Lancaster, Pennsylvania

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Lancaster continues its growth trend with a diversified economy stabilized by strong conservative, agriculturally-based operations and a large manufacturing sector. The first half of 2007 experienced increased activity primarily in the industrial and office segments. Suburban office and class A industrial had solid absorption. In the industrial market, demand continues to be strong; however, new product introduction has been limited primarily due to construction costs outpacing rent appreciation. Cost, land availability and a tightening lending market have helped the leasing market, keeping some users as tenants instead of owners.

Center City/Downtown is the most active and robust part of the Lancaster area with anticipation rising now that the Convention Center construction has begun. Many improvements are taking place involving existing structures and businesses including the Lancaster Press Building, Lancaster General Hospital, Armstrong World Industries, Franklin and Marshall College and a host of other properties. Infrastructure is seen as the major concern facing revitalization. Local and outside investment remains brisk. Tourism remains relatively strong driving retail, hotel, restaurant, and entertainment uses to achieve continued high overall occupancy rates.

Lancaster City's class B industrial product has a net positive absorption corresponding to a 4.1% vacancy rate in 2007. Suburban class A industrial product for the last 18 months has experienced positive absorption. Class B product, as well as flex-type products, experienced negative absorption in the past year and vacancy rates remained unchanged at 17.4%. Industrial activity has been strong for the last 18 months and is anticipated to continue for the next 6 to 12 months, limited by the supply of available, quality buildings. Lease rates locally increased between 2-4% and are expected to continue through mid-2008.

In the first half of 2007, the office sector yielded very limited activity in Lancaster City. The City, however, is expected to end the year with positive absorption. The vacancy rate remains unchanged at 4 percent. The suburban office market had solid activity during the first half of 2007, with net positive absorption. Suburban class B space has experienced an up-tick in activity over 2006 with positive absorption.

Existing retail projects had a soft second half of 2007 and first half of 2008 with increases in vacancy rates across all property types. There has been a slight increase in vacancy rate levels of anchored centers but overall they seem to be weathering the current economic storm well. Newer centers located in well traveled areas appear to be attracting tenants to their existing space. Overall, the general sentiment from owners and retailers is that there is reduced activity with fewer deals getting done at lower rates than in the recent past. Rental rates in anchored centers have basically stabilized over the past year with some of the older poorly positioned unanchored centers reducing rates to attract tenants.

Several new big box anchored centers are proposed in the market. The current weakness in consumer spending and tenant demand on top of the lengthy bureaucratic process to develop commercial land throughout the Lancaster market place may delay these projects into 2010- 2011. Despite these trends, the price per acre, for commercial sites, has steadily been increasing.

(Rent/Square foot/Year)	Low	High	Effective Avg.	Vacancy
DOWNTOWN OFFICE				
New Construction (AAA)	$12.50	$12.50	$12.50	100.0%
Class A (Prime)	$15.00	$15.00	$15.00	12.0%
Class B (Secondary)	$12.00	$12.00	$12.00	4.0%
SUBURBAN OFFICE				
New Construction (AAA)	$18.00	$28.00	$23.00	20.0%
Class A (Prime)	$16.00	$22.50	$18.60	20.0%
Class B (Secondary)	$13.00	$16.50	$14.00	16.0%
INDUSTRIAL				
Bulk Warehouse	$3.50	$4.50	$4.00	10.0%
Manufacturing	$3.50	$4.25	$4.12	5.0%
High Tech/R&D	$4.50	$9.75	$7.00	14.0%
RETAIL				
Downtown	$7.00	$13.00	$10.00	5.0%
Neighborhood Service Centers	$13.00	$25.00	$16.00	7.0%
Community Power Center	$15.00	$32.00	$25.00	4.0%
Regional Malls	$25.00	$42.00	$33.50	7.0%

DEVELOPMENT LAND	Low	High
Office in CBD (per buildable SF)	$20	$35
Land in Office Parks (per acre)	$200,000	$350,000
Land in Industrial Parks (per acre)	$90,000	$110,000
Office/Industrial Land~Non-park (per acre)	$80,000	$100,000
Retail/Commercial Land (per acre)	$250,000	$1,100,000
Residential (per acre)	$60,000	$110,000

Metropolitan Area Economic Overview

POPULATION	
Total Est. 2007	498,211
Population Growth Index - 2012	0.69
Income Index	0.99
Affordability Index	1.00
Education Index	0.78
Age Index	1.02
EMPLOYMENT	
Total Est. 2007	256,435
Office Index	0.81
Health Services Index	0.72
Government Index	0.67
Retail Services Index	1.03
Wholesale Index	1.29

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