

Pandemic puts a pause on regional business activity, leasing activity plummets

Ongoing virus prevention measures shut down Philadelphia's business and social activity for a majority of the second quarter as businesses remain focused on work-from-home measures while navigating how to safely return employees to the office. However, some signs of an economic reopening are emerging. In the beginning of June, counties in the southeastern Philadelphia region were given permission to slowly reopen businesses with strict social distancing guidelines. Still, the drastic limitation on business activity is reflected in current office demand, particularly as many tenants have put real estate decisions on hold while they seek to determine the best work environment for their workforce. Overall, second-quarter leasing activity totaled just 942,000 square feet (sf) - less than half of what was seen in Q1 (2.7 million square feet). This activity included Spark Therapeutics' lease for the entire 64,000-sf 3000 Market Street building in University City, NCS Pearson's lease extension (35,734 sf) in Bala Cynwyd, and EwingCole's one-year sublease of 30,171 sf in Berwyn. The EwingCole sublease is of note as it was executed to spread out staff and allow suburban-based workers access to an office without having to commute into the city office via public transportation.

Availability climbs in the Central Business District

Availability in the Central Business District (CBD) increased 40 basis points over the quarter to 12.0%. The East Market submarket saw a drastic increase in availability, now up 140 basis points from Q1 to 13.3%, while availability in the West Market recorded a smaller uptick, increasing 20 basis points to 12.3%. Availability is likely to continue to increase, including new sublease availabilities that will hit in Q3 and beyond, once businesses have had the opportunity to take stock and focus on real estate plans.

Overall asking rents hold flat with some declines seen in pockets throughout the region

While Philadelphia's overall average asking rental rate remained flat at \$28.62 per square foot (psf), fifteen of the thirty-four submarkets across the region saw some decrease in asking rates. In Philadelphia's Central Business District, rent ended the quarter at \$34.34 psf - increased 0.2% compared to the first quarter and 3.9% when compared to one year ago. It is likely that tenant concessions will increase before there is a drastic decline in asking rents market-wide.

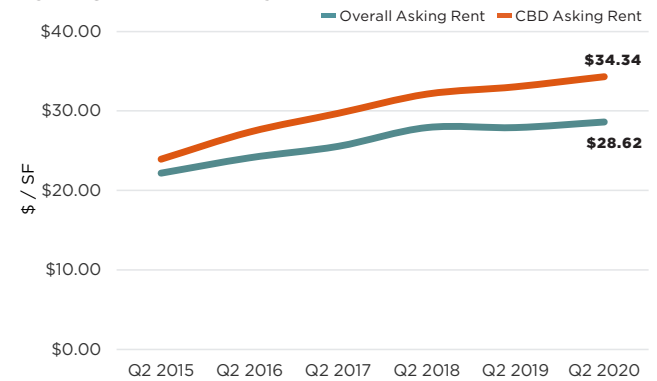
Outlook

- Sublease space is likely to increase as businesses are forced to reduce office space due to layoffs or the need to implement cost-saving measures through real estate
- As the regional economy is just now entering the earliest phases of reopening, it is likely that there will be an increase in short-term lease extensions while tenants wait out the pandemic and evaluate their future space needs
- With availability on the rise, tenants can expect to see an increase in concession offerings - even ahead of significant declines in asking rates

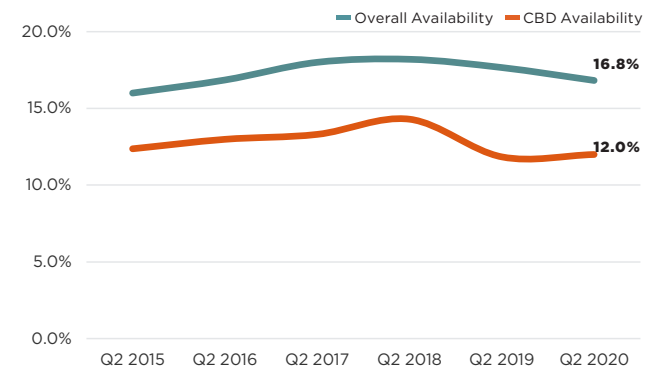
KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	133.4 MSF	134.9 MSF	▲
Availability Rate	17.7%	16.8%	▼
Asking Rental Rate	\$27.92	\$28.62	▲
CBD Asking Rental Rate	\$33.06	\$34.34	▲
Quarterly Leasing Activity	1.9 MSF	0.94 MSF	▼

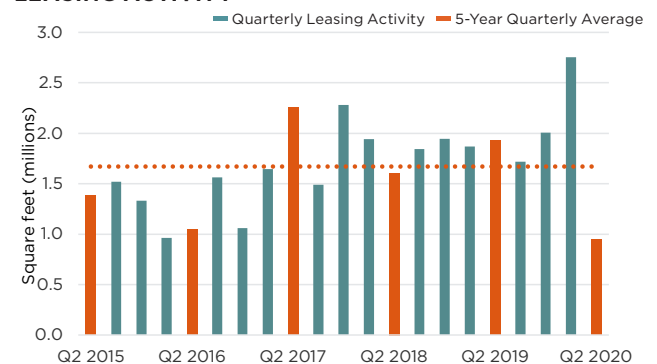
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

52.5%

of top major transactions were new locations

27.0%

of large transactions occurred in the University City submarket

37.5%

Pharmaceuticals represented 37.5% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Spark Therapeutics	64,000	3000 Market Street	New Location	University City	Pharmaceuticals
Canon Financial Services	50,000	158 Gaither Drive	Renewal	Burlington County	Professional Services
Confidential	40,602	2501 Seaport Drive	New Location	Southeast Delaware County	TBD
Passage Bio	37,414	2005 Market Street	Restructure	West Market	Pharmaceuticals
NCS Pearson	35,734	251 St Asaphs Road	Restructure	Bala Cynwyd/Narberth	Education
Century Therapeutics LLC	32,500	One uCity Square	New Location	University City	Pharmaceuticals
EwingCole	30,171	1200 W Swedesford Road	New Location	PA Turnpike / Rt. 202 Corridor	Engineering
ADP payroll	26,125	1301 Virginia Drive	Relocation	Ft. Washington/Spring House	Professional Services
Vertex	20,682	2301 Renaissance Boulevard	Expansion	King of Prussia	TAMI
Virtua	20,218	406 Lippincott Drive	New Location	Burlington County	Healthcare

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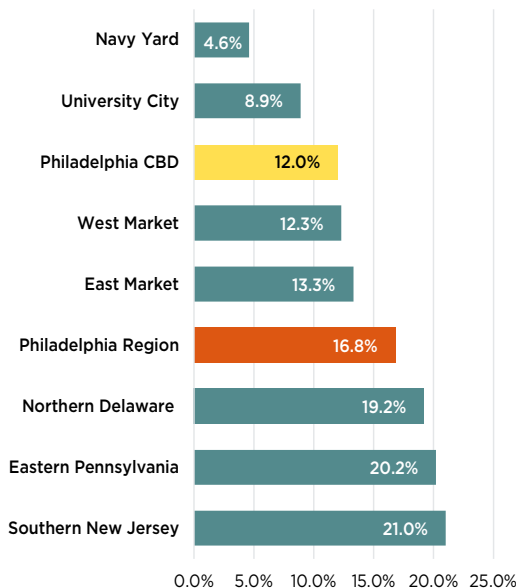
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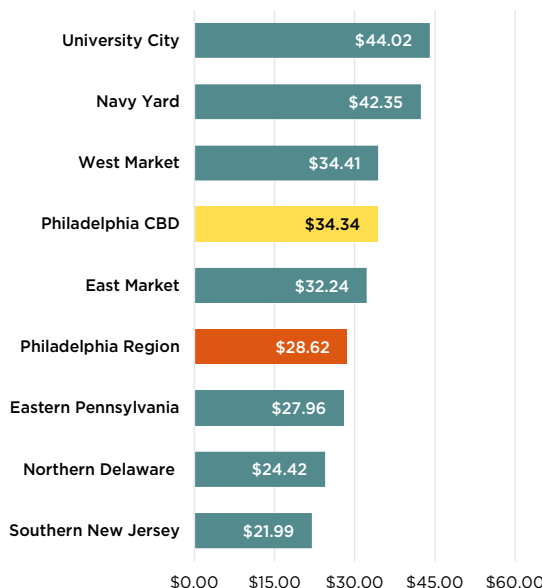
AVAILABILITY RATE COMPARISON

Philadelphia Submarkets



RENTAL RATE COMPARISON (\$/SF)

Philadelphia Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills research.

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