ANNUAL C&I COUNCIL MEETING

Hosted by High Real Estate Group LLC

LancasterCommercialRE.com

C&I

COMMERCIAL & INDUSTRIAL REAL ESTATE COUNCIL

HIGH REAL ESTATE GROUP LLC

Welcome

Agenda

8:30 – 8:35 AM **Introduction**

8:35 – 9:15 AM **Presentation**

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

Mark Fitzgerald
President &
Chief Operating Officer

Bill Boben
Sr. Vice President
Sales/Leasing

Michael Lorelli
Sr. Vice President
Commercial Asset Management

Brad Mowbray
Sr. Vice President, Managing Director
Residential Division

David Aungst
President
High Hotels

Ken Hornbeck
Sr. Vice President
Development

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A Welcome From

Dan Berger, Jr.

2023 C&I President

HIGH REAL ESTATE GROUP LLC

Mark Fitzgerald

President & Chief Operating Officer
High Real Estate Group LLC

Agenda: Three Areas of Focus

Economic Overview

- Employment Trends
- Workforce Participation
- Excess Savings Rate
- GDP Projections

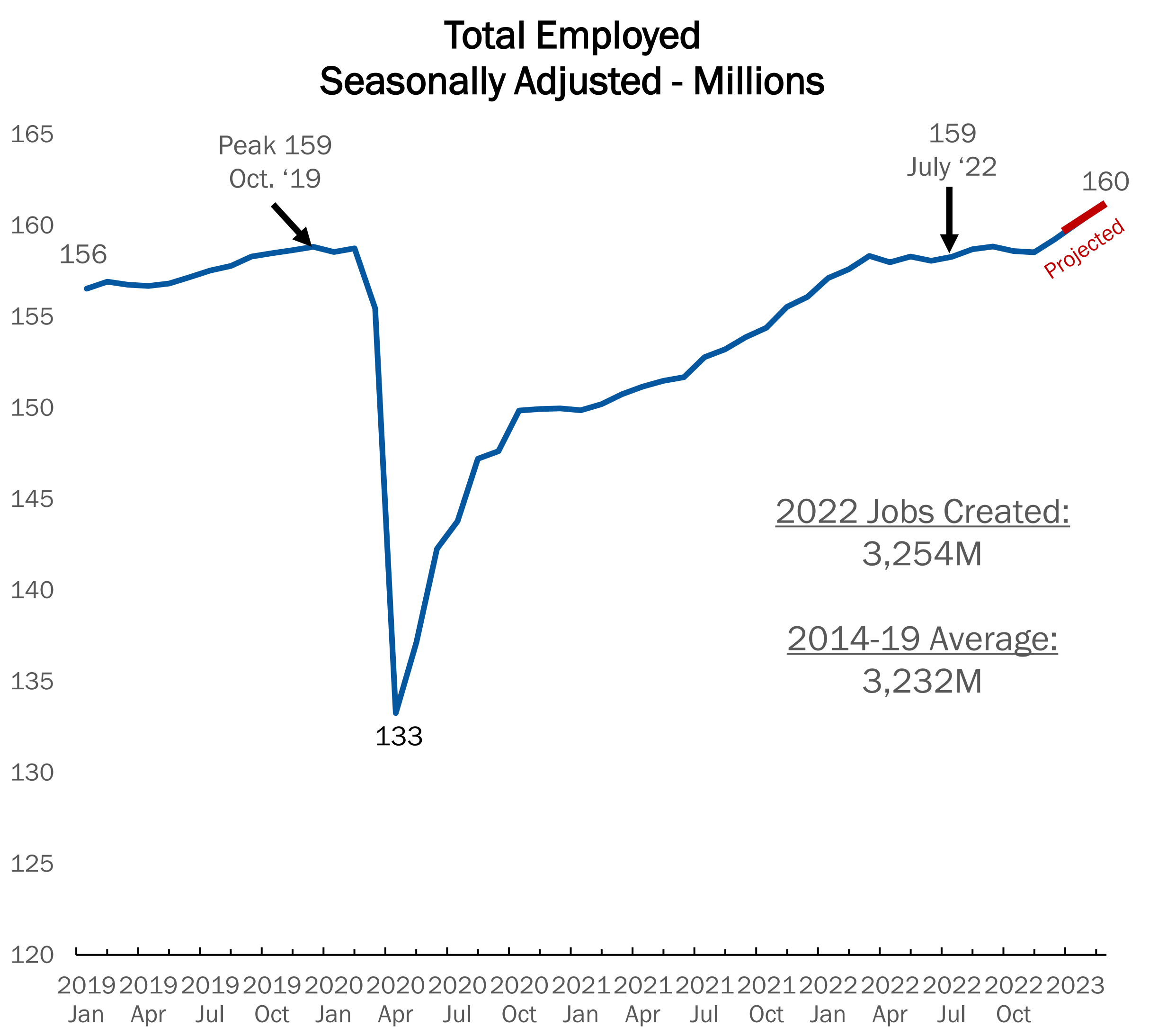
Nationwide Real Estate

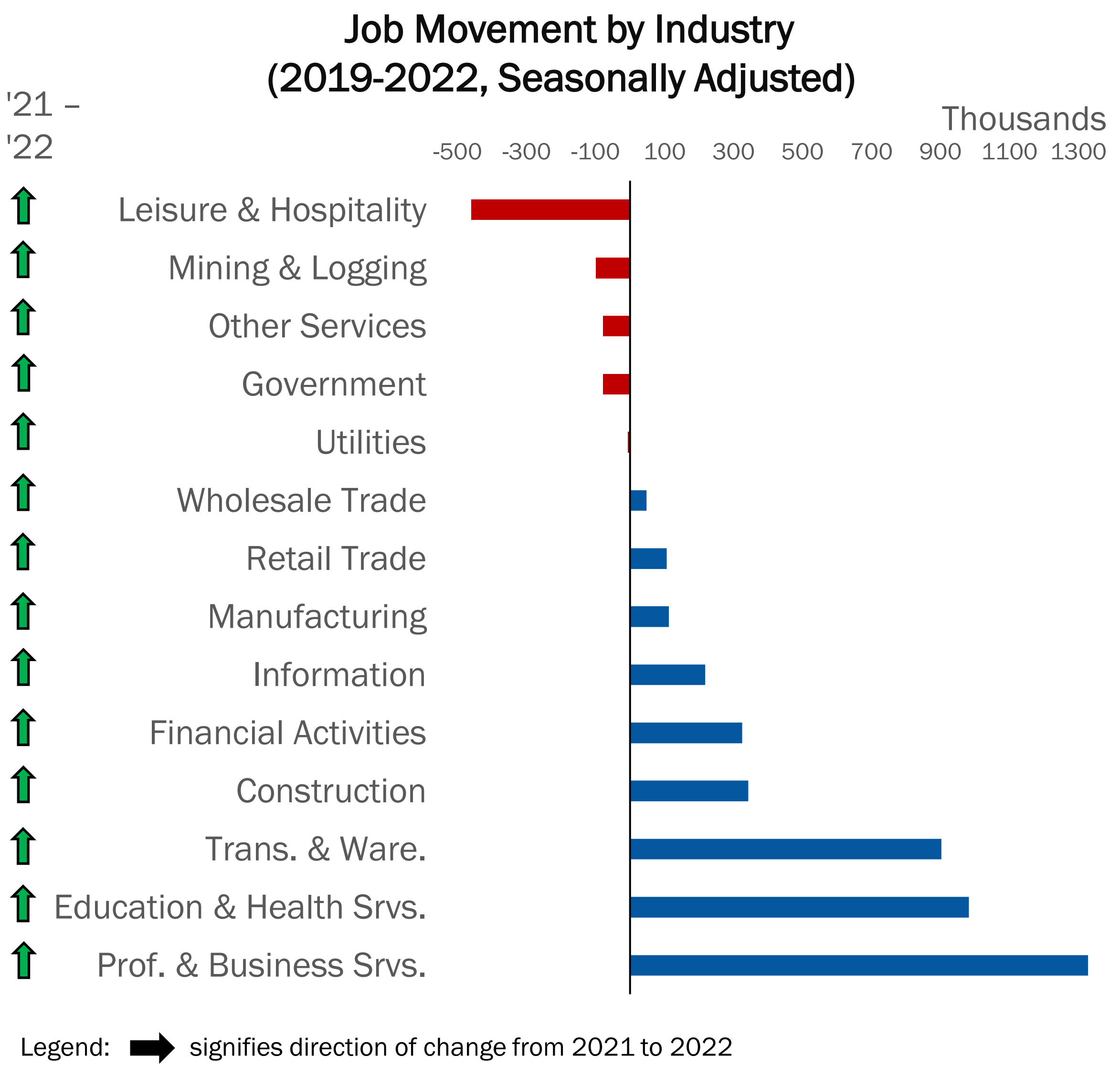
- Acquisition/ Development Sentiment
- Cap Rate Trends
- Underwriting Criteria
- Real Estate Cycle

Lancaster Real Estate

- Office
- Industrial
- Apartments
- Hotel
- Development

Employment: Strong Gains in 2022 Across All Sectors





Source: US Bureau of Labor Statistics

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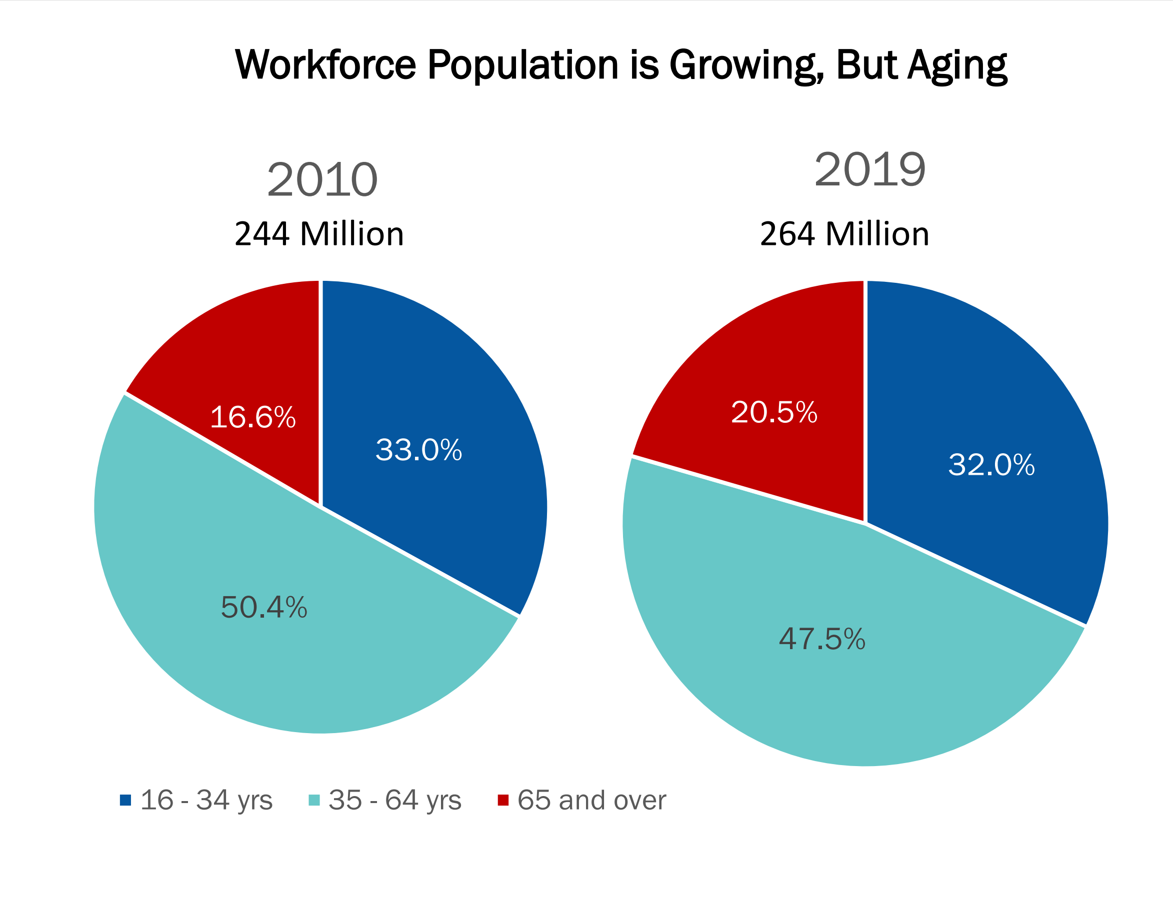
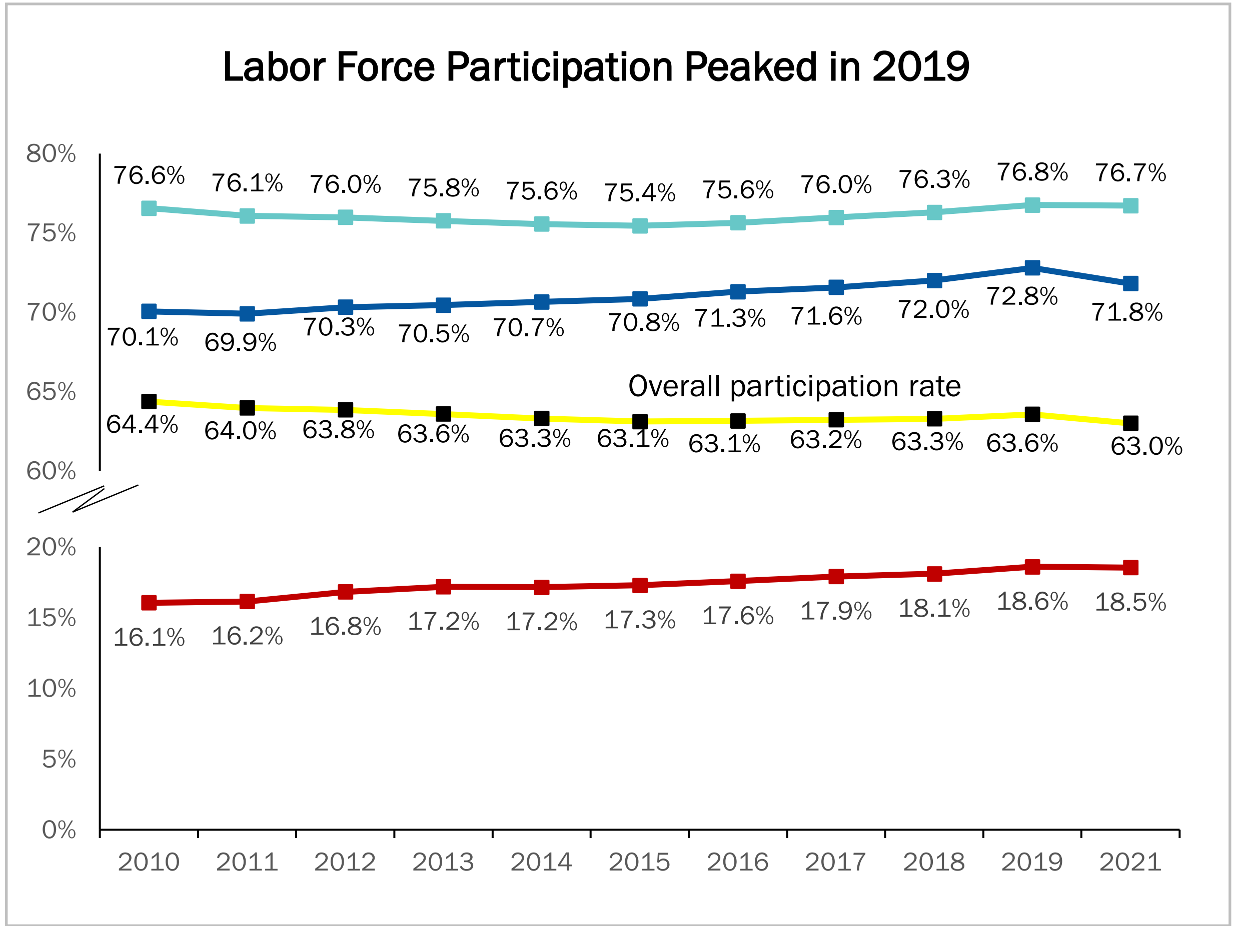
Workforce Participation Continues to Decline

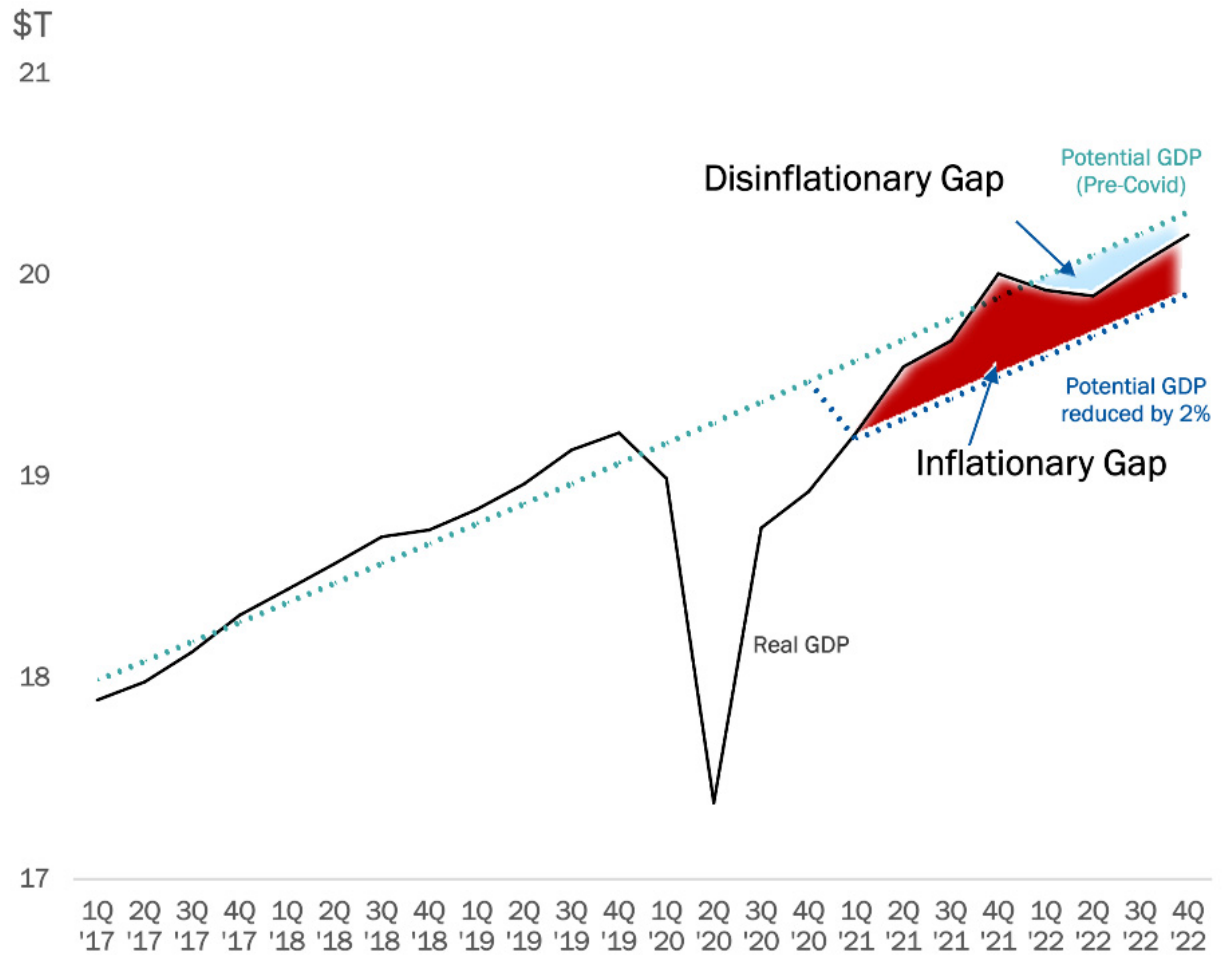




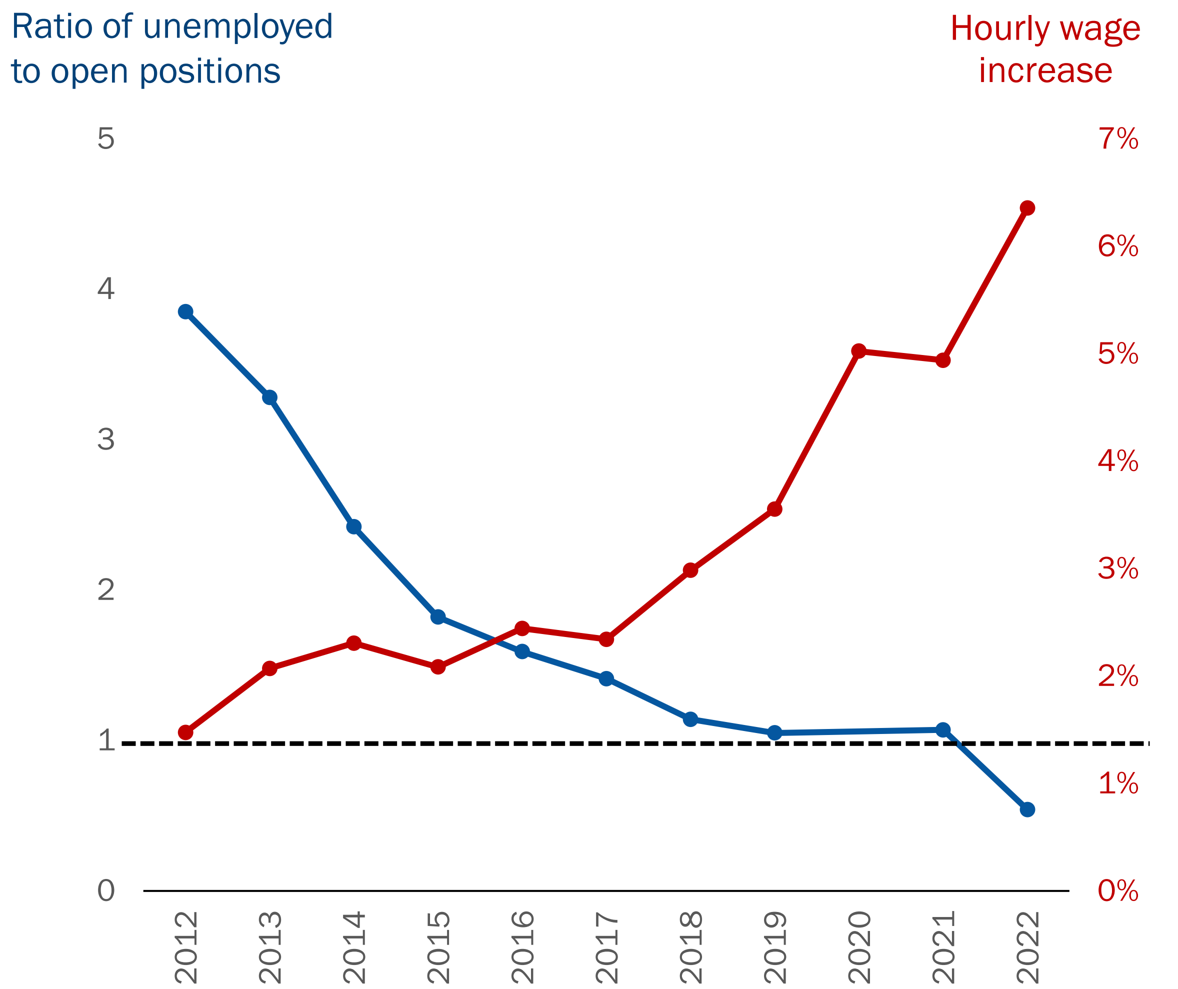
Aging population lowered overall participation from ’10 to ’19;
Post COVID labor force participation has not recovered

Source: Census Bureau ACS reports B23001. Includes those employed in armed forces. Latest data is for 2021 published in mid 2022.

Reduction in Labor Participation is Contributing to Inflation



Potential GDP = All capital, technology and labor are fully utilized at "normal" levels



Source - 4Q 22; U.S. Bureau of Economic Analysis; M&T Bank, Wilmington Trust Investment Advisors

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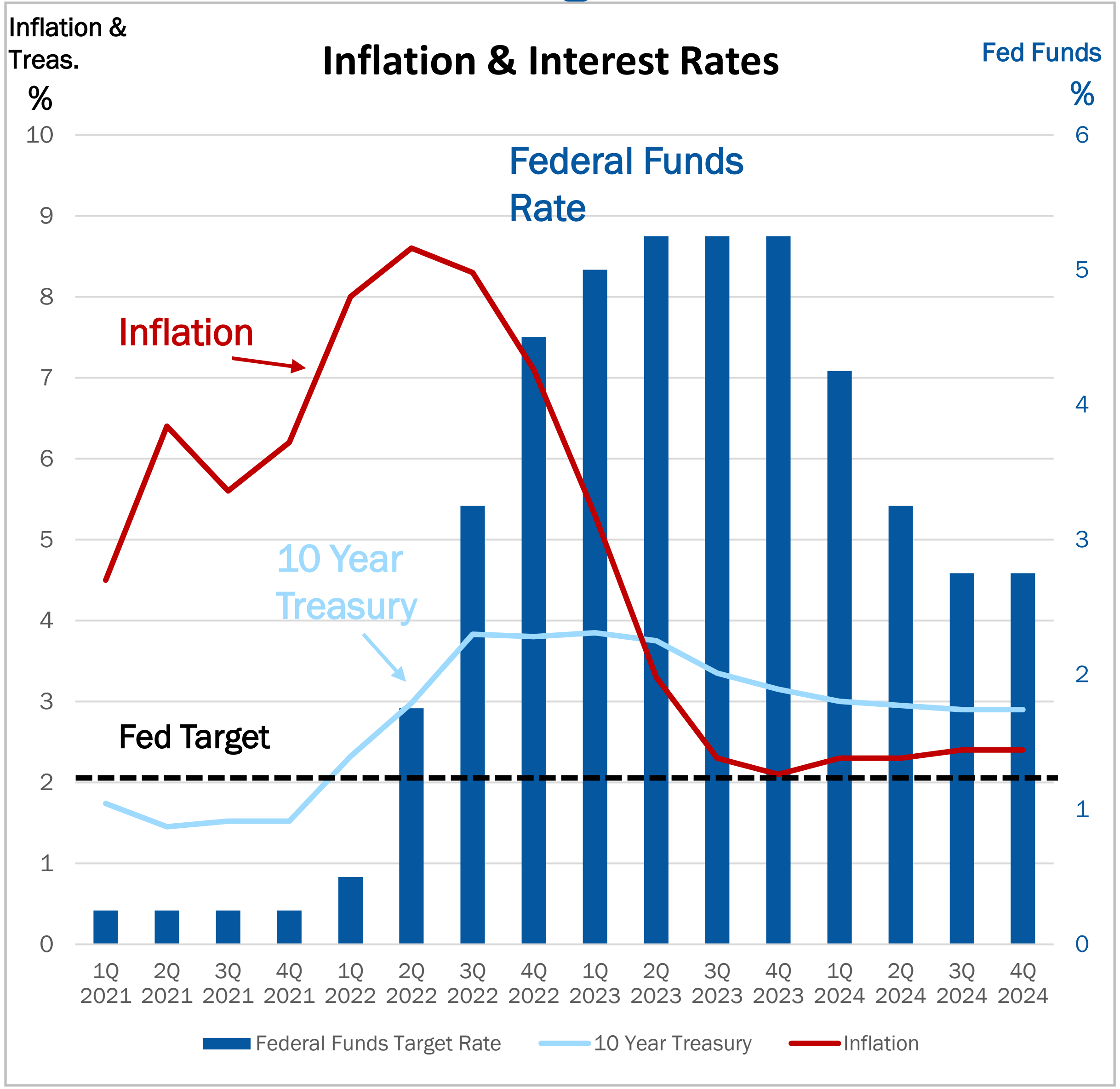
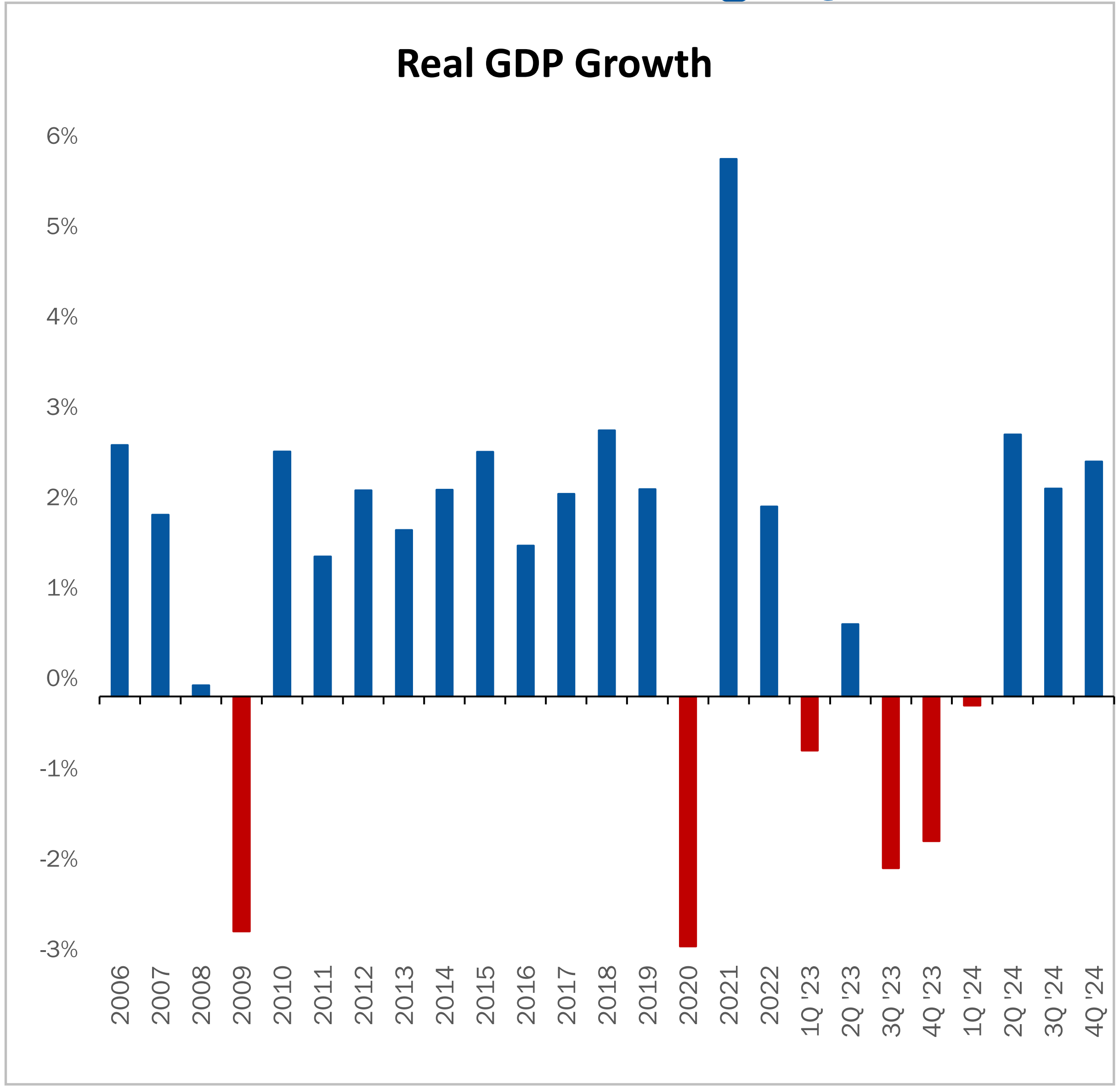
Inflation Pushing Interest Rates

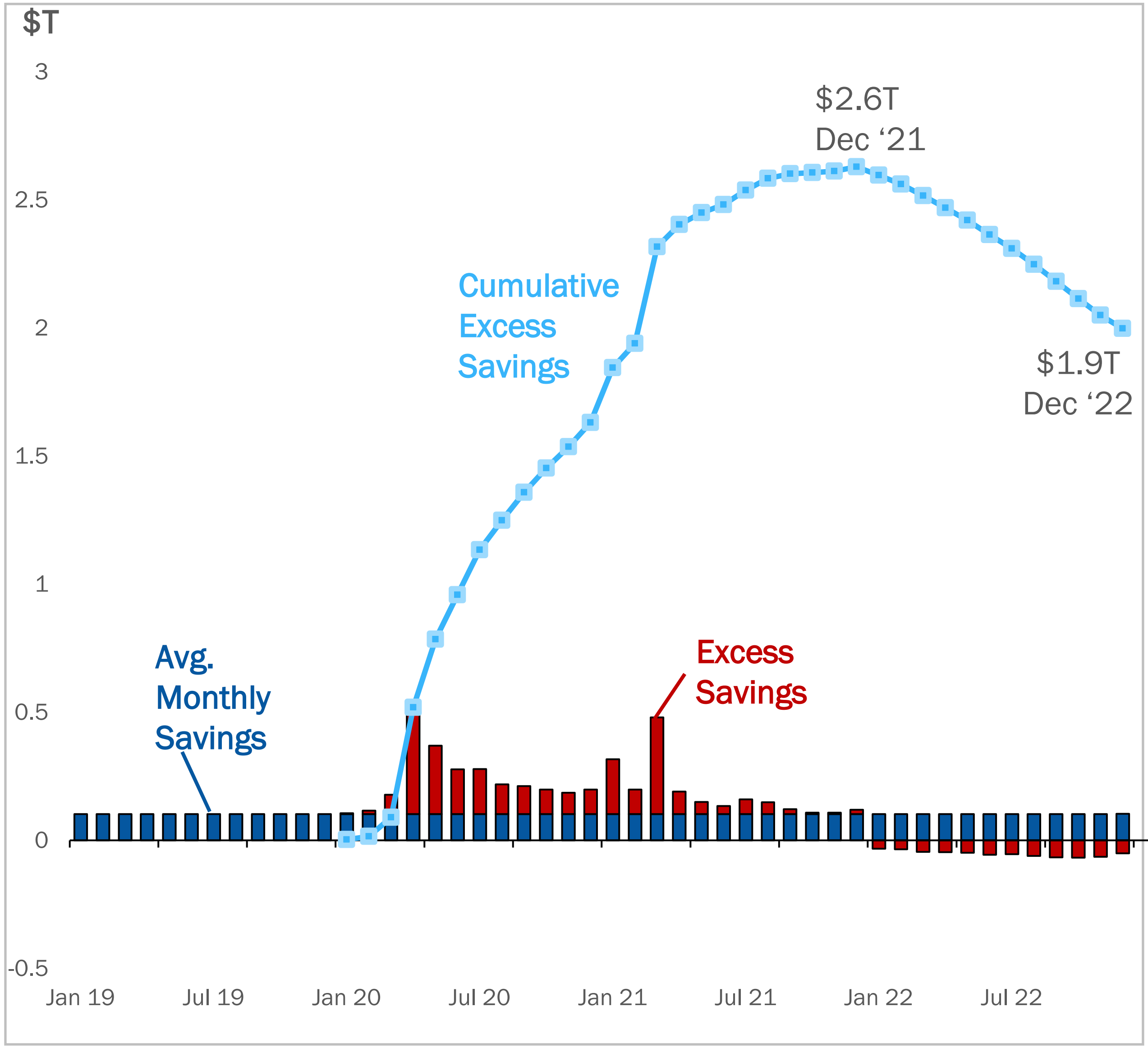


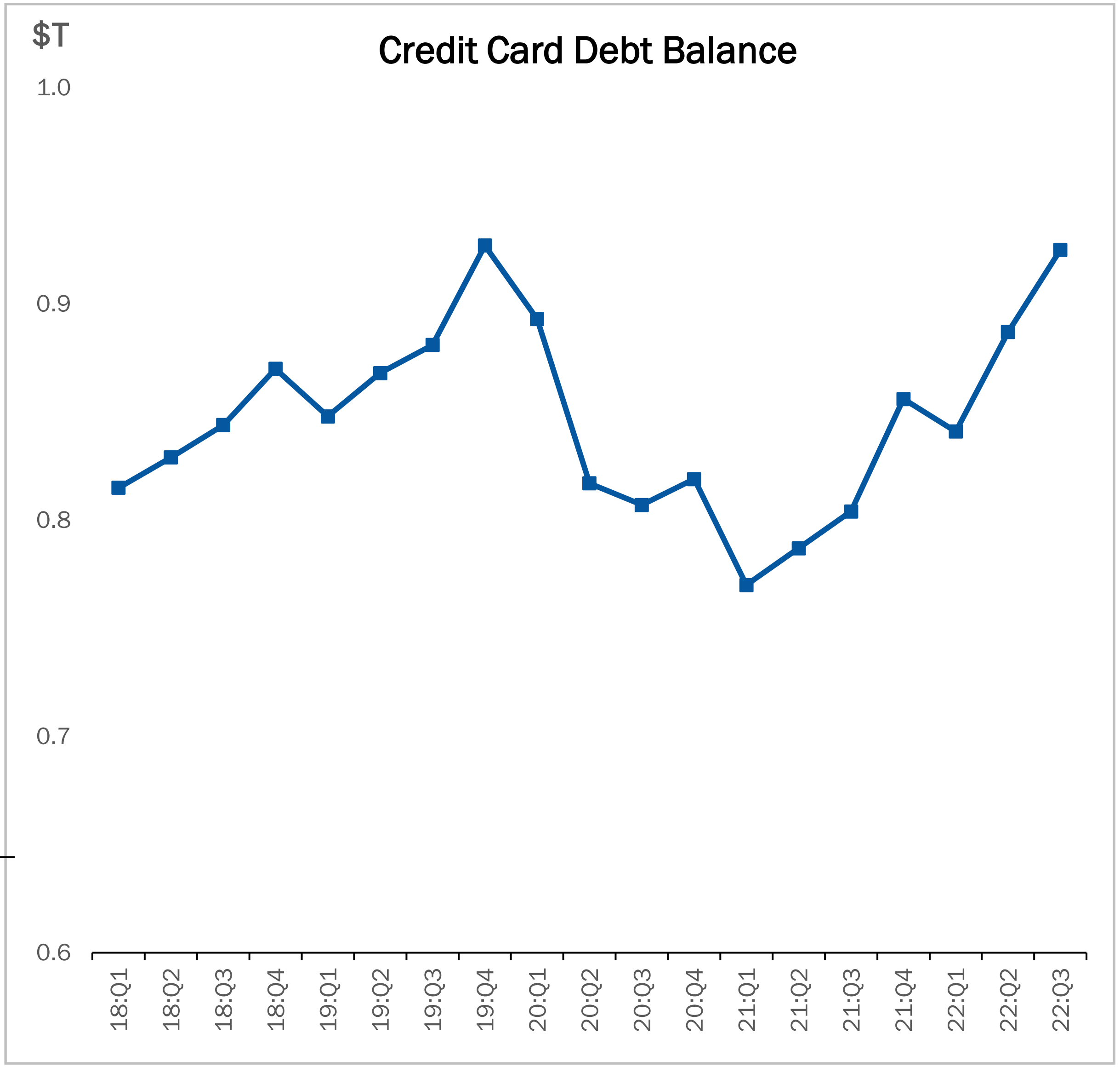
Recession Starting 3Q '23



Source: Federal Open Market Committee; Wells Fargo Annual Economic Outlook – 2/23; OECD; Bureau of Economic Analysis

Consumers Continue to Drive Gross Domestic Product

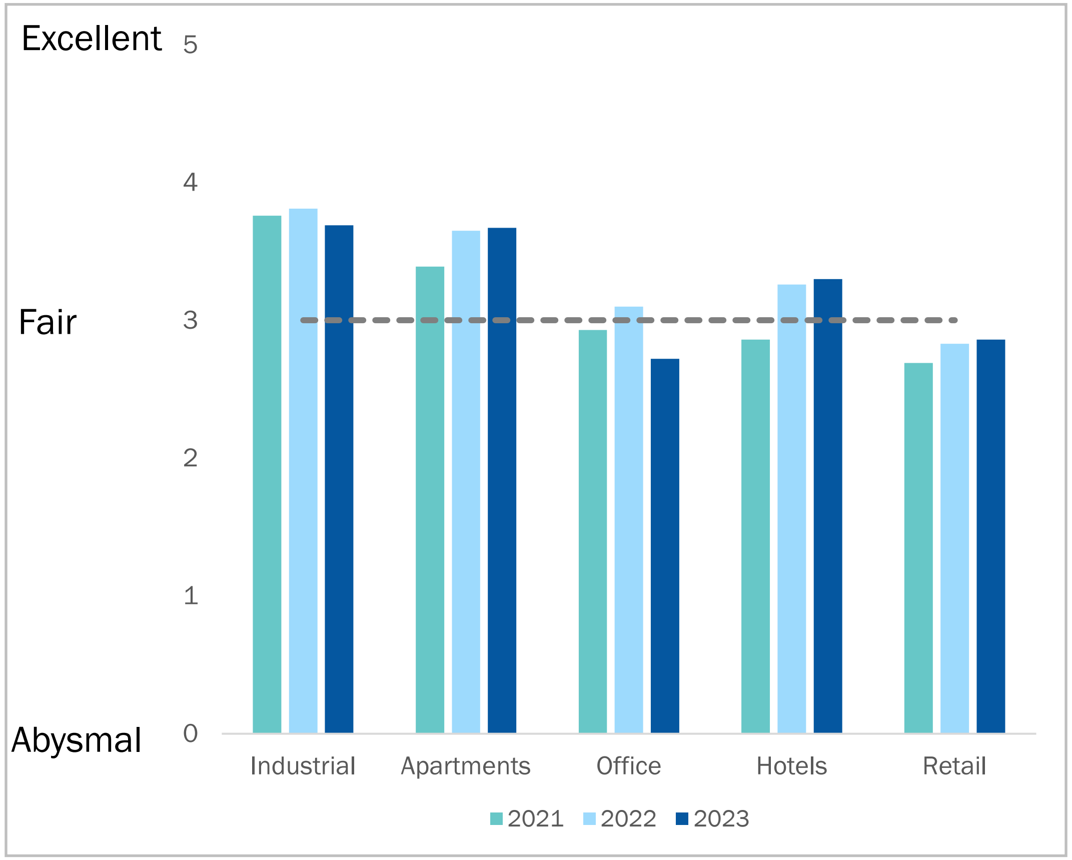




Source - U.S. Bureau of Economic Analysis, New York Federal Reserve

National Sentiment for Acquisition / Development Largely Unchanged

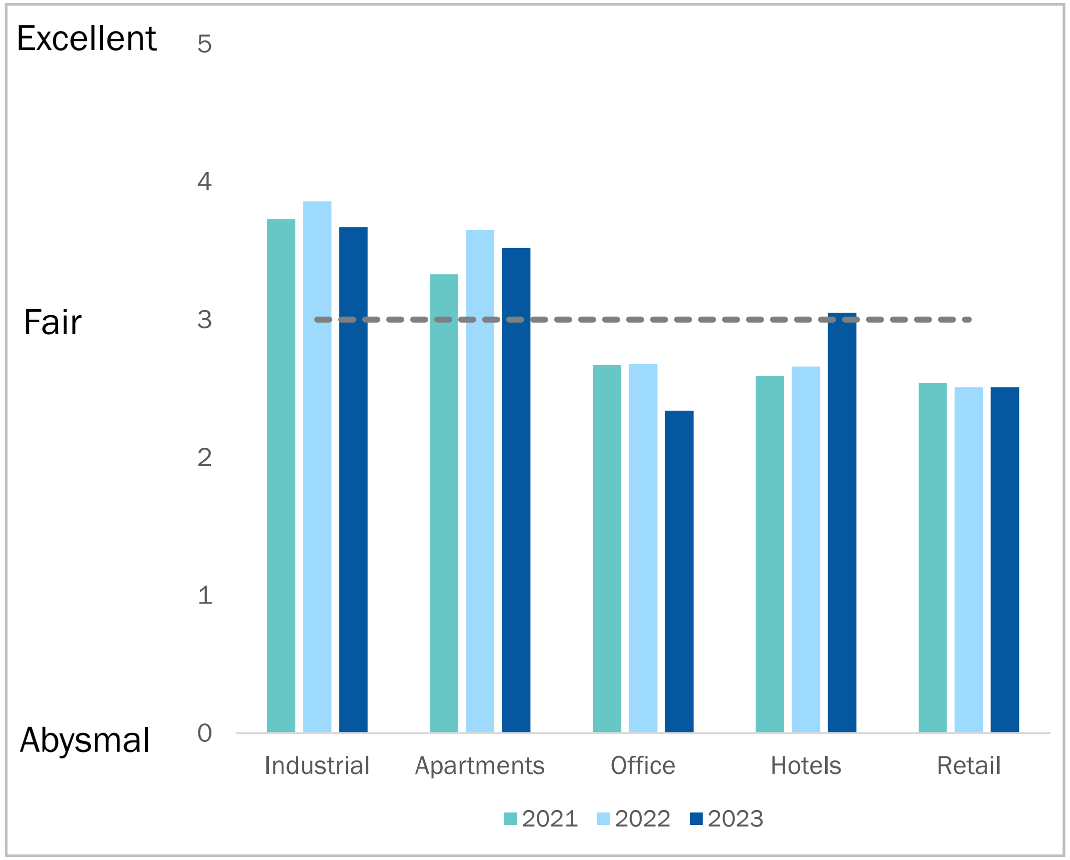
Acquisitions



Key Issues:

- Interest Rates
- Capitalization Rates
- Available Debt/Equity

Developments



Key Issues:

- Labor Cost/Availability
- Material Costs
- Interest Rates

Source: PWC, ULI; Emerging Trends in Real Estate 2022

US: Cap Rates Are Rising

	Range	2022 Average	Change from 2021	BPS
Apartments	3.3 – 8.0%	4.9%	↑	47 bps
Warehouse	2.0 – 6.3%	4.4%	↑	12 bps
Suburban Office	4.3 – 7.8%	6.0%	↓	(-19) bps
CBD Office	4.2 – 7.5%	5.8%	↔	(-5) bps
Neighborhood/ Strip Centers	5.0 – 10.0%	7.3%	↑	16 bps
Limited-Service Hotels	8.0 – 11.5%	9.8%	↑	77 bps

- Cap rates decreased for CBD/Suburban Office
- Ranges tightened for Apartments and Industrial
- Debt & Equity underwriting is becoming more restrictive

Source : PWC Real Estate Investor Survey 3rd/4th Q2022

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2023 Underwriting Criteria

	Max LTV	Vacancy	Cap Rate	Spread	All in Interest Rate
Apartments	60-75%	5-7%	4.0-5.5%	1.4-1.8%	5.2-5.6%
Industrial	65-75%	5-10%	5.0-6.5%	1.4-2.0%	5.2-5.8%
Office Suburban	50-60%	10-15%	6.5-8.0%	1.6-2.2%	5.4-6.0%
Retail (“Anchored”)	55-65%	10-15%	6.0-7.5%	1.8-2.4%	5.6-6.2%
Hotel	50-65%	25-40%	9.0-12.0%	2.5-5.0%	6.3-8.8%

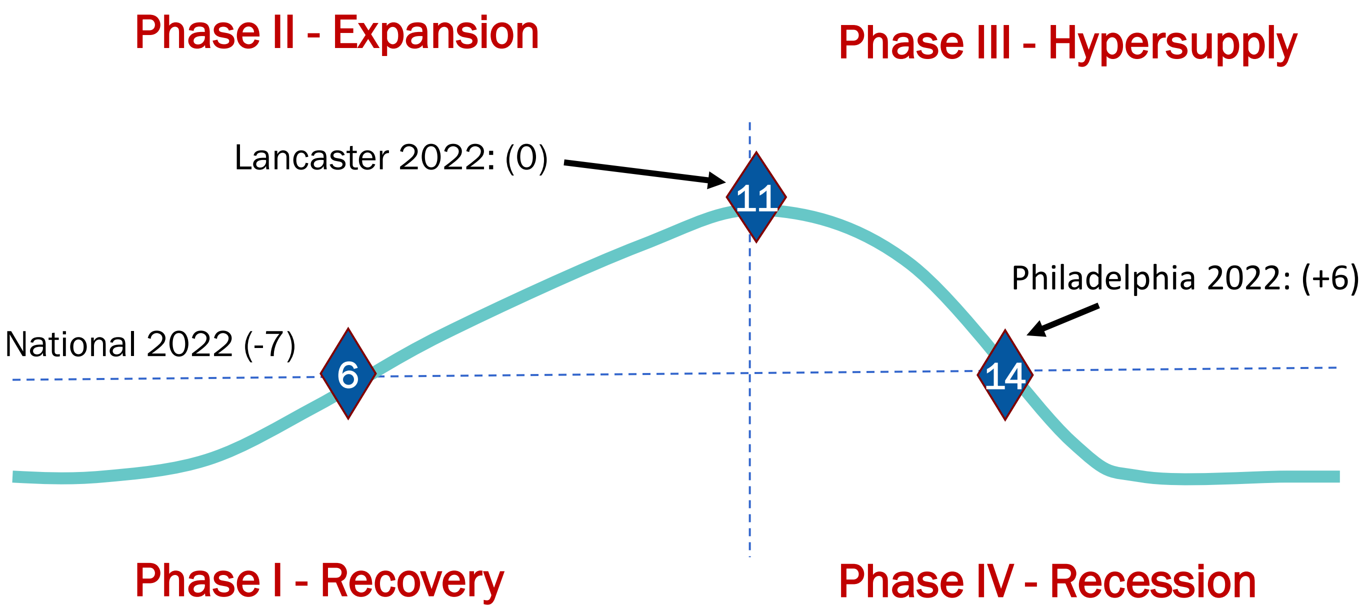
Range for 10-year treasury projections = 3.75%

Source: M&T Realty Capital Corporation; Data as of January 2023

Office

- Uncertain long-term demand
  - 70% of office users are now hybrid
  - Utilization ~40% pre-COVID
- Flight to quality product
  - Newer: rates +3.8%, positive absorption
  - Older: rates (2.5%), negative absorption
- Office as “destination” not “obligation”
  - Fitness centers, food services, outdoor shared areas, quite space
  - More space per person
  - Reinforce culture, collaboration, mentoring
- Suburban is outperforming urban
- Strongest growth sectors are medical, life science and data centers

Third Quarter 2022



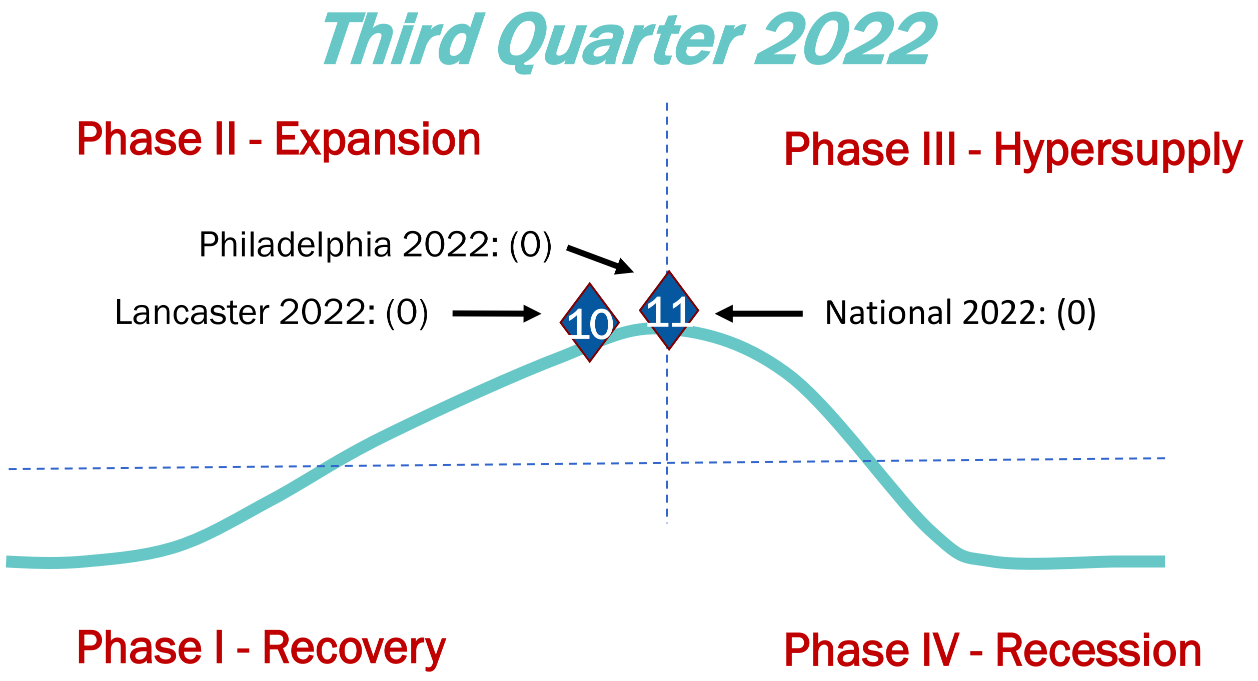
YOY National Change

	Actual 2022	Projected 2023
Occupancy	(0.3%)	1.5%
Rents	1.2%	0%

Source: University of Denver – Real Estate Market Cycles; Lancaster: High Real Estate Group LLC; PWC; Urban Land Institute 2022;, C&W, JLL, REIS; CBRE Research, Real Estate Market Outlook 2022

Industrial

- Vacancy at historic lows at 2.9%
- E-commerce continues to drive demand
- Construction cost up 50% since 2019, and schedules pushing out 30-35%
- Major drivers for location decisions:
  - Distance to major highway (trucking expense)
  - Availability of workforce
  - Workforce housing
- Trends to watch
  - “Middle mile” autonomous trucking
  - Increased automation
  - Robotic in-house transportation



YOY National Change

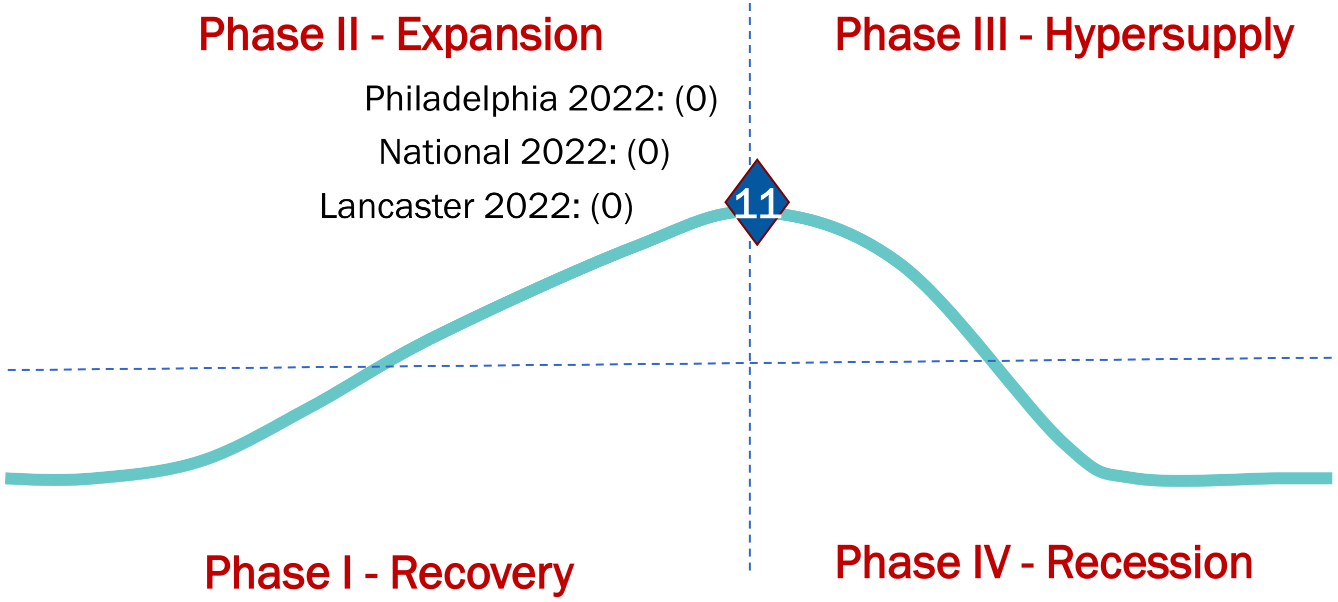
	Actual 2022	Projected 2023
Occupancy	0.7%	0%
Rents	11.9%	4.5%

Source: University of Denver – Real Estate Market Cycles; Lancaster: High Real Estate Group LLC; PWC; Urban Land Institute 2022; CBRE Research, Real Estate Market Outlook 3Q 2022

Apartments

Third Quarter 2022

- Long term fundamentals remain strong
- Barriers to development limit supply
  - Restrictive land use & regulations
  - Increased construction costs & interest rates
- Affordability is becoming a bigger issue
  - 1/3 renter households <$36K/yr
  - 1/2 renter households rent >30% earnings
  - 1/4 renter households rent >50% earnings
- Consumer trends
  - Indoor/outdoor living space
  - Home technology
  - Focus on health & well being
  - Work life balance



YOY National Change

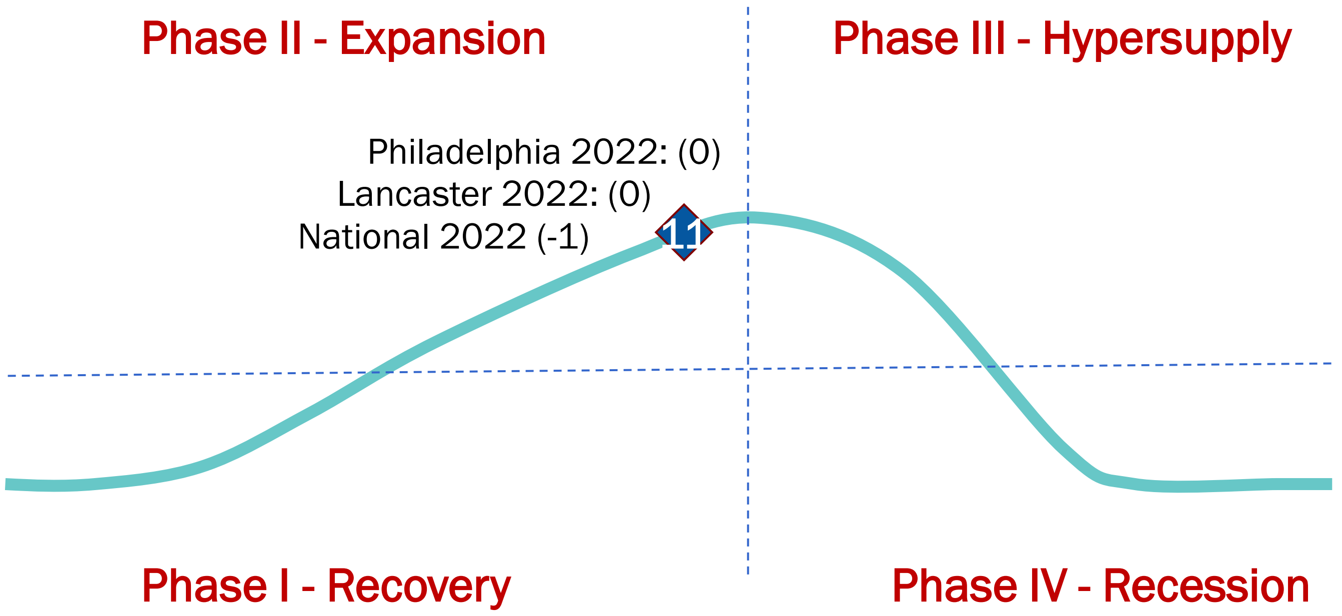
	Actual 2022	Projected 2023
Occupancy	(1.4%)	(1.1%)
Rents	3.7%	1.7%

Source: University of Denver – Real Estate Market Cycles; Lancaster: High Real Estate Group LLC; Urban Land Institute 2022; CoStar

Retail

- 4Q ‘22 sales equaled 2019 levels
  - Driven by excess savings, credit card debt
  - Suburban locations outperforming urban
- Service sales lagging goods sales
- Most retailers have less than 20 employees. Many struggling to hire
- B & C malls continue to be repositioned or demolished
  - 40% of malls are undergoing some level of mixed-use development
- E-commerce grew by 9% in 2021
  - Amazon makes up 25% of e-commerce sales

Third Quarter 2022



YOY National Change

	Actual 2022	Projected 2023
Occupancy	0.5%*	No change
Rents	4.5%	1.5%

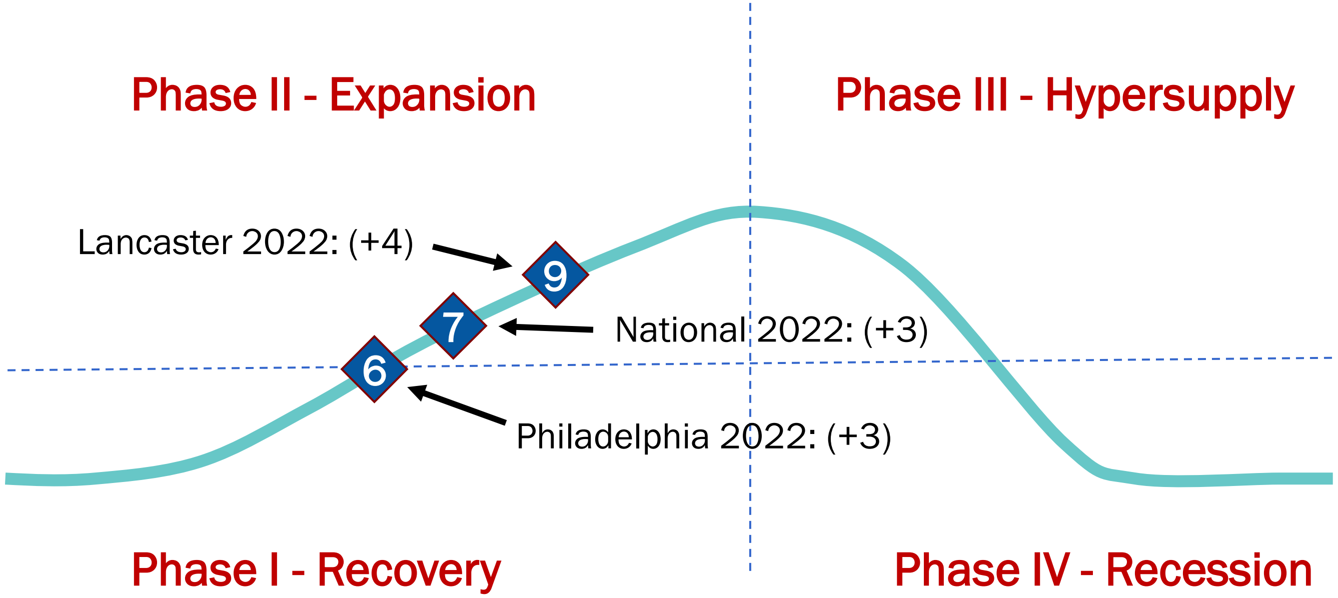
*0.5% YOY growth in occupancy brings occupancy to a new record high. (per Denver Mueller)

Source: University of Denver – Real Estate Market Cycles Q32022; Lancaster: High Real Estate Group LLC; Land Institute 2022

Select Service Hotel

- RevPAR surpassed 2019 driven by strong ADR growth in leisure & group
- Midweek group & business segments are starting to recover
- “Bleisure” is a sustained trend
- Destination and suburban hotel continue to outperform urban hotels
- Staffing and compensation pressures remain a leading challenge to a sustained recovery
  - Brands are slowly reintroducing “standards” which will exacerbate the problem
- Foreclosures did not materialize during COVID as expected

Third Quarter 2022



YOY National Change

	Actual 2022	Projected 2023
Occupancy	+9%	+2%
Rate	+20%	+5%
RevPAR	+31%	+7%

Source: High Real Estate Group LLC, PWC Hospitality Directions November 2022, LARC Jan 2023 Forecast, AHLA Hotel Booking Index Survey- January 2023, CBRE State of the Union Dec 2022, Co-Star Question for Hotel Industry Jan 2023, Skift Blended Travel Comes of Age Jan 2023

Michael Lorelli

Sr. Vice President
Commercial Asset Management
High Associates Ltd.

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Methodology For Lancaster Market Research

- Research
  - Primary and Secondary sources (CoStar, MLS)
  - Owner occupied properties are excluded (e.g. Nordstrom and Americold)
- Office – Institutional-grade, for lease (258 buildings, over 5,000 SF, total 6.3M SF)
  - Lancaster City, Manheim Township, East Hempfield, and East Lampeter Townships
- Industrial – Institutional-grade, for lease (391 buildings, 25.5M SF)
  - Over 10,000 SF in size
  - Lancaster County

Source: High Real Estate Group

Office: Lancaster – Flat

- Three new office projects proposed totaling 102,562 SF
- Occupancy relatively stable at 92.2% for Class A
- Class A existing market rental rates remained flat in 2022:
  - Existing space $23-$26/SF Base Yr
  - New space $32-$35/SF Base Yr
  - Modest rent increase expected in 2023

Source: High Real Estate Group LLC; CoStar

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Lancaster Trend Comparison: Negative Absorption

In Thousands		2018	2019	2020	2021	2022	5 Yr. Avg.
Class "A" Office	Absorption	83.0	116.3	(25.5)	4.2	35.2	42.6
	Vacancy	5.9%	5.5%	7.6%	7.1%	7.5%	6.7%
	Amount Constructed	12.0	126.7	-	-	46.5	37.0
	Available Supply	61.2	71.5	97.0	92.8	104.1	85.3
"B/C" Office	Absorption	136.5	70.7	(44.7)	(36.9)	(37.0)	17.7
	Vacancy	5.3%	3.2%	4.3%	4.7%	5.6%	4.6%
	Amount Constructed	-	-	-	-	-	-
	Available Supply	187.3	116.5	161.2	198.0	235.1	179.6
Business Center	Absorption	(20.8)	105.5	(12.1)	11.3	(44.5)	7.9
	Vacancy	15.8%	8.1%	13.4%	14.4%	20.2%	14.4%
	Amount Constructed	-	32.0	25.5	34.5	-	30.7
	Available Supply	122.1	48.7	86.2	109.4	154.0	104.1

Source: High Real Estate Group LLC; CoStar

Industrial: Lancaster – Strong Market Drives Development Interest

- Three projects completed totaling 559,500 SF
  - 701 Stony Battery Road: 251,250 SF
  - 791 Stony Battery Road: 251,250 SF
  - 2223 Embassy Drive: 57,000 SF
- Three projects under construction totaling 648,578 SF
- Five projects proposed, totaling 1.5M SF
- Existing market rate increased 4.0% for industrial:
  - Existing space $6.25/SF NNN
  - New space $7.25-7.95/SF NNN
- Market rate increased 4%-5% for flex, average $9.95/SF NNN
- Rising lease rates now supports new construction

Source: High Real Estate Group LLC; CoStar

Lancaster Trend Comparison: Industrial Enters Fifth Strong Year

	In Thousands	2018	2019	2020	2021	2022	5 Yr. Avg.
Industrial Space	**Absorption**	109.1	989.7	13.2	1,311.9	371.7	559
	Vacancy	3.5%	5.2%	6.6%	2.7%	2.4%	4.1%
	Amount Constructed	120.7	1,487.6	342.8	125.9	559.5	527.3
	Available Supply	770.6	1,268.6	1,598.1	412.2	600.0	930
Flex Space	**Absorption**	(9.3)	58.7	11.1	(186.9)	138.6	2.4
	Vacancy	4.5%	1.4%	0.7%	9.8%	2.7%	3.8%
	Amount Constructed	-	-	-	-	-	-
	Available Supply	82.3	23.6	12.5	199.4	60.8	75.7

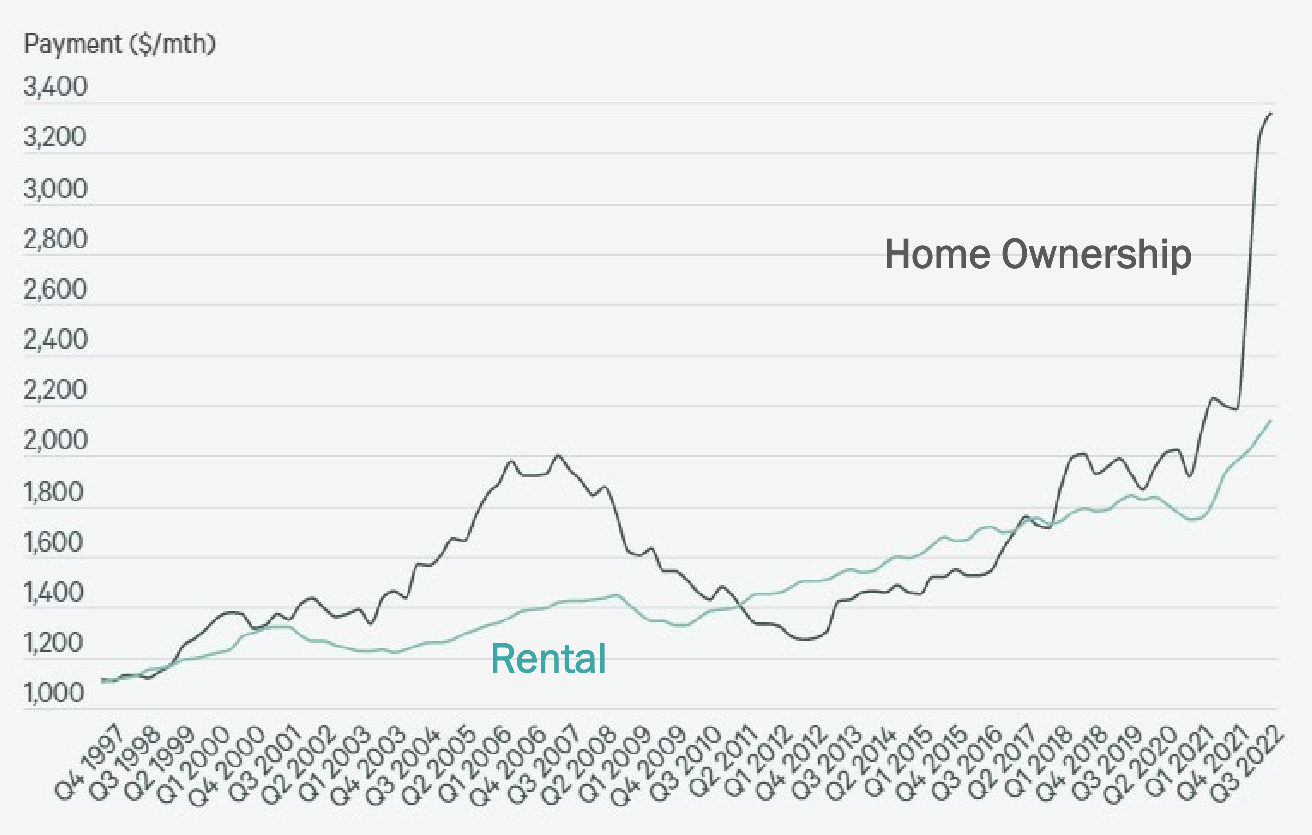
Source: High Real Estate Group LLC; CoStar

Brad Mowbray

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

Slowing Growth Nationally and Locally

- US rental rates up 3.7% in 2022, forecasted up 1.7% in 2023
- Lancaster growth was 5.8% in 2022, forecasted up 2.6% in 2023
- 796K units currently under construction in US with 450K units expected to deliver in 2023, adding 2.6% to total inventory
  - 20 projects and 3,700 units proposed and being planned in Lancaster County
- CBRE projects ~3.5 million new market-rate multifamily units are needed by 2035 to keep pace with demand
- Cost of Ownership vs. Cost of Renting



Source: CBRE Research, CoStar

David Aungst

President
High Hotels Ltd.

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Hospitality: Lancaster – The Road Ahead

- Factors impacting recovery (RevPar = 2019)
  - Hotel location / type
  - Recruiting / retaining top talent
  - Return of corporate travel
- Central PA RevPAR recovery (TTM 2022 as % of 2019)
  - Lancaster 120%
  - York 113%
  - Harrisburg 108%
  - Reading 104%
  - Philadelphia 90%
- Factors facilitating Lancaster recovery
  - Supply stability
  - Leisure demand resiliency
- National transactions
  - Financing cost will widen bid/ask spreads
  - $9.8b in CMBS maturities=opportunity

Source: High Real Estate Group LLC, PWC Hospitality Directions November 2022, LWHA Q4 2022 Major Hotel Sales; Kalibri Labs Dashboard – Jan 2023

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Ken Hornbeck

Sr. Vice President, Development
High Associates Ltd.

HIGH REAL ESTATE GROUP LLC

Development

COSTS

- Construction costs leveling off, but not yet declining
- Scarcity, price volatility of select commodities
- Lumber price down significantly over the past 18-months
  2021 peak = $1,686   vs. $425 today
- Labor availability challenge in smaller markets
- Higher interest rates = financing harder to obtain

LEADING INDICATORS

- Architectural Building Index declined over past 3 months

WATCH OUTS

- Pressure for more ESG disclosures
- Potential ESG regulations have cost implications
- Water availability

Source: ULI's Emerging Trends 2023, AIA's Architectural Building Index December 2022, Turner Cost Index 4th Qtr

Questions