Intelligent Investment

2026 U.S. Real Estate Market Outlook

REPORT

PHILADELPHIA

CBRE RESEARCH
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PA I-78/I-81 Corridor Industrial Outlook

01

CBRE EXPECTS INDUSTRIAL LEASING VELOCITY TO GAIN MOMENTUM TO START 2026.

Third-party logistics (3PL) companies are expected to continue dominating leasing activity as retailers continue to leverage these services to protect capital and focus on their core competencies. Flight-to-quality trends will also push leasing activity higher in 2026 as the supply of Class A product is lacking in neighboring portions of New Jersey. Along with an uptick in leasing and tenant demand, we also expect occupiers to take advantage of newly enacted depreciation policies and opt to purchase facilities rather than lease. Renewal activity will remain a key driver in leasing momentum with an increased number of expiring leases in the forecast, continuing the trend we saw in 2025 throughout 2026.

02

GROWING DEMAND ALONG WITH LIMITED SUPPLY WILL HELP STABILIZE VACANCY BY THE END OF 2026.

A slower construction pipeline will help dampen vacancy growth in 2026. While developers have more confidence in the market than they did at the start of 2025, especially in the mega-box segment size, barriers to development persist, as local pushback on development, updated zoning definitions and increased traffic requirements hamper development. We expect projects to continue to break ground, but mostly in targeted size ranges where supply is lacking, such as the 1 million-sq.-ft. range, while the 250,000- to 750,000-sq.-ft. range is well supplied with existing inventory. One headwind to vacancy stabilization is older, second-generation buildings returning to market that lack modern infrastructure and may remain on the market longer. In total, CBRE's Econometric Advisors expect vacancy rates to peak in early 2026 and begin to slowly decline as the year progresses.

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WHILE SUPPLY-CHAIN OPTIMIZATION AND NEW TECH INTEGRATION ARE ALWAYS TOP-OF-MIND IN LOGISTICS OPERATIONS, POWER REMAINS THE MOST SIGNIFICANT PART OF THE CONVERSATION.

To meet power demand, new substations will need to be built at many of the places where they're lacking, which may pose challenges. As an alternative, some sites have power but lack modern infrastructure, which makes these locations attractive for redevelopment for higher ceiling heights and better dock ratios. The uptick in manufacturing activity in the region will only add to power-supply issues.

Key Takeaways

FOR OWNERS

- A dearth of supply in the very small (less than 100,000 sq. ft.) or very large (1 million sq. ft. or greater) size ranges allows for some leverage. While upward rent pressure in these ranges may stall until later in the year, there's an opportunity to pare down concessions written into leases to start 2026.
- Class B or C owners will experience a noticeable slowdown in demand as tenants prefer buildings with modern infrastructure and high ceilings. These owners will have to compete on pricing wherever possible and get creative with deal terms.
- Investing in power capacity sooner rather than later will allow assets to be more competitive in the market.

FOR TENANTS

- As consolidation plans result in larger, 1 million-sq.-ft. leases, the supply pool for larger, modern facilities is becoming smaller, deal by deal. The construction pipeline is expected to address this, but there may be a period of time where demand for 1 million sq.-ft. opportunities outweigh supply.
- Opportunities in the mid-sized ranges will be numerous, allowing for significant leverage in deals measuring 250,000 to 750,000 sq. ft.
- Access to above-standard power will remain a challenge in 2026. Touring the market as early as 18 to 24 months ahead of a lease signing will allow for the highest possibility of securing space and assuring access to appropriate power.

Philadelphia Industrial Outlook

01

2026 IS EXPECTED TO SEE AN UPTICK IN DEMAND AS MORE DOMESTIC AND ORGANICALLY GROWN REQUIREMENTS COME TO MARKET.

While leasing demand was primarily driven by foreign-based companies over the past 18 months, a shift toward more domestically sourced tenants touring in the market was observed at year's end. Industries driving some of this growth include HVAC, building supplies and food/beverage. We expect HVAC and building supply requirements to remain elevated as Pennsylvania vies to be an epicenter for data center inventory. Third-party logistics companies are still expected to comprise a significant portion of demand during the coming year, both foreign and domestic. Geographically, activity will be most consistent in Burlington County, New Jersey, as the supply of quality, Class A space there continues to attract requirements from Northern New Jersey.

02

WITH STRENGTHENING LEASING ACTIVITY AND A TEMPERING CONSTRUCTION PIPELINE, SUPPLY AND DEMAND ARE EXPECTED TO FIND EQUILIBRIUM AS 2026 PROGRESSES.

On the supply side of that equation, a few 1 million-sq.-ft. users in the market will have taken down some of the existing options of that size, significantly reducing the supply of larger boxes in the market. Third-party logistics companies and food and beverage companies are driving these larger requirements. Furthermore, construction is expected to slow compared to 2025. Costs generally preclude any construction under 100,000 sq. ft., and there is a surplus of existing supply for specific geographies and larger size ranges – for instance, the 300,000- to 600,000-sq.-ft. range is well supplied. Nationally, leasing is expected to be driven by both renewals and demand for modern facilities. In Philadelphia, renewals are also expected with less focus on quality upgrades. There are still groups of tenants who have not faced the steep increase in rents realized during the pandemic-era boom, which creates some headwinds to Class A leasing activity. As a result, there's no definitive flight-to-quality trend here, as occupiers have leaned into renewals, while obtaining approvals for relocation costs has become more difficult.

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LANDLORDS WILL STILL FACE HEADWINDS IN 2026.

Owners with long-term vacancies will continue to compete on price and concessions in order to secure operating income. And even if an attractive rent and concession package is feasible, securing power remains a challenge for both landlords and occupiers. These factors will temper the leasing landscape to some degree. CBRE's Econometric Advisors predicts vacancy continuing to rise, slowly, during 2026, but flattening out in 2027.

Key Takeaways

FOR OWNERS

— Landlords with availability in the 300,000- to 600,000-sq.-ft. range will continue to compete on price and concessions in order to fill vacancies.

— Opportunities for developers exist in the very large and very small size ranges where a dearth of supply exists.

— Continued third-party logistics demand, along with growing occupancy needs from domestic companies, will create more leasing activity in 2027.

FOR TENANTS

— Engaging the market early will provide the best outcomes. Landlords are becoming more aggressive on renewals, and creating leverage is key to optimizing lease terms.

— While pricing cooled in recent quarters, rents are still significantly above pre-pandemic levels. Stakeholders and decision makers should be aware and plan accordingly.

— Some portions of the market, such as Burlington County, N.J., are less supply-abundant and will allow for less leverage.

Office Outlook

01

WE EXPECT THE MARKET VACANCY RATE TO STABILIZE AND BEGIN TO DECLINE TOWARD THE END OF 2026 - AIDED BY CONVERSIONS AND DEMOLITIONS, COUPLED WITH VERY LITTLE SUPPLY GROWTH.

Since the start of the pandemic, more than 2.2 million sq. ft. of inventory was removed from downtown Philadelphia, allowing for vacancy to stabilize. In the suburbs, there have been and are plans for converting offices into alternative uses. Looking ahead, there are already buildings on the market downtown where buyers have priced deals that contain redevelopment strategies. In the suburbs, we expect acquisitions by medical or educational institutions to continue to take vacant office space off the market, along with a few potential conversions as well. Finally, the construction pipeline is essentially empty and has added little inventory to the market since the start of the last cycle in 2010.

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DOWNTOWN, CONVERSIONS WILL HELP STABILIZE VACANCY, BUT LEASING WILL BE HAMPERED BY COMPLICATIONS SURROUNDING OWNERS' FINANCIAL ABILITY TO EXECUTE LEASES AND FUND TI.

Much of the less-than-prime, Class A inventory suffered from long-term vacancy following the pandemic, leading to owners being unable to fund concessions and fees in leases per underwriting proformas. Much of this stock will start to come to market as the year progresses, as loans move into special servicing phases. As these properties trade, vacancy will start to be removed via conversion, and any remaining office stock will be back into the leasable inventory, allowing for more leasing activity toward the back end of 2026. As a result, CBRE's Econometric Advisors expects vacancy to peak in early 2026 and start to show signs of abating as the year progresses.

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IN THE SUBURBS, BETTER-CAPITALIZED LANDLORDS ARE POSITIONED TO TAKE ADVANTAGE OF PERSISTENT LEASING ACTIVITY.

In the suburbs, landlords are, by and large, able to perform. There were already larger leases signed toward the end of 2025 in pockets of Class A suburban office that had struggled to garner attention in the post-pandemic cycle. We've seen vacancy within the non-prime, Class A suburban Philadelphia office inventory start to move lower as early as mid-2025. Econometric Advisors pins peak suburban vacancy at the end of 2025, moving lower with some momentum throughout 2026.

Key Takeaways

FOR OWNERS

— In the suburbs, nonprime, Class A landlords will start to fill some of the long-term vacancies on the market, easing tenant leverage toward the end of the year.

— Landlords owning prime, trophy assets will continue to be able to push rates and offer fewer concessions.

— Tenants will continue to value high-quality office space with or adjacent to amenities, as investing in upgrades will attract more activity.

FOR TENANTS

— The availability of prime office space will tighten further in 2026; Engaging the market early is key to creating competition and leverage.

— Leverage for nonprime, Class A assets will continue to favor tenants throughout 2026 but will start to diminish at year's end.

— Downtown tenants who had been signing short-term renewals, waiting for quality space to come to market, will see more opportunities as buildings trade.

Multifamily Outlook

01

THE PHILADELPHIA REGION'S APARTMENT MARKET IS EXPECTED TO SEE INCREASED DEMAND IN 2026 DUE TO BARRIERS TO HOMEOWNERSHIP AND REDUCED MULTIFAMILY DEVELOPMENT.

Younger Philadelphians who are priced out of home buying are instead renting for longer and gradually absorbing the inventory that has been delivered within the past few years. In the wake of the decision to significantly reduce the benefit of the 10-year tax abatement within Philadelphia, developers expedited their projects to obtain the superior tax abatement structure. The result was an influx of apartment deliveries within the city and elevated competition among developers for residents. As the number of projects with near-term delivery dates dwindles and the existing inventory is absorbed, the environment will be primed for reduced concessions and sustainable rent growth.

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NATIONAL TRENDS, SUCH AS INCREASING UNEMPLOYMENT, ARE NOT EXPECTED TO SIGNIFICANTLY IMPACT THE PHILADELPHIA MARKET, WHICH RELIES ON ORGANIC GROWTH.

The benefit from migration from the New York City metro area to this region that we've seen tick up since the pandemic era will further dampen the effect the tepid labor market has on the region. As a result, CBRE's Econometric Advisors predicts vacancy to remain relatively flat following a small uptick as current projects complete and enter the lease-up phase.

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POLICY MAKERS FOCUS ON THE HOUSING CRISIS.

Mayor Parker announced plans to create and preserve 30,000 units for affordable housing across the city. Creating affordable housing through acquisitions may be more effective than implementing rent control, as it doesn't deter developers from adding more supply, which will naturally temper price growth.

04

FROM A SALES PERSPECTIVE, THE SUBURBS WILL REMAIN ATTRACTIVE TO BOTH INSTITUTIONAL AND PRIVATE BUYERS, OFFERING A SAFER RISK-ADJUSTED RETURN THAN THE CITY.

In the city, softening fundamentals have led to institutional investors exiting or attempting to exit the urban core. This will likely require one more leasing cycle before vacant inventory is absorbed, keeping institutional buyers on the sidelines until then.

Key Takeaways

— In the city, absorption will accelerate during the spring and summer leasing cycle, reducing concessions and leading to moderate rent growth.

— In the suburbs, persistent demand and strong fundamentals will preserve leverage in leasing and will allow for continued upward pressure on pricing.

— Stronger fundamentals in the suburbs will attract institutional investors while the downtown market progresses towards equilibrium between supply and demand.

— Distress among small and mid-size developers downtown will lead to acquisitions at an attractive basis for investors with opportunistic capital.

Retail Outlook

01

DEMAND IS POISED TO REMAIN RESILIENT, SUPPORTED BY A WIDE RANGE OF TENANTS ACTIVELY PURSUING SPACE ACROSS THE REGION.

Large-format retailers, junior anchors, small shops and restaurant groups all continue to engage in site selection, with well-capitalized retailers best positioned to secure opportunities in a higher-rent environment. Smaller retailers, however, face mounting pressure as rising occupancy costs coincide with softening consumer spending. This widening gap in financial strength between national chains and independent operators is expected to create a more pronounced bifurcation in tenant outcomes.

02

SECTOR-SPECIFIC PERFORMANCE IN THE UPCOMING YEAR IS EXPECTED TO BE MIXED, REFLECTING AN INCREASINGLY COMPETITIVE AND COST-SENSITIVE ENVIRONMENT.

High-credit retailers are expected to sustain deal activity, aggressively pursuing new locations, with many looking to gain market share. Fitness users will continue to expand aggressively and competition among car wash occupiers remains intense, with several groups frequently competing for the same sites. Restaurants face a more challenging outlook as operators confront rising food costs and limited pricing flexibility. Furniture retailers, meanwhile, remain notably active despite tariff-related cost pressures, underscoring their commitment to defending or expanding market share.

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ASSET PERFORMANCE IN 2026 WILL ALSO REFLECT MARKET SEGMENTATION.

Well-located open-air centers are positioned for continued rent growth, supported by strong tenant demand and minimal new supply. At the same time, secondary "B" locations are gaining renewed attention as technology shifts shopping behavior and reduces reliance on traditional roadside visibility, helping these centers compete more effectively as destination-driven retail strengthens.

Key Takeaways

FOR LANDLORDS

— Supply will remain limited as we move into 2026 along the backdrop of sustained leasing activity. This will allow for upward pressure on rents.

— Some tenants are becoming more creative with their space programming given the lack of existing supply. As such, some spaces that had been challenging to lease in the past might find an uptick in interest.

FOR TENANTS

— Limited options, especially in highly sought-after locations, will require creativity surrounding space planning if store growth is a key strategy. Retailers may be faced with having to lease more space than their normal programming dictates.

— If able, now is the time to gain market share in the Philadelphia region as some retailers will be sidelined from a growth perspective.

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