The overall office market continued to soften in the second quarter, with vacancy rates increasing from 16% to 17%. Available space now exceeds 7.8 million square feet. A significant portion of this vacancy is concentrated in the West Market Street submarket, where corporate downsizing and space efficiency efforts have been particularly impactful. The ongoing flight to quality—a trend persisting for the past 4-5 years—remains the dominant theme.

Net absorption was again negative, with 100,000 SF returning to the market. This trend is expected to continue as owners facing debt service pressures reevaluate options, obsolete inventory is withdrawn, and building conversions begin to materialize.

1801 Market Street (10 PC) is currently under an agreement to be sold to Philadelphia Management Corporation (PMC). Their plan is to convert the building's high-rise section into residential units while maintaining the low-rise portion as office space. With limited views and non-operable windows, the success of this hybrid use remains to be seen.

Space Utilization Trends

Across major U.S. markets, the average square footage leased per person—particularly in legal practices—has declined. Historically, attorneys occupied an average of 750 RSF; today, that figure is closer to 600 RSF. Non-attorney professionals have seen a similar reduction from 250 RSF to 150–175 RSF per person. This shift reflects the adoption of more efficient layouts, single-sized offices, streamlined conference and library spaces, and the impact of cloud technologies.

Current Quoted Rental Rates

With vacancies on the rise, asking rents have begun to soften, as landlords compete for a smaller pool of prospective tenants. However, one area of the market has resisted this trend: Trophy-class space continues to command a significant premium.

- Trophy Class space is priced at $46.50/SF
- Class A space is priced at $33.00/SF
- Class B space is priced at $28.00/SF
- Class C space is priced at $23.50/SF

" Cash is King." This remains true in today's market. Owners with capital on hand are at a clear advantage over properties in receivership or those struggling with debt service obligations. This is a critical factor for tenants to consider when evaluating long-term occupancy decisions.

Flight to Quality

The "flight to quality" trend reflects tenants' ability to become more efficient with space and, in many cases, pay the same (or less) for higher-quality office environments. These newer, amenity-rich Class A buildings offer better locations, modern infrastructure, and enhanced employee experiences.

Philadelphia is part of this national trend, and it is not limited to the CBD. Conshohocken and Radnor Main Line submarkets are especially active with new tenant interest. Tenants from Blue Bell, Plymouth Meeting, and Fort Washington are gravitating to Conshohocken, where vacancy sits at 15% and base rents begin at $40/RSF. The vacancy in the Radnor Main Line submarket is 10%, with rents starting at $44/RSF. This submarket is drawing tenants from the King of Prussia and the 202 Corridor as many view this submarket as the premier suburban office destination.

Construction Costs

Quoted costs for buildouts—both in new and renovated space—remain exceedingly high, though there is reason to believe these estimates are inflated. When tenants solicit multiple competitive bids from general contractors, they can often achieve meaningful savings. The key is a disciplined and well-managed bidding process.

Looking Ahead

The outlook for the office market remains challenging. I foresee a smaller, leaner inventory of office space, with fewer healthy choices available to tenants. Vacancy rates are likely to continue rising, and a meaningful recovery—particularly in the Central Business District—may still be years away, if it comes at all. While leasing activity exists, there are currently no clear indicators of a turnaround.

If you have any questions or would like to discuss the market further, please don't hesitate to reach out. I would welcome the opportunity to connect and have a conversation.

Ken