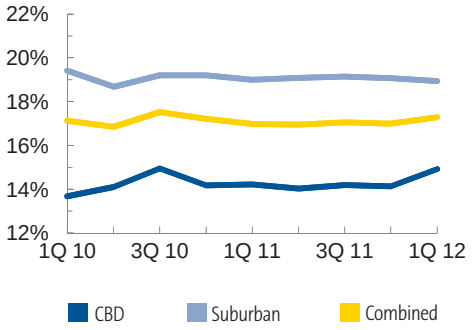
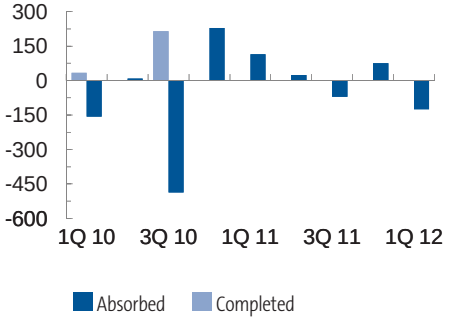
Office Trends Report—First Quarter 2012
Philadelphia, PA

GRUBB & ELLIS
From Insight to Results

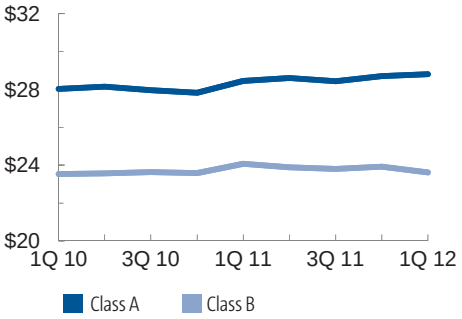
Vacancy Rate



Completions vs. Absorption
(in Thousands of SF)



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



More of the Same as Employment Grows Slowly

Philadelphia and its suburbs shed 134,000 square feet of office occupancy during the first quarter of 2012, continuing a trend of see-saw absorption measures tallied since the beginning of last year. In total, the market's occupancy changed little since the beginning of 2011. This follows along a greater economic trend underpinned by volatility and low consumer confidence. Current employment measures of traditional office-occupying business sectors are nearing pre-recessionary levels as of late, suggesting this year should post positive net absorption numbers. Any large spike in occupancy gains is unexpected given how slight negative absorption measures were compared to lost employment during the magnitude of layoffs occurring between the end of 2008 and the end of 2009. In spite of nearing this watermark, vacancy will persist above pre-2007 numbers resulting from the over 1.3 million square feet of new product that came to market after the start of the recession.

From a pricing perspective, overall asking rents persisted lower with the market showing no clear signs of recovering. Newer, more attractive space did show an uptick in asking rents, but Class B and Class C pricing slipped enough to pull the overall average down. These trends are also evident in lease comp data. Class A deals are tending toward the upper-$20 range, above the mid-$20 range where deals were inked in 2009 and early 2010. Lease terms for these space types have extended toward seven years, up from the five year average seen around three years ago. For Class B space, lease deals are signed near the upper-$10 and lower $20 mark, near the levels established during the recession. Lease terms are up slightly since then, approaching a five year average as opposed to four-and-a-half year deals. Tenants can expect free rent at the rate of a half to a whole month per year of term for either Class A or Class B space while tenant improvement dollars are also somewhat more available than just three years ago.

FORECAST

- Downward pressure on rents should subside but upward pressure will not exist until employment gains are strong enough to take vacancy from the market.
- Development will continue to be limited to built-to-suit or largely pre-leased projects. Any exception might be development in and around the Western Suburban markets where a dearth of large blocks of availability and persistent low vacancy might warrant speculative construction.

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By Submarket	Total SF	Vacant SF	Vacant %	Available %	NET ABSORPTION Current Qtr	NET ABSORPTION Year To Date	Under Construction SF	ASKING RENT Class A	ASKING RENT Class B
CBD-East Market	6,506,798	720,366	11.1%	11.1%	167,113	167,113	-	$26.52	$22.64
CBD-Independence Square	4,831,077	780,970	16.2%	16.2%	(148,612)	(148,612)	-	$27.00	$26.94
CBD-University City	2,410,964	218,164	9.0%	9.0%	(5,950)	(5,950)	96,916	$39.49	$29.60
CBD-Walnut/South Broad	4,532,064	1,008,485	22.3%	22.3%	(14,509)	(14,509)	-	-	$25.26
CBD-West Market	25,947,472	3,894,121	15.0%	15.0%	(280,113)	(280,113)	-	$29.01	$23.02
CBD Total	**44,228,375**	**6,622,106**	**15.0%**	**15.0%**	**(282,071)**	**(282,071)**	**96,916**	**$29.02**	**$24.47**
Bala Cynwyd	2,987,836	573,702	19.2%	22.9%	13,468	13,468	-	$34.58	$31.02
Blue Bell/Plymouth Meeting	7,612,493	2,103,266	27.6%	31.0%	37,537	37,537	-	$28.01	$22.06
Bucks County	8,154,292	2,000,422	24.5%	27.1%	112,335	112,335	-	$28.84	$21.28
Central/S Delaware County	5,011,572	784,707	15.7%	23.3%	19,163	19,163	-	$28.01	$23.92
Conshohocken	3,340,622	402,491	12.0%	16.6%	(31,870)	(31,870)	-	$33.68	$26.96
Exton/Malvern	7,511,015	1,578,814	21.0%	21.4%	(41,790)	(41,790)	300,000	$24.39	$24.49
Fort Washington	3,550,060	563,564	15.9%	18.0%	14,567	14,567	-	$24.62	$22.39
Horsham/Willow Grove	4,556,797	806,447	17.7%	21.9%	133,586	133,586	-	$25.97	$21.51
Jenkintown	1,161,401	195,976	16.9%	19.0%	13,259	13,259	-	$24.79	$19.92
King of Prussia	13,211,871	2,474,634	18.7%	26.1%	(109,624)	(109,624)	-	$29.30	$23.61
Radnor/Main Line	2,823,355	162,380	5.8%	5.6%	(11,742)	(11,742)	-	$32.95	$30.17
Southern 202 Corridor	2,269,599	127,122	5.6%	21.6%	(995)	(995)	-	$24.29	$22.49
Suburban Total	**62,190,913**	**11,773,525**	**18.9%**	**23.4%**	**147,894**	**147,894**	**300,000**	**$28.60**	**$23.34**
Totals	**106,419,288**	**18,395,631**	**17.3%**	**19.9%**	**(134,177)**	**(134,177)**	**396,916**	**$28.78**	**$23.62**

By Class								AVAILABLE FOR SUBLEASE CBD	AVAILABLE FOR SUBLEASE Suburban
Class A	49,055,863	7,399,797	15.1%	17.5%	(49,157)	(49,157)	396,916	369,188	1,098,050
Class B	45,574,882	8,860,946	19.4%	22.6%	(42,365)	(42,365)	-	263,485	943,197
Class C	11,788,543	2,134,888	18.1%	19.2%	(42,655)	(42,655)	-	58,016	-
Totals	**106,419,288**	**18,395,631**	**17.3%**	**19.9%**	**(134,177)**	**(134,177)**	**396,916**	**690,689**	**2,041,247**

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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