



MULTIFAMILY REPORT

# Signs Of Growth In Philly

August 2023

**Suburbs Push Rents Up**

**Transaction Activity Slows Down**

**Development Concentrated in Urban Areas**



# PHILADELPHIA MULTIFAMILY



## Brighter Days For Philly Fundamentals

The Philadelphia market is showing signs of stabilizing. Rents were up 0.6% on a trailing three-month basis through June, to \$1,723, and 20 basis points above the U.S. rate of improvement. The average occupancy rate in stabilized properties decreased 60 basis points in 12 months, to 96.0%, as of June. Despite a decline, the metro's overall occupancy rate remained significantly above the national figure, which clocked in at 95.0%.

Greater Philadelphia added 91,600 jobs in the twelve months ending in April, for a 3.1% increase, 20 basis points higher than the national average. As recently as May, the unemployment rate stood at 3.6%, 50 basis points above the previous month, according to data from the Bureau of Labor Statistics. Education and health services added 35,500 positions, marking the largest number of positions gained across all sectors. The metro's economy will receive a boost, as a \$290 million research lab is coming to Philadelphia. The project is slated for completion by the end of 2024. Additionally, other R&D facilities are planned for the area.

Developers had 18,701 units under construction as of June. Of the projects underway, 4,283 units broke ground this year, with most projects concentrated in the metro's urban core. During the first six months of 2023, only \$148 million in multifamily assets traded, marking a steep slowdown in investment activity. Last year, \$2.4 billion traded during the same time frame.

## Market Analysis | August 2023

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### Recent Philadelphia Transactions

#### Burrough's Mill



City: Cherry Hill, N.J.  
Buyer: New York Life Real Estate Investors  
Purchase Price: \$78 MM  
Price per Unit: \$252,864

#### The Metropolitan



City: Philadelphia  
Buyer: GY Properties  
Purchase Price: \$30 MM  
Price per Unit: \$250,000

#### Lakeview Terrace



City: Fairless Hills, Pa.  
Buyer: Chelsea Management  
Purchase Price: \$24 MM  
Price per Unit: \$84,369

#### Colonial Village

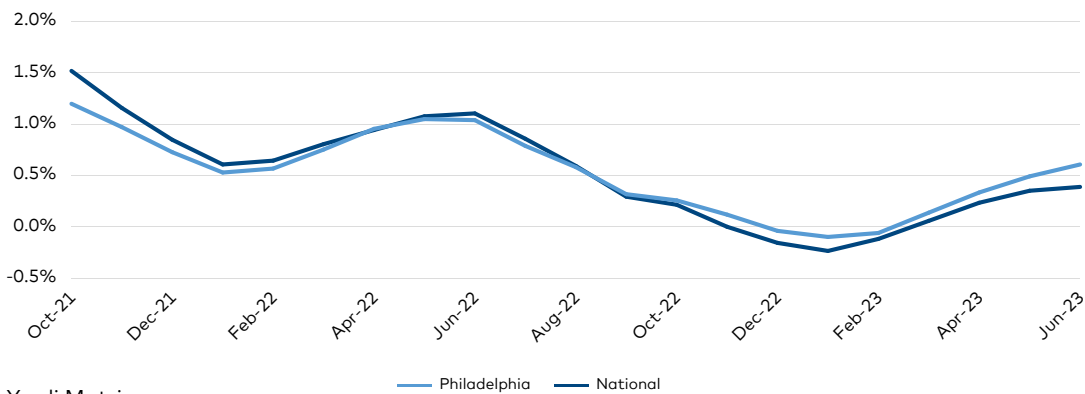


City: New Castle, Del.  
Buyer: Montium  
Purchase Price: \$16 MM  
Price per Unit: \$121,212

## RENT TRENDS

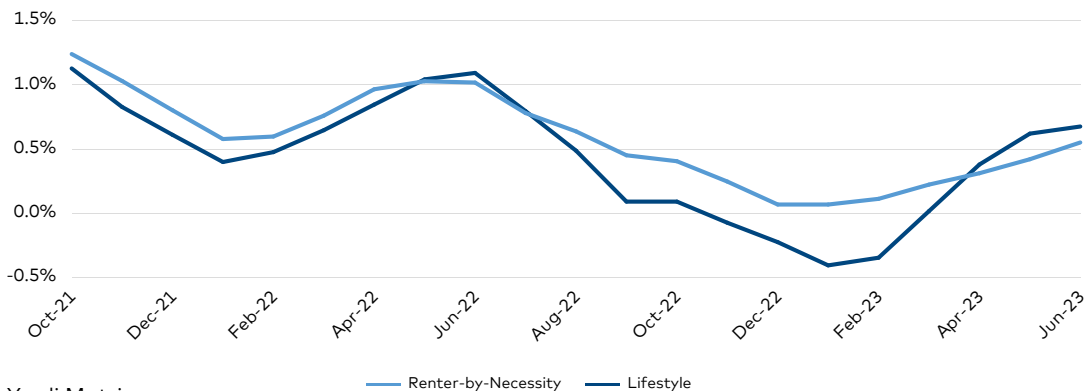
- ▶ Philadelphia rents were up 0.6% on a trailing three-month (T3) basis through June, 20 basis points higher than the U.S. rate of improvement, reaching \$1,723. Philadelphia registered negative growth in the first two months of 2023 on a T3 basis, just ahead of a new leasing season. Rent growth picked up again in March and steadily accelerated from there. Year-over-year, rates were up 3.1%, placing Philadelphia among the country's top 10 large markets tracked by Yardi Matrix.
- ▶ Growth progressed at a similar pace across quality segments, with the working-class Renter-by-Necessity average up 0.6% on a T3 basis through June, to \$1,530. Lifestyle rents were up 0.7%, reaching \$2,252.
- ▶ The metro's average overall occupancy rate in stabilized properties decreased 60 basis points in 12 months, to 96.0% as of June. Renter-by-Necessity assets recorded a slightly steeper drop, down 70 basis points to 96.1%. The rate for Lifestyle properties saw a 50-basis-point decrease, to a lower 95.6%. Despite the slide, the overall figure remained above the national average, which was 95.0% as of June, according to Yardi Matrix data.
- ▶ Of the 80 submarkets tracked by Yardi Matrix, six had average year-over-year rent growth in the double digits. The list includes suburbs such as Bordentown (12.6% to \$1,655), Newark-South (12.0% to \$1,741) and Woodbury (11.9% to \$1,673). In fact, of the top 20 submarkets for rent growth, only three are urban.

### 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

- Metropolitan Philadelphia added 91,600 jobs in the 12 months ending in April for a 3.1% increase, 20 basis points higher than the national average. As of May, the metro's unemployment rate clocked in at 3.6%, the same as the March figure and 50 basis points above April, according to preliminary BLS data.
- All employment sectors registered gains in the 12 months ending in April. As the metro's largest sector, education and health services added 35,500 jobs during the interval, for a 4.7% increase. Leisure and hospitality registered the largest growth rate, a 7.3% increase, with 23,500 positions added to the workforce. While most sectors saw significant improvement, a few saw only marginal growth: Information gained 700 positions, up 1.2%, while construction added 400 jobs, for a 0.3% uptick.
- The metro's life sciences market continues to show strong fundamentals. Gattuso Development Partners and Vigilant Holdings of New York are bringing a \$290 million research lab to Philadelphia. The project, which was announced at the beginning of the year, is expected to be the largest of its kind in the metro. The 11-story building, in University City, is slated for completion by the end of 2024.

### Philadelphia Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	790	22.2%
70	Leisure and Hospitality	346	9.7%
60	Professional and Business Services	554	15.5%
90	Government	418	11.7%
30	Manufacturing	230	6.5%
40	Trade, Transportation and Utilities	639	17.9%
80	Other Services	140	3.9%
55	Financial Activities	243	6.8%
50	Information	57	1.6%
15	Mining, Logging and Construction	145	4.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- Like other coastal markets, Philadelphia took a demographic hit from COVID-19, with the metro contracting by 13,382 people in 2021.
- The 2021 drop bucked a lengthy trend: Between 2011 and 2021, Philadelphia added more than 230,000 people.

### Philadelphia vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Philadelphia	6,096,895	6,104,777	6,241,983	6,228,601

Source: U.S. Census

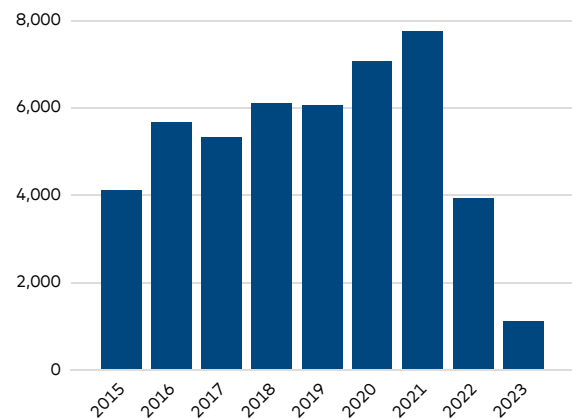
## SUPPLY

- ▶ Developers brought 1,140 units online in 2023 through June. These deliveries accounted for 0.3% of existing stock, less than half the 0.7% national rate. The total marks a decrease compared to the 1,763 units delivered in the first six months of 2022. This year, 623 units came online in the suburbs, while the rest of the 517 units were concentrated in urban areas of Philadelphia.
- ▶ The market had 18,701 units under construction as of June, while an additional 70,000 apartments were in the planning and permitting stages. Development continued to steadily decelerate, with a total of 4,283 units breaking ground in the first six months of 2023, with most (3,573 units) concentrated in urban areas. The total for this year's first two quarters marks a 10% decrease compared to the 4,745 units that started construction during the same period last year.
- ▶ Multifamily development is present across most of the metro. Of 80 submarkets tracked by Yardi Matrix, almost half have at least 50 units underway. Four submarkets had more than 1,000 units under construction as of June. North-East led with 5,683 units underway, followed by West (2,001 units), Center City-East (1,447 units)

and Frankford/Kensington (1,316 units). Mount Laurel led suburban development, with 893 units under construction.

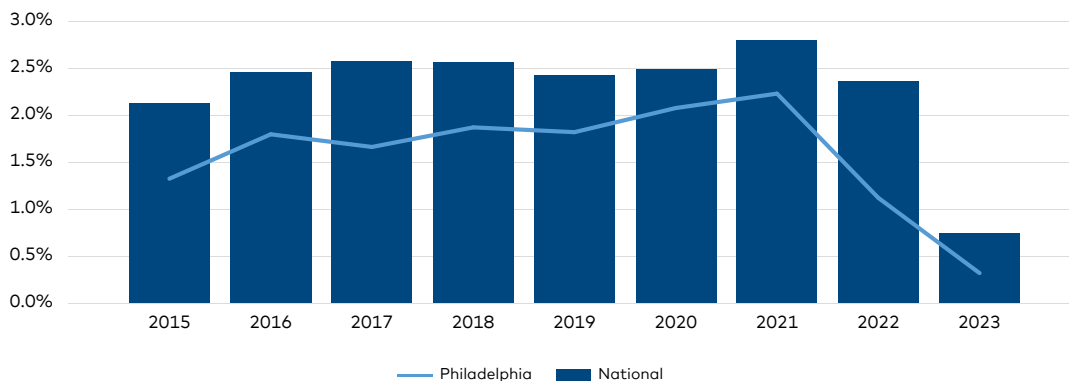
- ▶ The largest development underway is Piazza Terminal. Tower Investments is building a 1,131-unit, multibuilding property, which broke ground in May 2021. The project in Northern Liberties is slated to wrap up by the end of next year.

**Philadelphia Completions (as of June 2023)**



Source: Yardi Matrix

**Philadelphia vs. National Completions as a Percentage of Total Stock (as of June 2023)**



Source: Yardi Matrix

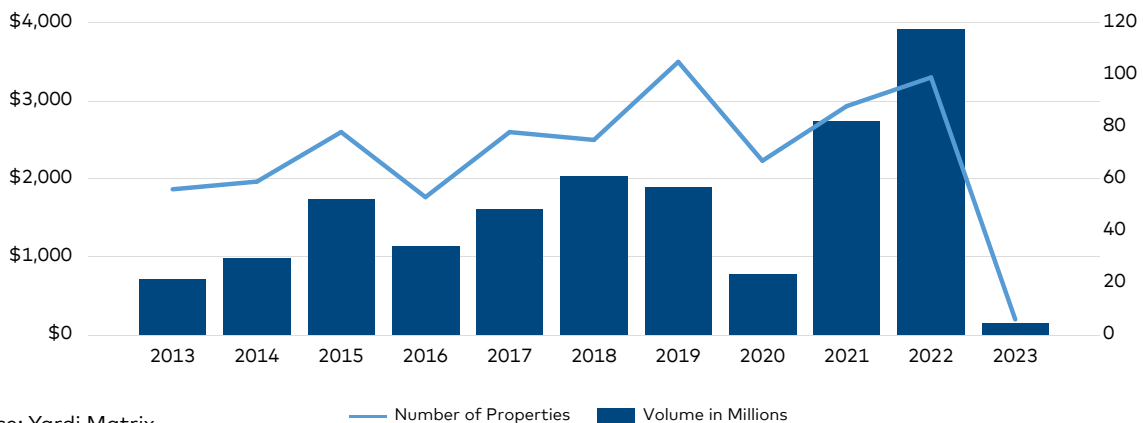
## TRANSACTIONS

- ▶ Investment continued to lag in Philadelphia, following nationwide trends. The transaction volume during the first half of the year totaled just \$148 million, with six properties of more than 50 units changing hands. This comes on the heels of two record-breaking years, with \$2.7 billion in sales registered in 2021 and a whopping \$3.9 billion in 2022.
- ▶ Philadelphia's \$174,741 per-unit price for the first two quarters was under the \$182,694 U.S.

figure. In addition, the price dropped significantly from last year's \$230,786, when the national rate hit \$209,988.

- ▶ Philadelphia's West submarket registered the largest transaction volume in the 12 months ending in June, at \$342 million, followed by Center City-East (\$245 million) and Northwest-East (\$237 million). All three submarkets are located in urban Philadelphia.

### Philadelphia Sales Volume and Number of Properties Sold (as of June 2023)



Source: Yardi Matrix

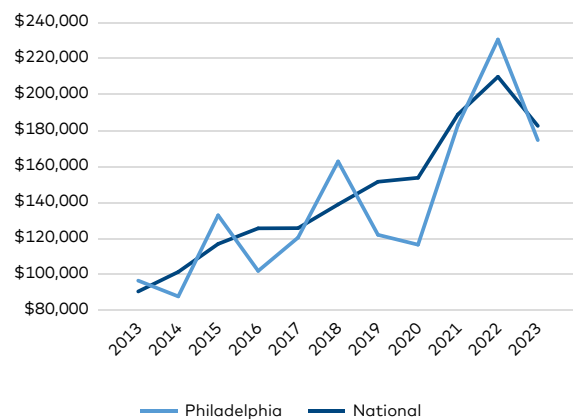
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
West	342
Center City-East	245
Northwest-East	238
Mount Laurel	158
Center City-West	133
Lansdale	107
Southwest	103

Source: Yardi Matrix

<sup>1</sup> From July 2022 to June 2023

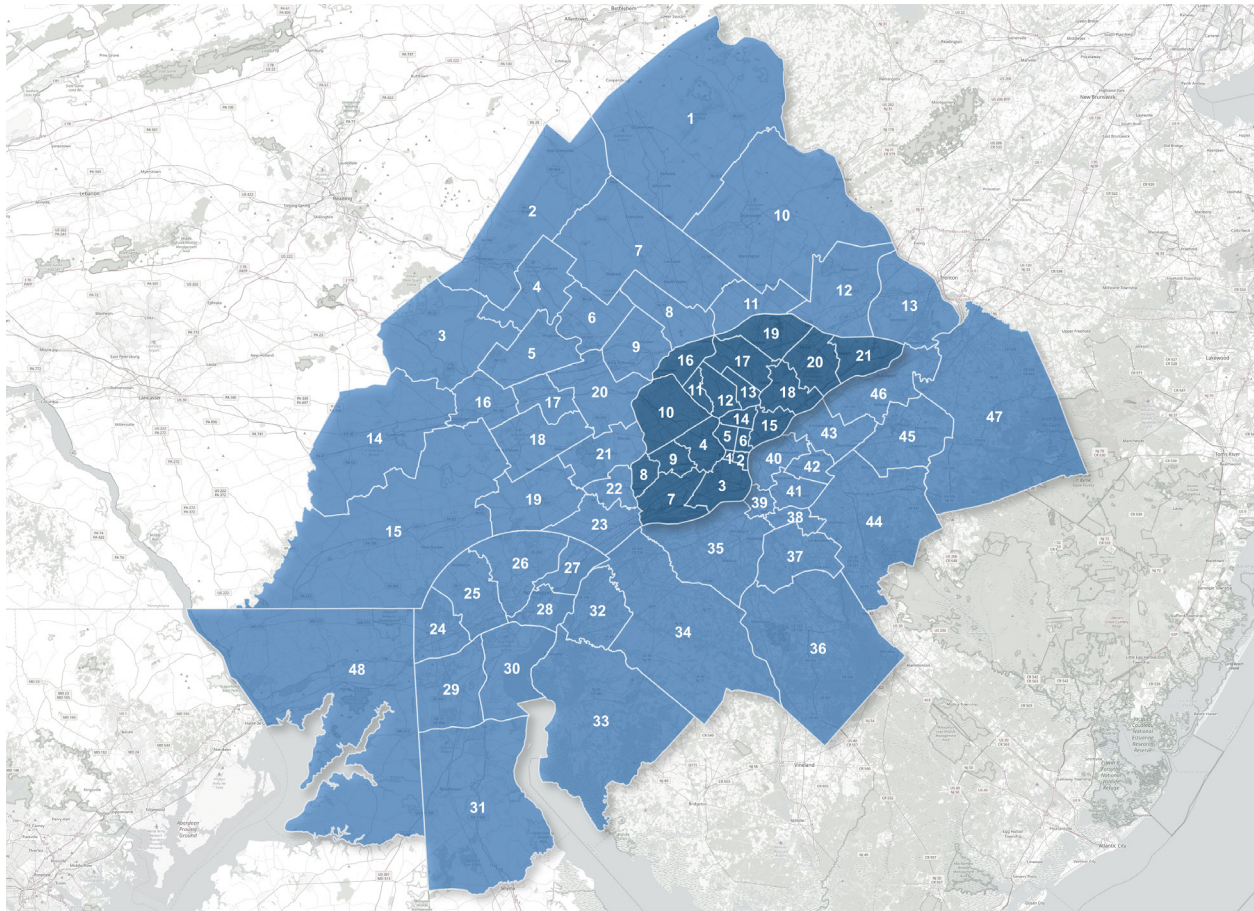
### Philadelphia vs. National Sales Price per Unit



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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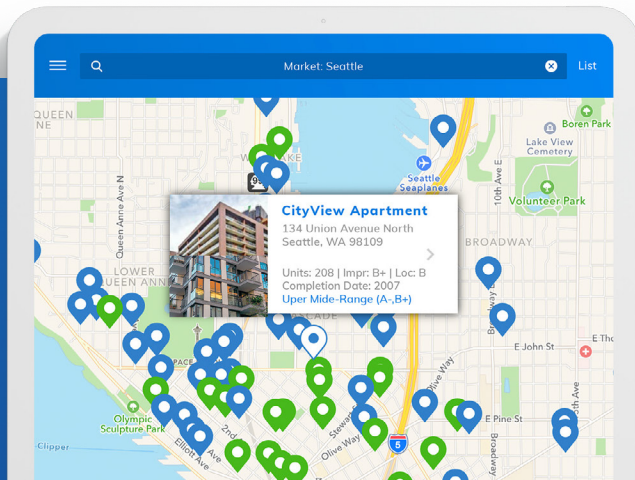
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