

# DEMAND ECONOMICS

The Greater Princeton Area experienced growth in the Pharmaceutical industry due to the recent leasing by Otsuka, with Princeton being the winner in the consolidation game relocating a group from Maryland and leasing close to a 100,000 square feet at One University Square. Government, Education and Non Profits came in second with 19.36% of growth. Government and Education have a strong future as the federal government shuffles the deck relocating offices, while education is benefiting from people trying to retool their skills to compete in the workforce. The internet software and electronics sectors slowed only producing 10.6% of the growth that occurred, and medical moved up to 13.71% from 9% in 2009. The financial sector went negative for growth as Blackrock relocated one group to Maryland, another to New York and one group to University Square, leaving a negative 210,000 square feet of absorption. With Blackrock in this equation the average transaction growth size reduced to 960 square feet, 85% down from mid 2008. Without Blackrock in the equation, the average growth per transaction is 3,490 square feet, still 48% reduction in growth from mid 2008. We anticipate, based on a continued downsizing and slowly increasing demand, that the absorption rate will be neutral for full year 2010.

**Service Business Legal Finance:** This sector accounted for major contraction in the financial, architectural and real estate fields, with negative absorption. This half was the time when lease expirations was the time to shed excess space in order to adjust to a significant downturn in business through 2009 and first half of 2010. The financial markets are shedding facilities, such as Bank of America placing 350,000 square feet of former Merrill Lynch space in Hopewell. While at the same time Blackrock plans on vacating 800 Scudders Mill Road, leaving 350,000 of space vacant. The service industry, particularly architects, law firms and banks have repositioned themselves via severe layoffs, due to a sudden reduction in revenues. A significant transaction was the recent signing of Parsons Brinkerhoff at Lenox Drive Lawrenceville, for 43,590 square feet (engineering firm benefitting from The Stimulus Package).

**Technology:** Pharmaceutical companies continue to change their strategies by looking for faster ways to deliver new blockbuster drugs to the market. This sector held its own with Otsuka, a Japanese pharmaceutical company, leasing 100,000 at One University square and Integra Life Sciences (skin production company) leasing an additional 21,000 square feet of office space at 103 Morgan Lane. BMS, a long term Princeton company, has shed two facilities including Montgomery (68,000 SF), and placing as a sublease at Nassau Park (80,000 SF). Pfizer's purchase of Wyeth has added their 350,000 square foot research facility and 60,000 square feet of office lab space onto the market. BMS recently had a successful clinical trial for Ipilimumab, a drug for deadly malignant melanoma, projected to be a billion dollar in sales by 2015.

**Medical:** Growth in the medical industry increased to 13.71% from only 11% in 2009. This followed the recent start of the two hospital locations, Capital Health and University Medical Center of Princeton. Major positions are being placed by doctors in the new locations as the hospitals near completion in the next 6 to 12 months. Robert Wood Johnson Hospital at Hamilton recently released their obligation to Bristol Myers Squibb for 27,000 square feet of laboratory/medical space on the RWJ campus.

**Internet, Software, Electronic & Fiber:** This category finished the first half of 2010 at 10.6% net absorption down from only 12% in 2009. There was no one large transaction which contributed to this absorption, but a multitude of transactions that predominately showed slow growth. The other contributor to this category is the solar business which finds NJ a strong state for incentives subsidizing solar installations, which in effect is causing the opening of several new companies.

**Education/Government/Non-Profit:** The education/ government expansion led to 19.36% in growth. The Federal government is increasing in size, which has trickled down to New Jersey and is active with several GSA transactions including, The Marshall service (7,500 SF), Veterans administration (5,000 SF) and the FDIC (10,000). State office leases are being consolidated into Trenton, back filling 300,000 square feet of empty desks. These units are coming from Bordentown (39,000 sq ft), Hamilton (40,000 sq ft and 50,000 sq ft) and Lawrence (30,000 sq ft) reversing a trend that began in the late 70's of decentralizing and relocating employees in the surrounding suburbs. Non-profit expansion has come to a slow end as donations have fallen due to decline in net worth in the financial markets.

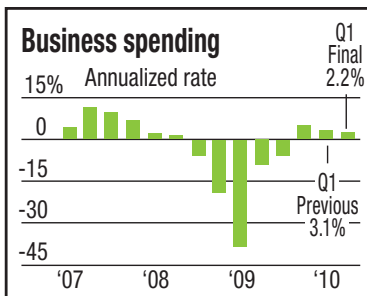
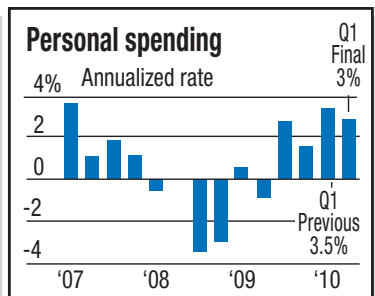
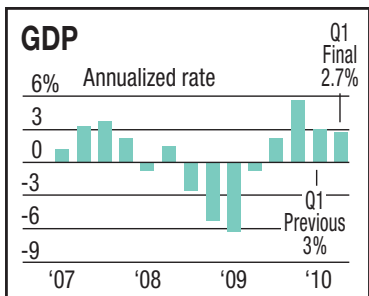
**Sports and entertainment:** This category is seeing a revival as corporate executives are searching for a new business ventures after being jettisoned by previous companies they served. There is risk involved in these franchise deals by the new entrepreneurs despite having vast management experience. The biggest problem is typically undercapitalization and a misconception of what it takes to build a new company from the ground up.

## ABSORPTION LEVELS 1997-2010

	Gross Absorp.	Net Absorp.	# of Trans.
1st Half 1997	1,517,627	861,837	81
2nd Half 1997	687,021	562,128	91
1st Half 1998	434,346	385,296	56
2nd Half 1998	1,007,642	727,172	55
1st Half 1999	729,881	537,231	84
2nd Half 1999	1,061,332	799,098	89
1st Half 2000	827,374	644,845	98
2nd Half 2000	911,119	817,883	80
1st Half 2001	652,266	545,966	70
2nd Half 2001	331,704	222,704	50
1st Half 2002	631,730	414,430	61
2nd Half 2002	351,017	173,072	49
1st Half 2003	533,538	408,978	56
2nd Half 2003	444,419	283,839	68
1st Half 2004	695,067	504,610	76
2nd Half 2004	683,586	471,411	87
1st Half 2005	619,008	581,008	82
2nd Half 2005	741,843	492,253	69
1st Half 2006	477,471	278,230	70
2nd Half 2006	670,596	282,811	75
1st Half 2007	384,635	300,065	85
2nd Half 2007	778,370	636,117	80
1st Half 2008	1,005,469	591,433	88
2nd Half 2008	652,109	559,225	87
1st Half 2009	615,931	408,031	62
2nd Half 2009	431,822	318,825	72
1st Half 2010	741,181	79,738	83

## GROWTH PER SECTOR

	Service/Bus./Legal	Gov't/Edu./Non-Profit	Bio	Internet/Software/Electronic/Fiber	Medical	Sports & Entertainment
Net Absorption	(132,284)	55,574	77,595	30,432	39,421	10,000



Category	Percentage Points
Personal Spending	2.13
Net exports	-0.82
Government spending	-0.39
Inventories	1.88