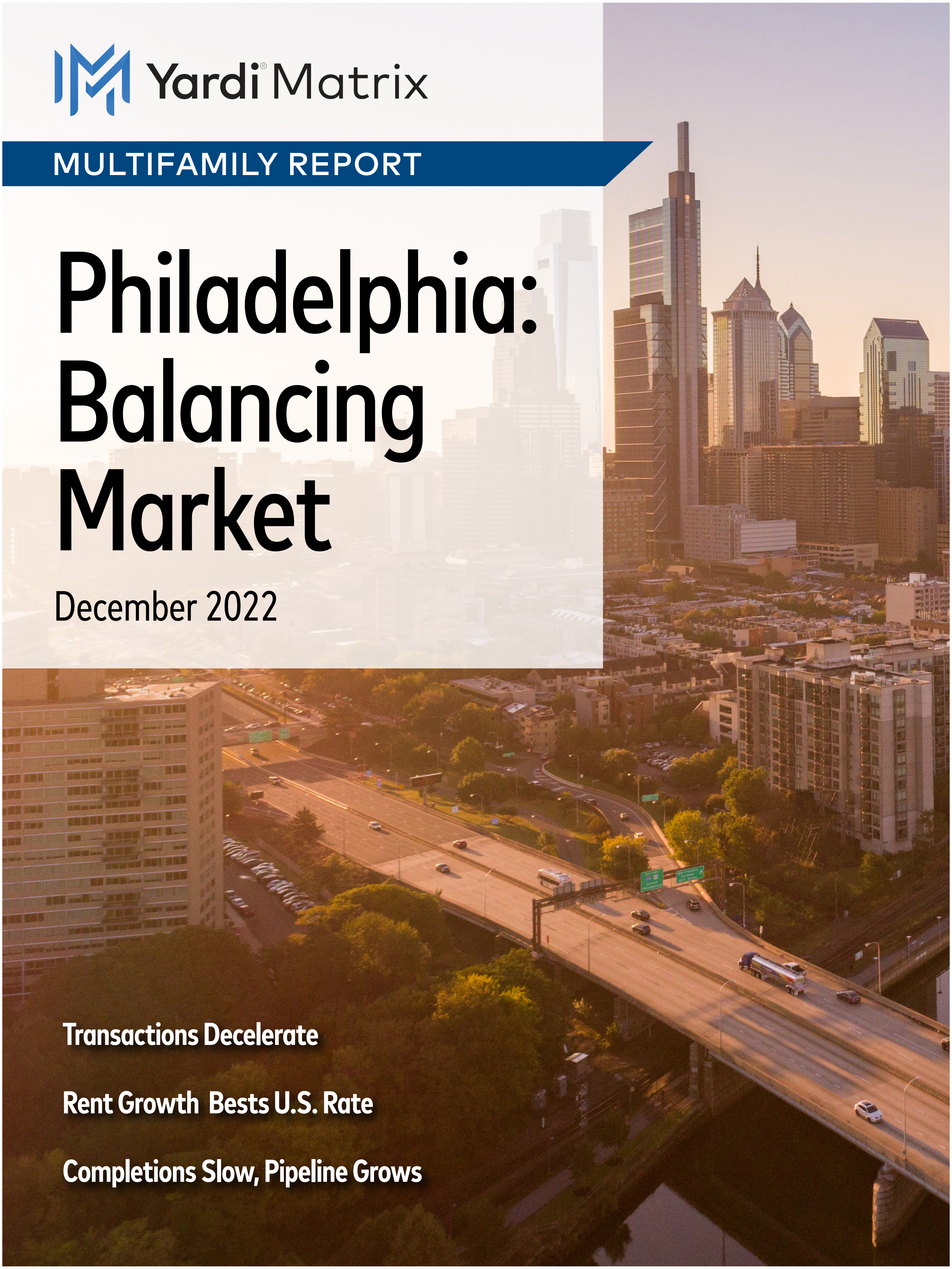
Yardi Matrix

MULTIFAMILY REPORT

Philadelphia: Balancing Market

December 2022



Transactions Decelerate

Rent Growth Bests U.S. Rate

Completions Slow, Pipeline Grows

PHILADELPHIA MULTIFAMILY

Yardi Matrix

Reroute in Progress

In lockstep with nationwide trends, Philadelphia's multifamily market continued to slow down, while still displaying relatively healthy fundamentals. Amid slower absorption, rents were still up 30 basis points on a trailing three-month basis through October. That brought year-over-year rate growth to 7.6%, not far from the 8.2% U.S. figure. Meanwhile, the occupancy rate dropped 60 basis points in 12 months, to 96.3% as of September.

Metro Philadelphia added 122,800 positions in the 12 months ending in August, marking a 4.1% expansion. Gains were broad, with four sectors adding more than 20,000 positions each. The unemployment rate dropped to 3.4% as of September, according to preliminary Bureau of Labor Statistics data, outperforming both Pennsylvania and the nation. The market has, in fact, recovered nearly all jobs lost in the early stages of the pandemic, reaching just 25,000 positions short of the figure recorded in early 2020.

More than $2.5 billion in multifamily assets traded in 2022 through October, already surpassing 2021's total and marking a new decade high. Nonetheless, deals slowed down significantly in the third quarter, and this trend may continue if recent signs of capital availability persist. Meanwhile, completions slowed down to 2,473 units year-to-date, while the total pipeline actually grew.

Market Analysis | December 2022

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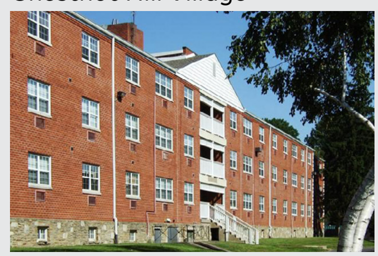
Recent Philadelphia Transactions

Racquet Club

City: Levittown, Pa.
Buyer: Rushmore Management
Purchase Price: $397 MM
Price per Unit: $696,997

Chestnut Hill Village



City: Philadelphia
Buyer: Premier Properties
Purchase Price: $167 MM
Price per Unit: $203,410

Briggs & Union

City: Mount Laurel Township, N.J.
Buyer: Brookfield Properties
Purchase Price: $158 MM
Price per Unit: $322,449

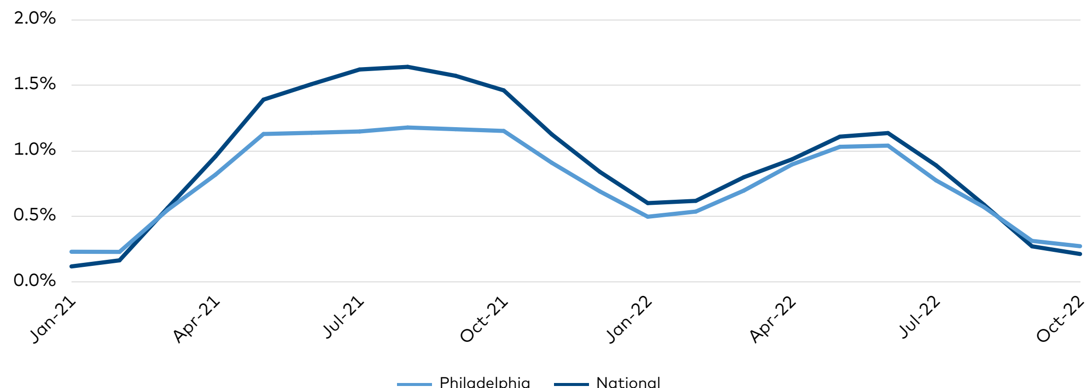
Pennbrook Station

City: Lansdale, Pa.
Buyer: New York Life Real Estate Investors
Purchase Price: $107 MM
Price per Unit: $309,610

RENT TRENDS

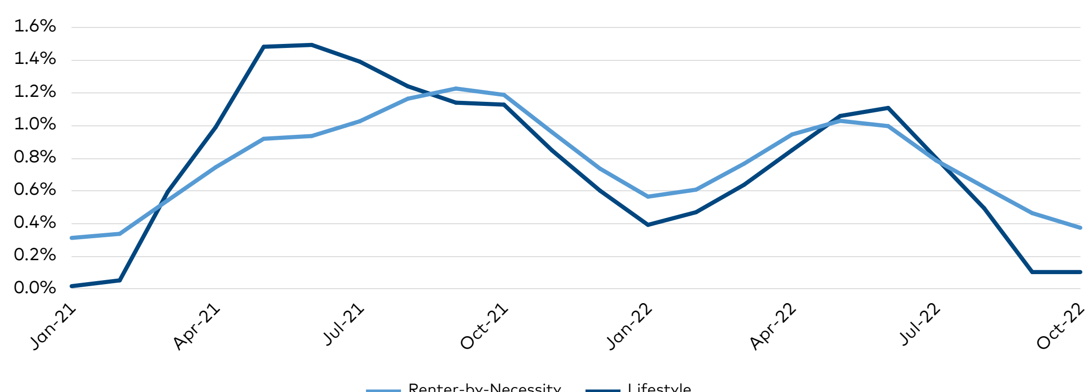
- Philadelphia rents were up 0.3% on a trailing three-month (T3) basis through October, just 10 basis points above the decelerating national average. The metro has reflected national trends for most of 2022, with the average rate up 7.6% year-over-year through October, not far from the 8.2% U.S. figure.
- After a slight deviation between quality segments for about 12 months, Philadelphia rents reached a crossroads at the beginning of the fourth quarter. As such, working-class Renter-by-Necessity rates improved 0.4% to $1,524 on a T3 basis, while Lifestyle rates saw slower expansion, rising just 0.1% as of October, at an average of $2,254.
- The suburbs continued to perform slightly better. Suburban Philadelphia rents increased 8.3% year-over-year, while the urban core clocked in at 7.0%.
- Of the 68 submarkets tracked by Yardi Matrix, 22 registered double-digit rent growth year-over-year through October, with all but two being in the suburbs. The list included Oxford-Kennett Square (up 30.9% to $1,437), Bear (15.5% to $1,737) and Stanton-Pike Creek (15.3% to $1,419). However, core areas continued to sport the highest overall rates, led by Center City-West (6.0% to $2,462) and Center City-East (5.5% to $2,368).
- Mirroring national figures, occupancy was down in Philadelphia in the 12 months ending in September. The rate dropped 60 basis points but remained relatively high, at 96.3%.

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

- Metro Philadelphia unemployment stood at 3.4% as of September, according to preliminary data from the Bureau of Labor Statistics. That was 10 basis points below the U.S. figure and 70 basis points below the Pennsylvania rate, and also outperformed numbers recorded in early 2020, right before the pandemic hit. The metro has, in fact, regained almost all positions lost in the early stages of COVID-19, with the total just 25,000 jobs short of the total recorded in February 2020.

- Employment was up 4.1% year-over-year through August, slightly below the 4.3% national average. Metro Philadelphia added 122,800 positions during this time frame, with all sectors registering hikes. Gains were marketwide, led by professional and business services, which added 30,300 jobs for a 6.4% improvement. Trade, transportation and utilities (27,500 jobs), education and health services (23,800), and leisure and hospitality (22,600) followed, painting the picture of a broad recovery.

- Looking beyond the immediate future, several multibillion-dollar, multiphase projects continue to anchor development in metro Philadelphia. The list includes an expanded plan for the Navy Yard project, while construction moves forward at Schuylkill Yards and Penn's Landing. The three developments come with a collective price tag of almost $12 billion.

Philadelphia Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	504	16.9%
40	Trade, Transportation and Utilities	547	18.3%
65	Education and Health Services	654	21.9%
70	Leisure and Hospitality	271	9.1%
80	Other Services	122	4.1%
30	Manufacturing	180	6.0%
55	Financial Activities	221	7.4%
50	Information	51	1.7%
15	Mining, Logging and Construction	124	4.2%
90	Government	309	10.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Like many large cities, Philadelphia lost residents in 2021. The metro's population dropped by 13,382 people, or 0.2%, while the U.S. population grew by 0.1%.

Philadelphia vs. National Population

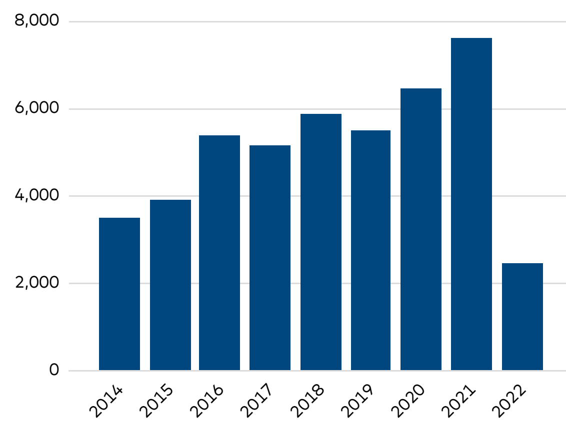
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Philadelphia Metro	6,096,805	6,104,777	6,241,983	6,228,601

Source: U.S. Census

SUPPLY

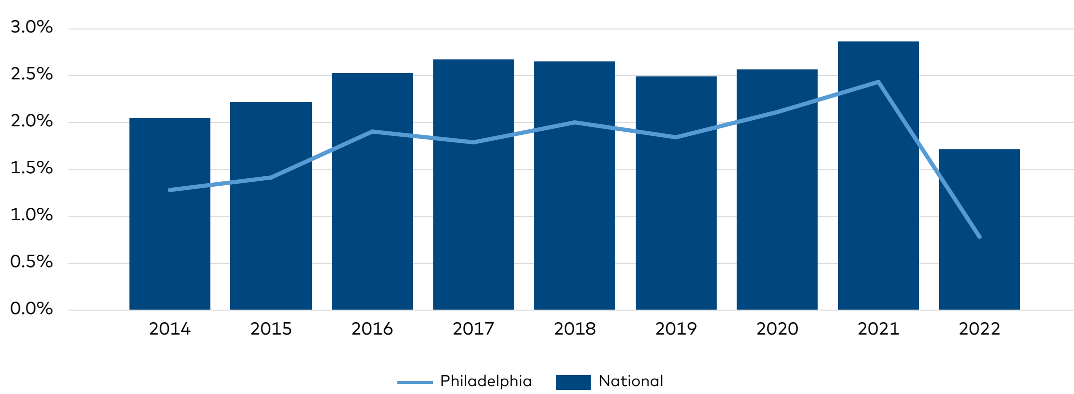
- Metro Philadelphia had 15,951 apartments underway as of October, well above the 8,833 units it had under construction just 12 months prior. While the market has an additional 65,000 apartments in the planning and permitting stages, the pipeline is likely to slow down, as recession worries loom, the cost of debt increases and capital availability wanes nationwide.
- A total of 2,473 units came online in Philadelphia in 2022 through October, well below the 6,691 apartments completed during the same time frame of 2021. Last year marked a development decade high, with a total of 7,632 units delivered overall. Philadelphia has been an increasingly high-demand and high-supply market in past years, with more than 200 properties totaling nearly 39,000 apartments coming online across the metro, almost equally split between urban and suburban submarkets.
- Urban submarkets, primarily in the city core, dominated the pipeline as of October, led by North-East (3,401 units underway), West (2,055 units), Center City-East (1,128 units) and Center City-West (1,056 units). The four submarkets, the only ones to cross the 1,000-unit threshold, collectively represented almost half of all apartments underway across metro Philadelphia.
- The largest project underway as of October was Tower Investments and Post Brothers' 1,131-unit Piazza Terminal, a multibuilding mixed-use development that broke ground in 2020 in Northern Liberties. Slated to encompass nearly 1.2 million square feet, the project will also include some 45,000 square feet of retail.

Philadelphia Completions (as of October 2022)



Source: Yardi Matrix

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

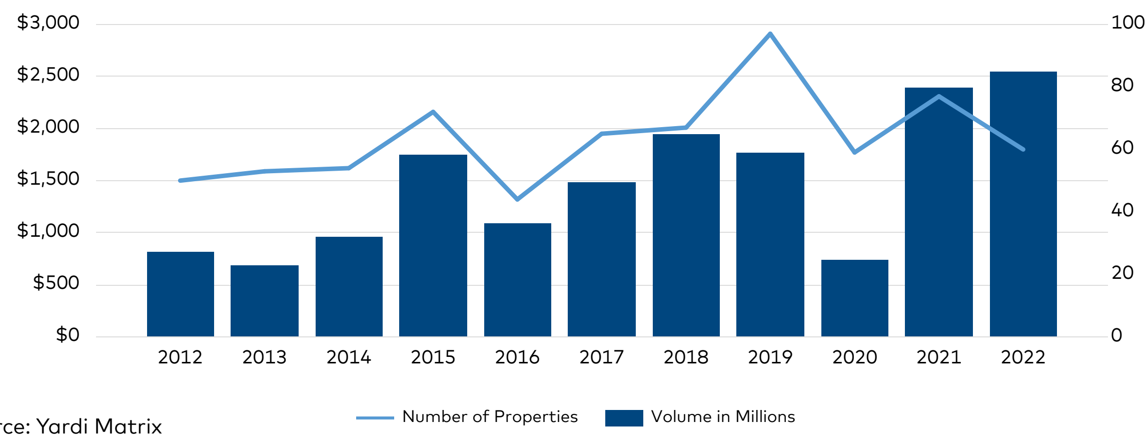


Source: Yardi Matrix

TRANSACTIONS

- Some $2.5 billion in multifamily assets traded this year through October. Philadelphia recorded a relatively rare feat in the context of dampening transaction volumes nationwide, with the 2022 total already surpassing the prior year—overall, just under $2.4 billion traded in 2021.
- Deal volume has actually decelerated recently. The total clocked in at $760 million in the first quarter, almost $1.2 billion in the second and only $630 million during the third quarter.
- Mirroring nationwide trends, the price per unit continued to rise in Philadelphia, up to $234,290 in 2022 through October. This came on the heels of an average of $185,163 recorded in 2021. Meanwhile, the U.S. per-unit figure went from $192,725 to $215,939 during the same time frame. Over the 12 months ending in October, Fairless Hills-Morrisville ($455 million) and Northwest-East ($429 million) led all submarkets for investment volume.

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



Source: Yardi Matrix

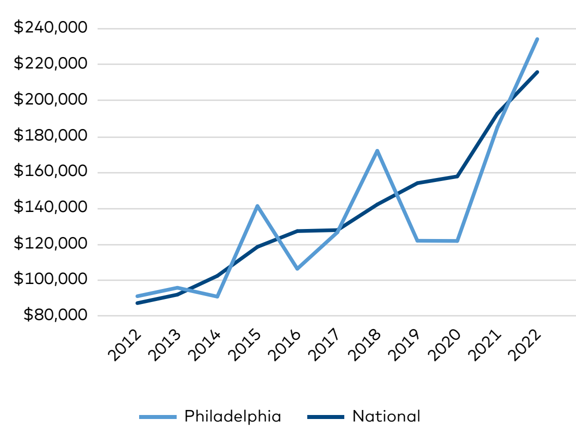
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Fairless Hills-Morrisville	455
Northwest-East	429
Center City-West	340
Norristown	267
West	258
Lansdale	256
Exton-Downingtown	216

Source: Yardi Matrix

[1] From November 2021 to October 2022

Philadelphia vs. National Sales Price per Unit



Source: Yardi Matrix

What Makes Workforce Housing Such a Resilient Investment?

By Anda Rosu

Workforce housing properties tend to be more resilient across market cycles, with lower default rates, more stable cash flows and less cap rate volatility when compared to other sectors, according to OneWall Communities CIO & Partner Nate Kline. He shared his thoughts on the challenges and opportunities in the sector in light of the current lending environment, focusing on the Northeast and Mid-Atlantic markets, where OneWall is most active.

How much have the Northeast and Mid-Atlantic workforce housing markets changed lately?

The biggest changes in these markets, and other housing markets around the country, are how COVID-19 changed demand patterns, driving people to the suburbs and different locations, and how COVID-19 policies and spending artificially inflated asset prices and rents at an even greater multiple of income growth than had been occurring prior to that.

What can you tell us about the supply-demand dynamic in these regions?

It is unbridgeable. By that, I mean the current cost of new construction and time required for entitlements in high-demand locations makes it essentially impossible for developers to keep pace with the growing demand for naturally affordable rental housing. This is happening because capital isn't available due to the economics not working and, even if they did, the pace of construction would not be able to supply the demand.

What markets in the Northeast and Mid-Atlantic regions stand out in terms of workforce housing investment potential?

We like to be in or near densely populated employment centers with diverse economies and high-cost housing. Places such as Washington, D.C. and Philadelphia have always fit the bill as they have large percentages of government, medical and education employment, along with growing science and technology sectors.

How can investors plot new deals in this high interest rate environment?

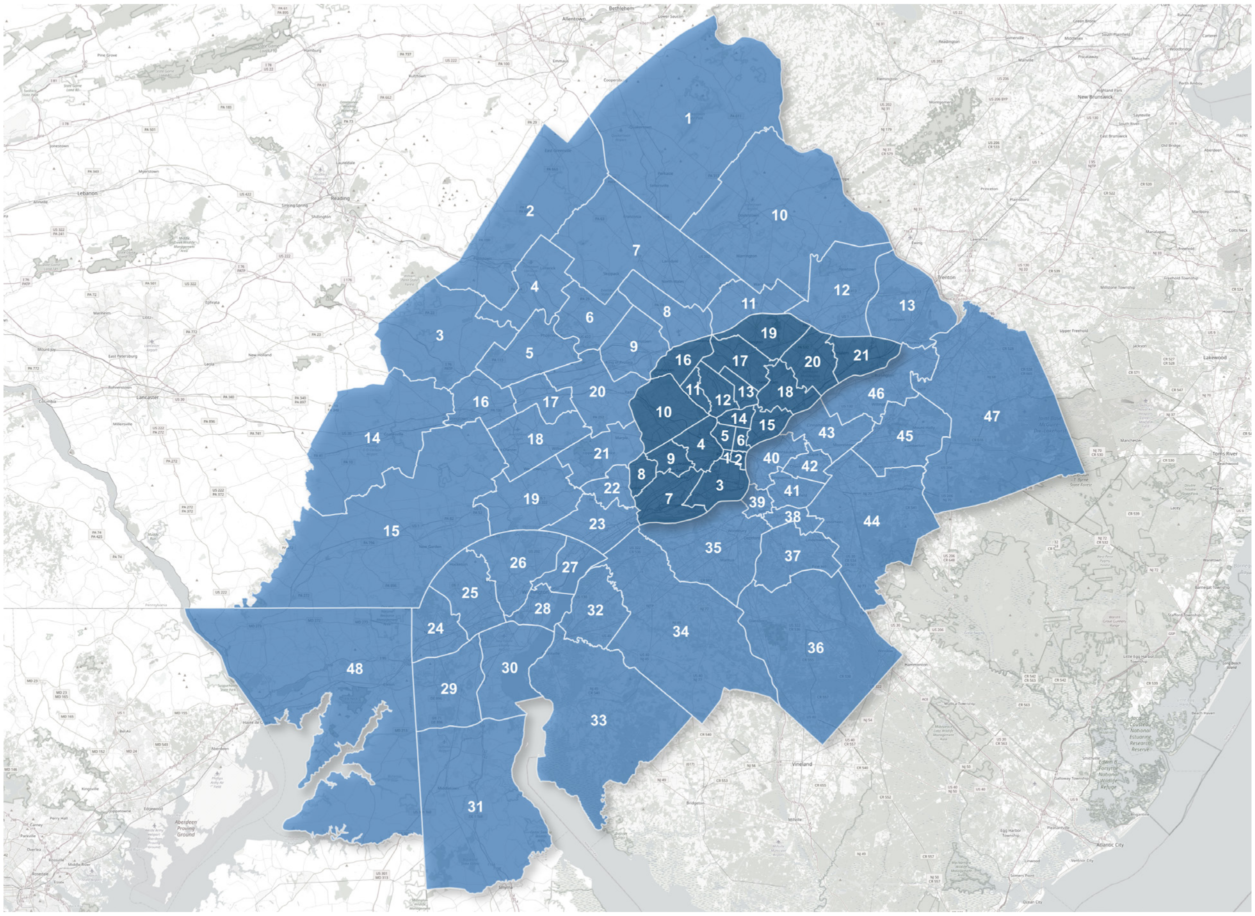
Prices have to come down to make financial sense and generate equivalent risk-adjusted yields to what the market has typically experienced. Otherwise, accepted return expectations must come down. We have seen a clear divergence in the bid and ask pricing for the last few months and the opportunistic sellers of three to 12 months ago are opting not to sell, leaving fewer realistic deals in the market.

What makes workforce housing a solid investment in the long run?

It has the largest supply-demand imbalance, and we are consistently able to acquire assets for well below replacement cost. As a result, we enjoy sustainable rent growth, consistently high occupancy, ongoing upside from value-added renovations, significant mark-to-market rent cushion relative to newer or newly constructed apartments, limited competition and substantial downside protection.

(Read the complete interview on multihousingnews.com.)

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.

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

Yardi Matrix

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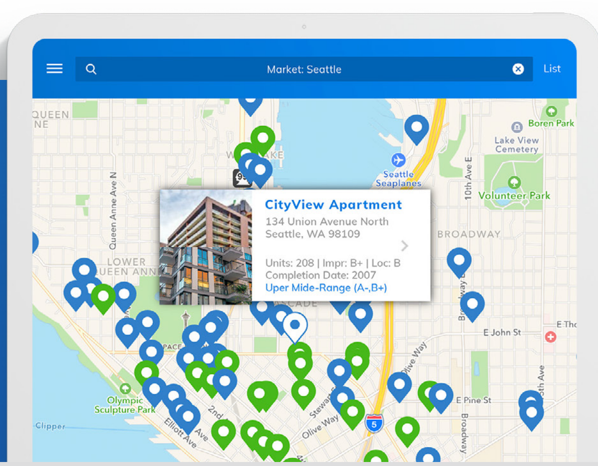
MULTIFAMILY KEY FEATURES

- 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 provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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