



# PREC

The Philadelphia Real Estate Council

## Mid-Atlantic Real Estate Sentiment Index | Summer 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*?

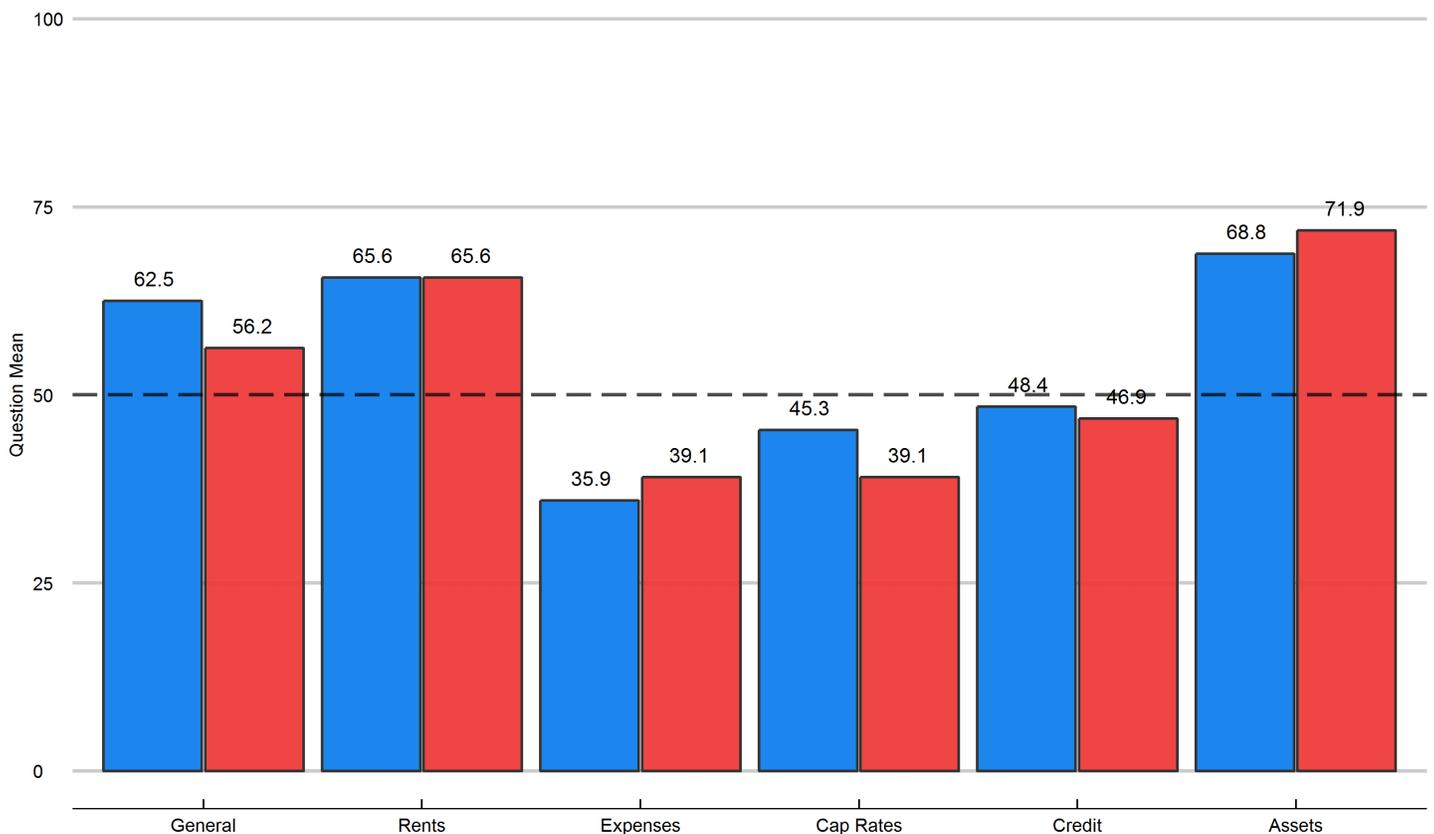
- A. General Conditions for Real Estate: Better = 1, Same = 0, Worse = -1
- B. Commercial Rents: Higher = 1, Same = 0, Lower = -1
- C. Commercial Operating Expenses: Lower = 1, Same = 0, Higher = -1
- D. Cap Rates: Lower = 1, Same = 0, Higher = -1
- E. Credit Conditions: Better = 1, Same = 0, Worse = -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. Therefore, index readings significantly higher than 50 indicate stronger agreement that conditions have improved or will improve. Readings significantly 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 Summer 2017

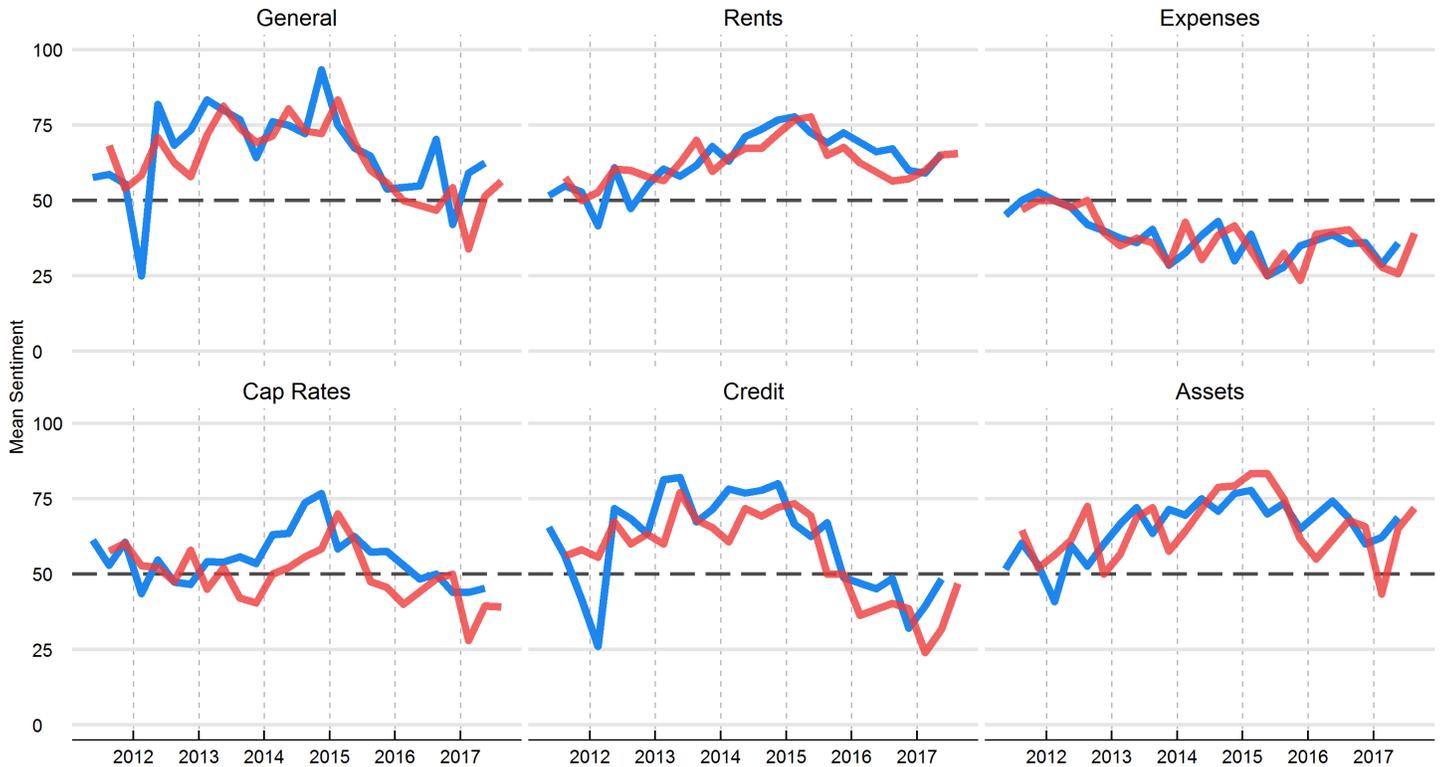
■ Last Three Months ■ Next Three Months



### Mid-Atlantic Real Estate Sentiment Index by Question Number

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

— Last Three Months — Next Three Months



### All Questions Experienced a Sharp Rebound with Positive Outlook

With the Summer 2017 results, we find that respondents have the most optimistic views of Personal Assets for the upcoming quarter and the most pessimistic views regarding Expenses and Cap Rates. The biggest change between how respondents saw the last three months and how they view the next three months occurs in General Economic Conditions and Capitalization Rates, both of which see a drop greater than six points for the mean sentiment values.

All sentiment indicators are up sharply except for Rents and Cap Rates. Assessments of the previous quarter improved for every indicator (blue lines above). This has prompted rosier predictions for the next quarter, Q3 2017, in every area except Cap Rates (red lines above). Nevertheless, the sentiments for all categories except Expenses are still more negative than they were at their peak in late 2014. In fact, Cap Rates are still near their lowest recorded mean sentiment levels since the survey began in Q2 2011.

## Results and Analysis: Summer 2017

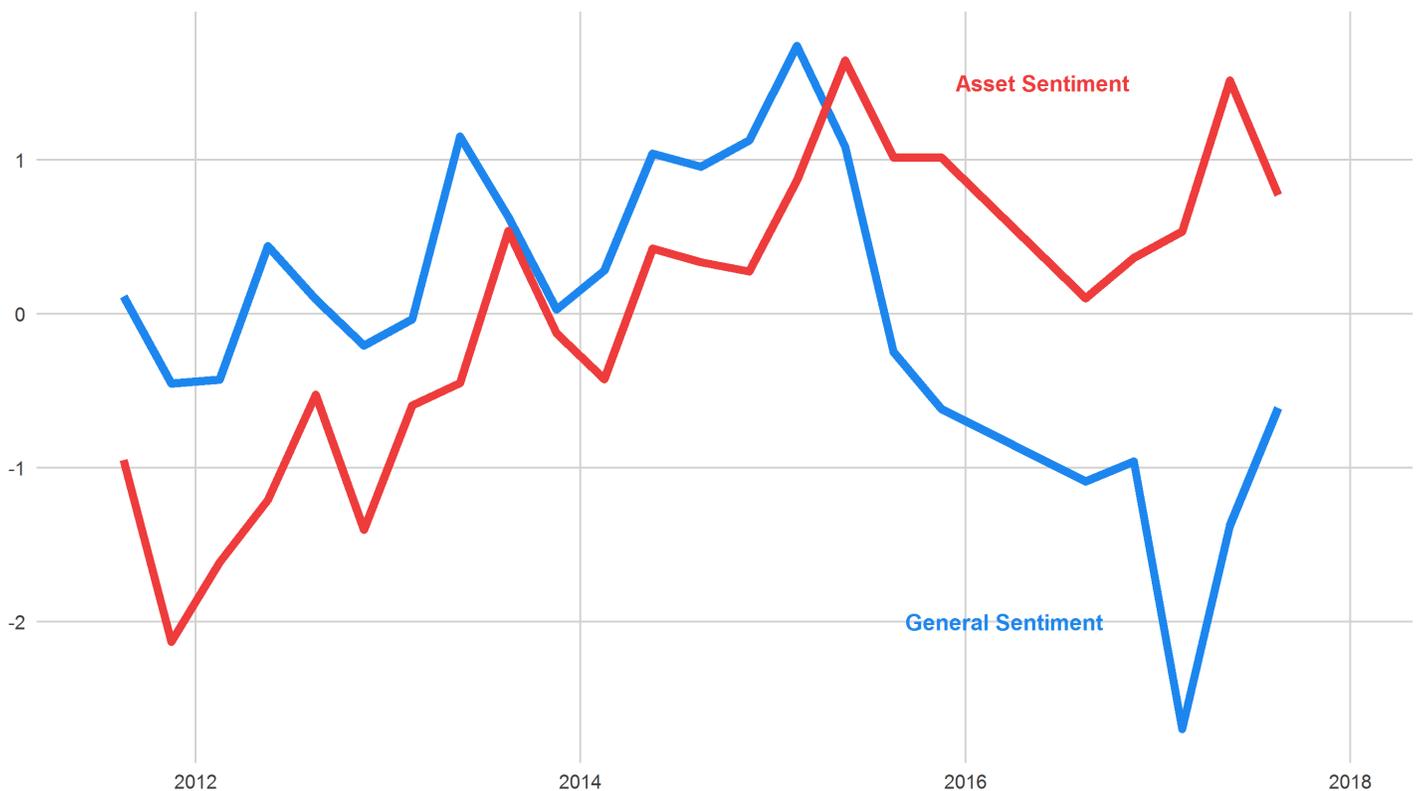
### Time Series Raw Data and Key Market Indices

	February 15, 2017	May 10, 2017	% Change
PREC Survey Index   Last Three Months	48.73	54.43	11.69%
PREC Survey Index   Next Three Months	46.48	52.99	14.00%
10-year Treasury	2.51%	2.41%	
Dow Jones Industrial Average	20,504	20,943	

### Dimensions of PREC Sentiment

The Sentiment Questions largely move in two dimensions: (1) General Sentiment: all questions are optimistic or pessimistic, and (2) Asset Sentiment: views on rents and assets are more optimistic than views on the general market, cap rates, and credit availability. General Sentiment has sharply rebounded from its lows in the Sentiment from Winter 2016, while Asset Sentiment has decreased. PREC members are more optimistic than the recent past on the overall market trend, though still fairly pessimistic relative to the last decade. Respondents less believe that the market will continue to disproportionately favor assets.

### Centered Dimensions of Predicted Sentiment

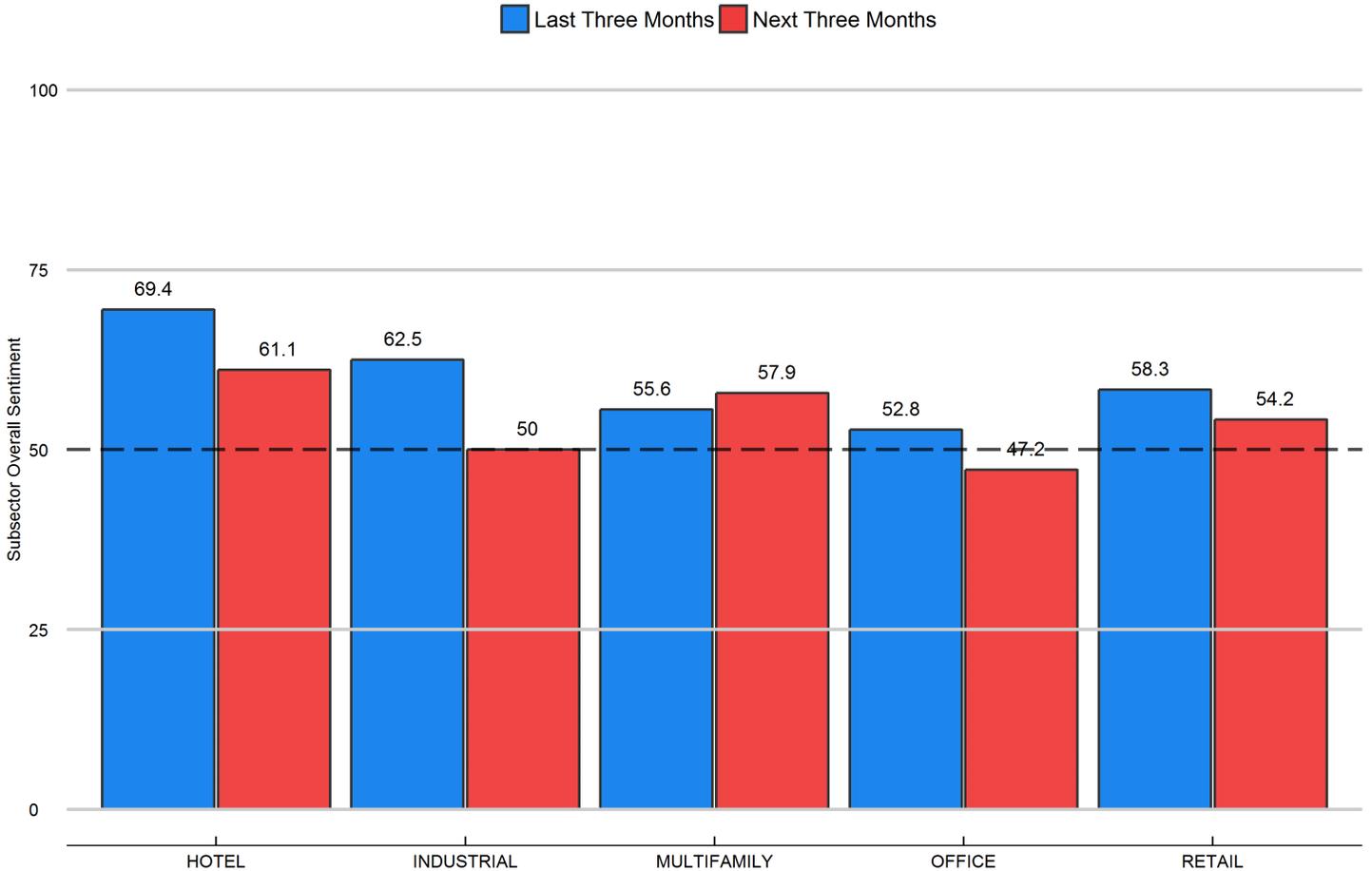


## Results and Analysis: Summer 2017

### Responses Based on Sector

For the first time in this quarter, we collected data on respondents' subsector. Interestingly, every subsector is less optimistic looking forward than backward except for Multifamily, with Office Sector having the lowest sentiment for the next quarter. For the next quarterly meeting, we will be able to use these sector-level insights to better identify the relationship between PREC member sentiment and market changes.

#### PREC Survey Response Summary Summer 2017, Subsectors



#### Sector Insights

This index represents industry sentiment toward the Mid-Atlantic real estate market at the beginning of Summer 2017. As we mentioned in our previous report, the index has been experiencing an uptick in sentiment. It remains difficult to pinpoint exact causes for the uptick in positive sentiment; however, we speculated the following factors in our last report which may have added to the ongoing turbulence: expensive construction costs, implications tied to the new Administration and deregulation, a positive outlook for the U.S. economy met with uncertainty, and future outlook on foreign capital.

## Sector Insights

In the three months leading up to this sentiment survey, we have seen a number of trends influence commercial real estate at both the local and national level. Here are projected outlooks for each sector type.

- **Multifamily Sector:** Multifamily was the only sector to have a higher sentiment for the next three months compared to the last three. This could be due to a number of factors such as lower operating and energy costs in the Summer and healthy demand in the market. However, high construction costs still haunt the sector.
- **Office Sector:** The office sector experienced the most pessimistic outlook among sector types. As office tenants continue to shrink their footprints, and the incoming delivery of new product threatens existing traditional supply in the Mid Atlantic Region.
- **Hotel Sector:** Respondents in the hotel sector showed very positive sentiment when looking both backward and forward. However, there is a surge of completions due in the coming months which could potentially cause a decline in annual occupancy throughout the region.
- **Industrial Sector:** Over the past few months, the industrial sector saw rising rents and low vacancy rates due to the rise of e-commerce and 3PL operations. However, some are speculative as to how the large amount of square footage under construction will impact rental rates.

As stated above, there is no single explanation for the uptick in sentiment over the past few months. Though there is still uncertainty, real estate fundamentals in the Mid-Atlantic and beyond remain stable and it is clear that PREC members are noticing this.

- **Tatiana Swedek**, Associate Director of Communication, PREC &  
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