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Philly Real Estate Forecast 2017: No Irrational Exuberance Here, Not Yet

Industry insiders who responded to this year's "Emerging Trends in Real Estate" survey say the continued bullishness is justified. Here's what to expect locally and nationally.

By Sandy Smith | November 21, 2016 at 11:26 am

Let's get this out of the way first: **Eric Goldstein** is simply ahead of the curve.

The head of the King of Prussia District has seen the future and is getting out in front of one of next year's "Emerging Trends in Real Estate."

The tour tied to the release of the annual Urban Land Institute/PwC real estate market forecast stopped in Philadelphia at the Union League on Friday, and one of the trends shaping development that the presenters and panelists at ULI Philadelphia's "Real Estate Forecast 2017" conference discussed was suburban office parks transforming themselves to accommodate the "18-hour" lifestyles their workers have increasingly adopted.

"The innovation economy is shifting," said **Jennifer Vey**, fellow and co-director of the Bass Institute on Innovation and Placemaking at the Brookings Metropolitan Policy Program, during the panel discussion that followed the presentation on the report. "It's no longer about driving into the office in the office park and keeping your secrets secret. The innovation economy is far more collaborative, both within and across sectors, between established firms and startups, and between firms and anchor institutions."

This shift in work style is in turn driving suburban office parks to refashion themselves as all-day environments, a shift designed to give the suburbs where most Americans — including most Millennials — still live and work the kinds of attributes that have spurred central-city revivals in large cities all across the country, including this one.

Vey noted something similar taking place at one of the country's best-known office parks in the discussion. "Research Triangle Park realized its lunch was getting eaten by Raleigh and Durham," she said, "so it began a master planning process to determine how it can become a 'town center.'"

In this region, King of Prussia is doing the same thing while Philadelphia itself reaps the benefits of already having this sort of infrastructure in place. As MSC Retail Managing Director **Douglas J. Green** put it, "Philadelphia really does have some foundational attributes that position us well going forward: our location between Washington and New York, our public transportation system, the third largest downtown population in the United States." All of these have combined to turn Philadelphia into an "18-hour city," one of the major trends reshaping the real estate industry identified in the 2016 "Emerging Trends" report. "Those here 10 years ago can't believe the activity on the streets at 10 p.m., or even 7 a.m.," Green said.

Because of these attributes and changes, several of the conference participants agreed that the continued ebullience in the Philadelphia real estate market was justified and that the market deserved a higher ranking than it has gotten in these annual surveys (of the 78 U.S. real estate markets studied for this year's forecast, Philadelphia ranked 28th in terms of overall investment opportunity). "I think Philadelphia is in much stronger position than the rankings have us," said ULI Philadelphia Chair **Antonio Fiol-Silva**. "I'm always frosted that we get ranked lower than cities one-tenth our size," said the panel moderator, Econsult Solutions President **Stephen P. Mullin**.

In certain categories of real estate, however, Philadelphia ranks much higher as an investment opportunity in the coming year. As a market for home building, for instance, the area ranked eighth nationally. And among markets in the Northeast, the ULI/PwC forecast rated the Philadelphia market the fourth strongest, after Boston, Manhattan and Brooklyn, with conditions continuing to improve.

That home building forecast does affirm the interest outside investors have shown in multifamily residential projects locally, with companies like Bozzuto and Southern Land Company becoming major players in both construction and property management locally.

Where they're playing, however, highlights another emerging trend that will affect real estate markets in the year to come: Housing affordability. Most of the new construction in this region, and almost all of the new multifamily construction, is taking place at the upper end of the market. This year's forecast identifies housing affordability as one of the big market-shaping topics, especially as it affects the increasingly squeezed folks in the middle of the income distribution.

Another thing both the panelists and keynote speaker **Mitchell Roschelle**, head of PwC's real estate business advisory services unit, agreed on was this: The next recession won't be caused by the bursting of a real estate bubble. Roschelle noted that developers nationwide were adding supply to the market at rates below the increase in demand; this "kinder, gentler real estate cycle" is the first of the trends shaping the market for 2017. He said that a labor shortage — another of the emerging trends for 2017 — would be a more likely recession trigger.

The other trends likely to shape, or reshape, the real estate market in the year ahead included:

Adaptability, or "optionality." Property owners are increasingly moving to wring every ounce of value out of their properties by making them available for multiple uses that may vary according to time of year or even time of day. Co-working spaces and pop-up retail are both examples of this trend.

Small is beautiful. While the real estate financing markets throw roadblocks in their path, small and mid-sized developers — those with 250 or fewer employees — actually form the backbone of the industry. The small firms, those with fewer than 50 employees, actually dominate the total firm count in all of the major development sectors, and in land subdivision and residential construction, they employ the bulk of those working in the sector. These firms, the report says, form "an ideal laboratory for entrepreneurial innovation."

Locating to improve the "triple bottom line." You may have heard that phrase in quotes before; it's a signature goal of a growing number of socially conscious business owners. It refers to managing the company to maximize not only its profitability but also its social and environmental impact. Triple-bottom-line thinking has contributed to the decisions a number of companies have made to relocate from suburban sites to recovering city cores; the report cited Las Vegas and Detroit as beneficiaries of this trend.

The crowd watching the parade wants in. Many of the trends above are disruptive to existing development patterns, and the people who are satisfied with things as they are now have more ways to make their voices heard. "NIMBYism" has a long history as a force that can alter the current of real estate development, and thanks to phenomena like the rise of social media, the objectors to development can more effectively mobilize their opposition. (A King of Prussia project, the proposed Norristown High-Speed Line spur, offers a case study locally.)

The wired city will prosper. These days, the Internet is even more abuzz with things talking to one another than with people talking to one another. Data provided by things like electrical grids, cash registers, traffic signals and other inanimate objects can work to improve the performance of "smart cities" that work to mine and understand that data relative to their peers.

Augmented reality as a driver of behavior in actual reality. "Pokemon Go" got players exploring their cities in ways they hadn't before in search of fictional animated characters. The same phenomenon is now transforming how potential buyers learn about real estate for sale: virtual tours and 3D imagery now give them a chance to experience a property before they visit it, and that in turn makes them more likely to actually visit it to kick its tires.

The emergence of a digital ledger book. Remember "Where's George?" That online site allowed you to trace the path of a dollar bill from person to person. "Blockchain" is its more sophisticated all-digital sibling, the technology that underlies the spread of Bitcoin. It creates an unalterable transaction history that allows the path of the currency to be traced, and it has the potential to revolutionize many of the more time-consuming and painful aspects of real estate transactions such as verifying title or deed transfer. It's way too soon to predict whether this transformation will actually take place, but the potential is there.

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