



Philadelphia Office Market

Available Sublease Space Inches Further Northward; Return to Offices Stalled by Delta Variant

As of the third quarter of 2021, the Philadelphia office market continues to experience the lingering effects of COVID-19, particularly in the Downtown market. The Delta variant and rise in infections over the summer has delayed the return to the office employers expected after the Labor Day holiday. The workforce of significant Center City employers like Comcast and Independence Blue Cross remain largely remote, which has left the Central Business District (CBD) market quiet. Once those large tenants return to the office, or even if there is increased occupancy in nearby New York, other employers in Philadelphia could gain confidence to require their people to report to the office for work. According to Kastle Systems, 28.1% of New York's workforce and 33.6% of employees in the U.S. major market 10-city average are working from their office rather than home. Comparatively, 34.2% of Philadelphia's labor force has returned. The notion of employers issuing a vaccine mandate could also lead workers to head back to the office. In any case, it's clear the return is going to be more staggered than originally expected, and anything resembling the old norm isn't a likely scenario until early 2022 for many companies.

While the Suburban office market faces similar COVID-related issues as the Philadelphia CBD, tenant activity has been more robust; however, it is centered within select submarkets like Radnor/Main Line, Conshohocken, King of Prussia, and Bala Cynwyd. Sectors like eds and meds, law firms, and private equity companies are also showing more resolve to return to the office than other industries such as insurance. Many of the trends noted in the Downtown

Current Conditions

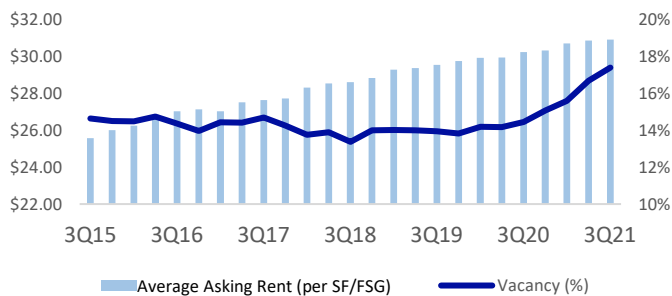
- Absorption was negative in the second quarter totaling -827,418. Year-to-date negative absorption climbed to -2.0 MSF.
- Available sublease space rose to 4.1 million square feet market-wide.
- Overall vacancy rate rose to 17.4% in the third quarter, up over 300 basis points from the third quarter of 2020.

Market Summary

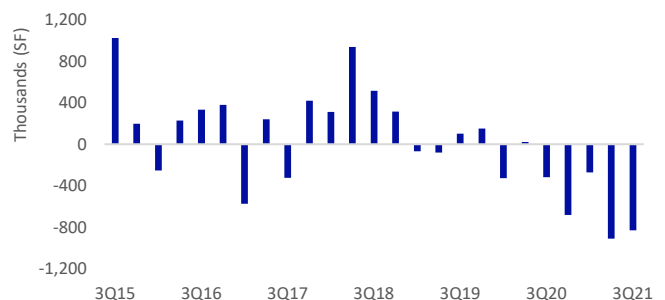
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	109.3M	109.3M	109.3M	↑
Vacancy Rate	17.4%	16.7%	14.3%	↑
Quarterly Net Absorption (SF)	-827K	-910K	-248K	↑
Average Asking Rent/SF	\$30.93	\$30.87	\$30.20	↑
Under Construction (SF)	2.0M	2.5M	2.2M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q3 2021

market (i.e., increasing amounts of sublease space, short-term renewals and downsizing on the part of tenants who are willing to sign for a long-term deal) are also apparent in the rest of the suburbs and within some sectors that have yet to make a full return.

The Philadelphia office sector's overall negative absorption for the year rose further this quarter to 2.0 million square feet, an increase from the nearly 1.2 million square feet of negative absorption reached in second-quarter 2021. The third-quarter absorption total was -827,418 square feet, a slight improvement from the second quarter's total of -909,635 square feet. The overall vacancy rate rose to 17.4% in the quarter, up 70 basis points since the second quarter and 310 basis points higher than a year ago. While negative absorption and vacancy continue to rise, asking rental rates are holding steady and have actually increased slightly, by 0.2% quarter-over-quarter. Asking rental rates increased by 2.4% year-over-year from \$30.20/SF to \$30.93/SF.

Philadelphia Central Business District

The overall vacancy rate in the Philadelphia CBD increased by 80 basis points since second-quarter 2021, rising from 16.9% to 17.7% in the third quarter of 2021. The increase in overall vacancy can be attributed to 133,402 square feet of new sublease space being introduced to the market this quarter. Sublease space added over the past several quarters hasn't garnered a significant amount of interest by tenants, as 1.4 million square feet remains available. Tenants in the market are also opting to downsize space requirements, leaving some large vacancies available for direct lease.

In general, tenants are reluctant to commit to space long-term due to current economic uncertainty. Leasing velocity for 2021 remains slow, with a limited number of larger deals floating around the market. CashApp and GoPuff are two notable tenants looking for significant amounts of space. Otherwise, much of the velocity has been with smaller, short-term leases. The life science industry, centered in the University City submarket, is one of the bright spots for the downtown market as construction activity remains robust and interest by tenants in need of lab space remains strong. New users to the market, particularly life science tenants, could help offset some of the negative absorption. Activity has also been stronger in higher

quality Class A second-generation space.

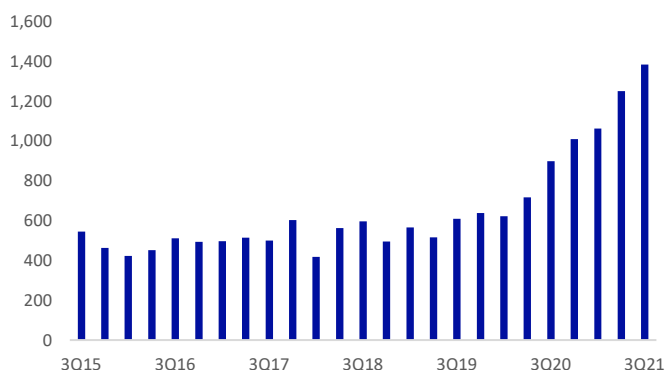
Despite the increase in negative absorption and the overall vacancy, asking rental rates remain steady and actually increased slightly to \$34.64/SF this quarter, up from \$34.62/SF last quarter. Compared to a year ago, asking rates are up by 1.4% when they were at an average of \$34.15/SF. Landlords have opted to remain firm in their asking rates, especially in newer trophy assets; however, they are offering more concessions across the board, including higher Tenant Improvement (T.I.) allowances, free rent and aid with moving costs for longer-term deals.

While leasing velocity remains slow, there were some notable leases signed during the third quarter. InstaGroup signed the largest lease, taking 45,000 SF at the FMC Tower at Cira Centre South, Brandywine's former location. In the Philadelphia Navy Yard, Rite Aid Corp. decided to relocate its corporate headquarters from Camp Hill, Pennsylvania to 23,500 square feet at 1200 Intrepid Avenue. Rite Aid's relocation was a strategic move by the company to accommodate remote workers while still offering an office space option suited for collaboration. Additional leases signed this quarter in the Philadelphia CBD included Compass Real Estate taking 17,500 square feet at 1430 Walnut Street and the Kepler Group leasing 15,500 square feet this quarter at One South Broad Street. On the investment sales front, no notable buildings traded hands during the third quarter in the Philadelphia CBD.

Construction activity remains vigorous in the Philadelphia CBD with 1.6 million square feet underway. Of that future inventory, 81.0% will be located in University City, all of which is expected to deliver in 2022. These additions to the life science inventory will provide welcome relief for a number of users who cannot currently find new move-in ready accommodations in that most desirable area.

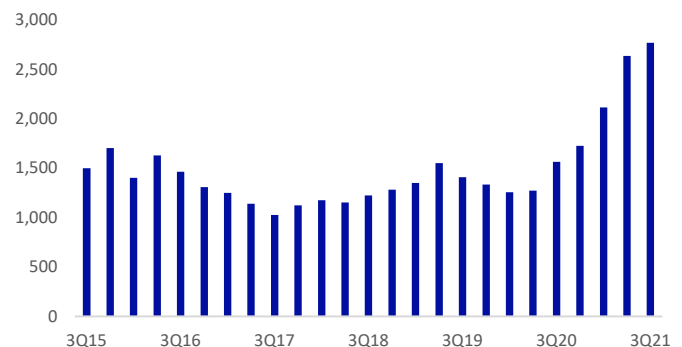
Sublease Volume: Philadelphia CBD

TOTAL SF, THOUSANDS



Sublease Volume: Philadelphia Suburbs

TOTAL SF, THOUSANDS



Philadelphia Suburbs

The Suburban Philadelphia office market experienced an increase in vacancy (now 17.2%) during third-quarter 2021, up 70 basis points from the second quarter and an increase from 15.0% recorded a year ago. Much like the Philadelphia CBD, the rise in vacancy can be attributed to the more than 130,000 square feet of sublease space added to the market this quarter, as well as the introduction of more available direct lease space due to some tenants downsizing and consolidating. Third quarter absorption totaled - 471,329 square feet bringing the year-to-date total to -766,260 square feet.

Much like the Philadelphia CBD, short-term leases, on both renewals and new deals, appear to be the trend in the suburbs due to economic uncertainty. Small- to medium-sized deals are getting completed, however, they are largely centered within the traditionally stable submarkets like Conshohocken, Bala Cynwyd, King of Prussia and Radnor/Main Line. Submarkets like Horsham/Willow Grove and Bucks County are struggling with available sublease space and a lack of leasing velocity. Radian's decision to move last quarter appears to be the only example of a sizable tenant opting to relocate from the CBD to the suburbs. Radian also downsized its space requirement significantly, from 173,400 square feet at 1500 Market Street to 54,000 square feet at 550 East Swedesford Road in Wayne, Pennsylvania.

Throughout the suburbs, Class A trophy buildings have been outperforming standard Class A and B buildings. While primarily focusing on the University

City market, life science tenants new to the market have also started to look to the suburbs for space options; however, there are a limited number of suitable options to choose from, and the cost to convert space is expensive.

Much like the CBD, asking rental rates are holding firm in the suburbs. Rather than compromise on rates, landlords have been offering better T.I. packages and free rent on longer-term deals. Since last quarter, the asking rental rate average actually increased to \$28.77/SF, a 0.5% up tick from the second quarter when the rate was at an average of \$28.64/SF, and a 2.6% rise since the 3rd quarter of 2020 when the average rate was at \$28.03/SF.

The largest third quarter suburban lease was inked by Nouryon at 100 Matsonford Road in the Radnor Corporate Center, taking 50,000 square feet. In the King of Prussia submarket, EMCOR renewed its 42,070-square-foot lease at 1800 Markley Street in Norristown. At 980 Jolly Road in Blue Bell, two notable leases were signed this quarter, Henkels & McCoy taking 29,000 square feet and Fox Rothschild leasing 19,000 square feet of space.

The largest sale of the third quarter was 1100 Virginia Drive in Fort Washington. The 680,000-square-foot asset sold for \$124.5 million purchased by Opal Holdings from Greenfield Partners.

Philadelphia CBD Lease/User Transactions

Tenant	Submarket	Building	Type	Square Feet
InstaGroup	University City	FMC Tower at Cira Centre South	New Lease	45,000
Rite Aid Corp.	Navy Yard	1200 Intrepid Avenue	New Lease	23,500
Compass Real Estate	Walnut/South Broad	1430 Walnut Street	New Lease	17,500
Kepler Group	Walnut/South Broad	One South Broad	New Lease	15,500

Philadelphia Suburbs Lease/User Transactions

Tenant	Market	Building	Type	Square Feet
Nouryon	Radnor/Main Line	100 Matsonford Road	New Lease	50,000
EMCOR	King of Prussia	1800 Markley Street	Renewal	42,070
Henkels & McCoy	Blue Bell/Plymouth Meeting	980 Jolly Road	New Lease	29,000
Fox Rothschild	Blue Bell/Plymouth Meeting	980 Jolly Road	New Lease	19,000

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	17.7%	-356,089	-1,257,867	\$38.29	\$30.73	\$34.64
East Market	6,331,084	-	18.9%	-203,006	-207,018	\$36.39	\$27.24	\$32.20
Independence Square	5,380,384	-	20.1%	-71,097	-164,664	\$30.21	\$32.95	\$31.59
University City	4,688,776	1,294,000	10.2%	-5,514	-82,332	\$43.21	\$44.35	\$43.07
Walnut/South Broad	3,977,064	-	21.1%	39,683	-35,848	\$35.01	\$32.92	\$30.53
West Market	24,796,953	308,000	17.7%	-116,155	-768,005	\$38.78	\$29.24	\$35.97
Suburban Total	64,119,464		17.2%	-471,329	-766,260	\$31.79	\$26.80	\$28.77
Bala Cynwyd	2,944,026	-	14.2%	-103,326	-82,240	\$38.64	\$35.32	\$36.13
Blue Bell/Plymouth Meeting	8,531,020	-	18.5%	111,812	22,377	\$30.58	\$23.77	\$26.70
Bucks County	8,009,833	-	21.1%	-144,549	-151,317	\$28.44	\$23.33	\$24.67
Central/S Delaware County	5,304,227	-	15.9%	-87,923	214,421	\$28.88	\$25.34	\$27.03
Conshohocken	3,570,793	429,122	22.7%	-93,225	-155,090	\$44.87	\$36.38	\$42.18
Exton/Malvern	7,873,948	-	14.9%	-177,661	-267,165	\$29.08	\$27.53	\$28.28
Fort Washington	3,561,466	-	13.3%	64,148	106,915	\$27.77	\$25.97	\$27.02
Horsham/Willow Grove	4,382,604	-	25.2%	73,688	-46,060	\$27.86	\$24.67	\$25.11
Jenkintown	1,081,401	-	20.9%	45,572	49,477	\$25.72	\$21.92	\$24.47
King of Prussia	13,417,944	-	15.7%	-84,835	-280,291	\$33.86	\$28.62	\$30.28
Radnor/Main Line	2,636,360	-	5.5%	32,224	-39,259	\$45.67	\$32.52	\$40.63
Southern 202 Corridor	2,805,842	-	16.8%	-107,254	-138,028	\$28.70	\$25.82	\$27.35
Market Totals	109,293,725	2,031,122	17.4%	-827,418	-2,024,127	\$34.56	\$28.02	\$30.93

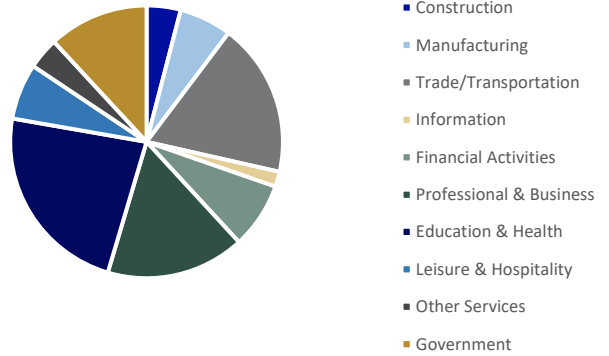
Economic Overview

The unemployment rate in the Philadelphia Metropolitan Statistical Area, up by 50 basis points since the second quarter of 2021, increased from 6.4% to 6.9%. Despite the increase in unemployment, payroll employment rose by 2.6% year-over-year. Except for the government sector, all major industries within the Philadelphia MSA exhibited positive growth over the past 12 months, with the leisure and hospitality sector experiencing the largest growth over that period, by 21.4%.

While much uncertainty remains in the market, expect the unemployment rate to decline during the fourth quarter and into the first quarter of 2022 as more employers return to the office. Some sectors are expected to lag behind others in recovery; however, growth is projected to remain positive for all of Philadelphia’s major industries.

Employment by Industry

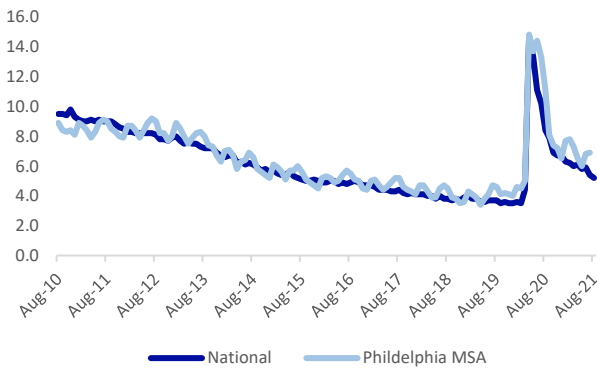
PHILADELPHIA MSA, 2021 ANNUAL AVERAGE



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

Unemployment Rate

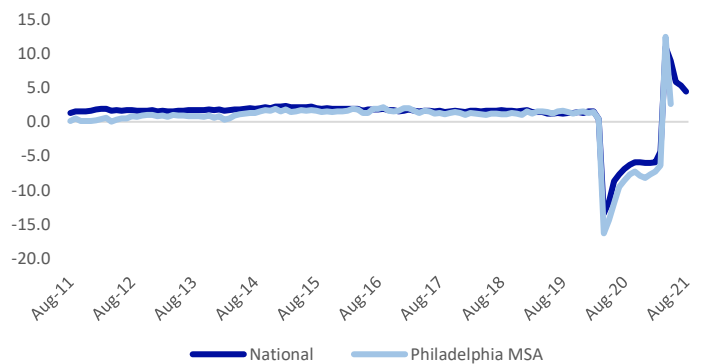
NOT SEASONALLY ADJUSTED



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

Payroll Employment (Total Nonfarm)

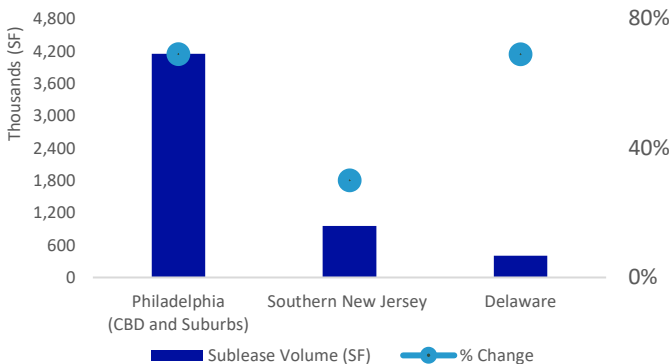
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



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

Greater Philadelphia Markets Sublease Analysis

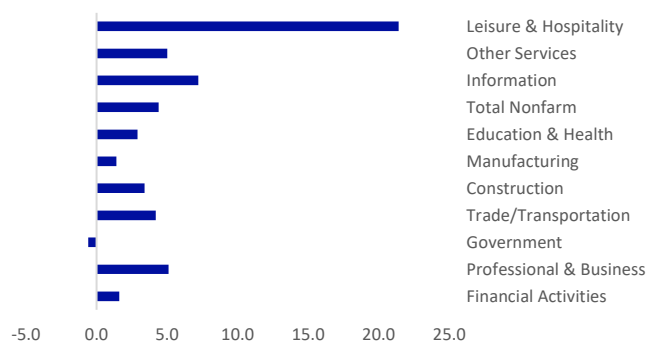
SQUARE FEET AND 12-MONTH % CHANGE, 3Q21



Source: Newmark Research, September 2021.

Employment Growth by Industry, August 2021

PHILADELPHIA MSA, 12-MONTH % CHANGE



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

For more information:

Philadelphia

2005 Market Street
Suite 900
Philadelphia, PA 19001
t 215-561-8300

Jared Jacobs

Research Manager
t 610-755-6990

Jared.Jacobs@nmrk.com

Trae Hoffner

Research Analyst
t 215-246-2717

Trae.Hoffner@nmrk.com

nmrk.com

ALABAMA

Birmingham

ARIZONA

Phoenix

ARKANSAS

Fayetteville
Little Rock

CALIFORNIA

El Segundo
Irvine
Los Angeles
Newport Beach
Pasadena
Sacramento
San Francisco
San Jose
San Mateo
Santa Rosa

COLORADO

Denver

CONNECTICUT

Stamford

DELAWARE

Wilmington

DISTRICT OF COLUMBIA

FLORIDA

Boca Raton
Jupiter
Miami
Palm Beach
Tampa

GEORGIA

Atlanta

ILLINOIS

Chicago

INDIANA

Indianapolis

KENTUCKY

Louisville

LOUISIANA

New Orleans

MARYLAND

Baltimore
Salisbury

MASSACHUSETTS

Boston

MICHIGAN

Detroit

MINNESOTA

Minneapolis

MISSOURI

St. Louis

NEVADA

Las Vegas
Reno

NEW JERSEY

Rutherford
East Brunswick
Morristown

NEW YORK

Buffalo/Amherst
New York

NORTH CAROLINA

Charlotte

OHIO

Cincinnati
Cleveland
Columbus

OKLAHOMA

Oklahoma City

OREGON

Portland/Lake
Oswego

PENNSYLVANIA

Allentown
Philadelphia
Pittsburgh

TEXAS

Austin
Dallas
Houston

UTAH

Salt Lake City

VIRGINIA

Tysons Corner

WASHINGTON

Seattle

WISCONSIN

Milwaukee

Licensed in Pennsylvania as Newmark Real Estate.

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/research.

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark has not verified any such information, and the same constitutes the statements and representations only of the source thereof not of Newmark. Any recipient of this publication should independently verify such information and all other information that may be material to any decision the recipient may make in response to this publication and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download or in any other way reproduce this publication or any of the information it contains. This document is intended for informational purposes only, and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter.