Q3 2022

PHILADELPHIA METRO AREA

MULTIFAMILY REPORT

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Multifamily Market Report

Q3 2022

MARKET INVENTORY

95.9%
Current Occupancy Rate

$205,000
Avg. Price/Unit

336,590±
Units

18,622
Units Under Construction

5.8%
12-Mo. Asking Rent Growth

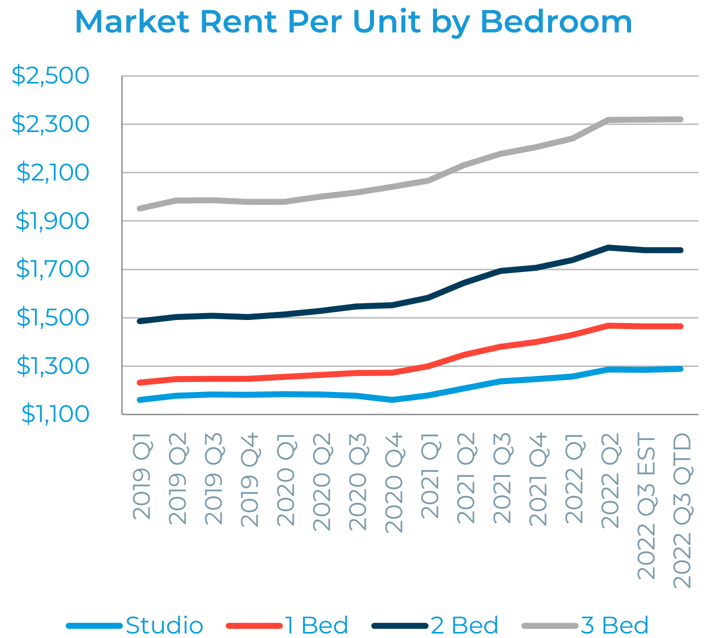
$1,630±
Avg. Rent/Unit

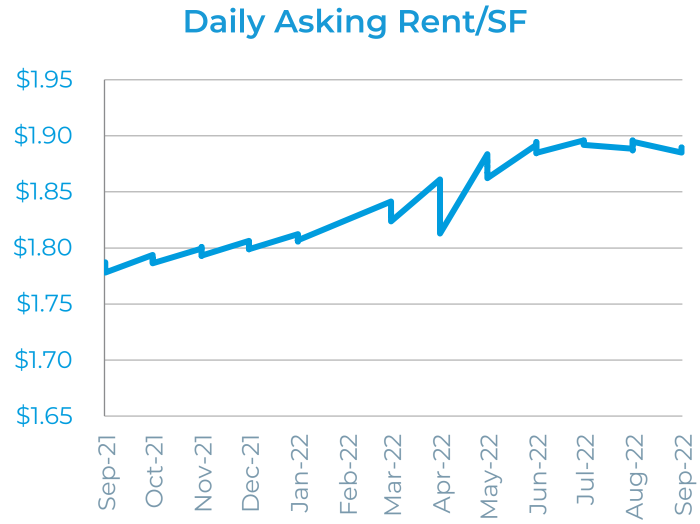
Submarket Overview

Philadelphia Region's multifamily market has experienced near all-time low vacancy rates and is now around 4.1%. Even as rising mortgage rates have caused home sales to slow, the inventory of homes listed for sale in suburban counties such as Chester and Montgomery remain a small fraction of what it was just five years ago, which is keeping more prospective homebuyers locked in the renter pool. Trailing 12-month rent growth peaked at 10% towards the end of 2021 and has been moderating since, tallying 5.8% as of Q3 2022. Apartment construction has been on the rise in recent months both around Center City and in the suburbs. Net deliveries are expected to average 2,200 units per quarter during late 2022 and 2023, up more than 45% from completions seen over the past two years. This may gradually push vacancies up over the next several months. Under construction volumes within the City's core remain particularly high, as developers rushed to get their projects permitted and underway before the City began a gradual phase out of tax abatement on new construction for projects that received their construction permits after year end 2021. Property owners in urban neighborhoods with the largest volumes of projects under construction, such as the Northern Liberties/ Fishtown/Kensington area may be forced to increase concessions offerings during 2023 as they will likely face competition from thousands of new units offering one to two months free rent discounts to get their first tenants in the door.

Rent Growth

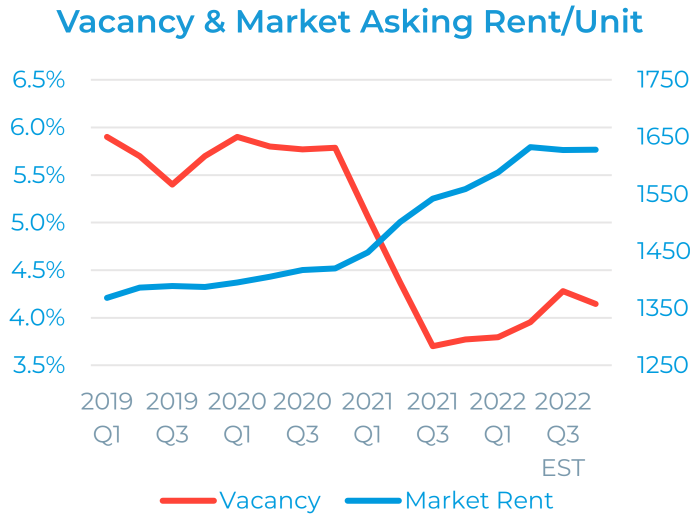
Rent growth skyrocketed in 2021 with the reopening of colleges and universities and a new round of stimulus funds tallying 9% in the Greater Center City area and 11% in the suburbs. The pace of rent growth has been moderating in 2022 and market wide gains are currently running at 5.8% YOY as of Q3 2022. While vacancies have been rising slightly over the past several months, they remain near all-time lows. Data from the Bureau of Labor Statistics shows average earnings rising at a pace of 4%-4.5% YOY in the metro area heading into late 2022. Property owners will continue raise rents in the months ahead, but with a record pipeline of under construction projects expected to push apartment vacancies up during 2023, the pace of rent increases should continue to slow back down toward the market's typical 2%-3% growth range seen during the five years prior to the pandemic.



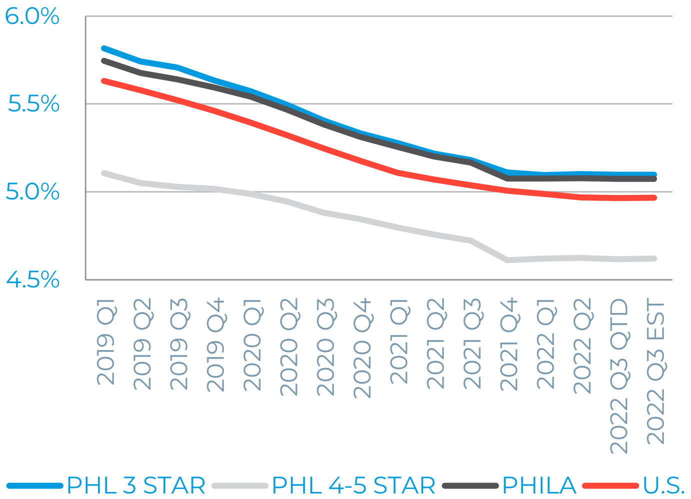


Vacancy

Historically, vacancy trends were similar among multifamily properties in the Greater Center City area and those in the suburbs, with both remaining comfortably below the U.S. average. The pandemic created a gap in Center City verasus suburban vacancies. The average vacancy rate among stabilized, Greater Center City properties stands at 5.5%, a huge improvement from their peak of 10.5% hit during late 2020. Moving forward property owners will have to contend with the 11,500± units under construction. The vacancy rate of suburban properties has been falling since the start of the pandemic, with vacancies for properties rated 3 Stars or lower now at 2.6%, and vacancy rates for 4- and 5-Star properties that opened more than two years ago averaging a low 3.6%. These vacancy figures are near all-time lows, although both have been drifting up slightly since late 2021 as pandemic and stimulus-driven new household formation has been cooling, and suburban property owners have raised rents by more than 20% since the start of the pandemic.



Market Cap Rate

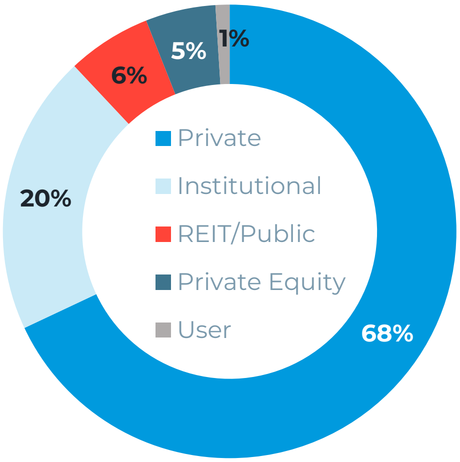


Sales Trends

Multifamily sales volumes over the past 12 months is over $3.1 Billion as of Q3 2022, compared to average annual volume of $2.4 billion during the three years prior to 2020. Pricing remains elevated by historical standards and even sellers who purchased their properties just a few years ago are still exiting their investment with significant capital gains in some cases. Aggressive bidding activity brought the average sale price for trades completed over the past year to $205,000± per unit, a 13 percent increase over the previous span. Acquisitions by out-of-state investors noticeably increased during this period, with most buyers originating from nearby New York and New Jersey. In addition to elevated returns for comparable assets, many of the metro's municipalities boast a friendlier business environment for multifamily investment relative to these investors' home markets.

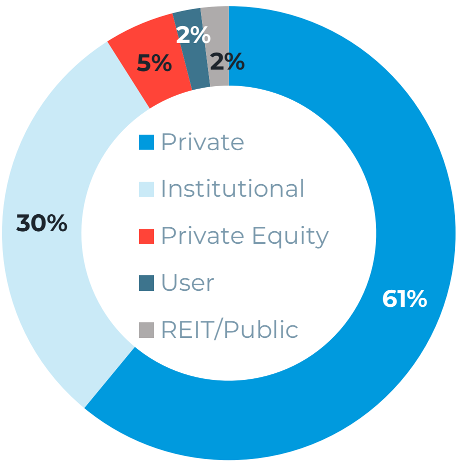
Sales Volume by Buyer Type

(Past 3 Years)



Sales Volume by Seller Type

(Past 3 Years)



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Sources: GREA Research; National Multifamily Housing Council; CoStar