



## Rising Construction Costs and its Impact on Tenants in the Market

By: Bethann Coradino, Berkshire Hathaway HomeServices, Fox and Roach Realtors

The view offered by a short elevator ride to the top of any skyscraper in Philadelphia unveils a skyline riddled with cranes. Indicative of a strong economy, construction is taking place all across the city. Whether that be the infrastructure improvements that make it impossible to get across town, the new Comcast Technology Center that had 18th street shut down for what felt like an eternity, or the trifecta of projects that are occurring around 30th Street Station, it is undeniable that the construction industry is booming. But what does all of this mean for Philadelphia's office tenants?



"The response is two-fold," explains Jay Joyce, Corporate Managing Director at Savills Studley in Philadelphia. "Landlord face rates are up and, while they are providing healthy tenant improvement packages, tenants are making longer lease commitments to help cover the additional costs of construction." Savills Studley has seen an average increase in the cost to fit-out a space of approximately \$15.00 per square foot. Five to 10 years ago it cost \$60.00 per square foot for a new fit-out, relays Joyce, but now the average is \$75.00 per square foot.

What is the reason for this increase? Luke Thomas, Director of Operations with Structure Tone explains, "While there are several reasons why we have seen increases in hard construction costs recently, the heightened activity of the construction market in our area is the primary driving factor. There

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## Volunteer Spotlight

### Paul Garvey

Senior Director –  
Cushman & Wakefield  
Membership Committee



**I chose to join CoreNet because...** My focus is always to bring the best expertise and creative strategies to my clients. By actively participating in CoreNet to share, learn, and collaborate, it allows me to continue to refine and develop best practices in corporate real estate. Real estate executives need a network and team to support building real estate strategies aligned to their business objectives, delivering services, and training their teams. As service providers are challenged with delivering corporate executives requirements or desired outcomes, CoreNet provides a valuable forum to learn what has worked (or

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## Don't Miss These Events!

- Oct. 14: **ERS Chapter Reception**  
Hynes Convention Center  
(Meeting Room 312), Boston, MA
- Oct. 14-17: **CoreNet Global Summit**  
Hynes Convention Center, Boston, MA
- Oct. 25: **Is Real Estate Ready for Blockchain?**  
Quorum, University City Science Center,  
Philadelphia, PA
- Nov. 7: **Non-Traditional Careers In Real Estate**  
St. Joe's University, 5600 City Ave.,  
Philadelphia, PA

Visit the [events section](#) of the chapter website for more information and to register.

## CoreNet Global Knowledge Center and Research

The CoreNet Global Knowledge Center is the single source for corporate real estate research. An important benefit to our members, the library contains original research, member organization publications, market reports and industry specific research reports and white papers. Search for what you need, browse the knowledge topics and simply ask the Librarian if you need assistance.

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## Is the Real Estate Industry ready for BLOCKCHAIN?

Blockchain is the technology platform that is rapidly shifting how companies do business. Do you remember the world before Smartphones? Within a few years, you will not remember the world before Blockchain. Blockchain is a public, permanent, transparent ledger that tracks the exchange of information, currency and contractual obligations. For example, imagine no longer having to record a deed or even buy title insurance when you buy your home – the real



### Speaker

**Kevin Shtofman,**  
Deloitte Consulting LLP

estate has been tokenized, the transaction occurs on the blockchain, and it is hack-proof and instantaneous. Cook County, Illinois has already successfully tested the technology, as have the states of Wyoming and Vermont. Governments like Estonia are already using Blockchain to record all citizenship documentation. Because the Blockchain is a system of trust, it has enormous potential to disrupt every industry, but particularly those where you have trust-based advisors like Real Estate. Come find out more about Blockchain!

## Thursday, October 25, 2018

5:30pm – 6:00pm • **Registration & Networking**

6:00pm – 6:50pm • **Presentation**

6:50pm – 7:00pm • **Q&A**

7:00pm – 7:45pm • **Networking**

University City Science Center, 3711 Market Street, Philadelphia, PA, Quorum

Fee: \$35/Member, \$25/Developing Leader

\$65/Non-Member, Students Free

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# Non-Traditional Careers In Real Estate

## Helping Students Navigate Optimal Career Paths

Please join our panel of exceptional industry professionals of various disciplines as they discuss their career paths and offer suggestions to students interested in a career in real estate on how to pursue these unique opportunities.

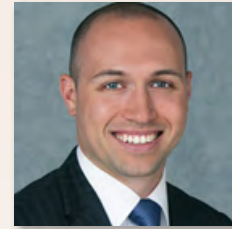
### Speakers:



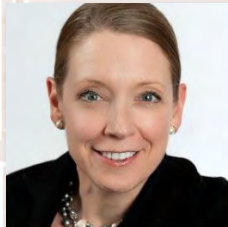
**Barton Bland**  
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**Lauren Gilcrest**  
SVP, Director of Research  
*JLL*



**Jay Joyce**  
Managing Director  
*Savills Studley*



**Lisa McGregor**  
Director of Planning & Strategy  
*Jacobs*



**Lainie Sitko**  
Director, Workplace Strategy  
*Vertex, Inc*



**Sarah Speroff**  
Project Manager  
*MovePlan*

**Wednesday, November 7, 2018 • 6:00 PM - 8:00 PM**

5600 City Ave., Philadelphia, PA, St. Joe's University

Fee: \$15/Member, \$30/Non-Member, Students Free

**Register  
Now**

### Volunteer Spotlight *continued from page 1*

not worked) and why, to understand challenges occupiers are facing in Philadelphia and across the country, and to discover and develop new solutions and strategies, while maintaining “best-in-class” real estate services.

**The 2018 CoreNet event I am most looking forward to is...** The Summit in Boston.

**My most unique real estate assignment has been...**  
Securing a recording studio for Disco Biscuits.

**When I'm not at work or at CoreNet events, you'll find me...** In the garden, at the stove, on the bicycle, or on the golf course.

**I am originally from...** Long Island, New York.

**My favorite saying is...** “Dream it, plan it, do it.”

**My favorite thing about Philadelphia is...** its history, cultural institutions, and food scene.

**If I had to take a tourist to one Philly area destination, it would be...** Independence Hall.

**My favorite vacation destination is...** Rome.

**The most enjoyable book I've read this year is...** *Tommy's Honour* by Pameal Marin and Kevin Cook.



# Checking Out Philadelphia's New and Exciting Projects on the Trolley Tour

*By Jay Joyce, Savills Studley*

The CoreNet Education and Young Leaders Committees were pleased to host a sold-out Trolley Tour through the streets of Philadelphia on Thursday, August 16th. The tour consisted of four stops with projects ranging from the new tenant fit outs at Five Below and Tierney, to discussions on redevelopment projects at [2400 Market Street](#) and 990 Spring Garden. These behind the scenes tours were educational with valuable insights from the professionals leading the projects, as well as an excellent and fun networking opportunity. Attendees with varying backgrounds within the industry, including end users, brokers, architectural/engineering, construction and vendors, came together to tour some of Philadelphia's new and exciting projects!



## CoreNet Learns Best Practices for the IPD Model

On Wednesday, September 12, CoreNet Philadelphia attracted 50 attendees to the offices of the PennFIRST team at Penn Medicine in University City. The PennFIRST team, comprised of HDR, Foster+Partners, BR+A, L.F. Driscoll and Balfour Beatty, is a co-located team driving a collective delivery of a highly innovative healthcare facility which will support patients, clinicians, researchers and faculty of Penn Medicine. The Pavilion's construction is underway, adjacent to the Hospital of University of Pennsylvania (HUP) and will house more than 500 patient rooms, structured parking and dozens of operating rooms in 1.5 million square feet.

The team explained the Integrated Project Delivery (IPD) model under which it operates and how that model aligns objectives and supports their desire to build a facility meant to serve generations of Delaware Valley citizens for the next hundred years.

The audience was so engaged and interested in the discussion the question time ran over. The meeting was followed by a tour of the mock-up operating rooms and models housed at PennFIRST's offices. CoreNet is deeply appreciative to the speakers for their willingness to share best practices for the IPD model with an enthusiastic audience. Thank you to the following presenters: Stephen Greulich, Senior Project Manager, Penn Medicine; Derek Tasch, Associate Partner at Foster+Partners, Ed Hanzel, Project Executive at LF Driscoll/Balfour Beatty, and; Daryl Bodewin, Principal, HDR.

is a shortage of qualified man power in our industry; keeping up with the demand in the region has taxed a lot of subcontractors. In this climate, subcontractors are able to be more selective when bidding on projects and qualified contractors are at a premium.”

Jones Lang LaSalle (JLL) of Philadelphia has also seen the effects of rising construction costs. Since 2014, the average improvement allowance provided by landlords has increased more than 16% in the Philadelphia Region (city and suburbs combined). What used to be an average of \$30.00 per square foot has risen to almost \$35.00 per square foot. “This captures the trend of landlords putting more money into deals through tenant improvement dollars in part to help mitigate the rising costs of construction,” explains Clint Randall, Senior Analyst with JLL.

Despite the increase in tenant improvement allowance packages from landlords, tenants cannot expect to find any sweet heart deals in this strong market. “There is only a 5% vacancy rate among the Trophy Class, so landlords still have a lot of power,” says Matthew Croce, Director of Leasing with Brandywine Realty Trust. Depending on the deal, Croce will give \$5.00, maximum \$6.00, per square foot per year. By way of example, this translates to \$50.00 to \$60.00 per square foot on a 10-year deal. This is not much when tenants in Trophy and Class A buildings are spending \$80.00 to \$140.00 per square foot for the hard costs of construction on their new fit-outs. That means they are coming out of pocket a minimum of \$20.00 per square foot.

Tenants don’t want to come out of pocket, so lease terms are being pushed from the traditional five years to seven or 10 years. “What we do is try to add two or three years to their term to help close the gap,” explains Brian Orr, Director of Leasing at Brandywine Realty Trust. Doing this allows landlords to give their tenants a larger tenant improvement allowance since there is a longer term in

which to amortize the costs. “Some of our larger tenants, those who have national accounts, are even committing to 15-year lease terms, which is something we never used to see,” says Orr.

But what does all of this mean for smaller tenants, startups, those with an unpredictable five to 10 year business plan? “Many are forced to stay put, to sublease, or to sign a short, one to two year lease renewal, punting the decision until the market turns,” says Morgan Langley, Assistant Director with Savills Studley.

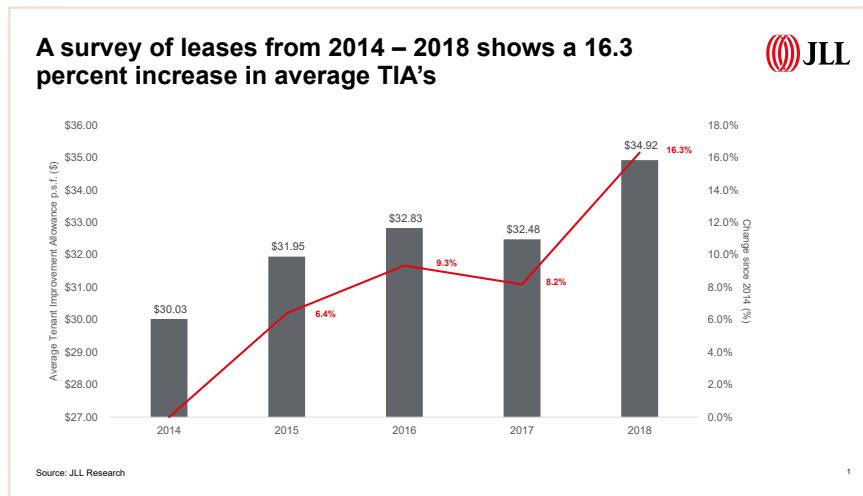
Ashley Parrillo, Associate with JLL, also feels the pain for her clients. “It is hardest on the renewing tenants and the

smaller tenants. For those renewing, landlords know how expensive it is to move, so they take advantage and push renewal rates. For the small tenants who want a short lease term, it is impossible to come by. They are forced to find subleases, which go fast, or second-generation space, which is

limited and hard to find in good condition,” she relays.

The smartest thing a tenant can do when entering into a new lease now is to maximize the space. Since longer terms are necessary, the future must be considered. Creating residual value will help offset the upfront costs. As Thomas explains, “A 12 or 15 year lease can ease some of the upfront project expense, but planning for the headcount growth over an extended time period is something that tenants have to consider as well. We have also had clients who fit out the majority of their space (taken on a lengthy lease), but left a portion of the space raw for future expansion.”

Since rising construction costs are having such an effect on tenants in the market, Thomas’ advice on planning for the future is a good take away. As companies enter into new leases and begin to design their space, it is crucial that they make their money work for them by ensuring the space has lasting value and offers ultimate flexibility.



# Call for Volunteers!

CoreNet Philadelphia is looking for eager volunteers! There are many ways to get involved such as helping a committee, hosting an event at your facility, speaking at an event, writing an article for the newsletter, and more. Please [let us know](#) if you are interested!

**NOTE:** You must be a CoreNet member to volunteer for a committee.



## Welcome New Members

<b>Kyle Block</b>	• JLL Americas, Inc.
<b>Diane Botson</b>	• Vanguard
<b>Ann Dumas-Swanson</b>	• Perkins+Will
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<b>Curtis McLean</b>	• Vanguard
<b>Brian O'Connor</b>	• Restoration Hardware
<b>Josh Riley</b>	• Vanguard
<b>Sarah Speroff</b>	• MovePlan USA Inc

## CoreNet Global Events:

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### Workplace Strategy Essentials May 20 - 21, 2019 • Philadelphia, PA US

This seminar provides an introduction to the dynamic practice of workplace strategy. In addition to foundational elements, examine the broader role of workplace strategy, global issues, tools, technologies.

### Performance Management May 20 - 21, 2019 • Philadelphia, PA US

This seminar addresses a broad range of performance management approaches and methodologies leveraged in the corporate real estate (CRE) arena. The seminar will highlight recent corporate case studies to demonstrate business

### Enterprise Alignment May 22 - 23, 2019 • Philadelphia, PA US

Align corporate real estate functions to business strategy, objectives, and priorities. Improve strategic relationship management and implement proactive change management. Required for MCR.

### Project Finance and Capital Markets May 22 - 23, 2019 • Philadelphia, PA US

Analyze and evaluate impacts of different types of financing for acquisition and disposition of large corporate real estate assets, develop business cases for recommended solutions proposed to senior corporate finance

### Workplace Strategy Methodologies May 22 - 23, 2019 • Philadelphia, PA US

Building on the six core competencies and framework presented in the Workplace Strategy Essentials seminar, participants will learn to use methodologies to develop and implement a workplace strategy.

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