

# NORTHEASTERN PENNSYLVANIA OFFICE

SUMMER 2018



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## Key Market Trends

- > The vacancy rate increased slightly from 6.2% at the end of the first quarter to 6.3% at the end of the second quarter of 2018, the same level as at the end of 2017. Class A vacancy has increased since the end of 2017, mainly due to an increase in sublease space. Class B vacancy decreased from 7.0 to 6.6%.
- > Absorption was flat due to low leasing volume.
- > The weighted average asking rent for Class A space dropped slightly to \$19.08 per square foot, full service, from \$19.20. Class B rents also decreased marginally from \$18.85 to \$18.59 per square foot.

## New Construction

- > Coordinated Health has completed the roof and exterior of its new 42,000 square foot medical campus and ambulatory surgical center at Humboldt Station in Hazle Township.
- > Geisinger Health System's new build-to-suit 79,000 square foot office building at CenterPoint in Pittston being developed by Mericle Commercial Real Estate Services is well on its way to completion in early 2019.

## Outlook

Four floors of Bank America space at 1 Fleet Way in Moosic, totaling 140,000 square feet, will be available in August, which is likely to push the Class A vacancy rate to over 12%.

## Market Update

CLASS	INVENTORY	DIRECT VACANT	SUBLET VACANT	TOTAL VACANT	VACANCY RATE	NET ABSORPTION YTD	COMPLETIONS YTD	UNDER CONSTRUCTION	AVG. ASKING RENT
A	2,106,938	94,320	24,311	118,631	5.6%	-13,165	0	121,000	\$19.08
B	4,165,771	272,140	4,000	276,140	6.6%	16,289	0	0	\$18.59
<b>Total</b>	<b>6,272,709</b>	<b>366,460</b>	<b>28,311</b>	<b>394,771</b>	<b>6.3%</b>	<b>3,124</b>	<b>0</b>	<b>121,000</b>	<b>\$18.74</b>

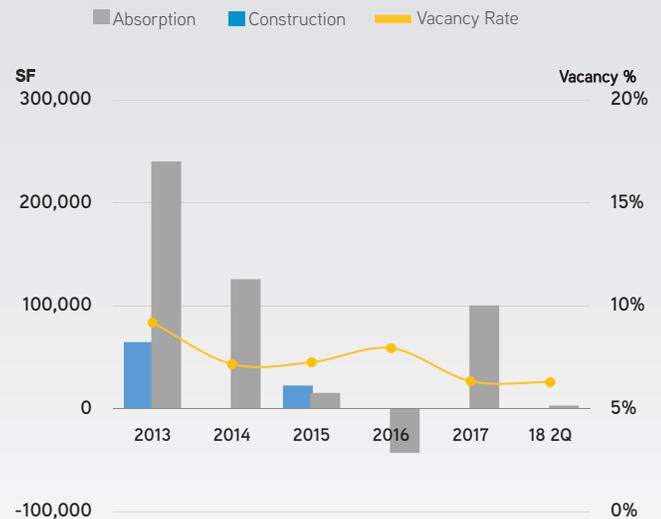
## Market Indicators (Relative to Prior Period)

	Q1 2018	Q3 2018*
VACANCY	↑	↑
NET ABSORPTION	↔	↓
CONSTRUCTION	↑	↔
RENTAL RATES	↓	↑

\*Projected

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

## New Supply, Vacancy and Absorption



## Investment Activity: New to the Market

- > 15 Public Square, a 74,000-square-foot, multi-tenant office building in Center City Wilkes-Barre, is listed for sale at \$4,000,000 to yield a projected 8.25 percent cap rate on existing occupancy of 86 percent.
- > 15 South Franklin Street has hit the market. This partially occupied, 50,000-square-foot office building is being offered as a prime opportunity for conversion to residential use to meet the continuing demand for Center City Wilkes-Barre apartments.
- > The 40,000-square-foot Penn Millers Insurance building at 72 North Franklin Street is on the block as this now ACE affiliate seeks relocation to office space that better suits its Chubb agribusiness insurance mission.

## Completed Transactions

DATE	PROPERTY ADDRESS	PROPERTY NAME	LOCATION	BUILDING SF	BUYER TYPE	COMMENTS
Jun-18	521 Mount Pleasant Drive	Mount Pleasant Medical & Professional Center	Scranton	29,920	Owner Occupant	Geisinger purchased this 100% leased MOB, of which it was leasing roughly half, paying a 7.3% cap rate.
Jun-18	423 Third Ave	Riverview Medical	Kingston	24,040	Investor	Bought by a publicly traded health-care REIT for \$171 per square foot.

## National Office Picture

- > **Vacancy Remains at a Cyclical Low:** The U.S. office vacancy rate held steady in Q1 2018 at its cyclical low of 12.1%, essentially stable for nine successive quarters. One third of U.S. office markets have sub-10% vacancy rates including Austin, Manhattan, Portland and the San Francisco Bay Area; high-vacancy markets include Dallas and Houston.
- > **Rents Rise More Downtown:** Office rent growth increased to 2.1% in Q1 2018 driven by gains in selected downtown markets. The general picture remains one of stability following larger gains earlier in the cycle.
- > **Construction Activity Increases:** After modest declines over the past two quarters, the volume of office space under construction increased to 120.6 million square feet in the first quarter. This is the highest quarterly total in over nine years and close to the prior cyclical peak. Five markets account for half of the space underway: Dallas, Manhattan, San Francisco-San Jose, Seattle and Washington, D.C.
- > **Absorption Continues to Slow:** U.S. office absorption fell to a modest 5.4 million square feet in Q1 2018. This continues a downward trend which has seen national absorption fall over the past two years.
- > **Investment Volume Falls in Both CBD and Suburban Markets:** U.S. office sales volume in Q1 2018 fell almost 25% from Q4 2017 to \$27.3 billion, representing a decline of 12% year over year. While suburban markets remain the principal investor focus, sales volume in the suburbs is now declining.

Our survey of the Northeastern Pennsylvania Market totaled 6.3 million square feet in Class A and B buildings over 10,000 square feet in Lackawanna, Luzerne and Schuylkill counties. Periodic changes are made to the surveyed inventory and historical data is adjusted as a result.

### 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.

### FOR MORE INFORMATION

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### About Colliers International

Colliers International Group, Inc. (NASDAQ: CIGI) is a global leader in commercial real estate services with 15,000 professionals in 68 countries. Colliers is the only major real estate firm to have local representation in Northeastern Pennsylvania with professionals who are from the area and reside in the area. With local knowledge and a global reach, Colliers is able to provide comprehensive real estate strategies to clients who buy, sell, lease, develop, and invest in commercial real estate. Please contact either Jeff Algatt or John Susanin for more information as to how Colliers can help you.

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