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4Q24

# Greater Philadelphia Office Market Overview



**NEWMARK**

# Market Observations

## Economy

- The Greater Philadelphia economy saw an increase in unemployment to 3.5% for the 12 months ending in November but is still 50 basis points above the national unemployment rate. Annual nonfarm payroll employment increased by 1.2% for the 12 months ending in November, keeping 12-month growth rates positive for over 3.5 years. The largest industry in the Greater Philadelphia area, Education and Health Services, continues to be the primary driver of employment expansion.
- In November 2024, the annual percentage change in office-using employment was relatively flat at 0.3%. This followed significant increases in this annual percentage change during the third quarter of 2024 of 1.5%. Overall, total office-using employment amounted to approximately 782,500, reflecting a decrease of 2,100 jobs compared to the previous year.

## Major Transactions

- The largest leases inked during the fourth quarter were across various industries, submarkets, and lease types but focused on technology firms in the suburbs. The largest tenant deals this year included Marshall Dennehy at 2000 Market Street, Quaker Houghton at 250 King of Prussia Road, Penn Medicine at 777 Township Line Road, and QLIKTECH Inc. at 211 S Gulph Road, with spaces of 120,462 SF, 119,000 SF, 75,775 SF and 45,087 SF, respectively. The 119,000 Quaker Houghton lease is broken out into 39,000 SF of space being defined as “Lab Space” and 80,000 SF of office space. Demand from a variety of industries for locations across the region indicates a strong leasing market.

## Leasing Market Fundamentals

- During the fourth quarter, we experienced positive net absorption of 128,709 SF for the first time since the third quarter of 2022. Large leases signed in the suburbs and a lack of lease expirations in the fourth quarter can be credited to the positive absorption. As we head into 2025, the combination of rate cuts, the sentiment of 5-day work weeks, and fourth-quarter positive absorption offer some green shoots for office demand to resurge in 2025.
- The office pipeline had two new deliveries in the fourth quarter: 155 King of Prussia Road in Radnor and 203 Squire Drive in Newtown Square. As it was a build-to-suit development, Arkema moved into 155 King of Prussia Road upon delivery, while 203 Squire Drive is still completely vacant and available for leasing. 2300 Market Street, 3151 Market Street, the new Chubb Insurance headquarters, and 3201 Cuthbert Street are the only office buildings left in the construction pipeline. 2300 Market Street and 3151 Market Street are expected to deliver next quarter, the Chubb Insurance Headquarters is scheduled to deliver in early 2026, and 3201 Cuthbert Street is expected to deliver in late 2026. Approximately 1.5M square feet of leases were signed during the fourth 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 and fourth quarters has put us behind last year's numbers by about 990K SF.

## Outlook

- Office demand in Greater Philadelphia declined 40 basis points in the fourth quarter of 2024 but remains high compared to 2023, measured by the total square feet of space tenants in the market are looking for. These consistent demand trends are 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 and tenants' tendency for renewal versus relocation. Lease terms in 2024 increased by 94 basis points compared to 2023 lease signings.
- Sublease and Class B asking rents ticked up during the fourth quarter, while Class A direct asking rents remained unchanged. The trend of increasing sublease rates is expected to continue as sublease listings continue to grow in the Greater Philadelphia office market.

1. Economy
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# Economy

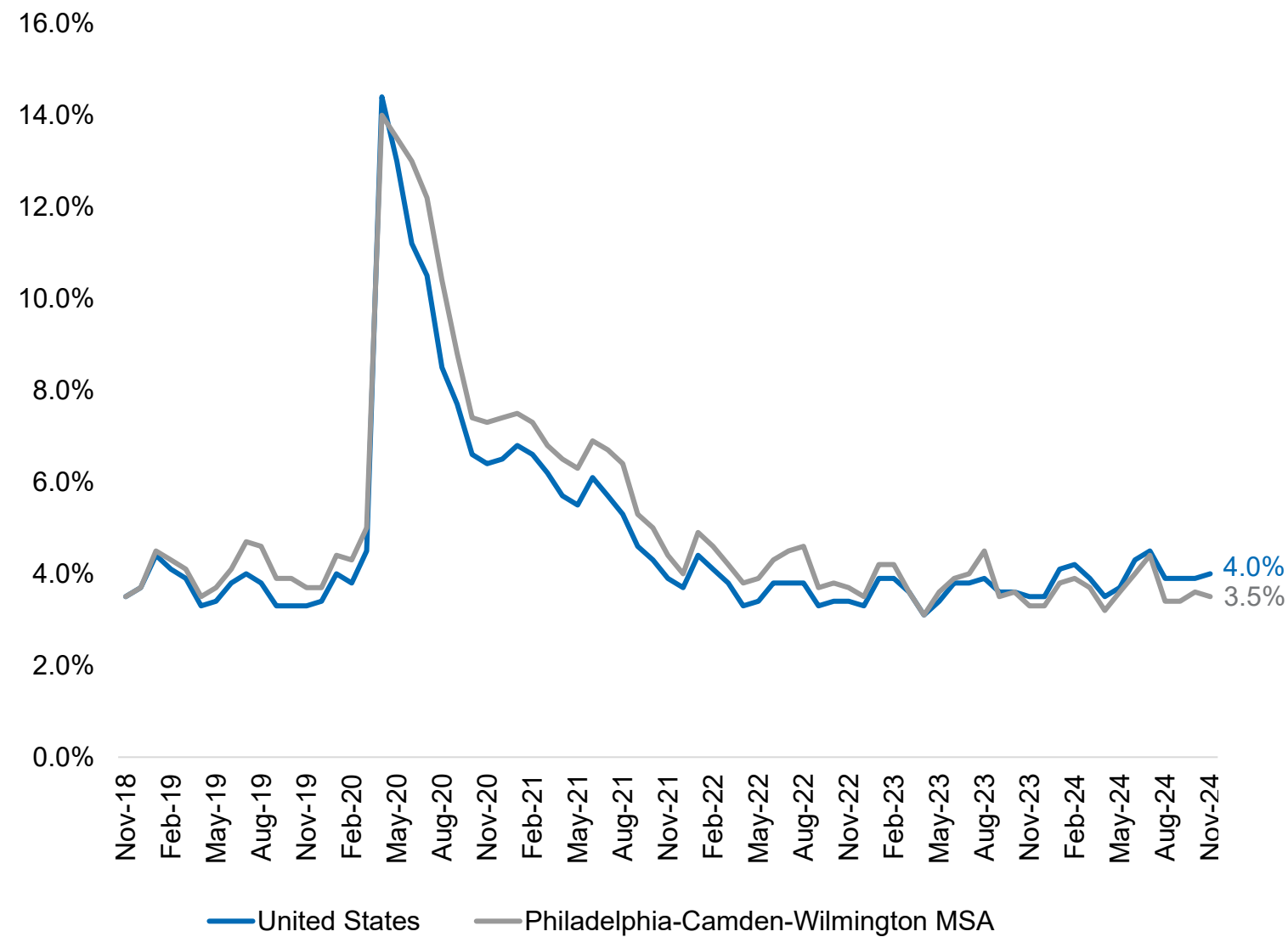




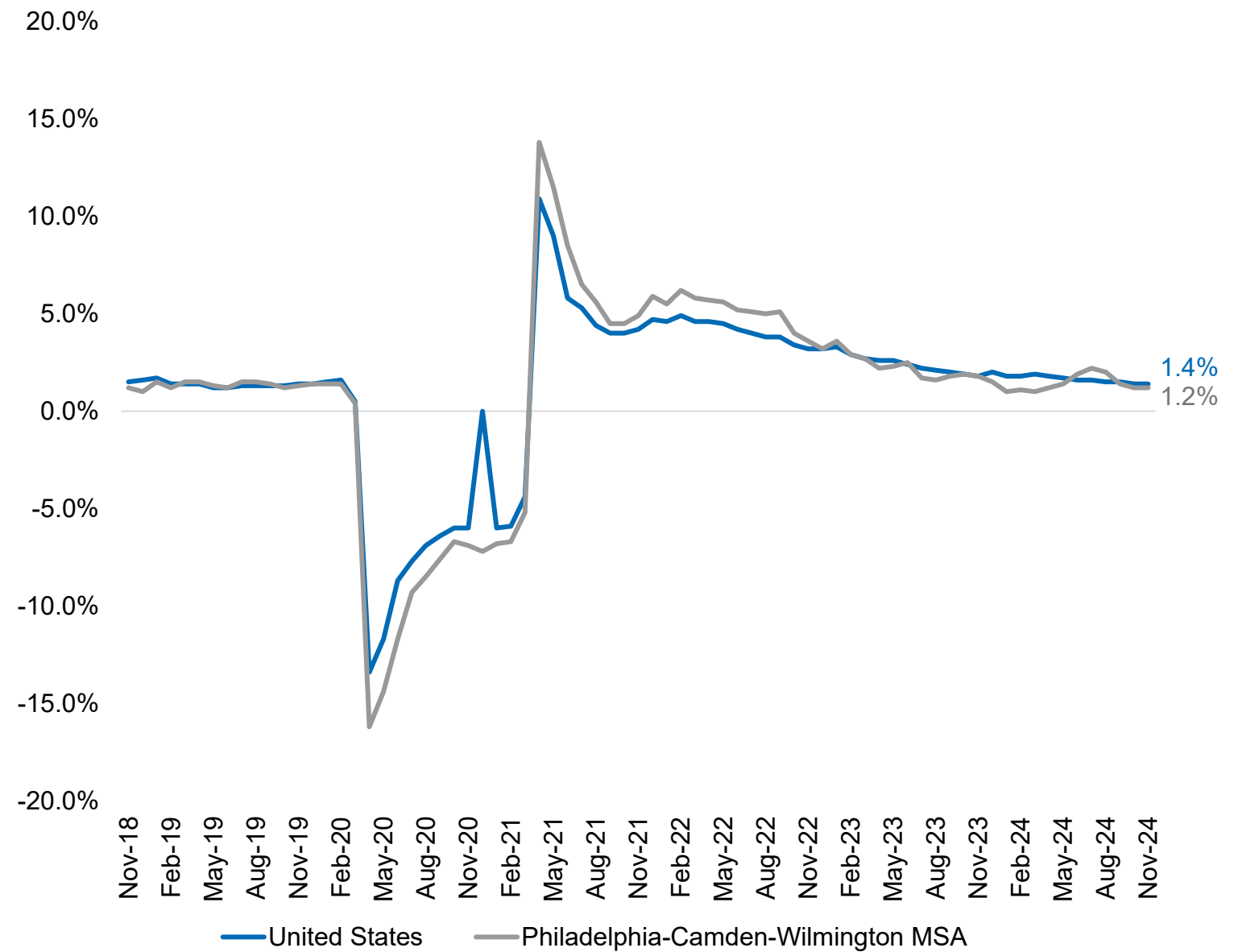
# Philadelphia's Economy Remains Robust

The Greater Philadelphia economy saw a small increase in unemployment for the 12 months ending in November but remains 50 basis points below the national unemployment rate. Nonfarm payroll employment increased by 1.2% in November, representing a slight rise from the moderated growth observed throughout 2024. 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



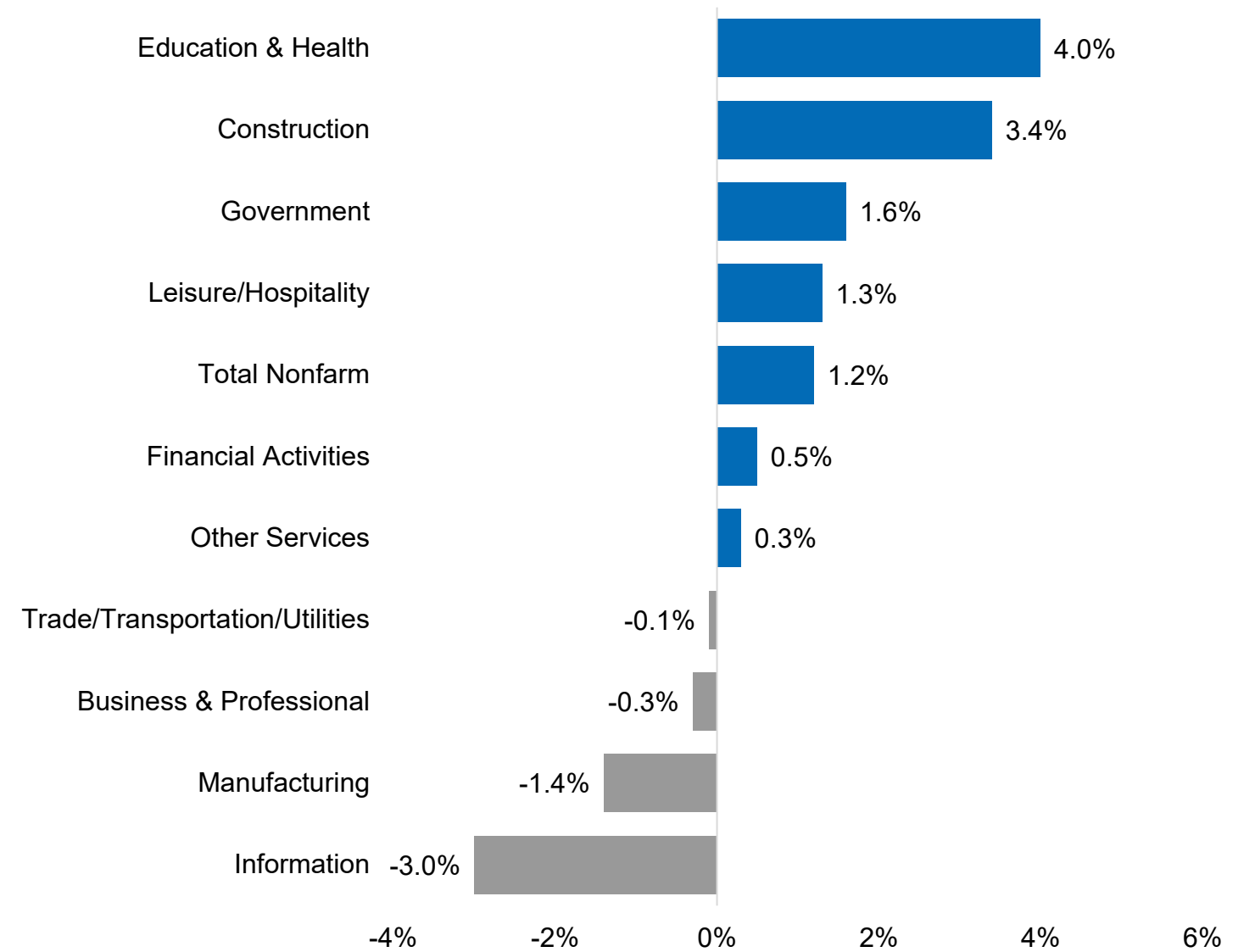
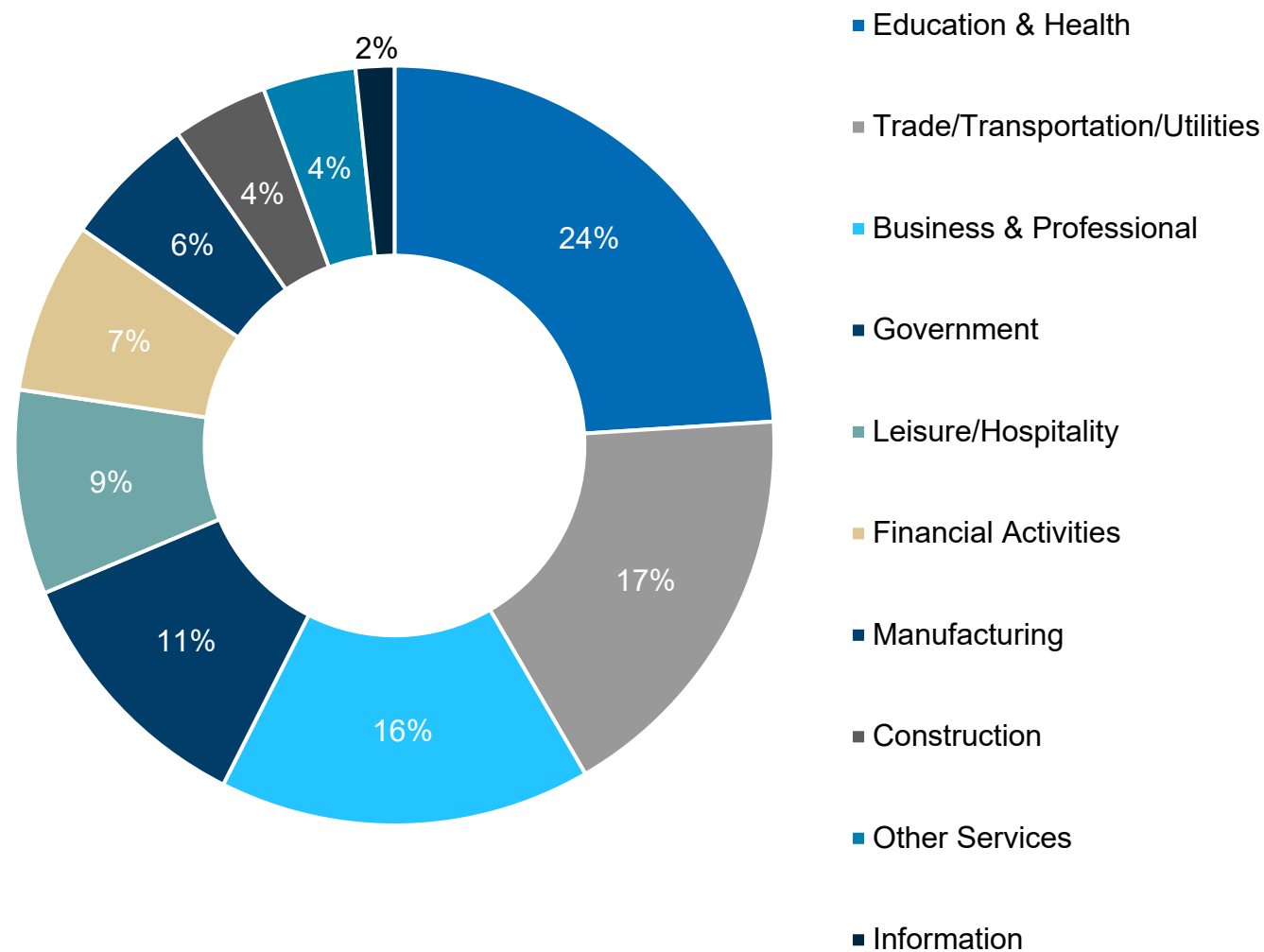
Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

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

The Education & Health Services, Construction, and Government sectors each grew by at least 150 basis points for the 12 months ending in November. These sectors employ about 40% 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, November 2024

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

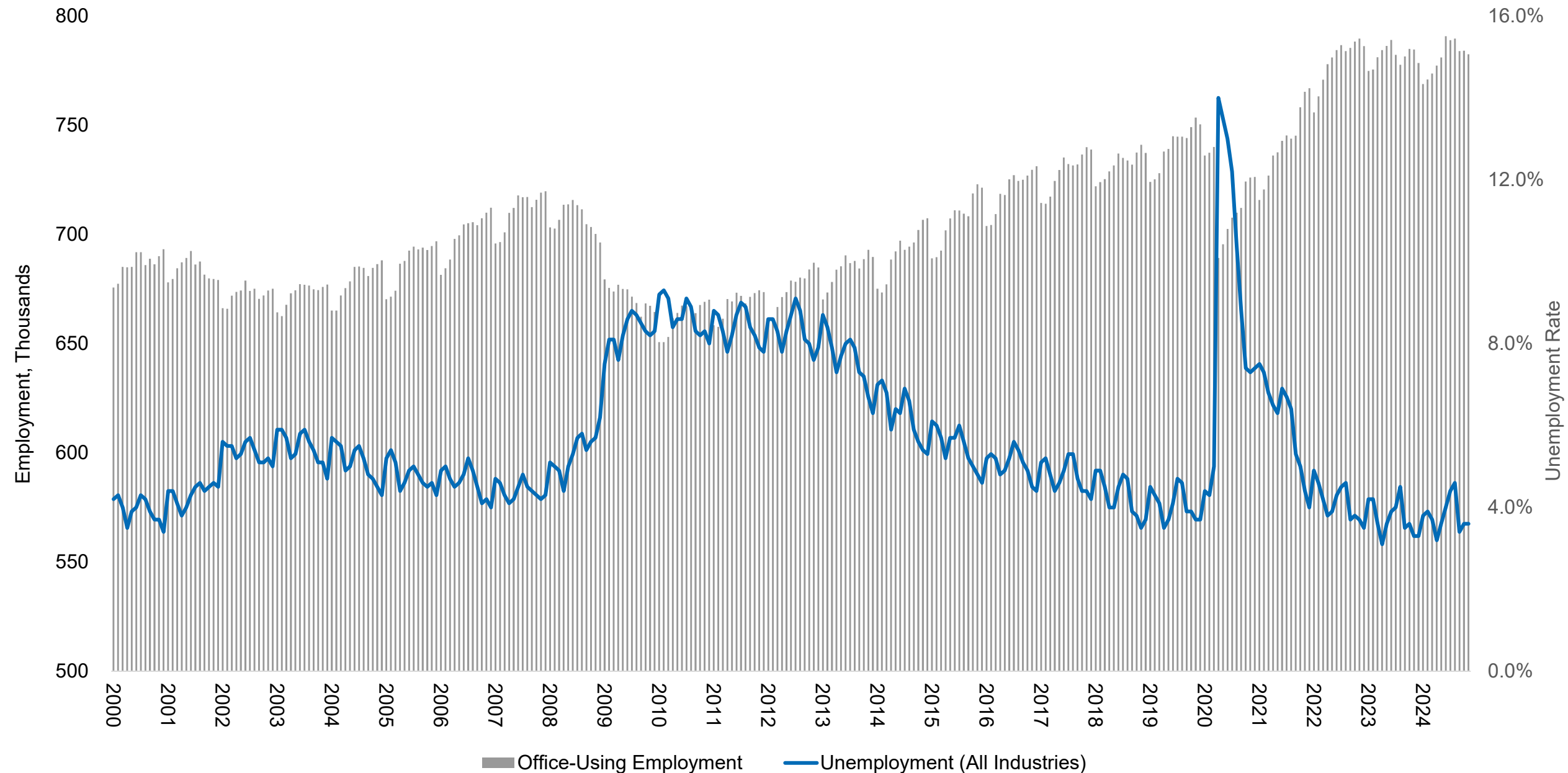


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

# Office-Using Employment Remains Steady

In November 2024, the annual percentage change in office-using employment was negative 27 basis points. Although there has been a slight decrease in office-using employment this year due to sharp increases in the third quarter of 2024, we only saw a net decrease of 1.4% in 2024. With the Fed's recent rate cuts and a noticeable shift towards returning to in-person office work, we expect office-using employment rates to increase in 2025.

## Office-Using Employment\* and Unemployment Across All Industries



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

Note: November 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

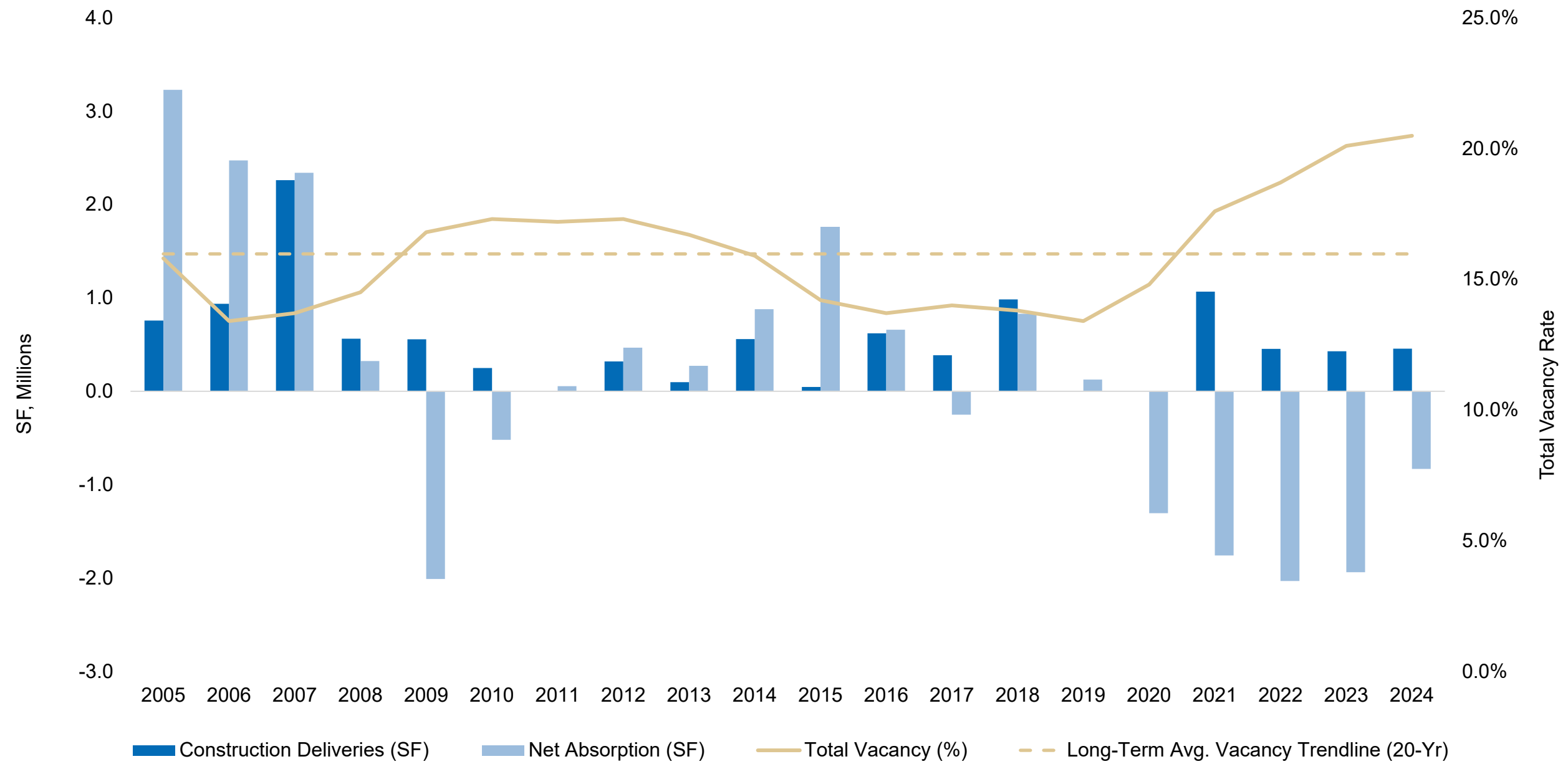




# Quarterly Absorption Positive For The First Time In Two Years

Though vacancy continued to rise year-over-year in Greater Philadelphia through 2024 due to new construction deliveries, the Greater Philadelphia office market experienced positive quarterly net absorption for the first time since the third quarter of 2022. The 128,709 SF of positive absorption can be credited to large leases signed in the third quarter, such as Quaker Houghton and the Trustees of the University of Pennsylvania. Positive absorption this quarter could hint at a possible resurgence in the office market in 2025. This year's top-performing submarkets were King of Prussia and Radnor, with annual net absorption of 182,110 and 116,362 square feet, respectively.

## Historical Construction Deliveries, Net Absorption, and Vacancy

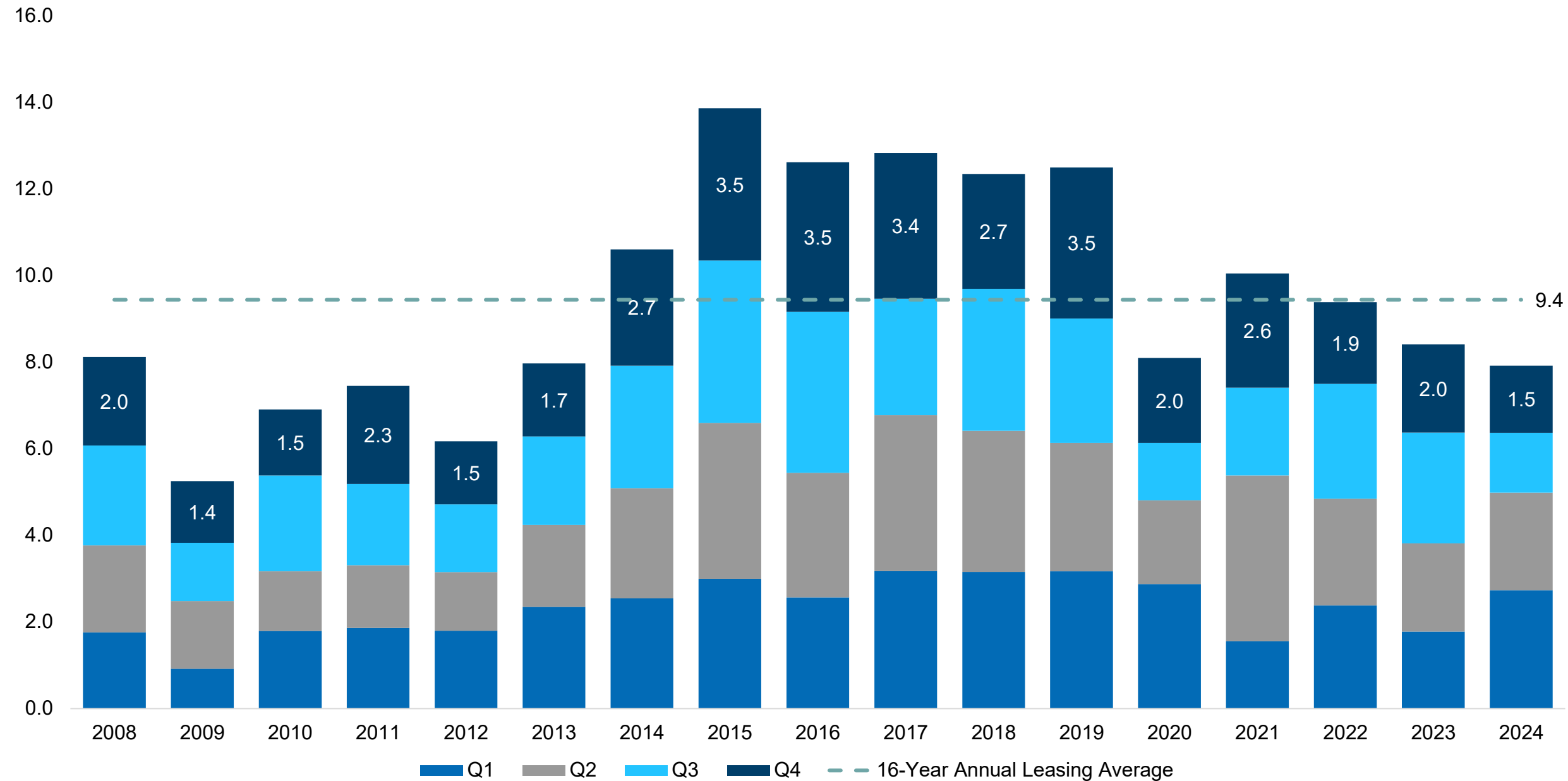


Source: Newmark Research

# Greater Philadelphia Leasing Activity Slowed After Promising First And Second Quarters

Approximately 1.5M square feet of leases were signed during the fourth quarter of 2024, falling short of the 5-year average by about 900K SF. Due to a strong first and second quarter, leasing in the first half of 2024 outpaced last year's H1 totals. Recently observed leasing trends in the Greater Philadelphia market include longer lease terms for larger deals and tenants' preference for renewal versus relocation. For example, the average lease term this year was over 5 years, while leases signed for 10,000 SF and above had an average lease term of about 8.5 years.

**Total Leasing Activity (msf)**



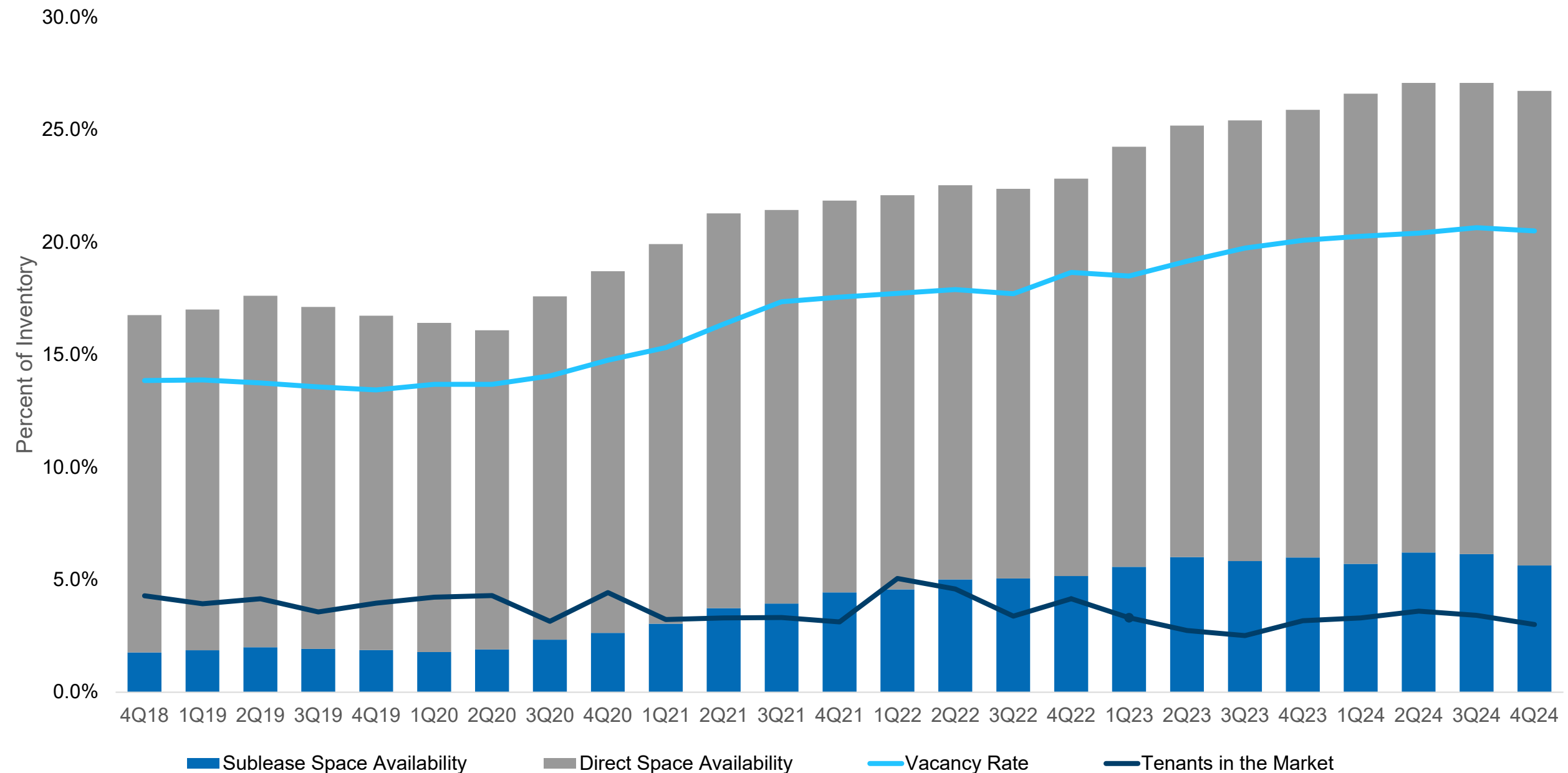
Source: Newmark Research, CoStar



# Availability And Tenant Demand See A Small Decrease

Office demand in Greater Philadelphia declined slightly by 40 basis points in the fourth quarter of 2024, measured by the total square feet of space tenants in the market are looking for, but remains high compared to 2023 office demand. 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 60% of CBD requirements are in the 5,000-25,000 square foot range.

Available Space and Tenant Demand as Percent of Overall Market

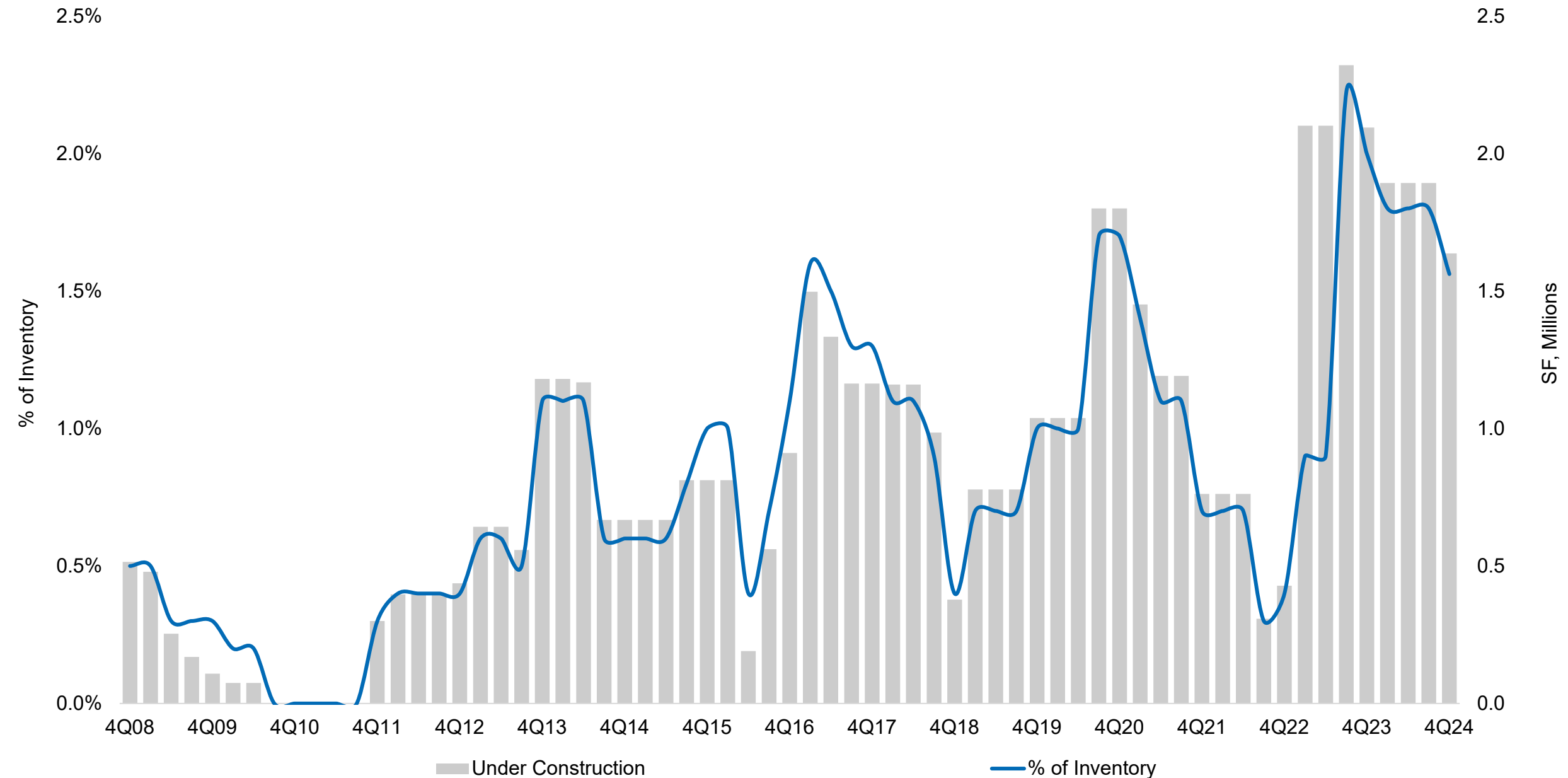


Source: Newmark Research

# The Philadelphia Region's Construction Pipeline Continues To Shrink

With the delivery of 155 King of Prussia Road in Radnor and 203 Squire Drive in Newtown Square, the only properties that remain under construction in the Greater Philadelphia office market are 2300 Market Street, 3151 Market Street, the new Chubb Insurance headquarters, and 3201 Cuthbert Street. Arkema moved into 155 King of Prussia Road while 203 Squire Drive is still fully vacant and available for leasing.

## Office Under Construction and % of Inventory



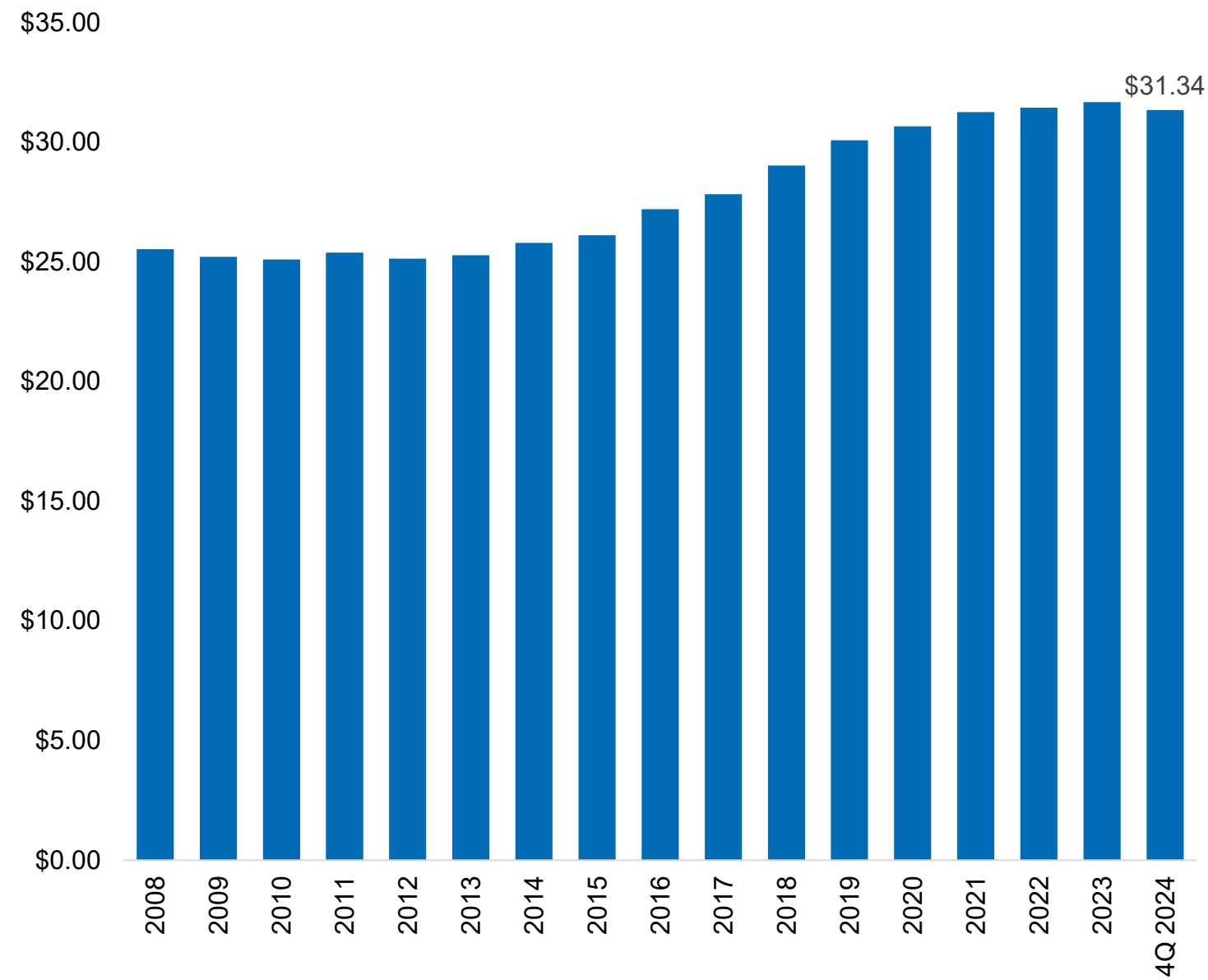
Source: Newmark Research, CoStar



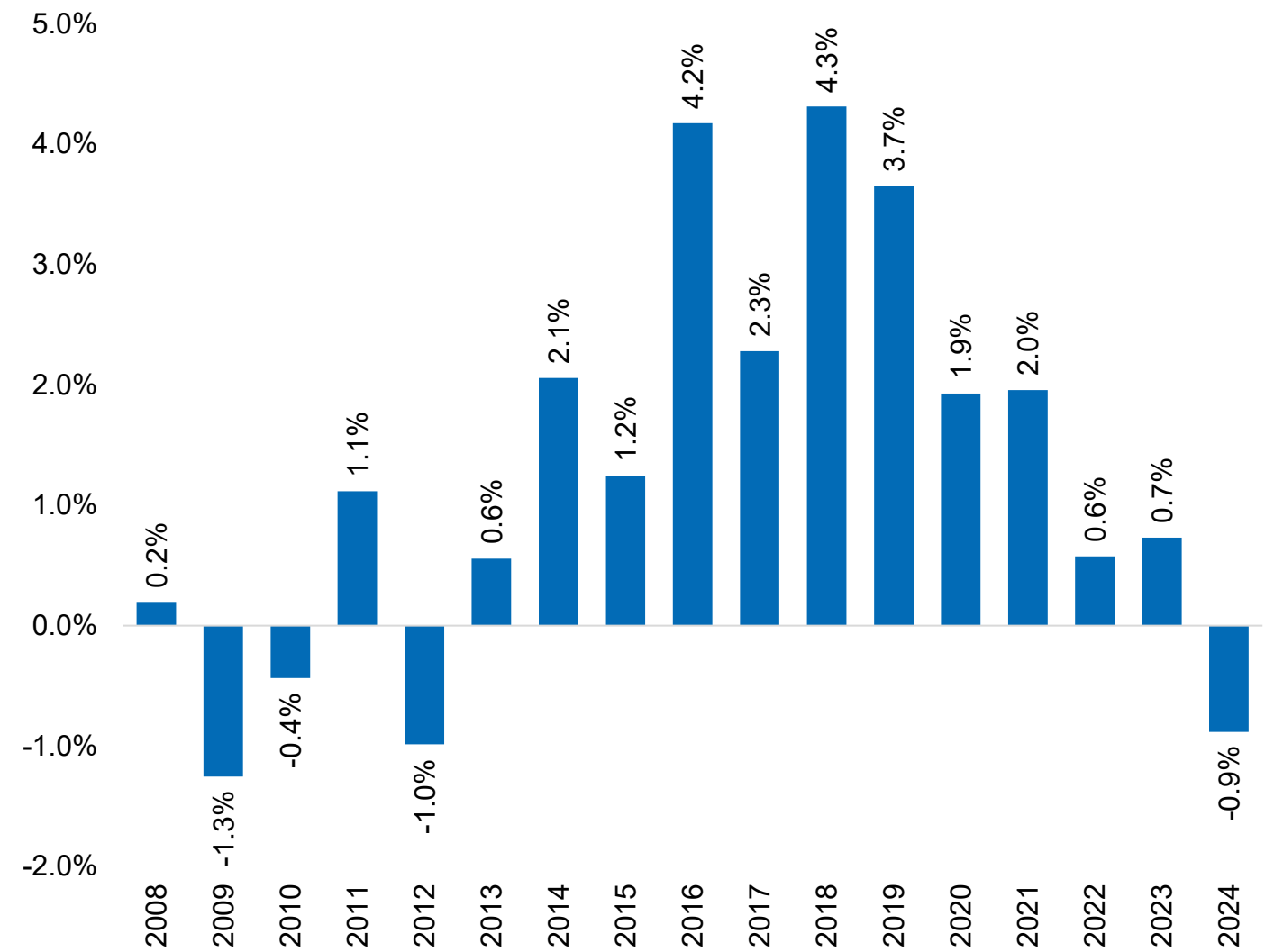
# Asking Rents See Slight Decline

Overall, asking rents dipped slightly since the start of 2024 to an average of \$31.39/SF. 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.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

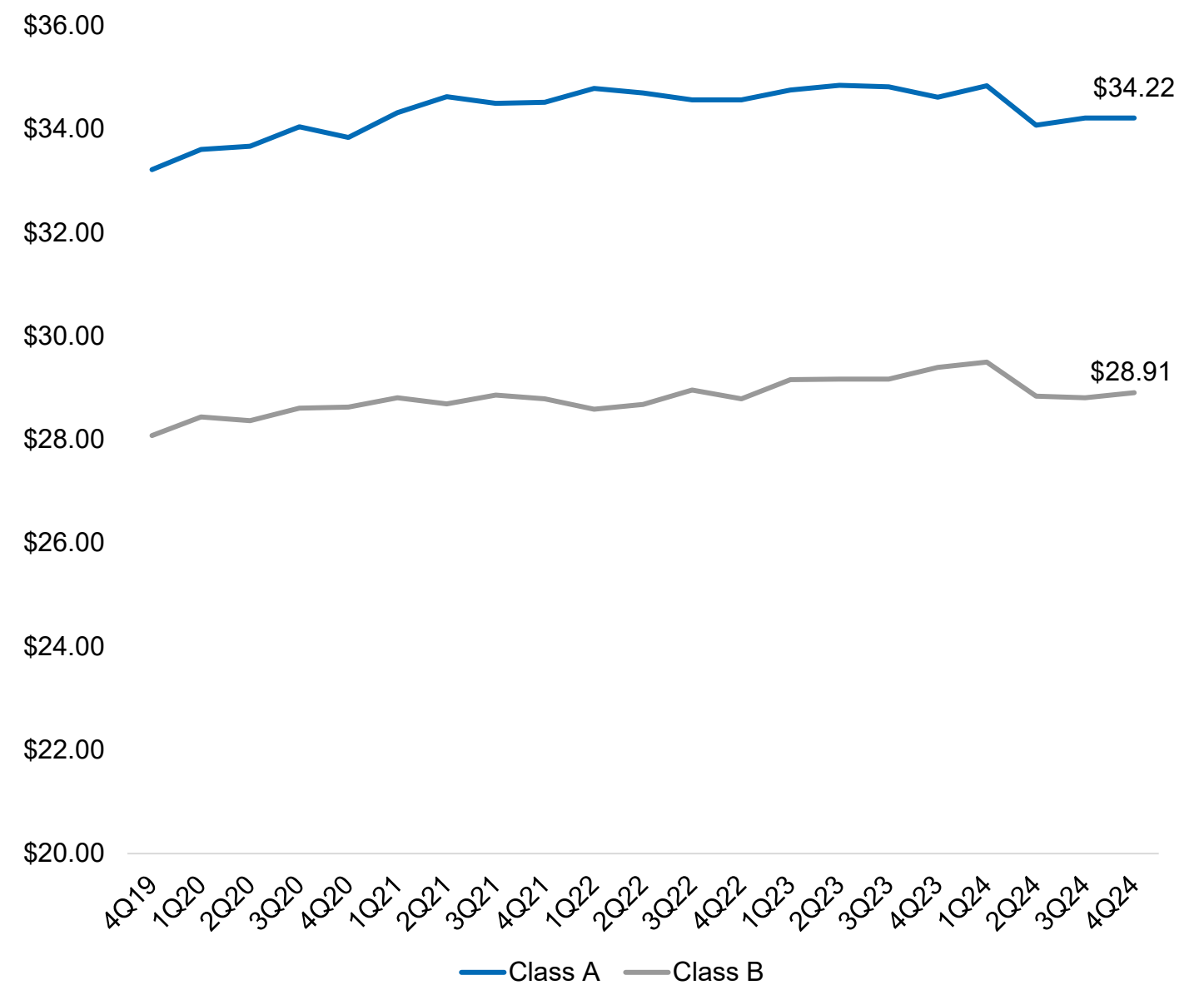


Source: Newmark Research

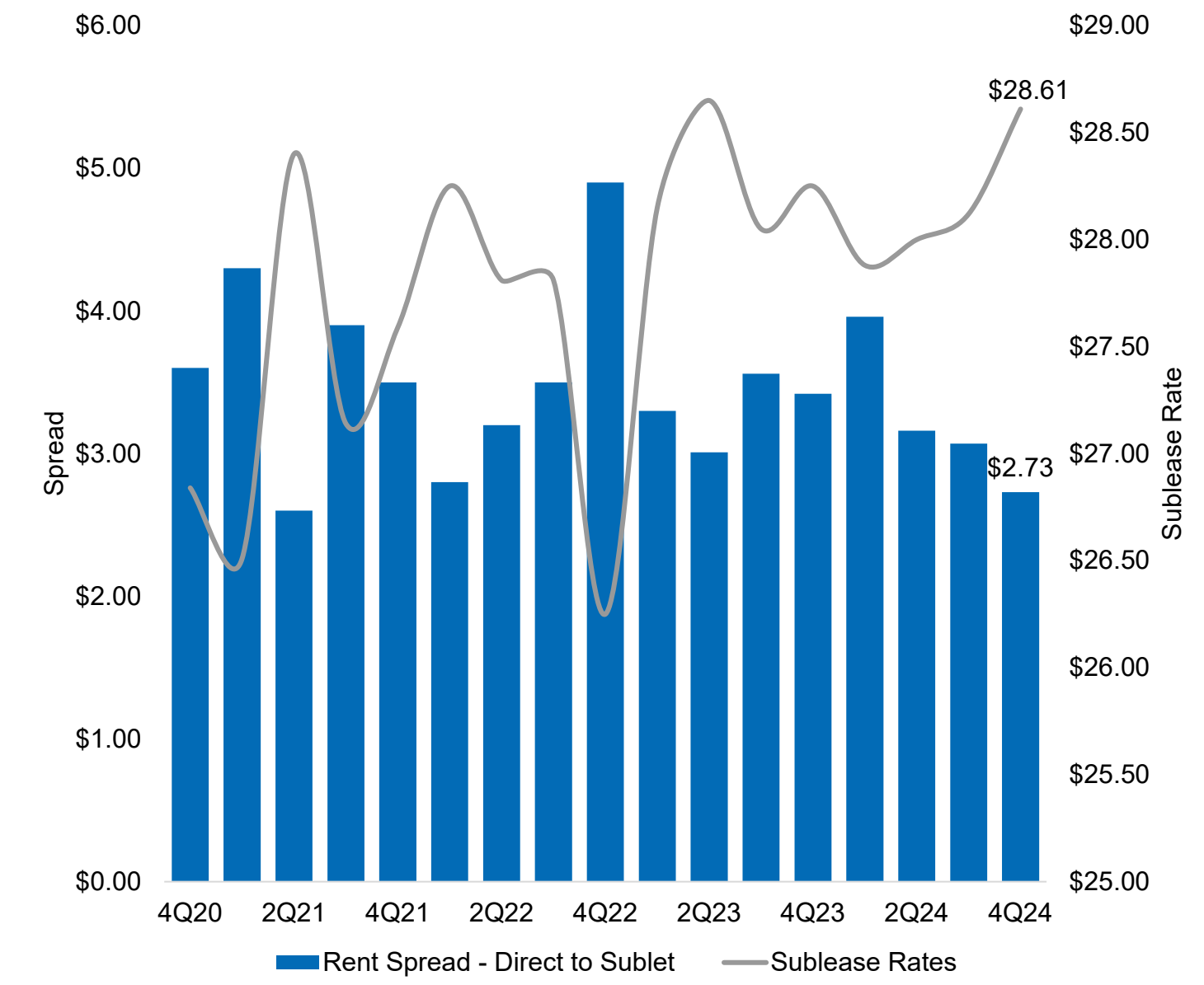
# Sublease Rates Trending Upward

Sublease and Class B asking rents ticked up during the fourth quarter, while Class A rents remained unchanged. Sublease listings continue to grow in popularity as high-quality subleases push rates up. Some of the largest sublease listings include 907 Market Street in the CBD East Market, with approximately 214,000 SF of sublease space available; 5 Crescent Drive in the Navy Yard, with approximately 208,000 SF of sublease space available; and 2301 Renaissance Boulevard in King of Prussia, with approximately 190,000 SF of sublease space available.

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



**Sublease Rates**



Source: Newmark Research, CoStar





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# Appendix

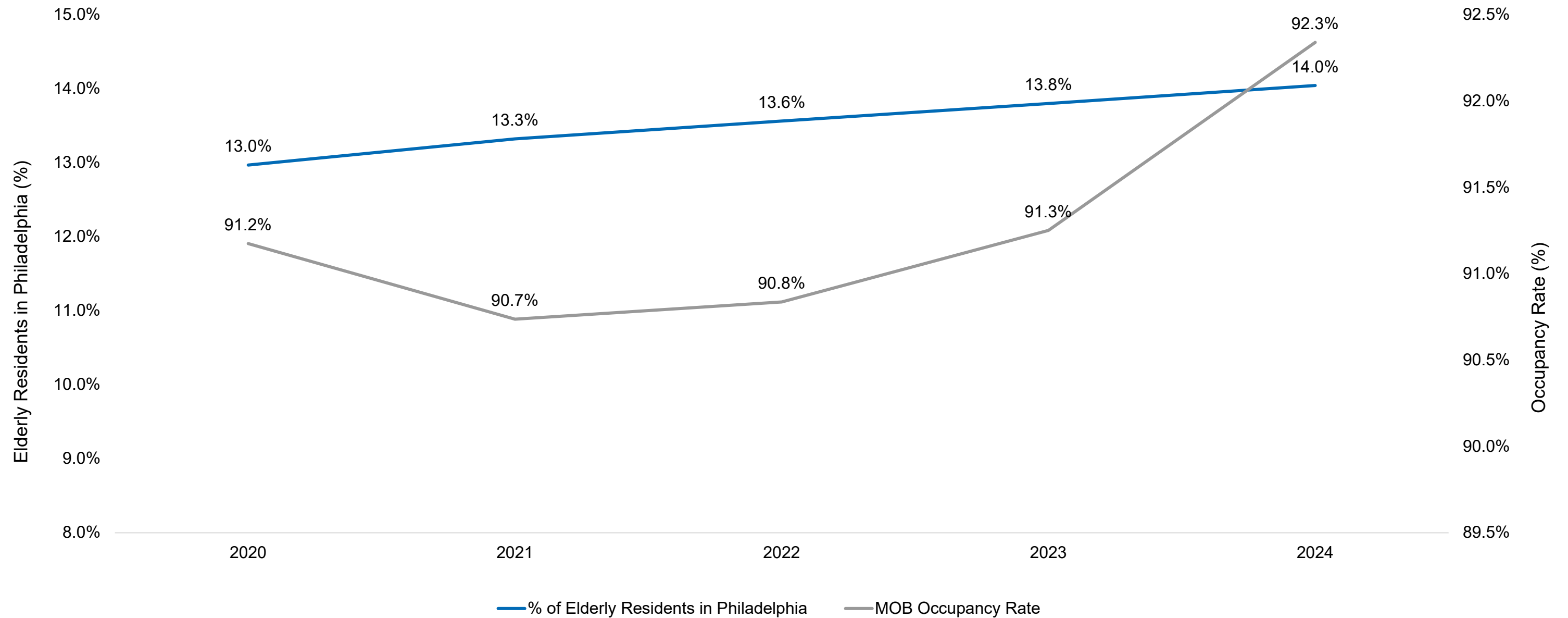




# Medical Office Demand Expected To Surge In 2025

Since 2020, both occupancy rates of medical office buildings and the percentage of elderly residents have grown by about 1%. Despite adding 174,000 square feet of new space in the last four years, occupancy rates continue to climb, indicating strong demand. Occupancy rates of medical office buildings in Philadelphia are 70 basis points higher than the average for the top 10 most populated U.S. cities. In comparison, rent growth is 50 basis points lower than the average. This combination of an aging population, high occupancy rates, and lower rent growth presents a unique opportunity for Philadelphia medical office investors in 2025, as tenant demand increases significantly through the year.

## Elderly Residents Vs. Medical Office Demand



Source: Newmark Research, U.S. Census Bureau; RevistaMED



# 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)
<b>CBD – Market East</b>	12,051,630	23.2%	3,456,508	677,146	28.7%	49,955	\$31.17
<b>CBD – Market West</b>	23,905,333	22.9%	6,334,371	1,367,287	26.5%	(132,582)	\$34.18
<b>CBD - Philadelphia</b>	<b>35,956,963</b>	<b>23.0%</b>	<b>9,790,879</b>	<b>2,044,433</b>	<b>27.2%</b>	<b>(82,627)</b>	<b>\$33.20</b>
<b>University City</b>	5,054,296	11.5%	667,970	155,267	13.2%	22,565	\$43.67
<b>Navy Yard</b>	983,558	25.2%	269,060	232,804	27.4%	885	\$25.73
<b>City of Philadelphia</b>	<b>41,994,817</b>	<b>21.7%</b>	<b>10,727,909</b>	<b>2,431,940</b>	<b>25.5%</b>	<b>(59,177)</b>	<b>\$33.79</b>
Bala Cynwyd	2,771,228	17.0%	552,202	144,698	19.9%	3,964	\$36.44
Blue Bell/Plymouth Meeting	8,505,221	21.1%	2,474,330	659,754	29.1%	37,603	\$27.59
Bucks County	7,293,296	14.1%	1,372,052	280,668	18.8%	62,773	\$26.37
Central/Southern Delaware County	5,369,792	22.4%	1,378,110	168,909	25.7%	(62,808)	\$29.53
Conshohocken	3,999,915	15.7%	846,077	179,764	21.2%	(24,004)	\$41.11
Exton/Malvern	7,760,010	19.0%	1,975,062	164,491	25.5%	(4,220)	\$28.43
Fort Washington	3,141,246	18.4%	873,592	232,539	27.8%	(18,508)	\$27.81
Horsham/Willow Grove	4,164,514	28.0%	1,712,556	258,533	41.1%	(162,769)	\$26.33
Jenkintown	1,044,051	20.9%	232,804	14,637	22.3%	(11,256)	\$24.24
King of Prussia	13,178,105	22.7%	4,497,549	829,751	34.1%	219,775	\$30.64
Radnor/Main Line	2,816,360	11.4%	417,773	126,207	14.8%	140,820	\$45.95
Southern 202 Corridor	2,783,630	17.9%	955,382	413,006	34.3%	6,516	\$26.80
<b>Suburban Philadelphia</b>	<b>62,827,396</b>	<b>19.7%</b>	<b>17,287,489</b>	<b>3,477,957</b>	<b>27.5%</b>	<b>187,886</b>	<b>\$29.75</b>
<b>Greater Philadelphia</b>	<b>104,822,213</b>	<b>20.5%</b>	<b>28,015,398</b>	<b>5,909,897</b>	<b>26.7%</b>	<b>128,709</b>	<b>\$31.34</b>

Source: Newmark Research

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