

# MARKETBEAT

## PHILADELPHIA SUBURBAN OFFICE REPORT



A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

1Q09

### ECONOMY

The ongoing global financial crisis has finally taken a firm hold in the Philadelphia region, as the State of Pennsylvania and the City of Philadelphia struggle with employment and budgetary concerns. The state was third in the nation in mass job losses this past January. Meanwhile, the City of Philadelphia is currently bracing for a \$1.0 billion five-year deficit as local political leaders seek ways to lessen the monetary divide. The Suburban Philadelphia office market, which has been previously buffered from the levels of economic hardship experienced in other metropolitan areas due to a diverse market, has finally begun to feel the trickle down from the economic decline. Regional unemployment continues to rise, up 240 basis points year-over-year to 6.9%. By comparison, the national unemployment rate edged up 270 basis points to 8.1%, during the same twelve month period.

### OVERVIEW

Increased softness persists throughout the suburban Philadelphia office market as both the nation and region continue to feel the burden from the economic slump. Mass layoffs accelerated over the past several months, which in turn, have weakened the suburban office market. Advanta Corporation laid off 281 employees, but is expected to renew its lease short term at its current Horsham location while vacating its Springhouse office. They will continue their search for a 150,000-sf headquarters in the Horsham-Fort Washington area. Bank of America (former Countrywide Financial) dismissed 109 employees from its Station Park location in Hatboro and has put their 87,000 sf space on the market. Siemens Medical Corporation dismissed 500 employees at its Malvern location, but has not announced any changes in their current space.

Leasing activity throughout the market has experienced significant historical declines. Over the past four quarters, activity has fallen off by 55.0% to 345,000 sf. As leasing activity has declined so has the number of significant transactions. O'Neil Properties' proposed Worthington Project had two large transactions, one with laboratory supply and distribution company VWR International taking 97,344 sf and the other with investment-management firm Turner Investment Partners leasing 63,680 sf. The availability of financing in today's credit market could lead to potential delays in the scheduled delivery of the project. Pharmaceutical distribution company AmerisourceBergen has renewed a combined 153,000 sf at the Chesterbrook Corporate Center while healthcare revenue cycle operations firm ARC Group Associates, Inc. leased 27,200 sf at Station Park in Hatboro.

Consequently, the lack of current leasing activity and rising unemployment is having a strong effect on market conditions. The regional market's overall vacancy rate has slowly crept up, 170 basis points over the past four quarters to 15.2%, but still nowhere near the market highs of over 20.0% posted between 2003 and 2006. In turn class A asking rents have shown a decrease of .56 cents to \$27.00 per square foot (psf) in comparison to those landlords were seeking twelve months ago. Although first quarter absorption was significantly affected by United Healthcare Group taking occupancy of 120,000 sf at the Pennsylvania Business Campus, the posted metric was still negative (63,942 sf). In comparison, the market posted 121,768 sf of positive absorption during first quarter 2008.

### FORECAST

The Philadelphia region is experiencing the aftershock from a declining financial sector resulting in significant increases in year-over-year unemployment rates, layoffs as well as declines in leasing activity across all sectors. Prospective tenants continue to wait for signs of economic recovery as they refrain from making long-term commitments for significant office space, resulting in short-term transactions, downsizing and consolidation of existing spaces. As new construction is currently at a minimum, vacancy rates should remain near their current level throughout the remainder of the year. The expected rise in overall tenant activity should positively affect leasing activity as the potential for tenants to start making longer-term decisions looks more feasible by year-end 2009.

### BEAT ON THE STREET

"The diversified economy insulates the market against dramatic shifts, most recently caused by the financial sector. However, the up tick in unemployment could result in additional challenges for landlords. Numerous pipeline deals and a lack of new construction are reasons to expect a quicker recovery."

—John Derham, Senior Managing Director

### ECONOMIC INDICATORS

National	2008	2009	2010F
GDP Growth	1.1%	-2.9%	1.8%
CPI Growth	3.8%	-1.0%	1.9%
Regional			
Unemployment	5.5%	8.0%	8.9%
Employment Growth	0.1%	-1.4%	-0.4%

Source: Moody's|Economy.com

### MARKET FORECAST

**LEASING ACTIVITY** should remain at its present levels over the next two quarters. Increased tenant activity within the marketplace should result in an increase in leasing transactions by fourth quarter.



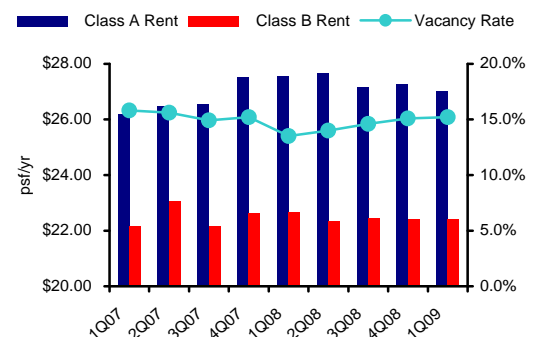
**DIRECT ABSORPTION** should remain negative as some current tenants may opt to renew, consolidate space or downsize. Increasing levels of sublet space has been appearing on the market over the past 12 months increasing tenants' options.



**CONSTRUCTION** activity will be nearly non-existent once 3800 Horizon and 1000 Floral Vale Boulevards deliver in the third quarter. In turn the two buildings will add 300,000 sf to the suburban office inventory.



### 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	12,431,761	45	8.3%	7.8%	10,435	0	0	(85,372)	\$24.44
West of Broad	29,722,654	76	11.0%	9.1%	119,577	0	0	124,834	\$27.85
<b>CBD Total</b>	<b>42,154,415</b>	<b>121</b>	<b>10.2%</b>	<b>8.7%</b>	<b>130,012</b>	<b>0</b>	<b>0</b>	<b>39,462</b>	<b>\$27.52</b>
Bala Cynwyd	2,779,940	22	12.1%	10.6%	26,294	0	0	2,215	\$32.87
Southern Bucks County	6,122,220	100	14.8%	14.1%	17,674	301,679	0	(28,195)	\$25.71
Southern Rte. 202. Corr.	5,223,210	120	13.4%	12.2%	11,076	0	0	(260)	\$21.79
Delaware County	4,405,938	63	16.2%	14.3%	21,515	0	0	48,565	\$25.93
B.Bell/Ply.Mtg./Ft.Wsh.	9,835,292	157	17.5%	16.5%	47,162	0	0	(39,295)	\$25.96
Main Line	3,912,024	67	13.9%	12.4%	0	0	0	11,281	\$33.35
Conshohocken	3,825,636	31	12.1%	9.6%	17,228	0	0	(45,700)	\$31.36
Horsham/W.Gr./Jntwn	5,740,971	88	18.5%	15.9%	50,332	0	0	11,856	\$23.84
King of Prussia/V. Forge	16,751,332	270	14.7%	13.0%	218,187	0	0	(51,328)	\$27.29
<b>Suburban Philadelphia Total</b>	<b>58,596,563</b>	<b>918</b>	<b>15.2%</b>	<b>13.6%</b>	<b>409,468</b>	<b>301,679</b>	<b>0</b>	<b>(90,861)</b>	<b>\$27.00</b>
Burlington County	7,923,852	156	18.1%	15.0%	103,621	0	0	(84,657)	\$24.56
Camden County	6,355,739	118	12.2%	11.7%	60,228	0	0	(29,343)	\$24.22
<b>Southern New Jersey Total</b>	<b>14,279,591</b>	<b>274</b>	<b>15.5%</b>	<b>13.5%</b>	<b>163,849</b>	<b>0</b>	<b>0</b>	<b>(114,000)</b>	<b>\$24.47</b>
New Castle-Non-CBD	8,063,435	152	17.0%	16.5%	16,068	0	0	11,886	\$24.05
New Castle CBD	6,818,032	40	18.2%	18.2%	20,549	158,770	0	15,070	\$25.27
<b>New Castle Cty - DE Total</b>	<b>14,881,467</b>	<b>192</b>	<b>17.6%</b>	<b>17.3%</b>	<b>36,617</b>	<b>158,770</b>	<b>0</b>	<b>26,956</b>	<b>\$24.73</b>
Lehigh & N. Hampton Cnty**	5,950,982	103	9.8%	9.6%	26,175	0	0	(140)	\$22.22
<b>NON-CBD Total</b>	<b>87,757,621</b>	<b>1,384</b>	<b>15.7%</b>	<b>14.2%</b>	<b>609,934</b>	<b>460,449</b>	<b>0</b>	<b>(177,905)</b>	<b>\$26.24</b>
<b>PHILA MSA TOTAL</b>	<b>129,912,036</b>	<b>1,505</b>	<b>13.9%</b>	<b>12.4%</b>	<b>739,946</b>	<b>460,449</b>	<b>0</b>	<b>(138,443)</b>	<b>\$26.58</b>

\* Rental rates reflect \$psf/year

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

### MARKET HIGHLIGHTS

#### SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
45 Morehall Road	King of Prussia/Valley Forge	VWR International	97,344	A
455 South Gulph Road	King of Prussia/Valley Forge	Fiserv	65,000	A
330 South Warminster Road - Bldg B	Horsham/Willow Grove/Jenkintwn	ARC Group Associates, Inc.	27,200	B

#### SIGNIFICANT 1Q09 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 1Q09 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
3800 Horizon Boulevard-Bldg 1	Southern Bucks County	N/A	214,679	6/09
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.

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