HIGH REAL ESTATE GROUP LLC

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RealEstateMatters

In This Issue

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A Greater Need for Workforce Housing

By: Brad Mowbray – Senior Vice President & Managing Director – Residential Division, High Associates Ltd.

Throughout the country, the supply of housing at a variety of price points plays a vital role in promoting economic growth in communities, attracting and retaining a talented workforce, and encouraging household stability for families. However, it has become increasingly difficult for middle-income workers to buy or rent housing in areas that are near their place of employment. This is partly due to wages not keeping up with the increasing costs of

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Understanding the New Leisure Traveler

By: David Aungst – President, High Hotels Ltd.

Summer has officially arrived, and now is the time to pack the car and embark on the great American road trip. In Lancaster County, and much of the mid-Atlantic area, summer represents the peak season for hotel performance. These peak summer months are driven by what is called "leisure travel." But what does leisure travel mean, how is it changing, and what is the tangible impact on the local economy?

Let's establish what leisure travel means. Before the pandemic, the hotel industry largely divided travelers into two buckets: business and leisure. The business bucket reflected travel associated with such things as convention attendance, consulting engagements, construction projects, work training, and client meetings. Whereas the leisure bucket captured all non-work-related travel

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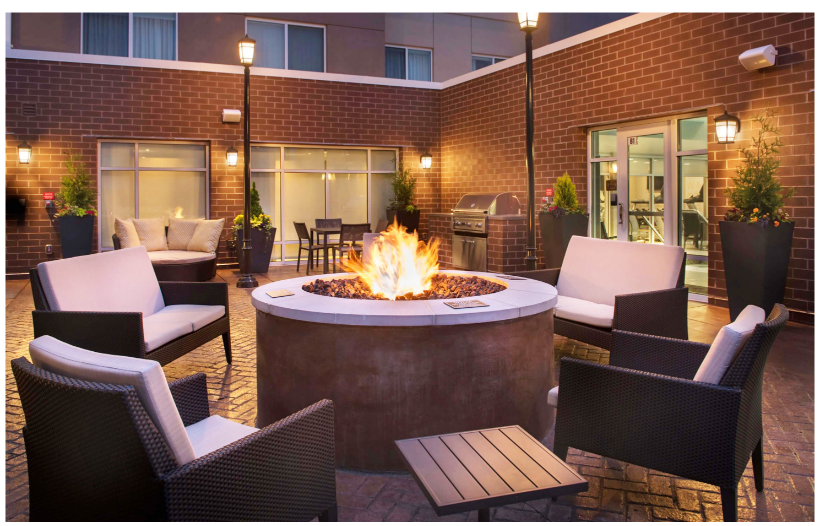
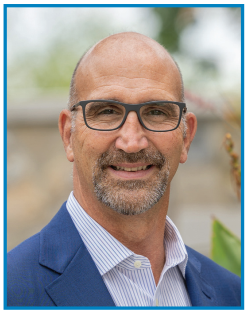


President's Message



As we approach the end of summer and the beginning of fall, it is hard to remain optimistic in the face of all the uncertainty and challenges we see on the news every day. The war in Ukraine drags on with no apparent end in sight, inflation remains persistently high, the Fed continues to raise short-term interest rates in an effort to engineer the allusive "soft landing," and we are heading into a Presidential election, with the country more divided than ever.

In spite of all this uncertainty, I remain positive about the future of our industry and our country. Despite rising construction costs and interest rates, we continue to find creative ways to advance development projects and position ourselves for steady growth. Increasing our partnership with the Commonwealth through the use of various economic development programs, we have advanced several projects to meet the increasing demand for housing, industrial space, and infrastructure improvements, with examples such as the Walnut Street Extension and Greenfield North projects highlighted in this newsletter.

As we look to the future, it is clear the industry will play a pivotal role in driving economic growth. With continued investments and strategic partnerships, we can expect to see even more positive developments in the sector, paving the way for a brighter and more prosperous future.

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A Greater Need for Workforce Housing continued from page 1

living, but it is also the result of the limited supply of workforce housing available to them.

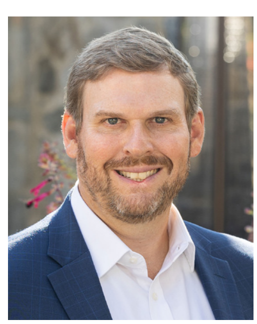
According to the Urban Land Institute (ULI), workforce housing is defined as housing affordable to households earning between 61 and 120 percent of the local area median income, where residents pay no more than 30% of their income toward housing costs. Workforce housing targets middle-income workers, such as police officers, firefighters, teachers, retail, and healthcare workers. These individuals may not qualify for subsidized housing through the two major affordable housing programs, the Low-Income Housing Tax Credit (LIHTC) and Housing Choice Voucher programs.

A recent study by the National Multi-Housing Council (NMHC) identified that the number of cost-burdened households that pay more than 30% of their income on housing has increased steadily from 28.0% in 1985 to 36.9% in 2021. Many other households have been priced out of communities altogether. As a result, middle-income workers are forced to move further away from employment centers, leading to longer commute times, higher levels of traffic, and making it more challenging for individuals to care for their families.

Since 2015, U.S. apartment rental rates have increased a total of 31.4%, according to CoStar, while vacancy rates have remained low in most major markets. This has led to the decline of ~4.7 million affordable homes that were priced below $1,000 per month. These dynamics further exacerbate housing affordability challenges and highlight the need for new housing units to be constructed. The NMHC estimates that the U.S. needs to build 4.3 million more apartments by 2035 just to keep up with growing demand, which includes 600,000 apartments to fill the shortage from underbuilding during the Great Recession.

Keeping up with demand has become challenging due to the significant increase in interest rates, construction costs, and insurance costs over the past few years. More projects are being delayed as developers struggle to underwrite their projects to a market rate of return, as these increased cost factors weigh on their investment decision and ability to obtain financing. These rising costs, coupled with increased regulations, create barriers to development that increasingly make it challenging, if not impossible, to build housing at various price points specifically for our workforce.

While this is a national issue, Lancaster is not immune to the shortage in the supply of workforce housing. CoStar estimates that there are 10,800 apartment units in Lancaster County, of which only 3% are currently vacant. The market is tight and there is upward pressure on rental rates given the lack of new supply. We are currently tracking more than 4,000 units in named projects that are in various stages of development or construction. The majority of these units will be targeted at luxury rental rates, above the range for workforce housing. Not all these projects will ultimately get built, but any new housing will certainly help Lancaster keep up with its growing workforce.



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What's Happening in Greenfield

An Early Opening for Walnut Street Extension

The Walnut Street Extension, a 1.2-mile, two-lane bypass connecting Route 30 and Greenfield, was originally scheduled for completion in November 2023. Thanks to the hard work of everyone involved, it is ahead of schedule and now slated to open on September 30.

Once open, the road is expected to significantly reduce traffic on Greenfield Road during peak business hours by removing between 700 and 800 vehicles, a reduction of 25% to 30%. There will also be a new 1.2-mile paved section of the Greater Lancaster Heritage Pathway added for pedestrian and bicycle use.

We are excited to bring this project across the finish line and open the road and trail to the public.

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Understanding the New Leisure Traveler continued from page 1

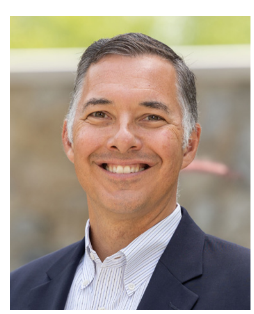
such as tourism, weddings, family reunions, youth sports, concerts, and sporting events. In the spring issue of Real Estate Matters, we shared how the lines between business and leisure travel have blurred into "bleisure" travel – combining both into a single trip. This article is focused on how the traditional leisure traveler has changed.

The greatest change for the leisure traveler has been the absolute priority they have given to travel within their household budget. Various economic reports and surveys reflect that consumers splurged on items for their homes during the pandemic and have now pivoted to experiences. Concerts, cruises, and sporting events have seen dramatic demand increases and/or overwhelming responses (Taylor Swift tickets anyone?). Travel tops the list of discretionary spending, and it has proven resilient. According to Skift's research from May 2023, "7 of 10 U.S. travelers experienced higher travel prices when booking personal trips, but only about 5% cut their travel spending." Why are these travelers so resilient? Leisure travelers continue to want to relax, but they are also pursuing unique experiences and unique places. COVID eliminated several years of travel and forced many to reconsider what is important to them.

So, how are hotels catering to these leisure guests? Hotel staff needs to be well-trained to share traditional items of local interest, but more guests want to know about unique restaurants and places that are "off the beaten path." Hotels are creating travel packages that bundle the room rate with local events and experiences. In-room QR codes have been a boon and an easy way to engage guests with items of interest. A key hotel partner in many geographies is the local destination marketing organization (DMO) or convention and visitors bureau. They work to engage local businesses to curate and promote unique, local experiences. From a staffing and supply impact, a 120-room hotel that is sold out with leisure travelers compared to business travelers could have 200-300 more guests in the building at any given time. These additional guests generate more refuse, require additional linens, consume more breakfast items, require elevated public space cleaning, and necessitate more staffing.

Travel's impact on the local economy is significant. Hoteliers will refer to three key metrics when discussing hotel performance: a) occupancy which represents the percentage of a hotel's available rooms that are sold, b) average daily rate (ADR) which is a measure of the average rate paid for the rooms sold, and c) revenue per available room (RevPAR) which represents total room revenue divided by the total number of available rooms. These key metrics only measure room revenue performance and do not take into account food and beverage revenue, gift shop revenue, or other ancillary revenue streams generated by hotel guests. For hotels in Lancaster County, June, July, and August of 2022 represented the three highest ADR and RevPAR months of the year and two of the three highest occupancy months.

Leisure travel has arrived. The summer demand is intense, and the hours are long for coworkers across the travel industry. However, leisure travel's benefits to both the traveler in search of experiences and the local businesses receiving the economic benefit are significant.



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What's Happening in Greenfield continued from page 3

Greenfield North Update

On June 19, work commenced on site improvements (earthwork, utilities, stormwater management, and paving) for the three lots making up the Greenfield North development. This includes Lot 1 (628 multi-family units), Lot 4 (229,000-square-foot industrial building), and Lot 5 (210,000-square-foot industrial building).

High Construction Company is the general contractor for the site work project and Kinsley Construction is the prime subcontractor. Kinsley, selected through a competitive bid process, is familiar with the Greenfield North plans through its work on the Walnut Street Extension project. High Construction will also be the general contractor for the vertical construction when work is ready to begin on the multi-family and industrial buildings.

So far, the site work is proceeding well and is anticipated to be completed by Q1 2024. The first building to come out of the ground will be the 210,000-square-foot warehouse building, with foundation work scheduled to commence in August of this year.

The site work phase currently underway is supported by an $11 million RACP grant from the Commonwealth of Pennsylvania. High is incredibly thankful to partner with the Commonwealth on the Walnut Street Extension project and the impactful Greenfield North development.

The Evolving Relationship Between Retailers and Landlords

By: Powell W. Arms – Senior Vice President & Managing Director – Retail Division, High Real Estate Group LLC

Retail landlords share an interest in the success of their tenants. Ultimately, the retail landlord and retailer are basing their success on the same metric – foot traffic in consistent, strong numbers – which then translates into sales. Foot traffic, a pleasant environment, and a well-planned merchandise mix work together to increase the all-important customer "dwell time" and the potential for synergy among retailers.

How Do Retail Landlords Help Their Tenants?

The landlord's role starts in the planning stages of development and includes ensuring a pleasant environment with good access, ample, nearby parking, and well-designed infrastructure such as stormwater management facilities.

Large national and regional tenants have sophisticated real estate departments that consolidate market research and construction information to develop detailed store budgets and evaluate location options. These same retailers have construction departments to oversee buildouts, and robust human resources teams to acquire and train talent. The landlord supports these efforts, but often at arm's length. Retailers with larger support organizations may also have input in the planning stages previously mentioned.

When we get to the smaller local tenants, they are busy running their businesses and may not have access to the same resources. In many cases, it is the owner/operator that handles all these responsibilities, such as forecasting, permitting, construction, budgeting, hiring, and training for a new location. In this scenario, the landlord–tenant collaboration becomes integral. Both the landlord and tenant have the same short-term goal of getting the retailer open as quickly as possible. The landlord can help the retailer through this process with construction assistance or through deal structure, delivering turn-key spaces. They can also help with market research on existing traffic which helps bolster the decision-making for the retailer, adding hard data to what may start as instinctive interest in a location.

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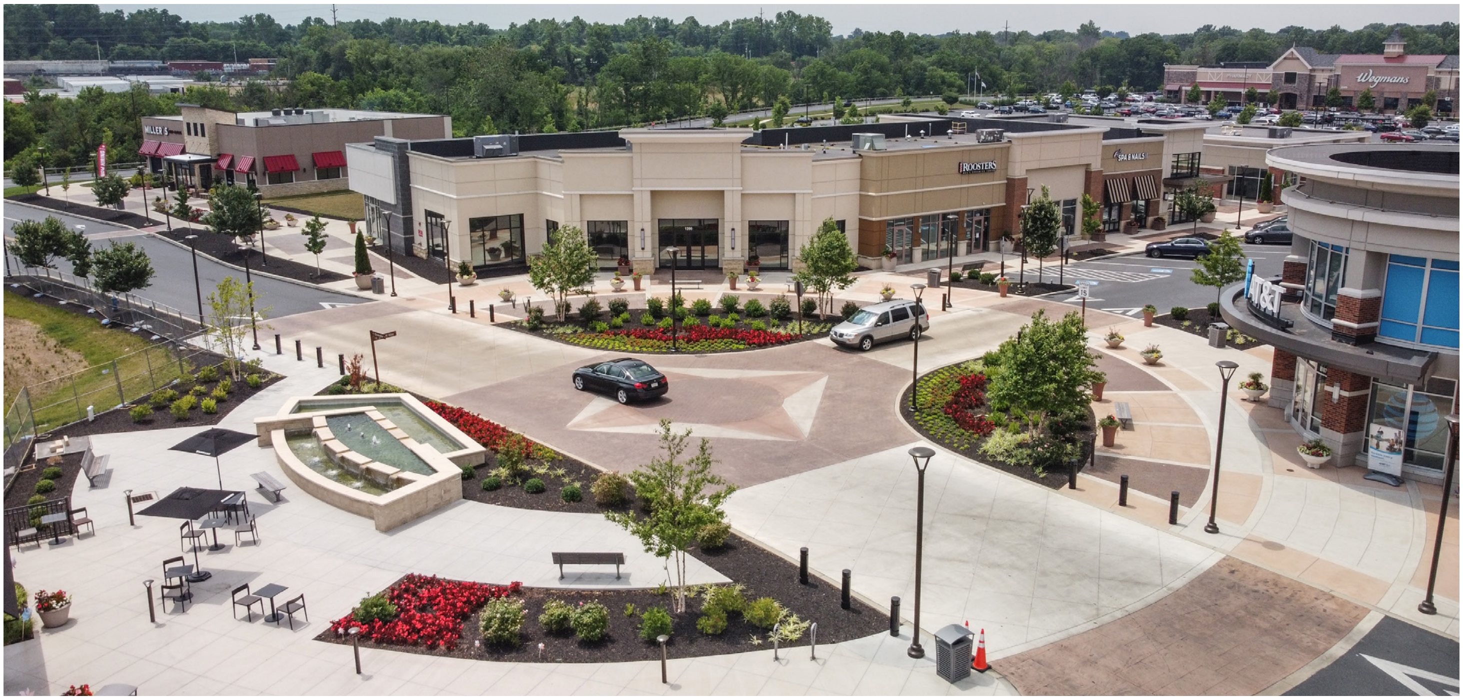


Using Technology for Better Data and New Shopping Norms

As a shopping center leases up, there is a wealth of data available that helps the landlord, retailers, and potential tenants understand the market. Over the last few years, the traditional reliance on demographics using one-, three-, and five-mile rings and vehicular traffic counts has evolved substantially. It is now quite common for the landlord and retailer to look at mobile phone data to define the trade area for the center. That data can be compared to the demographics of other successful locations and becomes a very useful tool to the landlord and tenant.

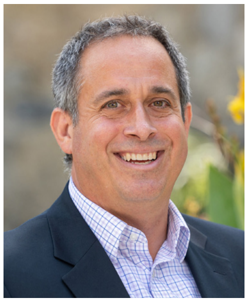
Shopping patterns have changed over the last few years along with the timing of customer visits. With the continued presence of work-from-home jobs, regular commutes have changed for many. This affects the traffic patterns of customers and the timing of visits throughout the day and week. An example of the pattern changes comes from a traditional retailer's view of being located near a fitness facility. Traditionally, gym goers parked for an hour or more, and there was thought to be no cross-shopping. In the past, many retailers negotiated for prohibitions on gyms or other parking-intensive users being located nearby. Mobile data now can demonstrate the cross-shopping of a typical gym user. Armed with information revealing the actual customer behavior, landlords and retailers can have a fact-based conversation about merchandise mix, peak hours, cross-shopping, and the resulting parking needs.

New ways of shopping are here to stay. In-store fulfillment of online purchases has become a major new channel for retailers. It had not previously been envisioned in the design of existing shopping centers and parking patterns. Site plans were and still are being changed to accommodate this new way customers shop, requiring changes to leases and compromises between landlord and tenant, and among tenants.

Stronger Landlord-Tenant Relationships

In the [winter 2022-2023 issue] of this newsletter, we discussed how a change in shopping behaviors reinforced the strength of brick-and-mortar retail. In many ways, the pandemic also strengthened the relationship between landlords and retailers. Robustly negotiated leases remain a great tool to handle the expected and routine operations. **Leases are good tools for handling the known and are negotiated based on prior experience. Leases are not great at handling the unknown.** Through the shutdowns and recovery, it was the dialogue and collaboration between landlords and tenants that helped define a temporary and permanent way forward from survival to success.

The healthy landlord–tenant relationship has strengthened with more communication and collaboration. Whether a percentage rent lease or not, both have the incentive to remove obstacles to help maximize sales. The landlord's role helps to coordinate individual tenant obstacles with the needs of other retailers in the shopping center. All of this translates to generating and maintaining sales volume so both parties can thrive.



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Tax Implications of Fully Remote Work on Employers

By: Rachel Scarpato – Vice President, Finance, High Real Estate Group LLC

Office real estate was forever impacted by the COVID-19 pandemic – when most office workers went either fully or partially remote. As pandemic concerns lessened, many employers had their employees return to their physical office locations on a full-time or hybrid basis. However, a number of employers, for a variety of reasons, have allowed fully remote positions to continue on a permanent basis. Each employer must weigh the risks and rewards of a fully remote employee and the implications of sales, income, and payroll taxes should be a consideration in that assessment.

During the pandemic, the Pennsylvania Department of Community and Economic Development issued guidance that waived nexus for taxpayers with employees working remotely. On June 30, 2021, that guidance expired, making corporations outside of Pennsylvania with remote employees working in the Commonwealth subject to corporate net income taxes and/or sales and use tax. This guidance also subjects these same employers to the possibility that they will be subject to local municipal taxes.

"During the pandemic, the Pennsylvania Department of Community and Economic Development issued guidance that waived nexus for taxpayers with employees working remotely."

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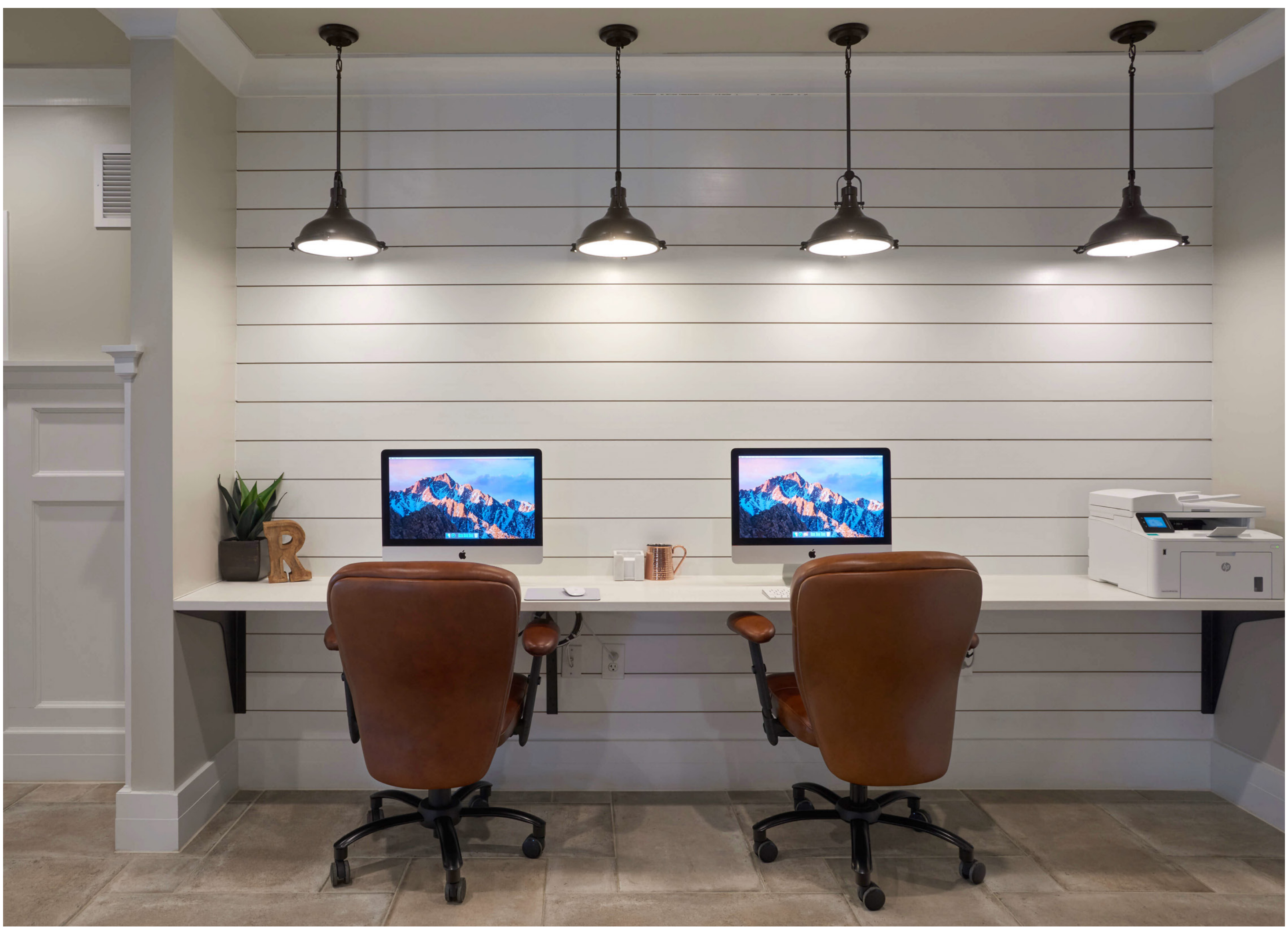


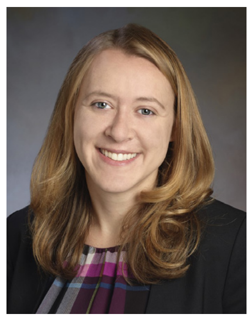
Tax Implications of Fully Remote Work on Employers continued from page 6

Pennsylvania employers are obligated to collect earned income taxes for the Commonwealth of Pennsylvania as well as local jurisdictions. The amount of local jurisdictions in Pennsylvania makes it one of the nation's most complex local tax structures. Regulations on what constitutes "earned income" subject to personal income tax apply to work done outside of Pennsylvania unless the employee is obligated to work outside of the state. If the employer requires the employee to be outside of the state, usually to cover a sales territory or provide services on work sites, the tax may not apply but could result in other tax withholding requirements for that state and jurisdiction.

Another complexity is that many jurisdictions in Pennsylvania impose a business privilege tax for the "privilege" of doing business in that jurisdiction. Each jurisdiction has ordinances and regulations that vary widely. Some have "home office" exceptions, while others have multi-step tests to determine the application.

Employers should carefully evaluate the benefits and consequences of offering fully remote work while researching and understanding the tax reporting implications that may follow. A tax expert familiar with state and local tax filing requirements should be consulted to ensure that all regulations are being followed. Prior-period returns may also need to be completed for existing employment structures. While most local jurisdictions have not become aggressive in pursuing non-compliance investigations, there is concern some will, especially in areas where recent demographic changes have occurred due to the increase in remote work.

"Employers should carefully evaluate the benefits and consequences of offering fully remote work while researching and understanding the tax reporting implications that may follow."



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