

MARKETBEAT

PHILADELPHIA SUBURBAN OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



4Q09

ECONOMY

Since the U.S. economy continued to show signs of modest improvement, the majority of employers have begun to be more confident about the economic outlook, but not confident enough to add new employees. As such, the national unemployment rate has risen to the highest level in more than a quarter-century of 10.0%, up from 4.9% when the recession began in December 2007. Pennsylvania's unemployment rate rose to 8.8% in October mostly due to some job cuts and organizational restructuring in the service industries. Even so, the State of Pennsylvania experienced the largest single-month job increase in the past two years, adding approximately 16,000 jobs in October. According to the Pennsylvania Department of Labor and Industry, most of the job gains were in the educational and health services sector (11,600 jobs), followed by leisure and hospitality (2,400 jobs), government (1,700 jobs) and financial (800) sectors. As a result, the state's economy has experienced the early stages of the positive reforms and strengthened on the path to full recovery in the region.

OVERVIEW

Throughout the fourth quarter of 2009, the Suburban Philadelphia office market experienced the early stages of stabilization. The direct vacancy rates remained relatively flat at 15.1%, while sublet vacancy rates shrank slightly to 2.0% from 2.2% since the end of the third quarter. After posting the negative numbers in prior quarters, the direct absorption has shown the first signs of improvement and posted 258,539 square feet (sf) of positive absorption in the fourth quarter. The primary contributor to this up tick has been an escalation of the leasing activity of class A space in all major suburban submarkets. All of this suggests that it could be a signal that the market is poised to rebound in 2010.

Despite the overall slowdown in leasing activity throughout the suburban office market, several submarkets have seen a healthy amount of activity in the fourth quarter of 2009 and revealed a rise in optimism for 2010. In particular, the Blue Bell/Plymouth Meeting/Fort Washington submarket continues to record the most significant transactions in terms of size quarter after quarter. The Fort Washington Office Center welcomed NutriSystem, Inc. at 600 Office Center Drive. They leased the entire 120,185-sf class A office building, which would serve as the new corporate headquarters for the company. Also, in King of Prussia/Valley Forge submarket, BioClinica, Inc. inked a 9-year lease for 45,026 sf of class A office space at Valley Forge Corporate Center. The company, which is headquartered in Newtown, PA, provides medical image management and data support for clinical trials, has scheduled its move from the current location in the beginning of 2010.

FORECAST

Now that the region's economy seems to be stabilizing, 2010 should be a more dynamic year for the Suburban Philadelphia office market. Such trends, like considerably increasing concession packages and significantly reduced rental rates have made a lot of changes to industry fundamentals, and these trends will continue to be influential in 2010. The leasing activity should begin to improve sometime around mid-2010 as many potential tenants, who postponed their expansions and relocations, will want to take advantage of the concession in what many believe is a tenant's market. New construction activity will be relatively low compared to the previous years, with only a few properties totaling 424,630 sf expected to deliver to the market in 2010.

BEAT ON THE STREET

"2009 was a difficult year for leasing velocity yet we finished the 4th quarter with positive absorption in the suburban markets. We anticipate 2010 to be a repeat of 2009 with greater deal flow and deals closing quicker due to the positive economic signs in the 4th quarter."


-John Derham, Senior Managing Director


ECONOMIC INDICATORS


	2008	2009F	2010F
National			
GDP Growth	0.4%	-2.5%	2.3%
CPI Growth	3.8%	-0.4%	1.7%
Regional			
Unemployment	5.4%	8.8%	9.1%
Employment Growth	0.2%	-2.6%	-0.5%

Source: Moody's|Economy.com

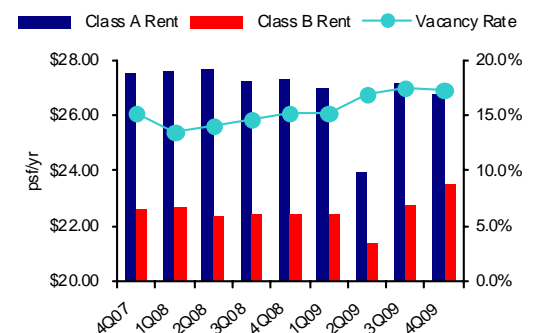
MARKET FORECAST

LEASING ACTIVITY should begin to improve some time in mid-2010 as many potential tenants will look to take advantage of aggressive offers from area landlords. 

RENTAL RATES most likely will continue to retrench over the course of the next year but not significantly. 

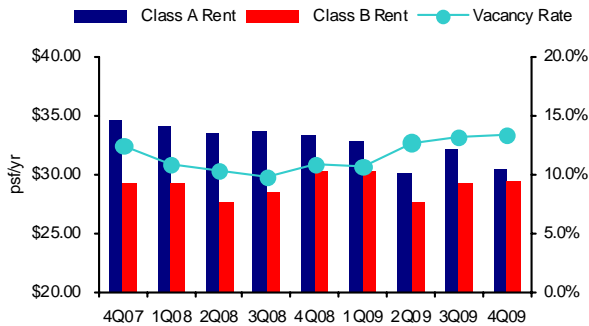
CONSTRUCTION deliveries in 2010 will be relatively low, with only a few properties coming into the market. 

SUBURBAN RENTAL VS. VACANCY RATES



BALA CYNWYD & CONSHOHOCKEN

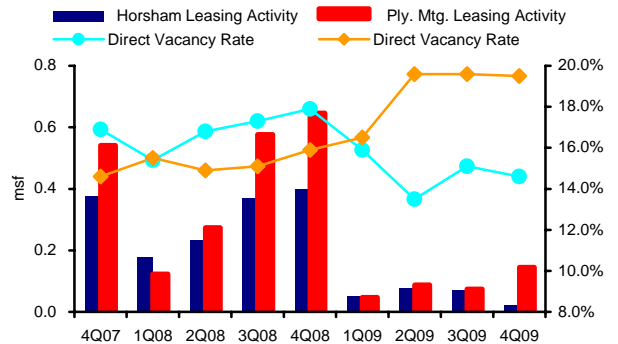
OVERALL RENTAL VS. VACANCY RATES



- The overall vacancy rate for the Bala Cynwyd office submarket rose slightly by 30 basis points to 16.2% from mid-year 2009 numbers and managed to retain class A direct rental rents at \$30.48 per square foot (psf).
- The Five Tower Bridge building at 300 Barr Harbor Drive in West Conshohocken welcomed Phase Forward, Inc. The company signed a 10-year deal of for 45,000 sf of class A space in one of the largest deals of 2009.

HORSHAM & PLYMOUTH MEETING

LEASING ACTIVITY VS. VACANCY RATES



- Due to the increased leasing activity in the Horsham/Willow Grove/Jenkintown submarket, both direct and overall vacancy rates numbers fell slightly to close the year at 14.6% and 18.9%, respectively.
- The most significant transaction of the quarter occurred in the Blue Bell/Plymouth Meeting/Fort Washington submarket at 600 Office Center Drive, where NutriSystem, Inc leased the entire 120,185-sf class A office building for their new headquarters.

KING OF PRUSSIA & VALLEY FORGE

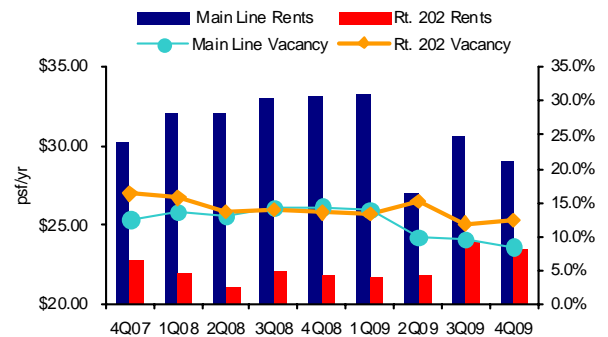
AVAILABLE SPACE TRENDS & RENTAL RATES



- BioClinica, Inc. inked a 9-year deal for 45,026 sf of class A space at 800 Adams Avenue in Norristown, PA. The lease was one of the largest transactions of the fourth quarter for the suburban markets.
- Both, class A and B direct average asking rental rates declined modestly from mid-year 2009. Class A office rents averaged at \$25.64 psf, while class B and C rates were at \$22.23 psf and \$17.60 psf, respectively.

MAIN LINE & SOUTHERN RT. 202

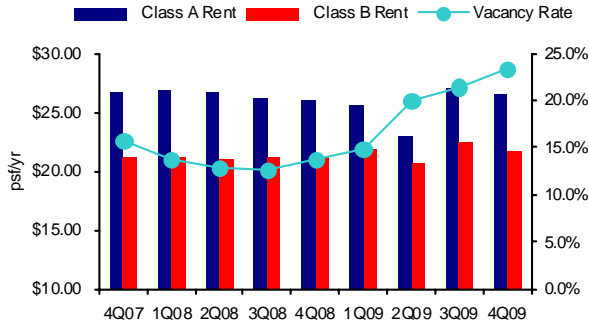
CLASS A RENTAL VS. VACANCY RATES



- Main Line's class A direct average asking rent dropped to \$29.00 psf in the fourth quarter of 2009, down from \$33.13 psf from just 12 months ago.
- The overall vacancy rate in the Southern Route 202 office submarket is now 13.4%, down from 14.0% one year ago, while direct net absorption posted positive 162,779 sf at the close of the year.

SOUTHERN BUCKS

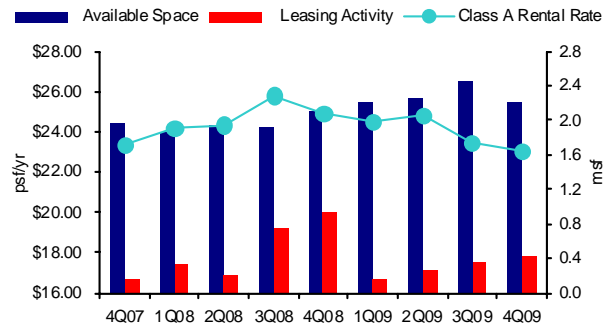
OVERALL RENTAL VS VACANCY RATES



- Heritage Building Group delivered a new, 61,000-sf speculative class A office building to its Heritage Center at Warrington Business Park. The building was approximately 11% pre-leased to American Automotive Association (AAA) when it delivered.
- Another speculative delivery was added to the Southern Bucks submarket in the second half of 2009. A completely vacant, four-story 87,000-sf class A building is located in the Lower Makefield Corporate Center.

SOUTHERN NEW JERSEY

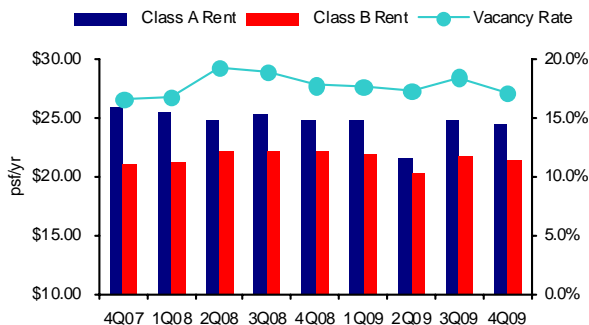
OVERALL MARKET TRENDS



- The Southern New Jersey submarket experienced strong positive absorption of 121,443 sf in the fourth quarter and finished with an overall vacancy rate of 15.7%. Leasing activity totaled 416,366 sf in 2009, down significantly from the prevailing three-year average of over 975,000 sf per year
- 900 Haddon Avenue, LLC acquired a 5-story, 83,220-sf office building from Marks & Company, Inc in Camden County. The facility was sold for \$2.6 million or \$31.24 psf.

NORTHERN DELAWARE

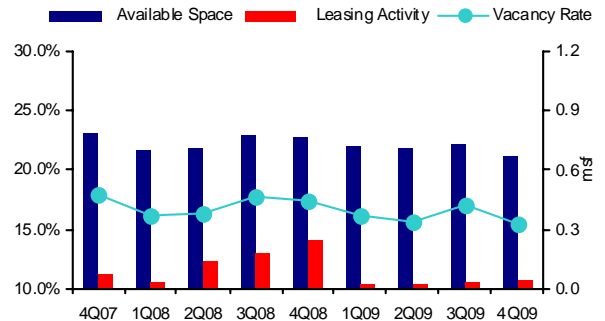
OVERALL RENTAL VS. VACANCY RATES



- The city of Wilmington and the surrounding areas of the New Castle County continue to post steady increases in leasing activity since the second quarter of 2009. They recorded 82,393 sf this quarter which brings the year-to-date total to 175,626 sf.
- Northern Delaware direct average asking rate for class A and B space remained virtually unchanged compared to the end of 2008, posting \$24.33 psf and \$21.39 psf, respectively.

DELAWARE COUNTY

OVERALL MARKET TRENDS



- At an average of \$26.50 for class A space, the Delaware County submarket was able to retain the rental rates steady, despite the current economic downturn.
- The Delaware County submarket experienced positive 63,914 sf of direct net absorption and posted a direct vacancy rate of 13.7% during the fourth quarter of 2009, demonstrating the moderate demand for office space in the area.

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	12.2%	11.5%	83,742	0	0	(559,947)	\$25.37
West of Broad	29,722,654	76	11.3%	10.1%	552,404	0	0	(92,310)	\$27.02
CBD Total	42,111,555	120	11.5%	10.5%	636,146	0	0	(652,257)	\$26.19
Bala Cynwyd	2,779,940	22	16.2%	13.4%	45,913	0	0	(111,531)	\$30.48
Southern Bucks County	6,415,199	102	23.3%	22.7%	50,200	0	362,679	(20,560)	\$26.52
Southern Rte. 202 Cor.	5,210,010	119	13.4%	12.4%	99,891	22,500	0	5,884	\$23.40
Delaware County	4,334,760	61	15.4%	13.7%	43,126	0	0	103,162	\$26.50
B.Bell/Ply.Mtg./Ft. Wsh.	9,660,038	157	20.5%	19.5%	352,790	0	33,600	(246,027)	\$25.41
Main Line	3,713,944	63	10.2%	8.5%	211,830	0	0	146,940	\$29.00
Conshohocken	3,825,636	31	15.0%	13.3%	98,646	0	0	(85,961)	\$29.56
Horsham/W.Gr./Jntwn	5,584,078	83	18.9%	14.6%	218,419	0	0	39,593	\$24.46
King of Prussia/V. Forge	16,382,658	265	16.1%	13.3%	518,656	243,360	0	(173,770)	\$25.64
Suburban Philadelphia Total	57,906,263	903	17.2%	15.1%	1,639,471	265,860	396,279	(342,270)	\$26.77
Burlington County	7,873,583	154	13.7%	12.9%	263,576	0	0	288,014	\$23.41
Camden County	6,061,513	108	18.4%	17.3%	152,790	0	0	(371,366)	\$22.77
Southern New Jersey Total	13,935,096	262	15.7%	14.8%	416,366	0	0	(83,352)	\$23.09
New Castle-Non-CBD	8,376,475	154	15.6%	15.3%	115,994	0	0	311,759	\$22.83
New Castle CBD	6,785,377	38	18.9%	18.7%	59,632	158,770	0	(39,742)	\$25.83
New Castle Cty - DE Total	15,161,852	192	17.1%	16.8%	175,626	158,770	0	272,017	\$24.33
Lehigh & N. Hampton Cnty**	5,950,982	103	14.6%	14.3%	101,784	0	0	(274,592)	\$22.64
NON-CBD Total	87,003,211	1,357	16.9%	15.4%	2,231,463	424,630	396,279	(153,605)	\$25.83
PHILA MSA TOTAL	129,114,766	1,477	15.2%	13.8%	2,867,609	424,630	396,279	(805,862)	\$25.88

* Rental rates reflect \$psf/year

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

MARKET HIGHLIGHTS

SIGNIFICANT 2009 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1 SDI Drive	Blue Bell/Ply. Mtg./Ft. Wash.	SDI	125,000	A
600 Office Center Drive	Blue Bell/Ply.Mtg./Ft.Wash.	NutriSystem, Inc.	120,185	A
240 Radnor Chester Road	Main Line	Main Line Health	105,000	A

SIGNIFICANT 2009 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
777 Township Line Road	Southern Bucks County	GID Investment Advisers	110,000	\$21,000,000
855 Springdale Drive	Southern Route 202 Corridor	Hayden Real Estate Investments	50,750	\$9,000,000
210 Mall Boulevard	King of Prussia/Valley Forge	Senior Housing Properties Trust	30,465	\$6,100,000

SIGNIFICANT 2009 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
3800 Horizon Boulevard-Bldg 1	Southern Bucks County	N/A	214,679	5/09
1000 Floral Vale Boulevard	Southern Bucks County	N/A	87,000	9/09
865 Easton Road	Southern Bucks County	N/A	61,000	12/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
45 Morehall Road/VWR International Building	King of Prussia/Valley Forge	N/A	243,360	6/10
123 Justison Street / The Star Building	New Castle County - CBD	N/A	158,770	6/10
45 Morehall Road/Worthington Executive Center	King of Prussia/Valley Forge	N/A	22,500	12/10



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

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