Yardi® Matrix

Philadelphia's Persistence

Multifamily Report Winter 2019

Rent Growth Picks Up

Skilled Talent Drives Demand

Investment Activity Remains High

Market Analysis
Winter 2019

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Millennials Push Up Demand

Philadelphia's consistent population and job gains sustain a strong multifamily market, which continues to attract investors. Rent growth picked up in the fourth quarter, closing 2018 at 2.9% year-over-year.

Employment gains were led by education and health services (13,200 jobs) and professional and business services (12,200), followed by the trade (6,400) and construction (4,400) sectors. The metro is beginning to polish its status as an emerging tech city with its own identity. The business community is supporting technology startups and emerging ventures, while focusing on retaining highly skilled talent, one of the metro's top rental demand drivers. The fast pace of development has led to a 3.7% jump in construction jobs year-over-year, the highest sector expansion for the 12 months ending in October.

At $1.4 billion, 2018 transaction volume was almost on par with the 2017 figure and second only to the 2015 cycle high, when 72 deals closed for $1.7 billion. Young professionals prefer well-located apartments in core areas, which is spurring further development. The metro is anticipated to add 5,460 units in 2019, which would mark a peak for this prolonged cycle. However, in line with national trends, strong demand is expected to sustain absorption, keeping rent growth at 2.2% in 2019.

Recent Philadelphia Transactions

Lincoln Green

City: Philadelphia
Buyer: Chelsea Management
Purchase Price: $103 MM
Price per Unit: $161,321

The Versailles

City: Philadelphia
Buyer: Spring Creek Investment Management
Purchase Price: $71 MM
Price per Unit: $638,066

The Isle

City: Philadelphia
Buyer: Friedkin Realty Group
Purchase Price: $53 MM
Price per Unit: $340,160

ReNew Glenmoore

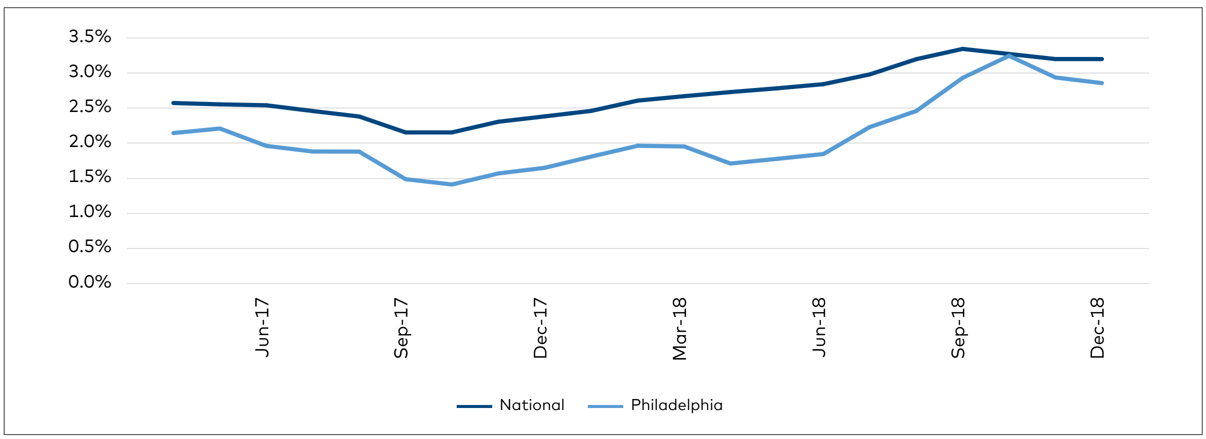
City: Glenmoore, Pa.
Buyer: FPA Multifamily
Purchase Price: $43 MM
Price per Unit: $196,759

On the cover: Photo by Chris Boswell/iStockphoto.com

Rent Trends

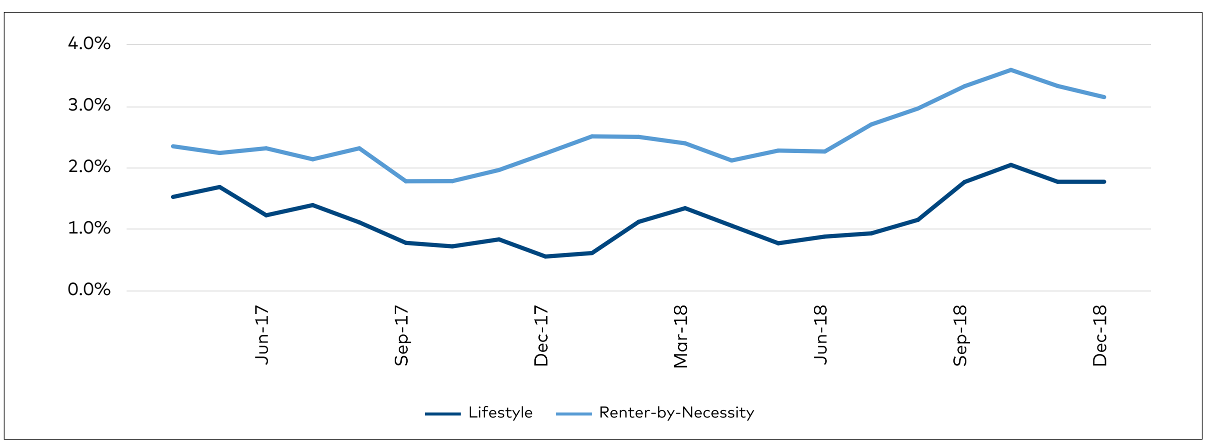
- Rents in Philadelphia increased 2.9% in 2018, close behind the 3.2% national average. Rent growth followed the nationwide trend and picked up over the summer months, after a slow start to 2018. The average rent rose to $1,332, below the national rate of $1,419. Despite the growing supply, occupancy in stabilized properties was up 30 basis points over 12 months, to 95.6% as of November, reflecting the steady absorption of new Philadelphia apartments.
- Rents in the working-class Renter-by-Necessity segment rose 3.1% to $1,179, pushed by a high demand from downsizing Baby Boomers and Millennials attracted by emerging businesses. With new supply almost exclusively focused on the higher end of the spectrum, demand for more affordable rentals is expected to intensify. That new supply, though, has reduced rent growth for Lifestyle units, which increased just 1.8% in 2018, to an average monthly rate of $1,835. While construction is expected to remain at high levels, we anticipate rent growth to reach 2.2% by year-end.
- Center City commands the highest rents, with the average exceeding the $2,000 mark. Lower Northeast, Upper Darby—Drexel Hill, Oak Lane and Camden—Pennsauken Township were the most affordable submarkets as of December, with average rents ranging from $929 to $957. Gloucester City is among the areas with the most dynamic rent growth, having recorded a 10.0% jump year-over-year.

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

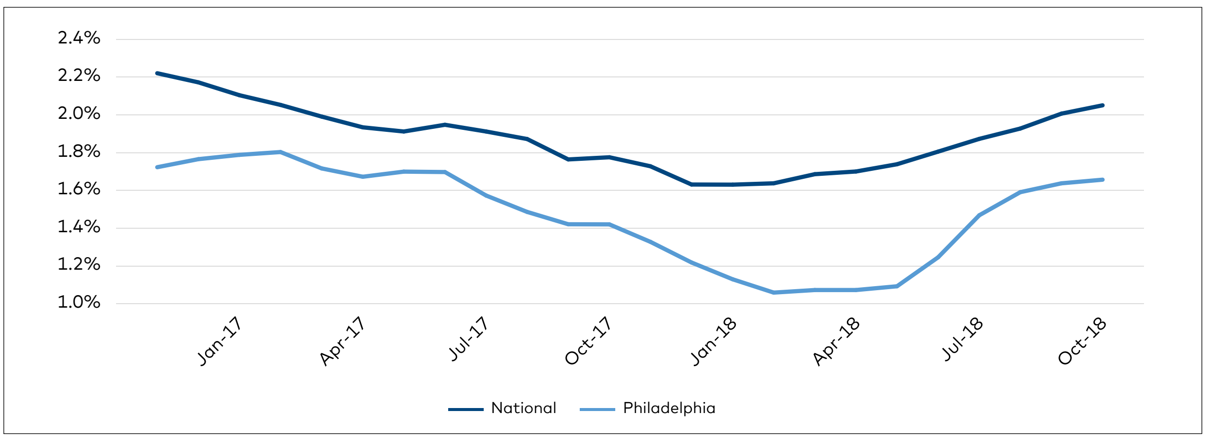
Economic Snapshot

- Philadelphia added 43,600 jobs in the 12 months ending in October 2018, for a 1.7% increase, trailing the 2.1% national figure. The metro's unemployment rate decreased 50 basis points in the 12 months ending in October, to 3.9%. The decline is due, in part, to the metro's thriving small business environment. The local government pledged to provide more financial support to community development corporations to help sustain it.

- Gains were led by education and health services (13,200 jobs), followed by professional and business services (12,200); trade, transportation and utilities (6,400); and government (4,400). The construction sector, which also added 4,400 positions, saw the most significant year-over-year expansion—3.7%—due to the metro's ongoing development surge. The leisure and hospitality sector, along with information, lost a total of 2,000 jobs in the 12 months ending in October.

- Philadelphia ranked 34th in the 50 Best Places in America for Starting a Business list, ahead of Chicago, based on research by Surge Cities Index Inc. and Startup Genome. Comcast NBCUniversal, its largest tech employer, launched LIFT Labs, a new accelerator for startups in connectivity, media and entertainment. The metro also benefits from a strong community of inbound entrepreneurs, now totaling more than 40,000, with many relocating from the more expensive New York City area.

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	%
65	Education and Health Services	671	22.4%	13,200	2.0%
60	Professional and Business Services	488	16.3%	12,200	2.6%
40	Trade, Transportation and Utilities	532	17.8%	6,400	1.2%
15	Mining, Logging and Construction	123	4.1%	4,400	3.7%
90	Government	346	11.6%	4,400	1.3%
55	Financial Activities	217	7.3%	2,100	1.0%
80	Other Services	121	4.0%	1,700	1.4%
30	Manufacturing	182	6.1%	1,200	0.7%
70	Leisure and Hospitality	268	9.0%	-800	-0.3%
50	Information	44	1.5%	-1,200	-2.7%

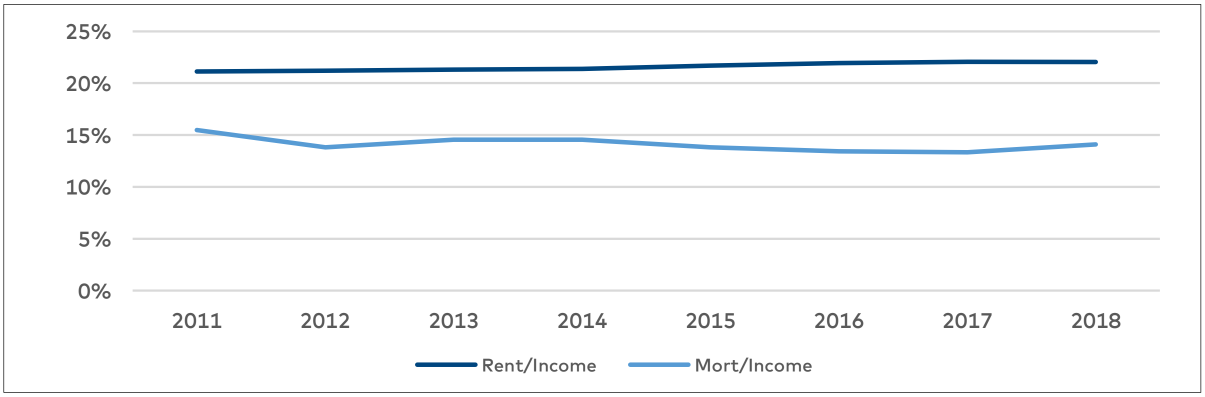
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

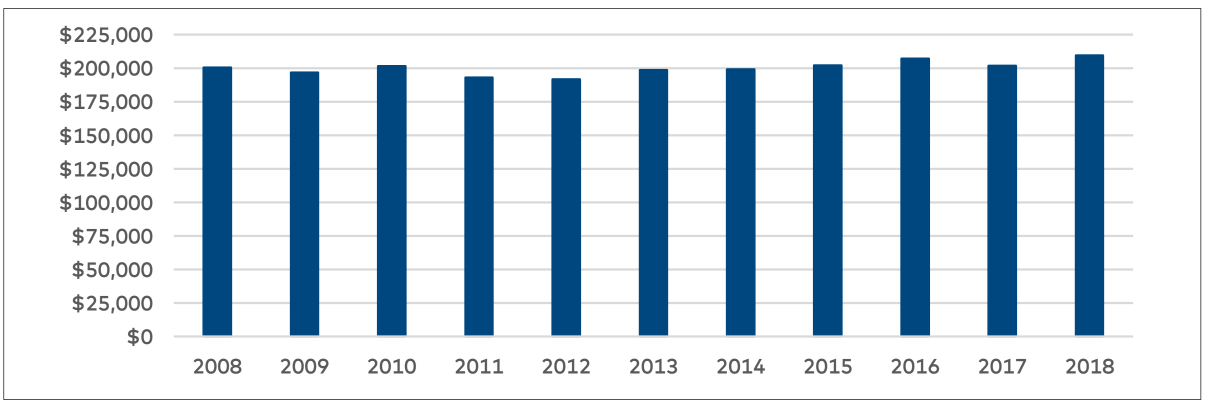
- The median home price in Philadelphia increased to $209,373 in 2018, up 4% for the year to a new cycle peak. The rise was fueled by a diminishing for-sale housing inventory, which hit an all-time low last year. Still, owning remains more affordable than renting, as the average mortgage payment accounted for 14% of the metro's median income, while renting comprised 22%.
- Research by the Joint Center for Housing Studies shows that affordable units for low-income renters in the 11-county Philadelphia-Camden-Wilmington region have become 50 percent scarcer over the past decade. According to the report, the metro is 117,132 affordable rentals short.

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 gained more than 75,000 residents between 2012 and 2017, mostly due to its emerging IT sector.
- The metro added roughly 19,000 residents in 2017 for a 0.3% growth rate, trailing the 0.7% national figure.

Philadelphia vs. National Population

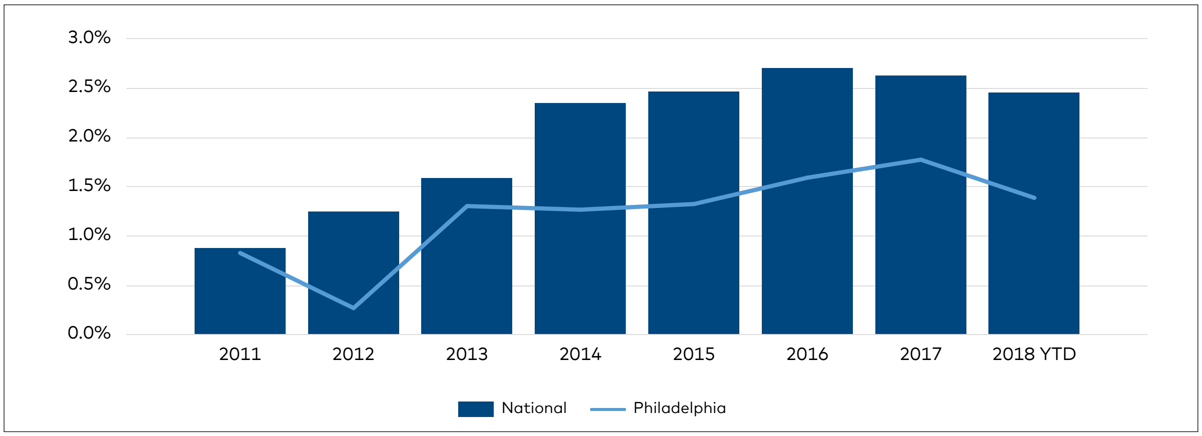
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Philadelphia Metro	6,035,329	6,053,028	6,066,589	6,077,152	6,096,120

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

Supply

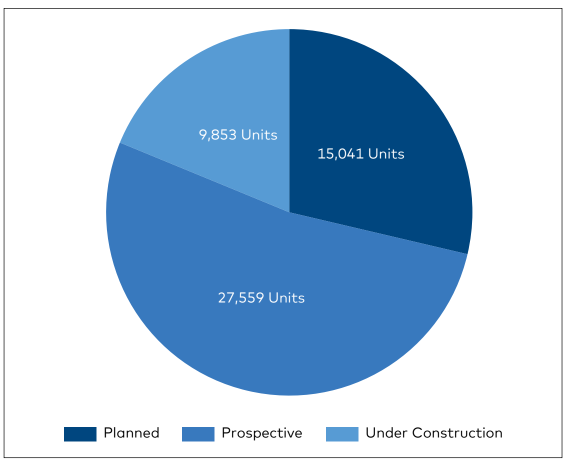
- Some 4,000 units were delivered in Philadelphia in 2018, as development activity continued at a slightly slower pace compared to 2017, when 5,062 units came online. Multifamily construction is slated to pick up pace in 2019, with Yardi Matrix expecting the completion of 5,460 apartments in the metro by year-end, representing 1.9% of total stock and a potential new cycle high.
- Roughly 9,900 units were under construction as of December and another 42,600 units were in the planning and permitting stages. Demand is being fueled by downsizing Baby Boomers, as Philadelphia is a more affordable alternative to New York and Washington, D.C., and by Millennials attracted to the new layer of tech businesses. Occupancy in stabilized properties increased 30 basis points in the 12 months ending in November, reaching 95.6%. Last year, net absorption in Philadelphia was 3,800 units.
- The urban center continues to lead development, with five core submarkets adding up to 4,082 units underway, more than 40% of the total pipeline. The metro's development pipeline almost exclusively includes luxury projects, adding further pressure to the limited supply of affordable housing.

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



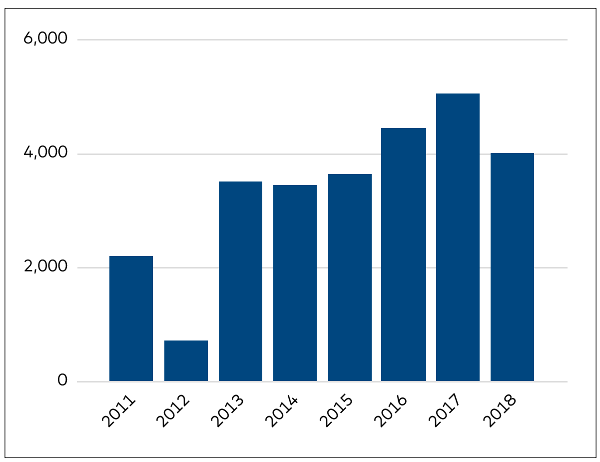
Source: YardiMatrix

Development Pipeline (as of December 2018)



Source: YardiMatrix

Philadelphia Completions (as of December 2018)

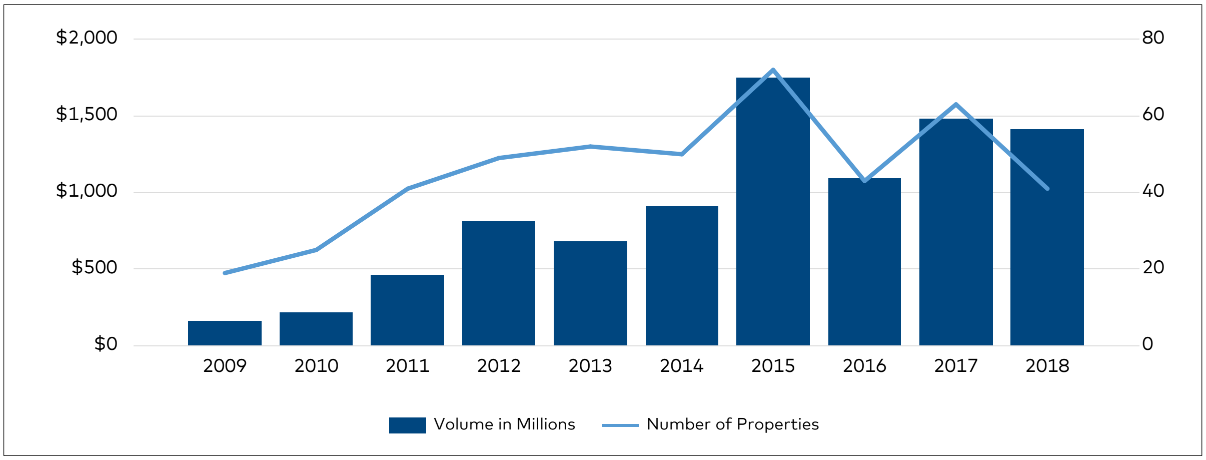


Source: YardiMatrix

Transactions

- In 2018, 41 multifamily transactions closed in Philadelphia for a total of $1.4 billion, almost on par with 2017 and roughly 20% less than the 2015 cycle high. Despite the metro's increasing property tax, investment activity remained strong and fiercely competitive. Consequently, the price per unit skyrocketed to more than $190,000, marking a 51% increase and a new cycle peak, well above the $153,765 U.S. average.
- Deals for urban assets amounted to $863 million last year, while suburban transactions totaled $551 million. Acquisition yields for stabilized properties in the metro's core submarkets average 5.75%, slightly above the roughly 5.7% for suburban assets. The largest multifamily deal in 2018 was Goldman Sachs & Co.'s purchase of the 821-unit Chestnut Hill Village & Blossom Row in Northwest–East for $170.4 million, or $207,500 per unit.

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



Source: YardiMatrix

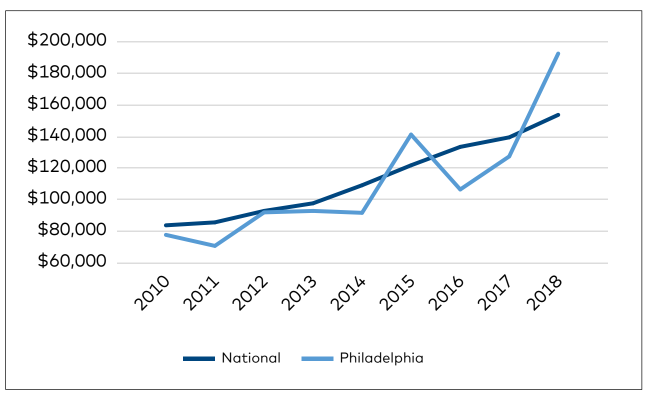
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
West	358
Northwest–East	178
Norristown	141
Center City–West	112
Lansdale	97
South	63
Lindenwold	59
Northwest–West	53

Source: YardiMatrix

[1] From January 2018 to December 2018

Philadelphia vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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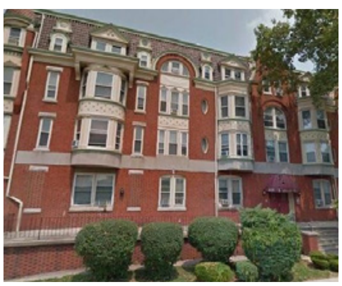
Philadelphia Mid-Rise Receives Freddie Mac Refi

Hunt Real Estate Capital has secured a $5.9 million loan for the recently completed Terrace Lofts, a 32-unit community in the city's Manayunk neighborhood.

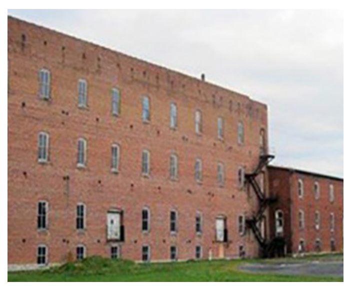
Greystone Arranges $92M for PA Acquisition

The firm worked on behalf of a private buyer to secure the Freddie Mac loan for the acquisition of Lincoln Green, a 636-unit amenity-rich propertyin Philadelphia.



Rittenhouse Arranges Sale of PA Apartments

The boutique residential building was acquired by a local long-term holder that plans to renovate the property. University House Apartments features a mix of studio, one-, two- and three-bedroom units.



Red Capital Arranges Loan for Historic PA Conversion

The $7.8 million financing will be used to transform a century-old tobacco warehouse in Lancaster County into Tobacco Road Apartments, a market-rate rental community.

NJHMFA Breaks Ground on Affordable Community

Freedom Village at Gibbsboro will include 72 affordable rental units, with 18 units set aside for residents with special needs. Completion is scheduled by the end of the year.

Campus Apartments Completes 4 Student Housing Properties

The firm spent more than $220 million to develop the off-campus communities in Knoxville, Tenn.; Ann Arbor, Mich.; and its hometown of Philadelphia.

Executive Insight

Brought to you by:

Finding Value in Philadelphia's Multifamily Market

By Tudor Scolca

Philadelphia's multifamily investment activity has had a good year. The metro's sustained population growth is only one of the market's demand drivers, especially in downtown areas such as Center City and University City.

Dalzell Capital Partners Founder & Managing Partner Christian Dalzell shares his knowledge about Philadelphia's multifamily business climate, and what to expect in a late-cycle economy.

How do you expect the market to continue performing so late in the cycle?

Philadelphia's downtown housing market is currently strong. Bolstered by macroeconomic, cultural and demographic factors that are favoring live-work, transit-oriented and walkable areas like Center City and University City, the overall affordability of the city, its density of jobs, cultural and retail amenities, and an extraordinary array of family-friendly activities and parks should promote additional, if not accelerated, in-migration patterns that have outstripped historical trends.

What makes Philadelphia such a good value-add market?

Philadelphia's affordability, compared to most cities in the Northeast and Mid-Atlantic, make it a "good value" market. With apartment rents in 2018 averaging $2.18 per square foot across Greater Center City, Philadelphia stands out as an increasingly affordable option compared to such CBDs as New

York City ($5.32), Boston ($3.69) and Washington, D.C. ($3.07).

Due to the nature of the job growth in Greater Center City and University City, these two submarkets are more insulated from downturns in the economy compared to most cities in the U.S., due to the increasingly large education and health-care job sectors that remain the keystone of Philadelphia's economy. Since 2010, approximately 69 percent of the new jobs created in Philadelphia were in these industries.

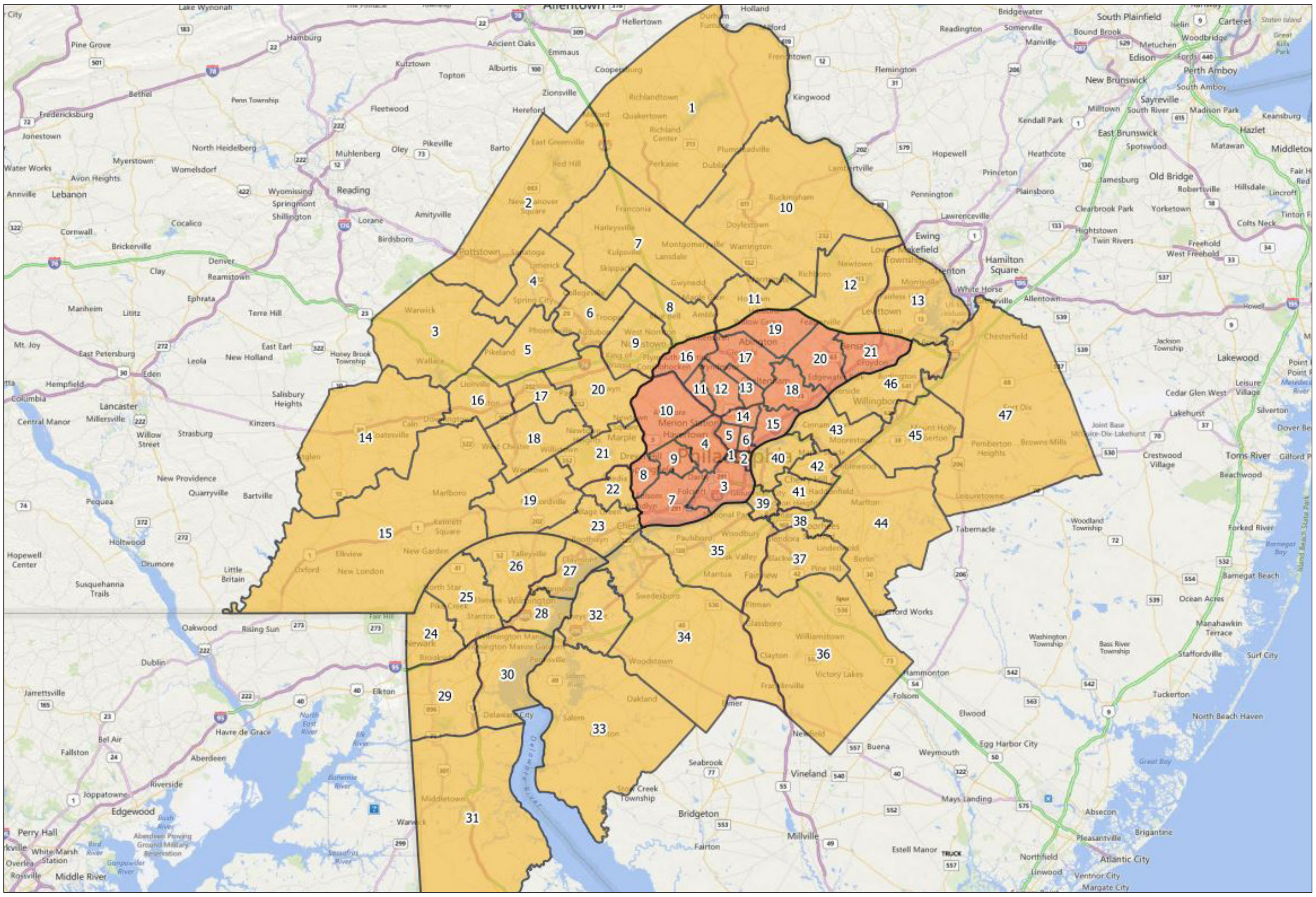
How will the record-breaking construction activity affect the value-add market?

The new supply that has come online over the past couple of years has impacted the market's performance. In particular, the new supply led to what felt like two distinct parts to 2018—the first two quarters, when supply was stronger and rents weaker, and a materially stronger second half, when we saw rents rebound significantly. What was unusual was the pronounced uptick in demand and rent growth from late May to early June. For the year, we experienced rent growth of 3 to 4 percent—averaging 3.7 percent—across our seven properties in Greater Center City.

What are some foreseeable challenges for 2019 in Philadelphia's multifamily market?

My biggest concern with Philadelphia is twofold: continued job growth, and maintaining a viable and flexible housing supply that is generally consistent with the changes in Philadelphia's evolving job market.

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.

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