



Cezen O'Connor | Matt Stanley

# OFFICE

Center City's 41.2 million square feet (sf) of commercial office space is the backbone of the downtown economy. Well-served by transit, office buildings hold the densest concentration of employment opportunities in the region, providing 40% of downtown jobs and the most diverse opportunities: high-skilled positions requiring at least a college degree, technical, support and clerical jobs, as well as building engineers and managers, security personnel and custodians. Every time tenants turn over, construction trades are called on to renovate space. Office workers spend time and money in downtown shops, restaurants, and entertainment venues, creating \$230 million in annual retail demand. Business travelers accounted for almost one-third of all hotel room nights in 2017.

Center City's office occupancy rate slightly decreased from 87.8% in 2016 to 86.6% in 2017, though still surpassing suburban occupancy levels of 85.3%. Trophy occupancy was highest at 95%, followed by Class A and B at 89% and 88%, respectively. Though average asking rents rose to \$30.59/sf from \$29.60/sf, this is still far lower than the leading markets nationally — almost a third less of asking rents in Midtown Manhattan (\$80.15), and nearly half of asking rates in Boston

(\$56.64) and Washington, D.C. (\$54.83). In Center City, the West Market Street submarket commands the highest rents at an average of \$31.78/sf, with Independence Square following closely behind at \$31.27/sf. The submarkets east of Broad saw the highest rate appreciations in 2017, as older office buildings have been repositioned and the historic westward migration of tenants has been counter-balanced by a broader resurgence of the east side of downtown.

Co-working spaces are continuing to grow in Center City, but at a slower rate than previous years, accounting for 2.8% of all leasing activity in 2017. A total of 24 co-working locations occupy 502,000 sf of space with an additional 209,000 sf under construction. Despite the perception that co-working spaces are filled with young entrepreneurs and startups, many large companies are using co-working spaces downtown to test the market.

But most leasing activity in 2017 followed Center City's historic pattern of renewals and in-market movement. The largest leasing transaction came from Thomas Jefferson University. Capitalizing on the large block of space being vacated by Aramark's impending move to 2400 Market, the medical

institution signed a 230,000 sf lease on East Market Street. Their move reinforces the redevelopment of The Gallery into Fashion District Philadelphia and the development of the former Girard Estate parcel across the street into a mixed-use residential, office and retail center. The First Judicial District of Pennsylvania, Philadelphia's local court system, also secured 120,000 sf of space in the Sovereign Building at 714 Market St., placing its offices adjacent to the federal courthouse complex on Market Street.

Inbound office tenants accounted for 16% of all leasing activity between 2015 and 2017, as 1.2 million sf of space was taken by tenants migrating downtown from outside the city limits, according to JLL. While some relocations have been large, most newcomers into the Philadelphia market leased small or gateway spaces to attract young, educated workers who live in Greater Center City and who may be reluctant to commute to the suburbs for a job. A prime example was the announcement in 2017 that Malvern-based Vanguard Group is opening a 16,000-sf innovation center at 2300 Chestnut St.

Investor demand for office buildings continues to grow in Philadelphia's relatively affordable market, especially from national and global firms. A total of 4.7 million sf of office space, representing \$830 million in transactions, exchanged hands in 2017. Notable sales included: Oaktree Capital Management's purchase of United Plaza from CBRE Global Investors; Rubenstein's partial acquisition of the Wanamaker Building from TIER REIT; Washington, D.C.-based MRP Realty's purchase of Three Parkway also from TIER REIT; New York-based Nightingale Properties' acquisition of Centre Square from Equity Commonwealth; and Alterra Property Group's purchase of One City Plaza, with the likely conversion to residential.

With the repositioning of recently acquired buildings, developers are looking to differentiate their product within the marketplace by investing heavily in amenities, including state-of-the-art meeting space, as well as new ground floor retail tenants that younger office workers like to patronize.

Center City's largest development, Liberty Property Trust's Comcast Technology Center, will add 1.3 million sf of trophy space to Center City upon completion in 2018. PMC Property Group's 2400 Market will house Aramark's relocated headquarters and several other tenants, adding 485,000 sf of office space and narrowing the gap between Center City and University City. Still on the drawing boards is Oliver Tyrone Pulver Corp.'s proposed 1301 Market that will add 840,000 sf of office along East Market, if constructed.

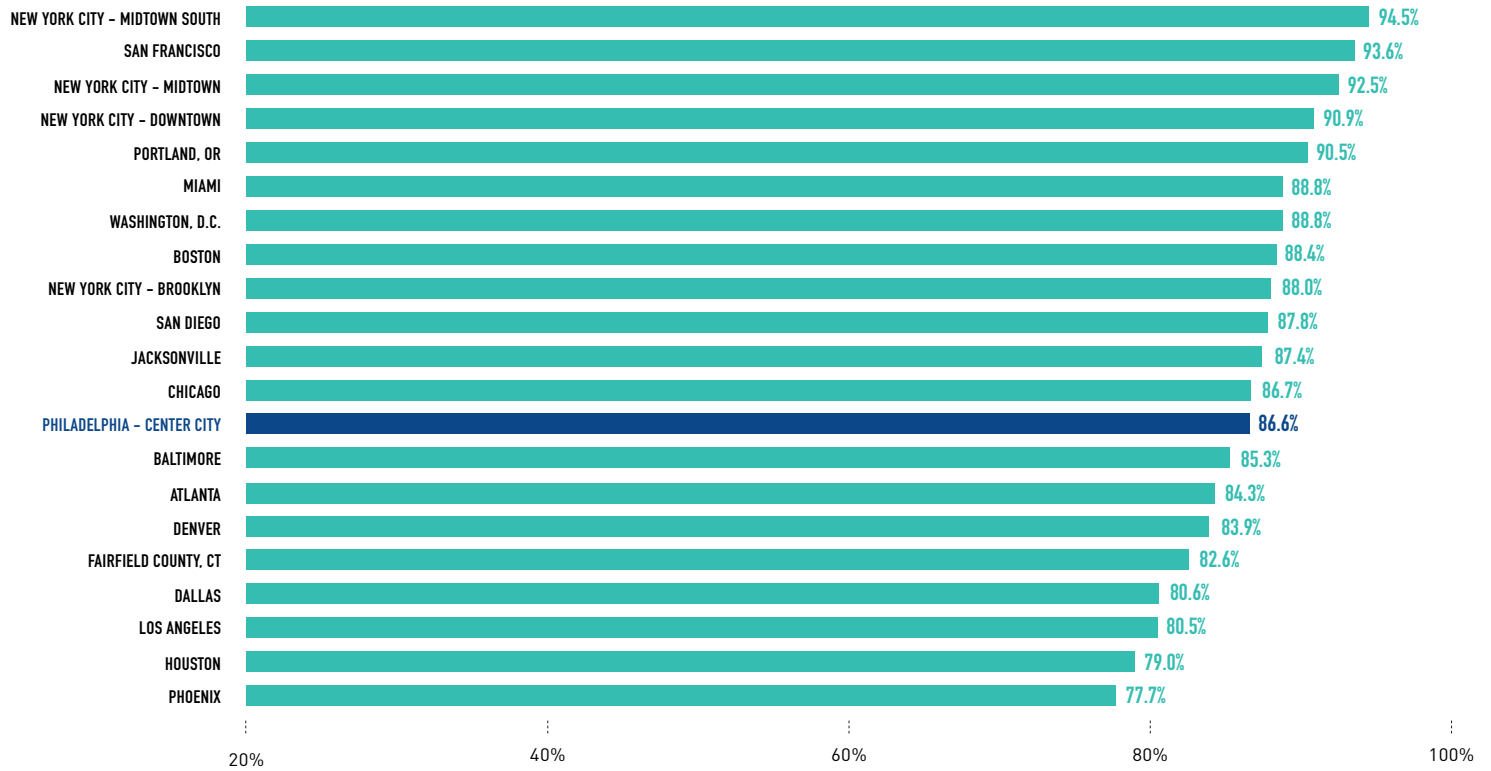
Despite these positive trends, Center City's office sector continues to lag compared to other peer markets. A simple measure of success is the premium that businesses are willing to pay to be in the employee- and amenity-rich CBD, as opposed to the suburbs. A sampling of major CBD markets nationwide by Newmark Grubb Knight Frank showed an average CBD premium of 25% in 2017 — rising to 112% in Boston and 74% in Washington, D.C. In Philadelphia, the premium on downtown space was just 10%, comparable to many sprawling Sun Belt metros. These lower rent premiums are a result of the impact on occupancy costs of Philadelphia's wage, business and use and occupancy taxes, which can easily add a 20% to 30% premium on downtown costs. More robust growth will occur only when Philadelphia updates its tax structure to 21st century realities.

## MAJOR CENTER CITY OFFICE SUBMARKETS

	TOTAL INVENTORY (SF)	VACANT (SF)	OCCUPANCY RATE	2017 ABSORPTION (SF)	AVERAGE ASKING RENT (PSF)
West Market	25,782,472	3,300,156	87.2%	-287,400	\$31.78
East Market	6,502,780	559,239	91.4%	196,022	\$27.51
Independence Square	4,852,963	1,014,269	79.1%	-211,086	\$31.27
Walnut/South Broad	4,065,524	662,680	83.7%	10,316	\$26.98
<b>TOTAL</b>	<b>41,203,739</b>	<b>5,536,344</b>	<b>86.6%</b>	<b>-292,148</b>	<b>\$30.59</b>

Source: Newmark Grubb Knight Frank

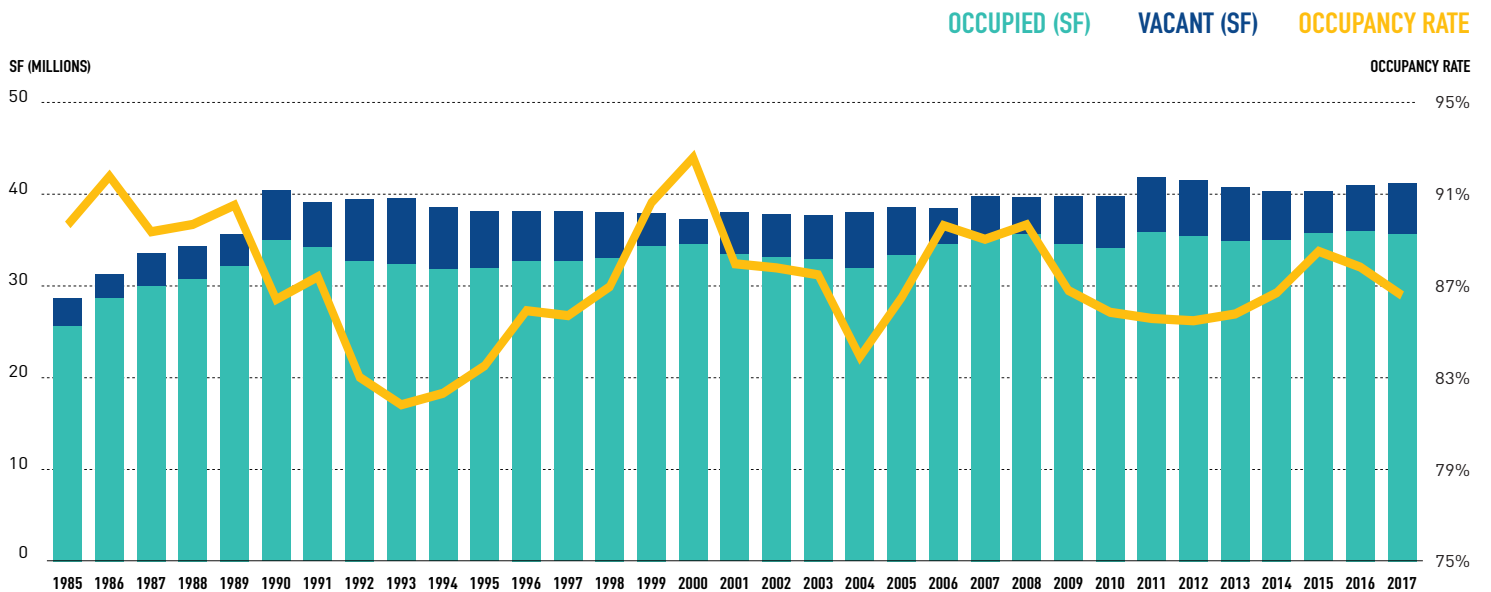
## CENTRAL BUSINESS DISTRICT OCCUPANCY, 2017



Source: Newmark Grubb Knight Frank

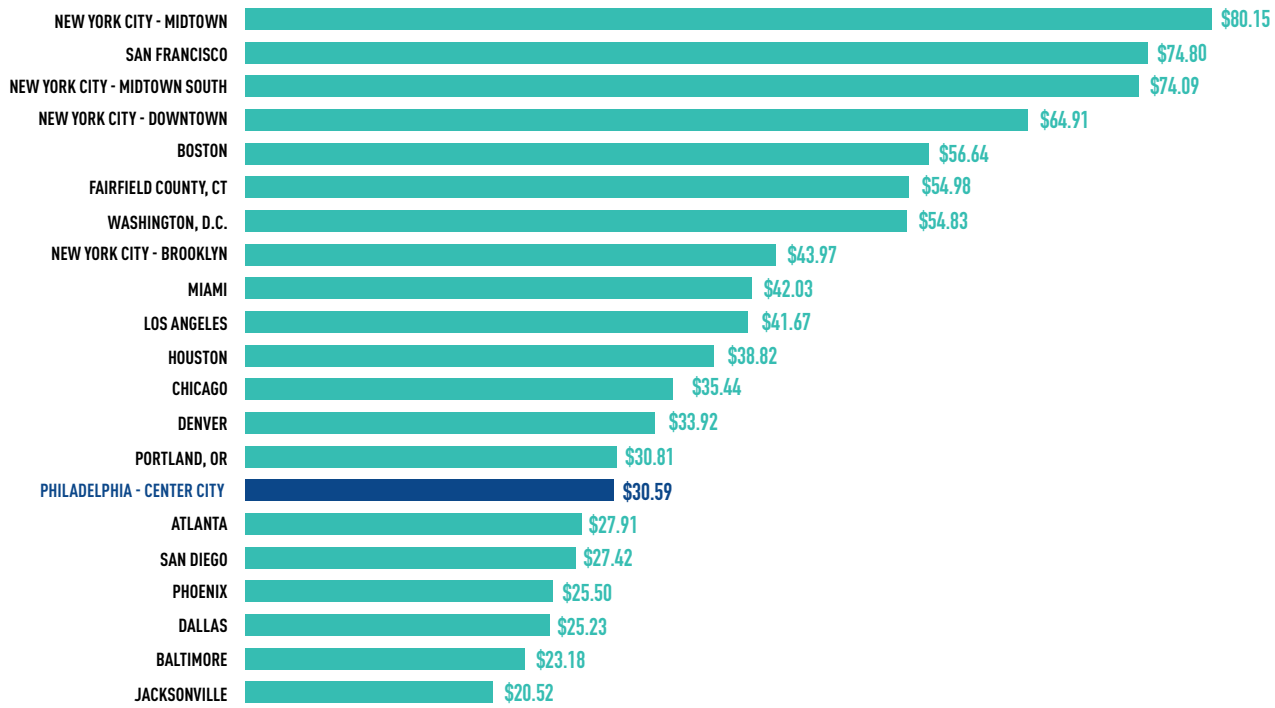
## CENTER CITY HAS THE SAME AMOUNT OF OCCUPIED OFFICE SPACE IN 2017 AS IT DID IN 1990

### CENTER CITY PHILADELPHIA OFFICE MARKET, 1985-2017



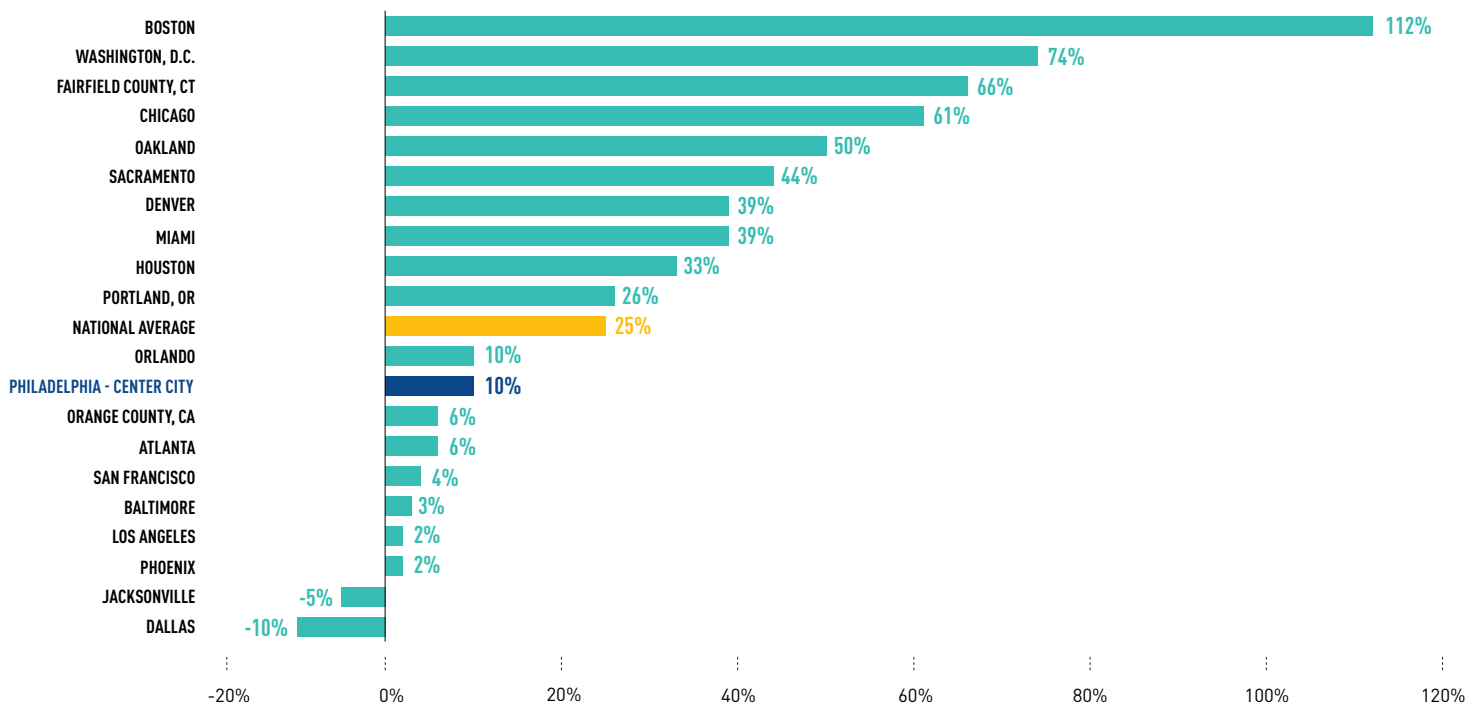
Source: Newmark Grubb Knight Frank

## COMPARATIVE CENTRAL BUSINESS DISTRICT ASKING RENTS, 2017



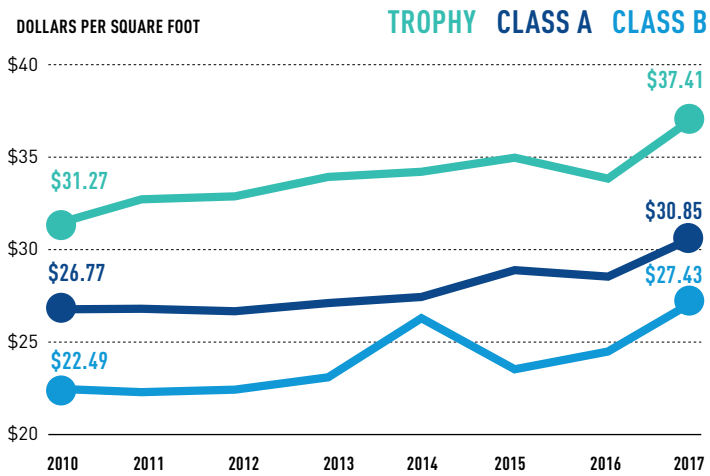
Source: Newmark Grubb Knight Frank

## DOWNTOWN PREMIUM: CENTRAL BUSINESS DISTRICT CLASS A RENTS COMPARED TO REGIONAL RENTS, 2017



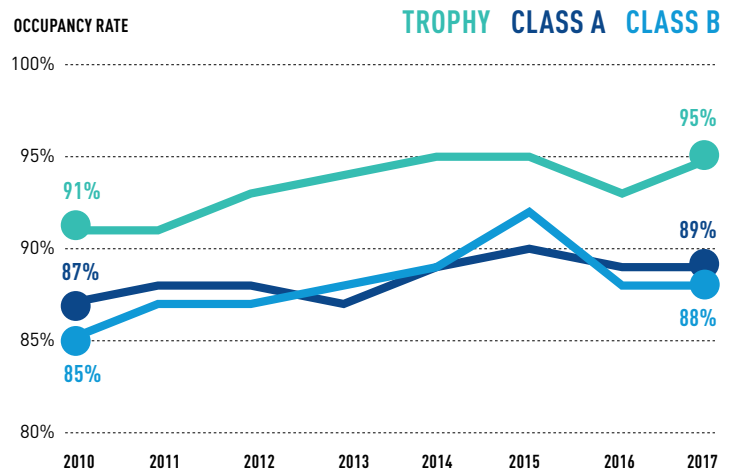
Source: Newmark Grubb Knight Frank

### CENTER CITY AVERAGE ASKING RENT



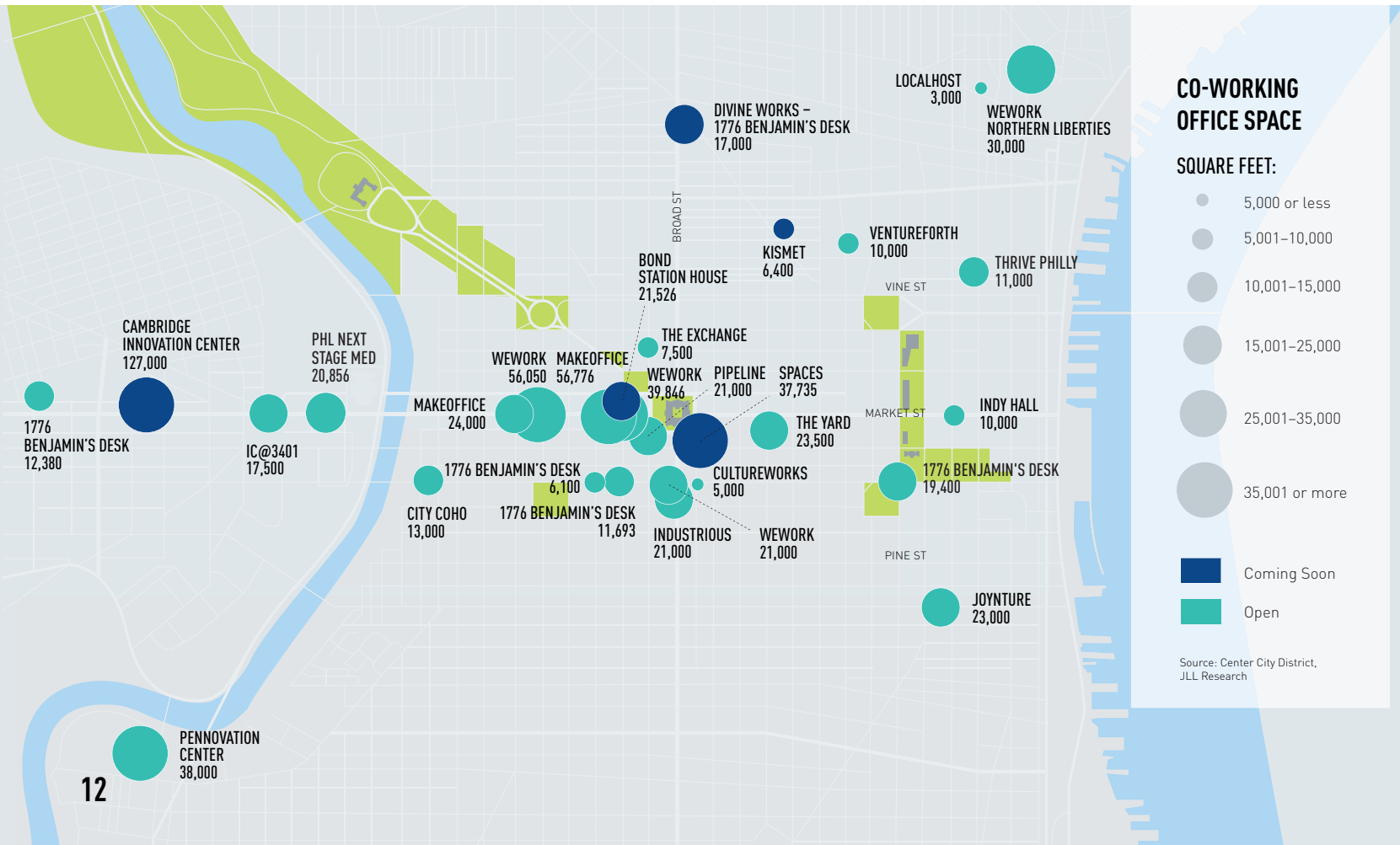
Source: JLL Research

### CENTER CITY OCCUPANCY RATE BY CLASS



Source: JLL Research

**502,000 SF** OF CO-WORKING SPACE IS PROVIDING NATIONAL AND REGIONAL FIRMS AN OPPORTUNITY TO TEST THE CENTER CITY MARKET



#### CO-WORKING OFFICE SPACE



Source: Center City District, JLL Research

## SIGNIFICANT OFFICE LEASING TRANSACTIONS IN CENTER CITY, 2017

MARKET WEST			
Tenant	Building	Class	Size (SF)
Morgan Lewis & Bockius	Ten Penn Center	A	97,198
Reed Elsevier	Four Penn Center	A	75,000
Comcast	Three Logan Square	A	70,000
Post & Schell	Four Penn Center	A	60,000
Pennoni	1900 Market Street	A	55,000
McCormick Taylor	Beneficial Bank Building	A	50,000
Braskem	BNY Mellon Center	Trophy	44,000
Pennsylvania Office of Attorney General	The Phoenix	B	33,000
Tierney	1700 Market Street	A	31,214
Jenkins Law Library	Ten Penn Center	A	30,000
LEAF Financial	One Commerce Square	A	30,000
Coalition of Cancer Cooperative Groups	Beneficial Bank Building	A	30,000
Simon & Simon	Beneficial Bank Building	A	25,000
JPMorgan Chase	One Liberty Place	Trophy	25,000
Market Resource Partners	Beneficial Bank Building	A	23,500
Bond Station House	One Penn Center at Suburban Station	B	21,526
Cozen O'Connor	One Liberty Place	A	20,000
Kleinbard	One Liberty Place	A	20,000
Brandywine Global	BNY Mellon Center	A	88,713
Hussian College	1500 Spring Garden Street	A	32,771
Pennsylvania Office of Attorney General	Centre Square	A	23,453
Magee Rehabilitation	1617 John F Kennedy Blvd	B	21,883
MARKET EAST			
Tenant	Building	Class	Size (SF)
Thomas Jefferson University	Aramark Building	A	230,000
First Judicial District of Pennsylvania (GSA)	Sovereign Building	B	120,000
Philadelphia Water Department	Aramark Building	A	22,000
EEOC	801 Market Street	B	20,588

Source: JLL Research



**16% OF ALL LEASING**  
 ACTIVITY FROM 2015 TO 2017 (1.2 MILLION SQUARE FEET)  
 WAS BY FIRMS MOVING IN FROM OUTSIDE THE CITY

## CENTRAL BUSINESS DISTRICT COMPLETIONS, 2017

CBD	COMPLETIONS	COMPLETIONS AS PERCENT OF EXISTING CBD	COMPLETIONS AS PERCENT OF NATIONAL COMPLETIONS
Seattle-Downtown	3,557,841	6.4%	20.4%
Chicago	3,473,854	2.4%	19.9%
Washington DC	1,979,552	1.6%	11.4%
Nashville	1,387,000	10.9%	8.0%
Dallas	292,237	0.8%	1.7%
Cincinnati	290,000	1.7%	1.7%
Portland-Central City	265,551	1.0%	1.5%
New York-Midtown South	178,504	0.3%	1.0%
Boston	0	0.0%	0.0%
New York-Midtown	0	0.0%	0.0%
Philadelphia - Center City	0	0.0%	0.0%
All Other Cities	5,990,646	0.8%	34.4%
<b>UNITED STATES CBD TOTALS</b>	<b>17,415,185</b>	<b>1.1%</b>	<b>100.0%</b>

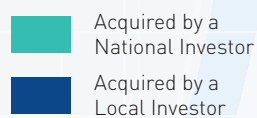
Source: JLL Research

### CENTER CITY OFFICE BUILDING ACQUISITIONS, 2017

#### SQUARE FEET:



#### STATUS:



\*Purchased by Philadelphia-based national investment company.

Source: JLL Research

