MARKETBEAT

# PHILADELPHIA - SUBURBAN

## Office Q1 2024

| | YoY Chg | 12-Mo. Forecast |
|---|---|---|
| **21.4%** Vacancy Rate | ▲ | ▲ |
| **-385.7 M** YTD Net Absorption, SF | ▼ | ▼ |
| **$28.37** Asking Rent, PSF | ▲ | ▬ |

*(Overall Gross, All Property Classes)*

### ECONOMIC INDICATORS Q1 2024

| | YoY Chg | 12-Mo. Forecast |
|---|---|---|
| **3.10 M** Philadelphia Employment | ▲ | ▲ |
| **3.8%** Philadelphia Unemployment Rate | ▼ | ▲ |
| **3.8%** U.S. Unemployment Rate | ▲ | ▲ |

*Source: BLS*

### ECONOMY:

Per the Bureau of Labor Statistics (BLS), the unemployment rate grew over the first quarter of 2024 to 5.6% across the four-county region. Except for the education and healthcare sector which saw employment totals increase upwards of 3.0 to 4.0% in the first quarter, other traditional office using sectors have contracted since coming off all-time highs in employment set in 2023. Professional business services, information, and financial activities have reported year-over-year (YOY) losses of -2.5%, -3.8% and -0.6% respectively.

The Federal Reserve (Fed) chose to keep rates at their current levels this past quarter, curbing enthusiasm for any rate cuts, at least in the near term. The Fed rather will continue to analyze rear view looking economic data to determine when rate cuts are appropriate. One of the data points that will shape that decision continues to be Consumer Price Index (CPI) and Core CPI data. CPI data for the Philadelphia MSA shows that inflation growing at a more palatable 3.4% YOY, yet Core CPI grew by 4.2 YOY. Both figures still far from the Fed's desired 2.0% goal, however both CPI and Core CPI have been steadily decreasing over the last 12 months considering this time last year CPI and Core CPI were up by 6.9% and 6.4% respectively.

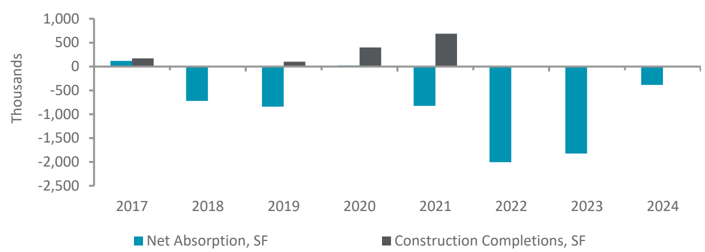
### SUPPLY AND DEMAND:

Overall vacancy grew by 80 basis-points (bps) to 21.4% in the first quarter, the highest vacancy rate since 2005. Another 253,807 square feet (sf) of sublease availability also hit the market this past quarter, and sublease vacancy continues to linger above 3.0%. Direct vacancy grew quarter-over-quarter (QOQ) upwards of 576,000 sf, 26.3% which is class B space. Another 31.0% was in secondary submarkets, and 16.8% were in buildings in financial distress.

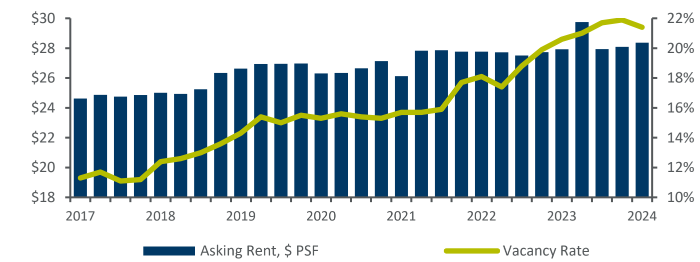
Primary Suburban submarkets, accounted for 42.7% of the class A direct vacancy that came onto the market over the first quarter, with over half (57.8%), occurring in the King of Prussia/Valley Forge (KOP) submarket. Vacancy rose in the King of Prussia/Valley Forge by 50 bps QOQ and 210 bps YOY. Most, 85.8%, of the direct vacancy added in the KOP submarket over the last year exists outside of the premier KOP location, the Swedesford Road Corridor.

Additionally, less than half (44.4%) of the of sublease vacancy that entered the KOP market over the last year directly competes with class A direct vacancy. This means 55.6% of the sublease vacancy that came onto the market is either: not class A space, less than 5,000 sf, or the term less than three years. Overall, only 58.8% of all sublease vacancy across the suburban market meets these criteria. Despite the rise in vacancy, KOP captured 34.3% of all new leasing activity for the quarter. Overall leasing activity continues to lean towards the suburban primary markets of KOP, Conshohocken and the Main Line, which collectively accounted for 49.3% of all first quarter new leasing activity.

### SPACE DEMAND / DELIVERIES




### OVERALL VACANCY & ASKING RENT



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Office Q1 2024

## MARKET STATISTICS

| | 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 |
| **CBD** | **41,782,465** | **7,287,007** | **1,321,973** | **20.6%** | **-578,770** | **-578,770** | **245,852** | **900,000** | **$33.20** | **$34.76** |
| **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 |
| **SUBURBAN PHILADELPHIA** | **62,136,294** | **11,393,645** | **1,882,978** | **21.4%** | **-385,733** | **-385,733** | **416,799** | **251,000** | **$28.37** | **$29.78** |
| 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 |
| **SOUTHERN NEW JERSEY** | **14,259,346** | **2,431,693** | **145,460** | **18.1%** | **-261,458** | **-261,458** | **68,241** | **0** | **$21.34** | **$24.98** |
| 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 |
| **NEW CASTLE CTY-DE TOTAL** | **16,307,510** | **2,827,500** | **326,247** | **19.3%** | **-69,501** | **-69,501** | **92,348** | **100,000** | **$25.85** | **$26.48** |
| Lehigh & Northamp. Counties | 7,551,415 | 1,397,486 | 36,034 | 19.0% | -43,168 | -43,168 | 58,947 | 0 | $21.42 | $23.35 |
| **PHILADELPHIA TOTALS*** ** | **134,485,615** | **23,939,845** | **3,676,658** | **20.5%** | **-1,295,462** | **-1,295,462** | **823,240** | **1,251,000** | **$29.05** | **$31.15** |

*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 |
|---|---|---|---|---|
| 1170-1190 Devon Park Drive | King of Prussia/Valley Forge | USLI | 200,000*/40,000 | Renewal*/Expansion |
| 311 Veterans Highway | Southern Bucks County | Lincoln Tech | 90,371 | New Lease |
| 721 Arbor Way | Blue Bell/Ply. Mtg./Ft. Wash | Integrated Project Services | 51,081 | Renewal* |
| 1300 Morris Drive | King of Prussia/Valley Forge | Undisclosed | 20,290 | New Lease |
| 777 Township Line Road | Southern Bucks County | Undisclosed | 19,779 | New Lease |

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


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