

Greater Philadelphia Office, Q1 2020

# Ahead of COVID-19 outbreak, market tightening

**Vacancy Rate**  
14.6%

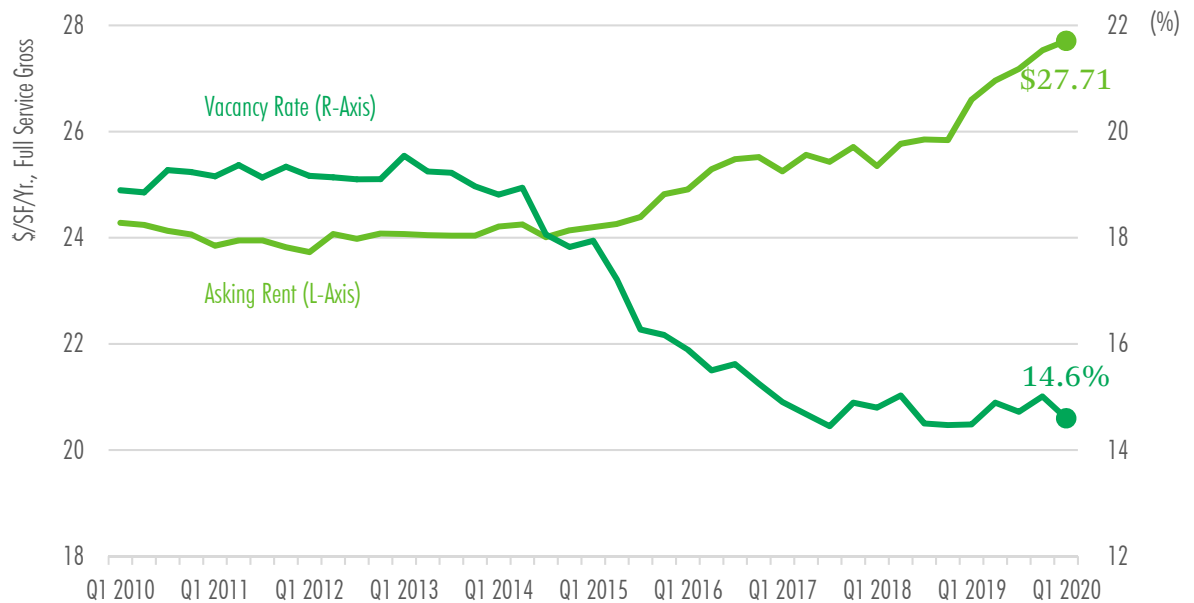
**Overall Average Asking Rent**  
\$27.71 PSF

**Yearly Net Absorption**  
415,265 SF

**Under Construction**  
1,454,045 SF

Figure 1: Vacancy vs. Asking Rents

Arrows indicate change from previous quarter.



Source: CBRE Research, Q1 2020.

**MARKET ACTIVITY**

The COVID-19 pandemic has forced some state governments to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the U.S. economy into a recession that will result in very sharp declines in GDP for H1 2020 and in job losses, particularly in the retail, food & beverage and transportation sectors. Office-using employment may be less negatively affected than in recent recessions. But the unique nature of this downturn should result in an unusually swift recovery that could begin as early as Q3 2020. Assuming the coronavirus peaks this summer in the U.S.—mirroring China’s experience—the U.S. government’s fiscal

- Ahead of the COVID-19 outbreak, Morgan Lewis signed a lease for a 305,000-square-foot built-to-suit to be developed by Parkway Corporation at their 2222 Market Street site.
- Hana committed to a site at 1818 Market Street. This is the flexible office space operator’s first location within the greater Philadelphia market.
- Occupancy gains were significant, especially within the suburban Philadelphia office market where more than 375,000 square feet were absorbed.
- Capital market sales enjoyed a spike as a result of Prologis’s acquisition of Liberty Property Trust. But other players, including foreign investors, also added to a strong quarter of sales volume

and monetary stimulus will begin to bear fruit. This will be paired with pent-up private demand that could help the U.S. economy return to growth by year-end and drive stronger than previously expected growth in 2021.

**PRE-COVID-19**

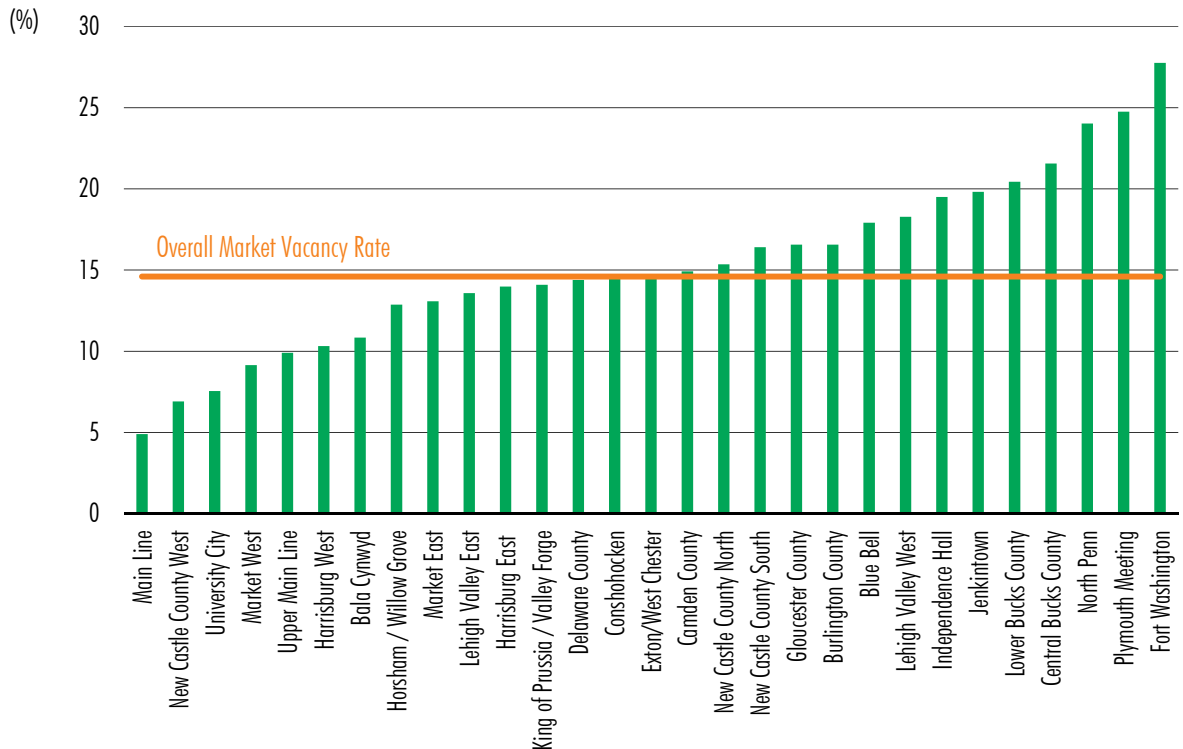
Ahead of the COVID-19 outbreak, Philadelphia’s office market enjoyed continued demand growth. Morgan Lewis, one of Philadelphia’s largest law firms, signed a lease for 2222 Market Street, a 305,000-square-foot (sq.-ft.) built-to-suit project by Parkway Corporation. This signified the return of office construction to the east side of the Schuylkill River. On the other side, One uCity Square began construction. The building is located in a Keystone Opportunity Zone with a sunset date of 2028.

Also in the city, Hana, a flexible space operator, committed to a 50,700-sq.-ft. site at 1818 Market Street, its first location within the greater Philadelphia office market. In the suburbs,

Paypal inked a lease for 99,500 sq. ft. at Brandywine Realty Trust’s Metroplex One in Plymouth Meeting while Vanguard committed to 60,000 sq. ft. at 2 West Liberty Boulevard. Overall, occupancy within the suburbs grew at a faster pace during Q1 2020 than it had in all of 2019 by more than 60,000 sq. ft.

Beyond the prior noted uCity Square and Morgan Lewis built-to-suit developments, construction continued on three suburban built-to-suit projects. Hamilton Lane’s and AmerisourceBergen’s buildings in Conshohocken along with AmeriHealth Caritas’s new headquarters in Ellis Preserve were well underway and slated for 2020 and 2021 deliveries. But, with Governor Wolf’s moratorium on construction in the face of the COVID-19 pandemic, timing for anything from ground-up construction to tenant fit-outs became unclear. With only essential-business-related construction allowed by waiver, all commercial real estate projects in Pennsylvania ceased with timing to begin again unclear, much less delivery dates.

**Figure 2: Vacancy Rates by Submarket**



Source: CBRE Research, Q1 2020.

Figure 3: Philadelphia Metro Office Market Statistics

SUBMARKET	Number of Buildings	Inventory (Sq. ft.)	Total Vacancy Rate (%)	Total Availability Rate (%)	Under Construction (Sq. ft.)	2020 YTD Total Net Absorption (Sq. ft.)	Avg. Asking Lease Rate (\$Fsg/Psf/Yr)	Avg. Class A Asking Lease Rate (\$Fsg/Psf/Yr)
Market West	54	29,043,680	9.1%	14.9%	0	122,888	\$35.17	\$36.01
Market East	22	7,879,617	13.1%	16.2%	0	7,950	\$29.30	\$32.66
Independence Hall	13	4,529,039	19.5%	20.3%	0	-9,540	\$33.17	\$32.96
University City	24	4,915,028	7.5%	9.5%	389,000	0	\$39.99	\$40.60
Downtown Philadelphia Subtotal	113	46,367,364	10.6%	15.1%	389,000	121,298	\$34.12	\$35.49
Bala Cynwyd	28	2,861,073	10.8%	15.5%	0	8,183	\$33.86	\$33.99
Blue Bell	82	4,482,412	17.9%	20.2%	0	158,276	\$25.56	\$30.99
Central Bucks County	67	1,945,697	21.6%	24.2%	0	-5,659	\$22.44	\$28.94
Conshohocken	26	3,363,601	14.6%	18.0%	687,045	8,607	\$37.70	\$39.16
Delaware County	85	5,289,168	14.4%	18.0%	378,000	55,254	\$27.13	\$28.86
Exton / West Chester	90	3,962,118	14.7%	16.1%	0	-16,627	\$24.82	\$29.10
Fort Washington	44	3,181,809	27.8%	30.2%	0	16,005	\$24.42	\$28.02
Horsham / Willow Grove	81	5,058,978	12.9%	19.6%	0	56,051	\$23.89	\$27.17
Jenkintown	22	1,364,695	19.8%	19.8%	0	-35,915	\$22.85	\$24.88
King of Prussia / Valley Forge	232	16,952,872	14.1%	18.4%	0	-12,876	\$28.43	\$32.83
Lower Bucks County	110	5,195,034	20.4%	22.0%	0	-68,223	\$25.02	\$26.98
Main Line	46	2,768,565	4.9%	5.6%	0	44,225	\$38.79	\$42.11
North Penn	15	990,598	24.0%	24.2%	0	-3,486	\$19.56	\$17.98
Plymouth Meeting	37	2,332,475	24.8%	29.1%	0	99,487	\$31.36	\$33.89
Upper Main Line	36	1,036,287	9.9%	10.5%	0	72,663	\$30.47	\$38.07
Suburban Philadelphia Subtotal	1001	60,785,382	15.9%	19.2%	1,065,045	375,965	\$27.36	\$31.01

Source: CBRE Research, Q1 2020.

Figure 3 (cont.)

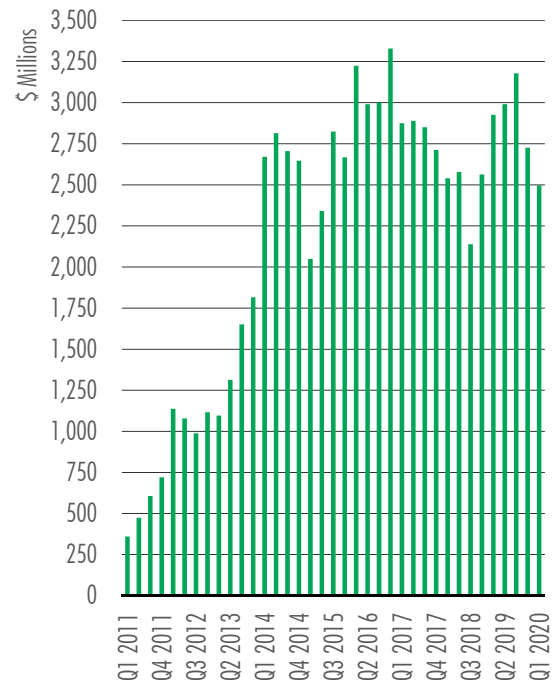
SUBMARKET	Number of Buildings	Inventory (Sq. ft.)	Total Vacancy Rate	Total Availability Rate	Under Construction (Sq. ft.)	2020 YTD Total Net Absorption (Sq. ft.)	Avg. Asking Lease Rate (FSG/Sq. ft./Yr)	Avg. Class A Asking Lease Rate (FSG/Sq. ft./Yr)
Burlington County	191	9,392,892	16.6%	18.2%	0	-113,347	\$21.98	\$24.22
Camden County	123	7,811,267	14.9%	17.5%	0	-27,642	\$20.41	\$23.25
Gloucester County	24	467,492	16.6%	17.3%	0	-2,895	\$24.22	\$ NA
<b>Southern New Jersey Subtotal</b>	<b>338</b>	<b>17,671,651</b>	<b>15.8%</b>	<b>17.9%</b>	<b>0</b>	<b>-143,884</b>	<b>\$21.35</b>	<b>\$24.05</b>
Wilmington CBD	38	7,173,800	25.5%	26.3%	0	33,222	\$25.92	\$27.02
North New Castle Co.	40	2,230,484	15.4%	18.7%	0	-50,576	\$24.25	\$26.10
South New Castle Co.	82	4,450,471	16.4%	19.3%	0	11,197	\$22.04	\$23.21
West New Castle Co.	25	1,446,367	6.9%	7.7%	0	16,611	\$25.06	\$24.09
<b>Northern Delaware Subtotal</b>	<b>185</b>	<b>15,301,122</b>	<b>19.6%</b>	<b>21.4%</b>	<b>0</b>	<b>10,454</b>	<b>\$24.50</b>	<b>\$25.84</b>
Lehigh Valley East	54	2,912,451	13.6%	14.1%	0	57,507	\$21.16	\$22.62
Lehigh Valley West	104	7,065,165	18.3%	19.4%	0	-12,101	\$21.92	\$24.34
<b>Lehigh Valley Subtotal</b>	<b>158</b>	<b>9,977,616</b>	<b>16.9%</b>	<b>17.9%</b>	<b>0</b>	<b>45,406</b>	<b>\$21.82</b>	<b>\$24.17</b>
Harrisburg East	151	7,875,158	14.0%	15.3%	0	13,781	\$18.69	\$20.12
Harrisburg West	96	3,849,084	10.3%	13.1%	0	-7,755	\$19.99	\$21.68
<b>Harrisburg Subtotal</b>	<b>247</b>	<b>11,724,242</b>	<b>12.8%</b>	<b>14.5%</b>	<b>0</b>	<b>6,026</b>	<b>\$19.03</b>	<b>\$20.70</b>
<b>Total</b>	<b>2042</b>	<b>161,827,377</b>	<b>14.6%</b>	<b>17.7%</b>	<b>1,454,045</b>	<b>415,265</b>	<b>\$27.71</b>	<b>\$31.17</b>

Source: CBRE Research, Q1 2020.

**CAPITAL MARKETS**

Prologis’s acquisition of Liberty Property Trust accounts for most of Philadelphia’s office trades during Q1 2020. This surge pushed quarterly sales volumes up more than \$150 million while the four-quarter aggregate amount crept lower as the market cooled from its previous peak in late 2018 and early 2019. Beyond Prologis’s acquisition, there remained plenty of interest for Philadelphia office product in both downtown and suburban markets. Foreign capital continued to show interest in Philadelphia as an investment option highlighted by the joint venture between Dimah Capital Investment and Rasmala’s acquisition of 1050 Constitution Ave, the built-to-suit for Axalta in the Navy Yard completed in 2018. Both are based out of the United Arab Emirates.

**Figure 4: Sales Volume, 4-Quarter Aggregate**

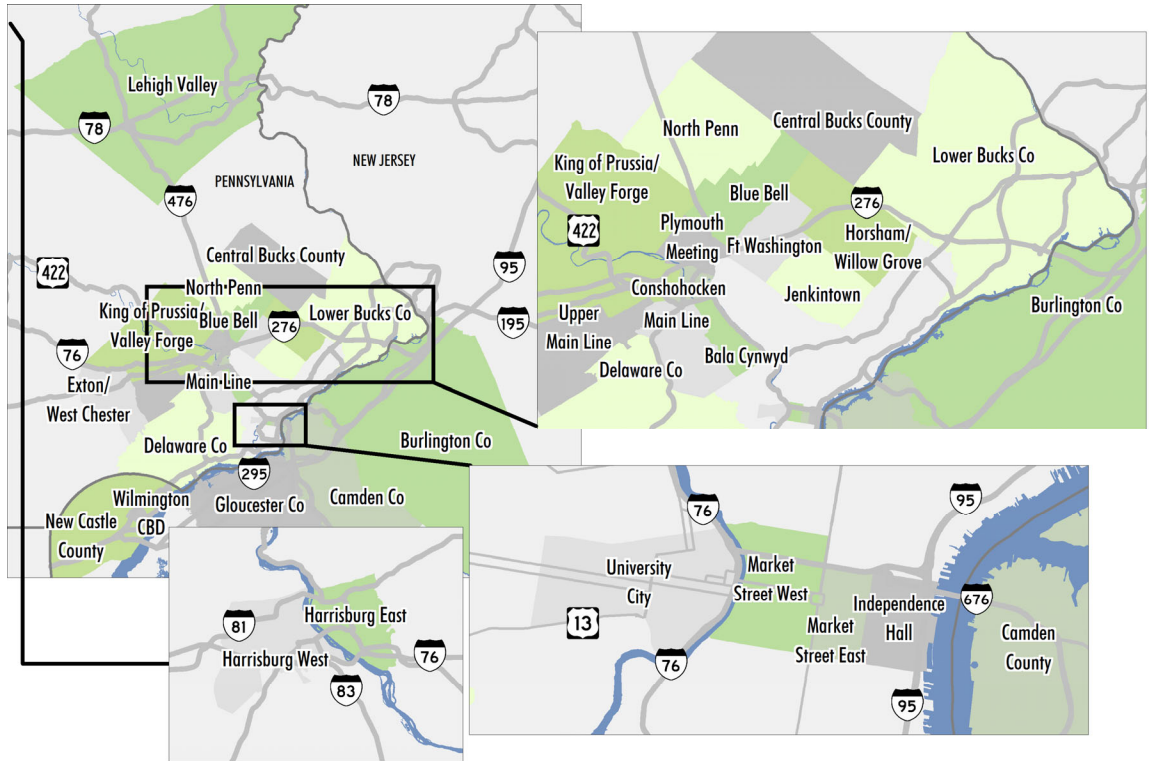


Source: CBRE Research, Q1 2020.

**Figure 5: Top 10 Office Leases**

Tenant/Buyer	Building	Size (Sq. Ft.)	Transaction Type
Morgan Lewis	2222 Market St	308,000	New Lease
ASRC Federal	121 Whittendale Dr	109,629	Renewal
PayPal	4000 Chemical Rd	99,500	Renewal
Apple Vacations	7 Campus Blvd	65,000	Renewal
Buchanan Ingersoll	50 S 16th St	55,090	New Lease
Hana	1818 Market St	50,745	New Lease
Parker McCay	9000 Midlantic Dr	45,735	Renewal
Mindspace	100 E Penn Sq	41,277	New Lease
Qualtek USA	475 Sentry Pky	35,000	Renewal
Dechert LLP	1735 Market St	34,987	New Lease

Source: CBRE Research, Q1 2020



**CONTACTS**

**Joseph Gibson**  
*Senior Field Research Manager*  
 +1 610 727 5922  
 joseph.gibson@cbre.com

**Richard Bieniek**  
*Field Research Analyst*  
 +1 610 272 5885  
 richard.bieniek@cbre.com

**Peter Kondelis**  
*Field Research Analyst*  
 +1 484 567 2473  
 peter.kondelis@cbre.com

**LOCAL OFFICES**

**Center City Philadelphia**  
*Two Liberty Place*  
 +1 215 561 8900

*Cira Centre*  
 +1 215 921 7400

**Radnor, PA**  
 +1 610 251 0820

**Allentown, PA**  
 +1 610 398 6900

**Harrisburg, PA**  
 +1 717 540 2700

**Mt. Laurel, NJ**  
 +1 856 359 9500

**Wilmington, DE**  
 +1 302 661 6700

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at [www.cbre.com/researchgateway](http://www.cbre.com/researchgateway).