

MARKET REPORT

Office
Philadelphia Metro Area

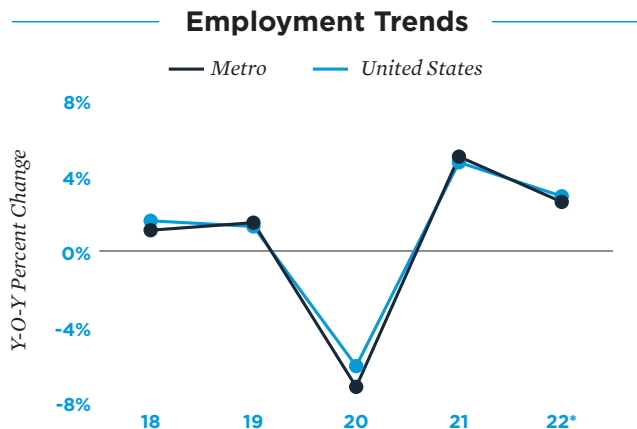
IPA
INSTITUTIONAL
PROPERTY
ADVISORS

4Q/22

Speculative Development Continues at a Notable Pace as Center City Availability Remains Elevated

Bifurcated performance trends observed in the urban core. Some of the city's largest employers, including GSK plc and Comcast, have retained offices in the CBD, despite subleasing space elsewhere in the metro. Additionally, the latter called 8,000 employees back to the workplace in September, a welcome sign for office usage in this locale. Nevertheless, availability trends have been inconsistent among core submarkets. Market Street East and West both reported increases of at least 110 basis points during the 12-month period ending in June, while vacancy around Independence Hall declined 290 basis points as tenants pursued amenity-rich space here. On a brighter note, growing availability may be mitigated by biotech spillover from University City, as office-to-lab conversions in Center City and adjacent zones are capturing tenants at a notable rate.

New supply exerting pressure on overall availability. Finalizations this year remain roughly in-line with pre-2020 norms, as developers finalize larger projects that have been underway for several years. Meanwhile, demand for space still trails pre-pandemic levels, contributing to rising vacancy this year. Compounding this, roughly 40 percent of inventory under construction is accounted for as of September, the lowest rate among major Northeastern markets. Fortunately, demand for space in other real estate sectors may help reduce the impact of vacant stock. During the four-quarter period ended in June, more supply was removed from the market through demolition and conversion than was added.



* Forecast
Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



75,000

JOBS

will be created

EMPLOYMENT:

Recruitment in traditional office-using sectors has proceeded at a commendable pace this year. Segment staffing counts entered September more than 22,000 positions ahead of the pre-pandemic level.



1,250,000

SQ. FT.

will be completed

CONSTRUCTION:

Developers finalize a three-year high volume of office space, constituting 0.4 percent of market inventory. More than 800,000 square feet is set to come online within the Philadelphia city limits.



20

BASIS POINT

increase in vacancy

VACANCY:

A number of speculative additions coming to market in the near term will contribute to a third consecutive year of climbing vacancy. Nevertheless, the fourth quarter availability rate of 15.1 percent remains below 2021's high.



1.6%

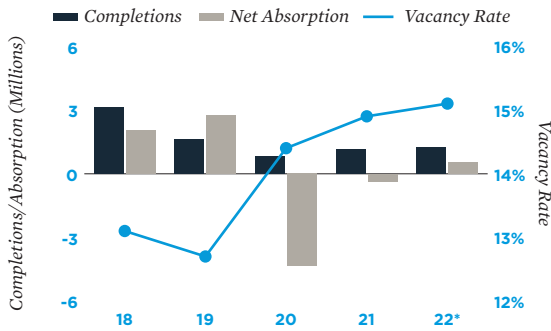
INCREASE

in asking rent

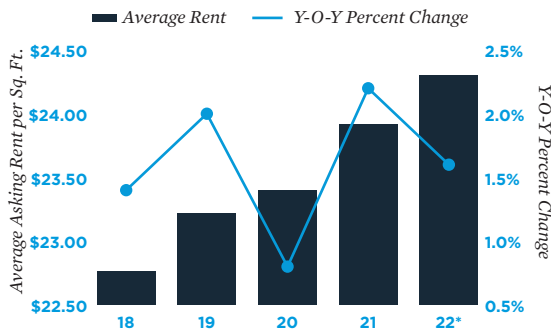
RENT:

Marketed rents have notched consistent year-over-year growth since the onset of the health crisis. This trend continues in 2022 as the mean asking rate reaches \$24.30 per square foot, nearly 5 percent ahead of the year-end 2019 measure.

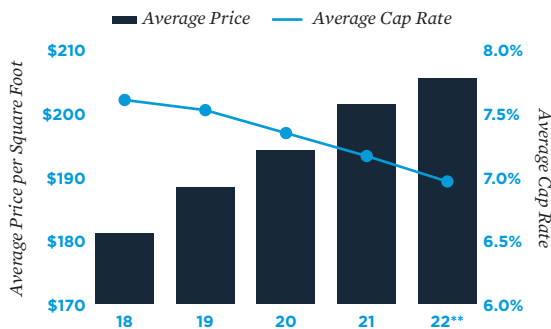
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

Philadelphia Office:

Sean Beuche Vice President, Regional Manager

2005 Market Street, Suite 1510

Philadelphia, PA 19103

Tel: (215) 531-7000 | sean.beuche@marcusmillichap.com

Prepared and edited by:

Luke Murphy

Research Analyst | Research Services

For information on national office trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | john.chang@ipausa.com

Price: \$250

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

2Q 2022 - 12-Month Period



CONSTRUCTION

1,224,000 sq. ft. completed

- Finalizations during the 12-month span ended in June rose nearly 50 percent over the previous yearlong period.
- Developers are focusing on locales adjacent to the state's northern border. Delaware submarkets added 260,000 square feet during this period, the most rapid increase to this portion of the Philadelphia metro since 2018.



VACANCY

40 basis point decrease in vacancy Y-O-Y

- More than 2 million square feet was absorbed on a net basis during the trailing year ended in June, driving vacancy down to 15.0 percent.
- All submarkets in Southern New Jersey and Delaware reported vacancy declines this period, except North Burlington County, where a 290-basis-point increase was observed.



RENT

1.4% increase in the average asking rent Y-O-Y

- Rent growth was comparable to pre-pandemic rates over the yearlong span ended in June, bringing the mean marketed rent to \$23.87 per square foot.
- Class A properties drove rent gains this period, growing 3.0 percent to an average of \$27.88 per square foot. Mid- and lower-tier properties saw a 0.2 percent decline, bringing the mean asking rent to \$21.00 per square foot.

Investment Highlights

- Though concerns over future office usage remain, ameliorating health restrictions brought many investors back to the table this period. Trade velocity during the four-quarter span ended in June observed a 60 percent increase over the preceding annual period, as the number of deals returned to a level comparable with pre-pandemic years.
- Price growth remained steady through the worst of the pandemic, and has continued positive momentum through midyear 2022 as bidding normalized. The average price per square foot marked a 4 percent increase during this yearlong span, entering July at \$205 per square foot. Furthermore, cap rates declined at the most notable pace since the aftermath of the Great Recession, declining 30 basis points to 7.0 percent.
- Buyers remain enthusiastic for medical office opportunities, which constituted roughly half of the market's deal flow during the trailing year ended in June, in-line with historical norms. Yields in this sector are typically in the mid-6 to 8 percent range, often exceeding the national average. Additionally, Philadelphia's academically-linked healthcare systems underscore a consistent demand base in this segment.