

MARKETBEAT

PHILADELPHIA CBD OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



4Q08

ECONOMY

In a time of drastic economic change, the Philadelphia Central Business District (CBD) remains resilient. Due to its conservative nature and healthy market fundamentals, Philadelphia is in a better position than many other major markets across the country to weather this current economic crisis. The CBD office market has remained stable mainly due to the lack of speculative construction and diversified tenant base. The CBD has also experienced an urban renaissance over the past few years strengthening itself particularly in the residential, hospitality and retail sectors. Success in all of these areas along with the construction of the new convention center has allowed the CBD to stay afloat during these tough economic times.

Financial firms and insurance companies who have a presence in Philadelphia have felt the impact of the crisis the most, but fortunately the financial sector has a small presence in the CBD relative to some other major markets. All businesses in Philadelphia have felt the negative effects of the current crisis and have experienced a distribution of layoffs, but no major city or region has been immune to these effects. The unemployment rate continued to increase, closing in on 5.3% at year-end, but still below the national rate of 6.7%. Philadelphia's reliance on the pharmaceutical and healthcare firms, along with the government and education industries, will help the CBD remain strong leading into 2009.

OVERVIEW

The ongoing economic contraction has put a strain on the Philadelphia office market. Tenants, landlords and lenders have all struggled to adjust accordingly to the current economic climate. Renewal deals and short-term leases have become more prevalent as the unpredictable nature of the economy has created an increased cautiousness around every real estate decision. The top priority of landlords has been to maintain occupancy, while also aggressively pursuing tenants in the market. There has been an increase in sublease space, mostly attributed to the short-term sublease left by AIG in 1700 Market Street of approximately 98,000 sf and Unisys Corporation's decision to sublease their new space at Two Liberty Place of approximately 90,000 sf. Aside from those two large blocks of space, there have been a lot of small spaces that have become available for sublease throughout the CBD, a result of companies downsizing, filing for bankruptcy and opting to consolidate their space. Fortunately for Philadelphia, large scale layoffs are not the primary reason for this influx of sublease space. New construction remains non-existent as plans for new office developments have come to a temporary standstill. Investment sales activity grinded to a halt in the second half of 2008. Due to a strong first two quarters of 2008, investment sales volume totals were more than double the level for all of 2007 – with over 4.0 million square feet (msf) sold at the close of 2008 versus 1.7 million sf that changed hands in 2007. Only one building traded during the second half of 2008 compared with seven transactions during the first two quarters of 2008. The sole transaction in the

BEAT ON THE STREET

"The resiliency of the CBD office market will be tested during the first half of 2009 as global economic conditions continue to decline. Lack of speculative construction and a diversified tenant base have shielded Philadelphia from market volatility in the past and will continue to be important strengths. Current market fundamentals are strong and while vacancies are expected to rise, it is expected to only be a moderate increase."

-Jack Meyers, Associate

ECONOMIC INDICATORS

National	2007	2008	2009F
GDP Growth	2.0%	1.2%	-1.5%
CPI Growth	2.9%	4.2%	0.9%
Regional			
Unemployment	4.4%	5.3%	6.0%
Employment Growth	0.7%	0.2%	0.0%

Source: Moody's | Economy.com

MARKET FORECAST

LEASING ACTIVITY decreased throughout 2008, as fourth quarter numbers were the lowest of the year. Expect an increase in renewals in 2009.



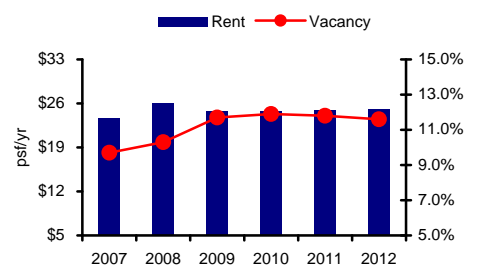
DIRECT ABSORPTION will continue to decline throughout 2009, leading to higher vacancy rates in 2009.



CONSTRUCTION will grind to a halt in 2009. Cira South has been put on hold indefinitely and the ACC tower needs significant pre-leasing before commencing construction.



OVERALL RENT & VACANCY RATE FORECAST



second half of the year was the Stephen Girard Building sold to SSH Real Estate from Trinity Capital Advisors.

The *West of Broad* submarket experienced an increase in overall vacancy in 2008. Rates climbed from 9.4% at the end of 2007 to 11.0% at year-end 2008 mainly due to the rise in sublease space on the market. The sublease vacancy rate jumped to 1.7% in the West of Broad submarket, the highest it has been in two years. Fourth quarter leasing activity numbers proved to be the weakest in 2008 and leasing volume ended lower for the year totaling 1.2 msf, nearly half of the level posted in 2007. Tenants looking for space in the CBD have taken a more conservative approach for seeking out new space. Tenants have not been as focused on expansion space as in years past, and as a result, the average deal size has been decreasing. Significant new transactions of 2008 include SunGard Information at 1500 Spring Garden taking 135,000 square feet (sf), Aberdeen Management at the Mellon Bank Center leasing 60,000 sf, and Gamesa Energy USA, LLC acquiring 52,610 sf at 1801 Market Street. The important trend that emerged in 2008 was the increase of renewals throughout the CBD. Large lease renewals for 2008 include PricewaterhouseCooper's 214,260-sf lease at Two Commerce Square, Independence Blue Cross's 149,420-sf renewal and early extension at 1700 Market Street, Dechert LLP's 23,030-sf lease at One Liberty Place, and Harkins Cunningham Inc.'s 22,961-sf lease at One Commerce Square. Overall asking rental rates have increased since 2007, from \$24.89 per square foot (psf) last year to \$26.23 psf at the end of 2008, although rates reached their peak in the third quarter of 2008. Since then, a decrease in tenant demand has caused landlords to offer rent abatements to attract potential tenants.

The *East of Broad* submarket has performed relatively well throughout 2008. The overall vacancy rate is down 2.5 percentage points from the end of 2007 to 7.8% at the close of 2008. Leasing activity finished 2008 much higher than 2007 numbers, with new leases totaling 586,369 sf compared to 441,738 sf in 2007. Overall average rental rates have increased by over \$3.00 psf from 2007, demonstrating that landlords have been able to lease space at their asking rates. Overall absorption numbers ended the year on the positive side, at 26,856 sf versus negative 27,533 sf in 2007. The largest new transaction for the East of Broad submarket as well as the entire CBD was the 212,000-sf lease by the Commonwealth of Pennsylvania at the Strawbridge and Clothier Building. Also significant were renewal deals which included the 111,000-sf renewal by Montgomery McCracken at 123 South Broad and the 20,084-sf renewal by Liberty Mutual at 600 Chestnut.

Similar to the West of Broad submarket, early renewals continue to be the main activity and this trend will likely carry over in 2009.

FORECAST

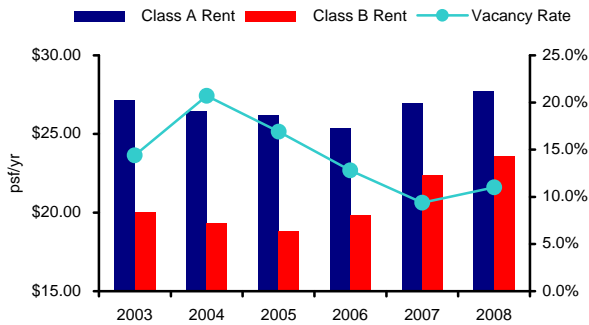
Philadelphia's CBD office market faces a challenging economic climate as it heads into 2009. Fortunately, the CBD is well positioned to ride out an economic recession better than in past cycles, as they enter the recession on rather firm footing. The lack of speculative construction over the recent years and the balanced tenant base will prevent any major negative shifts throughout 2009. Average rents are expected to decrease by just over \$1.00 psf throughout 2009 but are expected to rebound again in 2010. Overall vacancy numbers are anticipated to edge up by 1.0 to 2.0 percentage points in 2009. Considering overall vacancy has been hovering around the 10.0% mark for all of 2008, this increase is not a cause of concern. As expected with vacancy increasing, absorption is likely to stay in negative territory throughout 2009 and possibly into 2010.

Anticipated new construction projects are likely to get started further out in the future than originally expected. The Cira South project has been put on hold indefinitely by Brandywine Realty Trust due to both a lack of demand and difficulty in financing the project. Although on a more positive note, talk of the highly anticipated American Commerce Center tower at 18th and Arch Streets is generating much interest. The new tower will reach 1,500 feet into the sky and will eclipse the newly built Comcast Center, becoming both the largest building in Philadelphia and also the East Coast. The building will need a significant amount of pre-leasing, so it could be years before this project breaks ground.

Despite a weak economic backdrop, the CBD has a healthy amount of tenants in the market looking for space. Tenants are certainly more cautious these days and many are taking a "wait and see" approach, but there are some significant companies looking to lease new space in the CBD over the next few years. Some tenants looking for large blocks of space for 2009 and beyond include Towers Perrin, Wolf Block, Pepper Hamilton, LLP, KPMG, Morgan Lewis, GlaxoSmithKline, White and Williams, Cozen & O'Connor and Blank Rome LLP. BlackRock Inc., once considered a viable prospect for the Cira South project, will most likely remain in New Jersey.

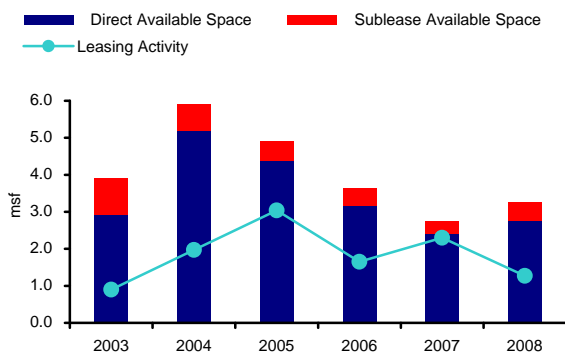
West of Broad

OVERALL VACANCY vs. RENTAL RATES



- Over the past 12 months, the overall vacancy rate jumped from 9.4% to 11.0%. This can be attributed to the increase in sublease space on the market. However, compared with the five-year historical average, the overall vacancy in the CBD is still relatively low.
- Direct rental rates for both class A and B space have fluctuated throughout 2008. Although when compared to 2007, rental rates have increased for both class A and B, indicating that market fundamentals have remained sturdy during these economic times.

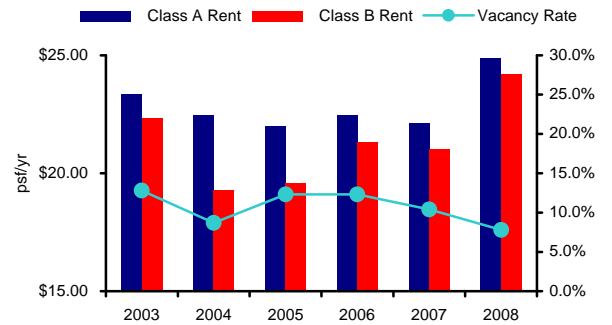
AVAILABLE SPACE TRENDS vs. LEASING ACTIVITY



- Leasing activity is at its lowest point since 2003. Average deal size has become smaller and the number of deals done throughout 2008 dwindled. Significant leases included SunGard Information at 1500 Spring Garden Street for 135,000 sf and Unisys at 1601 Chestnut Street for 89,488 sf.
- 2008 has experienced an increase in renewal deals due to uncertainty in the market. Significant 2008 renewal leases include PricewaterhouseCoopers at 2001 Market Street for 214,260 sf and Independence Blue Cross at 1700 Market Street for 149,420 sf.

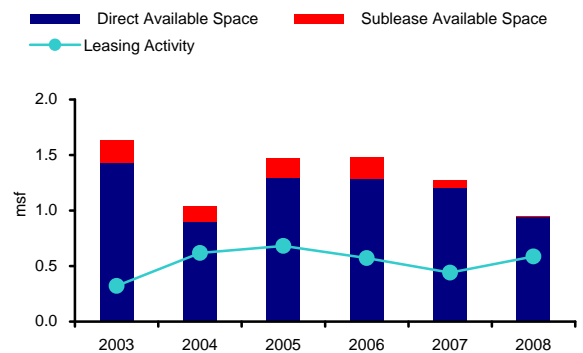
East of Broad

OVERALL VACANCY vs. RENTAL RATES



- Over the past 12 months, the overall vacancy slipped from 10.4% in 2007 to 7.8%. This is the first time since 2004 that the overall vacancy rate has reached single digits.
- Class A and B rents are at their highest point in five years, demonstrating that despite a slowing economy, landlords have been able to keep asking rents firm.

AVAILABLE SPACE TRENDS vs. LEASING ACTIVITY



- Weak leasing activity in the West of Broad submarket was offset by strong leasing activity in the East of Broad submarket. The Strawbridge & Clothier Building welcomed the Commonwealth of Pennsylvania, taking 212,000 sf of space.
- Like the West of Broad submarket, renewals have become more prevalent in the East of Broad submarket. Montgomery McCracken Law Firm renewed at 123 South Broad for 111,000 sf and Liberty Mutual Insurance renewed at 600 Chestnut Street for 20,084 sf.

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	7.8%	7.7%	586,369	0	0	26,856	\$24.89
West of Broad	29,722,654	76	11.0%	9.3%	1,274,747	0	0	(507,692)	\$27.72
CBD Total	41,914,928	121	10.0%	8.8%	1,861,116	0	0	(480,836)	\$27.43
Bala Cynwyd	2,795,352	22	12.1%	10.9%	186,953	0	0	(12,749)	\$33.36
Southern Bucks County	6,122,220	100	13.7%	13.4%	382,687	214,679	0	66,550	\$25.98
Southern Rte. 202. Corr.	5,223,210	120	13.5%	12.1%	304,993	0	198,600	277,733	\$21.80
Delaware County	4,375,938	62	17.4%	15.6%	244,302	0	0	(16,279)	\$25.84
B.Bell/Ply.Mtg./Ft. Wsh.	9,835,292	157	16.9%	15.9%	645,949	0	0	(194,866)	\$25.65
Main Line	3,857,024	66	14.4%	13.1%	135,497	0	0	(36,709)	\$33.13
Conshohocken	3,825,636	31	12.8%	10.5%	170,507	0	41,273	11,413	\$31.35
Horsham/W.Gr./Jntwn	5,740,971	88	19.1%	17.9%	398,809	0	0	(104,850)	\$24.64
King of Prussia/V. Forge	16,591,944	268	14.3%	12.4%	824,266	0	65,626	(299,497)	\$27.93
Suburban Philadelphia Total	58,367,587	914	15.1%	13.7%	3,293,963	214,679	305,499	(309,254)	\$27.28
Burlington County	7,923,852	156	17.2%	14.1%	723,154	0	0	(151,582)	\$24.96
Camden County	6,355,739	118	11.7%	11.5%	211,759	0	0	(207,459)	\$24.79
Southern New Jersey Total	14,279,591	274	14.8%	12.9%	934,913	0	0	(359,041)	\$24.91
New Castle-Non-CBD	8,063,435	152	17.2%	16.7%	320,193	0	110,000	(154,086)	\$24.11
New Castle CBD	6,818,032	40	11.7%	18.2%	373,203	158,770	26,000	(209,509)	\$25.29
New Castle Cty - DE Total	14,881,467	192	17.7%	17.4%	693,396	158,770	136,000	(363,595)	\$24.78
Lehigh & N. Hampton Cnty**	5,950,982	103	9.9%	9.6%	306,772	0	0	133,824	\$22.11
NON-CBD Total	87,528,645	1,380	15.5%	14.2%	4,922,272	373,449	441,499	(1,031,890)	\$26.48
PHILA MSA TOTAL	129,443,573	1,501	13.7%	12.5%	6,783,388	373,449	441,499	(1,512,726)	\$26.73

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2008 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
801 Market Street	East of Broad	Commonwealth of Pennsylvania	212,000	A
1500 Spring Garden Street	West of Broad	SunGard Information	135,000	B
1601 Chestnut Street	West of Broad	Unysis	89,488	A
1801 Market Street	West of Broad	Gamesa Energy USA, LLC	52,610	A

SIGNIFICANT 2008 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
123 South Broad Street	East of Broad	Seligsohn Soens Hess	892,282	\$57,700,000
1700 Market Street	West of Broad	Angelo Gordon JV Amerimar Enterprises	841,172	\$169,000,000
801 Market Street	East of Broad	Gremercy Capital Corp.	700,000	\$43,108,586
1601 Market Street	West of Broad	APF Properties	700,000	\$94,000,000
1400 Spring Garden Street	West of Broad	Tower Investments	299,000	\$25,000,000

SIGNIFICANT 2008 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



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

Cushman & Wakefield, Inc.
1717 Arch Street, 30th Floor
Philadelphia, PA 19103
(215) 963-4000

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

This report contains information available to the public and has been relied upon by Cushman & Wakefield on the basis that it is accurate and complete. Cushman & Wakefield accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.
©2009 Cushman & Wakefield, Inc. All rights reserved.