

Office Market Trends Philadelphia: CBD & Suburbs

Grubb & Ellis Research

Third Quarter 2008



Market Reacts to Economic Uncertainty

Executive Summary

Overall market fundamentals showed signs of stagnation this quarter as the greater Philadelphia office market posted 92,168 square feet of negative absorption. This is the first overall contraction felt by the region in six quarters. Rents also experienced a measure of depreciation as average Class A rents fell \$0.38 to a full service rate of \$29.21 per square foot per year. In spite of this, rental rate erosion has only affected select submarkets while others remained level over the past quarter and some even gained ground. Overall, vacancy settled at 13.9 percent for the quarter, a 30 basis point increase over the past three months as a result of market contraction and new projects coming on-line vacant. Sublease space increased for the fourth straight quarter in the suburbs where more than 152,000 square feet of this space type was added to the market over the past 90 days. Still, this is a far cry from the over 250,000 square feet of sublease space that was available in early 2002, the trough of the last down cycle.

As expected, the construction pipeline remained relatively unchanged over the past three months and is expected to diminish as existing projects reach competition. That being said, in spite of a gloomy short-term outlook for markets in general across the country, there is still talk concerning the beginning of America's tallest building in downtown Philadelphia and a mixed-use project in the suburbs, O'Neill Property's Worthington site. This only reaffirms Philadelphia's resilience to credit and housing crises.

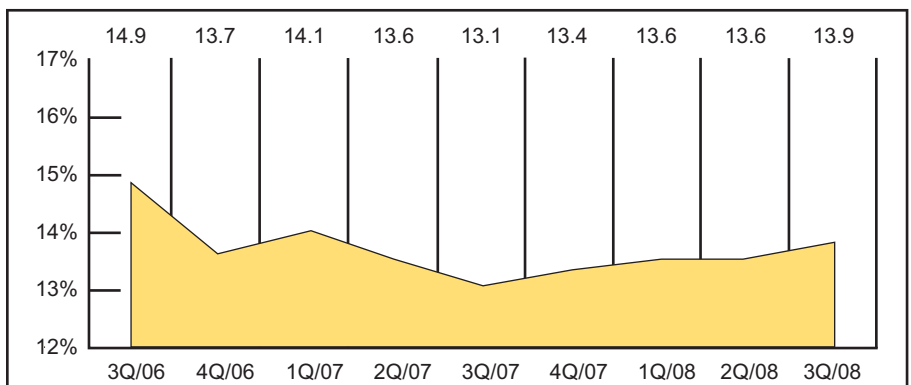
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Matthew Wright
Client Services Manager
Email: matthew.wright@grubb-ellis.com

Grubb & Ellis Company
1735 Market Street
Suite 4000
Philadelphia, PA 19103
Phone: 215.561.8300
Internet: www.grubb-ellis.com

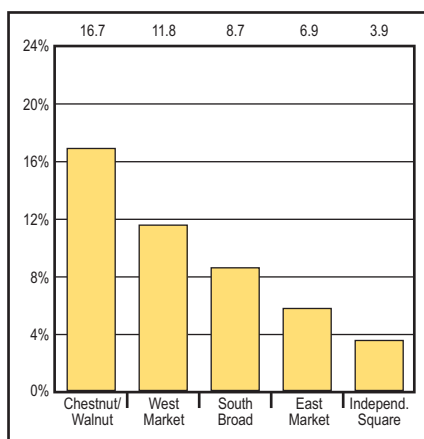


Office Vacancy Rate*

* All Classes of Space

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...sizable office requirements from outside the CBD once again are poised to augment demand seen from the City's existing tenant base.



**Philadelphia CBD
Submarket Vacancy**

Philadelphia Office Market Trends Contributors

Jason McKendry

Graphic Designer

Email: jason.mckendry@grubb-ellis.com

Joseph Gibson

Research Analyst

Email: joseph.gibson@grubb-ellis.com

Megan Carver

Marketing Coordinator

Email: megan.carver@grubb-ellis.com

Market Overview

Philadelphia CBD

The third quarter ended a five-quarter streak of positive absorption during which the market absorbed over 1.4 million square feet. However, despite the 162,000 square foot quarterly contraction, market fundamentals support the notion that it remains a landlord's market. With the exception of the West Market submarket where Class A slightly rents contracted during the quarter, average asking rents continued to increase in the four remaining CBD submarkets. Also, these same four submarkets have sub-seven percent Class A vacancy and are highlighted by the tightest office submarket in the region, the Independence Square submarket, with vacancy at 3.9 percent as of third quarter 2008.

There are two major stories to watch that have the potential to impact the market over the relative short term. First, sizable office requirements from outside the CBD once again are poised to augment demand seen from the City's existing tenant base. Both landlords and tenants alike will be impacted by where, when and under what conditions these tenants land. These requirements have the potential in and of themselves to push vacancy down once again into the single digits, ensuring the Philadelphia CBD remains the bright spot of the regional office market. Secondly, strong economic headwinds and turmoil in the financial sector have begun to impact the nation and the regional economy (and subsequently, the office markets). Thus far, the CBD has remained relatively unscathed by the financial meltdown wreaking havoc in other office markets. However, another story to watch relates to the details of the Wachovia bank acquisition. Time will tell what institution will acquire Wachovia and what their plans are for Wachovia's CBD office footprint which is approximately 1 million square feet.

Western Suburban

The Western Suburban office market held up against the greater economic crises affecting most markets. In fact, the seven submarkets that constitute the western suburbs posted 59,079 square feet of positive absorption while the vacancy rate pushed up only 10 basis points, due primarily to a 30,000-square-foot, fully-occupied building being purchased by Time Pay and subsequently being removed from the statistical population. Rents also performed well, posting a 1.98 percent increase since one year ago. Class A average asking rents topped the \$30.00 per square foot per year mark for the first time for the aggregate of the seven submarkets.

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While overall market fundamentals have held up, Class B product suffered over 248,000 square feet of negative absorption over the past 90 days with rents acting in kind, dropping \$0.09 to settle at a full service rate of \$25.17 per square foot per year. Sublease space for all Class types rose for the second straight quarter with 833,430 square feet of offerings currently on the market. This represents an addition of 86,990 square feet since three months ago. And finally, construction has stagnated with only 40,477 square feet of space currently coming out of the ground at The Henderson Group's Brandywine 7 building in Chadds Ford. Overall, construction in the western suburbs is off 92.3 percent since last year.

In deal news, BPG's 1000 Continental Drive inked its first deals with The Hartford Financial Services Group taking the entire 3rd floor and Worldwide Clinical Trials taking a portion of the 2nd. In all, the new Class A building is now 25 percent leased on the one year anniversary of its initial opening.

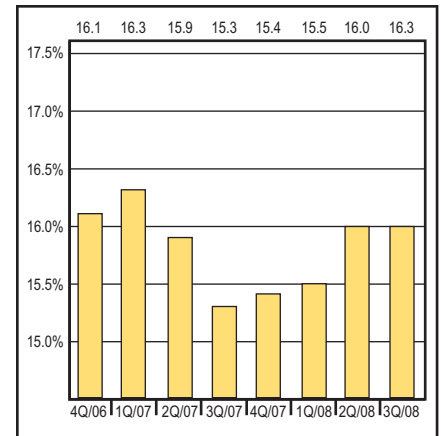
Northern Suburbs

Overall activity in the northern suburbs was flat with only 11,448 square feet of space absorbed in the third quarter. This, coupled with the recent addition of the 132,000-square-foot renovated Nice Ball Bearing building near the Lansdale exit of the Northeast Extension, pushed the vacancy rate up 47 basis points to 17.74 percent. Average rents for the five northern suburban submarkets dipped \$0.14 to a full service rate of \$23.61 per square foot per year. Sublease space increased over the past 90 days as well, with a net gain of 66,007 square feet of space to bring the quarter's total offerings of this type of space to 673,138 square feet.

Paradoxically, the construction pipeline witnessed a 54.4 percent increase since last year, primarily from O'Neill Property's project in the Horizon Corporate Center as well as SKF's built-to-suit project currently underway in Towamencin. Expectations that BPG may move forward with the 87,000-square-foot addition to the Lower Makefield Corporate Campus, the fifth building in the South Campus, persist. In all, there is 358,138 square feet of new space slated to come online in the short term within the northern suburbs.

On the transaction side of the story, United Health signed on to take the entirety of 6 Walnut Grove which was recently been vacated as part of

Liberty Property Trust has been working hard to backfill many of the vacancies that recently opened in Horsham with much success.



Philadelphia Suburban Vacancy

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the GMAC and Reed Technology relocation. Liberty Property Trust has been working hard to backfill many of the vacancies that recently opened in Horsham with much success. In addition to the aforementioned deal, Kellogg recently took a 23,000 square-foot block at 100 Witmer Road and Kreicher Miller will expand into 40,000 square feet of space at this building before the end of the year. The combined effect of these three deals will push down the vacancy 4 percentage points in the Horsham submarket. All else being the same, a large amount of vacancy will still be left over in the Horsham submarket after these tenants occupy. However, the overall vacancy rate will be significantly lower than its recent peak of 26.78 percent posted in the second quarter of this year.

Forecast

With the financial markets in turmoil, the trickledown effect felt in the Philadelphia region will be a slow-down in business expansions and start-ups. Overall, the markets should lose little ground from a vacancy point of view as the Philadelphia MSA boasts a diversified portfolio of business types which tend to be heavy in the healthcare and pharmaceutical sectors – two sectors that appear to be relatively insulated from the current credit crisis. Still, rents will be pushed somewhat lower in the suburbs. A deluge of recent sublease offerings coming to market at an average 15 percent discount to direct lease space have already put the brakes on rent appreciation and will no doubt begin to push rents south. Development activity will most likely act in kind with no large projects expected to begin construction, unless BPG does move forward with their building in the Lower Makefield campus and O'Neill Property breaks ground on the Worthington site. Either way, the addition of product to the market from these two proposed office sites will not be realized until early 2010 at best.

Construction Watch

Third Quarter 2008							
New Speculative Development				New Build-to-Suit Development			
	Under Construction	Preleased %	Completed This Qtr	Completed YTD	Under Construction	Completed This Qtr	Completed YTD
CBD	500,000	24.0%	-	-	-	-	-
Suburban	292,477	16.4%	132,000	359,699	84,138	-	198,600
Total	792,477	21.2%	132,000	359,699	84,138	-	198,600

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Major Transactions

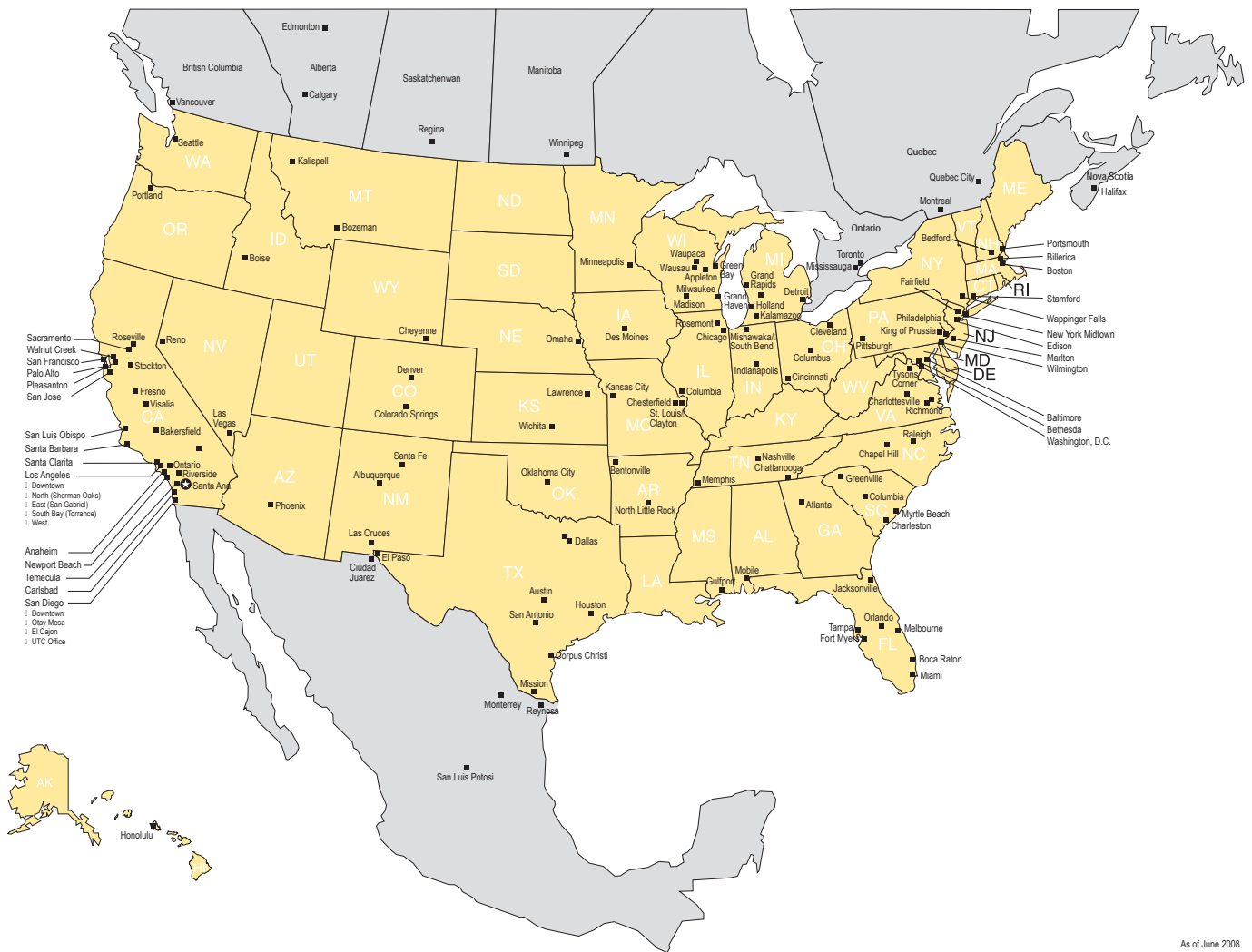
Grubb & Ellis is pleased to announce that it completed the following in office transactions during the third quarter of 2008:

Marsh & McLennan Companies, Inc.
 Leased 189,509 Square Feet
 at Two Logan Square and Bell Atlantic Tower, Philadelphia, PA

Aberdeen Asset Management
 Leased 57,121 Square Feet
 at Mellon Bank Center
 Philadelphia, PA

Independence Blue Cross
 Leased 149,420 Square Feet
 at 1700 Market Street
 Philadelphia, PA

Office Locations



As of June 2008
0052.08.313

Office Market Snapshot Philadelphia: CBD & Suburbs Third Quarter 2008

By Submarket (All Classes)	Total (1) SF	Vacant (2) SF	Vacant %	Net Absorption		Under Const. (3) SF	Asking Rent (4)	
				Current Qtr	Year To Date		Class A	Class B
Chestnut/Walnut	2,003,202	334,486	16.7%	35,315	65,388	-	\$23.75	\$22.77
East Market	5,320,609	464,686	8.7%	(96,151)	(26,057)	-	\$23.03	\$23.30
Independence Square	4,831,077	187,849	3.9%	29,344	69,614	-	\$28.13	\$23.67
South Broad	2,554,684	176,831	6.9%	42,825	(36,346)	-	\$24.53	\$23.90
West Market	24,995,096	2,951,636	11.8%	(174,028)	161,227	500,000	\$30.58	\$25.12
CBD Total	39,704,668	4,115,488	10.4%	(162,695)	233,826	500,000	\$29.39	\$24.13
Bala Cynwyd	2,922,565	353,876	12.1%	(32,630)	(950)	-	\$35.09	\$30.28
Blue Bell/Plymouth Meeting	7,205,362	1,266,005	17.6%	13,863	(20,980)	108,138	\$28.01	\$24.29
Bucks County	7,392,157	1,220,526	16.5%	(38,883)	184,778	250,000	\$26.90	\$21.24
Central/S Delaware County	4,557,042	678,211	14.9%	83,166	187,849	-	\$26.19	\$23.91
Conshohocken	3,337,218	431,334	12.9%	784	109,579	-	\$34.15	\$26.69
Exton/Malvern	6,913,724	833,888	12.1%	52,191	8,128	-	\$25.57	\$22.58
Fort Washington	3,691,192	413,927	11.2%	(16,252)	(96,496)	-	\$24.58	\$22.25
Horsham/Willow Grove	4,614,608	1,161,981	25.2%	58,012	(30,858)	-	\$24.78	\$21.87
Jenkintown	1,006,718	179,599	17.8%	(5,292)	(99,766)	-	\$25.13	\$21.97
King of Prussia	12,599,429	2,264,360	18.0%	(95,454)	(255,487)	-	\$30.01	\$24.42
Radnor/Main Line	2,802,555	499,596	17.8%	(24,275)	46,651	-	\$31.73	\$26.90
Southern 202 Corridor	2,104,490	317,401	15.1%	75,297	124,382	40,477	\$24.28	\$23.36
Suburban Total	59,147,060	9,620,704	16.3%	70,527	156,830	398,615	\$28.95	\$23.97
Totals	98,851,728	13,736,192	13.9%	(92,168)	390,656	898,615	\$29.21	\$24.02

By Class (All Submarkets)	Total	Vacant	Vacant %	Current Qtr	Year To Date	Under Const.	Available for Sublease	
							CBD	Suburban
Class A	48,770,511	6,214,259	12.7%	236,714	902,779	874,615	514,229	760,264
Class B	42,094,030	6,355,619	15.1%	(183,942)	(506,055)	24,000	140,246	704,517
Class C	7,987,187	1,166,314	14.6%	(144,940)	(6,068)	-	3,500	41,787
Totals	98,851,728	13,736,192	13.9%	(92,168)	390,656	898,615	657,975	1,506,568

(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.

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.