ANNUAL C&I COUNCIL MEETING

LancasterCommercialRE.com

C&I

COMMERCIAL & INDUSTRIAL REAL ESTATE COUNCIL

HIGH REAL ESTATE GROUP LLC

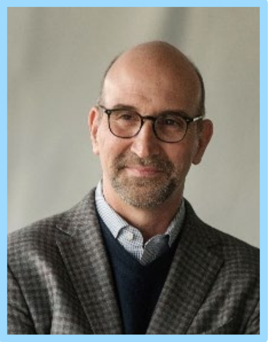
Hosted by
High Real Estate Group LLC

Welcome

Agenda

8:00 – 9:15 AM Presentation

9:15 – 9:30 AM Questions and Answers



Mark Fitzgerald
President &
Chief Operating Officer

Michael Lorelli
Sr. Vice President
Commercial Asset Management

Bill Boben
Sr. Vice President
Sales/Leasing

Powell Arms
Sr. Vice President, Managing Director
Retail Division

David Aungst
President
High Hotels

Brad Mowbray
Sr. Vice President, Managing Director
Residential Division

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A Welcome From

Heather Kreiger

2022 C&I President

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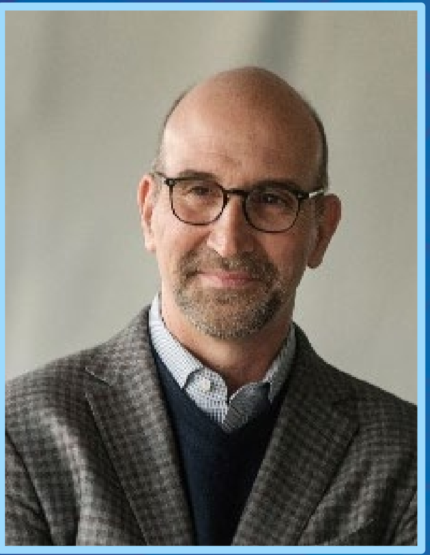


Mark Fitzgerald

President & Chief Operating Officer
High Real Estate Group LLC

Presentation: Three Areas of Focus

Economic Overview

- COVID-19 update
- GDP projections
- Disposable income and saving rate
- Employment trends

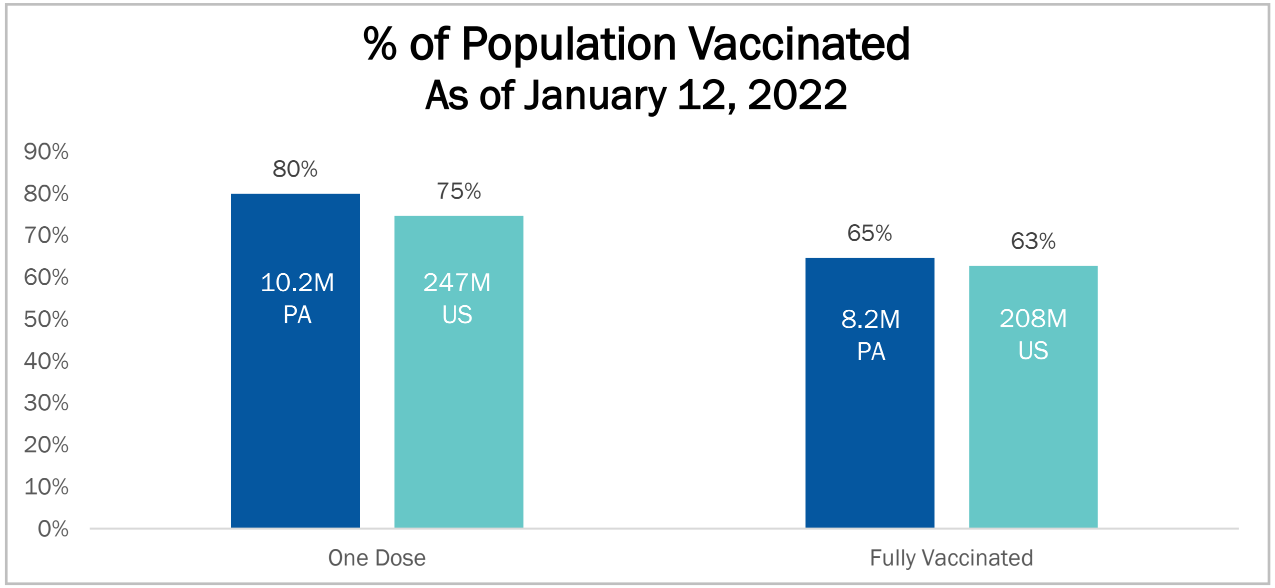
Nationwide Real Estate

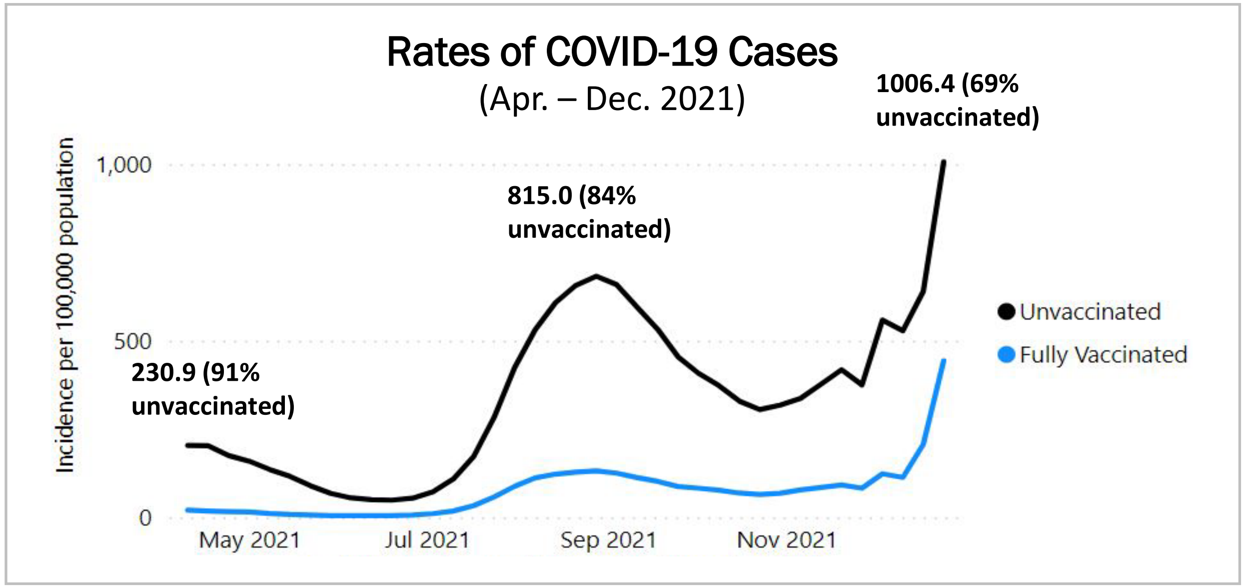
- Acquisition/ Development sentiment
- Cap Rate trends
- Underwriting criteria
- Real Estate cycle

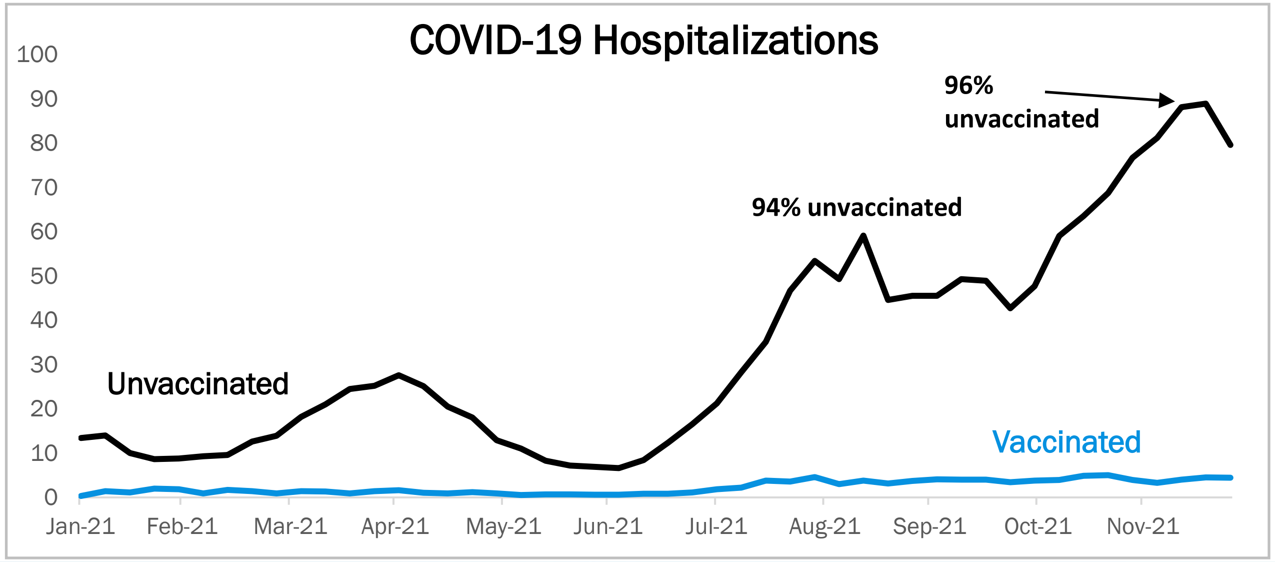
Lancaster Real Estate

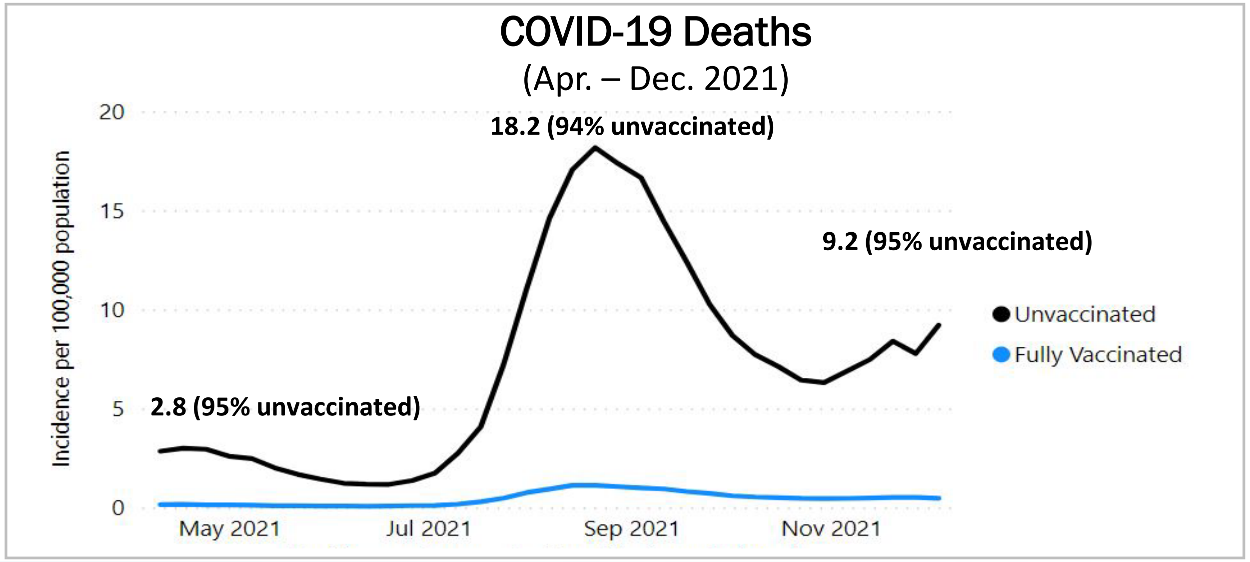
- Industrial
- Office
- Retail
- Hotel
- Apartments

Hospitalizations and Deaths Up Among Unvaccinated



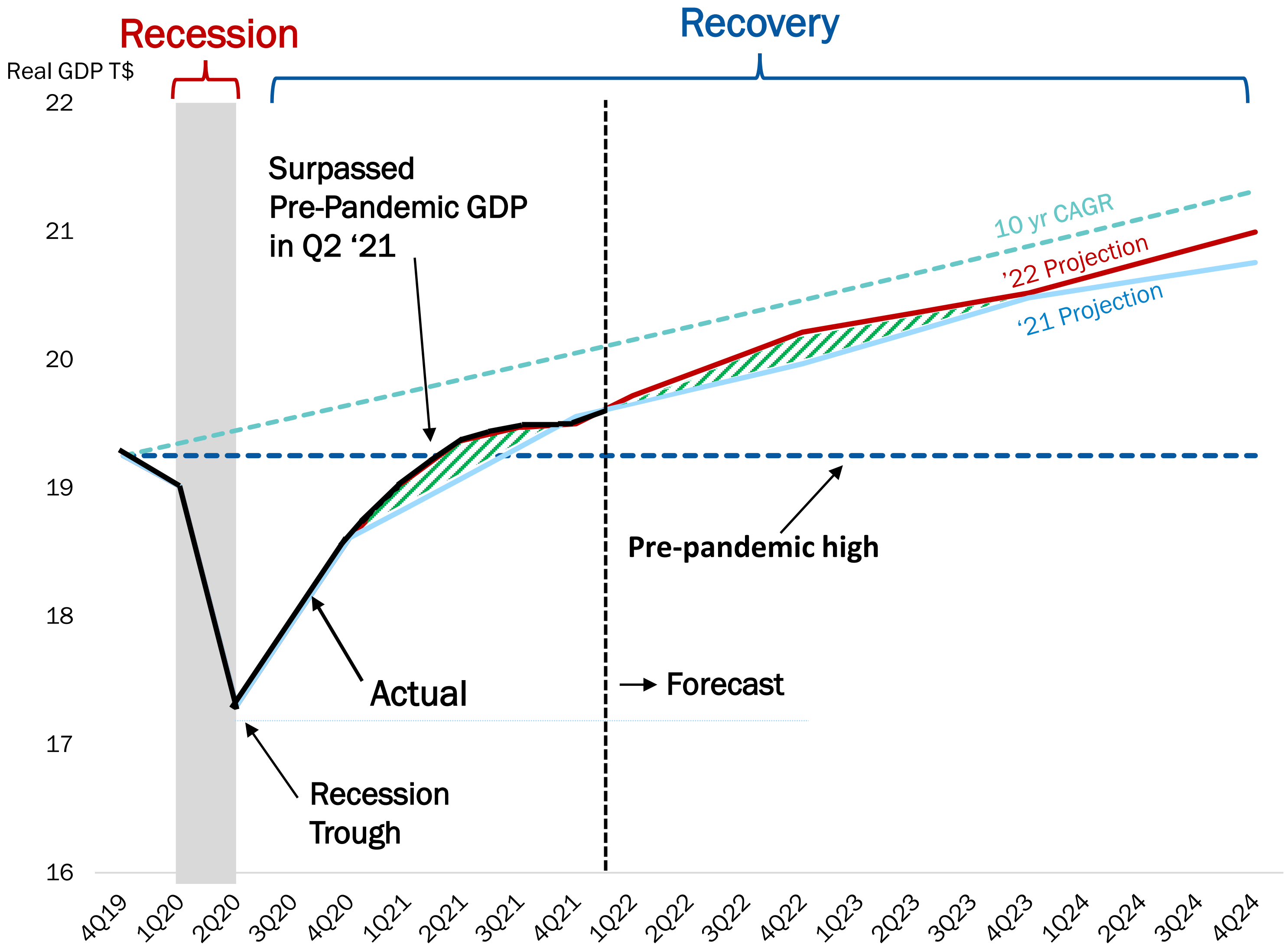






Source: CDC

Faster Recovery Than Predicted



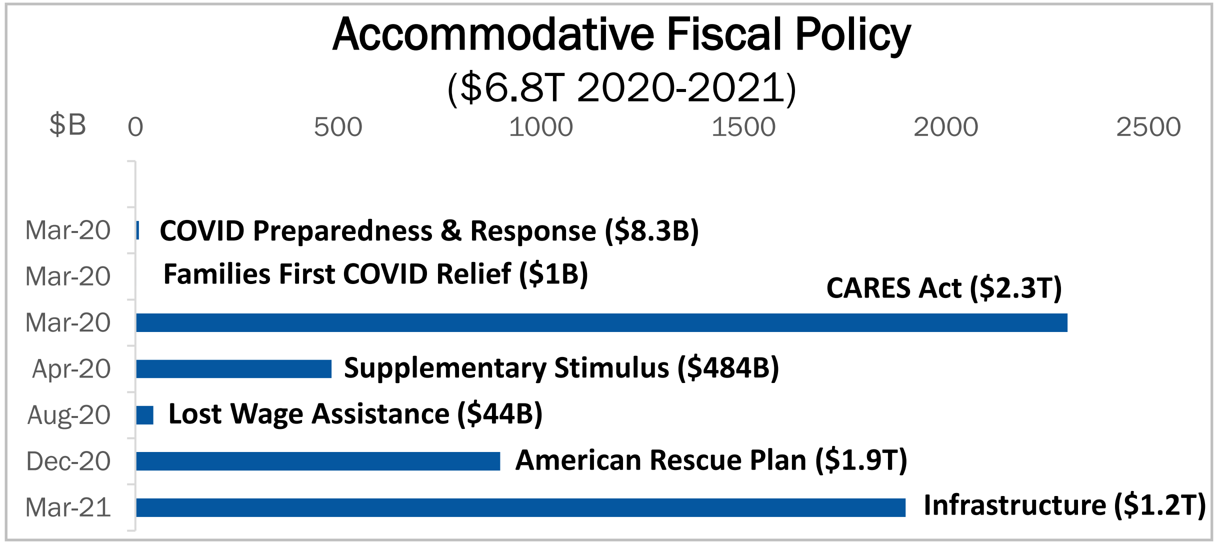
FOMC December 2021
Annual GDP Growth Projections

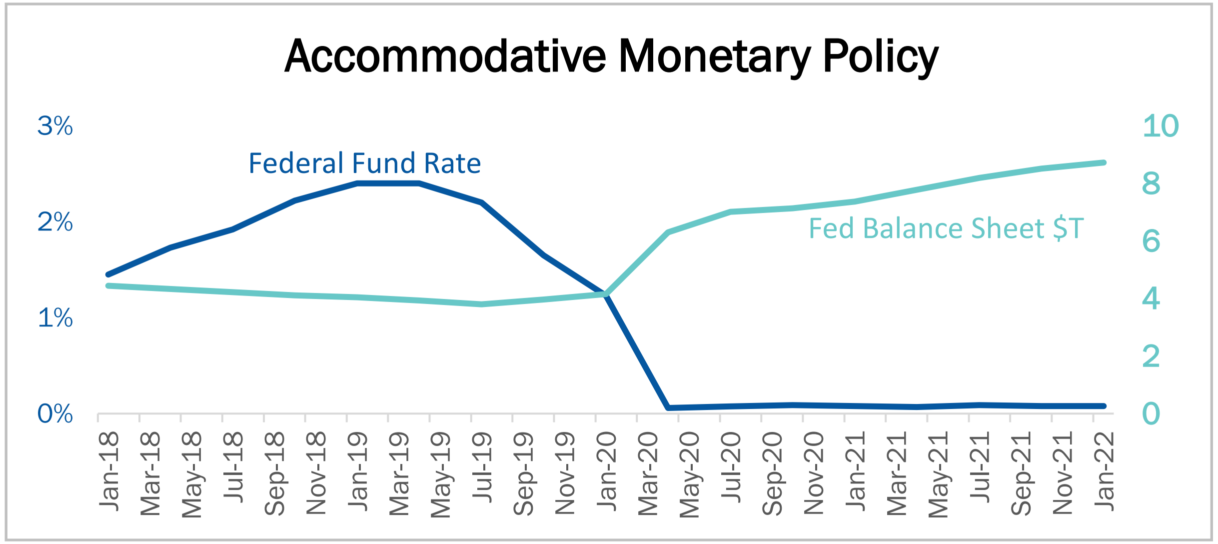
	2021	Actual	2022	Variance
2020	-2.4%	-3.5%	-	(-1.1%)
2021	4.2%	5.7%	-	1.5%
2022	3.2%	-	4.0%	0.8%
2023	2.4%	-	2.2%	(-0.2%)
2024	1.8%	-	2.0%	0.2%

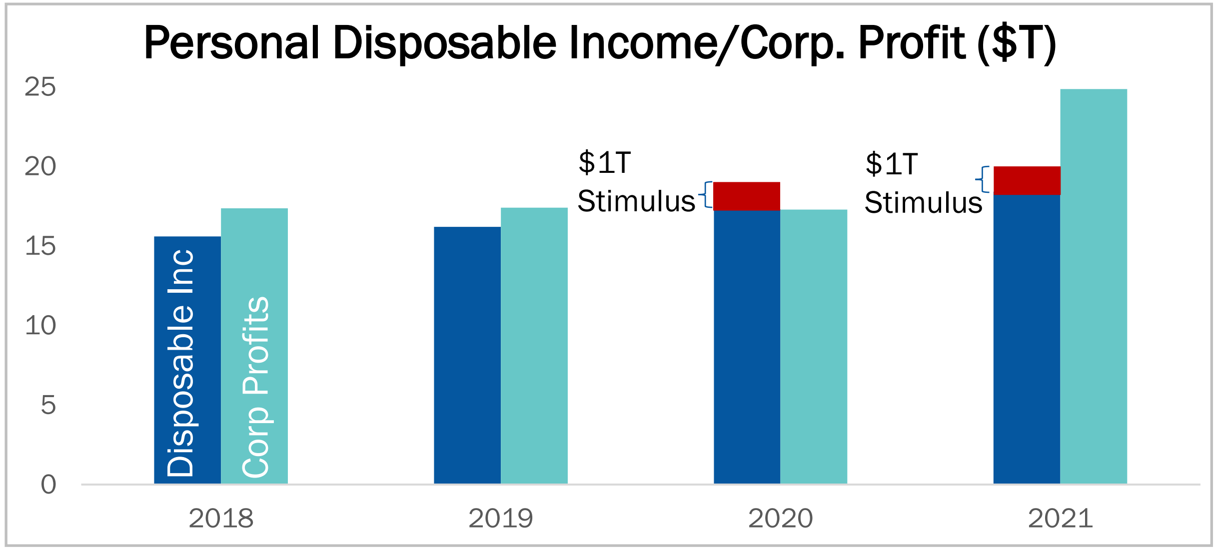
Note: Projections are median

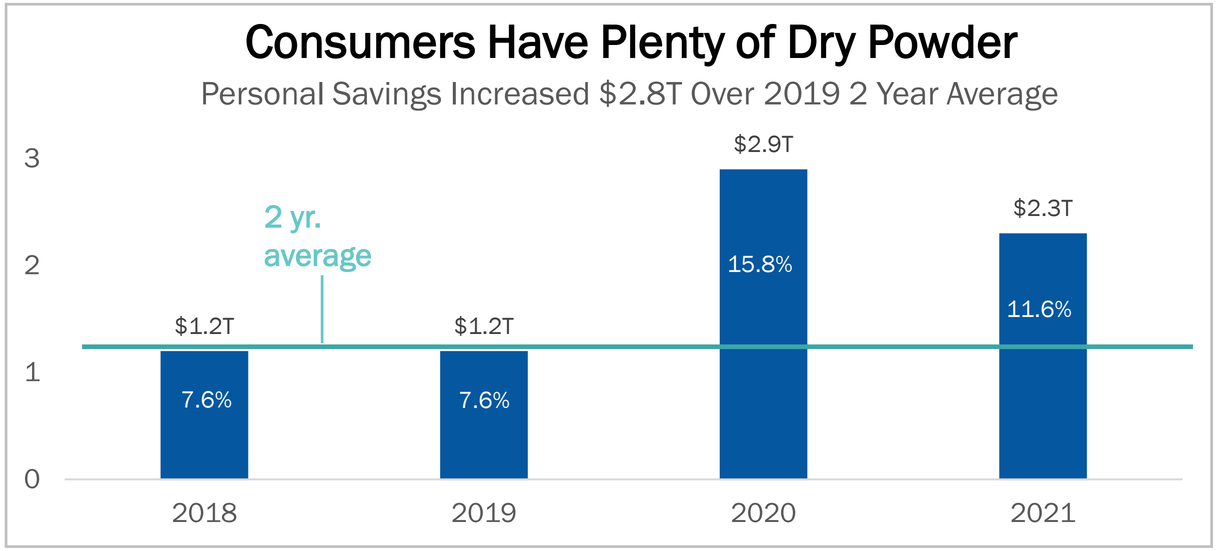
Source - 4Q 21; U.S. Bureau of Economic Analysis; Federal Open Market Committee; High Real Estate Group

2021 GDP Growth Driven By:



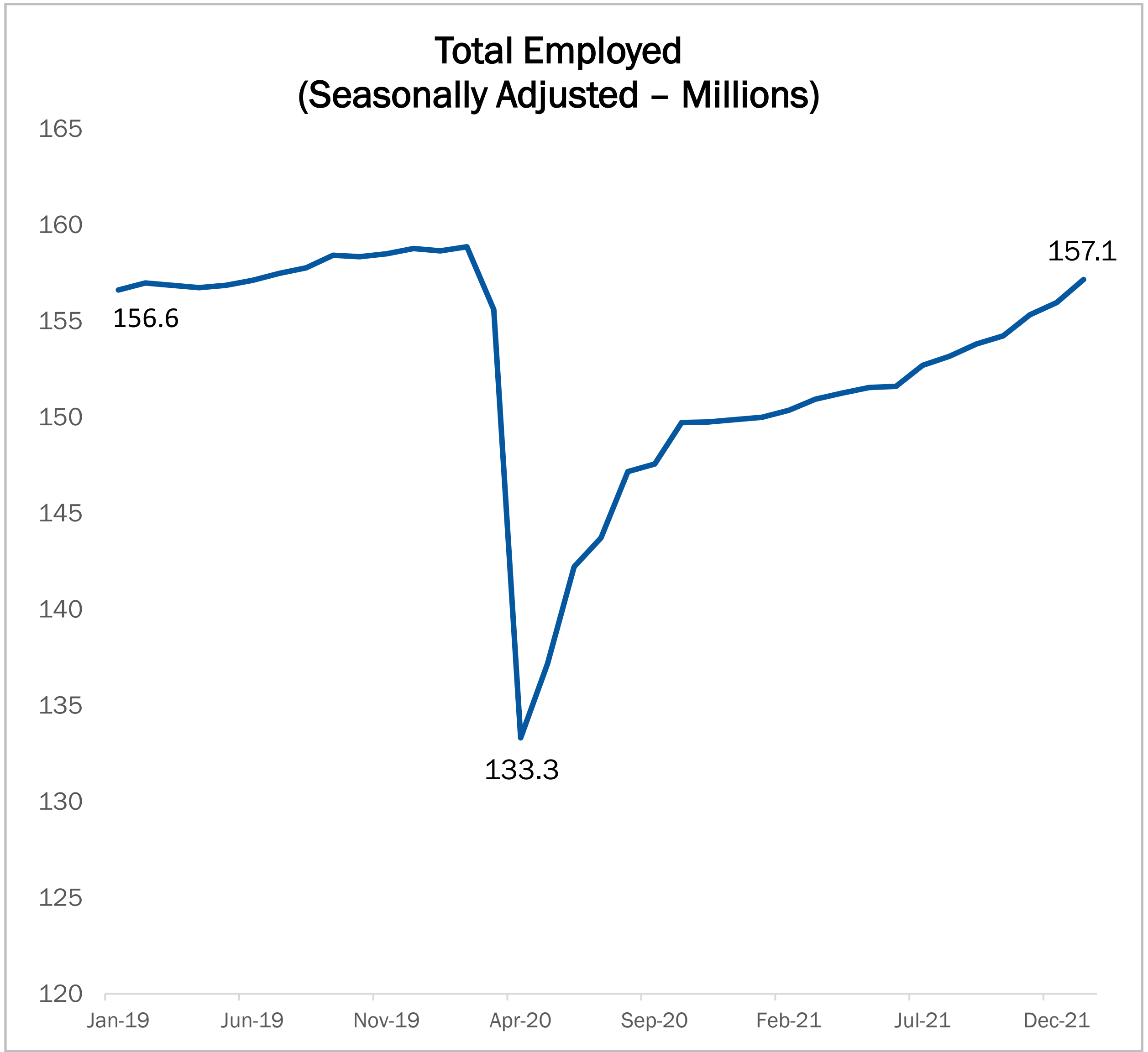


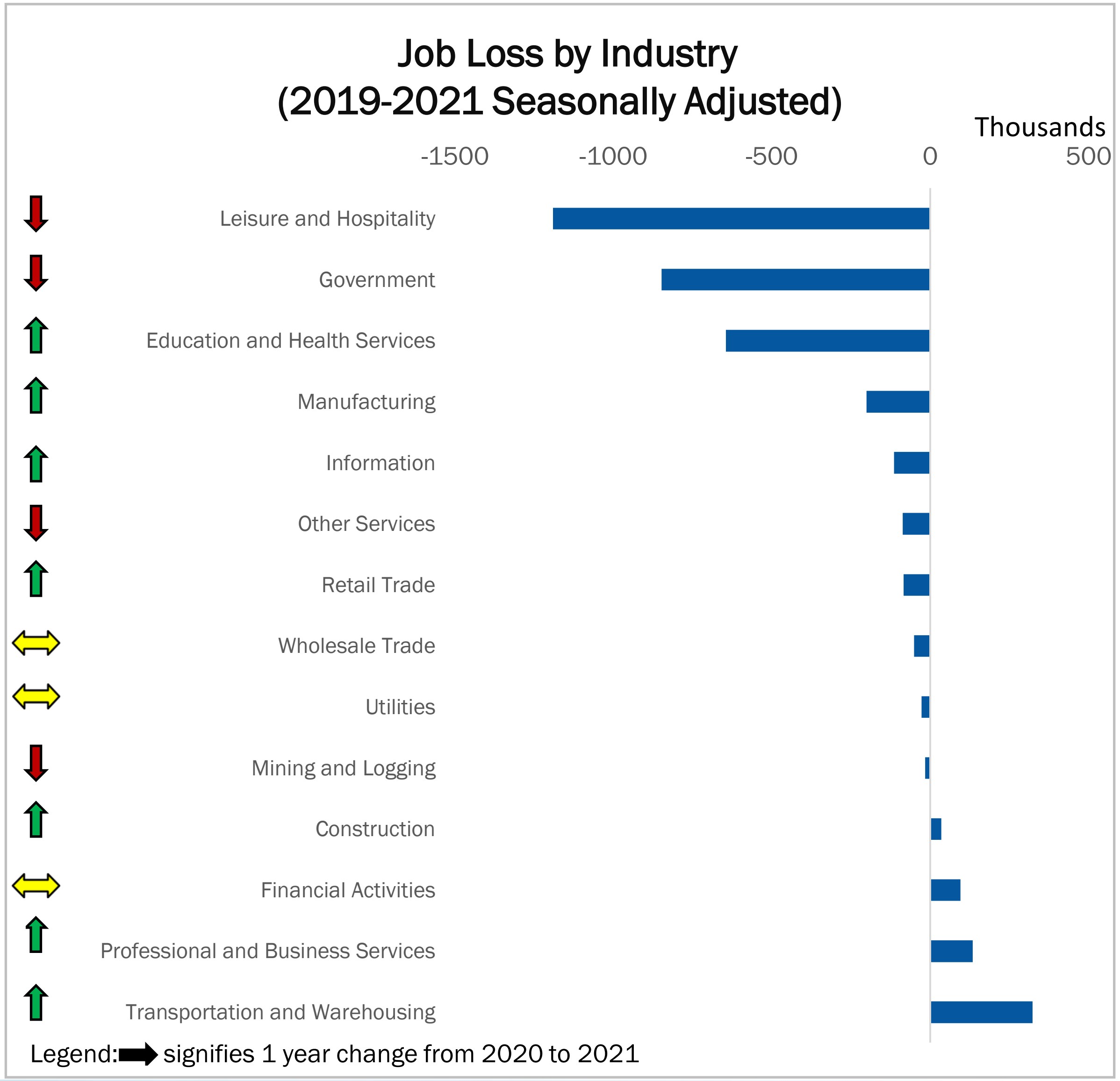




Source: Impact of Pandemic, effects-of-selected-federal-pandemic-response-programs-on-personal-income-4Q2021; www.macrotrends.net, Federal Open Market Committee; High Real Estate Group

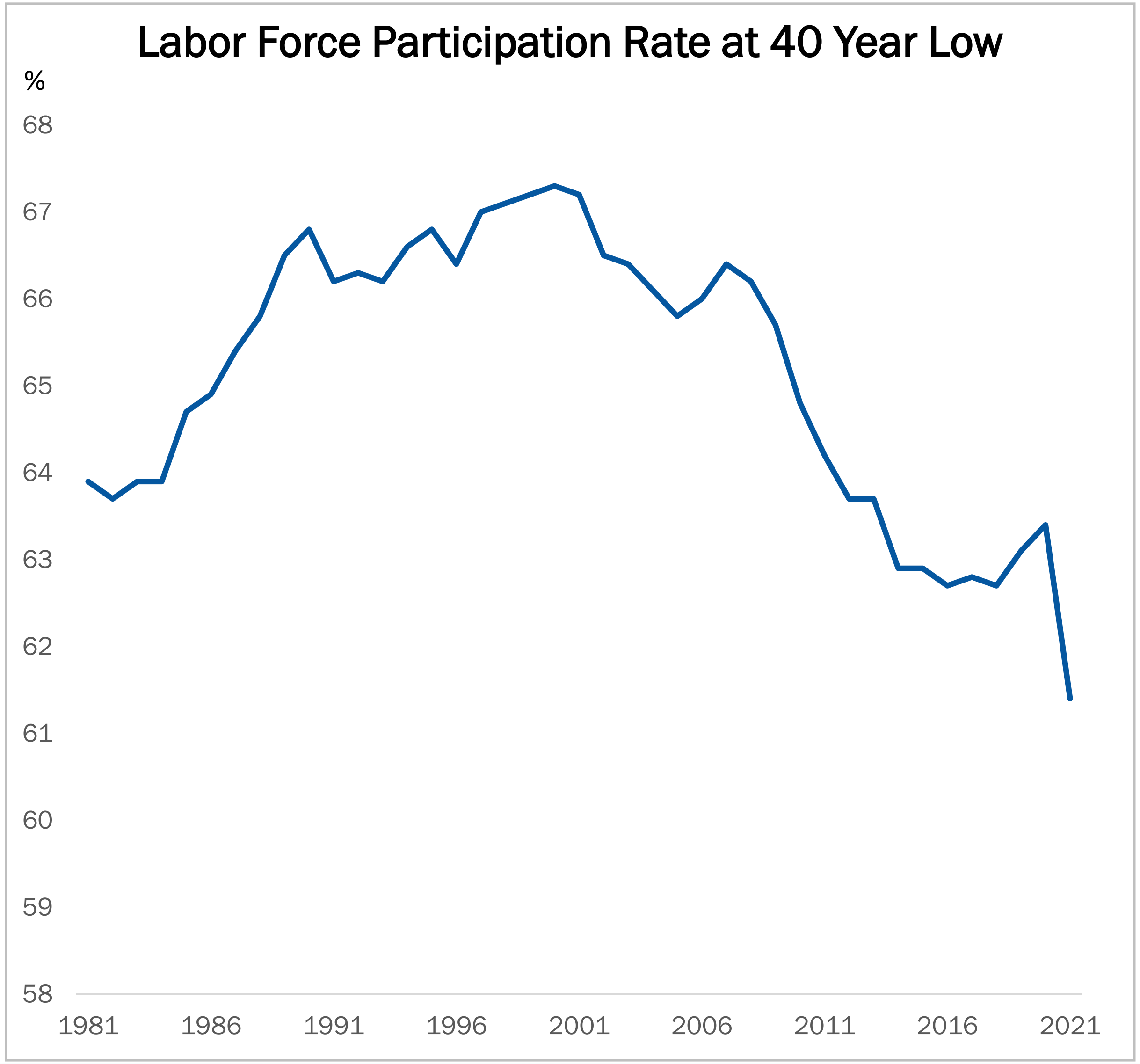
Employment: Just Back to Pre-Pandemic Peak

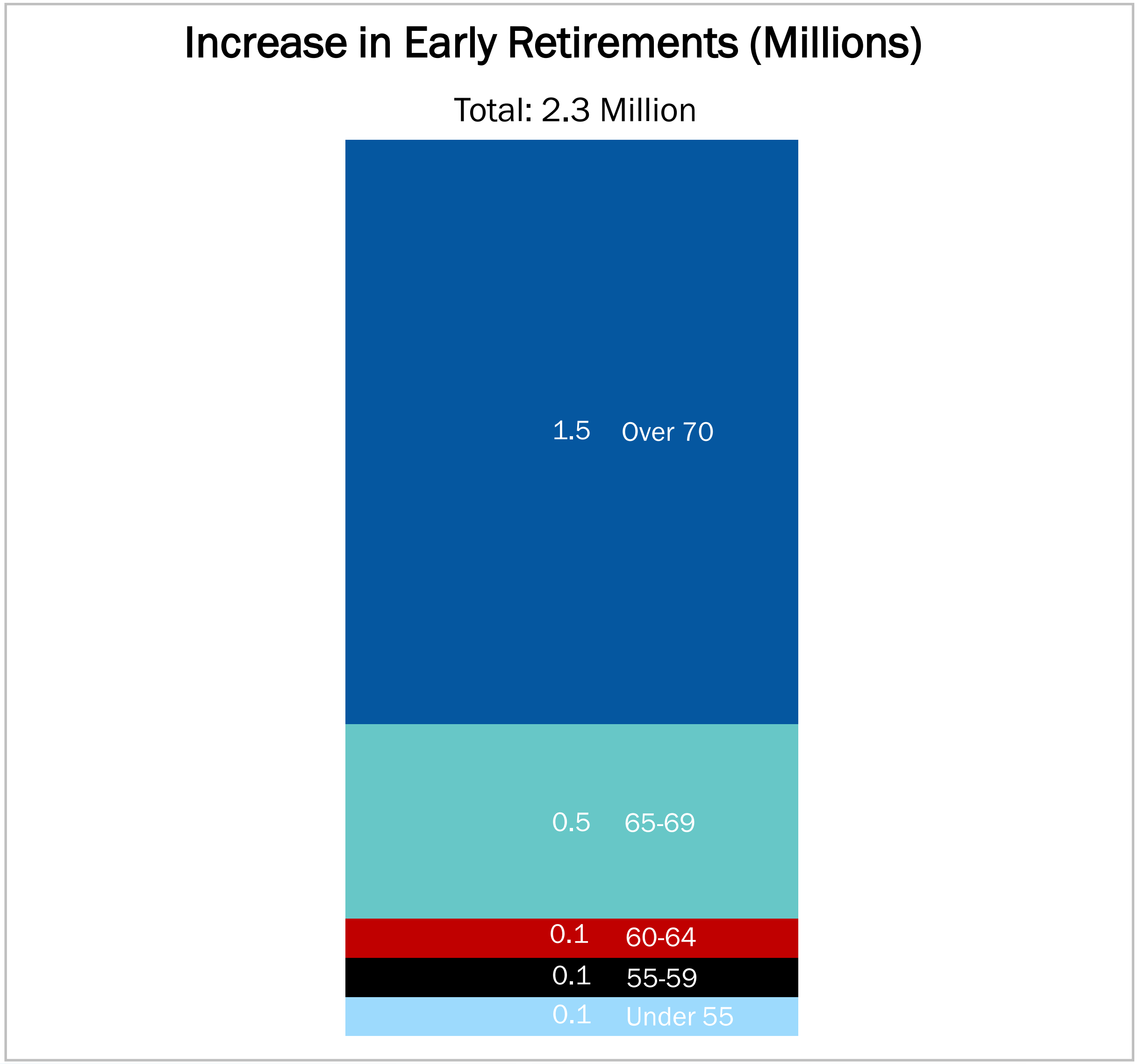




Source: US Bureau of Labor Statistics

Labor Challenges Impact Recovery





Source: US Bureau of Labor Statistics; Federated Hermes, Linda Duessel/Lancaster Chamber Economic Forecast Breakfast: "Economic & Market Outlook"

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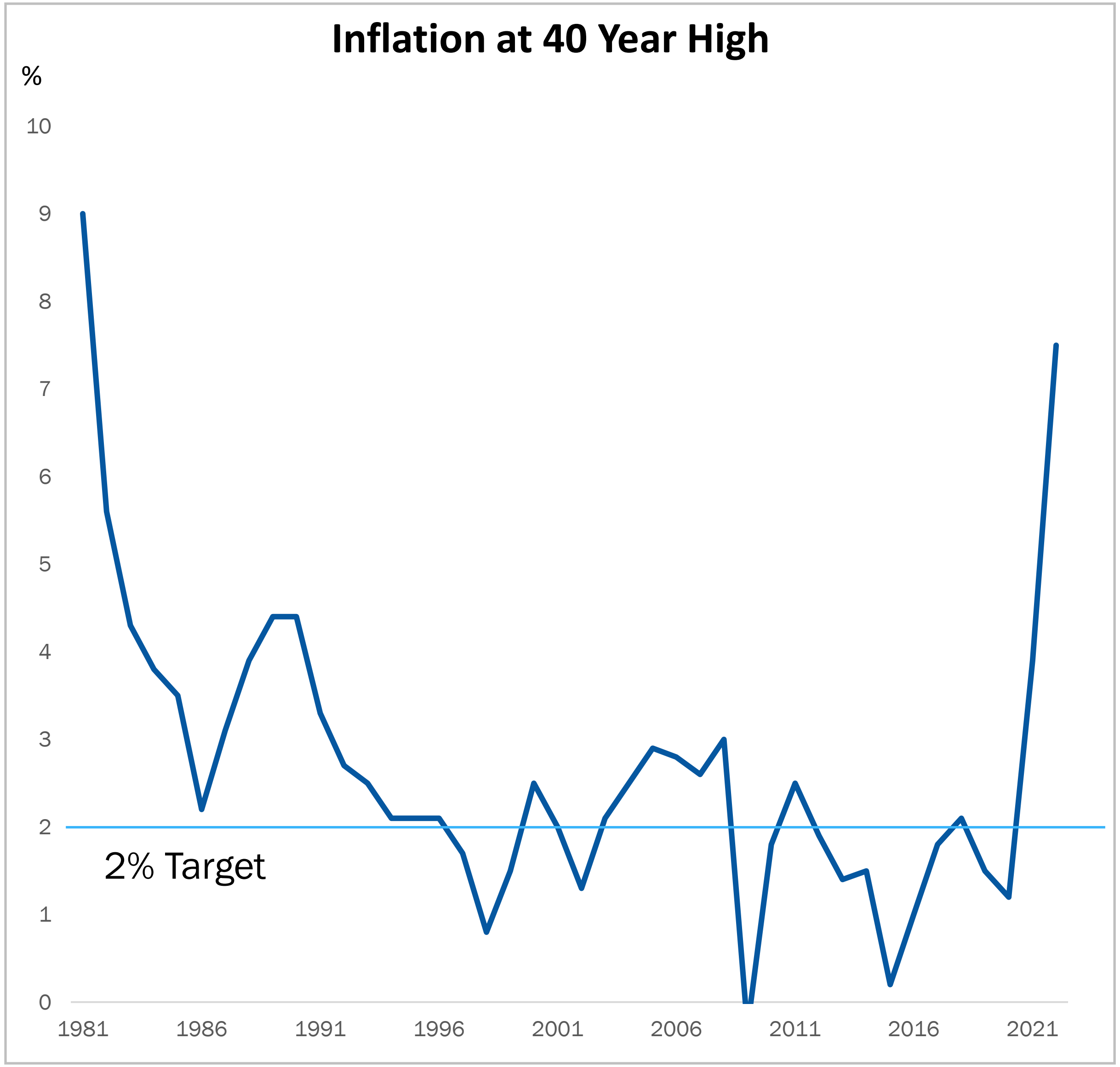
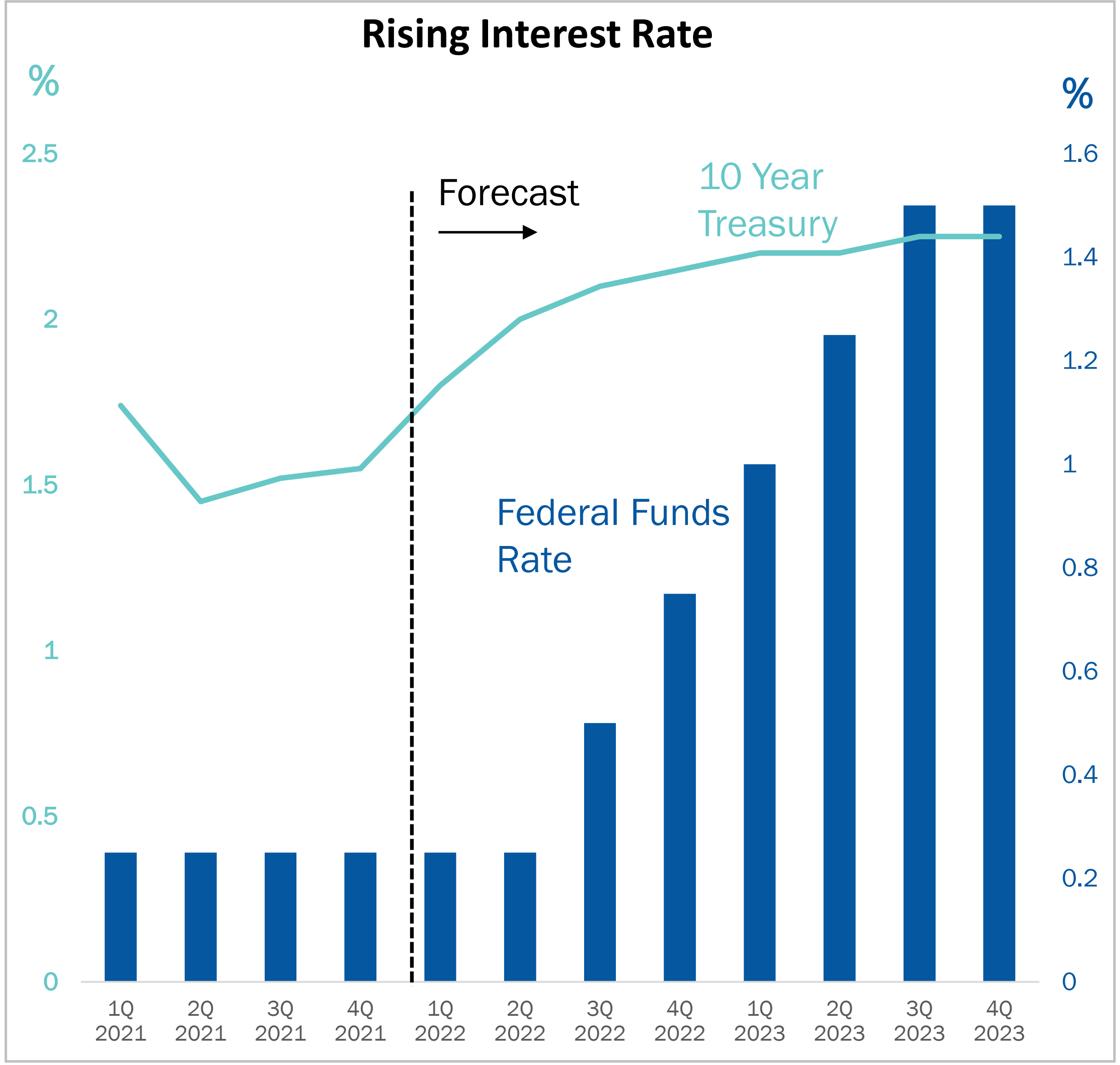
Higher Inflation Pushing Interest Rates

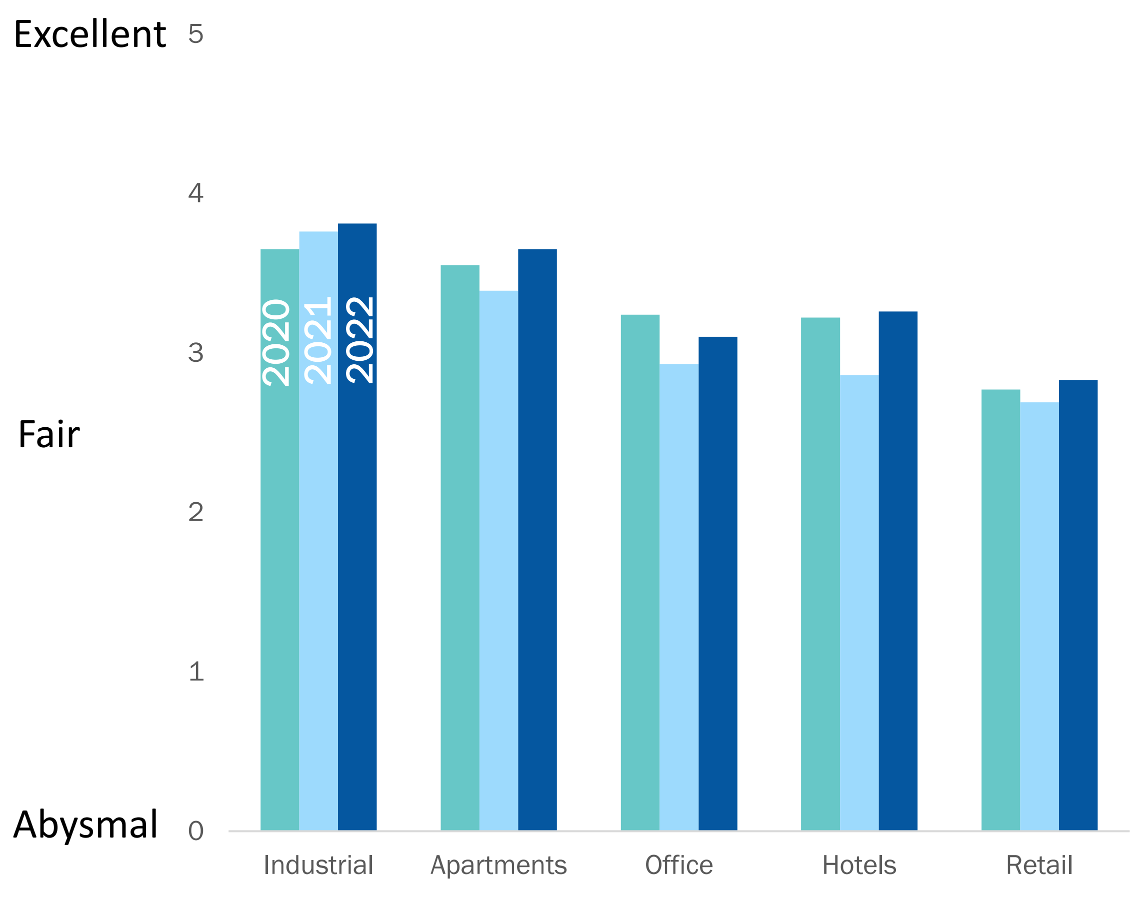




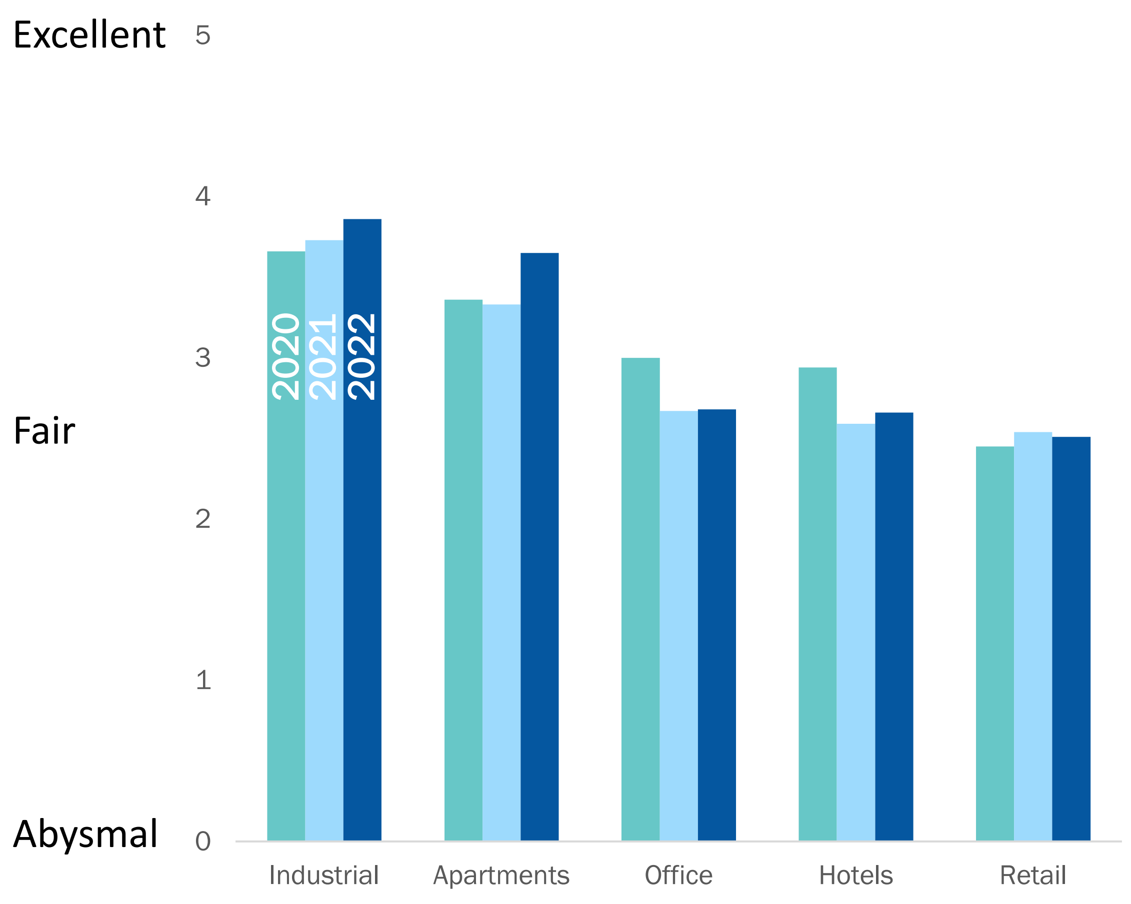
Source: Federal Open Market Committee; Wells Fargo Annual Economic Outlook – 12/9/21

Improving National Sentiment for Acquisition / Development

Acquisitions



Developments



Source: PWC, ULI; Emerging Trends in Real Estate 2021

US: Cap Rate Compressing on Strong Investor Demand

	Range	2021 Average	Change from 2020	BPS
Apartments	3.0 – 7.0%	4.4%	↓	(-80) bps
Warehouse	2.6 – 6.5%	4.3%	↓	(-52) bps
Suburban Office	4.7 – 9.0%	6.2%	↑	19 bps
CBD Office	4.2 – 8.5%	5.8%	↑	15 bps
Neighborhood/ Strip Centers	5.0 – 10.0%	7.2%	↓	(-13) bps
Limited-Service Hotels	7.0 – 10.5%	8.9%	↓	(-52) bps

- Cap rates increased for CBD/Suburban Office
- Ranges decreased and tightened for Apartments and Industrial
- Debt & Equity remain available

Source : PWC Real Estate Investor Survey 3rd/4th Q2021

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2022 Underwriting Criteria

	Max LTV	Vacancy	Cap Rate	Spread	All in Rate
Apartments	65-80% ⇧	5-10% ⇔	4.5-6.0% ⇩	1.4-2.0% ⇩	3.2-3.8% ⇧
Industrial	65-75% ⇔	5-10% ⇔	5.0-6.5% ⇩	1.4-2.0% ⇩	3.2-3.8% ⇧
Office Suburban	55-60% ⇩	10-15% ⇔	7.0-8.5% ⇔	1.7-2.3% ⇩	3.5-4.1% ⇧
Retail (“Anchored”)	60-70% ⇩	10-15% ⇔	6.0-7.5% ⇩	1.7-2.3% ⇩	3.5-4.1% ⇔
Hotel	60-70% ⇧	40-50% ⇔	10.0-12.0% ⇩	2.5-4.0% ⇔	4.3-5.8% ⇧

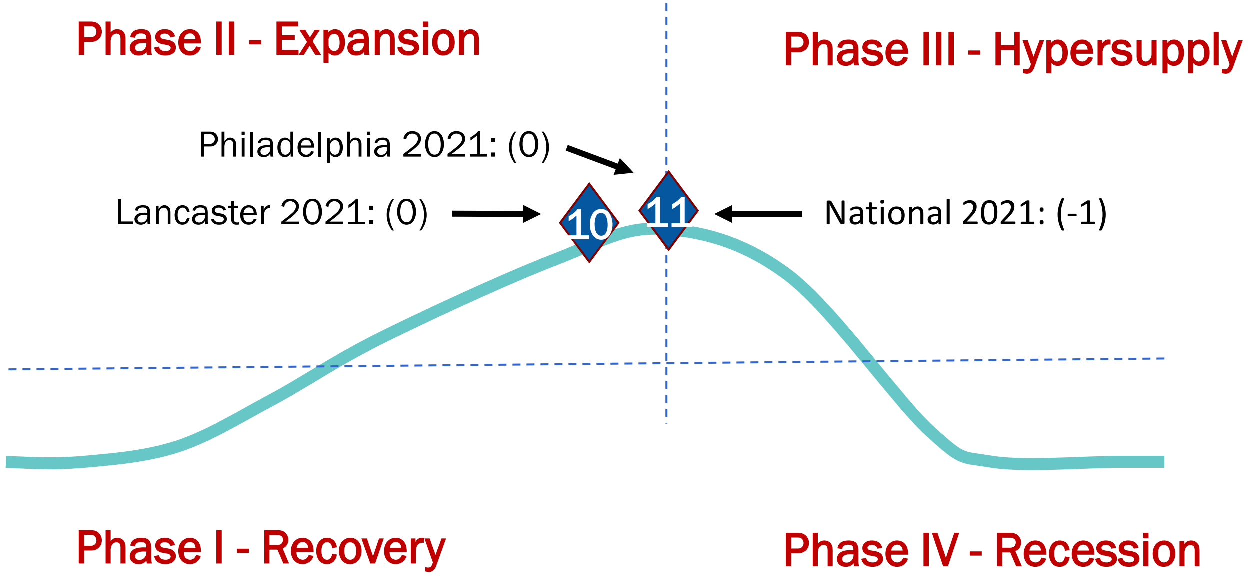
Range for 10-year treasury projections = 1.8%

Source: M&T Realty Capital Corporation; Data as of January 2021

Industrial

- E-commerce continues to drive demand. Grew by 9% in 2021. Now 13%-15% of total retail sales
- 3 PLs accounted for 30% of all leasing activity in 2021
- Last mile, refrigerated warehouses are fast growing segments
- Location decisions driven by:
  - Land availability
  - Workforce
  - Affordable housing
  - On-site amenities
  - Trucking expense ↑ 40%
- Rent increases driven by:
  - Strong demand
  - Scarcity of zoned land
  - Increasing construction costs

Third Quarter 2021



YOY National Change

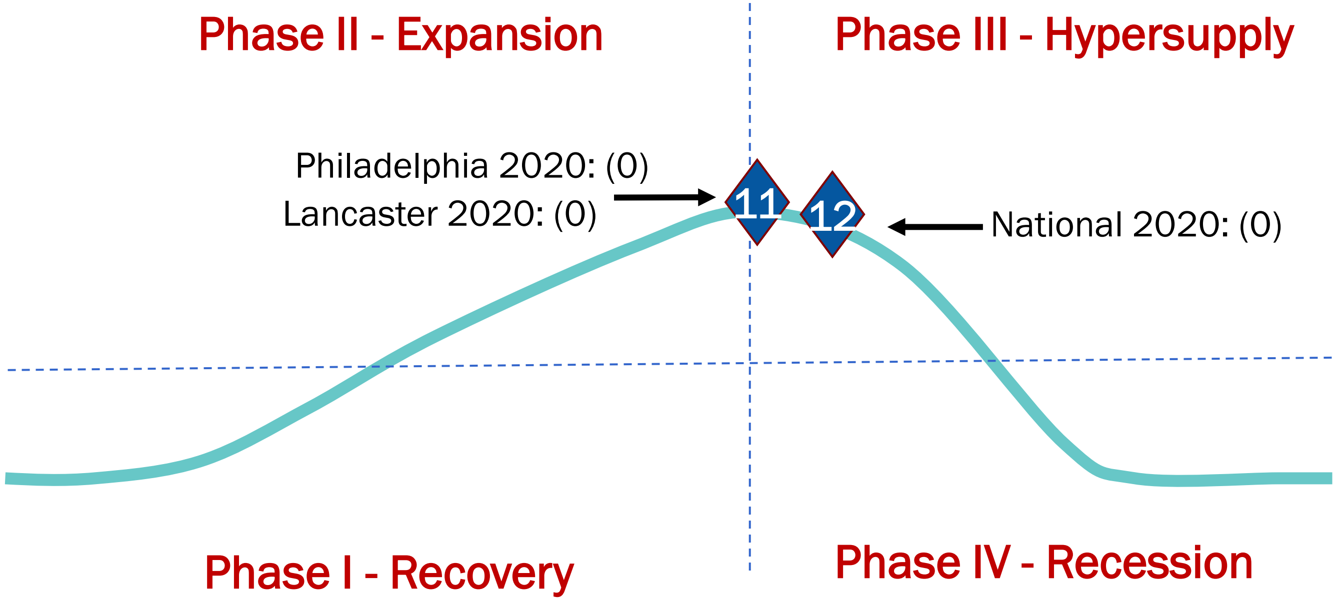
	Actual 2021	Projected 2022
Occupancy	1.0%	0%
Rents	7.2%	4.5%

Source: University of Denver – Real Estate Market Cycles; Lancaster: High Real Estate Group LLC; PWC; Urban Land Institute 2021; CBRE Research, Real Estate Market Outlook 2021

Apartments

- Record rent growth of 11% in 2021
- Demand shifts:
  - Urban → Suburban
  - Northeast → Sunbelt
  - West coast → Midwest
- Design focus on:
  - Larger units, extra rooms
  - High speed internet
  - Fitness/health/outdoor space
- Supply challenges:
  - Availability of zoned land
  - Regulatory process
  - Increased construction cost
  - Shortage of skilled labor
- Increased affordability challenges

Third Quarter 2021



YOY National Change

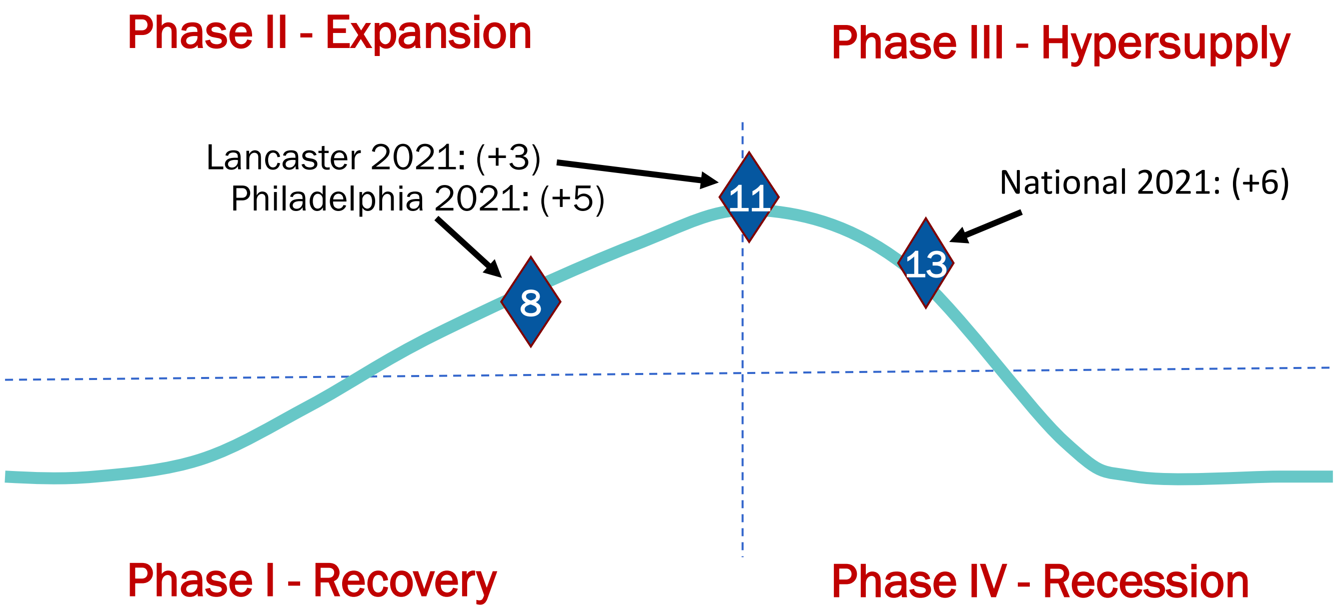
	Actual 2021	Projected 2022
Occupancy	1.9%	(0.1%)
Rents	11.3%	6.5%

Source: University of Denver – Real Estate Market Cycles; Lancaster: High Real Estate Group LLC; Urban Land Institute 2021; CoStar

Office

- Rents/Occ. bottomed Q3 2021
- Work from Home ⟶ Work from Anywhere
- Employment exceeds pre-pandemic levels
- Office space is used for:
  - Reinforcing culture
  - Collaboration
  - Mentoring
- Anticipated Change Over Next Decade
  - Fully remote to increase from 3% ⟶ 6-9%
  - Space needs will decrease 5% to 15%
  - Gateway Cities ⟶ 2nd Tier Cities and Suburbs
  - Strongest segments include Life Sciences and Data Centers

Third Quarter 2021



YOY National Change

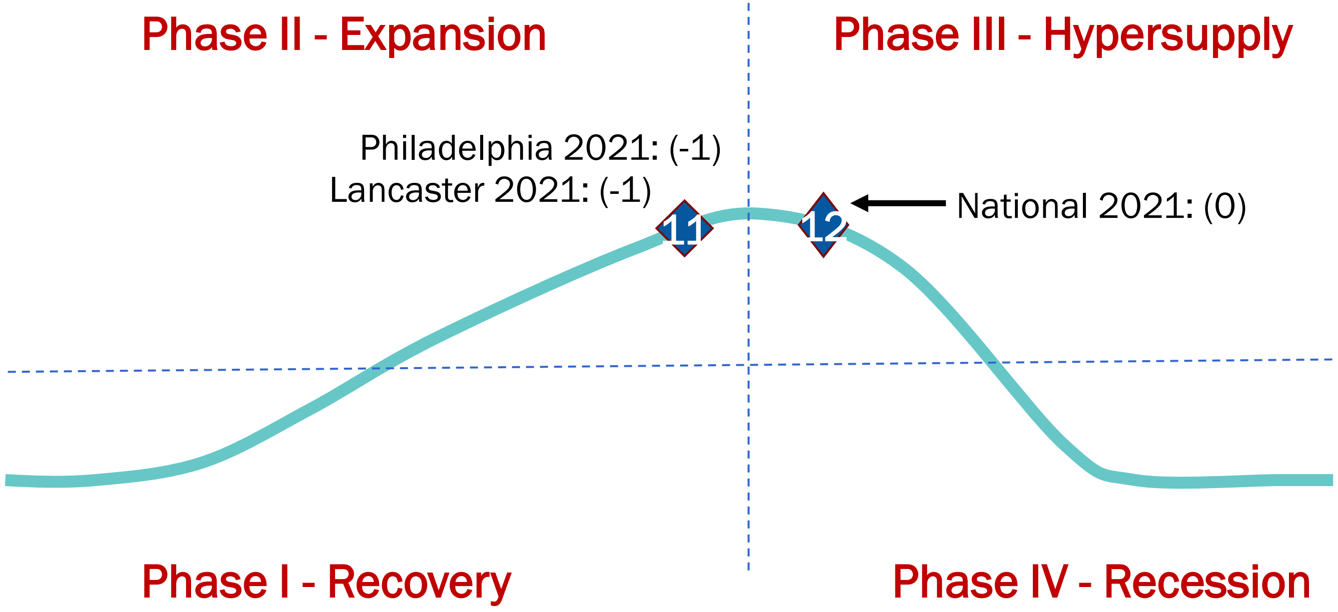
	Actual 2021	Projected 2022
Occupancy	(1.4%)	1.5%
Rents	(.1%)	0%

Source: University of Denver – Real Estate Market Cycles; Lancaster: High Real Estate Group LLC; PWC; Urban Land Institute 2021; Eurostat, C&W, JLL, REIS, PGIM Real Estate January 2021; CBRE Research, Real Estate Market Outlook 2021

Retail

- Q4 retail sales, traffic recovered to 2019 levels
- Service sales lagging goods sales in recovery
- Over half of retailers have less than 20 employees. Many now struggle to find staff
- B, C & D malls will continue to be repositioned or demolished at an accelerating rate
  - Traditional retail ⟶ experiential retail and alternative commercial uses
- 2021 store openings (5,048) exceeded store closings (4,975) on strong retail demand
- E-commerce grew by 9% in 2021
  - Amazon makes up 25% of e-commerce sales

Third Quarter 2021



YOY National Change

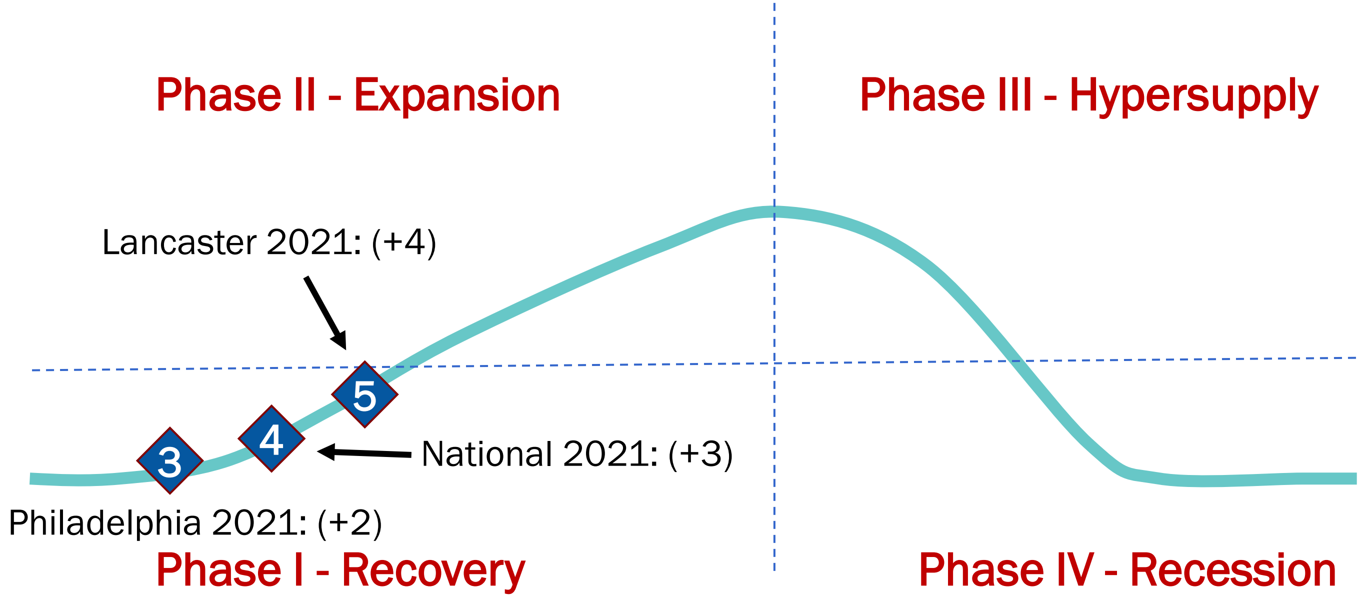
	Actual 2021	Projected 2022
Occupancy	0.2%	0.2%
Rents	2.3%	1.5%

Source: University of Denver – Real Estate Market Cycles Q32021; Lancaster: High Real Estate Group LLC; Land Institute 2021

Select Service Hotel

- Foreclosures did not materialize, but renovation reckoning is coming
- Return to 2019 levels
  - ADR in 2022
  - Demand in 2023
- Extended stay hotels and resort locations continue to have strongest performance
- Staffing and compensation is greatest challenge to recovery
- Uneven recovery in 2022
  - Leisure and “bleisure” (business + leisure) will continue to be strong
  - Return to office further delayed
  - Bullish ADR growth

Third Quarter 2021



YOY National Change

	Actual 2021	Projected 2022
Occupancy	+31%	+11%
Rate	+21%	+7%
RevPAR	+58%	+19%

Source: High Real Estate Group LLC, PWC Hospitality Directions November 2021, STR Jan 2022 Forecast, AHLA State of Hotel Industry - January 2022

Michael Lorelli

Sr. Vice President
Commercial Asset Management
High Associates Ltd.

HIGH REAL ESTATE GROUP LLC

Methodology For Lancaster Market Research

- Research – Primary Research
  - Secondary sources (CoStar, MLS)
  - Owner occupied properties are excluded (e.g. Nordstrom and Urban Outfitters)
- Office – Institutional-grade, for lease (258 buildings, 6.3M SF)
  - Over 5,000 SF in size
  - Lancaster City, Manheim Township, East Hempfield, and East Lampeter Townships
- Industrial – Institutional-grade, for lease (386 buildings, 24.3M SF)
  - Over 10,000 SF in size
  - Lancaster County

Source: High Real Estate Group

Office: Lancaster – Flat

- One project totaling 34,562 SF completed in 2021
- Three new office projects in construction or proposed totaling 146,353 SF
- Occupancy surprisingly stable at 92.9% for Class A
- Class A existing market rental rates remained resilient in 2021:
  - Existing space $23-$26/SF Gross
  - New space $32-$35/SF Gross

Source: High Real Estate Group LLC; CoStar

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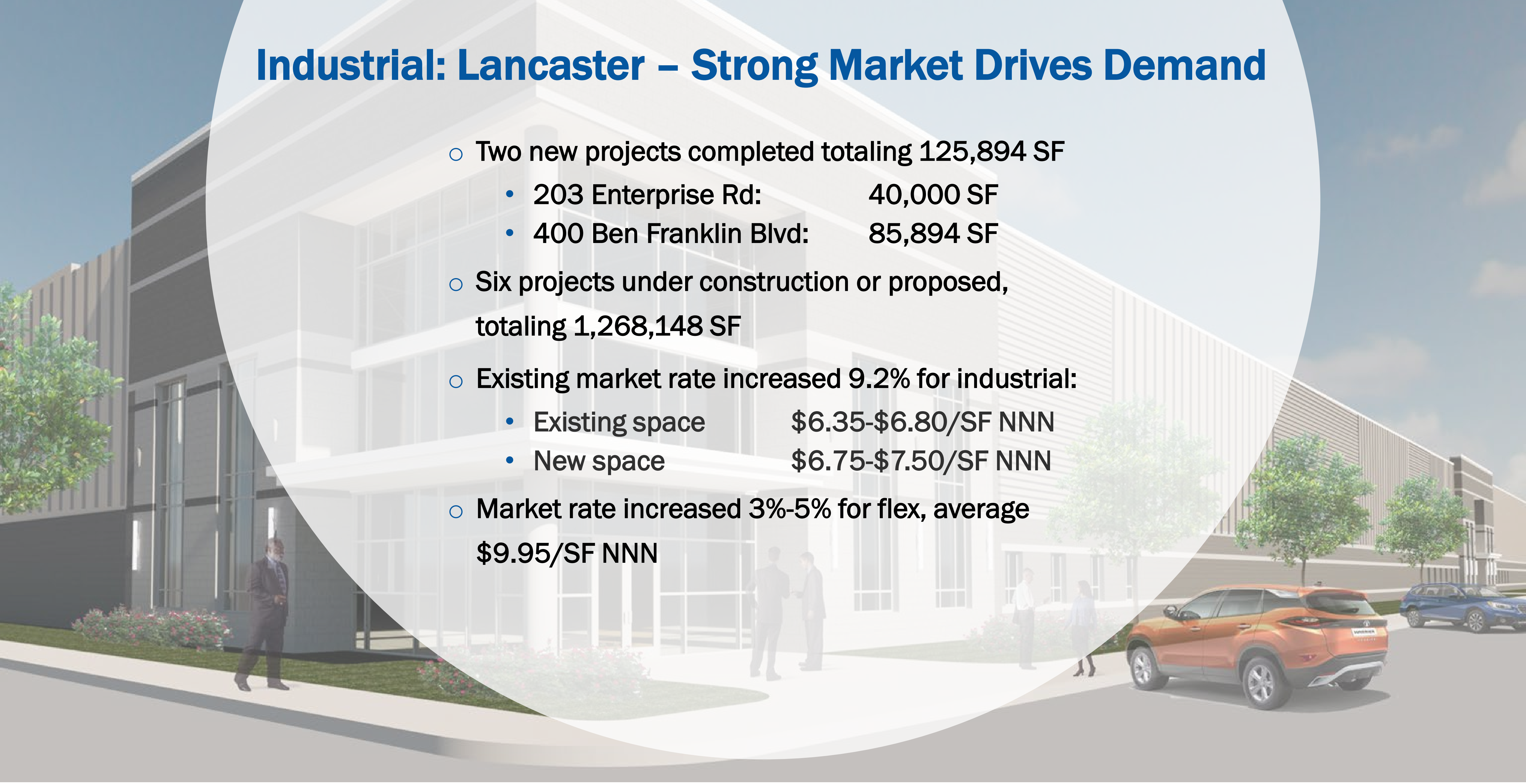
Lancaster Market Comparison: Single Digit Vacancy For All Products

In Thousands		2017	2018	2019	2020	2021	5 Yr. Avg.
Class "A" Office	Absorption	75.2	83.0	116.3	(25.5)	4.2	50.7
	Vacancy	10.2%	5.9%	5.5%	7.6%	7.1%	-
	Amount Constructed	-	12.0	126.7	-	-	27.7
	Available Supply	132.2	61.2	71.5	97.0	92.8	-
"B/C" Office	Absorption	36.7	136.5	70.7	(44.7)	(36.9)	32.5
	Vacancy	8.5%	5.3%	3.2%	4.3%	4.7%	-
	Amount Constructed	-	-	-	-	-	-
	Available Supply	323.8	187.3	116.5	161.2	198.0	-
Business Center	Absorption	32.7	(20.8)	105.5	(12.1)	11.3	23.3
	Vacancy	13.2%	15.8%	8.1%	13.4%	14.4%	-
	Amount Constructed	-	-	32.0	25.5	34.5	18.4
	Available Supply	101.3	122.1	48.7	86.2	109.4	-

Source: High Real Estate Group LLC; CoStar



Industrial: Lancaster – Strong Market Drives Demand

- Two new projects completed totaling 125,894 SF
  - 203 Enterprise Rd: 40,000 SF
  - 400 Ben Franklin Blvd: 85,894 SF
- Six projects under construction or proposed, totaling 1,268,148 SF
- Existing market rate increased 9.2% for industrial:
  - Existing space $6.35-$6.80/SF NNN
  - New space $6.75-$7.50/SF NNN
- Market rate increased 3%-5% for flex, average $9.95/SF NNN

Source: High Real Estate Group LLC; CoStar

Lancaster Trend Comparison: Industrial Enters Fourth Strong Year

	In Thousands	2017	2018	2019	2020	2021	5 Yr. Avg.
Industrial Space	**Absorption**	552.1	109.1	989.7	13.2	1,311.9	595.1
	Vacancy	3.2%	3.5%	5.2%	6.6%	2.7%	-
	Amount Constructed	-	120.7	1,487.6	342.8	125.9	415.4
	Available Supply	758.9	770.6	1,268.6	1,598.1	412.2	-
Flex Space	**Absorption**	21.9	(9.3)	58.7	11.1	(186.9)	(20.9)
	Vacancy	4.1%	4.5%	1.4%	0.7%	9.8%	-
	Amount Constructed	-	-	-	-	-	-
	Available Supply	72.9	82.3	23.6	12.5	199.4	-

Source: High Real Estate Group LLC; CoStar

HIGH REAL ESTATE GROUP LLC

Powell Arms

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

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Recovery of “Redefined Retail”

- Shakeout did occur, moderated by stimulus
    - CBD struggles versus Suburban Growth
- Survivors and Innovators Thrived
    - Absorption
    - Foot Traffic
    - Physical Sales
- E-commerce and new channel growth, e.g. Buy Online Pickup in Store (BOPIS)
- Value Creation/Investor demand increasing

Source: Coresight Research; High Real Estate Group; placer.ai; Urban Land Institute

David Aungst

President
High Hotels Ltd.

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Hospitality: Lancaster – Road to Recovery

- Factors impacting recovery (RevPar = 2019)
  - Hotel location / type
  - Recruiting / retaining top talent
  - Return of corporate travel
- Central PA RevPAR recovery (TTM 2021 % of 2019)
  - York 97%
  - Lancaster 92%
  - Harrisburg 83%
  - Reading 80%
- Factors facilitating Lancaster recovery
  - Supply stability
  - Leisure demand resiliency
- National transactions
  - Wide divergence by location / type
  - Improving capital markets

Source: High Real Estate Group LLC, PWC Hospitality Directions November 2021, STR Jan 2022 Forecast, AHLA State of Hotel Industry - January 2022

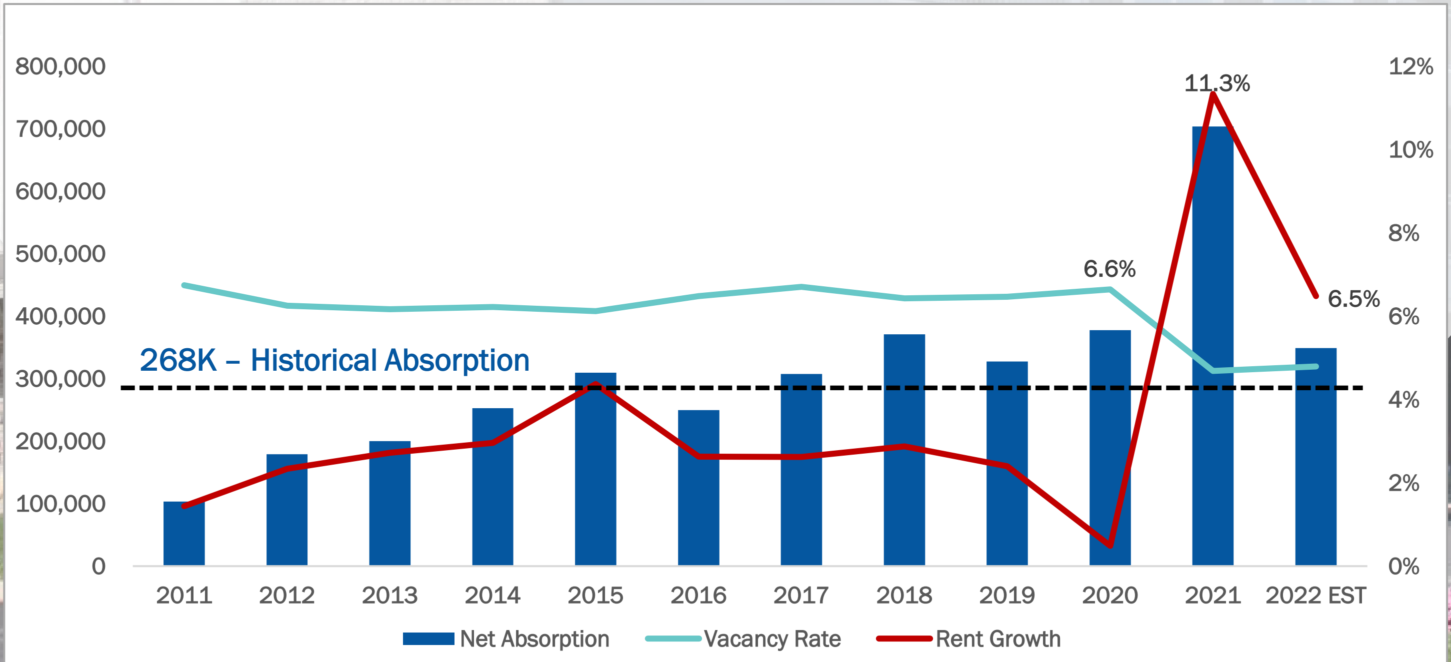
Brad Mowbray

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

HIGH REAL ESTATE GROUP LLC

Robust Growth in 2021 & Forecasted 2022

- US rental rates up 11.3% in 2021, forecasted up 6.5% in 2022. Lancaster growth = 7.8%.
- 190bps drop in vacancy rate across US apartments in 2021 to 4.7%
- New renter incomes at $70,116 nationally, up 11% above pre-pandemic high
  - Rent-to-income ratios in the low 20% for the avg renter signing new Class A lease
- New supply in 2021 was 361K units, (highest since 1987), 426K expected in 2022
  - Approximately 40K (11%) of new units delivered in 2021 were affordable housing units



Source: RealPage, Inc., CoStar

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Questions