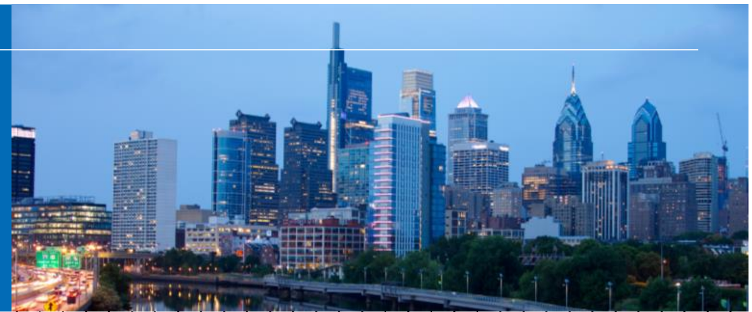
RESEARCH Q4 2022



Philadelphia Office Market

Return to Office Remains Slow; Available Sublease Space Increased in 2022

In the fourth quarter of 2022, Philadelphia experienced a slight uptick of workers returning to the office. As of December 2022, according to Kastle Systems' weekly occupancy barometer, 41.5% of Philadelphia's workforce have returned to the office, up from 40.7% in September of 2022. Despite the improvement since last quarter, Philadelphia still lags the current major metro average workforce return rate of 48.2%. Many Philadelphia area companies continue to operate under a hybrid work model to accommodate their employees. As Philadelphia heads into the winter months of the new year, rising cases of COVID-19 could continue to be problematic for companies trying to return their workers to the office more permanently.

Despite the modest increase in Philadelphia's return-to-office workforce this quarter, there are promising signs that the migration of workers back to the office will progress. According to Center City District's *December 2022 Philadelphia's Economic Recovery Continues* report, transit ridership increased further this quarter. Weekly ridership on SEPTA rose to 3.34 million during the fourth quarter, the highest total since the first quarter of 2020. Also, according to Center City District's report, pedestrian counts steadily rose throughout 2022; however, they are still down significantly from pre-pandemic levels. As of November 2022, the average daily population for Center City was 325,443, which includes residents, nonresident workers and visitors. Compared to February 2020, Center City's average daily population of 461,069.

Current Conditions

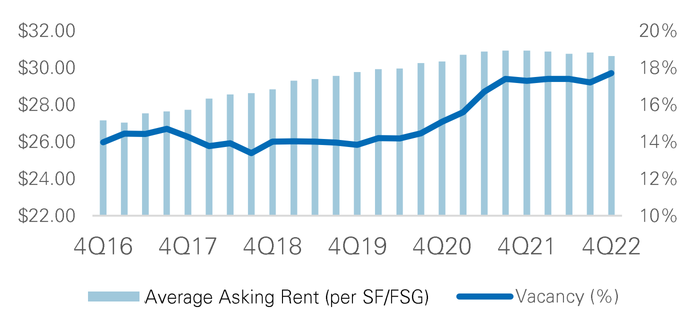
- Absorption was negative in the fourth quarter with -149,117 square feet of absorption.
- Available sublease space increased by 16.3% year-over-year.
- The overall vacancy rate increased by 50 basis points quarter-over-quarter.

Market Summary

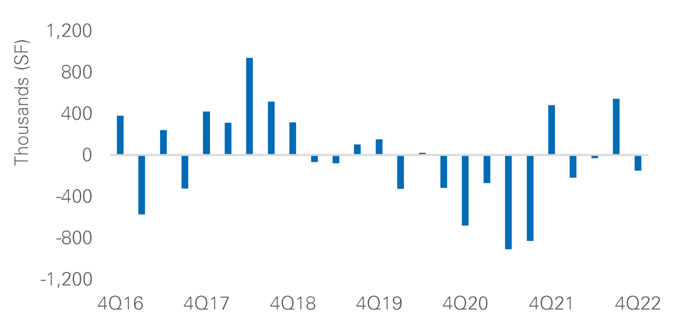
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	110.3M	110.2M	109.7M	↑
Vacancy Rate	17.7%	17.2%	17.3%	↑
Quarterly Net Absorption (SF)	-149K	543K	482K	↓
Average Asking Rent/SF	$30.63	$30.82	$30.93	↓
Under Construction (SF)	1.2M	1.2M	1.6M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



NEWMARK

Philadelphia Central Business District (CBD)

The Philadelphia CBD's overall vacancy rate increased to 17.4%, up 20 basis points from the third quarter's 17.2%. Asking rental rates declined slightly quarter over quarter to $33.85/SF for all classes, a 0.5% decline from the third quarter. Class A asking rates dropped to $36.98/SF, down from $37.17/SF. Absorption was slightly negative at -13,448 square feet; however, the year-to-date total was at 527,885 square feet, attributed to the completion of Drexel University's 454,000-square-foot Academic Tower at uCity Square. The building, located at 60 N 36th Street, was delivered in the third quarter of 2022. On the construction side, there are currently 1.2 million square feet underway in the CBD, including lab space, which is expected to deliver over the next six to twelve months.

Tenants continue to look for short-term and flexible space options to satisfy their real estate needs. Lease renewals remain prevalent; however, available sublease and coworking space for tenants relocating within the Philadelphia CBD has been a popular option. For some tenants opting for relocation, there has been an uptick in flight to quality to attract employees back to the office. Landlords currently offering concessions continue to be vital to compete for deals. Due to increased concessions and declining rental rates, tenants previously occupying Class B space are looking more to Class A and trophy building options. Most tenants in the market are on the smaller side, with only a limited number of large requirements currently exploring options.

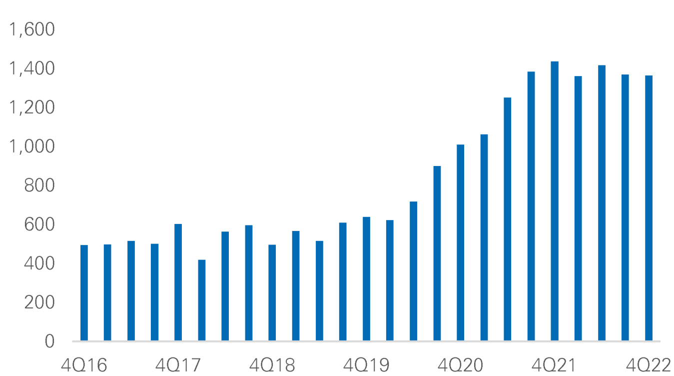
Sublease space added to the market has slowed over the past few quarters in the CBD; however, it is still up by over 150% compared to the first quarter of 2020. It's also expected that more available sublease options will be added to the market throughout 2023 as additional tenants are expected to consolidate and downsize their space needs to accommodate hybrid work models. However, while it's likely that additional sublease space will be added in the near term, it won't be at the pace experienced in 2020 and 2021.

Only a handful of buildings sold in the Philadelphia CBD in 2022; however, more office buildings are expected to trade hands in 2023 for possible residential conversion. Over the past 10 to 20 years, more than 8 million square feet of office inventory was removed from the Philadelphia CBD for residential conversion, which helped to control the office vacancy rate. Future office-to-residential conversions will likely keep rising vacancy rates from increasing further over the next few years.

Notable leases signed during the fourth quarter of 2022 included Chubb inking a 438,000-square-foot lease for a new office tower at 2000 Arch Street. Construction is expected to begin during the first quarter of 2023, and delivery is anticipated in 2026. Additional leases signed during the fourth quarter included: Finley Catering Company renewing its 44,269-square-foot lease at the Wanamaker Building; Ardent Federal Credit Union signing for 18,741 square feet at 1601 Cherry Street; Community Legal Services taking 17,500 square feet of sublease space at Two Logan Square.

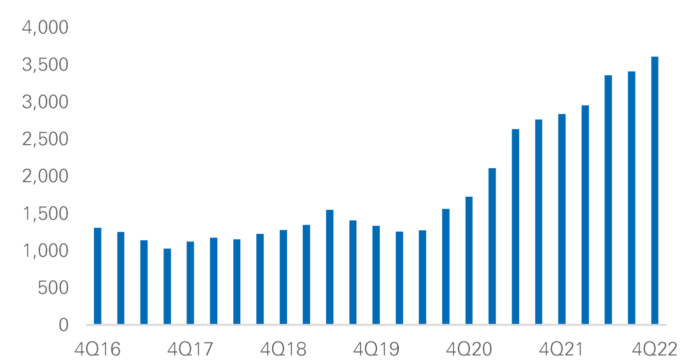
Sublease Volume: Philadelphia CBD

TOTAL SF, THOUSANDS



Sublease Volume: Philadelphia Suburbs

TOTAL SF, THOUSANDS



Philadelphia Suburbs

The Suburban Philadelphia office market continues to experience healthy leasing velocity compared to the downtown market. Renewals and short-term leases remain prevalent; however, new sizable leases are getting signed, particularly in traditionally stable suburban submarkets. There has also been a flight to quality by tenants in the market. Tenants are looking to move to smaller footprints in higher quality space due to attractive concessions currently offered by landlords. Older and outdated product has struggled with vacancy due to the pandemic, as well as the flight to quality. Tenants previously occupying Class B and Class C space are exploring Class A buildings. Of the three tracked classes in the Philadelphia suburbs, the overall vacancy rate for Class A was 17.2%, markedly better than Class B at 18.5% and Class C at 19.2%. Some of this older Class B and Class C product may be considered for conversion to another product type, including residential or life science.

The Suburban Philadelphia office market experienced a significant uptick in available sublease vacancies in 2022, which has caused the overall vacancy rate to increase to 18.0% in the fourth quarter, up from 17.1% a year ago. In addition, vacant sublease space rose by 27.2% year over year, with the most significant amount added in the King of Prussia submarket, which caused the overall year-end absorption number to grow to nearly 450,000 square feet of negative absorption.

Significant leases inked in the fourth quarter included Arkema signing for 145,000 square feet at 155 King of Prussia Road in the Radnor Financial Center. Additional notable leases include two large deals in the Blue Bell/Plymouth Meeting submarket. Einstein Medical Center Montgomery extended its lease at 609 West Germantown Pike in East Norriton for 57,149 square feet, and Laurell Technologies Corporation took 40,452 square feet at 1400 Pennbrook Parkway in Lansdale. In the Horsham/Willow Grove submarket, Polysciences leased 45,000 square feet of space at 767 Electronic Drive in Horsham.

Philadelphia CBD Lease/User Transactions

Tenant	Submarket	Building	Type	Square Feet
Chubb	Market West	2000 Arch Street	New Lease	438,000
Finley Catering Company	East Market	Wanamaker Building	Lease Renewal	44,269
Ardent Federal Credit Union	West Market	1601 Cherry Street	New Lease	18,741
Community Legal Services	West Market	Two Logan Square	New Lease	17,500

Philadelphia Suburbs Lease/User Transactions

Tenant	Market	Building	Type	Square Feet
Arkema	Radnor/Main Line	155 King of Prussia Road	New Lease	145,000
Einstein Medical Center Montgomery	Blue Bell/Plymouth Meeting	609 West Germantown Pike	Lease Extension	57,149
Polysciences	Horsham/Willow Grove	767 Electronic Drive	New Lease	45,000
Laurell Technologies Corporation	Blue Bell/Plymouth Meeting	1400 Pennbrook Parkway	New Lease	40,452

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	**45,628,261**	**1,156,000**	**17.4%**	**-13,448**	**527,885**	**$36.98**	**$30.20**	**$33.85**
East Market	6,331,084	-	19.7%	-6,670	-13,193	$36.37	$27.42	$32.14
Independence Square	5,380,384	-	17.8%	-25,380	7,570	$29.69	$32.73	$31.13
University City	5,142,776	848,000	8.0%	-29,150	496,341	$39.64	$38.91	$39.25
Walnut/South Broad	3,977,064	-	20.1%	2,754	1,152	$32.30	$32.59	$30.37
West Market	24,796,953	308,000	18.2%	44,998	35,595	$37.51	$28.64	$35.19
Suburban Total	**64,717,789**	**-**	**18.0%**	**-463,679**	**-677,002**	**$31.87**	**$26.87**	**$28.82**
Bala Cynwyd	2,944,026	-	14.2%	-25,674	-3,647	$38.11	$35.47	$35.82
Blue Bell/Plymouth Meeting	8,525,410	-	19.7%	-5,425	-86,239	$29.89	$24.33	$26.49
Bucks County	7,984,806	-	21.3%	-14,165	-41,071	$28.52	$24.00	$25.46
Central/S Delaware County	5,304,227	-	17.1%	-35,677	-4,915	$29.87	$26.11	$27.68
Conshohocken	3,999,915	-	15.3%	-15,832	120,048	$43.50	$36.28	$40.03
Exton/Malvern	7,873,948	-	17.1%	-105,953	-202,896	$29.82	$27.10	$28.58
Fort Washington	3,561,466	-	14.6%	-36,955	-46,167	$27.81	$25.87	$26.94
Horsham/Willow Grove	4,382,604	-	26.6%	-16,454	98,223	$28.00	$25.46	$25.71
Jenkintown	1,081,401	-	15.2%	-5,593	65,098	$28.18	$22.01	$24.53
King of Prussia	13,417,944	-	18.0%	-145,321	-447,238	$34.22	$28.31	$30.33
Radnor/Main Line	2,836,200	-	9.3%	-32,885	-116,040	$44.54	$27.75	$42.84
Southern 202 Corridor	2,805,842	-	14.9%	23,745	-12,158	$28.91	$25.93	$27.40
Market Totals	**110,346,050**	**1,156,000**	**17.7%**	**-447,127**	**-149,117**	**$34.09**	**$27.82**	**$30.63**

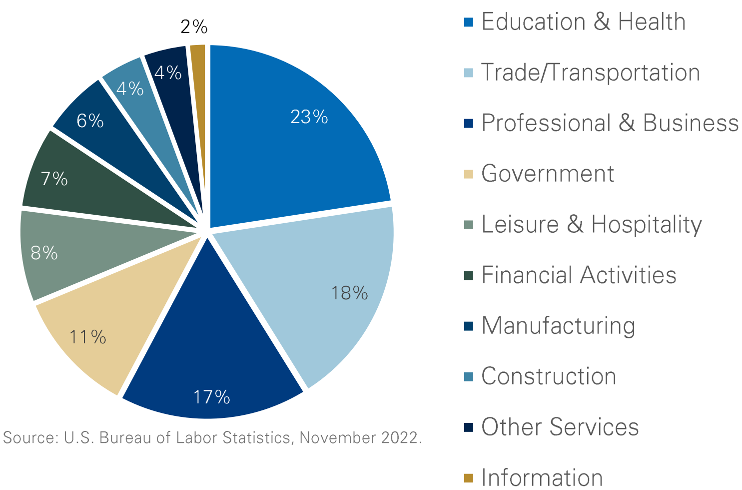
Economic Overview

The unemployment rate in the Philadelphia metropolitan area declined to 3.4% in the fourth quarter of 2022, down from 4.5% in the third quarter of 2022, and is the lowest unemployment experienced in the Philadelphia MSA since the second quarter of 2019. Comparatively, the national unemployment rate sits at 3.7%. This marks the first time since 2018 that the Philadelphia unemployment rate was lower than the national rate. Of all tracked sectors in Philadelphia, the professional and business services industry experienced the most significant growth year over year, 4.9%. In addition, the education and health services sector grew by 4.7%, and the leisure and hospitality sector grew by 4.2%.

While unemployment appears to be in a favorable position compared to the past few years in Philadelphia, return-to-office decisions by many companies remain stalled. Comcast's decision to return to the downtown market in the third quarter of 2022 was an essential step towards increasing office occupancy within the CBD. With more workers returning downtown, Philadelphia's retail sector, which has struggled significantly since the start of the pandemic, is likely to continue to make a resurgence in 2023.

Employment by Industry

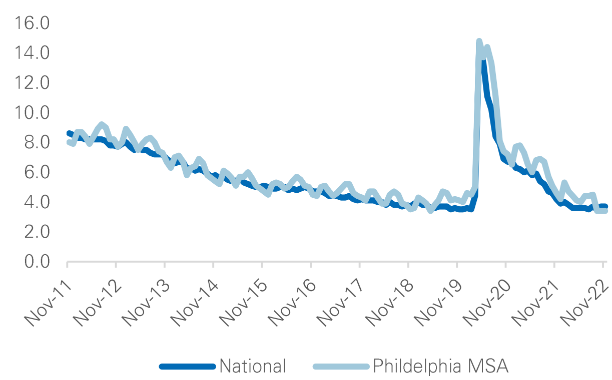
PHILADELPHIA MSA, 2022 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics, November 2022.

Unemployment Rate

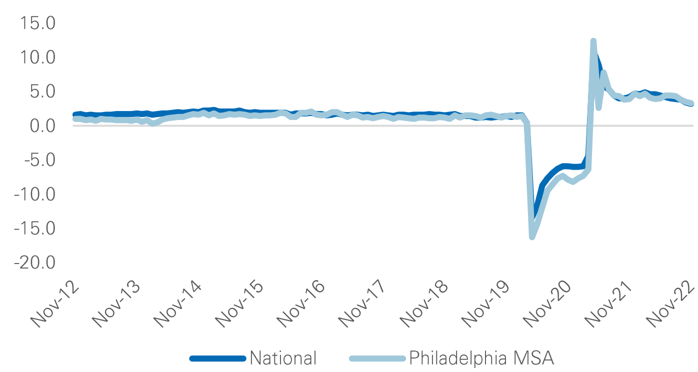
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, November 2022.

Payroll Employment (Total Nonfarm)

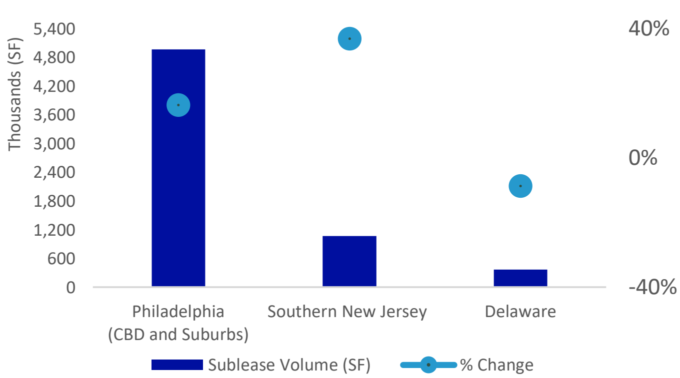
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, November 2022.

Greater Philadelphia Markets Sublease Analysis

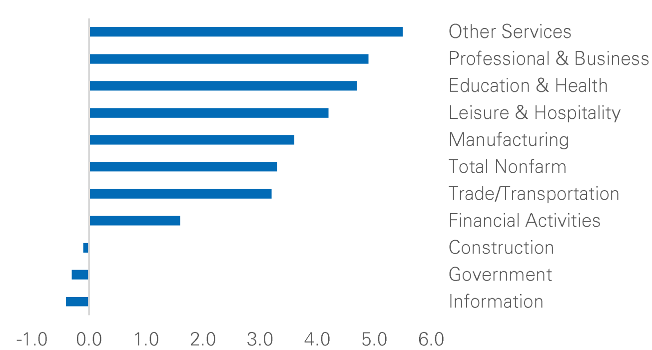
SQUARE FEET AND 12-MONTH % CHANGE, 4Q22



Source: Newmark Research, December 2022.

Employment Growth by Industry, November 2022

PHILADELPHIA MSA, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, November 2022.

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