

MARKETBEAT

PHILADELPHIA CBD OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q09

ECONOMY

Activity in Philadelphia's Central Business District (CBD) remained stagnant in the second quarter of 2009. With the nation still engulfed in the most serious economic recession since the Great Depression, the CBD continues to struggle. On a positive note conditions at the mid-year mark are better than the first quarter of 2009, which seemed to be the low point for Philadelphia's economy, experiencing its most dramatic increase in unemployment rates jumping from 5.4% to 8.0%. On the negative side, the backbone of the CBD, the healthcare and education sectors, have begun to feel the impact of the recession with an increase in unemployment, evidenced by the recent layoffs in the Temple University Health System. The local government is struggling with its budget deficit and has proposed a local sales tax increase by 1% which is expected to decrease consumer spending. The construction industry continues to suffer, although recent news indicates some positive change for that industry. Brandywine Realty Trust was able to secure the necessary financing this quarter to proceed with its redevelopment of the former post office building for the Internal Revenue Service. Also, the recently enacted American Recovery and Reinvestment Act will create more jobs in the construction and architectural industries as this new plan will utilize \$53.4 million of stimulus funding to modernize various government buildings throughout the city. Unemployment rates for the region increased slightly from 8.0% last quarter to 8.1% at the mid year point, but are still below the national average of 8.9%.

OVERVIEW

The CBD produced limited activity throughout the second quarter of 2009 compared to mid-year 2008. There was, however, a significant amount of activity in the law firm sector. Klehr Harrison relocated from 260 South Broad Street and leased 75,705 square feet (sf) of space on the 13th, 14th and 15th floors of 1835 Market Street within the former Buchannon Ingersoll space. This new lease was the largest in the CBD thus far in 2009. Although it doesn't bolster the leasing activity numbers, there were two other significant transactions this quarter that were renewal deals. Fox Rothschild renewed their space at 2000 Market Street for 104,461 sf and Saul Ewing renewed their lease at Center Square for 111,000 sf. Both of these tenants had been actively looking in the market for a considerable amount of time but chose to renew and upgrade their existing space, an option that has become more prevalent this past year throughout the CBD. Apart from the law firm sector some other significant deals included Arise Academy Charter High School leasing 26,754 sf at Girard Square, Quality Progressions leasing 14,300 sf of space at One South Penn Square, and Canon Business Solutions 10,119-sf renewal at One Liberty Place.

Leasing activity in the CBD has declined from this point last year, dropping from 605,458 sf leased in the second quarter of 2008 to 141,102 sf of newly leased space this quarter, the lowest mid-year numbers since 2000. Rental rates across all classes have also dropped from an average of \$25.67 to \$21.94 due to landlords being forced to drop rents and increase concessions in this difficult economy. There has been no investment sales activity to this point of 2009, although 2000 Market Street is on the market for sale. At this time last year, a total of 3,909,280 sf had traded within the CBD. Construction activity is down as both the ACC Tower and Circa Centre South projects are still on hold indefinitely.

FORECAST

Philadelphia will continue to struggle throughout 2009, but evidence suggests the worst of the recession is over. 2010 will be a better year for Philadelphia as employment rates should stabilize and jobs should begin to return to the market. Leasing activity will remain low for the remainder of 2009 and negative absorption will accumulate. There are some large tenants currently in the market for space including Wolters Kluwer, Beneficial Bank, KPMG, and Cozen & O'Conner and it will be interesting to see if these tenants decide to relocate or renew in their current space. There is no new construction activity on the horizon and investment sale opportunities remain bleak for the remainder of 2009. Rental rates may continue to drop and more concessions and free rent will be offered to tenants particularly by landlords experiencing vacancy problems.

BEAT ON THE STREET



"In a market characterized by continued fear and uncertainty, we witnessed the vacancy rate creep up, extremely low leasing activity, more sublease availabilities hitting the market, and more negative absorption. In this environment, it wasn't surprising to see lease renewals become the 'deal du jour'."

-Bill Hirschfeld, Senior Director

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	1.1%	-3.0%	1.2%
CPI Growth	3.8%	-0.6%	1.7%
Regional			
Unemployment	5.4%	8.1%	8.8%
Employment Growth	0.2%	-2.3%	-0.5%

Source: Moody's | Economy.com

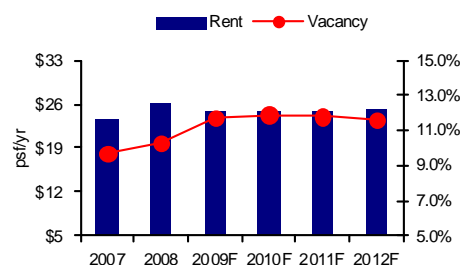
MARKET FORECAST

LEASING ACTIVITY has dropped significantly since last year. Expect more of the same throughout 2009 as smaller deals and renewals will be common. ↓

DIRECT ABSORPTION will continue to drop into the negative territory, leading to increased vacancy rates in the second half 2009. ↓

CONSTRUCTION activity is down as there will be no new construction projects adding vacant space to the inventory in 2009. However, the renovation to the IRS building and modernization efforts to buildings throughout the city will be a welcome improvement. ↓

OVERALL RENTAL & VACANCY RATES 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 OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
East of Broad	12,388,901	44	11.7%	11.2%	32,207	0	0	(500,876)	\$24.33
West of Broad	29,722,654	76	11.5%	9.5%	243,071	0	0	(163,507)	\$24.93
CBD Total	42,111,555	120	11.6%	10.0%	275,278	0	0	(664,383)	\$24.63
Bala Cynwyd	2,779,940	22	15.9%	12.7%	33,166	0	0	(104,339)	\$30.13
Southern Bucks County	6,267,199	100	20.0%	19.0%	32,060	87,000	214,679	15,154	\$22.94
Southern Rte. 202. Corr.	5,223,210	120	15.9%	15.1%	25,783	0	0	(126,195)	\$21.89
Delaware County	4,334,760	61	15.6%	13.5%	24,569	0	0	95,933	\$22.54
B.Bell/Ply.Mtg./Ft. Wsh.	9,835,292	157	20.1%	19.6%	134,467	0	0	(315,875)	\$21.67
Main Line	3,902,024	66	11.9%	9.9%	164,464	0	0	104,300	\$27.09
Conshohocken	3,825,636	31	15.4%	13.4%	34,713	0	0	(100,800)	\$27.90
Horsham/W.Gr./Jntwn	5,704,078	84	17.8%	13.5%	128,665	0	0	78,860	\$19.88
King of Prussia/V. Forge	16,417,958	265	15.4%	13.1%	354,255	0	0	(59,583)	\$21.82
Suburban Philadelphia Total	58,290,097	906	16.8%	14.9%	932,142	87,000	214,679	(412,545)	\$23.98
Burlington County	7,873,583	154	16.9%	14.6%	128,862	0	0	31,084	\$24.76
Camden County	6,061,513	108	15.1%	14.1%	121,877	0	0	(166,422)	\$24.84
Southern New Jersey Total	13,935,096	262	16.1%	14.4%	250,739	0	0	(135,338)	\$24.80
New Castle-Non-CBD	7,931,610	149	16.0%	13.8%	28,144	0	0	124,000	\$21.58
New Castle CBD	6,811,377	39	18.8%	18.5%	33,157	158,770	0	(34,257)	\$21.67
New Castle Cty - DE Total	14,742,987	188	17.3%	16.0%	61,301	158,770	0	89,743	\$21.62
Lehigh & N. Hampton Cnty**	5,950,982	103	12.7%	12.5%	52,966	0	0	(166,453)	\$16.52
NON-CBD Total	86,968,180	1,356	16.8%	15.0%	1,244,182	245,770	214,679	(458,140)	\$23.75
PHILA MSA TOTAL	129,079,735	1,476	15.1%	13.4%	1,519,460	245,770	214,679	(1,122,523)	\$23.86

* Rental rates reflect \$psf/year

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

MARKET HIGHLIGHTS

SIGNIFICANT 2Q09 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1500 Market Street	West of Broad	**Saul Ewing	111,000	A
2000 Market Street	West of Broad	**Fox Rothschild	104,461	A
1835 Market Street	West of Broad	Klehr Harrison	75,705	A
Girard Square	East of Broad	Arise Academy Charter High School	26,754	C
One South Penn Square	East of Broad	Quality Progressions	14,300	A
1650 Market Street	West of Broad	**Canon Business Solutions	10,119	A

SIGNIFICANT 2Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
N/A				

SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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	6/10

** Renewal Leases



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

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