

YoY Chg 12-Mo. Forecast

16.7%
Vacancy Rate

-972.4K
YTD Net Absorption, SF

\$33.63
Asking Rent, PSF

(Overall Gross, All Property Classes)

ECONOMIC INDICATORS Q3 2022

YoY Chg 12-Mo. Forecast

726.5K
Philadelphia Employment

5.6%
Philadelphia Unemployment Rate

3.5%
U.S. Unemployment Rate

Source: BLS

ECONOMY:

The Fed remained hawkish in their continued efforts to curb inflation by increasing rates by 75 basis points (bps) at their September meetings. Data from August Consumer Price Index (CPI) report shows inflation remains high, 8.1% year-over-year (YOY), yet did decrease, down .03% since June. Core Consumer Price Index (CPI) has been more stubborn, up 5.8% YOY, a trend that has held for five straight reporting periods. But like overall CPI, core CPI has shown some recent signs of slowing. August was the first period since December 2021 in which Core CPI increased by less than 1.0% over the prior period.

However, the regional labor market remains tight. Unemployment numbers present a strong market, boasting down trending-figures, a sharp contrast to what many feel the economy is experiencing. With Central Business District (CBD) unemployment rate now at 5.6%, the labor force continues to operate at near full employment.

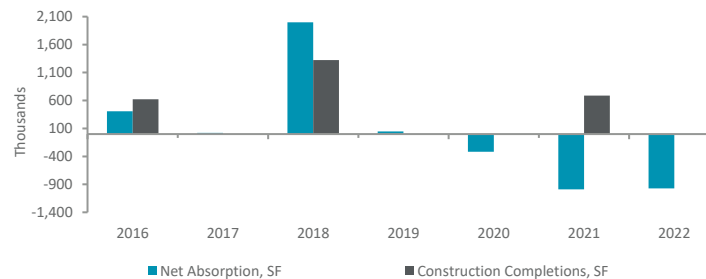
The Fed has indicated it will continue to remain hawkish on inflation, and the market has priced in at least two more expected rate increases by year end. The rate hikes should continue to have ripple effects into the office market causing delayed tenant deals, valuation fluctuation and conservative lending restraints.

SUPPLY AND DEMAND:

Vacancy in the CBD rose to 16.7% this quarter, a 170 bps increase quarter-over-quarter (QOQ). The increase in vacancy is the highest QOQ since a year ago when inflation fears began to surface. By third quarter 2021, the market had over 900,000 square feet (sf) of recorded leasing activity. As of the third quarter 2022, year-to-date (YTD) leasing is 669,752 sf, most of which has been class A space. Class A space has accounted for 74.4% of the total leasing activity YTD.

Rental rates in the CBD rose to \$33.63 per square feet (psf) this quarter, a 0.2% QOQ and 2.1% YOY increase. Class A rents saw growth as well, increasing 0.5% since the start of 2022 and growing 1.3% YOY to reach \$35.17 psf. While rents have held, sublease asking rents increased 1.7% since the start of the year. The increase is due to the uptick in sublease vacancy, up 20 bps QOQ, 69.4% which was class A space. Despite the ebb and flow of sublease space, right-sizing, or return to work strategies, one trend has held: most tenants will not compromise on quality. As class A space has fueled nearly three-fourths of the leasing activity, class A subleases have accounted for 18.0% of all class A leasing activity. While quantity may be in question, the demand for quality space persists.

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	1,975,413	205,499	17.2%	-289,195	-268,039	171,407	462,000	\$33.18	\$35.50
West of Broad	28,883,954	3,983,220	758,385	16.4%	-393,430	-704,370	498,345	305,000	\$33.82	\$35.07
CBD***	41,552,465	5,958,633	963,884	16.7%	-682,625	-972,409	669,752	767,000	\$33.63	\$35.17
Naval Yard	1,061,397	16,797	207,779	21.2%	9,223	-201,270	0	0	\$31.51	\$31.51
University City	5,688,632	316,809	26,368	6.0%	-10,965	-20,318	29,591	0	\$42.78	\$44.43
Bala Cynwyd	2,718,024	371,886	114,165	17.9%	-3,526	40,379	123,930	0	\$34.96	\$35.94
Southern Bucks County	6,342,779	1,239,996	196,500	22.6%	-1,297	-146,221	168,390	0	\$25.12	\$27.33
Southern Route 202 Corridor	6,199,423	995,472	49,838	16.9%	-89,440	-118,412	102,859	0	\$25.94	\$26.30
Delaware County	4,561,028	694,542	43,384	16.2%	-141,427	-156,196	96,351	0	\$27.47	\$28.33
Blue Bell/Ply. Mtg./Ft. Wsh.	12,256,961	2,655,848	178,724	23.1%	-192,913	-518,430	328,807	0	\$25.65	\$27.30
Main Line	3,570,734	317,557	80,132	11.1%	-73,061	-49,462	99,273	0	\$38.10	\$41.31
Conshohocken	4,191,090	613,656	129,344	17.7%	7,660	33,371	307,253	0	\$37.14	\$38.41
Horsham/Willow Grove/Jenkt.	5,380,411	1,080,101	63,448	21.3%	92,977	-38,289	303,252	0	\$21.50	\$23.30
King of Prussia/Valley Forge	18,076,776	2,485,190	573,810	16.9%	-319,470	-323,797	484,565	0	\$28.41	\$29.61
SUBURBAN PHILADELPHIA	63,297,226	10,453,248	1,429,345	18.8%	-720,497	-1,277,057	2,014,680	0	\$27.51	\$29.28
Burlington County	7,850,029	1,088,485	96,167	15.1%	-109,837	123,056	300,627	0	\$21.15	\$23.32
Camden County	6,379,005	986,443	11,438	15.6%	-16,355	101,631	112,586	0	\$20.56	\$22.22
SOUTHERN NEW JERSEY	14,229,034	2,074,928	107,605	15.3%	-126,192	224,687	413,213	0	\$20.87	\$23.17
Wilmington-CBD	7,117,093	1,758,175	33,555	25.2%	-19,257	-82,173	72,646	0	\$28.26	\$28.65
New Castle-Suburban	9,377,123	1,457,428	82,982	16.4%	23,621	-217,827	131,573	0	\$21.53	\$21.84
NEW CASTLE CTY-DE TOTAL	16,494,216	3,215,603	116,537	20.2%	4,364	-300,000	204,219	0	\$25.24	\$26.14
Lehigh & North Hamp. Counties	7,631,540	1,324,057	28,975	17.7%	-16,579	31,460	154,305	0	\$21.39	\$24.02
PHILADELPHIA TOTALS***	135,572,941	21,702,412	2,617,371	17.9%	-1,524,950	-2,324,779	3,301,864	767,000	\$28.45	\$30.72

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1650 Market Street	West of Broad	Holland & Knight	48,232	New Lease
1735 Market Street	West of Broad	UBS	22,625	Renewal*
1735 Market Street	West of Broad	Capital One	22,382	New Lease
1818 Market Street	West of Broad	Martin Law	20,534	Renewal*

*Renewals not included in leasing statistics

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