Current and Future Market Conditions Q2 2026

Philadelphia's office market entered Q2 2026 on a solid footing, posting approximately 200,000 SF of positive absorption. Despite this momentum, 7.4 million SF remains available across the market, and the CBD vacancy rate stands at 16.8%.

Philadelphia Office Market Overview

Philadelphia's office market has been in a state of flux for the better part of six years, beginning with the onset of the pandemic and the widespread shift to remote and hybrid work arrangements. During that time, employers, landlords, and investors have all grappled with evolving workplace expectations and changing space needs. While some companies have reduced their footprints, others have reimagined their offices as hubs for collaboration, culture, and client engagement rather than destinations for daily individual work.

Throughout these shifts, one question has remained at the forefront of industry conversations: What does the future of the office market look like? When considering the answer to this question, I've often framed the market as a tale of "haves" and "have-nots." What's more, this distinction has increasingly proven accurate. Buildings with low debt service and strong capitalization continue to perform well, while others struggle to remain competitive.

A Tale of Two Office Markets

Some examples of well-capitalized, stable assets include One, Two, and Three Logan Square; One and Two Commerce Square; Mellon Bank Center; and One Liberty Place. While not all of these properties have fully thrived in the current environment, their financial position provides them with the flexibility to adapt, invest, and ultimately remain competitive.

In contrast, properties burdened by higher leverage or lacking sufficient capital are finding it increasingly difficult to keep pace, particularly in a market where tenants are prioritizing quality, amenities, and long-term stability.

As companies become more selective in their leasing decisions, building owners are often expected to invest in modernized common areas, upgraded building systems, enhanced wellness features, and tenant-focused amenities. Owners without the financial flexibility to make these improvements may struggle to compete for new leases or retain existing tenants, further widening the gap between well-capitalized assets and those facing financial constraints.

The Growing Divide Between the Haves and Have-Nots

As the market continues to evolve, the divide between the haves and have-nots is becoming even more pronounced.

The “haves” are experiencing low vacancy and pushing rental rates to new high-water marks never seen in Philadelphia. At the top of the market, landlords are now achieving (and in some cases exceeding) starting rents of $55 per square foot. Historically, these buildings were largely reserved for corporate users, successful plaintiff firms, and other well-capitalized tenants.

Current CBD rental rates illustrate the widening pricing gap across asset classes. For instance, Trophy Class is currently an average of $51.00 per square foot. Whereas Class A is $33.00, Class B clocks in at $28.00, and Class C shrinks to $23.50.

However, a dynamic that I did not fully anticipate has emerged, and it is the impact of distressed assets cycling through receivership. Buildings that default on their debt service are placed into receivership, stabilized, and ultimately sold.

The result is straightforward: these assets trade at a significant discount to their pre-pandemic valuations.

A Case Study

Let’s use 2000 Market Street in Philadelphia as an example. The building was sold in August 2025 for approximately $48.5 million, which is a fraction of its prior value of roughly $300 million. It was ultimately acquired by CSB Holdings and Tide Realty Capital.

My initial experience of working with the ownership team at 2000 Market Street was positive. The transaction process was straightforward, the team was responsive, and they were easy to work with throughout. From a leasing perspective, they demonstrated a practical, deal-oriented approach that made the process efficient and free of unnecessary friction.

Importantly, 2000 Market Street is a fully modernized Class A asset with a wide range of amenities. It is directly adjacent to One and Two Commerce Square, two buildings widely regarded as trophy assets in the Philadelphia market. Despite this adjacency and competitive positioning, it is now transacting and competing at rents meaningfully below those of nearby trophy properties, in some cases approximately 30% lower on a comparable basis. As a result, it effectively sets a competitive benchmark within the market, particularly against high-quality Class A and upper-tier Class B assets.

This dramatically reduced basis allows new ownership to operate far more aggressively in the marketplace, offering below-market rents, increased tenant improvement allowances, and significant concessions to attract tenants.

The emergence of these repositioned assets has introduced a new competitive force into the market. By acquiring properties at discounted valuations, new ownership groups can invest strategically while offering attractive economics to tenants.

Consequently, competition is increasing from multiple directions, making tenant attraction and retention more challenging even for traditionally dominant assets.

The Future is Taking Shape

To conclude, what began as a recovery story has evolved into a fundamental reshaping of Philadelphia's office landscape. The rise of repositioned assets, combined with the continued strength of well-capitalized ownership groups, is influencing how tenants evaluate opportunities and make long-term real estate decisions. As these forces continue to unfold, I believe they are likely to remain significant factors in shaping leasing activity, investment strategies, and the broader trajectory of the market for years to come.

Of course, I welcome further conversations about this matter. Feel free to reach out to me anytime.

Best,
Ken