

# MARKET REPORT

RETAIL

Philadelphia Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

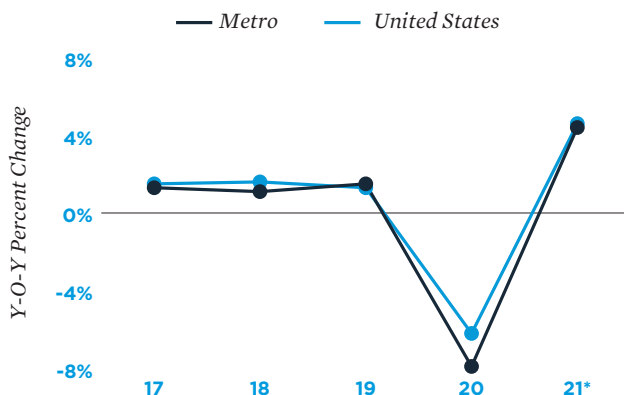
3Q/21

## Renewed Hiring and Elevated Spending Foster Leasing, Accentuated by a Drop in Construction

**Returning demand well above limited supply.** Recovering employment along with renewed household formation has improved recent leasing activity. Over 820,000 square feet of retail space was absorbed in the first half of 2021, offsetting a little over half of the space vacated last year. Greater employment paired with tailwinds from federal stimulus have lifted retail sales to about 15 percent above the pre-pandemic level. Buoyed by greater consumer spending, many retailers are again looking for space, often targeting existing floor plans given limited new supply. Philadelphia's retail inventory will expand by a minimal 0.2 percent this year. The favorable demand-supply alignment is set to lower vacancy and advance rents in the months ahead.

**Residential hubs outside core buoy sector.** Retailers in Philadelphia's most established suburban towns continue to perform well, with midyear vacancies in King of Prussia, Bala Cynwyd and Conshohocken down below 2019 levels. The same is true of Northwest and South Philadelphia. Fundamentals have also made notable gains in Lower Bucks County and Northeast Philadelphia since the initial shock of the pandemic. In the core itself, performance is more mixed. Vacancy and rents have stabilized in Independence Hall but continue to soften in high-cost Market Street West. While clouded by coronavirus variants, the return of more office workers will ultimately aid space demand in these commercial districts.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2021 Outlook



**122,000  
JOBS**

*will be created*

### EMPLOYMENT:

The Philadelphia employment base is on track to expand by 4.4 percent this year, partially offsetting the 237,000 roles lost in 2020. As of July unemployment was at 6.6 percent, below the recent peak of 15.2 percent but 120 basis points above the U.S. level.



**600,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

Deliveries for 2021 will fall short of last year's total by more than 40 percent, dropping below the 1 million-square-foot mark for the first time in at least 15 years. Development is most pronounced in Exton-Whitlands and North Burlington County.



**30  
BASIS POINT**

*decrease in vacancy*

### VACANCY:

The cutback in construction activity is directing more retailers into existing space, which will help lower vacancy to 5.5 percent by year-end. The rate in 2019, before the onset of the pandemic, was 5.0 percent.



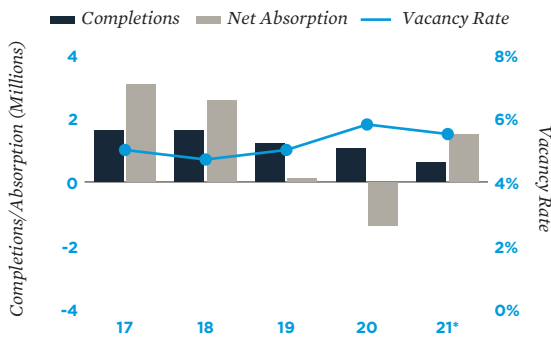
**5.1%  
INCREASE**

*in asking rent*

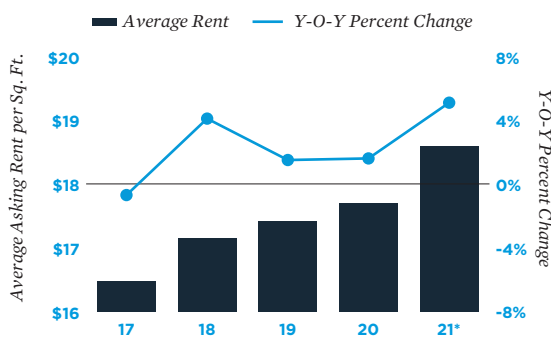
### RENT:

Asking rents have been improving throughout the year, with the metro average rate anticipated to climb to \$18.60 per square foot by the end of 2021. Growth has been most consistent in the single-tenant sector.

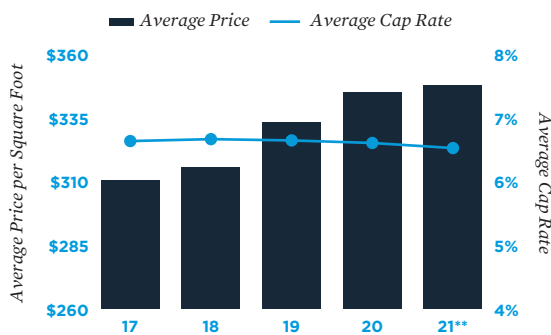
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q21 – 12-Month Period



### CONSTRUCTION

**882,000** square feet completed

- The delivery of only about 210,000 square feet in the first half of 2021 brought total construction for the past four quarters down about 15 percent compared with what arrived in the previous yearlong span.
- Numerous openings occurred in Northeast and West Philadelphia, as well as West Chester, North Camden County and Lower Bucks County.



### VACANCY

**40** basis point increase in vacancy Y-O-Y

- While the metro's June vacancy rate of 5.6 percent is above the level recorded one year prior, the rate is down 20 basis points from the start of 2021. A dip in single-tenant vacancy drove the contraction.
- Of submarkets with inventories over 5 million square feet, vacancy decreased the most, 210 basis points to 6.2 percent, in Atlantic City.



### RENT

**5.5%** increase in the average asking rent Y-O-Y

- The best six-month period of net absorption since 2018 drove the average asking rent up by 4.6 percent between December 2020 and June 2021 to a new high of \$18.52 per square foot.
- Rates are advancing fastest for single-tenant space, up 6.3 percent annually, while the multi-tenant metric grew by 3.1 percent.

## Investment Highlights

- Single-tenant transaction velocity declined by about 20 percent over the past 12 months relative to the prior four-quarter period. A shift to higher-quality assets contributed to a 1 percent uptick in the average sale price year over year to \$396 per square foot, while the mean cap rate inched down 10 basis points to 6.3 percent.
- Compared with the preceding annual period, more single-tenant properties changed hands in Lower Bucks County. Trades most often involved mixed-use facilities or buildings occupied by grocers or restaurants. Yields ranged from low-5 percent to 8 percent.
- Multi-tenant sales activity dropped by a comparable margin to the single-tenant sector, while the average sale price advanced by roughly twice the pace to \$263 per square foot. Cap rates on trades averaged in the high-6 percent band, compared to a 7 percent measure a year ago.
- Across both tenant classes, transactions in the \$1 million to \$10 million price tranche continued to dominate sales, led predominantly by local private buyers. Out-of-market investors, most commonly from Florida, New York and Texas, also pursued opportunities in the area. Trades included neighborhood centers in Bucks and Gloucester counties.

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. Note: 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: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics