



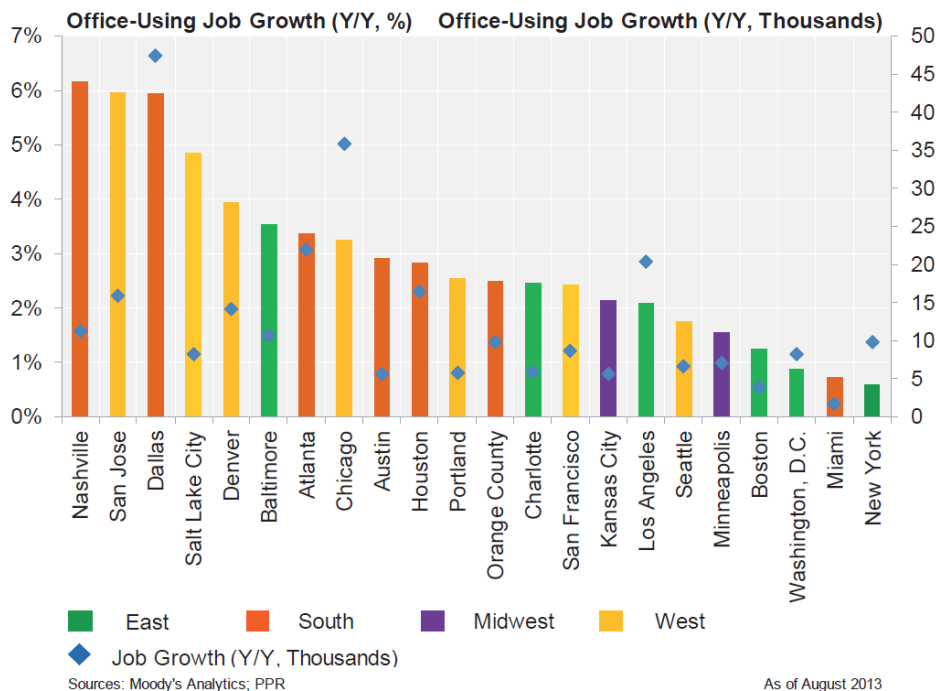
What is happening with the Office Market after the 2008 – 2009 drop in Value and Demand, and being out of favor with investors?

Whether your business leases offices, or directly owns the building, you may find value in news on the status of trends in the Commercial real estate market in the Philadelphia region, and nationally. There is so much to say and so many statistics to reference. But, here is a quick short synopsis to give you a feel for the direction of market trends for planning purposes.

Nationally

To supplement our opinions and experience we rely on information from CoStar, PPR, Moody's and other real estate news sources and other real estate firms' reports.

- In the U.S. broad based recovery in demand for office space and the other commercial real estate sectors although in varying degrees depending on the local economy.
- Demand for Office space is tied to job growth in the economy. So in cities such as Nashville, San Jose, Dallas and other Southern and Western cities with recent tremendous job growth between 2012 and 2013 is where you see more of an increase in demand for Office Space. (Please see this graph indicating geographically how uneven the job growth is. *Graph Credit: CoStar Group, Inc.*)
- **South and West Lead Job Growth Graph:**





- The office Market in the US has come a long way. Comparing the 2012 Office Market to 2013 the U.S. Office Sector has reach the halfway point in its recovery led by job growth in the Professional and Business Services. The reference for the half way point is set to the calculation of the Historic Vacancy Averages for the US Office Market.
- There is growing demand for newer, greener Office buildings, 4 and 5 star buildings that lease out faster, and at slightly higher rates than the buildings that are classified as 1 and 2 star buildings.
- In spite of the fact that the US Office market absorbed about 51% more office space in 2013 than in 2012 the Momentum of leasing activity has ticked down slightly in 2013.
- Rents have increased 2.5% in 2013 compared to 1.9% in 2012.
- **30,000 Foot View Chart:** *Graph Credit: CoStar Group, Inc.*

Last Year (12Q3)	This Year (13Q3)	
❖ YTD Net absorption 29 MSF	❖ YTD Net absorption 44 MSF (Up 51%)	↑
❖ Vacancy Rate 12.6%	❖ Vacancy Rate 12.0%	↓
❖ Rents Increased 1.9%	❖ Rents Increased 2.5%	↑
❖ YTD Net Completions of 7.5 MSF (.09%)	❖ YTD Net Completions of only 12 MSF (.15%)	↑
❖ Under Construction RBA of 68 MSF (0.7% of Stock)	❖ Under Construction RBA of 76 MSF (0.8% of Stock)	↑

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Sources: CoStar Group, Inc.; PPR

As of 13Q3

- Construction with the exception of a few areas where construction is above average office supply, construction is below Historic Office Construction Averages. Not surprisingly the majority of office construction starts in 2013 are in the South and the Western US where the job growth is greater.



Philadelphia Region

- In markets such as in the Philadelphia region the amount of new construction compared to the Historic Construction Average (size of the market in rentable square feet and compared to the historic average of growth over supply) for our region the construction is less than **0.03%**.
- Philadelphia does make it to the list of top 20 largest office markets in the US. With a Vacancy of around 12.1% at the end of the third Quarter of 2013 our region is in the middle of the pack of the top 20 Cities CoStar tracks.
- Another Pennsylvania city ranks first place of the 20 Cities as the city with the lowest Vacancy rate of 7.9%, Pittsburgh. Go Pennsylvania.

Here is a break down by County of current benchmarks for the **Philadelphia Regions Office Market**.

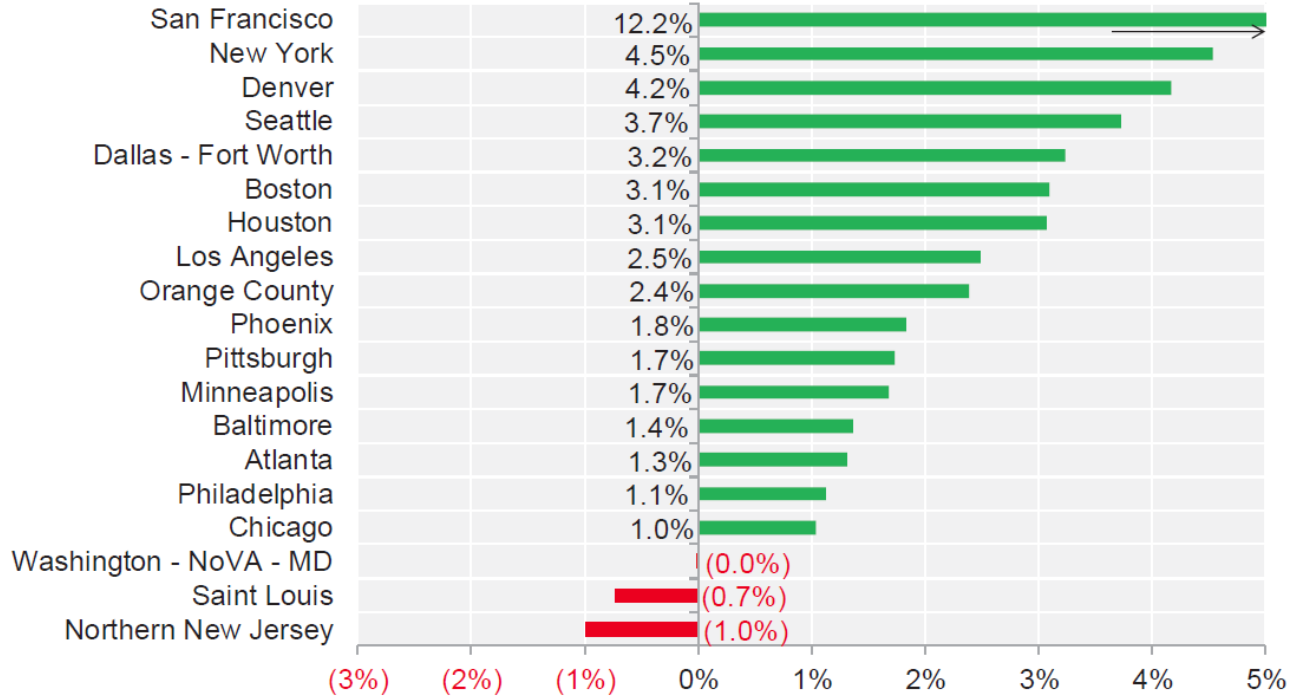
	OFFICE MARKET		2013	SUMMARY
	RSF			
	Mil	Occupancy	Vacancy	Rates *
Bucks County	17.8	84.90%	15.10%	\$ 22.00
Montgomery County	56.9	86.50%	13.50%	\$ 22.76
Philadelphia County	72.8	89.10%	10.90%	\$ 24.46
Delaware County	21.8	89.30%	10.70%	\$ 22.63
Chester County	12.1	88.50%	11.50%	\$ 26.00
Camden County	17.8	85.20%	14.80%	\$ 15.70
Burlington County	15.7	89.90%	10.10%	\$ 16.76
Gloucester County	4.6	91.10%	8.90%	\$ 15.40
Sample Township in Montgomery County				
Whitemarsh Township:	1.593	91.60%	8.40%	\$ 20.61

**In Southern N.J. markets used in the surveys a majority of the Office Buildings had triple net leases which skew the average rents. And, Customized Surveys are done based on Customers projects.*

READING BETWEEN THE LINES the Demand for office space appears to be gaining strength and Supply seems to be shrinking slowly in the Philadelphia Region. As you can see from the above information the balance between the Demand and Supply depends on the local market dynamics, and that old saying Location, Location, Location. Rents are increasing slowly and the pace of rent increase may pick up by 2015 as long as job growth continues, and the amount of construction is similar to 2012 and 2013.



Year-Over-Year Change in Rental Rates Graph by CoStar Group, Inc.:



Sources: CoStar Group, Inc; PPR

As of 13Q3