

OFFICE TRENDS YEAR-END 2009

Newmark Knight Frank
Smith Mack



Greater Philadelphia Real Estate Market Trends for Philadelphia, Philadelphia Suburbs, Delaware and Southern New Jersey



YEAR-END 2009 OFFICE TRENDS FOR THE TRI-STATE AREA.

The 2009 office market for the Greater Philadelphia region has continued to descend bringing the year-to-date cumulative negative net absorption to 3.5 million SF. This compares to 2008's year-end year-to-date positive net absorption of 1.4 million SF. Although 2008 ended in positive territory, the slide into negative absorption began in the fourth quarter of 2008 when negative absorption was 765,000 SF for the four markets combined. The downward trend paused in the first quarter of 2009 when office space remained even, but then continued downward for the second, third, and fourth quarters. It is clearly based on this trend that the recession has directly impacted the commercial real estate industry in our region. As we close out 2009, we are cautiously optimistic that 2010 will bring us a ray of hope and that leasing activity will gain momentum as the economy shows small signs of recovery.







Total vacancies for the Greater Philadelphia region, including sublet space, jumped to 23.1 million SF, or 18%, at the close of 2009 compared to 19.5 million SF, or 15.3%, at the close of 2008. The fourth quarter results delivered a substantial negative absorption of 691,000 SF, with three of the four core markets posting negative quarterly absorption...Southern New Jersey being the exception. While this is a significant number, it is approximately 65% less than the 1.96 million SF of negative absorption reported at the end of 3Q 2009; an indicator that the decline in occupancy is slowing. Another market indicator is the published average asking rental rates which decreased year-on-year to \$22.44 at 4Q 2009 compared to \$22.76 at 4Q 2008. Although this decrease seems minimal, research indicates that transactions are being done at rates even lower than those reported.

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Market Up-Close

- The Philadelphia CBD ends 2009 with double digit vacancy rates, increased sublet space and rental rates 2.3% lower than that of a year ago. However, the fourth quarter also brought slight signs of recovery along with cautious optimism that we are slowly beginning to emerge from the recession.
- The Philadelphia Suburban office market has all indicators that the recession has reached this market, with the Horsham submarket being the only submarket within the suburban market to end the year with a positive net absorption.
- The Northern Delaware office market ended 2009 somewhat optimistically, with overall vacancy decreasing slightly and year-to-date net absorption ending on a positive note.
- The Southern New Jersey market ended the fourth quarter with a positive absorption although year-end net absorption is negative. Similar to the rest of the Greater Philadelphia region, Southern New Jersey also felt the impact of increased vacancy rates.

Year-End 2008 Over Year-End 2009 Comparison

| | | | |
|---|------------------------------------|---|--|
|  | Increase in Vacancy |  | Increase in Rental Rate |
|  | Decrease in Vacancy |  | Decrease in Rental Rate |
|  | No Change in Vacancy (within 0.5%) |  | No Change in Rental Rate (within 0.5%) |

Submarket Overview

Malvern/Exton/West Chester

▲ Vacancy: **16.6%**
▼ Rental Rate: **\$20.59**

Delaware County

▼ Vacancy: **23.5%**
▲ Rental Rate: **\$22.10**

King of Prussia/Wayne

▲ Vacancy: **21.7%**
▼ Rental Rate: **\$22.14**

Plymouth Meeting/Blue Bell

▲ Vacancy: **24.9%**
▼ Rental Rate: **\$21.57**

Radnor/Conshohocken

▲ Vacancy: **18.0%**
▼ Rental Rate: **\$27.94**

Main Line (excluding Radnor)

▲ Vacancy: **14.0%**
▼ Rental Rate: **\$20.93**

Bala Cynwyd

▲ Vacancy: **17.6%**
▲ Rental Rate: **\$30.19**

Fort Washington

▲ Vacancy: **32.4%**
▼ Rental Rate: **\$19.95**

Horsham

▼ Vacancy: **17.9%**
▼ Rental Rate: **\$18.34**

Central Bucks County

▲ Vacancy: **17.6%**
▼ Rental Rate: **\$21.27**

Lower Bucks County

▲ Vacancy: **20.6%**
▼ Rental Rate: **\$18.51**

North Penn

▼ Vacancy: **33.0%**
▼ Rental Rate: **\$20.40**

Jenkintown

➡ Vacancy: **19.4%**
▼ Rental Rate: **\$19.42**

Philadelphia CBD

▲ ▼ Vacancy: **13.9%**
Rental Rate: **\$24.74**

The Philadelphia CBD office market is a prime example of the current effects of the weak economy, with direct vacancy remaining in the double digits for the second straight quarter at 11.2%. This is substantially higher than year-end 2008, when direct vacancy was in the single digits at 8.7%. Overall vacancy at the end of 2009, including sublet space, is 13.9%, compared to 10.4% at the close of 2008. Direct space accounted for 70% of the increased vacancy, with sublet space contributing 30%. The overall asking rental rate decreased in the CBD at year-end 2009 to \$24.74, compared to \$25.32 in 4Q 2008.

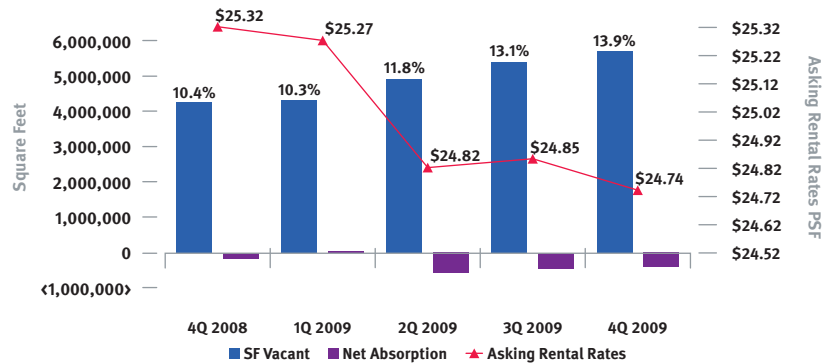
Market Street West ended the year with 14.1% total vacancy, which is 2.4% higher than 4Q 2008. While class AA space is still the lowest at 8.4% total vacancy, it is still 2% higher than it was a year ago.

The Market West net absorption for 4Q 2009 ended with a negative 218,000 SF, which is consistent with the prior two quarters that reported negative 360,000 SF and 175,000 SF for the second and third quarters,

respectively. Contributing to the fourth quarter negative absorption was a sizable sublease of 220,000 SF coming onto the market from Sunoco at 1735 Market Street and Beacon One Insurance vacating 72,000 SF at 1500 Spring Garden Street. AIG is also vacating 33,000 SF at 1601 Cherry Street.

Even though a drop in leasing activity was apparent in the CBD during the last half of 2009, there were still transactions being completed. The most notable was Wolters Kluwer, moving out of 510-530 Walnut Street and leasing 75,000 SF at 2 Commerce Square. Family Planning, DMJM and Klehr Harrison moved out of the Chestnut/Walnut submarket leaving behind 155,000 SF at 260 South Broad Street and moved into the Market Street West submarket...Klehr Harrison leased 78,000 SF at 1835 Market Street, and Family Planning and DMJM leased a total of 78,000 SF at 1700 Market Street.

Philadelphia CBD Vacancy & Absorption VS. Asking Rental Rates



Philadelphia Suburbs

▲ ▼ Vacancy: **21.0%**
Rental Rate: **\$21.80**

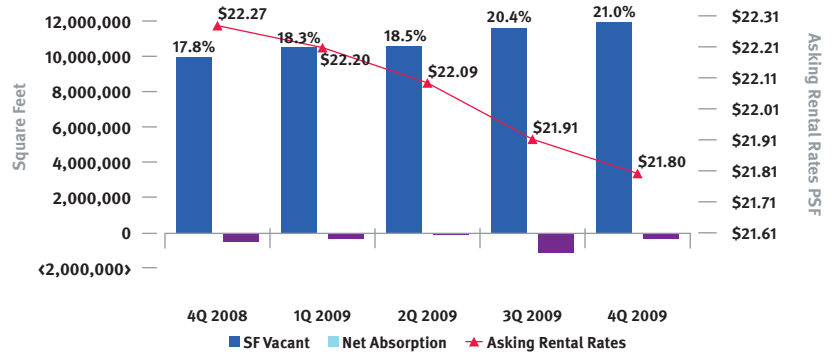
Overall, the total vacancy, including sublet space, at the end of 2009 increased to 21.0%, which is much higher than the 17.8% posted at the close of 2008. Direct and sublet space contributed fairly evenly to the increase in total space available at 54% and 47%, respectively. 4Q 2009 closed with an overall negative net absorption of 371,000 SF compared to 4Q 2008's negative absorption of 511,000 SF, and the year's high at 3Q 2009 negative absorption of 1.1 million SF. Direct vacancy is ending the year at 17.6%, which has increased compared to 4Q 2008's 15.9%. The average asking rental rate decreased to \$21.80 at the end of 2009 compared to \$22.27 at year-end 2008.

The Malvern/Exton/West Chester submarket vacancy increased considerably at the end of 2009 to 16.6%, nearly doubling 4Q 2008's number of 8.9%; a year-to-date negative absorption of 499,000 SF, compared to 4Q 2008's positive year-to-date absorption of 302,000 SF.

The good news this quarter comes from Horsham...the only submarket within suburban Philadelphia to report a year-to-date positive net absorption. Horsham reported a significant decline in vacancy between years, decreasing the total vacancy rate by 6.6 percentage points – 17.9% at the close of 2009, compared to 24.5% in 4Q 2008. Horsham reports a year-to-date positive net absorption of over 245,000 SF, most of which was due to first quarter activity with the balance of 2009 holding steady.

The King of Prussia/Wayne submarket reported 4Q 2009 at a negative net absorption of 226,000 SF primarily due to Wyeth vacating 105,000 SF at 200 Campus Drive. The year-to-date negative absorption of 363,000 SF is a result of fluctuating absorption between quarters throughout the year. The North Penn submarket reported the highest total vacancy at 33.0% at the close of 2009, which is somewhat comparable to the 34.5% reported for 4Q 2008. Fort Washington saw a huge increase in total vacancy between years increasing from 17.2% at the close of 2008, to 32.4%, year-end 2009. The Plymouth Meeting/Blue Bell, Delaware County and Lower Bucks County submarkets also ended 2009 with vacancy rates between 20% and 25%.

Philadelphia Suburbs Vacancy & Absorption VS. Asking Rental Rates



Unfortunately, there aren't too many sizable transactions to report in the Philadelphia Suburban market overall for 4Q 2009, but given the effects of the economic slowdown, we will celebrate the transactions that were made... BioClinica moved into 36,000 SF at

800 Adams Avenue in King of Prussia, Gwynedd Mercy leased 39,000 SF at 480 E. Germantown Pike in Plymouth Meeting, 100 Matsonford Road leased 33,000 SF in the Conshohocken/Radnor submarket, and 39,000 SF was leased at 100 Tournament in Horsham.

Northern Delaware

➔ Vacancy: 17.3%
Rental Rate: \$22.26

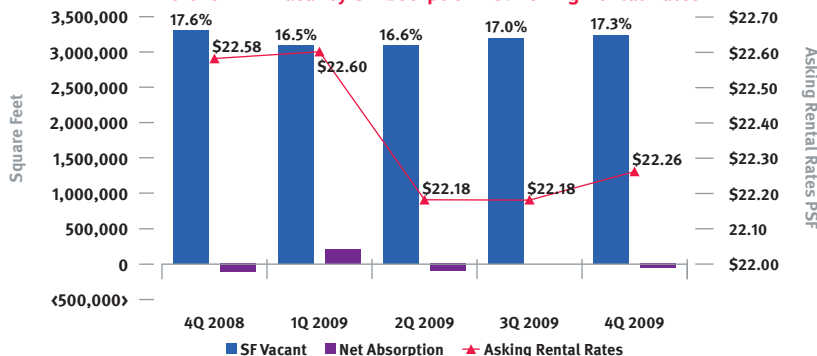
The Northern Delaware office market has been holding its own during the recession even though the demand for office space is down and transactions are taking much longer to complete. The four submarkets tracked include the Wilmington CBD, New Castle County (NCC) North, West and South. Overall vacancy closed out 2009 at 17.3%, whereas in 2008 it was 17.6%. Year-to-date net absorption closed on a positive note...23,000 SF. Keeping with the global trend, rental rates have decreased from \$22.58 in 4Q 2008 to \$22.26 at the close of 4Q 2009.

Wilmington CBD finished out the year with a negative absorption of 49,000 SF. When compared to 4Q 2008's positive absorption of 279,000 SF – you will see that the economic slowdown gathered momentum,

however the market has fared relatively well compared to its regional counterparts.

NCC North ends the year with a 17.9% direct vacancy rate, compared to 4Q 2008's 18.3% and a year-to-date positive net absorption of 38,000 SF compared to 4Q 2008's positive net absorption of 15,000 SF. NCC South's 4Q 2009's direct vacancy rate is 21.8%, compared to year-end 2008's 23.0%, with a year-to-date positive net absorption of 10,000 SF, compared to 4Q 2008's negative 283,000 SF. NCC West ends 2009 with a direct vacancy rate of 5.2%, compared to 5.7% at the close of 2008. NCC West also reports a positive year-to-date net absorption of 23,000 SF, compared to 4Q 2008's year-to-date positive net absorption of 29,000 SF. Consistent with the rest of the region, rental rates have also fallen throughout New Castle County.

Northern DE Vacancy & Absorption VS. Asking Rental Rates



2009 Market Movers

Philadelphia CBD

- Klehr Harrison Harvey Branzburg LLP signed a 78,000 SF lease at 1835 Market Street
- Wolters Kluwer Health signed a 75,000 SF lease at 2001 Market Street
- Family Planning Services signed a 45,000 SF lease at 1700 Market Street

Philadelphia Suburbs

- A 120,000 SF lease was signed at 600 Office Center Drive in Ft. Washington
- BioClinica, Inc signed a 36,000 SF lease at 800 Adams Ave in Norristown
- Gwynedd Mercy signed a 39,000 SF lease at 480 E Germantown Pike in Plymouth Meeting
- Cadient Group signed a 32,000 SF lease at 2520 Renaissance Boulevard in King of Prussia
- Vist Financial signed a 23,000 SF lease at 1767 Sentry Parkway West in Blue Bell
- Wyeth Pharmaceuticals signed a 21,000 SF lease at 1150 First Avenue in King of Prussia

Northern Delaware

- URS Corporation signed a 23,000 SF lease at 4051 Ogletown Road in Newark

2009 Notable Investment Sales

Philadelphia CBD Recent Investment Sales:

| Building | Address | Sale Price | SF | Price PSF | Buyer |
|---------------------|-----------------------------------|--------------|---------------|---------------|--------------------------|
| 2000 Market Street | 2000 Market Street, Philadelphia | \$55,890,000 | 661,909 | \$84.00 | CBREI |
| 1646 S. 51st Street | 1646 S. 51st Street, Philadelphia | \$2,800,000 | Non Disclosed | Non Disclosed | Allied Oil Company, Inc. |

Suburban Philadelphia Recent Investment Sales:

| Building | Address | Sale Price | SF | Price PSF | Buyer |
|-------------------------|---|--------------|---------|-----------|----------------------------------|
| Springfield Hospital | 190 W Sproul Road, Springfield (3 Properties) | \$38,000,000 | 256,000 | \$148.44 | Capital Solutions |
| Commons at Goshen | 905 Airport Road, West Chester | \$12,000,000 | 128,600 | \$93.31 | 905 Airport Road Realty LP |
| 17 Industrial Boulevard | 17 Industrial Boulevard, Paoli | \$3,385,000 | 19,500 | \$173.59 | 15-17 Industrial Boulevard, L.P. |

Northern Delaware Recent Investment Sales:

| Building | Address | Sale Price | SF | Price PSF | Buyer |
|------------------------|------------------------------------|-------------|--------|-----------|-----------------|
| 4093 New Castle Avenue | 4093 New Castle Avenue, New Castle | \$1,500,000 | 95,824 | \$15.65 | 4093 New Castle |

Southern New Jersey



 Vacancy: **18.9%**
 Rental Rate: **\$20.97**

The Southern New Jersey office market saw an increase of 2.4% in total vacancy, including sublet, closing 2009 at 18.9%, in comparison to 4Q 2008's 16.5%. Despite a year-to-date negative absorption of 292,000 SF, Southern New Jersey closed out the fourth quarter with a positive absorption of 166,000 SF, brought on by several significant deals; Continuum Health Alliance moving into 53,000 SF at 402 & 404 Lippincott Drive in Marlton; American Water moving into 330 Fellowship Road, occupying 26,000 SF and Fox Rehabilitation occupying

20,000 SF at 7 Carnegie Boulevard in Cherry Hill, just to name a few. Camden County saw a jump in overall total vacancy, including sublet space, from 17.5% in 2008 to 22% to close out 2009.

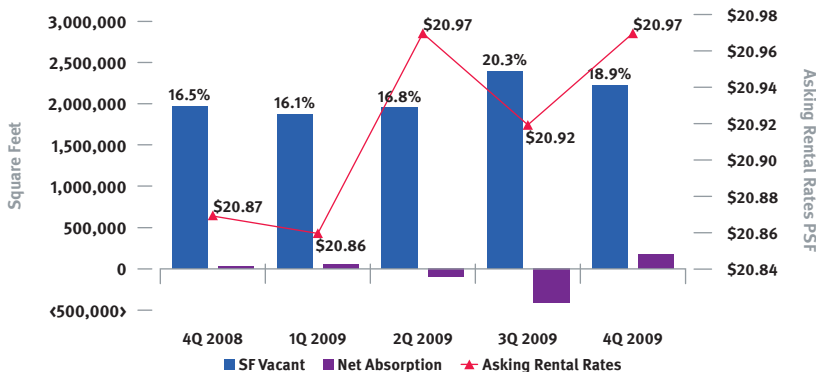
The 3M submarket also saw an increase in total vacancy, including sublet, from 15.9% in 2008 to 16.9% at 4Q 2009. Positive absorption for the fourth quarter 2009 reached 253,000 SF, compared to 4Q 2008's positive absorption of 14,000 SF. 3M reported a year-to-date negative absorption in 2009 of 57,000 SF, compared to the 101,000 SF of positive absorption at the close of 2008.

Overall Market Synopsis

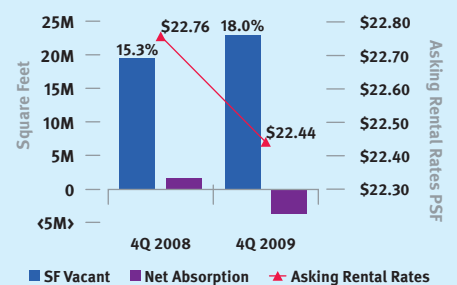
  Vacancy: **18%**
 Rental Rate: **\$22.44**

The Greater Philadelphia region is ending 2009 in a time when businesses are cautiously optimistic about what 2010 will bring. Most have experienced the recession first hand, with the reduction of workforce, office space and many other cost cutting exercises, to help weather the economic storm. There are varying opinions on what 2010 will hold for the region's commercial office market. Landlords are focusing on sound business strategies to position themselves to capitalize on the value and opportunities that are yet to come as the market begins to shift and tenants are taking advantage of the opportunities available in reduced long-term rental rates, whereby ultimately reducing operating expenses for years to come.

Southern NJ Vacancy & Absorption VS. Asking Rental Rates



Year-End 2008 VS. Year-End 2009



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