

Accelerating success.

# EASTERN PENNSYLVANIA SOUTHERN NEW JERSEY DELAWARE

## Regional Office Market

### Key Trends

- > The regional office market vacancy rate jumped to 14.0% during the last two quarters of 2020, the highest level since 2010.
- > There was the largest annual loss in occupancy since 2009, totaling over 2.3 million square feet.
- > The weighted average asking rent actually increased by 0.2% to \$27.52 full service.
- > Sales volume increased from the first half of 2020, but annual volume was down by 61% from 2019.

The Philadelphia office market began to register the impact of a significant drop in demand for office space caused by the COVID crisis. Sublease space rose to a historically high level; although some of the sublease space was a result in changes to corporate footprints made before COVID. Multiple companies who had shifted to remote work have made the decision not to reoccupy their offices. There has also been a shakeout of small companies that no longer need a physical office location or rent obligation.

Despite images of empty office buildings, landlords continued to collect the majority of their rents, which has helped to stabilize rental rates even with the influx of sublease space. Also, the majority of employers continued to make tentative plans to return to the office, even if delayed until later in 2021.

The longer-term concern is the outcome of sublease space and additional underutilized “phantom space” at lease expiration. Two -to-three year sublets will be difficult to lease and will become direct vacancies for the landlords. This has the potential to drive down rental rates, negatively affecting cash flows. Class B buildings may continue to lose occupancy as tenants begin to move to smaller spaces in Class A buildings with better systems and amenities, as seen during the last recovery. Another concern is for call centers and other back office locations, which may shift permanently to remote operations.

On a more positive note, landlords are working to reconfigure office buildings for lab and bio/pharma users. Given the expected demand for this space, this reuse could allow landlords to lease space that would otherwise be considered unleaseable.

### MARKET INDICATORS

Relative to prior period

PA/NJ/DE  
Q2 2020

PA/NJ/DE  
Q2 2021\*

VACANCY



NET ABSORPTION



CONSTRUCTION/RENOVATION



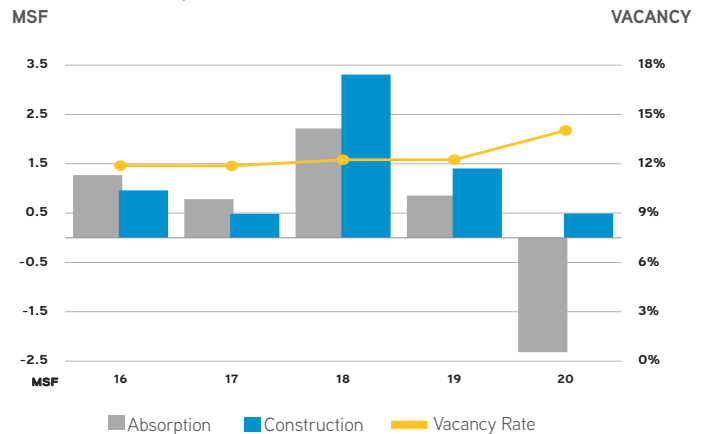
RENTAL RATE



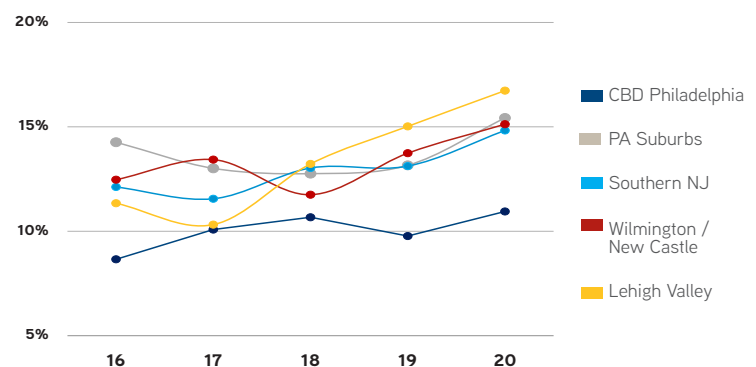
\*Projected

Arrows compare current period to the previous period and forecast the next period.

### NEW SUPPLY, VACANCY AND ABSORPTION



### MAJOR OFFICE MARKET VACANCY



## Regional Overview (continued)

While there are a few companies moving to new, more efficient locations, the majority of activity was renewals. Short term renewals and blend and extend leases will likely represent a large share of leasing activity during the first half of 2021.

Blank Rome's renewal for a to-be-determined square footage demonstrates the challenges that firms face in determining future space needs.

The majority of sales during the second half of 2020 were smaller, Class B buildings, but there were sales of majority interests in multiple portfolios. Following the closing of a joint venture on One and Two Commerce Square, Brandywine Realty Trust sold the majority interest in Berwyn Park, Southpoint and Westlakes properties to Davidson Kemper Capital Management.

## Recent Transactions Q3 and Q4 2020

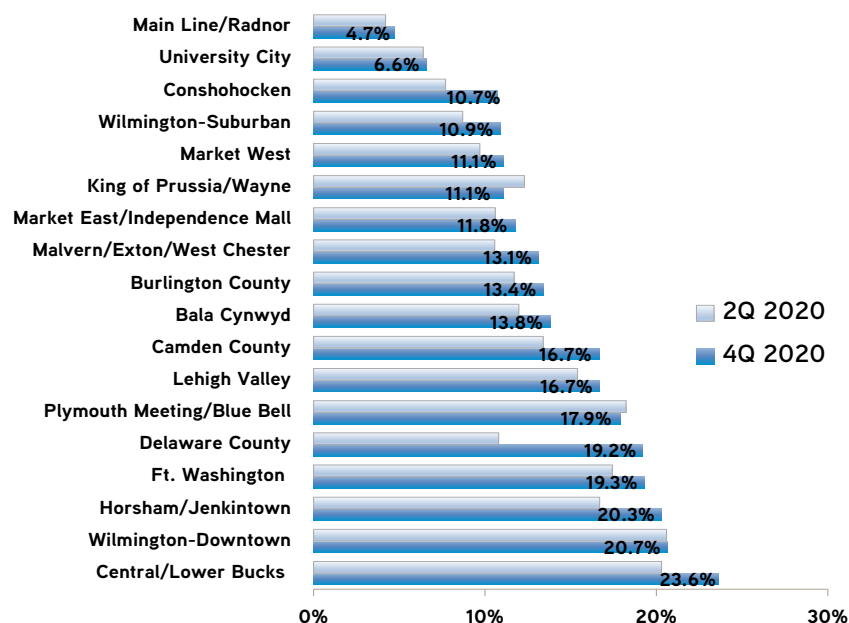
NOTABLE LEASES				
PROPERTY ADDRESS	LOCATION	TENANT	SIZE SF	TYPE
1650 Arch Street	Phila CBD Market West	U.S. Army Corps of Engineers	115,599	New
735 Chesterbrook Boulard	King of Prussia/Wayne	BNP Paribas	59,000	New
3600 Horizon Boulevard	Central/Lower Bucks County	Suez Water Technologies	56,000	New
1500-1550 Liberty Ridge	King of Prussia/Wayne	Cornelis Networks	47,320	New
1000 North West Street	Downtown Wilmington	Citi	45,852	Renewal/Downsize
2005 Market Street	Phila CBD Market West	T.D. Bank	43,000	New
910 Harvest Drive	Plymouth Meeting/Blue Bell	Kaplin Stewart	39,548	Renewal
475 Allendale Road	King of Prussia/Wayne	Nuclear Regulatory Commission	33,744	New
One uCity Square	University City	Exponent	32,500	New
One uCity Square	University City	Integral Molecular	32,500	New
8000 Midlantic Drive	Southern New Jersey	BAE Systems	32,463	Renewal
2091 Springdale Drive	Southern New Jersey	FiServ	31,350	Renewal
101 Woodcrest Road	Southern New Jersey	Conduent	30,887	Renewal/Downsize
101 Woodcrest Road	Southern New Jersey	Penn Interactive Ventures	32,212	New
1200 W. Swedesford Road	King of Prussia/Wayne	Ewing Cole	30,171	Sublease

NOTABLE SALE TRANSACTIONS					
PROPERTY ADDRESS	LOCATION	BUYER	SIZE SF	SALES PRICE / SF	TYPE
Arborcrest: (majority interest)	Plymouth Meeting/Blue Bell	Sidra Capital	852,803	\$263.84	Investor
Berwyn Park (majority interest)	King of Prussia/Wayne	Davidson Kemper	364,639	\$162.23	Investor
Southpoint Office Complex (majority interest)	King of Prussia/Wayne	Davidson Kemper	250,572	\$178.57	Investor
105 S. 7th Street	Phila CBD Market East	105 S. 7th Street	123,848	\$84.87	Investor
70 Valley Stream Parkway	Malvern/Exton/West Chester	Commonwealth Charter Academy	106,866	\$143.17	User
100 Brandywine Boulevard	Central/Lower Bucks County	Pembroke IV	101,450	\$177.43	Investor
1050 Westlakes Drive (majority interest)	King of Prussia/Wayne	Davidson Kemper	80,000	\$196.36	Investor
Twin Ponds Executive Campus	Southern New Jersey	Eco Modern Custom Homes	51,965	\$79.58	Investor
1 Bala Avenue	Bala Cynwyd	MMB Contractors, Inc.	43,840	\$180.20	Investor
Bloom Court: 1300 Route 73	Southern New Jersey	Needleman Management	43,000	\$81.40	Investor
406 Lippincott Drive	Southern New Jersey	406 Lippincott Group, LLC	40,218	\$111.89	Investor
1 Holtec Drive	Southern New Jersey	One Holtec Drive Group, LLC	32,571	\$125.00	Investor
3864 Adler Place	Lehigh Valley	Wiener and Wiener LP	26,694	\$106.58	Investor
1247 Ward Avenue	Malvern/Exton/West Chester	Highview Properties-Two, LLC	26,492	\$100.90	Investor

# Market Comparison Update

OFFICE MARKET									
SUBMARKET	INVENTORY	DIRECT VACANT	SUBLET VACANT	TOTAL VACANT	VACANCY RATE	NET ABSORPTION ANNUAL	COMPLETIONS YTD	UNDER CONSTRUCTION	AVERAGE ASKING
<b>CBD Philadelphia</b>									
A	33,202,399	3,325,806	378,134	3,703,940	11.2%	(331,962)	0	665,000	\$35.21
B	14,543,804	1,445,994	77,503	1,523,497	10.5%	(219,491)	0	0	\$30.20
Total	47,746,203	4,771,800	455,637	5,227,437	10.9%	(551,453)	0	665,000	\$33.75
<b>Pennsylvania Suburbs</b>									
A	26,356,229	2,267,141	541,584	2,808,725	10.7%	99,337	378,000	687,045	\$31.02
B	33,359,861	5,630,135	772,508	6,402,643	19.2%	(1,311,529)	0	0	\$25.99
Total	59,716,090	7,897,276	1,314,092	9,211,368	15.4%	(1,212,192)	378,000	687,045	\$27.52
<b>Southern New Jersey</b>									
A	8,053,257	830,641	202,026	1,032,667	12.8%	(163,733)	0	0	\$22.36
B	9,514,364	1,531,828	40,127	1,571,955	16.5%	(139,727)	0	0	\$20.27
Total	17,567,621	2,362,469	242,153	2,604,622	14.8%	(303,460)	0	0	\$21.10
<b>Wilmington-New Castle, DE</b>									
A	14,267,765	1,885,109	285,834	2,170,943	15.2%	(88,904)	32,000	60,000	\$27.36
B	4,989,715	728,464	13,535	741,999	14.9%	(77,869)	0	0	\$22.32
Total	19,257,480	2,613,573	299,369	2,912,942	15.1%	(166,773)	32,000	60,000	\$26.08
<b>Lehigh Valley, PA</b>									
A	6,583,920	949,498	35,456	984,954	15.0%	20,613	81,000	698,000	\$23.02
B	3,808,108	752,456	1,549	754,005	19.8%	(106,316)	0	0	\$18.01
Total	10,392,028	1,701,954	37,005	1,738,959	16.7%	(85,703)	81,000	698,000	\$20.84
<b>MARKET TOTAL</b>									
A	88,463,570	9,258,195	1,443,034	10,701,229	12.1%	(464,649)	491,000	2,110,045	\$30.15
B	66,215,852	10,088,877	905,222	10,994,099	16.6%	(1,854,932)	0	0	\$24.96
Total	154,679,422	19,347,072	2,348,256	21,695,328	14.0%	(2,319,581)	491,000	2,110,045	\$27.52

## SUBMARKET VACANCY RATES



### DEFINITIONS

**Absorption (Net):** The net change in occupied space over a given period of time.

**Vacancy Rate:** A percentage of the total amount of physically vacant space divided by the total amount of existing inventory.

**Vacant Space:** Space that is not currently occupied by a tenant, regardless of any lease obligation on the space.

**Sublease Space:** Space that has been leased by a tenant and is being offered for leaseback to the market by the tenant with the lease obligation.

**Under Construction:** Counted when steel is up, not at the commencement of site work.

**Build-to-Suit:** A term describing property that was developed specifically for a certain tenant to occupy. Can be either leased or owned by the tenant.

## Submarket Reviews

### CBD Philadelphia

The vacancy rate in CBD Philadelphia increased from 9.6% to 10.9% during the last two quarters of 2020. All three submarkets had vacancy increases, with University City registering the smallest rise from 6.4% to 6.6%. Market East's vacancy rose 1.2 percentage points to 11.8%, while Market West's vacancy increased by 1.4 percentage points to 11.1%. Sublease space was at the highest level in eleven quarters, but the majority of the subleases were single floor or smaller spaces.

The new 305,000-square-foot building for Morgan Lewis at 2222 Market Street was underway. The construction of the office/lab building at One uCity Square in University City restarted after being paused.

### Suburban Pennsylvania

Vacancy in the Pennsylvania suburbs increased by two percentage points to 15.4%. Main Line/Radnor and King of Prussia/Wayne were the only submarkets that did not have an occupancy loss during 2020. Space contractions from companies like State Farm put sizeable blocks of sublease space on the market.

There has also been a significant slowdown in activity due to continued uncertainty from the economic and health crisis, and activity is likely to be stagnant for at least the first two quarters of 2021.

AmeriHealth Caritas began moving into its new 378,000-square-foot building at Ellis Preserve during the fourth quarter. AmeriSourceBergen's 427,333-square-foot headquarters in Conshohocken is scheduled to be delivered in the first quarter, followed by the Hamilton Lane anchored Seven Tower Bridge in the second quarter.

### Southern New Jersey

Stagnant activity and space givebacks resulted in an occupancy loss in Southern New Jersey during the 3rd and 4th quarters. The overall vacancy rate increased by 2.4 percentage points to 14.8%, the highest level since mid-2015.

Camden County's vacancy increased from 13.4% to 16.7%, but sublease space decreased. Burlington County's vacancy increased from 11.7% to 13.4%, due in large part Horizon Blue Cross Blue Shield's sublease in Mount Laurel.

Multiple tenants in the 5,000 to 35,000 square foot range renewed during the fourth quarters; however, many of these were short term deals.

### New Castle County, DE

New Castle County's vacancy rate increased overall to 15.1%, mainly due to an increase in suburban vacancy. The vacancy rate in Suburban Wilmington rose from 8.7% to 10.9%. While still one of the highest rates in the region, Downtown Wilmington's vacancy rate increased only minimally to 20.7%.

Marlette Funding's 60,000-square-foot build-to-suit on Silverside Road was nearing completion. MRA Group announced plans to acquire DuPont's 800,000 Chestnut Run lab and office campus for redevelopment. DuPont will be remaining as a tenant in a portion of the lab space.

### Lehigh Valley, PA

Lehigh Valley's vacancy increased from 15.4% at the end of the second quarter to 16.7% at the end of 2020. Leasing activity was very limited, and the pipeline of requirements in the market had dried up. It is still unknown when large employers such as Air Products will be returning to their office buildings.

Jaindl Land Company commenced construction on a 73,000-square-foot building for Buckeye Pipeline at 6161 Hamilton Boulevard. This building's original design with ground floor retail was changed as a result of the pandemic, and now will be all office. The nearby 625,000-square-foot Air Products complex is scheduled to be completed later in 2021.



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**443** offices in  
**68** countries on  
**6** continents

United States: **159**  
Canada: **48**  
Latin America: **20**  
Asia: **45**  
EMEA: **114**  
ANZ: **54**

**\$3.5 billion**  
in annual revenue

**2.0 billion**  
sf under management

**18,000+**  
professionals and staff

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