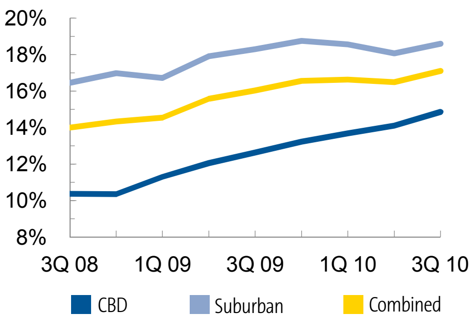
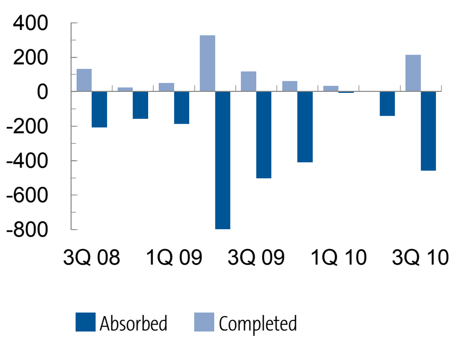
Office Trends Report—Third Quarter 2010
Philadelphia, PA

GRUBB & ELLIS
From Insight to Results

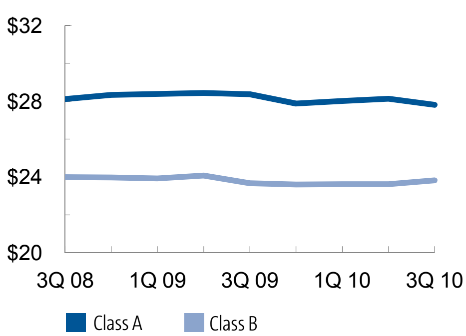
Vacancy Rate



Completions vs. Absorption
(in Thousands of SF)



Asking Rental Rates
($/SF/Yr. Full Service)



Some Fundamentals Shift toward Recovery

While the CBD continues to experience strong headwinds, there are some bright spots in the suburban market. For starters, the suburban sublease market has fallen steadily over the past four quarters and is on pace to reach pre-recessionary levels in just a few quarters. While lease expiration is no doubt a reason for a significant amount of these subleases evaporating, some can be accounted for through demand. Secondly, for the first time in over ten years, there are no projects in the construction pipeline, eliminating the impact of additional supply on market conditions. Finally, occupancy gains in Class A space remain strong, with 630,000 square feet of space having been absorbed year-to-date in contrast a 585,000 square foot combined contraction in the Class B and C sector. The Class A market in the CBD has not enjoyed the same resiliency having posted some 450,000 square feet of negative absorption during the first three quarters of 2010. However vacancy in this sector is still outperforming the broader market and remains 400 basis points below the Class B average.

Looking downtown, the overwhelming majority of negative absorption in the third quarter resulted from Verizon's consolidation at 1717 Arch and if not for this, vacancy would have moved sideways. While this was anticipated and did not come as a surprise it confirms the establishment of a trend, being the 5th such tenant announcing plans to reduce their office footprint by more than 100,000 square feet. Verizon, Dow, Arkema, Sunoco and the defunct law firm, Wolf Block. account for approximately 1 million square feet of negative absorption, or two thirds of all space added to the supply side during the past two years.

Looking forward, demand resulting from new hires in the financial and professional and business services sectors should translate into modestly expanding occupancy during the beginning of next year. According to Moody's Economy.com, expect Philadelphia MSA employment gains in these sectors to taper off for a few quarters before gaining traction again by the middle of 2011. As a result, demand most likely will remain muted until early 2012.

FORECAST

- Tenants, particularly those in the market for cost-effective Class B space, will enjoy heightened levels of negotiating leverage
- Tenants assess and mitigate risk associated with landlord's potential inability to satisfy mortgage obligations
- Volatility in contract rents far outpacing movement in asking rents

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By Submarket	Total SF	Vacant SF	Vacant %	NET ABSORPTION Current Qtr	NET ABSORPTION Year To Date	Under Construction SF	ASKING RENT Class A	ASKING RENT Class B
CBD-Chestnut/Walnut	1,997,880	370,375	18.5%	46,885	(1,437)	-	$24.75	$24.81
CBD-East Market	5,532,969	542,117	9.8%	(76,715)	(33,169)	-	$23.11	$22.99
CBD-Independence Square	4,831,077	608,789	12.6%	5,648	12,267	-	$23.76	$25.90
CBD-South Broad	2,554,684	386,938	15.1%	37,391	(22,760)	-	$24.25	$23.01
CBD-West Market	24,866,922	3,999,672	16.1%	(316,244)	(608,020)	-	$28.39	$24.99
CBD Total	**39,783,532**	**5,907,891**	**14.9%**	**(303,035)**	**(653,119)**	**-**	**$27.53**	**$24.52**
Bala Cynwyd	2,933,916	456,344	15.6%	(38,128)	(59,666)	-	$33.31	$31.45
Blue Bell/Plymouth Meeting	7,139,092	1,827,911	25.6%	(122,839)	(71,450)	-	$26.07	$23.83
Bucks County	7,913,115	1,885,937	23.8%	(47,651)	(34,548)	-	$28.36	$21.87
Central/S Delaware County	4,714,576	660,221	14.0%	48,662	49,327	-	$27.78	$23.80
Conshohocken	3,339,018	405,755	12.2%	(10,135)	4,980	-	$33.32	$25.22
Exton/Malvern	7,239,457	1,550,935	21.4%	(277,051)	(276,253)	-	$24.79	$24.24
Fort Washington	3,658,400	714,035	19.5%	12,974	96,049	-	$24.40	$22.21
Horsham/Willow Grove	4,688,428	909,192	19.4%	62,128	51,289	-	$25.34	$23.09
Jenkintown	1,043,078	217,060	20.8%	4,791	19,162	-	$24.22	$20.16
King of Prussia	12,790,900	2,173,591	17.0%	148,017	(12,111)	-	$29.10	$23.61
Radnor/Main Line	2,754,355	185,106	6.7%	10,637	193,172	-	$30.31	$26.80
Southern 202 Corridor	2,147,007	238,302	11.1%	53,509	82,339	-	$24.70	$20.81
Suburban Total	**60,361,342**	**11,224,389**	**18.6%**	**(155,086)**	**42,290**	**-**	**$27.99**	**$23.60**
Totals	**100,144,874**	**17,132,280**	**17.1%**	**(458,121)**	**(610,829)**	**-**	**$27.81**	**$23.81**

By Class	Total SF	Vacant SF	Vacant %	Current Qtr	Year To Date	Under Construction SF	AVAILABLE FOR SUBLEASE CBD	AVAILABLE FOR SUBLEASE Suburban
Class A	50,715,616	7,366,243	14.5%	(84,568)	178,401	-	851,310	900,204
Class B	42,325,059	8,398,298	19.8%	(306,096)	(538,286)	-	284,928	892,683
Class C	7,104,199	1,367,739	19.3%	(67,457)	(250,944)	-	21,424	31,972
Totals	**100,144,874**	**17,132,280**	**17.1%**	**(458,121)**	**(610,829)**	**-**	**1,157,662**	**1,824,859**

GRUBB & ELLIS PHILADELPHIA METRO OFFICE LOCATIONS

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610.337.1616 fax

Southern New Jersey Office
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40 Lake Center Executive Park
Marlton , NJ 08053
856.334.2100 main
856.866.1335 fax

Delaware Office
1001 Jefferson St
Suite 104
Wilmington , DE 19801
302.888.4500 main
302.888.2170 fax

OFFICE TERMS AND DEFINITIONS

Total SF: 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.

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 and includes direct and sublease vacant. 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 full service where all costs of operation are paid for by the landlord up to a base year or expense stop.. The asking rent for each building in the market is weighted by the amount of available space in the building.

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