



RESEARCH Q2 2021



Philadelphia Office Market

Available sublease space at an all-time high, despite increase of workforce back to offices

The second quarter of 2021 saw a continued disruption of Philadelphia's office workforce due to COVID. While unemployment numbers have declined, and mask mandates were lifted in May and June of 2021, there has only been a gradual return to the office by companies in the Philadelphia MSA. However, the green shoots of economic recovery are becoming apparent, particularly in the downtown market. According to Center City District's June 2021 report, overall pedestrian volumes increased by 7.0% in the month of May and SEPTA ridership increased by 9.0%. Payroll employment for the Philadelphia MSA increased by 12.4% in the second quarter, the largest gain since the start of the pandemic. By comparison, national payroll employment grew by 10.9%.

The Philadelphia office sector's overall negative absorption rose further this quarter to 1.2 million square feet (MSF), an increase from the nearly 270,000 square feet (SF) of negative absorption reached in the first quarter of 2021. Available sublease space increased for the fifth consecutive quarter to 3.9 MSF, up from 3.1 MSF in the first quarter of 2021. Average asking rental rates increased by 0.5% from the last quarter and are up by 3.2% from this point last year, mostly due to increased costs of TI and the unwillingness of landlords to drop asking rents, but instead focusing on increased concessions. The overall vacancy rate for the Philadelphia MSA is up by nearly 300 basis points from a year ago at 16.7% and increased by 110 basis points from the 15.6% vacancy rate experienced in the first quarter of 2021.

Current Conditions

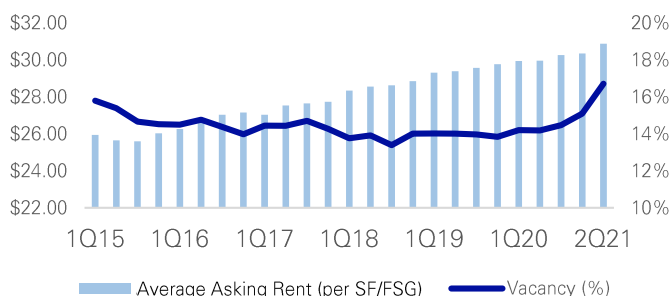
- Absorption was negative in the second quarter totaling -909,635. Year-to-date negative absorption totaled 1.2 MSF.
- Sublease volume rose to 3.9 million SF market-wide.
- Overall vacancy rate rose to 16.7% in the second quarter, up nearly 300 basis points from the second quarter of 2020.

Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	109.3M	109.0M	109.2M	↑
Vacancy Rate	16.7%	15.6%	13.9%	↑
Quarterly Net Absorption (SF)	-910K	-269K	-22K	↑
Average Asking Rent/SF	\$30.87	\$30.71	\$29.91	↑
Under Construction (SF)	2.5M	2.5M	1.4M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



With roughly 60% of Pennsylvania's adult population fully vaccinated, the Commonwealth of Pennsylvania lifted its mask mandate for both fully vaccinated and unvaccinated adults during the last week of June of 2021. With restrictions continuing to lift, a return by Philadelphia's office-using workforce is expected as we head into the second half of 2021. Despite the expected return to the offices, sublease space is expected to increase throughout the remainder of the year but at a much slower pace than the first six months of 2021.

Philadelphia Central Business District

The overall vacancy rate in the Philadelphia CBD increased by 130 basis points since the first quarter of 2021, climbing from 15.6% to 16.9%. The overall vacancy rate also increased from 12.4% in the second quarter of 2020. Much of the increase is attributed to the volume of sublease space added to the market over the past year which currently sits at 1.3 MSF, up from 716,200 SF in the second quarter of 2020. Negative absorption numbers increased further this quarter, to 1.2 MSF. Average asking rental rates for the Philadelphia CBD declined slightly since last quarter to \$34.62 per square foot (PSF) for all classes, down 0.1% from \$34.66 PSF last quarter and a 1.9% increase from the second quarter of 2020. Class A asking rental rates increased to \$38.82 PSF this quarter, up from an average of \$38.28 PSF the previous quarter and a 3.6% increase from the second quarter of 2020 when the rate was at \$37.47 PSF.

Construction activity remains robust as of the second quarter of 2021. There are currently four office buildings under construction in the University City submarket totaling 1.3 MSF. Much of this new inventory will consist of lab space, as demand remains strong in the sector, evidenced by the low vacancy rate in buildings with available lab space. Both 3025 John F. Kennedy Boulevard, a 570,000-square-foot building underway that will include 200,000 SF of life sciences space and 3151 Market Street, a 478,800-square-foot proposed building set to deliver in 2023 will add a sizable amount of lab space to the market.

Much like last quarter, law firms were active in downsizing space requirements. Dechert LLP renewed its lease during the second quarter for 109,000 SF, a notable decrease from its original footprint

of 240,000 SF at Cira Centre. Also at Cira Centre, Reger, Rizzo, & Darnell LLP downsized and renewed for 18,500 SF, down from previously occupying 27,000 SF in the building. Last quarter BakerHostetler also made the decision to vacate 80,000 SF at Cira Centre to move to 45,121 SF of space at 1735 Market Street.

Additional leases signed this quarter in the Philadelphia CBD included District 1199C Training & Upgrading Fund renewing for 25,000 SF at 100 South Broad Street and Security Risk Advisors signing a new lease for 23,021 SF at 1600 Market Street.

On the investment sales front, 3701 Market Street in University City was purchased by GI Partners this quarter for \$79.0 million. The trading of the 141,913-square-foot building is another example of the strong level of interest investors from outside the market are showing in University City, where life sciences is the prevalent use. Demand for lab space is expected to remain strong in the Philadelphia CBD, particularly in the University City submarket.

Philadelphia Suburbs

The Philadelphia suburbs experienced an uptick in vacancy during the second quarter, increasing to 16.5%, up from 15.6% in the first quarter of 2020 and up 160 basis points from the second quarter of 2020. Sublease availabilities reached its highest point since the start of COVID, climbing to 2.6 MSF this quarter. Year-to-date absorption numbers totaled negative 294,931 SF as of the second quarter attributed mostly to this sizable amount of sublease space added to the market during the first six months of 2021. During the first quarter State Farm put its nearly 340,000-square-foot building on the market for sublease. Asking rental rates for all classes increased by 1.0% to \$28.64 PSF, up from \$28.35 in the first quarter of 2021. Rates are also up by 3.9% year-over-year when they were at \$27.57 PSF in the second quarter of 2020. Class A asking rental rates also increased during the second quarter inching upwards to an average of \$31.88 PSF, a 1.7% increase from the last quarter and is up by 2.6% from the second quarter of 2020 when the value was at an average of \$31.06 PSF.

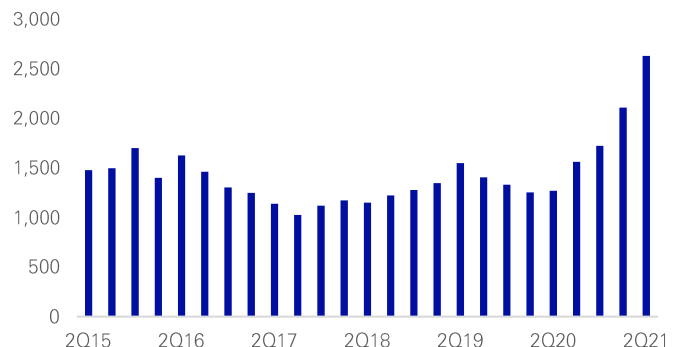
Sublease Volume: Philadelphia CBD

TOTAL SF, THOUSANDS



Sublease Volume: Philadelphia Suburbs

TOTAL SF, THOUSANDS



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Construction activity remains active in the Conshohocken submarket with 689,122 SF currently underway. The 260,000-square-foot Seven Tower Bridge project delivered during the second quarter of 2021. Notable tenants who have signed leases at the new building include Hamilton Lane for 127,500 SF, Suvoda which just recently signed for two floors totaling 53,400 SF, and Shoemaker Construction Company leasing 5,000 SF. The 429,122-square-foot Sora West building at One West First Avenue, being constructed for Amerisource Bergen Corporation, remains under construction and is expected to deliver during the 3rd quarter of 2021.

In addition to Suvoda's lease at Seven Tower Bridge, other notable leases inked this quarter included, Penn Medicine taking 150,000 SF at Discovery Labs located at 709 Swedeland Road in King of Prussia, GlaxoSmithKline's former location. Penn Medicine had a need for a sizable amount of lab space and the location and size of the building fit its space needs accordingly. TEKsystems leased 16,800 SF at 300 Barr Harbor Drive in Conshohocken and HealthNow New York, Inc. took 16,690 SF at 512 Township Line Road in Blue Bell.

Investment sales activity was healthy during the second quarter of 2020 in the Philadelphia suburbs. The largest sale in the suburbs during the second quarter included the 419,047-square-foot Station Park building at 330-399 South Warminster Road in Hatboro. The building was sold by Vault Realty LLC for \$30.1 million to Velocity

Venture Partners, LLC. 760 Moore Road, previously occupied entirely by BNY Mellon, also traded this quarter. E Kahn Development purchased the 260,000-square-foot vacant building for \$24.0 million. Additional sales in the suburbs included the two office buildings at 480 and 500 East Swedesford Road totaling 110,821 SF, selling for \$19.9 million, purchased by MB Investment Partners from Keystone Property Group/Fortress. The 102,204-square-foot building at 211 South Gulph Road also traded this quarter, purchased by Jack Lingo Asset Management from Madison Marquette for \$25.8 million.

Activity in the suburbs is expected to pick up heading into the second half of 2021. Available sublease space will remain elevated; however, the market should add fewer sublease vacancies over the next six months of the year as workers return to the offices. Despite the return of office workers, the overall vacancy rate is projected to climb further northward for the remainder of 2021. Asking rental rates for all classes are also expected to increase slightly. New construction activity will remain limited in the suburbs as nothing is currently in the pipeline expected to break ground over the next six months.

Philadelphia CBD Lease/User Transactions

Tenant	Submarket	Building	Type	Square Feet
Dechert LLP	University City	2929 Arch Street	Renewal/Downsize	109,000
District 1199C Training & Upgrading Fund	Walnut/South Broad	100 South Broad Street	Renewal	25,000
Security Risk Advisors	West Market	1600 Market Street	New Lease	23,021
Reger, Rizzo, & Darnall LLP	University City	2929 Arch Street	Renewal/Downsize	18,500

Philadelphia Suburbs Lease/User Transactions

Tenant	Market	Building	Type	Square Feet
Penn Medicine	King of Prussia	709 Swedeland Road	New Lease	150,000
Suvoda	Conshohocken	Seven Tower Bridge	New Lease	53,400
TEKsystems	Conshohocken	300 Barr Harbor Drive	New Lease	16,800
HealthNow New York, Inc.	Blue Bell/Plymouth Meeting	512 Township Line Road	New Lease	16,690

Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD Total	45,174,261	1,602,000	16.9 %	-587,414	-901,778	\$38.82	\$29.33	\$34.62
East Market	6,331,084	-	15.7%	-1,225	-4,012	\$36.52	\$27.26	\$32.66
Independence Square	5,380,384	-	18.8%	-108,287	-93,567	\$30.21	\$32.98	\$31.72
University City	4,688,776	1,294,000	10.0%	7,978	-76,818	\$43.67	\$35.09	\$42.97
Walnut/South Broad	3,977,064	-	22.1%	-20,447	-75,531	\$35.19	\$31.64	\$30.49
West Market	24,796,953	308,000	17.3%	-465,433	-651,850	\$38.82	\$29.33	\$36.03
Suburban Total	64,119,464		16.5%	-322,221	-294,931	\$31.88	\$26.50	\$28.64
Bala Cynwyd	2,944,026	-	10.7%	56,730	21,086	\$38.39	\$34.59	\$35.61
Blue Bell/Plymouth Meeting	8,531,020	-	19.8%	41,478	-89,435	\$30.57	\$23.61	\$26.69
Bucks County	8,009,833	-	19.3%	989	-6,768	\$28.65	\$23.38	\$24.81
Central/S Delaware County	5,304,227	-	14.2%	-43,933	302,344	\$28.68	\$25.28	\$26.87
Conshohocken	3,570,793	429,122	20.1%	-41,645	-61,865	\$44.84	\$34.26	\$41.52
Exton/Malvern	7,873,948	-	12.6%	-70,247	-89,504	\$28.89	\$27.20	\$28.03
Fort Washington	3,561,466	-	15.1%	56,291	42,767	\$27.59	\$26.00	\$26.78
Horsham/Willow Grove	4,382,604	-	26.9 %	-88,622	-119,748	\$27.86	\$25.32	\$25.56
Jenkintown	1,081,401	-	25.2%	4,370	3,905	\$25.72	\$21.97	\$24.41
King of Prussia	13,417,944	-	15.1%	-140,651	-195,456	\$33.93	\$28.34	\$30.12
Radnor/Main Line	2,636,360	-	6.8%	-48,282	-71,483	\$45.22	\$31.15	\$41.75
Southern 202 Corridor	2,805,842	-	13.0%	-48,699	-30,744	\$28.91	\$25.70	\$27.66
Market Totals	109,293,725	2,031,122	16.7%	-909,635	-1,196,709	\$34.68	\$27.78	\$30.87

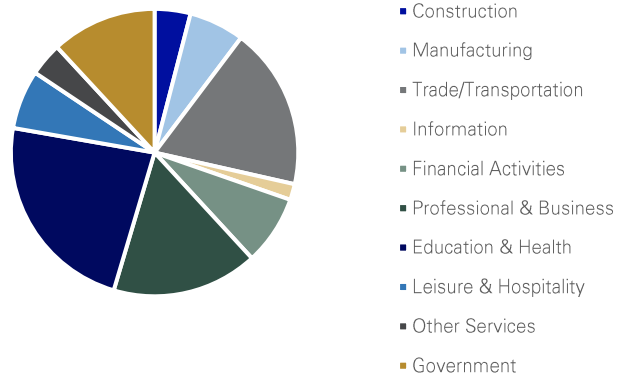
Economic Overview

Economic recovery in the Philadelphia Metropolitan Statistical Area accelerated during the second quarter of 2021. The unemployment rate declined to 6.4%, the lowest rate since March of 2020 when the rate was at 5.0%. After being in the negative for thirteen straight months, payroll employment experienced a 12.4% increase during the second quarter of 2021.

With a return to the workplace on the horizon for many companies in the Philadelphia MSA, expect a continued decline in the unemployment rate. While employment growth for some key industries in the area remain negative, expect the tide to turn during the latter part of 2021 as more restrictions due to COVID are lifted.

Employment by Industry

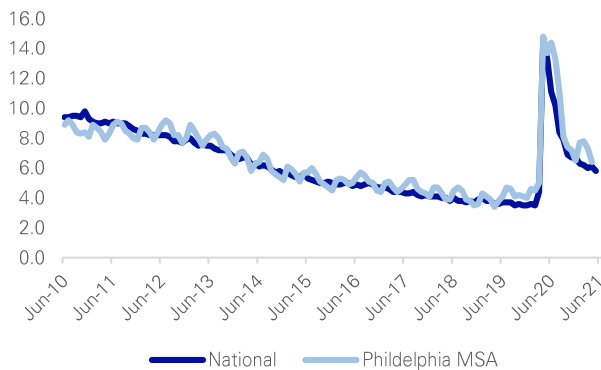
PHILADELPHIA MSA, 2021 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics, June 2021.

Unemployment Rate

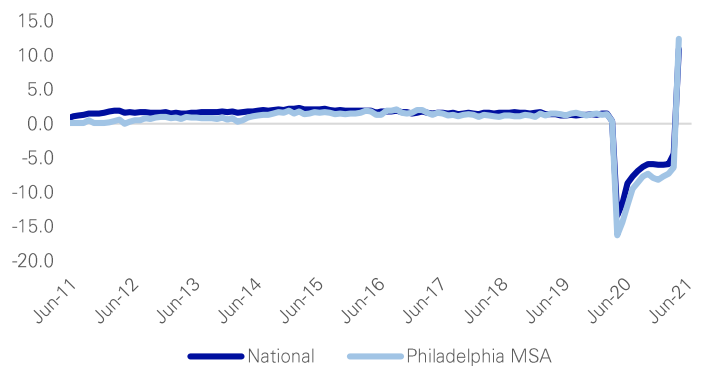
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, June 2021.

Payroll Employment (Total Nonfarm)

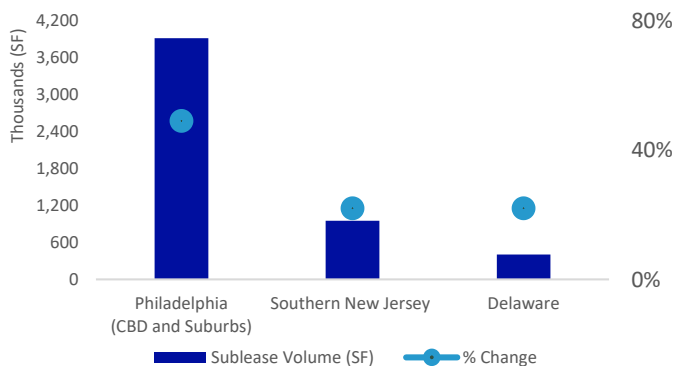
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, June 2021.

Greater Philadelphia Markets Sublease Analysis

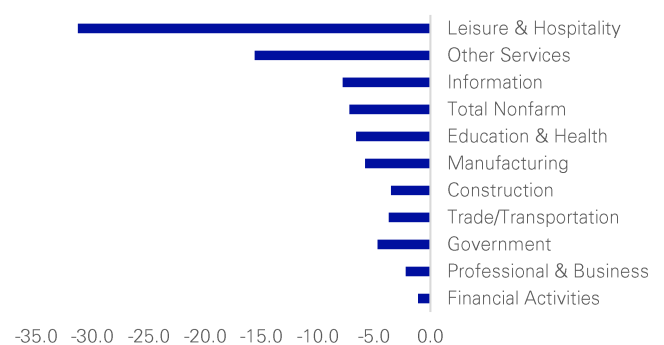
SQUARE FEET AND 12-MONTH % CHANGE, 2021



Source: Newmark Research, June 2021.

Employment Growth by Industry, June 2021

PHILADELPHIA MSA, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, June 2021.

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