

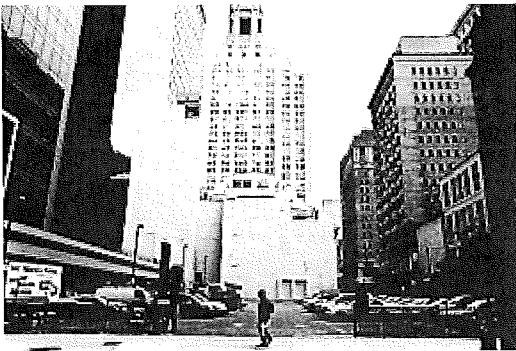
THE WALL STREET JOURNAL.

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A Sluggish Philadelphia Story

A 22,400-square-foot parking lot in the heart of Philadelphia's central business district was supposed to be the new home of a 58-story luxury hotel and condominium tower.



Scott Lewis for The Wall Street Journal

The parking lot at 1441 Chestnut St. is likely to remain just that for the foreseeable future.

But the lot at 1441 Chestnut St. is scheduled to be sold to the highest bidder in a public auction this October. Purchased for about \$12 million in 2000, the site likely will sell for less than that given how weak the market is for new development.

The site, which sits next to a Ritz-Carlton Hotel and Residences and can accommodate a structure of more than 800,000 square feet, will be offered "absolute, regardless of price," said Doug Johnson, a managing director of CB Richard Ellis Auction

Services, which is handling the auction.

Observers said it likely will remain as a parking lot until the market for office space, condominiums or hotel rooms improves.

Mr. Johnson said one of the best things the site has going for it is the parking lot, which generates more than \$600,000 in revenue a year.

"The buyer of this property will be able to offset their cost of carry until they develop the property," he said.

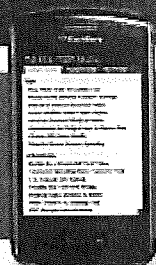
An office building would be tricky. The last new office building completed in the city was the headquarters for Comcast Corp. That project moved forward only because it had nailed such a tony tenant. Hether Smith, senior vice president and branch manager for Studley Inc. in Philadelphia who represents tenants, said the landlord would have to prelease at least 600,000 square feet to a credit-worthy tenant. She said this could be difficult given the small universe of potential tenants that would be interested in that size range.

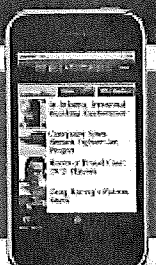
Also, vacancy trends don't look promising. The Philadelphia office market in the second quarter saw vacancies of 13.9% compared with 11.1% in the second quarter of 2007, according to Reis Inc.

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The residential and hotel markets, meantime, remain sluggish. Hotel occupancy in Philadelphia was 63.3% in the first half, up 5.9% from the same period last year, but still slow. Revenue per available room was \$68.60 in the first half, up 1.6% from the year-ago period, according to Smith Travel Research.

Kevin Gillen, vice president of Econsult Corp., an economic-consulting firm in Philadelphia, said that while condominium sales have started to pick up and inventories are coming down slowly, it still is a buyer's market. He said condominium inventory, with roughly 1,700 units up for sale, is double the historical average.

He said the monthly average of the percentage of condos sold is 10%, up from 2% last year but down from the 15% during the boom years.

"The likelihood of a new residential tower being put up in Philadelphia right now is relatively low. The last iteration of residential condo towers in Philadelphia were planned at or before the height of the market that were all delivered after the market had already turned," said Jerome Kranzel, senior vice president of investment sales for Jones Lang LaSalle. He said there still is a significant inventory of new luxury condos nearby at the 10 Rittenhouse and Murano towers.

Mr. Kranzel said it would cost between \$500 and \$700 a foot to put up a new condo building.

Tim Mahoney, president and chief executive of Mariner Commercial Properties, purchased 1441 Chestnut in 2000 for about \$12 million. At the time, it was a two-story office building that housed a Dalton Book Store. Mariner joined with Brook Lenfest, who runs venture-capital firm Brooks Capital Group, to build a \$420 million Waldorf-Astoria Hotel. The first 24 stories would be hospitality and the rest luxury condos.

"We were about to open up a new sales center in February [2009] when we just said you know what ... the timing is wrong. The market is not going to get better," Mr. Mahoney said. He said it would have been difficult to obtain financing for the project.

"The capital markets had shut down, [and] the market was already showing incredible signs of weakness," he said.

Mr. Mahoney said he has since sold his interest in the site to Mr. Lenfest.

A representative for Mr. Lenfest couldn't be reached to comment.