MARKETBEAT

Philadelphia - CBD

Office Q3 2017

PHILADELPHIA OFFICE

Economic Indicators

	Q3 16	Q3 17	12-Month Forecast
Philadelphia Employment	2.883M	2.927M	▲
Philadelphia Unemployment	5.1%	4.7%	▼
U.S. Unemployment	4.9%	4.4%	▼

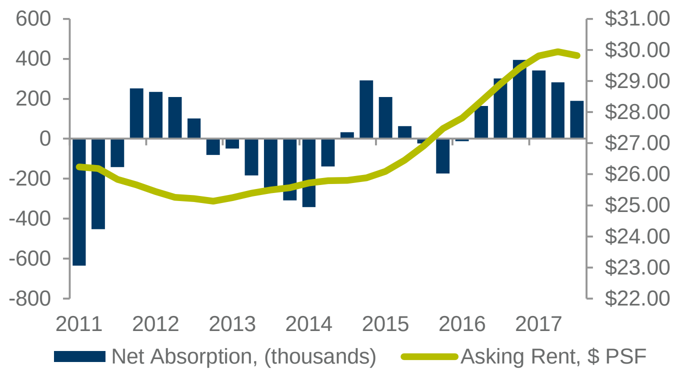
Market Indicators (Overall, All Classes)

	Q3 16	Q3 17	12-Month Forecast
Vacancy	10.4%	10.7%	▲
YTD Net Absorption (sf)	403k	93k	▲
Under Construction (sf)	1.3M	1.3M	▬
Average Asking Rent*	$ 29.79	$29.32	▲

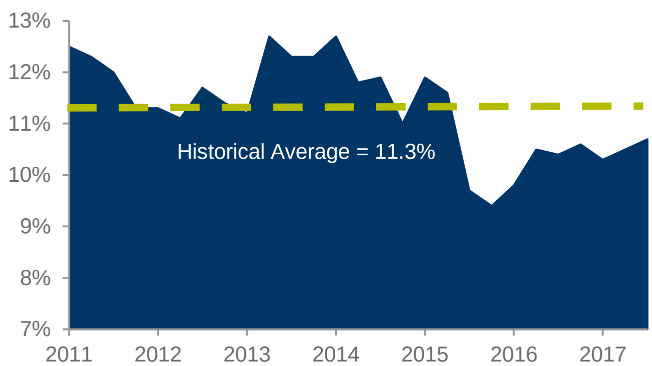
*Rental rates reflect gross asking $psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Philadelphia Metropolitan Area's (MSA) unemployment rate declined to 4.7% in the third quarter of 2017, down 40 basis points (bps) year-over-year. Job growth increased by 1.5% over the past year, with the professional and business services sector experiencing the largest growth over that period, adding 16,700 jobs to the market, an increase of 3.6%. The education and health services sector also added 15,400 new jobs, an increase of 2.5% year-over-year.

Market Overview

The overall vacancy rate for the Philadelphia Central Business District (CBD) increased marginally year-over-year to 10.7% in the third quarter of 2017, up 30 bps from the third quarter of 2016. The increase in vacancy can be attributed to some new available space in Class B product in the East of Broad submarket, as well as the renovation/completion earlier this year of the Family Court building at 1100 Ludlow Street in which over 100,000 square feet (sf) remains vacant. After climbing to an asking rental rate value of $30.07 per square foot (psf) last quarter, overall asking rents declined slightly in the third quarter to $29.32 psf. Year-to-date overall absorption remains positive at 92,752 sf due to the strong level of leasing activity in the West of Broad submarket, exceeding 1.0 million square feet (msf) thus far in 2017.

Renewals were prevalent during the third quarter of 2017 in the Philadelphia CBD. At 1801 Market Street, Morgan, Lewis & Bockius signed the largest lease of the quarter, renewing for 98,180 sf. Additional renewals this quarter included, Baker Tilly for 49,561 sf at One Liberty Place and Medical Guardian renewing and expanding its footprint for a total of 35,433 sf at 1818 Market Street. For new activity, significant leases included Brandywine Global Investment Management taking 88,713 sf at 1735 Market Street, Rothman Institute leasing 19,075 sf at 833 Chestnut Street, and Kohn Swift & Graf, P.C. signing for 10,000 sf at 1600 Market Street. On the investment sales side, Centre Square West and East Towers totaling 1.76 msf of space, sold for $328 million this quarter or $186-psf. The buildings were purchased by Nightingale Properties from Equity Commonwealth.

Outlook

The vacancy rate is expected to rise over the next 6-12 months. Comcast's new 1.3-msf headquarters at 1800 Arch Street is expected to deliver in January 2018 which is expected to free up space in other buildings Comcast presently occupies in the Philadelphia CBD. The renovation to One Franklin Tower, totaling nearly 215,000 sf of office space, is also expected to complete construction early in the fourth quarter of 2017.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	DIRECT AVERAGE ASKING RENT (ALL CLASSES)*	DIRECT AVERAGE ASKING RENT (CLASS A)*
East of Broad	12,746,011	61,103	1,602,258	13.1%	-277,140	-87,278	274,889	0	$27.49	$27.64	$29.60
West of Broad	28,048,537	229,502	2,482,437	9.7%	179,438	180,030	1,058,706	1,321,921	$30.41	$30.51	$31.27
CBD	**40,794,548**	**290,605**	**4,084,695**	**10.7%**	**-97,702**	**92,752**	**1,333,595**	**1,321,921**	**$29.32**	**$29.43**	**$30.87**
Bala Cynwyd	2,734,940	5,480	180,234	6.8%	52,656	66,708	176,268	0	$29.71	$29.71	$32.18
Southern Bucks County	6,419,819	31,890	1,090,181	17.5%	95,596	112,732	339,315	0	$23.49	$23.58	$25.59
Southern Route 202 Corridor	5,919,197	15,126	418,305	7.3%	52,628	166,557	174,472	0	$23.83	$23.90	$24.66
Delaware County	4,458,867	1,710	427,568	9.6%	7,464	32,286	72,917	0	$24.60	$24.62	$27.33
Blue Bell/Ply. Mtg./Ft. Wsh.	10,909,986	1,482	1,385,637	12.7%	108,144	223,537	623,216	0	$24.66	$24.67	$25.54
Main Line	3,570,916	5,268	230,438	6.6%	6,649	-80,912	156,872	0	$29.76	$29.80	$30.02
Conshohocken	3,523,636	29,473	172,453	5.7%	53,326	-35,364	199,512	0	$34.51	$34.81	$35.34
Horsham/Willow Grove/Jenkintown	5,092,999	0	742,677	14.6%	-96,588	793	228,190	0	$23.78	$23.78	$25.23
King of Prussia/Valley Forge	17,577,768	30,137	1,903,042	11.0%	65,790	-163,051	663,221	0	$24.36	$24.40	$26.44
SUBURBAN PHILADELPHIA	**60,208,128**	**120,566**	**6,550,535**	**11.1%**	**345,665**	**323,286**	**2,633,983**	**0**	**$24.75**	**$24.80**	**$26.47**
Burlington County	7,789,572	0	754,783	9.7%	-31,647	-55,765	246,833	0	$21.28	$21.28	$25.32
Camden County	6,387,585	15,613	817,541	13.0%	21,603	88,756	226,967	0	$19.05	$19.04	$25.19
SOUTHERN NEW JERSEY	**14,177,157**	**15,613**	**1,572,324**	**11.2%**	**-10,044**	**32,991**	**473,800**	**0**	**$20.00**	**$20.01**	**$25.30**
New Castle-Suburban	9,292,676	0	1,163,768	12.5%	52,051	49,164	739,321	100,000	$22.52	$22.52	$23.36
Wilmington-CBD	7,050,857	0	1,198,693	17.0%	86,526	-45,585	511,541	0	$25.46	$25.46	$27.35
NEW CASTLE CTY-DE TOTAL	**16,343,533**	**0**	**2,362,461**	**14.5%**	**138,577**	**3,579**	**1,250,862**	**100,000**	**$24.31**	**$24.31**	**$25.89**
Lehigh & Northampton Counties	7,036,072	32,037	586,094	8.8%	82,283	50,045	177,664	224,363	$19.10	$19.11	$22.12
SUBURBAN TOTAL	**90,728,818**	**136,179**	**10,485,320**	**11.7%**	**474,198**	**359,856**	**4,358,645**	**100,000**	**$23.94**	**$23.97**	**$26.24**
PHILADELPHIA TOTALS**	**131,523,366**	**426,784**	**14,570,015**	**11.4%**	**376,496**	**452,608**	**5,692,240**	**1,421,921**	**$25.71**	**$25.74**	**$27.89**

*Rental rates reflect gross asking $psf/year **Lehigh & Northampton Counties are not included within the Suburban & Philadelphia MSA total

Key Lease Transactions Q3 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1801 Market Street	98,180	Morgan, Lewis, & Bockius	Renewal	West of Broad
1735 Market Street	88,713	Brandywine Global Investment Management	Lease	West of Broad
One Liberty Place	49,561	Baker Tilly	Renewal	West of Broad
1818 Market Street	35,433	Medical Guardian	Renewal/Expansion	West of Broad
833 Chestnut Street	19,075	Rothman Institute	Lease	East of Broad

Key Sales Transactions Q3 2017

PROPERTY	SF	SELLER/BUYER	PRICE / $PSF	SUBMARKET
Centre Square – East & West Towers	1,759,163	Equity Commonwealth / Nightingale Properties	$328,000,000 / $186	West of Broad

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