

MARKET REPORT

OFFICE | Lancaster County, PA | Q2 2023



Sale Volume Is Up 89% From Last Year Bucking National Trend

HIGHLIGHTS

- Sale volume experiences strong mid-year performance just shy of \$30M.
- Sales persist despite a rising vacancy rate and environment of negative absorption. Investors are betting on future upside either in confidence to find office tenants or redevelop properties to mixed-use or multi-family properties.
- Decreasing average unit size continues to impact lease volume contributing to the negative trend in absorption.

OVERVIEW

Nationally, the office market is grappling with economic shifts including interest rate hikes, increasing remote work arrangements, and reductions in square feet leased. The local office market is also influenced by these trends but reacting differently.

Year-to-date, national office sales total \$14.8B, significantly below the \$43.7B recorded during the same period in 2022.¹ Locally, however, office sale volume has increased 245% since mid year 2022. Sale volume this quarter was the highest Q2 performance in five years, exceeding Q2 sales in 2021 which was the overall strongest year for sales. While some of these properties will be owner occupied others were purchased by investors confident in securing local tenants or redeveloping the properties to mixed-use or multi-family projects.

From a leasing perspective, leased square feet has been declining contributing to the year-over-year trend of negative absorption. Reduction in leased square feet, however, is not necessarily due to waning lease activity. In Q2, signed leases were up 55% from mid-year 2022. Average unit size contributes significantly to this decrease, down 58% from 2019 and 28% since last year.

3725 Electronics Way in Mountville, formerly the Clipper Magazine Headquarters is now the top office vacancy, increasing countywide vacancy and driving negative absorption in Q2.

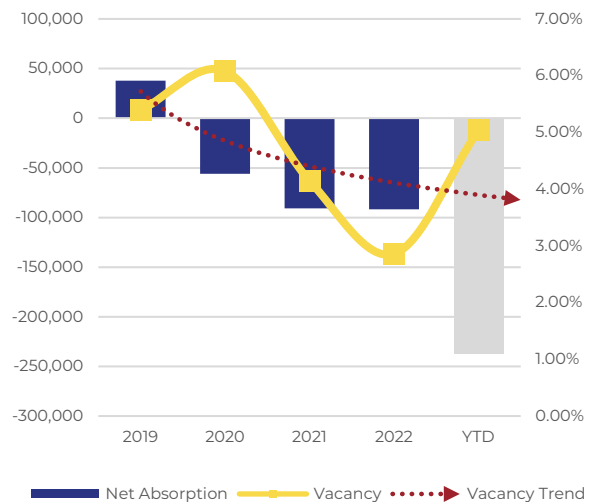
Nationally, medical office construction starts have been steady despite a decline in other office types.¹ This is also experienced locally with a recent example being a 10,000 SF clinic for children with genetic disorders due for completion Spring 2024.²

¹ <https://www.commercedge.com/blog/national-office-report/>
² <https://clinicforspecialchildren.org/>

MARKET INDICATORS

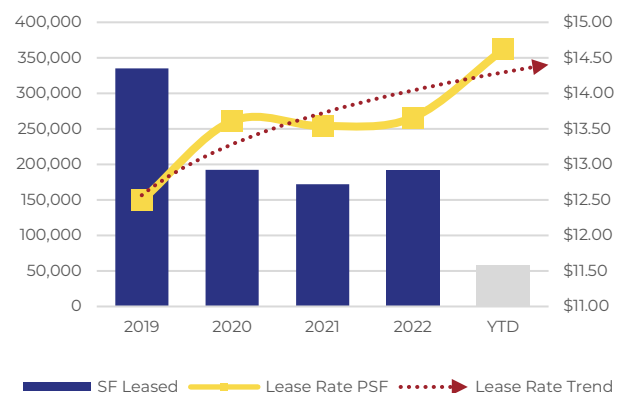
Total Inventory	15.56 MSF	▶
Sales (\$)	\$16.84M	▲
Sales (SF)	119,673 SF	▲
Total Vacancy	5.01% (+105 bps)	▲
Total Leased (SF)	29,933 SF	▼
Avg Rent Change <i>12-month rolling average</i>	+\$1.20	▲

NET ABSORPTION & VACANCY



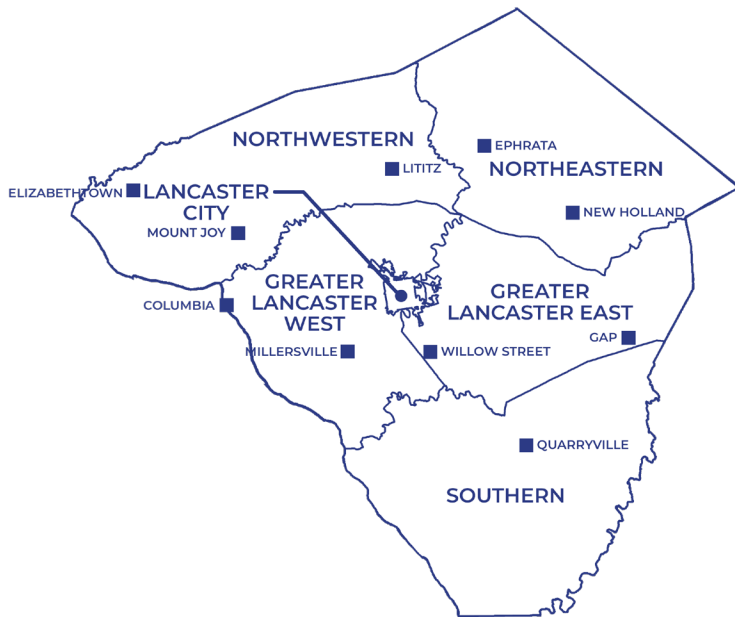
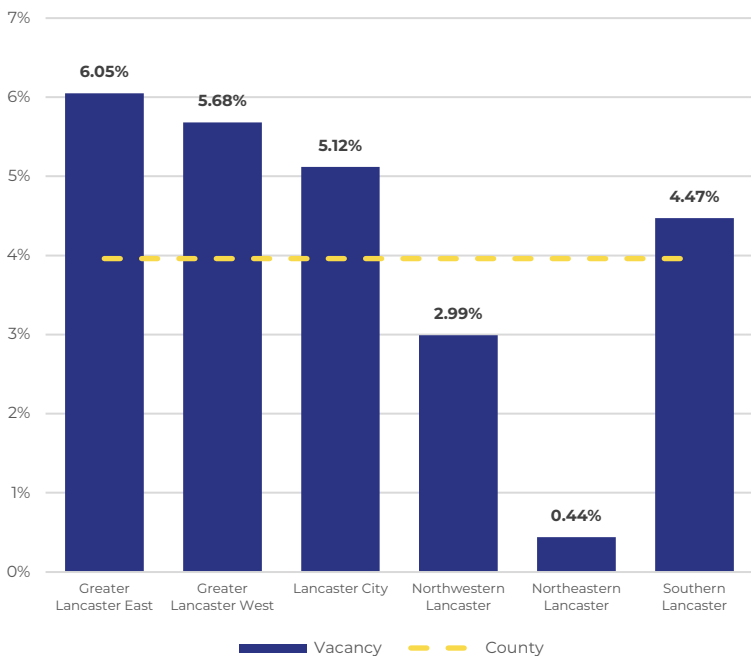
* Absorption & Vacancy for Class A, B & C

SF LEASED & AVG LEASE RATE



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

VACANCY BY SUBMARKET



Key Lease Transactions Q2 2023

PROPERTY	SF	TENANT	TRANSACTION
1860 & 1862 Charter Ln, Lancaster	4,885	Name Withheld	New
150 Farmington Ln, Lancaster	4,871	Dermatology Partners, Inc.	New
115 E Main St, Ephrata	4,000	Name Withheld	New
32-38 E King St, Lancaster	2,731	Name Withheld	New
180 W Airport Rd, Lititz	2,500	Name Withheld	New

Key Sale Transactions Q2 2023

PROPERTY	SF	SELLER/BUYER	PRICE
1412 E King St, Lancaster	8,760	GD Davita, LLC / 1201 Callowhill Associates, LP	\$2,824,076
1882 N Rohrerstown Rd, Lancaster	11,171	KE LLC / WellSpan Properties, Inc.	\$2,800,000
31-37 E Orange St, Lancaster	15,347	Marion Properties LLC / Marion Court Properties LLC	\$2,200,000
924 Red Rose Ct, Lancaster	9,582	Tri Star Red Rose Court LP / Golden Horseshoe Investments	\$2,000,000
108 Foxshire Dr, Lancaster	10,000	Gayle & Gay Despard / Regal Wealth Holdings, LLC	\$1,550,000

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