

Philadelphia

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Additional office space to undergo conversion

Philadelphia Central Business District's (CBD) oversaturated office market received news that two more office buildings will undergo conversions to alternate uses. A joint venture between Keystone Development & Investment and Lubert-Adler, L.P. acquired the 316,000-square-foot (sf) Bourse Building and the 173,300-square-foot 400 Market Street for \$41 million. The partnership will convert some of the Bourse's office floors into hotel space with an event venue, while 400 Market Street will become a residential property.

There were over 1.0 million square feet (msf) of leases executed across the Philadelphia region in the third quarter of 2024— an 8.8% uptick from the second quarter. Notable transactions included: law firm Potter Anderson & Corroon's renewal of 82,758 square feet (sf) at 1313 N Market Street in Wilmington, Endo Pharmaceuticals' sublease of 58,700 sf at 9 Great Valley Parkway in the PA Turnpike/Rt. 202 Corridor and UnitedHealthcare's lease of 46,666 sf at 600 Office Center Drive in Fort Washington/Spring House.

Regional availability has not yet peaked

Upcoming leasing expirations in addition to several tenants reoptimizing their space have pushed availability higher. Quarter over quarter, the regional overall availability rate increased 40 basis points (bps) to 25.2%. Despite the "flight-to-quality trend," availability rose across all classes. Sublease availability grew from 6.0 msf to 6.2 msf at the end of the third quarter. The Philadelphia CBD's availability rate was 25.3%, up 40 bps from last quarter.

Owners of Class B and Class C properties feel the pressure

The overall average asking rental rates for the region and the CBD decreased less than 1.0% each to \$32.06 per square foot (psf) and \$36.57 psf, respectively. Owners of Class B and Class C assets have felt the most pressure as tenants seek high-end properties with amenities to lure back employees. The combined Class B and Class C average rent for the region decreased 1.2%, quarter over quarter, to \$28.04 psf. In addition, the CBD combined Class B and Class C average rent fell 2.2% to \$31.07 psf.

Key Statistics

	Q3 2023	Q3 2024	Y-0-Y
Inventory	134.1 msf	131.6 msf	-2.5 msf
Availability Rate	24.6%	25.2%	+60 bps
Asking Rental Rate	\$31.27	\$32.06	+2.5%
CBD Asking Rental Rate	\$36.99	\$36.57	-1.1%
Quarterly Leasing Activity	1.2 msf	1.0 msf	-0.2 msf
Available Sublease Space	6.5 msf	6.2 msf	-0.3 msf

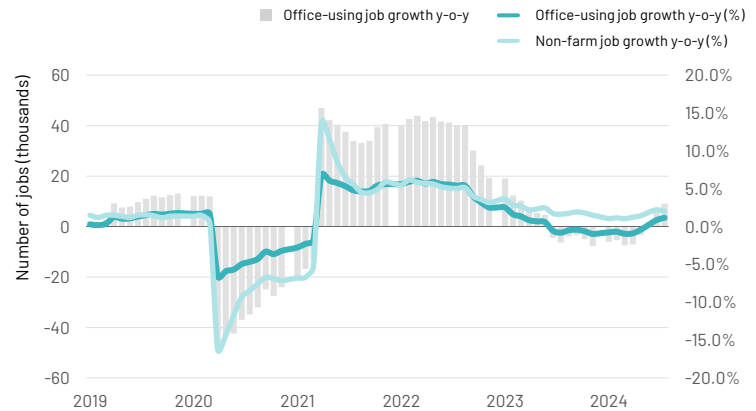
Outlook

01 Office valuations will continue to slide as high availability and upcoming loan maturities put pressure on the investment market

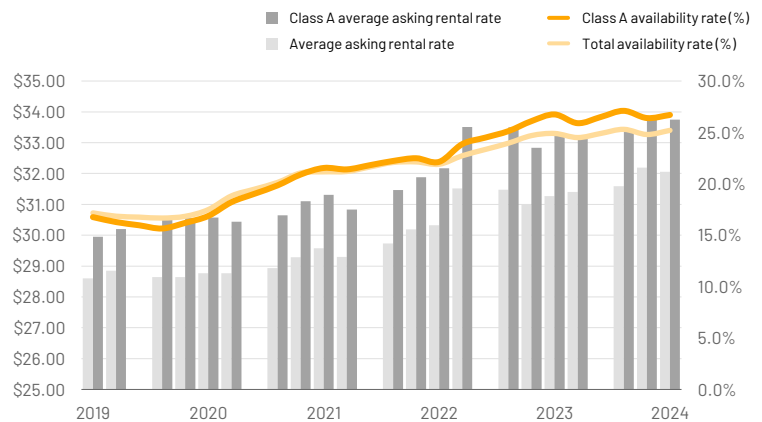
02 A potential stadium complex over Jefferson Station could spur more office conversions in East Market; pushing additional tenants in West Market's direction

03 Tenants negotiating for space who are offered work allowance will seek more legal guarantees as capital constraints plague office owners

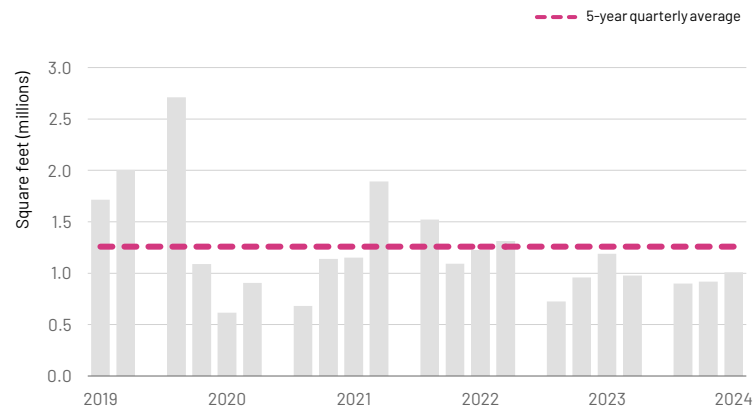
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

*Trophy Building

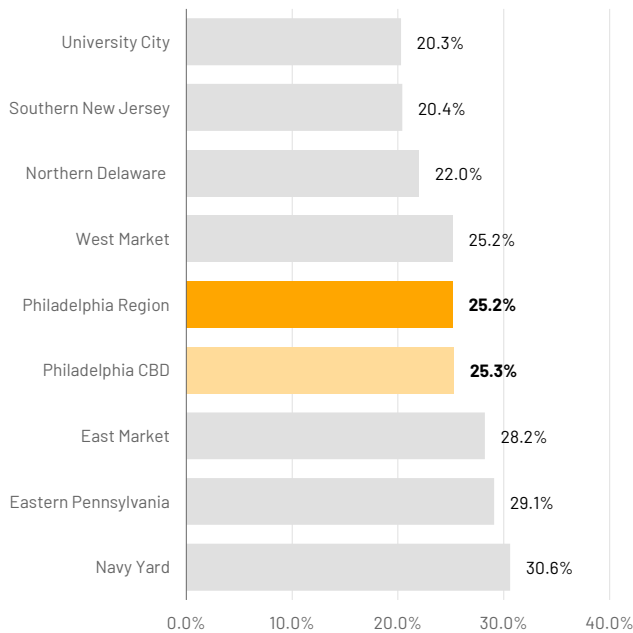
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
Potter Anderson & Corroon LLP	Legal Services	Wilmington	1313 N Market Street	82,758	Renewal
Endo Pharmaceuticals	Pharmaceuticals	PA Turnpike/Rt. 202 Corridor	9 Great Valley Parkway	58,700	New Location**
UnitedHealthcare	Financial Services and Insurance	Ft. Washington/Spring House	600 Office Center Drive	46,666	New Location
HNTB	Architecture, Engineering and Construction	West Market	1600 Market Street	38,375	Relocation
The Vanguard Group	Financial Services and Insurance	PA Turnpike/Rt. 202 Corridor	601 Lee Road	35,117	Relocation
Morgan Stanley	Financial Services and Insurance	Burlington County	330 Fellowship Road	31,832	Renewal
Wistar	Pharmaceuticals	University City	3675 Market Street	25,000	New Location
Citizens Bank	Financial Services and Insurance	Conshohocken	Five Tower Bridge	19,882	New Location
TIAA	Financial Services and Insurance	West Market	1700 Market Street	17,202	Relocation
State of New Jersey	Government	Camden County	3 Executive Campus	15,351	Relocation

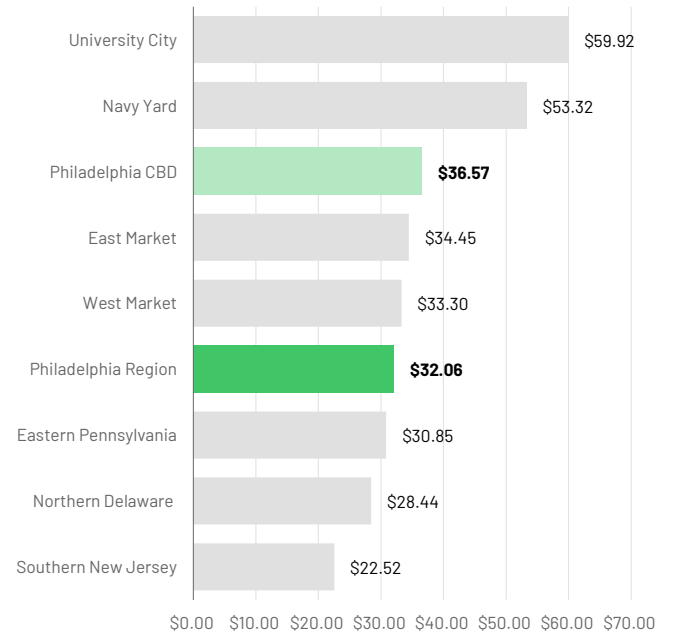
Availability Rate Comparison (%)

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Rental Rate Comparison (\$/sf)

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Philadelphia Q3 2024 - Office

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Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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