

# THE MID ATLANTIC REAL ESTATE SENTIMENT INDEX

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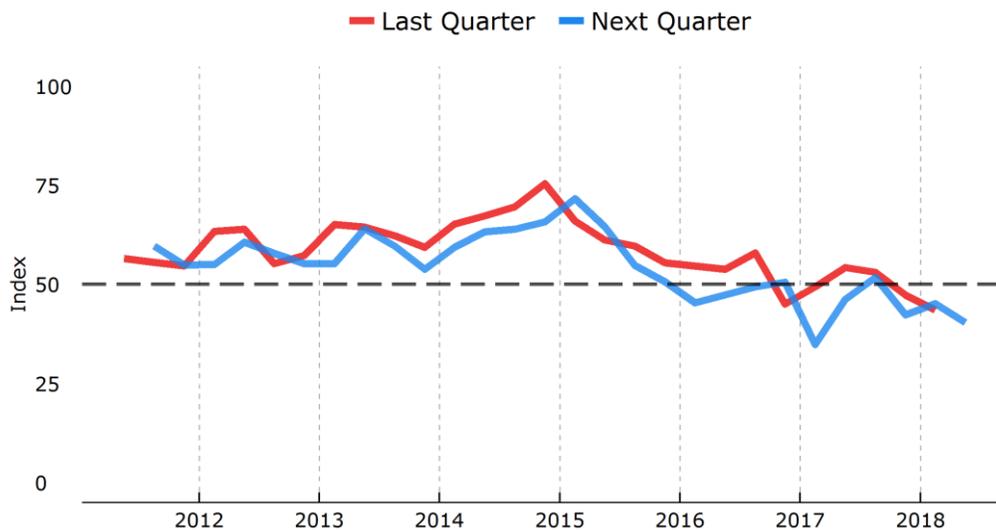
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The Philadelphia Real Estate Council (PREC) produces the quarterly Mid-Atlantic Real Estate Sentiment Index, surveying the Mid-Atlantic real estate community for their opinion on whether specific conditions in the market are better, worse or the same than the previous quarter, and what their outlook is for the coming quarter. An Index of 50 suggests that, on average, real estate conditions have or will stay the same; readings above 50 indicate general agreement that conditions have improved or will improve; readings below 50 indicate general agreement that conditions will or have worsened.

## Mid-Atlantic Real Estate Sentiment Index

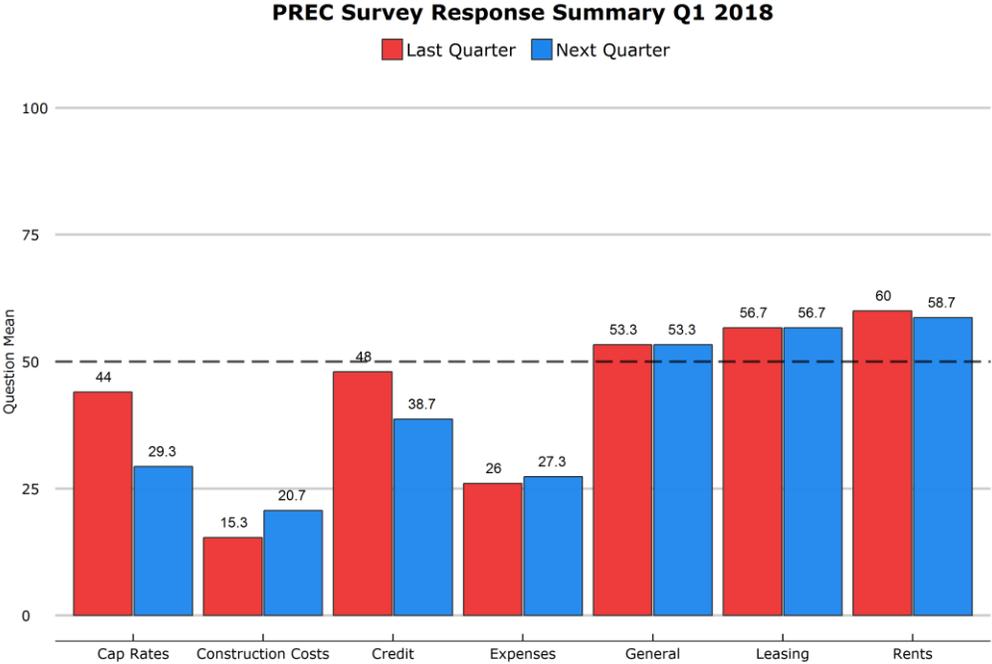
'Next Three Months' points are aligned to the quarter that they forecast.



The Index begins the year on a pessimistic note than the previous quarter in 2017, with respondents generally agreeing that overall market conditions have slightly worsened over the last quarter and predicting that they will also slightly worsen in the coming quarter. **The Q1 2018 Sentiment Index resembles respondents' take on market conditions at the same time last year, which had lowered in response to changes in the global market and uncertainty in local markets.**

In Q4 2017 we began polling respondents about their opinion on how leasing activity and construction costs have performed in the last quarter and the next. Starting Q1 2018, those dimensions of market

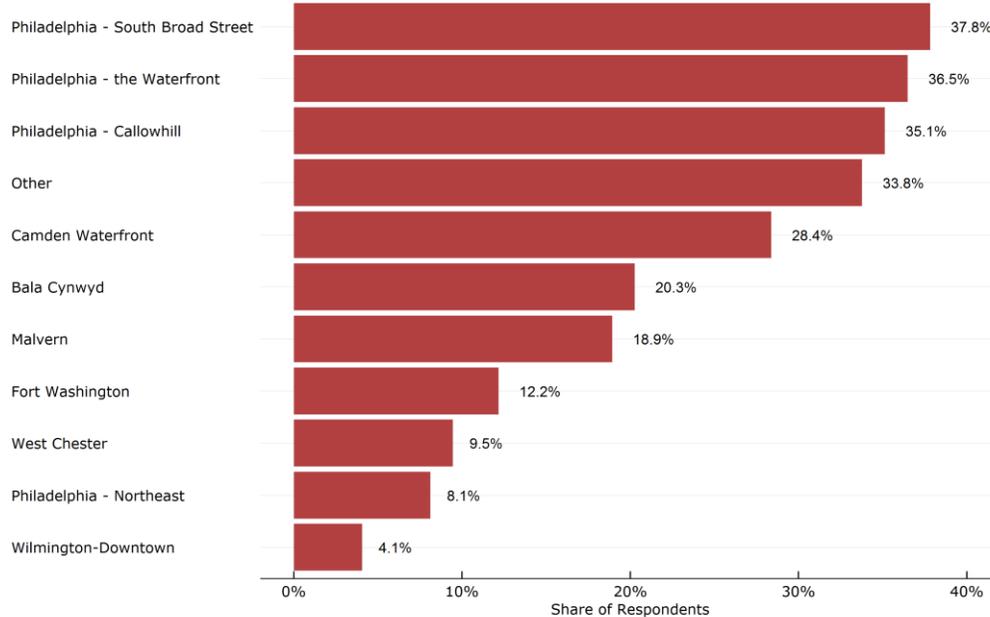
sentiment have been included in the general market sentiment index. It is important to note that among all dimensions asked, respondents have the most pessimistic views regarding construction costs. Conversely, respondents feel more optimistic about leasing activity and rental rates compared to most of the other components of the Sentiment Index.



**Emerging Real Estate Submarkets**

In addition to asking the 75 survey respondents on the above-described aspects of market conditions, we also have begun polling respondents about their opinion on emerging submarkets and real estate trends for 2018. Within City of Philadelphia, South Broad was most popular emerging submarket, likely a result of the Lincoln Square development and ongoing speculation about what’s next for the Northeast corner Broad and Washington. In the suburbs, Bala Cynwyd is seeing some attention to a special services district and new investments in multifamily development. Responses in the Other category are an amalgamation of open-ended responses (i.e., not specified in a dropdown) and they include areas like Horsham, State College, West Philadelphia, and King of Prussia.

### Which do you see as the next hot real estate sub-markets in the Philadelphia metro?



### Changes in Commercial Real Estate Trends

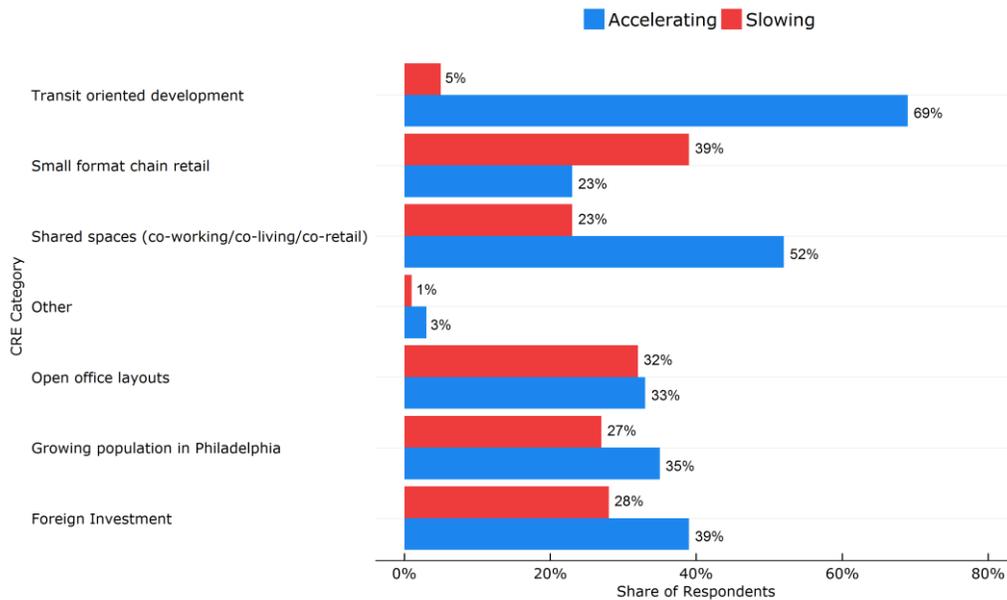
We asked respondents to comment on the real estate trends that they see accelerating in the coming year. The two trends leading in terms of anticipated growth were Transit Oriented Development and shared spaces.

- In February of 2018, the Philadelphia City Planning Commission recommended a zoning code amendment that would incentivize development along the Market Frankford Line in North Philadelphia.<sup>1</sup> The bill designated four new transit-oriented development stations to increase the use of transit, improve pedestrian access, support the development of affordable and market rate housing, and help revitalize surrounding communities.
- In March of 2018 it was announced that the Delaware Waterfront Corporation is seeking a consultant to recommend improvements beyond SEPTA's existing subway and bus routes in Philadelphia's riverfront area. The findings of the study could be used to plan for a possible new trolley route or light rail line.<sup>2</sup>

<sup>1</sup> "New City Council bill calls for more transit-oriented development along the El," Romero, Melissa (2018). <https://philly.curbed.com/2018/1/30/16949916/philadelphia-transit-oriented-developments-bill>

<sup>2</sup> "DRWC Aims To Improve Transit Along Developing Philly Waterfront," DeNardo, Mike (2018). <http://philadelphia.cbslocal.com/2018/03/19/drwc-aims-to-improve-transit-along-developing-philly-waterfront/>

**What metro region CRE trends do you see accelerating and slowing down in 2018?  
(All 75 Respondents)**



We also asked respondents to comment on the real estate trends that they see slowing down in the coming year. The two trends leading in terms of slower down are small format chain retail and open office layouts.

- The move to smaller format stores has been a recently emerging trends, partially a result of growing urban population and more online shopping. You can especially see that trend play out in the many Targets that have popped up across Center City Philadelphia. While our survey respondents who identify as working in the retail sector are split on whether this trend is accelerating or slowing down, our total pool of survey respondents don't expect this trend to continue much longer.
- It is interesting to note that respondents could not agree on what will happen to foreign investment in the coming year. Unprecedented developments in international policy – such as the trade disputes with countries like China – has exacerbated market volatility and left some investors concerned.<sup>3</sup> This kind of volatility has raised uncertainty and disagreement about potential future impacts, and this is ostensibly reflected in our survey of real estate trends.

**Want to know more?**

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<sup>3</sup> "Stocks haven't seen this much volatility since the financial crisis," Lahiff, Keris (2018). <https://www.cnbc.com/2018/04/11/stocks-havent-seen-this-much-volatility-since-the-financial-crisis.html>