



# Greater Philadelphia office market report

Q2 2024

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**AVISON  
YOUNG**

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# Greater Philadelphia office market trends

## 21.7%

### Total availability drops for the second consecutive quarter

A combination of stronger than expected leasing activity and a large owner-user office sale led to the second quarter in a row of decreasing space availability across Greater Philadelphia. A hair above 1.27 MSF of office space was leased in Q2 24' increasing by just 1% QoQ from 1.26 MSF in Q1 24'. In the Wilmington CBD, over 500K SF of vacant available space was acquired by life science firm Incyte following their acquisition of the Bracebridge 1 & 3 offices, previously a component of MBNA headquarters.

## \$259M

### CMBS Loan Maturities set to mature by end of 2024

Maturing debt continues to be a point of concern, not only for landlords but for the tenants in the market. Flight to quality has quickly become flight to debt free landlords. There is currently \$259 million in CMBS loan across 2 MSF of office space set to mature by the end of 2024 across Greater Philadelphia.

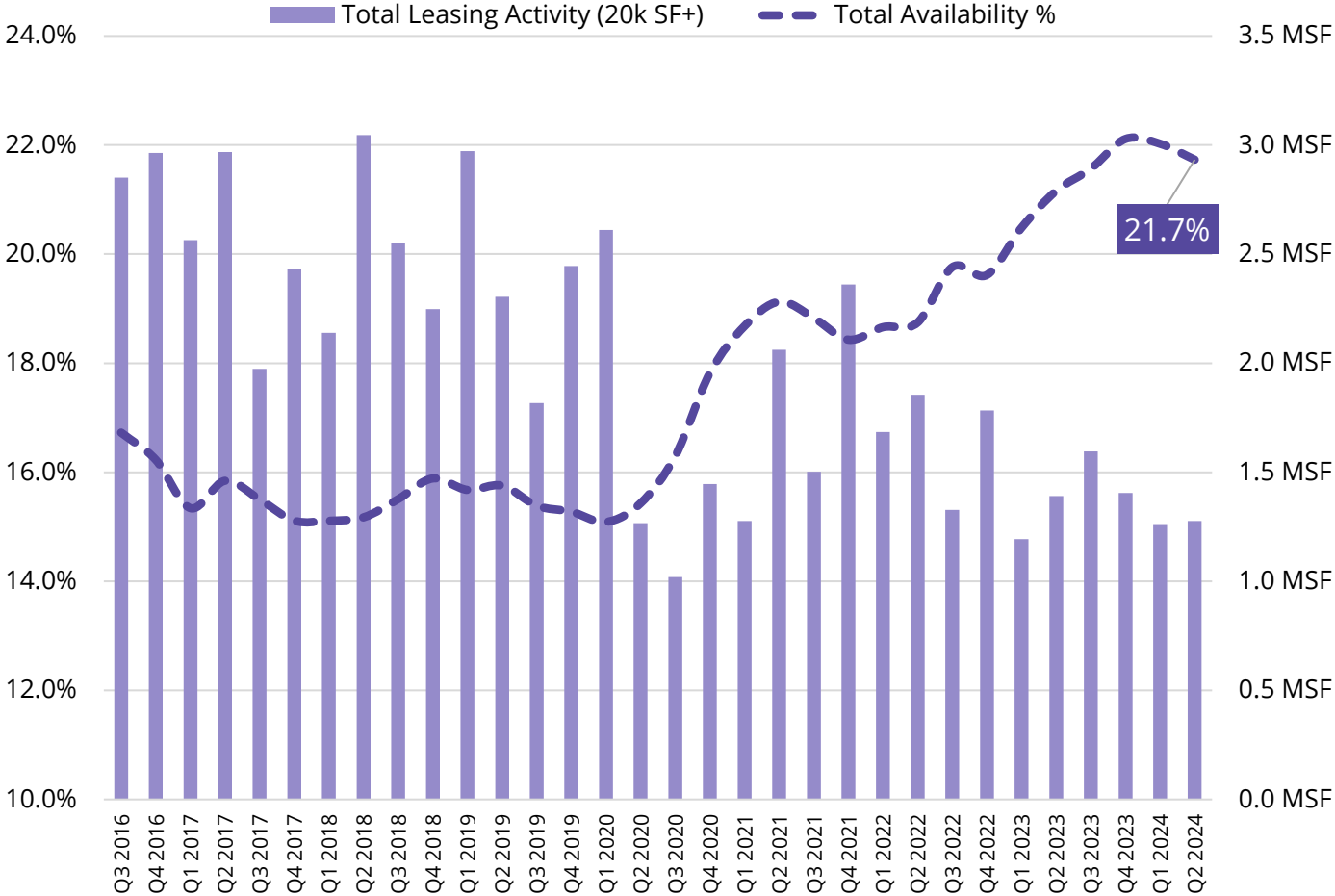
Exacerbated by an elevated interest rate environment and high vacancies across many landlords' portfolios, the Greater Philadelphia office leasing market remains in the tenant's favor.

## \$101<sub>psf</sub>

### Investment sales average price per square foot paid\*

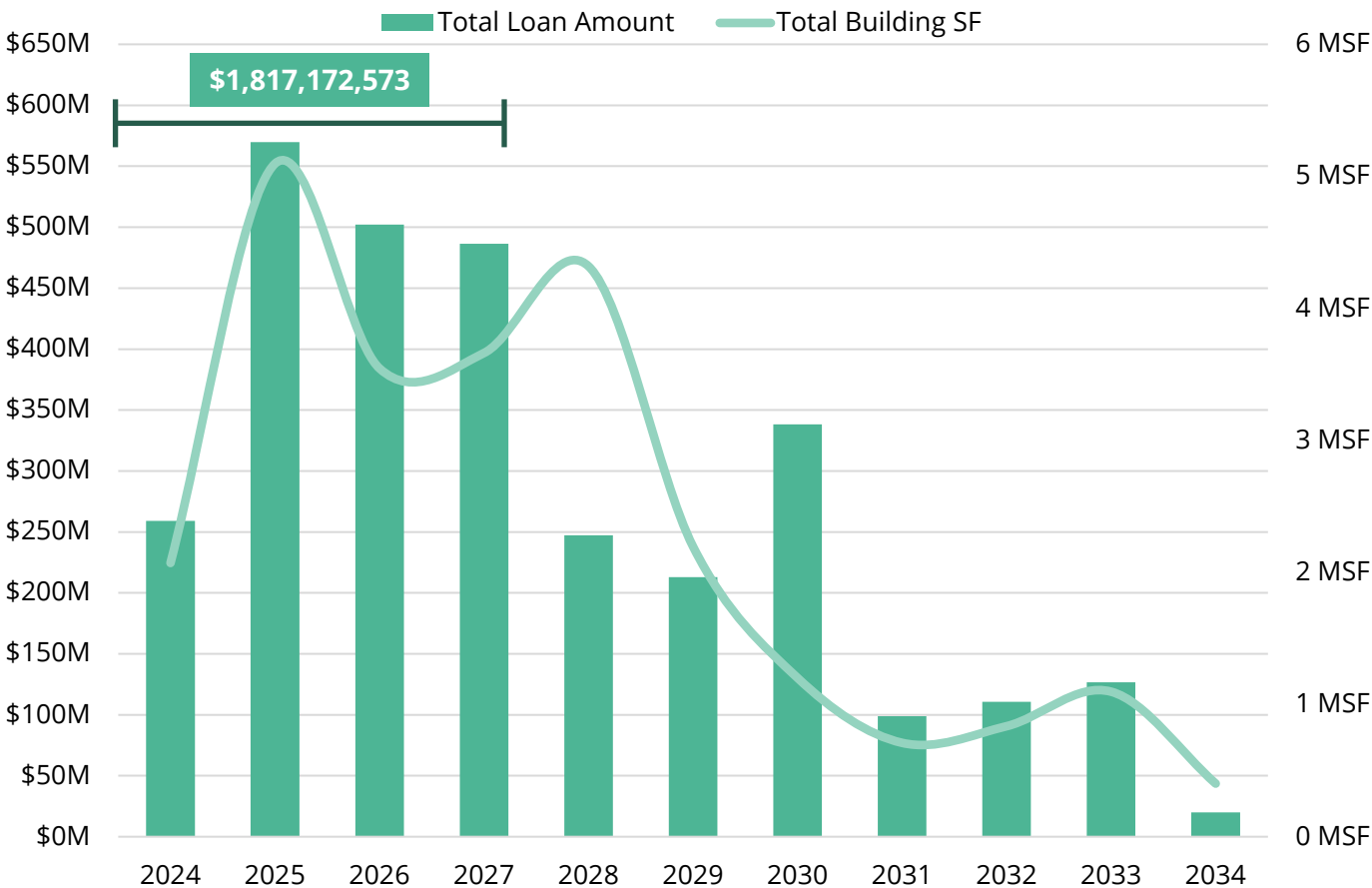
Office property values continue to face downward pressure, with the average sale psf paid down 35% from \$155 psf in 2023, to an average of \$101 psf. This quarter saw more properties being sold at steep discounts, like 1760 Market Street which was recently sold for \$11.5 million, a 64% discount from its prior sale price of \$31.5M million back in 2018. More properties selling at discounts has also attributed to weak total investment volume, which now sitting at \$58.1M, down 79% from the same point in time last year.

# Total availability decrease continues



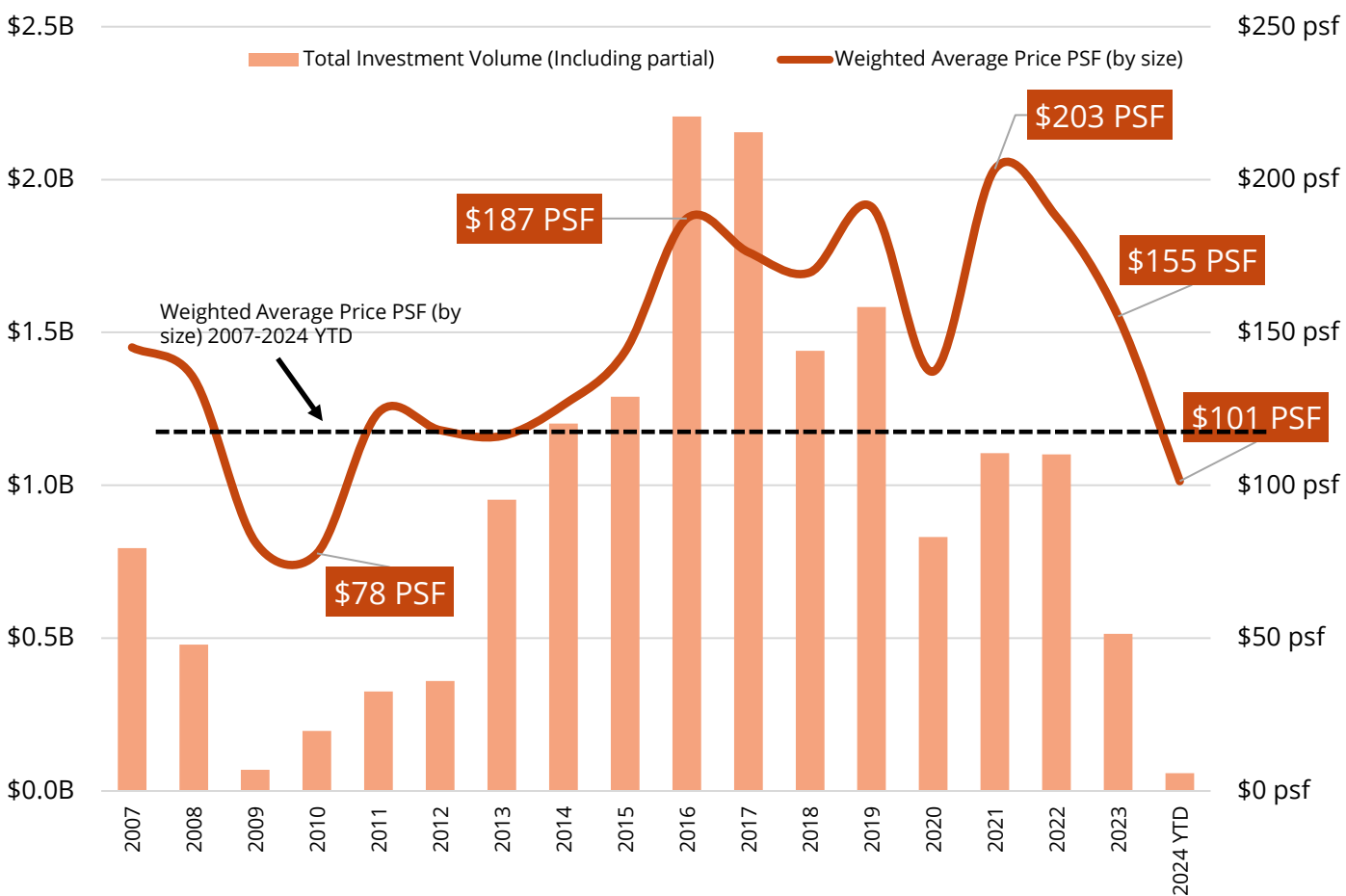
This quarter’s total availability of office space decreased 40 basis points from its most recent peak set back in Q4 23’, down from 22.1% to 21.7%. This equates to a decrease of 648 KSF, with total available office space currently standing at 39.3 MSF.

# Upcoming loan maturities remain in focus



Loan maturities continue to be top of mind for many landlords across the Greater Philadelphia office market. There are currently 78 CMBS loans scheduled to mature through 2027, spread across 14.3 MSF of office space, worth a combined value of \$1.82 billion.

# Office sales continue to face headwinds



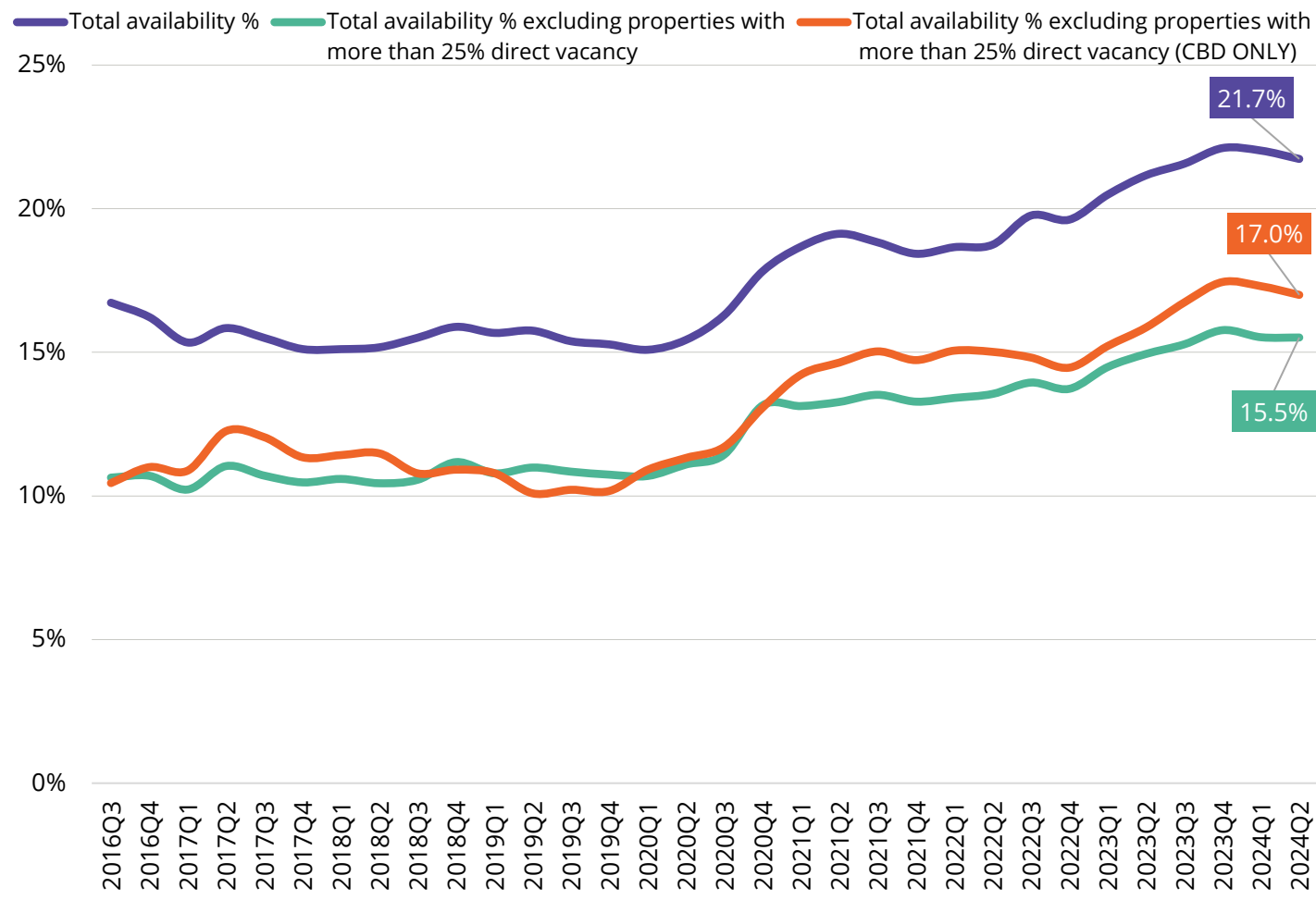
Office property sales continue to face strong headwinds, with elevated interest rates continuing to increase the cost of lending for both sides of the deal. Fueled by office assets selling at a discount, average property values continue to face downward pressure. This has led to the average psf to decrease even further, now sitting at \$101 psf.



# Let's examine more prevailing office trends



# Space availability analysis

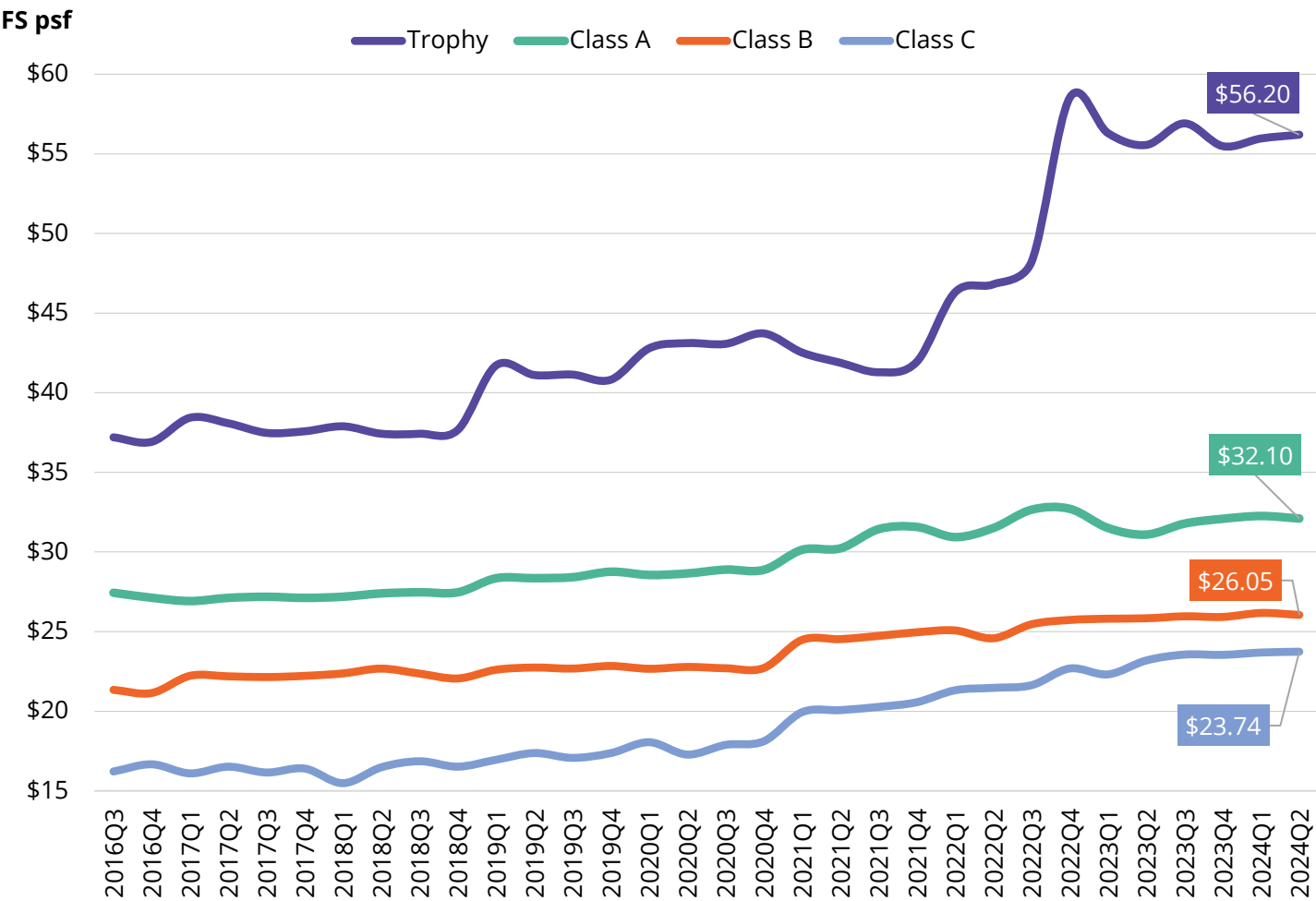


Greater Philadelphia over the last few years has seen record high office availability, a major component of this are properties with large amounts of direct vacant space.

When **excluding** properties with a direct vacancy of 25% and greater, the total availability rate decreases to 15.5% from 21.7%.

Note: Excludes subleases, expansions and renewals.  
Source: AVANT by Avison Young

# Average asking rent by property class

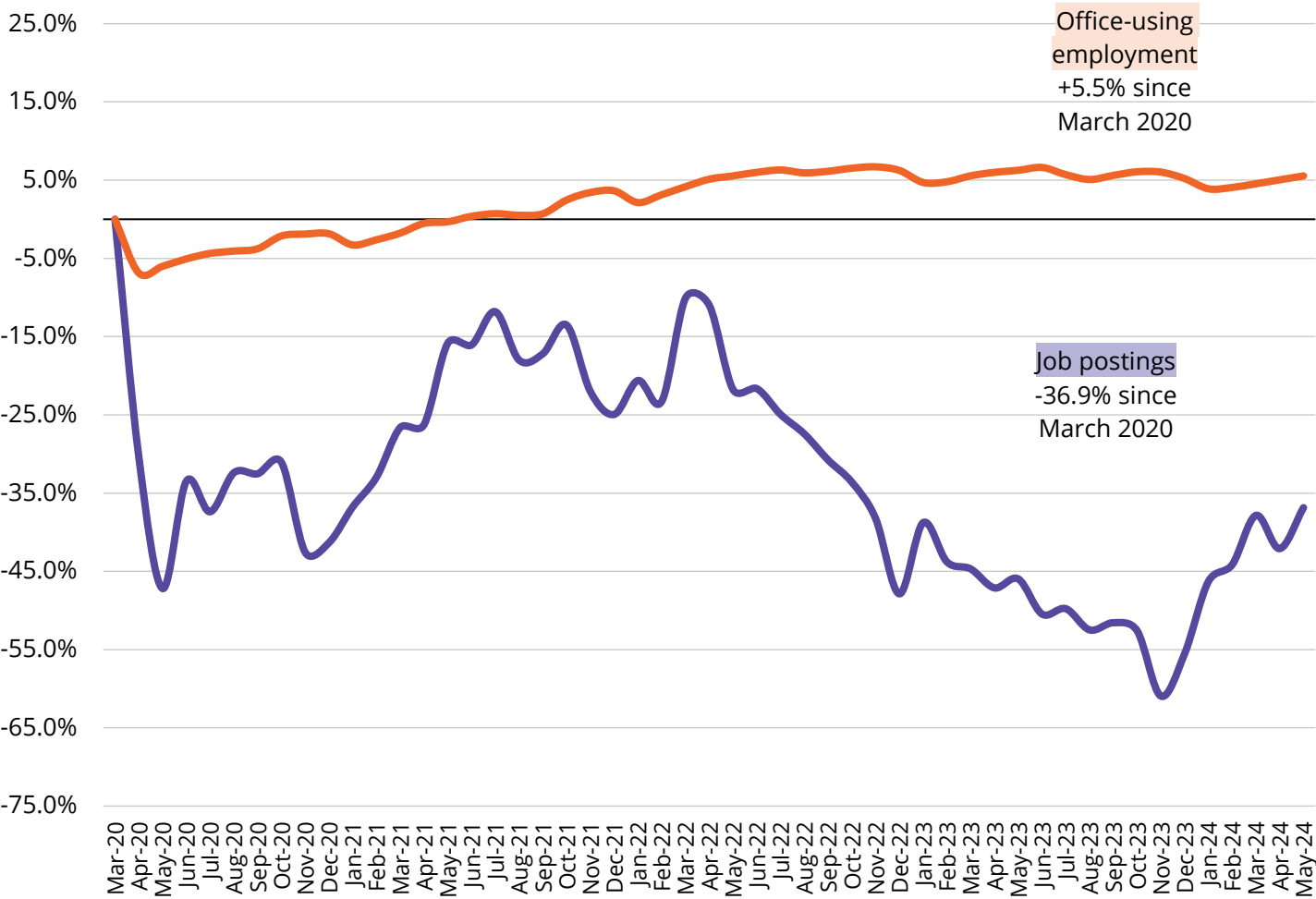


Trophy class properties have exhibited the greatest amount of change in asking rents compared to lower quality office spaces.

Average asking rents for trophy space are down 4% from there peak set back in Q4 22', and now sit at an average of \$56.20 psf.



# Office-using employment & job postings

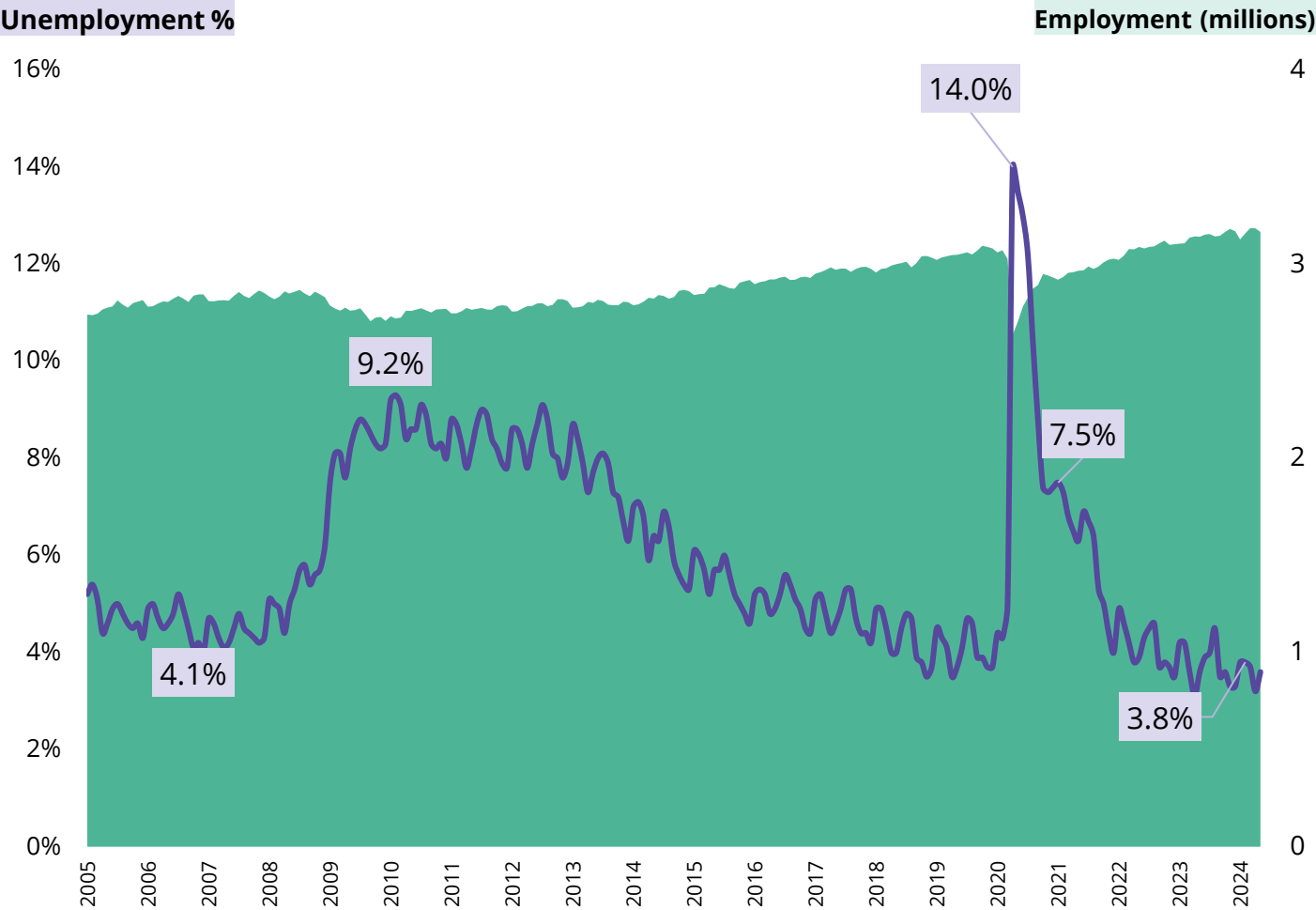


Office using employment is currently 5.5% above pre-pandemic levels across the Philadelphia MSA. Following the five-day in person mandate put in place by the mayor of Philadelphia, it is possible we will see a sharper increase in office using employment in the second half of 2024.

Office using job postings on the other hand remain below pre-pandemic levels, and are down 36.9% since March 2020.

Source: AVANT by Avison Young, Lightcast, BLS  
Note: Information, Financial, and profession business sectors are included in office-using employment and job postings

# Employment and unemployment rate



Source: Bureau of Labor Statistics (Philadelphia MSA)

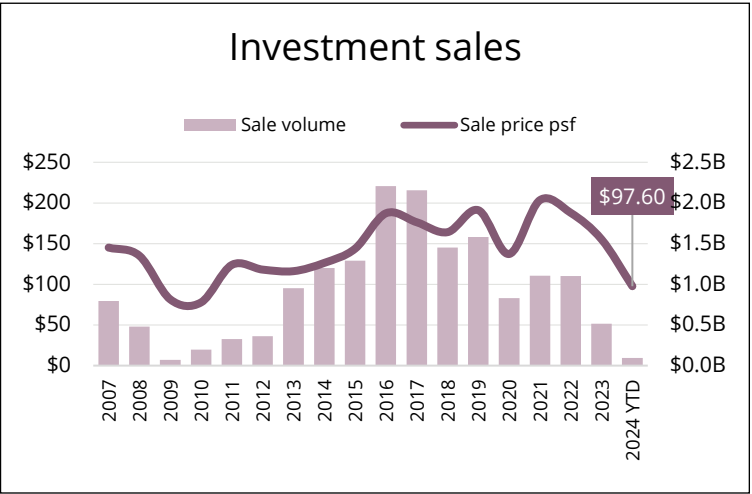
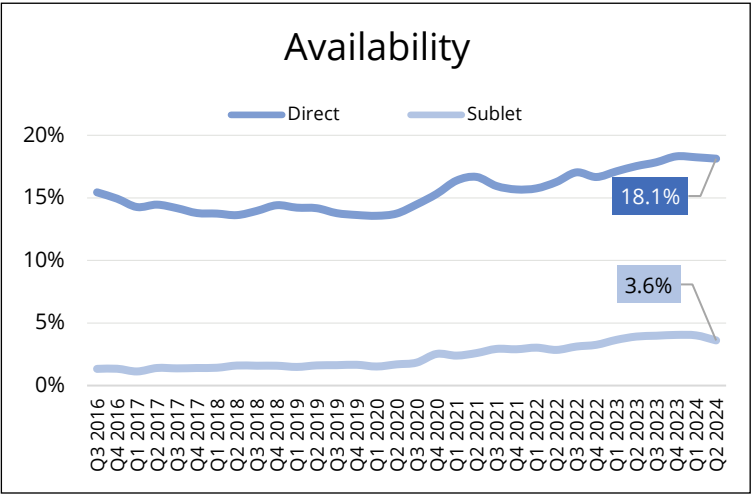
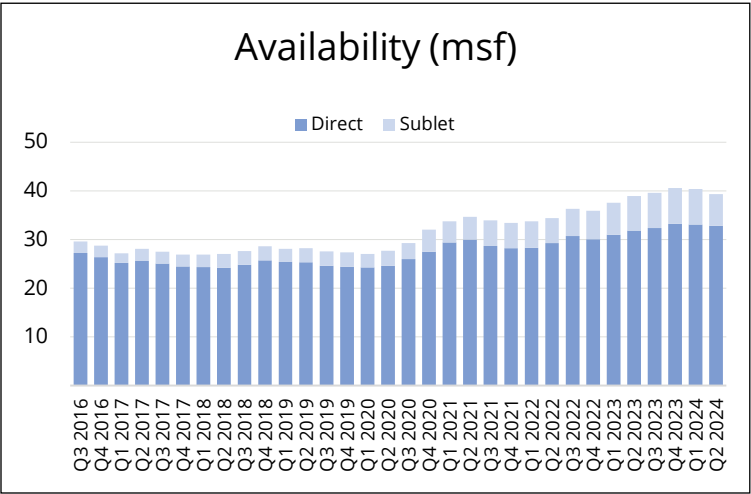
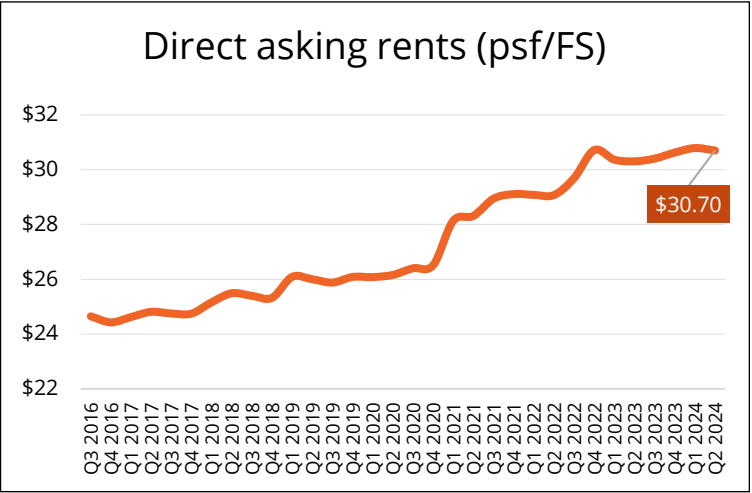
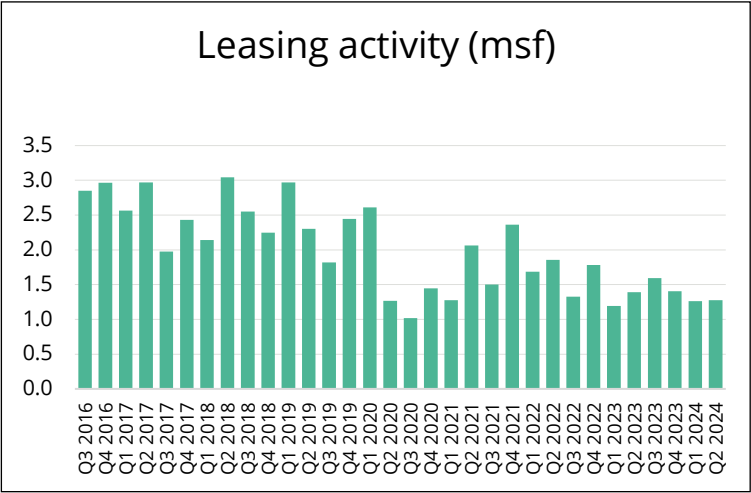
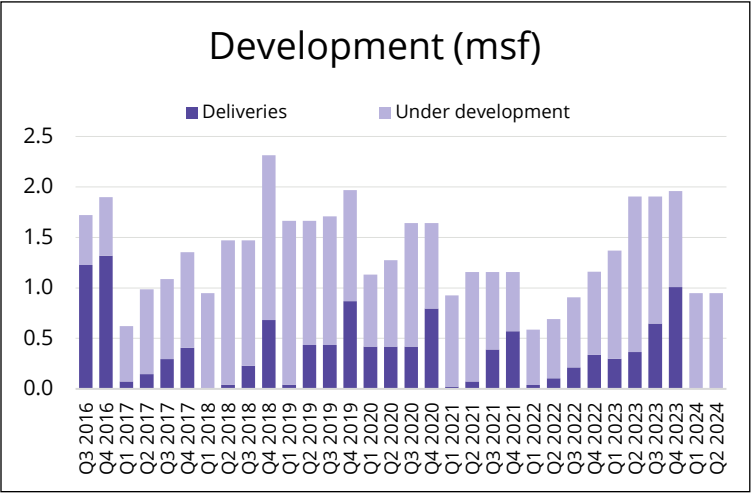
Unemployment across the Philadelphia MSA has remained relatively steady, currently sitting at 3.8%, down 10 basis points since the end of Q1 24'.

This is the lowest the unemployment rate has been since its record low set back in April 2023.

# Appendix



# Greater Philadelphia office market indicators





# Greater Philadelphia office market activity

## Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Ballinger	1650 Arch St., Philadelphia, PA	Center City West	Jun 2024	46,500	Direct	New
ATI Physical Therapy	4051 Ogletown Rd., Newark, DE	New Castle County	Apr 2024	25,237	Direct	New
Elliot Greenleaf	925 Harvest Dr., Blue Bell, PA	Plymouth Meeting/ Blue Bell	May 2024	22,000	Direct	New
Hamilton Lane	130 N 18 <sup>th</sup> St., Philadelphia, PA	Center City West	Jun 2024	7,981	Direct	New

## Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Incyte	1100 N King St. & 1100 French St. Wilmington, DE*	May 2024	517,307	\$47,500,000	\$91	Capital Commercial Investments
OCF Realty	399 Market St., Philadelphia, PA	Jun 2024	126,607	\$14,000,000	\$111	CNO Financial Group
1760 Market Street Holdings	1760 Market St., Philadelphia, PA	Jun 2024	138,128	\$11,500,000	\$83	Chelsea & Village Associates

## Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
2000 Arch St., Philadelphia, PA	Center City West	Q1 2026	438,000	100%	Parkway Corporation
155 King of Prussia Rd., Radnor, PA	Upper Main Line	Q4 2024	145,000	75%	Brandywine Realty Trust
1800 Concord Pike, Wilmington, DE	New Castle County	Q3 2024	100,000	52%	Delle Donne & Associates

# Greater Philadelphia office market stats

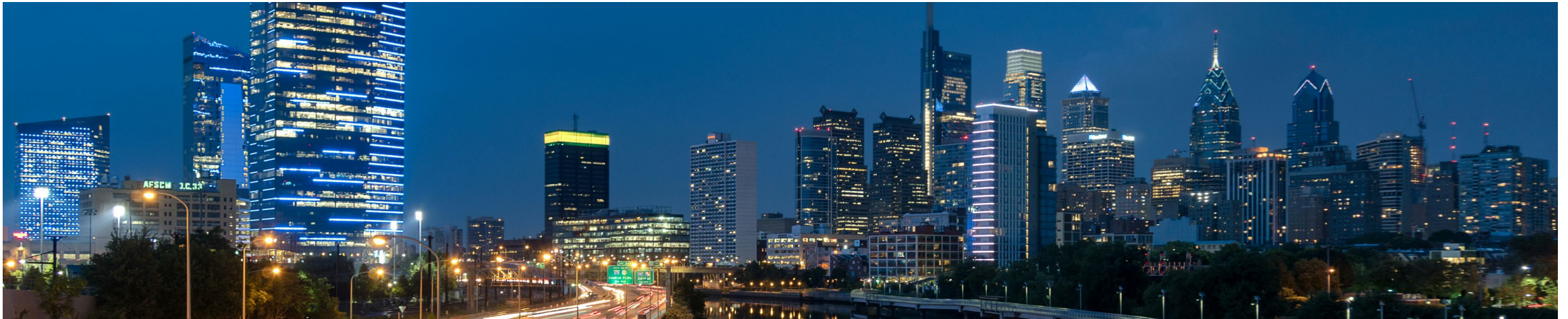
	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Bala Cynwyd	2,690,046			14.1%	5.5%	19.6%	-15,012	-0.56%	\$37.12
Burlington County	8,813,998			21.1%	1.1%	22.2%	-306,719	-3.48%	\$23.27
Camden County	7,776,741			18.6%	0.6%	19.2%	33,367	0.43%	\$21.86
Center City East	19,612,221			18.1%	3.4%	21.5%	-341,761	-1.74%	\$32.58
Center City West	31,322,579		438,000	18.2%	4.6%	22.7%	105,372	0.34%	\$32.83
Conshohocken	3,792,271			19.8%	4.4%	24.2%	134,847	3.56%	\$39.93
Delaware County	6,583,132			23.6%	5.9%	29.5%	197,507	3.00%	\$27.24
Exton/Whitelands	9,300,744			23.5%	4.7%	28.2%	-64,644	-0.70%	\$31.73
Fort Washington/Spring House	3,706,728			19.8%	7.5%	27.4%	86,196	2.33%	\$25.56
Gloucester County	918,170			1.6%	0.0%	1.6%	2,250	0.25%	\$20.00
Horsham/Willow Grove	6,149,645			22.3%	2.2%	24.5%	-115,272	-1.87%	\$25.87
King of Prussia/Wayne	7,598,746			21.4%	6.9%	28.3%	-161,136	-2.12%	\$33.94
Lower Bucks County	8,203,826			18.4%	4.8%	23.2%	-12,569	-0.15%	\$25.04
Main Line	870,178			5.4%	0.0%	5.4%	14,177	1.63%	\$34.41
Navy Yard	1,098,420			4.3%	2.2%	6.5%	7,264	0.66%	\$34.43
New Castle County	11,466,631		206,698	14.7%	3.1%	17.8%	-99,888	-0.87%	\$23.88
North Philadelphia	4,389,476			21.7%	0.4%	22.0%	-130,928	-2.98%	\$26.23

# Greater Philadelphia office market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Northampton	1,327,025			10.0%	12.4%	22.3%	208,758	15.73%	\$ 19.92
Northeast Philadelphia	1,555,653			20.9%	0.0%	20.9%	-3,726	-0.24%	\$ 25.24
Northwest Philadelphia	1,525,954		54,470	6.7%	0.8%	7.5%	800	0.05%	\$ 26.11
Outer Chester County	1,047,266			6.8%	0.7%	7.6%	-3,508	-0.33%	\$ 27.68
Plymouth Meeting/Blue Bell	6,536,866			22.3%	6.9%	29.2%	217,827	3.33%	\$ 30.63
Riverwards	922,944			21.2%	0.0%	21.2%	0	0.00%	\$ 29.61
South Philadelphia	960,393			12.6%	0.2%	12.7%	-1,460	-0.15%	\$ 36.5
Southwest Philadelphia	604,208			76.8%	0.0%	76.8%	-4,500	41.46%	\$ 26.03
University City	5,094,862			11.2%	2.6%	13.8%	-28,647	-0.56%	\$ 65.85
Upper Bucks County	1,283,651			6.7%	0.2%	6.9%	20,319	1.58%	\$ 24.51
Upper Main Line Radnor	7,054,567		250,567	15.9%	4.5%	20.4%	110,234	1.56%	\$ 41.84
Valley Forge Norristown	2,400,991			17.1%	2.1%	19.2%	24,655	1.03%	\$ 24.72
West Chester	1,874,322			14.5%	1.2%	15.8%	-31,682	-1.69%	\$ 26.37
West Montgomery County	2,355,112			18.2%	4.6%	22.9%	-75,219	-3.19%	\$ 17.3
West Philadelphia	1,368,860			4.1%	0.0%	4.1%	12,058	0.88%	\$ 33.47
Wilmington CBD	9,830,642			14.6%	0.9%	15.6%	623,835	6.35%	\$ 24.22
<b>Market total</b>	<b>179,637,031</b>	<b>0</b>	<b>949,735</b>	<b>18.2%</b>	<b>3.8%</b>	<b>21.7%</b>	<b>-93,112</b>	<b>-0.05%</b>	<b>\$30.70</b>

# Greater Philadelphia office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Trophy	8,834,804		438,000	11.88%	6.89%	18.77%	220,332	2.49%	\$56.20
Class A	85,161,768		511,735	21.03%	4.98%	26.01%	-3,910	0.00%	\$32.10
Class B	64,994,274			18.08%	2.27%	19.94%	-378,655	-0.58%	\$26.05
Class C	20,646,215			9.41%	1.98%	11.39%	69,121	0.33%	\$27.20
<b>Market total</b>	<b>179,637,031</b>	<b>0</b>	<b>949,735</b>	<b>18.2%</b>	<b>3.8%</b>	<b>21.7%</b>	<b>-93,112</b>	<b>-0.05%</b>	<b>\$30.70</b>





# Office insights glossary of terms

## Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

## Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

## Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

## Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

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