

MARKET REVIEW

OFFICE | Lancaster County, PA | Q1 2019

\$ 5.66 M ▼ in sales 51,000 SF ▼ sold

\$ 111.90 ▼ avg sale price/sf



\$11.79 ▲
AVG LEASE RATE/SF

140,000 SF ▲
TOTAL LEASED

22.01 MSF ▲
TOTAL INVENTORY

2.8% ▶
TOTAL VACANCY

As the national unemployment rate continues declining to 3.8% for the start of 2019 (down from 4.0% this time last year), the State of Pennsylvania and Lancaster County figures posted 3.9% and 3.3%, respectively (a decline from 4.4% and 4.0% in Q1 2018), marking the lowest unemployment rates in more than 18 years. Lancaster County's year-end 2018 median household income increased by 1.5% from 2017, however, it was largely outpaced by the 1.9% US annual inflation rate.

Similar to York County, Lancaster's office structure is highly-constrained. Contributing to this is a shallow construction pipeline, consistently-low vacancy rates and rent growth that seldom surpasses the annual inflation rate. In spite of being one of the fastest-growing PA regions in population, a large percentage of residents are employed outside of the metro's borders. Likewise, much of the larger scale construction and leasing occurs in larger business centers to the west (Harrisburg), and east (Philadelphia), thus, hindering newer development.

After more than four years of flat vacancy in the 6% range, the rate

fell to an all-time low of sub-3% for Q4 2018, and remained unchanged for Q1 of this year. Meanwhile, average rents increased by 11 cents to \$11.79/SF quarter-over-quarter.

Just over 140,000 SF was leased this quarter, surpassing 91,000 SF posted this time last year. Notably, Woodstream Corporation, a pest and animal control product manufacturer, signed a lease for its new nearly 68,000 SF headquarters in downtown Lancaster. The firm will take occupancy once renovations are completed this summer.

In a major consolidation move, UPMC Pinnacle announced the closure of their 185-bed, 118,000 SF Lancaster hospital, located at 250 College Ave. As of February, the Health System relocated all inpatient operations to their Lititz location, roughly eight miles north of the old site. Pinnacle has not yet announced any disposition plans for the shuttered hospital.

****Please note: beginning this quarter, we have adjusted our classification structure. Our Office report now accounts for Flex and Medical Office property types as well.*

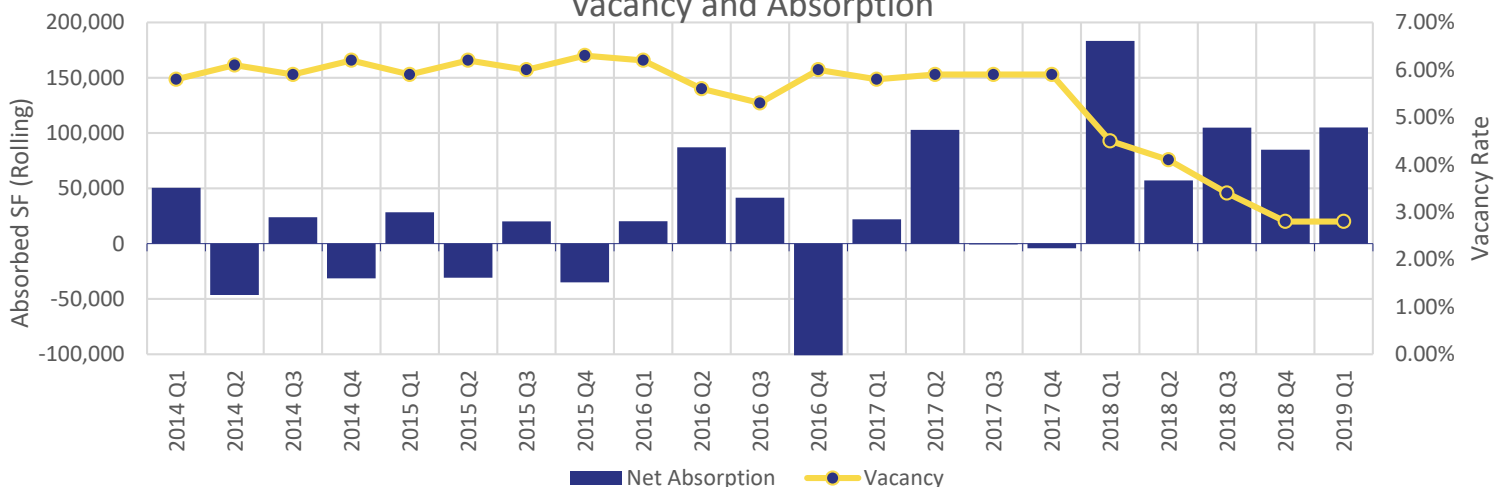
Key Lease Transactions Q1 2019

| PROPERTY | SF | TENANT | TRANSACTION |
|---|--------|-----------------------------------|-------------|
| 29 E King St, Lancaster (Floors 2, 3 and 4) | 67,700 | The Woodstream Corp | New Lease |
| 3045 Marietta Ave, Lancaster | 15,710 | Pinnacle Health Medical Services | New Lease |
| 1809 Olde Homestead Ln, Lancaster | 14,400 | US Social Security Administration | Renewal |
| 1891 Santa Barbara Dr, Ste 104, Lancaster | 5,854 | Name Withheld (Medical Office) | New Lease |
| 142 Park City Center (Park City Center Mall), Lancaster | 3,200 | Lancaster County Academy | Renewal |

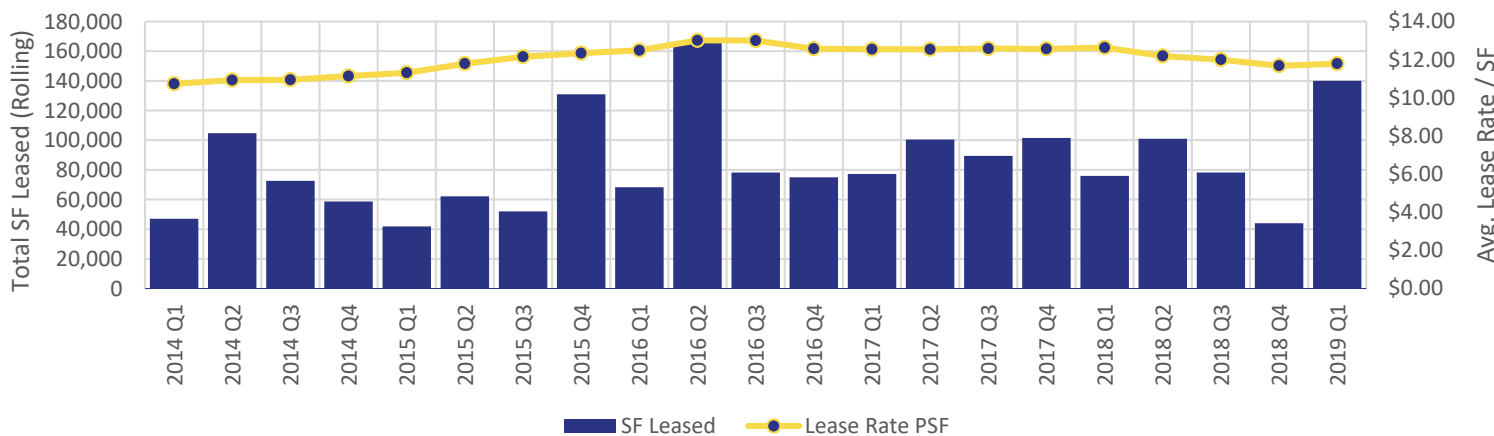
Key Sales Transactions Q1 2019

| PROPERTY | SF | SELLER/BUYER | PRICE |
|--|--------|--|---------------------------|
| 808 Estelle Dr, Lancaster (Chesterbrook Academy) | 7,883 | 808 Estelle Investors LP / Estelle Group LLC | \$1,387,500 (\$176.01/SF) |
| 275 Hess Blvd, Lancaster | 12,100 | Kingsway Realty / Deerin Companies | \$1,150,000 (\$95.04/SF) |
| 107 W End Dr, Manheim | 4,162 | WellSpan Health / Turnpaugh Family LP | \$680,000 (\$163.38/SF) |
| 506 W Lincoln Ave, Lititz | 6,250 | GHP Partners / ALC Holdings LLC | \$635,000 (\$101.60/SF) |
| 44 N Lime St, Lancaster | 4,851 | Strave LLC / King Capital Investments LLC | \$578,250 (\$119.20/SF) |

Vacancy and Absorption



Total SF Leased vs Average Lease Rate/SF



OUTLOOK

- There have been two significant new construction deliveries county-wide this past quarter, increasing the total inventory to 22.01 MSF. A 76,000 SF build-to-suit medical office building for Penn State Health, located at 2221 Noll Dr. Lancaster, was completed in January. The other is a 60,000 SF four-floor professional office building, at 1570 Fruitville Pike Lancaster, also opened in January, with one contiguous floor remaining available for lease at \$25.95/SF NNN.
- A 93,000 SF, three-floor, build-to-suit professional office building project, for natural gas and electric utility provider UGI Corp, remains in the development pipeline, with completion expected in Q2 2019.
- As Lancaster's economy remains in growth mode, we expect its pace to remain more stable. According to late 2018 figures from the Bureau of Labor Statistics, around 15% of the region's jobs are categorized under office-using sectors including IT, professional, financial and business services, and another 11% are retail-related professions.
- The job base is expanding, fueled not only by the industrial demand surging across greater South-Central PA, but also a successfully-diversifying manufacturing base.
- Thanks to a number of institutions of higher education, as well as recent consolidations among healthcare providers, the education and health services sectors will remain major economic drivers for the region.

