

# Philadelphia Sees Reduced Activity But Poised Well for Future

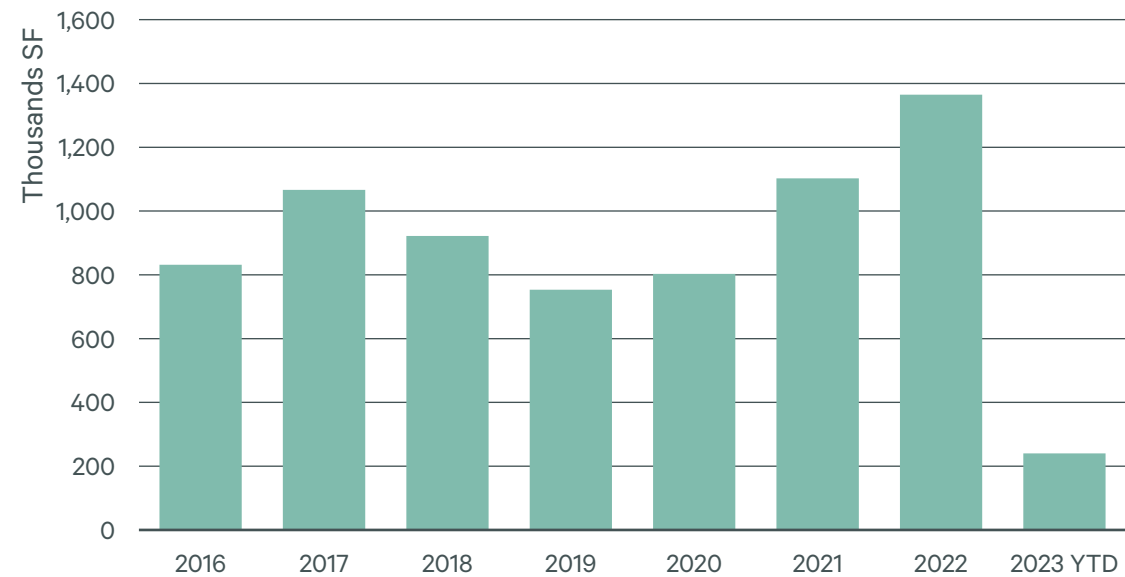


Note: Arrows indicate change from previous quarter.

- Debt markets slowed capital transaction volumes, although deals that were already done received financing.
- Most requirements went on hold as firms struggled to raise their next round of funding. Many 2022 life science leases were inked by startups and there are fewer startups able to fund leases this year.
- Macro headwinds could slow down Philadelphia leasing, but upcoming supply is intact and perfectly timed for economic improvements by 2025.

The Philadelphia Life Sciences market experienced a reduction in overall leasing, development, and tenant demand at the end of the first half of 2023. The slowdown, largely a symptom of the general investment pause driven by the Federal Reserve’s increased interest rates, remained a consistent theme in recent quarters. In parallel, new development announcements slowed because of tall barriers to finance projects and stalled demand from early-to-mid stage companies due to fundraising challenges. The phenomenon of tenants pausing requirements until investment was secured took place in other markets throughout the country as well.

FIGURE 1: Historic Lab Leasing Activity



Source: CBRE Research, 2023.

The Philadelphia market is uniquely equipped to bounce back and hit its stride after this short-term pause in market activity. Other regions in the US overdeveloped during the times of easy access to capital and high demand, and are now approaching a significant supply and demand gap as firms dial back leasing plans and construction projects deliver. The lion’s share of recent new developments in the Philadelphia market have delivered with a significant portion already leased, and the current pipeline’s delivery timeline – largely set for 2025 – should match up well with upcoming economic improvements and increased demand

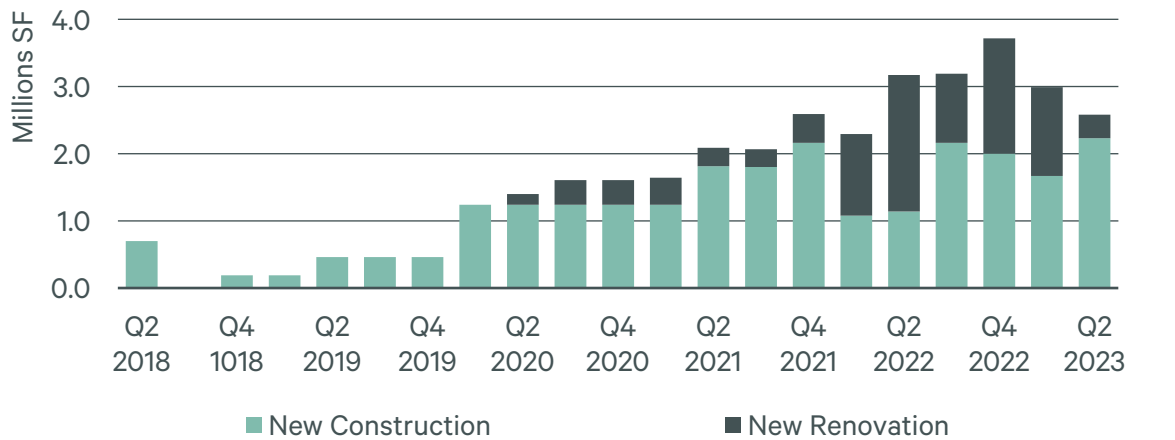
Despite the pause in activity, 2.7 million sq. ft. of lab space remains in the construction pipeline with several projects in the area delivering this past quarter. 2500 League Island Blvd in the Navy Yard is now complete and ready for tenant work, as is the Budd Bio Works project in North Philadelphia. In the suburbs, Building 2 at Spring House Innovation Park completed its renovations and delivered fully leased to Merck. 3201 Cuthbert in University City is nearly 50% leased and additional converted lab space announced at the Cira Centre has also seen a sizable amount of space taken.

FIGURE 2: Asking Rents for Existing Procut vs. Under Construction in select submarkets

Submarket	Existing	Under Construction/ Renovation
Exton/West Chester	\$34.96	\$33.66
Horsham/Spring House	\$36.55	\$38.95
King of Prussia/Valley Forge	\$41.66	\$42.70
Malvern	\$37.50	\$34.22
University City	\$56.99	\$61.97
Grand Total	\$40.37	\$50.36

Source: CBRE Research, 2023.

FIGURE 3: Life Science Development by Type



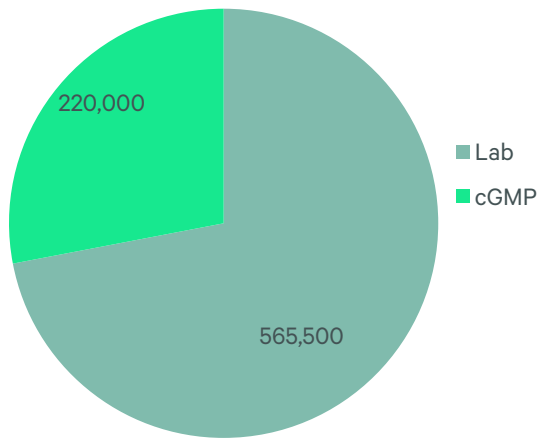
Source: CBRE Research, 2023.

Market Activity

Leasing volume is down relative to 2022 but individual deal flow has stayed consistent so far this year. Over 100,000 sq. ft. of new leases signed quartering the second quarter, the largest being Japanese firm Esiai’s deal for over 60,000 sq. ft. on Welsh Pool Road in Exton. In the city, AskBio agreed to take two of the five spec suites Brandywine is building on the 9<sup>th</sup> floor at Cira Centre.

The stalled demand for lab in the region is represented with the number of active tenants reduced from 41 to 21, almost exclusively owed to fundraising challenges. Many of these companies that have put active requirements on hold are attempting to extend their cash runway as far as possible, and choosing to remain in incubators and smaller spaces while they wait for the headwinds to pass.

FIGURE 4: Current Tenant in the Market Requirements by Type (1000s Sq. Ft.)



Source: CBRE Research, 2023.

FIGURE 5: Philadelphia Life Science Stats by Submarket

Life Sciences Submarket	Total Sq. Ft.	Vacancy	Avg. Asking Rent
Center City	492,000	25.3%	\$54.50
Exton/West Chester	642,937	17.3%	\$33.66
Greater Northeast	771,828	30.2%	\$36.00
Horsham/Spring House	985,126	24.6%	\$38.95
King of Prussia/Valley Forge	2,810,311	10.3%	\$42.70
Lower Bucks County	510,132	2.9%	\$25.00
Malvern	1,185,572	9.8%	\$34.22
Navy Yard	952,238	13.7%	\$50.50
New Castle County	322,743	0.0%	\$36.00
University City	2,165,399	3.7%	\$61.97
<b>TOTAL</b>	<b>10,838,286</b>	<b>12.4%</b>	<b>\$47.68</b>

Source: CBRE Research, 2023.

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