

# PHILADELPHIA OFFICE MARKET

Yardi® Matrix

## Market Analysis

First Quarter 2019

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## Urban Core Leads Philly Recovery



Philadelphia continues to produce solid fundamentals, despite relatively tepid job growth. Companies are taking advantage of the metro's skilled and educated talent pool, while public grants, as well as Ben Franklin Technology Partners' \$50 million fund, are paving the way for further growth in the startup and small-business sectors.

Some 13,400 office-using jobs were added in the 12 months ending in December, despite a large number of layoffs in the information sector. The professional and business services sector increased by 3.5%, bolstered by robust activity in the emerging life sciences, health care and tech sectors. The large number of Millennials entering the workforce is redefining demand by opting for highly amenitized assets, creative spaces and customized workplaces. This demand for premium office space is setting the tone for rising office rents, especially in the University City District, where asking rents were \$44.83 per square foot as of February.

Supply growth dropped in 2018, with the rising cost of labor contributing to a decrease in construction activity, but is on track to rebound in coming years. While 1.4 million square feet was under construction as of February, most buildings are build-to-suit projects that won't add much to the metro's total inventory. Mid- to large-size tenants are finding it difficult to lease space in the urban core. Instead, both landlords and companies are repurposing space in the suburbs, where vacancy is 15.2%.