



Philadelphia Regional

Office

24Q4

Key Takeaways

- Regional vacancy rate increased minimally from 18.5% to 18.6%
- Large occupancy losses that characterized the last four years appeared to be leveling off
- Weighted average rental rate decreased to \$30.31 mainly resulting from a 1.1% drop in the Class B average rent
- On the sales side, transactions consisted predominantly of user purchases and value-add acquisitions



Vacancy Rate
18.6%



Net Absorption
79k SF



Under Construction
438k SF



Overall Class A Asking Lease Rates (FSG)
\$33.65/SF



Highlights

The regional office market appeared to steady by the end of 2024, with vacancy rates nearing or reaching their peak levels after years of significant declines. The overall vacancy rate edged slightly higher, climbing from 18.5% to 18.6%, a marginal increase compared with the steep occupancy losses that characterized the past four years. Despite the overall stabilization, five regional submarket's vacancy rates were above the 20% threshold, signaling ongoing stagnation. The Class B market reflected increased challenges as the vacancy rate increased to 21.6% at the end of the 4th quarter. As vacancy levels continued to rise, Class B asking rental rates faced downward pressure.

Market Indicators



4.01-4.05%
Unemployment Rate



1.92-2.05%
GDP - Quarterly % change yr/yr

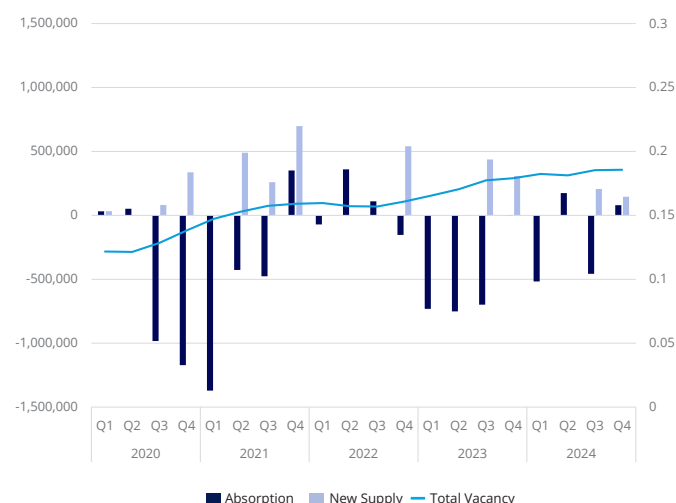


4.596%
U.S. 10 Year Treasury Note

Historic Comparison

	23Q4	24Q3	24Q4
Total Inventory (in Thousands of SF)	152,966.0	153,171.6	153,316.6
New Supply (in Thousands of SF)	308.0	205.6	145.0
Net Absorption (in Thousands of SF)	2.3	-457.7	79.4
Overall Vacancy	17.9%	18.5%	18.6%
Under Construction (in Thousands of SF)	788.3	582.7	438.0
Overall Asking Lease Rates (FSG)	\$30.09	\$30.43	\$30.31

Market History



Forecast

A meaningful recovery for the office market remains unlikely in the near term, but emerging trends on both the demand and supply sides offer a glimmer of optimism. First, the percentage of space contraction by tenants appears to be leveling off. While tenants may continue to shrink their office footprints, this is generally predicted to be in the 20% range rather than the 40-50% range of the previous 2-3 years. The removal of multiple buildings from the active office inventory is also expected to shrink both the market size and the overall vacancy rate.

Recent Transactions



Lease Renewal
Marshall Dennehey
CBD Market West
120k SF



Lease
Asplundh
Horsham
115k SF



Lease
Polsinelli
CBD Market West
41k SF



Sale
Devon Park
King of Prussia/Wayne
145k SF



Sale
Radnor Court
Main Line/Radnor
127k SF



Sale
2004 Renaissance Blvd
King of Prussia/Wayne
29k SF

Market Snapshots

CBD Philadelphia

The CBD vacancy rate, while still elevated at 20%, declined from 20.4% in the third quarter. The Market East/Independence Hall submarket vacancy dipped from 22.7% to 22.0%, although there was still a substantial occupancy loss for the year. Market West had a marginal improvement, with vacancy dipping from 19.8% to 19.7%, while University City posted the most notable decline, improving from 17.5% to 16.7%.

On the supply side, pending conversions of properties such as 600 Chestnut (Public Ledger), Three Parkway, 400 Market Street, and The Bourse will reshape the market. These projects, which involve repurposing all or portions of these buildings, will reduce overall office inventory. In turn, this could lower vacancy rates as tenants consolidate, restack, or relocate, which is already benefitting other buildings.

Additionally, the renewal and minimal contraction by Marshall Dennehy offers a positive indicator that the sharp wave of office downsizing may be subsiding.

Suburban Philadelphia

The overall suburban vacancy remained at 19.9%. Submarkets such as Delaware County continued to register vacancy above 25%, but there were positive trends in other submarkets. Conshohocken and Main Line/Radnor had fluctuating vacancy, but an overall improvement in occupancy for the year. King of Prussia/Wayne had the largest occupancy gain for the quarter, and vacancy dropped below 20% for the first time in 2024 due to multiple deals along the Route 202 corridor. Horsham/Willow Grove's vacancy has been persistently above 20% since 2020, but will have a large block of vacancy removed as Asplundh sells its headquarters and leases a neighboring building in Horsham. Newrez will also be reoccupying its full space at 1100 Virginia Drive when improvements are completed.

Looking ahead to 2025, the outlook appears cautiously optimistic. While additional large blocks of vacancy may still return to the market, ongoing property conversions and redevelopment efforts, coupled with steady leasing activity, are anticipated to drive an overall decline in vacancy rates across the suburban office market.

Southern New Jersey

Vacancy increases in both Burlington and Camden County resulted in an overall uptick from 13.4% to 13.9%. Burlington County's vacancy rose from 12.5% to 13.0%, and Camden County had an increase from 14.6% to 15.1%. While most of the new blocks of space were a full floor or less, the additional vacancy had a cumulative effect as leasing remained limited.

The office inventory will continue to shrink in 2025 with the conversion of Four Echelon Plaza in Voorhees to senior apartments and the demolition of One Cherry Hill, which will be torn down to make way for an expansion of the Cherry Hill Mall.

Lehigh Valley

The Lehigh Valley vacancy rate climbed above 20% for the first time since mid-2021, rising sharply from 18.2% to 20.1%. Both Class A and Class B properties registered occupancy losses, while leasing activity remained minimal, reflecting the stagnant demand for office space.

Amid this sluggish office demand, the demand for residential development is strong. The former PPL Tower is slated for redevelopment, while the former Crayola office building in Easton, acquired by a developer earlier in 2024, is also planned for conversion into apartments.

New Castle County, DE

Both Downtown and Suburban Wilmington had improved vacancy during the 4th quarter, leading to an overall market vacancy decrease from 14.5% to 14.2%. Downtown vacancy decreased from 17.5% to 17.3%, while suburban vacancy declined from 12.5% to 12.1%.

Like other regional markets, the office inventory will be shrinking in 2025. The Bracebridge I and III buildings are set to be retrofitted for life sciences use, while all but two remaining floors of the Nemours Building at 1007 N. Orange Street are being converted into apartments. These projects will reduce the office inventory and improve vacancy rates as surplus space is taken off the market.

Lease Deals

Q4

Tenant	Building	Submarket	Type	Square Feet
2000 Market Street	Phila CBD Market West	Marshall Dennehey	Renewal/Contraction	120,462
680 Blair Mill Road	Horsham/Willow Grove	Asplundh	New	115,000
1717 Arch Street	Phila CBD Market West	Polsinelli	New	40,790
1111 Old Eagle School Road	King of Prussia/Wayne	iPipeline	New	39,000
777 Township Line Road	Central/Lower Bucks	Penn Medicine	Expansion	37,729
1400 Morris Road	King of Prussia/Wayne	Arcfield	New	36,000
785 Arbor Way	Plymouth Meeting/Blue Bell	International SOS	Sublease	34,765
101 Woodcrest Road	Southern New Jersey	Fidelity Information Services	New	30,887
30-36 S. 15th Street	Phila CBD Market West	City of Philadelphia	New	30,663
1820 Chapel Avenue West	Southern New Jersey	Premier Office	New	24,590
100 S. Independence Mall West	Phila CBD Market East	International Raw Materials	New	23,387
650 Naamans Road	Suburban Wilmington	CD Diagnostics	Renewal	21,064
600 Lee Road	King of Prussia/Wayne	Ecovyst	New	20,007

Sale Transactions

Q4

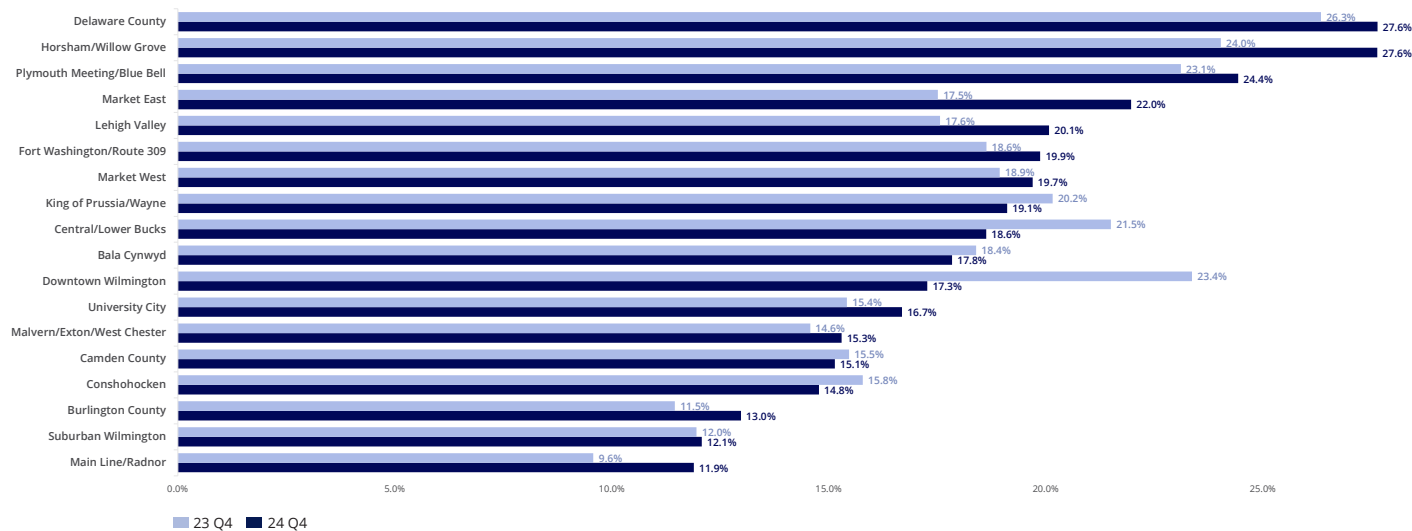
Buyer	Building	Submarket	Sale Price	Square Feet
435 Devon Park Drive: Devon Park	King of Prussia/Wayne	E. Kahn Development Corporation	\$10,200,000	144,846
105-140 Terry Drive	Central/Lower Bucks	Court Street Ventures	\$13,030,000	128,751
259 N. Radnor Chester Road: Radnor Court	Main Line/Radnor	Freedom Mortgage	\$36,000,000	127,000
2004 Renaissance Boulevard	King of Prussia/Wayne	Jafco Jewish Adoption & Family Care Options	\$2,775,000	28,490



Submarket/ Class	Total Inventory SF	Direct Vacant	Sublease Vacant	Total Vacant	Vacancy Rate	Vacancy Previous Quarter	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (FSG)
CBD Philadelphia											
A	33,802,847	5,801,848	1,161,293	6,963,141	20.6%	20.3%	123,530	-229,591	438,000	0	\$38.70
B	15,154,521	2,544,860	288,342	2,833,202	18.7%	15.7%	52,360	-643,808	0	0	\$29.51
TOTAL	48,957,368	8,346,708	1,449,635	9,796,343	20.0%	20.4%	175,890	-873,399	438,000	0	\$36.04
Suburban Philadelphia											
A	27,530,075	4,457,704	1,031,337	5,489,041	19.9%	19.7%	55,235	1,257	0	250,567	\$32.32
B	31,018,922	5,271,310	900,211	6,171,521	19.9%	20.0%	42,501	-64,487	0	0	\$26.65
TOTAL	58,548,997	9,729,014	1,931,548	11,660,562	19.9%	19.9%	97,736	-63,230	0	250,567	\$29.32
Southern New Jersey											
A	7,641,400	922,198	77,627	999,825	13.1%	12.8%	-23,561	-86,185	0	0	\$24.95
B	9,032,648	1,309,782	11,576	1,321,358	14.6%	13.9%	-64,597	-27,492	0	0	\$21.16
TOTAL	16,674,048	2,231,980	89,203	2,321,183	13.9%	13.4%	-88,158	-113,677	0	0	\$22.79
New Castle County, DE											
A	14,727,889	1,639,032	266,322	1,905,354	12.9%	13.4%	65,472	579,804	0	100,000	\$28.26
B	5,082,394	897,959	4,237	902,196	17.8%	17.8%	67	-17,345	0	0	\$23.29
TOTAL	19,810,283	2,536,991	270,559	2,807,550	14.2%	14.5%	65,539	562,459	0	100,000	\$26.66
Lehigh Valley											
A	5,635,729	735,053	105,179	840,232	14.9%	13.5%	-78,447	-68,764	0	0	\$23.75
B	3,690,219	980,532	51,124	1,031,656	28.0%	25.4%	-93,142	-165,416	0	0	\$22.46
TOTAL	9,325,948	1,715,585	156,303	1,871,888	20.1%	18.2%	-171,589	-234,180	0	0	\$23.04
Regional Total											
A	89,337,940	13,555,835	2,641,758	16,197,593	18.1%	17.8%	142,229	196,521	438,000	350,567	\$33.68
B	63,978,704	11,004,443	1,255,490	12,259,933	19.2%	18.1%	-62,811	-918,548	0	0	\$25.74
TOTAL	153,316,644	24,560,278	3,897,248	28,457,526	18.6%	18.5%	79,418	-722,027	438,000	350,567	\$30.31

Vacancy Comparison

Regional Submarkets 23-24



For More Information

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