

NEWMARK

Greater Philadelphia Office Market Overview

4Q25

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 increased by 150 bps over the year despite emerging green shoots



Renewals represent a larger share of 2025 leasing activity, particularly in the CBD



Renewed investor interest is emerging, driving stronger capital markets activity

Market Observations



Economy

- Year-over-year employment growth for the Philadelphia metro area reached 1.3% as of November 2025, which far outpaced the U.S. average of 0.5%. The region has ranked among the top for payroll gains among major U.S. markets.
- Greater Philadelphia maintains healthy labor market conditions, with the local unemployment rate continuing to track in line with the U.S. average. Despite increasing modestly over the two years, the metro area unemployment rate only reached 4.5% in the Fall of 2025.
- The region's large, diverse economy has helped drive recent improvements in growth. Strong year-over-year gains were reported in the Education & Health Services, Professional & Business Services, and Financial Activities sectors. The Leisure & Hospitality industry also posted above-average employment growth over the last year.



Leasing Market Fundamentals

- Greater Philadelphia's office market ended 2025 with positive momentum in select indicators. The leasing landscape is more favorable, with sublease availabilities having stabilized and asking rents recording three consecutive quarters of gains.
- Following five years of significant occupancy losses, totaling 7.1 million SF from 2020 to 2024, net absorption was only slightly negative in 2025 throughout the Greater Philadelphia office market. The improvement of net absorption trends bodes well for the region's recovery over the next several quarters.
- The delivery of 3201 Cuthbert Street, an office and laboratory building in University City, kept vacancies elevated in Philadelphia's CBD market. A lack of new construction and moderately negative net absorption kept suburban vacancies flat over the quarter.



Major Transactions

- Several Philadelphia CBD office users executed renewals within trophy buildings during the fourth quarter of 2025, including CIGNA. The health insurance giant contracted to roughly 167,000 SF at 2 Liberty Place. Law firm Buchanan Ingersoll & Rooney inked a renewal and expansion for 55,090 SF in the same building during the fourth quarter of 2025 as well.
- KPMG renewed 97,700 SF and then expanded by 24,500 SF at 1735 Market Street in the West market. The firm cited increased office attendance as one reason for the larger office requirement.
- In the suburbs, finance and legal services companies dominated fourth-quarter leasing activity. Marsh & McLennan and Fox Rothschild closed two of the largest office transactions of the quarter, each renewing in Conshohocken and Exton, respectively.



Outlook

- Greater conviction among office users will likely drive occupancy gains over the next 12 to 18 months, while expanded return-to-office policies will bring increased daytime foot traffic to Philadelphia's urban markets.
- An empty development pipeline will keep supply-side pressures from driving up office vacancies. The continued adaptive redevelopment of underutilized office product will also help reduce competitive supply and bolster Greater Philadelphia's recovery.
- Well-positioned office assets at the top end of the market stand to gain from favorable tenant preferences, allowing for higher occupancies and lease rates. As fundamentals tighten further among premier properties, improvements should push into the next tier of office buildings.

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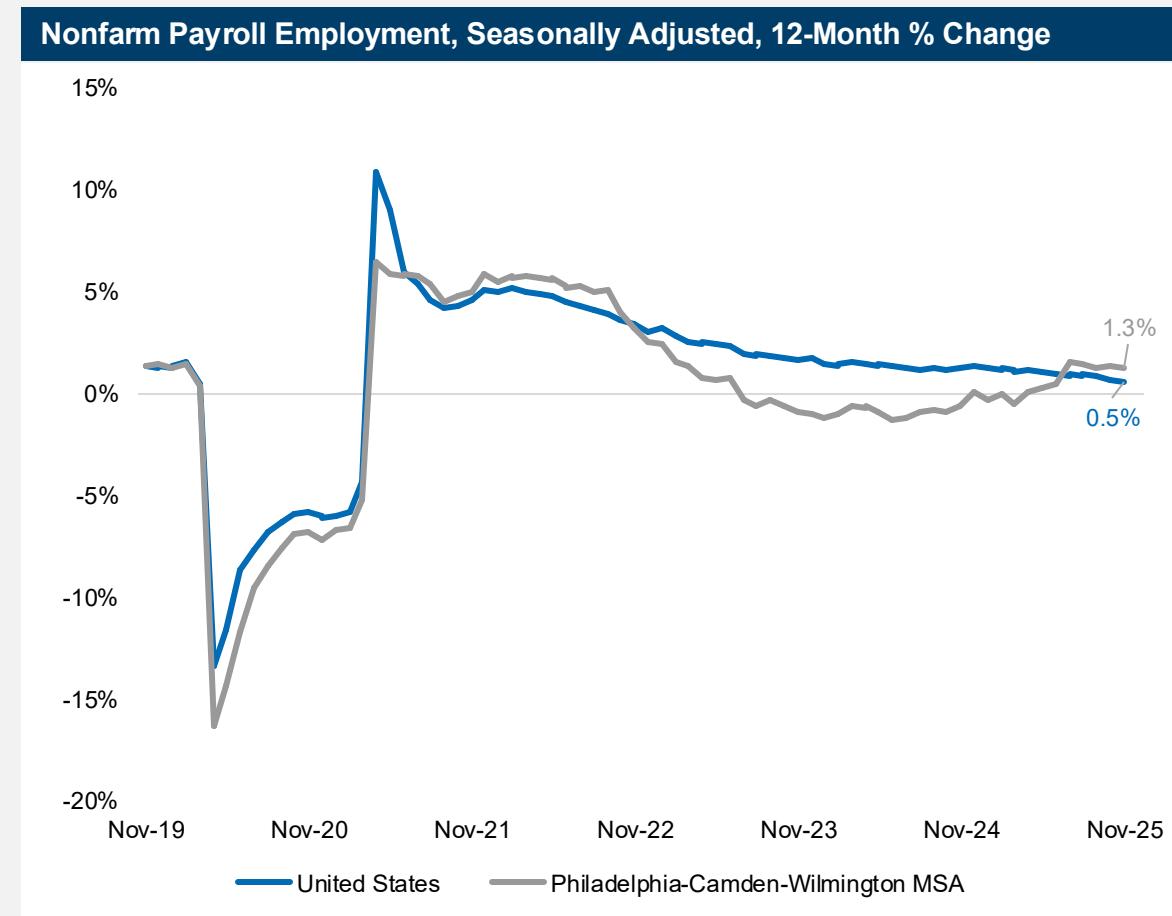
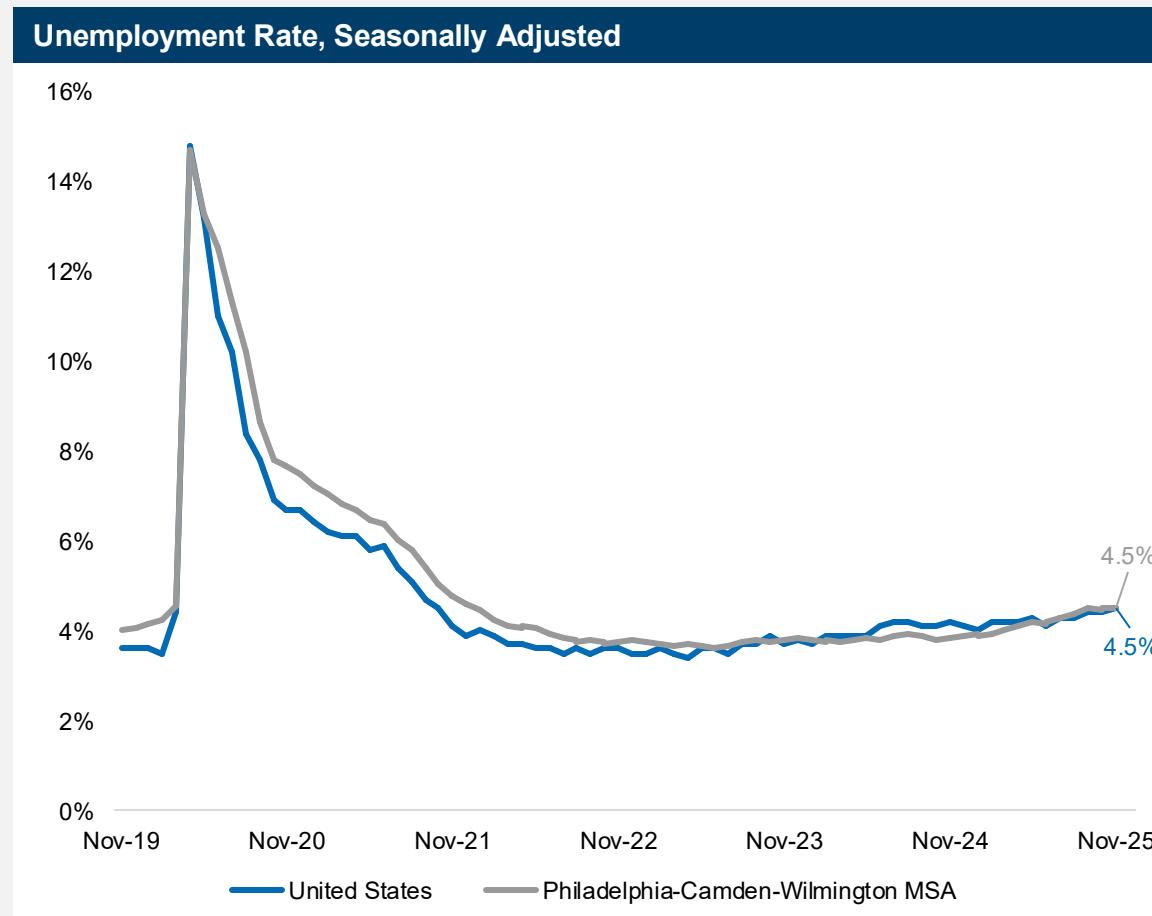
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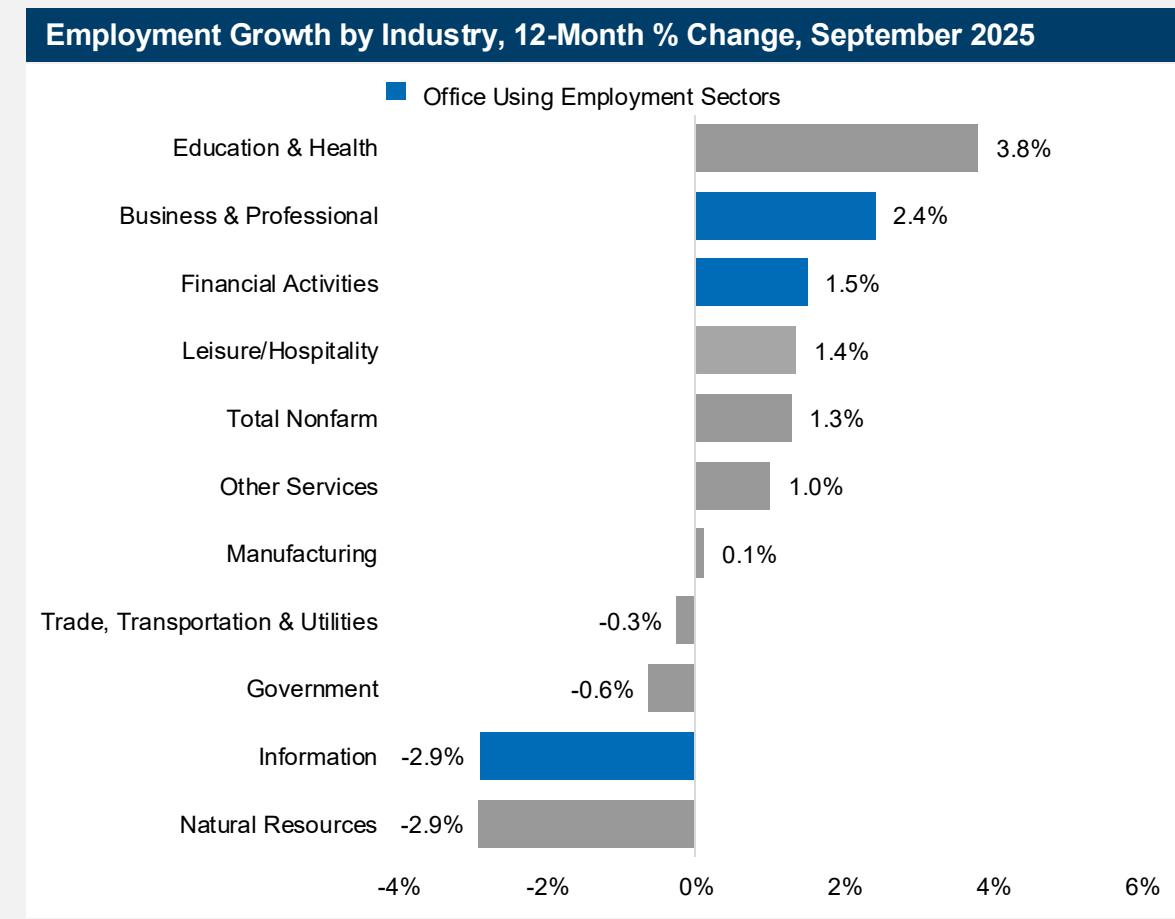
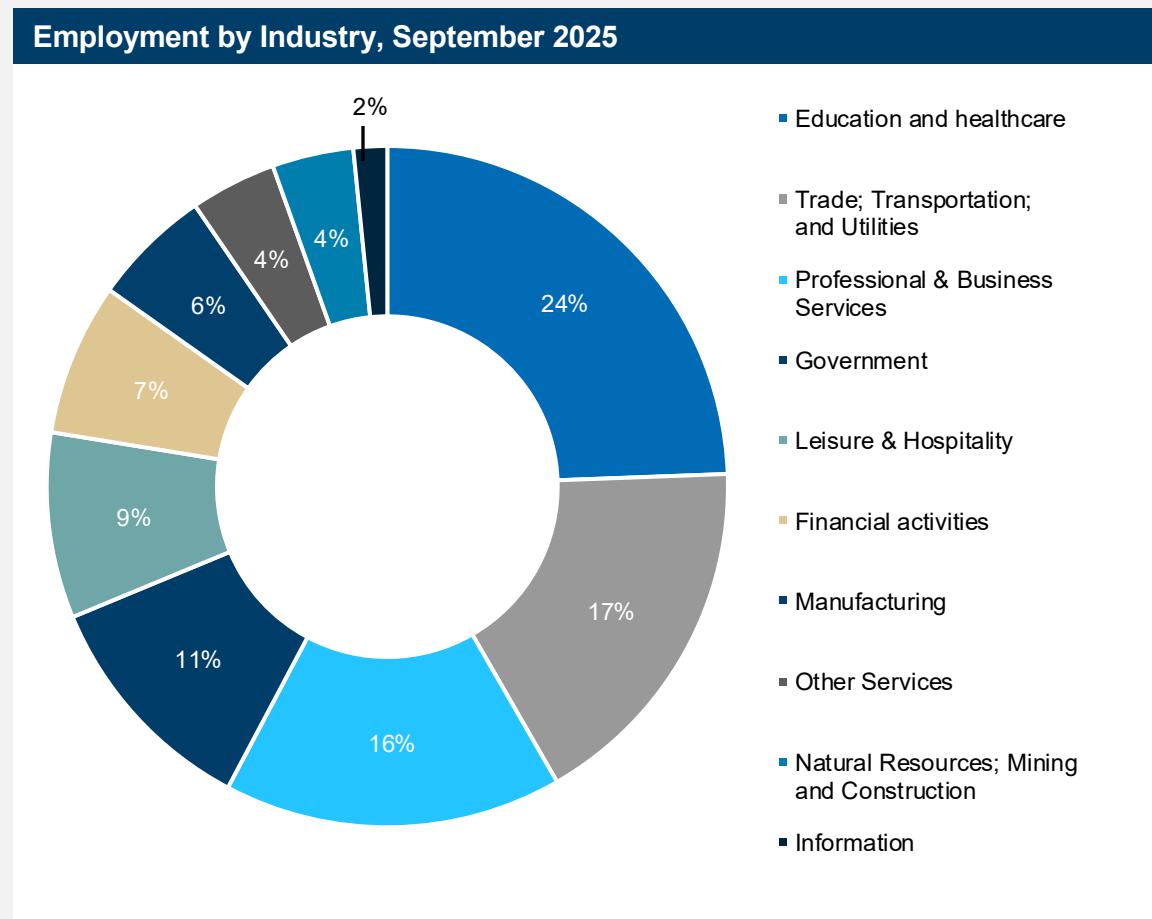
Greater Philadelphia Maintain Favorable Labor Markets

The Philadelphia metro area's economy showed resiliency during the second half of 2025, with local payrolls increasing by 1.3% year-over-year as of November 2025. The unemployment rate has been steadily rising across the region, but local labor markets are trending in line with the U.S. average. Several sectors have contributed to recent economic growth, with key office-related industries reporting above-average job growth over the past 12 months.



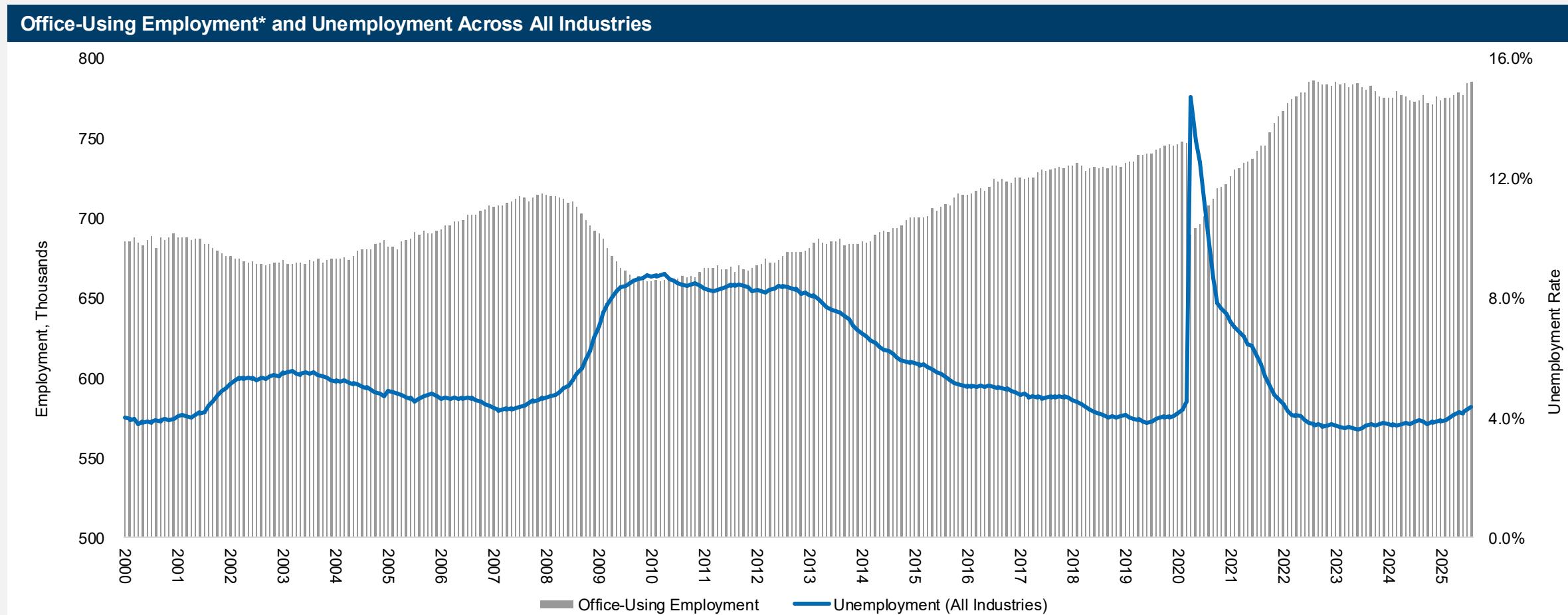
Eds & Meds Lead Local Job Growth

Education & Health stands alone as the market leader for total employment and growth, increasing local payrolls by 3.8% over the last 12 months. The next two sectors topping the growth chart are key office-related industries, including Business & Professional and Financial Activities. These sectors, combined, capture over 23.0% of total employment in the market, and growth creates tailwinds for office demand. The benefits of these two sectors far outweigh the headwinds in the Information sector, which accounts for the smallest share of total employment and has seen some of the steepest job losses over the 12 months ending in September.



Office Employment Gains Traction

Office users rebounded in 2025, capping the year with roughly 785,000 total office-using jobs in November of 2025, a level not seen since the post-pandemic return in mid-2022. The 1.8% collective office-related employment growth over the prior year contrasts with the region's growing overall unemployment rate, which rose about 60 basis points year-over-year in September of 2025.



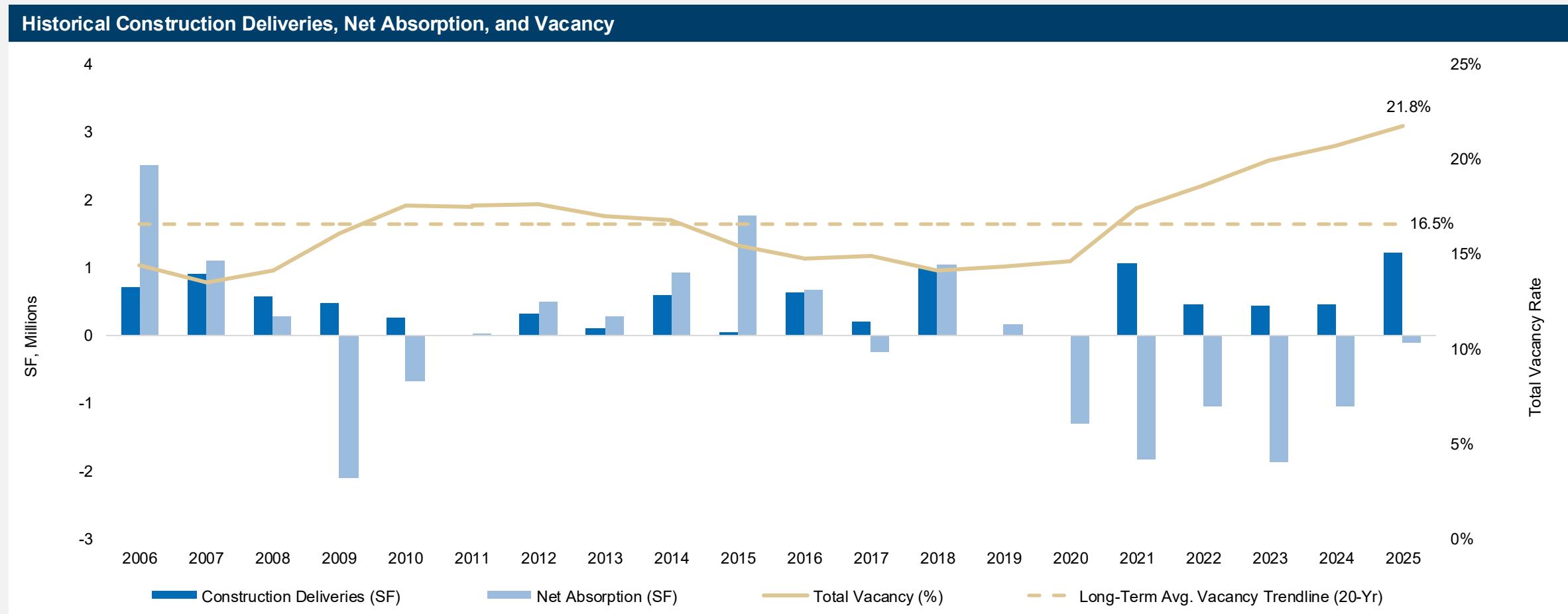
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Leasing Market Fundamentals



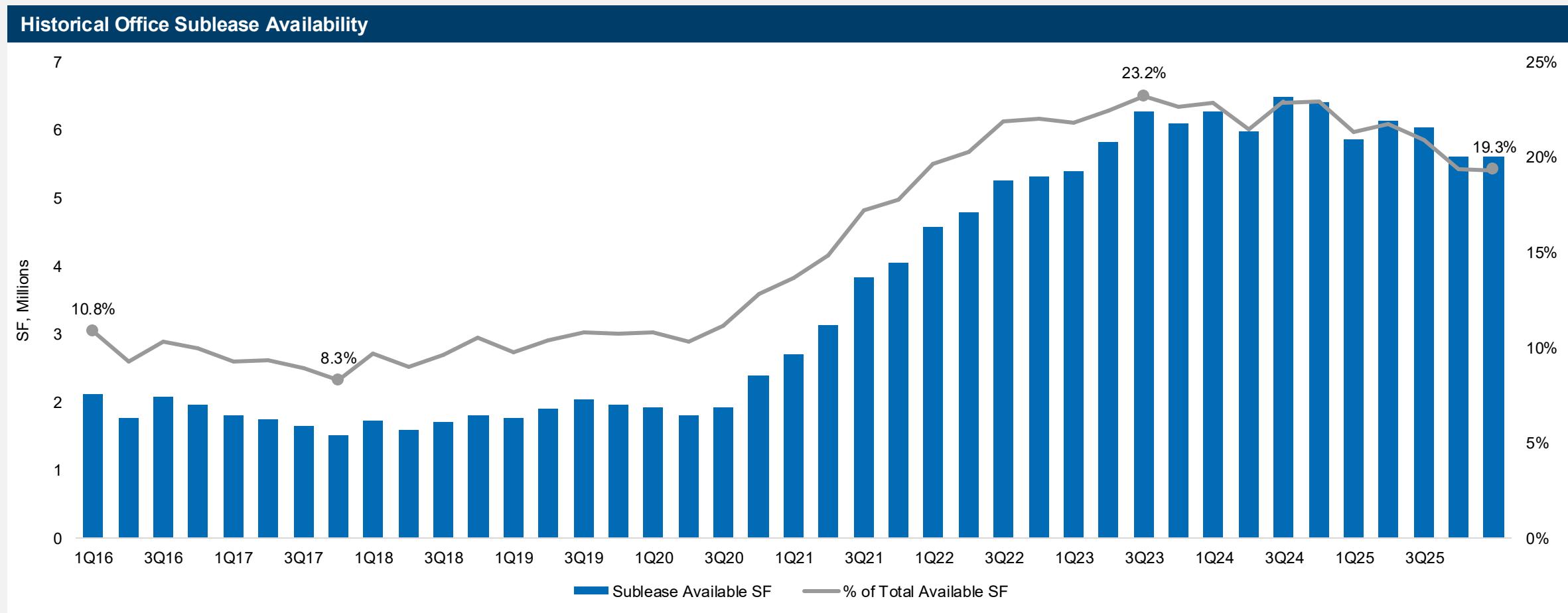
Despite Higher Vacancies, Demand Shows Signs of Improvement

Supply-side pressures have helped push Greater Philadelphia's office vacancy rate to 21.8% in the fourth quarter of 2025. While net absorption ended the year moderately negative, annual occupancy losses have fallen to their lowest level since 2020. A sustained recovery in the region's office market may take several quarters to take hold, with the top-end of the market positioned to outperform the metro-wide average. Premier assets in both the CBD and Suburban submarkets will continue to lead in tenant demand, leasing activity, and pricing growth.



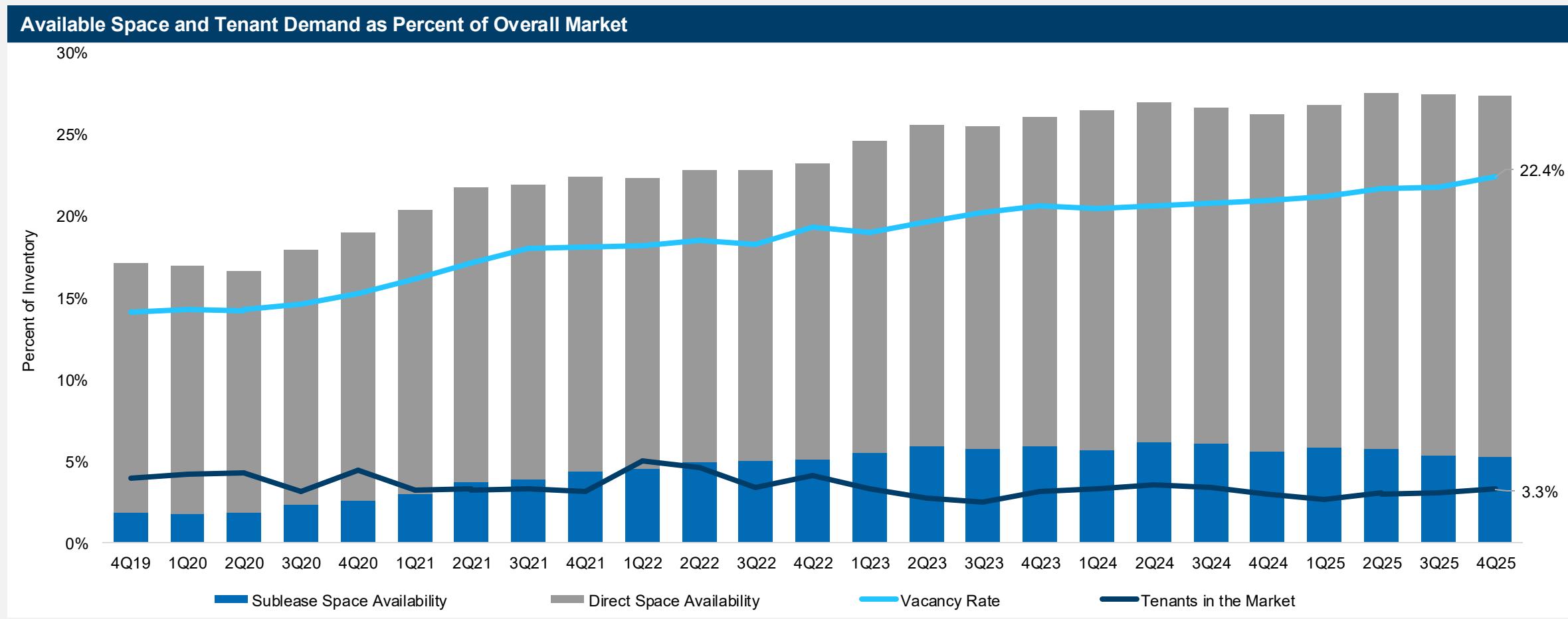
Sublease Availability Continues to Ease Across the Region

Sublease inventories across the metro have been steadily moderating for the past 24 months, totaling just 5.6 million SF as of the fourth quarter of 2025. As a share of total available office space in Greater Philadelphia, sublease offerings have been declining for more than two years. Sublease inventories remain elevated in Philadelphia's CBD office market, while the percentage of available sublet space in the suburbs has declined by 140 basis points since peaking in 2023.



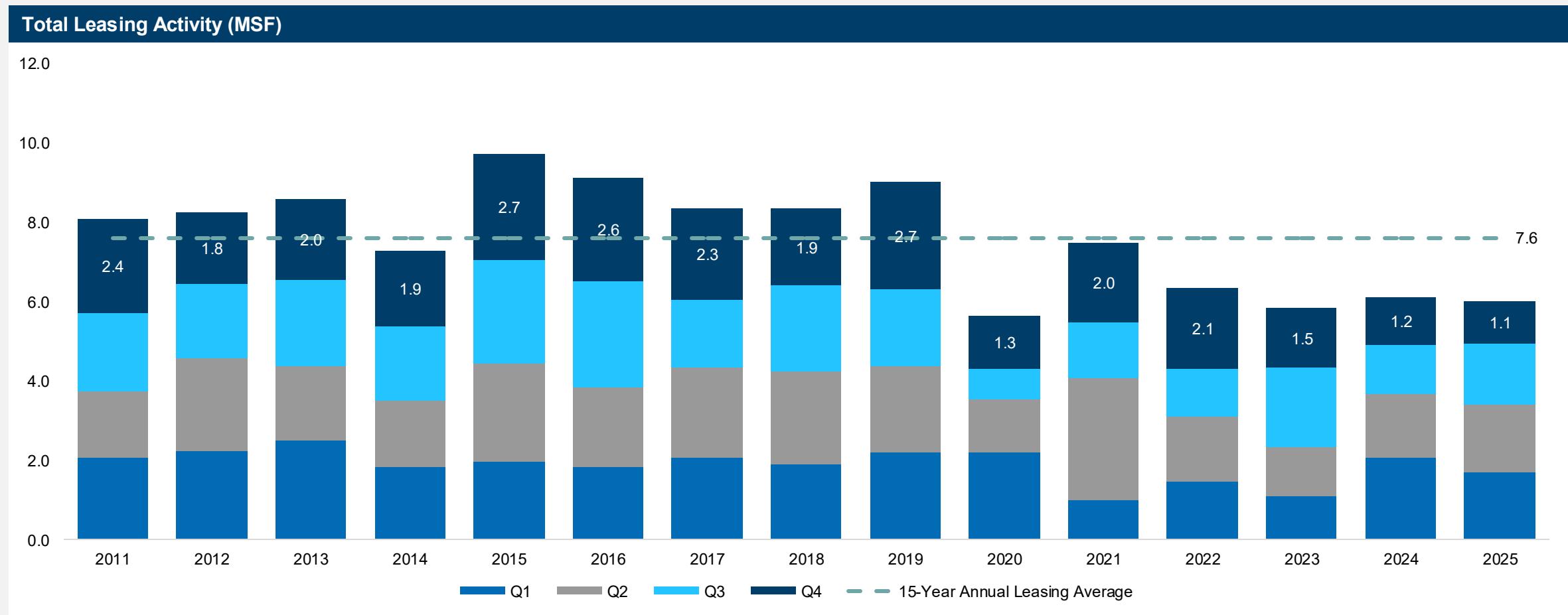
Tenant Demand Increased Modestly Over the Year

Tenant activity has remained stable since 2022, with volume fluctuating between 3.0% to 5.0% of the total market inventory. Since the beginning of 2025, however, active requirements as a percent of office inventory increased by 60 basis points to 3.3%. Direct availability remains elevated while sublease availabilities have been declining for several quarters, which bodes well for Greater Philadelphia's office market outlook.



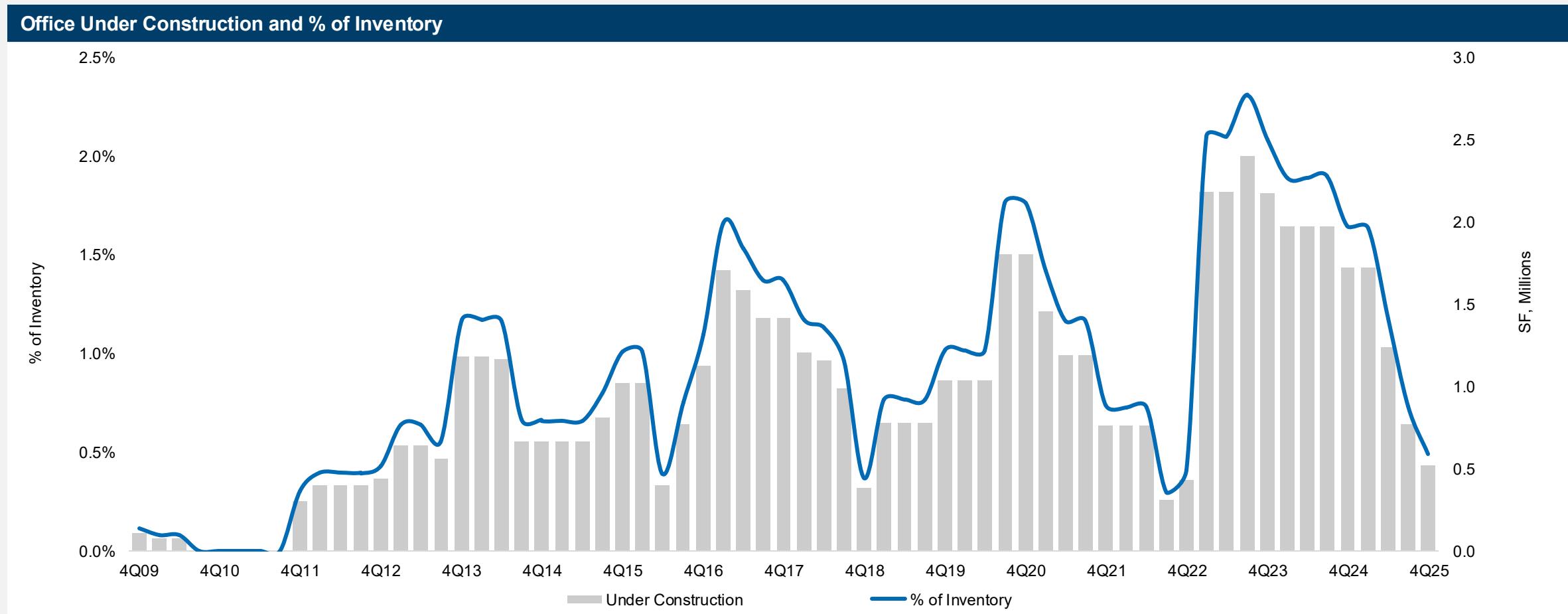
Office Leasing Activity Continues Momentum Gain

The year wrapped with leasing activity comparable to 2024. Total activity remains below the long-term average by about 1.1 million SF but falls in line with the average post-pandemic volume. Quarterly, the fourth quarter of 2025 was about 900,000 SF below the long-term average fourth-quarter volume, while the other three quarters were 200,000 to 300,000 SF below the long-term historical for each.



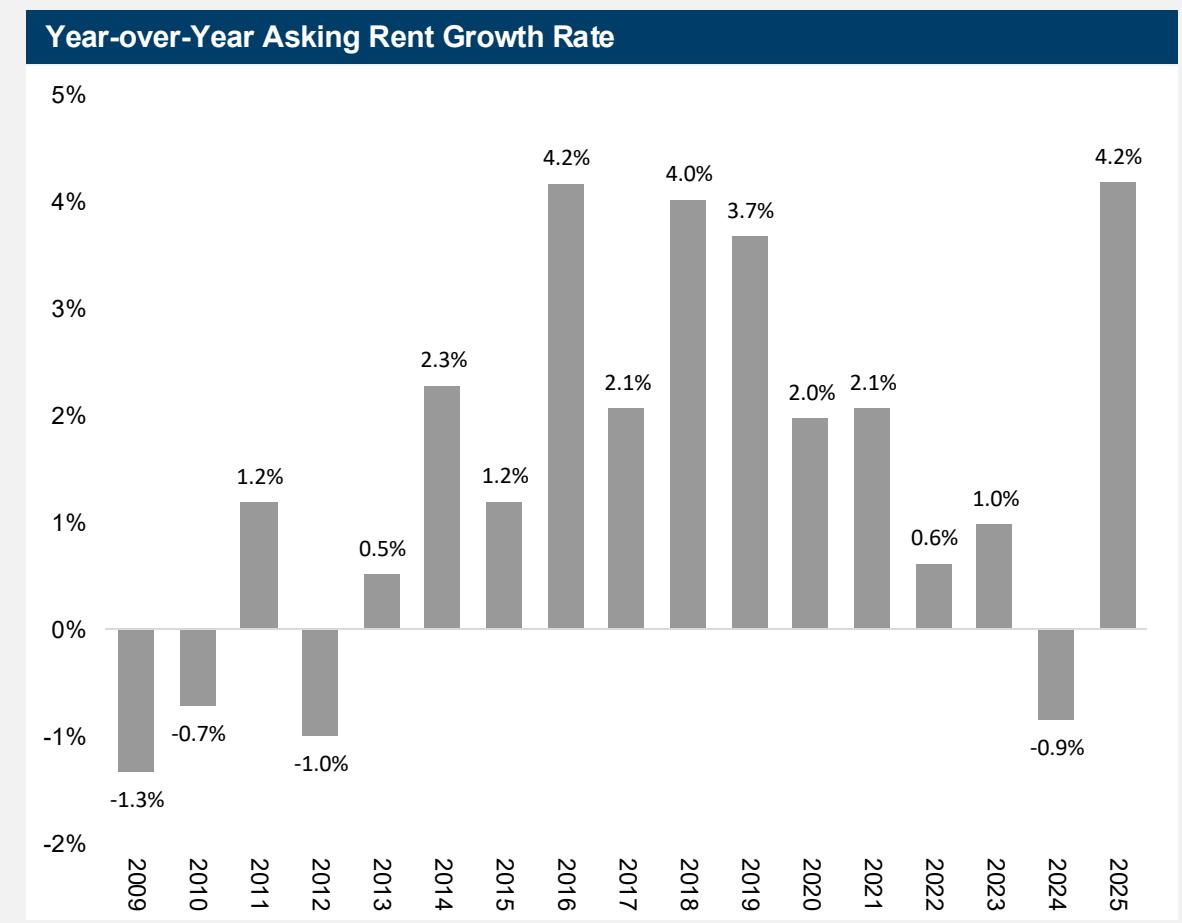
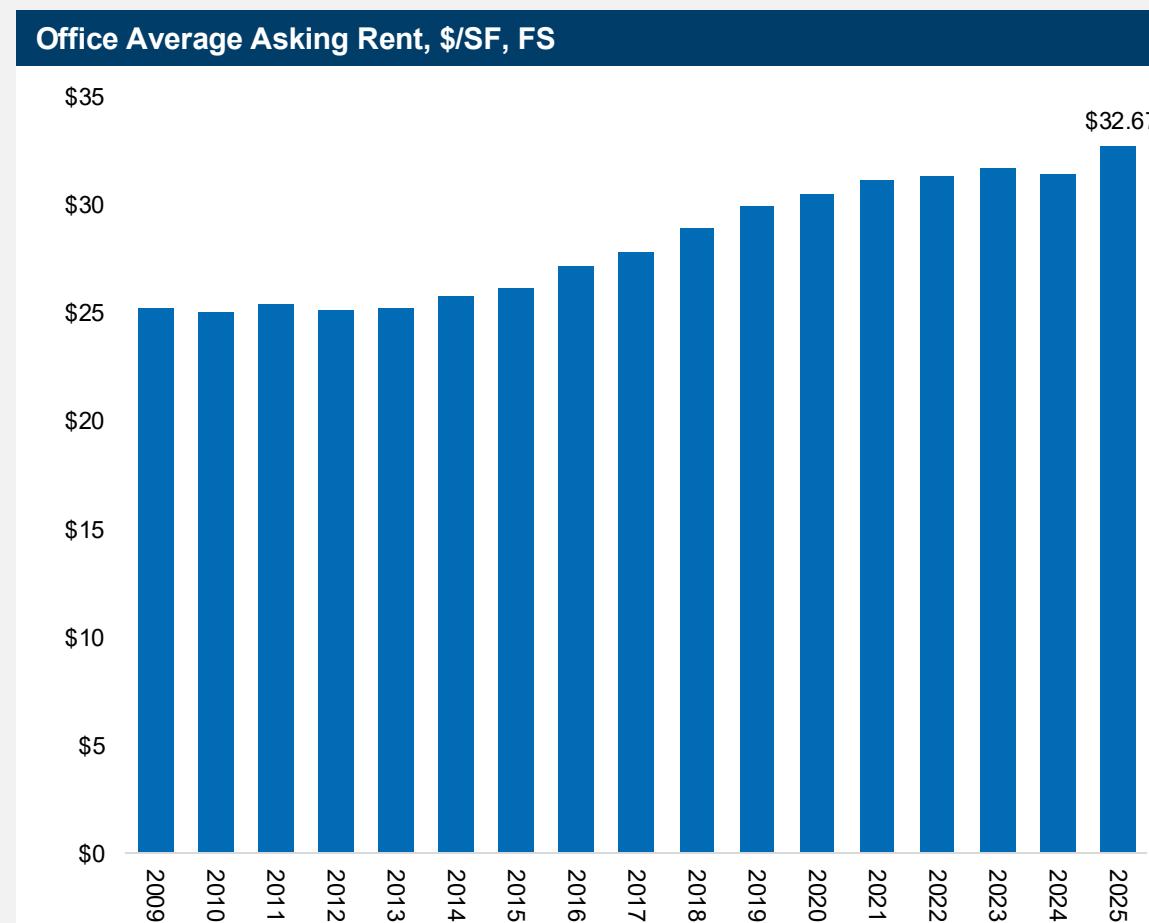
The Development Pipeline is Shrinking

The significant increase in square feet under construction in early 2023 was partially driven by the rapid expansion of the Greater Philadelphia life science sector as developers created new office and lab space to meet the growing demand. Lingering weakness in the office market and a reversal of life science growth has rendered new groundbreakings non-existent. The lack of new speculative supply in the region's near-term outlook will support a recovery in office fundamentals.



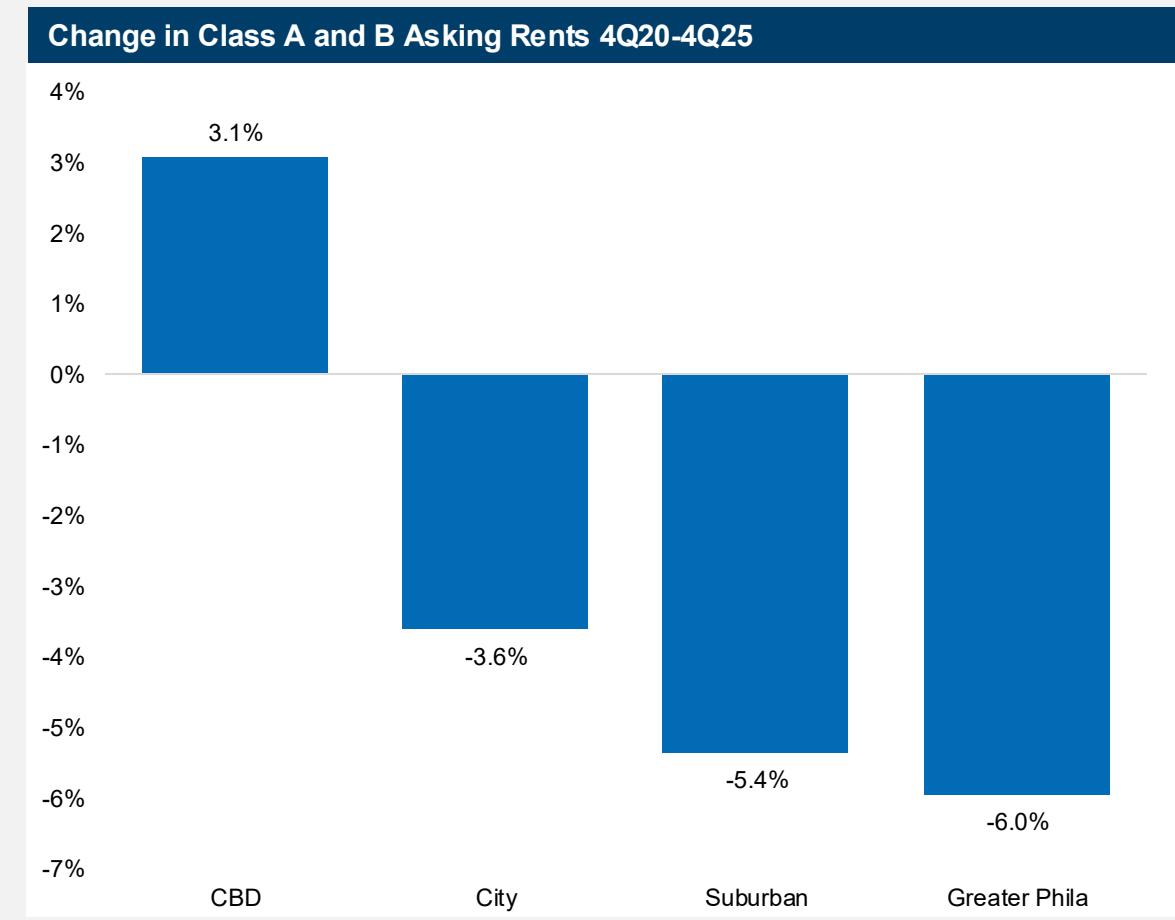
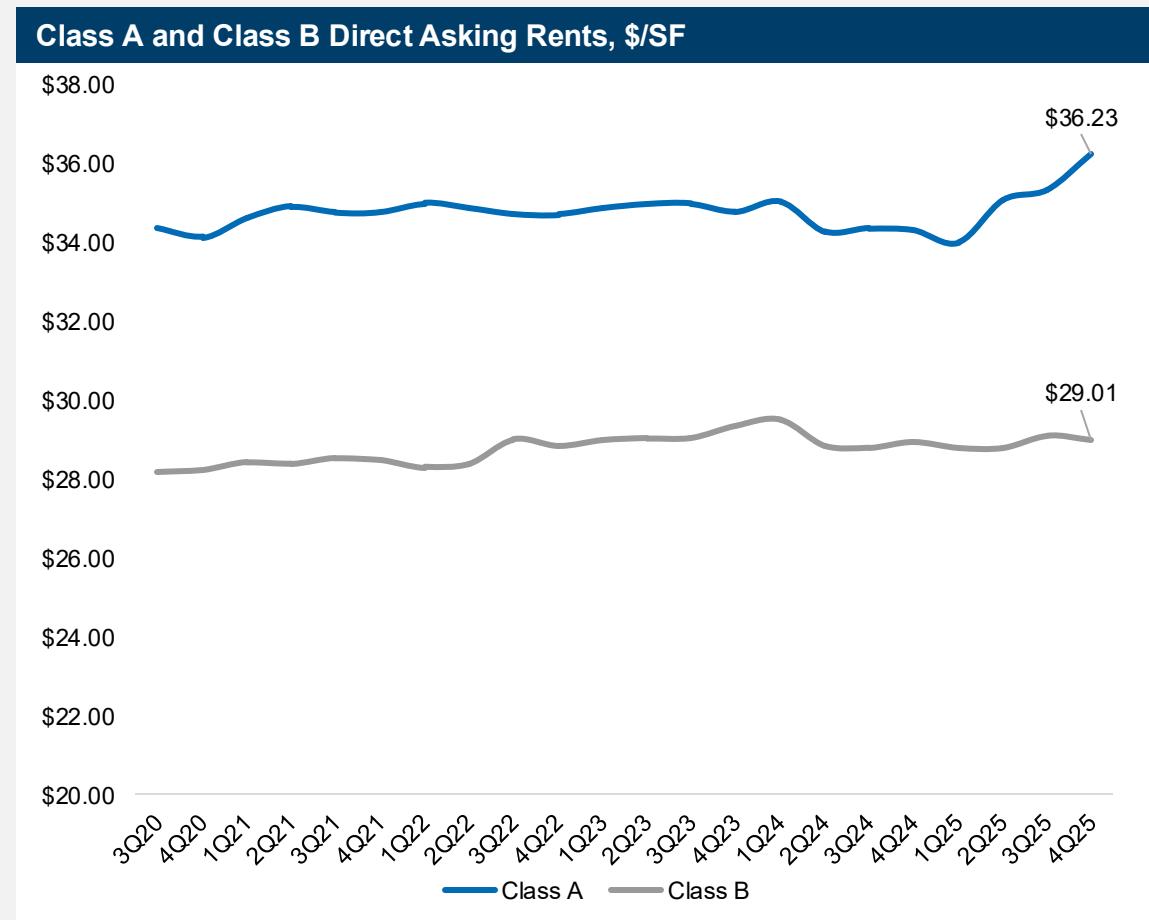
Asking Rents are Trending Positively

Year-over-year, asking rents across the region increased by 4.2%, a reversal of the trend over the last several years. Greater Philadelphia's Class A office segment is the driving force behind the recent growth in asking rents.



Class A Segment is Driving Overall Rent Growth

The delivery of new office and laboratory space within Philadelphia's CBD submarket, in combination with higher demand for trophy and premier assets, is putting upward pressure on direct asking rents in the urban office market. Over the last five years, CBD rents have increased by more than 3.0%, with the lion's share of gains recorded in recent quarters. Comparatively, lease rates across the region are 6.0% below pricing reported at the end of 2020, indicating lingering weakness among commodity office space.



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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	11,411,771	22.5%	3,159,862	683,245	27.7%	(121,583)	\$31.04
Market West	24,356,628	25.4%	7,397,459	1,570,056	30.3%	13,390	\$34.58
CBD	35,768,399	24.5%	10,557,321	2,253,301	29.5%	(108,193)	\$33.62
University City	6,457,603	28.6%	1,678,440	221,329	26.0%	65,633	\$54.43
Navy Yard	983,558	36.8%	360,772	221,257	36.7%	(25,599)	\$25.75
City of Philadelphia	43,209,560	25.4%	12,596,533	2,695,887	29.1%	(68,159)	\$36.21
Bala Cynwyd	2,771,228	18.3%	554,859	149,021	20.0%	2,175	\$36.85
Blue Bell/Plymouth Meeting	8,425,121	18.9%	1,594,670	629,788	26.5%	48,054	\$28.06
Bucks County	7,295,866	15.5%	1,410,953	235,279	19.3%	(5,792)	\$26.55
Central/Southern Delaware County	5,325,852	22.2%	1,507,968	223,429	28.3%	56,513	\$31.03
Conshohocken	3,999,915	13.4%	934,464	148,863	23.4%	8,075	\$39.73
Exton/Malvern	7,764,830	17.9%	1,771,779	151,501	27.8%	(8,660)	\$28.63
Fort Washington	3,141,246	17.9%	873,892	225,984	26.1%	(1,038)	\$27.82
Horsham/Willow Grove	4,033,048	30.0%	1,380,803	45,774	34.2%	(35,688)	\$28.89
Jenkintown	1,044,051	16.6%	234,443	-	22.5%	9,521	\$24.00
King of Prussia	13,258,878	24.6%	4,276,860	616,751	32.3%	(93,177)	\$30.21
Radnor/Main Line	2,816,360	11.8%	366,037	94,921	13.0%	(16,074)	\$45.11
Southern 202 Corridor	2,783,630	26.9%	853,549	471,126	30.7%	8,618	\$26.90
Suburban Philadelphia	62,660,025	20.3%	15,760,277	2,992,437	26.2%	(27,473)	\$30.12
Greater Philadelphia	105,869,585	22.4%	28,356,810	5,688,324	27.4%	(95,632)	\$32.67

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