

# Philadelphia, Pennsylvania

Tenant's Guide ■ North American Markets ■ Second Quarter 2010

## Overview

Q2 closed with market absorption at a negative 1.55 MSF and overall vacancy rates rising 0.080%. This negative absorption, rising vacancy, softness in rental rates, and expanded time on the market for existing inventory continue to reveal the true state of the local economy. Inducement and concession packages, in conjunction with various lender commitments, have continued to be crucial components of tenant negotiations in any final facility commitment.

Less than 400,000 SF of new construction starts were recognized in the second quarter of this year. Which is an insignificant amount of space (<0.2%) in a market that consists of nearly 117 MSF of class A and 113 MSF of class B office product.

## Market Trends

- The unemployment rate for the Philadelphia MSA stood at 9.0% thru April 2010, below the national average of 9.5% for the same period.
- The region's diversified business base has helped to cushion the local impact of the global economic crisis.
- A recent study by The Milken Institute ranked the region number two in the country in the life sciences industry ([www.milkeninstitute.com](http://www.milkeninstitute.com)).

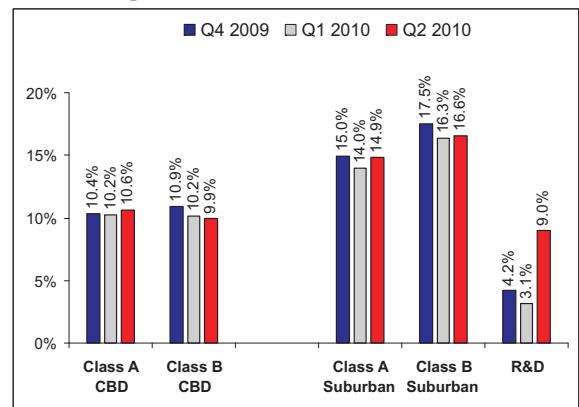
## Tenant's Perspective

A vast majority of companies have maintained a wait and see approach involving their facilities needs. This has resulted in a significant portion of activity for the quarter linked to lease renewals and recasts. As a national economic recovery looks for footing, it's anticipated that this region will continue to experience static leasing and sales activity with an increase in vacancy. The financial strength of a prospective landlord continues to be an area of heightened concern, specifically the inability of certain ownerships to fund tenant improvements and ongoing maintenance. Tenants can anticipate having exceptional leverage in any contemplated negotiation through 2010, excluding requirements for specialty product and large contiguous blocks of space (over 75,000 SF). These users are seeing fewer options as no new construction has occurred, and landlords are proactively breaking spaces to generate income. This condition in the market has created some upward pressure on rents in those transactions.

## Major Transactions

Tenant/Buyer	Size	Type	Lease/Sale
Netflix	40,000	Warehouse	Lease
Benten Bioservices	35,000	Office/R&D	Lease
Ametek	43,480	Office	Lease
Metro Air Services	39,420	Warehouse	Lease
Publicis	55,800	Office	Lease
Harris School of Bus.	18,150	Office	Lease
Mid Atlantic	40,000	Warehouse	Lease
Snyders of Hanover	11,600	Warehouse	Lease
Tozour Energy	32,000	Office	Purchase
Auxilium	40,000	R&D	Lease

## Vacancy Rate



## Average Rental Rates

CBD	Q4 2009	Q1 2010	Q2 2010
Class A Office	\$25.85	\$25.75	\$25.98
Class B Office	\$22.30	\$22.55	\$22.60

Suburban	Q4 2009	Q1 2010	Q2 2010
Class A Office	\$23.15	\$23.12	\$23.30
Class B Office	\$19.89	\$20.07	\$19.43
R&D	\$12.80	\$13.40	\$26.00

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