



Mid-Atlantic Real Estate Sentiment Index | Fall 2017

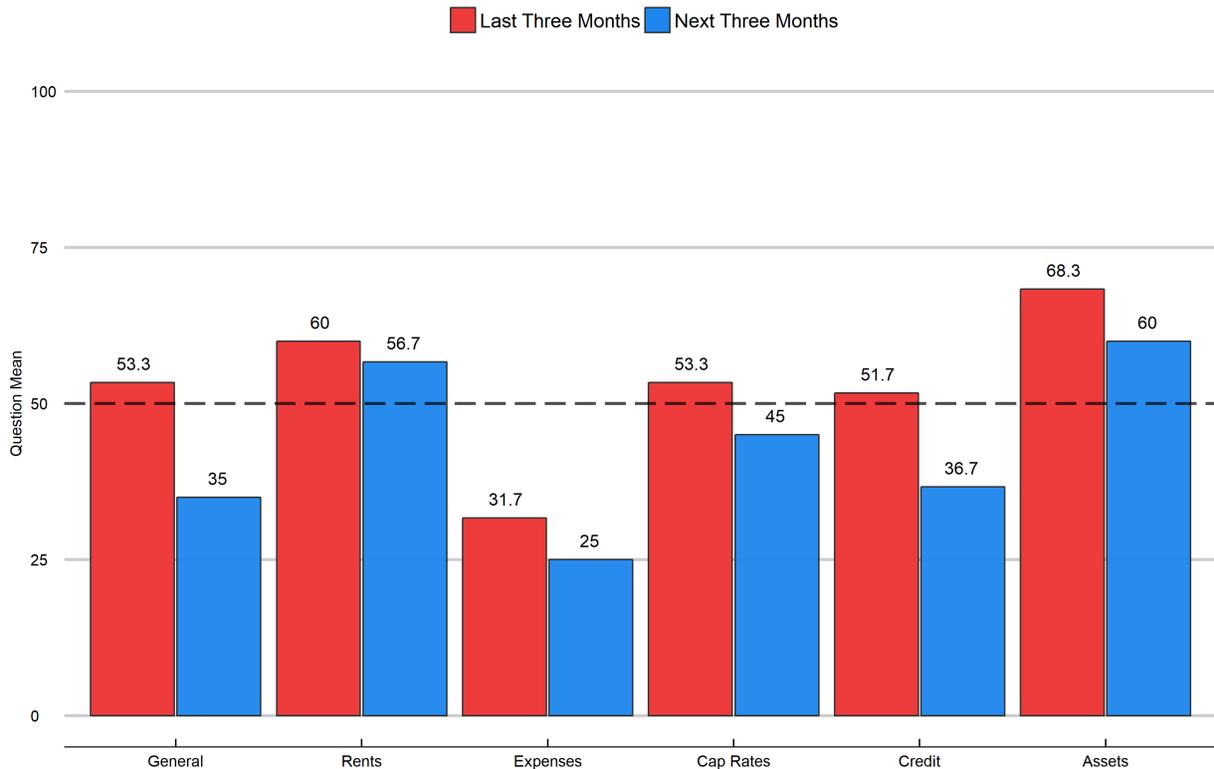
In your (or your clients') opinion, how have the following changed in the *last three months*? How will the following change in the *next three months*?

- A. General Conditions for Real Estate: Better = 1, Same = 0, Worse = -1
- B. Commercial Rents: Higher = 1, Same = 0, Lower = -1
- C. Commercial Operating Expenses: Lower = 1, Same = 0, Higher = -1
- D. Cap Rates: Lower = 1, Same = 0, Higher = -1
- E. Credit Conditions: Better = 1, Same = 0, Worse = -1
- F. Your Gross Assets: Higher = 1, Same = 0, Lower = -1

Explanation of the Mid-Atlantic Real Estate Sentiment Index

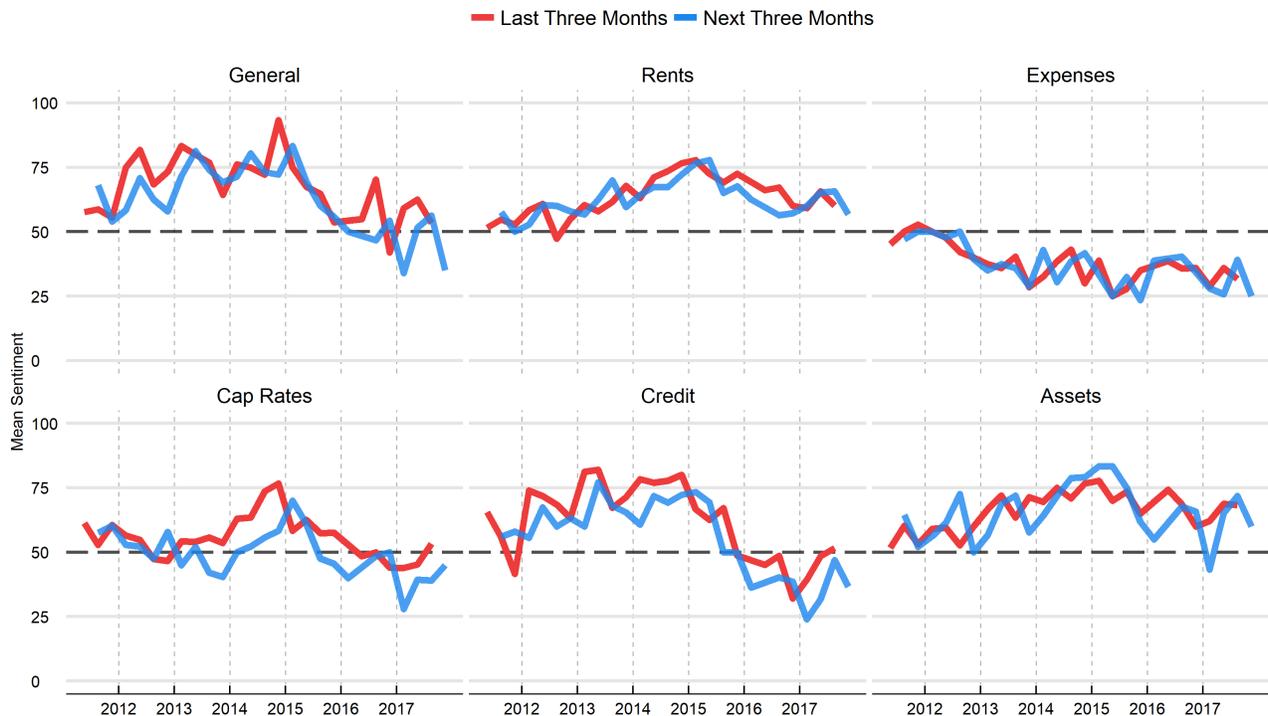
For each category and for the survey as a whole, respondents' answers (1, 0, or -1) for each question are summed and indexed as a function of the number of respondents, centered at 50, ranging from 0 to 100. Index readings higher than 50 indicate agreement that conditions have improved or will improve. Readings lower than 50 indicate stronger agreement that conditions have worsened or will worsen. Readings closer to 50 suggest agreement that conditions have stayed the same or will stay the same.

PREC Survey Response Summary Fall 2017



Greater Philadelphia Real Estate Sentiment Index by Question Number

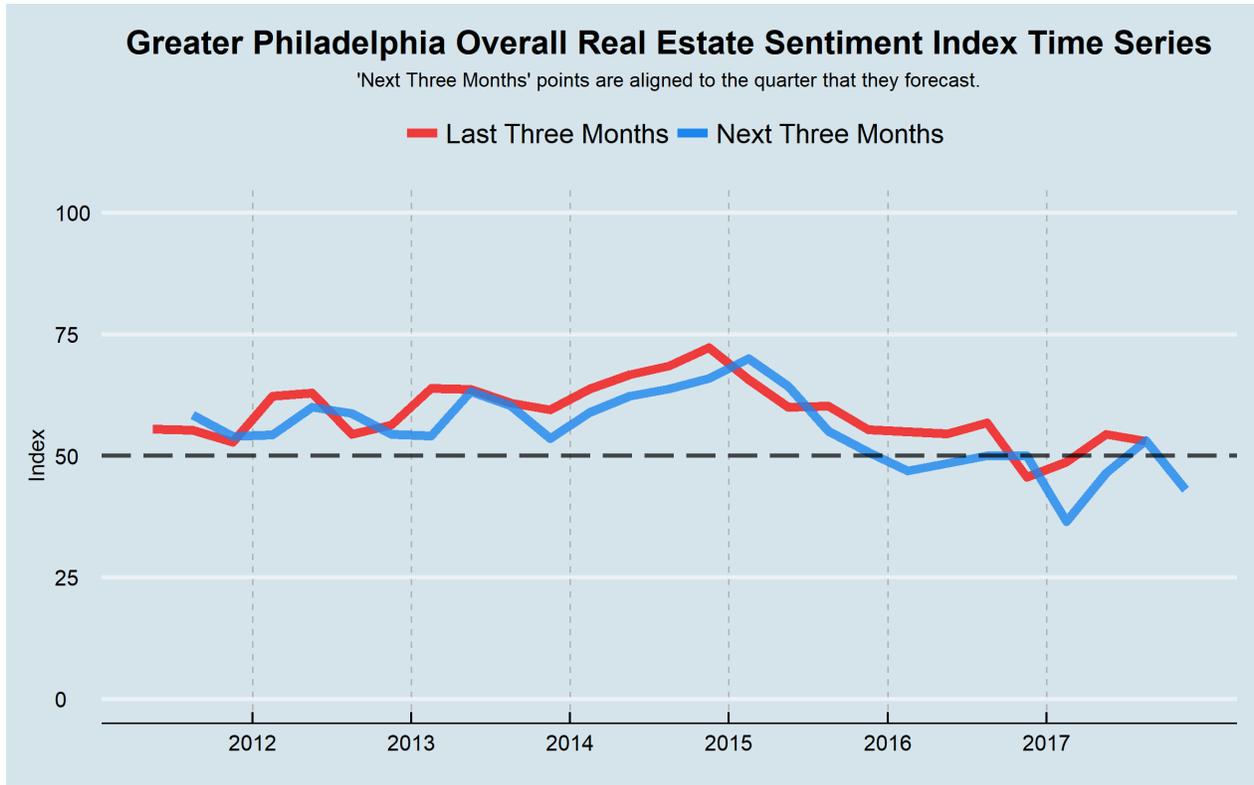
'Next Three Months' points are aligned to the quarter that they forecast.



Key Market Indices and Overall Sentiment Insight

The 2017 Q3 survey shows that PREC members viewed the past 3 months more favorably than they had predicted them to be, according to the 2017 Q2 survey; however, respondents' predictions suggest growing pessimism for the future of the market. In general, respondents remain optimistic on the outlook for their own Assets and predict that Commercial Rents will remain the same into the next quarter. That being said, the Sentiment Index suggests that members are anticipating a worsening environment in the General Conditions for Real Estate over the next three months and continue to be pessimistic regarding future Credit Conditions, Operating Expenses and Cap Rates.

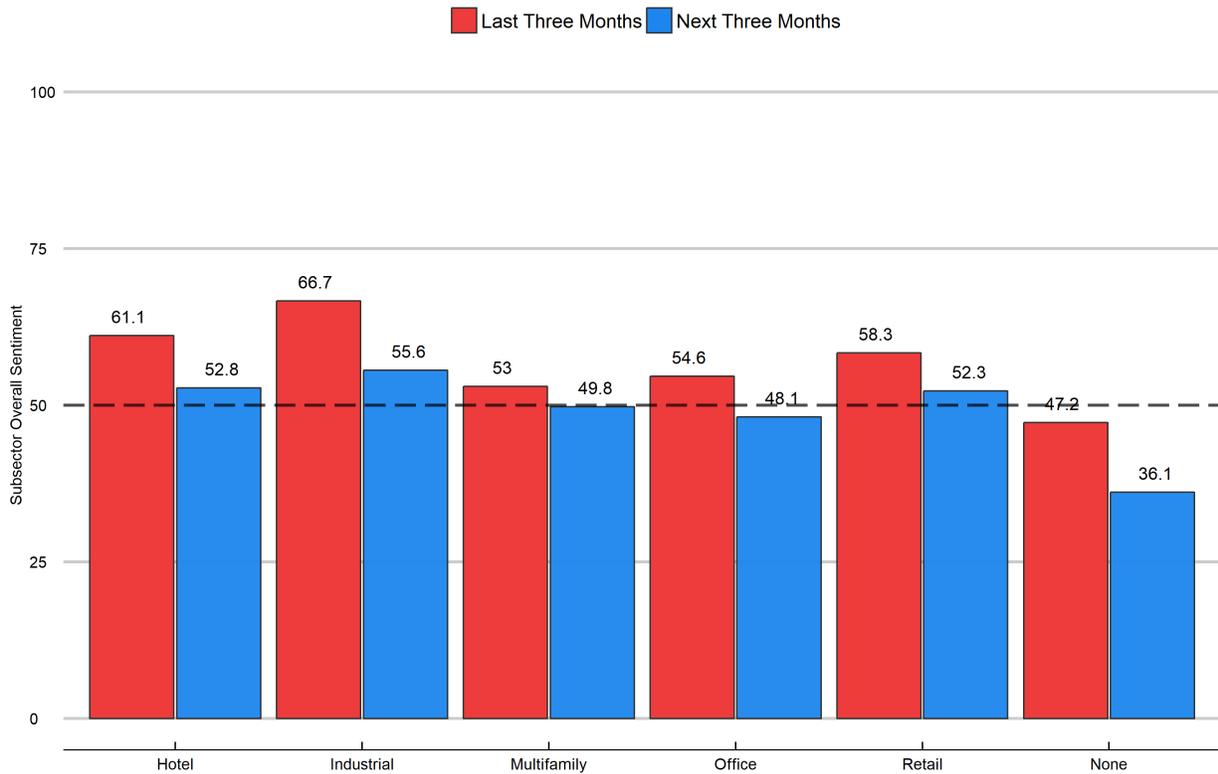
It's interesting to note that the Sentiment Index's past year has shown increasingly negative predictions for key market indicators while the actual sentiment for those quarters indicate better conditions than had been expected. The continued economic and political uncertainty, paired with anticipation of an impending recession, are likely culprits of the negative predictions. These predictions trend similar to the change in the 10-Year Treasury rate; however, the Dow Industrial Average suggests there is still room in this economic cycle for growth. Similarly, year-over-year job growth, both regionally and nationally, remains at recent highs, with the Philadelphia metro region posting 2 percent year-over-year employment growth, just ahead of a national job growth average of 1.5 percent.



Time Series Raw Data and Key Market Indices

	May 15, 2017	September 13, 2017	% Change
PREC Survey Index Last Three Months	62.5	55.4	-11.4%
PREC Survey Index Next Three Months	56.3	33.9	-39.8%
10-year Treasury	2.34%	2.20%	-5.98%
Dow Jones Industrial Average	20,982	22,158	5.58%

PREC Survey Response Summary Fall 2017, Subsectors



Sentiment Index Subsector Insights

Across asset types, the real estate market sentiment among PREC members remains similar—a general sense that market conditions haven’t changed since the last quarter and also a general expectation for the market to slightly worsen in the coming months.

Here are projected outlooks for each sector type.

- Multifamily Sector:** Last quarter, the multifamily survey respondents were optimistic, with a predicted sentiment score of 57.9 suggesting an expectation that conditions would improve. We leave Q3 with a slightly dampened view: the general sentiment of this sector’s past 3 months’ performance falls around 53, and the outlook for Q4 falls right below 50. Keep in mind that an index reading around 50 is simply suggesting that, in general, PREC members feel that the market will remain as is. After the last few years’ burst in multifamily construction, the index’s decline from last quarter may suggest that multifamily owners have waning optimism at this point in the cycle.
- Office Sector:** The office sector actually experienced a more optimistic outlook than in previous quarters, but survey respondents still overall predict worsening conditions in the coming months.. Office tenants do continue to shrink their footprints, and the incoming delivery of new product

threatens existing traditional supply in the region.

- **Hotel Sector:** Respondents in the hotel sector showed very positive sentiment when looking at the past few months. That's no surprise as 2017 started with 15 separate hotel projects in the development pipeline—eight of those in Center City.
- **Industrial Sector:** The region's industrial assets continue to be a hot market, and the sentiment of PREC members who responded to the Q3 survey reflect that. The rise of e-commerce and 3PL operations has meant rising rents and reduced vacancy. Tenant demand has been so strong in the region that owners have had no trouble filling spec development in the past year. This sector's sentiment index shows a more tempered enthusiasm for market conditions between now and the close of the year, but still demonstrates a general positive sentiment for the sector's outlook.
- **Retail Sector:** Despite competition from the ecommerce sector, the overall sentiment for the Retail sector suggests steady conditions in the coming months.

As stated above, the General Real Estate Sentiment of the region suggests that while market conditions have remained the same, predictions for the coming months are much more cautious. In addition to the unknowns in the political and economic arenas, it is clear that PREC members' more conservative outlook is being supported by the general uncertainty that comes this late in a business cycle.

- Tatiana Swedek, Associate Director of Communications, PREC &
Gina Lavery, Director of Research, Econsult Solutions Inc.

The Philadelphia Real Estate Council  www.precouncil.org



Questions or comments? Please contact Tatiana Swedek, PREC's Associate Director of Research, at 215-621-6925 or tswedek@precouncil.org

© 2017 Philadelphia Real Estate Council. This report is intended for informational purposes only. The Philadelphia Real Estate Council does not guarantee the accuracy or completeness of any information contained herein.