

Greater Reading Office Market Report

2009 is shaping up to be a stable year for the Greater Reading office market for both vacancy and rental rates with pockets of growth in the Wyomissing and Spring Township areas of the county. Coming off a poor net absorption rate in the Third Quarter 2008 the fulfillment of a 52,000 square foot lease to the utility concern UGI at Stone Point Office Center along with steady overall demand throughout the county contributed to a strong last quarter 2008. The premier office building at One Meridian which has a GLA of 377,000 square feet had a net absorption of nearly 40,000 in 2008 and stands as the marquis office building in terms of amenities and services in the area which helps maintain positive demand at its facility. In addition to commitments for existing space, over 200,000 square feet of new office space is under construction with signed tenants and should be completed in 2009 or early 2010.

Still, the market faces challenges in these difficult times with overall Class "A" building vacancies increasing from 7.5% to 10% in the fourth quarter, mainly from increased development and softening demand at the higher price points, and stiff competition from aggressive landlords. Traditionally a safe sector in this marketplace due to low inventory, the Class "A" building space is moving toward oversaturation with several properties being repositioned to compete at the low end of this sector along with an additional 300,000 square feet of proposed space waiting to be built. Currently a 110,000 square foot facility located at 525 Lancaster Avenue and 40,000 square feet at 210 George Street are being upgraded to meet modern office standards and will only add to the pull from the Class "A" market.

Tenants are willing to pay higher base rental rates (ranging from \$14.50 NNN to 16.50 NNN) for Wyomissing's central location with its easy access to major roadways and proximity to supporting services and amenities but some of the other suburban locations in the county such as Exeter Township and Muhlenberg Township are beginning to compete successfully on rental rates and amenities.

The Class "B" sector is experiencing a mixture of higher vacancy rates and lower rental rates, vacancy rates have slightly increased from 13.4% to 13.8% at the same time that rates have come down approximately 10%. Base rates for this sector are starting at \$8-\$9 per square foot and topping out at \$12 - \$13 per square foot and, with the decreased amenities generally provided, the gross rental rates struggle to get above \$16 per square foot.

Downtown City of Reading vacancy rates continue to increase with rates rising from 14.5% to 16.5% with much of the vacancy surrounding larger blocks of contiguous space. Although difficult and costly to divide and transition to smaller users, owners are becoming much more flexible and finding ways to meet the market demands. Owners and tenants are struggling with high parking costs and security concerns, which are continuing to be addressed by a committed City Administration.

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 increasing the tax basis.

The suburban market has been flat on the sale side, due to the economic conditions and difficulty in obtaining financing. Most of the sales are occurring with owner/users with established and well capitalized businesses or from local organizations purchasing land to build. Utilities Credit Union and Reading Hospital are great examples of local organizations expanding their overall market presence. Downtown, the Reading School District has been the main driver in demand for building and land purchases to accommodate strong enrollment and replacement of obsolete facilities but otherwise the purchase market for office buildings remains flat.

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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