

### Rents Maintain Ascension Trend; Regional Investors Attracted by Higher Yields

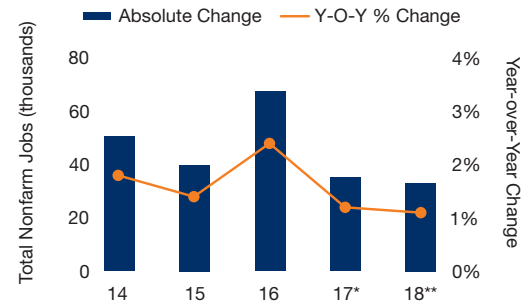
**Rent growth persists while widespread construction places upward pressure on vacancy.** Additional jobs in food service, hospitality and the medical field are spurring new household formation in Philadelphia. This is driving a positive rebound in net absorption after the pace of leasing dropped in 2017. New renters will have a variety of options as construction continues at an elevated pace, although building has tempered somewhat when compared with last year. The new supply will meet demand unevenly across the metro. Certain regions where vacancy is tight, such as northeastern Philadelphia, will readily consume the supplementary development. Other areas, including Norristown and southwest Philadelphia, are raising concessions amid added stock. The varied impact will translate to an uptick in the marketwide vacancy rate following a larger jump in the previous year. Despite this upward shift, average monthly rents will increase for the ninth consecutive year due to positive market demand.

**Investors cast wider net, target older properties.** The multifamily environment in Philadelphia will stay strong as the level of capital seeking investment outweighs available inventory. New York- and New Jersey-based investors continue to find the area attractive due to lower entry costs and higher yields. Recent transactions involving Class C buildings featured high-6 percent cap rates, while Class B complexes traded 40 to 60 basis points lower. Meanwhile, top-tier assets are witnessing mid-4 percent first-year returns. Many smaller properties with sale prices between \$1 million and \$10 million were recently traded in Center City and north/northwest Philadelphia at yields ranging from mid-6 to low-7 percent. Investors are also looking toward suburban opportunities where prices per unit offer a lower point of entry.

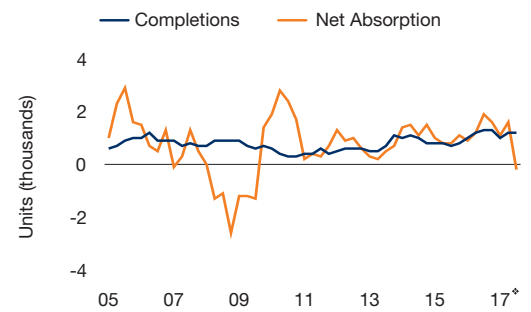
### 2018 Market Forecast

- Employment** ↗ up 1.1%  
Employers will add 33,000 positions in 2018, a slight drop from the 35,000 jobs that were created last year. A higher-than-national level of unemployment will place less pressure on recruiters regarding future hiring.
- Construction** ↘ 4,400 units  
Developers added 5,400 apartments in 2017. The construction pipeline for 2018 will decline by 19 percent but stay above the five-year average.
- Vacancy** ↗ up 30 bps  
Following a 90-basis-point rise last year, the vacancy rate will increase by a third of that in 2018 to reach 5.1 percent. Levels this high were last recorded prior to 2014.
- Rent** ↗ up 4.2%  
Average effective monthly rent will go up by \$55 in 2018 to \$1,355, not quite matching the 5.3 percent jump reported last year. Rents have climbed every year since 2009.
- Investment** ●  
Recent multifamily expansion in King of Prussia highlights interest in new suburban downtown developments.

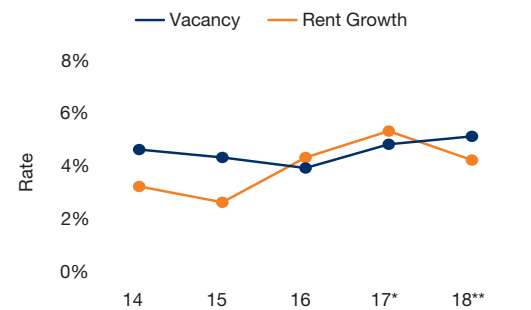
#### Employment Trends



#### Quarterly Completions vs. Absorption\*



#### Vacancy and Rents



\* Estimate; \*\* Forecast; \* Through 3Q; \*\* Trailing 12-month average  
Sources: CoStar Group, Inc.; MPF Research; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of November 2017. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.