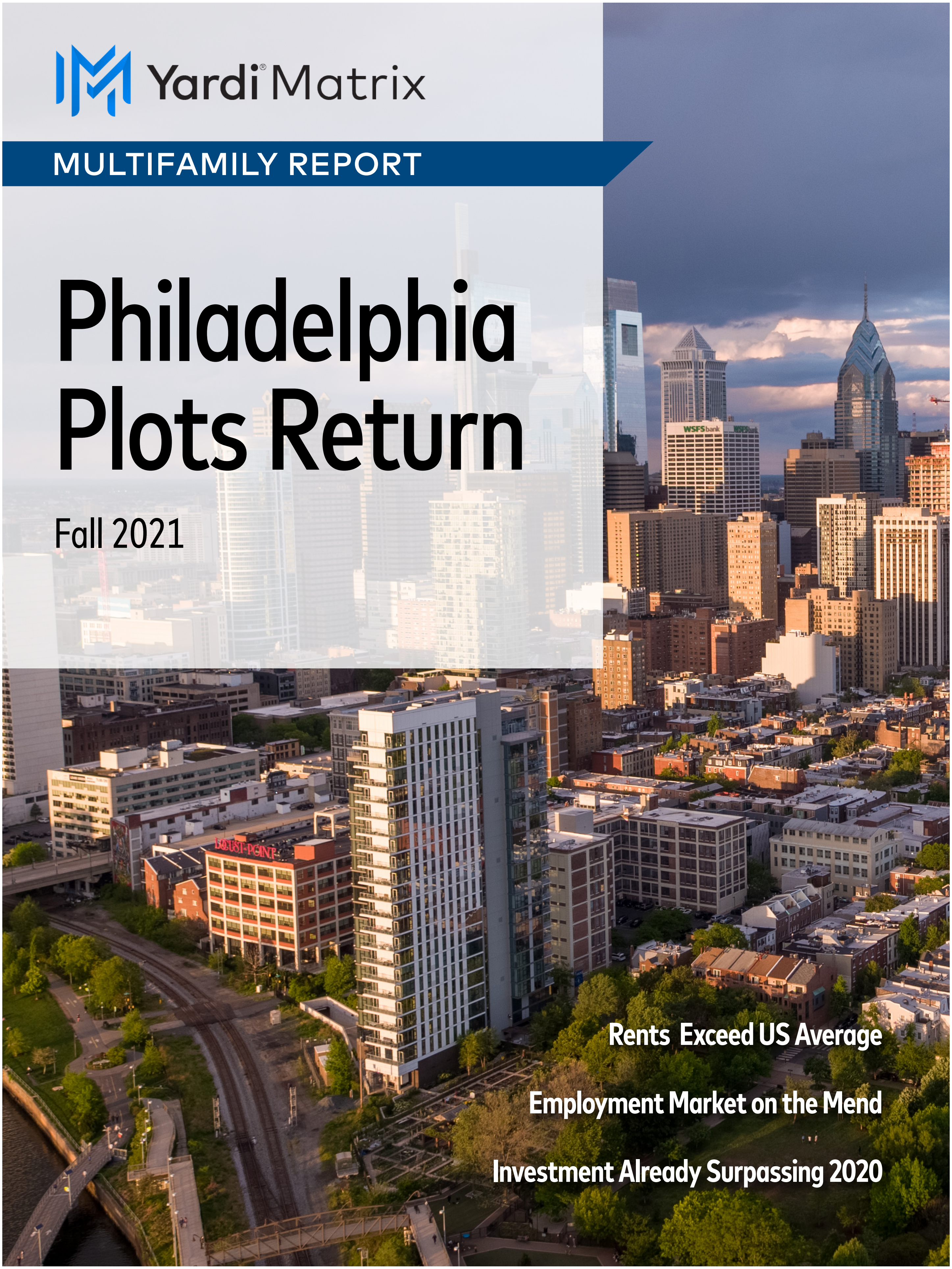
Yardi Matrix

MULTIFAMILY REPORT

Philadelphia Plots Return

Fall 2021



Rents Exceed US Average

Employment Market on the Mend

Investment Already Surpassing 2020

PHILADELPHIA MULTIFAMILY

Yardi Matrix

Demand Drives Philadelphia's Recovery

Philadelphia maintained solid momentum in terms of recovering from a difficult 2020. Rents rose 1.2% on a trailing three-month (T3) basis to $1,589 as of October. This rate of increase was recorded for both market-rate and upscale rental assets.

The unemployment rate in Philadelphia dropped to 5.7% in September, after three months of increases. While the number is the lowest since the onset of the health crisis, Philadelphia is still behind the 4.8 % national average. The metro added 119,700 positions in the 12 months ending in August for a 5.3% rate of job growth across all sectors. The metro's biggest sector—education and health services—added 18,000 jobs. Philadelphia is cementing its position as a national life science cluster, as the metro received $1.2 billion in NIH Funding in the first nine months of 2021.

The first 10 months of 2021 saw a slowdown in construction activity, as only 3,670 units were completed. This is a substantial decrease from the decade high recorded last year, when developers completed 6,390 units. The metro had 15,436 units under construction and another 66,000 were in the planning and permitting stages. Investor appetite increased significantly through October, as some $898 million in assets traded, already surpassing last year's total of $736 million.

Market Analysis | Fall 2021

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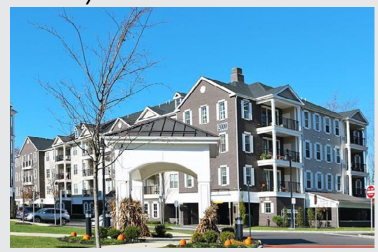
Recent Philadelphia Transactions

Barclay Chase at Marlton

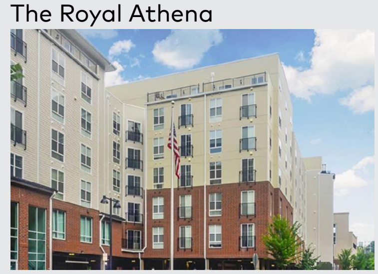


City: Marlton
Buyer: Merion Realty Partners
Purchase Price: $91 MM
Price per Unit: $335,977

Forest Creek

City: West Deptford, N.J.
Buyer: Harbor Group International
Purchase Price: $88 MM
Price per Unit: $252,066

The Royal Athena



City: Bala Cynwyd
Buyer: Harbor Group International
Purchase Price: $60 MM
Price per Unit: $216,363

RENT TRENDS

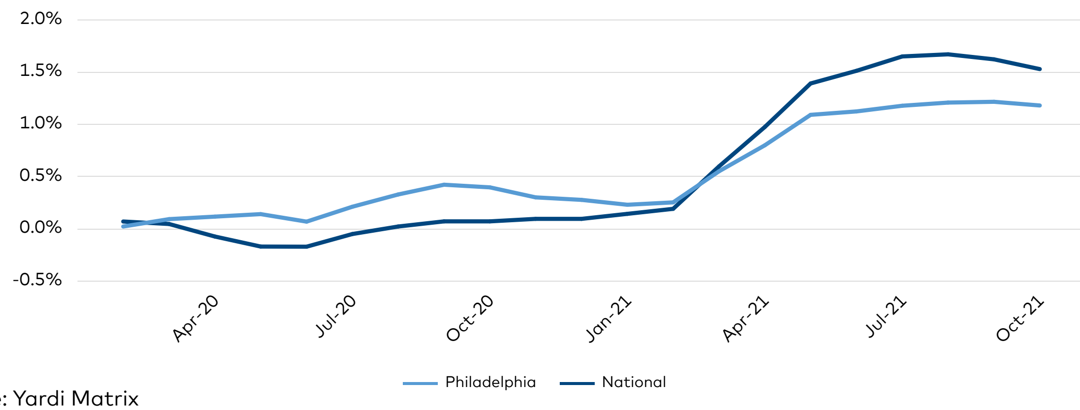
- Philadelphia rents were up 1.2% on a trailing three-month (T3) basis through October, 30 basis points lower than the national rate. The overall average rent in the metro was $1,589, slightly higher than the $1,572 U.S. figure. Year-over-year, rents in the metro rose 10.7%, 300 basis points above the national average.

- The occupancy rate in stabilized assets rose 110 basis points year-over-year to 96.8% as of September. While Lifestyle assets experienced a 170-basis-point increase year-over-year, occupancy clocked in at 95.5%, due in large part to the metro's new supply being composed primarily of upscale stock. Occupancy in RBN rental assets rose only 100 basis points but reached 97.2% in the 12 months ending in September.

- The metro's suburban submarkets outperformed the urban areas in terms of rent growth in the 12 months ending in October. Submarkets such as Ambler (19.1%), Berwyn (18.6%) and Concordville (18.5%) recorded rents well above the metro average.

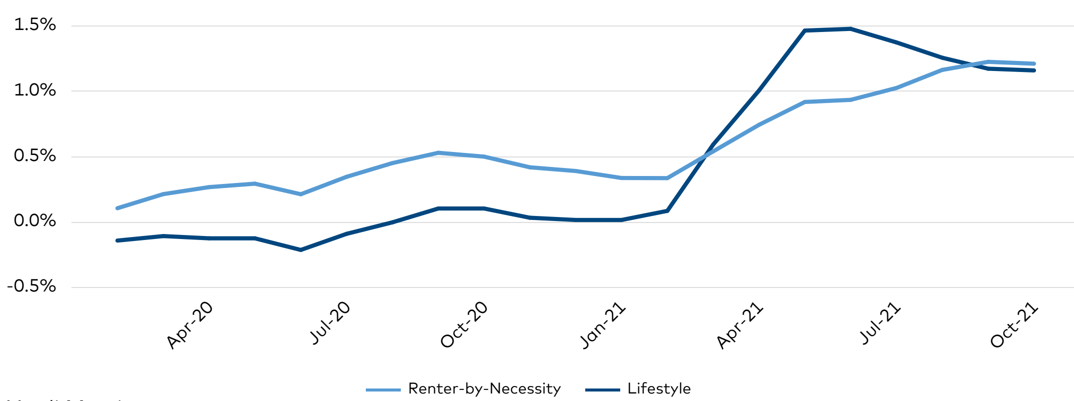
- While the submarkets in the urban core recorded moderate year-over-year rent growth, they remained the priciest in the metro, as Center City–West rose 11.3% to $2,323 and Center City–East expanded 8.8% to an average of $2,273, both significantly above the metro average despite the area including limited construction activity.

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's unemployment rate stood at 5.7% in September, according to preliminary data from the Bureau of Labor Statistics. While the number is the metro's lowest since the onset of the health crisis, it is still well above the 4.8% national average. Philadelphia added 119,700 jobs in the 12 months ending in August for a 5.3% increase, 70 basis points greater than the national average. The public sector was the only one to suffer job losses, down 1,700 positions.

- Leisure and hospitality led growth, adding 41,500 jobs and up 21.4%. As restrictions were lifted, the metro once again welcomed tourists. Some hotels opened during the summer, including the 51-story W Philadelphia and the 460-room Element by Westin.

- Professional and business services followed, with 22,700 jobs, growing 16.4%. The metro's main economic driver, education and health services, accounted for almost a quarter of current employment, having gained 18,000 jobs. These trends can be associated with Philadelphia's strengthening of its position as a national life science cluster. In the first three quarters of the year, the metro received $1.2 billion in NIH Funding, while licensing royalties and M&A activity has infused additional capital.

Philadelphia Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	235	8.3%
60	Professional and Business Services	465	16.4%
40	Trade, Transportation and Utilities	514	18.2%
65	Education and Health Services	630	22.3%
80	Other Services	107	3.8%
15	Mining, Logging and Construction	122	4.3%
50	Information	53	1.9%
55	Financial Activities	219	7.7%
30	Manufacturing	176	6.2%
90	Government	307	10.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Philadelphia added 5,500 residents in 2020, following a pattern of limited growth established since 2018. At 0.1%, the metro's rate of population growth is at a quarter of the U.S. figure. Affordability factors may push residents from higher-priced metros into Philadelphia.

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

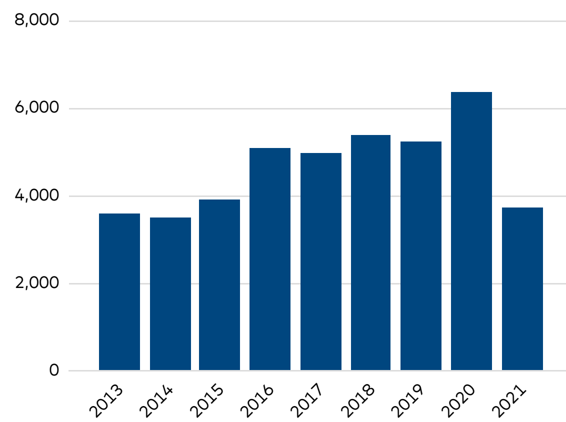
- Philadelphia had 15,436 units under construction as of October across the metro, of which only 994 were in fully affordable projects. Development activity was overwhelmingly focused on Lifestyle properties, as 86.9% of units underway were in the upscale segment. Additionally, some 66,000 units were in the planning and permitting stages.

- Deliveries softened in 2021, with only 3,670 units across 21 properties coming online through October. This represented 1.2% of the total stock and was 60 basis points below the national average, as well as a significant decrease from the decade high recorded last year, when developers completed 6,390 units. Lifestyle units made up the bulk of completions in the first 10 months of 2021, as almost 3,372 units were in the upscale segment.

- Construction activity was concentrated in the urban core, with almost 40% of the current pipeline being located within a 7-mile radius of downtown Philadelphia in three submarkets: North-East (3,264 units), West (1,597 units) and North-West (1,288 units).

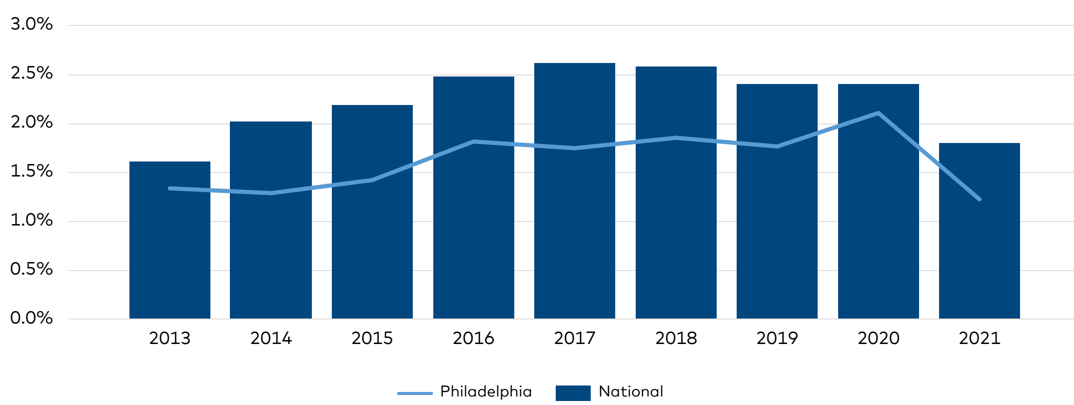
- The biggest project expected to be delivered by the end of the year is taking shape in the metro's busiest submarket. RAL Cos.' 478-unit Broadridge development is being constructed in the North Broad area of Philadelphia, which is currently undergoing a major revitalization. The 11-story building received $112 million in construction financing from Bank OZK.

Philadelphia Completions (as of October 2021)



Source: Yardi Matrix

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

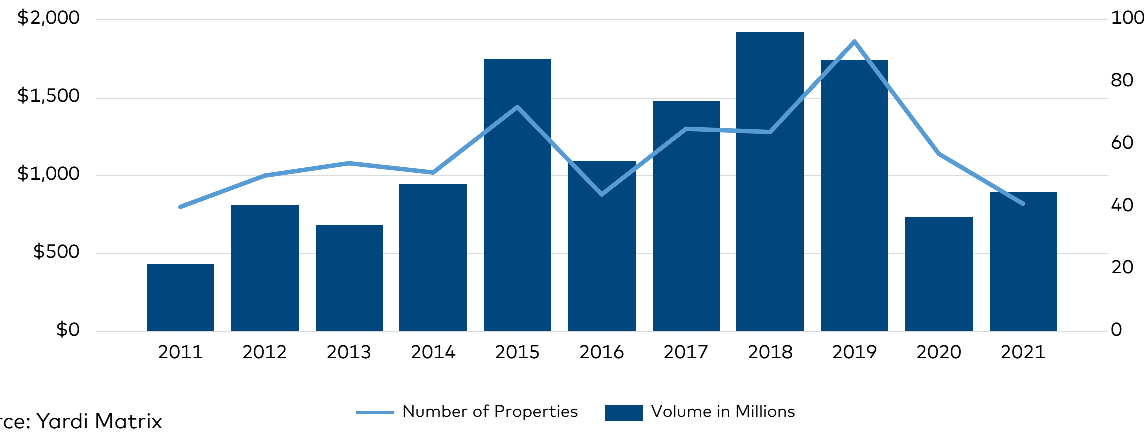


Source: Yardi Matrix

TRANSACTIONS

- Transaction activity in Philadelphia picked up in 2021, as some $898 million in multifamily assets changed hands. While topping 2020's overall volume $736 million, it is still far from the cycle high of $1.9 billion recorded in 2018. In the first 10 months of the year, investor interest rose 81.1% compared to the same period last year, when only $496 million in rental properties traded.
- Investors targeted the Renter-by-Necessity segment: Of the 41 properties sold through October, only eight were Lifestyle properties. The price per unit increased by 29.3% year-over-year to $141,571, a new decade high, but still behind the $184,007 national average.
- In the 12 months ending in October, investors focused on urban areas: West ($168 million traded) and North-West ($147 million). Suburban areas close to the New Jersey Turnpike, such as Marlton–Medford ($106 million) and Woodbury ($98 million), were also in high demand.

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



Source: Yardi Matrix

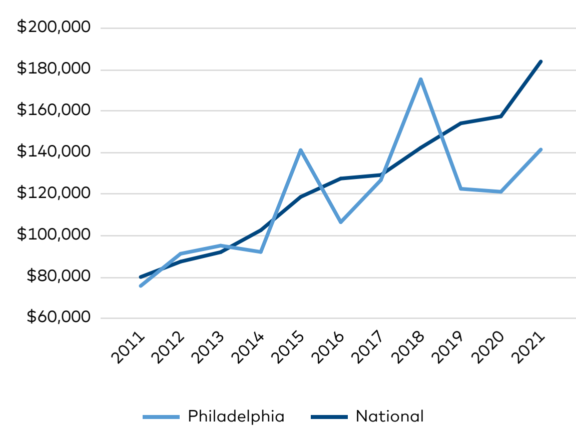
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
West	168
North-West	147
Marlton-Medford	106
Woodbury	98
Berwyn	71
West Chester	61
Ardmore	60

Source: Yardi Matrix

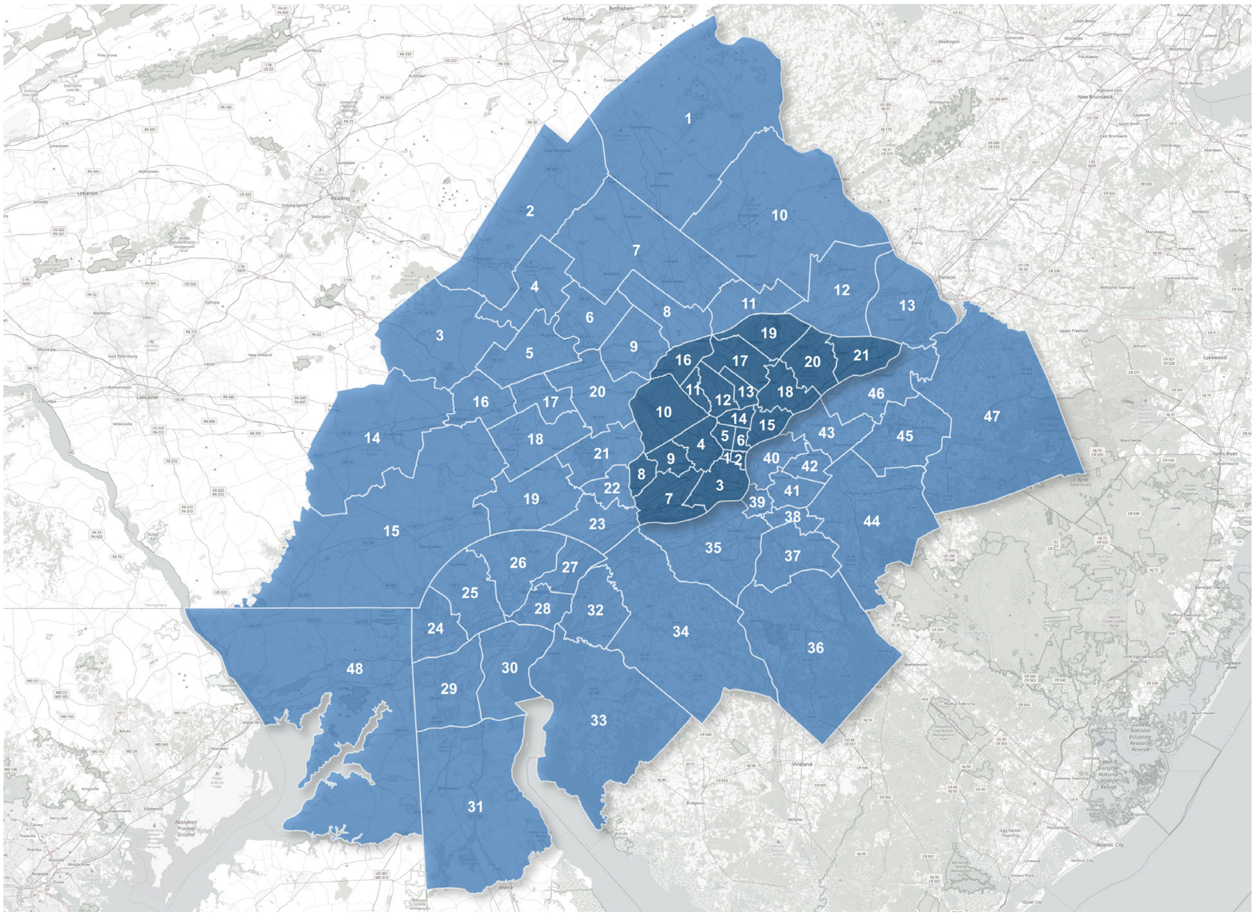
[1] From November 2020 to October 2021

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 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.