

FOR IMMEDIATE RELEASE

Comcast Technology Center Opens

Philadelphia, PA (July 24, 2018) — Newmark Knight Frank (NKF) released its second-quarter 2018 office reports for the greater Philadelphia region. The reports detail no slowdown in activity for Southeastern Pennsylvania, while the delivery of the Comcast Technology Center results in the Philadelphia Central Business District (CBD) recording over 1.0 million square feet of positive absorption. Both Delaware's suburban submarkets and the Southern New Jersey market struggle with rising vacancy.

Southeastern Pennsylvania recorded 709,719 square feet of positive absorption for the first half of the year and surpassed 2017's year-end absorption by 148,000 square feet. Overall vacancy decreased 60 basis points quarter-over-quarter to 14.0 percent. USSC Group's expansion into 300,000-square-foot at 101 Gordon Drive, located in the Exton/Malvern submarket, accounted for most of the quarter's 355,000 square feet of absorption. On the downside, some suburban tenants decided to shed excess space, which pushed year-over-year sublease availability up 10 basis points to 2.0 percent. In the Fort Washington submarket, T-Mobile relocated and downsized from 45,000 square feet at 500 Virginia Drive to 24,112 square feet at 475 Virginia Drive. Transamerica, located in the Exton/Malvern submarket, outsourced a number of business line jobs to a third-party provider, downsizing from 90,300 square feet at 300 Eagleview Boulevard to 9,500 square feet at 350 Eagleview Boulevard.

During the second quarter, pharmaceutical distributor AmerisourceBergen announced that it planned to keep its headquarters in Conshohocken. It received board approval to consolidate its headquarters to a proposed 400,000-square-foot tower located at SORA West.

Rents continued to rise in Southeastern Pennsylvania. The overall average direct rental rate increased by \$0.28, quarter-over-quarter, to \$26.75 per square foot. Over the past twelve months, the Class A average direct asking rental rate climbed \$0.13 to \$29.93 per square foot. Over the same period the trophy class average grew \$1.81 to \$39.25 per square foot. Said Jeff Mack, NKF executive managing director, "Tenants are willing to pay premium rates for buildings offering quality amenities. This will incentivize more owners to upgrade their properties."

The Philadelphia CBD posted over 1.0 million square feet of positive absorption due to the delivery and occupancy of the 1.3-million-square-foot Comcast Technology Center. As part of the move, Comcast announced that it would vacate 200,000 square feet at Two Logan Square and lease 300,000 square feet at Three Logan Square. Additionally, the CBD contended with more sublease space coming onto the market. For example: CDI Corporation introduced 35,000 square feet at 1735 Market Street, while McCormick Taylor commenced marketing 59,000 square feet at Two Commerce Square. Despite ongoing office densification, Sid Smith, NKF executive managing director, notes, “Since most industries have completed densification efforts and more firms are leaving co-working space for long-term office space, positive absorption should continue in the foreseeable future.”

The average direct asking rental rates for both Class A and Class B space in the CBD rose \$0.52 and \$0.57, over 90 days, to \$34.71 per square foot and \$29.36 per square foot. Recent lease transactions showed annual rent escalations between 2.25 percent and 2.50 percent for trophy and non-trophy class properties. In addition, the rising cost of building out space put upward pressure on work allowances across all property types.

Southern New Jersey is struggling with a large amount of vacancy. The overall vacancy rate climbed 20 basis points from the first quarter to 16.1 percent. Subaru began moving into its new Camden waterfront headquarters and is gradually moving employees out of 115,000 square feet at 2235 East Marlton Pike; it has also vacated 11,219 square feet at Three Executive Campus. Both properties are in the Cherry Hill submarket. Quarterly absorption totaled negative 37,958 square feet, adding to a large pop of negative absorption from the previous quarter when PHH vacated half of its space and placed it on the market for sublease. Noted Anne Klein, NKF executive managing director, “The increase in vacancy is expected as companies slowly relocate into Camden. That being said, leasing activity has been strong and companies are expanding within the market. The only question is how long it will take to totally absorb the new vacant inventory?”

There were two major investment sales during the second quarter of 2018. Newmark Knight Frank sold 1000 Voorhees Drive to an investor (1000 Voorhees Drive LLC) for \$4.2 million. The building was entirely leased, this same quarter, to Kingsway Learning Center, although it does not plan to occupy for several months. In addition, JJN Real Estate Holdings purchased the 17,500-

square-foot 1945 Route 70 East from the Knowledge Learning Corporation for \$2.1 million. The property will be redeveloped into a medical office property.

The Wilmington CBD posted 57,732 square feet of new occupancy due to Capital One's expansion into 91,104 square feet at 800 Delaware Avenue. Unfortunately, there is still a large amount of availability in the CBD. Wills Elliman, NKF senior managing director, stated "Wilmington's CBD market currently has 900,000 (18.3 percent vacancy rate) square feet of Class A vacancy on roughly 5.0 million square feet of inventory. If the Bracebridge sale goes through, 430,000 square feet will be added to the inventory, driving the vacancy rate to 24.8 percent with 1.3 million square feet available." However, Elliman points out, "the darkest hour is just before the dawn. Nationally, the trend is for people to want to live, work and play with walkability." There are five new restaurants on north Market Street that have opened since New Year's: 218 Grille, Farmer & The Cow, Bardea, Stitch House and Margaux. These restaurants are just in time as Wilmington's residential boom continues with 200 apartments about to come online at Buccini/Pollin Group's \$75.0 million Residences at Mid-Town Park. In addition, construction is ongoing for the 256,000-square-foot Chemours headquarters at the DuPont Building, which will include a \$3.5 million, 12,000-square-foot food hall.

While Class A and Class B rents in the CBD experienced a minor uptick, rents in the Wilmington South and Wilmington West submarkets declined. In the Wilmington South submarket, the reintroduction of 135,000 square feet at 90 Christiana Road with a lower than average asking rent influenced the overall direct average to decrease \$0.97 per square foot to \$21.19. This was the lowest average direct rate for the Wilmington South submarket since mid-year 2010.

About Newmark Knight Frank

Newmark Knight Frank ("NKF"), operated by Newmark Group, Inc. ("Newmark"), is one of the world's leading commercial real estate advisory firms. Newmark has over 4,600 employees in over 120 offices. 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. We offer a complete suite of services and products for both owners and occupiers across the entire commercial real estate industry.

Our investor/owner services and products include investment sales, agency leasing, property management, valuation and advisory, diligence, underwriting and, under trademarks and names like Berkeley Point and NKF Capital Markets, government sponsored enterprise lending, loan servicing, debt and structured finance and loan sales. Our occupier services and products include tenant representation, real estate management technology systems, workplace and occupancy strategy, global corporate services consulting, project management, lease administration and facilities management. We enhance these services and products through innovative real estate technology solutions and data analytics designed to enable our clients to increase their efficiency and profits by optimizing their real estate portfolio. We have relationships with many of the world's largest commercial property owners, real estate developers and investors, as well as Fortune 500 and Forbes Global 2000 companies. For further information, visit www.ngkf.com.

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