

Office Market Trends Philadelphia: CBD & Suburbs

Grubb & Ellis Research

Second Quarter 2007



Rents Continue Their Ascent

Executive Summary

After contracting slightly during the first quarter, the regional office market got back on track during the second quarter with the suburban and CBD office markets combining to record 649,589 square feet of net positive absorption. The suburban markets registered 404,045 square feet of new growth while the CBD, not far behind, absorbed 245,544 square feet. A result of another strong quarterly performance, overall regional office vacancy slipped 50 basis points to 13.6 percent. Responding to tightening market conditions, landlords continue to boost rents with Class A rents increasing in excess of \$1.00 psf/yr in some suburban submarkets. Overall regional Class A rents arrived at mid year at \$27.34 psf/yr full service, representing a \$0.56 increase in the past 90 days, the most pronounced appreciation thus far in the market cycle.

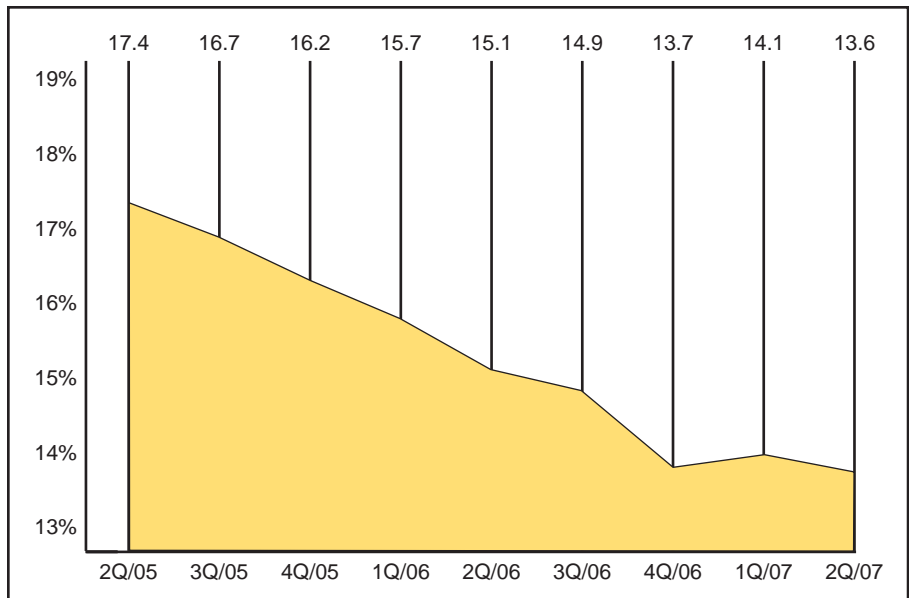
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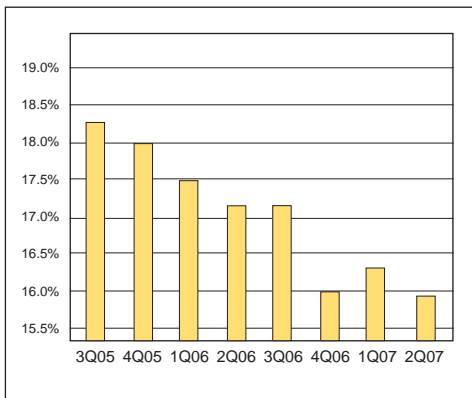


Office Vacancy Rate*

* All Classes of Space

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With geographically dispersed tenant demand becoming the norm, 10 of the 12 suburban submarkets saw declines in vacancy...



Philadelphia Suburban Vacancy

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Leasing Market Overview

Western Suburbs

For the 10th consecutive quarter, the suburban office market posted absorption gains registering a total of 404,045 square feet of new growth during the past 90 days. With geographically dispersed tenant demand becoming the norm, 10 of the 12 suburban submarkets saw declines in vacancy, with overall vacancy resting at 15.9 percent at mid-year, a 50 basis point decline compared to 2007-Q1. Overall Class A rents made advances to \$27.57 psf/yr, while Class B rents ticked up to \$23.48 psf/yr.

The Central/Southern Delaware County submarket led the charge posting 128,892 square feet of new growth, mainly attributable to activity at the BPG Properties' Ellis Preserve Development in Newtown Square. Catholic Health East consolidated and expanded its executive and administrative operations into 101,000 square feet in the recently redeveloped 3805 West Chester Pike. Activity was brisk at the Ellis Preserve during the past 90 days, as BPG delivered a 128,000 square-foot build-to-suit for Main Line Health, which will offer ambulatory care and outpatient services at the state-of-the-art facility.

The Blue Bell/Plymouth Meeting submarket also made significant contributions to the suburban absorption total with Ceridian occupying 55,200 square feet at 3043 Walton Road, bringing the building to 100 percent occupancy. Also of note, Travelers Insurance moved into 43,000 square feet at 10 Sentry Parkway, backfilling a portion of the 110,000 square feet of vacancy created by Merck's recent real estate consolidation in 2006-Q3.

In the largest suburban delivery during the second quarter, finishing touches were placed on the first building at Brandywine Realty Trust's Metroplex Corporate Center in Plymouth meeting. The five-story 120,000-square-foot Metroplex Corporate Center I is the first to come online in the three-building 23-acre master planned development which can accommodate up to 580,000 square feet. Further north, in Trevese, Bucks County, Acorn Development delivered the speculative 105,000-square-foot Northbrook Corporate Center.

The suburban market has several large projects slated for delivery in the short term which will provide additional Class A alternatives for large users investigating the suburban market. In King of Prussia, BPG Properties' five-story 205,000-square-foot 1000 Continental Drive project is being prepped for delivery in early fall. In addition to new projects coming out of the ground, several redevelopment projects including Keystone Property Group's 240

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Radnor Chester Road, in the Main Line/Radnor submarket, and The Valley Forge Office Center project, in the King of Prussia submarket, should serve to influence Class A market dynamics.

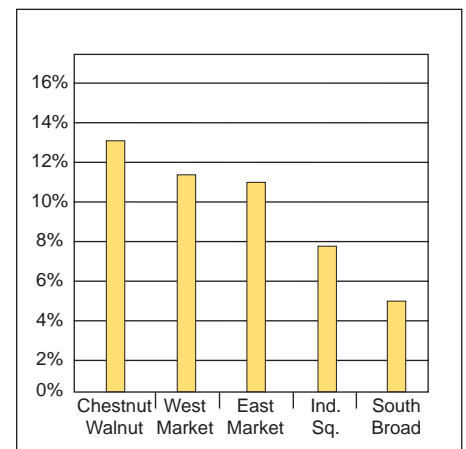
Philadelphia CBD

The CBD posted gains of 245,544 square feet during the second quarter, with quarterly performance being similar to the demand scenario seen over the past two years, that is, one characterized by the expansion component of existing CBD tenants, and sizable requirements from outside the CBD boundary relocating downtown. Following the Children's Hospital of Philadelphia's 156,000-square-foot back-office relocation from West Philadelphia in 2006, The University of Pennsylvania Health System, relocating from University City, signed a 177,500 square foot lease at Centre Square West. The second quarter saw additional large blocks of space absorbed in West Market; Ten Penn Center announced a series of leases, the largest being Morgan, Lewis and Bockius' 90,000-square-foot data center expansion, which reduced the availability of the largest block of premium vacant space in the CBD at the start of the year. Keeping leasing momentum intact at the Comcast Center, Liberty Property Trust announced the signing of a 50,000-square-foot lease agreement with Citizens Bank, which will make the tower its new regional headquarters. Citizens brought overall preleasing of the 1.2 million-square-foot tower, the tallest LEED-certified building in the United States, to 95 percent and will be the building's second largest tenant.

During the first six months of 2007, Class A rents surged \$1.34 to \$27.19 psf/yr full service, while Class B rents have made more modest advances to \$21.64 psf/yr full service. With Class B rents stable and trophy buildings, particularly in West Market commanding a premium, the spread between Class A & B alternatives is likely to erode the economic feasibility of a "flight to quality". Despite the recent acceleration in Class A rental rate appreciation, premium space in the Philadelphia CBD remains a bargain when compared to regional alternatives. For example, in Midtown Manhattan average asking Class A rents have risen in excess of \$12/psf since January and topped out at \$90.30 psf/yr in June, while in the nation's capital, Class A rents settled at \$49.77 psf/yr at mid-year.

News released during the quarter answered some questions and created new ones regarding projects that have (or had) the potential to alter the inventory picture in the relative short-term. Merchant developer Opus East announced its reworked plans for 1919 Market, a 14-story apartment development which is due to get underway this summer. While Opus East formalized its vision in West Market, locally-based Trinity Capital Advisors now begins planning in earnest as the firm announced that it finalized negotiations for a 99-year ground lease with the Girard Estate for the assemblage on 11th Street

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**Philadelphia CBD
Submarket Vacancy**

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Putting current market conditions into historical context, the last time vacancy was nearing single digits, the year was 1989...

bordered by Market and Chestnut in the East Market submarket. Trinity commented that the parcels can accommodate up to four million square feet of mixed-use redevelopment including up to 1.5 million square feet of office space, which would roughly double the existing amount of space at the location.

Putting current market conditions into historical context, the last time vacancy was nearing single digits, the year was 1989 and City Hall had recently surrendered the claim to being the City's tallest office structure to One Liberty Place. 19 years later, the pending arrival of sub-ten vacancy has coincided with a new office tower claiming title to being the City's tallest. During the second quarter, Liberty Property Trust topped off the Comcast Center tower ending One Liberty's 19-year reign. Rental rates are also approaching historically a significant threshold as Class A rents at \$27.19 are approaching the high water mark established in 2002.

Major Transactions

Grubb & Ellis is pleased to announce that it represented the following companies in office transactions during the second quarter of 2007:

Sterling American Property Inc. & Greenville Partners, LLC
Leased 95,874 Square Feet
at 10 Penn Center
Philadelphia, PA

Transwestern Investment Company
Leased 30,609 Square Feet
at 1700 Market Street
Philadelphia, PA

Transwestern Investment Company
Leased 16,893 Square Feet
at 1700 Market Street
Philadelphia, PA

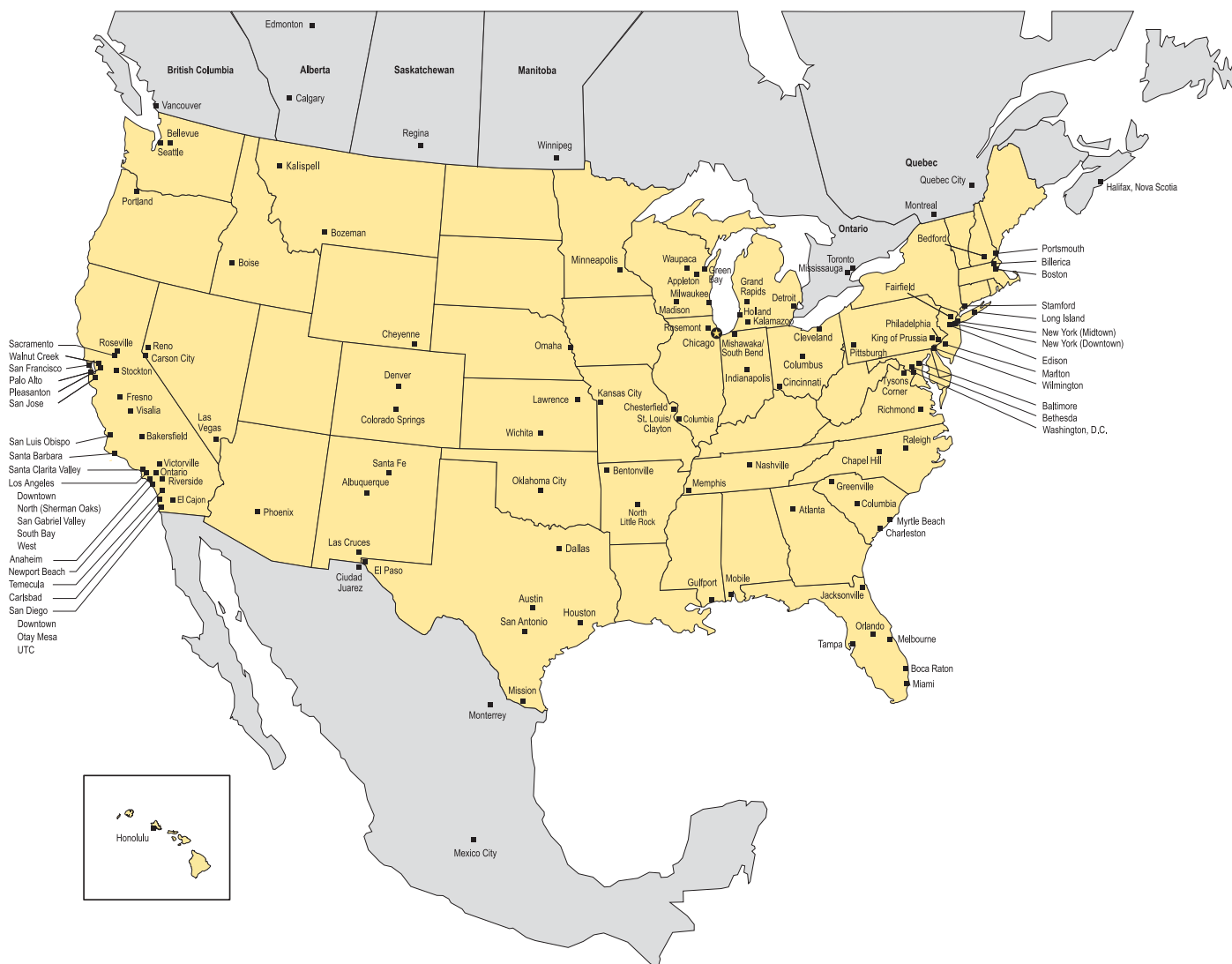
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Construction Second Quarter 2007

New Speculative Development					New Build-to-Suit Development		
	Under Construction	Released	Completed This Qtr	Completed YTD	Under Construction	Completed This Qtr	Completed YTD
CBD	1,238,000	95.7%	-	-	-	-	-
Suburban	572,981	6.2%	252,377	386,053	359,873	-	-
Total	1,810,981	67.4%	252,337	386,053	359,873	-	-

Office Locations

Nationwide coverage delivered through the Grubb & Ellis system.



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Office Market Snapshot Philadelphia: CBD & Suburbs Second Quarter 2007

By Submarket (All Classes)	Total (1)	Vacant (2)		Net Absorption		Under Const.(3)	Asking Rent (4)	
	SF	SF	Vacant %	Current	Year To Date	SF	Class A	Class B
Chestnut/Walnut	1,994,762	321,145	16.1%	(21,643)	(50,707)	-	\$22.25	\$21.82
East Market	5,320,609	467,430	8.8%	120,063	75,923	-	\$22.54	\$20.34
Independence Square	4,831,077	241,812	5.0%	139,487	97,180	-	\$23.70	\$20.88
South Broad	2,554,684	128,409	5.0%	(4,365)	(996)	-	\$22.50	\$20.93
West Market	23,871,910	2,776,328	11.6%	12,002	(51,249)	1,238,000	\$28.60	\$22.40
CBD Total	38,573,042	3,935,124	10.2%	245,544	70,151	1,238,000	\$27.19	\$21.64
Bala Cynwyd	2,922,565	384,999	13.2%	41,594	38,226	-	\$34.67	\$30.11
Blue Bell/Plymouth Meeting	6,162,985	1,230,927	20.0%	93,729	(102,045)	-	\$27.99	\$23.97
Bucks County	6,796,981	1,189,111	17.5%	12,832	(29,520)	110,000	\$24.74	\$20.25
Central/S Delaware County	4,525,542	914,564	20.2%	128,892	97,451	-	\$24.80	\$22.86
Conshohocken	3,228,832	477,300	14.8%	(23,208)	(25,795)	41,273	\$32.77	\$24.96
Exton/Malvern	6,590,634	749,769	11.4%	61,720	65,766	170,800	\$24.96	\$21.28
Fort Washington	3,254,599	535,726	16.5%	12,771	81,412	-	\$22.97	\$21.62
Horsham/Willow Grove	5,097,387	606,639	11.9%	22,571	149,508	120,000	\$25.35	\$21.61
Jenkintown	1,239,218	125,025	10.1%	5,733	26,273	-	\$25.30	\$22.45
King of Prussia	12,539,729	1,926,829	15.4%	(44,305)	(33,742)	327,404	\$27.19	\$23.76
Radnor/Main Line	2,636,264	590,023	22.4%	56,096	122,352	-	\$28.29	\$25.66
Southern 202 Corridor	2,035,890	316,449	15.5%	35,620	39,854	162,274	\$25.96	\$22.82
Suburban Total	57,030,626	9,047,361	15.9%	404,045	429,740	931,751	\$27.57	\$23.48
Totals	95,603,668	12,982,485	13.6%	649,589	499,891	2,169,751	\$27.34	\$22.88

By Class (All Submarkets)						Available for Sublease		
	SF	SF	Vacant %	Current	Year To Date	SF	CBD	Suburban
Class A	46,432,947	6,049,865	13.0%	181,968	(59,196)	1,868,069	566,880	602,703
Class B	40,768,310	5,404,453	13.3%	432,313	486,509	301,682	130,910	540,750
Class C	8,402,411	1,528,167	18.2%	35,308	72,578	-	2,500	86,188
Totals	95,603,668	12,982,485	13.6%	649,589	499,891	2,169,751	700,290	1,229,641

(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.

* Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.

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.