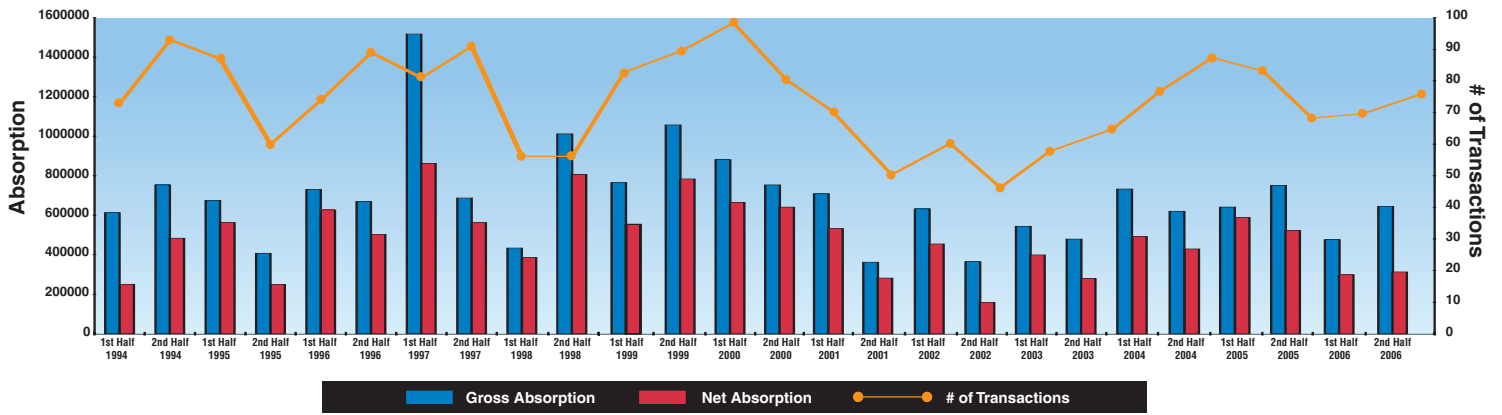


DEMAND ECONOMICS



The Greater Princeton Area is attracting Japanese pharmaceutical companies, Indian generic drug manufacturing companies, banks looking to move into New Jersey and medical markets which are shifting to service changing demographics. However, growth has dropped 47% based on the fact that companies can do more with less. The average sized net transaction was 3,721 square feet versus 7,105 last year. There is a significant amount of jobs which have offshored to India and China. For the short term this has affected demand in the software and internet fields causing negative absorption for Princeton in this category. This may change as India's middle market employees demand more income. Below, we will explore the demand of Office Space in the Greater Princeton Office Market and make predictions for 2007.

Service Business Legal Finance: This sector accounted for 41% which is a 2% decrease based upon the same time last year. The financial markets are having record years by offering diversified services. Global Merger activity reached 3 trillion dollars. Companies are becoming more hesitant about being listed on the US stock exchange due to strict corporate governance and the cost of complying with these regulations. As such, the SEC has made the statement that they will be less stringent on smaller and medium sized companies. The biggest news is the acquisition by BlackRock of Merrill Lynch's mutual Funds, creating a single financial company in Plainsboro that occupies over 300,000 square feet of space and is looking to grow. The real question will be where will they locate to after their short term lease expires. The legal industry has expanded this year with Pepper Hamilton and Sills Cummis taking additional space.

Technology: The large pharmaceutical companies are reducing their sales forces, such as Pfizer and Merck, to achieve greater costs savings in a tumultuous time. Merck has won several of the 27,000 class action suits it has in its Vioxx cases. Astra Zeneca is concentrating R&D dollars on acquisitions and licensing activity which should bolster the Bio field. This sector should increase as monies are poured into smaller companies with promising drugs in large bio fields such as diabetes, cancer, infectious diseases and drug delivery systems.

Medical: Growth in the medical industry reached 12% of the total net absorption and will continue to become significant in the overall real estate demand and supply equation. The evidence of this is the repositioning of the hospitals which are strategically moving their facilities to more easily accessible locations. The two main hospitals making major investments in bringing the medical care to the consumer are University Medical Center at Princeton and Capital Health Systems. Capital Health has purchased 32 acres in Lawrenceville to build a new hospital relocating out of the western section of Trenton, although they may end up in Hopewell because of the negative reception Lawrenceville is giving to them. Capital Health has completed two transactions, one in Lawrenceville (7,500 SF) for a Cancer center and another site on Quakerbridge Road for 10,000 square feet. University Medical Center is aggressively pursuing the approvals for The FMC Site which will help the hospital grow its teaching status on a regional and national level. University Medical center has completed two transactions one for 10,000 SF in East Windsor and an 18,000 SF requirement in Hamilton. Both these hospitals are creating new locations for medical practices. All they need is a confirmed commitment to build in these locations. RWJ Hamilton has just completed its 60,000 square foot expansion and has taken space (3,600 SF) at the Washington Town Center. All three hospitals are growing and initiating a shift to cater to the changing population and to create future long term growth opportunities and recruit the best medical doctors.

Internet/Software: This category dropped off significantly to negative 1.3% of total net absorption versus 23% last year. These jobs are offshore or are in other parts of the country where labor costs and living expense is less. Dell has 20,000 employees in India. Computer Associates signed for 83,000 square feet in Ewing at Princeton South based on a consolidation of three locations totaling over 300,000 square feet.

Education/Government: The Education/ government expansion accounted for 10% of the net absorption for 2006 (This includes the adjustment for Non Profits). Government transactions were limited, while nonprofits leased 24,950 square feet of growth benefiting from an increase in giving. Educational institutions will grow due to workers who had a skill set which has been off shored. Harris Business School completed an acquisition and renovation for 13,000 square feet on Quakerbridge Road. State requirements are beginning to close with 15,000 square feet relocating to Mountain View office park and one of the Carnegie Center lease rollovers relocating to a build to suit on route 195, Hamilton for 40,000 square feet.

ABSORPTION LEVELS 1994-2006

	Gross Absorp.	Net Absorp.	# of Trans.
1st Half 1994	613,088	249,688	73
2nd Half 1994	753,277	482,799	93
1st Half 1995	674,933	562,933	87
2nd Half 1995	406,849	249,292	60
1st Half 1996	730,701	626,457	74
2nd Half 1996	668,761	501,950	89
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

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
6/06	477,471	278,230	70	6,821	3,975
12/06	670,596	282,811	75	8,941	3,770