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CORPORATE REAL ESTATE

The Gola Index

Q2
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Philadelphia Office Market
Market Intelligence for Corporate Occupiers

Executive Summary

Philadelphia's office market continues to stabilize—but the recovery remains highly selective.

Leasing activity continued to improve during the second quarter, supported by positive absorption, declining sublease inventory, and one of the smallest office construction pipelines in decades. While these trends indicate improving market fundamentals, they do not represent a broad-based recovery. Demand remains concentrated in high-quality office buildings offering modern amenities, efficient floor plates, and well-capitalized ownership, while older commodity assets continue to face elevated vacancy and pricing pressure.

At the same time, occupiers continue to optimize their real estate portfolios. Companies are leasing less space than they occupied prior to the pandemic, but they are making more deliberate long-term decisions regarding workplace quality, employee experience, and operational efficiency. This has created two distinct office markets: premium assets that continue outperforming and commodity office buildings that remain highly competitive.

For occupiers, negotiating leverage remains favorable across much of the region. Landlords continue competing aggressively through concession packages, tenant improvement allowances, and flexible lease structures. However, that leverage is becoming increasingly dependent on building selection rather than overall market conditions. Companies that begin evaluating alternatives well in advance of lease expiration remain best positioned to capitalize on today's opportunities.

> ”
>
> **The office market is no longer recovering as one market—it has become two: premium assets gaining momentum while commodity buildings continue to face pressure.**
>
> Shane Allen
> *Tenant Representative*

PHILADELPHIA MSA SNAPSHOT

325,173,537	10.9%	13.9%	1,145,348	$28.2	0.5%	16,73,927
Inventory Sq. Ft.	Vacancy Rate	Availability Rate	Net Absorption	Rent Growth	Avg. Asking Rent	Under Construction

KEY TAKEAWAYS

Recovery Is Becoming More Sustainable

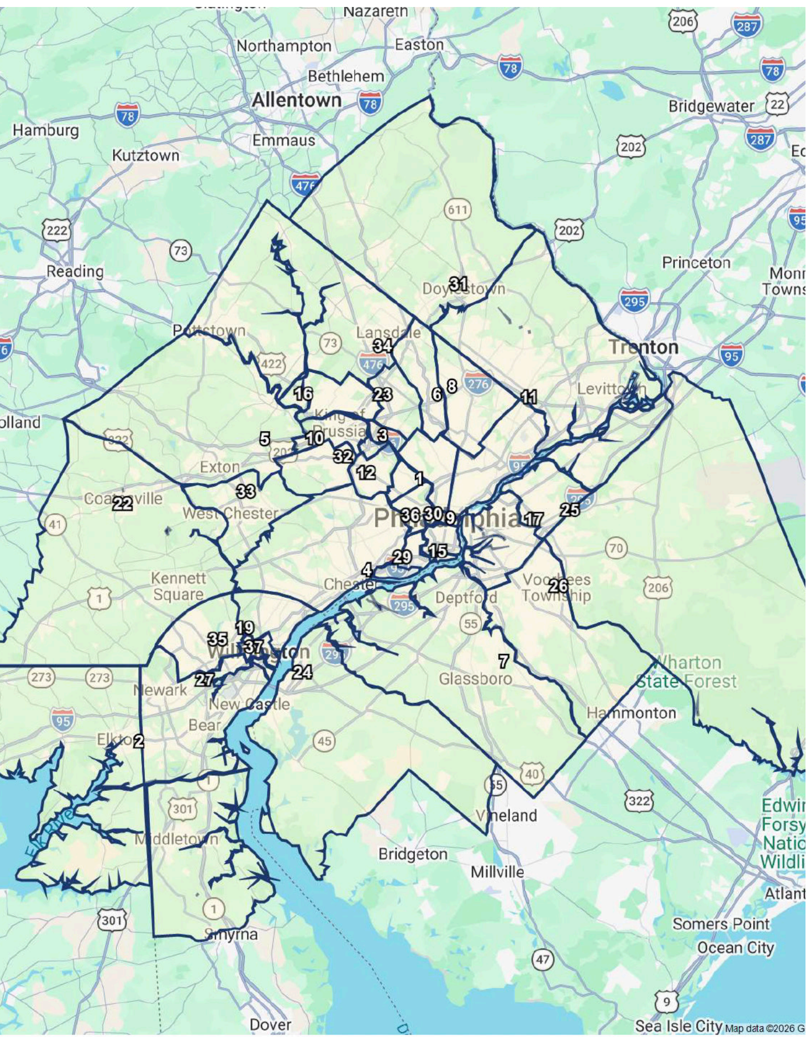
Positive absorption, improving leasing activity, and declining sublease inventory suggest much of the post-pandemic portfolio contraction has already occurred.

Office Performance Is Becoming Increasingly Segmented

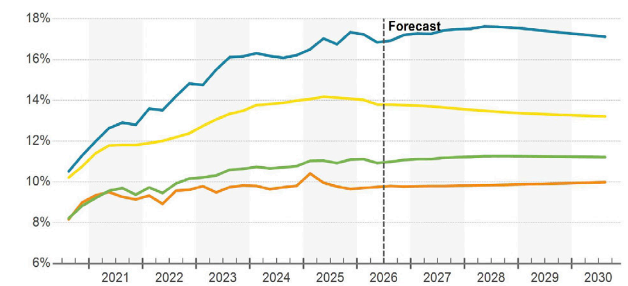
Premium office buildings continue outperforming commodity assets as occupiers prioritize quality, amenities, and ownership stability.

Tenant Leverage Remains Strong—But Won’ t Last Forever

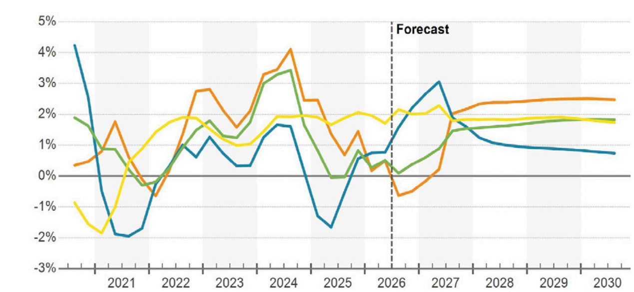
Limited new construction and the gradual removal of obsolete office inventory through conversions are slowly improving supply-demand fundamentals.



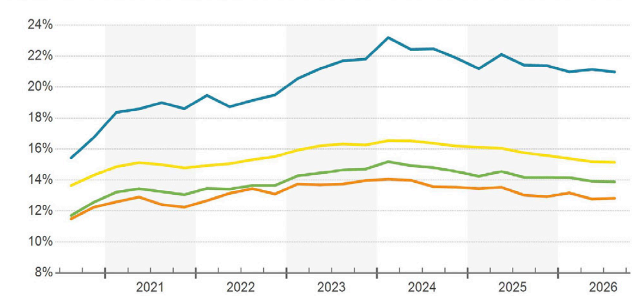
VACANCY RATE



MARKET ASKING RENT



AVAILABILITY



Philadelphia United States

Source: CoStar Group Q2 2026

Beyond the Headlines

Five market trends every occupier should understand.

1. Shadow Vacancy Is Quietly Disappearing

During the height of the pandemic, many occupiers placed excess leased space on the sublease market while evaluating long-term workplace strategies. That trend continues to moderate. Declining sublease inventory—often referred to as shadow vacancy—suggests companies are becoming more confident in the amount of space they need rather than holding excess space as a hedge against uncertainty.

> **Why it Matters**
> Fewer sublease opportunities reduce downward pressure on rents while limiting the supply of move-in-ready space available to tenants seeking shorter-term flexibility.

2. New Construction Is No Longer Driving Competition

Philadelphia's office construction pipeline remains near historic lows. Higher financing costs, restrictive underwriting, and uncertain demand have significantly curtailed new development.

> **Why it Matters**
> Today's negotiating leverage is being driven by existing vacancy—not future supply.
> As vacant inventory is gradually absorbed, leverage is likely to shift over time.

3. Flight to Quality Continues—But Value Still Exists

Premium office buildings continue attracting the strongest tenant demand because they offer superior workplace experiences and ownership capable of funding substantial tenant improvements. Meanwhile, many commodity office buildings continue offering aggressive concession packages that create compelling financial opportunities.

> **Why it Matters**
> The "best" building is no longer determined solely by rental rate. Occupiers should evaluate total occupancy cost, employee experience, landlord financial strength, and long-term flexibility together.

4. Distressed Buildings Are Creating New Opportunities

As office properties trade at significantly reduced valuations, new ownership groups often acquire buildings with "substantially lower cost bases than previous owners.

> **Why it Matters**
> Recently acquired buildings frequently become some of the most competitive leasing opportunities within their submarkets through repositioning, capital improvements, and more aggressive lease economics.

5. Market Averages Can Be Misleading

Philadelphia's office market is increasingly fragmented. Vacancy, concession packages, landlord motivation, and leasing activity vary significantly from one submarket—and often one building—to the next.

> **Why it Matters**
> Successful real estate strategies are increasingly driven by building-level intelligence rather than regional market averages.