

# ANNUAL C&I COUNCIL MEETING



*Hosted by  
High Real Estate Group LLC*

February 20, 2025

# *Welcome*



# Agenda

**8:30 – 8:35 AM Introduction**

**8:35 – 9:15 AM Presentation**

**9:15 – 9:30 AM Q&A**



**Mark Fitzgerald**

President &  
Chief Operating Officer



**Bill Boben**

Sr. Vice President  
Sales/Leasing



**Michael Lorelli**

Sr. Vice President  
Commercial Asset Management



**Brad Mowbray**

Sr. Vice President, Managing Director  
Residential Division



**Michael Kreider**

President  
High Construction Company



*A Welcome From*



**Alex Ebert**

2025 C&I President



# Mark Fitzgerald

President & Chief Operating Officer  
High Real Estate Group LLC

# Agenda:

## Economic Overview

- Inflation & GDP
- Job Growth & Unemployment
- US Labor Force & Housing
- The Trump Effect

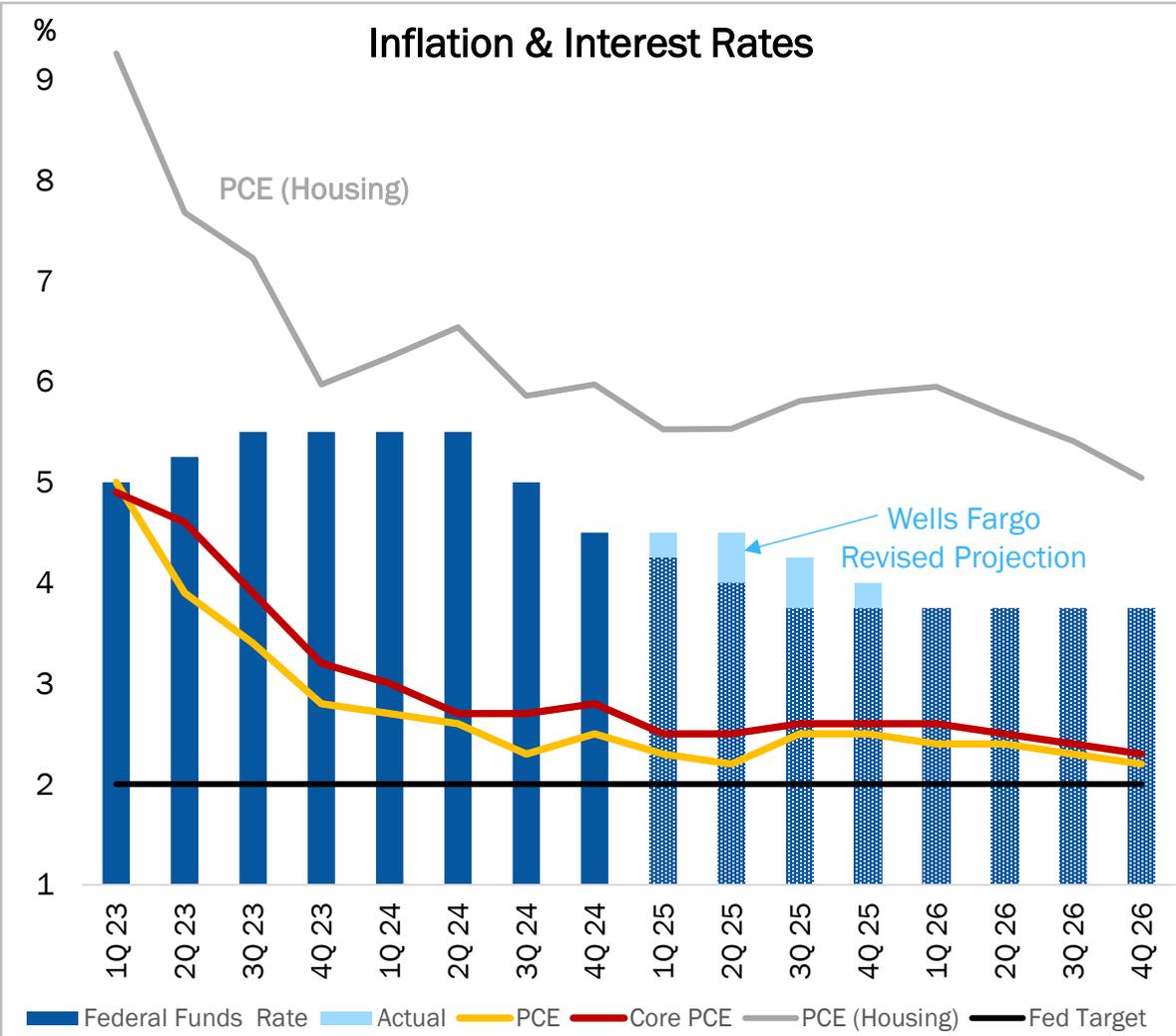
## Nationwide Real Estate

- Acquisition/ Development Sentiment
- Cap Rate Trends
- Underwriting Criteria
- Real Estate Cycle

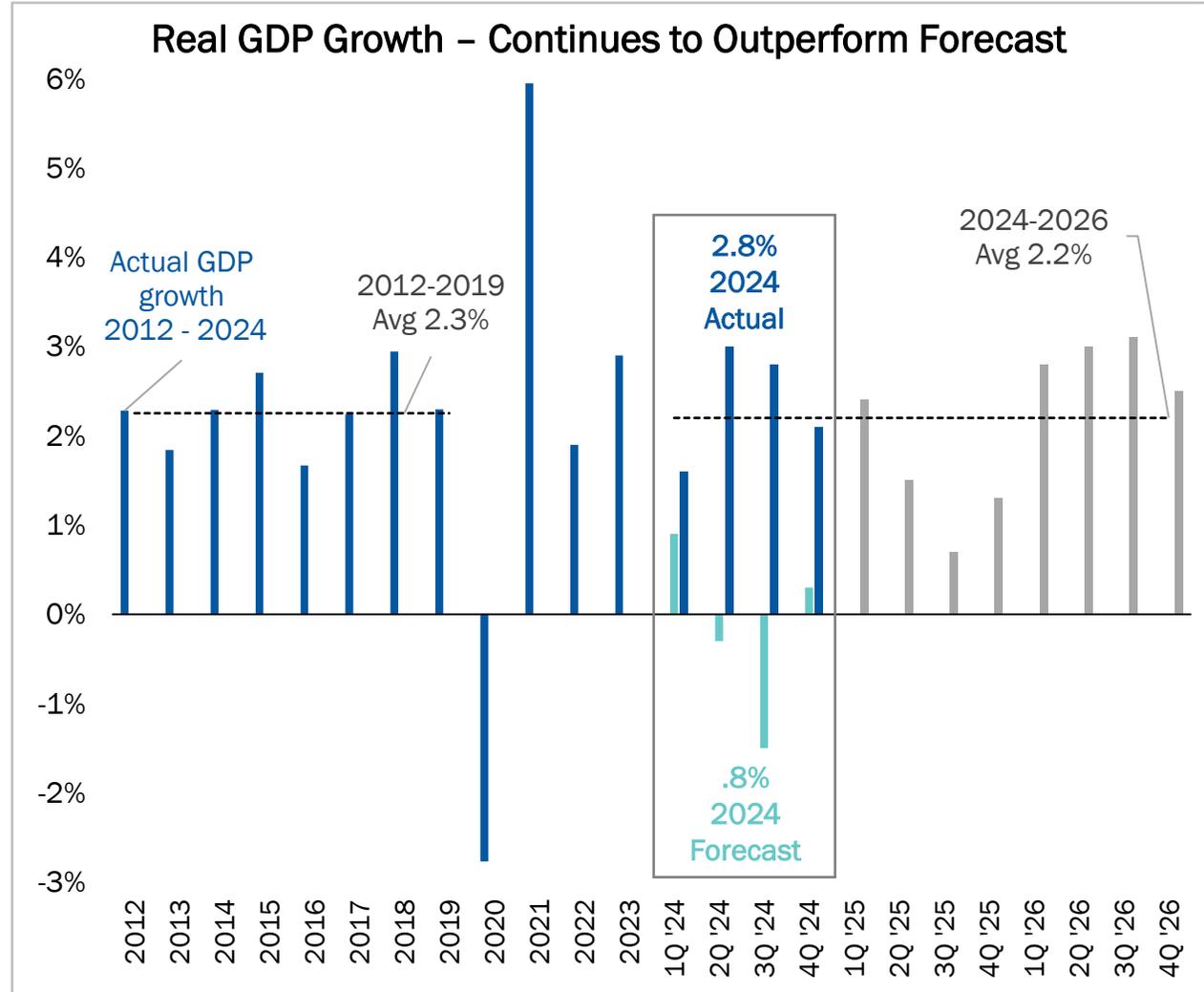
## Lancaster Real Estate

- Office
- Industrial
- Apartments
- Construction

# Elusive Soft Landing Is In Sight



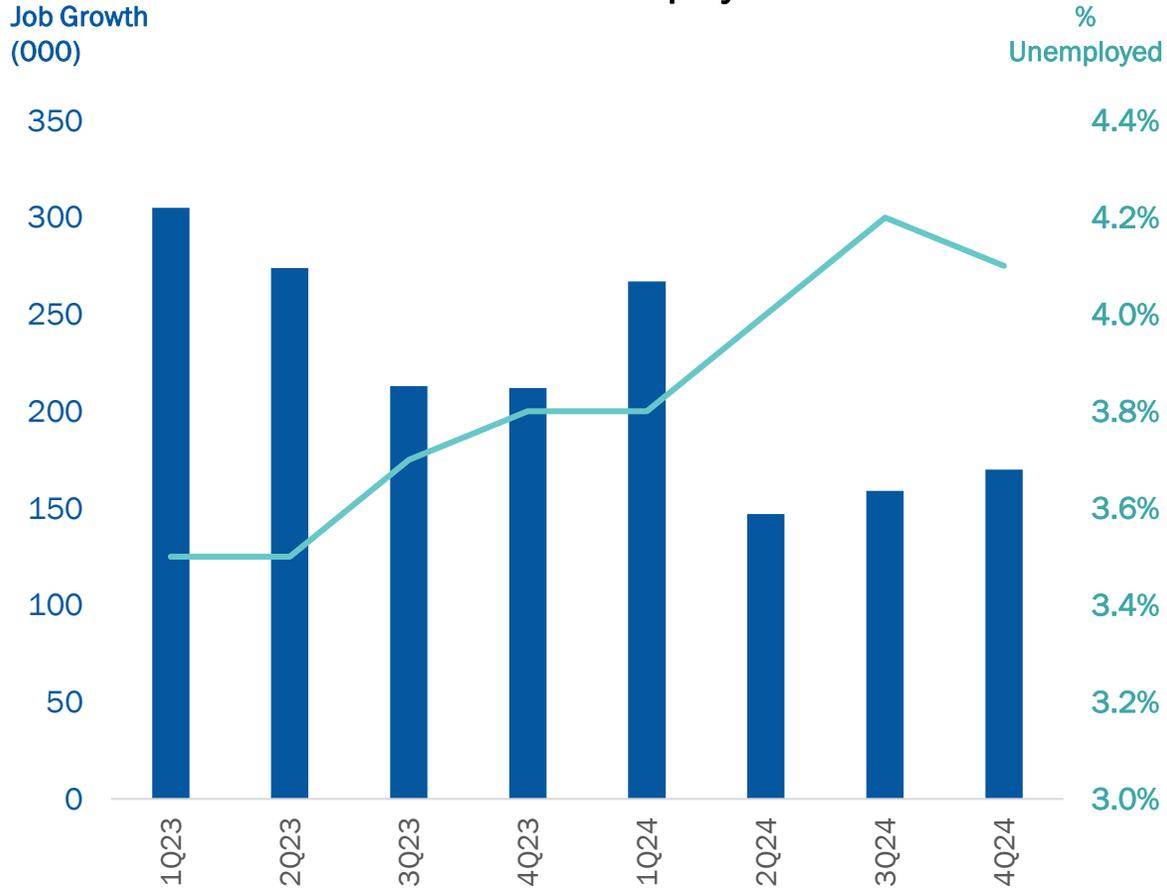
Housing makes up 17% of Core PCE and is running well ahead of Fed's 2% target



Probability of recession in next 12 months is 12%, down from 39% in 2024 and 61% in 2023

# Consumers Continue to Drive Gross Domestic Product

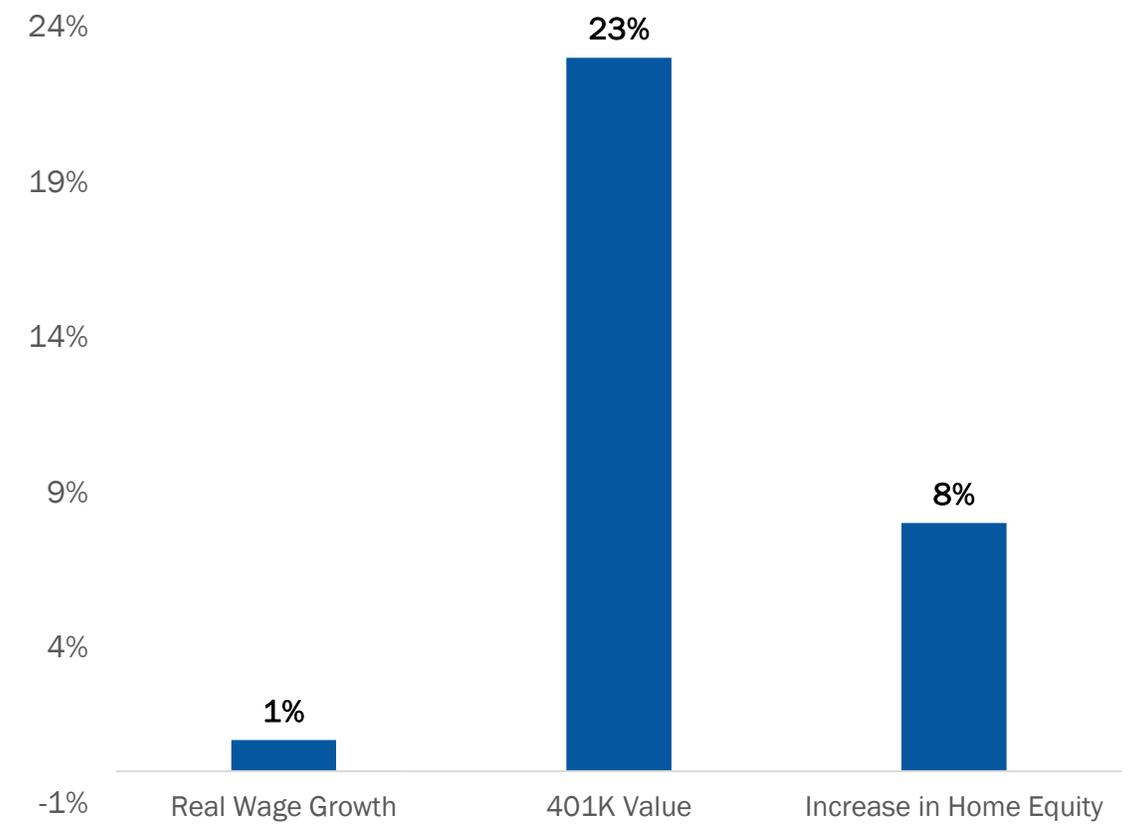
## Job Growth & Unemployment



- Unemployment rate below 4.5% for 38 straight months
- Real wage growth was positive 1.5% in 2023 and 1.0% in 2024

## The Wealth Effect

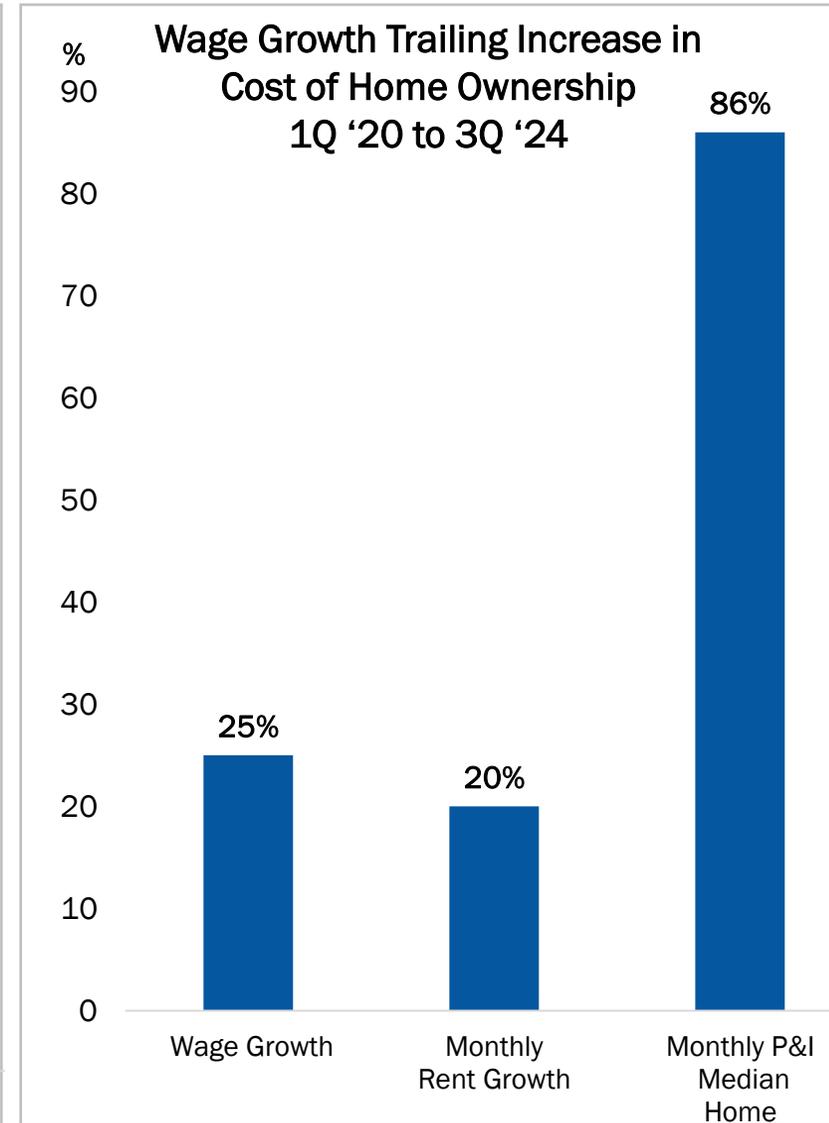
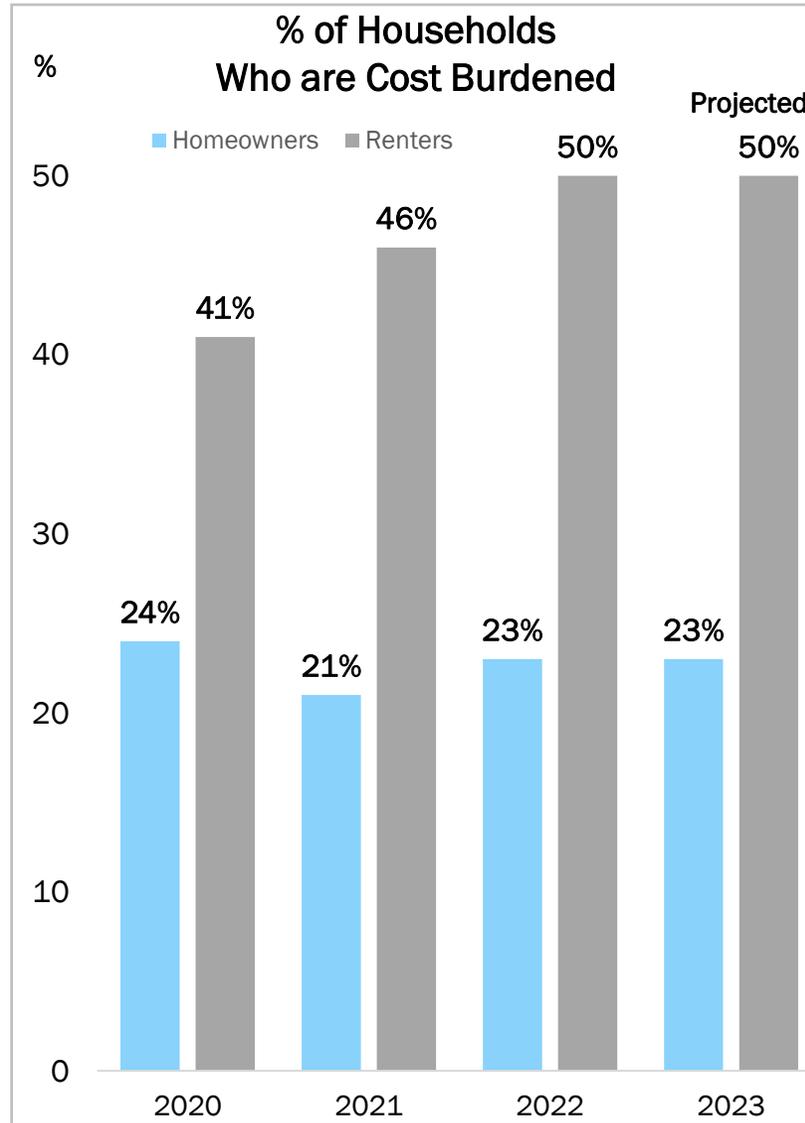
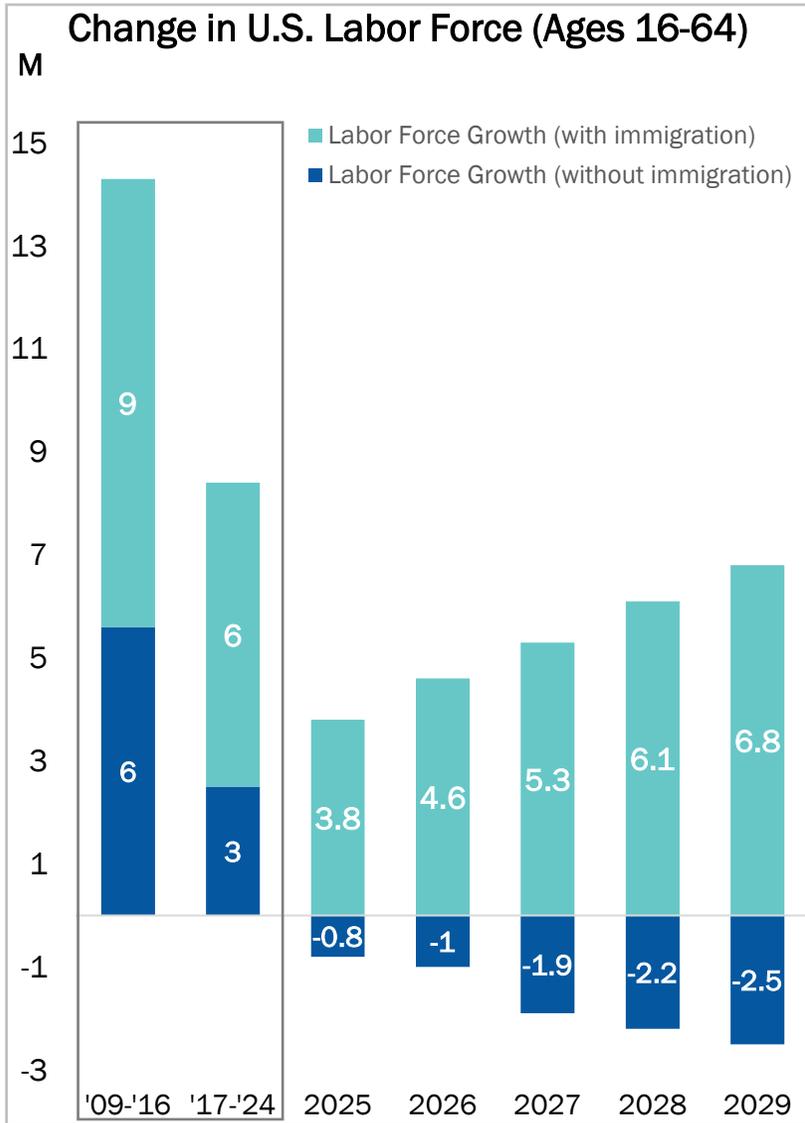
% Change 1/1/24 to 12/31/24



- Watchout: Americans owe \$1.1T in credit card debt, 45% higher than in early '21
- Excess COVID savings were depleted in March of 2024

Source: BLS, Federal Reserve Bank of Atlanta Wage Growth Tracker; Fidelity Q3 2024 Retirement Analysis; Federal Housing Finance Agency; Zillow Home Value Index; Experian 2024 Consumer Credit Report

# Potential Headwinds on Horizon



# The Trump Effect: Potential Impact on Real Estate

## Market Positives

- Decisive win eliminates potential for social unrest
- Tax policies enhance household finances & corporate profits
  - Extend Tax Cuts & Jobs Act ("TCJA")
  - Restore state & local tax deductions ("SALT")
  - Lower corporate tax rate
- Financial deregulations loosening credit standards and increasing liquidity
- Support pro real estate policies
  - Potential reduction in capital gain rate
  - Maintain 1031 exchange policy
  - Maintain carried interest policy
- Mandate return to office for all federal workers



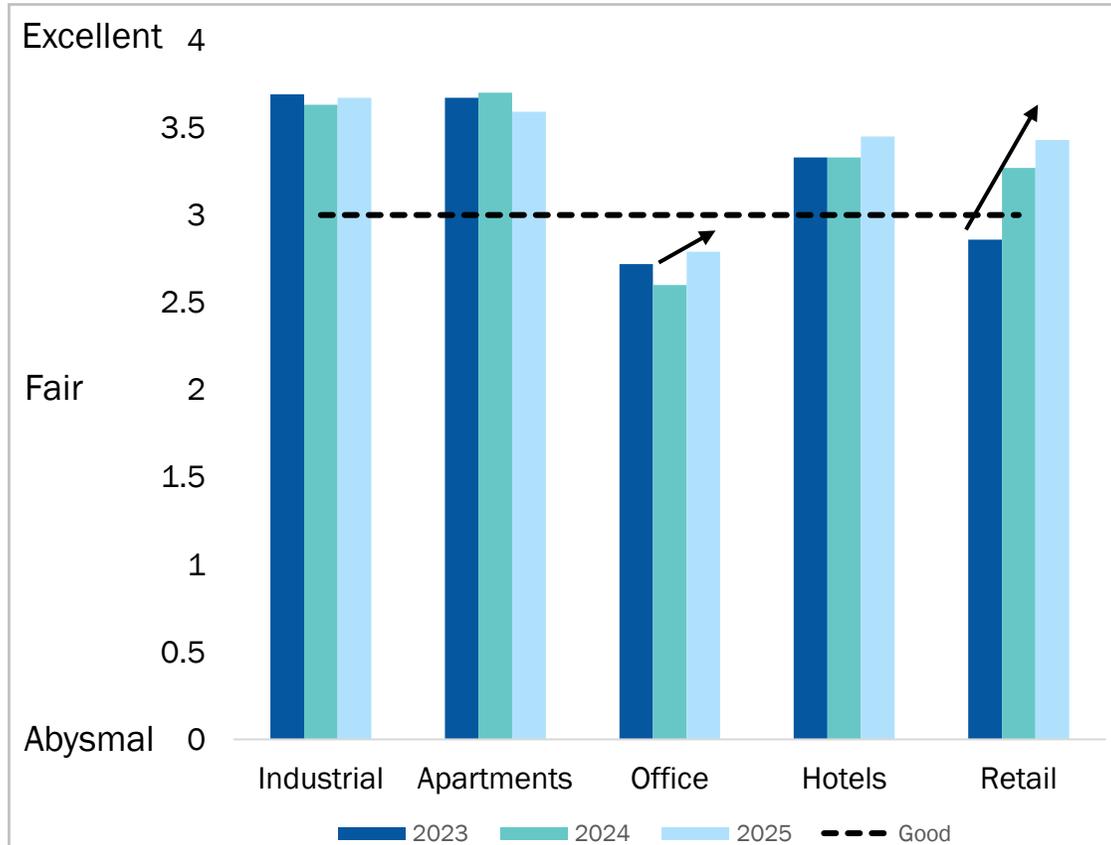
## Market Negatives

- Tariffs could contribute to a one-time increase in inflation rate
- Slow Fed's ability to reduce Fed Funds rate, as Trump's policies are potentially inflationary
- Immigration policy will reduce flow of foreign labor
  - Increase wages in construction trades
  - Reduce GDP growth
- Increase rate and volatility of 10 yr. treasuries
- Large scale deportations could lead to social unrest
- DOGE will reduce the size of federal workforce
  - Increase vacancy in office sector
  - Increase unemployment

Net Impact: Federal deficit could increase by \$8T between 2026-2035

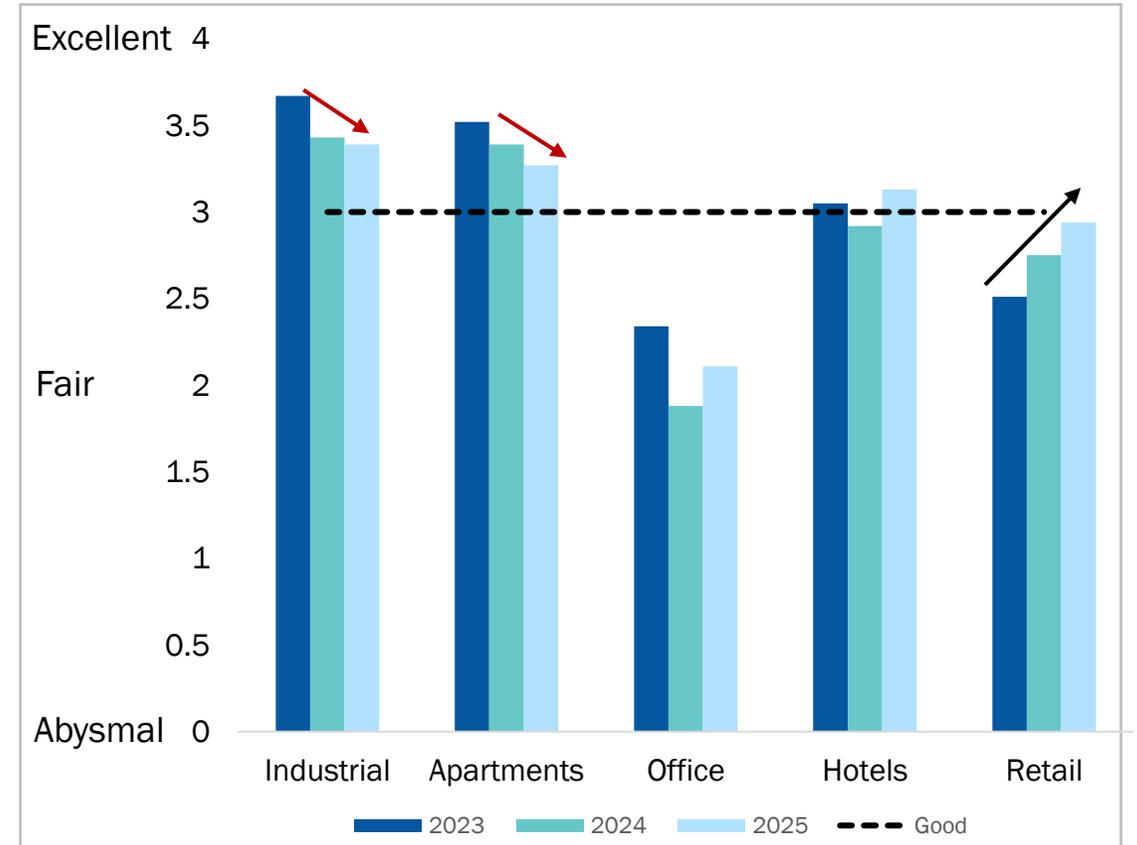
# National Sentiment for Acquisition / Development

## Acquisition



- Industrial & multi-family remain relatively attractive
- Office has slight bounce off bottom
- Retail continued positive movement (neighborhood/community)

## Development



- Over supply in Industrial & Apartments cool development prospects
- Hotels trending above 5-year average

# US: Cap Rates Searching for Equilibrium

	4Q 2024		Change from 4Q 2023	
	Range	Average		
Apartments	4 – 6.25%	5.16%	↓	43 bps
Industrial	4 – 7.5%	5.27%	↔	4 bps
Suburban Office	5 – 9.5%	7.76%	↑	104 bps
CBD Office	5 – 9.5%	7.23%	↑	45 bps
Neighborhood/ Strip Centers	5.5 – 10.0%	7.25%	↓	25 bps
Select Service Hotels	7.5 – 10.5%	8.94%	↔	0 bps

- Cap rates decreased for apartments and neighborhood/strip centers
- Cap rates on all office continue to increase

# 2024 Underwriting Trends

	Max LTV	Vacancy	Cap Rate	Spread	All In Interest Rate	Transaction Volume <sup>(1)</sup>
Apartments	65-75% ↔	5-7% ↔	5.0-6.5% ↑	1.4-1.8% ↓	6.0-6.4% ↑	19%
Industrial	65-70% ↔	5-10% ↔	5.5-6.5% ↔	1.4-1.8% ↓	6.0-6.4% ↑	4%
Office Suburban	45-55% ↔	15-20% ↔ or actual market	8.0-10.0% ↔	2.5-3.0% ↔	7.1-7.6% ↑	20%
Retail (“Anchored”)	55-65% ↔	5-10% ↓	6.8-7.8% ↑	1.5-2.2% ↓	6.1-6.8% ↑	8%
Hotel	50-60% ↔	Actual Vacancy ↔	9.0-12.0% ↔	2.5-3.5% ↔	7.1-8.1% ↑	12%

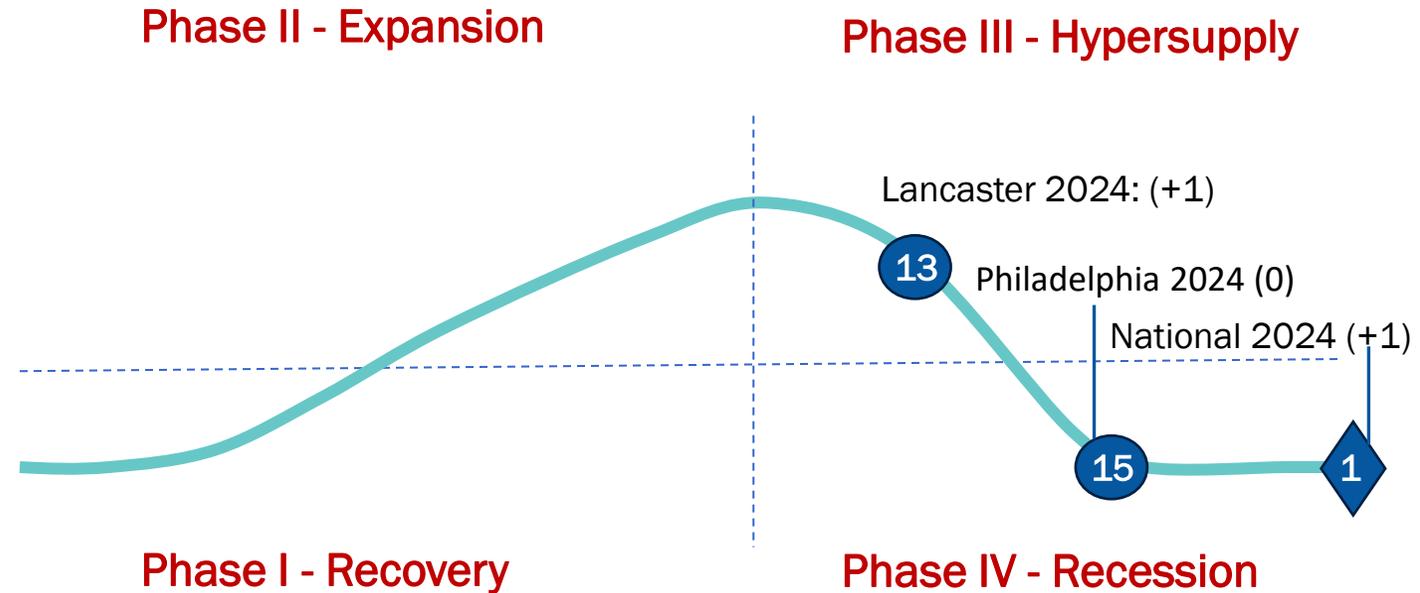
Range for 10-year treasury projections = 4.60%

<sup>(1)</sup> Trailing 4 quarters ending Q4 2024,

# Office: Searching for Bottom

- Values are down 30-70% pre-pandemic
  - Suburban is outperforming urban
  - Newer buildings outperform older buildings
  - Flight to quality continues
- Vacancy is expected to peak in 3Q '25 at 20%
- Lease renewals are happening, but for 20% to 25% less space
- 66% of all employees work remotely in some capacity
- Loan defaults in CMBS are rising
  - 8% of loans are delinquent
  - 12% of loans are in special servicing
- Only 15% of office buildings are a good candidate for residential conversions

## Third Quarter 2024



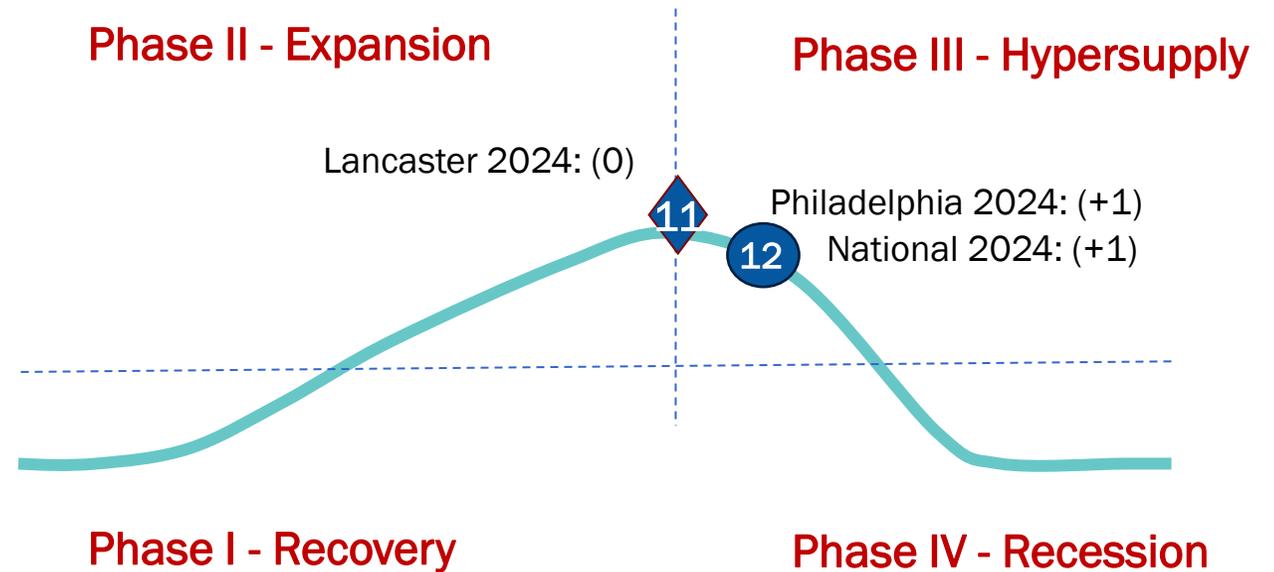
### YOY National Change

	Actual 2024	Projected 2025
Occupancy	0.7%	0.6%
Rents	0.6%	1.0%

# Industrial: Smart Growth

- Construction completions totaled 408.5M SF
  - Net absorption hit 15 year low at 151M SF
  - 10<sup>th</sup> consecutive quarter completions outpaced absorption
  - Rental rates are flat or declining in some overbuilt markets
- 3PL & Retail/Wholesale account for 61% of all transactions in 2024
- Major drivers for location decisions:
  - Supply chain diversification
  - Heavy power, automation capabilities and sustainable features
  - Decision making is more strategic
- Demand for Data Center space is skyrocketing

## Third Quarter 2024



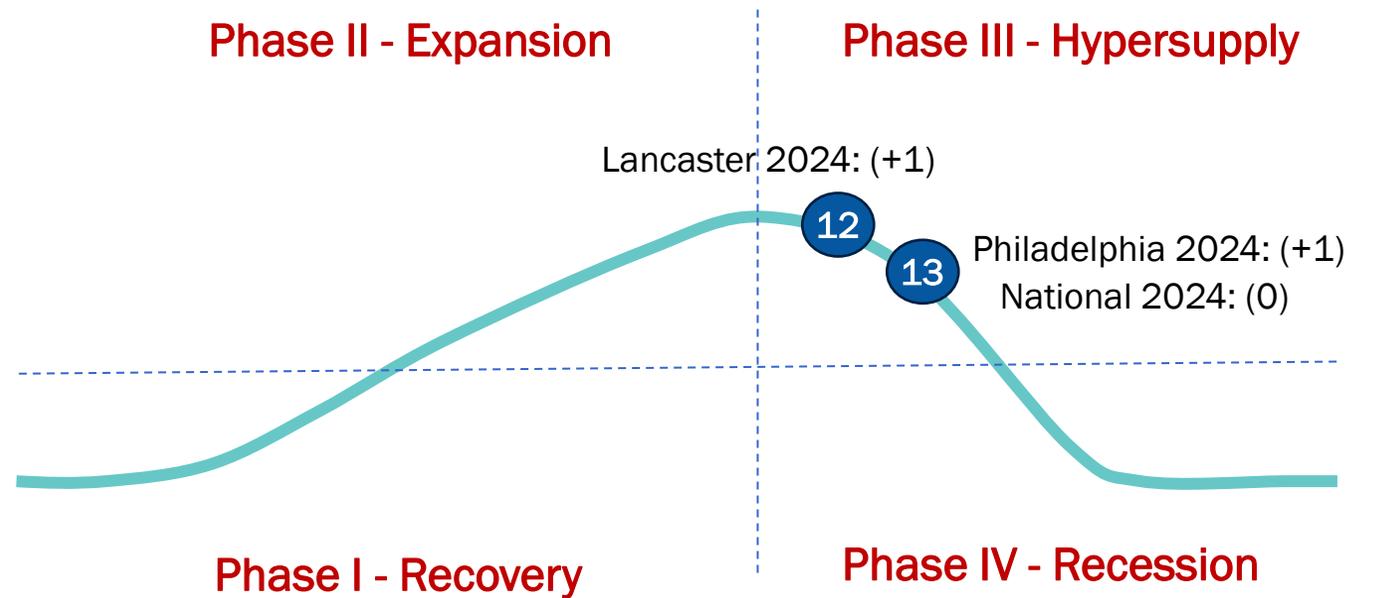
### YOY National Change

	Actual 2024	Projected 2025
Occupancy	0.6%	0.5%
Rents	8.0%	3.1%

# Apartments: Demographics Drive Bullish Outlook

- Deliveries peaked in '24 at ~520K units. Deliveries should drop to 440K in '25 and 320K in '26
- Values dropped 15% - 20% from '22 peak
  - Rents flat/declining in over supplied markets
  - Interest rates have increased
- Long terms trends are favorable
  - Population of 20-34 age cohorts will increase rapidly through 2030, driving demand
  - Population of 65+ will also increase
  - Homeownership rates projected to decrease
- Increasing number of renters are housing cost burdened

## Third Quarter 2024



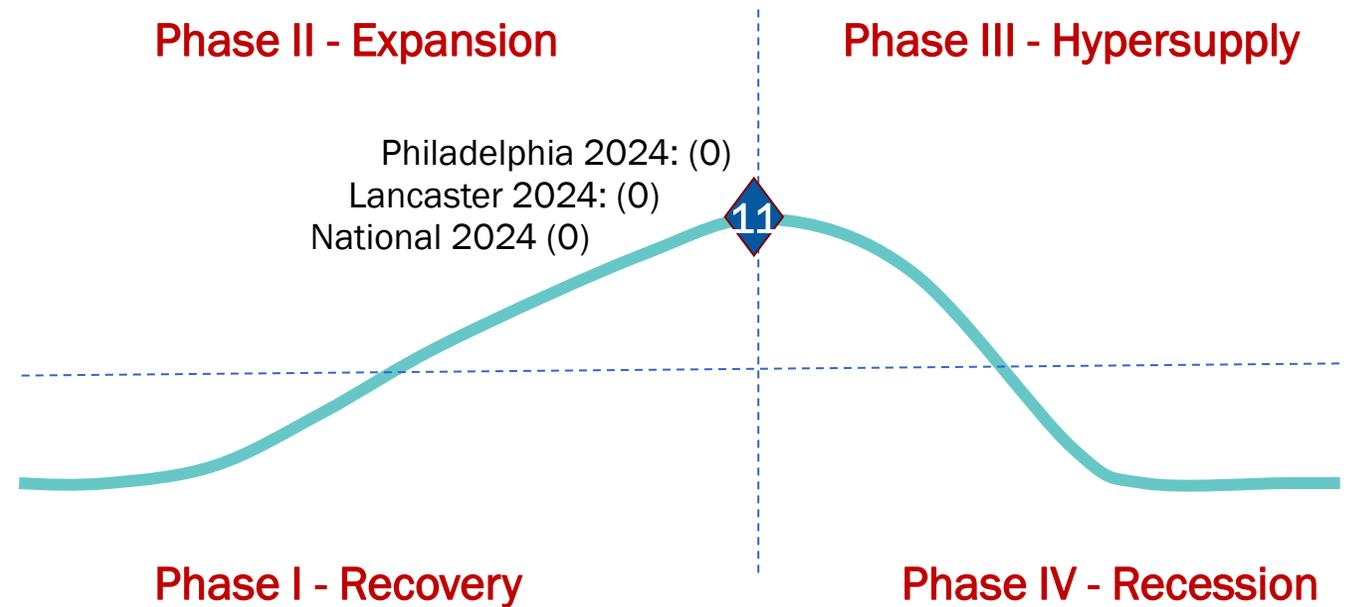
### YOY National Change

	Actual 2024	Projected 2025
Occupancy	0.4%	0.2%
Rents	1.1%	2.9%

# Retail: Resiliency Reigns

- Vacancy is at a 20-year low, with community/neighborhood centers leading the way
- Quick serve restaurants (“QSR”) are in an aggressive expansion mode
- Limited new supply keeping markets tight
  - Between ‘21-’24, new supply was only 50% of the previous decade average
- Suburban retail outperforms urban, as WFH continues to impact downtown demand
- Investor appetite for community centers and unanchored strip centers remains strong

## Third Quarter 2024



### YOY National Change

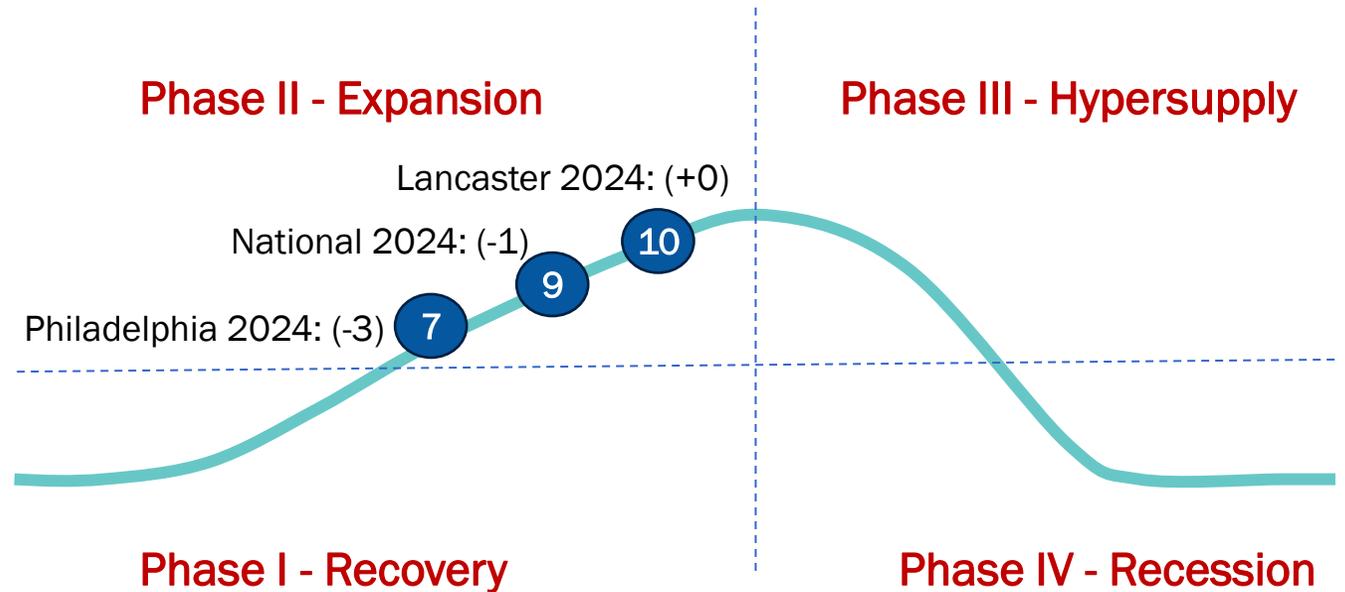
	Actual 2024	Projected 2025
Occupancy	0%*	0%
Rents	2.3%	1.5%

\*Maintained record high (per Denver Mueller)

# Hotels: Margin Erosion

- Leisure demand has plateaued, midweek group & business segments continue to recover
- Real RevPAR gap to Nominal RevPAR relative to 2019 continues to widen
- Destination growth has slowed while urban growth is improving
- Insurance, food, and labor costs are impacting the ability to maintain margins
- US hotel pipeline YoY growth is robust, but financing remains expensive

## Third Quarter 2024



Select Service Hotels  
YOY National Change

	Actual 2024	Projected 2025
Occupancy	0%	0.2%
Rate	1.7%	1.6%
RevPAR	1.8%	1.8%

Source: High Real Estate Group LLC; LWHA Select Major US Hotel Sales YTD Q4 2024; AHLA State of the Industry- January 2025; CBRE State of the Union Feb 2025; CoStar TE Forecast - 01/2025



# Michael Lorelli

Sr. Vice President  
Commercial Asset Management  
High Associates Ltd.

# Methodology For Lancaster Market Research

- Research
  - Primary and Secondary sources (CoStar, MLS)
  - Owner occupied properties are excluded
  - Office – Institutional-grade, for lease (259 buildings, over 5,000 SF, total 6.4M SF)
  - Lancaster City, Manheim Township, East Hempfield, and East Lampeter Townships
- Industrial – Institutional-grade, for lease (394 buildings, 26.1M SF)
  - Over 10,000 SF in size
  - Lancaster County

# Office: Softening in Market, Especially Larger Suites

- Two new office projects delivered in 2024
  - 35 Erick Road            34,000 SF
  - 1860 Oregon Pike    3,849 SF
- Three buildings proposed for development
  - 1572 Fruitville Pike, Lancaster            85,562 SF
  - 162 Stony Battery Road, Lancaster       50,000 SF
  - 40 E. Roseville Road, Lancaster           5,000 SF
- Sublease availability is on the rise, totaling 85,364 SF
- While a softer year, Lancaster's vacancy is less than half of national levels

# Lancaster Trend Comparison: Net Absorption

		2020	2021	2022	2023	2024	5 Yr. Avg.
<i>In Thousands</i>							
Class "A" Office	Absorption	25.5	4.2	35.2	35.8	31.3	6.2
	Vacancy	7.6%	7.1%	7.5%	4.9%	5.2%	6.4%
	Amount Constructed	-	-	46.5	-	37.8	16.9
	Available Supply	97.0	92.8	104.1	68.3	74.8	87.4
"B/C" Office	Absorption	44.7	36.9	37.0	49.1	87.7	51.1
	Vacancy	4.3%	4.7%	5.6%	6.8%	8.1%	5.9%
	Amount Constructed	-	-	-	-	-	-
	Available Supply	161.2	198.0	235.1	284.2	372.0	250.1
Business Center	Absorption	12.1	11.3	44.5	37.3	.4	1.5
	Vacancy	13.4%	14.4%	20.2%	15.3%	15.3%	15.7%
	Amount Constructed	25.5	34.5	-	-	-	12.0
	Available Supply	86.2	109.4	154.0	116.7	116.3	116.5

# Market Asking Rent Growth – Office

## YOY Increase



# Industrial: Record Level of Development 2024-2027

- Four projects completed totaling 952,749 SF
  - 425 Ben Franklin Blvd: 210,000 SF
  - 156 W. Harrisburg Ave: 392,040 SF
  - 2222 N. Reading Rd: 325,500 SF
  - 2221 Embassy Dr: 25,209 SF
- Four projects under construction totaling: 1,096,402 SF
- Eight flex/industrial proposed totaling: 835,984 SF
- Vacancy holding steady at 5.6%

# Lancaster Trend Comparison: Industrial Enters Fifth Strong Year

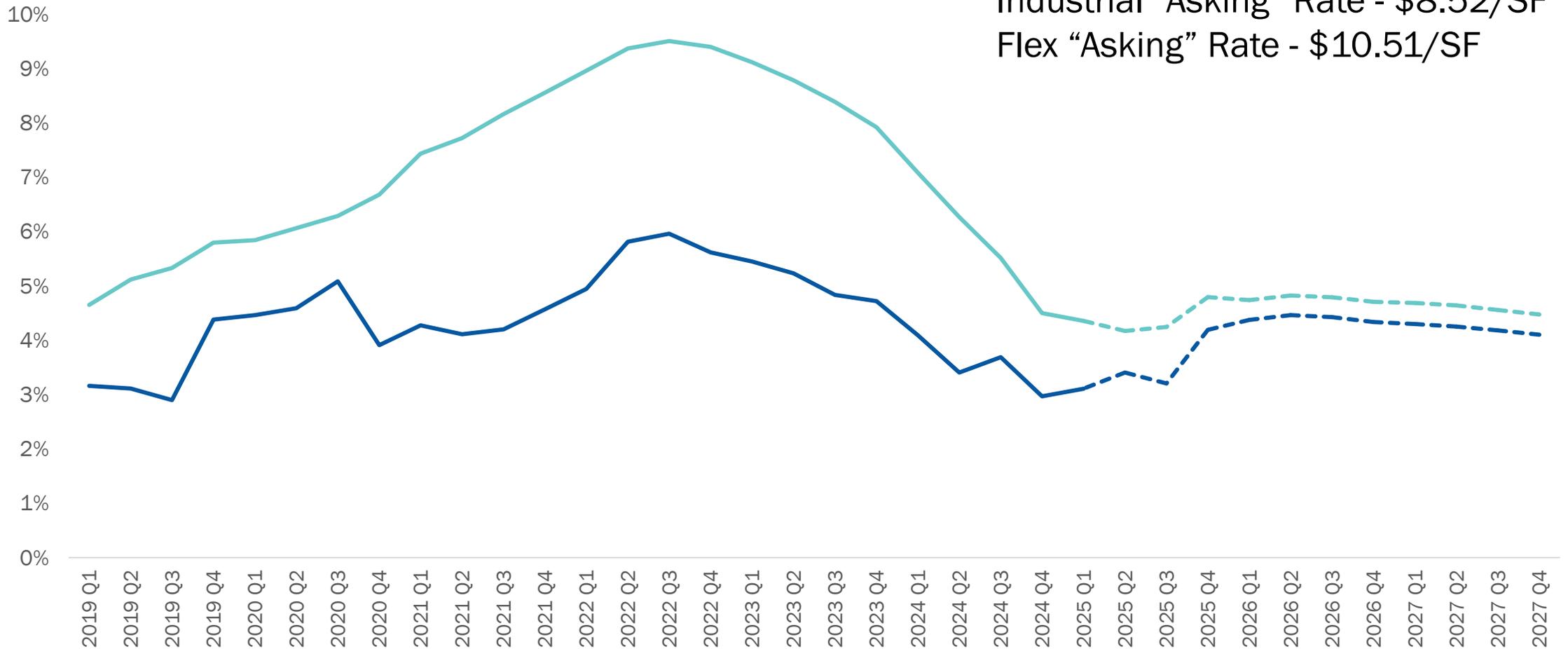
<i>In Thousands</i>		2020	2021	2022	2023	2024	5 Yr. Avg.
Industrial Space	Absorption	13.2	1,311.9	371.7	133.3	776.0	467.9
	Vacancy	6.6%	2.7%	2.4%	5.5%	5.6%	4.5%
	Amount Constructed	342.8	125.9	559.5	649.6	952.7	526.1
	Available Supply	1,598.1	412.2	600.0	1,382.9	1,558.2	1,110.3
Flex Space	Absorption	11.1	186.9	138.6	115.6	18.0	34.2
	Vacancy	0.7%	9.8%	2.7%	9.8%	10.2%	6.6%
	Amount Constructed	-	-	-	-	-	-
	Available Supply	12.5	199.4	60.8	184.3	202.4	131.9

Source: High Real Estate Group LLC; CoStar

# Market Asking Rent Growth – Industrial / Flex

## YOY Increase

Industrial “Asking” Rate - \$8.52/SF  
 Flex “Asking” Rate - \$10.51/SF



New construction pricing between \$9.50 and \$10.50/SF



# Brad Mowbray

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

# Tight Housing Market – Strong MF Demand

- Freddie Mac estimates that the US housing market faces a shortfall of about 3.8 million units of housing
  - Median home price is now at \$419,103, whereas it was at \$290,264 pre-pandemic (44% increase!)
- According to the Consumer Federation of America, 47% of licensed residential realtors sold ZERO properties in 2024
- Apartment demand stayed robust throughout the year
  - Through November 2024, 404,000 multifamily units absorbed nationally, compared to 442,000 completions
- New starts declined in 2024:
  - Rent growth lower than anticipated across most major markets
  - Insurance costs stabilized in 2024, but natural disasters continue to drive up costs for owners, reducing exit values

# Local Trends

- For a second year in a row, Lancaster outperformed national rent growth and is projected to do so again in 2025

	'24 Proj	'24 Act	'25 Proj
National	2.4%	1.1%	2.9%
Lancaster, PA	3.8%	3.8%	3.6%

- Although data suggests a strong year for the local MF industry, we will see a large uptick in supply hitting the market in 2025-2026
  - ~1,200 unit increase in inventory for Lancaster County
- Leasing velocity was slower than typical in Q4 '24
  - More residents are staying put and renewing because of tight market/affordability
- Owners focusing on cost saving opportunities to generate NOI growth (centralized leasing and maintenance)

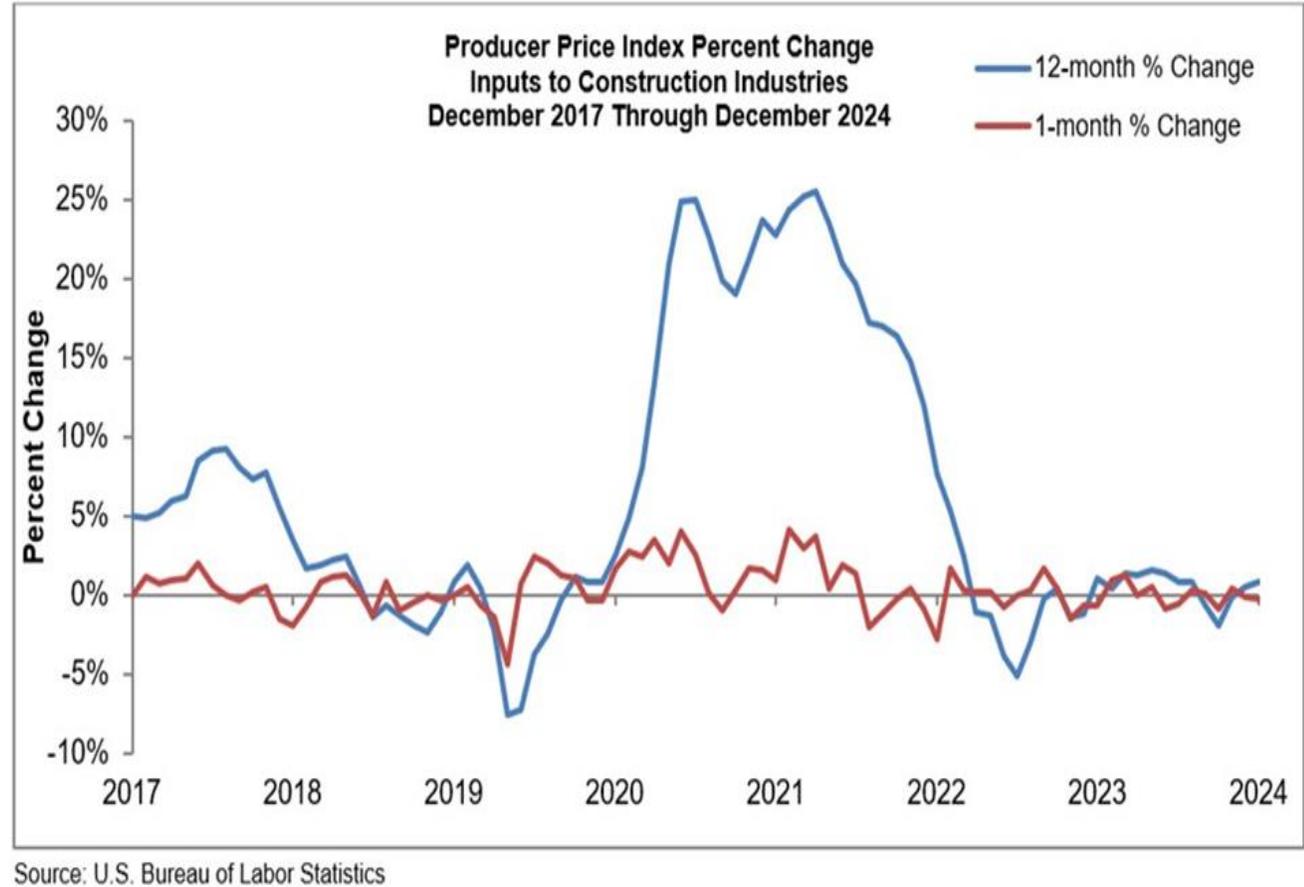


# Michael Kreider

President  
High Construction Company

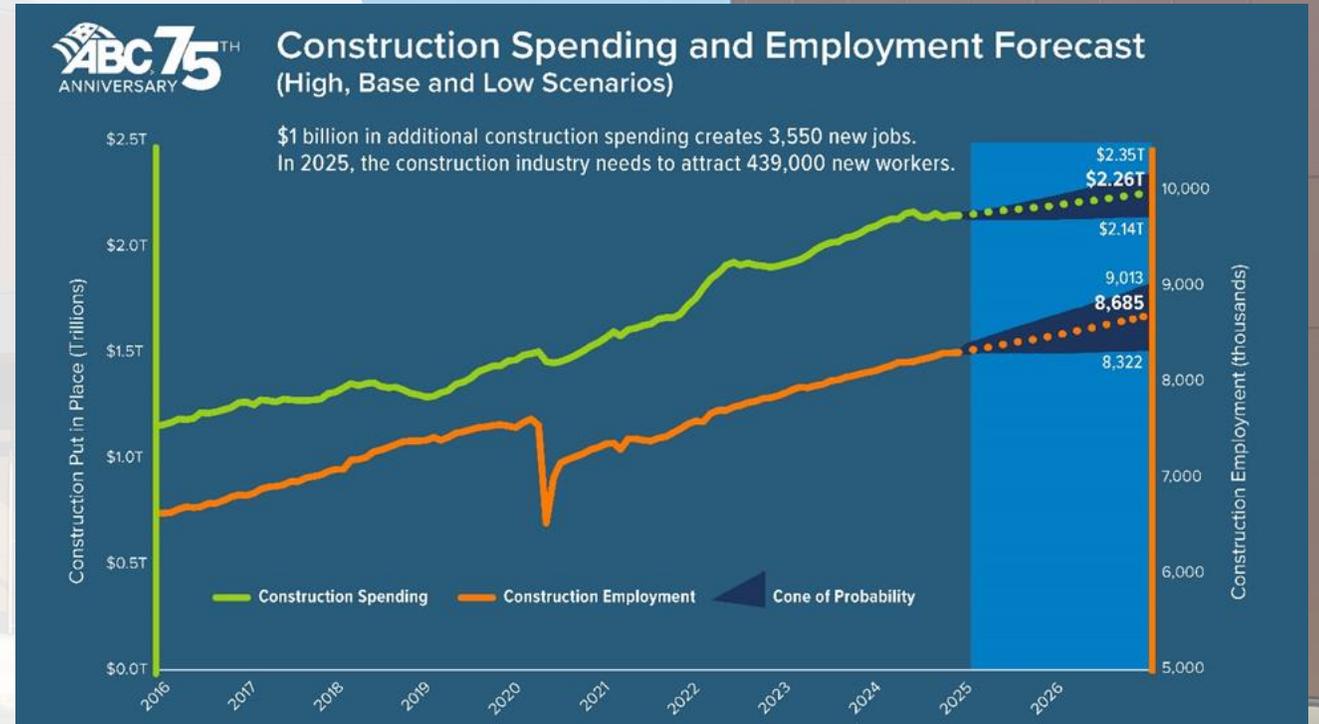
# Construction Materials

- Following the market volatility associated with COVID-19, material costs stabilized in 2024
- Proposed tariffs on imported goods are anticipated to create supply chain confusion
  - Softwood Lumber | Canada (70%)
  - Gypsum Products | Mexico (72%)
  - Steel and Aluminum | China
- Import taxes allow domestic producers to raise their prices
- Mitigation strategies:
  - Stockpile critical materials where feasible
  - Prioritize domestic sourcing
  - Diversify suppliers internationally and domestically, reducing reliance on vulnerable trade routes



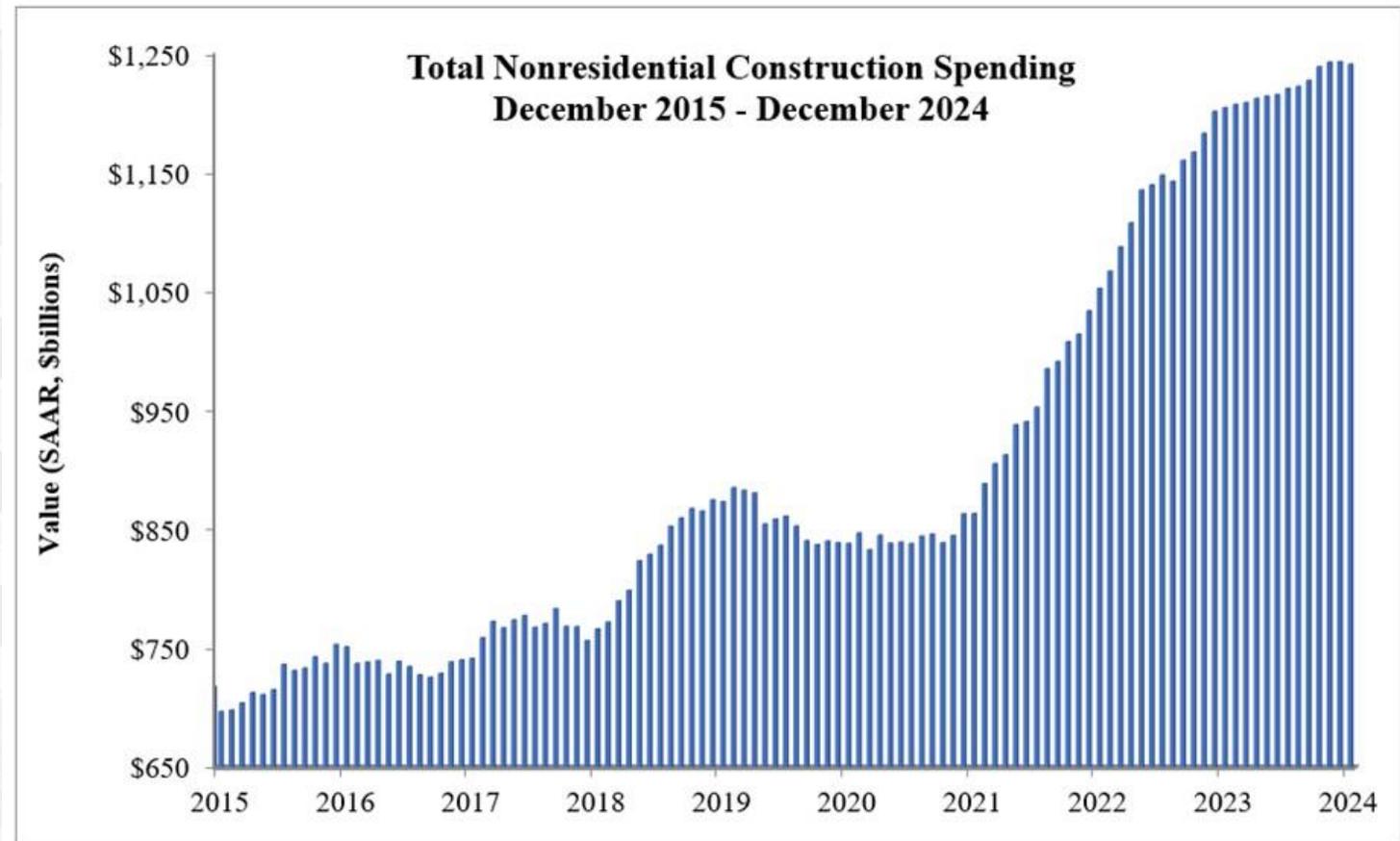
# Construction Labor

- 10,000 baby boomers reach retirement age everyday
- Aging workforce, with less young people entering the trades, has created a labor shortage
- 439,000 additional workers required to meet 2025 demand
- A reduction in interest rates will promote an increase in spending, adding to the challenge
- Recent immigration trends expanded the labor pool, but future policies may limit availability



# Construction Economy

- Backlog down nationally, but contractor confidence remains high
- Enthusiastic, poised for growth locally
- Headwinds are real, but we will weather the storm
- Reason for optimism
- Believe in Lancaster County



Source: U.S. Census Bureau

Source: U.S. Census Bureau, *Total Nonresidential Construction Spending*

# *Questions*

