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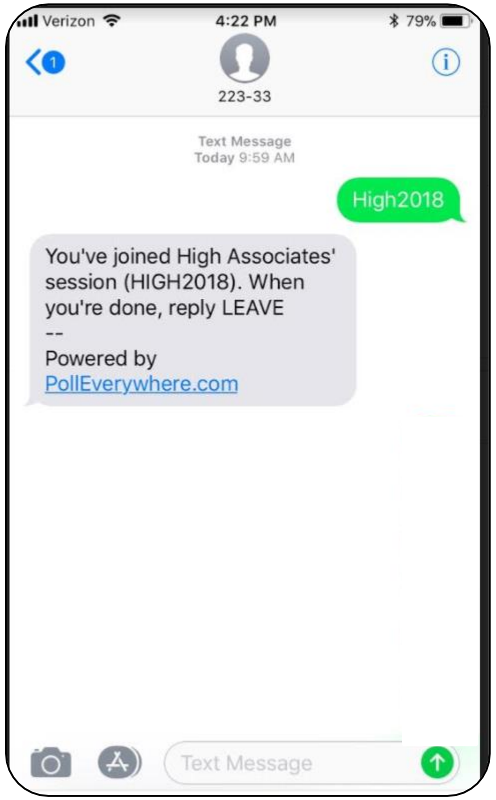

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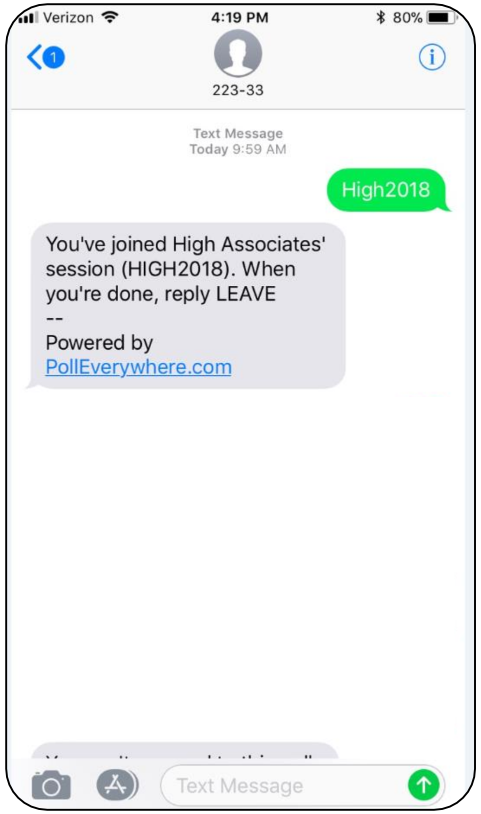

Lancaster Commercial & Industrial Market Overview

February 14, 2018

2017 Macro Economic Assumptions

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Crystal Ball is Getting Cloudy

	2017 Actual	2018 Forecast
GDP (2017 Average for 4 Quarters)	2.6%	
Total GDP	2.6%	2.75% to 3.5%
Consumer Price Index	1.6%	1.5% to 2.0%
Unemployment	January-December	
Nationally	4.8% to 4.1%	3.9%
State	5.2% to 4.7%	4.5%
Locally	4.1% to 3.4%	3.4%
10-Year Treasury (12/21/17)	2.48%	2.75% to 3.25%
Credit Environment	Very competitive, available new development	Ample availability, competitive rates, strict underwriting, lower LTV

2017 Tax Cuts and Jobs Act: Macro Level Overview

- Tax rates lowered
  - Corporate rate: 21% (permanent)
    - Repeals corporate AMT
  - Individual top rate: 37% (sunsets 2026)
    - Increase standard deduction to $24K (married filing jointly)
    - Limits state and local tax deductions to $10K
  - 20% deduction of "Qualified Business Income" for pass-through entities (with limitations sunsets 2026)
- 100% expensing for qualified business property through 2022 (phases out through 2026)
- Shortened depreciation from 39 to 15 years on some real property
- Business interest expenses limited to 30% adjusted taxable income
- 1031 Exchange for Real Property (remain)
- Capital Gain Treatment (remain, indexed to CPI)
- Carried interest rules (remain, 3 year hold requirement added)

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

2017 Debt Markets

Greater focus on "return of" not "return on" capital

- **Commercial Banks**
  - Still active, but pulling back on Commercial Real Estate ("CRE")
    - Overweighted in CRE Loans, particularly multi-family
    - Regulatory constraints, including High Volatility Commercial Real Estate ("HVCRE")
    - Reducing Loan-to-Value ("LTV") targets
  - Elimination of London Interbank Offered Rate "LIBOR" as benchmark
- **Life Companies**
  - Very active in permanent lending; however with lower LTV targets
  - Continue to promote "build-to-core" program

Source: PWC, ULI; Emerging Trends in Real Estate 2018

2017 Debt Markets

Greater focus on "return of" not "return on" capital

- **Freddie Mac / Fannie Mae**
  - Increasing share of permanent multi-family lending
  - Major contributor of "profits" to U.S. Treasury
- **Commercial Mortgage Backed Securities ("CMBS")**
  - Borrowers with less than stellar credit
  - Deals in tertiary markets
  - Big portfolio transactions
- **Mezzanine Lenders/ Nonbank Lender**
  - Increasingly active "filling the gap" between senior debt and equity

Source: PWC, ULI; Emerging Trends in Real Estate 2018

2017 Equity Markets

Increase in Dry Powder

- Deal flow down second year in a row
- Underwriting standards are more rigorous
- Investors moving to secondary/tertiary markets
  - Continue to look for yield and **<u>upside</u>**
  - Not as “overbuilt” as some primary markets
  - Less competition from foreign investment

Players	Net Activity 2Q16-2Q17	2018 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 except multi-family	↑
Private	Net buyers – all asset types except multi-family	↑

Source: PWC, ULI; Emerging Trends in Real Estate 2018

2018 Underwriting Criteria

Tightening Underwriting Criteria

	Max LTV	Vacancy	Cap Rate	Spread	10-Year Treasury	All in Rate
Residential	70-80%	5-7%	5.0-7.0%	1.45-1.95%	2.85%	4.30-4.70%
Industrial	65-75%	10-15%	6.5-8.5%	1.50-1.80%	2.85%	4.35-4.65%
Office Suburban	60-75%	10-15%	7.0-9.2%	1.60-1.90%	2.85%	4.45-4.75%
Retail ("Anchored")	65-75%	7-10%	6.0-7.5%	1.55-2.00%	2.85%	4.40-4.85%
Hotel	60-70%	25-35%	7.0-8.5%	2.10-2.60%	2.85%	4.95-5.45%

Increased Volatility & Cost of Capital

	8/1/17	11/1/17	2/1/18
10-Year Treasury	2.26	2.38	2.85
Avg. Spreads	1.90	1.85	1.75
TOTAL	4.16	4.23	4.60

National Real Estate Overview

- **Industrial:** Strongest asset class for development and acquisition
- **Apartments:** Strongest demand for workforce & affordable housing for development and "value add" acquisition
- **CBD Office:** Strongest demand from international buyers in 24/7 gateway cities
- **Suburban Office:** Increased demand for "Urban Suburban" properties (millennials moving out of city but want work where action is)
- **Hotels:** Increase in supply will overtake increase in demand in 2018
- **Retail:** Significant disruption in sector; however, capital is available for both "commodity" and "specialty" retail

Source: PWC, ULI; Emerging Trends in Real Estate 2018, National Investor Sentiment Report January 2018 – Real Capital Markets

National Real Estate Overview

HIGH

Cap Rate Summary

	Range	2017 Average	Change from 2016	BPS
Apartments	3.5 - 7.5%	5.32%	↑	6 bps
Industrial	3.3 – 6.9%	5.06%	↓	21 bps
Limited Service Hotels	7.75 – 11.0%	9.08%	↑	38 bps
Flex	5.5 - 9.5%	7.10%	↑	5 bps
CBD Office	3.5 - 8.0%	5.73%	↑	16 bps
Suburban Office	4.2 – 10.0%	6.72%	↑	9 bps
Neighborhood/Community Centers	4.0 - 9.5%	6.38%	↑	20 bps

- Cap rates should continue to increase as 10-yr Treasuries rise
- Limited supply of construction financing is keeping market fundamentals in balance in all sectors except multi-family in major metro markets
- Equity is abundant, looking for “Core”, “Core Plus” and “Value Added Opportunities” in primary and secondary markets

Source for cap rates: Price Waterhouse Cooper

Industrial

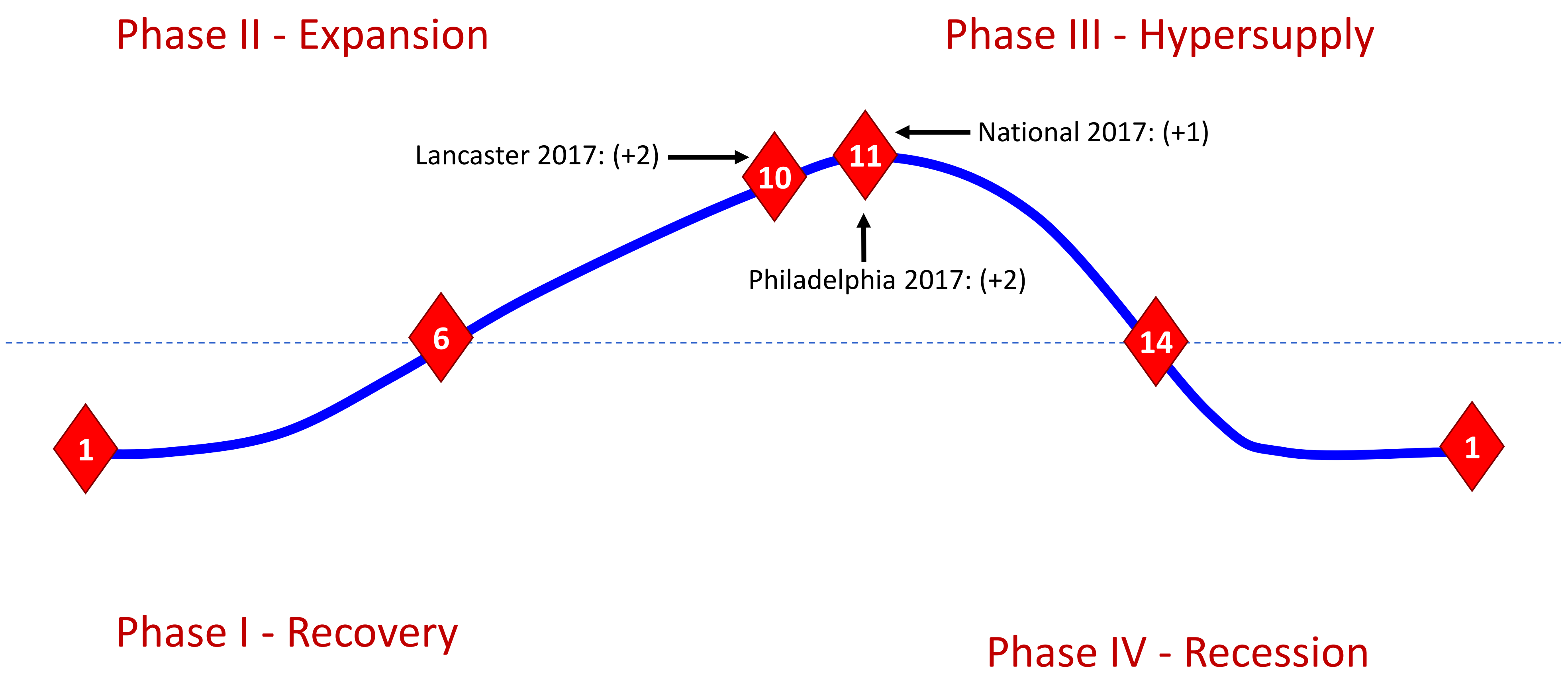
Plenty of runway for future growth

- Demand is outpacing supply 2:1
  - 30 straight quarters of net positive absorption (averaged 50 million square feet/quarter)
  - 2017 averaged 52.9 million square feet/quarter
- Vacancy fell to 7.6% down 40 bps (35-year low)
- Effective rents increasing 3.2% on average. 6.0% on new product
- Same day delivery increase demand for “Final Mile” location
- Labor availability and transportation costs drive location selection
- Favored asset class of lenders/investors

Source: Black Creek Group *Cycle Monitor* – Real Estate Market Cycles; Colliers International; Real Capital Markets; PWC, ULI; Emerging Trends in Real Estate 2018

Industrial Real Estate Cycle

Third Quarter 2017



Source: Black Creek Group *Cycle Monitor* – Real Estate Market Cycles

Suburban Office

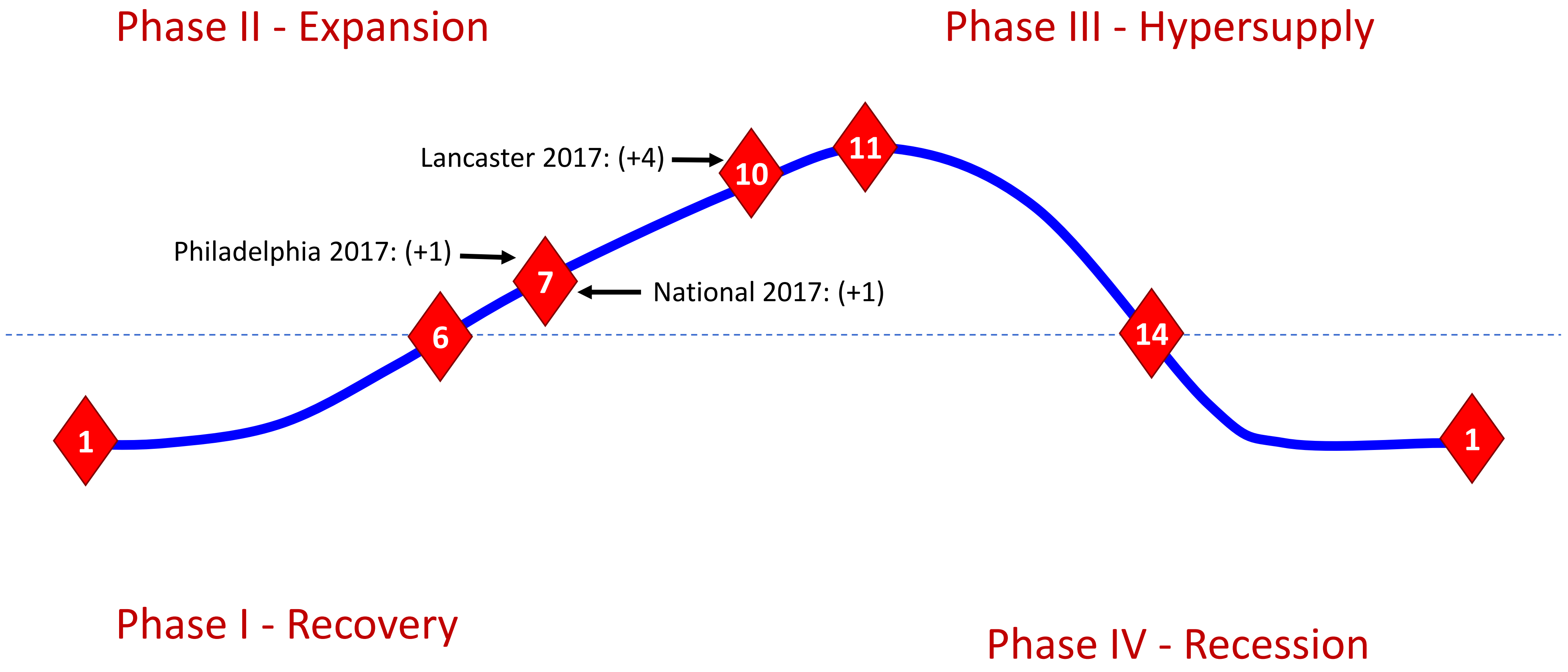
Return of the "Business Park"

- 81% of net office absorption in 2017 occurred in suburban office sector
- "Urban Suburban" submarkets outperform CBD and suburban markets
  - Well connected, "live-work-play" developments serviced by transportation, retail, entertainment, open space and walkability
- High Tech companies remain the driver of office consumption
- Office deliveries decrease from 61M SF in 2017 to 47M SF in 2018, represents 1.5% of total inventory
  - Vacancy remains virtually unchanged at 13.2%
  - Suburban rates increase 2.8% in 2017, slowing to 2.2% in 2018
  - Total suburban absorption forecasted at 30.3M SF

Source: Black Creek Group *Cycle Monitor* – Real Estate Market Cycles; CBRE *Summer 2017 The Mighty Urban – Suburban Submarket;* Colliers International *Q3 2017 Office Market Outlook,* Real Capital Markets; PWC, ULI; Emerging Trends in Real Estate 2018

Office Real Estate Cycle

Third Quarter 2017



Source: Black Creek Group *Cycle Monitor* – Real Estate Market Cycles

Multi-Family Real Estate

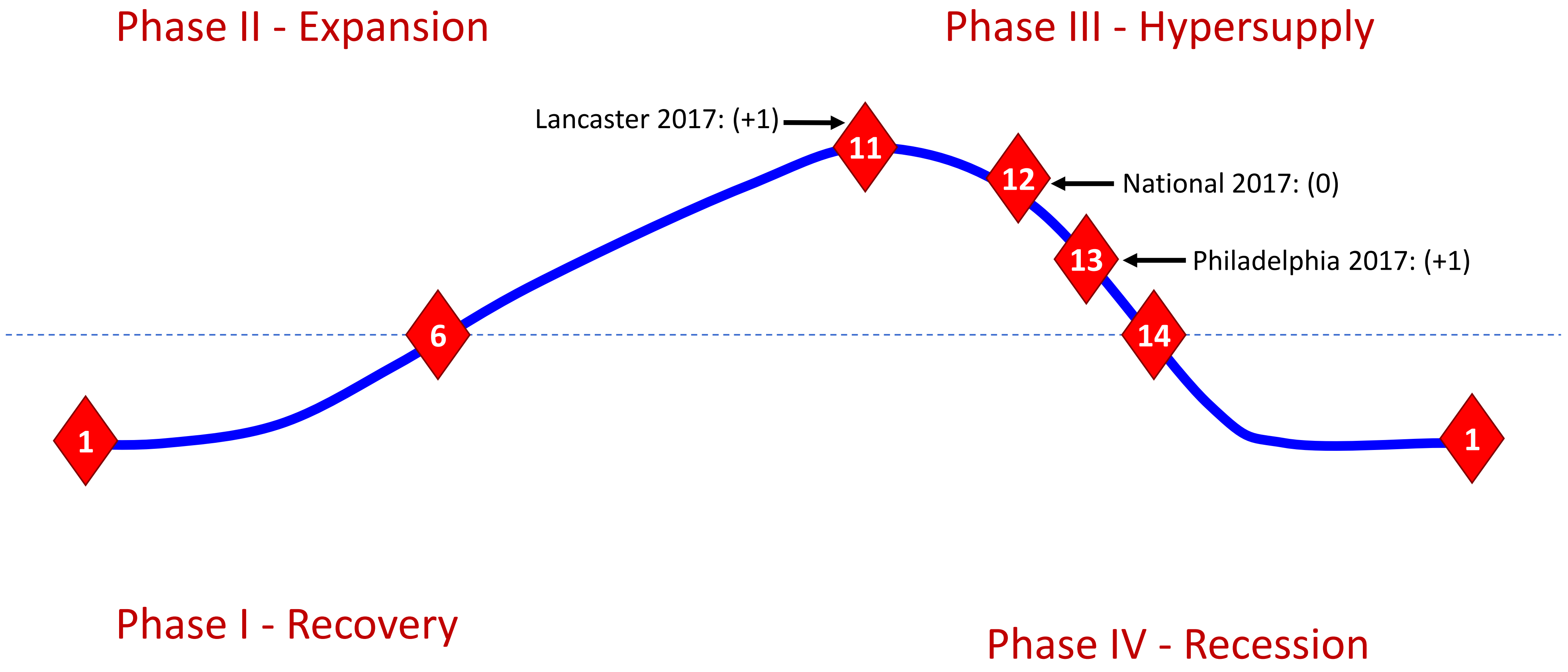
“Optics” Are Distorting True Picture

- Oversupply in 12 key urban markets are overshadowing strong fundamentals
- Demand strong and projected to increase
  - Tax Cut and Jobs Act, decreases incentive for home ownership
  - Baby boomers downsizing
  - Tight credit availability for home ownership
  - Preference for flexibility
  - Affordability major issue, more than 50% of renters pay over 30% of income for rent
- Supply constrained
  - Debt availability becomes difficult to obtain
  - Construction cost increase
  - Local land use policy restrict density
- Vacancy rates projected to increase by 50 bps to 5.5% in 2017, rent growth slows to 2.3%

Source: Black Creek Group *Cycle Monitor* – Real Estate Market Cycles; PWC, ULI; Emerging Trends in Real Estate 2018

Multi-Family Real Estate Cycle

Third Quarter 2017



Source: Black Creek Group *Cycle Monitor* – Real Estate Market Cycles

Retail

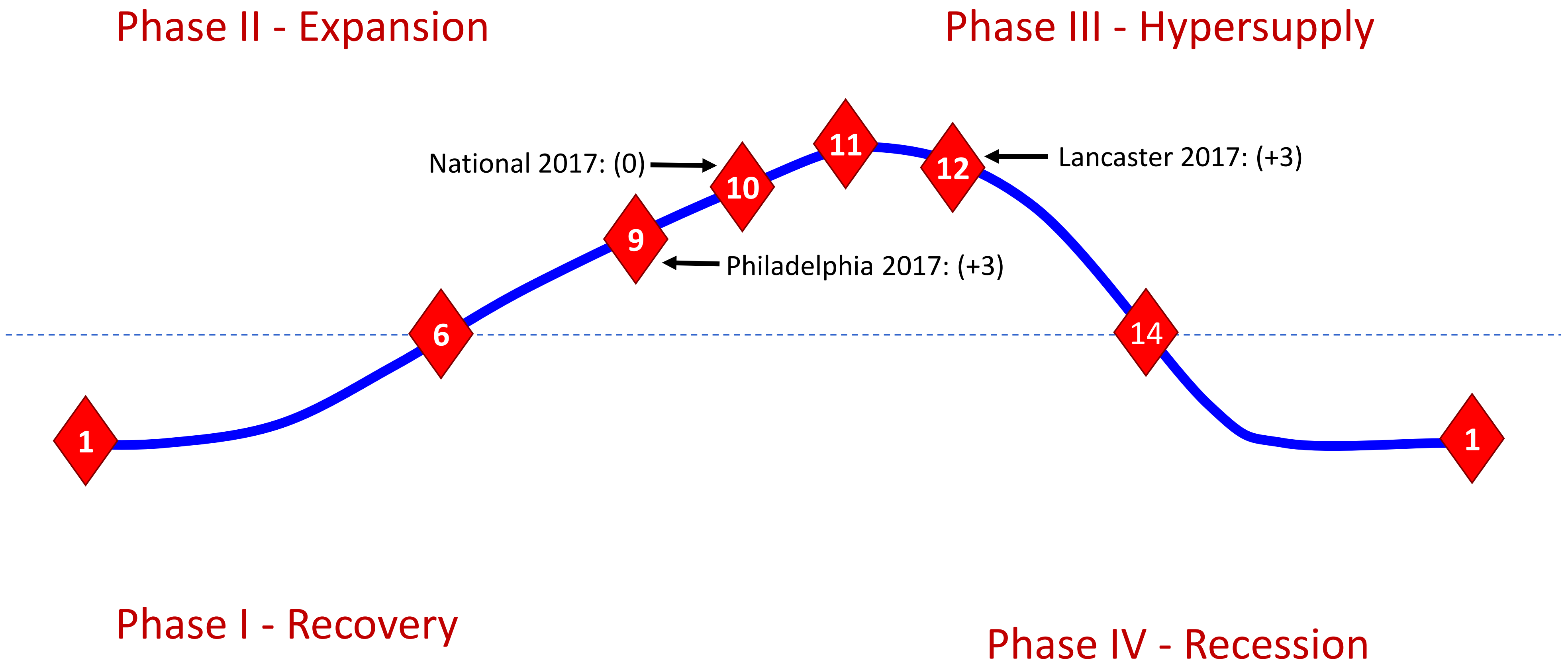
Disruption Leads to Innovation

- Investors are still attracted to well-conceived, well positioned retail real estate
- Five factors are transforming sector:
  - Department store obsolescence/deconstruction
  - Industry maturity (over supply)
  - Historic changes in apparel manufacturing /spending
  - Consumer demographics and preferences
  - E-commerce / M-commerce
- Innovation is accelerating, blurring the lines between brick and mortar retail and e-commerce (even grocery), changing the composition of retail centers
- A growing demand for mixed-use developments as consumers prefer to live, work and play in proximity to a "shopping experience" centered on entertainment, dining and services

Source: Black Creek Group *Cycle Monitor* – Real Estate Market Cycles; PWC, ULI; Emerging Trends in Real Estate 2018

Retail Real Estate Cycle

Third Quarter 2017



Source: Black Creek Group *Cycle Monitor* – Real Estate Market Cycles

Hotels

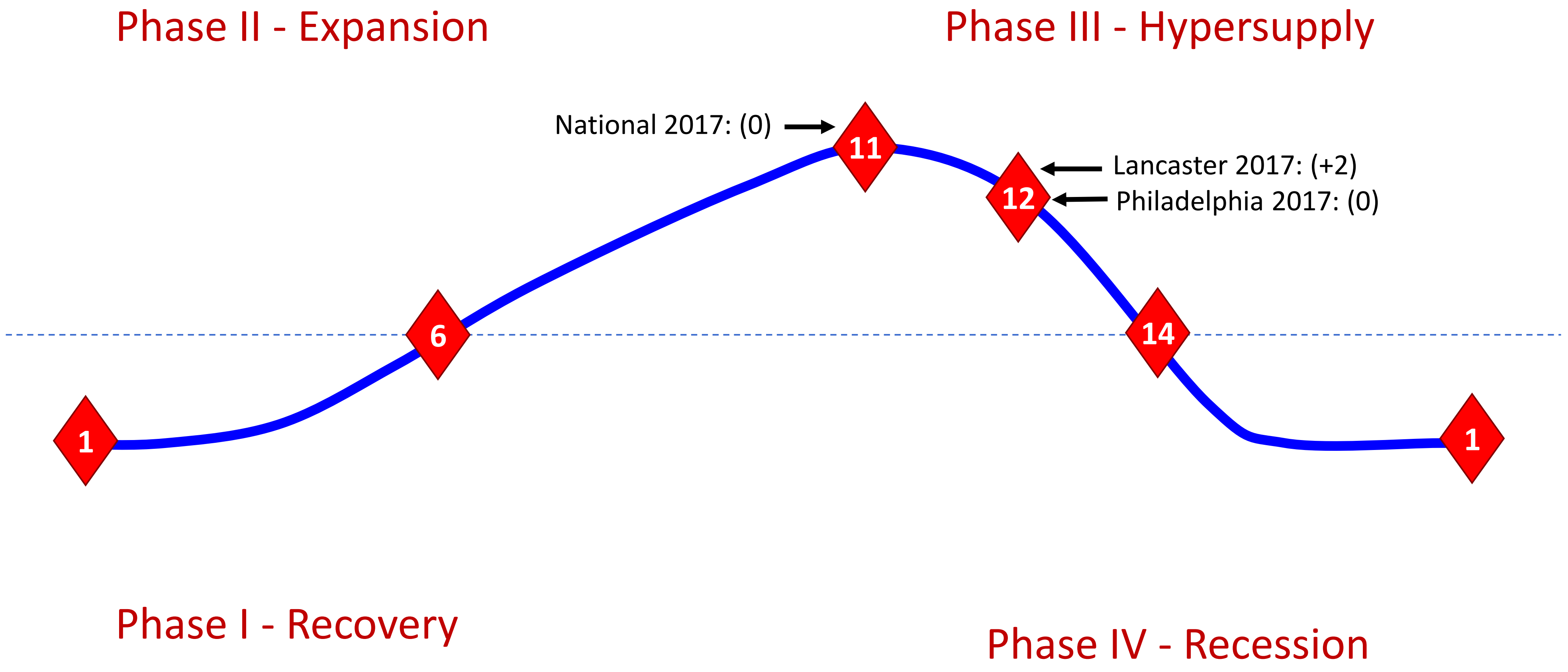
In Balance? “Depends On Where You Are”

- Supply growth is outpacing demand growth (2% vs 1%)
- Hotel lending becoming much more conservative as cycle matures
- Most volatile of the asset classes in a down economy
- Increase the costs of PIPs, rising wages, property taxes and OTA fees are eroding margins and lowering returns
- Airbnb impacts leisure travelers, even in smaller markets
- Big brands dominate growth and continue to “confuse” the customer with increased segmentation
- Construction price increases make new supply less-feasible

Source: Black Creek Group *Cycle Monitor* – Real Estate Market Cycles; PWC, ULI; Emerging Trends in Real Estate 2018

Hotel, Limited Service Real Estate Cycle

Third Quarter 2017



Source: Black Creek Group *Cycle Monitor* – Real Estate Market Cycles

Methodology

- Research – Primary Research
  - Secondary sources (CoStar, MLS)
  - Owner occupied properties are excluded (e.g. Nordstrom and Urban Outfitters)
- Office – Institutional-grade, for lease (252 buildings, 5.9M SF)
  - Over 5,000 SF in size
  - Lancaster City, Manheim Township, East Hempfield, East Lampeter
- Industrial – Institutional-grade, for lease (380 buildings, 23.6M SF)
  - Over 10,000 SF in size
  - Lancaster County
- Retail – Institutional-grade, for lease (391 buildings, 10.9M SF)*
  - Over 5,000 SF in size
  - Lancaster County

*NOTE: Prior years retail data provided by LCAR/C&I Council

Major Office Changes

- Positive absorption in 2017 and the available supply for all three office types continues to slowly decrease
- Vacancy rates stay in the low double digits, even dipping to under 10% in Class B/C
- More activity in the Class B/C markets due to smaller tenants looking for affordable office space
- Any movement in Class A space is lead by medical office and corporate headquarters
- No completed construction in 2017 and very little proposed or under construction

Lancaster Market Comparison

		2013	2014	2015	2016	2017	5-Year Average
Class "A" Office	Absorption	(146,368)	(12,320)	(10,447)	87,988	75,273	(1,175)
	Vacancy	13.6%	13.9%	14.8%	10.9%	10.2%	
	Amount Constructed	0	0	0	28,000	0	5,600
	Available Supply	244,724	257,044	267,491	207,503	132,230	
"B/C" Office	Absorption	10,395	6,753	86,396	59,167	36,732	39,889
	Vacancy	19.3%	19.0%	15.6%	13.2%	8.5%	
	Amount Constructed	0	9,700	0	0	0	1,940
	Available Supply	503,143	506,090	419,694	360,527	323,795	
Business Center	Absorption	58,165	14,594	18,690	14,873	32,739	27,812
	Vacancy	15.7%	14.2%	12.6%	11.2%	13.2%	
	Amount Constructed	0	0	0	0	0	0
	Available Supply	182,239	167,645	148,955	134,082	101,343	

Major Industrial & Retail Changes

- Vacancy rates for Industrial & Flex space continue to decrease and hit historic lows
- Limited supply of quality industrial product currently in the market
- No new construction in 2017, but COSTAR reflects over 1.7M SF of Industrial & Flex space as proposed or under construction
- Great deal of activity in the Retail sector in 2017, around 350,000 SF of inventory added between negative absorption and new construction
- Retail development will continue into 2018 with the Shoppes at Belmont and The Crossings at Conestoga Creek along with other projects currently in construction

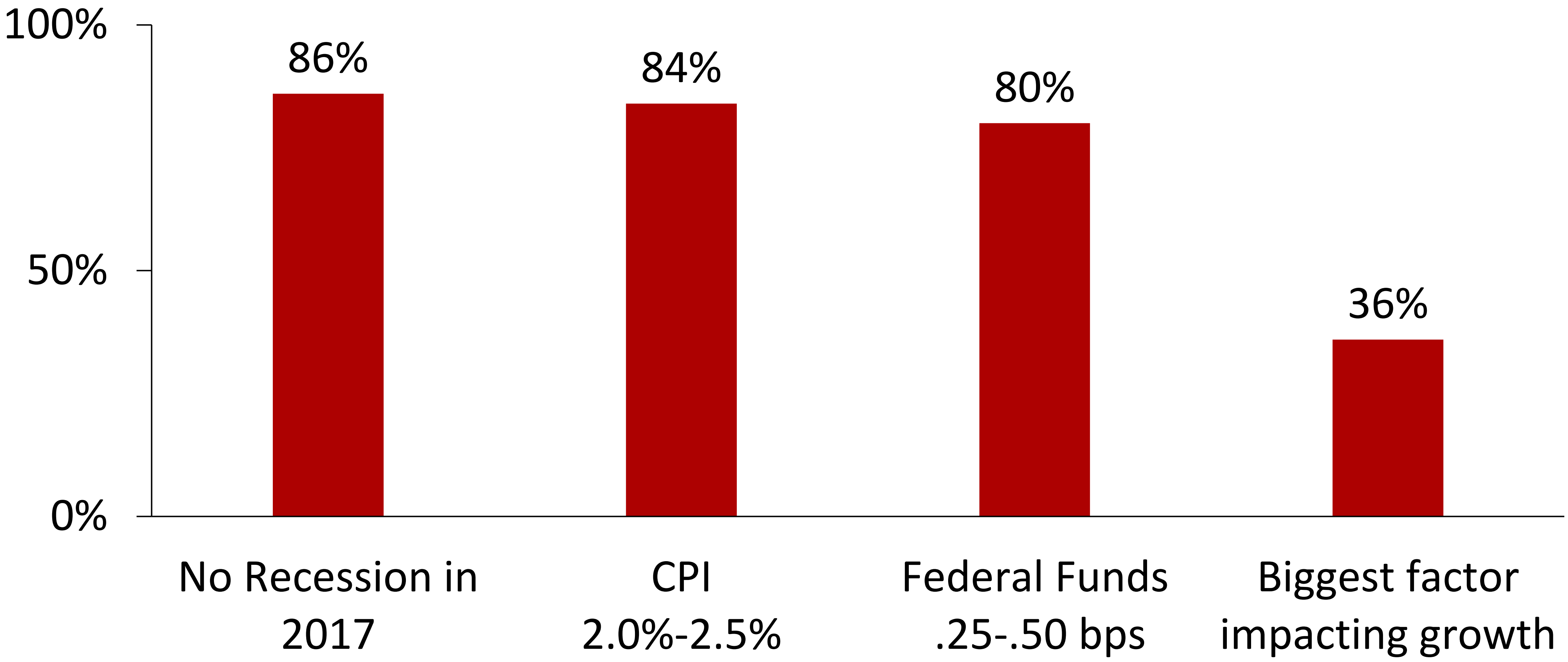
Lancaster Market Comparison

		2013	2014	2015	2016	2017	5-Year Average
Industrial Space	Absorption	59,719	549,424	223,333	(232,207)	552,062	230,466
	Vacancy	10.3%	6.0%	5.7%	7.5%	3.2%	
	Amount Constructed	0	0	186,322	199,800	0	77,224
	Available Supply	1,465,448	916,024	879,013	1,311,020	758,958	
Flex Space	Absorption	(22,352)	(2,345)	77,172	23,125	21,899	19,500
	Vacancy	11.3%	11.6%	12.7%	10.2%	4.1%	
	Amount Constructed	0	0	105,432	0	0	21,086
	Available Supply	87,351	89,696	117,956	94,831	72,932	
Retail Space	Absorption	159,282	88,936	56,614	68,079	(125,621)	49,458
	Vacancy	8.1%	7.35%	6.7%	5.9%	6.5%	
	Amount Constructed	110,797	32,472	17,952	19,026	224,149	80,879
	Available Supply	497,757	441,293	402,631	353,578	703,348	

Employment in Lancaster County

- 2007 – 2017 increase of 9,094 jobs (3.5%)
- Unemployment
  - November 2015 – 10,400 (3.8%)
  - November 2016 – 11,700 (4.2%)
  - November 2017 – 10,000 (3.6%)
- 2017 Creation of 3,849 job (private sector)
  - Retail positions +130
  - Office positions +298 (includes loss of 300 in Finance)
  - Industrial positions +1,628
  - Health care +564
  - Accommodations & food +566

Survey Results For 2016



Actual Results:	No Recession	2.1%	.75 bps	Lack of talent/labor availability

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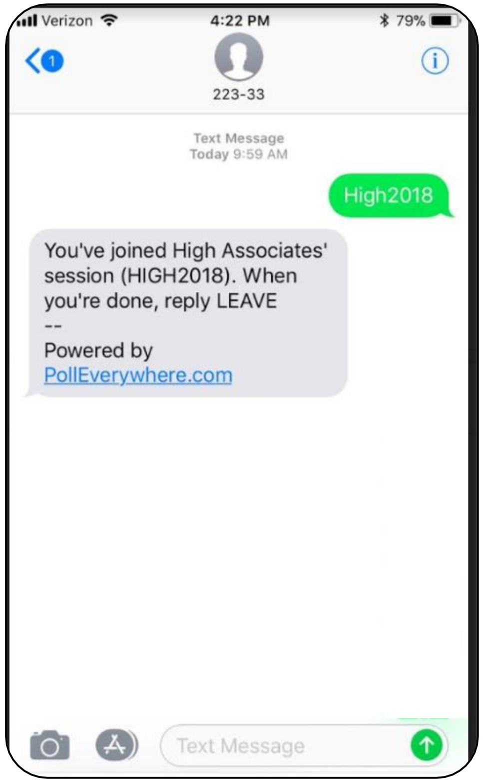

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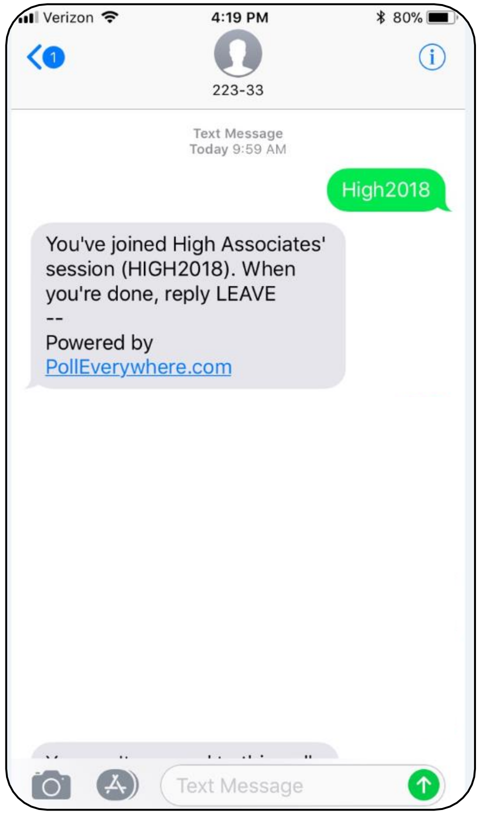
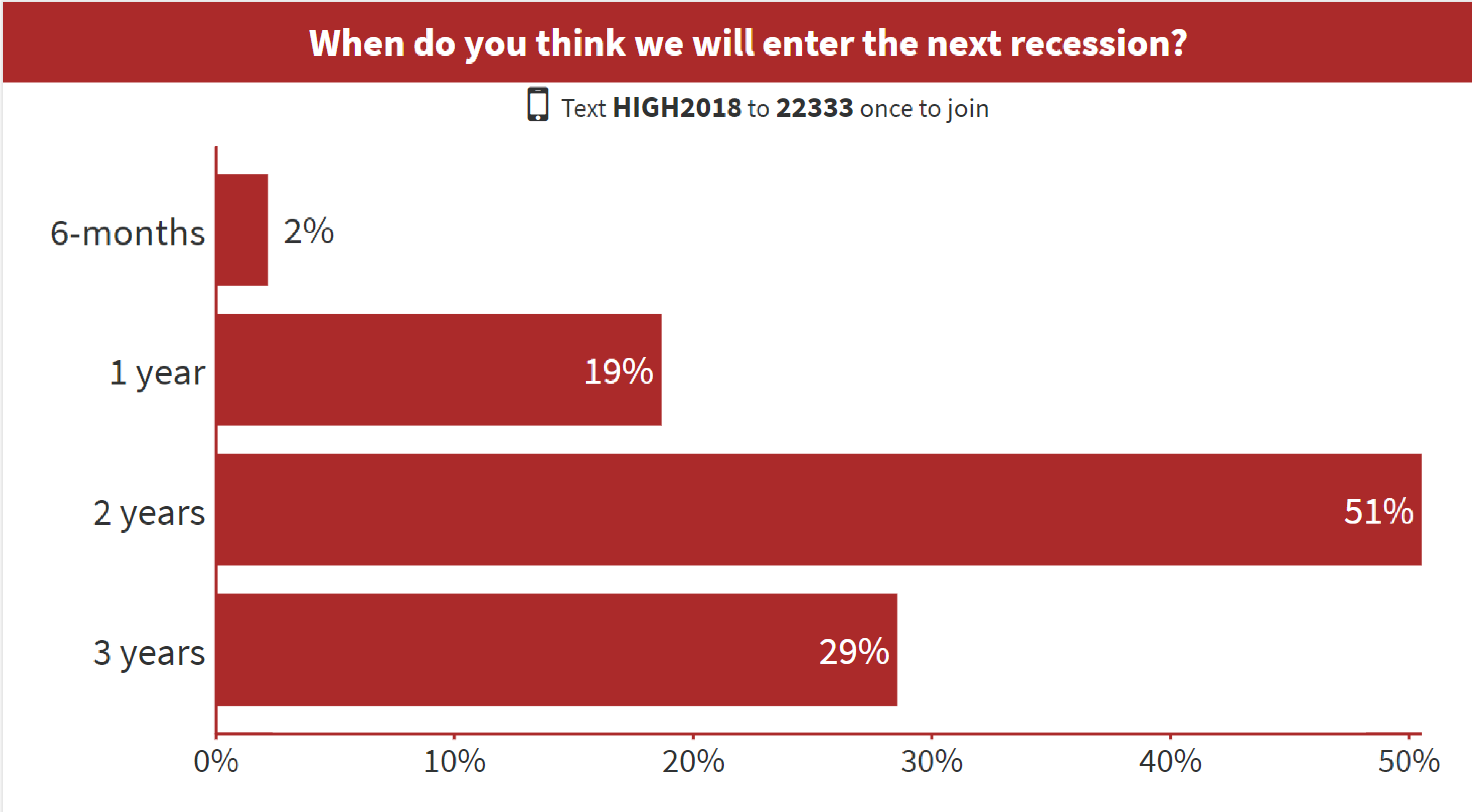
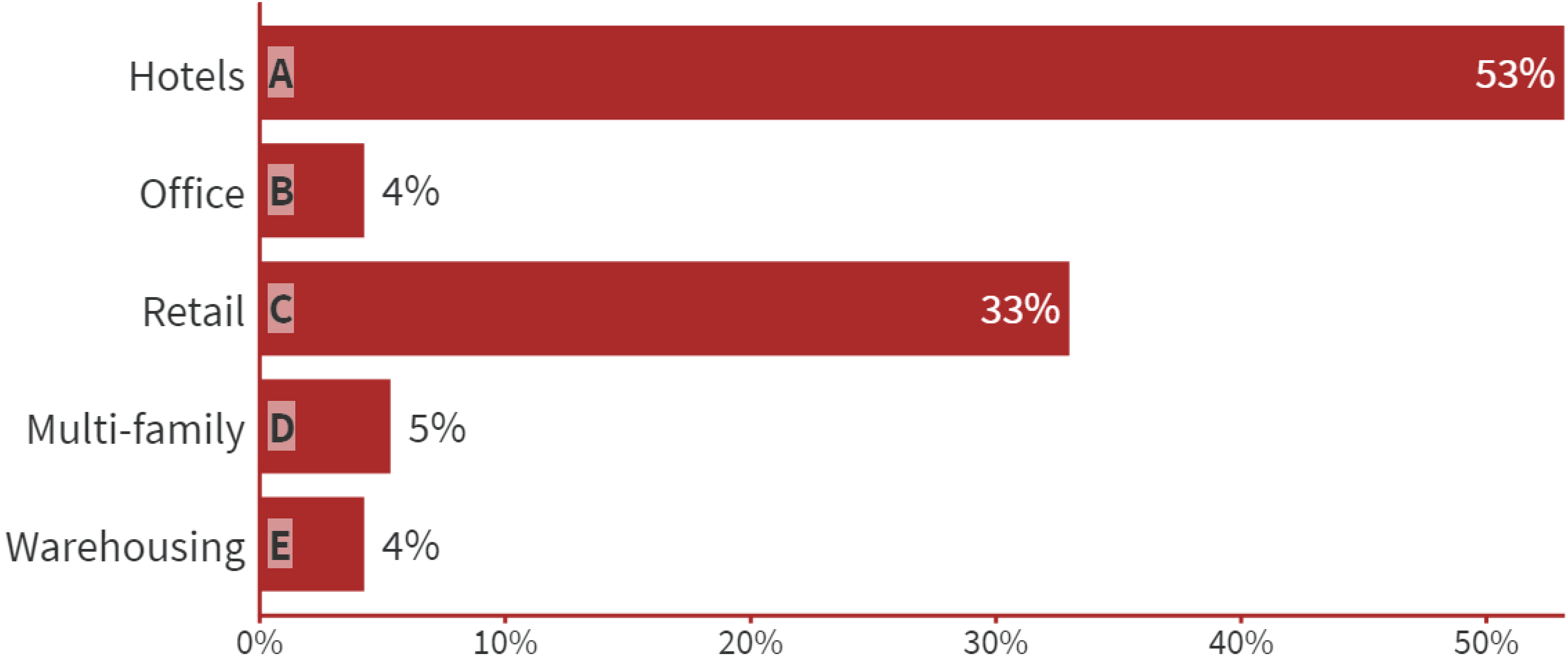



When do you think we will enter the next recession?
Text HIGH2018 to 22333 once to join
6-months
2%
1 year
19%
2 years
51%
3 years
29%
0%
10%
20%
30%
40%
50%

Cap rates continue to remain low for all asset classes. Which asset class do you think has the most risk of upward movement?

Text **HIGH2018** to **22333** once to join, then **A, B, C, D, or E**



Which asset class will be most impacted by autonomous vehicles in the next decade?

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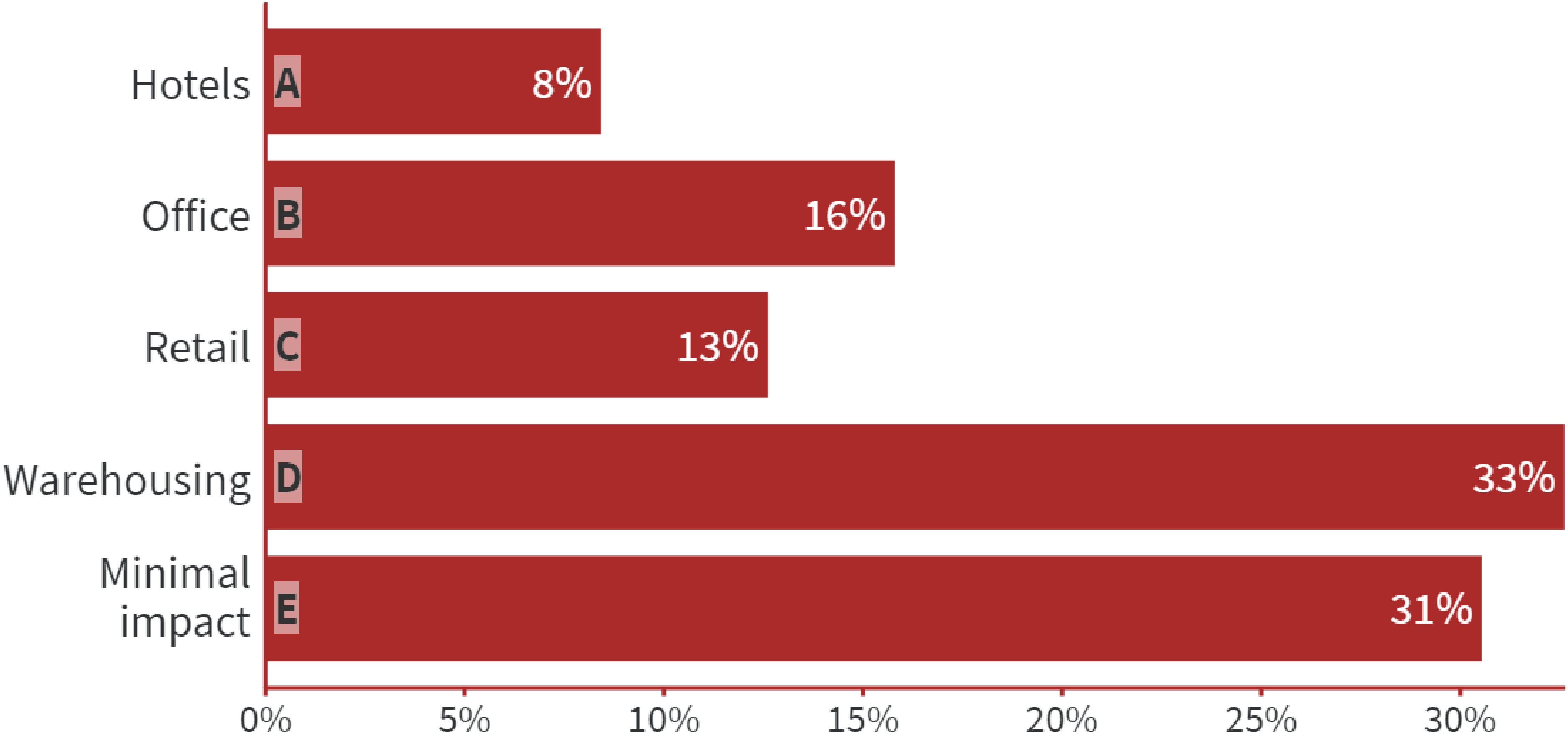

The trend in office space has been small cubes and/or shared space. Do you think this trend resonates in Lancaster?

Text **HIGH2018** to **22333** once to join, then **A or B**