Yardi® Matrix

Philadelphia Gains Momentum

Multifamily Report Winter 2018

Supply Influx Slows Rent Growth

Baby Boomers, Millennials Drive Demand

Transaction Volume Tops $1B in 2017

Market Analysis

Winter 2018

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Mixed-Use Developments Pick Up Steam

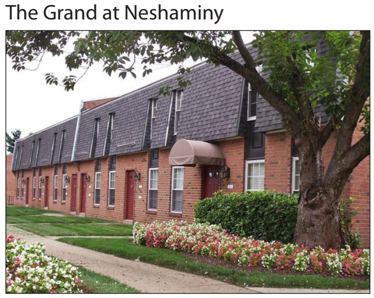
Multifamily demand continues to be strong in Philadelphia, sustained by an influx of degree-holding Millennials drawn to the metro's expanding job market, as well as a growing population of Baby Boomers opting to rent within the city core while downsizing. Despite the recent spate of deliveries, occupancy remained high, reflecting the market's capacity to rapidly absorb new product.

Job gains were highest in professional and business services and leisure and hospitality, a trend fueled by new businesses, the organic growth of existing firms and large-scale projects, such as Schuylkill Yards—a $3.5 billion innovation community that Brandywine Realty Trust is developing on land owned by Drexel University. The project's initial phase will bring entrepreneurial workspaces; corporate offices; educational and research facilities; and residential, retail and hotel space. Meanwhile, the soon-to-be-completed $1.5 billion Comcast Center—Philadelphia's tallest building—is expected to become a catalyst for the local technology sector. The 60-story tower will host technologists, engineers and software architects, along with a media center and startup incubator.

As more institutional investors have entered the market, competition has spiked, pushing 2017 sales volume above the $1 billion mark. Development is also likely to ramp up in the foreseeable future, with new deliveries concentrated in Center City. This uptick in supply should keep rent growth moderate in the coming months.

Recent Philadelphia Transactions

The Grand at Neshaminy



City: Bensalem, Pa.
Buyer: AJH Management
Purchase Price: $165 MM
Price per Unit: $154,229

3737 Chestnut

City: Philadelphia
Buyer: Korman Residential Properties
Purchase Price: $118 MM
Price per Unit: $427,536

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

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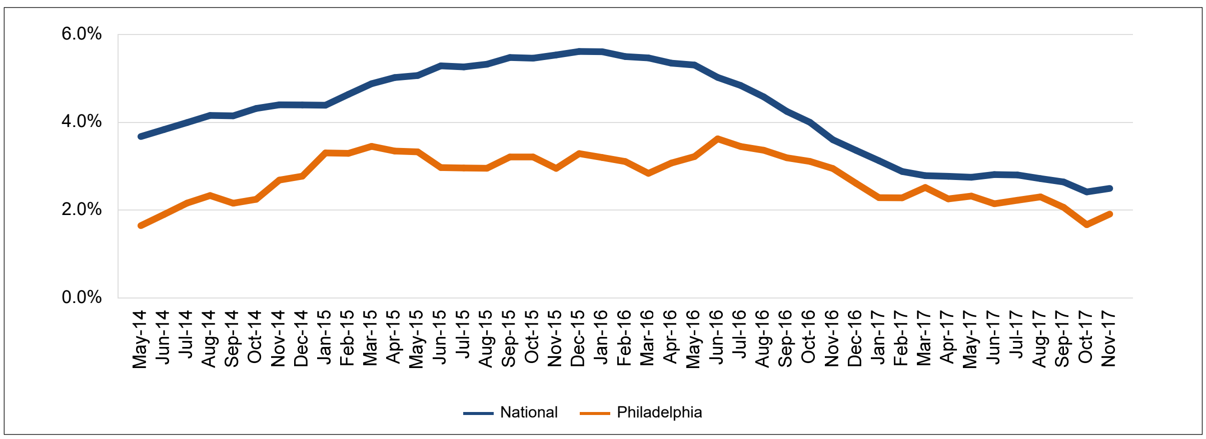
On the cover: Photo by Sean Pavone/iStockphoto.com

Rent Trends

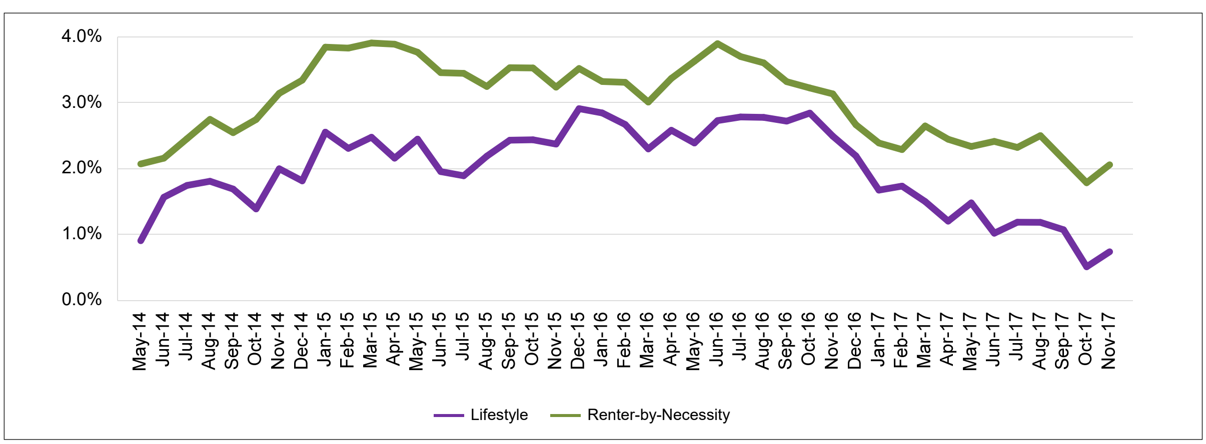
- Philadelphia rents rose 1.9% year-over-year through November 2017, trailing the 2.5% U.S. growth rate. Occupancy in stabilized properties stood at 95.8% as of October, marking a slight dip of 20 basis points from the previous year, despite the significant amount of supply coming online during the 12-month interval. The small decrease shows that the market is capable of absorbing new product at a relatively fast pace.
- Rents in the working-class Renter-by-Necessity segment rose 2.1%, to $1,142, while Lifestyle rents increased by 0.7%, to $1,783. Strong demand coming from Millennials moving to Philadelphia over the past few years has led to a multifamily construction boom. Another significant share of the market caters to Baby Boomers, who choose to rent instead of buy as they downsize from their suburban homes to amenity-rich core areas, such as Center City. U.S. Census data shows that the number of Philadelphia renters aged 55 and older increased by 22% between 2009 and 2015, mirroring the national boom in senior renters.
- Rent growth was highest in Gloucester City (8.9%), Coatesville (6%), Springfield (5.6%), Cecil County (4.9%), North–West (4.8%) and Northwest–East (4.7%). Center City–West and Center City–East, which command some of the highest rents in the market ($2,124 and $1,962 as of November), recorded rent contractions of 1.7%, following the delivery of thousands of new units in these areas during the interval.

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)

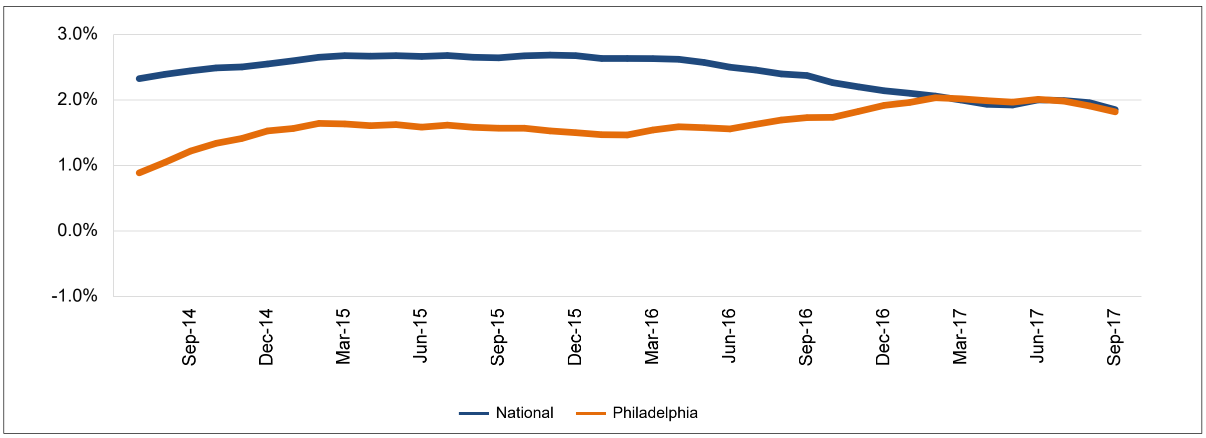


Source: YardiMatrix

Economic Snapshot

- Philadelphia added 40,700 jobs in the 12 months ending in September, a 1.8% increase, slightly below the 1.9% national average. The urban core is lagging, but the ring around the city—especially Bucks, Montgomery and Chester counties—as well as Camden and Wilmington, surpassed the U.S. employment growth rate. The metro's unemployment rate stood at 4.6% as of September 2017, a decline of 50 basis points over 12 months.
- Professional and business services (13,000 jobs) led gains, followed by leisure and hospitality (12,200). Growth is bound to continue, sustained by projects such as Schuylkill Yards, a $3.5 billion master-planned innovation community that Brandywine Realty Trust is developing on land owned by Drexel University. The first phase, underway since November, calls for entrepreneurial space, corporate offices, educational and research facilities, and residential, retail and hotel space. The $1.5 billion Comcast Center, nearing completion at 1800 Arch St., is set to host a growing workforce of technologists, engineers and software architects. The facility will also create a media center in the city's heart for NBC 10/WCAU and Telemundo 62/WWSI and offer space for tech startups.
- The metro's office market recorded stronger absorption and more leasing activity in the suburbs than in the city in 2017's third quarter, according to Jones Lang LaSalle. The core saw new tenants at FMC Tower—FreedomPay and Brandywine Realty Trust—and contractions, with IBX vacating 80,000 square feet at 1500 Spring Garden.

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	%
60	Professional and Business Services	475	16.2%	13,000	2.8%
70	Leisure and Hospitality	277	9.5%	12,200	4.6%
65	Education and Health Services	636	21.7%	8,300	1.3%
55	Financial Activities	217	7.4%	4,800	2.3%
15	Mining, Logging and Construction	120	4.1%	2,300	2.0%
40	Trade, Transportation and Utilities	523	17.9%	1,000	0.2%
90	Government	336	11.5%	800	0.2%
30	Manufacturing	179	6.1%	-300	-0.2%
50	Information	46	1.6%	-500	-1.1%
80	Other Services	118	4.0%	-900	-0.8%

Sources: YardiMatrix, Bureau of Labor Statistics

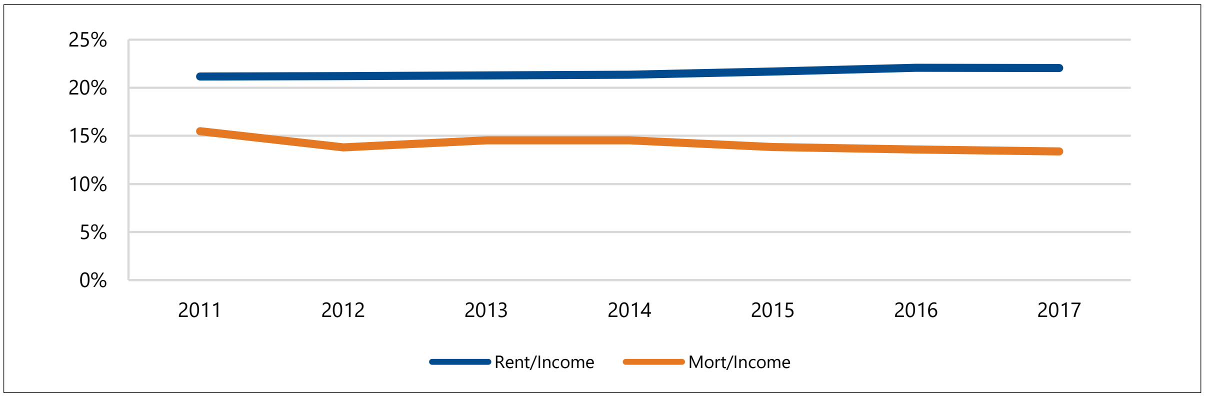
Demographics

Affordability

- The median home price in Philadelphia stood at $201,644 in the first half of 2017, marking a slight decline from the post-recession high recorded in 2016. The average rent accounted for 22% of the area's median income, while the average mortgage was consistently more affordable, comprising about 13%.

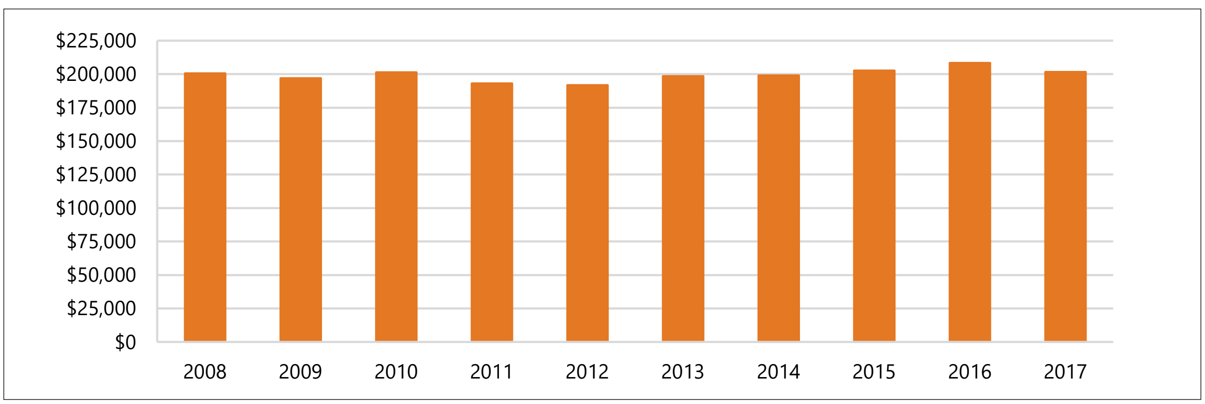
- Philadelphia continues to be an affordable housing market among major U.S. metros, as well as an ideal place for Millennials with college degrees who seek to become homeowners. However, the increase in the area's median household income last year hardly affected the city's staggering poverty rate, according to recent data released by the U.S. Census Bureau.

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 added nearly 8,200 residents in 2016, marking an increase of 0.1%, well below the 0.7% national average growth rate.

- Since 2012, the metro added almost 50,000 residents.

Philadelphia vs. National Population

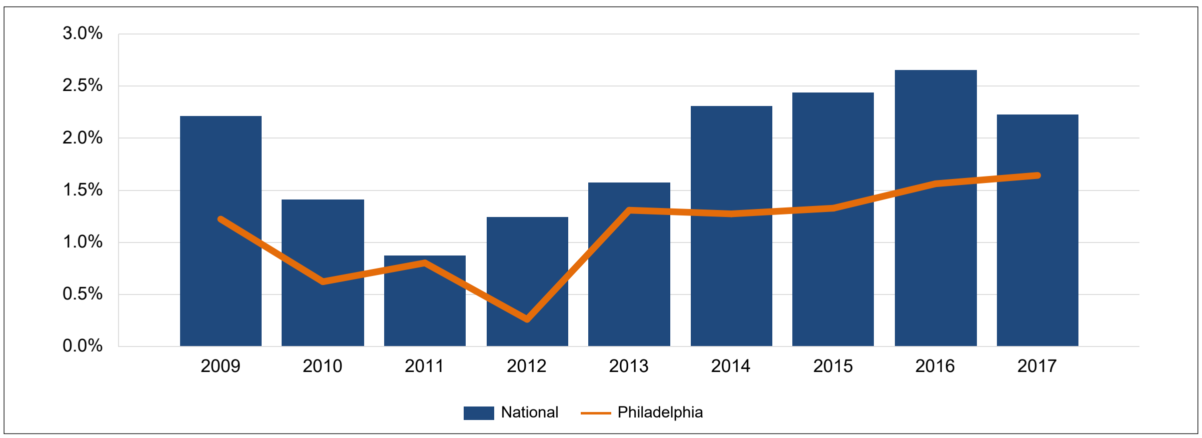
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Philadelphia Metro	6,020,631	6,034,367	6,050,799	6,062,303	6,070,500

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

Supply

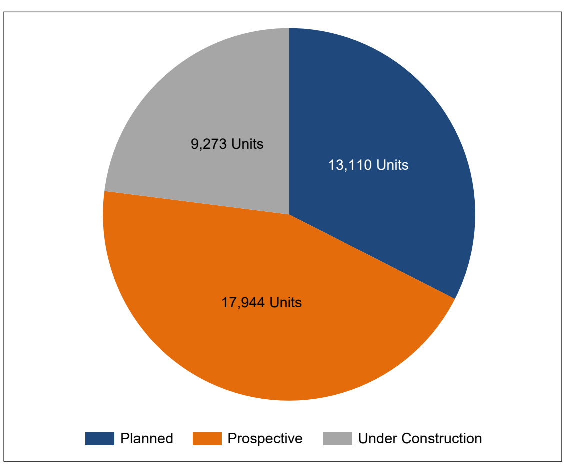
- Some 3,850 units were delivered during the first 10 months of 2017, with additional properties slated to come online in the following couple of months. Last year was not far from the 2016 cycle peak, when 4,359 units came online.
- New development is expected to accelerate throughout the metro, as more than 9,200 units were under construction as of November, with another 31,000 units in the planning and permitting stages. As the new apartments come online, we expect developers to offer more concessions to fill vacant units, especially in upscale communities, most of which cater to Baby Boomers looking to downsize.
- New projects, consisting mostly of high-end product, are concentrated in North–West (1,433 units underway), Center City–East (1,382), West (1,342) and North–East (727). In addition, Ardmore, Center City–West and Norristown each had more than 500 units under construction as of November.
- Developed by Post Brothers, Presidential City remains the metro's largest multifamily project, with a total of more than 1,000 units expected to come online by early 2018. The Washington, Madison, Jefferson and Adams buildings are a redevelopment of Philadelphia's first high-rise community, dating back to 1950.

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



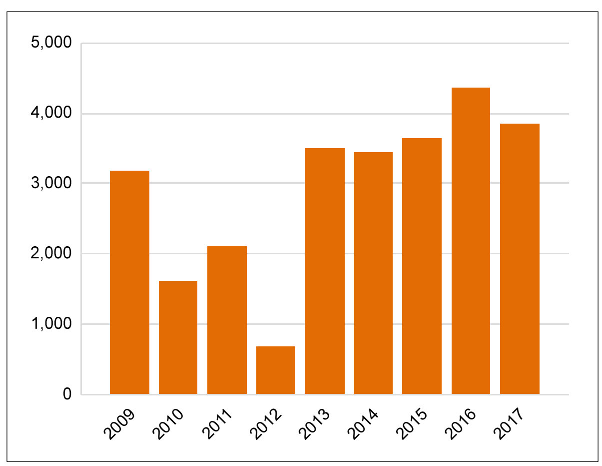
Source: YardiMatrix

Development Pipeline (as of November 2017)



Source: YardiMatrix

Philadelphia Completions (as of November 2017)

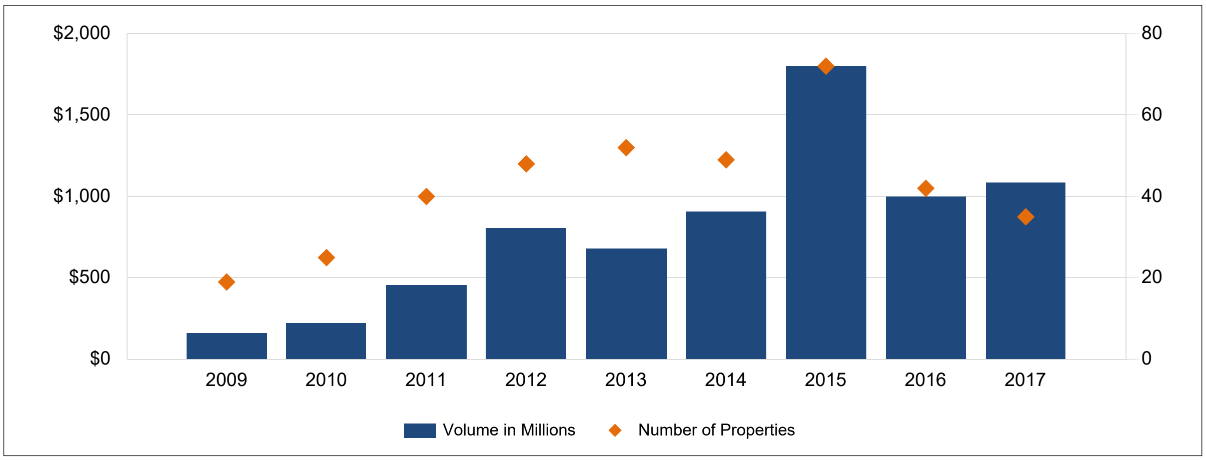


Source: YardiMatrix

Transactions

- More than $1 billion in multifamily deals closed during the first 10 months of 2017, at an average price per unit of $140,279, higher than the national figure of $136,099 and well above the level recorded in 2016.
- As more institutional players entered the market, competition intensified, pricing out private investors from core areas, where acquisition yields for stabilized Class A assets dipped below 5.0%.
- The largest number of transactions occurred in the West Philadelphia submarket, where Brandywine Realty broke ground on the first phase of Schuylkill Yards, a $3.5 billion, mixed-use destination. AJH Management's acquisition of The Grand at Neshaminy, a 1,072-unit community in Bensalem and part of the Feasterville–Langhorne submarket, ranked as the largest multifamily deal in Philadelphia in the past three quarters. The company bought the property from Korman Communities for $165 million, or $154,228 per unit.

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



Source: YardiMatrix

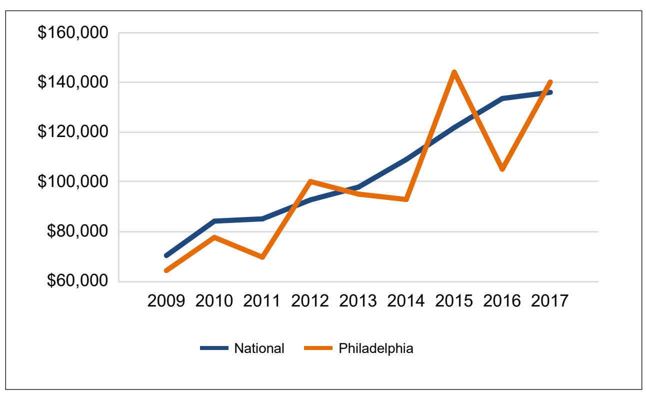
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Feasterville–Langhorne	165
West	162
Exton–Downingtown	107
Wilmington–West	99
Stanton–Pike Creek	88
Bensalem	71
Woodbury	70
Hatboro–Warminster	64

Source: YardiMatrix

[1] From November 2016 to October 2017

Philadelphia vs. National Sales Price per Unit



Source: YardiMatrix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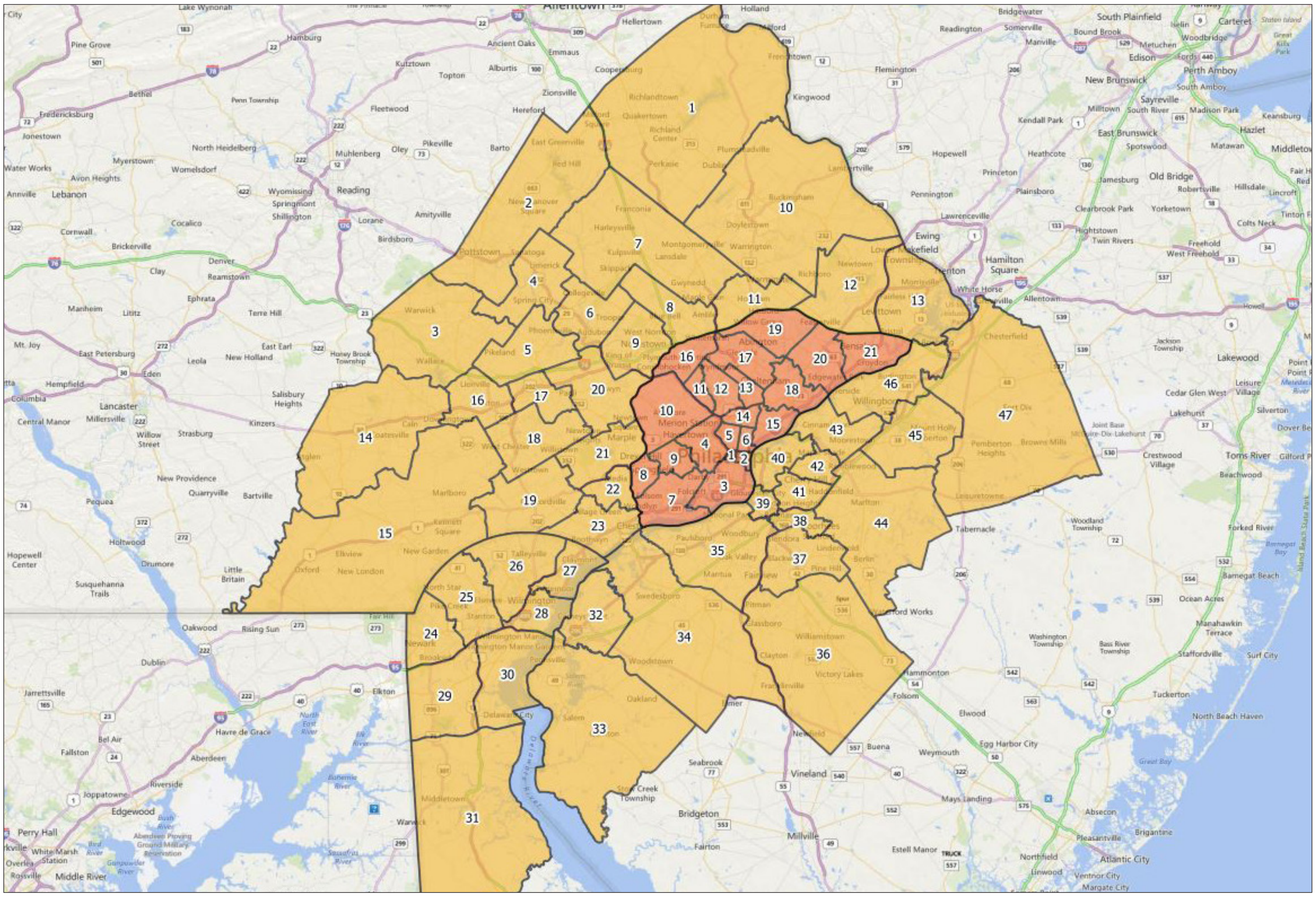
Philadelphia Submarkets



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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