

Philadelphia market overview

The Philadelphia CBD closed the first quarter with an overall average direct rental rate of \$23.56 per square foot, a 1.2 percent increase from one year ago.

Occupancy for trophy buildings remains exceptional as those buildings posted an average overall vacancy rate of 3.92 percent down from 8.80 percent one year ago.

The direct average rental rate for trophy buildings was \$31.36 per square foot, an almost 13 percent increase from this time last year.

Supply vs. demand

The Philadelphia CBD office market remains steady in a faltering economy. Class A and B buildings have an average direct vacancy rate of 9.13 percent, down 1.77 percentage points from this time last year. Sublease space remains a fraction of available space on the market as its vacancy rate ended the quarter at 1.4 percent. Occupancy for trophy buildings remains exceptional as those buildings posted an average overall vacancy rate of 3.92 percent down from 8.80 percent one year ago. The largest contiguous space on the market, 170,133 square feet, exists at Centre Square West Tower.

Market Street West posted 296,351 square feet of direct net absorption. This was 185,721 square feet more than one year ago. The CBD's overall net absorption was 234,576 square feet, reversing last year's negative 139,230 square feet of absorption. Notable transactions in the first quarter include: The Commonwealth of Pennsylvania's lease of 212,000 square feet at 801 Market Street and Gamesa's lease of 50,000 square feet at 1801 Market Street. Legal firms and government agencies led the quarter in leasing for the CBD.

Economics

A tightened CBD market has made it favorable for landlords. As a result, free rent and work letters have decreased. The Philadelphia CBD closed the first quarter with an overall average direct rental rate of \$23.56 per square foot, a 1.2 percent

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Development

The end of 2007 witnessed the completion and occupancy of Liberty Property Trust's 1.25 million square foot Comcast Center. The new tower is almost 98 percent leased. There is no ongoing construction in the CBD but Walnut Street Capital has proposed building the American Commerce Center, a 2.2 million square foot office tower on 18th and Arch Streets. No plans have been finalized for a potential 250,000 square foot building next to the Comcast Center.

Outside the CBD, Brandywine Realty Trust broke ground on the 862,000 square foot Cira Centre South. The Navy Yard redevelopment project is also underway. In October, Liberty Property Trust broke ground on Three Crescent Drive, a 95,000 square foot office building. Construction is scheduled to be completed by the winter of 2009. Also at the Navy Yard, Tasty Baking, Inc. broke ground on a 350,000 square foot baking and distribution facility that is due to be completed in the first quarter 2009.

Investment activity

The last few months have seen a marked difference in the national commercial real estate market, mostly tied to the current capital markets disruption. While the Philadelphia market

Recent sales transactions

| Building | Square feet | Price/s.f. | Leased |
|--|-------------|------------|--------|
| 100 Penn Square E Wanamaker Building Buyer: Behringer Harvard Seller: IPC US REIT | 1,407,000 | \$143* | 97.0% |
| 123 S Broad Street Wachovia Building Buyer: Seligsohn Soens Hess Seller: Gramercy Capital | 626,594 | \$92 | 86.2% |
| 30 S 17th Street Buyer: Behringer Harvard Seller: IPC US REIT | 617,476 | \$143* | 91.9% |
| 1650 Arch Street Buyer: Behringer Harvard Seller: IPC US REIT | 553,349 | \$143* | 99.7% |
| 801 Arch Street Strawbridge & Clothier Buyer: Gramercy Capital Seller: American Financial Realty | 376,998 | \$113 | 100.0% |
| 1400 Spring Garden Street State Office Building (non-CBD) Buyer: Tower Investments Seller: Commonwealth of PA | 299,900 | \$84 | 100.0% |

* Quoted portfolio price

experienced just north of \$600 million worth of transactions in the second half of 2007, this was mostly due to the purchase of three assets by Behringer Harvard as part of their acquisition of a 35-property portfolio owned by IPC US REIT. This is significantly more than the \$288 million during the first half of 2007 and \$392 million during the second half of 2006.

Investors are eagerly waiting the outcome of Cira Centre to ascertain where the "market" is pricing trophy assets in today's marketplace. In addition, it is rumored that another Philadelphia CBD trophy property will be coming to market in the next month giving market participants another data point on where the market is headed. Numerous deals have had trouble closing over the past few months including 2000 Market Street, Four Penn Center, and One South Broad Street. Buyers and sellers will likely continue to fight to close transactions until debt financing becomes more readily available. Notably, many deals that are getting done today include assumable debt, at low loan-to-value ratios, that were originated at much more attractive terms in the past.

Historically, the Philadelphia market has been less volatile in terms of transaction flow as compared to other markets around the country. This, combined with the fact that Philadelphia has a lower average deal size than many other major urban markets, will work to the City's favor over the coming months. Lenders will find it easier to finance deals in Philadelphia (where the average deals size is roughly \$110 million) than in other markets like Manhattan where deal sizes can reach into the billions.

Office outlook

While there was a slight uptick in vacancy from the fourth quarter, the Philadelphia CBD is stable enough to withstand the coming recession. A flood of sublease space has not come on the market in reaction to the financial services crisis. Rental rates keep rising. Large tenants are still in the market. There are two legal firms searching for over 100,000 square feet, while the Family Courts division of the government continues to look for 500,000 square feet.



Philadelphia market locations

- | | | | |
|--------------------------------|------------------------------------|-------------------------------------|----------------------------------|
| 1 2929 Arch, Cira Centre | 11 1835 Market | 21 1601 Cherry, Three Parkway | 31 1515 Market |
| 2 2005 Market, One Commerce | 12 1801 Market, Ten Penn Center | 22 1650 Arch | 32 1500 Market, Centre Square |
| 3 2001 Market, Two Commerce | 13 1818 Market | 23 1617 JFK Blvd, One Penn Center | 33 1 Penn Sq W, Graham Bldg |
| 4 2000 Market | 14 1717 Arch, Bell Atlantic Tower | 24 1600 JFK Blvd, Four Penn Center | 34 1525 Locust |
| 5 1900 Market | 15 1701 JFK Blvd, Comcast Center | 25 1635 Market | 35 200 S Broad |
| 6 1901 Market, Blue Cross | 16 1735 Market, Mellon Bank Center | 26 1601 Market | 36 1 S Broad |
| 7 130 N 18th, One Logan Square | 17 1701 Market, Six Penn Center | 27 1650 Market, One Liberty Place | 37 100 Penn Sq E, Wanamaker Bldg |
| 8 100 N 18th, Two Logan Square | 18 1760 Market | 28 1600 Market, PNC Bank Bldg | 38 1101 Market, Aramark Tower |
| 9 1880 JFK Blvd | 19 1700 Market | 29 1601 Chestnut, Two Liberty Place | 39 230 W Washington Sq |
| 10 1800 JFK Blvd | 20 1600 Vine, Three Franklin Plaza | 30 1500 JFK Blvd, Two Penn Center | 40 190 N Independence Mall W |
| | | | 41 510-530 Walnut |



Real value in a changing world

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Real value in a changing world

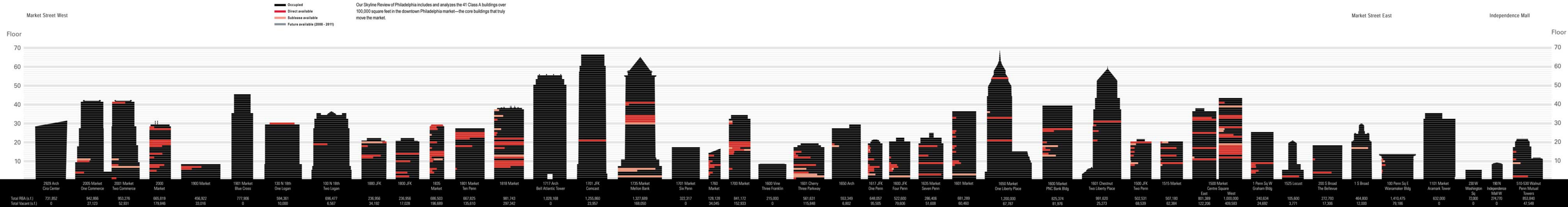
Spring 2008

Perspective on a *changing* market

Philadelphia Skyline Review



Philadelphia Skyline Review



Jones Lang LaSalle's Skyline Review analyzes 41 Class A buildings over 100,000 square feet in the Center City Philadelphia market—the core buildings that truly move the market.

The Philadelphia CBD has made notable statistical gains over the past year. Positive absorption numbers and falling vacancy rates are allowing for the continued rise of rents and asset values. As large blocks of space are becoming scarce, this dynamic market is forcing decreases in average concessions, tightening the office market even further.

Cira Centre South

Cira Centre South, located at 30th and Market Streets, has recently broke ground and development began on this 14-acre site. The developer of Cira Centre South plans on building a 2.8 million square foot mixed-use development comprised of offices, hotel, residential, parking and retail on land the developer leased from the University of Pennsylvania. Cira Centre South will also include the conversion of the 862,000 square foot U.S. Postal Service building at 30th and Market Streets into offices for 5,000 employees of the IRS.

The site sits on a Keystone Opportunity Zone, giving tenants who move into the space breaks on state and local taxes, as the first Cira Centre did. Cira Centre South is expected to cost about \$800 million and be completed in phases—the first phase to be completed in the third quarter of 2010.



Comcast Center

Now complete, the 1.25 million square foot Comcast Center is almost fully leased after breaking ground in January 2005. Many skeptics worried the 58-story skyscraper would not be able to compete with space that was already available at lower rents. However, the building's rents were and remain in the high \$30s to low \$40s per square foot compared to comparable trophy buildings breaching high \$20s to low \$30s per square foot.

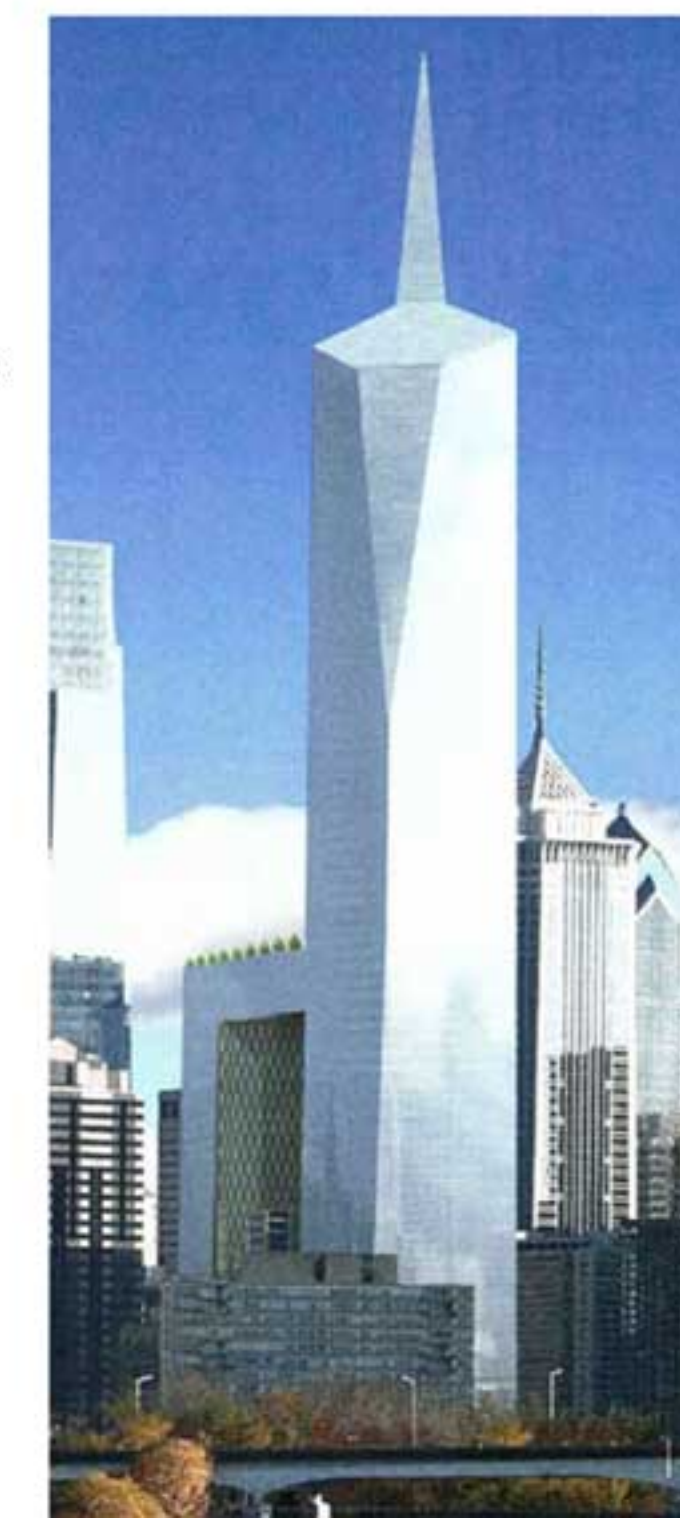
The tower has a dramatic 120-foot atrium and is conveniently located with direct access to the concourse as well as easy ingress and egress into and out of the city. In addition to the 1.25 million square foot office space, the tower also includes 40,000 square feet of retail featuring a new restaurant by chefs Georges Perrier and Chris Scarduzio, Govberg Jewelers, several other eateries and outlet stores, and a dry cleaners.



American Commerce Center

The rendering of the American Commerce Center was released to the world in March 2008. The proposed building, located at 18th and Arch Streets, would stand as the tallest building in the Western Hemisphere and fourth-tallest building in the world. This tremendous development will tower over 63-stories at 1,500 feet tall and include all aspects of a world-class mixed-use development including 1.37 million square feet of office space, a 26-story five-star hotel, a top of the line movie theater, three to six stories of street-accessible retail along Arch Street, parking and two public gardens. The American Commerce Center will be constructed with a US Green Building Council LEED Gold Certification in mind.

Developers and architects believe that the American Commerce Center's key differentiators are its incredible height and ability to engage street-level foot traffic. Groundbreaking on the project is expected sometime in 2009 and the expected delivery of the American Commerce Center is 2012.



Philadelphia: market statistics

| | Supply | Rates (average asking) | Vacancy | Vacancy (including sublease) |
|-----------------------|------------|------------------------|---------|------------------------------|
| Overall market | 43,117,582 | \$23.56 | 9.13% | 10.52% |
| By submarket | | | | |
| Market Street West | 29,382,533 | \$25.06 | 9.38% | 11.12% |
| Market Street East | 8,646,154 | \$20.01 | 8.33% | 9.02% |
| Independence Hall | 5,088,895 | \$20.52 | 9.06% | 9.60% |

*1Q 2008 Class A & B

Recent large leasing transactions

| Location | Tenant | Square feet |
|--------------------|---|-------------|
| 801 Market | Commonwealth of Pennsylvania | 212,000 |
| Two Liberty Place | Unisys | 90,000 |
| Two Liberty Place | Buchanan Ingersoll | 77,000 |
| 1801 Market | Gamesa | 50,000 |
| 100 S Broad Street | First Judicial District of Pennsylvania | 20,488 |
| 100 S Broad Street | Office of Fleet Management | 18,124 |
| 100 S Broad Street | Philadelphia Sheriff's Office | 17,842 |
| 1717 Arch Street | Lyons Development | 17,754 |
| Two Liberty Place | Grosvenor Investment Management | 16,000 |

Philadelphia market: rental rates / vacancy rate

