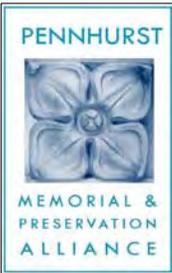


# PENNHURST: ENVISIONING A COMMUNITY OF CONSCIENCE

A Market Analysis Study for Retail, Office, Hospitality, and Residential Re-Uses



## MARKET ANALYSIS



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## MARKET ANALYSIS



### PURPOSE

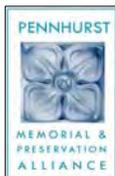
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This market study will outline the supply and demand for retail, office, hotel, apartment, and condominium product types in the context of region surrounding the former Pennhurst State School and Hospital in Spring City, Pennsylvania. It will examine the larger demographic drivers, economic conditions, and outlook for the region and the US Route 422 Corridor in which Pennhurst is located.

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Ithaca, New York  
Fall 2009



## MARKET ANALYSIS

## I. MARKET ANALYSIS EXECUTIVE SUMMARY



Pennhurst occupies a prominent location on the physical and cultural landscapes. Sitting high on a hill overlooking the Schuylkill River, it is the place where forced institutionalization of persons with disabilities was first declared unconstitutional—a milestone in civil rights that set international precedents. Reforms resulting from Pennhurst made Pennsylvania the national leader in disability rights.

The 112-acre site in Chester County is surrounded by woods as well as the institution's former playing fields. Though sprawling development is quickly encroaching on the property's historic stone walls, the site itself is secluded and access onto campus is limited to two points. The approximately 22 buildings on the site date from between 1906 and 1945 and have been vacant since the institution's closure in 1987. Large, open wards and high ceilings leave open multiple conversion options.

The region around Pennhurst is one of the fastest growing and most affluent in the entire Philadelphia Metropolitan Statistical Area, a large region including Philadelphia and its suburbs, Wilmington, DE, and its suburbs, Camden, NJ, and its suburbs, and a portion of northeastern Maryland. According to the Delaware Valley Regional Planning Commission, the US 422 corridor in which Pennhurst is situated is the single most important and fastest growing region proximal to Philadelphia, itself the sixth largest metropolitan area in the United States. The corridor presents both a host of opportunities but also is likely to become over-congested. Redevelopment at Pennhurst will need to tie into the power of adjacency to corridor assets—including growing office, retail, and residential, and recreational developments—but should offer alternative transportation options (car share/dedicated bus or live/work options). Pennhurst is also connected to the proposed R-6 rail line extension.

A plentiful offering of proposed retail, office, and residential projects in the twenty-to-thirty mile radius rings around Pennhurst may have those markets well-saturated into 2014.

Although there is great purchasing power in the area, the increasing vacancies and number of new retail developments entering the market leave little opportunity for a successful retail market on site. The problems with developing a retail development extend beyond this analysis. They include rising construction costs, increased challenges of obtaining financing, the ability to prelease or secure enough tenants to reach solvency, and the ability to get proper zoning. While a retail development is not recommended for the site at this time, if economic conditions improve, the recommendation would be to develop specialty stores in the area and to create a destination shopping center. The specialty stores would cater towards the wealthy baby boomers in the area with stores such as high-end furniture and appliance stores.

## MARKET ANALYSIS

With regard to office use, demographic and employment trends represent positive factors for the market. Nonetheless, the site appears to be somewhat disconnected from existing office nodes in terms of linkages given its location across the Schuylkill River from US 422. Additionally, based on our supply and demand equilibrium analysis, there appears to be significant oversupply of office space in the target market area. As such, the market would not support a new office development and we recommend against any such development at this time.

The population and employment growth in the US 422 corridor surrounding the Pennhurst campus is very positive in regards to a potential multifamily rental project. Montgomery and Chester County have two of the lowest employment rates of the entire state. The area has an extremely high percentage of the population that owns their housing. National trends point to lower affordability over the next decade, and increased demand on affordable rental multifamily rental units. Though it is apparent that there are some positive demand drivers in regard to rental units in the Pennhurst area, more due diligence needs be completed on the two planned competitors that are located within a mile or two of the Pennhurst campus. In addition, more research should be done on the likelihood and time line of the light rail extension from Philadelphia to this area. There is definitely good potential for a residential rental project on the Pennhurst campus, but its success would be greatly increased if it was integrated into a mixed use development that offered some cultural draw and was possibly located on the light rail

Condominium projects at Vincent Village and in Valley Forge, if completed, will likely saturate the market into 2014. However, an aging population looking to downsize is likely to increase demand for housing with a smaller footprint and fewer maintenance requirements. Additionally, baby boomers entering their retirement years will be looking for greater comfort and amenity levels. These needs could be met through luxury condominiums at Pennhurst.

In contrast to the potentially-saturated retail, office, and residential markets, there are currently *no destination hotel or spa properties anywhere in Philadelphia's expanding western suburbs and none planned*. According to the market analysis, "The Pennhurst site would be a good place to build a destination hotel property because of the many tourist draws in the area, the proximity to Philadelphia, and the lack of competing luxury properties in the market. The suggestion is to create a 275 room luxury, destination property that draws customers not only from the surrounding areas but from across the country."

However, two considerations may still leave the door open for retail, office, and residential development at Pennhurst. First, the availability of financing for any of the proposed competing projects continues to place them in jeopardy. Second, Pennhurst's cultural and physical attributes create a distinctive destination marketable to a broader geographic and demographic range than competing projects.

Packaged as a stop on a "freedom corridor" extending from Penn's Landing and Independence Mall in Philadelphia, to Valley Forge, and westward to Gettysburg, the site would be a draw for tourists as well as recreational travelers along the Schuylkill River Trail. Pennhurst's status as one of a handful of International Sites of Conscience should be capitalized upon through the creation of a "Community of Conscience," a multi-use development incorporating ethically-driven activities. Marketing around this concept would emphasize:

- The site should be understood as a place where Pennsylvania changed course of human rights.
- Positive legacy must be emphasized
- Restoration of site can be packaged as both "restorative" and responsible, respecting the site's memory, etc., and providing jobs while being environmentally responsible.

These messages may resonate particularly well with the wealthy and well-educated demographics surrounding the site, but may also be of broader appeal. In any case, they offer an angle to redevelop the site as a destination.

The physical beauty of the site—its scenery, architecture, and its courtyard layout arranged to take advantage of vistas—also council toward a "destination" option. The site's seclusion, surrounding green buffer zone, and intriguing architecture distinguish it from the more homogenized growth characterizing greater southeastern Pennsylvania.



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In addition to a lack of destination hospitality/spa resources, this study also revealed two other unmet needs in the region. First, a range of housing options aimed at Pennsylvania's growing 65-and-over population has not been sufficiently developed. By 2020, one-in-four Pennsylvanians will be over 65. While a number of facilities have been developed in the area, the quality of housing and the range of lifestyle options is lacking. The AARP and a recent Cornell University study (see Appendix) have spoken of a growing demand for communities that are friendly to variety of ages, concurrently allowing for the vibrancy of interaction between the age cohorts but also providing spaces for the quiet and privacy often sought by the upper age cohorts. Pennhurst would also provide a unique space for a collaboration with an institution of higher learning to teach the care of persons in the upper age cohorts. A recent public posting on the Pennhurst Memorial and Preservation Alliance website suggested just such a use.

Second, there is no "cultural hub;" the region has a deficit of public athletic, recreational, and performance space. The Pennhurst site is large enough to include cultural amenities of broader community interest that a cultural hub might require, including a performance space, auditorium (one already exists on site, c.1920), indoor/outdoor pools, playing fields, etc. A museum and memorial on site as part of this cultural hub can center the property physically and psychologically. It can also provide a node from which community activity planning, events, and concerts can be coordinated. These uses enhance the notion of Pennhurst as a destination and, in turn, are themselves enhanced by it.

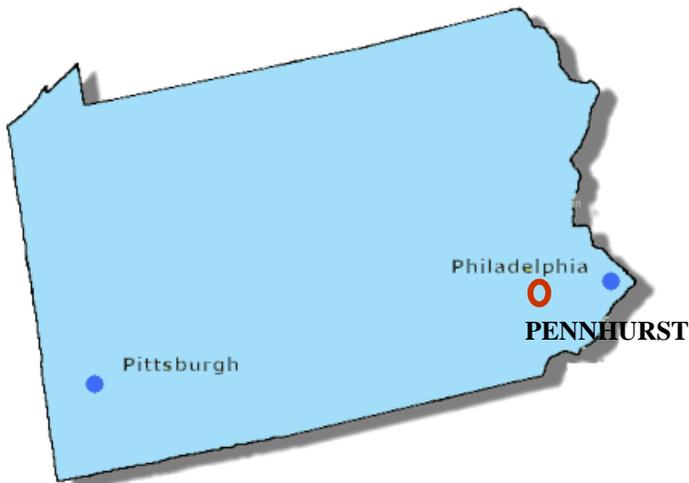
These three uses can be accommodated concurrently on the Pennhurst site, sharing amenities and creating a vibrancy of interaction not possible in isolation, and also can be easily marketed within context of a community of conscience. A cultural center will bring a demographic mix and vibrancy not usually associated with facility for the upper age cohorts. A spa and hotel on the site can share amenities with the retirement/continuing care community.

MARKET ANALYSIS

II. SITE ANALYSIS



A. SITE DESCRIPTION

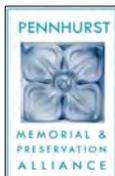


Located in East Vincent Township, Chester County, Pennsylvania, just 30 miles west of Philadelphia, the Pennhurst State School and Hospital occupies a prominent place on the geographic and cultural landscape of Southeastern Pennsylvania. Situated high on a hill overlooking a prominent S-curve in the Schuylkill River, Pennhurst is on the very northern edge of Chester County where it meets Montgomery County.

Opened in 1908 by the Commonwealth of Pennsylvania as a facility for persons with intellectual and developmental disabilities, Pennhurst included dormitories, classrooms, an auditorium, dining hall, power plant, offices, a hospital, greenhouses, and a host of other facilities that allowed it to function almost as an entirely self-

contained community. Between 1908 and 1987, more than 10,600 Pennsylvanians with developmental disabilities lived here. Public controversy over the inhumane treatment of residents and two decades of complex litigation, including three separate arguments before the U.S. Supreme Court, led to the institution’s closure. Groundbreaking advocacy and new public policy, including the movement to community-based living, made Pennhurst a milestone in the national disabilities civil rights movement.

In 1903, the Pennsylvania Legislature authorized the creation of the Eastern State Institution for the Feeble-Minded and Epileptic, the second such state-operated facility. A commission was created to identify a “tract of land [which] shall be good, arable land, well adapted to the preservation of the health and the occupation and maintenance of the inmates of said institution.” The establishing legislation later states that “The buildings shall be in two groups, one for the educational and industrial department, and one for the custodial or asylum department, with such other subdivisions as will best classify and separate the many diverse forms of the infirmity to be treated; and shall embrace one or more school-houses, a gymnasium and drill-hall, a work shop, and an isolating hospital, - all on such scale as will create an institution to accommodate not less not less than five hundred inmates or patients, planned and located for easy and natural additions, as population demands.”



## MARKET ANALYSIS



*An aerial view of the Pennhurst campus in 1923. All buildings remain as of 2009 except for K Building, to the immediate left of the traffic circle toward the bottom right of the photograph. Additional buildings were added in time after this photograph was taken.*

The Commonwealth purchased several farms in an area known as Crab Hill to create a parcel of nearly 1200 acres. The farm houses for the original farms were retained and served, among other things, as residential space during the institution's worst periods of overcrowding. The first institutional buildings at Pennhurst were built between 1903 and 1908 and included "P" (subsequently renamed Philadelphia Building), "Q" (Quaker Hall), "R" (Rockwell Hall), "F" (Franklin Hall), "G," "N" (Nobel Hall), "U" (Union Hall), "V" (Vincennes Hall), and "T" (Tinicum Hall). "K" and "I" (Industry Hall) Buildings were completed within two years of the facility's opening. Numerous new farm buildings were also completed in the first wave of construction, as well as a sewage plant and a power plant.

"A" Building (Administration) was added in 1918, joined by the "L" (Limerick Hall) and "M" (Mayflower Hall) buildings flanking it in 1919. 1921 The Pennhurst Hospital is opened. Completion of the hospital essentially concluded the development of the original campus. Penn Hall (designed to provide employee housing) and the Auditorium would be opened in 1929. No other residential buildings would be constructed on the main campus until "D" Building (Devon Hall) was built after World War II.

MARKET ANALYSIS

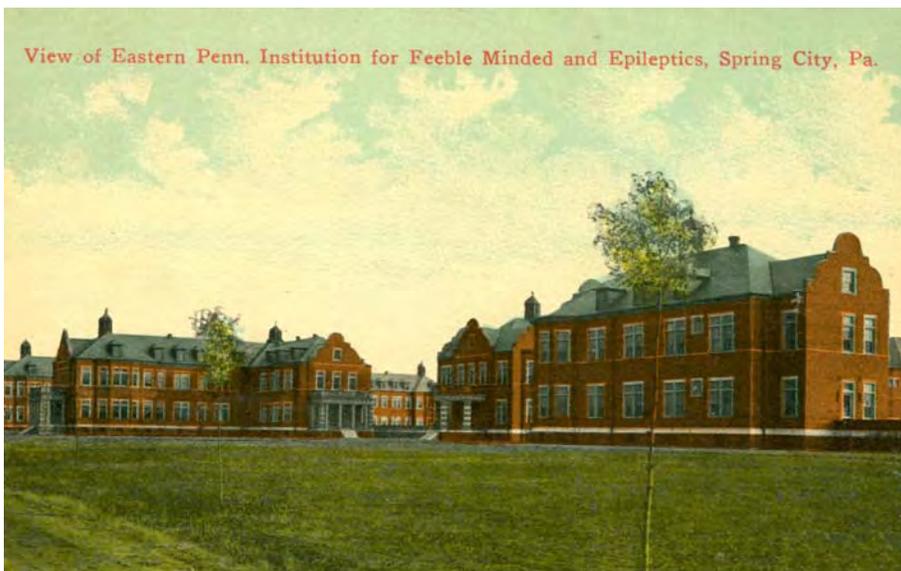
In 1930, the first buildings on the upper campus, known as the "Female Colony" are completed. Female Buildings #1 & #2 (later renamed Pershing and Buchanan Halls) and an employee dormitory (Audubon Hall) are the first of five buildings to comprise the upper campus. Female Building #3 (Keystone Hall) is built during the 1930's. Female Building #4 (Capitol Hall) is erected after World War II, at the same time that "D" Building is constructed. There would be no further buildings added to the facility until Horizon Hall is opened in 1971. The female colony and Horizon Hall are owned by the Pennsylvania Department of Military and Veterans Affairs. The former are

operated by the Pennsylvania National Guard and the latter is a Veterans Hospital. Neither is part of this study.



*A popular topic for postcards before the First World War, Pennhurst was hailed as a model institution. Its buildings were filled to capacity from the outset. The first buildings performed a variety of functions. The building pictured above was designed for residential and classroom use, though was pressed into service as the administration building until a structure dedicated solely to administration could be built.*

The lower campus sits on a parcel of approximately 112 acres with expansive views of the surrounding river valley. Campus buildings are arranged in a campus format. All have a steel and concrete supporting frame and decorative brickwork laid in a Flemish bond pattern. Approximately 600,000 square feet of usable space is available in the buildings. First floor ceiling height average 15 feet and second and third floor ceiling heights range from 11 to 13 feet. Most buildings contain large open rooms divided by partial or curtain walls. The



buildings are of a style uncommon in the region and have complex and intriguing rooflines.

The landscape surrounding the campus varies greatly in elevation, rolling from the Schuylkill River to the highest point in East Vincent Township.



MARKET ANALYSIS

B. HISTORICAL AND CULTURAL CONTEXT: A MARKETING PERSPECTIVE



CONTINUING THE FREEDOM CORRIDOR

*The Pennhurst State School and Hospital is now recognized as the epicenter of a civil and human rights movement that changed the way the world saw people with intellectual and developmental disabilities, among the last group of Americans to attain privileges assumed to be the natural freedoms of all Americans.*

*Seen in this way, Pennhurst's historic and beautiful campus is, like Valley Forge and Independence Mall to the east, hallowed ground in the struggle for dignity and self-determination, a western anchor to a freedom corridor that, though stretching but a few miles, reached all the way around the world.*

It is important that the site's history and its context within this "freedom corridor" be utilized as an asset in whatever re-development scheme is adopted. Aesthetically, the current structures and landscape create a pleasing, unified "whole" with a period feel and visual interest. Perhaps more importantly, philosophically, adaptive re-use of salvageable structures, elements, and landscapes can be said to "reclaim" this once painful place in a redemptive capacity that neither ignores the past nor dwells on its negative aspects. Indeed, as Pennhurst is really THE place where the sad story of institutionalization in the United States—and the world—came to an end, Pennhurst's legacy is VERY POSITIVE. That this sweeping social change came to pass thanks to the efforts of local concerned citizenry—that grassroots community activism in Pennsylvania changed the world—makes the story all the more appealing from a marketing perspective.

A "community of conscience" at Pennhurst should capitalize on both of these messages as well as the campus's prestigious designation as an International Site of Conscience. While a positive message is always a powerful selling point, one centered on a history of public advancement "from the bottom up" is particularly inspiring. In a time when the popular suspicion to issues of corporate greed and political corruption runs high, the idea of a conscience-driven site would play very well. Additionally, the environmentally-friendly aspects of preservation activity (preservation and building re-use being the ultimate recycling) will be selling points. Lastly, the economic promise of returning a fallow site to the productive use should not be underestimated.

This positive message, combined with the architecture, dramatic views, and landscape combine to create a unique sense of place at Pennhurst—key elements to image and branding. The importance of both the aesthetic and historical values in placemaking stand as a counterpoint to the ubiquitous dullness of the sprawl-type development surrounding the campus. As such, they will be capital-attractors—exceedingly important as the increasing mobility of capital requires us to be inventive in attracting and retaining it.

The nation's first museum and memorial to disabilities as well as a university-based research center could be the geographic and spiritual center of a greater Community of Conscience. The quality of such facilities



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are interdependent. That is, for a museum about institutionalization to be effective, the footprint of the institution must be sufficiently evident; for a conscience-based re-development to be effectively grounded, the spiritual core must be sufficiently developed and integrated.

Public responses have indicated that a popular option would be to re-develop the site as a high-tech green campus, meeting LEED standards to the fullest extent possible and preserving as much open space as is economically feasible. A multi-use community using adaptive re-use, preservation, and new construction could enliven and invigorate the site, housing and employing persons across the spectrum of age and socio-economic backgrounds. The campus could be planned around transit-oriented development principles and incorporate a park-and-ride facility, perhaps located within adaptively-reused historic structures. A historic bridge over the Schuylkill River connects the campus to the Royersford Train Station on the much-anticipated R-6 rail line extension. Additionally, a rest stop along the Schuylkill River Trail skirting the Pennhurst property could be located on the site of the former Pennhurst Train Station or in the existing Power House. Such a rest stop would be well-located between the Valley Forge and Pottstown stops along the trail.

The integration of the following elements into the Pennhurst campus would result in the most groundbreaking redevelopment in Pennsylvania history. The themes below can not only guide developmental design, they can be utilized in marketing the property as a unique and desirable location for tenants, residents, etc.

*Core Themes:*

*Social* (national museum, memorial, research center, etc.; integration of age groups and backgrounds and interests)

*Historic and Aesthetic* (maintenance of character defining features, including facades, stone walls, landscape vistas; restoring historic lighting and gardens; addition of sympathetic new elements, including accent lighting, fountains, and new structures).

*Environmental* (green building and adaptive re-use; transit-oriented development; new urbanist principles of living, working, and shopping in the same area; alternative energy production; alternative transportation on campus; park and ride)

*High Tech Features* (wireless campus, etc.)

*Multi-Use* (residential; office space; retail; recreation; heritage tourism)

*Proposed Three Pillars of Pennhurst Development:*

*Beauty:* beautiful to see and to occupy; important role both in historical context and precedents for the future. Requires preservation.

*Conscience:* Green-ness; environmental and social stewardship; education, recreation, inclusion; arts and culture. Requires preservation.

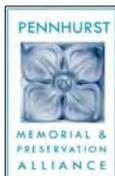
*Smart Business:* development must make money and be self-sustaining.

*Thoughts on a Community of Conscience*

*A Place to Understand:* Pennhurst is about what we as a society chose to do with people who were different—people defined as "the other." As such, a reuse must include a place that interprets not only what happened, but why and how.

*A Place to Remember:* Pennhurst is about the 10,600 people who were confined there—many of whom led lives of dignity in a system designed to strip them of it. The reuse must contain a memorial to the triumph of their spirit—an inspiration for the present as much as a tribute to the past.

*A Place to Learn:* Pennhurst is also about ignorance—the false and willful blindness to the humanity to be found in persons Pennhurst's founders labeled as feeble-minded, idiots, imbeciles, and the like. As such, we believe it should incorporate a place for research and outreach, perhaps with a university-affiliation as well as a conference space.



MARKET ANALYSIS

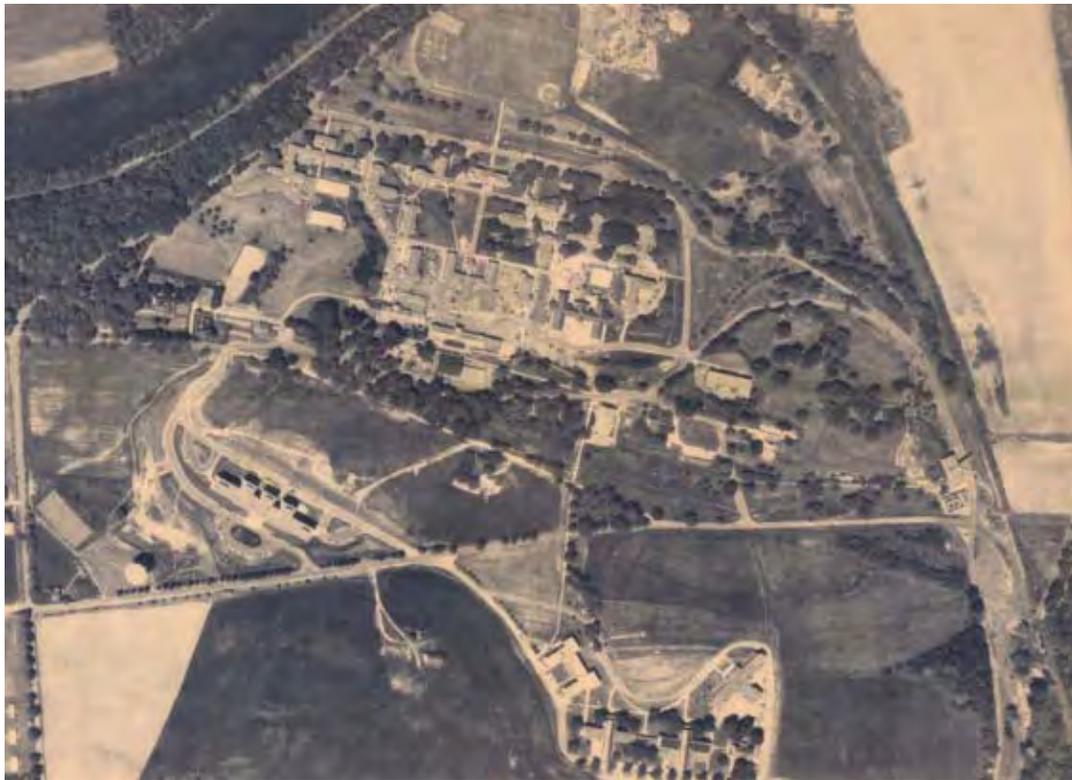
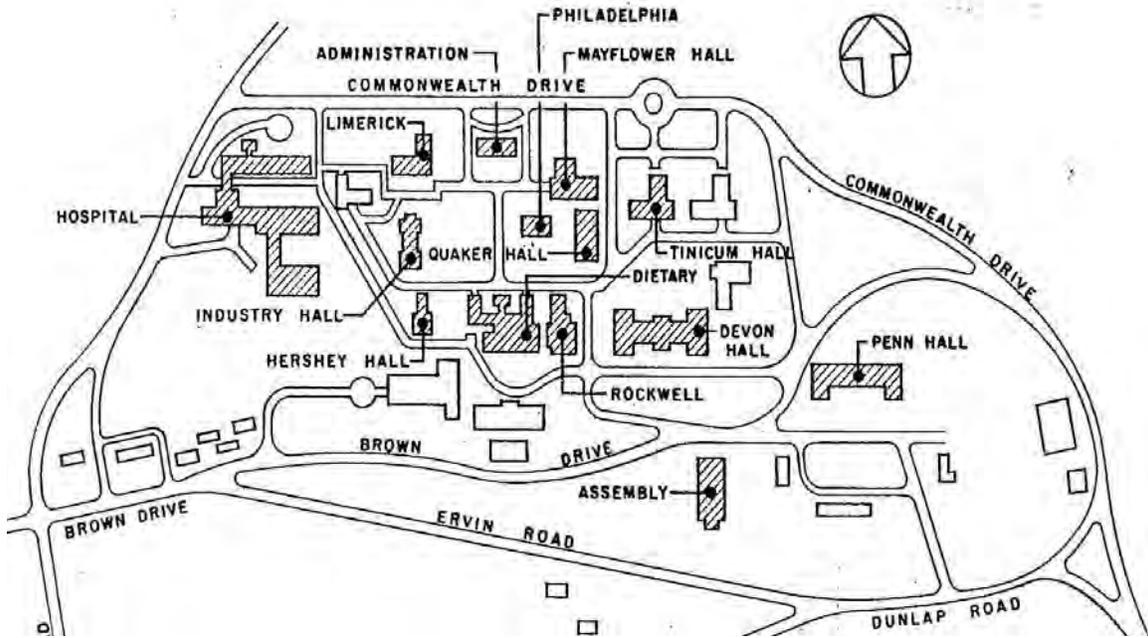
*A Place for All:* Pennhurst was a place of seclusion; it was a world apart from the real world, and its residents kept segregated from each other and the outside world. The access routes to Pennhurst should combat this, enhancing the atmosphere created by the original stone pillars and walls with accent lighting, plantings, etc, to create a welcoming invitation. More importantly, Pennhurst as a place of conscience must be a place of inclusion. As such, its spiritual core should be surrounded by places for recreation and reflection.

*A Place to Live, Work, and Grow:* A respect and understanding of the past is only useful to the extent it can be integrated for future benefit. To that end, Pennhurst must be a living community and a place of broad civic engagement. Public activities such as concerts on the broad, terraced fields in front of the Administration Building should be a regularized part of the Pennhurst community. Restaurants and shopping should be offered as a way of adding interest. The recreational and supporting uses located on the campus will encourage visitation to the site. It should be noted the campus is already (though illegally) a popular site for recreation, given the beauty of the grounds and the views it provides.



MARKET ANALYSIS

C. CAMPUS MAP AND PHOTOGRAPHS

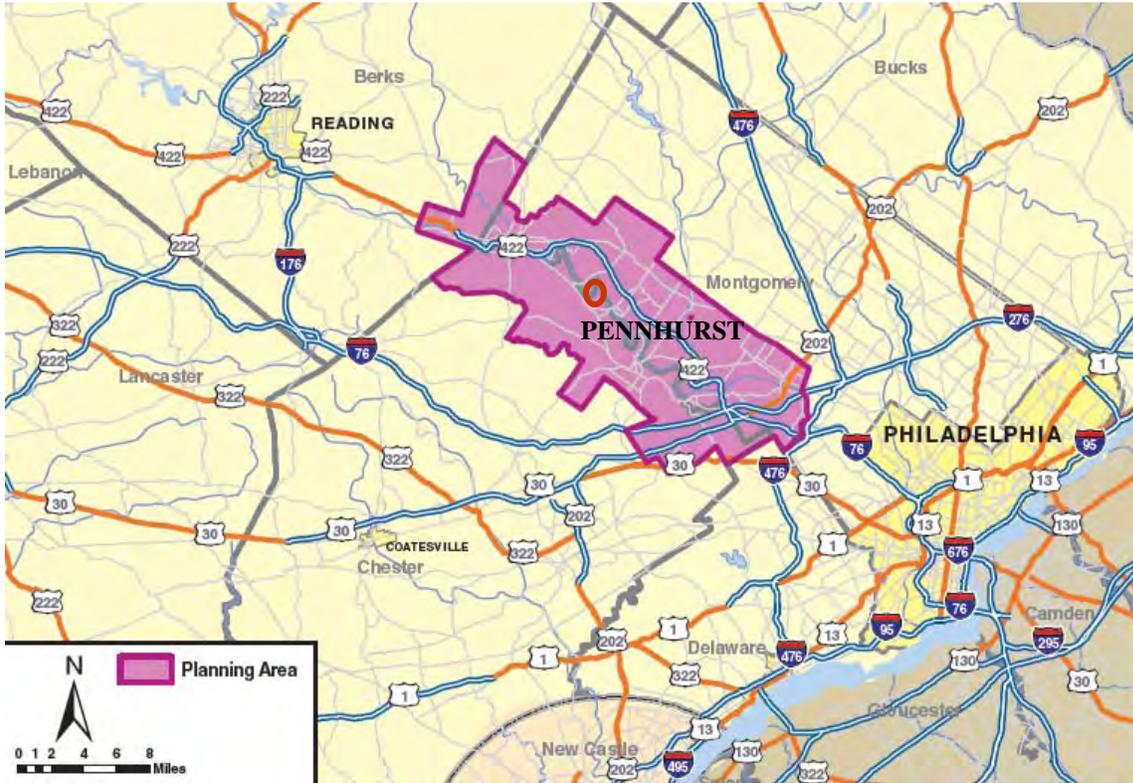


MARKET ANALYSIS

III. PENNHURST'S REGION AND POPULATION

A. STUDY AREAS

1. DELAWARE VALLEY REGIONAL PLANNING COMMISSION'S DESIGNATED US ROUTE 422 CORRIDOR



Pennhurst as a landmark location will operate as a locus of activity within sub-regions defined by geographic and drive time intervals. We will consider the campus from those perspectives. However, while those distance and drive time metrics commonly used in market analyses are utilized in this study, it is also valuable to consider the site within the context of the US Route 422 Corridor. The Delaware Valley Regional Planning Commission identified Route 422 as the single most important and fastest growing suburban expressway in the Philadelphia region. Pennhurst is approximately three miles from the closest interchange on the 422 Expressway. Likely the principle route to bring people to Pennhurst, it is also the main artery for traffic and energy in region. Jobs, wealth, and development have flowed west from Philadelphia primarily along the 422 Corridor. US 422 is also a local expressway for short trips to commercial centers and major interconnecting routes such as PA Routes 23, 100, and 724 which also neighbor Pennhurst. Finally, US 422 has become an important inter-regional thoroughfare, connecting US 222, PA 61, and I-176 to the west with US 202, I-276, I-476 and ultimately I-95.

*The Following is Excerpted from DVRPC's US 422 Corridor Master Plan Summary Report:*

The US 422 Corridor planning area, from King of Prussia to southeastern Berks County, includes a considerable planning area encompassing over 200 square miles in southern Montgomery, northern

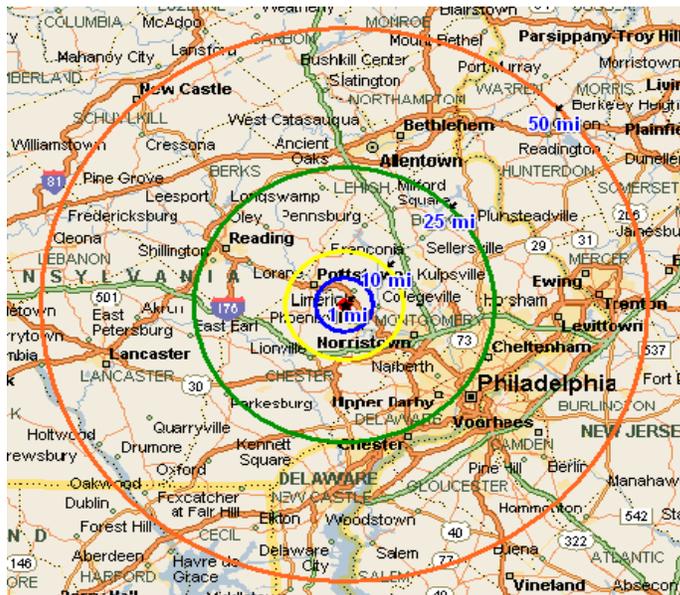


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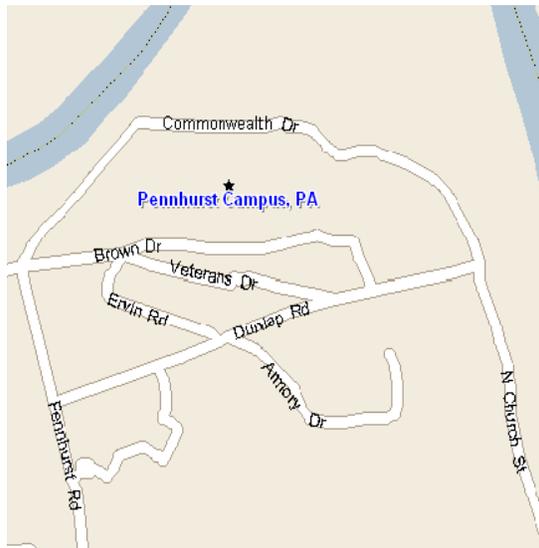
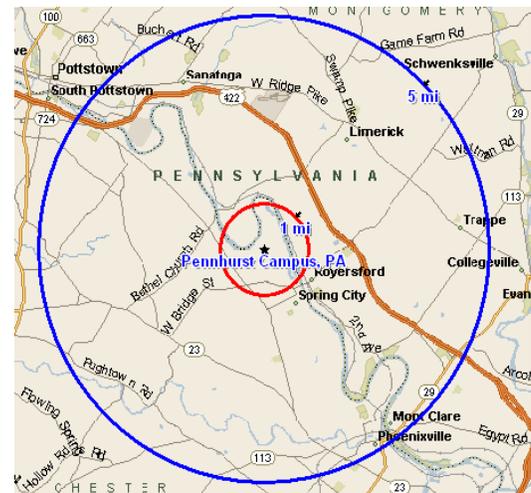
Chester and southern Berks Counties, Pennsylvania. The corridor is approximately 25 miles long, spanning three counties and encompassing 24 local municipalities.

The corridor begins 20 miles west of Philadelphia in Upper Merion Township, and extends west to Amity Township in Berks County. The Pennhurst region, a landscape of rolling hills, is bisected by the Schuylkill River. The river valley was an important transportation route in the eras of canals and railroads, connecting Philadelphia and its port with the rich, coal, iron ore and lumber regions to the north and west. The older communities within the planning area (now boroughs) are either river towns or are located along Ridge Pike. The most densely developed and heavily populated area is King of Prussia to the east. Home to one of the nation’s largest shopping malls, King of Prussia is located at the interchange of the Pennsylvania Turnpike (I-76/276) and the Schuylkill Expressway (I-76). This edge city grew extensively after the completion of the interchange between the two expressways and is now a major retail and employment center. This growth extends along the US 202 corridor. Similarly, the growth of newer and emerging suburban areas is being fueled by access to US 422.

## 2. DISTANCE RINGS FROM PENNHURST CAMPUS



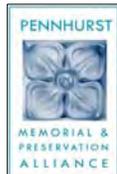
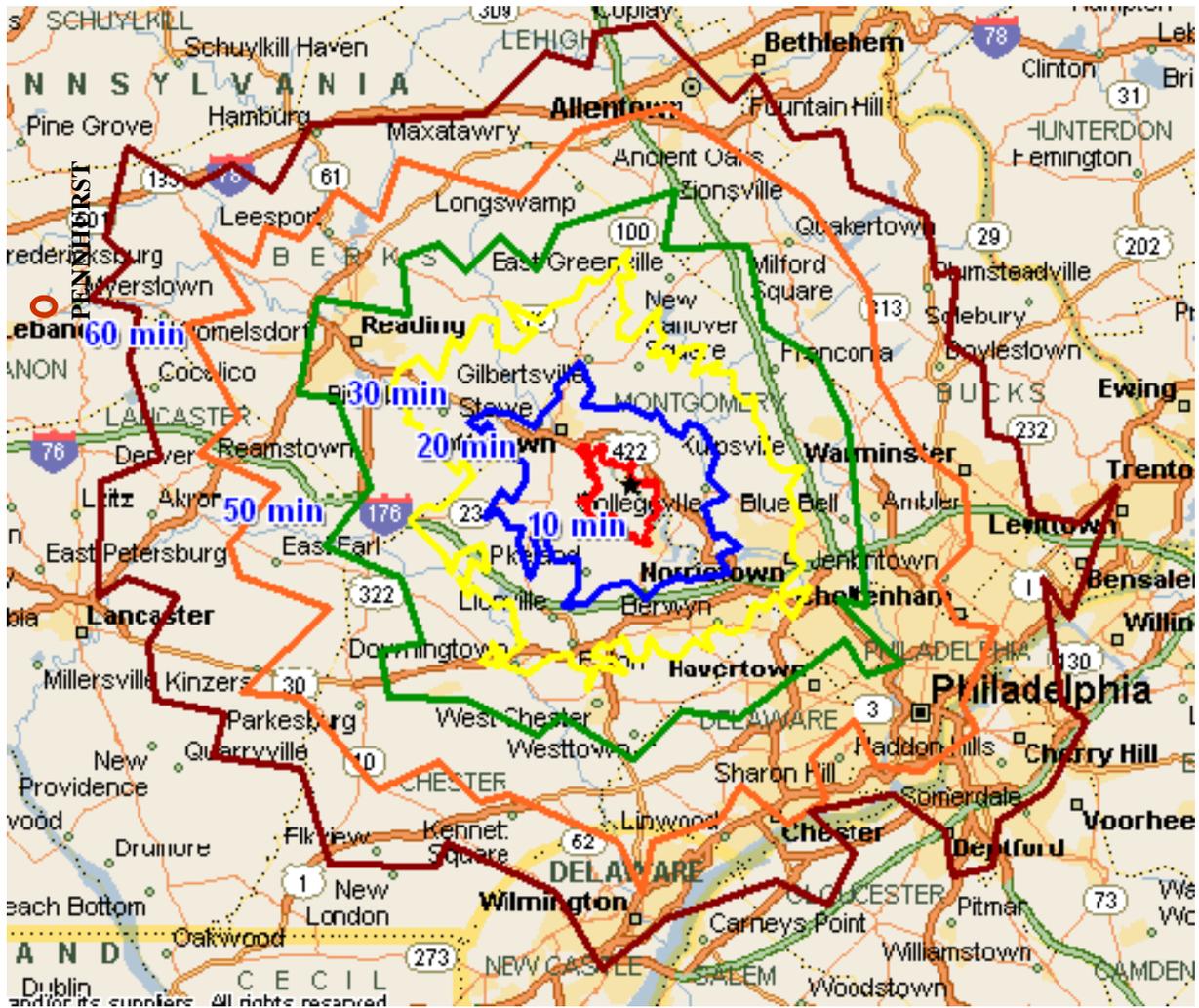
Pennhurst as a landmark location will operate as a locus of activity within sub-regions defined by geographic and drive time intervals. The following maps show the areas contained within one, five, ten, twenty-five, and fifty mile distance radii from Pennhurst.



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3. DRIVE TIME

The following maps show the areas surrounding Pennhurst by drive time. The areas contained within the bright red line are accessible within ten minutes; those within the blue line are accessible within twenty minutes, and so on. The drive times are averages and have been adjusted for congestion.



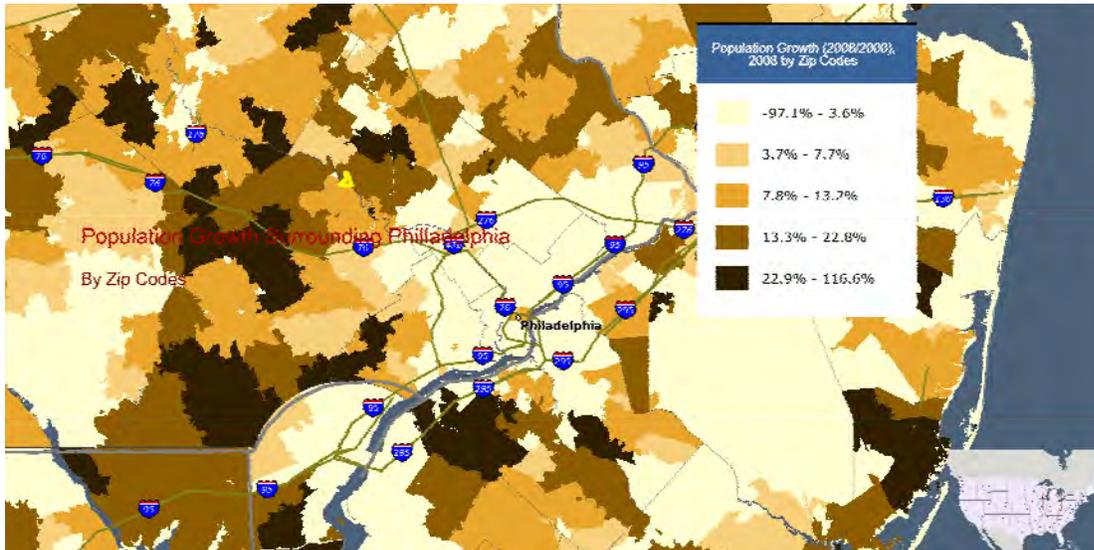
# MARKET ANALYSIS

NOTE: The following section will provide some background information about the demographic and economic trends of the Pennhurst region, looking at the US 422 Corridor, distance and drive time radii, and the two counties that bracket the Pennhurst campus (Chester and Montgomery). The information contained in this overview section may be replicated or expanded in the individual product type market analysis sections.

## B. DEMOGRAPHICS & POPULATION GROWTH

### 1. POPULATION GROWTH ALONG ROUTE 422 CORRIDOR

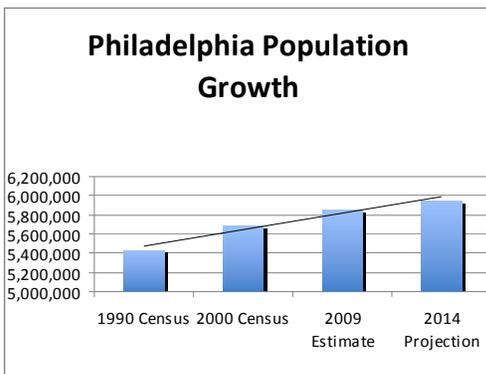
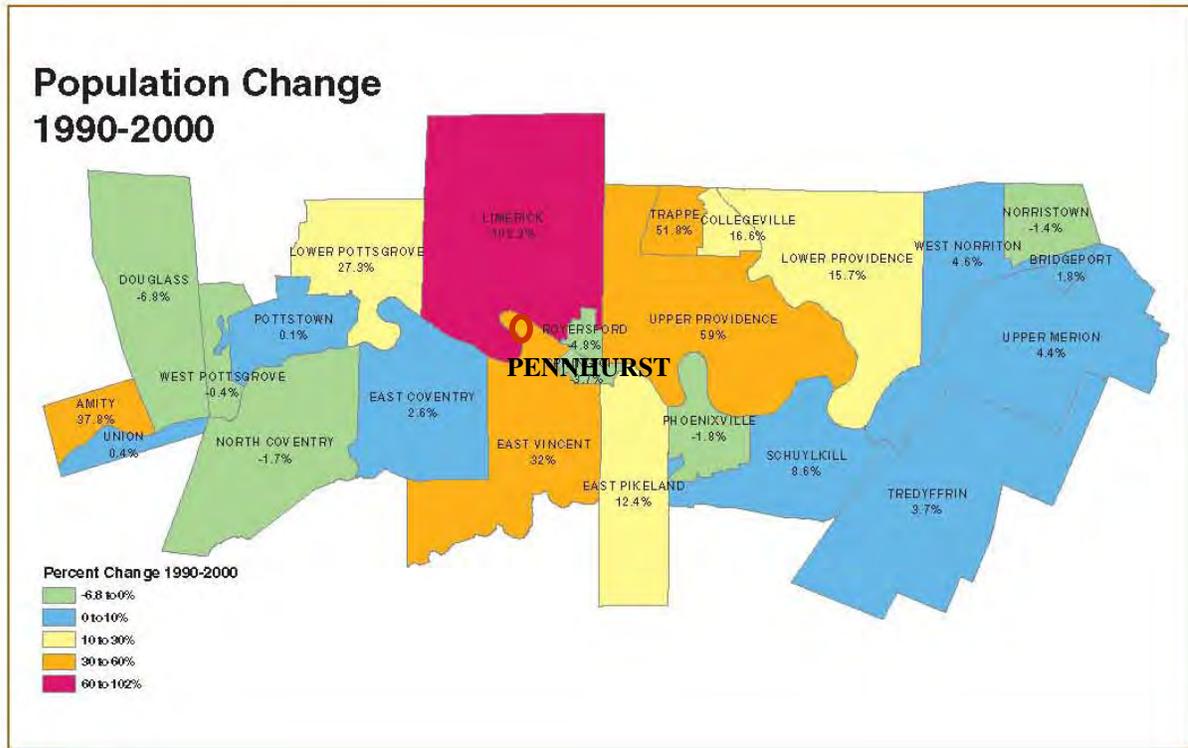
As the graphics below reveal, there has been a northwestward migration of population from Philadelphia over the past decade. This has continued and accelerated a trend occurring since the end of the Second World War. Much of the development over that time has been low density sprawl following Routes 422 and 76 from Philadelphia, through King of Prussia, and westward toward Reading. The opening of Route 422 as an expressway accelerated the growth. The opening of the “Philadelphia Premium Outlets” a full 30 miles west of the city in Sanatoga establishes that village as the current western outpost of this continuing migration of capital and population from Philadelphia. Even just as a parcel of open land, Pennhurst has value because of its location in this growing corridor and proximity to Route 422. If the architectural and scenic beauty and historical associations of the campus can be capitalized on in distinguishing Pennhurst from the surrounding sprawl, the site could be true capital attractor.



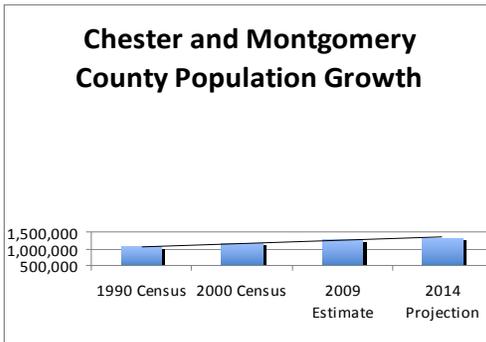
Graphics this page provided by Joshua Heller.



MARKET ANALYSIS

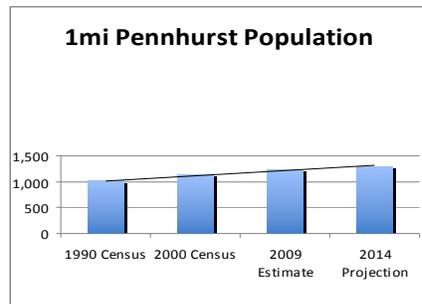


With the exception of the Boroughs of Spring City and Royersford, the populations of each of the townships surrounding Pennhurst has increased significantly between the period of 1990-2000. Several of the townships closest to Pennhurst actually experienced the fastest growth of the townships along the US 422 Corridor in this period, including Limerick Township, which doubled in population, and Upper Providence Township (with a 59% population increase) and East Vincent Township (with a 32% population increase).



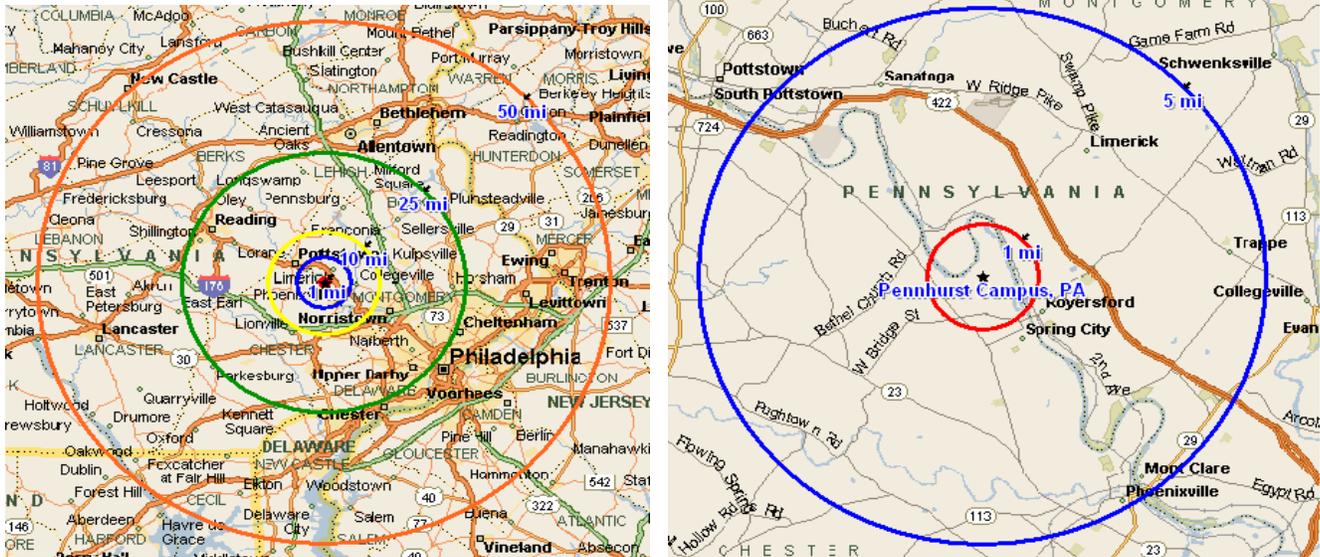
The population within all areas along the US 422 Corridor is expected to increase over the thirty-year period from 2000 to 2030 by 20%-25%.

The DVRPC estimates that 28,000 new jobs will be created during this time period and forecasts the construction of 21,000 new housing units.



MARKET ANALYSIS

2. DEMOGRAPHICS: POPULATION GROWTH BY DISTANCE FROM PENNHURST CAMPUS



Pop Facts: Demographic Snapshot (Part 1)	Philadelphia-Camden- Wilmington, PA-NJ-DE- MD Metropolitan	Chester & Montgomery Counties, PA	0 - 1 mi	0 - 5 mi	0 - 10 mi	0 - 25 mi	0 - 50 mi
Population							
1990 Census	5,435,470	1,054,500	1,004	56,306	195,194	2,384,736	7,218,082
2000 Census	5,687,147	1,183,598	1,135	70,479	235,864	2,527,109	7,636,909
2009 Estimate	5,852,669	1,276,080	1,239	82,223	272,288	2,622,767	7,948,455
2014 Projection	5,953,277	1,327,039	1,305	88,287	290,851	2,678,131	8,132,331
Growth 2009-2014	1.72%	3.99%	5.33%	7.38%	6.82%	2.11%	2.31%
Growth 2000-2009	2.91%	7.81%	9.16%	16.66%	15.44%	3.79%	4.08%
Growth 1990-2000	4.63%	12.24%	13.05%	25.17%	20.84%	5.97%	5.80%

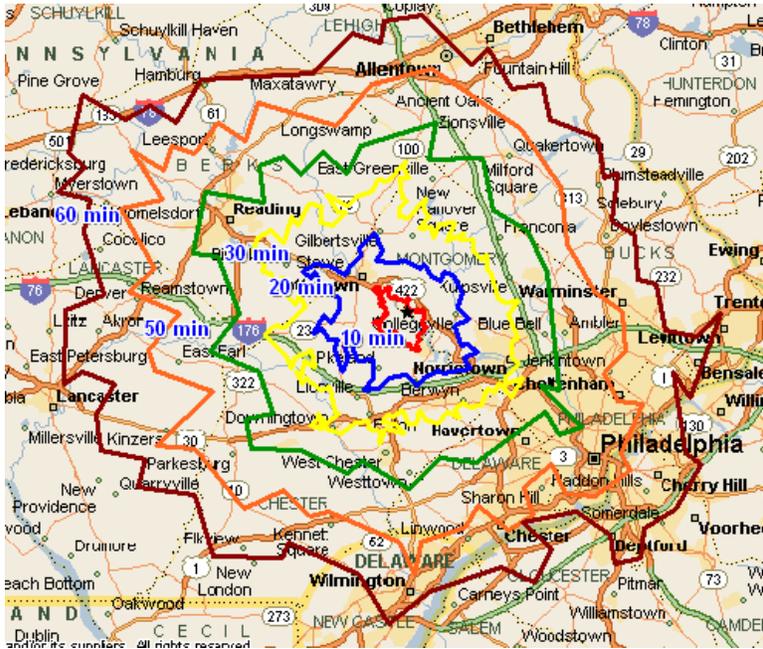
Though the population for the greater region<sup>1</sup> grew only modestly between 2000 and 2009 (2.91%), the largest percentage of that growth has taken place on the area within a five-mile-radius of Pennhurst, which experienced a 16.66% growth during that same period. The region is expected to grow at a slower pace through 2014, though the area within a five-mile-radius of Pennhurst is expected to grow roughly four times as fast as the region as a whole (7.38% versus 1.72%). Additionally, the ten-, twenty- and fifty-mile radius areas will have a higher population growth than the region generally through 2014.

<sup>1</sup> Hereinafter, “region” refers to the Philadelphia Metropolitan Statistical Area and includes the following cities and their suburbs: Philadelphia, Pennsylvania; Camden, New Jersey; Wilmington, Delaware, and part of Maryland.



MARKET ANALYSIS

3. DEMOGRAPHICS: POPULATION GROWTH BY DRIVE TIME FROM PENNHURST CAMPUS



Between 2000 and 2009, the population within a twenty minute radius of Pennhurst (the area within the yellow line on the map at right) was the fastest growing in the region, expanding by 26% when the regional population growth was only 2.91%.

While growth in the ten (blue), twenty (yellow), and thirty (green) minute rings from Pennhurst is forecasted to be slower in the period between 2009-2014, the growth rate in these areas is still greater than any where else in the region. By 2014, the population in the area within a 20-minute drive time from Pennhurst is expected to increase by 7.01%, versus a 1.72% growth projection for the region as a whole.

Pop Facts:	0 min - 10 min	0 min - 20 min	0 min - 30 min	0 min - 40 min	0 min - 50 min	0 min - 60 min
<b>Demographic Snapshot (Part 1)</b>						
<b>Population</b>						
1990 Census	15,782	134,922	382,929	980,759	3,086,684	4,662,781
2000 Census	16,767	169,357	446,055	1,090,258	3,199,528	4,812,589
2009 Estimate	18,731	196,067	502,072	1,172,738	3,274,729	4,918,060
2014 Projection	19,802	209,812	531,519	1,219,175	3,321,946	4,987,424
Growth 2009-2014	5.72%	7.01%	5.87%	3.96%	1.44%	1.41%
Growth 2000-2009	11.71%	15.77%	12.56%	7.57%	2.35%	2.19%
Growth 1990-2000	6.24%	25.52%	16.49%	11.16%	3.66%	3.21%



MARKET ANALYSIS

4. DEMOGRAPHICS: POPULATION AGE, CURRENT AND PROJECTIONS

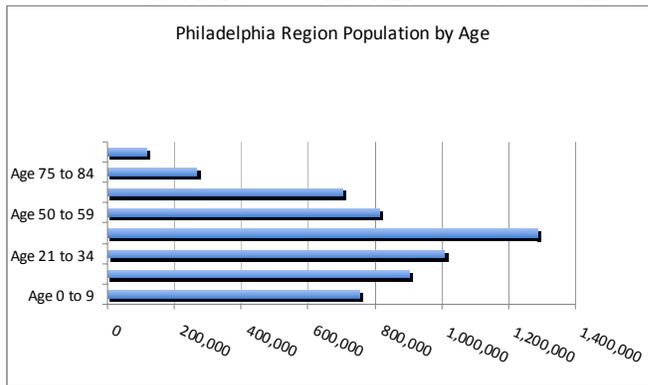
The average age for both males and females in the region is nearly 40 years. The one-mile radius ring around Pennhurst shows a much higher average age, particularly for males, in part because of the presence of a Veterans Hospital there. Apart from this anomaly, each distance and drive time ring around Pennhurst has an age demographic virtually identical to the region as a whole. That said, Pennsylvania has one of the nation's oldest populations.

Age Of Current Population By Distance From Pennhurst Campus

Pop Facts: Demographic Snapshot (Part 1)	Philadelphia-Camden- Wilmington, PA-NJ-DE-	Chester & Montgomery Counties, PA	0 - 1 mi	0 - 5 mi	0 - 10 mi	0 - 25 mi	0 - 50 mi
<b>2009 Estimated Population by Age</b>	<b>5,852,669</b>	<b>1,276,080</b>	<b>1,239</b>	<b>82,223</b>	<b>272,288</b>	<b>2,622,767</b>	<b>7,948,455</b>
Age 0 to 9	751,889 12.85%	160,697 12.60%	97 7.82%	11,595 14.10%	36,570 13.43%	334,457 12.75%	1,014,952 12.77%
Age 10-20	904,452 15.45%	189,759 14.87%	136 10.98%	11,898 14.47%	41,154 15.11%	406,145 15.49%	1,223,429 15.40%
Age 21 to 34	1,007,489 17.22%	200,038 15.67%	157 12.68%	12,647 15.38%	41,677 15.31%	423,909 16.16%	1,365,046 17.18%
Age 35 to 49	1,288,743 22.02%	286,396 22.45%	233 18.80%	20,383 24.67%	66,680 24.49%	571,697 21.80%	1,735,173 21.83%
Age 50 to 59	813,135 13.89%	187,888 14.73%	191 15.42%	11,252 13.69%	39,072 14.35%	374,393 14.27%	1,103,824 13.89%
Age 60 to 74	703,319 12.02%	162,569 12.74%	225 18.16%	9,400 11.43%	32,219 11.83%	323,847 12.35%	964,095 12.13%
Age 75 to 84	265,488 4.54%	61,810 4.84%	136 10.98%	3,411 4.15%	10,698 3.93%	127,708 4.87%	373,376 4.70%
Age 85 and over	118,154 2.02%	26,923 2.11%	64 5.17%	1,637 2.00%	4,218 1.55%	60,611 2.31%	168,560 2.12%
Age 16 and over	4,625,311 79.03%	1,011,128 79.24%	1,079 87.09%	63,584 77.33%	212,545 78.06%	2,074,468 79.09%	6,290,732 79.14%
Age 18 and over	4,451,391 76.06%	973,029 76.25%	1,057 85.31%	61,186 74.41%	204,229 75.00%	1,994,642 76.05%	6,057,069 76.20%
Age 21 and over	4,196,328 71.70%	925,624 72.54%	1,006 81.19%	58,730 71.43%	194,564 71.46%	1,882,165 71.76%	5,710,074 71.84%
Age 65 and over	782,200 13.36%	180,149 14.12%	349 28.17%	10,205 12.41%	32,729 12.02%	372,061 14.19%	1,090,239 13.72%
<b>2009 Estimated Average Age</b>	<b>38.29</b>	<b>39.2</b>	<b>47.85</b>	<b>37.97</b>	<b>37.97</b>	<b>38.87</b>	<b>38.49</b>
<b>2009 Estimated Average Age, Male</b>	<b>36.86</b>	<b>38</b>	<b>52.04</b>	<b>36.83</b>	<b>37.05</b>	<b>37.35</b>	<b>37.07</b>
<b>2009 Estimated Average Age, Female</b>	<b>39.64</b>	<b>40.36</b>	<b>41.48</b>	<b>39.07</b>	<b>38.9</b>	<b>40.28</b>	<b>39.83</b>

Age Of Current Population By Drive Time From Pennhurst Campus

	0 min - 10 min	0 min - 20 min	0 min - 30 min	0 min - 40 min	0 min - 50 min	0 min - 60 min
<b>2009 Estimated Population by Age</b>	<b>18,731</b>	<b>196,067</b>	<b>502,072</b>	<b>1,172,738</b>	<b>3,274,729</b>	<b>4,918,060</b>
Age 0 to 9	2,298 12.27%	26,787 13.66%	66,605 13.26%	148,853 12.69%	431,148 13.16%	640,555 13.02%
Age 10-20	2,610 13.93%	29,541 15.06%	73,920 14.72%	177,585 15.14%	521,967 15.94%	762,938 15.52%
Age 21 to 34	2,900 15.49%	30,455 15.54%	78,329 15.60%	191,648 16.34%	561,818 17.15%	840,357 17.08%
Age 35 to 49	4,308 23.00%	48,116 24.54%	120,643 24.03%	263,054 22.43%	706,493 21.57%	1,060,049 21.56%
Age 50 to 59	2,608 13.92%	27,312 13.93%	72,393 14.42%	166,001 14.15%	446,644 13.64%	670,688 13.63%
Age 60 to 74	2,409 12.86%	22,721 11.59%	61,460 12.24%	145,773 12.43%	385,854 11.79%	593,869 12.07%
Age 75 to 84	1,034 5.52%	7,866 4.01%	20,779 4.14%	55,079 4.70%	149,318 4.56%	237,650 4.83%
Age 85 and over	564 3.01%	3,269 1.67%	7,943 1.58%	24,745 2.11%	71,487 2.18%	111,954 2.28%
Age 16 and over	14,935 79.73%	152,539 77.80%	393,326 78.34%	929,534 79.26%	2,574,983 78.63%	3,878,362 78.86%
Age 18 and over	14,406 76.91%	146,611 74.78%	378,186 75.33%	895,324 76.34%	2,476,134 75.61%	3,732,794 75.90%
Age 21 and over	13,823 73.80%	139,739 71.27%	361,547 72.01%	846,300 72.16%	2,321,614 70.89%	3,514,567 71.46%
Age 65 and over	2,990 15.96%	23,699 12.09%	62,747 12.50%	161,936 13.81%	439,773 13.43%	689,041 14.01%
<b>2009 Estimated Average Age</b>	<b>40.23</b>	<b>37.83</b>	<b>38.31</b>	<b>38.81</b>	<b>38.05</b>	<b>38.45</b>
<b>2009 Estimated Average Age, Male</b>	<b>39.21</b>	<b>36.81</b>	<b>37.29</b>	<b>37.61</b>	<b>36.55</b>	<b>36.91</b>
<b>2009 Estimated Average Age, Female</b>	<b>41.24</b>	<b>38.85</b>	<b>39.31</b>	<b>39.95</b>	<b>39.44</b>	<b>39.88</b>



MARKET ANALYSIS

According to the Pennsylvania Department of Aging, the number of people age 75 and older continued to increase dramatically between 1990 and Census 2000. While the total number of people age 60 and over remained at about 2.4 million, those age 75 to 84 increased by 21 percent and those age 85 and older increased by 38 percent. Twenty percent, or one out of every five people in Pennsylvania, is age 60 or older. Pennsylvania has the third highest percentage of people over age 60. Only Florida and West Virginia have higher percentages of 60 plus. Only four states have a higher number of older residents than Pennsylvania: California, Florida, New York and Texas

By the year 2020, Pennsylvania's 60 and older population is expected to be 25 percent of the total population—more than 3 million people. Most of the “baby boomers” will be over age 60 by that time. The 65 and older population is projected to increase to 2.3 million and the 85 and older population to about 363,000.

Over the next 10 years, the number of elderly age 60 and older is projected to increase by about 9 percent to 2.6 million people. The number of elderly ages 60 to 74 will increase by about 15 percent to 1.6 million; the number of people age 75 to 84 will decrease by 11 percent to 623,000 and the number of 85 and older will increase by more than 50 percent to 365,000.

There has been a dramatic recomposition of Pennsylvania’s population since 1960 when almost 30 percent of the population was under age 15 and only 10 percent of our population was age 65 and older. By the year 2020, it is projected that these groups – those under age 15 and those age 65 and older will each constitute about 18 percent of the total population.

The rapid increases in the number of older Pennsylvanians is largely due to increases in longevity which now promises life expectancies well past age 80 for many people. The percentage of Pennsylvanians who choose to remain in the state and relatively close to home as they age is significantly higher in Pennsylvania than in neighboring states. This fact, coupled with medical advances and healthier life styles delaying the onset of many diseases means that Pennsylvania’s aged population will continue to grow even as the age cohort spread evens out in other locations.

5. DEMOGRAPHICS: EFFECTIVE BUYING INCOME

Effective Buying Income is defined as personal income (wages, salaries, interest, dividends, profits, rental income, and pension income) minus federal, state, and local taxes and non-tax payments (such as personal contributions for social security insurance). It is commonly known as disposable personal income.

Residents of the areas within the five-, ten-, twenty- and twenty five-mile radii and the twenty, thirty and forty-minute drive times are significantly more affluent than their counterparts elsewhere in the region. The population within the one-mile radius is shown to be significantly less affluent than elsewhere in the region, in part because this area encompasses the outskirts of Spring City and the Veterans Home.

BUYING POWER COMPARISON	Philadelphia	10 Mile Pennhurst Radius	United States
Change in Avg. Household Income Since 1990	53%	82%	75%
Change in Avg. Household Income Since 2000	23%	23%	25%
Per-capita Income	\$19,078	\$29,546	\$26,464



MARKET ANALYSIS

The populations within the ten-mile/30 minute ranges are the wealthiest in the Philadelphia metropolitan region. These conditions appear to carry forward to 2014 with little change, with the region and most distance and drive time radius areas experiencing between an 11-13% growth in EBI between 2009 and 2014. For instance, the regional average household EBI will increase from \$75,601 to \$85,509, an increase of 12.06%. The regional average household EBI for the twenty minute radius ring from Pennhurst will increase by 13%, from \$75,601 to \$85,509.

Effective Buying Income By Distance From Pennhurst Campus: 2009

	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metropolitan Statistical Area		Chester & Montgomery Counties, PA		0 - 1 mi	0 - 5 mi	0 - 10 mi	0 - 25 mi	0 - 50 mi					
<b>2009 Estimated Households by Effective Buying Income</b>	<b>2,217,770</b>		<b>482,050</b>		<b>358</b>	<b>31,965</b>	<b>101,024</b>	<b>1,001,773</b>	<b>3,014,933</b>					
Less than \$15,000	278,665	12.57%	31,741	6.56%	12	3,35%	2,085	6,52%	6,327	6.26%	110,411	11.02%	369,763	12.26%
\$15,000 to \$24,999	237,729	10.72%	35,568	7.38%	77	21.51%	2,587	8.09%	7,929	7.85%	100,497	10.03%	333,415	11.06%
\$25,000 to \$34,999	263,042	11.86%	46,167	9.58%	58	16.20%	3,257	10.19%	9,810	9.71%	116,780	11.66%	369,101	12.24%
\$35,000 to \$49,999	390,557	17.61%	77,380	16.05%	60	16.76%	5,636	17.63%	16,310	16.15%	172,885	17.26%	547,573	18.16%
\$50,000 to \$74,999	453,824	20.46%	104,805	21.74%	82	22.91%	7,146	22.36%	22,101	21.88%	206,004	20.56%	621,039	20.60%
\$75,000 to \$99,999	302,574	13.64%	82,016	17.01%	67	18.72%	5,763	18.03%	17,941	17.76%	142,859	14.26%	399,300	13.24%
\$100,000 to \$149,999	192,470	8.68%	63,167	13.10%	7	0.56%	4,092	12.80%	13,675	13.54%	95,576	9.54%	247,460	8.21%
\$150,000 to \$249,999	53,245	2.40%	21,334	4.43%	0	0.00%	844	2.64%	3,786	3.75%	30,131	3.01%	68,248	2.28%
\$250,000 to \$499,999	25,761	1.16%	10,560	2.19%	0	0.00%	365	1.15%	1,866	1.85%	14,575	1.45%	33,407	1.11%
\$500,000 or more	19,903	0.90%	9,312	1.93%	0	0.00%	186	0.58%	1,268	1.26%	12,055	1.20%	25,027	0.83%
<b>2009 Estimated Average Household Effective Buying Income</b>	<b>\$62,811</b>		<b>\$82,747</b>		<b>\$47,821</b>	<b>\$70,209</b>	<b>\$78,075</b>	<b>\$67,858</b>	<b>\$61,581</b>					
<b>2009 Estimated Median Household Effective Buying Income</b>	<b>\$47,653</b>		<b>\$61,967</b>		<b>\$43,000</b>	<b>\$58,458</b>	<b>\$61,456</b>	<b>\$50,038</b>	<b>\$46,921</b>					

Effective Buying Income By Distance From Pennhurst Campus: 2014

	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metropolitan Statistical Area		Chester & Montgomery Counties, PA		0 - 1 mi	0 - 5 mi	0 - 10 mi	0 - 25 mi	0 - 50 mi					
<b>2014 Projected Households by Effective Buying Income</b>	<b>2,262,561</b>		<b>502,261</b>		<b>382</b>	<b>34,515</b>	<b>108,147</b>	<b>1,024,421</b>	<b>3,093,060</b>					
Less than \$15,000	256,187	11.32%	29,368	5.85%	9	2.36%	1,988	5.93%	5,499%	101,105	9.87%	341,793	11.05%	
\$15,000 to \$24,999	218,773	9.67%	32,532	6.48%	69	18.06%	2,413	6.99%	7,252	6.71%	92,059	8.99%	309,105	9.99%
\$25,000 to \$34,999	244,122	10.79%	42,031	8.37%	62	16.23%	3,026	8.77%	9,218	8.52%	107,702	10.51%	345,950	11.18%
\$35,000 to \$49,999	376,387	16.64%	74,071	14.75%	65	17.02%	5,524	16.00%	15,814	14.72%	167,161	16.32%	531,889	17.20%
\$50,000 to \$74,999	453,838	20.06%	103,023	20.51%	81	21.20%	7,365	21.34%	22,230	20.56%	205,018	20.01%	627,836	20.30%
\$75,000 to \$99,999	333,997	14.76%	88,210	17.56%	75	19.63%	6,340	18.37%	19,630	18.15%	155,800	15.21%	446,390	14.43%
\$100,000 to \$149,999	243,900	10.78%	77,372	15.40%	19	4.97%	5,430	15.73%	17,501	16.18%	119,640	11.68%	316,132	10.22%
\$150,000 to \$249,999	72,100	3.19%	28,319	5.64%	2	0.52%	1,508	4.37%	5,751	5.32%	39,557	3.86%	92,755	3.00%
\$250,000 to \$499,999	35,330	1.56%	14,379	2.86%	0	0.00%	581	1.68%	2,678	2.48%	19,675	1.92%	45,804	1.48%
\$500,000 or more	27,927	1.23%	12,956	2.58%	0	0.00%	340	0.99%	2,035	1.88%	16,704	1.63%	35,406	1.14%
<b>2014 Projected Average Household Effective Buying Income</b>	<b>\$69,246</b>		<b>\$92,365</b>		<b>\$52,873</b>	<b>\$79,370</b>	<b>\$88,142</b>	<b>\$75,557</b>	<b>\$68,288</b>					
<b>2014 Projected Median Household Effective Buying Income</b>	<b>\$51,973</b>		<b>\$67,746</b>		<b>\$46,769</b>	<b>\$64,618</b>	<b>\$67,714</b>	<b>\$55,388</b>	<b>\$50,709</b>					

Effective Buying Income By Driving Time From Pennhurst Campus: 2009



MARKET ANALYSIS

	Pennhurst Campus, PA 0 min - 10 min		Pennhurst Campus, PA 0 min - 20 min		Pennhurst Campus, PA 0 min - 30 min		Pennhurst Campus, PA 0 min - 40 min		Pennhurst Campus, PA 0 min - 50 min		Pennhurst Campus, PA 0 min - 60 min	
<b>2009 Estimated Households by Effective Buying Income</b>	<b>7,480</b>		<b>73,423</b>		<b>191,082</b>		<b>448,739</b>		<b>1,247,936</b>		<b>1,879,336</b>	
Less than \$15,000	657	8.78%	5,148	7.01%	12,451	6.52%	39,137	8.72%	187,513	15.03%	266,392	14.17%
\$15,000 to \$24,999	856	11.44%	6,254	8.52%	15,185	7.95%	40,242	8.97%	142,849	11.45%	220,556	11.74%
\$25,000 to \$34,999	964	12.89%	7,591	10.34%	18,812	9.84%	47,993	10.70%	153,958	12.34%	237,587	12.64%
\$35,000 to \$49,999	1,281	17.13%	12,214	16.64%	31,085	16.27%	75,394	16.80%	214,092	17.16%	335,626	17.86%
\$50,000 to \$74,999	1,542	20.61%	15,724	21.42%	42,172	22.07%	94,079	20.97%	234,990	18.83%	366,416	19.50%
\$75,000 to \$99,999	1,143	15.28%	12,394	16.88%	33,123	17.33%	69,077	15.39%	154,544	12.38%	231,935	12.34%
\$100,000 to \$149,999	774	10.35%	9,409	12.81%	25,090	13.13%	50,873	11.34%	100,456	8.05%	141,939	7.55%
\$150,000 to \$249,999	156	2.09%	2,492	3.39%	7,489	3.92%	16,761	3.74%	31,558	2.53%	42,077	2.24%
\$250,000 to \$499,999	61	0.82%	1,279	1.74%	3,429	1.79%	8,172	1.82%	15,396	1.23%	20,512	1.09%
\$500,000 or more	46	0.61%	918	1.25%	2,246	1.18%	7,011	1.56%	12,580	1.01%	16,296	0.87%
<b>2009 Estimated Average Household Effective Buying Income</b>	\$62,937		\$75,601		\$77,113		\$75,129		\$61,257		\$59,594	
<b>2009 Estimated Median Household Effective Buying Income</b>	\$49,789		\$58,752		\$60,675		\$55,741		\$44,784		\$44,615	

Effective Buying Income By Driving Time From Pennhurst Campus: 2014

	Pennhurst Campus, PA 0 min - 10 min		Pennhurst Campus, PA 0 min - 20 min		Pennhurst Campus, PA 0 min - 30 min		Pennhurst Campus, PA 0 min - 40 min		Pennhurst Campus, PA 0 min - 50 min		Pennhurst Campus, PA 0 min - 60 min	
<b>2014 Projected Households by Effective Buying Income</b>	<b>7,940</b>		<b>78,729</b>		<b>202,566</b>		<b>467,259</b>		<b>1,267,272</b>		<b>1,909,111</b>	
Less than \$15,000	614	7.73%	4,841	6.15%	11,592	5.72%	36,542	7.82%	172,299	13.60%	245,164	12.84%
\$15,000 to \$24,999	797	10.04%	5,773	7.33%	13,977	6.90%	37,350	7.99%	132,103	10.42%	204,001	10.69%
\$25,000 to \$34,999	915	11.52%	7,101	9.02%	17,639	8.71%	44,797	9.59%	143,329	11.31%	222,035	11.63%
\$35,000 to \$49,999	1,309	16.49%	12,020	15.27%	30,126	14.87%	73,040	15.63%	208,402	16.44%	325,902	17.07%
\$50,000 to \$74,999	1,576	19.85%	16,009	20.33%	42,142	20.80%	94,049	20.13%	236,211	18.64%	369,599	19.36%
\$75,000 to \$99,999	1,251	15.76%	13,651	17.34%	36,134	17.84%	79,254	16.11%	170,037	13.42%	257,178	13.47%
\$100,000 to \$149,999	1,024	12.90%	12,137	15.42%	31,565	15.58%	62,913	13.46%	125,759	9.92%	179,982	9.43%
\$150,000 to \$249,999	281	3.54%	3,915	4.97%	10,794	5.33%	22,358	4.78%	41,134	3.25%	55,185	2.89%
\$250,000 to \$499,999	102	1.28%	1,816	2.31%	5,041	2.49%	11,198	2.40%	20,561	1.62%	27,505	1.44%
\$500,000 or more	71	0.89%	1,466	1.86%	3,556	1.76%	9,758	2.09%	17,367	1.37%	22,560	1.18%
<b>2014 Projected Average Household Effective Buying Income</b>	\$70,855		\$85,509		\$86,872		\$83,670		\$68,161		\$66,059	
<b>2014 Projected Median Household Effective Buying Income</b>	\$55,314		\$65,038		\$66,580		\$61,138		\$48,381		\$48,042	

6. DEMOGRAPHICS: HOUSEHOLDS: NUMBER, SIZE, AGE, AND INCOME

The number of households at all distance and drive time intervals is increasing at a rate significantly faster than the population. Moody's Economy predicts the sharpest increase in the number of households in a decades to take place between 2008 and 2013. Concurrent with the general increase in household number is a stasis or slight decreasing in the household size. Between 1990 and 2000, the household size in all parts of southeastern Pennsylvania decreased sharply, though that number appears to have stabilized at approximately 2.5 persons per household. See also previous section discussing income.

Households By Distance From Pennhurst Campus: 2009



MARKET ANALYSIS

Effective Buying Income	Philadelphia-Camden-Wilmington, PA-NJ-DE-		Chester & Montgomery Counties, PA		Pennhurst Campus, PA 0 - 1 mi		Pennhurst Campus, PA 0 - 5 mi		Pennhurst Campus, PA 0 - 10 mi		Pennhurst Campus, PA 0 - 25 mi		Pennhurst Campus, PA 0 - 50 mi	
		%		%		%		%		%		%		%
<b>2009 Demographic Totals</b>														
Population	5,852,669		1,276,080		1,239		82,223		272,288		2,622,767		7,948,455	
Households	2,217,770		482,050		358		31,965		101,024		1,001,773		3,014,933	
Families	1,502,767		337,882		250		22,207		72,367		679,103		2,056,931	
Group Quarters Population	184,245		39,956		328		1,522		10,550		88,900		255,276	
Housing Units	2,386,516		502,450		368		33,569		105,903		1,068,047		3,227,821	
<b>2009 Average Household Size</b>	2.56		2.56		2.54		2.52		2.59		2.53		2.55	
<b>2009 Median Age</b>	38.35		40.17		49.8		38.85		39.24		39.31		38.52	
<b>2009 Median Household Income</b>														
	\$60,101		\$77,908		\$52,536		\$73,003		\$77,437		\$63,369		\$58,953	
<b>2009 Median All Owner-Occupied Housing Unit Value</b>	\$225,478		\$293,743		\$188,889		\$247,597		\$268,951		\$239,583		\$214,807	

Households By Distance From Pennhurst Campus: 2014

Effective Buying Income	Philadelphia-Camden-Wilmington, PA-NJ-DE-		Chester & Montgomery Counties, PA		Pennhurst Campus, PA 0 - 1 mi		Pennhurst Campus, PA 0 - 5 mi		Pennhurst Campus, PA 0 - 10 mi		Pennhurst Campus, PA 0 - 25 mi		Pennhurst Campus, PA 0 - 50 mi	
		%		%		%		%		%		%		%
<b>2014 Demographic Totals</b>														
Population	5,953,277		1,327,039		1,305		88,287		290,851		2,678,131		8,132,331	
Households	2,262,561		502,261		382		34,515		108,147		1,024,421		3,093,060	
Families	1,536,295		352,204		265		23,985		77,522		696,090		2,113,763	
Group Quarters Population	190,220		41,620		347		1,592		10,934		92,977		263,861	
Housing Units	2,432,182		523,421		393		36,239		113,338		1,090,800		3,308,304	
<b>2014 Average Household Size</b>	2.55		2.56		2.51		2.51		2.59		2.52		2.54	
<b>2014 Median Age</b>	39.31		41.17		51.98		40.22		40.31		40.16		39.46	
<b>2014 Median Household Income</b>														
	\$65,979		\$86,278		\$58,209		\$81,610		\$86,266		\$69,483		\$64,556	
<b>2014 Median All Owner-Occupied Housing Unit Value</b>	\$256,118		\$339,531		\$206,019		\$277,877		\$302,650		\$269,309		\$244,128	

Households By Drive Time From Pennhurst Campus: 2009

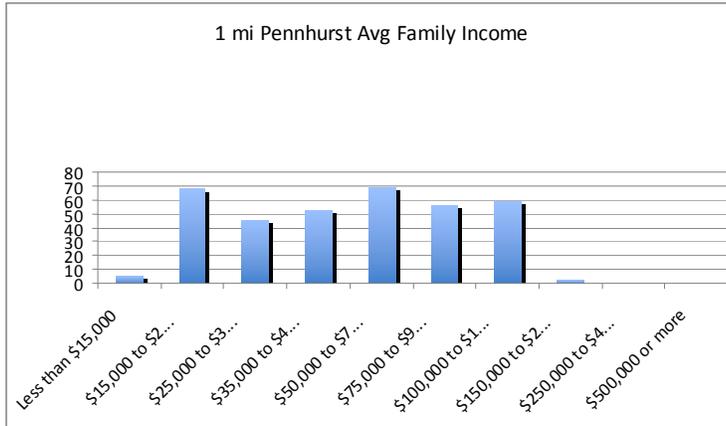
Effective Buying Income	Pennhurst Campus, PA 0 min - 10 min		Pennhurst Campus, PA 0 min - 20 min		Pennhurst Campus, PA 0 min - 30 min		Pennhurst Campus, PA 0 min - 40 min		Pennhurst Campus, PA 0 min - 50 min		Pennhurst Campus, PA 0 min - 60 min	
		%		%		%		%		%		%
<b>2009 Demographic Totals</b>												
Population	18,731		196,067		502,072		1,172,738		3,274,729		4,918,060	
Households	7,480		73,423		191,082		448,739		1,247,936		1,879,336	
Families	4,891		51,691		133,835		305,337		819,556		1,246,908	
Group Quarters Population	665		7,665		13,874		41,122		124,370		171,036	
Housing Units	7,836		77,193		200,533		472,162		1,362,434		2,032,762	
<b>2009 Average Household Size</b>	2.41		2.57		2.55		2.52		2.52		2.53	
<b>2009 Median Age</b>	41.02		38.81		39.48		39.27		37.83		38.3	
<b>2009 Median Household Income</b>												
	\$62,616		\$73,586		\$76,042		\$69,805		\$55,227		\$55,108	
<b>2009 Median All Owner-Occupied Housing Unit Value</b>	\$221,632		\$256,108		\$272,257		\$265,007		\$207,705		\$202,367	

Households By Drive Time From Pennhurst Campus: 2014

Effective Buying Income	Pennhurst Campus, PA 0 min - 10 min		Pennhurst Campus, PA 0 min - 20 min		Pennhurst Campus, PA 0 min - 30 min		Pennhurst Campus, PA 0 min - 40 min		Pennhurst Campus, PA 0 min - 50 min		Pennhurst Campus, PA 0 min - 60 min	
		%		%		%		%		%		%
<b>2014 Demographic Totals</b>												
Population	19,802		209,812		531,519		1,219,175		3,321,946		4,987,424	
Households	7,940		78,729		202,566		467,259		1,267,272		1,909,111	
Families	5,194		55,473		142,126		318,262		834,356		1,268,934	
Group Quarters Population	706		7,955		14,419		43,110		129,875		178,077	
Housing Units	8,315		82,724		212,463		491,447		1,381,174		2,062,636	
<b>2014 Average Household Size</b>	2.41		2.56		2.55		2.52		2.52		2.52	
<b>2014 Median Age</b>	42.36		39.96		40.56		40.34		38.58		39.1	
<b>2014 Median Household Income</b>												
	\$69,144		\$82,318		\$84,601		\$76,488		\$61,075		\$60,615	
<b>2014 Median All Owner-Occupied Housing Unit Value</b>	\$249,316		\$288,299		\$306,825		\$296,137		\$236,477		\$232,389	



MARKET ANALYSIS



Apart from an Effective Buying Income at the one-mile radius of Pennhurst made artificially low by the presence of the Veterans Hospital and the outskirts of Spring City, the areas surrounding Pennhurst at the five through twenty mile radii and ten to twenty minute drive time ranges are significantly higher than those for the region. This trend is forecasted to continue through 2014, with areas within a 40 minute drive/25 mile range of Pennhurst having much higher levels of Effective Buying Income than those farther out or the region generally.



MARKET ANALYSIS

DEMOGRAPHICS: CHESTER AND MONTGOMERY COUNTIES - OTHER DATA

The following information relates specifically to the two counties bracketing the Pennhurst campus, Montgomery and Chester.

POPULATION AS OF JULY 2007:

<i>Chester County:</i>	486,345 (81% urban, 19% rural)
<i>Montgomery County:</i>	776,172 (97% urban, 3% rural)

HOME OWNERSHIP:

*Owner-Occupied Houses and Condos*

<i>Chester County:</i>	120,500
<i>Montgomery County:</i>	210,237

*Renter-Occupied Apartments*

<i>Chester County:</i>	37,405
% of renters:	 24%
State average % of renters:	 29%
<i>Montgomery County:</i>	75,861
% of renters:	 27%
State average % of renters:	 29%

*% Change in Number Renters, 2000-2007 (Data from Center for Rural Pennsylvania)*

<i>Chester County:</i>	+2.6%
<i>Montgomery County:</i>	-5.7%

TYPES OF WORKERS

	<i>Chester County:</i>	<i>Montgomery County</i>
Private wage or salary:	84%	85%
Government:	9%	8%
Self-employed, not incorporated:	7%	6%
Unpaid family work:	0%	0%

POPULATION BY RACE

	<i>Chester County:</i>	<i>Montgomery County</i>
White Non-Hispanic	87.2%	85.3%
Black	6.2%	7.5%
Hispanic	3.7%	2.0%
Other race	1.3%	0.7%
Two or more races	1.1%	1.2%
Asian Indian	0.7%	1.1%
Chinese	0.6%	0.8%
Korean	0.0%	1.2%

*Note: totals can be greater than 100% because Hispanics can be counted in other races.*

MEDIAN RESIDENT AGE

<i>Chester County Median Resident Age:</i>	 36.9 years
<i>Pennsylvania Median Age:</i>	 38.0 years
<i>Montgomery County Median Resident Age:</i>	 38.2 years
<i>Pennsylvania Median Age:</i>	 38.0 years



MARKET ANALYSIS

POPULATION BY SEX



EMPLOYMENT INFORMATION

	<i>Chester County</i>	<i>Montgomery County</i>
Average wage per job in 2003:	\$47,311	\$46,293
Jobs in 2003:	237,386	511,480
Total labor force in 2004:	248,735	423,280
Unemployment rate in 2004:	3.8%	4.3%
Unemployment rate in 2009:	5.9%*	6.9%*

\*Pennsylvania Average in 2009 is 8.1%

HOUSEHOLD INFORMATION

AVERAGE HOUSEHOLD SIZE



ESTIMATED MEDIAN HOUSEHOLD INCOME IN 2007



MEDIAN CONTRACT RENT IN 2007 FOR APARTMENTS:



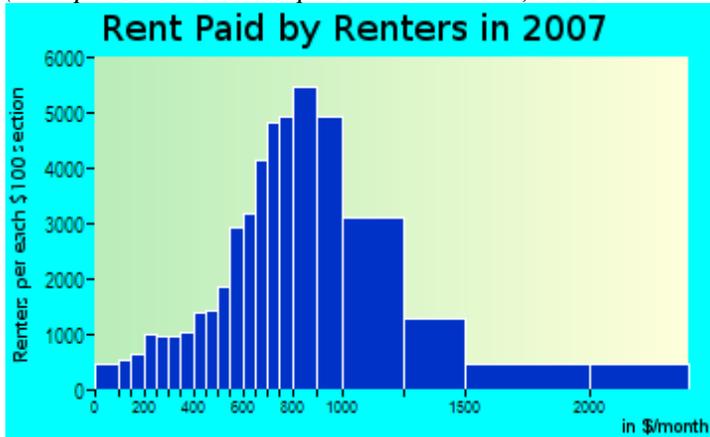
FAIR MARKET RENT IN 2006

	<i>Chester County</i>	<i>Montgomery County</i>
1-bedroom apartment	\$742/month	\$721/month
2-bedroom apartment	\$886/month	\$861/month
3-bedroom apartment	\$1061/month	\$1044/month.

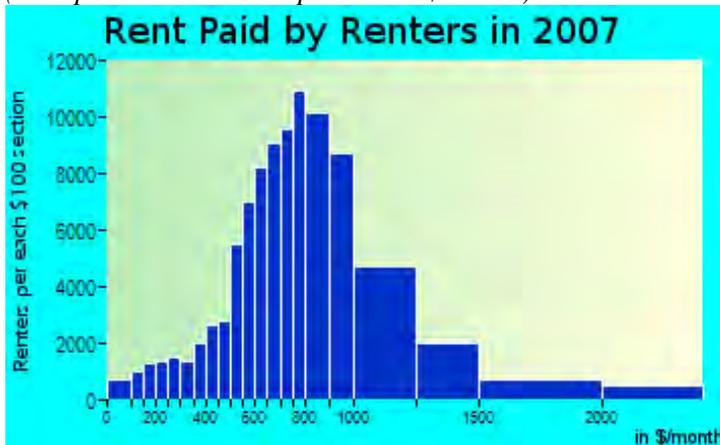


MARKET ANALYSIS

*Chester County Residential Rental Rates  
(Rent per each thousand persons in \$/month)*



*Montgomery County Residential Rental Rates  
(Rent per each thousand persons in \$/month)*



ESTIMATED MEDIAN HOUSE OR CONDO VALUE IN 2007

		\$343,300 (\$178,900 in 2000)
Chester County:	Lower Quartile: \$226,400; Upper Quartile: \$480,900	
		\$301,000 (\$158,900 in 2000)
Montgomery County	Lower Quartile: \$211,400; Upper Quartile: \$415,200	
Pennsylvania:		\$155,000



MARKET ANALYSIS

RESIDENTIAL VALUES BY HOUSING TYPE: MEAN VALUES

CHESTER COUNTY

Detached houses: \$438,850  
 Here:  \$438,850  
 State:  \$224,371

Townhouses or other attached units: \$271,861  
 Here:  \$271,861  
 State:  \$160,289

In 2-unit structures: \$445,117  
 Here:  \$445,117  
 State:  \$153,822

In 3-to-4-unit structures: \$238,352  
 Here:  \$238,352  
 State:  \$204,155

In 5-or-more-unit structures: \$269,915  
 Here:  \$269,915  
 State:  \$211,072

Mobile homes: \$37,921  
 Here:  \$37,921  
 State:  \$35,442

Median monthly housing costs for homes and condos with a mortgage: \$2,111

Median monthly housing costs for units without a mortgage: \$677

MONTGOMERY COUNTY

Detached houses: \$400,657  
 Here:  \$400,657  
 State:  \$224,371

Townhouses or other attached units: \$238,089  
 Here:  \$238,089  
 State:  \$160,289

In 2-unit structures: \$258,307  
 Here:  \$258,307  
 State:  \$153,822

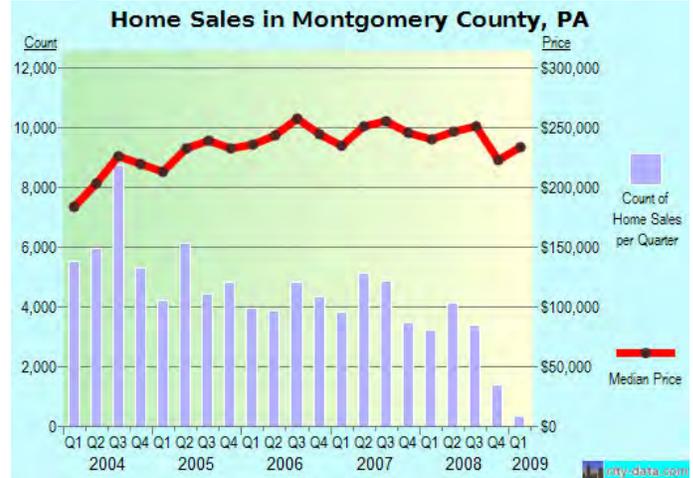
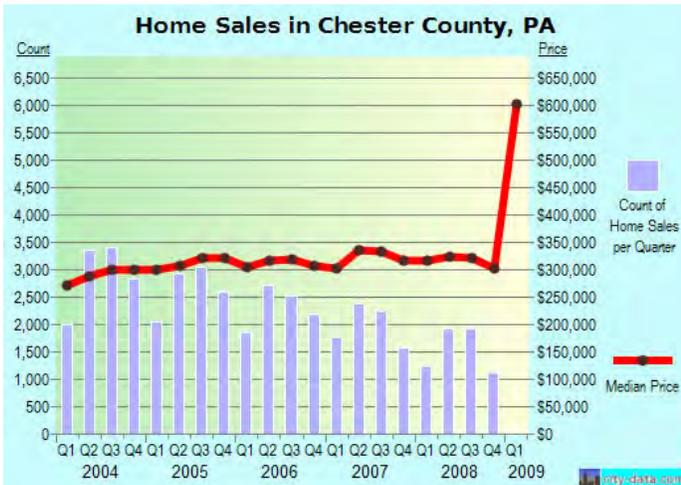
In 3-to-4-unit structures: \$212,620  
 Here:  \$212,620  
 State:  \$204,155

In 5-or-more-unit structures: \$221,376  
 Here:  \$221,376  
 State:  \$211,072

Mobile homes: \$61,099  
 Here:  \$61,099  
 State:  \$35,442

Median monthly housing costs for homes and condos with a mortgage: \$1,886

Median monthly housing costs for units without a mortgage: \$638



## MARKET ANALYSIS

## C. CORRIDOR CONSTRAINTS AND OPPORTUNITIES:

Graphics following this page will illustrate the following points.

## 1. EXISTING LAND USE

Most land in the US 422 Corridor surrounding Pennhurst is either undeveloped or low-density residential development. Large pharmaceutical companies, including Pfizer, Glaxo-SmithKline, and Quest Diagnostics have located just to the east of Pennhurst along Route 422. These companies employ approximately 13,000 employees (DVRPC 11). Large retail developments also line US 422, particularly at its interchanges and exit ramps. The Providence Town Center at the interchange with PA 29 and the Philadelphia Premium Outlets at the Sanatoga exit are the largest new retail centers. The greatest single land use change has been the increase in residential development, which has increased by 18% in the period from 1995 to 2005. Most of this development has taken place on farmland.

## 2. RECENT AND PROJECTED DEVELOPMENT

The broad patterns of land use change confirm that dispersed residential development is a major factor in changing the character of formerly rural municipalities. Significant land development projects outlined below are currently being planned for the US 422 Corridor near Pennhurst. The nature and size of these projects means that their impacts will be considerable.

*Mixed Use:*

- In Oaks, the Greater Philadelphia Expo Center is open and 250,000 square feet of retail uses are scheduled to be completed over the next couple of years.
- The Village at Valley Forge, a mixed-use urban-style town center with retail, residential and hotel under construction on the former Valley Forge Golf Course site.
- Sanatoga Springs (US 422 and Township Line Road, Limerick, PA, 535,000 s.f., mixed use, planned)

*Retail:*

- Providence Town Center at PA Route 29 (760,000 s.f., under construction)
- Philadelphia Premium Outlets (Sanatoga).
- A number of sizable retail developments have been proposed for the “Gateway” to Limerick Township at the Sanatoga exit of US 422.
- Other Retail Planned Near Pennhurst:
  - Home Depot (West Ridge Pike and Township Line Road, Limerick, PA, 248,000 s.f., planned)
  - Marketplace/Collegeville Phase II (201 Second Ave and Park Ave, Collegeville, PA, 16,000 s.f., planned)
  - Skippack Village (Rt. 73 and Rt. 113, Skippack, PA, 165,000 s.f., planned)
  - Unnamed Shopping Center Phases I and II (1719 W. Main St. and Linfield Trappe Road, Collegeville, PA, 150,000 s.f. and 100,000 s.f., respectively, planned)
  - Upland Square Shopping Center (Rt. 100 and State Street, Pottstown, 683,000 s.f., under construction).

*Residential*

- The 1,000-unit planned Lofts at Valley Forge development.
- Vincent Village (Rt. 724 and Bridge Street, Spring City, PA, (393 condominium units, prepared).
- French Creek Center (S. Main Street and Bridge Street, Phoenixville, PA, 152 townhomes, completed).

*Office:*

- Justice Center Phases I and II (349 and 351 Bridge Street, Phoenixville, PA, 25,000 s.f. and 40,000 s.f., respectively, planned)
- Vincent Village (Rt. 724 and Bridge Street, Spring City, PA, 45,000 s.f. prepared)



## MARKET ANALYSIS

- Highview III, IV, and V (Rts. 422 and 29, Collegeville, PA, 81,000 s.f., 89,031 s.f., 118,500 s.f., respectively, prepared).

*Other:*

- A potential slots parlor at the Valley Forge Convention Center.

## 3. PROJECTED REGIONAL LAND USE PATTERNS

If current trends affecting development in the region continue, 21,000 new housing units will be required between 2009 and 2030. Residential densities so in the region have ranged from 0.2 to 0.8 units per acre, and thus 21,000 new units would require the use of about 18,300 acres. The DVRPC forecasts 28,000 new jobs in the corridor along US 422 in the commercial, office, and industrial sectors, requiring 1,100 acres of development. The chips or blocks in the graphic represent 20 acres of development at various densities.

## 4. ASSETS OF CORRIDOR

The US 422 Corridor surrounding Pennhurst has a number of valuable attributes making it attractive to future development. The system of highways through the area is well connected and expanding. It provided multiple means of access to the property. A system of recreational trails has been developed, including the Schuylkill River Trail which passes through the Pennhurst campus. Major employers and major retail centers call the area around Pennhurst home. The area is rich in history and natural resources, including national and state parks. Pennhurst itself is located within the Schuylkill National and State Heritage Area. A great variety of heritage resources exist in the region, including National Landmarks and Historical Parks. Marketing Pennhurst as part of a "freedom corridor" can be a valuable interest generator and is discussed more in the marketing section. The DVRPC has been advocating for the extension of rail service from Norristown along Septa's R6 line. The rail line's Royersford station is connected to the Pennhurst campus by an abandoned railroad bridge. Current plans call to connect the station with the Schuylkill River Trail via this bridge.

## 5. COMPOSIT CONSTRAINTS

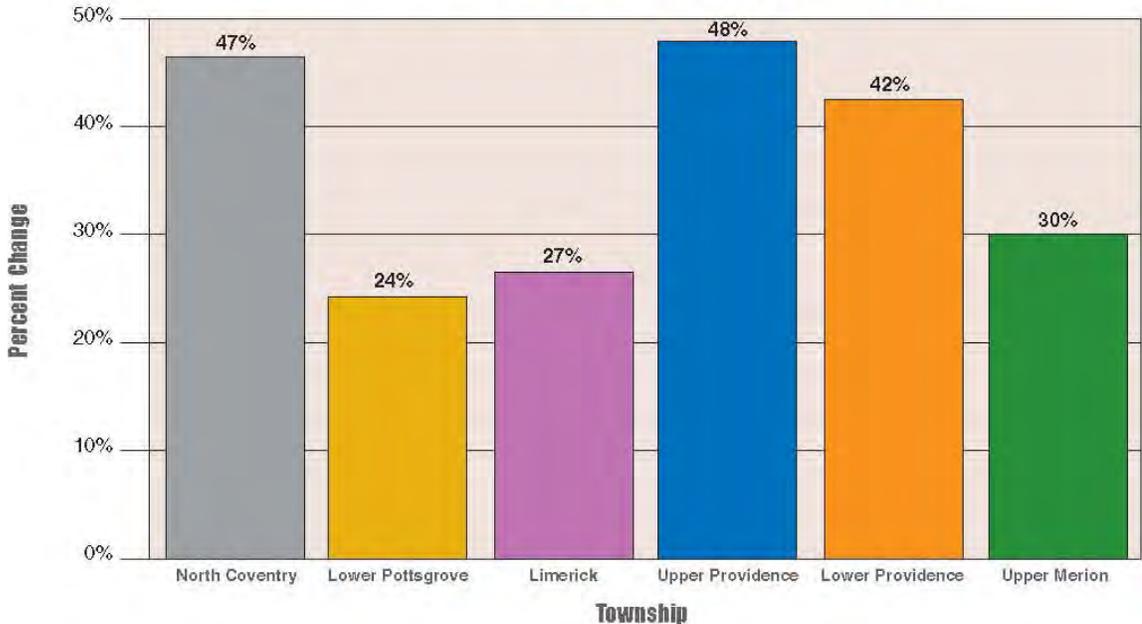
A National Register of Historic Places-eligible district, Pennhurst is marked on the Composite Constraints map. The historic core of the campus is surrounded by a swath of developable land which could include uses to augment whatever uses occupy the core. The area to the north of the historic core including the playing fields in front of Administration could be included in this buildable area, though the playing fields themselves should remain open. A newly-designated park (formerly part of the Pennhurst property) abuts Pennhurst to the southeast. Steep slopes to the east and west, as well as FEMA floodplains will hinder expansion in those directions but, with the park, combine to offer scenic beauty and a sense of privacy to the campus.



MARKET ANALYSIS

6. TRAFFIC VOLUMES

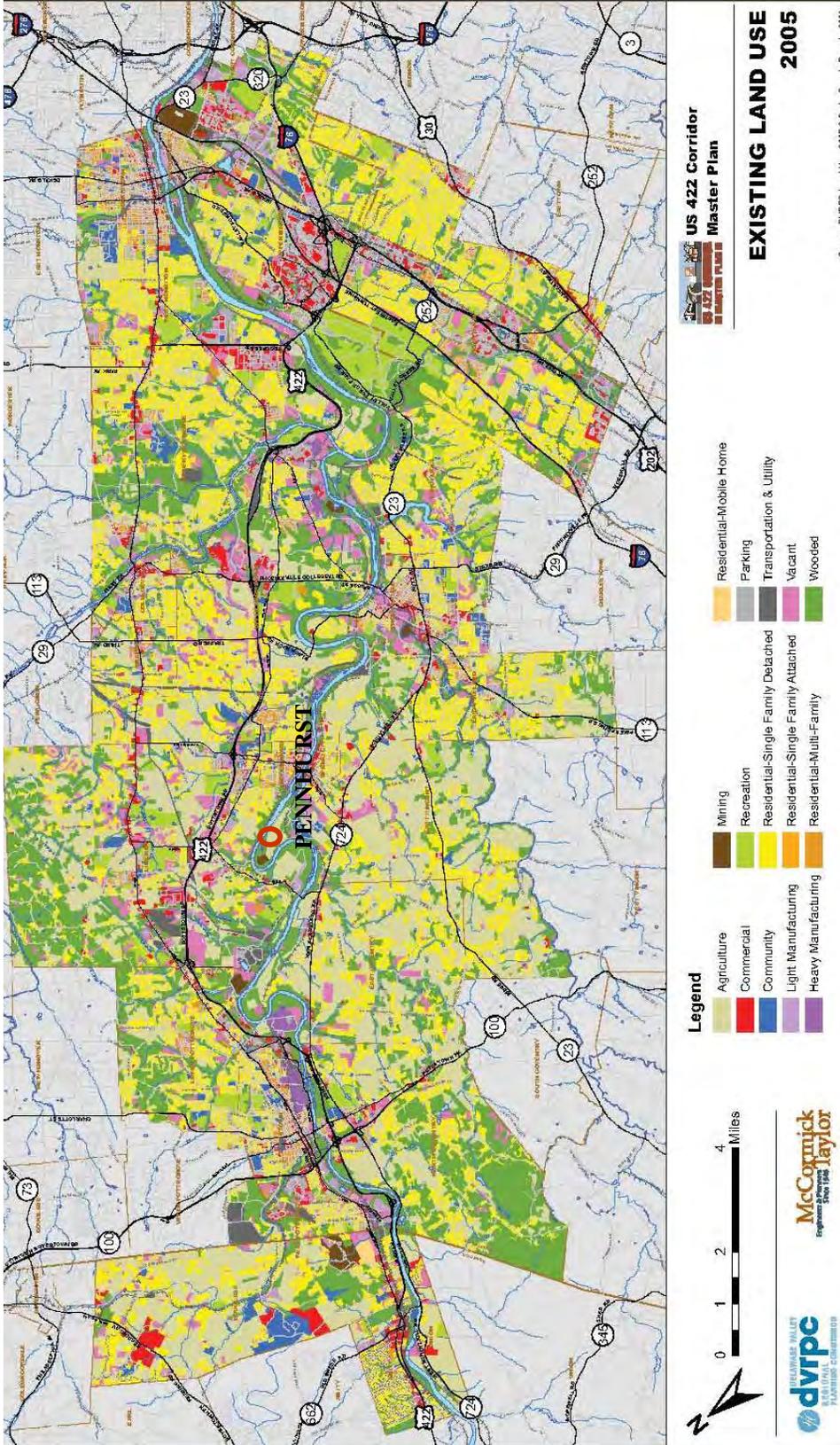
**US 422 AVERAGE DAILY TRAFFIC (ADT) PERCENT CHANGE FROM 1995 TO 2005  
(MONTGOMERY AND CHESTER COUNTY PORTIONS ONLY)**



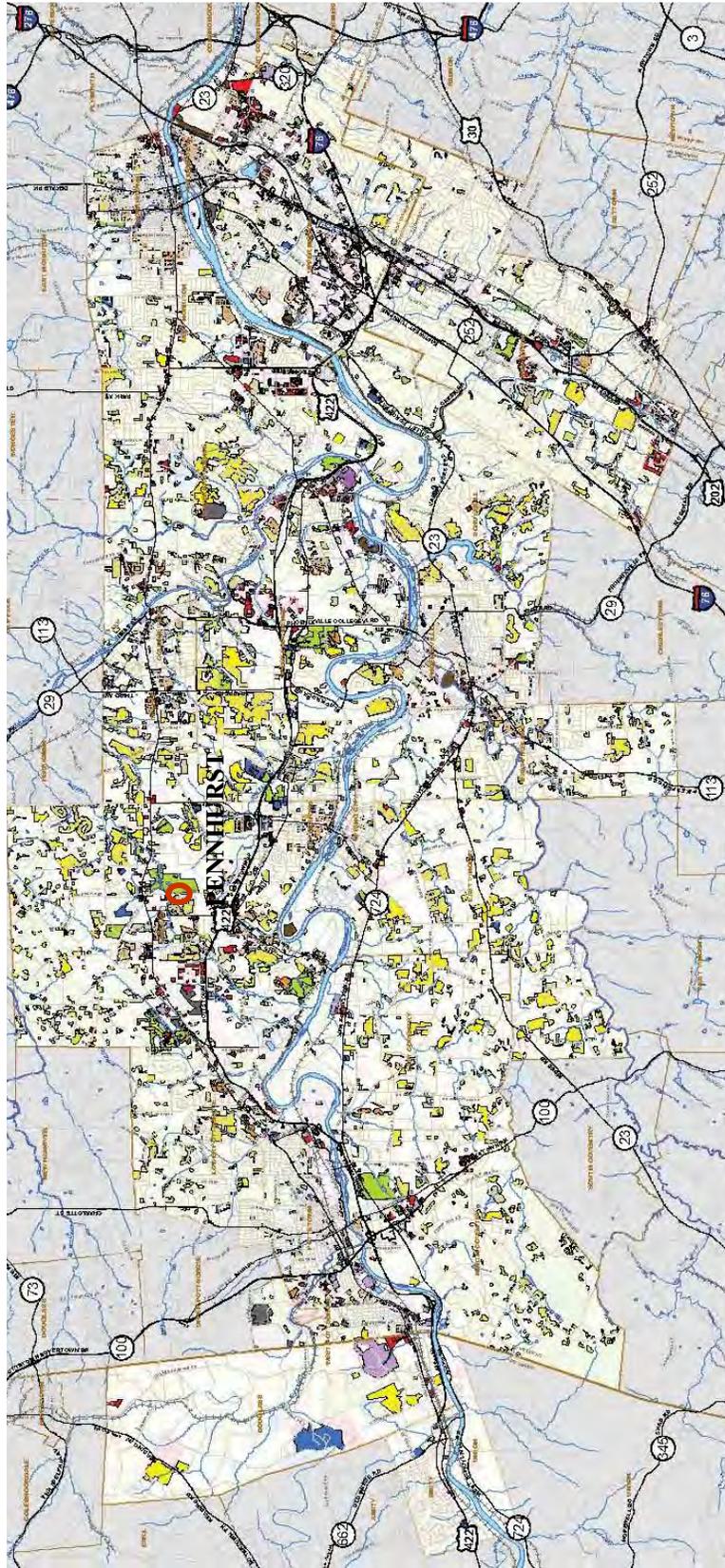
Traffic volumes on all of the major roads surrounding Pennhurst are projected to increase steadily. PA 724, running very close to Pennhurst to the south, is projected to become a secondary corridor and, in conjunction with PA 23, will provide a parallel and overflow route for US 422 traffic. Pennhurst occupies land between these two routes. Local municipalities are keen to create park-and-ride facilities in the corridor and the area between 422 and 724 has been suggested to be a prime location. The DVRPC states that congestion on US 422 is likely to become a growing concern into the future, suggesting that live/work opportunities may be worth exploring at Pennhurst. The size of the parcel also lends itself to this consideration.



MARKET ANALYSIS



MARKET ANALYSIS



**US 422 Corridor  
Master Plan**

**RECENT DEVELOPMENT  
1995-2005**

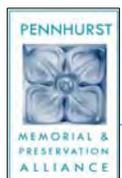
(Source: DVRPC Land Use 1995 and 2005)

- Legend**
- Agriculture
  - Commercial
  - Community
  - Light Manufacturing
  - Heavy Manufacturing
  - Mining
  - Recreation
  - Residential-Single Family Detached
  - Residential-Single Family Attached
  - Residential-Multi-Family
  - Residential-Mobile Home
  - Parking
  - Transportation & Utility

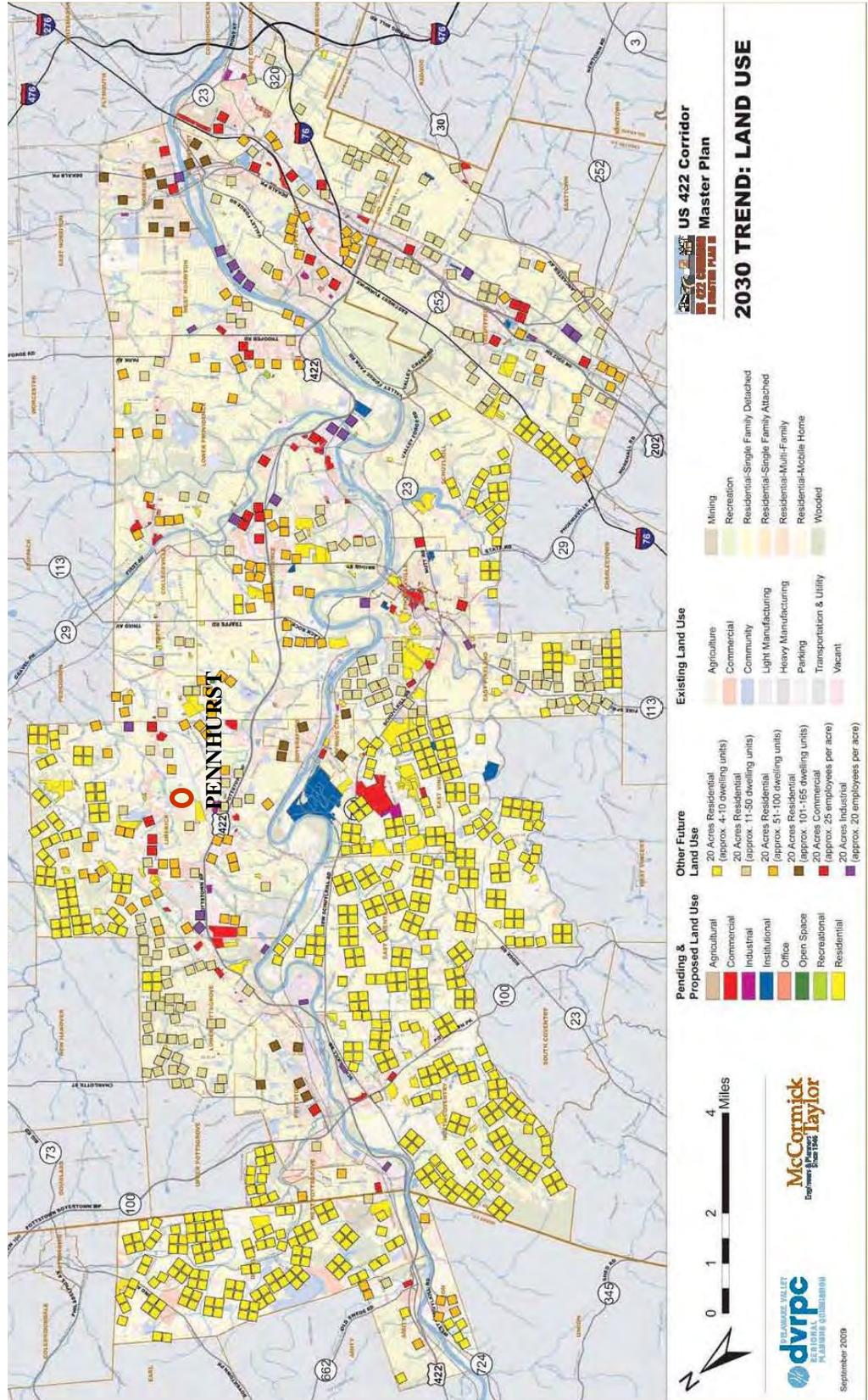
0 1 2 4 Miles

**McCormick  
Taylor**  
Engineers & Architects

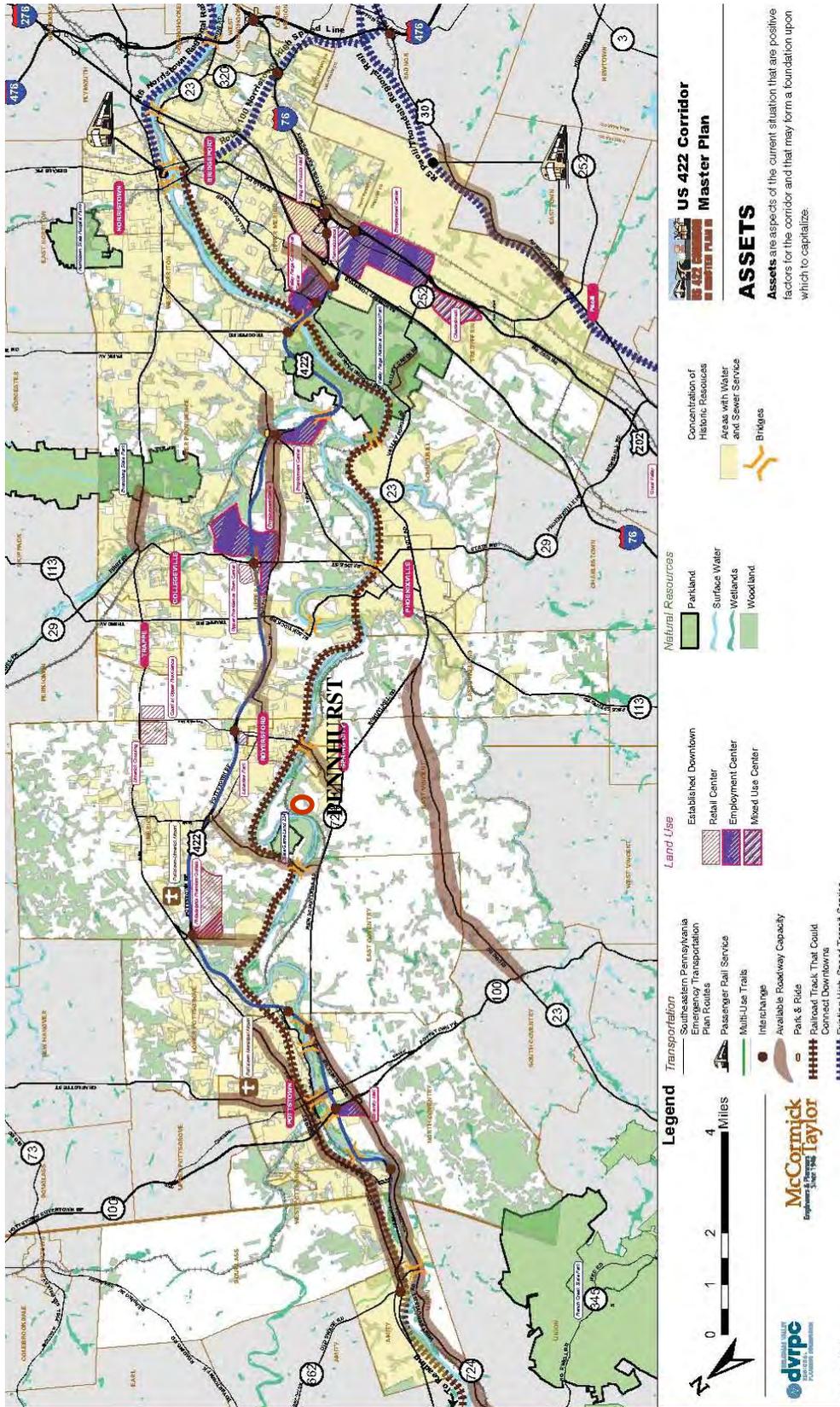
**dvrpc**  
DELAWARE VALLEY  
PLANNING REGIONAL COMMISSION



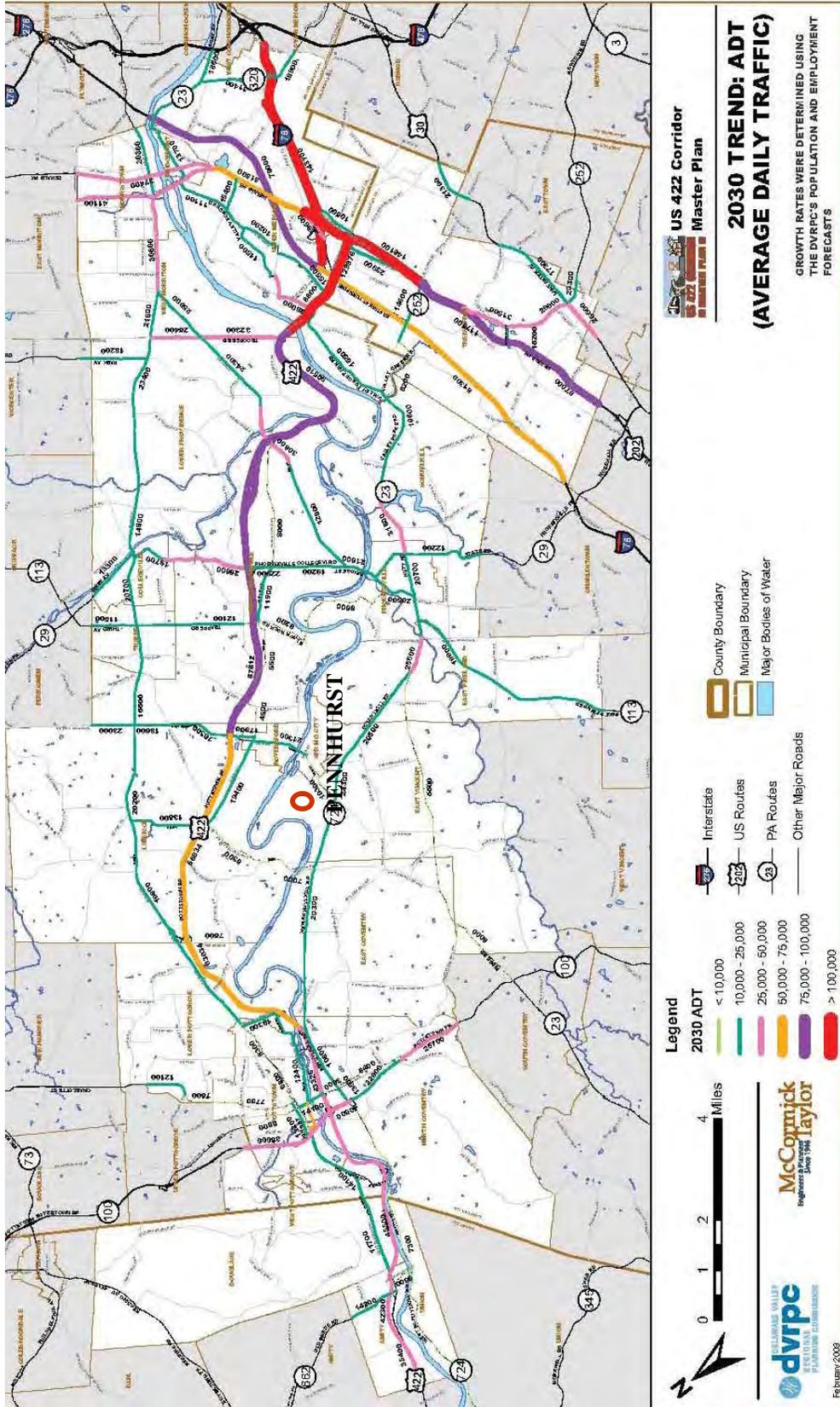
MARKET ANALYSIS



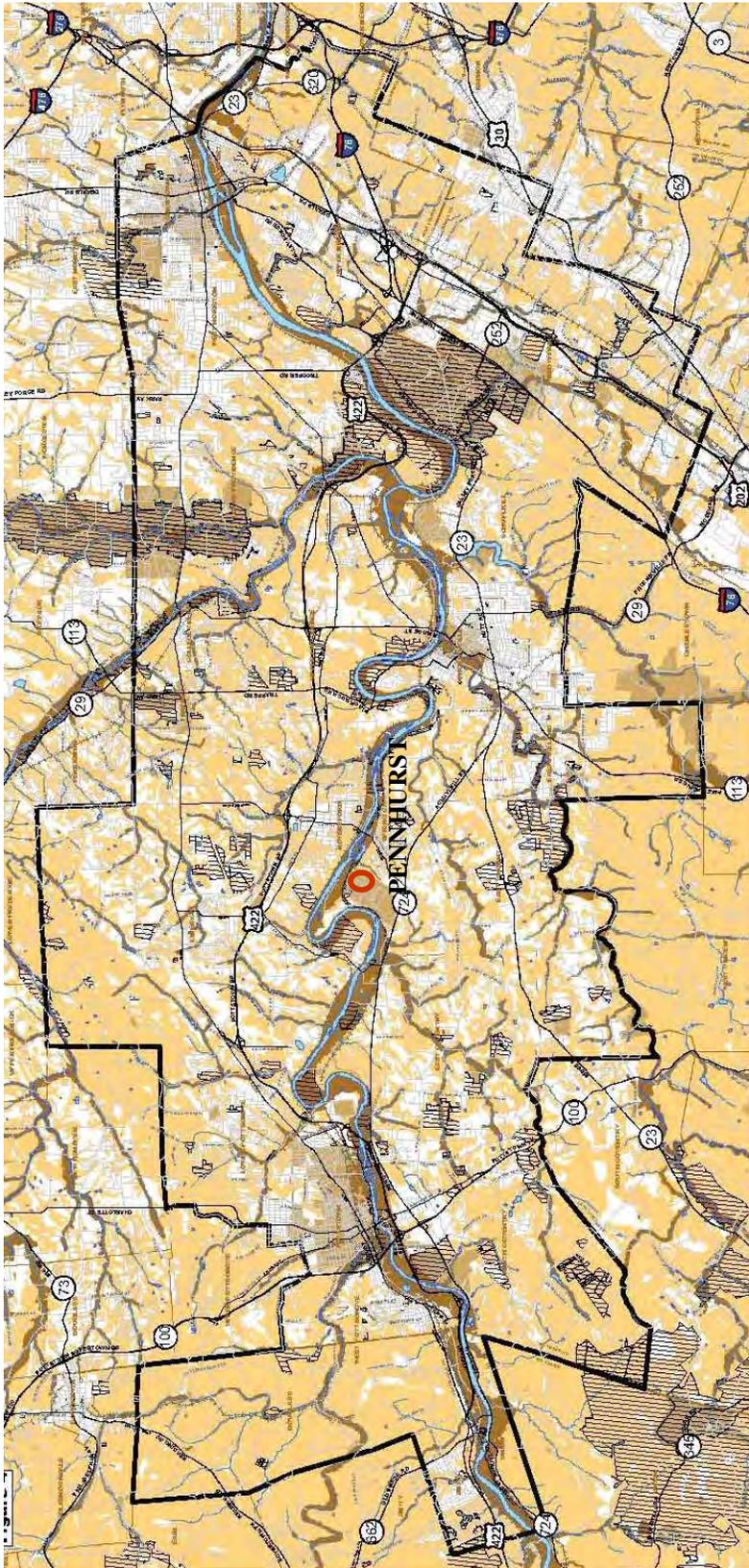
MARKET ANALYSIS



MARKET ANALYSIS



MARKET ANALYSIS



**US 422 Corridor  
Master Plan**

**COMPOSITE CONSTRAINTS**

- Legend**
- Level 1: FEMA Floodplains
  - Level 2: CRGIS Historic Properties & NWI Wetlands
  - Level 3: Steep Slope (Greater than 8%), Prime Agricultural Soils, Soils of Statewide Importance, Forested Areas & Hydric Soils
  - Level 4: Slight, General Unconstrained Lands
  - Study Corridor
  - Parks & Protected Lands

0 1 2 4 Miles

**dvrpc**  
DEVELOPMENT RESEARCH  
PLANNING & CONSULTING

**McCormick**  
ENGINEERS ARCHITECTS  
PLANNERS

February 2009



## MARKET ANALYSIS

### III. MARKET ANALYSIS BY PRODUCT TYPE

#### A. RETAIL MARKET ANALYSIS



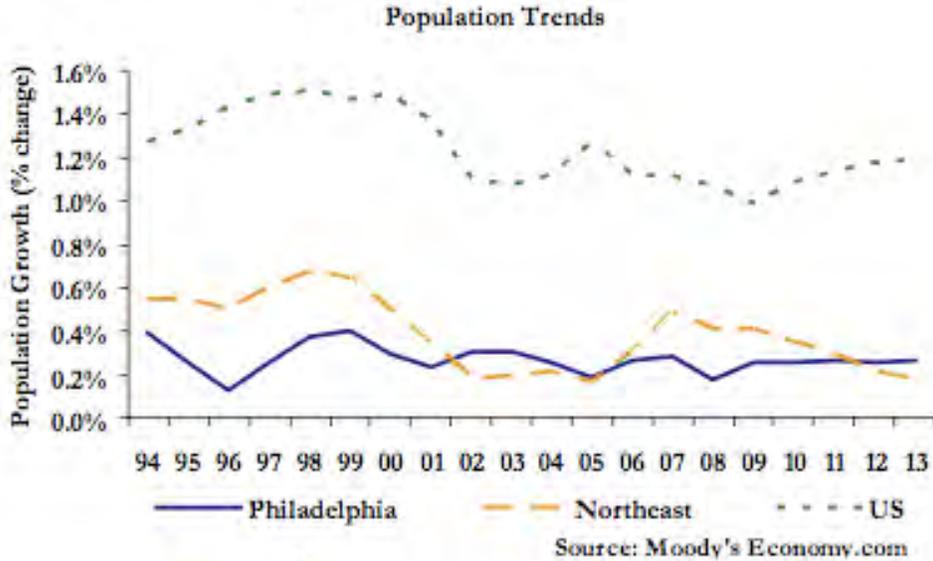
PREPARED BY CHRISTINE ACKER

MARKET ANALYSIS

A. RETAIL MARKET ANALYSIS

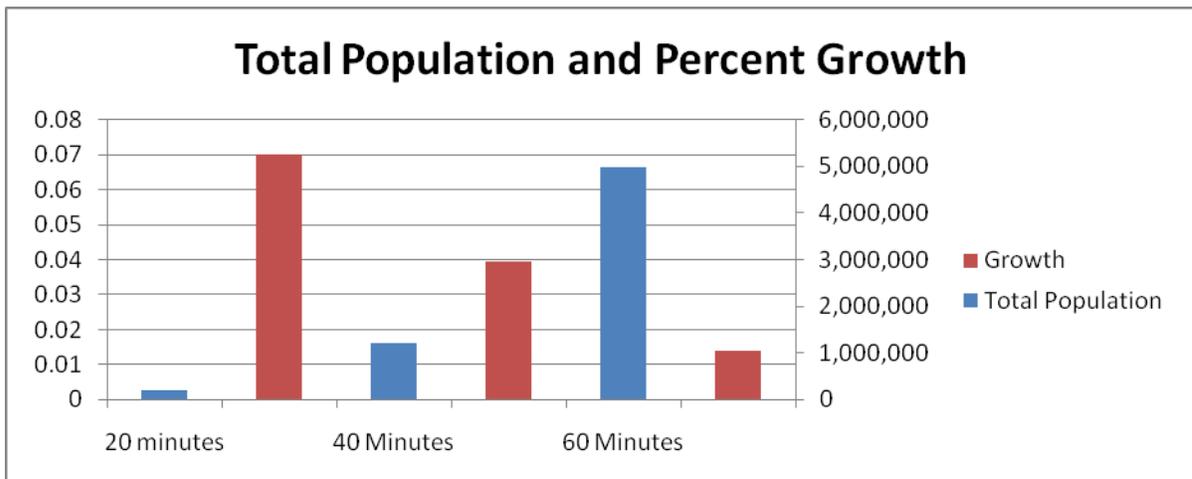
The main demand drivers for a retail market are disposable income, household wealth and traffic volume. By combing these with the current supply and the new construction the opportunity for a retail market in the area can be determined.

I. Population Demographics



As illustrated above, the overall population has a positive growth and from 2008 to 2009, the percent growth went up from about 0.2% to 0.4% and it is forecasted to plateau until 2013. A closer look at the Pennhurst site reveals an even higher percent growth in the population than that of the Philadelphia area.

A growing population is a good sign for retail development, but other markets must be considered.

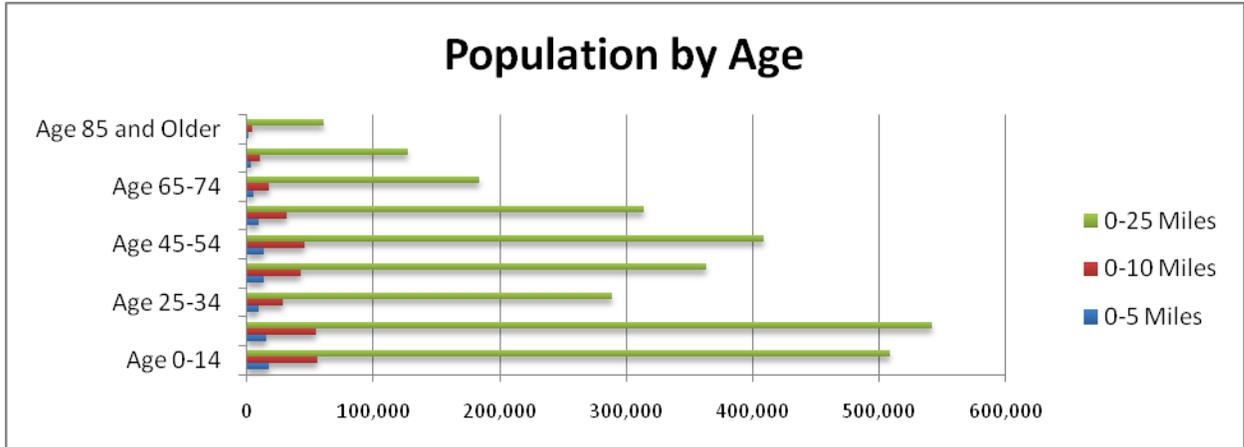


Source: Claritas



MARKET ANALYSIS

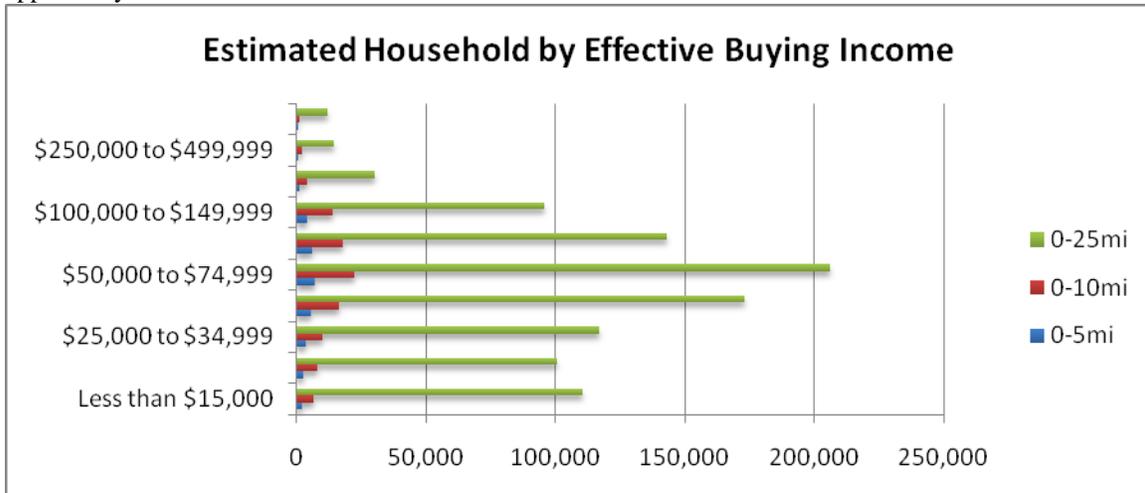
The age breakdown of the area is an important aspect to determine the target retail market. As illustrated below the age groups with the largest population are those 15-24 and 45-54. It is recommended to use the age group of 45-54 as the target market because their incomes provide greater buying power than those 15-24.



Source: Claritas

An additional consideration is the average daily car counts in the area. Based on the Average Daily Traffic Count Figure previously illustrated, the Pennhurst site has a great opportunity to draw customers based upon the daily traffic. Route 422, which is about 3 minutes from the site has 50,000 to 75,000 cars daily, while the other state roads nearby have 10,000 to 25,000 cars daily. Additionally the site is located near the I- 76 interchange, which has over 100,000 cars daily. If access roads leading up to the site are designed well, the site can tap into this great resource of traffic passing through

With a growing population, clear target market, high traffic counts, the next piece of the demand driver is the household income and purchasing power. As illustrated in the figure below over 200,000 households which results in about 17% has \$50,000 and 75,000 yearly of effective buying income. The high median income provides a great opportunity for retail within the area.

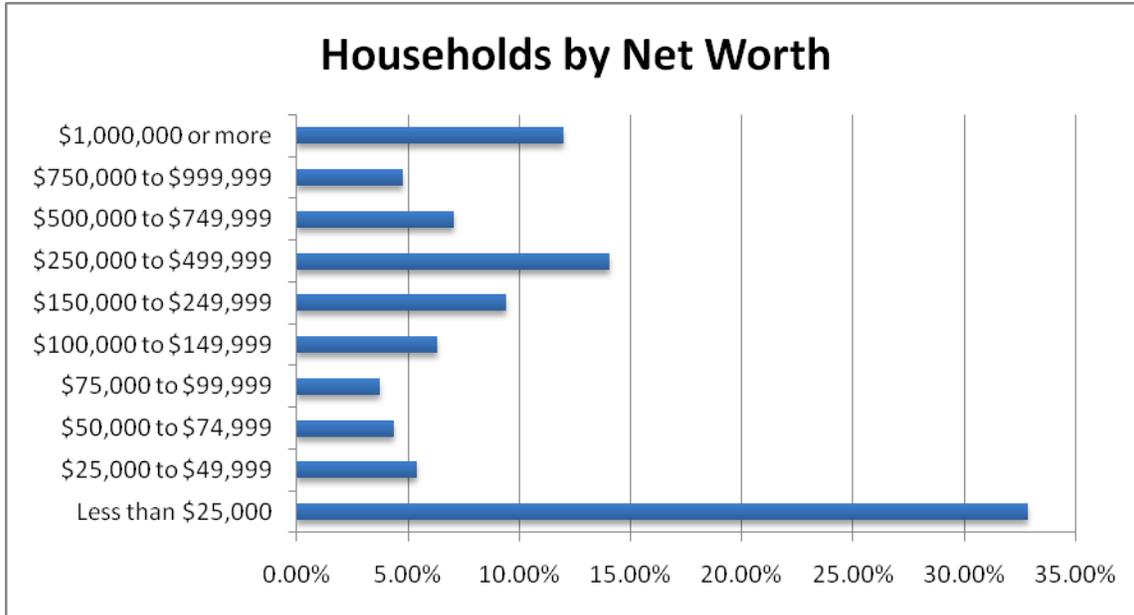


Source: Claritas



MARKET ANALYSIS

The household Net Worth in Chester and Montgomery County is distributed below. Based upon the percentages, 32% of the households in the area have less than \$25,000 in net worth. Overall, about 54% of the households in the area have net worth over \$100,000.



Source: Claritas

II. Area Profiles

The Top 5 PRIZM profiles for the Pennhurst Site are illustrated below. Based upon the PRIZM data, these people shop at stores such as Sears Roebuck, Land’s End, Create and Barrel, Ethan Allen, and Lillian Vernon. The PRIZM data combined with the demographic data illustrates that the target market are men and women between the ages of 45 and 54 who live in their homes without kids. Additionally these people have high income producing assets and a high effective buying power.

Chester and Montgomery Counties	
Country Casuals	Older, empty-nesting upscale household with disposable income from well maybe management jobs or their own small businesses
Country Squires	The wealthiest residents in exurban America: the families of these Baby Boomers live in six-figure comfort
Brite Lights, Lil City	Well-off, sophisticated middle aged couples without children who settled in the nation's satellite cities
God's Country	Upscale couples who try to maintain a balanced lifestyle between high-power jobs and laid-back leisure
Upward Bound	Home of soccer moms and dads, these upscale families with dual incomes are kid-obsessed

Additional information on the PRIZM data is illustrated in Appendix A

III. Customer Spending



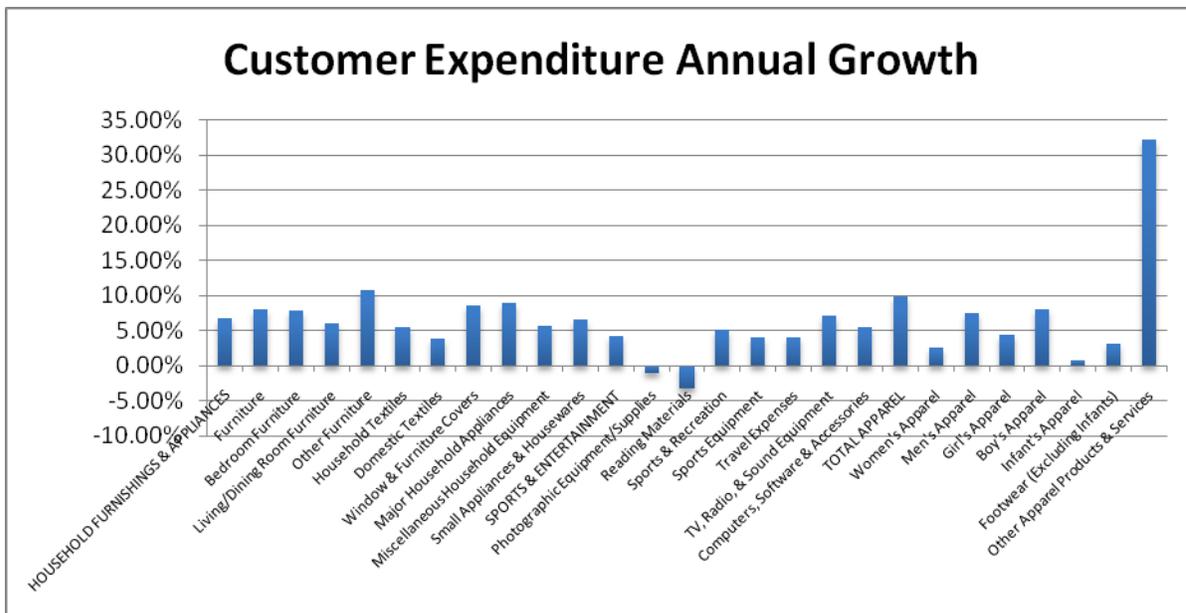
MARKET ANALYSIS

Based upon the previous analysis, there is opportunity for retail (it will later be discussed if the current supply matches the demand) but first it is necessary to see what the population is spending on.



Source: Claritas

Based on the current business in retail trade, the majority of business are food and drinking places, as well as furniture, home furnishings and appliances (which was illustrated by the PRIZM data), apparel and accessory stores and miscellaneous retail stores. Additionally, there are a large number on food stores in the area. The graph below illustrates the annual growth in customer expenditure

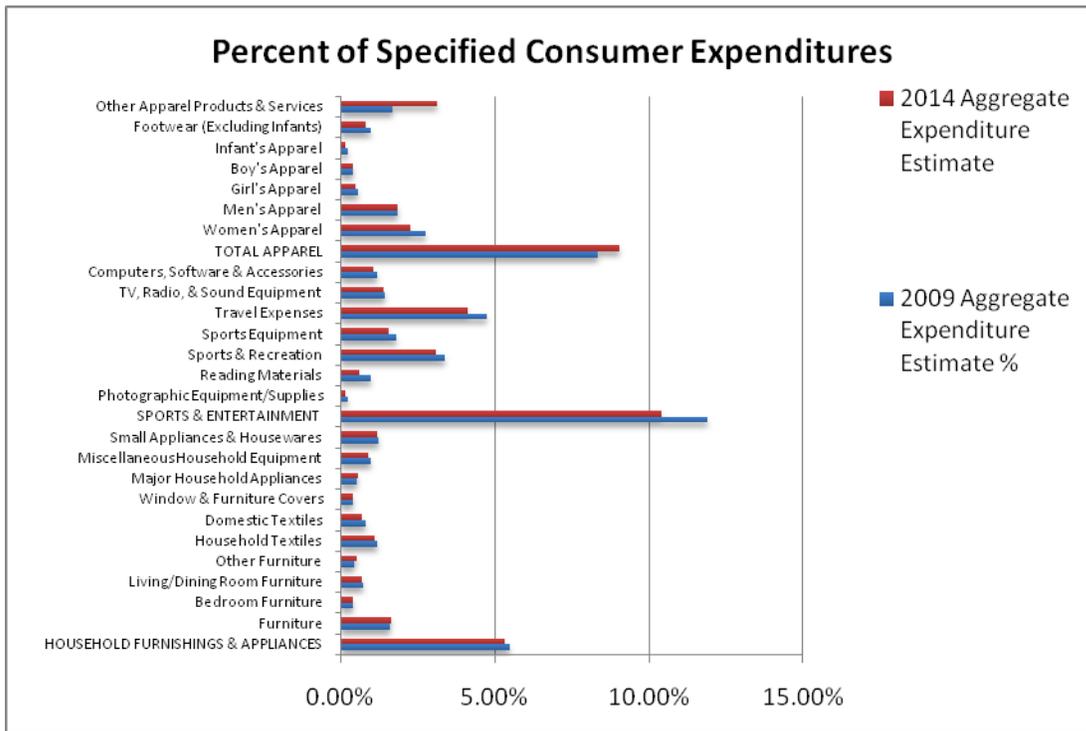


Source: Claritas

Based on the retail sectors, the highest percent of customer expenditures lies within the apparel, sports and entertainment and household furnishing and appliance trades. Between 5 and 10% of the population expenditures goes towards these trades. A detail graph of the specified consumer expenditures is illustrated below.

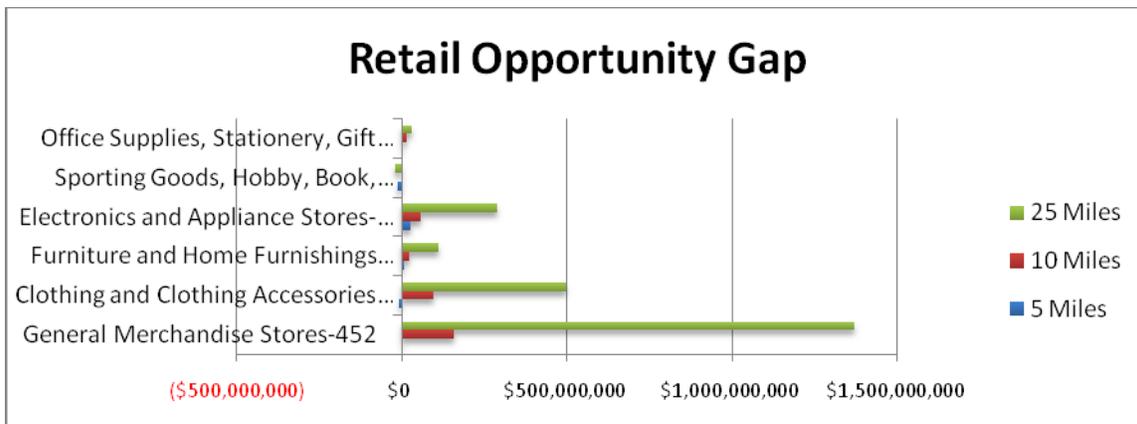


MARKET ANALYSIS



Source: Claritas

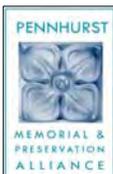
Using the current customer expenditures as the demand and current retail sales as supply, the opportunity gap in retail was calculated. Based on the current trends there is a large opportunity within the general merchandise stores, clothing accessories and electronic and appliance stores.



Source: Claritas

IV: Suburban Philadelphia: Retail Market Highlights

Using a combination of CoStar data and REIS data, the current market for the area was determined. Initially, the Philadelphia Metro retail volume and price per square feet was analyzed. The sales volume peak in 2007 and has declined since, but the price per square feet continues to increase.



MARKET ANALYSIS

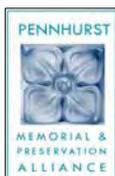


Source: REIS

The price per square foot was determined by dividing the sales volume by the square feet sold in the area. The table below breaks this down by sectors of the Philadelphia area. As illustrated below, Montgomery County has nearly the lowest price per square foot but they have the highest square feet sold. Chester County is the opposite, with extremely low square feet sold, the price per square foot increases. This provides an interesting opportunity based on Pennhurst location, it seems as if Montgomery County is overbuilt, but there may be opportunity in Chester County.

Submarket Name	Square Feet Sold	Trans Volume (\$ millions)	Price Per SF
Bucks County	135,905	\$33	\$241
Philadelphia County	129,759	\$28	\$214
Montgomery County	131,711	\$28	\$153
Camden County	73,126	\$14	\$190
Gloucester County	101,602	\$13	\$132
Chester County	24,917	\$11	\$448
Burlington County	14,820	\$7	\$466

The rental rates for the area were first considered. As a result of the economic recession, the rental rates had fallen since 2007, but based upon the forecasted trends illustrated below, they were expected to increase after 2009.



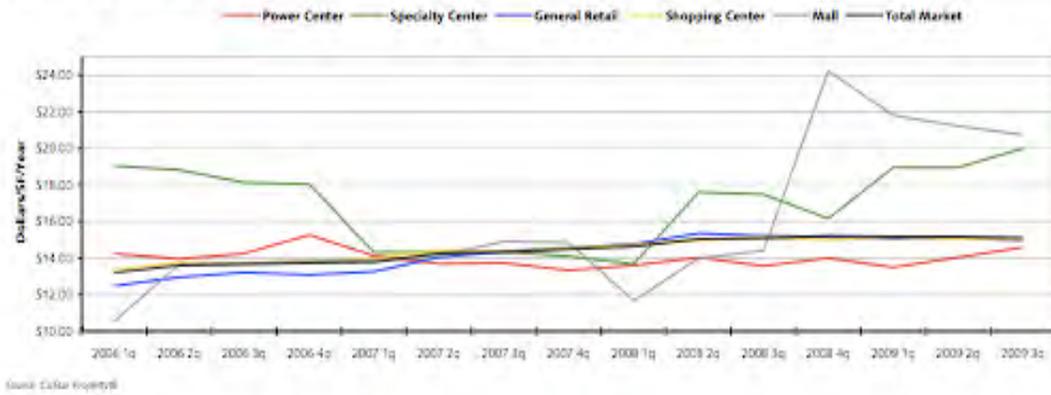
# MARKET ANALYSIS



Using the CoStar data, the rental rates were split up between the various retail centers. In recent times, the specialty centers have had the highest rental rates while power centers fell below the market rates.

## HISTORICAL RENTAL RATES

Based on NNN Rental Rates

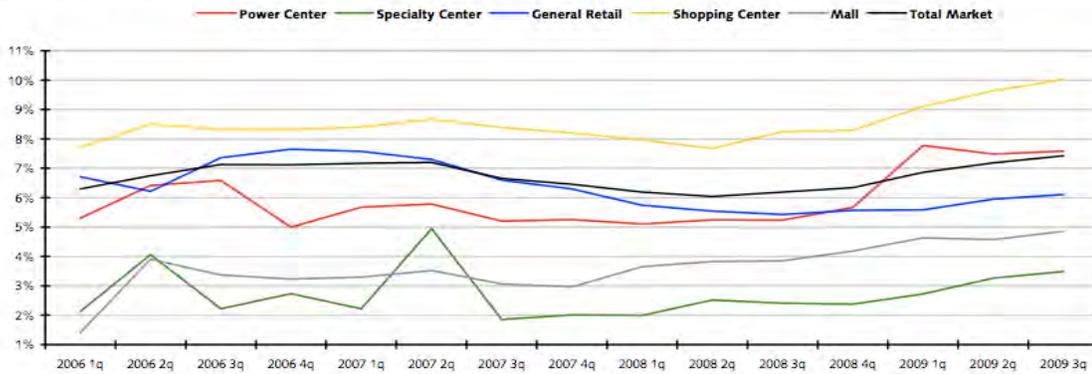


Source: CoStar

The current vacancy in the market is important to consider with the net supply for retail in the area. Based on the figure below, vacancy rates are increasing for all types of retail, but shopping centers have the highest with about 10%. Specialty centers have the lowest vacancy with about 3.5% vacancy

MARKET ANALYSIS

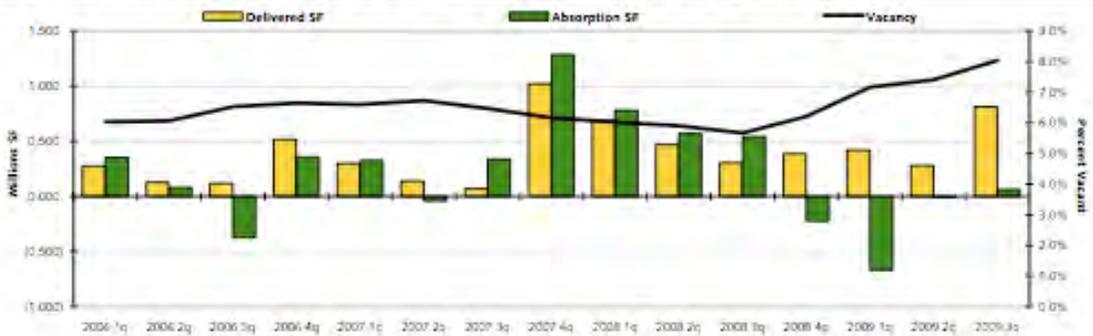
VACANCY RATES BY BUILDING TYPE 2006-2009



Source: CoStar

In addition to the increasing vacancy rates a number of new retail spaces entered the market in 2009. This increase in vacancy as well as increase in new space resulted in a negative net adsorption rate for the first two quarters in 2009. The overall trend is illustrated in the figure below.

DELIVERIES, ABSORPTION & VACANCY Historical Analysis, All Classes



Source: CoStar

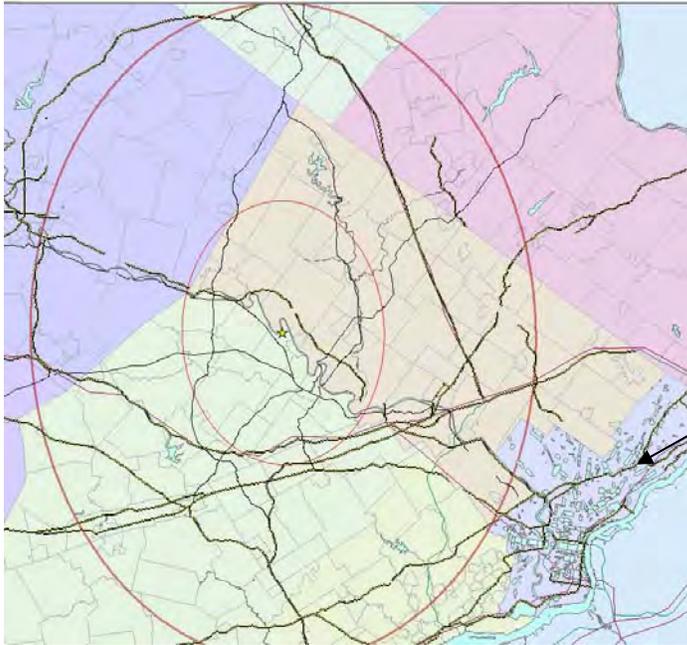
Additionally, the recession is affecting King of Prussia Mall, the megamall about 45 minutes from Pennhurst. According to the *Business Journal* “vacancies are more prevalent, customer traffic is off and sales are down.” The centers managers believe that it is “holding up much better than the national averages”

V: Location of Current Competition

As illustrated in this GIS model below, the site is located at the yellow star with a 10 mile and a 25 mile buffer in red around it. The retail data for the Philadelphia suburbs was unavailable, but the retail sales for the city of Philadelphia are illustrated in light blue in the bottom right of the figure.



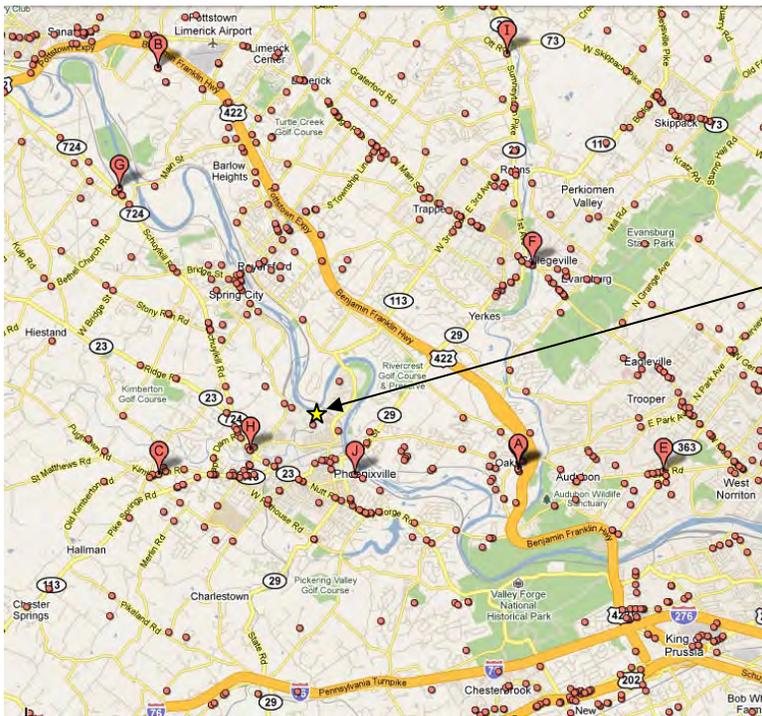
MARKET ANALYSIS



City of Philadelphia retail sales

Source: GIS Data

Using Google Maps, the retail around the Pennhurst site is located below; the small red dots indicate minor retail centers, while the larger indicate major shopping centers. Some of the major threats to retail are the Philadelphia Premium Outlets (B), Whole Foods (C), Lowe's and Target (A), the King of Prussia Mall bottom left of map. All of the retail in the area either major or minor will be a threat for new development, especially in this economy.



Pennhurst site

Source: Google Maps

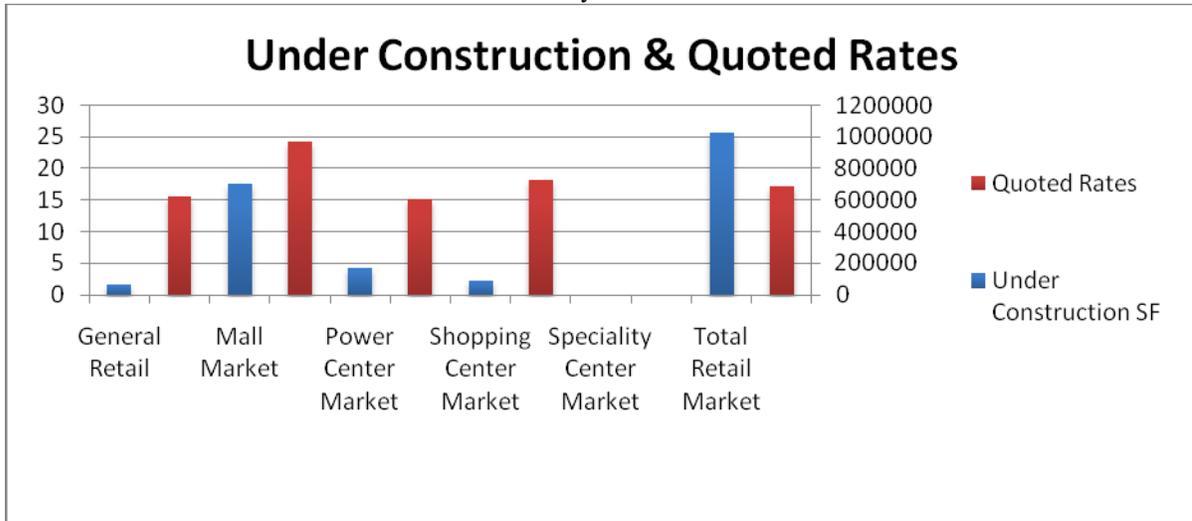


MARKET ANALYSIS

VI: The Pipeline

Currently, Suburban Philadelphia has 41 buildings, out of the 74 for the Philadelphia area totally about 1 million square feet of GLA under construction. It is important to note that of this 1 Million about 58% is preleased.

Based upon the CoStar data there is about 700,00 ft<sup>2</sup> of mall market and about 170,00 ft<sup>2</sup> of power center market under construction. These two markets combine with general retail and shopping center result in about 1,000,000 ft<sup>2</sup> of new construction. It is important to note that there is no additional construction for a specialty market, although this sector of the market had the lowest overall vacancy rates.

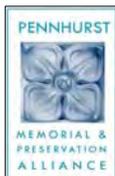


Source: CoStar

The table below illustrates a list of the current projects, the rentable area, and their percent occupancy. The data for the upcoming projects was supplied by CoStar.

	Rentable Building Area	Occupied
Upland Shopping Centers	257,801	66%
Hatfield Point Shopping Center (LOWES)	250,000	44%
Levittown Town Center	237,983	38%
Wal Mart Super Center	180,000	100%
Upland Square Shopping Center (Target)	135,000	100%
100 Welsh Road	123,181	84%
180 Eagleview Blvd	94,149	100%

Other projects that are under construction in the area are BJ’s Shopping Center and Providence Town Center which is a 760,000 square foot lifestyle center. It is forecasted to open in October 2009 in stages, the first stage includes: Wegmans, Best Buy, LA Fitness, Dick’s Sporting Goods, DSW shoes, Ulta Cosmetics, Give Below, Staples, PetsMart, Michael’s, Raymore and Flannigan, PNC Bank, PF Changs EMS, Olive Garden.



MARKET ANALYSIS

VII. Recommendation

The site has many strengths, which lead to the success of a retail center. These include an effective buying power between \$50,000 and \$75,000, 50% of the household having a net worth over \$100,000, and is located by a high traffic routes of Route 422 and I-76.

The current trends for retail include eating and drinking establishments, home furnishing stores, apparel, sports, which lead to great opportunities gaps in Apparel and General Merchandising. Additionally, there are opportunities for specialty stores based upon the low vacancy rate and the lack of current construction of new sites.

The current status of the economy, which has resulted in the falling rental rates, increasing vacancy, increased number of deliveries, is a weakness for the overall market. In addition the proximity of the current competitors is also weaknesses to the site.

Additionally, the 6 Major shopping centers of at least 125,000 ft<sup>2</sup> of new construction as well as the Providence Town Shopping Center are great threats to the success of a retail center at Pennhurst site.

Based solely upon the new demand derived from the opportunity gap and the supply based upon the vacancies, new projects (already started plus the providence town center) a supply and demand calculation is illustrated below. This assumes a price of \$400/ft<sup>2</sup> based upon the REIS data.

New Demand Side	
Total Retail Opportunity Gap	\$4,564,154,161
Price/ ft <sup>2</sup>	\$400
Total Opportunity Space	11,410,385

New Supply Side	
Current GLA	110,401,840
Vacancy	8.00%
Vacancy Space	8,832,147
New Project Space	1,278,114
Providence Town	760,000
Total Supply	10,870,261

% Supply to Demand	95.27%
--------------------	--------

This calculation illustrates that the current project and vacancies cover over 95% of the projected demand, which leaves very little opportunity for new development in the retail market. This is a very rough estimate, which is only used to illustrate how tight of the market retail is during these economic times.

Although there is great purchasing power in the area, the market is too tight to recommend a retail development. The problems with developing a retail development extend beyond this analysis. They include rising construction costs, increased challenges of obtain financing, the ability to prelease or secure enough tenants to reach solvency and the ability to get proper zoning

While a retail development is not recommendation for the site at this time, if the economic conditions improve, my recommendation would be to develop specialty stores in the area and to create a destination shopping center. The specialty stores would cater towards the wealthy baby boomers in the area with stores such as high-end furniture and appliance stores.



MARKET ANALYSIS

B. OFFICE MARKET ANALYSIS



PREPARED BY FRANK DESLOGE, CFA



MARKET ANALYSIS

OFFICE MARKET – EXECUTIVE SUMMARY

Executive Summary			
<b>Subject Overview</b>			
Location:	Commonwealth Drive Spring City, PA 19475	Number of Buildings:	17
Year Built:	1908 - 1950's	Land Area:	112 Acres
Building Size (GBA):	636,454	Proposed Use:	Office
		<u>Overall Rating</u>	<u>Comment</u>
Linkages	Negative	As an office use the Subject would be congruent with land uses present in its market; however, it would be somewhat disconnected from existing commercial clusters. Its location immediately southwest of the Schuylkill River may represent a psychological barrier for firms looking to locate in the area. If plans to extend the R-6 Rail line with a stop in Royersford are realized, a shuttle service from the Subject site to the stop may help overcome this psychological barrier. Nonetheless, the Subject's current disconnect from existing commercial clusters negatively affects its potential for office use	
<b>Demographics</b>			
Population and Income	Positive	Population and incomes have been growing at above average rates as compared to the United States and represent positive trends for the Subject office market.	
Employment and Economic Base	Positive	Although employment has decreased over the recent past, it is projected that the Philadelphia area will begin to see growth over the near to medium term. Based on the location quotient, largest employers, and employment by industry, it appears that the Chester and Montgomery bi-county area has greater than average office using employment. Overall, the area's employment and economic base represent positive factors with regard to the Subject's use for an office development.	
Supply	Neutral	Since 1997 rents have generally stayed between \$20 PSF and \$25 PSF despite significant variance in vacancy rates. Since the 1st quarter of 2008 rents have been flat or slightly rising in spite of significant negative net absorption. It is unclear why this phenomenon has occurred, although offsetting rental concessions may provide some explanation. With regard to price, since 1998 median prices of office have risen from well below \$100 PSF to approximately \$130 PSF. Overall, supply trends represent a neutral factor for the Subject market.	
Demand	Neutral	The Subject market has significant demand for office space based on the percent of office using employment in the area. Nonetheless, while this represents a positive factor in and of itself, it must be considered against existing and planned supply of office space.	
Supply and Demand Equilibrium	Negative	There appears to be a significant over supply of office space in the Subject market. The apparent oversupply as compared to reported vacancy figures indicates that there may be a large amount of shadow vacancy (space that is leased but unoccupied). A significant level of shadow vacancy will have a negative impact on any future demand. Altogether, the level of oversupply and implications of shadow vacancy are negative factors for the Subject market.	
Recommendation	Based on our analysis of the Subject market it appears that, despite positive demographic and employment trends, the Subject market is currently oversupplied in terms of office space and would not support a new office development. As such, we recommend against a new office development at this time.		
Scope	It is noted that several items fall outside the scope of this analysis; however, they would be valuable nonetheless. Some of these items include: a site visit; interviews with local market professionals; GIS data and analysis; and demand forecasting. A complete discussion of these items is located at the end of the detailed analysis.		



# MARKET ANALYSIS

## OFFICE MARKET – DETAILED ANALYSIS

The purpose of this report is to analyze the office market for the Pennhurst Campus (“Subject” or “Subject Property”) located in Chester County, Pennsylvania. The Pennhurst Campus comprises approximately 636,000 square feet of gross building area situated in 17 buildings on a 112-acre site.

Formerly operated as the Pennhurst State School and Hospital, the Subject was part of a larger campus providing housing, educational, and medical services to individuals who had varying degrees of physical or mental handicaps. The Subject was closed in 1986 and is being considered for a variety of historic preservation redevelopment uses including retail, office, hospitality, apartment, and condominium. The remainder of this report will present an analysis of demographic and economic factors as they relate to the Pennhurst Campus office market.

### Overview



The Subject is located in Chester County, Pennsylvania approximately one mile northwest of Spring City and 30 miles northwest of Philadelphia. The subject site sits on the southeastern bank of the Schuylkill River which forms the boundary between Chester and Montgomery counties.



## MARKET ANALYSIS

***Chester County:*** Chester County is bordered by Montgomery County to the northeast, Delaware County and the State of Delaware to the southeast, the State of Maryland to the south, and Lancaster and Berks Counties to the northwest. One of the three original Pennsylvania counties created by William Penn in 1682, the County comprises 760 square miles of rolling hills and valleys with strong agricultural and manufacturing roots. Today the County economy has diversified into technology, service, and biotech industries with Route 202 forming a high-tech corridor in the County's eastern portion.

***Montgomery County:*** Montgomery County is bordered by Lehigh and Bucks Counties to the northeast, Philadelphia County to the southeast, Delaware and Chester Counties to the southwest, and Berks Counties to the northwest. At 487 square miles, Montgomery County is a mix of highly urbanized centers, small villages, and rural farmland. Since its establishment in 1784, the County has grown significantly and now comprises the second highest population of any county in the region behind Philadelphia County. In addition to housing a diverse economy including industries such as mutual funds, pharmaceuticals, insurance, computer design, and education, the County is one of only 30 counties in the United States with a AAA bond rating.

**Market Area Delineation**

Market areas for office properties are not typically defended in narrow geographic terms. This is because clients of office tenants are attracted more by a firm's reputation than by the convenience of its location. Nonetheless, similar office space users tend to cluster in nodes. As such, we have analyzed Chester and Montgomery Counties and the Subject's immediate competitive node. The Subject's competitive node is identified as the US 422 Corridor. The US 422 Corridor is approximately 25 miles long by 8 miles wide spanning three counties and containing 24 municipalities. The corridor begins 20 miles west of Philadelphia in Upper Merion Township (King of Prussia) and extends west to Amity Township in Berks County. A map of the corridor is presented below.

MARKET ANALYSIS



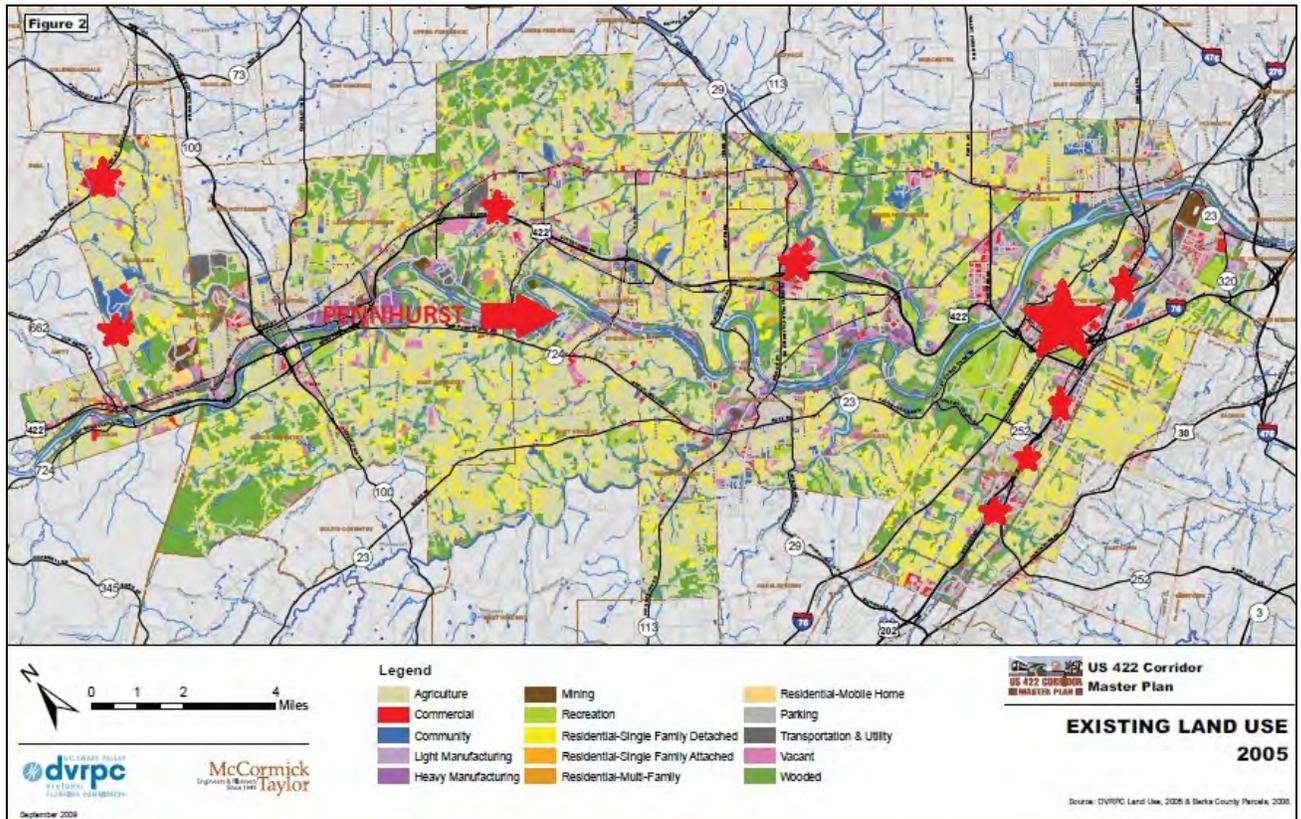
It is noted that because we were unable to obtain demographic data for the US 422 Corridor as identified above, we have used a 10 – mile radius originating from the Pennhurst Campus as a proxy for the US 422 Corridor. *Data based on the actual US 422 Corridor as defined above may significantly differ from data used for this analysis.*

**Linkages**

**Land Use/Economic:** As shown in the following map, land uses within the Subject market consist primarily of single family residential (yellow), agricultural (taupe), and recreation/wooded (green) with commercial clusters (red stars) located along US Route 422 and US Route 202. Note, the series of red stars along US 202 represents the primary biotechnology and technology corridor within the Philadelphia region. Commercial clusters within the Subject market represent exporting industries that employ residents living both inside and outside the Subject market.



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**Access:** Primary access to the Subject market is provided by US Route 422. US 422 connects the Subject market with the Philadelphia Central Business District to the southeast and the city of Reading to the northwest. US Route 202 also provides significant access to the southeastern portion of the Subject market. US Route 724 provides secondary access leading to Spring City to the south and linking with US 422 to the north.

The Subject site has access to US 422 via Linfield road to the north and Bridge street to the south. Additionally, according to draft *US 422 Master Plan Summary Report*, improvements are proposed for the Linfield Rd Bridge. US 724 is located approximately one half mile east of the Subject site.

Bus service is provided throughout the Subject market by the South Eastern Pennsylvania Transportation Authority (“SEPTA”). A bus stop is located approximately one mile south of the Subject site in Spring City.

Commuter rail service is provided to southeastern portions of the Subject via SEPTA; however, the service only reaches as far as Norristown located approximately 15 miles southeast of the Subject site. According the draft *US 422 Master Plan Summary Report*, several transportation



## MARKET ANALYSIS

initiatives are being considered. Among these is the extension of the R-6 commuter rail line from Norristown through Pottstown to Wyomissing. According to the report, the extension would include a stop in Royersford across the Schuylkill River from Spring City approximately 1.25 miles south of the Subject site.

The Philadelphia International Airport is approximately one hour drive (30 miles) southeast of the Subject site.

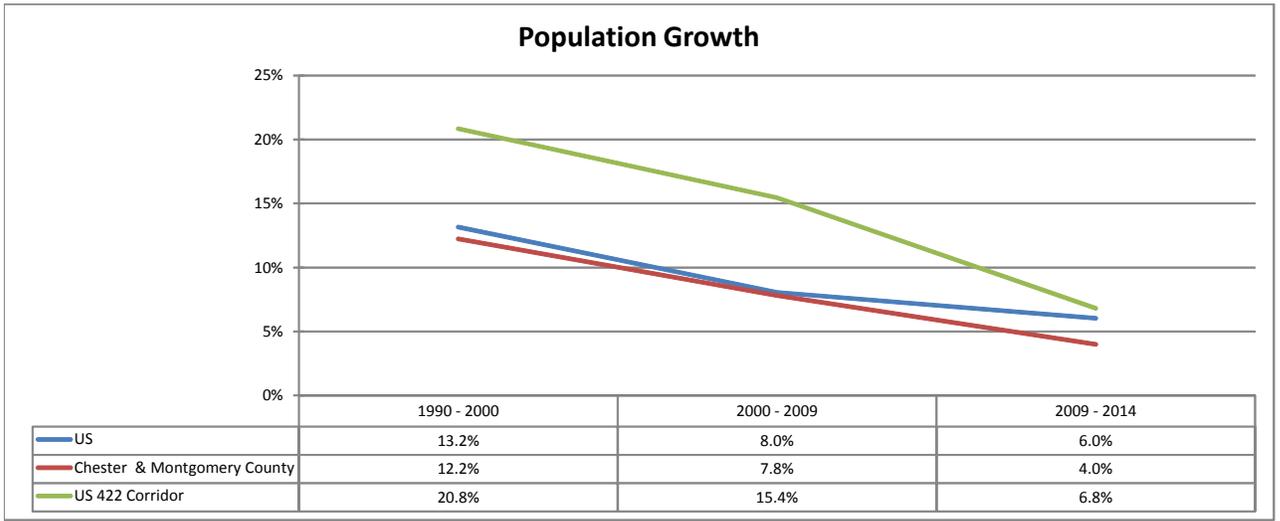
Overall, as an office use the Subject would be congruent with land uses present in its market; however, it would be somewhat disconnected from existing commercial clusters. While bridges over the Schuylkill River connect the Subject site to US Route 422, its location immediately southwest of the river may represent a psychological barrier for firms looking to locate in the area. If plans to extend the R-6 Rail line with a stop in Royersford are realized, a shuttle service from the Subject site to the stop may help overcome this psychological barrier. Nonetheless, the Subject's current disconnect from existing commercial clusters negatively affects its potential for office use.

### Demographics

***Population & Income:*** Population and income growth represent secondary demand drivers for office space in as much as they generate demand for new services; demand for new services generates demand for office space.

The following graph compares population growth for the United States, the Chester and Montgomery bi-county area, and the US 422 Corridor.

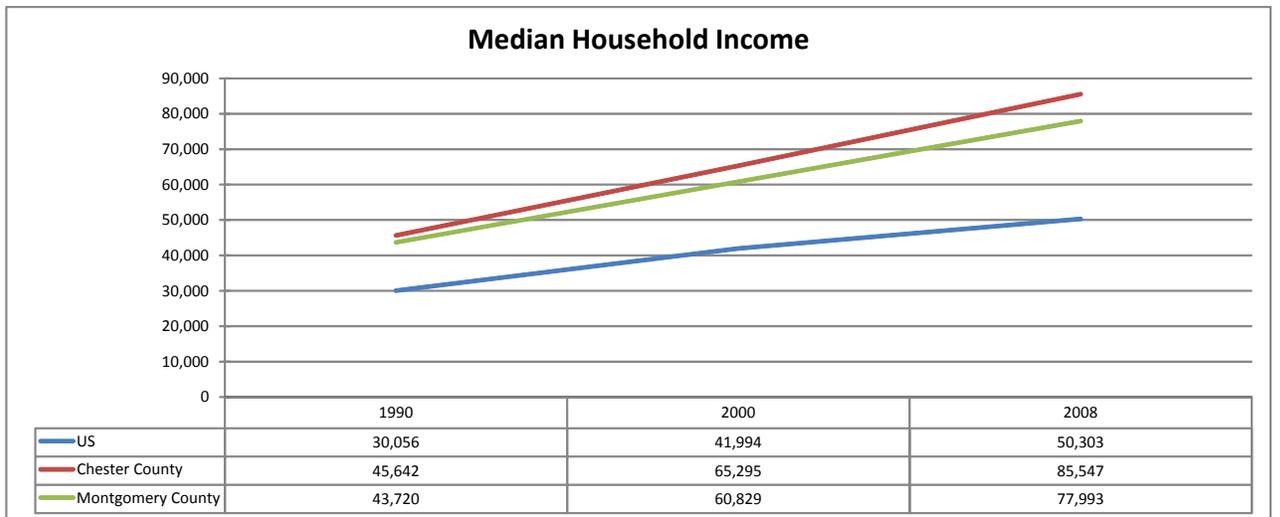
MARKET ANALYSIS



Source: Claritas, Inc.

As can be seen, the US 422 Corridor experienced significantly greater population growth during the 1990 – 2000 and 2000 – 2009 periods than both the bi-county area and the US.

The following graph compares median household income growth for the United States, Chester County, and Montgomery County. We were unable to acquire information for the bi-county area or the US 422 Corridor.



Source: US Census Bureau; USDA ERS



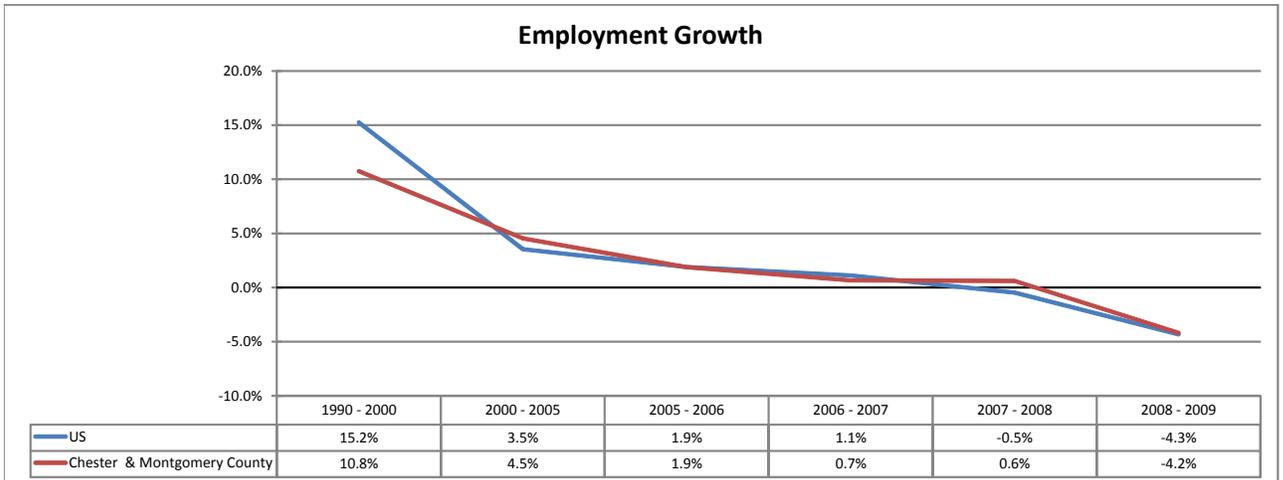
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As shown above, median household incomes for Chester and Montgomery Counties are significantly higher than those for the US overall. Furthermore, median incomes have been growing at a slightly faster rate for the Counties as compared to the US. It should also be noted that median household incomes for Chester and Montgomery Counties represent the two highest median incomes for the state of Pennsylvania.

Overall, population and incomes represent positive trends for the Subject office market as compared to the US.

**Employment and Economic Base:** Office using employment represents the primary demand driver for office space. Each office employee requires a certain amount of office square footage; a greater number of office employees requires a greater amount of office space and vice versa.

**Employment:** The following graph compares employment growth for the United States and the Chester and Montgomery bi-county area. We were unable to acquire information for the US 422 Corridor.



Source: Bureau of Labor Statistics

For the 1990 – 2000 period the US experienced significantly higher employment growth than the bi-county area; however, over the 2000 – 2009 period, employment growth for the bi-county area generally tracked that for the US overall. The negative growth since 2008 reflects the current US recession.



MARKET ANALYSIS

Overall, employment trends have been negative lately; however, according to REIS’s 3<sup>rd</sup> Quarter Philadelphia Office market report, Moody’s Econom.com projects employment Philadelphia to increase by 198,610 for the 2010 – 2013 period, or 9.23%. Applying this growth rate to the US 422 Corridor employment of figure of 158,342 (report by Claritas, Inc.) indicates a 2013 employment of 172,957.

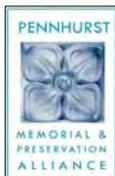
*Economic Base:* In analyzing the economic base for the Subject Market we have looked at the largest employers, location quotients, and employment by industry for the bi-county area and US 422 Corridor (as available).

*Largest Employers:* The largest private sector employers for the bi-county area are detailed in the chart below.

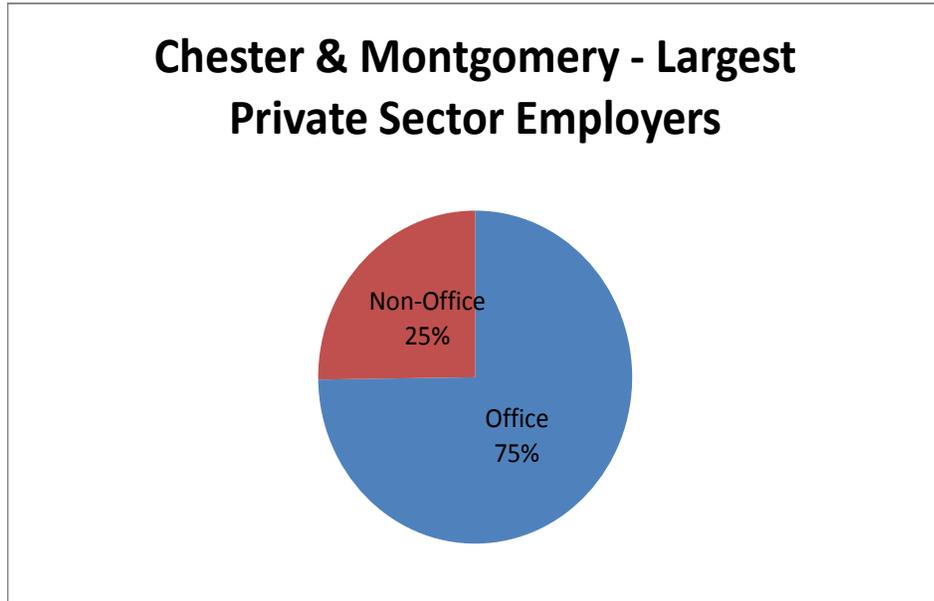
Chester & Montgomery - Largest Private Sector Employers				
Company	Industry	City	Number of Employees	Pct of Total
Merck & Co Inc	Pharmaceutical & Vaccines: Global R&D HQ	West Point	12,000	22.6%
The Vanguard Group	Investment management firm	Valley Forge	9,000	16.9%
Abington Memorial Hospital Inc	Hospitals, General Market & Surgical	Abington	4,917	9.2%
Allied Barton Security Services	Security, Integrated Asset Protection	King of Prussia	4,500	8.5%
SunGard Data Systems	Computer and software services	Wayne	4,000	7.5%
Tyco Electronics	Software & Hardware	Newtown Sq.	4,000	7.5%
Northwestern Human Services Inc	Outpatient Mental Health & Substance Abuse Centers	Lansdale	4,000	7.5%
Lockheed Martin Corp	Systems Integrations, Systems Engineering, Software Development, and Program Management	King of Prussia	3,700	7.0%
Aetna Inc	Managed Care, Health Insurance	King of Prussia	3,664	6.9%
Unisys Corp	Information & technology Solutions & Services	Blue Bell	3,400	6.4%

Source: www.selectgreaterphiladelphia.com

Of the top ten employers, seven include biotech, technology, and financial service companies and area considered to be office using. The following graph presents the percent of office using to non-office using employees for the ten largest employers in the bi-county area based on the data above.



MARKET ANALYSIS



Source: [www.selectgreaterphiladelphia.com](http://www.selectgreaterphiladelphia.com)

*Location Quotient:* The location quotient compares the industry composition of an area to that of the United States as a whole. For example, if in 2008 Financial Activities account for 7.04% of total non-farm employment in the US and 10.27% of total non-farm employment for the bi-county area, then the location quotient for the bi-county area is:  $10.27\% / 7.04\% = 1.46$ . Any industry with a location quotient greater than 1 is considered to be a base industry for the area and one that exports goods and services to other regions.

MARKET ANALYSIS

Chester & Montgomery County - Location Quotient		
Industry	2001	2008
Base Industry: Total, all industries	1.00	1.00
Natural Resources and Mining	0.58	0.59
Construction	0.89	0.85
Manufacturing	1.06	0.92
Trade, Transportation, and Utilities	0.89	0.91
Information	1.21	1.09
Financial Activities	1.55	1.46
Professional and Business Services	1.14	1.38
Education and Health Services	1.08	1.00
Leisure and Hospitality	0.63	0.66
Other Services	0.86	0.89
Unclassified	0.11	0.02
<i>Office Using Combined</i>	<i>1.26</i>	<i>1.37</i>

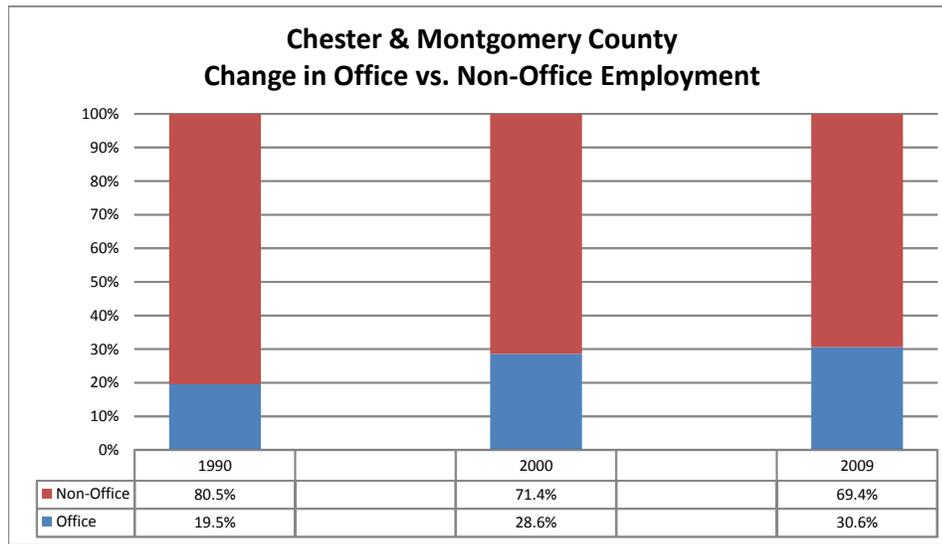
Source: Bureau of Labor Statistics

Of the industries noted in the above chart, Information, Financial Activities, and Professional and Business Services are considered to be office using. Further, the chart indicates that these three industries represent the base industries for the bi-county area. Combining the office using industries indicates a 2008 location quotient of 1.37, an increase over the 2001 location quotient of 1.26.

*Employment by Industry:* As noted previously, office using employment includes Information, Financial Activities, and Professional and Business Services; all other industries are considered to be non-office using. The following chart details the change in office and non-office employment for the bi-county area for the 1990 – 2009 period.



MARKET ANALYSIS



Source: www.greaterphiladelphia.com

As shown, the percent of office using employment in the bi-county area has increased significantly since 1990. For 2009, office using employment for the area stands at 30.6%; this compares to 20.7% for the US overall.

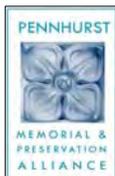
Altogether, while employment has decreased over the recent past, it is projected that the Philadelphia area will begin to see growth over the near to medium term. A similar trend will likely occur within the Subject market. Additionally, based on the location quotient, largest employers, and employment by industry, it appears that the bi-county area has greater than average office using employment. As such, the area’s employment and economic base represent positive factors with regard to the Subject’s use for an office development.

**Supply**

In analyzing the Subject market we have reviewed supply trends in terms of average rent per square foot, vacancy, and median price per square foot. The following chart presents a snapshot for the Subject market.

Office Space Supply							
	Total SF	Vacancy	Net Absorption	SF Under Const	Average Rental Rate	Median Sale Price	
US 422 Corridor	10,751,938	14.7%	4,591	0	\$22.70	\$133.09	
Chester & Montgomery Counties, PA	80,443,974	14.0%	(37,099)	617,520	\$23.28	\$134.35	

Source: Costar, Inc.



MARKET ANALYSIS

The following graph presents trends for the US 422 Corridor and the Chester and Montgomery bi-county area.



Source: CoStar, Inc.

Since 1997 rents have generally stayed between \$20 PSF and \$25 PSF despite significant variance in vacancy rates. Since the 1<sup>st</sup> quarter of 2008 rents have been flat or slightly rising in spite of significant negative net absorption. It is unclear why this phenomenon has occurred, although varying rental concessions may provide some explanation. With regard to price, since 1998 median prices of office have risen from well below \$100 PSF to approximately \$130 PSF. Overall, supply trends represent a neutral factor for the Subject market.

**Demand**

In developing our demand analysis we first estimated the number of office employees, then applied an average square foot per employee and stabilized vacancy rate to estimate total demand. Our estimate of office using employment for the bi-county area and US 422 Corridor are presented in the following chart.



MARKET ANALYSIS

Workplace Employment					
	Employment Type	US 422 Corridor		Chester & Montgomery County	
	Office/Non-Office	Total Employees	Office Employees	Total Employees	Office Employees
<b>Retail Trade</b>					
Building materials and garden supply	Non-Office	2,405		9,778	
General merchandise stores	Non-Office	2,824		17,062	
Food stores	Non-Office	5,012		24,231	
Auto dealers, gas stations	Non-Office	1,810		14,680	
Apparel, accessory stores	Non-Office	1,139		9,336	
Home furniture, furnishings & equipment	Non-Office	3,024		14,484	
Eating & drinking places	Non-Office	9,215		43,402	
Miscellaneous Retail Stores	Non-Office	4,325		26,818	
<b>Finance, Insurance, Real Estate</b>					
Banks, saving & lending institutions	Office	1,710	1,710	17,126	17,126
Security, commodity brokers	Office	1,487	1,487	16,758	16,758
Insurance carriers & agencies	Office	2,056	2,056	19,404	19,404
Real estate	Office	6,333	6,333	23,125	23,125
Trusts, holdings & other investments	Office	1,127	1,127	3,402	3,402
<b>Services</b>					
Hotels & other lodging	Non-Office	1,719		8,056	
Personal services	Non-Office	4,536		24,836	
Business services	Office	13,841	13,841	87,157	87,157
Motion pictures & Amusement	Non-Office	2,351		13,140	
Health services	Non-Office	9,576		90,063	
Legal services	Office	1,290	1,290	9,067	9,067
Educational services	Office	10,419	10,419	50,833	50,833
Social services	Office	4,077	4,077	27,489	27,489
Miscellaneous, membership organizations & nonclassified	Non-Office	13,359		31,756	
<b>Agriculture &amp; Natural Resources</b>					
	Non-Office	1,854		14,812	
<b>Resource Extraction</b>					
	Non-Office	50		595	
<b>Construction</b>					
	Non-Office	7,541		40,372	
<b>Manufacturing</b>					
	Non-Office	25,396		100,248	
<b>Transport/Communication, Utilities</b>					
	Non-Office	4,153		40,051	
<b>Wholesale Trade</b>					
	Non-Office	7,448		41,038	
<b>Government</b>					
	Non-Office	8,265		35,422	
<b>Total</b>		<b>158,342</b>	<b>42,340</b>	<b>854,541</b>	<b>254,361</b>
<i>Percent of Total</i>			<i>26.74%</i>		<i>29.77%</i>

Source: Claritas, Inc.

Based on the above information and in conjunction with the industry employment analysis presented earlier, we have estimated office employment for the US 422 Corridor and Chester and Montgomery bi-county area at 27% and 30%, respectively. Our estimate of total demand for office space is presented in the following chart.



MARKET ANALYSIS

Office Space Demand - 2009		
	US 422 Corridor	Chester & Montgomery County
A Total employment	158,342	854,541
B Percentage occupying office space	27%	30%
C Total employed in office space (A X B)	42,752	256,362
D Average sq. ft. per employee	200	200
E Total occupied office demand in sq. ft. (C X D)	8,550,468	51,272,460
F Plus frictional vacancy @ 10% (E X 10%)	855,047	5,127,246
G Gross estimate of total office demand in sq. ft.	9,405,515	56,399,706

Source: Claritas, Inc.

In developing our estimate for demand we utilized an average of 200 square feet per employee. Additionally, we incorporated a 10% stabilized vacancy rate based on historical trends for the areas.

The Subject market has significant demand for office space based on the percent of office using employment in the area. Nonetheless, while this represents a positive factor in and of itself, it must be considered against existing and planned supply of office space.

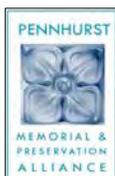
**Supply and Demand Equilibrium**

The last step in our analysis was to compare current supply with demand. Our analysis is presented in the following chart.

Office Equilibrium Analysis - 2009		
	US 422 Corridor	Chester & Montgomery Counties, PA
Demand	9,405,515	56,399,706
Less: Supply	(10,751,938)	(80,443,974)
Net (excess) shortage	(1,346,423)	(24,044,268)

Source: Costar, Inc.

The above chart indicates a significant over supply of office space in the Subject market. While the US 422 supply and demand equilibrium analysis is generally in with reported market vacancy figures, 12.5% excess supply vs. 14.7% vacancy, the Chester and Montgomery bi-county area



## MARKET ANALYSIS

indicates a 29.9% over supply vs. a vacancy for the area of 14.0%. The difference in these figures may indicate a significant amount of shadow vacancy, space that is leased but unoccupied, in the market. A significant level of shadow vacancy will have a negative impact on any future demand. Altogether, the supply and demand equilibrium analysis indicates that the office market within which the Subject is located is oversupplied at the current time.

### **Conclusion**

Based on our analysis, demographic and employment trends represent positive factors for the Subject market. Nonetheless, the Subject appears to be somewhat disconnected from existing office nodes in terms of linkages given its location across the Schuylkill River from the major transit route, US Route 422. Additionally, based on our supply and demand equilibrium analysis, there appears to be significant oversupply of office space in the Subject market. As such, the market would not support a new office development and we recommend against any such development at this time.

### **More Time and More Money**

In conducting our analysis we have noted several items which fall outside the scope of analysis, but which would be valuable to the analysis. In accordance with our client's request, we have included a summary of these items below.

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Items for Further Investigation	
Site Visit	Conduct a site inspection of the Subject and potentially competing properties. Rate the Subject site in terms of how it compares to competing properties.
Primary Data Collection	Conduct interviews and surveys with local brokers, property managers, developers, buyers, sellers, and other local market professionals to gather primary data for the Subject market.
Regional Analysis	Incorporate an analysis of the Philadelphia MSA in terms of demographics, employment, supply, demand, etc. and relate it to the Subject site.
Planning initiatives	Incorporate an analysis of regional and local planning initiatives (e.g. general plans and infrastructure planning) and how they could impact the Site.
Incorporate GIS Analysis	Incorporate GIS analysis to better understand relationships to the Subject site including such items as: <ol style="list-style-type: none"> <li>1) Office node concentrations and linkages to the Subject site.</li> <li>2) Employment concentrations and growth by employment type.</li> <li>3) Location of largest employers and employment centers.</li> <li>4) Planned office development in relation to the Subject site.</li> <li>5) Existing and planned infrastructure.</li> <li>6) Population and income growth and concentration patterns.</li> </ol>
Supply Analysis	Conduct interviews to: <ol style="list-style-type: none"> <li>1) Better understand asking vs. effective rents.</li> <li>2) Gain insight into the apparent disconnect between rents and vacancies.</li> </ol> Investigate proposed construction to determine: <ol style="list-style-type: none"> <li>1) Where it is occurring in order to analyze growth patterns in relation to the Subject.</li> <li>2) When it is estimated to be completed.</li> <li>3) The type and nature of construction and how it will compete with the Subject.</li> <li>4) The probability that proposed construction will ultimately result in actual additional to inventory.</li> </ol>
Demand Analysis	Conduct additional demand analysis to: <ol style="list-style-type: none"> <li>1) Obtain better data that reflects the US 422 Corridor as opposed to a 10-mile radius proxy.</li> <li>2) Incorporate forecasts for employment in order to forecast demand.</li> <li>3) Include additional fundamental analysis (e.g. ratio method - total employment to total occupied office space).</li> </ol>
Demographic Analysis	Explore apparent inconsistencies between Claritas, Inc. data and data provided by various government agencies such as the Bureau of Labor Statistics.



MARKET ANALYSIS

C. HOSPITALITY MARKET ANALYSIS



PREPARED BY MOLLY CACCAMO

MARKET ANALYSIS

C. HOSPITALITY MARKET ANALYSIS

## Hotel Market Analysis

### Executive Summary

The subject of the market analysis in the Pennhurst State School located in Pennhurst PA. Because of extensive existing buildings on the premises, the project would be the adaptive reuse of old school buildings into a luxury, destination hotel and spa. Because of the extensive space on the site, the hotel will include many amenities such as a concert space, ice-skating rink, nature trails, a state of the art spa, extensive fitness center, and other activities and offerings to draw guests to the property. The proposed property will feature at least 275 rooms, two restaurants, a bar, and a business center. The hotel will also have the necessary back of house space to run a luxury property.

It is suggested that the hotel be an independent that creates a strong name for itself in the surrounding communities and country. This can be accomplished by leveraging the historical nature of the property, providing excellent service and amenities, and achieving a LEED certification on the existing buildings.

The market has a number of existing hotels, yet none are in the luxury market and thus the Pennhurst Hotel would not have any direct competitors providing service on the same level. There are 5,621 rooms in the Northern Philadelphia Market most in independent, midscale without food and beverage, and economy properties. Although ADR is on the rise in the market, occupancy and RevPAR have seen a slight decline since 2007. This is to be expected and is happening throughout the country.

Nationwide, luxury hotels are down .6% in RevPAR but this is expected given the current economy. Luxury hotels are still earning around \$100 more in ADR than other service levels. Thus, the market is remaining relatively strong regardless of the economy. Ideally, construction on the property will be completed as the market starts to upswing again.

The Pennhurst site would be a good place to build a destination hotel property because of the many tourist draws in the area, the proximity to Philadelphia, and the lack of competing luxury properties in the market. This is a sound market for a property of this type.

### Market Overview

The market is saturated with midscale and economy properties. However, there is an opportunity for a luxury property, as none exists in the market.

#### *Hotels in the Market*

There are many existing hotels in the Northern Pennsylvania Suburb market. The majority of existing hotels are independent, midscale without food and beverage, and economy properties.

A list of existing properties is provided below:

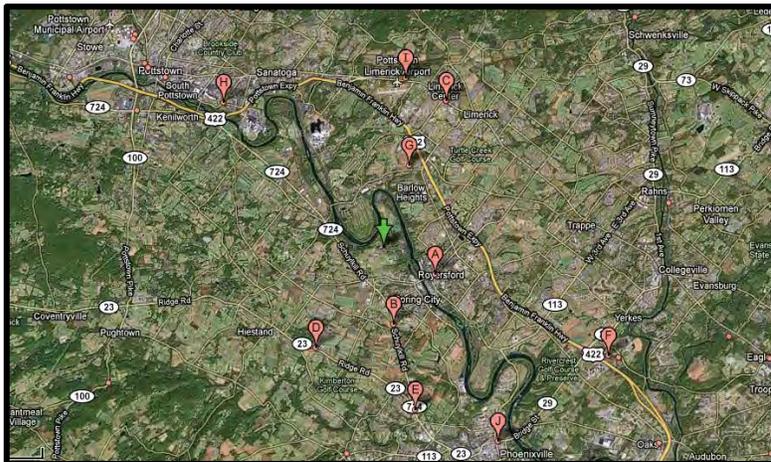
Golden Plough Inn	Lahaska, PA
Comfort Inn Montgomeryville	Montgomeryville, PA
Quality Inn Conference Ctr Montgomeryville	Montgomeryville, PA
New Hope Inn	New Hope, PA
Comfort Inn & Suites Quakertown	Quakertown, PA
Springhill Suites Quakertown	Quakertown, PA
Holiday Inn Express & Suites Quakertown	Quakertown, PA
Best Western Motor Inn	Quakertown, PA
Hampton Inn Quakertown	Quakertown, PA
Holiday Inn Express & Suites Doylestown	Warminster, PA
Hampton Inn Doylestown	Warrington, PA



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Hilton Garden Inn Philadelphia Fort Washington	Fort Washington, PA
Holiday Inn Philadelphia N Fort Washington	Fort Washington, PA
Best Western Fort Washington Inn	Fort Washington, PA
Candlewood Suites Philadelphia Willow Grove	Horsham, PA
Extended Stay America Philadelphia Horsham	Horsham, PA
TownePlace Suites Philadelphia Horsham	Horsham, PA
Homestead Horsham Willow Grove	Horsham, PA
Residence Inn Philadelphia Willow Grove	Horsham, PA
Days Inn Horsham Philadelphia	Horsham, PA
Springhill Suites Philadelphia Willow Grove	Willow Grove, PA
Hampton Inn Philadelphia Willow Grove	Willow Grove, PA
Courtyard Willow Grove	Willow Grove, PA
Homewood Suites Philadelphia Valley Forge	Audubon, PA
Courtyard Philadelphia Valley Forge	Collegeville, PA
Homewood Suites Lansdale	Lansdale, PA
Courtyard Philadelphia Montgomeryville	North Wales, PA
Residence Inn Philadelphia Montgomeryville	North Wales, PA
Hampton Inn Suites Valley Forge Oaks	Phoenixville, PA
Doubletree Plymouth Meeting	Plymouth Meeting, PA
Courtyard Philadelphia Plymouth Meeting	Plymouth Meeting, PA
Springhill Suites Philadelphia Plymouth Meeting	Plymouth Meeting, PA
Extended Stay America Philadelphia Plymouth Meeting	Plymouth Meeting, PA
Hampton Inn Philadelphia Plymouth Meeting	Plymouth Meeting, PA
Quality Inn Pottstown	Pottstown, PA
Comfort Inn & Suites Pottstown	Pottstown, PA
Days Inn Pottstown	Pottstown, PA
Best Western Pottstown Inn	Pottstown, PA
Motel 6 Pottstown	Pottstown, PA
Staybridge Suites Philadelphia Valley Forge 422	Royersford, PA

The map below shows the hotels in the Northern Pennsylvania Suburb market in relation to the Pennhurst Site. There are many hotels in the area, about 25 within 10 miles, which is positive. Hotels need other hotels around to act as demand drivers and help to bolster the market. The lack of direct competitors in the luxury segment is another advantage of the market. Being a luxury, destination property, will set the Pennhurst Hotel apart from the competition not only in capturing existing demand but also in generating new demand.



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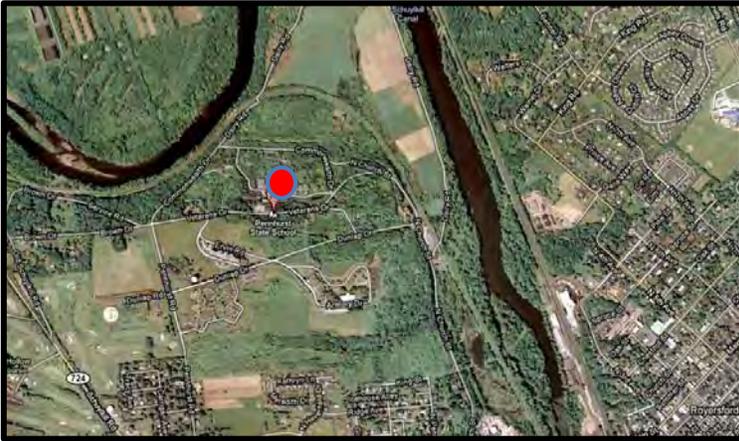
**Description of The Site and Neighborhood**

The Pennhurst site is located in Pennhurst Pennsylvania and is the location of a former school and hospital

*The Site*

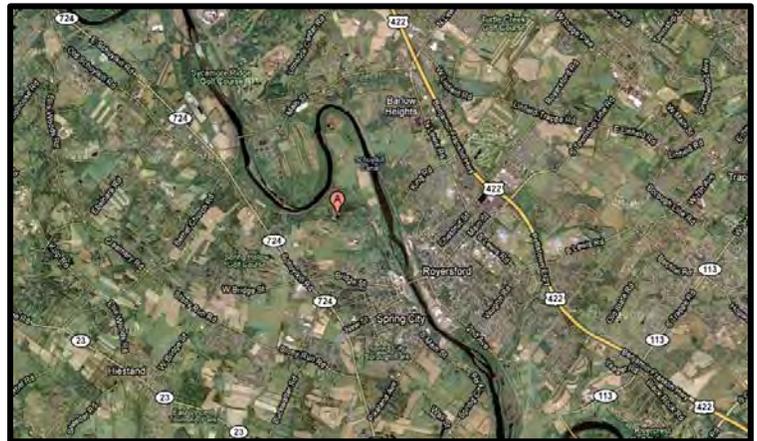
The site is surrounded by woods and is in close proximity to the Schuylkill Canal. These site features will add to the appeal of the hotel by providing guests with pleasant views

Areal views of the site are provided below.

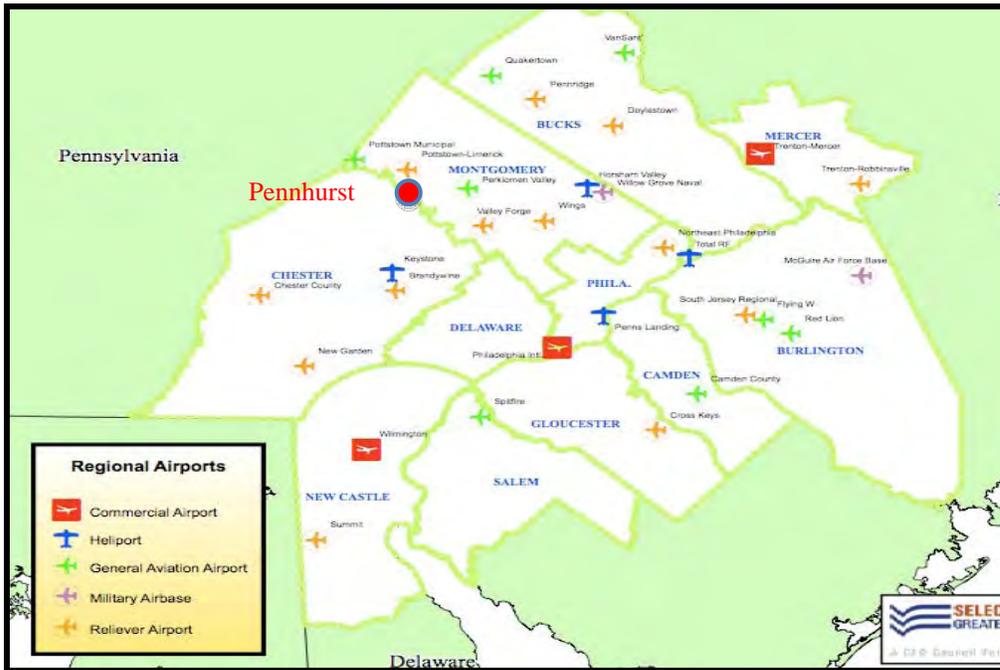


*Transportation*

The closest commercial airport is the Philadelphia International Airport, about a 45-minute drive from the Pennhurst site. There are two general aviation airports: the Pottstown Municipal Airport (15 minutes) and the Perkiomen Valley Airport (20 minutes).

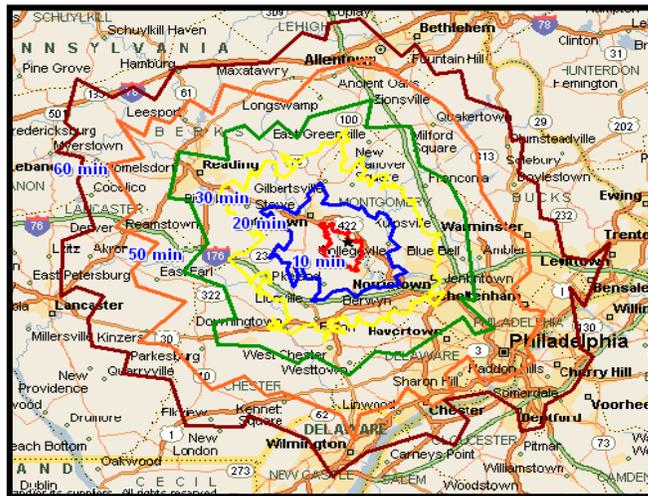


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Roadways and Railroads

The 422 Corridor consisting of interstate 422 and 76 are major roadways in Pennsylvania. The proximity to these transportation routes will be beneficial to the Hotel. Furthermore, the Corridor is undergoing a revitalization effort to decrease traffic and provide alternate means of transportation. As a result, the disngers are looking to reinstate passenger rail on the tracks that run just on the other side of the canal from Pennhurst. There would be a stop on the other side, providing easy access from Philadelphia and east and west towns.



Drive time from Pennhurst

This map shows 10, 20, 30, 40, 50, and 60-minute drive times from the Pennhurst site. The hotel will focus on the 60-minute drive time for the majority of its market. However, the hotel will also draw people from around the country and is not limited to just this population.

For this study we will focus on the 60 minutes drive time.

The Pennhurst site is easily accessible from Philadelphia and surrounding towns my car, train, and airplane. This is very important for a destination hotel because guests must be able to easily access the site.

A way to increase the accessibility and attract more guests would be to offer airport pickup shuttles by appointment. This way, guests from around the world could fly into Philadelphia and arrive and the Pennhurst Hotel without renting a car.

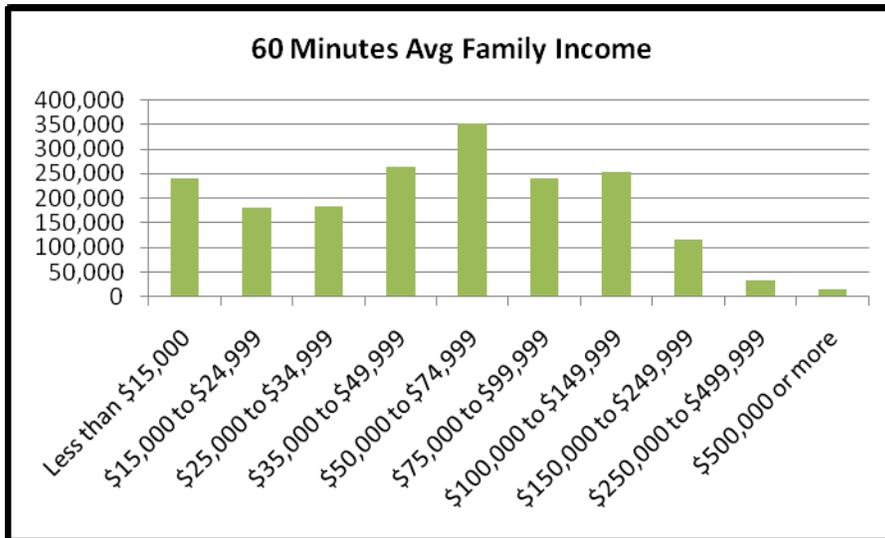


# MARKET ANALYSIS

## Market Analysis

### Economic

Most families, about 350,000, within a 60-minute driving range to the Pennhurst site earn between \$50,000 and \$74,999. This provides the families with enough disposable income that they could decide to go away for the weekend. It is also important to remember that the hotel would be drawing guests from around the country, not just areas in close proximity.

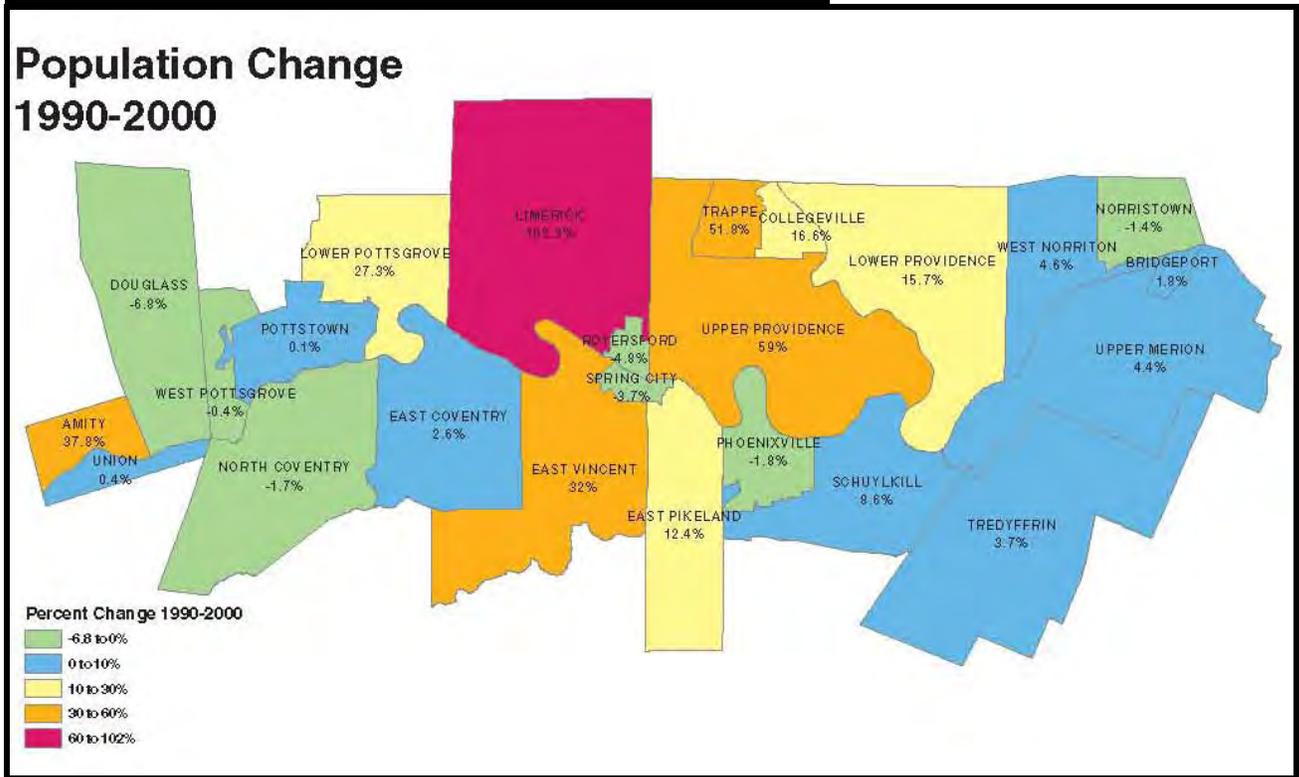
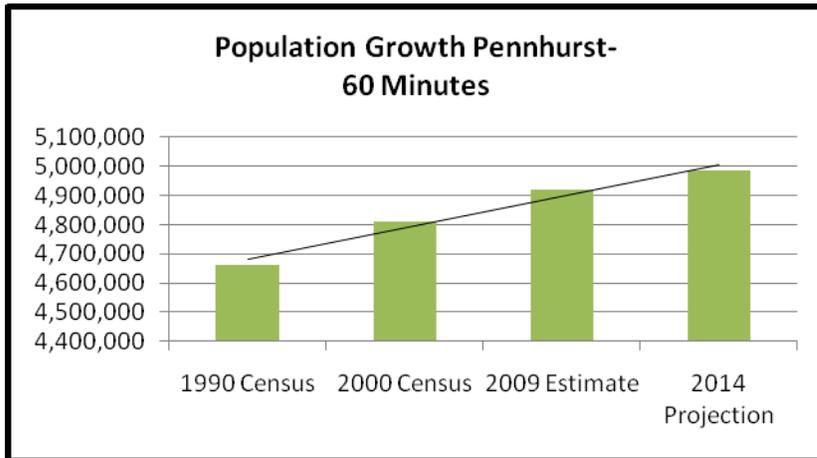


### Demographic

Population in Pennhurst and surrounding towns has been increasing steadily and is projected to continue to. To the north, population increased by 102% and in Pennhurst itself population has increased 32% between 1990 and 2000. The growing population means more jobs and money for the region as well as more demand drivers to accommodate the population as well as a larger workforce pool for the hotel itself.



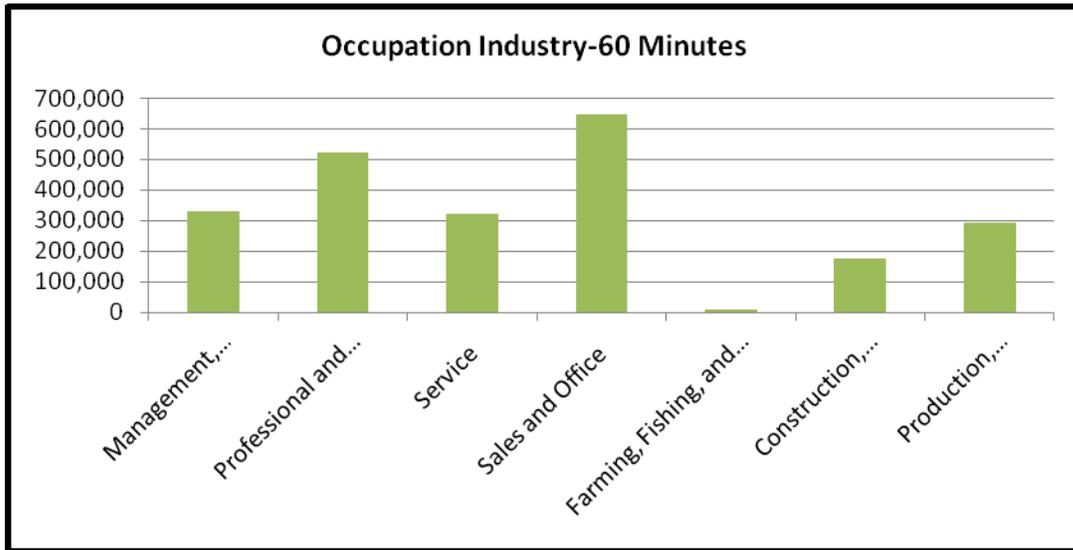
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People in the area are employed in mostly professional jobs with sales and office jobs the majority.



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Tourist Attractions

There are many local tourist attractions surrounding the Pennhurst site. These sites are draws to tourists and day travelers. By taking advantage of these attractions, the hotel can attract more guests by marketing themselves as venues close to, and serving these places. Additionally, many tourists travel to the Northern Pennsylvania Suburbs to see these sites and thus there is a strong tourist market already existing in the area.

Below is a list of the major tourist attractions:

Attraction	Distance (Miles)
Spring Hollow Golf Course	2
Kimberton Golf Course	2.7
Sanatoga Premium Outlets	5
Sanatoga Memorial Park	6
Schuylkill River Heritage Center (Phoenixville)	6
Pottsgrove Manor (Pottstown)	8
Evansburg State Park	9
Pennypacker Mills	9
St. Peter's Village	9
Valley Forge National Historical Park	9
Audubon Wildlife Sanctuary	10
King of Prussia Mall	12
Skippack Village	12
Hopewell Furnace National Historic Site (Birdsboro)	14
Amish Country Attractions (Lancaster County)	15
Daniel Boone Homestead (Birdsboro)	15
French Creek State Park	20
Hope Lodge, Montgomery County, PA	20
Peter Wentz Farmstead, PA	20
Berks County Museum (Reading)	22
Brandywine River Museum (Kennett Square)	22
Pearl S. Buck House, PA	22



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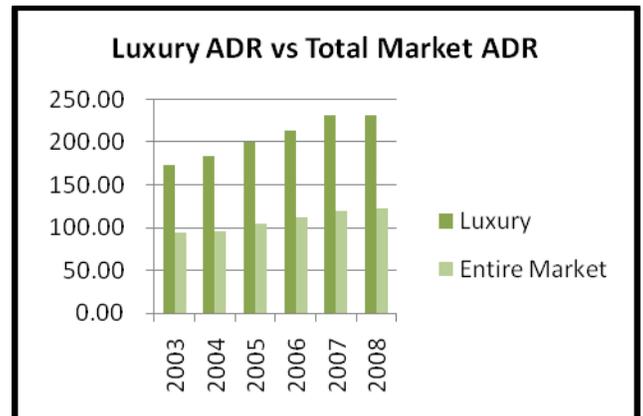
Longwood Gardens (Kennett Square)	23
Vanity Fair Outlets (Reading)	23
Henry Mercer Musueum (Doylestown)	25
Moravian Tile Works (Doylestown)	25
Bear Creek Ski Area	28
Brandywine Battlefield	30
Peddler's Village (New Hope)	30
Philadelphia	35
Rockvale Square Outlets (Lancaster)	35
Tanger Outlets (Lancaster)	36
Conrad Weiser Homestead (Wernersville)	40
Graeme Park, Montgomery County, PA	40
Pocono Mountain Attractions	70

The market provides many attractions for all seasons of the year. Skiing in the winter, visiting parks and Amish country in the spring, summer, and fall, golfing in the summer, historical museums and farms all year long as well as the many draws of Philadelphia. Thus, the hotel would have a strong draw for tourists throughout the year and wouldn't face a large drop-off in occupancy in any given season.

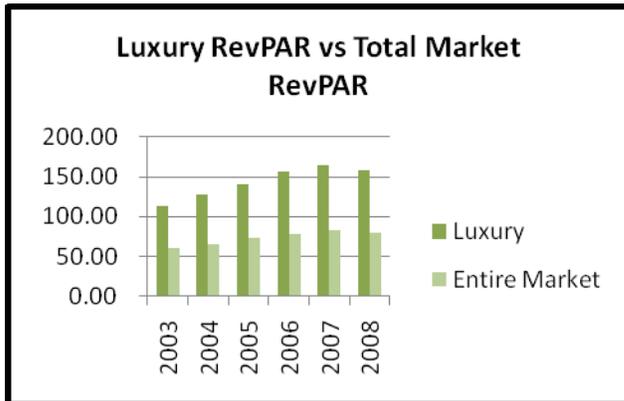
**Supply and Demand Analysis**

*Philadelphia Luxury Market*

Because there are no luxury hotels in the Northern Philadelphia Suburbs to study, instead is an analysis of the Philadelphia luxury market. Luxury hotels in the Philadelphia market have consistently outperformed the rest of the market in occupancy, ADR, and RevPAR.



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Hotel Market Nationally

Below is a graph of national occupancy and ADR trends:

**Table 4-2 National Occupancy and Average Rate Trends**

	Occupancy			Average Room Rate			RevPAR		
	Year-to-date Through August			Year-to-date Through August			Year-to-date Through August		
	2006	2007	% Change	2006	2007	% Change	2006	2007	% Change
United States	63.3 %	63.2 %	(0.2) %	\$97.89	\$103.64	5.9 %	\$61.96	\$66.50	7.5 %
Region									
New England	60.4 %	61.3 %	1.5 %	\$112.51	\$118.44	5.3 %	\$67.96	\$72.60	6.8 %
Middle Atlantic	66.0	66.8	1.2	136.42	148.05	8.5	90.04	98.90	9.8
South Atlantic	63.1	62.3	(1.3)	98.58	104.00	5.5	62.20	64.79	4.2
East North Central	57.6	57.7	0.2	86.09	89.75	4.3	49.59	51.79	4.4
East South Central	60.2	59.4	(1.3)	71.25	74.98	5.2	42.89	44.54	3.8
West North Central	57.9	59.3	2.4	72.75	76.01	4.5	42.12	45.07	7.0
West South Central	62.9	62.2	(1.1)	78.92	83.41	5.7	49.64	51.88	4.5
Mountain	66.1	66.5	0.6	94.66	100.20	5.9	62.57	66.63	6.5
Pacific	69.0	68.7	(0.4)	114.60	121.74	6.2	79.07	83.64	5.8
Price									
Luxury	70.9 %	70.9 %	0.0 %	\$159.87	\$168.88	5.6 %	\$113.35	\$119.74	5.6 %
Upscale	65.2	64.8	(0.6)	107.54	113.56	5.6	70.12	73.59	5.0
Midprice	60.7	60.4	(0.5)	77.72	82.18	5.7	47.18	49.64	5.2
Economy	57.8	57.7	(0.2)	59.01	61.29	3.9	34.11	35.36	3.7
Budget	59.1	59.4	0.5	49.15	50.57	2.9	29.05	30.04	3.4
Location									
Urban	68.3 %	68.6 %	0.4 %	\$137.72	\$148.93	8.1 %	\$94.06	\$102.17	8.6 %
Suburban	63.9	63.4	(0.8)	85.31	90.07	5.6	54.51	57.10	4.8
Airport	69.3	69.5	0.3	93.76	99.67	6.3	64.98	69.27	6.6
Interstate	57.8	58.0	0.3	63.57	66.93	5.3	36.74	38.82	5.6
Resort	66.4	66.1	(0.5)	136.73	143.19	4.7	90.79	94.65	4.3
Small Metro/Town	56.9	57.3	0.7	74.94	78.70	5.0	42.64	45.10	5.8

Source: STR

Hotels across the country are suffering as a result of the economic situation. The economy market is doing the worst down 2.1% in RevPAR. The luxury segment is down .6% in RevPAR but is up 2% in ADR.



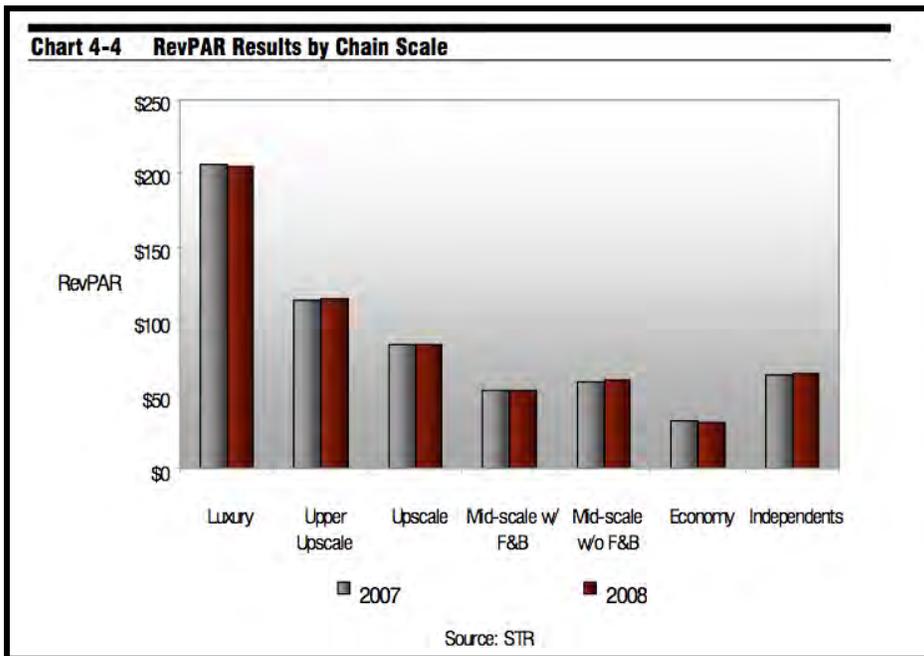
MARKET ANALYSIS

**Table 4-3 Operating Results by Chain Scale**

	Occupancy (YTD - August)			Average Room Rate (YTD - August)			RevPAR (YTD - August)		
	2007	2008	% Change	2007	2008	% Change	2007	2008	% Change
Luxury	73.0 %	71.1 %	(2.6) %	\$282.78	\$288.49	2.0 %	\$206.43	\$205.12	(0.6) %
Upper Upscale	72.9	71.6	(1.8)	156.25	160.28	2.6	113.91	114.76	0.7
Upscale	71.1	69.5	(2.3)	118.29	120.96	2.3	84.10	84.07	(0.0)
Mid-scale w/ F&B	61.1	58.7	(3.9)	85.90	89.33	4.0	52.48	52.44	(0.1)
Mid-scale w/o F&B	67.4	65.3	(3.1)	87.27	90.95	4.2	58.82	59.39	1.0
Economy	58.8	56.6	(3.7)	54.16	55.09	1.7	31.85	31.18	(2.1)
Independents	63.0	61.5	(2.4)	101.38	105.72	4.3	63.87	65.02	1.8

Source: STR - August 2008 Lodging Review

Nationally, luxury properties produce a RevPAR of about \$100 more than upper upscale properties. Thus the Pennhurst Hotel would be able to outperform its competitors.



*Historical Supply For Area*

The market currently has 5,621 rooms in 63 hotels. The number of rooms has been increasing steadily whereas the number of hotels has remained fairly constant.

Below are the number of rooms and hotels by service level:

Rooms	Historic Supply					
	Oct-04	Oct-05	Oct-06	Oct-07	Oct-08	Oct-09
Luxury						
Upper Upscale	253	253	253	253	253	253
Upscale	1,146	1,401	1,401	1,547	1,547	1,741
Mid with F&B	767	987	987	827	827	827
Mid without F&B	1,142	1,020	1,098	1,098	1,098	1,190
Economy	698	698	698	658	658	658
Independent	1,031	833	800	952	952	952
<b>Total</b>	<b>5,037</b>	<b>5,192</b>	<b>5,237</b>	<b>5,335</b>	<b>5,335</b>	<b>5,621</b>

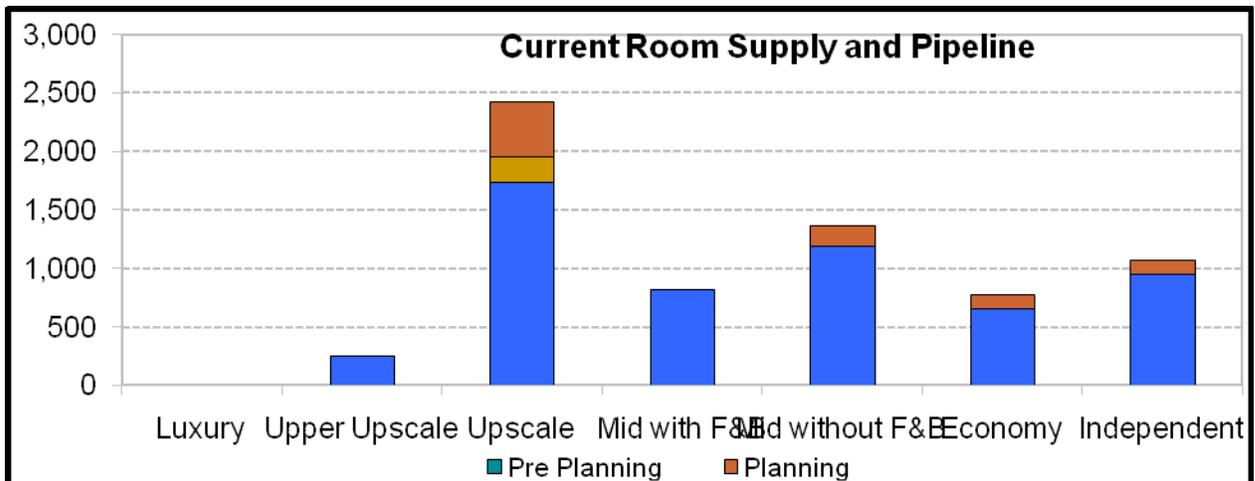


MARKET ANALYSIS

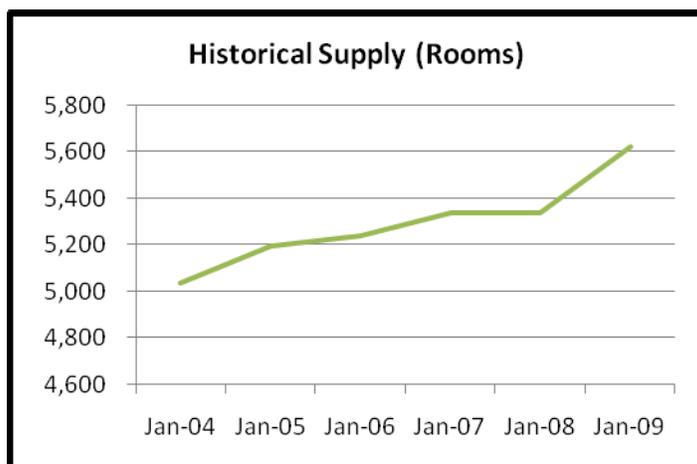
Hotels	Historic Supply					
	Oct-04	Oct-05	Oct-06	Oct-07	Oct-08	Oct-09
Luxury						
Upper Upscale	1	1	1	1	1	1
Upscale	8	10	10	11	11	13
Mid with F&B	6	8	8	7	7	7
Mid without F&B	11	10	11	11	11	12
Economy	7	7	7	6	6	6
Independent	27	24	23	24	24	24
<b>Total</b>	<b>60</b>	<b>60</b>	<b>60</b>	<b>60</b>	<b>60</b>	<b>63</b>

*Explanation of service level of existing hotels*

There are no existing hotels in the luxury market, nor are there any in the pipeline. This provides the Pennhurst Hotel with a unique opportunity to have practically no direct competitors competing on the same level of quality and service. The distinction would be a way that the hotel could distinguish itself in the market. Additionally, the only upper upscale property listed in a Doubletree which would not even come close to the level of service the Pennhurst Hotel will be providing.

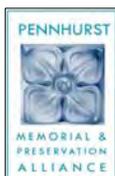


The supply of rooms in the market has been increasing and is expected to continue to increase into 2013. While in some ways this is beneficial to the site, it has detrimental effects as well. Hotels rely upon other hotels to drive demand to an area; however overbuilding will reduce occupancy and RevPAR for all hotels in the area. It is possible that this trend may be curbed a bit due to the current economy. It will be important for the hotel to develop a strong recognition in the market and a loyal customer following.

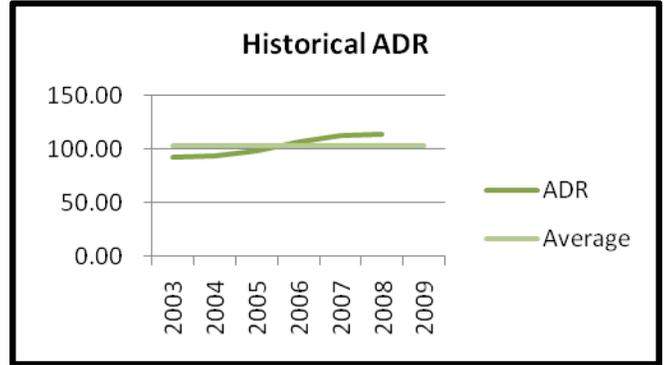
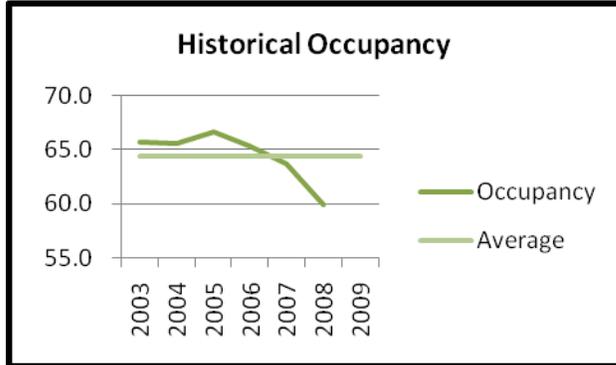


Occupancy in the area has been declining since 2005; this is likely do to overbuilding in the area. However, RevPAR had been increasing at a steady rate until the economic downturn in 2007. Once the economy recovers the trend is likely to return to growth. The increase in

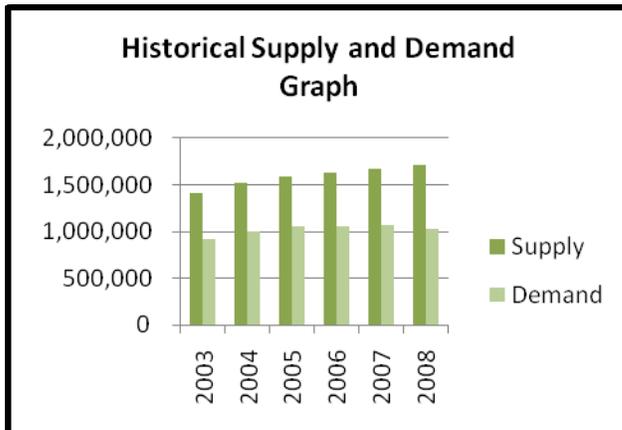
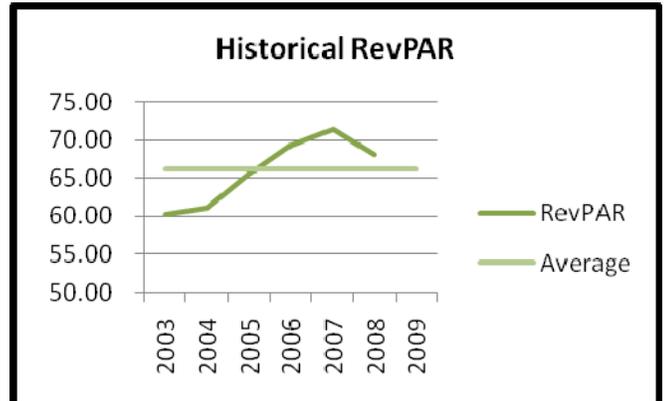
RevPAR can be attributed to increasing ADRs, which have stabilized in the past few years because of the economy.



MARKET ANALYSIS



While supply in the marketplace has been growing at a steady rate since 2003, demand has remained pretty constant. Some of the hotels that have been marginally successful thanks to the economy previous to the downturn will likely close, reducing the supply and helping to close the gap. Because the Pennhurst hotel would be offering a completely different product that does not yet exist in the market the hotel should still be able to capture able market share.



Occupancy in the area is pretty steady throughout the year hovering between 50-60%. However, there is a slight drop-off during December and January where occupancies are in the low to high 40s. This is typical because of the Holidays and weather at that time of year. Overall the occupancy is relatively stable.



MARKET ANALYSIS

Below is a chart of monthly occupancy trends:

Occupancy (%)															
	January	February	March	April	May	June	July	August	September	October	November	December	Total Year	Oct YTD	
2003	58.0	62.1	64.5	63.6	67.7	73.0	71.8	71.3	69.8	74.3	63.9	48.9	65.7	67.7	
2004	54.6	59.2	59.9	61.4	67.0	72.9	72.6	74.4	73.8	76.1	65.2	49.0	65.6	67.3	
2005	57.1	62.0	67.0	69.5	70.5	75.3	68.9	73.2	68.9	71.5	64.4	50.7	66.6	68.5	
2006	53.9	58.6	66.6	63.2	70.6	76.0	68.6	69.6	68.7	74.7	62.0	50.3	65.3	67.1	
2007	53.3	58.0	67.7	60.8	68.5	72.3	65.0	69.7	66.4	71.8	61.4	47.5	63.6	65.5	
2008	49.7	56.0	60.1	63.0	65.2	69.5	66.5	66.6	61.9	64.6	54.3	42.4	60.0	62.4	
2009	42.8	49.1	57.4	57.4	60.5	64.3	61.5	62.4	60.6	65.7				58.3	
<b>Avg</b>	52.5	57.6	63.2	62.6	67.0	71.7	67.6	69.4	66.9	71.0	61.7	48.0	64.4	65.1	

I did not have access to ADR, occupancy and RevPAR data for the main competitors but if I had more time and money I would have included it. Also, if I had more time and money I would have done a national market study because of the destination nature of the hotel. I also would have looked at case studies of existing properties with a similar demand structure.

Supply Changes

There are currently two properties under construction in the Northern Philadelphia Suburb market—a Homewood Suites and a Holiday Inn Express. Seeing as these hotels have already begun construction it is likely that these two properties will be added to the market. There are also two properties in the final planning stages, a Homewood Suites and a Residence Inn, and nine properties in the planning stages. Those in planning include two Hilton Garden Inns, a Homewood Suites, a Staybridge Suites, a Comfort Suites, a Hampton Inn Suites, a Value Place, and two independent hotels. Many of the hotels in the planning stages will likely not reach construction given the current economic situation. None of the hotels in the supply chain are luxury properties, which is a plus for the Pennhurst Hotel.

List of properties under construction:

	Pipeline Projects			
	In Constr.	Final Planning	Planning	Pre-Planning
<b>Upscale</b>				
Hilton Garden Inn			2	
Homewood Suites	1	1	1	
Residence Inn		1		
Staybridge Suites			1	
<b>Upscale Total</b>	<b>1</b>	<b>2</b>	<b>4</b>	<b>-</b>
<b>Midscale w/out F&amp;B</b>				
Comfort Suites			1	
Hampton Inn Suites			1	
Holiday Inn Express	1			
<b>Midscale w/out F&amp;B Total</b>	<b>1</b>	<b>-</b>	<b>2</b>	<b>-</b>
<b>Economy</b>				
Value Place			1	
<b>Economy Total</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>-</b>
<b>Independents</b>				
<b>Independents Total</b>			<b>2</b>	

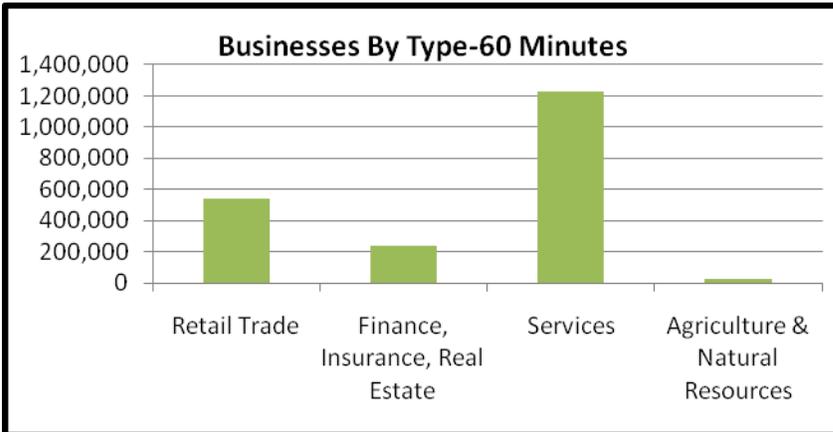


MARKET ANALYSIS

	Pipeline Projects			
	In Constr.	Final Planning	Planning	Pre Planning
Luxury				
Upper Upscale				
Upscale	1 Hotel (105 Rooms)	2 Hotels (220 Rooms)	4 Hotels (471 Rooms)	
Mid with F&B				
Mid without F&B	1 Hotel (71 Rooms)		2 Hotels (176 Rooms)	
Economy			1 Hotel (121 Rooms)	
Independent			2 Hotels (121 Rooms)	
<b>Total</b>	<b>2 Hotels (176 Rooms)</b>	<b>2 Hotels (220 Rooms)</b>	<b>9 Hotels (889 Rooms)</b>	-

*Demand Drivers*

**Leisure:** The surrounding golf courses, parks, battlefields, and ski facilities will provide leisure demand for the hotel. Philadelphia’s proximity will be another driver; whether its guests coming to the hotel who want to make a day trip to Philadelphia or Philadelphia residents who are looking to get away for the weekend. Additionally, the hotel will also generate its own demand by being a destination resort and spa and offering a wide array of amenities and guest services.



**Business:** Companies in the Philadelphia area can have company retreats at the hotel and local businesses can host incoming visitors or meetings.

**Group:** There is not much group demand for the building because there is no nearby convention center. However, there may be a market for leisure groups for weddings or parties hosted at the hotel.

**Description of The Proposed**

**Project**

The proposed Pennhurst Hotel and Spa will be a full service property with at least 275 rooms. The hotel should be design, built, and marketed as a destination resort—a place where guests travel to, not just a place where people stay. As a result, the hotel should be a full service, luxury property that provides many amenities and options for guests. By offering a wide range of services, guests will never have to leave the property to receive the experiences they are looking for. The property should offer at a minimum the following guest services.

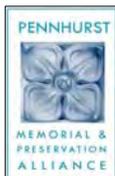
*Food and Beverage*

The property will have an extensive F&B department to handle not only onsite restaurants but also catering for private events. Two restaurants will be on site, a casual dining space and a more upscale offering, as well as a full service bar. Ideally, the hotel will draw bar and restaurant patrons from the surrounding towns and not just hotel guests.

*Meeting and Function Space*

The hotel will offer at least one board room and meeting room as well as multiple, differently sized ballroom spaces. These spaces shall be used to host weddings and private parties. The meeting space should be modern and technologically advanced and meet proper size requirements for such an establishment. The hotel will also have a business center.

*Recreational Amenities*



## MARKET ANALYSIS

The hotel will offer a fitness center and swimming pool. The operators might also consider creating nature trails and outdoor activities such as an ice skating pavilion or concert venue for guests.

*Spa*

The hotel will provide guests a full-service upscale spa. The spa will be a draw for guests as well as an amenity that can be used to help sell guestroom and bridal packages.

*Guestrooms*

The property will have both standard King and Queen/Queen guestrooms as well as an offering of differently priced suites. Suites will be larger and offer better views and amenities than standard guestrooms

*Environmental*

The hotel should try to achieve existing building LEED certification because of its popularity and ability to raise occupancy as well as the ease of achieving LEED with adaptive reuse projects.

*Conclusion*

Amenity offerings, design details, and operating techniques should be drawn from examples such as the Mohunk Mountain House in the Kaatskills and Poplar Springs Inn and Spa outside of DC. These properties have a similar resort destination style that this property would be trying to emulate.

All typical and market-appropriate features should be included in the hotel's design and amenities. The proposed hotel will become the most modern, upscale product in the market, offering distinction.

MARKET ANALYSIS

D. APARTMENT MARKET ANALYSIS

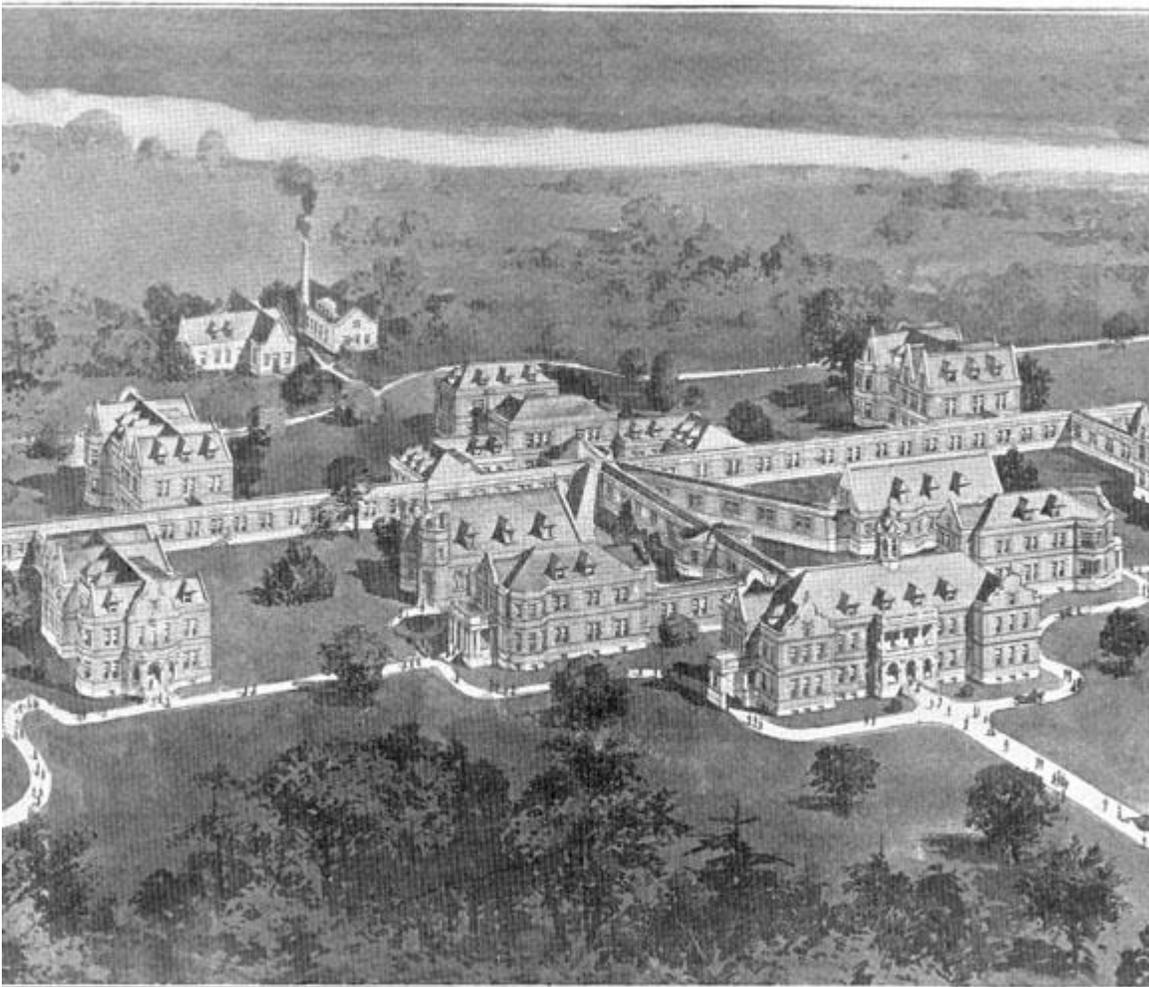


PREPARED BY JOSHUA HELLER



MARKET ANALYSIS

D. APARTMENT MARKET ANALYSIS

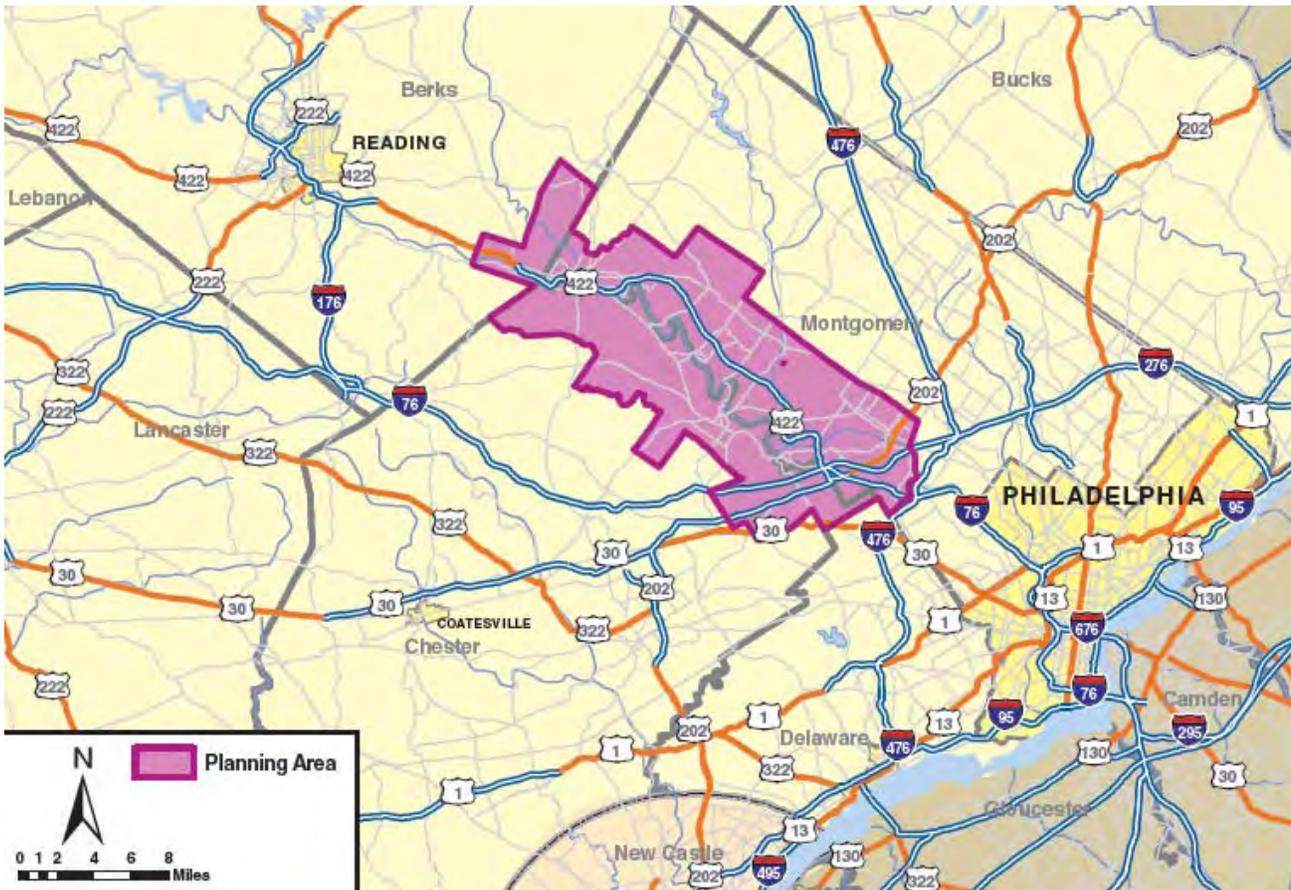


RESIDENTIAL RENTAL

MARKET ANALYSIS

**Pennhurst Campus:**

The historic 112-acre campus of over twenty Jacobean Revival buildings is found outside Spring City, Chester County, Pennsylvania. Home to over 10,600 persons over the course of its near-century of operation, it is adjacent to the Schuylkill River Trail and within the Schuylkill River National and State Heritage Area. Routes 422 and 724 bracket the campus.



**Pennhurst Target Market:**

When analyzing the feasibility of a Residential project on the grounds of the Pennhurst campus our first challenge is identify the proper area and boundaries for our study. The area in which Pennhurst is located is highly influenced by US 422. For this reason, a substantial amount of our analysis will be based on the US 422 Corridor planning area. For our Micro analysis, we will use circles of 5 and 10 mile radius around the Pennhurst campus.

The US 422 Corridor planning area, from King of Prussia to southeastern Berks County, includes a considerable planning area encompassing over 200 square miles in southern Montgomery, northern Chester and southern Berks Counties, Pennsylvania. The corridor is approximately 25 miles long, spanning three counties and encompassing 24 local municipalities. The corridor begins 20 miles west of Philadelphia in Upper Merion Township, and extends west to Amity Township in Berks County (see **Figure 1**).

The study area, a landscape of rolling hills, is bisected by the Schuylkill River. The river valley was an important transportation route in the eras of canals and railroads, connecting Philadelphia and its port with the rich, coal, iron ore and lumber regions to the north and west. The older communities within the planning area (now boroughs) are either river towns



MARKET ANALYSIS

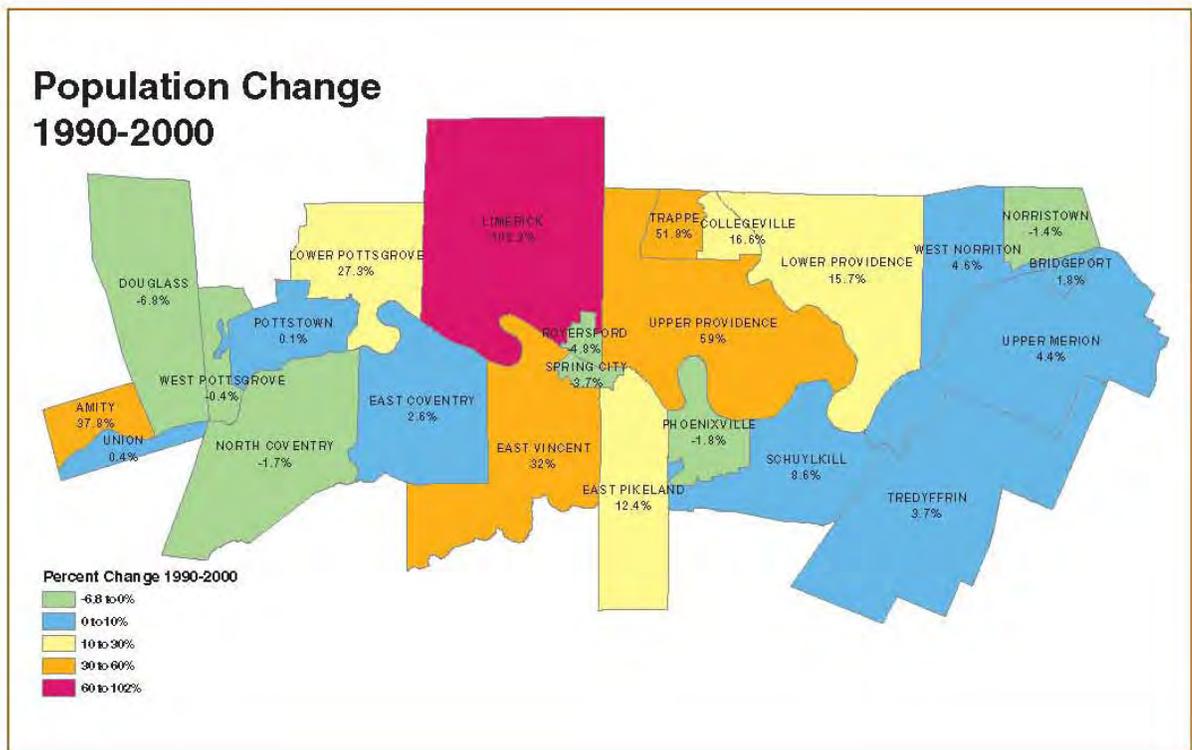
or are located along Ridge Pike. The most densely developed and heavily populated area is King of Prussia to the east. Home to one of the nation’s largest shopping malls, King of Prussia is located at the interchange of the Pennsylvania Turnpike (I-76/276) and the Schuylkill Expressway (I-76). This edge city grew extensively after the completion of the interchange between the two expressways and is now a major retail and employment center. This growth extends along the US 202 corridor. Similarly, the growth of newer and emerging suburban areas is being fueled by access to US 422.

US 422 is probably the single most important and fastest growing suburban expressway in the Philadelphia suburban region, carrying over 100,000 vehicles (AADT) on some eastern sections. US 422 is the central artery of the region connecting older cities and towns along the Schuylkill River, as well as newer and emerging suburban communities to destinations to the east like King of Prussia, Plymouth Meeting, Great Valley and Philadelphia.

US 422 also serves as a local expressway for short trips to commercial centers and major interconnecting routes such as PA Routes 23 and 100. This corridor follows the Schuylkill River, historically a transportation route served by canals, freight rail and a non-expressway road network. The reason we have defined the area of analysis primarily around US 422 is because it is my bar far the most driving factor to growth of the area.

Social Forces

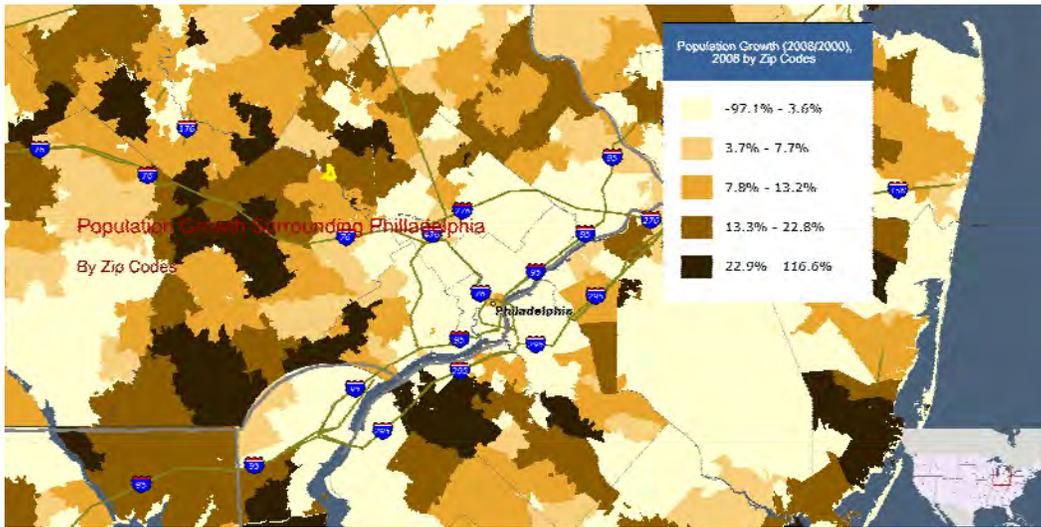
Population



Starting from a macro level, our first step is to examine the trends of population growth surrounding Philadelphia over the last several decades. Following the completion of US 422 in 1985, many of Townships inside the corridor experienced double digit growth over the next decade (see figure 2). Huge amounts of population continued over the next 15 years shown in figure 3.

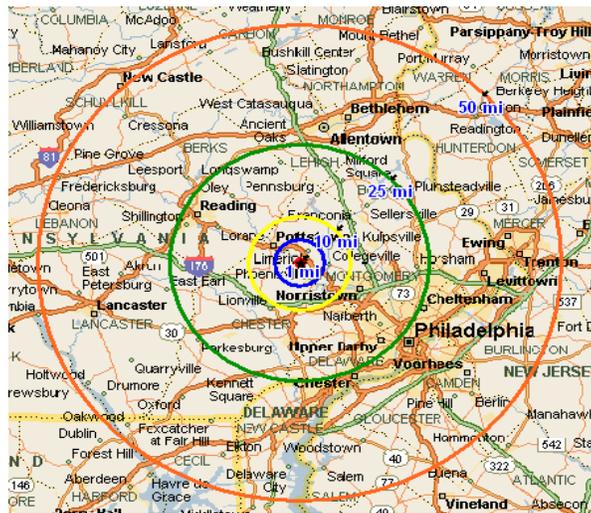


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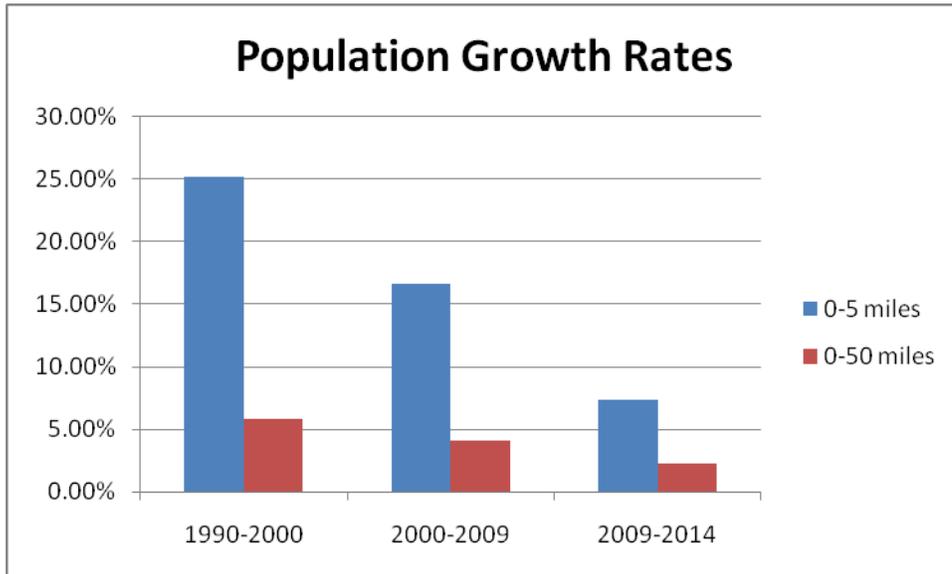


Looking ahead at the next several decades, demand appears to continue in the region. This significant growth is expected to continue in all three counties within the planning area. During the 30-year period between 2000 and 2030, the population within the planning area is expected to grow by 20% to 25%.

We will look at the population data within a 5 mile radius of the Pennhurst to understand the micro trends. Looking at the Claritas data we see that this region has an estimated population of 82,223 which is 16.66% increase from the 2000 population. The census predictions also forecast an additional population growth of 7.38% over the next 5 years within the 5 mile circle. These are very high numbers in relation to the surrounding area. If you look at 50 mile radius circle around the Pennhurst campus, we see much lower rates of population growth: 4.08% from 2000-2009 and 2.31% from 2009/2014. The graph below displays this local advantage in regards to population growth compared to the overall area.



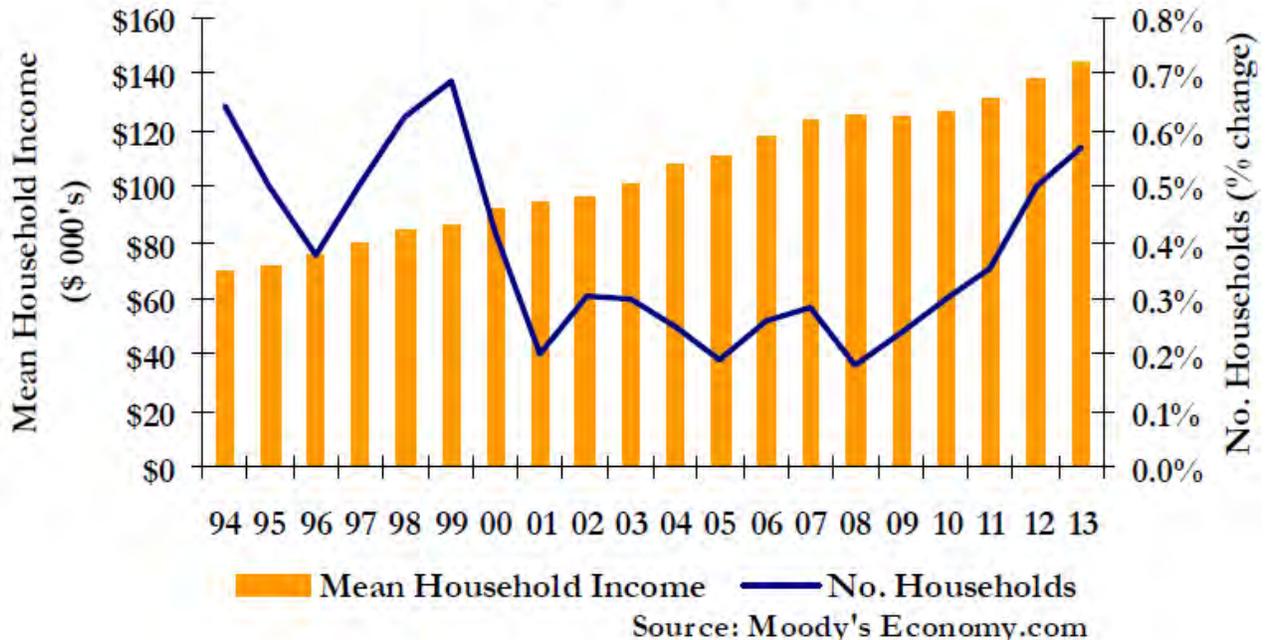
MARKET ANALYSIS



**Employment Drivers:**

We first observe employment trends of Philadelphia in order to give us a good idea of the trends at the macro level. Moody's Economy.com observes that even though employment will remain depressed for the next two years, they predict a boom in the years of 2011-2013. They predict a gain in over 190,000 jobs in those three years, one of largest employment booms in the history of Philadelphia. This in return will dramatically increase the number of households in the area and raise the mean Household income

**Philadelphia Household Trends**

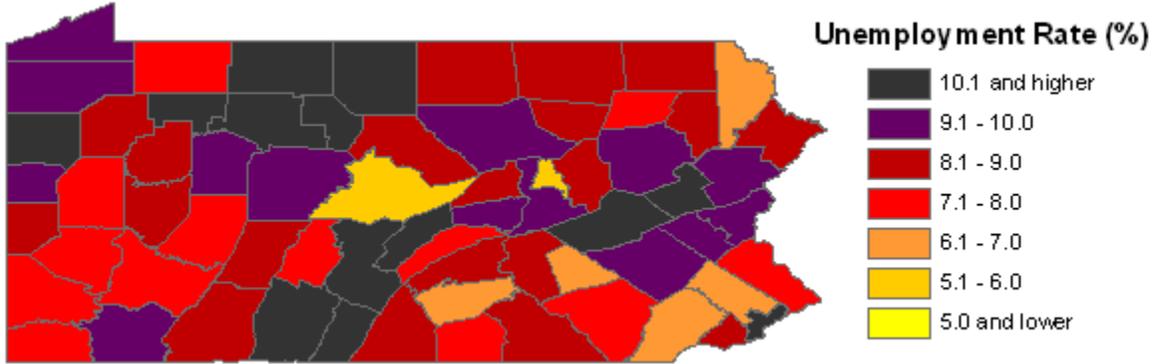


Within the corridor, large office and retail complexes have located near several of the interchanges along US 422. Notably, the Route 29 interchange serves as home to several of the area's premier pharmaceutical companies: Pfizer



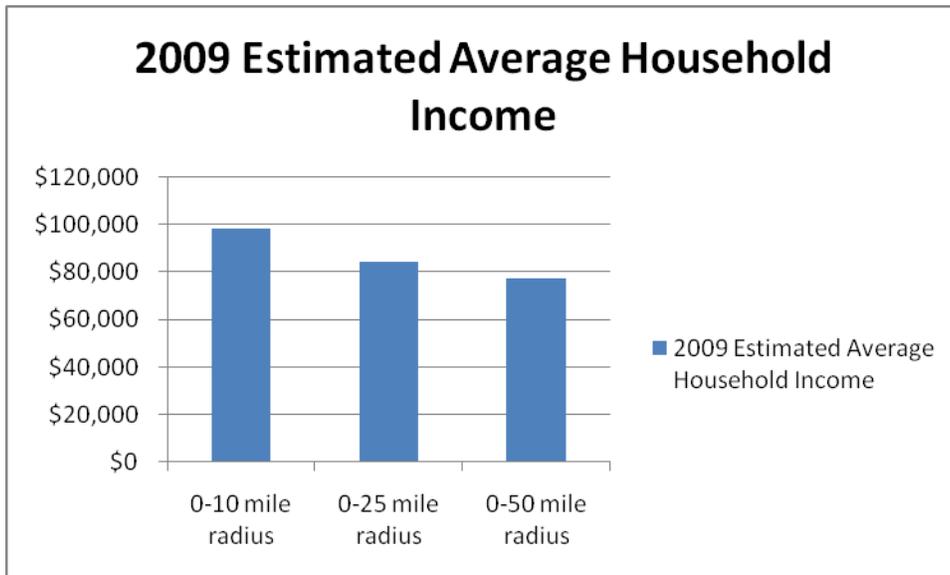
MARKET ANALYSIS

(formerly Wyeth), Glaxo SmithKline and Quest Diagnostics. These companies employ approximately 13,000 employees. The Sanatoga exit is the location of Philadelphia Premium Outlets, 150 stores with 545,000 square feet of retail space. Limerick Nuclear Generating Station has approximately 800 permanent employees, and retains additional contractors as needed. The majority of Limerick’s employees live within the corridor. The station’s annual payroll is approximately \$62 million. Additionally, during refuel outages, Limerick employs almost 1,200 temporary contractors, who boost the local economy during their stay.



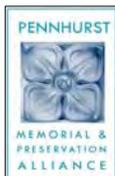
Currently Chester and Montgomery counties have the third and fourth lowest unemployment rates of all Pennsylvanian counties. Their unemployment rates of 6.4 and 6.9 are well below the state and national averages.

Looking at the mean Household income within a 10 mile radius of the Pennhurst campus, we are able to determine positive residential influences. The average Household income is \$98,058 compared to larger and broader areas of a 25 radius (\$84,438) and a 50 mile radius (\$77,150).



Location Quotient Chart:

Industry	Chester County	Montgomery County
Natural Resources and Mining	3.08	0.12
Construction	0.98	1.06
Manufacturing	0.79	0.85
Trade, Transportation, and Utilities	0.95	0.92



MARKET ANALYSIS

Information	0.98	1.52
Financial Activities	1.69	1.46
Professional and Business Services	1.4	1.55
Education and Health Services	0.69	0.78
Leisure and Hospitality	0.81	0.75
Other Services	1.06	0.86
Unclassified	0.99	1.05

Location Quotients (LQs) are ratios that allow an area's distribution of employment by industry to be compared to a reference or base area's distribution. If an LQ is equal to 1, then the industry has the same share of its area employment as it does in the reference area. An LQ greater than 1 indicates an industry with a greater share of the local area employment than is the case in the reference area. For example (assuming the U.S. as the reference area), Las Vegas will have an LQ greater than 1 in the Leisure and Hospitality industry because this industry makes up a larger share of the Las Vegas employment total than it does for the country as a whole.<sup>2</sup>

In the Chester and Montgomery County LQ chart, the LQ's that were substantially higher than 1 were highlighted. These are the specific industries within the counties that are driving the local economies, and are the drivers behind the population growths of the area. Besides the natural resource industries, the other drivers are highly correlated with the financial markets. The markets will have a large role on dictating the growth in the area.

**Real Estate**

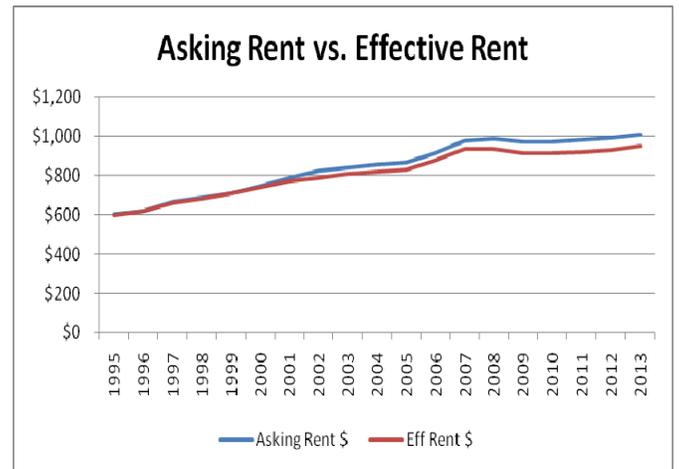
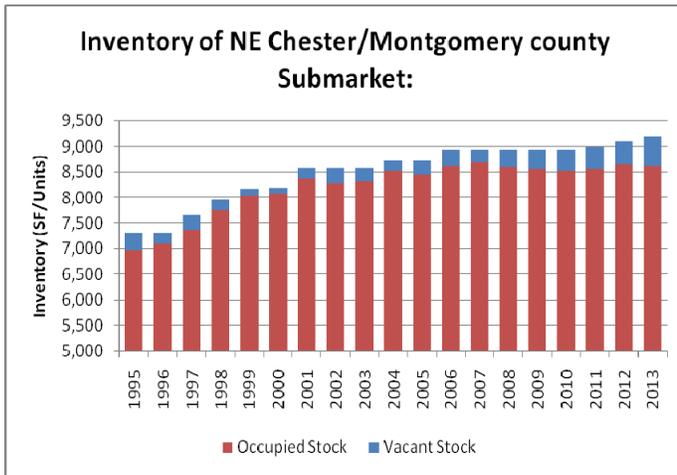
**Philadelphia Market**

The apartment market is expected to continue to face challenges operationally through year end, although a decline in construction activity and deceleration in job cuts may help slow vacancy increases in quarters ahead. Market wide multi-family rental stock has expanded by just 0.6 percent since the beginning of the year, and there are only about 1,100 units under way. Additionally, just 2,800 units are in the planning pipeline, a 50 percent decline from six months ago. Along with a limited pace of deliveries through the next 12 months, the rate of job losses in the metro also continues to slow. Fewer than 1,600 positions were lost in August, representing the smallest number of cuts since layoffs started in September 2008. Increased expansion and hiring announcements lend support to an eventual economic recovery. A new Walmart, for example, will open in Warminster this fall, creating 350 jobs. In the meantime, however, owners can expect an increase in vacancy in the fourth quarter due to softer near-term employment-generated demand, which will likely translate to additional concessions as owners compete for tenants.

<sup>2</sup> Taken from the US Department of Labor, Bureau of Labor Statistics

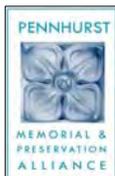
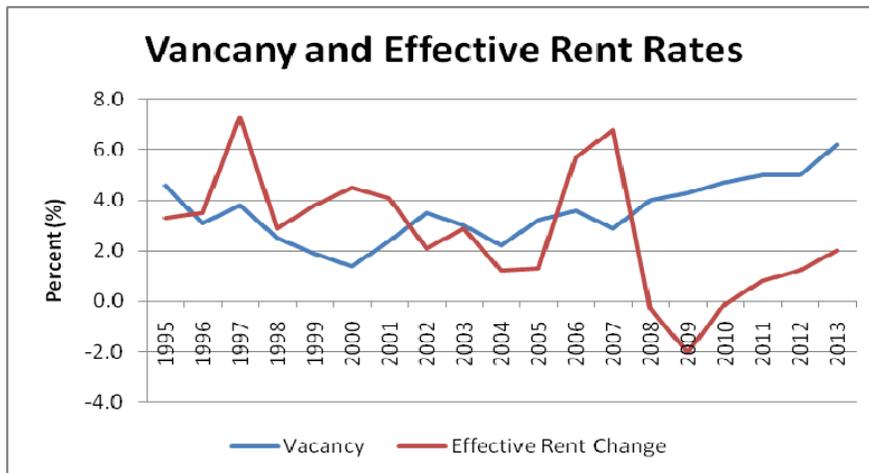


MARKET ANALYSIS

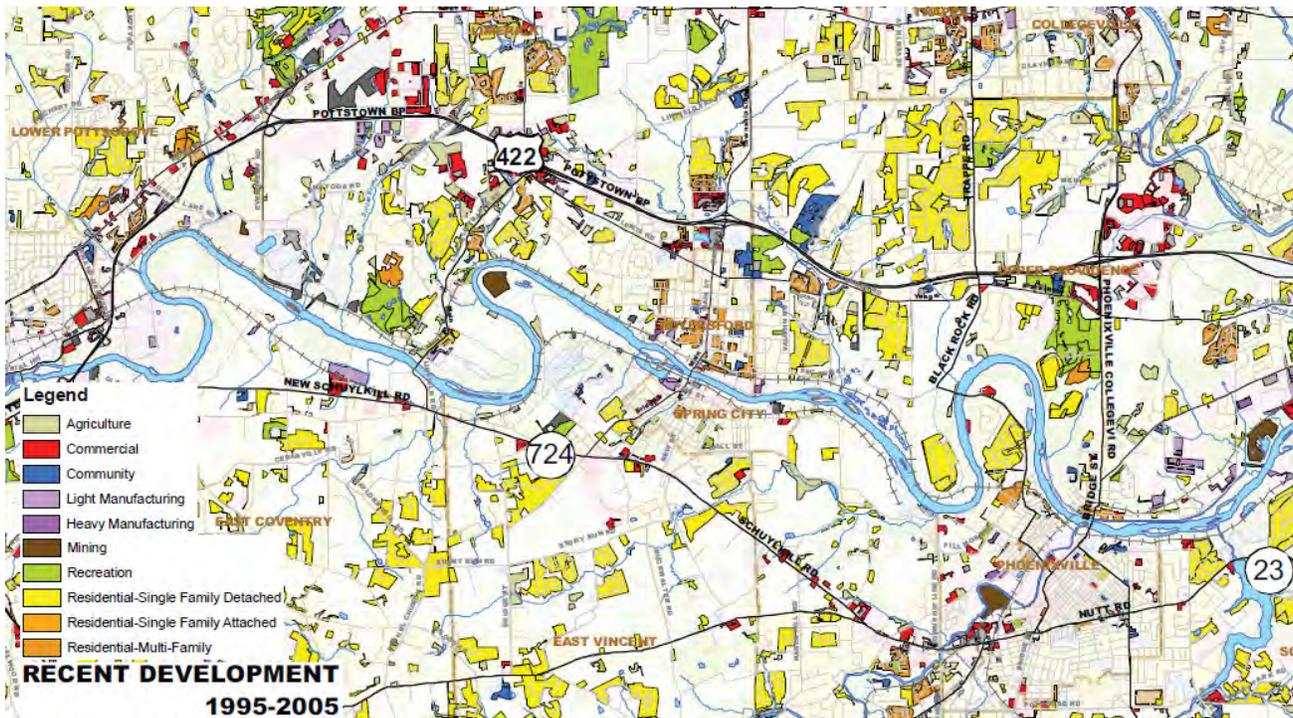


**The Pennhurst Market:**

Looking at the apartment submarket of NE Chester and Montgomery County, we see that the inventory steadily increased from 1995-2006. REIS does not forecast any new product being introduced to the market until 2011. In addition, we see the amount of occupied rental stock has remained relatively constant since 2004. Even though the vacant stock has nearly doubled from 2004 (192) to 2009 (385), we have not seen a drastic decline in Rents. Presently we observe that rent concessions are being made in order to maintain occupancy levels. Even with the concessions being considered, we do not see large drops in rent compared to the historically data. REIS has predicted that both Asking Rent and Effective rent will start to increase once again in 2011.



MARKET ANALYSIS



**Competition:**

In a recent survey, the municipalities in the corridor were asked to provide information concerning recently approved developments and pending development proposals. The broad patterns of land use change confirm that dispersed residential development is a major factor in changing the character of formerly rural municipalities. Significant land development projects are currently being planned for the US 422 Corridor:

- In Oaks, the Greater Philadelphia Expo Center is open and 250,000 square feet of retail uses are scheduled to be completed over the next couple of years.
- The Village at Valley Forge, a mixed-use urban style town center with retail, residential and hotel under construction on the former Valley Forge Golf Course site.
- The soon-to-open Providence Town Center at PA Route 29.
- The 1,000-unit planned Lofts at Valley Forge development.
- A potential slots parlor at the Valley Forge Convention Center.
- A number of sizable retail developments have been proposed for the “Gateway” to Limerick Township at the Sanatoga exit of US 422.

Reis predicts a surge of new supply in this area beginning in 2010, during a period of limited new supply metro-wide. The 400-unit first phase of the Village at Valley Forge was just completed in October of this year in King of Prussia, with significant deliveries predicted for each of the following three years as well. Also looking at the REIS data of New Construction Listing, a condo development of 391 units named Vincent Village is planned to be built within 2 miles of the Pennhurst Campus. More information about this project is critical to understanding the future supply and its effect on a potential residential project on the Pennhurst campus.

**Land Use:**

We notice that sprawl has dominated the growth surrounding Philadelphia as it has the rest of the nation. Residential development since 1985 was characterized as low density suburban sprawl. The combination of low land costs and the support of planning departments converted over 8000 acres of Farmland in the area to single family lots. As traffic congestion and gas prices increase, American public policy is starting to demand a more efficient mode of growth. As a result, trends point to the opportunities is more dense residential development.



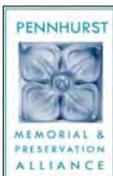
MARKET ANALYSIS



Looking at the percentage of ownership of the area surrounding Pennhurst, we observe extremely high rates relative to the rest of the country. It seems like the Population chooses to live in the area because the Real estate value are affordable for purchase.

**Summary:**

The population and employment growth in the US 422 corridor surrounding the Pennhurst campus is very positive in regards to a potential multifamily rental project. Montgomery and Chester County have two of the lowest employment rates of the entire state. The area has an extremely high percentage of the population that owns their housing. National trends point to lower affordability over the next decade, and increased demand on affordable rental multifamily rental units. On the negative side, the Pennhurst campus is not located on a transportation node. It also does not offer many other amenities in the direct area. The most serious threat to a rental project are the two planned developments called Vincent Village and the Crest Club located in close proximity to the Pennhurst site. At this time, more due diligence should be completed on the two planned competitors that are located within a mile of the Pennhurst campus and the possibility of the Philadelphia light rail being extended to this region. There is definitely good potential for a residential rental project on the Pennhurst campus, but its success would be greatly increased if it was integrated into a mixed use development that offered some cultural draw and was possibly located on the light rail.



MARKET ANALYSIS

E. CONDOMINIUM MARKET ANALYSIS



PREPARED BY NATHANIEL C. GUEST



MARKET ANALYSIS

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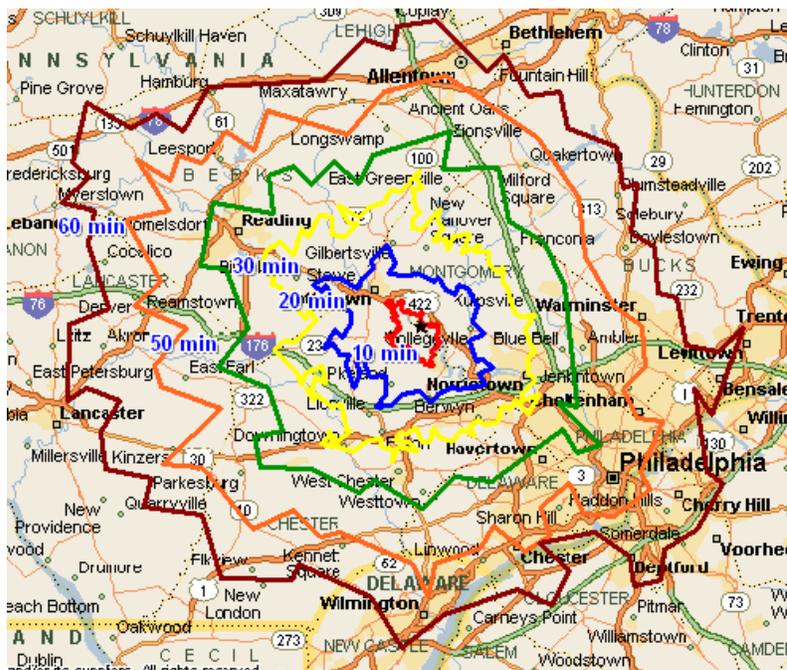
The information at the start of this report (pages 1-36) is the basis for the information reviewed in this section.

1. CONDOMINIUM MARKET: TARGET POPULATION:

The most likely population for condominiums at Pennhurst will be young singles, empty nesters, and older couples. The population over 65 years old has historically been the fastest growing segment of the population this part of southeastern Pennsylvania. However, a growing number of young professionals working in the various retail and professional complexes along the US 422 corridor have been moving into the area.

2. CONDOMINIUM MARKET: MARKET AREA:

The smallest geographical area from which a condominium development at Pennhurst could be expected to receive at least 90% of its support is likely the fifty minute drive-time range. The fifty-minute drive time range includes Center City Philadelphia and its suburbs. As the population continues to migrate westward from the more easterly suburbs of Philadelphia, interest in condominiums among Philadelphia professionals will increase. However, the vast majority of the condominium market over the next five years will come from a much closer distance along the US 422 corridor, including activity centers such as King of Prussia, Reading, and Valley Forge. It is fair to assume the principle markets for condominiums over the next five years will be within a 30-minute drive time—essentially Chester and Montgomery Counties.



3. CONDOMINIUM MARKET: PROJECTED POPULATION GROWTH

As the charts at the beginning of the study demonstrate, between 2009 and 2014, the population within the 50-minute drive time radius is projected to increase by a mere 1.44% (to 3,274,729 from 3,321,946). The population growth within the 30-minute radius is more robust, at 5.87% (from 502,072 to 531,519) and that at a twenty-minute radius is even greater (7.01%; from 196,067 to 209,812). After 2014, the DVRPC projects a sharp spike in population growth; by 2030, the US 422 corridor will experience a 20%-25% increase in the population over 2000 census numbers. All indicators suggest that even when the



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Philadelphia MSA population overall experiences only slight growth, a high level of internal migration has and will continue to sustain population growth into the area within a five or ten-mile radius of Pennhurst. Between 2009 and 2014, the growth rate in these areas is projected to be 7.38% and 6.82%, respectively, compared to 1.72% for the MSA as a whole. In short, we see a continuance of the migration of those who can afford to move westward along US 422 and Pennhurst—already located in the wealthiest county in the state—sits directly in its path.

#### 4. CONDOMINIUM MARKET: AGE DEMOGRAPHIC PREDICTIONS

The average age for both males and females in the region is nearly 40 years. The one-mile radius ring around Pennhurst shows a much higher average age, particularly for males, in part because of the presence of a Veterans Hospital there. Apart from this anomaly, each distance and drive time ring around Pennhurst has an age demographic virtually identical to the region as a whole. That said, Pennsylvania has one of the nation's oldest populations.

According to the Pennsylvania Department of Aging, by the year 2020, Pennsylvania's 60 and older population is expected to be 25 percent of the total population—more than 3 million people. Most of the “baby boomers” will be over age 60 by that time. The 65 and older population is projected to increase to 2.3 million and the 85 and older population to about 363,000.

Over the next 10 years, the number of elderly age 60 and older is projected to increase by about 9 percent to 2.6 million people. The number of elderly ages 60 to 74 will increase by about 15 percent to 1.6 million; the number of people age 75 to 84 will decrease by 11 percent to 623,000 and the number of 85 and older will increase by more than 50 percent to 365,000.

#### 5. CONDOMINIUM MARKET: HOUSEHOLDS: NUMBERS AND INCOME

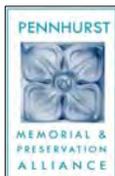
The population within the 50-minute drive time radius is projected to increase by a mere 1.44% (from 3,274,729 to 3,321,946, and the number of households is projected to increase by 1.6% (from 1,247,936 to 1,267,272). The number of households within the thirty mile radius, though, is projected to increase by 6%, from 191,082 to 202,566. The faster rate of household growth reflects greater numbers of singles resulting from an increased divorce rate, people marrying later, and people living longer.

Residents of the areas within the five-, ten-, twenty- and twenty five-mile radii and the twenty, thirty and forty-minute drive times are significantly more affluent than their counterparts elsewhere in the region. Indeed, the populations within the ten-mile/30 minute ranges are the wealthiest in the Philadelphia metropolitan region. The population within the one-mile radius is shown to be significantly less affluent than elsewhere in the region, in part because this area encompasses depressed outskirts of Spring City and the Veterans Home.

Current income distributions appear to carry forward to 2014 with little change, with the region and most distance and drive time radius areas experiencing between an 11-13% growth in EBI between 2009 and 2014. For instance, the regional average household EBI will increase from \$75,601 to \$85,509, an increase of 12.06%. The regional average household EBI for the twenty minute radius ring from Pennhurst will increase by 13%, from \$75,601 to \$85,509.

#### 6. CONDOMINIUM MARKET: JOB GROWTH

The Delaware Valley Regional Planning Commission estimates that 28,000 new jobs will be created along the US 422 corridor by 2030 which will require the construction of 21,000 new housing units. Moody's Economy.com observes that even though employment in the Philadelphia region will remain depressed for the next two years, there will be a boom in the years of 2011-2013. They predict a gain in over 190,000 jobs in the Philadelphia region those three years, one of largest employment booms in the area's history.



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This in return will dramatically increase the number of households in the area and raise the mean household income. Moody’s predictions suggest that the DVRPC’s forecast of 21,000 jobs is exceedingly conservative.

7. CONDOMINIUM MARKET: DEMAND

Claritas data suggests the projected increase in the number of households in a thirty mile radius is 11,484 units by 2014. As previously discussed, by 2030 the DVRPC suggests the US 422 corridor will require 21,000 units and, if the Moody data is correct, this projection may be too small. We shall use the more conservative Claritas projection. Approximately 24% of all residences in Chester County are renter-occupied and 66% are owner-occupied. Approximately 27% of all residences in Montgomery County are renter-occupied and 63% are owner-occupied.

HOME OWNERSHIP:

*Owner-Occupied Houses and Condos*

Chester County:	120,500
Montgomery County:	210,237

*Renter-Occupied Apartments*

Chester County:	37,405
% of renters:	 24%
State average % of renters:	 29%
Montgomery County:	75,861
% of renters:	 27%
State average % of renters:	 29%

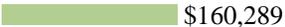
*% Change in Number Renters, 2000-2007 (Data from Center for Rural Pennsylvania)*

Chester County:	+2.6%
Montgomery County:	-5.7%

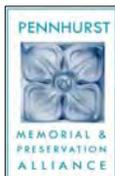
These percentages mark a slight decrease in home ownership levels in Chester County and a slightly greater increase in home ownership in Montgomery County. For our purposes, we will utilize a renter percentage of 25.5%, the average of the two percentages, reflecting Pennhurst’s location at the between the two counties. Thus, home ownership is approximately 74.5% in the Chester and Montgomery County area around Pennhurst (roughly a 30-minute radius). Therefore, by 2014, 8556 new owner-occupied homes will be required in this area.

The average cost of a condominium, townhouse, or attached unit in Chester County is \$271,861. The average cost of a condominium, townhouse, or attached unit in Montgomery County is \$271,861.

*Average Cost: Condominiums, Townhouse, or Other Attached Units*

Chester County	 \$271,861
Pennsylvania:	 \$160,289
Montgomery County:	 \$238,089

The estimated cost for a condominium in Chester County is \$271,861 and \$238,089 in Montgomery County, for an average of \$254,975. Assuming a thirty-year mortgage at five percent interest, the average cost for a condominium in a thirty-minute range from Pennhurst is \$1,368.76 monthly or \$16,425 annually. The median household income in this range is \$76,042 annually, or \$6,336.83 monthly. Using the "28 and 36" (meaning that 28% of gross income goes to housing costs and that monthly payments on total outstanding debts, when combined with housing expenses, must not exceed 36% of gross income), residents in this area can afford a monthly payment of \$1774.31. Thus, condominiums generally are within the purchasing power of most persons in this area. Looked at from the perspective of Effective Buying



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Income, in 2009, 93.48% of the population within a thirty-minute drive time of Pennhurst could afford the average condominium price.

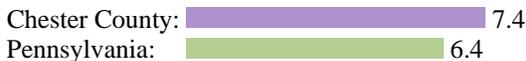
Conversely, the average single-family detached house costs \$438,850 in Chester County and \$400,657 in Montgomery County, for an average of \$419,753.50. Assuming a thirty-year mortgage at five percent interest, the average cost for a single-family detached house in the thirty-minute range from Pennhurst is \$2,253.33 monthly or \$27,040 annually. Since the average median income results in a maximum monthly payment of \$1774.31, the average single family-detached house is out of the range of affordability for at least a portion of the population within a thirty-minute drive time of Pennhurst. Looked at from the perspective of Effective Buying Income, in 2009, 85.53% of the population within a thirty-minute drive time of Pennhurst could afford the average single-family detached home price, roughly 8% less than those who can afford condominiums. That is, 8% of the population of those who choose to own rather than rent cannot afford the average single family detached home.



*The Villages at Staunton in Virginia is an adaptive re-use of the former Western State Hospital and could serve as a model for Pennhurst’s re-use.*

This calculation has assumed that condominiums at Pennhurst would track average prices. Other former institutions of this type have been converted to luxury condominiums (see, for example, the conversion of the Western State Hospital in Staunton, Virginia, at <http://www.villagesatstaunton.com/>). Given the affluence of the surrounding region and the beauty of the campus, this may be a viable option. Additionally, as the affluent population in the area ages, they may be attracted to dwellings with a smaller footprint and less maintenance without sacrificing comfort—something luxury condominiums at Pennhurst could provide. As shown below, the average Chester County condominium tends to be larger than the state average and larger than apartments elsewhere in the County. Pennhurst’s large, ward-like buildings would lend themselves well to this type of conversion.

*Median number of rooms,  
Houses and condominiums*



*Median number of rooms,  
Apartments*



8. CONDOMINIUM MARKET: SUPPLY

Reis reports the delivery of 303 condominium units in the Philadelphia area in the second quarter of 2009, leaving just 715 under construction. One wild card is the extensive planning pipeline. Reis predicts a surge of new supply in the Philadelphia MSA beginning in 2010, during what has been a period of limited new supply across the region. The 400-unit first phase of the Village at Valley Forge is expected to complete in October 2010 in King of



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Prussia, with significant deliveries predicted for each of the following three years as well.<sup>3</sup> Also planned for Valley Forge is the 1,000-unit Lofts at Valley Forge development, a portion of which has already opened.

Closer to the Pennhurst campus is the proposed Vincent Village multi-use development with 393 units located at Route 734 and Bridge Street—within a mile of Pennhurst. Currently, the planning process is on hold. French Creek Center, at South Main and Bridge Streets in Phoenixville, PA recently added 152 townhomes to the local market. The ability of any of these projects to get financing is the key consideration in the current economic climate. If all pending projects were completed, it would add 1,793 new condominium units to the market within a thirty-minute radius of Pennhurst.

Real estate brokers in the Phoenixville suggest the average absorption rate for condominiums in the five-mile radius from Pennhurst is approximately one unit per month.

## 9. CONDOMINIUM MARKET: EXECUTIVE SUMMARY

This positive image of a community of conscience, combined with the architecture, dramatic views, and landscape combine to create a unique sense of place at Pennhurst—key elements to image and branding for all uses. The importance of both the aesthetic and historical values in placemaking stand as a counterpoint to the ubiquitous dullness of the sprawl-type development surrounding the campus. As such, they will be capital-attractors—exceedingly important as the increasing mobility of capital requires us to be inventive in attracting and retaining it.

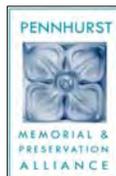
A well-defined sense of place projected through a positive image is particularly important for home owners and renters who will identify with that image. With this in mind, the multi-use Village at Valley Forge and Vincent Village may pose threats to the development of luxury condominiums at Pennhurst—indeed, any multi-use reuse of Pennhurst—if they are well-executed. Pennhurst will need to position itself to be marketed as something more true, more authentic than either of these greenfield Jonny-come-lately's. Potential residents will need to be enticed by the possibility of associating themselves with the air of distinction and substance a carefully re-used and enhanced Pennhurst campus can convey.

Assuming the 8% of the population who cannot afford a single-family detached home (i.e., condominium buyers by circumstance) is supplemented by an equal number of persons who choose to live in condominiums for other reasons (i.e. condominium buyers by choice), 1,837 units will be required by 2014 if Claritas' 11,484-unit demand projection is accurate. If the proposed developments at Valley Forge and Vincent Village take place, their 1,793 units will bring the luxury condominium market close to saturation (with a difference of only 44 units). A successful condominium project at Pennhurst must distinguish itself as described above or lower prices to entice potential Valley Forge residents to move westward. Pennhurst is not as accessible as either Vincent Village or the Village at Valley Forge will be, but will want to play that off as a strength, offering privacy.

If condominiums at Pennhurst can be offered in phases and as part of other uses, it is likely the project could sustain itself until a larger building boom forecasted by Moody's and the DVRPC by 2030.

With additional resources, additional information should be gathered. More accurate data regarding the percentage of condominium owners by choice would be helpful. Additionally, do all those whom we have data for who choose to own their own home but cannot afford a single-family detached home purchase condominiums or do they prefer other options, such as mobile homes? Also, information about the nature of the amenities condominium owners at Pennhurst will require will be essential in setting price points—will this be exclusively a luxury project or will there be a range of affordable options? It will also be important to track similar to condominium projects at other historic institutions, looking particularly to see if the value added of the historic/aesthetic component increase demand. With additional resources, it will be

<sup>3</sup> Excerpted from the *Reis Observer: Philadelphia Apartment Market*, September 23, 2009.



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necessary to delve more into the fortitude of the other projects currently proposed that would compete with condominiums at Pennhurst.

Perhaps most importantly, additional information about the effect of the region's aging population will be useful. If aging baby-boomers chose to remain homeowners, keeping their equity in their homes, and still wish to downsize to a smaller space requiring less maintenance, then condominium demand is likely to increase. However, as they continue to age, they may wish to move to a retirement community/continuing care arrangement. The question then becomes will condominiums be a bridge between single-family detached ownership and the retirement community or will they merely be skipped altogether. It may make sense to offer both condominiums and the range of senior options (retirement community, continuing care/assisted living, and nursing home) all on the Pennhurst campus. It will be necessary to do a market disaggregation to see if the area around Pennhurst is saturated with senior options.

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## APPENDIX (N.C. Guest)

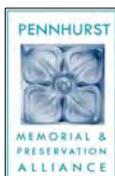
Much attention has been paid to the priorities of new urbanist healthy lifestyle communities and senior lifestyle choice within communities. In part, this attention is due to the fact that such opportunities are sought by two of the nation's fastest growing demographics: young, well-educated professionals and aging baby boomers.<sup>i</sup> Past projects have addressed these priorities and demographics individually but few if any have united these priorities in a package aimed at both demographics.

Targeting multiple age demographic markets within a single residential development makes sense for two reasons. First, after 2030, the population will begin to become more evenly distributed among the various age cohorts.<sup>ii</sup> A multi-generational target will keep a project in demand as growth among the cohorts evens out. Second, there can be significant economies of concurrent development, as the resources used to meet needs of young professionals, families and the elderly—particularly those needs relating to walkability, public transit, affordable housing, conveniently located services, parks, and opportunities for civic engagement—are very similar.<sup>iii</sup> Indeed from the physical environment perspective, they are nearly identical.<sup>iv</sup> The amenities associated with healthy lifestyle communities (preferred by young professionals) and senior lifestyle communities (preferred by aging boomers) share essential overlap, including cultural outlets, transit, healthcare, lifelong educational opportunities, childcare, contiguous open space, and walkable access to stores and services.<sup>v</sup>

The 76.1 million people comprising the baby boomer generation are more active and educated than past empty nesters and retirees.<sup>vi</sup> They seek to maintain a higher quality-of-life for years to come, with a commitment to lifelong education and health, as well as a strong attachment to place of the sort espoused by new urbanism.<sup>vii</sup> A recent Cornell University study suggested that rumblings within the baby boomer community are already beginning to discuss the multiplicative benefits of cross-generational communities, particularly in comparison with the perceived segregation inherent to current retirement community/assisted living facilities that sequester the upper-age cohort. A recent AARP report proposes the notion of “livable communities,” with designs enhancing mobility and community engagement—that is, designs expounding on new urbanist principles also attractive to younger age cohorts.<sup>viii</sup>

New urbanist design principles generally provide the the appropriate context for both cohorts; the range of affordable housing options seen in new urbanist communities, for example, addresses a need in both cohorts.<sup>ix</sup> The transit-oriented nature of these communities (particularly when enhanced with a car-share option) addresses the needs of young professionals who are spending a disproportionate level of income on car-ownership and commuting as well as the needs of the more aged population who no longer drive.<sup>x</sup> In short, experts predict that environmental and economic realities will present a critical need for young professionals and their families and aging boomers to reevaluate their living options.<sup>xi</sup> A redevelopment at Pennhurst should consider these factors.

<sup>i</sup> 1970 Census and U.S. Census Bureau, *Interim Projections by Age, Sex, Race, and Hispanic Origin*, detail file released March 2004 ([www.census.gov/ipc/www/usinterimproj/](http://www.census.gov/ipc/www/usinterimproj/)).



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<sup>ii</sup> *Id.*

<sup>iii</sup> Kochera, Andrew, Audrey Straight, and Thomas Guterbock. 2005. *Beyond 50.05, A Report to the Nation on Livable Communities: Creating Environments for Successful Aging*. Washington, DC: American Association of Retired Persons (AARP); *See also* Kotkin, Joel. "The Rise of Family Friendly Cities". *The Wall Street Journal*. November 27, 2007.

<sup>iv</sup> *See* <http://government.cce.cornell.edu/doc/pdf/overview1.pdf>

<sup>v</sup> *See* Kochera, *supra* note **Error! Bookmark not defined.**

<sup>vi</sup> *See* <http://www.BabyBoomerCaretaker.com>, 2008.

<sup>vii</sup> *See* Kochera, *supra* note **Error! Bookmark not defined.**

<sup>viii</sup> *Id.*

<sup>ix</sup> The State of the Nation's Housing. 2008. The Joint Center for Housing Studies of Harvard University. <http://www.jchs.harvard.edu/publications/markets/son2008/son2008.pdf>. In 2006, 17.7 million households were paying more than half of their incomes for housing, and that number is increasing. *Id.*

<sup>x</sup> *See* Center for Neighborhood Technology: <http://htaindex.cnt.org/>. "New research from the Center for Neighborhood Technology spanning 52 metropolitan areas and 60 million households showed that people living -in cities and inner ring suburbs -with closer proximity to transit, employment, schools and retail spend up to \$2,100 less annually on gasoline than residents of outer ring suburbs, where homes and amenities are generally more spread out and require more driving." Erica Gutierrez, Kathleen Hoover, Jinwoo Kwon, Kevin McAvey, Brianna Olson, Mildred Warner. 2009. *Planning for Family-Friendly Communities: Issues and Opportunities*. Ithaca, NY. Cornell University. <http://government.cce.cornell.edu/doc/pdf/overview1.pdf>

<sup>xi</sup> *Planning for Family-Friendly Communities, supra* note x.