

Office space in city rebounds

The new Comcast building spurred fears of a glut.

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SARAH J. GLOVER / Inquirer Staff Photographer

Darien Felder (left) signs his work at the Comcast Center's topping-off. Among the items on the steel beam was a statue of William Penn, intended to prevent bad sports luck for the city.

Three years ago, with office vacancies in the upper teens and rents plunging, some building owners predicted hard times if a new skyscraper came onto the downtown scene.

One owner, David Campoli, contended in 2004, during the public debate over public subsidies for a proposed 57-story high-rise for Comcast Corp., that the "Center City market is very bad. . . . There are 184 full-floor vacancies."

From 2000 to 2004, the city lost about 33,000 jobs.

But seemingly against the odds, Center City pulled a rubber-burning 180-degree turn. Office vacancy rates have fallen and rents firmed as the Comcast Center, which was topped off yesterday, nears completion.

Several factors, experts say, led to the change in direction:

Comcast doubled its lease space in the new building at 17th Street and JFK Boulevard to about 1 million square feet since 2005. Citizens Bank also has rented two floors for its eastern Pennsylvania headquarters. The Comcast Center is 96 percent leased, said John Gattuso, the senior vice president of Liberty Property Trust in charge of building and leasing Comcast Center.

Two health-care systems, Children's Hospital of Philadelphia and the University of Pennsylvania Health System, jumped the Schuylkill and leased hundreds of thousands of square feet of office space for administrative functions. The organizations signed leases in the Wanamaker Building and Centre Square, at 1500 Market St., which Comcast is departing for its new digs.

The top third of Two Liberty Place, one of the biggest buildings in Center City, is being converted into luxury condos, taking top-class office space off the market.

Center City has held onto most of its major office tenants in recent years. Meanwhile, organic growth is leading Center City firms to boost their office space needs, and the job market has stabilized.

"It didn't turn out as bad as all the naysayers thought," said H. Hetherington Smith, senior vice president and branch manager for Studley Inc., a commercial real estate firm, of the office market.

Smith said he believed the market had cooled somewhat since January.

"I don't feel as optimistic as I did, but it's still a good market," she said.

"The market has had a good two or three years to think about Comcast and move around it," said George Cauffman, senior vice president with CB Richard Ellis Group Inc., the nation's largest commercial real estate firm. "Almost every tenant out there wants big space," he said. "It's trending toward a landlord market."

Jack Soloff, senior vice president with Grubb & Ellis Co., said the dire scenario in the downtown office market "hasn't happened. It doesn't appear likely to happen. . . . The market has really tightened up over the last 18 months."

Soloff called the moves by the health-care institutions unexpected and "very helpful to the market. Both of those were pure absorption," he said.

Liberty Property Trust, of Malvern, recouped a major portion of its investment in April 2006, selling 80 percent of the \$523 million building to CommerzLeasing & Immobilien AG, of Düsseldorf, Germany, a wholly owned subsidiary of Commerzbank AG.

In 2004, rival building owners waged a lobbying and public relations campaign and persuaded the legislature to reject an effort by Gov. Rendell to designate the Comcast Center site a Keystone Opportunity Zone, which would have given it a rich package of tax breaks.

The state still spent \$30 million to subsidize relocation of underground utilities and help pay for a one-acre public plaza at the entrance to Comcast Center. And the project also was eligible for a 10-year property tax abatement available to all projects in Philadelphia.

Gattuso said he believed critics "unnecessarily painted bleakly" what could happen with the new high-rise, which will boost the available premium office space downtown by 5 percent.

Philadelphia has to modernize its offices to grow its economy, Gattuso said. He said he believed the new building created a "sense of positive momentum."

Some momentum is generated by Comcast itself, as it increased its lease space in the center to more than 1 million square feet. Comcast has not said how many employees will work there, but it is relocating employees from three other Center City buildings into it. A Comcast official said yesterday that the company had been hiring for its phone, interactive media and networks divisions.

Comcast Center's annual per-square-foot rents are in the high \$30s, which has allowed rents at other buildings in the mid-\$20s to creep upward, Gattuso said.

Average office rent for top-grade space in Center City was \$26.50 a square foot in the first quarter, said Wayne Fisher, senior vice president with Grubb & Ellis, the commercial real estate firm. Office rents peaked in 2002 at \$28.50, Fisher said, and then fell to \$25 by 2004. They have climbed since 2004, he said.

With the vacancy rate for top-grade office space estimated between 10.5 percent and 12.5 percent by commercial real estate firms, rumors have circulated of plans for other new high-rise offices.

The vacancy rates vary by firm because of different methods for calculating the rate and the different classification of top-grade space.

Comcast has an option to lease a 20-story building that would be built by Liberty on the same site as the new building. "We are looking at a variety of scenarios for Phase Two," Gattuso said.

Another possible new-building site, say real estate experts, is near the sleekly modern Cira Centre in West Philadelphia. The Cira Centre, which opened in 2005, is almost fully leased, according to commercial real estate firms.

Campoli, vice president for this region of HRPT Properties Trust, of Newtown, Mass., was one of the loudest critics of granting subsidies to Comcast Center. "There's far more important things for the state to spend money on," he said yesterday.

HRPT Properties owns the Centre Square building, which is used by Comcast now, as well as Mellon Bank Center and other high-profile Center City buildings. Campoli said about 70 percent of the space that Comcast would leave when it relocates was leased. "We're bullish," he said of the downtown office market, "we're pushing rates. It's a surprising turnaround."