



Office

Greater Philadelphia Real Estate Market Review Mid-Year 2009

Philadelphia, Philadelphia Suburbs, Delaware, and Southern New Jersey

Market Up-Close



- The first half of 2009 for the Philadelphia CBD continued to show all of the signs of a weak economy...increased direct vacancy rates, significantly more sublease availabilities, along with reductions in rental rates. Although faced with these challenges, the Philadelphia CBD overall is fairing better than the other submarkets within the Greater Philadelphia region.
- At the close of Q2 2009, the Philadelphia Suburban market shows the most significant increase in sublease space in the Greater Philadelphia region with over 500,000 square feet being added to the market since year-end 2008. Direct vacancy remained flat, while year-to-date net absorption has slid from nearly 400,000 square feet positive absorption at year-end 2008 to almost the same number on the negative end at the close of mid-year 2009, demonstrating the sign of the times.
- Northern Delaware closed the first half of 2009 with the only positive year-to-date net absorption within the Greater Philadelphia region. Consistent with the overall region, the Northern Delaware submarket reported decreased rental rates and increased sublease availabilities.
- The Southern New Jersey market ended the first half of 2009 without any significant changes in vacancy, net absorption or sublease space. And although decreases in rental rates are consistent with the entire region, Southern New Jersey experienced the smallest decrease year-to-date with a mere ten-cents.

The Greater Philadelphia office market overall slipped back into a six-figure negative net absorption of (874,900) square feet in Q2 2009, following the substantial rebound experienced in the first quarter. This closes the first half of 2009 with a year-to-date negative absorption of (864,300) square feet. When the 2009 year-to-date negative net absorption is compared to 2008's positive year-to-date net absorption of 716,200 square feet at the mid-year point, it is apparent that the Greater Philadelphia commercial real estate market is certainly experiencing the challenges of the national recession.

Direct vacancy has increased from 13.4% in Q1 2009 to 13.6% in Q2 2009. Overall rental rates dropped \$0.21 in Q2 2009 to \$22.52, which again indicates the challenges and effects of the current economic condition, as well as the landlord's willingness to lower rates in order to maintain existing tenants and attract prospective new credit worthy tenants. When you compare Q2 2009 to Q2 2008's asking rental rate of \$21.92, although rates are declining, they are still higher than a year ago. The total vacancy rate for Q2 2009 has also increased...15.9% compared to the previous quarter's 15.3% and Q2 2008's 14.7%. The total vacancy year on year shows slightly more than a 1% increase.

All in all, the Greater Philadelphia commercial real estate market is still fairing relatively well when compared to other regions of the country. However, the general consensus throughout the Greater Philadelphia region's real estate professionals is that the market still has a long way to go before it begins to rebound. There are still strong indications of more space being vacated rather than leased due to the many businesses forced to downsize or dissolve, due to the current economic conditions. Therefore, concerns of what is yet to be are still prevalent, but most are trying to be optimistic and are looking towards 2010 and what it may bring...our fingers are crossed in hopes that the recession is nearing the end, and that the market will begin its recovery.

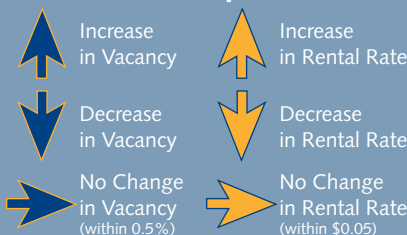
Philadelphia CBD

 Vacancy: **11.8%**
 Rental Rate: **\$24.82**

The gloomy outlook for Philadelphia's central business district (CBD) continues to be at the forefront of every commercial real estate professional's mind. Since the close of the first quarter, rental rates have decreased by \$0.55 across all CBD submarkets and classes. Direct vacancy, although it still remains in the single digits is on the rise at 9.1% compared to 8.9% at the close of Q1 2009 and 8.3% at this time last year. Total vacancy, including sublease space, has increased from 10.3% in Q1 2009 to 11.8% in Q2 2009. Class AA space still holds the lowest total vacancy rate throughout the

Philadelphia CBD at 6.8%, which has also increased from the previous quarter's 5.7%. The overall CBD is reporting a negative net absorption of (617,300) square feet for Q2 2009 versus last quarter's positive 28,100 square feet, and when you compare this to Q2 2008's negative net absorption of (484,500) square feet you'll begin to have a better picture of the roller coaster that the Philadelphia CBD is riding. The comparison of year-to-date net absorption between years, shows the negative (589,300) square feet at the close of Q2 2009, which is split fairly evenly between Market Street West and East submarkets, versus the negative (12,800) square feet at the close of Q2 2008, is consistent with

Year-End 2008 Over Mid-Year 2009 Comparison



Submarket Overview

Bala Cynwyd

↑ ↑ Vacancy: **15.4%**
 Rental Rate: **\$30.64**

Delaware County

↑ ↑ Vacancy: **20.1%**
 Rental Rate: **\$22.54**

Malvern/Exton/West Chester

↑ ↓ Vacancy: **10.5%**
 Rental Rate: **\$20.66**

Fort Washington

↑ ↑ Vacancy: **29.2%**
 Rental Rate: **\$20.24**

Horsham

↓ ↓ Vacancy: **19.0%**
 Rental Rate: **\$19.11**

Jenkintown/Huntington Valley

↓ ↓ Vacancy: **17.7%**
 Rental Rate: **\$19.45**

King of Prussia / Wayne

➔ ↓ Vacancy: **19.1%**
 Rental Rate: **\$22.27**

Central Bucks County

↑ ↓ Vacancy: **14.8%**
 Rental Rate: **\$20.94**

Lower Bucks County

↑ ↓ Vacancy: **19.9%**
 Rental Rate: **\$18.83**

North Penn

↓ ↓ Vacancy: **31.8%**
 Rental Rate: **\$20.68**

Plymouth Meeting / Blue Bell

↓ ↓ Vacancy: **22.3%**
 Rental Rate: **\$21.84**

Radnor / Conshohocken

➔ ↓ Vacancy: **16.0%**
 Rental Rate: **\$27.96**

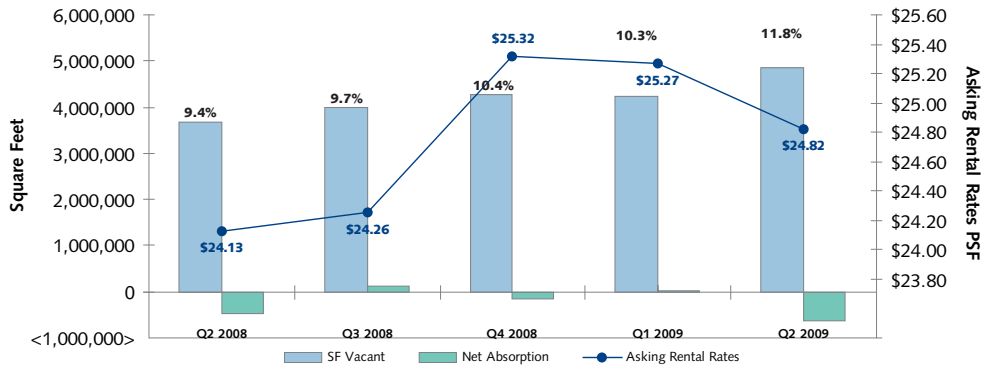
Main Line (excluding Radnor)

↑ ↑ Vacancy: **13.2%**
 Rental Rate: **\$22.02**

the overall region's trend. Contrary to last quarter when Market Street West was the largest contributor of positive net absorption at 91,000 square feet, it now reports the most significant negative net absorption of (360,800) square feet. 176,000 square feet of this gaping whole comes in the form of Wolf Block's dissipation at 1650 Arch Street as well as AIG vacating 75,000 square feet of office space at 1700 Market Street. This is offset by the good news of Fox Rothschild LLP's renewal and relocation of nearly 104,500 square feet at 2000 Market in the Market Street West submarket.

Market Street East Class A office space has also had a significant uptick in vacancies...more than 156,700 square feet has come back onto the market in the past quarter...with the most substantial blocks of office space coming from 1234 Market Street, One South Broad, and the Public Ledger Building, which are all due to the downsizing or departure of several tenants. With the Dow Chemical Company planning to sell the corporate headquarters of Rohm and Haas, and possibly continuing to lease a portion of the space, just how much more space will be put back onto the market still remains a mystery.

Philadelphia CBD Vacancy & Absorption vs. Asking Rental Rates



Philadelphia Suburbs

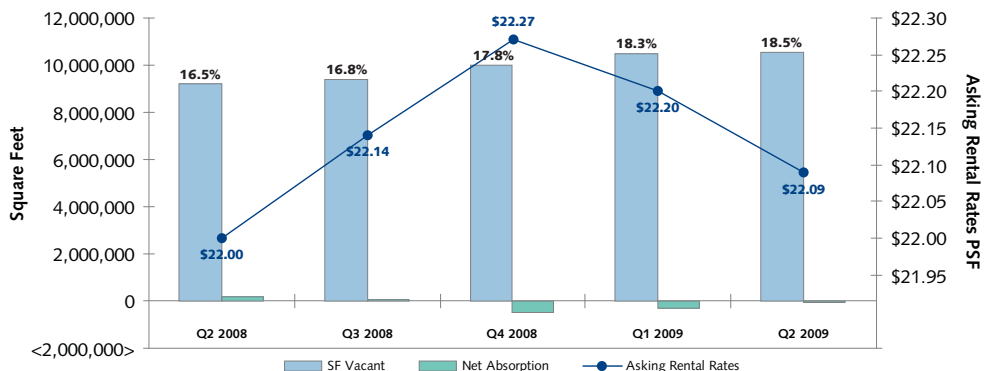
↑ ↓ Vacancy: **18.5%**
 Rental Rate: **\$22.09**

The Philadelphia Suburban market recorded a slightly larger decrease in average asking rental rates than in the previous quarter. Q1 2009 reported a decrease of \$0.07 when compared to Q4 2008's rental rate of \$22.27, while Q2 2009 reports a decrease of \$0.11... \$22.09 down from \$22.20. Total vacancy increased slightly for the second quarter of 2009, from 18.3% in Q1 2009 to 18.5% in Q2 2009. Net absorption, although still in the negative - (89,500) square feet for Q2 2009 - is still much better than the negative (306,900) square feet reported at the close of the first quarter. The comparison of year-to-date 2009 negative net absorption of (375,800) is

a far cry from the year-to-date positive net absorption of 860,600 at the close of Q2 2008. This is proof that while deals are being done in the Philadelphia Suburban market, they are far and few between, and are taking much longer to complete than in previous quarters.

The King of Prussia/Wayne submarket reported the highest positive net absorption of 177,400 square feet in the Philadelphia Suburban market this quarter, ending a two quarter succession of negative absorptions above the 100,000 square feet mark. This is largely due to the 131,400 square feet leased at 2201 Renaissance Boulevard by Yellowbook, which allowed the submarket to effectively "break even" on year-to-date absorption.

Philadelphia Suburbs Vacancy & Absorption vs. Asking Rental Rates



Investment Sales

Philadelphia CBD Recent Investment Sales:

Building	Address	Sale Price	SF	Price PSF	Buyer
1130-1154 N Delaware Ave	8200-8218 Germantown Avenue	\$2,445,000	19,350	\$126.36	1130 Delaware Ave Associates LP
	210 South 13th Street	\$2,200,000	13,500	\$162.96	BHA Gramercy Assets LLC

Suburban Philadelphia Recent Investment Sales:

Building	Address	Sale Price	SF	Price PSF	Buyer
	180 Rittenhouse Circle, Bristol	\$11,386,000	96,000	\$118.60	Bristol 1031 DST
Whiteland Business Park (2 properties)	748 Springdale Drive, Exton 855 Springdale Drive, Exton	\$9,000,000	66,664	\$135.01	Hayden Springdale Associates LP

Northern Delaware Recent Investment Sales:

Building	Address	Sale Price	SF	Price PSF	Buyer
Middletown Medical Professional Building	212 Carter Drive, Middletown	\$1,750,000	8,500	\$205.88	Springmill Professional Building LLC

The Delaware County submarket reported the largest increase in negative absorption with (104,600) square feet versus a negative (9,500) square feet reported at the close of Q1 2009. This is due to Wells Fargo and ViroPharma, Inc., both vacating significant blocks of office space, bringing the year-to-date net absorption to negative (114,100)...the third highest in the submarket.

Overall, the year-to-date absorption in the Philadelphia Suburban submarkets showed mixed results, with four submarkets (Delaware County, Malvern/Exton/West Chester, Fort Washington,

and Lower Bucks County) all reporting negative net absorption in excess of 100,000 square feet. This compares with no submarkets reporting similar year-to-date activity at mid-year 2008.

Positive year-to-date absorption in excess of 100,000 square feet was reported in the Horsham and Plymouth Meeting/Blue Bell submarkets in 2009, compared to six submarkets at the end of Q2 2008. Once again, the year on year results are consistent with the overall market trend.

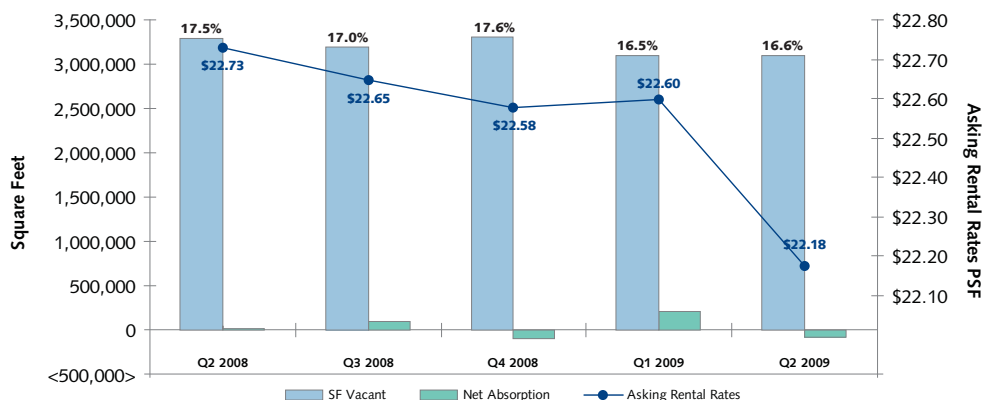
Northern Delaware

 Vacancy: **16.6%**
 Rental Rate: **\$22.18**

The Northern Delaware office market rental rates decreased significantly in Q2 2009, reporting \$22.18 compared to \$22.60 in the first quarter and \$22.73 at the close of Q2 2008...a testament to the economic climate and as stated earlier, the fact that landlords are willing to reduce rates to stay competitive in the market, so they may continue to renew existing and attract new tenants. The overall net absorption for Q2 2009 fell from a positive 209,300 square feet at the close of

the first quarter to a negative (79,200) square feet in Q2 2009. This is largely due to Computer Sciences Corporation adding the other half of 400 Commerce Drive in New Castle County South to the market for sublease. The total vacancy rate for the Northern Delaware office market remained basically status quo with the slightest of variance between quarters...16.6% in Q2 2009 versus 16.5% at the close of Q1 2009. The overall Northern Delaware market was the only region that reported a positive year-to-date net absorption at 141,800 square feet, with more deals in the pipeline.

Northern DE Vacancy & Absorption vs. Asking Rental Rates



2009 Market Movers

Philadelphia CBD

- Greater Philadelphia Urban Affairs signed a 42,000 SF lease at 1207 Chestnut Street
- Arise Academy Charter High School signed at 26,754 SF lease at 1100 Market Street

Philadelphia Suburbs

- Unisys Corporation signed a 140,000 SF lease at 760 Jolly Road in Blue Bell
- Yellowbook USA signed a 131,400 SF lease at 2201 Renaissance Boulevard in King of Prussia
- Mainline Health signed a 105,000 SF lease at 240 Radnor Chester Road in Radnor
- Life Saint Mary signed a 28,000 SF lease at 2500 Interplex Drive

Northern Delaware

- Barclaycard signed a 108,552 SF lease at Iron Hill Corporate Center in Newark

Southern New Jersey

- Continuum Health Alliance signed a 26,000 SF lease at 402 Lippincott Drive in Marlton
- American Water signed a 25,923 SF lease at 1000 Voorhees Drive in Voorhees

FOR MORE INFORMATION:

Please contact your local GVA Smith Mack office.

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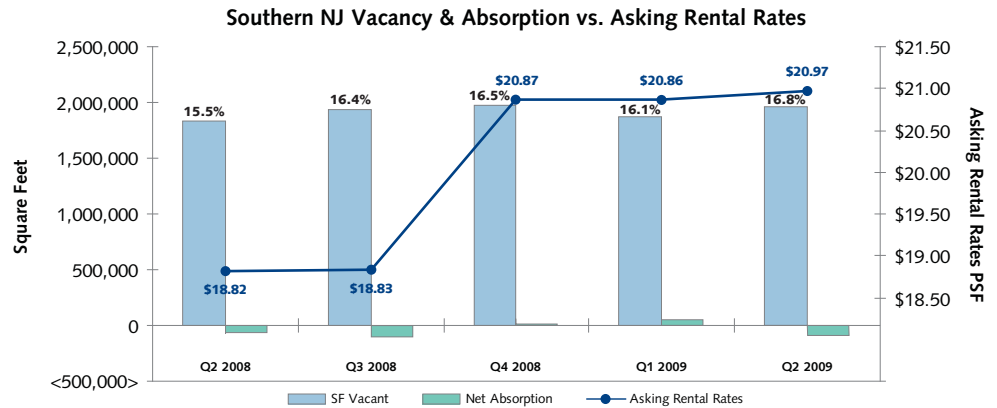
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Southern New Jersey

 Vacancy: **16.8%**
 Rental Rate: **\$20.97**

The first half of 2009 remained relatively quiet for the Southern New Jersey office market with year-to-date negative net absorption of (41,000) square feet, compared to 2008's mid-year negative net absorption of (180,100), indicating the Southern New Jersey market has continued to hold its own during the current market downturn, thus far. Both direct and total vacancy rates are beginning to increase with direct vacancy at 14.9% compared to 14.1% at the close of Q1 2009, and 16.8% total vacancy compared to 16.1%, respectively.

A more significant shift is apparent when compared to Q2 2008, when direct and total vacancy rates were 12.3% and 15.5%. Rental rates increased a bit to \$20.97 in Q2 2009 versus \$20.86 at the close of the first quarter. Net absorption has fallen from a positive 47,900 square feet at the close of the first quarter, to a negative (88,900) square feet in Q2 2009. The Camden submarket reported a negative net absorption of (45,500) square feet, while the 3M submarket reported a negative (43,400) square feet, placing both Southern New Jersey submarkets evenly against the challenges of the commercial real estate market.



About GVA Smith Mack

GVA Smith Mack is a regional commercial real estate firm with offices in Center City Philadelphia, Suburban Philadelphia, Wilmington, Delaware and Southern New Jersey. Since its inception in 1984, GVA Smith Mack has secured a leading position in the Delaware Valley's commercial real estate market. With multi-disciplined competency in Tenant Representation, Corporate Real Estate Services, Property Management, Investment Sales & Mortgage Finance and Owner Representation, GVA Smith Mack discovers, develops, and implements full service commercial real estate solutions. For complete information on how GVA Smith Mack can best provide assistance, visit our website at: www.gvasmithmack.com.

