

MARKETBEAT

Philadelphia - Suburban

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%	▼

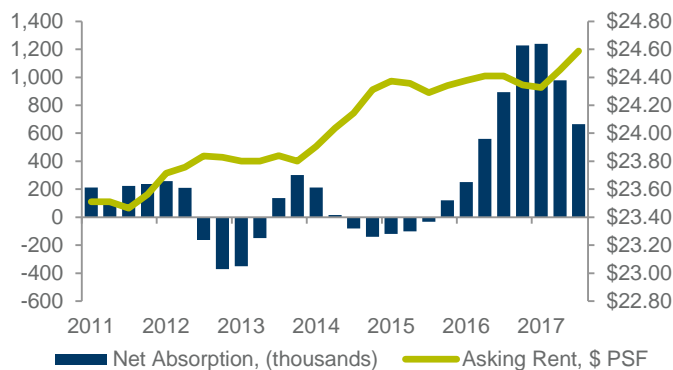
Market Indicators (Overall, All Classes)

	Q3 16	Q3 17	12-Month Forecast
Vacancy	12.5%	11.1%	▼
YTD Net Absorption (sf)	1.61M	323k	▲
Under Construction (sf)	60k	0	▲
Average Asking Rent*	\$24.21	\$24.75	▲

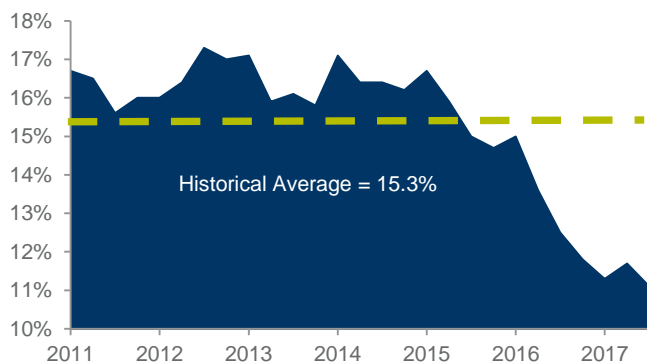
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Greater Philadelphia region's unemployment rate declined to 4.7% in the third quarter of 2017, a 40-basis-point (-bp) drop year-over-year. Philadelphia's total nonfarm employment increased by 1.5% over the past year, with the professional and business services sector experiencing the largest growth, adding 16,700 new jobs to the market, an increase by 3.6% year-over-year. Additional sectors that experienced growth over the past year included, the education and health services sector adding 15,400 new jobs, and the leisure and hospitality sector, adding 12,900 new jobs to the market.

Market Overview

The overall vacancy rate for the suburban Philadelphia office market declined to 11.1% in the third quarter of 2017, down 140 bps from the third quarter of 2016. Overall asking rental rates for all Classes increased by 2.2% over the past year to \$24.75 per square foot (psf), with Class A rates experiencing the largest increase by 3.1% year-over-year to an average rate of \$26.40-psf. While year-to-date overall absorption is lagging behind 2016 numbers, absorption totaled positive 345,665 square feet (sf) in the third quarter of 2017. New construction remains limited in the Philadelphia suburbs with only 171,232 sf delivered thus far in 2017.

Leasing activity remains robust in the Philadelphia suburbs, up 0.3% year-over-year. While there has been an increase in new activity, the largest leases of the third quarter were renewals. Philadelphia Insurance Companies renewed its lease for 285,000 sf at One Bala Plaza in Bala Cynwyd and State Farm Insurance extended its lease at One State Farm Drive in Concordville for 272,523 sf. Additional notable renewals included CardConnect staying put at 1000 Continental Drive in King of Prussia for 30,000 sf and Wellington Management Company renewing for 24,351 sf in Radnor. For new leases signed this quarter, SofterWare, Inc. leased 45,484 sf at 601 Office Center Drive in Fort Washington, SEI Investments took 35,000 sf at 1500-1550 Liberty Ridge Drive in Wayne, and Bank of America signed for 22,240 sf at 300 Conshohocken State Road in West Conshohocken.

Outlook

Asking rents for all Classes are forecasted to grow by an annual average of 1.9% over the next 5 years in the suburban Philadelphia office market. Vacancy is also expected to trend downward over the next 6-12 months, as no new speculative construction is in the pipeline to deliver over that period.

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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
One Bala Plaza	285,000	Philadelphia Insurance Companies	Renewal	Bala Cynwyd
One State Farm Drive	272,523	State Farm Insurance	Renewal	Southern Route 202 Corridor
601 Office Center Drive	45,484	SofterWare, Inc.	Lease	Blue Bell/Ply. Mtg./Ft. Wash.
1500-1550 Liberty Ridge Drive	35,000	SEI Investments	Lease	King of Prussia/Valley Forge
1000 Continental Drive	30,389	CardConnect	Renewal	King of Prussia/Valley Forge

Key Sales Transactions Q3 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
435 Devon Park Drive	148,900	Grosvenor Fund Management, Inc. / Maguire Hayden	\$20,200,000 / \$136	King of Prussia/Valley Forge
455 Devon Park Drive	130,000	The Vanguard Group, Inc. / E. Kahn Development Corp.	\$15,000,000 / \$115	King of Prussia/Valley Forge

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