

MARKETBEAT

Philadelphia - CBD

Office Q2 2019



PHILADELPHIA OFFICE

Economic Indicators

| | Q2 18 | Q2 19 | 12-Month Forecast |
|----------------------------|--------|--------|-------------------|
| Philadelphia Employment* | 722.7k | 738.0k | ▲ |
| Philadelphia Unemployment* | 5.6% | 4.9% | ▼ |
| U.S. Unemployment | 3.9% | 3.6% | ▼ |

*Numbers are quarterly averages; May 2019 data used to represent Q2 2019

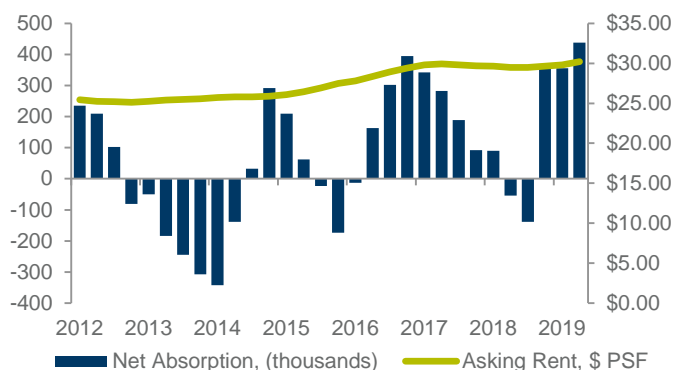
Market Indicators (Overall, All Classes)

| | Q2 18 | Q2 19 | 12-Month Forecast |
|-------------------------|---------|---------|-------------------|
| Vacancy | 11.5% | 9.8% | ▲ |
| YTD Net Absorption (sf) | -254k | -50k | ▲ |
| Under Construction (sf) | 1.3M | 0 | ▲ |
| Average Asking Rent** | \$29.48 | \$31.08 | ▲ |

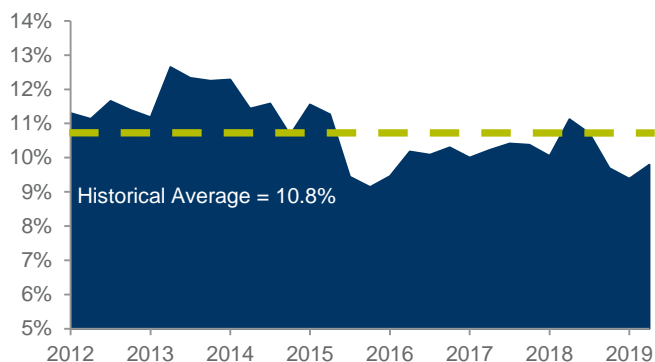
**Rental rates reflect gross asking \$psf/year

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 the second quarter of 2019, adding 15,300 jobs over the past 12 months, representing a 2.1% increase. The city has been growing at a faster rate than the rest of the MSA and represented 43% of all jobs added to the region during this period, outperforming its regional job share of 25%. This growth has been driven by education and health services, leisure and hospitality, and office-occupying sectors, which each respectively represented 43.0%, 26.6% and 17.1% of the jobs added to the city during this period. The unemployment rate dropped 70 basis points (bps) over the past 12 months to 4.9% in the second quarter.

Market Overview

After a slow start to the year, downtown leasing activity picked up in the second quarter of 2019, driven by a 173,007-square-foot (sf) lease signed by the Environmental Protection Agency (EPA) at Four Penn Center. The EPA will be downsizing from the more than 300,000 sf it currently occupies at 1650 Arch in 2021. Net absorption for the quarter was negative 100,000 sf, driven by Deloitte downsizing by 63,000 sf at 1700 Market Street. Vacancy went up 40 bps from the previous quarter but remained a tight 9.8% and 170 bps below the vacancy rate from a year ago. Select trophy buildings West of Broad raised asking rents in the second quarter of 2019, including 1735 Market, One Liberty Place, and One, Two and Three Logan Square, which increased direct gross asking rents 3.0% over first quarter rates in the CBD. This rise in trophy rents increased Class A CBD direct gross asking rents by \$1.35 per square foot (psf) over the previous quarter and is driven by a flight-to-quality from tenants and a scarcity of higher quality product currently on the market.

Outlook

Rising rents and a scarcity of large blocks of space in trophy buildings are pushing demand for new office construction in the CBD. Morgan Lewis was in active negotiations in the second quarter of 2019 to sign a letter of intent with Parkway Corporation to explore the development of a 331,500-sf build-to-suit office tower for its headquarters at 2222 Market Street, currently a surface parking lot. Not including the two office towers housing Comcast's headquarters, if constructed, this would be the first ground-up new construction office project in the CBD since 1992. Expect this trend to continue with tenants like Chubb and Dechert looking for large blocks of trophy space and a handful of proposed office developments in the CBD and neighboring University City actively seeking anchor tenants.

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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 | 12,668,511 | 52,242 | 1,277,803 | 10.5% | -5,266 | 13,408 | 173,515 | 0 | \$29.77 | \$29.94 | \$31.56 |
| West of Broad | 28,909,885 | 236,545 | 2,491,658 | 9.4% | -94,500 | -63,503 | 759,301 | 0 | \$31.59 | \$31.88 | \$33.20 |
| CBD | 41,578,396 | 288,787 | 3,769,461 | 9.8% | -99,766 | -50,095 | 932,816 | 0 | \$31.08 | \$31.33 | \$32.82 |
| Bala Cynwyd | 2,719,940 | 2,984 | 287,035 | 10.7% | 1,725 | -44,491 | 74,834 | 0 | \$33.50 | \$33.50 | \$34.08 |
| Southern Bucks County | 6,418,779 | 34,834 | 1,382,498 | 22.1% | -129,204 | -188,049 | 116,485 | 20,000 | \$25.07 | \$25.02 | \$27.24 |
| Southern Route 202 Corridor | 5,944,423 | 10,311 | 649,222 | 11.1% | 32,523 | 42,773 | 174,497 | 0 | \$25.46 | \$25.53 | \$26.69 |
| Delaware County | 4,159,028 | 21,950 | 481,148 | 12.1% | -62,224 | -67,609 | 95,918 | 378,000 | \$27.45 | \$27.52 | \$29.23 |
| Blue Bell/Ply. Mtg./Ft. Wsh. | 11,886,195 | 127,555 | 2,521,845 | 22.3% | -233,148 | -305,997 | 419,071 | 0 | \$25.33 | \$25.46 | \$26.58 |
| Main Line | 3,565,457 | 23,904 | 329,393 | 9.9% | 102,793 | 70,358 | 248,492 | 0 | \$36.05 | \$36.12 | \$37.31 |
| Conshohocken | 3,547,486 | 43,201 | 338,286 | 10.8% | -132,557 | -80,121 | 31,601 | 427,333 | \$37.01 | \$37.66 | \$38.04 |
| Horsham/Willow Grove/Jenkintown | 5,033,413 | 111,971 | 837,021 | 18.9% | -110,282 | -166,946 | 96,370 | 40,470 | \$24.34 | \$24.46 | \$26.06 |
| King of Prussia/Valley Forge | 18,051,426 | 235,675 | 1,984,878 | 12.3% | -146,310 | -260,797 | 479,657 | 0 | \$27.49 | \$27.50 | \$29.06 |
| SUBURBAN PHILADELPHIA | 61,326,147 | 612,385 | 8,811,326 | 15.4% | -676,684 | -1,000,879 | 1,736,925 | 865,803 | \$26.94 | \$27.00 | \$28.99 |
| Burlington County | 7,752,072 | 7,870 | 1,215,591 | 15.8% | -27,559 | -194,084 | 122,442 | 0 | \$23.58 | \$23.58 | \$25.86 |
| Camden County | 6,274,388 | 35,089 | 826,698 | 13.7% | 14,308 | -112,601 | 66,647 | 0 | \$20.25 | \$20.26 | \$24.47 |
| SOUTHERN NEW JERSEY | 14,026,460 | 42,959 | 2,042,289 | 14.9% | -13,251 | -306,685 | 189,089 | 0 | \$21.81 | \$21.82 | \$25.63 |
| New Castle-Suburban | 9,509,660 | 59,209 | 1,197,943 | 13.2% | -28,891 | 79,528 | 679,535 | 0 | \$23.63 | \$23.95 | \$25.01 |
| Wilmington-CBD | 7,466,665 | 20,635 | 1,367,014 | 18.6% | -23,596 | -208,742 | 41,654 | 0 | \$26.33 | \$26.36 | \$26.85 |
| NEW CASTLE CTY-DE TOTAL | 16,976,325 | 79,844 | 2,564,957 | 15.6% | -52,487 | -129,214 | 721,189 | 0 | \$25.21 | \$25.41 | \$26.32 |
| Lehigh & Northampton Counties | 7,260,435 | 24,684 | 1,042,637 | 14.7% | -194,358 | -163,254 | 71,101 | 295,000 | \$21.70 | \$21.70 | \$23.64 |
| Naval Yard | 827,788 | 6,513 | 42,906 | 6.0% | 4,612 | 4,612 | 136,000 | 231,000 | \$40.59 | \$40.68 | \$40.68 |
| University City | 5,688,632 | 53,419 | 472,851 | 9.3% | 46,071 | 55,924 | 145,230 | 0 | \$41.78 | \$42.77 | \$43.47 |
| SUBURBAN TOTAL | 92,328,932 | 735,188 | 13,418,572 | 15.3% | -742,422 | -1,436,778 | 2,647,203 | 865,803 | \$26.00 | \$26.05 | \$28.27 |
| PHILADELPHIA TOTALS*** | 133,907,328 | 1,023,975 | 17,188,033 | 13.6% | -842,188 | -1,486,873 | 3,580,019 | 865,803 | \$27.11 | \$27.20 | \$29.43 |

*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 Q2 2019

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|----------------------------------|---------|---|------------------|---------------|
| 1600 John F. Kennedy Boulevard | 173,007 | United States Environmental Protection Agency | New | West of Broad |
| 1601 Chestnut Street | 54,826 | Industrious | New | West of Broad |
| 100 Penn Square East | 53,717 | The Children's Hospital of Philadelphia | New | East of Broad |
| 34 South 11 th Street | 50,514 | Wework | New | East of Broad |

Key Sales Transactions Q2 2019

| PROPERTY | SF | SELLER/BUYER | PRICE / \$PSF | SUBMARKET |
|----------|----|--------------|---------------|-----------|
| N/A | | | | |

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