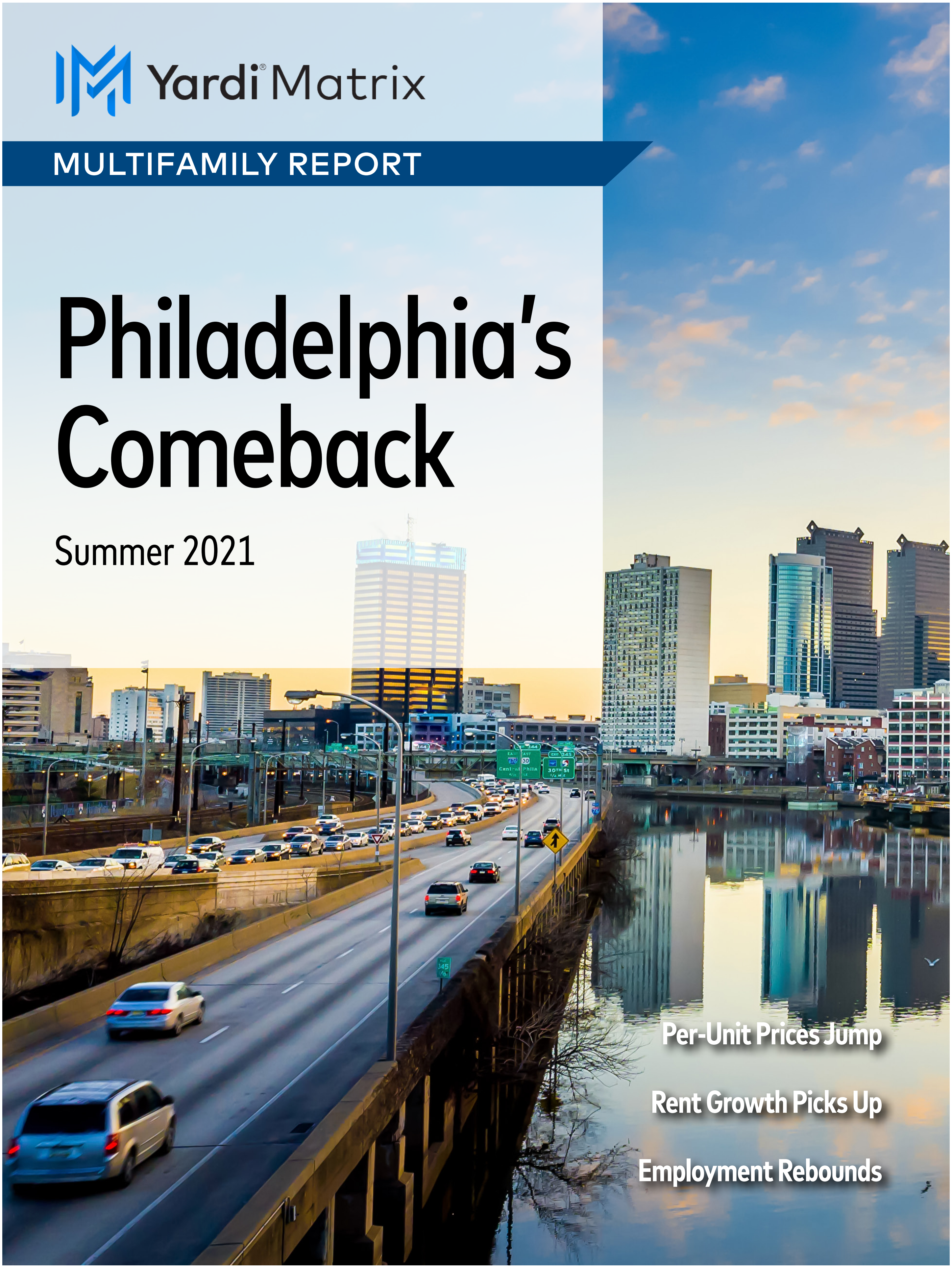
Yardi Matrix

MULTIFAMILY REPORT

Philadelphia's Comeback

Summer 2021



Per-Unit Prices Jump

Rent Growth Picks Up

Employment Rebounds

PHILADELPHIA MULTIFAMILY

Yardi Matrix

Heading Out Of the Woods

Philadelphia's multifamily recovery is underway. After a rocky year, rents bounced back, up 1.1% on a trailing three-month (T3) basis through June to an average of $1,510, a little over the $1,482 U.S. average. Lifestyle rents increased by 1.4% on a T3 basis to $2,015, while working-class Renter-by-Necessity rents grew at a slightly more moderate pace, up 0.9% to $1,338.

The metro's diversified economy has made headway since the initial shock of the pandemic last spring, adding 265,900 positions during the 12 months ending in May. All sectors reported net job gains, and Philadelphia's unemployment rate in May—6.1%—gave further indication of a strengthening economy. The leisure and hospitality sector, hit hardest by last year's impositions of travel restrictions and social distancing, bounced back with the addition of 85,800 jobs, or a year-over-year gain of 64.5%.

Multifamily investment reached $371 million in the first half of the year, more than 55% higher than during 2020's first two quarters. Pricing surged, with the per-unit price close to $163,000, an increase of more than one-third from the previous year. Following a 2020 cycle high for deliveries, construction remained strong. Nearly 15,000 units were underway as of June, with 2,204 apartments already delivered during the first six months of the year.

Market Analysis | Summer 2021

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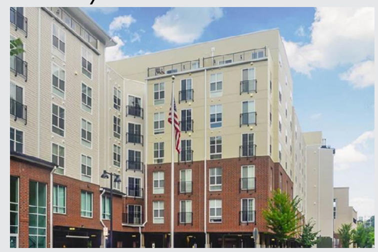
Recent Philadelphia Transactions

The Royal Athena



City: Bala Cynwyd, Pa.
Buyer: Harbor Group International
Purchase Price: $60 MM
Price per Unit: $216,364

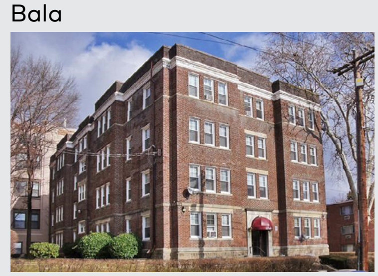
The Manor at Downingtown

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

Awbury View

City: Philadelphia
Buyer: WNC & Associates
Purchase Price: $17 MM
Price per Unit: $134,000

Bala



City: Philadelphia
Buyer: Montium
Purchase Price: $13 MM
Price per Unit: $83,750

RENT TRENDS

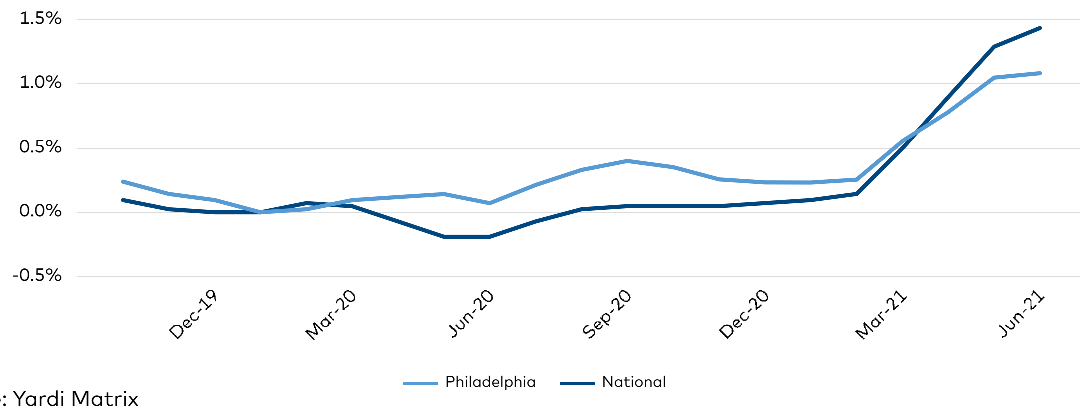
- Philadelphia's average rent was $1,510 in June, a 1.1% gain on a trailing three-month (T3) basis. Although the rate remained higher than the $1,482 U.S. average, growth at the national level was faster on a T3 basis, up 1.4%. Year-over-year through June, the average Philadelphia rate was up 7.0%, above the already strong 6.3% national figure.

- Lifestyle rates expanded 1.4% on a T3 basis to $2,015, or 11% above the national figure. Working-class Renter-by Necessity rents grew 0.9% during the same period to $1,338, above the $1,250 U.S. figure.

- Suburban submarkets recorded much more rapid rent growth during the 12 months ending in June when compared to those in the urban core. Marlton–Medford was one of the market's top performers, with the average rent up 17.8% year-over-year through June, to $1,816. Other submarkets with rapid growth included Cherry Hill (17.4% to $1,605), Mount Holly (16.1% to 1,675) and Exton–Downingtown (14.6% to 1,761).

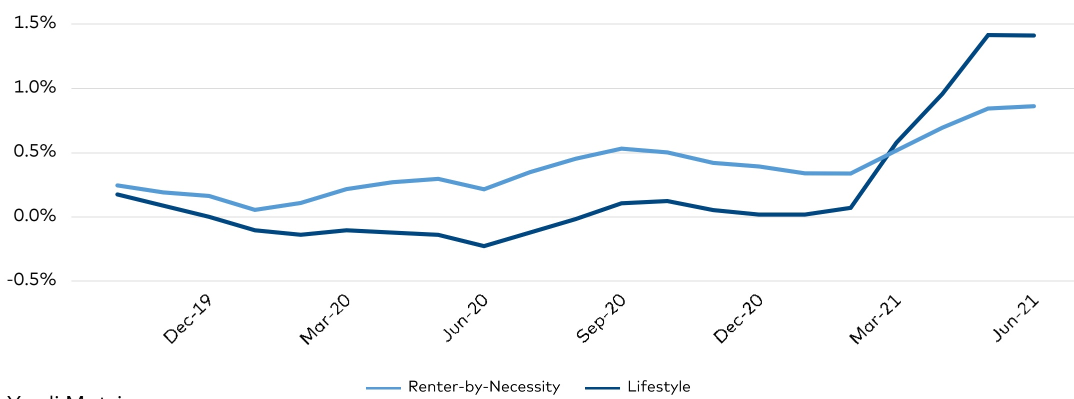
- Philadelphia's single-family rentals exhibited strong growth, up 7.3% year-over-year through June. Although this significantly lagged the 11.1% U.S. figure, the sector is likely to continue growing rapidly due to a lack of supply and wider market dynamics.

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

- With the worst of pandemic-induced economic shocks more than a year away, metro Philadelphia added 265,900 jobs in the 12 months ending in May for a 10.4% gain. The metro's unemployment rate was 6.0% in May. While this marks a significant shift from the 15.0% peak of April 2020, the rate trailed the U.S. figure by 20 basis points.

- All employment sectors recorded net job gains during the 12 months ending in May. Leisure and hospitality experienced the most significant rebound, adding 85,800 jobs, for a 64.5% expansion. Philadelphia's largest sector—education and health services—also sprang back to life, adding 37,800 jobs, or 6.3% year-over-year. Only the government sector remained muted in terms of growth, with the addition of 100 jobs.

- Besides job gains, Philadelphia's economic recovery is also reflected in the massive growth of venture capital deployed in the metro. Following a strong first quarter, with nearly $1.9 billion in venture capital invested—the highest level in 25 years—an additional $1.2 billion closed in the second quarter, according to the PitchBook-NVCA Venture Monitor, following a similar national trend.

Philadelphia Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	219	7.8%
40	Trade, Transportation and Utilities	510	18.1%
65	Education and Health Services	641	22.7%
60	Professional and Business Services	461	16.3%
80	Other Services	105	3.7%
15	Mining, Logging and Construction	118	4.2%
30	Manufacturing	173	6.1%
55	Financial Activities	216	7.7%
50	Information	51	1.8%
90	Government	329	11.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Metro Philadelphia grew by 5,472 residents in 2020, an increase of barely 0.1%, approximately a quarter of the national rate.

- Population growth has decelerated: Philadelphia gained only 112,137 residents in the past decade, for an average annual growth rate of 0.2%.

Philadelphia vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Philadelphia Metro	6,078,451	6,096,372	6,102,434	6,107,906

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

SUPPLY

- There were 14,801 units under construction in Philadelphia at the end of June, accounting for 4.9% of existing inventory. An additional 63,000 units were in the planning and permitting stages going into the third quarter. Construction activity picked up in the first half of 2021, with 26 projects totaling 5,657 units breaking ground.

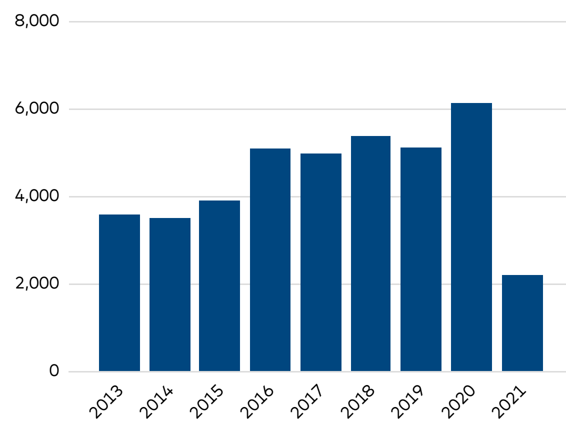
- Developers added 2,204 units year-to-date through June, or 0.7% of total stock. Some 4,800 units are anticipated to come online across Philadelphia in 2021, falling short of last year's cycle high of 6,147 units.

- The North–East submarket was the most active in terms of multifamily construction, with 2,226 units underway in June, or 39.6% of inventory. Other submarkets with notable development activity included North–West (1,383 units), West (1,273 units) and Exton–Downingtown (1,095 units).

- Jefferson Apartment Group and Haverford Properties' 550-unit Festival Pier was the largest multifamily property under construction at the end of June. The four-building project broke ground this year in May and will include some 35,000 square feet of retail space upon completion in mid-2024.

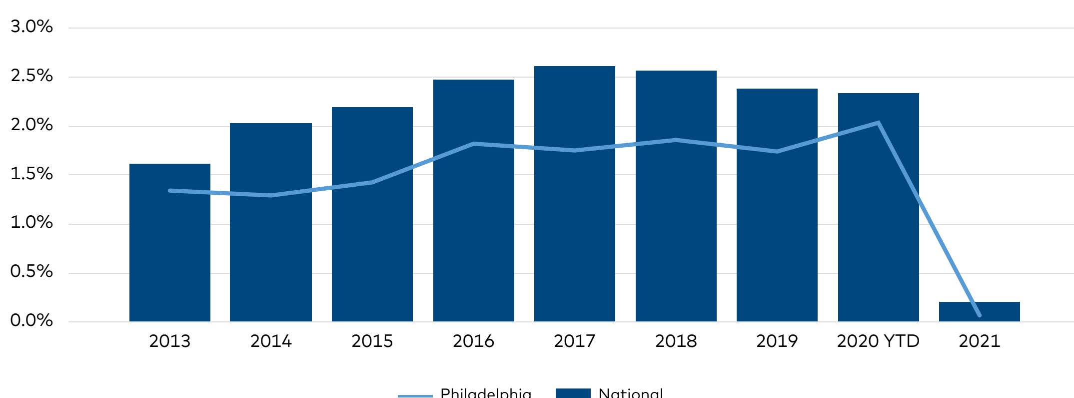
- BET Investments' April delivery of the 402-unit Residences at the Promenade in Dresher, Pa., was the metro's largest completion through June. Capital One provided $117.5 million in financing for the asset, which includes a 128,000-square-foot retail component.

Philadelphia Completions (as of June 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

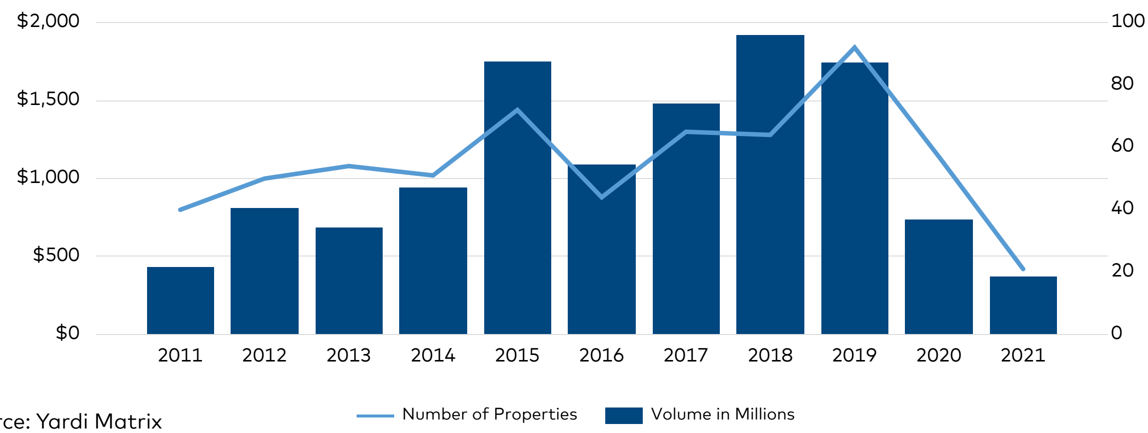
TRANSACTIONS

- Philadelphia's transaction volume for the first half of 2021 was $371 million, a 55.5% increase compared to the $238.6 million that closed during the same time last year. The average per-unit price hit $162,659, a 34.2% uptick compared to the previous year, though roughly 6% less than the 2021 U.S. average. Last year only $735.8 million in assets traded across the metro, well below the $1.9 billion high of 2018.

- Investor activity was nearly split evenly between Lifestyle and RBN assets, comprising a respective $192.8 million and $178.2 million. Lifestyle pricing averaged $244,068, more than double the RBN average of $119,524.

- Friedman Realty Group's $77.5 million February purchase of a 338-unit portfolio in the suburban Berwyn submarket was one of the largest transactions that closed in the first half of 2021. Columbia Bank provided $48.7 million in acquisition financing.

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



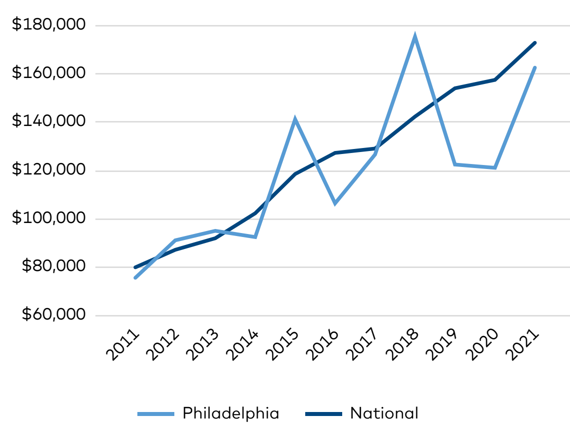
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
West	197
Marlton–Medford	91
Berwyn	71
North–East	63
West Chester	61
Ardmore	60
Exton–Downingtown	42

Source: Yardi Matrix
[1] From July 2020 to June 2021

Philadelphia vs. National Sales Price per Unit



Source: Yardi Matrix

Tackling Affordable Housing in the Northeast

By Tudor Scolca

The pandemic applied even more pressure to the country's already undersupplied affordable housing sector. Northeastern metros like Philadelphia and Boston were experiencing a decline in affordability even before the health crisis. Standard Communities Director of Northeast Development Sean Carpenter delves into the challenges affecting the region's market, but also weighs in on signs of growing economic vitality across the area's main metros.

How have multifamily investors in the Northeast reacted to pandemic-induced challenges so far?

Early on, there was a push to protect tenancy, including eviction bans driven by valid concerns that those who lost their jobs could also lose their homes. For example, Standard Communities, with a significant portfolio of affordable multifamily housing, committed to an Eviction Diversion Pledge in cooperation with government agencies and community organizations.

Philadelphia has a long recovery ahead of itself. How are developers approaching this market?

Any major city in the Northeast faces an affordability crisis, particularly those with extensive economic dependence on service industries, tourism, and major entertainment and professional sports events.

Even with the increasing need, investors and developers of affordable housing in the densely popu-

lated Northeast are challenged by the high cost of land, as well as construction costs above the national average, in addition to zoning regulations that discourage the development of workforce and affordable housing. These factors necessitate affordable and workforce housing investors to seek creative and nimble approaches to preserving and creating housing in the Northeast.

A recent ULI report suggests that naturally occurring affordable housing in Philadelphia might be an avenue for recovery. Do you agree with this statement?

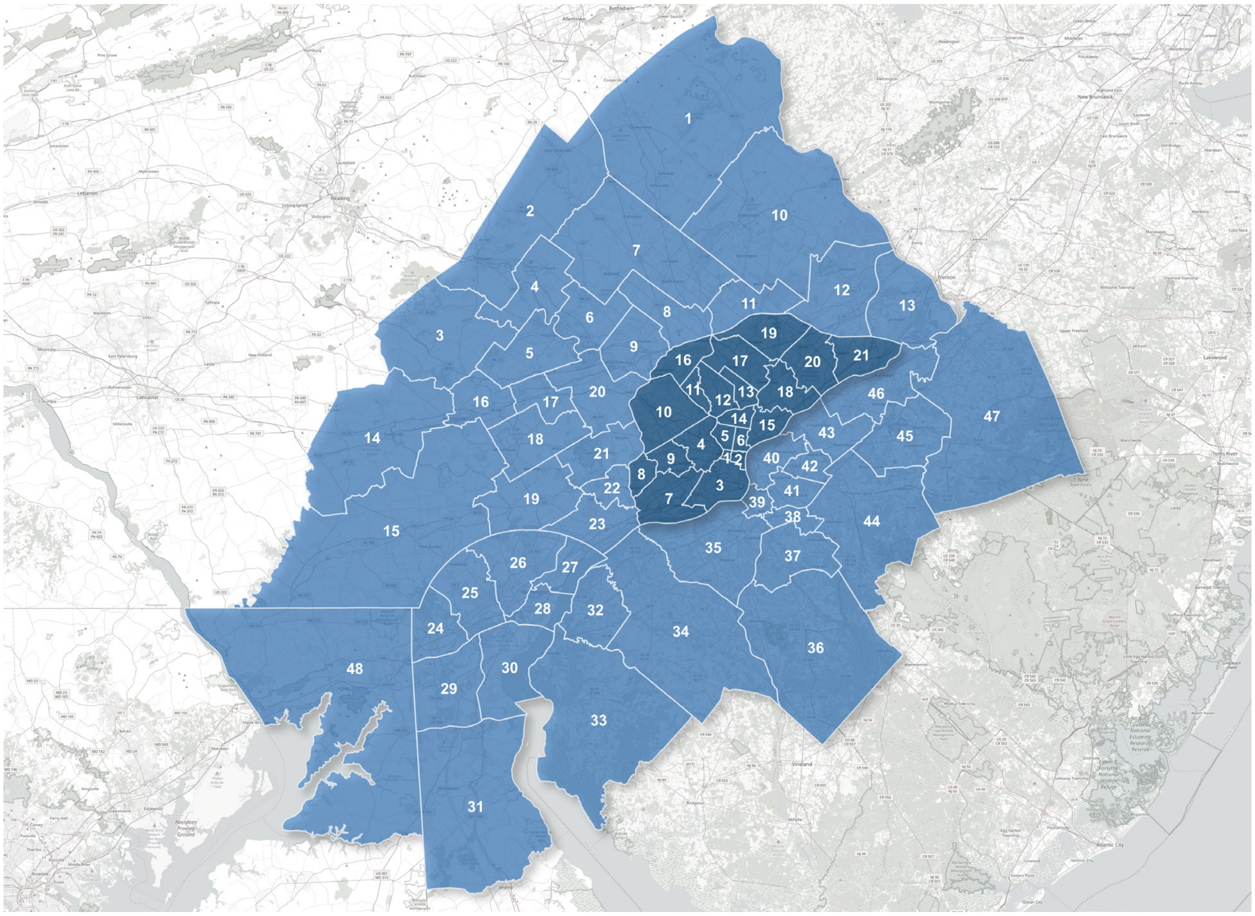
Naturally occurring affordable housing can be an excellent opportunity to increase affordable units while mitigating the overall cost burden. Government agencies at all levels should seek out public-private partnerships and other innovative solutions to bring additional resources to solve the affordable housing crisis.

How do you see the region's affordable housing sector performing this year?

The needed elements of a strong recovery are emerging. With the pandemic subsiding, businesses are reopening, people are returning to work, and consumers are buying and traveling again, and we are starting to see indications of growing economic vitality.

Add to that positive context stable interest rates, incentives for development, reform of restrictive zoning and, most importantly, strong and growing demand for workforce and affordable housing, and we are optimistic that the affordable housing sector in New England will be strong this year and into 2022.

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.

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

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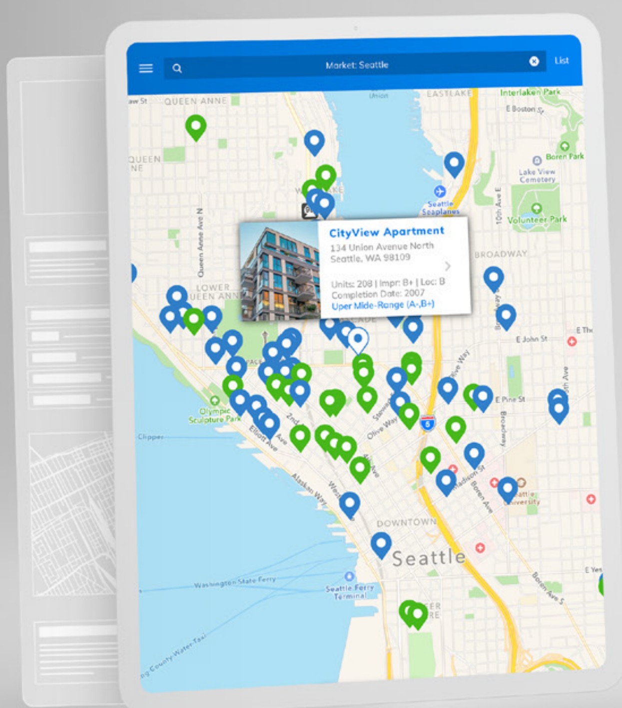

Yardi Matrix Multifamily provides accurate data on **19+ million units**, covering over **90% of the U.S. population**.

Key features

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- Leverage patented improvement and location ratings, unit mix, rental, occupancy and current manager information
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