

PHILADELPHIA OFFICE

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Philadelphia Employment*	2.92M	2.96M	▲
Philadelphia Unemployment*	4.8%	4.1%	▼
U.S. Unemployment	4.1%	3.7%	▼

*Numbers are quarterly averages; November 2018 data used to represent Q4 2018

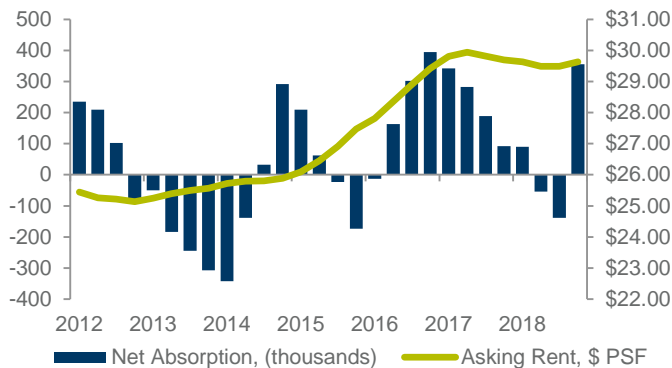
Market Indicators (Overall, All Classes)

	Q4 17	Q4 18	12-Month Forecast
Vacancy	10.7%	10.0%	▲
YTD Net Absorption (sf)	21k	2.0M	▼
Under Construction (sf)	1.3M	0.0	■
Average Asking Rent**	\$29.60	\$30.17	▲

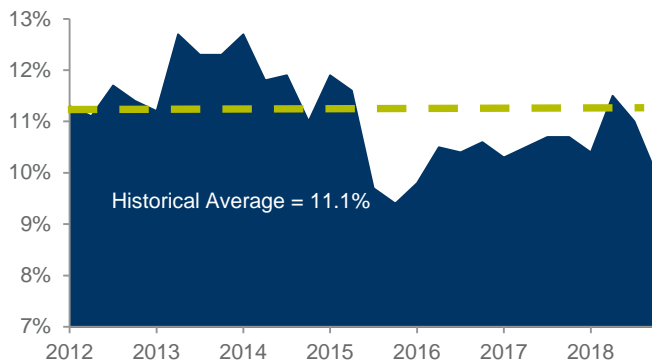
**Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Philadelphia Metropolitan Area's (MSA) unemployment rate declined to 4.1% in the fourth quarter of 2018, a 70-basis-point (bps) drop year-over-year. The current rate is the lowest unemployment rate recorded in the area in more than a decade, but still higher than the U.S. national rate of 3.7%. Over the same period, the area's total nonfarm employment increased by 1.4%, adding over 42,500 jobs.

Market Overview

The overall vacancy rate for the Philadelphia Central Business District (CBD) declined to 10.0% at year-end 2018, down 70 bps from year-end 2017. The decrease in vacancy can be attributed to two new office buildings being added to the CBD inventory that were close to or fully committed. In the fourth quarter, after roughly four years of construction, the Comcast Technology Center, a 60-story, 1.3-million-square-foot (msf) build-to-suit Trophy skyscraper, opened its doors in Center City. In the same quarter, a joint venture between Lubert-Adler Real Estate Funds and PMC Property Group, Inc. finished the renovation of 2400 Market Street. The 615,481-square-foot (sf) Class A office building was 90% preleased at the time of delivery and now serves as the headquarters of Aramark Corporation. Overall net absorption was positive for 2018 climbing to 2.0 msf, with 93% of the absorption attributed to construction/renovation completions. Direct average asking rents for all classes increased by 2.5% to \$30.50 per square foot (psf) while Class A rental rates increased by 1.9% since year-end 2017 to \$31.53 psf.

Leasing activity in the Philadelphia CBD was robust for 2018 with 2.4 msf of deal flow, up 9.3% from a year ago. Notable 2018 lease transactions included, Reliance Standard Life Insurance Company signing a 151,881-sf lease at 1700 Market Street, Macquarie Investment Management leasing 139,725 square feet (sf) at 600 Market Street and Sungard Availability Services renewing for 123,437 sf at 1500 Spring Garden Street.

Outlook

The overall vacancy rate is expected to rise in 2019, primarily due to tenant contractions and/or consolidations across the market. In particular, approximately 150,000 sf of former PNC Bank space at 1600 Market Street is expected to become vacant in the first quarter of 2019. Expect additional large blocks of space to come online through year-end 2019 as Deloitte will downsize its footprint at 1700 Market Street by 93,000 sf. Additionally, Center City tenants are entering the market well in advance of their lease expiration dates, given the scarcity of quality Class A and trophy space available in the market.

MARKETBEAT

Philadelphia - CBD

Office Q4 2018



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	12,636,011	64,716	1,156,274	9.7%	346,041	247,893	523,789	0	\$28.37	\$28.56	\$29.93
West of Broad	27,680,662	292,776	2,512,284	10.1%	1,846,847	1,749,611	1,893,049	0	\$30.92	\$31.32	\$32.04
CBD	40,316,673	357,492	3,668,558	10.0%	2,192,888	1,997,504	2,416,838	0	\$30.17	\$30.50	\$31.53
Bala Cynwyd	2,791,940	3,888	272,235	9.9%	-133,909	-71,223	84,591	0	\$32.75	\$32.86	\$34.11
Southern Bucks County	6,562,779	28,657	1,238,379	19.3%	12,700	-94,434	396,027	0	\$24.58	\$24.54	\$26.50
Southern Route 202 Corridor	5,920,423	5,673	666,861	11.4%	-191,475	-186,234	156,953	0	\$25.22	\$25.24	\$25.88
Delaware County	4,159,028	1,710	429,186	10.4%	-109,121	20,370	625,701	378,000	\$27.14	\$27.17	\$29.03
Blue Bell/Ply. Mtg./Ft. Wsh.	12,031,195	121,522	2,236,171	19.6%	-248,175	-388,762	405,013	0	\$23.87	\$23.91	\$25.55
Main Line	3,509,516	40,032	313,909	10.1%	-158,320	-49,272	129,724	0	\$35.17	\$35.45	\$36.48
Conshohocken	3,485,486	51,578	182,426	6.7%	-34,536	-3,598	549,884	42,000	\$35.76	\$36.75	\$36.80
Horsham/Willow Grove/Jenkintown	5,031,193	78,480	765,005	16.8%	-77,000	-66,704	150,706	0	\$24.79	\$24.95	\$26.89
King of Prussia/Valley Forge	17,804,632	100,408	1,793,021	10.6%	48,974	119,205	709,893	20,000	\$27.16	\$27.34	\$29.11
SUBURBAN PHILADELPHIA	61,296,192	431,948	7,897,193	13.6%	-890,862	-720,652	3,208,492	440,000	\$26.34	\$26.43	\$28.66
Burlington County	7,752,072	0	1,038,141	13.4%	-138,063	-305,552	292,477	0	\$24.03	\$24.03	\$26.24
Camden County	6,274,388	47,026	758,777	12.8%	65,786	-99,178	461,268	0	\$20.33	\$20.36	\$26.33
SOUTHERN NEW JERSEY	14,026,460	47,026	1,796,918	13.1%	-72,277	-404,730	753,745	0	\$21.97	\$22.02	\$26.26
New Castle-Suburban	9,455,676	57,227	1,215,749	13.5%	80,107	154,382	474,767	0	\$23.79	\$24.21	\$25.13
Wilmington-CBD	7,466,665	4,884	1,138,324	15.3%	-300,660	-170,762	105,002	0	\$26.53	\$26.55	\$27.27
NEW CASTLE CTY-DE TOTAL	16,922,341	62,111	2,354,073	14.3%	-220,553	-16,380	579,769	0	\$25.46	\$25.71	\$26.66
Lehigh & Northampton Counties	7,260,435	26,490	886,716	12.6%	-69,929	-95,371	370,489	295,000	\$19.53	\$19.54	\$22.49
Naval Yard	827,788	6,513	47,518	6.5%	14,615	158,267	31,592	0	\$40.60	\$40.68	\$40.68
University City	5,688,632	25,788	518,220	9.6%	-57,685	189,937	210,484	0	\$42.57	\$43.54	\$45.37
SUBURBAN TOTAL	92,244,993	541,085	12,048,184	13.6%	-1,183,692	-1,141,762	4,542,006	440,000	\$25.66	\$25.76	\$28.11
PHILADELPHIA TOTALS***	132,561,666	898,577	15,716,742	12.5%	1,009,196	855,742	6,958,844	440,000	\$26.80	\$26.94	\$29.18

*Rental rates reflect gross asking \$psf/year **Does not include renewals

***Lehigh & Northampton Counties, Naval Yard and University City submarkets are not included within the Suburban & Philadelphia MSA total

Key Lease Transactions 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1700 Market Street	151,881	Reliance Standard Life Insurance Company	New	West of Broad
600 Market Street	139,725	Macquarie Investment Management	New	East of Broad
1500 Spring Garden Street	123,437	Sungard Availability Services	Renewal	West of Broad

Key Sales Transactions 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
1600 Market Street	826,000	Equity Commonwealth / American Real Estate Partners	\$160,000,000 / \$194	West of Broad
2000 Market Street	665,819	Gemini Rosemont Commercial Real Estate / Goldman Sachs & Co. & Nahla Capital	\$126,400,000 / \$189	West of Broad

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