
1Q24

Greater Philadelphia Office Market Overview



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Market Observations

Economy

- Some signs of a slowing economy emerged in Greater Philadelphia at the beginning of 2024. The 12-month annual growth rate in non-farm payrolls was 1.1% in February 2024, which is the lowest recorded since March 2021. Unemployment also increased 50 basis points from the prior quarter to reach 3.8%. However, regional unemployment is still 40 basis points below the nation's.
- In February, the annual percent change in Greater Philadelphia's Core CPI, which excludes volatile food and energy prices, was 4.2%. This is 210 basis points less than a year ago but still 220 basis points above the Federal Reserve's 2.0% target, indicating that inflation is cooling, albeit slowly.

Major Transactions

- Saul Ewing exemplified the ongoing trend among major office users of reducing their spatial footprint while upgrading to better locations when it inked a 60,035-square-foot lease at 1735 Market Street. The law firm previously occupied 111,472 square feet at Centre Square, marking a 46% decrease in leased space.
- In March 2024, Alliance HP completed the acquisition of a vacant 143,000-square-foot office building at 1 Innovation Drive in Plymouth Meeting for industrial conversion. The purchase price was \$11.3M, or \$79.20/SF. Repurposing vacant and obsolete office assets is crucial to right-sizing Greater Philadelphia's office market.
- AmeriHealth Caritas has announced its plan to sublease its 106,000-square-foot office at Ellis Preserve in Newtown Square. The building is currently under construction and boasts premium, trophy-quality features. Its anticipated completion is expected to drive an increase in the market's average sublease asking rates.

Leasing Market Fundamentals

- Large discrepancies in performance between the city's trophy and non-trophy assets continued into the new year. At the end of the first quarter of 2024, trophy offices had a 16.8% vacancy rate, while standard Class A and Class B buildings had a 22.7% and 22.9% rate, respectively.
- The delivery of 3025 JFK Boulevard was Philadelphia's latest addition to its trophy inventory. Its completion added over 170,000 square feet to available inventory. This, combined with its top-of-market asking rates, caused Greater Philadelphia's overall asking rate to increase by \$0.22/SF quarter-over-quarter to \$31.85/SF.
- Leasing activity in Greater Philadelphia reached 1.4M square feet in the initial quarter of 2024. Since 2020, the average yearly leasing volume has been around 5.4M square feet. Although early, Greater Philadelphia is on pace to reach this annual average.

Outlook

- Tenant demand improved for the second consecutive quarter in the first quarter of 2024. Existing requirements account for 3.3% of office inventory, which is the highest level of demand recorded since the first quarter of 2023.
- In February, Independence Blue Cross (IBX) announced it would require employees to be in-office three days a week beginning in March and April 2024. New Philadelphia mayor, Cherelle Parker, also called for municipal workers to be in office five days a week. Per Center City District data, the average daily volume of people within Center City was 83% of November 2019 volumes in November 2023. New return-to-office policies could increase pedestrian counts closer to pre-pandemic levels.

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2. Leasing Market Fundamentals
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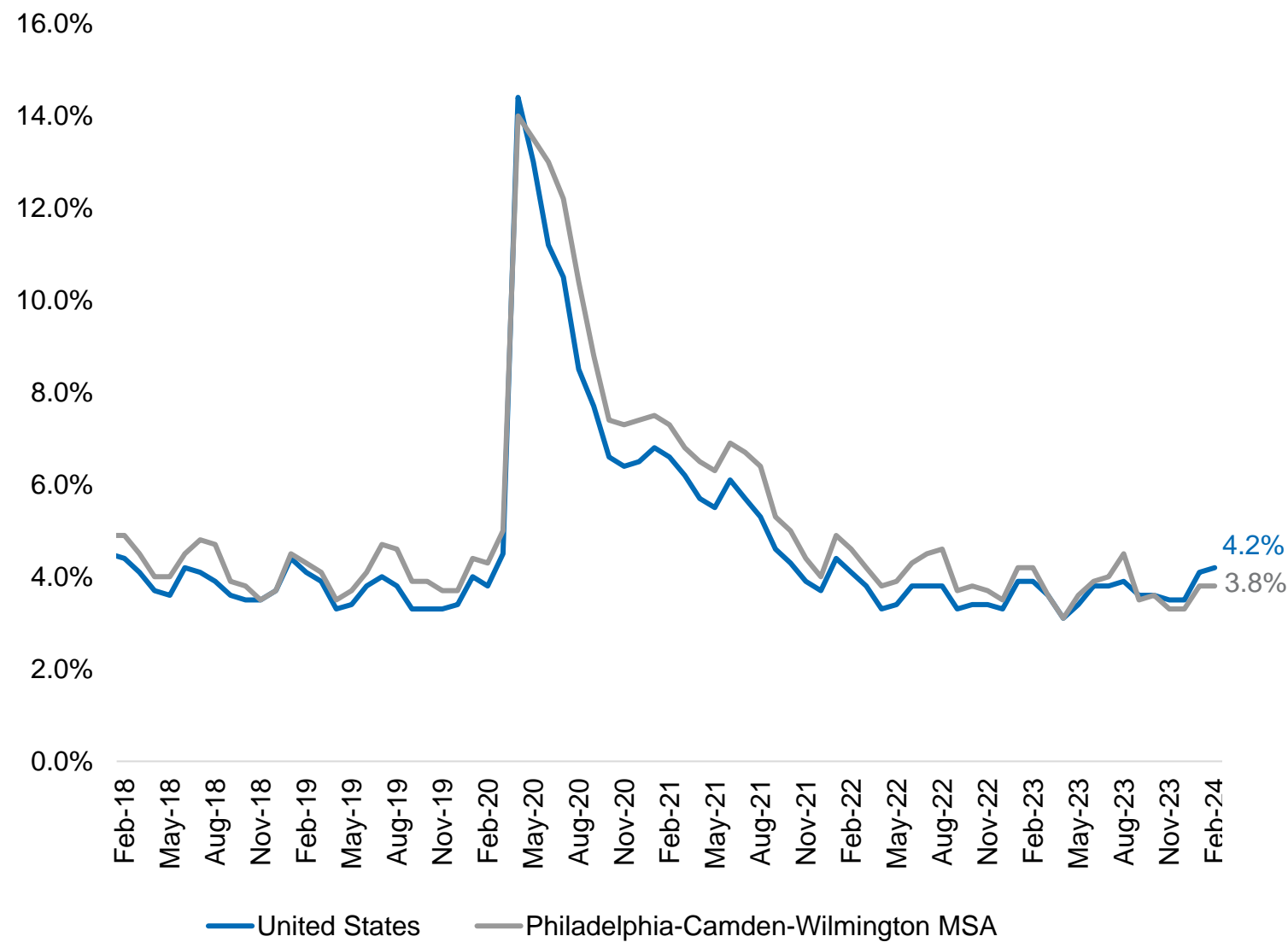
Economy



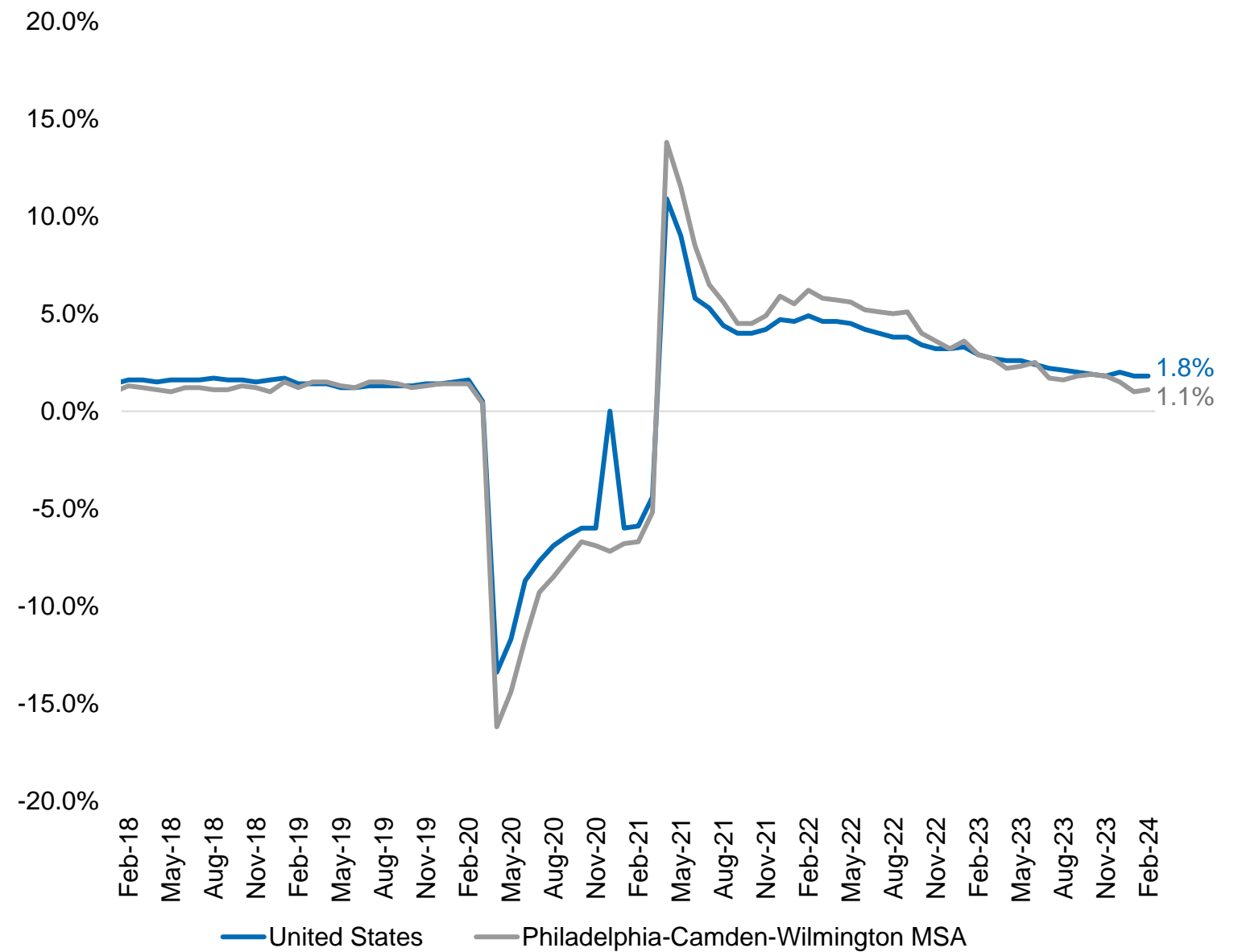
Philadelphia's Economy Remains Robust But Shows Signs of Slowing

The Greater Philadelphia economy saw a small increase in unemployment in the first quarter of 2024 but is still 40 basis points below the national unemployment rate. Annual nonfarm payroll employment grew 1.1% in February 2024, the lowest recorded since March 2021. Greater Philadelphia's largest industry, Education and Health Services, drove employment growth.

Unemployment Rate, Non-Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

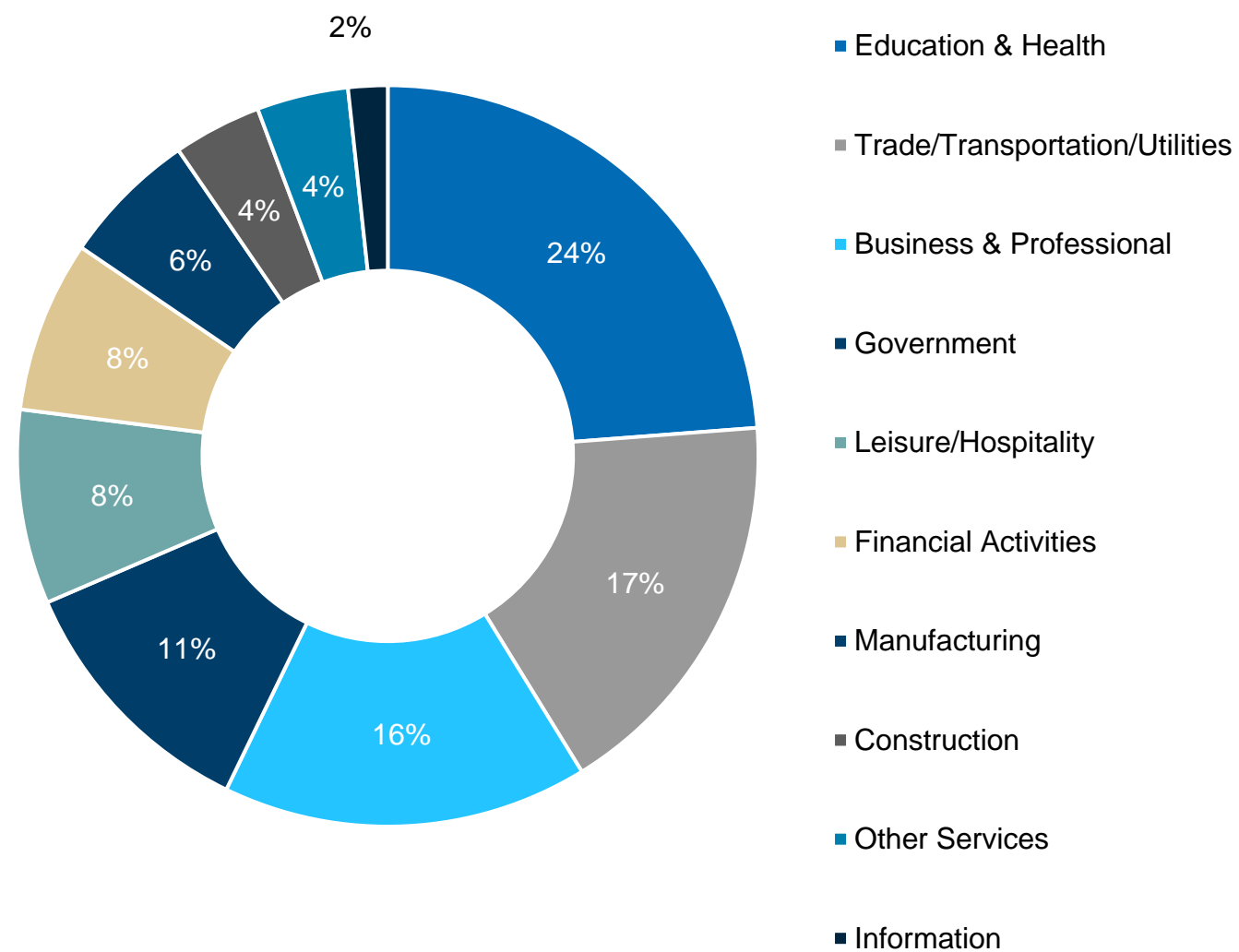


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

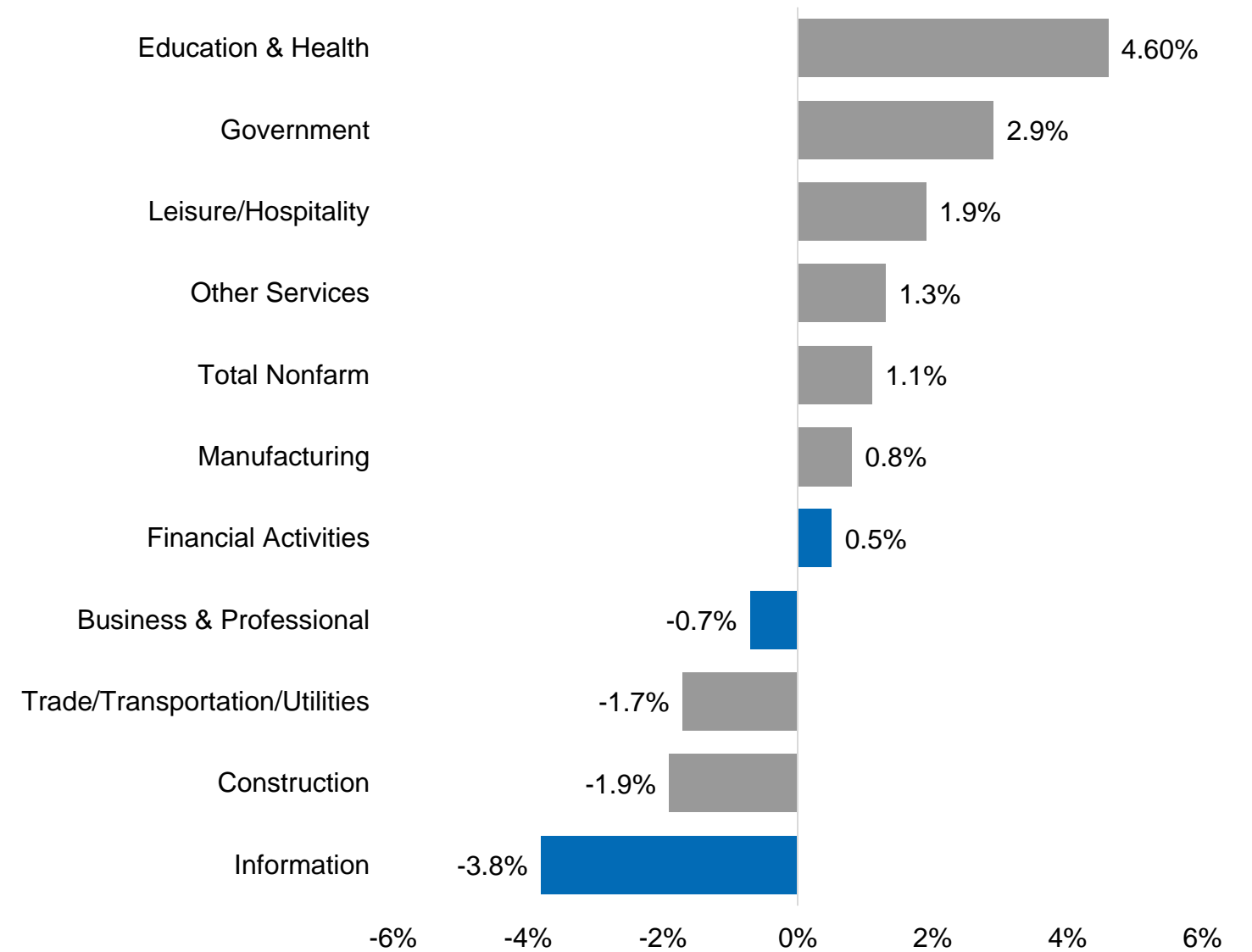
Office-Using Industries Decline While Healthcare and Education Lead the Way

The Education and Health Services industry employs nearly a quarter of Greater Philadelphia's labor force. Strong annual employment gains in this sector are an encouraging sign for the region's economy.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

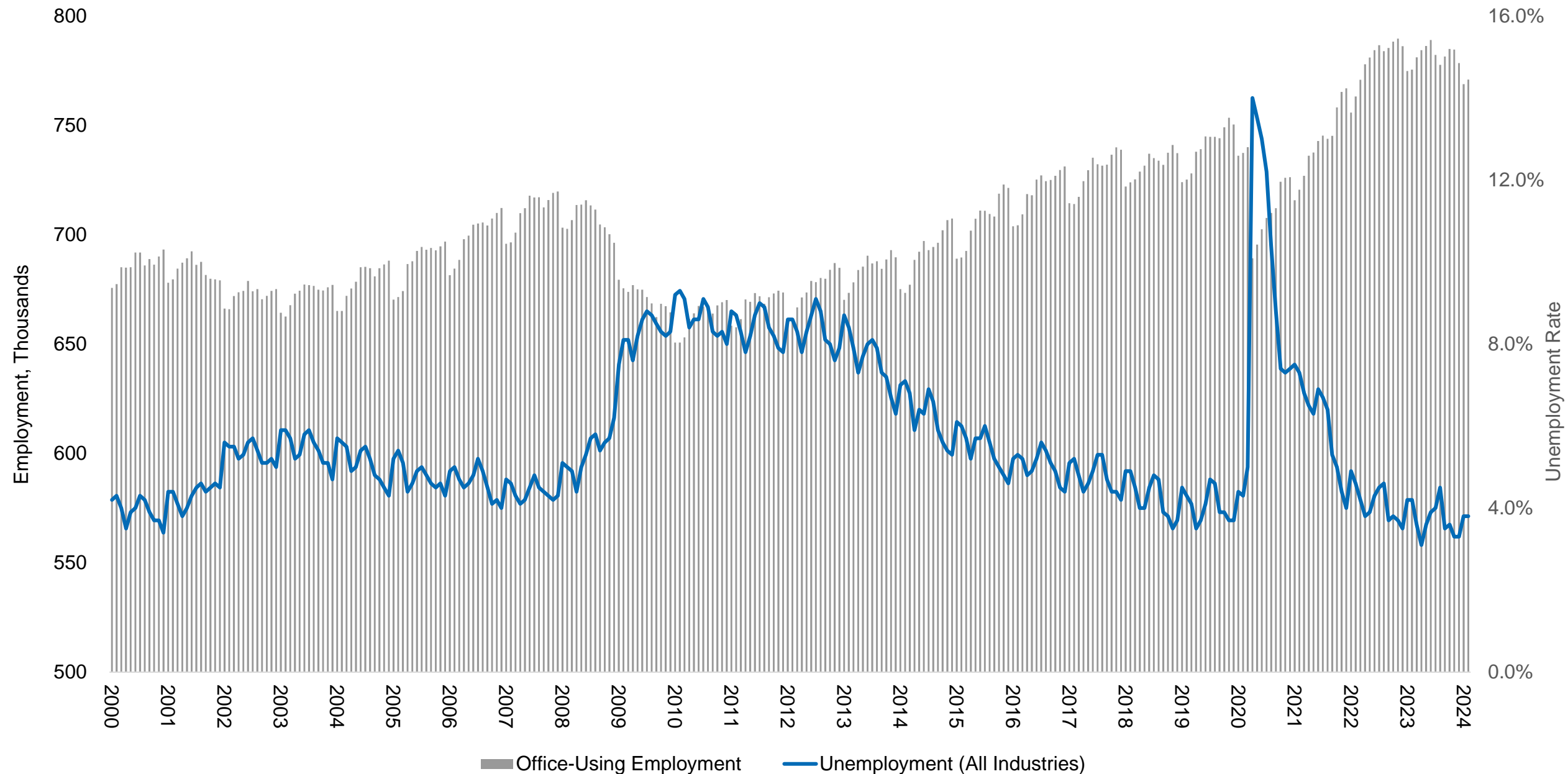


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

Office-Using Employment Partially Responsible for Job Losses

Greater Philadelphia's office-using industries have been impacted by the rise in unemployment. In February 2024, the annual percentage change in office-using employment was -0.6%, marking the eighth consecutive month of negative annual job growth. Total employment was approximately 770,900, only 4,600 jobs less than the prior year.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

Note: November 2023 data is preliminary.

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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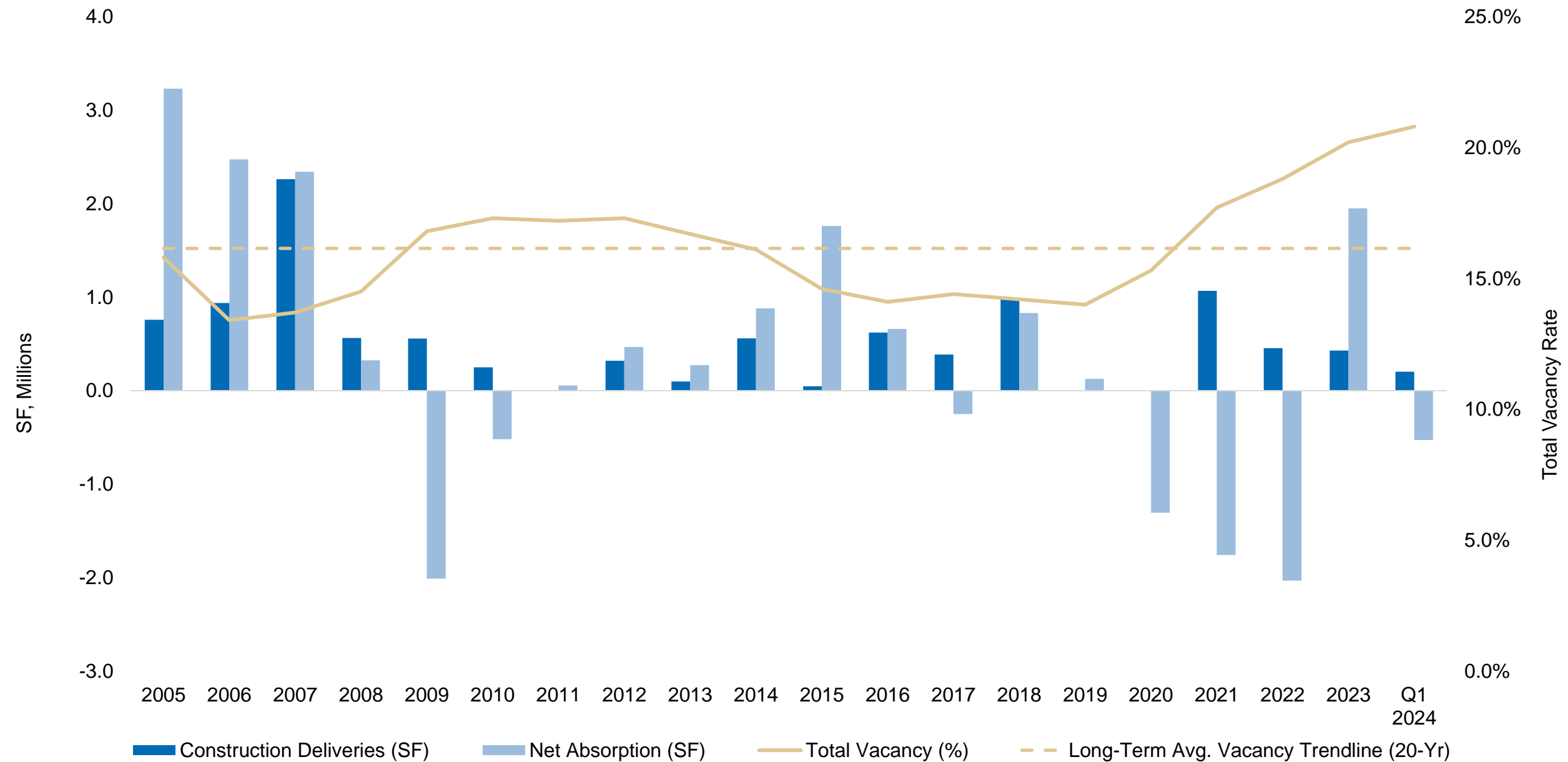
Leasing Market Fundamentals



Rising Vacancy Rates Pose Challenges and Opportunities in Greater Philadelphia

Vacancy continued to rise in Greater Philadelphia at the beginning of 2024. The worst-performing submarkets were Horsham/Willow Grove and East Market, with quarterly absorption of -304,622 and -152,476 square feet, respectively. Significant increases in vacant inventory resulted from Reed Tech, Optum, and Colonial Penn fully vacating their previous offices. However, some green shoots emerged in the first quarter of 2024. Alliance HP's purchase and subsequent industrial repositioning of 1 Innovation Drive in Plymouth Meeting removed 143,000 square feet of vacant inventory from the market.

Historical Construction Deliveries, Net Absorption, and Vacancy

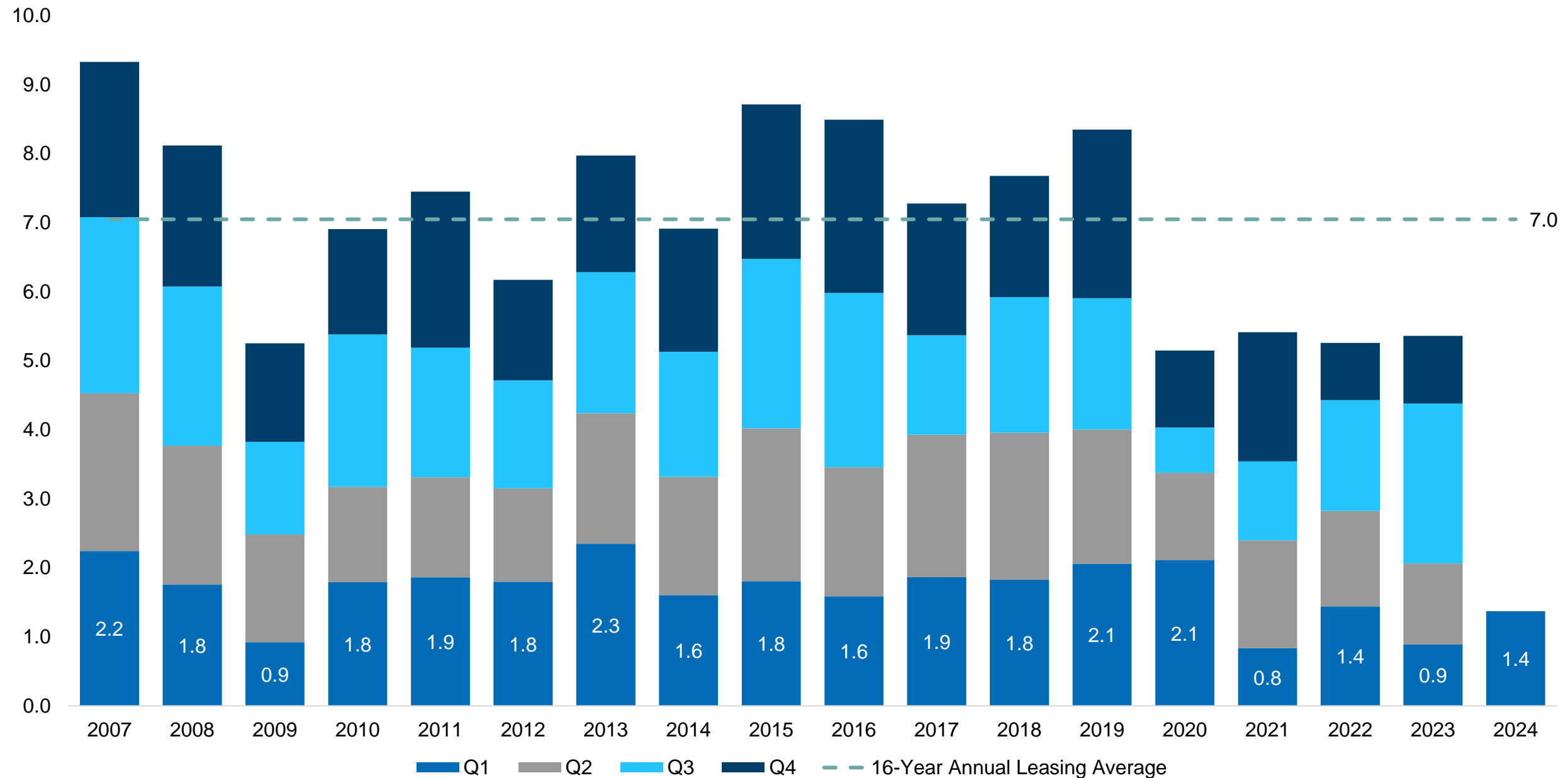


Source: Newmark Research

Greater Philadelphia Leasing Activity Off to Strong Start in 2024

Nearly 1.4M square feet of leases were signed in the first quarter of 2024, 100,000 square feet more than the quarterly average over the last four years. A large portion of these leases were renewals, which bodes well for the future stability of the Greater Philadelphia office market given longer term length for new renewals. Since 2023, the average duration of lease renewals has extended to 59 months from the previous average of 49 months recorded between 2020 and 2022. This shift back to the 59-month average lease duration observed from 2015 to 2019 suggests a resurgence in confidence in lease term commitments.

Total Leasing Activity (msf)

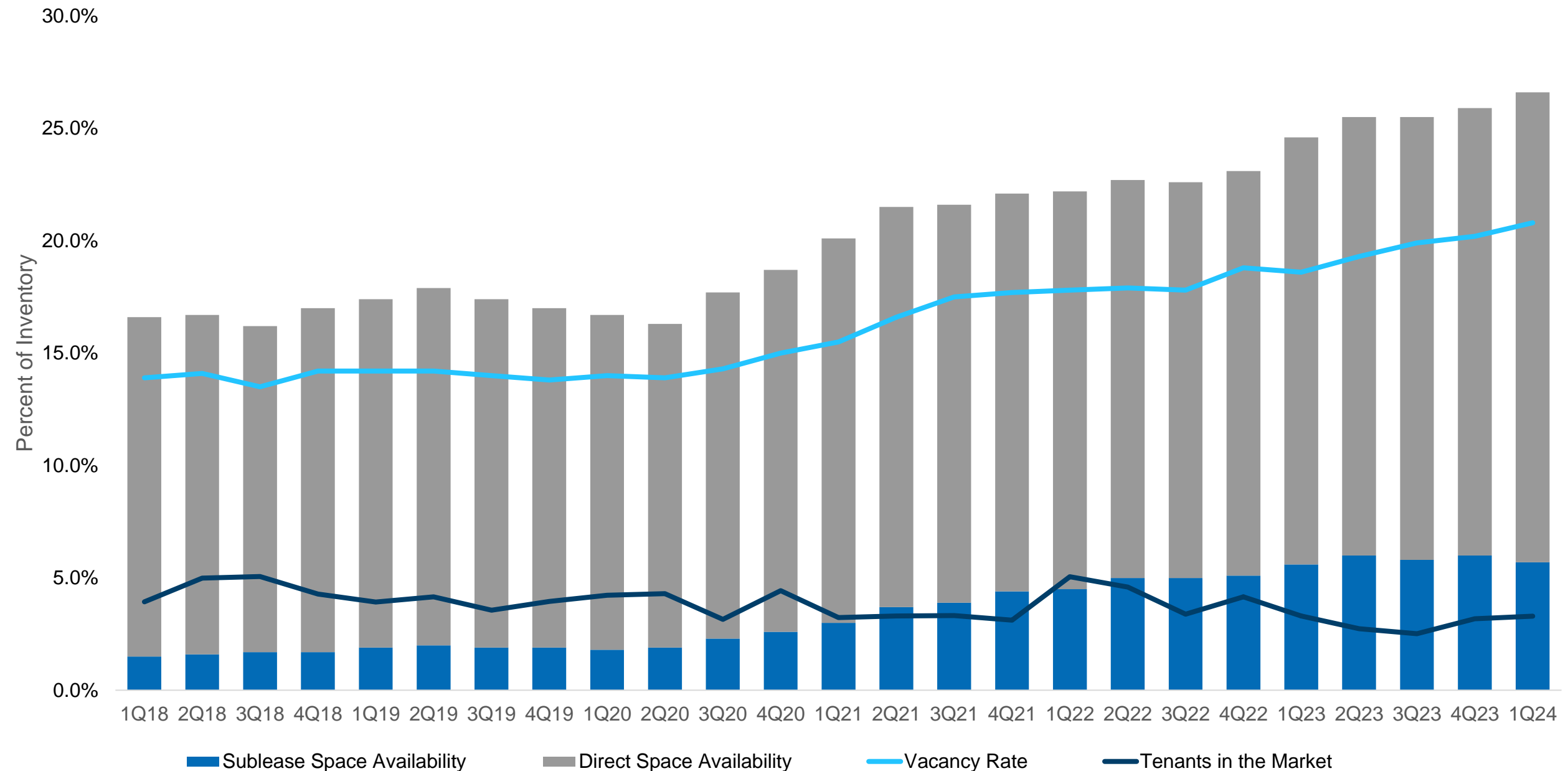


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Shows Improvement

Office demand in Greater Philadelphia increased for the second consecutive quarter in Q1 2024. This demand is driven by Philadelphia's primary office users and key industries, including Legal, Finance, Insurance, Real Estate (FIRE), and Healthcare, which together account for 45% of space requirements. Nearly 65% of space demand is focused on the city.

Available Space and Tenant Demand as Percent of Overall Market

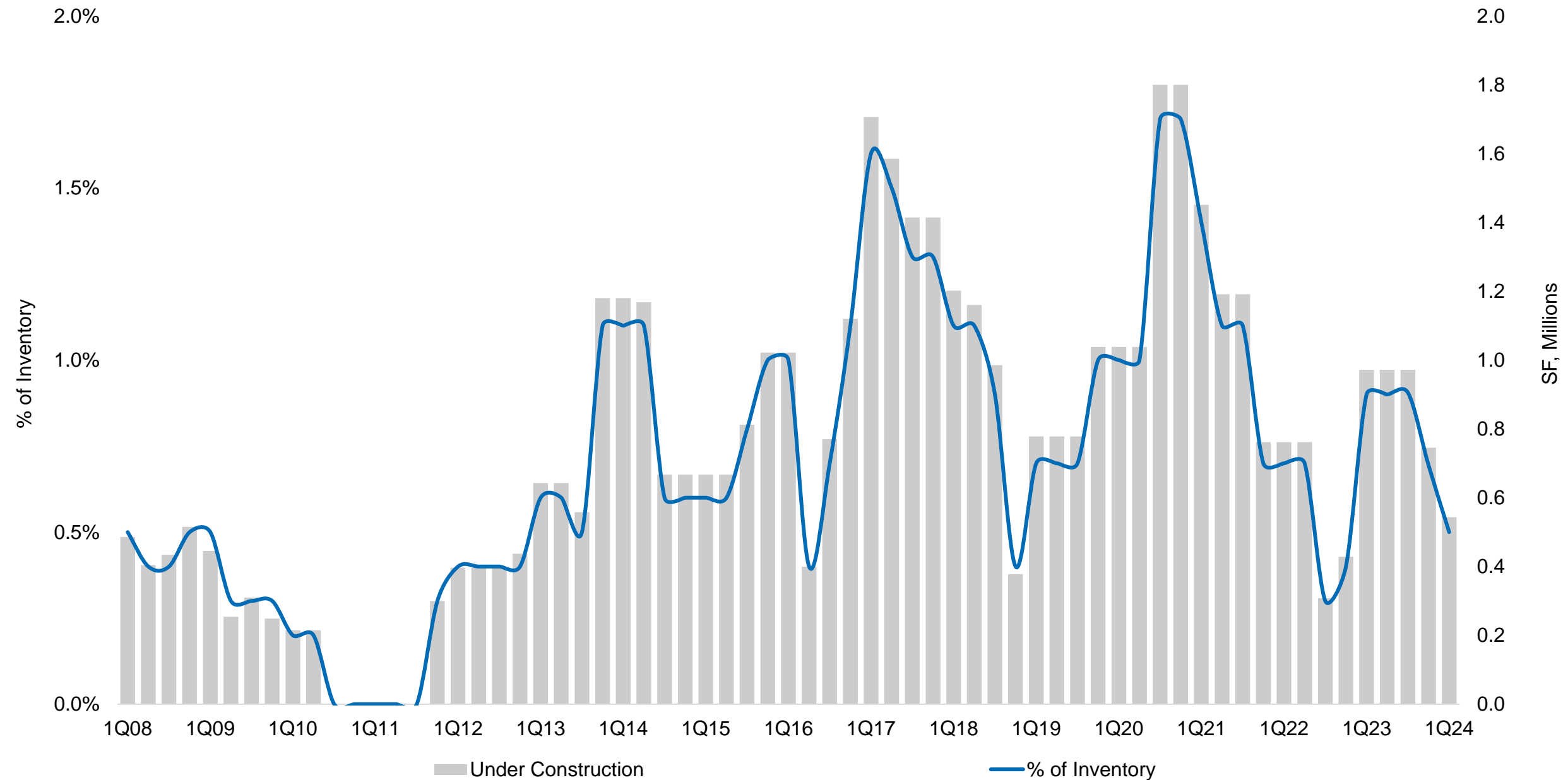


Source: Newmark Research

Philadelphia's Construction Pipeline Continues to Shrink

The delivery of 3025 John F Kennedy Boulevard in University City brought the total construction pipeline down to 543,565 square feet or 0.5% of the market's existing inventory. The two remaining projects are the new Chubb Insurance headquarters in West Market and the Mass Timber Building at Ellis Preserve in Newtown Square. The Mass Timber office is projected to be completed in the summer of 2024, and Chubb's headquarters went vertical in the first quarter of 2024.

Office Under Construction and % of Inventory

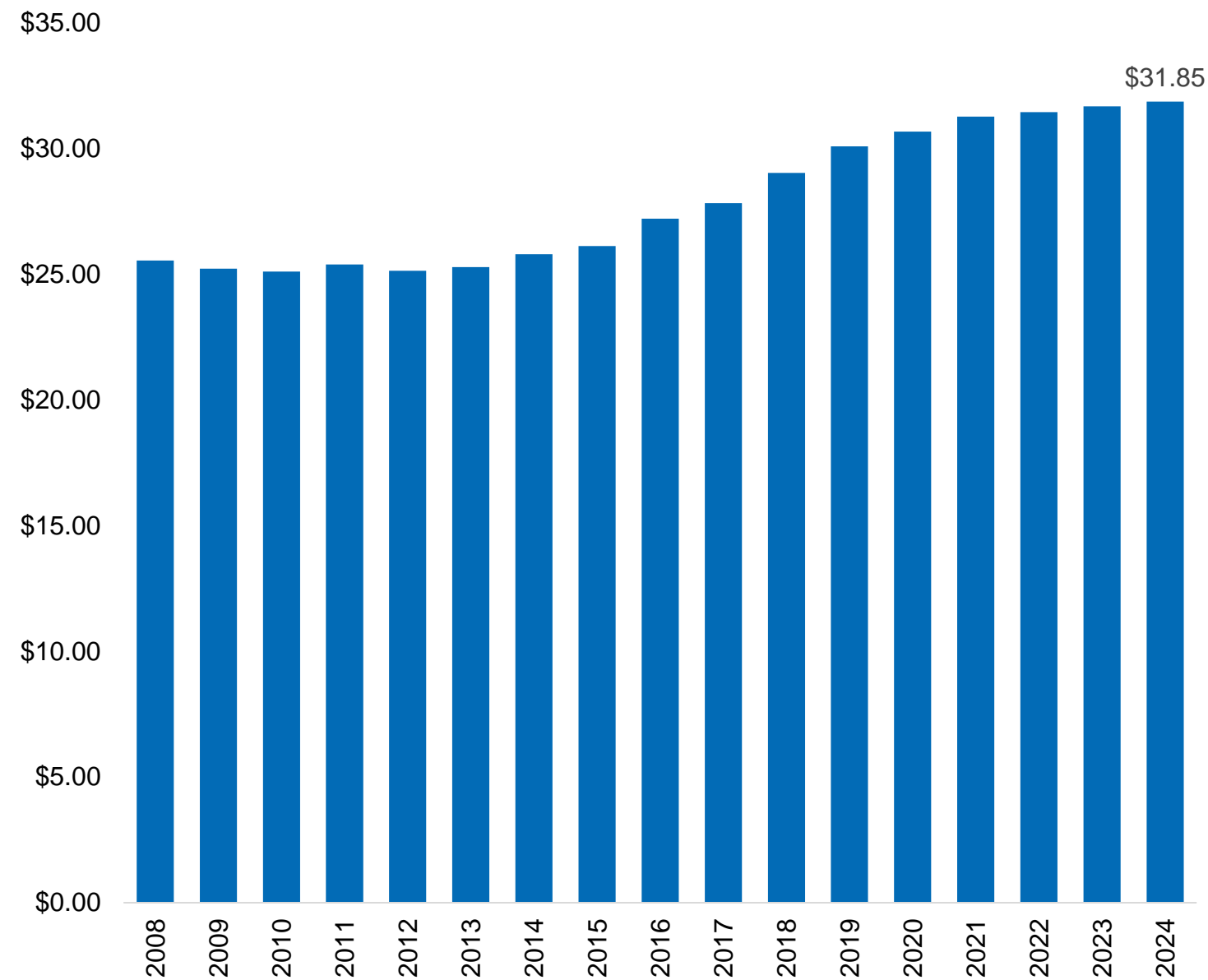


Source: Newmark Research, CoStar

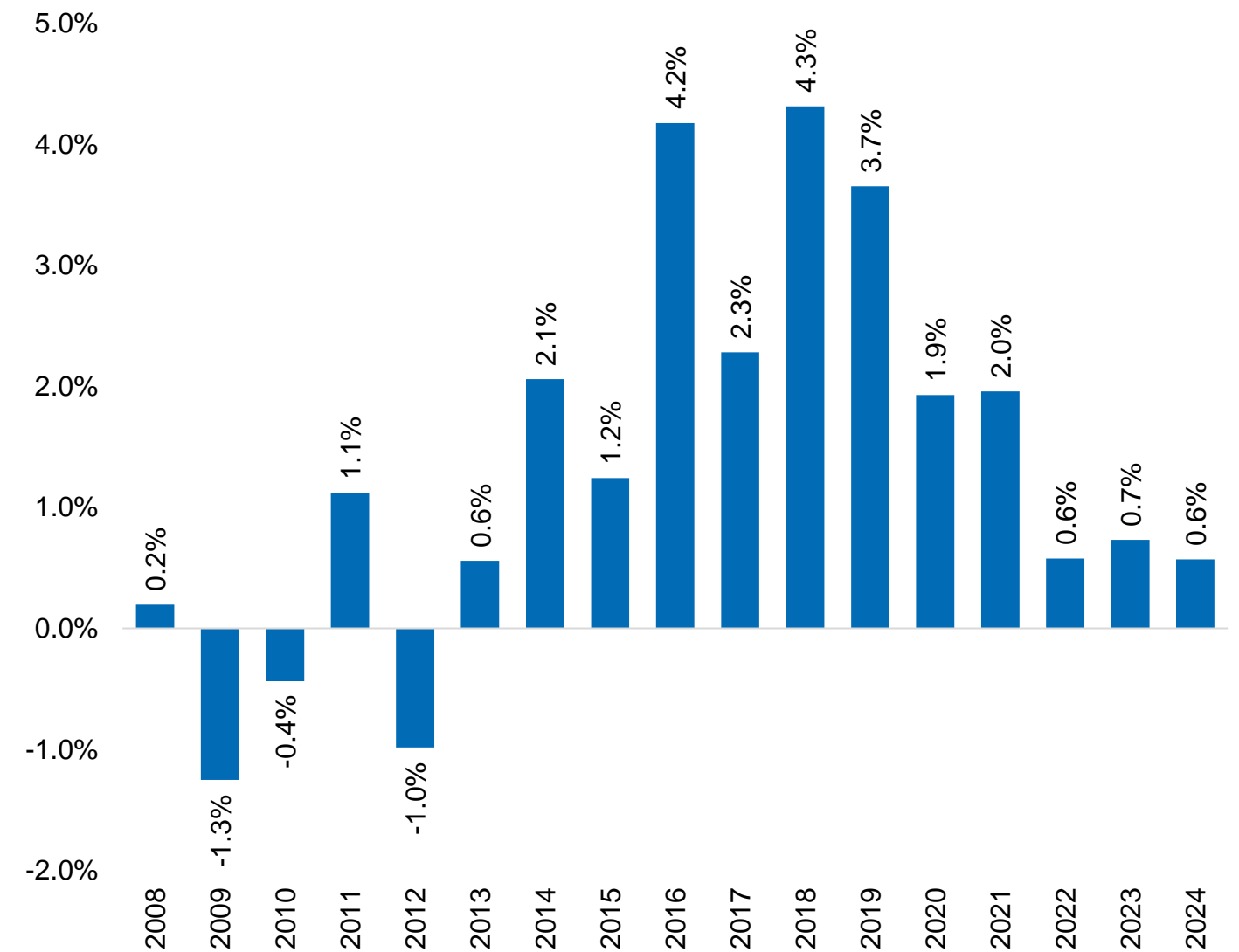
The Addition of New Trophy Office Increases Market Average

The delivery of 3025 John F Kennedy Boulevard caused rents to increase by 0.6% from the end of 2023 to reach \$31.85/SF in the first quarter of 2024. Since 2020, rents have increased despite waning office demand; however, landlords have maintained face rents to justify large concession offerings to retain and attract tenants. Between 2015 and 2019, average tenant allowances (TIs) and free rent for any lease over 60 months and 10,000 square feet was \$36.89/SF and 5 months, respectively. Since 2020, this has grown to \$53.28/SF and 7 months.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

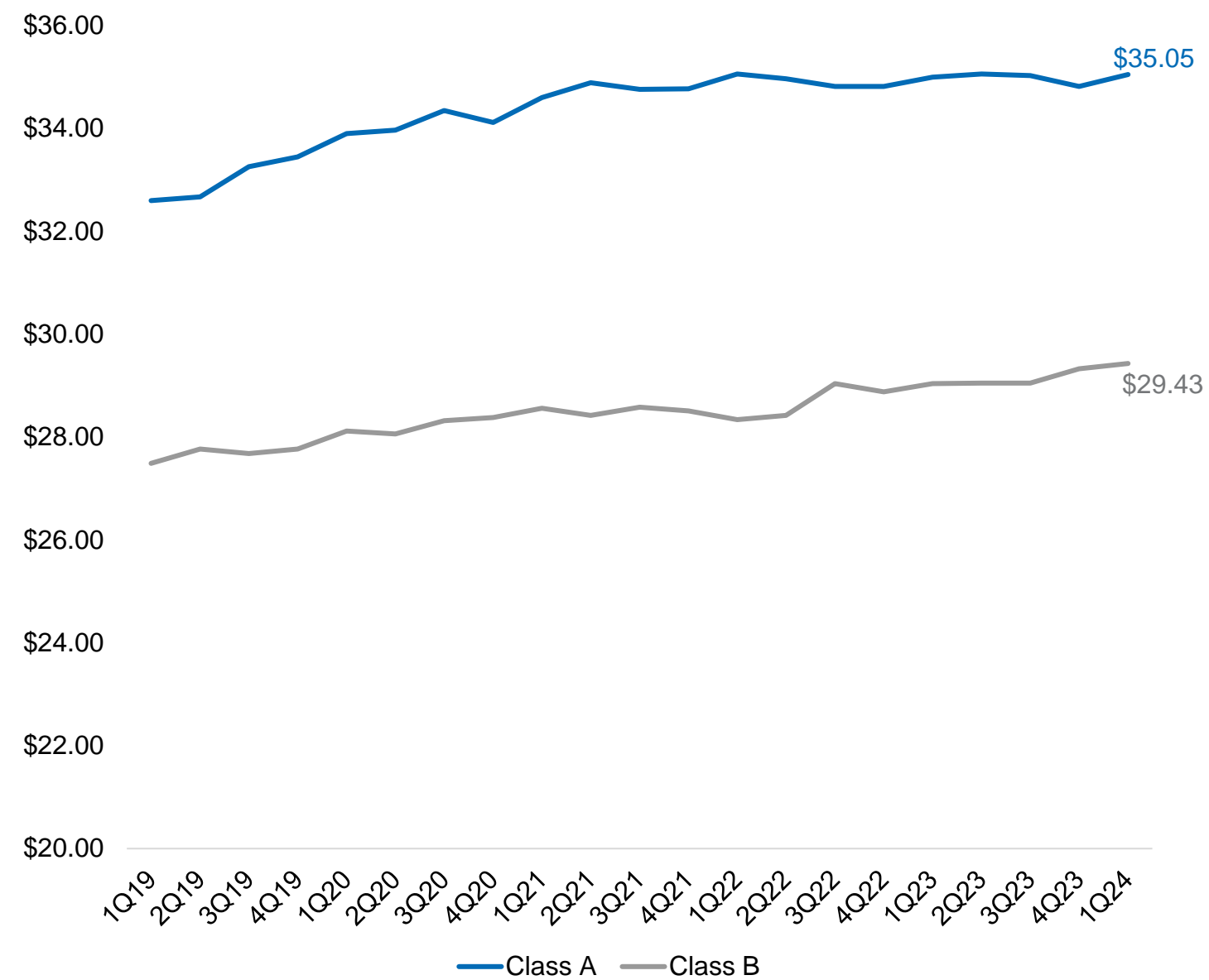


Source: Newmark Research,

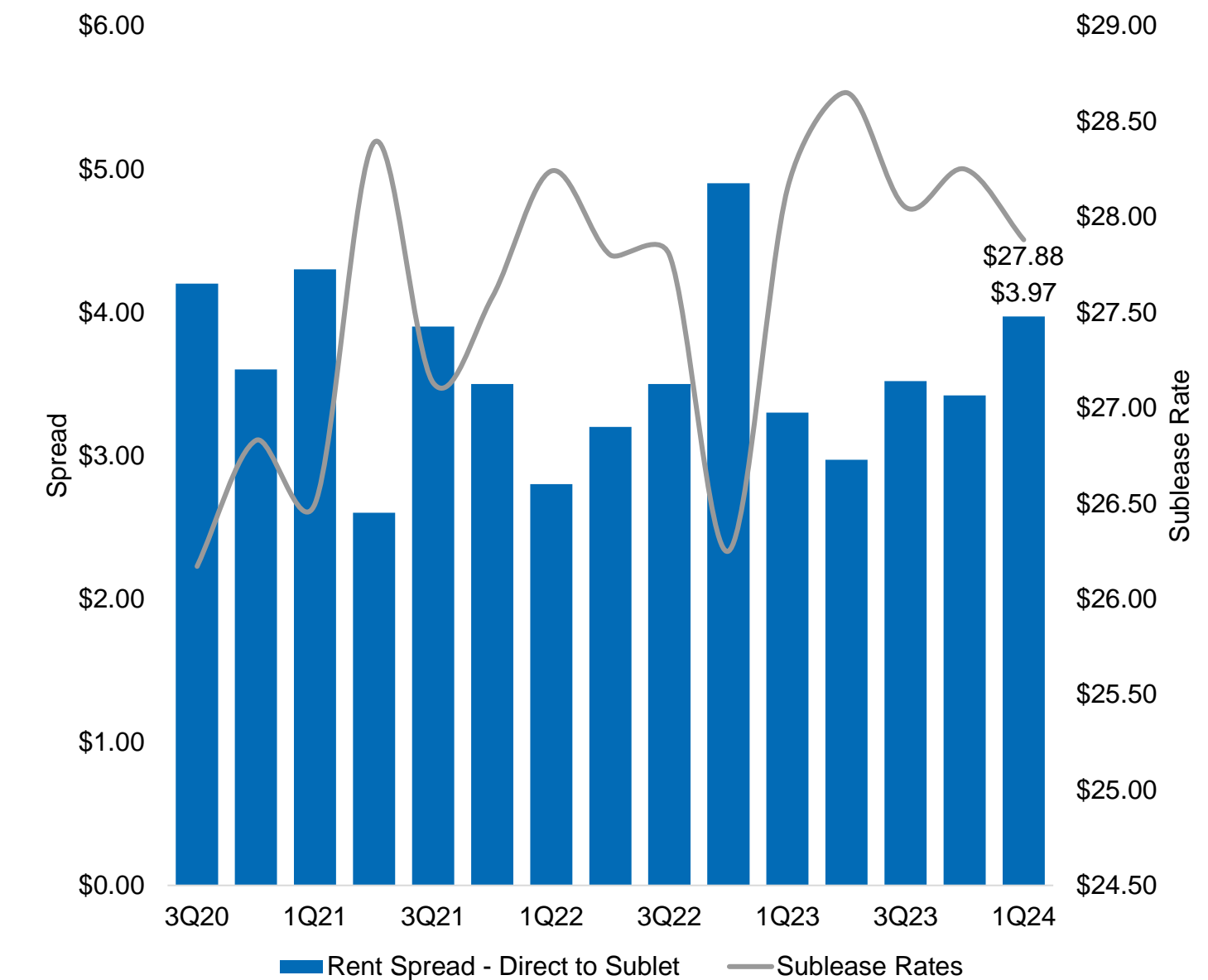
Sublease Rates Expected to Increase After Delivery of Mass Timber Building

The spread between direct and sublease asking rates grew to a 5-quarter high in the first quarter due to rising direct rates and falling sublease rents. However, the upcoming delivery of the Mass Timber Building is expected to reverse this trend. AmeriHealth Caritas' decision to sublet its build-to-suit office before completion leaves 106,000 square feet in the pipeline that will be added to the sublet inventory upon delivery. The building's trophy quality ensures it will command rates significantly above the market average.

Class A and Class B Asking Rents , \$/SF, FS



Sublease Rates



Source: Newmark Research, CoStar

Trophy Offices Continue to Attract and Retain Tenants

Two of the five largest leases in the first quarter were at 1735 Market Street. Saul Ewing downsized from its 111,472-square-foot office at Centre Square for three floors at 1735 Market Street. Additionally, Goldman Sachs moved up the building stack, moving from the 26th to the 29th floor at 1735 Market Street.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Saul Ewing Arnstein & Lehr LLP	1735 Market	CBD – Market West	Direct Lease	60,035
<i>Previously occupied 111,472 square feet at 1500 Market Street – West. Downsize of 46%.</i>				
IPS	721 Arbor Way	Blue Bell/Plymouth Meeting	Lease Renewal	51,081
Penn Medicine	777 Township Line Road	Bucks County	Lease Expansion	38,046
IKEA	500 S Gravers Road	Blue Bell/Plymouth Meeting	Lease Extension	30,093
Goldman Sachs Group	1735 Market	CBD – Market West	Direct Lease	22,330
<i>The investment bank giant is relocating at 1735 Market to the 29th floor</i>				

Appendix



Submarket Overview

Source: Newmark Research

	Total Inventory (SF)	Total Vacancy Rate	Total Available (SF)	Sublease Available (SF)	Total Availability Rate	Qtr Net Absorption (SF)	Total FS Asking Rent (Price/SF)
CBD – Market West	12,045,090	21.0%	6,783,021	706,313	27.7%	(152,476)	\$31.68
CBD – Market East	24,450,333	23.3%	3,520,694	1,568,279	29.2%	(70,212)	\$34.70
CBD - Philadelphia	36,495,423	22.5%	10,303,715	2,274,592	28.2%	(222,688)	\$33.73
University City	5,054,296	13.3%	681,072	138,621	10.4%	(18,902)	\$53.39
Navy Yard	983,558	26.1%	270,706	229,495	27.5%	1,843	\$27.71
City of Philadelphia	42,533,277	21.5%	11,255,493	2,642,708	26.5%	(239,747)	\$34.90
Bala Cynwyd	2,771,228	17.9%	542,220	159,032	19.6%	(54,107)	\$36.30
Blue Bell/Plymouth Meeting	8,505,221	20.9%	2,302,341	544,255	27.1%	106,696	\$27.12
Bucks County	7,293,296	16.4%	1,713,945	300,768	23.5%	(8,095)	\$26.72
Central/Southern Delaware County	5,264,227	19.4%	1,483,656	164,765	28.2%	(2,034)	\$27.31
Conshohocken	3,999,915	16.5%	836,005	49,699	20.9%	32,078	\$40.38
Exton/Malvern	7,760,010	19.3%	1,993,817	316,861	25.7%	6,071	\$28.59
Fort Washington	3,141,246	17.6%	850,493	241,703	27.1%	35,598	\$27.64
Horsham/Willow Grove	4,164,514	30.7%	1,368,941	255,080	32.9%	(304,622)	\$26.44
Jenkintown	1,044,051	13.6%	151,904	16,887	24.5%	35,653	\$23.14
King of Prussia	13,178,105	25.5%	4,253,488	861,015	32.3%	(64,919)	\$30.85
Radnor/Main Line	2,666,360	12.6%	388,486	87,434	14.6%	(36,028)	\$44.87
Southern 202 Corridor	2,783,630	15.9%	872,841	376,496	31.4%	(33,813)	\$27.55
Suburban Philadelphia	62,571,803	20.4%	16,758,137	3,373,995	26.5%	(287,522)	\$29.69
Greater Philadelphia	105,105,080	20.8%	28,013,630	6,338,190	26.7%	(527,269)	\$31.85

Concession Levels Remain Elevated But Growth Has Moderated

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Asking Rents For Trophy Space Faring Better Than Their Peers

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Vacancy Rates for All Assets Classes Increase in 1Q24

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1Q24 West Market Overview

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