Yardi® Matrix

Philly's New Fare

Multifamily Report Summer 2017

Redevelopments Reshape Skyline

Purchase Prices Reach U.S. Average

Rents Creep Up in Face of Robust Absorption

Market Analysis

Summer 2017

Contacts
Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author
Alexandra Pacurar
Senior Writer

Employment Gains Spur Growth

An evolving wage structure, influx of young professionals and boom in hospitality and development are helping Philadelphia's multifamily market keep its head above water. In an effort to attract employment, the city lowered its wage tax again in July. For the first time in 25 years, the metro is adding jobs at a faster pace than its regional peer New York City, with education and health services remaining the city's economic backbone.

Children's Hospital of Philadelphia alone added 600 jobs in the past year. High-earning sectors such as professional services, finance and information are also attracting skilled labor and increasing demand for office space, particularly in the central business district. The $300 million investment in the expansion and modernization of the Port of Philadelphia is also expected to create at least 9,000 jobs in the trade and transportation sector. A number of vacant buildings in core submarkets are being redeveloped into luxury mixed-use high-rises. In University City, Schuylkill Yards, a $3.5 billion project, will transform the area around Drexel University into an innovation hub.

With 4,500 units slated to come online in 2017, this year is expected to exceed the 2016 cycle peak of 4,000 units. The expanding economy and the fact that millennials are flocking to Philadelphia's core should keep demand healthy for the foreseeable future. We expect rent growth to reach 2.4% by year-end.

Recent Philadelphia Transactions

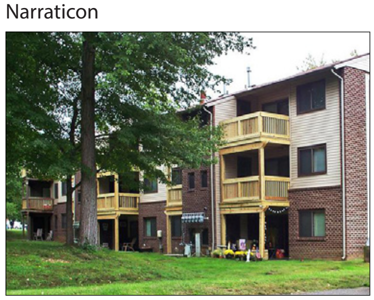
Exton Crossing

City: Exton, Pa.
Buyer: Harbor Group International
Purchase Price: $96 MM
Price per Unit: $236,379

Village Square

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

Narraticon



City: Deptford, Pa.
Buyer: AJH Management
Purchase Price: $70 MM
Price per Unit: $158,485

Jefferson on the Creek

City: Warminster, Pa.
Buyer: Priderock Capital Partners
Purchase Price: $64 MM
Price per Unit: $163,462

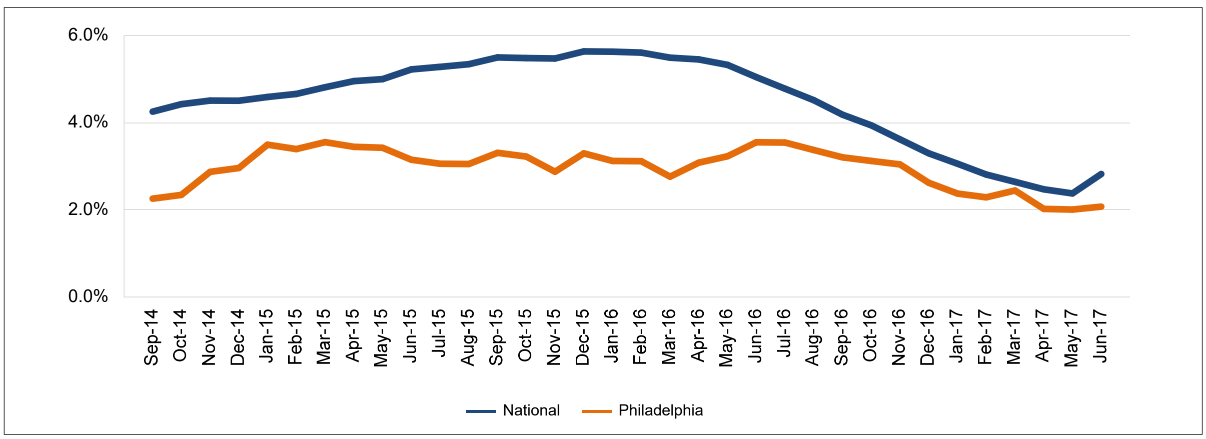
To Subscribe
Hollie Zepke
Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389

On the cover: Photo by travelif/iStockphoto.com

Rent Trends

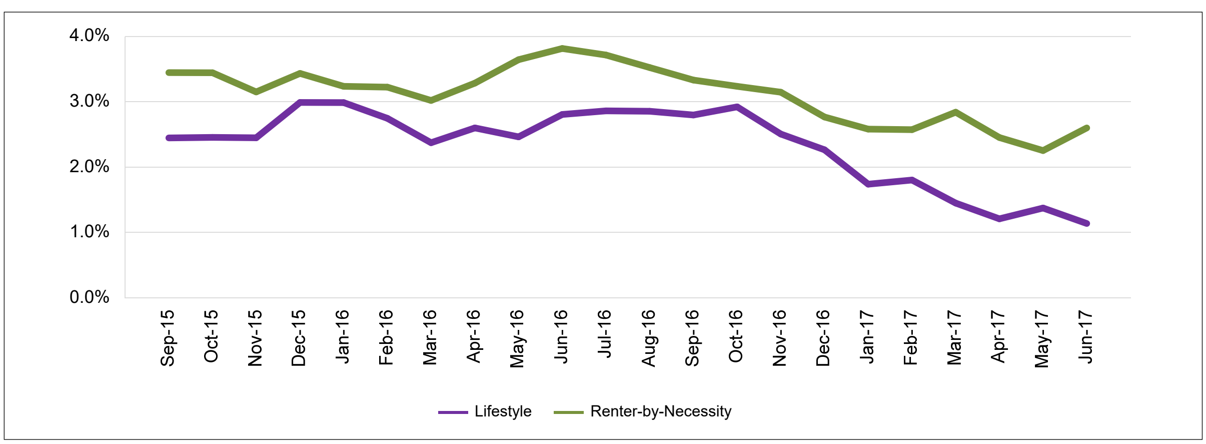
- Rent growth in Philadelphia was moderate—2.1% year-over-year through June—trailing the national rate by 60 basis points. Rents reached $1,282, slightly behind the $1,349 U.S. average.
- The working-class Renter-by-Necessity sector led growth, up 2.6% to $1,146, compared to a modest 1.1% gain for Lifestyle rents, which average $1,779.
- Suburbs with little development have seen the strongest spikes in rental rates. Springfield (10.0%), Hatboro/Warminster (8.4%), Ardmore (7.4%), Abington (6.6%) and Bridgeport/Woodstown (6.6%) occupy the top spots. Center City, North–East and North–West Philadelphia remain the most expensive submarkets, with average rent ranging from $1,830 to $2,130.
- Occupancy stayed flat in 2017, at 96.0% as of June. Absorption should remain robust, especially in central, amenity-rich areas. In response, rent hikes should accelerate, with Philadelphia drawing more Millennials and young professionals attracted by employment opportunities and modern apartments located in core areas. As a result, downtown is quickly receiving new units, due to the redevelopment of many former office buildings as mixed-use projects with significant residential components. Yardi Matrix forecasts a 2.4% rent growth for 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)

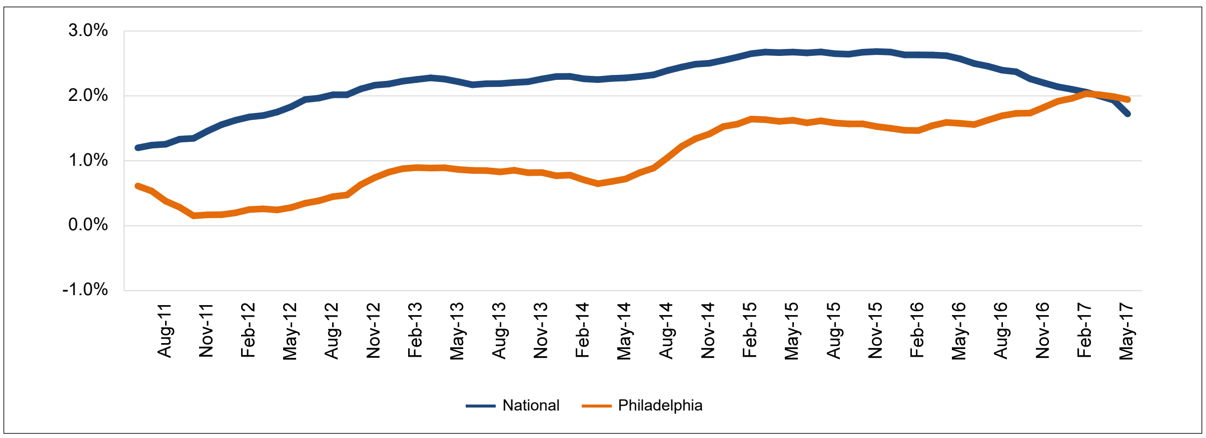


Source: YardiMatrix

Economic Snapshot

- The metro added 48,100 jobs in the 12 months ending in May, half of which were in the education and health services sector. The 1.9% increase is on par with the national average. For the first time in the past 25 years, Philadelphia is adding jobs at a faster pace than New York City, according to a recent CBRE study.
- High-earning sectors such as professional and business services (9,500) led job gains, followed by leisure and hospitality (4,600). The information sector had the most notable employment growth rate (3.8%), adding 1,700 positions. According to Visit Philadelphia, a record 42 million out-of-towners visited the city and the surrounding areas in 2016, an increase of 2.4% from 2015. New hotels, such as the upscale, extended-stay suites occupying the top floors of the recently completed FMC Tower, are part of the city's new identity. The $3.5 billion Schuylkill Yards development also includes a hotel component.
- Job gains in financial activities and other office-using sectors have increased demand for well-located space within the metro. Vacancy in Philadelphia's office market remained flat year-over-year, at about 13.0%. While the metro's central business district is offering a fresh supply of Class A office space in renovated buildings, the suburbs are seeing just as much interest in terms of leasing. The largest leases were inked by Chemours and Capital One in downtown Wilmington for two 256,000-square-foot properties.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	641	21.9%	20,400	3.3%
60	Professional and Business Services	472	16.2%	9,500	2.1%
70	Leisure and Hospitality	269	9.2%	4,600	1.7%
15	Mining, Logging and Construction	118	4.0%	3,400	3.0%
55	Financial Activities	214	7.3%	2,900	1.4%
40	Trade, Transportation and Utilities	524	17.9%	2,800	0.5%
90	Government	343	11.7%	2,800	0.8%
50	Information	46	1.6%	1,700	3.8%
80	Other Services	120	4.1%	0	0.0%
30	Manufacturing	177	6.1%	-2,000	-1.1%

Sources: YardiMatrix, Bureau of Labor Statistics

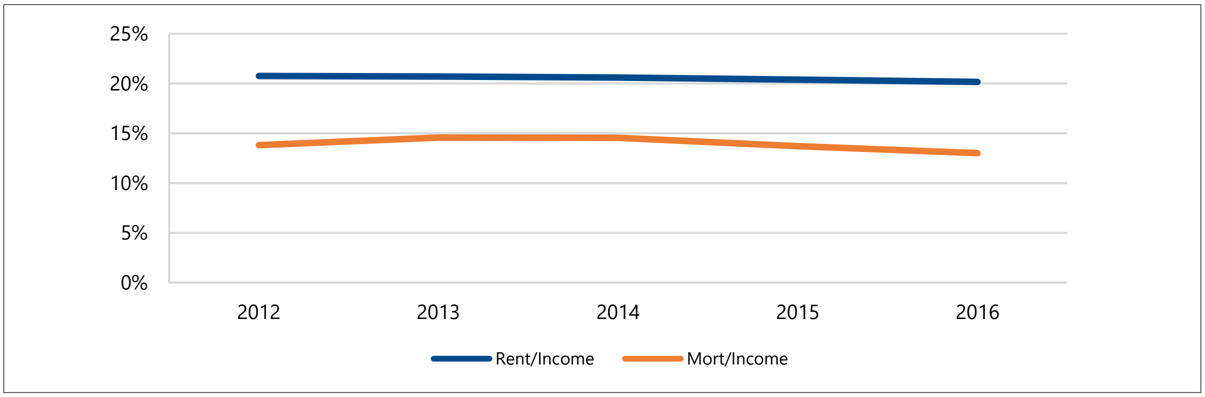
Demographics

Affordability

- Median home prices in Philadelphia fluctuated slightly after the recession, peaking at $208,914 in 2016. The figure accounts for a 3% uptick over 2015 levels and a 9% increase since 2012's cycle low. Significant job gains and a drop in wage taxes are both expected to positively impact affordability by the end of the year.

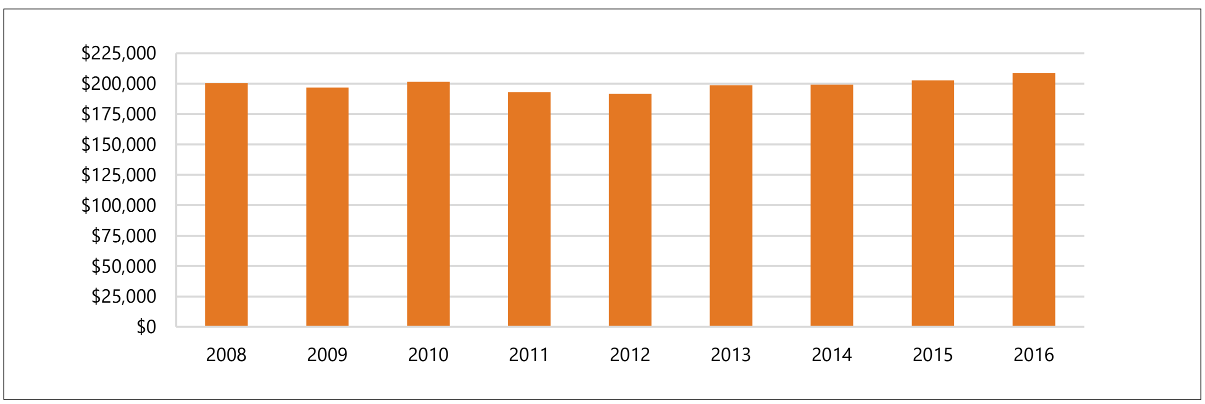
- Owning continues to be more affordable than renting in Philadelphia, a constant throughout the current cycle. The average mortgage payment accounts for 13% of the area's median income, while rents take up as much as 20%. The disparity can be explained in part by the fact that, after the last downturn, the level of homeownership dropped sharply, pushing up both demand for apartments and rental rates.

Philadelphia Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Philadelphia Median Home Price



Source: Moody's Analytics

Population

- Population has turned positive since 2010, after decades of decline. Philadelphia added roughly 8,200 residents in 2016, a modest rise of 0.1%, as compared to the national growth rate of 0.7%.

Philadelphia vs. National Population

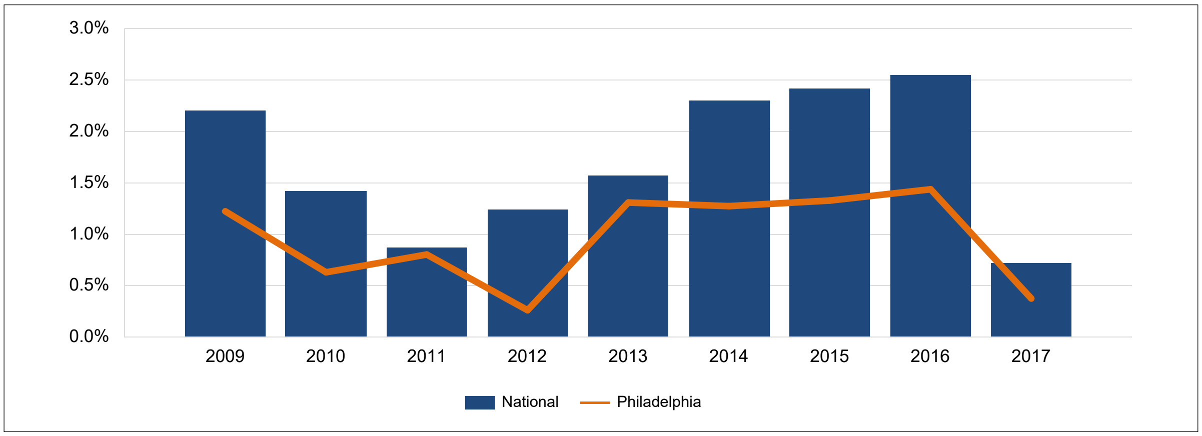
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Philadelphia Metro	6,020,631	6,034,367	6,050,799	6,062,303	6,070,500

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

Supply

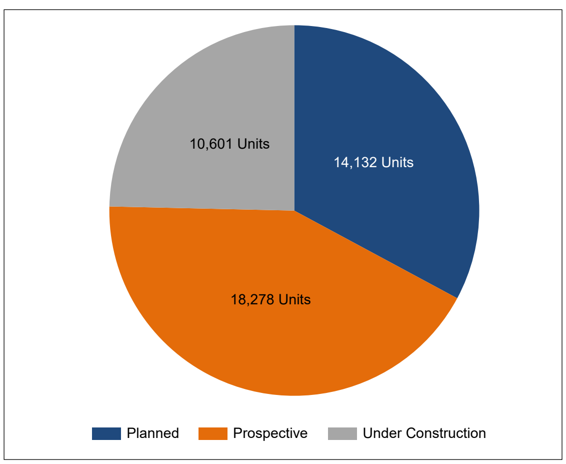
- Only 900 units came online in the first two quarters—a mere 0.3% stock expansion. However, the city is in the middle of a construction boom: Completions are expected to total approximately 4,500 units by year-end, surpassing the 4,000 apartments delivered in 2016 and marking a sixth consecutive annual increase.
- Demand is fueled by the growing Millennial population, an emerging startup scene and the metro's blooming fintech businesses. This has led to a healthy development pipeline, with some 10,600 units under construction and an additional 32,000 in the planning and entitlements stages.
- New supply is concentrated in core submarkets, with Philadelphia West, Norristown, Northwest Philadelphia and Center City each having more than 1,000 units under construction. Presidential City—the metro's most prominent redevelopment project underway—remains the largest project under construction, with more than 1,000 units expected to come online by the first quarter of 2018.
- Most projects in core areas are redevelopments, which are reshaping the city's skyline. The former GSK headquarters, located downtown, is being converted into the mixed-use One Franklin Tower, slated to deliver 360 rental units and 200,000 square feet of office space.

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



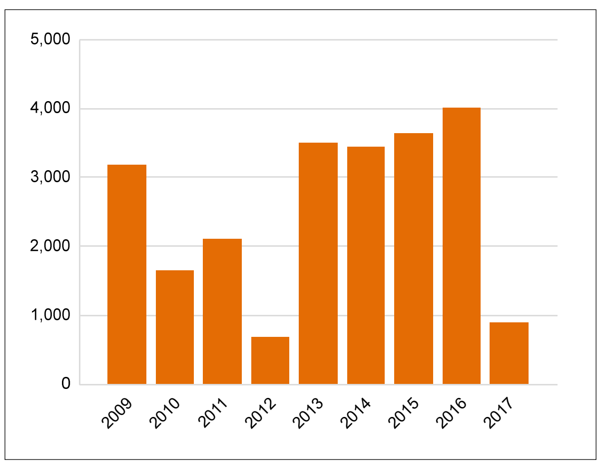
Source: YardiMatrix

Development Pipeline (as of June 2017)



Source: YardiMatrix

Philadelphia Completions (as of June 2017)

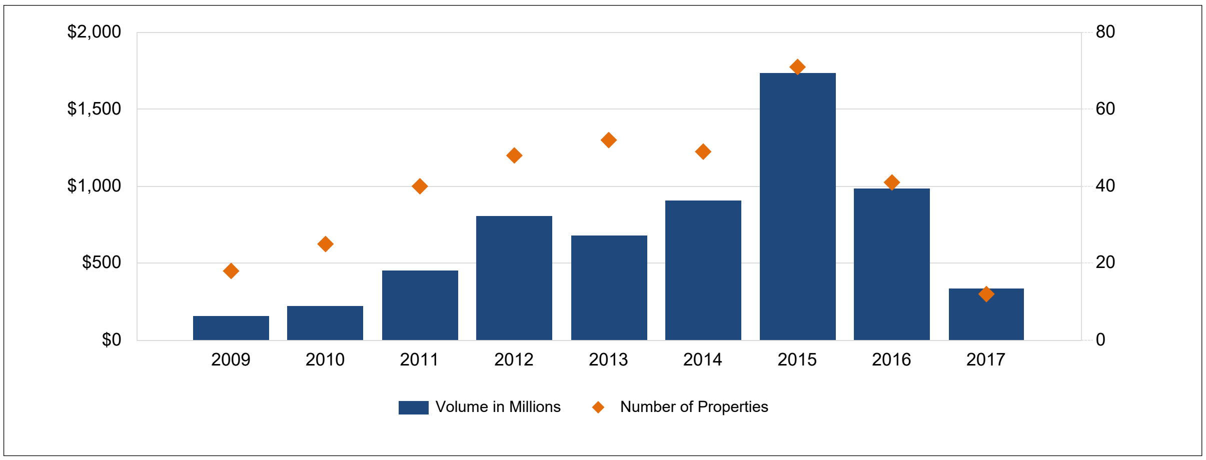


Source: YardiMatrix

Transactions

- Roughly $332 million in multifamily properties traded in the first two quarters of 2017. After peaking at more than $1.7 billion in 2015, investment volume in Philadelphia returned to less frothy levels.
- At approximately $134,000, the average per-unit price spiked 27% over the 2016 value and is now roughly on par with the U.S. average. In the first half of 2017, acquisition yields for stabilized Class A multifamily properties in Philadelphia stood between 4.75% and 5.25%, according to CBRE.
- Investors focused on Runnemede–Voorhees, Exton–Downingtown and Bensalem, the three submarkets totaling $282 million in sales in the year ending in July. The largest transaction in the first half of 2017 was the acquisition of the 405-unit Exton Crossing by Harbor Group for $95.7 million. The seller, Equus Capital Partners, bought the asset 10 years ago for roughly $69 million, almost 30% less than the most recent price.

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



Source: YardiMatrix

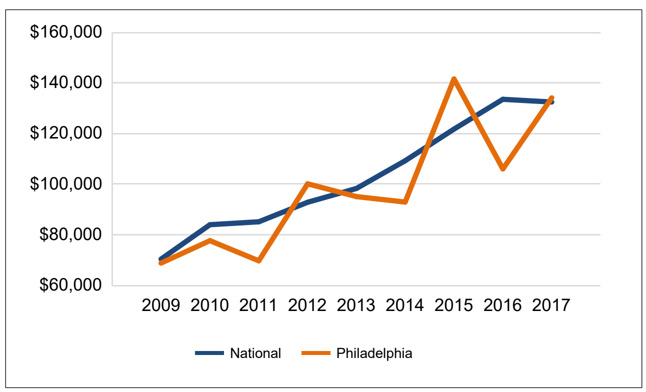
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Runnemede–Voorhees	106
Exton–Downingtown	96
Bensalem	80
Royersford	74
Woodbury	70
Northwest–East	69
Hatboro–Warminster	64
Stanton–Pike Creek	58

Source: YardiMatrix

[1] From July 2016 to June 2017

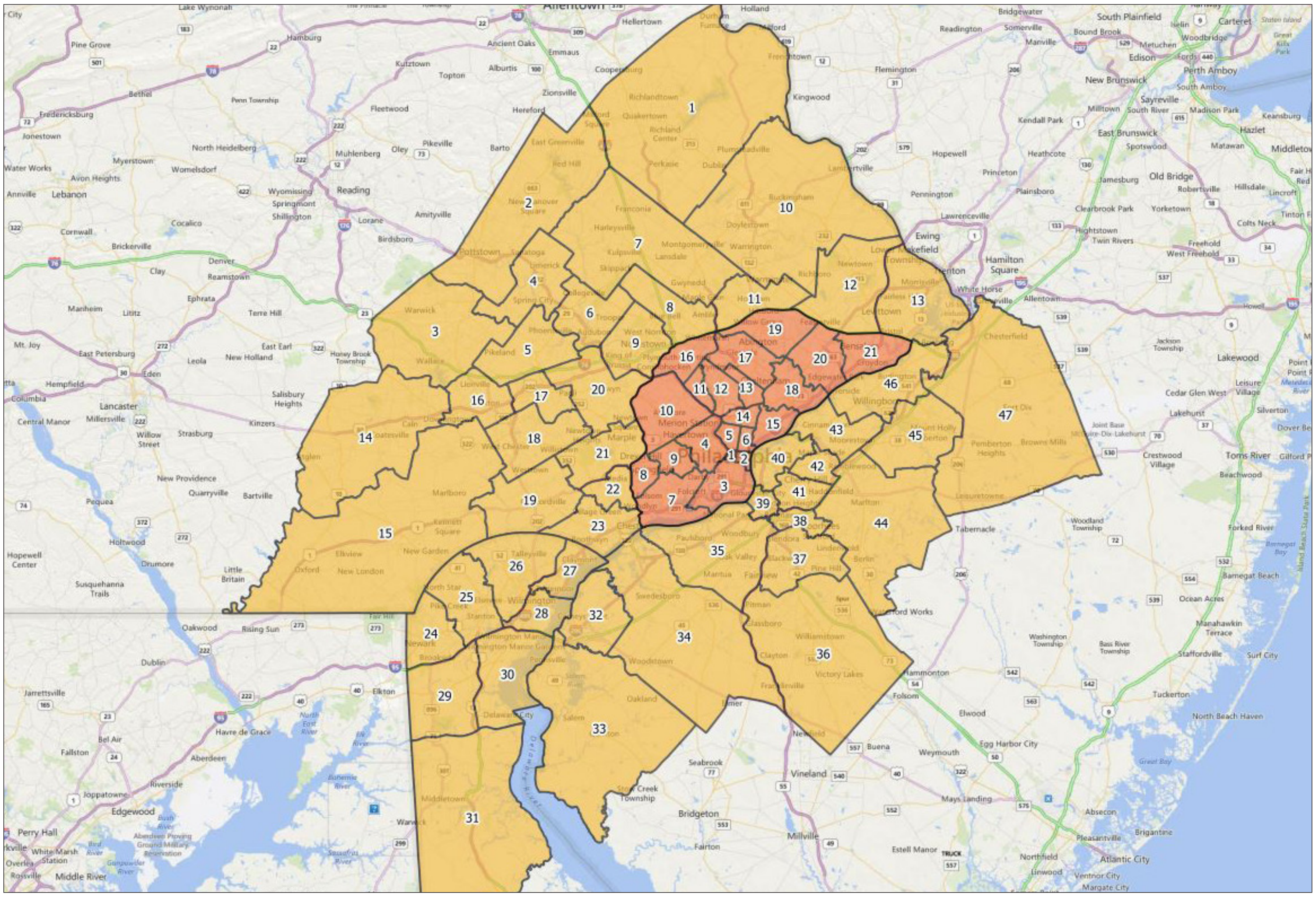
Philadelphia vs. National Sales Price per Unit



Source: YardiMatrix

Photo by f11photo/iStockphoto.com

Philadelphia Submarket



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

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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