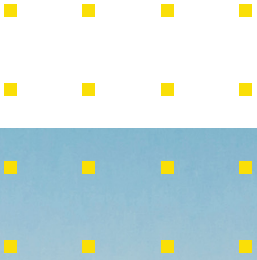


September 2024

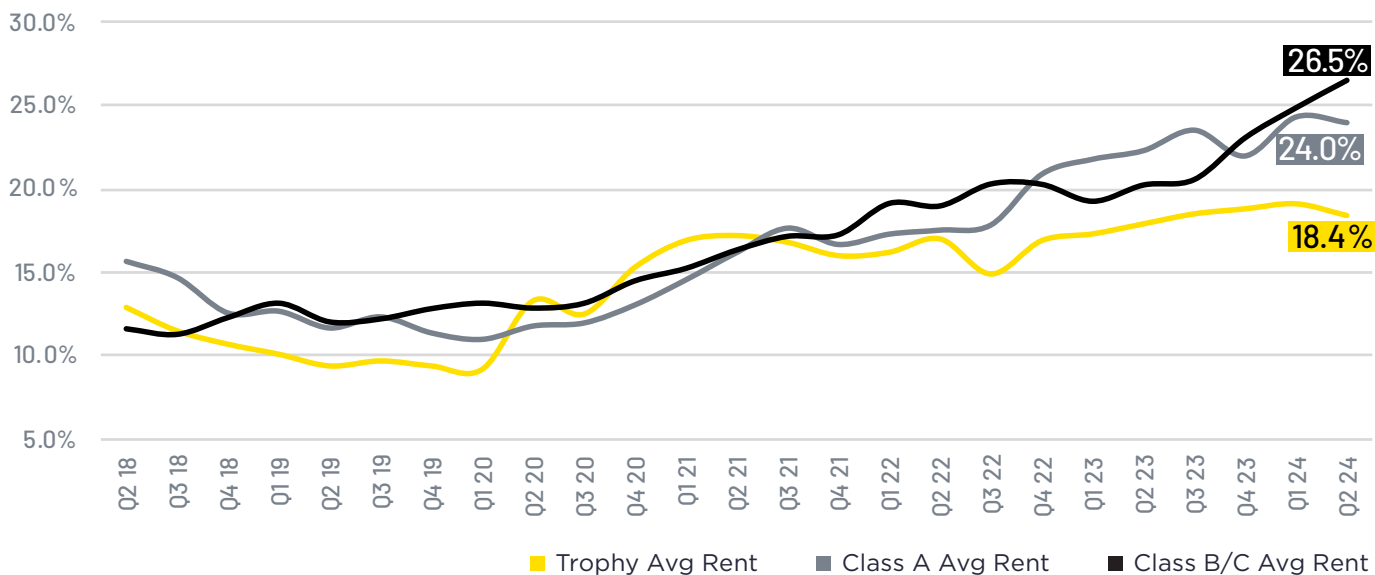
Philadelphia CBD leasing landscape through **mid-year 2024**



As Philadelphia’s Central Business District (CBD) office availability rate has continued to climb since the pandemic (24.8% at the end of Q2 2024), Savills examined the details of a few of the trends in the first half of 2024.

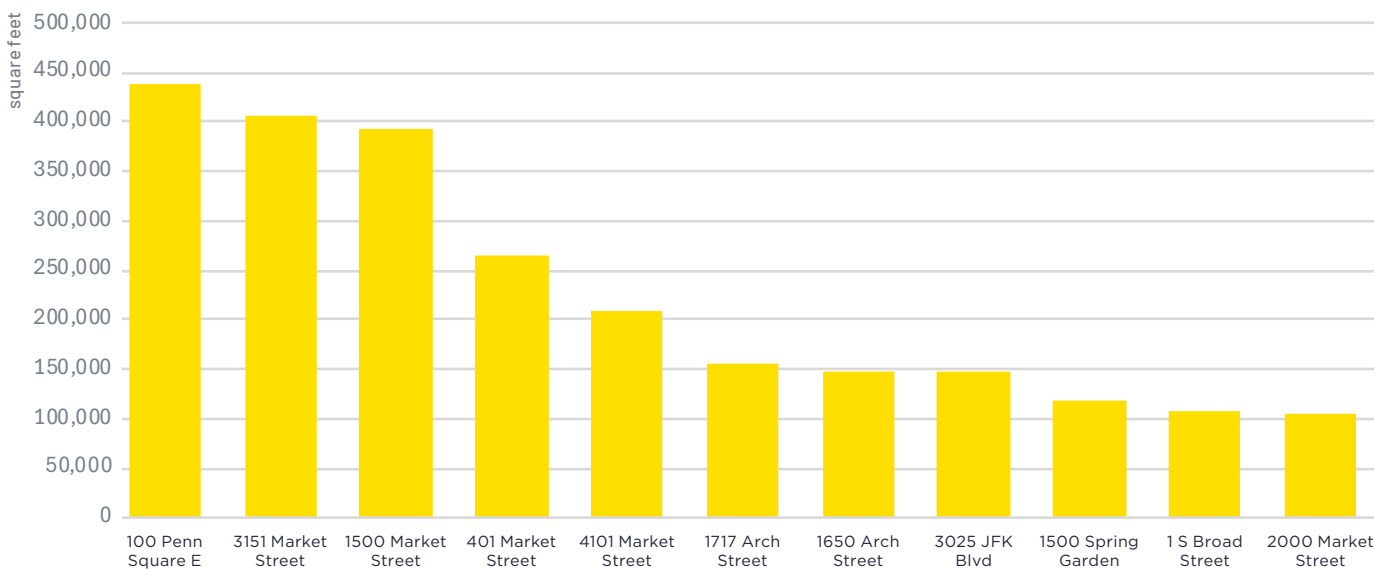
The flight-to-quality in Philadelphia’s CBD continued in the first half of the year. Out of the nearly 600,000 square feet (sf) of office leases signed in the first half of 2024, **89% were executed at Trophy and Class A buildings**. In addition, six of the 10 largest leases were in Trophy buildings, with the remaining leases signed at Class A buildings with substantial amenity packages such as fitness centers and common area conference facilities (i.e., 1600 Market Street). Brandywine Realty Trust, Philadelphia’s largest office landlord and majority owner of Trophy space outperformed its peers with an **availability rate of 14.3%, compared to 18.4%** for the total Trophy market.

Average availability rate



Of the 17 transactions that occurred in Class B and C buildings, **only one was greater than 10,000 sf**—highlighting the trend that larger tenants are still focusing on Trophy and Class A buildings with amenities, whereas Class B and C buildings remain home to smaller tenants who desire a presence on a smaller floor plate at a lower price point. Class B and C buildings are currently weighing down the overall market with a **26.5% availability rate**. However, with the recent sale of 1760 Market Street, investors have kicked off the process of acquiring Center City assets at steep discounts, which in turn allows them to lower asking rents substantially to compete for tenants. For example, 1760 Market Street was purchased in **2018 for \$31.5M or \$249 per square (psf)** but recently sold to current ownership for \$11.5M (\$91 psf). In turn, the owner dropped the asking rent from **\$34.00 psf to \$24.24 psf** (a 37% discount to average Class A rents of \$38.66 psf), hoping to chip away at the **70% availability rate**. It will be interesting to see if tenants are willing to forgo amenities and take space in Class A and B buildings in exchange for lower occupancy costs as buildings continue to trade hands and rents are “reset.”

Largest blocks of contiguous space



**Who has large blocks of contiguous space?
Where can we anticipate tenants landing in the future?**

Within the Trophy market, only three buildings have a contiguous block of available space greater than 100,000 sf:

Brandywine’s new building at **3151 Market Street**

411,130 sf

1717 Arch Street

155,671 sf

(a portion is Comcast sublease space)

3025 JFK Blvd

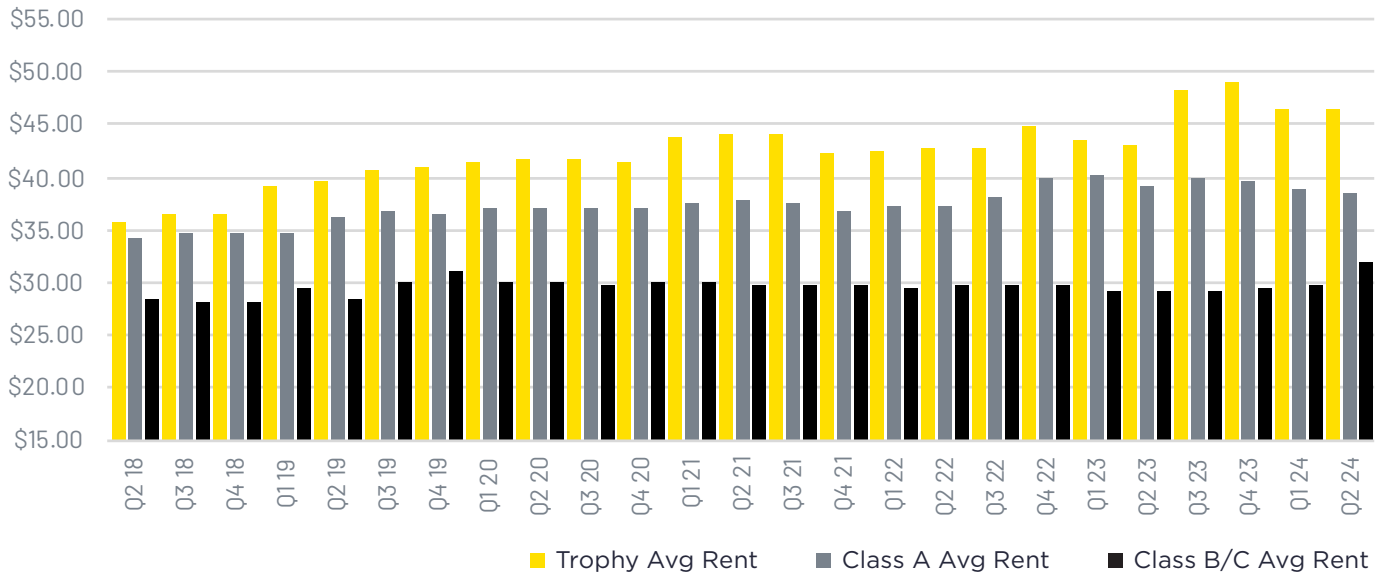
146,554 sf

where Brandywine is in leases for half of the remaining vacancy

Other Trophy assets with large blocks of contiguous space include **1650 Market Street (64,176 sf)**, **100 N 18th Street (63,476 sf)**, and **2001 Market Street (54,744 sf)**. Within the Class A market, there are nine buildings with contiguous blocks of available space over 100,000 sf – led by a 439,115 sf block at The Wanamaker Building, followed by two large blocks at 1500 Market Street (256,247 sf and 137,209 sf) and a 146,761 sf block at 1650 Arch Street. The total availability in the Trophy and Class A market is 7.5 million square feet (msf). Due to the poor debt position of some Trophy and Class A assets, they are not considered viable options by active tenants due to a common perception that they cannot provide market-level concessions, and the transaction process with lender approval is much more complicated. **Savills estimates that almost 2.5 msf, or 33%, of the total availability, could be viewed as nonviable for tenants in the market.** When you remove longstanding Philadelphia commercial assets currently constrained by their lender, the true pool of assets being considered by tenants in the market shrinks. This again puts the leasing focus on the top Trophy and Class A landlords who can display strong financial positions and a proven track record of completing transactions.



Average asking rent



While average Class A asking rents (\$38.66 psf) are 20.0% lower than Trophy rents (\$46.39 psf),

we anticipate tenants will continue right-sizing and focusing on efficiency, which allows them to occupy less space in nicer buildings for the same cost — with the benefit of amenities that will help attract and retain employees and support company culture that only Trophy buildings and the better-quality Class A product can offer.



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