

MARKETBEAT



PHILADELPHIA SUBURBAN OFFICE REPORT

3Q11

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Overview

The suburban Philadelphia office market experienced a healthy amount of activity in the third quarter of 2011 as it continues to move away from its struggles of the past couple of years. The overall vacancy rate declined by over a full percentage point over the past year going from 16.7% to 15.6% currently, the lowest overall vacancy since the first quarter of 2009. Year-to-date leasing activity is up by a half a million square feet (sf) from this point last year increasing from 1.9 million square feet (msf) to 2.4 msf in the third quarter of 2011. The year-to-date overall absorption of 700,270 square feet (sf) is the highest third quarter value since 2007, confirming that tenant demand has been strong throughout the year. Direct average asking rental rates remained unchanged since last quarter sitting at an average of \$25.73 per square foot (psf), however rates remain deflated compared to last year's value of \$25.81 psf.

The Pennsylvania Business Campus located in Horsham, PA experienced a couple of significant leases during the third quarter of 2011 with Comcast inking a 50,000-sf lease at 700 Dresher Road and Music Choice signing a 30,000-sf deal at 650 Dresher Road. In Plymouth Meeting, Larson Allen LLP signed a lease for 28,880 sf at the Plymouth Meeting Executive Campus II and New Penn Financial, LLC signed a 24,625-sf lease at 4000 Chemical Road in the Metroplex Corporate Center. Additional new deals throughout the market included IBM Corporation leasing 32,298 sf at 1475 Phoenixville Pike located in the Glenoch Corporate Center I and Medical Records Online, Inc. signing a 25,000-sf lease at 501 Allendale Road in King of Prussia. Over in Southern New Jersey, Farmers Insurance signed a 27,000-sf lease at Towne Place at Garden State Park, the largest lease that the new class A office campus has secured to date.

Investment sales activity remained limited in the third quarter of 2011, however there were a couple of buildings that traded hands.

Elm Street Square, a 31,500-sf class A building located at 375 East Elm Street was purchased by Elm Street Square, LP from Royal Asian Bank for \$3.5 million or \$114 psf. Over in Villanova, 771 East Lancaster Avenue, a 25,000-sf class B building was bought by Enrico Partners LP for \$3.6 million, or \$146, psf from Winchester Land Management.

New construction activity remains sparse with only one build-to-suit project under construction. The 171,000-sf West Pharmaceutical building at 530 Regency Drive in Exton is scheduled to deliver in early 2013. Despite the lack of any speculative new construction projects in the market, two newly renovated class A office buildings just delivered this past quarter. The 276,736-sf building at 2476 Swedesford Road in Malvern, in which DaVita, Inc. signed a 75,000-sf lease during the second quarter of 2011, finished its ongoing renovation over the summer. Also finishing its renovation in the third quarter was the 114,000-sf Hillcrest Building I located at 751 Jolly Road. Hillcrest Building I just recently signed its first tenant in August.

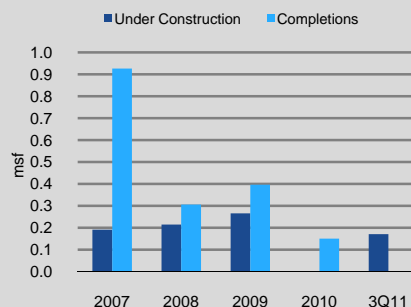
Outlook

With vacancy declining, absorption on a path to end the year in the positive, and leasing activity continuing to increase, the suburban market is poised to finish the year strong and carry that momentum into 2012. Deal size remains below the typical average from a few years ago, however, should begin to increase as time presses on. Despite the smaller deal size, the total volume of new activity has been healthy and will remain that way into the new year. Investment sales activity will remain limited as no significant class A buildings are expected to trade by year's-end.

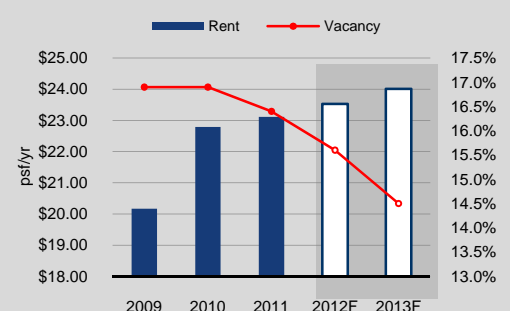
Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	16.7%	15.6%	-1.1 pp	▼
Direct Asking Rents	\$24.03	\$23.82	-0.8%	▲
YTD Leasing Activity (sf)	1,968,089	2,473,370	25.7%	▲

Under Construction vs. Completions



Non-CBD Overall Rental vs. Vacancy Rates



Market/Submarket Statistics

Market / Submarket	Inventory	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	YTD Overall Absorption	Overall Wtd. Avg. All Classes Gross Rental Rate*	Direct Wtd. Avg. Class A Gross Rental Rate*
East of Broad	12,397,366	12.5%	11.9%	189,247	0	0	(59,361)	(76,413)	\$23.23	\$24.46
West of Broad	31,319,267	11.9%	10.5%	974,893	0	0	277,067	320,801	\$26.29	\$27.55
CBD	43,716,633	12.0%	10.9%	1,164,140	0	0	217,706	244,388	\$25.41	\$26.99
Bala Cynwyd	2,779,940	13.9%	13.4%	68,083	0	0	(40,041)	(10,304)	\$30.47	\$31.94
Southern Bucks County	6,512,169	22.2%	20.0%	186,168	0	0	15,659	17,821	\$24.18	\$27.06
Southern Rte. 202 Corr.	5,210,010	13.7%	12.5%	128,561	171,000	0	2,142	785	\$23.11	\$23.75
Delaware County	4,476,051	12.3%	12.2%	135,681	0	0	92,800	88,591	\$20.69	\$25.68
Blue Bell/Ply.Mtg./Ft.Wsh.	9,908,164	18.0%	17.8%	520,972	0	0	44,703	78,364	\$23.46	\$24.12
Main Line	3,713,944	6.3%	5.2%	142,190	0	0	53,764	57,629	\$27.27	\$30.75
Conshohocken	3,768,436	7.8%	7.7%	157,360	0	0	178,700	252,142	\$29.74	\$30.31
Horsham/Willow Grove/Jntwn	5,567,042	18.4%	16.5%	270,097	0	0	(166,762)	(109,886)	\$21.70	\$23.91
King of Prussia/Valley Forge	16,793,875	16.2%	14.6%	864,258	0	0	304,233	325,128	\$22.81	\$25.38
Suburban Philadelphia	58,729,631	15.6%	14.4%	2,473,370	171,000	0	485,198	700,270	\$23.57	\$25.73
Burlington County	7,873,583	14.5%	13.4%	234,712	0	0	(79,742)	(16,955)	\$19.36	\$20.13
Camden County	6,169,614	19.5%	19.1%	220,068	0	0	80,093	108,834	\$21.16	\$23.14
Southern New Jersey	14,043,197	16.7%	15.9%	454,780	0	0	351	91,879	\$20.31	\$21.60
New Castle-Non-CBD	8,422,220	15.7%	15.0%	102,472	0	0	106,186	107,629	\$23.39	\$24.58
New Castle CBD	7,088,041	19.5%	19.3%	112,056	0	0	36,002	32,768	\$22.79	\$25.40
New Castle Cty - DE Total	15,510,261	17.4%	16.9%	214,528	0	0	142,188	140,397	\$23.09	\$25.07
Lehigh & N Hampton County**	5,950,982	10.6%	10.5%	106,977	0	0	125,174	145,161	\$18.01	\$19.24
NON-CBD	88,283,089	16.1%	15.1%	3,142,678	171,000	0	627,737	932,546	\$22.97	\$25.32
PHILA MSA TO TAL	131,999,722	14.7%	13.7%	4,306,818	171,000	0	845,443	1,176,934	\$23.64	\$25.85

*Rental rates reflect Sps/Year

**Lehigh & North Hampton Counties are not included within the CBD & Philadelphia MSA to tal.

Market Highlights

SIGNIFICANT 3Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
700 Dresher Road	Horsham/Willow Grove/Jenkintown	Comcast	50,000	A
1475 Phoenixville Pike	Southern Route 202 Corridor	IBM	32,298	A
650 Dresher Road	Horsham/Willow Grove/Jenkintown	Music Choice	30,000	B
610 West Germantown Pike	Blue Bell/Ply. Mtg./Ft. Wash.	Larson Allen LLP	28,880	A
400 Berwyn Park	King of Prussia/Valley Forge	*Pepper Hamilton LLP	27,326	A

* Renewal – not included in Leasing Activity Statistics

SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
375 East Elm Street	Conshohocken	Elm Street Square, LP	31,500	\$3,597,500
771 East Lancaster Avenue	Main Line	Enrico Partners, LP	25,000	\$3,650,000

SIGNIFICANT 3Q11 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
530 Regency Drive	Southern Route 202 Corridor	West Pharmaceutical	171,000	1Q13



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