

PHILADELPHIA OFFICE

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Philadelphia Employment*	714.0k	728.0k	▲
Philadelphia Unemployment*	6.1%	4.9%	▼
U.S. Unemployment	4.1%	3.8%	▼

*Numbers are quarterly averages; February 2019 data used to represent Q1 2019

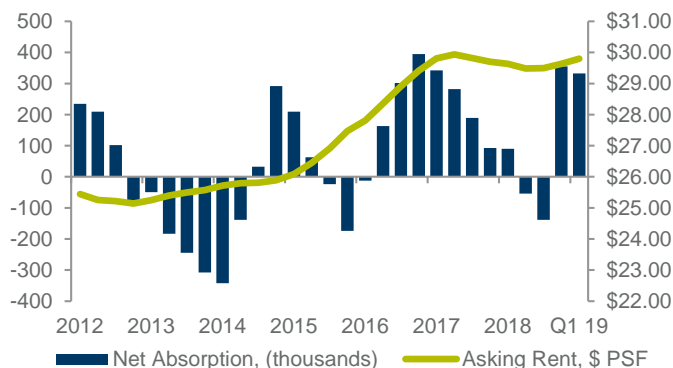
Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	10.4%	9.4%	▲
YTD Net Absorption (sf)	83k	-40k***	▲
Under Construction (sf)	1.3M	0	■
Average Asking Rent**	\$29.54	\$30.19	▲

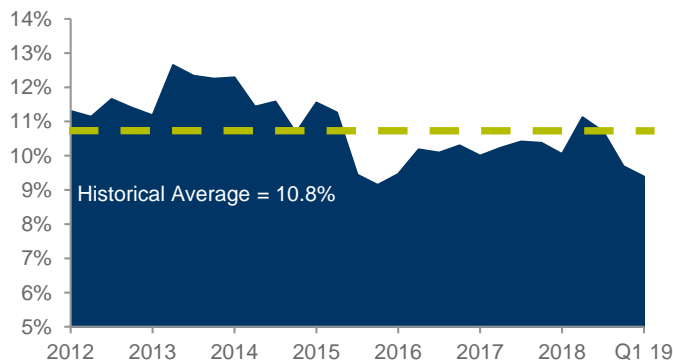
Rental rates reflect gross asking \$psf/year *Not reflective of U.S. Overview

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The city of Philadelphia's economy continued to post strong job growth in Q1 2019, adding 19,300 jobs over the past 12 months, representing a 2.7% increase. The city is growing at a faster rate than the rest of the MSA and represented 55% of all jobs added to the region during this period, outperforming its regional job share of 25%. This growth is being driven by education and health services, leisure and hospitality and office-occupying sectors, which each respectively represented 39.9%, 30.6% and 14.5% of the jobs added to the city during this period. The unemployment rate dropped 120 basis points (bps) over the past 12 months to 4.9% in the first quarter.

Market Overview

Direct asking rents have increased 16.0% over the past five years, driven by out-of-town investors acquiring buildings and raising rents, as well as new inbound demand and organic growth from tenants in the market. Direct asking rents in the first quarter continued this upward trend, increasing 2.3% year-over-year. After strong leasing activity in the last quarter of 2018, downtown transaction volume slowed during the first quarter of 2019. Net absorption for the quarter was negative 40,485 square feet (sf), driven by large blocks of space coming online at 1600 Market and 2130 Arch Street. The largest of these blocks was 130,000 sf at 1600 Market, with a majority of that attributed to PNC Bank downsizing their footprint. Despite negative absorption in the first quarter, vacancy still decreased 100 basis points (bps) over Q1 2018.

Silverstein Properties and Arden Group closed on the acquisition of 1735 Market Street in March 2019 for \$451.6 million, or \$351 per square foot (psf), setting a new investment sales high watermark for the market both in terms of absolute price and price per square foot. This transaction continues the trend of out-of-market investors acquiring Center City office buildings and making improvements to the CBD's aging office stock.

Outlook

Large tenants like Morgan Lewis, Chubb, Dechert and Blank Rome are coming out to market early given the scarcity of large blocks in premium buildings. Large blocks of space coming available in non-trophy buildings over the next 12 months have the potential of softening asking rents. However, should 1735 Market's new ownership choose to raise rents, other buildings on the high-end of the market will likely follow suit. This will further stratify trophy and non-trophy assets driven by a flight to quality and tenants' willingness to pay more for premium product.

MARKETBEAT

Philadelphia - CBD

Office Q1 2019



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	12,668,511	52,242	1,270,474	10.4%	-89,358	-89,358	25,816	0	\$29.39	\$29.52	\$30.77
West of Broad***	28,909,885	241,620	2,339,685	8.9%	48,873	48,873	242,155	0	\$30.51	\$30.77	\$31.70
CBD	41,578,396	293,862	3,610,159	9.4%	-40,485	-40,485	267,971	0	\$30.19	\$30.41	\$31.47
Bala Cynwyd	2,791,940	2,984	309,218	11.2%	-60,316	-60,316	50,526	0	\$32.93	\$32.93	\$34.14
Southern Bucks County	6,562,779	24,175	1,280,827	19.9%	-58,845	-58,845	60,164	0	\$24.70	\$24.64	\$26.58
Southern Route 202 Corridor	5,920,423	1,398	650,540	11.0%	10,250	10,250	67,986	0	\$25.41	\$25.43	\$26.25
Delaware County	4,159,028	1,710	410,473	9.9%	12,282	12,282	34,019	378,000	\$27.28	\$27.31	\$29.10
Blue Bell/Ply. Mtg./Ft. Wsh.	12,031,195	139,555	2,261,960	20.0%	-64,771	-64,771	344,132	0	\$24.56	\$24.69	\$26.12
Main Line	3,565,457	28,961	438,669	13.1%	-43,975	-43,975	193,577	0	\$35.04	\$35.41	\$36.67
Conshohocken	3,527,486	51,578	250,092	8.6%	-304	-304	0	427,333	\$36.04	\$36.45	\$36.84
Horsham/Willow Grove/Jenkintown	5,031,193	78,480	815,579	17.8%	-56,651	-56,651	49,699	0	\$24.53	\$24.66	\$27.07
King of Prussia/Valley Forge	17,978,452	146,785	1,930,319	11.6%	-103,554	-103,554	175,318	0	\$27.91	\$28.02	\$29.80
SUBURBAN PHILADELPHIA	61,567,953	475,626	8,347,677	14.3%	-365,884	-365,884	975,421	805,333	\$26.63	\$26.72	\$28.94
Burlington County	7,752,072	7,870	1,187,480	15.4%	-156,810	-156,810	51,825	0	\$23.86	\$23.86	\$26.20
Camden County	6,274,388	58,051	849,533	14.5%	-150,923	-150,923	8,802	0	\$20.44	\$20.49	\$25.20
SOUTHERN NEW JERSEY	14,026,460	65,921	2,037,013	15.0%	-307,733	-307,733	60,627	0	\$21.96	\$22.00	\$25.96
New Castle-Suburban	9,509,660	57,227	1,153,291	12.7%	126,940	126,940	574,173	0	\$23.53	\$23.87	\$24.88
Wilmington-CBD	7,466,665	7,675	1,353,755	18.2%	-223,726	-223,726	4,172	0	\$26.21	\$26.23	\$26.82
NEW CASTLE CTY-DE TOTAL	16,976,325	64,902	2,507,046	15.2%	-96,786	-96,786	578,345	0	\$25.15	\$25.36	\$26.27
Lehigh & Northampton Counties	7,260,435	26,490	880,735	12.5%	19,997	19,997	23,014	295,000	\$19.55	\$19.56	\$22.62
Naval Yard	827,788	6,513	47,518	6.5%	0	0	0	0	\$40.59	\$40.68	\$40.68
University City	5,688,632	53,419	527,728	10.2%	13,565	13,565	84,701	0	\$42.15	\$43.39	\$44.66
SUBURBAN TOTAL	92,570,738	606,449	12,891,736	14.6%	-770,403	-770,403	1,614,393	805,333	\$25.76	\$25.85	\$28.18
PHILADELPHIA TOTALS****	134,149,134	900,311	16,501,895	13.0%	-810,888	-810,888	1,882,364	805,333	\$26.86	\$26.97	\$29.17

*Rental rates reflect gross asking \$psf/year **Does not include renewals ***The Comcast Center was added to the West of Broad inventory in Q1 2019

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

*****Overall Absorption entries are not reflective of the U.S. Overview

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2400 Market Street	34,211	Offsite	New	West of Broad
2005 Market Street	29,724	Zarwin Baum Devito Kaplan Schaer	Sublease	West of Broad
1818 Market Street	29,192	STV Group	New	West of Broad

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
1735 Market Street	1,286,936	Equity Commonwealth / Silverstein Properties, Arden Group, and Migdal Insurance	\$451,600,000 / \$351	West of Broad

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