

A photograph of the Philadelphia skyline at dusk, featuring several prominent skyscrapers with illuminated windows and a bridge in the foreground reflecting the city lights in the water.

AVISON
YOUNG

Philadelphia Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and higher vaccination rates have allowed the Philadelphia MSA unemployment rate to rebound from a high of 15.0 percent in April 2020 to **6.4 percent** in April 2021.
- Office-using job losses have totaled **2.6 percent** since the start of the pandemic which pale in comparison to office-using job losses averaging -6.6 percent in the global financial crisis throughout the Philadelphia MSA.



Recovery rate

- The overall post-COVID rate of recovery based on extrapolated cell phone data is **42.9 percent**.
- The Philadelphia office recovery index of **18.9 percent** aligns with the U.S. gateway city average of 19.2 percent. Foot traffic is expected to increase as more companies return to the office in the coming months.



Office demand

- Post-COVID leasing activity within office buildings has paused, decreasing by an annualized rate of **57.4 percent** compared with the prior 20-year average within the Philadelphia MSA across all asset classes.
- There is the possibility of increased Class A demand as tenants have expressed interest in high quality properties offering attractive amenities.

Key takeaways



Office supply

- The total vacancy rate of **13.6 percent** has approached, but has not surpassed, the record rate reported during the dot-com recession within Philadelphia MSA office buildings, across all classes.
- Sublease supply continues to drag overall market fundamentals, accounting for **2.6 msf** of vacant space within the Philadelphia MSA throughout all classes in office buildings. Some of this space could be withdrawn from the market should return-to-office plans necessitate the recapture of this space.



Pricing trends

- Base rents increased by **3.0 percent** for all classes of office assets as a result of the 'flight to quality' trend in the Philadelphia MSA. Class A properties within this same area are commanding nearly **\$30 psf**.
- Demand is starting to increase as the economy reopens and tenants that postponed their long-term occupancy strategies re-enter the market. This could cause base rents to continue to trend upward.



Capital markets

- Just **\$2.4B** of Philadelphia MSA offices, across all classes have been sold since 2020.
- Class A and Class B office asset pricing has softened by **53.9 percent** from 2020 to present within the Philadelphia MSA.

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Economic and demographic trends

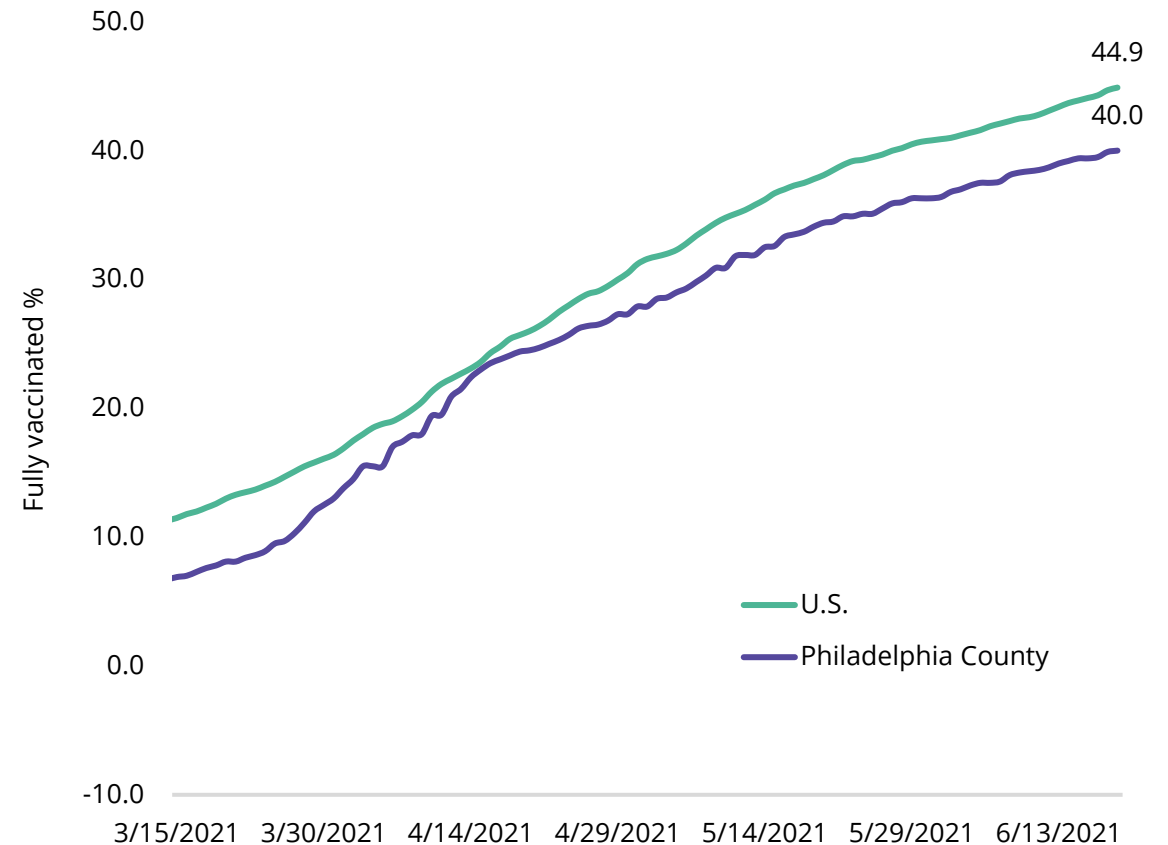
The pandemic immediately shocked the Philadelphia economy, though there have been encouraging signs of a recovery as the city reopens.

Vaccination rates

40.0%

Share of total Philadelphia County population that is fully vaccinated

Philadelphia County's proportionate vaccination rates generally mirror but remain slightly below the U.S. average. This metric, a leading indicator of loosened pandemic restrictions, demonstrates that Philadelphia's economic recovery could be prolonged compared with other gateway cities.



Source: CDC

Employment and unemployment rate

6.4%

Philadelphia MSA unemployment rate as of April 2021, dipping below the height of the financial crisis of 9.2%

Historically tightened labor market conditions were halted by the pandemic, which caused nearly 191,000 job losses between February 2020 and April 2020. However, reopening efforts have enabled the economy to add 9.9% jobs since the low in April 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-2.6%

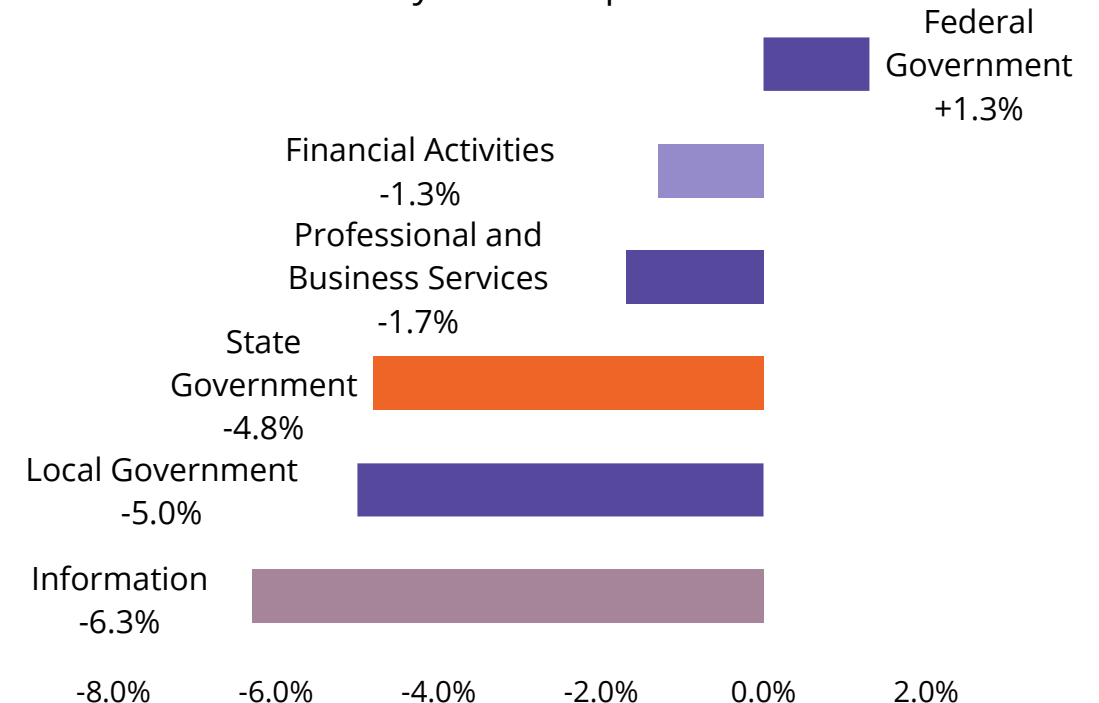
Change in office-using employment during the pandemic

Philadelphia Metro MSA job losses have totaled 6.3% since the start of the pandemic, though office-using jobs contracted by just 2.6%. This recession's impact on the office-using labor market has been less severe than the global financial crisis, when Financial Activities job losses totaled -6.6%.

[VIEW DASHBOARD](#)

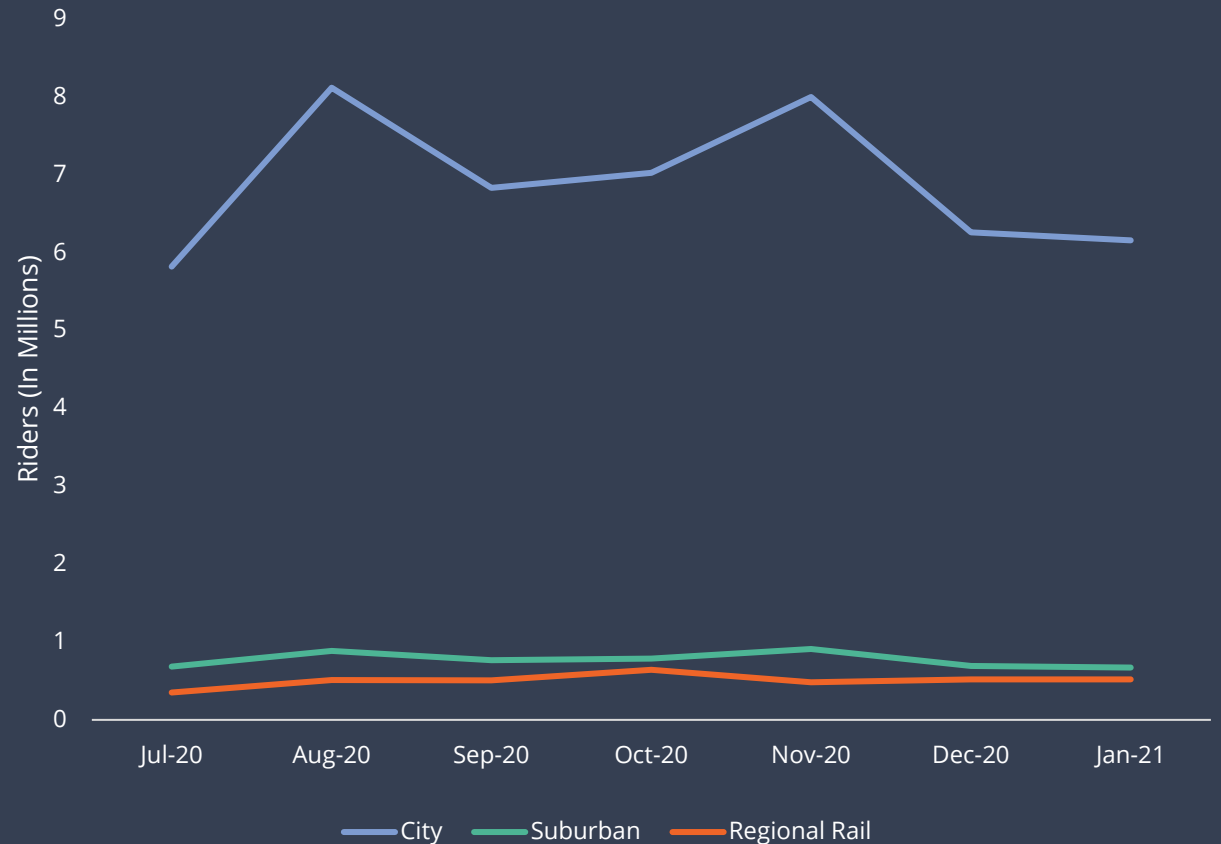
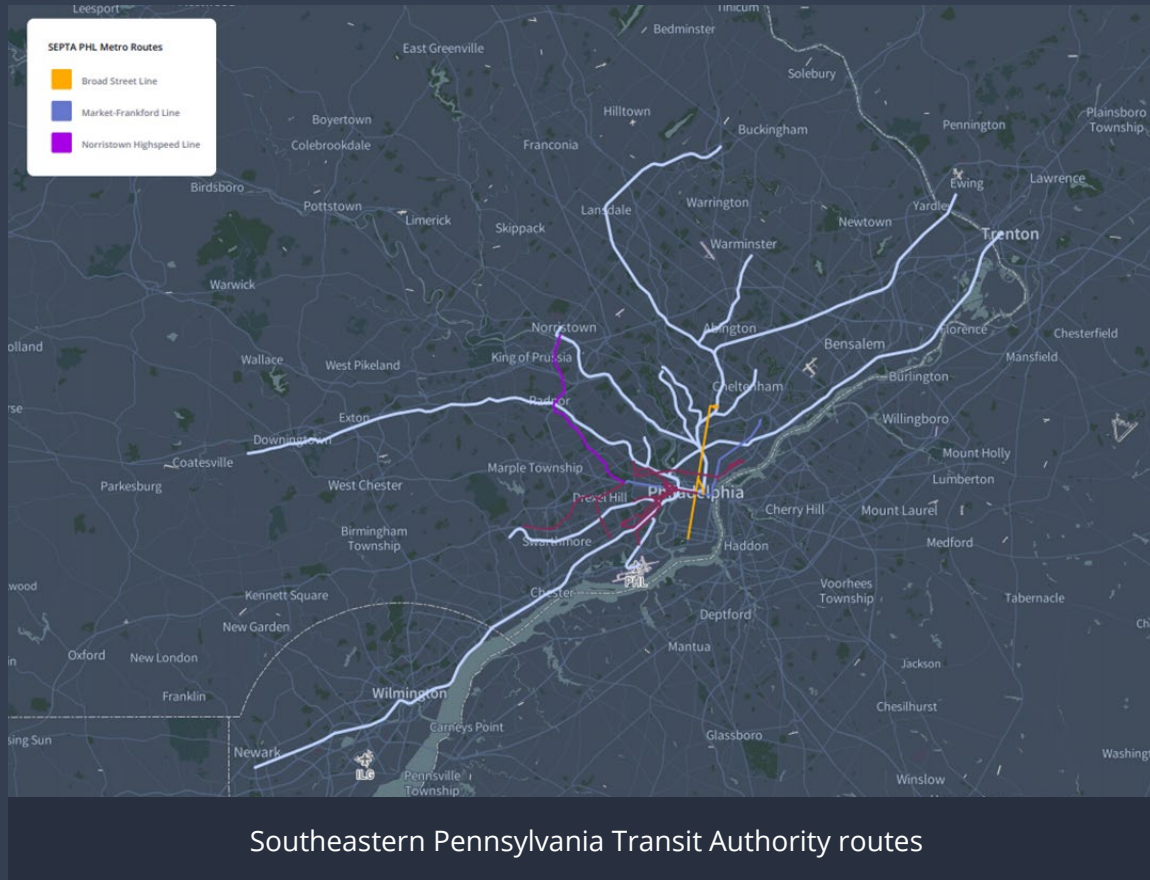
Total change in Philadelphia MSA job gains/(losses)

February 2020 to April 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

SEPTA ridership has remained level in recent months



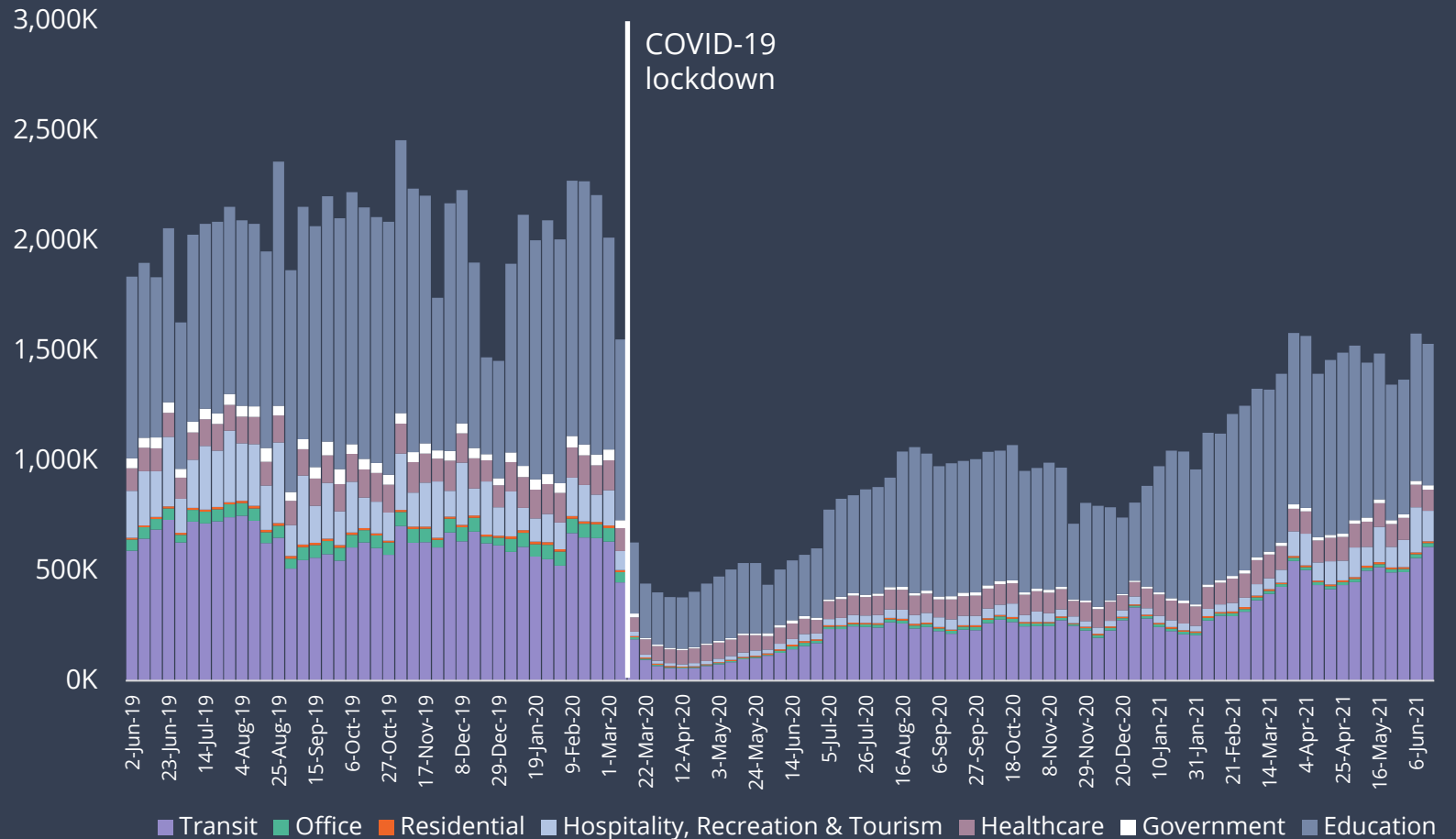
Source: Delaware Valley Regional Planning Commission
Notes: July 2020-January 2021

Recovery index

49.2%

Post-COVID rate of recovery based on representative locations through 6/20/2021

Students and staff have returned to campus as restrictions have eased, driving a 56.5% rate of recovery for major universities in the Philadelphia MSA.



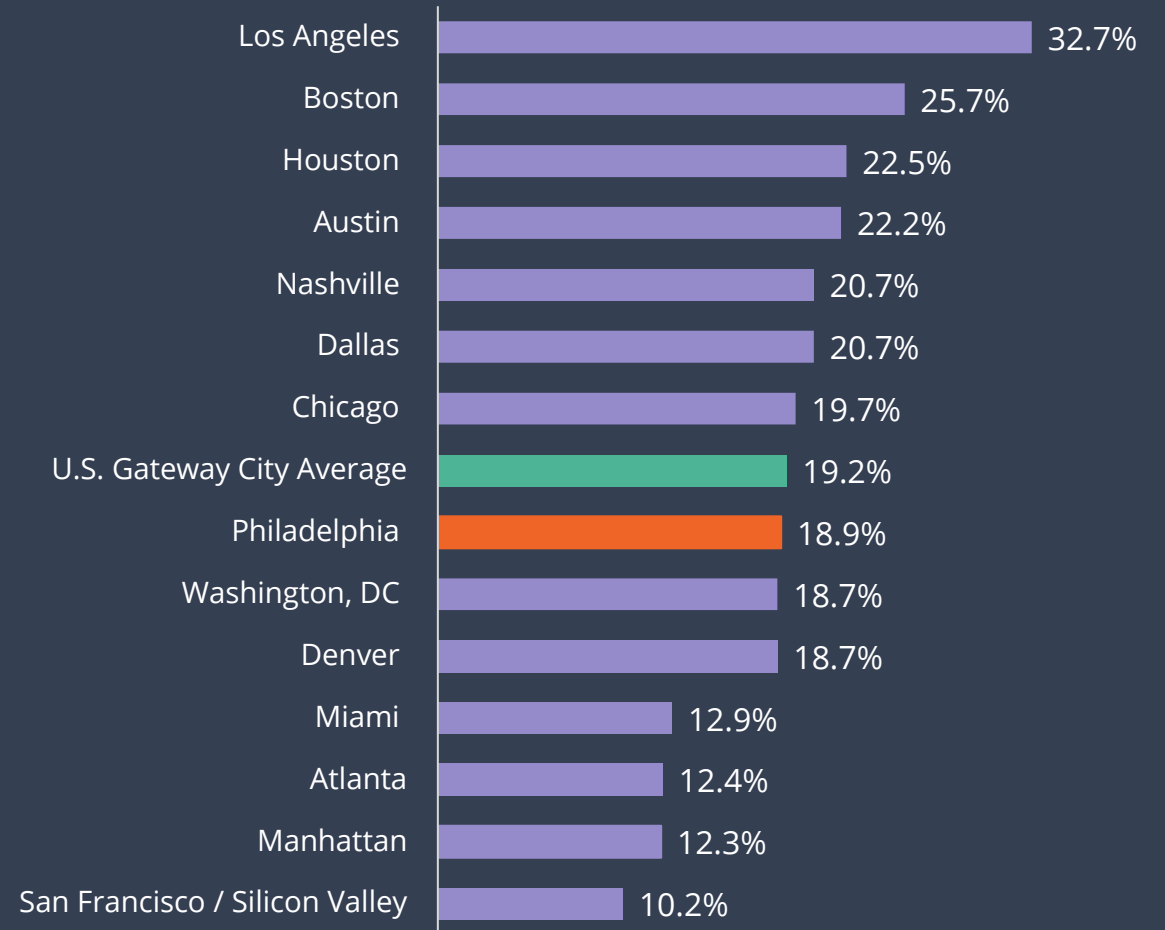
Note: Representative areas of interest.
Pre-COVID period measured as 6/1/2019 to 3/14/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insight, AVANT by Avison Young

Office recoveries across U.S. gateway cities

19.2%

Average post-COVID rate of recovery for representative office employers across U.S. gateway cities

The Philadelphia office recovery rate of 18.9% aligns with the U.S. gateway city average. This rate is expected to rise as more companies intend to return to their offices.



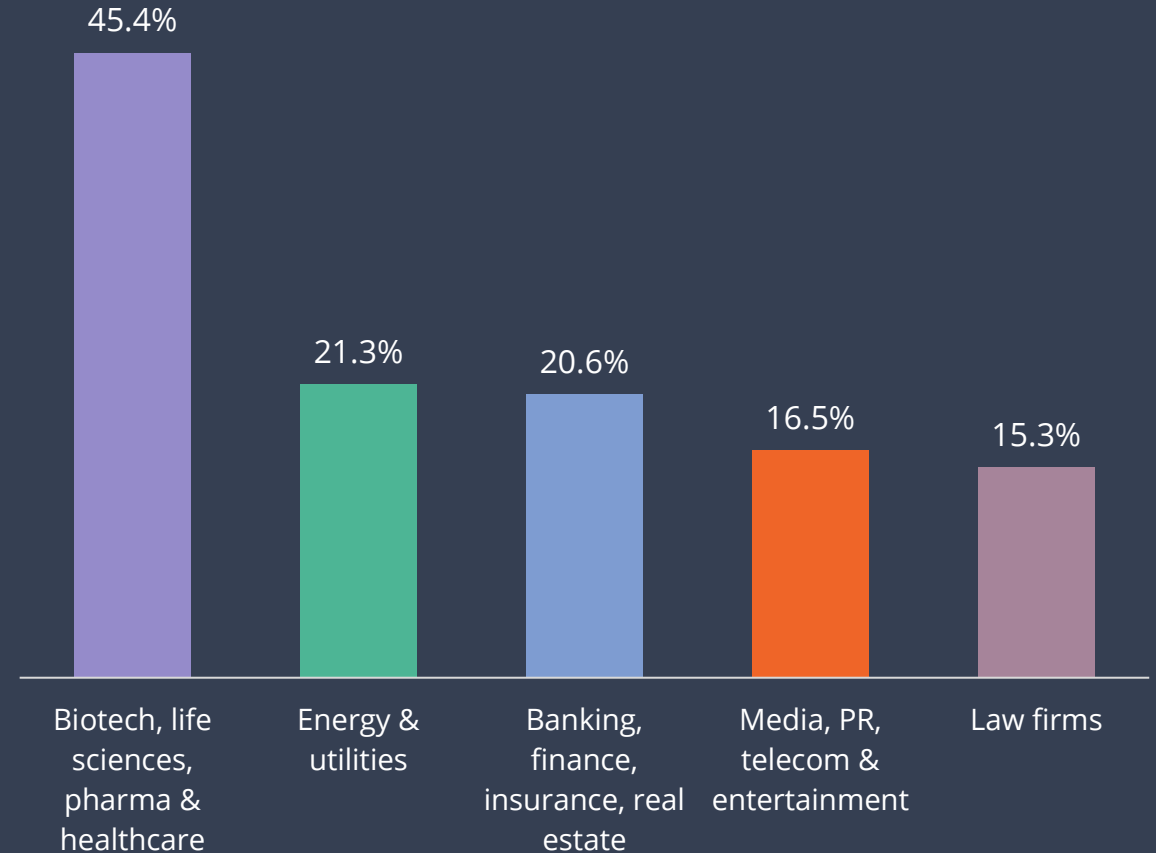
Note: Select, representative occupiers only. Weekdays only.
Pre-COVID period measured as 6/1/2019 to 3/14/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insight, AVANT by Avison Young

Philadelphia office recovery index by industry

18.9%

Post-COVID rate of recovery for representative Philadelphia office occupiers through 6/20/2021

Office employers have taken unique approaches in their return-to-work efforts, with biotech, life sciences, pharma and healthcare companies returning more quickly while those in telecom and law have favored remote working strategies.



Note: Select, major occupiers only. Weekdays only.
Pre-COVID period measured as 6/1/2019 to 3/14/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insight, AVANT by Avison Young

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Office occupier conditions

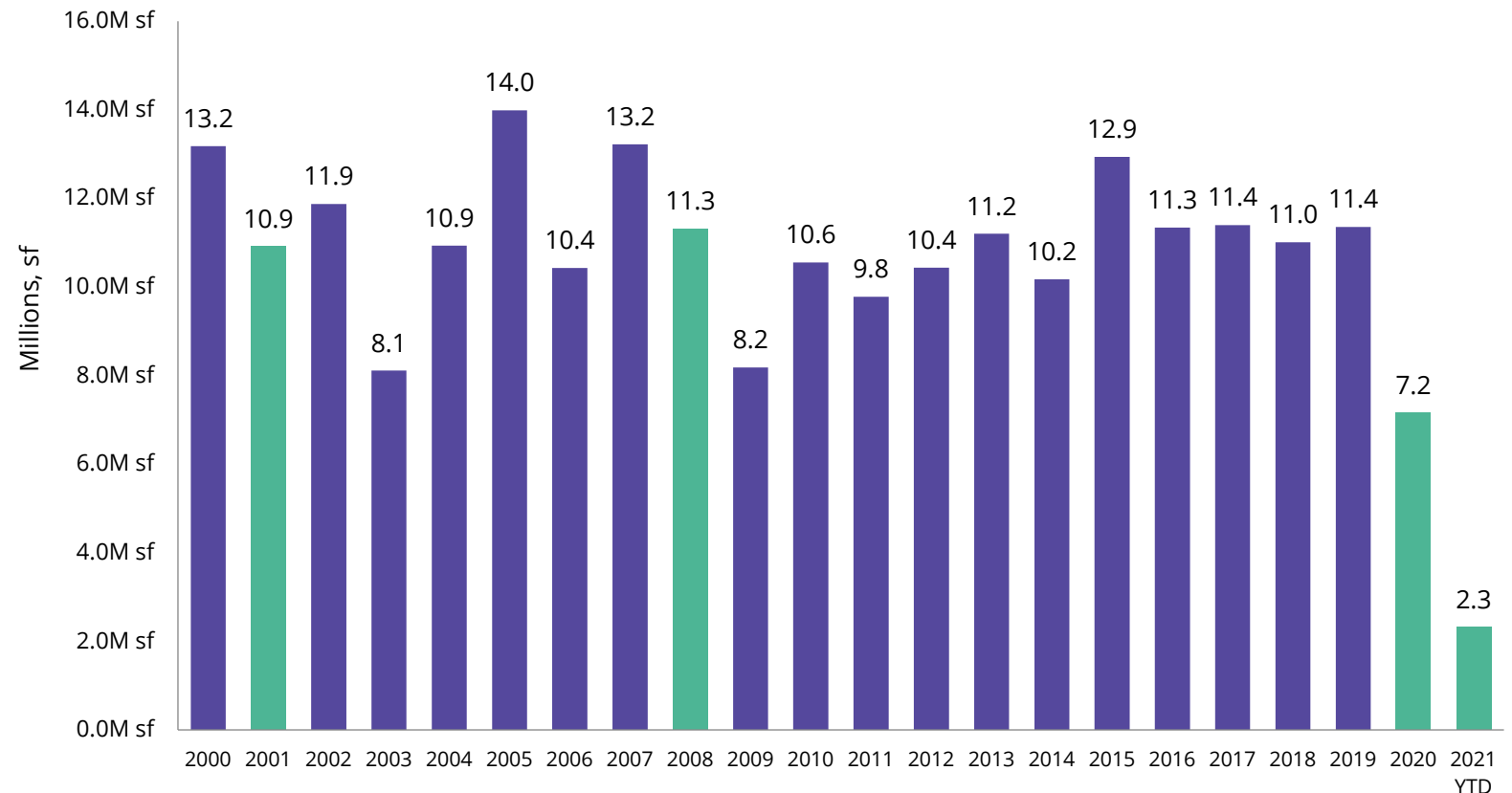
There is the possibility of increased Class A demand as tenants have expressed interest in high quality properties offering attractive amenities.

Office leasing activity

-57.4%

**2020 to pro rata 2021 vs.
prior 20-year annual
average leasing activity**

There is no modern precedent for the post-COVID slowdown in leasing activity—not 2001 nor 2008—due to the sudden change in office occupiers' future workplace strategies and the 2020 recession.



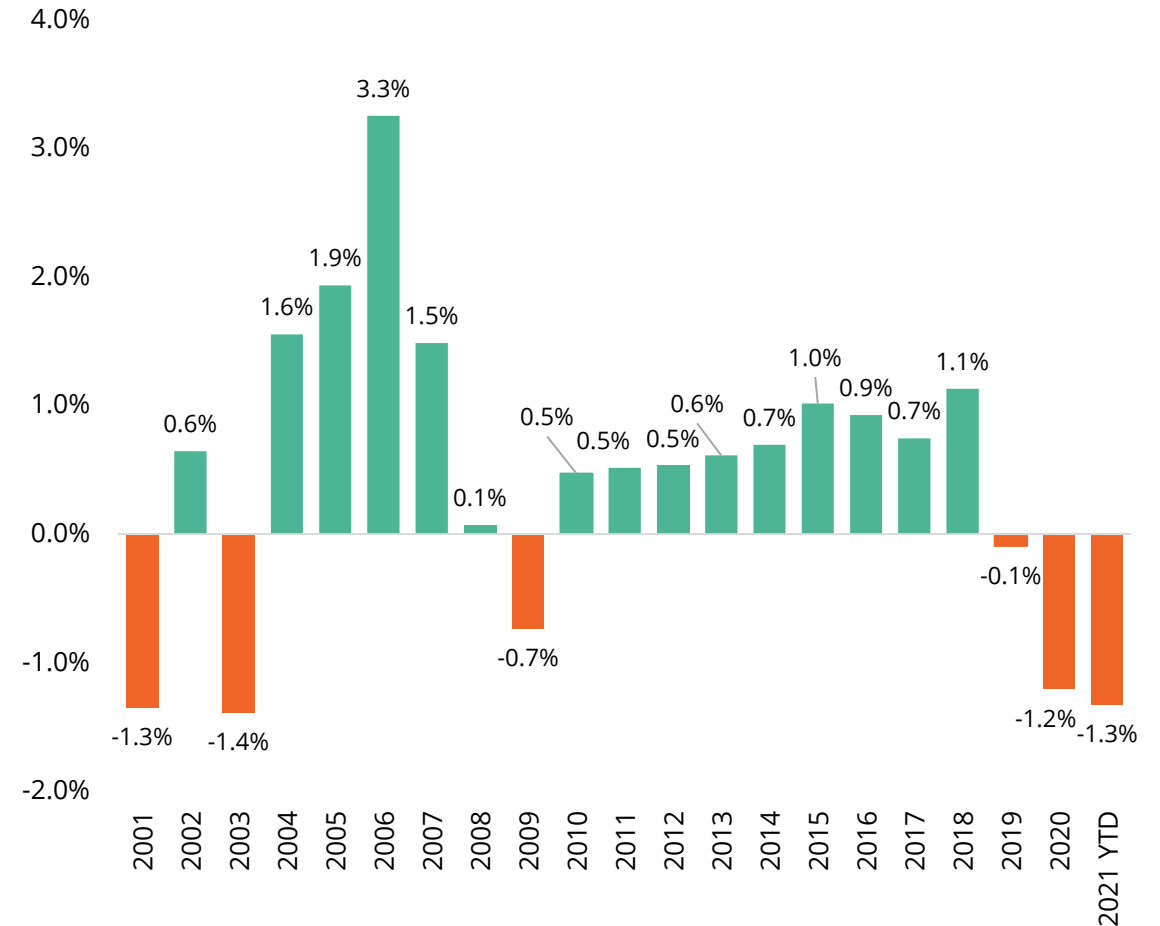
Source: AVANT by Avison Young, Philadelphia MSA, Class A, B, C Office assets

Absorption

-2.5%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Negative absorption from 2020 to Q2 2021 equals 2.8 million sf, totaling -2.5% of the existing stock. The net absorption reported from 2019 through Q2 2021 of -2.6% surpasses global financial crisis (-0.7%) and dot-com recession (-2.1%) levels.



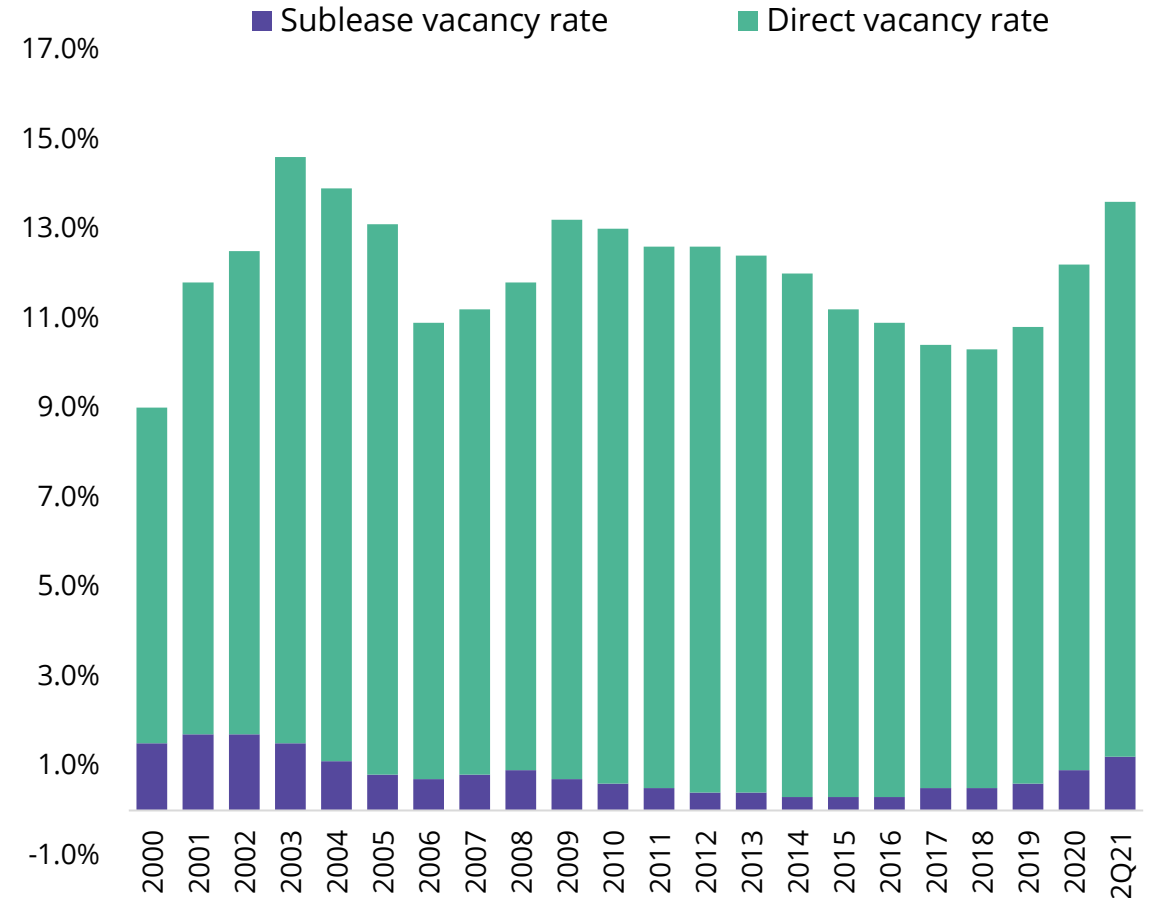
Source: AVANT by Avison Young, Philadelphia MSA, Class A, B, C Office assets

Vacancy rate

13.6%

Philadelphia MSA vacancy as of Q2 2021

The Q2 2021 vacancy rate, which increased by 140bp since 2020 throughout all classes, has approached the post-millennium record high of 14.6% reported in 2003.



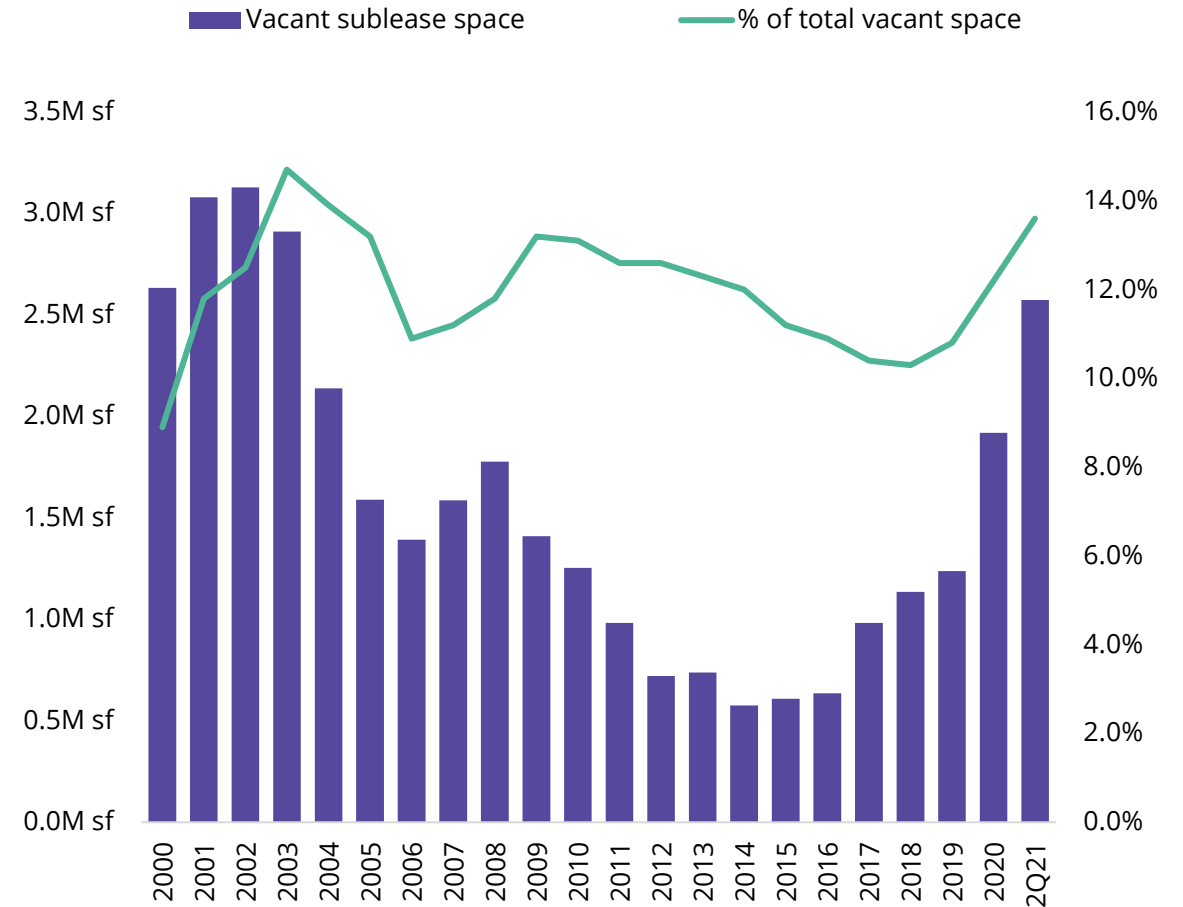
Source: AVANT by Avison Young, Philadelphia MSA, Class A, B, C Office assets

Vacant sublease space

2.6 msf

Sublease vacancy rate in Q2 2021 has not surpassed dot-com era highs

The scale of sublease vacant space within the Philadelphia MSA across all classes has increased considerably to date in 2021, rising by 34.2%. As a result, the share of sublease-to-total vacant space of 13.6% is the third-highest rate reported since 2000.



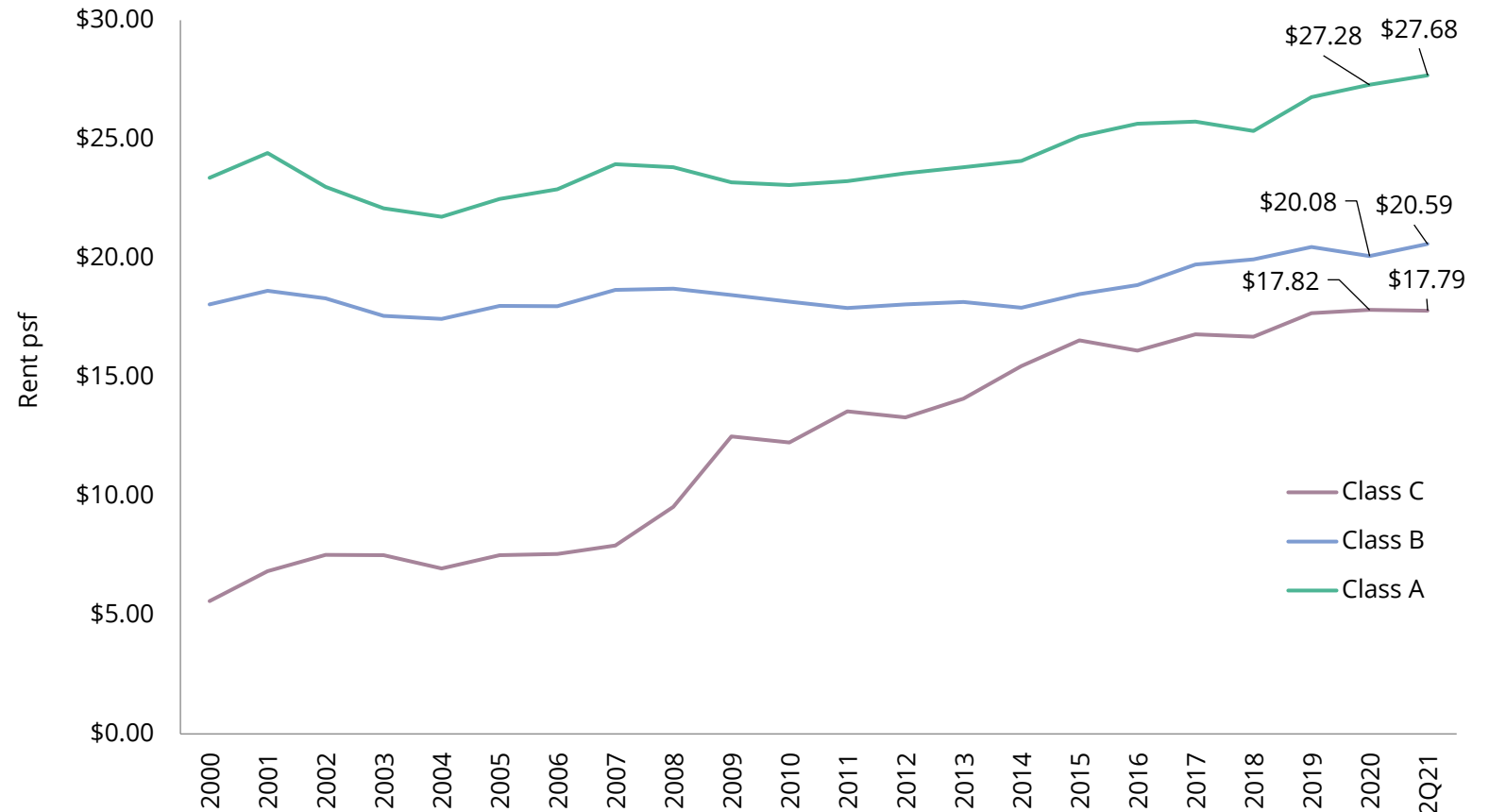
Source: AVANT by Avison Young, Philadelphia MSA, Class A, B, C Office assets

Base rents

3.0%

**Change in Philadelphia
MSA base rents since
the onset of the
pandemic**

The 'flight to quality' trend has allowed base rents for Class A properties in the Philadelphia MSA to trend upward since 2018.



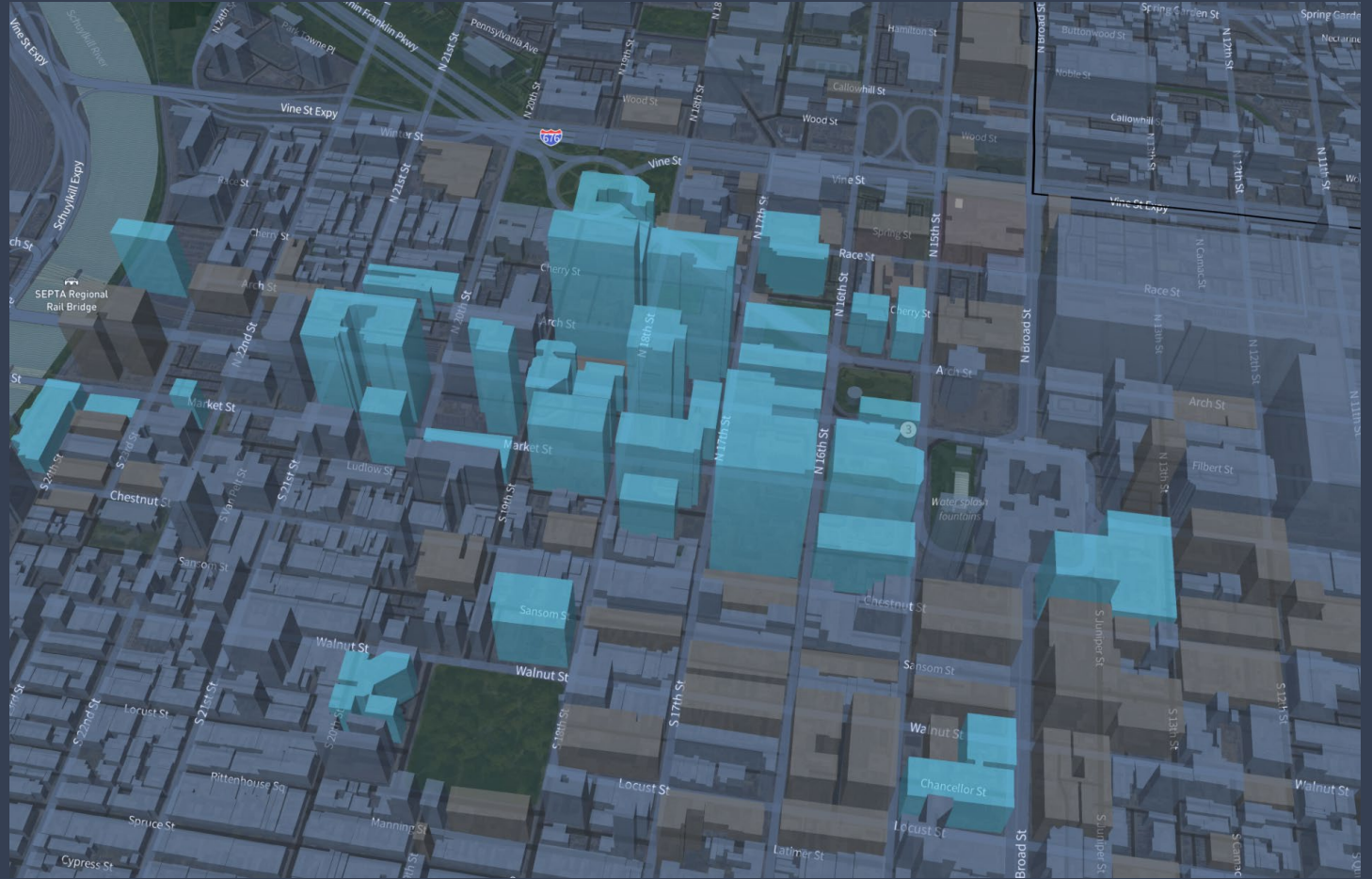
Source: AVANT by Avison Young, Philadelphia MSA, Class A, B, C Office assets

Philadelphia CBD Class A supply

45 msf

Existing Class A inventory in the Philadelphia CBD

Pent-up demand for high quality assets could cause supply constraints for CBD office properties in the future.



Source: AVANT by Avison Young

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Capital market conditions

Investment in office has waned since the onset of the pandemic as investors navigate the quickly evolving environment

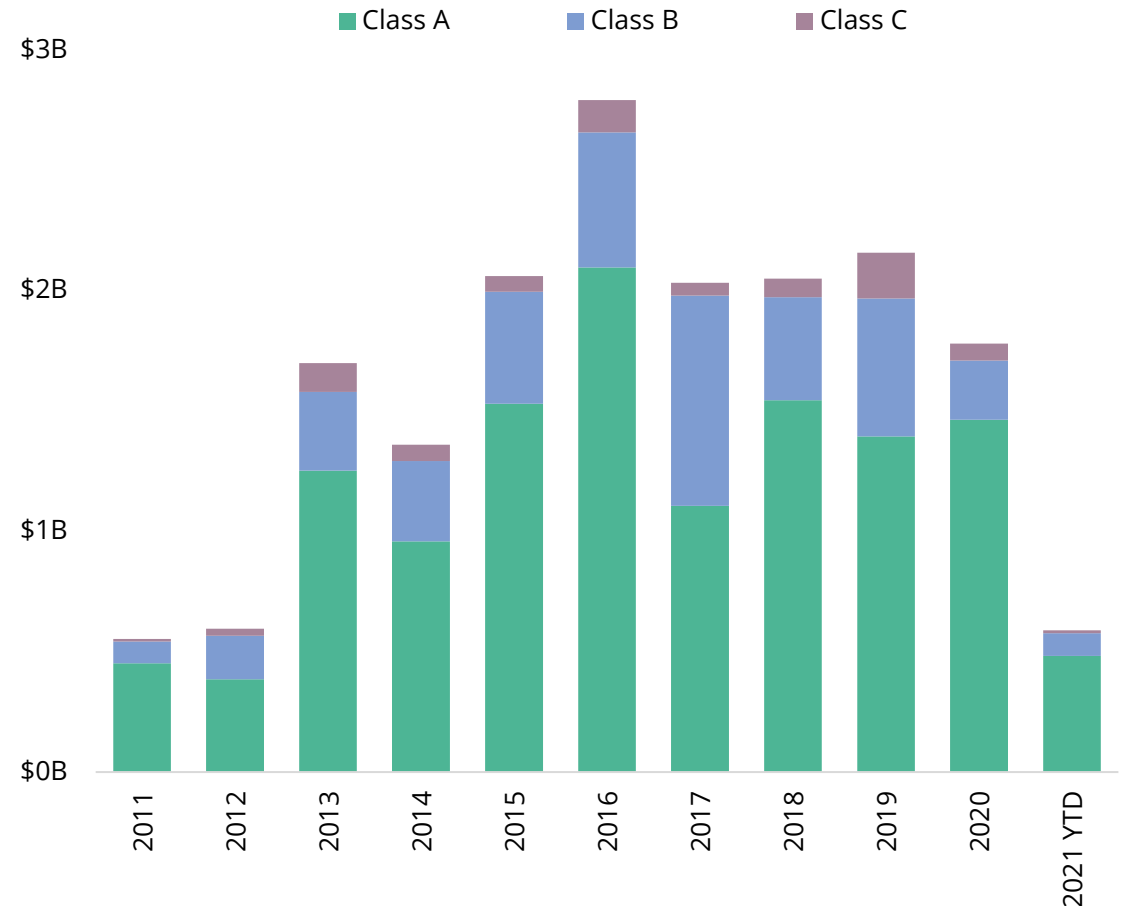
Office investment dollar volume

\$2.4B

Philadelphia MSA office dollar volume

2020 to present

Post-COVID office investment sales volume decreased by an annualized rate of 33.4% compared with the prior five-year average across all classes within the Philadelphia MSA.



Source: AVANT by Avison Young, RCA
Philadelphia MSA, Class A, B, C Office assets

Office asset pricing

-53.9%

Change in office pricing from 2020 to 2021 YTD

Pricing has been volatile during these uncertain times, 2021 YTD pricing has reached almost record lows at \$320 psf, though has not hit great financial crisis lows of \$221 psf.



Source: AVANT by Avison Young, RCA Philadelphia MSA, Class A, B, C Office assets

Looking forward



Here's what we can expect

- Decisions around **return to office** will need to be front and center for all companies and those with lease expirations within the next 18 months will need to make decisions about their footprint going forward.
- For smaller companies, who look to a hybrid work model, **flexible office solutions** will potentially play a greater role.
- **Office leasing demand is expected to incrementally rise** as tenants are looking towards higher class, amenity rich assets in Center City.
- As **institutional ownership** of office properties in the Philadelphia market has increased over the past several years, it is expected this trend will continue as leasing normalizes.



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Let's talk

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