

19.2%
Vacancy Rate



-363.3K
YTD Net Absorption, SF



\$33.93
Asking Rent, PSF



(Overall Gross, All Property Classes)

ECONOMIC INDICATORS Q1 2023

735.9K
Philadelphia Employment



5.2%
Philadelphia Unemployment Rate



3.5%
U.S. Unemployment Rate



Source: BLS

ECONOMY:

The Federal Reserve (Fed) raised rates again in the first quarter. Two increases, both 25 basis points (bps), brought the Federal Funds Rate to 5.0%, the highest since the Great Recession. The rate hikes were, in large part, expected, yet markets were jolted by the unexpected news of a regional banking crisis. Overexposure to interest rate sensitive assets led to the failure of some notable regional banks. The crisis has turned the spotlight on regional banks, at least in the short term, and their potential risk exposure. The short-term impact will likely lead to further scrutiny of commercial real estate assets, another interest rate sensitive sector.

Interest rate increases are the Fed's main tool to try to lower stubborn inflation. While unemployment has ticked upwards this past quarter, the Consumer Price Index (CPI) shows that inflation, year-over-year (YOY), has increased since last reporting: a first since the Fed began aggressively raising rates last June. Most stubborn is the continued high cost of construction. Office construction pricing is now 4.1% higher quarter-over-quarter (QOQ) and 18.8% YOY. The continued high cost of construction coupled with more rigid regional lending environment will further hinder slated possible speculative office conversions, spec suite office construction, and desired tenant improvements for many.

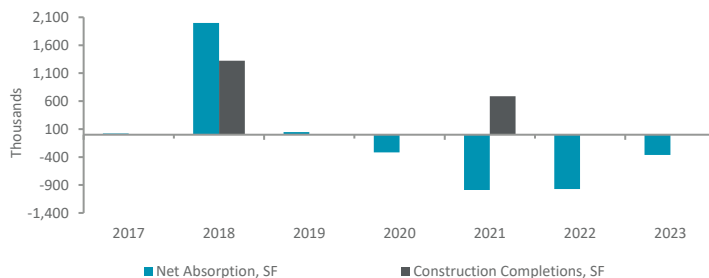
SUPPLY AND DEMAND:

While direct new leasing activity has exhibited a downward trend, renewal activity, both short-term and slightly longer-term, has been active as tenants have avoided making long-term decisions involving large capital outlays. While tenants three years ago were facing lease expirations at the onset of a pandemic, they now face the onset of a recession, neither of which is conducive to making long-term commitments to finite amounts of office space.

Leasing activity totaled 208,198 square feet (sf) in the first quarter, a YOY decrease of 21.1%, yet a 128.7% increase QOQ. Despite the increase in QOQ activity, direct deal size continues to trend downwards, averaging 4,454 sf; a continued reflection of hybrid work impacting office demand. Based on Cushman & Wakefield local research, employees are and have been returning to the office, albeit not at a pace preferred by many. Leasing trends indicate the tension created by this inconsistency and the inability of decision makers to define the "right-size" of tomorrow: only what is appropriate for right now.

Since the Fed began raising interest rates last June, renewal activity increased 78.0%, with an average deal size of 6,985 sf. Renewals totaled 111,343 sf in the first quarter and averaged 8,564 sf. However, the average term was only 64 months, an indicator that the greater macroeconomic climate is not creating panic but encouraging caution. While still less in quantity, quality is still clearly preferred, as 58.0% of all leasing was in Class A buildings, another continued trend. What remains unclear, given all the macro headwinds, is when will tenants regain the confidence in their office usage or the ability to stretch tenant improvement dollars, which will allow them to commit to longer lease terms.

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	2,260,624	211,215	19.5%	-93,534	-93,534	65,292	462,000	\$32.97	\$35.12
West of Broad	28,883,954	4,566,826	935,007	19.1%	-269,750	-269,750	142,906	305,000	\$34.31	\$35.38
CBD***	41,552,465	6,827,450	1,146,222	19.2%	-363,284	-363,284	208,198	767,000	\$33.93	\$35.32
Naval Yard	782,997	10,574	207,779	27.9%	6,223	6,223	0	0	\$31.28	\$31.28
University City	3,478,903	126,498	25,216	4.4%	0	0	0	0	\$45.16	\$45.88
Bala Cynwyd	2,718,024	405,145	139,145	20.0%	-19,809	-19,809	23,234	0	\$35.15	\$35.95
Southern Bucks County	6,282,103	1,282,737	231,695	24.1%	-113,393	-113,393	12,676	0	\$25.24	\$27.47
Southern Route 202 Corridor	6,199,423	1,016,179	130,876	18.5%	10,082	10,082	28,525	0	\$26.30	\$26.83
Delaware County	4,561,028	685,722	40,356	15.9%	13,752	13,752	25,766	0	\$28.00	\$28.57
Blue Bell/Ply. Mtg./Ft. Wsh.	11,864,646	2,584,363	340,933	24.7%	-144,281	-144,281	43,139	0	\$25.35	\$27.04
Main Line	3,570,734	352,009	86,684	12.3%	-31,985	-31,985	50,335	145,000	\$38.94	\$42.46
Conshohocken	4,191,090	621,782	231,603	20.4%	-58,333	-58,333	32,473	0	\$38.05	\$39.29
Horsham/Willow Grove/Jenkt.	5,380,411	1,045,791	100,903	21.3%	-8,709	-8,709	32,065	0	\$21.27	\$22.76
King of Prussia/Valley Forge	17,881,990	3,008,751	592,391	20.1%	-190,000	-190,000	123,445	0	\$28.93	\$30.08
SUBURBAN PHILADELPHIA	62,649,449	11,002,479	1,894,587	20.6%	-542,676	-542,676	371,769	145,000	\$27.93	\$29.69
Burlington County	7,850,029	1,118,340	89,461	15.4%	7,257	7,257	73,547	0	\$20.91	\$22.62
Camden County	6,379,005	1,002,349	11,438	15.9%	-5,872	-5,872	55,316	0	\$20.68	\$21.62
SOUTHERN NEW JERSEY	14,229,034	2,120,689	100,900	15.6%	1,385	1,385	128,863	0	\$20.80	\$22.46
Wilmington-CBD	7,117,093	1,858,333	81,705	27.3%	-94,293	-94,293	19,944	0	\$27.39	\$27.74
New Castle-Suburban	9,277,123	1,438,715	123,616	17.3%	-84,063	-84,063	129,926	0	\$21.99	\$22.73
NEW CASTLE CTY-DE TOTAL	16,394,216	3,342,048	205,321	21.6%	-178,356	-178,356	149,870	0	\$24.99	\$25.87
Lehigh & North Hamp. Counties	7,631,540	1,352,066	28,975	18.1%	-24,702	-24,702	11,636	0	\$21.48	\$23.93
PHILADELPHIA TOTALS***	134,825,164	23,292,666	3,347,030	19.8%	-1,082,931	-1,082,931	858,700	912,000	\$28.88	\$31.10

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1880 John F. Kennedy Boulevard	West of Broad	Instamed Communications, LLC	37,920	Renewal
100 N 20 th Street	West of Broad	Big Brothers Big Sisters	20,700	Sublease
801 Market Street	East of Broad	Building 21	20,252	New Lease
510-530 Walnut Street	West of Broad	Foundation for Individual Rights and Expressions, Inc.	18,223	Renewal
1650 Market Street	West of Broad	Clark Capital Management Group, Inc	17,465	Expansion

*Renewals not included in leasing statistics

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