

MARKETVIEW
PHILADELPHIA OFFICE,
Q2 2021

Expectations turning into reality

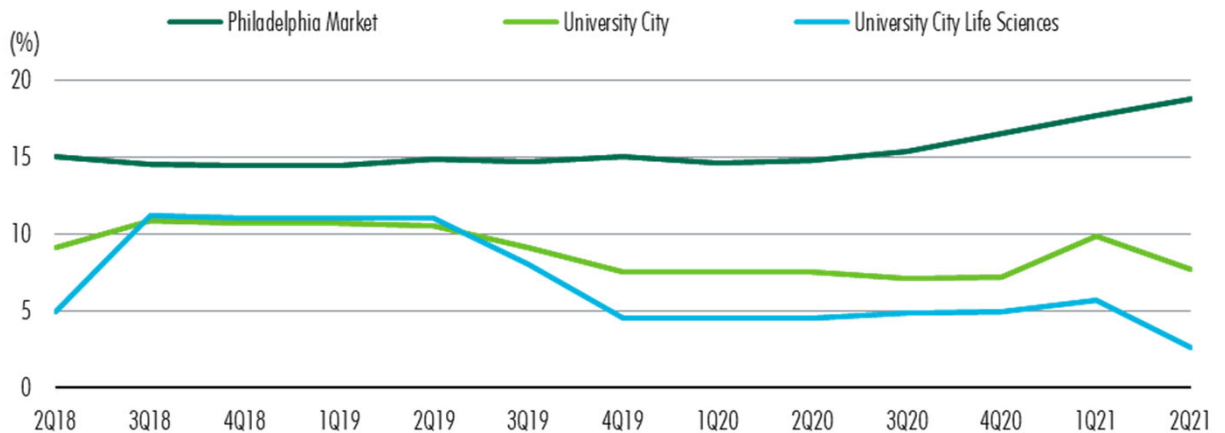
Vacancy Rate
18.9%

Overall Asking Rent
\$27.78

YTD Net Absorption
-3.0 MSF

Under Construction
1.2 MSF

Figure 1: Vacancy Rate Comparison



Source: CBRE Research, 2021.

- While the pandemic forced many people to work from home locally and nationally, the Tuesday after Labor Day is slated as return-to-office day. How companies re-engage with the office will dictate future demand.
- Rents started to show signs of softening on average after being buoyed by significant Class A availabilities being added to the market following the start of the pandemic.
- The demand for life sciences underscores that sector’s resiliency. As a result, significant construction is underway, specifically within the University City submarket, where existing lab availabilities are practically non-existent.

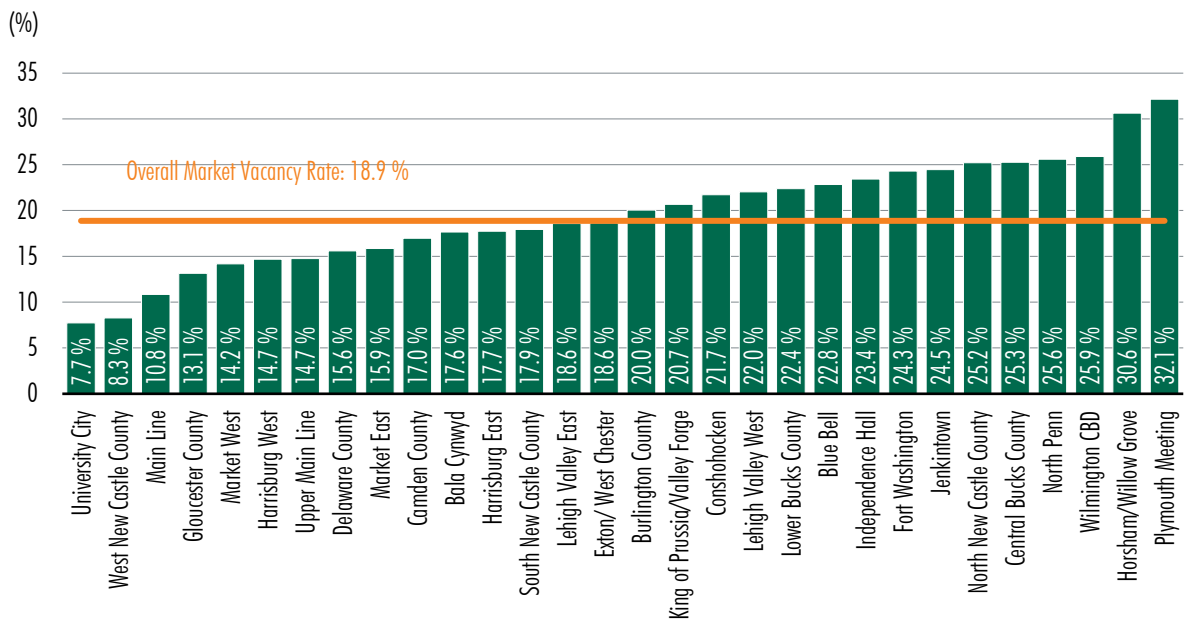
As the total number of vaccinated people in Philadelphia reached 50% of adults that are fully vaccinated, and 70% that have at least received their first vaccination, indoor mask mandates were lifted for Philadelphia in a move toward a new normalcy. Even with the rise of vaccinations and removal of the mask mandate, there was a fifth consecutive quarter of office occupancy loss across the Philadelphia market in Q2 2021. It brought the total to more than 6.2 million square feet (sq. ft.) since the start of the COVID-19 pandemic. During that same time, vacancy also rose 680 basis points (bps.) to settle at 18.9% while rents started to show signs of softening after an influx of Class A availability artificially drove the average up during the early part of the pandemic.

Rising vacancy and falling asking rents continued to worry landlords about the short-term fate of the market. Although there were reasons to be concerned, there were still signs of positive trends ahead. Sublease availability increased during Q2 2021, but at a slower pace than the past two quarters. Q4 2020 and Q1 2021 had combined 1.5 million sq. ft. of sublease space added to the market while only 238,000 sq. ft. was added during Q2 2021, on net. Furthermore, leasing activity increased as companies try to find the right amount of office space for their returning employees. To that end, most expect for the Tuesday after Labor Day to signal a mass return of employees to office. But, as companies determine where their employees are most productive, the mass return may not be the return to normal that we knew before the pandemic. Many companies are considering flex schedules that incorporate work-from-home options.

CBRE expects the average employee to work about 3 to 4 days in the office per week, on average.

The overall asking rent across the Philadelphia market moved sideways this quarter as Class A space delivered to the suburbs. Downtown posted, one of the steepest drops as average rents fell \$0.33 to settle at \$33.62. Overall rents had been increasing in some markets following the start of the pandemic as a result of more Class A space added to availability rather than from price appreciation. Now consistently rising vacancy levels coupled with diminished demand compared to pre-pandemic levels, is driving prices lower due to supply and demand forces. This is especially true as the share of available sublease space remains high, forcing landlords to compete with discounted space. Despite this, landlords continue to try and trade concessions for rent depreciation in order to satisfy debt underwriting assumptions.

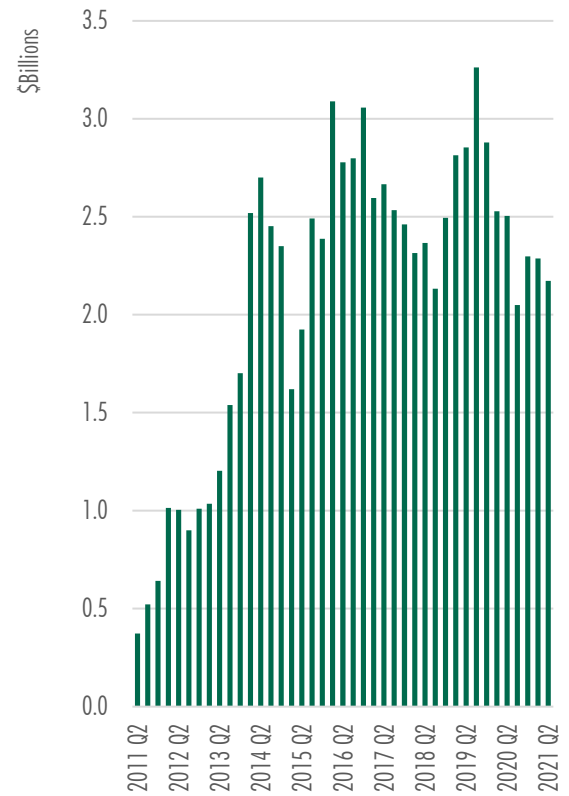
Figure 2: Vacancy Rates by Submarket



Source: CBRE Research, Q2 2021

One office-occupying sector bucking the contraction trend was life sciences. This sector continued to drive vacancies lower within the lab set in the Philadelphia region, especially in University City. The demand for life sciences amid little-to-no supply culminated in two speculative buildings breaking ground within University City during Q2 2021. On the western side of University City, 3.0 University Place started construction and will deliver 207,052 sq. ft. of new life sciences space to the market upon completion. On the eastern portion of the submarket, Brandywine Realty Trust broke ground on their latest Schuylkill Yards project at 3151 Market Street which will add another 175,000 sq. ft. of space to the market when finished.

Figure 4: Sales Volume, 4-Quarter Aggregate



Source: Real Capital Analytics, CBRE Research, Q2 2021

Figure 5: Significant Lease Transactions

Tenant	Building	Size (Sq. Ft.)	Transaction Type
Community Behavioral Health	801 Market St	143,585	Renewal
Lockheed Martin Corporation	3 Executive Campus	126,514	Renewal
Blackrock Financial Management, Inc.	200, 300, 400 Bellevue Parkway	60,050	Renewal
CommonGround	1635 Market St	57,320	New Lease
Radian	550 E Swedesford Rd	50,000	New Lease
Potters Industries Llc	3222 Phoenixville Pike	26,043	New Lease
Verizon Corporate Services Group	777 E Park Dr	24,331	Renewal
Magellan Medicaid Administration, Inc.	4000 Crums Mill Rd	23,558	Renewal
Regus	630 Freedom Business Center Dr	23,370	Renewal
Regus	200 Barr Harbor Dr	22,606	Renewal

Source: CBRE Research, Q2 2021

Figure 3: Philadelphia Metro Office Market Statistics

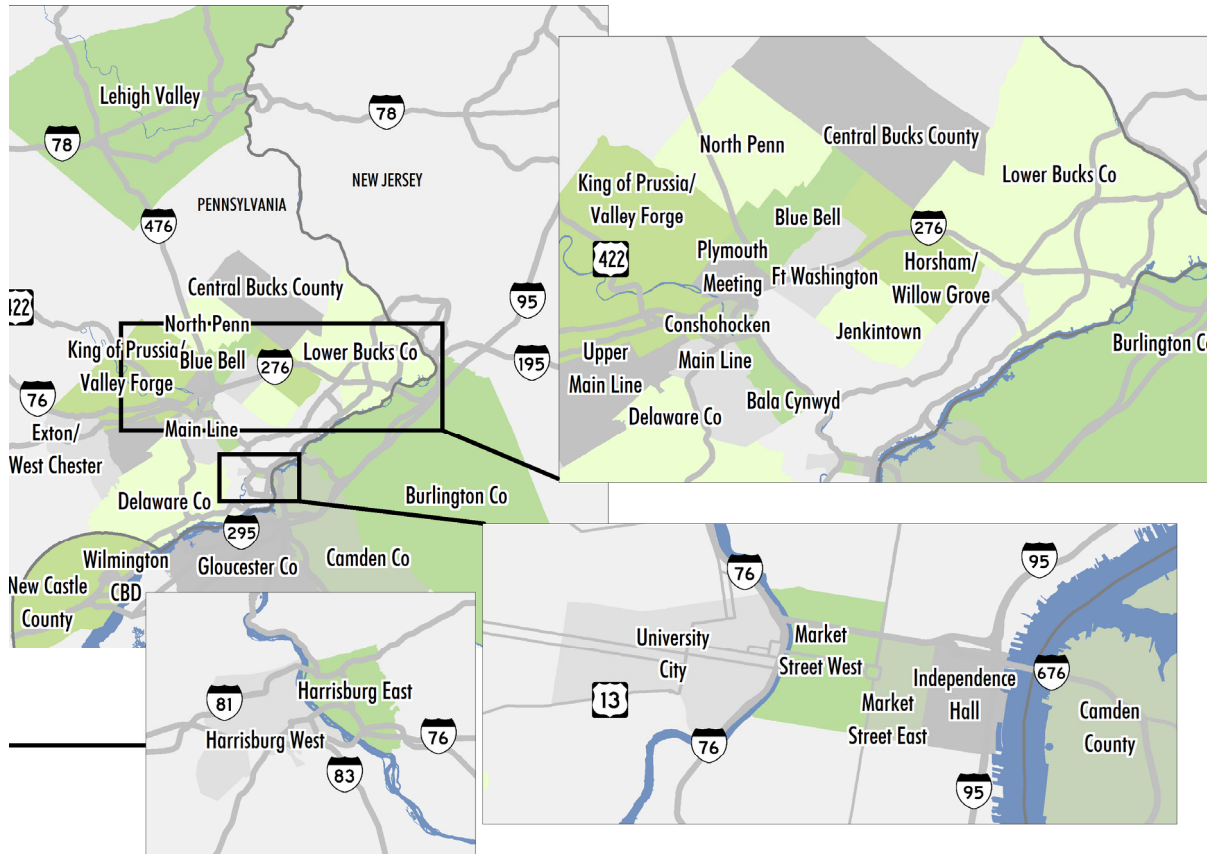
Submarket	Inventory (Sq. Ft.)	Total Vacancy Rate (%)	Under Construction (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Avg. Asking Lease Rate (\$/Sq.-Ft./Yr.)	Avg. Class A Asking Lease Rate (\$/Sq.-Ft./Yr.)
Market West	29,069,439	14.2	308,000	-309,235	\$35.25	\$37.63
Market East	7,879,617	15.9	-	-186,336	\$32.46	\$35.64
Independence Hall	4,529,039	23.4	-	-47,969	\$27.61	\$27.79
University City	4,591,172	7.7	770,772	9,622	\$44.01	\$39.60
Downtown Philadelphia Subtotal	46,069,267	14.7	1,078,772	-533,918	\$33.62	\$35.69
Bala Cynwyd	2,861,073	17.6	-	-23,168	\$36.39	\$36.55
Blue Bell	4,482,412	22.8	-	-88,472	\$24.52	\$30.39
Central Bucks County	1,925,697	25.3	37,000	-72,099	\$23.86	\$28.71
Conshohocken	4,050,646	21.7	-	242,357	\$39.46	\$43.26
Delaware County	6,006,392	15.6	-	248,331	\$28.16	\$29.04
Exton/West Chester	3,990,118	18.6	-	-190,028	\$25.26	\$29.30
Fort Washington	3,181,809	24.3	-	121,747	\$26.81	\$30.82
Horsham/Willow Grove	5,096,463	30.6	-	-428,865	\$25.62	\$27.59
Jenkintown	1,422,210	24.5	-	-26,421	\$23.13	\$24.86
King of Prussia/Valley Forge	16,795,634	20.7	-	-910,165	\$29.86	\$33.73
Lower Bucks County	5,195,034	22.4	-	-28,853	\$25.47	\$26.71
Main Line	2,768,565	10.8	-	-135,224	\$41.70	\$43.68
North Penn	890,843	25.6	-	16,908	\$19.58	\$18.78
Plymouth Meeting	2,332,475	32.1	-	-37,463	\$34.07	\$36.17
Upper Main Line	1,008,287	14.7	-	-8,714	\$30.19	\$33.00
Suburban Philadelphia Subtotal	62,007,658	21.5	37,000	-1,320,129	\$28.26	\$31.73

Source: CBRE Research, Q2 2021

Figure 3 (cont.)

Submarket	Inventory (Sq. Ft.)	Total Vacancy Rate (%)	Under Construction (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Avg. Asking Lease Rate (\$/Sq.-Ft./Yr.)	Avg. Class A Asking Lease Rate (\$/Sq.-Ft./Yr.)
Burlington County	9,470,525	20.0	-	-132,883	\$21.79	\$23.35
Camden County	7,811,267	17.0	-	-258,901	\$19.95	\$19.49
Gloucester County	467,492	13.1	-	8,963	\$28.31	-
Southern New Jersey Subtotal	17,749,284	18.5	-	-382,821	\$21.13	\$22.76
Wilmington CBD	7,110,680	25.9	-	-17,567	\$26.38	\$27.67
North New Castle County	2,200,929	25.2	-	-142,701	\$27.84	\$28.22
South New Castle County	4,360,471	17.9	-	-64,775	\$21.83	\$23.41
West New Castle County	1,446,692	8.3	-	11,380	\$25.48	\$23.21
Northern Delaware Subtotal	15,118,772	21.8	-	-213,663	\$24.95	\$26.40
Lehigh Valley East	4,096,430	18.6	-	-213,644	\$24.73	\$24.80
Lehigh Valley West	5,881,186	22.0	73,000	440	\$19.41	\$23.15
Lehigh Valley Subtotal	9,977,616	20.6	73,000	-213,204	\$21.34	\$23.95
Harrisburg East	7,494,986	17.7	-	-243,237	\$18.99	\$20.05
Harrisburg West	3,839,084	14.7	-	-117,268	\$20.12	\$22.01
Harrisburg Subtotal	11,334,070	16.7	-	-360,505	\$19.37	\$20.82
Market Total	162,256,667	18.9	1,188,772	-3,024,240	\$27.78	\$31.20

Source: CBRE Research, Q2 2021



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