Office Market Trends Philadelphia: CBD & Suburbs

Grubb & Ellis Research

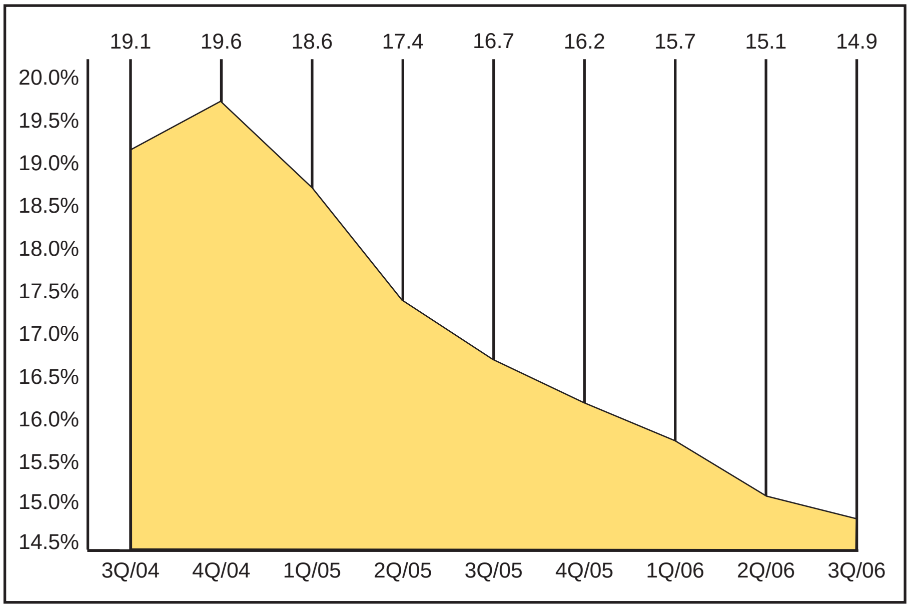
Third Quarter 2006

Grubb & Ellis
Property Solutions Worldwide

Leasing Market Stays on Track

Executive Summary

Market fundamentals in both the Philadelphia CBD and the western suburban office markets strengthened further as tenant growth took vacancy down several notches. The Philadelphia CBD recorded 151,780 square feet of black ink in the recent survey period while the suburbs recorded 325,083 square feet of positive absorption. Consequently, regional vacancy dipped to 14.9 percent, a notable 4.7 percentage point decline from the end of 2004. During the third quarter, there was once again evidence of a broad regional recovery, as for the fifth consecutive quarter 12 of 17 area submarkets recorded vacancy declines, setting the stage for 2007 to bring additional tenant growth. Leading the way in the suburbs, King of Prussia and Exton/Malvern, contributed an aggregate 283,609 square feet to the regional absorption total. Meanwhile, the West Market CBD submarket outpaced all others downtown, recording 189,122 square feet of black ink. During 3Q06, tenants once again showed their favor for Class A space soaking up 515,000 square feet of premium product which brought the sector's share of total 2006 to-date absorption to over 75 percent. Meanwhile, Class A rents held steady at $26.27 PSF/YR full service while Class B rents edged up $0.10 to $22.14 PSF/YR full service.



Regional Office Vacancy Rate*

** All Classes of Space*

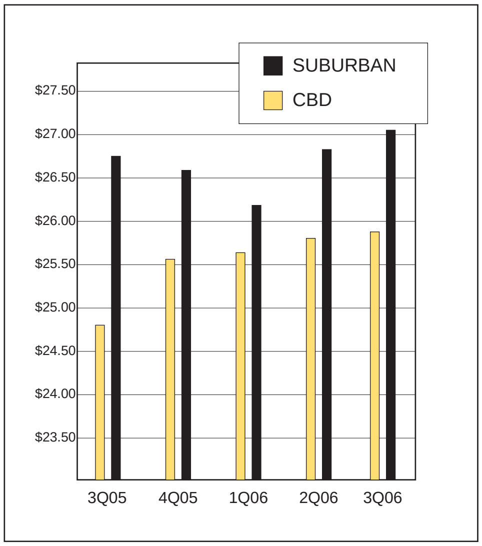
Contents

Philadelphia Office Market Trends is a newsletter published quarterly by Grubb & Ellis Company. To obtain additional copies or other Grubb & Ellis publications, please contact:

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

"The Exton/Malvern submarket featured the most tenant growth in the third quarter."



Philadelphia CBD vs. Suburbs Class A Asking Rents

Market Overview

Western Suburban Overview

During the third quarter nine of the 12 suburban submarkets, Blue Bell/Plymouth Meeting, Horsham/Willow Grove and Jenkintown being the exception, saw vacancy reduced. The suburban market tallied 352,083 square feet of positive absorption which pushed the year-to-date growth total over the 1 million square foot threshold. The quarter's gains were largely driven by the King of Prussia and Exton/Malvern submarkets, both of which absorbed over 100,000 square feet and added a combined 283,609 square feet of positive absorption to the suburban quarterly aggregate.

The Exton/Malvern submarket featured the most tenant growth, enjoying 159,111 square feet of positive absorption. Contributing to the growth was Siemens, which relocated from Lindenwood Drive and moved into 35,000 square feet of space at 55 Valley Stream Parkway. Groundwater & Environmental Services, Inc. and Comcast also took up residence in the submarket as they moved into a combined 33,000 square feet of space in the third quarter. King of Prussia did not finish the quarter far behind Exton/Malvern, and with the help of Office of the Attorney General of the Commonwealth of Pennsylvania, which moved into 32,900 square feet of space at 1000 Madison Avenue, the region's largest suburban submarket posted 124,498 square feet of positive absorption.

The Blue Bell/Plymouth Meeting submarket closed the third quarter with a loss of 209,502 square feet of space. In an upgrade move, Brandywine Realty Trust vacated 29,141 square feet of space at 401 Plymouth Road to occupy space at the recently renovated 555 Lancaster Avenue, while Merck consolidated into company-owned space in New Jersey and vacated 70,533 square feet at 5 Sentry Parkway and 129,000 at 10 Sentry Parkway.

Third quarter Class A rents increased in 8 submarkets, with the most significant gains occurring within the Conshohocken and Bala Cynwyd submarkets. Conshohocken Class A full-service asking rents rose $0.47 to $32.49 PSF/YR while Class A rents jumped to $32.29 PSF/YR in Bala Cynwyd. In terms of the overall suburban market, Class A full-service asking rents increased by $0.21 to $27.03 PSF/YR as Class B full-service asking increased by $0.09 to $22.60 PSF/YR in 3Q06.

The amount of office space completed and added to the inventory during the third quarter totaled 127,000 square feet driven largely by the 75,000 square foot office project located at 420 Delaware Drive in the Fort Washington submarket. Once completed, McNeil-PPC Inc., the consumer health division

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

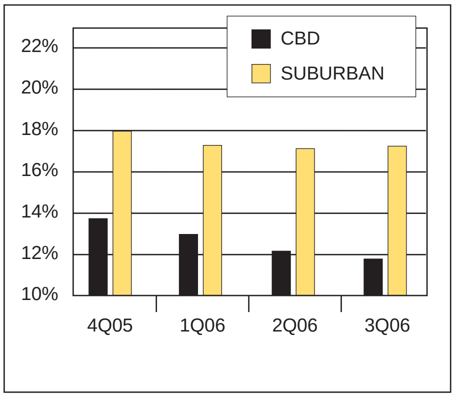
of Johnson & Johnson, moved into 50,000 square feet of space taking down two-thirds of the building. Meanwhile, steel was raised on 1000 Continental, a 205,000 square foot Class A office building going up in King of Prussia.

CBD Market Overview

Heading downtown, the CBD office market stayed constant during the third quarter posting healthy absorption gains of over 151,780 square feet which drove vacancy down 50 basis points to 11.7 percent. The recovery of the CBD office market is unmistakable; since the phase began early in 2005, vacancy has decreased over 3 full percentage points to its lowest level in over four years. Once again, the third quarter's gains were driven by activity in the West Market submarket. This majority of the market activity is likely to remain there given the shear amount of available space contained in the area. For example, despite respectable quarterly (189,122 SF) and year-to-date absorption totals, the submarket still offers approximately three quarters of all available space and nearly 90 percent of all Class A space in the Center City, and is the only submarket in the CBD with vacancy above 10 percent.

"Despite significant reductions in vacancy, overall rents in the CBD have yet to increase in step..."

Despite significant reductions in vacancy, overall rents in the CBD have yet to increase in step, largely a result of the large block of sublet space in the Bell Atlantic Building and multiple large blocks of Class A space which are keeping rents in-check. Over the past three quarters, leasing activity in One Liberty and Two Liberty, along with the combination of leasing activity and diminishing term of the Verizon sublet at the Bell Atlantic building, will likely set the stage for rent appreciation and tightening concessions in the quarters ahead.



Philadelphia CBD vs. Suburban Vacancy Rates

Investment Market Overview

Focusing on sales activity, Philadelphia's suburban and CBD investment market remained active during the third quarter, sustaining a brisk pace established in 2005. According to Real Capital Analytics, private, public and institutional investors spent $2.3 billion within the last year to acquire office assets in both the CBD and western suburbs. Acquisition prices per square foot averaged $173, up sharply from 2005 where prices per square foot remained at $140. Meanwhile, capitalization rates have fallen, especially for the suburban market. In the past twelve months the suburban cap rate declined at least a full percentage point to settle at 6.9 percent. Despite additional capital trying to make its way in to the market, with most of the trophy assets already traded, 2007 is expected to be a more even year, in terms of investment volume.

One of the most notable trades involved a joint venture between Dividend Capital Realty Trust and Amerimar Enterprises, which acquired Balapointe Centre for $35.5 million or $205 per square foot. The 173,000 square foot office building, located in the Bala Cywynd submarket, is home to Clear

"...several developers are seizing the opportunity to create high-end office product targeted at large users."

Channel Communications. In another suburban trade, Ivymont Associates acquired the 32,634 square foot office asset at 631 Park Avenue in King of Prussia for $7.5 million or $230 per square foot in August. The two-story office building is situated on 2.3 acres and is completely occupied by Strohl Systems Group, Inc., which plans to continue their lease. The new owner has plans to expand the building later in 2007.

Opportunities and Challenges

In the western suburbs, most of the large blocks of contiguous space were taken down by tenants in the last year with only a few viable options left by the end of the third quarter. As a result, several developers are seizing the opportunity to create high-end office product targeted at large users. For instance, steel has been raised on the highly anticipated 1000 Continental Drive in King of Prussia. The 205,000 square foot, Class A office development, with frontage on State Highway 202, will offer tenants high-end space options, and once completed, is expected that to drive Class A rents in the submarket upwards. Further north, in Plymouth Meeting, work continues on Metroplex Corporate Center 1, Brandywine Realty Trust's 120,877 square foot high-profile building offers tenants optimal floor plates and IH-476 exposure.

Forecast

Looking into the months ahead, it is likely that the CBD and suburban markets will move along the growth continuum established in the previous two years, given the improved regional economy, stable interest rates and, in particular, the improved economic outlook for the healthcare, pharmaceutical and financial industries, vital to both leasing markets. While it is to early to say that landlords have the upper hand in the CBD or in the western suburbs, in certain submarkets, it is expected they will gain additional leverage throughout 2007. Horsham/Willow Grove, Fort Washington, King of Prussia and Southern 202 submarkets are all posting Class A vacancy below 10 percent, as are four of the five CBD submarkets, thus making it likely landlords will soon consider trimming concession packages and evaluate current asking rents.

Major Transactions

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

Investment Sale
Four Greenwood Square, LLC
3325 Street Road
Bensalem, PA from
William F Kalinowsky Trust
Grubb & Ellis Representatives:
Matt Devine & Carl Neilson

Landlord Representation
Social Security Administration at
1601 Market Street
Philadelphia, PA
Grubb & Ellis Representatives:
Jack Soloff, Craig Scheuerle and Matt Guerrieri

Tenant Representation
General Reinsurance Corp.
1717 Arch Street
Philadelphia, PA
Grubb & Ellis Representatives:
Wayne Fisher & Kenneth Clyman

Landlord Represenation
Berwind Property Group, Inc.
Wei East, Inc. at
3813 West Chester Pike
Newtown Square, PA
Grubb & Ellis Representative:
John Perkins

Tenant Representation
Black Box Network
540 Township Line Road
Blue Bell, PA
Grubb & Ellis Representative:
Matt Devine

Office Locations

Nationwide coverage delivered through the Grubb & Ellis system.

Office Market Snapshot Philadelphia: CBD & Suburbs Third Quarter 2006

By Submarket (All Classes)	Total (1) SF	Vacant (2) SF	Vacant %	Net Absorption Current	Net Absorption Year To Date	Under Const. (3) SF	Asking Rent (4) Class A	Asking Rent (4) Class B
Chestnut/Walnut	1,994,762	152,376	7.6%	(6,789)	(8,481)	-	$20.25	$21.20
East Market	5,320,609	548,810	10.3%	(24,690)	241,682	-	$23.19	$20.34
Independence Square	4,831,077	356,553	8.3%	12,666	65,139	-	$21.92	$20.18
South Broad	2,554,684	100,474	3.9%	6,803	41,477	-	$21.00	$20.03
West Market	24,083,205	3,334,998	13.8%	189,122	471,181	1,238,000	$26.77	$22.08
CBD Total	**38,784,337**	**4,537,602**	**11.7%**	**151,780**	**855,389**	**1,238,000**	**$25.80**	**$21.20**
Bala Cynwyd	2,854,882	381,286	13.4%	56,763	51,055	-	$32.29	$27.90
Blue Bell/Plymouth	5,960,979	1,051,106	17.6%	(209,502)	(127,407)	120,877	$27.39	$22.76
Bucks County	6,155,754	1,138,806	18.5%	117,701	117,395	147,076	$24.28	$19.82
Central/Southern Delaware County	4,590,042	1,020,022	22.2%	74,724	40,944	128,000	$24.15	$22.28
Conshohocken	3,012,832	515,174	17.1%	89,498	153,614	-	$32.49	$24.34
Exton/Malvern	6,348,522	859,902	13.5%	159,111	142,779	110,000	$23.87	$20.95
Fort Washington	3,279,599	741,243	22.6%	14,887	148,466	450,000	$23.12	$20.25
Horsham/Willow Grove	5,089,581	682,539	13.4%	(185,677)	(33,750)	120,000	$25.06	$21.39
Jenkintown	1,239,218	128,201	10.3%	(1,850)	(28,596)	-	$26.25	$21.62
King of Prussia	12,545,574	1,921,181	15.3%	124,498	431,833	205,122	$27.28	$22.99
Radnor/Main Line	2,672,833	871,026	32.6%	75,499	107,290	-	$27.50	$26.27
Southern 202 Corridor	1,840,120	229,181	12.5%	9,431	39,066	34,000	$26.55	$20.93
Suburban Total	**55,589,936**	**9,539,667**	**17.2%**	**325,083**	**1,042,689**	**1,315,075**	**$27.03**	**$22.60**
Totals	**94,374,273**	**14,077,279**	**14.9%**	**476,863**	**1,853,687**	**2,553,075**	**$26.27**	**$22.14**

By Class (All Submarkets)	Total SF	Vacant SF	Vacant %	Net Absorption Current	Net Absorption Year To Date	Under Const. SF	Available for Sublease CBD	Available for Sublease Suburban
Class A	46,038,287	6,529,856	14.2%	515,224	1,476,649	2,428,475	399,308	670,204
Class B	39,521,764	5,928,386	15.0%	140,134	505,806	124,600	211,803	576,292
Class C	8,814,222	1,574,636	17.9%	(134,104)	(84,377)	-	-	84,936
Totals	**94,374,273**	**14,077,279**	**14.9%**	**476,863**	**1,853,687**	**2,553,075**	**611,111**	**1,331,432**

(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.*

Construction Third 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	79.4%	-	-	-	-	-
Suburban	745,075	25.5%	366,286	801,101	570,000	-	-
Total	**1,983,075**	**59.2%**	**366,286**	**801,101**	**570,000**	-	-

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.

Grubb & Ellis®
Property Solutions Worldwide