

# Philadelphia Begins To Thaw

Spring 2021

Construction Picks Up

Rent Growth Tops National Rate

Underway Pipeline Targets Lifestyle Renters



# PHILADELPHIA MULTIFAMILY



## Multifamily Keeps Its Footing

Philadelphia's multifamily fundamentals remain solid, though the market has been put to the test during the past year. Rents increased 0.4% on a trailing three-month basis through March to \$1,455, slightly outperforming the 0.3% national rate during the same period. Working-class Renter-by-Necessity figures expanded at the same pace as Lifestyle rents, highlighting growth in demand across the quality spectrum.

The metro's economy has a long road to recovery after shedding more than 215,000 jobs in the year ending in December. While unemployment had dropped following a spike in June to 18.2%, the rate was 11.2% in February, a 1.9% uptick from the end of last year. Struggling employment sectors are also spelling trouble for local government: Philadelphia anticipates a \$284 million budget shortfall for the 2021 fiscal year, despite cuts to spending and the infusion from the \$1.9 trillion federal stimulus package.

After 557 units delivered in the first three months of 2021, more than 13,000 units were under construction in Philadelphia at the end of March. This follows a cycle high of 6,129 units completed in 2020. Following a 58% drop in transaction volume to \$717 million last year, investment in the first quarter of 2021 totaled \$104 million. Nearly 60% of that volume involved RBN assets.

## Market Analysis | Spring 2021

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### Recent Philadelphia Transactions

#### The Premier @ City Line



City: Philadelphia  
Buyer: Premier Properties  
Purchase Price: \$75 MM  
Price per Unit: \$247,185

#### The Village at Windermere



City: West Chester, Pa.  
Buyer: Hampshire Properties  
Purchase Price: \$61 MM  
Price per Unit: \$252,066

#### The Manor at Downingtown



City: Downingtown, Pa.  
Buyer: White Oak Partners  
Purchase Price: \$42 MM  
Price per Unit: \$173,215

#### The Garrison

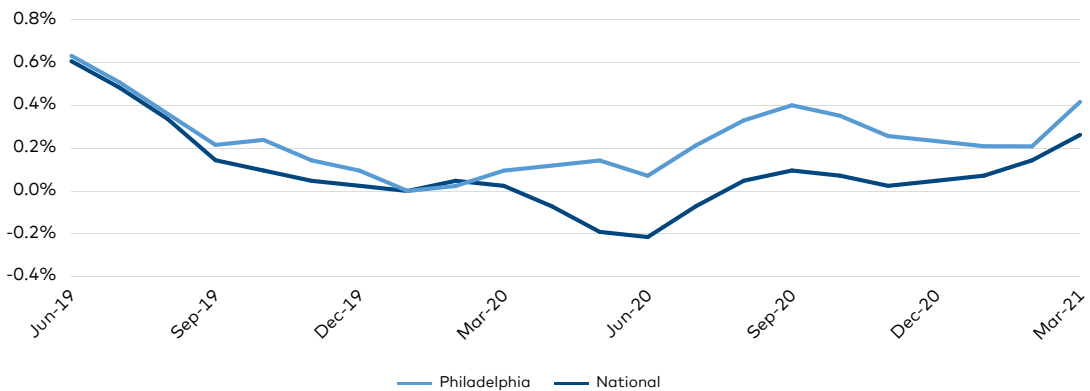


City: New Castle, Del.  
Buyer: Goldcrest Properties  
Purchase Price: \$38 MM  
Price per Unit: \$319,271

## RENT TRENDS

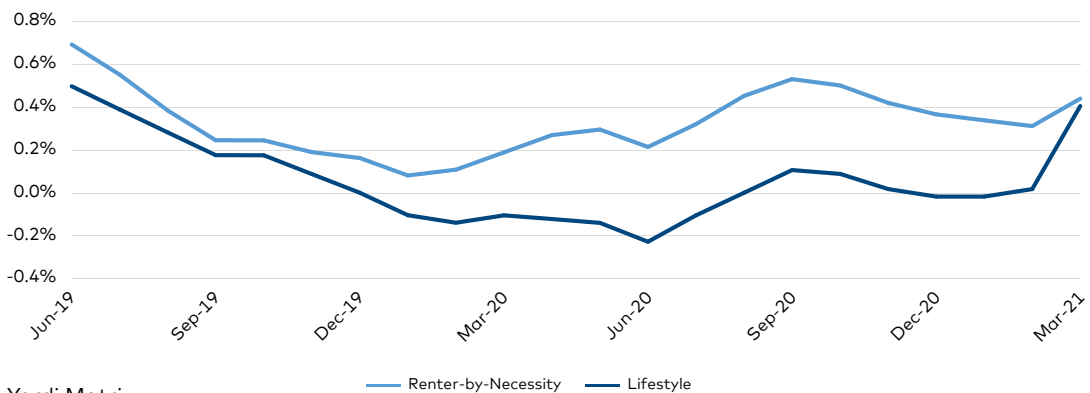
- ▶ Philadelphia rents rose 0.4% on a trailing three-month (T3) basis through March, 10 basis points greater than national rent gains. Prices averaged \$1,455, 3.4% higher than the national average of \$1,407.
- ▶ Lifestyle rents increased by 0.4% on a T3 basis to \$1,913, while average RBN figures grew at the same pace to \$1,300. Overall rent expansion will likely continue as a result of increasing demand from new residents, particularly from New York City, where rents averaged \$3,368, more than double Philadelphia's rate.
- ▶ Suburban submarkets experienced the largest gains year-over-year through March. Mount Holly displayed some of the strongest growth, up 10.8% year-over-year to \$1,199. The submarket benefited from its location along the New Jersey Turnpike, midway between Philadelphia and Trenton, N.J.
- ▶ Some of the metro's largest rent contractions occurred in Philadelphia's urban core. Center City-East and Center City-West had the highest rents overall, averaging \$2,152 and \$2,103, respectively, though both submarkets experienced negative rent growth year-over-year through March.
- ▶ Philadelphia's rates will likely pick up speed alongside a broader economic recovery. We expect the market's rents to increase 2.2% for the 2021 calendar year.

### 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

- ▶ Philadelphia shed 215,400 jobs during the 12 months ending in December, highlighting the wider turmoil the metro's economy faces. Employment was down 7.4% for the six months ending in December, outpacing the 6.8% loss nationally. The metro's unemployment rate, while far from the June 2020 peak of 18.2%, remained elevated at 11.2% in February, according to preliminary data from the Bureau of Labor Statistics.
- ▶ All job sectors recorded net losses in 2020. Unsurprisingly, leisure and hospitality employment was the hardest hit: The sector lost 94,800 jobs—a -34.8% year-over-year change—during

this period. Philadelphia's large education and health services sector also faced significant challenges, with 28,400 job losses, equivalent to a 4.2% year-over-year decline.

- ▶ The effects of the pandemic on Philadelphia's government coffers has been notable. Approximately 40% of the city's wage taxes were historically attributed to suburban workers: Shifts to remote work during the past year have led to a large shortfall. Although the \$1.9 trillion federal stimulus package provided Philadelphia with relief, the city expects its budget deficit to reach \$284 million for the fiscal year beginning in July.

### Philadelphia Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
50	Information	47	1.7%
55	Financial Activities	211	7.6%
30	Manufacturing	175	6.3%
15	Mining, Logging and Construction	106	3.8%
90	Government	335	12.0%
40	Trade, Transportation and Utilities	533	19.1%
80	Other Services	107	3.8%
60	Professional and Business Services	451	16.2%
65	Education and Health Services	649	23.3%
70	Leisure and Hospitality	178	6.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ Philadelphia's population growth remained positive but trailed the national rate through 2019. In 2019, the metro gained 6,062 residents.
- ▶ The metro's population will continue to expand due, in part, to lower costs of living compared to New York City.

### Philadelphia vs. National Population

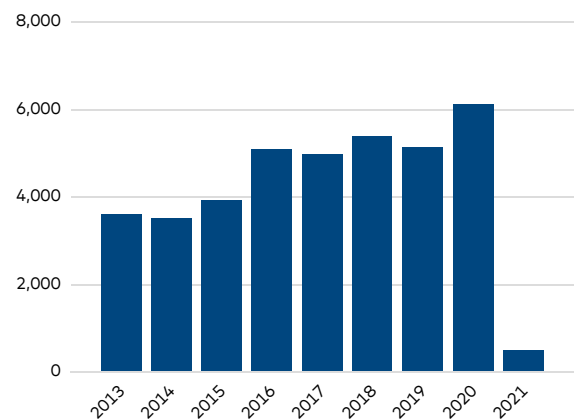
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Philadelphia Metro	6,067,691	6,078,451	6,096,372	6,102,434

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

## SUPPLY

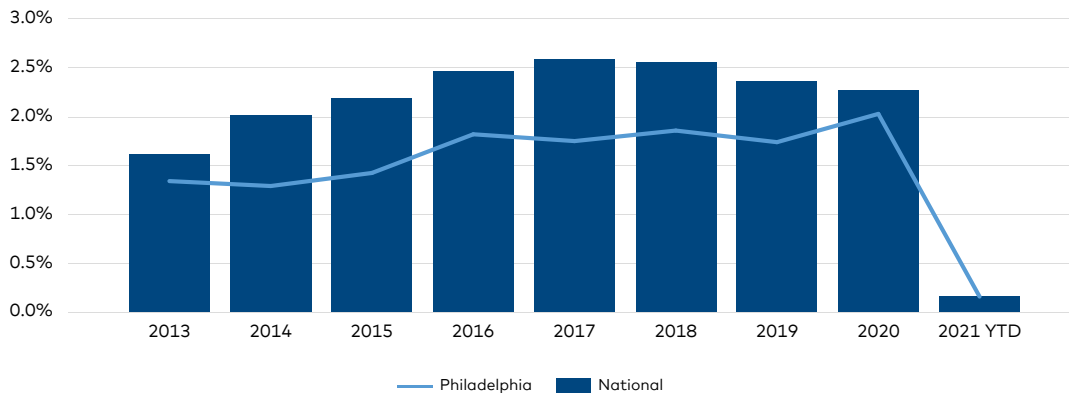
- ▶ Philadelphia had 13,231 units under construction, or 4.4% of existing inventory. The vast majority—85%—of units in the pipeline were geared toward Lifestyle renters, similar to the trend in other markets. However, of the 1,407 units that started construction in the first quarter of 2021, 46.7% targeted working class, Renter-by-Necessity residents.
- ▶ In the first quarter of 2021, 557 multifamily units were delivered in the Philadelphia market, accounting for 0.2% of total inventory. This followed last year's cycle high of 6,129 completed units, or 2.0% of stock. Another 7,000 units are expected to come online by the second half of 2021.
- ▶ Philadelphia's North-East submarket had 1,883 units under construction, the highest level in the metro. The submarket's active construction projects accounted for 33.5% of its existing inventory. Developers have targeted the area in recent years—more than one-fifth of its inventory was completed after 2016.
- ▶ The largest multifamily project underway at the end of March was PMC Property Group's 612-unit Riverwalk in the Center City-West submarket. The development broke ground at the end of 2018, financed with two construction loans totaling \$144 million from Santander Bank. The community is slated for delivery in early 2022.

**Philadelphia Completions** (as of March 2021)



Source: Yardi Matrix

**Philadelphia vs. National Completions as a Percentage of Total Stock** (as of March 2021)

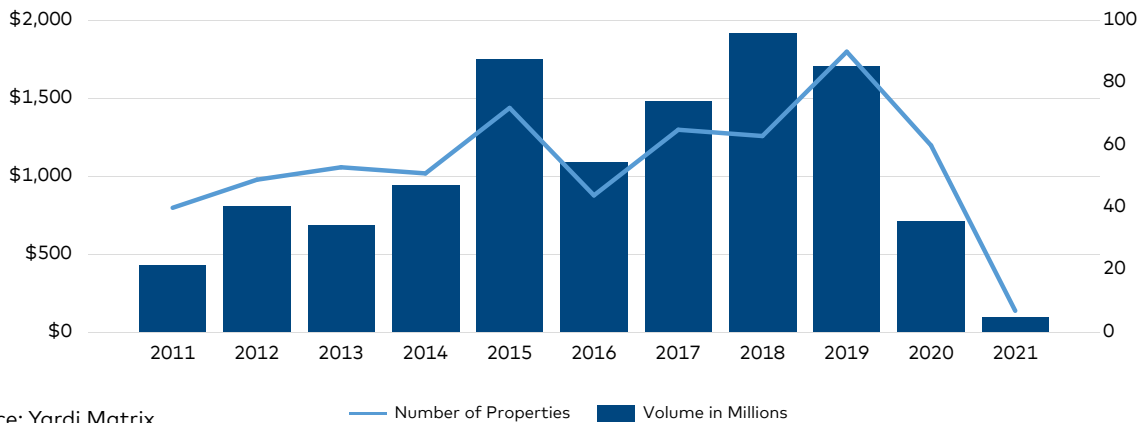


Source: Yardi Matrix

## TRANSACTIONS

- ▶ Philadelphia's multifamily transaction volume was \$104 million in the first quarter of 2021, after \$717 million closed in the previous year. Total investment volume in 2020 was 58.1% lower than in 2019 due to slowing transaction velocity amid wider economic uncertainty. Average per-unit prices held steady, however, falling only 0.9% to \$121,826 last year.
- ▶ RBN assets comprised nearly 60% of volume in the first quarter of 2021, a similar proportion to the previous year. Pricing for RBN communities averaged \$78,666 on a per-unit basis, down 13.6% from 2020.
- ▶ White Oak Partners' \$42 million purchase of The Manor at Downingtown from Korman Communities was the largest transaction in the first three months of 2021. Newmark provided the buyer with a \$43 million Fannie Mae acquisition and development loan for the 244-unit asset.

### Philadelphia Sales Volume and Number of Properties Sold (as of March 2021)



Source: Yardi Matrix

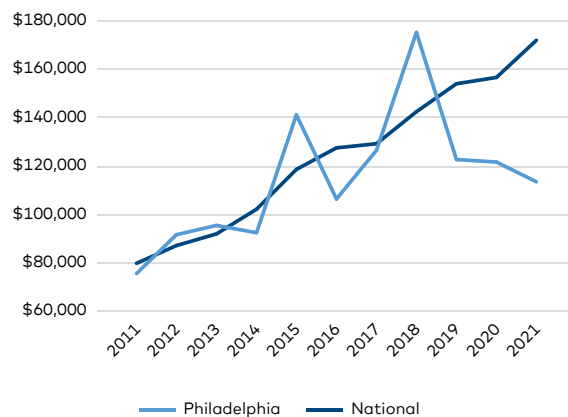
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
West	178
North-East	63
West Chester	61
Exton-Downingtown	42
New Castle	38
Northwest-East	36
Far Northeast	30

Source: Yardi Matrix

<sup>1</sup> From April 2020 to March 2021

### Philadelphia vs. National Sales Price per Unit



Source: Yardi Matrix

## Top Northeast Markets for Multifamily Development

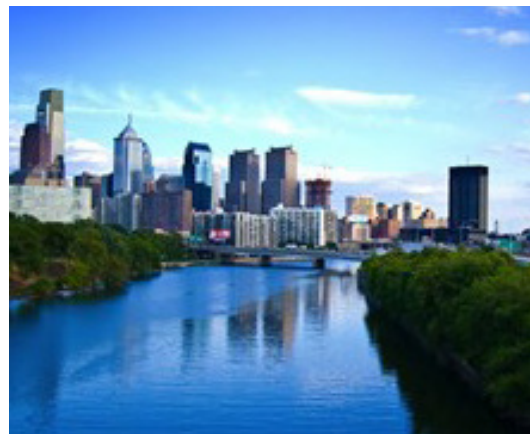
By Timea-Erika Papp

As one of the leading regions in the U.S. when it comes to development activity, the Northeast had more than 110,000 units under construction as of February, according to Yardi Matrix. That accounts for 14 percent of the nation's development pipeline, surpassed only by the Southwest, which comprises 16.6 percent. Homing in on the top metros for construction in the Northeast, prevalent trends to consider are developers' focus on well-established markets where development activity has been consistent over the past decade.

Rank	Market	Units Underway (as of Feb. 2021)	Percentage of Stock
1	New Jersey	27,264	7.6%
2	Boston	17,904	7.6%
3	Philadelphia	12,323	4.1%
4	Brooklyn	10,684	7.3%
5	Queens	9,034	8.8%
6	Bridgeport-New Haven, Conn.	7,769	5.9%
7	White Plains, N.Y.	6,102	8.7%
8	Manhattan	5,772	1.8%

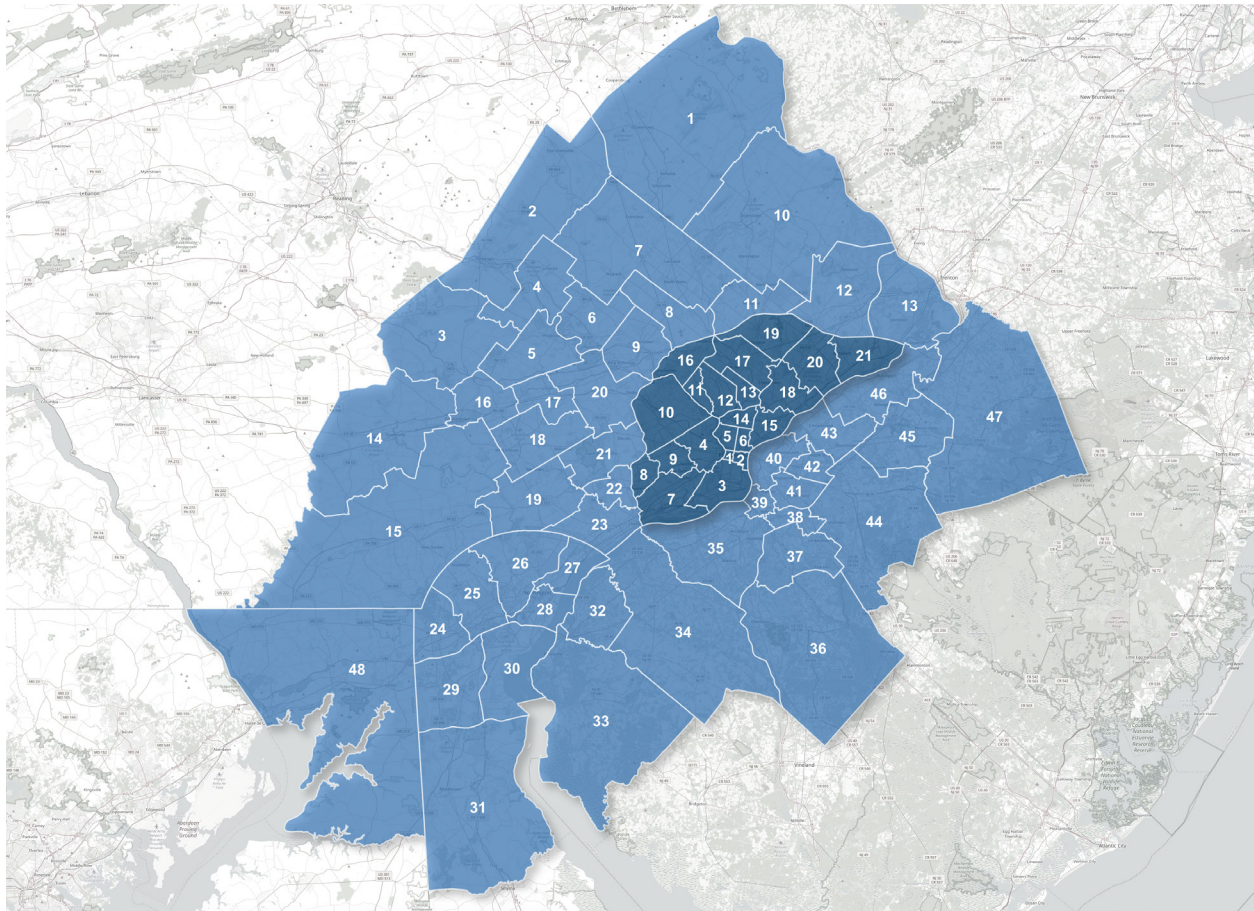
### PHILADELPHIA

Philadelphia is the second market on our list with a development pipeline exceeding the 10,000-unit threshold—as of February, the metro had 12,323 apartments under construction, accounting for 4.1 percent of total stock. Over the past decade, development trends have been on a constant upward trajectory in the market, with completions peaking at 6,063 units delivered in 2020.





# 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 December 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 December 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, December 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.

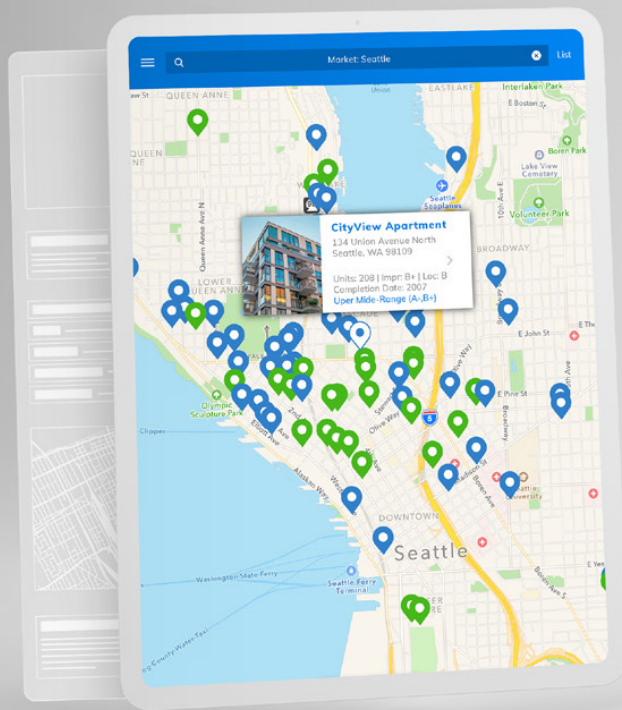
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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