

INVESTMENT FORECAST

Office
Philadelphia

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

Office Sector Improving Despite Uncertain Leasing Future; Investment Activity Led By Suburbs

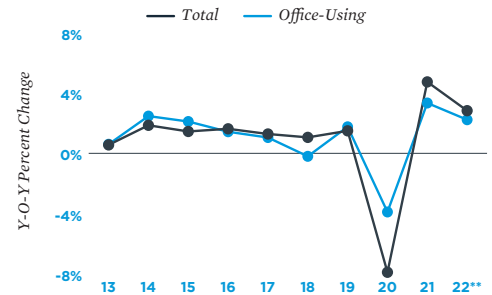
Office demand varies by industry as recovery lags behind national average. Philadelphia's economy is steadily trending upward heading into 2022, though total employment will end the year well below 2019 headcounts. Full office demand recovery may face headwinds as larger employers explore hybrid workplace options. Insurance providers State Farm and Optum Inc. were among the employers putting large blocks of space on the market, relinquishing a combined 450,000 square feet amid plans to transition employees to home offices. Demand, however, is rapidly growing in many industries unable to make this leap. Four of the 10 largest move-ins last year can be attributed to the national biotechnology boom. Iovance Biotherapeutics, B Lab, Century Therapeutics and Integral Molecular leased a combined 250,000 square feet in the Philadelphia city limits alone. The metro maintains a brighter outlook on the supply side. Less than half of the 1.6 million square feet scheduled for a 2022 delivery is available for lease entering this year, mitigating excess upward pressure on vacancy. Tenant preferences for top-tier offices will benefit this new space, contributing to this year's positive net absorption.

Investment market yet to recover, but the potential for deals remains. Transaction velocity last year remained under 2020 levels as investors waited for clearer signs of leasing recovery. In line with tenants' current preferences, buyers active in the market are targeting upper-tier properties in the metro's wealthier northwestern suburbs including the King of Prussia/Wayne and Exton/Whitlands submarkets. Assets ranging from smaller offices in the sub-\$10 million range to much larger office parks are changing hands in these areas, reflecting locally diverse buyer pools. Deals within the city of Philadelphia are almost uniformly being closed by local investors operating in the \$1 million to \$8 million range. These buyers seek Class B and C properties, many of which offer upside potential via long-term holds.

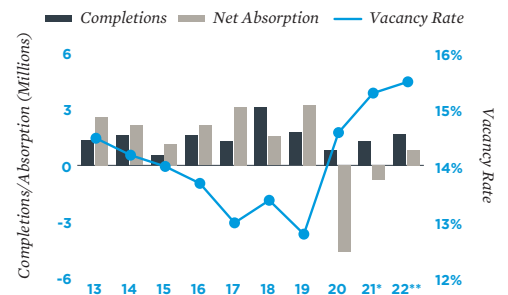
2022 Market Forecast

- Employment**
up 2.8%
Employers are projected to add 82,000 positions this year, including 16,500 jobs in traditionally office-using sectors.
- Construction**
1,650,000 sq. ft.
Space additions constitute 0.6 percent of total supply, a slight acceleration from 2021's growth of 0.5 percent. New square footage is on par with the five-year average.
- Vacancy**
up 20 bps
While the year ends with net absorption in positive territory for the first time since the onset of the health crisis, office availability observes an uptick to 15.5 percent.
- Rent**
up 2.0%
After maintaining consistent year-over-year growth through the pandemic, asking rents end the year on a new high, reaching an average of \$24.17 per square foot.
- Investment**
Diverse yields on Class B assets may draw an increasingly mixed buyer pool. Properties of this type were observed trading with cap rates ranging from 4 to 9 percent last year.

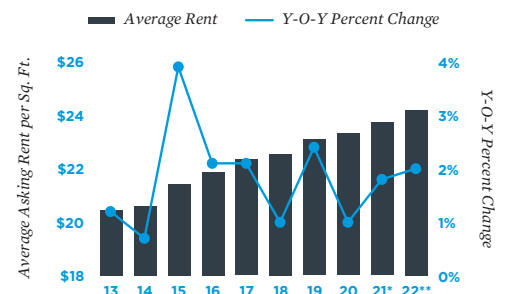
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.