

Q1 2017

**Office Insight: CBD**

## Calm before the storm? Market stabilizing in advance of new deliveries and a wave of large lease expirations

- Absorption remains sluggish across the CBD due to the prevalence of small deals, tenants expanding only modestly, and some key departures.
- Approximately 750,000 square feet remain available in recently delivered or under construction buildings, expanding quality large block options.
- Absent a significant increase in inbound market activity or organic growth, pricing is likely to stabilize as supply expands.

Dow's total vacation of its space at 100 Independence hit the market this quarter, contributing to the CBD's negative net absorption. This event has been anticipated for some time and is unlikely to significantly disrupt Market East's ongoing upswing. It does expand options for the dozens of larger users weighing an expanding set of choices, including blocks delivering in new projects and a number of speculative towers actively in marketing.

Major leases this quarter include Vanguard's announcement that it will create a gateway presence in Center City at 2300 Chestnut; Elsevier's renewal with contraction at Four Penn Center; renewals for Glenmede and JP Morgan at One Liberty; Philadelphia Magazine's relocation from 1818 Market to The Curtis Center; Jefferson's expansion into the majority of Three Crescent Drive at The Navy Yard; and Spark's decision to lease an additional floor at FMC Tower. Tierney also signed at 1700 Market, creating another pending vacancy along South Broad, which is seeing an uptick in retail and hotel development even as its role as an office micromarket seems less certain.

**Outlook**

The city's newly launched Gateway Philly program targets established suburban companies with incentives to open CBD outposts. If successful, this may accelerate absorption and tee up bigger moves in the future. Either way, it is certain that leasing velocity will pick up steam this year: millions of square feet are up for renewal, and local behemoths including Comcast and Jefferson are in expansion mode. Whether this means that new projects will kick off or existing blocks will be filled remains to be seen. Lastly, after many delays, 1100 Ludlow will open in Q2, with retail and residential components at East Market not far behind. The visible transformation of this key location may yet drive more tenants to consider Market East more seriously in the months ahead.

**For more information, contact:** Clint Randall | [clint.randall@am.jll.com](mailto:clint.randall@am.jll.com)

Fundamentals	Forecast
YTD net absorption	-89,482 s.f. ▲
Under construction	2,558,000 s.f. ▼
Total vacancy	10.4% ►
Average asking rent (gross)	\$30.39 p.s.f. ▲
Concessions	Stable ►

