Office Market Trends Philadelphia: CBD & Suburbs

Grubb & Ellis Research

Second Quarter 2006

Grubb & Ellis
Property Solutions Worldwide

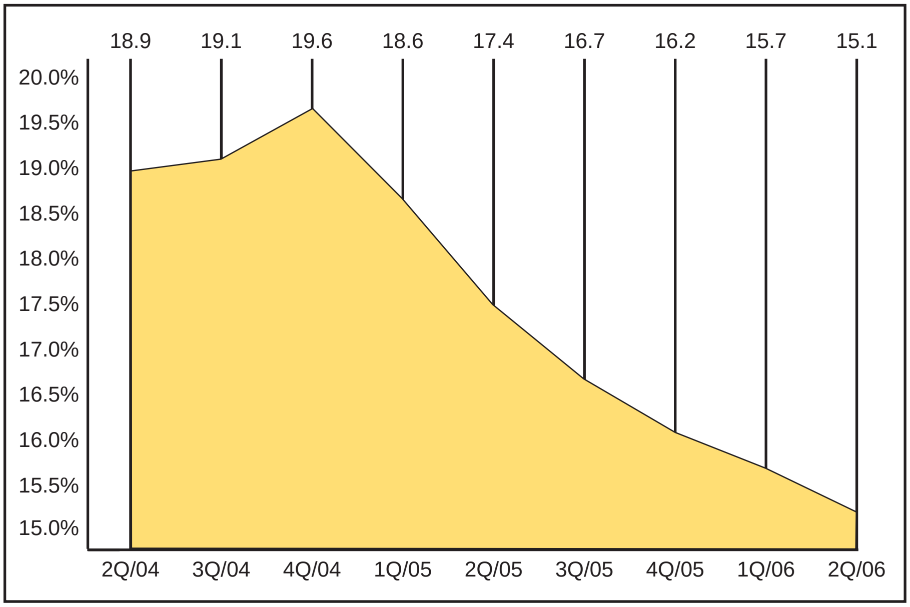
Gains Spur Development Activity

Executive Summary

For the sixth consecutive quarter, both the Philadelphia CBD and western suburban office markets posted healthy space gains. With the CBD inking 410,041 square feet and the suburbs registering over 468,000 square feet of positive net absorption, overall regional vacancy shed 50 basis points from 1Q06 to end the quarter at 15.1 percent. The King of Prussia and Fort Washington submarkets accounted for the majority of suburban advances in 2Q06, adding a combined 324,000 square feet of positive absorption to the quarterly aggregate. Heading downtown, the East and West Market submarkets made the most significant contributions to first quarter absorption performance by posting approximately 85 percent of the CBD's gains. Indicating that the broader market is beginning to approach equilibrium, Class A full-service asking rents edged up $0.43 to $27.26 per square foot per year while full-service Class B rents remained at $22.04 PSF/YR.

Contents

Executive Summary 1
Overview 2
Forecast 4
Opportunities & Challenges . .4
Major Transactions 5
Market Snapshot 6



Regional Office Vacancy Rate*

** All Classes of Space*

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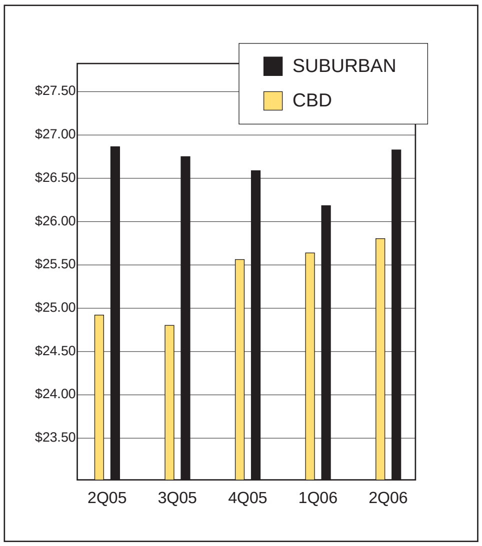
Matthew Wright
Research Services Manager
Email: matthew.wright@grubb-ellis.com

Grubb & Ellis Company
1600 Market Street
Suite 2600
Philadelphia, PA 19103
Phone: 215.561.8300
Internet: www.grubb-ellis.com

Office Market Trends Second Quarter 2006

"Vacancy declined 100 basis points in the last 90 days and a healthy three full percentage points from mid-year 2005..."



Philadelphia CBD vs. Suburbs Class A Asking Rents

Philadelphia Office Market Trends Contributors

Robert Kramp
Vice President, Director
National Client Services Group
Email: robert.kramp@grubb-ellis.com

Emily Dotson
Senior Research Analyst
Email: emily.dotson@grubb-ellis.com

Jason McKendry
Graphic Designer
Email: jason.mckendry@grubb-ellis.com

Joseph Gibson
Database Coordinator
Email: joseph.gibson@grubb-ellis.com

Market Overview

CBD

With 260,000 square feet of new demand this quarter and over 460,000 square feet of space absorbed thus far this year, the CBD office market continues the recovery initiated early last year. Vacancy declined 100 basis points in the last 90 days and a healthy three full percentage points from mid-year 2005, arriving at 12.1 percent, a level unseen since 2002. Evidence suggests the recovery is now distributed evenly. With four the of the CBD's five submarkets ending the quarter with vacancy below ten percent, the West Market submarket, with vacancy at 14.6 percent, is the only submarket in double digits. At quarter's end, the West Market submarket accounted for 75 percent of all classes of available space and a 90 percent share of available Class A space in the CBD.

During 2Q06, one of the city's largest tenants, the Wachovia Corporation, announced it would forgo relocation and renew its lease obligations at its current downtown locations. The company, dealing with 350,000 square feet of expiring leases, had been investigating opportunities to relocate and consolidate its downtown operations which would have likely have placed the firm in the West Market submarket consequently influencing leasing conditions in both the South Broad and West Market submarkets.

The second quarter saw brisk leasing activity at the Bell Atlantic Tower at 1717 Arch Street with several leases signed soaking up much of the large block of sublease space being marketed by Verizon. The space, being offered at a 28 percent discount to comparable Class A product, helped give new life to the flight-to-quality trend existing since early 2005; during the quarter over 62 percent of year-to-date CBD absorption gains were a result of fresh demand for Class A product. Notwithstanding the availability of discounted Class A sublet space on the market in One Commerce and The Bell Atlantic Building, the available large blocks of space in One Liberty, Two Liberty and Ten Penn Center have so far prevented significant rent appreciation in the West Market and in the CBD, despite notable declines in vacancy. Class A full-service asking rents ended the quarter up $0.28 to $25.89 PSF/YR while Class B full-service rents remained flat at $21.08 PSF/YR.

Focusing on investment activity, the largest transaction to be announced during the quarter was CommerzLeasing & Immobilien AG's acquisition of an 80 percent stake in the Comcast Center at 1701 JFK Boulevard. The building's developer, Liberty Property Trust, will retain a 20 percent ownership position and serve as the managing partner in the newly formed joint venture. The 1.2 million square foot building, currently under construction, is approximately 75 percent leased to Comcast, which will consolidate its Philadelphia operations into the building. The deal, valued the building at over $523 million or $404 per square foot, setting a new high water mark for a CBD office building. The project is the largest private development project in the State of Pennsylvania and will be the tallest office tower in the Northeast, outside of New York City, when completed in late-2007.

Additional investment activity in the CBD included Strategic Real Estate Partner's acquisition of the 20-story 524,000 square foot Four Penn Center from KanAm Grund for $109 million or $208 per square foot. Heading west on Market Street, The Philadelphia Stock Exchange traded for $65 million or approximately $143 per square foot. Other buildings changing hands during 2Q06 include the Graham Building, Three Parkway, The Public Ledger Building and 101 South Independence Mall, the future site of the National Jewish History Museum. Despite significant investment transaction volume, the quarter closed with a number of large CBD assets still remaining on the market including The Curtis Center, The Aramark Tower, 10 Penn Center, 7 Penn Center and 1835 Market Street.

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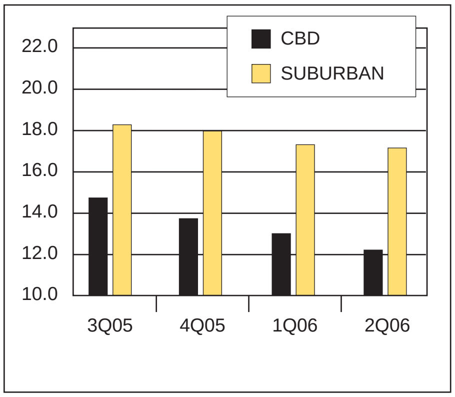

Philadelphia CBD vs. Suburban Vacancy Rates

Western Suburbs

The suburban office market stayed the course to recovery during the second quarter inking absorption gains of 498,108 square feet, bringing the mid-year level to over 700,000 square feet of positive net absorption. Consequently, vacancy slid 10 basis points from 1Q06 to end the quarter at 17.2 percent which represents an impressive 200 basis point decline from one year ago. Despite experiencing slower growth in the first half of 2006 (compared to the same time period of 2005), steady tenant demand remained the norm. Class A landlords leveraged their hand, increasing full-service Class A asking rents $0.66 to $26.82 PSF/YR, while Class B rents slid slightly to $22.51 PSF/YR.

In one of the largest suburban tenant movements of the quarter, AON vacated 60,000 square feet in Conshohocken, relocating across the Schuylkill River into 57,000 square feet at 555 Lancaster Avenue, part of Brandywine Realty Trust's Radnor Financial Center Complex. Brandywine spent a reported $25 million in repositioning the building, vacated by pharmaceutical stalwart Wyeth in 2003, including a new lobby, lighting, window line, HVAC systems and raised ceilings. In addition to attracting AON, Town Sports International signed a 42,000 square foot lease and renowned restauranteur Susanna Foo signed on for 7,500 square feet which completed the transition of the property into a compelling mixed-use format. Brandywine had additional noteworthy successes in the complex with PolyMedix Inc. and Enterprise Leasing Company signing deals for a combined 52,000 square feet.

The pharmaceutical and bio/life science related enterprises are crucial to the growth prospects of the regional economy. The critical mass of related businesses also includes firms contracting with and serving these companies, such as those involved in research and development, fulfillment and distribution and the myriad of outsourced business services. Strong evidence of the impact

"Despite experiencing slower growth in the first half of 2006 (compared to the same time period of 2005), steady tenant demand remained the norm."

these industries have on the office leasing market was made evident during the second quarter. For example, in Bucks County, Express Scripts moved into 51,000 square feet at 4800 East Street Road while Ventiv Health Services took down 27,275 square feet at 41 University Drive. In the Exton/Malvern submarket, Sanofi-Aventis negotiated a lease for 48,000 square feet at 1 Country View Road and Healthcare Informatics giant Siemens signed on for 35,000 square feet at 55 Valley Stream Parkway.

Forecast

Looking ahead, it is likely that both the suburban and CBD office markets will experience positive growth, albeit at a slower pace than experienced during 2005. Given the sustained trend of declining vacancy in both the CBD and the western suburbs, the downward pressure on asking rents has largely subsided and appreciation is more probable in the final months of 2006. Concession packages are likely to remain consistent, in the western suburbs tenant improvement allowances should hold tight in the $10-$20 PSF range while in the CBD $35-$45 PSF is likely to remain the norm. In terms of free rent, levels are expected to hover around 5 percent per leasable year in the CBD and in the suburbs the range is roughly zero to eight percent depending largely on the submarket and size of requirement.

Opportunities and Challenges

With over 2.1 million square feet of new construction in the marketplace at quarter's end, including over 868,000 square feet of suburban development and the 1.23 million square foot Comcast Center tower coming to life in the heart of the CBD, developers are once again very active in the region and are rapidly responding to the fundamental improvement in leasing economics.

For example, BPG Properties commenced construction on two new projects in the area. First, BPG broke ground on 1000 Continental Drive, a speculative 200,000 square foot development off Route 202 in the King of Prussia submarket. Additionally, BPG kicked off a 130,000-square-foot build-to-suit for Main Line Health at the company's Ellis Preserve development in Newtown Square. This building will be the first to come alive at the one-million-square-foot master-planned development site which will ultimately add 500,000 square feet of Class A office space into the supply. In Plymouth Meeting, Brandywine Realty Trust commenced construction on Metroplex I, a speculative 120,000 square foot development ideally located at the nexus of I-476 and the Pennsylvania Turnpike.

Office Market Trends Second Quarter 2006

Major Transactions

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

Tenant Representation
Paul H. Yeomans
Leased 14,754 RSF at
833 Chestnut Street
Philadelphia, PA
Grubb & Ellis Representatives:
Wayne Fisher & Kenneth Clyman

Tenant Representation
CBS Radio East, Inc.
Leased 31,058 RSF at
400 Market Street
Philadelphia, PA
Grubb & Ellis Representatives:
Daniel Brogan, Craig Scheuerle & James Egan

Landlord Representation
Transwestern Investment Co.
Leased 38,822 RSF to
General Services Administration
1601 Market Street
Philadelphia, PA
Grubb & Ellis Representatives:
Jack Soloff, Jr., Craig Scheuerle & Matthew Guerrieri

Office Locations

Nationwide coverage delivered through the Grubb & Ellis system.

Office Market Snapshot Philadelphia: CBD & Suburbs Second Quarter 2006

By Submarket (All Classes)	Total SF(1)	Vacant SF(4)	Vacant %	Net Absorption Current Quarter	Net Absorption Year-to-date	Under Construction(2)	Asking Rent (3) Class A	Asking Rent (3) Class B
CBD	38,784,337	4,686,745	12.1%	410,041	613,200	1,238,000	$25.89	$21.08
Bala Cynwyd	2,854,882	438,049	15.3%	(10,397)	(5,708)	-	$31.84	$30.03
Blue Bell/Plymouth Meeting	5,960,979	841,604	14.1%	(1,940)	82,095	120,877	$27.45	$21.76
Bucks County	6,123,754	1,224,507	20.0%	48,961	(306)	179,076	$24.21	$19.86
Central/Southern Delaware County	4,350,756	757,460	17.4%	58,251	(33,780)	367,286	$23.50	$22.33
Conshohocken	3,012,832	604,672	20.1%	14,426	64,116	-	$32.02	$24.34
Exton/Malvern	6,348,522	1,019,013	16.1%	(10,105)	(16,332)	37,000	$23.59	$20.89
Fort Washington	3,236,700	697,130	21.5%	120,491	133,579	75,000	$23.19	$20.14
Horsham/Willow Grove	5,089,581	496,862	9.8%	(768)	151,927	-	$25.06	$21.52
Jenkintown	1,239,218	126,351	10.2%	(28,819)	(26,746)	-	$24.25	$20.92
King of Prussia	12,455,622	2,045,679	16.4%	224,161	296,496	-	$27.33	$22.52
Radnor/Main Line	2,773,833	1,051,525	37.9%	41,718	31,791	-	$27.50	$25.53
Southern 202 Corridor	1,820,120	218,612	12.0%	12,111	29,635	89,000	$26.55	$19.78
CBD	38,784,337	4,686,745	12.1%	410,041	613,200	1,238,000	$25.89	$21.08
Suburban	55,266,799	9,521,464	17.2%	468,108	706,767	868,239	$26.82	$22.51
Totals	94,051,136	14,208,209	15.1%	878,149	1,319,967	2,106,239	$26.26	$22.04

By Class (All Submarkets)	Total SF(1)	Vacant SF(4)	Vacant %	Net Absorption Current Quarter	Net Absorption Year-to-date	Under Construction(2)	Available for Sublease CBD	Available for Sublease Suburban
Class A	45,692,001	6,696,157	14.7%	422,302	766,079	1,926,639	474,675	901,934
Class B	39,411,812	6,048,520	15.3%	289,849	354,833	179,600	224,916	593,834
Class C	8,947,323	1,463,532	16.4%	16,660	49,727	-	-	80,475
Totals	94,051,136	14,208,209	15.1%	728,811	1,170,639	2,106,239	699,591	1,576,243

(1) Inventory includes multi-tenant and single tenant 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 and build-to-suit for lease projects.
(4) Asking rates are per square foot per year, full service. Rates for each building are weighted by the size of the building.

Construction Second Quarter 2006

	New Speculative Development				*New Build-to-Suit Development*		
	Under Construction	Preleased	Completed This Qtr	Completed YTD	Under Construction	Completed This Qtr	Completed YTD
CBD	1,238,000	79.2%	-	-	-	-	-
Suburban	868,239	30.2%	356,500	437,815	-	-	-
Total	**2,106,239**	**59.0%**	**356,500**	**437,815**	**-**	-	-

Office Market Terms and Definitions

Inventory: Office inventory includes all multi-tenant and single tenant buildings at least 20,000 square feet. Owner-occupied, government and medical buildings are not included.

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.

Office Building Classifications: Grubb & Ellis adheres to the BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area. Class C buildings compete for tenants requiring functional space at rents below the area average.

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. Office rents are reported as full service where all costs of operation are paid by the landlord up to a base year or expense stop.

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