

4Q23

# Greater Philadelphia Office Market Overview



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# Market Observations

## Economy

- Philadelphia's economy outperformed the nation in the later part of 2023. The unemployment rate of 3.3% is 40 basis points below the national rate, and the 12-month percent change in total employment is 2.7%, 90 basis points above the national growth rate.
- Strong hiring in the education and health service industry was observed. Around 18,000 jobs were added between September and November of 2023. Eds and meds jobs account for nearly a quarter of total employment in the Philadelphia metro, so strength in this industry is a good sign for the economic health of the region.
- Navy Yard-based company, Rite Aid, filed for bankruptcy in October. The national pharmacy chain announced 54 Philadelphia-area store closures in conjunction with its bankruptcy claim. Additional locations were shuttered as the quarter progressed.

## Major Transactions

- The five-building, 1.1M square foot Bala Plaza office complex in Bala Cynwyd was acquired by the FLD Group and the Adjmi family for \$185M or \$162.74/SF in the largest office sale of the year in Philadelphia. FLD plans to develop 2.1M square feet of multifamily, hospitality, and retail space around their new office complex.
- SKF, Unisys, and GHR leased over 180,000 square feet in the Blue Bell/Plymouth Meeting submarket in the last quarter of 2023. These deals brought relief to the submarket, as it has been one of the worst-performing suburban markets in 2023.
- Comcast added over 150,000 square feet of sublease availability at Three Logan as the telecommunication giant continues to right-size its footprint. It added over 250,000 square feet to the sublease market in 2023.

## Leasing Market Fundamentals

- Absorption for the Greater Philadelphia market was 158,335 SF, marking the first instance of positive absorption since the third quarter of 2022. The occupancy gains in Center City were primarily driven by Morgan Lewis and Digitas, who occupied 2222 Market Street and The Bourse Building, respectively.
- Greater Philadelphia's vacancy eclipsed 20% for the first time on record at the end of 2023. A 20.1% vacancy rate was a 20 basis point increase quarter-over-quarter and 120 basis points higher since 2022.
- Asking rates remained steady at the end of the year. The \$31.39/SF average is \$0.05/SF higher than 3Q23's. Throughout 2023, asking rates for the market have consistently stayed within the \$31.35-\$31.40/SF range.

## Outlook

- Occupancy will continue to concentrate in trophy-class offices owned by well-capitalized landlords. The flight-to-quality trend is ongoing, and tenants continue to be attracted to high-quality buildings with owners who can guarantee tenant improvement packages.
- Vacancy is expected to increase, especially in the city, once downsizes by large occupiers such as Wells Fargo and Fox Rothschild take effect in 2024.
- According to Newmark research, \$117B in office loans nationwide are set to mature in 2024. Creative debt solutions are required to bridge the financing gap left by traditional lenders, who have reduced their CRE exposure in 2023.

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# Economy

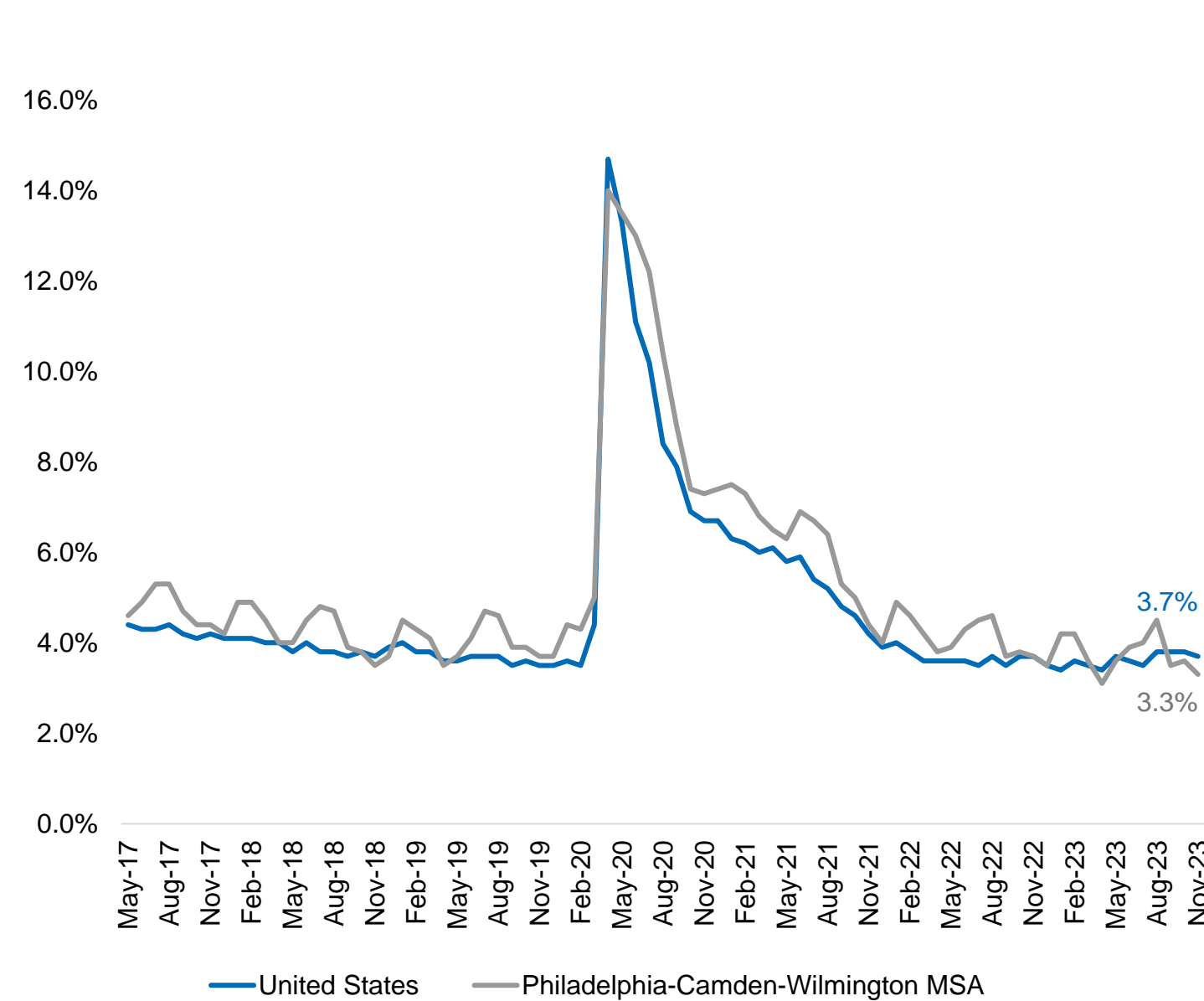




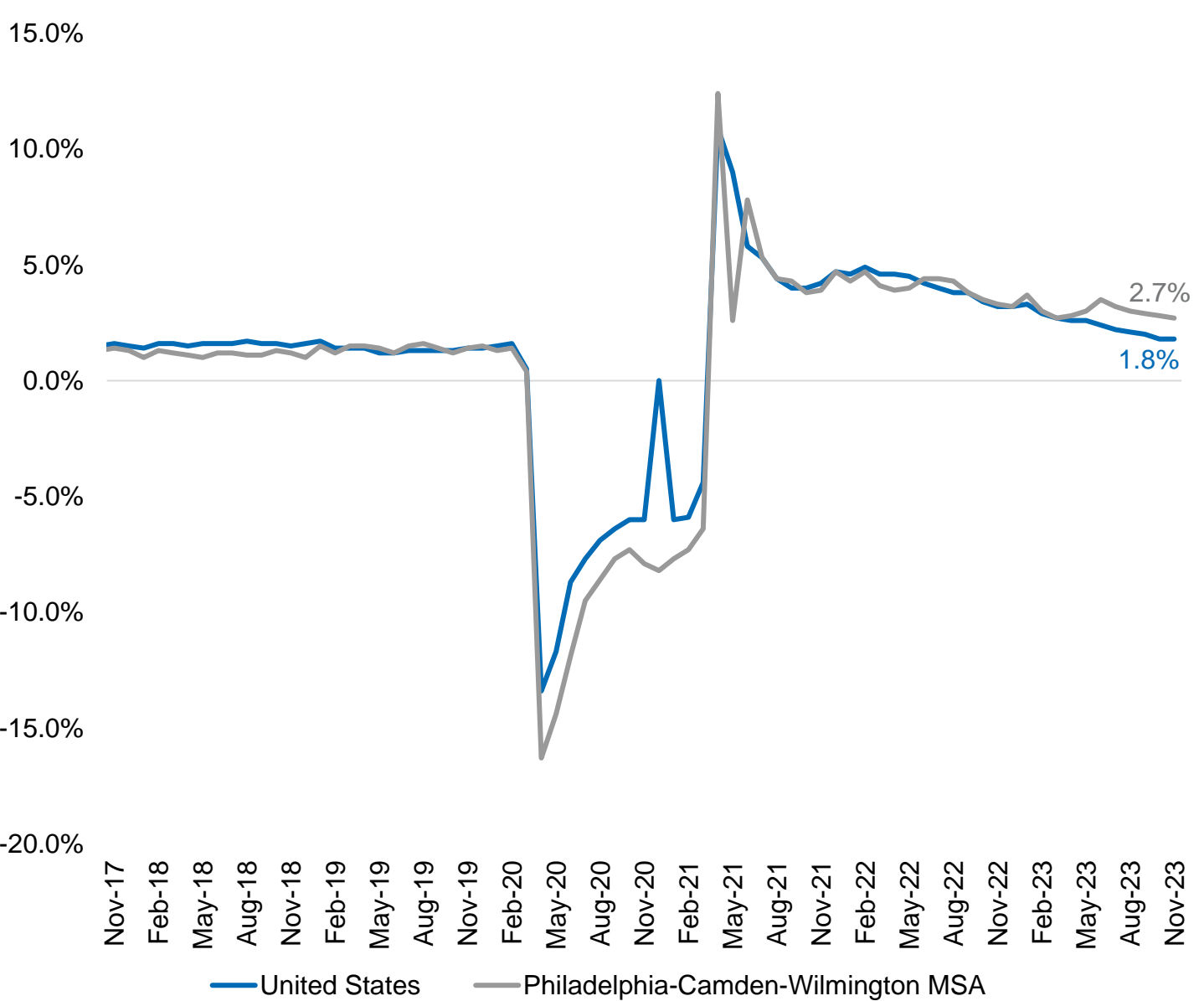
# Philadelphia's Economy Remains Robust

The Philadelphia Metro's economy ended 2023 in a strong fashion. Unemployment was 3.3% in November of 2023, a sharp decline from the 4.2% rate recorded at the beginning of 2023. Additionally, Philadelphia's job market continued to surpass the national average in terms of growth. The metro area experienced a remarkable 2.7% increase in nonfarm payroll employment, outpacing the national rate of 1.8%.

Unemployment Rate, Seasonally Adjusted



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



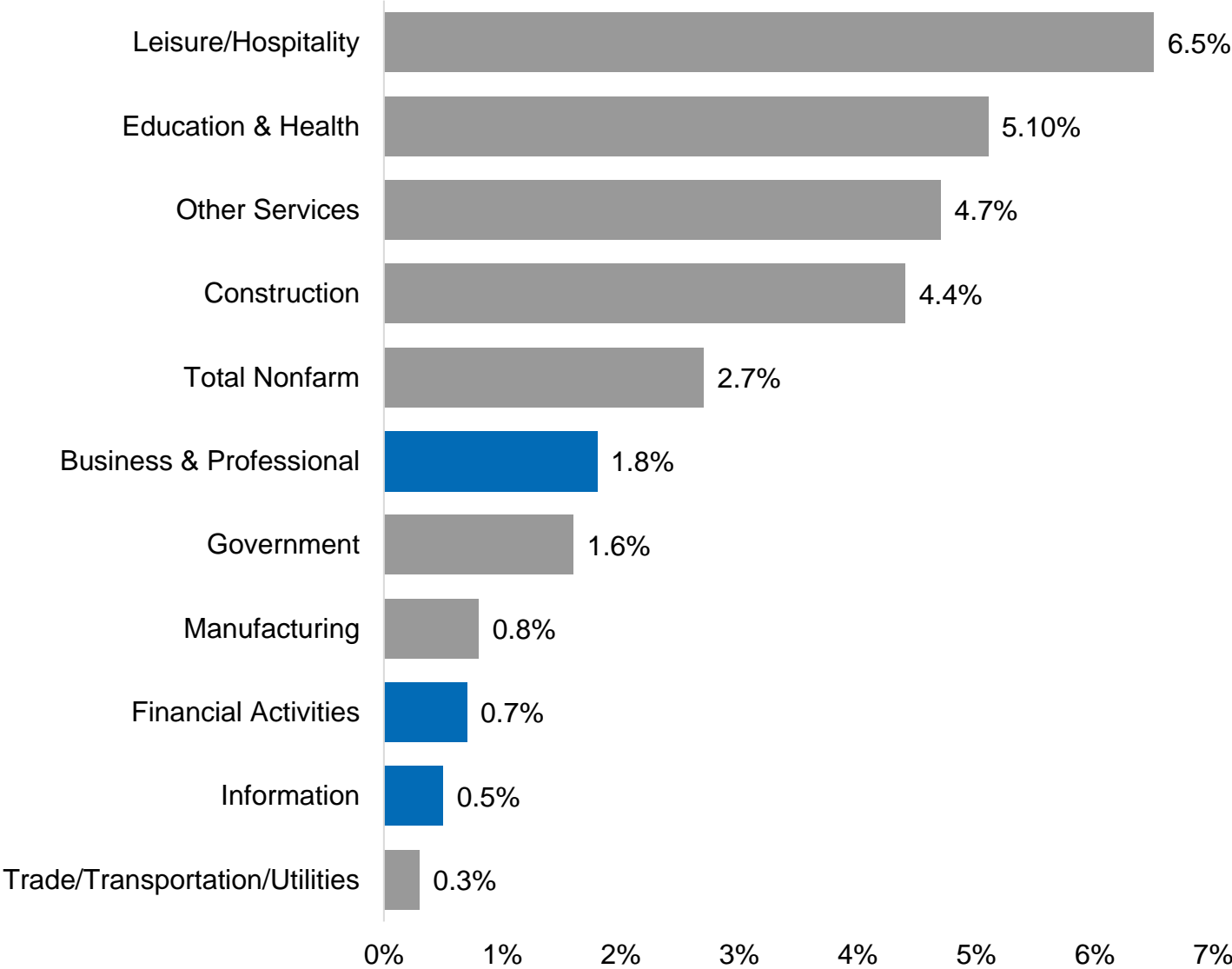
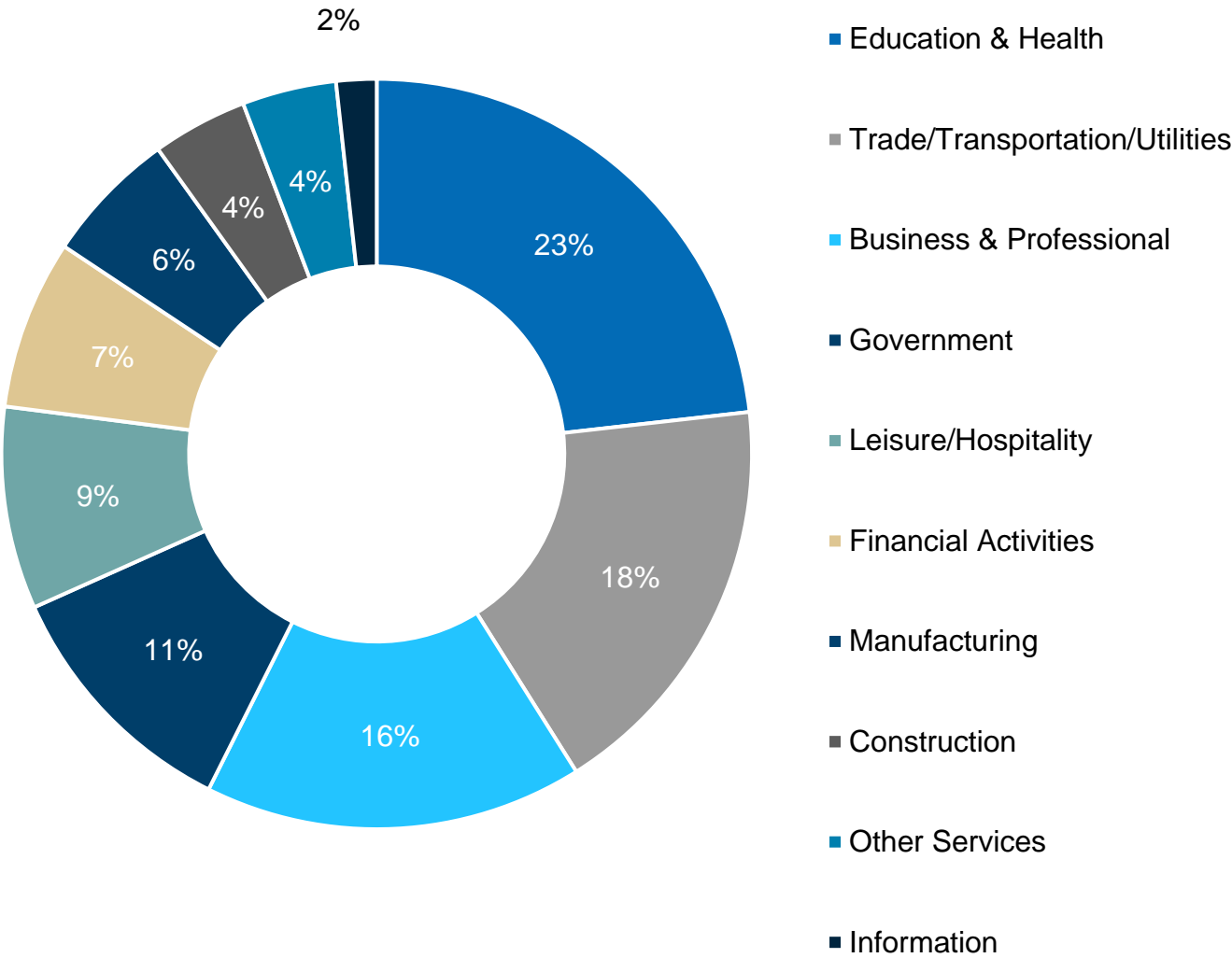
Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

# Service and Blue-Collar Employment Growth Outpaces Office-Using Industries

Leisure and hospitality, along with education and health services, continued to lead the Philadelphia metro in annual job gains. The three office-using industries each had a lower annual growth rate than the metro average.

Employment by Industry, November 2023

Employment Growth by Industry, 12-Month % Change, November 2023

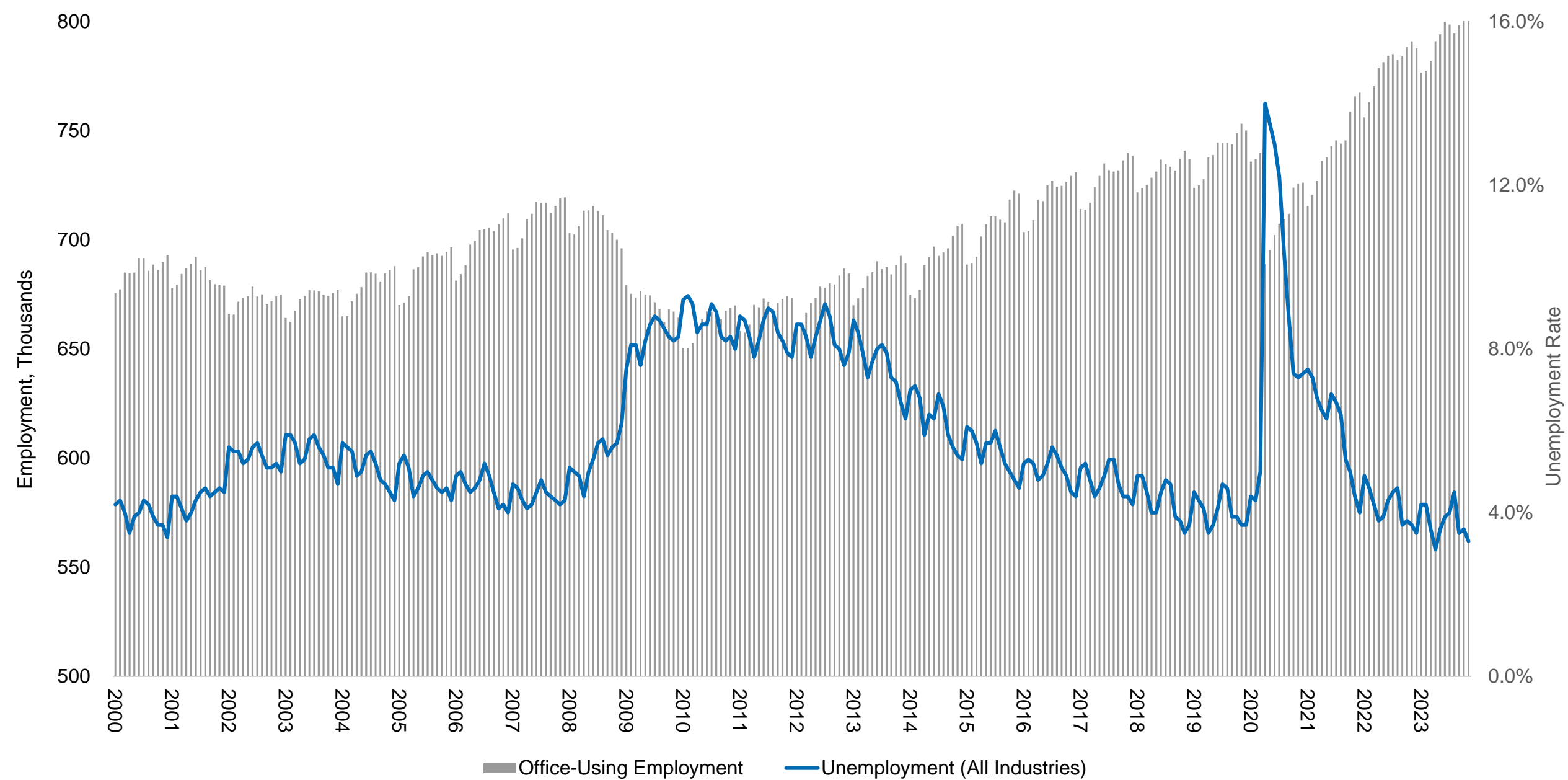


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

# Overall Office-Using Employment Reaches New Highs

At the end of 2023, office-using employment was over 802,000 jobs, a new all-time high for the Philadelphia metro. Job growth has been strong in office-using industries since 2021, with an average monthly growth rate of 3.5% over the last 12 months.

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

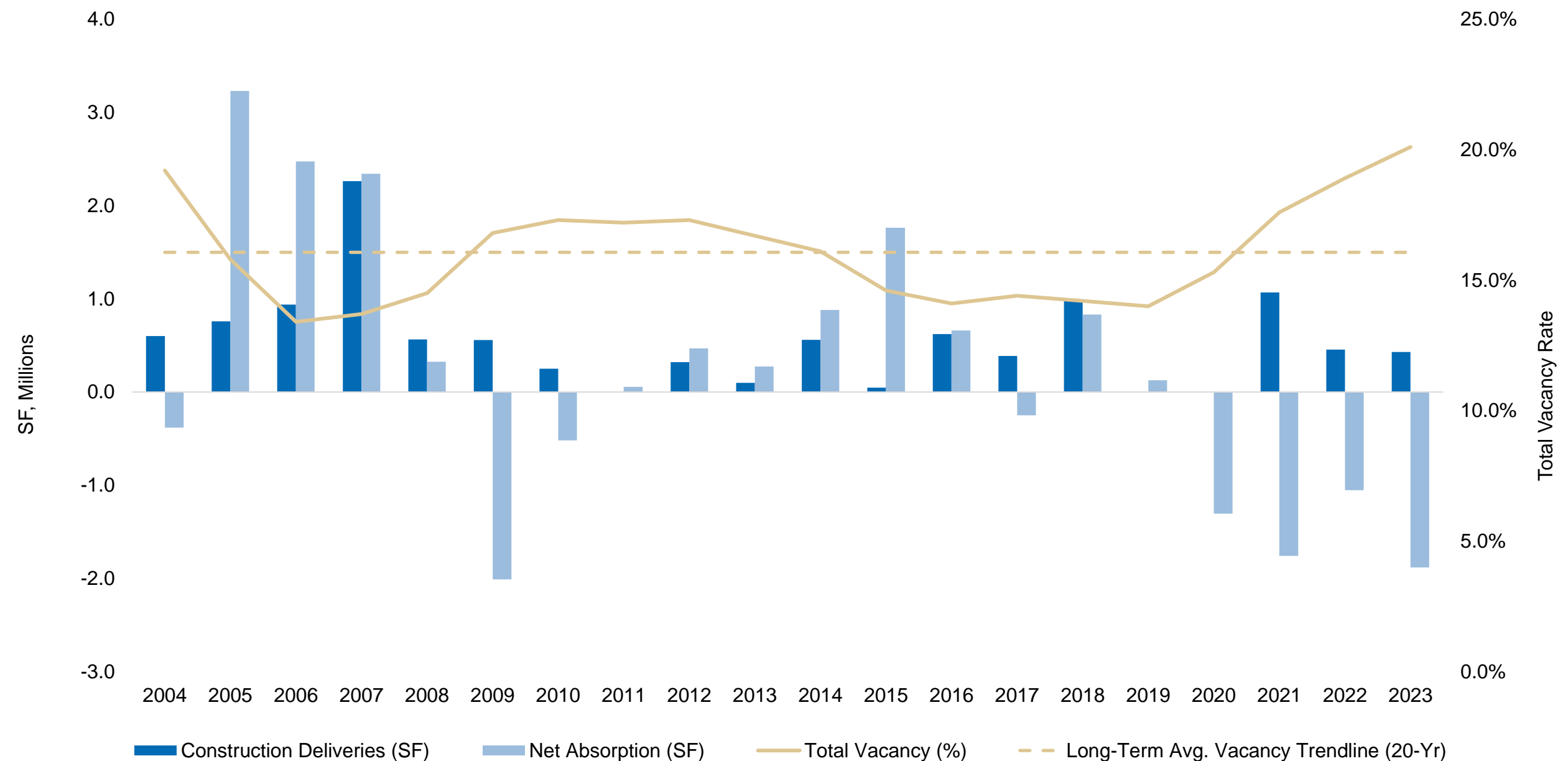




# Rising Vacancy Rates Pose Challenges and Opportunities in Greater Philadelphia

Greater Philadelphia ended 2023 on a positive note, posting 158,335 square feet of positive absorption in the fourth quarter. The completion and subsequent occupancy of Morgan Lewis’ 308,000-square-foot office had the largest impact on absorption. However, despite strong absorption, the vacancy rate in Greater Philadelphia surpassed 20% for the first time in recorded history, rising 20 basis points from the previous quarter to reach 20.1%. Space consolidations in 2023 by IBX and Main Line Health have left a large void in the market that is poised to grow once the downsizes by KPMG, Wells Fargo, and Fox Rothschild take effect.

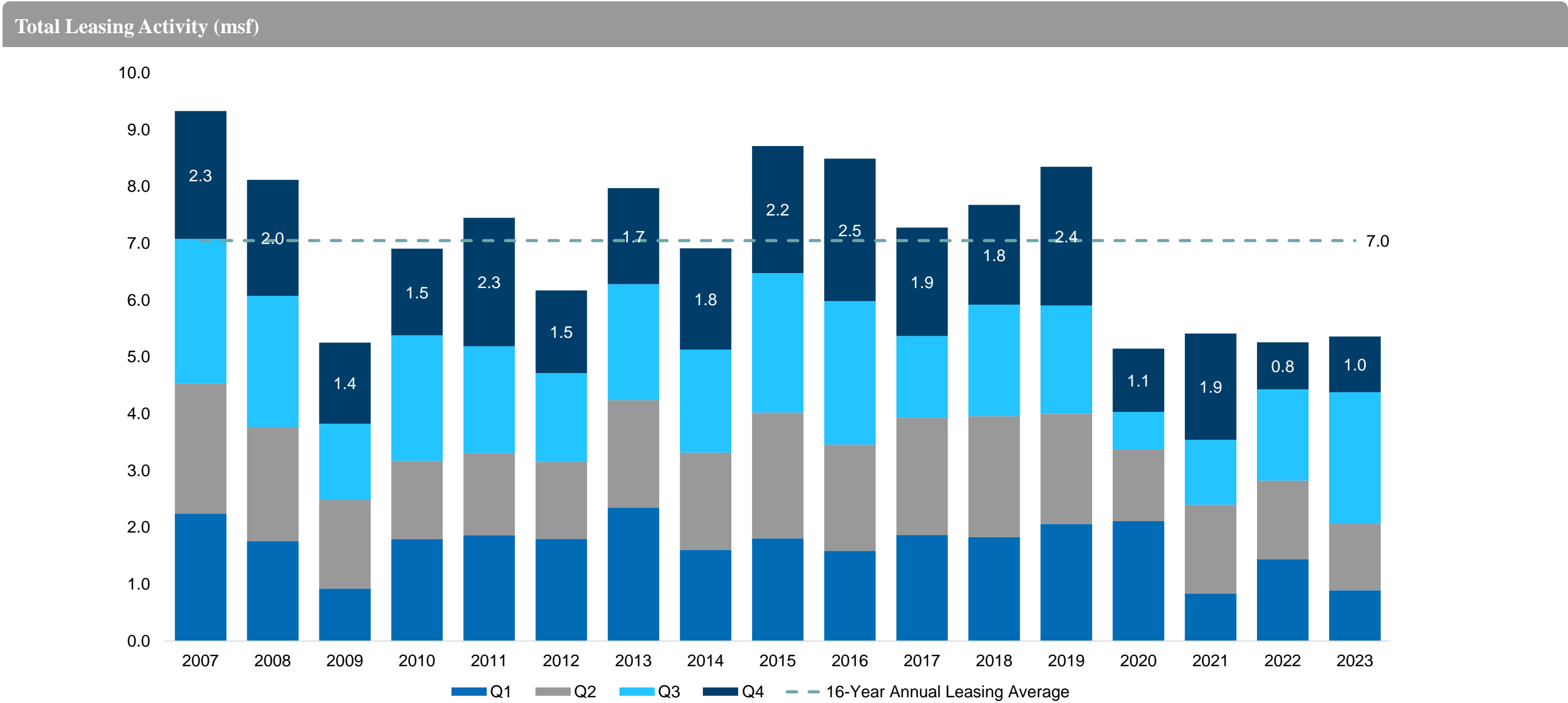
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Strong Leasing Activity in the Suburbs Defined 4Q23

Leasing activity totaled 1M square feet in the fourth quarter of 2023, bringing total leasing activity for the year to 5.4M square feet. Since 2020, annual leasing activity in Greater Philadelphia has averaged 5.3M square feet. The most significant deals of the fourth quarter of 2023 were made in the Blue Bell/Plymouth Meeting submarket by SKF, Unisys, and GHR. These leases are welcome news to the submarket, which is burdened with one of the highest vacancy rates in the Philadelphia market.



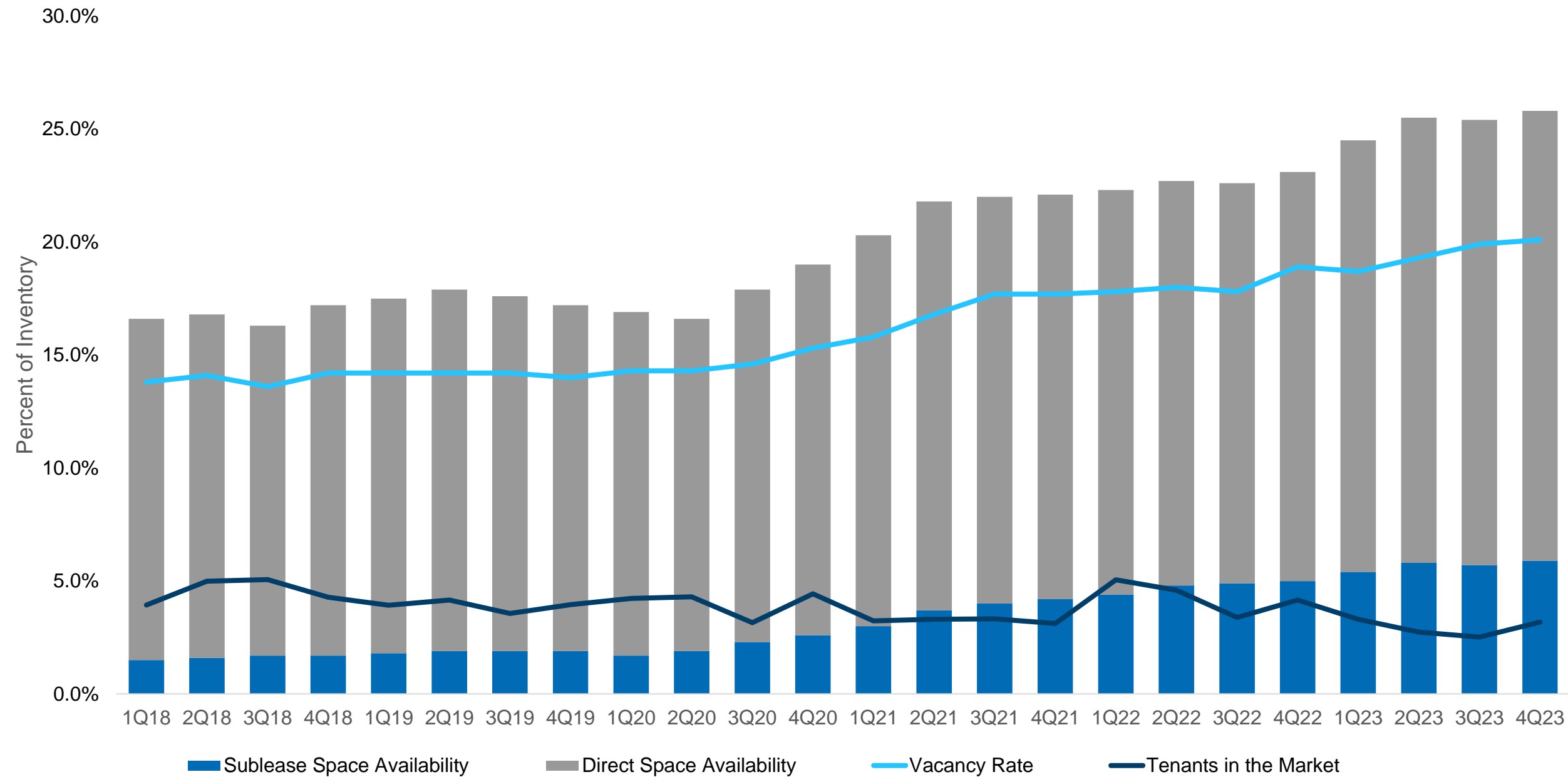
Source: Newmark Research, CoStar



# Availability Continues to Increase While Tenant Demand Shows Improvement

Space demand in Greater Philadelphia grew by over 25% quarter-over-quarter in the first increase in space requirements since the fourth quarter of 2022. Legal and FIRE companies are the two largest demand drivers in the market and account for 16.5% and 15.8% of total demand, respectively. The West Market, King of Prussia, Conshohocken, and Radnor/Main Line submarkets account for a combined 43% of the total space demand in Greater Philadelphia. Increased demand is needed as direct and sublet availabilities in Greater Philadelphia reached all-time highs in the fourth quarter of 2023.

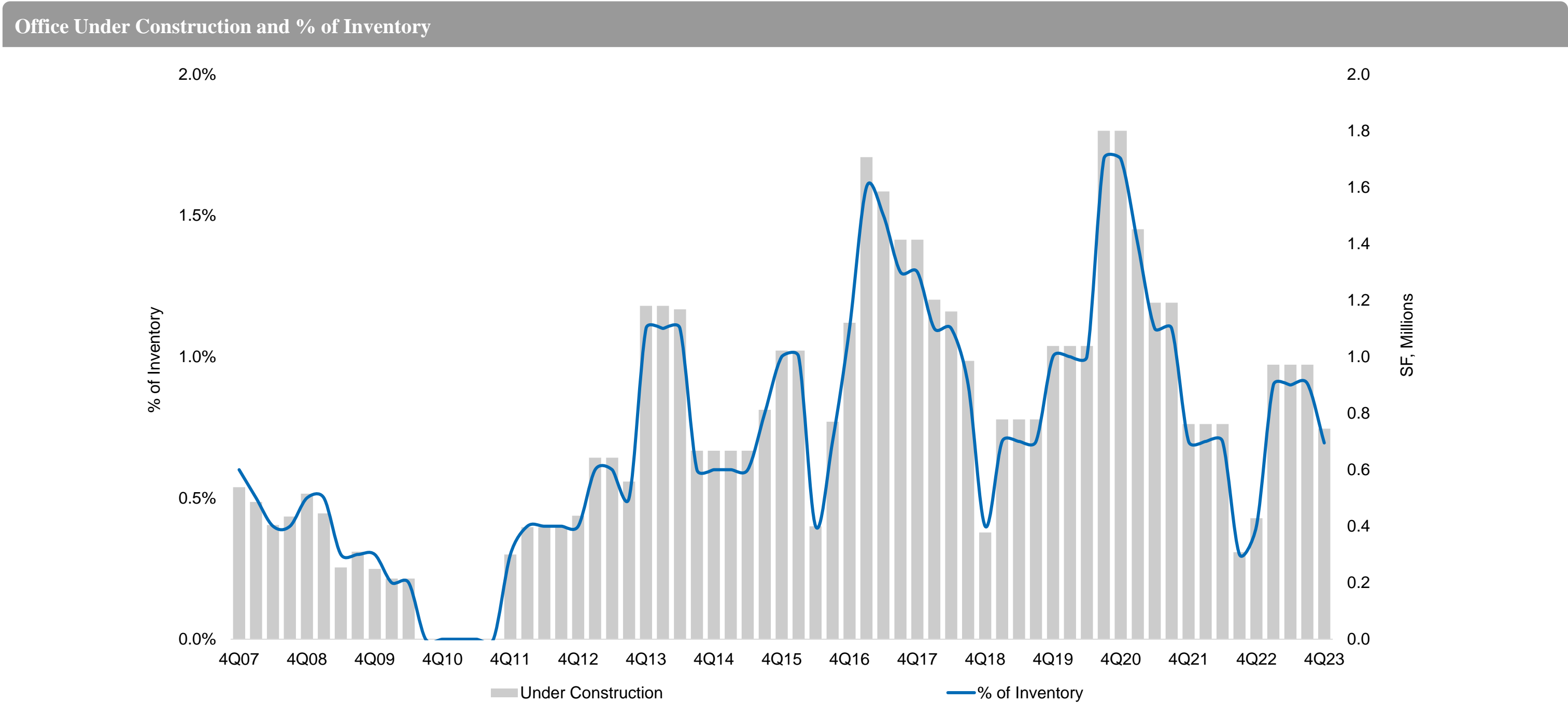
Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

# A Use Change Adds Shockwaves to the Construction Pipeline

The delivery of 2222 Market Street and 180 N Gulph Road added 428,354 square feet to Philadelphia's office inventory at the end of 2023. In a major twist, the 200,000-square-foot building at 3025 JFK Boulevard, originally earmarked for life science, was transitioned to office use. Lab demand waned in 2023, which triggered the pivot to office. Interest in the building from the general market has been observed due to the lack of new office product in Philadelphia. The law firm Goodwin Proctor has already leased 35,000 square feet.



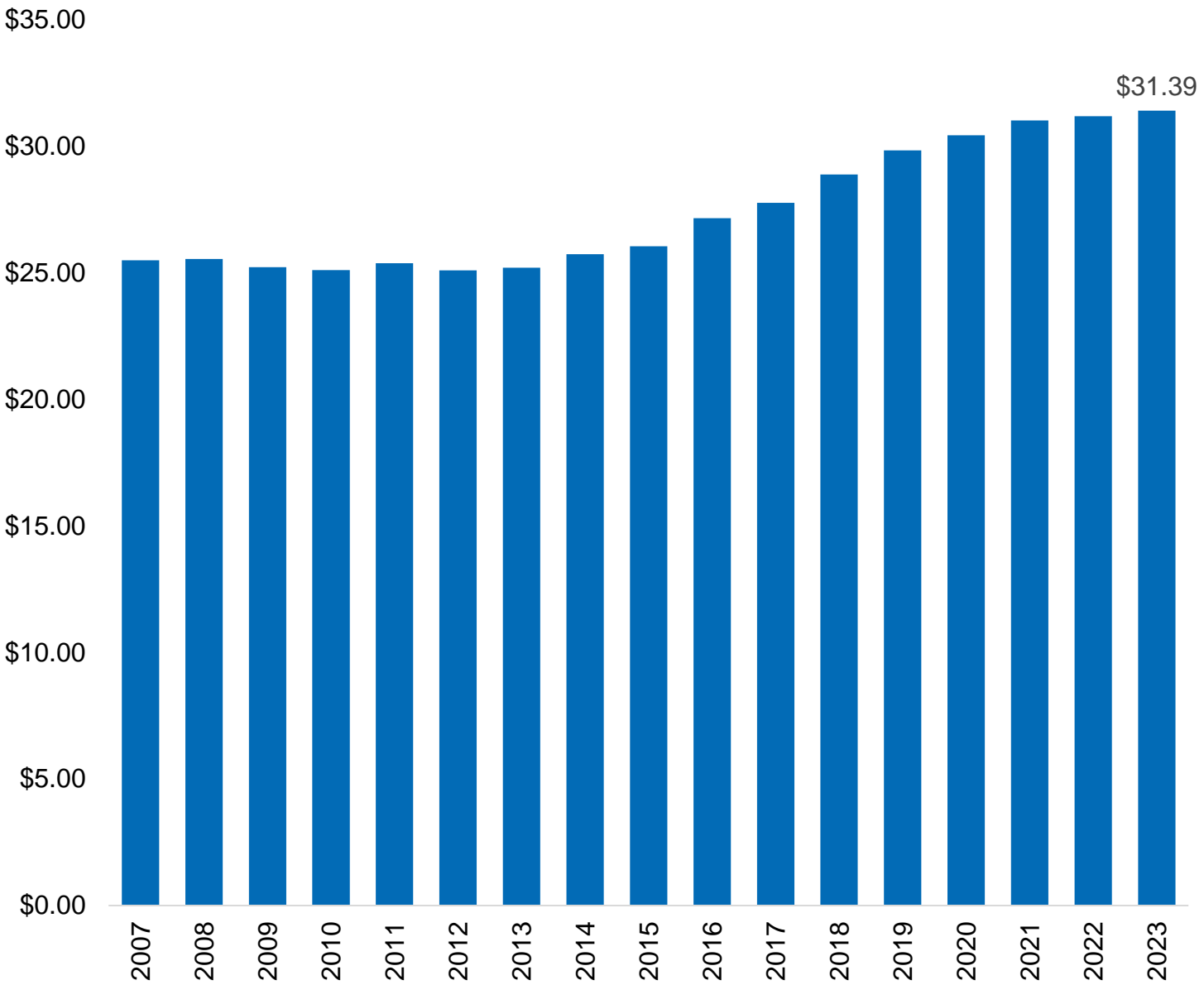
Source: Newmark Research, CoStar



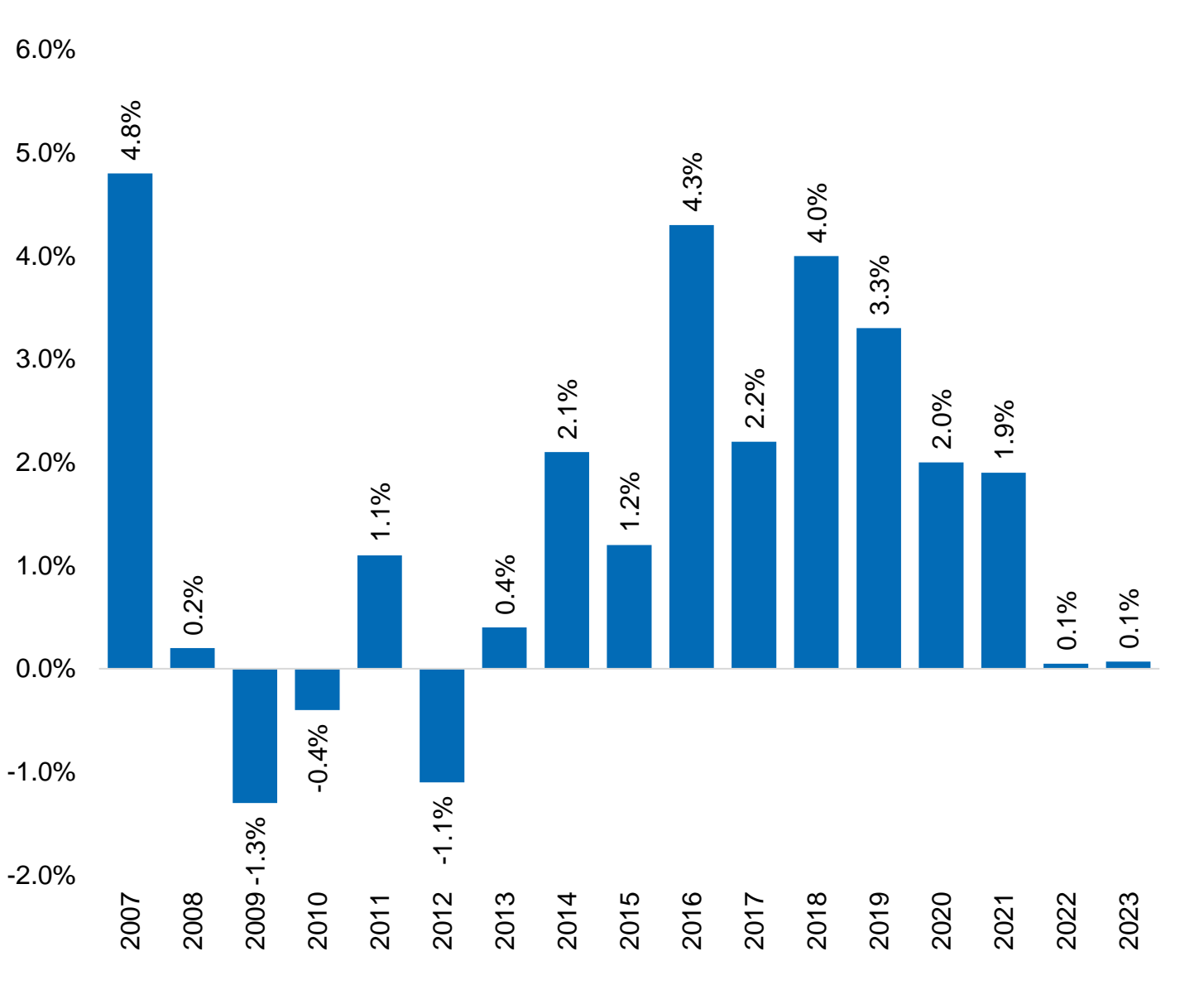
# Rents Stay Flat as Market Remains Favorable to Tenants

Overall rent growth for the Philadelphia market has been virtually nonexistent over the past two years. Weakened office demand and a growing supply of available space have created an environment unsuitable for landlords to push rental rates. Current conditions heavily favor tenants. Since 2018, free rent and TI offerings have grown by 25% and 38% for direct deals over 5,000 square feet, respectively.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

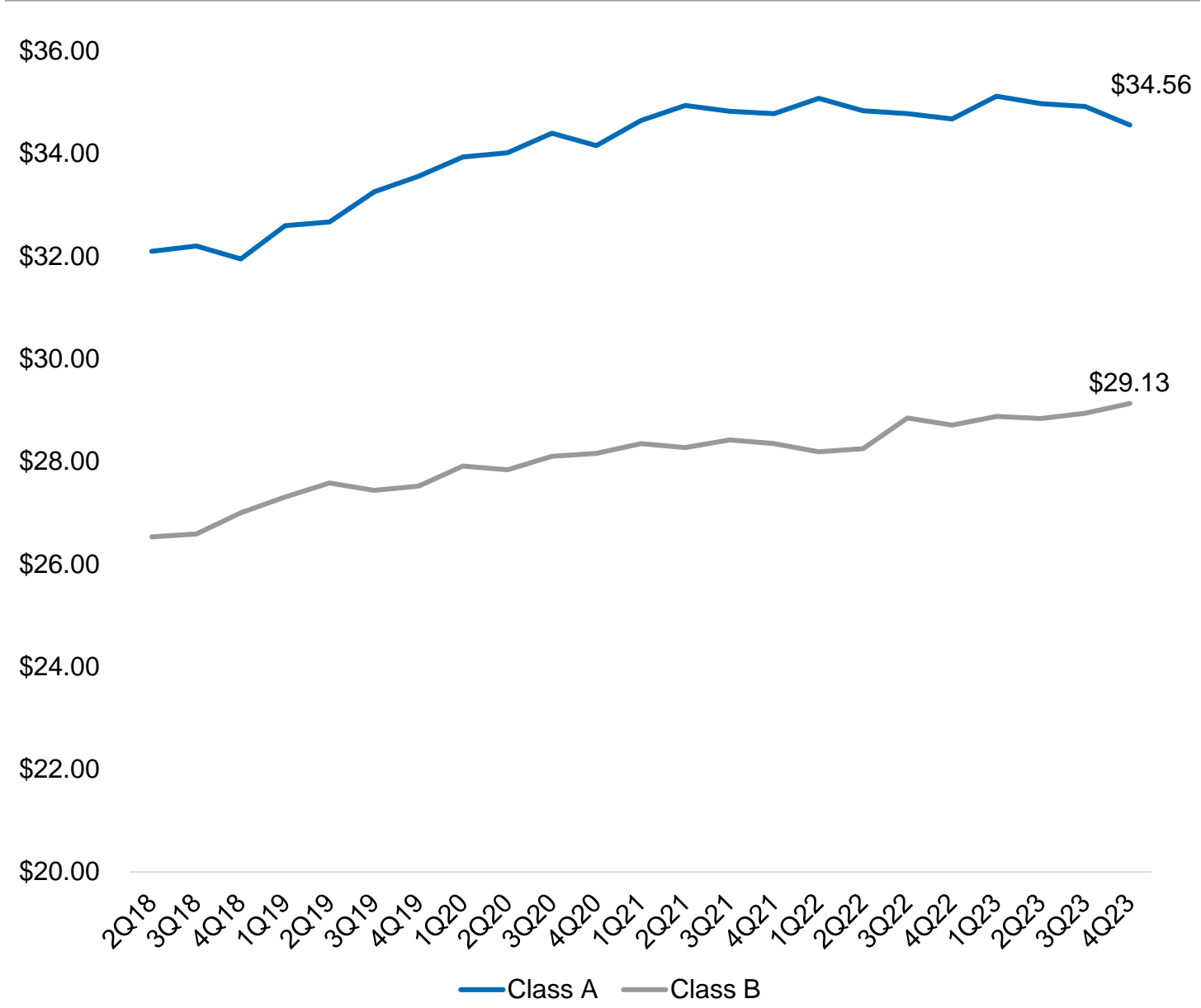


Source: Newmark Research,

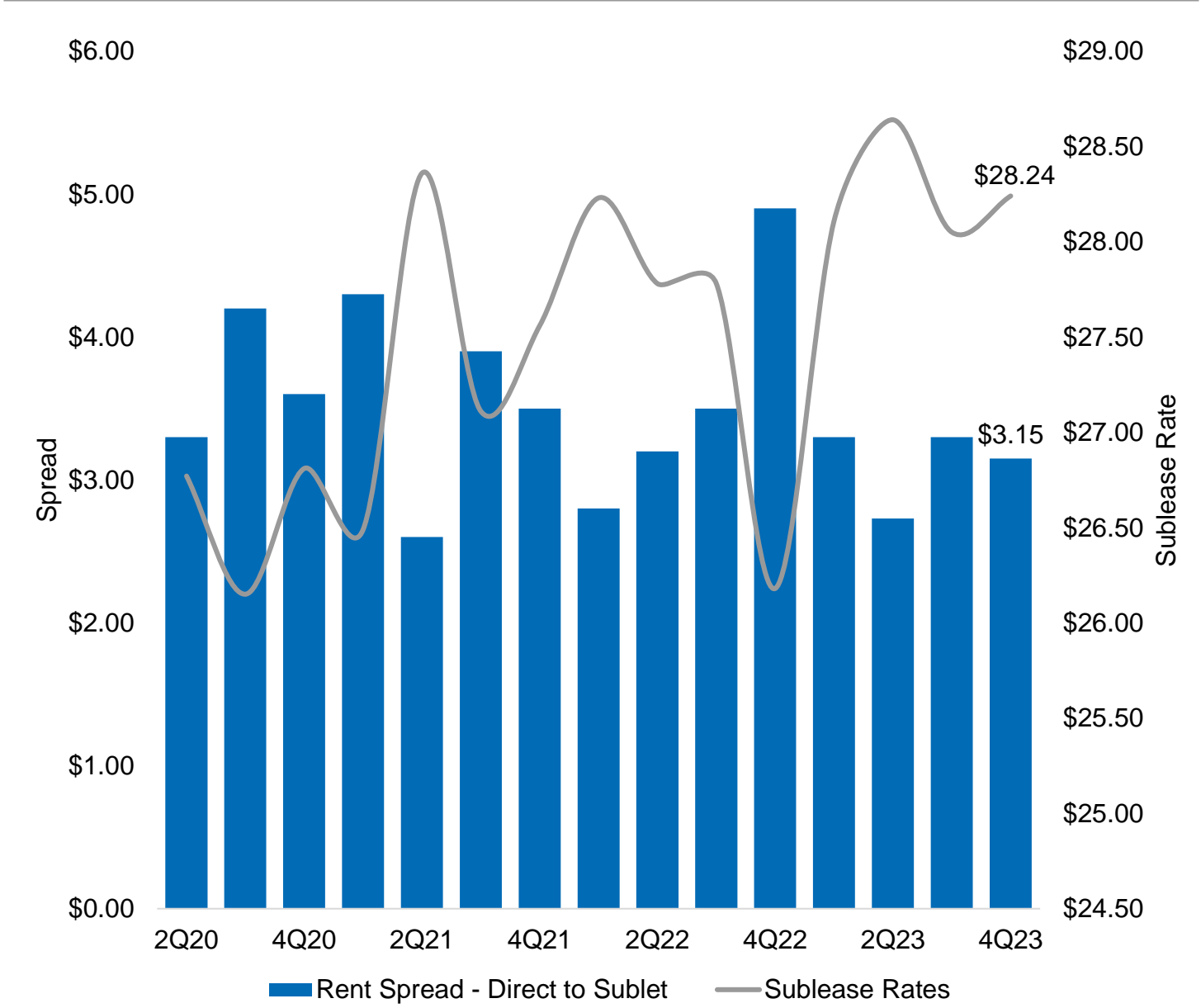
# Leasing Activity in Trophy Offices Causes Class A Rates to Fall

Quality leasing activity in Philadelphia’s premier office buildings has caused the Class A weighted average asking rate to fall throughout 2023 as more common space comprises a larger share of available Class A office space. Sublease asking rates rose due to Comcast’s addition of over 150,000 square feet to the sublet market. The remaining term, condition, and location on the higher floors of a trophy building allow it to command higher rates than standard sublease space.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



# The Market’s Largest Leases of the Quarter Were Signed in Blue Bell/Plymouth Meeting

In the fourth quarter of 2023, three out of the top five leases were signed in the Blue Bell/Plymouth Meeting submarket, a positive considering the submarket's availability rate stands at 29.3%.The largest lease in the city was Rothman Institute’s 34,000-square-foot lease at 833 Chestnut Street. There was one major downsize to report as Frontline Education signed a lease for 25,000 square feet at 550 E Swedesford Road, a 72% reduction in total footprint compared to its existing office at 1400 Atwater Drive.

| Notable 4Q23 Lease Transactions  |                        |                            |               |             |
|--|------------------------|----------------------------|---------------|-------------|
| Tenant   | Building(s)            | Submarket                  | Type          | Square Feet |
| SKF  | 801 Lakeview           | Blue Bell/Plymouth Meeting | Direct Lease  | 87,878      |
| Unisys   | 801 Lakeview           | Blue Bell/Plymouth Meeting | Lease Renewal | 64,390      |
| Rothman Institute  | 833 Chestnut Street    | East Market - CBD          | Direct Lease  | 34,000      |
| Rothman now leases 68,000 square feet, bringing clinical and corporate services under one roof                       |                        |                            |               |             |
| GHR  | 512 Township Line Road | Blue Bell/Plymouth Meeting | Direct Lease  | 30,000      |
| Frontline Education  | 550 E Swedesford Road  | King of Prussia            | Direct Lease  | 25,000      |
| The education software provider is downsizing from the 90,000 square feet it leases at 1400 Atwater Drive in Malvern |                        |                            |               |             |

Source: Newmark Research



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# 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                | 25,688,333           | 21.6%              | 6,787,679            | 1,571,177               | 26.4%                   | 328,596                 | \$34.62                         |
| CBD – Market East                | 12,045,090           | 18.7%              | 3,227,487            | 611,566                 | 26.8%                   | 65,398                  | \$32.00                         |
| CBD - Philadelphia               | 37,733,423           | 20.7%              | 10,015,166           | 2,182,743               | 26.5%                   | 393,994                 | \$33.83                         |
| University City                  | 4,852,387            | 9.2%               | 504,497              | 112,441                 | 10.4%                   | -10,630                 | \$45.89                         |
| Navy Yard                        | 983,558              | 26.3%              | 272,746              | 236,648                 | 27.7%                   | -1,734                  | \$27.26                         |
| City of Philadelphia             | 43,569,368           | 20.1%              | 10,792,409           | 2,531,832               | 24.8%                   | 381,630                 | \$34.34                         |
| Bala Cynwyd                      | 2,771,228            | 16.2%              | 529,649              | 165,427                 | 19.1%                   | -21,151                 | \$36.22                         |
| Blue Bell/Plymouth Meeting       | 8,640,873            | 23.8%              | 2,530,420            | 668,029                 | 29.3%                   | -33,975                 | \$27.24                         |
| Bucks County                     | 7,388,080            | 16.3%              | 1,766,013            | 323,606                 | 23.9%                   | -42,298                 | \$26.02                         |
| Central/Southern Delaware County | 5,329,227            | 19.7%              | 1,314,231            | 178,945                 | 24.7%                   | -123,451                | \$28.00                         |
| Conshohocken                     | 3,999,915            | 16.9%              | 812,247              | 77,702                  | 20.3%                   | 24,870                  | \$40.77                         |
| Exton/Malvern                    | 7,876,925            | 19.3%              | 1,975,720            | 318,607                 | 25.1%                   | 33,108                  | \$28.53                         |
| Fort Washington                  | 3,561,466            | 23.8%              | 893,063              | 261,829                 | 25.1%                   | -47,423                 | \$26.99                         |
| Horsham/Willow Grove             | 4,387,604            | 24.6%              | 1,406,378            | 481,830                 | 32.1%                   | 13,382                  | \$26.05                         |
| Jenkintown                       | 1,044,051            | 17.0%              | 215,578              | 16,887                  | 20.6%                   | -13,656                 | \$23.43                         |
| King of Prussia                  | 13,255,579           | 24.3%              | 4,127,710            | 831,462                 | 31.1%                   | -49,693                 | \$30.67                         |
| Radnor/Main Line                 | 2,666,360            | 11.3%              | 388,911              | 107,215                 | 14.6%                   | 33,277                  | \$44.91                         |
| Southern 202 Corridor            | 2,805,842            | 15.3%              | 943,662              | 374,819                 | 33.6%                   | 3,715                   | \$28.08                         |
| Suburban Philadelphia            | 63,726,574           | 20.4%              | 16,903,582           | 3,806,358               | 26.5%                   | -223,295                | \$29.42                         |
| Greater Philadelphia             | 107,295,942          | 20.1%              | 27,695,991           | 6,338,190               | 25.8%                   | 158,355                 | \$31.39                         |

Submarket Statistics – All Classes



For more information:

**Carolyn Bates**

Director  
Mid-Atlantic Research

carolyn.bates@nmrk.com

**Trae Hoffner**

Research Analyst  
Philadelphia Research

trae.Hoffner@nmrk.com

**Philadelphia**

2005 Market St, Ste 900  
Philadelphia, PA 19103  
t 215-561-8300

**King of Prussia**

610 Freedom Business Center Drive, Suite 310  
King of Prussia, PA 19406  
t 610-265-0600

**New York Headquarters**

125 Park Ave.  
New York, NY 10017  
t 212-372-2000

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