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The Greater Philadelphia Office Market Closes the Decade on a High Note

Philadelphia, PA (January 16, 2020) — Newmark Knight Frank (NKF) released its fourth-quarter 2019 office reports for the Philadelphia CBD and suburbs, Southern New Jersey, and Northern Delaware today. Across the region, the office market concluded 2019 with robust positive absorption, continued rent growth, new construction, and the promise of more demand-driven development to kick off the new year.

In Philadelphia's Central Business District (CBD), market activity was largely driven by the "eds & meds" sector, which contributed significantly to the overall quarterly absorption of 142,976 square feet through notable deals such as Children's Hospital of Philadelphia and Limelight Bio, each leasing a full floor at 3535 Market Street in University City. "Eds & meds" is also among the sectors catalyzing new development. Drexel University officially signed for a 258,000-square-foot build-to-suit in University City this quarter and exercised the option to expand the building to 454,000 square feet to accommodate multiple College of Medicine programs. This was one of two new build-to-suit deals signed in the fourth quarter downtown; Morgan Lewis & Bockius also signed with Parkway Corporation for a 308,000-square-foot build-to-suit at 2222 Market Street.

Regarding the heightened build-to-suit activity in the CBD, NKF Executive Managing Director Jim Egan noted, "Organizations are looking for the latest design concepts that best accommodate their use. Getting the right layout is more important than the rent delta between new construction and existing product. Cost is important but not the only factor in their real estate decisions."

Overall asking rents rose 1.0 percent or more every quarter in 2019 to just under \$34.00 per square foot CBD-wide at year-end.

In the suburban Philadelphia office market, overall vacancy fell to 14.0 percent in the fourth quarter, a rate not seen since 2001. Notable occupancies included Signant Health's relocation and expansion into 105,000 square feet at 785 Arbor Way in Blue Bell, FXI's relocation and

slight downsizing into 34,122 square feet at 100 Matsonford Road in Radnor, and Pilot Freight's consolidation of multiple locations to a 45,000-square-foot new global headquarters at 2 Braxton Way in the Southern 202 submarket. The suburban office development pipeline expanded in the fourth quarter as construction commenced on the 260,000-square-foot Seven Tower Bridge in Conshohocken, which is approximately 50.0 percent preleased. More new development is expected in 2020; there are seven major proposed projects being marketed across the suburban region.

Speaking about the tenant interest generated by these opportunities, NKF Executive Managing Director Jeff Mack noted, "There are multiple proposed office projects in advanced negotiations with anchor tenants to kick off construction, including 675 E. Swedesford Road – a 145,000-square-foot new Mass Timber office building that Equus Capital Partners will begin on speculative basis in spring 2020." Overall asking rents closed out 2019 at \$27.76 per square foot, up over \$0.50 per square foot from the prior year. New construction is setting new standards for rent achievement in the suburban market, with rents for the office projects being negotiated at levels near or even exceeding \$50.00 per square foot full service.

The capital markets sector was active in the fourth quarter: a notable sale transaction occurred at 200 North Warner Road in the King of Prussia submarket where the property traded for \$37.9 million (\$230 per square foot). With an additional 3.0 million square feet of space on the market for sale in the suburbs, the capital markets environment is expected to remain healthy throughout 2020.

In the Southern New Jersey office market, net absorption accumulated in the last quarter of 2019 totaled 28,274 square feet. The largest quarterly occupancy occurred in Marlton, where Friedman LLP relocated and expanded within the submarket, occupying 21,000 square feet at Four Greentree Centre. Vacancy in the Camden/Pennsauken submarket reached a record low at 8.4 percent in the fourth quarter of 2019; as a result, demand by tenants in the market for large blocks of space continues to feed into the suburban submarkets.

NKF Associate Director Keith McClure said, "We ended the year on a strong note. Solid intermarket activity and large move-ins from Jefferson

and Camden County scheduled in the quarters to come will keep momentum healthy going into 2020.”

On the capital markets side of the Southern New Jersey office sector, total sales volume for 2019 eclipsed \$252.5 million, just under the five-year historical high of \$261.6 million achieved in 2017. Contributing to the 2019 total was Strategic Funding Alternatives, expanding its local footprint this quarter by purchasing Woodland Falls Corporate Center for \$33.0 million, and the eight-property portfolio of East Gate Business Center for \$10.0 million. Investor interest is likely to remain positive through the upcoming year, as private investors continue to explore a wealth of value-add options for sale in the market. At year-end, well over 1.0 million square feet of office product was being marketed for sale in Southern New Jersey.

At the close of 2019, demand in Wilmington’s office market sector was strong. Total net absorption in the fourth quarter reached 63,000 square feet and as a result trimmed vacancy down to 16.3 percent. Overall rental rates in Wilmington remained flat quarter-over-quarter at \$26.05 per square foot yet were up over \$0.50 per square foot from a year ago. The largest occupancy this quarter occurred at 90 Christiania Road in Wilmington South where Sallie Mae expanded into 54,000 square feet, bringing its total footprint in the building over 100,000 square feet. The Wilmington market’s most successful coworking operator, The Mill, occupied a second location in the Concord Plaza in Wilmington North, and will expand into the entire seventh floor of the CBD’s Nemours Building – and is reportedly in talks to take another floor at Nemours.

Capital markets activity, driven primarily by new-to-market investors, totaled \$136.4 million for the year, a substantial increase from 2018’s volume, and is likely to continue at a productive pace throughout 2020 as multiple office properties are being marketed for sale.

The Wilmington market witnessed exciting new development announcements this quarter: The University of Delaware’s STAR campus is expanding with a \$38 million, 100,000-square-foot office building that will directly cater to fintech tenants in both the public and private sector, and life sciences firm Incyte acquired 20 acres of land on which it plans to expand its existing campus.

According to NKF Senior Managing Director Wills Elliman, “The forthcoming new development highlights sectors of industry, like fintech and scientific R&D, that will be integral parts of the market’s growth in the new decade.”

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