

Current and Future Market Conditions Q1 2014

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Statistically, Q 1 brought little to no changes from Q 4. There were a lot of announcements and renewals, but very little changed. The Central Business District (CBD) witnessed nominal negative absorption of 56,000 SF. 5.7 million SF is still available and the vacancy rate remained flat at 14.2%.

On the heels of announcing they purchased an 80% stake in their headquarters, located at 1701 John F. Kennedy Boulevard, Comcast Corp will again partner with Liberty Property Trust and build a new state of the art tower called Comcast Innovation and Technology Center. Comcast's new tower will rise 59 Story's and be 1.5 M SF. The cable giant will relocate 200,000 SF from Three Logan Square, 90,000 SF from Centre Square and continue to add jobs. This will have a positive impact on Philadelphia and the office sector. The new tower will host a new state of the art Four Seasons Hotel on the top floors, and is scheduled to break ground in September 2014 and deliver in 2017.

FMC Corporation will relocate 200,000 SF from Mellon Bank Center and kick off Brandywines much anticipated Cira South project in University City. When completed, Brandywine will solidify itself as the largest Center City Landlord of office space with more than 6.5 M SF in its downtown portfolio. The GSA (Department of Labor) renewed 140,000 SF in the Curtis Center for 5 years. The Federal Community Defenders contracted from 71,000 SF to 62,000 SF in the Curtis Center and extended the term of their lease for 5 years. Health Partners announced they will expand by an additional 75,000 SF, bringing their occupancy in 901 Market Street to 200,000 SF. Community Behavioral Health extended their lease for an additional 10 years, and expanded by 40,000 SF in 801 Market Street. This brings their total occupancy to 60,000 SF. Philadelphia Financial leased an additional 30,000 SF in One Liberty Place and inked a new 10 year lease for 52,000 SF. Metro Corp (Philadelphia Magazine) renewed their lease for 22,000 SF within 1818 Market St. for 3 years. The Pennsylvania Horticultural Society secured their retail and office presence at 100 N 20th Street through 2028. The nonprofit downsized and leased 30,000 SF.

Cigna Corporation is in the market for 300,000 SF which would represent a reduction from its current footprint of 450,000 SF in Two Liberty Place by 150,000 SF. Hill International, a South Jersey based construction consulting company, is looking to relocate its headquarters to Philadelphia and are seeking 60,000 SF. Pond, Lehigh & Stern continues its search for a new home and is in the market for 55,000 SF. The Greater Philadelphia Chamber of Commerce remains undecided about whether or not to upgrade their 40,000 SF within the Class B Bellevue Building or relocate to a newer Class A Asset along West Market Street.

Statistically, rental rates remained flat with Trophy Class Buildings at \$35 S.; \$27.00 SF for Class A space, \$23.00 SF for Class B space, and \$19.00 SF for Class C space. The asking rates are the weighted average of the published rate, from all vacant spaces per building class. While Tenants still command a fair amount of leverage, many landlords are making fewer concessions, particularly for renewals. Also, beginning to creep back into the market place are annual percentage increases in rent as opposed to fixed bumps of \$.50.

These subtle cost changes are relatively insignificant when compared with the increase in the cost of tenant improvements. Despite generous landlord construction allowances, most tenants are confronting out of pocket costs to complete a move. The number of transactions involving significant reuse of existing conditions is certainly on the decline.

In summary, 2014 should be an interesting year. Absorption will be steady but minimal. But for now, all eyes will be on Mellon Bank Center. Until Mellon Bank Center stabilizes, other Class A and trophy Landlords will remain in check. With 5.7 M SF of available space and 450,000 SF on the horizon, Tenants with leases expiring 2015-2017 should be excited and well positioned.



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