



Accelerating success.

EASTERN PENNSYLVANIA SOUTHERN NEW JERSEY DELAWARE

Rocketing Rents

Regional Overview

- > The vacancy rate increased during the first two quarters from an adjusted 11.5 to 11.8 percent.
- > Absorption rebounded during the second quarter but was behind 2015's pace.
- > Build-to-suit activity increased, while speculative projects are still in a holding pattern.
- > Asking rents increased by almost 3.4 percent from the end of 2015.
- > Investment sales activity remained strong and the ownership mix further diversified.

The regional office market had mixed but generally positive results during the first two quarters of 2016. Lateral occupancy moves within or between submarkets and continued consolidation of multiple locations constrained absorption. As additional pending deals land in the third and fourth quarters, however, results should begin to meet expectations for stronger absorption.

The overall weighted average asking rent increased by \$0.43 per square foot from the end of 2015. Class A rents increased by 3.5 percent while Class B rents had a sharper 4.3 percent jump. High demand for building amenities and increased construction costs to provide these features have resulted in higher rents and lower tenant improvement allowances.

FMC began moving into its namesake tower at Cira Centre South during the second quarter. Subaru's 250,000-square-foot headquarters was underway in Camden, as well as Corporation Service Company's new building in suburban Wilmington. Build-to-suits were announced for Highway to Health and the Franklin Mint Federal Credit Union. Numerous speculative projects are being discussed but none will move forward without substantial preleasing.

MARKET INDICATORS

Relative to prior period

PA/NJ/DE
Q4 2015

PA/NJ/DE
Q4 2016*

VACANCY



NET ABSORPTION



CONSTRUCTION

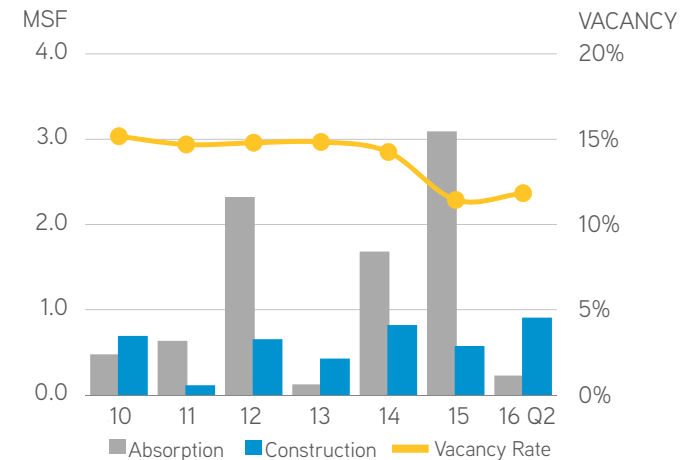


RENTAL RATE

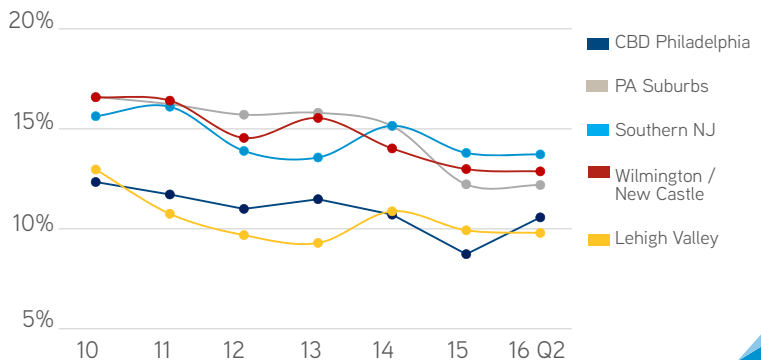


*Projected Arrows compare current period to the previous period and forecast the next period.

NEW SUPPLY, VACANCY AND ABSORPTION



MAJOR OFFICE MARKET VACANCY



Regional Overview (continued)

The list of largest leases and user purchases represent companies expanding in the market, such as Highway to Health. However, there will be vacancies as companies move and consolidate to new locations.

Sales activity for the first two quarters was highlighted by local and national investors increasing their holdings in the market. There was sustained demand from private investors from North Jersey and New York. More international entities came into the market such as the London and Kuwait joint venture that purchased Saint Gobain's headquarters.

REIT divestitures continued with Brandywine Realty Trust completing an equity stake transaction with Och-Ziff for 651,000 square feet in the Pennsylvania Suburbs and Southern New Jersey. Additional REIT properties are expected to trade in the third and fourth quarters including a major suburban portfolio.

There were still lender-held property sales during the first two quarters such as County Line Commerce Center and Oak Hill Plaza. The pool of these properties has diminished significantly since 2014.

Recent Transactions Q1 and Q2 2016

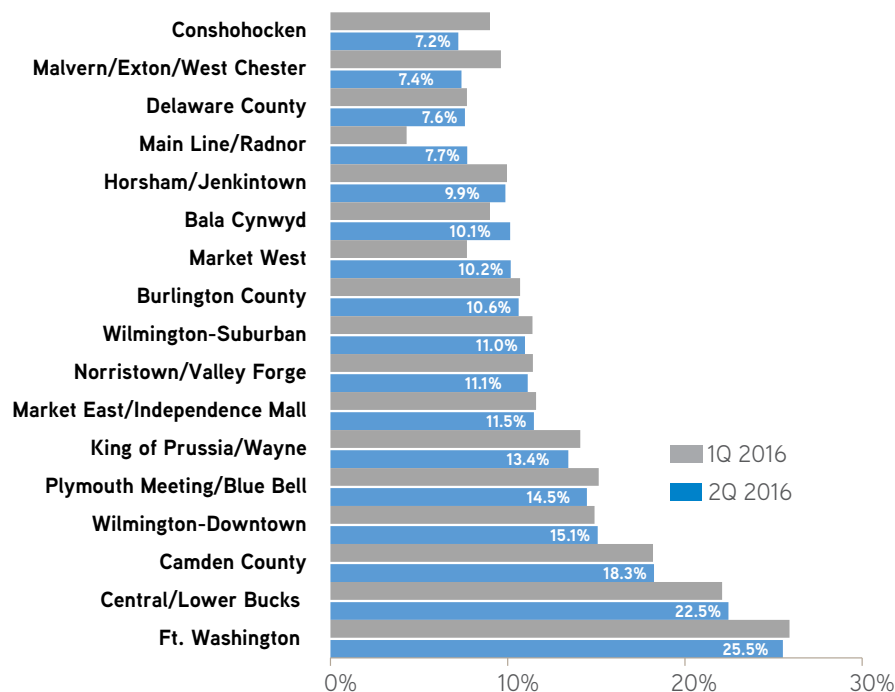
NOTABLE SALES ACTIVITY					
PROPERTY ADDRESS	LOCATION	BUYER	SIZE SF	SALES PRICE / SF	TYPE
510-530 Walnut Street	CBD Market East	Keystone Property Group	853,840	\$133.71	Investor
1700 Market Street	CBD Market West	Shorenstein Properties, LLC	841,172	\$237.76	Investor
400 Market, 325 Chestnut, Bourse	CBD Market East	MRP Realty, Inc.	769,000	\$119.00	Investor
125 E. County Line Road	Central/Lower Bucks	Crossroads Development Partners	426,381	\$17.47	Investor
Evolve IP Corporate Center	King of Prussia/Wayne	PDC-Old Eagle LLC	396,134	\$106.02	Investor
20 Moores Road (Saint Gobain)	Malvern/Exton	90 North Real Estate Partners LLP	321,226	\$382.91	Investor
300 Four Falls Corporate Center	Conshohocken	Maguire-Hayden Real Estate	298,482	\$329.67	Investor
3501 Corporate Parkway	Lehigh Valley	Gulf Islamic Investments LLC	178,330	\$252.00	Investor
200 N. Warner Road (Oak Hill)	King of Prussia/Wayne	Prussia Office 2016 LLC	164,360	\$99.34	Investor
4300-4350 Haddonfield Road	Southern New Jersey	Bayada Nurses	129,795	\$74.58	User
2600-2700 Kelly Road	Central/Lower Bucks	Pembroke Hobson, LLC	121,535	\$162.50	Investor
100 Tournament Drive	Horsham	100 Acquisitions LLC	115,850	\$155.37	Investor
1525 Locust Street	CBD Market West	Allen Domb Real Estate	98,083	\$173.32	Investor
220 West Germantown Pike	Plymouth Meeting/Blue Bell	220 West Germantown LLC	98,241	\$100.26	Investor
510 E. Township Line Road	Plymouth Meeting/Blue Bell	Carlino Commercial Development	86,909	\$52.35	Investor

NOTABLE LEASE ACTIVITY					
PROPERTY ADDRESS	LOCATION	TENANT	SIZE SF	TYPE	
955 First Avenue	King of Prussia/Wayne	Highway to Health	110,550	New-BTS	
690 Lee Road	King of Prussia/Wayne	Hartford Funds	75,922	New	
FMC Tower	Phila CBD Market West	Nasdaq	75,000	New	
5 Hillman Drive	Delaware County	Franklin Mint FCU	71,112	New-BTS	
2 W. Liberty Bouelvard	Malvern/Exton	Teva	60,307	New	
602 Office Center Drive	Fort Washington	Impax Laboratories	47,379	New	
100 N. 18th Street	Phila CBD Market West	Comcast	44,398	Expansion	
2200 Renaissance Boulevard	King of Prussia/Wayne	Liberty Mutual	42,418	New	
801 Arch Street	Phila CBD Market East	Liberty Resources	42,000	New	
1601 Market Stret	Phila CBD Market West	WeWork	40,000	New	
261 Gibraltar Road	Horsham	Tyco SimplexGrinnel	36,000	Renewal	
40 General Warren Boulevard	Malvern/Exton	Temenos	40,000	New	
2200 Renaissance Boulevard	King of Prussia/Wayne	RatnerPrestia	35,000	New	
100 Witmer Road	Horsham	New York Life Insurance	25,324	Renewal	

Market Comparison Update

OFFICE MARKET									
SUBMARKET	INVENTORY	DIRECT VACANT	SUBLET VACANT	TOTAL VACANT	VACANCY RATE	NET ABSORPTION ANNUAL	COMPLETIONS YTD	UNDER CONSTRUCTION	AVG. ASKING RENT
CBD Philadelphia									
A	30,305,585	2,991,104	123,977	3,115,081	10.3%	74,240	625,000	1,546,054	\$29.87
B	12,209,140	1,329,341	51,702	1,381,043	11.3%	(279,241)	0	0	\$25.21
Total	42,514,725	4,320,445	175,679	4,496,124	10.6%	(205,001)	625,000	1,546,054	\$28.44
Pennsylvania Suburbs									
A	25,947,785	1,865,906	222,260	2,088,166	8.0%	116,005	0	0	\$28.35
B	32,544,684	4,712,305	331,648	5,043,953	15.5%	(3,574)	0	0	\$23.60
Total	58,492,469	6,578,211	553,908	7,132,119	12.2%	112,431	0	0	\$24.99
Southern New Jersey									
A	7,685,525	791,026	15,616	806,642	10.5%	4,779	0	0	\$22.78
B	9,338,263	1,511,642	17,917	1,529,559	16.4%	13,635	0	0	\$19.29
Total	17,023,788	2,302,668	33,533	2,336,201	13.7%	18,414	0	0	\$20.50
Wilmington-New Castle, DE									
A	12,934,669	1,343,598	2,029	1,345,627	10.4%	(45,088)	0	0	\$27.29
B	5,406,574	1,015,994	0	1,015,994	18.8%	81,368	0	0	\$22.58
Total	18,341,243	2,359,592	2,029	2,361,621	12.9%	36,280	0	0	\$25.26
Lehigh Valley, PA									
A	6,153,138	565,088	3,160	568,248	9.2%	345,081	281,680	0	\$21.83
B	3,381,329	335,566	30,269	365,835	10.8%	(79,588)	0	0	\$18.08
Total	9,534,467	900,654	33,429	934,083	9.8%	265,493	281,680	0	\$20.36
MARKET TOTAL									
A	82,611,074	7,556,722	367,042	7,923,764	9.6%	495,017	906,680	1,546,054	\$27.73
B	62,879,990	8,904,848	431,536	9,336,384	14.8%	(267,400)	0	0	\$22.80
Total	145,491,064	16,461,570	798,578	17,260,148	11.8%	227,617	906,680	1,546,054	\$25.07

SUBMARKET VACANCY RATES



DEFINITIONS

Absorption (Net): The net change in occupied space over a given period of time.

Vacancy Rate: A percentage of the total amount of physically vacant space divided by the total amount of existing inventory.

Vacant Space: Space that is not currently occupied by a tenant, regardless of any lease obligation on the space.

Sublease Space: Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation.

Under Construction: Counted when steel is up, not at the commencement of site work.

Build-to-Suit: A term describing property that was developed specifically for a certain tenant to occupy. Can be either leased or owned by the tenant.

Submarket Reviews

CBD Philadelphia

Vacancy in CBD Philadelphia increased as anticipated during the second quarter to 10.6 percent, due in large part to the delivery of the new FMC Tower at Cira Centre® South and FMC's subsequent move from 1735 Market Street. FMC's new global headquarters location occupies more than 250,000-square-feet of office space. Newly renovated space at East Market and the office portion of One Franklin Tower will be adding new vacancy in the coming months.

There are some larger deals circulating that may reduce vacancy, particularly in the Market East/Independence Mall submarket. There has been a steady stream of suburban companies opening full-floor CBD offices such as Carpenter Technology. Coworking companies have expanded significantly in the CBD.

Suburban Pennsylvania

The Suburban Philadelphia office market had an overall vacancy decrease from 12.4 to 12.2 percent during the first two quarters. Class A buildings outperformed Class B space accounting for all of the positive absorption. The increasing limited choice of Class A buildings will begin to shift requirements to Class B buildings. This is already happening in submarkets such as King of Prussia and Plymouth Meeting/Blue Bell where Class B absorption outpaced Class A.

New availabilities in Main Line/Radnor may actually benefit this submarket that has had sub five-percent vacancy.

Southern New Jersey

Following a strong 2015, the Southern New Jersey market slowed during the first two quarters. The vacancy rate decreased from an adjusted 13.8 percent at the end of the fourth quarter, but ticked up slightly from 13.6 percent in the first quarter to 13.7 percent. Burlington County's vacancy decreased from 10.7 to 10.6 percent. Camden County's vacancy rate continued to be much higher and increased from 18.2 to 18.3 percent.

Bayada Home Health purchased the persistently vacant Fairway Corporate Center in Pennsauken. The company accepted an \$18.4 million Grow New Jersey tax credit to stay in New Jersey. Bayada will keep its headquarters in Moorestown but consolidate multiple

New Jersey and Pennsylvania satellite locations.

New Castle County, DE

The vacancy rate in New Castle County decreased overall, but the suburban market was on much more solid footing. The downtown vacancy rate increased from 14.4 to 15.1 percent, mainly due to former Ashland space at 1301 N. Market Street. The Delaware Board of Trade will be operating a new 10,000-square-foot startup stock exchange that may bring further growth to financial services. The vacancy outlook for downtown Wilmington is murky. Chemours still has not committed to stay in Wilmington. Capital One is considering building a new campus on the waterfront, and Bank of America may be selling its downtown buildings.

There was just under 100,000 square feet of absorption in the suburban market. The vacancy rate decreased from 12.0 to 11.0 percent. CSC continues to expand with the construction of a new 148,000-square-foot building and the purchase of an additional building in Little Falls Corporate Center.

Lehigh Valley, PA

The vacancy rate in the Lehigh Valley decreased to 9.8 percent from the end of 2015, but was up from the first quarter. Guardian Life began moving into its new building in Hanover Township. The company will be consolidating multiple Lehigh Valley locations.

Paychex will be expanding by over 20,000 square feet in its current Pond Road location.

A new office project in South Bethlehem, to be anchored by St. Luke's and Lehigh University, was moving forward. The developer of City Center is proposing a new twelve-story office condo building in Allentown but has put additional office plans on hold.

554 offices in 66 countries

\$2.5B in annual revenue
2B square feet under management
Over 16,000 professionals



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