Peter Tobia

OFFICE

Forty percent (40%) of downtown jobs are concentrated in 40.4 million square feet (sf) of high-rise office space. Well-served by transit, office buildings hold the greatest density of jobs and provide the most diverse employment opportunities: high-skilled positions requiring at least a college degree, technical, support and clerical jobs, as well as building engineers, security personnel and janitors. Every time tenants turn over, construction trades renovate space. Office workers are also prime customers for retail, restaurant and entertainment venues and drive over $221 million in retail demand each year. Business travelers accounted for almost one-third of all hotel room nights in 2015.

Center City's office occupancy rate rose from 86.7% in 2014 to 88.5% in 2015, surpassing suburban occupancy levels of 85.2%. Trophy building occupancy held steady at 95%, while Class A and B rose to 90.3% and 92.3%, respectively. But the average asking rent of $27.44/sf, while slightly above 2014's $27.19/sf, is far lower than the leading markets nationally – approximately a third of asking rents in Midtown Manhattan ($80.97), half of asking rates in Boston ($55.60) and Washington, D.C. ($51.35). The highest rents in Center City ($29.18) can be found on West Market Street and JFK Boulevard, where the occupancy rate reached 89.3% in 2015.

More than half of leasing activity downtown was driven by Philadelphia's historical pattern of renewals and movement within the market. But rent appreciation occurred downtown as existing firms took more space in an expanding national economy, led by 377,000 sf of growth by Comcast. In a very positive trend, the downtown office market in 2015 also saw increased demand from suburban and out-of-market tenants accounting for 770,000 sf (23%) of leasing activity.

But a simple measure of success is the premium businesses are willing to pay to be in the employee- and amenity-rich CBD, as opposed to the suburbs. A sampling of major CBD markets nationwide by Newmark Grubb Knight Frank showed an average CBD premium of 25% in 2015 – rising to 112% in Boston and 75% in Washington, D.C. In Philadelphia, the premium on downtown space was just 4%, comparable to many sprawling Sunbelt metros.

Philadelphia's unique reliance on wage and business taxes, accounting for 63% of municipal tax revenues, creates a

significant burden on local businesses, weakens demand and depresses local rents. Philadelphia's wage tax is four times the average of surrounding suburbs; business taxes add a 20% to 30% premium to the cost of doing business, while real estate taxes are two-thirds of the regional average.

The Philadelphia Growth Coalition's (www.philadelphiagrowth-coalition.com) tax reform plan, endorsed by Mayor Jim Kenney and a broad cross-section of business, labor and civic leaders, was introduced in the State Legislature by Representatives John Taylor and William Keller as HB 1871 with broad bi-partisan support. It builds on the recommendations of the 2003 and 2009 City Tax Commissions and the 2011 Philadelphia Jobs Commission. It will enable the city to reduce its dependency on taxes on highly mobile wages and business revenues and rely more on a growing real estate tax base, also a primary source of funding for schools. It creates the platform for Philadelphia to capitalize on all its inherent competitive advantages.

There are other important signs of change. Ownership has steadily been concentrating in real estate investment trusts, rising in Market West according to CBRE, from 50% a decade ago, to 61% in 2015, led locally by Brandywine Realty Trust and Liberty Property Trust. But outside investors are also taking a greater interest in downtown inventory, creating new advocates for change.

Liberty's Comcast Innovation and Technology Center, Center City's largest office construction project, will add 1.33 million sf of trophy space to the downtown when it is completed in 2018. On the east side, National Real Estate Development's mixed-use development on Market East will add 161,000 sf of LEED-certified office space in 2016, joining other older buildings that are being reclaimed for office use. Most notable is the growing inventory of coworking space that is serving as incubators for startups, the setting for freelancers to work collegially, a low commitment entry-point for out-of-market businesses to establish a local presence and a means for regional businesses to access downtown talent and test the market.

Located at the center of the region's highway and transit networks, situated in an amenity-rich setting with a growing residential concentration of well-educated workers, Center City's office district is well-positioned for more dynamic growth.

OUTSIDE INVESTORS ARE TAKING A

GREATER INTEREST IN CENTER CITY

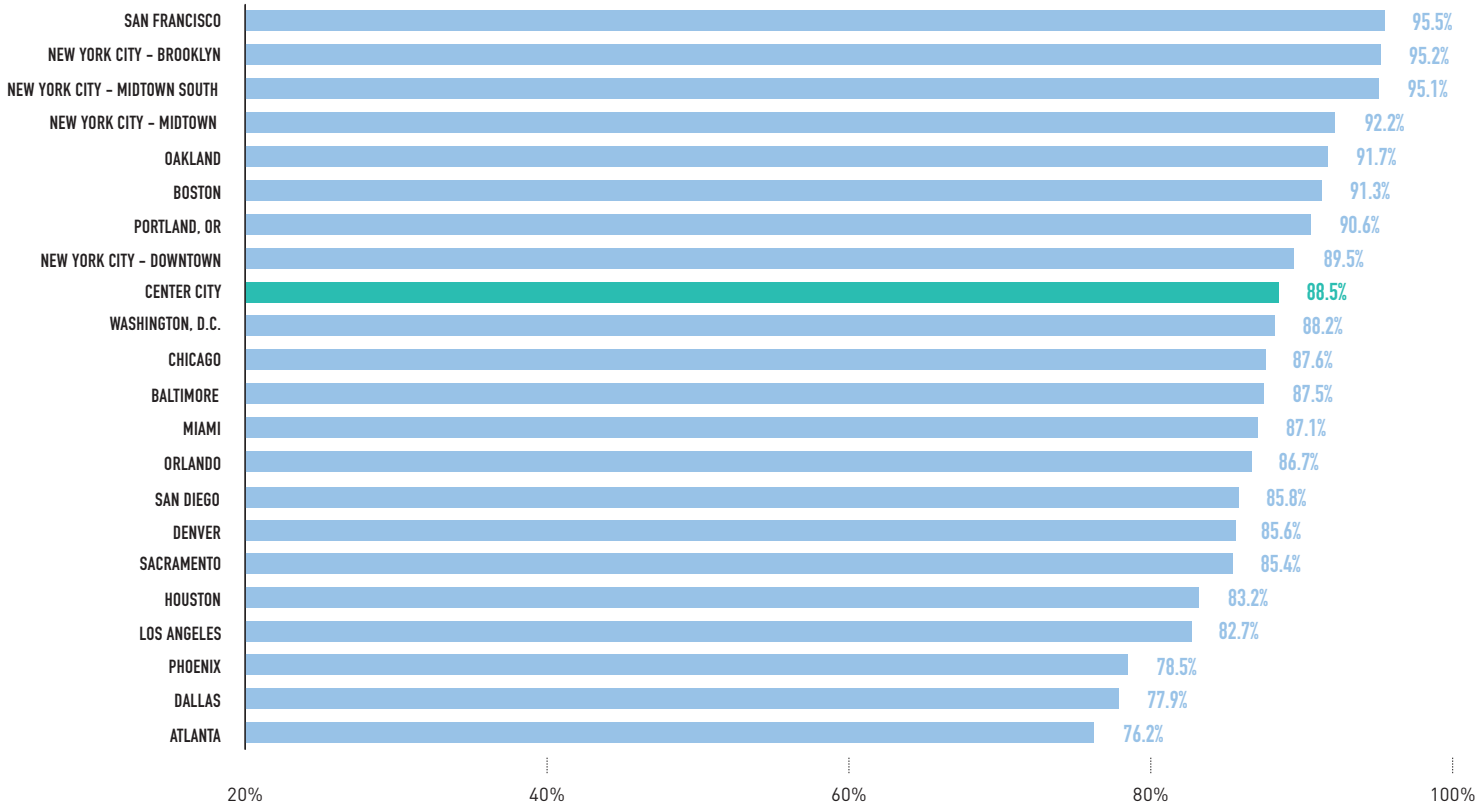
REAL ESTATE, WHILE OUT-OF-MARKET BUSINESSES ARE INCREASING THEIR PRESENCE DOWNTOWN.

TRADITIONAL OFFICE SUBMARKETS

	TOTAL INVENTORY (sf)	VACANT SQUARE FEET	OCCUPANCY RATE	2015 ABSORPTION (sf)	AVERAGE ASKING RENT
Center City	40,367,449	4,647,443	88.5%	742,956	$27.44
West Market	25,160,472	2,692,171	89.3%	750,208	$29.18
East Market	6,288,490	698,022	88.9%	65,095	$23.78
Independence Square	4,852,963	732,797	84.9%	-25,473	$26.01
Walnut/South Broad	4,065,524	524,453	87.1%	-46,874	$25.06
University City	2,868,880	54,509	98.1%	126,266	$31.69
CBD TOTAL	**43,236,329**	**4,701,952**	**89.1%**	**869,222**	**$27.52**

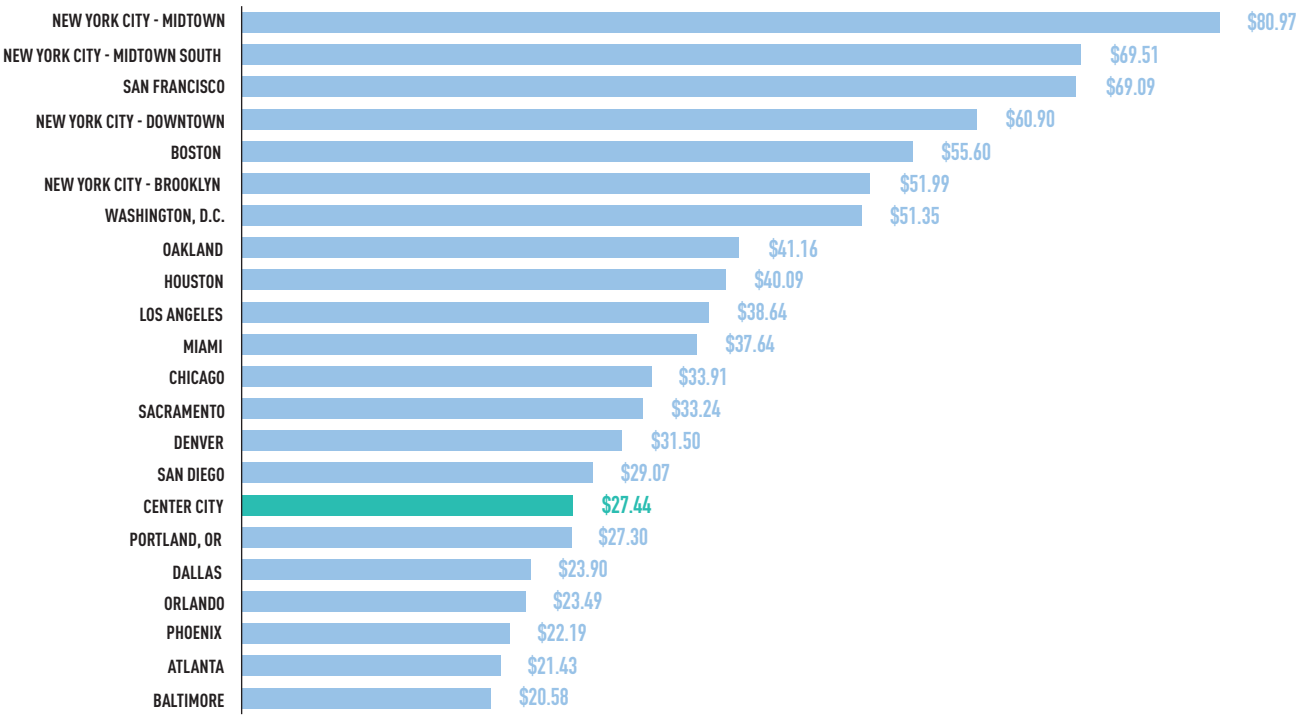
Source: Newmark Grubb Knight Frank

CENTRAL BUSINESS DISTRICT OCCUPANCY, 2015



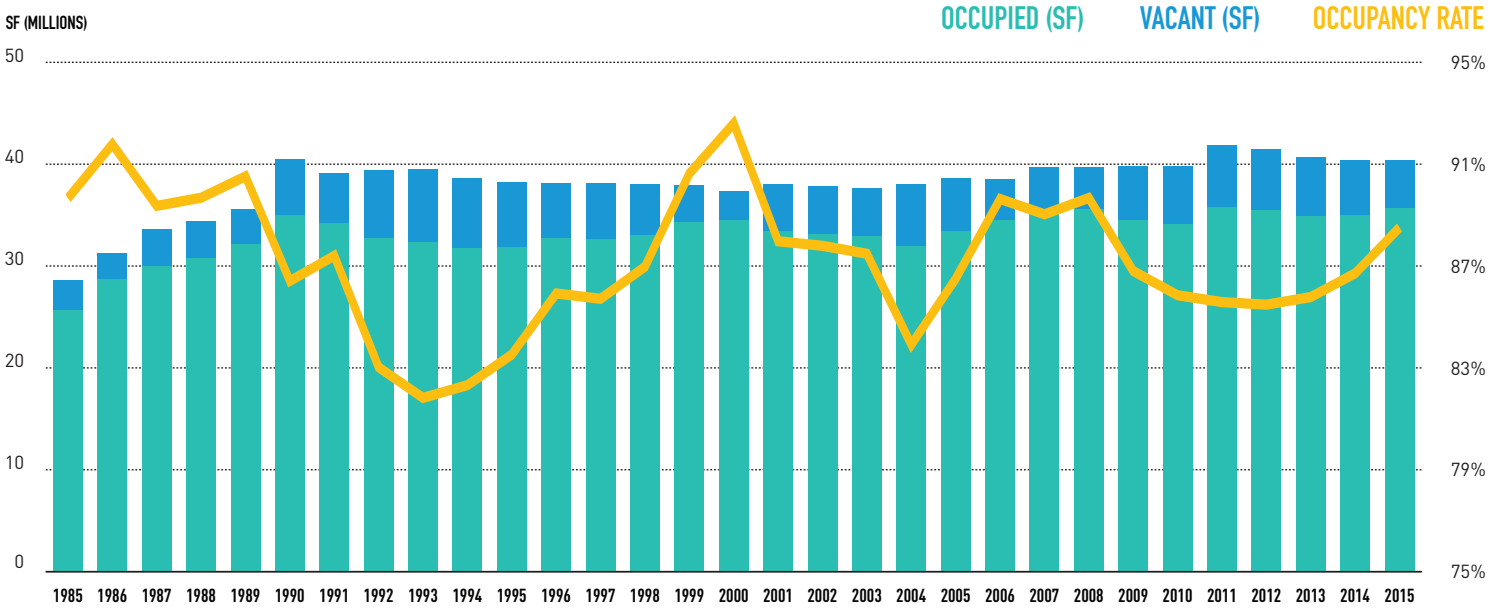
Source: Newmark Grubb Knight Frank

CENTRAL BUSINESS DISTRICT AVERAGE ASKING RENT PER SF, Q4 2015



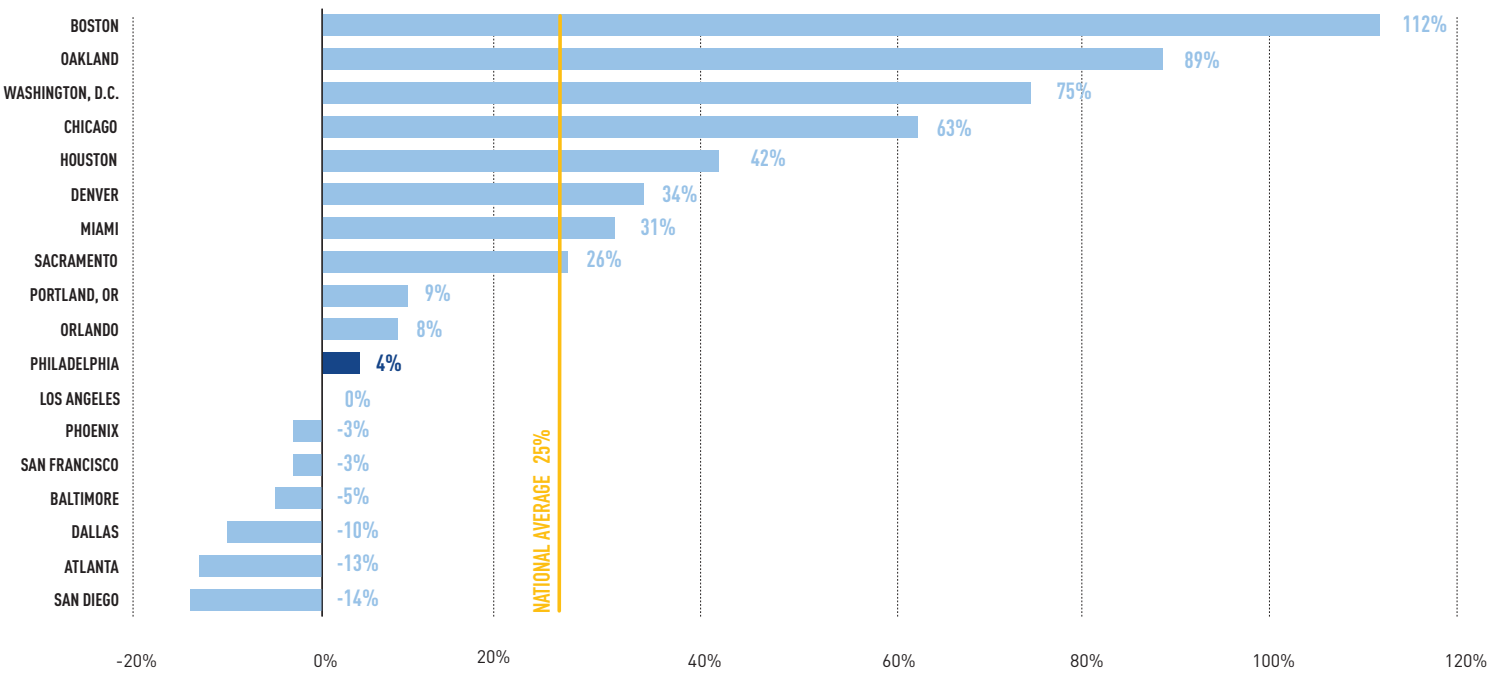
Source: Newmark Grubb Knight Frank

CENTER CITY PHILADELPHIA OFFICE MARKET, 1985–2015



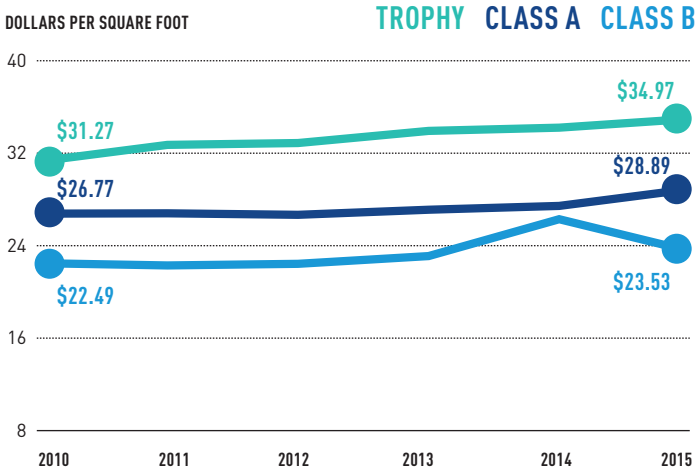
Source: Newmark Grubb Knight Frank

DOWNTOWN PREMIUM: CBD RENTS COMPARED TO REGIONAL RENTS



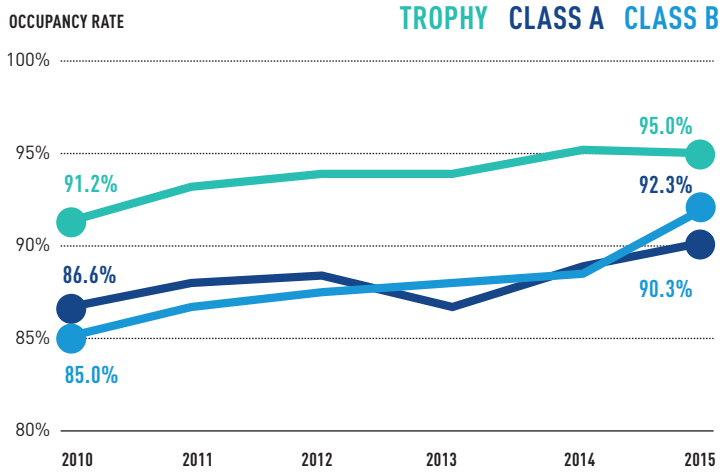
Source: Newmark Grubb Knight Frank

CENTER CITY AVERAGE ASKING RENT



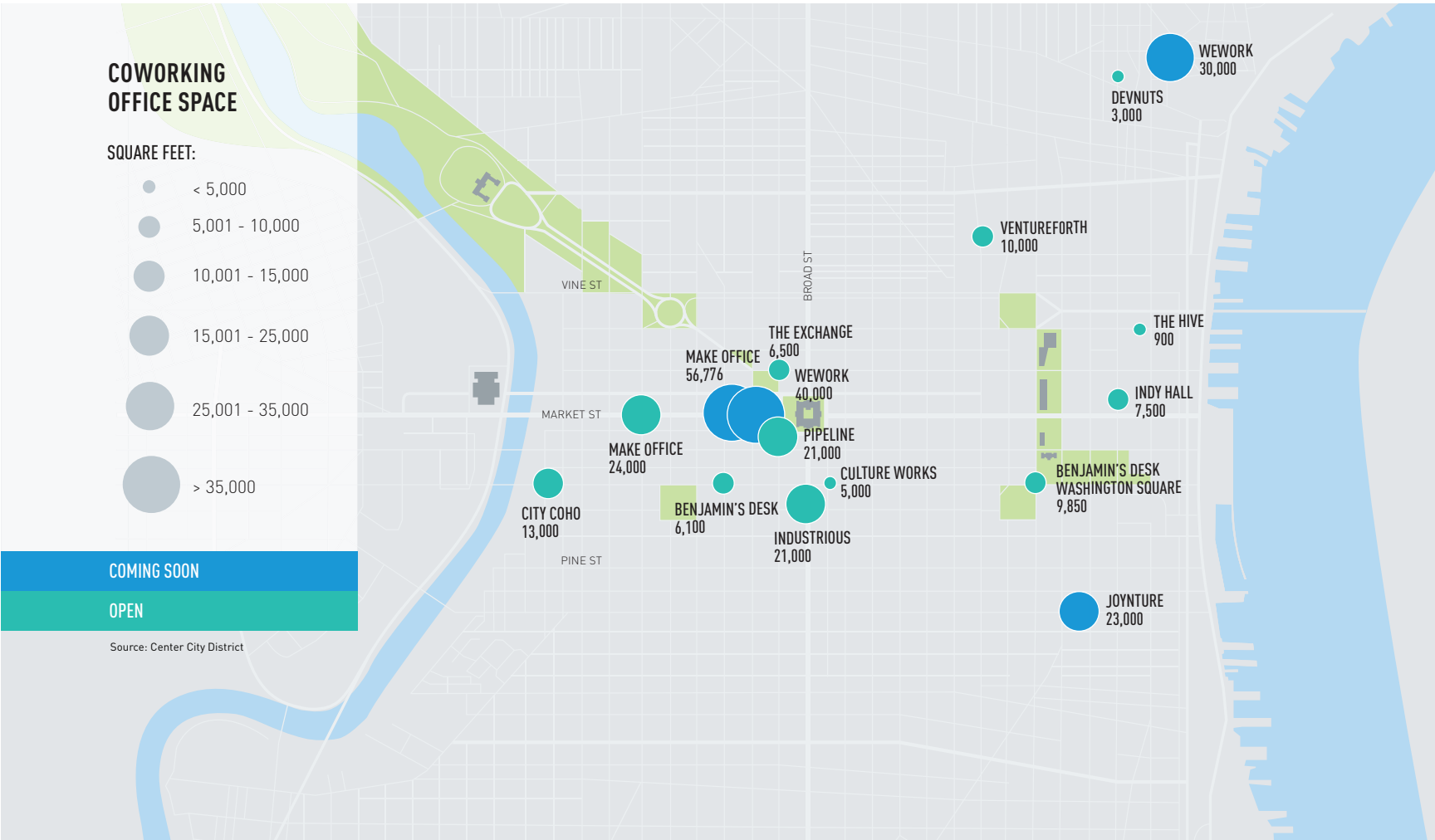
Source: JLL Research

CENTER CITY OCCUPANCY RATE BY CLASS



Source: JLL Research

COWORKING SPACE IS SERVING AS AN INCUBATOR FOR STARTUPS AND A MEANS FOR TENANTS FROM OUTSIDE THE CITY AND REGION TO TEST THE MARKET.



Source: Center City District

INBOUND OFFICE DEMAND, 2015

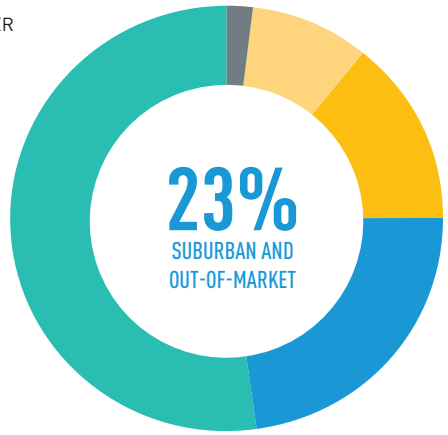
52% WITHIN MARKET - OTHER RENEWAL/RELOCATION

23% WITHIN MARKET - ORGANIC GROWTH

14% INBOUND - SUBURBS

9% INBOUND - OUT OF MARKET

2% UNKNOWN



Source: JLL Research

ORGANIC GROWTH AND IN-MOVEMENT OF BUSINESSES ARE ACCOUNTING FOR A GREATER SHARE OF OFFICE LEASING.

SIGNIFICANT OFFICE LEASING TRANSACTIONS IN CENTER CITY, 2015

MARKET WEST				
Tenant	Building Name	Class	Size (SF)	Type
Comcast Corporation	Comcast Innovation and Technology Center	Trophy	377,000	Expansion in Market
Cigna	Two Liberty Place	A	322,000	Renewal
Radian	Centre Square	A	141,765	Relocation within Market
Independence Blue Cross	1900 Market	A	112,000	Expansion in Market
Board of Pensions of the Presbyterian Church	2000 Market	A	76,998	Renewal
Obermayer Rebmann Maxwell & Hippel LLP	Centre Square	A	60,544	Relocation within Market
MakeOffice	Seven Penn Center	A	56,776	Expansion in Market
ExcelleRx	Three Parkway	A	56,090	Renewal
Eckert Seamans	Two Liberty Place	Trophy	53,000	Renewal
MARKET EAST				
Tenant	Building Name	Class	Size (SF)	Type
American Bible Society	401 Market Street	B	100,000	New to Market
Philadelphia Authority for Industrial Development	990 Spring Garden	B	86,640	Renewal

Source: JLL Research

CENTRAL BUSINESS DISTRICT COMPLETIONS (SF), 2015

	2015 COMPLETIONS	COMPLETIONS AS PCT OF EXISTING CBD	COMPLETIONS AS PCT OF NATIONAL COMPLETIONS
Seattle	1,789,966	3.6%	16.0%
New York (Midtown)	1,155,140	0.4%	10.3%
Boston	1,141,379	1.7%	10.2%
San Francisco	903,418	1.8%	8.1%
Dallas	877,118	2.3%	7.8%
Austin	680,979	7.4%	6.1%
Washington, D.C.	564,990	0.5%	5.0%
Denver	542,352	1.9%	4.8%
Chicago	538,735	0.4%	4.8%
All Other Cities CBD	2,996,963	0.4%	26.8%
US CBD TOTAL	**11,191,040**	**0.7%**	**100.0%**

Note: Center City had no completions in 2015. Does not include Comcast Innovation and Technology Center, expected completion 2018.

Source: JLL Research

WITH A MORE COMPETITIVE TAX STRUCTURE, PHILADELPHIA CAN ATTRACT MANY MORE TENANTS FROM OUTSIDE THE CITY AND

CAPTURE A GREATER SHARE OF LOCAL GROWTH.

WWW.PHILADELPHIAGROWTHCOALITION.COM