

YoY Chg 12-Mo. Forecast

17.4%

Vacancy Rate



-478.3 K

YTD Net Absorption, SF



\$27.72

Asking Rent, PSF



(Overall Gross, All Property Classes)

ECONOMIC INDICATORS Q2 2022

YoY Chg 12-Mo. Forecast

2.9 M

Philadelphia Employment



4.5%

Philadelphia Unemployment Rate



3.6%

U.S. Unemployment Rate



Source: BLS

ECONOMY:

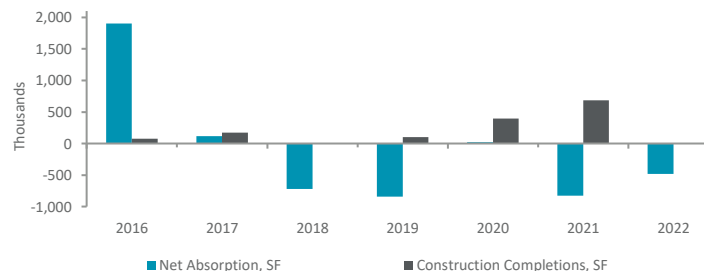
The Fed continued their hawkish stance on curbing inflation throughout second quarter. Further Interest rate increases, upwards of 75 basis-points (bps), are expected to be announced, with further hikes to continue throughout the year. Locally, the Philadelphia MSA has seen as much as an 8.8% increase in the Consumer Price Index (CPI) year-over-year (YOY). That is 80 bps higher than the US Northeast average (7.6%). Yet the labor market remains hot as the unemployment rate continued to fall in the Suburbs, now at 4.5% and projected to fall further. The participation rate has remained status quo YOY, meaning the Philadelphia Suburbs may be at full employment as well as full participation, and some local companies have begun to announce hiring freezes. Our market has seen interest rates climb as much as 100 bps since the end of 2021, which has sidelined institutional investors, delayed tenant deals and caused fluctuation in asset pricing that has stymied sales transactions. The certainty of the Fed remaining hawkish should continue to exacerbate these trends as we turn into the second half of 2022.

SUPPLY AND DEMAND:

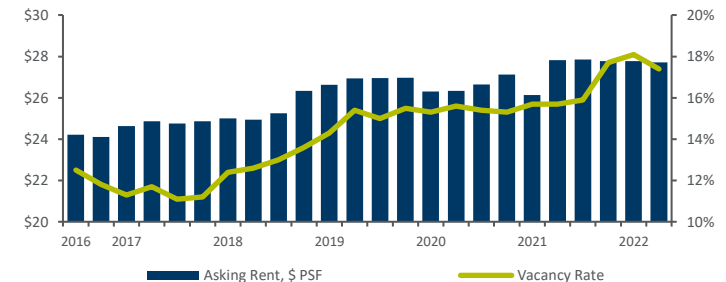
Vacancy dropped in the second quarter to 17.4%, a 70 bps decrease quarter-over-quarter (QOQ). Most significant was the drop in sublease vacancy over the second quarter. Over 120,000 square feet (sf) of sublease space was withdrawn across the suburbs, most, if not all, with sublessor expiration dates set to roll within 12 months. Another 220,000 sf of sublease space, with expiration dates within 12 months, currently remains available on the market at the end of the second quarter, 89.4% of which is Class A space and predominately located in the King of Prussia submarket. Rising interest rates and a strengthening dollar have caused occupiers to reassess future economic expectations, which has delayed deals as tenants diligently assess their "right-size".

Over the next six months, companies, large and small, will continue to assess their balance sheets as they factor in the changing domestic and global economic climate. This attention to the bottom line may lead to more "right-size" assessments. While "right-sizing" has been prevalent during the pandemic, companies have not compromised on quality, as Class A accounts for 76.0% of all leasing activity through second quarter 2022. While pension funds and life insurance companies have slowed investments in real estate, larger institutional investor activity has been sparse. With institutional investors sidelined, more flexible regional investors and asset specific developers will likely continue to drive acquisition and disposition activity as exhibited over the first half of 2022.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE***	CURRENT QTR OVERALL NET ABSORPTION (SF)***	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
East of Broad	12,668,511	1,689,850	200,256	14.9%	20,025	21,496	154,616	462,000	\$32.22	\$34.63
West of Broad	28,883,954	3,641,222	712,175	15.1%	-186,184	-318,392	310,406	305,000	\$34.14	\$35.41
CBD****	41,552,465	5,331,072	912,431	15.0%	-166,130	-296,896	465,022	767,000	\$33.62	\$35.26
Naval Yard	1,061,397	16,797	207,779	21.2%	9,223	-201,270	0	265,000	\$31.51	\$31.51
University City	5,688,632	316,826	15,386	5.8%	-45,029	-9,353	207,247	1,545,000	\$40.82	\$42.33
Bala Cynwyd	2,718,024	366,637	113,823	17.7%	-1,027	50,962	104,288	0	\$35.08	\$35.92
Southern Bucks County	6,342,779	1,238,049	191,505	22.5%	-146,354	-140,279	128,946	0	\$25.31	\$27.50
Southern Route 202 Corridor	6,199,423	915,868	40,002	15.4%	-30,976	-28,972	49,124	0	\$25.78	\$26.15
Delaware County	4,561,028	511,666	31,228	11.9%	-68,160	16,816	49,222	0	\$26.83	\$27.87
Blue Bell/Ply. Mtg./Ft. Wash.	12,256,961	2,479,247	158,781	21.5%	-434,541	-331,298	235,422	0	\$25.84	\$27.56
Main Line	3,570,734	270,539	25,019	8.3%	-22,340	29,729	46,517	0	\$36.16	\$39.34
Conshohocken	4,190,979	643,670	84,841	17.4%	61,956	32,443	163,123	0	\$38.51	\$39.77
Horsham/Willow Grove/Jenkt.	5,380,411	1,136,576	63,448	22.3%	-186,595	-102,169	210,659	0	\$21.70	\$23.63
King of Prussia/Valley Forge	18,076,776	2,287,301	455,234	15.2%	-271,621	-5,568	311,844	0	\$28.76	\$29.52
SUBURBAN PHILADELPHIA	63,297,115	9,849,553	1,163,881	17.4%	-1,099,658	-478,336	1,299,145	0	\$27.72	\$29.44
Burlington County	7,850,029	978,648	96,016	13.7%	36,444	232,893	257,142	0	\$22.00	\$25.69
Camden County	6,379,005	963,063	10,838	15.3%	-37,931	123,039	90,008	0	\$20.50	\$22.82
SOUTHERN NEW JERSEY	14,229,034	1,941,711	106,854	14.4%	-1,487	355,932	347,150	0	\$21.27	\$25.32
Wilmington-CBD	7,117,093	1,747,096	6,500	24.6%	-3,024	-44,039	60,205	0	\$28.02	\$28.42
New Castle-Suburban	9,377,123	1,403,901	77,680	15.8%	-147,920	-203,483	77,634	0	\$21.96	\$22.65
NEW CASTLE CTY-DE TOTAL	16,494,216	3,150,997	84,180	19.6%	-150,944	-247,522	137,839	0	\$25.27	\$26.30
Lehigh & North Hamp. Counties	7,631,540	1,311,202	28,975	17.6%	27,402	48,436	103,263	0	\$21.72	\$24.08
PHILADELPHIA TOTALS***	135,572,830	20,273,333	2,267,346	16.6%	-1,418,219	-666,822	2,249,156	767,000	\$28.53	\$30.85

*Rental rates reflect full service asking **Renewals not included in leasing activity ***Does not include Lehigh & North Hamp. Counties ****Does not include NE or NW of Broad submarkets

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
727 Norristown Road	Blue Bell/Ply. Mtg./Ft. Wash	Merck	77,000	New
11 Great Valley Parkway	King of Prussia/Valley Forge	Undisclosed	27,348	New
110 Washington Street	Conshohocken	Undisclosed	26,700	New
727 Norristown Road	Blue Bell/Ply. Mtg./Ft. Wash.	FlowMetrics	25,695	New

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
225 East City Avenue	Bala Cynwyd	Keystone Property Group/Norden Realty Investments	76,444	\$19.3M/\$251.81 psf

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