

# THE MID ATLANTIC REAL ESTATE SENTIMENT INDEX

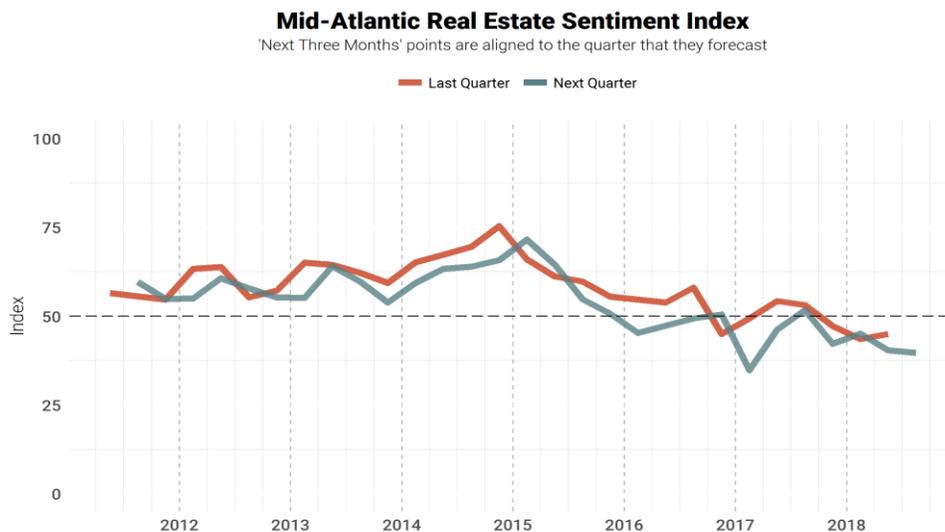
PRESENTED BY:  Philadelphia Real Estate Council

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The Philadelphia Real Estate Council (PREC) produces the quarterly Mid-Atlantic Real Estate Sentiment Index, powered by Econsult Solutions, Inc., 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.

The Index receives input from executives in all major asset classes who operate in all submarkets across the Mid-Atlantic region. 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.

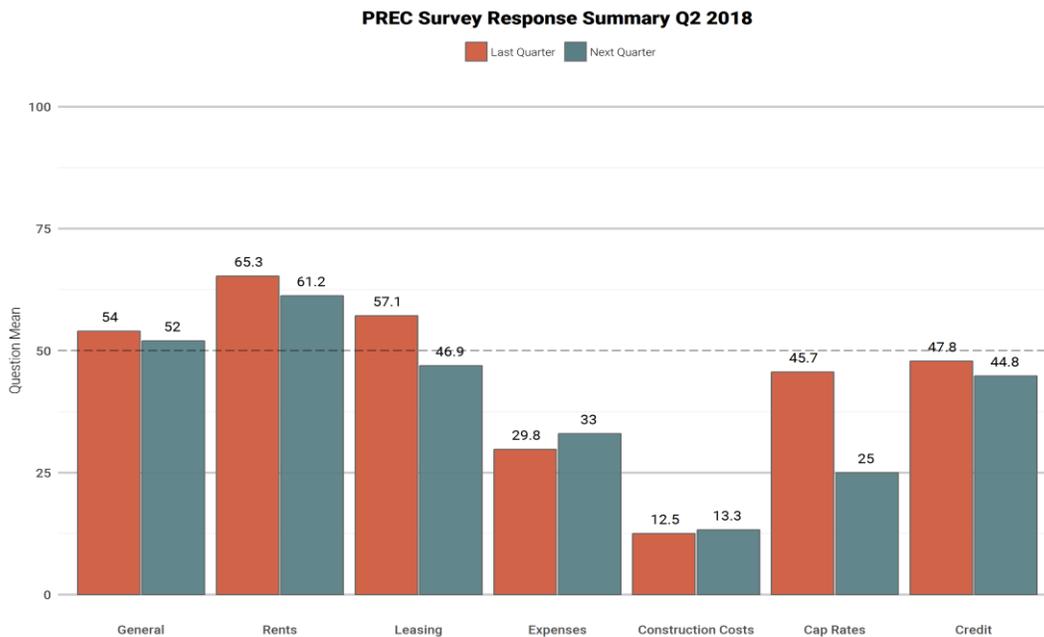


### Key Components of the Index:

- General conditions
- Commercial rents
- Leasing Activity
- Operating Expenses
- Construction Costs
- Cap rates
- Credit conditions
- Gross assets

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The Index's overall sentiment from high level real estate professionals has largely remained the same since last quarter, and forward-looking sentiment is slightly more pessimistic than the same time last year. The Q2 2018 Sentiment Index represent respondents' ongoing pessimism about the market in general. However, based on the more pointed questions that the survey asks about sentiment, that pessimism is more representative of the macroeconomic trends in real estate-- general trepidation about access to capital and cap rates-- rather than being market specific. In fact, sentiment related to the dynamics of the Philadelphia region market, specifically such as leasing activity and rental rates, sentiment among Mid-Atlantic real estate professionals is significantly higher. The forward-looking survey responses show particular pessimism regarding cap rates-- unsurprising since the combination of inflation and anticipated higher interest rates have developers expecting cap rates to shift upward.



**Qualitative Indicators:**

- We asked respondents about the region's best assets for attracting business. Nearly 90 percent of participants said that proximity to colleges, universities and other regional corporations was the region's best asset. 62 and 52 percent answered that the cost of living and talent pool were important assets respectively.
- When asked about how the region could attract new business, the majority of respondents found tax-related issues to be the most important—respondents reported both tax incentives (37 percent) and lowering taxes (29 percent) to be a chief concern, summing to 66 percent of the response pool. Another way the region could do better according to survey respondents was in crime and safety, with 56 percent agreeing that it is an issue in the region.
- When asked about the general optimism about the region's leasing activity and rental rates, nearly half of respondents noted the continued construction and renovation of existing buildings in the area. Nearly a third of respondents also said that the creative rehabilitation of old space and inbound demand from new companies may be responsible for this general sentiment.

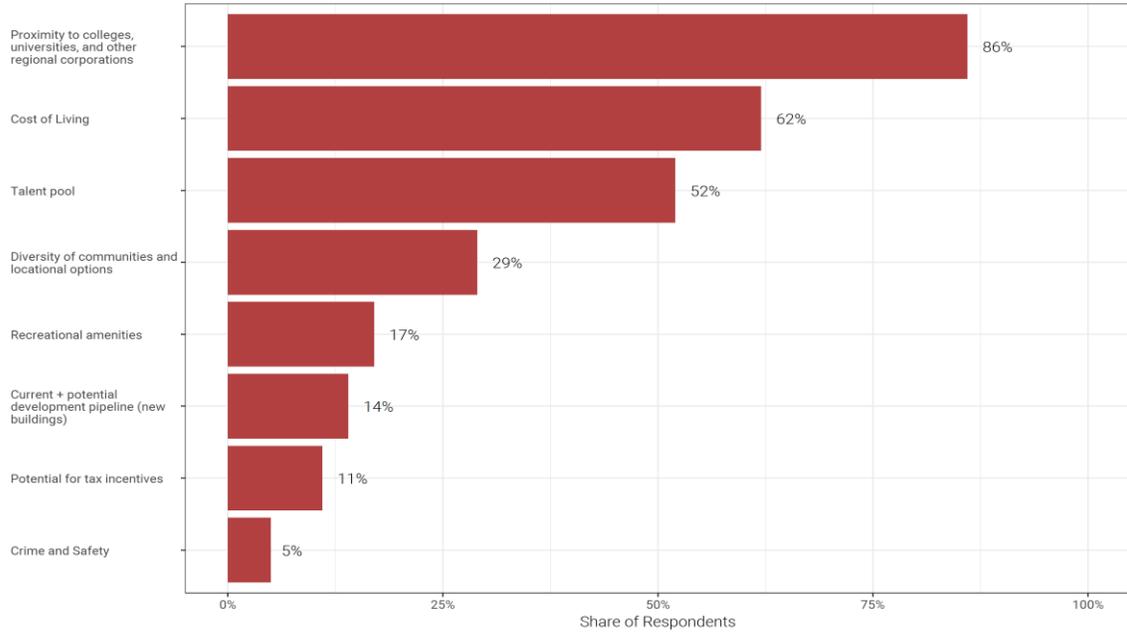
**Want to know more?**

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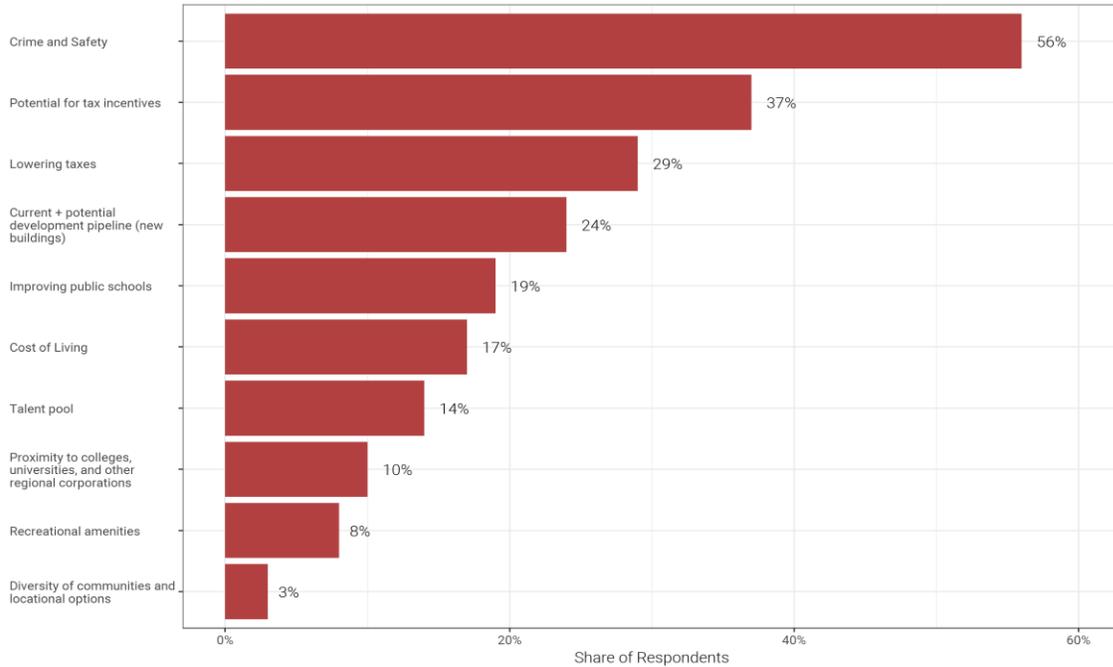
**With the Amazon HQ2 site selection in mind (as well as other future opportunities from other relocating companies), what are the region's best assets for attracting businesses?**

All 63 respondents



**How could the region do better in order to attract new businesses?**

All 63 respondents



**Last quarter's respondents reported general optimism about the region's leasing activity and rental rates. From your perspective, what's driving that positive outlook?**

All 63 respondents

