Newmark Grubb
Knight Frank

Press Contact:
Marlene K. Sahms
610.755.6930
msahms@ngkf.com

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Growth Starts to Level Out in the Philadelphia Metro

Philadelphia, PA (January 24, 2017) — Newmark Grubb Knight Frank (NGKF) released its fourth quarter 2016 office reports for the greater Philadelphia region. The reports detail tightened vacancy in the suburban markets and a vacancy uptick in the Philadelphia Central Business District (CBD). Rent growth surged in the CBD and was moderate across the suburban markets. Tenants were drawn to premium space, but activity in Class B product increased with certain tenants looking for more unique spaces in older buildings. The overall greater Philadelphia region closed 2016 with 1.3 million square feet in new occupancy gains.

Philadelphia's CBD posted 229,989 square feet in positive absorption for 2016, though occupancy gains were 600,000 square feet less when compared against 2015's total. The delivery of the FMC Tower and downsizing by tenants such as CIGNA and Wells Fargo, pushed the vacancy rate up 60 basis points, year-over-year, to 11.5 percent. During the quarter, Five Below announced that it would move its headquarters from 60,000 square feet at 1818 Market Street to 195,000 square feet at 701 Market Street, which includes a retail component as well. Wayne Fisher, NGKF executive managing director, noted, "The CBD will continue to experience slow, but positive growth as we move into 2017. Rent increases will deaccelerate with the exception of trophy-quality product which has less available inventory. New inventory coming on line in late 2017 and into 2018 will put upward pressure on vacancy."

Office vacancy in the Philadelphia suburbs moved towards pre-recession levels with the overall vacancy rate declining 90 basis points, year-over-year, to 15.9 percent. Absorption posted 676,200 square feet in new occupancy gains for 2016, the majority of which occurred in class A properties, said Jeff Mack, NGKF executive managing director, on the need for more blocks of class A space. "With fewer and fewer blocks of premium space on the market, there will be select new office construction breaking ground in the coming year. In addition, landlords of class B properties will renovate to bring those buildings up to class A-standards, including amenity packages." In the suburbs, class A vacancy declined for the 11th consecutive quarter in a row with rental upticks in submarkets further out from the Philadelphia CBD, such as Horsham/Willow Grove and King of Prussia.

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Rental rates in the Southern New Jersey market started to level off in the fourth quarter. Higher-priced blocks of space in class A inventory were removed from the market causing the class A average direct rental rate to dip $0.43 in the third quarter to $24.90 per square foot. The Southern New Jersey market's vacancy rate abated for the third consecutive quarter in a row to end the year at 15.9 percent. The Southern New Jersey market posted 107,557 square feet in positive absorption for the quarter and 224,622 square feet in occupancy gains for the year. Anne Klein, NGKF executive managing director, observed, "Vacancy will continue to tighten throughout 2017, but, the market will need to prepare itself for the return of large blocks of space in 2018 with the consolidations of Subaru and American Water to the Camden waterfront." In December, Liberty Property Trust announced that it received the final land rights and government approvals for its redevelopment of the waterfront and would commence with the construction of American Waters' new headquarters in Camden.

Year-to-date absorption for the Wilmington metro market totaled 189,546 square feet for 2016, propelled by activity in the Wilmington North and South submarkets. Neal Dangello, NGKF senior managing director, asserted "DuPont's merger with Dow remains a shadow over the Wilmington CBD market. The suburban submarkets will remain a center of tenant activity in the upcoming year." Market momentum in the Wilmington CBD stagnated in 2016 with negative 37,402 square feet of absorption recorded for the year.

About Newmark Grubb Knight Frank

Newmark Grubb Knight Frank (NGKF) is one of the world's leading commercial real estate advisory firms. Together with London-based partner Knight Frank and independently-owned offices, NGKF's 14,100 professionals operate from more than 400 offices in established and emerging property markets on six continents.

With roots dating back to 1929, NGKF's strong foundation makes it one of the most trusted names in commercial real estate. NGKF's full-service platform comprises BGC's real estate services segment, offering commercial real estate tenants, landlords, investors and developers a wide range of services including leasing; capital markets services, including investment sales, debt placement, appraisal, and valuation services; commercial mortgage brokerage services; as well as corporate advisory services, consulting, project and development management, and property and corporate facilities management services. For further information, visit www.ngkf.com.

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