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### Upcoming Events:

- September 22 - 3rd Annual Eastern PA Property Summit - Location: Reading Country Club
- November 4 - SIOR Fall Conference - Location: Chicago, IL

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# The Philadelphia Regional Chapter Society of Industrial and Office Realtors



## Harrisburg Office Space – Extraordinary Times

The Capital City of Pennsylvania's economy is thriving overall but various conditions are pulling the office market in different directions. The demand to own office space is certainly more than at any time since the tax law changes of 1986. Since there is a lack of confidence in the stock market, the prices that Users and Investors are willing to pay and the prices Sellers are demanding are at historic highs. It used to be that the sale price was approximately ten times adjusted net operating income. Now CAP rates are at eight percent and below. Buildings that were selling for \$30/SF in the recession of the early '90's can now sell for well over \$100/SF.

Unfortunately, the rental market is not seeing the same effect. The availability of large blocks of office space in the suburban market may be more than ever. Downtown Harrisburg still has very low vacancy, especially Class A space. The rental rates have not correspondingly increased with the sale values. Rental rates have been relatively flat for the past couple years. Tenant activity has increased recently but still is slow with small companies wanting to own. Job growth is needed to fuel increased occupancy. Once absorption of the majority of the existing vacancy is achieved, there should be a rise in rental rates of at least \$1.50-\$2.50 per square foot, due to higher construction costs, land costs, development cost and rising interest rates. Besides higher construction material costs, the new building code and municipalities' more stringent requirements are driving building costs up.

The effects of more dense floor plans (more employees/SF) and virtual offices (work from home and on the road) are allowing companies to reduce their occupancy costs, which has not helped reduce vacancy rates. Time will tell if these are trends or if the more traditional office layouts return with more private offices and a desk for employees on the road. Moving costs for technology are decreasing with lower hardware costs and wireless networks. Landlords have become a lot better at Tenant retention and being reasonable in renewal negotiations. Tenant Representation has become common place, with smaller real estate departments in many corporations, where Brokers represent Tenants in securing new locations and/or negotiating lease renewals, expansions or downsizing. Tenant concessions have been minimal, but value for the dollar, lease rates have been a bargain since rental rates have not escalated to match property values or replacement costs.

These are exciting times and it will be interesting to see if today's sale prices are part of a bubble or a new paradigm. I expect it is a little of both.

**- Joe Bedard, SIOR, Agent at NAI/CIR since 1988**

### SIOR Member Spotlight:

#### William B. Elliman, SIOR GVA Smith Mack



Wills Elliman has been active in the office space sector in the Wilmington Delaware area for over 15 years.

Wills joined GVA Smith Mack in the fall of 2001 to lead the company's Delaware office operations. Since joining GVA Smith Mack, Wills was involved in office deals with ING Direct for 240,000 SF, Access Group for 75,000 SF, CSC for 68,000 SF, Bank One for 63,000 SF and Cigna for 51,000 SF.

### SIOR Featured Listing:



#### 6951 Allentown Blvd, Harrisburg, PA

- 82,000 SF Flex/Warehouse
- Regional & National Credit Tenants
- High Visibility - Strong Demographics
- Masonry Construction & Rubber Roof (4 years old)
- Easy access to I-81 Corridor
- 95% Leased
- 8% CAP Rate
- Excellent Investment or 1031 Tax Exchange Property

**For More Information Contact:  
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