

21.9%
Vacancy Rate



-1.82 M
YTD Net Absorption, SF



\$28.09
Asking Rent, PSF



(Overall Gross, All Property Classes)

ECONOMIC INDICATORS Q4 2023

3.13 M
Philadelphia Employment



3.7%
Philadelphia Unemployment Rate



3.7%
U.S. Unemployment Rate



Source: BLS

ECONOMY:

The Bureau of Labor Statistics (BLS) data indicates that the combined four-county region (Bucks, Montgomery, Chester, and Delaware) concluded 2023 with an unemployment rate below 3.0%. All office-using sectors experienced growth throughout the year, with Education and Healthcare and Leisure & Hospitality leading the way with 4.6% and 6.7% year-over-year (YOY) growth, respectively. Additionally, Professional Business Services, Information, and Financial Activities grew by 2.5%, 2.1%, and 1.2%, respectively. Impressively, all traditional office using sectors reached all-time highs, a testament to the region's economic resilience, even as labor participation attained new heights.

High interest rates, historically high office vacancy, and the paradigm shift to hybrid work has caused distress across the Suburban market. Nearly 55 properties in the four-county region ended the year in special servicing, with these CMBS loans heavily concentrated in secondary submarkets. These properties account for a significant portion of their respective submarkets, indicating potential challenges and complexities within these segments of the Suburban office market.

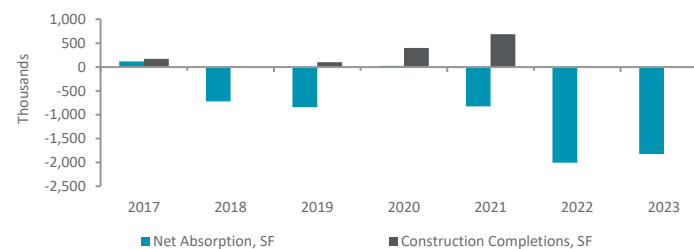
SUPPLY AND DEMAND:

In 2023, the Suburban office market underwent significant transformations, influenced by evolving work patterns and economic trends. Despite a 3.3% YOY increase in new deals, the annual leasing volume experienced a notable downturn, declining by 19.7% YOY, the lowest since the onset of the pandemic. Consequently, the average deal size in the Suburban market contracted to 4,123 square feet (sf) in 2023, marking a 35.3% drop from pre-pandemic averages and a 22.3% YOY decrease. This reduction signifies a notable low for average deal size, underscoring the recalibration of office space utilization.

Overall vacancy rate reached an 18-year high at 21.9%. Sublease vacancy surged to 3.5%, marking a 61.3% YOY increase—an 18-year high as well. Sublease vacancy has affected every submarket and asset class, highlighting the widespread adoption of hybrid work. Notably, the surge in sublease vacancy contrasted with the slower increase in direct vacancy, which increased 2.4% per quarter on average (9.8% annually), representing the slowest rate of increase since the onset of the pandemic.

Suburban primary clusters in King of Prussia, Conshohocken, and the Main Line, ended 2023 with direct vacancy at 13.1%, increasing by a modest 2.2% YOY. However, sublease vacancy in these quality markets persists, increasing 103.0% YOY to end 2023 at 3.4%. This continued a post-pandemic trend of tenant preference for quality in right-sized quantity. Sublease absorption played a pivotal role in shaping market dynamics, constituting 44.6% of the negative 1.8 million square feet (msf) of absorption for the year. Subleasing also accounted for some of the largest office deals for the year, a paradox poised to repeat in 2024.

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	2,013,776	188,627	17.5%	56,375	-50,850	252,723	462,000	\$32.66	\$34.49
West of Broad	29,188,954	4,758,750	1,215,402	20.5%	257,659	-693,747	943,657	438,000	\$34.61	\$35.90
CBD	41,782,465	6,772,526	1,404,029	19.6%	314,034	-744,597	1,196,380	900,000	\$34.15	\$35.62
Naval Yard	782,997	23,086	216,842	30.6%	-9,063	-15,618	24,003	0	\$31.56	\$31.56
University City	3,604,403	175,265	76,476	7.0%	15,655	-46,767	125,559	0	\$36.99	\$45.68
Bala Cynwyd	2,718,024	356,090	135,313	18.1%	-9,319	13,402	106,904	0	\$36.32	\$36.65
Southern Bucks County	6,262,103	1,191,566	253,051	23.1%	2,159	-124,631	160,808	0	\$26.10	\$28.23
Southern Route 202 Corridor	6,164,423	1,114,420	137,287	20.3%	-116,711	-110,306	122,526	0	\$25.73	\$26.20
Delaware County	4,561,028	707,699	152,424	18.9%	-139,248	-177,918	80,897	0	\$28.73	\$29.37
Blue Bell/Ply. Mtg./Ft. Wsh.	11,693,148	2,723,927	464,332	27.3%	-106,994	-435,497	540,674	0	\$26.11	\$28.24
Main Line	3,570,734	402,667	52,968	12.8%	22,546	-48,528	139,189	145,000	\$39.56	\$42.98
Conshohocken	4,191,090	601,302	171,093	18.4%	94,275	-92,855	207,235	0	\$37.43	\$38.22
Horsham/Willow Grove/Jenkt.	5,221,411	1,205,413	72,048	24.5%	28,645	-136,972	144,039	0	\$21.59	\$23.13
King of Prussia/Valley Forge	17,675,540	3,102,880	736,048	21.7%	-404,154	-709,208	695,548	0	\$28.87	\$29.95
SUBURBAN PHILADELPHIA	62,057,501	11,405,964	2,174,564	21.9%	-628,801	-1,822,513	2,197,820	145,000	\$28.09	\$29.80
Burlington County	7,850,029	1,170,526	119,822	16.4%	23,707	-63,452	622,264	0	\$21.21	\$25.47
Camden County	6,379,005	1,105,425	0	17.3%	-59,726	-118,570	236,349	0	\$21.00	\$23.44
SOUTHERN NEW JERSEY	14,229,034	2,275,951	119,822	16.8%	-36,019	-182,022	858,613	0	\$21.10	\$24.92
Wilmington-CBD	7,117,093	1,868,787	65,340	27.2%	-23,599	-131,918	118,558	0	\$27.66	\$28.12
New Castle-Suburban	9,190,417	1,409,111	97,792	16.4%	-862	-137,695	445,462	0	\$22.66	\$23.19
NEW CASTLE CTY-DE TOTAL	16,307,510	3,277,898	163,132	21.1%	-24,461	-269,613	564,020	0	\$25.41	\$26.15
Lehigh & Northamp. Counties	7,551,415	1,426,862	0	18.9%	-12,083	-204,437	112,726	0	\$21.31	\$23.33
PHILADELPHIA TOTALS***	134,376,510	23,732,339	3,861,547	20.5%	-375,247	-3,018,745	4,816,833	1,045,000	\$29.14	\$31.40

*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 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
500 North Gulph Road**	King of Prussia/Valley Forge	UGI	100,820	Sublease
500 Virginia Drive	Blue Bell/Ply. Mtg./Ft. Wash	Avo Photonics	97,000	New Lease
801 Lakeview Drive**	Blue Bell/Ply. Mtg./Ft. Wash	SKF	90,000	New Lease
1 West Elm Street	Conshohocken	Boomi	40,671	Sublease
200 Barr Harbor Drive**	Conshohocken	Madrigal Pharmaceuticals	30,607	New Lease

*Renewals not included in leasing statistics **Cushman & Wakefield deal

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