

Industrial Market Trends Philadelphia

Grubb & Ellis Research
Second Quarter 2006



Vacancy Shrinks As Market Rebounds

Executive Summary

With over 440,000 square feet of absorption during the second quarter and 1.4 million square feet of space absorbed this year, the Philadelphia region's industrial market is showing signs of strength, extending the recovery initiated in late 2004. Despite geographically-concentrated tenant needs in the past 90 days, with the majority of space gains taking place in markets along the Delaware River, the broader regional market has certainly turned the corner with overall vacancy settling at 7.3 percent. For example, six of the region's nine county-defined submarkets have vacancy in the single digits and all submarkets entered the third quarter with vacancy below 14 percent. Highlighting product type dynamics, R&D/flex product finished the quarter at 11.7 percent vacant, shedding 70 basis points while standard industrial vacancy moved sideways arriving at mid-year with vacancy at 6.8 percent. As landlords respond to increasingly favorable leasing conditions, asking rents are rising accordingly. R&D/flex rents were ratcheted up \$0.23 to \$8.28 NNN PSF/YR and standard industrial asking rents ended the quarter at \$5.08 NNN PSF/YR, representing a \$0.12 increase compared to 1Q06.

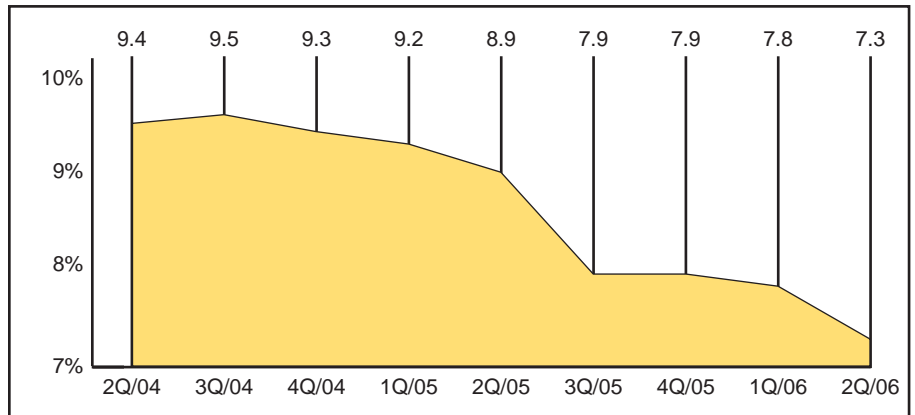
Contents

Executive Summary	1
Market Overview	2
Opportunities & Challenges	2
Forecast	3
Major Transactions	3
Market Snapshot	4

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Industrial Vacancy Rate*

* All Product Types

Industrial Market Trends Second Quarter 2006

“Like many other industrial markets along the Boston-NY-Washington corridor, the costs associated with land acquisition and construction have risen dramatically...”

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Market Overview

Representative of the sustained demand in Bucks County, from both small and large sized tenants alike, one of the largest leases announced during the quarter saw Estée Lauder expanding its presence in Bristol, taking an additional 242,000 square feet at 200 Crossing Drive in the Keystone Industrial Park II, an expansion from the 300,000 square feet it currently occupies in the park. This transaction completes the four building complex developed by Opus East, which is scheduled to deliver the build-to-suit facility late-2007.

Responding to steady demand and tightening supply in the region's outlying areas along the I-81 and I-78 corridors, multiple regional and national developers are adding to their land holdings and preparing for future development activity. Some notable land transactions during the quarter include Liberty Property Trust's acquisition of a 55-acre parcel in Chambersburg, Pa. The local REIT announced plans to develop an 837,000 square foot warehouse/distribution facility at the South-Central Pennsylvania location. Heading up the PA turnpike to the hot-spot of the Lehigh Valley, Opus East recently acquired 50 acres in lower Nazareth Township, a parcel adjacent to its existing Bethlehem Crossing II project. Also in the Lehigh Valley, Opus also acquired an 89-acre parcel of industrial-zoned land, laying the groundwork for another new project, Macungie Crossings, a three building 1.2 million square foot development.

Further along the project timeline, large national developers kicked off significant construction starts in the region. For instance, Higgins Development Partners broke ground on a speculative 602,500 square foot development branded as the Key Distribution Center. The facility, located on 46 acres is within one mile of Exit 44 on Interstate 81, and offers immediate highway access to the Northeastern U.S. Signaling the market's orientation to that of demand, Reno NV-based DP Partners broke ground on speculative 811,200 square foot facility in Carlisle at the company's 246 acre LogistiCenter complex.

Acquisition and investment activity is also notable across the Delaware River, where the southern New Jersey industrial market continues to remain a particularly active end-user investment market. One notable transaction executed during the quarter was 1200 Ferry Associate's acquisition of a 206,000 square foot former Del Monte distribution facility in Gloucester County. The cocoa distributor will occupy and use the facility as a regional storage and distribution facility.

Opportunities and Challenges

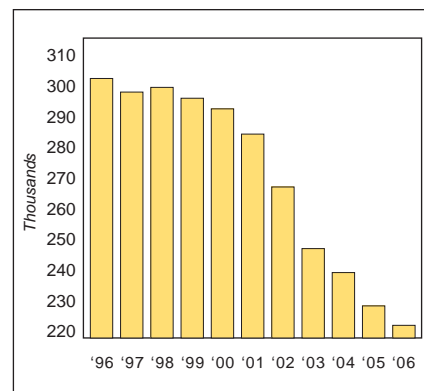
Like many other industrial markets along the Boston-NY-Washington corridor, the costs associated with land acquisition and construction have risen

Industrial Market Trends Second Quarter 2006

dramatically, consequently having a significant impact on the feasibility of new development projects. For example, land costs in the Lehigh Valley have risen between 30 percent and 40 percent during the past 12 months. Heading west into Central Pennsylvania, land costs have appreciated between 15 percent and 20 percent in the Harrisburg/Carlisle market. Costs for approved and improved land in Bucks County have surged primarily due to the fact that the supply of developable land in this area has been diminishing over the years thus placing a premium on remaining opportunities. As such, tenants investigating this marketplace are demonstrating a willingness to accept geographic concessions in exchange for opportunities where approved land may be acquired. Given this, some in the brokerage community believe that end-users will begin to seriously consider opportunities where the acquisition and demolition of older facilities as a viable economic alternative to the purchase of raw land outright.

Forecast

The regional industrial economy received some positive news regarding business growth. For example, Boeing announced plans to invest over \$100 million to increase and maximize productivity related to its defense contract with the federal government to produce the V-22 Osprey and CH-47F Chinook. The company plans to add approximately 350 jobs at its Ridley facility over the next three years. In Delaware, Dole expanded its refrigerated warehouse space presence in the Port of Wilmington by over 50 percent signing a long term lease for approximately 92,000 square feet. Focusing more generally on the business conditions of the regional industrial market, the Federal Bank of Philadelphia Reserve commented in a June research note that the region's manufacturing sector is "experiencing continued growth" with regional manufacturers expecting business to expand rather than contract in the next six months.



**Manufacturing Employment
Philadelphia - Camden
Wilmington MSA**

Source: Bureau of Labor Statistics

Major Transactions

Grubb & Ellis is pleased to announce that it represented the following companies during the second quarter of 2006:

Lease Extension
Landmark Commercial Realty, Inc. (Lessor)
 100,000 SF Lease
 Harrisburg, PA
 Grubb & Ellis Representatives:
Steve Bonge, Tim Brogan & Pat McBride

Seller & Buyer Representation
United Stationers Co. (Seller)
 178,000 SF Facility
 Pennsauken, NJ
 Grubb & Ellis Representatives:
James Young & Eustace Wolfington, III

User Sale
600 Clark Associates, L.P. (Buyer)
 50,000 SF Facility
 King of Prussia, PA
 Grubb & Ellis Representative:
Matt Devine

Industrial Market Snapshot Philadelphia Second Quarter 2006

Submarket	Vacant		% of Inventory	Absorption		Under Construction(3)	Rental Rates(4)	
	Total SF(1)	SF(2)		2006 Q2	YTD		Flex	Industrial
Bucks	58,214,562	2,632,892	4.5%	(245,047)	288,802	936,000	\$10.79	\$4.18
Burlington	38,254,648	2,421,394	6.3%	28,962	5,301	585,000	\$9.14	\$4.03
Camden	39,221,156	4,577,966	11.7%	(193)	(68,293)	-	\$8.06	\$4.09
Chester	38,394,008	1,376,149	3.6%	119,605	397,291	193,664	\$10.89	\$5.67
Delaware	26,913,694	3,770,874	14.0%	148,994	244,923	-	\$7.85	\$5.12
Gloucester	22,164,064	1,608,561	7.3%	(136,260)	248,961	416,744	\$8.04	\$4.03
Montgomery	74,512,873	5,750,966	7.7%	(3,180)	(39,680)	187,000	\$8.06	\$4.60
New Castle	25,854,119	3,133,831	12.1%	356,234	271,894	244,000	\$6.64	\$4.29
Philadelphia	105,754,100	5,899,719	5.6%	171,168	90,210	-	\$6.43	\$5.28
Total	429,283,224	31,172,352	7.3%	440,283	1,439,409	2,562,408	\$8.28	\$5.08
By Product Types								
(All Submarkets)								
Standard Industrial Total	385,336,610	26,036,645	6.8%	140,664	975,361	2,247,744	-	\$5.08
R&D/Flex Total	43,946,614	5,135,707	11.7%	299,619	464,048	314,664	\$8.28	-

(1) Inventory includes multi-tenant, single-tenant and owner-occupied buildings with at least 20,000 sq. ft.

(2) Vacant space includes both vacant direct and vacant sublease space.

(3) Space under construction includes speculative, build-to-suit for lease projects and owner-built projects.

(4) Asking rates are per square foot per year, triple net. Rates for each building are weighted by the amount of available space within the building.

Industrial Market Terms and Definitions

Inventory: Industrial Inventory includes multi-tenant, single tenant and owner-occupied buildings with at least 20,000 sq. ft.

Construction Type: Speculative ("spec") construction is designed to attract tenants likely to be in the market when the project is leasing. Build-to-suit construction is designed for a specific tenant.

Industrial Product Types: Industrial buildings are categorized as warehouse/distribution, general industrial, R&D/flex and incubator based on their physical characteristics including percent office build-out, clear height, typical bay depth, typical suite size, type of loading and typical uses.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Industrial rents are expressed as triple net where all costs including, but not limited to, real estate taxes, insurance and common area maintenance are borne by the tenant on a pro rate basis.

Average Weighted Asking Rent: An average market rent where the asking rent for each building in the market is weighted by the amount of available space in the building.