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FIRST QUARTER - 2015

Market Watch

2Q AVAILABILITIES

ACTIVITY ABOUNDS

Absorption totaled 62,520 sq. ft. in the First Quarter 2015.

We remain impressed with the consistency of the market over the past five years and expect activity to persist over the months ahead. We are optimistic that rental rates should continue to firm going forward, and see the opportunity of a pullback as remote. We expect further improvement in the form of acquisitions as the interest rate environment remains attractive and the potential of a Fed increase continues to linger.

While we are pleased with the pace of recovery from those assets recently out of receivership, we view the potential consolidation of a few substantial office users later in 2015 as a major event which we will monitor closely over the months ahead. We are encouraged with the lack of speculative construction.

We feel the steady absorption of existing product is a health restoring event for the marketplace, and project that Market Fundamentals should remain favorable going forward throughout 2015.



THOMAS T. POSAVEC, SIOR, Senior Vice President



940 East Park Drive, Harrisburg
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1215 Manor Drive, Mechanicsburg, PA



3 Crossgates Drive, Mechanicsburg, PA



4660 Trindle Road, Camp Hill, PA

MARKET SUMMARY

DOWNTOWN BUSINESS DISTRICT



The Downtown Business District which experienced meager gains in 2014 saw more solid returns in the First Quarter of 2015. Absorption totaled 16,720 sq. ft. as interest in Downtown Properties gained traction.

The Class A segment of the Downtown Business District absorbed 3,200 sq. ft. and occupancy rates remained at 91%. Much of the Class A product has been on the market for several quarters. Premier users have not been persuaded by the perceived advantages of a Downtown address and are continuing to consider options outside city limits. Several law firms have vacated the City in the last several years in favor of better availabilities, superior pricing and free on-site parking. With demand at a standstill, incentives are necessary to stimulate activity before occupancy levels will have a chance to improve.

Absorption for Class B+ properties totaled 8,000 sq. ft. in the First Quarter of 2015. Occupancy rates closed at 90%. The Markets are not significantly improving enough to stimulate the recovery process Downtown. We feel this recovery has not commenced as of yet and a sustained recovery period will not be identified until several quarters of gains are measured. We feel solutions to remedy the parking dilemma Downtown are paramount in setting in motion a recovery process that will be sustained and healthy for the Downtown Business District.

Class B occupancy rates remained unchanged and closed the First Quarter of 2015 at 90%. Absorption totaled a modest 5,520 sq. ft. This segment has failed to gain significant ground for several years and occupancy rates have not reached 94% since the First Quarter of 2003. Those considering a purchase are still on the sideline, deterred by exorbitant parking costs and taxes two and one half times their suburban counterparts. Quality properties are simply being overlooked due to the high operating cost associated with Downtown occupancy.

EAST SHORE BUSINESS DISTRICT



The East Shore Business District produced gains in the First Quarter of 2015 as absorption totaled 38,300 sq. ft. Expansions fueled

demand as several companies increased their square footage requirements. Additionally, we were impressed at the number of new firms not presently in the market who executed leases in the First Quarter. This new business creation was at a rate not witnessed in several quarters and is encouraging going forward.

Class A occupancy rates rose slightly to 93% as absorption totaled 14,700 sq. ft. Very few large options exist in the East Shore Business District. We feel this will pose a concern for users looking for superior product over the next several Quarters. Options exist for small tenants although rates will remain firm as owners exploit the improving market.

Class B+ absorption totaled 5,000 sq. ft. during the First Quarter of 2015. Occupancy rates remained at 92%. Demand was increased by a number of start up firms entering the market for the first time. This element of market expansion was not evident for several quarters as companies contracted and expansions were postponed. We remain encouraged and expect the cycle of recovery to continue for those recently acquired assets just out of receivership.

Class B occupancy rates rose one percent to 90% as absorption totaled 18,600 sq. ft. Rental rates still have not been able to gain traction as availabilities remain higher than other suburban segments. We anticipate modest improvement of this segment going forward in 2015. We expect the acquisition market to pick up as several properties formerly in receivership are acquired and occupied by owner/users.

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WEST SHORE BUSINESS DISTRICT

The West Shore Business District failed to produce solid gains in the First Quarter of 2015, as absorption totaled 7,500 sq. ft. Occupancy rates for all segments of the West Shore Business District



remained at 95%. This is an extraordinary figure in light of market conditions only a few years ago. While these levels are high, we feel there is potential for additional gains as Market fundamentals remain favorable and activity continues to improve.

Class A occupancy rates managed to remain steady closing the First Quarter at 95%. Absorption totaled negative 3,700 sq. ft. Several large transactions were offset by a number of unanticipated vacancies. Large deals are pending and should improve occupancy rates going forward throughout 2015. Rental rates have firmed and few large floor plates remain. Most buildings are unable to offer suites in excess of 5,000 sq. ft. While sublease opportunities exist and some financially troubled assets are beginning to surface, well managed projects with financial stability are poised for healthy returns over the months ahead.

Occupancy rates for Class B+ properties closed the First Quarter at 95%. Absorption totaled 13,300 sq. ft. Fewer opportunities exist for any user looking for solid Class B+ options on the West Shore. Rossmoyne Business Center remains near full occupancy and the Camp Hill Business Center has improved sharply over the past several quarters. We are impressed the lack of speculative construction anticipated for the Mid State. We feel it will contribute to the further stabilization of existing properties going forward.

Class B occupancy rates remained at 95% as absorption totaled negative 2,100 sq. ft. Occupancy rates have remained at remarkable levels for several Quarters. Rental rates have increased and fewer concessions are being offered. Only a handful of properties are available for sale and medical buildings remain scarce. We expect to see further improvement in this West Shore segment as start-up's resurface, and confidence improves. Owners should enjoy further stability going forward throughout 2015.



2151 Linglestown Road, PA

1,840 SF medical/office available for sale or lease. Excellent buildout for physician. Ideal for small medical user.



555 Gettysburg Pike, Mechanicsburg, PA

8,000 SF office condo available for sale. Fantastic location. Currently in shell condition. Project ready to go.



4000 Vine Street, Middletown, PA

6,522 SF available. Terrific medical suite. Excellent access to PA 283. Growing demographics. Minutes to Hershey. Extensive medical buildout.



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3605 Vartan Way, Harrisburg, PA
Suites from 900 to 4,500 SF and up. Terrific windows. Great location. 6 per 1,000 SF parking.



5925 Stevenson Avenue, Harrisburg, PA
3,847 SF available for sale. Located just off I-81 in Lower Paxton Township.



75 S. Houcks Rd, Harrisburg, PA
1,100 to 10,800 SF for lease. Terrific architecture. Excellent layout. Convenient easy access.



2000 Linglestown Road, Harrisburg, PA
1,000 to 2,500 SF available. Various sizes. New suites with first class finishes.



2578 Interstate Drive, Harrisburg, PA
Sale or lease. 13,800 SF building for sale. 1,900 SF for lease. Modern first class property.



4800 Linglestown Road, Harrisburg, PA
New suites from 500 SF up to 13,000 SF. Available immediately. Excellent signage.



3601 Vartan Way, Harrisburg, PA
Up to 6,257 SF available immediately at this solid East Shore address. Great rates.



4601 Devonshire Road, Harrisburg, PA
1,500 to 4,200 SF available. Ideal medical suites for small users. Available immediately.



4201 Crums Mill Road, Harrisburg, PA
1,960 SF available for lease. Terrific windows. Convenient Colonial Park address.



4807-4813 Jonestown Road, Harrisburg, PA
550 to 1,600 SF available for lease. Great signage and visibility. Great suites terrific layouts. Easy access to all areas.

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5001 Louise Drive, Mechanicsburg, PA
Various suites available for immediate occupancy. Great windows. First class finishes.



1017 Mumma Road, Wormelysburg, PA
1,400 SF available at this first class facility. Excellent layout. Available immediately.



717 Market Street, Lemoyne, PA
Two suites for lease from 1,100 SF and up. Great signage and visibility.



4 Lemoyne Drive, Lemoyne, PA
2,611 SF Class A suites for immediate occupancy. Fantastic windows and layout.



55 Utley Drive, Camp Hill, PA
1,000 to 26,000 SF for lease. New finishes. Ample windows. Convenient Camp Hill address.



2 Lemoyne Drive, Lemoyne PA
Two (2) small suites available for immediate occupancy. First class finishes. Gorgeous window lines.



1023 Mumma Road, Lemoyne, PA
3,200 to 8,200 SF available for lease in the Heart of the West Shore Marketplace.



4 Flowers Drive, Mechanicsburg, PA
Up to 4,500 SF available at this West Shore address. Owner will divide.



355 North 21st Street, Camp Hill, PA
600 to 3,100 SF available. New suites. Large windows. Covered parking. Great rates.



3500 Market St, Camp Hill, PA
Up to 2,500 SF available for lease. First floor suite available immediately.



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MARKET ANALYSIS Q1 2015

2015	Number of	Total	Total	1st Q 2015 Occup.	4th Q 2014 Occup.	3rd Q 2014 Occup.	2nd Q 2014 Occup.	1st Q 2014 Occup.	Year End Current	1st Q Absorp -
CITY										
Class A	23	1,563,975	141,900	91%	91%	91%	91%	93%	\$18.00-\$23.00	3,200
Class B+	61	1,702,742	173,665	90%	88%	89%	89%	87%	\$15.50-\$18.00	8,000
Class B	181	1,563,949	154,385	90%	90%	90%	90%	91%	\$13.00-\$15.50	5,520
TOTAL	265	4,830,666	469,950							16,720
EAST SHORE										
Class A	48	1,853,121	138,100	93%	92%	91%	91%	90%	\$18.65-\$23.00	14,700
Class B+	89	2,006,831	160,100	92%	92%	92%	91%	91%	\$16.50-\$18.75	5,000
Class B	151	1,651,189	162,800	90%	89%	90%	89%	90%	\$14.00-\$16.50	18,600
TOTAL	288	5,511,141	461,000							38,300
WEST SHORE										
Class A	65	2,340,340	110,100	95%	95%	96%	96%	96%	\$18.65-\$23.00	(3,700)
Class B+	118	2,464,990	118,250	95%	95%	95%	95%	95%	\$16.50-\$18.75	13,300
Class B	168	1,975,061	97,100	95%	95%	94%	94%	94%	\$14.75-\$16.50	(2,100)
TOTAL	351	6,777,791	325,450							7,500
GRAND TOTAL	903	17,112,198	1,256,400	<i>*Excluding interior suite janitorial services.</i>						62,520

In its twenty-first year, this study analyzed 903 office buildings in the Greater Harrisburg Area over the past twelve months and tracked economic indicators such as absorption, occupancy rates and current asking rents. This endeavor was undertaken to provide statistical data to better understand the complexities of the Harrisburg Office Market. For a closer look at 2015 a specific quarterly breakdown is illustrated on page six of the analysis.

It is important to understand that this analysis excluded owner occupied facilities, medical and governmental buildings and single user facilities as these buildings are not periodically in circulation. Furthermore, facilities available for sublease are also excluded from the analysis in order to avoid the potential of overstating vacancy rates resulting from these specific sublease opportunities.

Implementing these methods provides an accurate measure and greatly reduces the probability of an analysis becoming skewed as a result of one or two specific transactions.



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