

# MARKET WATCH

LANDMARK COMMERCIAL REALTY INC.

THIRD QUARTER • 2009

Landmark Commercial Realty, Inc. - ONCOR International

## MARKET THOUGHTS

**A**bsorption in the Greater Harrisburg Marketplace totaled negative 20,690 sq. ft. in the Third Quarter of 2009 as the demand for Downtown options slipped and suburban activity increased sharply.

The Downtown Business District saw occupancy rates plummet and absorption fall as several new availabilities coupled with lessening demand pushed vacancy levels higher for buildings in the city. Tax concerns, parking issues and higher rental rate structures may have pushed several tenants to reconsider suburban locations going forward.

After a difficult year suburban markets realized impressive gains in the Third Quarter as activity levels increased

dramatically. Numerous large deals are pending at this writing. Several in particular are represented by our Group and will encompass over 250,000 sq. ft. of office related transactions. This solid deal flow coupled with renewed confidence in relocating should make for a more favorable climate for existing buildings located on the East and West Shore Business Districts.



Thomas T. Posavec, *Vice President*

## MARKET NEWS

**Thomas T. Posavec, Senior Partner of the Office Services Group at Landmark Commercial Realty, Inc. highlights several Third Quarter 2009 projects in which the group assisted in consulting:**

- **A National Insurance Services Corporation** as engaged Thomas Posavec of Landmark Commercial Realty, Inc. - Oncor International in its search for approximately 25,000 sq. ft. of office space for its central Pennsylvania operations center. Several opportunities are being considered and decisions should be made later this year.
- The Office Services Group at Landmark Commercial Realty, Inc. has been engaged by **National Financial Services Company** to assist it in its search for approximately 50,000 sq. ft. of premier office space in the Mid-State. Firm decisions should be made within the next several months.
- **Linlo Properties, LLC** has recently acquired a 14,000 sq. ft. office building located at 930 Century Drive, Mechanicsburg from local investors. The fully leased office building was purchased for investment purposes and no substantial renovations are anticipated.
- **Federal Deposit Insurance Corporation** has contracted with the Office Services Group at Landmark Commercial Realty, Inc. - Oncor International in its search for

approximately 4,400 sq. ft. of Class A office space in Harrisburg. The firm plans to relocate later next spring.

- **Dryden Advisory Group, LLC** has leased approximately 5,000 sq. ft. of office space at 5913 Linglestown Road, Harrisburg from VBMR, Inc. The firm which specializes in sales tax consulting plans to relocate in December.

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## MARKET ANALYSIS THIRD QUARTER 2009

	Number of Buildings	Total Inventory	Total Avail.	3rd Q 2009 Occup. Rate	2nd Q 2009 Occup. Rate	1st Q 2009 Occup. Rate	4th Q 2008 Occup. Rate	3rd Q 2008 Occup. Rate	3rd Q 09 Current Asking Rent*	3rd Q 09 Total Absorp. in sq.ft.
<b>CITY</b>										
Class A	18	1,448,475	94,400	93%	97%	97%	97%	98%	\$17.00-\$23.00	(21,600)
Class B+	53	1,600,142	153,950	90%	94%	94%	95%	93%	\$14.50-\$17.00	(29,300)
Class B	169	1,523,948	182,924	88%	88%	89%	91%	89%	\$12.00-\$14.50	(5,000)
<b>TOTAL</b>	<b>240</b>	<b>4,572,565</b>	<b>431,274</b>							<b>(55,900)</b>
<b>EAST SHORE</b>										
Class A	43	1,697,672	142,500	92%	91%	93%	93%	93%	\$17.00-\$22.00	30,710
Class B+	86	1,926,421	218,816	89%	90%	89%	91%	93%	\$15.50-\$17.00	(16,700)
Class B	141	1,519,289	136,501	91%	91%	91%	91%	91%	\$13.25-\$15.50	7,500
Class C	48	401,625	49,700	88%	88%	89%	89%	87%	\$10.50-\$13.25	(2,200)
<b>TOTAL</b>	<b>318</b>	<b>5,545,007</b>	<b>547,517</b>							<b>19,310</b>
<b>WEST SHORE</b>										
Class A	60	2,061,340	211,700	90%	89%	89%	90%	90%	\$17.25-\$22.00	5,600
Class B+	101	2,338,590	204,160	91%	90%	91%	92%	93%	\$15.50-\$17.25	5,800
Class B	153	1,840,493	135,500	93%	92%	93%	93%	93%	\$13.75-\$15.50	12,500
Class C	46	476,220	61,400	87%	89%	89%	88%	88%	\$11.00-\$13.75	(8,000)
<b>TOTAL</b>	<b>360</b>	<b>6,716,643</b>	<b>612,760</b>							<b>15,900</b>
<b>GRAND TOTAL</b>	<b>918</b>	<b>16,834,215</b>	<b>1,591,551</b>						<i>*Excluding interior suite janitorial services.</i>	<b>(20,690)</b>

## MARKET OVERVIEW

### DOWNTOWN BUSINESS DISTRICT

Absorption plummeted in the Third Quarter of 2009 totaling negative 55,900 sq. ft. Tenant interest in the Downtown Marketplace has dropped sharply over the past three quarters, as nearly 100,000 sq. ft. of additional office space has been placed on the market.

Tax concerns fueled by incinerator issues are the major topic of concern going forward into 2010. Furthermore, renewed interest towards suburban locations has put added pressure on downtown, which as seen no substantial advances in over twelve months.

Parking concerns, high taxes and the ability to obtain modern first class options at competitive pricing has played a role in the recent pullback in this once more vibrant segment of the Marketplace.

In summary, with over 430,000 sq. ft. currently available Downtown, landlords should be very aggressive when pricing new deals. Incentives and concessions will be an essential component if absorption figures are to increase in the months ahead.

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### EAST SHORE BUSINESS DISTRICT

Demand improved over the past ninety (90) days as the number of property tours spiked markedly, the first such increase of its kind in over a year.

This rise in new deal flow occurred for a variety of reasons. While a few transactions involved new firms expanding to Harrisburg for the first time, a majority of Third Quarter deals were existing tenants expanding to larger facilities in the Mid-State. Some exited Downtown Harrisburg for suburban options, others upgraded from Class B properties into premium first class space.

Although the Third Quarter was strong with respect to demand, several large availabilities continue to plague the East Shore Business District as over twenty buildings currently offer suites in excess of 10,000 sq. ft., a figure much too high if further stabilization is to be sustained.

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### WEST SHORE BUSINESS DISTRICT

Steady interest from West Shore office users pushed occupancy rates higher in most segments of the West Shore Business District as absorption totaled positive 15,900 sq. ft., its highest total in nearly one year.

Many large deals are in the works and several involve significant expansion from local mid-state office users.

Occupancy rates increased in most segments as decision makers once again became more comfortable with the option of relocating corporate offices. Prospect activity has increased sharply from the first half of 2009 which had the office market essentially "shelved" as economic concerns paralyzed business leaders.

The suburban West Shore Marketplace should see continued activity from Downtown tenants who will consider the West Shore in light of the potential economic concerns in the city. Several start up businesses have toured in recent weeks, a sign that small business is gaining momentum. Furthermore, renewals which were quite prevalent in recent months are beginning to give way to relocations as owners become less fearful of expending resources on business relocations.

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## GLOSSARY

**Total Inventory:** Excludes owner occupied facilities, medical and governmental buildings and buildings under construction or proposed.

**Vacancy Rates:** Total available office space divided by total inventory.

**Occupancy Rates:** Total available office space divided by total inventory. This calculation is then subtracted from 100.

**Current Asking Rent:** Projected gross asking rents per square foot considering current market conditions excluding interior suite janitorial services.

**Gross Asking Rents:** Rents which include all operating expenses of the facility.

**Class A:** Modern, upscale buildings that command the highest market rents and attract upscale tenants.

**Class B+:** Newer buildings or facilities that have received substantial upgrades.

**Class B:** Older buildings that have received some renovations and upgraded from Class C facilities and attract mid-tier rental rates.

**Class C:** Older buildings that have not been upgraded and command lower market rents.

**Absorption:** Change in occupied space for a specific period in time.



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