

MARKETBEAT

PHILADELPHIA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q10

ECONOMY

The greater Philadelphia region's economy appears to be heading in the right direction. Unemployment rates have dropped to 9.0% after peaking at 9.7% in the month of February. Despite only modest growth for the month of June, the Philadelphia manufacturing index continued to improve throughout the second quarter of 2010. The revival of manufacturing activity is one of the more critical components to recovery for Philadelphia's labor market, and is and will be one of the main factors for restoring job growth as 2010 presses on.

OVERVIEW

As of the second quarter of 2010, Philadelphia's industrial market remains slow, though there are signs of improvement. The overall vacancy rate breached the 9.0% mark in the fourth quarter of 2009 for the first time since 2007, however has improved to 8.6% at the mid-year point of 2010. Overall year-to-date leasing activity is slightly better than last year's numbers at this time with 1.9 million square feet (msf) leased thus far compared to the 1.7 msf leased last year. The increase is significant, however in comparison, activity is far below 2006 and 2007 values where leasing activity was over the 4.0 msf at the mid-year mark. Fortunately, the vital difference between 2009 and 2010 is that overall absorption numbers are on the positive at 800,877 square feet (sf) as new leasing activity is outnumbering any new vacancies added to the market so far in 2010. Last year, some companies were forced to close their industrial facilities or consolidate which drove absorption numbers deep into the negative territory at -3.4 msf in the second quarter of 2009, the worst negative absorption value since 2003. Rental rates remain depressed for warehouse/distribution space coming in at \$4.65 per square foot (psf) for the second quarter, the lowest they have been at the mid-year point since 2006. New construction activity has also been limited, however has actually worked in Philadelphia's favor, as few projects have been built on speculation, preventing empty buildings with large vacancies to be added the market. The lack of new development has been critical in keeping the overall vacancy rate under the 10.0% mark.

While leasing activity has picked up, renewal activity remains a preferred choice for some of the larger tenants in the market. Five Below, Inc. renewed for 200,000 sf and also expanded further into their building at 350 Anchor Mill Road by leasing an additional 220,000 sf of space. Trek Bikes remained in the 295 Commodore Business Park for 155,000 sf, PSI Group Inc. stayed put at 2251 Cabot Boulevard for 104,074 sf in the Bucks County Business Park and Drugstore.com renewed at 1130 Commerce Boulevard in Bridgeport, NJ. As far as new leasing activity, Delaware County had a couple of new deals signed including Grace Trucking's new lease for 95,000 sf of space at the Riverbridge Industrial Center in Chester, PA and Metro Air Services Inc. for 39,420 sf at 519 Kaiser Drive in Folcroft, PA.

FORECAST

The Philadelphia industrial market will struggle for the remainder of 2010 in anticipation for a better 2011 that lies ahead. Many of the troubles that both tenants and landlords were faced with in 2009 continue to effect 2010 performance but will slowly dissipate as the market heads towards the new year. Tenants who were in the market for space before 2009 hit will begin evaluating their real estate needs again as they regain their balance and could return to the market by 2011. Leasing activity should continue to increase throughout the remainder of the year, however renewals will be prevalent for larger tenants. Construction activity will remain limited for the remainder of the year as speculative projects will be more sparse than build-to-suit buildings.

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BEAT ON THE STREET

"The key to full recovery of the industrial market will be increased leasing velocity in the submarkets. As occupiers continue to make real estate commitments, whether lease or purchase, the domino effect of those decisions will be seen through investor confidence, increased sales activity, rent stabilization and recovery and ultimately, cap rate compression."


-Larry Maister, Senior Director


ECONOMIC INDICATORS


National	2009	2010F	2011F
GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.8%	2.1%
Regional			
Unemployment	7.9%	8.9%	8.6%
Employment Growth	-3.3%	-0.9%	1.3%

Source: Moody's | Economy.com

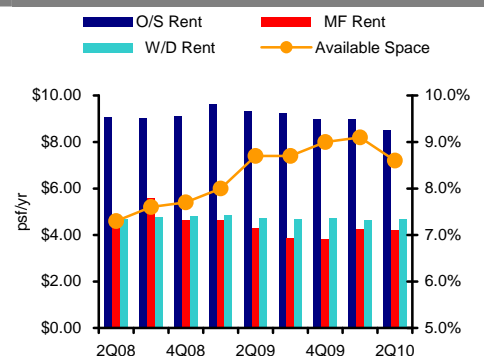
MARKET FORECAST

LEASING ACTIVITY will pick up throughout 2010, however may not be reflected in the numbers as renewals will be more prevalent than new leases. 

DIRECT ABSORPTION will border on the positive side for the remainder of the year. 

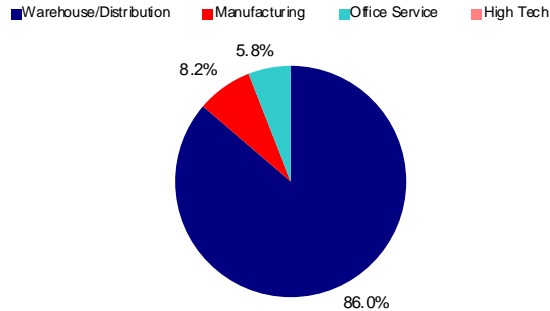
CONSTRUCTION activity will remain low throughout 2010 and into 2011. Build-to-suit projects are more likely to be built rather than speculative buildings. 

MSA DIRECT RENTAL VS. VACANCY RATES



GLOUCESTER COUNTY

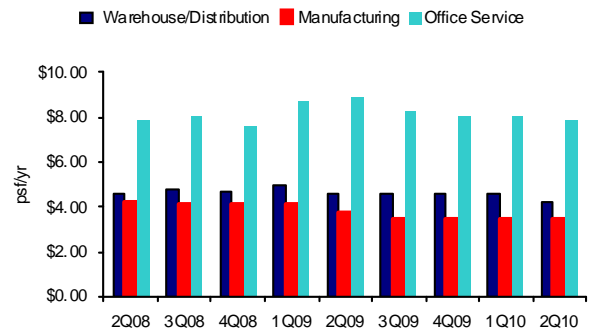
2Q10 INVENTORY BY PROPERTY TYPE



- Renewals were prevalent in the second quarter of 2010 in Gloucester County. Trek Bikes renewed for 155,000 in the Commodore 295 Business Park and Drugstore.com renewed for 100,000 sf at 1130 Commerce Boulevard.
- After reaching 10.4% in the third quarter of 2008, Gloucester County has been able to steadily decrease its overall vacancy quarter after quarter down to 8.0% at the mid-year point of 2010.

BURLINGTON COUNTY

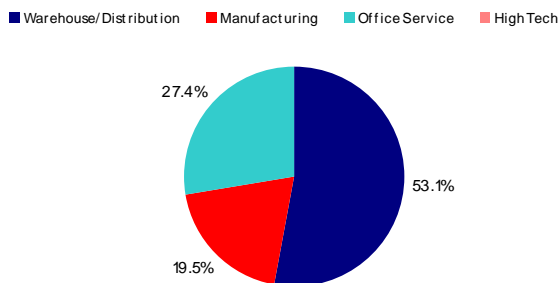
OVERALL RENTS BY PROPERTY TYPE



- Renewal activity has been prevalent so far in 2010 in Burlington County. Tenants opting to renew include Bakemark USA, LLC in the Haines Industrial Center, T & M Associates in the Moorestown West Corporate Center, and Harland America Inc. at the Millside Industrial Park.
- 2009 was a difficult year for Burlington County with a year-end leasing activity total of only 275,972 sf. Burlington County appears to be faring much better in 2010, almost nearly matching that number with 222,557 sf leased at the mid-year point.

DELAWARE COUNTY

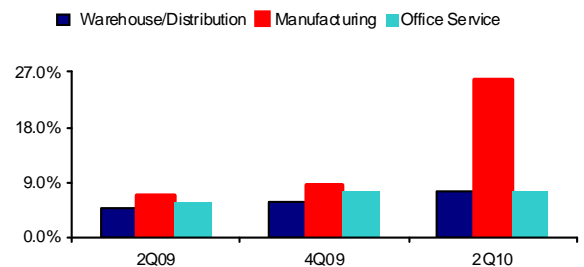
2Q10 INVENTORY BY PROPERTY TYPE



- In the first quarter of 2010, Eastern Metal Recycling-Terminal, LLC purchased 1500 East 2nd Street. They bought the 551,000-sf building from Foamex Innovations Operating Company for \$13.0 million (\$22.69 psf).
- Several mid-sized tenants signed new leases this year in Delaware County including Grace Trucking at the Riverbridge Industrial Center, Metro Air Services Inc. at 519 Kaiser Drive, and PTSC International in the Orion Philadelphia Industrial Park.

CAMDEN COUNTY

OVERALL VACANCY RATE BY PROPERTY TYPE

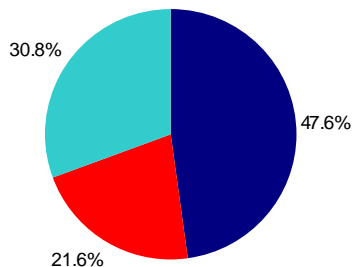


- Due to a decline in leasing activity and an increase in available space, particularly in the manufacturing sector, Camden County's overall vacancy rate has increased from 5.0% to 9.4% over the past 12 months.
- Because of the increase in manufacturing space and a decrease in demand, manufacturing rental rates have dropped dramatically over the past year going from \$5.03 psf last year at this time to \$3.75 psf currently.

MONTGOMERY COUNTY

2Q10 INVENTORY BY PROPERTY TYPE

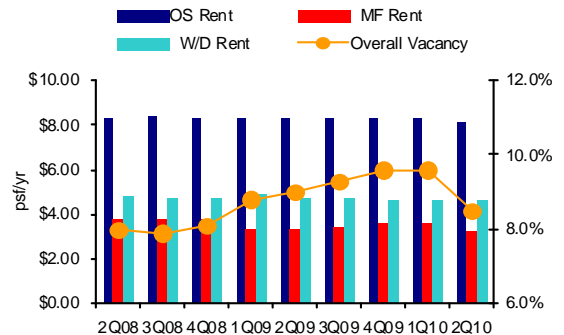
Warehouse/Distribution Manufacturing Office Service High Tech



- Leasing activity in Montgomery County has significantly improved at the mid-year point of 2010 compared to mid-year 2009 figures. Current leasing activity came in at 441,442 sf this quarter compared to only 138,949 sf seen last year at this time.
- Earlier this year, Comcast leased 66,751 sf of flex space at 500 Enterprise Road in the Keith Valley Business Center in Horsham, PA.

PHILADELPHIA COUNTY

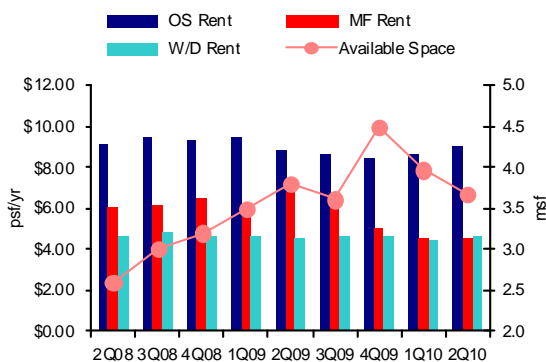
OVERALL RENTAL VS. VACANCY RATES



- Dependable Distribution Services Inc. signed new deals at two different locations in Philadelphia County during the first quarter of 2010. They took 150,000 sf of space at 3250 South 76th Street and leased 122,000 sf at 2500 Grant Avenue.
- For all of 2009, Philadelphia County's overall absorption numbers hovered in the negative territory ending 2009 at -194,626 sf. Due to an increase in leasing activity, absorption numbers have been in the positive in 2010, with a mid-year total of 281,189 sf.

BUCKS COUNTY

DIRECT RENTAL VS. AVAILABLE SPACE

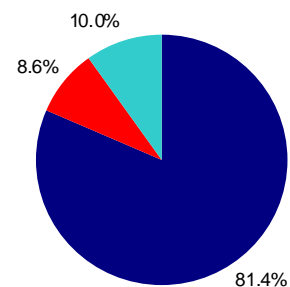


- In the first quarter of 2010, Burlington Coat Factory renewed for a total of 300,000 sf of space at 42 Runway Road in Levittown, PA.
- Pierce-Phelps Inc. signed a new deal for 112,000 sf of space in the first quarter of 2010 at 3600 Progress Drive.

NEW CASTLE COUNTY

2Q10 INVENTORY BY PROPERTY TYPE

Warehouse/Distribution Manufacturing Office Service High Tech



- Five Below Inc. renewed and expanded their lease this quarter, renewing for 200,000 sf and expanding by an additional 220,000 sf at 350 Anchor Mill Road in New Castle, DE.
- Over the past two quarters, there has been an increase of available warehouse/distribution space added to the market. As a result overall vacancy rates have increased dramatically from 8.7% at the end of 2009 to 16.8% presently.

MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT ABSORPTION	YTD OVERALL ABSORPTION	HT**	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
										MF	OS	W/D	
Philadelphia County	59,786,915	717	8.5%	363,789	711,000	0	281,189	281,189	N/A	\$3.22	\$8.16	\$4.62	
Lower Bucks County	37,472,901	588	7.2%	203,494	0	0	740,577	757,849	N/A	\$5.80	\$9.94	\$4.22	
Upper Bucks County	18,913,738	381	5.1%	26,600	0	0	(30,223)	(30,223)	N/A	\$1.95	\$7.90	\$8.02	
Montgomery County	46,567,900	763	10.2%	441,442	240,100	0	(327,100)	(285,734)	N/A	\$6.02	\$9.35	\$5.25	
Chester County	26,180,425	474	4.6%	116,269	0	0	73,600	73,600	N/A	\$6.53	\$8.79	\$5.94	
Delaware County	14,898,585	251	10.5%	228,459	0	0	199,974	229,476	N/A	\$3.06	\$7.34	\$5.87	
Suburban Philadelphia	144,033,549	2,457	7.8%	1,016,264	240,100	0	656,828	744,968	N/A	\$5.10	\$8.73	\$5.10	
Burlington County	29,502,491	371	12.3%	222,557	0	0	315,684	421,647	N/A	\$3.45	\$7.84	\$4.19	
Camden County	26,499,587	446	9.4%	149,986	0	0	(658,849)	(658,849)	N/A	\$3.75	\$8.84	\$3.55	
Gloucester County	21,090,399	219	8.0%	167,864	0	0	79,922	11,922	N/A	\$5.00	\$7.80	\$4.26	
Southern New Jersey	77,092,477	1,036	10.2%	540,407	0	0	(263,243)	(225,280)	N/A	\$3.64	\$8.02	\$3.99	
Philadelphia MSA Total	280,912,941	4,210	8.6%	1,920,460	951,100	0	674,774	800,877	N/A	\$4.18	\$8.50	\$4.65	
By Property Type										2Q10	2009	2008	
High Technology**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Manufacturing	62,972,425	888	7.9%	191,820	0	0	(974,054)	(937,054)	N/A	\$4.18	\$3.82	\$4.62	
Office Service	46,931,824	1,035	10.5%	507,355	240,100	0	199,364	252,027	N/A	\$8.50	\$8.96	\$9.20	
Warehouse/Distribution	171,008,692	2,287	8.3%	1,221,285	711,000	0	1,449,464	1,485,904	N/A	\$4.65	\$4.71	\$4.83	
Philadelphia MSA Total	280,912,941	4,210	8.6%	1,920,460	951,100	0	674,774	800,877	N/A	\$5.26	\$5.41	\$5.72	
										HT**	MFG	OS	W/D
**Northern Delaware	23,077,943	334	16.8%	301,019	0	0	(68,710)	77,306	N/A	\$8.67	\$5.14	\$3.80	
Lehigh Valley	50,270,759	158	15.7%	1,570,846	0	693,526	505,107	505,107	N/A	\$3.59	\$3.72	\$4.41	
Northeastern PA	56,871,057	197	14.6%	655,488	0	465,000	697,776	697,776	N/A	\$3.51	N/A	\$3.74	
Central PA	105,495,152	345	11.2%	1,943,039	711,000	122,500	1,937,669	1,937,669	N/A	N/A	N/A	\$3.87	
I-81 - I-78 Dist. Corr.	212,636,968	700	13.2%	4,169,373	711,000	1,281,026	3,140,552	3,140,552	N/A	\$3.54	\$3.72	\$3.98	

*Rental rates reflect \$psf/year

**High Technology inventory not tracked in this market.

HT = High Tech MF = Manufacturing OS = Office Service W/D = Warehouse/Distribution

MARKET HIGHLIGHTS

SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
350 Anchor Mill Road	New Castle County	**Five Below	420,000	W/D
2251 Cabot Boulevard	Lower Bucks County	*PSI Group	104,074	W/D
Riverbridge Industrial Center	Delaware County	Grace Trucking	95,000	MF

SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
1153 Main Street	Western Montgomery County	Korn Properties	105,000	\$1,650,000

SIGNIFICANT 2Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
6700 Essington Avenue	Philadelphia County	Philadelphia Regional Produce Market	667,000	8/11
45 Fretz Road	Plymouth Meeting/Norristown	Almac	240,100	9/10

* Renewal lease

** Renewal and expansion



For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com/knowledge

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*Market terms & definitions based on BOMA and NAIOP standards.

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