

MarketView Greater Philadelphia Industrial

Quick Stats

	Current	Change from last	
		Yr.	Qtr.
Total Vacancy Rates	14.2%	↑	↓
Direct Lease Rates	\$3.86 NNN	↓	↑
Total Net Absorption*	1.05 MSF	↑	↑
Construction	0.66 MSF	↓	↓

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

Hot Topics

- Developer J.G. Petrucci Co. acquired 17 acres in Bethlehem, PA at the Lehigh Valley Industrial Park for \$2.3 million.
- Keystone Industrial Properties acquired a 58,780 SF building at 3101 Red Lion Road in Philadelphia, PA for \$1.1 million after the previous owner filed for Chapter 7 bankruptcy.
- Reckitt Benckiser, N.A. signed a 5-year renewal on their 812,000 SF warehouse and distribution facility in the Upper Allen Business in Mechanicsburg, PA.
- Modular Carpet Recycling was awarded a loan by the State of Delaware to aid in opening its first commercial plant on Lisa Drive in New Castle, DE.

In the Central PA industrial submarket, an influx of tenants between 100,000 SF and 300,000 SF helped to generate positive total net absorption for the quarter. Tenants in the market over 600,000 SF will look for build-to-suit opportunities, as existing available inventory remains scarce and there is limited speculative development on the horizon. Sales activity was limited to user sales, as exemplified by Western Power Sports Inc.'s acquisition of 1480 Zeager Rd, a 144,000 SF warehouse in Elizabethtown, PA.

The Lehigh Valley industrial submarket witnessed increased leasing activity in the 40,000 SF to 100,000 SF range as tenants continue to take advantage of aggressive rental rates offered by landlords. Similar to Central PA, big box space upwards of 600,000 SF is all but absent in the Lehigh Valley submarket. Pending sales are starting to tighten the market as capital, which had been previously sitting on the sidelines, begins to come back to the market.

Comparable to the rest of the region's submarkets, the Suburban Philadelphia industrial market experienced an uptick in leasing activity for smaller manufacturing and life science tenants. In pursuit of larger tenants, landlords and owners are often willing to give up significant concessions, including free rent, when competing for a deal. Similarly, aggressive landlords specifically in Bucks County, PA, have incited a true flight-to-quality as deals are being made considerably below asking rental rates.

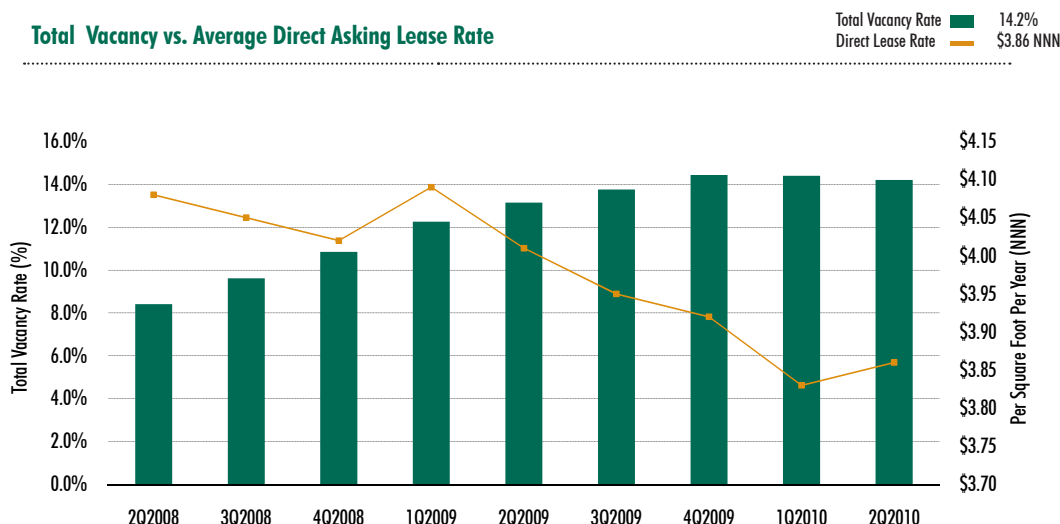
Driven primarily by smaller transactions and a lack of new construction deliveries, the Philadelphia County, PA industrial submarket

posted its fourth straight quarter of positive total net absorption. Space continues to be an issue as older product and unique, one-off properties compose a majority of the availability. Additionally, there is limited industrial land available for warehouse development in excess of 100,000 SF. A lack of user sales, that historically compose a majority of market activity in Philadelphia County, can be attributed to the financing hurdles that buyers are experiencing.

For the first time in over a year the New Castle County, DE submarket experienced positive total net absorption and decreased its total vacancy rate. An increase in both sales and leases of flex condominiums is reflective of prospective buyers and tenants believing that the market has reached the bottom of the cycle. With no recent construction projects in the New Castle County, DE submarket, growing companies are taking pre-existing vacant space.

Tenants in the 40,000 SF to 70,000 SF range are increasingly active in the Southern New Jersey submarkets, while tenants with larger requirements are prolonging space decisions. Financing issues and market hardships continue to plague Southern New Jersey and have led to negative total net absorption for the quarter. Actual rental rates have fluctuated from \$3.50 to \$3.80 and will likely begin to see increases starting in the fourth quarter as vacancy rates decline. Although limited, investment firms are actively pursuing speculative purchases with little or no occupancy, perhaps portending the resurgence of the Southern New Jersey investment sales market.

Total Vacancy vs. Average Direct Asking Lease Rate



MARKET STATISTICS

Submarket	Inventory	Total Vacancy Rate	Total Availability Rate	Completions	Under Construction	2010 YTD TOTAL NET ABSORPTION (SF)	AVG. Minimum ASKING LEASE RATE (\$/NNN/PSF/YR)
Bucks County, PA	27,003,861	14.5%	14.5%	0	0	(290,257)	\$4.18
Burlington County, NJ	21,768,119	15.2%	15.2%	0	0	63,023	\$3.78
Camden, County, NJ	15,539,378	22.5%	22.8%	0	0	(53,636)	\$3.78
Central PA**	147,467,875	12.5%	12.8%	0	0	1,348,639	\$3.71
Chester County, PA	12,375,101	6.1%	6.1%	0	0	227,677	\$3.79
Delaware County, PA	11,061,762	6.9%	6.9%	0	0	(50,350)	\$3.91
Gloucester County, NJ	15,945,037	13.7%	13.7%	0	0	(73,621)	\$4.19
Lehigh Valley, PA*	40,008,092	19.8%	20.4%	580,000	0	(6,472)	\$4.06
Montgomery County, PA	32,791,600	10.2%	10.2%	0	0	(602,872)	\$4.57
New Castle County, DE	12,667,110	19.6%	19.6%	0	0	(67,199)	\$3.81
Northeast PA***	36,612,036	22.7%	23.4%	465,000	0	(65,417)	\$3.68
Philadelphia County, PA	29,887,798	8.1%	8.1%	0	667,000	186,524	\$3.64
Total	403,127,769	14.2%	14.5%	1,045,000	667,000	616,039	\$3.86

NOTE: 100,000 SF and larger.

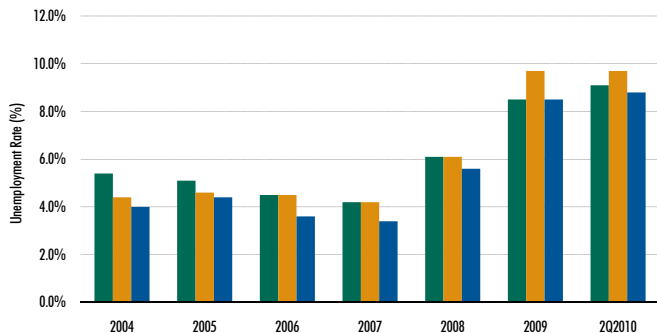
MARKET STATISTICS - UNDER DEVELOPMENT

Submarket	Inventory	Total Vacancy Rate	Total Availability Rate	Completions	Under Construction	2010 YTD TOTAL NET ABSORPTION (SF)	AVG. Minimum ASKING LEASE RATE (\$/NNN/PSF/YR)
Bucks County, PA	23,884,650	8.8%	9.7%	0	0	(233,346)	\$6.52
Burlington County, NJ	15,841,042	15.3%	16.5%	0	0	(300,811)	\$6.23
Camden, County, NJ	17,303,776	12.5%	13.4%	0	23,000	(505,551)	\$5.89
Central PA**	39,445,036	9.5%	10.5%	25,600	0	(523,221)	\$4.66
Chester County, PA	13,428,995	11.2%	12.4%	0	0	194,553	\$7.87
Delaware County, PA	10,422,838	12.6%	13.3%	0	0	(62,029)	\$7.12
Gloucester County, NJ	10,181,048	11.0%	13.0%	0	0	(48,511)	\$5.72
Lehigh Valley, PA*	19,995,149	10.2%	11.0%	0	0	(153,958)	\$5.88
Montgomery County, PA	24,010,724	12.4%	13.5%	0	0	(177,018)	\$6.42
New Castle County, DE	16,357,110	11.8%	12.6%	0	0	(69,536)	\$5.06
Northeast PA***	9,063,464	11.2%	11.8%	0	0	(198,142)	\$3.52
Philadelphia County, PA	21,853,476	8.5%	9.2%	0	20,000	(217,713)	\$5.02
Total	221,787,308	10.9%	11.9%	25,600	43,000	(2,295,283)	\$5.76

NOTE: 10,000 - 100,000 SF

Economic Conditions

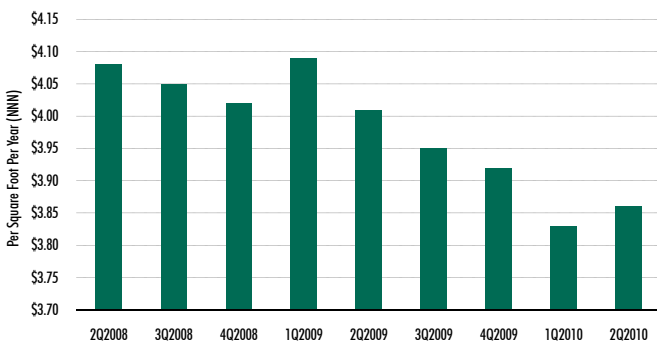
PA 9.1%
 NJ 9.7%
 DE 8.8%



The Bureau of Labor Statistics reported that the national unemployment rate declined slightly to 9.7% in May. Moody's Investors Service indicated that northeast regional job growth has been propelled by private sector expansion as well as the steady nature of education and health services. Increases to payroll, average hourly earnings and consumer sentiment continue to be bright spots in the economic recovery. Gross Domestic Product (GDP) has increased for the third straight month and is currently growing at an annualized rate of 3.2%. GDP received a boost from increased consumer spending in May. Although the recession is technically over, millions remain unemployed and personal income has declined by approximately \$400 billion due to the prolonged issues in the job market. It will undoubtedly take years for the economy to reach pre-recession levels, but it is safe to say that the economy is making a transition from a state of recovery to one of expansion and growth.

Rental Rates

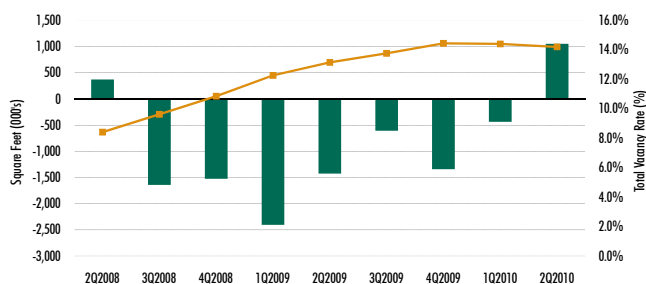
Average Direct Asking Lease Rate \$3.86 NNN



For the first time in over a year, the Greater Philadelphia MSA industrial market saw an increase in average asking lease rates. Although lease rates rose in more than half of the submarkets, the overall increase of \$0.03 reflects the minor changes experienced in those submarkets. Despite this slight rise in asking rents, tenants are still taking advantage of aggressive proposals from landlords and leasing space at rates well below asking rents. At \$3.86, the overall average asking lease rate is still below the \$4.01 experienced in the second quarter of 2009. The Chester County, PA, Delaware County, PA and Lehigh Valley submarkets were the only areas to experience decreases in asking rents for the quarter.

Total Vacancy & Net Absorption

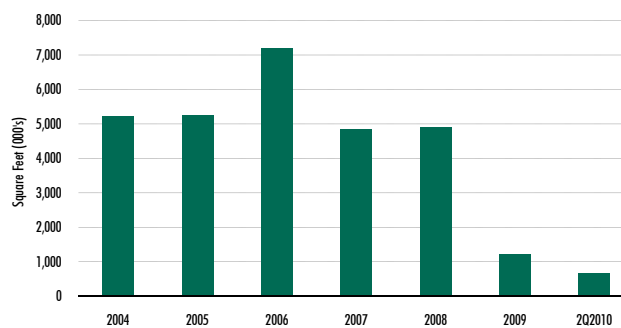
Vacancy 14.2%
 Absorption 1.05 MSF



Down 20 basis points from the previous quarter, the overall total vacancy rate was 14.2% at the close of the second quarter. This marks the first time in over two years that the total vacancy rate has dropped quarter-over-quarter. Camden Iron & Metal Co.'s acquisition and occupancy of the former FXI Foamex Innovations warehouse in Eddystone, PA propelled the Delaware County, PA submarket's total vacancy rate reduction of 400 basis points. With 1,052,930 SF of positive total net absorption for the quarter, the Greater Philadelphia industrial market broke a seven quarter streak of negative total net absorption. The Northeast PA submarket led the charge with the help of the completion of Home Depot's 465,000 SF building in Pittston, PA, which composed the majority of the submarkets positive absorption. The occupation of Diversified Distribution Systems, who leased 475,640 SF in Chambersburg, PA, along with numerous other tenants taking space, generated positive total net absorption in the Central PA submarket. The Montgomery County, PA submarket is bridging the gap that the Visteon Corporation left last quarter by posting 50,000 SF of positive total net absorption in the second quarter.

New Construction

Construction Activity ('000s)



With no new construction for the second straight quarter, developers and investors are cautiously awaiting consecutive quarters of recovery before commencing any new development projects. Of the two properties completed this quarter, 3041 Shoeneck Road in Macungie, PA was the first speculative building completed since the fourth quarter of 2009. Currently, the only building under construction in the Greater Philadelphia MSA Industrial market is O'Neill Property Group's build-to-suit for the Philadelphia Regional Produce Market in Philadelphia, PA. The 667,000 SF warehouse is slated for completion in 2011. The total square footage under construction is significantly less than just one year ago, when over 4.28 MSF was under construction.

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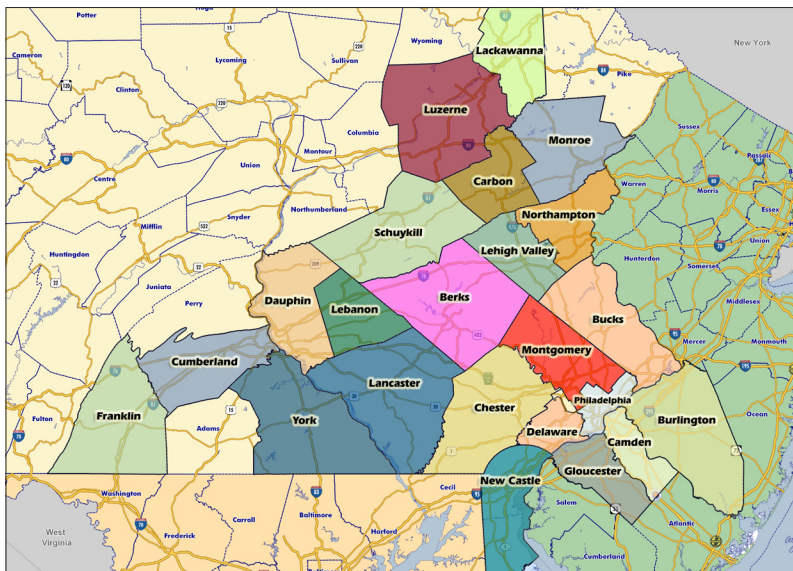
Top Lease Transactions

Size (SF)	Tenant	Address, City, State
475,640	Diversified Distribution Systems, Inc.	95 Kriner Road, Chambersburg, PA
216,000	Syncreon. US Inc.	515 Zarfoss Drive, York, PA
191,151	Trek Bicycle Corporation	100 Gloucester Court, Swedesboro, NJ
185,858	Nestle Purina PetCare Company	6360 Brackbill Boulevard, Mechanicsburg, PA
77,600	Magco, Inc.	905 Lambson Lane, New Castle, DE

Top Sale Transactions

Size (SF)	Buyer	Address, City, State
551,711	Camden Iron & Metal Company	1500 E. 2nd Street, Eddystone, PA
490,000	HPS Lehigh Valley Warehouse LP	910 Nestle Way, Breinigsville, PA
400,260	Exeter Property Group	68 Green Mountain Road, Hazleton, PA
144,000	Western Power Sports, Inc.	1480 Zeager Road, Elizabethtown, PA
124,900	The Shadowlight Group	34 Zimmerman Road, Leola, PA

Submarket Map



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Availability Rate

Available Square Feet divided by the Inventory.

Available Area (Square Feet)

Area which is either physically vacant or occupied that is being actively marketed and is available for tenant build-out, including sublease space.

Average Asking Lease Rate

Rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

Completions

The number and square footage of properties where construction has been completed in the current period.

Inventory

The square footage of existing improved properties.

Market Coverage

Includes all competitive industrial and flex buildings 10,000 SF and greater in size.

Net Absorption

The change in occupied square feet from one period to the next, including both direct and sublease space.

Net Leases

Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

Normalization

Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and vacancy figures for those buildings have been adjusted in previous quarters.

Occupied Area (Square Feet)

Building area not considered vacant.

Under Construction

Buildings which have begun construction as evidenced by site excavation or foundation work.

Vacancy Rate

Vacant Building Feet divided by the Inventory.

Vacant Area (Square Feet)

Existing Building Area which is physically vacant or immediately available, including sublease space.

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