

Office Q1 2024

	YoY Chg	12-Mo. Forecast
<b>20.6%</b> Vacancy Rate	▲	▲
<b>-578.8 K</b> YTD Net Absorption, SF	▼	▼
<b>\$33.20</b> Asking Rent, PSF	▲	▬

(Overall Gross, All Property Classes)

### ECONOMIC INDICATORS Q1 2024

	YoY Chg	12-Mo. Forecast
<b>771.7K</b> Philadelphia Employment	▲	▲
<b>4.4%</b> Philadelphia Unemployment Rate	▼	▲
<b>3.8%</b> U.S. Unemployment Rate	▲	▲

Source: BLS

### ECONOMY:

The Federal Reserve (Fed) chose to hold rates at current levels this past quarter, while signaling potential cuts may be forthcoming, if economic data suggests it is appropriate to do so. Looking at some of those economic indicators: unemployment in the CBD rose to 4.3% in the first quarter of 2024 yet remains significantly lower than the 5.2% mark only a year prior. The Bureau of Labor Statistics (BLS) reporting noted significant employment losses in education and healthcare in the first quarter. Labor participation remains strong, with participation figures slightly off all-time highs set last year. In contrast, office using sectors contracted by 11,000 jobs since reaching all-time employment highs in November 2023.

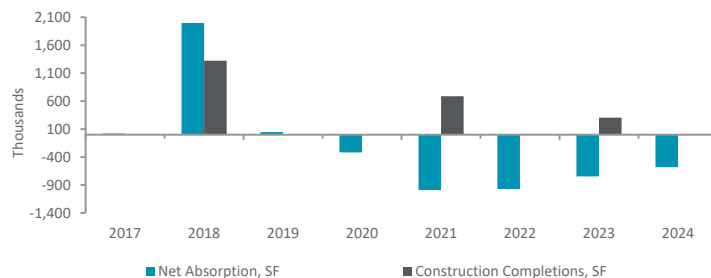
Despite a regional slowdown in overall inflation, as indicated by the 3.4% year-over-year increase in the City Consumer Price Index (CPI), Core CPI continued to rise at a faster rate, 4.2% year-over-year (YOY). This increase was driven primarily by rising shelter costs, which grew by 6.5% YOY. Continued softening in employment is expected, and the Fed's original inflation target of 2.0% remains well beyond reach.

### SUPPLY AND DEMAND:

Vacancies grew in the Central Business District (CBD) to 20.6% by the end of the first quarter. Net absorption recorded a large negative figure (-578,770 square feet (sf)). However, 49.8% is attributed to the anticipated vacancy at 1701 Market Street. Not yet fully vacant, 1701 Market is the first of several featured office to residential conversions that are reshaping the CBD office inventory. Upon completion, the overall office footprint in the CBD will be smaller, yet so will overall vacancy. At the end of the first quarter, 15.8% of all CBD vacancies reside in buildings slated for office to residential conversion. Similarly, another 11.5% of all total vacancies reside in buildings that are in financial distress. Distressed assets and their vacancies, like office conversions, reduce the footprint of the competitive landscape in this tenant driven market. Without these conversions or distressed assets, the CBD vacancy rate would reside at 17.9%

Even though 245,852 sf of new leasing activity was recorded during the quarter, the average deal size was under 7,000 sf for the second consecutive quarter. Average renewal sizing also decreased significantly, 34.7%, compared to the average renewal size just last year. Most notably, the first quarter 2024 was the fourth consecutive quarter where the average size renewal was less than the average size new deal, a possible signal that right-sizing may be approaching a bottom. A bi-product of right-sizing has been rising sublease availability. At the end of the first quarter CBD sublease availability was 5.4%, an all-time high. Another 100,000 sf of sublease availability was added to the market quarter-over-quarter, and it is apparent that right-sizing will continue to remain a relevant theme throughout 2024. When examining all sublease availability on the market, it is important to note that less than one-third (712,500 sf), is currently competitive vacant class A space, offering at least 5,000 sf with a term of three-years or more.

### 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	2,138,964	340,490	19.7%	-272,827	-272,827	21,281	462,000	\$31.47	\$34.22
West of Broad	29,188,954	5,148,043	981,483	21.0%	-305,943	-305,943	224,571	438,000	\$33.79	\$34.89
<b>CBD</b>	<b>41,782,465</b>	<b>7,287,007</b>	<b>1,321,973</b>	<b>20.6%</b>	<b>-578,770</b>	<b>-578,770</b>	<b>245,852</b>	<b>900,000</b>	<b>\$33.20</b>	<b>\$34.76</b>
Naval Yard	782,997	10,308	207,779	27.9%	12,778	12,778	8,451	0	\$31.56	\$31.56
University City	3,604,403	188,378	76,476	7.4%	-17,293	-17,293	2,035	0	\$37.83	\$45.31
Bala Cynwyd	2,718,024	398,005	136,886	19.7%	-32,340	-32,340	14,293	0	\$35.95	\$36.72
Southern Bucks County	6,262,103	1,111,202	268,021	22.0%	-10,338	-10,338	131,308	0	\$26.15	\$28.14
Southern Route 202 Corridor	6,231,124	1,124,786	134,160	20.2%	-56,777	-56,777	20,279	0	\$25.56	\$26.29
Delaware County	4,561,028	705,894	152,424	18.8%	-59	-59	8,608	106,000	\$28.39	\$29.01
Blue Bell/Ply. Mtg./Ft. Wsh.	11,693,148	2,452,025	349,830	24.0%	49,626	49,626	25,532	0	\$26.46	\$28.39
Main Line	3,570,734	497,987	47,187	15.3%	-110,500	-110,500	30,176	145,000	\$39.72	\$42.75
Conshohocken	4,191,090	600,704	38,306	15.3%	18,217	18,217	31,899	0	\$37.57	\$38.49
Horsham/Willow Grove/Jenkt.	5,221,411	1,253,338	72,048	25.4%	-58,333	-58,333	11,153	0	\$21.35	\$22.50
King of Prussia/Valley Forge	17,687,632	3,249,704	684,116	22.2%	-185,229	-185,229	143,551	0	\$29.69	\$30.03
<b>SUBURBAN PHILADELPHIA</b>	<b>62,136,294</b>	<b>11,393,645</b>	<b>1,882,978</b>	<b>21.4%</b>	<b>-385,733</b>	<b>-385,733</b>	<b>416,799</b>	<b>251,000</b>	<b>\$28.37</b>	<b>\$29.78</b>
Burlington County	7,880,341	1,292,647	145,460	18.3%	-228,585	-228,585	43,549	0	\$21.36	\$25.48
Camden County	6,379,005	1,139,046	0	17.9%	-32,873	-32,873	24,692	0	\$21.32	\$23.68
<b>SOUTHERN NEW JERSEY</b>	<b>14,259,346</b>	<b>2,431,693</b>	<b>145,460</b>	<b>18.1%</b>	<b>-261,458</b>	<b>-261,458</b>	<b>68,241</b>	<b>0</b>	<b>\$21.34</b>	<b>\$24.98</b>
Wilmington-CBD	9,190,417	1,156,970	260,907	15.4%	-55,910	-55,910	51,563	100,000	\$23.45	\$23.67
New Castle-Suburban	7,117,093	1,670,530	65,340	24.4%	-13,591	-13,591	40,785	0	\$28.00	\$28.49
<b>NEW CASTLE CTY-DE TOTAL</b>	<b>16,307,510</b>	<b>2,827,500</b>	<b>326,247</b>	<b>19.3%</b>	<b>-69,501</b>	<b>-69,501</b>	<b>92,348</b>	<b>100,000</b>	<b>\$25.85</b>	<b>\$26.48</b>
Lehigh & Northamp. Counties	7,551,415	1,397,486	36,034	19.0%	-43,168	-43,168	58,947	0	\$21.42	\$23.35
<b>PHILADELPHIA TOTALS***</b>	<b>134,485,615</b>	<b>23,939,845</b>	<b>3,676,658</b>	<b>20.5%</b>	<b>-1,295,462</b>	<b>-1,295,462</b>	<b>823,240</b>	<b>1,251,000</b>	<b>\$29.05</b>	<b>\$31.15</b>

\*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 Q1 2024**

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
833 Chestnut Street**	East of Broad	Thomas Jefferson University	173,362	Renewal*
1735 Market Street**	West of Broad	Undisclosed	60,035	New Lease
1500 John F. Kennedy Boulevard**	West of Broad	GSA – Social Security Administration	25,552	Renewal*
1835 Market Street**	West of Broad	Passage Bio	15,857	Sublease
510-530 Walnut Street**	East of Broad	Levin, Sedran & Berman	14,192	Renewal*

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

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