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Vacancy Remains at High Levels in the Philadelphia Central Business District

Philadelphia, PA (October 4, 2017) — Newmark Knight Frank (NKF) has released its third quarter 2017 office reports for the greater Philadelphia region. The reports detail how downsizing by tenants within the Philadelphia Central Business District (CBD), and fewer regional companies relocating to the CBD this year, kept vacancy at high levels. Market fundamentals weakened in both the Southern New Jersey and Delaware office markets, but Suburban Philadelphia continues to record gains in occupancy.

The CBD recorded its highest level of vacancy since the third quarter of 2014, closing the third quarter of 2017 at 13.7 percent. Tenants such as PNC, Wells Fargo and Verizon continued to downsize in the CBD. Downtown has been slow to absorb these large blocks of vacant space. Wayne Fisher, NKF executive managing director relates, “The number of tenants relocating from the suburbs to downtown has dwindled. Also, a decline in leasing activity by co-working firms and Comcast have failed to move space off of the market so far this year.” Year-over-year, Class A vacancy increased 250 basis points to 13.1 percent; over the same time period, the average direct rental rate for Class A space declined by $0.31 per square foot to $32.78 per square foot.

Suburban Philadelphia reported 314,472 square feet in positive absorption year-to-date. Year-over-year, vacancy declined by 40 basis points to 15.1 percent while rents increased across all building classes. Prime space became available in the desired Radnor/Main Line and Bala Cynwyd submarkets, which are in close distance to the CBD. However, the King of Prussia submarket recorded 105,363 square feet of positive quarterly absorption as it continued to attract tenants with its lower rents and a growing live/work/play environment. Two suburban properties started renovations, but there is no speculative space under construction. Jeff Mack, NKF executive managing director noted, “Continued focus will be on upgrading existing properties with new finishes and amenities desired by the growing millennial workforce. If new construction breaks ground, it will only do so with a signed anchor tenant.”

The Southern New Jersey market recorded negative 114,679 square feet in year-to-date absorption. Vacancy ticked up 20 basis points from the second quarter to 15.9 percent but is down 60 basis points from one year ago. Anne Klein, NKF executive managing director commented, “Southern New Jersey remains relatively stable as a few headquarters prepare for relocation to Camden. Landlords do not seem to be dropping rates or adding many more concessions due to concerns of future vacancies and the market, in general, still has time to prepare for what could be several hundred thousand square feet of anticipated giveback space.”

Freedom Mortgage expanded its presence in the Marlton submarket when it purchased the 88,793-square-foot 40 Lake Center Drive, part of Lake Center Executive Park, for $9.25 million. Last July, Freedom Mortgage purchased neighboring 20 Lake Center Drive (40,000 square feet) and now occupies the entire property. It will gradually move into 40 Lake Center Drive over the next few years. NKF represented both sides of the transaction.

Overall vacancy in the Wilmington Central Business District (CBD) and suburbs rose 30 basis points, quarter-over-quarter, to 16.1 percent. Over 105,000 square feet of class A space was vacated in the Wilmington West submarket when CSC consolidated into its new, owned headquarters, also located in Wilmington West. The quarter recorded rent growth within suburban class B properties. Rents softened along with leasing activity for class A and B properties in the CBD. Despite weakening market fundamentals, Wills Elliman, NKF senior managing director, feels bullish about the city's future noting, "There is ongoing commercial, hospitality, and residential development within the CBD. The renovation of the former DuPont office building is underway, signage for the Residences by Marriot went up in late September and Buccini/Pollin's Residences at Mid-Town Park will add more luxury units and retail space in 2018. I'm hopeful that where the workers go, the employers will follow. Investors are taking notice. MBNA's former headquarters, Bracebridge I and Bracebridge III, are under contract to a buyer from outside of the market."

About Newmark Knight Frank

Newmark Knight Frank (NKF) is one of the world's leading commercial real estate advisory firms. Together with London-based partner Knight Frank and independently-owned offices, NKF's 15,000 professionals operate from more than 400 offices in established and emerging property markets on six continents.

With roots dating back to 1929, NKF's strong foundation makes it one of the most trusted names in commercial real estate. NKF'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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