Yardi® Matrix

Philadelphia Moves Forward

Multifamily Report Fall 2019

Rent Growth Outpaces Nation

Eds and Meds Lead Employment Gains

Construction Activity Targets Urban Core

Market Analysis

Fall 2019

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Slow, Steady Growth Ahead

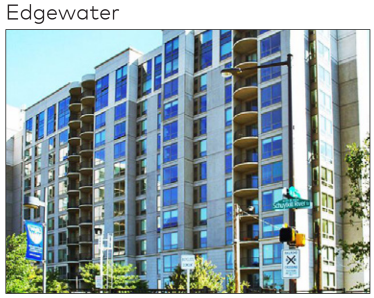
Philadelphia's multifamily market is expanding, sustained by steady economic and population growth. Despite consistent levels of new supply in recent years, occupancy has remained in a tight band, standing at 95.8% as of July, unchanged year-over-year and above the 95.1% national average.

Education and health services led employment gains as of June (9,900 jobs). Life sciences and health-care research are growing, with several projects on tap, including a $500 million, 1.6 million-square-foot coworking campus The Discovery Labs is creating in King of Prussia solely for health-care, life sciences and tech businesses. Penn Medicine's $1.5 billion patient pavilion, an extension of the nation's oldest teaching hospital, is also underway, while Ventas and Wexford Science & Technology are building The College of Nursing and Health Professions for Drexel University in University City. Following record tourism activity last year, leisure and hospitality gained 8,700 jobs, while construction grew by 8,200 positions.

Investment and development activity has moderated in 2019 compared to last year, with $900 million in total sales and 1,058 units coming online through August, while another 12,600 units were underway. Continued demand is expected to boost absorption, and we expect the average Philadelphia rent to advance 4.4% for the whole of 2019.

Recent Philadelphia Transactions

Edgewater



City: Philadelphia
Buyer: Federal Capital Partners
Purchase Price: $116 MM
Price per Unit: $405,502

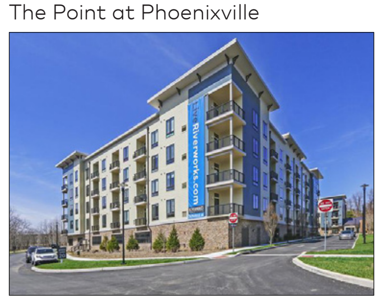
Thorn Flats

City: Newark, Del.
Buyer: The Galman Group
Purchase Price: $98 MM
Price per Unit: $102,062

Marchwood

City: Exton, Pa.
Buyer: Morgan Properties
Purchase Price: $82 MM
Price per Unit: $162,698

The Point at Phoenixville



City: Phoenixville, Pa.
Buyer: Pantzer Properties
Purchase Price: $78 MM
Price per Unit: $222,958

On the cover: Photo by gangliu10/iStockphoto.com

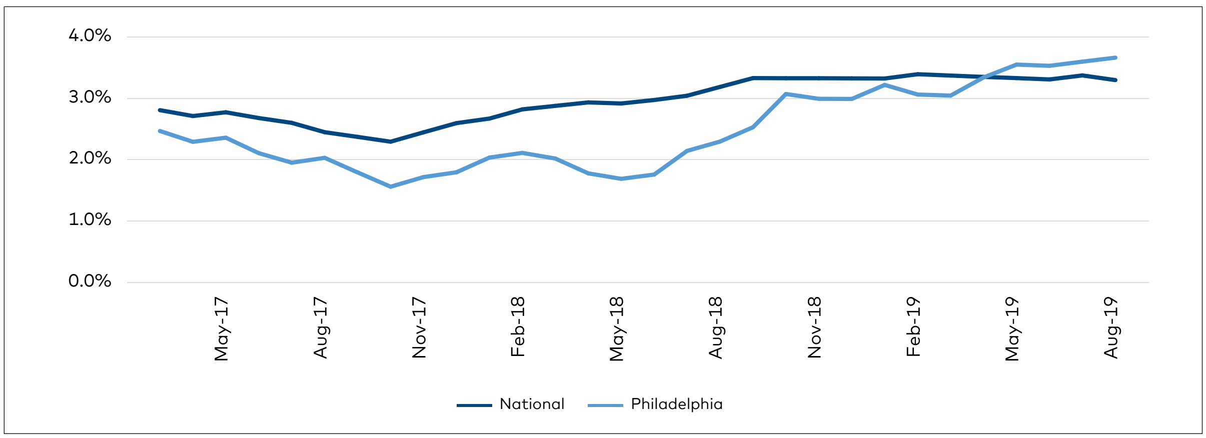
Rent Trends

- Rents in Philadelphia rose 3.7% year-over-year through August, outpacing the 3.3% U.S. rate. The metro's average rent stood at $1,386, below the $1,472 national figure. Despite the delivery of more than 5,600 units since the beginning of 2018, strong rental demand has kept the occupancy rate in stabilized properties in a tight band, at 95.8% as of July, unchanged year-over-year and above the 95.1% national average.

- Rents in the working-class Renter-by-Necessity segment rose 3.8% to $1,224, while Lifestyle rates increased 3.0%, to $1,908. Demand across asset classes is bolstered by Millennials seeking apartments near employment centers as well as empty nesters opting for the convenience of amenity-rich properties in urban settings. We expect the metro's average rent to advance 4.4% in 2019.

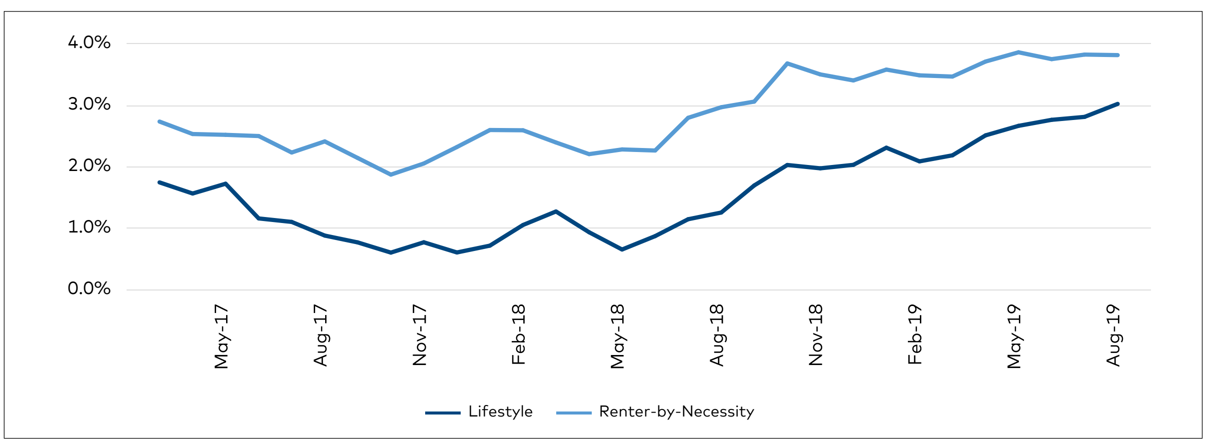
- Rent growth was strongest within and close to suburban submarkets, particularly in Wilmington–Central (10.2% to $1,476), Cinnaminson (8.8% to $1,538), Exton–Downingtown (7.5%, to $1,661), Mount Holly (7.4% to $1,415), Feasterville–Langhorne (6.5% to $1,485) and Concordville (6.2%, to $1,824). Rent growth across urban Philadelphia submarkets was led by South (7.7%, to $1,699); Lower Northeast, which also commands the lowest rates (6.1%, to $978), and Southwest (6.0%, to $1,090). Rents in Center City–West, the metro's most expensive rental submarket, rose 1.1% to $2,202.

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

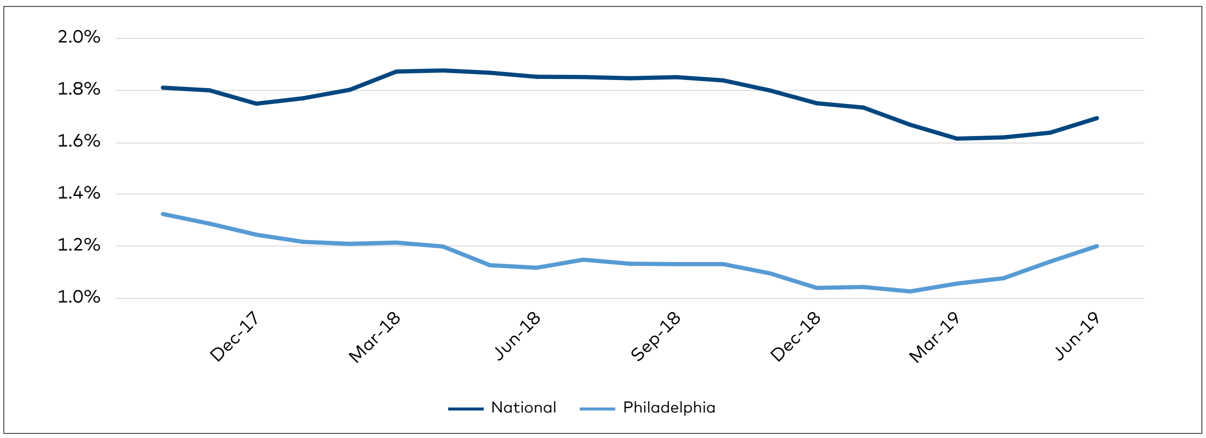
Economic Snapshot

- Philadelphia gained 35,900 jobs in the 12 months ending in June, up 1.2% year-over-year and trailing the 1.7% national average. Economic growth was led by education and health services (9,900 jobs).

- Life sciences and health-care research are a growing part of the local economy, with a slew of projects on tap: The Discovery Labs is creating a $500 million, 1.6 million-square-foot coworking campus in King of Prussia for health-care, life sciences and tech businesses. The goal is to create a suburban coworking facility centered around lab and research space, which could lead to further growth. It remains to be seen if the market can sustain that much demand in one sector, but the payoff could be enormous. Penn Medicine's $1.5 billion patient pavilion, a 1.5 million-square-foot extension of the Hospital of the University of Pennsylvania, is set to open in 2021. Ventas and Wexford Science & Technology have two projects totaling $400 million underway in University City: The College of Nursing and Health Professions—a build-to-suit for Drexel University—and the One uCity Square—an office and lab building. The $3.5 billion Schuylkill Yards, a hub for tech and life-sciences firms, is also underway.

- Leisure and hospitality gained 8,700 jobs, following record tourism activity for the ninth consecutive year: 45 million people visited the region in 2018, generating $7.6 billion in direct visitor spending. Construction hiring was also significant (up 6.8%), followed by professional and business services.

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	654	21.9%	9,900	1.5%
70	Leisure and Hospitality	294	9.8%	8,700	3.0%
15	Mining, Logging and Construction	129	4.3%	8,200	6.8%
60	Professional and Business Services	478	16.0%	7,300	1.6%
90	Government	339	11.3%	3,700	1.1%
80	Other Services	125	4.2%	1,600	1.3%
30	Manufacturing	183	6.1%	800	0.4%
55	Financial Activities	218	7.3%	100	0.0%
50	Information	49	1.6%	-600	-1.2%
40	Trade, Transportation and Utilities	521	17.4%	-3,800	-0.7%

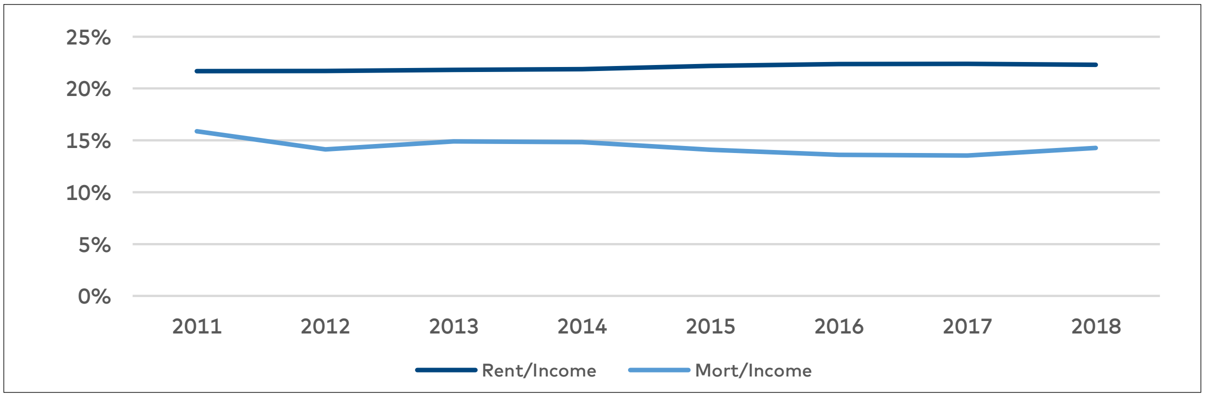
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

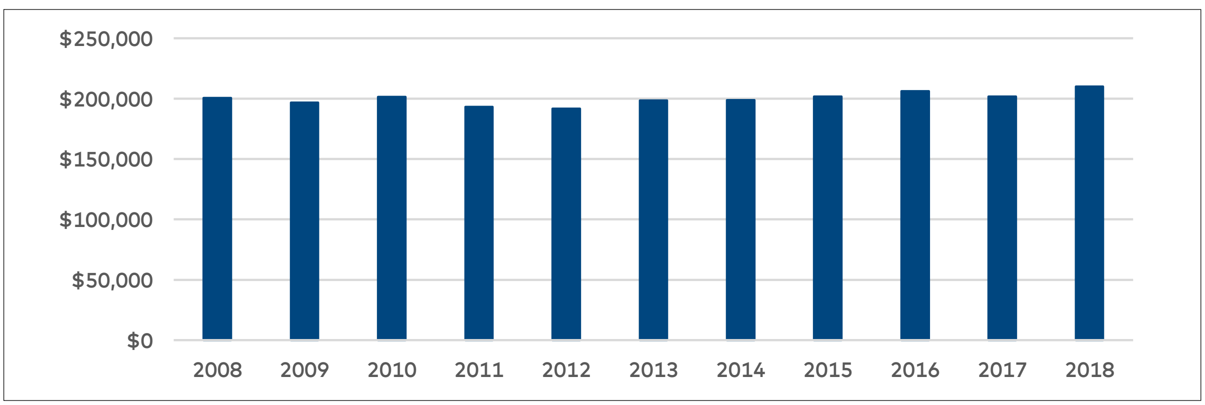
- The median home price in Philadelphia rose to a cycle high of $209,973 in 2018, up 4.0% since 2017 and 8.8% above the 2011 level, indicating that the market remained relatively stable over the past decade, especially when compared to other large U.S. metros. The average mortgage payment accounted for 14% of the area median income last year, while the average rent equated to 22%.
- Philadelphia's relative affordability among major U.S. metros, especially when compared to nearby New York City and Washington, D.C., is attracting new residents, including a young-adult population that can also benefit from a thriving job market and a revitalized downtown.

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 19,000 residents in 2017 for a 0.3% uptick, less than half the 0.7% U.S. figure.
- The metro expanded by nearly 125,000 people between 2010 and 2017, which marked a 2.1% rate of growth.

Philadelphia vs. National Population

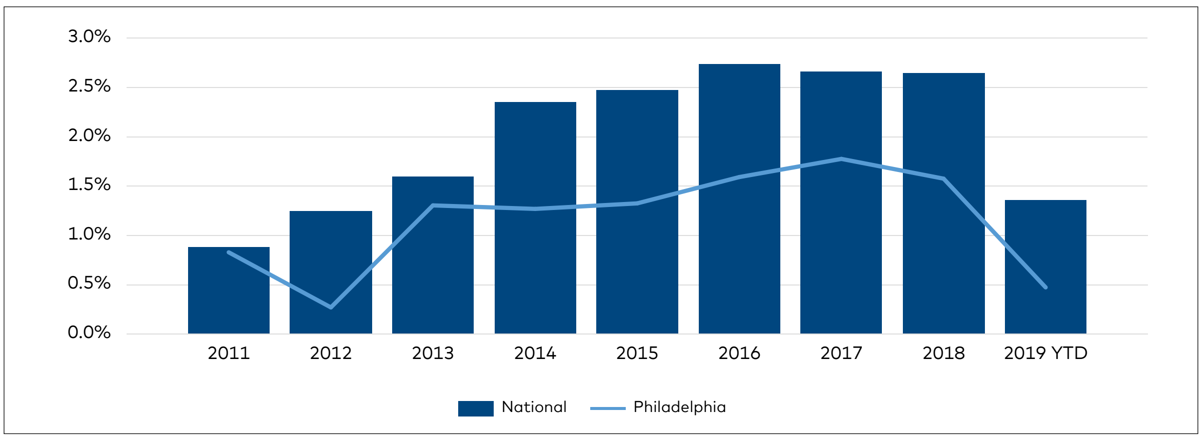
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Philadelphia Metro	6,035,329	6,053,028	6,066,589	6,077,152	6,096,120

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

Supply

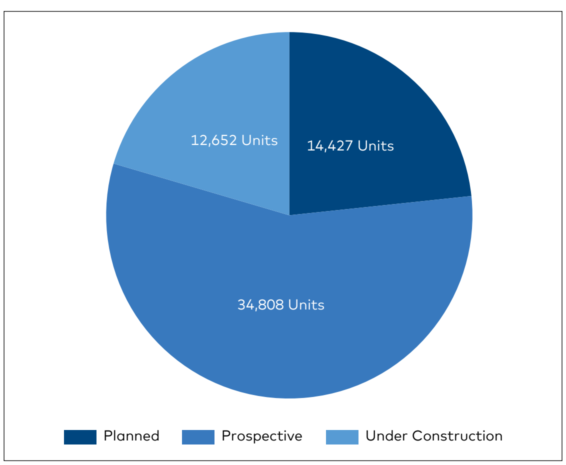
- More than 12,600 units were under construction in Philadelphia as of August, with about 80% catering to Lifestyle renters. In 2019 through August, six projects totaling 1,058 units came online, representing 0.5% of total stock, well below the 1.4% national average. In 2018, 4,565 apartments were completed, equating to 1.6% of stock.
- A steady rise in the renter population is expected to maintain a positive absorption of new inventory. The metro's pipeline as of August also included 49,235 units in the planning and permitting stages. It remains to be seen how much will Philadelphia's 10-year property tax abatement reform impact these upcoming projects. The subsidy was established in the late 1990s, allowing owners to avoid property taxes for 10 years on new construction or the value of a renovation.
- Developers are targeting the metro's intellectual capital nodes, including Center City and University City as well as King of Prussia. The urban submarkets with the highest number of units underway were North–East (1,858 units), Center City–West (1,428 units) and West (1,127 units). Mount Holly (542 units), Exton–Downingtown (531 units) and Norristown (509 units) topped the list in the suburbs.

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



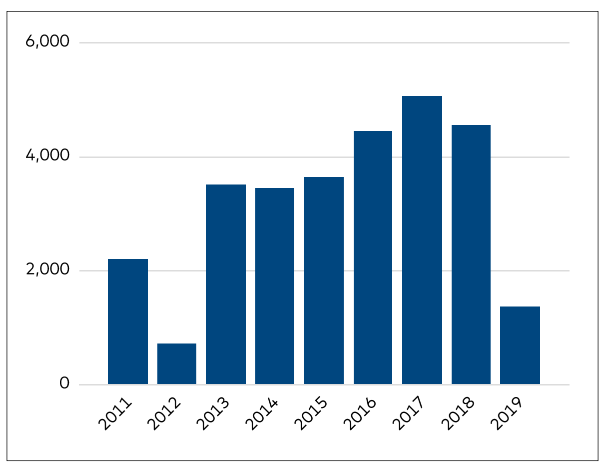
Source: YardiMatrix

Development Pipeline (as of August 2019)



Source: YardiMatrix

Philadelphia Completions (as of August 2019)

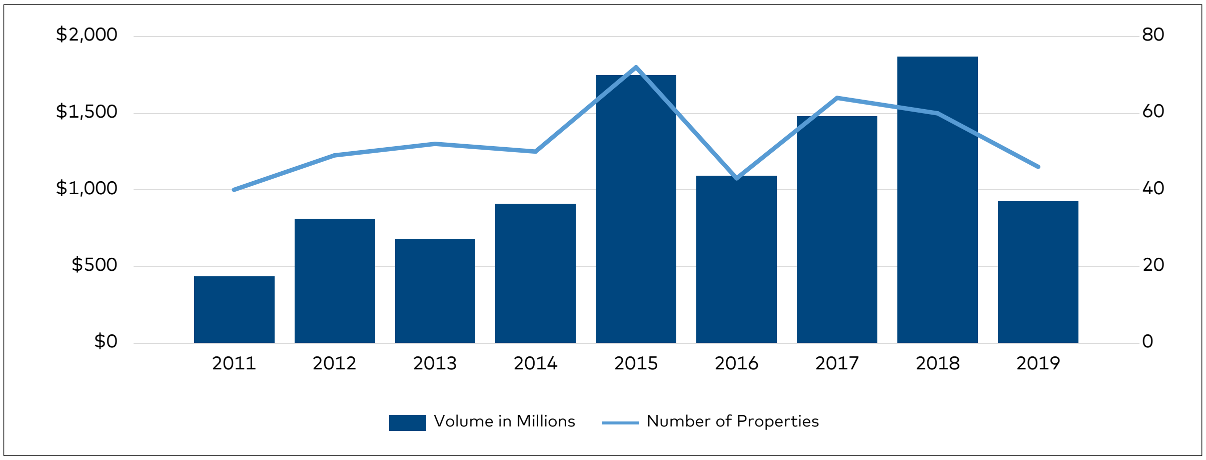


Source: YardiMatrix

Transactions

- A total of almost $930 million in multifamily assets traded in Philadelphia this year through August, at an average price per unit of $120,413. That marked a significant drop from last year's per-unit price of $178,673, as investors particularly focused on Renter-by-Necessity properties, both urban and suburban. In 2018, transactions exceeded $1.8 billion, marking a cycle peak.
- Acquisition yields ranged between 4.5% and 5.0% for value-add Class A assets in infill locations and went as high as 7.75% for Class B and Class C communities across urban and suburban settings.
- Federal Capital Partners' $116 million acquisition of Edgewater, a 286-unit luxury high-rise community in Center City–West, ranked as the metro's largest multifamily deal of the year through August. J.P. Morgan Asset Management sold the property in June for $405,502 per unit.

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



Source: YardiMatrix

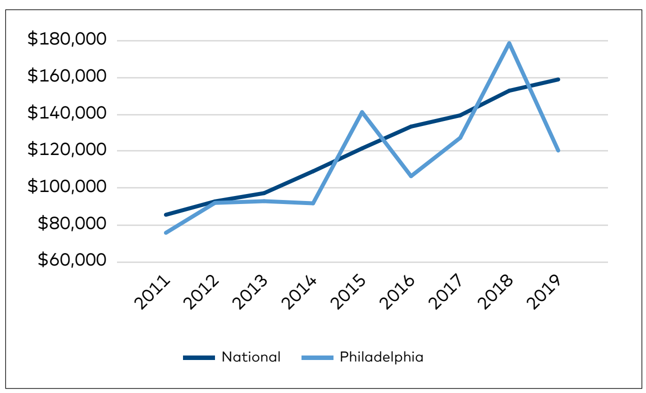
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Center City–West	199
Norristown	177
West	151
Newark	146
Feasterville–Langhorne	139
Northwest–West	101
Exton–Downingtown	82
Phoenixville	78

Source: YardiMatrix

[1] From September 2018 to August 2019

Philadelphia vs. National Sales Price per Unit



Source: YardiMatrix

Executive Insight

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MULTI-HOUSING NEWS

Why Invest in Philadelphia's Multifamily Market

By Adina Marcut

Morgan Properties ranks as the largest multifamily owner in Philadelphia. According to Yardi Matrix data, it owns and manages 43 properties of more than 13,300 units in the metro. Since January, the company has acquired roughly 2,900 units in the Northeast market.

In the interview below, Morgan Properties Area Vice President for Pennsylvania and Delaware Christine Beechan names some of the challenges investors face in the market, as well as Philadelphia's hottest submarkets for multifamily investment.

What are the main multifamily trends in Philadelphia today?

Multifamily remains a coveted real estate investment, and like much of the Northeast and Mid-Atlantic, there is limited supply relative to properties being offered for sale in the Philadelphia area. Those that do come to market have high price tags and an ample buyer pool ready to chase them.

Tell us about the metro's hottest submarkets. What makes these submarkets stand out?

There are players that feel very comfortable within city limits and those like Morgan Properties that typically prefer the suburbs. The one thing the submarkets have in common is a relatively high barrier to entry into the home-buying market. This, combined with the fact that the number of renters by choice (rather than renters by necessity) continues to rise, creates solid markets almost anywhere in the metro that an investor is willing to provide a quality product.

Name a few challenges investors currently face in the Philadelphia multifamily market.

Because Philadelphia is such an in-demand market, finding the right deal with the best opportunity for value-add enhancement is the challenge. Given the multifamily owner composition is primarily made up of families, being quick and nimble when communities are placed on the market is key. While we continue to be very selective on acquisition opportunities, having the right investment strategy and knowing your operational expertise is aligned allows for future expansion.

How have your residents' needs changed in recent years?

The needs of our residents have not necessarily changed over time, but rather evolved. Convenience, lifestyle and a sense of community are more prevalent in today's world. Our mission to add value and create experiences has never wavered.

Do you have plans to expand to other markets in the future? Tell us more about Morgan Properties' growth plans.

Morgan Properties is always looking to expand in other markets when the right opportunity comes along. In 2018, we expanded into the Nashville, Tenn., market, increasing our company footprint across a total of 11 states. We recognize that continued local growth is difficult. Our investment criteria, however, remains consistent. If and when we expand to a new area, it needs to be big enough to allow us to accumulate at least 2,000 units and achieve the operating efficiencies that come with scale.

News in the Metro

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Philadelphia-Area Value-Add Properties Change Hands

Rittenhouse Realty Advisors sold Maple Grove Apartments and Royersford Gardens, two apartment communities located in Montgomery and Bucks Counties.

Halfpenny Management Buys Lehigh Valley Asset

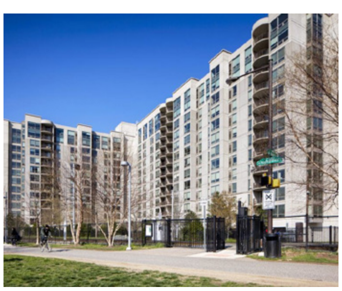
Birchwood Commons, a 96-unit residential property in Bethlehem, Pa., was completed last year. A Berkadia team orchestrated the sale and arranged financing.

Philadelphia-Area Property Lands New Owner

HFF arranged the sale of Riverwalk at Millennium in Conshohocken, Pa., to Relative Properties and secured Freddie Mac financing for the buyer.

Philly's Tallest Residential Tower Lands $295M Loan

Southern Land Co. is building the 48-story project, which will feature a combination of luxury rental units and condominiums along Rittenhouse Square.



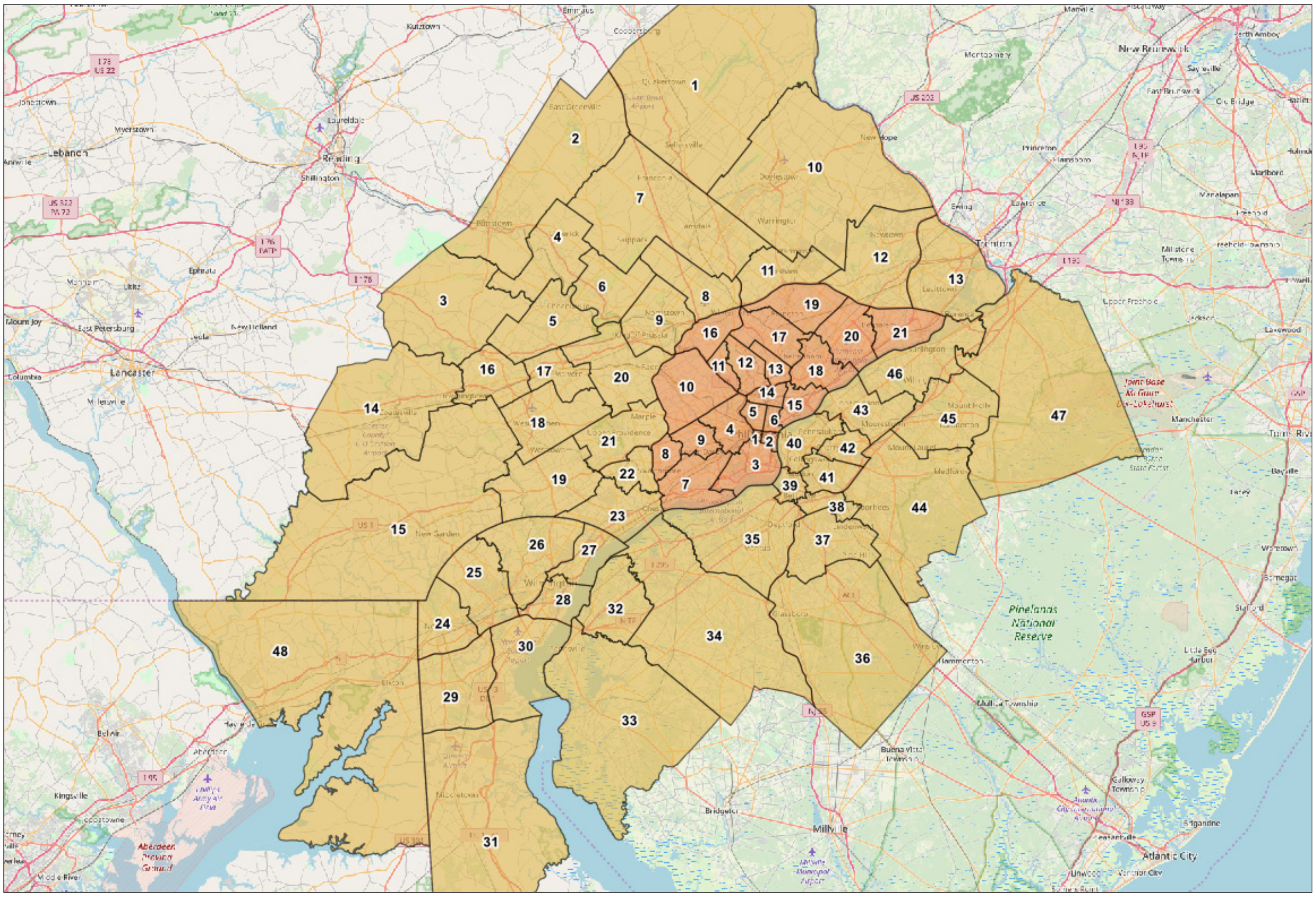
FCP Buys Philly High-Rise for $118M

The 286-unit community is FCP's fourth acquisition of a Class A property in Philadelphia's Center City. Also included is a potential development site.

Ultra-Luxury Condo Tower Underway In Philadelphia

Dranoff Properties' $253 million, 47-story residential high-rise at the corner of Broad and Spruce streets will feature 36,000 square feet of amenities.

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.