

INVESTMENT FORECAST

Office
Philadelphia Metro Area

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ADVISORS

2024

Tight Retail Vacancy in Philadelphia Proper Prompts New Leasing Strategies, Draws Investment

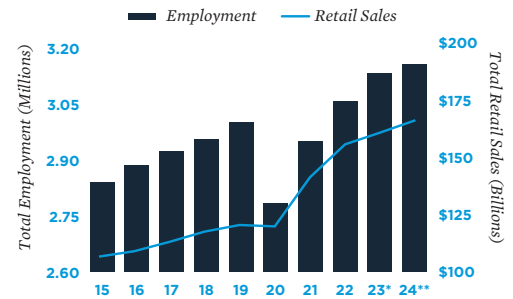
Low vacancy drives larger tenants to compromise on space. Local retail conditions have seldom been tighter, with the expected vacancy metric in 2024 verging on multi-decade lows. Neighborhoods in the city proper have been supported by improving foot traffic, as Philadelphia recorded the greatest decrease in remote-only employees among major U.S. metros from June 2022 to October 2023. The overall market has also seen a number of demolitions — which took 4.2 million square feet of retail space off the market in the past half-decade alone — in tandem with tapering construction. A lack of space is constraining big-box tenants, as the number of leases exceeding 50,000 square feet fell by half in 2023 from just five years prior, with the average lease shrinking roughly 20 percent in that span. With availability in some urban submarkets as low as 1.0 percent in late 2023, retailers may pivot to smaller floor plans and lean on omnichannel approaches to engage consumers. This trend should extend beyond the urban core, exemplified by Macy's opening a small-format store in Mount Laurel this year.

Low entry costs, growing renter base draw buyers to outlying neighborhoods. The metro noted the largest per-square-foot pricing decrease of any metro along the East Coast in 2023. However, this was largely driven by buyers seeking out lower-tier assets, which have become increasingly popular with tenants. Notably tight availability among newer builds is prompting some retailers to seek out floor plans in assets that may otherwise go overlooked. Investors seeking lower entry cost opportunities may look to retail-residential options in Philadelphia's outlying neighborhoods. Multiple quarters of positive multifamily net absorption in Southwest, Northwest, and Northeast Philadelphia submarkets should also draw buyers to these assets.

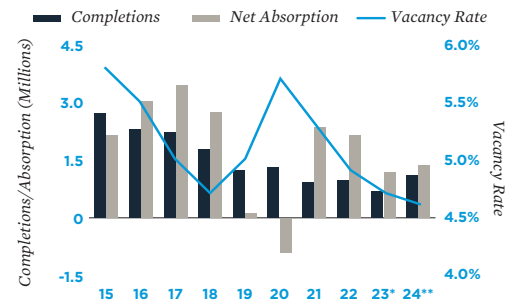
2024 MARKET FORECAST

- +0.8%** **EMPLOYMENT:** Although job growth will decelerate on an annual basis, the 25,000 positions expected to be added this year indicate hiring will continue ahead of historical norms.
 - 2,000,000 sq. ft.** **CONSTRUCTION:** Space additions exceed the 1-million-square-foot benchmark for the first time since 2020. Still, more than half of the active pipeline was pre-leased as of early 2024.
 - 10 bps** **VACANCY:** Philadelphia will note contracting vacancy for the fourth year in a row, bringing the metric down to 4.6 percent. This will be the lowest year-end measure noted since at least 2007.
 - +1.4%** **RENT:** A historically low vacancy measure prompts higher marketed rates, driving the average asking rent up to \$20.56 per square foot by the end of December.
- INVESTMENT:** Investors targeting multi-tenant assets proximate to affluent consumers seek out options in Montgomery and Bucks counties, affluent suburbs where retailers may be less impacted by budget tightening.

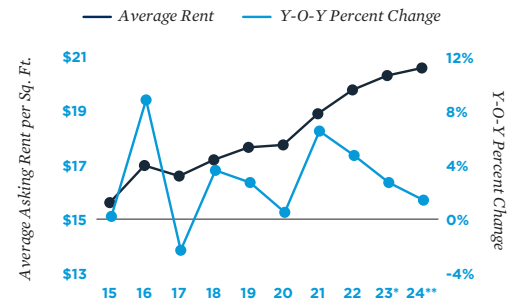
Economic Trends



Supply and Demand



Rent Trends



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

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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 January 3/2023. 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.