

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.

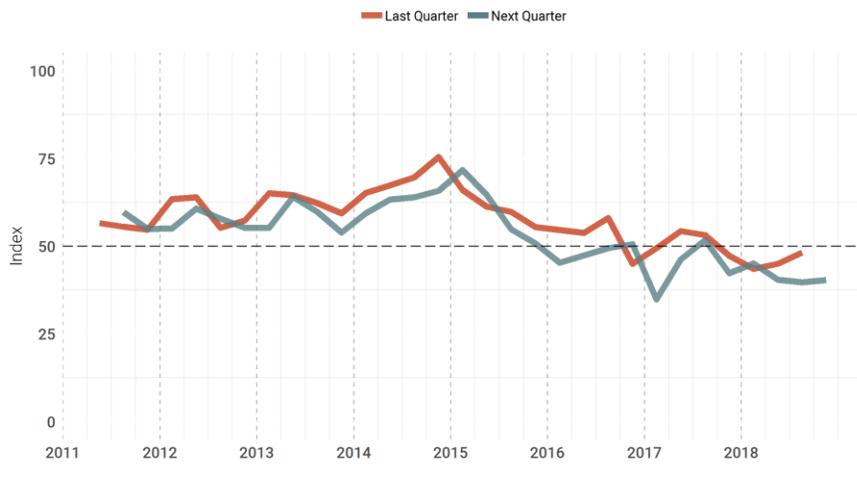
The Index receives input from executives in all major asset classes who operate in all submarkets across the Mid-Atlantic region. An Index of 50 suggests that, on average, real estate conditions have or will stay the same; readings above 50 indicate general agreement that conditions have improved or 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

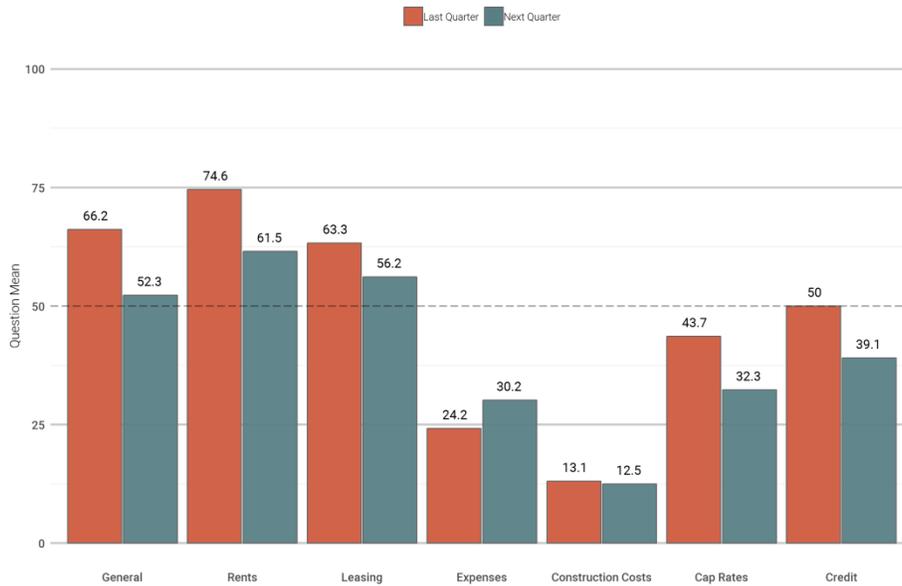
Mid-Atlantic Real Estate Sentiment Index

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

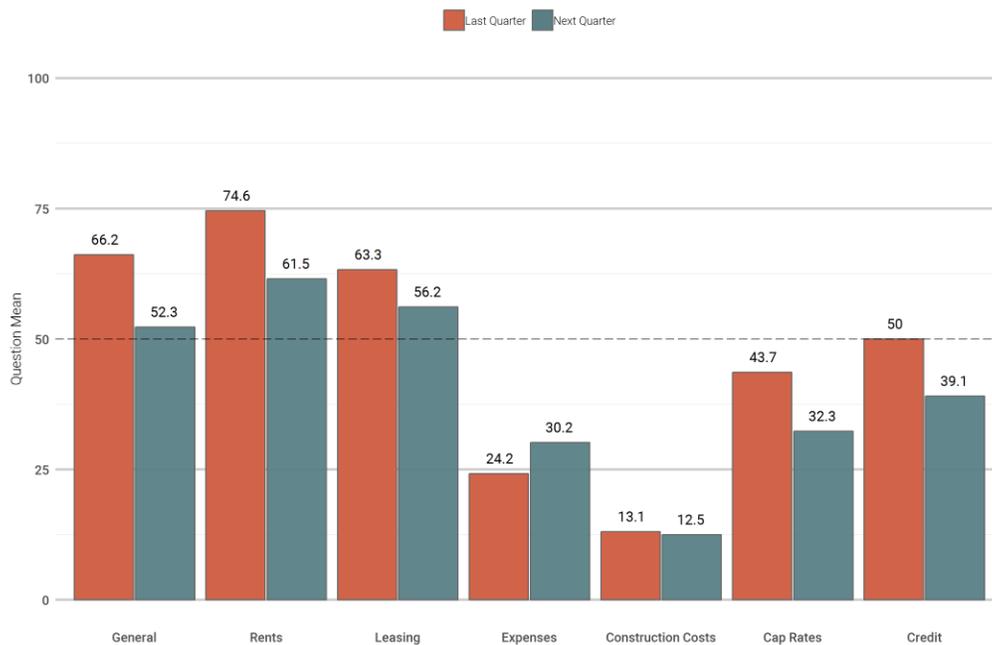


When the Sentiment Index began in 2011, the overall sentiment of real estate professionals taking the survey was that market conditions were more or less steady. Opinion on market conditions peaked in 2015 and then saw a significant dip in 2017. As of Q3 2018, sentiment has evened out, though it remains slightly below the Index's starting point in 2011. Since last quarter, the Index's overall sentiment from the 65 real estate professionals who were surveyed has increased; and forward-looking sentiment has leveled out so that it is more optimistic than the previous quarter. The brightest spots in the Index are regarding general market conditions, commercial rents, and leasing activity, where real estate professionals feel the most confident about both current and future activity.

PREC Survey Response Summary Q3 2018



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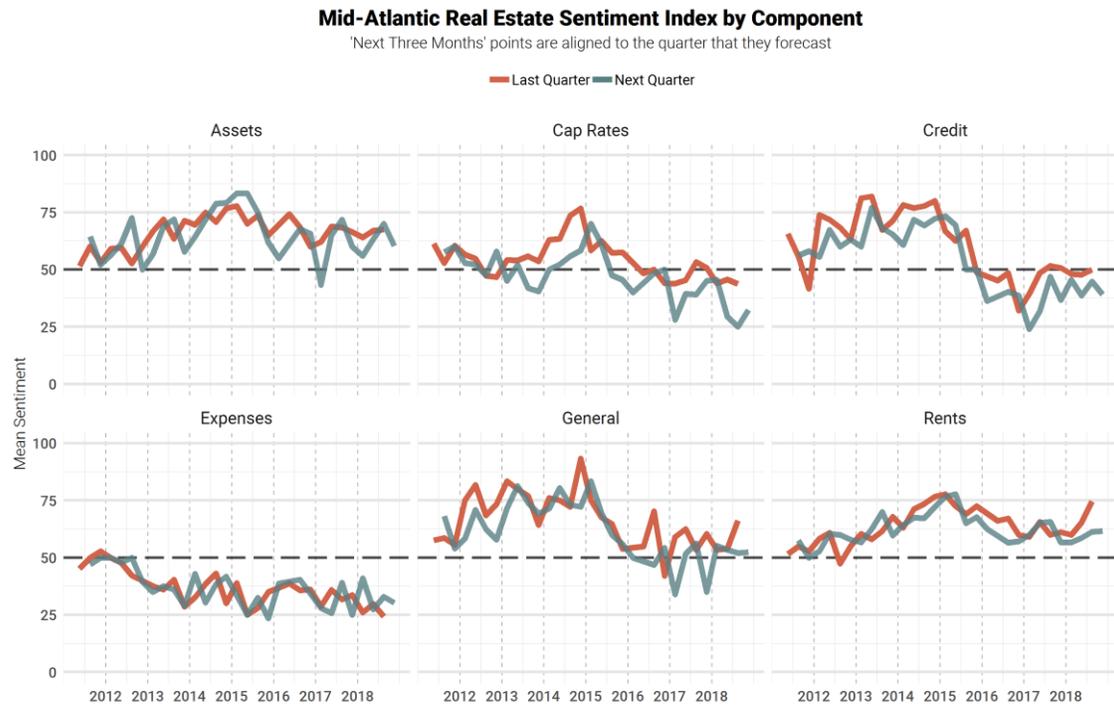


Construction Costs: As with previous quarters, respondents have the most pessimistic sentiment about construction costs. This may not reflect recent changes to the Philadelphia plumbing code, which is expected to reduce construction costs by up to 20 percent.

Operating expenses: Average sentiment about operating expenses is also negative for both past and future outlooks.

Cap rates and Access to credit: Sentiment regarding capitalization rates and credit are closer to 50, which suggests agreement that these conditions have largely stayed the same over the last quarter. Respondents expressed more pessimistic outlooks for the next quarter, demonstrating continued concern that the national economic cycle is nearing the finish line. The sentiment toward cap rates has reversed upward closer towards the mean for both past and future outlooks. Climbing interest rates in 2018 might help to explain this reversal, and they are expected to grow even higher next year.² Sentiment toward access to credit has also pushed upward since last year, despite credit conditions softening in the latter half of 2018.³

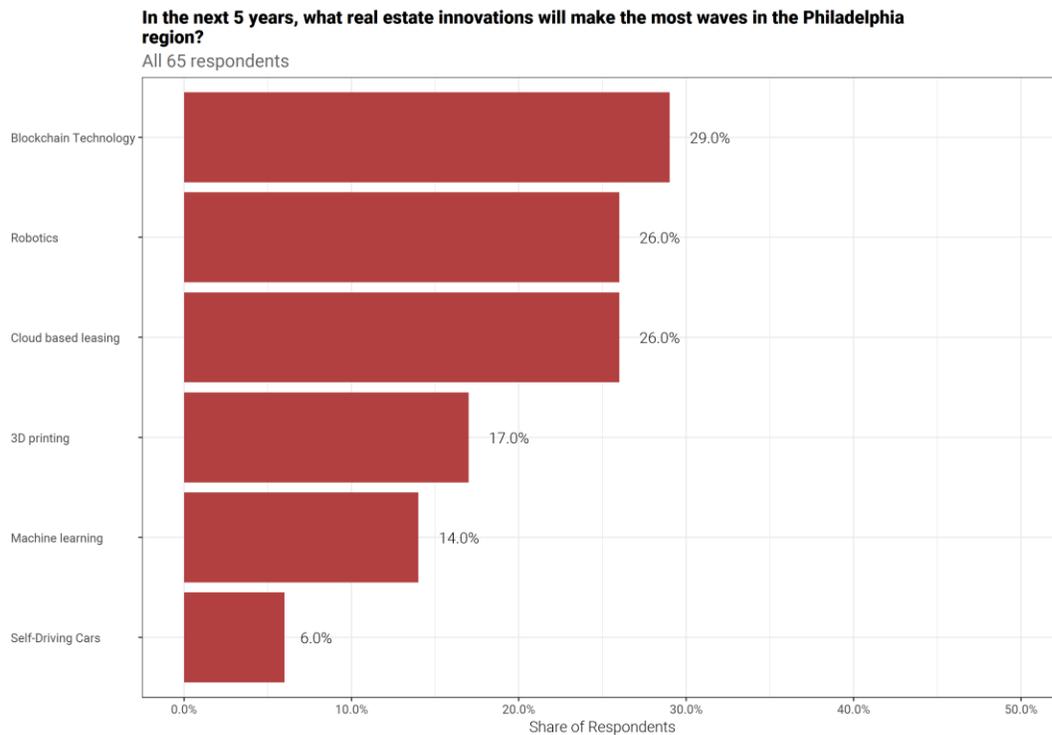
Rental rates: The most dramatic increase in positive sentiment since last year occurred with rents, for both past and future outlook.



² Lloyd, Alcynna. HousingWire (2018). Capital Economics: Interest rates expected to climb much higher in 2019. <https://www.housingwire.com/articles/46904-capital-economics-interest-rates-expected-to-climb-much-higher-in-2019>

Qualitative Indicators and the Real Estate Market

We asked respondents about the most disruptive future real estate innovations in the Philadelphia region. At least a quarter of all respondents mentioned Blockchain technology, robotics, and cloud based leasing. Blockchain, rated most likely to have an impact in real estate in the next five years, is a distributed system that's used to exchange value like title records or cryptocurrency. A relatively mature and scalable technology, Blockchain has the potential to make real estate data centralized and accessible. In addition, the intamperable nature of the Blockchain can significantly improve the efficiency and security of real estate transactions. By contrast, self-driving cars were rated least likely to have an impact in the near future. Although the technology has made strides in the past few years, legislative and technological hurdles will ensure lack of short-term adoption.



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