

An aerial view of the Philadelphia skyline at sunset. The sun is low on the horizon, casting a warm, golden glow over the city. The sky is filled with soft, orange and yellow clouds. In the foreground, there are several multi-story buildings with flat roofs and some with skylights. In the background, the city skyline is dominated by several tall skyscrapers, including the Comcast Center and the Comcast Tower. The overall scene is a mix of modern and older architecture.

Yardi® Matrix

Building Up Philadelphia

Multifamily Report Fall 2018

Suburbs Lead Rent Growth

Construction Picks Up in Norristown

Property Values Reach Post-Recession High

Market Analysis

Fall 2018

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Mega-Developments Abound

Multifamily demand remains strong in Philadelphia, bolstered by job growth and household formation. Despite a supply surge in recent years, occupancy in stabilized properties declined just 30 basis points year-over-year, to 95.6% as of July.

Employment gains were led by education and health services (18,700 jobs). Growth is set to continue, boosted by projects such as the \$1.5 billion Penn Medicine Pavilion, which will expand the University of Pennsylvania Hospital by 1.5 million square feet. Professional and business services gained 12,000 jobs. A series of mega-projects is expected to meet the rising demand for office space, including the \$1.5 billion, 60-story Comcast Technology Center. Earlier this year, construction began on Schuylkill Yards, a \$3.5 billion development that aims to create a hub for technology and life-sciences companies. Located on the west side of Philly's main Amtrak station, the project site is one of the three that the city pitched for Amazon HQ2, alongside uCity Square and the Navy Yard.

Investors competed for both urban and suburban assets, with \$810 million in communities changing hands this year through July. Development has also been significant, with the delivery of 3,575 units this year through August. Overall, we expect Philadelphia rents to grow 2.4% in 2018.

Recent Philadelphia Transactions

The Left Bank



City: Philadelphia
Buyer: AIMCO
Purchase Price: \$109 MM
Price per Unit: \$385,044

777 South Broad



City: Philadelphia
Buyer: AIMCO
Purchase Price: \$63 MM
Price per Unit: \$428,749

The Wynnewood



City: Wynnewood, Pa.
Buyer: New York Life Real Estate
Purchase Price: \$49 MM
Price per Unit: \$218,889

Stonington Farm

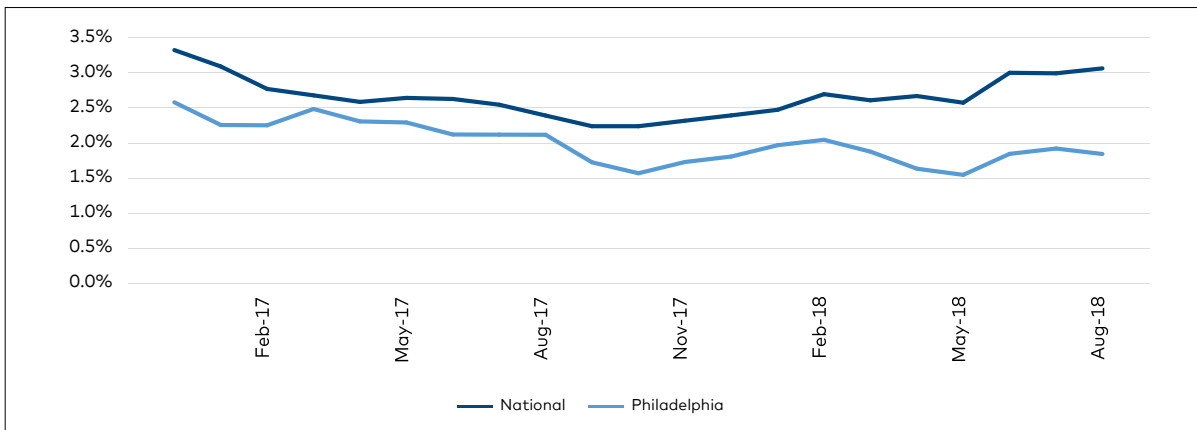


City: Doylestown, Pa.
Buyer: Chelsea Management
Purchase Price: \$44 MM
Price per Unit: \$221,939

Rent Trends

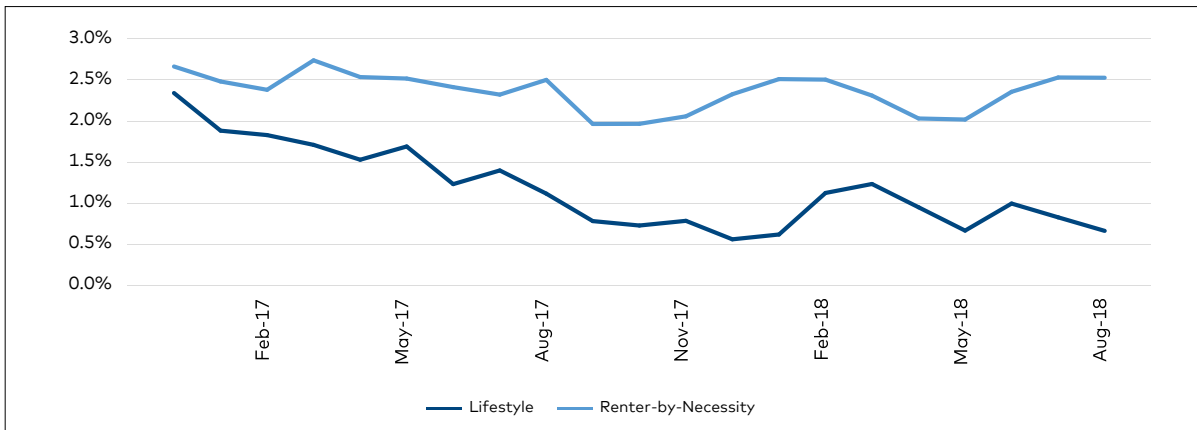
- Rents in Philadelphia rose 1.8% year-over-year through August, well below the 3.1% national rate. The metro's average rate stood at \$1,326, trailing the \$1,412 U.S. figure. Rent growth has slowed across the metro following a spate of new supply in recent years, reaching a peak in 2017, when more than 5,000 units were delivered. Nevertheless, occupancy in stabilized properties declined only 30 basis points year-over-year, to 95.6% as of July, indicating a rapid absorption of new apartments.
- Rents in the working-class Renter-by-Necessity segment rose 2.5% to \$1,176. Demand for moderately priced units is sustained by Millennials, which are extending their stay in the rental market in the context of an increasingly higher barrier to homeownership. As the bulk of new supply is Class A, Lifestyle rates rose only 0.7%, to \$1,827. Demand for high-end units is bolstered by empty nesters and professionals moving to the metro. Overall, we expect the average Philadelphia rent to grow 2.4% in 2018.
- Rent gains were strongest in suburbs that include large portions of RBN stock, such as Phoenixville (up 6.6% to \$1,448), Perkasie (5.7% to \$1,347), Lansdale (5.5% to \$1,376), Haddonfield (5.2% to \$1,289) and Royersford (4.7% to \$1,394). Urban submarkets recording large hikes in the 12 months ending in August included the Southwest (4.5% to \$1,025) and Conshohocken (4.4% to \$1,621). Rates dropped in expensive areas such as North-West (-1.4% to \$1,995) and Center City-West (-1.1% to \$2,097).

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)

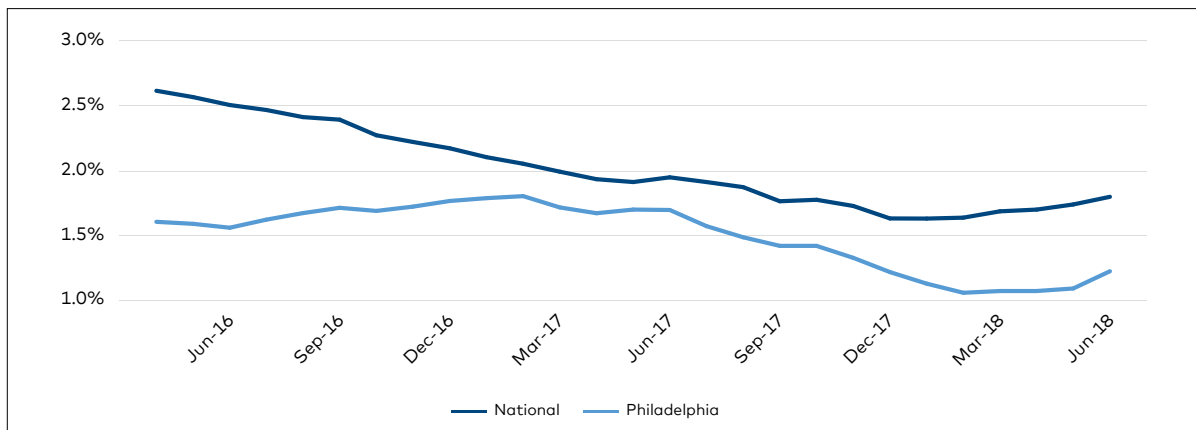


Source: YardiMatrix

Economic Snapshot

- Philadelphia added 49,000 jobs over the 12 months ending in June, for a 1.2% year-over-year increase, trailing the 1.8% national average. In line with the U.S. trend, the metro's unemployment rate declined in recent years, with a preliminary figure of 4.3% in June, down 60 basis points over 12 months and one full percentage point since June 2016.
- Growth was led by education and health services (18,700 jobs). This trend will likely continue, as new companies choose to grow in Philadelphia. This includes Oak Street Health, a Chicago-based network of primary-care clinics that acquired CityLife Neighborhood Clinics' Medicare business with plans to expand. The University of Pennsylvania Hospital is investing \$1.5 billion in the Penn Medicine Pavilion, its largest-ever capital project, set to add 1.5 million square feet to the medical complex by 2021.
- Professional and business services added 12,000 jobs, boosted by corporate expansions, which in turn drive demand for office space and mega-projects. Subaru celebrated the opening of its \$118 million headquarters in Camden, N.J., while the \$1.5 billion, 60-story Comcast Technology Center is nearing completion in Center City. The \$3.5 billion Schuylkill Yards in University City—set to bring 7 million square feet of office, laboratory, retail and residential space over 20 years—is one of the three sites Philly pitched for Amazon HQ2, alongside the \$1 billion uCity Square and the \$1 billion Navy Yard.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	647	21.8%	18,700	3.0%
60	Professional and Business Services	483	16.3%	12,000	2.5%
40	Trade, Transportation and Utilities	531	17.9%	8,700	1.7%
70	Leisure and Hospitality	284	9.6%	5,000	1.8%
90	Government	339	11.4%	3,700	1.1%
55	Financial Activities	218	7.3%	1,800	0.8%
30	Manufacturing	183	6.2%	1,100	0.6%
15	Mining, Logging and Construction	120	4.0%	100	0.1%
80	Other Services	123	4.1%	-300	-0.2%
50	Information	45	1.5%	-1,800	-3.9%

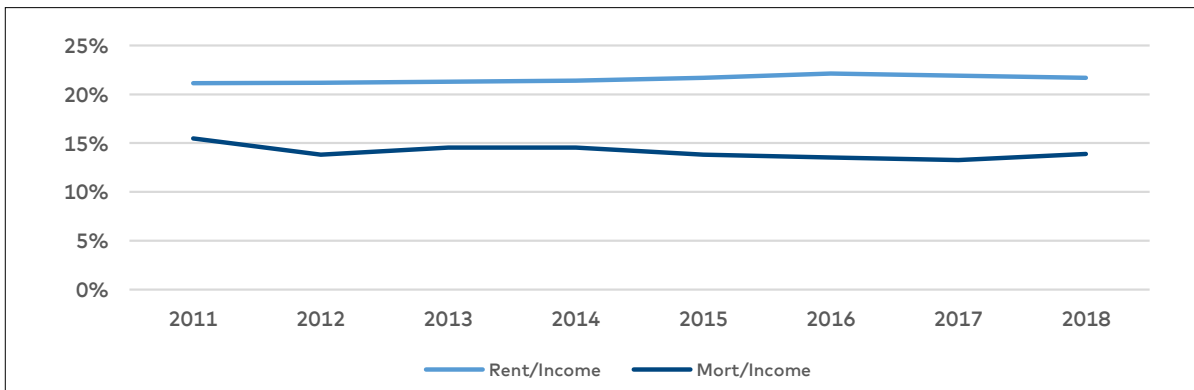
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

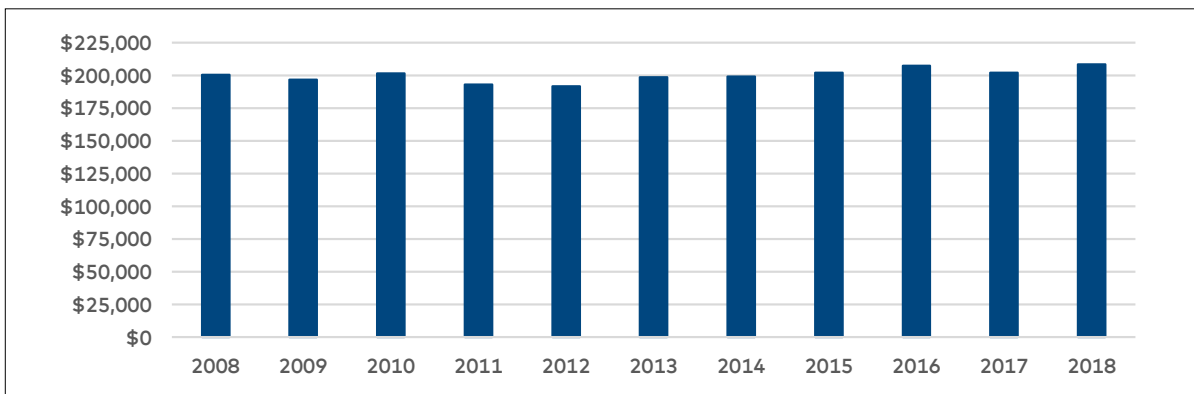
- The median home price in Philadelphia rose to \$208,405 in the first half of 2018, marking a new cycle peak. The average rent accounted for 22% of the area's median income, while the average mortgage payment was way more affordable, comprising just 14%.
- Despite rising housing costs, Philadelphia remains a Millennial magnet, since it is more affordable than cities like New York or Washington, D.C. In February 2017, the city established a Millennial Advisory Committee aiming to improve the generation's quality of life through policies relating to jobs, health care and student debt, as well as neighborhood change and social justice.

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 nearly 19,000 residents in 2017 for a 0.3% uptick, below the 0.7% U.S. rate.
- The metro gained 60,791 residents between 2013 and 2017, a 1.0% increase, trailing the 3.0% national figure.

Philadelphia vs. National Population

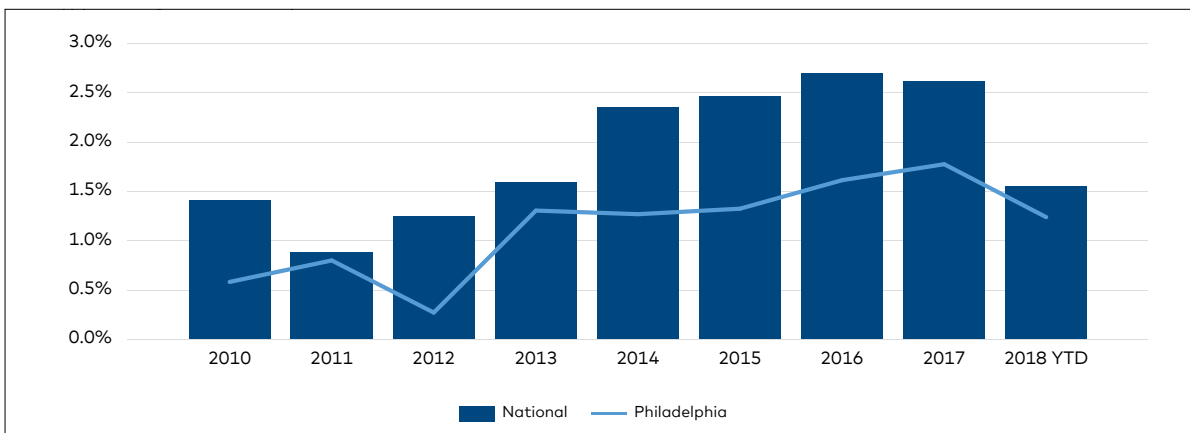
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Philadelphia Metro	6,035,329	6,053,028	6,066,589	6,077,152	6,096,120

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

Supply

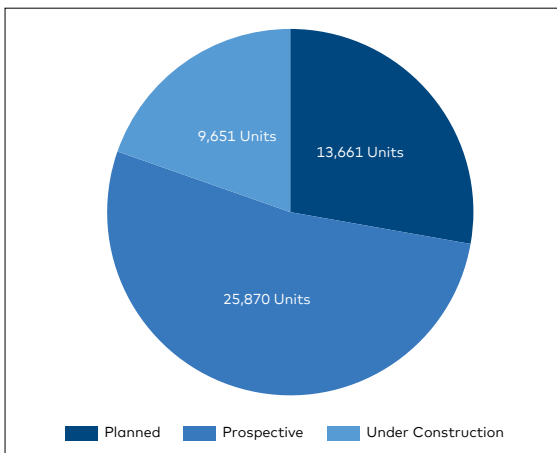
- Fourteen properties totaling 3,575 units came online this year through August. Taking into account projects scheduled for completion by year-end, 2018 deliveries could match last year's 5,062-unit cycle high. Development kept a relatively steady pace over the past five years, with roughly 23,800 apartments coming online since the beginning of 2013.
- More than 9,600 units were under construction as of August, while another 39,500 apartments were in the planning and permitting stages. Demand is especially strong in pedestrian-friendly areas that offer proximity to employers and a wide variety of amenities, allowing residents to break away from car dependence.
- The Philadelphia suburb of Norristown had the largest number of units underway as of August (1,142), followed by urban areas such as North-West (1,008), Center City-West (816), Center City-East (711) and Ardmore (709). Developers are focusing on both urban and suburban projects. The largest suburban development underway is Jefferson Place Mt. Laurel, a 490-unit garden-style community in Mt. Laurel, N.J. The 77-acre property is set to offer 21 three-story buildings by its 2019 completion.

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



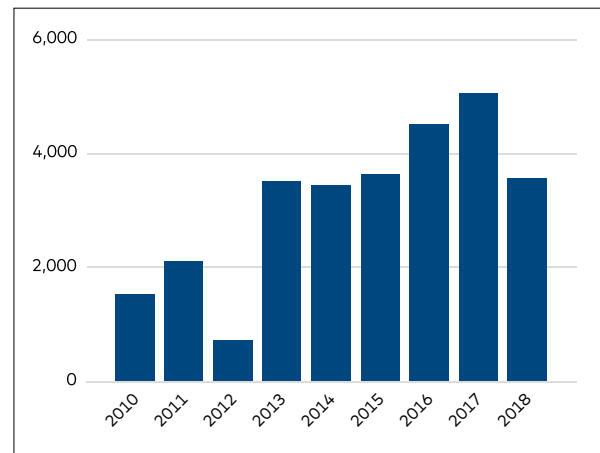
Source: YardiMatrix

Development Pipeline (as of August 2018)



Source: YardiMatrix

Philadelphia Completions (as of August 2018)

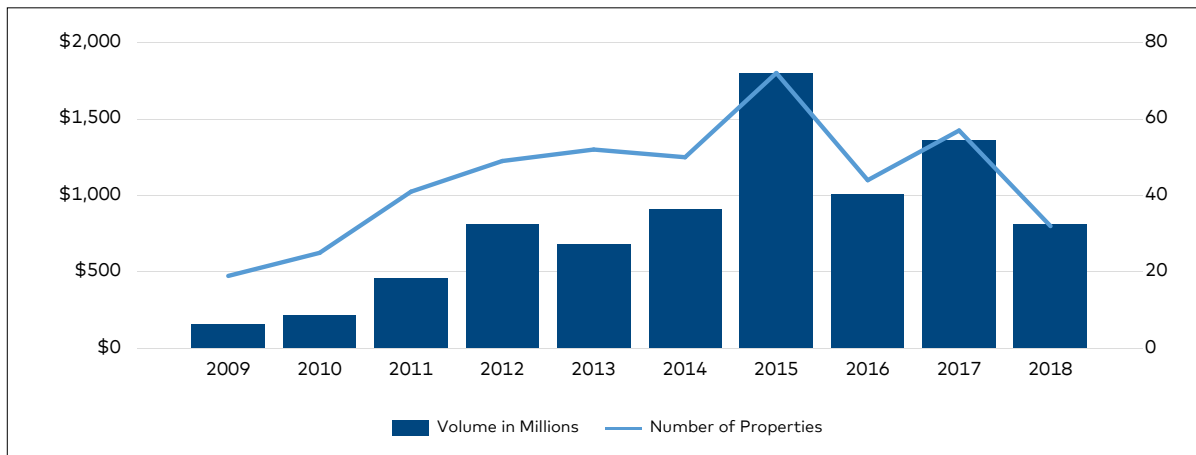


Source: YardiMatrix

Transactions

- Thirty-two properties worth nearly \$810 million changed hands in Philadelphia this year through July, at an average price per unit of \$169,915, outpacing the \$147,630 national figure. In 2017, nearly \$1.4 billion in multifamily assets traded across the metro, at an average per-unit price of \$136,195, slightly below the \$139,626 U.S. rate.
- Investors have become increasingly interested in suburban properties—acquisition yields go as high as 6.5% for Class A assets with a value-add component, and can surpass 7.25% for Class C.
- AIMCO's \$109 million purchase of The Left Bank, a 282-unit community in University City, ranked as the metro's largest 2018 acquisition through July. The transaction was part of a \$445 million portfolio deal comprising more than 1,000 apartments and 185,000 square feet of commercial space across the metro.

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



Source: YardiMatrix

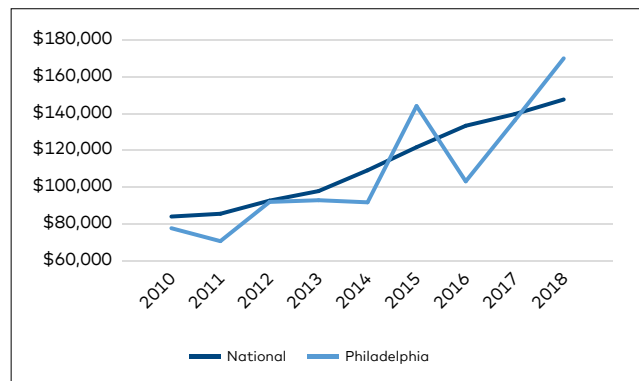
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Philadelphia West	127
Center City–West	94
Lansdale	83
Philadelphia South	63
Mount Holly	60
West Chester	58
Wilmington–West	56
Philadelphia Ardmore	49

Source: YardiMatrix

¹ From August 2017 to July 2018

Philadelphia vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

Brought to you by:



Dalzell Expands Luxury Footprint With \$19M Buy

The portfolio comprises recently completed or renovated assets, all located within minutes of Center City's employment opportunities.



Rittenhouse Realty Facilitates Sale Of Luxury Property

The new building features several interior and exterior high-end amenities and provides residents with immediate access to the city's busiest areas.



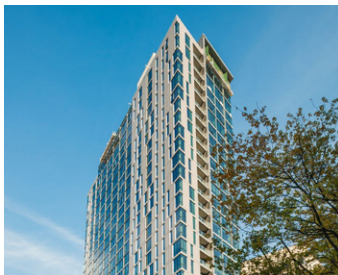
Goldman Sachs Snags 821-Unit Philadelphia Community

The purchase of Chestnut Hill Village marks the company's 18th investment, bringing its total portfolio to 5,600 units. HFF arranged a 10-year, fixed-rate acquisition loan.



PA Community Changes Hands For \$12M

The transaction is representative of the strong demand for multifamily assets in the Harrisburg-Carlisle MSA, a growing alternative market.



Southern Land Sells 28-Story Tower In Downtown Philly

The 3601 Market luxury tower, which opened its doors in 2016, is LEED Silver certified. The property features 13,600 square feet of retail and restaurant space.



Broadtree Acquires \$138M Portfolio

The company purchased 1901 S. Charles and 2 E. Wells in Baltimore, as well as The Overlook in Camp Hill, Pa. After closing, Broadtree had a property base of nearly \$350 million.

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Philadelphia's 10 Largest Communities Under Development



By Tudor Scolca

data by
Yardi® Matrix

From Center City to the suburbs, developers find rising demand for live-work-play environments. Luxury high-rises, student housing and creative redevelopments lead the list.

The Philadelphia multifamily market continues to present strong fundamentals in 2018, despite a rent growth of 1.9 percent, 60 basis points below the national average as of April. The metro is currently experiencing a construction boom, thanks to the strong influx of Millennials moving into the city. Since 2010, multifamily completions have steadily increased, reaching a peak in 2017, when roughly 5,000 rental units were delivered.

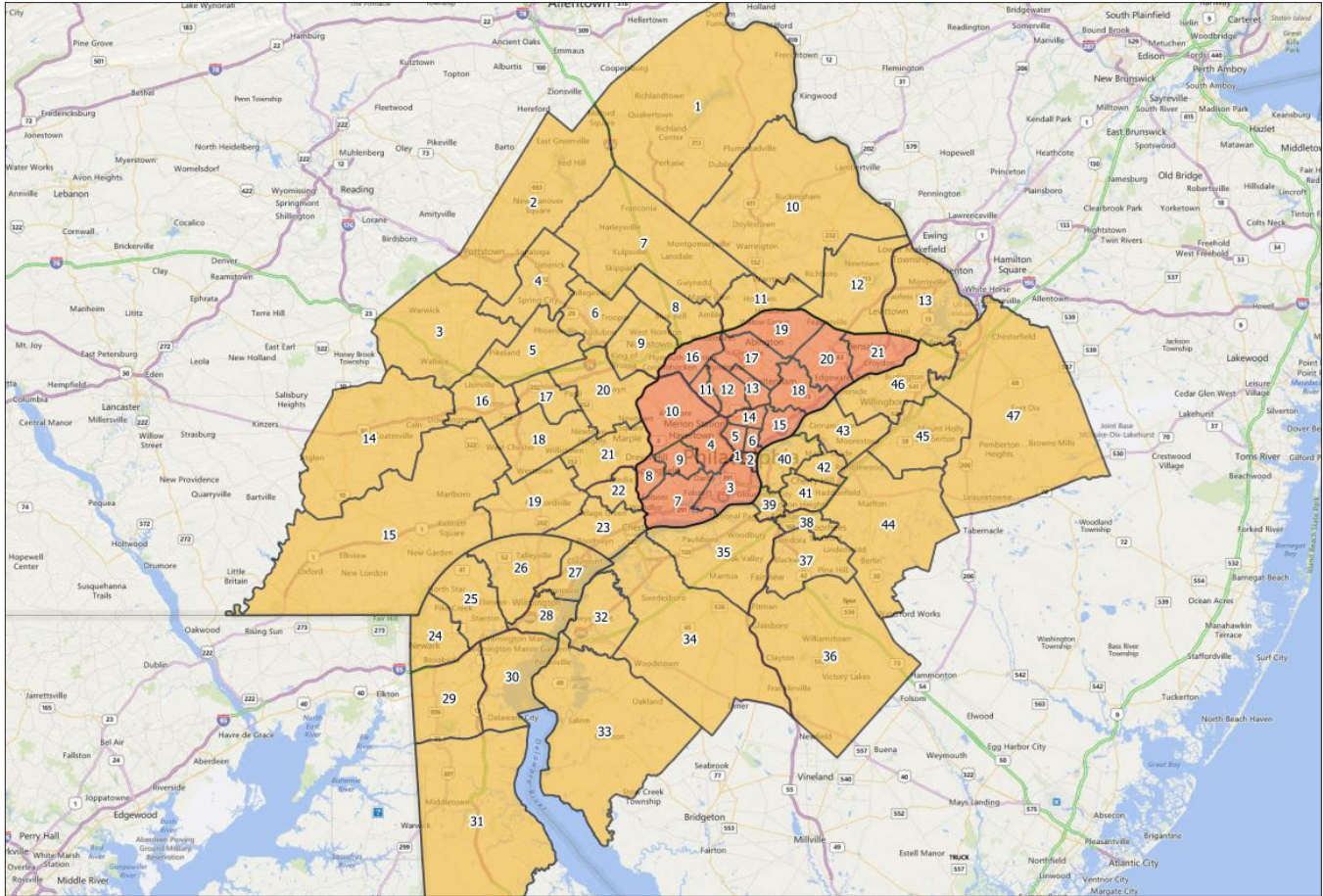
Property Name	City	Submarket	Unit Count
Jefferson Place Mt. Laurel	Mount Laurel	Mount Holly	490
The View II	Philadelphia	North-East	368
Franklin Tower Residences	Philadelphia	Center City-West	360
Residences at Concord Plaza	Wilmington	Wilmington-West	341
The Ludlow at East Market	Philadelphia	Center City-East	322
Lincoln Square	Philadelphia	South	322
The Smith	King of Prussia	Norristown	320
NorthXNorthwest	Philadelphia	North-West	286
The Hamilton Phase I	Philadelphia	North-West	279
AVE King of Prussia	King of Prussia	Norristown	275

AVE KING OF PRUSSIA

Korman Communities' new AVE property is situated at 555 S. Goddard Blvd. in King of Prussia, Pa. The 273-unit Village at Valley Forge is constructed by Bozzuto and Cornerstone Tracy and designed by Bernardon Haber Holloway Architects. Furnished units are available in one- and two-bedroom configurations, while the floorplan mix for unfurnished units consists of studio, one- and two-bedroom options, ranging in size from 603 to 1,414 square feet. AVE King of Prussia will feature a plethora of high-end common amenities, including two courtyards, outdoor pool and bocce court, among other entertainment options.



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.

Market Data & Analysis

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