

PHILADELPHIA - CBD



Office Q3 2021

	YoY Chg	12-Mo. Forecast
14.4% Vacancy Rate	▲	▲
-1.06M YTD Net Absorption, SF	▼	▼
\$32.91 Asking Rent, PSF	▲	▼

(Overall Gross, All Property Classes)

ECONOMIC INDICATORS Q3 2021

	YoY Chg	12-Mo. Forecast
694.2K Philadelphia Employment	▲	▲
8.1% Philadelphia Unemployment Rate	▼	▼
5.2% U.S. Unemployment Rate	▼	▼

Source: BLS

ECONOMY

Like many cities across the US, Philadelphia experienced a rise of new COVID-19 cases due to the Delta variant during the third quarter. Per the City's updates, at the beginning of July, Philadelphia had reported the lowest number of COVID-19 cases during the pandemic. By August, the daily average of cases doubled, on three separate occasions. As a response the City of Philadelphia once again instituted indoor mask mandates. The indoor mask mandates went into effect in mid-August requiring everyone, regardless of vaccination status, wear a mask in all City businesses and institutions that do not have an enforced vaccine requirement. By the end of the quarter, all City employees were required to be fully vaccinated against COVID-19 or be double-masked when working in enclosed workspaces. The rise in COVID-19 cases has perpetuated uncertainty for Central Business District (CBD) companies contemplating a return to the office as decisions have ranged across a wide spectrum.

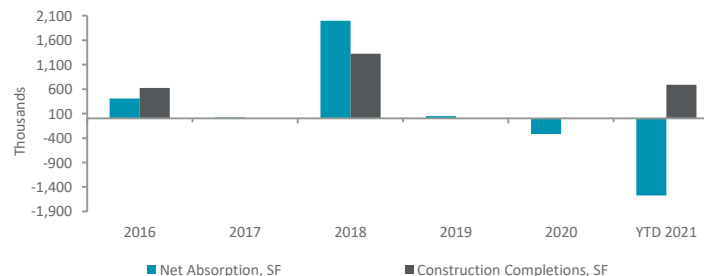
SUPPLY AND DEMAND

Large CBD occupiers, like PricewaterhouseCoopers, announced at the end of the third quarter that it would now offer remote working for all employees, and are now attempting to sublease 46,000 square feet (sf), roughly 40%, of their CBD space. Radian, an insurance firm, made news when it leased 55,000 sf of sublease space in the Philadelphia suburbs during the last quarter, and subsequently made its 164,000 sf of space available for sublease in the CBD, with ten years remaining on the term.

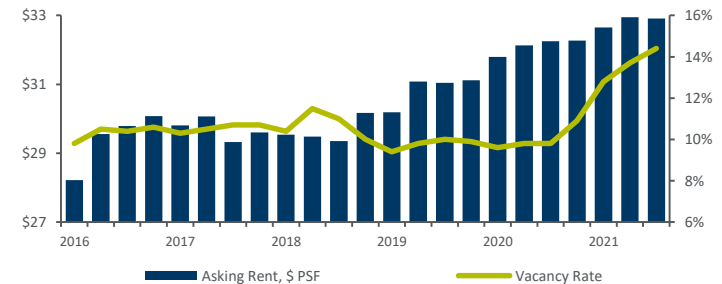
CBD Leasing activity dipped in the third quarter by 27.1% compared to the previous quarter and finished 742,907 sf of leasing activity year-to-date (YTD). Class A leasing activity accounted for 76.3% of all leasing activity in the CBD. Net absorption also continued to a negative trend, ending the quarter with negative 551,677 sf across the CBD. Year-to-date net absorption is now negative 1.06 million square feet (msf). Class A negative net absorption accounts for nearly 60.9% of all negative absorption in the CBD. Market rents continue to remain steady as CBD landlords have held the line on overall asking rates, which remained above \$31.00 per square foot (psf) and Class A rates around \$34.00 psf. Despite the hold on asking rates, landlords have continued to offer healthy concessions via tenant improvement allowances and free rent.

Further postponement in a return to the office may lead occupiers to shed space via sublease or downsize from their current footprints. Conversely, landlords will continue to factor in higher tenant improvement asks due to the rising cost of construction. Expect landlords to become more creative with amenities offered within their buildings to land tenants with requirements in the market in both the short and long terms. Additionally, free rent has consistently averaged 1.5 to 1.8 months of free rent per year of rent commitment over the past year and will likely rise headed into 2022.

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	1,824,741	246,394	16.4%	-187,979	-552,865	194,590	462,000	\$32.00	\$34.74
West of Broad	28,917,954	3,147,250	748,828	13.5%	-363,698	-508,981	548,317	305,000	\$33.39	\$34.77
CBD****	41,586,465	4,971,991	995,222	14.4%	-551,667	-1,061,846	742,907	767,000	\$32.91	\$34.76
Naval Yard	922,788	28,266	0	3.1%	0	0	0	136,000	\$39.18	\$39.18
University City	5,688,632	397,305	41,865	7.7%	-6,094	-87,954	281,129	1,545,000	\$42.66	\$43.87
Bala Cynwyd	2,718,384	413,691	111,643	19.3%	-147,507	-145,452	78,567	0	\$35.56	\$36.25
Southern Bucks County	6,342,779	1,119,310	143,250	19.9%	-120,639	-129,974	124,961	0	\$25.50	\$27.95
Southern Route 202 Corridor	6,199,423	783,038	52,100	13.5%	-45,314	-157,634	114,329	0	\$25.57	\$26.34
Delaware County	4,537,028	498,380	7,108	11.1%	-45,908	-82,273	69,755	0	\$27.24	\$28.50
Blue Bell/Ply. Mtg./Ft. Wsh.	12,365,300	2,321,534	107,903	19.7%	26,620	-22,761	257,383	0	\$26.87	\$28.38
Main Line	3,568,028	298,268	51,806	9.8%	-20,701	-105,165	116,929	0	\$36.43	\$39.62
Conshohocken	4,234,819	568,990	69,800	15.1%	610,924	458,037	56,594	0	\$35.97	\$36.53
Horsham/Willow Grove/Jenkt.	5,329,243	917,490	13,141	17.5%	-6,070	168,372	75,000	0	\$21.41	\$23.29
King of Prussia/Valley Forge	18,047,001	2,275,691	345,815	14.5%	-51,988	-90,219	335,059	0	\$28.21	\$29.86
SUBURBAN PHILADELPHIA	63,341,645	9,196,392	902,566	15.9%	199,417	-107,069	1,259,713	0	\$27.86	\$29.85
Burlington County	7,852,029	1,074,190	163,395	15.8%	-50,179	-184,914	186,258	0	\$20.98	\$23.98
Camden County	6,377,581	1,100,468	23,567	17.6%	-151,669	-92,268	74,765	0	\$19.68	\$25.52
SOUTHERN NEW JERSEY	14,227,610	2,174,658	186,962	16.6%	-201,848	-277,182	261,023	0	\$20.31	\$24.69
Wilmington-CBD	7,117,093	1,723,553	9,330	24.4%	41,360	1,064	108,063	0	\$27.60	\$28.00
New Castle-Suburban	9,377,123	1,025,532	86,450	11.9%	-12,701	-125,914	208,480	0	\$22.81	\$23.30
NEW CASTLE CTY-DE TOTAL	16,494,216	2,749,085	95,870	17.3%	28,659	-124,850	316,543	0	\$25.88	\$26.72
Lehigh & North Hamp. Counties	7,631,540	1,338,972	48,850	18.2%	11,059	4,443	114,423	0	\$21.68	\$24.06
PHILADELPHIA TOTALS***	135,649,936	19,092,126	2,180,620	15.7%	-525,449	-1,570,947	2,580,186	767,000	\$28.25	\$30.81

*Rental rates reflect gross asking \$/pys/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 Q3 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
4601 Market Street	University City	KIPP Parkside School	50,000	New
510-530 Walnut Street	East of Broad	Klick Inc.	13,331	New
3624 Market Street	University City	Avid Radiopharmaceuticals	11,300	New

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KEY UNDER CONSTRUCTION Q3 2021

PROPERTY	SUBMARKET	DEVELOPER	SF	START DATE
4101 Market Street	University City	Silverstein Properties	250,000	Q2 2021
3025 John F Kennedy Boulevard	University City	Brandywine Realty Trust	186,720	Q2 2021

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