

Q1 2017

## Office Insight: Pennsylvania Suburbs

# Large blocks and new amenities cause tenants to relocate to new suburban submarkets, giving landlords with renovated office product confidence

- Most suburban leasing activity can be attributed to cost-conscious tenants hopping around the PA suburbs searching for new amenities
- The proposed development pipeline is growing as landlords wait for significant pre-leasing commitments before breaking ground on new construction or beginning renovations
- Suburban rents are increasing due to retrofitting of older, Class B spaces, creating quality, value-oriented options for tenants

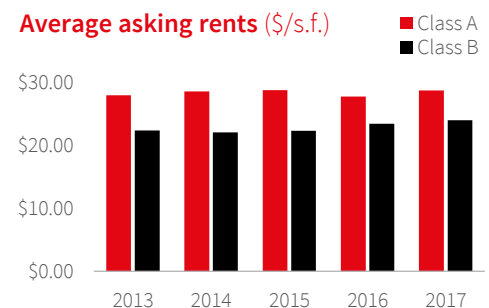
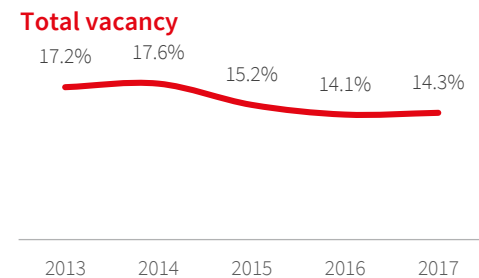
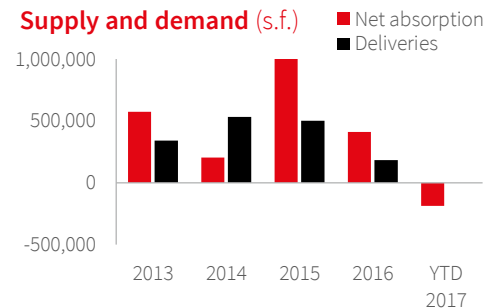
More than 50 blocks of space larger than 50,000 square feet are currently available across Philadelphia's Pennsylvania suburbs, creating many options for tenants looking for contiguous space. This increase in availability can be attributed to the following three dynamics: the 2016 departure of numerous pharmaceutical companies from the Philadelphia region; tenants downsizing as more employees work remotely; and landlords holding out to consolidate and renovate older buildings. Without much inbound demand, the majority of leasing activity in the last 6-9 months has been tenants looking in submarkets with the newest spaces and amenities to attract talent to their companies. The completion of the King of Prussia Town Center and the submarket's lower rents have attracted tenants away from pricey Conshohocken and Radnor. Major renovations to Fort Washington properties have drawn tenants from nearby Horsham/Willow Grove, even at a \$2.50 per square foot premium.

Despite the rising availability rate in the suburbs, especially in the core submarkets where availability rose 200 basis points in the past quarter, average asking rents grew by almost one percent quarter over quarter.

## Outlook

The Pennsylvania suburbs' development outlook remains quiet. Landlords have lined up approvals for new projects but await serious tenants. Instead of new, ground-up construction, Class B renovations in Horsham/Willow Grove, King of Prussia/Wayne, and Plymouth Meeting/Blue Bell may be more likely in 2017. Owners of well-located older properties can improve the amenities and interior, ask for above-average rents, and still remain a competitive option to the higher priced core submarkets. Perhaps more importantly, owners will need to consider how to introduce more urban elements, including mixed use amenities, to compete with the growing attractiveness of CBD options.

Fundamentals	Forecast
YTD net absorption	-186,183 s.f. ▲
Under construction	540,845 s.f. ►
Total vacancy	14.3% ▼
Average asking rent (gross)	\$26.10 (FSG) ▲
Concessions	Stable ►



For more information, contact: Gina Lavery | gina.lavery@am.jll.com