Yardi® Matrix

Philadelphia Breaks Even

Multifamily Report Summer 2019

Per-Unit Prices Drop

Rent Growth Remains Solid

Development Slated for Cycle Peak

Market Analysis
Summer 2019

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Techies Boost Rental Demand

Philadelphia's tech hub status continued to draw in a young and skilled labor force, boosting housing demand and supporting a solid multifamily market. Positive fundamentals attract investors, mostly interested in well-positioned urban assets. Rents rose 3.0% year-over-year through April to $1,354, while occupancy in stabilized properties remained virtually flat.

The metro added 38,400 jobs in the 12 months ending in March. Gains were led by the education and health services sector (17,600), followed by construction (5,600), leisure and hospitality (5,200) and government (3,800). Philadelphia's business-friendly landscape nurtures some 1,800 startups in various fields, attracting young professionals preferring to rent rather than own. Renewing business infrastructure through mega projects such as the $3.5 billion Schuylkill Yards is expected to boost employment growth further.

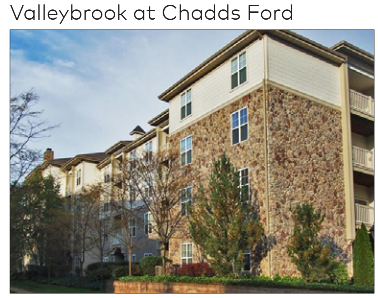
A total of 16 assets traded in the first quarter of 2019 for $134.4 million. Going forward, investment volume is very likely to depend on the fate of the 10-year property tax abatement. Inventory continues to expand at a rapid pace, with 5,460 units anticipated to come online this year, which would mark a new cycle peak. New supply is bound to moderate rent growth in Philadelphia, with the average expected to advance 2.2% this year.

Recent Philadelphia Transactions

Lincoln Green

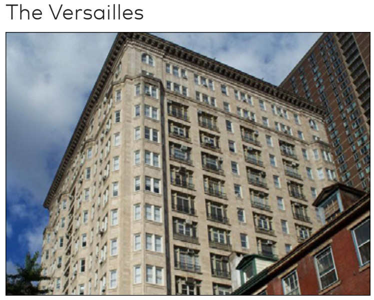
City: Philadelphia
Buyer: Chelsea Management
Purchase Price: $103 MM
Price per Unit: $161,321

Valleybrook at Chadds Ford



City: Chadds Ford, Pa.
Buyer: Crow Holdings
Purchase Price: $75 MM
Price per Unit: $211,648

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

On the cover: Photo by Sean Pavone/iStockphoto.com

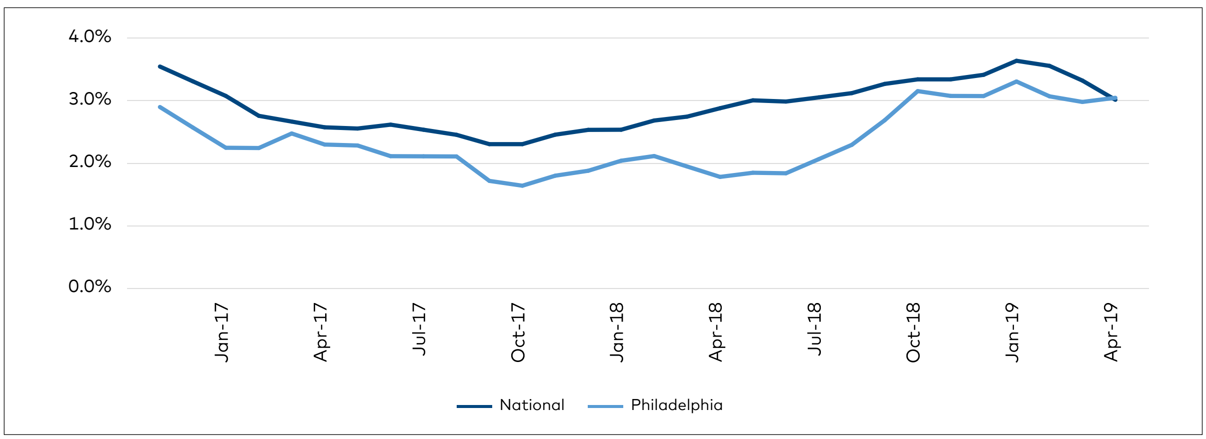
Rent Trends

- Philadelphia rent growth tempered slightly after a stronger start to the year, reaching 3.0% year-over-year as of April, in line with the U.S. rate. The metro's average rent of $1,354 remained below the $1,436 national figure. An influx of highly skilled young professionals fueled rental demand, leading to the fast absorption of 6,841 units in the 12 months ending in April.

- Working-class Renter-by-Necessity rates were up 3.3% to $1,195 as a result of increased market pressure generated by downsizing Baby Boomers and Millennials relocating to well-connected urban submarkets. Rents for Lifestyle units rose only 2.4%, to $1,872, pushed up by the disconnect between supply and demand in the segment. Center City, the Millennial renters' preferred submarket, and North Philadelphia command the highest rents—both over the $2,000 mark—with rates continuing to advance. Over the last five years, King of Prussia led rent growth among the metro's intellectual capital nodes, with a 30% expansion.

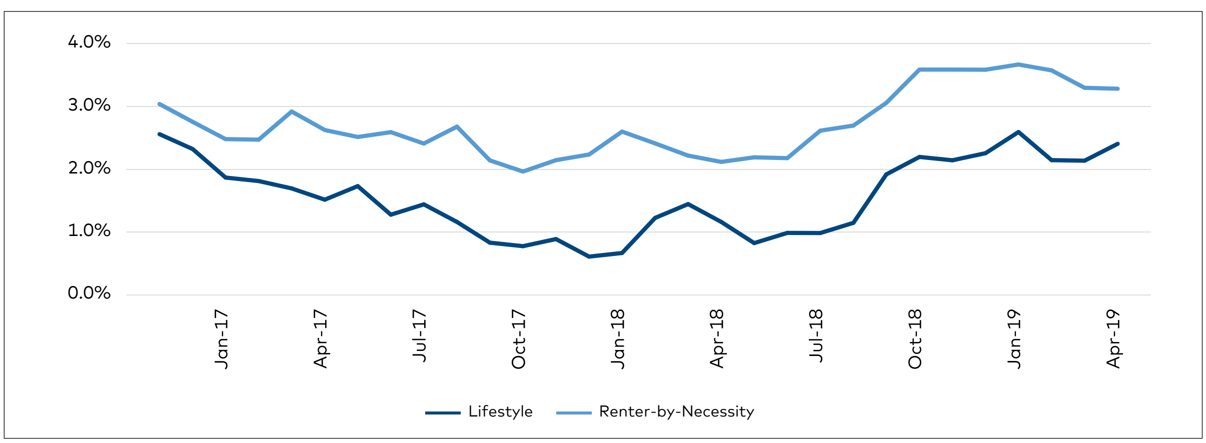
- Philadelphia's modernizing research-and-development infrastructure, vibrant startup scene, relatively affordable living standards and steady population growth are set to maintain strong rental demand. With 5,460 units expected to come online in 2019—a record for Philadelphia in this extended cycle—rent growth is anticipated to moderate to 2.2% for the whole of 2019.

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)

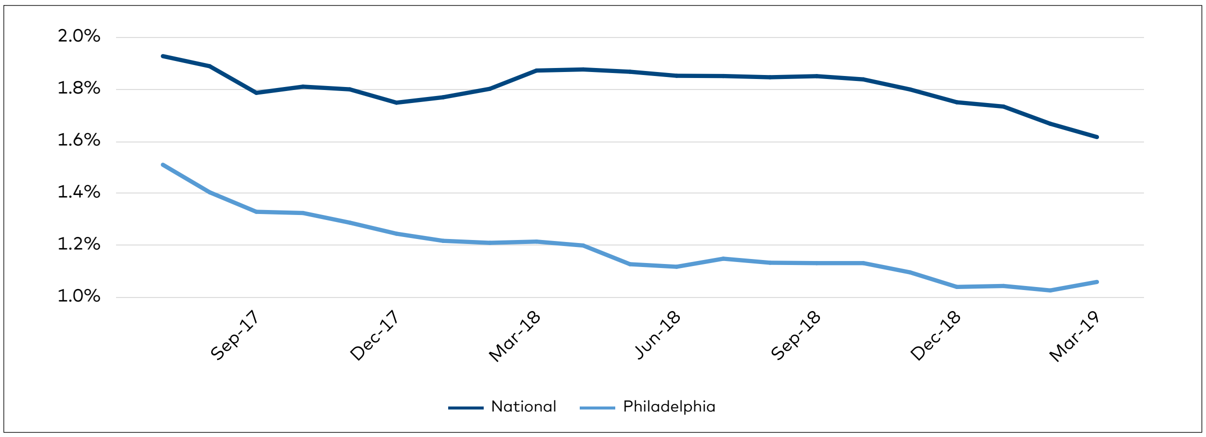


Source: YardiMatrix

Economic Snapshot

- Philadelphia added 38,400 jobs in the 12 months ending in March, marking a 1.0% expansion but underperforming against the 1.6% national figure.
- The metro strengthened its main economic engines. The top sector for employment growth was education and health services, with 17,600 jobs added in the 12 months ending in March, followed by construction (5,600), leisure and hospitality (5,200) and government (3,800). Increased development activity in the metro has led to a 5.0% expansion in the construction sector, almost double the rate in eds and meds (2.7%), which came in second.
- The metro's dynamic business landscape is a main factor in attracting a highly skilled labor force. According to AngelList, there are nearly 1,800 startups in Philadelphia across various fields—from SaaS to biotech—reflecting a diverse economy. The metro differentiates itself among the nation's top tech hubs through slow but steady demographic growth and an expanding talent pool. Businesses are supported by public-private ventures pursuing complex projects such as the $3.5 billion Schuylkill Yards, which is set to provide a fully engaging ecosystem to encourage innovation and growth. Construction work on the project's first, 770,000-square-foot office tower is scheduled to start this winter.

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	673	22.8%	17,600	2.7%
15	Mining, Logging and Construction	119	4.0%	5,600	5.0%
70	Leisure and Hospitality	266	9.0%	5,200	2.0%
90	Government	344	11.7%	3,800	1.1%
60	Professional and Business Services	465	15.8%	3,200	0.7%
80	Other Services	122	4.1%	2,200	1.8%
30	Manufacturing	181	6.1%	1,300	0.7%
55	Financial Activities	215	7.3%	100	0.0%
50	Information	48	1.6%	-200	-0.4%
40	Trade, Transportation and Utilities	515	17.5%	-400	-0.1%

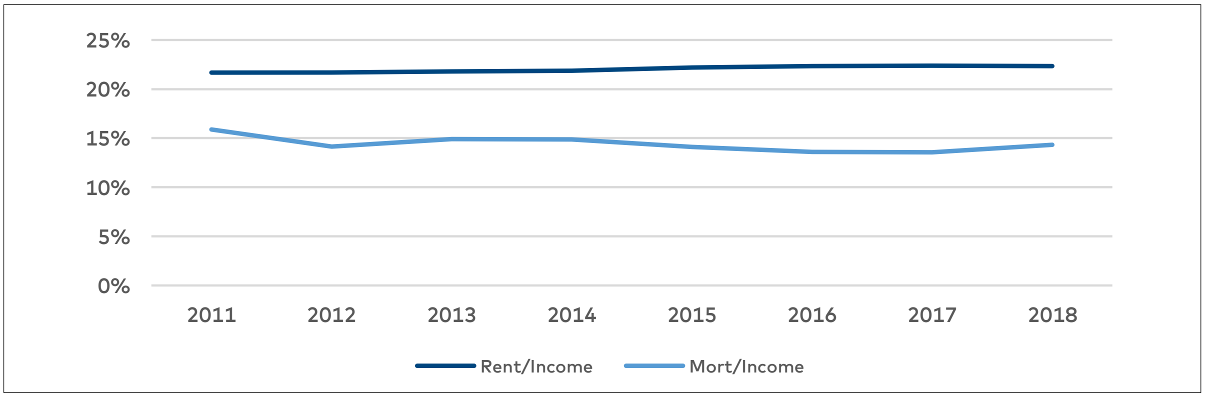
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

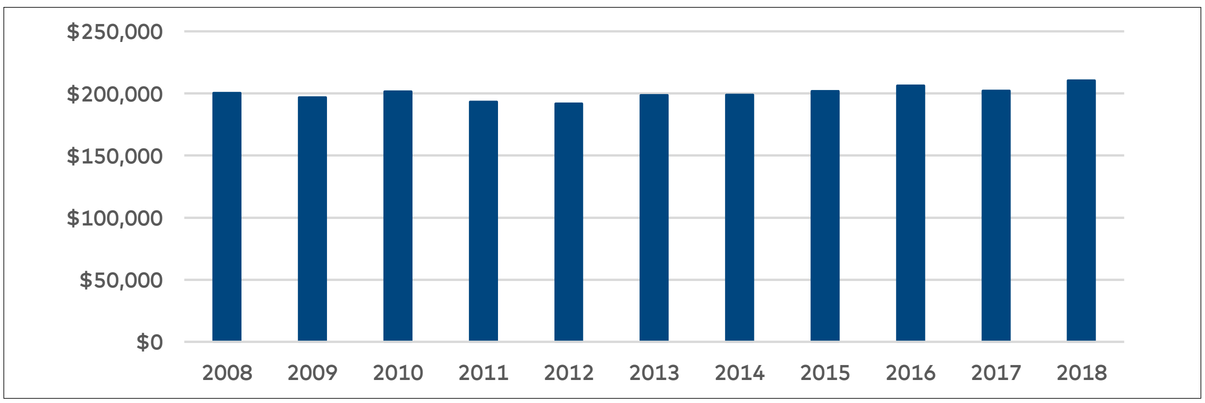
- The median home price in Philadelphia continues to rise, inching up almost every year since 2011. In 2018, it amounted to $210,461, a cycle peak and up 4% for the year. Wages in the metro followed the same trend, keeping affordability rates virtually flat. Owning remained the more affordable option, as the average mortgage payment accounted for 14% of the area median income, compared to 22% in the case of renting.
- Philadelphia occupies the 14th position among the country's top 20 most rent-burdened metros, according to a Freddie Mac analysis.

Philadelphia Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Philadelphia Median Home Price



Source: Moody's Analytics

Population

- Over the past two decades, the city recorded a steady influx of young earners, age 25 to 34, mainly in core areas.
- Philadelphia added 19,000 residents in 2017 for a 0.3% expansion, below the 0.7% U.S. rate.

Philadelphia vs. National Population

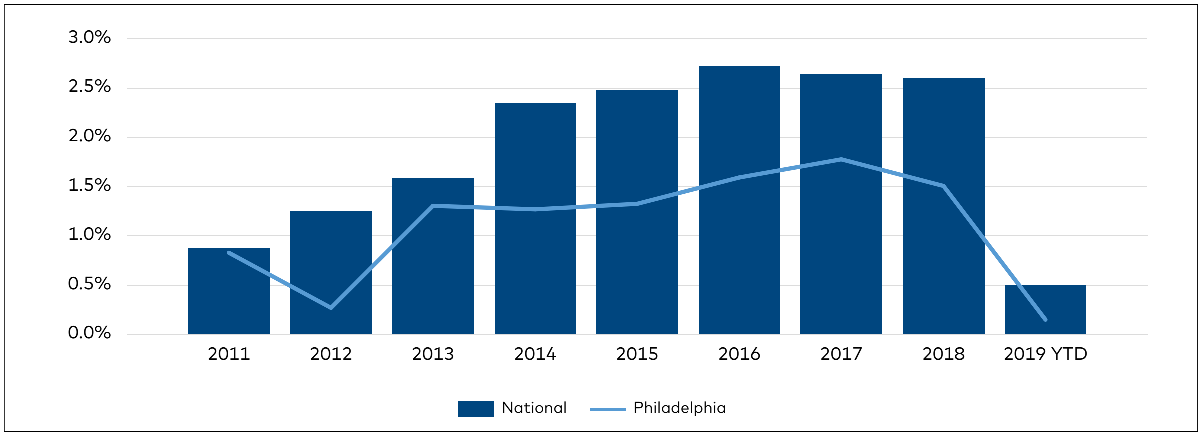
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Philadelphia Metro	6,035,329	6,053,028	6,066,589	6,077,152	6,096,120

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

Supply

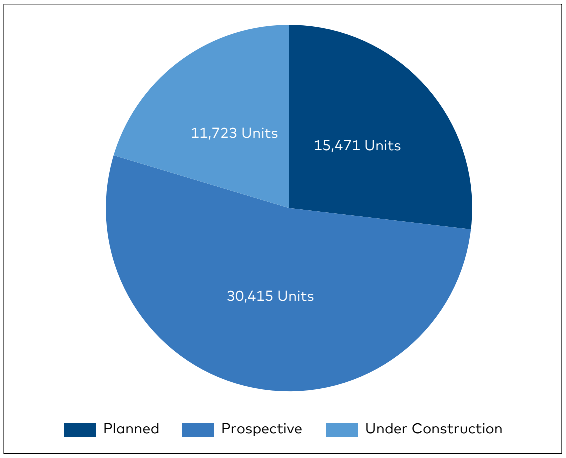
- Developers added 435 units in Philadelphia in the first quarter, as the pace of multifamily construction slowed down slightly last year in the context of increasing labor and material costs. This sustained a 10-basis-point increase in occupancy over 12 months for stabilized assets, to 95.5% as of March.
- However, development picked up in recent months; the metro had 11,723 units under construction as of April. Inventory is expected to expand further, particularly in core submarkets such as North–East (1,858 units underway), Center City–West (1,428) and North–West (924). The Norristown suburb, serving employees of major tech and health-care companies in neighboring King of Prussia, came in fourth, with 829 units underway. Deliveries are expected to hit a cycle peak this year: 5,460 units are slated to come online, up 25% compared to last year.
- With demand for well-located units increasing, developers are focusing on dense design and efficient construction. Alterra's 130-unit LVL 4125, a modular community in University City, is nearing completion. Nearby, the company is planning another project—a seven-story, 278-unit modular community dubbed Next LVL.

Philadelphia vs. National Completions as a Percentage of Total Stock (as of April 2019)



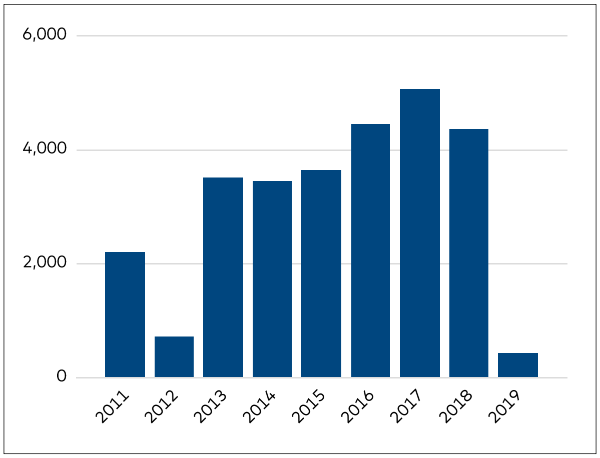
Source: YardiMatrix

Development Pipeline (as of April 2019)



Source: YardiMatrix

Philadelphia Completions (as of April 2019)

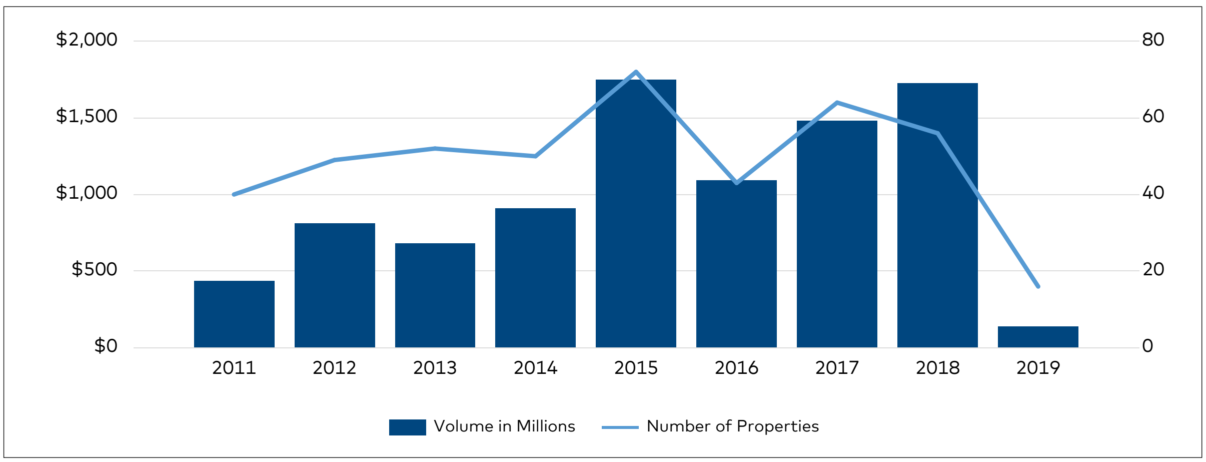


Source: YardiMatrix

Transactions

- Multifamily transaction volume in Philadelphia totaled $134 million in the first quarter of 2019. Of the 16 assets that traded, seven were part of a portfolio acquisition that made King of Prussia-based Morgan Properties the largest multifamily owner and operator in Pennsylvania. The deal—the most sizable closed in Philadelphia to date—included 2,346 units in the metro and 1,784 units in Northern Virginia.
- The price per unit decreased nearly 17% in the first quarter of 2019 against last year's cycle high, dropping from $174,059 to $145,112. Investors remained particularly interested in Class B properties across core submarkets, where acquisition yields can reach 6.0%. Deals across urban Philadelphia totaled $989 million in the 12 months ending in April, while transactions involving suburban properties equaled $700 million.

Philadelphia Sales Volume and Number of Properties Sold (as of April 2019)



Source: YardiMatrix

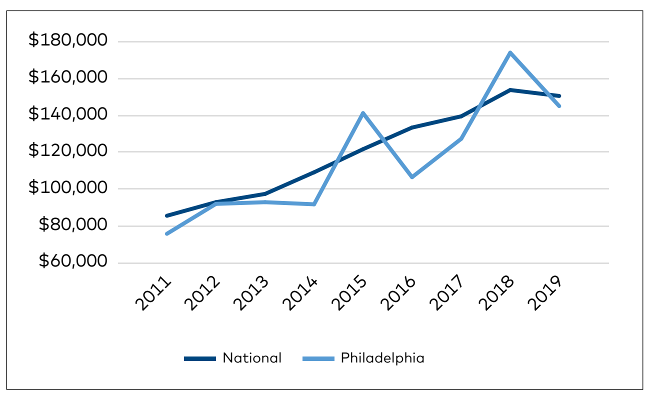
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
West	377
Northwest–East	178
Norristown	176
Center City–West	123
Northwest–West	101
Lindenwold	80
Lansdale	77
Concordville	75

Source: YardiMatrix

[1] From May 2018 to April 2019

Philadelphia vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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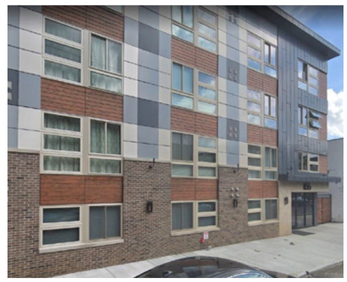
Work Starts On 103-Unit NJ Affordable Project

Volunteers of America Delaware Valley is building Centerton Village in the township of Mount Laurel. Funded in part by NJHM-FA, the project is slated for completion in May 2020.



Philadelphia Luxury Community Gets Fannie Mae Refi

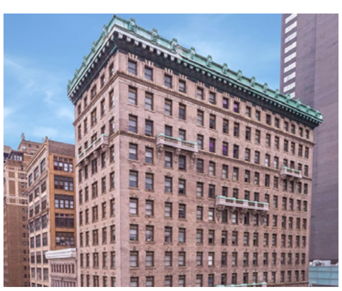
Arbor Realty Trust has provided a $6.4 million loan for a recently completed 39-unit property in the Point Breeze neighborhood.

Counter Capital Expands Philadelphia Portfolio

A joint venture of Dalzell Capital Management and Morning Calm Management, the partnership purchased 1501 Locust St. in Center City's booming Rittenhouse Square neighborhood.

Morgan Properties Acquires 4,130-Unit Portfolio

Metro Philadelphia's largest-ever multifamily deal, the acquisition makes Morgan the largest owner-operator in the market, with 9,300 units in Pennsylvania.



Invesco Sells $30M High-Rise

HFF facilitated the sale of the 15-story historic apartment building to a joint venture between The Carlyle Group and Alterra Property Group.

Upscale Senior Community Coming To Suburban Philly

South Bay Partners and LAMB Properties have joined forces to develop a 250-unit luxury senior housing community, which will focus on holistic aging.

Executive Insight

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Why Carl Dranoff Continues to Lead Markets

By Diana Mosher

Finding a formula that works early on, Dranoff Properties has stayed successful in a changing environment. Having sold its trophy apartment building portfolio to national REIT AIMCO last year, it begins its third decade with exciting projects in the pipeline. The Philadelphia-based company was founded in 1998 by Carl Dranoff, who prides himself on being a contrarian.

MHN recently caught up with Dranoff to talk about new projects, why he sold his Philadelphia trophy assets and his greatest concerns.

You made headlines when you sold off your trophy assets in Philadelphia to Denver-based REIT Aimco. Did you retain any of the apartments in your portfolio?

The sale allows me to focus more on the future. We had built up a tremendous portfolio of rental properties. Each one was carefully curated and built, owned and managed by me. They were all trophy assets, but it was time to let go because it was a win-win for both companies. AIMCO was enabled to expand its portfolio in the Philadelphia region to become the largest institutional owner of apartments here. And we were able to facilitate the sale, which gives us more capital. That, combined with our brand and talent, lets us really focus on the future and deliver, I would say, a fresh new generation of transformative projects to Philadelphia and beyond.

Your company is known for its long-term investment strategy and the desire to stay close to the Philadelphia area.

What are you working on now?

Up next is the biggest project we've ever done—a 47-story building and a real game changer for Philadelphia. It will be the tallest residential project ever built in Pennsylvania. It's a slim tower designed by the world-renowned architectural firm of Kohn Pedersen Fox. Our project is going up across from the Kimmel Center, which is the Philadelphia equivalent to Lincoln Center in New York. It's our major performing arts center and a regional draw.

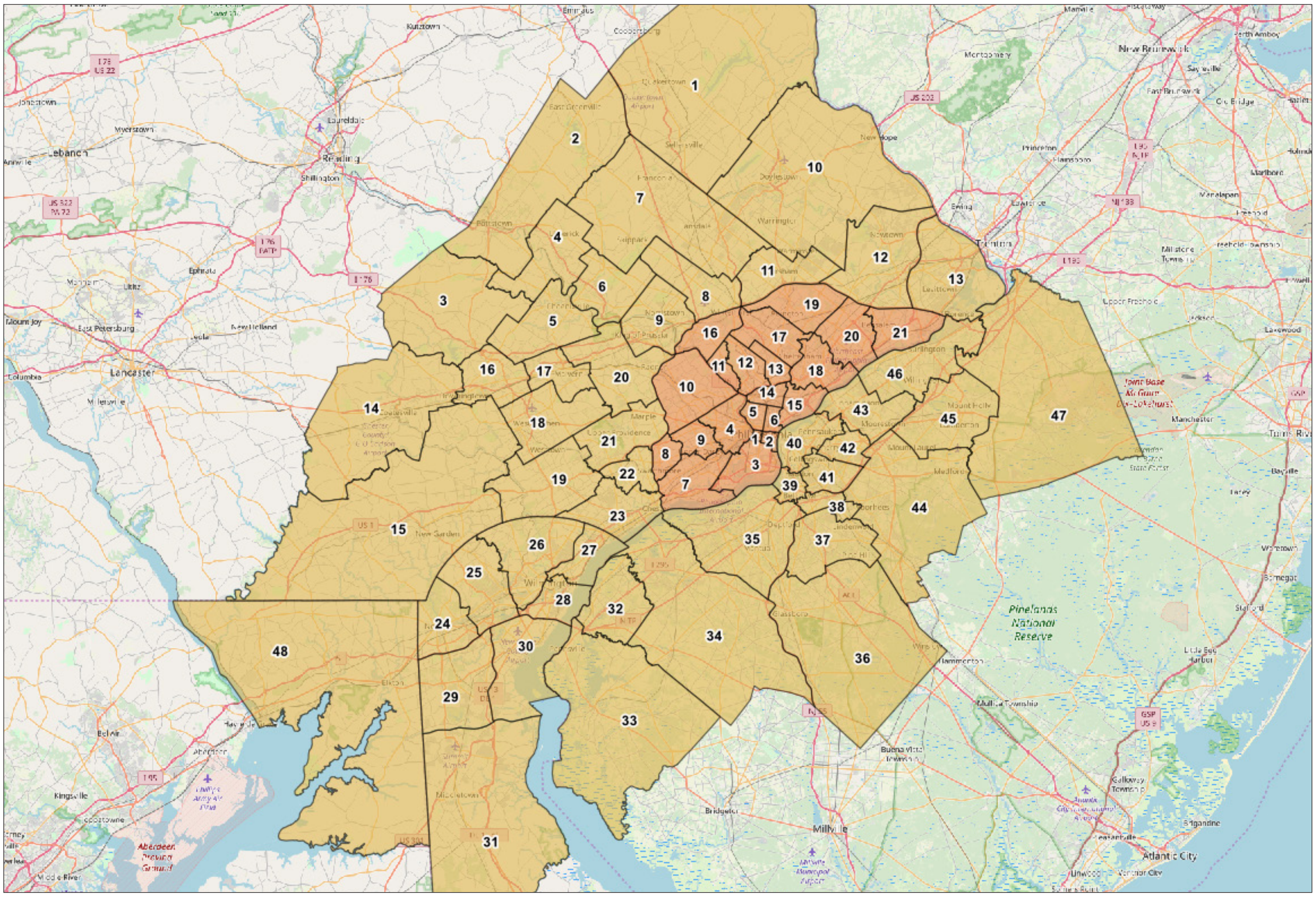
What keeps you up at night?

Getting the steel to show up on time and securing materials and a workforce and securing the financing is hard—but predictable. The hardest and least predictable part is the people part—and when I say the people part, that's part of being a leader. You have to get a buy-in from people. You need to have everybody rowing in the same direction and have the employees be proud of what they're working on and knowing that we stand for something.

What's your biggest challenge?

The biggest challenge for me is to keep things moving along all the time: The product needs to be fresh, the projects completed on time and the right staffing in place. In other words, making sure we don't have clogged arteries. I think that the most successful companies have leadership that is looking ahead and not coasting or taking things for granted. This can set in at a company after 10 or 20 years. So we always stay fresh and aware that our competitors are ready to eat our lunch and ready for us to hit a pothole.

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
48	Cecil County

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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