

MARKET REVIEW

RETAIL | York County, PA | Q1 2019

\$ 20.96 M ▼ in sales **236,000 SF** ▼ sold
\$ 88.70 ▲ avg sale price/sf



\$12.90 ▼
AVG LEASE RATE/SF

112,000 SF ▼
TOTAL LEASED

24.48 MSF ▲
TOTAL INVENTORY

6.1% ▲
TOTAL VACANCY

As the national unemployment rate continues to decline to 3.8% for the 1st quarter of 2019 (down from 4.0% this time last year), the State of Pennsylvania and York County figures followed suit, posting 3.9% and 3.7%, respectively (a decline from 4.4% and 3.9% in Q1 2018), marking the lowest unemployment rates in more than 18 years. York 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.

As this year's national and local retail environment remains highly challenging, York County has maintained a seemingly consistent vacancy rollercoaster ride over the past five years. Oscillating between an all-time low of 4.6% in Q2 of last year, and 6.4% back in 2014, the past four quarters have demonstrated a consistent gradual increase to 6.1%, as of Q1 of this year.

With the recent rounds of store closings, malls and anchor spaces continued to be the hardest hit. Nonetheless, strength in neighborhood and community centers, creative backfill efforts, and tenant mix/layout revamping, has ensured relatively consistent absorption, and helped support sustained market equilibrium.

As asking rents have fallen for the start of 2019, and remained nearly flat over the prior three consecutive quarters, landlords are increasingly examining surrounding communities to determine the highest and best use for their product.

The sector delivered roughly 44,000 SF of new construction this quarter, up from 7,000 SF this time last year. Among notable Q1 completions is the 17,000 SF Toyota of York dealership expansion at 1885 Whiteford Rd. in York.

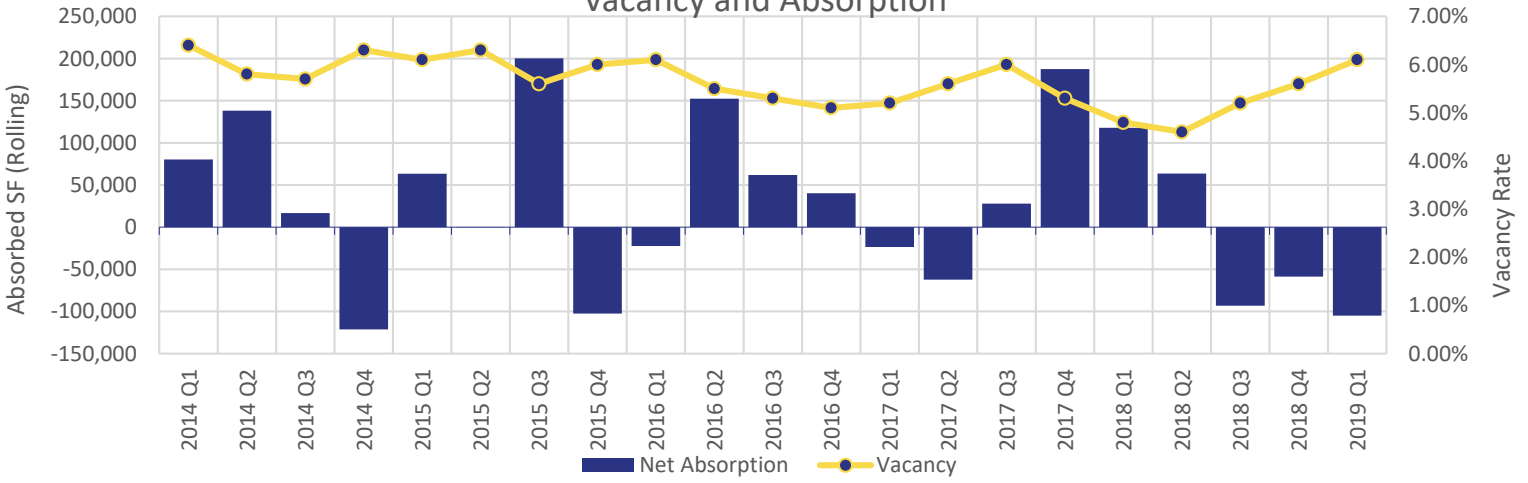
Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION
1800 Loucks Rd, York (West Manchester Town Center)	20,730	UPMC Pinnacle Memorial	New Lease
2430-2496 E Market St, York	8,760	Auto Zone	New Lease
75 Acco Dr, York	6,000	YorkFit	New Lease
2899 Whiteford Rd – Ste 288, York (York Galleria Mall)	5,573	High Street	New Lease
830-870 N US Rt-15, Dillsburg (Dillsburg Shopping Center)	5,500	13 Stripes CrossFit	New Lease

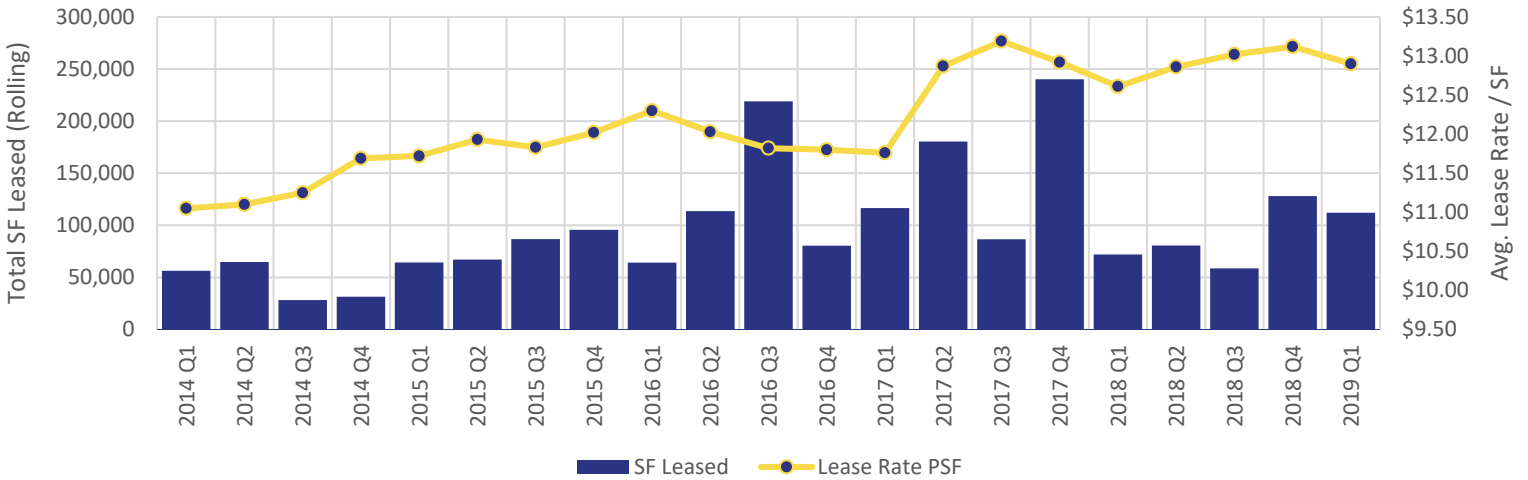
Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE
1313 Kenneth Rd, York	55,200	First Capital Realty Inc / Apple Automotive Group	\$6,250,000 (\$113.22/SF)
1094 Haines Rd, York (Former K-Mart)	116,818	Seritage SRC Finance LLC / Kinsley Equities	\$4,400,000 (\$37.67/SF)
570 Financial Way, Etters (Kwik Shine Car Wash)	3,744	Fishing Crk R&E Mgmt / Waterworks Partners LLC	\$1,300,000 (\$347.22/SF)
2300 S Queen St, York (Former PNC Bank)	2,392	PNC Financial Services Group / NMT Inc	\$980,000 (\$409.70/SF)
2721 S Queen St, York (Former Sheetz)	4,291	Landmark Commercial / South Queen Associates	\$864,000 (\$201.35/SF)

Vacancy and Absorption



Total SF Leased vs Average Lease Rate/SF



OUTLOOK

- Roughly 17,000 SF of retail space remains in the development pipeline at the conclusion of this quarter.
- Over the past few years, demand for large and demised anchor space has kept York retail supply in check. However, many of the retailers who stepped in to re-lease these spaces have already occupied the best locations.
- Entertainment operators including Dave & Busters, who launched their first PA location at Old Navy's former space in the Capital City Mall, have been active, but may be hitting a saturation point. Consequently, we expect higher retail vacancy rates to continue into the foreseeable future.
- In theory, this effect may be offset by internet-based retailers opening brick and mortar locations. However, such spaces are likely to be smaller, inline locations that will not make a major dent in vacancy.
- Pricing uncertainty, investor preoccupation with industrial product, and rising interest rates have hindered capital markets activity. However, we anticipate that the pricing disconnect between buyers and sellers will begin to close in the first half of 2019. Grocery-anchored centers will remain most attractive to investors and consumers alike, as brick and mortar retail realigns itself towards convenience, entertainment, and specialized shopping experiences.

