



COVID-19 crisis likely to upend a strong quarter for activity in the Philadelphia market

In March, the COVID-19 pandemic spread brought Philadelphia business to an unprecedented halt. No one can know the near-or long-term impact that a crisis of this scale will have on the office market; however, we can look to trends immediately prior and the strength of the region's underlying fundamentals for assumptions of what could occur once the crisis has passed. Ahead of current events, Philadelphia reported 2.7 million square feet (msf) of leasing activity for the first quarter — 36.0% more than recorded in the fourth quarter of 2019. Notable transactions executed during the quarter included: Axalta Coating System's renewal of 75,115 square feet (sf) in the Kennett Square/Concordville submarket, the City of Philadelphia's renewal of 66,631 sf in the West Market submarket and Paypal's lease of 60,593 sf at Metroplex One in Plymouth Meeting. The pace of demand is sure to slow in coming quarters as organizations reevaluate steps forward once activity can resume.

Availability tightens, particularly in Class A space; likely to swing back up going forward

Philadelphia's regional availability declined for the fifth consecutive quarter contracting 10 basis points to 16.7%. Tenants continued to gravitate towards premium space, which resulted in Class A availability declining 60 basis points quarter over quarter to 15.7%. The Philadelphia Central Business District (CBD) recorded a 10-basis-point decline in availability with the largest contractions in the East Market and the Navy Yard submarkets. Despite some market tightening, the overall average asking rent for the region decreased less than 1.0% from the fourth quarter to \$28.65 per square foot (psf). The return of some space to market is inevitable as economic disruption continues. Availability is likely to see a reversal of its current downward trend, the extent of which dependent on how long non-essential closures continue.

Philadelphia's core tenant base likely a bright spot amidst current uncertainty

Philadelphia is rich in sectors that are likely to be less impacted by current events – healthcare, life sciences, and biotechnology. Additionally, business in the region does not rely heavily on sectors anticipated to be more negatively impacted including, energy, transportation, retail and hospitality, when compared to other metropolitan regions. Should Philadelphia's key sectors remain active once the crisis has passed, it could provide the office market some resiliency against a volatile economy.

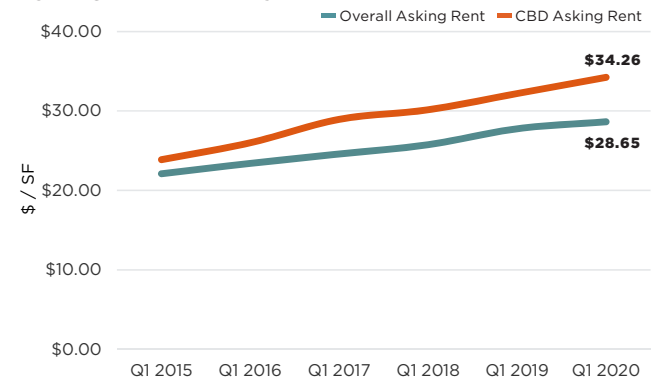
Outlook

- Coronavirus spread will slow down transaction volume, but hope remains that the market will recover quickly once the crisis has passed due to the region's strong fundamentals
- Delivery and start dates for construction projects will be pushed back due to materials and labor shortage
- The current situation will measure and test remote worker productivity, which could lead to a reassessment of future space requirements and/or confirmation of the value of collaboration and need for human interaction and office space

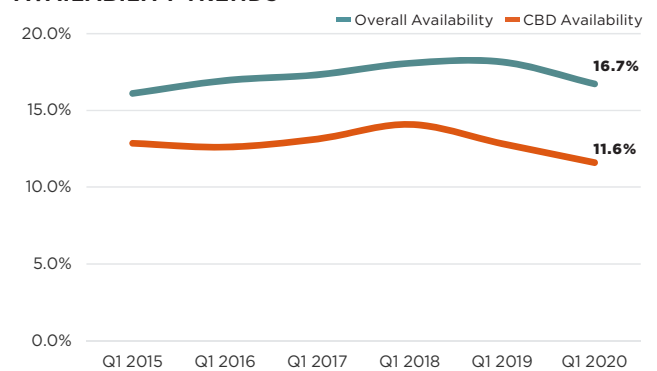
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	133.4 MSF	134.9 MSF	▲
Availability Rate	18.2%	16.7%	▼
Asking Rental Rate	\$27.78	\$28.65	▲
CBD Asking Rental Rate	\$32.21	\$34.26	▲
Quarterly Leasing Activity	1.9 MSF	2.7 MSF	▲

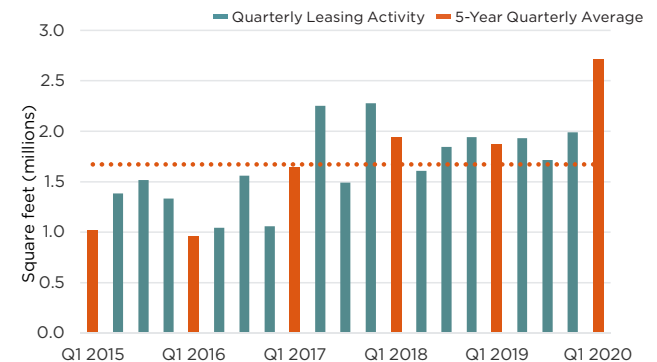
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

64.5%

of top major transactions were **relocations or new locations**

36.5%

of large transactions occurred in the **West Market** submarket

18.0%

Coworking represented 18.0% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Axalta Coating Systems	75,115	50 Applied Card Way	Restructure	Kennett Square/Concordville	Manufacturing
City of Philadelphia	66,631	100 S Broad Street	Renewal	West Market	Government
Paypal	60,593	4000 Chemical Road	Relocation	Plymouth Meeting	TAMI
Mullen Coughlin LLC	59,941	426 W Lancaster Avenue	Relocation	Upper Main Line	Legal Services
Hana	50,000	1818 Market Street	New Location	West Market	Coworking
Link Industrial Properties	47,379	602 Office Center Drive	Relocation	Ft. Washington/Spring House	Real Estate
Mindspace	42,000	100 Penn Square E	New Location	East Market	Coworking
Lombard International	40,000	1650 Market Street	Extension	West Market	Financial Services
QualTek USA	39,712	475 Sentry Parkway	New Location	Blue Bell	TAMI
WuXi	32,993	411 Swedeland Road (Discovery Labs)	New Location	King of Prussia	Pharmaceuticals

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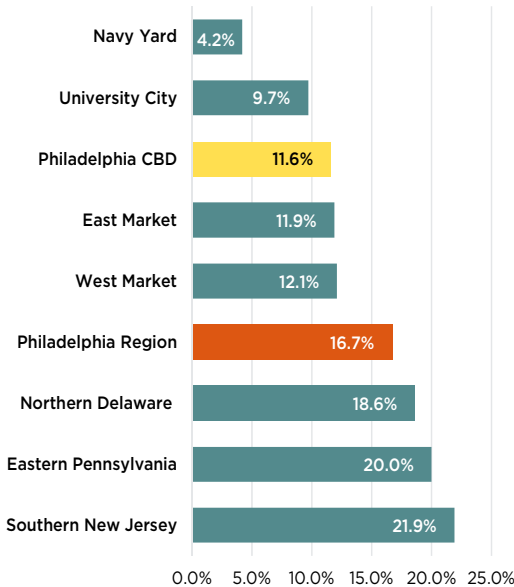
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AVAILABILITY RATE COMPARISON

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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