

Greater Reading Office Market Report

4th Qtr 2009 to 1st Qtr 2010

The fourth quarter of 2009 was a slow and painful period for office space in the Greater Reading Market. Vacancy rates increased throughout the county as companies were downsizing, relocating to smaller spaces, or closing operations. The market faced challenges in the 4th quarter with Class "A" building vacancies increasing from 7.5% to 10%, mainly due to the increased development and softening demand at the higher price points, along with stiff competition from aggressive landlords. Class "A" buildings have typically been a safe sector in the marketplace because of low inventory; however with new developments coming on line, and companies looking for lower rents the Class "A" sector is seeing less demand, greater competition and more vacancy.

The Class "B" sector experienced the same issues in the 4th quarter 2009 as did Class "A" due to the economic conditions. Vacancy rates increased mildly from 13.4% to 14% while rental rates dipped more than 10%. Base rates within this sector range from \$8-9 per square foot and topping out at \$12-13 per square foot with gross rates coming in around \$15-16 per square foot.

Downtown City of Reading vacancy rates continue to increase in late 2009 with rates rising 14.5% to 17.5% with much of the vacancy surrounding large blocks of contiguous space.

2010 is showing some signs of hope, with new leases and deals being consummated including the 175,000 square foot Acute Care Center that was built by the Reading Hospital and Medical Center in Wyomissing, a 32,000 square foot newly executed lease with a medical user in Wyomissing and a 10,000 square foot lease signed in Wyomissing. These deals are from companies within the County, however by adding to their overall presence they are reducing the amount of space currently on the market.

Deals are getting done because landlords are reacting to current market conditions, which means companies are getting favorable incentives, such as introductory rates, rent abatements and additional tenant improvements. Also, landlords are now offering tenant improvements and incentives to keep their existing tenants.

Class "A" vacancy so far in the first quarter of '10 has remained stable with current rates ranging from \$15.50 - \$16.75 (Triple Net) on the high side; however there is considerable downward pressure on pricing within this segment that is just beginning to be noticeable.

Class "B" vacancy rates remained steady, but pricing is all over the board due to aggressive incentives and introductory rates offered by landlords. Pricing is currently in the \$8.00/sf - \$12.50/sf and we believe this will continue into the foreseeable future, especially since a large block of space has recently come on the market due to a major relocation. Recent absorption has come mainly from expansion of operations by companies already in the market, two notable leases were a 32,000 square foot medical user and a 8,500 square foot utility.

Downtown City of Reading, although has seen some new deals consummated, like the Greater Reading Chamber of Commerce, Greater Berks Development Fund and Berks Economic Partnership leasing space at 201 Penn Street the market remains flat due to these companies coming from existing space within the City. Buildings that have seen vacancy for some time, including 645 Penn Street and 501 Washington Street are starting to show some signs of hope due to new management and ownership

changes taking effect. Owners and tenants are continuing to struggle with high parking costs and security concerns, which are continuing to be addressed by a committed City Administration.

The suburban market has been flat on the sale side, due to the continued economic conditions as seen in early 2009 along with difficulty obtaining financing. Most of the transactions are occurring with owner/users with established and well capitalized businesses or from deals being consummated due to creative financing where by owners are holding back second mortgages or financing projects outright. Pricing has remained fairly steady with reduction in value occurring mostly in the City of Reading.

The City of Reading and economic development groups have been working hard to improve and revitalize Downtown which shows in the number of projects underway. The new IMAX Theater and the nearly completed addition to the Reading Eagle Headquarters in the CBD are welcome entrants to the market and kick off a multi-million dollar main street corridor project that includes a new \$67 million Doubletree hotel and garage project across from the Sovereign Entertainment and Expo Center. This will help attract a more vibrant restaurant and entertainment segment with increased amenities and ultimately assist to bring tenants back downtown while decreasing vacancy rates and increases in the tax base.

The Greater Reading Area offers affordable rents with good amenities and a well educated work force. The residential market has remained stable even in these most troubling times with below average declines in home prices. The desirable bedroom communities along with excellent schools makes the area a good location to raise families and run businesses.

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