

Savills Studley Report Philadelphia office sector

Q1 2018



SUMMARY

Market Highlights

LEASING DIPS

After a strong fourth quarter of leasing, deal volume in the first quarter fell back to the five-year quarterly average of 2.0 million square feet (msf). This correction saw a 15.8% dip from the previous quarter of 2.4 msf. Tenants have leased 8.9 msf in the last four quarters, nearly 10% above the long-term average of 8.1 msf leased per year.

AVAILABILITY INCREASES

The market's overall availability rate increased by 170 basis points from 17.6% to 19.3%. The Class A availability rate increased by 110 basis points to 17%.

INCREASE IN CLASS A RENT

Overall asking rent in the region fell by 0.9% to \$28.46. Class A asking rent in the region rose by 1.2% to \$30.43. Downtown Philadelphia registered a 4.2% increase in overall asking rent, moving from \$31.07 to \$32.36 to start the year. Downtown Class A rent posted a bigger 5.5% jump, rising from \$32.02 to \$33.79.

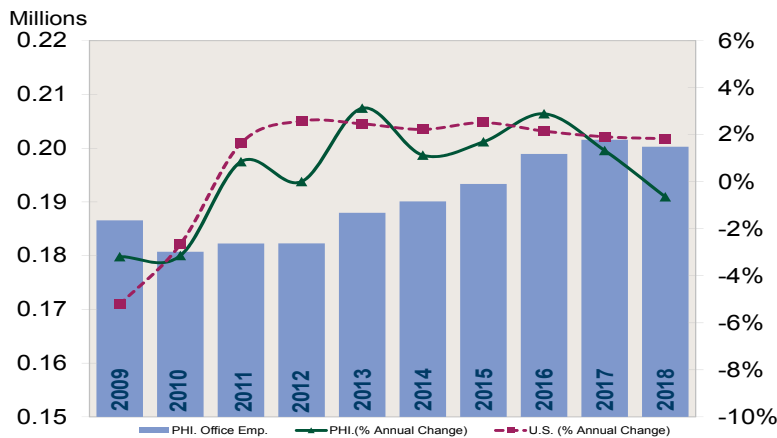
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"Large companies continue to seek more efficiency in their space, which is pushing up availability rates. Demand for quality space remains strong, though, with leasing activity above average and rents in the CBD at an all-time high."

Morgan Langley,
Research Analyst

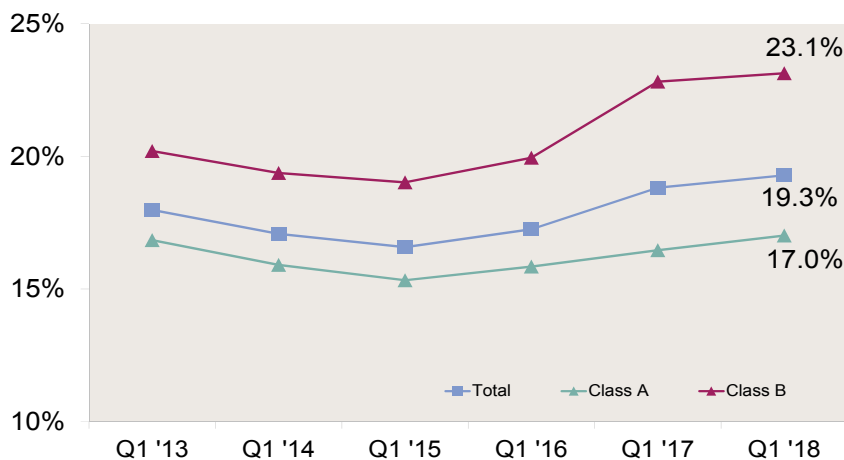
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Office-Using Employment Trends

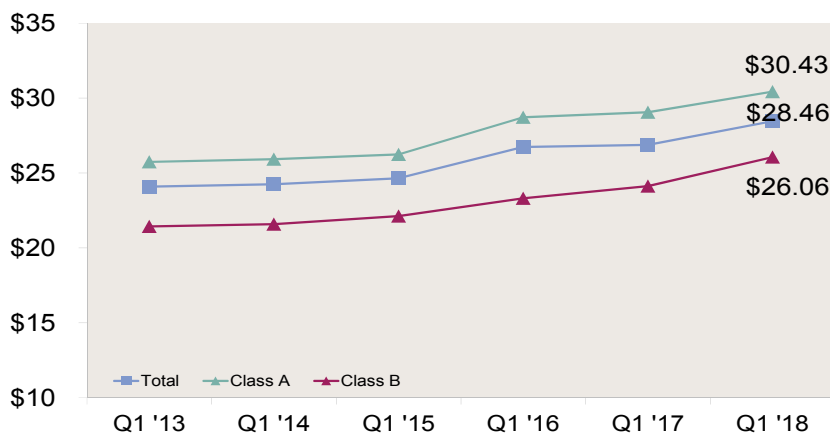


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Leasing Activity

The Philadelphia region office market started the year off with healthy leasing activity. A total of 2.0 MSF were leased regionally in the first quarter of the year. After last quarter's heavy leasing activity, the overall space leased dropped 15.8% across Greater Philadelphia. Despite the decline, the first quarter volume was directly in line with the five-year leasing average. Historically, the first quarter of the year can be slower than other quarters. In comparison to the first quarter of 2017, 500,000 square feet more was leased in this quarter, an increase of nearly 33%. The leasing data this quarter displays the strength we have seen in the Philadelphia region over the past few years.

Flight to Quality Downtown

Philadelphia's Central Business District (CBD) also had strong leasing fundamentals. Leasing activity declined by 20% from last quarter's flurry of leases, but still remained nearly 12% higher than the five-year average. Much of the leasing activity was led by Class A buildings, coming in at 15% above the average. This does not come as a surprise since it falls directly in line with the flight to quality trend that we have seen across the region over the past couple of years.

NantHealth, which recently acquired Eviti in Philadelphia, is a prime example. NantHealth signed a lease for 14,000 SF at 1735 Market, which is considered a trophy building. The firm was previously in 1800-1880 John F Kennedy, which is considered a class B building within the CBD. In another significant lease, Savills Studley client McCormick Taylor, signed on for 59,218 SF at 1818 Market St for its new corporate headquarters.

The largest lease in the quarter was signed by the EPA on a two-year extension of 307,847 SF at 1650 Arch. It was thought that the EPA was looking to downsize, but leadership instead opted for a short-term extension on its current space with uncertainty in the agency. Neumann Finance, the newly formed leasing finance arm of Beneficial Bank, signed a lease for 21,695 SF. The new subsidiary plans to add 200 jobs downtown.

Suburban Class A Market Active

Suburban Philadelphia maintained its steady leasing activity. Leasing increased by 5.5% from the previous quarter to

834,759 SF. The data this quarter is in line with the five-year average in the Philadelphia Suburbs. The strongest leasing came from Class A buildings much like the Philadelphia CBD. Leasing for Class A properties was up 39% from the previous quarter, moving from 407,253 SF to 567,546 SF. Main Line Health had the biggest lease in the suburbs this quarter, signing a renewal at 240 Radnor Chester Rd in Radnor for 100,462 SF. Not far behind, Morgan Stanley leased 100,375 SF at 100 Front St in Conshohocken. National Comprehensive Cancer Centers signed a lease for 65,244 SF in Plymouth Meeting at 3025 Chemical Rd. The company plans to expand by 30,000 SF when it moves from Fort Washington. Suburban submarkets continue to see strong investment activity and building renovations, which could signal an uptick in leasing over the next three quarters.

Downtown Rents Reach Record High

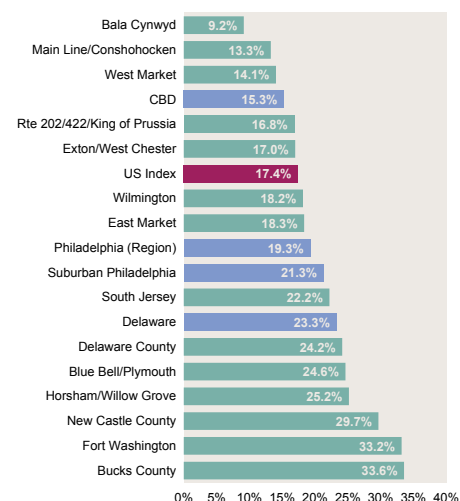
The Philadelphia CBD saw average asking rents reach a record high of \$32.36/SF. This number was led by record Class A rents, which increased 5.5% from the previous quarter to \$33.79/SF. Class A landlords have increased asking rents 21% over the past five years in downtown Philadelphia.

The strongest gains were in the West Market submarket of the CBD. Asking rents increased by 6.0% since the fourth quarter of last year to \$33.43/SF. Class A properties led the way, rising by 7.0% to a record of \$34.27/SF. The escalations in rent are a healthy sign for the market as Philadelphia's fundamentals continue to strengthen. The impending delivery of 3675 Market St in University City is definitely a factor in the rising rents. The new high-end property is asking close to \$50/SF and has nearly 50% of the rentable building area still available.

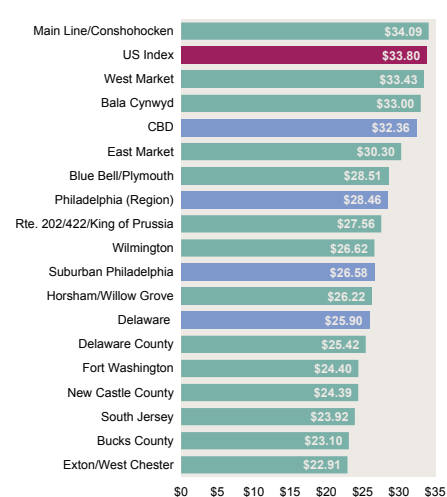
Another factor driving rental rate growth is the recent sale activity of Class A buildings along West Market. Due to the strong fundamentals in Philadelphia, both national and international investors have taken an interest in the West Market office product. The potential payoff from increased rent is compelling investors to take a closer look at West Market. Many new owners are putting capital into building amenities to justify rent increases.

In comparison, across downtown in East Market, asking rents dipped by 0.1%. This small decrease was due to the high vacancy in the market. The largest decrease was in Class B and C product which saw

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Environmental Protection Agency	307,847	1650 Arch St	West Market
Main Line Health	100,462	240 Radnor Chester Rd	Main Line/Coshohocken
Morgan Stanley	100,375	100 Front St	Main Line/Coshohocken
Deloitte	91,827	1700 Market St	West Market
National Comprehensive Cancer Network	65,244	3025 Chemical Rd	Blue Bell/Plymouth Meeting
Crown Holdings	60,000	770 Township Line Rd	Bucks County
McCormick Taylor	59,218	1818 Market St	West Market
CoWorking Firm	35,316	111 S Independence Mall E	East Market
Nelson Architecture	31,000	100 S Independence Mall W	East Market
UPenn Medicine	30,000	3600 Civic Center Blvd	West Market
Sum of Leases	881,289	Sum of 1st Quarter Leasing Activity	2.0 MSF

asking rents decline 2.4%. Class B and C buildings have seen increases in availability due to the recent flight to quality trends. Large blocks of space in East Market have struggled to lease up, which inevitably has led to a correction in asking rents. Looking forward, capital improvements in MRP's Independence Hall portfolio may signal increased leasing activity for the submarket, which could lead to a steady increase in asking rents.

Looking Forward

Looking ahead to the rest of 2018, the market should continue to have healthy fundamentals. The delivery of 3675 Market and 2400 Market in the CBD should provide an uptick in leasing assuming the flight to quality continues. Additionally, several large leases have looming expirations. Aberdeen, Penn Health, Macquarie, Versa, Willis Towers Watson and Wells Fargo – just to name a few – are all rumored to be in the

market and will potentially sign a new lease before the end of 2018. With a large majority of the West Market buildings having already changed hands over the past couple of years, it will be interesting to see if landlords continue to raise asking rates at the same pace.

Leasing activity may increase in the suburbs. In the wake of several recent sales, some landlords are making extensive building renovations in a bid to draw new tenants to their property. For now, it appears that leasing and asking rents will likely continue along the steady path we have seen over the past few quarters.

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. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	West Market	33,300	2,520	4,682	3.8%	4,239	14.1%	0.5%	12.7%	\$33.43	6.0%	\$30.99
	West Market - Class A	24,285	1,979	3,382	6.0%	2,886	13.9%	0.8%	11.9%	\$34.27	7.0%	\$31.77
2	East Market	13,025	910	2,389	-12.9%	2,489	18.3%	-2.7%	19.1%	\$30.30	-0.1%	\$29.03
	East Market - Class A	5,535	459	997	-18.7%	1,309	18.0%	-4.2%	23.6%	\$32.17	0.5%	\$32.14
3	Bala Cynwyd	2,831	509	259	-1.4%	371	9.2%	-0.1%	13.1%	\$33.00	0.9%	\$32.73
	Bala Cynwyd - Class A	2,255	413	233	3.6%	288	10.3%	0.4%	12.8%	\$33.35	1.5%	\$32.89
4	Blue Bell/Plymouth Meeting	5,437	277	1,340	8.9%	1,298	24.6%	0.0%	24.3%	\$28.51	-1.6%	\$25.78
	Blue Bell/Plymouth Meeting - Class A	2,657	189	375	-13.7%	436	14.1%	-0.3%	16.2%	\$28.10	-5.7%	\$26.64
5	Fort Washington	3,658	153	1,214	63.2%	1,432	33.2%	12.9%	39.1%	\$24.40	-7.6%	\$23.23
	Fort Washington - Class A	1,668	88	385	-6.7%	406	23.1%	-1.7%	24.3%	\$26.40	1.3%	\$23.95
6	Horsham/Willow Grove	4,596	213	1,157	34.2%	1,220	25.2%	6.4%	26.6%	\$26.22	-9.4%	\$24.39
	Horsham/Willow Grove - Class A	2,786	64	435	3.6%	460	15.6%	0.5%	16.5%	\$29.24	-0.9%	\$27.01
7	Route 202/422/King of Prussia	12,812	1,224	2,159	-0.6%	2,687	16.8%	-0.1%	21.0%	\$27.56	0.7%	\$25.53
	Route 202/422/King of Prussia - Class A	8,324	654	957	-0.1%	1,331	11.5%	0.0%	16.0%	\$31.51	4.0%	\$28.67
8	Exton/West Chester	3,834	150	651	-25.7%	589	17.0%	-5.9%	15.4%	\$22.91	-0.5%	\$22.93
	Exton/West Chester - Class A	2,567	145	422	18.6%	368	16.4%	2.6%	14.3%	\$24.82	-7.7%	\$24.66
9	Main Line/Conshohocken	5,543	541	735	0.1%	877	13.3%	0.0%	15.8%	\$34.09	2.4%	\$32.15
	Main Line/Conshohocken - Class A	4,421	415	586	0.4%	667	13.3%	0.0%	15.1%	\$36.12	4.8%	\$34.73
10	Delaware County	4,626	197	1,117	41.5%	726	24.2%	7.1%	15.7%	\$25.42	-3.9%	\$25.15
	Delaware County - Class A	3,564	175	868	69.7%	585	24.4%	10.0%	16.4%	\$25.57	-5.4%	\$25.59
11	Bucks County	4,958	304	1,665	-0.8%	1,752	33.6%	-0.3%	35.3%	\$23.10	-9.3%	\$24.09
	Bucks County - Class A	3,317	223	1,125	4.4%	1,142	33.9%	1.4%	34.4%	\$23.59	-8.6%	\$24.98
12	Wilmington	7,310	1,059	1,328	1.5%	1,554	18.2%	0.3%	21.3%	\$26.62	-3.6%	\$25.93
	Wilmington - Class A	5,611	652	1,117	2.6%	1,179	19.9%	0.5%	21.0%	\$27.66	-3.2%	\$27.93
13	New Castle County	5,795	292	1,719	106.4%	1,147	29.7%	15.3%	19.8%	\$24.39	-9.9%	\$22.22
	New Castle County - Class A	3,044	57	776	90.0%	528	25.5%	12.1%	17.3%	\$24.64	-15.5%	\$22.70
14	South Jersey	12,290	523	2,728	13.8%	2,204	22.2%	2.7%	17.9%	\$23.92	-5.8%	\$21.34
	South Jersey - Class A	5,452	263	1,186	4.7%	842	21.7%	1.0%	15.4%	\$25.52	-4.4%	\$23.38
1-2	Philadelphia CBD Total	46,325	3,430	7,071	-2.5%	6,728	15.3%	-0.4%	14.5%	\$32.36	4.2%	\$30.24
	Philadelphia CBD Total - Class A	29,820	2,438	4,379	-0.9%	4,194	14.7%	-0.1%	14.1%	\$33.79	5.5%	\$31.89
3-11	Suburban Philadelphia Total	48,295	3,570	10,297	10.2%	10,953	21.3%	2.0%	22.7%	\$26.58	-3.3%	\$25.49
	Suburban Philadelphia Total - Class A	31,559	2,367	5,385	8.3%	5,684	17.1%	1.3%	18.0%	\$28.55	-1.1%	\$27.48
12-13	Delaware Total	13,105	1,495	3,048	42.3%	2,702	23.3%	6.9%	20.6%	\$25.90	-5.8%	\$24.59
	Delaware Total - Class A	8,655	144	1,893	26.4%	1,707	21.9%	4.6%	19.7%	\$26.94	-6.0%	\$26.68
1-14	Philadelphia Region Total	120,015	8,874	23,144	9.5%	22,586	19.3%	1.7%	18.8%	\$28.46	-0.9%	\$26.88
	Philadelphia Region Total - Class A	75,486	5,778	12,843	6.9%	12,427	17.0%	1.1%	16.5%	\$30.43	1.2%	\$29.05

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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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