

Philadelphia State of the CRE Market

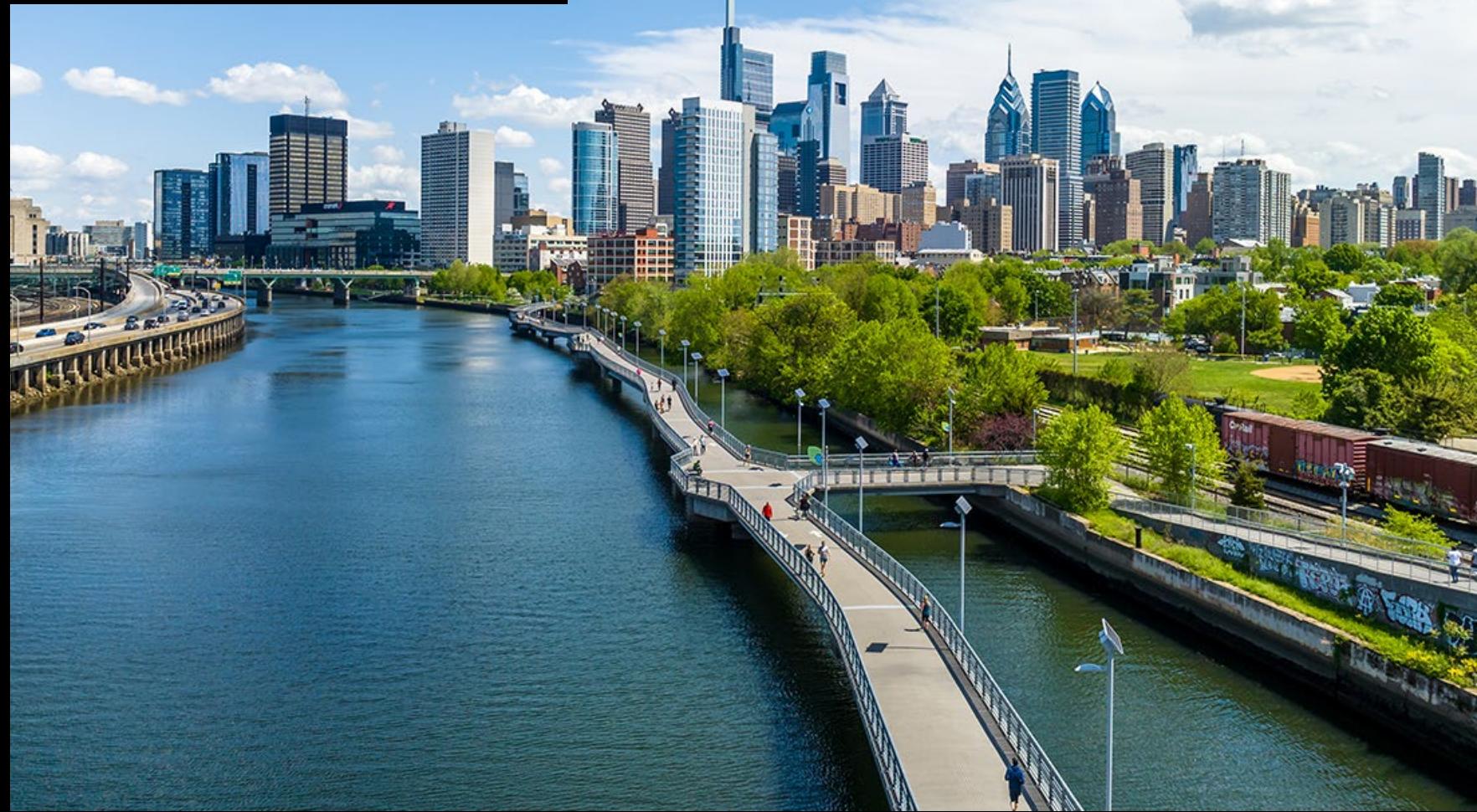
Office, Multifamily,
Retail, and Industrial

March 2025

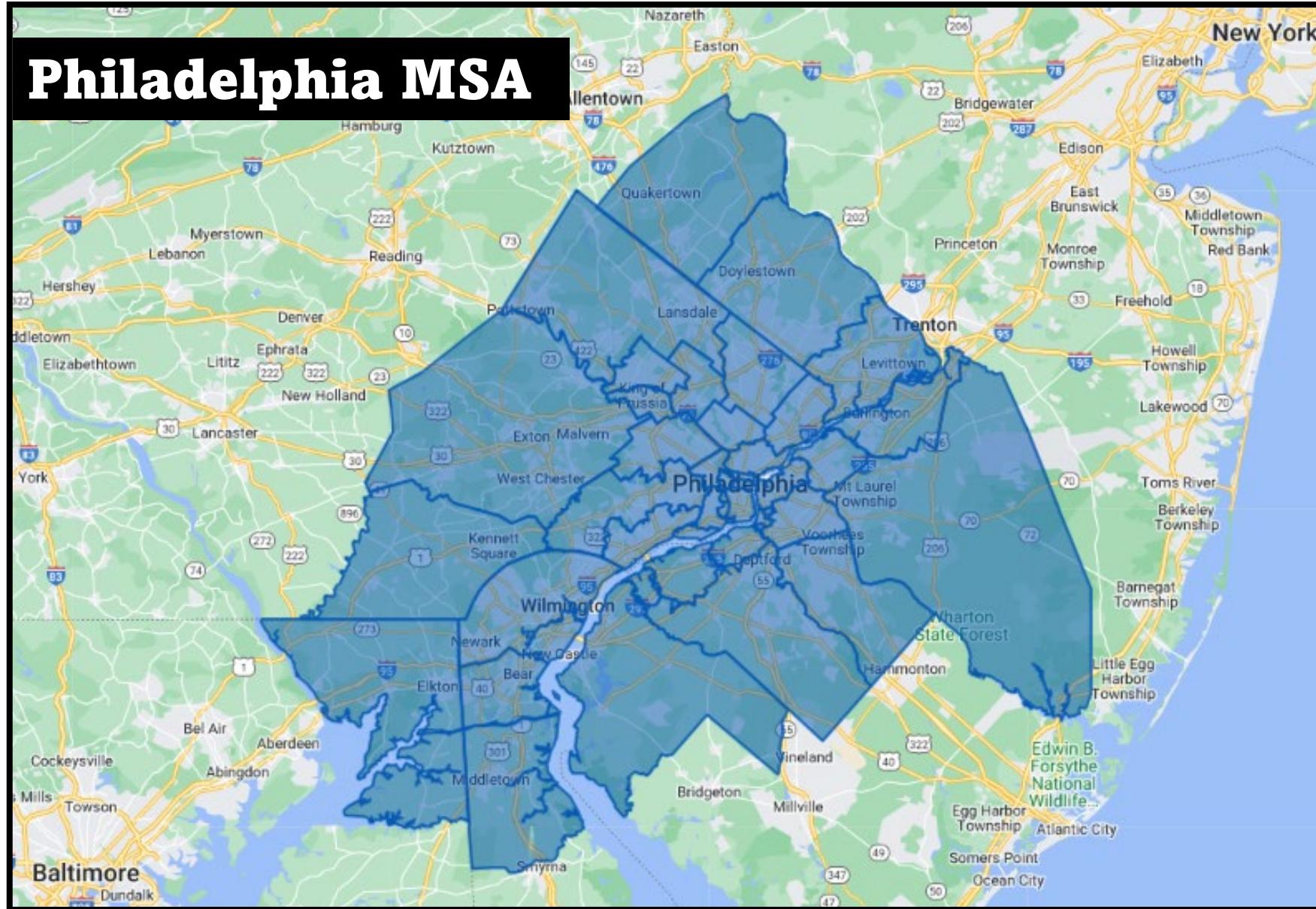
Presented by

Brenda Nguyen

Associate Director of Market Analytics



First...Geographic boundaries

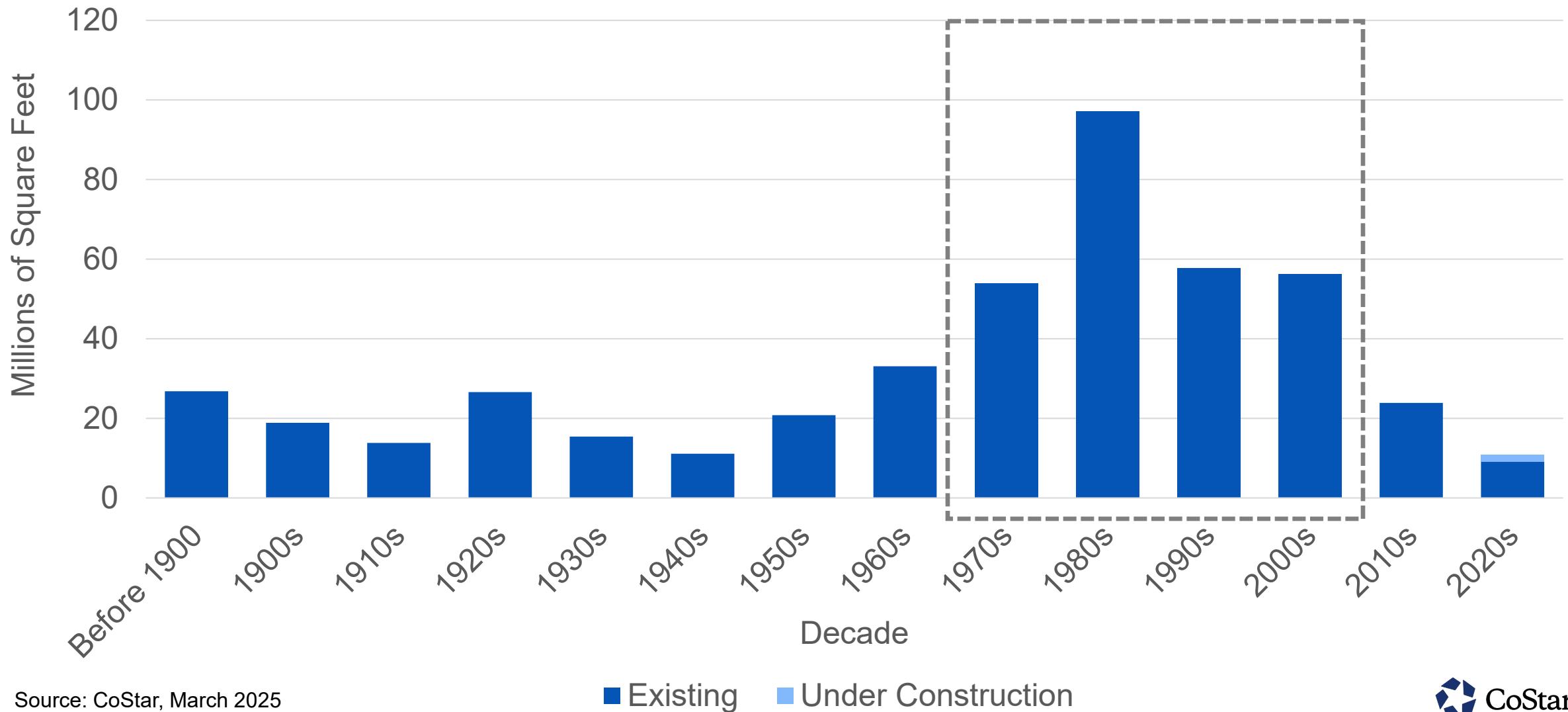


OFFICE

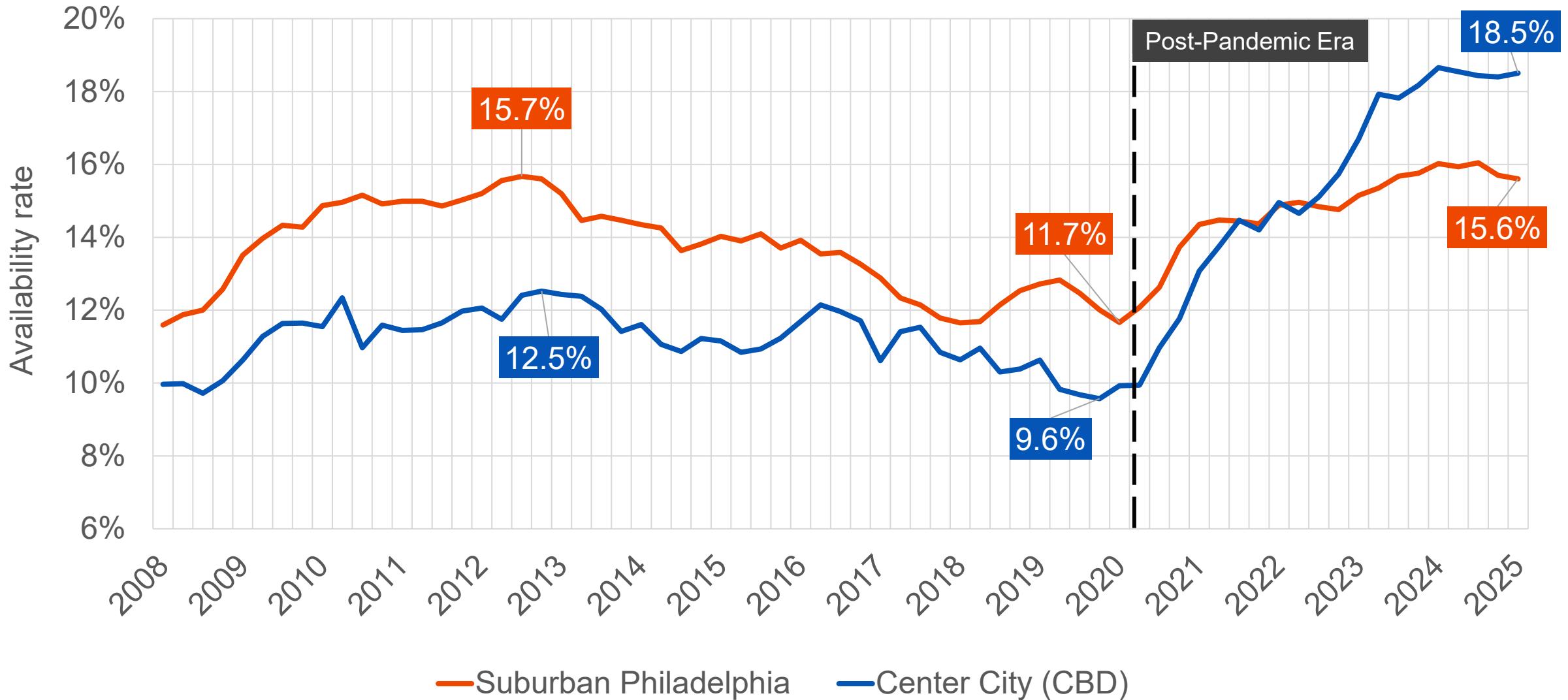
1. How did office development history get us here?
2. How much available office space is on the market today compared to the prior peak?
3. How do Philadelphia's Center City and suburban submarkets compare?
4. When will the office market's woes ease?



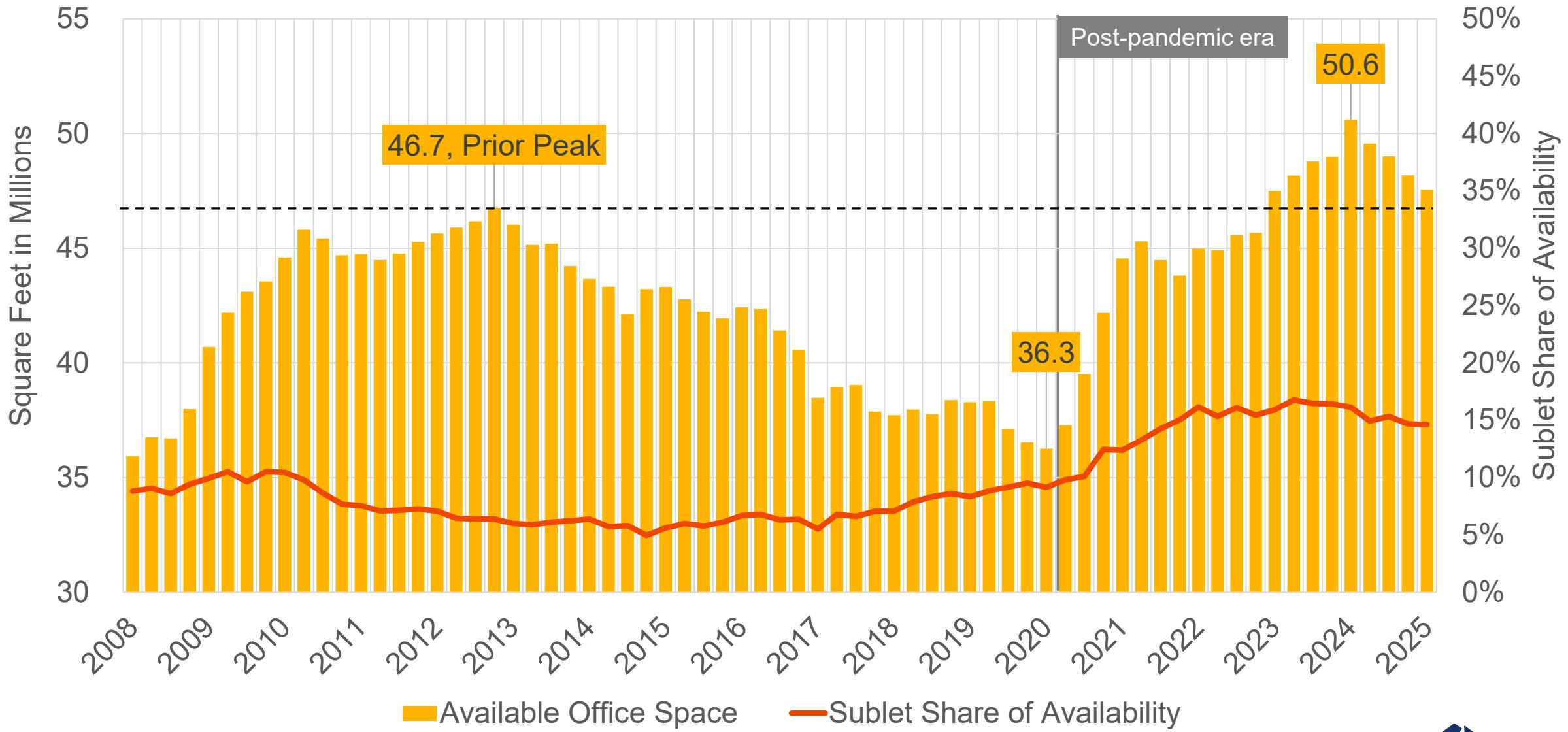
Supply issues preceded the 2020 Pandemic: Nearly 60% of Philadelphia's office inventory was built between 1970 and 2009



The suburbs have struggled before 2020, but Center City was hit hard

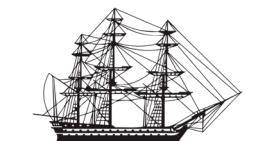
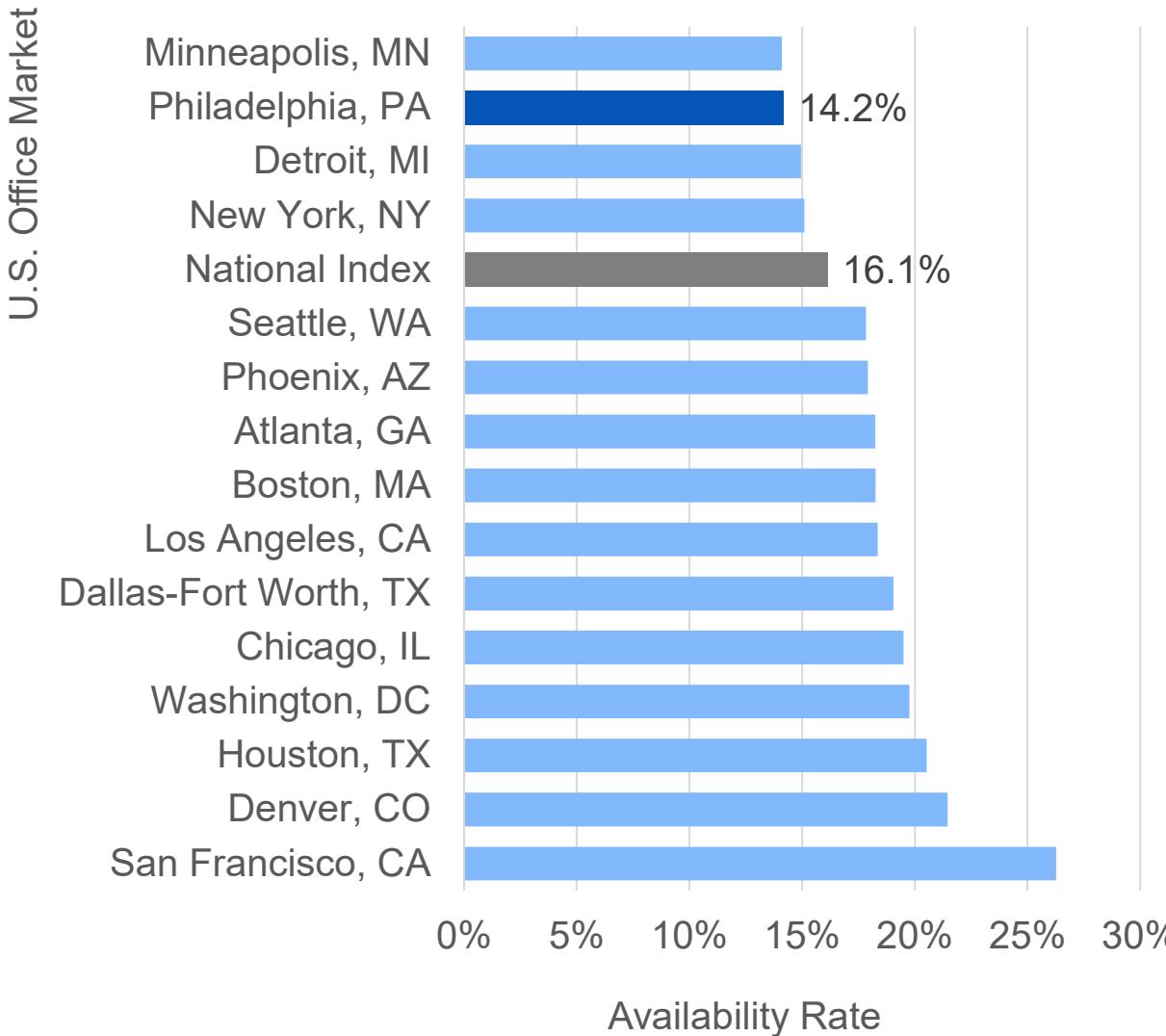


Local office availability isn't far off from the prior peak

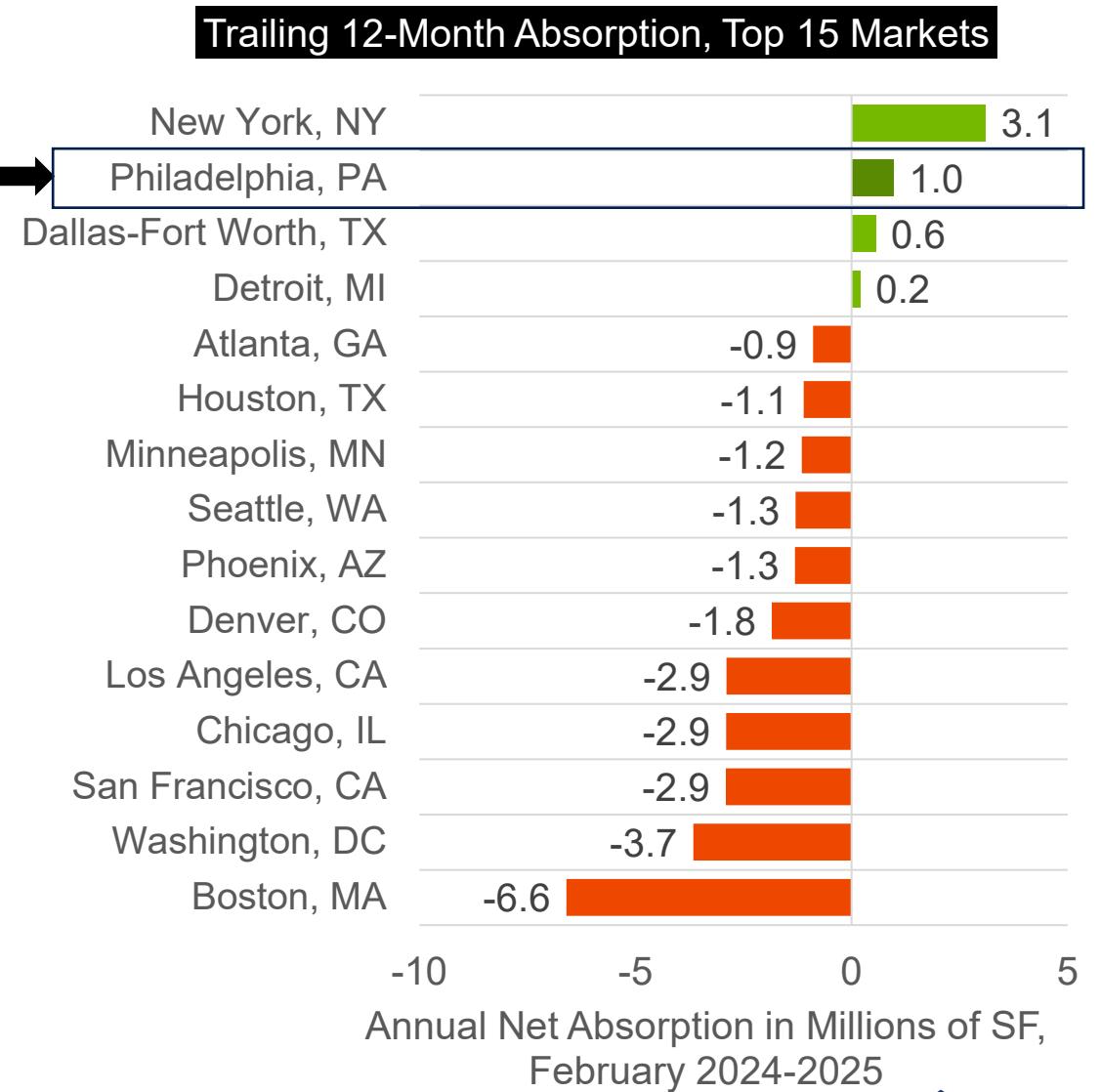
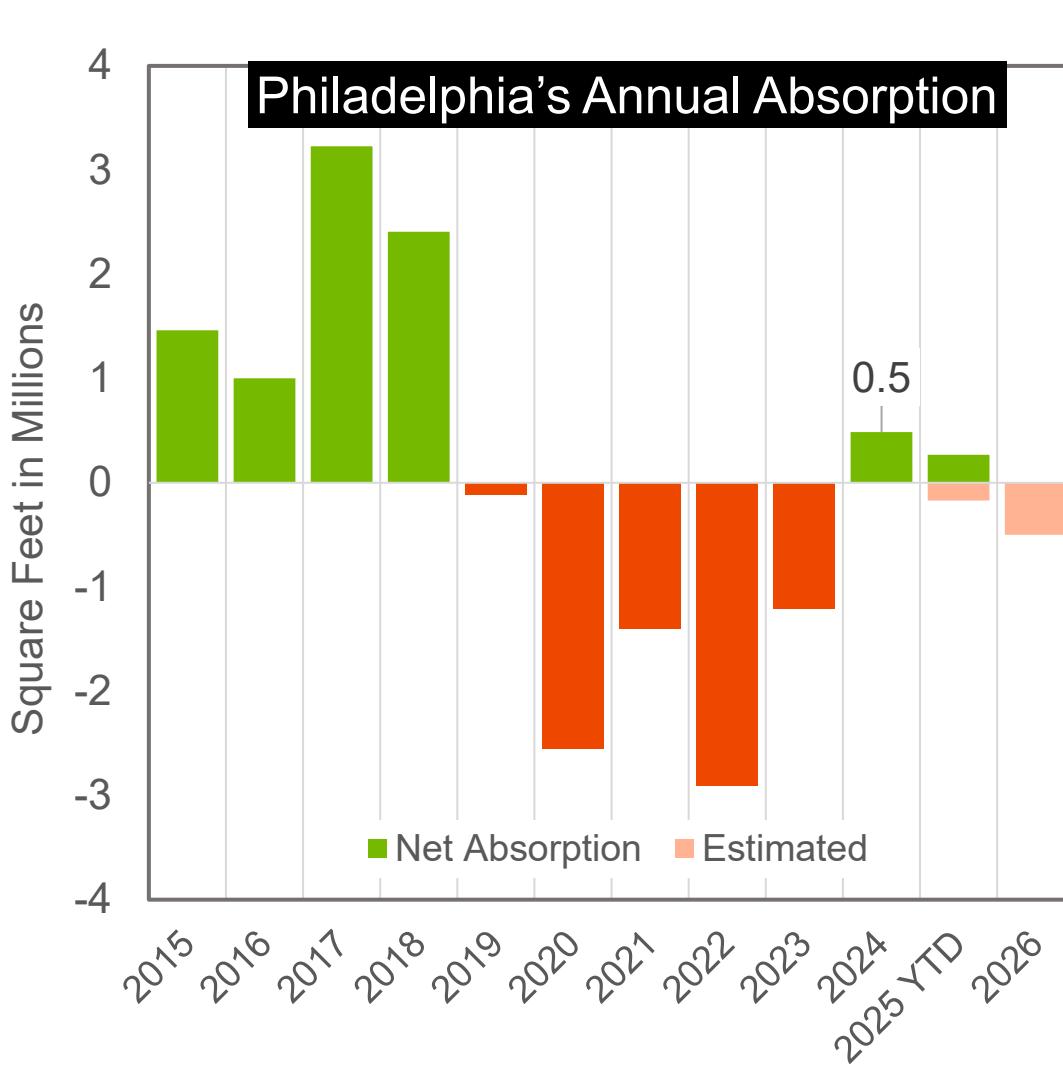


Source: CoStar, March 2025

Philadelphia has the 2nd lowest availability rate across Top 15 U.S. Markets



Philadelphia's annual absorption turns green for the first time in five years



Source: CoStar, March 2025

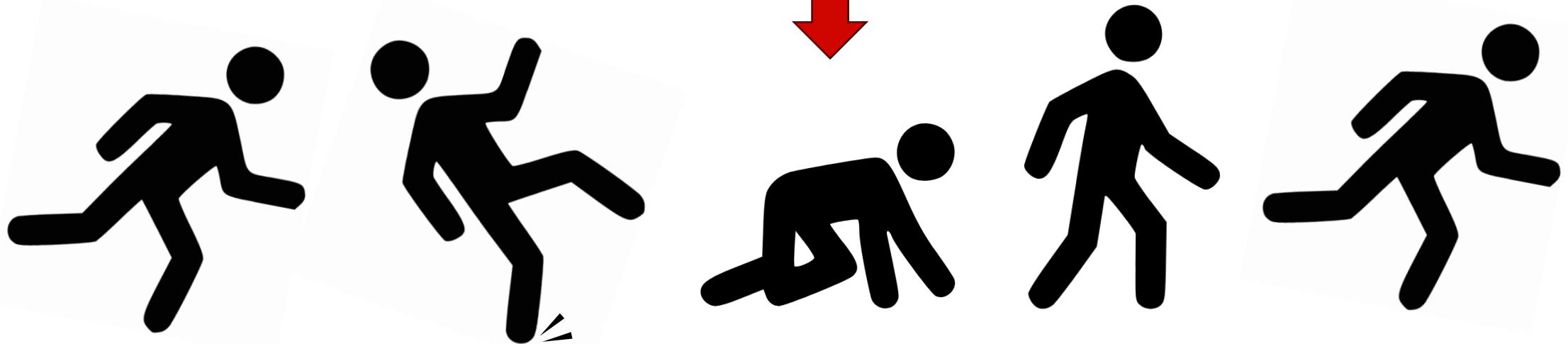
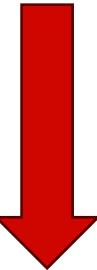
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Downside Risks: Pre-pandemic leases have not all expired yet...



What's Ahead: Philadelphia's road to office recovery

WE ARE HERE



RUNNING
2014-18

FALLING
2019-24

CRAWLING
2024-26

WALKING
2026+

RUNNING
To be determined

Multifamily

- 1) How does today's construction pipeline compare to historical norms?
- 2) Where has construction and renter demand been concentrated?
- 3) What are the latest leasing and absorption trends?
- 4) How does Philadelphia compare with other U.S. Markets?





FEB 26, 2024, 10:55 PM EST COMMERCIAL REAL ESTATE

Center City gets a flood of new apartments, and a population to match



144-apartment building proposed for Callowhill, replacing a parking lot

A surface parking lot previously slated for a co-living development will be a conventional apartment building instead.

New apartments are flooding the Philadelphia market, slowing rampant rent increases

Philadelphia's apartment supply is surging. What's that mean long term

With 1,700 apartments planned on City Avenue, developers prep for 'tipping off point'

Commercial Real Estate

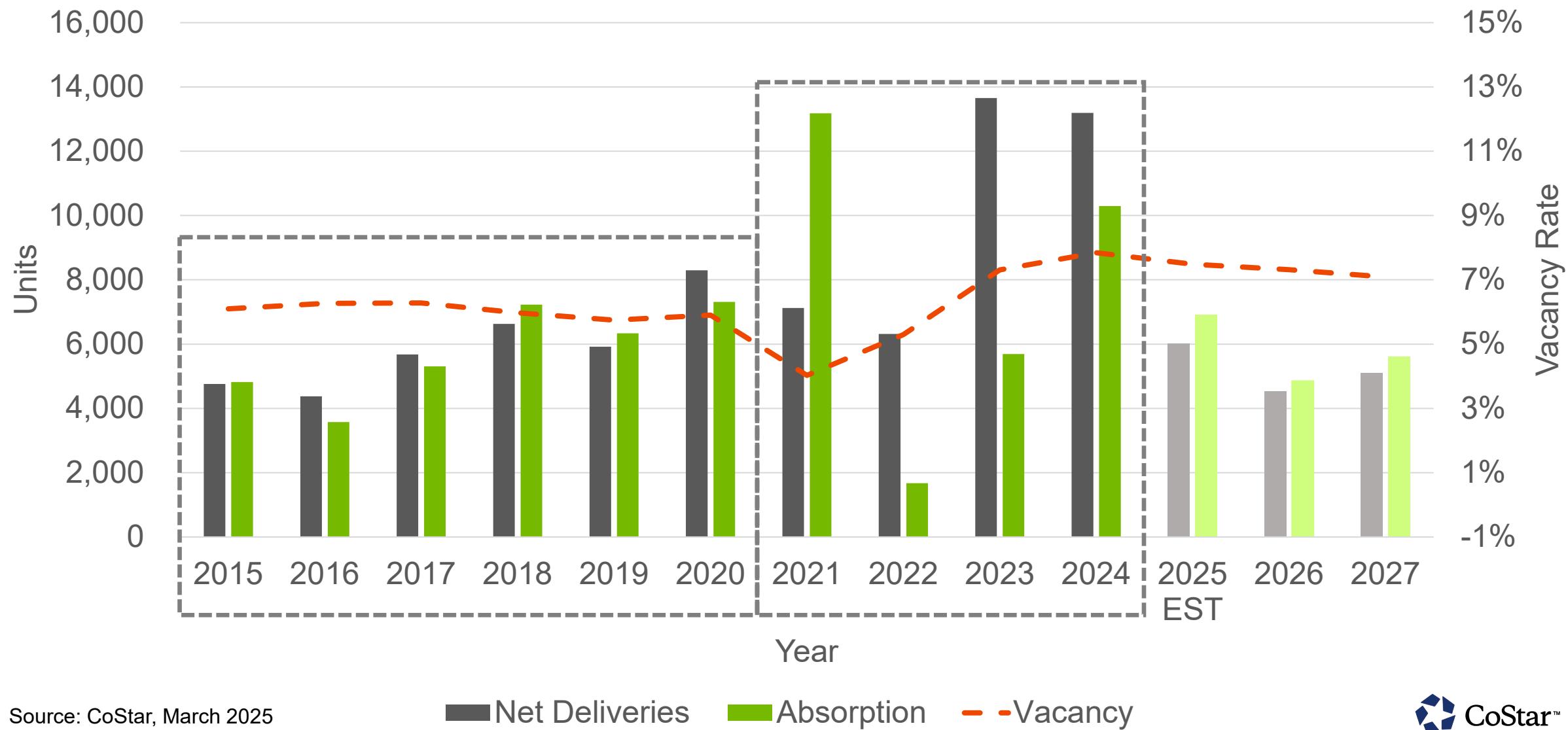
'Too many apartments?' Philadelphia's building boom spurs more competition among developers



New apartment projects are still being proposed in Philadelphia despite high interest rates

Projects are smaller buildings with fewer units, and developers are still willing to

Economics 101: Supply and Demand

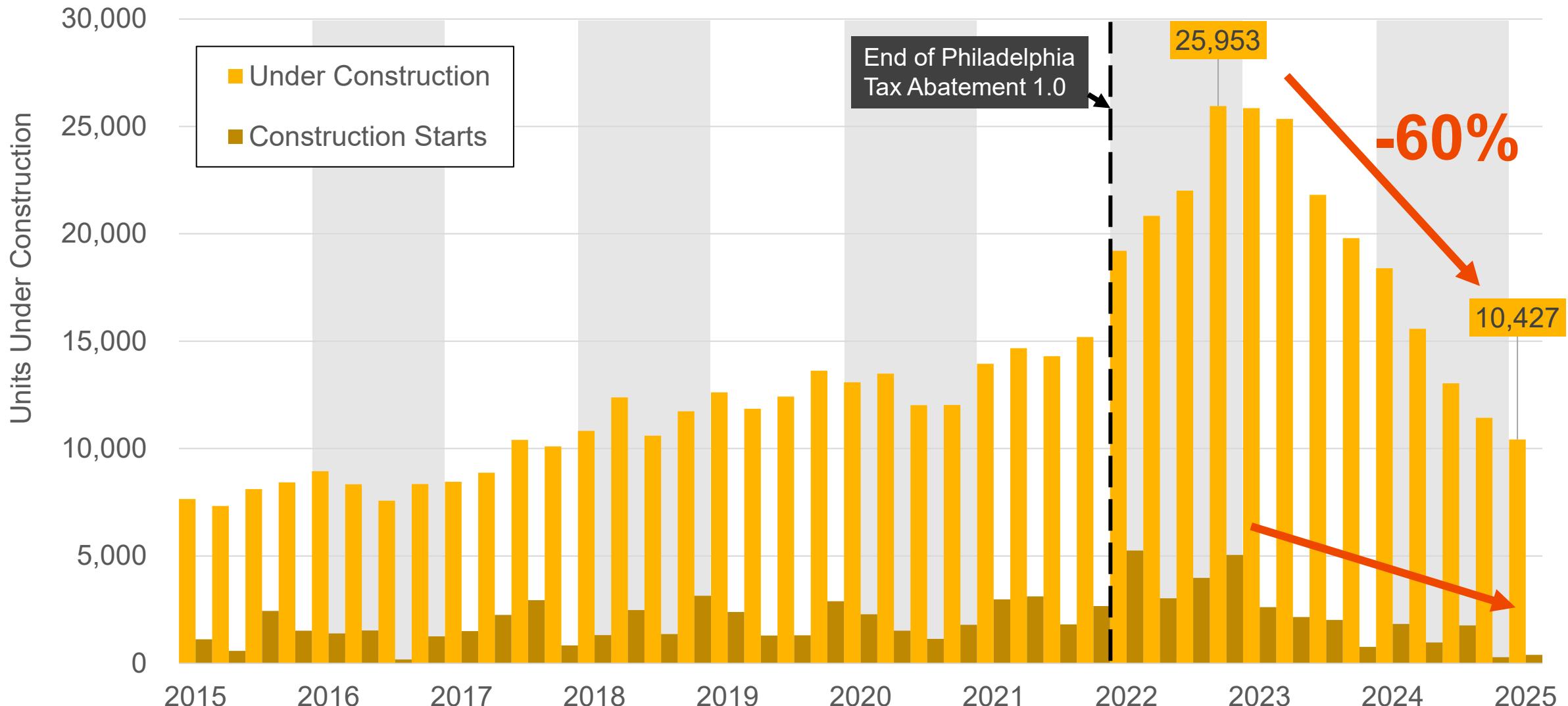


Source: CoStar, March 2025

■ Net Deliveries ■ Absorption ■ - - Vacancy

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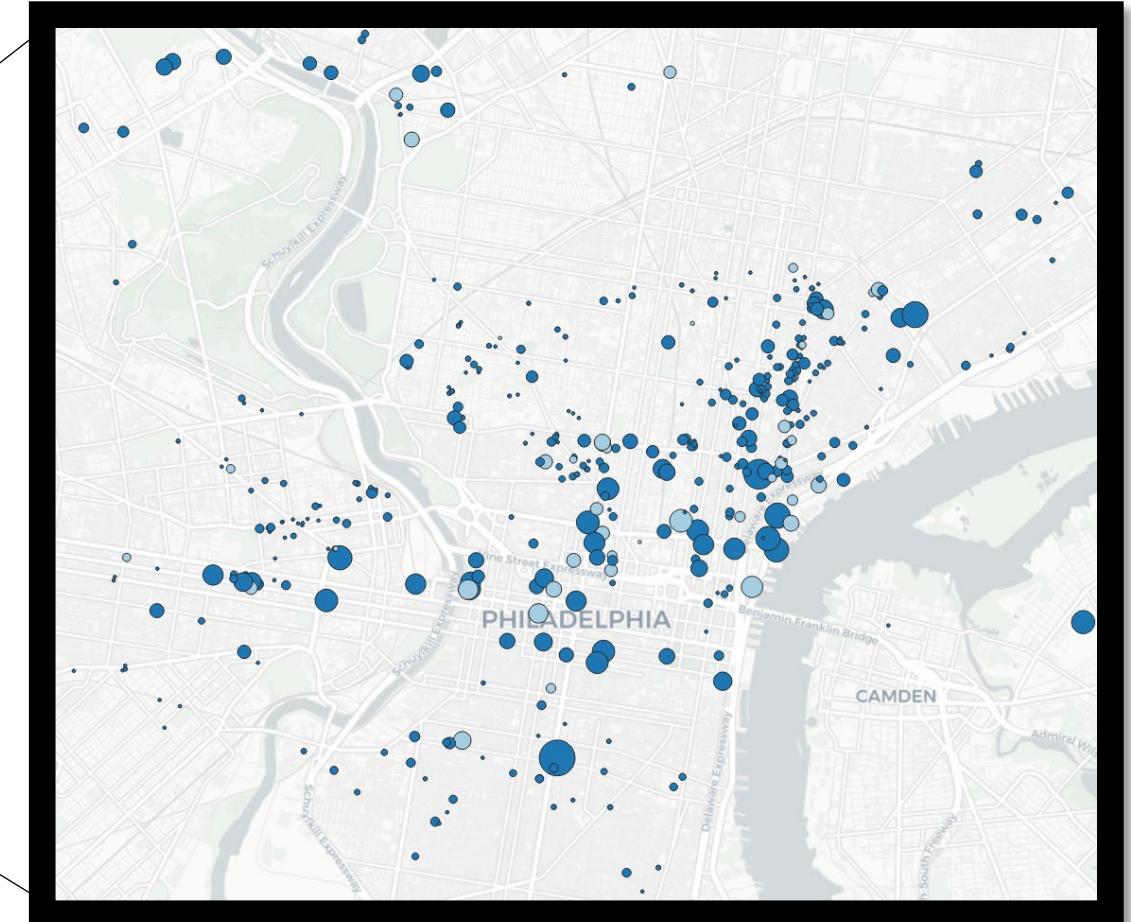
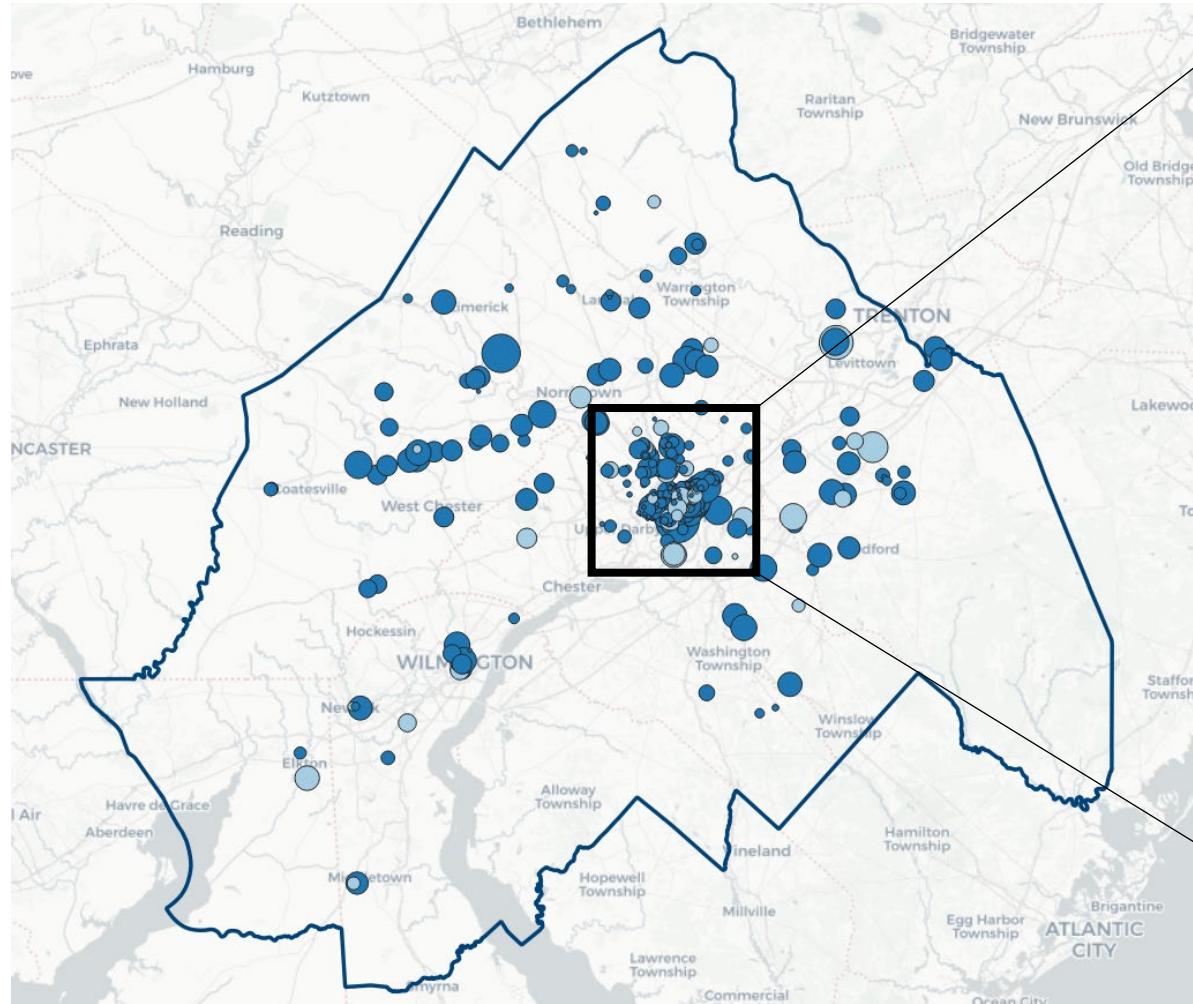
Construction hits 9th consecutive quarter of decline in 2025



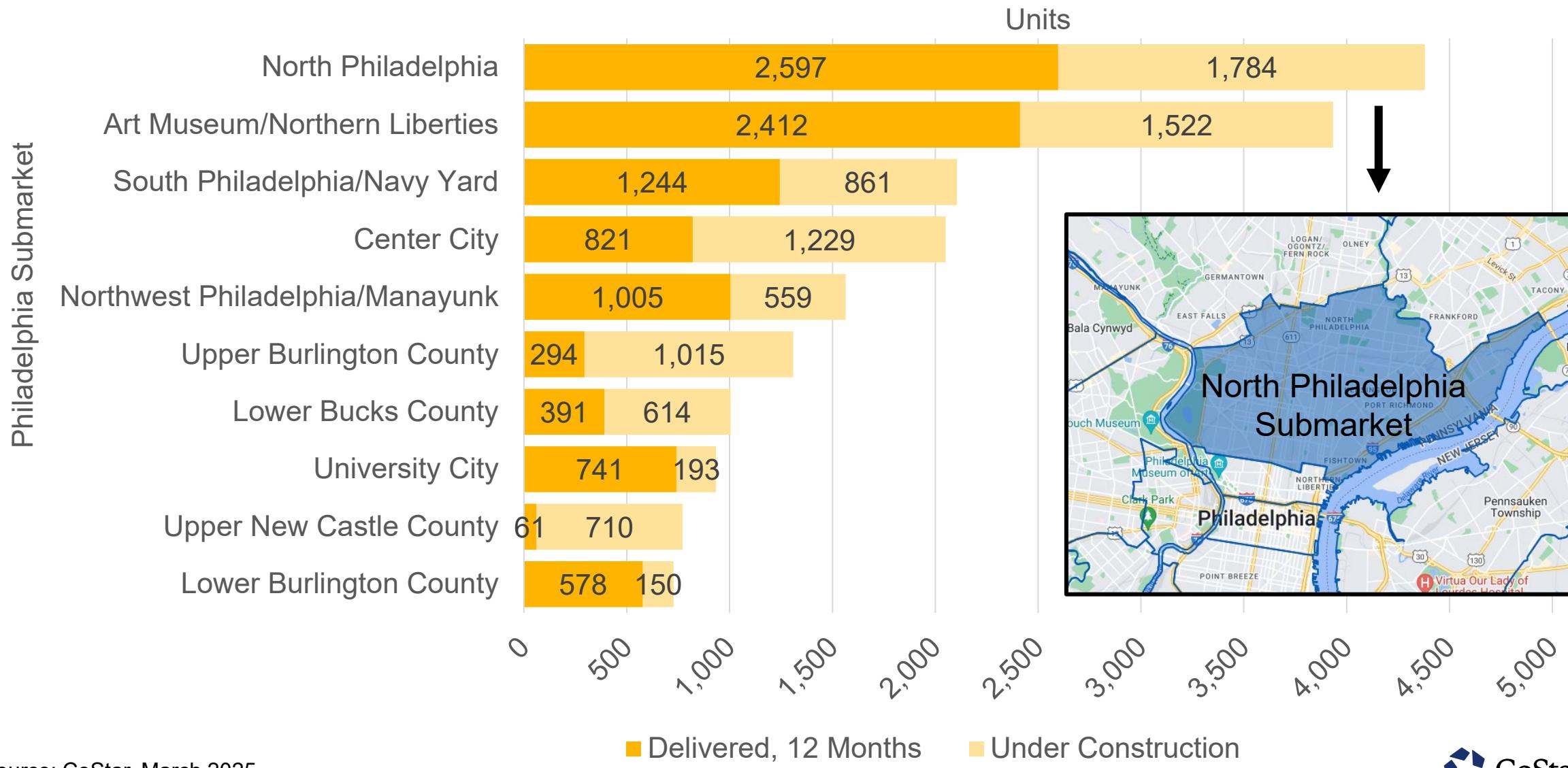
Source: CoStar, March 2025

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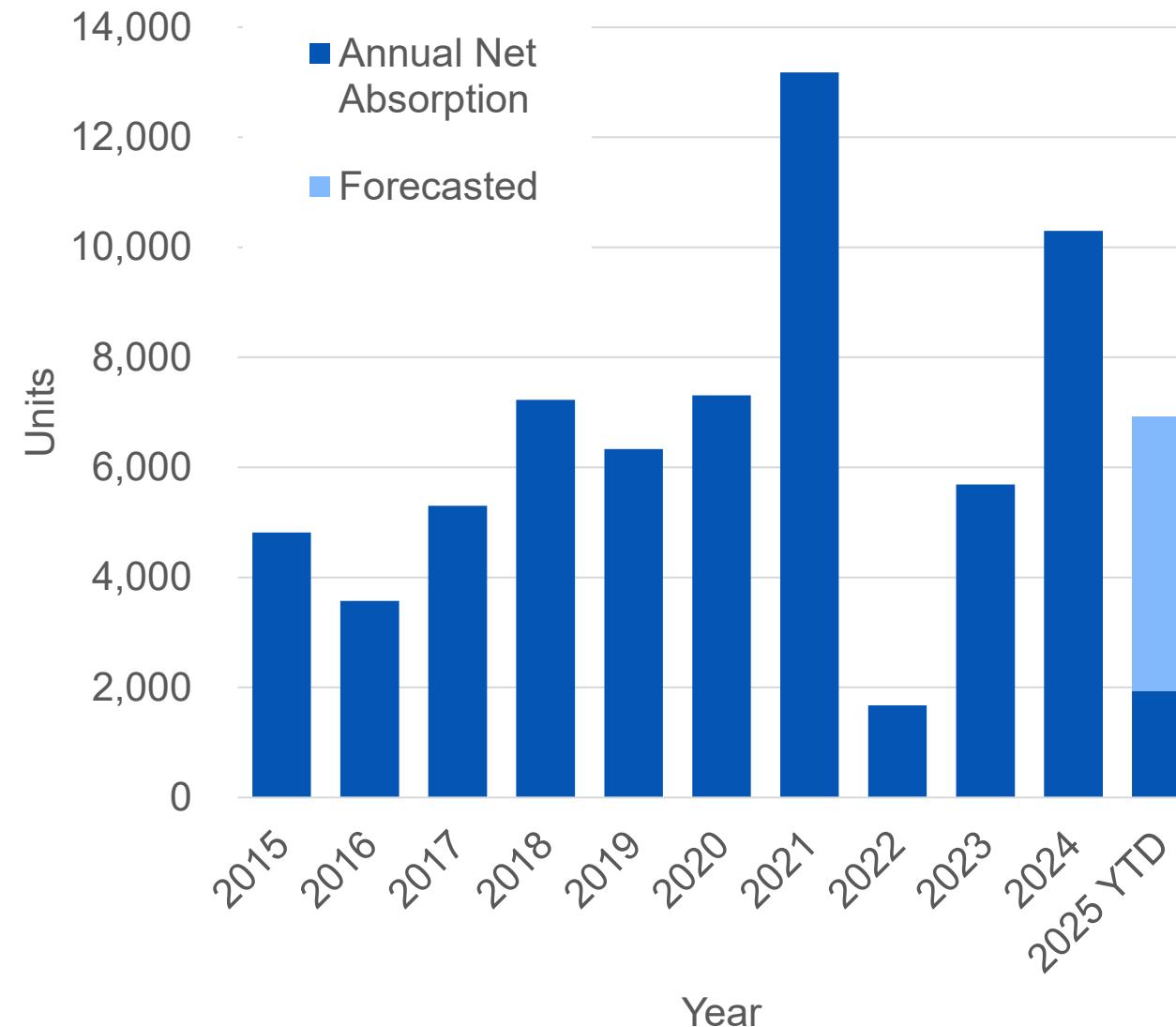
Apartment development booms within the City of Philadelphia



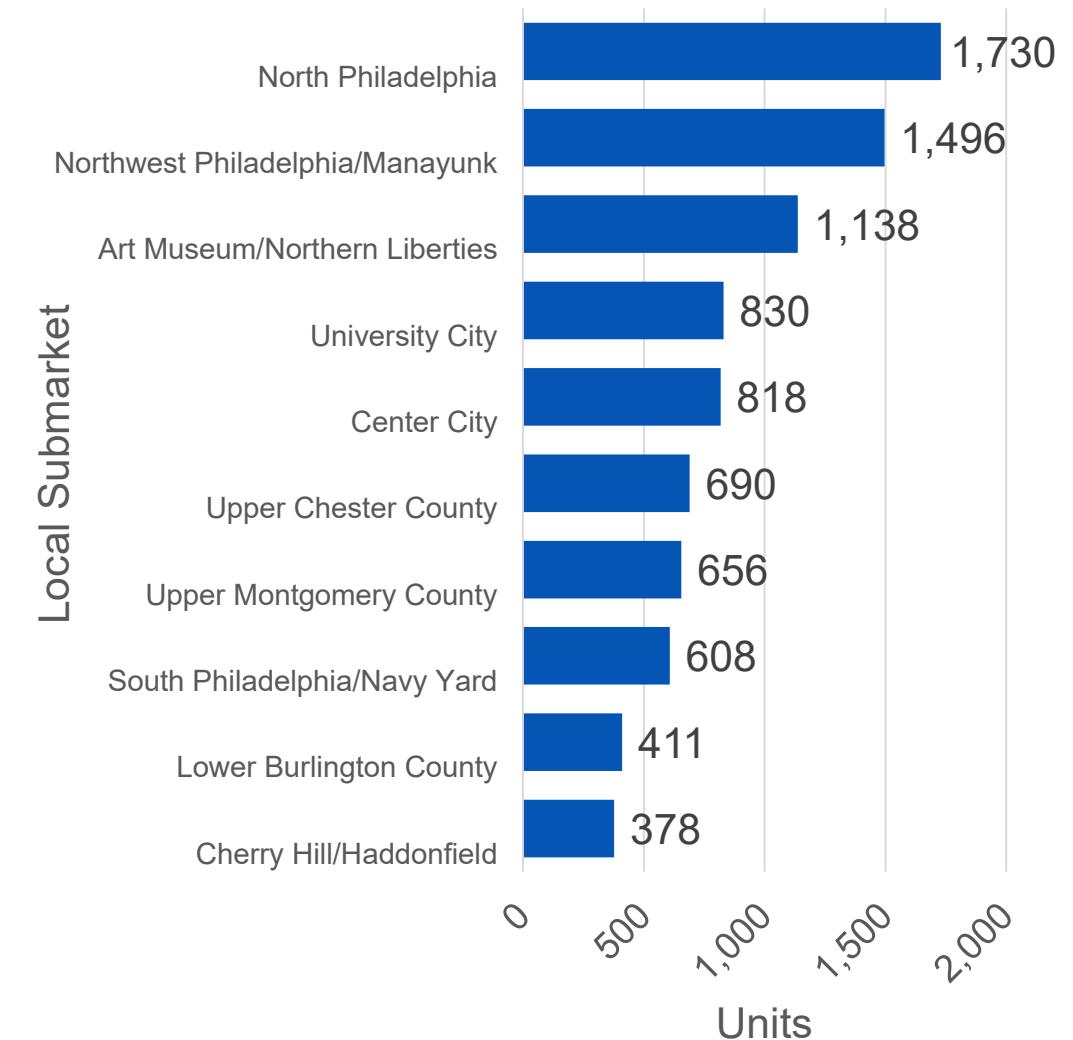
The city claims the top 5 submarkets with the most active construction



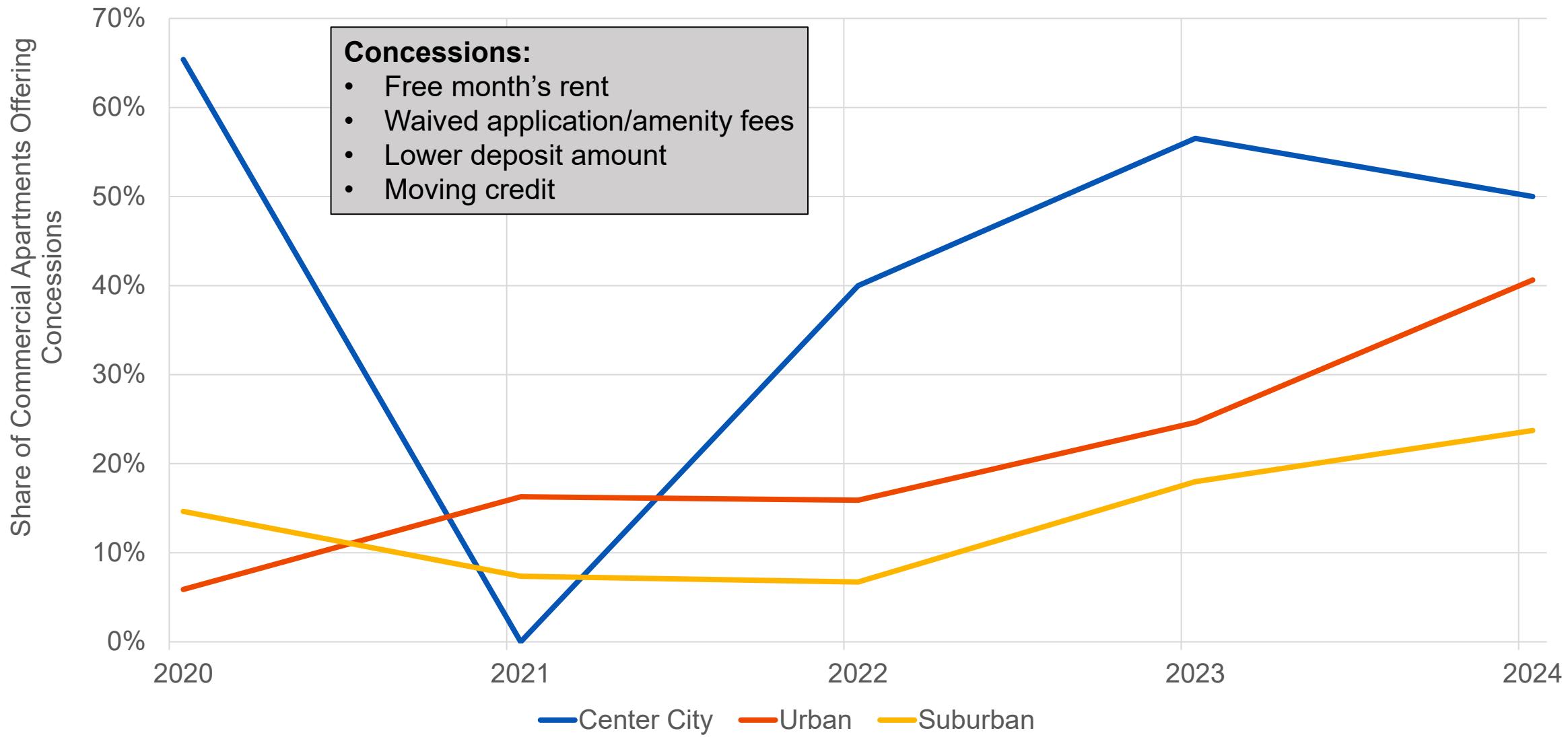
2024 recorded the second strong year of local renter demand



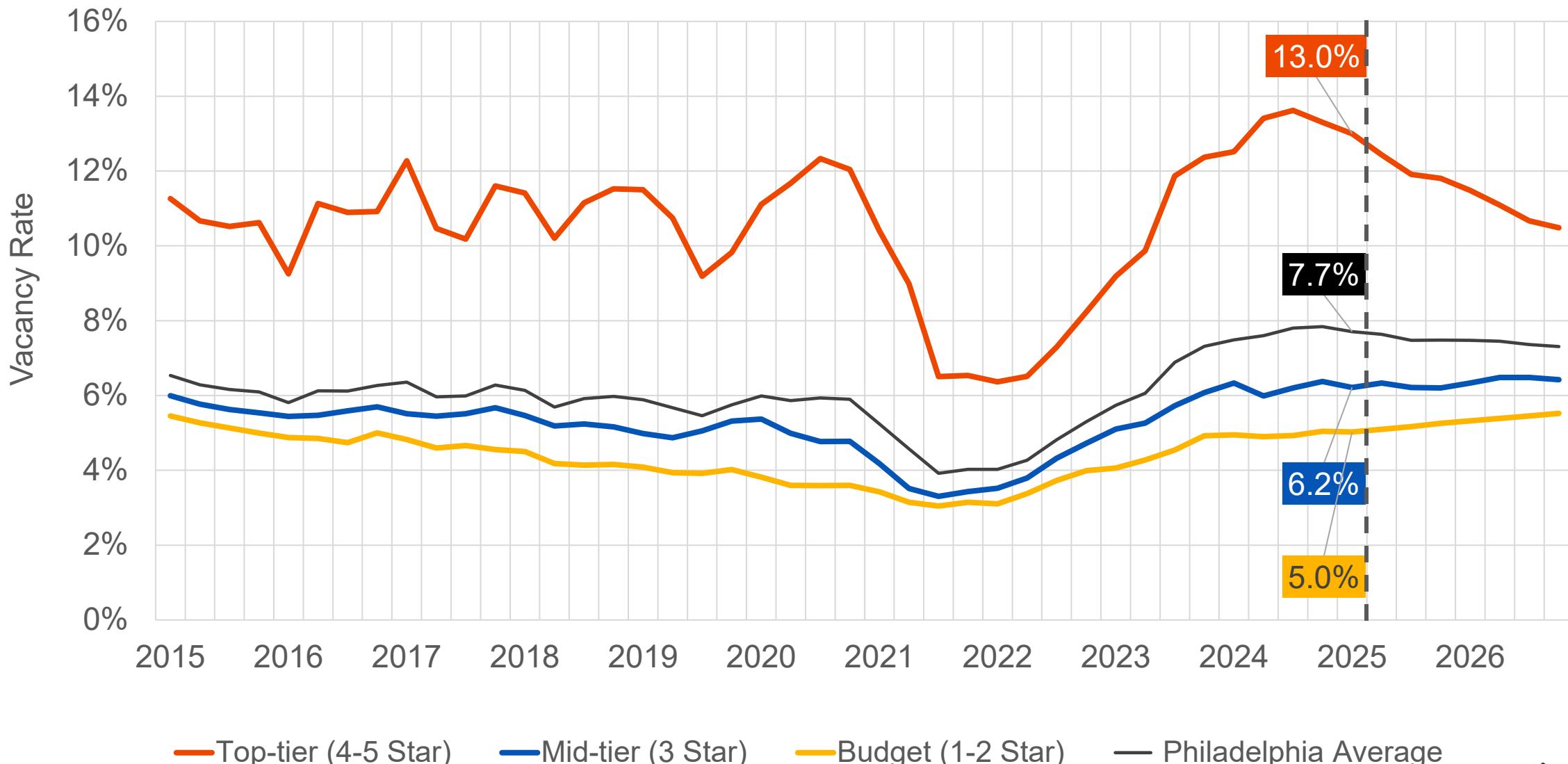
Source: CoStar, March 2025



Concessions are still elevated for urban apartments

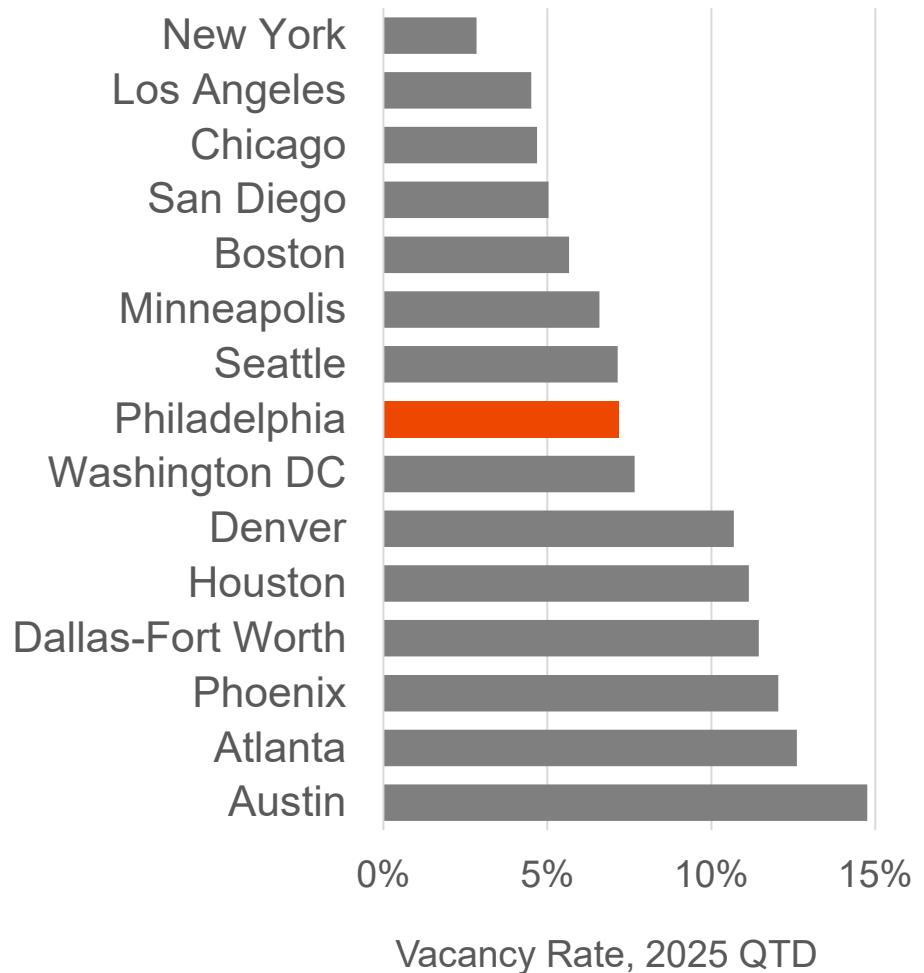
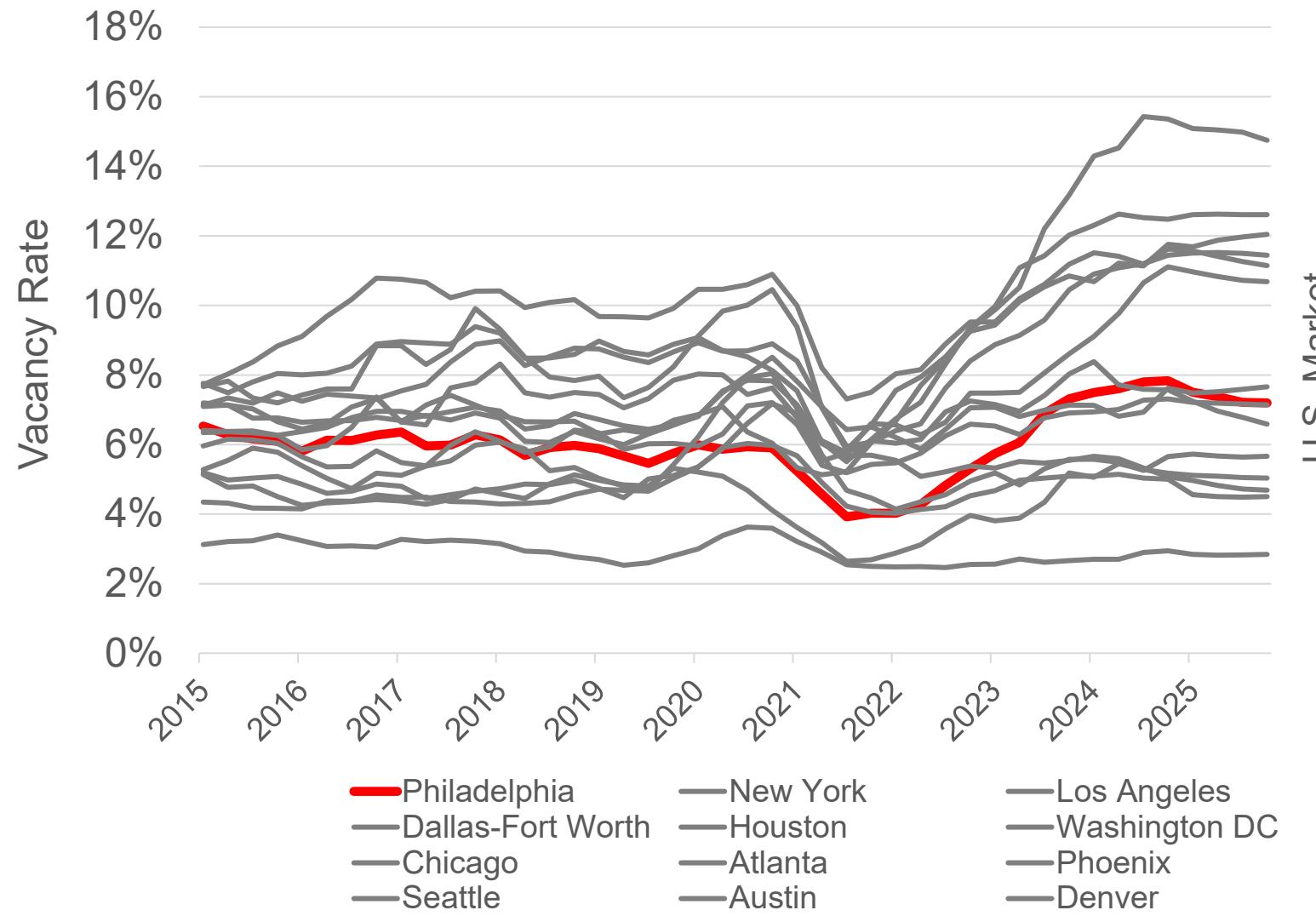


Heightened vacancy is concentrated in top-tier, “luxury” apartments



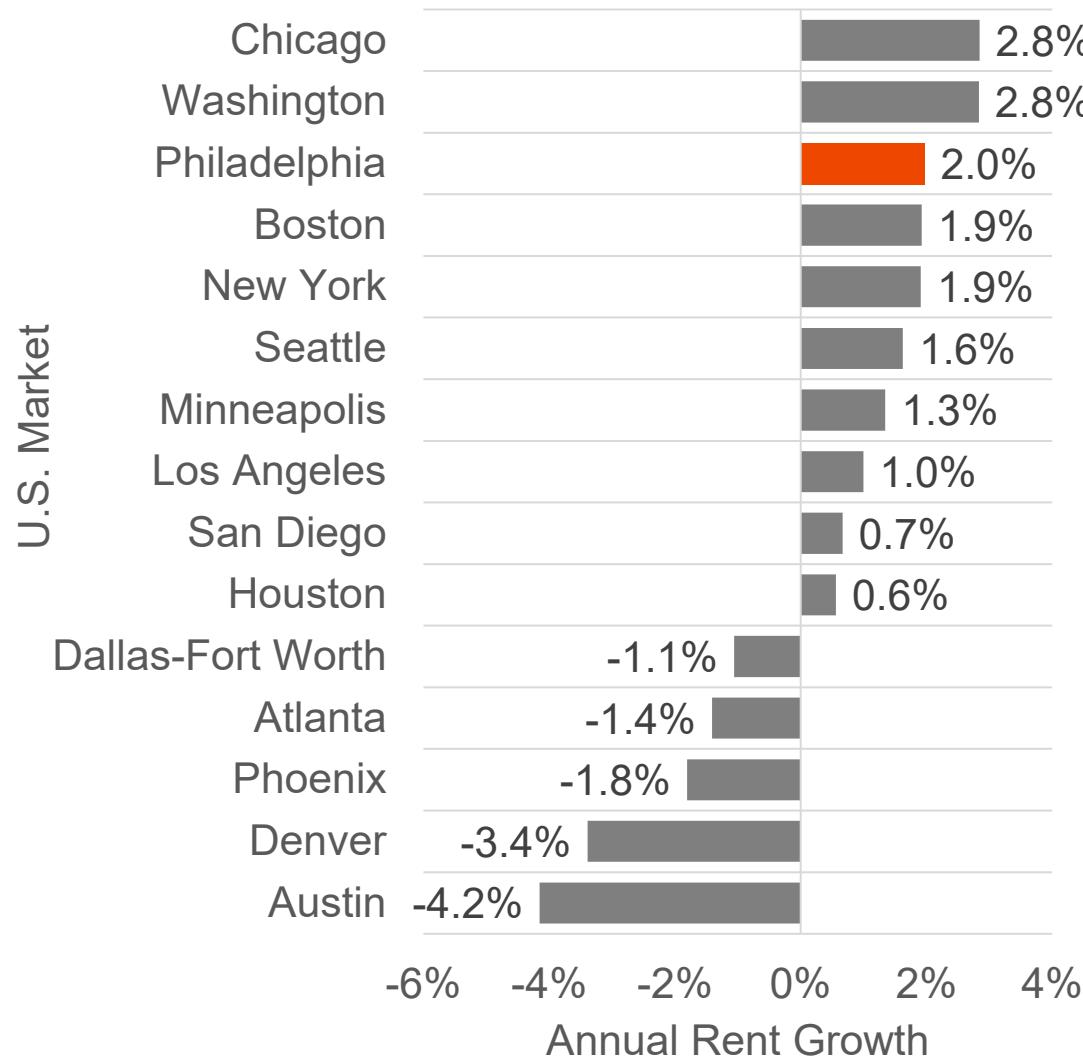
Source: CoStar, March 2025

Philadelphia's vacancy rate gravitates toward the middle of the pack

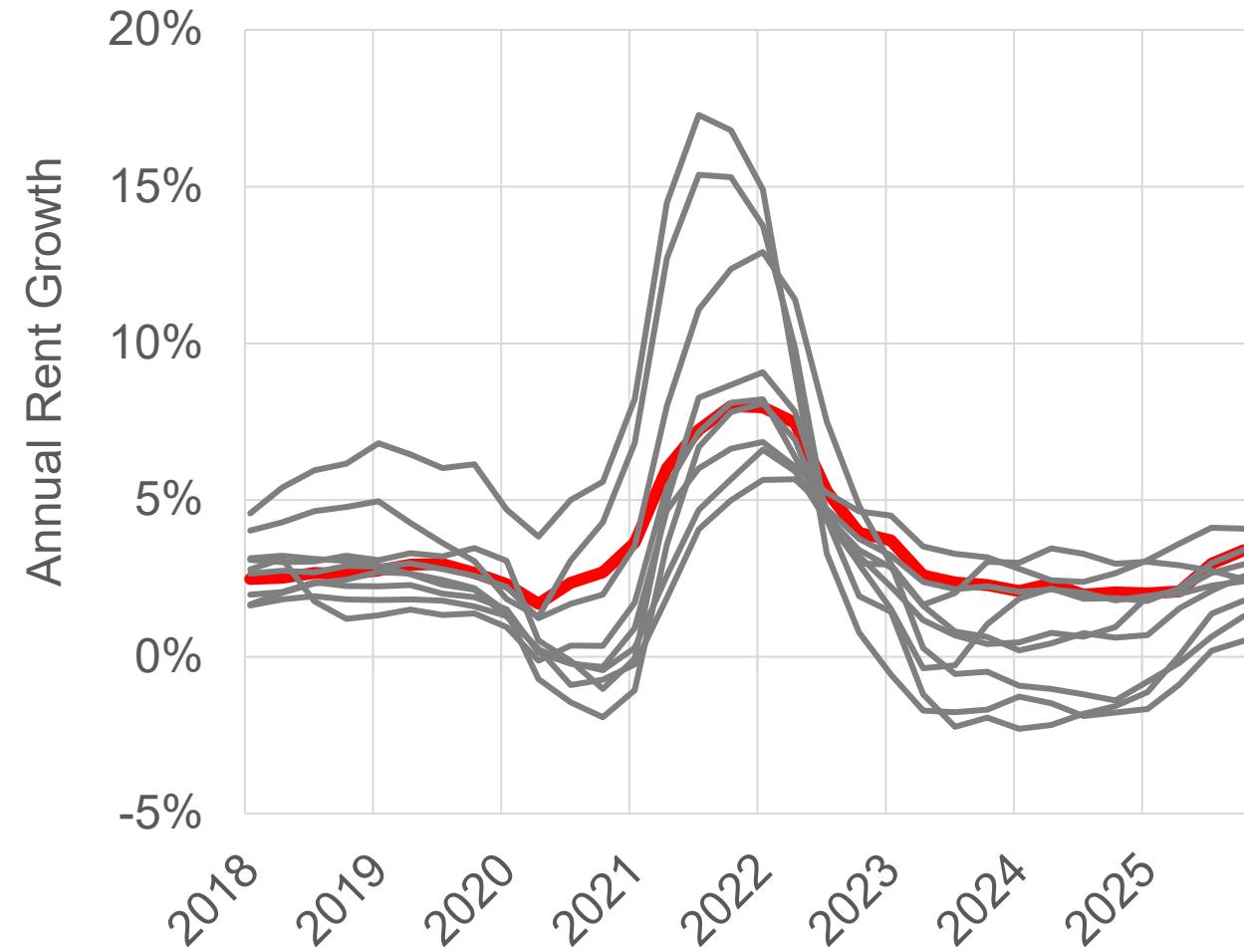


Source: CoStar, March 2025

Philadelphia's MSA recorded the 3rd fastest rent growth of top 10



Source: CoStar, March 2025



Retail

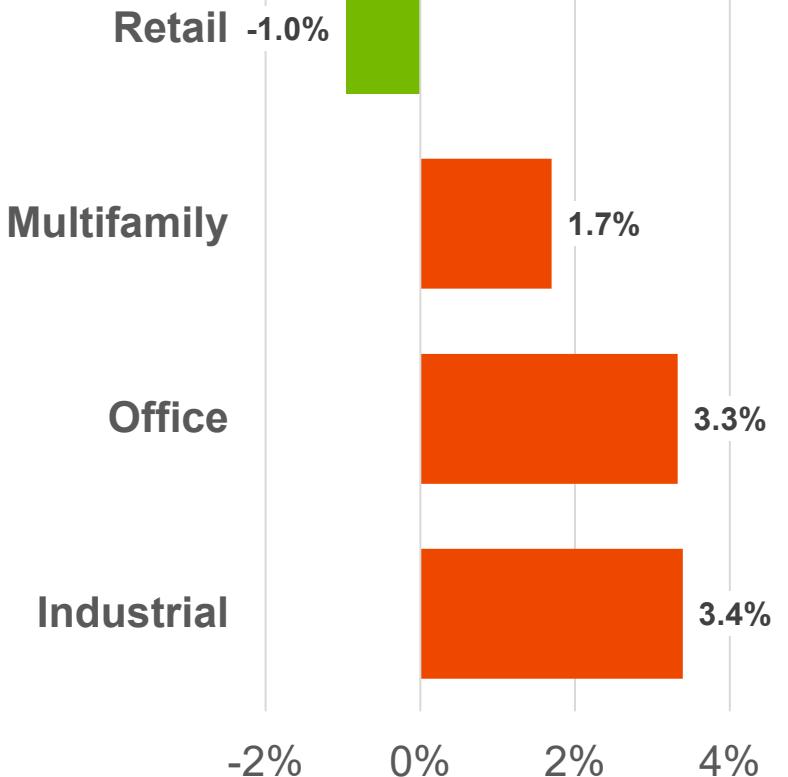
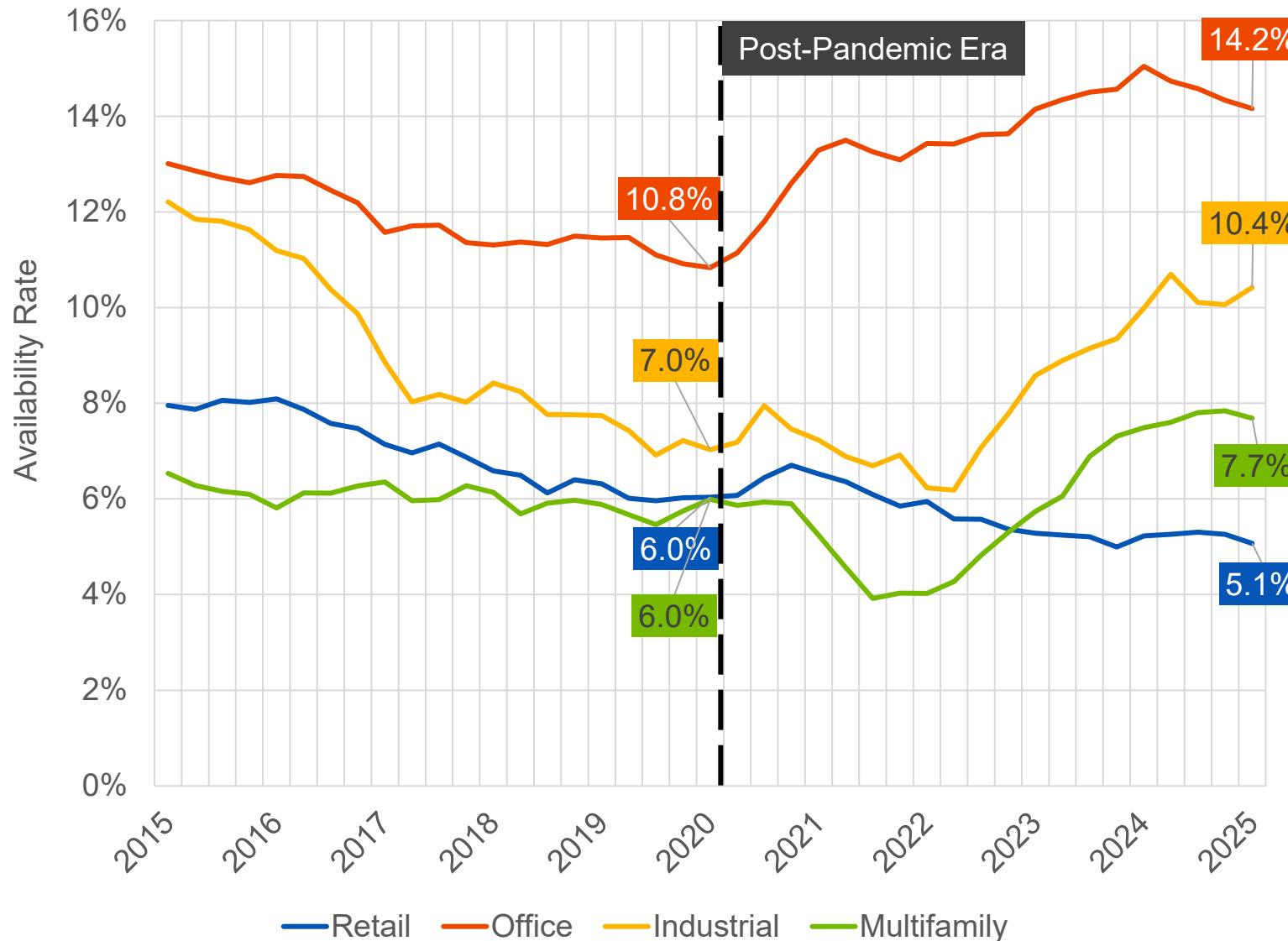
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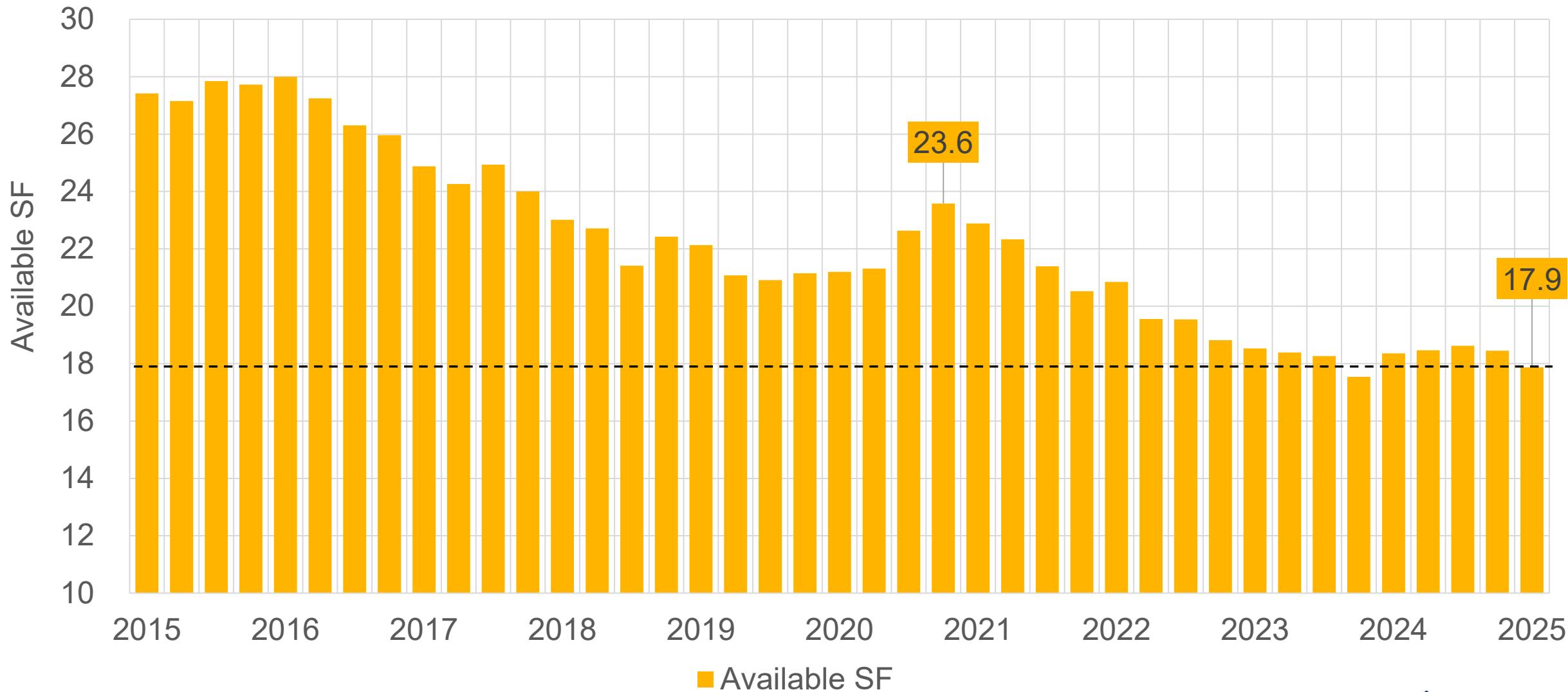
- 1) How has retail performed compared to the other property types?
- 2) What types of businesses have opened in Philadelphia lately?
- 3) How do national retail closures and openings impact Philadelphia?
- 4) What's the health of today's consumer?



Retail is the only property type to see availability shrink since 2020



Philadelphia's available retail inventory is at lowest levels in decades



Source: CoStar, March 2025

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What businesses have led Philadelphia's new leasing demand lately?

NATIONAL RETAILERS

BARNES
& NOBLE



five
BELOW



GROCERS

GIANT



amazon fresh

BANKS



Fulton Bank

Citizens[®]

EXPERIENTIAL

NETFLIX



FITNESS

corepower
YOGA

CRUNCH
FITNESS

CLUB PILATES

GRIT
FITNESS

VELOCITY
FITNESS AND HEALTH

URGE FITNESS
LESS CROWDS. CLEANER CLUBS. BETTER RESULTS.

alo
yoga

DAYCARES

THE LEARNING
EXPERIENCE[®]
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LEARNING CENTERS

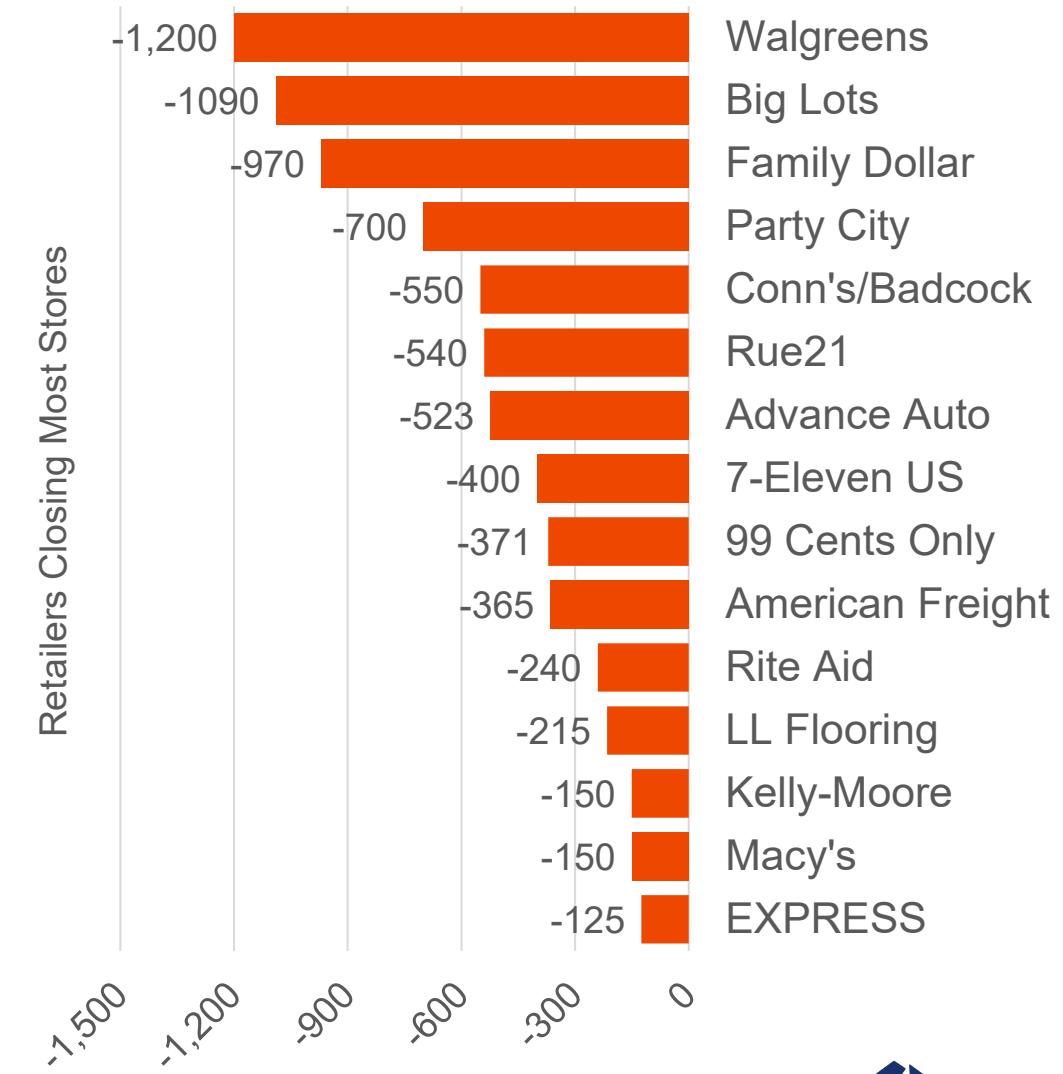
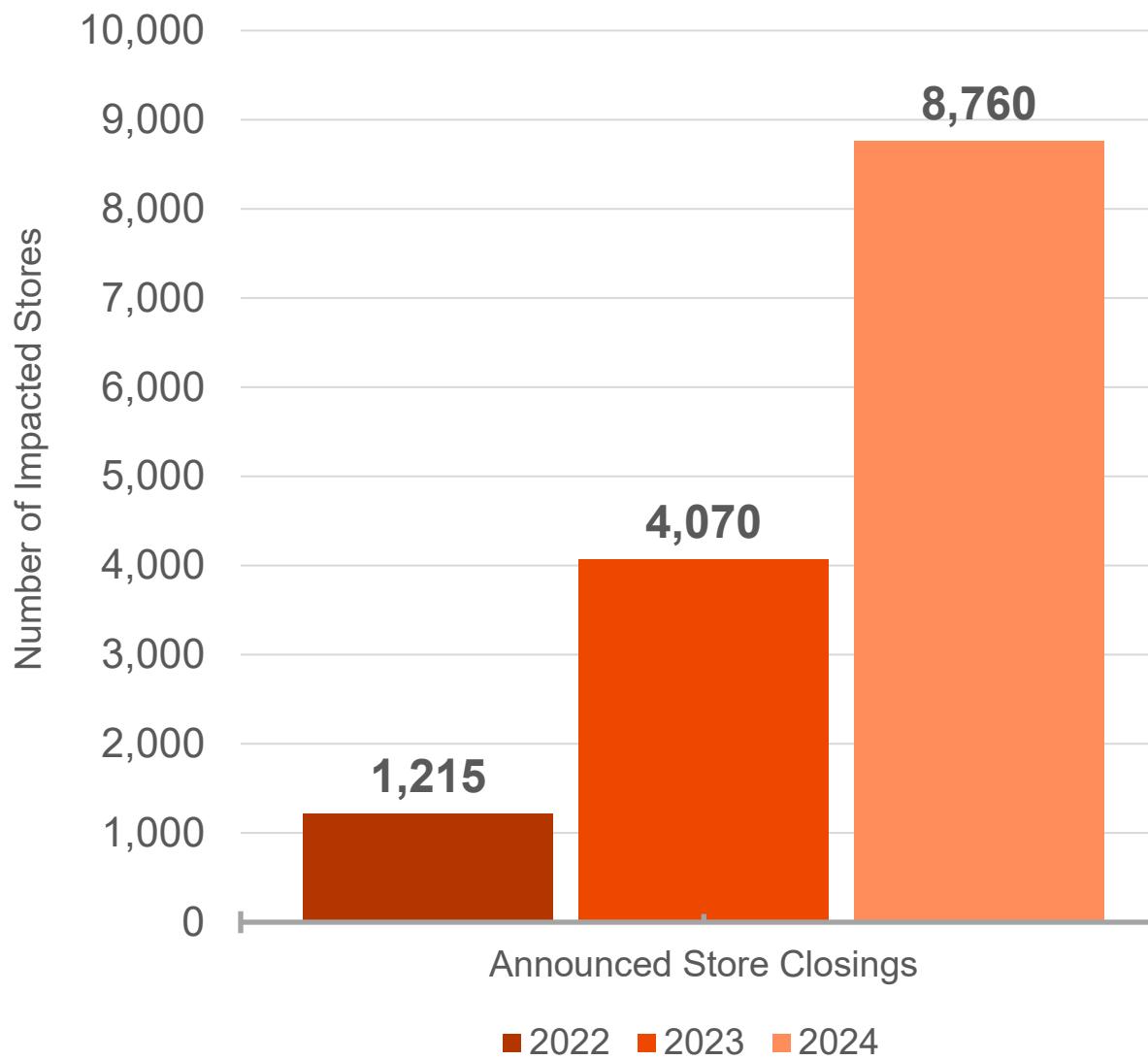
little
Sprouts[®]
Early Education & Child Care

CoStar[™]

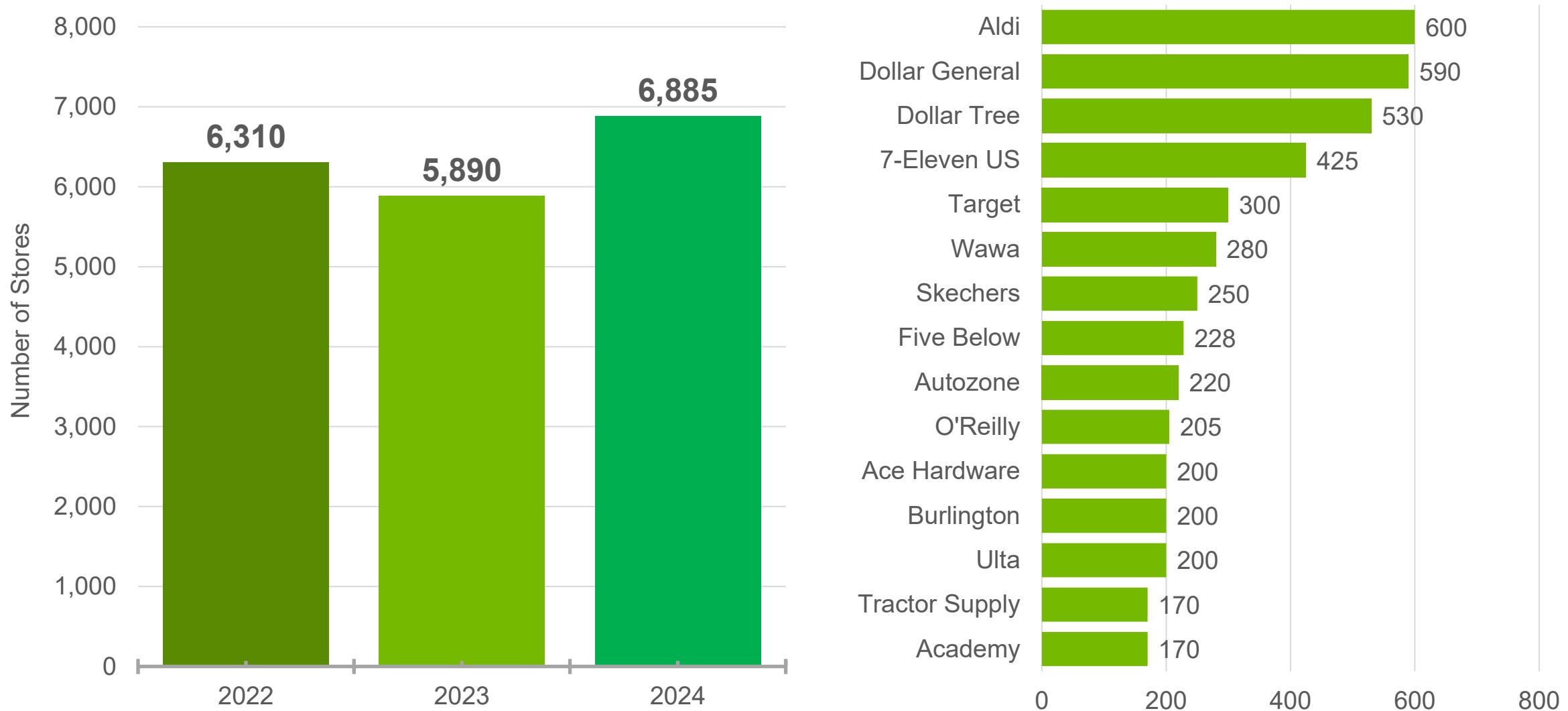
Retail demand hits a slump in 2024, shrinking to flat absorption



Announced national store closures more than doubled in 2024



Announced national store openings rose to a new high in 2024



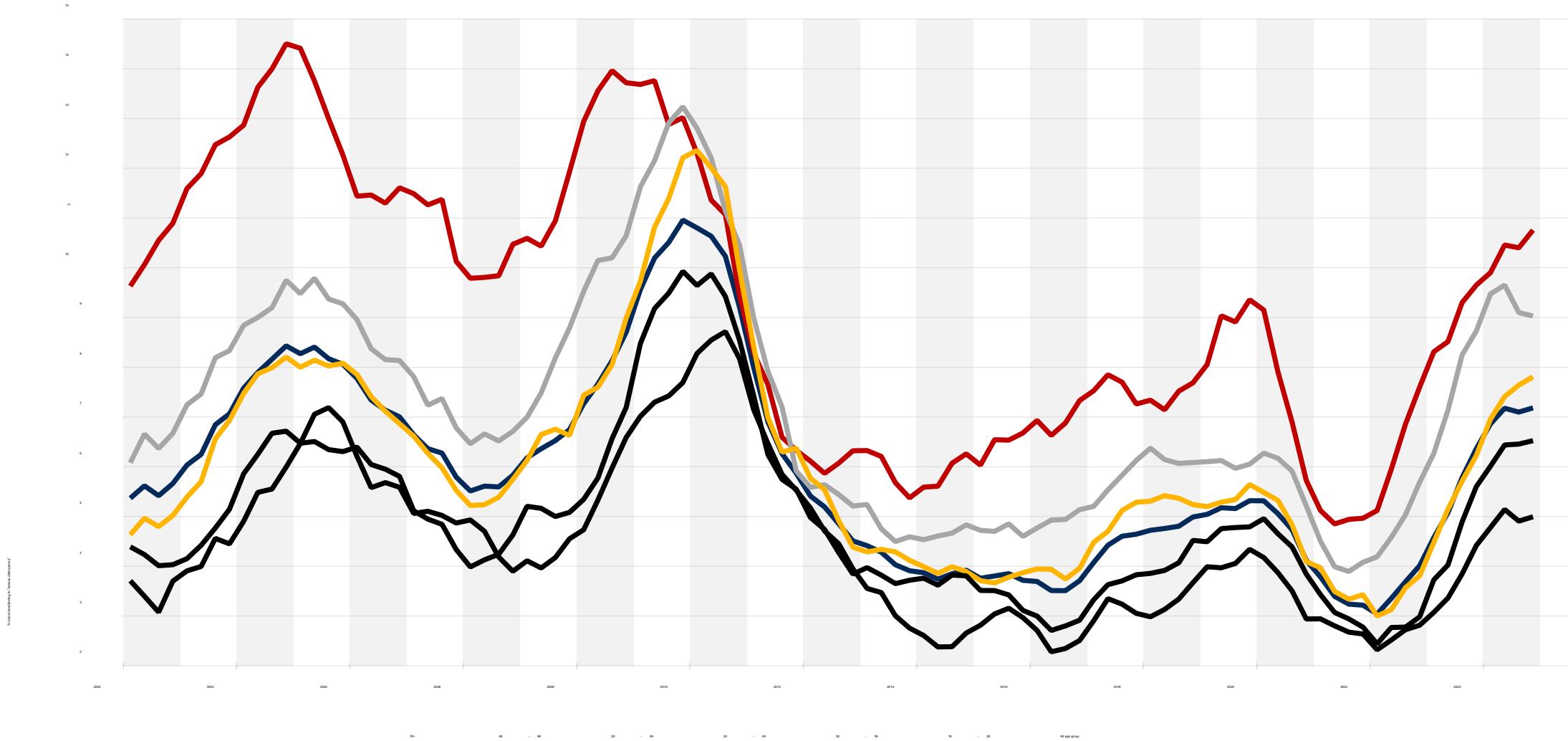
Source: Daily on Retail

Note: Based upon openings and closing plans announced during the period regardless of the store opening date

Signs 2025 will be another year of uncertainty for national retailers



Credit card loans transition to serious delinquency in late 2024



Source: Federal Reserve Bank of New York, 2024 Q4

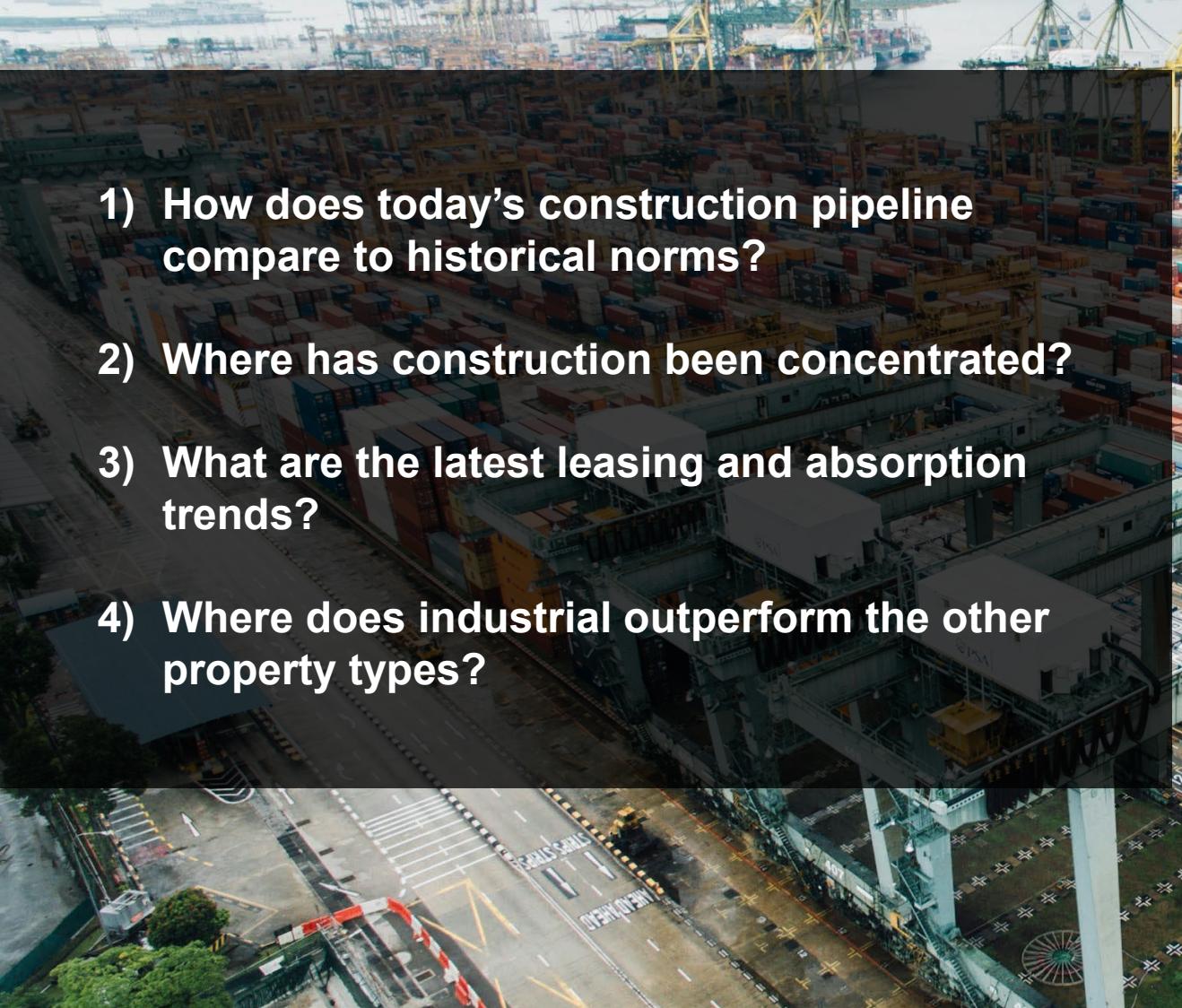
Consumers increasingly relied on credit between 2022 and 2024



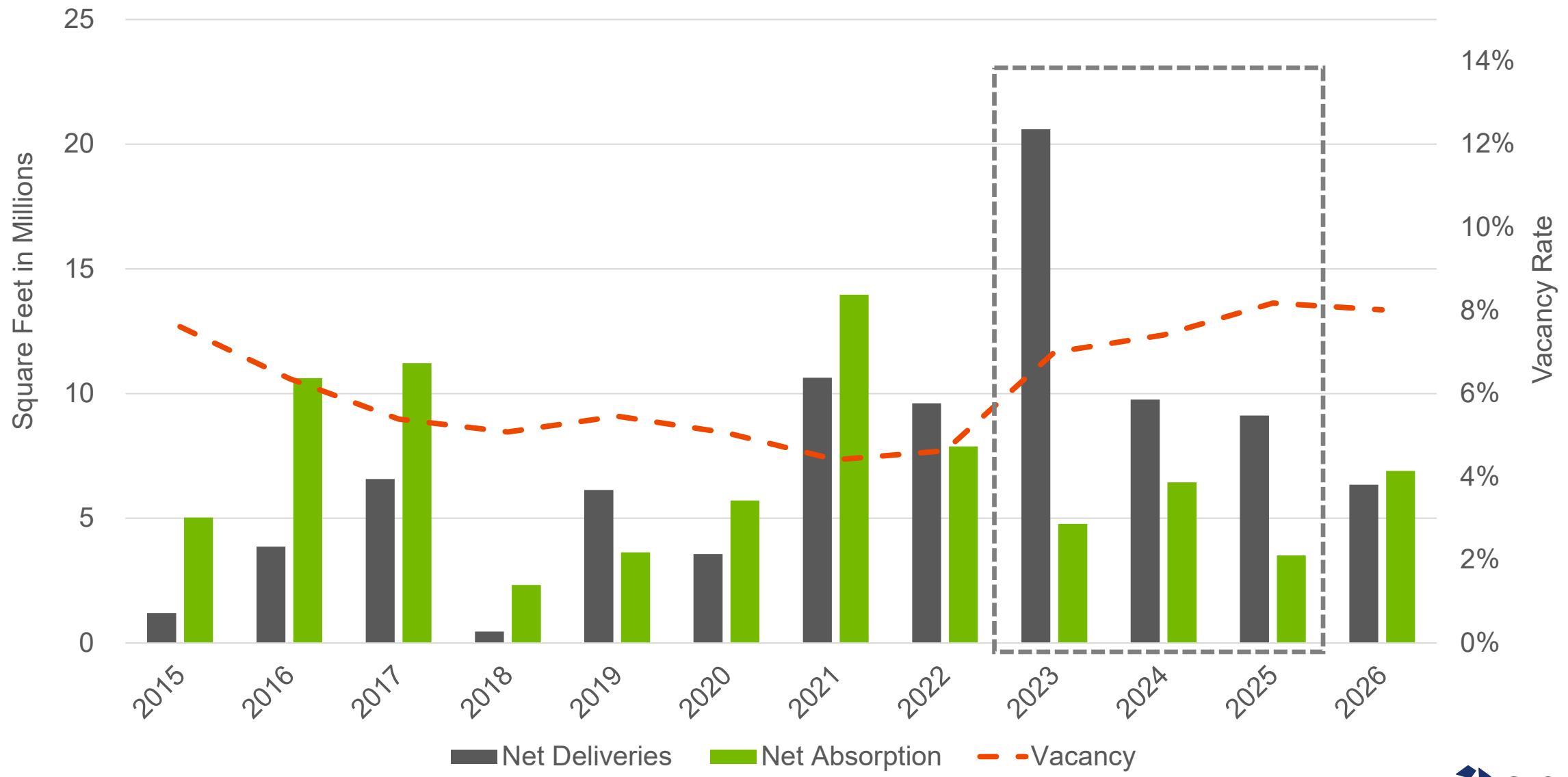
Industrial



- 1) How does today's construction pipeline compare to historical norms?
- 2) Where has construction been concentrated?
- 3) What are the latest leasing and absorption trends?
- 4) Where does industrial outperform the other property types?

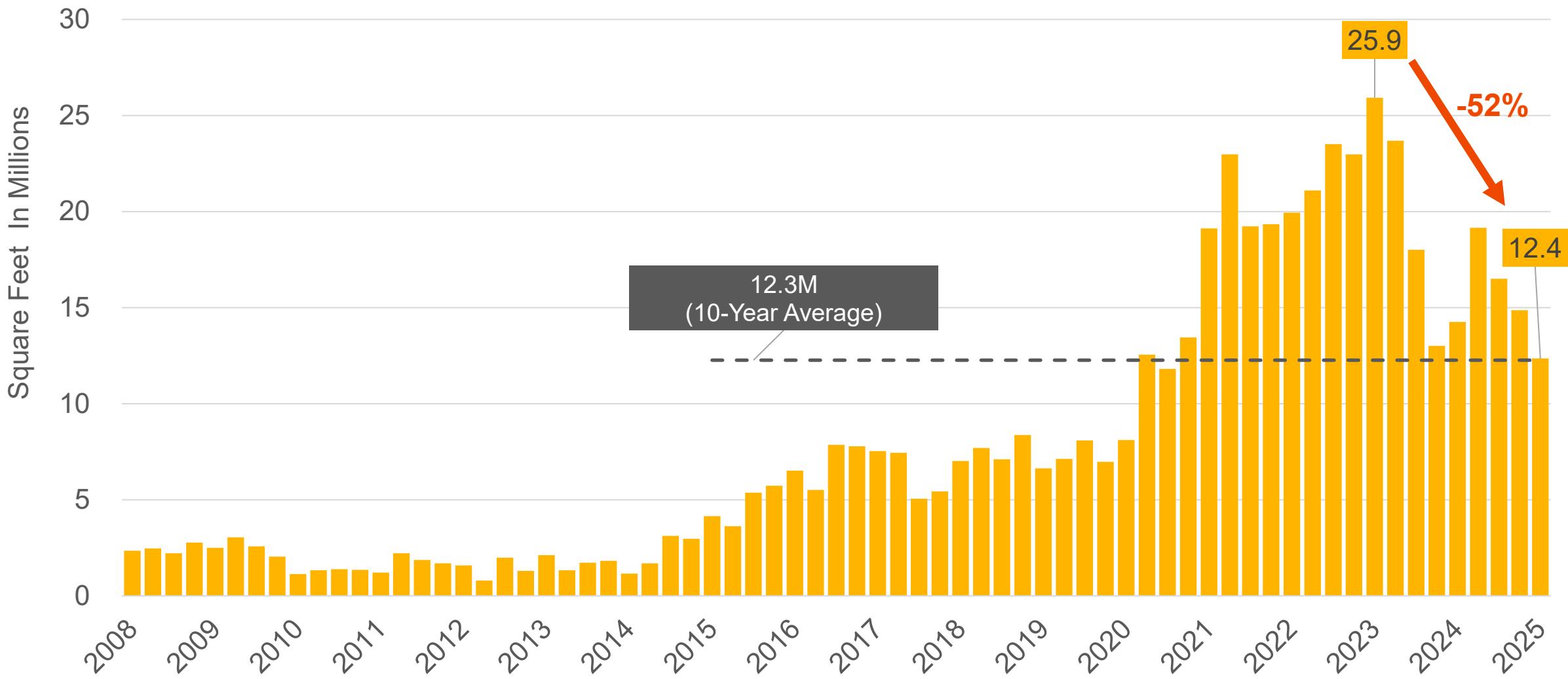


Industrial (temporary) oversupply hits three-year streak



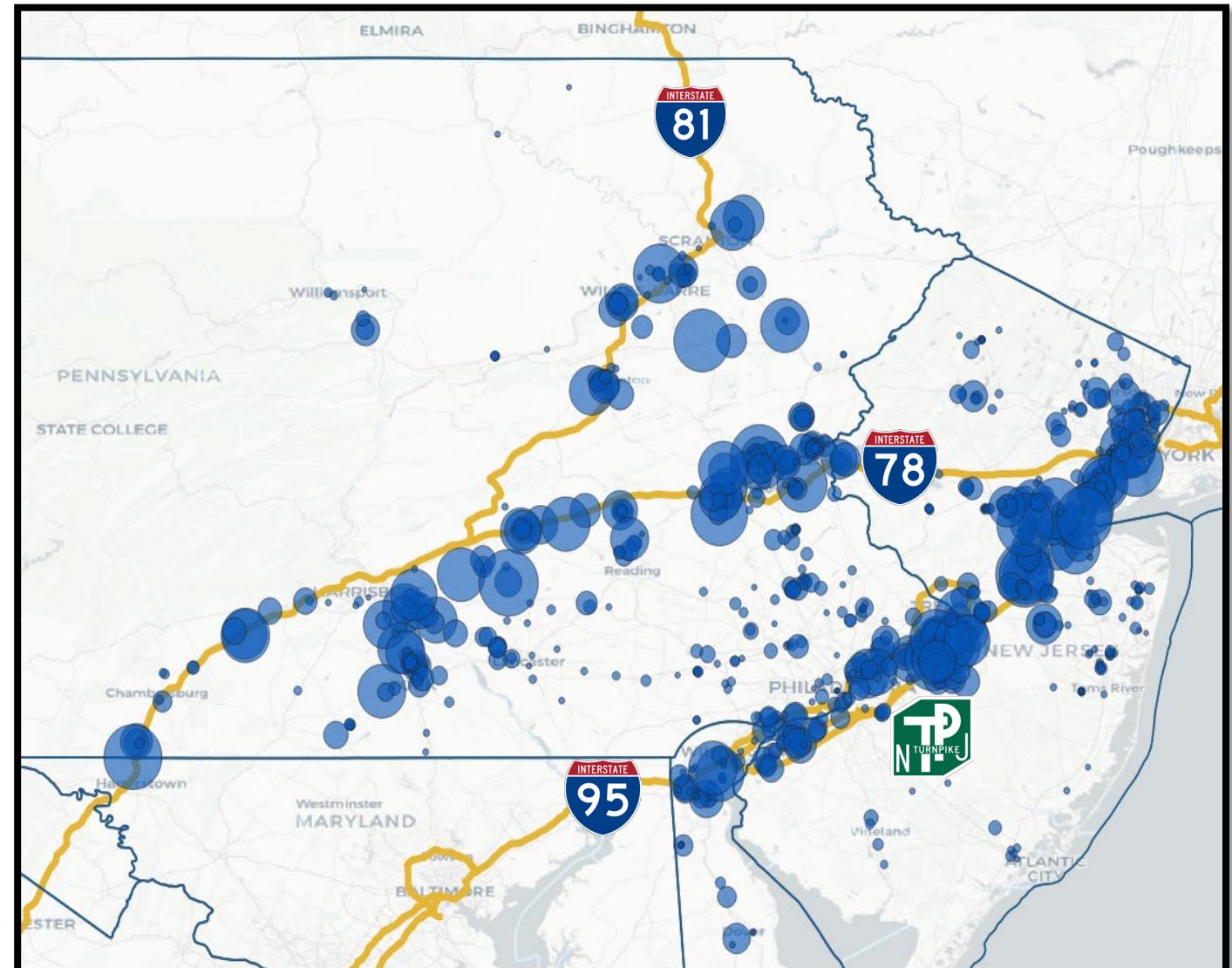
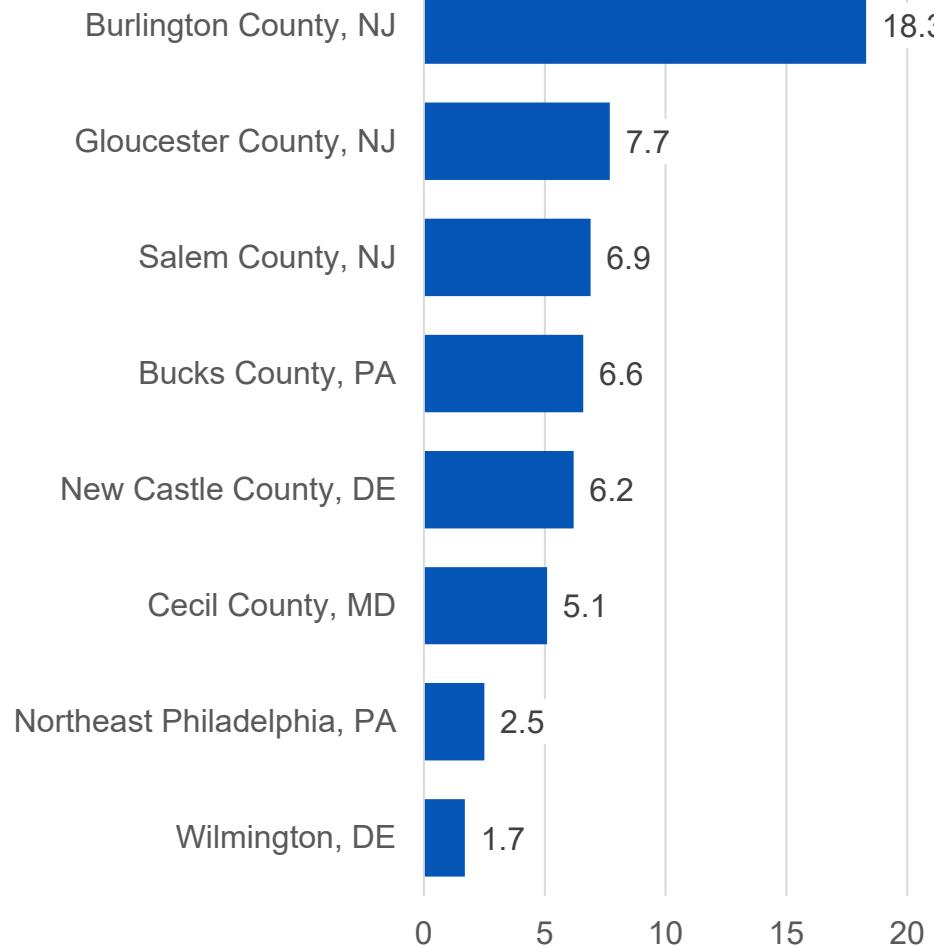
Source: CoStar, March 2025

Philadelphia's industrial construction pipeline eases in early 2025



Development has concentrated along the interstate highways

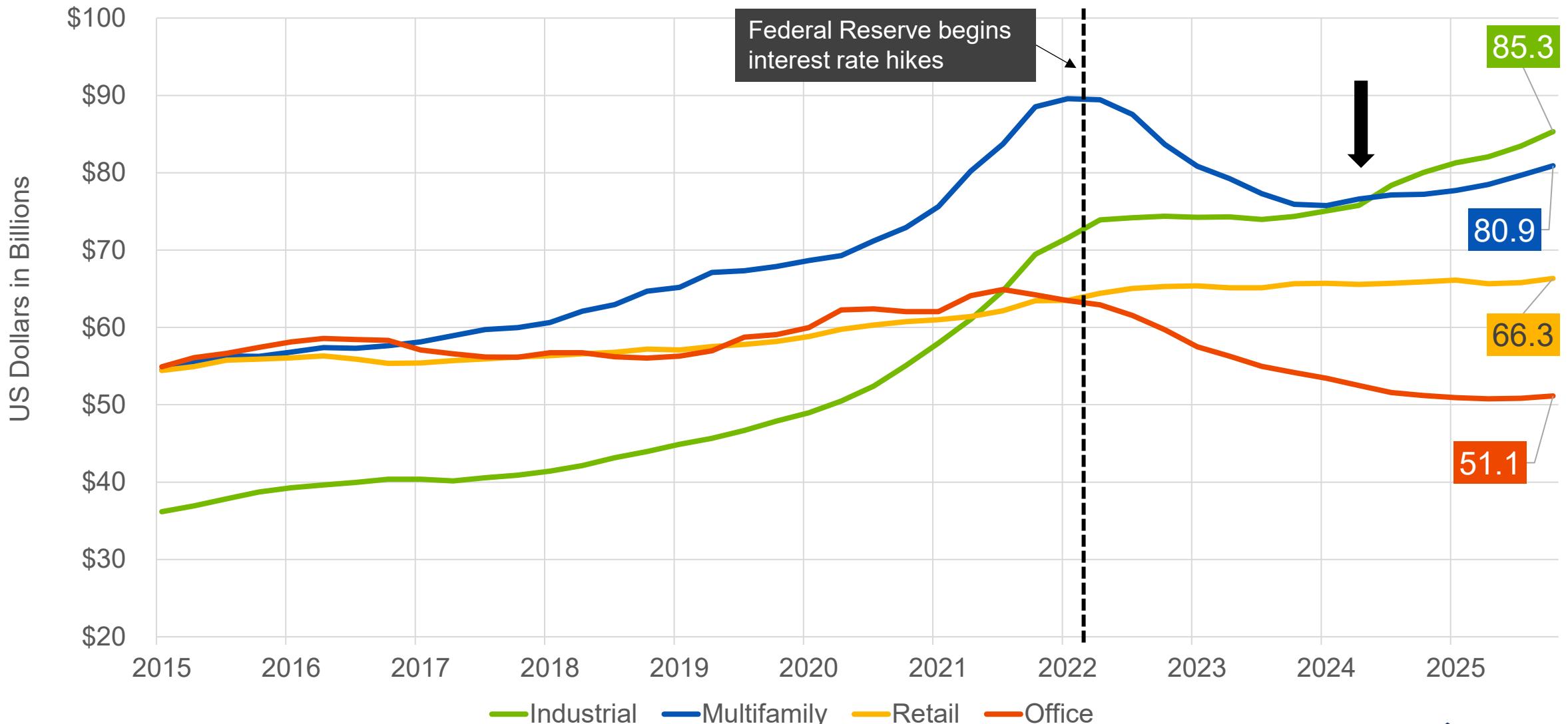
Inventory Growth in Millions of SF



Source: CoStar, March 2025

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Industrial asset values surpassed multifamily for the first time



Source: CoStar, March 2025

Key Takeaways

OFFICE

- Supply issues began back in the 1980s
- Despite challenges, Philadelphia has proven more stable than most major U.S. markets
- Philadelphia has reached positive office absorption, suggesting a *possible* inflection point in early 2025
- Significant challenges still exist:
 - Excess, obsolete office buildings
 - Downsizing trends with lease expirations
 - Capital markets/financing

MULTIFAMILY

- Active development has fallen by 60% from its peak in 2022
- The City of Philadelphia was behind 70% of the region's apartment development since 2020
- Renters have flocked to where developers have built due to competitive concessions
- Philadelphia has historically underbuilt compared to many major U.S. metros and recorded among the fastest rent growth in Q1 2025, driven by Southern New Jersey

RETAIL

- Retail is the only property type to see availability decline since 2020
- Limited development helps maintain a tight market
- Retailers constantly adapt to changing consumer preferences, so bankruptcies and expansions are expected
- 2025 may see more retailers close than opening, unlike past years
- The consumer is becoming more financially stressed

INDUSTRIAL

- Active development has fallen by 52% from its peak in 2023
- Southern New Jersey has claimed the lion's share of construction *and* demand
- Industrial has consistently led rent growth and investment sales; total assets now outpace multifamily
- New demand drivers have structurally changed industrial demand:
 - E-commerce
 - AI, Data Centers
 - Near-shoring manufacturing

THANK YOU!

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