



Year-end uptick in leasing activity, construction kick off multi-year game of musical chairs

Relocations open up unexpected blocks across the CBD, shrink others

Five Below's corporate headquarters relocation to 701 Market is not only a tripling in size for the growing company but is also a "reverse migration" from west to east. The move speaks to Market East's increasing appeal and may bode well for the 360,000 square feet coming online at 1101 Market in 2018. Montgomery McCracken's move to 1735 Market from its long-time home at 123 S. Broad, coupled with Hogan Lovells' 34,000-square-foot lease, removes three floors of the former FMC block from the market. Merrill Lynch's downsizing to Four Penn from the One Liberty opens another unexpected Trophy availability that will join a growing list of blocks in the market as 6.5 million square feet of mid- and large-size tenants seek new deals between now and 2020.

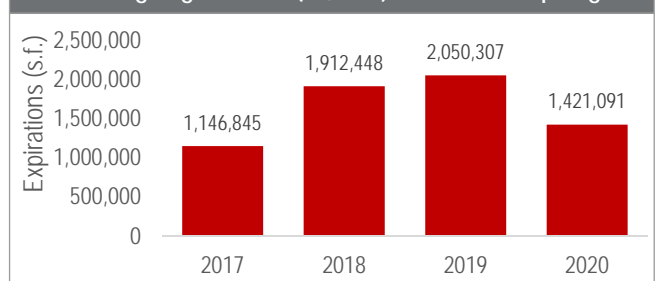
New deliveries experiencing mixed leasing results; new blocks coming

Leasing of FMC Tower's 14th floor to Radnor-based FreedomPay and the 10th and 11th floors to a growing CBD-based tenant puts the building near 90 percent leased less than six months since delivery. 3675 Market is officially moving into construction after the December announcement that Cambridge Innovation Center will occupy 127,000 square feet on top of the Science Center's 50,000-square-foot commitment. This means the building will begin construction 50 percent leased, while 34 S. 11th is delivering with only three floors occupied and 1200 Intrepid has yet to lease its bottom three floors. With each submarket building out drastically different product, future absorption will depend on tenant mix.

The 2017 question: Can leasing activity sustain spec construction?

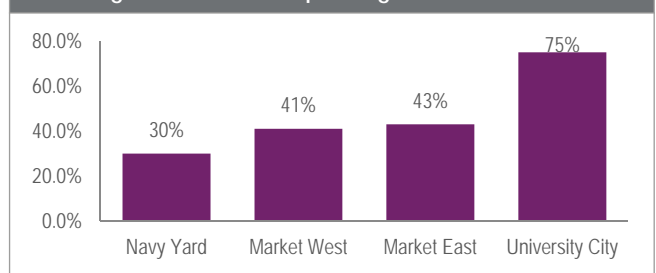
The fourth quarter brought a sharp uptick in leasing activity across the CBD, but the late rally could not bring this year's transaction volumes up to the levels of the previous five. Between 2015 and 2016, approximately 1.1 million square feet (or 21 percent) of all deals came from the suburbs or out of market. If this level of inbound tenant attraction continues or accelerates, the market could absorb existing and future blocks in fairly short order. While only one purely speculative project is currently rising (the 209,000 square feet of office at One Franklin Tower), Pulver's recent announcement of 1301 Market Street indicates that the market expects growth from both local companies and out-of-market users.

CBD existing large tenants (75,000+) with leases expiring



Source: JLL Research

Preleasing rates at new and pending office deliveries



Source: JLL Research

2015-2016 share of inbound tenants (suburbs & beyond)

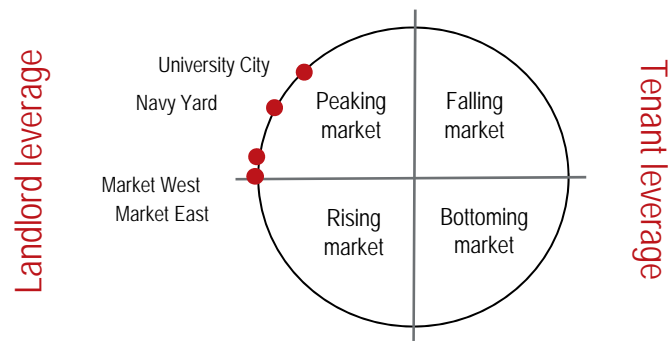
21.0%

Leasing activity from outside the CBD

Source: JLL Research

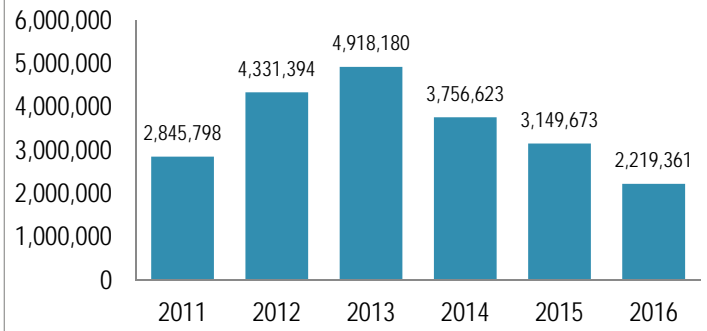
44,708,491 Total inventory (s.f.)	152,448 Q4 2016 net absorption (s.f.)	\$30.24 Direct average asking rent	2,630,400 Total under construction (s.f.)
10.2% Total vacancy	206,698 YTD total net absorption (s.f.)	7.3% 12-month rent growth	891,000 Total deliveries YTD

Current conditions – submarket



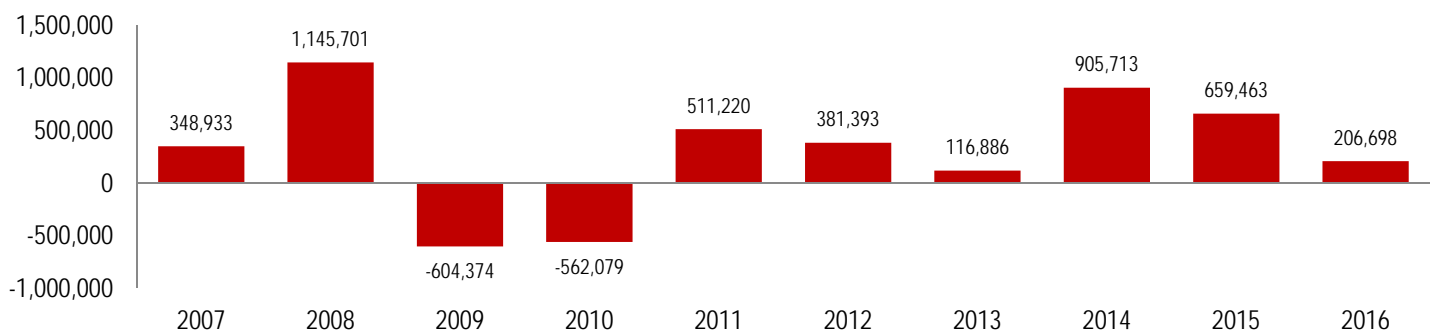
Source: JLL Research

Historical leasing activity (s.f.)



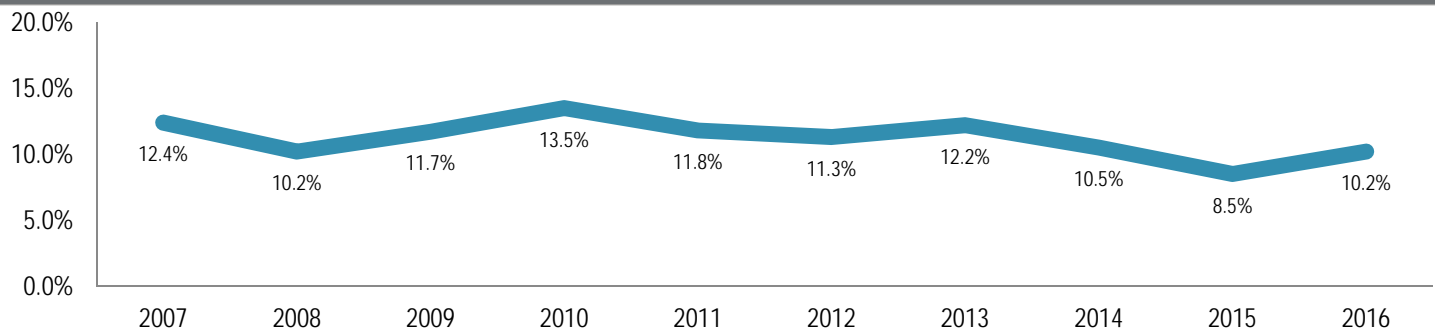
Source: JLL Research

Total net absorption (s.f.)



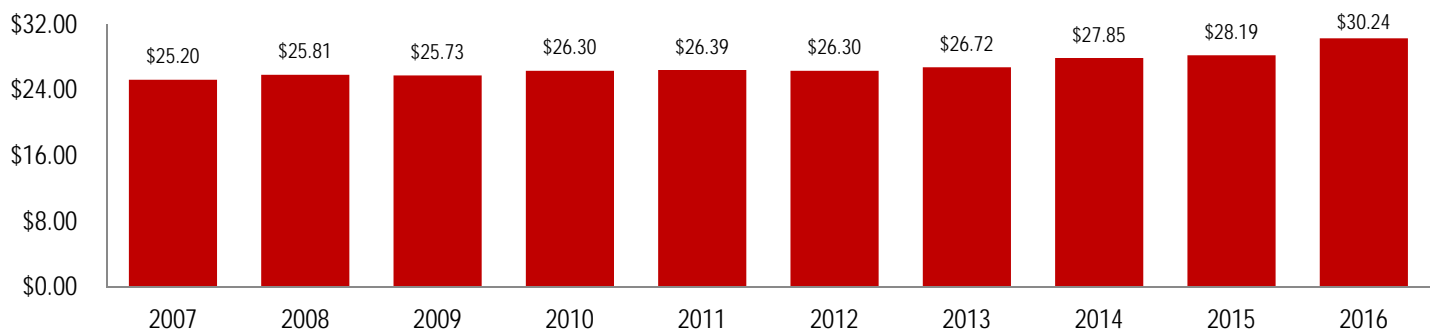
Source: JLL Research

Total vacancy rate (%)



Source: JLL Research

Direct average asking rent (\$ p.s.f.)



Source: JLL Research