MARKET IN MINUTES
Savills Research

Q3 2022 - Office

Philadelphia

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Leasing Activity Grows in the Suburbs but Remains Slower in the CBD

The Greater Philadelphia region reported 1.2 million square feet (msf) of transactions for the third quarter of 2022. However, while leasing activity is up 12.3% from the second quarter, it is well below pre-pandemic levels. The Philadelphia suburbs recorded an almost 17.0% bump in transactions from the prior quarter compared to 4.2% for the CBD. Comcast's announcement that its city workers would return to the office after Labor Day will hopefully prompt more tenants to recall workers to the office and refocus on their future real estate plans. Notable transactions executed during the third quarter included Century Therapeutics' 57,500-sf expansion at One uCity in University City, CBIZ's relocation to 50,850 sf at 1K1 in Conshohocken and Holland & Knights' relocation to 48,232 sf at One Liberty Place. In addition, insurance firm Chubb is in talks to pre-lease a 475,000-sf new tower to be located at 2000 Arch St in the West Market submarket.

The Philadelphia CBD Records a Significant Bump in Sublease Availability

Quarter over quarter, regional availability decreased 20 basis points (bps) to 21.9%. Suburban submarkets that recorded gains in availability included Radnor (660 bps), Southeast Delaware County (550 bps) and Newtown (150 bps). The regional Class A availability rate declined 40 bps to 22.1%. Overall, tenants continued to gravitate toward properties offering premium amenities in hopes of luring workers back to the office. Some tenants are occupying less space than before. Space availability in the Philadelphia Central Business District (CBD) grew 30 bps to 18.8% due to more tenants subletting space. During the quarter, ECFMG put 33,292 sf on the market for sublease at 3624 Market St, while United Healthcare Services is subletting 29,609 sf at 1818 Market St.

Rent Growth Continues but at a Slow Pace

The region's overall average asking rental rate increased less than 1.0% from the second quarter to $30.33 per square foot (psf). Submarkets that recorded upticks in their rent averages included University City, West New Castle County and Blue Bell. The regional average sublease asking rent rose 2.6% from the second quarter to $27.64 psf but remains $3.00 psf less than the direct average.

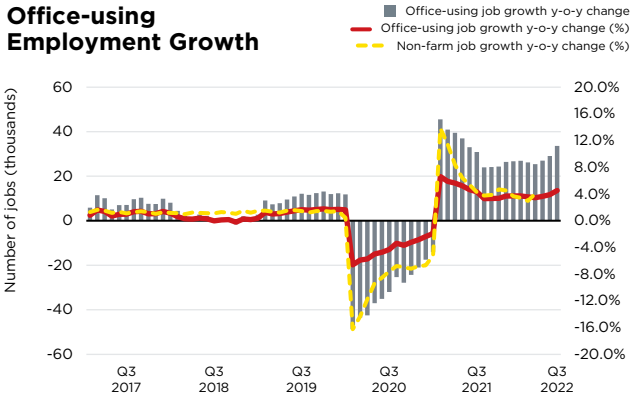
Outlook

- The life science sector has become a major driver, however, the recent decrease in leasing demand is worth watching as interest rates have gone up
- While more workers are returning to the office, hybrid work arrangements are not expected to go away
- Higher interest rates may cause office developers to hold back breaking ground on new developments without a pre-leased anchor tenant

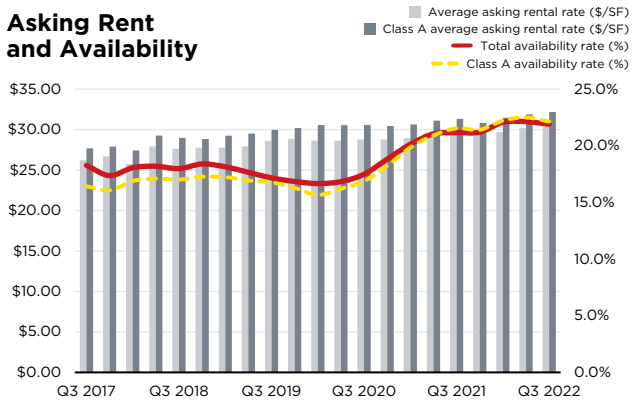
Key Statistics

	Q3 2021	Q3 2022	y-o-y Change
Inventory	132.7 MSF	133.7 MSF	▲
Availability Rate	21.2%	21.9%	▲
Asking Rental Rate	$29.57	$30.33	▲
CBD Asking Rental Rate	$34.73	$35.35	▲
Quarterly Leasing Activity	1.1 MSF	1.2 MSF	▲
Available Sublease Space	5.0 MSF	5.5 MSF	▲

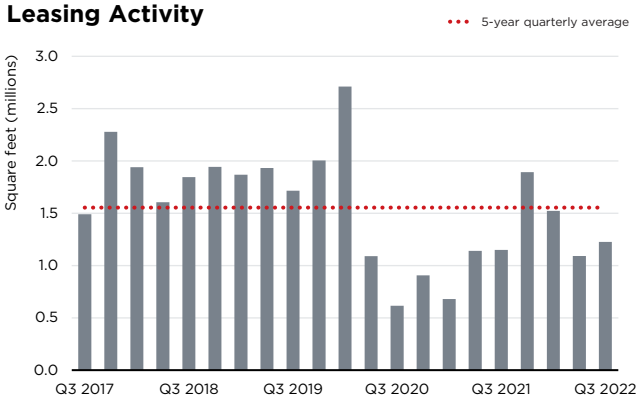
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

4.5%
Philadelphia-Camden-Wilmington MSA unemployment rate (as of August 2022)

4.5%
Office-using employment growth year over year (as of August 2022)

1.3 msf
Office space currently under construction

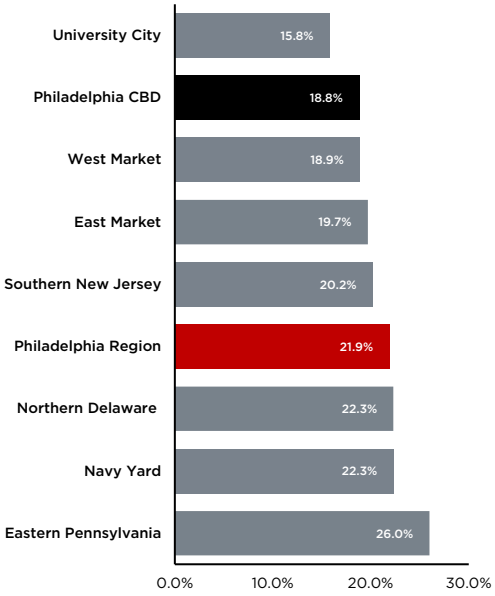
Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Century Therapeutics	57,500	One uCity	Expansion	University City	Pharmaceuticals
CBIZ	50,850	1K1	Relocation	Conshohocken	TAMI
Holland & Knight	48,232	One Liberty Place	Relocation	West Market	Legal Services
Ikea	39,372	2200 Renaissance Boulevard	Relocation	King of Prussia	Retail
Marshall Dennehy	37,174	620 Freedom Business Center Drive	Renewal	King of Prussia	Legal Services
Clifton Larson Allen	36,826	150 S Warner Road	Relocation	King of Prussia	Business & Professional Services
Prudential	35,940	600 Office Center Drive	New	Fort Washington/Spring House	Financial Services & Insurance
CRB Group	26,700	Seven Tower Bridge	Relocation	Conshohocken	Construction, Engineering & Architecture
Link Logistics	24,832	602 Office Center Drive	Expansion	Fort Washington/Spring House	Real Estate
UBS Financial Services	23,000	1735 Market Street	Relocation	West Market	Financial Services & Insurance

Source: Savills Research

Availability Rate Comparison (%)

Philadelphia Submarkets



Rental Rate Comparison ($/SF)

Philadelphia Submarkets



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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