

INVESTMENT FORECAST

Office
Philadelphia Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2024

Selection of Amenity-Rich Floorplans and Declining Remote Work Keep Tenants Downtown

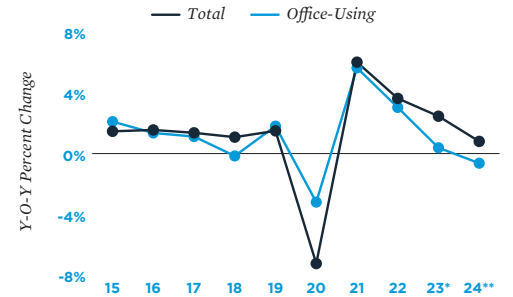
Growing in-office presence stands to benefit core. In a survey of 14 major U.S. metros, Philadelphia saw the most substantial decline in remote-only workers from June 2022 to October of last year, with the metric falling 580 basis points to 33.1 percent. This is a welcome sign for overall office demand, and should help restrain rising vacancy in Philadelphia proper as workers filter back into area offices. Move-ins for this year reaffirm that tenants remain committed to the urban core despite some downsizing, with a notable amount of leases clustered in Center City and along Market Street. Exemplifying this trend, Big Four accounting firm KPMG is relocating to the BNY Mellon Center from its current lease merely one block away. Footprint consolidation will nevertheless drive up vacancy in the CBD, although the area's selection of amenity-rich assets may benefit from this process. The Navy Yard also continues to cement itself as an emerging office hub, particularly among biotech-oriented firms. BioMérieux, a French company specializing in life science diagnostics, began occupying 32,000 square feet in this submarket in January.

Buyers maintain pursuit of suburban assets, but core could see increased activity. Despite an appreciable uptick in office usage relative to other primary markets throughout the previous two years, many investors remain apprehensive, keeping transaction velocity subdued across all office tiers. Buyers are currently most active in the metro's suburban zones, which retain a favorable vacancy gap over the CBD. Clusters of Class B and C trades have emerged in Bryn Mawr and Bala Cynwyd, municipalities favorably placed between Philadelphia proper and the metro's affluent northwestern suburbs. The Market Street area remains the market's urban transaction epicenter, with institutional parties seeking trophy assets likely to target here or other locales around Center City.

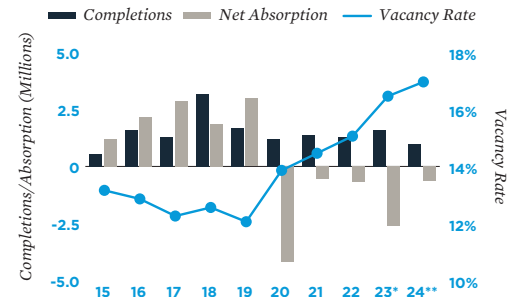
2024 MARKET FORECAST

- +0.8%** **EMPLOYMENT:** An overall net gain of 25,000 jobs will be weighed down by the loss of 5,000 positions in traditional office-using fields, representing a contraction of around 0.8 percent in these segments.
 - 1,000,000 sq. ft.** **CONSTRUCTION:** Developers expand inventory by just 0.3 percent this year. Supply additions will be at their thinnest since 2015, when just over half a million square feet was brought to market.
 - +50 bps** **VACANCY:** The local office market has passed the worst of post-pandemic consolidation, with vacancy expected to note the smallest increase since 2019, pushing the metric to 17.0 percent.
 - +0.2%** **RENT:** A slowdown in space relinquished to the market will allow asking rents to maintain a slight upward trajectory in 2024. The mean marketed rate will creep upward to \$24.81 per square foot.
- INVESTMENT:** *Southeastern Pennsylvania has become increasingly popular with retirees in recent years, which will support long-term medical office demand in the metro's outlying locales.*

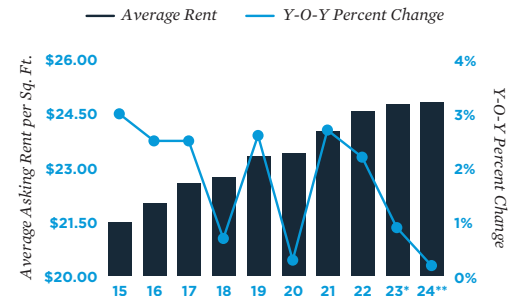
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2023. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.