

Philadelphia Office Highlights Q3 2009

Increased vacancy continues to place downward pressure on rents

Through the first three quarters of 2009, the Philadelphia region continued to lose jobs. Non-farm employment in the Philadelphia-Camden-Wilmington metropolitan statistical area (MSA) abated 3.3 percent from July 2008. There were significant employment reductions in such office-using sectors as financial activities, information and professional and business services. In contrast, the education and health services sectors, which have a significant presence in the City of Philadelphia, experienced a slight gain in employment. Year-over-year, the July unemployment rate, at 8.8 percent, increased over 3.0 percentage points.

Southern New Jersey's overall vacancy rate rose almost 2.0 percentage points from the first quarter. The overall vacancy rates for the CBD, Suburban, New Castle County and Lehigh Valley markets remained flat. Blocks of sublease space continued to enter the market from a variety of industries. Two notable blocks to come to the market included 44,770 square feet offered from Mattson at 150 Oaklands Boulevard in Exton, PA and 35,202 square feet offered from Palmetto Management & Engineers at 4550 New Linden Hill Road in Stanton, DE.

Landlords eager to fill up their vacant properties are providing rent reductions for taking deals. Free rent remains a frequent concession while tenant improvement allowances are constrained by poor bank lending. The increase in the sublease vacancy rate put downward pressure on sublease asking rents, which are considerably less than direct rents.

Leasing activity

Market Street West

- Sovereign Bank leased 51,000 square feet at Centre Square-West Tower.
- Phelan Hallihan & Schmiege renewed its lease of 35,969 square feet at 1617 JFK Boulevard.

Market Street East

- Redevelopment Authority of Philadelphia renewed its lease of 34,292 square feet at 1234 Market Street.

Plymouth Meeting/Blue Bell

- SDI leased 125,000 square feet on 1 SDI Drive in Plymouth Meeting. The building will break ground next year.

Lehigh/Northampton

- Mack Trucks leased 245,000 square feet at 2100 Mack Boulevard in Allentown. The lease is until mid-2010.
- Lehigh Valley Health Network leased 245,000 square feet at 2100 Mack Boulevard in Allentown. It's relocation will be in 2011.

Tenants in the market

Malvern/Exton

- Vanguard is in the market for 400,000 square feet.

Market Street West

- McElroy Deutsch Mulvaney & Carpenter LLP is in the market for 20,000 square feet in Market Street West.

North Burlington County

- Automotive Resources, Inc. (ARI) is in the market for 100,000 square feet.

Wayne/King of Prussia

- TruePosition is in the market for 100,000 square feet.

Sales activity

Radnor/Main Line

- 1210 Ward Avenue (31,700 square feet, Class B) in West Chester was purchased by Synthes USA for \$4.3 million (\$135 per square foot) from Bryn Mawr Mall.
- 15-17 Industrial Boulevard (19,237 square feet, Class C) in Paoli was purchased by an undisclosed buyer for approximately \$3.4 million (\$176 per square foot) from WP Realty.

Construction activity

Radnor/Main Line

- 112 Sandhill Drive (27,000 square feet; Class B) in Middletown was completed in July.