INVESTMENT FORECAST

Retail

Philadelphia

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Retail Fundamentals Continue to Improve in the City of Brotherly Love, Diversifying the Metro's Buyer Pool

Excess savings bolster consumer buying power. Reduced spending on services during the onset of the pandemic, coupled with three rounds of government stimulus, bolstered local consumers' savings, stimulating a 21 percent jump in retail sales over the past year. Demand for available space elevated as a result, with vendors absorbing over 1.4 million square feet of space in 2021, contracting availability within 50 basis points of the metro's pre-recession rate. Fundamentals will continue to improve in 2022, albeit at a slower pace than last year. Many life science firms, including Century Therapeutics, The Wistar Institute, Spark Therapeutics and WuXi AppTec, have expansion plans underway that will create a plethora of high-paying jobs. This will support a rise in the median household income and provide a boost to consumer spending power, which in turn may elevate space demand across the metro. Although a rise in deliveries is projected for this year, net absorption is expected to outpace completions, promoting additional rent growth and vacancy compression throughout this year.

Top-performing suburban assets garner investor interest. Following a brief slowdown in investment activity due to complications stemming from the health crisis, transaction velocity accelerated in 2021, nearing pre-pandemic levels of deal flow. Low entry costs relative to other major United States markets is luring out-of-state investors from California, New York and Texas to the metro, expanding the local buyer pool. Robust leasing activity in Northeast Philadelphia, Lower Bucks County and Delaware County is heightening investor interest in these submarkets. Single-tenant assets occupied by creditworthy vendors are highly sought after by risk-averse buyers, with first-year returns averaging in the low-5 percent span. Multi-tenant assets anchored by necessity-based retailers are also being targeted, due to their resiliency throughout the pandemic. Average cap rates for these properties generally fall in the mid-6 percent range.

2022 Market Forecast

Employment up 2.8%

Firms will add 82,000 jobs this year; total employment, however, remains 1.5 percent below the pre-pandemic peak.

Construction 1,200,000 sq. ft.

Construction activity nearly doubles last year's pace when 615,000 square feet delivered. Developers will expand the metro's retail inventory by 0.4 percent this year.

Vacancy down 20 bps

Despite an uptick in development, net absorption outpaces deliveries this year, compressing vacancy to 5.3 percent. In 2021, a 30-basis-point dip was recorded.

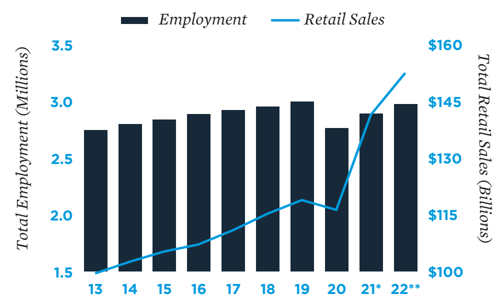
Rent up 3.5%

Rent growth will ease after 2021's jump of 7.8 percent. Still, tightening vacancy will promote further rent growth this year, with the average asking rate reaching $19.77 per square foot.

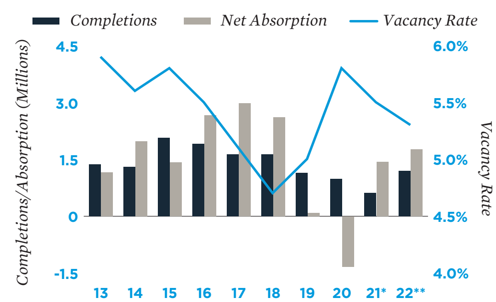
Investment

Recovering business travel and an increase of firms returning to the office should notably improve weekday foot traffic in Center City, drumming up bidding activity for CBD assets.

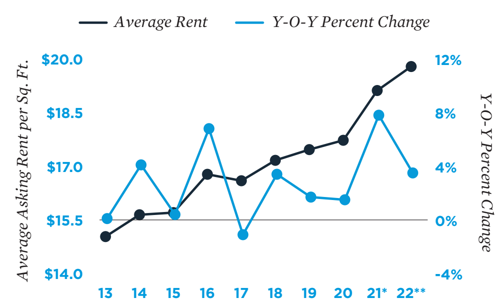
Economic Trends



Supply and Demand



Rent Trends



** Estimate; ** Forecast*
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Daniel Taub
Senior Vice President
Director IPA Retail
Tel: (212) 430-5100 | dtaub@ipausa.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. 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. Forecasts for employment and retail data are made during the first 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 guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.