

StudleyReport

STUDLEY OFFICE MARKET AND SPACEDATA REPORT

MARKET HIGHLIGHTS

SLIGHT FLUCTUATION IN CBD AVAILABILITY RATES

Philadelphia's CBD recorded an overall availability rate of 12.3%, up by 0.7 pp from last quarter but down by 1.1 pp from last year. The Class A availability rate stood at 11.0%, a decrease of 0.5 pp from the previous quarter and of 2.5 pp from the corresponding period a year ago.

RENTS DOWN FOR THE QUARTER, UP FOR THE YEAR

Overall asking rent in the CBD (\$24.31) registered a decrease for the quarter (-1.6%) due to high-rent spaces being leased and taken off the market during the quarter, but registered an increase for the year (+7.4%). Similarly, Class A rent (\$26.64) fell by 2.2% from last quarter but rose by 7.5% from last year.

GROWTH IN LEASING ACTIVITY

On a trailing four-quarter basis, overall leasing in the CBD totaled 3.7 msf, an increase of 17.6% from the previous quarter and of 7.7% compared to volume during the fourth quarter of 2006. Similarly, Class A leasing (2.8 msf) rose by 20.1% and 33.9% from its levels of last quarter and last year.

LARGE BLOCK INVENTORY DECREASES

The number of large contiguous blocks of space (50,000 sf or more) in the CBD declined from 11 last quarter to 9. A year ago, 14 such blocks were available.

2007 Closes on a Strong Note

The Philadelphia office market tightened considerably in 2007 as the move to quality continued. The region's Class A availability rate declined from 17.0% at the end of 2006 to 15.7% at year-end 2007. The balance of the Philadelphia CBD also witnessed strong leasing activity, causing overall availability to drop by 1.1 pp from 13.4% to 12.3% year-on-year, and Class A availability to decrease by 2.5 pp from 13.5% to 11.0%.

Vacant space throughout the city was quickly absorbed in 2007. The city's newest buildings, Cira Centre and the Comcast Center, were almost completely absorbed and Two Liberty Place, formerly offering the largest vacant block of space, was completely leased. Also, the Comcast Corporation, whose former space in Center Square was partially leased in 2007, has plans to bring its sports network, Versus, from Connecticut to the Comcast Center in 2008. Migrations from West Philadelphia, such as relocations by The Children's Hospital of Philadelphia (CHOP) and Hospital of the University of Pennsylvania (HUP), absorbed 330,000 sf of space. Also during the fourth quarter, Unisys, an information technology company headquartered in suburban Blue Bell, signed a 95,000-sf lease at Two Liberty Place, where it will be moving part of its corporate office in early 2009. Landlords achieved a 2.5% to 3.0% annual rent escalation in 2007 instead of the traditional \$0.50 per square foot per year, raising effective rents and indicating that the market has swung even further in their favor.

The city is ripe for new development of office space and numerous developers will likely compete with Brandywine, which is positioning itself to be one of the larger office space landlords in the city with the development of Cira Centre South. Liberty Property Trust is negotiating to build a larger second building that will comprise at least 250,000 sf adjacent to the new Comcast Center. Oliver Tyrone Pulver, Trinity Capital, Walnut Street Capital and other developers are proposing to build additional office and mixed-use projects downtown. However, the credit crunch could inhibit the development of some proposed projects as developers move to secure financing. Additionally, a handful of Class B and C office buildings are set to be converted to hotels to support

CBD TRANSACTION BAROMETER

	Under 50,000 sf	One Qtr Change	Over 50,000 sf	One Qtr Change
Average Term:	5-9 yrs	◀▶	10-15 yrs	◀▶
Concessions:				
Free Rent	3-5 months	◀▶	6-8 months	◀▶
Tenant Improvements	\$40.00/sf	◀▶	\$50.00/sf	◀▶
Moving	\$2.00/sf	◀▶	\$2.00/sf	◀▶
Architect Fee	\$2.50/sf	◀▶	\$3.00/sf	◀▶

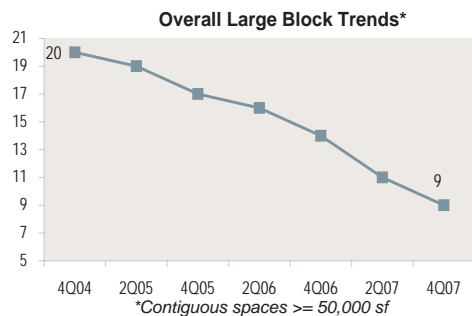
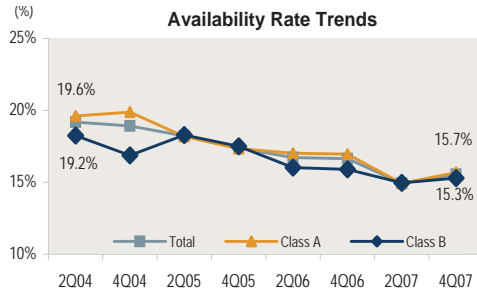
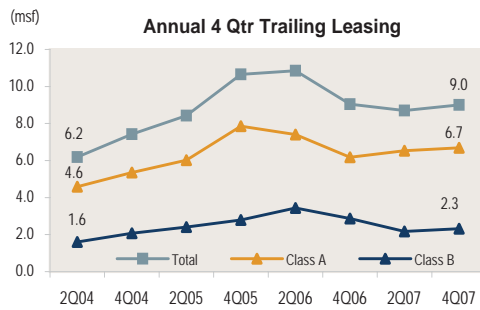
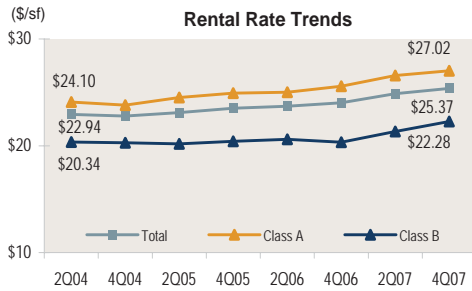
Outlook: Large blocks of space will remain limited, leaving the city ripe for new construction.

SUBURBAN TRANSACTION BAROMETER

	Under 50,000 sf	One Qtr Change	Over 50,000 sf	One Qtr Change
Average Term:	5 yrs	◀▶	10 yrs	◀▶
Concessions:				
Free Rent	1-2 months	▼	3-5 months	▼
Tenant Improvements	\$25.00/sf	◀▶	\$30.00-\$40.00/sf	◀▶
Parking	4 spaces /1,000 sf	◀▶	4 spaces /1,000 sf	◀▶

Outlook: Large blocks of newly constructed or rehabbed space are awaiting tenants.

▲ Up ▼ Down ◀▶ Unchanged



the expansion of the Pennsylvania Convention Center. Without new construction, these conversions will continue to tighten the office market, allowing landlords to aggressively push asking rents. Construction costs are expected to remain high, with steep materials costs and great demand for labor due to hotel development spawned by the expansion of the Convention Center.

With rents edging closer to the break-even point for new construction, most new developments in the CBD have adopted a mixed-use approach that spreads the risk across the retail, residential and office sectors. Walnut Street Capital, for example, says it will likely build 200,000 sf of retail, one or two office towers and possibly some hotel units on the 1.5-acre parcel it recently acquired at 1800 Walnut Street. Developers throughout the region are also embracing green building guidelines. Local developer Brian O'Neill recently broke ground on Horizon Corporate Center in Bensalem. All six buildings will be constructed under LEED-certification guidelines. Horizon Corporate Center will eventually add more than 1.2 msf of Class A office space to Bucks County.

Asking Rents Register Up-Tick

Overall asking rent in the CBD (\$24.31) registered a decrease for the quarter (-1.6%) due to high-rent spaces being leased and taken off the market, but registered an increase for the year (+7.4%). Overall asking rent across the region was essentially flat, inching up from \$25.24 last quarter to \$25.37. However, while Class A asking rent increased by just \$0.01, Class B asking rent jumped by 3.6% from \$21.51 to \$22.28. In the suburbs, Class A asking rent increased by 0.8%, but the rate fell by 2.2% in the CBD, largely because of high-quality, high-rent Class A space that was leased and taken off the market during the fourth quarter. Even so, Class A asking rent across the region rose by 5.7% compared to a year ago, with a 6.6% increase to \$28.06 in the suburbs and a 7.5% rise to \$26.64 in the CBD. Class A rent has jumped year-on-year by 5.0% to 8.0% in most areas, with particularly strong increases of 10.7% in Main Line/Conshohocken (\$32.25) and 12.8% in Fort Washington (\$23.46).

Leasing Increases Moderately

Trailing leasing (the sum of all leasing activity during the last four quarters) totaled 9.0 msf, up from 8.3 msf last quarter but still 0.4% below its level of a year ago. Trailing leasing has been slowing since it peaked in early 2006 and has not reached 10.0 msf since the third quarter of 2006. However, Class A leasing has been quite steady, totaling 6.7 msf in the fourth quarter, exceeding the historical average of 6.0 msf by 10.5%. Class A leasing was up in most core Class A markets, registering 2.2 msf in West Market – 20.9% above the historical average – and 587,950 sf in Main Line/Conshohocken, just above the average of 542,583 sf.

SELECTED TRANSACTIONS

Tenant	Sq Feet	Address	Market Area
National Union Fire Co. of Pittsburgh	123,485	1650 Market St	West Market
Unisys Corporation	95,000	1601 Chestnut St	West Market
Buchanan Ingersoll & Rooney PC	77,000	1601 Chestnut St	West Market
Modular Space Corporation	60,342	1200 W Swedesford Rd	Route 202/422/King of Prussia
Parente Randolph	49,394	1650 Market St	West Market
Sargent & Lundy, LLC	48,120	500 Delaware Ave	Wilmington
Dechert LLP	46,060	1650 Market St	West Market
Nelson Levine de Luca & Horst, LLC	41,667	518 Township Line Rd	Blue Bell/Plymouth Meeting
The Signal	39,463	656 E Swedesford Rd	Route 202/422/King of Prussia
Reed Smith LLP	38,142	1650 Market St	West Market
Stonemor Partners LP	37,064	311 New Rogers Rd	Bucks County
Department of Labor and Industry	36,000	801-813 Arch St	East Market
Steelcase, Inc.	31,142	1650 Market St	West Market
Harleysville Mutual Insurance	29,641	112 W Park Dr	South Jersey
Fox Rothschild LLP	29,192	300 Sentry Parkway East	Blue Bell/Plymouth Meeting
Sum of Leases	781,712	Sum of 4th Quarter Leasing Activity	2.0 MSF

Availability Down from a Year Ago

Availability rates were essentially unchanged from last quarter, with no change overall and ticking down by 0.2 pp to 15.7% in Class A properties. Philadelphia's office market has slowly tightened over the last four quarters, with the Class A rate dropping from 17.0% at the end of 2006. The Class A availability rate dropped by 2.5 pp over the last four quarters in the CBD (falling to 11.0%) and by 2.4 pp in the suburban markets (to 18.4%). The Class A rate declined in every submarket except Bala Cynwyd, where it increased by 3.5 pp to 12.5%, and Wilmington, where it rose by 2.6 pp to 21.9%

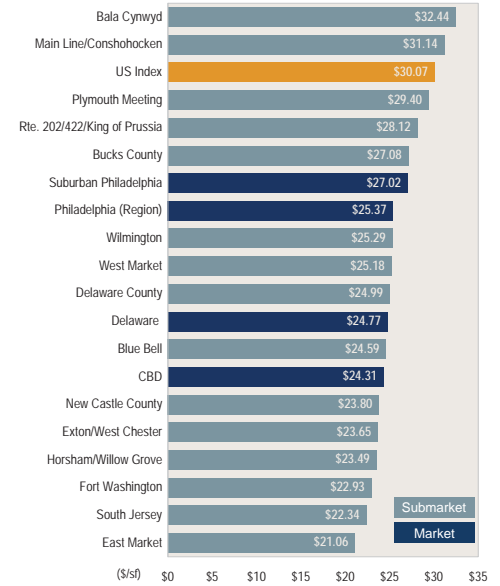
Forecast

The year 2008 will likely favor landlords as did 2007. Construction costs are expected to continue to rise along with oil prices. Faced with significant construction costs and diminished improvement allowances from landlords, a higher percentage of tenants may choose to stay put, increasing landlord profitability. This positive climate for landlords has triggered continued competitive investment activity, with numerous investors, developers and landlords actively trying to add Philadelphia buildings to their portfolios.

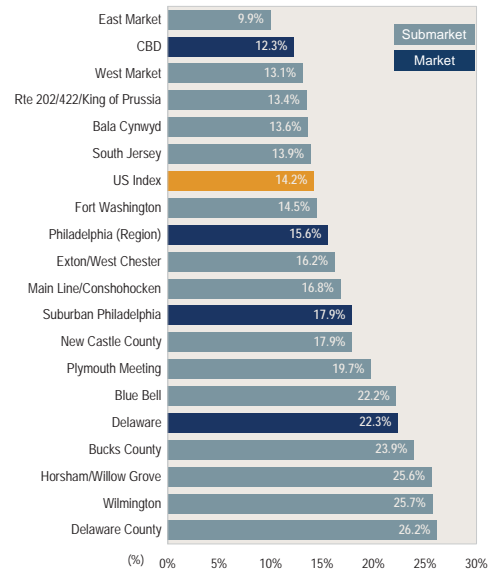
Leading Philadelphia's economic growth is its strong roster of universities and research hospitals. These assets and the lower cost of doing business in Philadelphia have attracted pharmaceutical and biotech firms seeking relief from the high cost of doing business and recruiting talent in Northern New Jersey and other areas in the Northeast. Nine of the region's top eighteen employers are hospitals, healthcare providers or pharmaceutical companies, while universities account for another four of the top eighteen. Many of these firms are contracting through the Department of Defense (DOD), which is likely to stay flush with funds unless political events bring a dramatic turnaround in fiscal policy. GlaxoSmithKline, for example, was recently awarded a \$40-million contract by DOD to develop new antibiotics.

Philadelphia's business community is enjoying a new level of optimism thanks to newly elected Mayor Michael Nutter, who is expected to create a more business-friendly, open and transparent government, bucking years of "pay to play." Clearly, this will provide an environment that will be infinitely more attractive to outside investors and developers. Only a recession in the national economy or a major corporate merger resulting in a large downsizing in Philadelphia could slow the market's momentum in 2008.

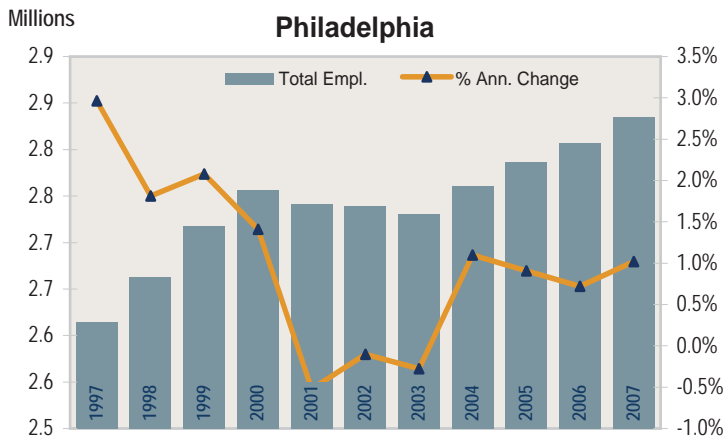
Overall Rental Rate Comparison



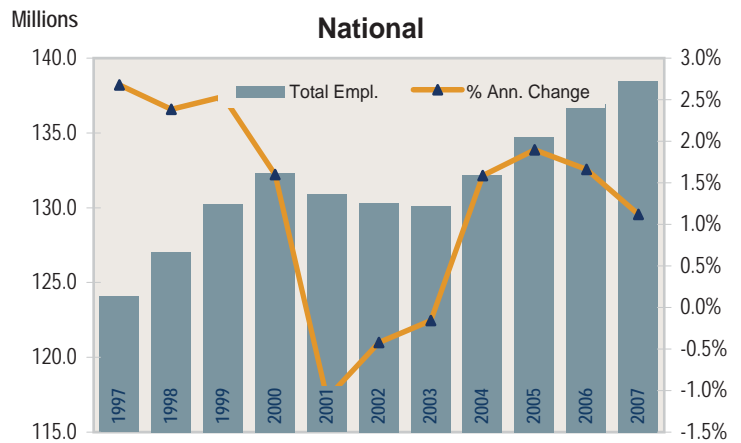
Overall Availability Comparison



EMPLOYMENT TRENDS



Source: Bureau of Labor Statistics



Source: Bureau of Labor Statistics

MARKET SNAPSHOT: 4Q 2007

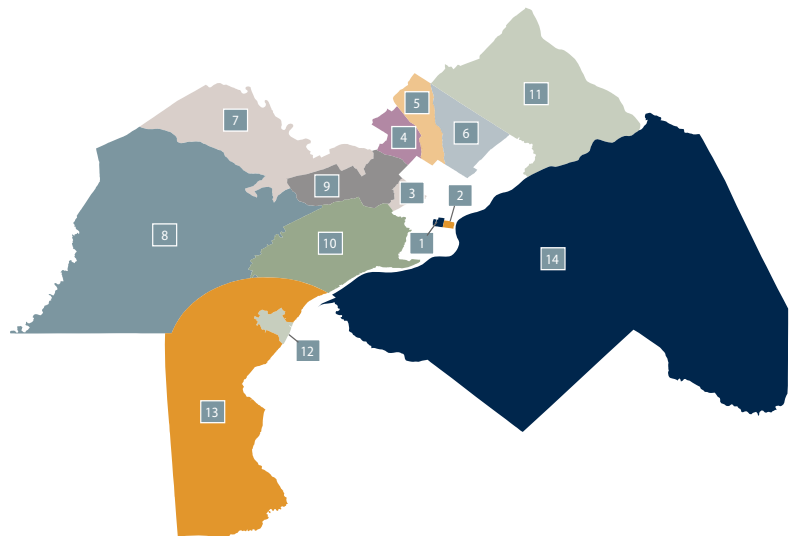
MAP	SUBMARKET	TOTAL	LEASING ACTIVITY			AVAILABLE SF				AVAILABILITY RATE				ASKING RENTS PER SF			
			Inventory SF (1,000's)	Last 12 Mos	4 Yr Average	This Qtr	% Change from Last Qtr	Yr Ago	4 Yrs Ago	This Qtr	pp Change from Last Qtr ⁽¹⁾	Yr Ago	4 Yrs Ago	This Qtr	% Change from Last Qtr	Yr Ago	4 Yrs Ago
1	West Market	31,283	3,053	2,649	4,096	-0.9%	3,856	3,929	13.1%	-0.1%	14.3%	14.2%	\$25.18	-1.1%	\$23.57	\$22.44	
	West Market - Class A	21,824	2,374	1,963	2,532	-11.5%	2,684	2,255	11.6%	-1.5%	14.5%	11.4%	\$27.19	-1.5%	\$25.22	\$23.80	
2	East Market	11,280	603	747	1,122	38.9%	1,258	1,830	9.9%	2.8%	11.2%	16.9%	\$21.06	1.3%	\$19.94	\$20.20	
	East Market - Class A	5,142	376	422	446	69.8%	504	912	8.7%	3.6%	9.4%	18.3%	\$23.25	1.3%	\$22.53	\$21.83	
3	Bala Cynwyd	3,064	181	218	417	5.6%	358	496	13.6%	2.6%	11.8%	18.8%	\$32.44	-1.0%	\$27.91	\$27.93	
	Bala Cynwyd - Class A	2,447	177	132	306	-4.6%	207	285	12.5%	0.9%	9.0%	21.9%	\$33.19	0.0%	\$30.60	\$28.82	
4	Blue Bell/Plymouth Meeting	4,033	295	245	839	-3.1%	953	681	20.8%	-0.7%	23.3%	16.9%	\$27.12	0.3%	\$27.47	\$23.49	
	Blue Bell/Plymouth Meeting - Class A	1,745	186	133	365	-12.8%	619	281	20.9%	-3.1%	26.3%	14.2%	\$30.49	2.5%	\$29.01	\$24.58	
5	Fort Washington	2,411	211	283	349	16.2%	531	631	14.5%	-3.0%	21.0%	25.8%	\$22.93	1.4%	\$20.70	\$21.33	
	Fort Washington - Class A	1,431	42	122	180	-7.6%	200	343	12.6%	-1.0%	20.9%	28.9%	\$23.46	0.9%	\$20.79	\$21.63	
6	Horsham/Willow Grove	3,619	308	263	927	10.8%	918	612	25.6%	2.5%	26.3%	17.4%	\$23.49	1.8%	\$23.20	\$22.04	
	Horsham/Willow Grove - Class A	2,670	269	198	648	10.8%	689	408	24.3%	1.8%	27.0%	15.8%	\$24.95	-0.5%	\$24.65	\$22.49	
7	Route 202/422/King of Prussia	13,181	925	1,062	1,773	3.5%	2,022	2,632	13.4%	0.5%	15.4%	19.8%	\$28.12	0.8%	\$26.76	\$24.74	
	Route 202/422/King of Prussia - Class A	9,452	673	867	1,371	-2.7%	1,871	2,060	14.5%	-0.4%	17.9%	20.3%	\$28.92	3.0%	\$33.57	\$28.26	
8	Exton/West Chester	3,550	240	223	575	-6.3%	2,022	2,632	16.2%	-1.1%	19.6%	19.8%	\$23.65	1.3%	\$22.61	\$24.50	
	Exton/West Chester - Class A	2,561	190	189	467	-6.4%	1,871	2,060	18.3%	-1.3%	21.7%	20.3%	\$24.13	1.4%	\$23.06	\$24.93	
9	Main Line/Conshohocken	4,463	645	551	748	-3.6%	667	826	16.8%	-0.6%	18.9%	25.7%	\$31.14	2.1%	\$29.04	\$29.68	
	Main Line/Conshohocken - Class A	3,812	588	543	632	2.0%	523	711	16.6%	0.3%	19.1%	30.9%	\$32.25	0.3%	\$29.14	\$29.92	
10	Delaware County	3,400	347	253	889	7.1%	836	1,350	26.2%	1.7%	28.4%	32.8%	\$24.99	3.8%	\$23.28	\$21.92	
	Delaware County - Class A	2,985	337	208	800	8.0%	810	1,320	26.8%	2.0%	27.5%	33.5%	\$25.29	4.2%	\$23.42	\$22.31	
11	Bucks County	4,380	386	373	1,046	-11.6%	1,124	678	23.9%	-3.1%	25.7%	21.0%	\$27.08	0.8%	\$26.03	\$21.98	
	Bucks County - Class A	3,520	374	312	864	-10.5%	866	524	24.5%	-2.9%	26.9%	20.1%	\$27.69	0.9%	\$26.10	\$23.12	
12	Wilmington	5,482	347	244	1,408	-13.0%	1,221	1,039	25.7%	-3.8%	23.6%	23.6%	\$25.29	2.9%	\$22.24	\$20.08	
	Wilmington - Class A	4,490	272	189	983	-10.4%	843	724	21.9%	-2.5%	19.3%	21.1%	\$28.06	4.8%	\$25.96	\$21.74	
13	New Castle County	4,129	398	210	739	15.4%	8,122	8,461	17.9%	2.4%	22.4%	17.3%	\$23.80	1.0%	\$23.93	\$20.87	
	New Castle County - Class A	3,450	372	178	631	19.8%	6,399	6,399	18.3%	3.0%	21.7%	18.7%	\$23.92	0.4%	\$24.21	\$21.13	
14	South Jersey	13,716	905	985	1,901	0.2%	1,553	1,754	13.9%	0.0%	11.6%	13.1%	\$22.34	3.0%	\$21.22	\$20.71	
	South Jersey - Class A	6,379	415	498	1,054	8.8%	778	879	16.5%	1.3%	9.9%	11.3%	\$23.25	1.4%	\$22.55	\$21.39	
1-2	PHILADELPHIA TOTAL	42,563	3,655	3,396	5,218	5.6%	5,114	5,760	12.3%	0.7%	13.4%	14.9%	\$24.31	-1.6%	\$22.63	\$21.74	
	PHILADELPHIA TOTAL - Class A	26,966	2,750	2,386	2,979	-4.6%	3,188	3,167	11.0%	-0.5%	13.5%	12.8%	\$26.64	-2.2%	\$24.79	\$23.22	
3-11	SUBURBAN PHILADELPHIA TOTAL	42,303	3,696	3,589	7,565	-2.0%	8,122	8,461	17.9%	-0.4%	20.0%	21.2%	\$27.02	1.2%	\$25.45	\$24.74	
	SUBURBAN PHILADELPHIA TOTAL - Class A	30,623	2,882	2,794	5,635	-1.0%	6,399	6,399	18.4%	-0.2%	20.8%	22.4%	\$28.06	0.8%	\$26.33	\$25.53	
12-13	DELAWARE TOTAL	9,611	849	457	2,147	-4.9%	2,118	1,682	22.3%	-1.2%	23.0%	20.7%	\$24.77	1.8%	\$23.65	\$20.37	
	DELAWARE TOTAL - Class A	7,940	758	370	1,614	-0.6%	1,587	1,306	20.3%	-0.1%	20.4%	20.0%	\$26.34	1.7%	\$25.28	\$21.48	
1-14	PHILADELPHIA REGION TOTAL	108,193	9,002	8,434	16,831	0.1%	16,907	17,657	15.6%	0.0%	16.6%	17.7%	\$25.37	0.5%	\$24.03	\$22.90	
	PHILADELPHIA REGION TOTAL - Class A	71,908	6,684	6,048	11,281	-1.1%	11,951	11,750	15.7%	-0.2%	17.0%	17.4%	\$27.02	0.0%	\$25.58	\$24.08	

PHILADELPHIA CONTACTS

One Liberty Place
 1650 Market Street, Suite 1525
 Philadelphia, PA 19103
 (215) 563-4000

Branch Manager
 H. Hetherington Smith - Senior Vice President
 hsmith@studley.com

Corporate Media Contact
 Esther Rose - Director of Public Relations
 erose@studley.com
 (212) 326-1078



(1) Percentage point change for availability rates.
 Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
 Statistics are calculated using both direct and sublease information.
 Recent inventory adjustments may have contributed to statistical fluctuations in some submarkets.
 The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof.
 Statistics compiled with the support of The CoStar Group. Copyright © 2008 Studley