

MARKET REPORT

OFFICE

Philadelphia Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2Q/21

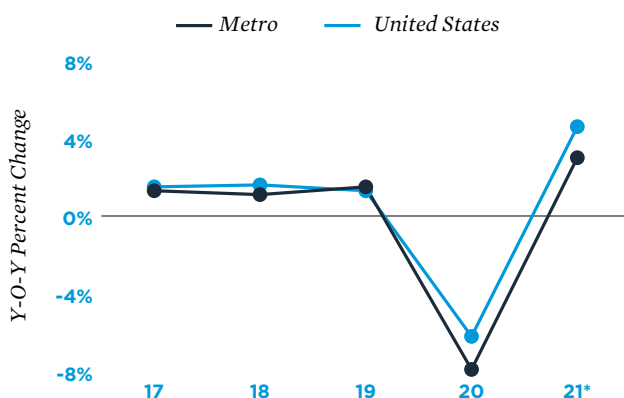
Offices in Small Suburban Settings, Medical Hubs Prove Durable as Some Firms Explore CBD Options

Health services sector underpins office demand in University City.

While the health crisis continues to challenge Philadelphia offices, some submarkets are demonstrating resilience. Chief among those is University City, where a roster of medical office tenants has kept local vacancy under 9 percent. Proximity to well-regarded colleges and hospitals is an advantage that is difficult to replicate elsewhere in the metro. New firms continue to enter the area as well, such as the new B.Labs research incubator space that will open later this year. Other submarkets with sub-10 percent vacancy through the first quarter include small suburban areas with limited construction, including Upper Bucks County and West Chester.

Retenancing of premier spaces may be slowly starting. Philadelphia's major office hubs, both inside and outside the urban core, continue to face hurdles. Market Street West, King of Prussia and Conshohocken all recorded annual vacancy increases of over 300 basis points by March. The ongoing rise in availability will be partially mitigated by a less ambitious 0.4 percent planned expansion to metro inventory this year. New leases are also being signed, including in Center City, as illustrated by BakerHostetler's upcoming relocation. Similar professional services firms, who need high-quality space to meet with clients, train new hires, and store confidential information, may be able to leverage the recent disruption to fundamentals by securing a more prominent location at competitive lease terms.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



**83,100
JOBS**

will be created

EMPLOYMENT:

Philadelphia's labor market is on track to expand by 3.0 percent this year as 32,200 jobs were created in the first three months of 2021, following a 7.9 percent drop in 2020. The number of roles traditionally based in offices will climb by 3.5 percent this year.



**1,050,000
SQ. FT.**

will be completed

CONSTRUCTION:

The delivery total will rise above the 1 million-square-foot threshold in 2021 after dropping below that benchmark in 2020 for the first time in four years. Openings are fairly dispersed, with a slight concentration in Conshohocken.



**150
BASIS POINT**

increase in vacancy

VACANCY:

Less office space is anticipated to be returned to the market this year compared with 2020, tempering the pace at which vacancy will climb. The metrowide measure will rise to 16.2 percent at year end.



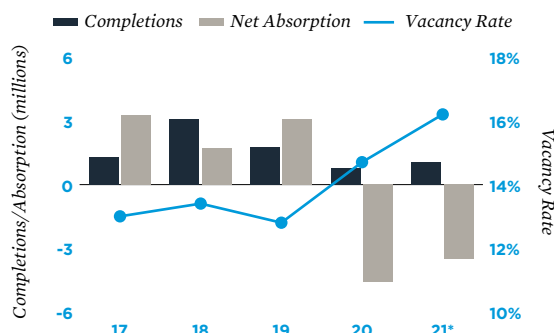
**1.8%
DECREASE**

in asking rent

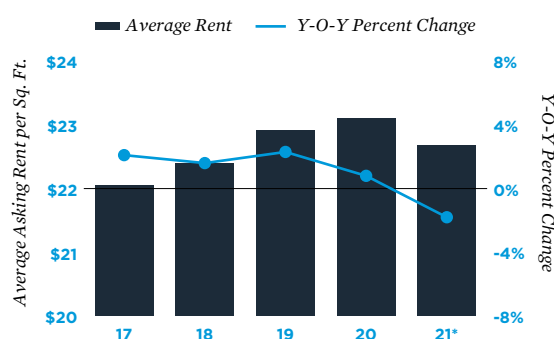
RENT:

A 10-million-square-foot increase in vacant space since the start of the pandemic will ultimately weigh on the average asking rent, lowering the measure to \$22.68 per square foot.

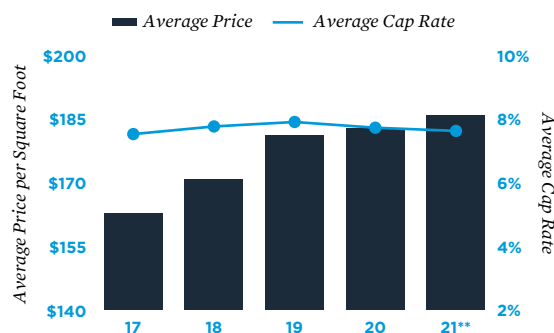
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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1Q21 — 12-Month Period



CONSTRUCTION

740,000 square feet completed

- The 336,700-square-foot headquarters for AmeriHealth Caritas, delivered to Newtown Square in November of last year, led an overall smaller construction pipeline for the 12-month period ending in March.
- A trio of sub-25,000-square-foot suburban offices comprised the bulk of the 50,800 square feet of total first-quarter openings.



VACANCY

280 basis point increase in vacancy Y-O-Y

- Four quarters of negative net absorption pushed vacancy up to 15.5 percent, the highest rate in at least 14 years.
- The Class A vacancy rate jumped 400 basis points year over year in March to 18.9 percent, while the Class B/C metric rose 190 basis points to 12.9 percent, which is below the 14.7 percent peak set in mid-2013.



RENT

0.7% increase in the average asking rent Y-O-Y

- The net return of 7.5 million square feet to the rental market, more than half of which is considered Class A, has kept the average asking rate from falling, ending March with a value of \$23.17 per square foot.
- Rates inched up by 0.4 percent in the urban core for the trailing-four-quarter period, half the pace set across the market's suburbs.

Investment Highlights

- Transaction activity continued at a subdued pace in the first quarter of 2021 as approximately 23 percent fewer properties changed hands over the 12 months ending in March than during the prior period.
- A higher concentration of Class A trades among the reduced number of sales reflects in part a flight to quality among investors. Buyer demand is strong for low vacancy assets with long lease terms, contributing to a 2 percent rise in the average sale price over the past four quarters to \$186 per square foot. The mean cap rate compressed 20 basis points over that same span to 7.6 percent.
- Investors were most active in suburban Philadelphia, as multiple institutions acquired entire campuses of low-rise offices, leading to pockets of activity in King of Prussia, Lower Bucks County and Fort Washington. Acute buyer demand is reflected in a lower-than-normal time-on-market for this area of the metro.
- In contrast to the rest of the sector, transaction velocity for medical offices continues to rise on an annual basis. Properties located across the metro's suburbs and outside the city of Philadelphia's CBD changed hands with an average sale price above \$200 per square foot.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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