

MarketView Greater Philadelphia Office

Quick Stats

	Current	Change from last	
		Yr.	Qtr.
Total Vacancy Rates	18.4%	↑	↑
Lease Rates	\$24.34	↓	↔
Total Net Absorption*	(0.89)M	↓	↑
Construction	0.69 M	↑	↑

* 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

- J.G. Petrucci Co., Inc. purchased the former Mack Truck headquarters in Allentown, PA and leased it to Lehigh Valley Hospital & Health Network.
- Centocor Ortho Biotech, Inc. initiated a solar panel project. The company received \$670,000 in PEDA grants for the \$1.50 million project.
- SDI signed a long-term lease with Exeter Property Group. The firm will move to their new corporate headquarters located in Plymouth Meeting, PA.
- Philadelphia Media Holdings, LLC recently sold a substantial share of their assets to a group of investors led by Bruce E. Toll for a total of \$52 million.

The third quarter of 2009 represented the fifth straight quarter of negative total net absorption in the Greater Philadelphia office market. However, the negative total net absorption this quarter was less than the previous two quarters of 2009, which is a sign that the local economy is strengthening.

The retraction of vacant sublease space is a bright spot for the Downtown Philadelphia submarkets. This is an indication that many sublease spaces have expired, become occupied or were removed. Within the submarkets, average asking rental rates held steady since last quarter, but taking rates are still down as landlords compete in a tenants market. Total net absorption began to level out in the third quarter, signaling that we might soon see the end to the vacancy slide.

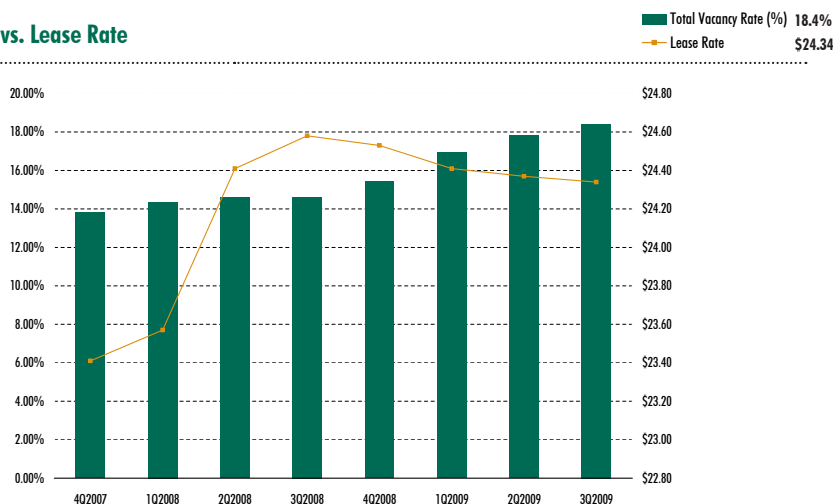
Leasing activity remained limited in the Suburban Philadelphia submarkets. However, this could change in the near term amidst signs of a strengthening economy. Although rental rates increased slightly across the suburban market, expect rental rate deflation to continue through the end of the year as vacancy rates maintain upward pressure.

In the Southern New Jersey office market, many large blocks of vacant space were removed. While tenants remain in a holding pattern in regards to space decisions, those who recently signed one year renewals will reenter the market as they gain confidence that the economy is beginning to turn around.

The Northern Delaware office market saw a decrease in total vacancy rates and a positive total net absorption. This is largely due to tenant movement in the Southern New Castle County Suburbs, where leasing activity remains strong. The Wilmington CBD is remaining stable, but is experiencing very few new deals in the market.

The Lehigh Valley office market also experienced a decrease in total vacancy rates and a positive total net absorption. Even so, many mid-sized tenants remain hesitant to sign long-term deals despite the cost savings that can be afforded in the current market conditions. On the other hand, there are a few larger tenants in the market that are looking to upgrade to Class A buildings. Once these large users take occupancy, total net absorption, absorption and vacancy rates will continue to rebound in a positive direction.

Total Vacancy Rate vs. Lease Rate

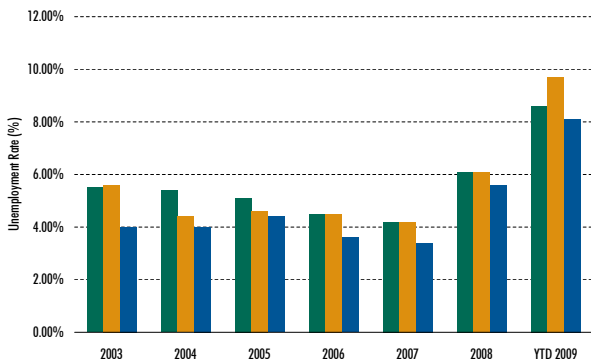


Market Statistics

SUBMARKET	INVENTORY	TOTAL VACANCY RATE	TOTAL AVAIL. RATE	COMPLETIONS	UNDER CONSTRUCT.	2009 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	13.7%	14.9%	0	0	(471,771)	\$26.68	\$27.98
Market East	6,932,659	16.4%	17.1%	0	0	(171,214)	\$22.41	\$22.53
Independence Hall	5,303,425	10.0%	12.1%	0	0	(165,544)	\$25.65	\$27.48
University City	3,601,617	8.7%	8.7%	0	0	2,527	\$32.00	\$39.22
Downtown Philadelphia	43,939,891	13.3%	14.4%	0	0	(806,002)	\$26.01	\$27.42
Bala Cynwyd	2,815,794	17.9%	18.3%	0	0	(136,225)	\$32.52	\$33.23
Conshohocken	3,511,135	19.7%	21.3%	0	0	(167,828)	\$30.14	\$33.26
Delaware County	4,680,482	20.7%	20.9%	0	0	(235,907)	\$25.09	\$25.84
Exton/West Chester	3,789,005	23.3%	23.4%	0	0	(258,761)	\$23.65	\$24.73
Fort Washington	3,382,132	22.7%	23.3%	0	0	(282,151)	\$22.90	\$24.43
Horsham/Willow Grove	5,385,370	23.0%	23.0%	0	0	(69,659)	\$21.18	\$23.43
Jenkintown	1,306,511	17.9%	17.9%	0	0	(1,774)	\$22.95	\$26.11
King of Prussia/Valley Forge	15,843,777	20.6%	21.8%	0	0	(562,355)	\$24.91	\$26.57
Lansdale/Montgomeryville	2,739,283	18.6%	18.6%	0	61,000	(74,988)	\$23.88	\$24.65
Lower Bucks County	5,066,937	23.2%	23.5%	0	117,800	(192,210)	\$25.50	\$26.75
Main Line	2,765,174	20.9%	23.0%	0	0	(91,451)	\$31.05	\$31.20
Plymouth Meeting/Blue Bell	5,483,395	26.3%	29.4%	0	208,854	(346,915)	\$25.70	\$27.36
Upper Main Line	1,250,924	21.2%	21.2%	0	0	(70,802)	\$25.01	\$27.39
Suburban Philadelphia	58,019,919	21.6%	22.5%	0	387,654	(2,491,026)	\$25.41	\$27.20
Burlington County	9,673,393	20.2%	20.2%	0	0	(222,924)	\$20.20	\$21.91
Camden County	7,043,643	17.8%	19.8%	0	60,000	(242,718)	\$20.39	\$22.14
Gloucester County	555,678	11.6%	11.6%	0	0	9,595	\$22.26	\$23.00
Southern New Jersey	17,272,714	18.9%	19.7%	0	60,000	(456,047)	\$20.31	\$22.01
Wilmington CBD	6,898,673	19.9%	19.9%	0	163,800	(39,083)	\$24.23	\$26.76
New Castle Co. Suburbs	9,277,042	22.6%	23.3%	0	0	(286,437)	\$22.37	\$24.09
Northern Delaware	16,175,715	21.4%	21.8%	0	163,800	(325,520)	\$23.16	\$25.30
Lehigh Valley East	2,588,606	19.1%	19.1%	0	0	(27,875)	\$20.46	\$20.75
Lehigh Valley West	6,224,640	15.3%	15.3%	0	83,056	140,259	\$19.42	\$21.25
Lehigh Valley	8,813,246	16.4%	16.4%	0	83,056	112,384	\$19.64	\$21.05
TOTAL	144,221,485	18.4%	19.3%	0	694,510	(3,966,211)	\$24.34	\$26.36

Economic Conditions

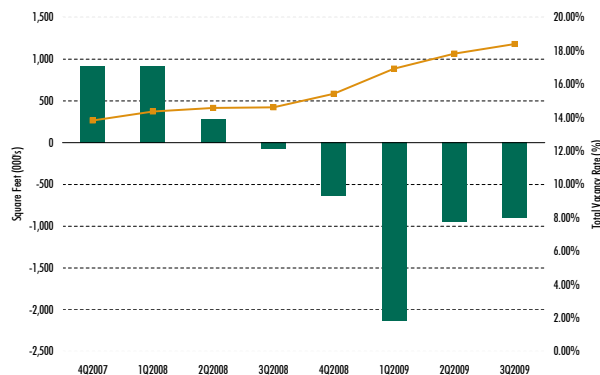
PA 8.6%
 NJ 9.7%
 DE 8.1%



One year after the collapse in the financial market, Federal Reserve Chairman, Ben Bernanke recently stated that, “the recession is likely over”. Although unemployment remains high and will take some time to recover, the economy is growing. Retail sales jumped 2.70 percent in August, contract activity for pending home sales has risen for six straight months and housing construction has hit its highest level in the past nine months. These indicators show that consumer spending is increasing and the housing market is loosening. Locally, manufacturers are seeing an increase in orders, which is a sign that the bottom may have been reached.

Total Vacancy & Net Absorption

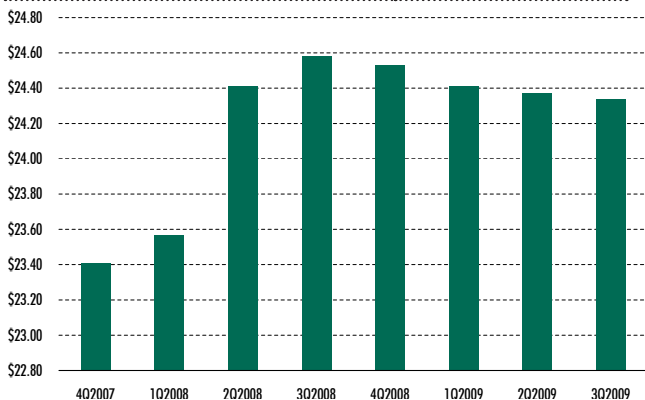
Vacancy 18.4%
 Absorption (0.89M)



Accounting for the increase in sublease space, the total vacancy rate has increased to 18.4 percent. This increase in sublease space, when coupled with “shadow space”, has the potential to continue to increase vacancy rates and produce negative total net absorption. The New Castle County, DE submarket experienced the greatest demand, recording 70,214 sq. ft. of positive total net absorption. However, there are a few scheduled construction projects throughout the region that are expected to deliver during the next few quarters. This will place upward pressure on vacancy rates in late 2009 or early 2010 unless pre-leasing occurs. Most submarkets experienced slight vacancy increases during the quarter. In particular, the Suburban Philadelphia submarkets experienced the largest jump in vacancy rates, mostly due to converted available space, diminished demand and tenant consolidations. Additionally, a large number of tenants continue to defer their real estate decisions, when possible, during the economic slowdown.

Rental Rates

Average Asking Rate \$24.34



Despite market corrections taking place since the third quarter of 2008, average asking lease rates are remaining healthy, decreasing slightly this quarter to \$24.34 per sq. ft. on a full service basis. However, average asking Class A lease rates increased slightly this quarter to \$26.36 per sq. ft. on a full service basis. Prospective tenants have seen an increase in concessions such as free rent, but owners have only begun to slightly adjust asking rates. Even though asking rents remain relatively stable, taking rents are being negotiated down across the region. Despite increasing vacancy rates and negative total net absorption, the Greater Philadelphia region still continues to offer lower rates compared to other markets. This provides businesses with tremendous opportunity to reduce their operating expenses, while remaining in a top metropolitan area.

New Construction

Construction Activity ('000s)



Developers continue to slow the pace of speculative construction partially due to the weak economy and flat demand. Only seven office projects totaling 694,510 sq. ft., 22 percent of which were pre-leased, were under construction during the quarter. This is significantly less than the over three million square feet that was under construction only two years ago. The pace of construction increased slightly from the second quarter but continues to be lower than years past. The region’s demand for office buildings continues to remain supply driven as build-to-suit projects have gained velocity, but still remain below levels seen in the past two years.

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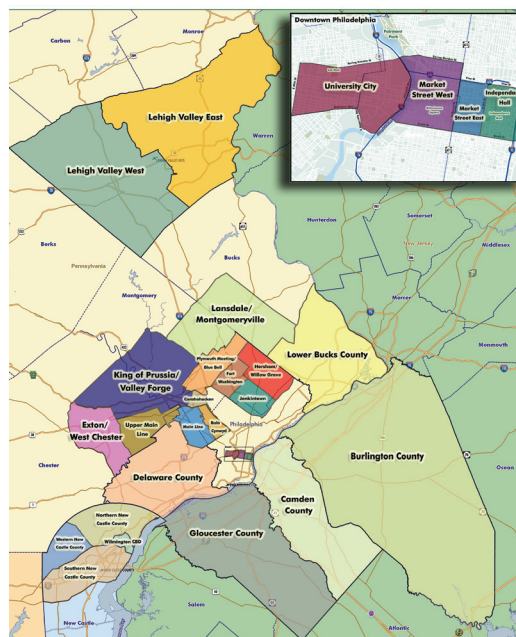
Top Philadelphia Lease Transactions

Size (Sq. Ft.)	Tenant	Address
245,000	Lehigh Valley Hospital & Health Network	2100 Mack Boulevard
149,858	VWR International, Inc.	100 Matsonford Road
80,000	Virtua Health	301 Lippincott Drive
52,865	Hangley Aronchick Segal & Pudlin	130 N. 18th Street
44,907	Phase Forward, Inc.	300 Barr Harbor Drive

Top Philadelphia Region Sales Transactions

Size (Sq. Ft.)	Buyer	Address
245,000	J.G. Petrucci Co., Inc.	2100 Mack Boulevard
177,500	ARI	4001 Leadenhall Road
31,700	Synthes, Inc.	1210 Ward Avenue
15,000	Medical Society of Delaware	900 Prides Crossing

Submarket Map



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Availability Rate

Available Square Feet divided by the Inventory.

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.

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

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 office buildings 10,000 square feet 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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