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## **Activity in the Philadelphia CBD Picks up in the Fourth Quarter**

**Philadelphia, PA (January 19, 2018)** — Newmark Knight Frank (NKF) released its fourth quarter 2017 office reports for the greater Philadelphia region. The reports detail how the Philadelphia Central Business District (CBD) reported positive absorption in the fourth quarter, after downsizing and fewer tenants relocating from outside the market kept CBD vacancy at high levels for most of the year. Suburban Philadelphia performed strongly in 2017, but market fundamentals weakened in both the Southern New Jersey and Delaware office markets.

Year-over-year, the CBD reported a 160 basis point increase in vacancy, which closed the fourth quarter at 13.1 percent. The large blocks of space returned to the market were a result of tenants reworking their floorplans to be more efficient. Over the past twelve months, PNC, Verizon and Deloitte gave back space in the CBD. In addition, the Children's Hospital of Philadelphia vacated 226,000 square feet at 3535 Market Street, but only to relocate to an owned property across the river.

The amount of Class A space returned to the market pushed Class A vacancy up 230 basis points from the fourth quarter of 2016 to 12.5 percent. While providing more options for tenants seeking premium space, it slowed rent growth for non-trophy Class A properties in the second half of 2017. Sid Smith, NKF executive managing director, said, "The economy is strong and after a brief pause in activity, there has been an increase in interest from tenants wishing to relocate from outside of the market to the CBD."

Suburban Philadelphia reported 561,772 square feet in positive absorption for 2017, slightly higher than 2016's total. Fourth quarter's vacancy, at 14.7 percent, was the lowest level recorded since the third quarter of 2007. Most of the occupancy gains were centered in the northern suburban submarkets, which absorbed 451,775 square feet for the year assisted by Cenlar FSB's move to nearly 106,000 square feet at 780 Township Line Road, Ashfield Healthcare's occupancy of 82,000 square feet and AON PLC's relocation to 77,000 square feet, both at 1100 Virginia Drive.

Despite healthy leasing activity, rent growth slowed slightly in the second half of 2017 as landlords tried to move larger blocks of space off the market. There is optimism that market fundamentals in 2018 will be strong. "Absorption will hold steady in 2018", Reid Blynn, NKF executive managing director notes. "The market could see Class A rents break the \$40 per square foot mark for premium space, as landlord's gain negotiating leverage."

Quarter-over-quarter, vacancy fell 50 basis points in the Southern New Jersey market to 15.3 percent. Vacancy is also slightly down from the fourth quarter of 2016. After two quarters of negative or barely positive absorption, the last three months of the year reported 81,763 square feet in occupancy gains. During the fourth quarter, Jefferson Health occupied 26,250 square feet at 400 Laurel Oak Road, Jet Brains moved into 4,124 square feet at 10 Lake Center Drive and Comax Manufacturing took 3,598 square feet at 12 East Stow Road.

Subaru's new headquarters on the Camden waterfront delivered in the fourth quarter. There is concern about the impact on vacancy in the surrounding submarkets when Subaru consolidates to its new building in spring of 2018 and American Water consolidates to its new Camden headquarters at the end of 2018. Said Anne Klein, NKF executive managing director, "Although the new Camden office park developments, along with NJ Grow state incentives, are luring office users a few miles down the road, not all of the potential half a million square feet of new vacancy may be dumped on the market. The lead time we have to backfill space, in addition to the expansion of other existing office users and the repurposing of certain buildings, may help to limit the increase in vacancy over the next few years."

The Wilmington metro office market posted a second consecutive quarter of negative absorption (46,300 square feet) and recorded only 2,361 square feet in occupancy gains for the year. According to Wills Elliman, NKF senior managing director, "The Delaware market faces the unenviable position of having both weak demand for and an oversupply of quality properties." Year-over-year, overall vacancy increased 10 basis points to 16.3 percent mostly due to rising availability in the Class A market. Class A vacancy rose 80 basis points over the past twelve months to 16.3 percent.

There was good news for the Wilmington metro market in the fourth quarter when Sallie Mae leased 57,756 square feet at 84-90 Christiana Road and the United States Attorney's Office signed a lease for 35,573 square feet at 1313 North Market Street. Despite weakening market fundamentals, the Wilmington CBD was home to two of 2017's largest deals in the region: Capital One's renewal and expansion of 330,000 square feet at 800 and 802 Delaware Avenue, and the Chemours sale and leaseback of 256,000 square feet at the DuPont Building.

### **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, corporate advisory services, consulting, project and development management, property and corporate facilities management services, valuation and advisory services, and capital markets services provided through its NKF Capital Markets brand. For further information, visit [www.ngkf.com](http://www.ngkf.com).

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