Market Review & Outlook

Review: Moderate Increase in Effective Rents

Philadelphia's economy registered slow but steady growth in 2015. The health care and education sectors continued their expansion. Professional/ business services and pharmaceutical firms were also active and demand for space in the Navy Yard and newer product Downtown was sustained. Center City ended the year with its lowest Class A availability rate (11.3%) since 2008. Landlords, in turn, pushed base rents higher.

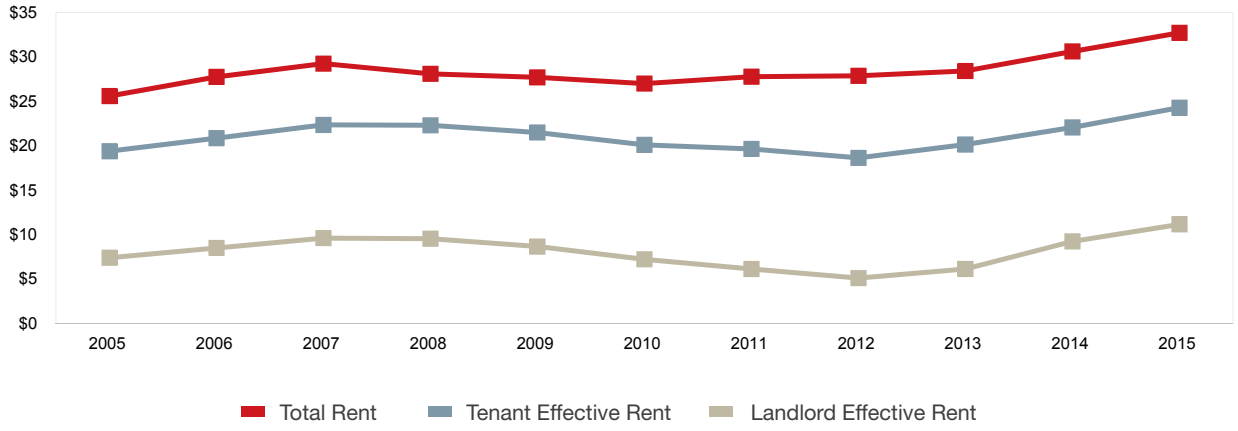
	2015	% Change
Net Rent	$19.44	10.9
Operating Expenses	8.85	1.1
Real Estate Taxes	2.45	3.8
Tenant Electricity	1.97	0.0
Total Rent	32.71	6.8
Amortized Concessions	-8.4	-1.6
Tenant Effective Rent	**24.29**	**10.1**
Landlord Effective Rent	**11.15**	**20.8**

Outlook: Growth Cycle May Be Nearing End

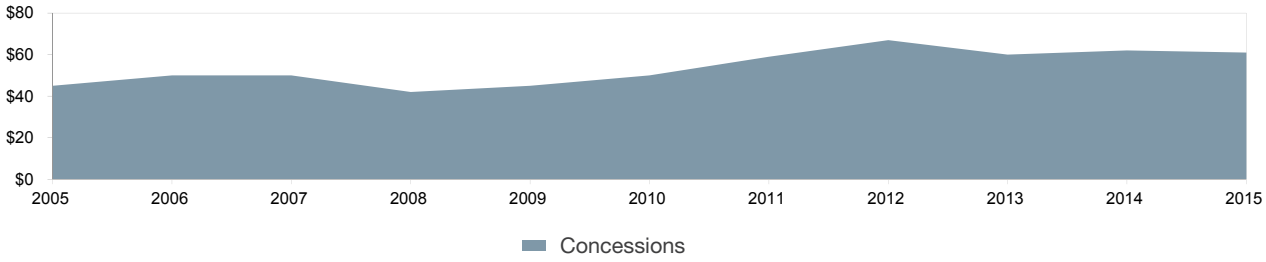
As new construction approaches delivery and some tenants relocate, they will leave behind bigger blocks of space. These shifts should generate additional opportunities for tenants as the market gets closer to 2017.

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Rent Trends



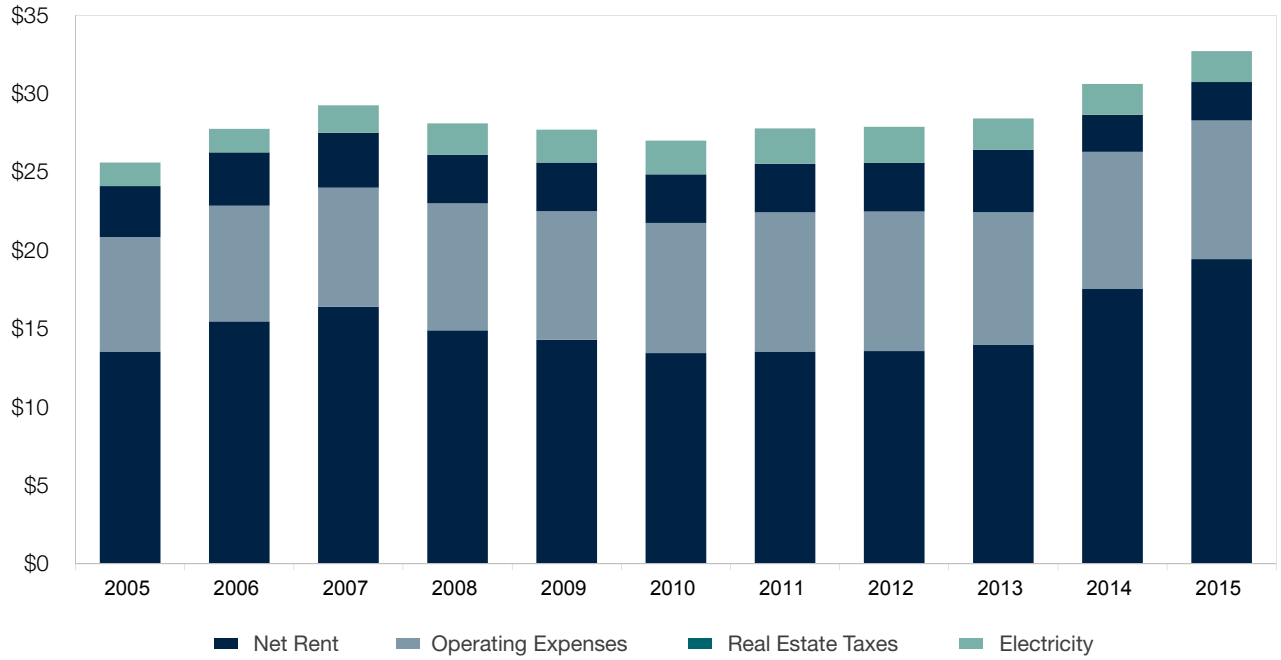
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Total Rent	$25.60	$27.75	$29.25	$28.10	$27.70	$27.00	$27.78	$27.88	$28.42	$30.62	$32.71	6.8%	3.9%	2.5%
Tenant Effective Rent	$19.39	$20.85	$22.35	$22.30	$21.49	$20.10	$19.64	$18.63	$20.14	$22.06	$24.29	10.1%	3.9%	2.3%
Landlord Effective Rent	$7.39	$8.50	$9.60	$9.54	$8.65	$7.21	$6.13	$5.10	$6.13	$9.23	$11.15	20.8%	9.1%	4.2%



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Concessions	$45.00	$50.00	$50.00	$42.00	$45.00	$50.00	$59.00	$67.00	$60.00	$62.00	$61.00	-1.6%	4.1%	3.1%
Concessions/Rent Ratio*	24.3%	24.9%	23.6%	20.6%	22.4%	25.6%	29.3%	33.2%	29.1%	27.9%	25.7%	-2.2		

* Equals amortized concessions as a percentage of total rent.

Total rent rose for the fifth year in a row, jumping by 6.8% to $32.71. Net rent increased by 10.9% from $17.53 to $19.44. Operating expenses (+1.1%) and real estate taxes (+3.8%) ticked up but tenant electric was static. Concessions inched slightly lower to $61.00, and fell as a percentage of total rent. Tenant effective rent registered its biggest annual increase in several years, rising by 10.1% to $24.29, its highest level on record. Landlord effective rent also reached a new peak, increasing by 20.8% to $11.15



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Net Rent	$13.55	$15.47	$16.40	$14.90	$14.30	$13.45	$13.55	$13.58	$13.99	$17.53	$19.44	10.9%	7.6%	3.7%
Operating Expenses	$7.30	$7.38	$7.60	$8.10	$8.20	$8.30	$8.88	$8.90	$8.45	$8.76	$8.85	1.1%	1.3%	1.9%
Real Estate Taxes	$3.25	$3.40	$3.50	$3.10	$3.10	$3.10	$3.10	$3.10	$3.98	$2.36	$2.45	3.8%	-4.6%	-2.8%
Electricity	$1.50	$1.50	$1.75	$2.00	$2.10	$2.15	$2.25	$2.30	$2.00	$1.97	$1.97	0.0%	-1.7%	2.8%
Total Rent	**$25.60**	**$27.75**	**$29.25**	**$28.10**	**$27.70**	**$27.00**	**$27.78**	**$27.88**	**$28.42**	**$30.62**	**$32.71**	**6.8%**	**3.9%**	**2.5%**

Lease Terms/Concessions

Review: Concessions Fall Slightly

Sustained tenant demand for quality Class A space pushed availability in Class A properties to its lowest level since 2008. Landlords pulled back on concessions in select buildings, reining in free rent periods.

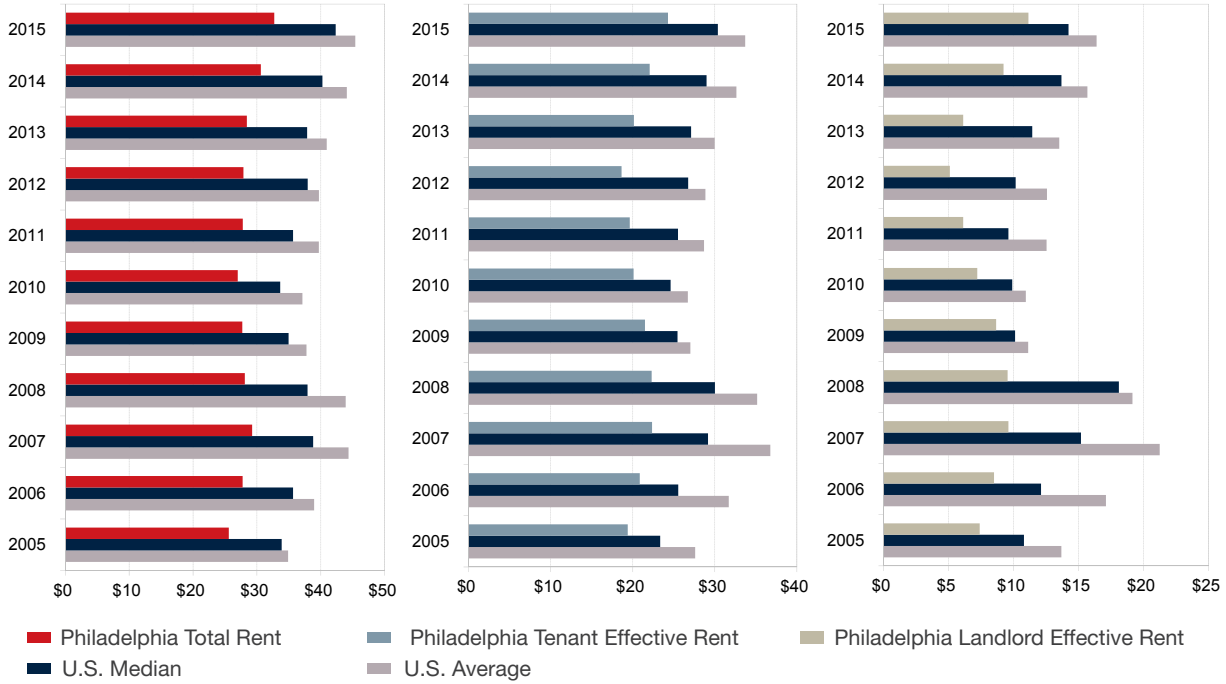
Leases Under 50,000 sf	
Average Term:	8-10 years
Free Rent:	6-8 months
Tenant Improvements:	$35.00-$45.00/sf
Architect Fee:	$3.50/sf
Moving Allowance:	$2.00/sf

Leases Over 50,000 sf	
Average Term:	10-12 years
Free Rent:	7-8 months
Tenant Improvements:	$45.00-$55.00/sf
Architect Fee:	$4.00/sf
Moving Allowance:	$2.00/sf

Outlook: Rents and Concessions to Stabilize

The approaching delivery of several new office buildings and associated move-outs by tenants relocating to the next generation of properties will likely present tenants with more options. In turn, landlords may lose some of their ability to cut concessions.

Local & U.S. Historical Rent Trends



Total Rent^

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Philadelphia	$25.60	$27.75	$29.25	$28.10	$27.70	$27.00	$27.78	$27.88	$28.42	$30.62	$32.71
U.S Median	$33.88	$35.66	$38.79	$37.92	$34.95	$33.63	$35.65	$37.93	$37.85	$40.24	$42.32
U.S Average	$34.87	$38.96	$44.33	$43.88	$37.75	$37.11	$39.68	$39.70	$40.92	$44.07	$45.38

Tenant Effective Rent

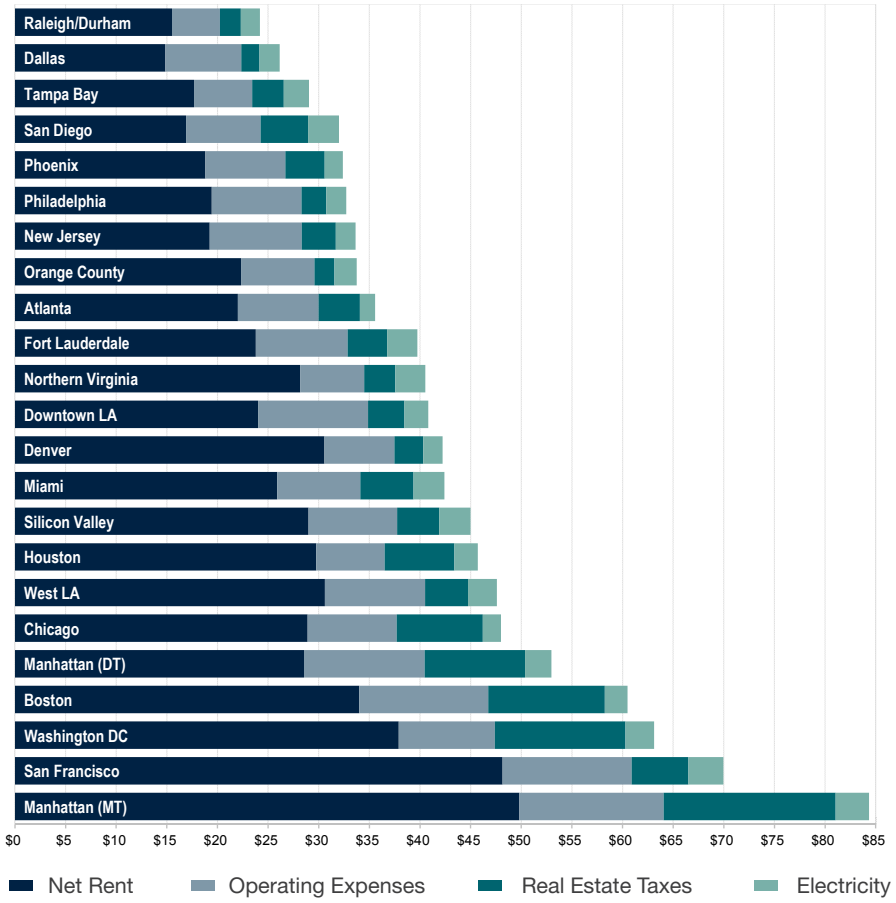
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Philadelphia	$19.39	$20.85	$22.35	$22.30	$21.49	$20.10	$19.64	$18.63	$20.14	$22.06	$24.29
U.S Median	$23.34	$25.55	$29.18	$30.01	$25.45	$24.61	$25.51	$26.75	$27.11	$28.99	$30.36
U.S Average	$27.60	$31.70	$36.76	$35.16	$27.02	$26.72	$28.68	$28.85	$29.98	$32.63	$33.70

Landlord Effective Rent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Philadelphia	$7.39	$8.50	$9.60	$9.54	$8.65	$7.21	$6.13	$5.10	$6.13	$9.23	$11.15
U.S Median	$10.80	$12.11	$15.19	$18.10	$10.12	$9.90	$9.60	$10.16	$11.44	$13.69	$14.23
U.S Average	$13.68	$17.11	$21.24	$19.15	$11.13	$10.94	$12.54	$12.57	$13.51	$15.68	$16.39

^ All rents are unweighted. See National SERI for weighted averages.

Rent Components



Since 1995, the Savills Effective Rent Index (SERI) has been providing the real estate industry's only comprehensive, in-depth study of effective rental rate trends for prime Class A office properties in the nation's major Central Business Districts (CBDs) and selected suburban markets. Using actual completed transaction data as its source, the SERI report offers "real world" numbers that reflect negotiated terms, including lease concessions and operating expense information. All numbers in this report are based on larger long-term direct leases signed in higher-caliber Class A properties located in the West Market and East Market submarkets.

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Glossary

Concessions: Includes the tenant improvement allowance plus the value of the rental rate abatement. Amortized concessions are amortized over the average market lease term, using beginning-of-period payments.

Landlord Effective Rent: An estimate of rent received from a tenant less related expenses.

Net Rent: The gross rental rate exclusive of the tenant's proportionate share of real estate taxes, operating expenses and tenant electricity.

Operating Expenses: Includes (1) heating, ventilation and air conditioning (HVAC); (2) maintenance; (3) common area utilities and electricity; (4) cleaning; and (5) all other non-capital costs associated with the operation of a building.

Real Estate Taxes: Local real estate taxes exclusive of special assessments and other one-time charges.

Tenant Effective Rent: An estimate of the actual cost of occupancy for the tenant. The calculation is the total rent minus amortized lease concessions.

Tenant Electricity: Payments made by the tenant, whether to the landlord or public utility, or by the landlord as a general building expense, for the electrical power utilized within a tenant's premises, exclusive of building HVAC.

Total Rent: The sum of the four rental rate components: net rent, operating expenses, real estate taxes and electricity.

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