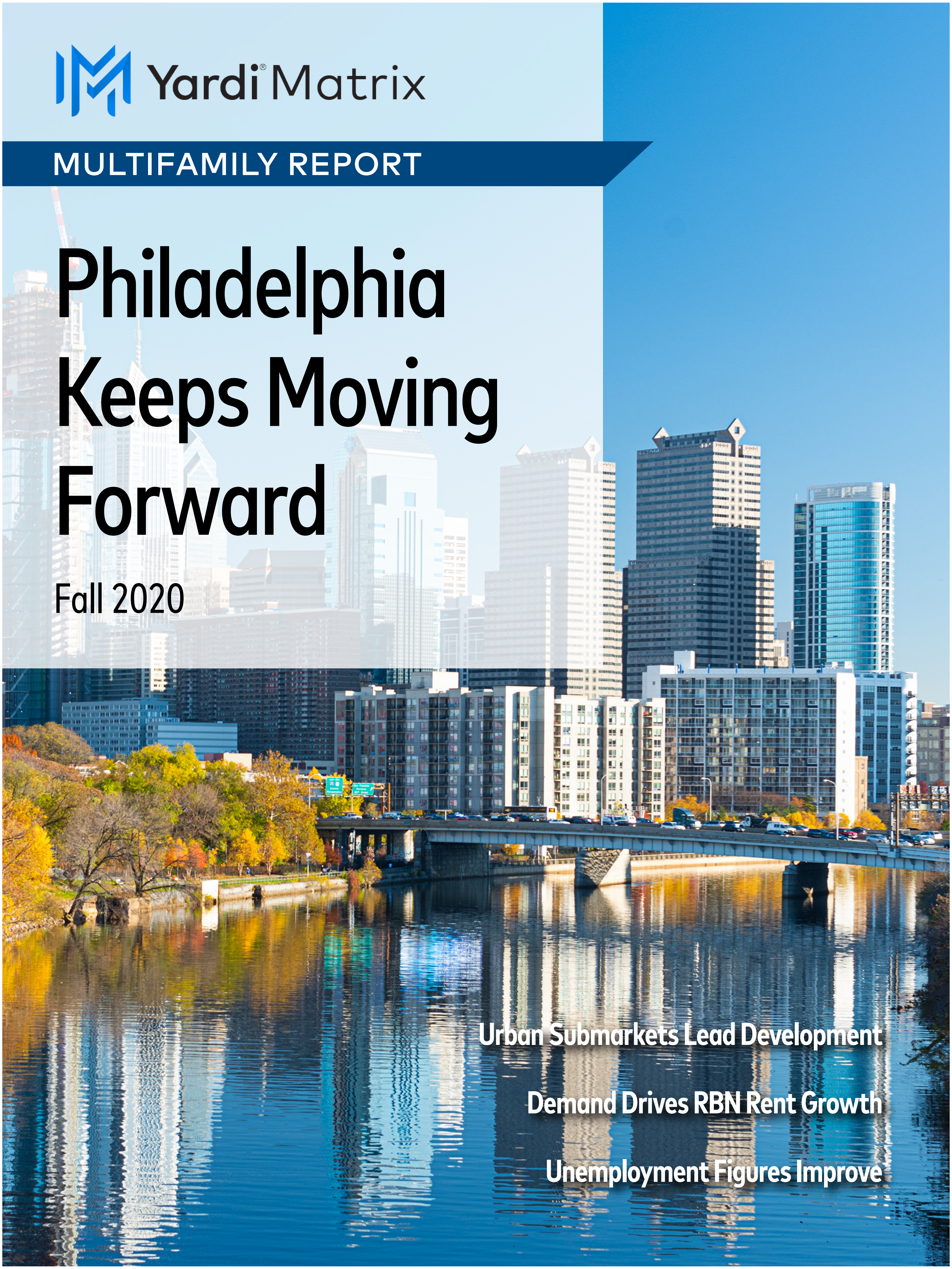
Yardi Matrix

MULTIFAMILY REPORT

Philadelphia Keeps Moving Forward

Fall 2020



Urban Submarkets Lead Development

Demand Drives RBN Rent Growth

Unemployment Figures Improve

PHILADELPHIA MULTIFAMILY

Yardi Matrix

Multifamily Sector Withstands Hardship

While the effects of the health crisis continued to shape the metro's economy going into the fourth quarter, Philadelphia's multifamily fundamentals remained largely resilient. Rents were up 0.4% to $1,424 on a trailing three-month basis as of October, slightly below the $1,464 U.S. average, which remained flat during the same time frame.

As of September, unemployment totals stood at 7.9% for the metro area, down 320 basis points from August and on par with the September national rate. According to a report from the Center City District, some 101,000 Philadelphia residents became unemployed between March and April. About 47,000 jobs had returned by September, when the number of Philadelphians receiving unemployment benefits slid to 64,000 from more than 100,000 over the summer.

Philadelphia had 12,154 multifamily units under construction as of October, 95% of which target are aimed at high-income renters. The bulk of the pipeline (56%) is expected to come online over the next two years. A total of $319 million in assets traded in 2020 through October, a steep 79% decline compared to the same period last year. The drop in deal volume is the combined outcome of economic volatility and five consecutive years of robust sales and development activity.

Market Analysis | Fall 2020

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Recent Philadelphia Transactions

SOLO on Chestnut

City: Philadelphia
Buyer: XIX Cos.
Purchase Price: $36 MM
Price per Unit: $255,319

Valley View

City: Pottstown, Pa.
Buyer: SEL Capital
Purchase Price: $13 MM
Price per Unit: $70,046

The Flats Brewerytown

City: Philadelphia
Buyer: The Streamwood Co.
Purchase Price: $13 MM
Price per Unit: $73,099

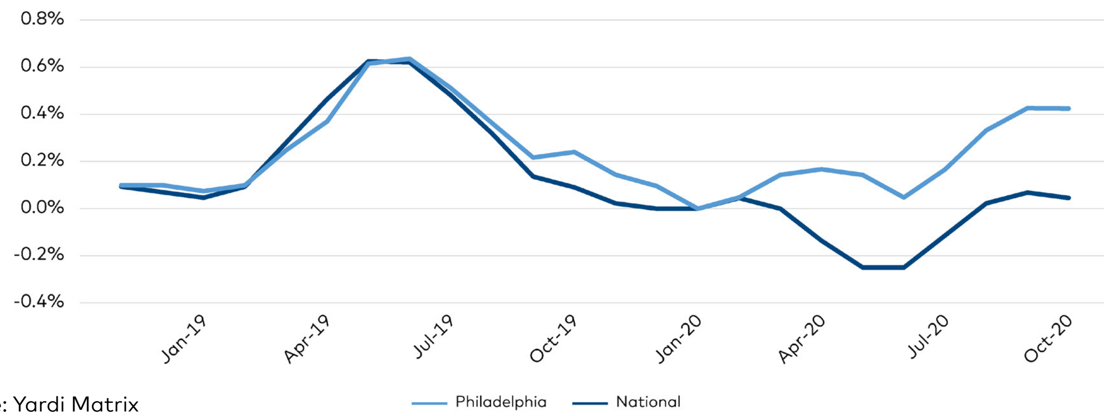
Burlington Pointe

City: Burlington, N.J.
Buyer: Premier Properties
Purchase Price: $10 MM
Price per Unit: $47,287

RENT TRENDS

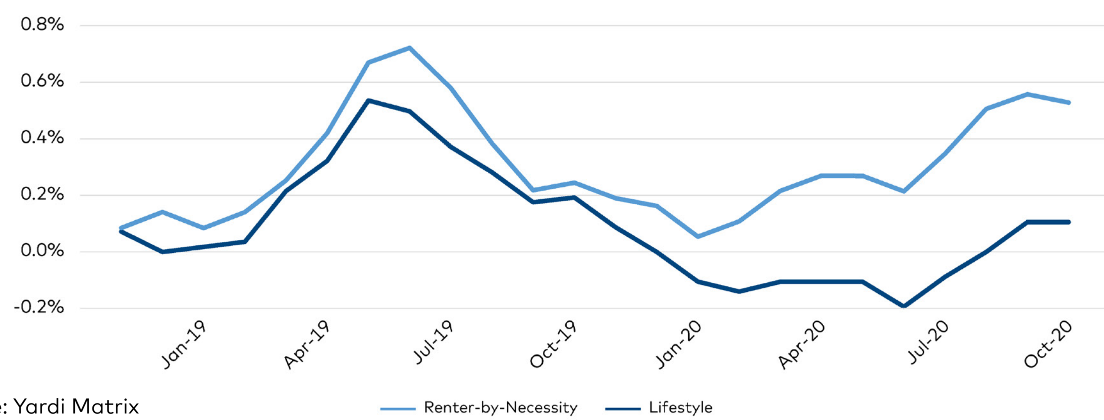
- Metro Philadelphia rents were up 0.4% on a trailing three-month (T3) basis as of October, while the national figure remained flat. The metro's average stood at $1,424, almost matching the nation's $1,464. Rents endured despite the recent economic fallout. Year-over-year, Philadelphia rates improved 2.3% as of October.
- Prices in the working-class Renter-by-Necessity segment improved 0.5% on a T3 basis, to $1,275, while Lifestyle rates were up just 0.1% to $1,897. The discrepancy follows a nationwide trend and is also influenced by development trends—while demand during the past decade has been consistent across quality classes, the vast majority of new product targets high-income renters.
- Suburban areas such as Mount Holly (11.4% to $1,540) and Cherry Hill (9.1% to $1,456) led rent growth in the 12 months ending in October. Rents across many expensive core submarkets dropped, including Center City-West (-6.0% to $2,071), North-West (-4.3% to $1,954) and Center City-East (-0.8% to $2,115).
- A new $1.98 billion federal eviction fund has earmarked $80 million for the commonwealth, with Philadelphia to receive $11.3 million in federal funding aimed at rent and mortgage assistance. As part of Philadelphia's second phase of rental assistance, the city and the Philadelphia Housing Development Corp. announced an increase from $750 to $1,500 in rent relief payments for tenants affected by the pandemic.

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 September, unemployment stood at 8.1% in Pennsylvania and 7.9% in metro Philadelphia, the latter on par with the September national rate. All three figures represent improvements from previous months. The unemployment rate in the metro peaked at 14.5% in April.
- In the 12 months ending in September, the metro lost a total 220,700 jobs, with leisure and hospitality—down 29.5%—shedding the most positions (82,500). Professional and business services lost 29,400 jobs (-6.2%), followed by trade, transportation and utilities, down by 28,400 jobs (-5.4%).
- According to a recent Center City District report, some 101,000 Philadelphians became unemployed between March and April. By September, about 47,000 jobs had returned to the city. The number of Philadelphia residents receiving unemployment benefits slid from more than 100,000 over the summer to some 64,000 in September, based on the same study.
- Philadelphians who hadn't yet requested assistance from the federal government were entitled to submit information to the IRS until Nov. 21, with unclaimed funds amounting to $77 million. As of the week ending Nov. 13, some 64,000 households had yet to claim their stimulus payment.

Philadelphia Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
50	Information	47	1.7%
90	Government	334	12.1%
55	Financial Activities	211	7.6%
30	Manufacturing	175	6.3%
80	Other Services	107	3.9%
15	Mining, Logging and Construction	107	3.9%
65	Education and Health Services	645	23.3%
40	Trade, Transportation and Utilities	497	18.0%
60	Professional and Business Services	446	16.1%
70	Leisure and Hospitality	198	7.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The metro gained 131,486 residents in the past decade, for a 2.2% uptick, well below the 6.1% national share.
- Although moderating between 2010 and 2019, expansion was mainly driven by immigration and natural population growth.

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

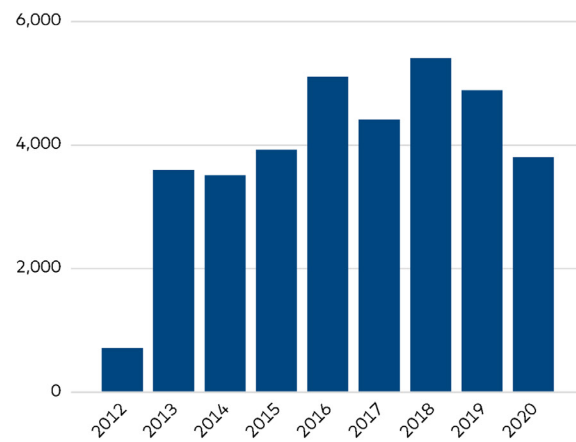
- Philadelphia had 12,154 units under construction as of October, 95% of which target high-income renters. The bulk of the pipeline (56%) is expected to deliver over the next two years. Although an additional 51,000 units were in the planning and permitting stages as of October, timelines are likely to change given the current economic uncertainty.

- Developers completed 3,806 units in the metro year-to-date, equal to 1.3% of total stock, 50 basis points below the national figure. The majority (89%) of newly delivered product falls in the Lifestyle segment. Since 2013, developers have added an average of 4,000 apartments per year to Philadelphia's inventory, with deliveries peaking at 5,406 apartments in 2018.

- Developers broke ground on some 2,300 units across 12 properties this year through October. Construction starts were 38% below the figure recorded during the same interval last year, when work began on 3,799 units across 24 communities. With new "Safer at Home" restrictions effective in Philadelphia starting Nov. 20, construction activity remained exempt.

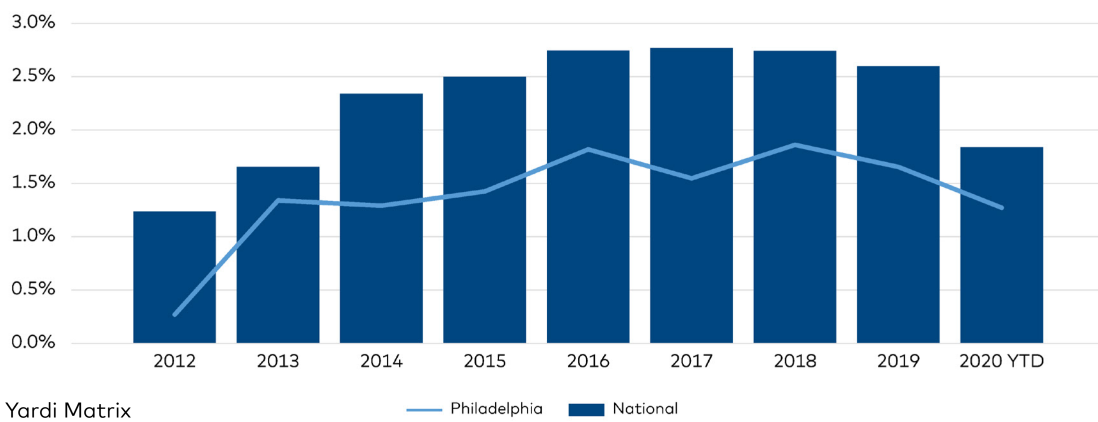
- Urban submarkets where rents were already contracting led development as of October: North-East (1,413 units), North-West (1,216 units) and Center City-West (1,204 units) rounded out the Top 3, accounting for 32% of the total development pipeline. PMC Property Group's Riverwalk Towers (612 units) in Center City was the largest project underway.

Philadelphia Completions (as of October 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

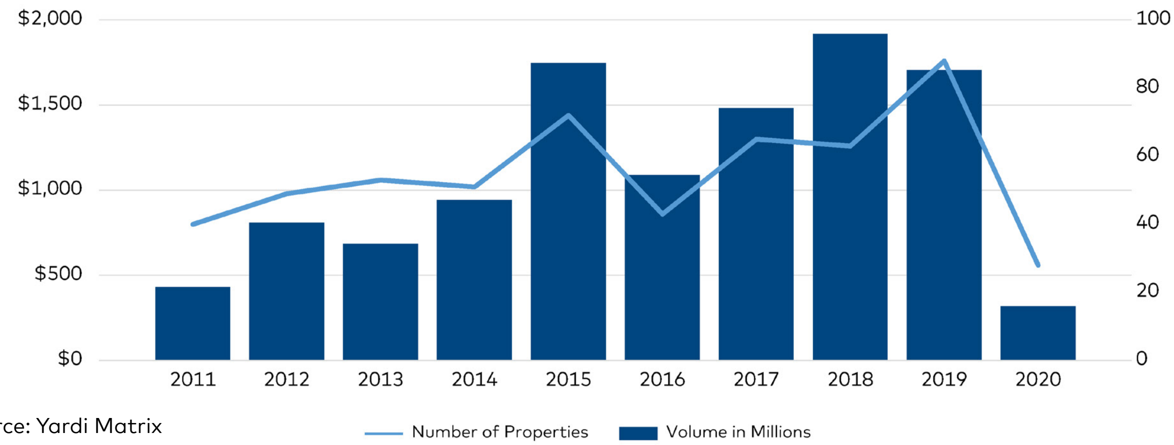
TRANSACTIONS

- Some $319 million in multifamily assets traded in 2020 through October, a 79% decline compared to the same period last year. The drop in deal velocity, mainly caused by pandemic-generated uncertainty, follows five years of robust transaction activity—since 2015, annual sales have consistently exceeded the $1 billion threshold.

- The average price per unit this year through October reached $102,221, well below the $164,863 national figure. Prices in the metro steadily improved over the past decade, peaking at $175,485 in 2018. Of the 28 properties sold year-to-date, 24 were RBN assets. Compared to previous years, investor preference has remained consistent—between 2015 and 2019, buyers predominantly (74%) targeted the RBN segment.

- XIX Cos.' $36 million acquisition of the 141-unit SOLO on Chestnut in West Philadelphia was one of the largest deals of the third quarter. Alterra Property Group sold the 2019-built community.

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



Source: Yardi Matrix

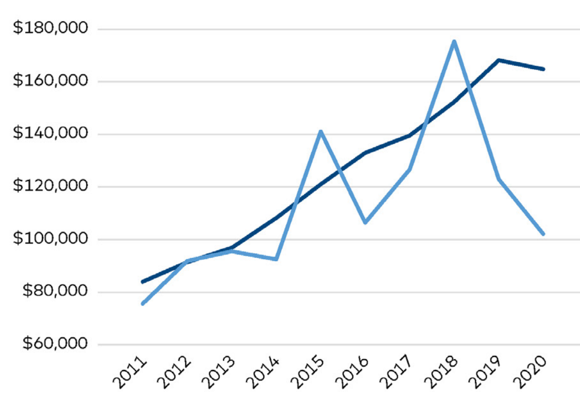
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Northwest–East	65
Bensalem	62
Berwyn	44
Center City–West	40
West	39
Hatboro–Warminster	36
Newark	35

Source: Yardi Matrix

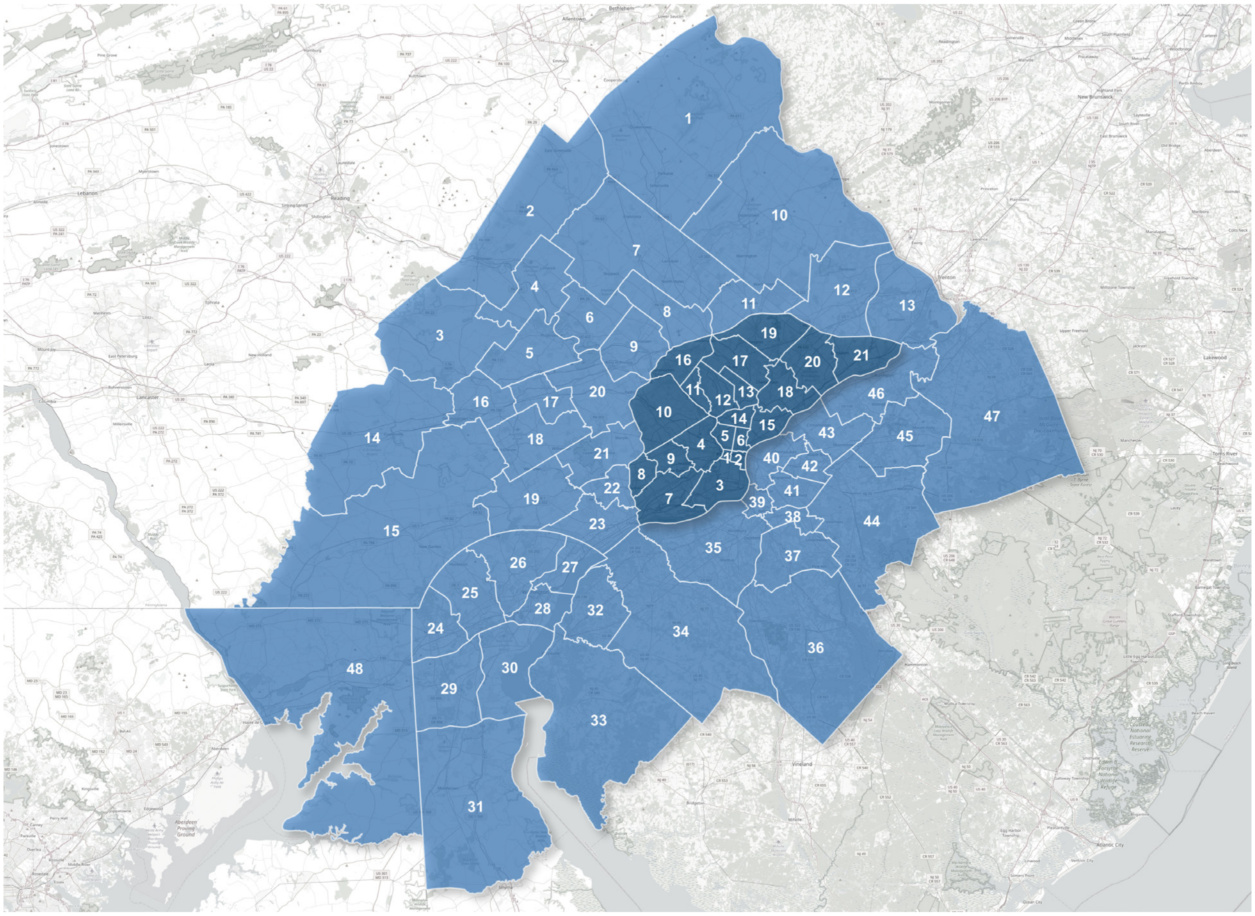
[1] From November 2019 to October 2020

Philadelphia vs. National Sales Price per Unit



Source: Yardi Matrix

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 October 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 October 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, October 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.