

Current and Future Market Conditions Q2 2015

Steady as she goes. The Philadelphia Central Business District's ("CBD") continued its positive trend as 100,000 square feet was absorbed during Q 2. 3.7 million square feet remains available, and the CBD's vacancy rate dipped ever so slightly to 9.5%.

Large blocks of space remain scarce across the CBD's inventory. As such, Independence Blue Cross will remove one of them by leasing 210, 000 SF at 1900 Market Street from Brandywine Realty Trust. The healthcare giant inked an 18 year lease and will backfill space vacated by Cozen O Conner which relocated to One Liberty Place during Q 2. Excellerx renewed their lease in Three Parkway for 3 years and remained in 100,000 SF. The Board of Pensions of the Presbyterian Church solidified their presence in 2000 Market Street by agreeing to a 7 year lease extension on 75,000 through 2028. Public Financial Management will vacate their long standing headquarters in Two Logan Square and lease 44,000 SF on floors 42 & 43 in Mellon Bank Center for 15 years. This relocation represents the first significant defection from Brandywines CBD portfolio. The Burns Group will consolidate 30,000 square feet from 1818 Market Street and 1835 Market Street and entered a new 10 year lease at Two Commerce Square.

Cigna Corporation continues its search for 300,000 square feet. Radian Group is in the market and is seeking 150,000 square feet. The Market Place Design Center is searching the CBD in search of 150,000 square feet. SCA North America is testing the waters as its KOIZ benefits in the Cira Center will expire in 2018 and is inquiring about 100,000 square feet. Obermayer Rebmann Maxwell & Hippel, LLP, is exploring options for 60,000 square feet. The law firm Eckert Seaman's, is seeking 50,000 square feet. CDI Corporation leases 70,000 square feet in both 10 Penn Center and Three Logan Square. They are seeking looking to consolidate and lease 50,000 square feet. Finally, the CBD continues to attract tenants from other markets with Voya from West Chester looking to relocate 100,000 square feet to the CBD's inventory.

Statistically, rental rates had minimal change with trophy class buildings at \$37.50/SF, Class A space at \$28.00/SF, Class B space at \$24.00/SF, and Class C space at \$21.50/SF. While Tenant's still command a fair amount of leverage, many landlords are making fewer concessions, particularly for renewals. Also annual percentage increases in rent as opposed to fixed increases of \$.50 are beginning to tip toe back into the market.

As we head into the second half of 2015 it is evident Center City's office environment will remain favorable for landlords. With the continued prospect of positive absorption and possibility of a decrease in inventory from the Independence Mall submarket we anticipate vacancy will dip below 9% by year end. Historically, when vacancy remains below 10% for consecutive quarters we consider this the beginning of a new cycle. The supply side of the market is constrained for at least a few years given the absence of new office building construction so tenant's will need to make do with the current vacant space inventory, which we project will continue to diminish.

Anticipated growth is expected from a growing trend of unique and creative space, as well as increases in our typical expansions and relocations. Long term speculative construction will occur at 34 S. 11th Street and 2400 Market Street.



Ken Clyman Realty

"Specializing in tenant representation services"

1650 Market Street 36th Floor Philadelphia, PA 19103 215.640.8800