
3Q24

Greater Philadelphia Office Market Overview



NEWMARK

Market Observations

Economy

- The Greater Philadelphia economy saw a slight increase in unemployment for the 12 months ending in August and is 20 basis points above the national unemployment rate. Annual nonfarm payroll employment increased by 2.0% in August 2024, marking the fifth consecutive month of growth. The largest industry in the Greater Philadelphia area, Education and Health Services, continues to be the main driver of employment expansion.
- In August 2024, the annual percentage change in office-using employment was 0.4%. In July, greater Philadelphia experienced the first increase in the annual percentage change in 13 months. Total office-using employment was approximately 789,600, an increase of 12,000 jobs from the prior year.

Major Transactions

- The largest leases inked during the third quarter were across a variety of industries, submarkets, and lease types. Top industries leasing space this quarter included healthcare and professional services. The largest tenant deals this year included United Healthcare Services, Inc. at 600 Office Center Drive, Publicis at 100 S Independence Mall W, and Freedom Mortgage Corporation at 101 W Elm Street, with spaces of 48,160 SF, 47,991 SF, and 29,416 SF, respectively. Demand from a variety of industries for locations across the region indicates a strong leasing market.
- The largest lease transaction of the quarter was United Health Care Services, Inc.'s direct lease of approximately 48,000 square feet at 600 Office Center Drive in Fort Washington.

Leasing Market Fundamentals

- During the third quarter, there was a negative net absorption of 252,526 square feet, with the city accounting for most of the decrease in demand, registering a negative 304,452 square feet of absorption. The properties that experienced the most negative net absorption in the CBD market were 1760 Market Street, who had negative 21,598 SF of absorption this quarter due to several smaller tenants vacating including Ageras and Anderson Kill PC, and 1650 Arch Street, who has negative 12,790 SF of absorption due to Tridium vacating the 20th floor of the building.
- The office pipeline remained unchanged in the second quarter with no new office deliveries. Three projects still under construction are: the new Chubb Insurance headquarters in West Market, 155 King of Prussia Road in Radnor, and 203 Squire Drive in Newtown Square. The Chubb Insurance headquarters is expected to deliver in early 2026, and 155 King of Prussia road and 203 Squire Drive are expected to deliver in the fourth quarter of 2024. Approximately 1.4M square feet of leases were signed during the third quarter of 2024. Greater Philadelphia's office market performed well in the first half of the year, outpacing leasing expectations. However, a lack of signed leases in the third quarter has put us behind last year's numbers year-to-date of 4.4m SF.

Outlook

- Office demand in Greater Philadelphia decreased by 20 basis points in the third quarter but remains consistent with 2024 numbers that have been growing for the first three quarters. This demand is driven by Philadelphia's primary office users and key industries, including Legal, Finance, Insurance, Real Estate (FIRE), and Healthcare.
- Recently observed leasing trends in the greater Philadelphia market are expected to continue. These include longer lease terms for larger deals, tenants' tendency for renewal versus relocation, and a continued flight-to-quality in a smaller footprint, especially in the suburbs.
- Sublease asking rents ticked up during the third quarter, as well as Class A and Class B direct asking rents, which saw a slight increase. The trend of increasing sublease rates is expected to continue with the upcoming completion of Caritas' build-to-suit office, which will be available for sublease upon delivery.

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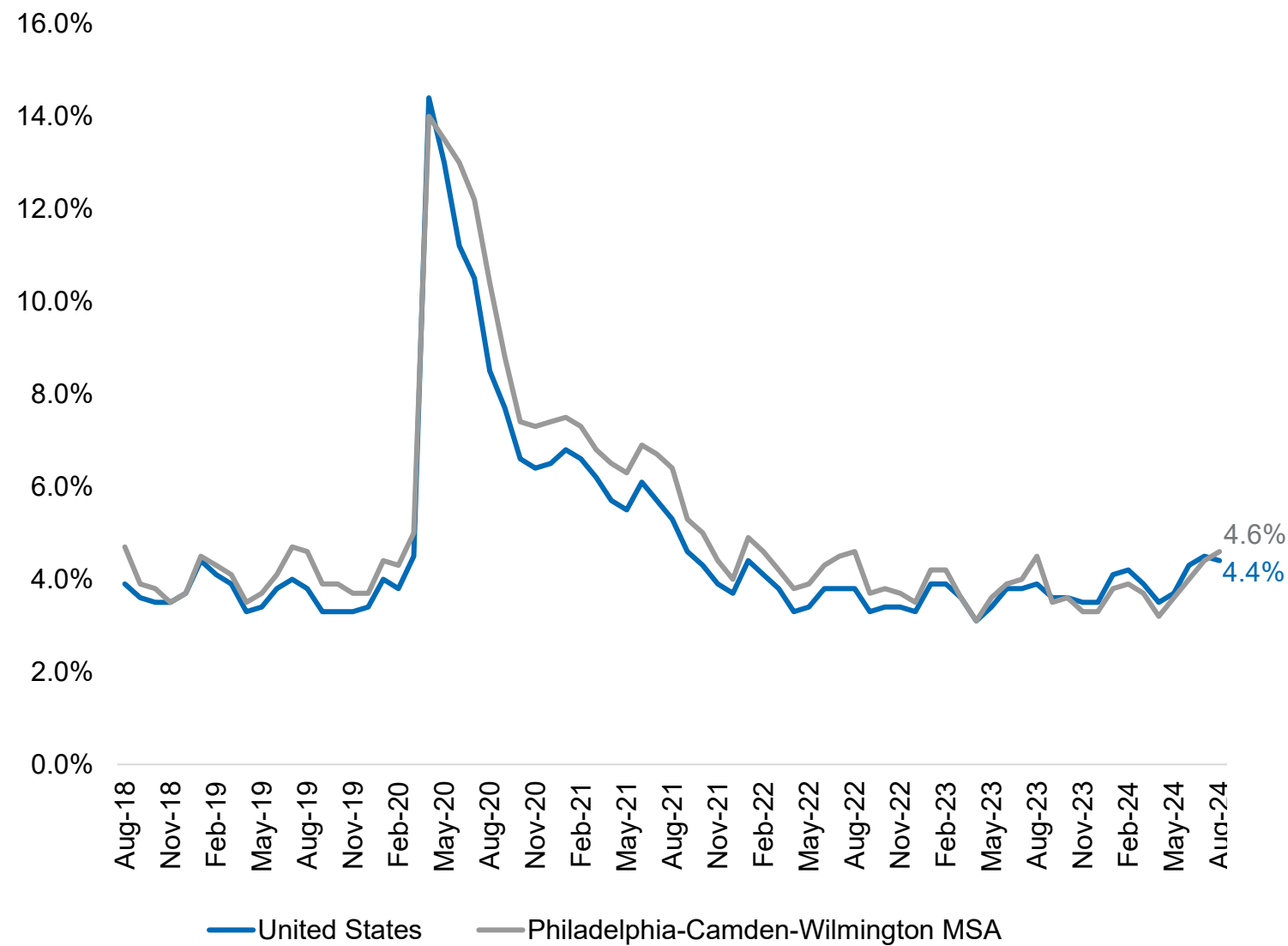
Economy



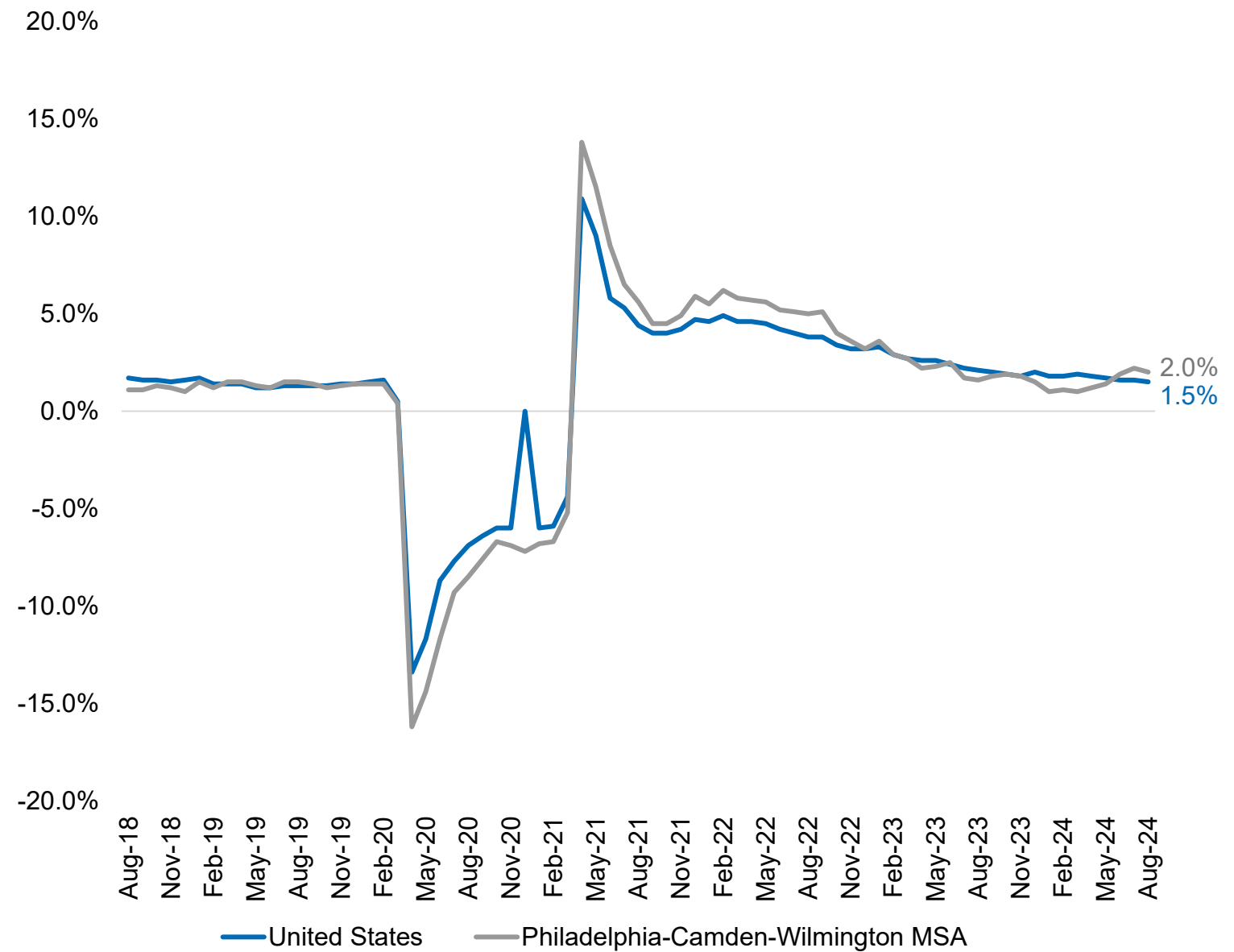
Philadelphia's Economy Remains Robust

The Greater Philadelphia economy saw a small increase in unemployment for the 12 months ending in August and remains only 20 basis points below the national unemployment rate. Annual nonfarm payroll employment grew 2.0% in August, a slight uptick from the moderating growth recorded through the year's first four months. Greater Philadelphia's largest industry, Education and Health Services, continues to drive employment growth.

Unemployment Rate, Non-Seasonally Adjusted



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



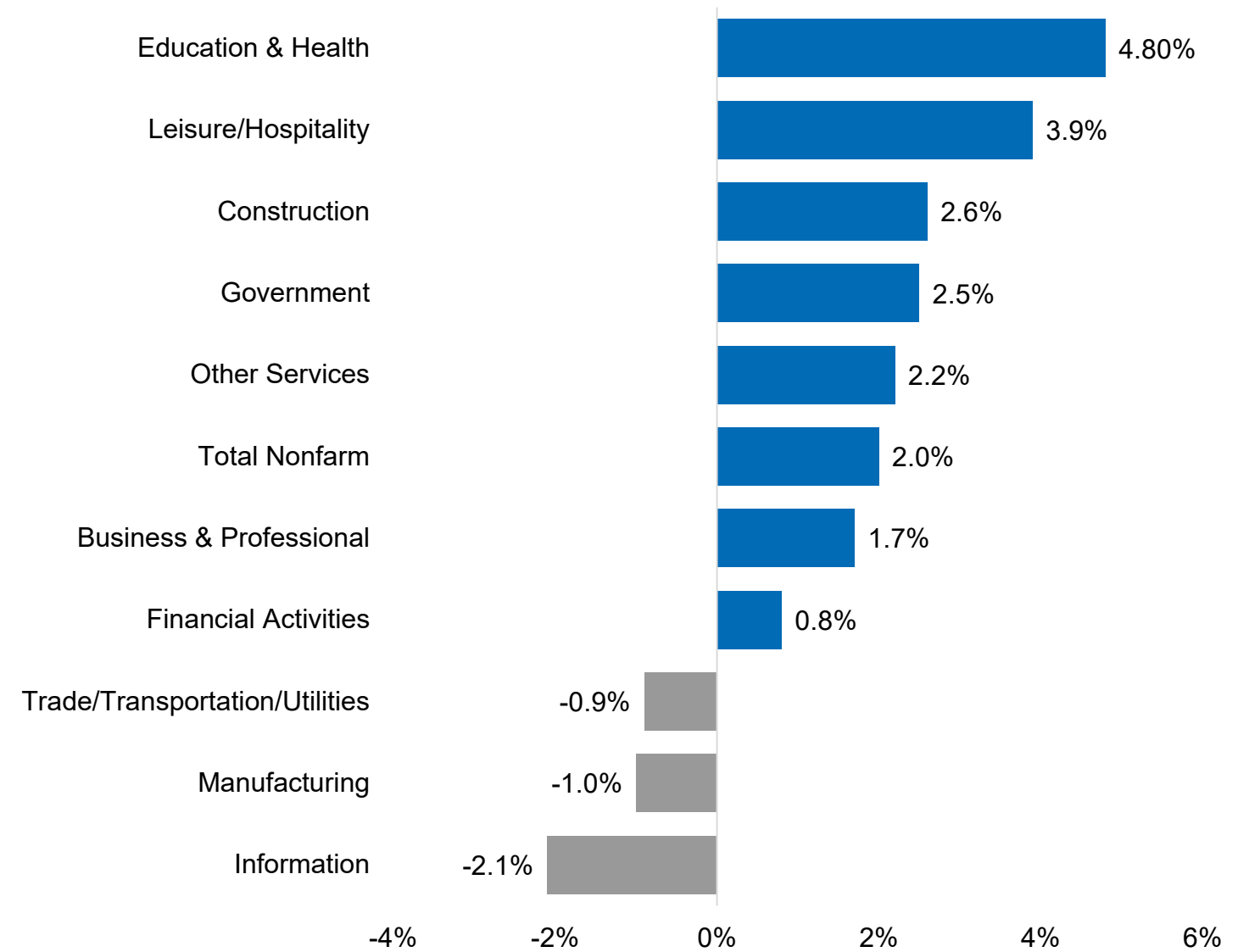
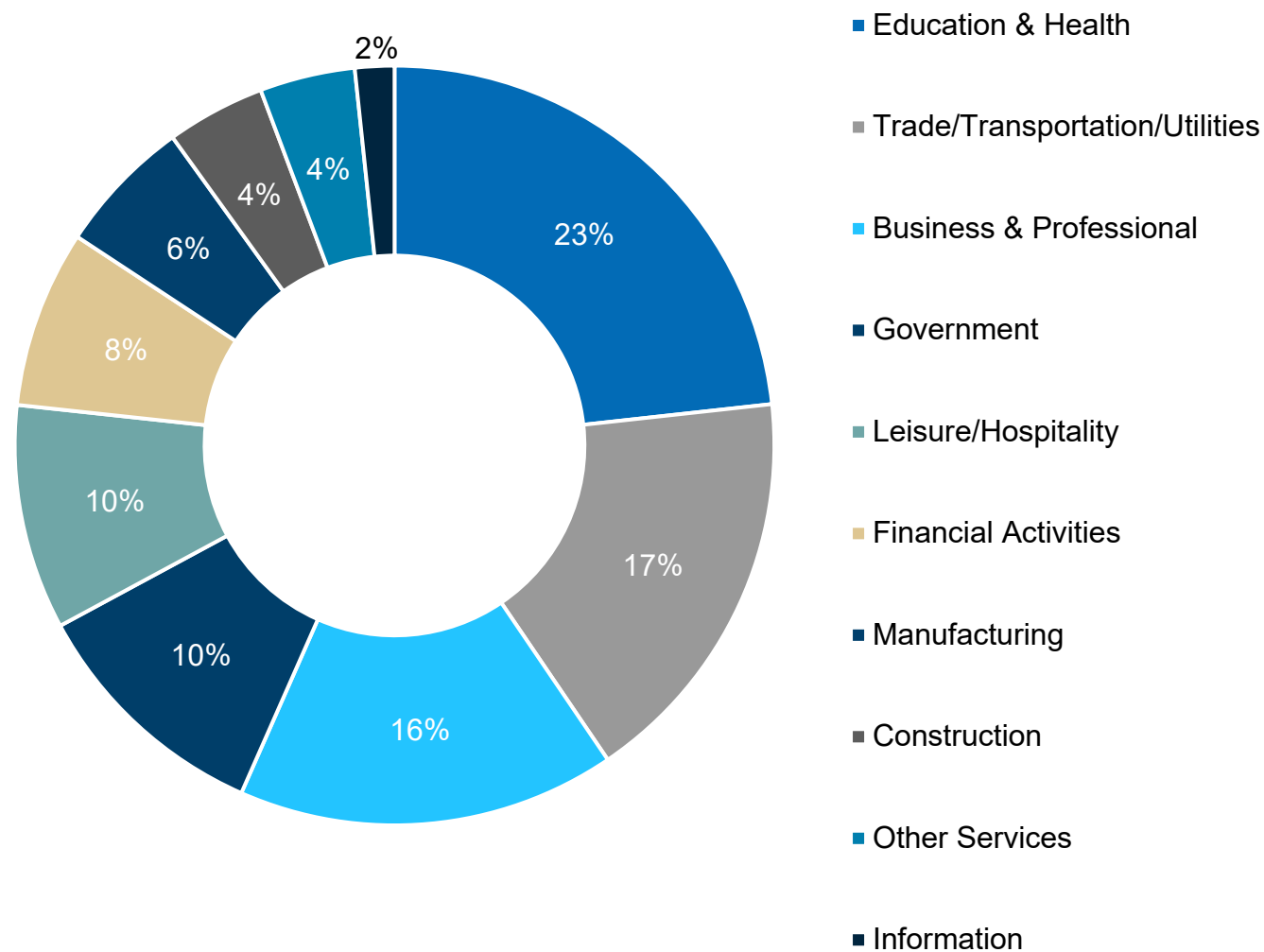
Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

Office-Using Industries Decline While Healthcare And Education Lead The Way

The Education & Health Services, Leisure & Hospitality and Government sectors each grew by at least 2.5% for the 12 months ending in August. These sectors employ over 43% of Greater Philadelphia's labor force. Strong annual employment gains in these sectors are an encouraging sign for the region's economy.

Employment by Industry, August 2024

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

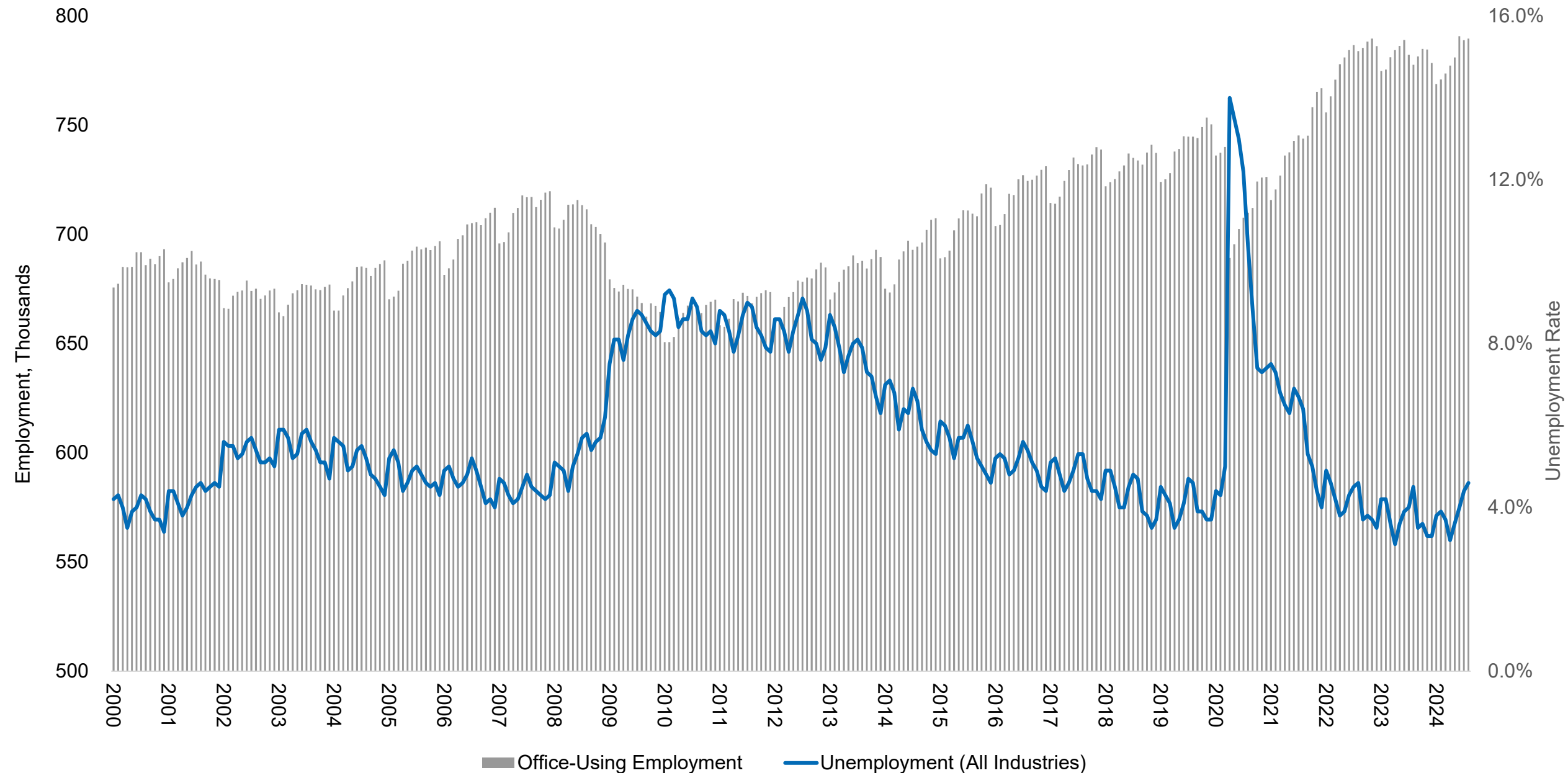


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

Office-Using Employment Slowly Recovering

In August 2024, the annual percentage change in office-using employment was 1.5%. Although there has been a consistent decrease in office-using employment, June experienced the first increase at 0.2%, breaking an 11-month streak of negative percent change in office-using employment. Total office-using employment was approximately 790,000 jobs, an increase of 12,000 from the prior year.

Office-Using Employment* and Unemployment Across All Industries



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

Note: August 2024 data is preliminary.

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

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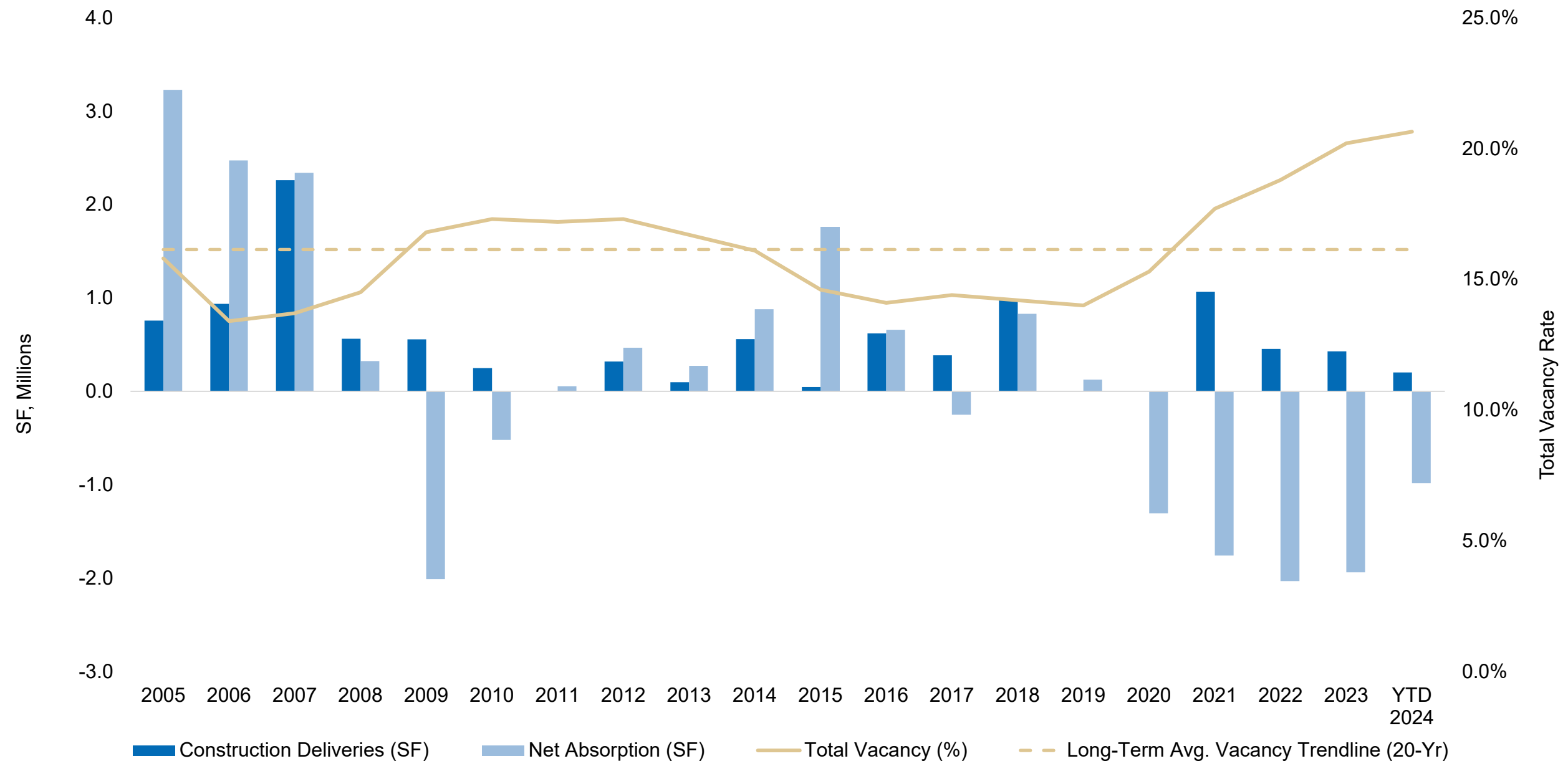
Leasing Market Fundamentals



Rising Vacancy Rates Pose Challenges And Opportunities In Greater Philadelphia

Vacancy continued to rise in greater Philadelphia through the third quarter of 2024. The top-performing submarkets were Conshohocken and University City, with year-to-date net absorption of 101,026 and 47,256 square feet, respectively. Significant increases in vacant inventory during the second quarter resulted from QualTek vacating 475 Sentry Parkway and Signant Health listing their 57,560 SF of space in 785 Arbor Way for sublease. However, the quarter saw some green shoots as Shook Hardy expanded into an additional 20,000 square feet at 2001 Market Street in the CBD West Market.

Historical Construction Deliveries, Net Absorption, and Vacancy

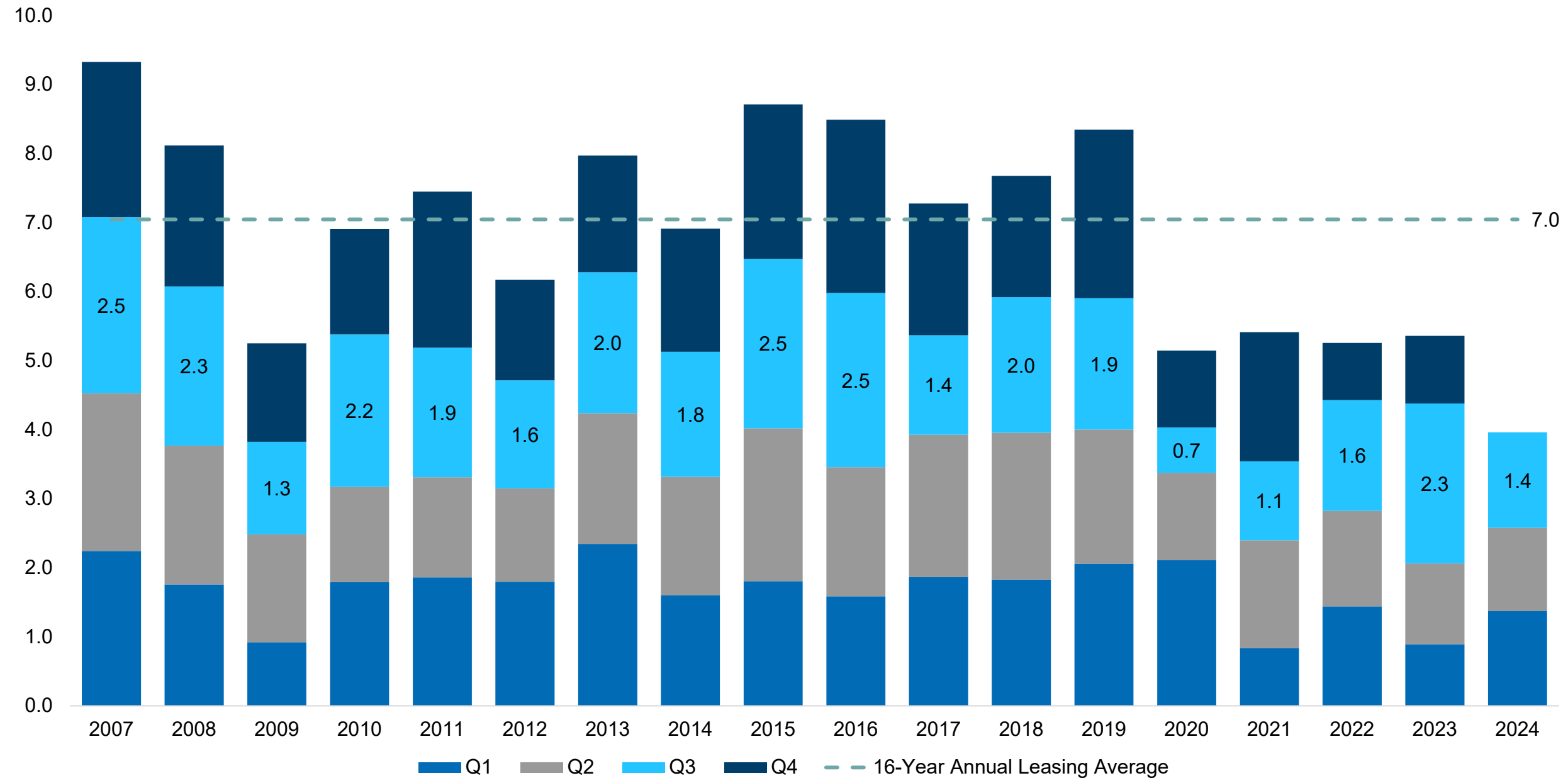


Source: Newmark Research

Greater Philadelphia Leasing Activity Slowed After Promising First And Second Quarters

Approximately 1.4M square feet of leases were signed during the third quarter of 2024, remaining on pace with the past five years of leasing activity. Due to a strong first and second quarter, leasing in the first half of 2024 outpaced last year's first-half totals. Recently observed leasing trends in the Greater Philadelphia market include longer lease terms for larger deals, tenants' tendency for renewal versus relocation, and a continued flight to quality in a smaller footprint.

Total Leasing Activity (msf)

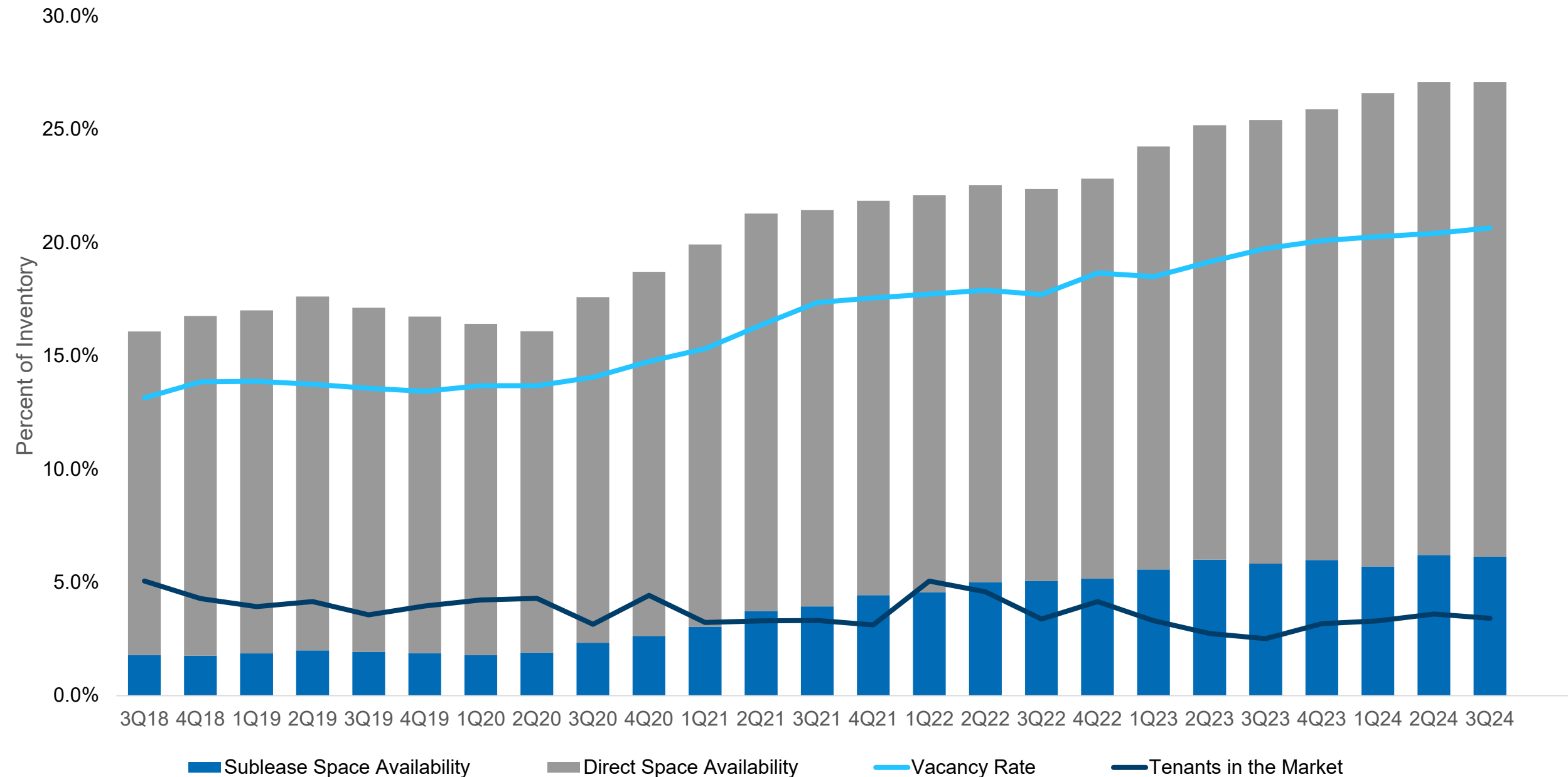


Source: Newmark Research, CoStar

Availability Continues To Increase While Tenant Demand Remains Consistent

Office demand in Greater Philadelphia declined 20 basis points in the third quarter of 2024 after three consecutive quarters of tenant demand increase. These consistent demand trends are driven by Philadelphia's primary office users and key industries, including Legal, Finance, Insurance, Real Estate (FIRE), and Healthcare. Approximately 65% of CBD requirements are in the 5,000-25,000 square foot range.

Available Space and Tenant Demand as Percent of Overall Market

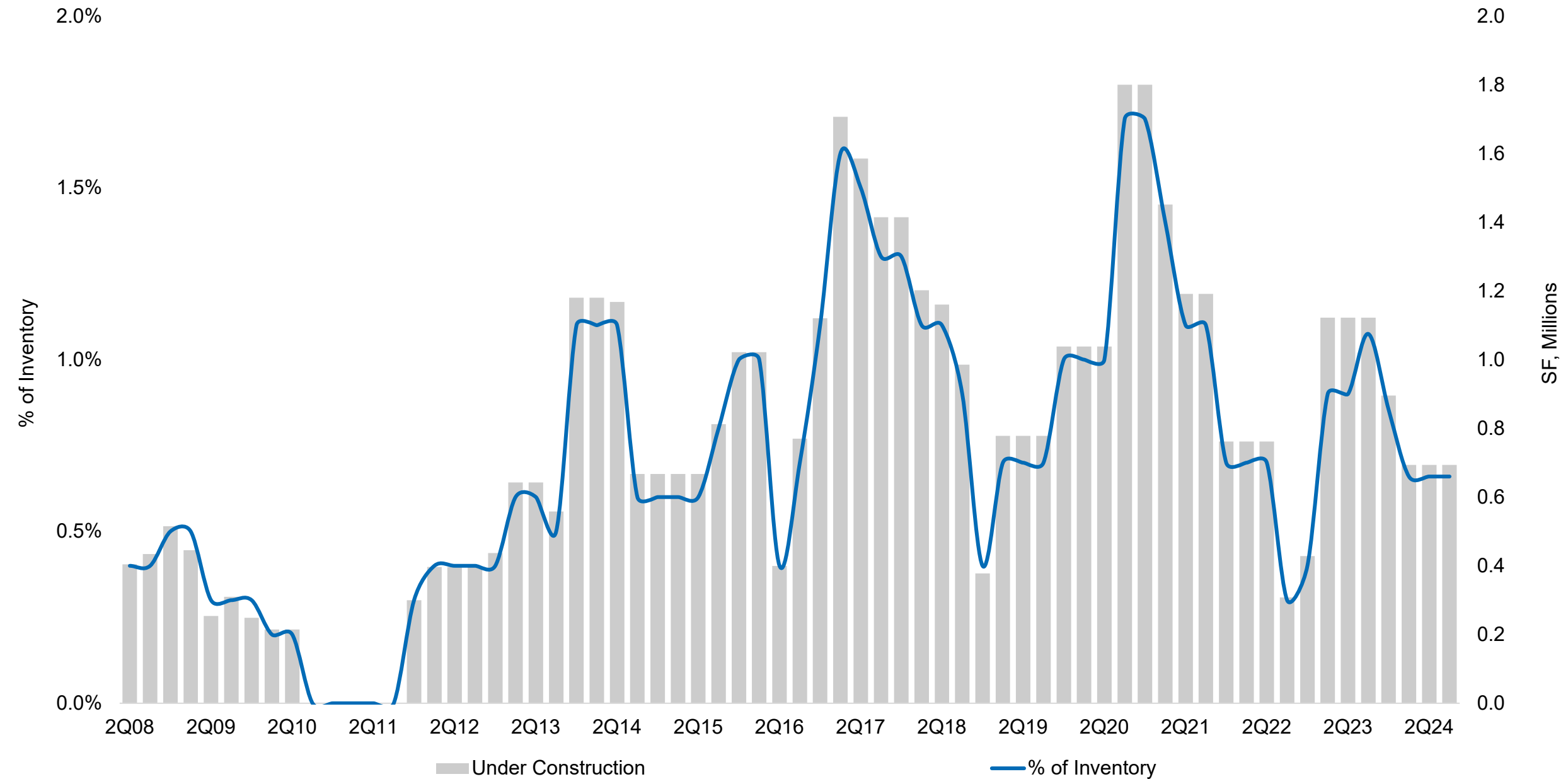


Source: Newmark Research

The Philadelphia Regions Construction Pipeline Continues To Shrink

Three projects remain under construction: the new Chubb Insurance headquarters in West Market, 155 King of Prussia Road in Radnor, and 203 Squire Drive in Newtown Square.

Office Under Construction and % of Inventory

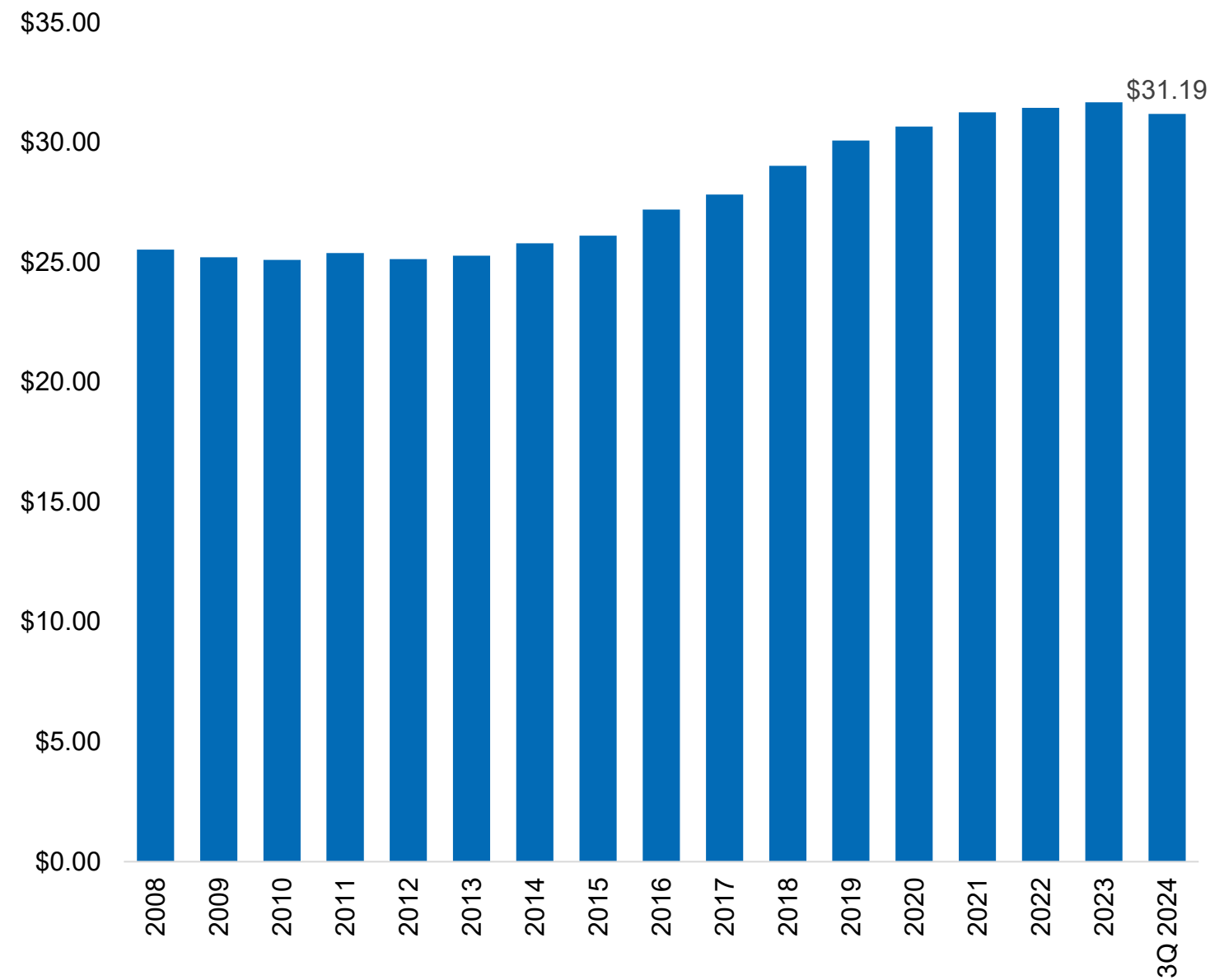


Source: Newmark Research, CoStar

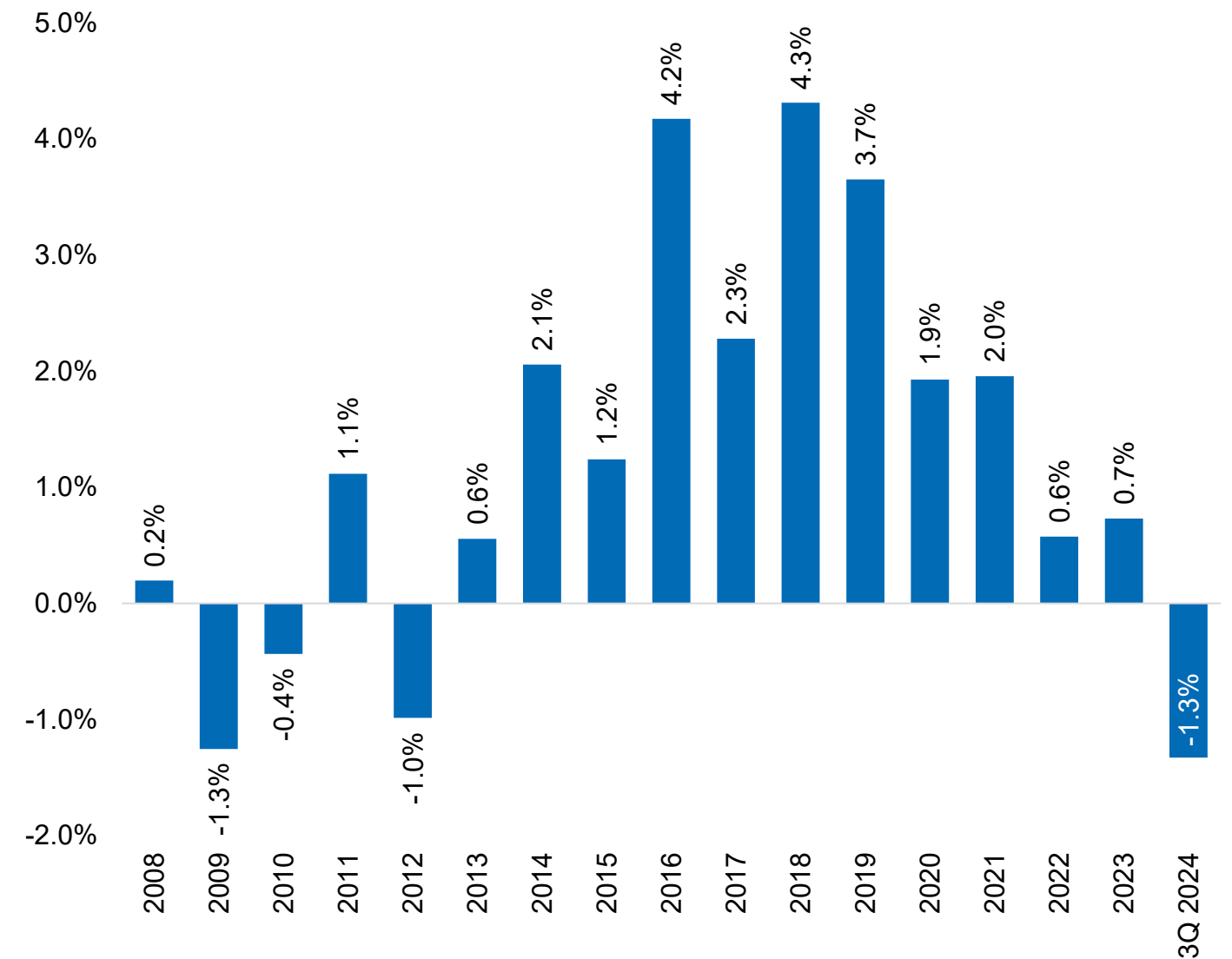
Asking Rents See Slight Decline

Overall, asking rents dipped slightly since the start of 2024 to an average of \$31.19/SF as of the third 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. It may be too soon to tell whether the slight rent decline this quarter is a blip or the beginning of continuing moderation of face rates.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

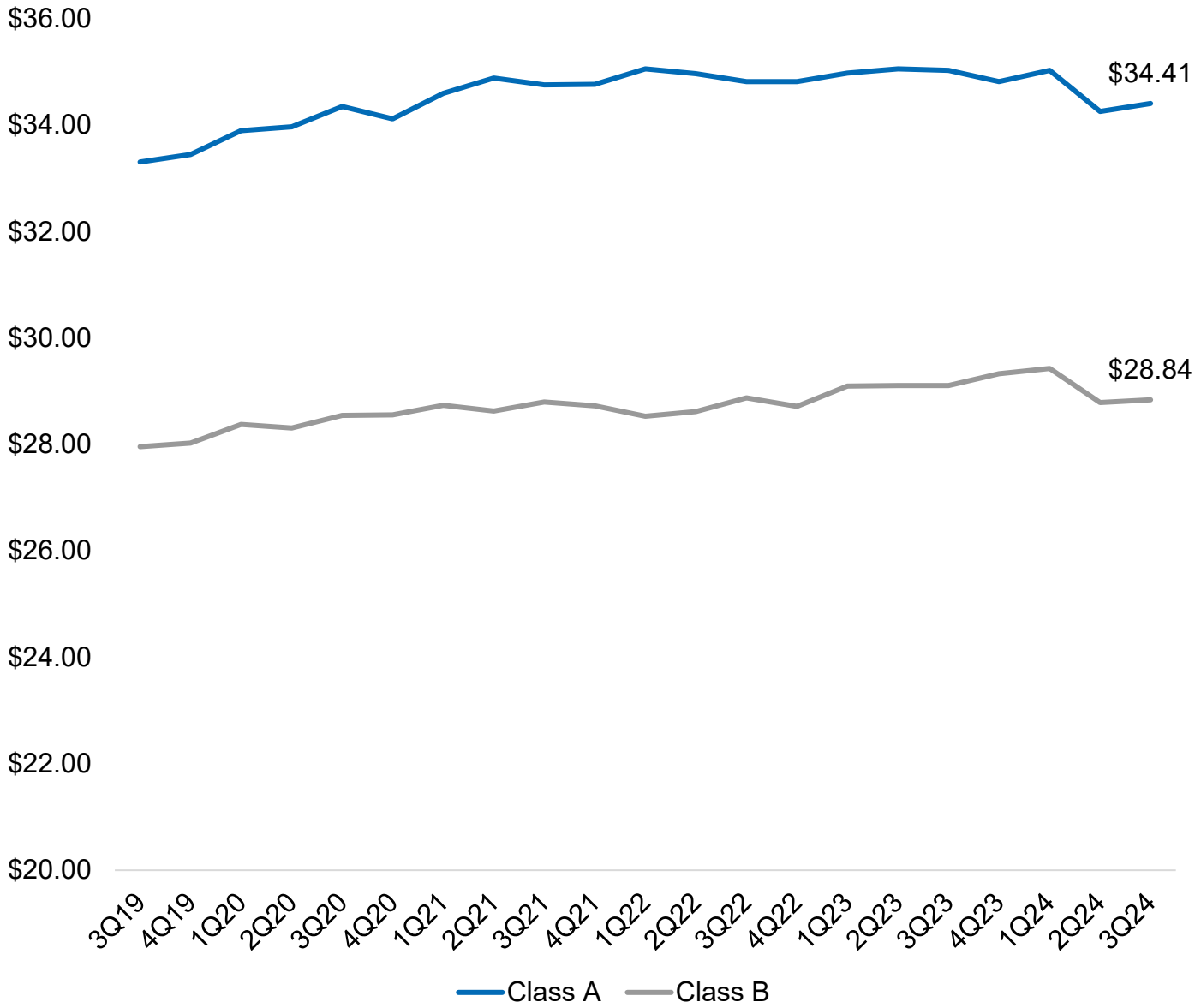


Source: Newmark Research,

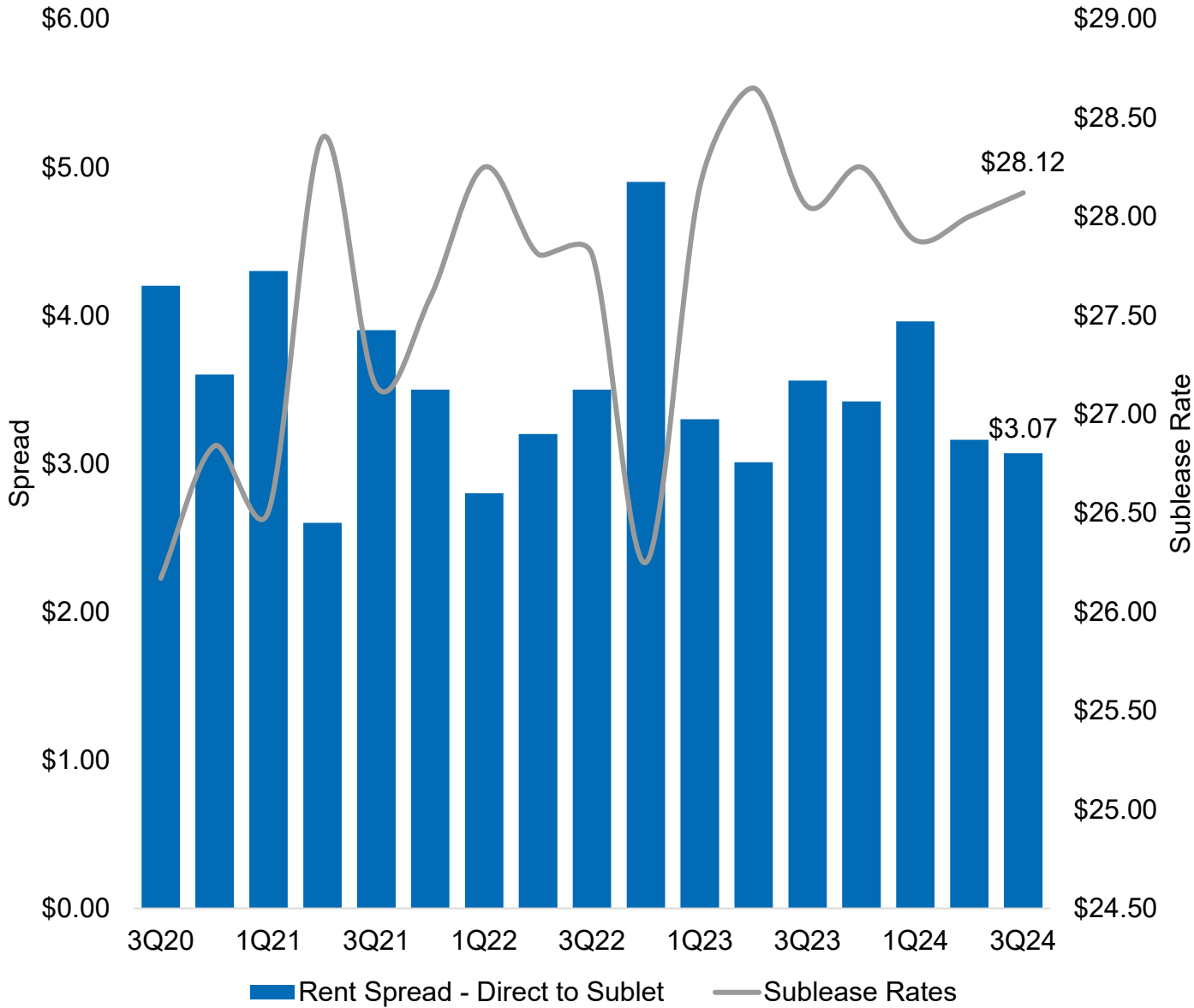
Sublease Rates Trending Upward

Sublease asking rents ticked up during the third quarter, and Class A and Class B direct asking rents saw a slight increase from last quarter. The trend of increasing sublease rates is expected to continue.

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



Sublease Rates



Source: Newmark Research, CoStar



Please reach out to your
Newmark business contact for this information

Market Statistics



Submarket Overview

Submarket Statistics – All Classes

	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 East	12,051,630	23.6%	3,502,733	705,559	29.1%	(304,452)	\$30.69
CBD – Market West	24,450,333	23.2%	6,749,913	1,586,832	27.6%	345	\$33.93
CBD - Philadelphia	36,501,963	23.3%	10,252,646	2,292,391	28.1%	(304,107)	\$32.89
University City	5,054,296	12.0%	708,431	161,922	14.0%	24,701	\$44.28
Navy Yard	983,558	25.3%	277,445	232,240	28.2%	(4,634)	\$27.28
City of Philadelphia	42,539,817	22.0%	11,238,522	2,686,553	26.4%	(284,040)	\$33.55
Bala Cynwyd	2,771,228	17.2%	558,486	154,032	20.2%	6,917	\$36.58
Blue Bell/Plymouth Meeting	8,505,221	21.5%	2,552,761	742,158	30.0%	(191,500)	\$26.94
Bucks County	7,293,296	15.2%	1,540,776	290,914	21.1%	(4,166)	\$26.29
Central/Southern Delaware County	5,264,227	19.7%	1,389,009	151,935	26.4%	(12,102)	\$27.21
Conshohocken	3,999,915	15.1%	768,324	156,033	19.2%	17,166	\$40.72
Exton/Malvern	7,760,010	18.9%	1,969,986	281,910	25.4%	38,204	\$28.51
Fort Washington	3,141,246	17.8%	896,659	252,470	28.5%	21,886	\$27.77
Horsham/Willow Grove	4,164,514	24.1%	1,627,491	316,296	39.1%	118,499	\$26.26
Jenkintown	1,044,051	19.8%	260,670	19,637	25.0%	5,627	\$24.28
King of Prussia	13,178,105	24.3%	4,335,959	872,977	32.9%	77,050	\$31.24
Radnor/Main Line	2,666,360	11.7%	401,923	115,021	15.1%	(11,865)	\$45.88
Southern 202 Corridor	2,783,630	18.2%	921,414	418,006	33.1%	(34,202)	\$27.29
Suburban Philadelphia	62,571,803	19.7%	17,223,458	3,771,389	27.5%	31,514	\$29.53
Greater Philadelphia	105,111,620	20.6%	28,461,980	6,457,942	27.1%	(252,526)	\$31.19

Source: Newmark Research

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