Intelligent Investment

2026 U.S. Real Estate Market Outlook Midyear Review

REPORT

PHILADELPHIA

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Market Overview

Philadelphia's commercial real estate market remains stable amid national headwinds, with resilient but increasingly selective demand, moderating supply growth, and constrained capital activity collectively supporting a gradual move toward balanced, sustainable expansion into late 2026 and 2027.

Philadelphia's commercial real estate market enters the second half of 2026 on stable footing, supported by a diversified economic base and steady organic demand that continues to cushion the region from softer national conditions. While elevated interest rates and moderating labor trends are shaping decision-making nationally, their local impact has been more measured, keeping core fundamentals relatively firm. Demand is proving resilient but increasingly selective, with users gravitating toward high-quality space, strong locations, and well-capitalized ownership -- a flight-to-quality dynamic evident market-wide that is reinforcing a growing bifurcation between top-tier assets and more challenged product.

On the supply side, the market is entering a more balanced phase. Development pipelines have begun to taper in response to higher capital costs and tighter underwriting, limiting speculative construction and helping stabilize vacancy levels. Tenants are still absorbing recently delivered space in many cases, but the lack of new starts is setting the stage for improving equilibrium in the second half of 2026 and 2027. Tenant decision-making has become more disciplined, leading to longer lease-up timelines even as overall leasing momentum improves.

Capital markets activity was relatively strong at the start of the year, the market saw a decrease in investment volume during the second quarter, reflecting the stress of a “higher-for-longer” rate environment, which continues to widen bid-ask spreads and slow transaction volume. This dynamic is reinforcing long-term fundamentals by constraining new supply and encouraging operational discipline among landlords and tenants alike. With demand drivers intact, supply growth moderating, and leasing trends improving, Philadelphia is well positioned to transition toward a more balanced and sustainable expansion phase over the next 12 to 18 months.

PA I-78/I-81 Corridor Industrial Market Outlook

01

Leasing velocity will maintain momentum through the rest of the year.

Leasing activity gained momentum at the start of the year and is expected to maintain its pace for the remainder of 2026. The 12.3 million sq. ft. of leasing activity already posted in 2026 nearly surpassed all of 2025's total of 15.7 million sq. ft. There is another 13 million sq. ft. of active requirements in the market with timing for 2026, potentially pushing demand levels closer to pandemic peaks. Third-party logistics companies will continue to dominate the demand landscape, while flight-to-quality will persistently push occupancy into modern, Class A space, creating upward pricing pressure for newer facilities.

02

Vacancy will remain stable despite delivery of more product.

Growing demand will help stabilize vacancy during the rest of 2026 and continue to push these rates lower heading into 2027. An uptick in construction activity starting in mid-2025 delivered a significant amount of new product to the market, pushing vacancy up somewhat mid-year. Following recent deliveries, the active pipeline shrank and no new wave of construction starts emerged, pointing to demand-side growth as a driver of lower vacancy by year-end. The glut of supply in the 300,000-to-750,000-sq.-ft. range, along with second-generation give-backs, are the main headwinds to faster tightening. As it stands, the PA I-78/I-81 Corridor industrial market is expected to track national vacancy trends in the short term.

03

Power availability remains top-of-mind for occupiers and landlords alike.

In its 2025 State of the Market report regarding the regional power grid, published in March 2026, PJM Interconnect noted: "There are clear warning signs for the capacity market and for PJM reliability." To meet power demand, new substations will need to be built at many of the places where they're lacking, which may pose challenges. Furthermore, the uptick in manufacturing activity in the region will only add to power-supply issues. Developers will be mindful of power capacity, as it has become as important as location and design in real estate decisions. At the same time, evolving user requirements are bringing a growing emphasis on 42' to 45' clear heights, which has emerged as a key discussion point among tenants and is expected to gain further traction in the second half of 2026. These factors, combined, will result in more targeted development, potentially creating shortages in some size ranges.

Key Takeaways

For Owners

— Limited supply in very small (<100,000 sq. ft.) and very large (1M+ sq. ft.) segments continue to favor owners into the second half of 2026. Rents were flat early in the year, but pricing upside remains ahead, with an immediate opportunity to scale back concessions in the tightest size bands.

— Flight-to-quality remains pronounced, with Class A absorbing 7.8 million sq. ft., while lower-tier product lost 1.6 million sq. ft. of occupancy. Non-Class A landlords will need to compete on price and lease terms, even where vacancy appears relatively low.

— For new product, prioritizing design efficiency and core functionality over maximizing FAR will support stronger rent performance and improve exit flexibility.

For Tenants

— Demand continues to concentrate on 1M+ sq. ft. requirements. The big-box pipeline includes ~6 million sq. ft. of 750,000+ sq. ft. Class A space (33% pre-leased), though demand is still expected to outpace available supply through 2026.

— The market is bifurcating, with strong competition for Class A space while Class B tenants are securing favorable deals and concessions.

— Mid-sized options remain abundant, with 13.0% vacancy in the 300,000-749,999 sq. ft. range versus ~9.0% overall, giving occupiers meaningful leverage.

— Power constraints persist, making early market engagement (18-24 months ahead) critical to secure both space and sufficient capacity.

Philadelphia Industrial Market Outlook

01

Leasing activity moving toward pre-pandemic levels.

The expected demand uptick predicted in our 2026 Outlook Report materialized and current requirements touring the market with near-term timing imply persistent demand throughout the remainder of the year. Class A logistics facilities are expected to capture the majority of this demand as occupiers continue to vacate Class B and C product for more functional space.

02

Market should find equilibrium as we move to 2027.

Strengthening leasing and a sharply tempering active construction pipeline are moving supply and demand toward equilibrium as 2026 progresses. Similar to national trends, the active construction pipeline is well below recent historic levels. From a size perspective, the 300,000- to 600,000-sq.-ft. range remains well supplied, and accounts for an outsized share of vacancy. CBRE's Econometric Advisors (EA) baseline forecast for Philadelphia industrial predicts vacancy persisting near peak values during the next few years, but the uptick in activity, specifically within the 300,000- to 600,000-sq.-ft. range, may point toward shrinking vacancy in the near term.

03

Landlords with long-term vacancies will continue to compete on price.

Landlords with long-term vacancy will keep competing on price and concessions through 2026. Class B and C distribution facilities, specifically, need to compete for limited demand while vacancy continues to rise. As is the case nationally, occupiers will continue to seek functional, modern space while leaving obsolete Class B and C space. This will push leverage toward Class A landlords who will be able to push prices as the supply of this type of space abates.

Key Takeaways

For Owners

— Landlords with availability in the 300,000- to 600,000-sq.-ft. range will keep competing on price and concessions through the back half of 2026, as anemic demand in this segment has kept vacancy rates higher than other market segments.

— Developer opportunities remain clearest in the very small (<100,000 sq. ft.) range. Very large (1M+ sq. ft.) demand is real, evidenced by a 970,000-sq.-ft. lease signed in Bucks County during the first half of 2026. With Class A vacancy at 25.5% at mid-year, new big-box starts should be underwritten conservatively for the remainder of 2026.

— Continued third-party logistics demand -- alongside growing domestic occupancy needs -- is already lifting leasing in 2026 and should extend that momentum into 2027.

For Tenants

— Engage the market early, especially with requirements seeking space in size ranges with scarce supply, such as the less than 300,000 sq.-ft. and greater than 700,000 sq.-ft. tranches. Landlords are holding rents and pressing on renewals, so creating competition early is key for the remainder of 2026.

— After cooling through 2024-2025, asking rents resumed climbing in early 2026, gaining 3.1% year-over-year. Pricing for spaces in over-supplied size tranches will remain soft, but requirements in both the smaller and larger size ranges will see landlords pushing rents.

— Leverage also varies by geography, as growing logistics nodes such as Burlington County are more competitive landscapes, while fringe portions of the market allow for more tenant-friendly opportunities.

Office Market Outlook

01

Downtown office vacancy will stabilize, but distressed debt remains a challenge.

Conversion of obsolete office stock to alternate uses should support a continued reduction of vacant space. Downtown office vacancy should peak in 2026 and fall through 2027. Downtown leasing remains uneven, however, as certain non-prime properties struggle with significant debt obligations, making it difficult to transact with tenants. As a result, the spill-over effect seen in the suburbs will be delayed downtown, most likely being a 2027 story.

02

Vacancy will continue its downward trend as demand strengthens and obsolete space is removed from the market.

By mid-2026, the market posted six consecutive quarters of positive net absorption and is clearly in the recovery phase of the cycle. Furthermore, sublease availability shed 150 basis points since its peak at the end of 2023. Similar to national trends, demand growth and conversions of obsolete or challenging office space have and will continue to shed vacancy as 2026 progresses. Even so, vacancy remains well above its long-run average, putting the market clearly in recovery for the rest of 2026 and most of 2027, with the expansion phase of the cycle still further into the future.

03

Suburban office landlords will continue upward pressure on pricing, taking advantage of newly gained leverage.

Beyond a few soft spots in the suburbs, such as Plymouth Meeting or Horsham/Willow Grove, landlords are gaining leverage as Class A supply begins to shrink. More than 4 million sq. ft. of non-prime, Class A space was vacated during the past five years, driving vacancy above the 30% mark. But more than 500,000 sq. ft. were absorbed during the past four quarters as prime office space became scarce. Following national trends, this spillover effect will persist, shifting leverage back toward landlords as the rest of 2026 plays out, allowing landlords with Prime and Class A space to begin pushing rents.

Key Takeaways

For Owners

— Tight suburban prime vacancy is driving backfill in non-prime Class A, with over 300,000 sq. ft. absorbed in the first half of 2026. Despite this, elevated vacancy in the segment will allow tenants to retain leverage through year-end.

— A dearth of available prime space will allow these landlords to continue to push pricing. Class A landlords will not be able to put upward pressure on rents until later this year or early 2027.

— Tenants will continue to value high-quality office space as evidenced by the more than 700,000 sq. ft. of occupancy gains in the prime set during the past four quarters. High-quality, amenitized space will keep attracting activity through 2026.

For Tenants

— Occupiers seeking prime space should engage early to create leverage, as availability -- especially for suburban blocks over 50,000 sq. ft. -- continues to tighten through 2026.

— Leverage for non-prime, Class A assets still favor tenants at mid-year, but it is eroding sooner than expected. Class A vacancy fell 280 bps from its peak at the end of 2023 and rents have started to stabilize. Expect leverage to slowly drift toward equilibrium over the remainder of 2026.

— Downtown tenants with short-term renewals should see expanding options as distressed non-prime Class A assets move through receivership and return to the market under better-capitalized ownership.

Multifamily Market Outlook

01

Despite national headwinds, the philadelphia market shows resilience through organic growth.

Driven by steady population growth and a diverse job base, Philadelphia's organic demand continues to buffer softer national labor trends. Unemployment is around 4.9%, slightly below the U.S. average. Vacancy is projected to edge up modestly before holding near 4.5% -- in line with its long-term 4.6% average -- as lease-ups continue through 2026.

02

The suburbs continue to be more in favor than the city.

From a sales perspective, suburban Class A fundamentals are solid, while the supply-heavy urban core likely needs another leasing cycle to absorb inventory and burn off concessions, keeping many institutional buyers on the sidelines until then.

03

Policy makers progress towards improving the housing crisis.

The City of Philadelphia has advanced its $2 billion initiative to create and preserve 30,000 housing units, with the PHA actively acquiring assets within the city. The plan combines new construction, preservation, and pro-development zoning reforms -- favoring supply expansion to ease affordability pressures and support long-term multifamily inventory growth.

04

Demand continues to increase due to high barriers to homeownership and reduced development.

Demand strengthened as expected, with metro absorption totaling 1,454 units in Q1 2026, outpacing the 1,101 units delivered during the quarter. This positive demand-supply dynamic aligns with CBRE's U.S. outlook for recovering multifamily demand and, coupled with elevated homeownership barriers and slowing deliveries, should support occupancy, concession burn-off, and moderate rent growth through year-end. Philadelphia's outlook appears broadly consistent with CBRE's national forecast of 1.4% year-over-year rent growth by Q4 2026 and remains more favorable than many Sun Belt markets that are still absorbing excess supply.

Key Takeaways

For Owners

- Absorption in the city picked up in spring, with stabilization expected by late summer/early fall while concessions (1-3 months) persist but should ease, supporting modest rent growth in late 2026. However, neighborhoods with heavier new supply including Northern Liberties, Fishtown, and Kensington may take a bit longer to stabilize than neighborhoods closer to Center City.
- Suburban demand and strong Class A fundamentals continue to drive leasing and increase rental rates through 2026, though some Class B/C softness is emerging.
- Suburbs continue to attract capital as downtown stabilizes, but investment remains muted throughout the region amid higher-rate expectations. Meanwhile, selective urban distress is beginning to create acquisition opportunities.

For Tenants

- Rent growth is expected to remain moderate as concessions gradually burn off through late 2026, particularly in the urban core where supply has been heavier.
- Suburban markets may offer less pricing flexibility, especially in Class A communities where demand remains firm and concessions are less prevalent.
- Tenants in urban submarkets may still benefit from short-term incentives in newly delivered or recently stabilized properties, though negotiating leverage is expected to diminish over time.

Retail Market Outlook

01

Resilient demand persists through 2026, with well-capitalized retailers gaining advantage in a higher-cost environment.

Demand should remain resilient through 2026, with well-capitalized retailers best positioned in a higher-rent, higher-for-longer environment. The financial-strength gap between national chains and independents continues to widen -- even credit tenants now face stricter deal terms -- reinforcing a pronounced bifurcation in leasing outcomes.

02

Experiential and value-driven retailers, along with healthcare users, will continue to expand in this cost-sensitive climate.

Category performance will stay diverse in 2026. Experiential retailers have emerged as leading takers of big-box space while value-driven operators continue to expand aggressively due to increased price sensitivity among consumers. Healthcare occupiers are becoming increasingly prevalent in retail settings.

03

Asset performance in 2026 will reflect market segmentation, favoring projects with necessity-based anchors or redevelopment opportunities.

Asset performance in 2026 will remain segmented. Consistent with CBRE's U.S. outlook, well-located, grocery-anchored and other daily-needs open-air centers should continue to outperform neighborhood and community centers. The market also reflects the broader suburban-versus-downtown retail divide seen nationally. Meanwhile, secondary "B" locations and aging malls such as Voorhees Town Center, Exton Square Mall, and Franklin Mall are being repositioned into mixed-use destinations.

04

The higher-for-longer environment will persist in curbing deal velocity and limiting speculative supply.

Elevated interest rates, coupled with steep construction and entitlement costs, are slowing deal velocity and tightening underwriting. This dynamic is limiting speculative development and contributing to "landlord-influenced vacancy," as owners hold out for higher rents and become increasingly reluctant to fund tenant improvements.

Key Takeaways

For Owners

- Limited new supply and tightening availability across well-located assets are supporting continued upward pressure on rents, particularly in grocery-anchored and necessity-based centers.
- Repositioning strategies -- including large-box reconfigurations and mixed-use redevelopment -- are unlocking value and driving renewed interest in previously challenged retail formats.
- While leasing fundamentals remain healthy, capital markets activity continues to be constrained by elevated interest rates, delaying a broader pickup in transaction volume.

For Tenants

- The second half of 2026 presents a strategic window for well-capitalized retailers to expand footprints and capture market share, particularly as cost-pressured operators remain sidelined.
- Subdivision and redevelopment are decreasing the quantity of available big-box space in the market.
- Despite pockets of opportunity, overall supply remains tight in high-performing corridors, and tenants should expect continued landlord discipline on pricing and lease terms.

Contacts

Explore additional insights at
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Management Contacts

Mamadou Baldé
Senior Managing Director
Mamadou.balde@cbre.com

Kelly Conway
Managing Director
Kelly.conway@cbre.com

Research Contacts

Joseph Gibson
Director of Research, Philadelphia
joseph.gibson@cbre.com

Aliza Kahn
Senior Research Analyst
aliza.kahn@cbre.com

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