



Lancaster C & I Real Estate Market Presentation

Presented By: High Real Estate Group LLC
February 12, 2020

8:00 – 8:30 AM Breakfast

8:30 – 9:00 AM Presentation

9:00 – 9:30 AM Questions and Answers



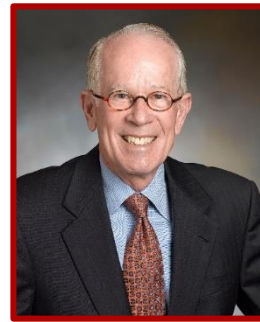
Mark Fitzgerald
President &
Chief Operating Officer



Michael Lorelli
Sr. Vice President
Commercial Asset Management



Bill Boben
Sr. Vice President
Sales/Leasing



Steve Evans
Sr. Vice President, Managing Director
Retail Division



Russ Urban
President
High Hotels



Brad Mowbray
Sr. Vice President, Managing Director
Residential Division

Overall Economy

- GDP projections
- Recession risks
- 10-Yr Treasury projections

Nationwide Real Estate

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

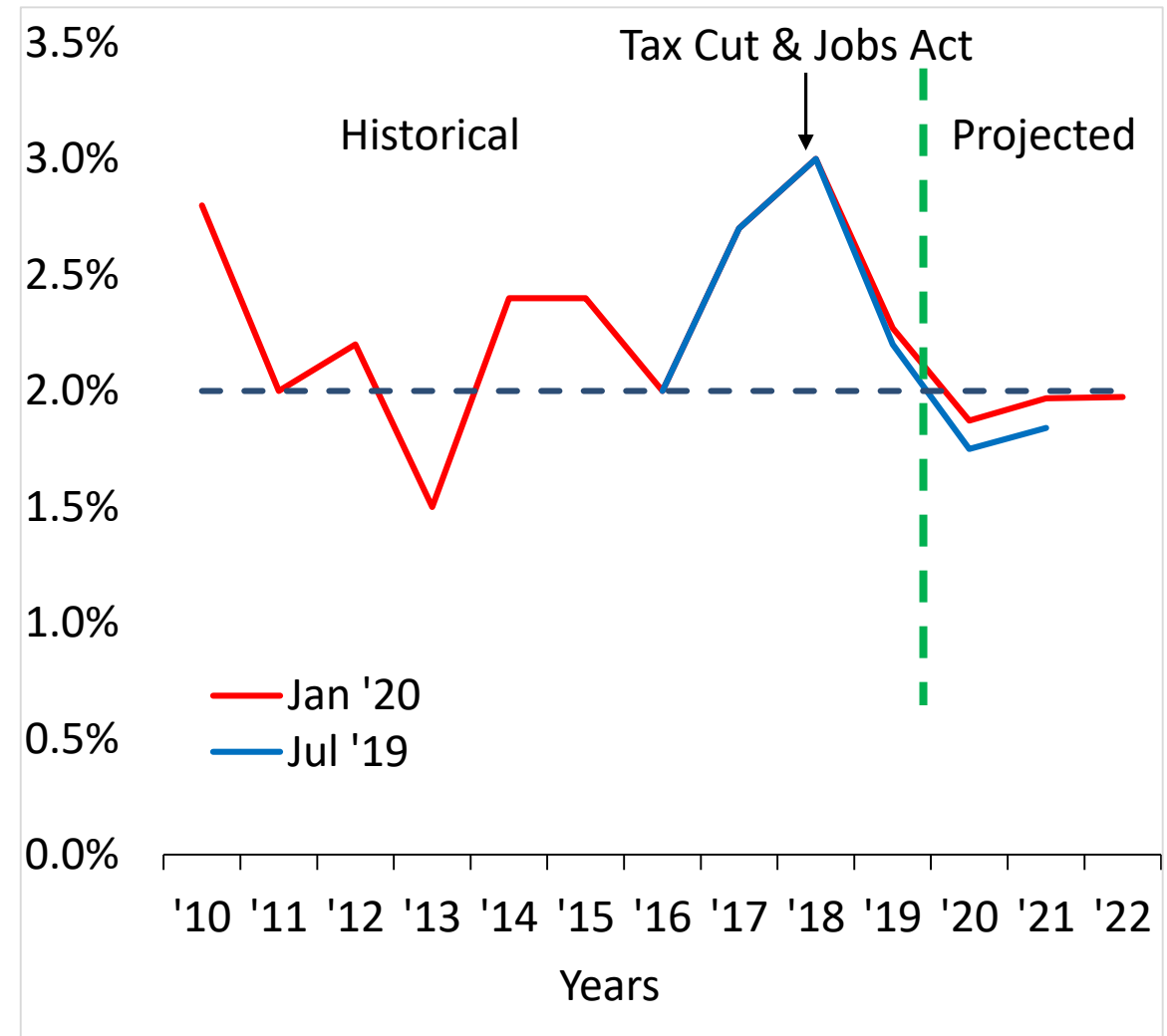
Lancaster Real Estate

- Office
- Industrial

Dashboard

- Longest economic expansion in history
 - Average GDP growth = 2.3% (June '09-Jan '20)
- Unemployment Rate (12/31/19)
 - US = 3.5%
 - PA = 4.5%
- Job Creation
 - US = 2,096K/175K per month
 - PA = 64.5K/5.4K per month
- Work Force Participation Rate
 - US = 63.2%

US GDP Growth



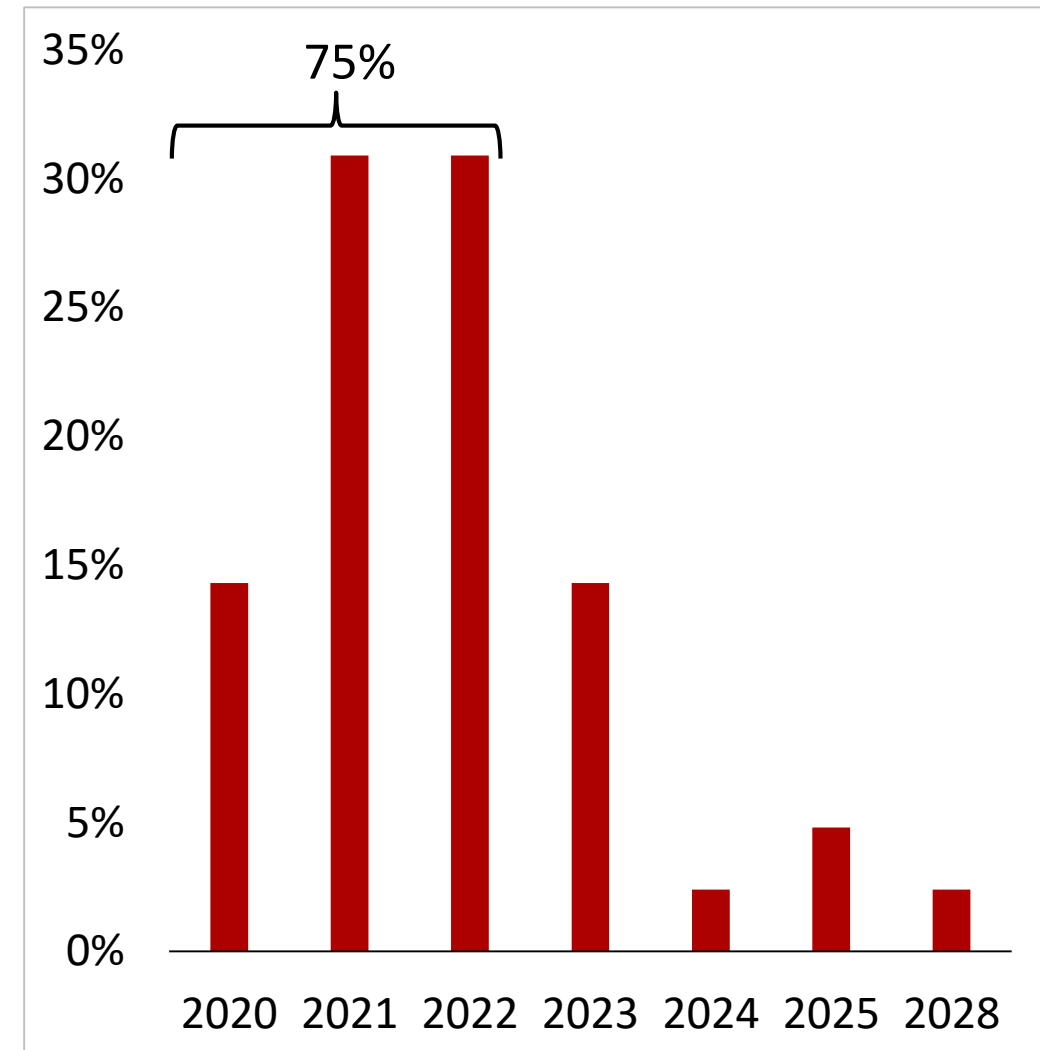
Downside Risk

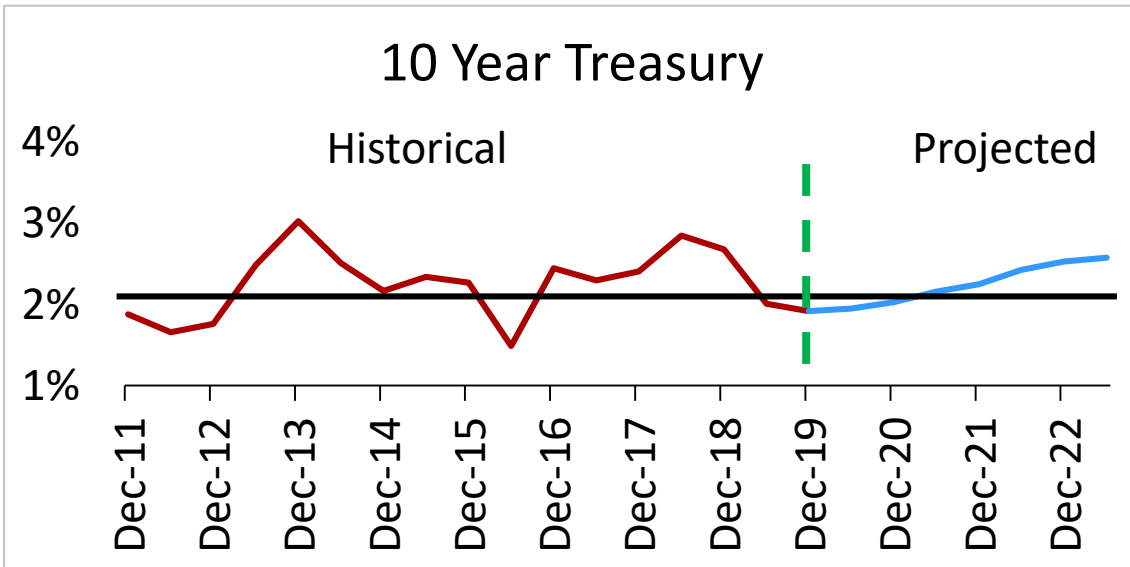
- Coronavirus
- Trade war with China
- Messy Brexit
- Volatility in stock market
- Middle East oil price shock
- Outcome of US Election

Upside Opportunity

- Phase II China trade deal
- Increased workforce participation rate (6.8M vacant jobs vs. 5.9M unemployed)
- Increased consumer confidence
- Outcome of US Election

Timing of Next Recession



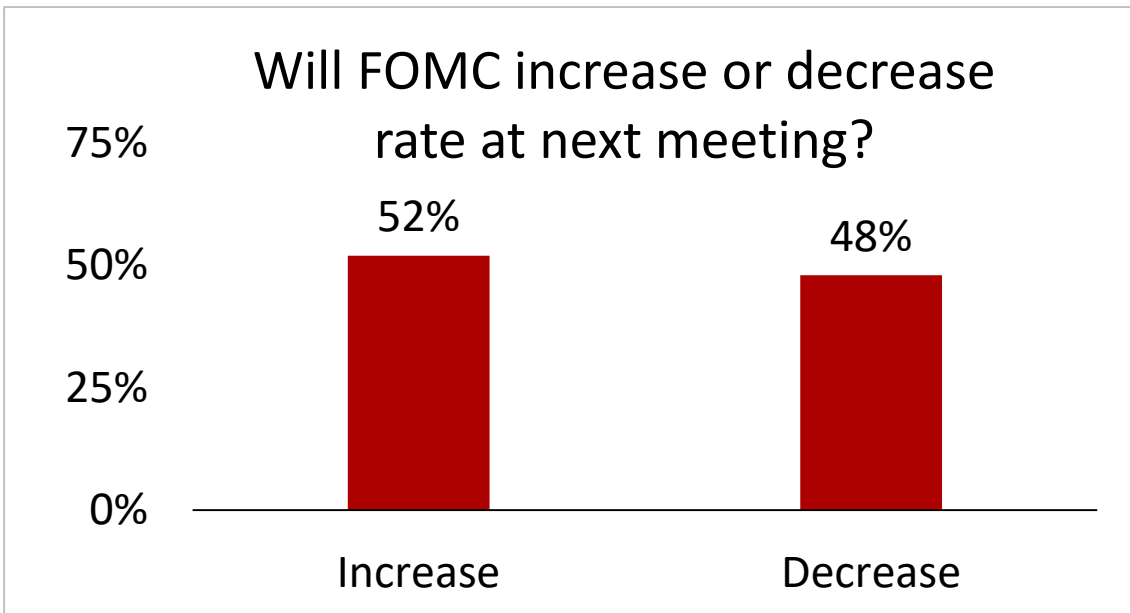


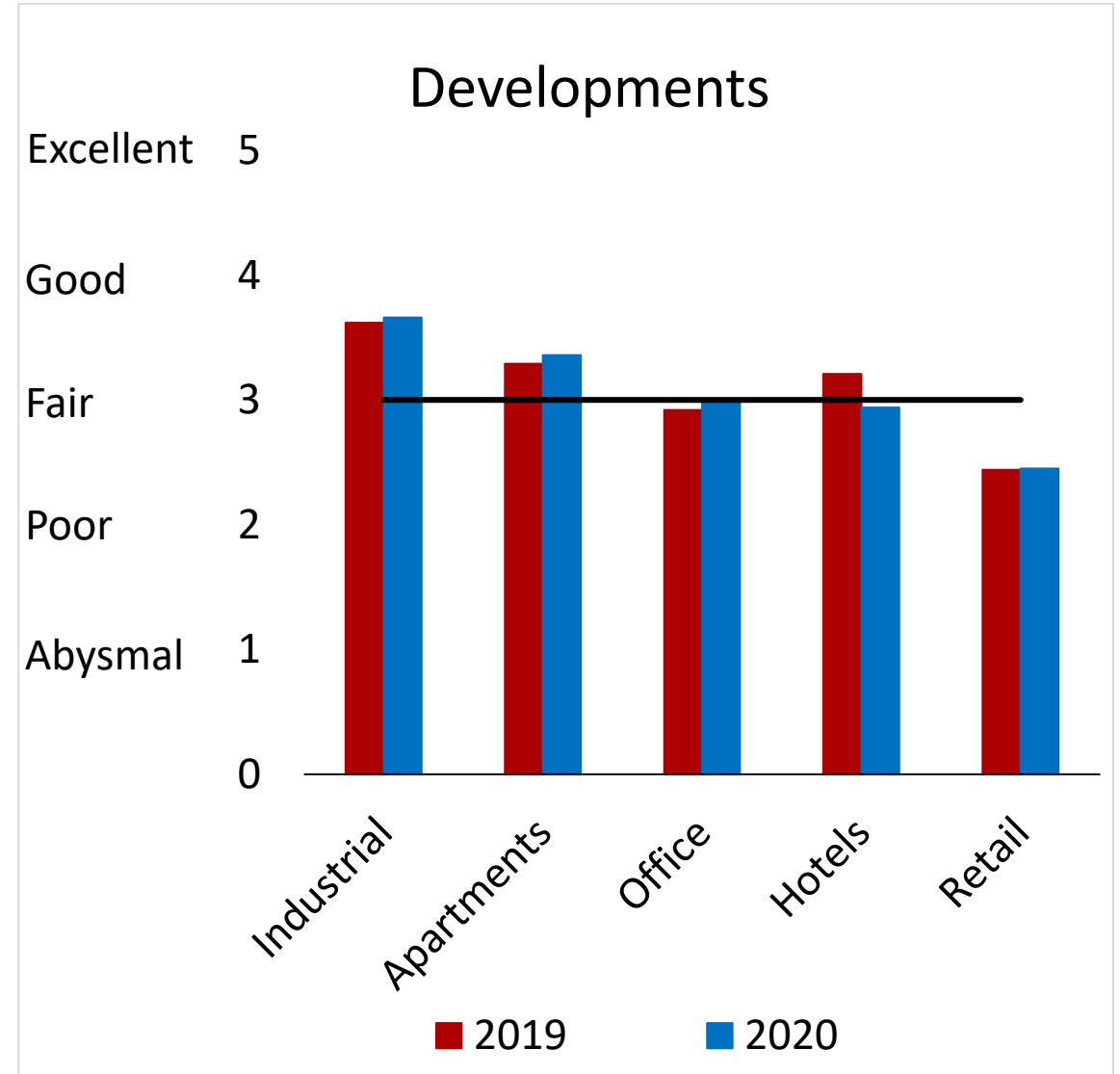
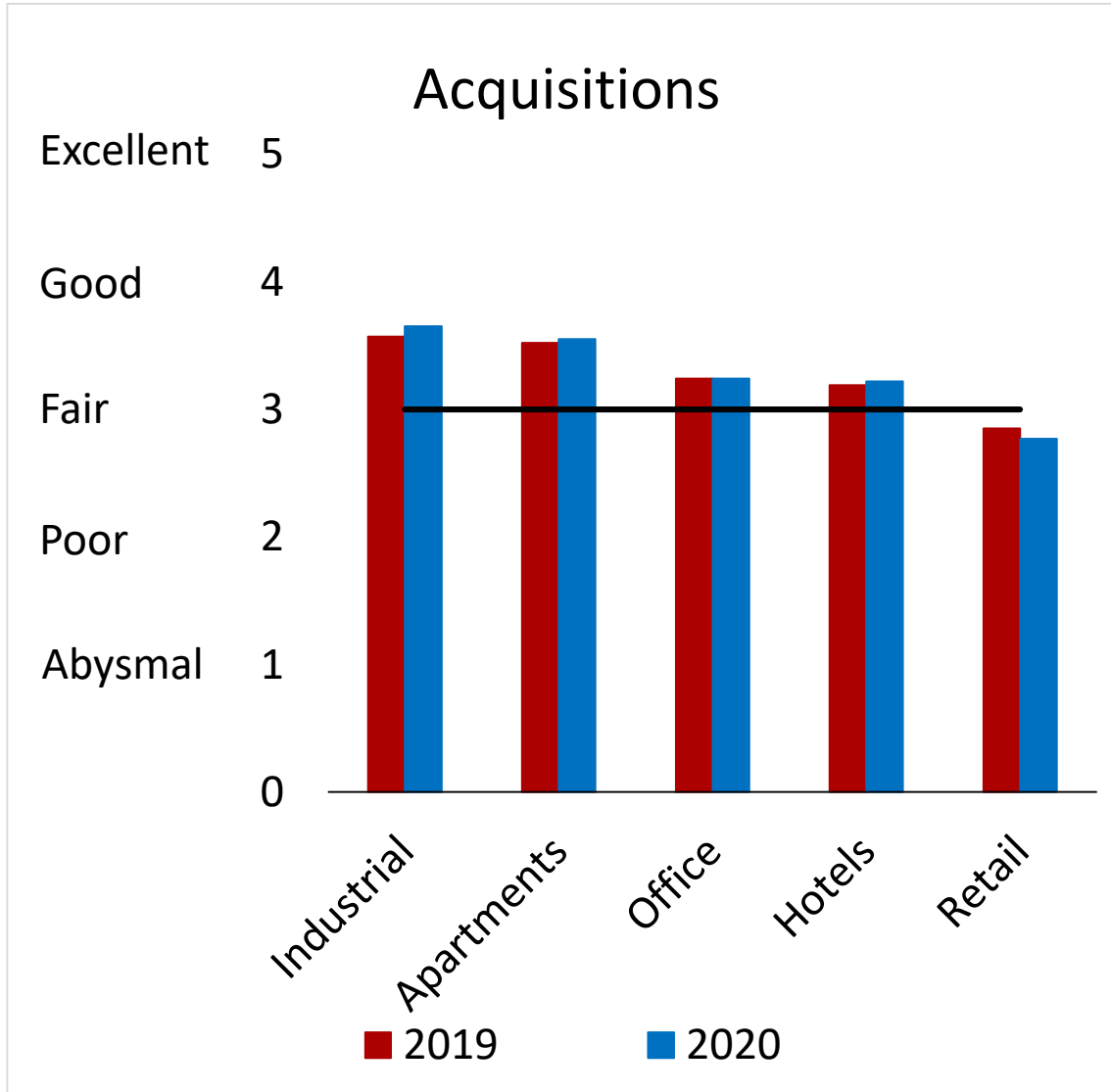
Reasons for Fed Fund Increase

- Strong job growth
 - 3 month average > T12
- YOY hourly earning +3.1%

Reasons for Fed Fund Decrease

- Reduce capital spending
- Wages and salaries growth decelerating
- Inflation below 2% target

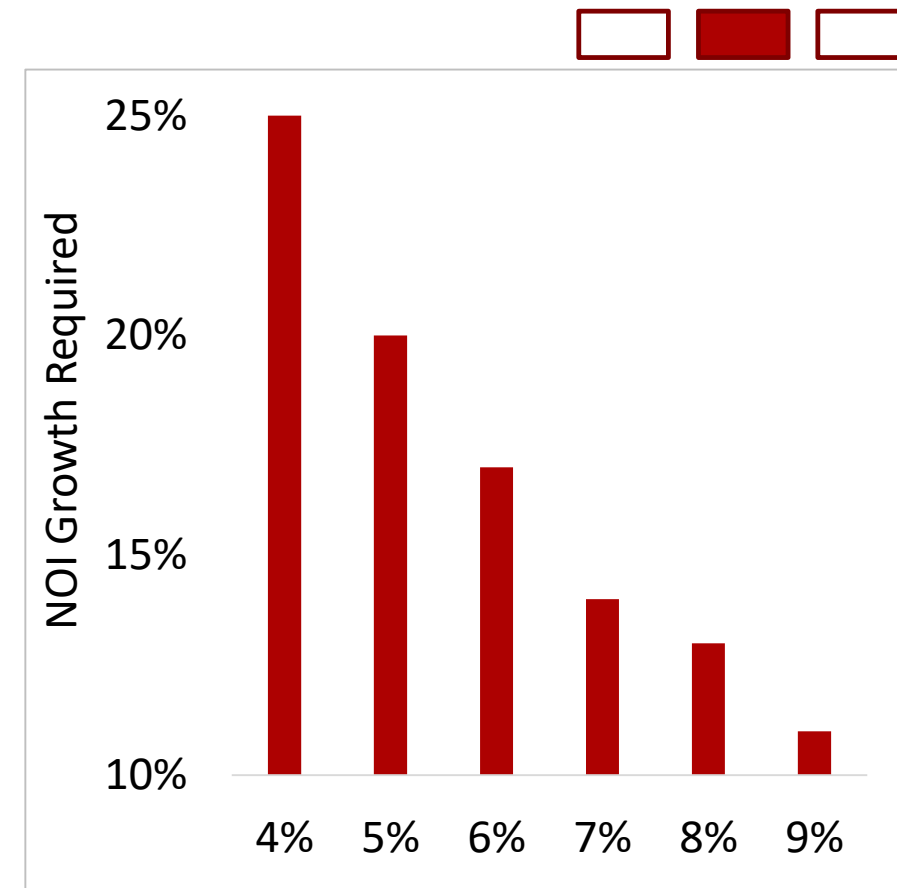




National Real Estate Overview: Cap Rate Remains Stable



	Range	2019 Average	Change from 2018	BPS
Apartments	3.50 – 7.00%	5.15%	↔	-1 bps
Industrial	3.75 – 6.40%	4.59%	↔	3 bps
Suburban Office	4.00 – 9.25%	6.39%	↓	-24 bps
CBD Office	3.75 - 7.50%	5.52%	↔	8 bps
Neighborhood/ Community Centers	4.50 – 10.0%	6.75%	↔	5 bps
Limited Service Hotels	7.50 – 11.0%	9.15%	↔	0 bps



- Downside risk due to increasing interest rates
- Market fundamentals solid in most sectors
- Equity is abundant, looking for “Core”, “Core Plus” and “Value Added Opportunities” in primary, secondary, and tertiary markets

- NOI growth required to maintain value if exit cap rate increases by 1% above acquisition cap rate



	Max LTV	Vacancy	Cap Rate	All in Rate	Spread
Residential	65-75%	5-7%	3.5-7.0% ↓	3.1-4.1% ↓	1.60-2.1% ↑
Industrial	65-75%	5-10%	3.75-6.4% ↓	3.1-4.1% ↓	1.60-2.1% ↔
Office Suburban	60-70%	10-15%	4-9.25% ↓	3.25-4.25% ↓	1.75-2.25% ↓
Retail (“Anchored”)	65-75%	7-10%	4.5-10% ↓	3.2-4.2% ↓	1.70-2.2% ↓
Hotel	60-65%	25-35%	7.5-11% ↓	3.75-4.75% ↓	2.25-2.75% ↔

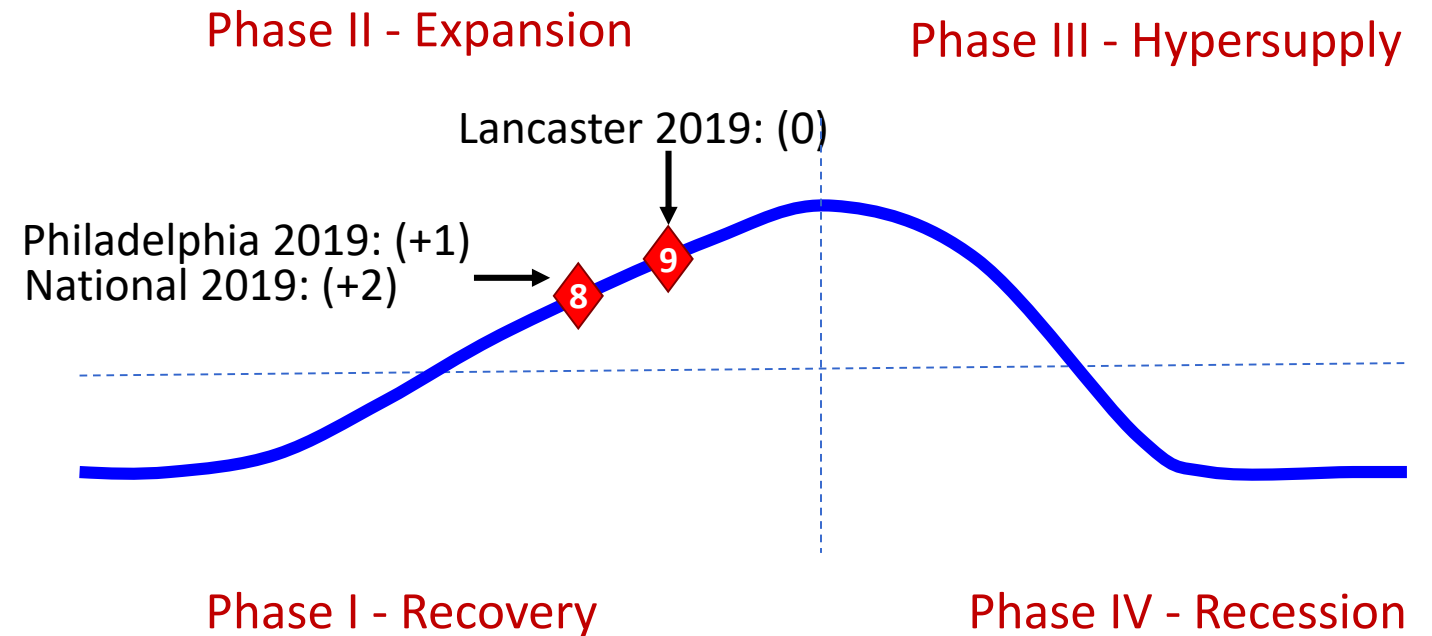
- Abundant supply of debt capital for acquisitions and refinancing of all asset classes
- Debt capital for new development will become more challenging as we move later into cycle

Range for 10-year treasury projections = 1.5 – 2%

Major Trends

- How we work is going through fundamental shift:
 - Less formality
 - More collaboration space
 - Increased amenities
- Design/functionality/sustainability is driving talent acquisition/retention
- Use of coworking space increasing (variable vs fixed cost)
- Access to transportation and workforce housing is driving location decisions
- Increased demand for medical office
- Higher construction costs keep supply growth constrained

Third Quarter 2019

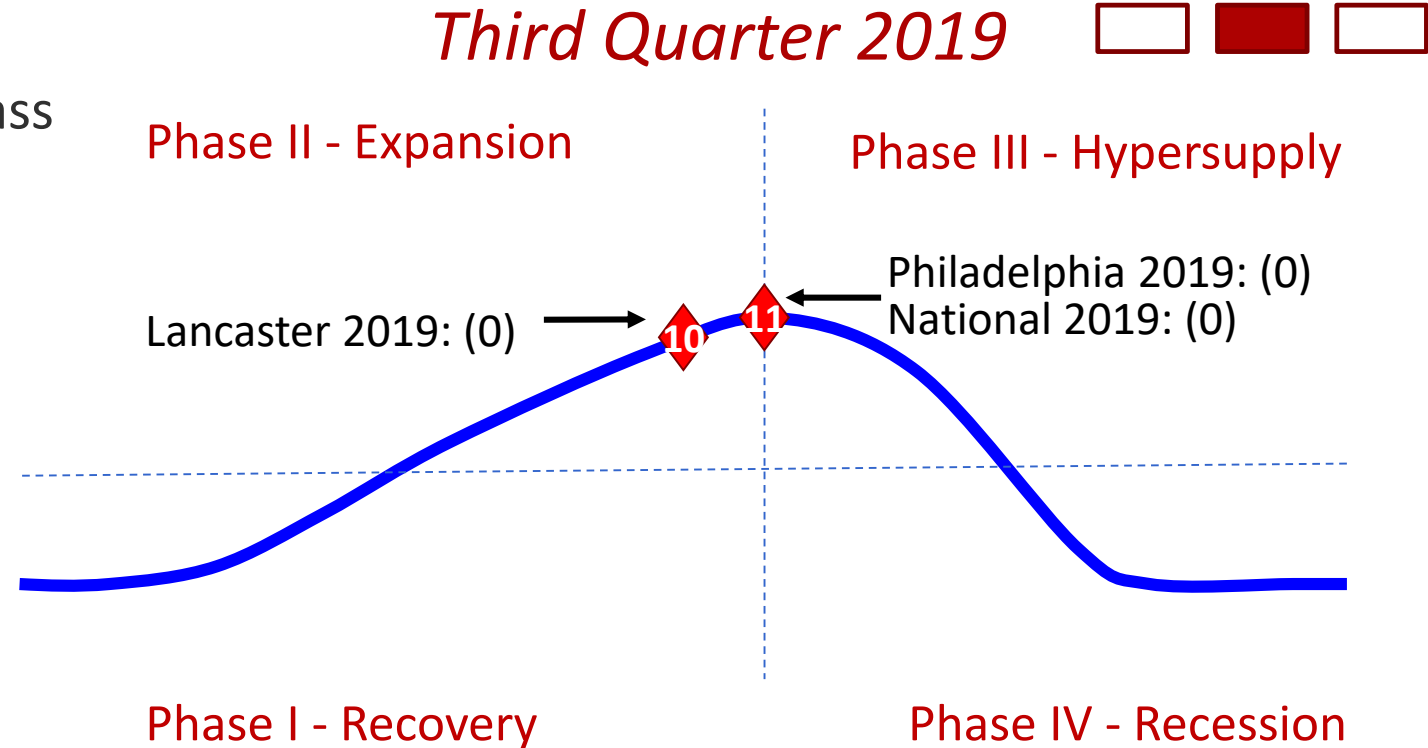


YOY National Change

	2019	2020
Occupancy	2.4%	0%
Rents	2.4%	2.1%

Major Trends

- Fulfillment/warehouse preferred asset class for investment/development driven by:
 - Growth in E-commerce
 - Increased service level (last mile)
 - Trade tension
- Supply is constrained by:
 - Available land
 - Increased regulation
 - Increased construction costs
- New supply is lagging demand, driving rents up in strongest markets
- Spread between existing lease rents and market rents is widening
- Refrigerated warehousing is fast growing segment

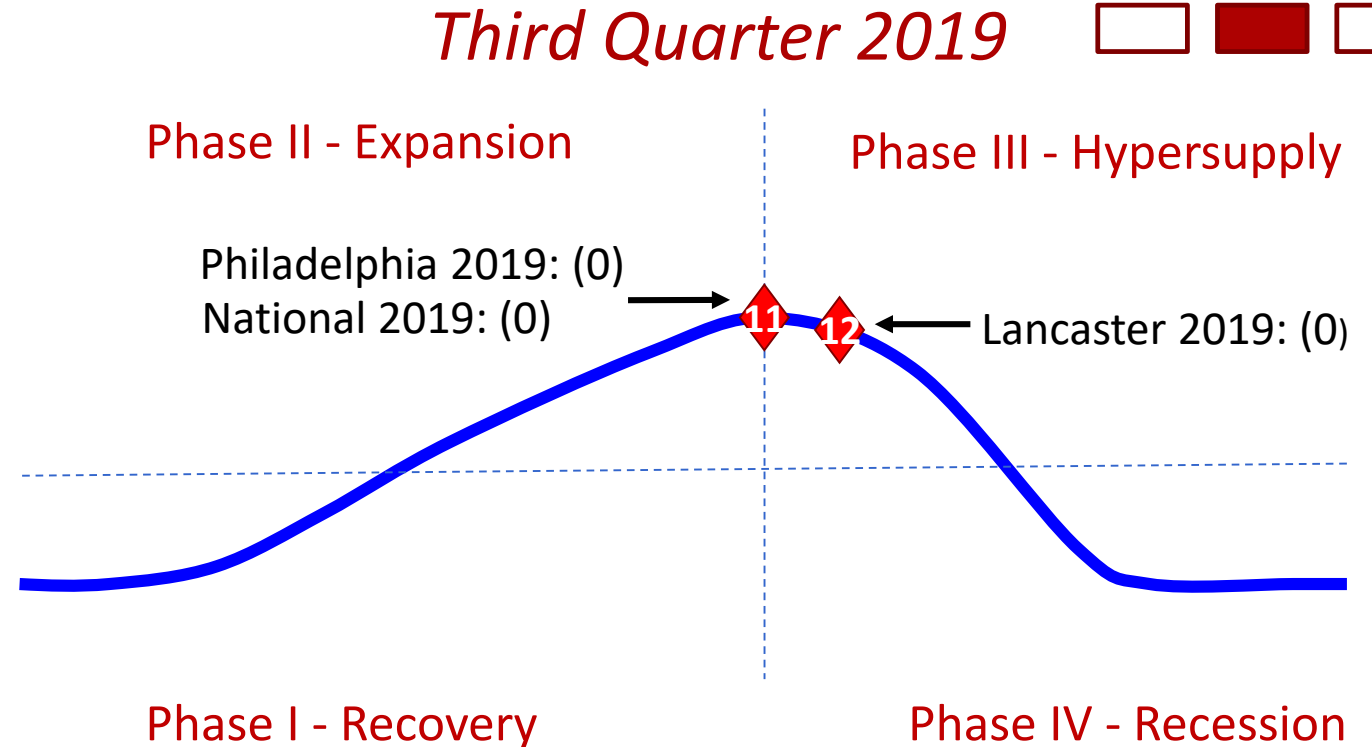


YOY National Change

	2019	2020
Occupancy	0.4%	0%
Rents	4.4%	4.1%

Major Trends

- Drive toward omni-channel strategies is increasing:
 - Online moving to brick and mortar
 - New stores require new format
- Merchandising mix is changing towards experimental formats:
 - Entertainment
 - Food and beverage
 - Health and fitness
 - Services
- Consumer preferences and technology are intensifying transformation
- Legacy malls/retailers will continue to decline
- Deal making has become longer and more complex
- E-commerce potential threat to grocery anchored projects



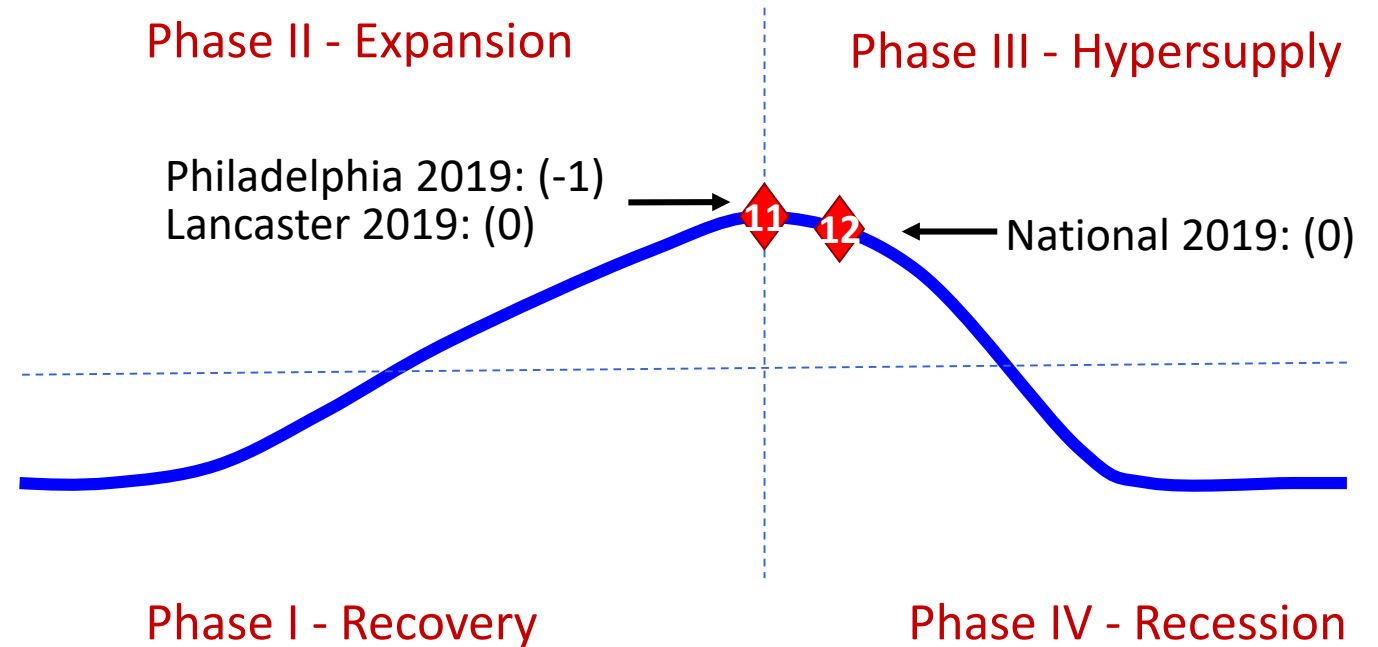
YOY National Change

	2019	2020
Occupancy	-0.25%	0.5%
Rents	-0.6%	1.0%

Major Trends

- Demand is expected to exceed supply for next 10 years driven by:
 - Increased household formation
 - Fundamental shift in household composition
 - Barriers to home ownership
 - Impact of Tax Cut and Job Act
- Wage growth < rent growth driving need for more quality workforce housing
 - 55% households pay > 30% income for rent
- Strongest occupancy is in B and C properties
- Supply constraints
 - State and local regulations
 - Low availability of zoned land
 - Increased cost (materials and labor)

Third Quarter 2019 □ ■ □



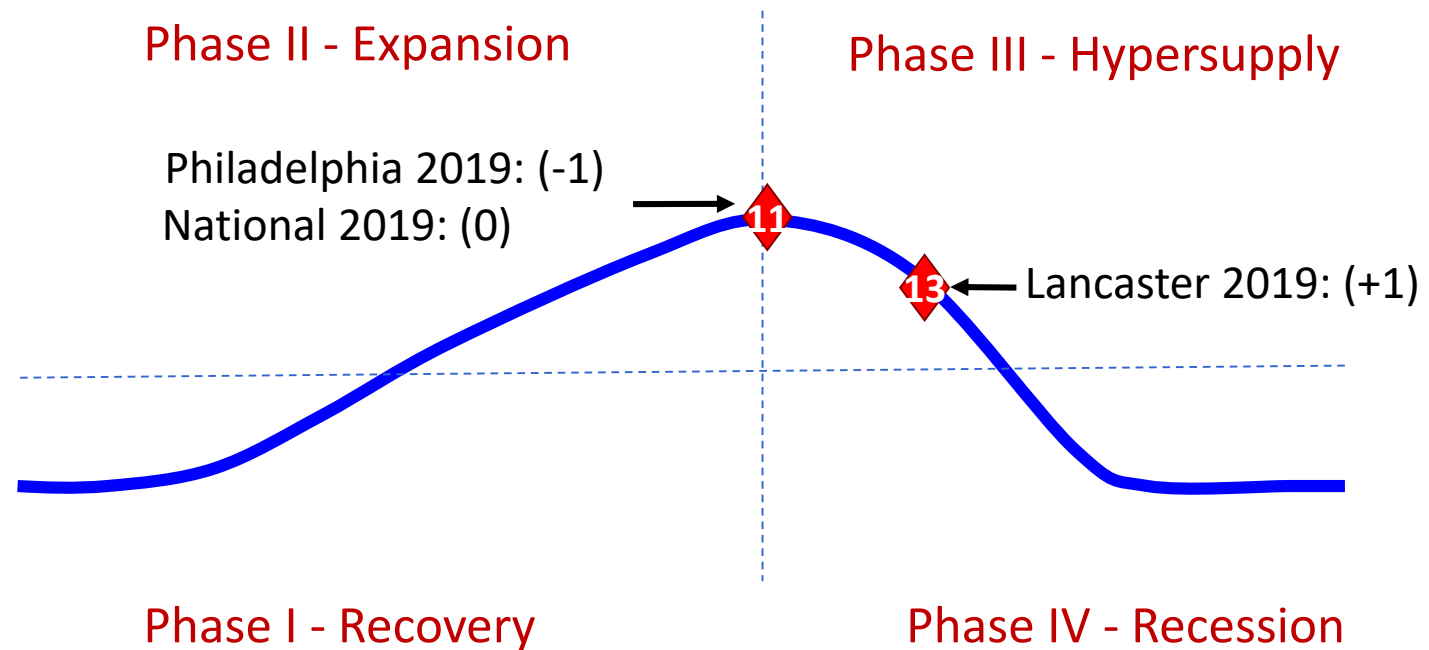
YOY National Change

	2019	2020
Occupancy	0.3%	0.2%
Rents	2.4%	2.0%

Major Trends

- Deceleration in top-line revenue growth
 - Major brands (Marriott/Hilton) in expansion mode
 - VRBO/Airbnb adding to supply
- Labor shortage impacting operations (i.e. housekeeping)
- Labor cost rising > ADR growth, compressing gross operating margin

Second Quarter 2019



YOY National Change

	2019	2020
Occupancy	-0.2%	-0.3%
Rate	1.1%	0.3%
RevPAR	0.9%	0%



- Research – Primary Research
 - Secondary sources (CoStar, MLS)
 - Owner occupied properties are excluded (e.g. Nordstrom and Urban Outfitters)
- Office – Institutional-grade, for lease (250 buildings, 6M SF)
 - Over 5,000 SF in size
 - Lancaster City, Manheim Township, East Hempfield, and East Lampeter Townships
- Industrial – Institutional-grade, for lease (375 buildings, 24.3M SF)
 - Over 10,000 SF in size
 - Lancaster County

- Lancaster market continues record new development
- Four new projects completed
 - 1570 Fruitville Pike 60,000 SF
 - Community Services Group, Greenfield: 32,000 SF
 - Lititz Pike: 9,380 SF
 - 101 North Queen: 50,000 SF
- Eight new Class A projects are proposed totaling 306,400 SF
- Occupancy at an all time high of 94.6% for Class A
- Class A existing market rental rates decreased -0.9% in 2019:
 - Existing space \$23-\$26/SF Gross
 - New space \$32-\$35/SF Gross



Lancaster Market Comparison: Single Digit Vacancy For All Products



		2015	2016	2017	2018	2019	5-Year Average
Class "A" Office	Absorption	(10,447)	87,988	75,273	83,039	116,300	76,833
	Vacancy	14.8%	10.9%	10.2%	5.9%	5.5%	
	Amount Constructed	0	28,000	0	12,000	126,666	39,733
	Available Supply	267,491	207,503	132,230	61,191	71,546	
"B/C" Office	Absorption	86,396	59,167	36,732	136,537	70,723	77,911
	Vacancy	15.6%	13.2%	8.5%	5.3%	3.2%	
	Amount Constructed	0	0	0	0	0	0
	Available Supply	419,694	360,527	323,795	187,258	116,535	
Business Center	Absorption	18,690	14,873	32,739	(20,828)	105,507	23,796
	Vacancy	12.6%	11.2%	13.2%	15.8%	8.1%	
	Amount Constructed	0	0	0	0	32,000	0
	Available Supply	148,955	134,082	101,343	122,171	48,664	

- Lancaster experienced an increase in occupancy and rates
- Four new projects completed totaling 1,487,671 SF
 - 1405 Zeager Road: 71,500 SF
 - 1473 Zeager Road: 127,171 SF
 - 35 Cedar Road: 315,000 SF
 - State Road: 974,000 SF
- Eleven projects are proposed, totaling 1,319,598 SF
- Existing market rate increased 2.0% for industrial:
 - Existing space \$5.88/SF NNN
 - New space \$5.75-\$7.00/SF NNN
- Market rate increased 5.36% for flex, average \$8.97/SF NNN
- Cost of new development requires preleasing



Speculative rents do not justify the cost of new construction

Lancaster Market Comparison: Industrial Enters Fourth Strong Year



		2015	2016	2017	2018	2019	5-Year Average
Industrial Space	Absorption	223,333	(232,207)	552,062	109,123	989,704 ↑	133,603
	Vacancy	5.7%	7.5%	3.2%	3.5%	5.2%	
	Amount Constructed	186,322	199,800	0	120,718	1,487,671	204,112
	Available Supply	879,013	1,311,020	758,958	770,553	1,268,570	
Flex Space	Absorption	77,172	23,125	21,899	(9,339)	58,654 ↑	34,302
	Vacancy	12.7%	10.2%	4.1%	4.5%	1.4%	
	Amount Constructed	105,432	0	0	0	0	21,086
	Available Supply	117,956	94,831	72,932	82,271	23,617	

Q&A



- Presentation will be available at www.highassociates.com
- Thank you for coming!

