



Philadelphia Regional

Office 24Q3

Key Takeaways

- The regional vacancy rate increased to 18.5% following a dip in Q2
- There was an occupancy loss for the quarter, heavily weighted by CBD Philadelphia
- The weighted average rental rate increased marginally to \$30.42 per square foot. The average by building class continued to diverge with an increase in Class A rents and a decrease in Class B
- There were notable investment sales, with properties acquired for redevelopment leading the way



Highlights

Office occupancy challenges continued in the third quarter, particularly in CBD Philadelphia, which experienced a sharp increase in vacancy. This trend negatively impacted the broader region, despite some areas showing minor losses or slight absorption. The performance gap between building classes became more pronounced, with Class B properties facing increased vacancy, year-to-date occupancy declines, and falling asking rents. The increase in Class A vacancy was partially due to the completion of two new buildings in Delaware and New Castle County, only a portion of which was preleased. Additionally, both large Class A and Class B tenants are downsizing their office footprints, reflected in the lack of substantial leases—where a “large deal” now typically means one or two floors rather than an entire building.

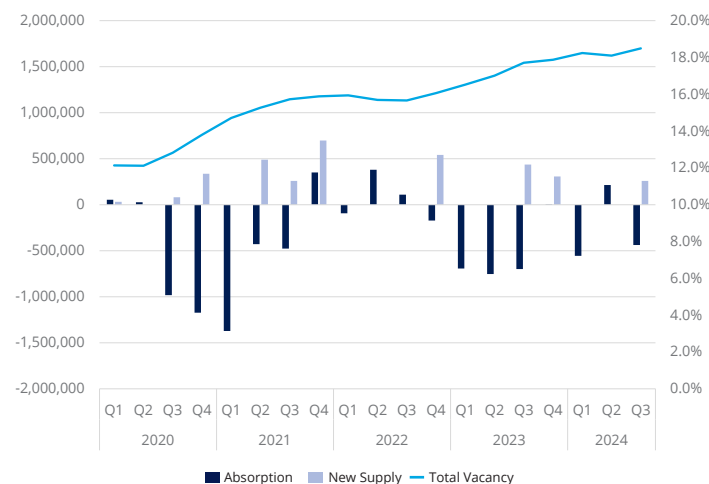
Market Indicators



Historic Comparison

	23Q3	24Q2	24Q3
Total Inventory (in Thousands of SF)	152,868.3	153,176.3	153,381.8
New Supply (in Thousands of SF)	0.0	0.0	205.6
Net Absorption (in Thousands of SF)	-698.8	214.7	-436.6
Overall Vacancy	17.7%	18.1%	18.5%
Under Construction (in Thousands of SF)	1,096.3	788.3	582.7
Overall Asking Lease Rates (FSG)	\$29.76	\$30.36	\$30.42

Market History



Forecast

The regional market appears to have reached its peak in vacancy rates, with significant improvement hinging on the planned redevelopment of several properties. Over the next year, the removal of multiple buildings from the active office inventory is expected to shrink both the market size and the overall vacancy rate. Although the trend of converting buildings for Life Sciences use has slowed, retrofitting for industrial and multi-family redevelopment is expected to persist, as developers adapt to changing market needs and opportunities in these sectors.

Recent Transactions



Lease Renewal
Potter Anderson & Corroon
Wilmington | 83k SF



Lease
United Healthcare
Ft Washington | 47k SF



Lease Renewal
Morgan Stanley
South Jersey | 32k SF



Sale
3 Parkway
CBD Market West | 561k SF



Sale
Plymouth Meeting Executive Campus
Plymouth Meeting/Blue Bell | 575k SF



Sale
Conshohocken Ridge
Conshohocken | 199k SF

Market Snapshots

CBD Philadelphia

In CBD Philadelphia, the vacancy rate jumped from 18.9% to 20.4%, largely driven by Wells Fargo's downsize of over 400,000 square feet at 401 Market Street.

The ongoing trade and planned conversion of floors at properties like Three Parkway, The Bourse, 400 Market Street, and potentially The Wanamaker Building could significantly reshape the office landscape.

Suburban Philadelphia

Suburban vacancy rates saw a slight increase from 19.5% to 19.8%. While six of the ten submarkets experienced a drop in vacancy, areas like Delaware County and Horsham-Willow Grove faced notable spikes. In Delaware County, the rise was largely attributed to a 105,567-square-foot building in Ellis Preserve that was delivered vacant. Horsham continued to lose tenants, most recently to Fort Washington with the move of United Healthcare and Plymouth Rock.

Overall, the quarter's occupancy loss was minimal, and the annual outlook for 2024 is expected to improve compared to 2023. Future redevelopments include BET's plan to remove the single-story buildings at Conshohocken Ridge Corporate Center to pave the way for a retail and residential project, leaving the midrise office building only.

Southern New Jersey

In the third quarter, Southern New Jersey's vacancy rate decreased from 14.0% to 13.4%, driven by positive absorption in both Burlington and Camden counties. Burlington County's rate dropped from 13.1% to 12.5%, while Camden County declined from 15.1% to 14.6%. Despite this positive absorption, overall activity remained minimal, and the vacancy rate is expected to stagnate in the mid-13% range until redevelopment plans for additional buildings in Mount Laurel and Voorhees are implemented.

Sant Properties acquired the former TD Bank buildings in Mount Laurel and Cherry Hill at a significantly discounted rate.

Lehigh Valley

After a decrease in vacancy during the first quarter, the Valley's vacancy rate has been gradually rising, hitting 18.2% in the third quarter. While the occupancy loss has not been substantial, minimal leasing activity and ongoing space contractions are putting downward pressure on the market.

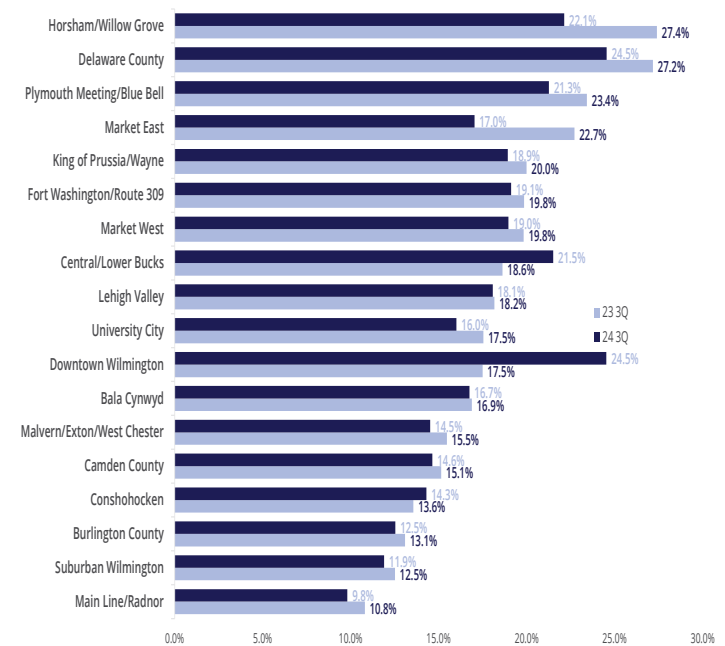
Even amid current challenges in the office sector and more favorable opportunities for residential conversions, like the PPL Tower, developers are shopping new office buildings in Downtown Allentown.

New Castle County, DE

New Castle County's office vacancy increased to 14.5% in Q3, reversing the progress made in Q2. Downtown Wilmington's vacancy rate climbed from 16.4% to 17.5%. This rise was primarily influenced by Morris James' office space re-entering the market as the firm prepares to move to the newly completed Tower at Avenue North, and additional sublease space from Capital One.

The Tower at Avenue North, a 100,000-square-foot building, was completed with Morris James as its anchor tenant. However, 48,000 square feet remains unoccupied, which has contributed to the suburban vacancy rate inching up from 12.0% to 12.5%.

Vacancy Rate Comparison YOY by Submarket



Lease Deals

Q3

Tenant	Building	Submarket	Type	Square Feet
Potter Anderson & Corroon	1313 N Market Street	Downtown Wilmington	Renewal	82,758
United Healthcare	600 Office Center Drive	Fort Washington	New	46,666
Morgan Stanley	330 Fellowship Road	Southern New Jersey	Renewal	31,832
Vanguard	601 Lee Road	King of Prussia/Wayne	New	35,117
Fulton Bank	50 S 16th Street	Phila CBD Market West	New	27,131
Citizens Bank	300 Barr Harbor Drive	Conshohocken	New	19,882

Sale Transactions

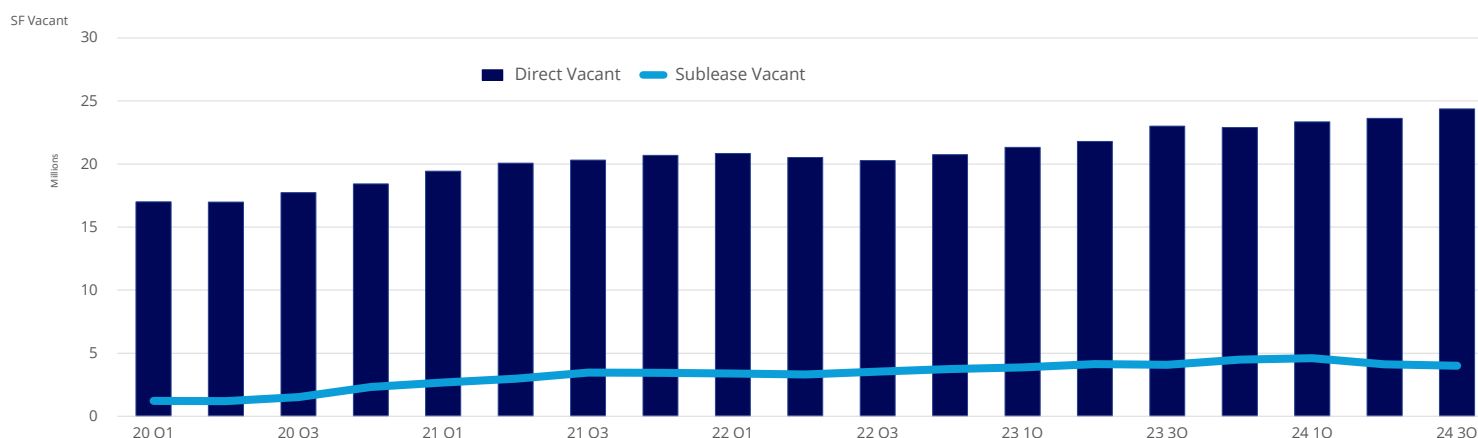
Q3

Buyer	Building	Submarket	Sale Price	Square Feet
PMC Property Group	1601 Cherry St - 3 Parkway	Phila CBD Market West	\$30,000,000	561,908
FLD Group / A&H Acquisition Corp	600-660 W Germantown Pike Plymouth Meeting Executive Campus	Plymouth Meeting/ Blue Bell	\$65,000,000	574,851
BET Investments	625 W Ridge Pike, Buildings A-E	Conshohocken	\$17,000,000	199,130
Sant Properties	12000 Horizon Way	Southern New Jersey	\$1,161,120	84,720
Sant Properties	1701 Route 70	Southern New Jersey	\$1,725,920	68,520
Delaware Valley Paving	1010 Adams Avenue	King of Prussia/Wayne	\$5,350,000	50,102

Submarket/ Class	Total Inventory SF	Direct Vacant	Sublease Vacant	Total Vacant	Vacancy Rate	Vacancy Previous Quarter	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (FSG)
CBD Philadelphia											
A	33,818,497	5,866,152	1,220,519	7,086,671	21.0%	20.3%	-108,143	-353,121	438,000	0	\$38.60
B	15,138,585	2,649,413	236,149	2,885,562	19.1%	15.7%	-313,535	-696,168	0	0	\$29.58
TOTAL	48,957,082	8,515,565	1,456,668	9,972,233	20.4%	18.9%	-421,678	-1,049,289	438,000	0	\$35.99
Suburban Philadelphia											
A	27,411,699	4,307,875	1,067,670	5,375,545	19.6%	19.4%	-48,809	-30,307	144,685	105,567	\$32.16
B	31,219,963	5,224,359	989,663	6,214,022	19.9%	19.7%	10,085	-106,988	0	0	\$26.53
TOTAL	58,631,662	9,532,234	2,057,333	11,589,567	19.8%	19.5%	-38,724	-137,295	144,685	105,567	\$29.14
Southern New Jersey											
A	7,641,400	905,872	70,392	976,264	12.8%	13.6%	59,944	-62,624	0	0	\$24.67
B	9,012,517	1,239,828	16,933	1,256,761	13.9%	14.3%	35,525	37,105	0	0	\$20.98
TOTAL	16,653,917	2,145,700	87,325	2,233,025	13.4%	13.3%	95,469	-25,519	0	0	\$22.59
New Castle County, DE											
A	14,711,808	1,725,103	245,723	1,970,826	13.4%	12.4%	-51,657	514,332	0	100,000	\$28.29
B	5,064,372	898,026	4,237	902,263	17.8%	17.7%	-3,981	-17,412	0	0	\$23.29
TOTAL	19,776,180	2,623,129	249,960	2,873,089	14.5%	13.8%	-55,638	496,920	0	100,000	\$26.72
Lehigh Valley											
A	5,651,386	656,606	105,179	761,785	13.5%	14.4%	50,648	9,683	0	0	\$23.29
B	3,711,620	887,390	51,124	938,514	25.3%	23.5%	-66,709	-72,274	0	0	\$22.81
TOTAL	9,363,006	1,543,996	156,303	1,700,299	18.2%	18.0%	-16,061	-62,591	0	0	\$23.03
Regional Total											
A	89,234,790	13,461,608	2,709,483	16,171,091	18.1%	17.8%	-98,017	77,963	582,685	205,567	\$33.64
B	64,147,057	10,899,016	1,298,106	12,197,122	19.0%	18.0%	-338,615	-855,737	0	0	\$26.03
TOTAL	153,381,847	24,360,624	4,007,589	28,368,213	18.5%	18.1%	-436,632	-777,774	582,685	205,567	\$30.42

Vacancy Comparison

Direct and Sublease



For More Information

Rosemary Penny
 Market Research Director
 Philadelphia Tri-State Region
 +1 215 928 7505
rose.penny@colliers.com

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