

MARKETBEAT

Philadelphia - CBD

Office Q4 2017



PHILADELPHIA OFFICE

Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Philadelphia Employment	2.903M	2.933M	▲
Philadelphia Unemployment	5.1%	4.7%	▼
U.S. Unemployment	4.7%	4.1%	▼

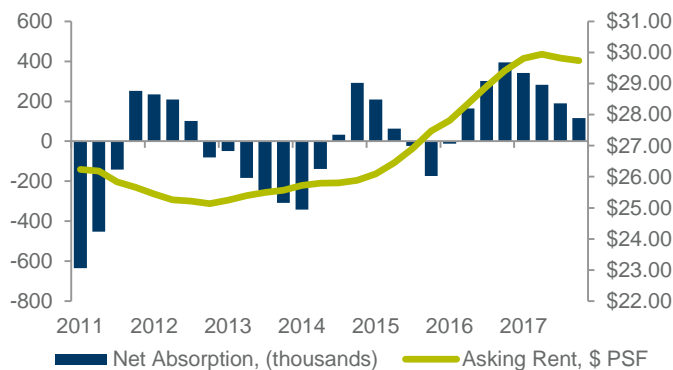
Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	10.6%	10.7%	▲
YTD Net Absorption (sf)	408k	21k	▲
Under Construction (sf)	1.3M	1.3M	■
Average Asking Rent*	\$ 30.08	\$29.60	▲

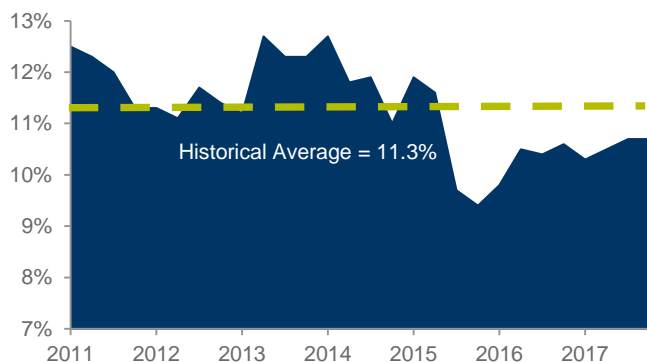
*Rental rates reflect gross asking \$psf/year

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 fourth quarter of 2017, down 40 basis points (bps) year-over-year. Total non-farm job growth increased by 1.0% over the past year, with the education and health services sector experiencing the largest growth over that period, adding 10,800 jobs to the market, an increase of 1.7%. Additionally, the professional and business services sector added 10,200 new jobs to the market, an increase by 2.2%, and the financial activities sector added 4,700 jobs, increasing by 2.2% 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 fourth quarter of 2017, up 10 bps from the fourth quarter of 2016. The increase in vacancy can be attributed to some vacant space added throughout the year in the East of Broad submarket, most notably the renovation/completion of the Family Court building at 1100 Ludlow Street. Asking rental rates remain strong in the Philadelphia CBD, with the East of Broad submarket experiencing significant growth in 2017, increasing by 7.5% year-over-year to \$28.09 per square foot (psf). Landlords continue to raise rents within the submarket, as redevelopment projects have made that side of the city more appealing for office tenants in the market for space.

Comcast signed the largest lease of 2017 at Three Logan Square for 300,000 square feet (sf), renewing for 230,000 sf and expanding by an additional 70,000 sf. Jefferson Health signed a new 237,000-sf lease at 1101 Market Street and will occupy its new space in early 2019 once Aramark relocates to its new headquarters at 2400 Market Street in late 2018. PNC Bank renewed and downsized its footprint in 2017, extending its lease for 230,000 sf at 1600 Market Street, down from previously occupying 350,000 sf in the building. Additional notable leases signed in 2017 included the First Judicial District of Pennsylvania taking 120,000 sf at 714 Market Street, Morgan, Lewis & Bockius renewing for 98,180 sf at 1801 Market Street, and Brandywine Global Management leasing 88,713 sf at 1735 Market Street.

Outlook

Despite Comcast's new 1.3-msf building at 1800 Arch Street scheduled for completion next quarter, the company continues to expand within the downtown market. When the building broke ground in 2014, it was anticipated that Comcast would consolidate within the building once complete, leaving some large vacancies at Logan and Centre Square. Evidenced by the recent lease expansion at Three Logan Square until 2023, the delivery of its new tower will not impact absorption and vacancy negatively in 2018.

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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	57,561	1,460,123	11.9%	49,498	-28,722	750,411	0	\$28.09	\$28.27	\$29.88
West of Broad	28,048,537	300,646	2,541,157	10.1%	-204,971	50,166	1,460,231	1,321,921	\$30.36	\$30.49	\$31.22
CBD	40,794,548	358,207	4,001,280	10.7%	-155,473	21,444	2,210,642	1,321,921	\$29.60	\$29.74	\$30.93
Bala Cynwyd	2,791,940	5,480	132,743	5.0%	46,662	114,199	229,144	0	\$29.74	\$29.93	\$32.19
Southern Bucks County	6,562,779	17,190	1,160,322	17.9%	-77,670	57,291	381,269	0	\$23.71	\$23.80	\$25.63
Southern Route 202 Corridor	5,919,197	15,126	486,972	8.5%	-65,691	97,890	203,537	0	\$23.94	\$24.01	\$24.68
Delaware County	4,480,938	1,710	503,008	11.3%	-136,748	-50,061	116,673	0	\$24.31	\$24.33	\$27.25
Blue Bell/Ply. Mtg./Ft. Wsh.	11,694,126	11,744	1,314,177	11.3%	16,529	289,655	875,511	0	\$24.49	\$24.51	\$25.22
Main Line	3,570,916	19,122	222,325	6.8%	-4,541	-86,653	187,782	0	\$30.65	\$30.72	\$31.00
Conshohocken	3,523,636	47,874	172,954	6.3%	-7,418	-54,266	263,820	0	\$33.75	\$34.87	\$35.31
Horsham/Willow Grove/Jenkintown	5,081,193	70,480	757,130	16.3%	-85,363	-84,033	243,286	0	\$23.88	\$23.97	\$25.26
King of Prussia/Valley Forge	17,782,544	45,936	1,865,132	10.7%	-80,585	-166,762	974,225	0	\$24.46	\$24.53	\$26.84
SUBURBAN PHILADELPHIA	61,407,269	234,662	6,614,763	11.2%	-394,825	117,260	3,475,247	0	\$24.86	\$24.92	\$26.68
Burlington County	7,702,072	0	682,812	8.9%	48,014	16,206	267,965	0	\$21.21	\$21.21	\$25.30
Camden County	6,410,585	15,613	772,694	12.3%	41,847	133,603	270,722	0	\$19.38	\$19.38	\$25.29
SOUTHERN NEW JERSEY	14,112,657	15,613	1,455,506	10.4%	89,861	149,809	538,687	0	\$20.16	\$20.17	\$25.30
New Castle-Suburban	9,292,676	57,227	1,198,585	13.5%	-78,745	-42,880	917,807	160,000	\$22.59	\$22.79	\$23.74
Wilmington-CBD	7,050,857	0	1,242,762	17.6%	-186,838	-218,150	556,952	0	\$25.49	\$25.49	\$27.28
NEW CASTLE CTY-DE TOTAL	16,343,533	57,227	2,441,347	15.3%	-265,583	-261,030	1,474,759	160,000	\$24.48	\$24.62	\$26.23
Lehigh & Northampton Counties	7,036,072	32,037	554,336	8.3%	37,428	81,803	266,653	224,363	\$19.18	\$19.20	\$22.24
SUBURBAN TOTAL	91,863,459	307,502	10,511,616	11.8%	-570,547	6,039	5,488,693	160,000	\$24.07	\$24.13	\$26.47
PHILADELPHIA TOTALS**	132,658,007	665,709	14,512,896	11.4%	-726,020	27,483	7,699,335	1,481,921	\$25.86	\$25.92	\$28.06

*Rental rates reflect gross asking \$psf/year

**Lehigh & Northampton Counties are not included within the Suburban & Philadelphia MSA total

Key Lease Transactions 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1717 Arch Street	300,000	Comcast	Renewal/Expansion	West of Broad
1101 Market Street	237,000	Jefferson Health	Lease	East of Broad
1600 Market Street	230,000	PNC Bank	Renewal	West of Broad
714 Market Street	120,000	First Judicial District of Pennsylvania	Lease	East of Broad
1801 Market Street	98,180	Morgan, Lewis & Bockius	Renewal	West of Broad

Key Sales Transactions 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
Wanamaker Building*	973,610	TIER REIT / Rubenstein Partners	\$111,114,673 / \$114	East of Broad

*Price and square footage for office portion only

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