

18.3%
Vacancy Rate



-1.6M
YTD Net Absorption, SF



\$33.96
Asking Rent, PSF



(Overall Gross, All Property Classes)

ECONOMIC INDICATORS Q4 2022

733.2K
Philadelphia Employment



5.3%
Philadelphia Unemployment Rate



3.7%
U.S. Unemployment Rate



Source: BLS

ECONOMY:

It was nearly four years since the Federal Reserve (Fed) had raised interest rates. The Fed Fund Rate was 0.0% to begin 2022, and the Fed was still purchasing bonds before running into the highest inflation in four decades. The Fed began aggressively hiking rates starting June 16th. 350 basis-points (bps) later, the Fed Fund Rate ended 2022 at 4.5%, the highest rate since the Great Recession of 2007. Despite 7.8% inflation year-over-year (YOY), the pace of inflation has slowed since June 16th. However, the effects of inflation on commodity pricing remains. The cost of construction was up 15.7% YOY to start 2022. By June 16th, construction costs were up by 25.4% YOY. As of fourth quarter 2022, construction costs remain inflated, 20.4% higher YOY, and up 36.1% since 2020.

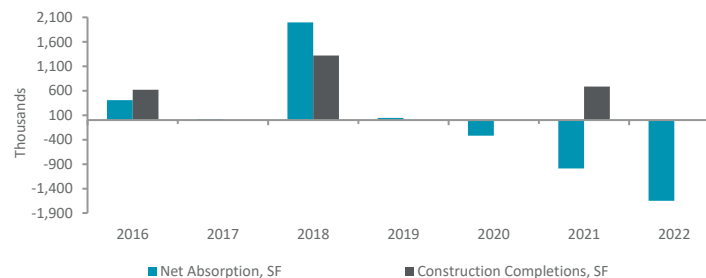
In addition, the labor market squeezed tighter. The City began 2022 at 7.7% unemployment and ended the year at 4.7%, adding over 20,000 jobs along the way, many in the Professional and Business Services sector (7,000 jobs added in 2022). The City now has more people employed in Professional and Business Services than ever before, and it is the second largest sector after Education and Healthcare. Strong employment figures give reason for the Fed to remain hawkish on curbing inflation, which may elongate the rigid lending environment office landlords and tenants have faced, particularly post June 16th. Interest rates and inflation have stubbornly impacted asset valuations and sales activity while construction pricing has impacted leasing and construction activity.

SUPPLY AND DEMAND:

Market activity in 2022 can also be divided into two halves: pre and post June 16th. The confluence of hybrid work and a high inflationary environment directly impacted leasing activity in the Central Business District (CBD) in the first half of 2022 with a 24.9% decrease in activity from a year prior. Post June 16th, leasing activity dwindled until the welcomed news of Chubb's commitment to the CBD.

For many users in 2022 right sizing was the dominant theme and the quality and functionality of space took priority over the quantity of space. Excluding Chubb's signing, the average deal size in the CBD decreased for the second consecutive year: 18.0% overall and 19.1% for class A deals. In 2021 the average deal size decreased by 36.1% and 46.2% for overall and class A, respectively, despite a 36.8% increase in total number of new deals. Companies reconfigured and reimagined their space, but most did not compromise on quality. In the past year alone, Class A space accounted for 82.9% of the 1.2 million square feet (msf) leased in 2022, and captured the largest noteworthy deals of the year whether new, sublease or renewal. Post June 16th renewals more than doubled as companies looked to weather the perceived short term economic uncertainty in the quality space they have today, a trend expected to carry into 2023.

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	2,150,779	228,005	18.8%	-193,919	-465,911	179,274	462,000	\$33.32	\$35.71
West of Broad	28,883,954	4,369,747	861,546	18.1%	-397,013	-1,182,547	1,002,764	305,000	\$34.22	\$35.41
CBD****	41,552,465	6,520,526	1,089,551	18.3%	-590,932	-1,648,458	1,182,038	767,000	\$33.96	\$35.48
Naval Yard	1,061,397	16,797	207,779	21.2%	0	-201,270	0	0	\$31.51	\$31.51
University City	5,688,632	316,809	25,216	6.0%	1,152	-19,166	32,285	0	\$42.83	\$44.51
Bala Cynwyd	2,718,024	408,960	114,165	19.3%	-37,116	3,305	136,087	0	\$35.03	\$35.91
Southern Bucks County	6,342,779	1,220,500	190,533	22.3%	24,463	-121,758	202,150	0	\$25.24	\$27.51
Southern Route 202 Corridor	6,199,423	1,042,622	119,795	18.8%	-107,785	-235,519	128,030	0	\$26.22	\$26.73
Delaware County	4,561,028	672,890	50,356	15.9%	34,483	-133,067	154,568	0	\$27.47	\$28.26
Blue Bell/Ply. Mtg./Ft. Wsh.	12,256,961	2,660,059	264,458	23.9%	-59,396	-597,712	426,763	0	\$25.58	\$27.32
Main Line	3,570,734	324,218	80,132	11.3%	-3,917	-54,723	253,755	145,000	\$38.56	\$41.87
Conshohocken	4,191,090	633,715	176,359	19.3%	-67,074	-33,703	399,650	0	\$37.75	\$39.14
Horsham/Willow Grove/Jenkt.	5,380,411	1,029,597	109,434	21.2%	10,662	-51,239	338,204	0	\$21.50	\$22.89
King of Prussia/Valley Forge	18,076,776	2,894,651	624,744	19.5%	-458,515	-780,952	564,468	0	\$28.67	\$29.78
SUBURBAN PHILADELPHIA	63,297,226	10,887,212	1,729,976	19.9%	-664,195	-2,005,908	2,603,675	145,000	\$27.73	\$29.43
Burlington County	7,850,029	1,091,040	96,167	15.1%	-4,017	120,501	418,229	0	\$21.05	\$22.95
Camden County	6,379,005	996,851	11,438	15.8%	-8,635	93,206	185,566	0	\$20.46	\$21.62
SOUTHERN NEW JERSEY	14,229,034	2,087,891	107,605	15.4%	-12,652	213,707	603,795	0	\$20.77	\$22.73
Wilmington-CBD	7,117,093	1,812,190	33,555	25.9%	-54,015	-136,188	119,856	0	\$27.85	\$28.20
New Castle-Suburban	9,377,123	1,440,839	83,662	16.3%	5,909	-201,918	167,362	0	\$21.54	\$21.78
NEW CASTLE CTY-DE TOTAL	16,494,216	3,253,029	117,217	20.4%	-48,106	-338,106	287,218	0	\$25.05	\$25.90
Lehigh & North Hamp. Counties	7,631,540	1,324,664	28,975	17.7%	-607	30,853	165,740	0	\$21.41	\$23.98
PHILADELPHIA TOTALS***	135,572,941	22,748,658	3,044,349	19.0%	-1,315,885	-3,778,765	4,676,726	912,000	\$28.77	\$31.00

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2000 Arch Street	West of Broad	Chubb	438,000	New Lease
1650 Market Street	West of Broad	JP Morgan Chase Bank, National Association	33,172	Renewal
1650 Market Street	West of Broad	Morgan Stanley	31,579	Renewal
833 Chestnut Street	East of Broad	Thomas Jefferson University	12,835	Renewal

*Renewals not included in leasing statistics

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