

MARKET REPORT

Retail
Philadelphia Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

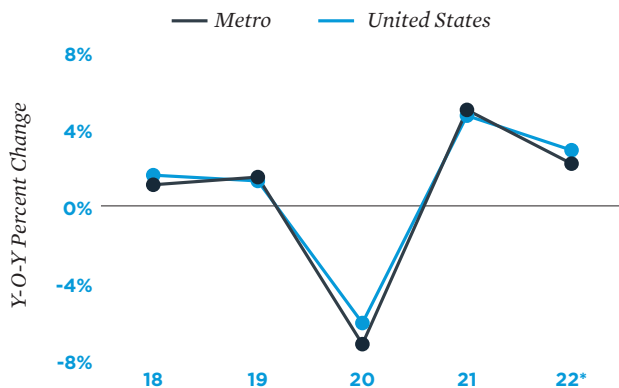
2Q/22

Credit Tenants Stoke Tight Conditions in The Core; Suburban Outlook Positive

Urban absorption stimulates job gains near the core. Leasing in Philadelphia proper is punctuated by multiple high-credit tenants this year. Among 2022's new big-box anchors are Target, Lowe's, Acme Markets and Whole Foods Market, each taking on leases from 40,000 to 130,000 square feet. Furthermore, mid-size leasing is highlighted by a number of national brands, including Family Dollar and Planet Fitness, establishing multiple storefronts as they expand in southeastern Pennsylvania. A plethora of move-ins in the CBD and adjacent zones should support elevated rent growth here, as well as stoke hiring velocity. While just 70 percent of jobs lost within the Philadelphia city limits have been recouped as of February 2022, new employers should bring job gains closer to parity with the greater metropolitan area, where 84 percent of jobs have been recovered.

Vacancy higher in suburban zones, but trending downward. Prominent suburban submarkets like Conshohocken, Lower Bucks County, Horsham-Willow Grove and King of Prussia have all seen triple-digit year-over-year basis point declines in vacancy as of this March. While availability is still generally higher in these submarkets than closer to the core, sub-1 percent vacancy rates in Conshohocken could push prospective tenants here to neighboring areas in search of appropriate space. Furthermore, with less than a quarter of the current pipeline unleased, incoming supply additions are not expected to put an excess amount of upward pressure on vacancy in the near term.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**65,000
JOBS**
will be created

EMPLOYMENT:

Philadelphia's job base will grow at a 2.2 percent clip this year as employers in the CBD and adjacent zones catch up to suburban gains. The metro should end the year approximately 27,000 positions away from pre-pandemic staffing counts.



**750,000
SQ. FT.**
will be completed

CONSTRUCTION:

Construction in 2022 is a slight uptick from last year's 730,000 square feet of finalized space. Nevertheless, the total is well under pre-pandemic norms, when annual completions exceeded 1 million square feet every year from 2007 through 2019.



**10
BASIS POINT**
decrease in vacancy

VACANCY:

While the expected year-end vacancy rate of 5.3 percent is 80 basis points above the previous cycle low, the rate remains slightly below typical post-2007 rates, when availability in the mid-5 percent range was the norm.

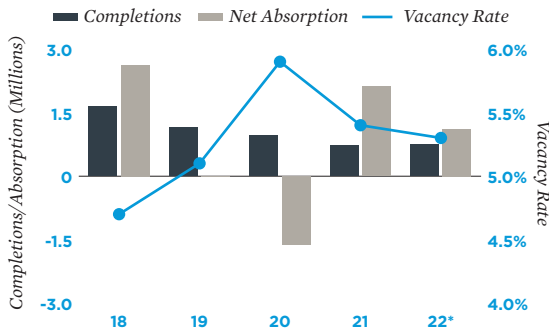


**3.8%
INCREASE**
in asking rent

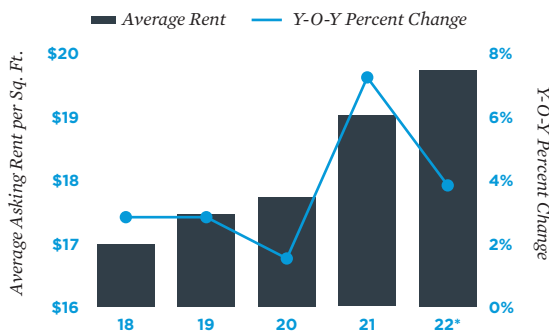
RENT:

Following a robust gain of 7.2 percent in 2021, Philadelphia area marketed rents will see the second-highest annual increase since 2016, reaching a new record of \$19.72 per square foot on average.

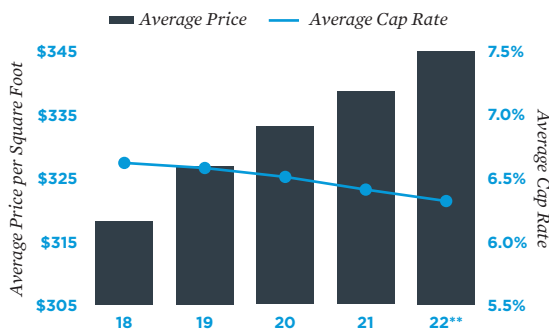
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

624,000 sq. ft. completed

- In the half-decade preceding 2020, an average of more than 1,700,000 square feet was finalized annually. Since the onset of the health crisis, that figure has remained under 1 million square feet.
- Just over 57,000 square feet of space was finalized in the first quarter, marking the smallest three-month construction total since at least 2007.



VACANCY

70 basis point decrease in vacancy Y-O-Y

- Recording a 50-basis-point drop beginning in October of last year, vacancy at the end of the first quarter of 2022 was at 5.2 percent marketwide.
- Of the seven submarkets posting sub-3 percent vacancy ending March, five were in Philadelphia proper. However, a 430-basis-point compression left just 0.3 percent of square footage in Conshohocken unoccupied.



RENT

4.9% increase in the average asking rent Y-O-Y

- Driven by demand tailwinds outside the urban core, the mean marketed rent entered April at \$19.10 per square foot, an all-time high.
- Double-digit rent growth was reported in 14 submarkets this period, 13 of which were in suburban Pennsylvania and New Jersey. The lone urban submarket, Independence Hall, posted a 10.6 gain in marketed rents.

Investment Highlights

- A strong retail market, in tandem with ameliorating health restrictions, resulted in a release of pent-up investor demand, translating to a 12-month record in trades of retail properties by the end of March. The sharp rise in deal flow was driven by a surge in single-tenant properties changing hands. Intense bidding activity drove pricing in this segment up 4 percent to \$416 per square foot, the fastest increase in eight years.
- Due to higher local cap rates, Philadelphia continues to boast a notable investment base from nearby New York and New Jersey. Yield-focused buyers from these areas are more likely to target multi-tenant properties, which can trade with cap rates in the mid-6 to high-7 percent band.
- The metro is host to multiple larger-scale mixed-use projects encompassing millions of square feet of office and retail. A complex dubbed uCity Square is set to augment the already heavily-developed University City neighborhood in an effort to capitalize on the locale's flourishing life science sector. To the south, an additional \$3 billion investment to the Philadelphia Navy Yards will likely make the area an even more attractive target for capital placement at full build out.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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