MARKET REPORT

Retail

Philadelphia Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

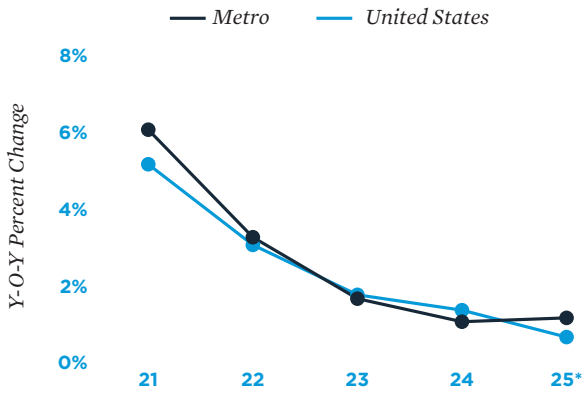
3Q/25

Philadelphia Retail Adjusts to Tenant Shifts, While Market Fundamentals Remain Solid

Employment growth continues as construction slows. In a national labor market where gains have been largely driven by education and health services, Philadelphia stands out. Jobs in those sectors account for nearly a quarter of the market's workforce, compared with less than a fifth nationally. Local employment growth is in turn bolstering retailers against headwinds. Meanwhile, construction has slowed, with this year's retail pipeline dominated by redevelopment and conversion projects in the metro's outermost suburbs and the broader tri-state area. Taken together, these dynamics point to a favorable long-term outlook for retail properties, even as near-term tenant consolidations weigh on property performance.

Drug stores struggle, but grocers backfill space. As Rite Aid's home base, Philadelphia absorbed an outsized share of the chain's bankruptcy-related closures in the first half of 2025. The metro logged its highest quarterly net relinquishment tally outside of the pandemic in the second quarter, setting the stage for only the second annual space contraction since at least 2007. Vacancy in smaller properties under 20,000 square feet rose from 2.9 percent in late 2023 to 3.9 percent by June 2025. Larger formats held steady, however, and strong demand for grocery-anchored centers helped offset disruption. In the first half of 2025, grocers such as Giant, Sprouts and Aldi expanded across the metro, while Dollar Tree remained especially active in leasing properties around 10,000 square feet.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2025 Outlook

35,000 JOBS
will be created

EMPLOYMENT:

Philadelphia will register the strongest job creation among major U.S. markets this year, tied with Dallas-Fort Worth. Gains are being driven by the education, health care, and leisure and hospitality sectors.

630,000 SQ. FT.
will be completed

CONSTRUCTION:

This year's delivery pipeline continues to slow, with most new space concentrated in the metro's outer suburbs. The total is 25 percent below the five-year annual average of roughly 840,000 square feet.

30 BASIS POINT
increase in vacancy

VACANCY:

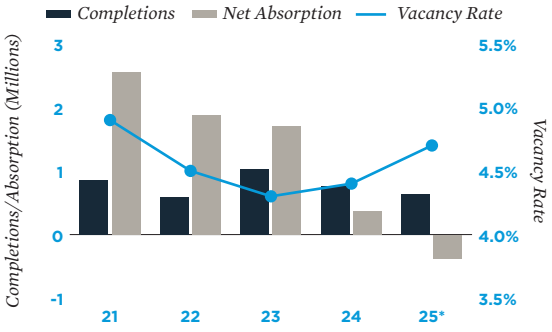
The metrowide vacancy rate will rise to 4.7 percent by December, following notable net relinquishment in the second quarter of this year. Even so, the metric remains 50 basis points below the metro's long-term average.

2.4% INCREASE
in asking rent

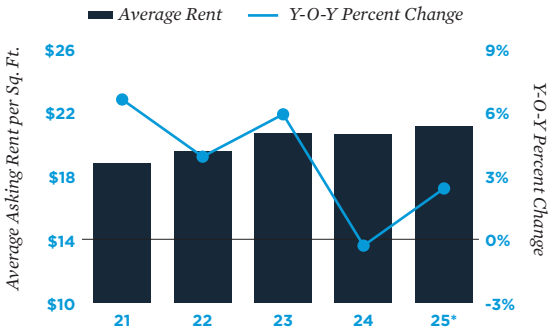
RENT:

After a slight dip in 2024, the average asking rent will climb to $21.10 per square foot by year-end. The pace of rent increase aligns with the metro's decade-long average and ranks among the top 15 major U.S. markets.

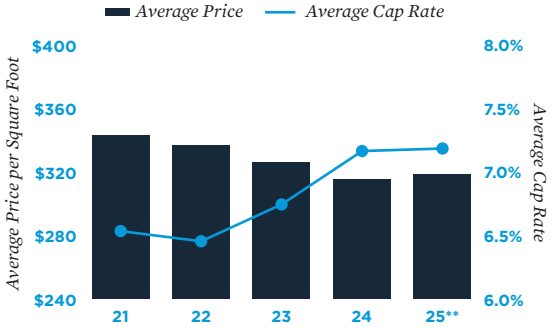
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

Gregory A. LaBerge

Senior Vice President, National Director

Tel: (818) 212-2250 | glaberge@ipausa.com

For information on national retail trends, contact:

John Chang

Chief Intelligence & Analytics Officer | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250

2Q 2025 — 12-Month Period

CONSTRUCTION

718,000 sq. ft. completed

- Recent deliveries were concentrated in the metro's northern and southern suburbs. South New Castle County added the most square footage, followed by Delaware County and Northeast Philadelphia.
- Construction has slowed sharply of late. During the first quarter of 2025, just 65,000 square feet was added, the lowest three-month total on record.

VACANCY

20 basis point increase in vacancy Y-O-Y

- After hitting its lowest point since the pandemic in late 2023, vacancy has risen just 30 basis points, reaching 4.6 percent as of June 2025.
- Among submarkets with more than 10 million square feet of inventory, the sharpest vacancy increases were noted along Interstate 76 west of King of Prussia, around Camden–Cherry Hill and near Burlington, New Jersey.

RENT

0.5% decrease in the average asking rent Y-O-Y

- Slower net absorption over the past year pushed the metro's average asking rent down slightly to $20.93 per square foot.
- Burlington, South New Castle County, Sussex County and Southern Philadelphia registered the largest rent gains among metro submarkets with more than 10 million square feet of stock.

Investment Highlights

- Transaction activity climbed roughly 20 percent in the past 12 months compared with the prior year, supported by a 50 percent jump in deals priced above $10 million. At the same time, the metro's average cap rate edged up to 7.2 percent during the year ended in June, partly the result of a three-year decline in average price per square foot. The average cap rate, meanwhile, now ranks as the highest among all major East Coast markets.
- The Bensalem-Doylestown area recorded twice as many transactions over the past 12 months as it did in the previous period. Nearby, the portion of Philadelphia along Interstate 95 North has now sustained elevated activity for three consecutive years. Greater activity in both submarkets reflects improving investor demand on the metro's northeastern side, where redevelopment projects are renewing interest in some listings.
- Following Rite Aid's bankruptcy and store closures by CVS and Walgreen's, the number of convenience and drug store-related trades in the metro nearly doubled over the past year. Investors are targeting these properties for their discounted pricing and the redevelopment potential they present. With similar listings still on the market, this trend is likely to continue.

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 guarantee 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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