

Office Q4 2020

	YoY Chg	12-Mo. Forecast
10.9% Vacancy Rate	▲	▲
-317K Net Absorption, SF	▼	▼
\$32.27 Asking Rent, PSF	▲	▼

(Overall Gross, All Property Classes)

ECONOMIC INDICATORS Q4 2020

	YoY Chg	12-Mo. Forecast
689.7K Philadelphia Employment	▼	▲
14.1% Philadelphia Unemployment Rate	▲	▼
6.7% U.S. Unemployment Rate	▲	▼

Source: BLS

ECONOMY

Since the onset of the COVID-19 pandemic in March 2020, the city of Philadelphia lost 54,700 jobs, with 38.3% of those in the leisure and hospitality sector. However, the city has added 47,600 jobs to the economy since the trough in April. Despite the economy beginning to rebound, the city's unemployment rate remained elevated hitting 14.1% in the fourth quarter. While the city of Philadelphia's nonfarm employment in the third quarter of 2020 was 4.9% lower than the same quarter a year ago, it outperformed the national and regional economies, which each respectively contracted by 6.1% and 6.7% during this period. The city's office occupying sectors decreased by 5.1% since February, outperforming the overall local economy, which decreased by 7.3% during this period.

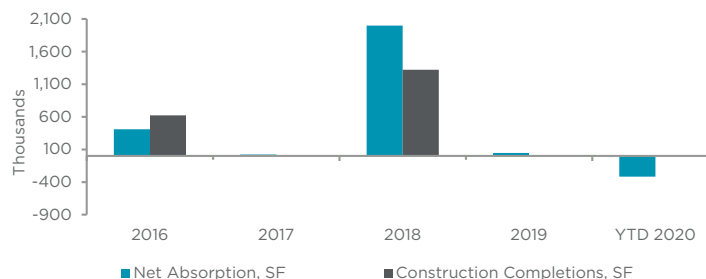
SUPPLY AND DEMAND

Leasing activity in the Philadelphia CBD totaled 1.3 million square feet (msf) in 2020, 38.5% less than the previous three-year average for the market. This decrease in leasing volumes is a result of tenants unwilling to make long-term real estate commitments given the uncertainty caused by COVID-19. Almost half of all 2020 leasing activity was attributed to the two largest leases: Jefferson Health signed a 462,000-square feet (sf) lease East of Broad for a new medical tower in Q2 and the Army Corps of Engineers signed a 116,000-sf lease West of Broad in Q4. Additionally, Blank Rome renewed at One Logan Square in the last quarter of 2020. The law firm currently occupies 196,000 sf and is planning to downsize, although it is unsure of how much space it will need in the future. While the firm has committed to occupy a minimum footprint in the building, it will not decide how much space it will be giving back until closer to occupancy. With tenants unsure of how much space they will need post-COVID-19, flexibility is at a premium. Moving forward, landlords looking to shore up occupancy during these uncertain times might be more inclined to find creative ways of adding flexibility to lease terms as a way of attracting and retaining tenants in this environment.

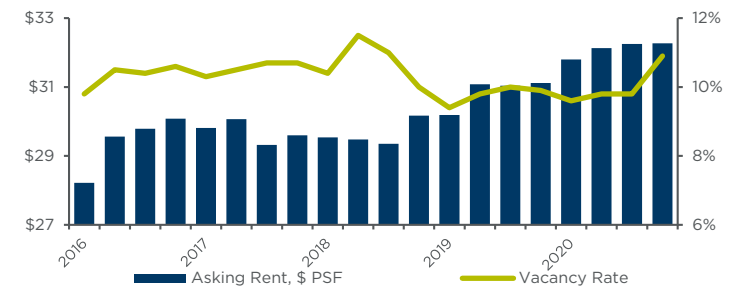
Net absorption was negative at -316,900 sf, driving vacancy to 10.9%, a 100-basis point (bps) increase from Q4 2019. Negative absorption was driven by more than 143,000 sf of vacant sublease space hitting the market in 2020, representing a 51.6% increase from year-end 2019. The decrease in leasing activity in 2020, will continue to have a negative impact on absorption in 2021. Additionally, there are four large blocks of available space totaling almost 500,000 sf that will become vacant unless leased in 2021, putting further upward pressure on CBD vacancy.

Overall gross asking rents remained steady at \$32.27 per square foot (psf) in Q4 2020, representing a 3.7% increase over the same period a year ago. Landlords have held strong on asking rents, despite market uncertainty and limited activity, and are instead increasing concessions to attract tenants in this environment.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE****	CURRENT QTR OVERALL NET ABSORPTION (SF)****	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
East of Broad	12,668,511	1,358,504	61,373	11.2%	-124,195	43,170	644,368	462,000	\$30.67	\$32.01
West of Broad	28,917,954	2,711,777	387,664	10.7%	-35,277	-360,043	668,173	305,000	\$33.05	\$34.69
CBD****	41,586,465	4,070,281	449,037	10.9%	-159,472	-316,873	1,312,541	767,000	\$32.27	\$34.02
Naval Yard	827,788	23,306	0	2.8%	0	5,040	5040	231,000	\$39.18	\$39.18
University City	5,688,632	331,642	34,631	6.4%	0	60,611	191073	389,000	\$43.93	\$44.85
Bala Cynwyd	2,718,384	359,111	4,918	13.4%	-28,520	-72,048	38,463	0	\$34.19	\$34.84
Southern Bucks County	6,342,779	1,119,740	20,155	18.0%	20,045	50,688	188,646	0	\$25.26	\$28.08
Southern Route 202 Corridor	6,199,423	603,701	33,826	10.3%	9,288	63,581	162,791	0	\$25.13	\$26.42
Delaware County	4,537,028	385,709	5,190	8.6%	329,242	436,439	170,765	0	\$26.55	\$27.52
Blue Bell/Ply. Mtg./Ft. Wsh.	12,366,060	2,697,673	161,752	23.1%	56,591	-43,984	417,805	0	\$26.43	\$28.17
Main Line	3,568,028	256,396	9,952	7.5%	-29,748	38,934	149,144	0	\$39.00	\$40.70
Conshohocken	3,547,486	364,727	32,545	11.2%	-54,076	2,765	82,426	687,333	\$35.40	\$37.55
Horsham/Willow Grove/Jenkt.	5,277,243	1,107,434	64,480	22.2%	-34,722	-197,887	78,794	0	\$21.79	\$22.96
King of Prussia/Valley Forge	18,046,907	2,038,477	339,898	13.2%	-81196	-256,087	593,708	0	\$28.11	\$29.96
SUBURBAN PHILADELPHIA	62,603,338	8,932,968	672,716	15.3%	186,904	22,401	1,882,542	687,333	\$27.13	\$29.48
Burlington County	7,853,472	1086799	0	13.8%	-22,920	19,880	238,208	0	\$21.54	\$25.69
Camden County	6,377,581	948,922	34,673	15.4%	-71,412	-69,687	107,415	0	\$20.36	\$22.93
SOUTHERN NEW JERSEY	14,231,053	2,035,721	34,673	14.6%	-94,332	-49,807	345,623	0	\$20.94	\$24.93
Wilmington-CBD	7,117,093	1,714,695	12,358	24.3%	-21,960	-3,781	139,389	0	\$27.78	\$28.26
New Castle-Suburban	9,404,619	1,026,946	215,902	13.2%	-209,611	-146,126	138,006	0	\$23.02	\$23.86
NEW CASTLE CTY-DE TOTAL	16,521,712	2,741,641	228,260	18.0%	-231,571	-149,907	277,395	0	\$26.28	\$27.34
Lehigh & North Hamp. Counties	7,631,540	1,199,044	34,720	16.2%	4,209	-116,298	86,831	0	\$20.11	\$22.56
PHILADELPHIA TOTALS***	134,942,568	17,780,611	1,384,686	14.2%	-298,471	-494,186	3,818,101	1,454,333	\$27.52	\$30.18

*Rental rates reflect gross asking \$pfs/year **Does not include renewals ***Lehigh & North Hampton Counties, Naval Yard and University City submarkets are not included within Suburban & Philadelphia MSA total

KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
130 North 18 th Street	West of Broad	Blank Rome	150,000	Renewal*
1650 Arch Street	West of Broad	Army Corps of Engineers	116,035	New
1845 Walnut Street	West of Broad	CBIZ, Inc.	27,562	New
100 North 18 th Street	West of Broad	Anexinet Corporation	19,584	Renewal*

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1901 Market Street	West of Broad	Piedmont Office Realty Trust / Independence Health Group	800,695	\$360M / \$449

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