JUNE 2023

PHILADELPHIA METRO AREA

MULTIFAMILY REPORT

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Multifamily Market Report

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MARKET INVENTORY

94.5%
Current Occupancy Rate

$221,000
Avg. Price/Unit

347,205±
Units

23,288
Units Under Construction

2.6%
12-Mo. Asking Rent Growth

$1,683±
Avg. Rent/Unit

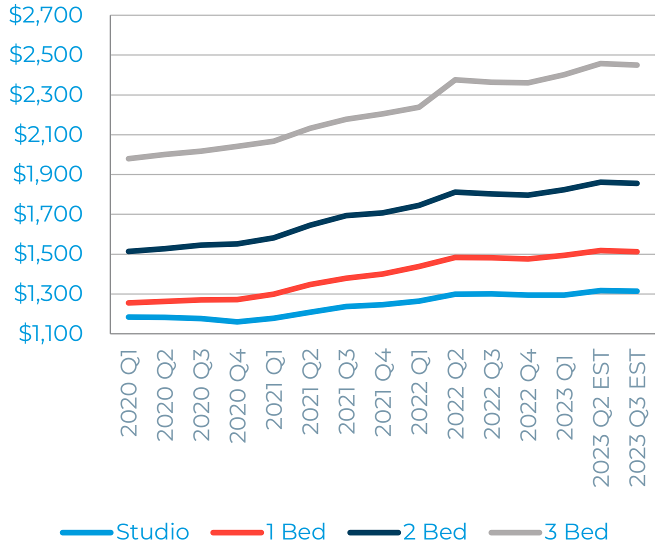
Submarket Overview

The booming levels of renter demand that prevailed throughout the Metro in 2021 and 2022 have given way to a period of slower absorption in 2023. Apartment performance has moderated after unprecedented renter demand stemming from stimulus checks, record wage growth, and the in-migration of remote workers from costlier markets like New York City. The MSA's tally of 23,000 units under construction amounts to 6.7% of the metro's inventory - the highest level recorded for the Philadelphia Metro in more than 20 years. These deliveries will gradually expand vacancies and soften rents in the months ahead. The market-wide vacancy rate has already trended upward to 5.5%, from a low of 3.8% in Q3 2021 with 4- and 5-Star apartments leading vacancies at 8.1 %. Landlords in urban neighborhoods with the largest volumes of projects under construction, particularly Northern Liberties, Fishtown, Kensington, and Center City, may be forced to increase concessions. Suburban apartment construction has begun to slow, with about 2,600 units underway, notably below the peak of 6,300 units reached just before the pandemic. The Metro's trailing 12-month rent growth peaked at 10% in late 2021 and has been slowing since as renters digest unprecedented rent hikes and are cutting costs with the growing concerns of a recession. As of Q2 2023, year-over-year rent growth has normalized to 2.6%, which is on par with the national average and the historical average.

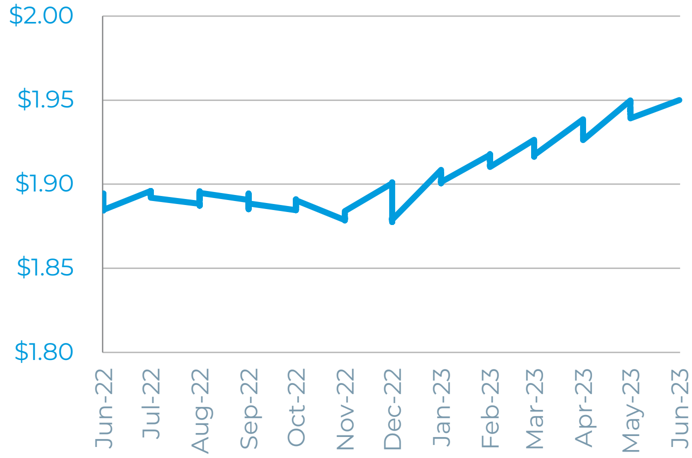
Rent Growth

Rent growth has eased to 2.6%, as of Q2 2023, after unprecedented performance across the region when rents posted 9.2% year-over-year growth in early 2021. In the past three years alone, rents cumulatively grew by about 17% in the Philadelphia Metro Area. Slower rent performance in early 2023 is no surprise, as prior rent performance is not sustainable over the long term and would require similar wage growth performance to maintain a strong pool of eligible renters who are not priced out. Despite a comparatively strong 4% to 5% wage growth in the past year across the Philadelphia Metro, wages have not kept pace with rent growth since late 2020. As a result, landlords will need to determine what rents are competitive in today's rebalancing market. Urban neighborhoods commanding the Metro's highest rents - Center City, Art Museum, Northern Liberties, and University City - are averaging between 1.5% and 2% annual rent growth in mid-2023. Meanwhile, suburban submarkets - Main Line, Conshohocken/Plymouth Meeting - are experiencing 3.7% and 4.7% annual rent growth, respectively. Property managers note that while it took longer than anticipated for the usual Spring leasing activity to kick in, leasing momentum began to pick up in May.

Market Rent Per Unit by Bedroom



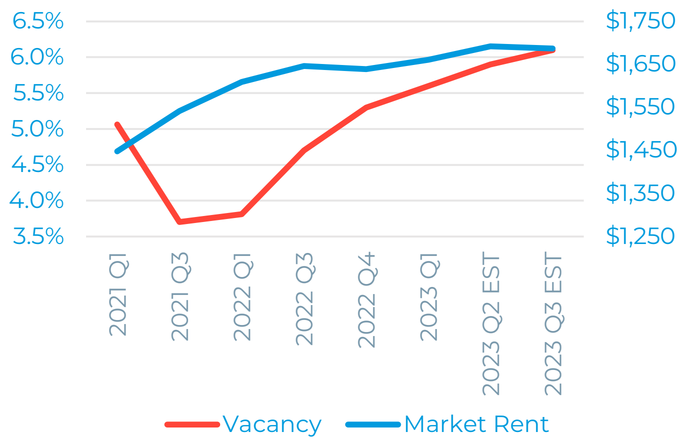
Daily Asking Rent/SF



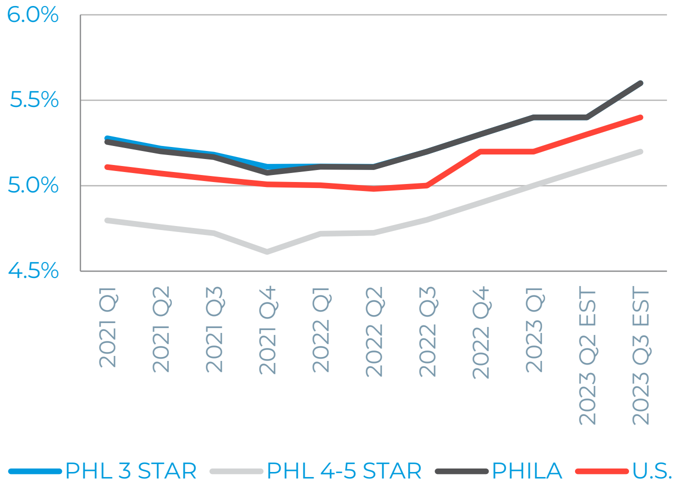
Vacancy

As of mid-2023, the Philadelphia Metro's vacancy rate of 5.5% has continued to stabilize below the nation's average of 6.8%. Philadelphia's apartment vacancy has consistently held below national levels since 2016, which can be attributed to its cost-of-living to amenities ratio despite being one of the largest cities in the United States. In the Region's downtown enclave, Greater Center City, property vacancies have now inched upward to 7.5% after dropping to a 5% historic low at the end of 2021. Meanwhile, the suburban apartment vacancy rate has since grown to 5.3% in mid-2023 after hitting a 3.3% record low in early 2022. For properties rated 3 Star or lower, vacancies ticked to 4.3% after hitting a record 2.5% low throughout 2021, a time when people moved from dense urban environments to suburban neighborhoods with space more conducive to work-from-home setups. For 4- and 5-Star suburban properties, vacancies edged upward to 8.8%. Vacancies across the region have drifted upward as macroeconomic demand has softened and renters digest rental increases of over 20% since the start of the pandemic.

Vacancy & Market Asking Rent/Unit



Market Cap Rate

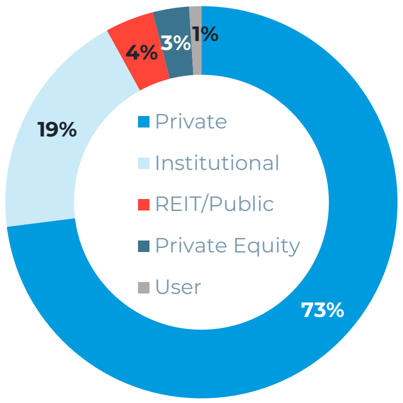


Sales Trends

Sales activity has decelerated due to today's high interest rate environment, dropping below the Metro's five-year annualized average of $2.4 billion to $1.5 billion in mid-2023. Recent quarters show apartment sales are significantly stalling in early 2023. Q1 2023 recorded a quarterly sales volume of $106 million. This is the lowest quarterly sales volume since Q2 2020 at the height of pandemic economic and health disruptions. After hitting an all-time annual sales record of $3.6 billion in mid-2022, Philadelphia apartment transactions have started to moderate through mid-2023. Annual sales volumes are now at $1.5 billion, which is below the annualized five-year average of $2.4 billion.

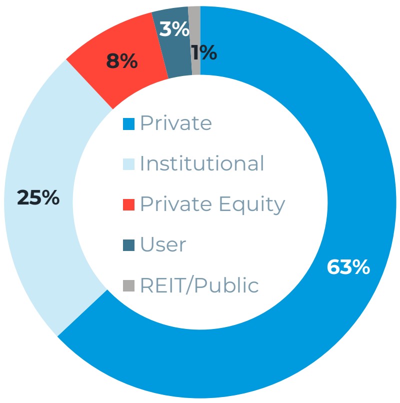
Sales Volume by Buyer Type

(Past 3 Years)



Sales Volume by Seller Type

(Past 3 Years)



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Sources: GREA Research; National Multifamily Housing Council; CoStar; Yardi Matrix