Yardi® Matrix

Philadelphia In for a Mild Ride

Multifamily Report Spring 2018

Rent Growth Flattens

Investment Picks Up, Tops $1B

Deliveries Peak for Current Cycle

Market Analysis
Spring 2018

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

Accelerated Development Takes Toll

The pace of development in Philadelphia caught up with demand, leading to a middling rent growth rate during the year's first three months, a trend that's visible in several major U.S. metros. The number of units delivered reached a cycle peak in 2017, when 5,000 units came online, and 2018 is expected to set a new high, with an estimated 7,000 completions. The new inventory is being absorbed by Millennials attracted by tech jobs and downsizing Baby Boomers, who make up a large part of the renter pool.

Professional and business services led job gains (11,700), followed by Philadelphia's traditional "eds and meds" sector (8,600), which led to a fast absorption of office developments nearing delivery. Roughly 80% of the new office supply in the metro's core submarkets is set for completion in 2018, according to a JLL report. However, a number of employment sectors saw significant job losses in 2017 (-4,500). Half of those were in the trade and transportation sector, expected to take a new hit with the closing of two Pennsylvania Kmart stores.

Higher demand in the working-class Renter-by-Necessity segment has led to a 2.1% rent growth year-over-year through March, compared to a 1.5% increase in rents for Lifestyle assets. Overall, rents are expected to rise moderately—at a rate of 2.3% for the rest of 2018.

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
Purchase Price: $118 MM
Price per Unit: $427,536

The Glen at Bucks

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

Dynasty Court

City: Philadelphia
Buyer: Adam Y. Xu
Purchase Price: $16 MM
Price per Unit: $287,500

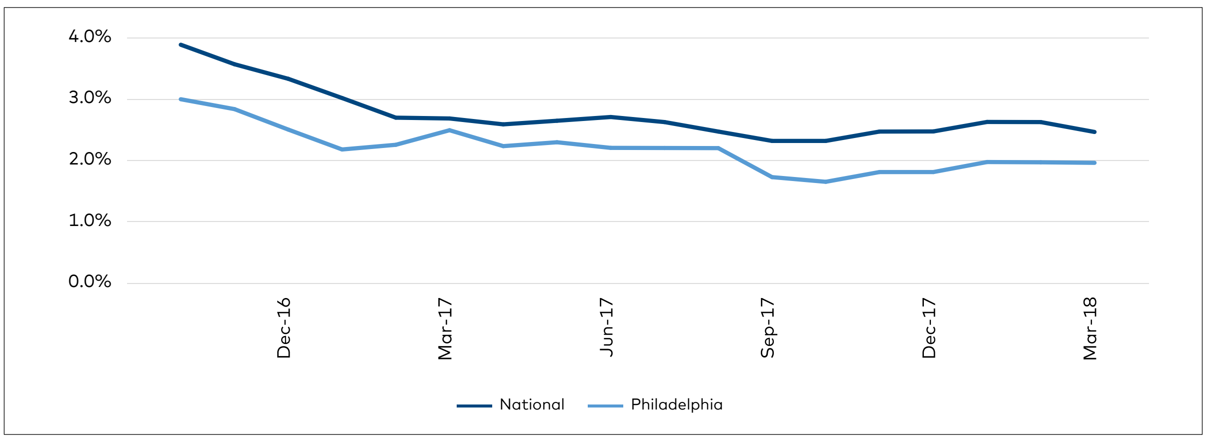
Rent Trends

- Philadelphia rents rose 2.0% year-over-year as of March, trailing the national average of 2.5%. The average overall monthly rent was $1,299, lower than the national value of $1,371. Multifamily rents had their strongest showing since the summer of 2017, but the metro lagged behind the U.S. trend. The growth rate has stayed consistent for the better part of the past 12 months, with only minor fluctuations around the end of 2017.

- Rents in the working-class Renter-by-Necessity segment rose 2.1% to $1,149, while Lifestyle rents increased by 1.5% to $1,807. Downsizing Baby Boomers are fueling growth in deliveries, which in turn has led to a 100-basis point drop in the occupancy rate as of February. The metro has seen just 8% of the Millennial cohort join the rental market between 2009 and 2015, but the number of renters aged 55 and older increased by 22%, according to U.S. Census data.

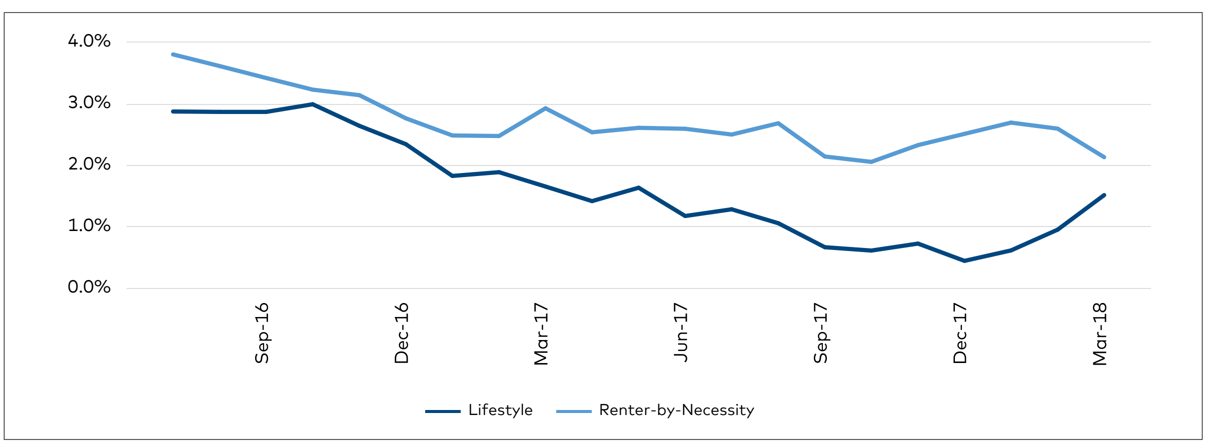
- Suburban Philadelphia led rent gains, with Stanton-Pike Creek (7.4%), Ambler (6.1%), Oxford–Kennett Square (5.6%), Norristown (5.5%) and Pottstown (4.9%) as the metro's top submarkets for rent growth. Despite a slight decrease in rates compared to the last quarter of 2017, Center City remains the most expensive submarket for renters. Residents there shell out an average of $2,050 on rent. We expect rents to continue to rise at a middling pace, and reach an estimated 2.3% rate by year's end.

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

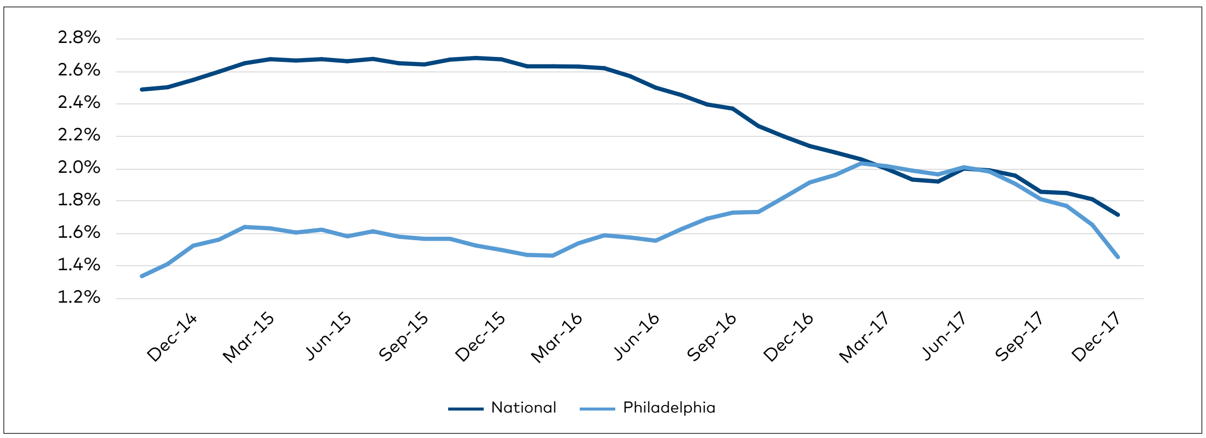
Economic Snapshot

- Philadelphia added 32,300 jobs in 2017, a 1.5% increase, slightly below the national rate of 1.7%. Job gains were led by professional and business services (11,700), a trend that has gone on for the past few years, followed by education and health services (8,600) and leisure and hospitality (6,500). The metro also lost a total of 4,500 positions in trade and transportation (-2,200), government (-1,400), information (-500) and other services (-400). The metro's unemployment rate still dropped 20 basis points year-over-year to 4.9% as of February.

- A new wave of cuts is expected, due in part to department store closings. Kmart announced plans to lay off 131 employees after the closing of two Pennsylvania stores—one in Philadelphia and another in Franklin. North Wales-based Teva Pharmaceuticals will also cut 200 jobs, while ArcelorMittal will close a part of its Conshohocken plant, despite the new tariffs on imported steel, which are expected to boost the sector, leaving up to 200 workers unemployed.

- Philadelphia's coworking office sector has showcased particular vigor. Spaces and MakeOffices both signed leases in Philadelphia's Center City in the past year. Cushman & Wakefield expects the number of shared office providers in the area to increase from 17 to 21 by the end of the year.

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)

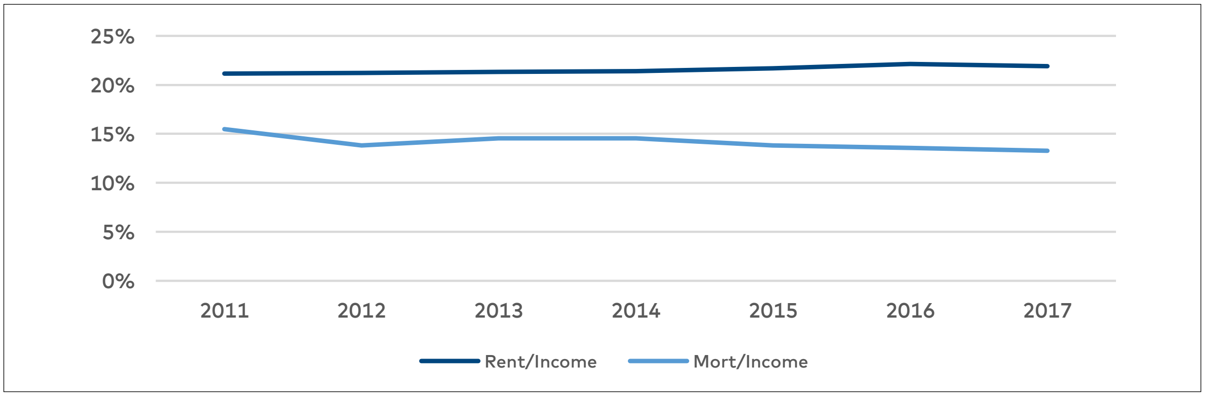
		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
60	Professional and Business Services	479	16.2%	11,700	2.5%
65	Education and Health Services	653	22.1%	8,600	1.3%
70	Leisure and Hospitality	265	8.9%	6,500	2.5%
55	Financial Activities	218	7.4%	3,500	1.6%
15	Mining, Logging and Construction	114	3.9%	1,400	1.2%
30	Manufacturing	179	6.0%	600	0.3%
80	Other Services	119	4.0%	-400	-0.3%
50	Information	46	1.6%	-500	-1.1%
90	Government	343	11.6%	-1,400	-0.4%
40	Trade, Transportation and Utilities	544	18.4%	-2,200	-0.4%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics
Affordability

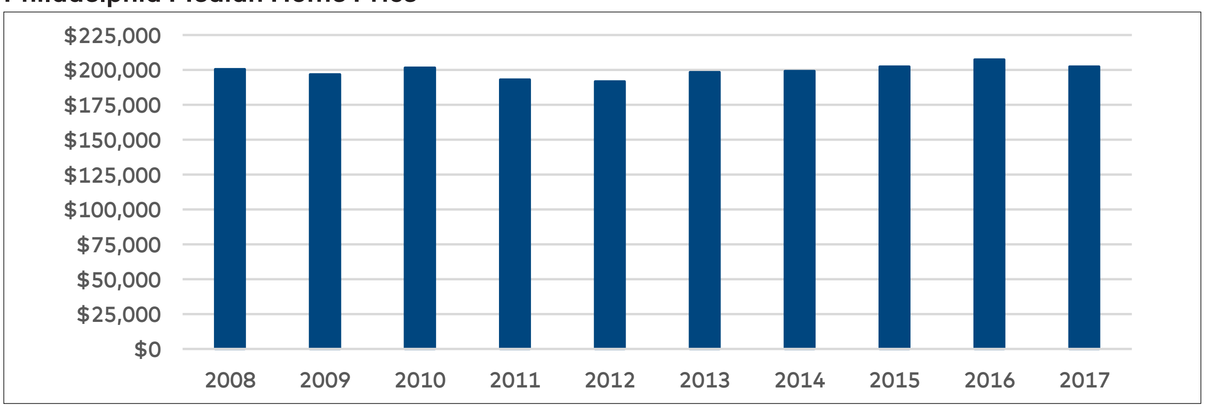
- Homeownership continues to be more affordable than renting, a trend that has been maintained throughout the current cycle. The average mortgage payment accounts for 13% of the median income, while renting equates to 22%—the rate has stayed flat since 2015. The median home price in Philadelphia dipped to $202,290 in 2017, below the cycle peak of 2016 ($207,500).
- The city council has taken measures to avoid residents being pushed out of the city due to rising property taxes. As a result, the Longtime Owner Occupants Program's 10-year limit for the real estate tax abatement was replaced with lifetime eligibility.

Philadelphia Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Philadelphia Median Home Price



Source: Moody's Analytics

Population

- The metro added roughly 19,000 residents in 2017. Its 0.3% growth rate is below the national average of 0.7%.
- Philadelphia created a Millennial Advisory Committee in 2017 to manage the influx of degree-holding Millennials.

Philadelphia vs. National Population

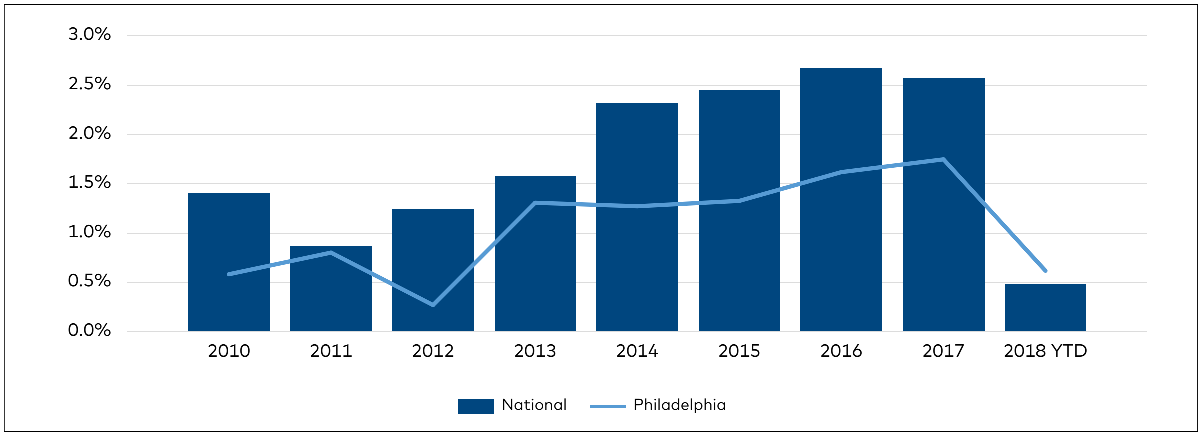
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Philadelphia Metro	6,035,329	6,053,028	6,066,589	6,077,152	6,096,120

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

Supply

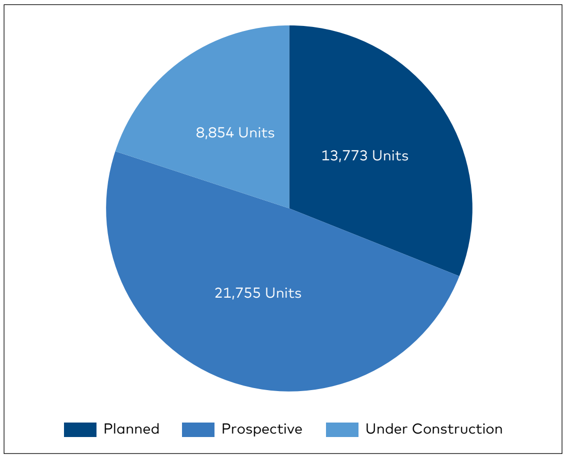
- Development is booming in Philadelphia, with deliveries peaking at 5,000 units in 2017, a new cycle high and 1.8% of total stock. The influx of highly educated Millennials, downsizing Baby Boomers and the expansion of the job market have led to a fast absorption of new construction, further fueling the metro's housing pipeline. The accelerated rhythm of inventory expansion is expected to be maintained throughout 2018, as roughly 1,800 apartments came online in the first quarter of 2018.
- Roughly 8,900 units were under construction as of March, more than half of which were aimed at core submarkets. About 4,000 apartments were underway in Center City and North and West Philadelphia. Ardmore's revival and well-connected transportation system has created a good environment for housing demand. The Main Street of the Main Line had 700 units underway. Infrastructure investments like SEPTA's billion-dollar King of Prussia rail project have accelerated development in neighboring submarkets, as roughly 560 units were under construction in Norristown.
- Overall, Philadelphia had more than 44,000 units in various stages of development, with about 7,000 scheduled for completion in 2018, set to cap off a new cycle high.

Philadelphia vs. National Completions as a Percentage of Total Stock (as of March 2018)



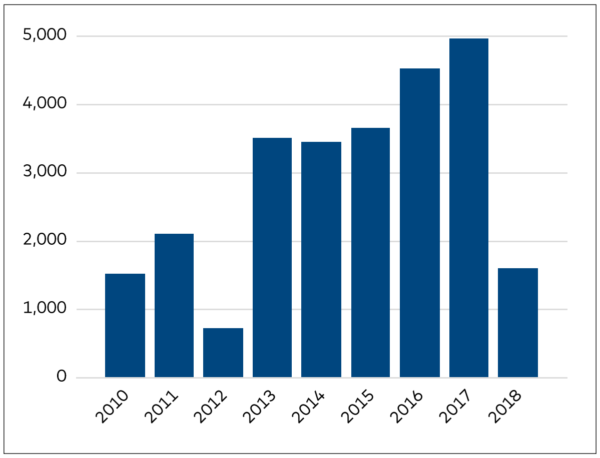
Source: YardiMatrix

Development Pipeline (as of March 2018)



Source: YardiMatrix

Philadelphia Completions (as of March 2018)

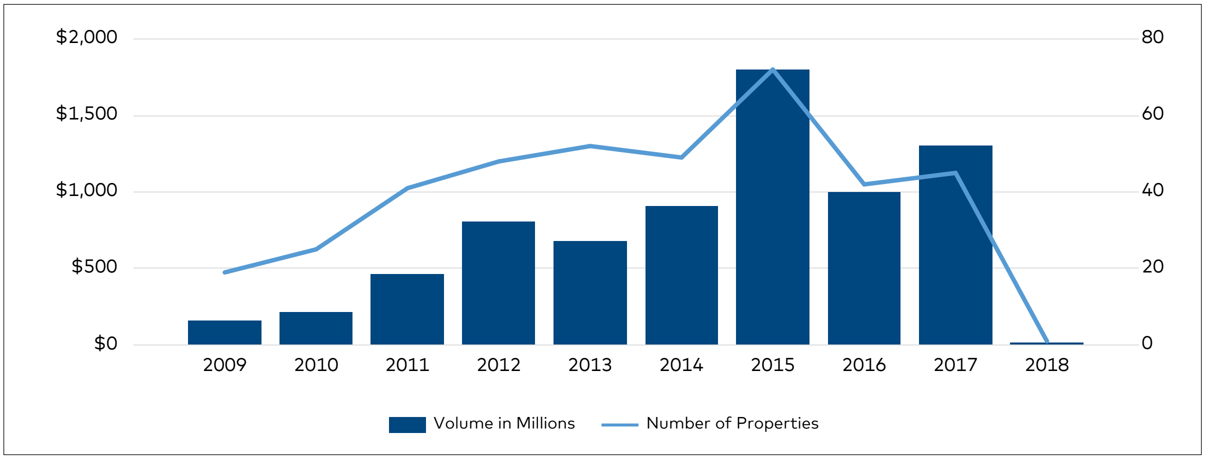


Source: YardiMatrix

Transactions

- Investment activity in Philadelphia made a significant comeback in 2017, exceeding $1.3 billion, up 30% compared to 2016 and only trailing the 2015 cycle peak. Backed by a growing investor interest in the metro's multifamily properties, per-unit prices rose to an average of $141,159. That's double the level of 2011, and $2,000 above the national average.
- In the year's first two months, one multifamily asset changed hands in urban Philadelphia. The 56-unit, fully affordable Dynasty Court in Center City traded for $16 million and a per-unit price of $287,500. Philadelphia has seen a compression in acquisition yields for stabilized properties located in core submarkets. Pricing remained strong particularly for Class B and C assets, with acquisition yields ranging between 6% and 7%. For Class A assets, rates were about 5% for both urban and suburban properties, as investment activity heightened and prices climbed.

Philadelphia Sales Volume and Number of Properties Sold (as of February 2018)



Source: YardiMatrix

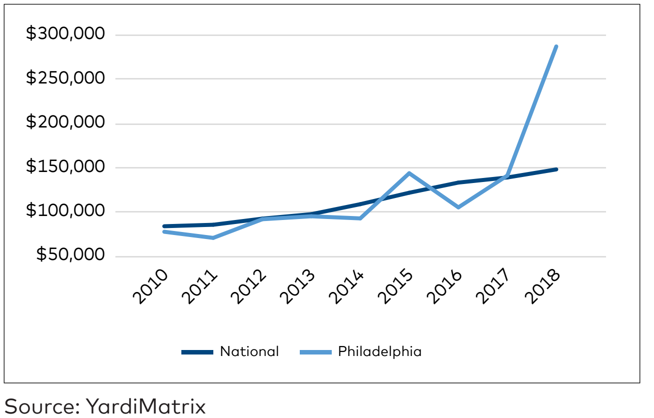
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Feasterville–Langhorne	165
West	152
Lansdale	101
Wilmington–West	99
Stanton–Pike Creek	88
Hatboro–Warminster	64
Mount Holly	60
West Chester	58

Source: YardiMatrix

[1] From March 2017 to February 2018

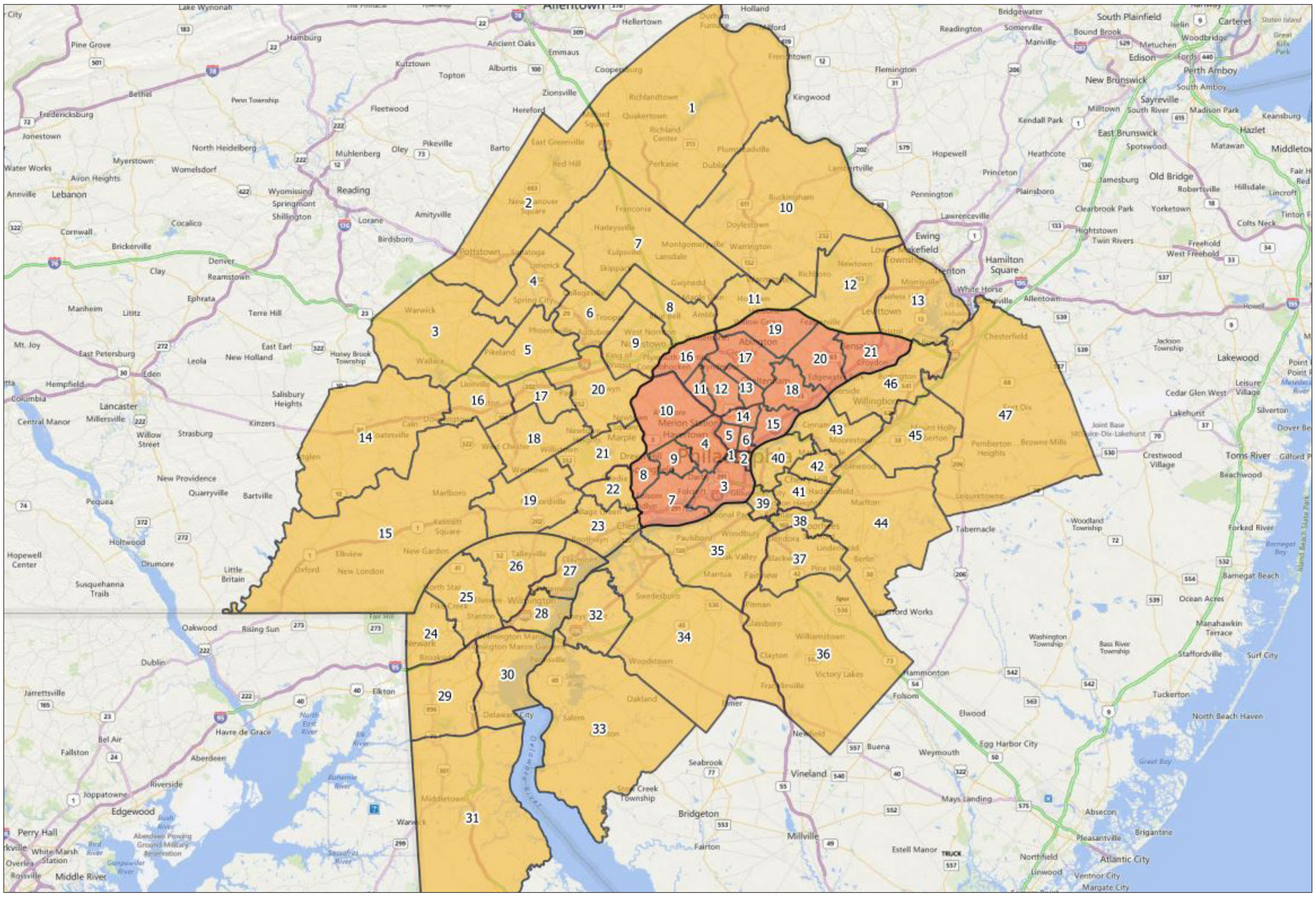
Philadelphia vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Dmitry Galyamov/iStockphoto.com

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.

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