

MARKETBEAT

PHILADELPHIA CBD OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



3Q09

ECONOMY

Despite still being immersed in the current economic recession, Philadelphia is beginning to show signs of economic recovery. After several quarters of increasing unemployment rates and slumping market trends, conditions appear to have stabilized within the Central Business District (CBD). Approximately 16,400 jobs have been lost since July of 2008, with the majority of those losses coming in the first half of 2009. In a testament to the wide reach of this recession, no companies or industries, including law firms and healthcare, were immune to the effects of this downturn. Office market fundamentals are expected to continue to worsen through the first quarter of 2010, though confidence in the market is slowly returning. The housing market appears to be in better shape than the beginning of the year, and the recently enacted American Recovery and Reinvestment Act is beginning to add new jobs to the market. Unemployment rates are at 8.2% and are the highest they have been in 17 years, although rates have not been increasing as rapidly as they were in early 2009.

OVERVIEW

Over the past year, the CBD has faced a multitude of challenges and came out in fair condition. Considering the drastic change in national economic climate from a year ago, the CBD's overall vacancy rate only jumped from 10.0% to 11.9% over the past year. Historically, the vacancy is still well below where it was during our last downturn in 2001 at 13.0% and better than in 2006 when overall vacancy sat at 15.2%. When taking a closer look at the increase, the jump can be attributed to the amount of available sublease space that came on the market increasing 40% in the past year. Absorption numbers in 2009 have moved in the wrong direction and have nearly doubled, going from -458,591 square feet (sf) in 2008 to -788,534 sf at the end of the 3rd quarter 2009. Clouded by the increase in short-term renewals, leasing activity dropped off significantly producing only 114,331 sf leased this quarter compared to 200,531 sf in the 3rd quarter last year. No construction starts are scheduled for the remainder of 2009 and the chances any project will break ground in 2010 are small.

The majority of significant deals this quarter were renewals, continuing a common trend throughout 2009. The Philadelphia Housing Development Corporation had the largest renewal at 1234 Market Street for a total of 68,584 sf. Hangle, Aronchick Segal & Pudlin renewed their lease at One Logan Square for 43,540 sf while Devry, Inc. renewed their deal at 1800 John F Kennedy Boulevard for 30,649 sf. Thomson Reuters decided to remain in their current 10,390-sf space at 1601 Market Street. The most significant new deal of the quarter was done by Zarwin Baum Devito Kaplan Schaer Todday P.C., who signed a 10-year deal at 1818 Market Street for 24,000 sf after outgrowing their space at 1515 Market Street. Investment sales activity was limited to a partial entity purchase of Two Liberty Place by Eola Capital, who bought 50% of the office portion of the building which is 100% leased.

FORECAST

Leasing activity has been slow thus far in 2009, but there are still tenants currently in the market for large blocks of space. KPMG is out in the market for 125,000 rentable square feet (rsf) and is looking at a couple of options in addition to the prospect of renewing in place at 1601 Market Street. Cozen & O'Connor, whose requirement is 200,000 rsf, is in a similar situation and could simply renew at 1900 Market Street. Beneficial Bank is out for 125,000 rsf and is rumored to be looking at the old Rohm and Haas Building. Wolters Kluwer is in the market 70,000 rsf of space and is exploring a possible move to Two Commerce.

Overall market fundamentals have weakened but will stay intact for certain components of the office market. Rental rates for class A trophy space are expected to stay firm. The drop in rents will be prevalent in second generation class A buildings and as well as class B space. The decrease will be significant causing the average market rental rates across the board to fall throughout 2010 as the market attempts to rebound.

BEAT ON THE STREET

"Rental rates are below historic highs and are well below rates that would justify new construction, so there will be no speculative new construction in the near future. Expect the gap in rental rates to increase between the upper and lower ends of the class A market. Unlike other cycles where the trophy vacancy rates spiked, negatively affecting class A+ rates, this cycle will affect our second generation class A market most as we head into 2010."

-Roger T. McManimon, Director

ECONOMIC INDICATORS

	2008	2009F	2010F
National			
GDP Growth	0.4%	-2.6%	1.8%
CPI Growth	3.8%	-0.5%	1.7%
Regional			
Unemployment	5.4%	8.2%	9.2%
Employment Growth	0.2%	-2.3%	-0.3%

Source: Moody's | Economy.com

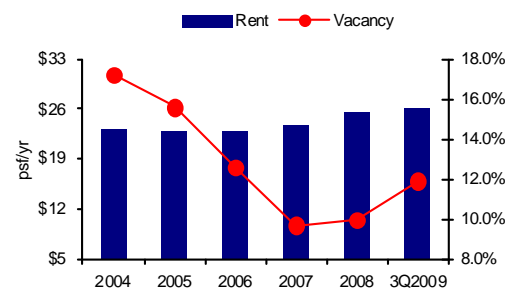
MARKET FORECAST

LEASING ACTIVITY will be slow throughout 2009 and into 2010. There are large tenants looking for new space, but given the economic climate, the likelihood of a renewal is high. ↓

DIRECT ABSORPTION will continue to drop further into the negative territory through 2009 and 2010. ↓

CONSTRUCTION starts will be non-existent for the remainder of 2009 and it is unlikely any projects will break ground in 2010. ↓

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	12.0%	11.3%	49,851	0	0	(537,524)	\$25.25
West of Broad	29,722,654	76	11.8%	10.1%	339,931	0	0	(251,010)	\$27.57
CBD Total	42,111,555	120	11.9%	10.5%	389,782	0	0	(788,534)	\$27.37
Bala Cynwyd	2,779,940	22	16.5%	13.2%	42,175	0	0	(120,007)	\$32.10
Southern Bucks County	6,354,199	101	21.4%	20.4%	37,150	61,000	301,679	(4,018)	\$27.16
Southern Rte. 202. Corr.	5,223,210	120	12.7%	11.9%	57,458	22,500	0	38,716	\$24.05
Delaware County	4,334,760	61	17.0%	15.2%	26,269	0	0	37,654	\$26.81
B.Bell/Ply.Mtg./Ft. Wsh.	9,835,292	157	20.1%	19.6%	208,442	153,600	0	(315,781)	\$25.88
Main Line	3,713,944	63	12.3%	9.5%	206,461	0	0	71,333	\$30.59
Conshohocken	3,825,636	31	15.3%	13.2%	98,646	0	0	(95,972)	\$31.94
Horsham/W.Gr./Jntwn	5,704,078	84	19.1%	15.1%	197,927	0	0	7,369	\$24.53
King of Prussia/V. Forge	16,417,958	265	16.8%	13.6%	412,862	243,360	0	(303,665)	\$26.62
Suburban Philadelphia Total	58,189,017	904	17.4%	15.2%	1,287,390	480,460	301,679	(684,371)	\$27.11
Burlington County	7,873,583	154	17.1%	14.7%	234,044	0	0	18,383	\$23.73
Camden County	6,061,513	108	18.4%	17.0%	131,130	0	0	(367,035)	\$22.80
Southern New Jersey Total	13,935,096	262	17.7%	15.7%	365,174	0	0	(348,652)	\$23.49
New Castle-Non-CBD	8,374,475	154	18.1%	15.9%	59,722	0	0	106,430	\$23.37
New Castle CBD	6,785,377	38	18.9%	18.7%	33,511	158,770	0	(37,176)	\$25.92
New Castle Cty - DE Total	15,159,852	192	18.4%	17.1%	93,233	158,770	0	69,254	\$24.69
Lehigh & N. Hampton Cnty**	5,950,982	103	14.0%	14.7%	67,354	0	0	(302,635)	\$23.79
NON-CBD Total	87,283,965	1,358	17.6%	15.6%	1,745,797	639,230	301,679	(963,769)	\$26.35
PHILA MSA TOTAL	129,395,520	1,478	15.7%	13.9%	2,135,579	639,230	301,679	(1,752,303)	\$26.61

* Rental rates reflect \$psf/year

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

MARKET HIGHLIGHTS

SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1234 Market Street	East of Broad	**Philadelphia Housing Development Corporation	68,584	B
One Logan Square	West of Broad	**Hangley Aronchick Segal & Pudlin	43,540	A
1800 John F Kennedy Boulevard	West of Broad	**Devry, Inc.	30,649	A
1818 Market Street	West of Broad	Zarwin Baum Devito Kaplan Schaer Toddy P.C.	24,000	A
1601 Market Street	West of Broad	**Thomson Reuters	10,390	A

SIGNIFICANT 3Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
N/A				

SIGNIFICANT 3Q09 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

** RENEWALS

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

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