

# Savills Studley Report Philadelphia office sector

Q3 2018



## SUMMARY

### Market Highlights

#### LEASING RISES

Deal volume in the third quarter totaled 1.8 million square feet (msf), rising from 1.6 msf transacted in the second quarter. Tenants have leased 7.8 msf in the last four quarters, a 3.6% below the long-term annual average.

#### AVAILABILITY FALLS

The market's overall availability rate dipped by 60 basis points to 18.7%. Similarly, the Class A availability rate dropped by 40 basis points to 17.0%. Of note, both the overall and Class A availability rates have increased compared to the third quarter of 2017.

#### RENT DECREASES

Overall asking rent in the region inched lower by 0.7%, falling from \$28.39 to \$28.19. Average Class A asking rent also fell slightly, dipping by 0.5% to \$30.33, but rose by 5.5% year-on-year.

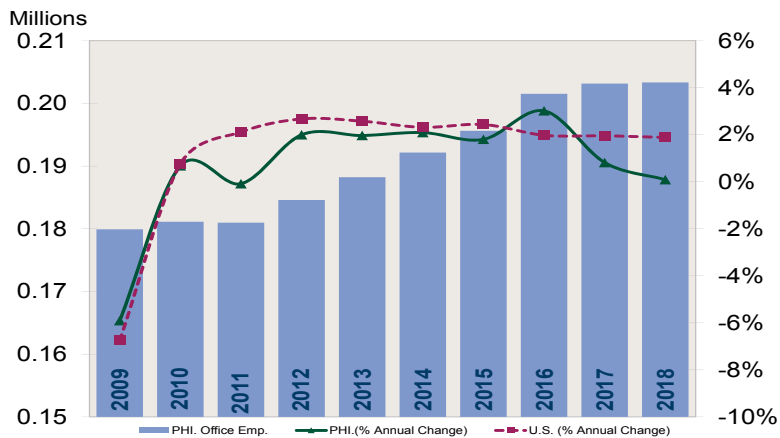
#### SALES DOWN

Office property sales during the first seven months of the year totaled \$1.1 billion, a 27% decrease compared to the first seven months of 2017.

*"Several medium to large-sized tenants have decided to relocate in the CBD, loosening up the logjam of uncertainty and potentially changing the market dynamics over the next 12 to 24 months."*

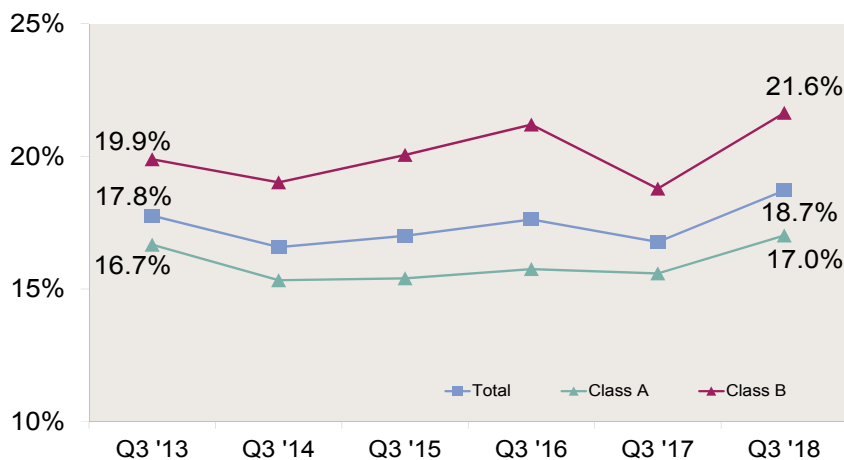
Greg Soffian,  
Executive Vice President

## Office-Using Employment Trends

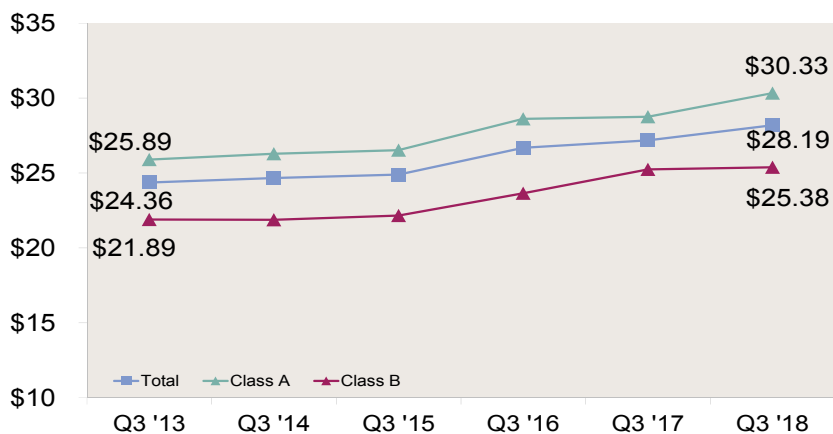


Source: Bureau of Labor Statistics^

## Availability Rate Trends



## Asking Rent Trends (\$/sf)



## Center City Development & Suburban Sales Spark Activity

By the numbers, Philadelphia's office market has remained quite stable over the last couple of years. Quarterly leasing activity has consistently hovered just below 2.0 msf. The market has registered some recent movement, though. The region's availability rate fell by 60 basis points in the third quarter to 18.7%. West Market posted a 110 basis point decline to 13.0%, well below the market average.

A diverse set of companies ranging from law firms and banks, to life science and tech are moving to newer, amenity-laden buildings. Several new mixed-use developments will present tenants with additional space options to consider. Meanwhile, within suburban Philadelphia some landlords continue to sell off assets.

## Continued Consolidation

Several larger tenants are considering a relocation for the first time in years. Merger and acquisition activity is spurring some of the activity. As some firms consolidate or restructure they are searching for savings. Philadelphia has to contend with the tax credits that neighboring New Jersey offers. Teva Pharmaceuticals will move its North American headquarters from North Wales, Pennsylvania, to Parsippany, New Jersey. The Israeli pharma firm will keep 500 to 600 positions at its R&D facility in the Frazer-West Chester area but it is also committed to hiring up to 800 people in New Jersey. The company occupies multiple buildings totaling more than 1.0 msf in the western suburbs. Meanwhile, back in Philadelphia, Reliance Standard Life Insurance Company recently qualified for \$631,000 in taxpayer funds associated with a move from Commerce Square to a 151,000-sf block it leased at 1700 Market Street.

## Lifestyle Amenities

Developers in Philadelphia, like in many major metros, are engaged in an amenities battle. Lifestyle amenities are often being cited as the differentiator at properties such as 2400 Market Street. During the third quarter a 151,881-sf lease by Reliance Standard Life Insurance and a 35,000-sf lease by the owners (Lubert-Adler) pushed leasing at the building to more than 95%. Entercom Communications also leased 67,000 sf at the building in the quarter.

The owners attribute some of their success to the addition of the Fitler Club. The

members-only club will offer amenities such as an Olympic sized swimming pool, overnight rooms, dining and event space and 30,000 sf of coworking space. PMC and Lubert-Adler acquired the former Market Place Design center for \$42 million and have invested more than \$150 million to renovations, adding five new floors and 300,000 sf. A walkway connecting Market and Chestnut Streets will encourage pedestrian traffic.

### Mixed Use Projects go Vertical

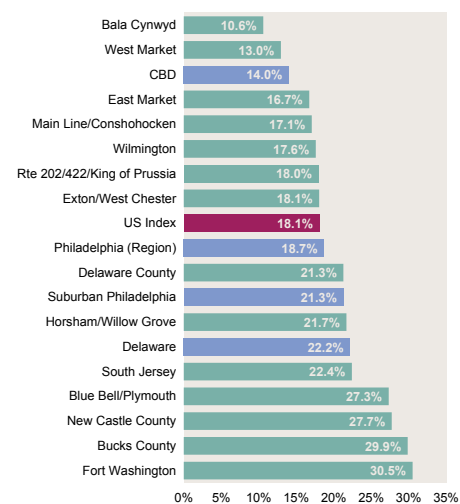
The FMC Tower at Cira South set the trend for vertical neighborhoods in Center City and has been described as a gateway to West Philadelphia. In addition to more than 600,000 sf of office space, and 268 multi-family units – Cira Green, a one-acre park atop the parking garage next to FMC Tower, will be linked to the tower via a Skybridge. Center City is poised to see more of these mixed-use buildings. In East Market, 1150 Market Street will combine office space, retail, apartments and hospitality. The initial phase included redevelopment of the Family Court Building offices on South 11th Street into 160,000 sf of creative style office space.

Mixed-use projects in East and West Market, will have to compete for apartment dwellers and office tenants with projects like Schuylkill Yards. Brandywine is still adding to its land holdings for Schuylkill Yards. In July the REIT paid \$20.9 million for 3025 John F. Kennedy Boulevard. The one-acre parcel includes additional development rights. Currently a surface parking lot, the parcel will be part of the initial phase of Schuylkill Yards. The first phase of the project which broke ground last fall includes two mixed-use office buildings at 3003 and 3025 John F. Kennedy.

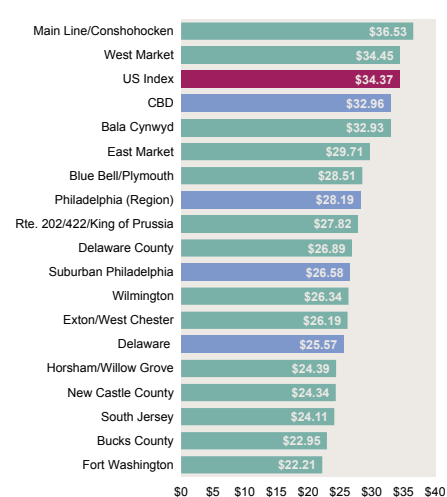
### Dearth of Big Blocks

It will take until 2019 or later before new construction provides material relief. The region as a whole has 1.2 msf in speculative (non owner-user) development underway – 56% is preleased. uCity Square and the Five City Urban Innovation Campus account for nearly half of the pipeline. Of note, Red Spark recently signed a lease of nearly 10,000 sf at the uCity Square. Finding big blocks of quality space in Center City is a real challenge for larger tenants. The supply of quality big blocks of space in West Market has dwindled. The market will see a fair number of big blocks vacate in 2019 and 2020 as several major tenants move to their new location including the Department of Labor; Aberdeen, Macquarie and Willis Tower Watson.

### Availability Rate Comparison



### Rental Rate Comparison (\$/sf)



### Major Transactions

| Tenant                               | Sq Feet        | Address                                    | Market Area                   |
|--------------------------------------|----------------|--------------------------------------------|-------------------------------|
| Reliance Standard Life Insurance Co. | 151,881        | 1700 Market St                             | West Market                   |
| Comcast Corp.                        | 150,000        | 400 Commerce Dr                            | New Castle County             |
| WuXi                                 | 95,400         | 400 Rouse Blvd                             | Navy Yard                     |
| Wells Fargo                          | 90,000         | 100 N 18th St                              | West Market                   |
| Entercomm Communications Corp.       | 67,000         | 2400 Market St                             | West Market                   |
| Connections CSP, Inc.                | 60,059         | 590 Naamans Rd                             | New Castle County             |
| Aberdeen Asset Management            | 50,482         | 1900 Market St                             | West Market                   |
| Global Indemnity Ltd.                | 44,329         | 251 St Asaphs Rd                           | Bala Cynwyd                   |
| Sterling Advisors                    | 42,746         | 150 S Warner Rd                            | Route 202/422/King of Prussia |
| UnitedHealthcare                     | 40,000         | 1818 Market St                             | West Market                   |
| <b>Sum of Leases</b>                 | <b>791,897</b> | <b>Sum of 3rd Quarter Leasing Activity</b> | <b>1.8 MSF</b>                |

### Changes in Suburban Philly

Suburban office submarkets offer tenants a deeper supply of big blocks of space, including some full building opportunities. Suburban office product is not a consideration for some firms, particularly those companies most focused on recruiting millennials. General business services companies are active in suburban Philadelphia, though. Comcast Corp leased 150,000 sf at 400 Commerce Drive in the Christiana Corporate Center. It was the biggest lease in New Castle County in more than a year. The building will serve as a call center to be staffed with 700 employees. Comcast will relocate employees from two buildings owned at 4008 N. Dupont Highway in New Castle and 300 N. Wakefield Drive in Newark.

Brandywine Realty Trust has made a successful shift in its portfolio selling off suburban properties and focusing on

urban and mixed-use holdings. Others are following suit. Keystone Property Group placed nine buildings totaling nearly 700,000 sf on the market, including Sentry Park in Blue Bell which consists of three buildings totaling 203,739-sf and Corporate Center at Moorestown which has three buildings totaling 218,407 sf. Keystone is about to start work on SoraWest. In addition to a new 427,333-sf headquarters for AmerisourceBergen, the \$100-million development in Conshohocken will have a new hotel and retail space. AIG recently sold eight buildings in the Lower Makefield Corporate Center in Bucks County. New York-based Rubenstein Partners paid \$85 million for the assets which totaled 467,000 sf and were 80% occupied at time of sale.

| Map   | Submarket                               | Total       | Leasing Activity | Available SF |                         | Availability Rate |              |                                         | Asking Rents Per SF |              |                         |          |
|-------|-----------------------------------------|-------------|------------------|--------------|-------------------------|-------------------|--------------|-----------------------------------------|---------------------|--------------|-------------------------|----------|
|       |                                         | SF (1000's) | Last 12 Months   | This Quarter | % Change from Last Qtr. | Year Ago          | This Quarter | pp Change from Last Qtr. <sup>(1)</sup> | Year Ago            | This Quarter | % Change from Last Qtr. | Year Ago |
| 1     | West Market                             | 33,469      | 2,847            | 4,335        | -7.1%                   | 4,189             | 13.0%        | -1.1%                                   | 12.6%               | \$34.45      | 1.6%                    | \$30.84  |
|       | West Market - Class A                   | 24,716      | 2,303            | 3,234        | -9.7%                   | 2,934             | 13.1%        | -1.7%                                   | 12.1%               | \$36.55      | 2.8%                    | \$32.08  |
| 2     | East Market                             | 13,376      | 902              | 2,239        | -10.2%                  | 2,631             | 16.7%        | -2.4%                                   | 20.2%               | \$29.71      | -2.6%                   | \$29.15  |
|       | East Market - Class A                   | 5,535       | 442              | 1,111        | 5.0%                    | 1,260             | 20.1%        | 0.9%                                    | 22.8%               | \$32.16      | -1.3%                   | \$31.57  |
| 3     | Bala Cynwyd                             | 2,831       | 139              | 300          | 11.5%                   | 319               | 10.6%        | 1.1%                                    | 11.3%               | \$32.93      | -1.1%                   | \$30.86  |
|       | Bala Cynwyd - Class A                   | 2,255       | 85               | 255          | 4.3%                    | 240               | 11.3%        | 0.5%                                    | 10.6%               | \$33.73      | 0.3%                    | \$32.58  |
| 4     | Blue Bell/Plymouth Meeting              | 5,437       | 238              | 1,486        | -0.4%                   | 1,228             | 27.3%        | 1.6%                                    | 23.8%               | \$28.51      | 0.0%                    | \$27.68  |
|       | Blue Bell/Plymouth Meeting - Class A    | 2,657       | 193              | 501          | -5.1%                   | 442               | 18.9%        | -2.0%                                   | 17.5%               | \$28.10      | 0.0%                    | \$27.46  |
| 5     | Fort Washington                         | 3,725       | 94               | 1,137        | 2.8%                    | 744               | 30.5%        | 0.3%                                    | 20.3%               | \$22.21      | -0.6%                   | \$24.45  |
|       | Fort Washington - Class A               | 1,735       | 30               | 406          | 5.8%                    | 355               | 23.4%        | 0.4%                                    | 21.3%               | \$23.73      | -0.2%                   | \$23.83  |
| 6     | Horsham/Willow Grove                    | 4,709       | 152              | 1,022        | -3.5%                   | 993               | 21.7%        | -1.3%                                   | 21.6%               | \$24.39      | -2.0%                   | \$24.06  |
|       | Horsham/Willow Grove - Class A          | 2,846       | 85               | 437          | 19.2%                   | 460               | 15.4%        | 2.2%                                    | 16.5%               | \$26.75      | -0.8%                   | \$25.44  |
| 7     | Route 202/422/King of Prussia           | 13,175      | 1,163            | 2,368        | 11.5%                   | 2,229             | 18.0%        | 1.4%                                    | 17.4%               | \$27.82      | 1.0%                    | \$27.55  |
|       | Route 202/422/King of Prussia - Class A | 8,597       | 468              | 1,481        | 39.7%                   | 1,199             | 17.2%        | 4.5%                                    | 14.4%               | \$30.75      | -0.5%                   | \$29.98  |
| 8     | Exton/West Chester                      | 3,834       | 70               | 692          | 6.6%                    | 481               | 18.1%        | 1.1%                                    | 12.5%               | \$26.19      | 11.0%                   | \$22.70  |
|       | Exton/West Chester - Class A            | 2,567       | 64               | 423          | -0.4%                   | 278               | 16.5%        | -0.1%                                   | 10.8%               | \$26.18      | 2.0%                    | \$24.87  |
| 9     | Main Line/Conshohocken                  | 6,045       | 367              | 1,032        | 5.3%                    | 665               | 17.1%        | -0.6%                                   | 12.0%               | \$36.53      | 3.6%                    | \$34.33  |
|       | Main Line/Conshohocken - Class A        | 4,878       | 243              | 652          | 7.0%                    | 485               | 13.4%        | -0.4%                                   | 11.0%               | \$38.15      | 1.0%                    | \$36.91  |
| 10    | Delaware County                         | 4,626       | 243              | 985          | -27.2%                  | 702               | 21.3%        | -7.9%                                   | 15.2%               | \$26.89      | -0.8%                   | \$25.53  |
|       | Delaware County - Class A               | 3,564       | 189              | 547          | -37.2%                  | 528               | 15.4%        | -9.1%                                   | 14.8%               | \$25.43      | -2.5%                   | \$25.78  |
| 11    | Bucks County                            | 4,958       | 270              | 1,480        | 0.8%                    | 1,413             | 29.9%        | 0.2%                                    | 28.5%               | \$22.95      | -1.9%                   | \$23.64  |
|       | Bucks County - Class A                  | 3,317       | 194              | 1,014        | 0.5%                    | 983               | 30.6%        | 0.2%                                    | 29.6%               | \$23.61      | -1.7%                   | \$24.58  |
| 12    | Wilmington                              | 7,310       | 204              | 1,287        | -3.1%                   | 1,216             | 17.6%        | -0.6%                                   | 16.6%               | \$26.34      | -0.6%                   | \$26.51  |
|       | Wilmington - Class A                    | 5,611       | 204              | 1,092        | -2.9%                   | 1,029             | 19.5%        | -0.6%                                   | 18.3%               | \$27.33      | -0.2%                   | \$27.99  |
| 13    | New Castle County                       | 6,043       | 458              | 1,676        | -3.8%                   | 901               | 27.7%        | -2.3%                                   | 15.6%               | \$24.34      | 0.3%                    | \$23.43  |
|       | New Castle County - Class A             | 3,356       | 285              | 699          | -6.6%                   | 408               | 20.8%        | -3.8%                                   | 13.4%               | \$24.92      | -0.1%                   | \$23.92  |
| 14    | South Jersey                            | 12,362      | 689              | 2,771        | 12.7%                   | 2,422             | 22.4%        | 2.4%                                    | 19.7%               | \$24.11      | -0.3%                   | \$22.30  |
|       | South Jersey - Class A                  | 5,548       | 190              | 1,280        | 15.3%                   | 1,170             | 23.1%        | 2.7%                                    | 21.5%               | \$26.94      | 0.2%                    | \$23.20  |
| 1-2   | Philadelphia CBD Total                  | 46,845      | 3,749            | 6,574        | -8.2%                   | 6,821             | 14.0%        | -1.4%                                   | 14.7%               | \$32.96      | 0.7%                    | \$30.19  |
|       | Philadelphia CBD Total - Class A        | 30,251      | 2,745            | 4,345        | -6.3%                   | 4,194             | 14.4%        | -1.2%                                   | 14.1%               | \$35.54      | 1.9%                    | \$31.93  |
| 3-11  | Suburban Philadelphia Total             | 49,340      | 2,729            | 10,501       | 0.0%                    | 8,767             | 21.3%        | -0.5%                                   | 18.2%               | \$26.58      | -0.9%                   | \$26.44  |
|       | Suburban Philadelphia Total - Class A   | 32,416      | 1,554            | 5,716        | 4.0%                    | 4,962             | 17.6%        | 0.2%                                    | 15.7%               | \$28.44      | 0.4%                    | \$27.95  |
| 12-13 | Delaware Total                          | 13,354      | 1,216            | 2,963        | -3.5%                   | 2,247             | 22.2%        | -1.2%                                   | 17.1%               | \$25.57      | 1.3%                    | \$25.20  |
|       | Delaware Total - Class A                | 8,966       | 705              | 1,791        | -4.4%                   | 1,503             | 20.0%        | -1.7%                                   | 17.4%               | \$26.57      | 0.6%                    | \$26.84  |
| 1-14  | Philadelphia Region Total               | 121,900     | 7,829            | 22,809       | -1.6%                   | 20,126            | 18.7%        | -0.6%                                   | 16.8%               | \$28.19      | -0.7%                   | \$27.17  |
|       | Philadelphia Region Total - Class A     | 77,182      | 4,978            | 13,132       | 0.1%                    | 11,763            | 17.0%        | -0.4%                                   | 15.6%               | \$30.33      | -0.5%                   | \$28.75  |

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(1) Percentage point change for availability rates.  
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.  
Statistics are calculated using both direct and sublease information.  
Short-term sublet spaces (terms under two years) were excluded.  
^Unless otherwise noted, source for data is Savills Studley.  
The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.  
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