Broad-Based Job Gains Drive Rent Improvement; Investors Pursue Philadelphia for Stability and Yield

Healthy employment growth supports multifamily demand. The steady Philadelphia apartment market will gather steam in 2017 as sturdy employment growth intensifies demand for rentals. The metro boasts a highly diversified local economy and expansions are occurring in an array of sectors. Healthcare and educational institutions remain stalwart job creators, with professional and business services and tourism-related hiring also on the rise. Employers draw talent out of Philadelphia's deep college network. Recent college graduates often pursue rental housing in the metro's most dynamic neighborhoods, drawn by strong urban amenities and a walkable lifestyle. As a result, Center City and other locales near downtown enjoy a deep pool of renters. These areas, along with King of Prussia, are receiving the bulk of new supply. The sizable pipeline of projects slated for delivery in 2017 will place upward pressure on vacancy, though the metrowide vacancy rate will remain below the 15-year average. Sustained low vacancy, coupled with high-end deliveries hitting the market, will encourage another year of respectable rent growth.

Strong operations and above-average yields encourage investment. Risk-averse investors seeking consistent yield will put capital to work in the stable Philadelphia multifamily market. Cap rates average in the mid- to high-6 percent range, offering buyers a differential of roughly 150 basis points more than the national level. Investors from New York City remain highly active in the metro as intense cap rate compression in their home market encourages expanding the search for yield. The inventory of for-sale properties remains limited, forcing buyers to bid aggressively on available listings. As a result, the average price per unit will trend above the pre-recession level, particularly in urban areas where demand is strongest. Moving forward, deal flow may accelerate as record valuations entice more property owners to bring their assets to market.

2017 Market Forecast

NMI Rank
30, down 2 places — Higher vacancy triggered a two-place fall for Philadelphia in the Index.

Employment
up 1.7% — Following a job gain of 54,000 workers last year, the Philadelphia workforce will add 49,000 employees in 2017, an increase of 1.7 percent.

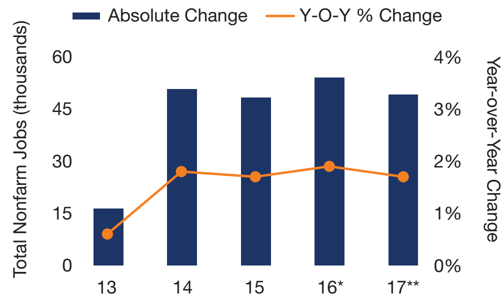
Construction
5,700 units — Developers completed 5,900 rentals in 2016. This year, the inventory of apartments will expand by 5,700 units, 2,300 of which will come online in Center City.

Vacancy
up 40 bps — The considerable volume of completions in 2017 will raise vacancy 40 basis points this year to 4.7 percent following no change last year.

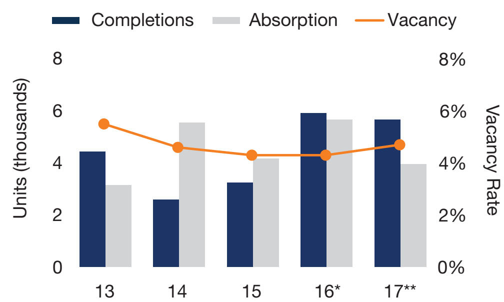
Rent
up 4.5% — After a climb of 5.4 percent in 2016, the projected average effective rent of $1,304 per month in 2017 marks a 4.5 percent increase.

Investment — Assets in Center City will receive the most investor interest as its status as an employment hub and entertainment district draws a deep pool of renters. Deals here typically trade at cap rates in the low-5 percent band.

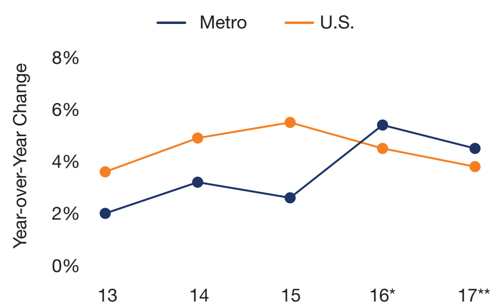
Employment Trends



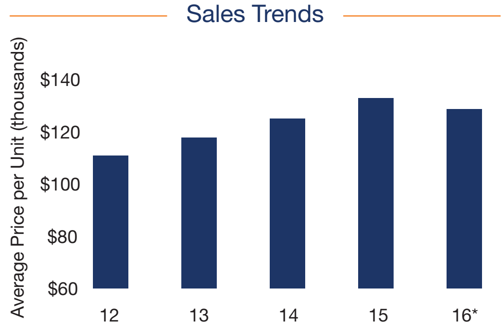
Supply and Demand



Effective Rent Trends



Sales Trends



* Estimate ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics