MARKETBEAT

PHILADELPHIA SUBURBAN OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

CUSHMAN & WAKEFIELD®
Global Real Estate Solutions℠

2Q09

ECONOMY

After a rocky first quarter of 2009, the Suburban Philadelphia office market showed some improvement in the second quarter. After a drastic jump from 5.4% to 8.0% last quarter, unemployment rates increased by only 0.1% to 8.1% in the second quarter of 2009. Although looking back at 2008 mid-year numbers, unemployment rates were much less at 4.4%. Layoffs have begun to effect the education and health care sectors throughout the region. Healthcare companies in particular have a large presence in the suburban market and have experienced an increase in layoffs and unemployment rates. The housing market continues to struggle throughout the suburbs as the foreclosure rate continues to increase.

OVERVIEW

Suburban Philadelphia direct vacancy rates stood at 15.0% for the second quarter of 2009 up from 12.7% at this time last year. A large contributor to this jump has been the amount of sublease space that has come available over the past year. Currently there is 1,113,557 square feet(sf) of vacant sublet space available for lease, driving the overall vacancy rate up to 16.8% compared to 14.0% last year. Class A rental rates for mid-year 2009 are an average of $23.86 per square foot(psf) a significant drop from $27.66 psf experienced last year. Mid-year leasing activity came in at just under a 1 million square feet(msf) leased, the lowest mid-year numbers in more than a decade. Total direct absorption dropped into the negative territory to 147,082 sf, the first time the suburban market has entered mid-year with negative absorption numbers since 2003.

Leasing activity was healthy this quarter in a few submarkets throughout the suburban office market, but overall was rather limited. In particular the Main Line submarket welcomed Main Line Health at 240 Radnor Chester Road leasing the entire 105,000 sf building. Over in King of Prussia, the Maschellmac Office Complex welcomed CSL Behring LLC taking a grand total of 114,854 sf of space spread across three buildings in the complex. Some other significant deals include GMAC Relocation Services lease at the Fort Washington Office park for 21,305 sf and Alcatel-Lucent's renewal at the Great Valley Corporate Center for 13,480 sf of space.

Southern Bucks County welcomed the first newly constructed building to the suburban market of 2009 at the Horizon Corporate Center in Feasterville, PA. O'Neill Properties finished construction on the brand new class A office building totaling 214,679 sf of space. Also in Southern Bucks County there is an 87,000-sf building under construction at 1000 Floral Vale Boulevard in Yardley, PA. This new class A building is set to deliver next quarter and is completely available for lease.

FORECAST

The remainder of 2009 expects to be a difficult time for the Suburban Philadelphia market. Leasing Activity is expected to remain low as tenant activity has dropped significantly. Direct absorption numbers are expected to increase into the negative territory and rental rates will drop further. Expect landlords to offer more free rent and concessions. Aside from what is under construction right now, construction activity will be slow due to economic times. Developers are hesitant to begin construction on proposed projects due to the lack of financing available and current tenant activity. The remainder of 2009 will be rough, but things should stabilize in 2010 as employment numbers should improve at some point and jobs will begin returning to the market.

BEAT ON THE STREET

"The first half of 2009 was a challenging period in the Philadelphia suburban office market. While tenant activity has increased and absorption of some of the larger blocks of space has occurred, we are still dealing with the effects of the credit crisis and the state of the national economy. Landlords are in a struggle to maintain the rental rates in the class A product and transactions are taking longer to close, but overall fundamentals are in place for a mild recovery going into 2010."

-John Shelly, 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

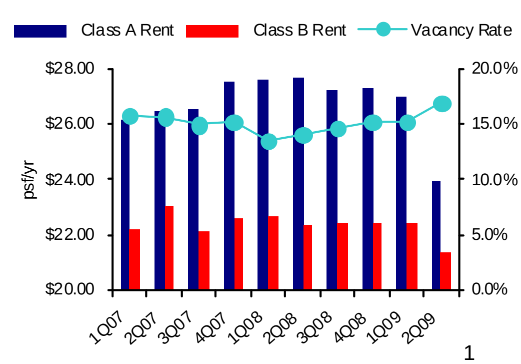
MARKET FORECAST

LEASING ACTIVITY will remain low for the remainder of 2009 as tenants have become hesitant to lease new space.

DIRECT ABSORPTION is expected to decline through the remainder of 2009, as more tenants are expected to leave the market.

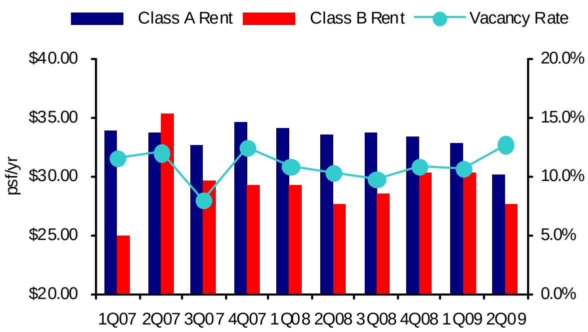
CONSTRUCTION will be limited, as no new projects are expected to break ground in 2009.

SUBURBAN RENTAL VS. VACANCY RATES



BALA CYNWYD & CONSHOHOCKEN

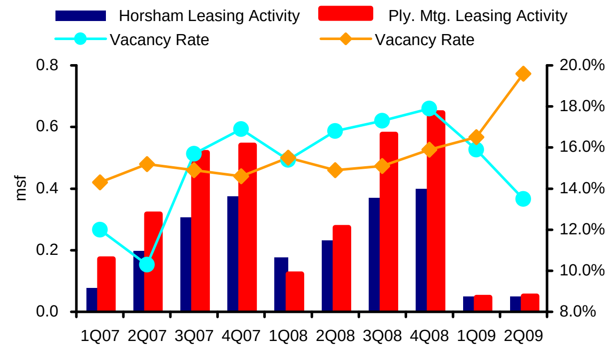
OVERALL RENTAL VS. VACANCY RATES



- The Pleasant Valley Business Center at 1000 West Elm Street in Conshohocken welcomed three new tenants this quarter including Viridity Energy Inc., Axis Construction Services and Ameriprise.
- Bala Cynwyd produced only one new lease this quarter of 1,300 sf. Year-to-date leasing activity total 33,166 sf, the lowest mid-year numbers since 2002.

HORSHAM & PLYMOUTH MEETING

LEASING ACTIVITY VS. VACANCY RATES



- With leasing activity being so low in the suburbs, the Blue Bell/Plymouth Meeting/Fort Washington submarket experienced a healthy level of leasing activity this quarter. GMAC Relocation Services, Medequip International and Alere/Matria Womens Health all signed new deals.
- The Pennsylvania Business Campus located in Horsham signed three new tenants to its facility totaling 23,489 sf.

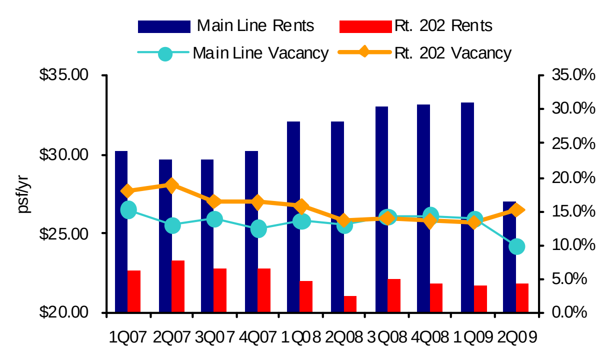
KING OF PRUSSIA & VALLEY FORGE

AVAILABLE SPACE TRENDS & RENTAL RATES

- Of the suburban markets, the King of Prussia/Valley Forge submarket continues to outperform other submarkets in leasing activity year to date. CSL Behring LLC leased 114,854 sf total in several buildings at the Maschellmac Office Complex.
- Renewals were prevalent in the King of Prussia/Valley Forge submarket as Alcatek-Lucent, RemX IT Staffing, and Main Line Spine all signed renewal deals this quarter. Renewals have increased throughout the past year in the suburban markets as tenants have opted toward the side of conservative during these economic times.

MAIN LINE & SOUTHERN RT. 202

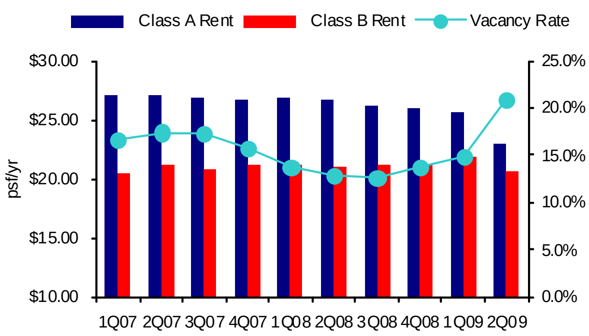
CLASS A RENTAL VS. VACANCY RATES



- Main Line Health leased the entire building class A building at 240 Radnor Chester Road in Radnor, PA. The 105,000-sf lease was the largest lease of the quarter for the suburban markets.
- The overall vacancy rate in the Southern Route 202 office market has increased from 13.7% mid-year 2008 to 15.1% this year.

SOUTHERN BUCKS

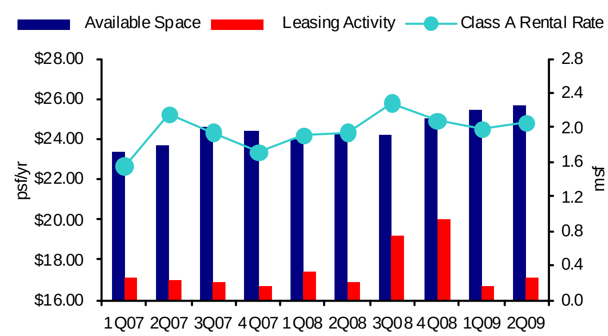
OVERALL RENTAL VS VACANCY RATES



- O'Neill Properties delivered a new 214,679-sf building to its Horizon Corporate Center office park. The new class A building is the first office building to finish construction in the suburban market in 2009.
- Leasing Activity has dropped off significantly from 2008's mid-year numbers. Over 200,000 sf of space was leased at this point last year in comparison to the just over 30,000 sf leased mid-year 2009.

SOUTHERN NEW JERSEY

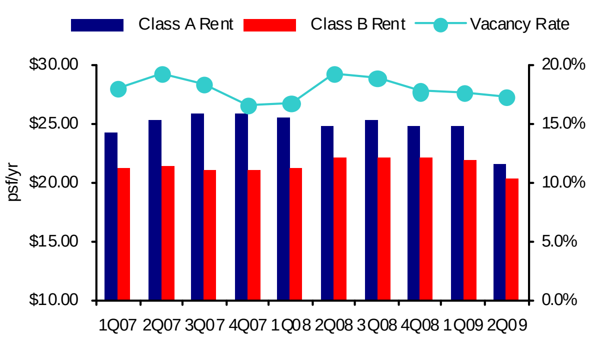
OVERALL MARKET TRENDS



- Seven Carnegie Plaza in the Cherry Hill Business Park sold for $6.6 million ($73.80 psf) this quarter. The 89,429-sf class C property sold to Fox Rehabilitation services from Liberty Property Trust.
- Camden County continues to experience a substantial amount of renewal activity. Aptuit, Inc renewed their 34,000-sf space at 12000 Commerce Parkway in the Greenway North Corporate Center in Mount Laurel,NJ.

NORTHERN DELAWARE

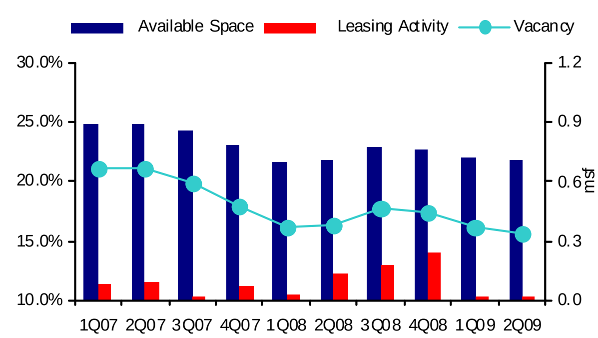
OVERALL RENTAL VS. VACANCY RATES



- Northern Delaware experienced little activity in the second quarter of 2009, although vacancy rates remain healthy at 16%. This can be attributed to the positive level of absorption of 233,258 sf.
- The Star Building at 123 Jutison Street is currently under construction and is expected to deliver sometime in 2010. This class A building being constructed by Pettinaro Management will add 158,770 sf of class A space to the market.

PHIL. & DELAWARE COUNTIES

OVERALL MARKET TRENDS



- Actvitiy was slow over in University City this quarter with only one new deal at the University City Science Center where Alumifuel Power, Inc leased 2,511 sf of space. However, the life science industry in University City continues to be a success due to the stability of the health and educational sectors.
- Delaware County had a rough second quarter with only one new lease of 3,054 sf of space. Mid-year 2008 numbers topped over 100,000 sf of space leased, an example of the dramatic decline in leasing activity throughout the submarket.

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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 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Maschellmac Office Complex - I, II, IV	King of Prussia/Valley Forge	CSL Behring LLC	114,854	A
240 Radnor Chester Road	Main Line	Main Line Health	105,000	A
501 Office Center Drive	Blue Bell/Ply.Mtg./Ft.Wash.	GMAC Relocation Services	21,305	A

SIGNIFICANT 2Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
7 Carnegie Plaza	Camden County	Fox Rehabilitation Services	89,429	$6,600,000

SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
3800 Horizon Boulevard-Bldg 1	Southern Bucks County	N/A	214,679	5/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1000 Floral Vale Blvd	Southern Bucks County	N/A	87,000	9/09

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