RESEARCH

PHILADELPHIA OFFICE RESEARCH BRIEF

March 2020

Greater Philly's Healthcare Concentration is a Prescription for Office Market Resiliency

Lisa DeNight, Research Manager | 215.246.2725 | lisa.denight@ngkf.com

As of March 2020, the global coronavirus pandemic has brought many aspects of daily life to a screeching halt. In Greater Philadelphia's office market, new leasing activity is on hold for the short-term as non-life-sustaining businesses were ordered to close, and travel and in-person gatherings strongly discouraged to stem the spread of the virus. This, coupled with inevitable downsizings due to layoffs, closures and space considerations, will certainly affect local office absorption levels this year and into 2021. There is no way to accurately predict just how wide-ranging the economic effects will be, nor how long they will last. However, our office market may be more resilient than others around the country due to two factors: the recession-resistant healthcare industry is the backbone of the Greater Philadelphia market, and firms from industries such as leisure/hospitality and retail trade, the hardest hit by this crisis, have a smaller-scale local impact on office leasing.

The healthcare sector makes up a larger percentage of total employment in Greater Philadelphia than it does in any major metro in the country and has grown every year by the thousands during recessions and boomtimes alike since at *least* 1990. It also consistently comprises a significant percentage of local office market leasing. While the legal services industry made the most impact on Greater Philadelphia office leasing in 2019, owing largely to Morgan Lewis' short-term renewal and new build-to-suit in Philadelphia's CBD, the healthcare/life sciences field was a close second, totaling over 800,000 SF of leasing activity between the city and suburbs. Furthermore, healthcare and life sciences are the driving industry forces behind numerous new developments, including the largest current construction project in the five-county region, University of Pennsylvania Health System's $1.5 billion, 1.25 MSF Pavilion patient facility, slated to open next year in Philadelphia. Especially following this pandemic-induced catastrophe, the expanding healthcare/life sciences footprint is likely to be integral to stabilization and recovery in the office market. Conversely, last year Greater Philadelphia did not see significant leasing by firms in the retail, leisure, and hospitality sectors; in total, those industries accounted for around 100,000 SF of office leasing.

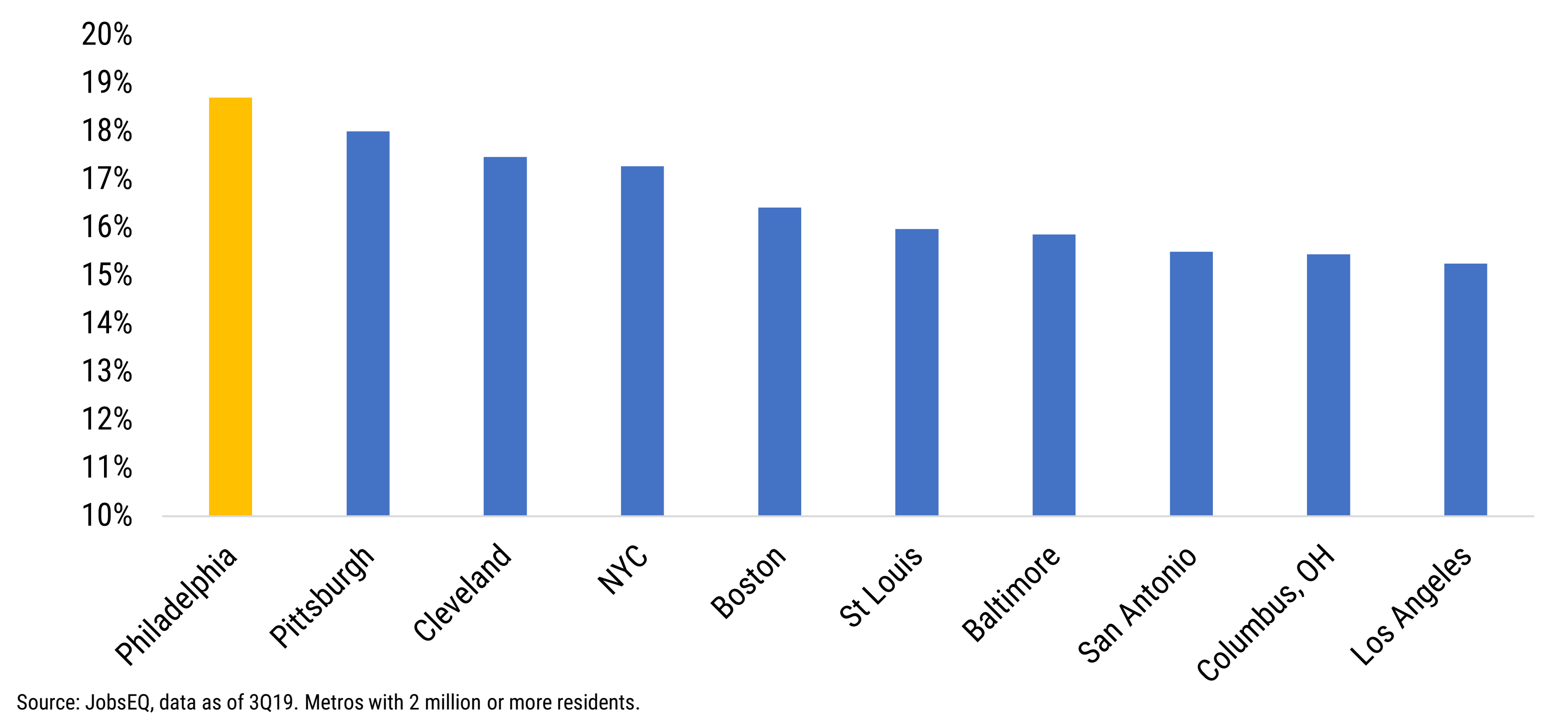
One angle to consider, however: the healthcare industry is mobilizing to handle surging coronavirus cases, but elective and non-essential medical treatment and procedures are being cancelled or postponed, which may take a financial toll. How and if this affects future healthcare industry expansion in the short to mid-term remains to be seen, but in the broader picture, healthcare is a fundamental element of human life, and the industry will bounce back.

On a closing note: NKF Research is going on its 35th year of stats recordkeeping for Philadelphia's CBD, including the last three recessions and subsequent recoveries. While things may look grim in the moment from our place in isolation, it's important to remember that the economy – given time – always recovers.

In the meantime, stay safe.

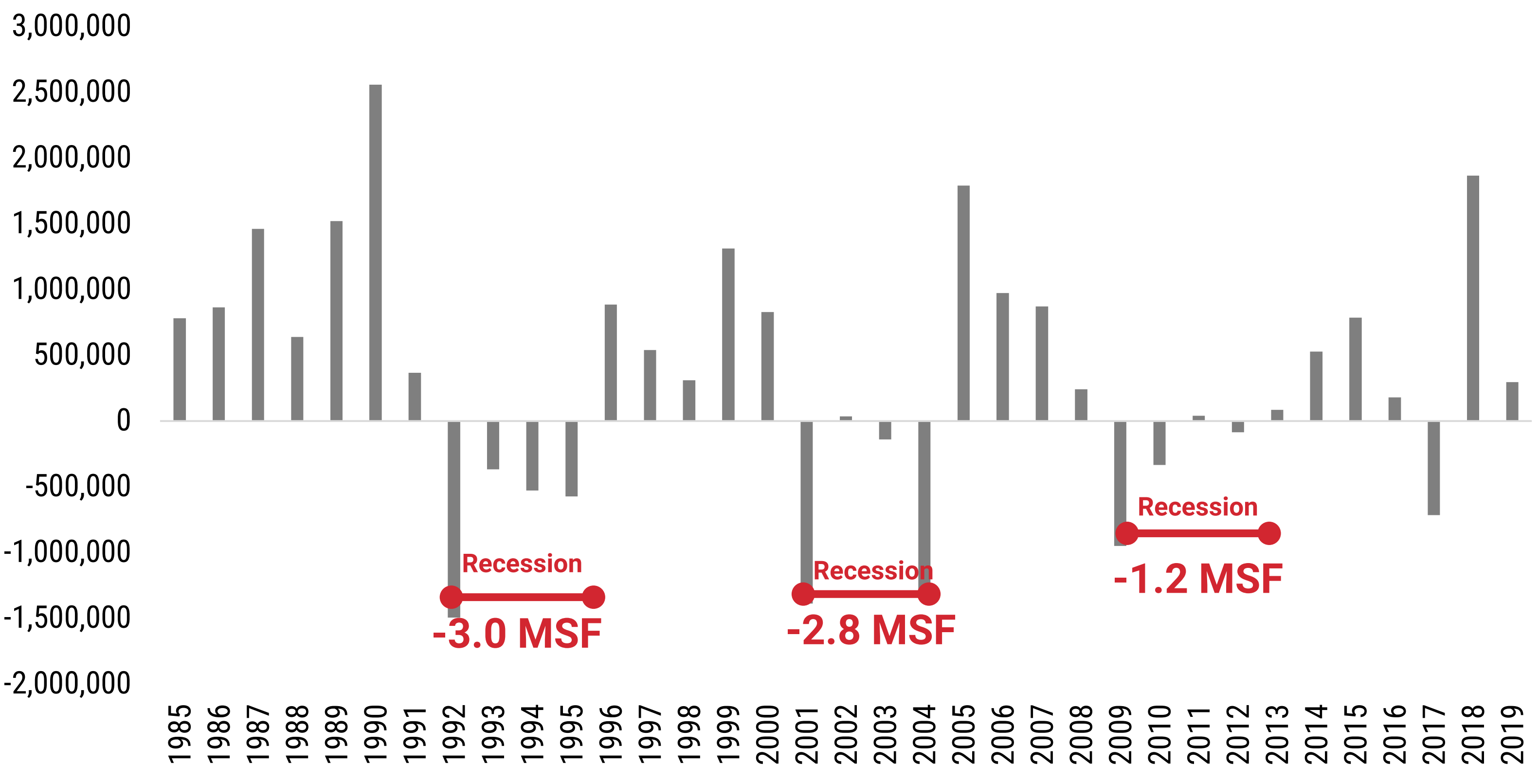
For actionable market intelligence and a data-driven assessment of the U.S. commercial real estate market on a major property type basis, please read NKF's March 2020 national whitepaper ***Pandemic: A Period in Time and the Path Forward***

Healthcare as a Percentage of Overall Employment, Top Major Metros



Source: JobsEQ, data as of 3Q19. Metros with 2 million or more residents.

Historical Philadelphia CBD Office Absorption



Source: NKF Research