

# MarketView Greater Philadelphia Office

In the Downtown Philadelphia submarkets, tenants sought to restructure and renew leases in order to reduce real estate costs amidst depressed market conditions throughout 2010. In 2011, tenants will continue to renew in place, but new deals will begin to crop up as some large tenants are expected to make real estate decisions. On top of the nearly 1.2 MSF they currently occupy, Comcast Corporation recently added approximately 65,000 SF by signing two new leases in the downtown market, further showing their commitment to the region.

The Suburban Philadelphia submarkets posted positive total net absorption for the year, which is the first time the market has seen year-end positive total net absorption since the fourth quarter of 2007. Since that time, the Suburban Philadelphia submarkets endured nearly 2.4 MSF of negative total net absorption. If absorption levels continue to recover at the current rate, it will take the Suburban Philadelphia submarkets five years to undo two years of vacancy caused by the recession. Recently however, companies such as Farmers Insurance Group and Northwestern Mutual Life Insurance Company have represented an increase in new leasing requirements to the market. If this trend continues, the recovery will likely occur at a faster pace.

The Southern New Jersey office submarkets experienced year-to-date negative total net absorption at the end of the fourth quarter 2010. Average asking lease rates will remain low until the vacancy levels rebound. Landlords

will continue to offer rental rate abatements to new and existing tenants until the submarket begins to stabilize near the end of 2011. As the year progresses, the submarkets will experience an increase in leasing activity, which will be accompanied by longer deal terms.

The Northern Delaware submarkets saw a decrease in their total vacancy rate and posted positive total net absorption in the fourth quarter of 2010. This can be attributed to tenant activity in the New Castle County Suburban submarket where leasing remains strong. A few law firms in the 100,000 SF range continue to circulate the Wilmington CBD submarket, but these deals represent a reshuffling and will not result in positive absorption. Sallie Mae recently announced they are moving their corporate headquarters from Virginia to Delaware. They are subleasing 85,000 SF in the Iron Hill Corporate Center for two years until they determine their long-term strategy.

The Lehigh Valley submarkets remained relatively flat as the total vacancy rate increased only one percent over the course of the entire year. Expect vacancy rates to remain stationary throughout 2011, but begin to trend down in the latter stages of the year. Construction activity will remain limited, outside of build-to-suit projects, until demand can again meet the increased vacancy supply throughout the region. Rental rate deflation is beginning to level out, but tenants should still maintain the advantage throughout 2011.

## Quick Stats

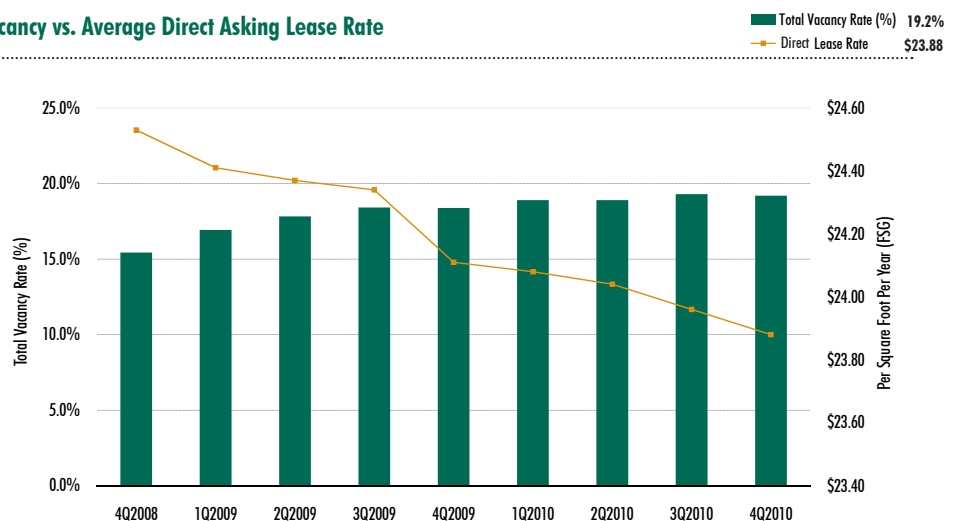
	Current	Change from last	
		Yr.	Qtr.
Total Vacancy Rates	19.2%	↑	↓
Direct Lease Rates	\$23.88	↓	↓
Total Net Absorption*	0.22 MSF	↓	↑
Construction	0.00 MSF	↓	↓

\* 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

- AMTRAK unveiled plans for a high-speed rail that will connect Boston, New York City, Philadelphia and Washington DC by trains capable of traveling 220 miles per hour.
- Calpine Corporation, one of the nation's largest independent power providers, will open its regional headquarters at 500 Delaware Avenue, Wilmington, DE.
- The Philadelphia Technology Park has plans to expand its current data center building at the Philadelphia Navy Yard by an additional 25,000 square feet.

## Total Vacancy vs. Average Direct Asking Lease Rate

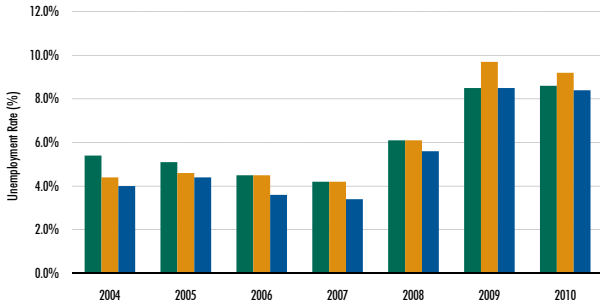


## Market Statistics

SUBMARKET	INVENTORY	TOTAL VACANCY RATE	TOTAL AVAIL. RATE	COMPLETIONS	UNDER CONSTRUCT.	2010 YTD TOTAL NET ABSORPTION (SF)	AVG. ASKING LEASE RATE (\$FSG/PSF/YR)	AVG. CLASS A ASKING LEASE RATE (\$FSG/PSF/YR)
Market West	28,102,190	16.0%	17.2%	0	0	(418,536)	\$25.89	\$27.34
Market East	6,822,409	11.2%	11.7%	0	0	53,624	\$22.31	\$22.39
Independence Hall	5,303,425	14.0%	15.6%	0	0	(119,391)	\$25.37	\$27.49
University City	3,466,617	10.4%	10.4%	0	0	(48,010)	\$31.06	\$42.15
<b>Downtown Philadelphia</b>	<b>43,694,641</b>	<b>14.6%</b>	<b>15.6%</b>	<b>0</b>	<b>0</b>	<b>(532,313)</b>	<b>\$25.58</b>	<b>\$27.34</b>
Bala Cynwyd	2,815,794	19.2%	19.3%	0	0	(92,641)	\$31.02	\$31.80
Conshohocken	3,338,135	17.1%	18.4%	0	0	52,279	\$29.20	\$32.42
Delaware County	4,661,026	20.5%	20.5%	0	0	13,365	\$23.79	\$25.25
Exton/West Chester	3,645,610	22.8%	23.1%	0	0	(39,712)	\$23.33	\$24.51
Fort Washington	3,382,132	20.2%	20.2%	0	0	116,107	\$22.47	\$23.76
Horsham/Willow Grove	5,393,583	22.4%	22.4%	0	0	47,685	\$22.77	\$24.52
Jenkintown	1,346,850	14.1%	14.1%	0	0	32,013	\$22.66	\$25.90
King of Prussia/Valley Forge	16,109,363	21.8%	23.6%	276,736	0	(10,794)	\$24.84	\$26.59
Lansdale/Montgomeryville	2,739,283	16.1%	17.2%	0	0	31,723	\$22.04	\$22.85
Lower Bucks County	5,296,027	25.9%	26.1%	0	0	13,814	\$25.65	\$26.65
Main Line	2,773,174	12.3%	12.7%	0	0	111,349	\$28.56	\$30.39
Plymouth Meeting/Blue Bell	5,868,849	28.0%	28.0%	0	0	227,713	\$24.77	\$26.49
Upper Main Line	1,305,488	25.0%	25.0%	0	0	(19,047)	\$24.65	\$26.28
<b>Suburban Philadelphia</b>	<b>58,675,314</b>	<b>21.5%</b>	<b>22.2%</b>	<b>276,736</b>	<b>0</b>	<b>483,854</b>	<b>\$24.80</b>	<b>\$26.61</b>
Burlington County	9,667,692	19.5%	20.5%	0	0	(192,867)	\$19.78	\$21.56
Camden County	7,103,643	22.7%	23.7%	0	0	(223,581)	\$20.06	\$21.71
Gloucester County	530,626	14.8%	14.8%	0	0	(3,997)	\$18.84	\$19.00
<b>Southern New Jersey</b>	<b>17,301,961</b>	<b>20.6%</b>	<b>21.6%</b>	<b>0</b>	<b>0</b>	<b>(420,445)</b>	<b>\$19.90</b>	<b>\$21.57</b>
Wilmington CBD	7,057,443	21.3%	21.3%	0	0	21,250	\$23.92	\$26.59
New Castle Co. Suburbs	9,247,235	22.5%	23.2%	0	0	55,388	\$22.62	\$24.21
<b>Northern Delaware</b>	<b>16,304,678</b>	<b>21.9%</b>	<b>22.3%</b>	<b>0</b>	<b>0</b>	<b>76,638</b>	<b>\$23.21</b>	<b>\$25.37</b>
Lehigh Valley East	2,585,489	20.3%	20.3%	0	0	(38,246)	\$19.68	\$21.28
Lehigh Valley West	6,205,253	19.5%	19.5%	0	0	(149,023)	\$19.75	\$21.41
<b>Lehigh Valley</b>	<b>8,790,742</b>	<b>19.7%</b>	<b>19.7%</b>	<b>0</b>	<b>0</b>	<b>(187,269)</b>	<b>\$19.73</b>	<b>\$21.36</b>
<b>TOTAL</b>	<b>144,767,336</b>	<b>19.2%</b>	<b>20.0%</b>	<b>276,736</b>	<b>0</b>	<b>(579,535)</b>	<b>\$23.88</b>	<b>\$26.10</b>

## Economic Conditions

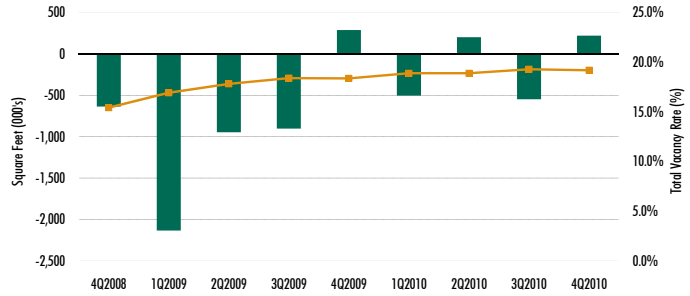
PA 8.6%  
 NJ 9.2%  
 DE 8.4%



The job market remains well behind in the recovery thus far, and hiring will need to contribute close to 250,000 jobs per month to draw down the unemployment rate and begin rebuilding what the labor market lost during the recession. Additional hiring will cultivate an environment where consumer activity increases, thereby creating a positive feedback loop that has been absent from the economy over the past three years. Even with accelerated hiring in 2011, it will take the job market a full three years to reach a transition from recovery to expansion. Continued stabilization of the housing market and diminished uncertainty with respect to the recovery are vital to sustaining recent trends and making more meaningful contributions to economic output, of which roughly two-thirds is derived from personal consumption spending.

## Total Vacancy & Net Absorption

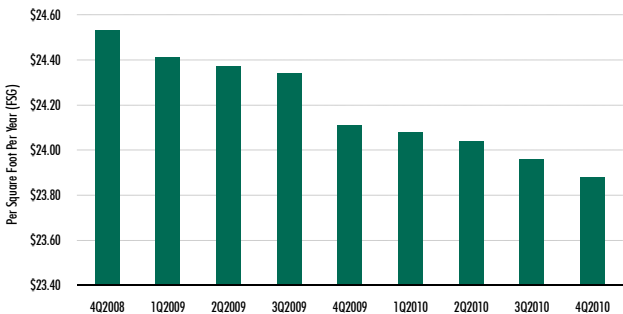
Vacancy 19.2%  
 Absorption 0.22 MSF



Quarterly total net absorption was positive for the first time in six months, measuring 222,473 SF; however, the year-end total net absorption was a negative 579,535 SF. In the fourth quarter total vacancy rates decreased 10 basis points to 19.2% from 19.3%. The total availability rate decreased to 20.0% from 20.5%, although it still remains at a higher level than the peak of availability in the last down cycle. Class A vacancy rates decreased this quarter to 18.0% from 18.3% in the third quarter. Class B vacancy rates saw an increase of 20 basis points as rates rose from 21.3% from 21.5%. Correspondingly, vacancy among Class C buildings increased to 19.2% from 18.6% last quarter.

## Rental Rates

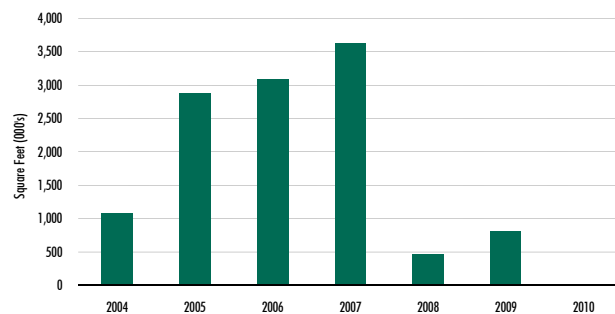
Average Direct Asking Lease Rate \$23.88



The average asking rental rate for office space in the Philadelphia region dropped for the ninth consecutive quarter from \$23.96 to \$23.88 per square foot. The lack of significant leasing activity throughout the past year forced landlords to lower their asking rents in order to attract tenants. This was evidenced by the \$0.70 drop in overall asking rental rates since the third quarter of 2008. While asking rental rates dropped slightly, the difference between the landlords' asking price and the final taking price continues to widen. Until the local economies recover, the market will favor tenants as landlords are forced to provide additional concessions and lower rental rates in order to increase occupancy.

## New Construction

Construction Activity ('000s)



During the fourth quarter, only one multi-tenant construction project completed, totaling 276,736 SF: 2476 Swedesford Road at the Great Valley Commerce Center in Malvern, PA. Currently, there are no other multi-tenant office buildings under construction. The construction pipeline is now at one of the lowest points in the last decade and new additions to the construction pipeline in 2011 are expected to be minimal.

## MarketView Greater Philadelphia Office

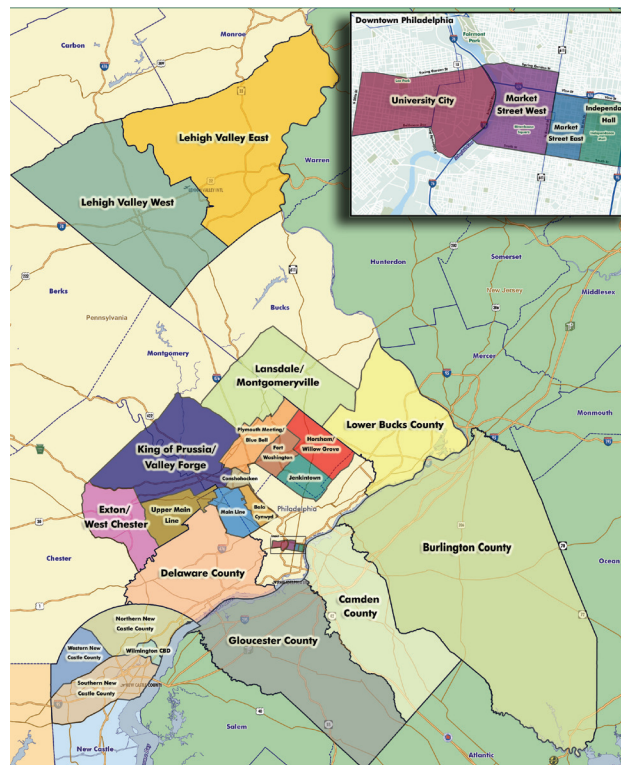
### Top Philadelphia Lease Transactions

Size (SF)	Tenant	Address, City, State
114,600	American Association for Cancer Research	615 Chestnut Street, Philadelphia, PA
64,680	Adams Renzi Law/Pearce Law Firm	1429 Walnut Street, Philadelphia, PA
57,209	Broadview Networks	1018 W. 9th Avenue, King of Prussia, PA
52,656	Consolidated Rail Corporation	1000 Howard Boulevard, Mount Laurel, NJ
40,000	Baer Supply Company	8295-8301 National Highway, Pennsauken, NJ
28,638	Point Roll, Inc.	3200 Horizon Boulevard, King of Prussia, PA

### Top Philadelphia Region Sales Transactions

Size (SF)	Buyer	Address, City, State
161,000	Kimpton Hotels & Restaurant Group, LLC	433-441 Chestnut Street, Philadelphia, PA
140,363	Post Goldtex LP	315-323 N. 12th Street, Philadelphia, PA

### Submarket Map



© 2011 CB Richard Ellis, Inc. CB Richard Ellis statistics contained herein may represent a different data set than that used to generate National Vacancy and Availability Index statistics published by CB Richard Ellis' Corporate Communications Department or CB Richard Ellis' research and econometric forecasting unit, CB Richard Ellis—Econometric Advisors. Information herein has been obtained from sources believed reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by CB Richard Ellis clients, and cannot be reproduced without prior written permission of CB Richard Ellis.



#### Availability Rate

Available space as a percentage of the Base Inventory or Building Sq. Ft

#### Average Asking Lease Rate

Average of Asking Lease Rates for each property weighted by the associated Available Space.

#### 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.

#### Completions

Rentable Building Area completed during the period.

#### Base Inventory, Base or Building Square Feet

The sum of the Rentable Building Area for all competitive properties.

#### Market Coverage

Includes all competitive office 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.

#### Occupied Square Feet

Rentable Building Area less Vacant Space.

#### Under Construction

Buildings that have begun construction as evidenced by site excavation or foundation work, and is on-going.

#### Vacancy Rate

Vacant space as a percentage of the Base Inventory or Building Sq. Ft.

#### Vacant Area (Square Feet)

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

For more information regarding the MarketView, please contact:

Michael L. Compton, Research Manager

CB Richard Ellis, Inc.

Two Liberty Place, 50 S. 16th Street, Suite 3000

T. 215.561.8900 F. 215.557.6719

michael.compton@cbre.com