

Many of the property sectors within the Philadelphia area are seeing low average sale prices along with low average capitalization rates, which may offer upside potential. With some population growth expected over the next 5 years and strong employment, all sectors of the commercial real estate market should continue to grow in value in the Philadelphia area.

Office

- Philadelphia area office market fundamentals were strong for fourth quarter 2006. Net absorption was high for the past two quarters, and the vacancy rate declined slightly. The average rental rate continued to increase, while construction activity remained very strong.
- The average price for office space in the Philadelphia area is \$141 per square foot, relatively low compared to the regional average of \$200 per square foot and the national average of \$167 per square foot, according to RERC's transaction analysis.
- The average transaction-based capitalization rate for offices in the Philadelphia area is 7.0 percent, slightly lower than the regional rate of 7.1 percent and the national rate of 7.2 percent.

Although the Philadelphia office market has an average sale price well below both the regional and national averages, the average capitalization rate for the area is also below the average rate found for those areas. This indicates possible upside potential for the market, as returns, on average, may be greater than those for similar office properties on a regional and national basis. With fundamentals expected to continue to improve, prices should increase, which, in turn, should decrease capitalization rates.

Industrial

- The fundamentals within the Philadelphia industrial market continued to grow stronger during fourth quarter 2006, with positive net absorption and availability rates steady from the previ-

ous quarter – all of which have helped to increase rental rates.

- The average sale price for industrial space in the Philadelphia area is \$61 per square foot, lower than the regional and national averages of \$84 per square foot and \$83 per square foot, respectively.
- The average capitalization rate for Philadelphia industrial properties is 7.7 percent, higher than the regional rate of 7.3 percent and the national rate of 7.4 percent.
- CCIM designees and candidates rated the Philadelphia industrial market an average rating of 5.0 on a scale of 1 to 10, with 10 being high.

As with the office market, Philadelphia's industrial market is seeing an average sale price that is well below both the regional and national average sale prices, and the average capitalization rate is higher than that of the region and the nation. As fundamentals within the area's industrial market continue to improve, prices for the properties may rise while capitalization rates can be expected to decrease. However, the economic growth and fundamental strengthening in the coming year may not be enough to bring industrial performance levels as high as the nation or the region.

Retail

- RERC's transaction analysis indicates the average price per square foot for Philadelphia retail space is \$175, between the regional and national averages of \$199 and \$169 per square foot, respectively.



Demographics & Economy

Population:

2006 (est.): 5.9 million

2011 (proj.): 6.1 million

Unemployment Rate:

Philadelphia - 3.9%

Pennsylvania - 4.1%

National - 4.5%

Economic Performance Rating*:

Philadelphia - 4.0

National - 5.0

*Rating given by CCIM designees and candidates in the study area, based on a scale of 1 to 10, with 10 high.

- The transaction-based capitalization rate for Philadelphia area retail properties is 6.7 percent, slightly lower than the East regional and national average capitalization rates of 6.9 percent.
- CCIM designees and candidates rated the performance of the retail market a 7.0 on a scale of 1 to 10, with 10 being high.

There is much upside potential within the Philadelphia retail market. With an average sale price and a low capitalization rate, the area presents an opportunity for strong relative return potential. Although the Philadelphia area economy is expected to grow at a slow rate, the value of the properties within this area will grow along with it.

Apartment

- Apartment properties in the Philadelphia area are seeing an average sale price of \$78,595 per unit, substantially lower than the East regional average of \$128,020 per unit and the national average of \$107,833 per unit.
- The apartment market in the Philadelphia area has an average capitalization rate of 6.2 percent, midway between the regional and national

National Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
Volume (in millions)						
<\$2 million	\$2,307	\$4,047	\$4,070	\$5,669	\$220	\$16,312
\$2-5 million	\$3,910	\$5,701	\$6,222	\$5,910	\$926	\$22,668
>\$5 million	\$155,131	\$32,581	\$50,896	\$87,663	\$33,689	\$359,961
All	\$161,348	\$42,328	\$61,188	\$99,242	\$34,835	\$398,942
Unit Price Averages						
<\$2 million	\$103	\$68	\$103	\$92,566	\$53,998	-
\$2-5 million	\$167	\$96	\$216	\$128,810	\$59,767	-
>\$5 million	\$209	\$104	\$250	\$126,410	\$137,649	-
All	\$167	\$83	\$169	\$107,833	\$110,713	-
Median of all	\$137	\$66	\$123	\$86,170	\$82,776	-
Capitalization Rates (All)						
Range	4.7 - 10.5	4.8 - 11	4.4 - 10.4	3.8 - 10.6	5.7 - 12.3	3.8 - 12.3
Average	7.2	7.4	6.9	6.3	8.7	7.3

rates of 6.1 percent and 6.3 percent, respectively.

- CCIM designees and candidates rated the Philadelphia apartment sector a 9.0 out of 10, which was the highest rating given to any of the sectors in the area.

With a low average selling price and a relatively low capitalization rate, there is much potential for investment within the Philadelphia apartment market. A low unemployment rate and expected population growth will cause demand for rental units to increase, placing higher values on those properties within the area.

Hotel

- The average price for hotel properties in the area is \$94,847 per unit, according to RERC's transaction analysis, relatively low compared to the regional average of \$147,952 per unit and the national average of \$110,713 per unit.
- The average capitalization rate for hotels in the Philadelphia area is 8.3 percent, slightly lower than the East regional average of 8.4 percent and the national average of 8.7 percent.
- CCIM designees and candidates rated the Philadelphia hotel sector a 6.0 on a scale of 1 to 10, with 10 being high.

The Philadelphia hotel market, like many of the other markets in the area, is seeing slightly low prices, as well as low capitalization rates.

East Region Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
Volume (in millions)						
<\$2 million	\$452	\$789	\$817	\$888	\$28	\$2,974
\$2-5 million	\$881	\$1,080	\$1,264	\$1,749	\$146	\$5,119
>\$5 million	\$62,999	\$8,110	\$12,157	\$30,547	\$8,698	\$122,511
All	\$64,287	\$9,914	\$14,178	\$33,144	\$8,861	\$130,384
Unit Price Averages						
<\$2 million	\$95	\$56	\$98	\$81,790	\$54,731	-
\$2-5 million	\$157	\$97	\$239	\$158,133	\$48,372	-
>\$5 million	\$258	\$127	\$338	\$174,721	\$182,367	-
All	\$200	\$84	\$199	\$128,020	\$147,952	-
Median of all	\$146	\$57	\$124	\$87,004	\$94,017	-
Capitalization Rates (All)						
Range	4.7 - 10	4.8 - 9.9	4.7 - 10.4	4.2 - 9	5.9 - 11.5	4.2 - 11.5
Average	7.1	7.3	6.9	6.1	8.4	7.2

Philadelphia Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)						
	Office	Industrial	Retail	Apartment	Hotel	Total
Volume						
<\$5 million	\$101	\$174	\$107	\$92	-	\$474
>\$5 million	\$3,815	\$1,146	\$927	\$1,092	\$423	\$7,402
All	\$3,915	\$1,321	\$1,033	\$1,184	\$424	\$7,877
Unit Price Averages						
<\$5 million	\$124	\$52	\$123	\$67,384	-	-
>\$5 million	\$151	\$79	\$265	\$97,584	\$96,094	-
All	\$141	\$61	\$175	\$78,595	\$94,847	-
Median of all	\$128	\$53	\$132	\$64,607	\$83,889	-
Capitalization rates (all)						
Range	5.3 - 8.8	5.8 - 9.6	5 - 8.4	4.7 - 7.8	6.2 - 10.4	4.7 - 10.4
Average	7.0	7.7	6.7	6.2	8.3	7.2

NCREIF Real Estate Index Returns - 4Q 2006					
	Office	Industrial	Retail	Apartment	Average
Total Returns:					
1-Year Rate	14.00%	13.80%	24.20%	13.50%	15.60%
3-Year Rate	14.90%	16.00%	23.00%	13.00%	16.80%
5-Year Rate	9.20%	13.60%	17.80%	12.20%	12.80%
10-Year Rate	10.70%	-	14.00%	14.10%	12.80%
15-Year Rate	6.40%	-	-	12.50%	9.00%
Income Return					
1-Year Rate	5.90%	8.30%	6.40%	4.80%	5.80%
3-Year Rate	6.80%	8.30%	7.20%	5.70%	6.90%
5-Year Rate	7.50%	9.10%	7.60%	6.50%	7.50%
10-Year Rate	8.50%	-	7.90%	7.80%	8.30%
15-Year Rate	8.30%	-	-	8.10%	8.30%
Allocation					
	Office	Industrial	Retail	Apartment	Other
1-Year Average	39%	6%	20%	34%	1%
3-Year Average	39%	6%	26%	26%	3%
5-Year Average	40%	5%	30%	22%	3%
10-Year Average	45%	4%	27%	20%	5%
15-Year Average	47%	2%	22%	20%	8%

Sources: RERC and National Council of Real Estate Investment Fiduciaries

Noteworthy Transactions

- The 42,754-square-foot industrial property located at 2401 Locust St. sold for \$15.3 million, or \$358 per square foot – more than four times the Philadelphia average sale price of \$79 per square foot for buildings selling for more than \$5 million.
- The Ellington, a 17,367-square-foot retail center located at 1500 Chestnut St., sold for \$5.2 million, or around \$300 per square foot, well above the average sale price of \$265 per square foot for properties selling in excess of \$5 million.
- The office properties located on 3 Parkway, Ben Franklin Parkway, and Cherry Street and totaling 561,100 square feet sold for \$90 million, or \$160 per square foot, slightly above the area average sale price of \$151 per square foot for properties selling in this price category.
- The 288-room Embassy Suites Hotel located at 1776 Benjamin Franklin Parkway sold for \$39 million, or around \$135,417 per unit, well above the average price of \$96,094 per unit for properties selling for over \$5 million.
- The 48-unit apartment property located at 1419-21 West Allegheny Ave. sold for around \$915,300, or about \$19,070 per unit – one-third the average sale price of \$67,384 per unit for properties selling under \$2 million.