

MID ATLANTIC REAL ESTATE JOURNAL

NEW JERSEY-PENNSYLVANIA-DELAWARE-MARYLAND-VIRGINIA

Friday, February 12, 2010

Volume 22, Issue 3

COMMERCIAL OFFICE PROPERTIES SPOTLIGHT

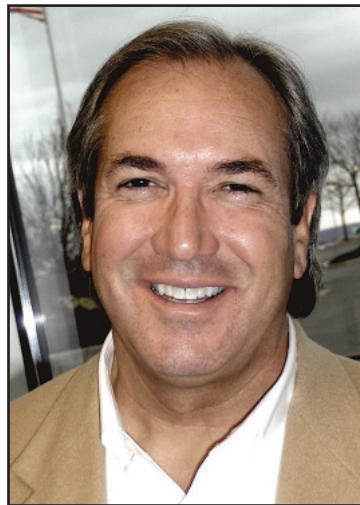
By Art Campbell, CAMPBELL Commercial Real Estate **2010 Central Pennsylvania's office market overview**

Though it is clearly a "Tenant's Market", it has probably never been more important for Landlords and Tenants to work together in negotiating creative lease agreements that benefit both parties.

Landlords are competing aggressively to fill vacant space and those tenants that can economically relocate are seeking an upgrade in the quality of space at rates that are as attractive as they've been in many years.

The landlord's advantage is that the high cost of relocation is causing large local and national companies requiring high end or specific build out requirements to renegotiate renewals. It is mostly smaller companies taking advantage of moving allowances, improvement monies and other concessions. Most allowances are in the form of free rent, allowing landlords to maintain higher rental rates and avoid a cash outlay. Identifying buildings that require the least amount of fit out to satisfy the tenant's requirements is one way to save every-time and money.

Medical office space continues to be the strongest



Art Campbell

sector of the real estate spectrum both nationally and locally. Though there is still a lot of uncertainty with proposed healthcare reform, Central PA, as with the rest of the country, will continue to see medical space as the most stable of the office users.

County real estate assessed valuations will be a major item for building owners and appraisers in 2010. Cumberland Cty. is still moving forward with a county-wide reassessment that is bound to spark a lot of controversy with property owners, who should be able to challenge and discuss new assessments without filing formal tax appeals. Harrisburg City's indication

of future Millage increases will have many city property owners looking more closely at their valuations and a large number of appeals in Dauphin Cty. should be expected. It is to the benefit of both landlords and tenants to lower assessments as the property's tax burden is a major pass thru cost to tenant's occupancy in many leases or is an expense that falls heavily to the property owner's bottom line in the case of a gross lease. Central PA has not experienced the 40% to 50% national commercial property valuation reductions since the high in 2007, but a reasonable estimate of a 20% decline in local values is going to be hard for the assessment offices to argue with. 2010 will continue to present challenges for the office space market.

With the downturn in values and the heavy burden of carrying vacant buildings, we are seeing increased activity among office lease tenants who are now seeking the opportunity to buy and finance as owner occupied buildings. This is the most attractive of loan types for lenders, and

with expectations of rate increases over the next two to three years, it is a time of opportunity for potential owner occupants.

Unfortunately, a new type of property acquisition not seen since the savings and loan crisis in the 1980s is the "Loan-to-Own Strategy". A lot of distressed debt is being purchased as a way to acquire buildings and though it is not as prevalent in Central PA as in other parts of the country there will be more acquisitions of buildings by acquiring debt in 2010 and 2011.

In summary, Central PA may experience additional decreases in rental rates and values before stabilizing. The stabilization and upturns in Central PA's commercial real estate market, as with the rest of the country, should not be anticipated until we experience an upward trend in job growth.

Art Campbell has been in management, development and sales of commercial real estate for 35 years. He is president of Campbell Commercial Real Estate, Inc. which is celebrating its 26th year. ■