

Philadelphia

Office | Q2 2024 Market Report

Quarterly Snapshot

↓ Average Rent
\$34.57/SF

↓ Vacancy
13.8%

↑ Net Absorption
-99,512 SF

Occupier's Perspective

As commercial real estate-backed loans are set to mature, tenants are scrutinizing landlords' financial stability before leasing, preferring those with limited to no debt and high-quality, amenity-rich buildings.

Office buildings are selling at steep discounts creating speculation of redevelopment to residential or lower office rent opportunities.

Approximately \$250 million in CMBS loans covering around 2 million square feet of office space are set to mature by the end of 2024, with an additional \$1.8 billion scheduled to mature through 2027. Given these circumstances, the office market will continue to change, influencing how buildings are utilized, sold, upgraded, and repositioned for future occupancy.

During the second quarter, Philadelphia is leading downtown revitalization, drawing new businesses, residents, and organizations to its core. Overall, Philadelphia rents remain stable at \$35 per square foot, accompanied by a marginal 0.2 percent increase in vacancy rates. The city's dedication to business growth and innovation has attracted new residents to its core. This transformation continues to position Center City as a prime destination for businesses looking to relocate and for individuals seeking employment opportunities.

This quarter, Philadelphia has forged ahead with several new project announcements, demonstrating resilience amidst an ongoing high-interest rate environment. Plans were unveiled for a \$40 million marina and entertainment complex in Northeast Philadelphia. Additionally, the former John W. Hallahan Catholic Girls' High School was sold for \$15 million, and investment firm Hamilton Lane plans to open a Center City office at One Logan Square. Housing developments continue to make headlines, including a developer's \$3.1 million purchase of a Delaware Avenue site. Another milestone in ongoing growth was the completion of the first phase of Five on Canal, a five-building, 508-unit development.

However, signs of financial strain persist, with the former GSK building in the Navy Yard failing to sell at a sheriff's sale to satisfy a foreclosure judgment. The building is one of several distressed office properties in Philadelphia.

Recent Transactions

Tenant	Size (SF)	Submarket	Type	Building
Ace American Insurance	140,585 SF	Independence Hall	Renewal	Office
Saul Ewing LLP	53,334 SF	Market Street West	Renewal	Office
Dilworth Paxson	48,000 SF	Market Street West	Renewal	Office
Ballinger	46,500 SF	Market Street West	Renewal	Office
BDP International	34,507 SF	Independence Hall	Renewal	Office
Marsh McLennan	31,609 SF	Market Street West	Renewal	Office
Grant Thornton	11,808 SF	Market Street West	Renewal	Office
Hamilton Lane	7,981 SF	Market Street West	Renewal	Office

Submarket Movement

Vacancy Rate	QOQ Change	Direct Asking Rent (\$/SF)	Submarket
12.5%	▲	\$27.68	Market Street West - Class B
18.9%	▲	\$27.97	Independence Hall - Class B
7.5%	◆	\$29.93	Navy Yard Class B
7.8%	▲	\$30.01	Market Street East - Class B
5.9%	◆	\$30.27	University City - Class B
11.5%	▼	\$34.80	Independence Hall - Class A
20.2%	▲	\$35.82	Market Street East - Class A
13.1%	▲	\$37.08	Market Street West - Class A
11.9%	▲	\$41.39	Navy Yard Class A
12.4%	▼	\$42.12	University City - Class A