

# MARKETBEAT

## PHILADELPHIA SUBURBAN OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q08

### ECONOMY

The Philadelphia regional economy continued to hold up through mid-year 2008, buffeted by a diversified labor market and continued employment. While weakness in the manufacturing, construction and financial industries continued to weigh on employment growth, other sectors such as information technology, professional and business services, education and health sectors are still expanding.

### OVERVIEW

Such solid economic backdrop has helped the Philadelphia suburban office market hold steady in the second quarter of 2008. The market posted a year-to-date absorption of 396,000 square feet (sf), up 30,000 sf from the same period in 2007. As such, the overall vacancy rate remained low by historical standards – at 14.0% – although up slightly from the 13.5% reported in the first quarter of 2008. However, the market did show some signs of softening. Leasing activity through mid-year totaling 1.8 million square feet (msf) is off nearly 30% from its year-ago level. Moreover, rental rates for all classes have slipped from their peak levels in the first quarter; from \$24.60 per square foot (psf) to \$24.31 psf this quarter. For some new class A buildings that have remained vacant for the past 15-18 months, landlords have been willing to shave \$1.00-\$1.50 psf off asking rents, and offer generous concession packages that include cash incentives and free rent periods up to three months for a five-year lease and 6-12 months for ten-year terms.

The abundance of more efficient space at lower rates has encouraged the movement of firms in Fort Washington to the Horsham submarket. Historically Horsham and Fort Washington have had a symbiotic relationship – both boasting ideal access to Route 276 and similar commercial office space. Both submarkets are anchored by large single-story class A office plates that promote efficient use of space. United Health Group and the Hartford Insurance Companies have been the two largest tenants to move thus far. United Health Group is leaving their 91,000-sf space at 601 Office Center Drive and is close to signing a major lease at 680 Blair Mill Road. The Hartford Insurance Company is vacating its significant space at the Fort Washington Office Center and will be taking 110,000 sf at the Pennsylvania Business Campus (4 Walnut Grove Drive). Kellogg's will be leaving the Fort Washington Office Park to lease over 10,000 sf at Horsham's 100 Witmer Road.

Meanwhile, the Route 202 Corridor and King of Prussia/ Valley Forge submarkets are still displaying healthy overall tenant activity. Two significant leases occurred in the Southern Route 202 submarket during the second quarter. ING Financial leased 30,927 sf at the Malvern Executive Center, while Doublestar leased 11,946 sf at 1161 McDermott Drive. King of Prussia/ Valley Forge registered 166,521 sf of new transactions in the second quarter, including leases to Cortiva Institute, 12,200 sf at 211 South Gulph Road, General Ministry Office for 11,839 sf at Renaissance Park and Luitpol Pharmaceuticals and 10,500 sf at Rittenhouse II.

### FORECAST

The Philadelphia suburban office market is positioned to weather the national economic downturn better than most metro areas. The diverse economic drivers for this region include biotech, health care and pharmaceuticals. These sectors are either adding new jobs or maintaining their present levels in both company owned and leased facilities - which will continue to bolster the region's economy. Hence, expect suburban office market conditions to hold steady through the end of the year.

### BEAT ON THE STREET

"Despite the slowing national economy and negative financial news, the Philadelphia suburban office market continues to experience a high level of tenant activity. Due to this current uncertainty the real estate decision making process is taking longer as corporate users attempt to determine realistic growth patterns while controlling operating costs."


–John Shelly, Senior Director


### ECONOMIC INDICATORS


	2006	2007	2008F
<b>National</b>			
GDP Growth	2.9%	2.2%	1.6%
CPI Growth	3.2%	2.9%	3.6%
<b>Regional</b>			
Unemployment	4.5%	4.4%	5.3%
Employment Growth	0.8%	0.7%	0.5%

Source: Moody's|Economy.com

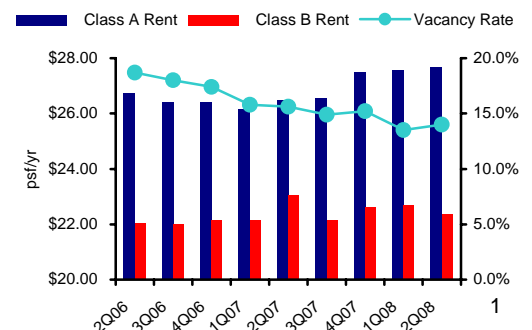
### MARKET FORECAST

**LEASING ACTIVITY** will remain strong in the market for top tier class A buildings. 

**DIRECT ABSORPTION** is expected to decline through the remainder of 2008, and struggle to post positive numbers. 

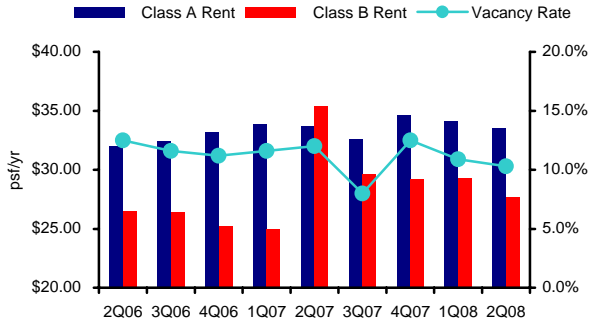
**CONSTRUCTION** will be limited to select submarkets as landlords struggle with existing significant availabilities in recent speculative office developments. 

### SUBURBAN RENTAL VS. VACANCY RATES



### BALA CYNWYD & CONSHOHOCKEN

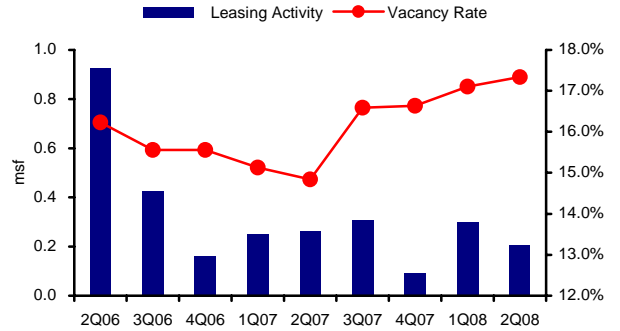
#### OVERALL RENTAL VS. VACANCY RATES



- Rents in the Bala Cynwyd submarket have been stable for the past two years. As firm rents and vacancies imply, the submarket has been consistent with minimal activity.
- Year-to-date, the Conshohocken class A submarket has posted 52,782 sf of positive absorption and 108,482 sf of leasing activity. The end result is a return to single-digit vacancies. Notably, the overall vacancy rate for the previous three quarters was over 11.0%.

### HORSHAM & PLYMOUTH MEETING

#### LEASING ACTIVITY VS. VACANCY RATES



- GMAC Mortgage consolidated its Horsham operations to Fort Washington, causing class A vacancy rates to rise to 18.7% – an increase of 11.5 percentage points from the second quarter 2007. The increase will, however, be short-lived as a number of lease transactions are expected to fill larger availabilities into 2009.
- Brandywine Property Trust signed two significant leases in the Plymouth Meeting submarket at its Metroplex Business Campus and at the Plymouth Meeting Executive Campus. Stenton Financial and USI Insurance signed for 13,216 sf and 22,794 sf respectively.

### KING OF PRUSSIA & VALLEY FORGE

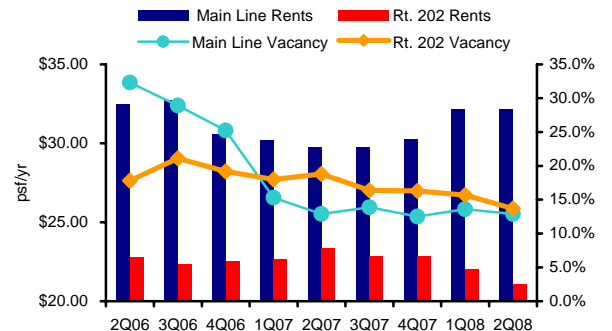
#### AVAILABLE SPACE TRENDS & RENTAL RATES



- Class A vacancy rate in the King of Prussia/Valley Forge submarket remained virtually flat compared to the second quarter of 2007 at 9.8%, while average class A rental rates for remaining quality space increased 12.9% to \$29.05 psf.
- A joint venture between Mountain Development Group and Meritage Properties acquired Building I at the Valley Forge Corporate Center during the second quarter. The two-story 72,880-sf class A office building and six-acres of land were sold for \$8.3 million or \$114.52 psf.

### MAIN LINE & SOUTHERN RT. 202

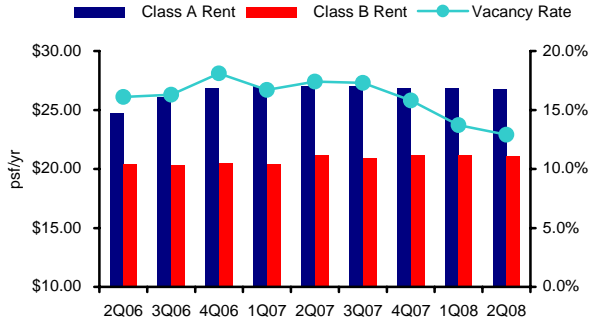
#### CLASS A RENTAL VS. VACANCY RATES



- The overall Main Line vacancy rate has stabilized at 12.9%, well below the peak of 44.1% posted towards the beginning of the decade. Year-to-date absorption is down over 400,000 sf from the second quarter of 2007 – to negative 4,504 sf.
- The vacancy rate in the Southern Route 202 office market has declined by 510 basis points from the second quarter of 2007 to 13.7%. Notably, the vacancy rate has been steadily declining since the end of 2003 and at its lowest level since 1998.

### SOUTHERN BUCKS

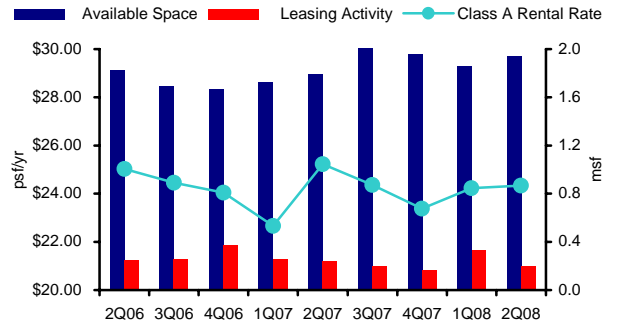
#### OVERALL RENTAL VS VACANCY RATES



- Over 80,000 sf of class A office space was leased in Southern Bucks County during the second quarter. The most significant lease was that for J. Reckner & Associates' for 10,897 sf at the New Britain Corporate Center.
- The class A vacancy rate in Southern Bucks has dropped 7.2 percentage points from the second quarter of 2007 to 11.8%. The improvement is due primarily to healthy tenant activity. Both leasing activity and absorption are up from last year.

### SOUTHERN NEW JERSEY

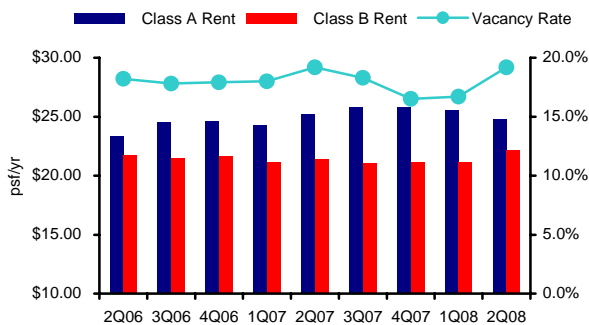
#### OVERALL MARKET TRENDS



- 1020 Laurel Oak Road, at the Laurel Oak Corporate Center in Voorhees NJ, was sold to Ironstone Village. The buyer paid \$7.9 million (\$141.00 psf) for the 56,196 sf class B office building.
- Liberty Property Trust had two significant transactions at two of their Burlington County class A properties. PMA Insurance leased 22,794 sf at Liberty Walk at East Gate and Hill International leased 10,834 sf at the Lippincott Center.

### NORTHERN DELAWARE

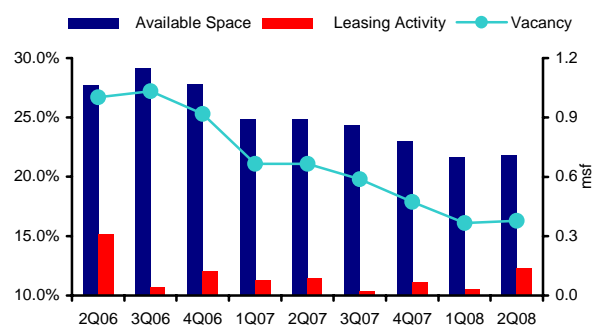
#### OVERALL RENTAL VS. VACANCY RATES



- American Life Insurance Company (AIG) is leasing 33,537 sf of space in the Renaissance building, as swing space, while a portion of their space at Wilmington's One Alico Plaza is being renovated.
- Gramercy Capital Corporation purchased 3 Beaver Valley Road in Wilmington from American Financial Realty Trust. Gramercy Capital paid \$30.1 million (\$109.38 psf) for the 275,000-sf office facility.

### PHIL. & DELAWARE COUNTIES

#### OVERALL MARKET TRENDS



- Locally based firms Synterra Partners and Liberty Property Trust continued development of Three Crescent Drive at the Philadelphia Navy Yard. Tasty Baking has leased one third of the LEED certified 96,000-sf building, which is expected to come online in 2009.
- Foamex leased 43,252 sf at the Rose Tree Corporate Center II. This lease accounted for nearly half of new class A leases in Delaware County during the second quarter.

### MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
East of Broad	12,192,274	45	8.1%	7.9%	471,302	0	0	(8,517)	\$24.15
West of Broad	29,698,654	75	10.0%	9.1%	876,059	0	0	(284,866)	\$28.20
<b>CBD Total</b>	<b>41,890,928</b>	<b>120</b>	<b>9.5%</b>	<b>8.7%</b>	<b>1,347,361</b>	<b>0</b>	<b>0</b>	<b>(293,383)</b>	<b>\$27.74</b>
Bala Cynwyd	2,795,352	22	11.6%	10.3%	92,370	0	0	7,367	\$33.51
Southern Bucks County	6,122,220	100	12.9%	12.6%	237,789	0	0	117,056	\$26.76
Southern Rte. 202. Corr.	5,223,210	120	13.7%	11.8%	230,763	41,580	198,600	282,843	\$21.87
Delaware County	4,354,783	61	16.3%	14.4%	174,150	0	0	36,976	\$25.76
B.Bell/Ply.Mtg./Ft.Wsh.	9,484,227	155	16.9%	14.9%	273,626	0	0	(146,844)	\$26.84
Main Line	3,857,024	66	12.9%	12.6%	59,438	0	0	18,192	\$32.12
Conshohocken	3,784,363	30	11.1%	9.6%	108,482	41,273	0	37,859	\$31.42
Horsham/W.Gr./Jntwn	5,830,971	89	18.0%	16.8%	230,703	0	0	(53,042)	\$24.64
King of Prussia/V. Forge	16,467,874	268	12.2%	11.0%	364,434	0	65,626	61,582	\$29.05
<b>Suburban Philadelphia Total</b>	<b>57,920,024</b>	<b>911</b>	<b>14.0%</b>	<b>12.7%</b>	<b>1,771,755</b>	<b>82,853</b>	<b>264,226</b>	<b>361,989</b>	<b>\$27.66</b>
Burlington County	7,816,852	155	16.3%	14.0%	291,690	0	0	(39,415)	\$24.11
Camden County	6,355,739	118	10.4%	10.2%	134,289	0	0	(114,836)	\$25.01
<b>Southern New Jersey Total</b>	<b>14,172,591</b>	<b>273</b>	<b>13.7</b>	<b>12.3</b>	<b>425,979</b>	<b>0</b>	<b>0</b>	<b>(154,251)</b>	<b>\$24.34</b>
New Castle-Non-CBD	7,947,435	150	17.4%	16.3%	215,098	0	60,000	(250,969)	\$24.36
New Castle CBD	6,792,032	39	21.3%	18.8%	196,686	85,031	0	(280,356)	\$25.13
<b>New Castle Cty - DE Total</b>	<b>14,739,467</b>	<b>189</b>	<b>19.2%</b>	<b>17.5%</b>	<b>411,784</b>	<b>85,031</b>	<b>60,000</b>	<b>(531,325)</b>	<b>\$24.81</b>
Lehigh & N. Hampton Cnty**	5,950,982	10	10.4%	10.1%	185,394	0	0	113,735	\$22.26
<b>NON-CBD Total</b>	<b>86,832,082</b>	<b>1,373</b>	<b>14.8%</b>	<b>13.4%</b>	<b>2,609,518</b>	<b>167,884</b>	<b>324,226</b>	<b>(323,587)</b>	<b>\$26.70</b>
<b>PHILA MSA TOTAL</b>	<b>128,723,010</b>	<b>1,493</b>	<b>13.1%</b>	<b>11.9%</b>	<b>3,956,879</b>	<b>167,884</b>	<b>324,226</b>	<b>(616,970)</b>	<b>\$26.98</b>

\* Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1400 North Providence Road	Delaware County	Foamex	43,252	A
100 Deerfield Lane	Southern Route 202 Corridor	ING	30,927	A
630 West Germantown Pike	Blue Bell/Ply.Mtg./Ft.Wash.	USI Insurance Services LLC	22,794	A

#### SIGNIFICANT 2Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
100 Brandywine Boulevard	Southern Bucks County	Great Point Investors LLC	102,000	\$28,000,000
2500 Monroe Boulevard	King of Prussia/Valley Forge	Mountain Development Group	72,880	\$8,346,454
1020 Laurel Oak Road	Camden County	Ironstone Village LLV	56,196	\$7,923,636

#### SIGNIFICANT 2Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
800 Adams Avenue/ Rittenhouse II	King of Prussia/Valley Forge	Luitpold Pharmaceuticals Inc	65,626	4/08
Route 1 @ Route 202/ Painter's Crossing III	Southern Route 202 Corridor	N/A	48,600	4/08

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
6 Hillman Drive-Brandywine VII	Southern Route 202 Corridor	N/A	41,580	12/08
125 East Elm Street	Conshohocken	N/A	41,273	7/08



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

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