

Office Market Trends Philadelphia: CBD & Suburbs

Grubb & Ellis Research

First Quarter 2006



Tenant Demand Drives New Growth

Executive Summary

2006 started where 2005 left off with both the Philadelphia CBD and western suburban office markets once again experiencing declines in vacancy. With the CBD inking 214,000 square feet and the suburbs tallying over 240,000 square feet of positive net absorption, overall regional vacancy shed 50 basis points to end the quarter at 15.7 percent. For the third consecutive quarter, nine of the region's 13 submarkets registered declines in vacancy signaling that the region's office market is moving along the road to market recovery. The King of Prussia and Horsham/Willow Grove suburban submarkets shined in 1Q06 contributing 225,000 square feet of gains. Heading downtown, the East Market CBD submarket made the most significant contribution to first quarter absorption performance with approximately 60 percent of the CBD's gains. Evidence of aggressive deal making, overall Class A full-service asking rents slipped down \$0.13 to \$25.83 per square foot per year while full-service Class B rents edged up only \$0.05 to \$22.05 PSF/YR.

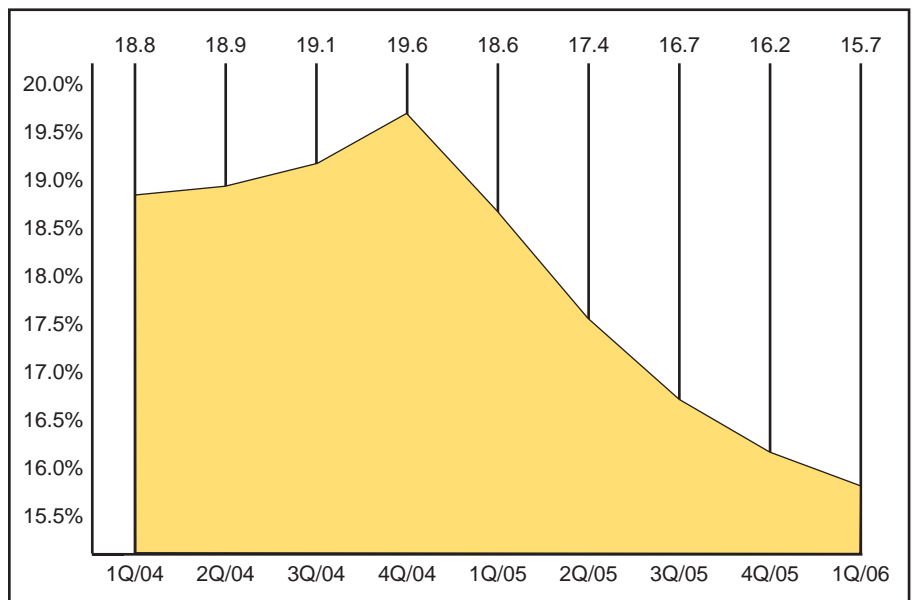
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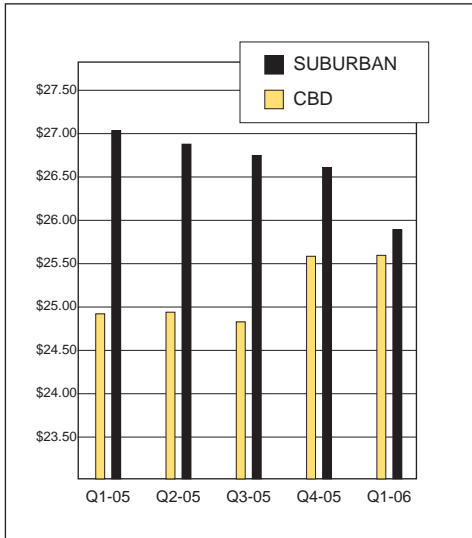
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Office Vacancy Rate*
* All Classes of Space

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“Construction is progressing at 1701 JFK Boulevard, the site of the largest private commercial development project in the state...”



**Philadelphia CBD vs. Suburbs
Class A Asking Rents**

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Market Overview

CBD

The CBD office market picked up in 1Q06 where it left off in 4Q05 posting 214,000 square feet of new tenant demand. Consequently, vacancy slipped to 13.1 percent, trimming 60 basis points from the 2005 year-end level and 470 basis points from just one year ago.

The largest direct lease inked during the quarter was CBS Broadcasting's 120,000 square foot lease at 1500 Spring Garden Street. The station will relocate its television broadcasting operations from 5th and Market Street, a location which is slated to be razed to make way for the National Jewish History Museum. CBS Broadcasting's new home, 1500 Spring Garden Street, recently underwent \$70 million worth of renovations and offers state-of-the-art infrastructure and superior access to region's transportation infrastructure, both key considerations for the broadcaster.

Only blocks away from 1500 Spring Garden, The Children's Hospital of Philadelphia signed on for an additional 117,000 square feet at the historic Wanamaker building, bringing its total commitment to 175,000 square feet. This lease, coupled with Market Lab Research's 21,000 square foot deal executed in the first quarter, were key in backfilling space in excess of 200,000 square feet which was hastily vacated by American Business Financial Services last summer, a result of the company's well publicized bankruptcy.

Class A full-service asking rents ended the quarter up \$0.05 to \$25.61 per square foot per year while Class B full-service rents slipped \$0.20 to \$21.07 PSF/YR.

Construction is progressing at 1701 JFK Boulevard, the site of the largest private commercial development project in the state, a 57-story, 1.2 million square foot office building developed by Liberty Property Trust. Comcast previously announced a commitment to occupy 875,000 square feet, or 70 percent of the building for an initial term of 15 years and retains the right to additional space in the building which, once completed in late-2007, will be Philadelphia's tallest skyscraper.

On the investment front, Loeb Partners acquired the Penn Mutual Towers from Broadway Real Estate Partners for \$139 million. The building, located in the Independence Square CBD submarket, is approximately 96 percent occupied and is anchored by high credit tenants such as Ace Insurance and Beneficial Savings. Loeb added this building to its current Philadelphia holdings which include the Marketplace on 24th Street.

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Additional noteworthy transactions in the first quarter include AFIAA's \$22.5 million purchase of 1760 Market Street, a 14-story, Class B, 124,000 square foot building in the West Market submarket. Also, California-based Triple Net Properties expanded its presence in the Philadelphia market by acquiring 1818 Market Street for \$152.1 million.

Western Suburbs

Heading west, the suburban office market started the year on a positive note posting absorption gains of over 240,000 square feet. Consequently, vacancy dipped 50 basis points from 4Q05 to end the quarter at 17.5 percent which represents a notable 270 basis point decline from 1Q05. Signaling aggressive posturing by Class A landlords, full-service asking rents slipped \$0.40 to \$26.22 per square foot per year, while on the other hand, landlords of Class B product leveraged the tightening of the Class B market and edged up full-service rents \$0.19 to \$22.37 PSF/YR.

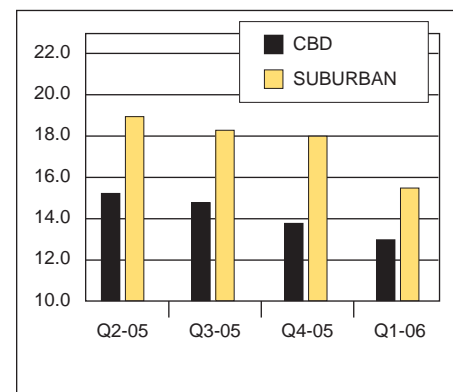
During the first quarter, Liberty Property Trust announced it intends to purchase and redevelop 1100 Virginia Drive, an 850,000 square foot building located in the Fort Washington Business Center upon signing a 450,000 square foot lease with GMAC Mortgage Corporation. The building is home to G&A Warehouse, Devry University and The Fort Washington Expo Center, which was marketed as the largest suburban convention facility in the northeast. Liberty intends to finalize the transaction in June 2006, beginning renovations shortly thereafter and deliver the space to GMAC in the fourth quarter of 2007.

In one of the largest suburban investment transactions in recent history, a joint venture between Philadelphia-based Pitcairn Properties and SEB Immobilien-Investment, GMBH acquired the Chesterbrook and Glenhardie Corporate Centers in the King of Prussia submarket for a reported \$251 million (\$197 per square foot). In acquiring the two suburban office parks, which total over 1.2 million square feet and a combined 17 office buildings, Pitcairn clearly becomes a major landlord in the King of Prussia submarket.

In addition to notable investment activity, the King of Prussia submarket also had its fair share of leasing volume. For instance, there was brisk activity at Liberty Property Trust's Renaissance Park; Toshiba signed on for 13,334 square feet, Shapiro & Kreisman grew from 2,000 square feet to over 7,400 square feet while Array Healthcare Facilities Solutions Inc. took an additional 5,000 square feet and now occupies over 21,000 square feet of space. At 3200 Horizon Drive, Bright Horizons Daycare took 14,437 square feet, Neoware Systems inked a 31,558 square foot deal and YellowBrook leased 15,000 square feet. Also in the King of Prussia submarket, at BPG Properties' Executive Terrace, United Health Systems signed for over 10,000.

In the Exton/Malvern submarket, there was a flurry of lease signings at the Great Valley Corporate Center with several lease renewals and expansions

"...the suburban office market started the year on a positive note posting absorption gains of over 240,000 square feet."



Philadelphia CBD vs. Suburban Vacancy Rates

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“...it is likely that both the suburban and CBD office markets will continue to experience positive growth...”

driven by the healthy growth of firms in life-science related industries. For example, Fujirebio Diagnostics upped its commitment by 18,000 to 75,567 square feet, LifeSensors Inc. doubled its size taking 9,600 square feet and Frontage Laboratories tripled its requirement inking a deal for 16,000 square feet.

Forecast

Looking into the months ahead, it is likely that both the suburban and CBD office markets will continue to experience positive growth given the improved health of the broad regional economy and in particular, the health of industries vital to both the CBD and suburban labor markets such as legal, financial services and life science related industries. While it would certainly be premature to indicate that landlords now have the upper hand regionally, the broader market is closer to equilibrium than it has been in recent recording periods.

Opportunities and Challenges

In the western suburbs, many of the large blocks of contiguous space were absorbed in the past 18 months with only a few viable options remaining at the end of the quarter. As a result, developers such as BPG Properties are seizing this opportunity to develop new product that satisfies the custom space requirements of large users investigating the suburban office market.

During the first quarter, BPG signed one of the region's largest suburban office leases in recent history, a 128,000-square-foot build-to-suit long-term lease with Main Line Health at the company's Ellis Preserve development in Newtown Square. This transaction was the first to take place in the one-million-square-foot master-planned development, ultimately consisting of 500,000 square feet of Class A office space, 450,000 square feet of upscale retail and a full-service hotel in addition to the 800,000 square feet of existing office space. In addition to the Ellis Preserve project, the company has two additional projects slated for development in King of Prussia. The first, 1000 Continental Drive, is a 200,000 square foot building which will be built on a speculative basis with a ground breaking slated for late 2Q06; the second is a fully approved site in the Valley Forge Corporate Center, a tentative 100,000 square foot project which will be launched when a tenant is secured.

Office Market Trends First Quarter 2006

Major Transactions

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

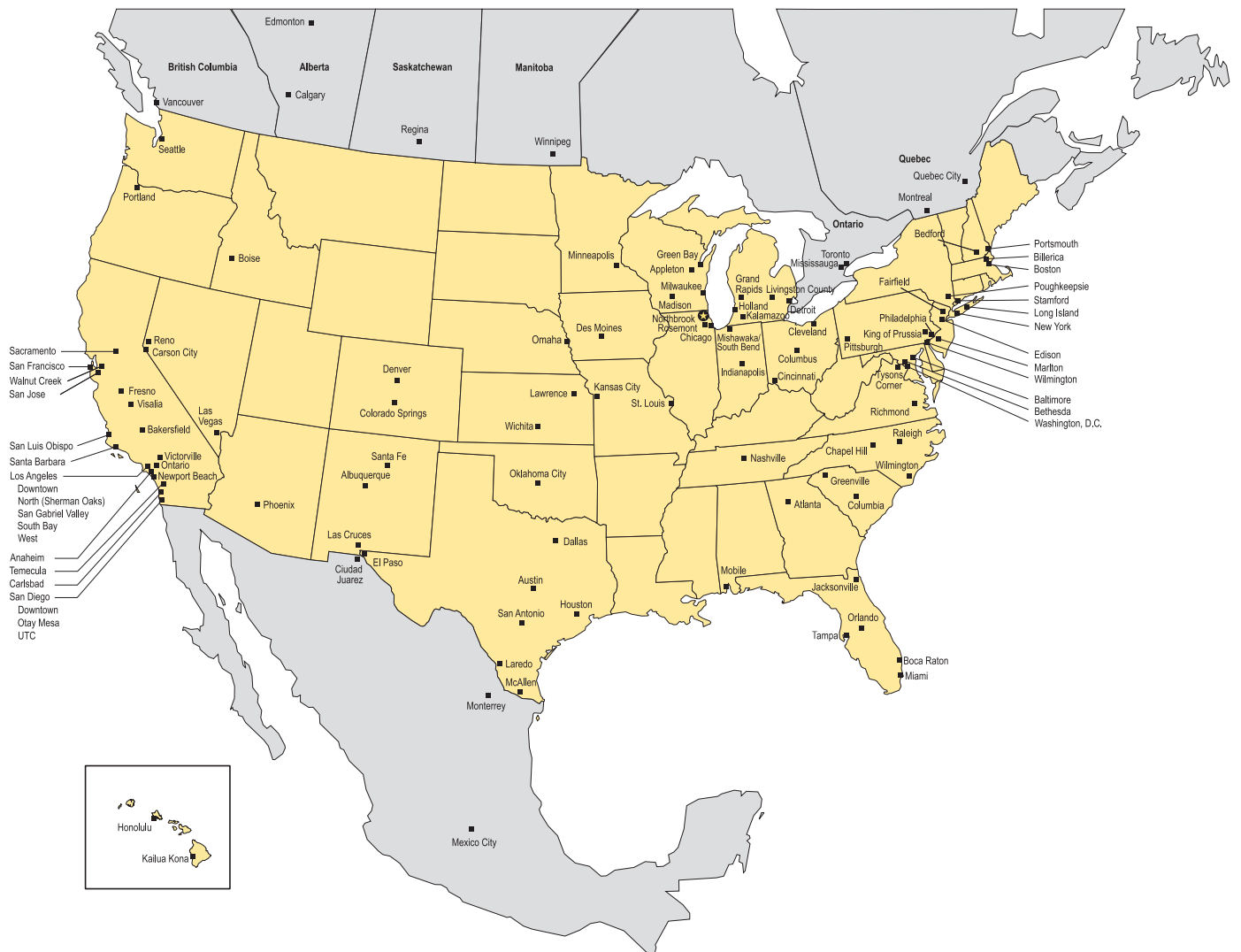
Tenant Representation
CBS Broadcasting
 Leased 120,000 SF at
 1500 Spring Garden Street
 Philadelphia, PA
 Grubb & Ellis Representatives:
Dan Brogan, Craig Scheuerle
& Jim Egan

Landlord & Tenant
Representation
Main Line Health
 Leased 128,000 SF at
 The Ellis Preserve
 Newtown Square, PA
 Grubb & Ellis Representatives:
John Perkins & Timothy Arizin

Tenant Representation
Anderson Kill & Olick, P.C
 Leased 22,000 SF at
 1600 Market Street
 Philadelphia, PA
 Grubb & Ellis Representative:
Ben Reiff

Office Locations

Nationwide coverage delivered through the Grubb & Ellis system.



Office Market Snapshot Philadelphia: CBD & Suburbs First Quarter 2006

By Submarket (All Classes)	Total SF(1)	Vacant SF(4)	Vacant %	Net Absorption		Under Construction(2)	Asking Rent (3)	
				Current Quarter	Year-to-date		Class A	Class B
CBD	38,784,337	5,096,786	13.1%	214,394	214,394	1,238,000	\$25.61	\$21.07
Bala Cynwyd	2,854,882	427,670	15.0%	4,671	4,671	-	\$31.68	\$28.75
Blue Bell/Plymouth Meeting	5,936,915	823,600	13.9%	84,035	84,035	24,000	\$25.57	\$22.61
Bucks County	6,136,260	1,104,357	18.0%	(49,267)	(49,267)	400,676	\$23.03	\$19.87
Central/Southern Delaware County	4,292,059	807,362	18.8%	(92,031)	(92,031)	-	\$23.98	\$22.34
Conshohocken	3,012,832	619,098	20.5%	49,690	49,690	-	\$32.02	\$24.34
Exton/Malvern	6,348,466	1,008,852	15.9%	(6,227)	(6,227)	-	\$23.99	\$21.21
Fort Washington	3,226,294	817,621	25.3%	13,088	13,088	-	\$23.65	\$19.36
Horsham/Willow Grove	5,031,581	495,094	9.8%	152,695	152,695	-	\$23.17	\$20.53
Jenkintown	1,239,218	97,532	7.9%	2,073	2,073	-	\$24.39	\$21.60
King of Prussia	12,422,122	2,236,340	18.0%	72,335	72,335	-	\$25.72	\$22.61
Radnor/Main Line	2,484,564	872,418	35.1%	(8,419)	(8,419)	90,000	\$26.95	\$25.41
Southern 202 Corridor	1,820,120	300,687	16.5%	17,524	17,524	228,538	\$25.10	\$20.53
CBD	38,784,337	5,096,786	13.1%	214,394	214,394	1,238,000	\$25.61	\$21.07
Suburban	54,805,313	9,610,631	17.5%	240,167	240,167	743,214	\$26.22	\$22.55
Totals	93,589,650	14,707,417	15.7%	454,561	454,561	1,981,214	\$25.83	\$22.05
By Class (All Submarkets)							<u>Available for Sublease</u>	
							CBD	Suburban
Class A	45,288,445	6,792,211	15.0%	342,477	342,477	1,848,214	398,358	1,032,393
Class B	39,438,882	6,441,214	16.3%	74,465	74,465	133,000	209,837	608,378
Class C	8,862,323	1,473,992	16.6%	37,619	37,619	-	-	91,678
Totals	93,589,650	14,707,417	15.7%	454,561	454,561	1,981,214	599,195	1,732,449

(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 First 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	73.4%	-	-	-	-	-
Suburban	603,676	35.6%	81,315	81,315	139,538	-	-
Total	1,841,676	61.0%	81,315	81,315	139,538	-	-

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.