

# Philadelphia Outperforms

December 2023

**Urban Core Dominates Pipeline**

**Rent Gains Above US Average**

**Deals Volume Still Lags**

# PHILADELPHIA MULTIFAMILY



## Rents Advance, Occupancy Endures

Philadelphia's multifamily market displayed healthy fundamentals entering the fourth quarter. Amid slowing absorption, rents were still up 2.1% on a year-over-year basis, reaching \$1,728, while the national figure advanced just 0.4%, to \$1,718 as of October. On a trailing three-month basis, Philadelphia rates were flat, while the U.S. average dropped 10 basis points. Meanwhile, the occupancy rate in stabilized assets dropped just 30 basis points in 12 months, to a relatively tight 96.0% as of September.

Philadelphia's employment market added 98,100 new jobs in the 12 months ending in August, for a 3.0% expansion. Although all sectors added jobs, just two sectors—education and health services (38,500 jobs) and leisure and hospitality (20,000 jobs)—accounted for more than half of the positions added. The metro's unemployment rate stood at a tight 3.5% as of September, according to the Bureau of Labor Statistics, virtually on par with Pennsylvania (3.4%) and surpassing the national average (3.8%).

A total of 3,408 units came online in the first 10 months of 2023, with an additional 18,794 units underway as of October. Meanwhile, only \$368 million in multifamily assets traded in 2023 through October, a fraction of 2021 and 2022's record numbers, as national and global economic trends caught up with the rental market.

## Market Analysis | December 2023

### Contacts

#### Jeff Adler

Vice President & General  
Manager of Yardi Matrix  
[Jeff.Adler@Yardi.com](mailto:Jeff.Adler@Yardi.com)  
(303) 615-3676

#### Ron Brock, Jr.

Industry Principal, Matrix  
[JR.Brock@Yardi.com](mailto:JR.Brock@Yardi.com)  
(480) 663-1149 x2404

#### Doug Ressler

Media Contact  
[Doug.Ressler@Yardi.com](mailto:Doug.Ressler@Yardi.com)  
(480) 695-3365

#### Author

#### Anda Rosu

Associate Editor

### Recent Philadelphia Transactions

#### Burrough's Mill



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

#### West Court



City: Wilmington, Del.  
Buyer: Evergreen Apartment  
Group  
Purchase Price: \$53 MM  
Price per Unit: \$ 664,794

#### Windsor Forest



City: New Castle, Del.  
Buyer: Capital Management  
Purchase Price: \$29 MM  
Price per Unit: \$ 171,045

#### The Chateau

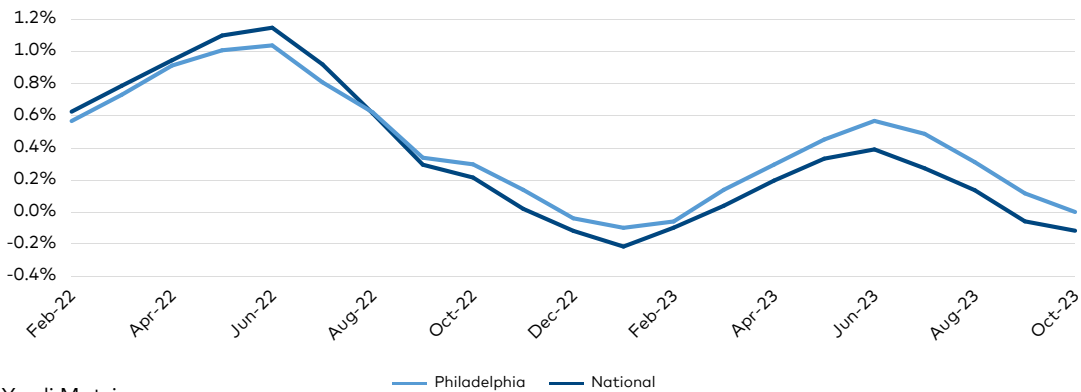


City: Wilmington, Del.  
Buyer: Capital Management  
Purchase Price: \$27 MM  
Price per Unit: \$157,738

## RENT TRENDS

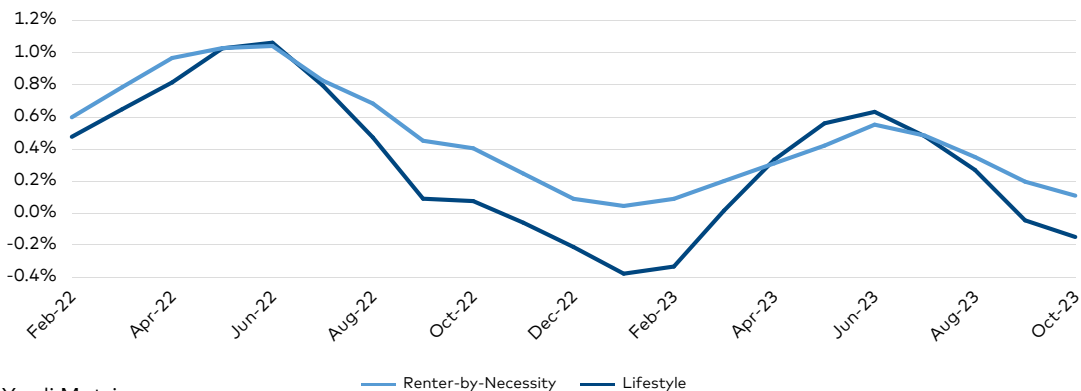
- ▶ Philadelphia rents were flat on a trailing three-month (T3) basis through October, reaching \$1,728, even as the national average fell 10 basis points, to \$1,718. Year-over-year, rates were up 2.0%, outperforming the 0.4% U.S. figure. This is in line with similar markets in the Northeast and Midwest, which displayed slow but steady gains as strong supply limited growth in much of the Sun Belt.
- ▶ On a T3 basis, rates in the working-class Renter-by-Necessity quality segment were up 10 basis points, to \$1,539. Meanwhile, a 10-basis-point downtick, to \$2,240, in Lifestyle properties offset gains in workforce properties, according to Yardi Matrix data.
- ▶ The metro's average overall occupancy rate in stabilized properties decreased a relatively mild 30 basis points in 12 months, to 96.0% as of September, remaining in healthy territory. Bucking overall trends, occupancy in Lifestyle properties recorded a 10-basis-point uptick during the same period, to 95.8%. Occupancy in RBN assets dropped 50 basis points, to 96.1%.
- ▶ Of the 80 submarkets tracked by Yardi Matrix, only 14 recorded year-over-year drops. One such area was Center City – East, a core submarket and one of the most expensive (-3.6% to \$2,220). Center City – West, the priciest submarket and the other half of downtown, also recorded rent decreases (-1.1% to \$2,463).

### 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 a healthy 3.5% as of September, according to data from the Bureau of Labor Statistics. That was 30 basis points below the U.S. average and almost on par with Pennsylvania's rate of unemployment (3.4%).
- The area added 98,100 jobs in the 12 months ending in August, with all sectors registering hikes. That represented a 3.0% expansion, above the 2.5% national average. Several sectors stood out, led by education and health services, which added 38,500 jobs for a 5.1% improvement. Leisure and hospitality (20,000 jobs, 5.8% improvement) and professional and business services (9,800 jobs, 1.8% expansion) followed.
- The area's economy is pushing through, which is reflected in the gains recorded across all sectors, even as some peer metros see significant drops in certain industries.
- Life sciences continues to push forward, with large-scale projects advancing at a rapid pace. The list includes One uCity Square, a \$300 million project that Ventas recently wrapped up, as well as Brandywine and Drexel University topping out on a 14-story tower as part of the \$3.5 billion Schuylkill Yards. Meanwhile, Hilco Redevelopment Partners broke ground on the \$4 billion, 1,300-acre Bellwether District in South Philadelphia, a 14 million-square-foot mega project that has 250 acres dedicated to life sciences.

### Philadelphia Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	799	22.1%
70	Leisure and Hospitality	365	10.1%
60	Professional and Business Services	559	15.5%
40	Trade, Transportation and Utilities	648	17.9%
90	Government	415	11.5%
80	Other Services	143	4.0%
15	Mining, Logging and Construction	152	4.2%
55	Financial Activities	245	6.8%
30	Manufacturing	230	6.4%
50	Information	58	1.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- In line with most large coastal metros, Philadelphia lost 13,382 residents in 2021, which accounted for a 0.2% contraction, while the U.S. average was up 0.1%.
- Still, the area is expanding at a steady pace, having added some 250,000 residents since 2010.

### Philadelphia vs. National Population

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

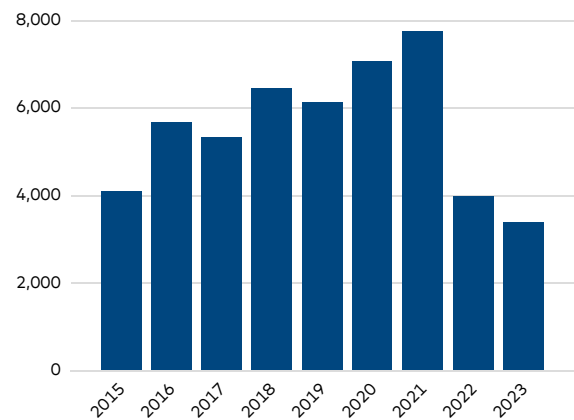
Source: U.S. Census

## SUPPLY

- Metro Philadelphia had 18,794 units underway as of October 2023, with an additional 74,000 apartments in the planning and permitting stages. Urban submarkets dominated the pipeline, with 13,939 units underway. Meanwhile, only 4,855 units were under construction across suburban areas.
- Like most of the U.S., the pipeline is leaning heavily toward upscale projects. In fact, nine out of 10 apartments under construction across all of metro Philadelphia as of October were in Lifestyle communities, Yardi Matrix data shows.
- A total of 3,408 units came online year-to-date through October. These completions accounted for 1.0% of existing stock, a little more than half of the 1.8% national rate of expansion. Total completions for 2023 are on track to surpass the previous year's 4,009 apartments brought online, according to Yardi Matrix projections.
- Four submarkets, all within or close to the city core, led the under-construction pipeline as of October: North – East (5,595 units underway), West (1,890 units), Center City – East (1,447 units) and Frankford/Kensington (1,247 units).

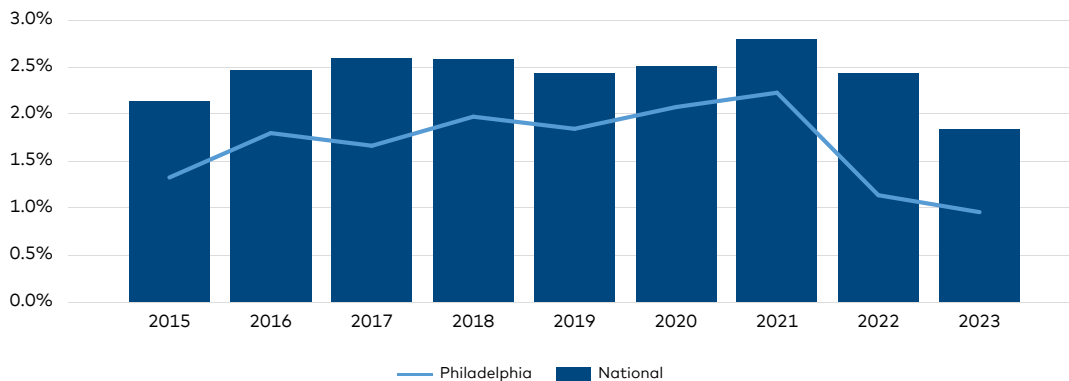
- The largest project underway as of October 2023 was Tower Investments and Post Brothers' 1,131-unit Piazza Terminal in the North – East submarket, close to the Delaware River. The three-building development which is slated to wrap up next year is subject to a \$312 million construction loan originated by Rockwood Capital.

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



Source: Yardi Matrix

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



Source: Yardi Matrix

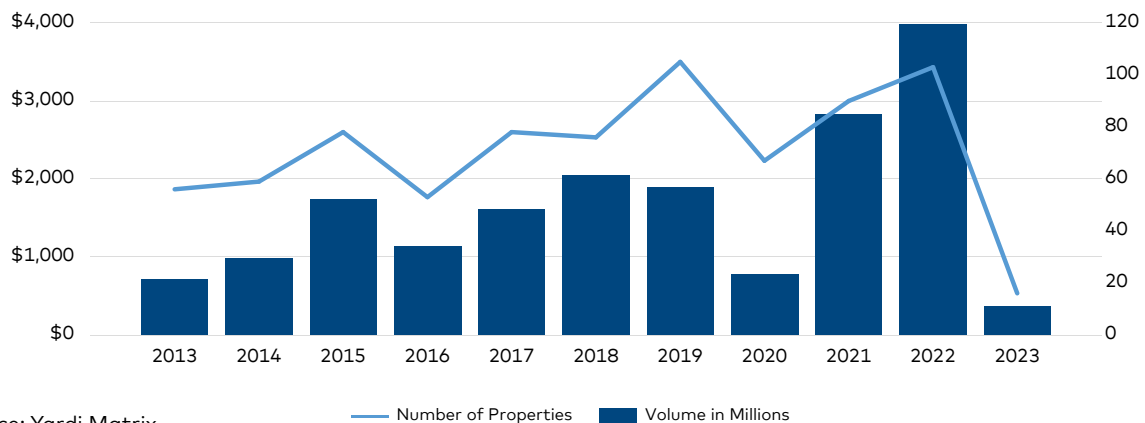
## TRANSACTIONS

- ▶ Transactions continued to decelerate, with Philadelphia's total for the first 10 months of 2023 at just \$368 million. This included 16 properties comprising 3,013 units changing hands. The volume severely dropped after two record-breaking years: In 2021 and 2022, a total of \$6.8 billion in multifamily assets traded.
- ▶ Year-to-date through October, the per-unit price in Philadelphia clocked in at \$202,927, remaining above the \$187,497 U.S. figure. Even

so, it marked a slowdown from 2022, when Philadelphia's average for the same time frame was \$224,713. While the drop is partly the result of fewer luxury properties trading in 2023, valuations are also showing cracks.

- ▶ During the 12 months ending in October, the city core took the lion's share when it came to transactions, with Center City – East and Center City – West totaling 309 million, more than one-third of the metro's total deal volume.

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



Source: Yardi Matrix

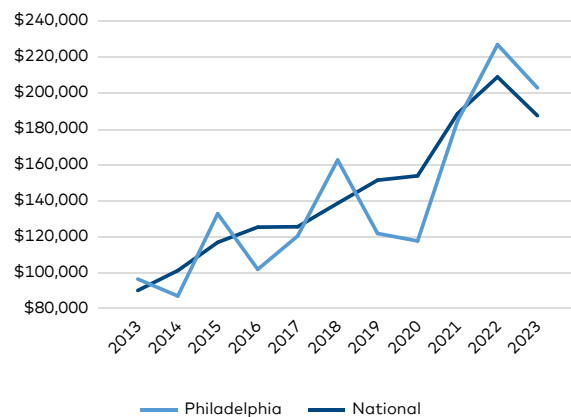
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Center City – East	220
Center City – West	89
Cherry Hill – Maple Shade	78
Glen Mills	74
Wilmington – West	53
New Castle	45
Wilmington – Northeast	27

Source: Yardi Matrix

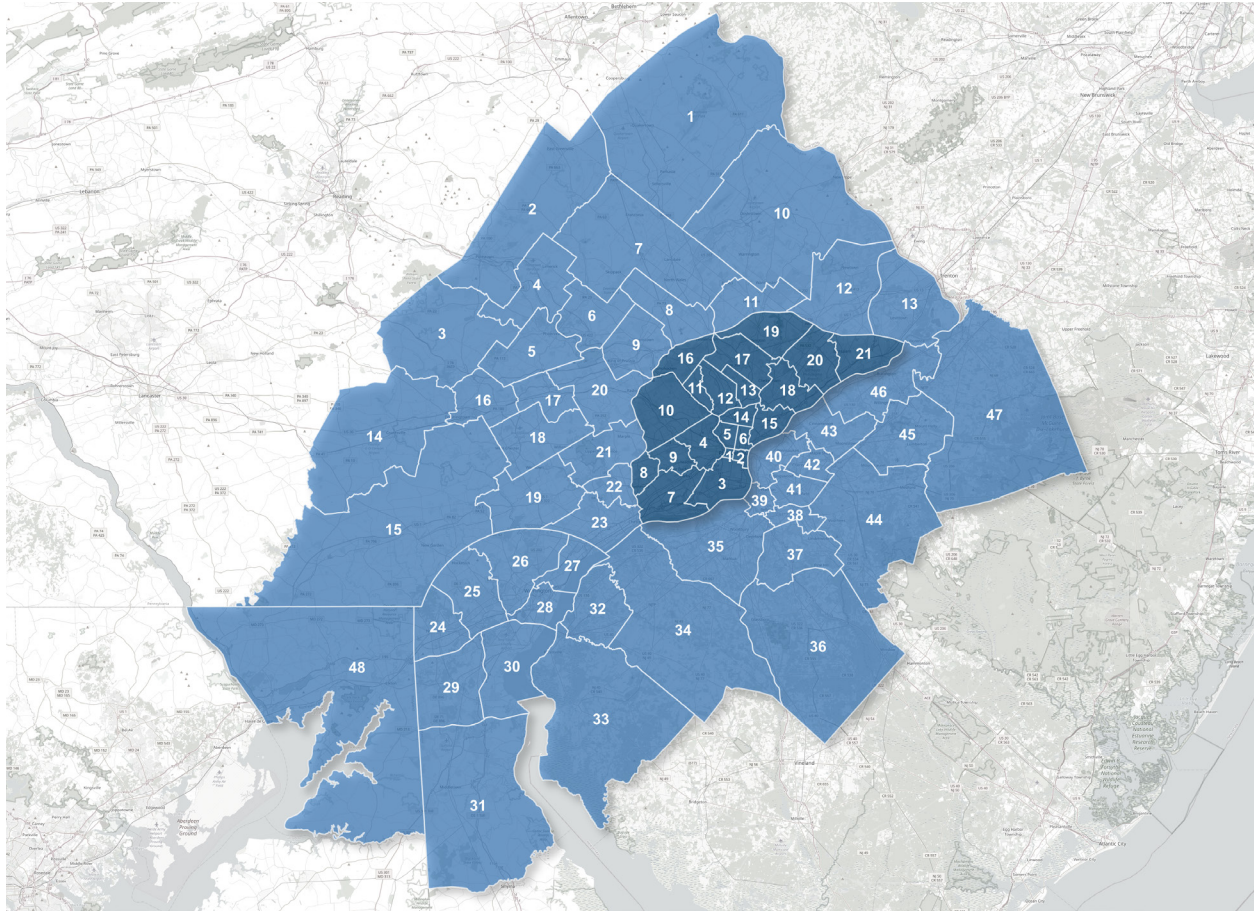
<sup>1</sup> From November 2022 to October 2023

### 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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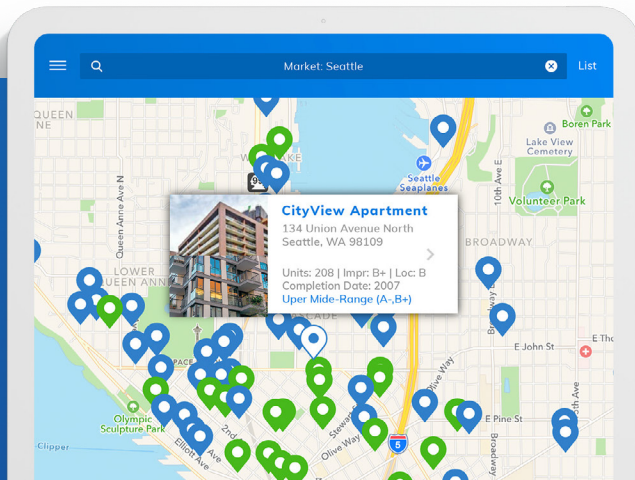
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