

YoY Chg 12-Mo. Forecast

20.6%

Vacancy Rate



-542.7K

YTD Net Absorption, SF



\$27.93

Asking Rent, PSF



(Overall Gross, All Property Classes)

ECONOMIC INDICATORS Q1 2023

YoY Chg 12-Mo. Forecast

3.1 M

Philadelphia Employment



4.0%

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.

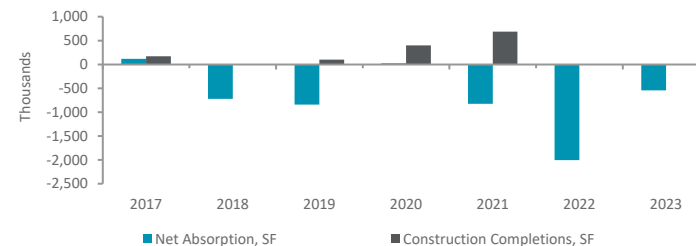
SUPPLY AND DEMAND:

Vacancy rose to 20.6% in the first quarter, marking an all-time high for the market. The Main Line had the lowest vacancy rates in the market, at 12.3%. Other markets, such as Southern Bucks County and Blue Bell/Ply Mtg./Ft. Wash, had the highest vacancy in the market, 24.1% and 24.7%, respectively. In turn, leasing was down 57.4% YOY, the lowest total since first quarter 2021. However, not all markets have experienced activity in the same way. Continuing a recent trend, a rise in activity has occurred in "discount primary" submarkets, such as Blue Bell, that provide class A product at a lower asking rate to that of a primary submarket without compromising access to talent.

Leasing activity was heavily concentrated in King of Prussia/Valley Forge, Main Line, and Blue Bell/Ply Mtg/Ft Wash submarkets. Collectively, these submarkets accounted for 58.3% of all leasing activity this past quarter, and 45.4% of leasing activity since third quarter 2022, when the Fed first began aggressively raising rates. Primary submarkets, such as Main Line and Conshohocken continue to see leasing activity, accounting for 22.3% of all leasing in suburban Philadelphia this quarter alone.

A story of the "haves" and "have-nots" has begun to take shape. Primary and "discount primary" submarkets, with inventory that is reasonably dated or recently repositioned, continue to perform. With the rising cost of construction, submarkets that lack repositioned inventory will likely continue to underperform.

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/Jenknt. | 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 |
|---------------------------|--|-----------------|--------|-----------|
| 1200 West Swedesford Road | King of Prussia/Valley Forge | EwingCole, Inc. | 30,171 | Renewal |
| 475 Virginia Drive | Blue Bell/Plymouth Meeting/Fort Washington | T-Mobile | 24,112 | Renewal |
| 201 King of Prussia Road | Main Line | - | 21,540 | New Lease |
| 1265 Drummers Lane | King of Prussia/Valley Forge | - | 20,164 | Sublease |

*Renewals not included in leasing statistics

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