



MULTIFAMILY REPORT

Philadelphia: Urban Core Rebound

August 2022

Rent Expansion Picks Up Again

Development Remains Elevated

H1 Transaction Volume Nears \$1.2B

PHILADELPHIA MULTIFAMILY



Demand Keeps Up With Robust Supply

Halfway through 2022, Philadelphia's multifamily market maintained its vigor despite rising uncertainty regarding the economy. Strong demand kept up with substantial deliveries and the occupancy rate in stabilized properties remained flat at 96.7% in May, with core submarkets beginning to regain popularity among renters. Meanwhile, the average rent rose 11.4% year-over-year through June, to \$1,695, still trailing the \$1,706 U.S. figure.

Philadelphia's employment market expanded 4.3%, or 113,800 jobs, in the 12 months ending in May, 40 basis points behind the U.S. rate. Leisure and hospitality (38,100 jobs), trade, transportation and utilities (21,400 jobs) and professional and business services (20,100 jobs) led growth, and all sectors continued to gain positions. Even though the metro has been slow to recover jobs lost during the peak of the health crisis, the unemployment rate improved to pre-pandemic levels, hovering in the lower half of the 4.0% band since the start of the year, but lagging behind the 3.6% U.S. rate.

Developers delivered 1,763 units during the first half of the year and had 14,891 units under construction. Meanwhile, transaction volume rose to nearly \$1.2 billion through June, well above the figure recorded during the same interval last year. Still, most of the deals occurred during the first quarter, and further moderation is anticipated. Per-unit prices rose 35.2% in 2022 compared to 2021.

Market Analysis | August 2022

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Recent Philadelphia Transactions

Parkview Towers



City: Collingswood, N.J.
Buyer: Premier Properties
Purchase Price: \$179 MM
Price per Unit: \$173,891

The Point at Exton



City: Exton, Pa.
Buyer: Pantzer Properties
Purchase Price: \$82 MM
Price per Unit: \$240,933

Lavana Falls



City: Levittown, Pa.
Buyer: Silverstone Properties
Purchase Price: \$57 MM
Price per Unit: \$229,753

Burlington Pointe



City: Burlington, N.J.
Buyer: Cue Residential
Purchase Price: \$45 MM
Price per Unit: \$215,873

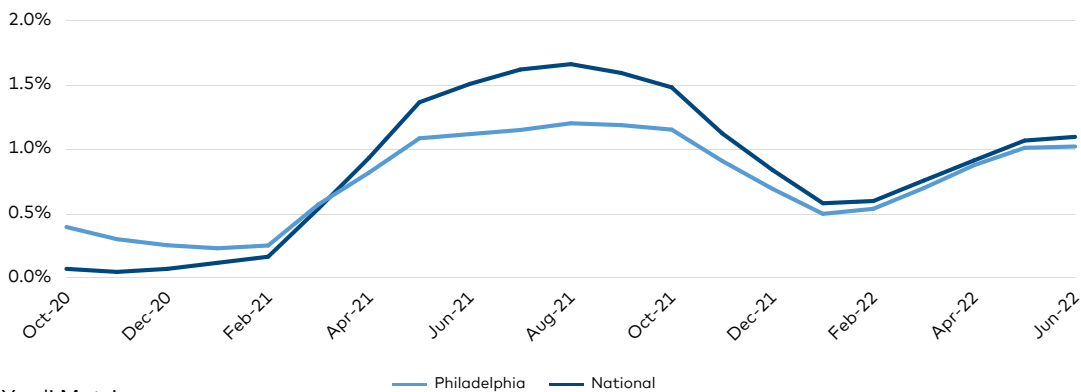
RENT TRENDS

- Rents rose 1.0% on a trailing three-month (T3) basis through June, 10 basis points lower than the U.S. average. After a seasonal slowdown, rent growth picked up again, but has trailed the U.S. since February 2021. On an annual basis, Philadelphia's average rent rose 11.4%, lagging the 13.7% national average. At \$1,695, the metro's average trails the \$1,706 U.S. rate.
- Growth was nearly on par across quality segments: Lifestyle rents rose 1.1% on a T3 basis through June, to \$2,243, and Renter-by-Necessity rates advanced 1.0%, to \$1,499. Despite last year's significant stock expansion, occupancy remained flat at 96.7% as of May—down 20 basis points year-over-year, to 97.0%, in the RBN segment and up 60 basis points to 95.9% in the Lifestyle segment. Occupancy data also shows

that the urban area is slowly regaining renter preference, with occupancy in core submarkets up 10 basis points to 95.7%, and down 10 basis points to 97.3% in suburban Philadelphia.

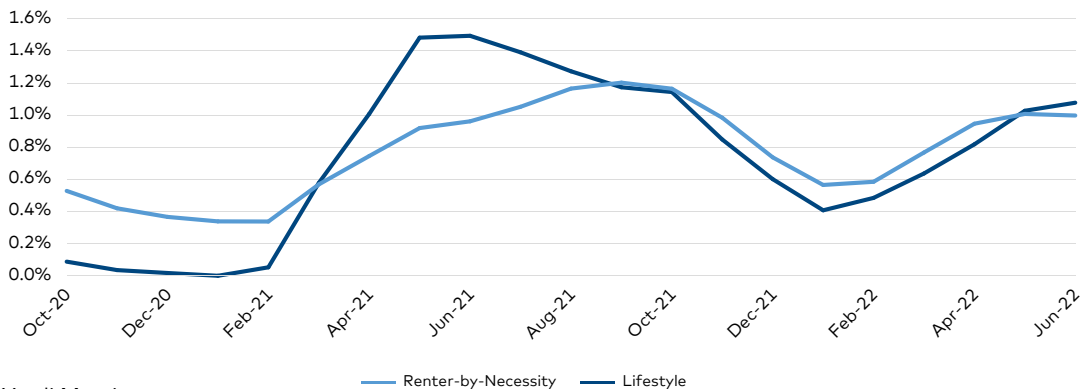
- Of the 69 submarkets tracked by Yardi Matrix, 47 posted double-digit annual rent increases. This has increased the number of submarkets with the average asking rent above the \$2,000 mark to 12 as of June, from just four a year ago. Center City-West (11.6% to \$2,453) and Center City-East (10.6% to \$2,392) were the most expensive core submarkets, while Concordville (12.4% to \$2,318) was the most sought-after suburban submarket.
- Philadelphia single-family rental segment posted the highest occupancy increase, up 5.8% in May, while annual rent growth was up 10.4% in June.

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 dropped to pre-pandemic levels, clocking in at 4.0% in May, up 3.1% year-over-year and a 130-basis-point improvement from January, according to data from the Bureau of Labor Statistics. The metro's rate in May was on par with Pittsburgh's, outperforming the state (4.6%), but trailing the U.S. (3.6%).
- The job market in Philadelphia expanded 4.3%, or 113,800 positions, in the 12 months ending in May, trailing the 4.7% U.S. rate. Since the start of the year, job growth has been hovering in the lower half of the 4.0% mark, remaining behind the national average. The rebound in leisure and hospitality kept the sector in the leading position, up 38,100 jobs. Domestic visitor numbers surpassed 44 million in 2021, according to Visit Philadelphia, 21% above 2020 numbers and 19% below 2019 figures.
- Trade, transportation and utilities (21,400 jobs) came in next. Traffic at the Philadelphia International Airport is behind the 2019 volume but is increasing. Moreover, the airport is expanding its cargo offerings, aiming to serve the pharma industry and establish the city as a logistics center. Meanwhile, the life science sector is growing, totaling some 2.7 million square feet at the end of 2021, used by 68 life sciences tenants, according to CBRE. This is highly attractive to companies like London-based Achilles Therapeutics, which chose Philadelphia for its first U.S. location.

Philadelphia Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	260	8.8%
40	Trade, Transportation and Utilities	537	18.1%
60	Professional and Business Services	492	16.6%
65	Education and Health Services	659	22.2%
80	Other Services	118	4.0%
30	Manufacturing	179	6.0%
55	Financial Activities	219	7.4%
50	Information	50	1.7%
90	Government	331	11.2%
15	Mining, Logging and Construction	121	4.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Philadelphia lost 13,382 residents in 2021, down 0.2%, while the U.S. marked a 0.1% population uptick. This follows one of the best years in demographic expansion, as in 2020, the local growth rate was 2.2%.
- In the decade ending in 2021, Philadelphia's population rose by 3.5%.

Philadelphia vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Philadelphia	6,096,805	6,104,777	6,241,983	6,228,601

Source: U.S. Census

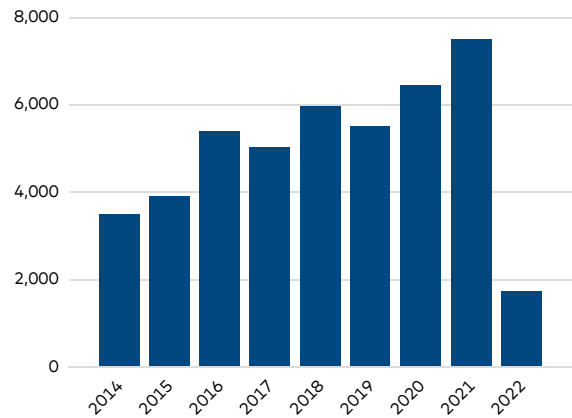
SUPPLY

- Philadelphia had 14,891 units under construction as of June and another 68,000 in the planning and permitting stages. Core submarkets accounted for two-thirds of the units underway, and the remaining 33% are located across suburban Philadelphia. Overall, 75% of the construction pipeline consisted of Lifestyle projects, 5.2% were units in fully affordable communities and the remaining were market-rate units.
- Following the strongest year for deliveries (7,501 units in 2021), in 2022 through June, developers added 1,763 units, 0.6% of total stock, lagging the 0.9% U.S. rate. Of these, more than 80% were in upscale Lifestyle projects and less than 10% were in fully affordable communities.
- Construction starts reveal a drop in volume, as 4,463 units broke ground this year through June, down from the 5,116 units that started construction during the same period last year. This decrease in new residential construction is likely to deepen in the long term as the previous 10-year, 100% tax abatement policy on new residential construction had its application deadline extended by one year. This means that for applications submitted after Jan. 1, 2022, the full abatement will apply to the first year

and be subject to 10% yearly reductions over the subsequent nine years. The increased interest rates could turn into another obstacle for new development but won't solely affect Philadelphia.

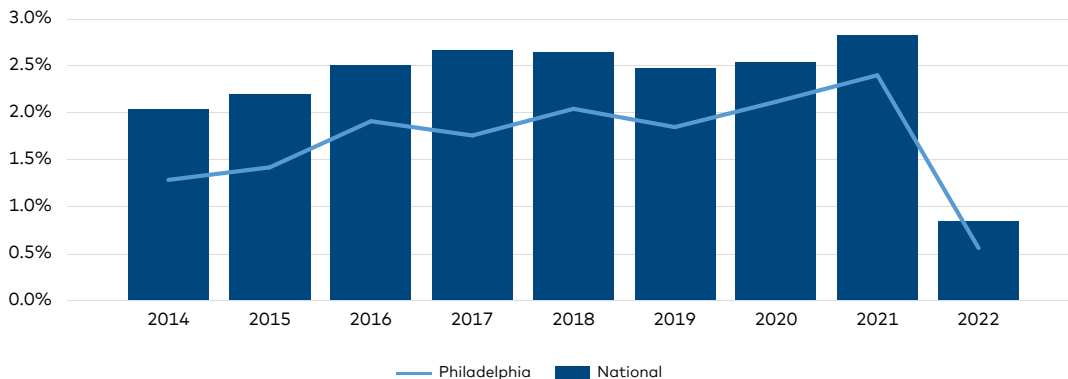
- More than a third of the units underway are centered in just three submarkets: North-East (3,014 units), West (1,447 units) and Center City-West (1,059 units). The first also houses the largest project underway, Tower Investment and Post Brothers' 1,131-unit Piazza Terminal.

Philadelphia Completions (as of June 2022)



Source: Yardi Matrix

Philadelphia vs. National Completions as a Percentage of Total Stock (as of June 2022)

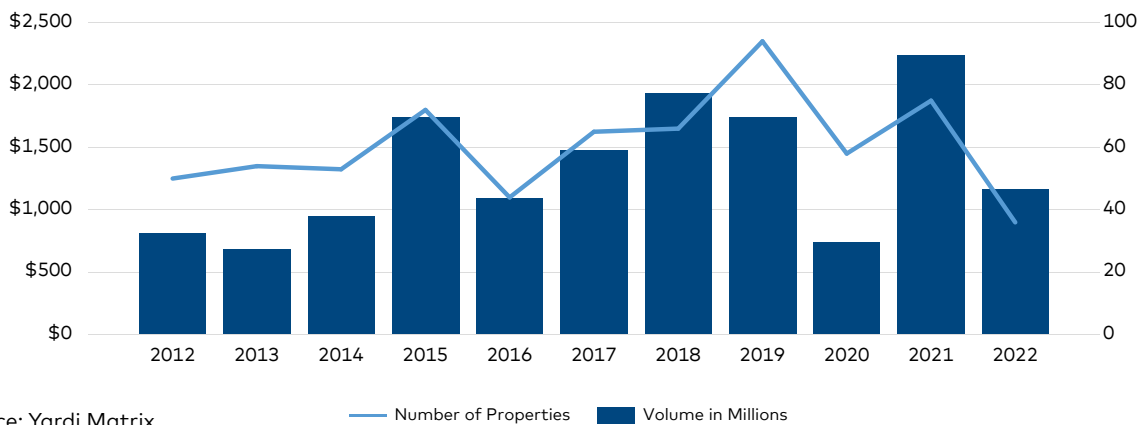


Source: Yardi Matrix

TRANSACTIONS

- ▶ After last year's all-time high, when more than \$2.3 billion in multifamily assets traded in the metro, the first half of 2022 saw nearly \$1.2 billion in multifamily sales. This figure is well above the \$584 million recorded during the same period last year, with investors more attracted to suburban assets, which accounted for two-thirds of the sales volume.
- ▶ Even though investors were primarily interested in working-class properties—75% of sales involved RBN assets—the price per unit rose 35.2% this year, to \$197,994, but remained below the \$217,310 U.S. average.
- ▶ Persisting inflation and rising interest rates have started to limit transaction activity, as sales during the second quarter represented just 25% of the total sales volume. Furthermore, most of the volume in the second half of this year will likely consist of the closings of previously arranged sales.

Philadelphia Sales Volume and Number of Properties Sold (as of June 2022)



Source: Yardi Matrix

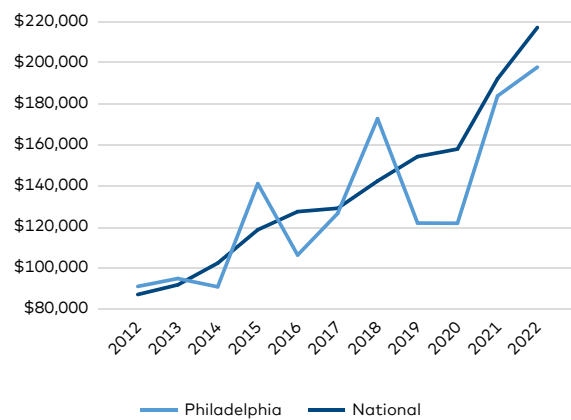
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Norristown	267
North-West	258
Center City West	233
Exton-Downingtown	216
Northwest-East	210
Camden-Pennsauken Township	184
West Chester	127

Source: Yardi Matrix

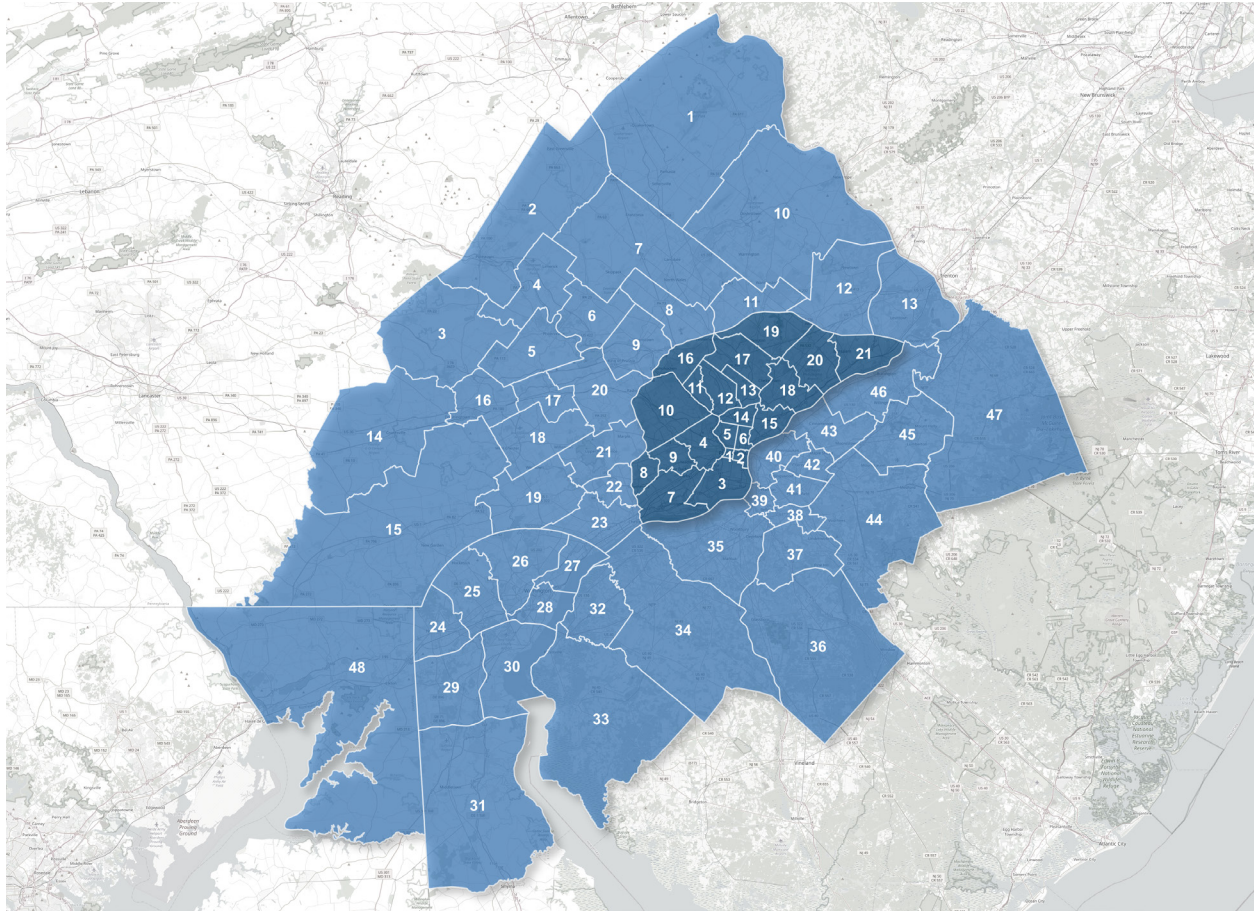
¹ From July 2021 to June 2022

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 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 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, 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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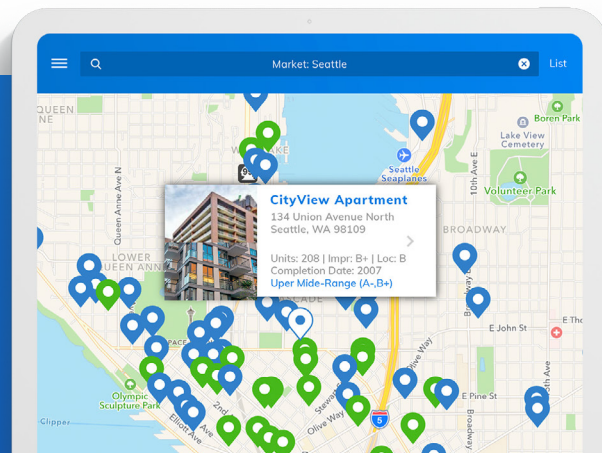
Yardi® Matrix

Power your business
with the industry's
leading data provider



MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily
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