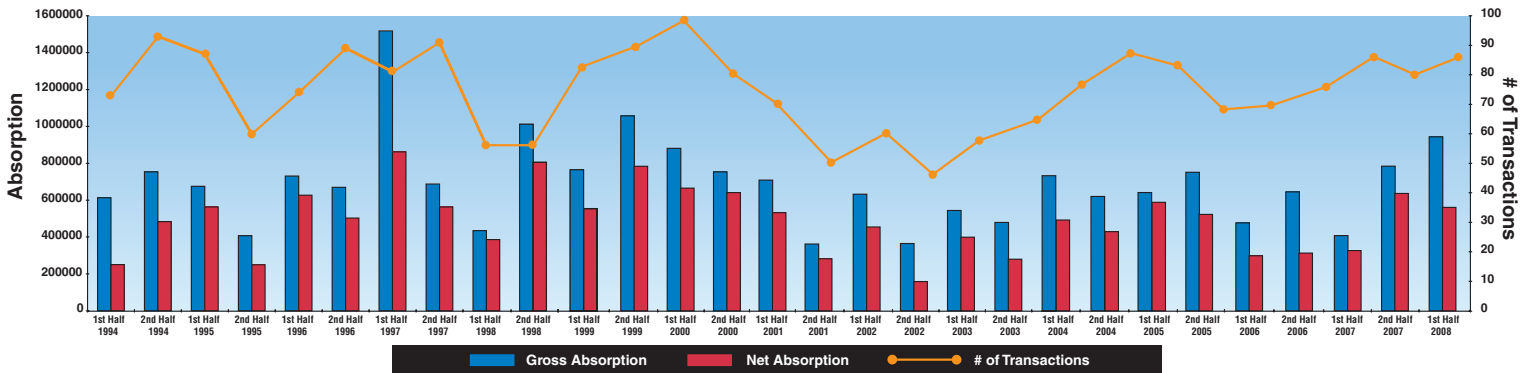


DEMAND ECONOMICS



The Greater Princeton Area withstood the global economic downturn in the first half of 2008 due to startup banks which were created in 2007, expansion at Princeton University, government growth, nonprofits who have benefitted from several years of increased contributions and Contract research organizations and Medical Device companies which are enjoying strong growth. The average size real estate transaction grew to 11,431 square feet, substantially up from 2007 average size of 7,048 square feet. The question is whether companies moved to reduce their size and save money or whether Princeton actually experienced real estate growth. The answer is both, the financial industries which have felt extreme pressure downsized and consolidated while specialty technology companies moved into the area taking small units of space but new growth for Princeton. It is difficult to speculate if there will be a positive outcome for the second half of the year with such extreme economic pressure due to inflation and rising costs of goods.

Service Business Legal Finance: This sector accounted for 24.1% of total growth which is an eight percent decrease based upon the same time last year. The financial markets are experiencing a major contraction due to the deepening subprime dilemma. Major institutions such as Bear Stearns, UBS, Lehman, Barclays and Merrill Lynch and basically everyone who participated in the subprime shell game are trying to achieve financing to prop up their companies.

Ironically the Japanese are becoming the major investors in Merrill Lynch and Barclay's bailouts. Hopefully this trend will continue with the Japanese seeking to expand their overseas investment. Since 2001 I have said that the financial sector would move out of NY, this became a fallacy due to the fact that the financial markets could afford to stay there. Now there may be greater reason to reduce the size of operations in NY by taking advantage of aggressive incentives by office building owners and yes, even the state of NJ. Several major transactions include State Street consolidating into 600 College Road East creating several smaller transactions to relocate and accommodate this reduction and consolidation. Merrill Lynch relocated and consolidated into their 1.6 million square foot underutilized headquarters in Hopewell creating a large vacancy of 250,000 square feet at 800 Scudder's Mill Road. 2008 is the year the start up banks matriculate and grow. The Bank of Princeton, First Choice, Roma Asia and Tri State Capital all took additional space in their quest to be the next leading regional consumer bank. These banks will be the answer for investors and real estate owners that need to borrow money, since the major banks are suffering from historical bad loans which are hindering their ability to lend.

Technology: Pharmaceutical companies have changed their strategies and are looking for ways to deliver new blockbuster drugs to the market. This is particularly important to companies whose drugs are coming off patent in 2010 -2011. These include BMS (Plavix), Pfizer (Lipitor) who just cut a deal with Ranbaxy (Generic Producer) to keep Lipitor until 2011, Merck's (Singulair) and Sanofi-Aventis (Levenox) who is thinking about investing into Ranbaxy. The FDA has slowed down approvals due to concerns over safety which is adding to the dilemma for large Pharms and the spark for Generics to continue to grow in the US market. The absorption that took place in this sector was respectable although down from last half and represented 24% growth in the first half of the year. Look for Large Pharma to consolidate, merge or sell operating units as its revenue flattens out for the next couple of years. BMS just sold the Convatec unit to a private investment group out of Sweden. Large Pharma will continue to invest large sums of money into research companies which so far have created mixed results, but could benefit the Princeton technology market. Medical device companies should experience expansion as well as diagnostic companies. The medical device companies like Siemens and Roche have to present themselves as leaders in this segment versus a "me too" approach. This takes multiple technologies that no one company has and will spur acquisitions and or investment. The diagnostic companies are already expanding and merging which include SFBC Taylor expansion for a total of 60,000 square feet, Abbott's acquisition of KOS pharmaceutical and ISTAT, creating a consolidation of 72,000 square feet and Lab corps acquisition of Tandem Labs which gives stronger diagnostic capability to Abbott on the east coast.

Medical: Growth in the medical industry paused this half with only 3.9% of growth occurring. This will undoubtedly change as the University Medical Center at Princeton has begun construction on their new campus in Plainsboro causing a shift of medical users from Princeton and even possibly Cranbury to Plainsboro. Capital Health is finishing their approvals in Hopewell and should be starting construction in the next six to twelve months. This depends on fund raising and the ability to borrow in challenging financial markets.

Internet, Software, Electronic & Fiber. This category reduced dramatically with growth lowering from 21% last year to 9% of the total absorption. There were 11 transactions with an average size of 4,945 square feet of growth. This sector has had dramatic swings in absorption historically due to intense expansion followed by intense contraction and the ability to off shore work.

Education/Government: The Education/government expansion accounted for 33% of the net absorption in the first half. Government transactions were limited due to the budget crisis of NJ, with DYFUS being the only state transaction of 10,000 square feet. The federal Government showed up with The Federal Reserve leasing 30,000 square feet. The real expansion occurred in the educational field where Princeton University started construction for its new facility at Carnegie Center and leased two units of space in downtown Princeton for 5,000 square feet each. Non profits continue to expand due to increased donations over the last several years; this may be coming to a slow end as donations start to fall due to increased pressure on rising energy and food pricing.

ABSORPTION LEVELS 1997-2008

	Gross Absorp.	Net Absorp.	# of Trans.
1st Half 1997	1,517,627	861,837	81
2nd Half 1997	687,021	562,128	91
1st Half 1998	434,346	385,296	56
2nd Half 1998	1,007,642	727,172	55
1st Half 1999	729,881	537,231	84
2nd Half 1999	1,061,332	799,098	89
1st Half 2000	827,374	644,845	98
2nd Half 2000	911,119	817,883	80
1st Half 2001	652,266	545,966	70
2nd Half 2001	331,704	222,704	50
1st Half 2002	631,730	414,430	61
2nd Half 2002	351,017	173,072	49
1st Half 2003	533,538	408,978	56
2nd Half 2003	444,419	283,839	68
1st Half 2004	695,067	504,610	76
2nd Half 2004	683,586	471,411	87
1st Half 2005	619,008	581,008	82
2nd Half 2005	741,843	492,253	69
1st Half 2006	477,471	278,230	70
2nd Half 2006	670,596	282,811	75
1st Half 2007	384,635	300,065	85
2nd Half 2007	778,370	636,117	80
1st Half 2008	1,005,469	591,433	88

AVERAGE SIZE TRANSACTIONS

	Gross Absorp.	Net Absorp.	# of Trans.	Gross Avg.	Net Avg.
1997	2,204,648	1,423,965	172	12,817	8,278
1998	1,441,988	1,112,468	111	12,990	10,022
1999	1,791,213	1,336,329	173	10,353	7,724
2000	1,738,493	1,462,728	178	9,766	8,217
2001	983,980	768,670	120	8,199	6,405
2002	982,747	587,502	110	8,934	5,286
2003	982,957	692,817	124	7,927	5,587
2004	1,378,653	976,021	163	8,458	5,988
2005	1,360,851	1,073,281	151	9,012	7,105
2006	1,148,067	561,041	145	7,917	3,869
2007	1,163,003	936,182	165	7,048	5,674
1st half 08	1,005,469	591,433	88	11,431	6,720