

MARKETBEAT

PHILADELPHIA CBD OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q10

ECONOMY

The worst days of the economic recession appear to be behind Philadelphia. Regional unemployment rates bottomed in February at 9.7% and have been gradually improving since then to the current rate of 9.0%. However, there are still signs of weakness in the traditionally reliable healthcare and pharmaceutical industries where layoffs and consolidations are still looming. Recent layoffs throughout the Abington Health System, Temple University Hospital's ongoing nurse's strike, and job cuts involving pharmaceutical companies Pfizer and GlaxoSmithKline demonstrate vulnerability in two of Philadelphia's normally dependable sectors. On a more positive note, Philadelphia is expected to see a significant boost in tourism and job creation within the city itself in the second half of 2010. The new Sugarhouse Casino will create approximately 800 new jobs when it opens next quarter and should draw an influx of activity and tourism to the downtown area. The IRS Building located in University City is also scheduled to be delivered in the third quarter of 2010, bringing approximately 5,000 jobs to that area of the city.

OVERVIEW

At the mid-year point of 2010, Philadelphia's Central Business District's office market appears to be regaining its balance after a tumultuous 2009 and first quarter of 2010. Many of the real estate decisions made in late 2009 were implemented in the first quarter of 2010. Sunoco's 220,000-square foot (sf) sublease vacancy, Dow Chemical's 202,000-sf vacancy, and the 167,118-sf renovation completion and vacancy at 2401 Walnut Street all contributed to the largest negative overall absorption value since 2002 at 884,881 sf and a jump in overall vacancy rate to 12.8%, the highest since 2006, in the first quarter of 2010.

Although, in the second quarter of 2010, there were no significant vacancies added to the market, a new sublease availability of 131,000 sf was added to the market by Arkema Inc. at 2000 Market Street. After peaking at 12.8% in the first quarter of 2010, the overall vacancy rate for the CBD improved to 12.1% at the mid-year mark due to a steady stream of activity and fewer vacancies. Overall absorption numbers came in on the positive side at 297,736 sf, improving the year-to-date total to negative 587,145 sf. Class A asking rental rates actually increased by almost a dollar during the past six months, going from \$26.19 per square foot (psf) to \$27.15 psf presently. However, this jump in rent can be partially attributed to the increased number of vacancies for the higher priced spaces in the market.

New leasing activity was down from 273,349 sf in the first quarter to 140,839 sf in the second quarter. However, this is mostly due to renewals continuing to be the optimal option to tenants, especially involving the more sizable tenants in the market. The largest renewal of the quarter was by the Environmental Protection Agency for 304,750 sf at 1650 Arch Street. Beneficial Savings Bank, who was in the market for a potential relocation, ended up renewing short term at the Penn Mutual Towers for 128,352 sf. The largest new deals included Drucker & Scaccetti, P.C. at 1600 Market Street for a total of 15,000 sf of space, Offit Kurman at 1801 Market Street for 13,536 sf and Aetna Life Insurance leasing 12,792 sf of space at 1600 Market Street.

FORECAST

The second half of 2010 will be challenging for the CBD as it takes further steps towards stabilization. There are several large tenants in the market looking for space that should be making decisions by the end of 2010 including Cozen O'Connor, White and Williams, Janney Montgomery Scott and Conrad & O'Brien. In addition to these tenants, Comcast and The Children's Hospital of Pennsylvania are in the market pursuing space for multiple locations. The Children's Hospital of Pennsylvania is looking for approximately 300,000 sf, making them the largest tenant in the market for space in the CBD. There has been good activity on the Sunoco sublease in the Mellon Bank Center as tenants look for an opportunity to occupy a trophy building at a discounted rate. Leasing activity will gradually improve but renewals may still be the popular choice among most tenants. Investments sales activity will remain bleak and construction activity will not pick up until 2011 or 2012.

BEAT ON THE STREET



"Growing optimism for the overall economy and the Philadelphia CBD office market has been hindered by concerns of large vacancies on the horizon. Tenants continue to downsize and restructure their leases whenever possible to achieve immediate cost savings. Expect vacancy to remain slightly elevated until this market experiences job growth."


— Jack Meyers, Associate


ECONOMIC INDICATORS


	2009	2010F	2011F
National			
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

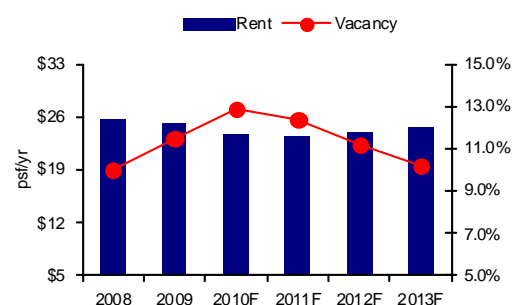
MARKET FORECAST

LEASING ACTIVITY will gradually improve as Philadelphia's economy rebounds. Lease renewals or recasts continue to be the option of choice for many larger tenants. 

The **DIRECT ABSORPTION** year-to-date total is expected to remain negative for 2010. 

CONSTRUCTION activity will remain non-existent throughout the remainder of 2010. 

OVERALL RENT & VACANCY RATE FORECAST



MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT ABSORPTION	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
East of Broad	12,397,366	44	11.4%	11.0%	75,380	0	0	(280,358)	(254,300)	\$25.16
West of Broad	29,696,654	75	12.4%	11.3%	338,808	0	0	(346,170)	(332,845)	\$27.41
CBD Total	42,094,020	119	12.1%	11.2%	414,188	0	0	(626,528)	(587,145)	\$27.15
Bala Cynwyd	2,779,940	22	13.6%	11.2%	44,357	0	0	60,355	73,312	\$32.17
Southern Bucks County	6,415,199	102	20.5%	19.4%	118,566	0	0	208,199	180,289	\$26.97
Southern Rte. 202. Corr.	5,210,010	119	12.2%	11.2%	57,446	0	0	66,686	61,951	\$21.70
Delaware County	4,206,760	60	15.6%	15.0%	51,391	0	0	(35,235)	13,561	\$25.91
B.Bell/Ply.Mtg./Ft.Wsh.	9,675,310	158	19.5%	18.6%	127,832	150,000	0	80,774	94,228	\$24.63
Main Line	3,713,944	63	9.8%	7.9%	67,775	0	0	20,463	17,205	\$29.55
Conshohocken	3,765,636	30	18.1%	15.5%	84,438	0	0	14,206	(413)	\$29.40
Horsham/W.Gr./Jntwn	5,567,042	82	17.7%	14.5%	28,218	0	0	(12,763)	53,321	\$23.55
King of Prussia/V. Forge	16,382,658	265	16.7%	14.5%	422,947	0	0	(197,102)	(86,318)	\$25.60
Suburban Philadelphia Total	57,716,499	901	16.7%	15.0%	1,002,970	150,000	0	205,583	407,136	\$25.88
Burlington County	7,873,583	154	13.7%	12.9%	127,451	0	0	4,861	(3,700)	\$22.38
Camden County	6,136,547	110	19.6%	18.6%	86,084	90,000	75,034	(94,425)	(83,202)	\$22.49
Southern New Jersey Total	14,010,130	264	16.3%	15.4%	213,535	90,000	75,034	(89,564)	(86,902)	\$22.43
New Castle-Non-CBD	8,250,450	153	17.2%	16.8%	38,116	0	0	(103,871)	(114,395)	\$23.19
New Castle CBD	6,944,147	39	19.7%	19.3%	44,097	0	158,770	(74,241)	(82,399)	\$24.76
New Castle Cty - DE Total	15,194,597	192	18.4%	17.9%	82,213	0	158,770	(178,112)	(196,794)	\$24.13
Lehigh & N. Hampton Cnty**	5,950,982	103	12.7%	12.2%	24,998	0	0	124,875	110,449	\$18.94
NON-CBD Total	86,921,226	1,357	16.9%	15.5%	1,298,718	240,000	233,804	(62,093)	123,440	\$24.81
PHILA MSA TOTAL	129,015,246	1,476	15.3%	14.1%	1,712,906	240,000	233,804	(688,621)	(463,705)	\$25.79

* Rental Rates reflect \$psf/year

** Lehigh & North Hampton Counties are not included within the CBD & Philadelphia MSA total.

MARKET HIGHLIGHTS

SIGNIFICANT 2Q10 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1650 Arch Street	West of Broad	*Environmental Protection Agency	304,750	A
Penn Mutual Towers	East of Broad	*Beneficial Savings Bank	128,352	A
1735 Market Street	West of Broad	*Goldman Sachs	22,430	A
1600 Market Street	West of Broad	Drucker & Scaccetti, P.C.	15,000	A
1801 Market Street	West of Broad	Offit Kurman	13,536	A

SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
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N/A

SIGNIFICANT 2Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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N/A

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
USPS Building 2970 Market Street	West of Broad	Internal Revenue Service	862,000	9/10

*RENEWAL

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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