

# MARKETBEAT

## PHILADELPHIA SUBURBAN OFFICE REPORT



A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

4Q08

### ECONOMY

The effects of the global economic decline have been buffered by the diversification of the Philadelphia region's industrial makeup and the area's strong market fundamentals. Rooted deeply in healthcare and large pharmaceutical firms and on a smaller scale insurance and financial services, the Philadelphia region has not experienced the degree of upheaval as those markets that have a heavy concentration of financial institutions.

### OVERVIEW

Vacancy rates in the suburban office market have experienced a modest increase based on current economic conditions. The overall market's vacancy rates have increased just 130 basis points to 15.1% since year-end 2007. The majority of the suburban submarkets continue to maintain adequate levels of tenant activity with most experiencing only slight increases in vacancy rates. One notable exception would be the Horsham/Willow Grove/Jenkintown submarket where the year-end class A vacancy rate was 19.1%. This can be attributed to the lingering effects of GMAC Finance's migration to Fort Washington and the consolidation of Reed Technology & Information Services. These two transactions returned approximately 600,000 square feet (sf) of space to the market and 50% space has been leased prior to year-end 2008.

As the number of significant deals in the market dwindles, the activities of the major players are having an increasing effect on the region. Pharmaceutical firms such as Shire, Centocor and Cephalon continue to add jobs and cement their presence in the region while Teva Industries expanded operations in the Horsham submarket as the drug company searches for a +/-1.0-million square foot (msf) corporate headquarters. Even as Merck consolidates its operations into its corporate owned West Point facility; it still maintains a significant presence in the Blue Bell submarket. In the financial sector, the entire market breathed a sigh of relief as GMAC received \$5.0 billion dollars in federal assistance. These funds will help prevent the return of approximately 450,000 sf to the suburban office market and save over 1,500 area jobs.

The impact of the credit crisis is hitting home in the suburban market as two major office build-to-suit projects may face delays due to the economic fallout. VWR International is still pursuing build-to-suit options in the western suburbs, but could find the securing appropriate financing challenging. Unable to secure the services of a developer who can acquire reasonable financing terms, Advanta postponed plans to construct a four-story 200,000-sf regional headquarters in the Horsham submarket.

### FORECAST

Major tenant activity has only slightly waned in the region as a handful of companies continue their search for a minimum office space requirement of 100,000 sf. As the U.S. economy continues to contract, many of these firms are seeking alternative options in single-story properties where the difference can be up to \$5.00 per square foot (psf). Some local firms may seek quality space at favorable prices as some landlords will offer concessions on class A availabilities. Still, other companies will still continue to migrate to the Philadelphia region based on the area's strong demographics and competitive cost of living.

### BEAT ON THE STREET

"The next 12 months will prove to be a challenging time in the suburban market. Experts predict the current economic uncertainty will last through mid-2009, but that we should begin to turn the corner by the end of the summer. As a result of the stimulus packages, credit markets will strengthen and corporate users will have access to the funds to stimulate growth leading to eventual market stabilization."

—John Shelly, Senior Director

### ECONOMIC INDICATORS

National	2007	2008	2009F
GDP Growth	2.0%	1.2%	-1.5%
CPI Growth	2.9%	4.2%	0.9%

Regional	2007	2008	2009F
Unemployment	4.4%	5.3%	6.0%
Employment Growth	0.7%	0.2%	0.0%

Source: Moody's | Economy.com

### MARKET FORECAST

**LEASING ACTIVITY** should remain flat for the better part of 2009 as landlords and tenants remain cautious. ⇄

**DIRECT ABSORPTION** is expected to remain negative throughout 2009 as the corporate world gauges the impact of the economic stimulus program. ⇄

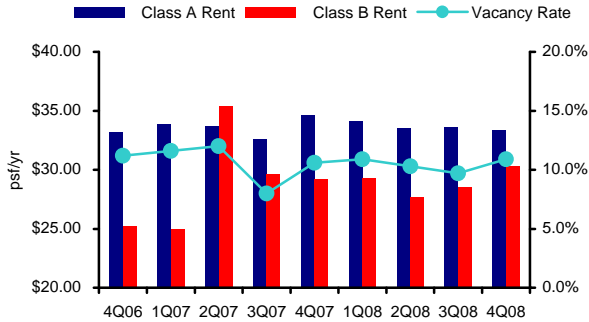
**CONSTRUCTION** activity will experience very few if any significant new projects due to the the uncertainty of the credit markets. ⇄

### SUBURBAN RENTAL VS. VACANCY RATES



### BALA CYNWYD & CONSHOHOCKEN

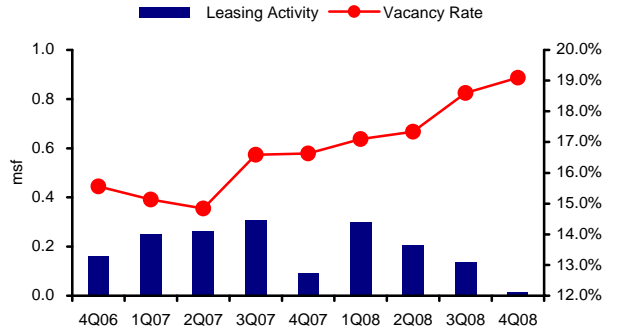
#### OVERALL RENTAL VS. VACANCY RATES



- Three significant class A spaces were leased in Bala Cynwyd. AXA Equitable Life took 58,061 sf at 40 Monument Road, Hamilton Lane Advisors leased 36,469 sf at One Presidential and InvestEdge signed a deal for 19,691 sf at One Belmont.
- KBS Realty Advisors acquired 300 Bar Harbor Drive (5 Tower Bridge) in Conshohocken from Oliver Tyrone Pulver Corporation. The buyer paid \$73.0 million or \$331.82 psf.

### HORSHAM & PLYMOUTH MEETING

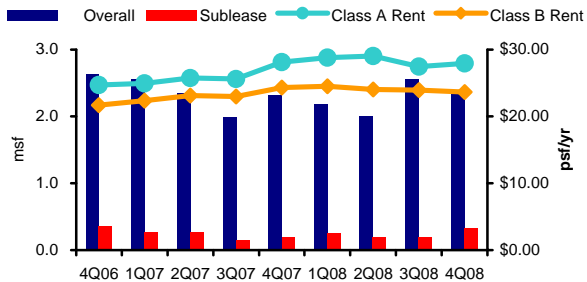
#### LEASING ACTIVITY VS. VACANCY RATES



- An aggregate of 230,000 sf of class A space was signed in the Pennsylvania Business Campus. Hartford Financial Services Group (110,000 sf) and United Health Group (120,000 sf) were the lessees.
- The class A vacancy rate for the Blue Bell/Plymouth Meeting/Fort Washington submarket experienced an uptick of approximately 240 basis points to 13.9% since the end of 2007 which can be attributed in part to the Merck consolidation and Nice Ball Bearing Building renovation.

### KING OF PRUSSIA & VALLEY FORGE

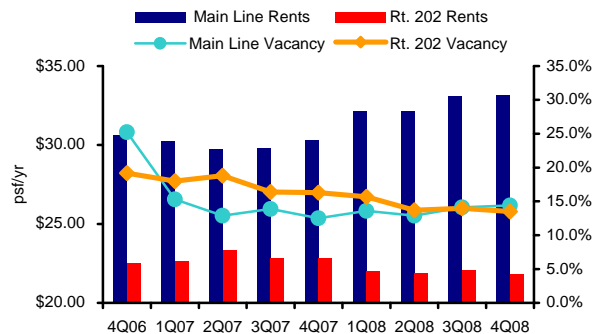
#### AVAILABLE SPACE TRENDS & RENTAL RATES



- The King of Prussia/Valley Forge submarket's class A vacancy experienced an uptick of over 400 basis points to 13.7% since year-end 2007. Still the submarket experienced significant activity from True Position, Hartford Financial Services Group and the Vanguard Group, with combined leases totaling 226,525 sf.
- In a two building portfolio sale, JAMBD Corporation purchased 1100 and 1150 First Avenue in King of Prussia from 1100 First Avenue Associates. JAMBD Corp. paid \$17.2 million.

### MAINLINE & SOUTHERN RT. 202

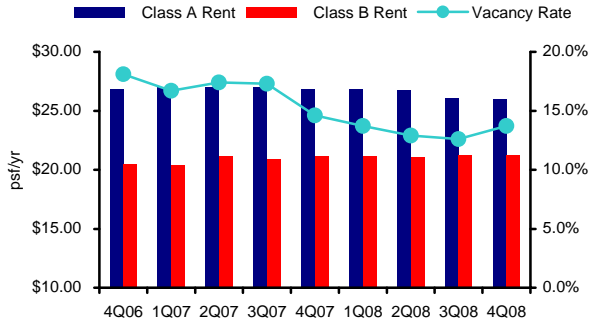
#### CLASS A RENTAL VS. VACANCY RATES



- Mainline's class B office submarket ended 2008 on a solid note. After posting negative year-end absorption and double digit vacancy rates in 2007, absorption trended upwards and vacancy rates declined by 160 basis points to 9.9% in 2008.
- Time Equities purchased 223-225 Wilmington West Chester Pike at the Gateway Corporate Center in Chadds Ford from Oaklands Business Park in a two building portfolio sale. The 90,000-sf transaction was acquired for an estimated \$13.0 million.

### SOUTHERN BUCKS

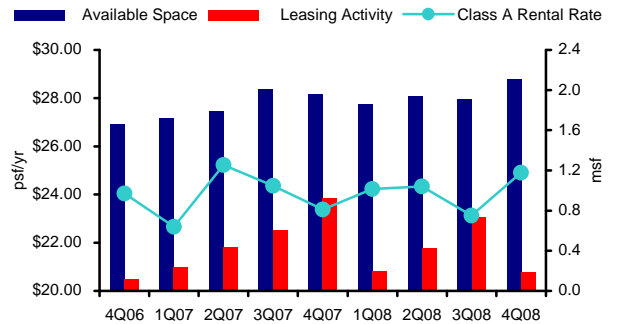
#### OVERALL RENTAL VS VACANCY RATES



- Great Point Investors acquired 100 Brandywine Boulevard at the Newtown Corporation Center from Brandywine Realty Trust. The three-story 102,000-sf class A office building sold for \$28.0 million.
- The Southern Bucks class A submarket ended the year on a positive note as the vacancy rate experienced a 200 point downtick since fourth quarter 2007. In conjunction with the vacancy rate decrease there was over 250,000 sf of new class A leasing activity and positive year-end absorption for 2008.

### SOUTHERN NEW JERSEY

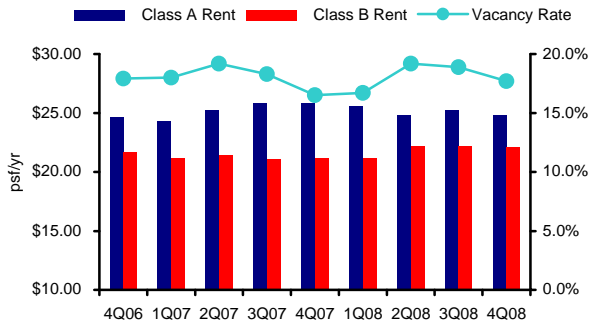
#### OVERALL MARKET TRENDS



- Maguire Partners Property Group/Bergman Realty Corp. acquired the Colwick Building, located at 51 Haddonfield Road in Camden County, from Invesco Funds. The 94,793-sf building traded for \$11.5 million.
- Burlington County experienced healthy activity with 373,871 sf of significant new transactions. Connor Strong took 50,000 sf at Lake Center IV while Shaw Facilities leased an aggregate of 100,000 sf of space at Moorestown Corporate Center I and II.

### NORTHERN DELAWARE

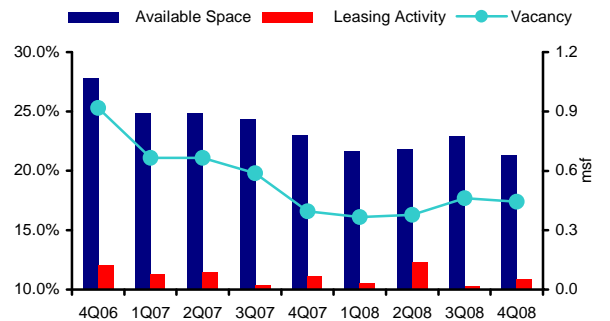
#### OVERALL RENTAL VS VACANCY RATES



- Sallie Mae acquired 300 Continental Drive in Newark from Nationwide Life Insurance. The buyer paid \$20.8 million or \$130.00 psf for the 160,000-sf three-story class A office building.
- The Star Building, currently under construction, will bring nearly 159,000 sf of new class A office space to the New Castle County – CBD. The speculative building is scheduled to deliver in June 2010.

### DELAWARE COUNTY

#### OVERALL MARKET TRENDS



- Over 300,000 sf of class A office space were renewed at the Airport Business Center. Amerihealth Mercy Health Plan took 208,000 sf at 200 Stevens Drive, while Keystone Mercy Health Plan renewed for 95,149 sf at 100 Stevens Drive.
- RREEF Alternative Investments acquired two buildings at the Wellness Center in Delaware County. The buyer paid \$9.5 million for the 67,155-sf medical-office development.

### 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 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
<b>CBD Total</b>	<b>41,914,928</b>	<b>121</b>	<b>10.0%</b>	<b>8.8%</b>	<b>1,861,116</b>	<b>0</b>	<b>0</b>	<b>(480,836)</b>	<b>\$27.43</b>
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
<b>Suburban Philadelphia Total</b>	<b>58,367,587</b>	<b>914</b>	<b>15.1%</b>	<b>13.7%</b>	<b>3,293,963</b>	<b>214,679</b>	<b>305,499</b>	<b>(309,254)</b>	<b>\$27.28</b>
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
<b>Southern New Jersey Total</b>	<b>14,279,591</b>	<b>274</b>	<b>14.8%</b>	<b>12.9%</b>	<b>934,913</b>	<b>0</b>	<b>0</b>	<b>(359,041)</b>	<b>\$24.91</b>
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
<b>New Castle Cty - DE Total</b>	<b>14,881,467</b>	<b>192</b>	<b>17.7%</b>	<b>17.4%</b>	<b>693,396</b>	<b>158,770</b>	<b>136,000</b>	<b>(363,595)</b>	<b>\$24.78</b>
Lehigh & N. Hampton Cnty**	5,950,982	103	9.9%	9.6%	306,772	0	0	133,824	\$22.11
<b>NON-CBD Total</b>	<b>87,528,645</b>	<b>1,380</b>	<b>15.5%</b>	<b>14.2%</b>	<b>4,922,272</b>	<b>373,449</b>	<b>441,499</b>	<b>(1,031,890)</b>	<b>\$26.48</b>
<b>PHILA MSA TOTAL</b>	<b>129,443,573</b>	<b>1,501</b>	<b>13.7%</b>	<b>12.5%</b>	<b>6,783,388</b>	<b>373,449</b>	<b>441,499</b>	<b>(1,512,726)</b>	<b>\$26.73</b>

\* Rental rates reflect \$psf/year

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

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2008 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
785 Jolly Road	Blue Bell/Ply. Mtg./Ft. Wash.	Merck Inc.	216,065	B
680 Blair Mill Road	Horsham/Willow Grove/Jenkintwn	United Health Group	120,000	A
4 Walnut Grove Drive	Horsham/Willow Grove/Jenkintwn	The Hartford Financial	110,000	A

#### SIGNIFICANT 2008 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
300 Barr Harbor Drive	Conshohocken	KBS REIT	220,000	\$73,000,000
101 Greenwood Avenue	Horsham/Willow Grove/Jenkintwn	ISU Properties L.P.	98,839	\$9,000,000
2010-2050 West Chester Pike	Delaware County	RREEF Alternative Investments	67,155	\$9,500,000

#### SIGNIFICANT 2008 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
505 Eagleview Boulevard	Southern Route 202 Corridor	XI America, Inc	150,000	3/08
800 Adams Avenue	King of Prussia/Valley Forge	Luitpold Pharmaceuticals Inc.	65,626	4/08
1 Centerville Road	New Castle County -Non CBD	Artisans' Bank	60,000	3/08

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
3800 Horizon Boulevard-Bldg 1	Southern Bucks County	N/A	214,679	6/09
123 Justison Street	New Castle County - CBD	N/A	158,770	6/10



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

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