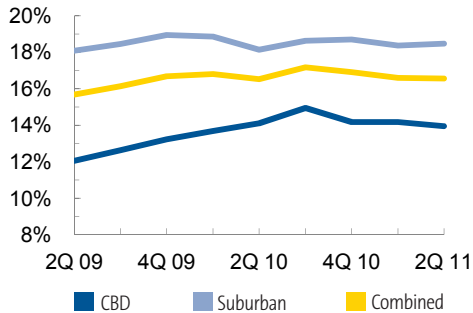
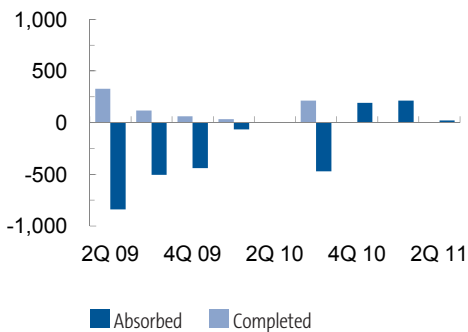




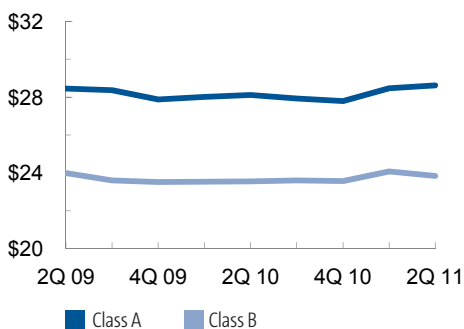
Vacancy Rate



Completions vs. Absorption (in Thousands of SF)



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



Mixed Results Remain the Norm

On the heels of strong quarters in late 2010 and early 2011, the Philadelphia regional office market eked out just over 21,000 square feet of positive absorption during the second quarter. In what is likely to be just a pause in the recovery, the lackluster tally mirrors the trend seen in the economy which, while improving, has not demonstrated material and consistent momentum. Accordingly, until labor market fundamentals (a lagging economic indicator) show consistent substantive growth, look for office market fundamentals (a double lagging indicator) to chart a choppy course on the road to recovery.

Market conditions in the CBD have improved to a much larger extent than in the suburban market considering it has posted three consecutive quarters with positive absorption serving to increase downtown office occupancy by 410,000 square feet and push vacancy down to its lowest level in six quarters. If this growth trend remains intact, the recent downturn will by far be the shortest and most muted cyclical downturn that Philadelphia has seen in the past 25 years. The two most recent downturns (early 1990s and tech bubble) each lasted four years and averaged a 2.9 million square-foot net reduction in tenancy. The most recent lasted just seven quarters and was less severe by over 1 million square feet.

The suburban market remains bifurcated with the northern submarkets having an aggregate vacancy of 22.5 percent, 400 basis points above the suburban average. In contrast, the western markets continue to hold their own with vacancy at a relatively healthy 15.7 percent or 275 basis points below the broader suburban market. Mirroring the trend exhibited by the sluggish growth of the regional labor market over recent quarters, both markets have yet to display consistency with respect to the resurgence of demand. Consequently, vacancy rates have moved sideways for the past six quarters.

FORECAST

- Tenants will begin to more seriously consider the impact of pending changes in lease accounting (FASB 13).
- Quoted asking rents remain artificially high compared to contract rents, both however appear to have bottomed.
- Look for sluggish growth, particularly in the suburban market as the economy recovers in fits and starts. The CBD is doing better but not out of the woods just yet.

Office Trends Report—Second Quarter 2011

Philadelphia, PA



GRUBB & ELLIS

From Insight to Results

By Submarket	Total SF	Vacant SF	Vacant %	Available	NET ABSORPTION		Under Construction SF	ASKING RENT	
					Current	Year To		Class A	Class B
CBD-East Market	6,381,798	727,120	11.4%	11.4%	5,123	(18,063)	-	\$24.91	\$22.64
CBD-Independence Square	4,831,077	622,114	12.9%	12.9%	25,439	31,841	-	\$27.00	\$26.29
CBD-University City	2,410,964	197,144	8.2%	8.2%	18,063	26,418	-	\$40.66	\$28.15
CBD-Walnut/South Broad	4,690,064	1,060,871	22.6%	22.6%	(12,922)	(193,783)	-	\$23.00	\$24.17
CBD-West Market	25,947,472	3,567,398	13.7%	13.8%	51,590	261,648	-	\$28.68	\$24.09
CBD Total	44,261,375	6,174,647	14.0%	14.0%	87,293	108,061	-	\$28.61	\$24.40
Bala Cynwyd	2,933,916	522,255	17.8%	21.4%	(26,478)	(22,722)	-	\$34.00	\$31.07
Blue Bell/Plymouth Meeting	7,159,733	1,831,212	25.6%	29.3%	78,529	59,979	-	\$27.59	\$23.67
Bucks County	8,049,040	1,975,648	24.5%	27.8%	(50,413)	6,872	-	\$28.92	\$21.99
Central/S Delaware County	4,982,622	785,713	15.8%	24.7%	(18,929)	50,488	-	\$28.44	\$24.23
Conshohocken	3,340,622	501,374	15.0%	16.2%	(49,245)	(53,175)	-	\$33.78	\$26.01
Exton/Malvern	7,266,842	1,396,432	19.2%	23.7%	10,391	36,189	-	\$24.98	\$24.19
Fort Washington	3,658,400	628,064	17.2%	22.5%	(17,147)	10,454	-	\$25.65	\$22.68
Horsham/Willow Grove	4,515,929	854,157	18.9%	28.1%	1,944	7,099	-	\$26.26	\$23.15
Jenkintown	1,073,078	223,107	20.8%	22.3%	(17,566)	(13,687)	-	\$24.70	\$21.93
King of Prussia	12,777,557	2,084,529	16.3%	20.3%	(11,425)	35,862	-	\$29.63	\$23.60
Radnor/Main Line	2,823,355	162,316	5.7%	6.3%	15,308	31,822	-	\$33.17	\$27.51
Southern 202 Corridor	2,142,286	246,941	11.5%	16.7%	19,144	(21,934)	-	\$24.84	\$21.33
Suburban Total	60,723,380	11,211,748	18.5%	22.9%	(65,887)	127,247	-	\$28.64	\$23.68
Totals	104,984,755	17,386,395	16.6%	19.2%	21,406	235,308	-	\$28.62	\$23.84

By Class	Total SF	Vacant SF	Vacant %	Available	Current	Year To	Under Construction SF	AVAILABLE FOR SUBLEASE	
								CBD	Suburban
Class A	48,769,094	6,916,824	14.2%	17.2%	204,301	607,769	-	426,523	998,709
Class B	44,968,501	8,408,749	18.7%	21.5%	(118,556)	(320,078)	-	265,385	773,827
Class C	11,247,160	2,060,822	18.3%	18.5%	(64,339)	(52,383)	-	72,477	21,720
Totals	104,984,755	17,386,395	16.6%	19.2%	21,406	235,308	-	764,385	1,794,256

GRUBB & ELLIS PHILADELPHIA METRO OFFICE LOCATIONS

Philadelphia CBD Office
1735 Market Street
Suite 4000
Philadelphia, PA 19103
215.561.8300 main
215.561.8311 fax

Suburban Philadelphia Office
1000 Continental Drive
Suite 200
King of Prussia, PA 19406
610.337.1010 main
610.337.1616 fax

Southern New Jersey Office
401 Route 73 N, Suite 120
40 Lake Center Executive Park
Marlton, NJ 08053
856.334.2100 main
856.866.1335 fax

Delaware Office
1001 Jefferson Street
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.*

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