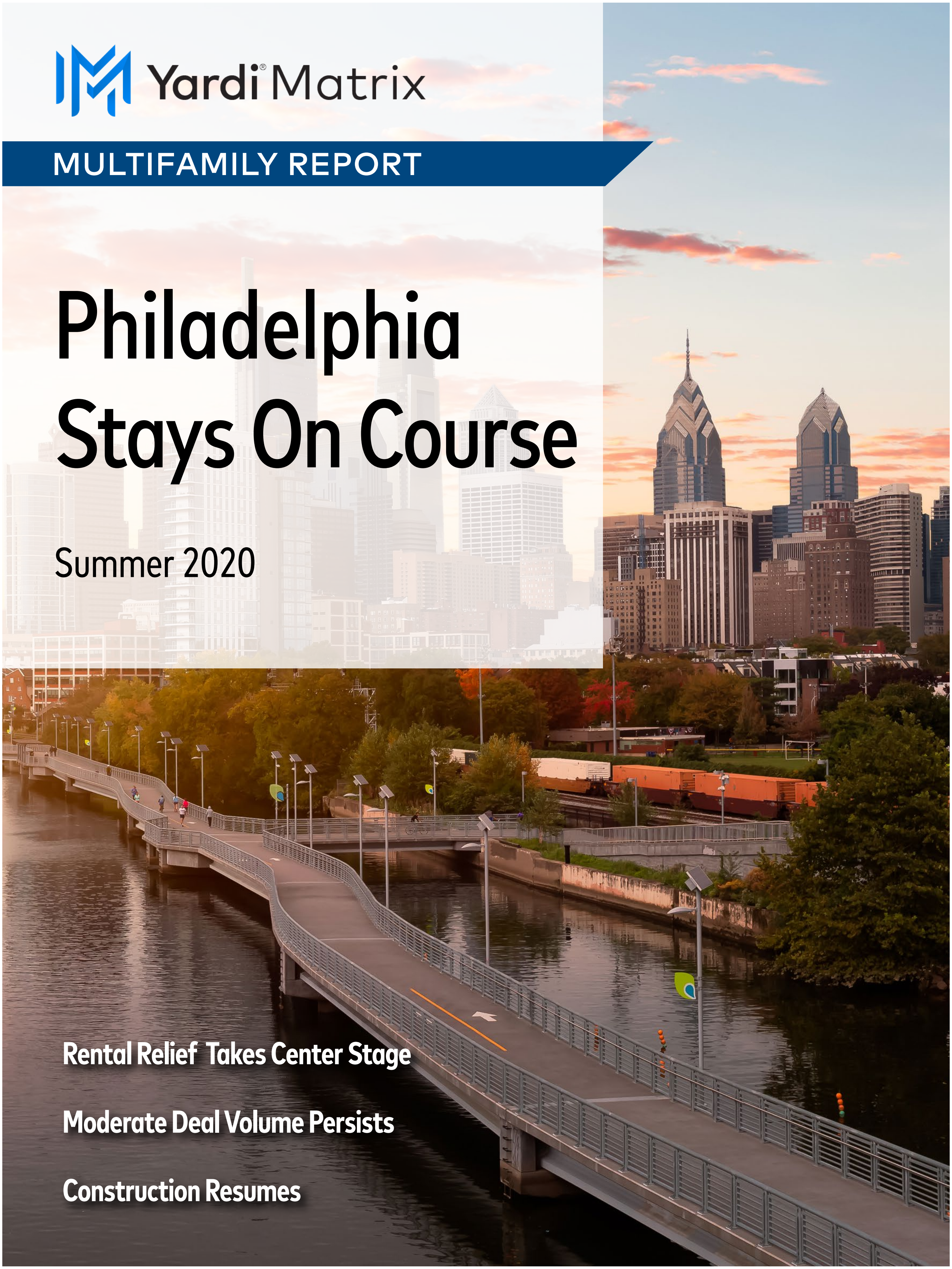
Yardi Matrix

MULTIFAMILY REPORT

Philadelphia Stays On Course

Summer 2020



Rental Relief Takes Center Stage

Moderate Deal Volume Persists

Construction Resumes

PHILADELPHIA MULTIFAMILY

Yardi Matrix

Phased Reopening Follows Strict Guidelines

Early and stringent measures aimed at curbing the spread of the coronavirus put Philadelphia's economy on hold, and while stay-at-home orders mitigated the effects of the outbreak, the metro's fundamentals have certainly borne the weight of the COVID-19 pandemic. According to the U.S. Bureau of Labor Services, unemployment in the metro stood at 14.5% as of April, up from 5% in March. As of early June, unemployment claims since March 25 totaled 2.5 million across the state.

Following a change in Pennsylvania's fiscal code, the state allocated $150 million to its rental assistance program, while Philadelphia tapped $10 million in federal relief funds. The city's COVID-19 Emergency Rental Assistance Program received some 13,000 applications since its launch in early May. Landlords can start filing evictions again on July 10, so city officials have started working on the Emergency Housing Protection Act package aimed at rental relief and tenant assistance.

Due to a statewide halt on all nonessential development, construction was one of the hardest-hit sectors, even through March (-3,700 jobs). Since May, construction-related businesses have resumed activity under strict safety guidelines—the metro had 12,633 units underway. With Philadelphia still in the yellow phase of reopening as of June, delivery delays will likely persist.

Recent Philadelphia Transactions

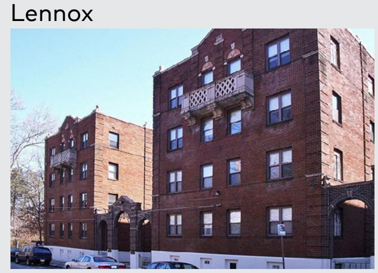
The Plaza at Strafford Station

City: Wayne, Pa.
Buyer: Morgan Properties
Purchase Price: $44 MM
Price per Unit: $224,809

The Woods

City: Ambler, Pa.
Buyer: Naomi Weinberger
Purchase Price: $36 MM
Price per Unit: $113,705

Lennox



City: Philadelphia
Buyer: Benzion Ferziger
Purchase Price: $17 MM
Price per Unit: $106,452

Greene Manor: The Vue

City: Philadelphia
Buyer: AJH Management
Purchase Price: $7 MM
Price per Unit: $43,896

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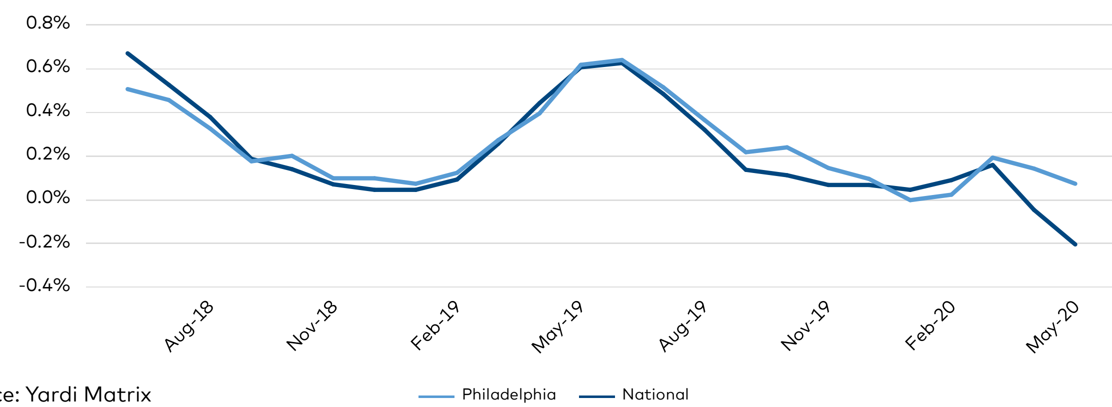
RENT TRENDS

- Philadelphia rents were up 0.1% on a trailing three-month basis (T3) through May, while national rents slid 0.2%. The overall average rent in the metro was $1,391 as of May, below the national rate of $1,460. Rent movement was even across the quality spectrum, with rates in both the Renter-by-Necessity and Lifestyle segments up by 0.1% on a T3 basis through May, to $1,239 and $1,894, respectively.

- Pennsylvania's rental assistance program allocated $150 million for rent relief, while Philadelphia officials have tapped $10 million in federal funds under the CARES Act and set up the COVID-19 Emergency Rental Assistance Program. Moreover, the Philadelphia City Council has advanced the Emergency Housing Protection Act package aimed at extending the eviction moratorium, creating repayment plans and the requirement of mediation between landlords and tenants before eviction. Landlords can start filing evictions again on July 10.

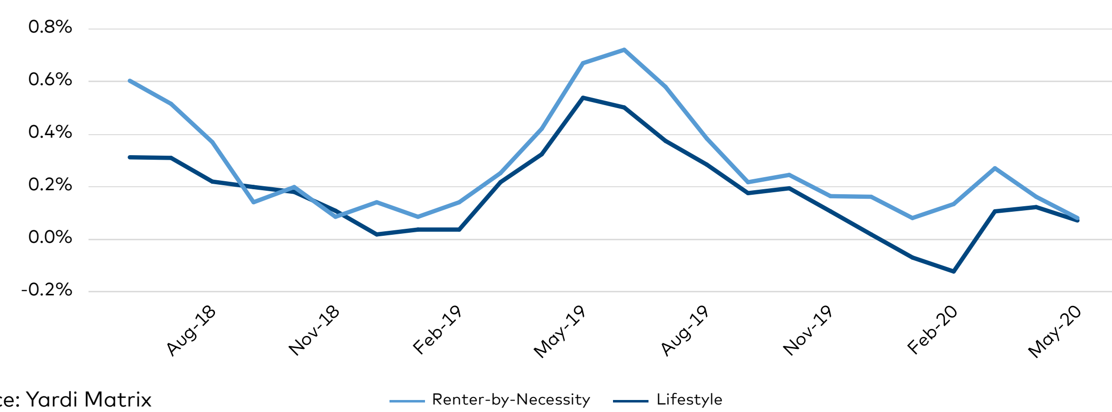
- Suburban submarkets led rent growth in the 12 months ending in May, including Media (up 11.5% to $1,436), Cinnaminson (up 8% to $1,596), Willingboro (up 7.1% to $1,238) and Chester (up 6.9% to $1,112). Rents were highest in the metro's urban core—Center City-West ($2,176), Center City-East ($2,156), North-East ($2,062) and North-West ($2,055).

Philadelphia vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Philadelphia Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- As of June, unemployment claims in Pennsylvania since March 25 reached 2.5 million, according to the Pennsylvania Department of Labor & Industry. State unemployment stood at 15.1% as of April, 40 basis points above the national rate. In Pennsylvania, a total of 46 counties were in the green reopening phase and 21 counties were in the yellow phase at the start of June.
- Philadelphia's unemployment rate stood at 14.5% in April, up from 5% in March, according to the U.S. Bureau of Labor Statistics (BLS). With the metro in the yellow reopening phase, the number of initial claims has fallen, but filings for continuing claims still persist. According to a June 3 report from the BLS, Philadelphia shed 17.2% of its private-sector jobs, dropping to 2.2 million in April 2020. The metro tied with Milwaukee for the 43rd-highest unemployment rate among the 106 U.S. markets with populations over 500,000.
- Education and health services led job gains as of March—up by 10,000 positions, for a 1.5% uptick. That number will likely rise as medical workers have been on the front lines since the onset of the pandemic. Leisure and hospitality was the hardest-hit sector, in line with national trends. The sector had lost 5,500 jobs as of March.

Philadelphia Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	682	23.0%
60	Professional and Business Services	471	15.9%
90	Government	346	11.7%
55	Financial Activities	218	7.4%
50	Information	49	1.7%
80	Other Services	122	4.1%
30	Manufacturing	182	6.1%
40	Trade, Transportation and Utilities	520	17.5%
15	Mining, Logging and Construction	111	3.7%
70	Leisure and Hospitality	262	8.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Philadelphia gained 6,062 residents in 2019 for a 0.1% uptick, just below the 0.3% national share.
- Between 2014 and 2019, the metro added 55,328 residents, mainly through immigration. This accounted for a 0.9% increase, 220 basis points below the 3.1% U.S. rate.

Philadelphia vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Philadelphia Metro	6,067,691	6,078,451	6,096,372	6,102,434

Sources: U.S. Census, Moody's Analytics

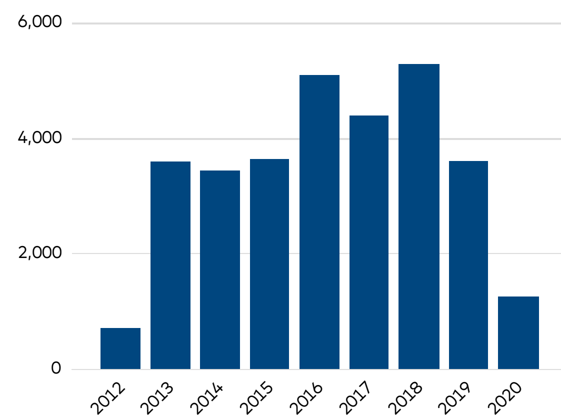
SUPPLY

- Philadelphia had 12,633 units under construction as of May, with 83% of the total development pipeline geared toward high-income residents. Another 45,416 apartments were in the planning and permitting stages. As of May 1, construction-related businesses were allowed to reopen statewide in accordance with Gov. Tom Wolf's orders, while development activity in Philadelphia must adhere to additional safety precautions issued by Mayor Jim Kenney on April 29.

- Construction was off to a relatively strong start in 2020, with 1,252 units delivered in the first five months of the year. Of those, 932 units came online prior to the Wolf administration's widespread halt on development activity—on March 27, Gov. Wolf issued an executive order banning all nonessential construction, with exceptions for work on medical facilities, emergency repairs or residential projects that were substantially completed and had final occupancy permits. Completions in the first five months of 2020 were still 75% above the decade's cycle low in 2012, when 717 units came online.

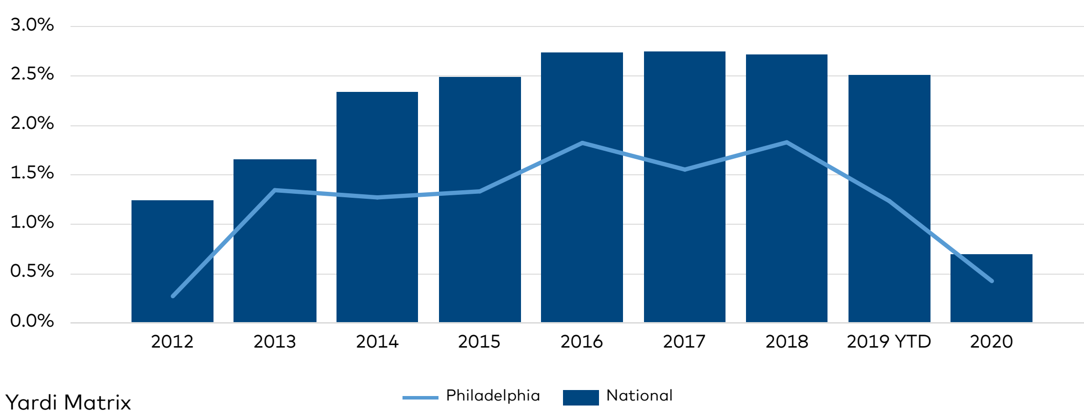
- As of May, more than half of the underway units (7,187) were in urban submarkets—Center City-West led development activity (2,020 units), followed by North-East (1,419 units) and West (964 units). The largest project under construction is PMC Property Group's 548-unit Franklin Tower Residences in Center City-West. Previously an office building, the converted tower is expected to deliver later this summer.

Philadelphia Completions (as of May 2020)



Source: Yardi Matrix

Philadelphia vs. National Completions as a Percentage of Total Stock (as of May 2020)

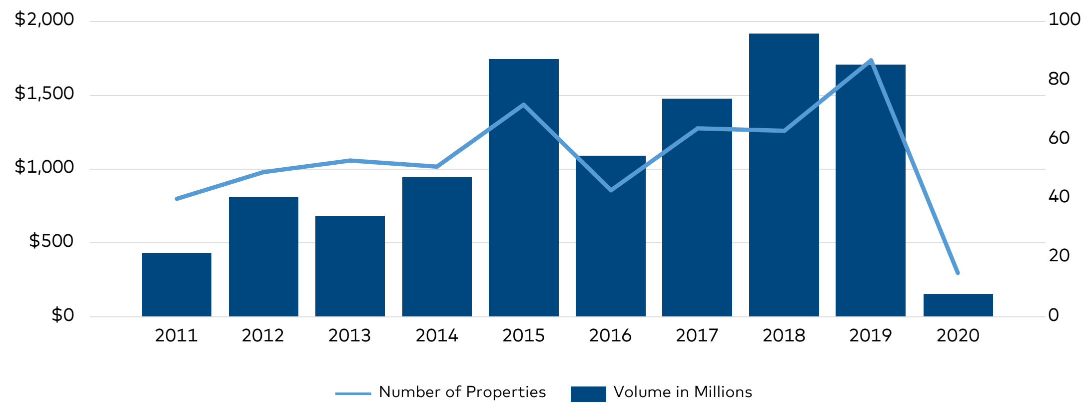


Source: Yardi Matrix

TRANSACTIONS

- Some $155 million in assets traded in 2020 through May, at an average per-unit price of $96,155, well below the $164,893 U.S. average. Compared to the same interval last year, when transactions totaled $595 million, the COVID-19 health crisis has put a damper on investment activity in the metro.
- A total of 2,788 units traded year-to-date, marking a 70% drop compared to the 9,313 units sold in the first five months of 2019. Of the 15 properties that were sold this year, only two were Lifestyle assets, while 13 were in the Renter-by-Necessity segment.
- Rental sales amounted to $1.3 billion in the 12 months ending in May. Buyers focused on suburban areas, where deal volume reached $918 million. The biggest deal year-to-date through May was Morgan Properties' $44 million acquisition of the 197-unit The Plaza at Strafford Station in Berwyn.

Philadelphia Sales Volume and Number of Properties Sold (as of May 2020)



Source: Yardi Matrix

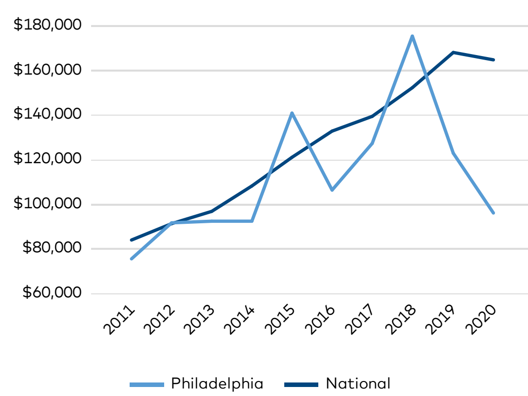
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Norristown	133
Center City–West	116
Newark	83
Exton–Downingtown	82
Phoenixville	78
Northwest–East	66
Lindenwold	58

Source: Yardi Matrix

[1] From June 2019 to May 2020

Philadelphia vs. National Sales Price per Unit



Source: Yardi Matrix

EXECUTIVE INSIGHTS

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MHN MULTI-HOUSING NEWS

COVID-19's Effects on Philly's Multifamily Market

By Laura Calugar

In Pennsylvania, all nonemergency construction was halted as of March 19 to assist in mitigating the spread of the virus, but work resumed six weeks later on May 1. In an interview with Multi-Housing News, Rittenhouse Realty Advisors Managing Partners Ken Wellar and Corey Lonberger explained how the metro's multifamily industry will be altered by the outbreak and shared their clients' most common woes going forward.

What type of multifamily assets did Philadelphia investors focus on prior to COVID-19?

Lonberger: Prior to the COVID-19 crisis, the multifamily market was a very attractive product type for investors, both locally and regionally. With the new rent control laws in New York City, we saw an influx of buyers for market rate, student and affordable housing assets. We are confident that when the crisis is over, it will be back to business as usual.

How is the biomedical sector impacting Philadelphia's multifamily market today?

Wellar: The biomedical sector is a big part of the University City market of Philadelphia. Most of the workers want to be able to walk to their jobs, which is driving occupancy in the University City and West Philly markets. With the announcement of the new 10-year lease with Wistar at 3.0 University Place at 4101 Market St.—which includes 250,000 square feet of lab and office space—the city will continue to attract biomedical research and advanced life sciences companies. This will add fire to the demand for multifamily in University City and West Philly, as biomedical employees seek convenient places to live.

Ken Wellar *(left)* and Corey Lonberger *(right)*

What are the most common concerns among your clients now?

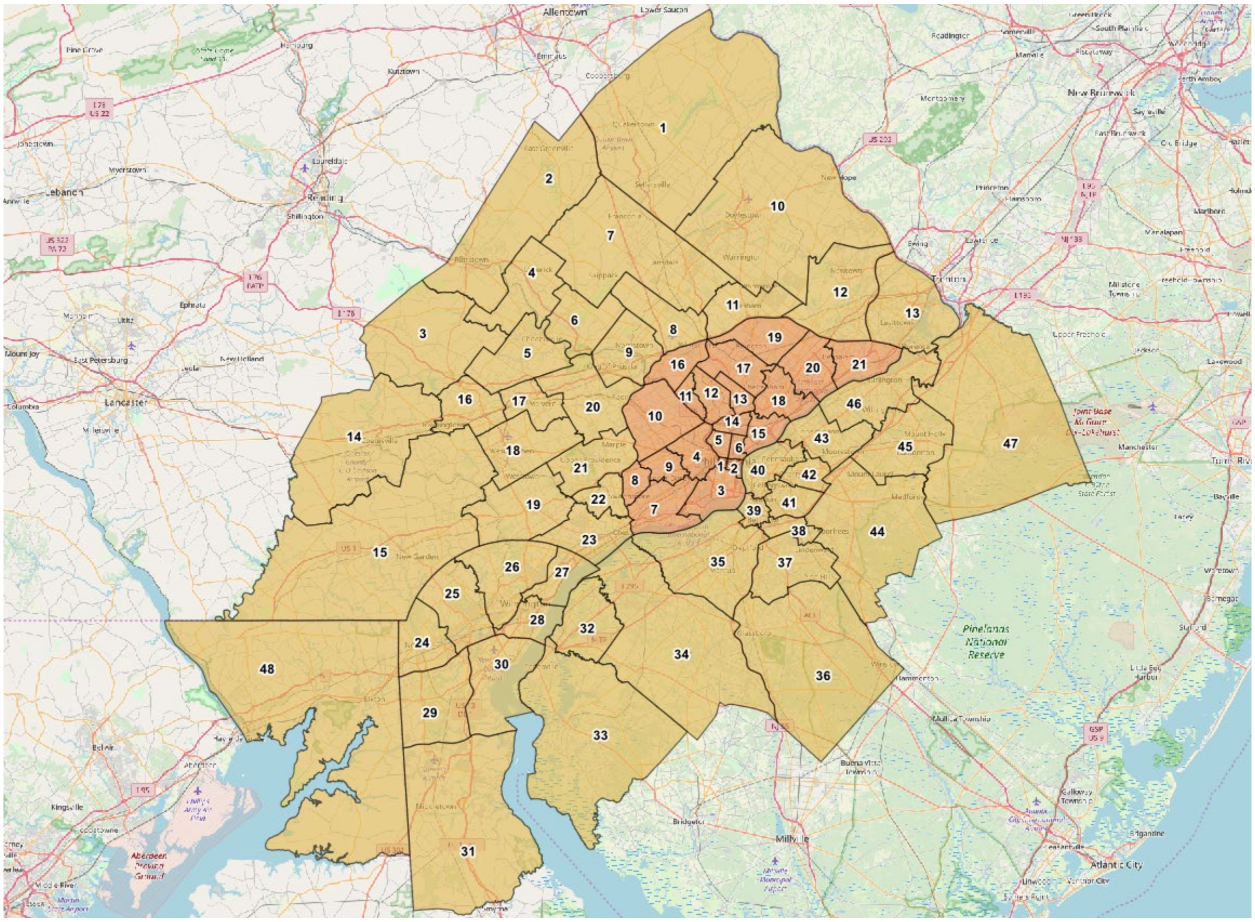
Lonberger: The main concern is the availability of financing for multifamily assets. The debt markets really control the values and the velocity. Right now, the only options are bridge loans and the agencies, neither of which have very attractive terms at this time. This is having a major impact on current listings, as well as on how we are pricing out new opportunities for the market.

How do you expect the Philadelphia multifamily market to perform this year?

Wellar: We do think there will be a higher collection loss due to unemployment, and rent growth will be pretty flat or may decrease by 1 percent or 2 percent, depending on the submarket.

Overall, Philadelphia doesn't experience the highs and lows that other markets experience, because the market is driven by great education systems and hospital networks with great health-care workers. We believe there will be huge growth in the biomedical sector, which will keep the multifamily market pretty stable. We will see mortgage lenders increase their lending requirements for home buyers, and look for higher credit scores and larger down payments. This will keep more tenants in apartments longer, and reduce the number of first-time home buyers.

PHILADELPHIA SUBMARKETS



Area No.	Submarket
1	Perkasie
2	Pottstown
3	Glenmoore
4	Royersford
5	Phoenixville
6	Audubon
7	Lansdale
8	Ambler
9	Norristown
10	Doylestown
11	Hatboro–Warminster
12	Feasterville–Langhorne
13	Fairless Hills–Morrisville
14	Coatesville
15	Oxford–Kennett Square
16	Exton–Downingtown
17	Malvern
18	West Chester
19	Concordville
20	Berwyn
21	Broomall
22	Media
23	Chester
24	Newark

Area No.	Submarket
25	Stanton–Pike Creek
26	Wilmington–West
27	Claymont–Wilmington North
28	Wilmington–Central
29	Bear
30	New Castle
31	Middletown
32	Carneys Point
33	Pennsville–Salem
34	Bridgeport–Woodstown
35	Woodbury
36	Glassboro–Williamstown
37	Lindenwold
38	Runnemede–Voorhees
39	Gloucester City
40	Camden–Pennsauken Township
41	Haddonfield
42	Cherry Hill
43	Cinnaminson
44	Marlton–Medford
45	Mount Holly
46	Willingboro
47	Bordentown–Browns Mills
48	Cecil County

Area No.	Submarket
1	Center City–West
2	Center City–East
3	South
4	West
5	North–West
6	North–East
7	Southwest
8	Springfield
9	Upper Darby–Drexel Hill
10	Ardmore
11	Northwest–West
12	Northwest–East
13	Oak Lane
14	Upper North
15	Frankford/Kensington
16	Conshohocken
17	Abington
18	Lower Northeast
19	Willow Grove
20	Far Northeast
21	Bensalem

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.