



Lancaster Real Estate Market Overview

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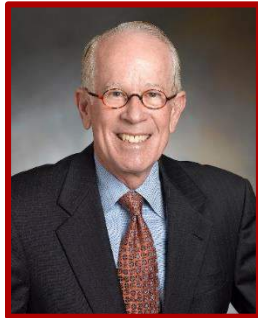
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President & Chief Operating Officer
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	2018 Actual	2019 Forecast
Total GDP	2.9%	2.25% to 2.5%
Consumer Price Index	2.4%	1.9% to 2.1%
Unemployment	January-December	
National	4.1% to 3.9%	3.6%
State	4.8% to 4.2%	4.5%
Lancaster	3.6% to 3.4%	3.0%
10-Year Treasury	2.65%	2.75% to 3.25%
Credit Environment	Ample availability, competitive rates, looser underwriting, higher LTV	Ample availability, competitive rates, looser underwriting standards

Upside Scenario	Downside Risk
Trade deal with China is reached early in year, removing uncertainty increasing global growth	Increased trade war with China
Greater growth in European markets	Messy Brexit, weakening Europe's already tepid growth
Stronger productivity growth and less inflation	Continued volatility in the stock market
More accommodative monetary policy	Additional Federal shutdown

➤ Commercial Banks

- Will be more active for most asset classes
 - Underwriting standards will loosen
 - Loan-to-Value targets will increase (DSCR will be limiting factor)
 - Spreads will tighten
- Regulatory roll back of Dodd-Frank could free up more capital for CRE, increasing competition. (“HVCRE” continue to be an issue for most lenders)

➤ Life Companies

- Very active in 2018, continues into 2019
 - Loan portfolios grew by 8.4%, nearly twice the growth rate of all mortgage debt
- Underwriting more conservative than Banks, tighter spreads
- Very active in Multi-family and Office sectors

➤ Freddie Mac / Fannie Mae

- Experienced a 24% increase in loan production in 2018 over 2017
- Additional capital available in 2019, which will drive down spreads
- Uncertainty around privatization???

➤ Commercial Mortgage Backed Securities (“CMBS”)

- Volume is trending down
- Focus is on large single asset properties

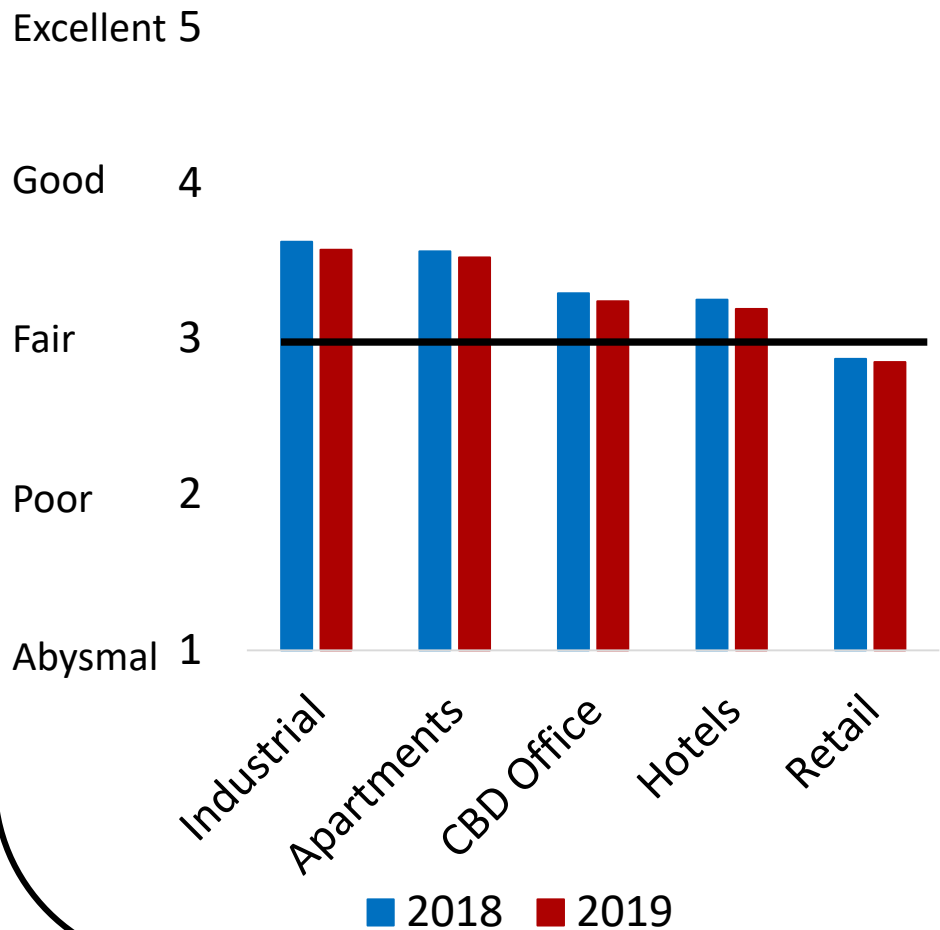
- Transaction volume was up significantly in 2018
 - 14.8% YOY all transactions
 - 4.9% excluding entity level sales
 - Tremendous amount of “dry powder” sitting on sideline

- With exception of International investors, buyers are increasingly moving into secondary/tertiary markets
 - Continue to look for yield and **upside**
 - Not as “overbuilt” as some primary markets

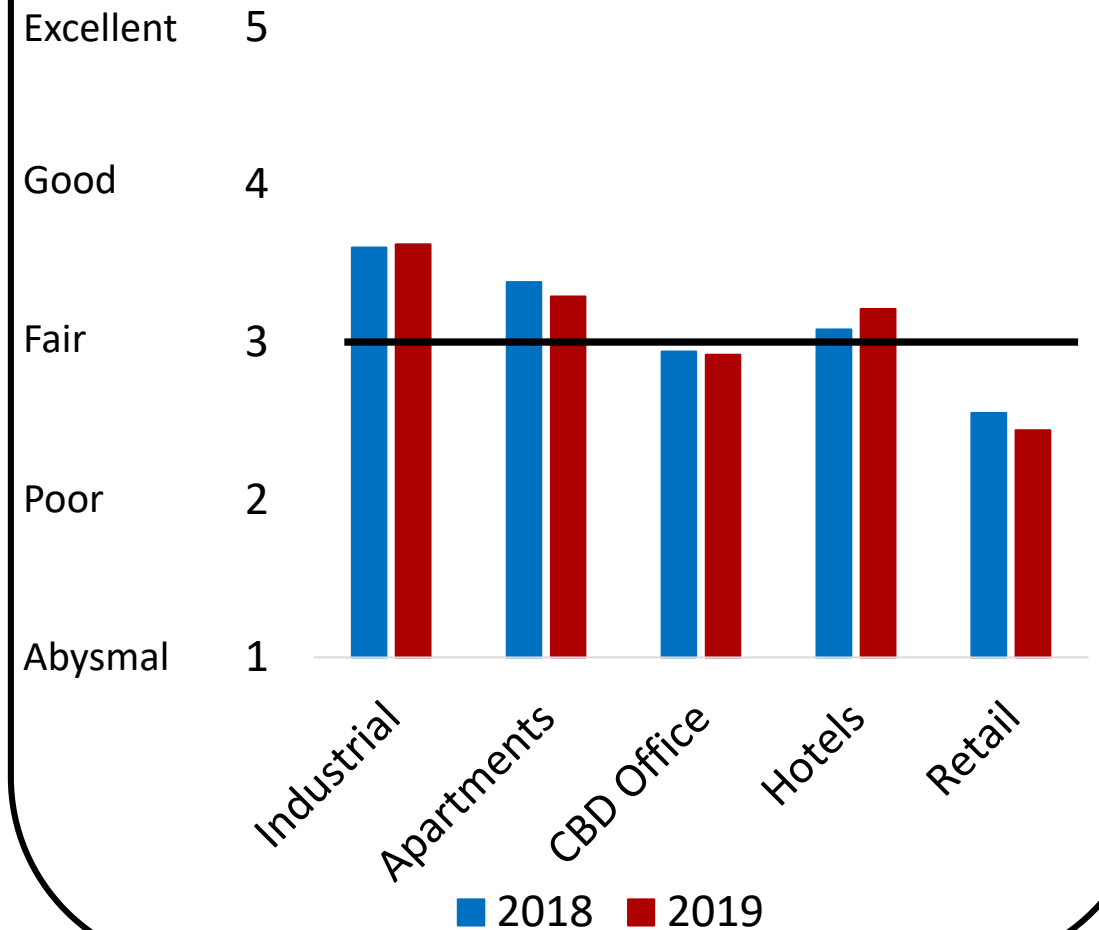
Players	Net Activity 2Q17-2Q18	2019 Projected
Institutional /Equity Funds	Net sellers – all asset types except retail	↔
REITS	Net sellers – all asset types except industrial	↔
International	Net buyers – all asset types	↔
Private Equity	Net sellers – all asset types except retail/hotel	↑

	Max LTV	Vacancy	Cap Rate	Spread	10-Year Treasury	All in Rate
Residential	65-75%	5-7%	5.0-7.0%	1.35-1.95%	2.65%	4.00-4.60%
Industrial	65-75%	5-10%	5.5-8.0%	1.50-1.80%	2.65%	4.15-4.45%
Office Suburban	60-70%	10-15%	7.5-9.5%	1.60-1.90%	2.65%	4.25-4.55%
Retail (“Anchored”)	65-75%	7-10%	6.0-7.5%	1.50-1.90%	2.65%	4.15-4.55%
Hotel	55-60%	25-35%	7.0-8.5%	2.25-2.50%	2.65%	4.90-5.15%

Acquisitions



Development



	Range	2018 Average	Change from 2017	BPS
Apartments	3.5 - 8.5%	5.16%	↓	16 bps
Industrial	1.0 – 6.5%	4.56%	↓	50 bps
Limited Service Hotels	7.5 – 11.0%	9.15%	↑	15 bps
CBD Office	3.0 - 7.5%	5.44%	↑	29 bps
Suburban Office	5.0 – 10.0%	6.63%	↓	9 bps
Neighborhood/Community Centers	4.0 - 9.5%	6.70%	↓	32 bps

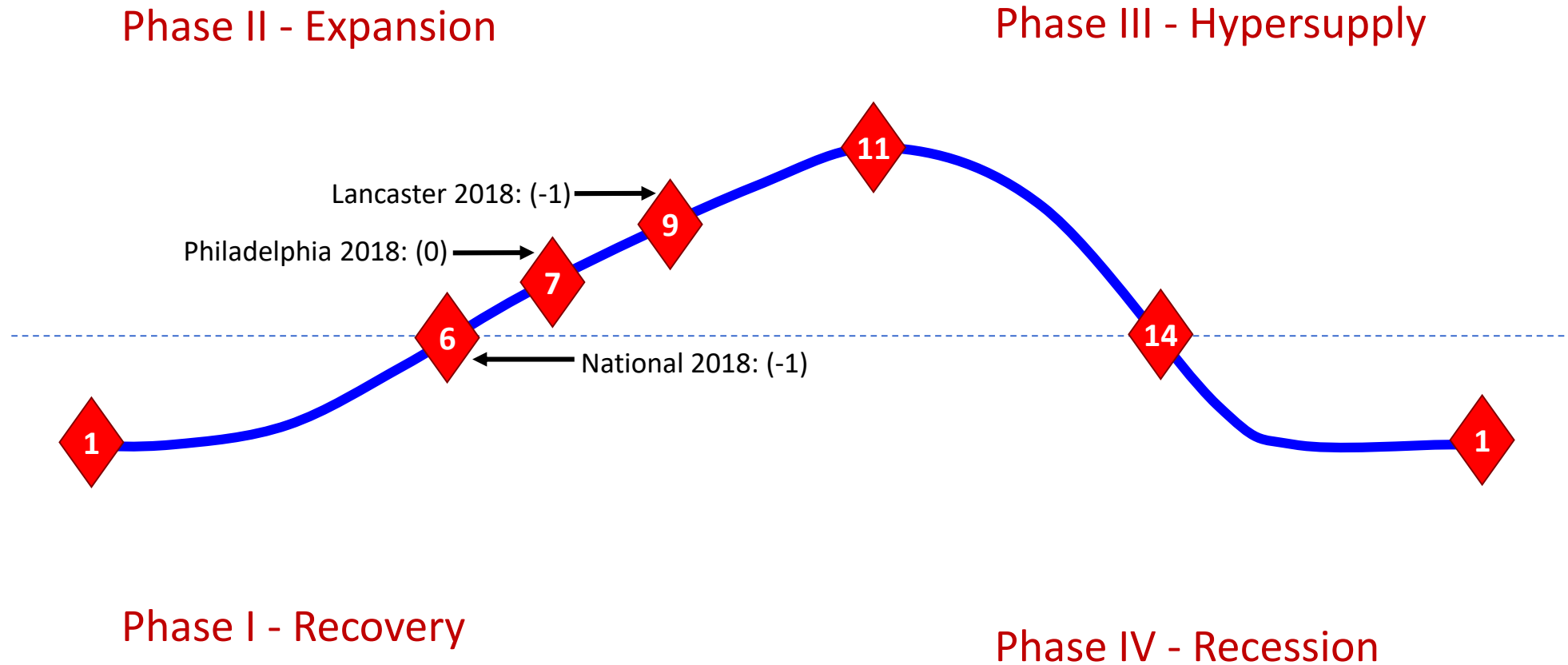
- Cap rates should remain steady, downside risk due to increasing interest rates
- Market fundamentals solid in most sectors
- Equity is abundant, looking for “Core”, “Core Plus” and “Value Added Opportunities” in primary and secondary, and tertiary markets

Michael Lorelli



Sr. Vice President Commercial Asset Management
High Associates Ltd.

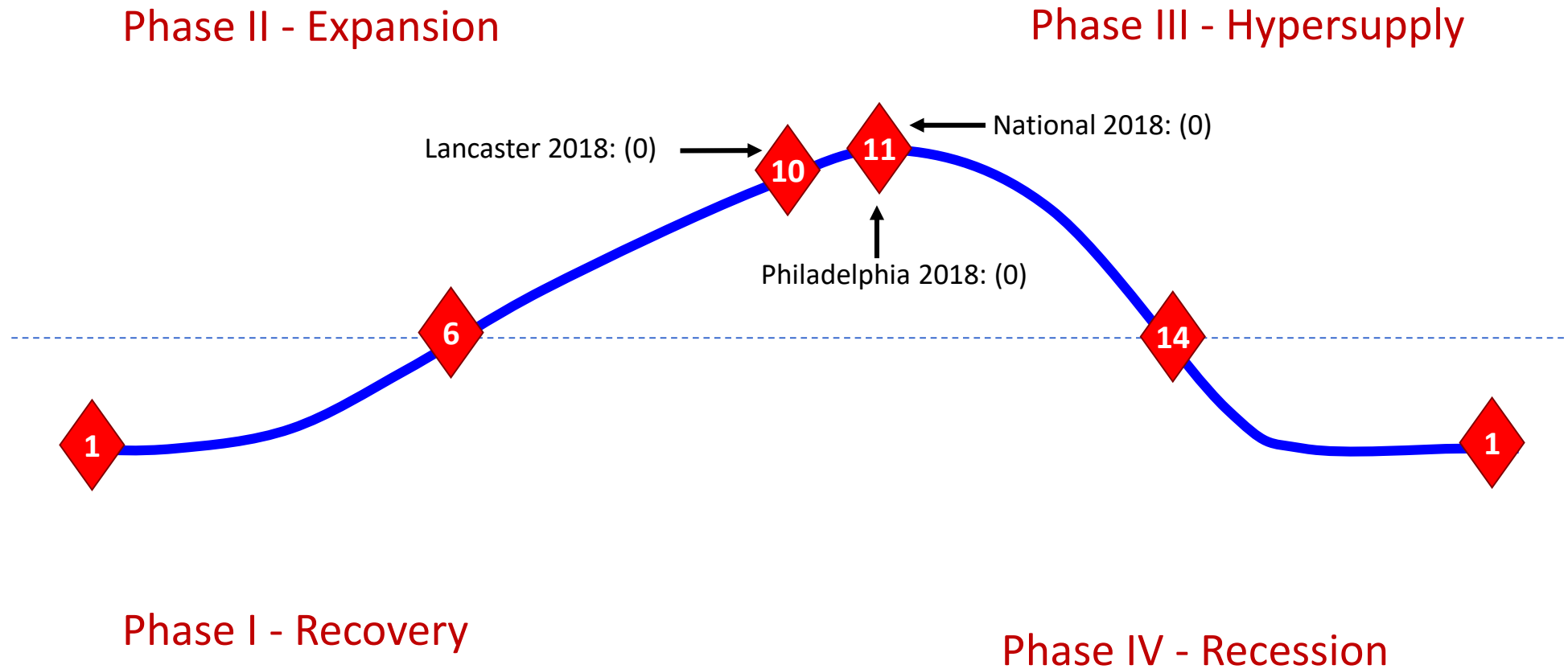
Third Quarter 2018



- Rents grow 2.2% year over year
- Occupancy grew by .1%; growth constrained by full employment
- Higher construction cost is impacting new development
- Design Trends:
 - Successful new projects have close proximity to food, entertainment, and housing
 - Shared office environments, or non-office (WIFI) is the fast growing segment
 - Companies looking at space as extension of their brand in attracting workers
 - 2019 outlook: rents +1.5%, occupancy flat

- Lancaster market sees first sizable expansion in two decades
- Four new projects near completion
 - 2301 Harrisburg Pike: 12,000 SF
 - Citygate Corporate Center: 60,000 SF
 - 101 North Queen: 50,000 SF
 - Lime Spring Penn State/Hershey: 80,000 SF
- Six new Class A projects are proposed totaling 147,744 SF
- Occupancy at an all time high of 94.1% for Class A
- Class A Lancaster market rental rates decreased -0.4% in 2018

Third Quarter 2018



- Rents grew by 5.9% year over year
- Occupancy grew by .2% (95.7%)
 - Supply and demand are at equilibrium
- 35 straight quarters of positive absorption
- eCommerce and final mile continue as key drivers
- A new driver is the legalization of marijuana
- Users are demanding warehouse space where workforce is available
- 2019 outlook: rents +4.2%, occupancy flat

- Lancaster experienced an increase in occupancy and rates, new development in sight
- Two new projects completed or near completion
 - 201 Enterprise, Lititz: 80,000 SF
 - 1897 River Road, Bainbridge: 40,718 SF
- Six projects are proposed, totaling 572,700 SF
- Lancaster market rate increased 6.4%
- Lancaster market rate increased 17.5% for flex

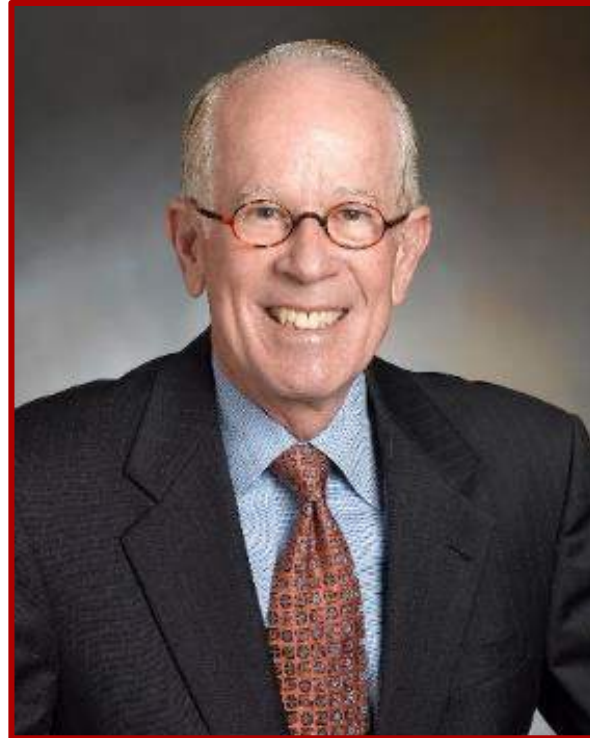
- Research – Primary Research
 - Secondary sources (CoStar, MLS)
 - Owner occupied properties are excluded (e.g. Nordstrom and Urban Outfitters)
- Office – Institutional-grade, for lease (248 buildings, 5.5M SF)
 - Over 5,000 SF in size
 - City of Lancaster, Manheim, East Hempfield, and East Lampeter Townships
- Industrial – Institutional-grade, for lease (378 buildings, 22.3M SF)
 - Over 10,000 SF in size
 - Lancaster County

Lancaster Market Comparison

		2014	2015	2016	2017	2018	5-Year Average
Class "A" Office	Absorption	(12,320)	(10,447)	87,988	75,273	203,039	68,706
	Vacancy	13.9%	14.8%	10.9%	10.2%	5.9%	
	Amount Constructed	0	0	28,000	0	152,000	36,000
	Available Supply	257,044	267,491	207,503	132,230	81,191	
"B/C" Office	Absorption	6,753	86,396	59,167	36,732	136,537	65,117
	Vacancy	19.0%	15.6%	13.2%	8.5%	5.3%	
	Amount Constructed	9,700	0	0	0	0	1,940
	Available Supply	506,090	419,694	360,527	323,795	187,258	
Business Center	Absorption	14,594	18,690	14,873	32,739	(20,828)	12,014
	Vacancy	14.2%	12.6%	11.2%	13.2%	15.8%	
	Amount Constructed	0	0	0	0	0	0
	Available Supply	167,645	148,955	134,082	101,343	122,171	

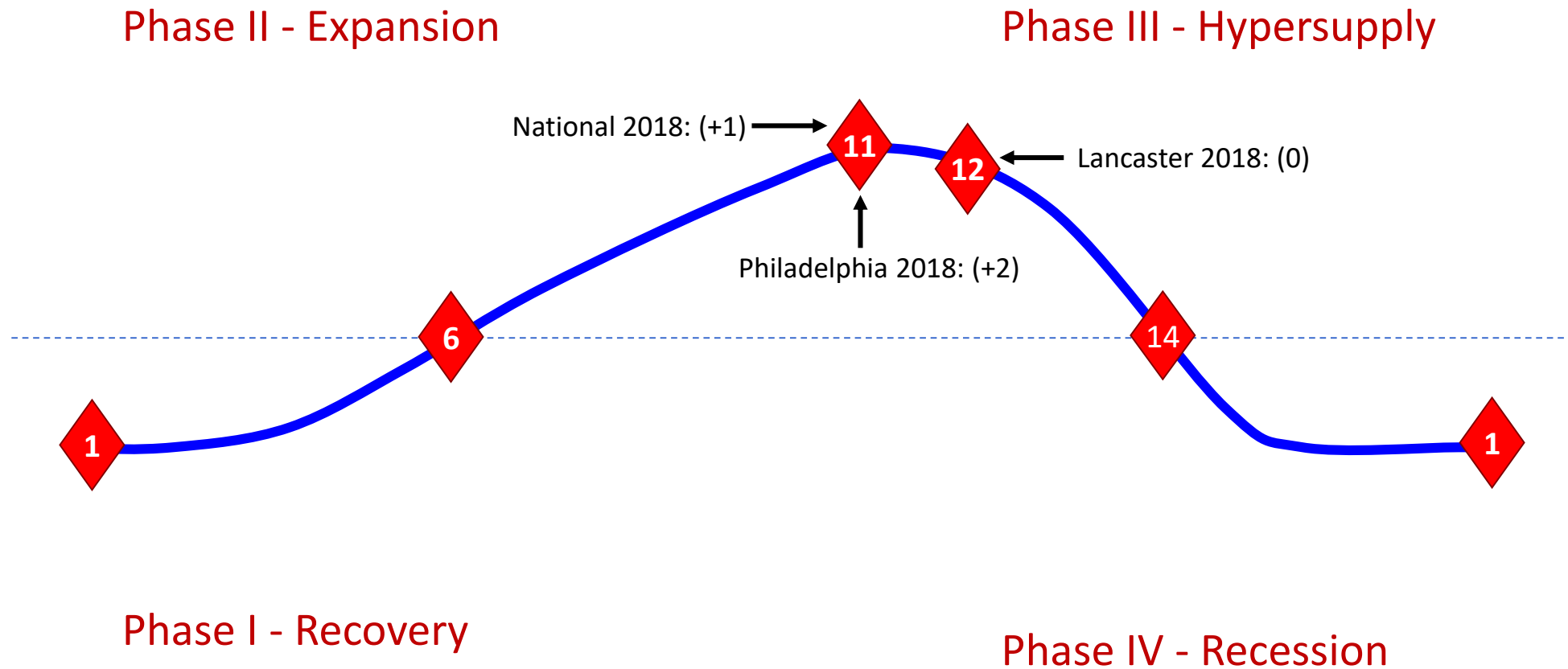
		2014	2015	2016	2017	2018	5-Year Average
Industrial Space	Absorption	549,424	223,333	(232,207)	552,062	109,123	240,347
	Vacancy	6.0%	5.7%	7.5%	3.2%	3.5%	
	Amount Constructed	0	186,322	199,800	0	120,718	101,368
	Available Supply	916,024	879,013	1,311,020	758,958	770,553	
Flex Space	Absorption	(2,345)	77,172	23,125	21,899	(9,339)	18,160
	Vacancy	11.6%	12.7%	10.2%	4.1%	4.5%	
	Amount Constructed	0	105,432	0	0	0	21,086
	Available Supply	89,696	117,956	94,831	72,932	82,271	

Steve Evans



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

Third Quarter 2018



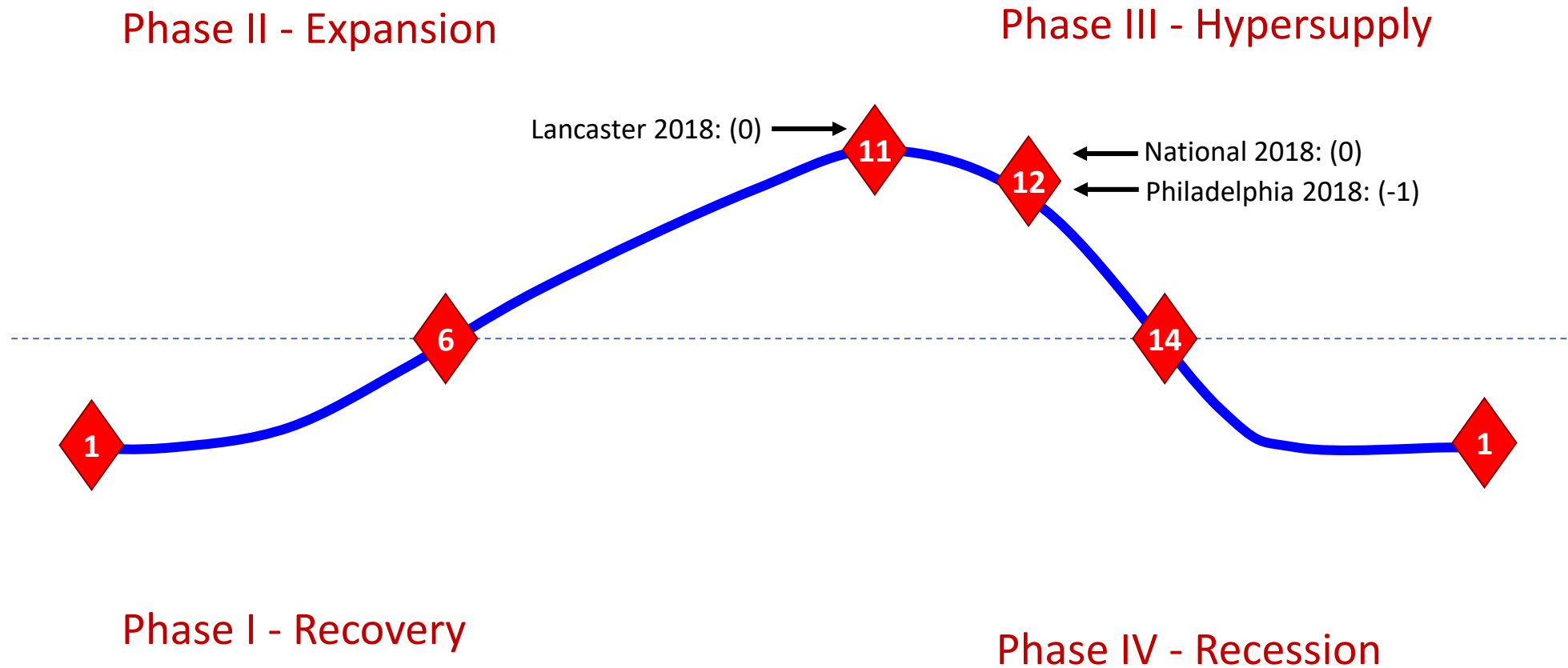
- Technology, is intensifying transformation of retail at a rapid pace
- Free delivery is not free
- The real story behind the headlines: retail is robust and diversifying
 - Adapting to consumer preferences and behavior
 - A tale of two cities: legacy malls and retailers vs. emerging new concepts and anchors
- Supply and demand: in balance in Lancaster?
 - New development: Yes
 - Obsolete retail assets: No, not yet, but it's coming and will take time
- It's a new paradigm with mixed-use, particularly redevelopment

Brad Mowbray



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

Third Quarter 2018



- Anticipate steady multi-family demand at a national level
 - NMHC & NAA estimate 4.3 million new units needed by 2030 to keep up with demand
- Key demand drivers
 - Tax Cut and Jobs Act, decreases tax incentive for home ownership
 - Shift in household composition
 - Preference for flexibility
 - Affordability major issue, falling vacancy rates in Class B & C communities compounded with rising rents
- Supply constraints
 - Tariffs, rising labor costs & subcontractor availability is increasing construction costs
 - Cautious lenders, decreasing LTC
 - Local land use policy restrict density
- National vacancy rates estimated to increase 30 bps in 2019 after a stronger than anticipated 2018.

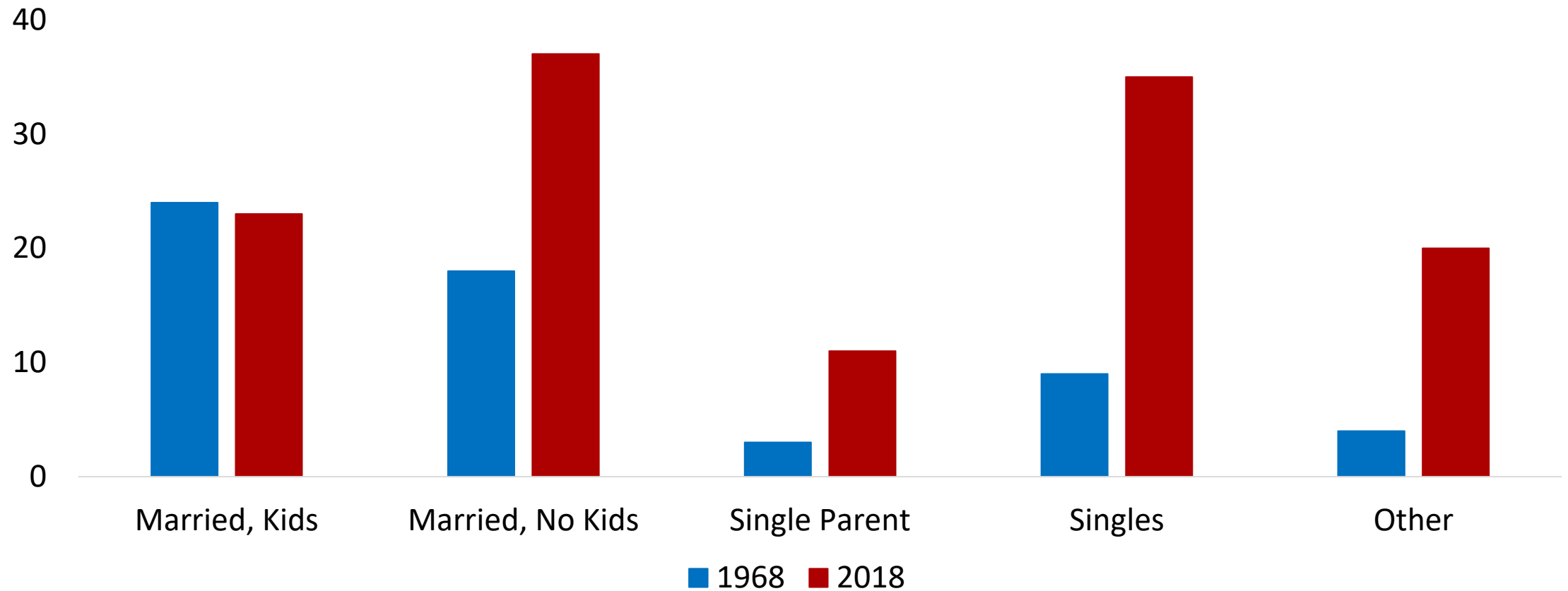
- Tax Cuts and Jobs Act gives renters same federal income tax benefits as many homeowners
 - Single – increased from \$6K to \$12K
 - Married/Joint Filing – increased from \$12K to \$24K
 - \$10,000 cap on local property tax deduction

Economic tax incentive to own declines with 2018 returns

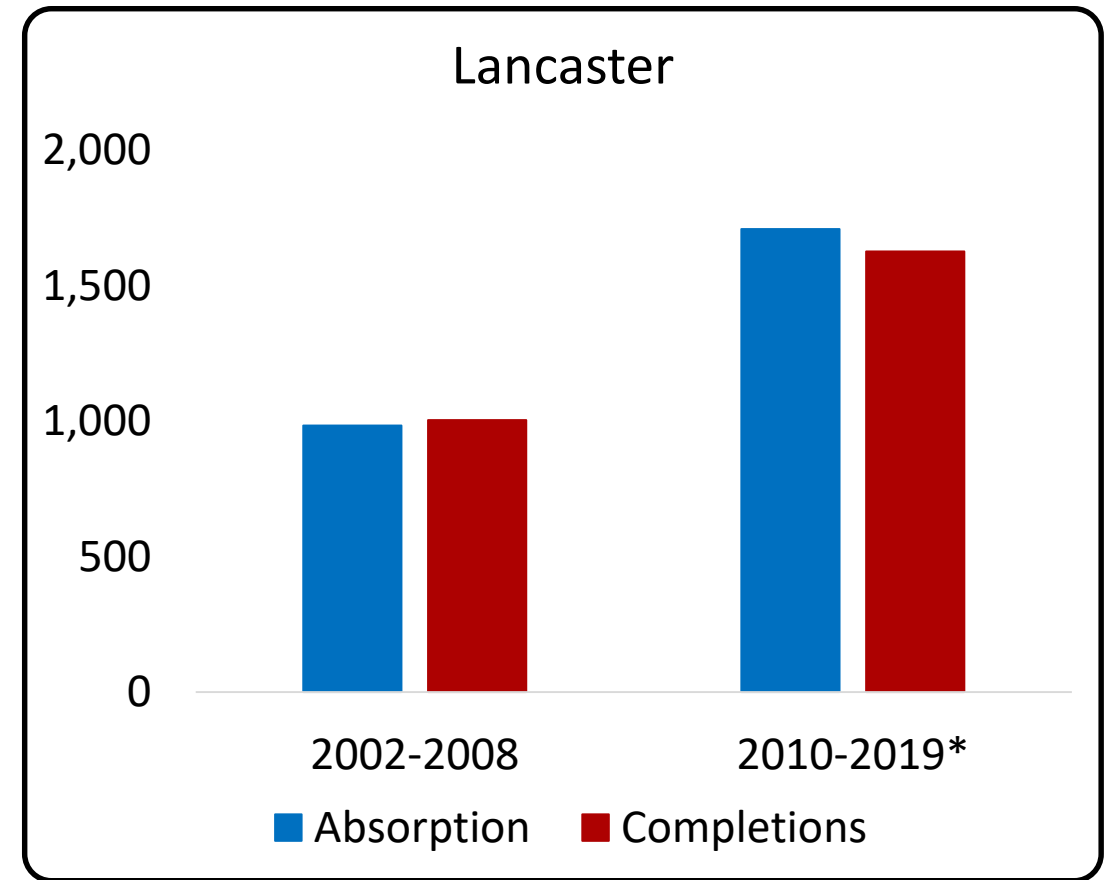
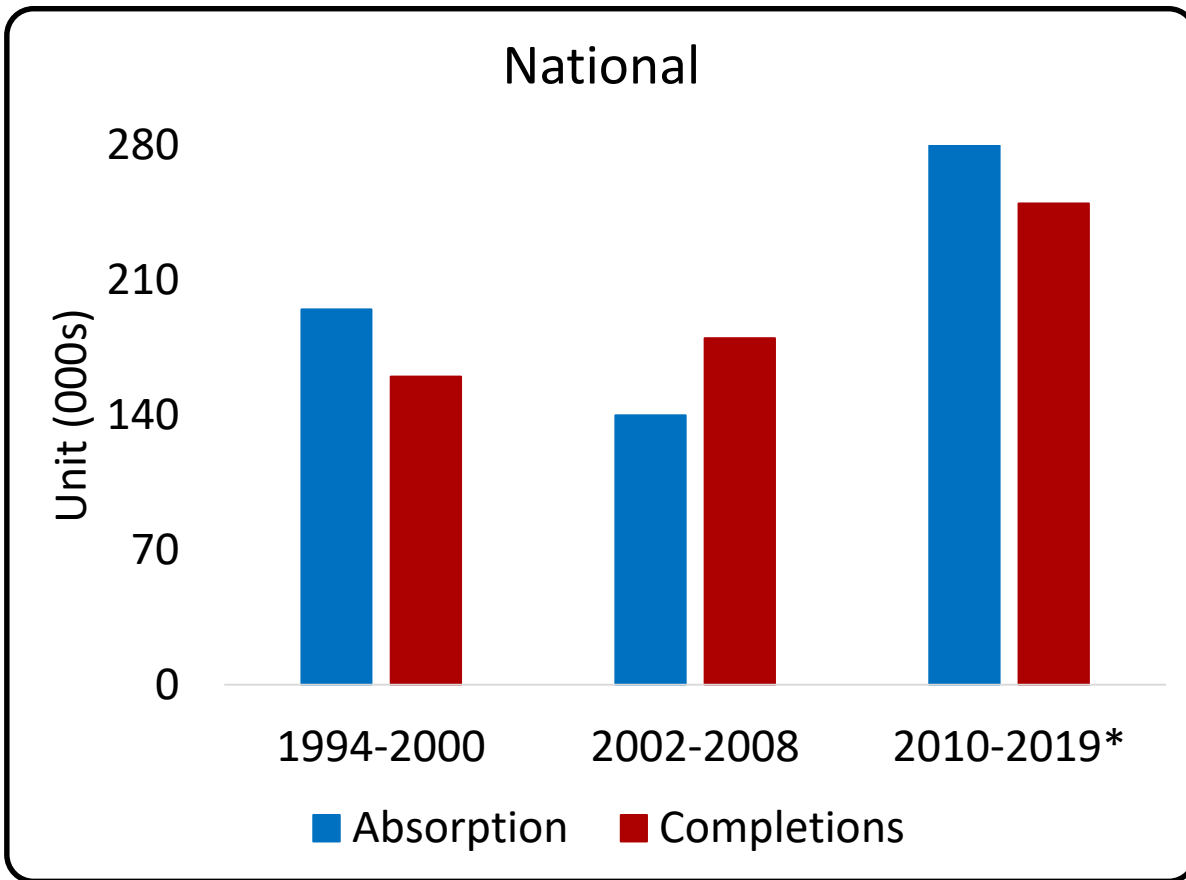
HOMEOWNER			RENTER	
Home Value	\$ 400,000		USE \$80,000 FOR ... vacations, life experiences, education, investments, savings, charitable giving, entrepreneurship, etc.	
Equity	80,000	20%		
Debt	320,000	80%		
Annual Interest	15,200	4.75%		
Taxes	8,000	20 mils		
Insurance	1,000			
Itemized Deduction	\$ 24,200		Standard Deduction	\$ 24,000
Monthly payment	\$ 2,420		Monthly payment	\$ 2,100

NOTE: This is not intended to be tax advice, see your individual tax advisor for further guidance as it relates to your situation.

Fundamental Shift in Household Composition (millions)



Average Annual Absorption Has Kept Up With Supply



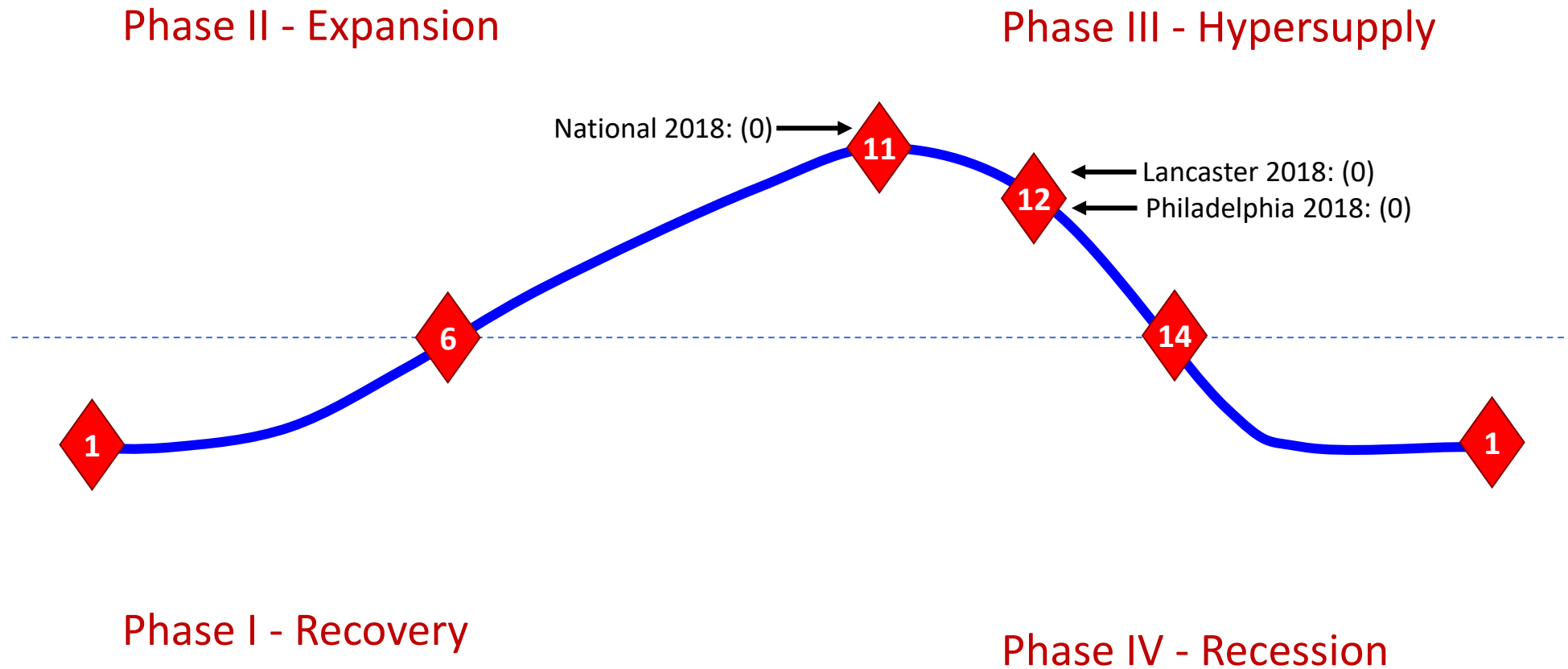
*Forecast

Russ Urban



President
High Hotels Ltd.

Third Quarter 2018



- Record 2018 Demand
- Current economic expansion vs. last expansion:
 - Slower supply growth
 - Higher demand growth
 - Lower ADR growth - a paradox
- Low unemployment rate is yielding difficult recruiting and high turnover
- Select service hotels dominate
- Big brands continue to flourish: Hilton, IHG, Choice, Marriott
- Margins are tightening as costs are growing faster than REVPAR largely due to:
 - Increasing fees from OTAs (ie Hotels.com) and Brand programs
 - Labor

- Record 2018 Demand
 - Up 5.4% from 2017
 - Tourism is the primary driver
- New Supply is rampant
 - Current hotel supply is 7,741 rooms, growing to 8,851 by 2023
 - New supply includes 11 new hotels, a conversion and an expansion by end of 2020
 - 719 rooms being added in 2019 alone, the largest annual supply increase ever
- Hourly labor market is very tight
- Average rate growth will be muted
- Acute supply/demand imbalance exists for the coming years
 - 4-5 year absorption expected
 - Some replacement of older hotels



- Presentation will be available at www.highassociates.com
- Thank you for coming!

