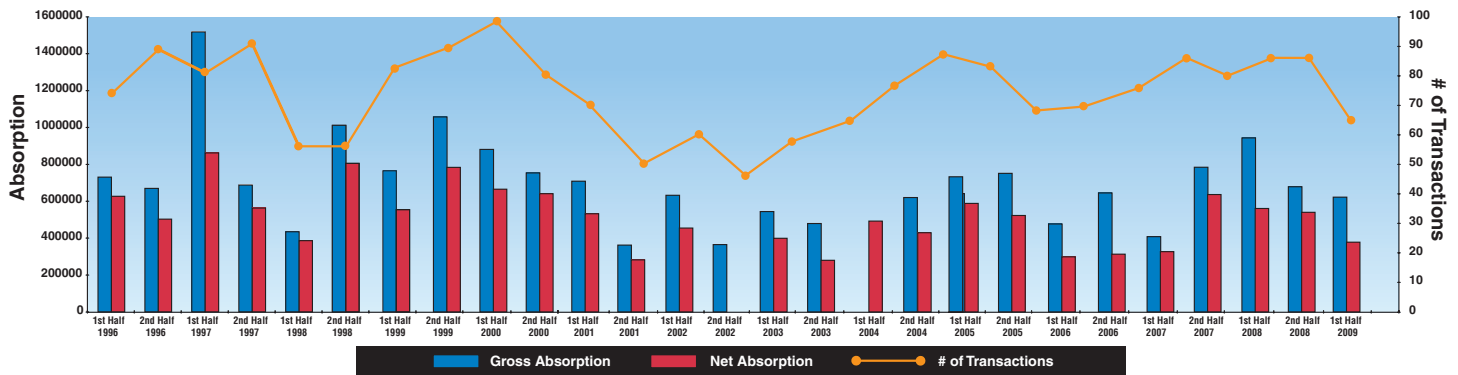


DEMAND ECONOMICS



The Greater Princeton Area experienced the greatest growth in the bio pharmaceutical field, (37.94%) and the internet, software and electronics industries (21.33%). The service/financial businesses moved from 32% of the growth down to 22% in 2009 and medical moved up to over 11% from 4% in 2008. This growth trend should continue in 2009 for Princeton except the service/legal/finance sectors should remain deflated due to the implosion of Wall Street and the battered banking industry brought on by the rise in auto loan and credit card failures, and the spike in mortgage foreclosures. The average transaction size grew to 9,934 square feet, moderately up from 2008 average size of 9,358 square feet. The first half of the year had a positive growth rate of 408,000 square feet, offset by company failures or companies shedding (subleasing) 400,000 square feet of office space. We anticipate, based on a slower rate of development and declining demand that the absorption rate will be neutral to negative for full year 2009.

A significant transaction was the recent signing of Otsuka Pharmaceutical, at University Square. The reason this is significant is as of this publication, the lease has been signed by the tenant, but not by the Landlord; many buildings that have sat vacant (two plus years) have to bring leases to their lender for approval for tenant improvement money. The other recent office transaction worth mentioning is The Vantage transaction which relocated from Pennsylvania. After 10-15 years of tenants going across the river to save money, rents in Bucks County, Pa. have been forced to rise higher in some circumstances; this fact, complimented with greater incentives may cause some companies to now seek out New Jersey as the lower cost provider.

Service Business Legal Finance: This sector accounted for 22.81% which is down from 32% during 2008. The financial markets are experiencing a major contraction due to the deepening subprime dilemma, bad car loans and increasing default on credit cards. The service industry, particularly architects, providers of consumables and banks have repositioned themselves via severe layoffs, due to a sudden reduction in revenues. The layoffs are harsh and will certainly affect demand in this sector in the second half of 2009. Blackrock recently purchased Barclays Global Investors becoming the largest asset manager in the world. Blackrock has 550,000 square feet in Princeton and has been rumored to be relocating out of NJ, with a lease expiration in two years.

Technology: Pharmaceutical companies continue to change their strategies by looking for faster ways to deliver new blockbuster drugs to the market. This sector was up in growth to 37% compared to 21% in 2008. Merck and Astra Zeneca are sharing their basic research into related drugs with a view to combining clinical trials before either drug has regulatory approval. Only 8% of cancer drugs get approval compared to 20% of drugs for other diseases. Thirty percent of global R&D spending is going into oncology research. BMS just teamed up with Exelixis to develop two drugs to focus on reducing the growth of cancer. Wyeth acquired London based Thiakis, for \$150 Million, who is in the lucrative field of obesity control. 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. J&J received approval to buy Omrix pharmaceuticals, a surgical device maker, for \$438 million. Medical device companies should experience expansion as well as diagnostic companies; two notable transactions in this field are the expansion of J&J, at 23 Orchard Road, by 50,000 square feet and the Otsuka transaction (67,000), which is a Japanese pharmaceutical company working with Bristol Myers Squibb.

Medical: Growth in the medical industry came back from a slow year jumping to 11% from only 4% in 2008. This followed the recent start of the two hospital locations, Capital Health and University Medical Center of Princeton. A pending law, which may be passed, will limit the ability for new surgery centers within a specific proximity outside of hospitals. This certainly has been a thorn in the side of hospitals, as the same doctors which they employ, would open separate surgery centers creating direct competition with the hospitals.

Internet, Software, Electronic & Fiber: This category finished the first half of 2009 up to 21% net absorption from only 12% in 2008. This sector has had dramatic swings in absorption, historically due to intense expansion followed by intense contraction. Major transactions in this category are Nixsun, who subleased 30,000 square feet from BMS, and left their assembly computer operation at 1100 Cornwall and Stealth Microwave, which expanded to 20,000 square feet from 6,000 square feet at 1014 Whitehead Road in Ewing Township.

Education/Government/Non-Profit: The education/ government expansion stopped and lowered from 25% to 4.5% in growth. Princeton University, who expanded over the last two years, has recently started looking at early retirement packages for employees; this is due to the decrease in endowments. The Federal government will increase in size, which may trickle down to New Jersey, but mostly in the near term, increase office demand in Virginia and Washington DC., as the Federal Government hires 100,000 new employees. State office leases are being consolidated into Trenton, back filling 300,000 square feet of empty desks. These units are coming from Bordentown (39,000 sq ft), Hamilton (40,000 sq ft and 50,000 sq ft) reversing a trend that began in the late 70's of decentralizing and relocating employees in the surrounding suburbs. Non-profit expansion has come to a slow end as donations have fallen due to lost net worth in the financial markets.

ABSORPTION LEVELS 1997-2009

	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
2nd Half 2008	652,109	559,225	87
1st Half 2009	615,931	408,031	62

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
2008	1,637,578	1,150,658	175	9,358	6,575
2009	615,931	408,931	62	9,934	6,595