

**YARDI**<sup>®</sup> Matrix

# Philadelphia's Apartment Revival

Multifamily Report Spring 2017

**Rents Rise, Trail Nation**

**Building Boom Targets City Core**

**Is Explosive Growth Sustainable?**



## Market Analysis

Spring 2017

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## Rentals Gain Momentum as Jobs Grow

The multifamily market in the City of Brotherly Love is expanding, sustained by steady employment and population increases. Job growth was led by the business and professional services sector, followed by health care and education. Philadelphia's renowned universities and research hospitals are thriving, while the emerging fintech corridor is getting stronger.

Mixed-use developments are gaining traction, especially in University City, which has developed a series of public-private partnerships that have become a key part of the city's transformation. A new addition to the Philly skyline is the 49-story FMC Tower, dubbed "Philadelphia's first vertical neighborhood." The amenity-laden building—which provides office, residential, hotel and restaurant space—is part of Brandywine Realty's Cira Centre South project along the western bank of the Schuylkill River. What's more, the massive \$3.5 billion Schuylkill Yards and 30th Street Station District master plans are set to transform this section of downtown Philadelphia in the coming decades.

Demand for apartments remains strong, as the city continues to be attractive to Millennials and Baby Boomers looking to downsize. Developers are ramping up construction, with more than 40,000 units in the pipeline. Though there is some uncertainty around whether there will be enough jobs to justify the deluge of new supply, we anticipate rents will rise by 3.4% in 2017.

## Recent Philadelphia Transactions

Village Square



City: Bensalem, Pa.  
Buyer: Berger Rental Communities  
Purchase Price: \$71 MM  
Price per Unit: \$102,305

The Lantern



City: Glen Mills, Pa.  
Buyer: TIAA  
Purchase Price: \$66 MM  
Price per Unit: \$236,071

The Vista



City: Voorhees, Pa.  
Buyer: David Stern  
Purchase Price: \$58 MM  
Price per Unit: \$128,319

Charter Court at East Falls

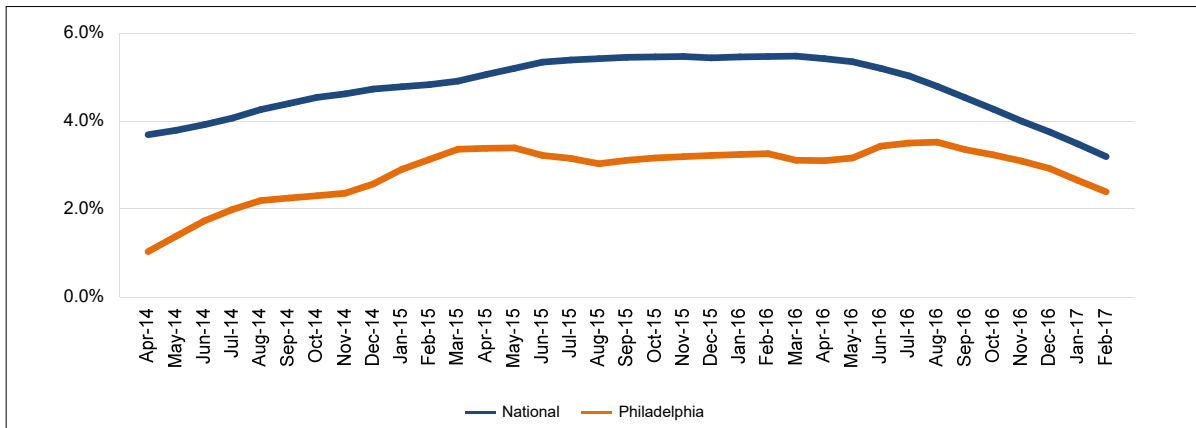


City: Philadelphia  
Buyer: GoldOller Real Estate Investments  
Purchase Price: \$56 MM  
Price per Unit: \$112,000

## Rent Trends

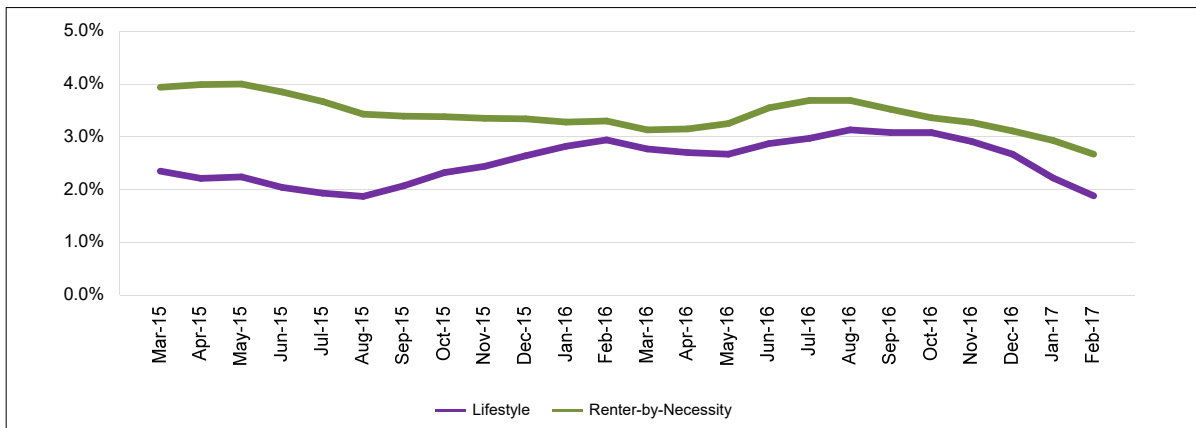
- Through February, rents rose 2.4% to \$1,241, slightly below the nation's \$1,306 average and 2.8% growth rate. As of January, occupancy was around 96%, reflecting strong absorption of the approximately 10,600 units that have come online since 2014. Hiring and household formation have continued to sustain demand.
- Philly has become increasingly attractive to Millennials. In the past, students left after graduating area universities, but now there is more incentive among young professionals to stay, perhaps due to improving job prospects and more affordable housing than in nearby New York and Washington.
- Rents in the working-class Renter-by-Necessity segment rose 2.7% to \$1,115, while Lifestyle rents advanced by 1.9% to \$1,743. Overall, rent growth decelerated slightly in recent months, mirroring the national trend. North-West, Abington, Media, Concordville, Gloucester City and Woodbury experienced the greatest rent hikes, while core areas saw rents depreciate as a result of new deliveries. These submarkets—including Center City-West, Center City-East, South, West, North-East and North-West—command the highest rents. We expect the short-term softness will give way to long-term strength, with rents increasing by 3.4% in 2017.

### Philadelphia vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

### Philadelphia Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)

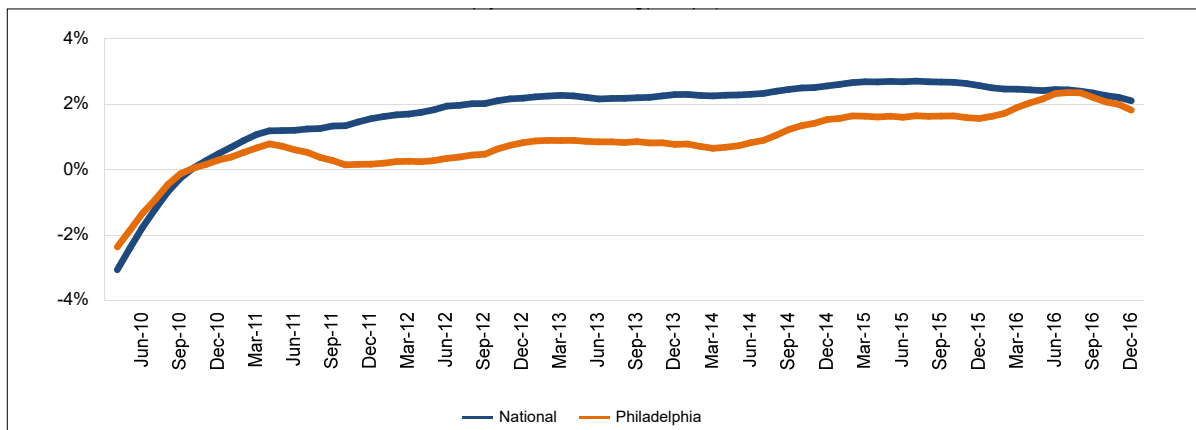


Source: YardiMatrix

## Economic Snapshot

- Philadelphia added 41,300 jobs through December, marking a 1.8% year-over-year increase yet lagging the 2.1% national growth. Business and professional services added the most jobs (11,800), while education and health services expanded by 11,700 positions.
- Amid renowned universities, Philadelphia's tech presence is getting stronger. Important players, especially in the local fintech arena, include digital analytics tools provider eMoney Advisor, mobile banking app Moven, B2B payment-processing company CardConnect, online valuation provider BizEquity, stock market research software maker Chaikin Analytics and wealth management solutions firm WealthHub. Another example is FreedomPay, which has grown rapidly, in tandem with the global proliferation of new commerce technologies. The company plans to move nearly 150 employees into its new headquarters at FMC Tower—the city's newest skyscraper—which is home to FMC Corp. and the University of Pennsylvania.
- The expansion of office-using employment sectors, coupled with an influx of new Class A product, pushed office rents to near-historical highs in the second half of 2016. University City was particularly dynamic, supported by public-private partnerships. The \$3.5 billion Schuylkill Yards project by Drexel University and Brandywine Realty Trust will bring a 14-acre, master-planned community to this section of downtown over the next 20 years.

### Philadelphia vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

### Philadelphia Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	471	16.1%	11,800	2.6%
65	Education and Health Services	629	21.5%	11,700	1.9%
70	Leisure and Hospitality	256	8.8%	7,300	2.9%
40	Trade, Transportation and Utilities	545	18.7%	5,800	1.1%
55	Financial Activities	213	7.3%	2,300	1.1%
30	Manufacturing	184	6.3%	1,800	1.0%
15	Mining, Logging and Construction	114	3.9%	1,200	1.1%
80	Other Services	119	4.1%	600	0.5%
90	Government	344	11.8%	-100	0.0%
50	Information	46	1.6%	-1,100	-2.3%

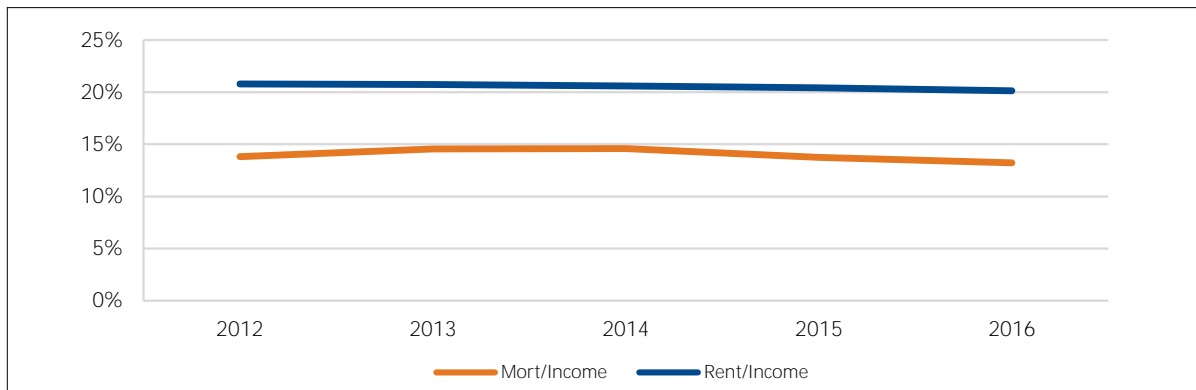
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

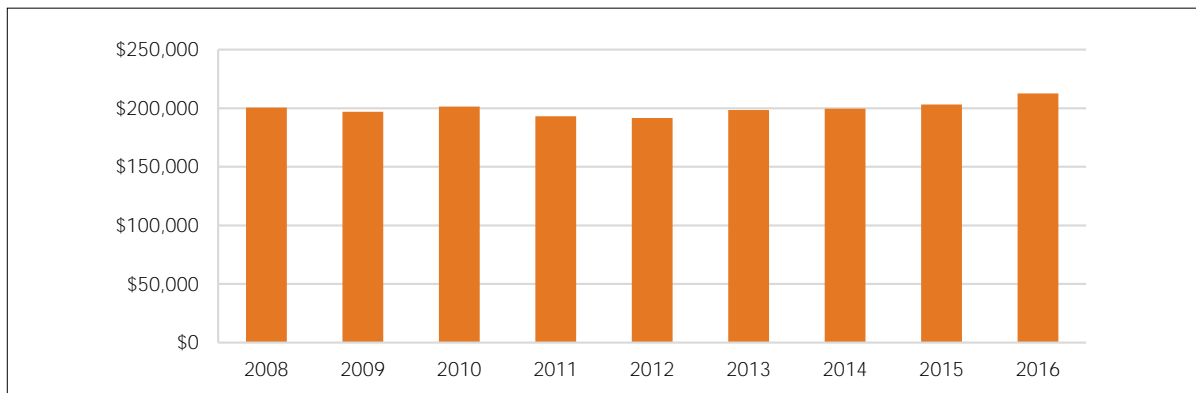
- The median home value in Philadelphia reached a post-recession high of \$212,724 in 2016. The average mortgage accounted for 13% of the area's median income, while rent was about 20% as of February.
- According to a new report by the Federal Reserve Bank of Philadelphia, between 2000 and 2014, rents fell below \$750, costing the city 23,628 apartment units. These losses were especially acute in gentrifying neighborhoods, such as University City and Graduate Hospital, which lost low-cost units at more than five times the rate of non-gentrifying neighborhoods.

### Philadelphia Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Philadelphia Median Home Price



Source: Moody's Analytics

### Population

- Philadelphia expanded by 16,155 residents in 2015, up 0.3% yet below the 0.8% national growth rate.
- The city's population has risen by more than 72,770 since 2011.

### Philadelphia vs. National Population

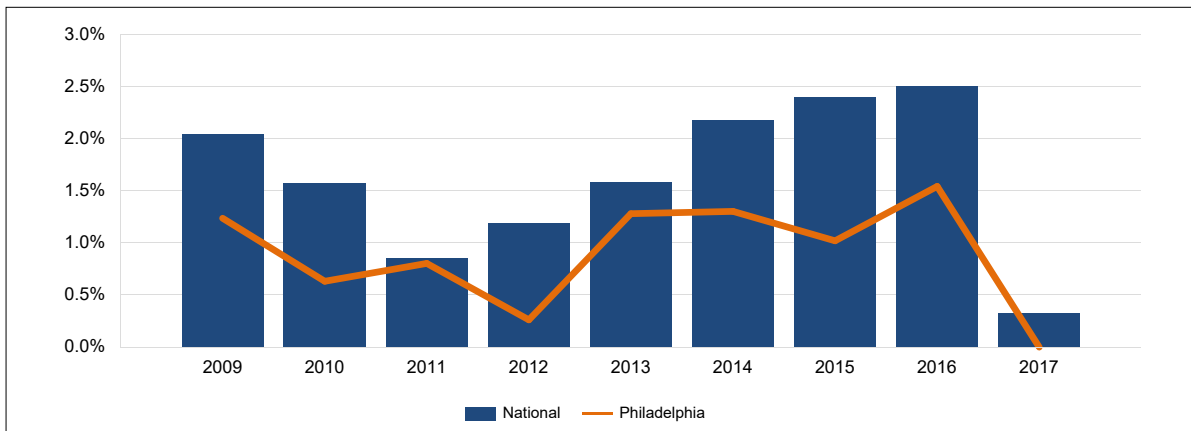
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Philadelphia Metropolitan Statistical Area	5,997,102	6,021,349	6,036,356	6,053,720	6,069,875

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

## Supply

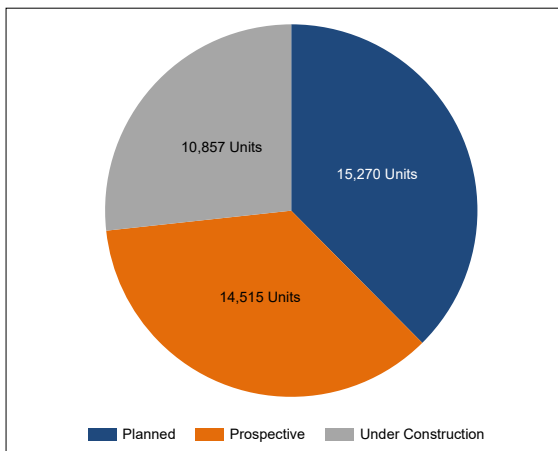
- More than 4,280 units came online in 2016, marking a post-recession high. The amount of new supply represented a 1.5% year-over-year increase, trailing the 2.5% national average.
- Developers are ramping up construction, with nearly 11,000 units under construction and more than 40,000 units in the pipeline as of February. Though the boom points to strong economic fundamentals, it does not guarantee that there will be enough jobs to justify the anticipated volume of new deliveries. Some developers have advocated for a reduction of wage and business taxes that might encourage more companies to establish a presence in Philadelphia.
- Upcoming deliveries will especially target amenity-rich areas in and around the city core, such as West (1,472 units), North-West (1,407 units), Norristown (1,401 units), Center City-East (1,272 units) and Center City-West (701 units). University City is seeing a tremendous amount of activity, with a particular focus on mixed-use developments that can accommodate live-work-play lifestyles. Examples include the Schuylkill Yards and 30th Street Station District master plans, which will add acres of residential, retail and office space to the eastern edge of the neighborhood over the next few decades.

### Philadelphia vs. National Completions as a Percentage of Total Stock (as of February 2017)



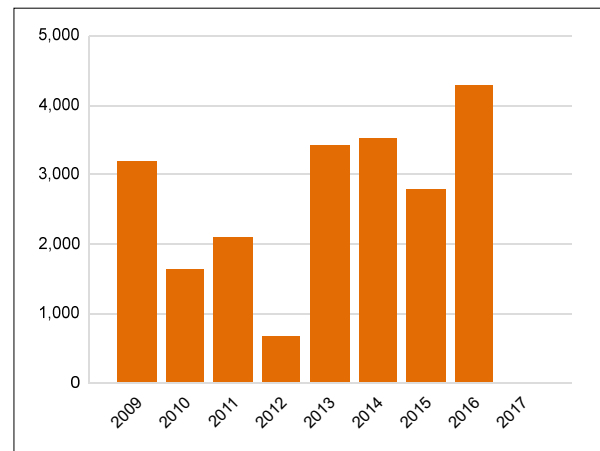
Source: YardiMatrix

### Development Pipeline (as of February 2017)



Source: YardiMatrix

### Philadelphia Completions (as of February 2017)

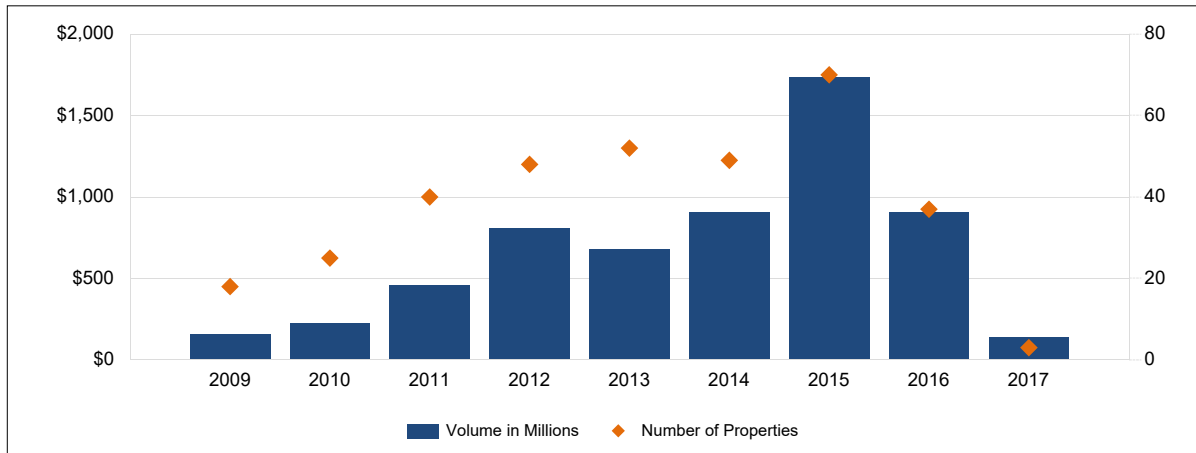


Source: YardiMatrix

## Transactions

- Sales volume decreased to approximately \$900 million in 2016, after reaching a cycle peak in 2015. The average price per unit also declined, from \$141,994 in 2015 to \$105,894 in 2016, a figure that is well below the national average of \$133,903.
- During the second half of 2016, acquisition yields for stabilized Class A properties in infill locations across Philadelphia ranged from 4.5% to 5%, according to CBRE, while cap rates were 5.75% to 6.25% for Class B assets and 6.5% to 7% for Class C assets.
- Intense sales activity occurred in Runnemede-Voorhees, Bensalem and Lindenwold. Berger Rental Communities' \$71 million acquisition of the 694-unit Village Square in Bensalem was the largest transaction. The previous owner, Paradise Property Management, bought the asset in 2012 for \$67 million.

### Philadelphia Sales Volume and Number of Properties Sold (as of February 2017)



Source: YardiMatrix

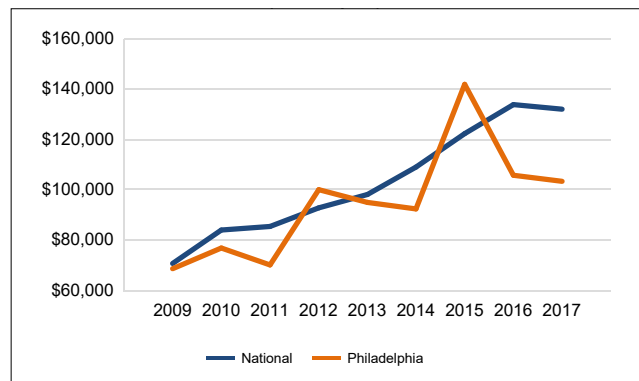
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Runnemede-Voorhees	122
Bensalem	80
Lindenwold	70
Northwest-East	69
Concordville	66
West Chester	52
Cherry Hill	50
Feasterville-Langhorne	43

Source: YardiMatrix

<sup>1</sup> From March 2016 to February 2017

### Philadelphia vs. National Sales Price per Unit



Source: YardiMatrix



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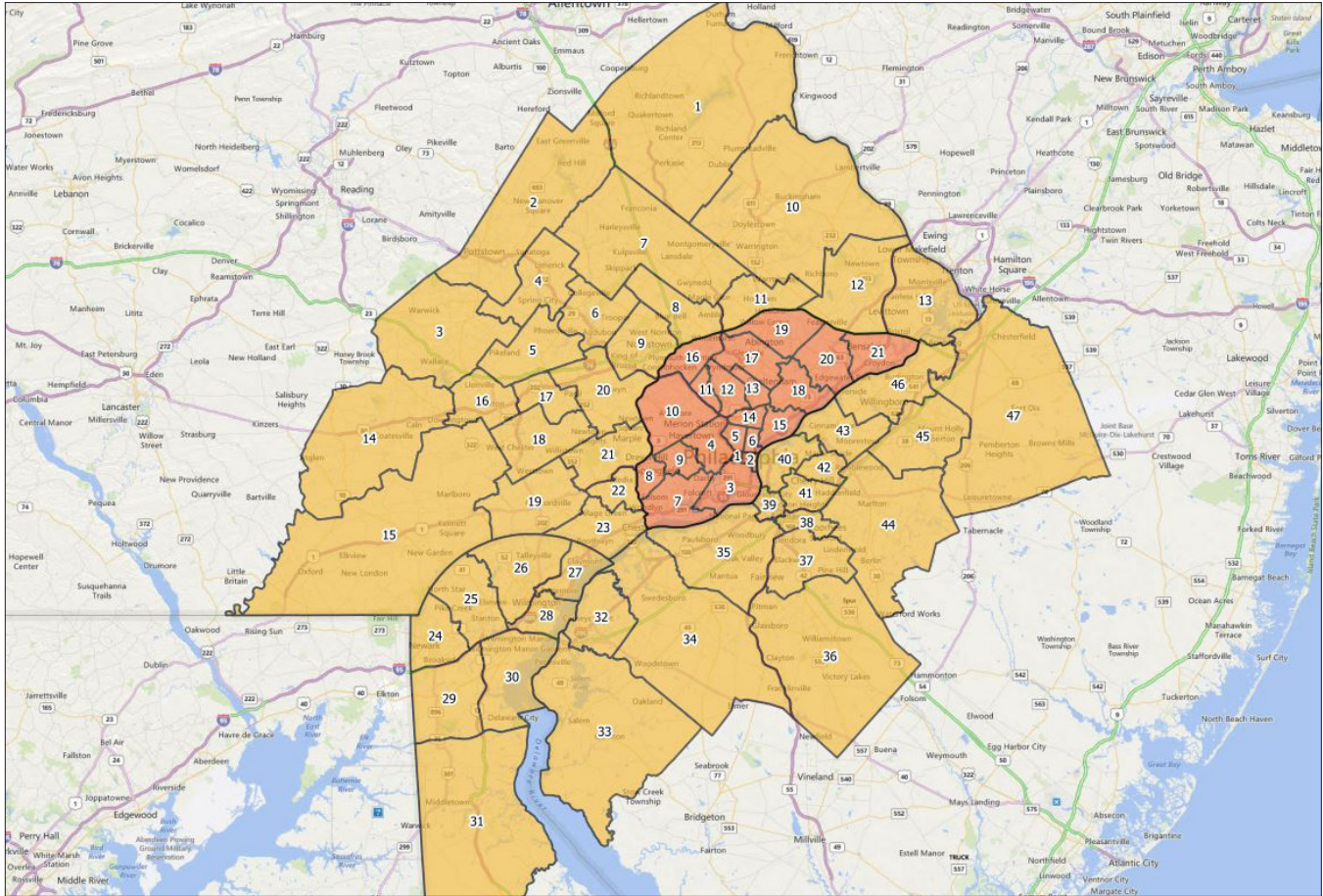
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# Philadelphia Submarket Map



Area #	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 #	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

Area #	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

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## 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.

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