

# Savills Studley Report Philadelphia office sector

Q3 2017



## SUMMARY

### Market Highlights

#### LEASING STAYS STEADY

Quarterly deal volume across the Philadelphia region totaled 2.2 msf, a 5.9% dip from the 2.3 msf leased in the second quarter. Tenants have leased 7.9 msf in the last four quarters, falling short of the long-term average of 8.1 msf by 3.8%.

#### AVAILABILITY PUSHES HIGHER

Center City's availability rate rose for the third consecutive quarter, jumping by 120 basis points from 13.8% to 15.0%. The Class A availability rate in Center City rose by 110 basis points to 14.2%. The jump in availability is due to companies continuing to reduce their footprints.

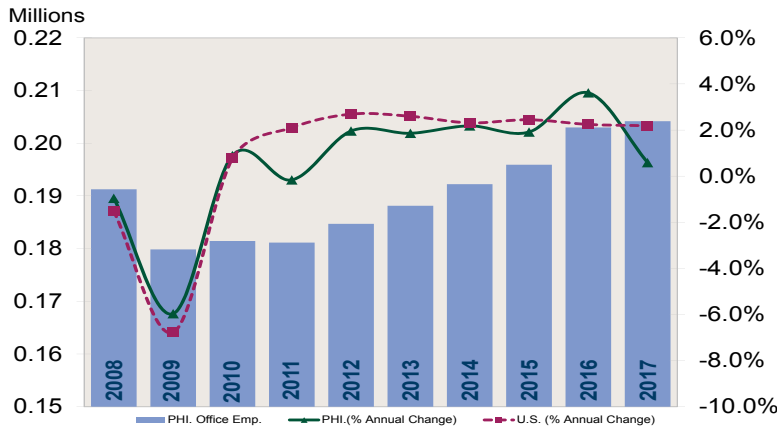
#### RENT RISES

Overall asking rent for the region increased by 2.6% to \$28.97. Asking rent in Center City posted a more moderate 1.1% quarter-on-quarter jump to \$31.54.

*"Increasing sales activity coupled with the development of new retail and office product underscores the continued strength of office markets both within Center City and select suburban submarkets."*

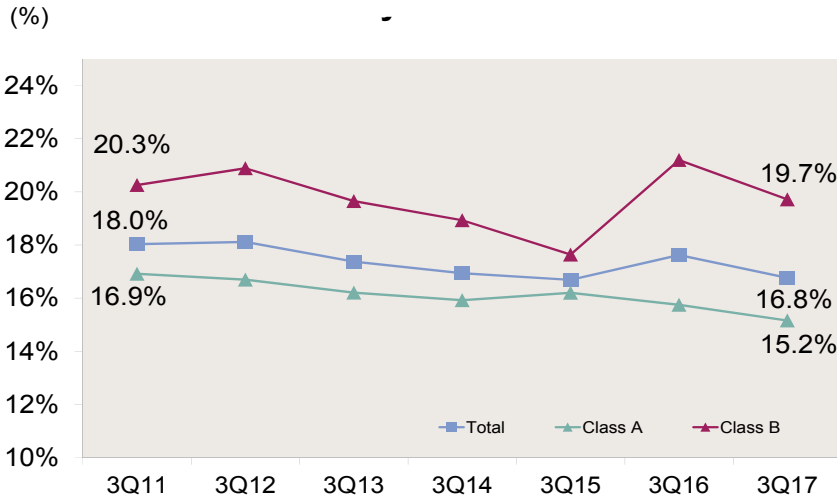
Hether Smith,  
Senior Vice President

## Office-Using Employment Trends

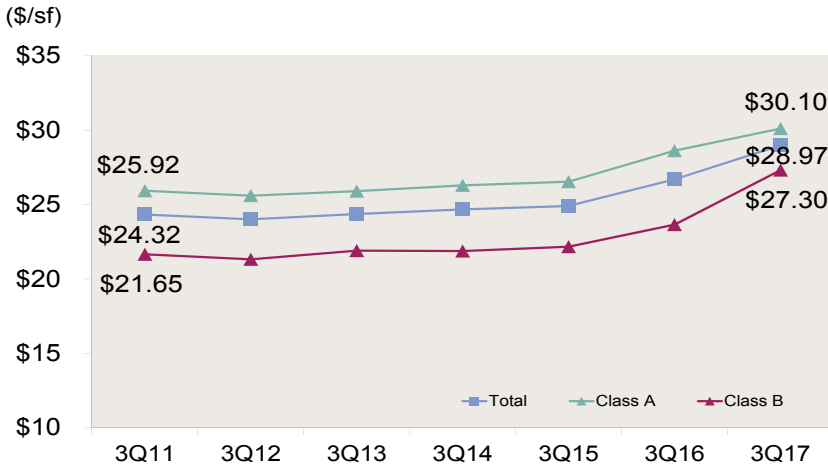


Source: Bureau of Labor Statistics

## Availability Rate Trends



## Asking Rent Trends



## Leases in the Market

The Philadelphia office market continued with a steady pace of leasing in the third quarter. A total of 2.2 msf were leased across the greater Philadelphia region. This was a 5.9% decrease from the previous quarter, yet leasing volume was still 7.1% above the 5-year average. After a slow start, space leased over the past four quarters increased to 7.9 msf, a full 17.2% above the numbers from the second quarter of last year (6.7 msf). That said, the 7.9 msf over the past four quarters is still slightly behind the five year average of 8.1 msf. The leasing numbers from this quarter indicate that the region is continuing to move forward at a strong pace for office leasing.

In the Greater Philadelphia region, the suburban submarkets led the way for leasing activity. Two of the metro's largest employers unloaded real estate assets in significant sale-lease back transactions. AstraZeneca offloaded their headquarters at 1800 Concord Pike, selling the 357,551-SF building for \$139.84/SF. To top off the transaction, AstraZeneca leased back the entirety of the building. In a similar transaction, Vanguard sold 455 Devon Park Dr. in Wayne for \$115.38/SF, and leased back the 130,000 SF space. In yet another large lease, Philadelphia Insurance and Tokio Marine Holdings renewed and expanded at 1 Bala Plaza in Bala Cynwyd. The company signed a long-term 285,000 SF lease at a location they have called home for over two decades. Tokio Marine also occupies 91,000 SF at Three Bala Plaza. To conclude the large leases in the suburbs, Bayview Loan Servicing signed a long-term lease on 72,381 SF at 501 Prudential Road in Horsham. These large leases as well as a steady pace from smaller tenants continued the region's movement in the right direction.

Although the Greater Philadelphia region and the suburbs were strong, the central business district slowed. In the largest transaction, Morgan Lewis renewed their lease at 1801 Market St, signing on to 97,000 SF. Morgan Lewis has used the space for administration and data – the building is just a block from their headquarters at 1701 Market St. UPENN Wharton School of Business leased up one of the last available floors at the FMC Tower. This has concluded a strong run of leasing for the building since its completion in June of 2016.

## Sales in the Region

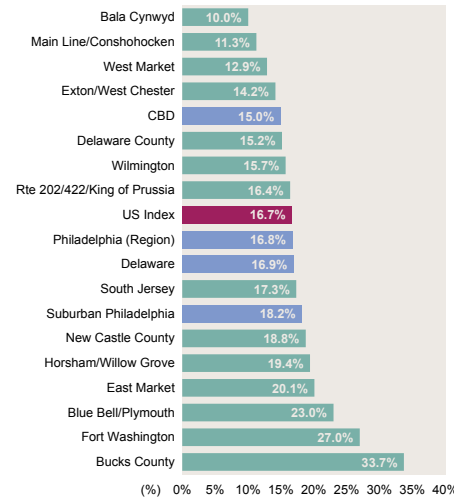
The current economic cycle has become quite long compared to historical averages and landlords are looking to capitalize before the next downturn. The third quarter kicked off with Equity Commonwealth selling Centre Square to Nightingale Properties for \$328M. The 1.76 msf property traded for \$186.45/SF to kick start the sluggish investment sales market in the CBD. Prior to this sale, only the Wannamaker Building and Three Parkway had traded hands downtown in the first half of the year. The sale of Centre Square appears to have provided momentum for the capital markets. Three buildings in West Market have recently been listed for sale. After the sale of Centre Square, Equity Commonwealth has placed 1600 Market St up for sale. Following suit, Gemini Rosemont put 2000 Market up for sale after purchasing the 665,649-SF building for \$165.25/SF in 2013. Finally, Stockton Real Estate Advisors and Alterra Property Group have indicated that 1760 Market St is also for sale. Stockton and Alterra had previously purchased the 128,128 SF building for \$157.87/SF in 2015.

In the Greater Philadelphia Region we continue to see strong building sales. Arts and Crafts Holdings paid \$20.1M (\$106.82/SF) for the historic Electric Factory near Northern Liberties. The historic building was the latest addition to their Callowhill portfolio. In the suburbs, Exeter Property sold, the 345,000 SF, 45 Great Valley Parkway in Malvern for \$73M. At \$205.06/SF, the sale price of the Corporate Center is a healthy indicator for the suburban office market. Also, Maguire Hayden Real Estate paid \$134.67/SF (\$20.2M) for the 150,000-SF complex at 435 Devon Park Dr. With healthy trades throughout the market it appears as though Philadelphia's investment sales will continue their momentum through the rest of the year.

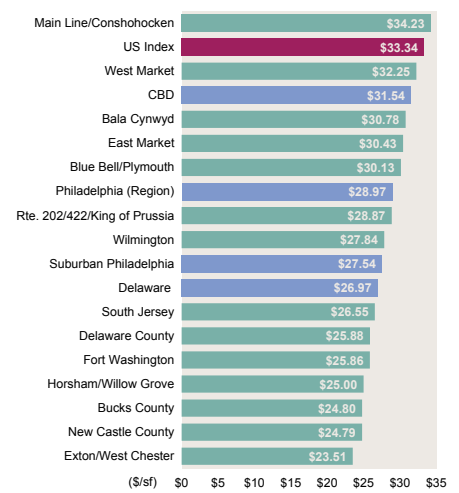
## Development

Development in and around the CBD of Philadelphia is continuing full steam ahead. The Comcast Technology Center is nearly topped off and ready to claim its place as the tallest skyscraper in the country outside of New York and Chicago. The building will be fully operational in the first quarter of 2018. Not one to slow down, the developer, Liberty Property Trust acquired land adjacent to the new tower at 19th and Arch St. Presumably, the land was purchased for the widely speculated third Comcast Tower. Liberty also continues to hold significant plots of land in the Navy Yard for future

## Availability Rate Comparison



## Rental Rate Comparison



## Major Transactions

Tenant	Sq Feet	Address	Market Area
AstraZeneca	371,000	1800 Concord Pike	Wilmington
Philadelphia Insurance	285,000	1 Bala Plaza Blvd	Bala Cynwyd
Vanguard	130,000	455 Devon Park Dr	Route 202/422/King of Prussia
Morgan Lewis	97,000	1801 Market St	West Market
Bayview Loan Servicing	72,381	501 Prudential Road	Horsham/Willow Grove
Software	45,484	601 Office Center Dr	Fort Washington
CardConnect	44,785	1000 Continental Dr	Route 202/422/King of Prussia
Collegium Charter School	40,434	150 Oaklands Blvd	Exton/West Chester
SEI	35,000	955 Chesterbrook Blvd	Route 202/422/King of Prussia
UPENN - Wharton	24,783	2929 Walnut St	West Market
<b>Sum of Leases</b>	<b>1,145,867</b>	<b>Sum of 3rd Quarter Leasing Activity</b>	<b>2.2 MSF</b>

development. Liberty Property Trust's main competitor, Brandywine Realty Trust, with a similar action, purchased a building at 30th and Market. The acquired building currently houses an Irish Pub, Slainte, however the latest move by Brandywine is a strategic purchase, as they move forward with the \$3.5B Schuylkill Yards Development in University City. Another publicly-traded REIT, Pennsylvania Real Estate Investment Trust, started with their significant retail development in East Market. The Fashion District, as it will be called, recently signed a lease with AMC Theaters to top off the mixed use project with a high-end, eight-screen, first run Movie Theater. The new venue adds to the already numerous retail tenants and large selection of restaurants. The East Market development will fill a much needed retail and entertainment gap for the Philadelphia CBD, potentially transforming the eastern portion of the city.

To the east of Philadelphia, Liberty and

Brandywine are spearheading efforts along with the state of New Jersey to develop the City of Camden. Buildings such as the American Water Works Building are beginning to rise. Companies have invested \$1.2B in the project and the state has added an additional \$1.1B in business attraction and retention incentive programs. To the south of the CBD, developer Bart Blatstein is moving ahead with his 195,000-SF mixed-use development that is intended to bridge the gap between South Philadelphia and the downtown, at Broad and Washington. After receiving city approval, Blatstein closed on the plot of land for an estimated \$20M. In addition, in the suburbs, Vanguard and SEI are moving ahead with plans to further develop their individual campuses. Both locally based firms have continued to expand their real estate footprints in Greater Philadelphia as their brands build globally.

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	<b>West Market</b>	32,508	2,450	4,189	11.8%	4,357	12.9%	0.9%	13.7%	\$32.25	2.1%	\$30.97
	West Market - Class A	24,025	1,834	2,934	15.3%	2,853	12.2%	1.5%	12.2%	\$32.71	1.8%	\$32.49
2	<b>East Market</b>	13,098	458	2,631	8.0%	2,185	20.1%	2.5%	16.8%	\$30.43	-0.6%	\$28.60
	East Market - Class A	5,454	138	1,260	0.3%	980	23.1%	-0.9%	17.7%	\$31.70	-2.7%	\$31.72
3	<b>Bala Cynwyd</b>	3,232	478	324	-17.5%	441	10.0%	-1.7%	13.7%	\$30.78	-1.5%	\$29.29
	Bala Cynwyd - Class A	2,258	420	240	-18.1%	299	10.6%	-2.1%	13.2%	\$32.47	-0.5%	\$32.28
4	<b>Blue Bell/Plymouth Meeting</b>	5,342	427	1,228	-3.4%	1,383	23.0%	-3.1%	21.2%	\$30.13	8.8%	\$26.17
	Blue Bell/Plymouth Meeting - Class A	2,701	74	442	-6.6%	392	16.4%	-1.0%	10.6%	\$29.49	7.4%	\$24.96
5	<b>Fort Washington</b>	2,756	194	744	-7.7%	906	27.0%	-2.2%	24.8%	\$25.86	1.1%	\$23.74
	Fort Washington - Class A	1,665	126	355	-15.5%	468	21.4%	-3.0%	18.6%	\$25.16	-4.9%	\$24.45
6	<b>Horsham/Willow Grove</b>	4,715	207	916	-5.2%	1,002	19.4%	-1.2%	22.1%	\$25.00	-4.8%	\$24.62
	Horsham/Willow Grove - Class A	3,404	48	478	-6.0%	405	14.1%	-0.1%	11.9%	\$26.06	0.9%	\$25.06
7	<b>Route 202/422/King of Prussia</b>	13,589	1,225	2,229	-3.8%	2,768	16.4%	-0.9%	20.3%	\$28.87	6.1%	\$26.56
	Route 202/422/King of Prussia - Class A	9,138	923	1,199	-8.9%	1,916	13.1%	-1.3%	20.9%	\$30.46	5.5%	\$28.92
8	<b>Exton/West Chester</b>	4,640	191	657	19.0%	608	14.2%	0.5%	12.6%	\$23.51	0.8%	\$22.17
	Exton/West Chester - Class A	2,854	186	345	1.4%	414	12.1%	-1.1%	13.1%	\$27.05	6.2%	\$23.22
9	<b>Main Line/Conshohocken</b>	5,745	329	648	-11.7%	782	11.3%	-4.0%	13.6%	\$34.23	5.4%	\$33.26
	Main Line/Conshohocken - Class A	4,506	309	485	-8.2%	636	10.8%	-4.0%	14.1%	\$36.08	2.4%	\$35.68
10	<b>Delaware County</b>	4,762	115	722	-3.9%	779	15.2%	0.5%	16.7%	\$25.88	-1.1%	\$24.30
	Delaware County - Class A	3,827	62	528	-8.7%	639	13.8%	-1.7%	16.9%	\$26.15	-2.3%	\$24.47
11	<b>Bucks County</b>	4,460	242	1,503	5.2%	1,653	33.7%	-2.3%	32.0%	\$24.80	1.4%	\$21.87
	Bucks County - Class A	3,109	160	1,011	6.2%	1,186	32.5%	-3.5%	31.4%	\$25.75	2.2%	\$21.86
12	<b>Wilmington</b>	7,735	959	1,216	-7.2%	1,463	15.7%	-3.2%	18.6%	\$27.84	2.0%	\$26.53
	Wilmington - Class A	6,182	549	1,029	-1.3%	1,194	16.6%	-2.3%	18.9%	\$29.32	1.7%	\$27.78
13	<b>New Castle County</b>	5,205	164	977	4.3%	910	18.8%	2.8%	17.7%	\$24.79	3.7%	\$21.76
	New Castle County - Class A	3,286	49	484	5.1%	336	14.7%	3.7%	10.2%	\$25.37	11.0%	\$22.41
14	<b>South Jersey</b>	14,413	461	2,499	-3.4%	2,370	17.3%	2.6%	16.0%	\$26.55	12.2%	\$21.01
	South Jersey - Class A	6,721	263	1,205	-4.1%	936	17.9%	4.9%	13.2%	\$27.98	9.0%	\$22.78
1-2	<b>Philadelphia CBD Total</b>	45,606	2,908	6,821	10.3%	6,542	15.0%	1.2%	14.6%	\$31.54	1.1%	\$30.14
	Philadelphia CBD Total - Class A	29,479	1,972	4,194	10.4%	3,833	14.2%	1.1%	13.2%	\$32.40	0.4%	\$32.29
3-11	<b>Suburban Philadelphia Total</b>	49,239	3,408	8,972	-2.7%	10,453	18.2%	-0.7%	20.6%	\$27.54	2.4%	\$25.29
	Suburban Philadelphia Total - Class A	33,462	2,309	5,083	-6.1%	6,443	15.2%	-1.0%	18.3%	\$28.59	1.8%	\$26.67
12-13	<b>Delaware Total</b>	12,940	1,123	2,193	-2.4%	2,373	16.9%	-0.8%	18.2%	\$26.97	2.7%	\$25.14
	Delaware Total - Class A	9,469	114	1,512	0.6%	1,530	16.0%	-0.3%	15.9%	\$28.54	2.0%	\$26.95
1-14	<b>Philadelphia Region Total</b>	122,198	7,900	20,484	1.2%	21,739	16.8%	0.2%	17.6%	\$28.97	2.6%	\$26.68
	Philadelphia Region Total - Class A	79,130	5,142	11,995	0.2%	12,741	15.2%	0.0%	15.7%	\$30.10	1.5%	\$28.61

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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.

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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