

StudleyReport

STUDLEY OFFICE MARKET AND SPACEDATA REPORT

MARKET HIGHLIGHTS

CBD AVAILABILITY RATES INCREASE

Philadelphia's CBD recorded an overall availability rate of 14.7%, an increase of 0.7 pp for the quarter and of 1.0 pp for the year. The Class A availability rate stood at 14.8%, up for the quarter (+0.6 pp) and the year (+1.6 pp).

CBD RENTS REMAIN STABLE

Overall asking rent in the CBD (\$25.68) was stable for the quarter and fell for the year (-0.3%). Class A asking rent (\$27.40) dipped by 0.7% for the quarter but rose by 1.6% for the year.

INCREASE IN TRAILING LEASING

On a trailing four-quarter basis, leasing volume in the CBD totaled 2.6 msf, an increase of 18.6% from the previous quarter and 83.1% from a year ago. Class A leasing (2.1 msf) rose 16.4% from last quarter and 115.2% from a year ago.

MORE LARGE BLOCKS

The number of large contiguous blocks of space (50,000 sf or more) in the CBD inched up from 20 last quarter to 21 this quarter. A year ago, 18 such blocks were also available.

Recovery? Not Just Yet

A mix of positive and negative indicators swept into the market during the second quarter and, with the negative outweighing the positive, more stumbling blocks were created for a wished-for economic recovery. Not only were numerical indicators mixed, but submarket performance was diverse as well. The oldest saying in real estate is "location is everything" and once again this proved true. While the entire Philadelphia market has maintained relative stability throughout this recession, when broken down into its submarkets and submarket clusters, volatility is clear and present. In comparison to the region as a whole, the CBD has witnessed the smallest relative decline over the last two years, but over the last quarter it has taken a back seat to the suburban markets. For several quarters, the CBD's asking rents remained stable and availability rates increased at just half the pace of the suburban markets. During the second quarter, things have begun to change. Class A buildings in the CBD saw their rents' largest decline since the end of the second quarter of 2009 and availability rates jumped most since the first quarter of that same year. Rents in suburban markets rose for the first time in a year and availability rates registered their largest decrease since the third quarter of 2007. In the end, the Philadelphia market in total found stability by means of a precise balancing act between the two areas.

Economists seem split as to whether the nation will see a double dip recession, but a jobless recovery is almost certain. Philadelphia's unemployment rate has lagged the national rate. It is now catching up, reaching 9.4% in May while the national rate dropped to 9.7% (June's rate fell to 9.5%), the smallest spread since before the start of the recession. However, job losses in the Philadelphia region's office sectors were much less severe than in most markets. Between January of 2008 and February of 2010, the region shed 60,029 office positions. However, it has made decent progress in recovering these lost jobs. Since February, Philadelphia has added 7,903 office jobs, a recovery rate of 13.2% that is well above the national rate of 7.3%. Most of the gains have been in professional/business services, which bodes well for the commercial real estate sector.

The recession reached the Philadelphia region later than most markets and impacted it less severely. Despite this mitigated blow, it may now be taking Philadelphia longer to work its way through the market correction. Philadelphia has been one of the only major markets to register increasing sublet supply in the last few quarters. Philadelphia closed midyear with 5.9 msf of available sublet space, an increase of 1.6% from the prior quarter and of 8.3% from a year ago. Houston was the only other major market to post a year-on-year increase of more than 5.0%.

CBD TRANSACTION BAROMETER

	Under 50,000 sf	One Qtr Change	Over 50,000 sf	One Qtr Change
Average Term:	5-9 yrs	◀▶	10-15 yrs	◀▶
Concessions:				
Free Rent	4-6 months	▲	6-8 months	▲
Tenant Improvements	\$30.00/sf	▲	\$42.00/sf	▲
Moving	\$2.00/sf	◀▶	\$2.00/sf	◀▶
Architect Fee	\$2.50/sf	◀▶	\$3.00/sf	◀▶

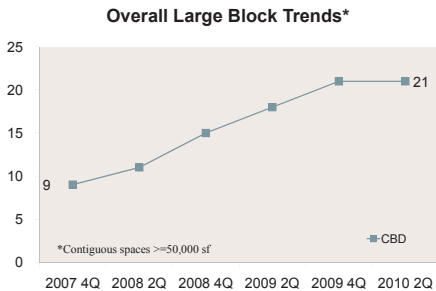
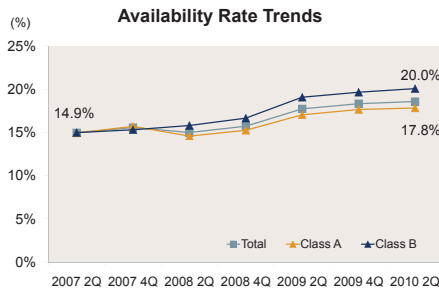
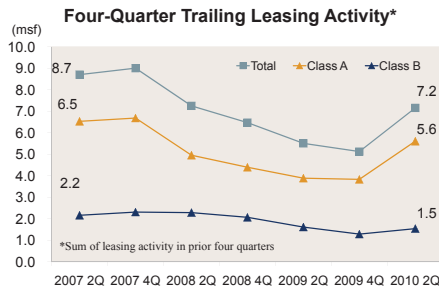
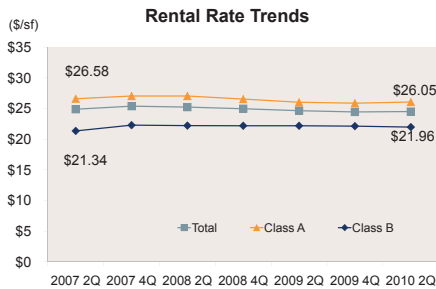
Outlook: Class A buildings saw the largest dip in average rents and increase of available space since the first quarter of 2009. However, rent discounts, as with free rent and TI allowances, are subject to the financial ability of owners and can vary greatly by building. Well capitalized owners can offer more concessions, while indebted owners will try to lower rents to entice tenants.

SUBURBAN TRANSACTION BAROMETER

	Under 50,000 sf	One Qtr Change	Over 50,000 sf	One Qtr Change
Average Term:	5 yrs	◀▶	10 yrs	◀▶
Concessions:				
Free Rent	3-5 months	▲	5-7 months	▲
Tenant Improvements	\$20.00/sf	▲	\$30.00/sf	▲
Parking	4 spaces /1,000 sf	◀▶	4 spaces /1,000 sf	◀▶

Outlook: Making an attempt to stabilize, the suburban market saw rents increase and availability decline. Concessions are moving upward; owners who can access capital will offer generous TI packages while free rent is offered where owners cannot. Leasing activity will continue to increase in both areas.

▲ Up ▼ Down ◀▶ Unchanged



Driven by sublet space put on the market by Sunoco and Arkema (a combined 450,000 sf during the first half of the year), the CBD's availability rate is approaching 15.0%, a level not seen since the fourth quarter of 2004.

Despite the large amount of sublet space, the entire market enjoyed another surge in quarterly leasing activity. Surpassing 2.0 msf for the first time since the end of 2007, volume attained 2.3 msf. While several large leases (+100,000 sf) were signed in the second quarter, most were renewals and a number of those were simply short-term extensions. The EPA signed the biggest lease of the year, renewing 304,000 sf at 1650 Arch Street. Beneficial Bank was expected to relocate 125,000 sf into 1650 Arch Street, in space left vacant following Wolf Block's dissolution in early 2009, but backed out at the last minute and renewed for three years in the Penn Mutual Building. The law firm of Cozen O'Connor also renewed 170,000 sf with a short-term lease at its current location in 1900 Market Street, possibly positioning itself to take advantage of the Verizon sublet (400,000 sf) at 1717 Arch Street, which becomes direct space in mid-2012.

The loose lending practices that led to the collapse in September of 2008 are now fully understood by landlords in Philadelphia. Thinking themselves immune as Philadelphia lagged behind the curve, landlords held their asking rents high. However, as capital dried up, financing became near-impossible and loan-to-value ratios plummeted, owners have watched their net effective rents drop. Trying to maintain or strengthen their tenant rosters, many small, private owners without the ability to raise funds through public offerings have increased free rent. In contrast, larger REITs that have raised capital over the last year are able to give increased TI packages and make improvements to their buildings to attract or retain tenants. According to the 2010 Studley Effective Rent Index (SERI), 2009 landlord net effective rents have fallen by 7.2% since the previous year and nearly 10.0% from 2007. This year will see more of the same as tenants hold onto their spaces until they feel more certain about the economic forecast.

One clue as to the state of the investment market will come as Two Liberty is put up for sale. The owner of Two Liberty, American Capital Partners (ACP) at 50 South 16th Street, has put the office portion of the building up for sale two years after it unsuccessfully tried selling the tower. ACP bought the 991,000-sf building for \$151 million in 2005 and it is now believed that it could go for as much as \$180 million. However, other recent investment sales do not bode well for ACP. Earlier this year, 2000 Market Street's lender sold the building for \$20 million less than its purchase price in 2003; the price of the Lafayette Building at 433-437 Chestnut Street was cut by 40% and the property is now being offered for \$15 million; and Behring Harvard was able to buy back its \$43.0-million loan for 1650 Arch Street at a rumored 70 cents on the dollar. With a limited number of office buildings sold in the second quarter, the sale or lack thereof of Two Liberty will be very telling.

Slight Up-Tick in Availability Rate

The region's overall availability rate inched up by 0.2 pp in the second quarter, pushed by a 0.7 pp jump to 20.0% in the Class B rate. The Class A rate dropped by less than 0.1 pp, closing midyear at 17.8%, with a 0.5 pp decline to 20.2% in Suburban Philadelphia and a 0.6 pp jump to 14.8% in the CBD. Wilmington's Class A availability rate fell by 2.3 pp to

SELECTED TRANSACTIONS

Tenant	Sq Feet	Address	Market Area
Environmental Protection Agency	304,000	1650 Arch St	West Market
Quest Diagnostics, Inc.	135,000	1001 Adams Ave	Fort Washington
GSI Commerce, Inc.	74,893	630 Allendale Rd	Route 202/422/King of Prussia
Pinnacle Foods Group, LLC	56,267	111 Woodcrest	South Jersey
Publicis Touchpoint Solutions, Inc.	55,800	1000 Floral Vale Blvd	Bucks County
Lockheed Martin Corporation	46,945	4000 Midlantic Dr	South Jersey
NAVTEQ	45,739	1000 Cedar Hollow Rd	Exton/West Chester
Ametek, Inc.	43,480	1100 Cassatt	Exton/West Chester
State Street	40,000	333 Technology Dr	Exton/West Chester
Benten Bioservices, Inc	35,000	335 Phoenixville Pike	Exton/West Chester
Jefferson University Physicians	28,650	615 Chestnut St	East Market
United BioSource Corporation	24,096	920 Harvest Dr	Blue Bell/Plymouth Meeting
Aspira Charter School	24,000	181 Stanton Christiana	New Castle County
Microsoft	21,894	45 Liberty Blvd	Exton/West Chester
Pharmaceutical Product Development	20,820	980 Harvest Dr	Blue Bell/Plymouth Meeting
Sum of Leases	956,584	Sum of 2nd Quarter Leasing Activity	2.3 MSF

19.4% while its overall rate stood at 24.8% (down by 1.3 pp). Delaware County (down by 1.3 pp to 23.3%) and Bucks County (down by 1.6 pp to 34.0%) were the only two other submarkets to register declines in Class A availability rates of more than 1.0 pp.

Leasing Activity Grows

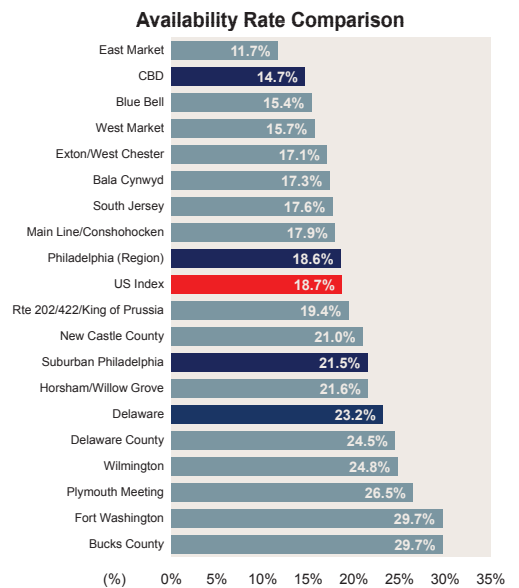
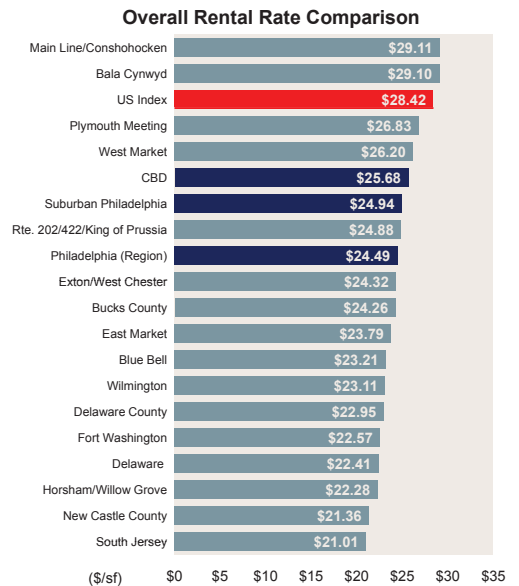
Overall leasing activity maintained its momentum, increasing by 20.6% to 2.3 msf, the highest level since the second quarter of 2007. Class A volume was up by 19.6% to 1.8 msf. Four-quarter trailing leasing (the sum of leasing in the most recent four quarters) rose by 15.2% to 7.2 msf yet was still 6.6% below the long-term average of 8.0 msf. Growth in leasing still stems mainly from renewals, and this quarter saw several large transactions where tenants stayed in place. The short-term renewals by Beneficial Bank and Cozen O'Connor dominated the top transactions this quarter, perhaps skewing the numbers high.

Average Rents Remain Stable

Asking rents throughout the market maintained their stability. The region saw a 0.1% quarterly increase in overall rent, which rose to \$24.49 from \$24.48, while Class A rent increased by 0.4% to \$26.05 from \$25.95. Class A asking rents fell in both the East Market and the West Market, dropping by 1.4% and 0.5% to \$24.83 and \$27.91, respectively. Overall rent remained flat in the CBD. Suburban markets posted an increase in rents of 0.5% overall and 0.9% in Class A properties. Only Horsham/Willow Grove recorded a decline of more than 1.0% (-1.1%) in overall rent.

Looking Forward

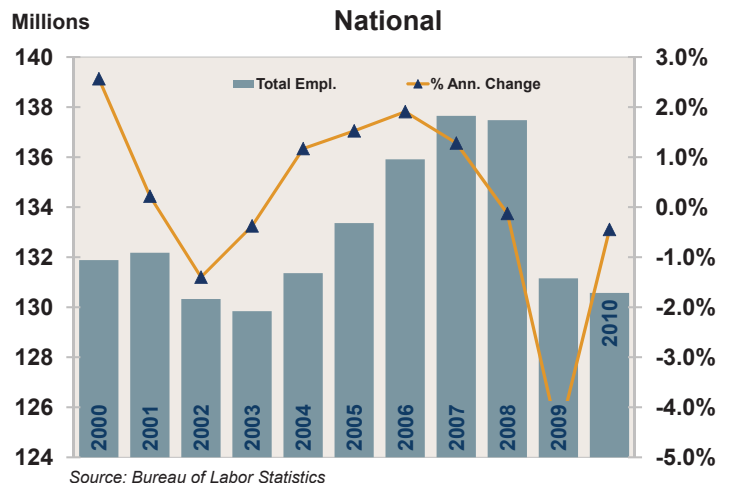
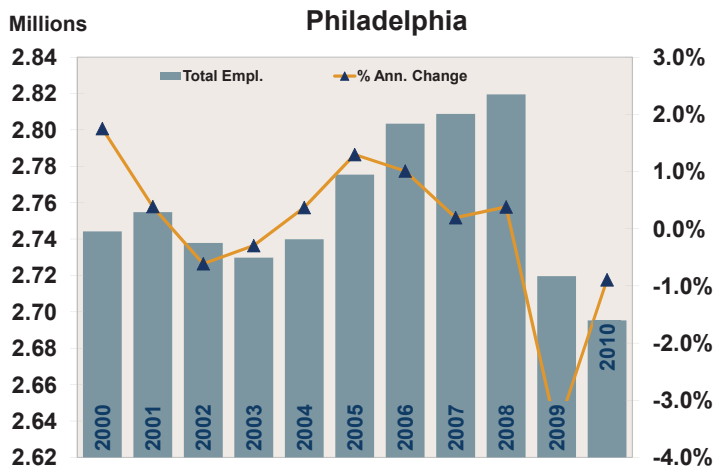
While there have been many indications that the Philadelphia market is headed for an economic recovery, it is still showing signs of weakness that will continue to restrain any resurrection. The constant battle between the suburban office submarkets and the CBD to acquire and retain tenants will persist, but in the end both areas tend to even out the market, keeping it relatively stable. The sublet space left behind by Arkema, Sunoco and others will surely put a drag on the CBD's recovery, but will without doubt create opportunities for tenants to continue their hold over landlords – a reality that landlords are beginning to accept. In the end, the stability the entire market has enjoyed over the year will be its strong suit and will help the area climb its way back up, however long it may take.



ABOUT OUR FIRM

Studley is the only global tenant advisory firm with a pure tenant representative delivery platform. Founded in 1954, Studley pioneered this conflict-free business model. Today, with 19 offices nationwide and an international presence through its London office and AOS Studley throughout Europe, Studley provides strategic real estate consulting services to top-tier corporations, law firms, nonprofits, government agencies and institutions of higher education. Information about Studley is available at www.studley.com.

EMPLOYMENT TRENDS



MARKET SNAPSHOT: 2Q 2010

MAP	SUBMARKET	TOTAL Inventory SF (1,000's)	LEASING ACTIVITY			AVAILABLE SF			AVAILABILITY RATE			ASKING RENTS PER SF				
			Last 12 Mos	5 Yr Average	This Qtr	% Change from Last Qtr	Yr Ago	5 Yrs Ago	This Qtr	pp Change from Last Qtr ⁽¹⁾	Yr Ago	5 Yrs Ago	This Qtr	% Change from Last Qtr	Yr Ago	5 Yrs Ago
1	West Market	31,483	1,937	2,371	4,942	4.2%	4,618	5,133	15.7%	0.6%	14.8%	18.1%	\$26.20	0.0%	\$26.25	\$23.26
	West Market - Class A	21,686	1,635	1,761	3,359	2.2%	3,158	3,315	15.5%	0.3%	14.6%	16.8%	\$27.91	-0.5%	\$27.31	\$25.14
2	East Market	11,020	617	651	1,288	8.0%	1,166	1,766	11.7%	1.0%	10.4%	16.1%	\$23.79	-0.1%	\$23.44	\$20.38
	East Market - Class A	4,972	500	354	587	15.0%	382	1,024	11.8%	1.9%	7.4%	20.2%	\$24.83	-1.4%	\$24.30	\$22.14
3	Bala Cynwyd	3,184	106	187	551	-13.2%	557	409	17.3%	-2.6%	18.2%	15.5%	\$29.10	2.4%	\$26.75	\$26.98
	Bala Cynwyd - Class A	2,567	51	120	431	-15.7%	397	152	16.8%	-3.1%	16.2%	11.7%	\$30.20	3.0%	\$28.08	\$30.32
4	Blue Bell/Plymouth Meeting	4,872	510	430	1,006	-3.4%	1,040	744	20.6%	-1.2%	23.8%	18.9%	\$25.41	1.5%	\$24.93	\$24.41
	Blue Bell/Plymouth Meeting - Class A	2,656	348	257	399	-1.7%	311	488	15.0%	-0.9%	16.3%	24.7%	\$26.17	2.6%	\$25.24	\$25.38
5	Fort Washington	2,506	415	280	744	11.9%	752	735	29.7%	3.2%	30.0%	30.0%	\$22.57	-0.3%	\$23.28	\$19.83
	Fort Washington - Class A	1,495	384	142	415	23.4%	464	250	27.8%	5.3%	31.0%	21.1%	\$23.62	-0.6%	\$24.79	\$20.03
6	Horsham/Willow Grove	3,618	275	278	780	1.7%	737	603	21.6%	0.4%	20.4%	17.1%	\$22.28	-1.1%	\$20.99	\$21.13
	Horsham/Willow Grove - Class A	2,671	169	214	546	3.4%	474	493	20.4%	0.7%	17.7%	19.1%	\$22.64	-1.5%	\$21.94	\$22.17
7	Route 202/422/King of Prussia	13,319	817	1,051	2,584	-0.7%	2,024	2,143	19.4%	-0.1%	15.2%	16.4%	\$24.88	-0.3%	\$24.60	\$23.87
	Route 202/422/King of Prussia - Class A	9,497	680	827	1,462	-0.8%	1,131	1,699	15.4%	-0.1%	11.9%	16.9%	\$26.80	-0.5%	\$26.48	\$24.24
8	Exton/West Chester	3,701	369	205	632	-3.3%	696	594	17.1%	-0.6%	18.7%	18.4%	\$24.32	-0.7%	\$23.68	\$22.57
	Exton/West Chester - Class A	2,528	316	170	472	-5.8%	541	537	18.7%	-1.1%	21.4%	23.4%	\$23.48	-0.1%	\$23.37	\$22.62
9	Main Line/Conshohocken	4,812	469	471	863	2.2%	938	1,233	17.9%	0.3%	21.0%	27.9%	\$29.11	-0.1%	\$30.29	\$29.54
	Main Line/Conshohocken - Class A	3,983	460	456	736	0.4%	827	1,233	18.5%	0.0%	21.7%	29.1%	\$30.52	1.3%	\$31.34	\$29.54
10	Delaware County	3,465	172	312	850	-4.5%	929	704	24.5%	-1.1%	26.8%	26.6%	\$22.95	3.6%	\$23.70	\$23.50
	Delaware County - Class A	3,001	144	274	698	-5.4%	775	562	23.3%	-1.3%	25.8%	24.2%	\$23.36	4.4%	\$24.30	\$23.82
11	Bucks County	5,769	195	348	1,715	-3.9%	1,684	1,026	29.7%	0.7%	29.2%	24.8%	\$24.26	1.2%	\$24.77	\$23.89
	Bucks County - Class A	4,190	159	284	1,424	-4.6%	1,410	711	34.0%	-1.6%	33.7%	23.7%	\$24.76	1.6%	\$25.53	\$24.44
12	Wilmington	5,795	258	264	1,437	-2.8%	1,496	919	24.8%	-1.3%	26.4%	20.0%	\$23.11	-3.2%	\$24.18	\$21.53
	Wilmington - Class A	4,803	233	222	933	-7.9%	1,035	598	19.4%	-2.3%	22.1%	15.9%	\$26.27	-0.6%	\$26.23	\$24.54
13	New Castle County	4,165	119	204	874	8.7%	776	745	21.0%	1.7%	18.6%	19.3%	\$21.36	-2.4%	\$22.19	\$20.48
	New Castle County - Class A	3,465	68	168	524	6.6%	480	557	15.1%	0.9%	13.9%	17.0%	\$22.81	-0.4%	\$23.56	\$20.83
14	South Jersey	13,915	897	968	2,454	2.9%	2,117	1,646	17.6%	0.5%	15.1%	12.5%	\$21.01	0.6%	\$21.35	\$21.14
	South Jersey - Class A	6,487	460	512	1,191	5.5%	1,041	846	18.4%	1.0%	16.0%	11.0%	\$22.15	1.1%	\$22.35	\$22.00
1-2	PHILADELPHIA TOTAL	42,504	2,554	3,022	6,230	5.0%	5,784	6,899	14.7%	0.7%	13.7%	17.6%	\$25.68	0.0%	\$25.72	\$22.53
	PHILADELPHIA TOTAL - Class A	26,658	2,134	2,115	3,946	4.0%	3,540	4,339	14.8%	0.6%	13.2%	17.5%	\$27.40	-0.7%	\$26.98	\$24.43
3-11	SUBURBAN PHILADELPHIA TOTAL	45,247	3,328	3,542	9,726	-1.6%	9,358	8,191	21.5%	-0.2%	21.2%	20.5%	\$24.94	0.5%	\$24.97	\$24.59
	SUBURBAN PHILADELPHIA TOTAL - Class A	32,588	2,711	2,725	6,584	-2.0%	6,330	6,125	20.2%	-0.5%	20.1%	21.1%	\$25.94	0.9%	\$26.14	\$25.26
12-13	DELAWARE TOTAL	9,960	923	539	2,310	1.3%	2,272	1,664	23.2%	0.0%	23.6%	19.7%	\$22.41	-3.1%	\$23.45	\$21.10
	DELAWARE TOTAL - Class A	8,268	301	388	1,456	-3.2%	1,516	1,156	17.6%	-0.9%	19.1%	16.4%	\$25.04	-0.9%	\$25.56	\$22.87
1-14	PHILADELPHIA REGION TOTAL	111,626	7,155	8,008	20,720	1.1%	19,531	18,400	18.6%	0.2%	17.7%	18.2%	\$24.49	0.1%	\$24.63	\$23.11
	PHILADELPHIA REGION TOTAL - Class A	74,001	5,607	5,745	13,177	0.2%	12,427	12,466	17.8%	0.0%	17.0%	18.2%	\$26.05	0.4%	\$26.01	\$24.52

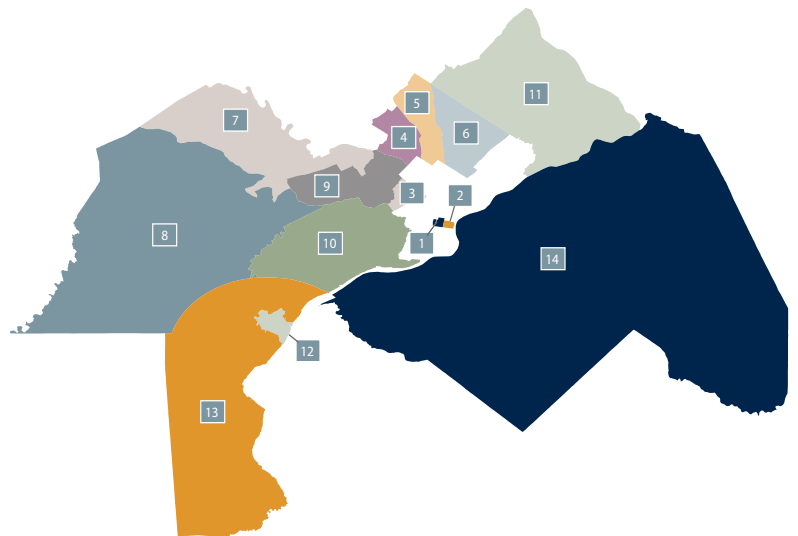
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(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Recent inventory adjustments may have contributed to statistical fluctuations in some submarkets.
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