

# MARKETBEAT

## PHILADELPHIA INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



2Q09

### ECONOMY

The national economic downturn has continued to impact Philadelphia's Metropolitan Area (MSA). The region experienced a slowdown and a deterioration of stability from the recessionary dynamics throughout the first two quarters of 2009. The national unemployment rate has risen to 8.9% while regionally, unemployment reached 8.1% in Philadelphia and 9.3% in Southern New Jersey. According to the Center for Workforce Information & Analysis (CWIA), most of the job losses were spread between manufacturing (-11,800 jobs), transportation & utilities (-6,600 jobs) and construction (-5,200 jobs) employment categories. Rising unemployment caused a decline in consumer demand for manufactured goods creating a challenging environment in the market. As a result, reduced tenant demand weakened speculative development and the leasing activity in the area.

### OVERVIEW

The Philadelphia industrial market remains relatively stable despite a bevy of negative trends that plague the local and national economy. The industrial sector, comprising 280.6 million square feet (msf) of inventory, posted a single-digit direct vacancy rate of 8.2%, only 110 basis points higher than the same period in 2008 and 450 basis points less than the second quarter high in 2004. Despite the direct vacancy rate rise, the rental rates for warehouse/distribution and office service sectors experienced only slight changes to their rental rates which were virtually flat at \$4.72 per square foot (psf) and \$9.31 psf. These numbers suggest that the market continues to stay afloat in the face of slowing economic conditions. Meanwhile, the manufacturing sector has suffered during the economic downturn and continues to experience a decline in rental rates, from \$4.57 psf in the first quarter to \$4.27 psf in the second quarter of 2009, a result of the mass layoffs in the Philadelphia area. The manufacturing sector's performance suggests that the ongoing recession may last longer than expected. Speculative construction activity started to slow down in response to changes in market conditions which is likely to continue into 2010. Although, two new deliveries were added to the Chester County submarket this quarter, which included Keystone Foods built-to-suit warehouse/distribution facility in Valley View Business Park totaling 160,000 square feet (sf) and 190 Washington Lane, a building totaling 32,500 sf of flex space.

Throughout the second quarter of 2009 the greater Philadelphia industrial market experienced a significant drop in leasing activity recording only 366,438 sf of leased space versus 1,080,890 sf from the same period last year. The direct absorption numbers posted a negative figure of 1,843,198 sf in the second quarter.

### FORECAST

The greater Philadelphia industrial sector will be confronted with difficulties throughout 2009 due to the current economic climate, from a decline that began in prior quarters. As anticipated, economic conditions are likely to deteriorate further, although at a slower pace for the remainder of 2009. Renewals will continue to increase and become the main source of activity as the market looks to stabilize and begins to recover in the latter half of the year.

### BEAT ON THE STREET

"The decline in demand and the low leasing activity in MSA area have created favorable lease terms and conditions for many potential tenants. Trends towards significantly discounted rental rates and extended free rent periods have created a market that dramatically benefits tenants."

- Francis Mahoney, 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

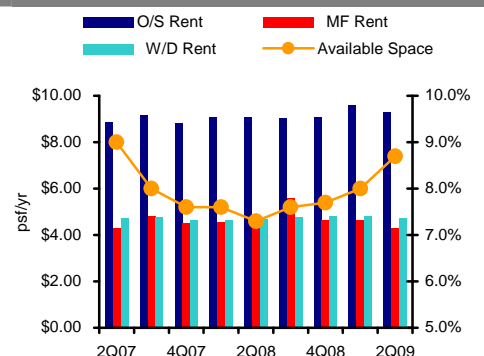
### MARKET FORECAST

**LEASING ACTIVITY** decreased in the second quarter and as anticipated, renewals will become the prevalent trend throughout the year. ↓

**DIRECT ABSORPTION** is expected to post negative figures in the second half of the year due to uncertain economic conditions. ↓

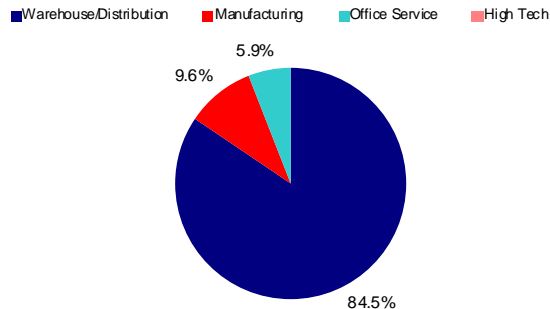
**CONSTRUCTION** activity will continue to decline throughout the year in response to the significant decline in tenant demand. ↓

### MSA DIRECT RENTAL VS. VACANCY RATES



### GLOUCESTER COUNTY

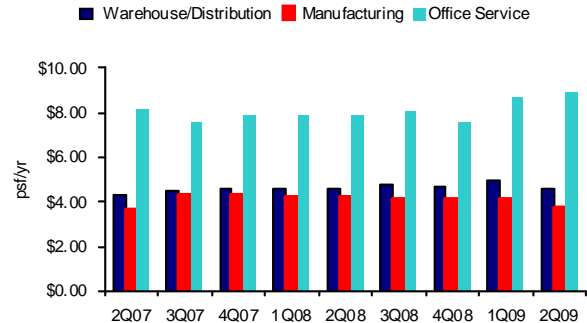
#### 2Q09 INVENTORY BY PROPERTY TYPE



- DP Partners is set to deliver a 599,500-sf building as well as a 180,000-sf built-to-suite facility in LogistiCenter at Logan by the end of July.
- The Gloucester County has experienced a decline in leasing activity and reported only one significant lease transaction in Mid-Atlantic Corporate Center. Harvey Industries leased 62,500 sf of warehouse/distribution space in the second quarter of 2009.

### BURLINGTON COUNTY

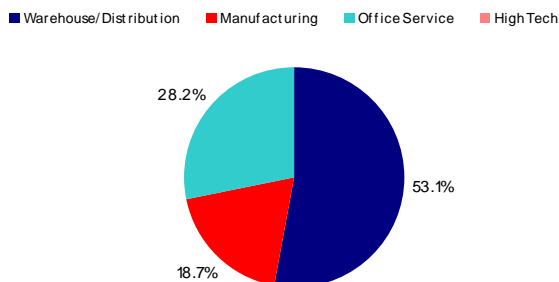
#### OVERALL RENTS BY PROPERTY TYPE



- Despite the ongoing slowdown in leasing activity and no leases larger than 20,000 sf, Burlington County industrial submarket remains relatively stable and continues to post low direct vacancy rates of 10.8%.
- Global Industries Ltd. acquired 112 Gaither Drive building from ProLogis REIT in the Gateway Business Center. The single-story, 48,000-sf warehouse/distribution facility was sold for \$2.6 million or \$54.17 psf.

### DELAWARE COUNTY

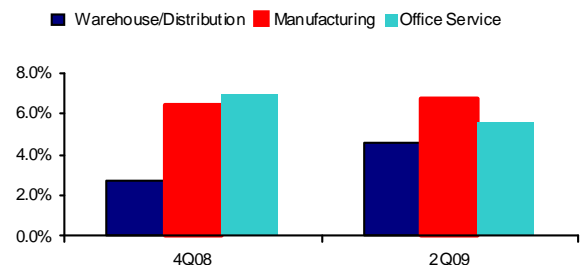
#### 2Q09 INVENTORY BY PROPERTY TYPE



- In an user/owner occupied sale, Priority Express Courier, Inc. acquired a 145,296-sf warehouse/distribution facility at 3033 Market Street from Greif, Inc. for \$4 million or \$27.53 psf. The new owner plans to lease a portion of the building to other entities.
- The overall vacancy rate for the Delaware County industrial submarket has experienced a dramatic increase of 420 basis points to 14.8% from year-end 2008. This is the highest posted vacancy rate number since 1998.

### CAMDEN COUNTY

#### VACANCY RATE BY PROPERTY TYPE

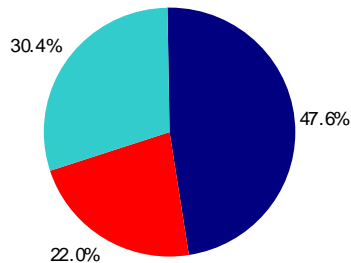


- Camden County had approximately 80,000 sf of significant leasing activity in second quarter of 2009. The most notable lease occurred in Interstate Business Park where three tenants leased a total of 76,600-sf of warehouse/distribution space at 330 Benigno Boulevard.
- The lack of new quality space in the submarket and steep decline in leasing activity indicates that demand for industrial space will likely continue to be weak, ultimately putting downward pressure on rents.

### MONTGOMERY COUNTY

#### 2Q09 INVENTORY BY PROPERTY TYPE

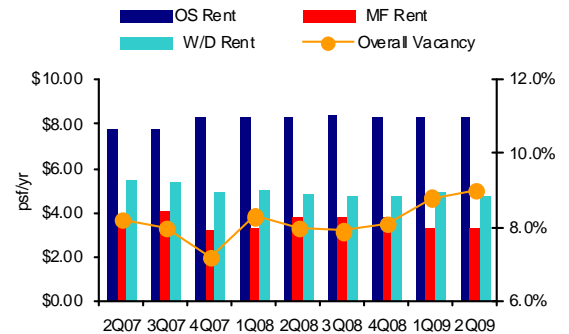
Warehouse/Distribution Manufacturing Office Service High Tech



- The Montgomery County industrial sector has experienced a significant decline in leasing activity as roughly 600,000 less square feet were leased during the second quarter, compared with the second quarter 2008.
- Despite the tremendous slowdown in leasing activity, this submarket only experienced a slight increase in vacancy rates of 30 basis points from mid-year 2008 to 10.4% after the second quarter of 2009.

### PHILADELPHIA COUNTY

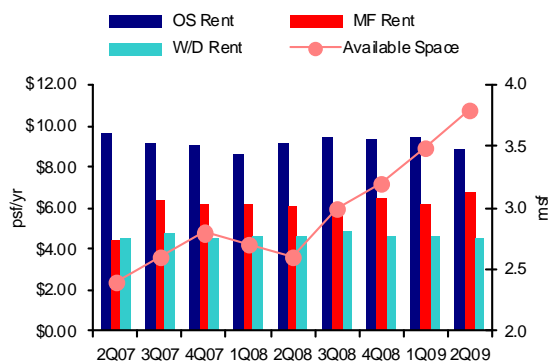
#### OVERALL RENTAL VS. VACANCY RATES



- Throughout the second quarter of 2009, Philadelphia County did not experience any significant lease transactions and posted the direct vacancy rates of 8.8%, compared to 8.0% in second quarter of 2008.
- Tight financial conditions continue to restrain construction activity in Philadelphia County, where the Keystone Opportunity Zone (KOZ) program is providing an excellent opportunity for interested developers and other businesses.

### BUCKS COUNTY

#### DIRECT RENTAL VS. AVAILABLE SPACE

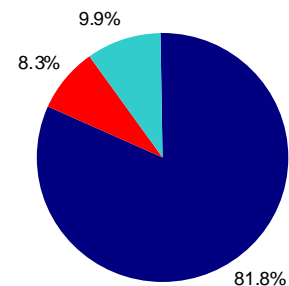


- During the second quarter of 2009, over 72,000 sf of warehouse space was leased in Lower Bucks County industrial submarket, where the majority of the lease transactions were between 10,000 sf to 26,000 sf.
- KNS Properties purchased a 24,873-sf warehouse building at 775 American Drive from Colory Metal & Glass for \$1.4 million. Also, Samuel Drive Associates acquired a 41,046-sf warehouse building at 2901 Samuel Drive from ITOCHU International Acquisitions Corp. for \$1.4 million.

### NEW CASTLE COUNTY

#### 2Q09 INVENTORY BY PROPERTY TYPE

Warehouse/Distribution Manufacturing Office Service High Tech



- Due to the most recent bankruptcy of General Motors Corporation, the company will close its Boxwood assembly plant in New Castle County, which will cause approximately 500 workers to lose their jobs over the next few months.
- The Northern Delaware industrial market has experienced no significant changes throughout the second quarter of 2009. The most noticeable lease transaction of the quarter took place at Pencader Corporate Center where the Platinum Hanger Corporation leased 30,000-sf of flex space.

### MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	HT **	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*		
									MF	OS	W/D
Philadelphia County	59,269,805	715	9.0%	90,500	389,500	0	(181,026)	N/A	\$3.35	\$8.28	\$4.74
Lower Bucks County	37,590,531	594	7.2%	192,313	0	0	(208,331)	N/A	\$6.15	\$8.85	\$4.45
Upper Bucks County	18,866,738	380	5.8%	12,558	158,700	0	(429,374)	N/A	\$7.79	\$8.88	\$5.50
Montgomery County	46,876,590	763	10.4%	138,949	0	0	(467,003)	N/A	\$4.94	\$10.58	\$4.77
Chester County	26,959,577	479	5.4%	75,036	0	230,967	130,681	N/A	\$6.69	\$9.85	\$5.19
Delaware County	14,778,941	250	14.8%	47,772	0	0	(667,098)	N/A	\$3.17	\$7.70	\$5.58
<b>Suburban Philadelphia</b>	<b>145,072,377</b>	<b>2,466</b>	<b>8.5%</b>	<b>466,628</b>	<b>158,700</b>	<b>230,967</b>	<b>(1,641,125)</b>	<b>N/A</b>	<b>\$5.03</b>	<b>\$9.66</b>	<b>\$4.87</b>
Burlington County	29,376,041	373	11.6%	98,061	0	0	(852,799)	N/A	\$3.76	\$8.88	\$4.62
Camden County	26,420,612	447	5.0%	145,262	0	0	(357,132)	N/A	\$5.03	\$8.58	\$3.50
Gloucester County	20,497,850	219	9.8%	995,270	779,500	30,782	(364,206)	N/A	\$3.85	\$8.97	\$4.77
<b>Southern New Jersey</b>	<b>76,294,503</b>	<b>1,039</b>	<b>8.8%</b>	<b>1,238,593</b>	<b>779,500</b>	<b>30,782</b>	<b>(1,574,137)</b>	<b>N/A</b>	<b>\$4.02</b>	<b>\$8.84</b>	<b>\$4.46</b>
<b>Philadelphia MSA Total</b>	<b>280,636,685</b>	<b>4,220</b>	<b>8.7%</b>	<b>1,795,721</b>	<b>1,327,700</b>	<b>261,749</b>	<b>(3,396,288)</b>	<b>N/A</b>	<b>\$4.27</b>	<b>\$9.31</b>	<b>\$4.72</b>
Lehigh Valley	49,330,161	154	13.2%	1,916,142	580,000	531,000	903,912	N/A	\$3.90	\$4.78	\$4.45
Northeastern PA	55,841,610	193	17.9%	482,000	663,400	396,800	(3,067,350)	N/A	\$3.43	N/A	\$3.76
Central PA	102,681,684	336	14.7%	717,017	1,902,000	2,087,160	(2,359,898)	N/A	\$3.25	N/A	\$4.02
<b>I-81 - I-78 Dist. Corr.</b>	<b>207,853,455</b>	<b>683</b>	<b>15.2%</b>	<b>3,115,159</b>	<b>3,145,400</b>	<b>3,014,960</b>	<b>(4,523,336)</b>	<b>N/A</b>	<b>\$3.55</b>	<b>\$4.78</b>	<b>\$4.03</b>
<b>By Property Type</b>									<b>2Q09</b>	<b>2008</b>	<b>2007</b>
High Technology **	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Manufacturing	63,817,300	899	6.6%	34,590	345,500	0	(1,313,371)	N/A	\$4.27	\$4.62	\$4.52
Office Service	46,831,702	1,036	10.7%	249,166	158,700	101,749	(379,116)	N/A	\$9.31	\$9.20	\$8.83
Warehouse/Distribution	169,987,683	2,285	8.9%	1,511,965	823,500	160,000	(1,703,801)	N/A	\$4.72	\$4.83	\$4.63
<b>Philadelphia MSA Total</b>	<b>280,636,685</b>	<b>4,220</b>	<b>8.7%</b>	<b>1,795,721</b>	<b>1,327,700</b>	<b>261,749</b>	<b>(3,396,288)</b>	<b>N/A</b>	<b>\$5.50</b>	<b>\$5.72</b>	<b>\$5.52</b>

\*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 2Q09 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
1550 Imperial Way-Mid Atlantic Corporate Center	Gloucester County	Harvey Industries	62,500	Warehouse/Distribution
512 Sharptown Road-Pureland Industrial Complex	Gloucester County	**KBS Trucking	58,000	Warehouse/Distribution
230 Executive Drive-Pencader Corporate Center	New Castle County	Platinum Hanger Corp.	30,000	Office Service
SIGNIFICANT 2Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
3033 Market Street-Twin Oaks Fibre Plant	Delaware County	Priority Express Courier, Inc.	145,296	\$4,000,000
112 Gaither Drive-Gateway Business Center	Burlington County	Global Industries Ltd.	48,000	\$2,600,000
9 Lee Boulevard-Great Valley Corporate Center	202 Corridor	Skidmore Sales & Distributing Co., Inc.	35,250	\$4,150,000
SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Keystone Foods Facility-Valley View Business Park	202 Corridor	Keystone Foods	160,000	6/09
190 Washington Lane	202 Corridor	N/A	32,500	6/09
SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Logisticcenter @ Logan-Lots G, H & I	Gloucester County	Kimberly-Clark	599,500	7/09
1150 Commerce Boulevard	Gloucester County	BRRR Frozen Foods	180,000	7/09
2720 Milford Square Pike-Building 1	Upper Bucks County	N/A	83,700	9/09
2720 Milford Square Pike-Building 2	Upper Bucks County	N/A	75,000	9/09

\*\* Renewal leases



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

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