



Businesses re-open but many employees still working from home; leasing activity stalls and tenants seek short-term extensions

Six months after the onset of the COVID-19 pandemic, counties in southeastern Philadelphia slowly allowed businesses to reopen with strict social distancing guidelines during the third quarter. However, employers are still permitting their workforce to work remotely — and may continue to do so well into the new year. As a result, many tenants have delayed long-term real estate decisions, with some extending their current leases for the short term. For example, infrastructure and engineering firm AECOM executed a short-term extension of its 51,197-square-foot (sf) lease at 1700 Market Street. With delayed leasing decisions, leasing activity fell by 45.0%, quarter over quarter and the third quarter recorded only 583,206 sf of transactions. Notable deals that were able to close during this period include bank BNP Paribas' leasing of 58,877 sf at 735 Chesterbrook Boulevard and Nerd Street Gamers taking 35,000 sf at 401 N Broad Street. In addition, Jefferson Health publicly announced that it signed a lease for a to-be-built, 643,000-sf project downtown. The project will include a 492,000-sf medical facility. Savills represented Jefferson Health in the transaction.

Sublease availability increased as tenants shed unused space

Regional availability climbed 70 basis points from the second quarter to 17.5%. There were notable gains in suburban availability in the Media/Newtown Square (+530 basis points), Newtown (+210 basis points) and South New Castle County (+210 basis points) submarkets. Regional sublease availability ticked up 20 basis points to 2.3%, as some tenants extended remote working and certain businesses collapsed due to pandemic-related losses. Overall availability in the Philadelphia Central Business District (CBD) increased 20 basis points to 12.4%, with the West Market submarket recording a 13.0% availability rate — the highest it has been since the second quarter of 2018.

Rent growth slowed in Philadelphia's core, with mixed results in the suburbs

Despite the softening market, the region's overall asking rent declined 0.4% quarter over quarter at \$28.77 per square foot (psf). In the Philadelphia CBD, overall average asking rent declined less than 1.0% from the second quarter, now at \$34.33 psf. Owners have been hesitant to substantially lower asking rents up to this point without any significant demand for space, however, tenants can expect favorable concessions and flexibility in lease terms and provisions. Should sublease availability swell, the influx of lower-priced options could result in some repricing on direct space.

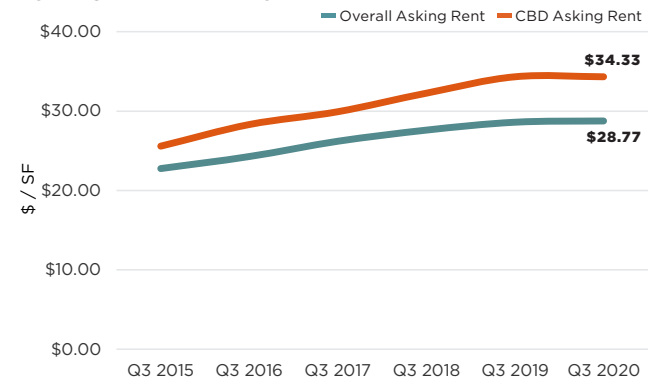
Outlook

- As tenant retention is critical for owners in a softening market, landlords are likely to approach their larger tenants with favorable early renewal terms
- Serious discounts in asking rent are not expected yet; however this could change over time and tenant concessions, including free rent and tenant improvement allowances, are likely to climb now to entice tenants to renew or relocate
- A steady stream of sublease additions is expected in the coming months as occupiers focus on cost reduction and evaluate future space needs

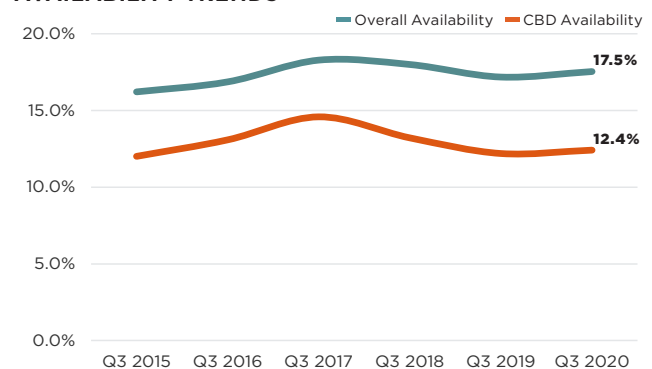
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	133.4 MSF	134.0 MSF	▲
Availability Rate	17.2%	17.5%	▲
Asking Rental Rate	\$28.60	\$28.77	▲
CBD Asking Rental Rate	\$34.33	\$34.33	◀▶
Quarterly Leasing Activity	1.7 MSF	0.6 MSF	▼

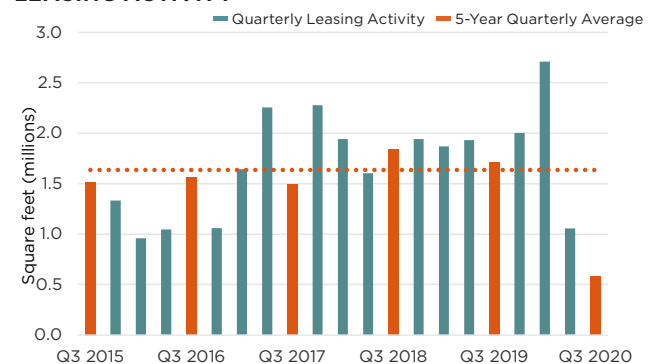
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

46.0%

of top major transactions were new locations

30.3%

of large transactions occurred in the PA Turnpike / Rt. 202 Corridor submarket

40.7%

Personal Services represented 40.7% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
BNP Paribas	58,877	735 Chesterbrook Boulevard	New Location	PA Turnpike / Rt. 202 Corridor	Financial Services
AECOM	51,197	1700 Market Street	Extension	West Market	Engineering
Nerd Street Gamers	35,000	401 N Broad Street	New Location	Outer Philadelphia County	Personal Services
Penn Interactive Ventures	32,212	101 Woodcrest Road	New Location	Camden County	Personal Services
Conduent Business Services	30,887	101 Woodcrest Road	Renewal	Camden County	Personal Services
Cookie & Bieler	16,893	1700 Market Street	Extension	West Market	Financial Services
Nuix	13,660	20 Ash Street	Renewal	Conshohocken	Personal Services
Global Atlantic	13,594	400 Berwyn Park	Renewal	PA Turnpike / Rt. 202 Corridor	Financial Services
Running Press	11,500	123 S Broad Street	Relocation	East Market	TAMI
Biofrontera	10,573	1500-1550 Liberty Ridge Drive	Relocation	PA Turnpike / Rt. 202 Corridor	Pharmaceuticals

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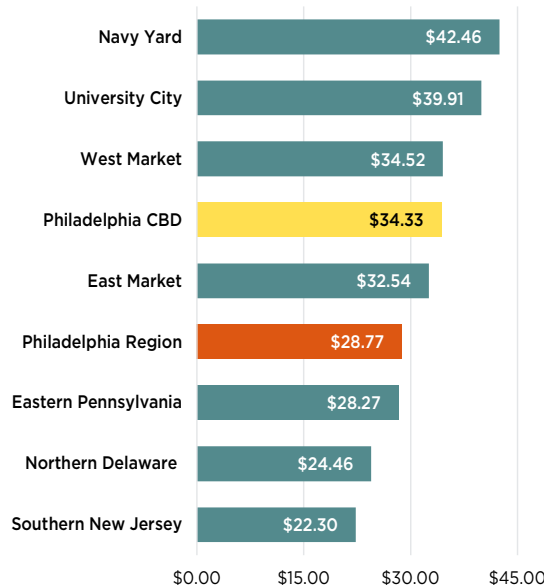
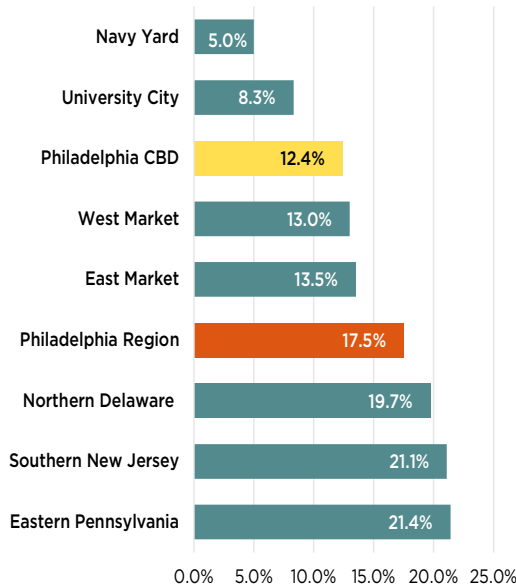
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AVAILABILITY RATE COMPARISON

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.

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