

# MARKET



THIRD QUARTER • 2008

HARRISBURG, PENNSYLVANIA • 717-731-1990

## MARKET THOUGHTS

The Greater Harrisburg Office Market scored solid gains in the Third Quarter of 2008 as absorption totaled 77,639 sq. ft. Excellent demand from all segments fueled these strong advances, after a rough Second Quarter had inventory skyrocket and occupancy rates decline.

Basic market fundamentals remain favorable although the construction of several new office buildings and the redevelopment of a number of others is cause for concern. Many of these buildings offer large floorplate options which are not as frequently in demand as more flexible smaller suites. While activity from larger users will be critical, demand from smaller users will be as essential.

Brisk demand from smaller to midsize tenants has contributed greatly to the excellent gains realized in 2007 and the First Quarter of 2008.

Fortunately, occupancy rates for tenants occupying under 2,000 sq. ft. currently average between 95% and 98%. In light of the quantity of new construction and redevelopment, this important base of demand will be important to the further stabilization of the marketplace in months to come.

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 2008 projects in which the group assisted in consulting:**

- 3461 Associates has recently acquired a 21,000 sq. ft. office building located at 3461 Market Street, Camp Hill from **Young's Grove Properties**. The spectacular Class "A" office property settled in late September
- A local investor has acquired the 32,000 sq. ft. office building located at 1300 Market Street, Lemoyne from **ADG 1300 Plaza West Associates, L.P.** The three story office property was 93% occupied at closing.
- JPST Realty has acquired a 8,000 sq. ft. office building located at 119 Aster Drive, Lower Paxton Township, Harrisburg from **119 Associates**. The fully leased single story office building settled recently.
- Jones Lang Lasalle has engaged Thomas T. Posavec of the Office Services Group at Landmark Commercial Realty, Inc. in the disposition of 10,500 sq. ft. of Class "A" office space located at Third and Walnut Street, Harrisburg for **BearingPoint**. The suite with spectacular tenth (10th) floor views of the Capital Complex is without question the premier office option available in the Downtown Marketplace.
- **5425 Associates** has engaged Thomas T. Posavec of the Office Services Group at Landmark Commercial Realty, Inc. to lease or sell its 14,310 sq. ft. single story office building. The property is situated in the heart of Colonial Park and will be ideal for a wide variety of office tenants or users.

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## MARKET ANALYSIS THIRD QUARTER 2008

	Number of Buildings	Total Inventory	Total Avail.	3rd Q 2008 Occup. Rate	2nd Q 2008 Occup. Rate	1st Q 2008 Occup. Rate	4th Q 2007 Occup. Rate	3rd Q 2007 Occup. Rate	3rd Q 08 Current Asking Rent*	3rd Q 08 Total Absorp. in sq.ft.
<b>CITY</b>										
Class A	18	1,390,595	28,500	98%	98%	98%	98%	98%	\$17.00-\$23.00	5,800
Class B+	53	1,527,542	100,850	93%	93%	93%	94%	93%	\$14.50-\$17.00	9,500
Class B	169	1,501,348	163,800	89%	88%	91%	91%	90%	\$12.00-\$14.50	16,619
<b>TOTAL</b>	<b>240</b>	<b>4,419,485</b>	<b>293,150</b>							<b>31,919</b>
<b>EAST SHORE</b>										
Class A	43	1,606,672	117,500	93%	92%	94%	93%	93%	\$17.00-\$22.00	17,500
Class B+	86	1,916,421	138,800	93%	93%	93%	93%	91%	\$15.50-\$17.00	14,900
Class B	141	1,514,289	131,726	91%	93%	94%	94%	92%	\$13.25-\$15.50	(13,200)
Class C	48	390,425	52,000	87%	87%	89%	88%	87%	\$10.50-\$13.25	2,400
<b>TOTAL</b>	<b>318</b>	<b>5,427,807</b>	<b>440,026</b>							<b>21,600</b>
<b>WEST SHORE</b>										
Class A	60	2,061,340	213,800	90%	90%	91%	89%	89%	\$17.25-\$22.00	11,700
Class B+	101	2,275,090	167,700	93%	93%	94%	94%	94%	\$15.50-\$17.25	4,450
Class B	153	1,830,493	136,800	93%	93%	94%	94%	94%	\$13.75-\$15.50	6,300
Class C	46	476,220	58,800	88%	88%	91%	91%	91%	\$11.00-\$13.75	1,400
<b>TOTAL</b>	<b>360</b>	<b>6,643,143</b>	<b>578,100</b>							<b>23,850</b>
<b>GRAND TOTAL</b>	<b>918</b>	<b>16,490,435</b>	<b>1,311,276</b>						<i>*Excluding interior suite janitorial services.</i>	<b>77,369</b>

## MARKET OVERVIEW

### DOWNTOWN BUSINESS DISTRICT

Absorption totaled a positive 31,919 sq. ft. in the Third Quarter of 2008 a result of solid demand in the Class B segment throughout the quarter.

Class A occupancy rates remained unchanged at a staggering 98% as absorption totaled a positive 5,800 sq. ft. Class B+ occupancy rates remained unchanged at 93% as absorption totaled 9,500 sq. ft. The Class B segment occupancy rates rose one percentage point to 89% as absorption totaled a positive 16,619 sq. ft.

An impressive Third Quarter for the Class B segment as demand for these less premier properties strengthened. The lack of large blocks of space should come into play early next year as larger users have entered the marketplace in recent weeks. While the Class B segment had an improved quarter, this segment has not over performed in recent months, opportunities exist for small to mid-sized users. The remaining segments of the Downtown Marketplace are in good condition going forward and this trend should continue over the next several months.

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### EAST SHORE BUSINESS DISTRICT

Absorption totaled a positive 21,600 sq. ft. in the Third Quarter of 2008 as inventory levels remained relatively unchanged.

Class A occupancy rates rose one percentage point to 93% as absorption totaled 17,500 sq. ft. Class B+ occupancy rates remained unchanged at 93% as absorption totaled a positive 14,900 sq. ft. The Class B segment saw occupancy rates slip two percentage points to 91% as absorption totaled a negative 13,280 sq. ft. Occupancy rates in the Class C segment remained unchanged at 87% as absorption totaled 2,400 sq. ft.

Although activity has increased in recent weeks the market appears to be simply holding its own as all of the important market segments have been in the nineties for the past several quarters. New growth from outside the Harrisburg area is necessary to help alleviate the checkerboard pattern which has seen tenants move from one building to another. This new growth is paramount to the marketplace improving over the months ahead.

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### WEST SHORE BUSINESS DISTRICT

Absorption totaled a positive 23,850 sq. ft. in the Third Quarter of 2008, a modest result leaving all segments relatively unchanged.

Class A occupancy rates remained unchanged at 90% as absorption totaled a positive 11,700 sq. ft. Class B+ occupancy rates remained unchanged at 93% as absorption totaled 4,450 sq. ft. The Class B segment saw absorption total a positive 6,300 sq. ft. as occupancy rates remained unchanged at 93%. Occupancy rates in the Class C segment remained unchanged at 88% as absorption totaled a meager 1,400 sq. ft.

Although the Class A segment continues to under perform, the remainder of the marketplace remains quite healthy as occupancy rates for Class B+ and B space remains at 93%. The Class A segment has been lackluster in recent quarters and there is no indication when we can expect an increase in demand from these specific users. While the potential of more spectacular space entering the market over the next 12 months is possible, more modest new construction is more likely. Users continue to demand office space for sale and a few specific properties are being considered for condominium development. This trend that should be well received in a market with few options to buy.

## 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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