



Comcast Technology Center | Comcast

OFFICE

The opening of the 1.8 million-square-foot Comcast Technology Center and Aramark's 600,000-square-foot expansion at 2400 Market Street pushed Center City's office inventory up to 43.5 million square feet. Their growth reinforces downtown's role as the region's largest employment center, well connected by transit and highways to every neighborhood in the city and to the entire region's highly educated workforce.

Since 1990, downtown's inventory had consistently hovered around 40 million square feet, as nearly all new additions to the market were offset by conversions of older buildings to residential or hotel use. This diversified land-use and has contributed to a dramatically more vibrant, 24-hour downtown. At the same time, health care and educational institutions began to lease other vacant commercial office space. As a consequence, traditional private-sector office using industries, which account for 40% of downtown jobs and offer the broadest range of opportunities, from high-skilled to moderate wage to entry level maintenance positions, have not experienced any growth.

While companies everywhere are taking advantage of digital and technological innovations to house more employees more

efficiently, Center City actually has 12.7% fewer office jobs than existed in 1990, while other downtowns have experienced modest growth in this sector. The expansion of two major corporate headquarters thus represents an important opportunity for their growth and expanded purchasing of services to drive growth in many other firms.

A second significant trend has been the enhancement of amenities and the diversification of uses within office buildings as outside investors and existing owners upgrade their buildings to maintain competitiveness. Rents across Center City have risen above the \$30 per square foot mark in three of four downtown submarkets – West Market (\$33.84), East Market (\$30.73), and Independence Square (\$30.47), with the fourth, Walnut/South Broad (\$28.83) not far behind. But of the 28 major lease transactions in 2018, just three were with firms new to market, while four involved the expansion of existing firms. The rest were renewals or relocations without absorbing significant new space.

Two expansions last year came from the growing inventory of coworking spaces that continue to locate throughout the business district. Today, they occupy 510,000 square feet

in Center City; adding in University City and surrounding neighborhoods, the number grows to 772,792 square feet. When coworking emerged a decade ago, it appeared first as incubator space for startups, a role that remains. But increasingly, regional and national firms, seeking a presence in Center City and access to a well-educated workforce, are placing teams in downtown coworking venues. Cumulatively, they represent just 1% of the total downtown office inventory. But they provide an effective way for landlords to put vacant space to income-producing use and have enabled developers of older buildings to master lease upper floors. They are also fertile ground for growth. As startups and regional outposts expand, they can “graduate” into traditional office space.

Center City offers very attractive rents, especially for those coming from elsewhere. Center City rates are about one-third those in San Francisco, 40% of Midtown Manhattan and about

half the price of Boston or Washington D.C. Regionally, asking rents are on the higher end, but lower than in the KOIZs in University City and the Navy Yard, which benefit from key tax exemptions.

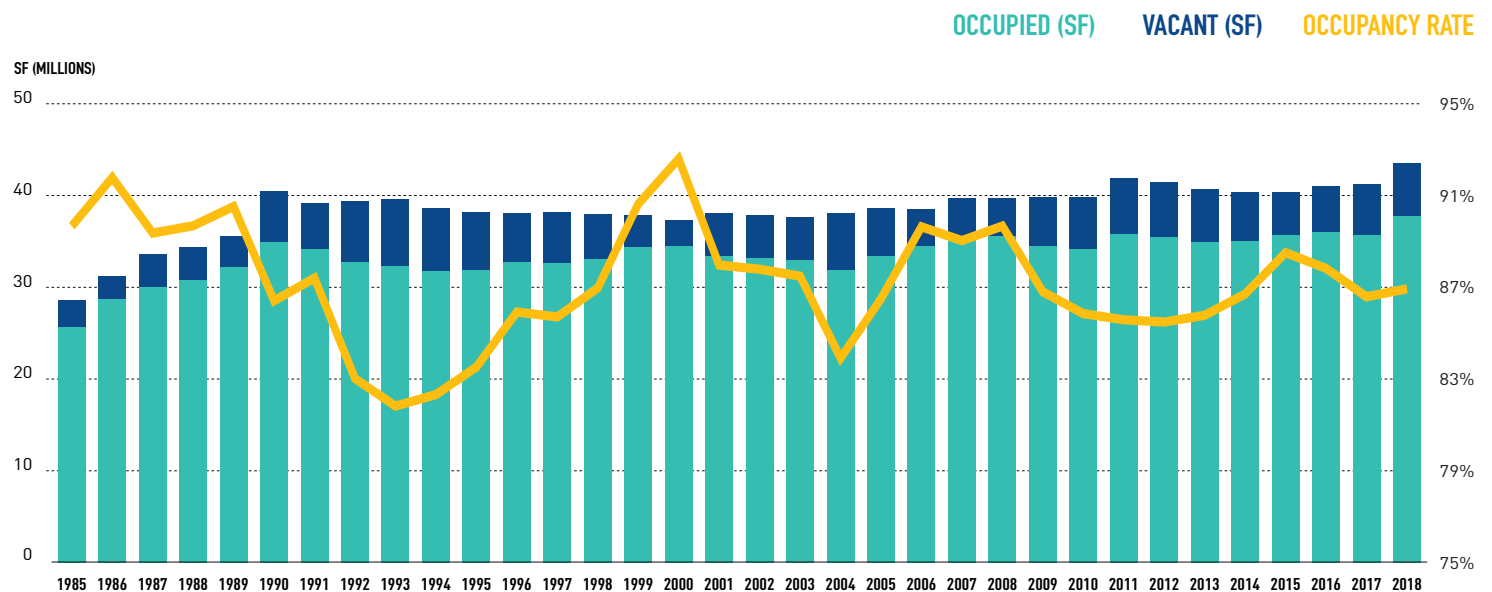
Center City is at an important inflection point. A thriving, live-work downtown, rich with amenities, is home to a highly skilled workforce, easily connected by transit to the entire region and just 15 minutes from an international airport. Despite these advantages, Philadelphia’s reliance on a manufacturing age tax structure that taxes heavily what most easily moves – salaries and business revenues – has constrained growth. Nationally the CBD rent premium over suburban rates is 27%, rising to 130% in Boston and 75% in Washington, D.C. Center City rents are just 16% higher than the surrounding suburban submarkets. A 21st-century tax policy can facilitate 21st-century growth, expanding opportunity for all residents.

MAJOR CENTER CITY OFFICE SUBMARKETS

	TOTAL INVENTORY (SF)	VACANT (SF)	OCCUPANCY RATE	2017 ABSORPTION (SF)	AVERAGE ASKING RENT (PSF)
West Market	27,731,953	3,487,854	87.4%	-187,858	\$33.84
East Market	6,531,084	816,579	87.5%	-199,046	\$30.72
Independence Square	5,337,684	653,577	87.8%	226,716	\$30.47
Walnut/South Broad	3,890,064	730,672	81.2%	225,239	\$28.73
CENTER CITY TOTAL	43,490,785	5,688,682	86.9%	65,051	\$32.35

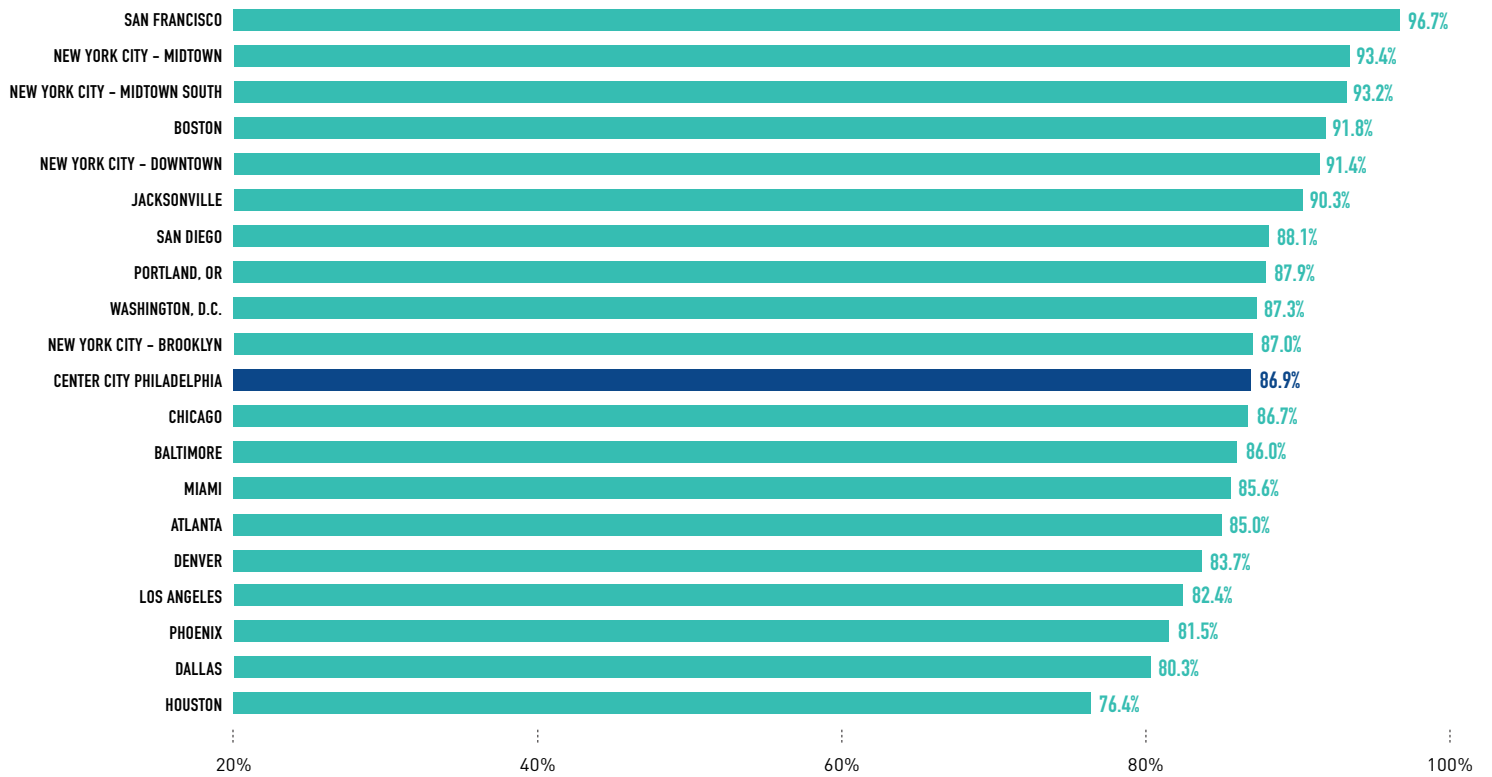
Source: Newmark Knight Frank

CENTER CITY PHILADELPHIA OFFICE MARKET, 1985–2018



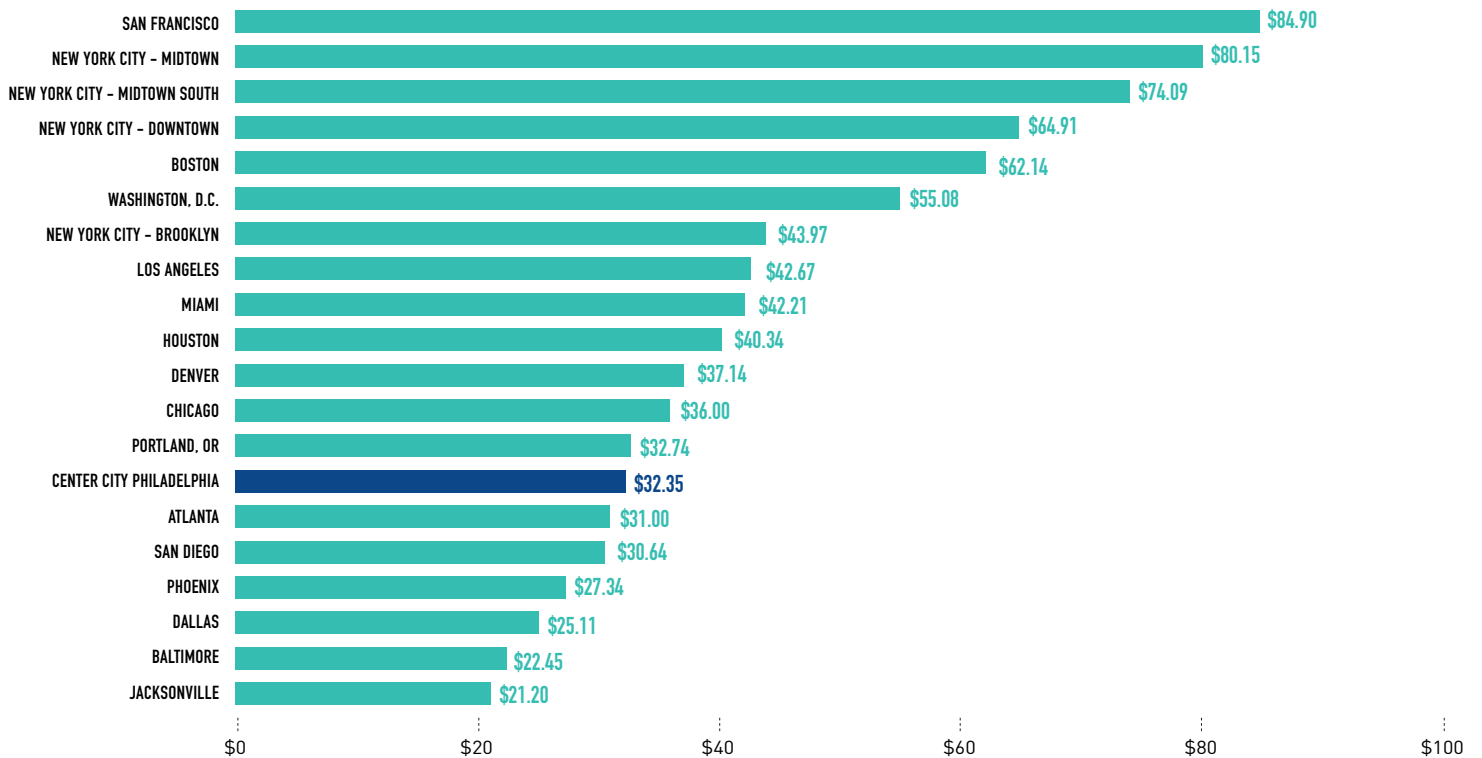
Source: Newmark Knight Frank

CENTRAL BUSINESS DISTRICT OCCUPANCY, 2018



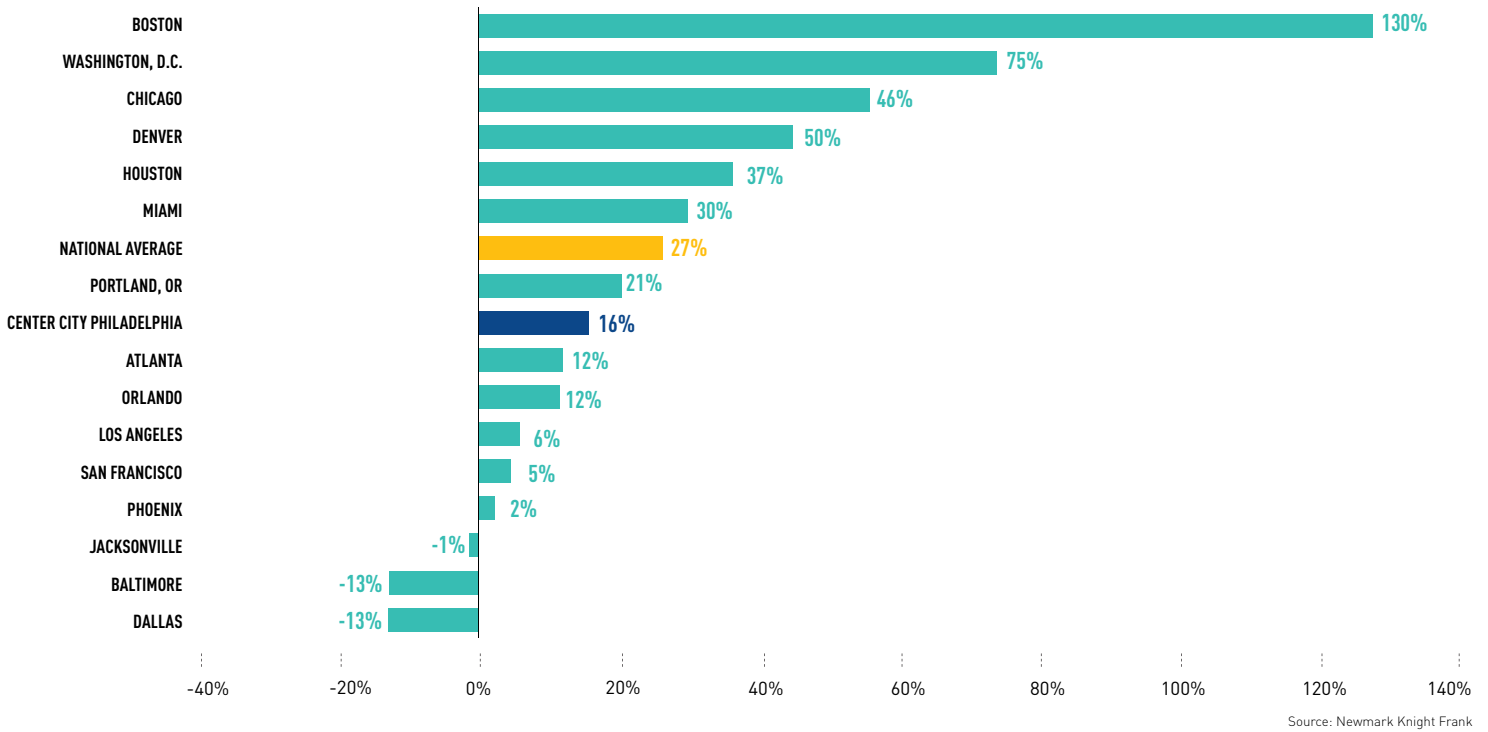
Source: Newmark Knight Frank

CENTRAL BUSINESS DISTRICT ASKING RENTS, 2018



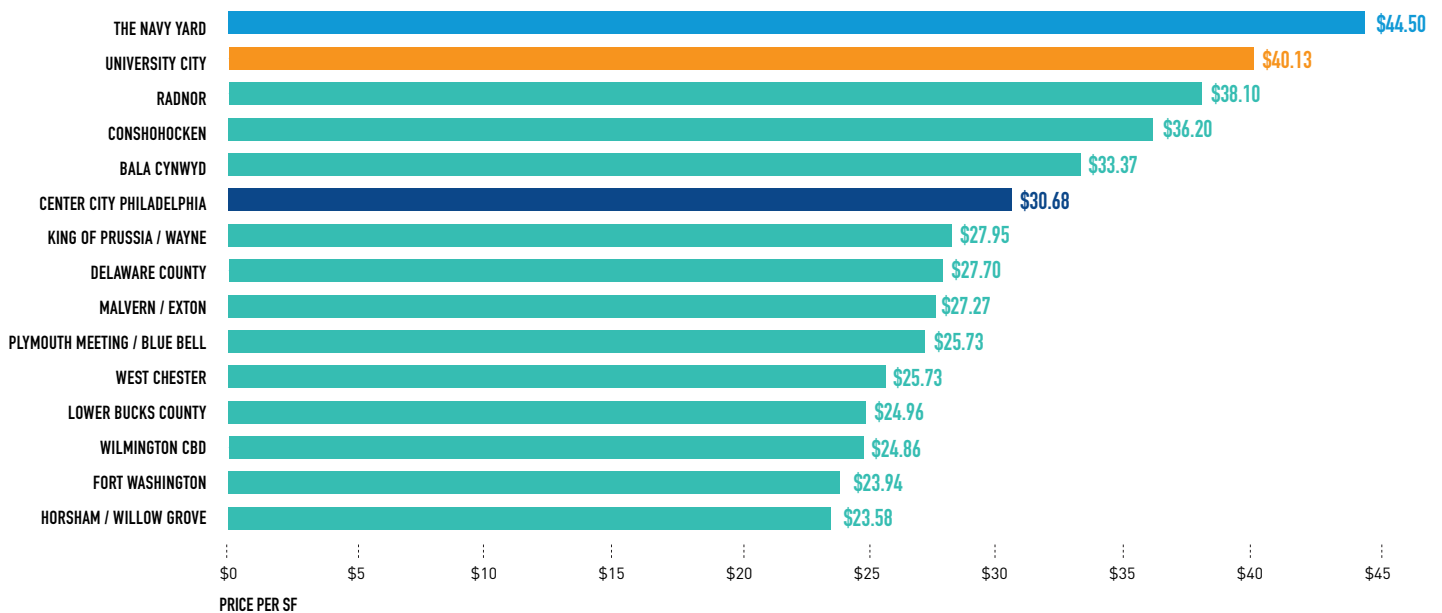
Source: Newmark Knight Frank

CLASS A RENTS, CENTRAL BUSINESS DISTRICT COMPARED TO SUBURBS



NATIONALLY, CENTRAL BUSINESS DISTRICTS COMMAND RENTS 27% HIGHER THAN THEIR SURROUNDING SUBURBS. IN CENTER CITY, THE PREMIUM IS 16%

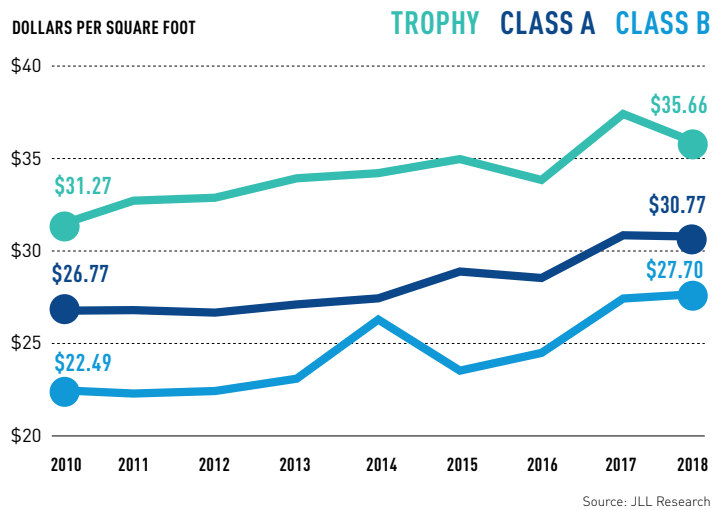
REGIONAL AVERAGE ASKING RENTS, 2018



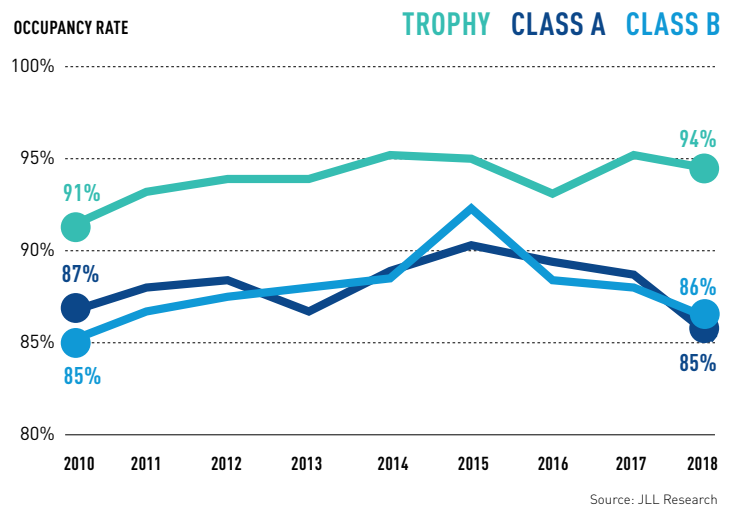
*Center City rent figure above is from JLL Research and differs from the Newmark Knight Frank figure shown elsewhere owing to differences in inventory tracked and methodology employed

Source: JLL Research

CENTER CITY AVERAGE ASKING RENT



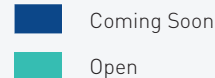
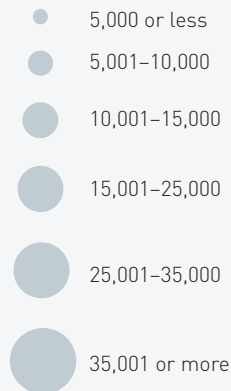
CENTER CITY OCCUPANCY RATE BY CLASS



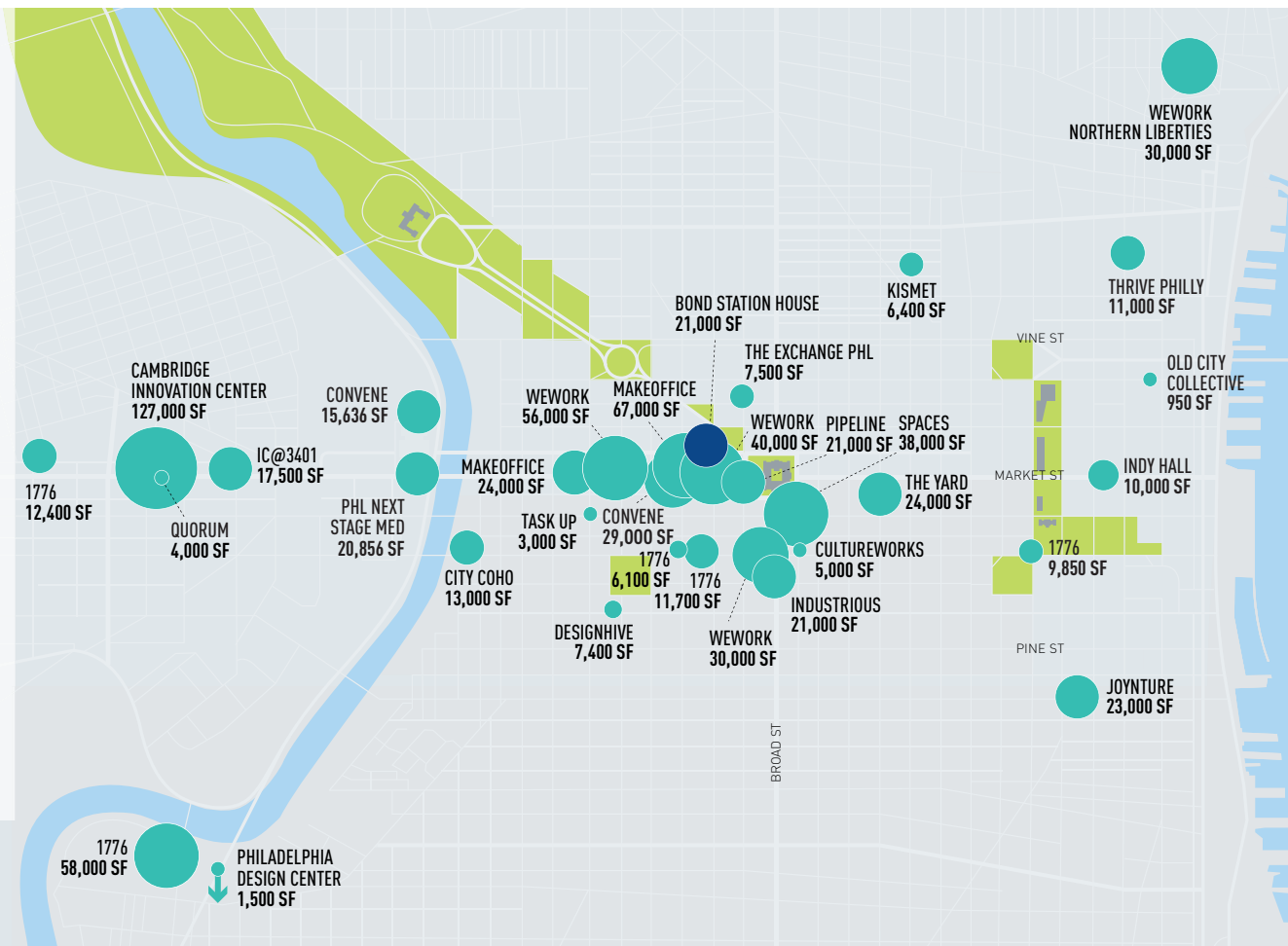
IN CENTER CITY, COWORKING SPACE OCCUPIES **510,000 SQUARE FEET**; ADDING UNIVERSITY CITY AND ADJACENT AREAS, THE NUMBER GROWS TO **772,792 SQUARE FEET**

COWORKING OFFICE SPACE

SQUARE FEET:



Source: Center City District, JLL Research



SIGNIFICANT OFFICE LEASING TRANSACTIONS IN CENTER CITY, 2018

MARKET WEST				
Tenant	Building	Class	Size (SF)	Type
Reliance Standard	1700 Market	A	151,881	Relocation with expansion
Willis Towers Watson	1735 Market	Trophy	97,448	Relocation with contraction
Deloitte	1700 Market	A	90,000	Renewal with contraction
Wells Fargo	Two Logan Square	Trophy	84,588	Relocation with contraction
Entercom Communications	2400 Market	A	67,000	New to market
PHMCC	1601 Market	A	51,720	Relocation
Aberdeen Asset Management	1900 Market	A	50,482	Relocation
Spaces (coworking)	1626 Locust	B	48,069	Expansion in market
PREIT	One Commerce Square	Trophy	45,000	Relocation
Marcum	1601 Market	A	37,792	Relocation
Clark Hill	2001 Market	Trophy	34,000	Relocation
Zarwin Baum	2005 Market	Trophy	33,572	Relocation
Greenberg Traurig	2005 Market	Trophy	30,000	Relocation
Simon & Simon	1818 Market	A	30,000	Relocation
Bennett Bricklin & Saltzburg	Centre Square	A	29,000	Relocation
Heffler Radetich & Saitta	1515 Market	A	25,000	Renewal
Market Resources Partners	1818 Market	A	25,000	Relocation
Braskem America	1735 Market	Trophy	22,638	Expansion
Deasey Mahoney & Valentini	1601 Market	A	20,186	Renewal
Biblical Theological Seminary	2000 Hamilton	B	19,693	New to market
Swartz Campbell	One Liberty Place	Trophy	17,000	Relocation
MARKET EAST				
Tenant	Building	Class	Size (SF)	Type
Macquarie Group	100 Independence	A	144,221	Relocation
American Board of Internal Medicine	The Washington (510-530 Walnut)	A	102,978	Renewal
Ballinger	833 Chestnut	B	48,000	Renewal
MakeOffices	The Bourse	B	33,360	Expansion in market
Nelson Architects	100 Independence	A	29,416	Relocation
Neumann Finance	123 S Broad	B	21,695	New to market
IRM	Public Ledger Building	B	17,862	Relocation

Source: JLL Research



3 OF THE 28 MAJOR LEASE TRANSACTIONS IN 2018 INVOLVE TENANTS NEW TO THE MARKET; 4 INVOLVE EXPANSION BY EXISTING TENANTS

CENTRAL BUSINESS DISTRICT OFFICE CONSTRUCTION, 2018

MARKET	COMPLETED SF	% OF NATIONAL COMPLETED SF	IN PROGRESS SF	% OF NATIONAL IN PROGRESS SF
New York City (All CBDs)	5,881,406	26%	16,941,487	31%
San Francisco	3,083,015	13%	2,071,500	4%
Washington, D.C.	2,825,179	12%	4,114,174	8%
Chicago	2,087,508	9%	5,205,738	9%
Denver	1,401,865	6%	1,108,246	2%
Center City Philadelphia	1,321,921*	6%	0	0%
Portland	1,119,944	5%	574,705	1%
Raleigh/Durham	932,543	4%	379,297	1%
Atlanta	843,149	4%	1,996,137	4%
Boston	790,000	3%	1,631,000	3%
All Other CBDs	2,583,953	11%	20,808,141	38%
NATIONAL CBD TOTAL	22,870,483	100%	54,830,425	100%

*Does not include the renovation of 2400 Market Street (615,000 sf)

Source: Cushman & Wakefield

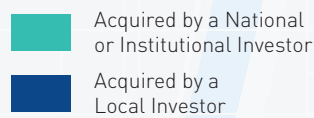
OUTSIDE INVESTORS ARE FINDING VALUE IN CENTER CITY BUILDINGS AND INVESTING IN AMENITIES TO POSITION THEM FOR GROWTH

CENTER CITY OFFICE BUILDING ACQUISITIONS, 2018

SQUARE FEET:



STATUS:



Source: Cushman & Wakefield

