Outlook for Philadelphia Region’s CRE Market

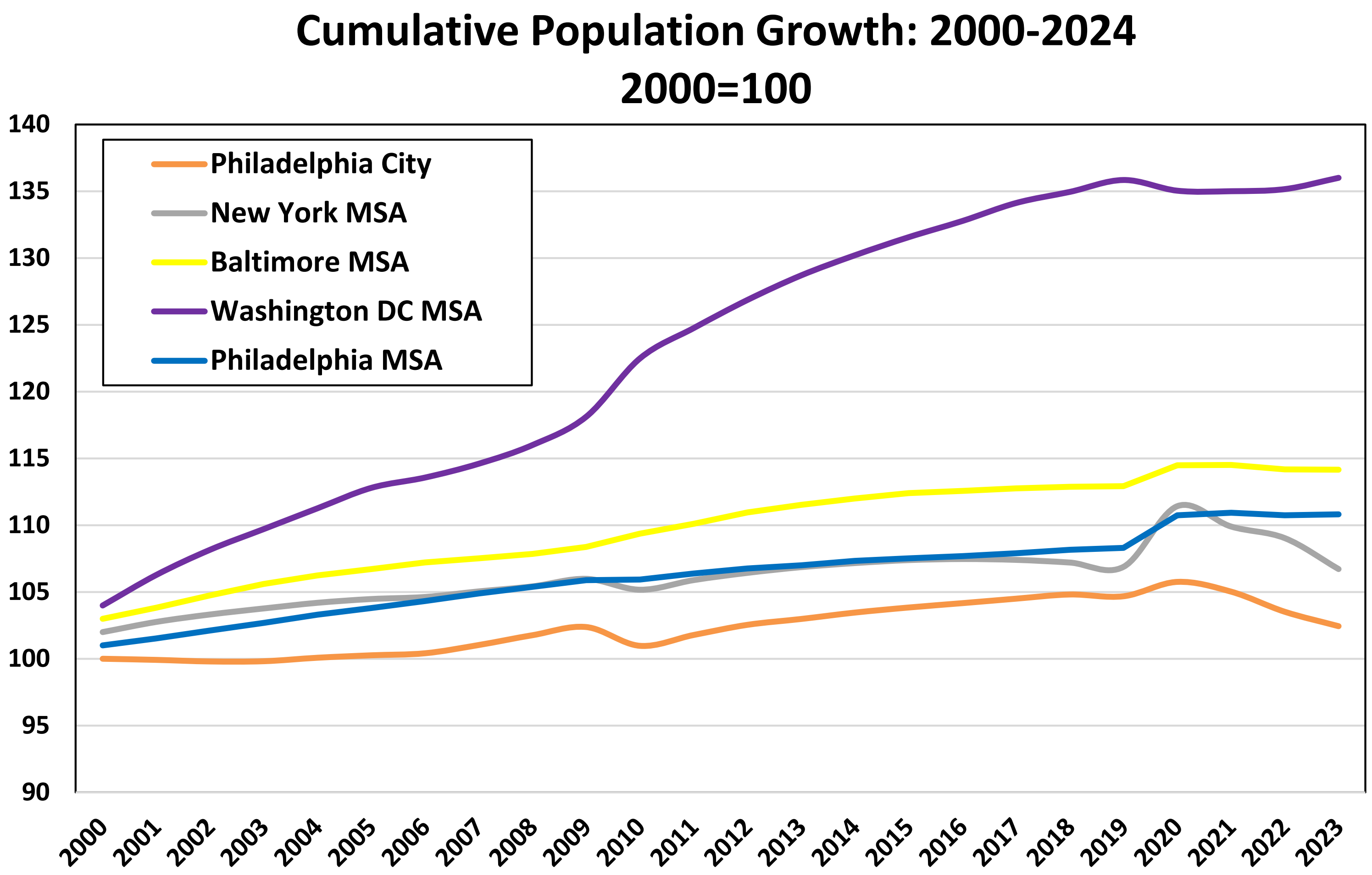
Kevin C. Gillen Ph.D., February 2025

COVID HAS LEVELLED OFF URBAN POPULATION GROWTH

Cumulative Population Growth: 2000-2024

Source: US Census

- Unlike the previous (Great) recession, the COVID recession has had a longer-lasting impact on urban population growth.



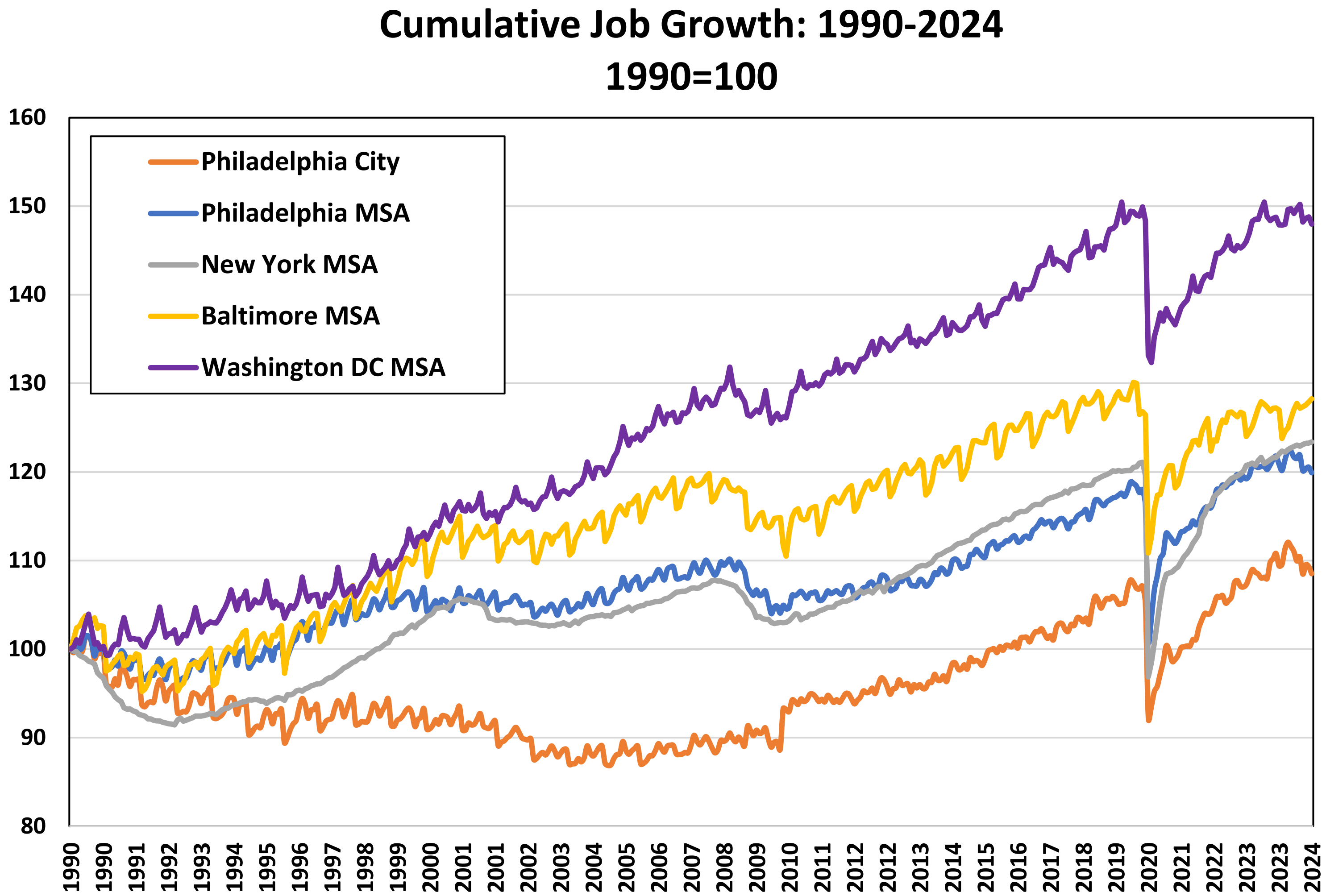
*Only arms-length transactions between private sector entities were included in these numbers

JOB GROWTH HAS BEEN RECOVERING FROM COVID

Cumulative Job Growth: 1990-2024

Source: US BLS

- Philadelphia has resumed its pre-COVID path of job growth.



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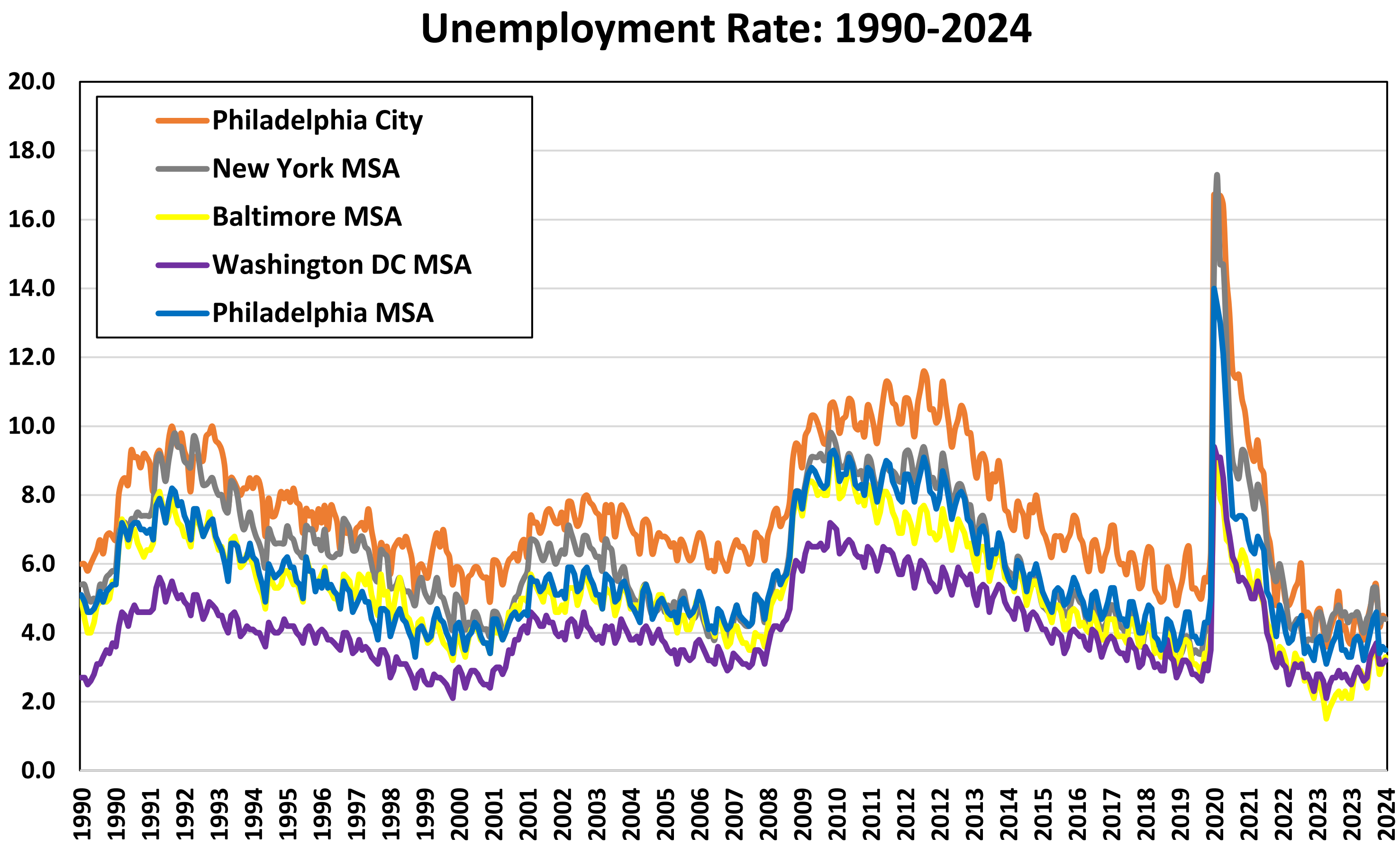
CURRENT EMPLOYMENT REMAINS STRONG

Unemployment Rate: 1990-2024

Source: Public Records, Bright MLS

- Unemployment remains near record lows.
- Underemployment or chosen unemployment are reasons.
- But, is not providing any reason for the Fed to lower rates.



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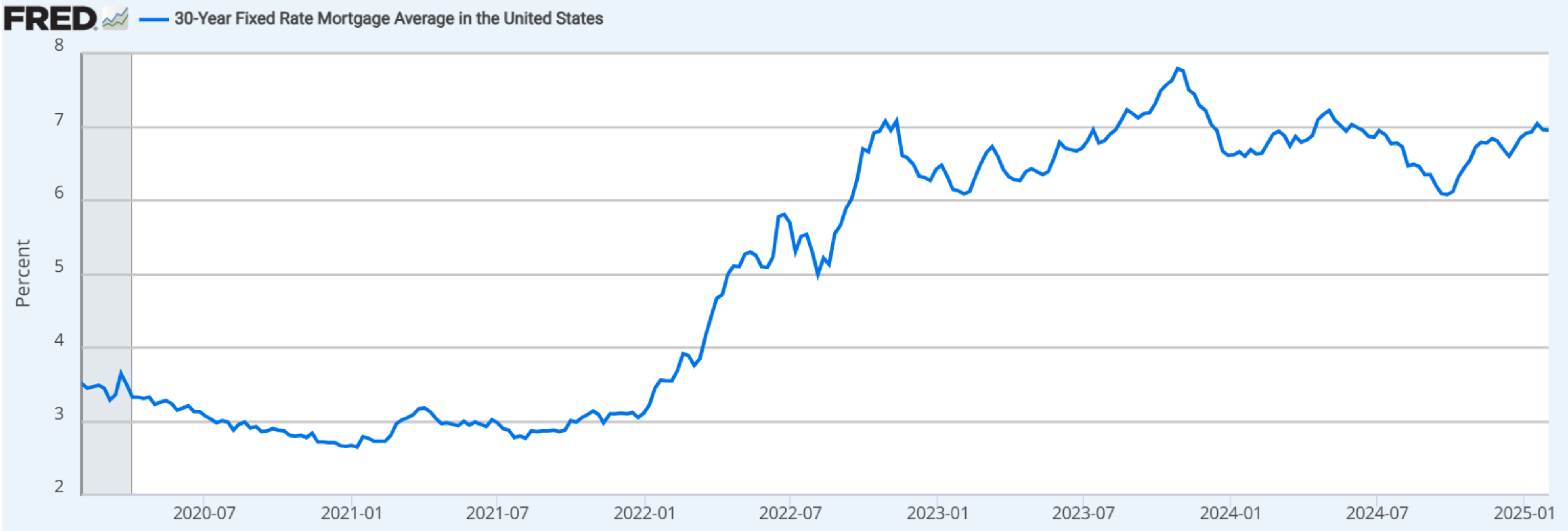
INTEREST RATES REMAIN ABOVE THEIR COVID-LEVEL LOWS

30-Year FRM: 2020-2024

Source: Freddie Mac



- The 30-year FRM has persistently hovered ~7% for several years now.

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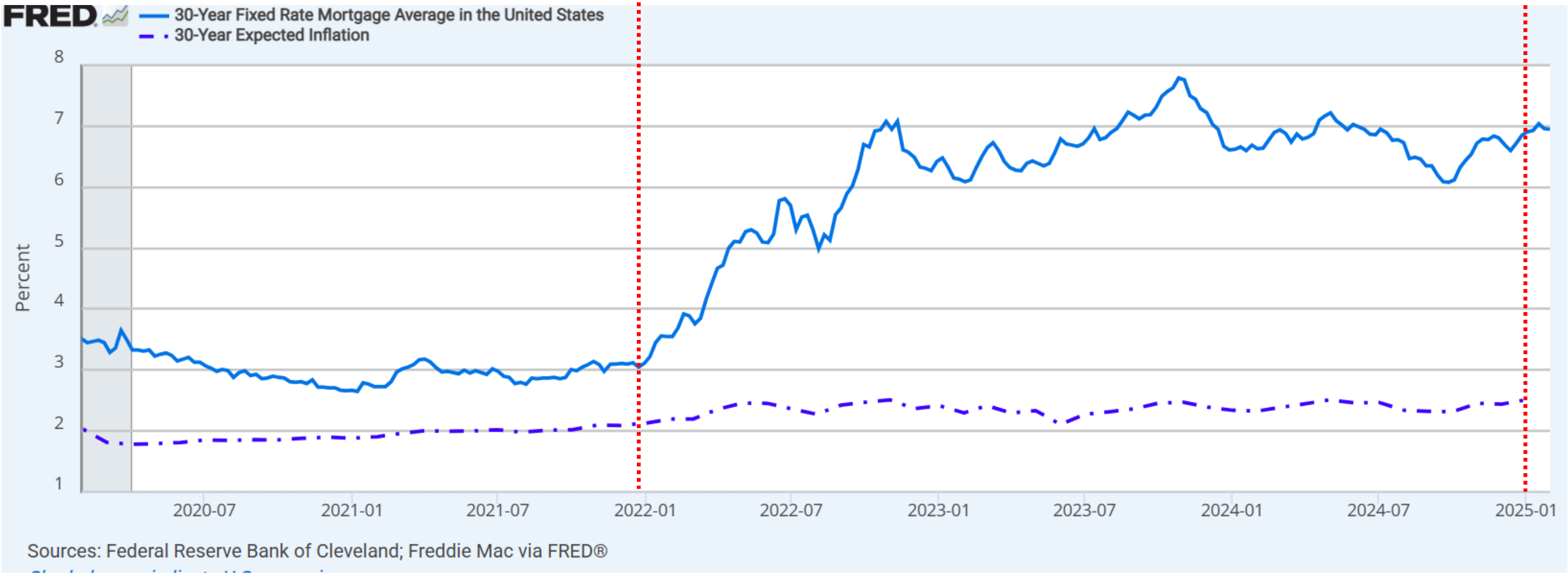
INTEREST RATES V INFLATION

30-Year FRM v. Inflation Expectations: 2000-2024

Source: Freddie Mac, Federal Reserve



- >2% Inflation is the Fed's trigger to either raise or lower rates.

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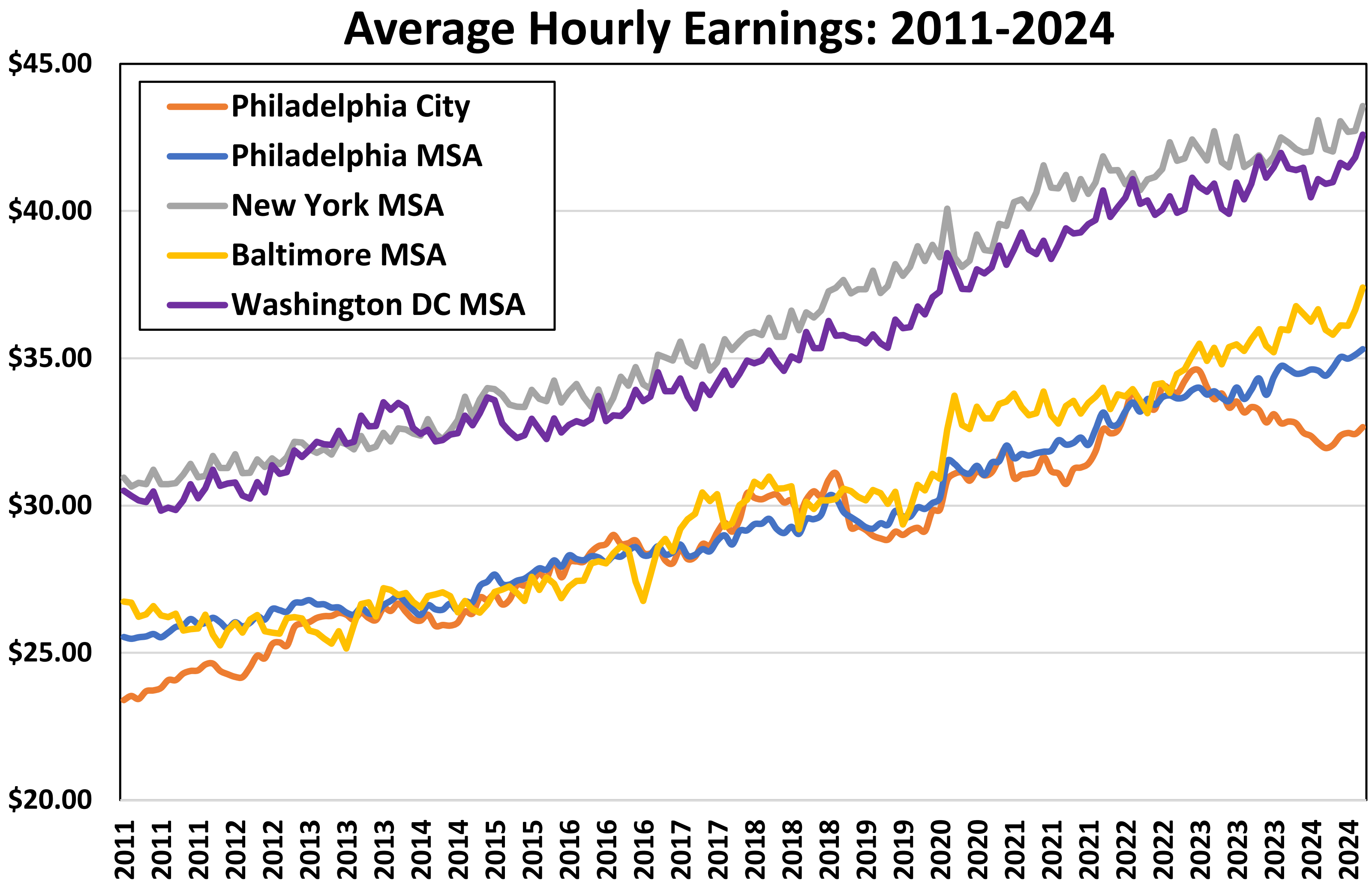
INCOME GROWTH

Average Hourly Earnings: 2011-2024

Source: US BLS

- Philadelphia (City) still struggles to recover from Covid.



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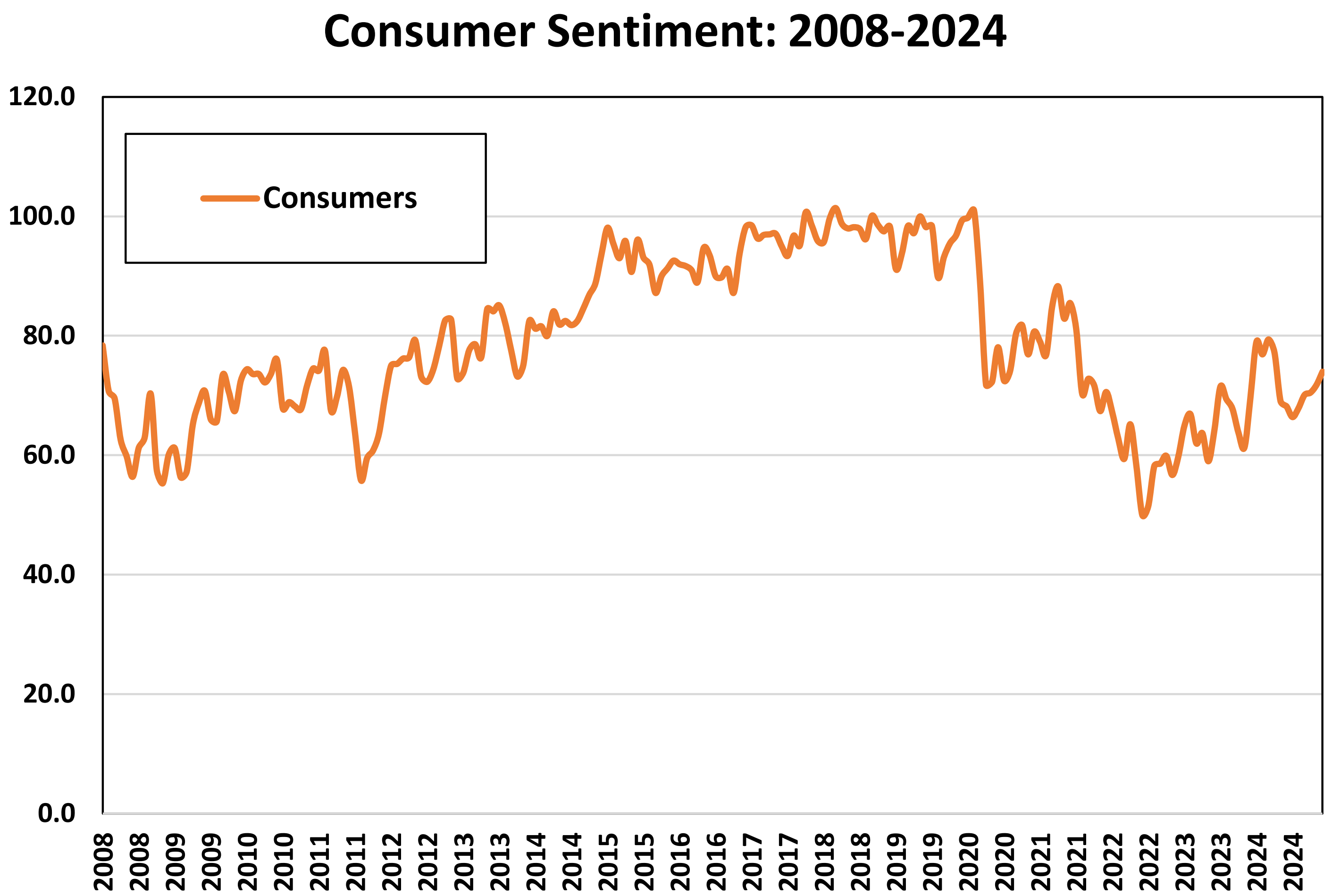
CONSUMER SENTIMENT

Consumer Sentiment: 2008-2024

Source: U Michigan

- After trending upwards for years, consumer sentiment fell by 50% during Covid.
- It has since recovered only ~1/3 of its loss.



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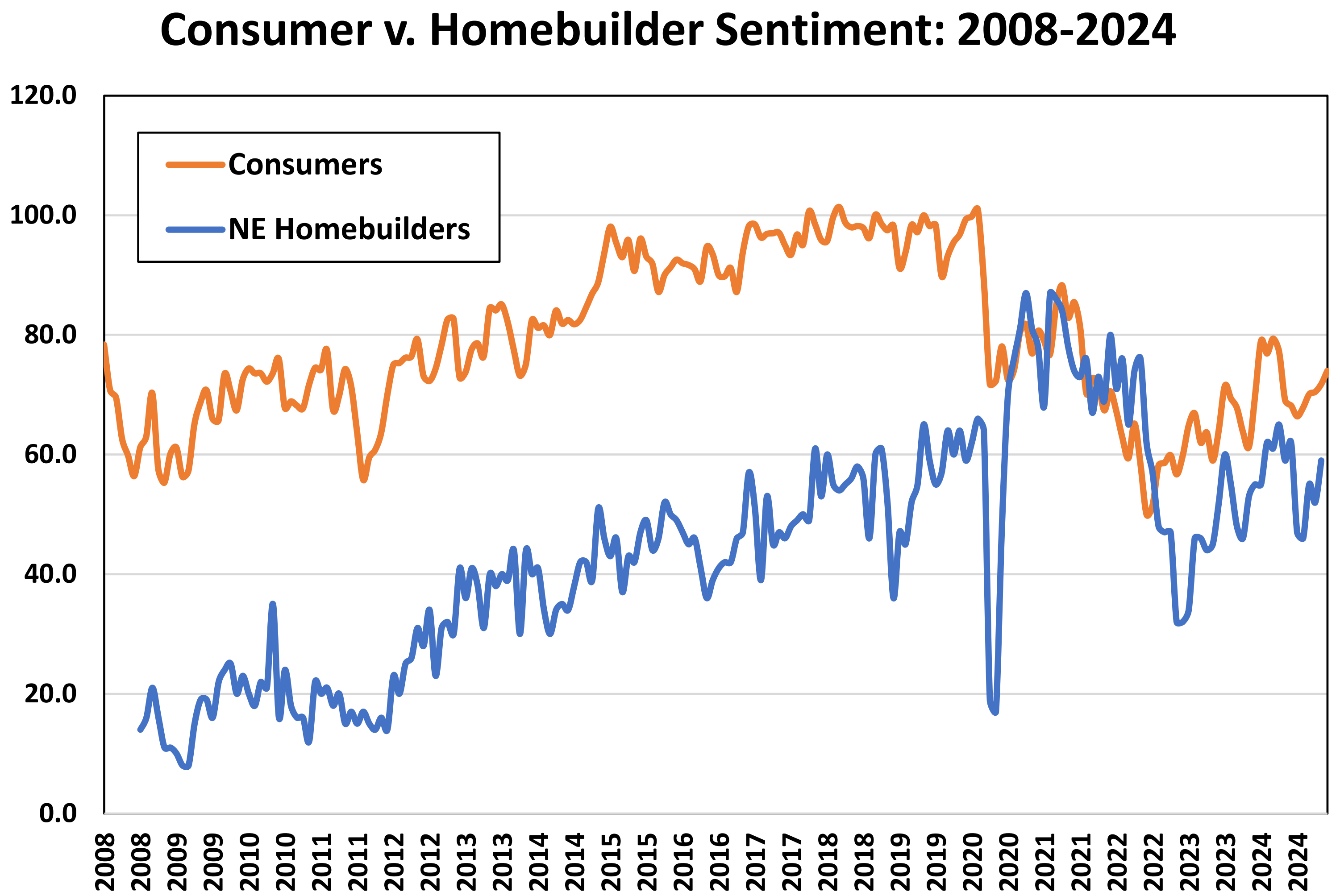
CONSUMER V. HOMEBUILDER SENTIMENT

Consumer v. Homebuilder Sentiment: 2008-2024

Source: U Michigan, NAHB

- Homebuilders had an opposite reaction to Covid than Consumers.



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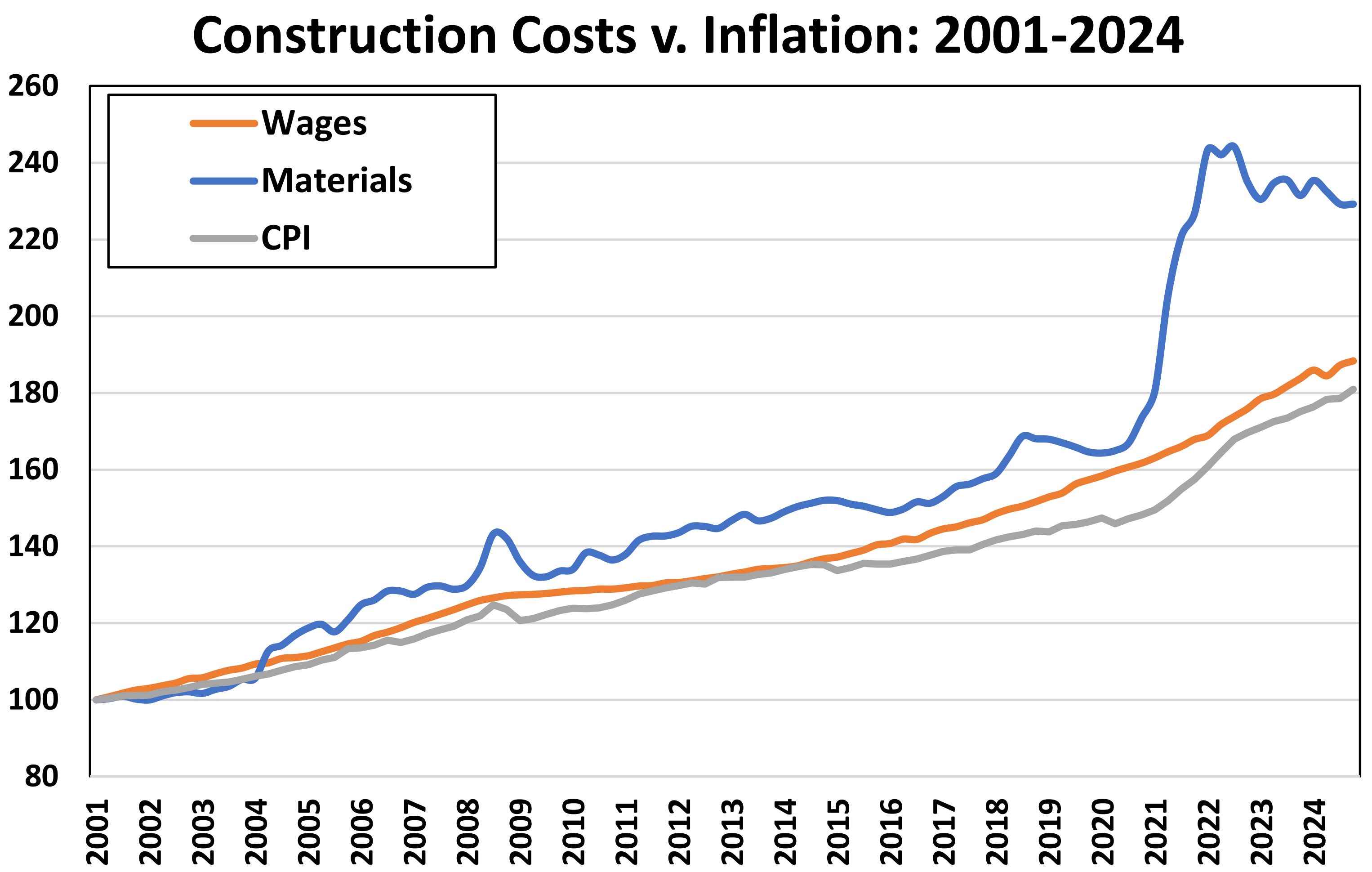
CONSTRUCTION COSTS

Construction Costs v. Inflation: 2001-2024

Source: US BLS

- Labor costs have historically tracked inflation.
- But materials costs have skyrocketed!



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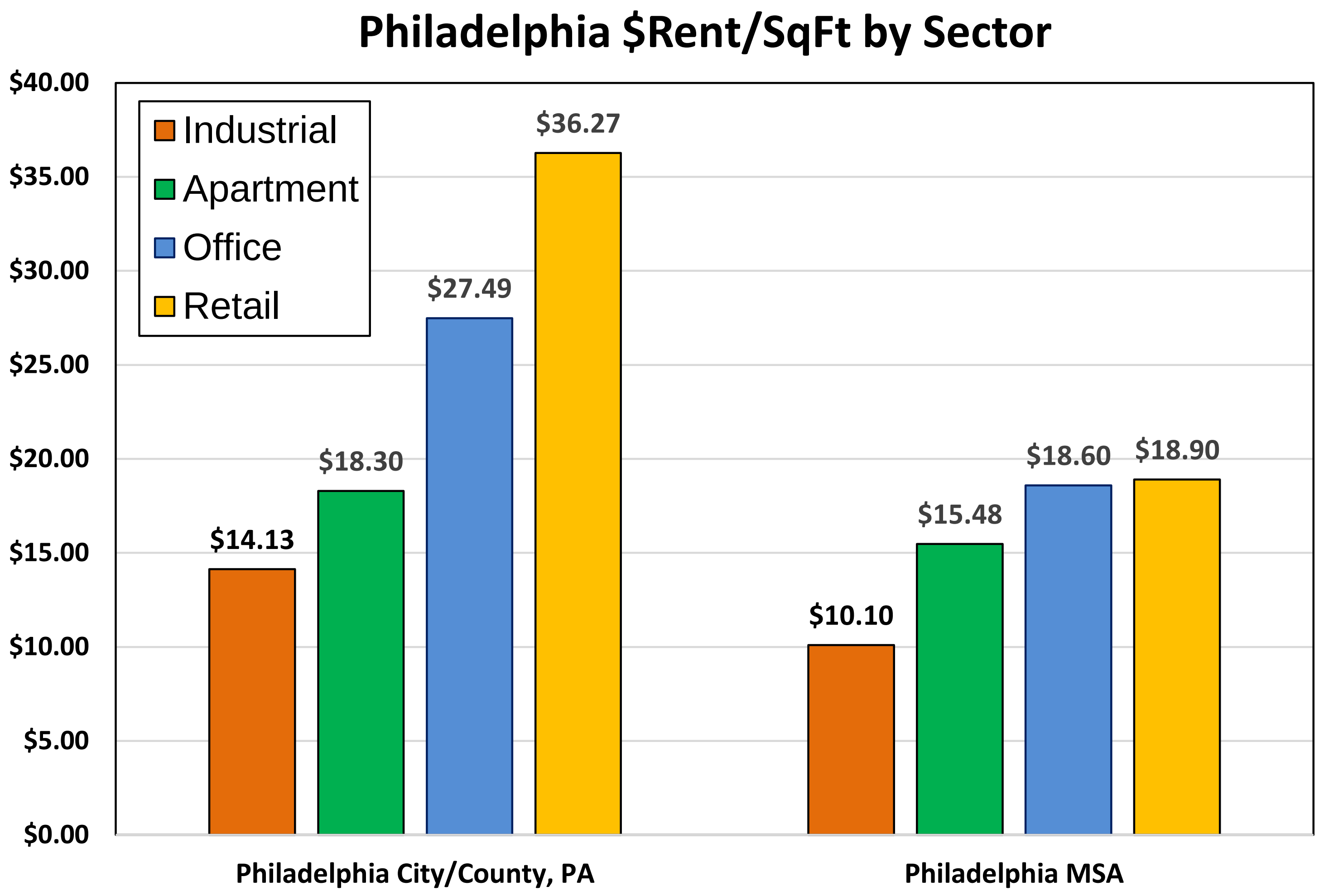
COMMERCIAL RENTS

Commercial Rents by Sector: 2025

Source: Green Street Advisors

- The city has greater variation in rents than the suburbs.
- It also tends to be higher.



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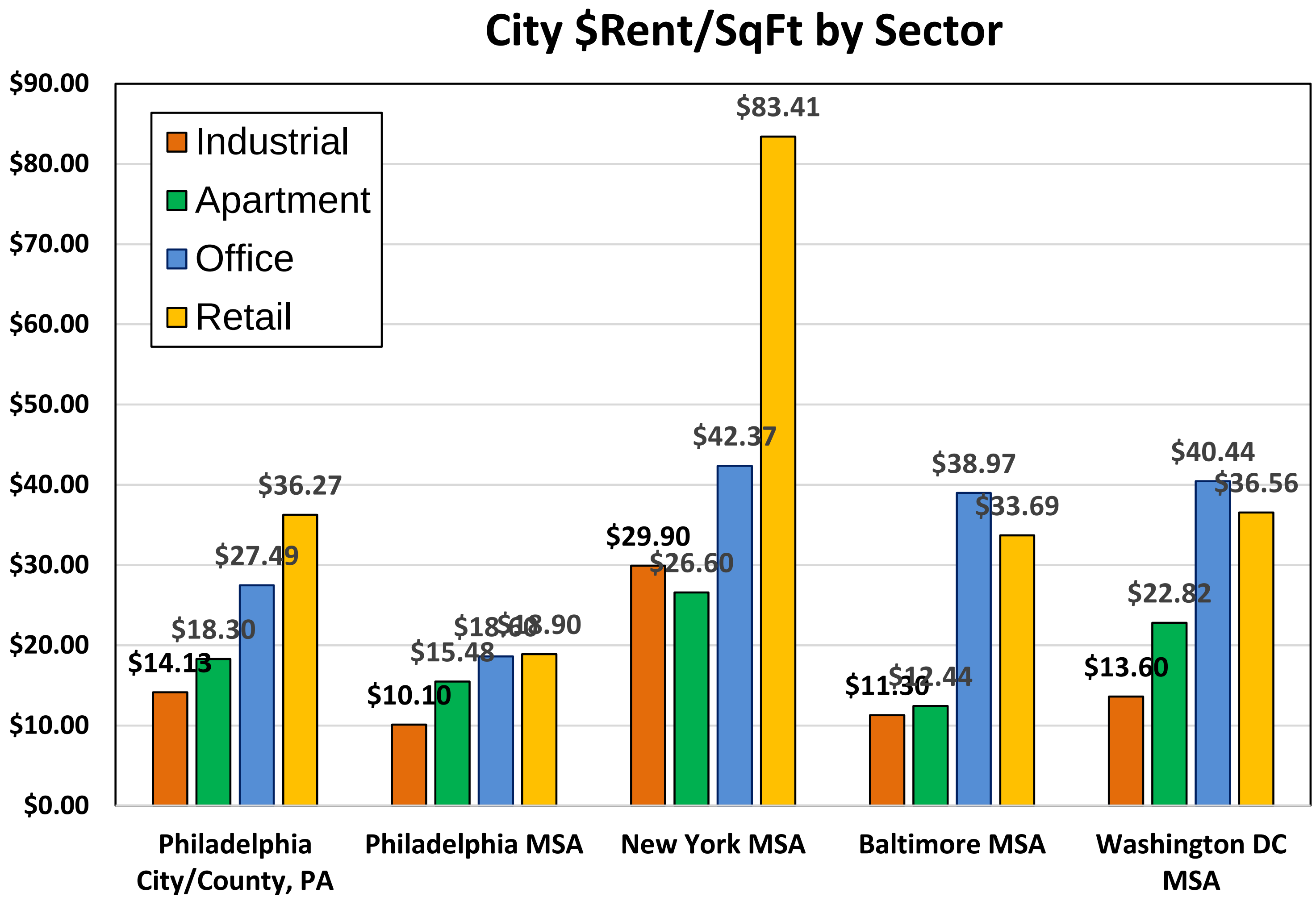
COMMERCIAL RENTS

Commercial Rents by Sector: 2025

Source: Green Street Advisors

- New York is the Mid-Atlantic outlier of rents.
- But, Philadelphia (City) is generally in line with the other two metro areas.



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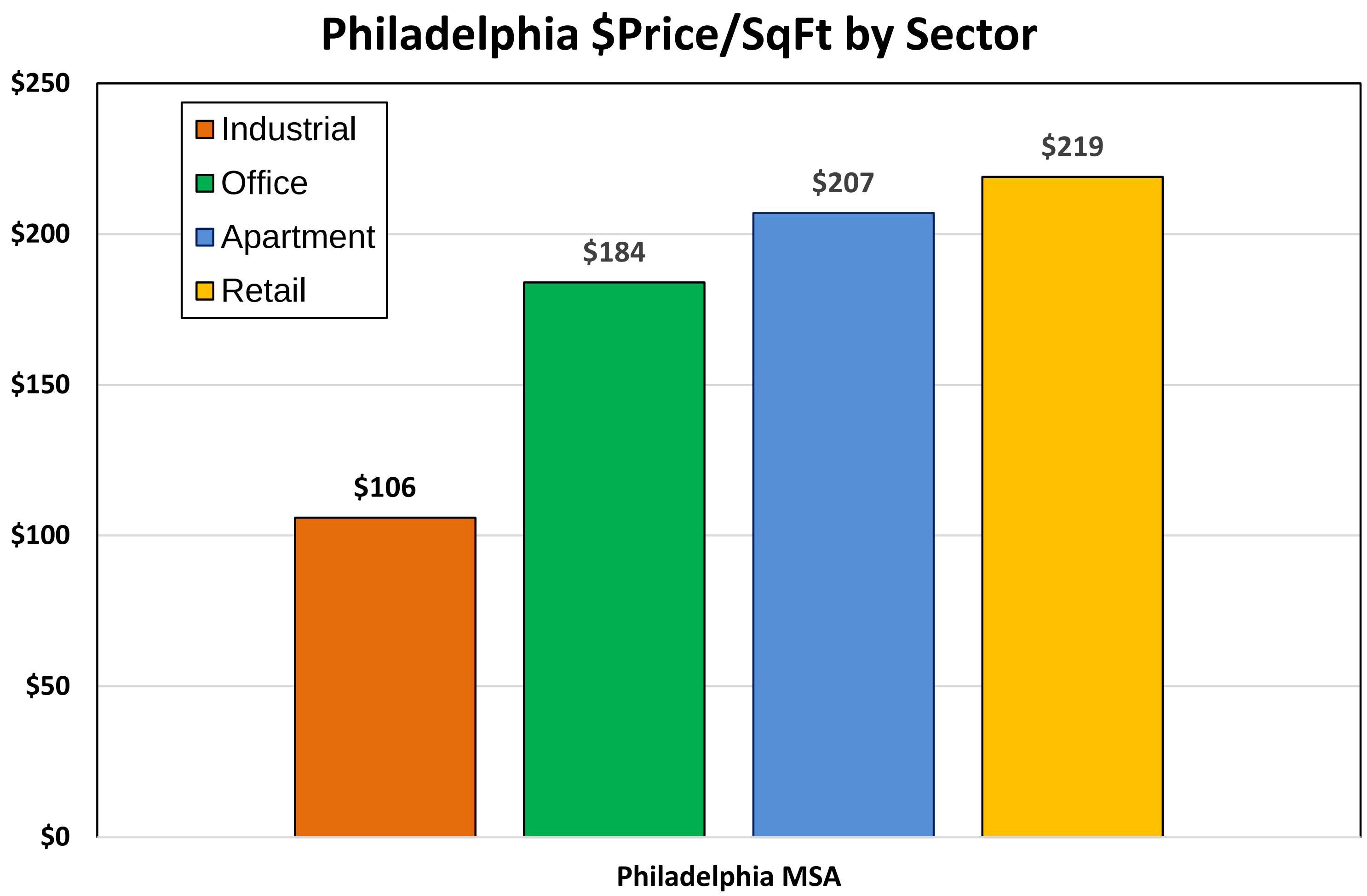
COMMERCIAL PRICES

Commercial Prices by Sector: 2025

Source: Green Street Advisers

- Covid has significantly impacted real estate prices…both their values and ranking.



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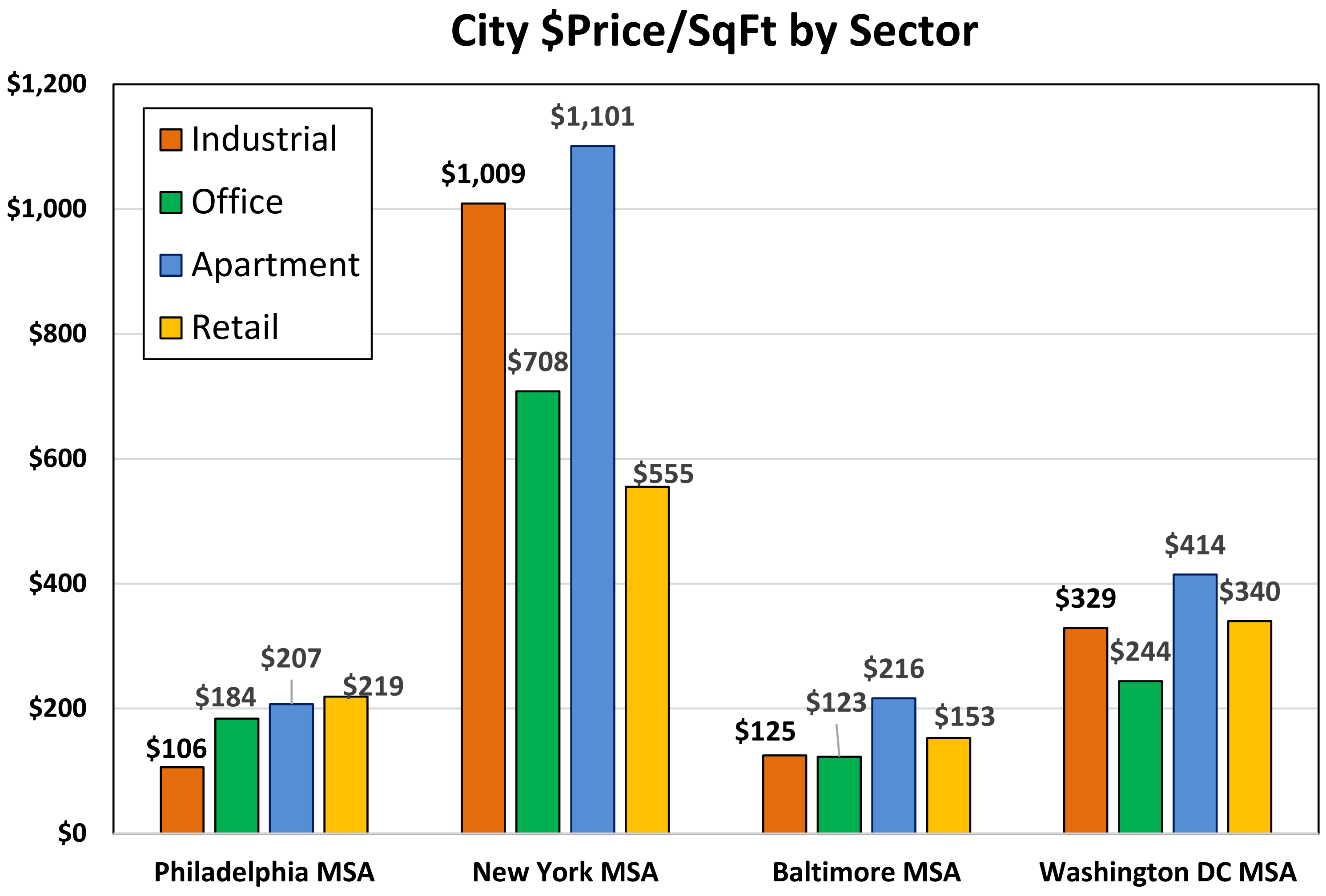
COMMERCIAL PRICES

Commercial Prices by Sector: 2025

Source: Green Street Advisers

- New York is still the big outlier.



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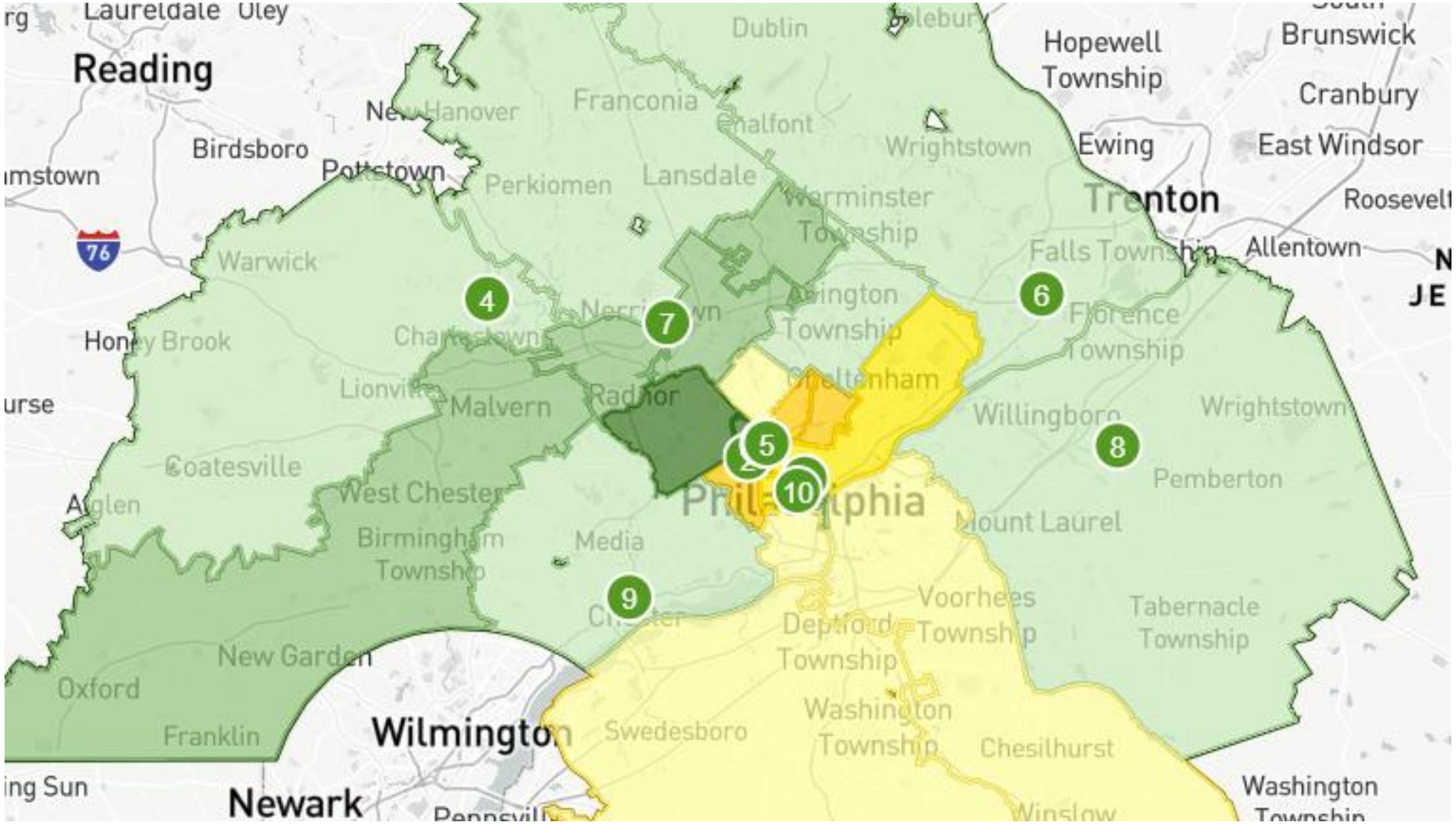
RECENT SALES

Apartment Comps

Source: Green Street Advisors

- Average Price=$197,000/unit

Index	Address	Price
1	1522 W Girard Ave, Phila, PA	$181,250/unit
2	2201 Bryn Mawr Ave, Phila, PA	$220,779/unit
3	3901 Conshohocken Ave , Phila, PA	$109,571/unit
4	723 Wheatland St, Phoenixville, PA	$241,463/unit
5	3701 Conshohocken Ave, Phila, PA	$140,993/unit
6	2180 Veterans Hwy, Levittown, PA	$106,908/unit
7	349 Chilton Ct, Plymouth Meeting, PA	$363,636/unit
8	1 Kirby Ct, Mount Holly, NJ	$311,111/unit
9	300 Barrington Ct, Mount Holly, NJ	Unknown
10	322 E 23rd St, Chester, PA	$94,203/unit



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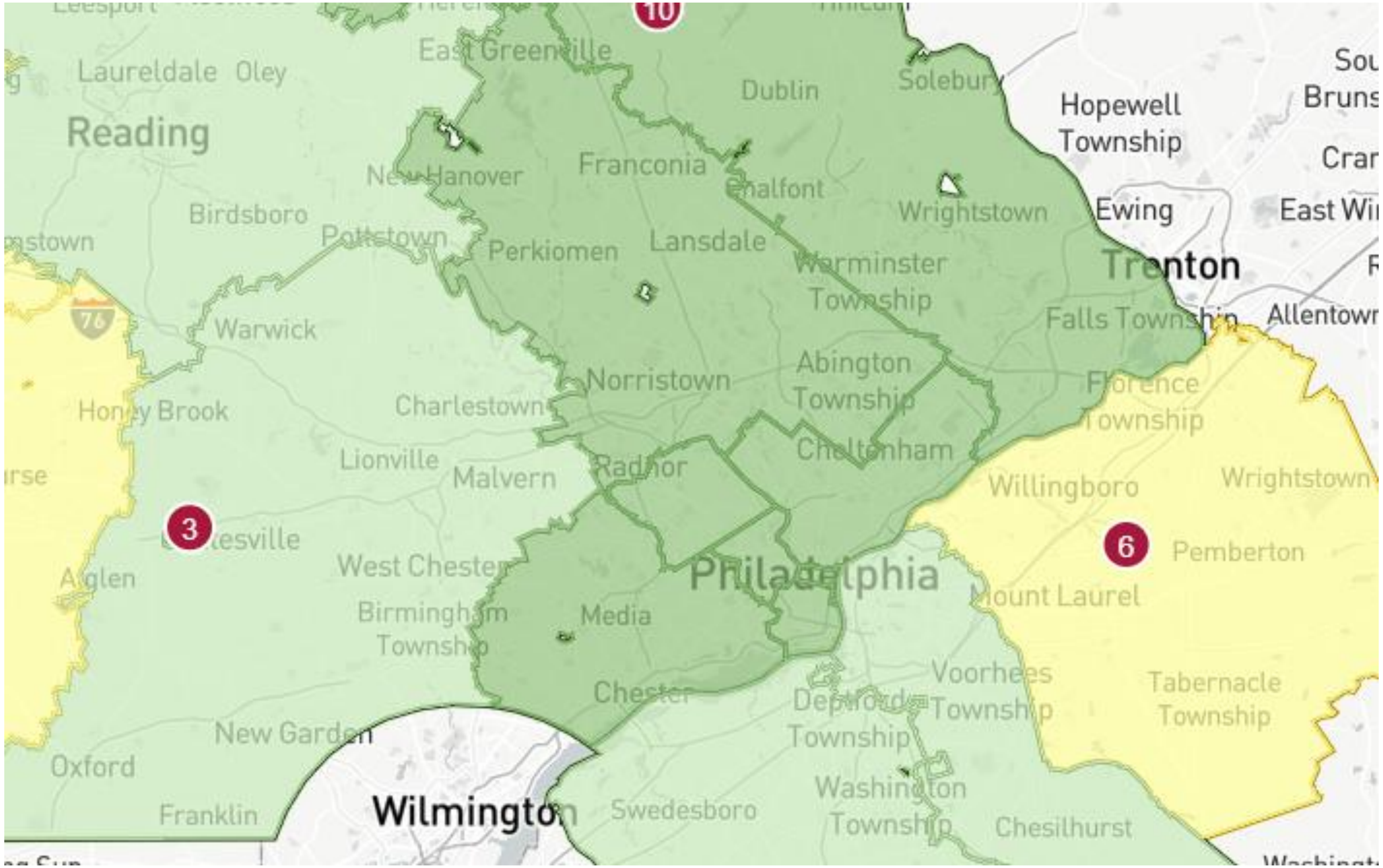
RECENT SALES

Industrial Comps

Source: Green Street Advisors

- Average Price=$106/SqFt

Index	Address	Price/SqFt
1	119 Technology Dr, Bethlehem, PA	$115
2	7649 Penn Dr ; Allentown, PA	N/A
3	440 Highland Blvd, Coatesville, PA	$119
4	465 Railroad Ave, Shiremanstown, PA	$45
5	241 N Plum St, Lancaster, PA	$178
6	8 Berry Dr, Lumberton, NJ	N/A
7	7600 Linglestown Rd, Harrisburg, PA	$13
8	315 Columbia Street, Bethlehem, PA	$237
9	560 Busser Road, Yorkana, PA	N/A
10	45 Fourth Street, Quakertown, PA	$35



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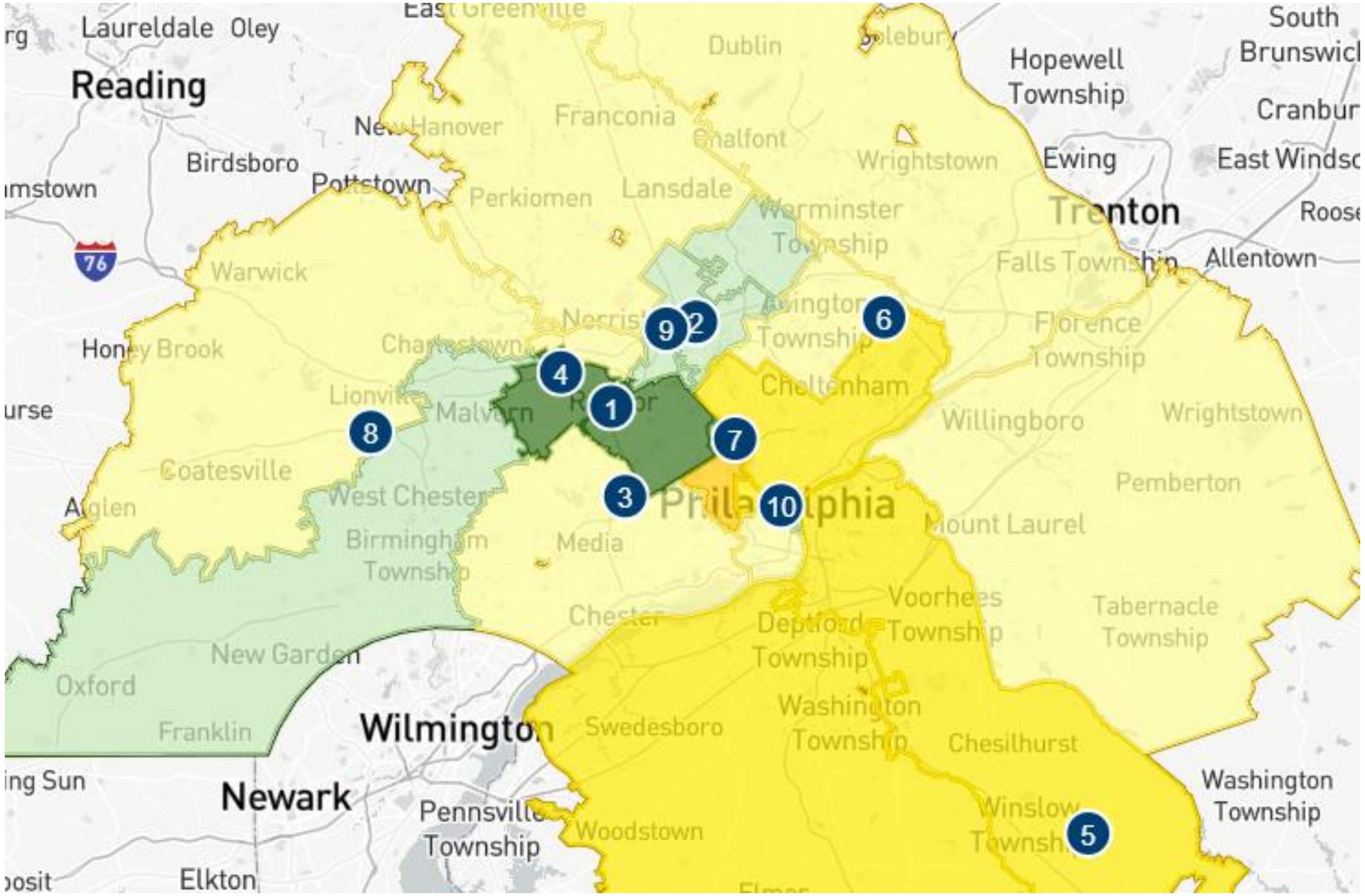
RECENT SALES

Office Comps

Source: Green Street Advisors

- Average Price=$184/SqFt

Index	Address	Price/SqFt
1	259 N Radnor Chester Rd, Wayne, PA	$286
2	5168 Butler Pike 5200 Butler Pike Plymouth Meeting, PA	$175
3	401 Parkway Drive Broomall, PA	$345
4	435 Devon Park Drive Wayne, PA	$72
5	1 North White Horse Pike Hammonton, NJ	$175
6	Toll Brothers HQ, 3103 Philmont Ave, Huntingdon	$141
7	111 Presidential Blvd, Bala Cynwyd, PA	$123
8	475 Creamery Way Exton, PA	$163
9	521 Plymouth Road, Plymouth Meeting, PA	$134
10	15 South 11th Street Philadelphia, PA	$226



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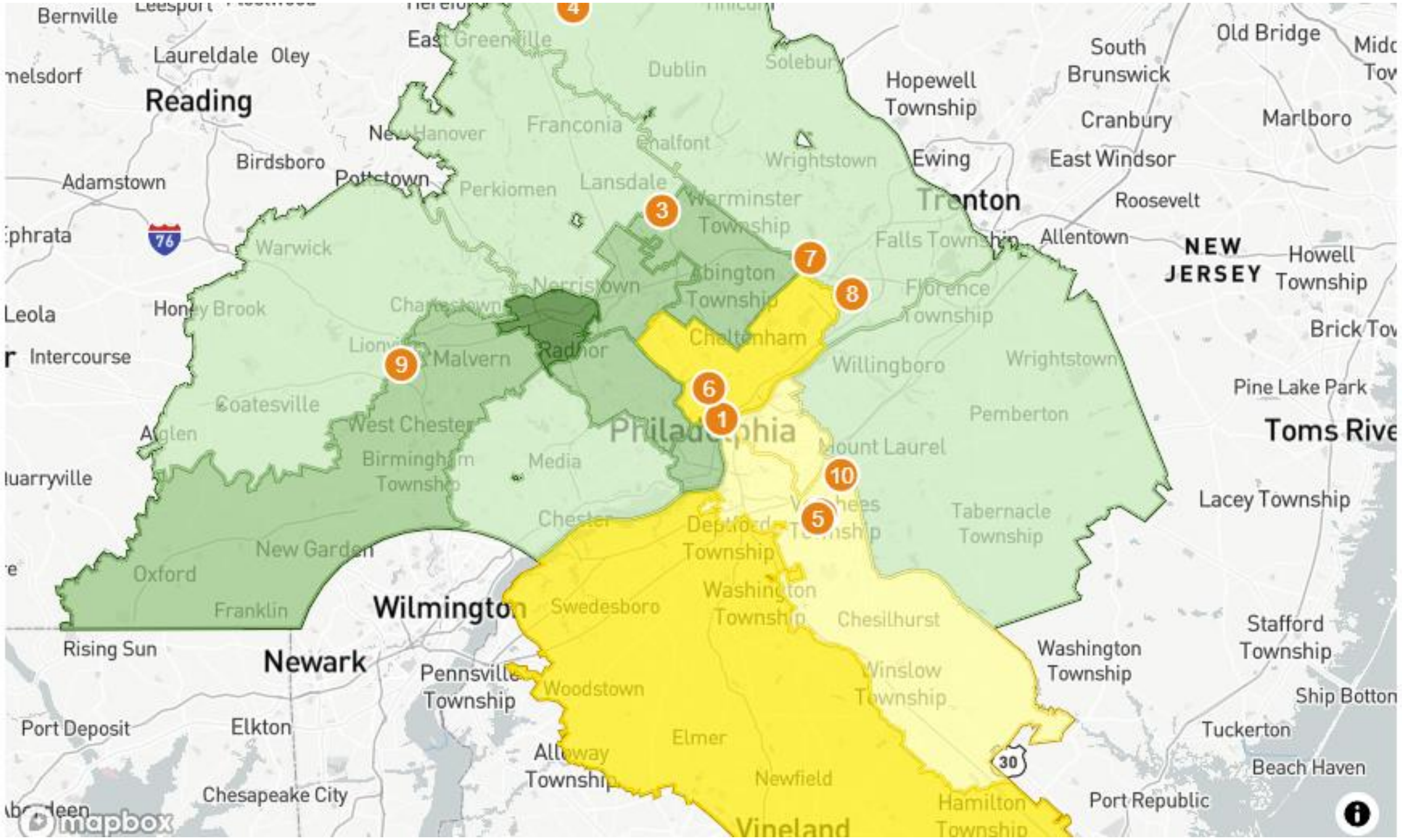
RECENT SALES

Retail Comps

Source: Green Street Advisors

- Average Price=$219/SqFt

Index	Address	Price/SqFt
1	33 East Laurel Street Philadelphia, PA	$514
2	700 Haddonfield-Berlin Rd Voorhees Township, NJ	$183
3	1460 Bethlehem Pike North Wales, PA	$519
4	20 North West End Boulevard Quakertown, PA	$177
5	1120 White Horse Rd Voorhees Township, NJ	$100
6	3216 North Broad Street Philadelphia, PA	$182
7	1045 Bustleton Pike Feasterville-Trevose, PA	$167
8	2161 Galloway Road Bensalem, PA	$118
9	307 Lincoln Highway East Exton, PA	$133
10	1990 Marlton Pike East Cherry Hill, NJ	$99



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SINCE COVID, HOUSE PRICES HAVE RISEN DRAMATICALLY BOTH LOCALLY AND NATIONALLY

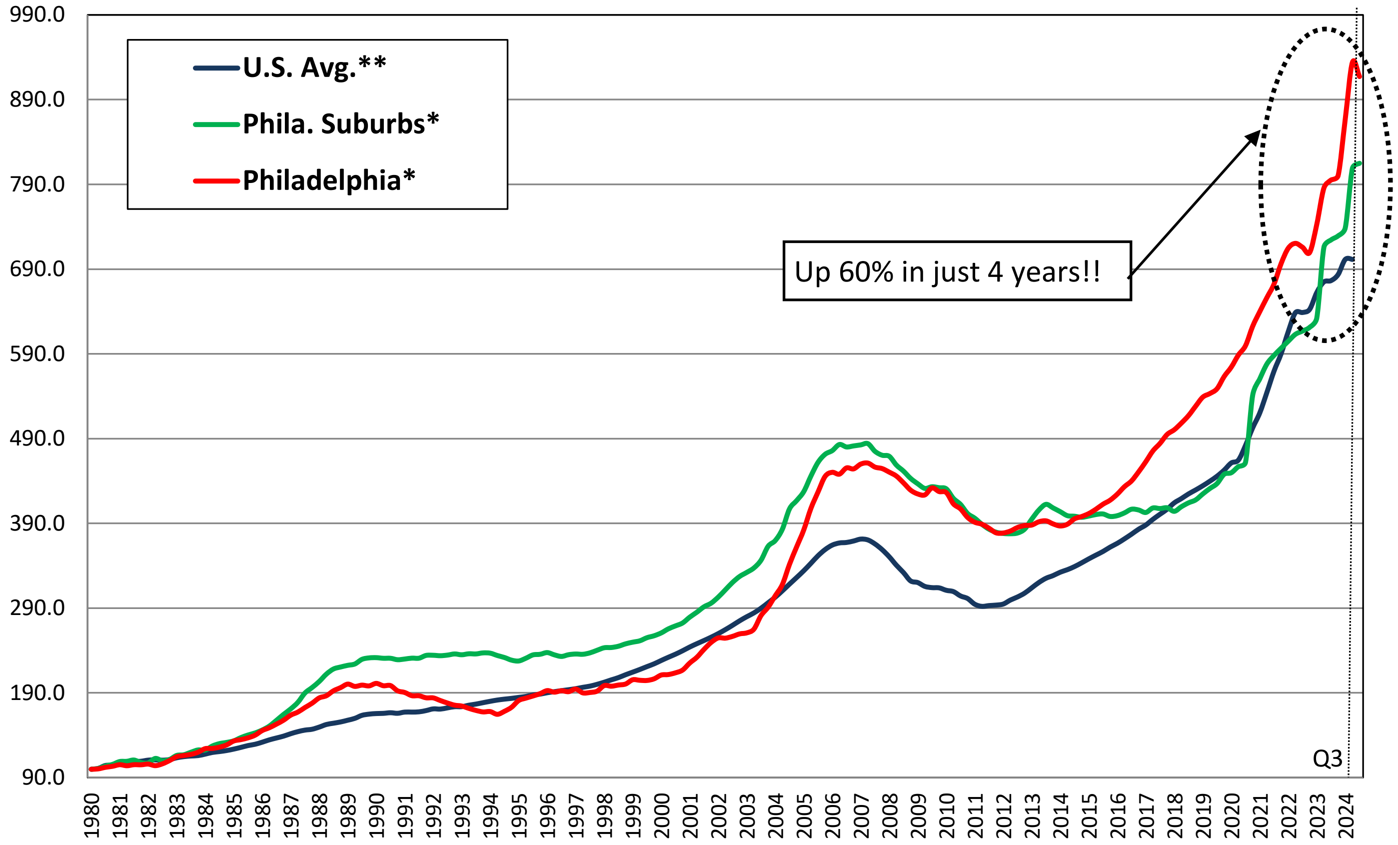
House Price Indices: 1980-2024

Source: Public Records, Bright MLS

- House prices have risen dramatically since Covid:

- Low interest rates (price of credit)
- Low inventories (supply)
- Shift to work-from-home (demand)

Philadelphia Regional House Price Indices 1980-2024
City v. Suburbs v. U.S. Average.: 1980Q1=100



*Empirically estimated by Kevin C. Gillen, Ph.D.

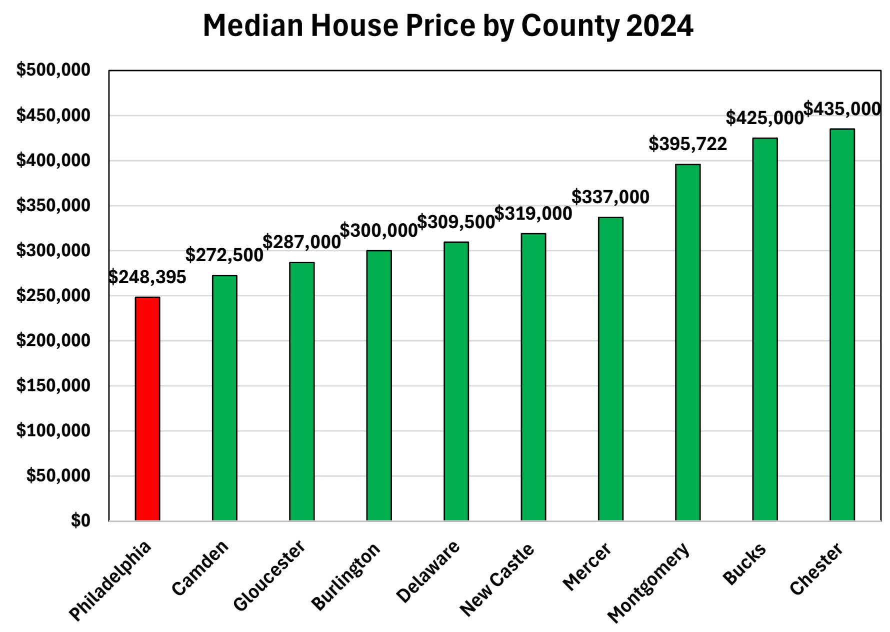
**Courtesy Federal Housing Finance Agency (FHFA)

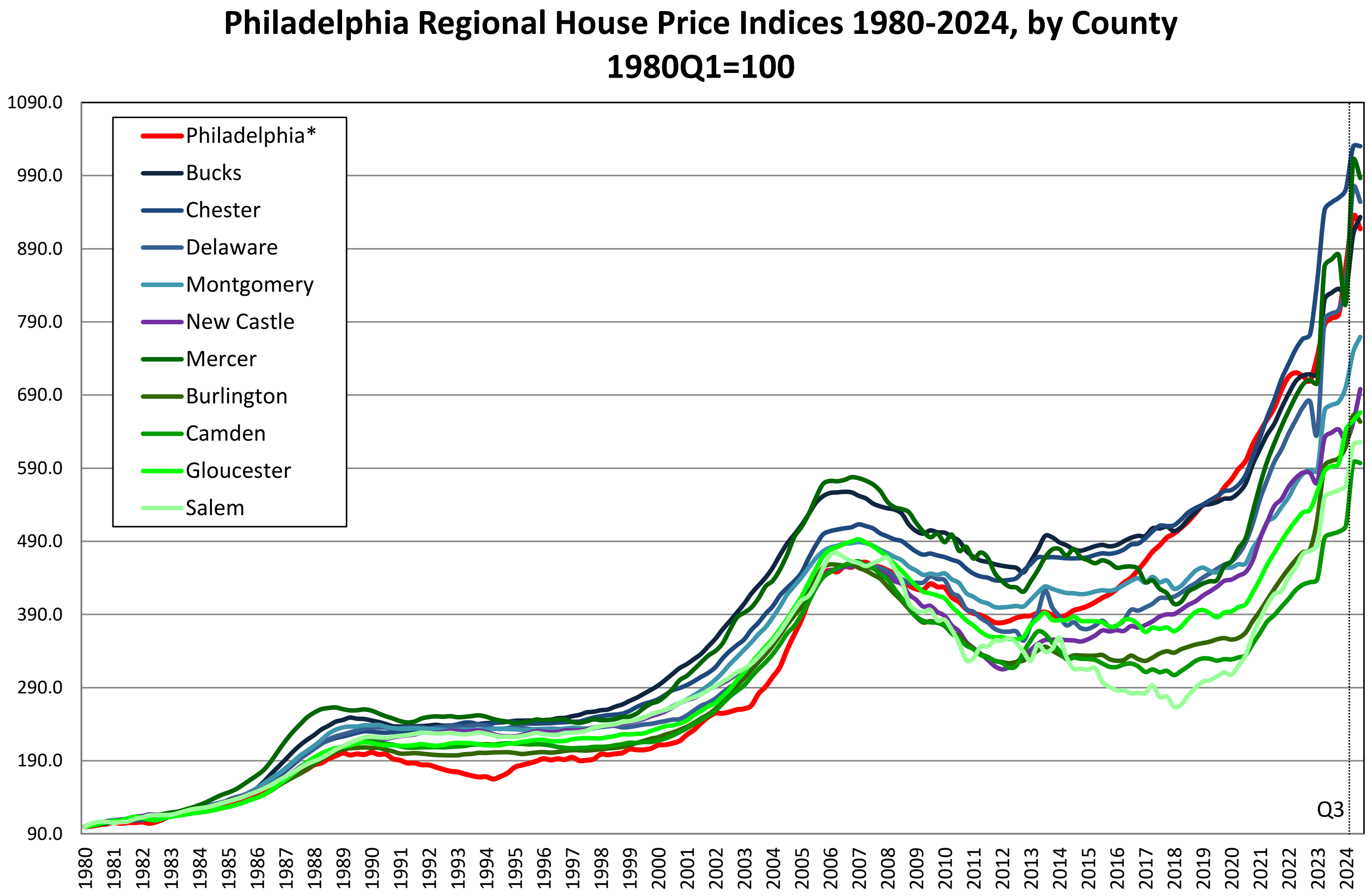
Note: The suburban index includes all counties in the regional index, except for Philadelphia. county.

THE PENNSYLVANIA COUNTIES HAVE GENERALLY OUTPACED THE NJ AND DE COUNTIES

House Price Indices by County: 1980-2024

Source: Public Records, Bright MLS



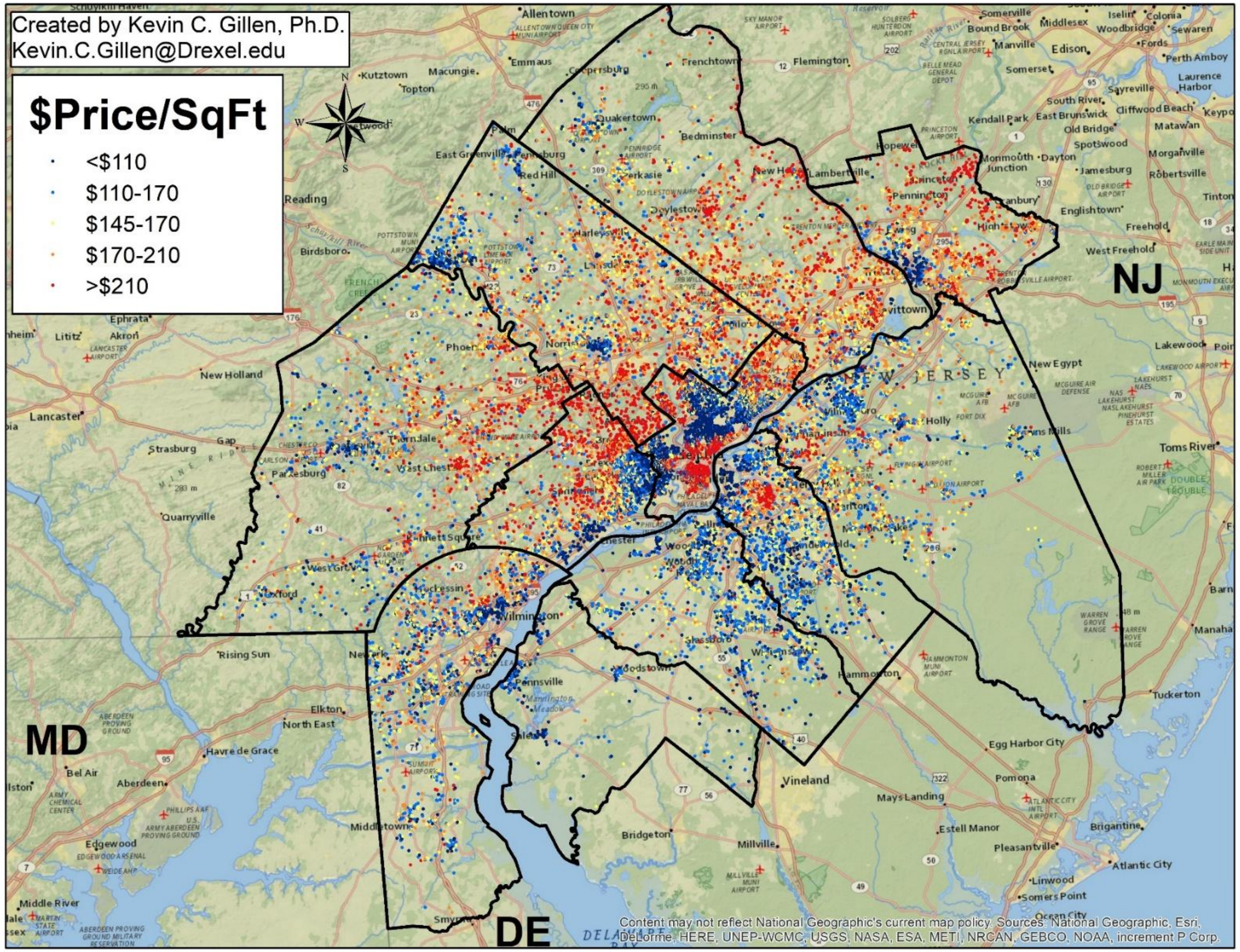


*All indices empirically estimated by Kevin C. Gillen, PhD

SIGNIFICANT SPATIAL VARIATION IN HOUSE PRICES

Regional Home Sales in 2024 Q3 Color-Coded by $Price/SqFt

Source: Kevin C. Gillen, Ph.D.



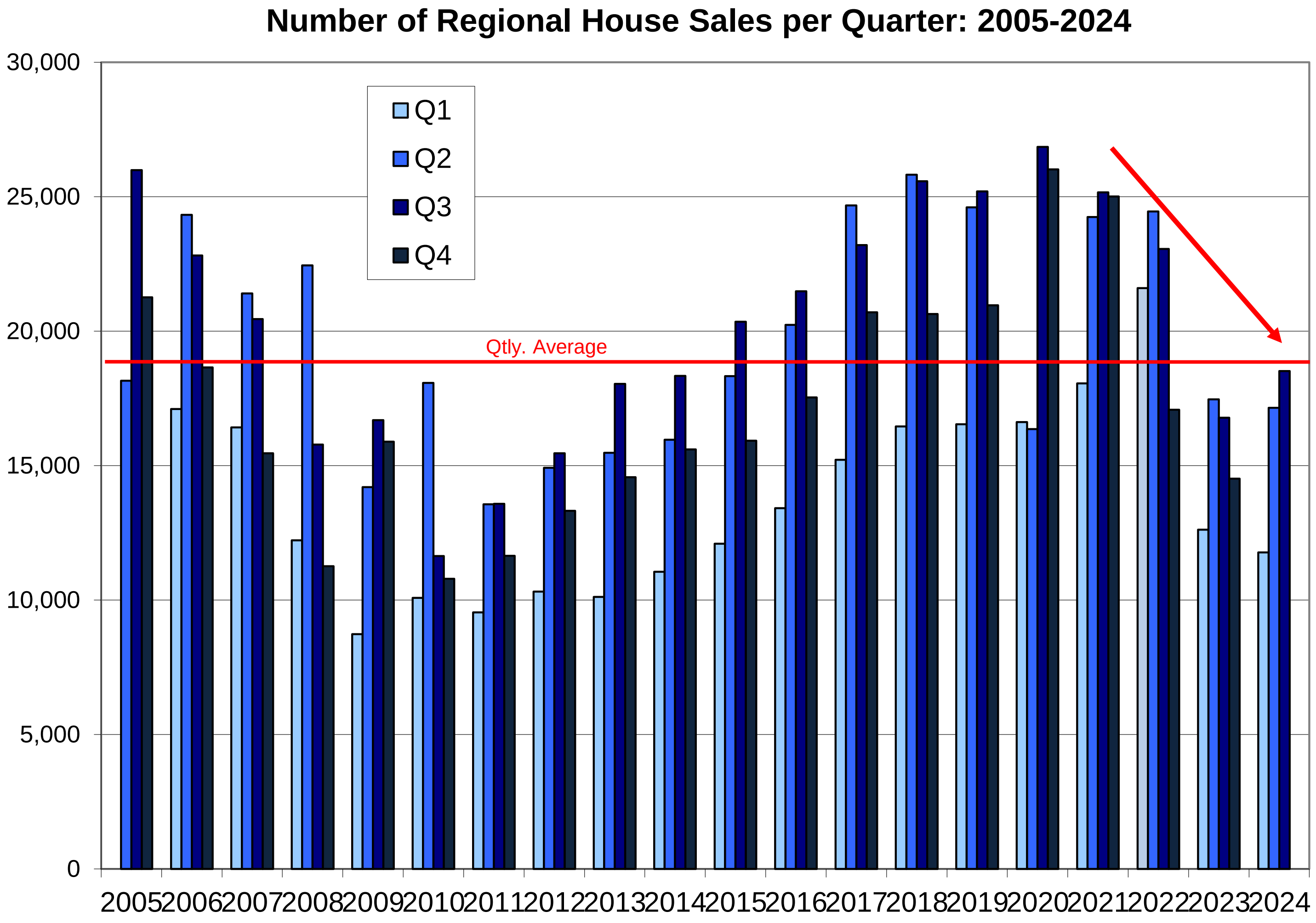
HOME SALES ARE TRENDING DOWN

Arms-Length Home Sales in the Philadelphia Region: 1980-2024

Source: Public Records, Bright MLS

- Even though prices have risen significantly since Covid, sales have been trending down, for two reasons:

- For first-time homebuyers, affordability is a challenge.
- For move-up buyers, the "lock in" effect of higher i-rates is a challenge.



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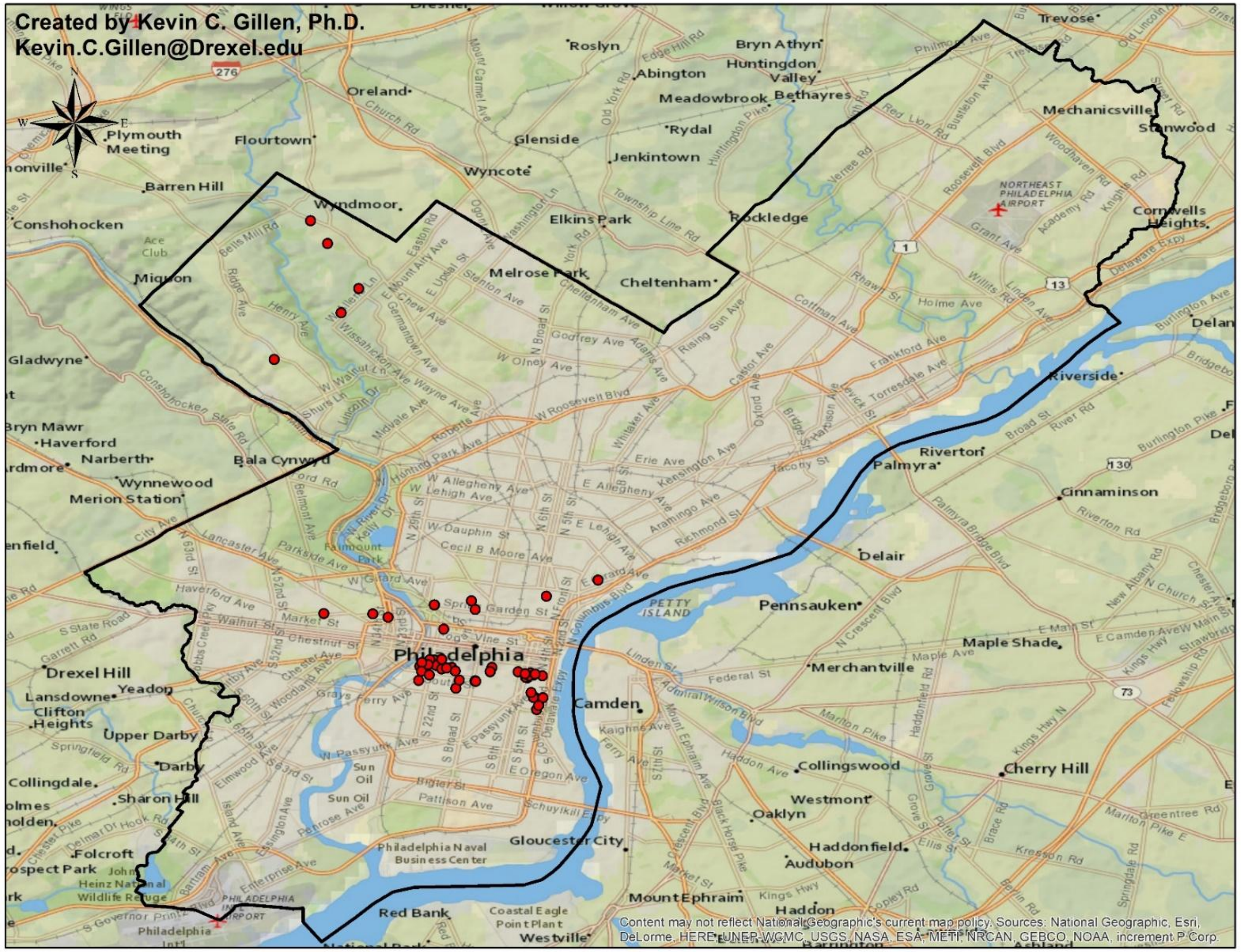
+$1M HOME SALES ARE BECOMING LESS SPATIALLY CONCENTRATED

+$1m House Sales in 2024 Q4

Source: Public Records

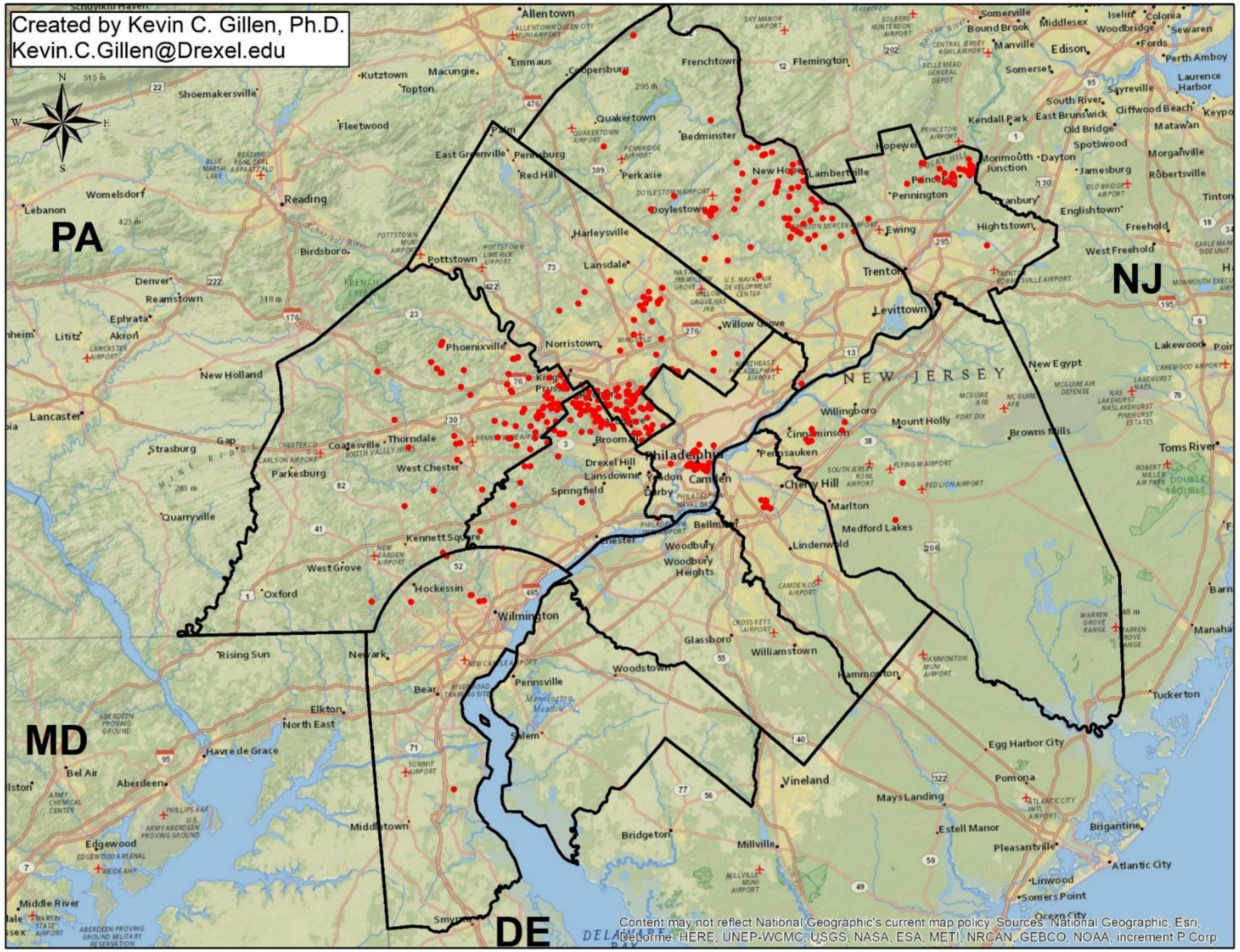


This map shows the location of all houses that sold at a recorded price of one million dollars or more in 2024 Q4.

SUBURBAN +$1M HOME SALES REMAIN VERY SPATIALLY CONCENTRATED

+$1m House Sales in 2024 Q4

Source: Kevin C. Gillen



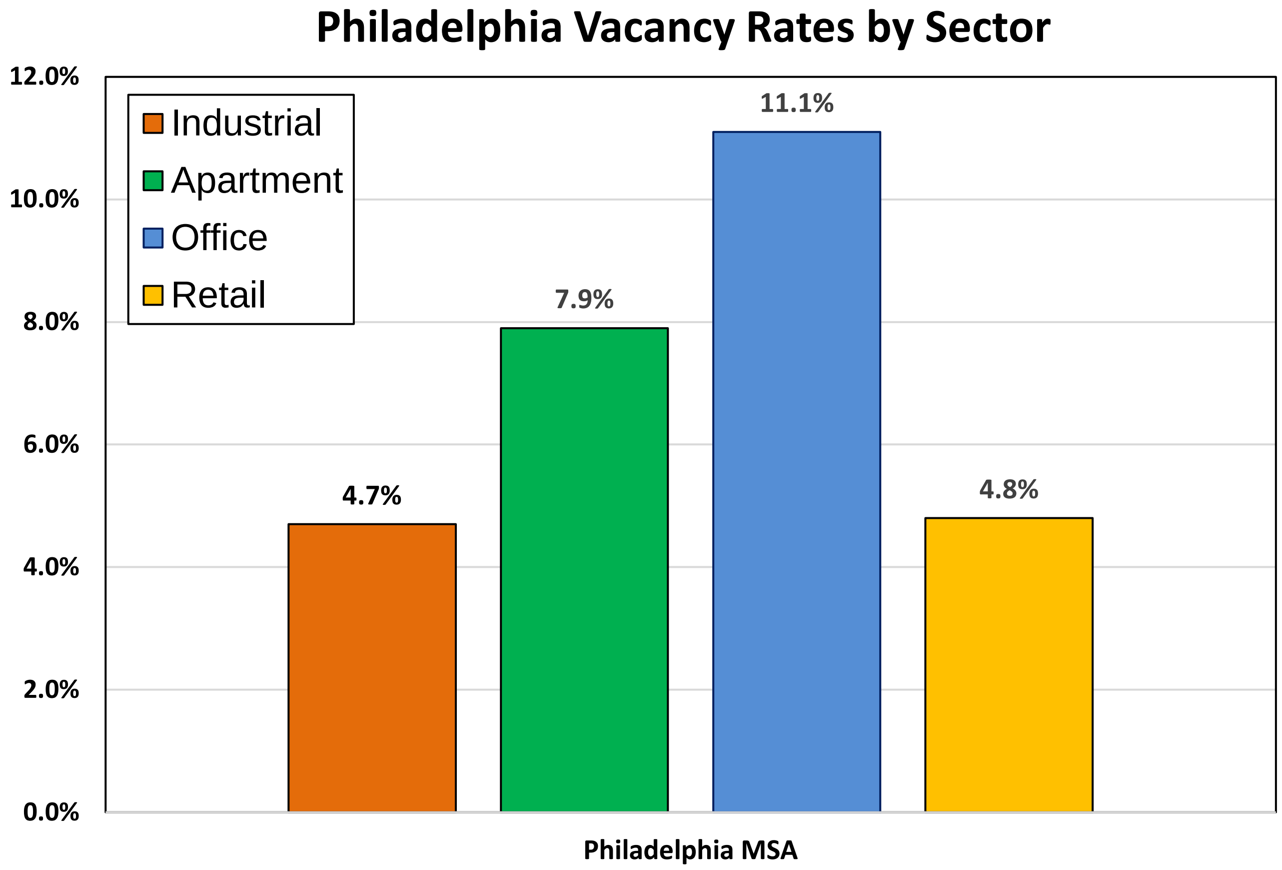
This map shows the location of all houses that sold at a recorded price of one million dollars or more in 2024 Q4.

VACANCY RATES

CRE Vacancy Rates

Source: Green Street Advisors

- Significant variation by sector.



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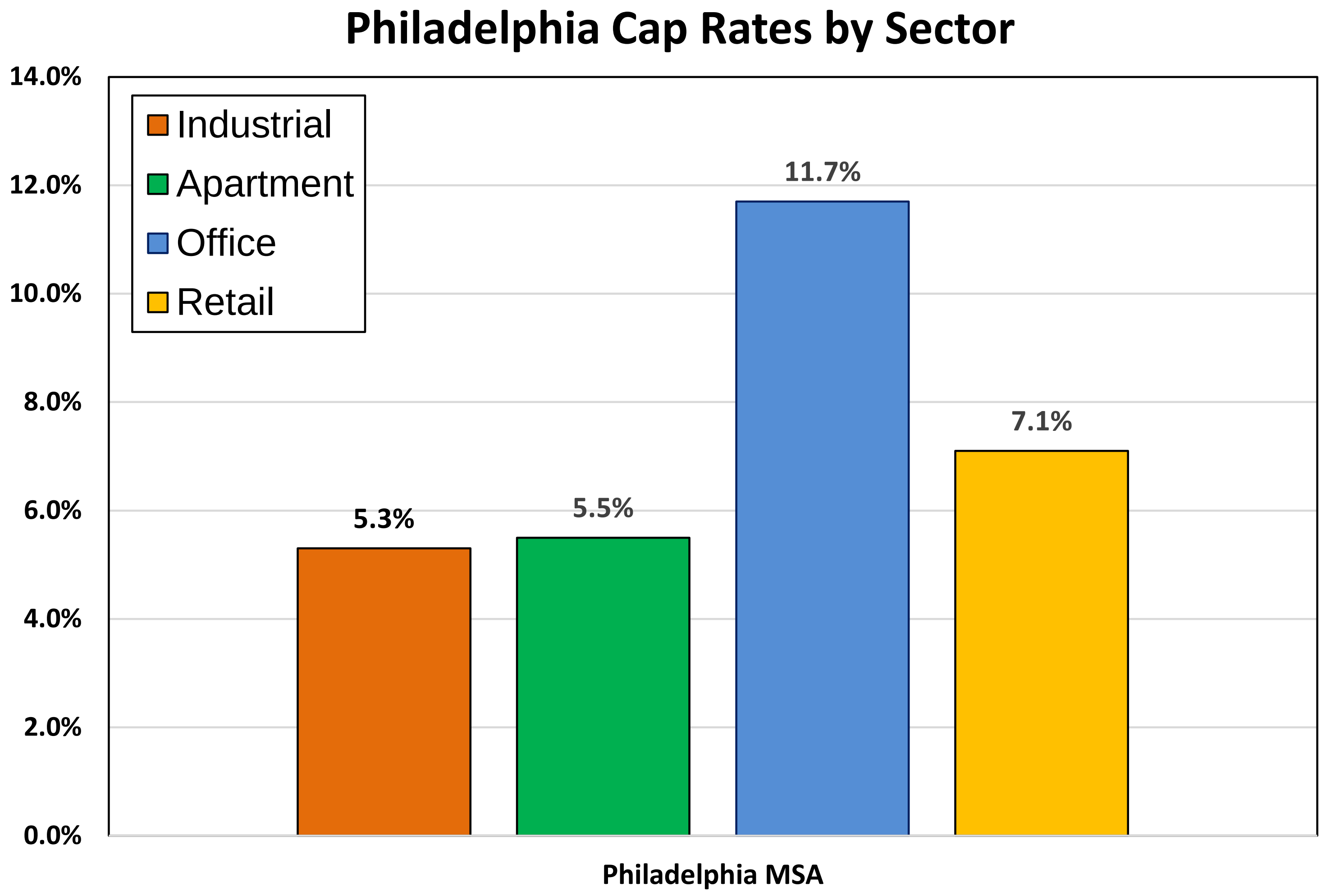
CAP RATES

CRE Cap Rates

Source: Green Street Advisors

- Office is the big outlier.



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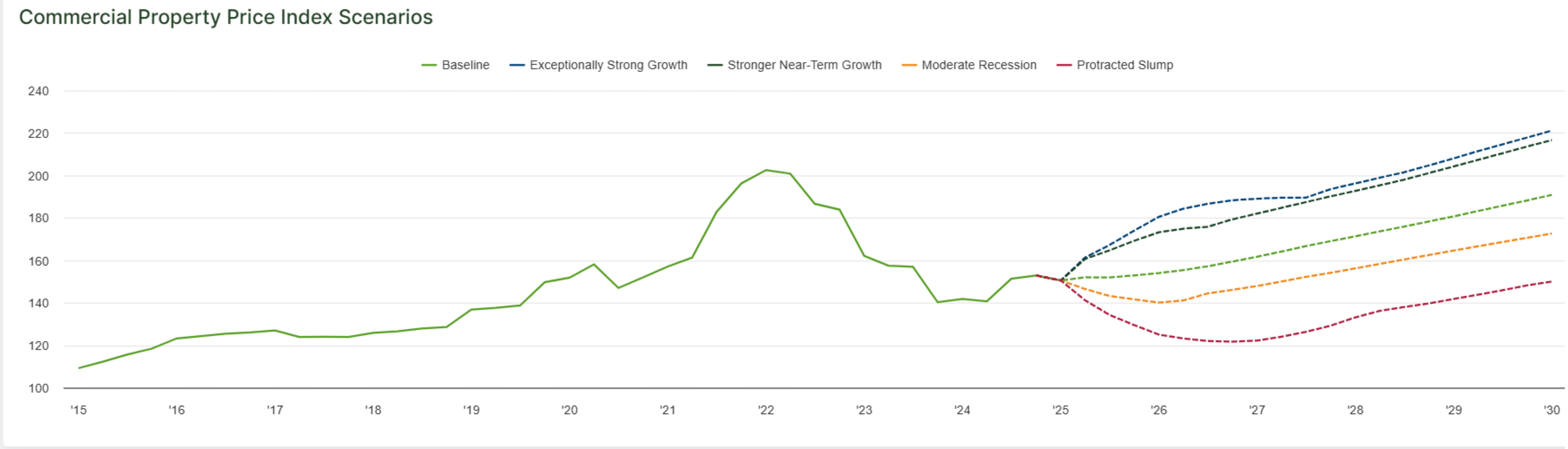
FORECAST

Philadelphia Apartment Forecast

Source: Green Street Advisors

- Median Forecast: 8.5%/year



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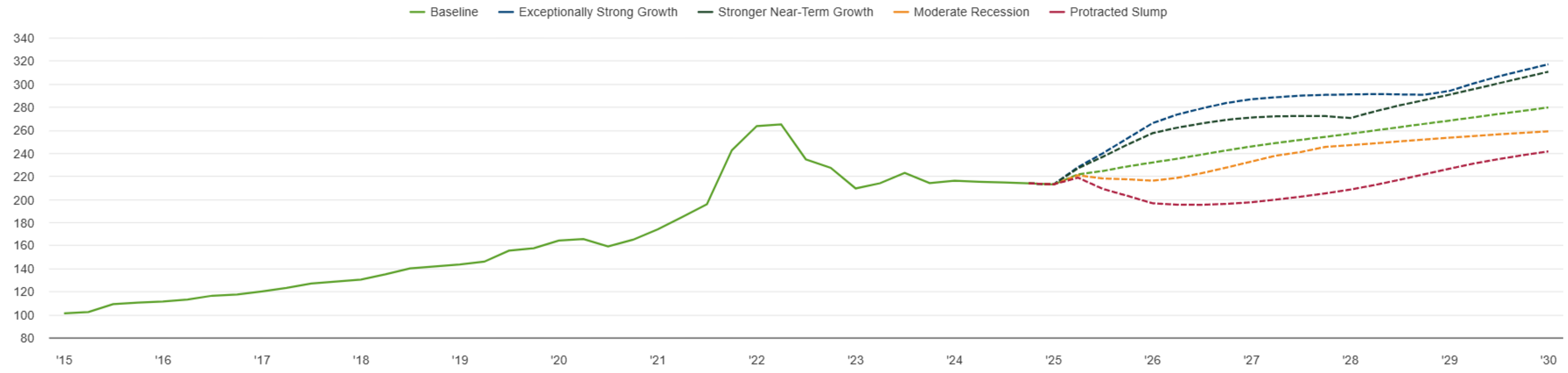
FORECAST

Philadelphia Industrial Forecast

Source: Green Street Advisors

- Median Forecast: 10.25%/year

Commercial Property Price Index Scenarios



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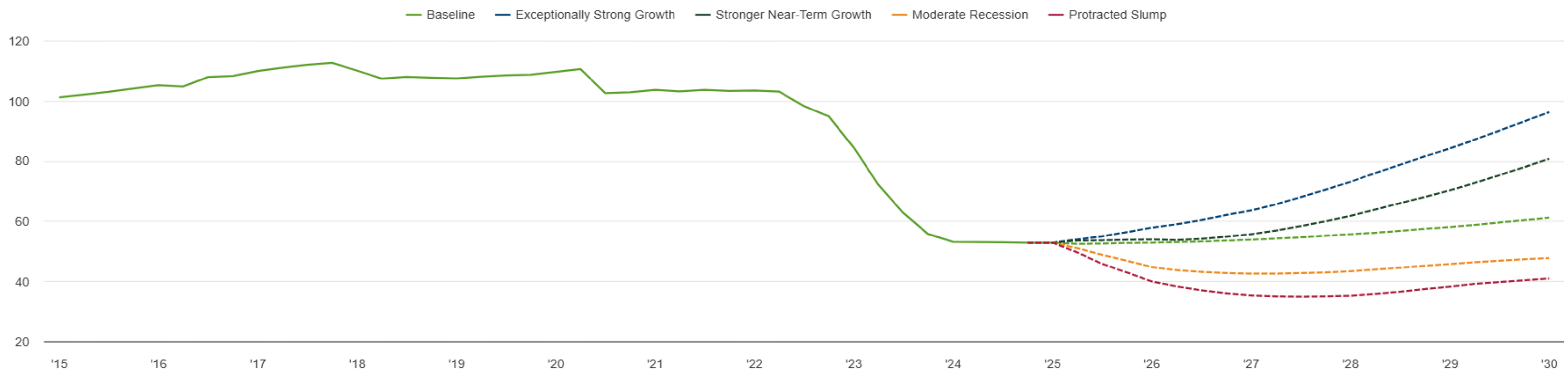
FORECAST

Philadelphia Office Forecast

Source: Green Street Advisors

- Median Forecast: 0.75%/year
- In 2025, Philadelphia will see the highest number of expiring leases between now and 2030… forcing many companies to make long-term decisions about ***location*** and ***size***.

Commercial Property Price Index Scenarios



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FORECAST

Philadelphia Retail Forecast

Source: Green Street Advisors

- Median Forecast: 7%/year

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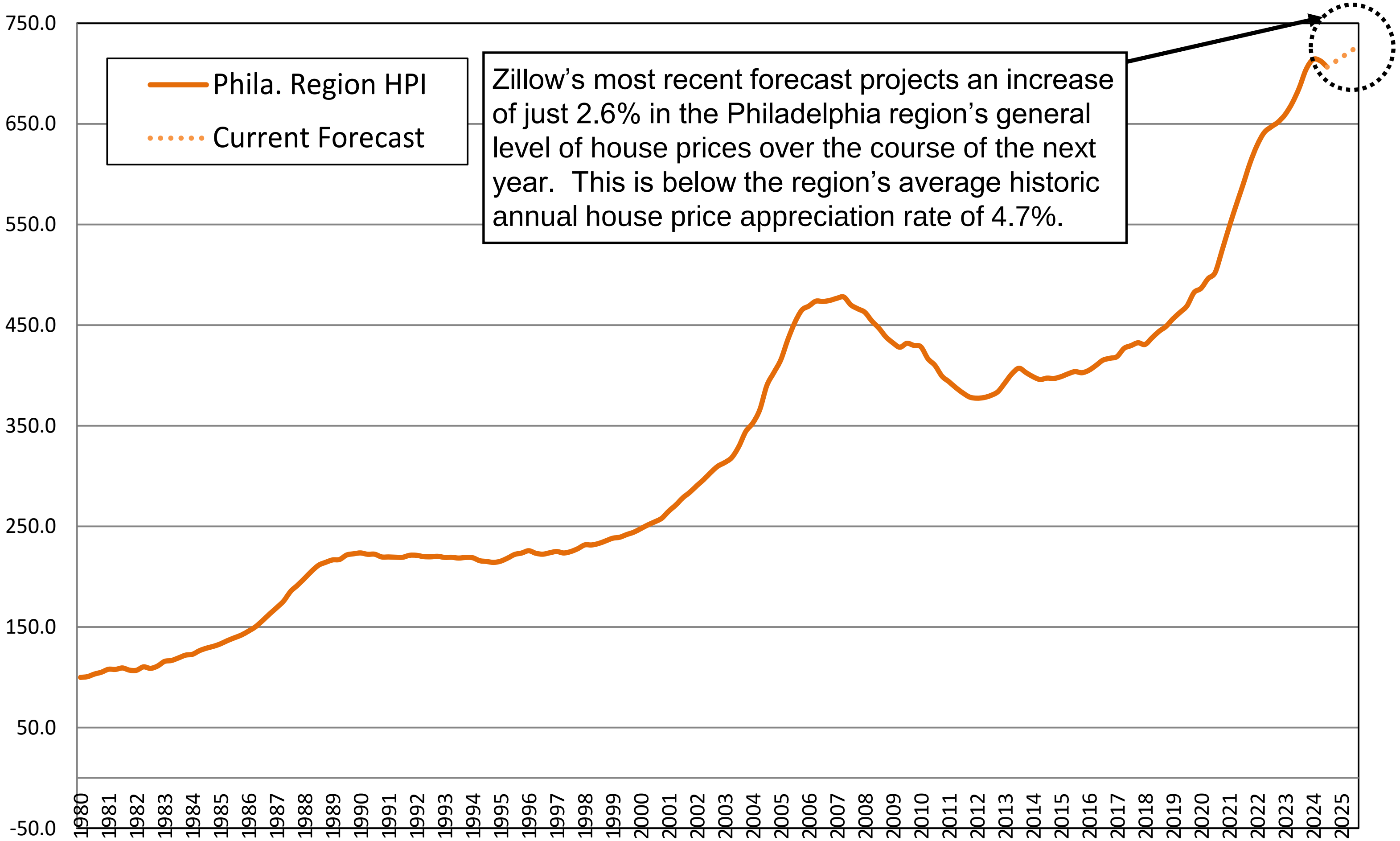
FORECAST

Philadelphia

Source: Zillow

- Zillow's forecast is for below-average growth.



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SUMMARY

What Should You Expect, Going Forward?

- My predictions for 2025:
- Rates will remain largely flat.
- Apartments will deal with glut of new construction, offices still dealing with return to work.
- Retail should be flat but solid, industrial is the one hot spot.
- Housing reverting to the mean.
- The Bottom Line: *Largely a stable year*

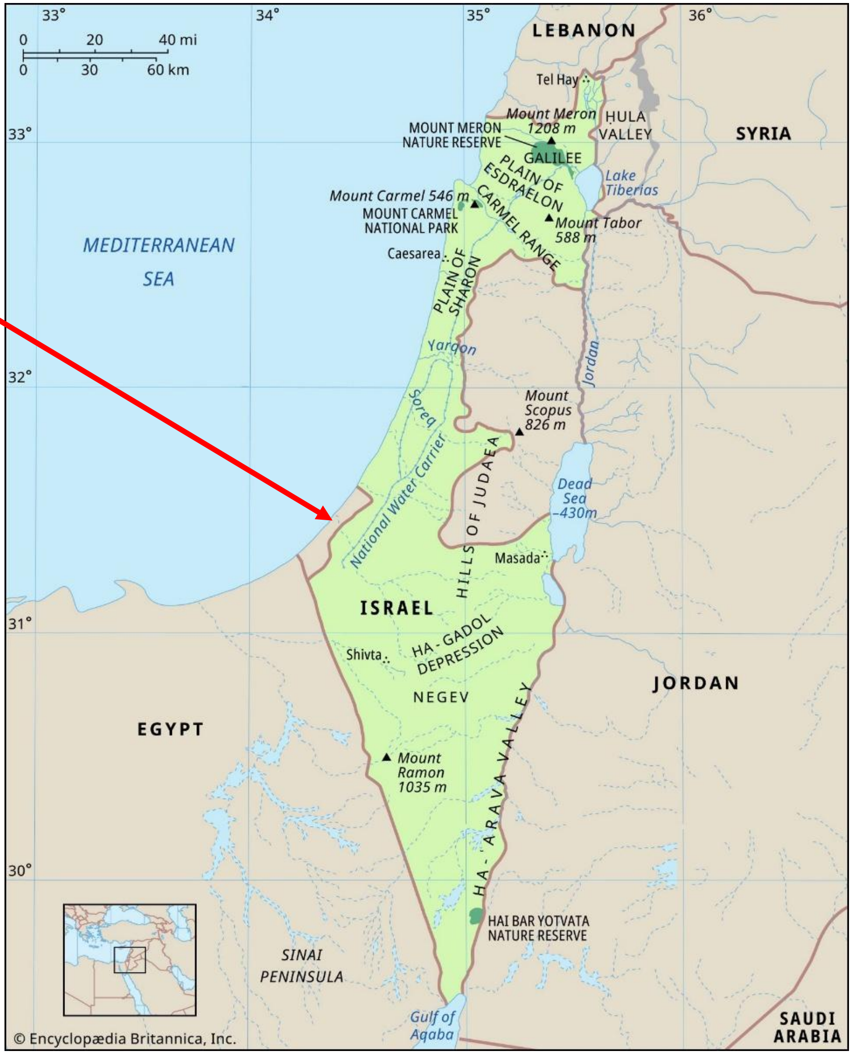
SUMMARY


Really Northern America
Greenland
North America
Canada
America
Gulf of Mexico
Gulf of Trumpistan
Mexico
Worse America
South America
Worse Mexico
Panama Canal
MAGA Canal

SUMMARY

East Bronx

Gaza



Thank You!!

Kevin C. Gillen Ph.D.

For questions: Kevin.C.Gillen@Drexel.edu