

# MARKET REPORT

OFFICE | Lancaster County, PA | Q1 2022



## Vacancy Shrinks 32 Basis Points, Leasing Activity Continues Amidst Economic Uncertainty

### HIGHLIGHTS

- A plethora of economic factors are coalescing, making predictions for the office sector difficult. While the Lancaster EDC reports positive findings regarding declining unemployment<sup>1</sup>, effects from inflation, labor shortages, rising interest rates, supply chain disruptions, and threats from global conflict continue to work against progress made in the economic recovery.
- Demand for larger office space continues to decrease. Since 2017, average unit size of signed office leases has decreased 67.84% from 6,463 SF to 2,078 SF.
- 86% of leases in Q1 were attributed to units less than 5,000 SF. 37% of vacant units are 5,000 SF or less.
- The construction pipeline remains shallow with Penn State Health Medical Center at 2160 State Road in East Hempfield Township accounting for 95% of new construction. The facility is due for completion in Fall 2022.

### OVERVIEW

As the labor market stabilizes and unemployment continues to decline, we are seeing demand continue to focus on smaller unit sizes less than 5,000 SF. 86% of leases in Q1 were attributed to units less than 5,000 SF. There is no shortage of supply with over 622,000 SF immediately available in Lancaster County. 37% of that vacant square feet is for units 5,000 SF or less.

Vacancy declined 32 basis points to 3.82% as new vacant square feet held steady between 62,000-67,000 SF for the past three consecutive quarters allowing absorption to move closer to equilibrium. Absorption starts negative for the year at -20,431 SF.

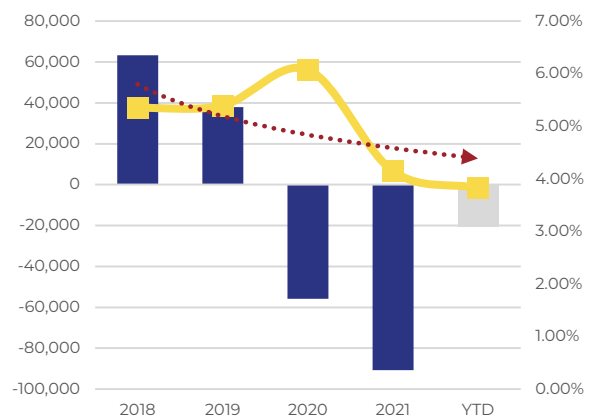
Lease rates remain elevated compared to pre-pandemic levels, currently averaging \$16.07/SF among Class A, B product. Lancaster City and Greater Lancaster West are driving the highest lease rates this quarter between \$14-17/SF.

The construction pipeline remains shallow. Though 357,254 SF is currently under construction, 95% is attributed to a new Penn State Health facility. Penn State Health is boosting its presence in East Hempfield Township with a new 341,000 SF medical center. Due to open Fall 2022, the facility will provide inpatient and outpatient services and employ nearly 700.

### MARKET INDICATORS

Total Inventory	16.98 MSF	▶
Sales (\$)	\$18.66M	▲
Sales (SF)	239,854 SF	▲
Total Vacancy	3.82%(-32 bps)	▼
Total Leased (SF)	25,704 SF	▼
Average Rent	+3.48	▲
Average Rent <i>12-month rolling average</i>	+\$1.57	▲

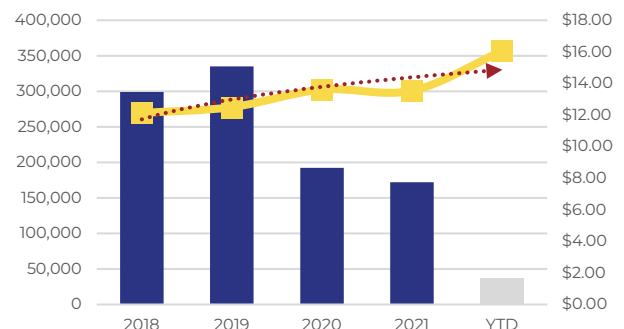
### NET ABSORPTION & VACANCY



Legend: Net Absorption (Blue Bar), Vacancy (Yellow Line), Vacancy Trend (Red Dotted Line)

\* Absorption & Vacancy for Class A, B & C

### SF LEASED & AVG LEASE RATE



Legend: SF Leased (Blue Bar), Lease Rate PSF (Yellow Line), Lease Rate Trend (Red Dotted Line)

\* SF Leased includes Class A, B & C | Lease rate includes Class A & B only

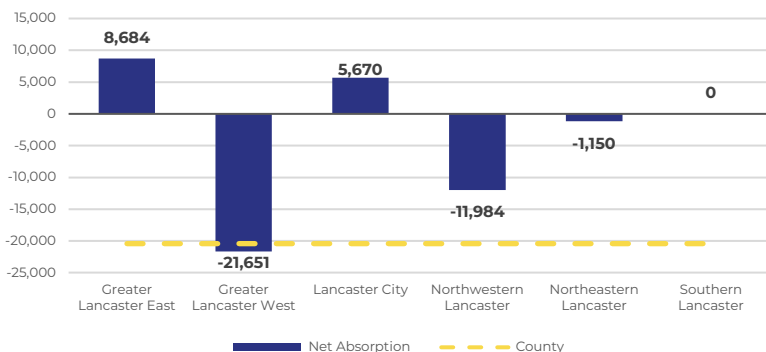
<sup>1</sup> Lancaster County EDC - March 25, 2022 Intelligence Report on the State of Lancaster County's Economy

# OFFICE

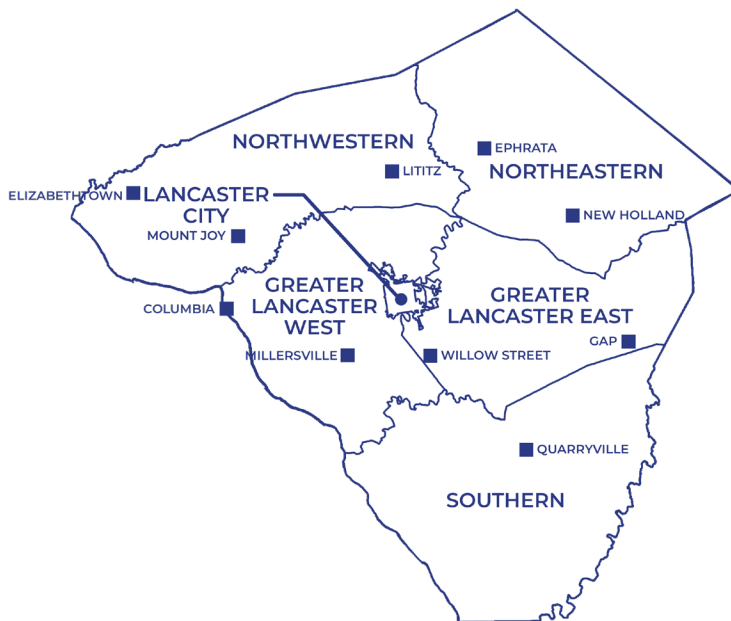
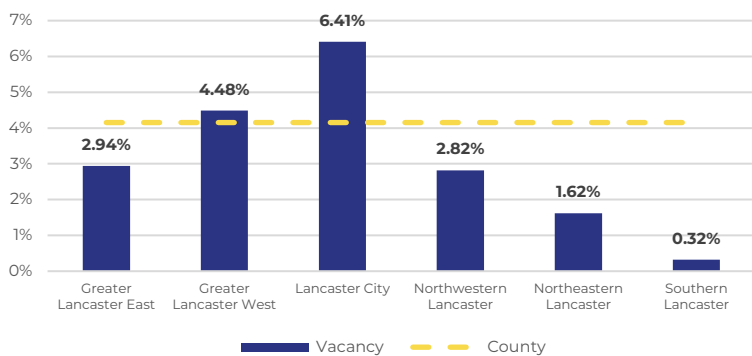
Lancaster County, PA

Q1 2022

## NET ABSORPTION BY SUBMARKET



## VACANCY BY SUBMARKET



## Key Lease Transactions Q1 2022

PROPERTY	SF	TENANT	TRANSACTION
1720 Hempstead Rd, Lancaster	5,900	Name Withheld	New
101 Good Dr, Lancaster	3,400	Name Withheld	New
226 N Arch St, Lancaster	2,400	Name Withheld	New
120 W Airport Rd, Lititz	2,400	Name Withheld	New
126 Foxshire Dr, Lancaster	2,125	Name Withheld	New

## Key Sales Transactions Q1 2022

PROPERTY	SF	SELLER/BUYER	PRICE
516 Running Pump Rd, Lancaster	7,441	TRC Partners, LP / Herij Real Estate Company, LLC	\$1,500,000
2148 Embassy Dr, Lancaster	10,000	Regency Square Executive Suite / Vitreoretinal Associates of Lancaster	\$1,262,500
20 Snyder Ln, Ephrata	13,336	Jonathan & Trudy D. Pomeroy / 290 West Properties, LLC	\$950,000
930 Red Rose Ct, Suite 104, Lancaster	1,624	Financial Management Group, Ltd / HG Holdings, LLC	\$765,000
26 Millersville Rd, Lancaster	4,564	David L. Charles / Pet Pantry of Lancaster County, Inc.	\$550,000

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