

# EASTERN PENNSYLVANIA SOUTHERN NEW JERSEY DELAWARE

## Regional Office Market

### Key Trends

- > The regional office market vacancy rate increased slightly to 12.3% from 12.1% at the end of 2018.
- > Absorption for the first half of 2019 totaled 472,088 square feet, below 2018's six-month total.
- > The weighted average asking rent increased by 1.0% to \$27.27 per square foot, full service.
- > Investment volume decreased from 2018.

Strong leasing activity during the first six months did not result in significant absorption. New construction and major retrofit projects continued to draw tenants from existing locations.

Sublease vacancy is at the highest level since 2011 in the suburban markets as companies downsized operations and/or shed excess space. Multiple sublet deals helped to decrease the level of sublease space in CBD Philadelphia.

Following the national pattern, Philadelphia regional office sales volume slowed during the first half of 2019. Few larger portfolios and fewer Class A properties traded in either the suburban markets or in the Philadelphia CBD. The significant 1735 Market Street sale and the partnership recapitalization of the Founders Collection were the only notable transactions in the CBD. Southern New Jersey was active, which followed a higher liquidity pattern set in the last few years. Pennsylvania Suburban transaction volume was off considerably. However, larger pending sales should increase sales volumes and prices during the second half of the year.

Asking rents had spiked sharply during the first quarter but leveled off during the second quarter. Rents for existing space may be at or near the peak for this cycle. Multiple new construction projects in CBD Philadelphia, Conshohocken and Plymouth Meeting are being shopped to large tenants. While it appears that at least one of these buildings will imminently land an anchor tenant, there remains uncertainty about the number of tenants willing to pay the rents necessary to justify new construction, which is likely to be \$10.00 to \$15.00 per square foot higher than existing top tier rates.

### MARKET INDICATORS

Relative to prior period

PA/NJ/DE  
Q4 2018

PA/NJ/DE  
Q4 2019\*

VACANCY



NET ABSORPTION



CONSTRUCTION/RENOVATION



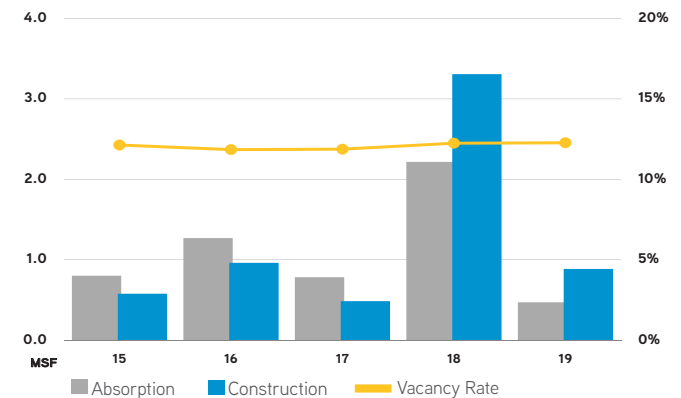
RENTAL RATE



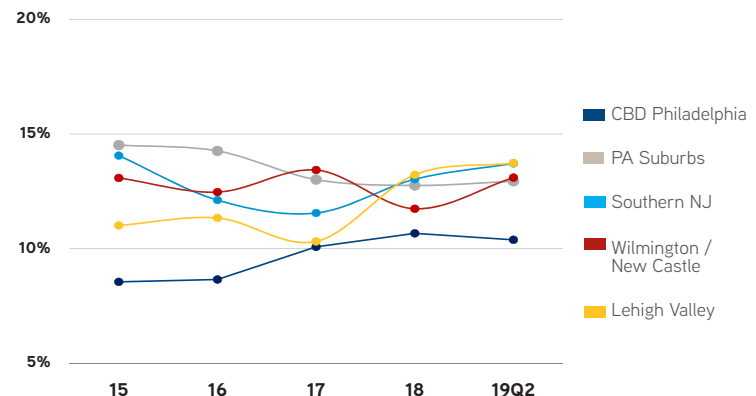
\*Projected

Arrows compare current period to the previous period and forecast the next period.

### NEW SUPPLY, VACANCY AND ABSORPTION



### MAJOR OFFICE MARKET VACANCY



## Regional Overview (continued)

The largest deals during the first half represented rooftop consolidations in the case of Christian Care and CRF Bracket. The EPA will be downsizing from 307,847 square feet when it relocates from 1650 Arch Street in 2020. Ricoh also significantly reduced its occupancy. On a positive note, Amicus was new to market and WeWork and Industrious Office opened new locations.

The sale of Chesterbrook was scheduled to close in the third quarter. The lower per square foot average price in the Pennsylvania suburbs will firm up upon those sales. Additional sales were also pending in Southern New Jersey.

## Recent Transactions Q1 and Q2 2019

### NOTABLE LEASES

| PROPERTY ADDRESS               | LOCATION                     | TENANT                     | SIZE SF | TYPE              |
|--------------------------------|------------------------------|----------------------------|---------|-------------------|
| 1800 Concord Pike              | Suburban Wilmington A        | Christiana Care            | 386,460 | New               |
| 1600 John F. Kennedy Boulevard | CBD Philadelphia Market West | EPA                        | 173,007 | New               |
| 785 Arbor Way                  | Plymouth Meeting/Blue Bell   | CRF Bracket                | 105,638 | New               |
| 112 W. Park Drive              | Southern New Jersey          | Comcast IP Services        | 83,500  | Renewal           |
| 833 Chestnut Street            | CBD Philadelphia Market West | Ballinger                  | 78,951  | Renewal           |
| 3675 Market Street             | University City              | Amicus Pharmaceuticals     | 75,000  | New               |
| 50 S. 16th Street              | CBD Philadelphia Market West | Industrious Office         | 54,826  | New               |
| 100 Penn Square East           | CBD Philadelphia Market East | CHOP                       | 53,717  | Expansion         |
| 1100 Ludlow Street             | CBD Philadelphia Market East | WeWork                     | 50,514  | New               |
| 440 E. Swedesford Road         | King of Prussia/Wayne        | Genex Services             | 48,224  | Renewal           |
| 630 Allendale Road             | King of Prussia/Wayne        | Quench USA                 | 47,000  | New               |
| 300 Eagleview Boulevard        | Malvern/Exton                | Ricoh                      | 45,000  | New               |
| 1 Belmont Avenue               | Bala Cynwyd                  | AXA Advisors               | 39,382  | New               |
| 3200 Horizon Drive             | King of Prussia/Wayne        | Crown Castle               | 38,124  | Renewal/expansion |
| 620 Freedom Business Center    | King of Prussia/Wayne        | Marshall Dennehy           | 37,023  | Renewal           |
| 150 N. Radnor Chester Road     | Main Line/Radnor             | FXI                        | 34,645  | New               |
| 475 Sentry Parkway             | Plymouth Meeting/Blue Bell   | Genesis Engineering        | 31,610  | New               |
| 1200 Howard Boulevard          | Southern New Jersey          | Merrill Lynch              | 31,304  | Renewal           |
| 81 Highland Avenue             | Lehigh Valley                | Innovative Control Systems | 31,195  | New               |
| 20 Valley Stream Parkway       | Malvern/Exton                | Lifescan                   | 30,388  | New               |

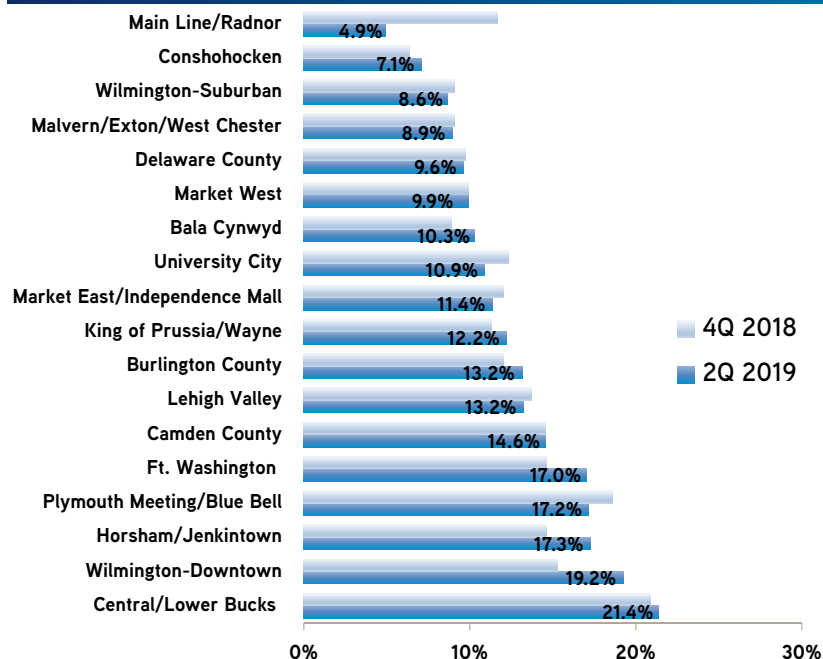
### NOTABLE SALE TRANSACTIONS

| PROPERTY ADDRESS             | LOCATION                     | BUYER                             | SIZE SF   | SALES PRICE / SF | TYPE     |
|------------------------------|------------------------------|-----------------------------------|-----------|------------------|----------|
| 1735 Market Street           | CBD Philadelphia Market West | Silverstein, Arden Group, Migdal  | 1,286,936 | \$350.91         | Investor |
| Spring Mill Corporate Center | Conshohocken                 | Alliance HSP                      | 617,000   | \$119.94         | Investor |
| 1-5 Valley Square            | Plymouth Meeting/Blue Bell   | Viking Partners                   | 294,074   | \$67.16          | Investor |
| The Plaza at 835 Hamilton    | Lehigh Valley                | Somera Road                       | 280,898   | \$56.96          | Investor |
| Glenhardie Corporate Center  | King of Prussia/Wayne        | BPG Real Estate Services          | 256,189   | \$119.34         | Investor |
| Commerce Corporate Center    | Lehigh Valley                | Commerce Park LP                  | 193,865   | \$74.79          | Investor |
| Colwick Business Center      | Southern New Jersey          | Haddonfield Partners Holdings     | 174,658   | \$99.48          | Investor |
| Marsh Creek Corporate Center | Malvern/Exton/West Chester   | Captiva Capital Partners          | 173,474   | \$124.51         | Investor |
| 301-303 Lippincott Drive     | Southern New Jersey          | Apex Financial Advisors, Inc.     | 165,742   | \$193.07         | Investor |
| 1000 Madison Avenue          | King of Prussia/Wayne        | Hudson Equities                   | 102,894   | \$170.08         | Investor |
| 100 Deerfield Lane           | Malvern/Exton/West Chester   | FLD Group                         | 91,190    | \$169.97         | Investor |
| 1245 Wrights Lane            | Malvern/Exton/West Chester   | 21st Century Cyber Charter School | 42,500    | \$156.47         | User     |

# Market Comparison Update

| OFFICE MARKET                    |             |               |               |              |              |                       |                 |                    |                                    |
|----------------------------------|-------------|---------------|---------------|--------------|--------------|-----------------------|-----------------|--------------------|------------------------------------|
| SUBMARKET                        | INVENTORY   | DIRECT VACANT | SUBLET VACANT | TOTAL VACANT | VACANCY RATE | NET ABSORPTION ANNUAL | COMPLETIONS YTD | UNDER CONSTRUCTION | AVERAGE ASKING RENT (full service) |
| <b>CBD Philadelphia</b>          |             |               |               |              |              |                       |                 |                    |                                    |
| A                                | 33,655,313  | 3,404,695     | 203,011       | 3,607,706    | 10.7%        | 65,181                | 0               | 0                  | \$33.88                            |
| B                                | 14,539,256  | 1,374,063     | 24,914        | 1,398,977    | 9.6%         | 71,170                | 0               | 0                  | \$30.90                            |
| Total                            | 48,194,569  | 4,778,758     | 227,925       | 5,006,683    | 10.4%        | 136,351               | 0               | 0                  | \$33.05                            |
| <b>Pennsylvania Suburbs</b>      |             |               |               |              |              |                       |                 |                    |                                    |
| A                                | 25,620,908  | 2,428,244     | 389,179       | 2,817,423    | 11.0%        | (142,952)             | 0               | 1,045,045          | \$30.15                            |
| B                                | 33,431,948  | 4,605,887     | 219,181       | 4,825,068    | 14.4%        | 35,444                | 0               | 0                  | \$25.17                            |
| Total                            | 59,052,856  | 7,034,131     | 608,360       | 7,642,491    | 12.9%        | (107,508)             | 0               | 1,045,045          | \$27.00                            |
| <b>Southern New Jersey</b>       |             |               |               |              |              |                       |                 |                    |                                    |
| A                                | 8,058,670   | 849,740       | 158,116       | 1,007,856    | 12.5%        | 201,071               | 394,164         | 0                  | \$23.10                            |
| B                                | 9,411,592   | 1,380,728     | 8,596         | 1,389,324    | 14.8%        | 21,107                | 0               | 0                  | \$19.10                            |
| Total                            | 17,470,262  | 2,230,468     | 166,712       | 2,397,180    | 13.7%        | 222,178               | 394,164         | 0                  | \$20.78                            |
| <b>Wilmington-New Castle, DE</b> |             |               |               |              |              |                       |                 |                    |                                    |
| A                                | 14,490,096  | 1,754,590     | 154,970       | 1,909,560    | 13.2%        | 29,813                | 490,948         | 32,000             | \$27.42                            |
| B                                | 5,004,509   | 626,285       | 18,211        | 644,496      | 12.9%        | 140,271               | 0               | 0                  | \$23.63                            |
| Total                            | 19,494,605  | 2,380,875     | 173,181       | 2,554,056    | 13.1%        | 170,084               | 490,948         | 32,000             | \$26.46                            |
| <b>Lehigh Valley, PA</b>         |             |               |               |              |              |                       |                 |                    |                                    |
| A                                | 6,293,357   | 783,404       | 15,945        | 799,349      | 12.7%        | (28,735)              | 0               | 295,000            | \$22.91                            |
| B                                | 3,713,395   | 504,957       | 19,138        | 524,095      | 14.1%        | 79,718                | 0               | 0                  | \$16.29                            |
| Total                            | 10,006,752  | 1,288,361     | 35,083        | 1,323,444    | 13.2%        | 50,983                | 0               | 295,000            | \$20.29                            |
| <b>MARKET TOTAL</b>              |             |               |               |              |              |                       |                 |                    |                                    |
| A                                | 88,118,344  | 9,220,673     | 921,221       | 10,141,894   | 11.5%        | 124,378               | 885,112         | 1,372,045          | \$29.69                            |
| B                                | 66,100,700  | 8,491,920     | 290,040       | 8,781,960    | 13.3%        | 347,710               | 0               | 0                  | \$24.48                            |
| Total                            | 154,219,044 | 17,712,593    | 1,211,261     | 18,923,854   | 12.3%        | 472,088               | 885,112         | 1,372,045          | \$27.27                            |

## SUBMARKET VACANCY RATES



### DEFINITIONS

**Absorption (Net):** The net change in occupied space over a given period of time.

**Vacancy Rate:** A percentage of the total amount of physically vacant space divided by the total amount of existing inventory.

**Vacant Space:** Space that is not currently occupied by a tenant, regardless of any lease obligation on the space.

**Sublease Space:** Space that has been leased by a tenant and is being offered for leaseback to the market by the tenant with the lease obligation.

**Under Construction:** Counted when steel is up, not at the commencement of site work.

**Build-to-Suit:** A term describing property that was developed specifically for a certain tenant to occupy. Can be either leased or owned by the tenant.

## Submarket Reviews

### CBD Philadelphia

The vacancy rate in CBD Philadelphia decreased from an adjusted 10.7% to 10.4%. Absorption was low, but positive.

As the number of large blocks of trophy class spaces has decreased, developers are courting tenants to anchor new development, particularly large law firms with upcoming lease expirations. University City has multiple projects in the pipeline to capture the burgeoning demand from life science companies. Projects like the proposed University 3.0 will be geared toward lab users rather than general office.

### Suburban Pennsylvania

Vacancy in the Pennsylvania suburbs decreased to 12.9% from the end of the first quarter but was up slightly from the end of 2018.

Malvern-Exton-West Chester, Main Line-Radnor and Plymouth Meeting-Blue Bell had occupancy gains while the other submarkets had flat or decreased occupancy.

Build-to-suits for Vanguard, AmeriHealth Caritas and Amerisource Bergen were underway. Seven Tower Bridge in Conshohocken may kick off with the signing of a lead tenant.

### Southern New Jersey

Southern New Jersey's occupancy was boosted by the completion of Triad1828 in Camden. NFI, The Michaels Organization and Conner Strong have vacated other spaces in Camden and Burlington County locations, but there was an overall net gain in occupancy.

Camden County's vacancy decreased to 14.6% after increasing during the first quarter. Burlington County's vacancy rate has increased over the last four quarters to 13.2%. However, multiple tenants have recently renewed their Burlington County leases, and the vacancy rate is expected to improve during the last half of 2019.

Investor interest in Southern New Jersey remained strong, particularly from New York and Northern New Jersey buyers.

### New Castle County, DE

New Castle County had a bumpy start to 2019. The renovation of the former AstraZeneca buildings at Avenue North on Concord Pike landed significant deals by Christiana Care and Solenis. While these tenants will be vacating other space in the market, there was a net occupancy gain. The suburban vacancy rate decreased from 9.1% at the end of 2018 to 8.65%.

However, this was offset by Bank of America's significant space giveback at the Bracebridge buildings in Downtown Wilmington. The two buildings, now fully vacant, represent an additional 500,000 square feet of space that is likely to have a prolonged lease-up timeline. The Downtown vacancy rate increased from 15.3% to 19.2%.

### Lehigh Valley, PA

Lehigh Valley's vacancy rate decreased during the first and second quarters to 13.2% from 13.7% at the end of 2018. ADP will be vacating 80,000 square feet in Iron Run Corporate Center when it relocates to Five City Center in the fourth quarter. The NIZ-incented developments in Allentown and the proposed Waterfront in Bethlehem continue to compete for tenants amidst a dwindling number of office requirements.

Air Products received final approvals for its new corporate office and R&D campus in Upper Macungie Township. The 53-acre site will hold 526,000 square feet of office, just under 100,000 square feet of R&D space and a six-story garage.



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ANZ: **50**

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in annual revenue

**2.0 billion**  
sf under management

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