



## Regional leasing volume rebounds, posting almost 1.1 million square feet for the quarter

The second quarter closed with pandemic restrictions being lifted across the Philadelphia region. Local governments reported a significant increase in vaccination rates leading to a re-opening in both the city and the suburbs. However, employees have been slow to return to the office full-time, with many employers permitting flexible work schedules — for the time being. The region reported 1.1 million square feet (msf) of quarterly leasing activity, a level not seen since Q2 2020. West Market and University City recorded the largest quarterly activity at 236,629 square feet (sf) and 168,633 sf, respectively. As a result, leasing activity in the Philadelphia Central Business District (CBD) almost tripled from the first quarter. Law firm Dechert executed a short-term renewal of 109,000 sf at Cira Centre North in the University City submarket, downsizing by three floors. In addition, insurance firm Radian subleased almost 55,000 sf at 550 E Swedesford Road in the King of Prussia submarket, while biotechnology firm, Biomeme, will relocate to 44,000 sf at 401 N Broad Street in the Outer Philadelphia submarket.

### No slowdown on sublease space entering the market

Regional availability climbed an additional 100 basis points (bps) from the first quarter to 21.1%, marking a 430-basis-point increase year over year. There were notable gains in suburban availability in the Norristown/Valley Forge (+1,390 bps), Doylestown/Chalfont (+889 bps) and Kennett Square/Concordville (+833 bps) submarkets. Regional sublease availability ticked up 40 bps to 3.4%, as more tenants shed currently unused space. Overall availability in the Philadelphia CBD increased 140 bps to 16.4%, with the West Market submarket recording a 17.6% availability rate (compared to 12.2% pre-pandemic).

### Landlords' overhead costs and debt a hindrance to significant rent reductions

Despite the ongoing increase in availability (and tenant options), the region's overall asking rent increased 1.2% quarter over quarter to \$29.29 per square foot (psf). In the CBD, the overall average asking rent remained flat at \$34.66 psf. Post-pandemic base building investments in HVAC systems and hands-free elevator and door access, rising construction costs and lender opposition have hindered the ability of landlords significantly to reduce face rents. Concessions remain a key negotiating tool for the few tenants that are currently in the market. However, landlords face fierce competition from the large amount of sublet space on the market, which has an average asking rate of \$24.46 psf, \$5.50 less than the average regional direct rate of \$29.99 psf.

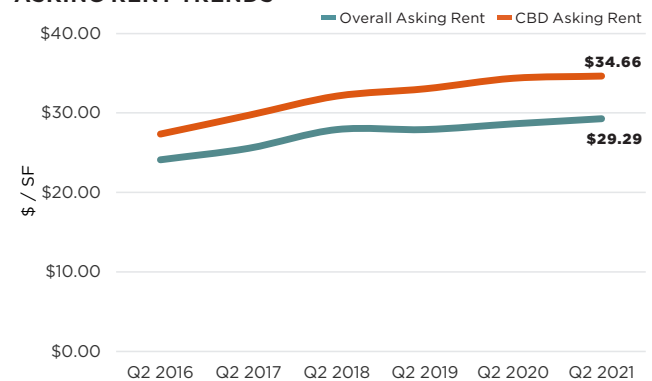
### Outlook

- With landlords seeking to keep building vacancies down, tenants are finding it harder to negotiate early lease restructures and surrendering of space in 2021; as a result sublease availability may swell further
- Landlords will offer more concessions in an effort to address rising construction costs while maintaining higher face rents
- Full office occupancy may not return to pre-pandemic levels for another six to nine months, while employers determine if flexible schedules will become a permanent part of their business plans

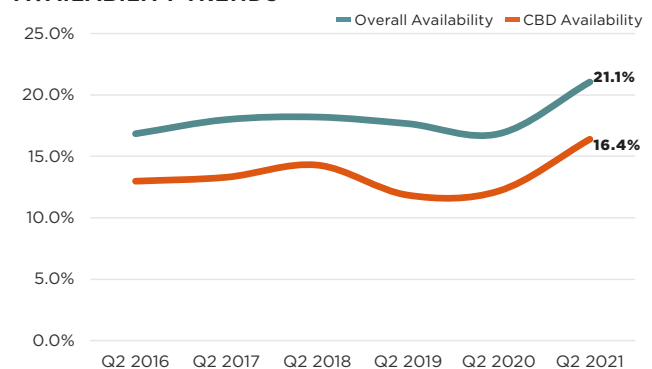
### KEY STATISTICS

	Q2 2020	Q2 2021	y-o-y Change
Inventory	142.8 MSF	<b>145.8 MSF</b>	▲
Availability Rate	16.8%	<b>21.1%</b>	▲
Asking Rental Rate	\$28.64	<b>\$29.29</b>	▲
CBD Asking Rental Rate	\$34.38	<b>\$34.66</b>	▲
Quarterly Leasing Activity	1.1 MSF	<b>1.1 MSF</b>	◀▶

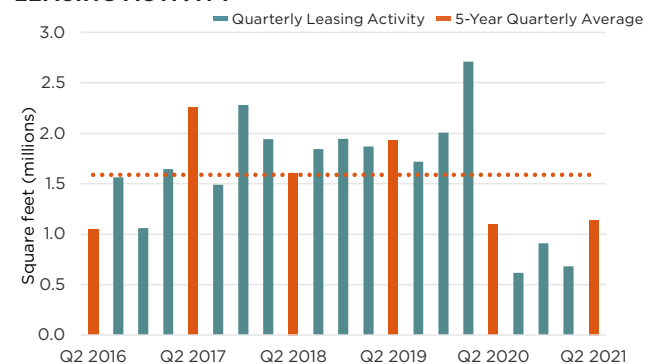
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

51.8%

of top major transactions were **renewals** by square footage

34.7%

of large transactions occurred in the **University City** submarket by square footage

44.9%

**Legal Services** represented 44.9% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Dechert	109,000	2929 Arch Street	Renewal	University City	Legal Services
Radian	54,726	550 E Swedesford Road	Relocation	PA Turnpike / Rt. 202 Corridor	Financial Services
Biomeme	44,000	401 N Broad Street	Relocation	Outer Philadelphia County	Biotechnology
Johnson Controls Inc.	40,400	1400 Pennbrook Parkway	Renewal	Lansdale	Construction
Security Risk Advisors	23,021	1600 Market Street	New Location	West Market	Professional Services
Weir & Partners LLP	21,924	1-3 S Penn Square	Renewal	East Market	Legal Services
Apple Leisure Group	21,232	3805 West Chester Pike	New Location	Media / Newtown Square	Professional Services
Reger Rizzo & Darnall LLP	15,000	2929 Arch Street	Restructure	University City	Legal Services
Barrack Rodos & Bacine	14,633	2001 Market Street	Restructure	West Market	Legal Services
Innovaire Global LLC	13,923	2 Executive Campus	Renewal	Camden County	TAMI

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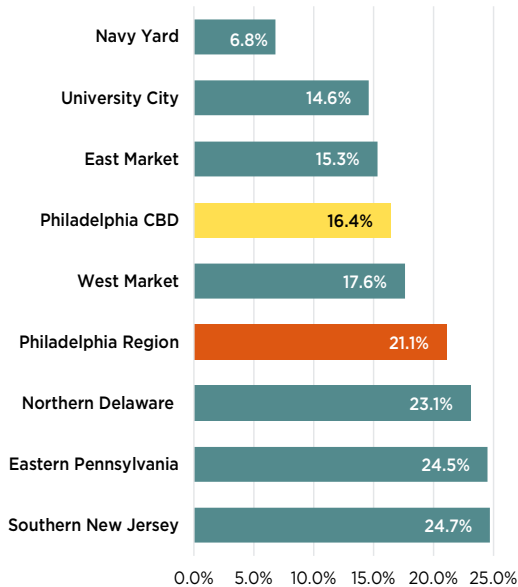
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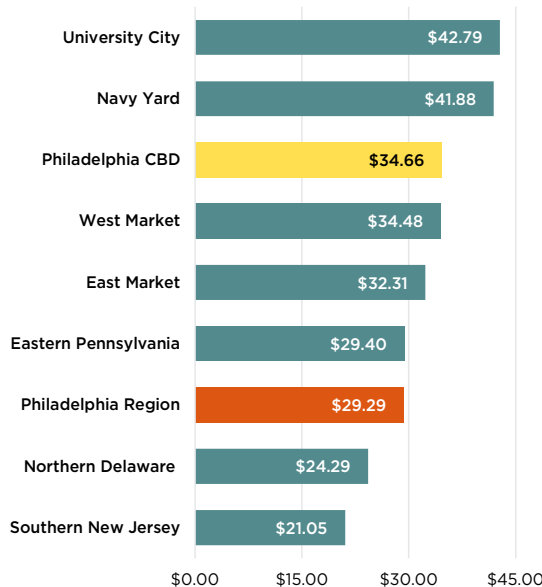
AVAILABILITY RATE COMPARISON

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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