

## PHILADELPHIA OFFICE

## Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Philadelphia MSA Employment*	2.93M	2.96M	▲
Philadelphia MSA Unemployment*	4.7%	4.1%	▼
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	12.4%	14.3%	■
YTD Net Absorption (sf)	219k	-366k	▲
Under Construction (sf)	0	805k	■
Average Asking Rent**	\$25.01	\$26.63	▲

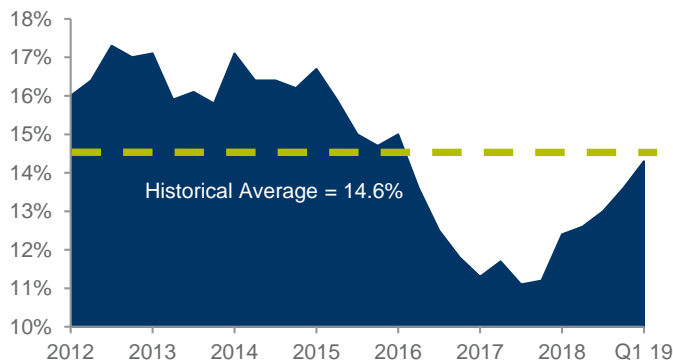
\*\*Rental rates reflect gross asking \$psf/year

## Overall Net Absorption/Overall Asking Rent

## 4-QTR TRAILING AVERAGE



## Overall Vacancy



## Economy

The Philadelphia Metropolitan Statistical Area's (MSA) economy continued to grow in the first quarter of 2019, adding 34,400 jobs over the past 12 months, representing a 1.2% increase. This growth is being driven by education and health services, the largest sector in the region, which represented 46.1% of the jobs added during this period. Office-occupying sectors saw a decrease in 2,800 jobs over the past 12 months, driven by a slight decline in the professional and business services sector. The regional unemployment rate continued to decline, dropping 60 basis points (bps) since the first quarter of 2018.

## Market Overview

Suburban leasing activity in the first quarter of 2019 was close to 1.0 million square feet (msf), the highest first quarter leasing volume recorded since 2007. Transaction volume was driven by two large leases over 100,000 square feet (sf) in the Blue Bell/Plymouth Meeting/Fort Washington submarket. The first quarter ended with net absorption at negative 365,900 sf, including 75,000 sf that was vacated by McNeil Consumer Healthcare at 420 Delaware Drive in Fort Washington. Both the negative absorption and the more than 624,000 sf of new Class A space that came online contributed to the overall vacancy rate increasing to 14.3%. However, the strong leasing activity in the first three months of the year should help improve vacancy as tenants start to occupy their new spaces. While Class A added more vacant space than Class B in the first quarter of 2019, at 12.9%, Class A vacancy is still down 22.8% over the past five years, and it is Class B's vacancy of 17.3% that continues to pull the overall suburban vacancy number up.

Overall direct asking rents have increased 6.6% year-over-year, with Class A direct asking rents in the first quarter of 2019 commanding a \$5.62 per square foot (psf) premium over Class B product, an all-time high.

## Outlook

Expect demand for Class A suburban office space to continue to rise, driven by tenants seeking well-located buildings near transit, as well as by an aging suburban office stock. With only 2.8% of current inventory constructed over the past 10 years, tenants seeking new buildings and modern amenities are driving the renovation of older buildings, as well as build-to-suit new construction. Two projects, totaling more than 800,000 sf, are currently under construction and will house the relocated headquarters of Amerisource Bergen and AmeriHealth Caritas when completed in 2020 and 2021 respectively.

## MARKETBEAT

## Philadelphia - Suburban

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
<b>CBD</b>	<b>41,578,396</b>	<b>293,862</b>	<b>3,610,159</b>	<b>9.4%</b>	<b>-40,485</b>	<b>-40,485</b>	<b>267,971</b>	<b>0</b>	<b>\$30.19</b>	<b>\$30.41</b>	<b>\$31.47</b>
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
<b>SUBURBAN PHILADELPHIA</b>	<b>61,567,953</b>	<b>475,626</b>	<b>8,347,677</b>	<b>14.3%</b>	<b>-365,884</b>	<b>-365,884</b>	<b>975,421</b>	<b>805,333</b>	<b>\$26.63</b>	<b>\$26.72</b>	<b>\$28.94</b>
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
<b>SOUTHERN NEW JERSEY</b>	<b>14,026,460</b>	<b>65,921</b>	<b>2,037,013</b>	<b>15.0%</b>	<b>-307,733</b>	<b>-307,733</b>	<b>60,627</b>	<b>0</b>	<b>\$21.96</b>	<b>\$22.00</b>	<b>\$25.96</b>
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
<b>NEW CASTLE CTY-DE TOTAL</b>	<b>16,976,325</b>	<b>64,902</b>	<b>2,507,046</b>	<b>15.2%</b>	<b>-96,786</b>	<b>-96,786</b>	<b>578,345</b>	<b>0</b>	<b>\$25.15</b>	<b>\$25.36</b>	<b>\$26.27</b>
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
<b>SUBURBAN TOTAL</b>	<b>92,570,738</b>	<b>606,449</b>	<b>12,891,736</b>	<b>14.6%</b>	<b>-770,403</b>	<b>-770,403</b>	<b>1,614,393</b>	<b>805,333</b>	<b>\$25.76</b>	<b>\$25.85</b>	<b>\$28.18</b>
<b>PHILADELPHIA TOTALS****</b>	<b>134,149,134</b>	<b>900,311</b>	<b>16,501,895</b>	<b>13.0%</b>	<b>-810,888</b>	<b>-810,888</b>	<b>1,882,364</b>	<b>805,333</b>	<b>\$26.86</b>	<b>\$26.97</b>	<b>\$29.17</b>

\*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
200 Stevens Drive	165,000	AmeriHealth Caritas	Renewal	Delaware County
1100 Virginia Drive	163,000	Toll Brothers, Inc.	New	Blue Bell/Ply. Mtg./Ft. Wash.
785 Arbor Way	105,638	Bracket Global	New	Blue Bell/Ply. Mtg./Ft. Wash.

## Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Valley Forge Park Place - Building 1 & 2	160,043	Keystone Property Group / Admiral Capital Group	\$16,450,000 / \$102	King of Prussia/Valley Forge
1000 Madison Avenue	102,894	Keystone Property Group / Hudson Equities	\$17,500,000 / \$170	King of Prussia/Valley Forge

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