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Market Activity Continues Amid COVID-19 Disruption, Long-Term Legacy is Unknown

Philadelphia, PA (July 10, 2020) — Newmark Knight Frank (NKF) has released its second quarter 2020 office reports for the Philadelphia CBD, suburbs, Southern New Jersey and Northern Delaware. Office market activity slowed substantially during the second quarter due to unprecedented circumstances caused by the global COVID-19 pandemic; however, most markets experienced net positive absorption and office leases were still signed; among them, numerous expansions.

In the Philadelphia CBD, expansions within resilient and growing industries such as life sciences drove positive market activity in the second quarter. Net absorption measured approximately 70,000 square feet, dominated by two transactions: Spark Therapeutics leased the 54,000-square-foot building at 3000 Market Street, and Passage Bio signed to expand from 9,000 square feet at Two Commerce Square to 37,500 square feet at One Commerce Square. Life sciences momentum in the city of Philadelphia and its effect on current and future demand for office/lab space cannot be overstated. While many requirements for office space in the market have been put on hold since the pandemic began, approximately 340,000 square feet of new space requirements have emerged and of that total, over 75 percent is related to life sciences firms. Vacancy in University City, the region's premier life sciences submarket, fell to 7.5 percent in second- quarter 2020. For lab inventory in the submarket, however, the vacancy rate is hovering around zero according to [NKF Research's 2020 Life Sciences: National Overview and Top Market Clusters report](#). NKF Senior Managing Director Jack Soloff noted, "The confluence of life sciences demand and a dearth of available, existing lab inventory is driving some office owners to consider converting portions of their buildings into lab space."

In the suburban Philadelphia office market, 92,459 square feet of negative absorption accumulated in the second quarter due to a combination of downsizings and company closures, and numerous significant occupancies pushed back to later in the year because of COVID-19 disruption. Although new occupancies were limited in the second quarter, multiple large leases were signed, including Power

Home Remodeling's renewal and expansion at 2501 Seaport Drive in the Central/South Delaware County submarket, which brings its total leased footprint at the property to 180,000 square feet.

Since shelter-in-place mandates were lifted during the second quarter, many major office tenants have set re-boarding plans, but some companies are delaying for myriad reasons including successful work from home strategies and the inherent challenges of safely returning to the office. According to NKF Executive Managing Director Jim Dugan, "Social distancing presents less of an obstacle in commuting to and moving within a suburban low-rise building than a downtown skyscraper. This is influencing some firms based in the CBD to consider taking space in the suburbs." Indeed, a number of Philadelphia CBD-based firms were exploring short-term deals and subleases in suburban locations in the second quarter to allow employees greater ease of office access.

Southern New Jersey's office market, the quietest of the regional markets during the second quarter, registered just under 9,000 square feet of positive absorption. Only smaller-footprint vacancies and occupancies were recorded, such as Advanced Diagnostics Laboratory, which relocated from New Brunswick to occupy 2,250 square feet at 1030 Kings Highway in Cherry Hill. However, multiple new leases did transact: the largest new lease transaction of the quarter was 20,218 square feet secured by Virtua Health at 406 Lippincott Drive in the Marlton submarket. While tenant movement was very limited in the second quarter, vacancy and sublease availability may increase in the future as tenants reevaluate space needs. Yet, as Executive Managing Director Anne Klein noted, an increase in vacancy may be mitigated by social distancing mandates. "Extended or permanent work-from-home policies may cause some tenants to unload or sublease their space, but social distancing in the workplace may offset vacancy if companies expand footprints to adhere to re-boarding plans."

In the Wilmington, Delaware office market, vacancy fell 20 basis points to 16.6 percent, quarter-over-quarter, on the heels of positive office absorption totaling approximately 38,000 square feet. Suburban moves propelled the absorption; Corporation Service Co., Fiduciary Trust and Bayada occupied a total of 38,351 square feet at 4250 Lancaster Pike in the Wilmington West submarket, and Swift Capital expanded its footprint at 3505 Silverside Road to occupy the full 39,200-square-foot building in the Wilmington North submarket. There were two significant

transactions that took place in the submarket during the second quarter, both involving building sales. Amtrak purchased the 189,728-square-foot building at 405 North King Street known as the Renaissance Centre, which it now partially occupies and, 824 North Market Street traded to investor Chopp Holdings for \$16.5 million (\$80 per square foot). NKF Senior Managing Director Wills Elliman said of the transaction, “This quarter saw the continuation of out-of-market investors acquiring well-positioned office assets in Northern Delaware, drawn by the higher yield a secondary market can offer.”

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