

INVESTMENT FORECAST

Office
Philadelphia Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

Investment Strengthens Amid Steady Housing and Employment Growth

Backfilling characterizes leasing gains. Rising employment opportunities and notable household formation will reinforce consumer spending across the metro this year. Office absorption returned to pre-pandemic levels in 2024, and record multifamily deliveries attracted new residents. Although store closures increased last year and may rise further in 2025, strong demographic trends drove leasing activity to post-pandemic highs in 2024 and should sustain rapid backfilling. Grocery stores, discount retailers and fitness centers lead this year's move-ins, concentrated in higher-income suburbs like Bucks and Burlington counties. Even if vacancy ticks up in less affluent areas like Camden County, experiential concepts are revitalizing harder-to-fill spaces across the market. Center City will see a wave of activity-based tenants, while an Italian marketplace and cooking school takes space at the King of Prussia Mall, alongside luxury and specialty retailers leasing smaller spaces in anticipation of renewed foot traffic.

Tight vacancy draws investors to growing suburbs. Transaction velocity improved last year and is expected to hold firm as tight market conditions drive renewed rent growth. Low vacancy in North and South Philadelphia's inner-ring suburbs should attract buyers as auto repair shops and restaurants remain key targets following last year's strengthened leasing activity. Lower entry costs and a growing consumer base could draw investors to further-out areas like Bucks County, which posted record retail and multifamily net absorption in 2024. Meanwhile, trades of malls slated for redevelopment or re-tenanting gained momentum last year. Their high-traffic locations and strong connectivity, alongside repositioning efforts that introduce mixed-use elements or updated tenant rosters, may draw investors to nearby retail properties.

2025 MARKET FORECAST

+1.4%



EMPLOYMENT: Job gains align with last year as the metro's workforce expands by 45,000 positions. Total employment will stand 6.2 percent above the 2019 level, leading major Northeast metros.

700,000
sq. ft.



CONSTRUCTION: Completions will closely reflect the subdued pace of the past two years. Construction remains concentrated in downtown-adjacent neighborhoods and select outer suburbs.

+10 bps



VACANCY: A stable consumer base and limited supply risk will temper vacancy expansion. At 4.6 percent, the metro's rate will stay below its long-term average of 5.3 percent.

+2.9%

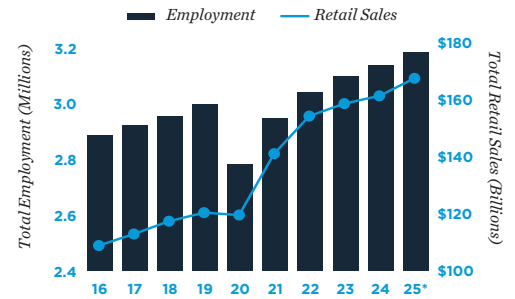


RENT: Strong backfill demand and historically tight vacancy are expected to reignite rent growth, bringing Philadelphia's average asking rate to \$21.40 per square foot by year-end.

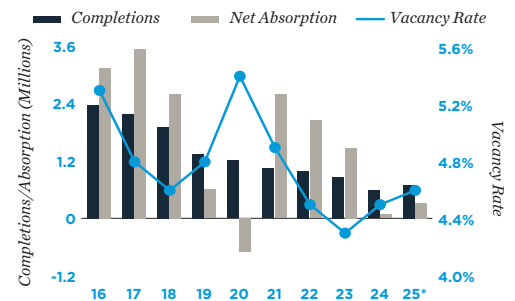
INVESTMENT:

Investors may target retail assets along the Chester waterfront, where the Philadelphia Union's \$55 million, 32-acre sportsplex, opening in early 2025, is expected to boost tourism and foot traffic in the area.

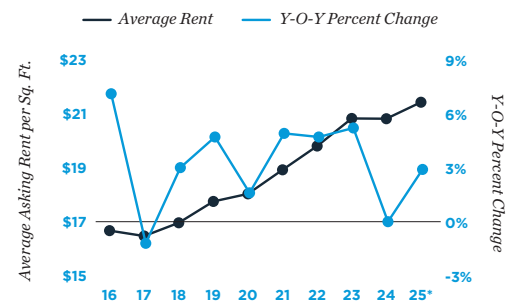
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.