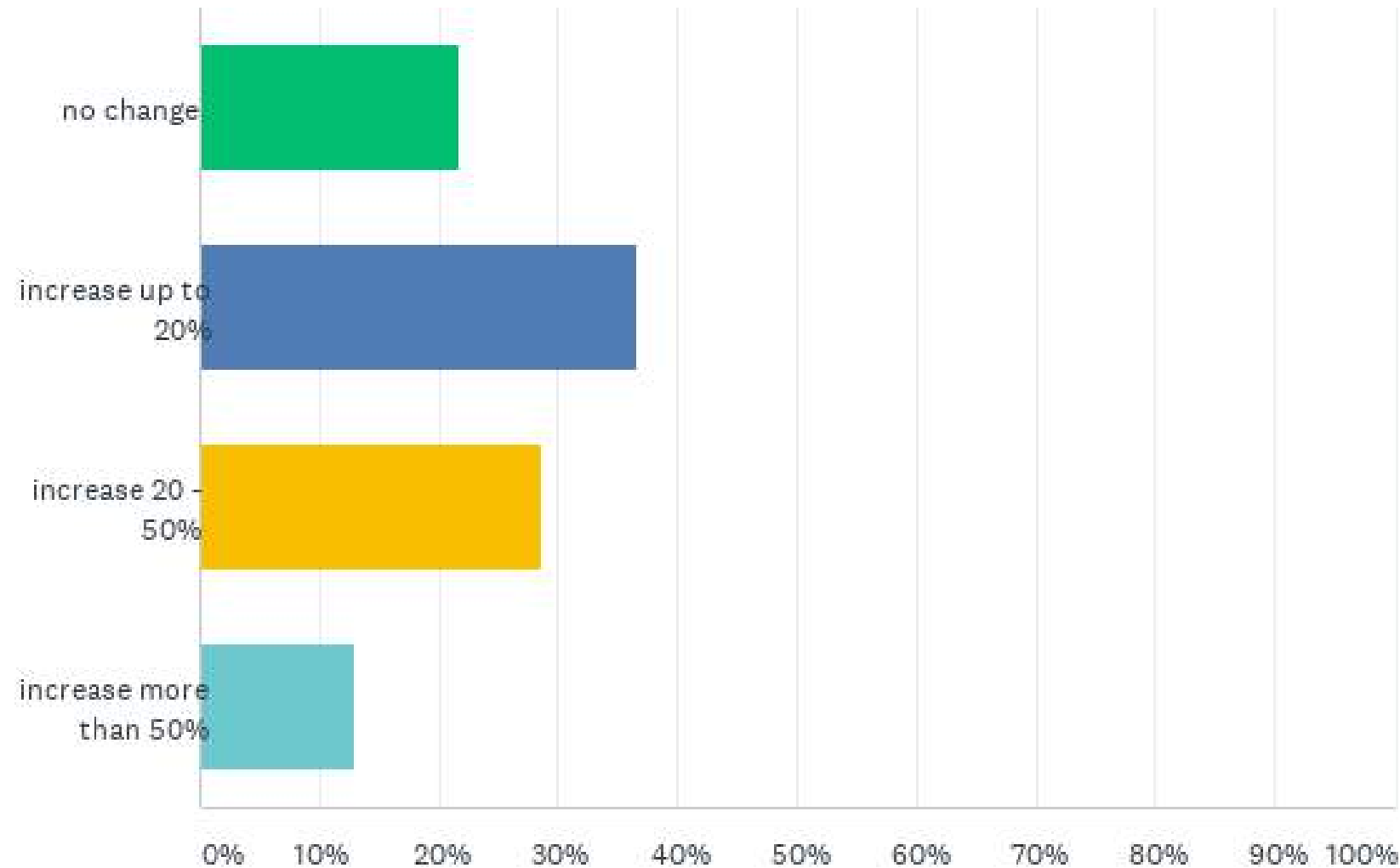
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Q14: How has your non-grocery online purchases changed since the pandemic?



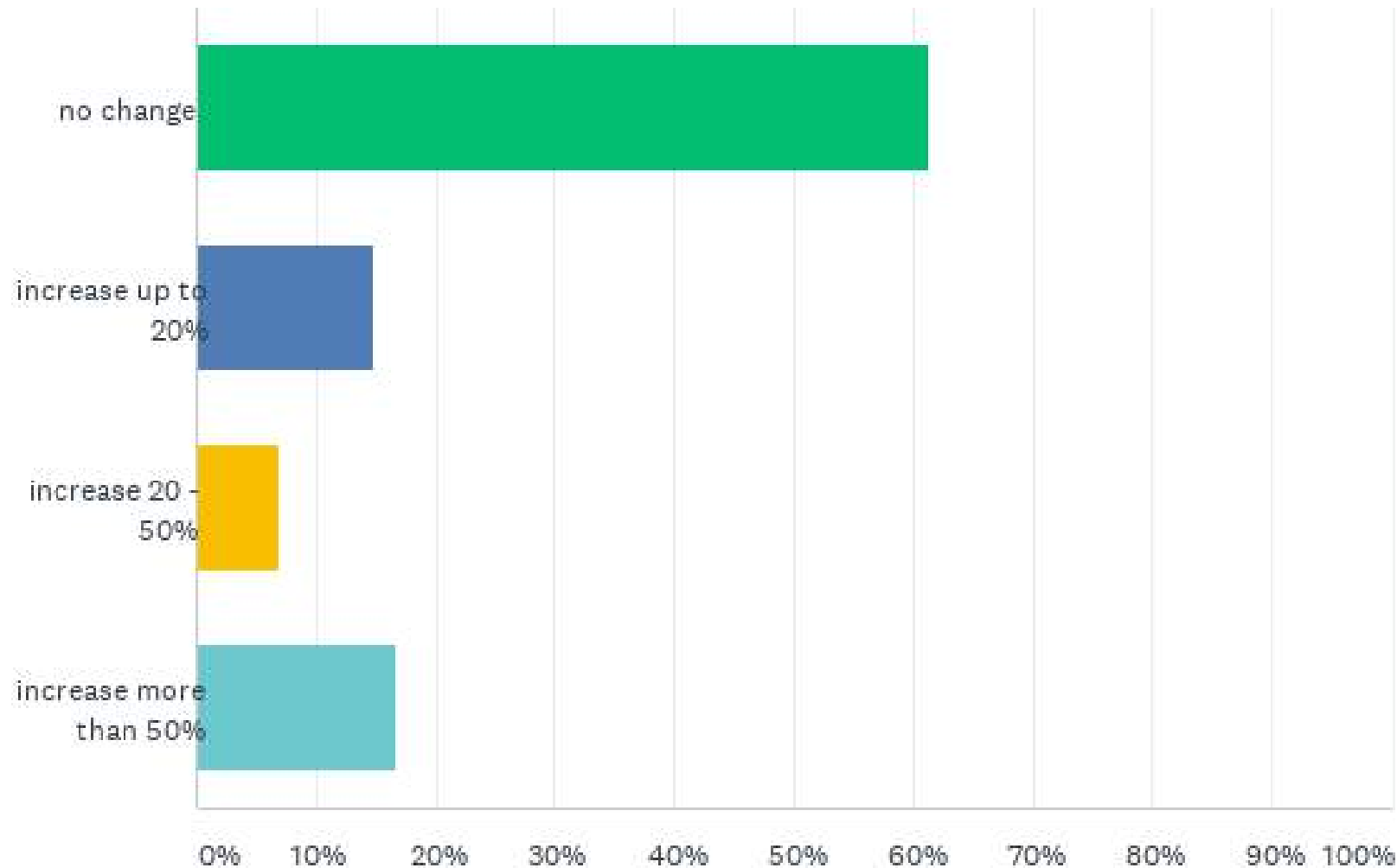
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Q15: How has your grocery online purchases changed since the pandemic?



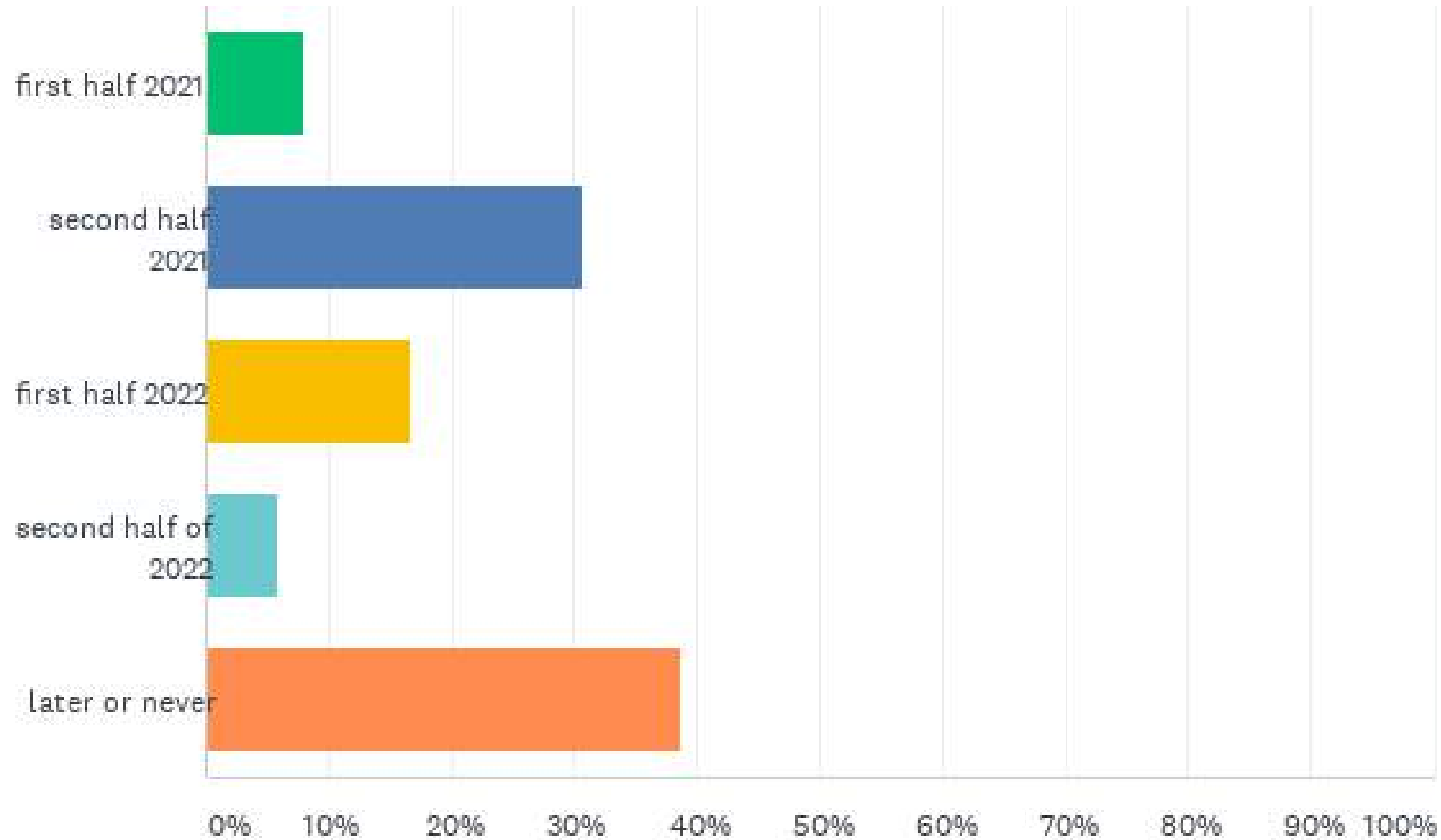
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Q16: When do you think in-person buying (both groceries and non-groceries) in the Lancaster market will return to pre-pandemic levels?



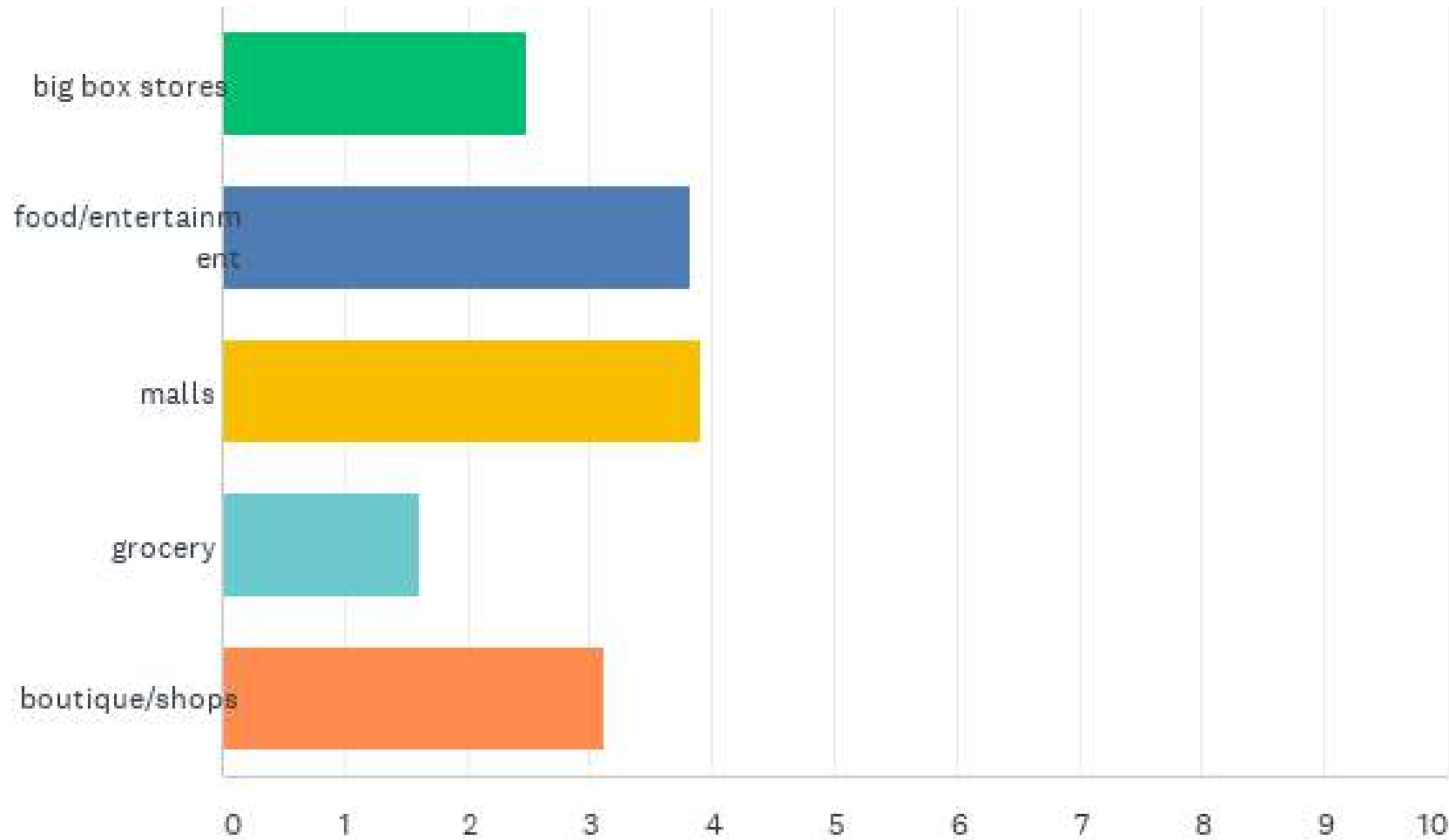
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Q17: Rank the retail asset types that will most negatively be impacted by the pandemic (rank most to least impacted).



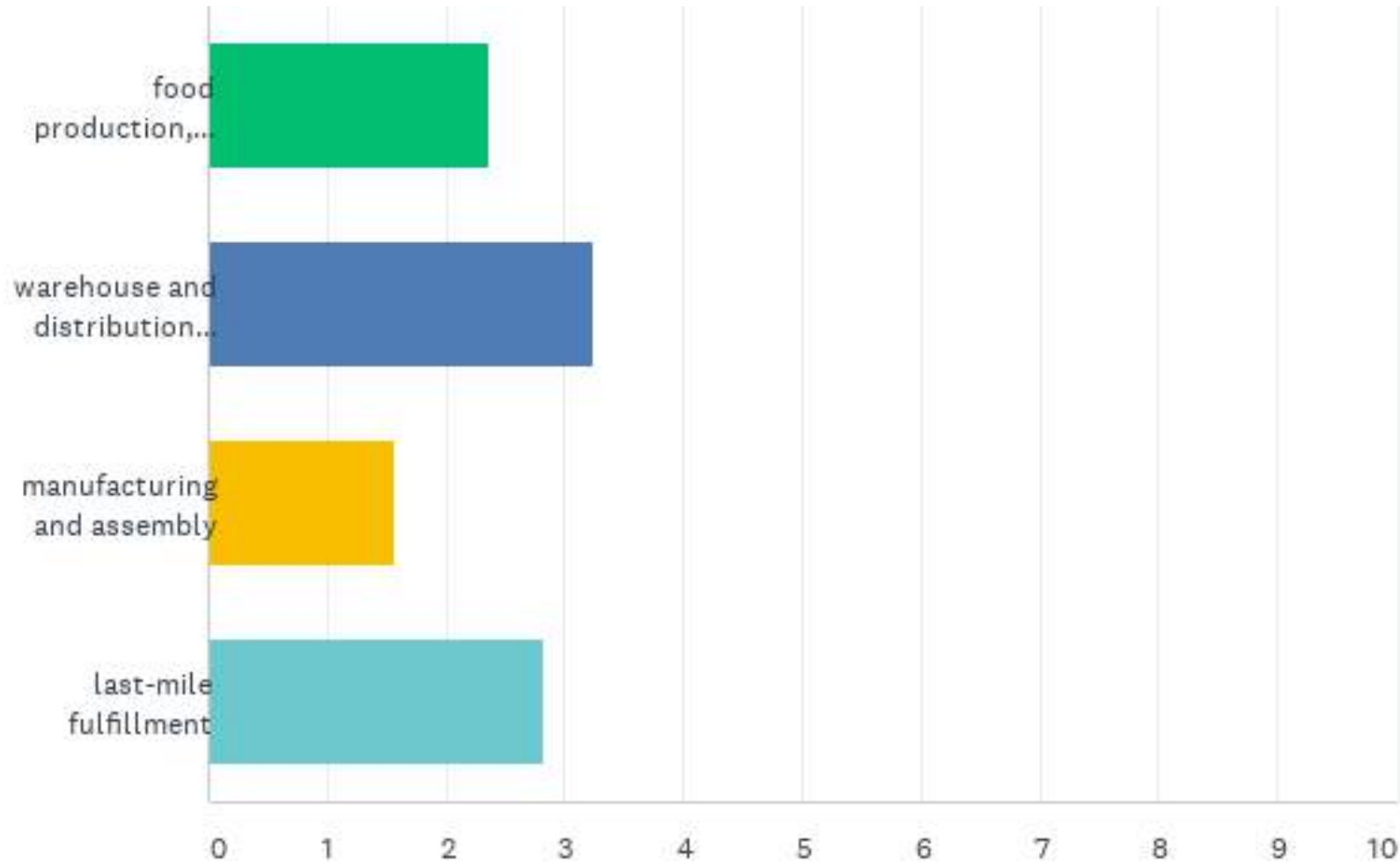
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Q18: Rank the industrial uses that will experience the most growth (S.F) within the Lancaster Market over the next five years (rank most to least anticipated growth).



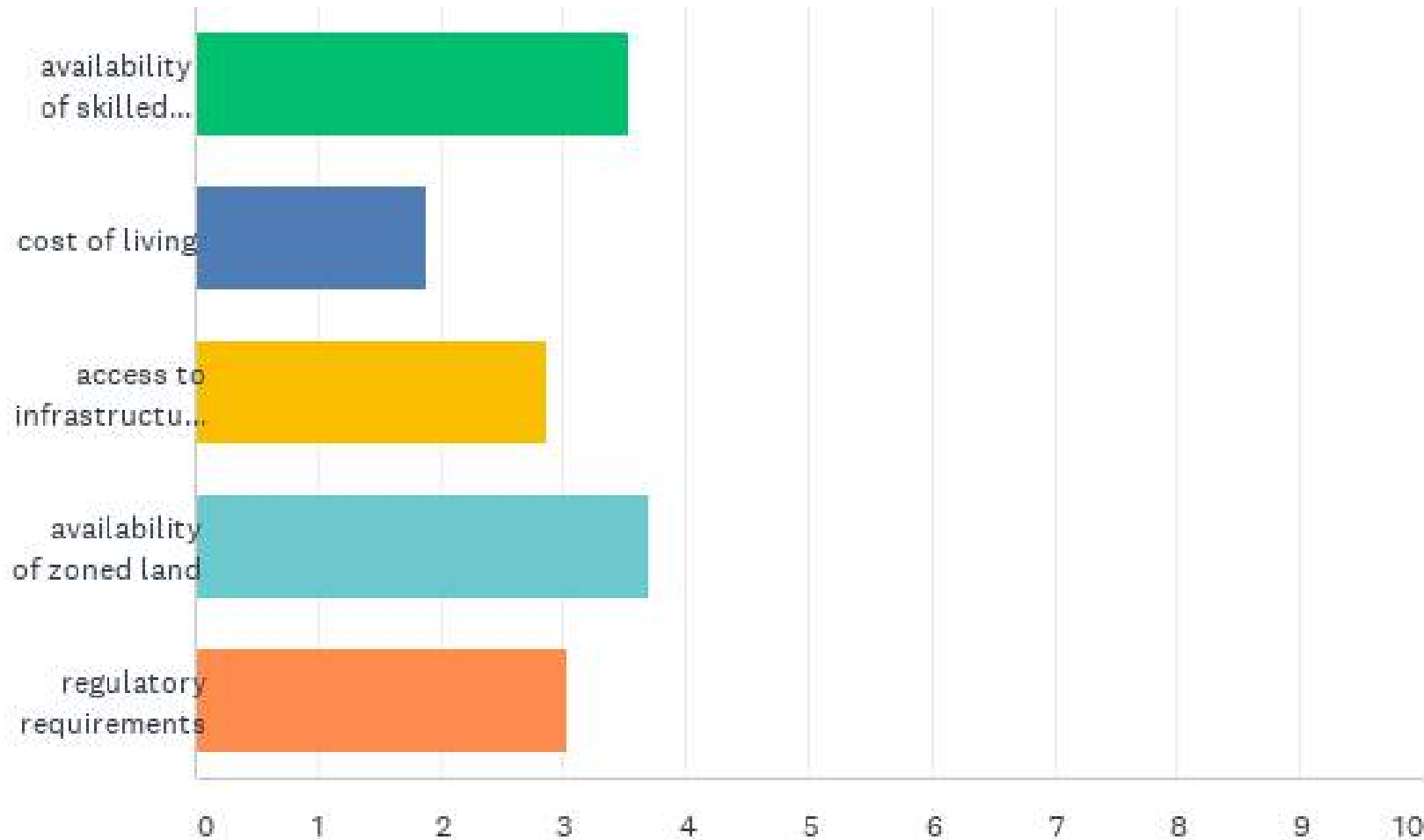
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Q19: Rank the issues impacting future industrial growth within the Lancaster Market over the next five years (rank most to least challenging).



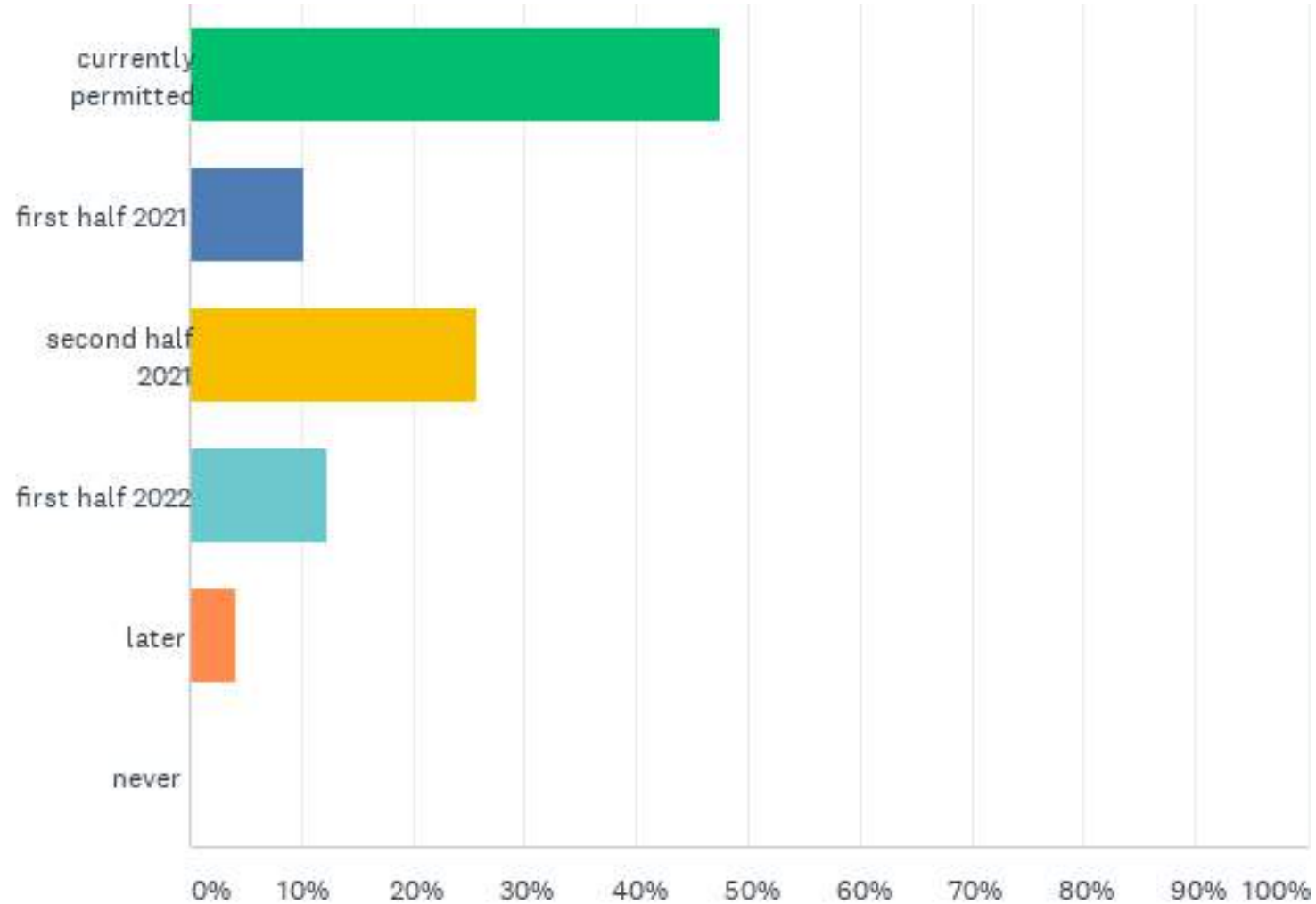
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Q20: When will your business allow drive-able business travel to return to pre-pandemic levels?



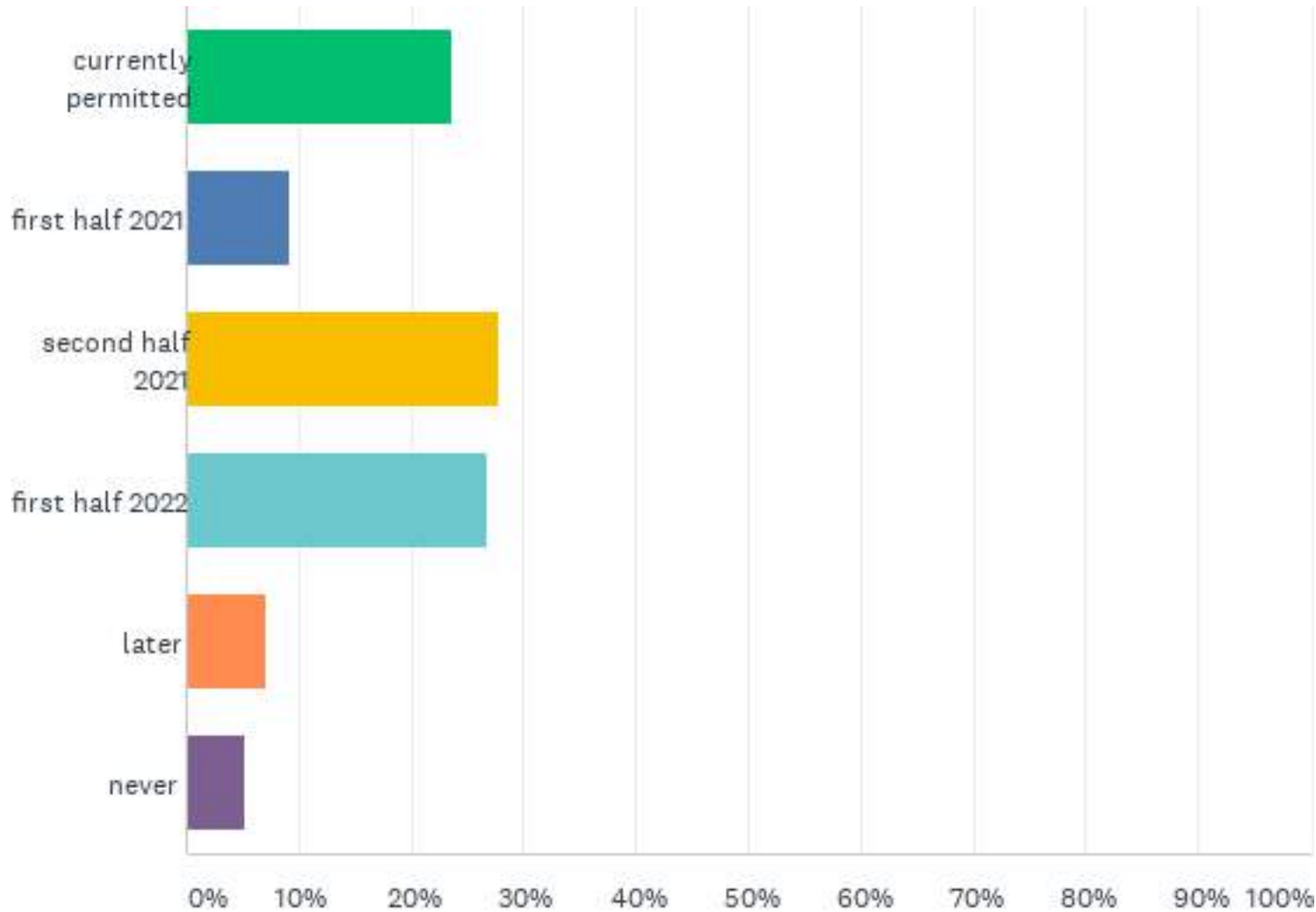
➤ Answered: 97 Skipped: 15



Q21: When will your business allow business-air travel to return to pre-pandemic levels?



➤ Answered: 97 Skipped: 15



Q22: When will your leisure travel return to pre-pandemic levels?



➤ Answered: 97 Skipped: 15

