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EXECUTIVE SUMMARY

- While the project pipeline has thinned, ground breakings, project planning, and new inquiries remain relatively steady going into.
- The recession-resistant healthcare sector is forecasted to continue to dominate growth in the local economy amid any concerns of a looming recession.
- All property sectors are expected to measure an increase in leasing volume throughout 2020.
- As unemployment remains below 4%, companies are increasing wages to compete for qualified candidates.
- Philadelphia has shifted over recent years to an information technology based economy with the largest growth measured in financial activities, health education, and research centers.

Philadelphia is currently experiencing a period of expansion marked by a historically low unemployment rate, expanding employment base, and rising wages. Population continued its upward trend marking 11 straight years of positive growth which doesn't show signs of slowing down. Continued job growth within this economy seems to be the main ingredient shaping the continued growth of the commercial real estate landscape in Philadelphia.

As the center of economic activity in Pennsylvania, Philadelphia is home to the headquarters of five Fortune 1000 companies. Continued growth in population, workforce, and GDP has marked Philadelphia as a top destination for education and healthcare related employment. The city's historically low unemployment rate has resulted in an extremely tight labor market, forcing employers to increase wages and employee incentives to continue to attract talent. Although employment growth continues throughout the market is has continued at a more modest pace than in recent years. The gradual slowing of job gains is a concern as it coincides with rising fears over the aging economic cycle and potential for an economic downturn. However, the looming risk and uncertainty surrounding international trade tensions and election uncertainty are more threatening to the U.S. economy, than to the Philadelphia property market. Historically, Philadelphia has proven itself as more resilient than other major U.S. markets during times of recession.

A key trend facing the forecast of Philadelphia is a continued modest pace of growth. When it comes to commercial real estate construction and leasing activity, forecast seems bullish about current activity and while the project pipeline has thinned, ground breaking project planning, and new inquiries remained relatively steady.

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	→	→	↑
Vacant Space	↑	↓	→
Construction Levels	↑↑	→	↑
Leasing Volume	↑	↑	↑
Investment Volume	↑	↑	↑

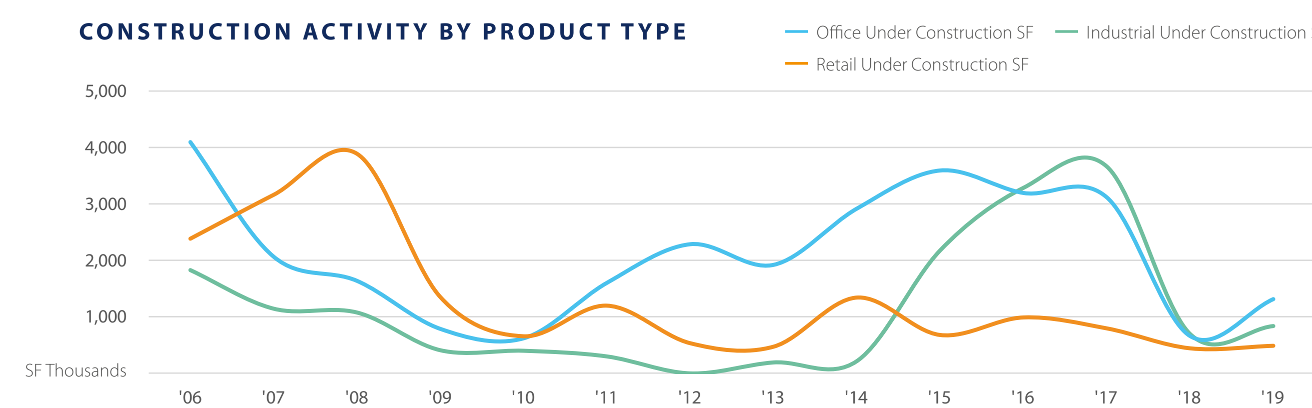
The industrial sector is projected to see a hike in rental rates in 2020, while it is expected that office and retail rate will remain flat. Renovation and conversion of industrial product is a trend that will persist throughout 2020. With low vacancy within the industrial sector, landlords have begun to renovate existing industrial space to create viable and creative options for tenants seeking space. As a result of the improved space hitting the market, industrial rental growth will continue their upward climb in 2020.

Office construction has boomed over recent years and more product is scheduled for delivery early in 2020. However, net absorption is expected to fall in 2020 as new space is likely to remain vacant upon delivery. Although office employment growth is projected to remain positive in the new year, the rate of growth will not be enough to keep up with new construction deliveries, resulting in an increase in vacant space year-over-year. Another factor contributing to the expected hike in vacancy is attributed to consolidations by financial and pharmaceutical tenants witnessed throughout the market in 2019. Despite the expected increase in vacancy, Philadelphia's office vacancy rate remains near 20-year lows and tighter than most major U.S. markets. Though vacancies are expected to fluctuate in the upcoming year, rental rates will not be impacted and rather, remain relatively on par with what they have been historically.

Labor markets tightened further throughout the metro area and wages continued to grow modestly. The outlook for growth over the next year remains positive but softened as growth will persist, albeit at somewhat of a more modest pace.

Going into 2020, Philadelphia is poised to measure continued growth across property sectors. Industrial is expected to outperform retail and office. Headwinds such as corporate consolidations and an imbalance in the supply and demand equation are potential headwinds that may temper the rate of growth. Despite these headwinds, the forecast for 2020 remains positive and offer a positive climate for continues investor demand.

CONSTRUCTION ACTIVITY BY PRODUCT TYPE



Source: Avison Young and Costar Realty Information, Inc.