



1600 Market Street | David Florida

Office

The commercial office sector was profoundly disrupted by the March 2020 public mandates requiring telework in response to the pandemic. Building managers and tenants moved quickly, retrofitting space, upgrading air-handling systems and instituting new cleaning and health safety protocols in lobbies and common areas. Most imagined the interruption would be a matter of weeks, a few months at most. However, when infection rates persisted through summer and spiked in the fall, longer-term questions began to emerge about the future of work in office buildings.

Most firms adapted quickly to virtual meeting platforms. Following telework mandates, throughout 2020 no more than 10% of employees on average came into their offices. The absence of 115,000 professional, tech, business and financial services workers and thousands of non-essential health care and education employees, caused SEPTA ridership, parking garage occupancy and pedestrian volumes on Center City sidewalks to plummet, posing significant challenges for restaurants and retail. Many cleaning, security and other operations personnel in office buildings were furloughed.

In the first quarter of 2020, based on momentum from 2019, rents continued to rise in Center City to \$33.80 per square foot. Positive absorption of 142,509 square feet lowered vacancy to 12.9%. During the second quarter, following the stay-at-home order, vacancy inched up to 13%, ultimately peaking at 15.4% by year-end, as 536,536 square feet of office space was vacated. However, the surge in vacancy during the fourth quarter was due less to unanticipated departures, and more a byproduct of downsizing planned prior to the pandemic, including Children's Hospital of Philadelphia and the Army Corps of Engineers vacating space in the Wanamaker Building.

Throughout Center City, remote work enabled nearly all tenants to operate and pay rent, while property owners accommodated those experiencing financial challenges, executing some temporary extensions and adapting to uncertain circumstances. Many new deals incorporated flexibility. For example, Blank Rome executed a lease that gives them the ability to occupy between 100,000 and 196,000 square feet over a 16-year term without penalty.

Major new developments provided grounds for optimism, including Parkway Corporation's start of construction for a new headquarters for Morgan Lewis at 2222 Market Street and National Real Estate Development's construction of a 19-story specialty care pavilion for Thomas Jefferson on the 1100 block of Chestnut Street. Philadelphia's strength in life sciences also extended beyond University City with conversions from office space to new lab space at both The Curtis and 1500 Spring Garden.

While telework quickly became the primary mode for the office sector, there are many reasons to suggest it will not become the norm. Much can be achieved remotely. However, interaction with clients, collaboration with colleagues, creative brainstorming, mentoring and professional development work best face-to-face. Many of the best new ideas emerge outside planned gatherings. They are sparked by serendipitous conversations in the office, on the street, in restaurants, parks and outdoor cafes.

This is where Philadelphia excels. A dense, compact and walkable downtown enables you to run into colleagues, competitors or friends on the way to lunch. More than 40 million square feet of office space provides a broad range of workplace options from trophy 21st-century towers, to more affordable renovated historic warehouses to highly flexible coworking spaces.

Center City remains an affordable location for business, centrally located and well connected by highway and transit along the Northeast Corridor with excellent national and global connections through Philadelphia International Airport. The region hosts a significant concentration of educational, medical and research institutions that create talent-rich labor markets, supporting the highest concentration of jobs and educated workers in the region.

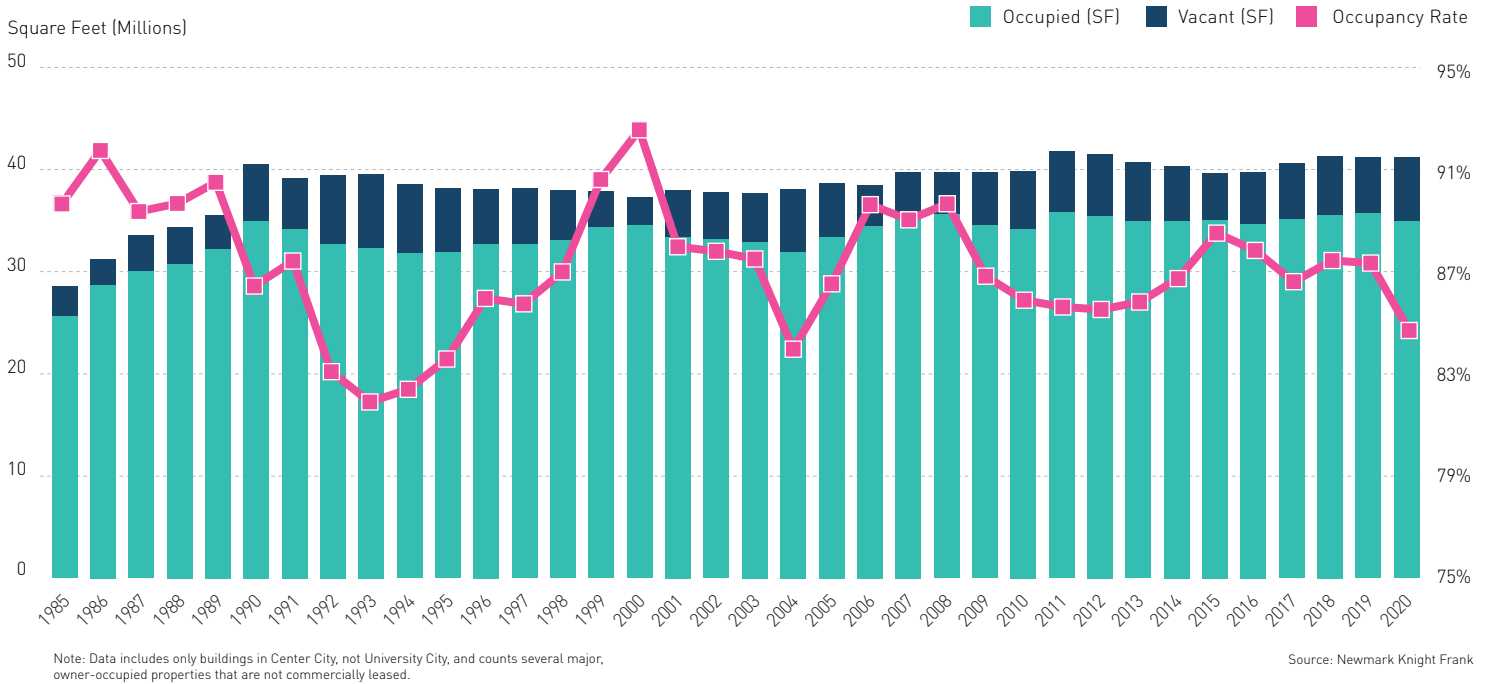
Philadelphia offers both a high quality of life and housing affordability. Home prices in the Philadelphia region, according to the Bureau of Economic Analysis, are close to the national average, but well below prices in Washington, New York and Boston. Most important, all of the advantages of density, challenged by the pandemic, will quickly reassert themselves as the health emergency recedes. What is required to ensure Center City's continued growth is a broad coalition of civic leaders to actively promote Philadelphia as a business location, build on the momentum of the Ready Set Philly initiative and not passively accept remote work as the norm. In addition, City government needs to recommit to promoting strong and inclusive economic growth through tax reform, increased investment in Black- and brown-owned businesses, neighborhood commercial corridors and programs that improve quality of life and overall competitiveness.

Center City Office Market Trends, 2020

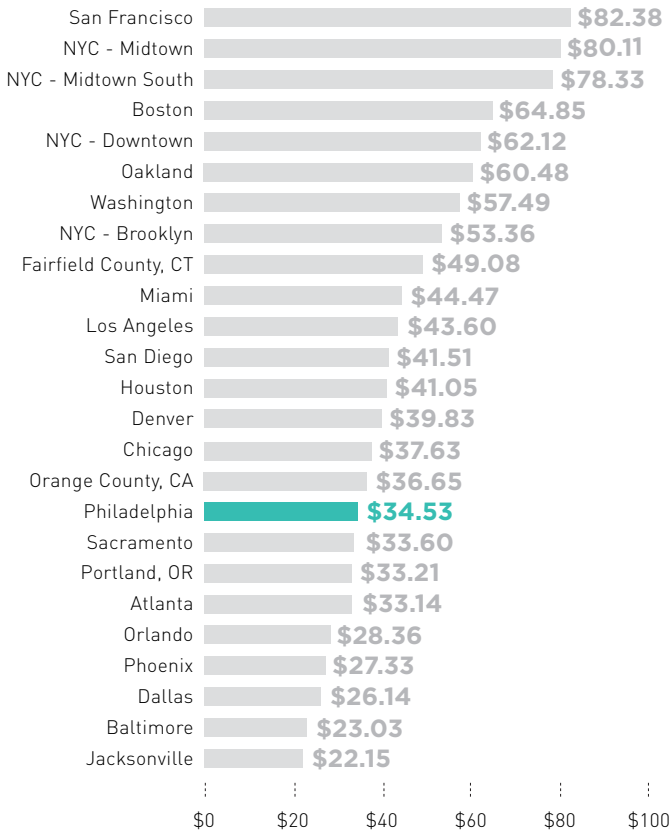
SUBMARKET	Q1 2020			Q2 2020		
	TOTAL ASKING RENT (PRICE/SF)	TOTAL VACANCY RATE	NET ABSORPTION (SF)	TOTAL ASKING RENT (PRICE/SF)	TOTAL VACANCY RATE	NET ABSORPTION (SF)
East Market	\$29.81	10.0%	45,838	\$29.65	9.9%	6,660
Independence Square	\$31.12	15.0%	10,312	\$31.18	14.5%	17,023
Walnut/South Broad	\$30.83	18.3%	-27,621	\$30.78	18.7%	-15,649
West Market	\$36.14	12.3%	113,980	\$35.90	12.6%	12,365
CENTER CITY	\$33.80	12.9%	142,509	\$33.67	13.0%	20,399
SUBMARKET	Q3 2020			Q4 2020		
	TOTAL ASKING RENT (PRICE/SF)	TOTAL VACANCY RATE	NET ABSORPTION (SF)	TOTAL ASKING RENT (PRICE/SF)	TOTAL VACANCY RATE	NET ABSORPTION (SF)
East Market	\$30.48	9.5%	22,295	\$31.38	15.6%	-357,416
Independence Square	\$31.13	15.7%	-59,256	\$31.96	17.1%	-57,493
Walnut/South Broad	\$30.89	19.4%	-28,117	\$30.75	20.2%	-33,514
West Market	\$35.80	13.8%	-284,758	\$36.31	14.2%	-88,113
CENTER CITY	\$33.76	13.9%	-349,836	\$34.53	15.4%	-536,536

Source: Newmark Knight Frank

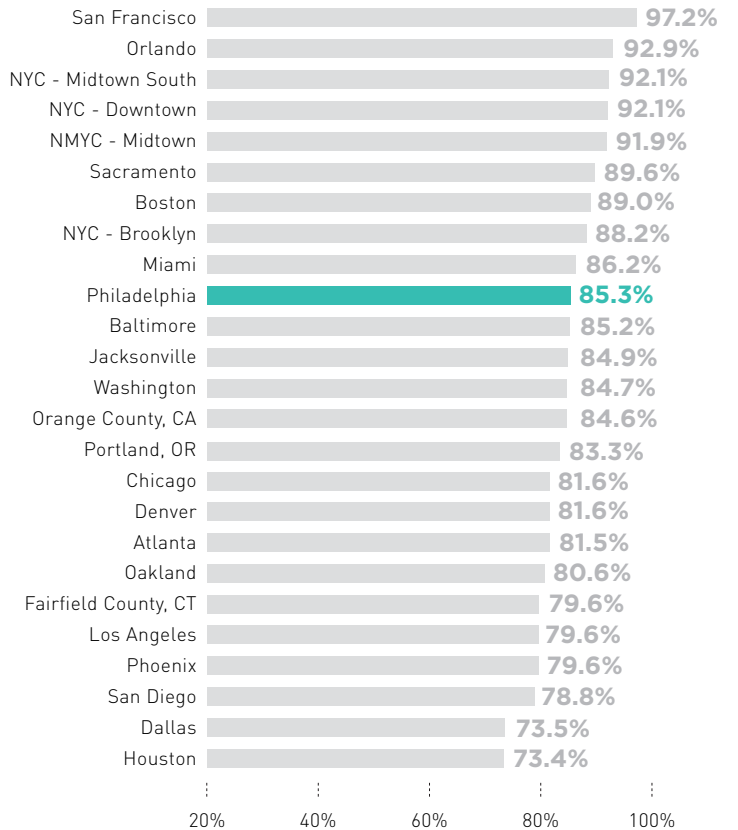
Center City Philadelphia Office Market, 1985-2020



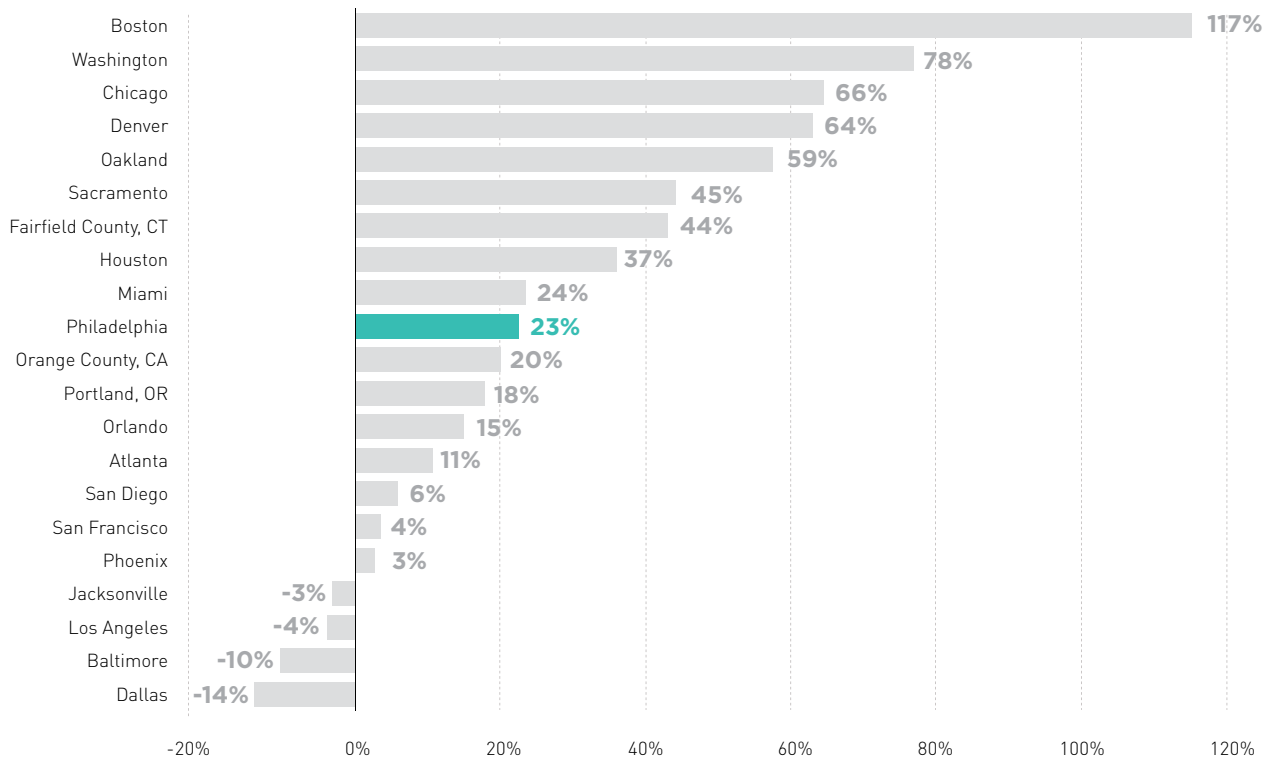
Central Business District Asking Rents, 2020



Central Business District Occupancy, 2020



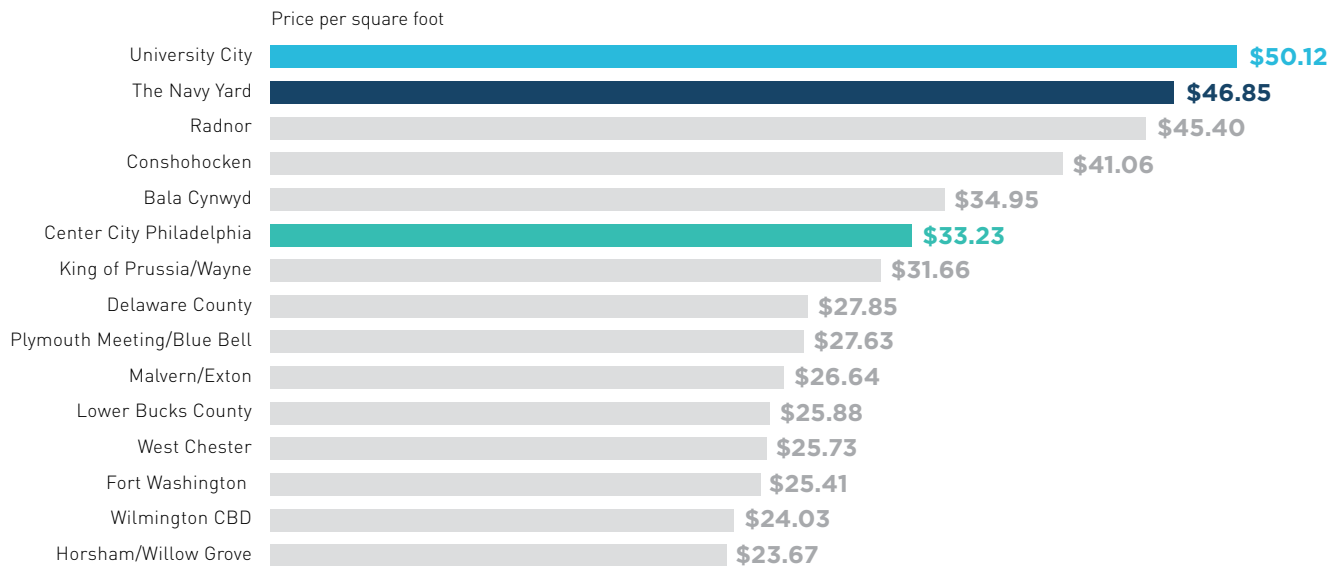
Class A Rents, Central Business District Compared to Suburbs, 2020



Source: Newmark Knight Frank

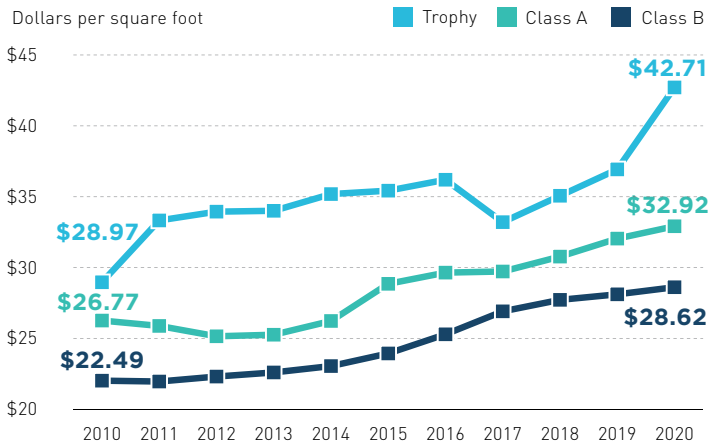
Philadelphia's affordability, a byproduct of slow growth and modest demand, can be a central selling point in a campaign to market Center City as a preferred business location throughout the Northeast.

Regional Average Asking Rents, 2020



Source: JLL Research

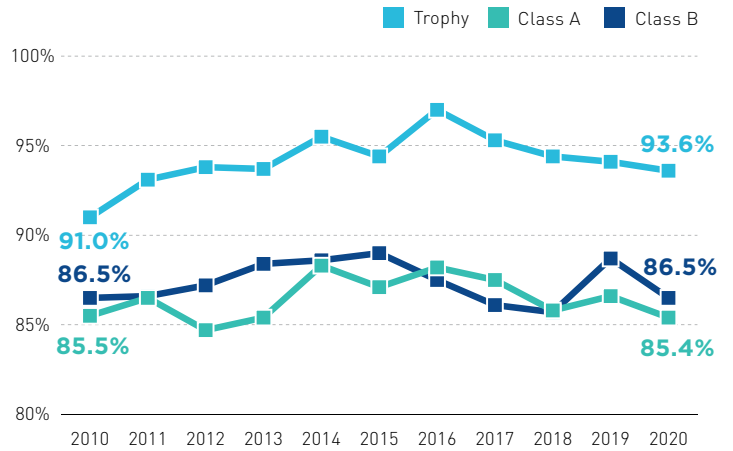
Center City Average Asking Rent



Note: The increase in average Trophy class rent in 2020 reflects a significant increase at one building.

Source: JLL Research

Center City Occupancy Rate by Class



Source: JLL Research

While life science tenants have many reasons to cluster in University City, proximity to Thomas Jefferson University and the availability of many affordable and easily adaptable older buildings creates an opportunity for Center City landlords.

Greater Philadelphia Life Sciences Inventory Pipeline Under Construction and Proposed Construction/Conversions

- Proposed
- Proposed Partial Conversion
- Under Construction Build to Suit
- Under Construction Speculative

Source: Newmark Research



Significant Office Leasing Transactions in Center City, 2020

MARKET WEST

TENANT	BUILDING	CLASS	SIZE (SF)	TYPE
Blank Rome	One Logan Square	Trophy	196,000	Renewal
Army Corps of Engineers	1650 Arch St	A	101,000	Relocation
Hana	Beneficial Bank Place	A	50,745	New to Market
Passage Bio	One Commerce Square	Trophy	37,414	Relocation
Dechert	1735 Market St	Trophy	34,987	Relocation
QTC Management	One Penn Center at Suburban Station	B	29,788	Expansion
GrubHub	Three Parkway	A	28,214	Blend and Extend
Evolution Gaming	1500 Spring Garden St	B	24,011	New to Market
Olin Partnership	One Penn Center at Suburban Station	B	23,571	Relocation
FreedomPay	2401 Walnut St	A	14,453	New Lease
Ricci Tyrrell Johnson & Grey	1515 Market St	A	13,511	Renewal
Naulty Scaricamazza & McDevitt	One Penn Center at Suburban Station	B	12,000	Renewal
Bohler Engineering	1515 Market St	A	11,350	New to Market
Service Employees International Union Local 32BJ	1515 Market St	A	10,429	Renewal
AJO	230 S Broad St	B	10,387	Renewal

MARKET EAST

TENANT	BUILDING	CLASS	SIZE (SF)	TYPE
Mindspace	The Wanamaker Building	A	41,277	New to Market
Weir & Partners	The Widener Building	A	21,924	Renewal
Imvax	The Curtis	A	17,000	Relocation
City Of Philadelphia	Aramark Tower	A	15,231	Relocation
BDP International	One Washington Square	A	13,331	Renewal
Hachette Book Group	Wells Fargo Building	B	11,500	Relocation
Philadelphia Futures	Wells Fargo Building	B	11,217	New Lease
Thomas Jefferson University	Aramark Tower	A	10,156	New Lease

Source: JLL Research

As the challenges of 2020 recede, the Center City office district can grow beyond a pattern of renewals and lateral moves to become a place that attracts in-moving companies and new firms in expansion mode.