Lancaster Commercial & Industrial Market Overview

February 8, 2017

The Trump Effect

Positive	Negative

Positive

- Reduced tax rates
  - Personal rate: 33%
  - Corporate rate: 15%
- Increased infrastructure investment
- Reduced federal regulations
- Pro-business attitude

Potential impact +50/100 bps

Negative

- Increased market uncertainty
- Increased federal deficits
- Increased tariffs, potential "trade war"
- Reduction in skilled/unskilled labor
- Increased interest rates

Potential impact -50/75 bps

2017 Macro Economic Assumptions

HIGH

Anybody's Guess

	2016 Actual	2017 Forecast
GDP (2016 Average for 3 Quarters)	1.90%	
GDP (4th Quarter 2016 Estimated)	2.10%	
Total GDP	1.95%	1.50% to 3.5%
Consumer Price Index	2.10%	2.0 to 2.5%
Unemployment	January-December	
Nationally	4.9% to 4.7%	5.0%
State	4.6% to 5.7%	5.0%
Locally	3.4% to 4.2%	3.5%
10-Year Treasury (12/31/16)	2.45%	2.25 to 3.00%
Credit Environment	Very competitive, new development	Ample availability, competitive rates, tighter underwriting, lower LTV

2017 Capital Markets

Caution Is Key

DEBT SECTOR

- **Commercial banks**
  - High Volatility Commercial Real Estate ("HVCRE")
    - Acquisition, Development, Construction lending ("ADC)
      - 15% cash equity
      - No "distributions" until loan converts to permanent
      - 150% risk weight requirements for any ADC loan
- **Life companies**
  - Enhanced develop-to-core program
  - Very active in permanent lending
- **Commercial Mortgage Backed Securities ("CMBS")**
  - Risk retention rules (12/24/16)
    - Sponsor must hold 5% interest in security
- **Freddie Mae / Fannie Mae**
  - Increasing share of permanent multi-family lending

2017 Capital Markets

A Disciplined Approach

EQUITY SECTOR

- Deal volume is down 2016/17
- Underwriting standards are more rigorous
- Increase in mezzanine debt/preferred equity to fill gap
- Investors continue to look for yield
  - Moving to secondary/tertiary markets
- Increasing foreign investment

2017 Underwriting Criteria

Tightening Underwriting Criteria

	LTV	Vacancy	Cap Rate	Spread	10-Year Treasury	All in Rate
Residential	70-80%	5-7%	5.0-7.0%	2.00-2.50%	2.50%	4.50-5.00%
Industrial	65-75%	10-15%	6.5-8.5%	1.95-2.25%	2.50%	4.50-4.75%
Office Suburban	60-75%	10-15%	7.0-9.2%	1.95-2.25%	2.50%	4.50-4.75%
Retail (“Anchored”)	65-75%	7-10%	6.0-7.5%	1.90-2.35%	2.50%	4.50-4.85%
Hotel	60-70%	25-35%	7.0-8.5%	2.50-3.00%	2.50%	5.00-5.50%

National Real Estate Overview

- **Industrial:** Strongest demand from institutional lenders/investors
- **CBD Office:** Occupancy strongest in 24/7 gateway cities; demand for space growing at slower rate than suburban
- **Suburban Office:** Increase in supply outpacing demand
- **Hotels:** Supply and demand in balance nationally, but out of balance in certain markets
- **Apartments:** Pricing has peaked in some urban markets; strong demand for workforce & affordable housing and mixed use developments
- **Retail:** Strongest rent and occupancy growth will center on markets with highest job growth

National Real Estate Overview

Cap Rate Summary

	Range	2016 Average	Change from 2015
Apartments	3.5 - 7.5%	5.26%	↓
Industrial	3.0 - 7.0%	5.27%	↓
Suburban Hotels	7.5 - 10%	8.70%	↑
Flex	5.5 - 9.0%	7.05%	↓
CBD Office	3.5 - 7.5%	5.57%	↓
Suburban Office	5.0 - 9.5%	6.63%	↑
Neighborhood/Community Centers	4.0 - 9.5%	6.18%	↓

- Despite increase in 10 year treasuries, cap rates should remain relatively consistent in 2017
- Limited supply of construction financing is keeping market fundamentals in balance
- Equity is abundant, looking for “Core”, “Core Plus” and “Value Added Opportunities” in primary and secondary markets

Source of cap rates is Price Waterhouse Cooper

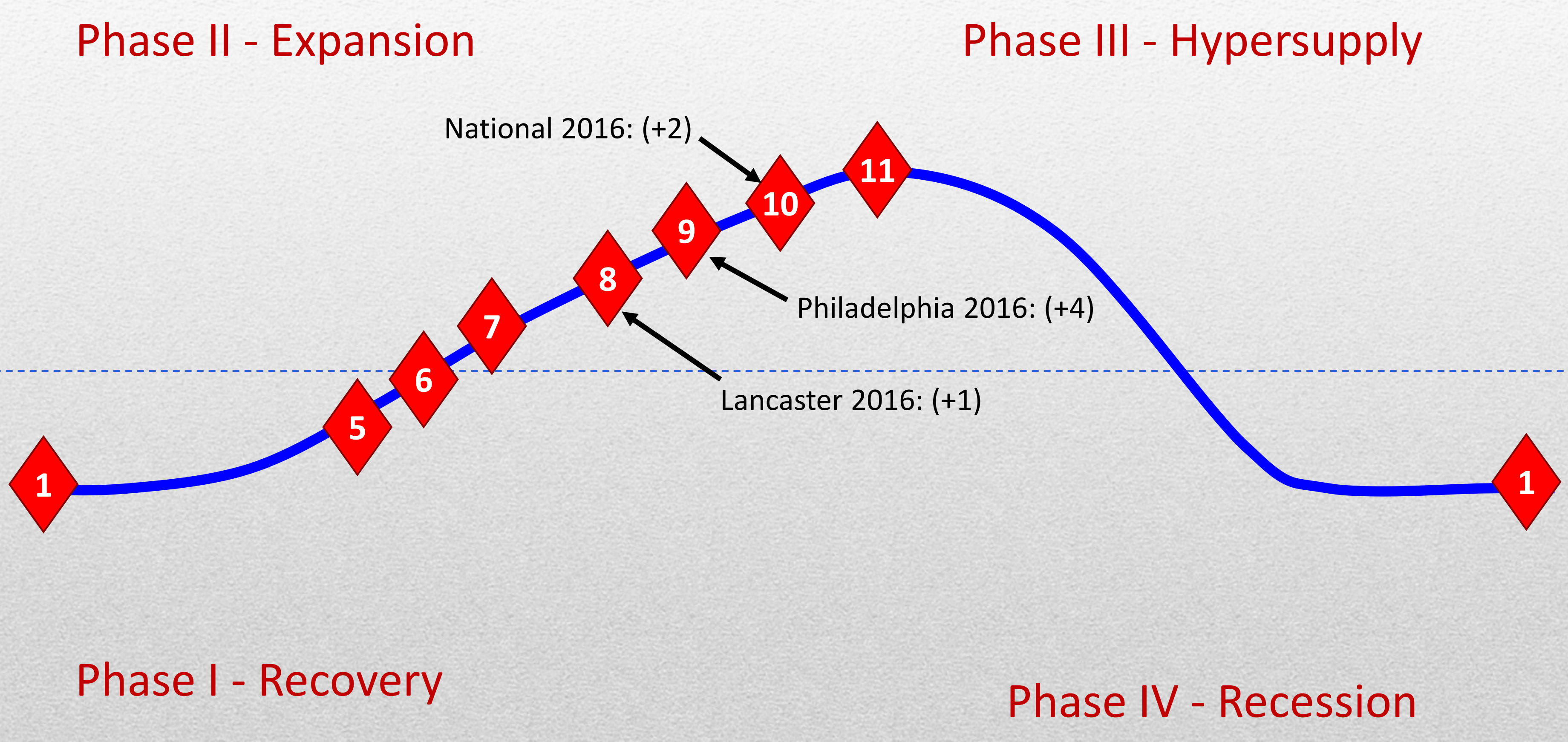
Industrial

Fundamentals Strong

- Favored asset class of lenders/investors
- Technology and E-commerce drive demand
  - E-commerce alone to create need for an additional 40M SF/yr for next 5 years
- Since 2010, demand growth has outpaced supply growth
  - 27 straight quarters of net positive absorption (avg 50M SF/qtr)
  - Oversupply is a risk in some markets
- Vacancy fell to 8.0% down 70 bps (15-year low)
- Effective rents increasing 3.1% on average. 6.9% on new product
- Same day delivery increase demand for “Final Mile” locations

Industrial Real Estate Cycle

Third Quarter 2016



Source: Dividend Capital Research *Cycle Monitor* – Real Estate Market Cycles

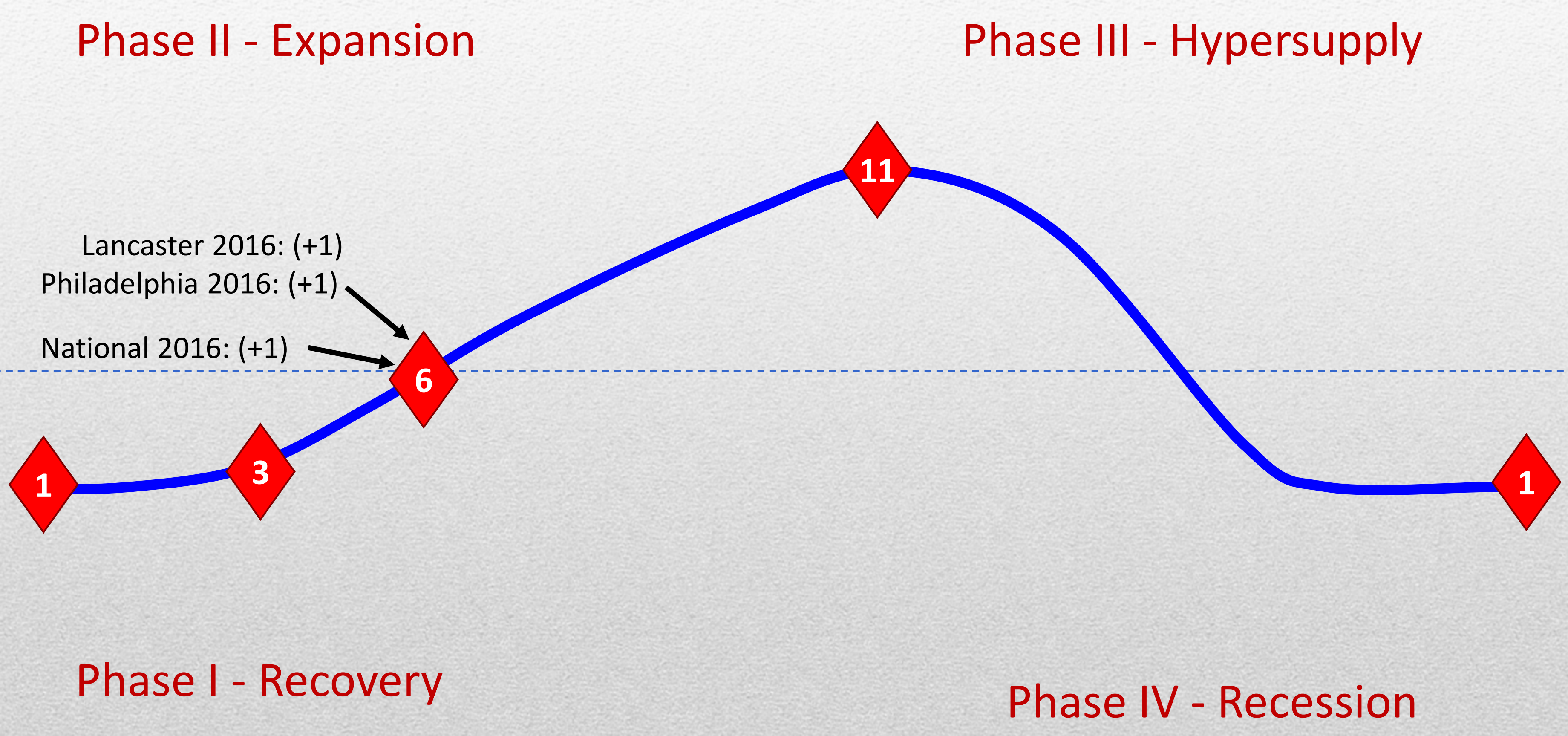
Suburban Office

Gearing Up For A Slow Down

- Second least favored asset class among lenders/investors
- Suburban demand outpaced urban demand in 2016
  - Vacancy increased 30 bps to 13.3%
  - Effective rents grew by 3.6%
- Starting to slow as “TAMI” (Technology, Advertising, Media, Information) employment growth decreases by 35% from 2016
- Availability of qualified workforce will impact demand in 2017
  - Potential elimination of H-1B visa program
- Smaller but “nicer” space continues to be a trend
- Plug and Play office products gaining popularity for start up and Fortune 500 companies

Office Real Estate Cycle

Third Quarter 2016



Source: Dividend Capital Research *Cycle Monitor* – Real Estate Market Cycles

Apartments

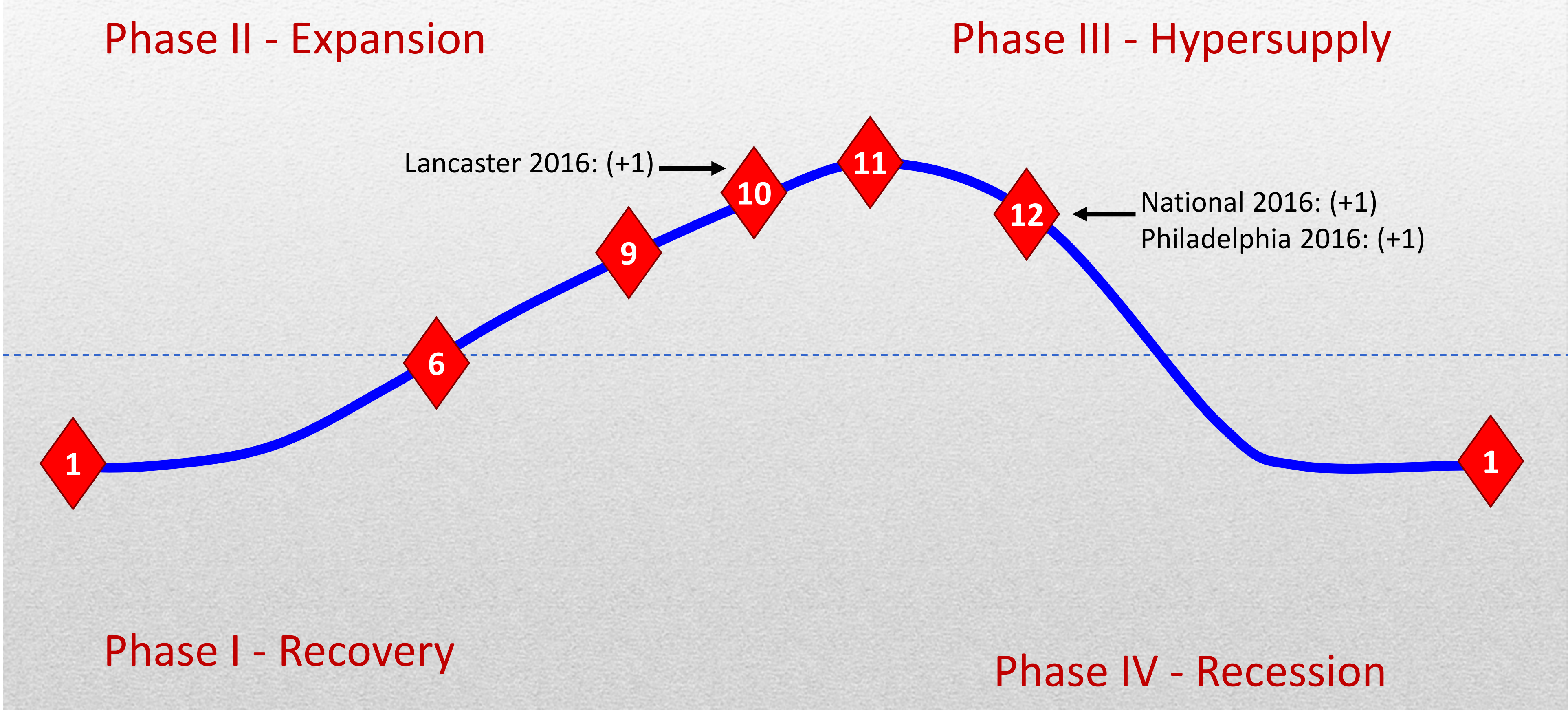
HIGH

Sector Heading for "Soft" Landing

- Demand remains strong
  - Millennials entering job market
  - Baby boomers downsizing
  - Concern over home ownership
  - Tight credit availability for home ownership
  - Preference for flexibility
- Oversupply in many markets
  - High-end developments in downtown locations approaching turning point in major metros
  - Supply outpaced demand growth in 2016
  - Suburban demand outpaces urban demand
- Vacancy rates projected to increase by 80 bps to 5.5% in 2017, rent growth slows to 1.2%
  - Affordability major issue, more than 50% of renters pay over 30% of income for rent

Multi-Family Real Estate Cycle

Third Quarter 2016



Source: Dividend Capital Research *Cycle Monitor* – Real Estate Market Cycles

Retail

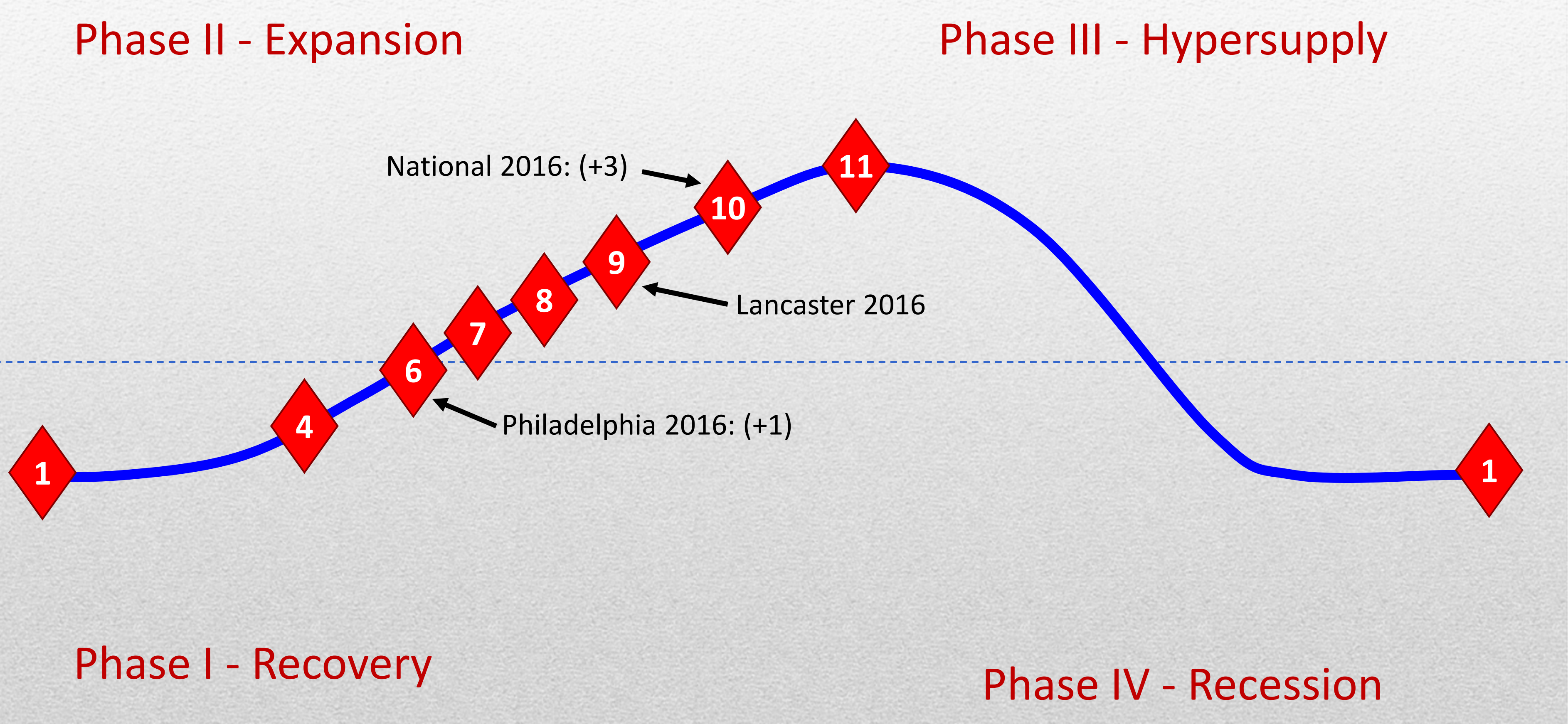
Drive Disruption Or Be Replaced By It

- Investors are focused on lifestyle/entertainment and grocery anchored centers
- E-commerce will represent over 9% of total sales in 2017, which will continue to decrease the overall demand for retail space
- Bricks-and-mortar retail will continue to undergo dramatic shifts, scaling back on number of stores and store footprints
- Developers are focused on delivering “shopping experience” centered on entertainment, dining and technology

Sources – PWC; ULI; Emerging Trends in Real Estate 2017; Richard Latella – Cushman & Wakefield; CBRE

Retail Real Estate Cycle

Third Quarter 2016



Source: Dividend Capital Research *Cycle Monitor* – Real Estate Market Cycles

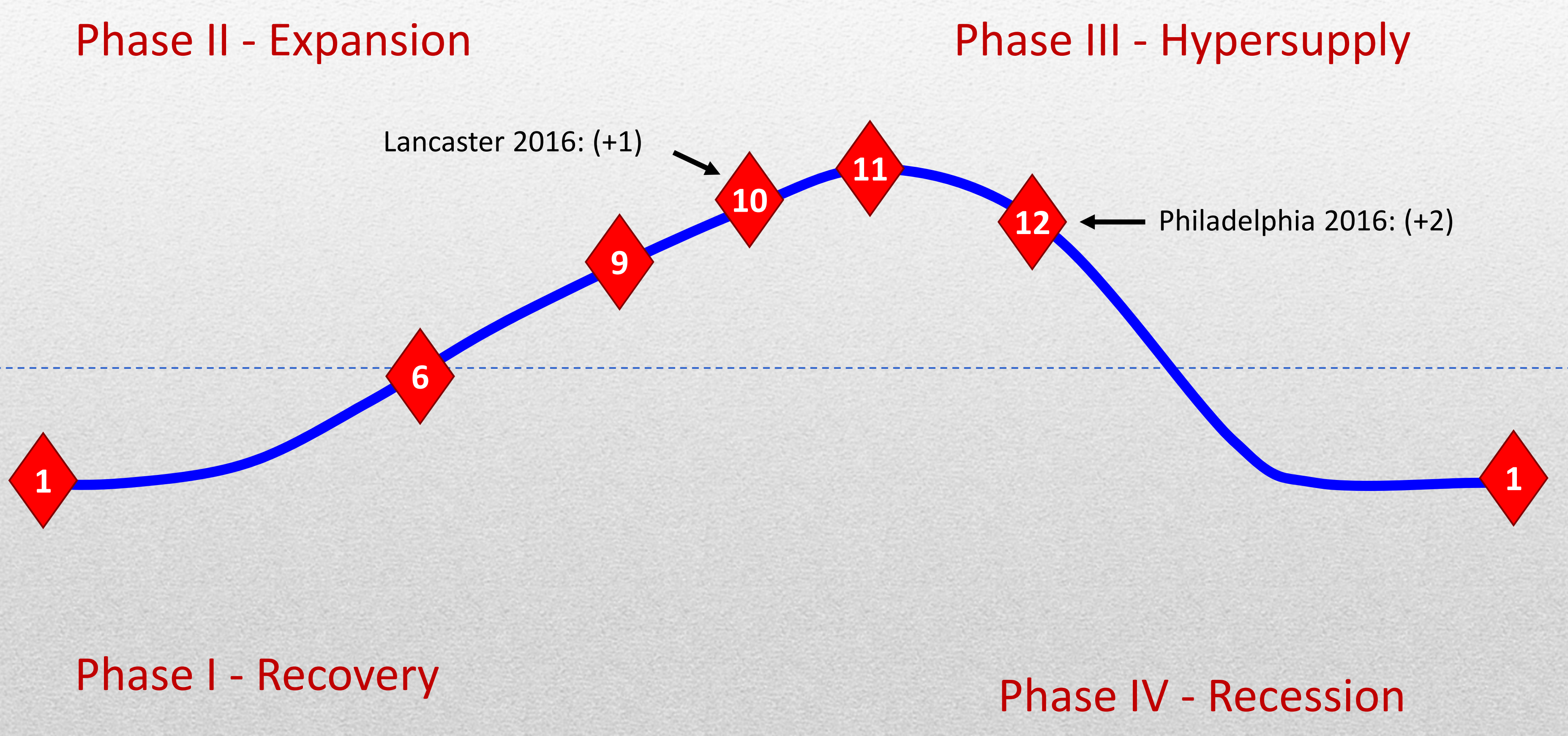
Hotels

In Balance Or Over Developed?

- Hotels out of favor with investors and lenders
- Most volatile of the asset classes in a down economy
- Rising wages and labor shortages eroding margins (RevPAR up 2.2%, expense up 4%)
- Brand segmentation trying to attract millennials
- Luxury boutique offerings focus on baby boomers

Hotel, Limited Service Real Estate Cycle

Third Quarter 2016



Source: Dividend Capital Research *Cycle Monitor* – Real Estate Market Cycles

Methodology

- Research – Primary Research
  - Secondary sources (CoStar, MLS, C&I Council)
- Industrial – Institutional-grade, for lease (290 buildings, 19.3M SF)
  - Over 10,000 SF in size
  - Lancaster County market
- Office – Institutional-grade, for lease (215 buildings, 5.85M SF)
  - Over 5,000 SF in size
  - Lancaster City, Manheim Township, East Hempfield, East Lampeter
- Retail – Statistics are provided by LCAR/C&I Council
- Owner occupied properties are excluded (e.g. Nordstrom and Urban Outfitters)

Major Office Changes

- Class “A” performance impacted by leasing of the Jay Group office building, 100 N. Queen Street and 53 S. Duke Street
- Class “B” had strong performance with leases signed at Urban Place, Liberty Place and 17 other locations
- One building completed at Gateway Business Park, two under construction in Manheim Township
- Heavy volume of activity – 58 buildings had activity vs 22 in 2015
- Bank acquisitions placed sublease and direct space available in excess of 100,000 SF

Lancaster Market Comparison

HIGH

		2013	2014	2015	2016	Historical Average
Class "A" Space	Absorption	(146,368)	(12,320)	(10,447)	87,988	17,866
	Vacancy	13.6%	13.9%	14.8%	10.9%	
	Amount Constructed	0	0	0	28,000	27,071
	Available Supply	244,724	257,044	267,491	207,503	
Class "B" Space	Absorption	10,395	6,753	86,396	59,167	636
	Vacancy	19.3%	19.0%	15.6%	13.2%	
	Amount Constructed	0	9,700	0	0	8,174
	Available Supply	503,143	506,090	419,694	360,527	
Business Center	Absorption	58,165	14,594	18,690	14,873	13,750
	Vacancy	15.7%	14.2%	12.6%	11.2%	
	Amount Constructed	0	0	0	0	18,654
	Available Supply	182,239	167,645	148,955	134,082	

Major Industrial Changes

HIGH

- Two buildings completed in 2016 – Conewago Industrial Park and New Holland
- Over 1M SF in proposed new construction being marketed
- Continued strong demand in 2016 with 16 properties having positive absorption
- 550,000 SF on market for sublease – this is equal to 300bps in vacancy

Lancaster Market Comparison

		2013	2014	2015	2016	17-Year Average
Industrial Space	Absorption	59,719	549,424	37,011	368,145	104,153
	Vacancy	10.33%	6.04%	5.73%	7.53%	
	Amount Constructed	0	0	0	199,800	104,641
	Available Supply	1,465,448	916,024	879,013	1,311,020	
Flex Space	Absorption	(22,352)	(2,345)	77,172	23,125	525
	Vacancy	11.3%	11.6%	12.7%	10.2%	
	Amount Constructed	0	0	105,432		20,897
	Available Supply	87,351	89,696	117,956	94,831	
Retail Space	Absorption	48,485	56,464	38,662	49,053	60,656
	Vacancy	8.1%	7.35%	6.7%	5.9%	
	Amount Constructed	0	0	0	0	63,172
	Available Supply	497,757	441,293	402,631	353,578	

Employment in Lancaster County

- 2007 – 2016 increase of 5,194 jobs (2%)
- Unemployment
  - November 2015 – 10,400 (3.8%)
  - November 2016 – 11,700 (4.2%)
- 2016 Creation of 3,658 job (private sector)
  - Retail positions +370
  - Office positions +529 (includes loss of 108 in Finance)
  - Industrial positions +461
  - Health care +1,215
  - Accommodations & food +192

To join our live poll,

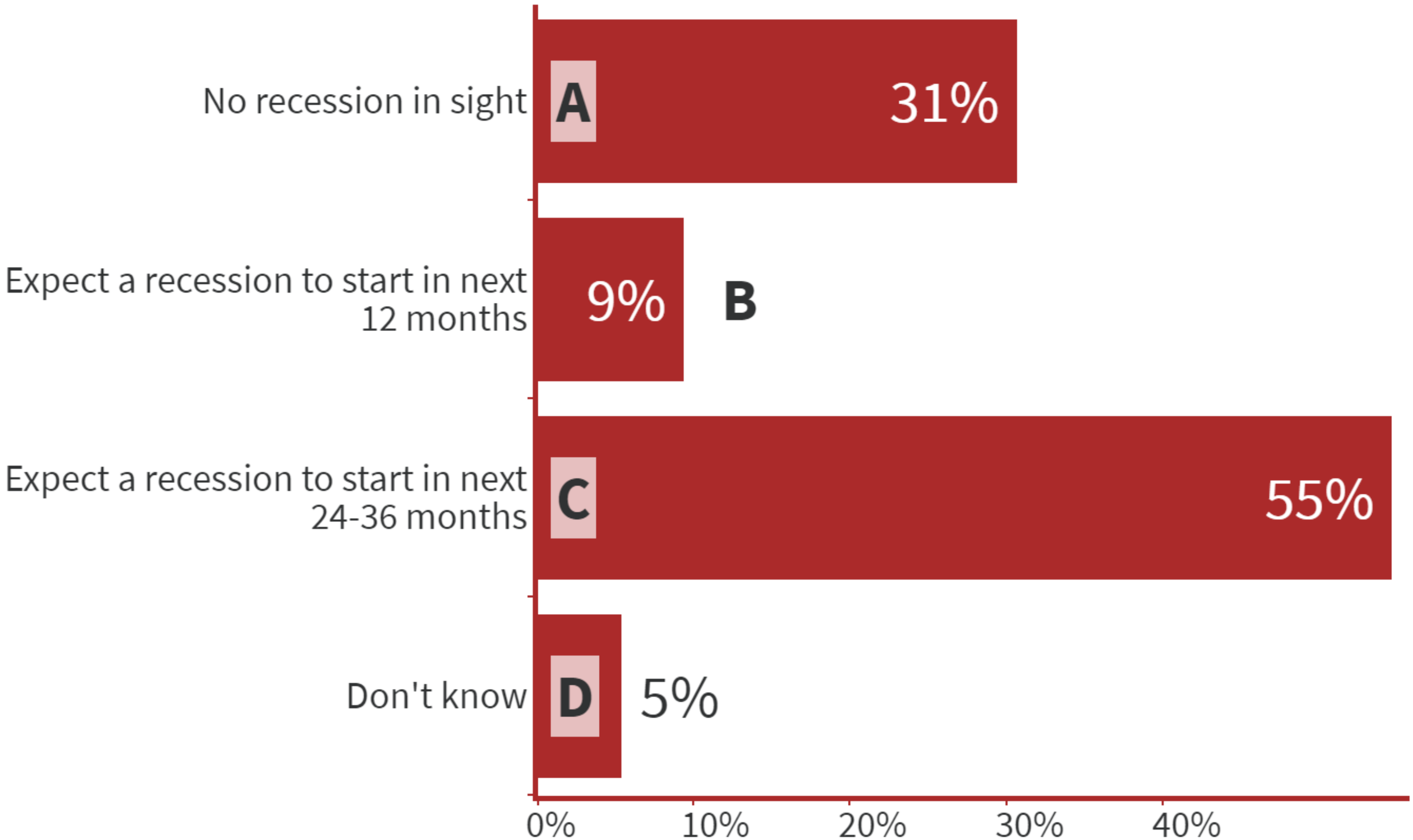
Dial: **22333**

Initial Text Message: **HIGH2017**

To answer: text once per slide

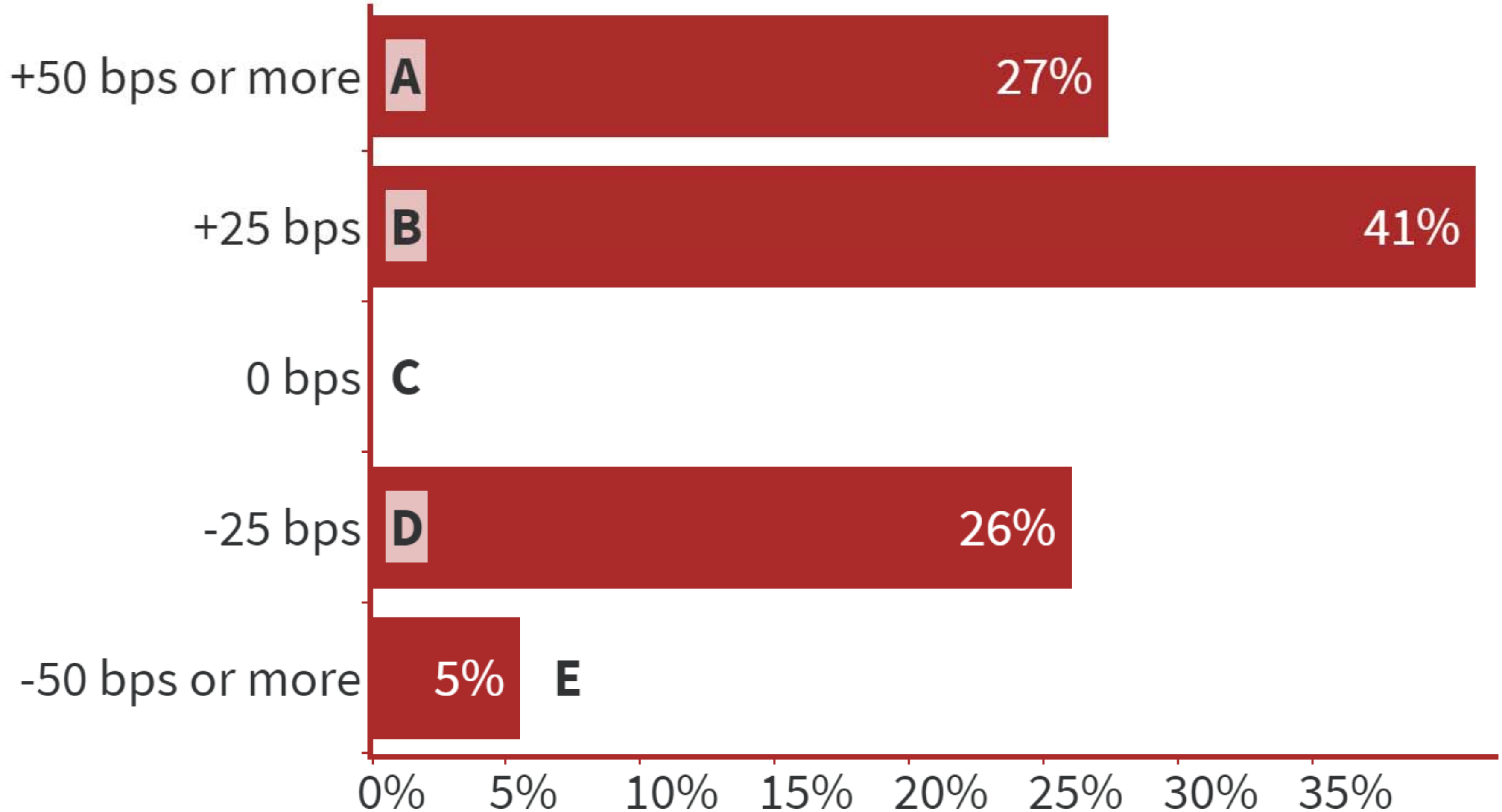
Is the economy headed toward a recession?

Text **HIGH2017** to **22333** once to join, then **A, B, C, or D**



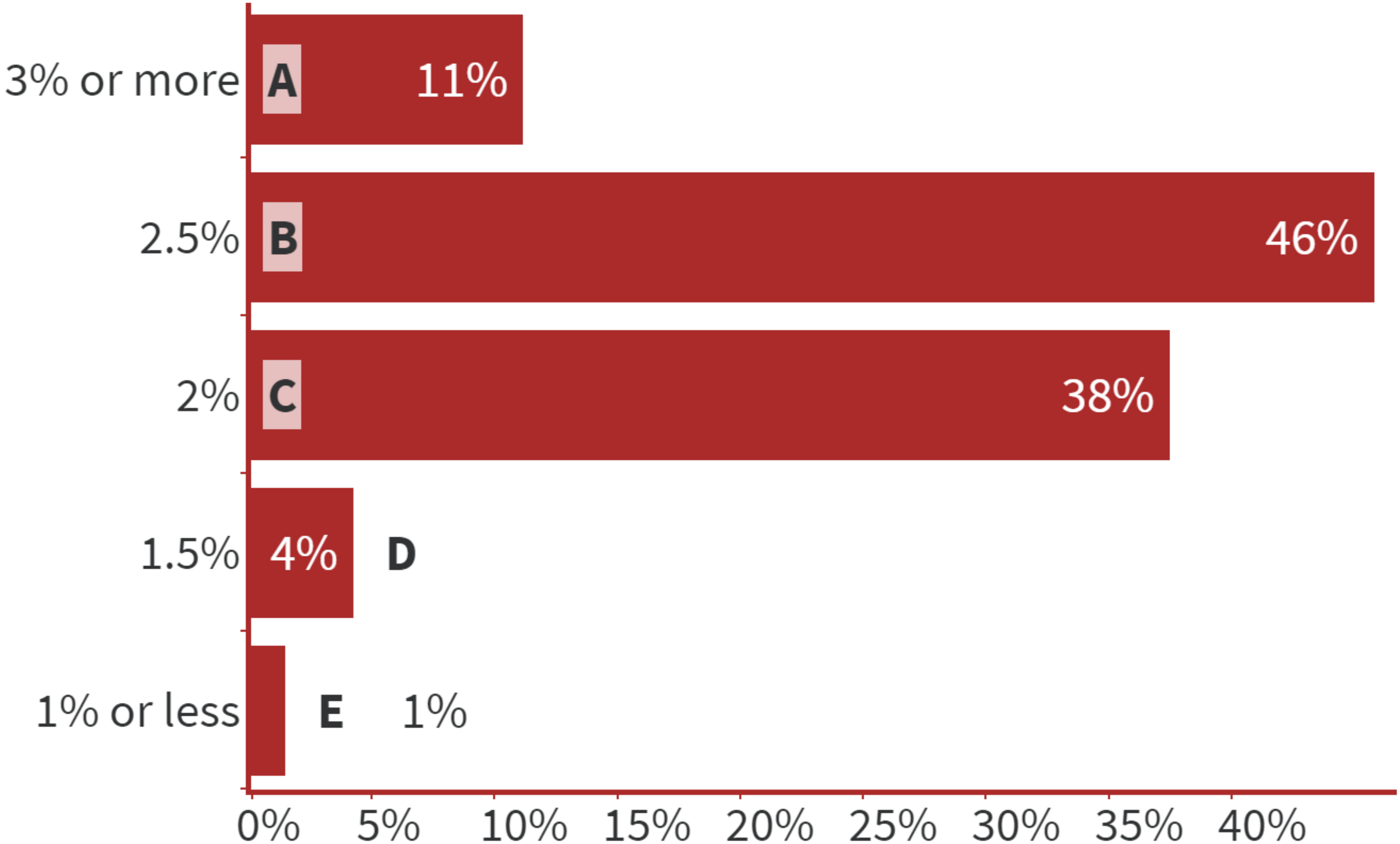
What will be the impact of President Trump's policies on GDP in 2017?

Text **HIGH2017** to **22333** once to join, then **A, B, C, D, or E**



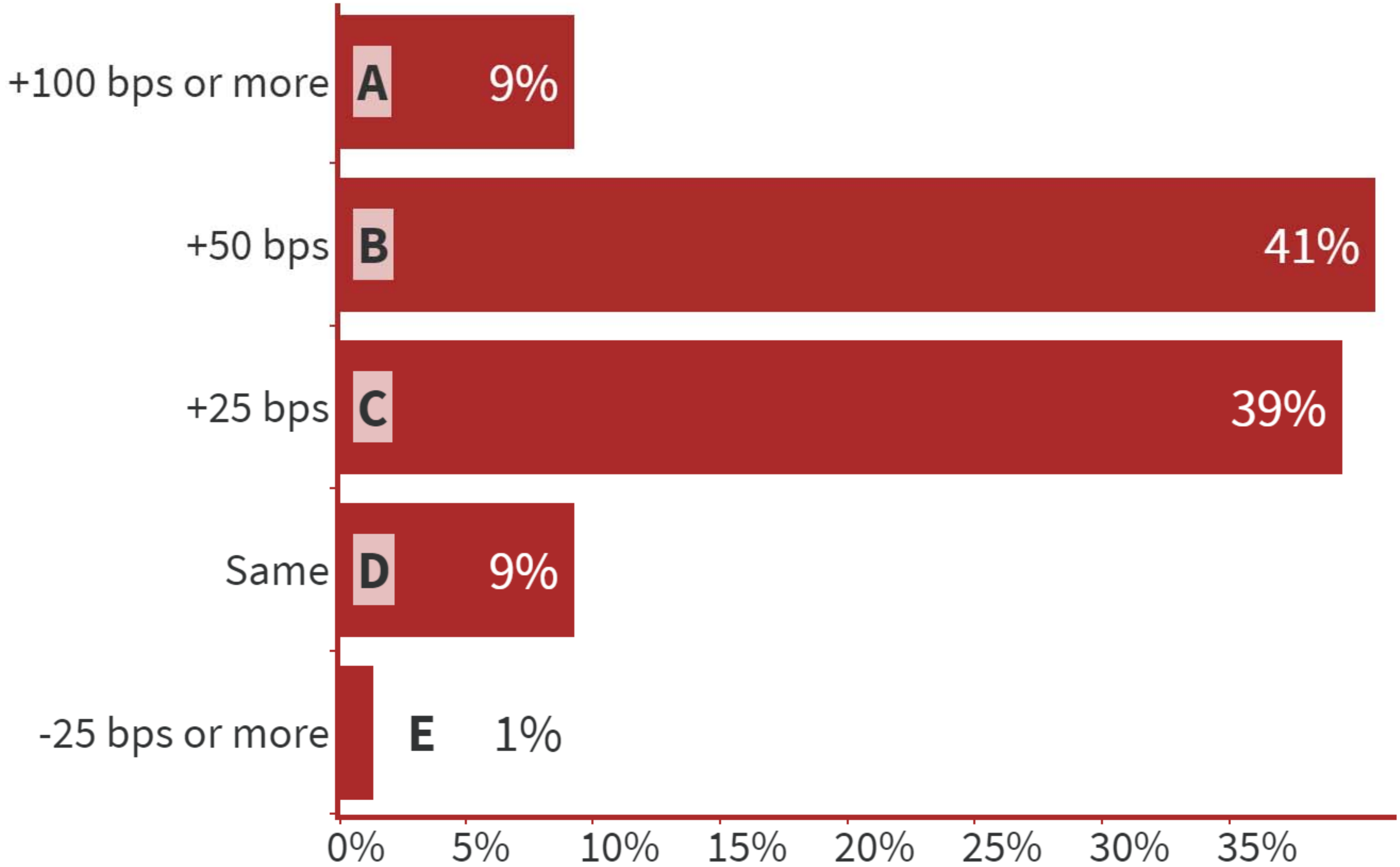
What will be the CPI in 2017?

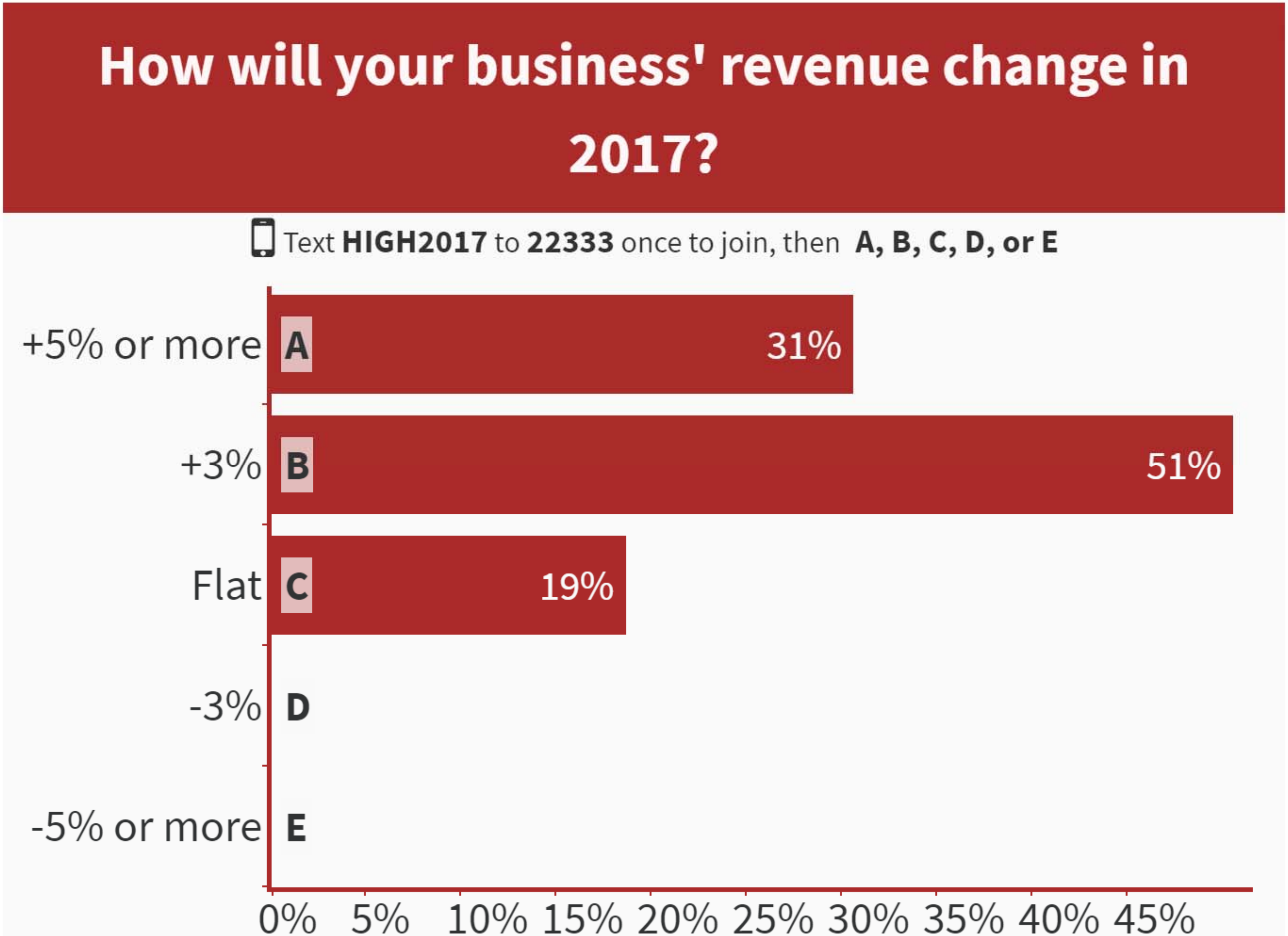
Text **HIGH2017** to **22333** once to join, then **A, B, C, D, or E**



What will the Federal Fund Rate be at the end of 2017?

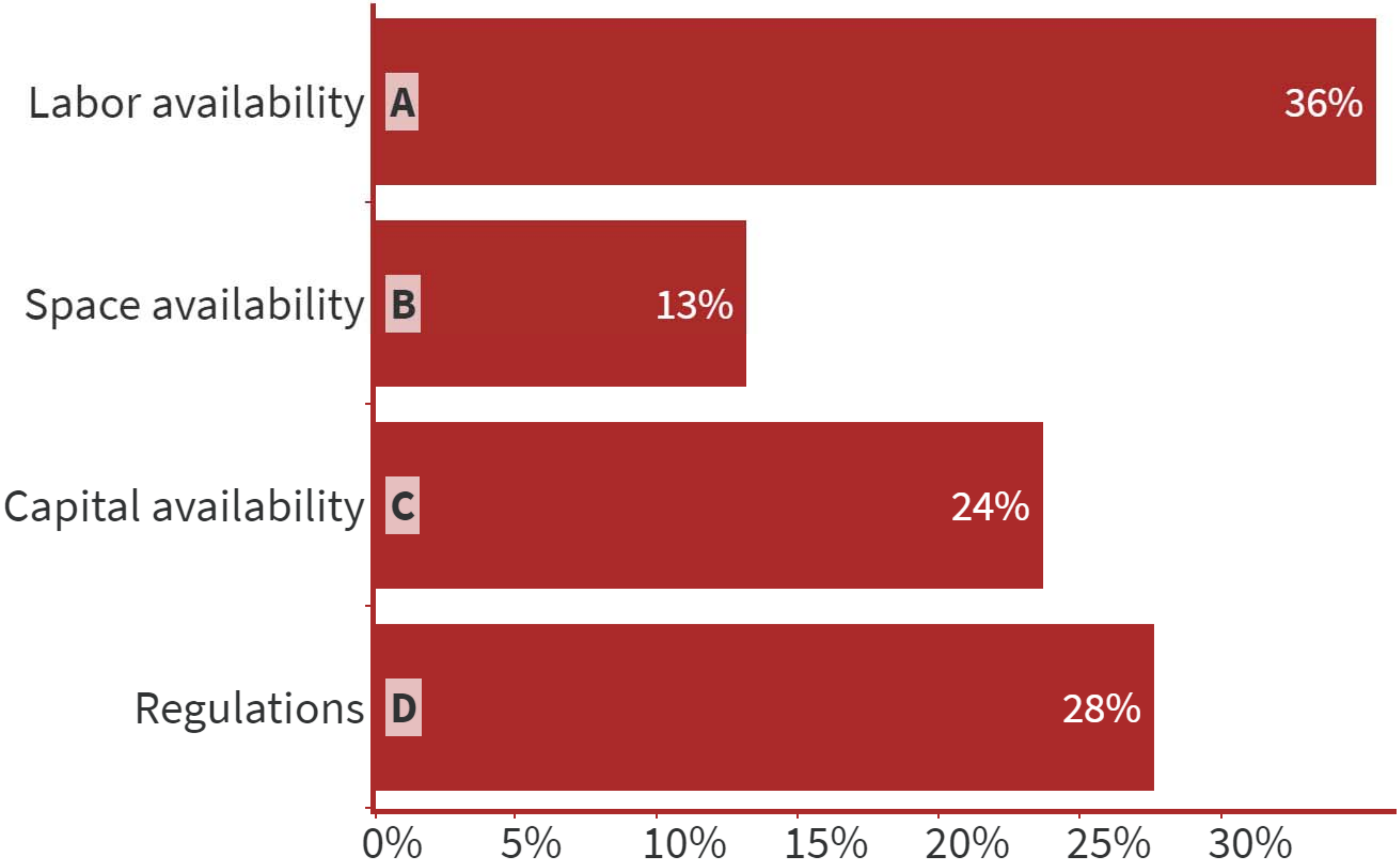
Text **HIGH2017** to **22333** once to join, then **A, B, C, D, or E**




How will your business' revenue change in 2017?
Text HIGH2017 to 22333 once to join, then A, B, C, D, or E
+5% or more
A
31%
+3%
B
51%
Flat
C
19%
-3%
D
-5% or more
E
0%
5%
10%
15%
20%
25%
30%
35%
40%
45%

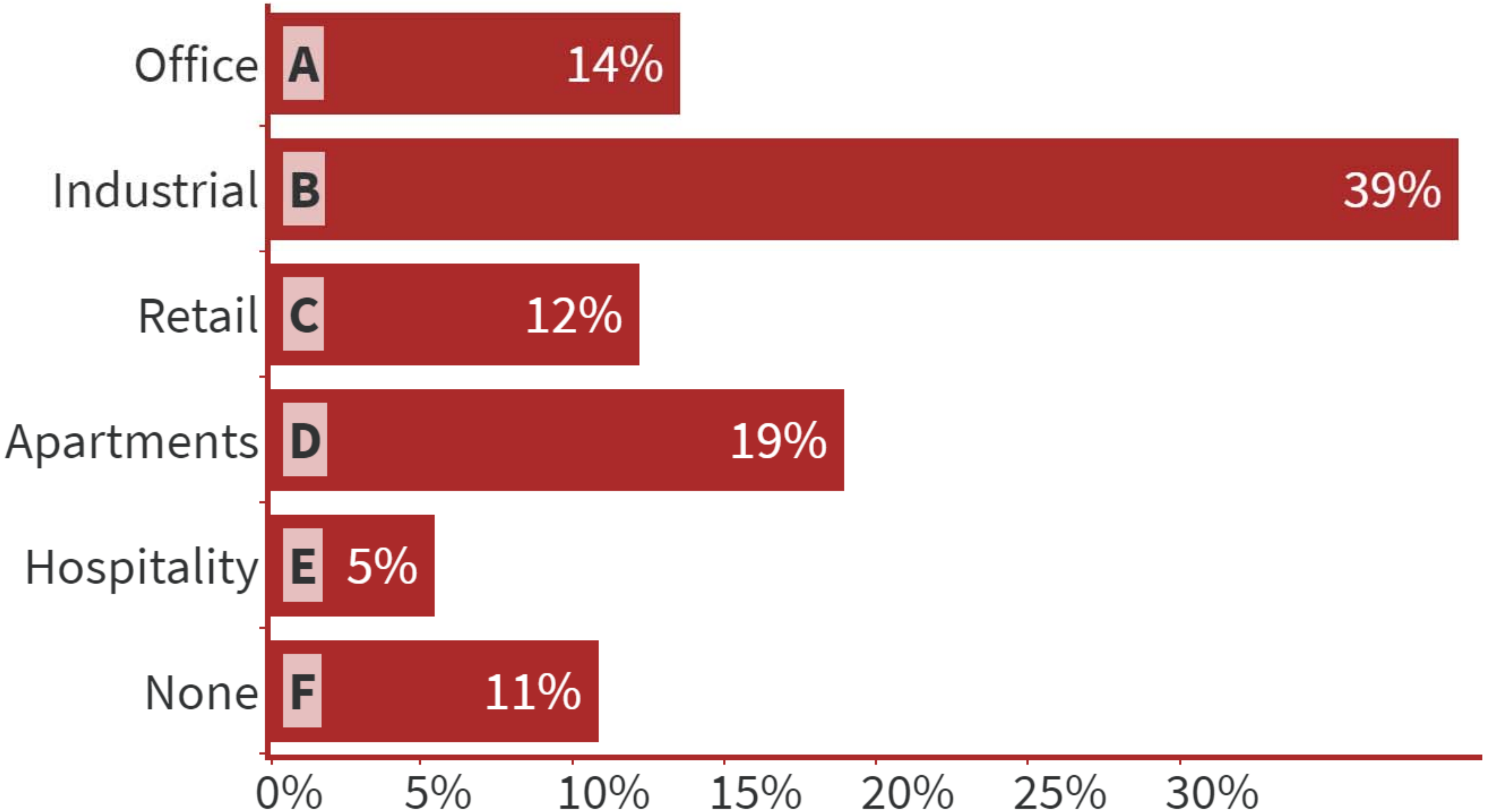
What are your biggest factors impacting growth?

Text **HIGH2017** to **22333** once to join, then **A, B, C, or D**



What sector would you like to see additional development in Lancaster County?

Text **HIGH2017** to **22333** once to join, then **A, B, C, D, E...**



Thank You

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