

## Greater Philadelphia Industrial

(PA, DE & NJ) — THIRD QUARTER 2006

The Philadelphia Metropolitan Industrial Market encompasses seventeen counties within Pennsylvania, New Jersey and Delaware, and consists of manufacturing, flex and warehouse buildings of 100,000 square feet and larger. Overall, the Philadelphia MSA comprises an inventory of more than 364 million square feet. As the fourth largest MSA in the nation, the region offers excellent infrastructure and abundant growth opportunities. The region's central location within the Northeast corridor makes this an ideal location for warehouse and bulk distribution properties. Twenty-five percent of the nation's population is within a five-hour drive from Philadelphia, and fifty percent of the population is within a two-hour flight.

At the close of the third quarter 2006, the Philadelphia Metropolitan Industrial Market showed explosive growth. The region as a whole now reports a 6.8% vacancy rate, with a positive net absorption of over 5 million square feet in the third quarter. This marks the 8th consecutive quarter of positive net absorption for the Philadelphia MSA. Bucks County, the Lehigh Valley and Central Pennsylvania leased over 3 million square feet of newly constructed warehouse space in the third quarter, roughly half of which was pre-leased.

The level of speculative big box warehouse construction in the Lehigh Valley, Southern New Jersey, and Central PA is strong. Companies continue to relocate distribution facilities to the Lehigh Valley, Central PA and Southern New Jersey due to the lack of opportunity for expansion in their present markets, as well as the widespread access to major

interstate highways. Several national developers are now active in both the Lehigh Valley and Central PA with build-to-suit and speculative construction projects. During the third quarter, both Anderson Windows and Eagle Global Logistics leased over 100,000 square feet. Combined, these submarkets currently have more than 5 million square feet under construction and over 19 million square feet of proposed development with each. Due to the limited amount of available space and increase in construction costs for such facilities, asking rental rates have started to climb.

Within the smaller suburban submarkets of Chester County, Montgomery County and Delaware County leasing activity has been strong and vacancy rates remain below 9%. Montgomery and Chester Counties are seeing a decent amount of new flex construction, even with the constraints brought about by land prices and cost of construction. Significant deals

include Thyssen Krupp leasing 24,000 square feet in Montgomery County and Pizzazz Fitness leasing 15,600 square feet in Delaware County. Additionally, several lease transactions brought the Brandywine Business Center, located in Chester County, to 100% occupancy. Statistics support positive momentum for the Southern New Jersey market, consisting of Burlington, Camden and Gloucester Counties. All three counties reported vacancy rates below 9%. Camden County's vacancy rate fell from 6.9% to 5.8% and reported 194,000 square feet of positive net absorption for the quarter.

The trend of limited speculative opportunity and the conversion of industrial sites to other uses, such as residential and office, have continued to result in a more restricted industrial inventory in Philadelphia County and the immediate Philadelphia suburbs. The densely populated counties of Chester, Montgomery and Philadelphia command such high raw land prices, and are at a loss for large land parcels, that residential and office development leaves little room for new big box warehousing. During the third quarter, the Philadelphia County Industrial Market reported a 3.6% vacancy rate, a number that fully supports the lack of product and shrinking total gross square feet due to conversion projects. Due to these factors, rental rates, in Philadelphia County, have increased from \$4.45 to \$4.63 NNN.

*"At the close of the third quarter 2006, the Philadelphia Metropolitan Industrial Market showed explosive growth."*

### QUICK STATS

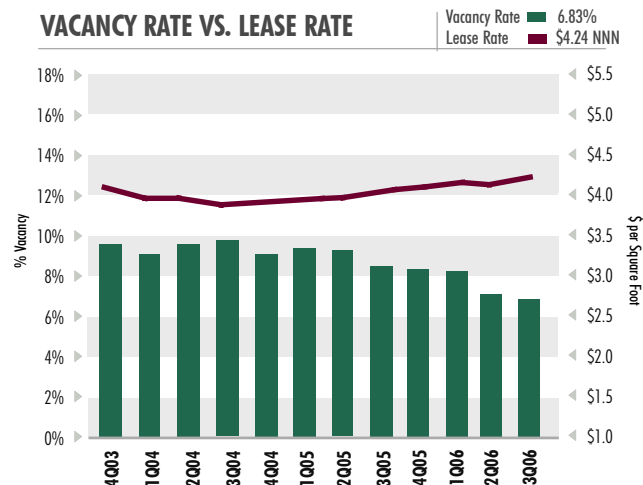
	Current	Yr.	Qtr.
Vacancy	6.83%	↓	↓
Lease Rates	\$4.24 NNN	↑	↑
Net Absorption*	5.765M	↑	↑
Construction	5.607M	↓	↓

\* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

### HOT TOPICS

- 1.9 million square feet of newly constructed space came online; including 6 Logistics Drive, 2999 Guilford Springs, and 100 Louis Parkway in Central PA as well as 1140 Commerce Dr in Swedesboro, NJ.
- AMD, Auto Zone and Coca-Cola Bottling combined for roughly 2 million square feet of build to suit transactions in CAN DO's Humboldt Industrial Park North in Hazleton, PA.
- Colony Realty purchased the 830,000 SF Valley Forge Distribution facility in Oaks, Pa.

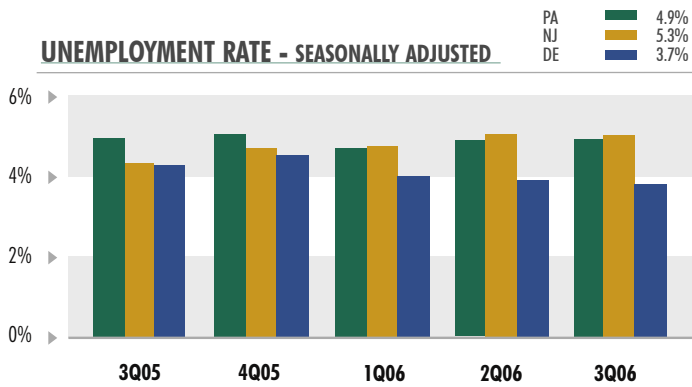
### VACANCY RATE VS. LEASE RATE



Market	Gross Building SF	Vacancy Rate %	YTD Net Absorption SF	Under Construction SF	Average Min. Asking Rent \$/SF/YR	Availability Rate %
Bucks County, PA	27,971,653	5.88%	1,420,653	0	\$4.44	7.85%
Burlington County, NJ	19,512,964	7.71%	(207,883)	416,744	\$4.34	8.89%
Camden County, NJ	17,429,156	5.86%	8,650	0	\$3.82	5.86%
Central PA**	139,510,901	5.54%	3,137,117	2,593,740	\$4.15	6.07%
Chester County, PA	12,459,514	6.01%	262,965	0	\$4.63	6.01%
Delaware County, PA	12,564,843	7.59%	199,170	0	\$4.29	7.59%
Gloucester County, NJ	14,845,390	8.68%	192,627	0	\$3.91	12.61%
Lehigh Valley, PA*	34,544,068	11.02%	3,813,547	2,437,000	\$4.58	11.46%
Montgomery County, PA	36,882,705	8.50%	138,176	160,000	\$4.11	10.40%
New Castle County, DE	13,121,253	9.45%	496,312	0	\$4.12	11.34%
Philadelphia County, PA	36,029,749	3.58%	N/A	0	\$4.63	4.03%
<b>Philadelphia Metro Area</b>	<b>364,872,196</b>	<b>6.83%</b>	<b>9,461,334</b>	<b>5,607,484</b>	<b>\$4.24</b>	<b>7.24%</b>

\* Lehigh and Northampton Counties

\*\* Cumberland, Dauphin, Franklin, Lancaster, Lebanon, York Counties



Source: Bureau of Labor Statistics

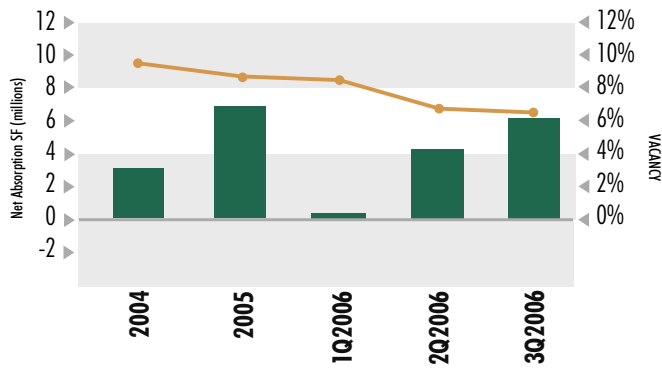
**Economic Conditions:** The state unemployment rate for the third quarter has risen slightly since second quarter from 4.8% to 4.9% - but remains below the 5% realized in the 3rd Quarter of 2005. Income growth in the Philadelphia area continues to remain above both the state and national averages. In a large part, this is due to a strong concentration of government and professional service jobs in the region.

A decline in real consumer spending coupled with a slight rise in consumer inflation was realized during the 3rd Quarter. However, as a result of falling energy costs, consumer confidence is improving heading into the 4th Quarter. In the housing market, existing home sales fell throughout the 3rd Quarter, due to rising interest rates and a decline in housing affordability. A stabilizing of mortgage applications may be an early indicator of a lag in demand for housing.

Although national employment growth has slowed in recent months, the Children's Hospital of Pennsylvania (CHOP), one of the nation's leading pediatric centers, has announced plans to hire 3,000 new employees over the next five years, which will coincide with its \$1.7 billion expansion project, adding another 1.2 million SF of space and doubling the size of the hospital's main campus in University City. The expansion is scheduled for completion in 2010.

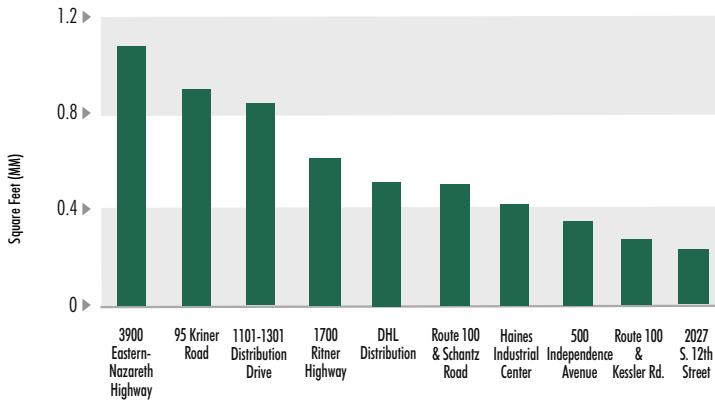
**VACANCY/NET ABSORPTION**

Vacancy 6.83%  
Absorption 5.765M



**Vacancy & Absorption:** Vacancy rates have continued to decrease, falling from 7.25% in 2Q06 to 6.83% in 3Q06. Availability rates have also tightened, falling from 7.82% in 2Q06 to 7.24% in 3Q06. Absorption in the Philadelphia Metropolitan Industrial Market has increased significantly since 2Q06 – 4,058,019 SF compared to 5,764,968 SF in 3Q06. Central Pennsylvania and Bucks County collectively absorbed 4,304,190 SF of this space. The catalyst of this absorption was an additional three buildings joining the Philadelphia industrial inventory (Bucks County submarket), all of which have been fully leased.

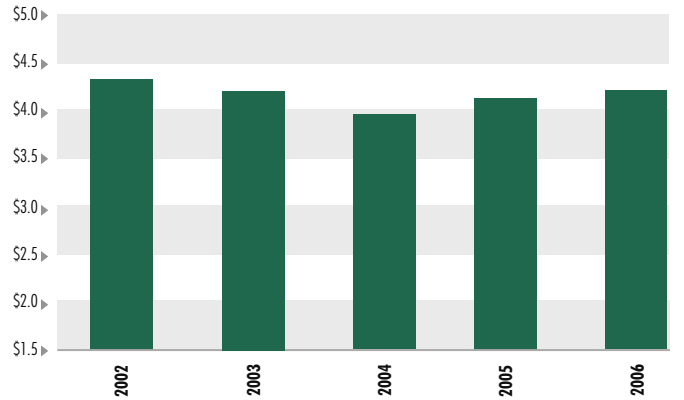
**CONSTRUCTION ACTIVITY**



**Construction Activity:** Demand for industrial space continued to grow throughout the third quarter. This demand is serving as a stimulant for industrial construction activity, which will continue throughout the remainder of the year and includes both speculative and build-to-suit projects. However, supply is beginning to narrow as the local economy expands and as outdated buildings are removed from the market for conversion purposes. Construction continues on the Prologis 930,000 SF spec distribution center in Easton, PA as well as Opus East’s DHL Distribution Park in Breinigsville, PA. This 502,000 SF facility will be delivered to the market next quarter. On Route 100 in Allentown, both Nestle and Niagra Water are building 500,000 SF and 280,000 SF spring water distribution facilities. In Carlisle, PA construction forges ahead at the Key Distribution Center, a 602,500 SF complex located one mile from exit 44 off of Interstate 81. Delivery is expected in December of 2006. Additionally, the 837,000 SF LogistiCenter at Carlisle continues to come out of the ground as does 342,500 SF at 500 Independence Ave. in Mechanicsburg. In the South Jersey market, Whitesell Construction Company is close to finishing their Haines Industrial Center project, located in Burlington, NJ. The 416,744 SF warehouse will be completed next quarter. In the New Castle County, Delaware marketplace, as well as Philadelphia County, development has been restricted due to a lack of land. However, while few significant development projects exist, one proposed project located at the Twin Span Business Park in New Castle, DE could add 400,000 SF to the inventory within the next year.

**AVERAGE ASKING LEASE RATES**

Average Asking Lease Rent \$4.24 NNN



**Average Asking Lease Rates:** Average asking lease rates in the Philadelphia MSA for 3Q06 were reported to be \$4.24 per square foot, triple net, which is an increase from \$4.13 reported in the second quarter.

This upward pressure can be attributed to the decreasing availability of Class A warehouse/distribution space, and the marketing of new warehouses which are currently under construction. Effective rents for new construction are now approaching \$5.00 - 5.50 per square foot, triple net, largely due to the increasing cost of land and building materials.

**MARKET OUTLOOK**

The Philadelphia MSA continues to foster a competitive industrial market. Vacancy rates are decreasing for the majority of the region’s submarkets as average asking lease rates have increased 3.4% over the course of the year. Construction costs will continue to be a cause for concern, pushing average asking lease rates forward.

The Central Pennsylvania and Lehigh Valley industrial markets will be the nucleus for speculative and build to suit construction for large distribution centers. As our country continues to demand goods from abroad, there will be an increasing need for container consolidation space to accommodate this influx. Additionally, distribution and logistic providers have found these areas to offer significant transportation advantages due to their proximity to the vast majority of our country’s retail consumer market.

Southern New Jersey will continue to prosper in the upcoming quarters due to the market’s proximity to regional ports along the Delaware River and access to major highways such as the New Jersey Turnpike.

As levels of production, size of inventory and employment all increase throughout the Philadelphia MSA, the demand for industrial space and asking rates should continue to increase at a healthy rate throughout the remainder of 2006, and well into 2007.

TOP PHILADELPHIA REGION LEASE TRANSACTIONS

Size (Sq. Ft.)	Tenant	Address
231,642	Kane Warehousing	301 Oaks Street, Pittston, PA
150,000	Anderson Windows	1400 Distribution Drive, Carlisle, PA
140,000	Graham Packaging	340 Emig Road, Emigsville, PA
129,000	Eagle Global Logistics	601 Memory Lane, York, PA
120,000	Smart Management	270 & 290 Canal Road, Fairless Hill, PA

TOP PHILADELPHIA REGION SALE TRANSACTIONS

Size (Sq. Ft.)	Buyer	Address
830,000	Colony Realty	Valley Forge Distribution Center, 125 Green Tree Road, Oaks, PA
677,000	Kalmon Dolgin Affiliates	Philadelphia Design & Distribution Center, 4700 Wissahickon Ave., Philadelphia, PA
219,000	State of Delaware Dept. of Transportation	Beech Street & Maryland Avenue, Wilmington, DE

PHILADELPHIA REGION SUBMARKET MAP



AVERAGE ASKING LEASE RATE

Rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

NET LEASES

Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

MARKET COVERAGE

Includes all competitive industrial buildings 100,000 square feet and greater in size.

NET ABSORPTION

The change in occupied square feet from one period to the next.

NET RENTABLE AREA

The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies, and stairwell areas.

OCCUPIED SQUARE FEET

Building area not considered vacant.

UNDER CONSTRUCTION

Buildings which have begun construction as evidenced by site excavation or foundation work.

AVAILABLE SQUARE FEET

Available Building Area which is either physically vacant or occupied.

AVAILABILITY RATE

Available Square Feet divided by the Net Rentable Area.

VACANT SQUARE FEET

Existing Building Area which is physically vacant or immediately available.

VACANCY RATE

Vacant Building Feet divided by the Net Rentable Area.

NORMALIZATION

Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.