

MARKETBEAT

PHILADELPHIA SUBURBAN OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



3Q09

ECONOMY

The U.S. economy continued to weaken through the third quarter of 2009 but showed signs of stabilization. The ongoing national recession and economic uncertainty continue to impact the job market. Pennsylvania's unemployment rate inched upward in the third quarter of 2009 to 8.2% from 8.1% in the second quarter of 2009. In comparison, the regional unemployment rate is still below the national unemployment rate of 9.7%. Forecasts by the federal government predict that the unemployment rate will rise to double-digits by the end of the year. On a more positive note, layoffs have moderated since reaching a peak in the beginning of the year with only 76,456 job cuts in August compared to 97,373 in July. Most of the job cuts were in the federal government sector, the biggest contributor being the U.S. Postal Service, which announced that it would cut approximately 30,000 jobs. All these trends indicate that the Greater Philadelphia region is still suffering although may be on the path to recovery.

OVERVIEW

The national and local economic climates have had an impact on the Philadelphia suburban office market over the past year. The market posted an overall vacancy rate of 17.2%, 260 basis points higher than the same period in 2008, while direct vacancy rates rose to 15.1%, an increase of 180 basis points from the third quarter of 2008. Year-to-date overall absorption continued to sink deeper into the negative territory with 121,815 square feet (sf), a reversal from 63,969 sf of positive absorption over the same period a year ago. Sublease vacancy rates have increased over a percentage point to 2.2% compared to the third quarter of 2008 number and reaching the highest level since the third quarter of 2006. This forced landlords to step up concession packages to fill vacancies and compete against the much lower rents offered by sublessors. Despite this, asking direct rental rates in Suburban Philadelphia experienced only a small drop over the past year going from \$27.17 per square foot (psf) to \$27.11 psf presently.

Leasing activity has dropped to its lowest levels in decades, with only 394,874 sf of new transactions completed in the third quarter of 2009. One of the most significant transactions of the quarter took place in Blue Bell/Plymouth Meeting/Fort Washington submarket where SDI, a private health-care analysis and data firm, inked a 125,000-sf lease at the 1 SDI Drive. The company is consolidating two offices in the area and the planned 150,000-sf building, which will break ground in fourth quarter of 2009, would serve as the new corporate headquarters. Another significant lease of the quarter occurred in the Conshohocken submarket where Phase Forward, a leading provider of integrated data management solutions for clinical trials and drug safety, signed a 10-year deal of approximately 45,000 sf of class A space at the Five Tower Bridge building. The company chose the building primarily because of the immediate space requirements and to consolidate two other offices into one location.

On the investment sale side, Synthes USA, a leading global medical device company acquired a 31,700-sf single-story class B office building at Brandywine Business Park from McCloskey Management Company for \$4.3 million or \$135.65 psf. The building would accommodate company laboratory equipment and provide general multi-purpose office space, as well expand the presence in the West Chester area.

FORECAST

The Suburban Philadelphia office market will continue to struggle throughout the remainder of 2009 and will face many challenges in the upcoming year. Leasing activity is expected to remain low and will be composed of relatively smaller transactions throughout the remainder of the year. Due to economic uncertainty in the office sector, landlords will continue to provide more concession packages to retain current tenants and also attract prospective tenants.

BEAT ON THE STREET

"Corporate America continues to focus on portfolio strategy and optimization. The blending and extending of leases in order to achieve immediate savings and short term, as-is renewals are the current market trends. While landlords typically prefer longer term renewals, the short term as-is renewals provide them the ability to maintain occupancy levels and preserve capital while allowing for future rental rates increases when market conditions improve."

—Kimberly Finnerty, Associate 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

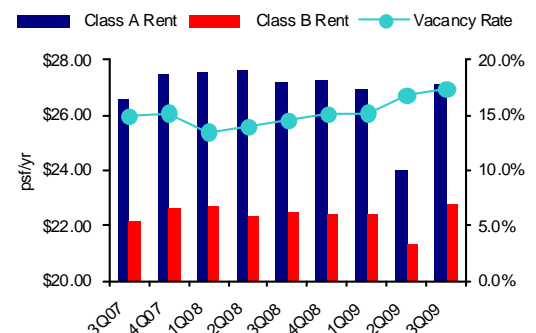
MARKET FORECAST

LEASING ACTIVITY should continue to decrease even further as more prospective tenants focus on smaller space and short term commitments. ↓

DIRECT ABSORPTION is expected to soften and will continue to sink deeper into the negative territory. ↓

CONSTRUCTION activity will drop as approximately 214,000 sf of quality office space will be delivered by the end of the year. 2010 has a limited number of projects in the pipeline. ↔

SUBURBAN RENTAL VS. VACANCY RATES



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. Wash.	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%	1,287,372	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%	1,745,779	639,230	301,679	(963,769)	\$26.35
PHILA MSA TOTAL	129,395,520	1,478	15.7%	13.9%	2,135,561	639,230	301,679	(1,752,303)	\$26.61

* Rental rates reflect \$psf/year

** Lehigh & Northampton Counties are not included within the Non-CBD total & Philadelphia MSA total.

MARKET HIGHLIGHTS

SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1 SDI Drive	Blue Bell/Ply. Mtg./Ft. Wash.	SDI	125,000	A
300 Barr Harbor Drive/Five Tower Bridge	Conshohocken	Phase Forward	45,000	A
200-264 Lakeside Drive/Lakeside Plaza II	Horsham/Willow Grove/Jenkintwn	IRS	15,298	B

SIGNIFICANT 3Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
1210 Ward Avenue	Southern Route 202 Corridor	Synthes USA HQ, Inc.	31,700	\$4,300,000

SIGNIFICANT 3Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1000 Floral Vale Boulevard	Southern Bucks County	N/A	87,000	9/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
1331 Ivy Hill Road	Blue Bell/Ply. Mtg./Ft. Wash.	N/A	120,000	10/09
865 Easton Road	Southern Bucks County	N/A	61,000	12/09
45 Morehall Road	Southern Route 202 Corridor	N/A	45,000	12/10
317 West Germantown Pike	Blue Bell/Ply. Mtg./Ft. Wash.	N/A	33,600	12/09



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