

# Yardi® Matrix

## MULTIFAMILY REPORT

# Philly's Core Drives Growth

Winter 2020

**Rent Expansion Outpaces US Average**

**Investors Target Suburban Value-Add Deals**

**Moderate Deliveries Keep Occupancy Healthy**



## Yardi® Matrix

# Steady Demand Outpaces Supply

Philadelphia's relatively tepid 2019 pipeline generated a spike in rents, which have been outpacing the national average since last April. Demand remained consistent, boosted by ongoing employment gains and household formation. Meanwhile, occupancy inched up 10 basis points over 12 months to 95.6% as of November.

The metro remains a top presence among the nation's economic powerhouses, thanks to its innovation economy, particularly in the biomedical sector. Professional and business services led employment growth in the 12 months ending in November with 9,100 new jobs, followed by education and health services (7,600 jobs). Additional positions are expected as new projects come online, including Penn Medicine's \$1.5 billion Pavilion, a 1.5 million-square-foot extension of the Hospital of the University of Pennsylvania, scheduled to open in 2021.

Some \$1.4 billion in multifamily assets traded in Philadelphia last year, as investors focused on value-add opportunities in suburban locations, where acquisition yields can approach 8.0% for Class C assets. Developers delivered 3,456 units last year, while another 14,200 apartments were underway as of December. Construction activity was intense in the Center City area, which holds 42% of all city jobs, as well as in the North-East. In the suburbs, Hatboro-Warminster topped the pipeline.

## Market Analysis | Winter 2020

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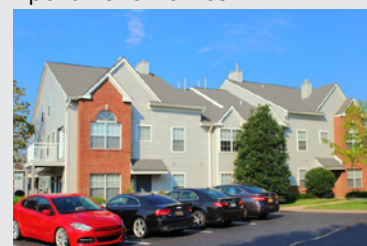
## Recent Philadelphia Transactions

### Indigo 301



City: King of Prussia, Pa.  
Buyer: CBRE Global Investors  
Purchase Price: \$117 MM  
Price per Unit: \$322,314

### Stonegate at Iron Ridge Apartment Homes



City: Elkton, Md.  
Buyer: AION Partners  
Purchase Price: \$43 MM  
Price per Unit: \$166,923

### Spring House at Brandywine



City: West Chester, Pa.  
Buyer: Coastal Ridge Real Estate  
Purchase Price: \$39 MM  
Price per Unit: \$181,752

### 124 Market Place

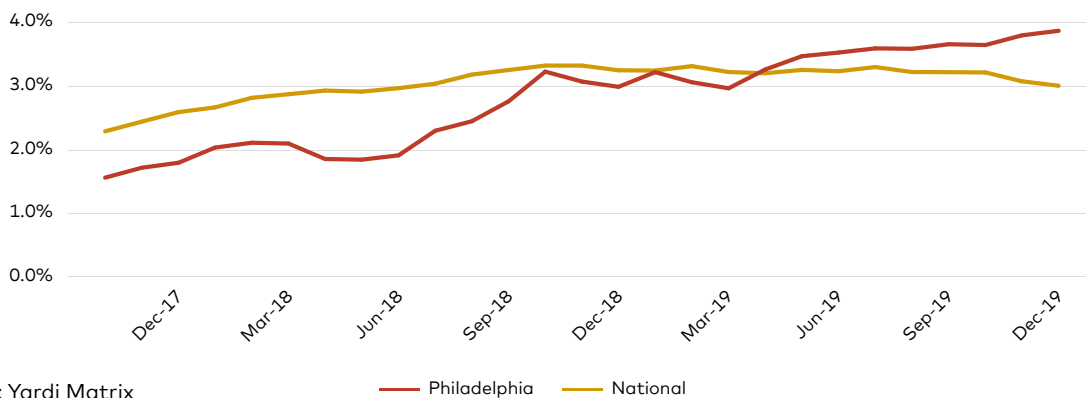


City: West Chester, Pa.  
Buyer: The Hankin Group  
Purchase Price: \$30 MM  
Price per Unit: \$338,068

## RENT TRENDS

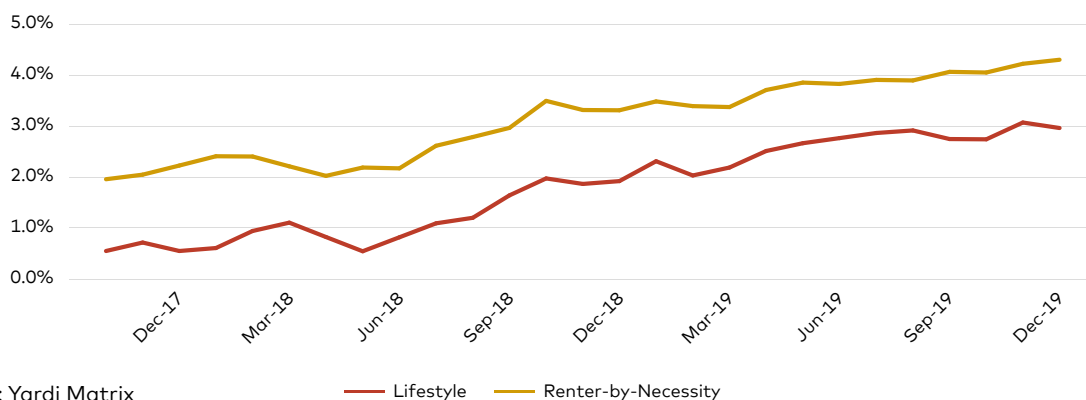
- ▶ Philadelphia rents rose 3.9% in 2019, outpacing the 3.0% national rate. The metro's average stood at \$1,396, below the \$1,474 national figure. A slowdown in deliveries last year kept occupancy in stabilized properties healthy; the rate stood at 95.6% as of November, above the 94.9% national average.
- ▶ Rents in the working-class Renter-by-Necessity segment rose 4.3% to \$1,235, while Lifestyle prices went up 3.0%, to \$1,908. The metro's steady increase in employment and household formation bolster demand for both asset classes. The millennial population—which has seen an ongoing increase since 2008—is now entering its homebuying years, but, since a large portion is still burdened by student debt, rentals remain the more popular housing option. Baby boomers and Gen Xers also fuel rental demand, especially in walkable, amenity-rich settings.
- ▶ Suburban areas recorded strong rent hikes, including Feasterville–Langhorne (8.6% to \$1,514), Malvern (8.2% to \$1,792), Chester (6.8% to \$1,081), Exton–Downingtown (6.5% to \$1,636) and Lindenwold (6.5% to \$1,069). Closer to the city core, Upper Darby–Drexel Hill topped the list (6.4% to \$997), followed by Northwest–East (5.9% to \$1,328).
- ▶ Rates in Center City–West and East—still the metro's priciest submarkets—rose 2.1% and 4.4% to \$2,232 and \$2,167, respectively.

### Philadelphia vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

### Philadelphia Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

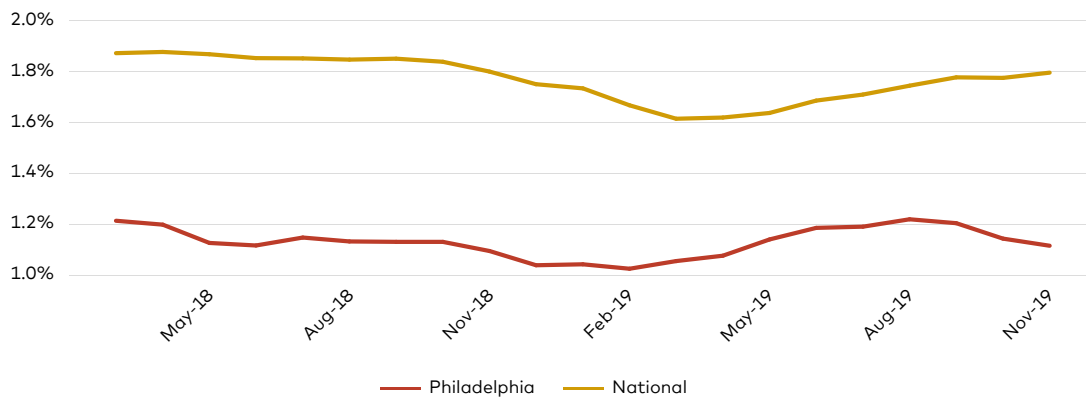
## ECONOMIC SNAPSHOT

- ▶ Philadelphia gained 29,000 jobs in the 12 months ending in November—a 1.1% increase, trailing the 1.8% national rate. In line with national trends, the metro’s unemployment level contracted last quarter, standing at 4.1% as of October, well below its 10-year high of 9.3% in early 2010.
- ▶ Professional and business services led growth (9,100 jobs), boosted by a diverse and inclusive tech community. Education and health services gained 7,600 positions, as local gene and cell therapy companies attracted a record \$514 million in venture capital funding in 2019. Ventas and Wexford Science & Technology have two projects totaling \$400 million in University City:

The College of Nursing and Health Professions for Drexel University and the One uCity Square office and lab building. The \$3.5 billion Schuylkill Yards—a hub for tech and life sciences firms—is also underway, while Penn Medicine’s \$1.5 billion patient pavilion, a 1.5 million-square-foot extension of the Hospital of the University of Pennsylvania, is expected to open in 2021.

- ▶ Leisure and hospitality added 5,200 jobs, as tourism continues to rise in the City of Brotherly Love. Moreover, the \$700 million Live! Casino & Hotel—a 1.5 million-square-foot project by The Cordish Cos. and Gilbane Building Co.—will open this year, generating 5,000 jobs.

### Philadelphia vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, 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	%
60	Professional and Business Services	481	16.0%	9,100	1.9%
65	Education and Health Services	678	22.5%	7,600	1.1%
70	Leisure and Hospitality	273	9.1%	5,200	1.9%
55	Financial Activities	221	7.3%	3,900	1.8%
90	Government	347	11.5%	1,700	0.5%
15	Mining, Logging and Construction	123	4.1%	1,300	1.1%
40	Trade, Transportation and Utilities	536	17.8%	500	0.1%
50	Information	49	1.6%	-	0.0%
80	Other Services	122	4.1%	-	0.0%
30	Manufacturing	182	6.0%	-300	-0.2%

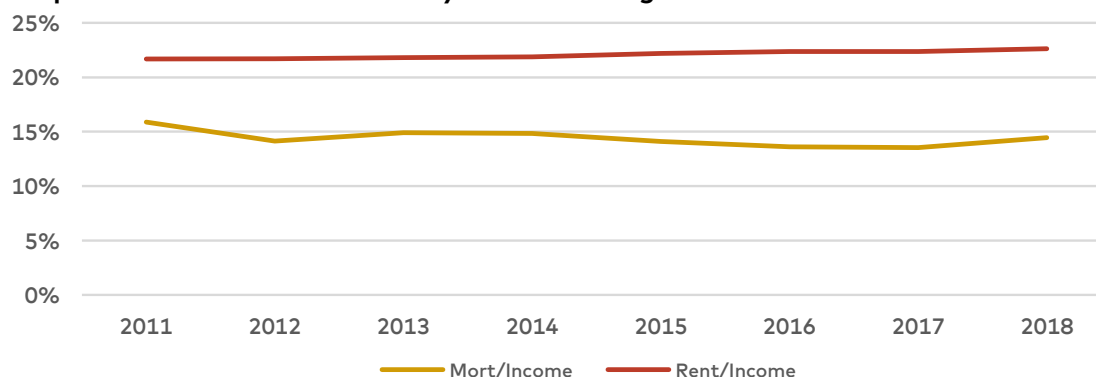
Sources: Yardi Matrix, Bureau of Labor Statistics

## DEMOGRAPHICS

### Affordability

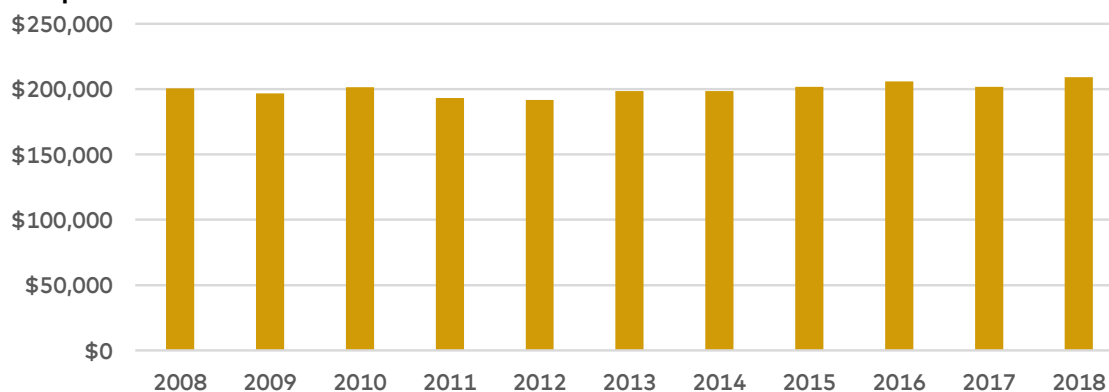
- ▶ The median home price in Philadelphia rose to a cycle peak of \$209,131 in 2018, up 3.6% from 2017 and just 9.1% above the 2012 level, when the market bottomed out. The average rent accounted for 23% of the area median income, while the average mortgage payment equated to just 14%.
- ▶ The homeownership rate has been falling over the past decade, as the production of multifamily housing outpaces for-sale housing. In a few years, Philadelphia could be transformed from “a city of homes” into “a city of renters.” Recent BLS findings show a decline in the city’s poverty rate, from 25.7% in 2016 to 24.5% in 2018, while the adjusted median household income rose from \$43,372 to \$46,116.

### Philadelphia Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

### Philadelphia Median Home Price



Source: Moody's Analytics

### Population

- ▶ Philadelphia added 17,921 residents in 2018, representing a 0.3% increase and half the 0.6% national rate.
- ▶ Between 2014 and 2018, the metro gained nearly 50,000 residents, for a 0.8% uptick and less than one-third the 2.8% national figure.

### Philadelphia vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Philadelphia Metro	6,057,621	6,067,691	6,078,451	6,096,372

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

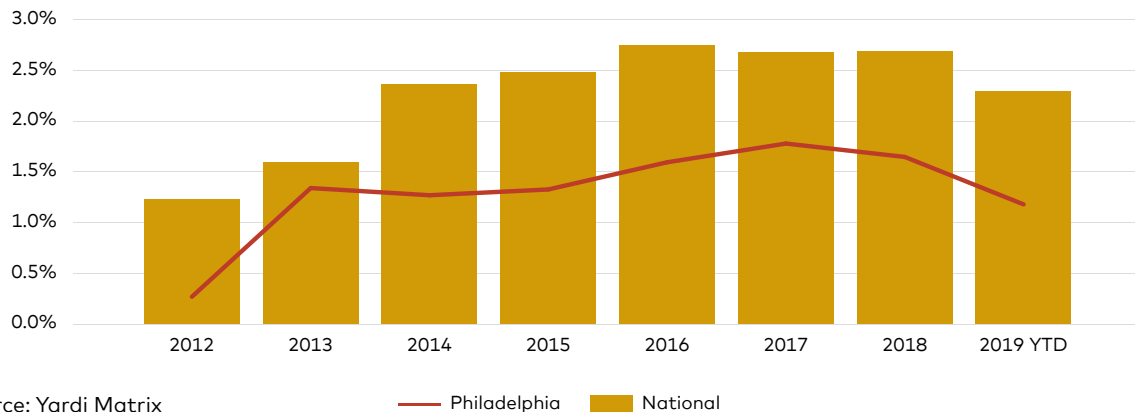
## SUPPLY

- Some 14,200 units were underway as of December, split almost evenly between the metro's urban and suburban submarkets. More than 11,000 of these cater to Lifestyle renters, while another 1,800 will be in fully affordable properties. In 2019, 3,456 units came online, representing 1.2% of stock and below the 2.3% national average.
- Multifamily development decelerated in 2019 to a level not seen since 2015, favoring rent growth and a steady occupancy rate. The metro's pipeline as of December also included 45,605 units in the planning and permitting stages.
- Developers are especially active in Center City–West, which had 1,937 units underway at the

start of 2020. Absorption is expected to hold, as Center City remains a prime economic driver. The area's population rose 22% between 2000 and 2018, according to the latest State of Center City report, which shows that the district had a total of 305,500 jobs, representing 42% of all city employment. The North–East had 1,509 units underway, while Hatboro–Warminster topped the suburban pipeline with 1,308 units.

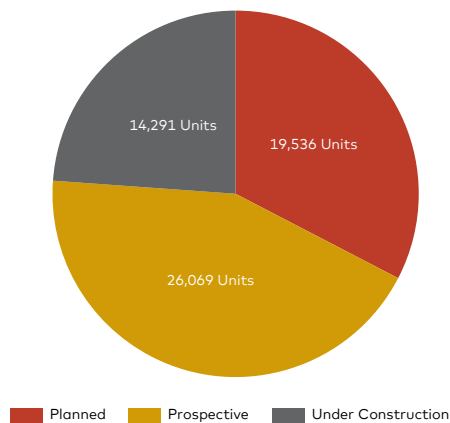
- Riverwalk Towers, a 612-unit Center City property, ranked as the metro's largest community underway as of December. PMC Property Group is developing the mixed-use project, which will include a 65,000-square-foot Giant Food store.

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



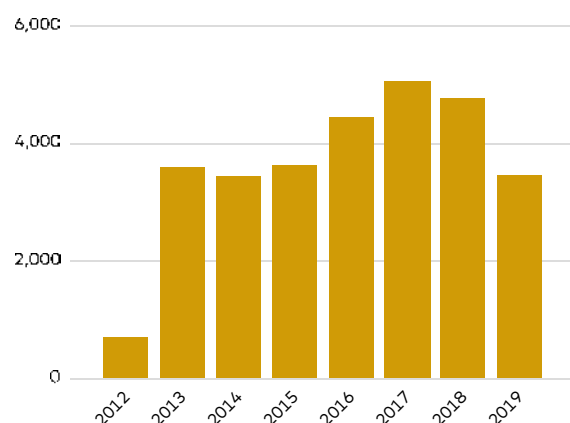
Source: Yardi Matrix

### Development Pipeline (as of December 2019)



Source: Yardi Matrix

### Philadelphia Completions (as of December 2019)

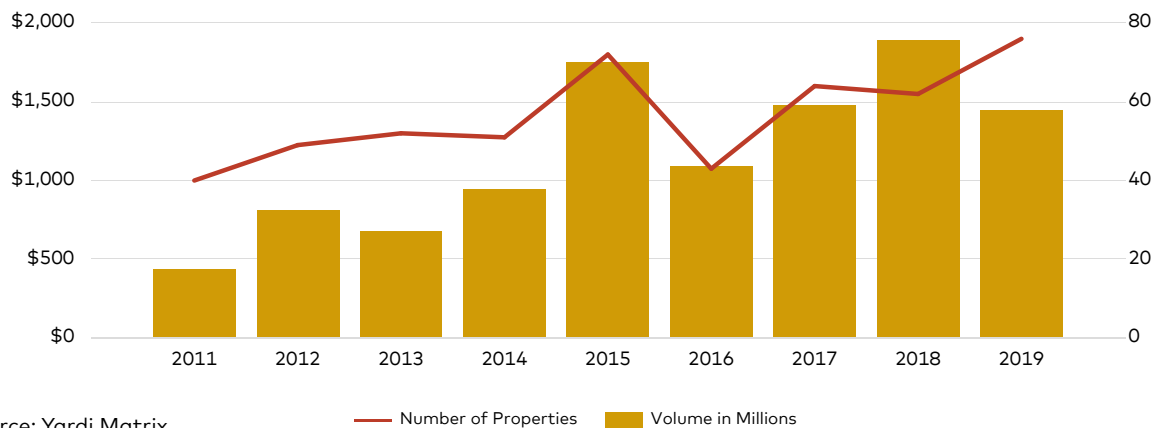


Source: Yardi Matrix

## TRANSACTIONS

- ▶ Some \$1.4 billion in multifamily assets traded in Philadelphia in 2019, at an average price per unit of \$119,262, below the \$166,589 national average. Of the 76 properties that changed ownership, 61 were Renter-by-Necessity assets.
- ▶ Investors focused particularly on value-add opportunities in suburban locations—acquisition yields for these assets can range between 6.5% and 8.0%, depending on class. This year, a higher flow of capital is expected, as the market will continue to offer attractive returns, while the new rent control regulations in New York could divert some buyers to Philadelphia.
- ▶ Northwestern Mutual's \$117 million sale of Indigo 301, a 363-unit property in King of Prussia, ranked as the largest single-asset deal of 2019. CBRE Global Investors paid \$322,314 per unit for the Class A asset completed in 2017.

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



Source: Yardi Matrix

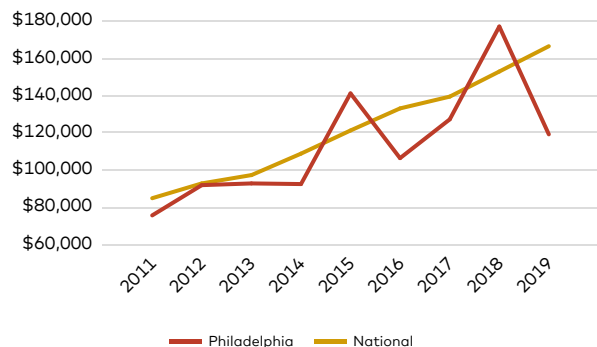
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Norristown	193
Newark	146
Center City–West	127
Concordville	98
Exton–Downingtown	82
Phoenixville	78
Upper Darby–Drexel Hill	75

Source: Yardi Matrix

<sup>1</sup> From January 2019 to December 2019

### Philadelphia vs. National Sales Price per Unit



Source: Yardi Matrix



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Luxury Apartments Trade for \$22M

The Class A multifamily property delivered in 2015 and replaced several 19th-century industrial buildings in the Old City.



Wilmington Asset Changes Hands

River Commons Apartments received financing from Fannie Mae and the Delaware State Housing Authority.



CAPREIT Acquires Delaware Community

Greysteel's Ari Firoozabadi and Henry Mathies acted on behalf of the seller and procured the buyer for The Vinings at Christiana.

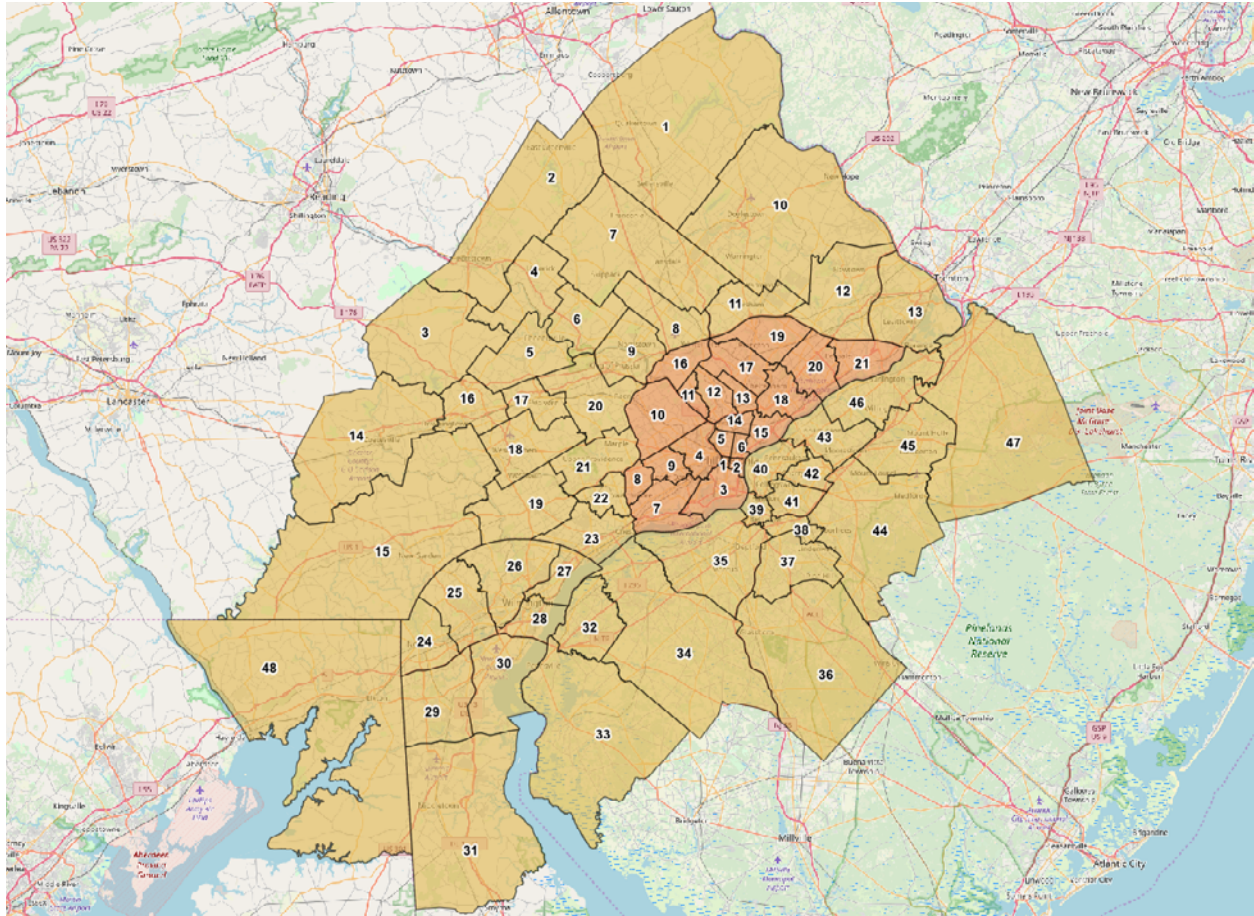


C&W Arranges \$28M Refi

The company acted on behalf of the borrower—a joint venture between Ivy Realty and DW Partners.



# 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	Lindenwald
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	Bordertown-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 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.

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