

20.4%
Vacancy Rate



-1.21 M
YTD Net Absorption, SF



\$34.49
Asking Rent, PSF



(Overall Gross, All Property Classes)

ECONOMIC INDICATORS Q3 2023

764.4K
Philadelphia Employment



4.2%
Philadelphia Unemployment Rate



3.7%
U.S. Unemployment Rate



Source: BLS

ECONOMY:

The Federal Reserve (Fed) took a pause in September after raising rates 25 basis-points (bps) in July, keeping the federal funds rate at a 22 year high. The Fed signaled that another hike in the fourth quarter is not off the table, as economic activity continued to expand at a solid pace as unemployment remains low, yet inflation remains above the Fed's steadfast 2.0% target. The city has added over 8,000 jobs since January, while the participation rate has grown by 10,000 over that same time. Per the Bureau of Labor Statistics (BLS), 70.1% of the increase in city's participation rate occurred in the third quarter, yet the unemployment rate ended the third quarter at 5.4%, only 20 bps higher than January of this year.

The regional headline Consumer Price Index (CPI) shows that inflation grew 3.9% year-over-year (YOY) and increased only 0.8% since the last report. Since the start of 2023, headline inflation has grown by 1.6%. Core CPI was 4.6% higher YOY, driven by rising costs of shelter. Per the BLS, shelter, specifically the cost of rent, increased 7.7% YOY, and 12.0% since January 2022. Rising rents present the opportunity for some office holders to consider a pivot from office to multifamily. Life science conversion also continues to be discussed as a pivot. Dismissing the litany of technical specifications needed for either conversion, needed infrastructure upgrades and fit out can be cost prohibitive as producer price index (PPI) data reports construction costs remain at all-time highs.

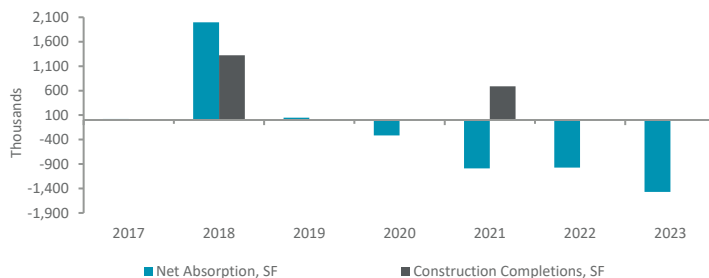
SUPPLY AND DEMAND:

With high interest rates significantly hindering refinancing and dispositions, some assets cannot pivot. Less than nine percent (8.8%) of the Central Business District (CBD) inventory is considered stressed or distressed. By quarter end these buildings represent 33.8% of the total direct vacancies in the CBD. Since January 2022, these buildings have accounted for only 116,692 square feet (sf), or 6.8%, of all CBD leasing activity and 736,987 sf in negative net absorption. If you removed these stressed and distressed assets from the inventory, third quarter direct vacancy would drop from 16.9% to 14.9%.

At the end of the third quarter, only 1.2 million square feet (msf) of CBD inventory is firmly slated for future conversion from office to multifamily or life science use. This subset of inventory represents 8.4% of CBD total direct vacancy, yet none are assets deemed stressed or distressed. These conversions, while helpful, would only reduce direct vacancies by 80 bps, so more creative solutions will be needed.

Year-to-date (YTD) leasing activity is 16.6% higher year-over-year (YOY). The average size for direct deals has modestly increased YOY yet remains 20.2% below pre-pandemic averages. The exception has been trophy assets. Due to recent sizeable deals, the average direct trophy deal size is at its pre-pandemic average. Renewal sizing, however, remains down no matter the quality. The average size renewal is now 63.9% below pre-pandemic average, and down YOY by 35.3%. Trophy renewal sizing remains down, 18.4% below pre-pandemic average.

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	12,593,511	2,225,049	200,224	19.3%	-40,356	-241,726	215,778	462,000	\$32.68	\$34.41
West of Broad	28,883,954	4,771,433	1,261,266	20.9%	-326,512	-966,375	630,719	305,000	\$35.08	\$36.27
CBD	41,477,465	6,996,482	1,461,490	20.4%	-366,868	-1,208,101	846,497	767,000	\$34.49	\$35.91
Naval Yard	782,997	23,086	212,391	30.1%	10,584	-11,167	14,940	-	\$31.72	\$31.72
University City	3,604,403	190,920	76,476	7.4%	-53,074	-62,422	83,509	-	\$37.03	\$46.18
Bala Cynwyd	2,718,024	400,652	161,338	20.7%	-38,940	-37,819	98,311	-	\$36.14	\$36.71
Southern Bucks County	6,262,103	1,248,169	198,955	23.1%	-132,081	-117,354	132,204	-	\$25.34	\$27.68
Southern Route 202 Corridor	6,199,423	1,025,835	140,183	18.8%	-43,619	-24,548	105,107	-	\$26.28	\$26.78
Delaware County	4,561,028	785,950	20,206	17.7%	-393	-48,068	64,825	-	\$28.56	\$28.16
Blue Bell/Ply. Mtg./Ft. Wsh.	11,737,868	2,684,256	463,252	26.8%	--253,984	-354,241	296,256	-	\$25.79	\$28.15
Main Line	3,570,734	450,231	49,170	14.0%	-59,737	-84,039	125,497	145,000	\$39.84	\$43.32
Conshohocken	4,191,090	749,275	119,775	20.7%	-85,388	-208,725	132,121	-	\$36.77	\$37.51
Horsham/Willow Grove/Jenkt.	5,221,411	1,261,011	72,048	25.5%	-15,837	-190,102	84,221	-	\$21.36	\$23.00
King of Prussia/Valley Forge	17,875,353	2,959,909	742,695	20.7%	-120,862	-405,959	509,197	-	\$28.94	\$30.28
SUBURBAN PHILADELPHIA	62,337,034	11,565,288	1,967,622	21.7%	-750,841	-1,470,855	1,547,739	145,000	\$27.94	\$29.94
Burlington County	7,850,029	1,305,380	124,276	18.2%	-177,872	-144,099	405,870	-	\$21.09	\$23.04
Camden County	6,379,005	1,038,185	9,947	16.4%	-12,085	-42,710	147,454	-	\$21.04	\$22.13
SOUTHERN NEW JERSEY	14,229,034	2,343,565	134,223	17.4%	-189,957	-186,809	553,324	-	\$21.06	\$22.88
Wilmington-CBD	7,117,093	1,863,194	65,340	27.1%	-32,362	-114,082	52,496	-	\$27.32	\$27.64
New Castle-Suburban	9,190,417	1,473,241	35,608	16.4%	-11,675	-131,988	281,124	-	\$21.97	\$22.36
NEW CASTLE CTY-DE TOTAL	16,307,510	3,366,256	100,948	21.1%	-44,037	-246,070	333,620	-	\$24.88	\$25.49
Lehigh & Northamp. Counties	7,631,540	1,332,890	-	17.5%	-80,326	-188,613	107,194	-	\$20.84	\$23.02
PHILADELPHIA TOTALS***	134,351,043	24,241,770	3,664,283	20.8%	-1,351,703	-3,111,835	3,281,180	912,000	\$29.05	\$31.38

*Rental rates reflect full-service gross **Does not include renewals ***Does not include Lehigh & Northampton Counties, Naval Yard, and University City submarkets

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
3535 Market Street	University City	Penn Medicine	75,363	New Lease
833 Chestnut Street	East of Broad	Rothman	68,227	Renewal/Expansion
111 South Independence Mall	East of Broad	Digitas	55,000	New Lease
100 North 18 th Street	West of Broad	Wells Fargo	51,262	New Lease
2005 Market Street	West of Broad	Wells Fargo	50,144	New Lease

*Renewals not included in leasing statistics

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