

Life Sciences Outlook



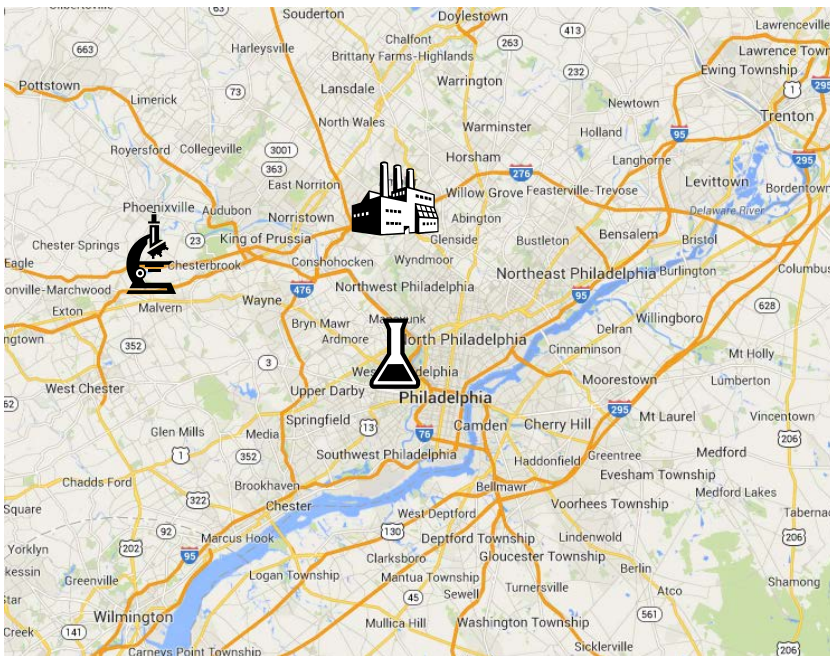
Philadelphia | 2015



Philadelphia

Booming eds & meds, big pharma, more startups: Philadelphia's market fundamentals are strong, thanks to a diverse ecosystem of established pharma firms and new startups, supported and incubated by growing research institutions

A large millennial workforce enables growth: The Philadelphia region has almost 100 hospitals and 90 colleges and universities that provide over 1,600 life sciences companies access to a deep pool of talent.



Major lab supply:

Clusters of established lab stock with long-time industry presence



Emerging lab supply:

Areas with limited lab stock today that are poised for growth



Life Sciences manufacturing supply:

Clusters of manufacturing space devoted to pharmaceutical, biological or medical device & instrument manufacturing

Philadelphia overview

The Philadelphia market acts as a global anchor for the life sciences industry, boasting more than 11.0 million square feet of life sciences real estate. Philadelphia's world-renowned academic institutions, centers of excellence for medicine, clusters of venture capital firms, as well as a diversity of startups and mature corporations make life sciences in the region resilient.

University City

Fifteen percent of the region's lab space exists in University City, which is the City of Philadelphia's largest lab cluster and tightest office submarket. With lab vacancy dipping below 3.0 percent in 2015, pressure is building for the University City Science Center's two remaining development parcels. Its newest asset, 3737 Market Street, achieved 100.0 percent occupancy Q1 2015, contributing to positive net absorption of 32,000 square feet.

Route 202 Corridor

The Route 202 Corridor, extending from Exton, heading east through Malvern, and finally ending in King of Prussia, is home to 37.0 percent of the Philadelphia market's lab space. After experiencing nearly 107,000 square feet of negative absorption in 2014, direct vacancy grew 30 basis points to 11.7 percent. The majority of the market's tenants reside in Malvern's Great Valley Corporate Center.

Bucks / Montgomery County

Bucks / Montgomery County is the region's largest submarket on a square footage basis, largely because Merck & Company occupies 3.6 million square feet, or 71.0 percent, of the total square footage. The area boasts more of a suburban, campus-like feel compared to the University City.

Economic scorecard

Cluster score:
50.3

Workforce	Total life sciences	% life sciences to private employment	Year-over-year growth
Employment	54,627	2.4%	-7.6%
Establishments	1,578	0.9%	-0.3%

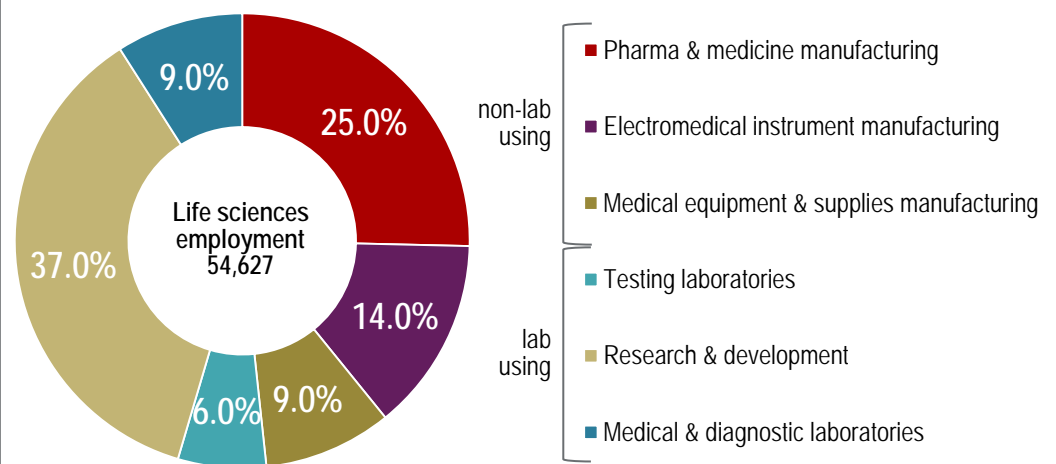
Funding	Total life sciences	% to total U.S.
VC funding	\$271.4M	1.9%
NIH funding	\$102.9M	0.5%

Innovation	Total life sciences	% to all patent classes
Patents	1,091	41.5%

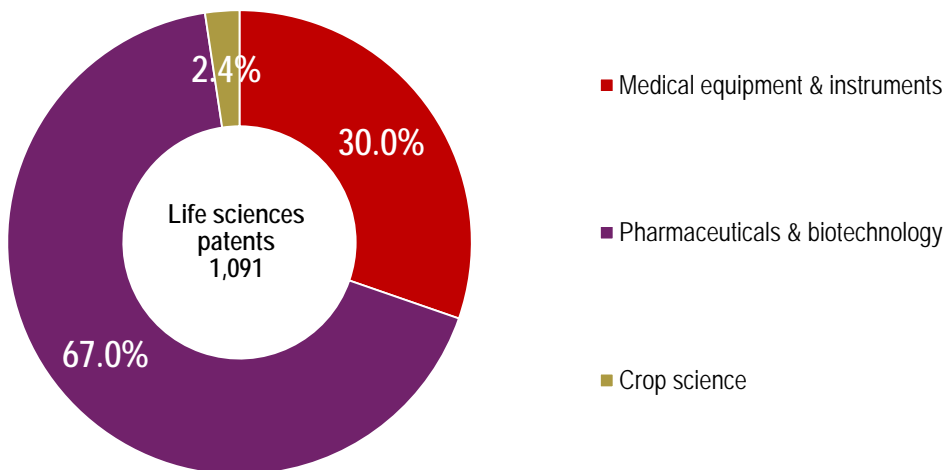
While restructuring at AstraZeneca, Merck and other firms has resulted in head count downsizings, Philadelphia's diversified life sciences sector benefits from world-renowned universities and international corporations that drive significant federal and venture funding for innovative research activities in the region.

Although Philadelphia's life sciences employment base is evenly split between manufacturing and lab-using functions, more than a third of employees are concentrated in high value-add, R&D focused companies.

Life sciences employment composition



Life sciences patents by classification



Although life sciences employment and establishments have declined slightly, regional patent activity is at an all-time high, mainly concentrated in pharmaceuticals and biotechnology. Over 41.0 percent of all of the region's patents were issued in the life sciences sector.

University City

97.2% of lab market occupied as institutional tenants outgrow expansion projects

- University City's last available large block of 56,000 square feet was leased to Penn Medicine in Q1 2015, eliminating availability in the submarket's newest Class A asset, 3737 Market Street. With this major transaction completed, there are no blocks larger than 10,000 square feet available in any University City Science Center building, where all of University City's leasable lab stock is located.
- The Science Center's Port Business Incubator offers flexible lease terms and a variety of spaces to nurture biotech and other startup ventures, including individual desks and cubicles in co-working spaces, as well as standalone offices throughout the Science Center portfolio. Tenants gain access to a variety of shared amenities and services including meeting and event space. As of Q1 2015, more than half of the Port Business Incubator's resident companies focus on life sciences.
- Major institutional users, most notably Penn Medicine and Children's Hospital of Philadelphia (CHOP), continue to expand their research and laboratory footprints throughout and immediately adjacent to University City through a mix of traditional leasing activity and ground-up construction of private facilities. CHOP is currently constructing a 559,000-square-foot research building to house 1,000 researchers across the Schuylkill River from University City. Similarly, the University of Pennsylvania broke ground on the Pennovation Center, a 58,000-square-foot facility that will include research and lab space, also situated on the opposite bank of the river, where larger development sites remain available.
- The Wistar Institute, an independent biomedical research institution and designated National Cancer Institute, unveiled a 89,700-square-foot expansion in September 2014. The new center adds 15 labs to the center's facilities at 3601 Spruce Street.

Facilities scorecard

Supply	University City Emerging lab
Rentable lab stock (% of total stock)	1.71 m.s.f. 15.4%
Direct vacancy (Change year-over-year)	2.8% (3.9) ppts
# of large blocks over 100,000 s.f.	0
Under construction (s.f.)	559,000 s.f.*
Pricing	
Average asking rent (NNN) (Change year-over-year)	\$23.86 p.s.f. 2.6%

*100% institutionally leased

PENN MEDICINE
3737 Market Street
University City
56,000 s.f.
Terms withheld
Class A

3535 MARKET STREET
University City
435,352 s.f.
Class A
\$140.6M / \$323 p.s.f.
Buyer: HCP Inc.
Seller: ProMed

700 SCHUYLKILL AVENUE*
559,000 s.f.
Class A

*100% institutionally leased

Activity key:

Leasing

Under construction

Sales

Large blocks of space

Philadelphia Suburbs

Route 202 Corridor

Large occupiers restructure and shrink footprints, creating space

- The Route 202 Corridor continues to be hit with an influx of large blocks as more companies announce plans to downsize or leave the market. Shire recently announced plans to vacate its Chesterbrook headquarters in 2015 and relocate over 500 employees to Lexington, Massachusetts. Shire will leave 219,934 square feet vacant at 725-735 Chesterbrook Boulevard this year and will finish relocating employees from other nearby locations in a multiphased approach sometime in early 2016.
- GlaxoSmithKline (GSK) also announced plans to lay off 150 employees in certain operating units in Pennsylvania, including in and around Philadelphia. GSK recently completed a three part transaction with Novartis, acquiring Novartis' global vaccines business for \$5.25 billion, selling Novartis its oncology business for \$16 billion, and then creating a health care joint venture in which GSK holds a 63.5 percent controlling interest.
- Today, there are three active Route 202 Corridor requirements totaling 62,000 square feet. Most of tenants require 10,000 to 20,000 s.f.

Bucks / Montgomery Counties

Limited lab availabilities make it a landlord's market

- The largest submarket in terms of square footage, Bucks and Montgomery Counties have less than 1.0 percent lab vacancy and only two spaces available.
- AmerisourceBergen leased 70,811 square feet in Conshohocken, testing the submarket for a potential relocation of their King of Prussia headquarters to a built-to-suit project in 2017. Conshohocken is an intriguing location for AmerisourceBergen because it offers a desirable "live, work, play" atmosphere.
- There are currently five tenants actively searching the market. However, AmerisourceBergen's 300,000-square-foot headquarters requirement represents 63.8 percent of the square footage.
- As part of its plans to cut 20.0 percent of its workforce by the end of 2015, Merck announced additional layoffs for 600 employees at its West Point facility in Montgomery County. Over the last two years, Merck & Company has laid off 1,252 employees from their West Point location.

Facilities scorecard

Supply	Route 202 Corridor Major lab	Bucks / Montgomery County Emerging lab
Rentable lab stock (% of total stock)	4.13 m.s.f. 37.0%	5.17 m.s.f. 46.3%
Direct vacancy (Change year-over-year)	11.7% 0.3 ppts	0.7% (0.4) ppts
# of large blocks over 100,000 s.f.	4	0
Under construction (s.f.)	0 s.f.	0 s.f.
Demand		
# of requirements	3	5
Total s.f. requirements	62,000 s.f.	470,000 s.f.
Pricing		
Average asking rent (NNN) (Change year-over-year)	\$10.02 p.s.f. (3.2)%	\$7.56 p.s.f. 0%

AmerisourceBergen
Millennium III
227 Washington Street,
Conshohocken
70,811 s.f.
Term: 10 years
Class A

Stryker Corporation
ArborRidge
70-76 Swedesford Road,
Malvern
34,500 s.f.
Term: 10 Years
Class A

Former Shire Headquarters
725-735 Chesterbrook Boulevard,
King of Prussia
219,934 s.f.
Class B
Available October 2015

Lionville Corporate Center
101 Gordon Drive,
Exton
262,900 s.f.
Class B
Will be renovated upon delivery to new tenant

Activity key:

Leasing

Under construction

Sales

Large blocks of space



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