

NEWMARK

Greater Philadelphia Office Market Overview

1Q26

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Key Takeaways

Greater Philadelphia's office market is nearing an inflection point, with increasing leasing momentum and the flight-to-quality remaining key themes throughout the region



The top end of the market continues to outperform



Vacancies are leveling out, notable absorption in Market West



Philadelphia ranks among the top MSA's for payroll growth in 2025



Renewed investor interest is emerging, driving stronger capital markets activity

Market Observations



Economy

- Greater Philadelphia ended 2025 with payroll growth still running ahead of the national pace, with metro employment up 1.2% year over year in December versus 0.2% nationally on the latest comparison.
- Labor market conditions softened modestly but remained relatively stable overall, as the Philadelphia metro unemployment rate stood at 4.6% in December 2025, compared with 4.3% for the U.S.
- Sector performance remained uneven but constructive, as growth in Education & Health and other office-oriented industries helped support the regional labor market and reinforce demand drivers for office space.



Major Transactions

- Leasing momentum carried into the first quarter of 2026 with notable activity concentrated in high-quality buildings, led by the Saint Gobain extension in Malvern, CBS's 74,000 SF renewal at 1500 Spring Garden Street, and RSM's 22,340 SF new lease at 1735 Market Street in Philadelphia's CBD.
- In the suburbs, Hartford Steam Boiler signed a 41,773 SF new lease at 965 Chesterbrook Boulevard in King of Prussia, reinforcing that well-located suburban product is still attracting meaningful tenant interest.
- Market West remained one of the clearest bright spots within the Greater Philadelphia office market to begin the year, recording nearly 154,000 SF of positive absorption as tenants continued to favor trophy and amenity-rich space.



Leasing Market Fundamentals

- Greater Philadelphia's office market entered 2026 with improving momentum across several key indicators. Sublease availability continued to decline, the development pipeline moved lower, and asking rents remained near recent highs, although overall vacancy and direct availability stayed elevated.
- After several years of significant occupancy losses, net absorption trends have become less volatile, and annual losses have moderated meaningfully from prior years. Leasing activity and tenant demand remain relatively stable, suggesting that market conditions are improving gradually, even if recovery remains uneven across submarkets and asset classes.
- New supply pressures are beginning to ease as the construction pipeline has contracted sharply from its 2023 peak to roughly 600,000 SF, or about 1.0% of inventory, by the first quarter of 2026. At the same time, rent performance continues to be led by Class A product, reinforcing the market's ongoing flight-to-quality and the stronger positioning of premier assets.



Outlook

- Greater Philadelphia's office market appears to be moving into a steadier recovery phase, with lower sublease supply, a limited pipeline, and improving leasing momentum helping reduce some of the volatility seen over the past several years.
- Flight-to-quality should remain the defining theme near term, as Class A asking rents reached \$36.02/SF versus \$28.77/SF for Class B space, underscoring tenants' continued willingness to pay for top-tier product.
- A broader recovery will still depend on stronger direct-space absorption, but tightening conditions among premier assets suggest improvement should gradually extend into the next tier of buildings.

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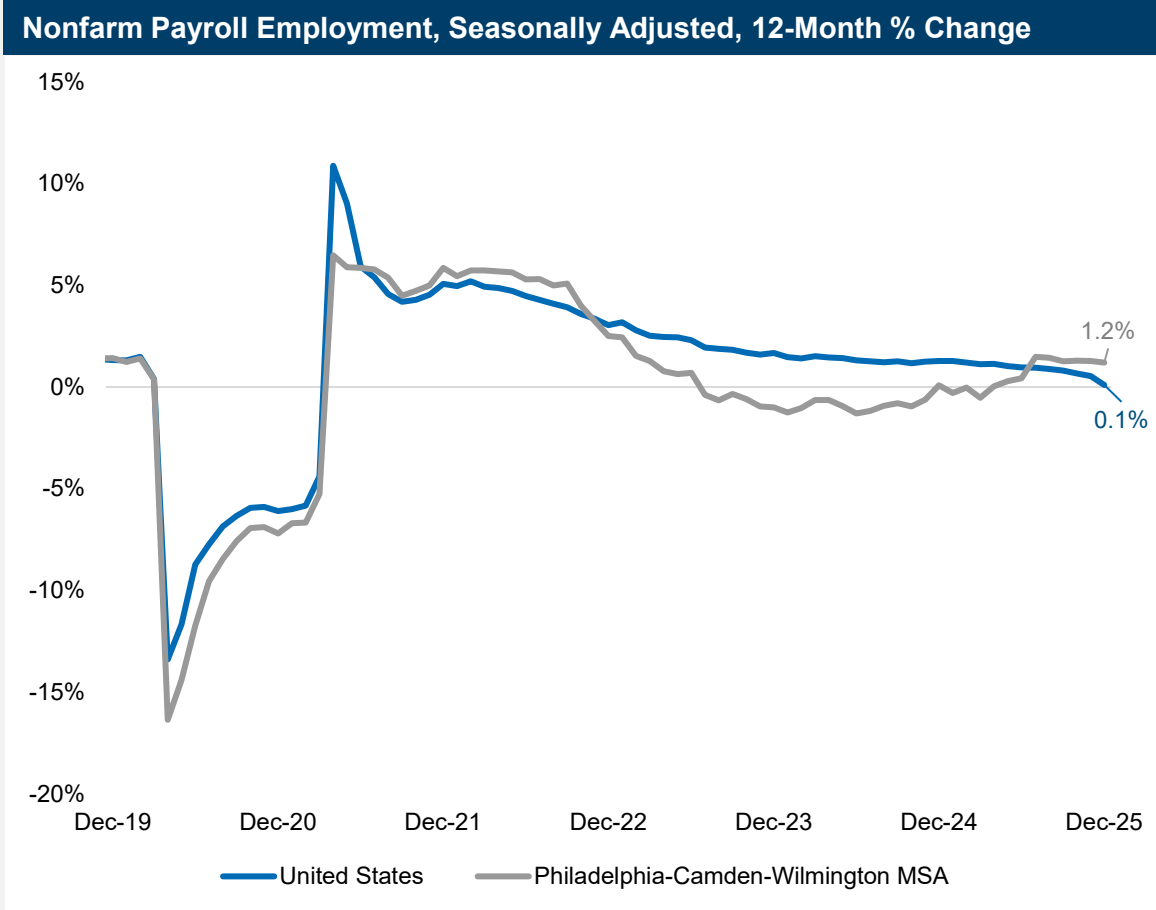
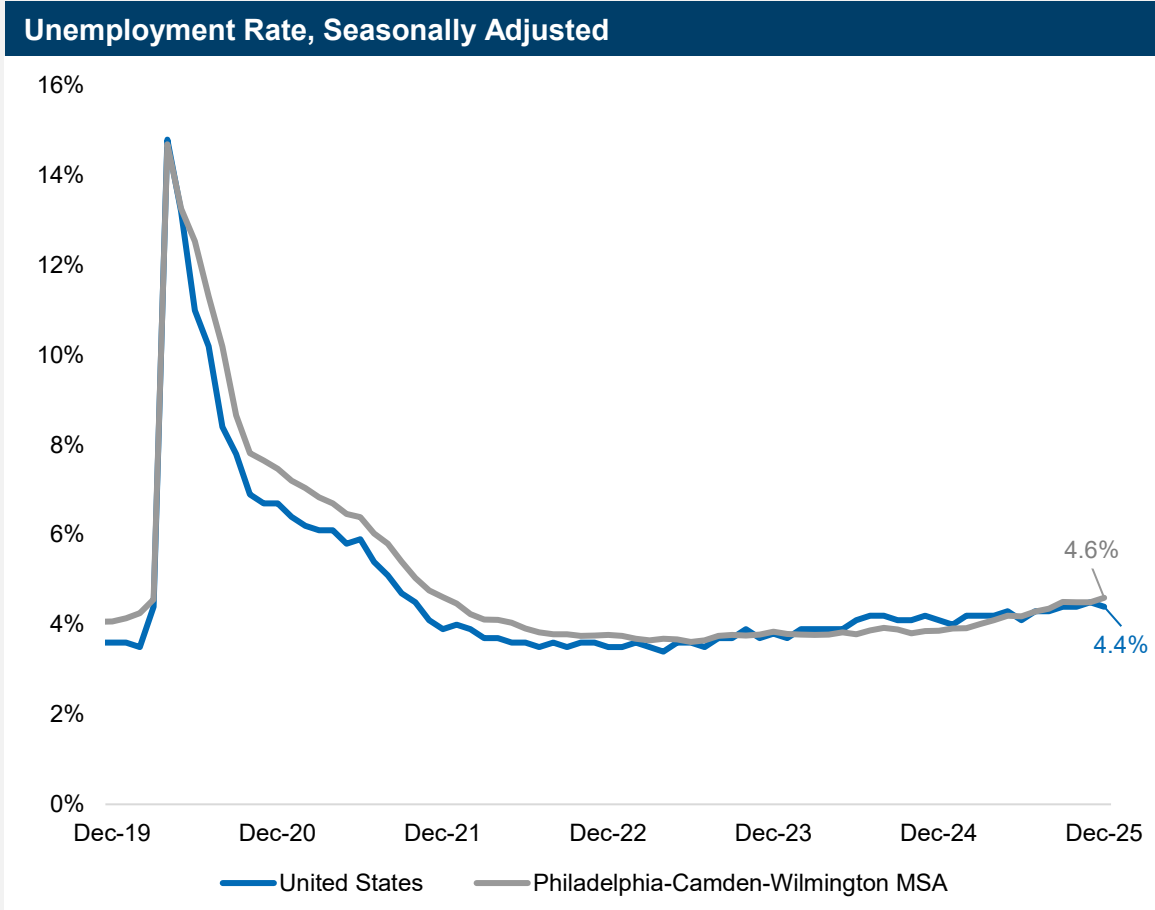
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Economy



Greater Philadelphia Maintains Favorable Labor Markets

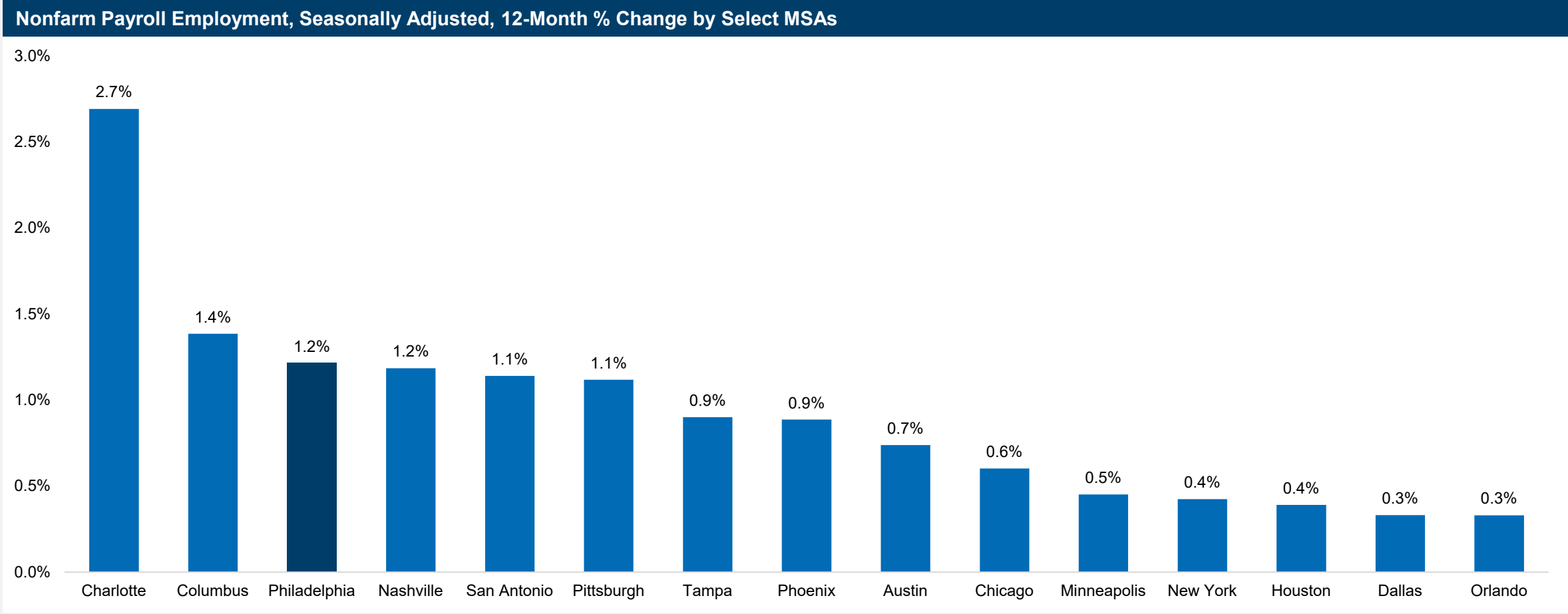
The Philadelphia metro area's economy looks to continue its resiliency into 2026, with local payrolls increasing by 1.2% year-over-year as of December 2025, breaking through the stagnating national employment growth. The unemployment rate has been steadily rising across the region, but unemployment trends are in line with the U.S. average. Several sectors have contributed to economic growth, with key office-related industries reporting above-average job growth over the past 12 months.



Source: Moody's, U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA. Employment data for October and November is limited due to the federal government shutdown. A national unemployment rate has been released for November, but the market unemployment is carried from September.

Local Labor Markets Are Among The Strongest In The U.S.

Compared to the largest metro areas in the U.S., Greater Philadelphia ranks among the top for total employment growth in 2025. The education and health services sector, a long-time stalwart of the local economy, fueled much of the region's recent employment. Continued strength in professional services and financial activities, as well as a comparatively low cost of living, have also benefited economic growth here. Lingering macroeconomic risks could curtail this positive momentum, particularly as inflation rises.

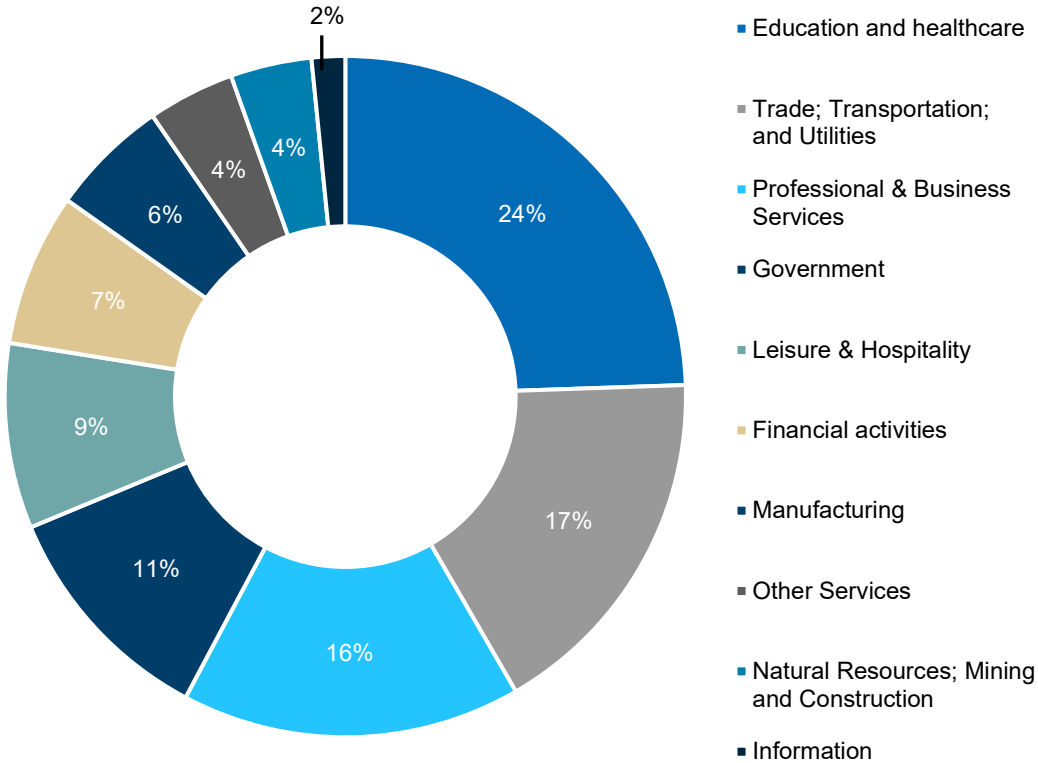


Source: Moody's, U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA.

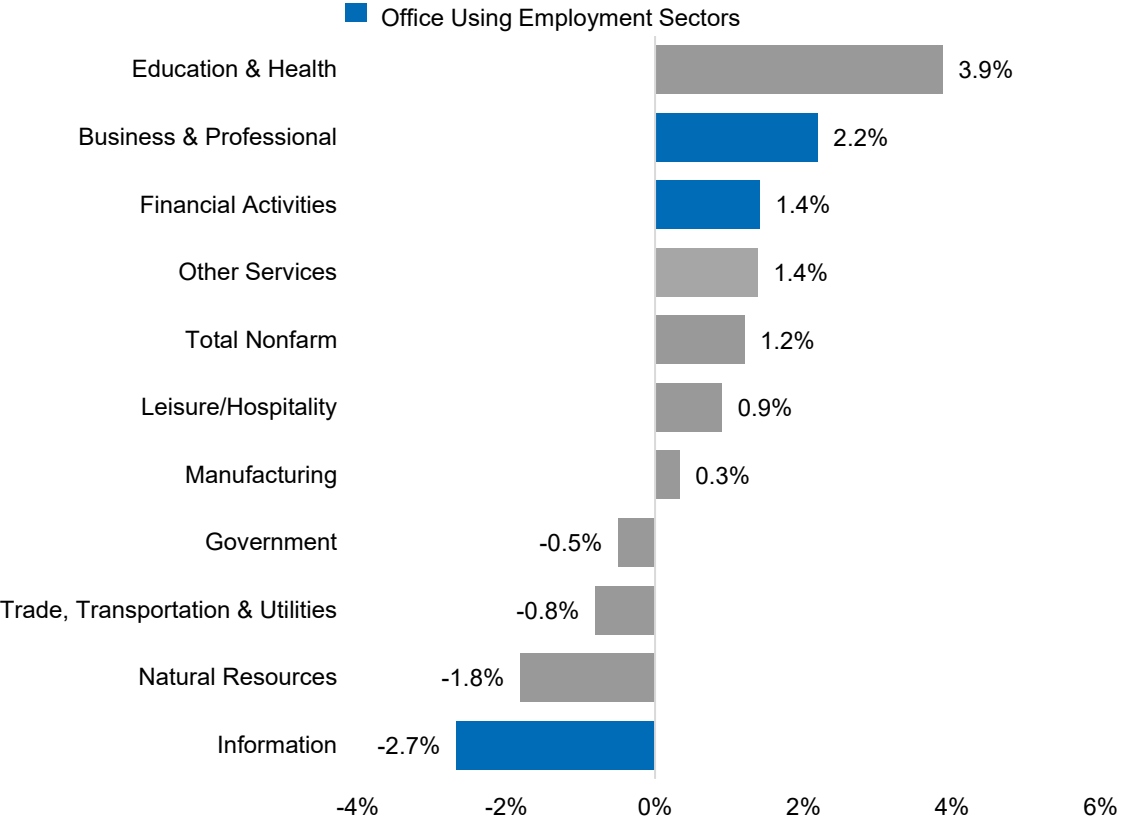
Local Job Market Rides Eds & Meds Momentum

Education & Health continues to anchor the market's employment base and remains the strongest source of job growth, with payrolls up 3.9% over the past year. The next two sectors topping the growth chart are key office-related industries, including Business & Professional and Financial Activities. While hiring trends were not broad-based across all industries, gains in these key segments combined account for over 23.0% of total employment in the market, and this growth creates tailwinds for office demand. The benefits of these sectors far outweigh the headwinds in the Information sector, which accounts for the smallest share of total employment and has seen the steepest job loss over the 12 months ending in December 2025.

Employment by Industry, December 2025



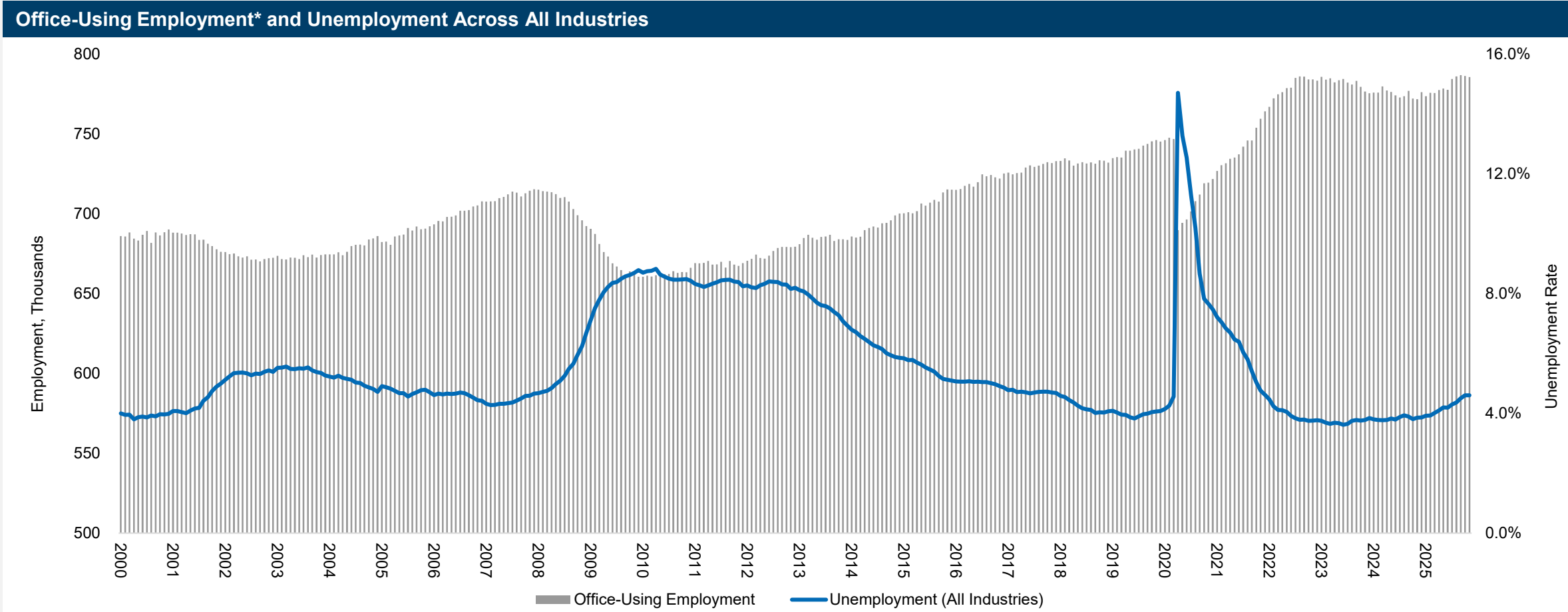
Employment Growth by Industry, 12-Month % Change, December 2025



Source: Moody's, U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA.

Office Job Base Continues To Rebuild

Office users rebounded in 2025, capping the year with roughly 790,000 total office-using jobs in December 2025, a level not seen since the post-pandemic return in mid-2022. Annual growth across office-related sectors reached 1.6%, modestly ahead of the region's 1.2% overall employment growth rate. This also contrasts with the region's growing unemployment rate, which rose 70 basis points year-over-year in December of 2025.



Source: Moody's, U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA.
 *Office-using employment includes Professional & Business Services, Financial Activities and Information.

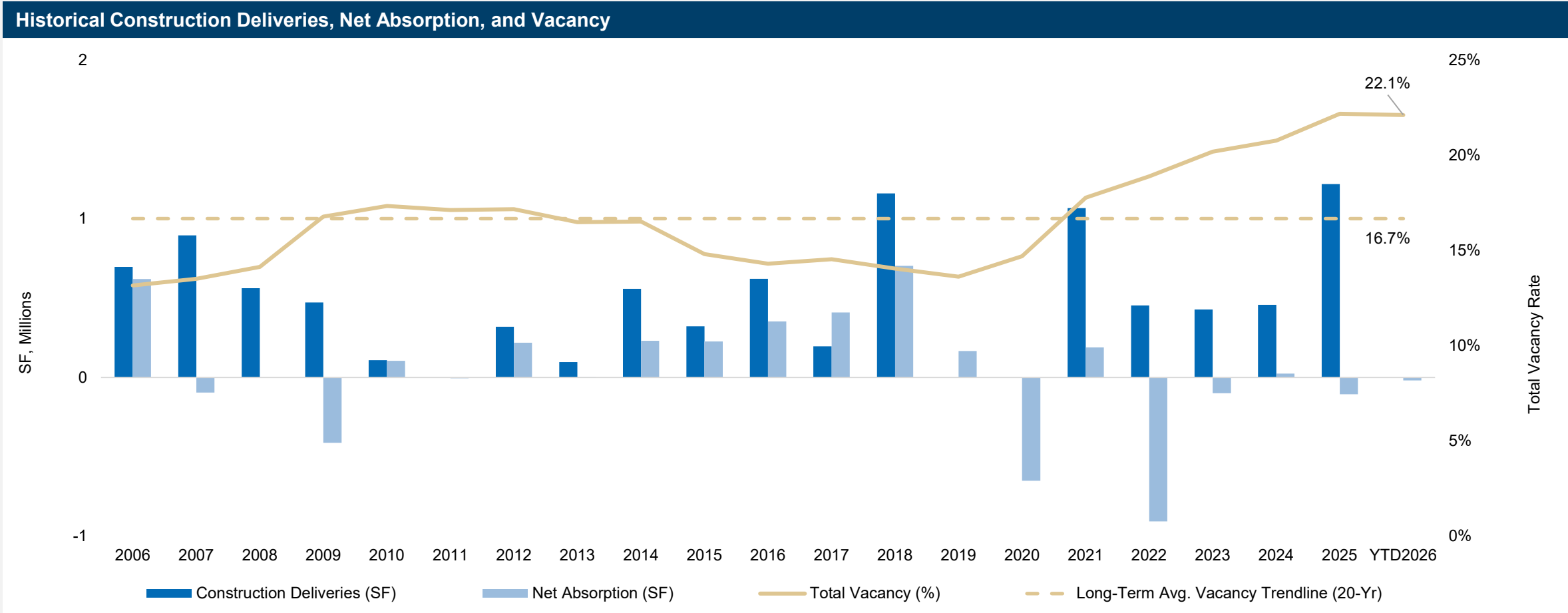
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Leasing Market Fundamentals



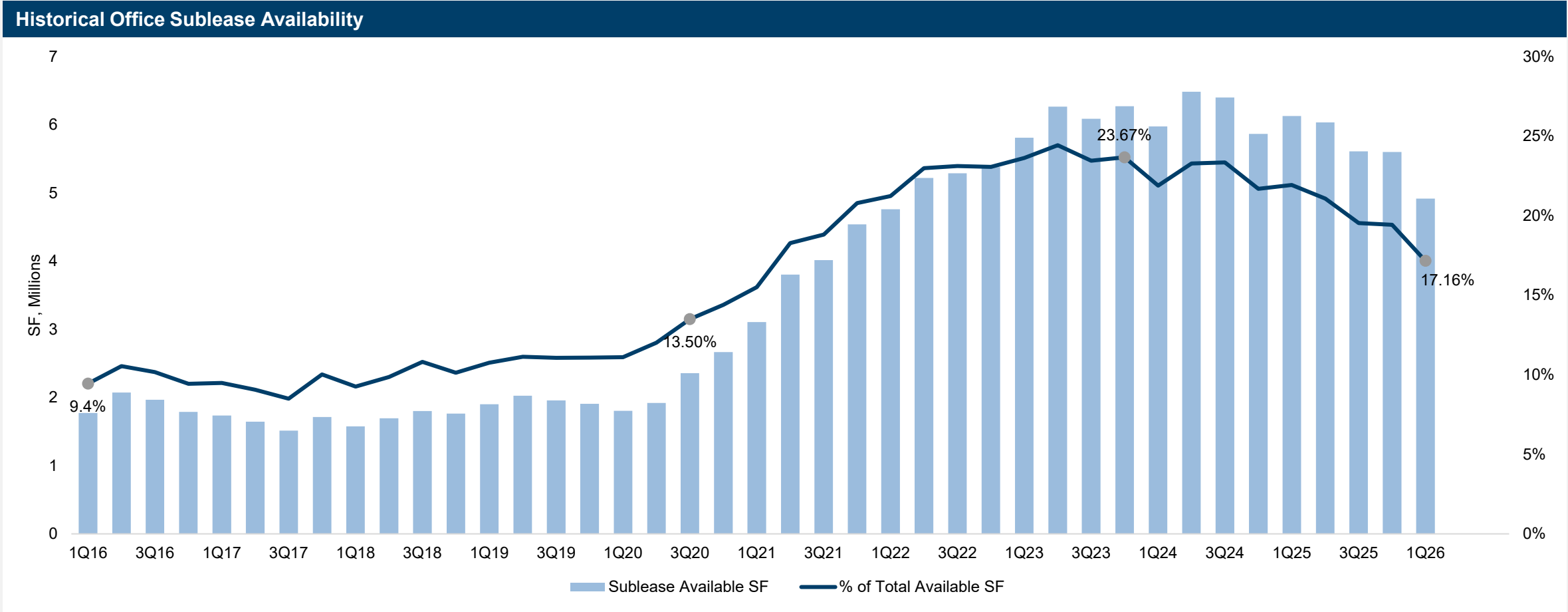
Higher Vacancies Level Out As Signs Of Demand Improvement Continue

Greater Philadelphia's office vacancy rate remains at a level consistent with the previous quarter at 22.1% for the first quarter of 2026. However, indicators suggest conditions are becoming less volatile. Moderating sublease inventory, steady demand, office conversions, and a minimal pipeline are helping lay the groundwork for a gradual recovery in occupancy and rent. Net absorption started the year slightly negative, with a focus on premier assets leading tenant demand market-wide.



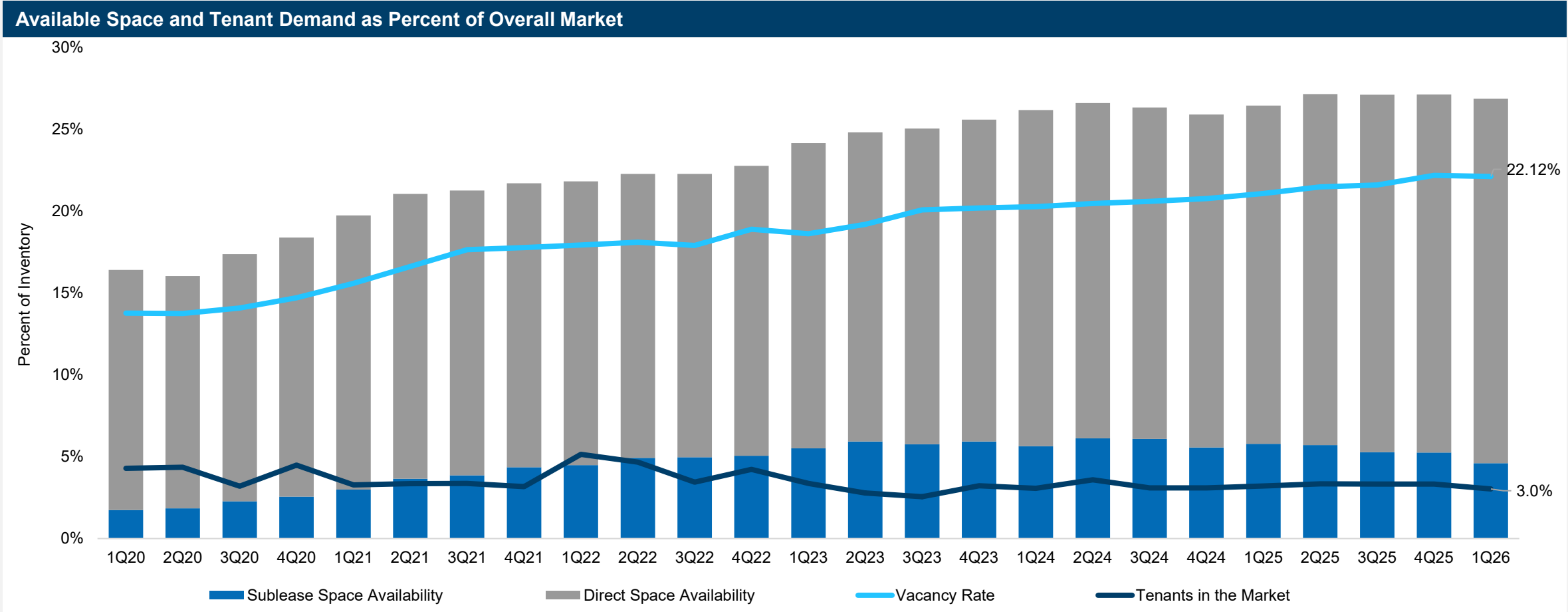
Sublease Availability Continues To Decline

Sublease inventories across the metro have continued to decline, falling to roughly 4.9 million SF as of the first quarter of 2026. As a share of total available office space in Greater Philadelphia, sublease offerings have dropped to 17.2%, down meaningfully from the 2023–2024 peak, signaling that excess space is gradually being worked through even as availability remains elevated in parts of the market.



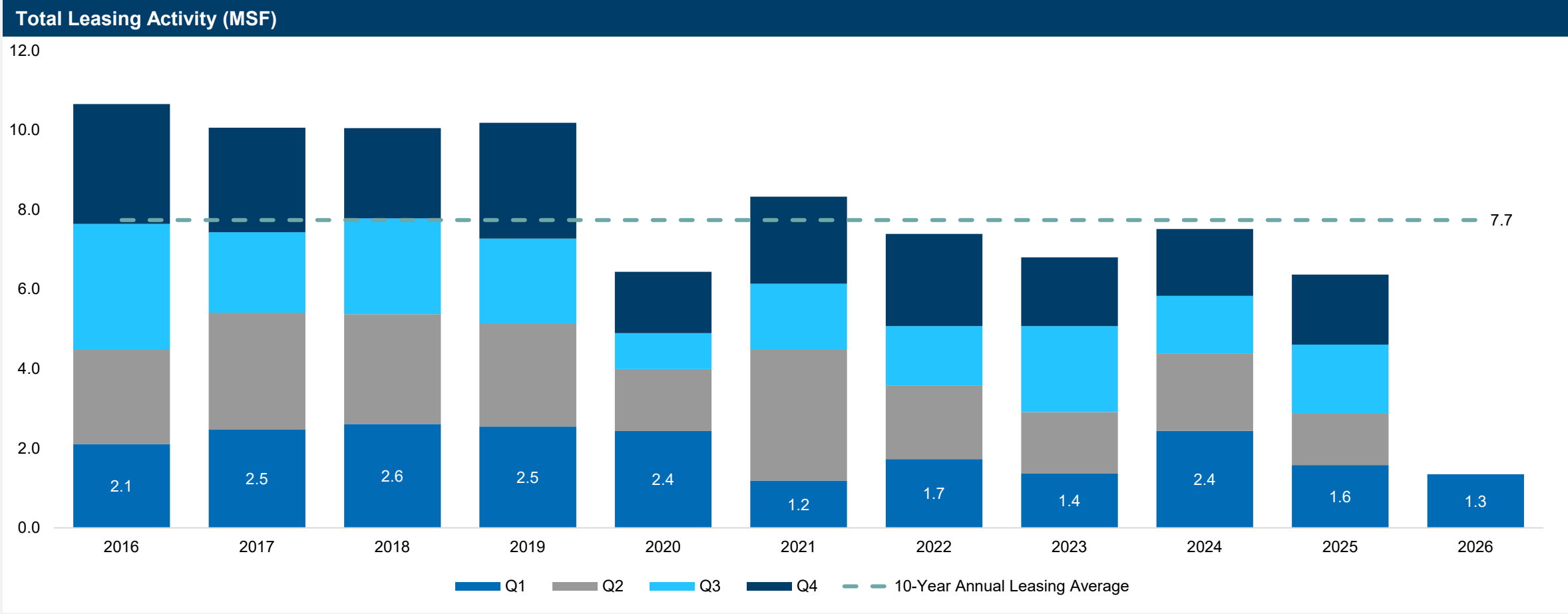
Tenant Demand Holds Steady Amid Elevated Availability

Tenant activity has remained relatively stable since 2022, with requirements generally ranging between 3.0% and 5.0% of total market inventory. As of the first quarter of 2026, tenants in the market represented 3.0% of inventory, while vacancy reached 22.0% and direct availability remained elevated, underscoring that demand is holding but not yet strong enough to materially tighten conditions. Declining sublease availability over recent quarters is an encouraging sign, but a more meaningful recovery will depend on stronger tenant demand and sustained improvement in direct-space absorption.



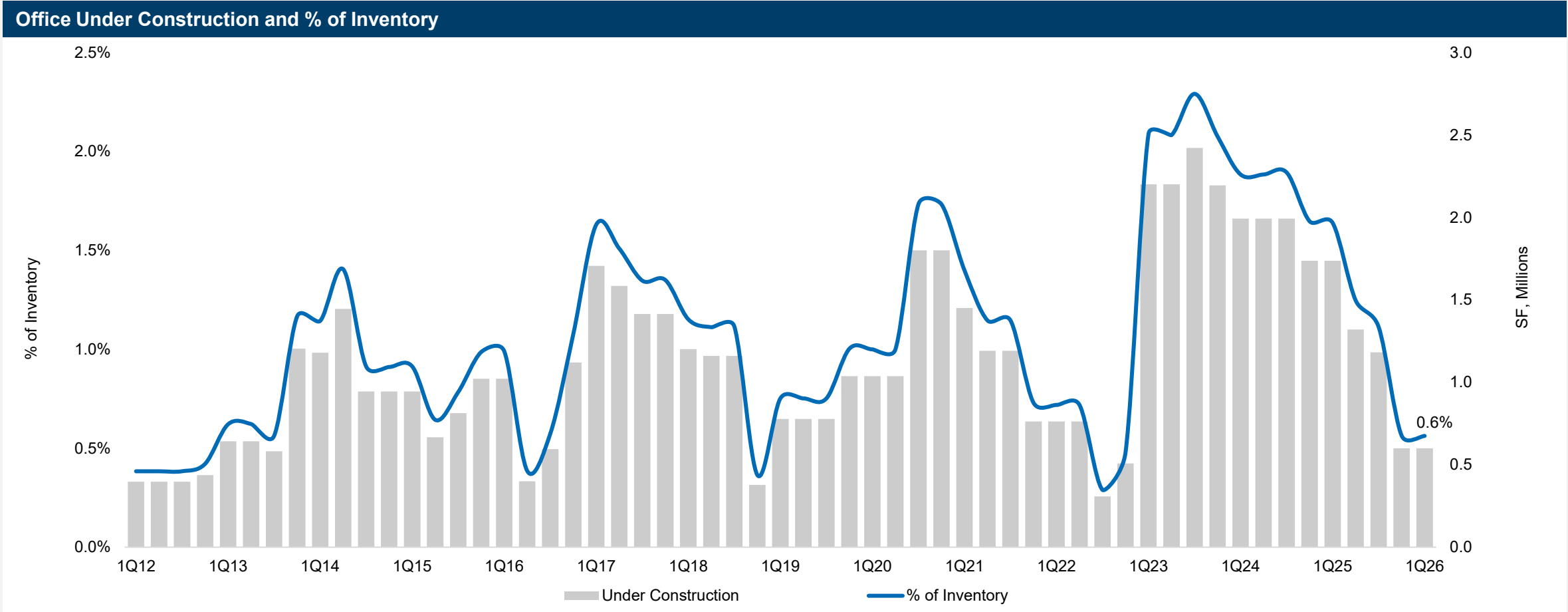
Office Leasing Activity Continues Soft Momentum Gain

Greater Philadelphia’s office leasing market has settled into a steadier range, but activity remains below pre-pandemic benchmarks. At approximately 6.3 million SF, annual leasing trailed the 10-year average of 7.7 million SF by about 1.4 million SF. Across the metro area, 1.3 million SF of office space was leased during the first quarter of 2026. This represents a moderation from the second half of 2025.



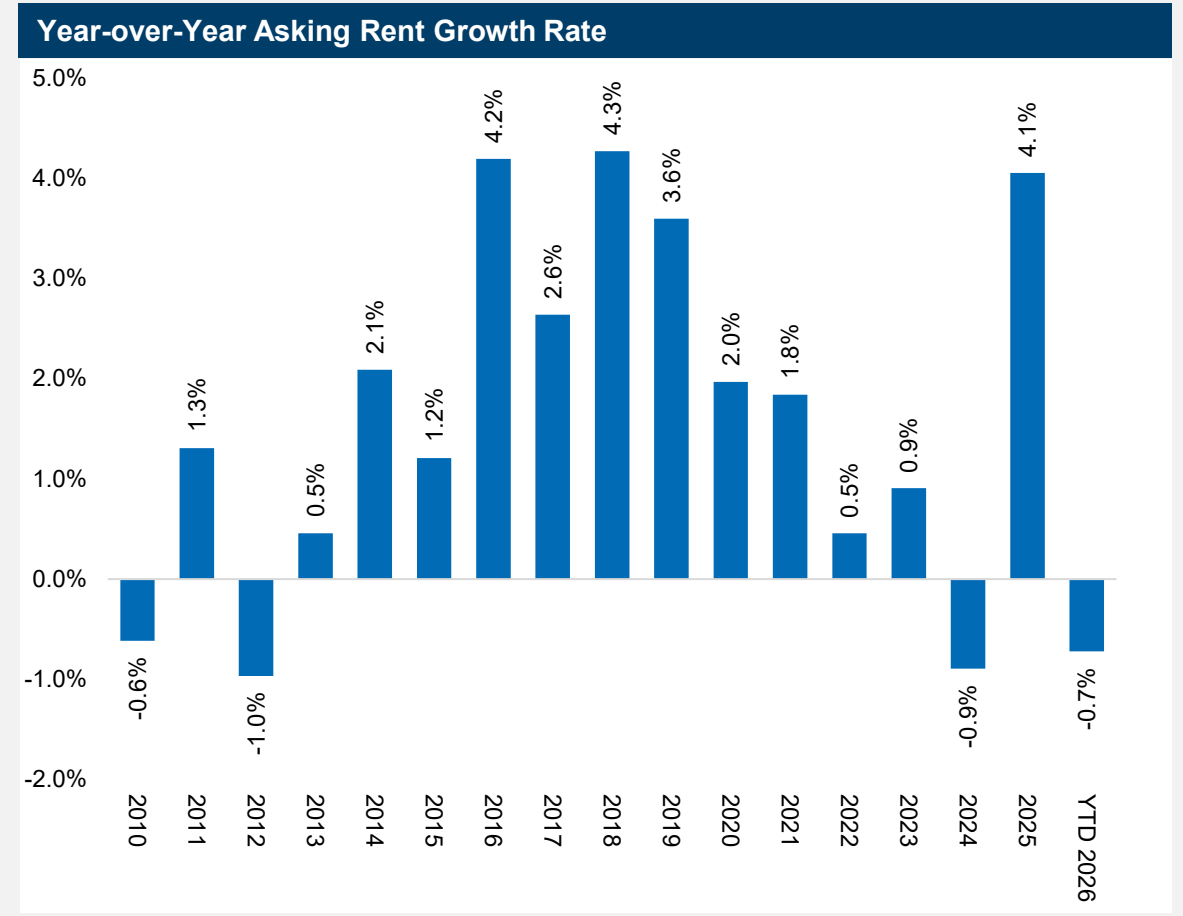
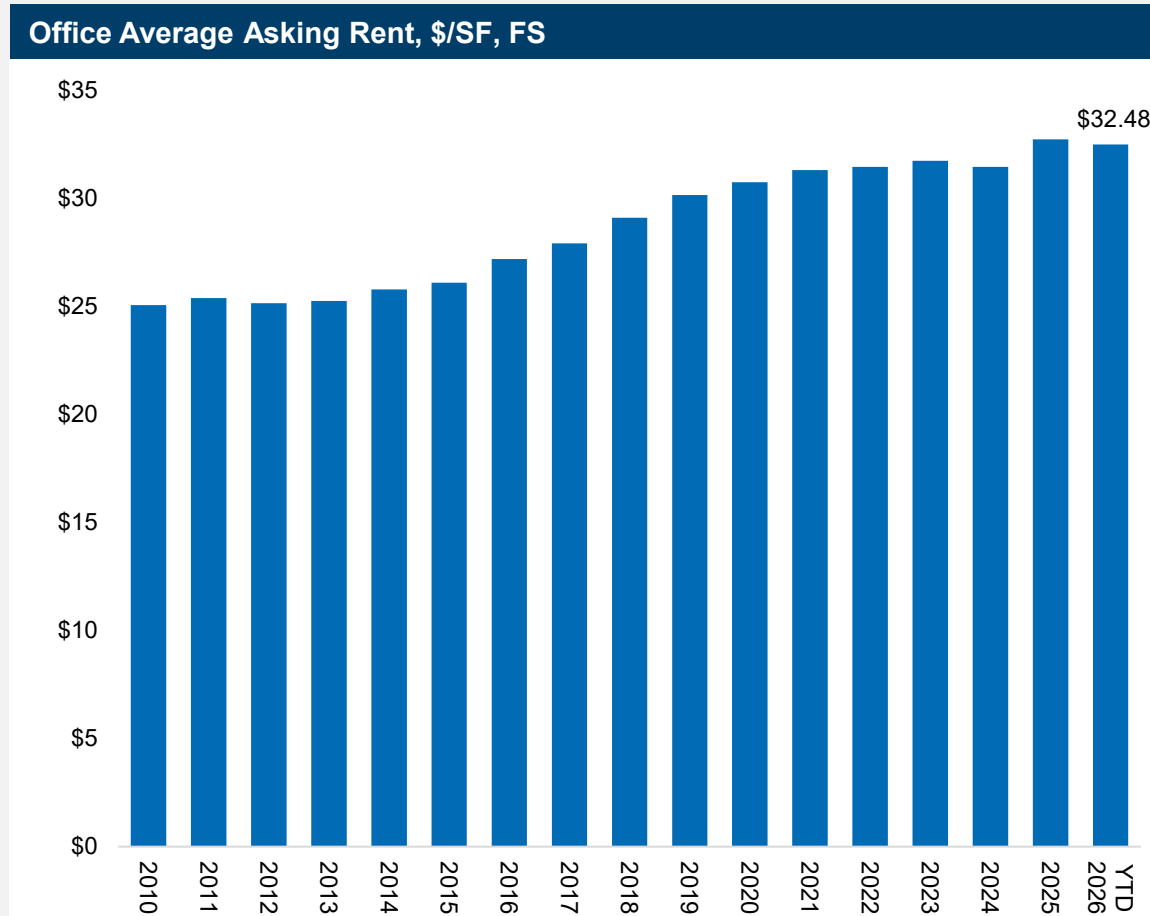
The Development Pipeline Continues To Downshift

After peaking in 2023, Greater Philadelphia’s construction pipeline has continued to decline. Space under construction remains unchanged from last quarter at 600,000 SF, mainly represented by the new Chubb building, equal to 0.6% of inventory. With new groundbreakings and speculative supply limited, the reduced pipeline should help ease future supply-side pressure and support a gradual recovery in market fundamentals.



Asking Rents Remain Elevated

Greater Philadelphia's office asking rents have shown renewed strength following a softer stretch in 2024. Average asking rent increased to \$32.72/SF in 2025, representing 4.1% year-over-year growth and marking one of the strongest annual increases of the past decade. While 2026 year-to-date pricing has edged slightly lower to \$32.48/SF, overall rent levels remain near cycle highs, supported by continued tenant preference for higher-quality space. This recent performance suggests pricing has firmed for the region's best assets even as broader market conditions remain uneven.



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Appendix

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Submarket Overview

Submarket Statistics – All Classes

	Total Inventory (SF)	Total Vacancy Rate	Total Available (SF)	Sublease Available (SF)	Total Availability Rate	Qtr. Net Absorption (SF)	Direct Avg Rate (Price/SF)
Market East	11,973,994	23.6%	3,336,098	584,574	27.9%	(265,746)	\$30.72
Market West	25,489,382	23.7%	7,248,693	1,291,294	28.4%	153,795	\$34.56
CBD	37,463,376	23.7%	10,584,791	1,875,868	28.3%	(111,951)	\$33.44
University City	6,457,603	28.8%	1,709,948	221,329	26.5%	(13,139)	\$54.18
Navy Yard	983,558	13.9%	241,284	4,612	24.5%	225,544	\$26.43
City of Philadelphia	44,904,537	24.2%	12,536,023	2,101,809	27.9%	100,454	\$35.98
Bala Cynwyd	2,762,762	17.6%	570,376	158,103	20.7%	22,129	\$36.77
Blue Bell/Plymouth Meeting	8,410,012	21.1%	2,415,213	690,516	28.7%	(182,780)	\$27.09
Bucks County	7,202,366	14.8%	1,387,497	202,014	19.3%	61,904	\$26.51
Central/Southern Delaware County	5,000,195	20.2%	1,369,734	201,275	27.4%	119,320	\$30.86
Conshohocken	4,009,507	13.8%	769,492	151,529	19.2%	(17,119)	\$40.82
Exton/Malvern	7,697,401	20.4%	1,875,116	152,657	24.4%	(62,017)	\$28.85
Fort Washington	3,060,278	17.8%	774,168	152,526	25.3%	16,990	\$27.80
Horsham/Willow Grove	3,965,248	29.6%	1,376,761	42,074	34.7%	(31,506)	\$28.78
Jenkintown	1,044,051	15.9%	263,993	23,467	25.3%	7,574	\$23.62
King of Prussia	13,039,223	25.3%	4,084,803	544,888	31.3%	(36,910)	\$30.13
Radnor/Main Line	2,816,360	11.7%	361,574	94,921	12.8%	3,813	\$45.23
Southern 202 Corridor	2,783,630	27.6%	882,979	402,423	31.7%	(19,968)	\$26.91
Suburban Philadelphia	61,791,033	20.6%	16,131,706	2,816,393	26.1%	(118,570)	\$29.81
Greater Philadelphia	106,695,570	22.1%	28,667,729	4,918,202	26.9%	(18,116)	\$32.48

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