

MULTIFAMILY

Philadelphia Metro Area

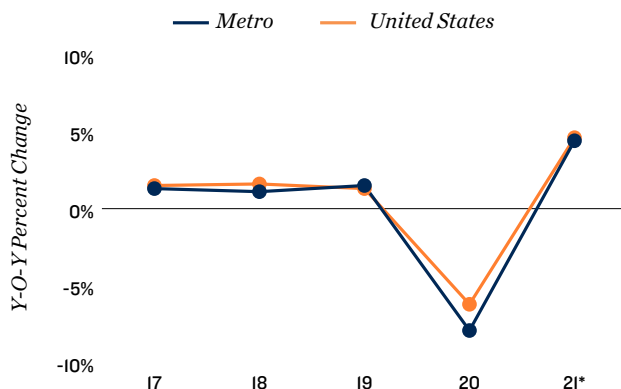
3Q/21

One Year After Health Crisis Onset, Market Posts Rapid Rent Growth, Historically Low Vacancy

Resiliency transitions to near-record growth. Despite the health crisis, Philadelphia apartments performed well last year. After a brief updraft, marketwide vacancy ended 2020 down 20 basis points, while rents climbed consistently each quarter. Multifamily fundamentals have been improving more rapidly this year. As of June, vacancy had already fallen below the pre-health crisis level, while the average effective rent is ascending by one of the fastest clips in 20 years. These gains are being driven primarily by suburban neighborhoods, where many households relocated during lockdowns. This is especially true of North Montgomery County, where rents are up over 7 percent annually. Rates are also climbing quickly in New Jersey's Gloucester and Lower Camden counties, driven by vacancy under 2 percent. These dynamics are likely to hold at least through year-end.

Center City apartment demand improving, recovery ongoing. A vaccine-facilitated economic reopening aided in the absorption of 720 Center City apartments from April through June after 940 rentals had been relinquished over the preceding 12 months. The uptick in leasing pushed the vacancy rate down 50 basis points quarter over quarter. At 7.7 percent, the measure is still 290 basis points above the pre-pandemic level. A mild retraction in concession use also helped improve rents in the second quarter, with the average rate advancing for the first time in over a year. Renter demand will steadily improve but is not likely to keep pace with construction. Center City's inventory is set to expand by 4.3 percent this year, the most of any submarket.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2021 Outlook



122,000 JOBS
will be created

EMPLOYMENT:

After a 7.9 percent decline in 2020, metro employers will expand staff counts by 4.4 percent this year, just below the national pace of 4.6 percent. As of July, Philadelphia unemployment was 6.7 percent, less than half the pandemic high but above the U.S. level.



7,100 UNITS
will be completed

CONSTRUCTION:

Completions slated for 2021 will exceed last year's figure by about 520 rentals, marking the highest level in at least 20 years. Market supply is anticipated to grow by 1.8 percent, below the national rate of 2.1 percent.



20 BASIS POINT
decrease in vacancy

VACANCY:

Vacancy will decline in 2021 by the same margin as in 2020, with net absorption slated to surpass supply additions for the fifth consecutive year. The metrowide rate will end 2021 at 3.1 percent, below the pre-pandemic low of 3.2 percent recorded in 2019.

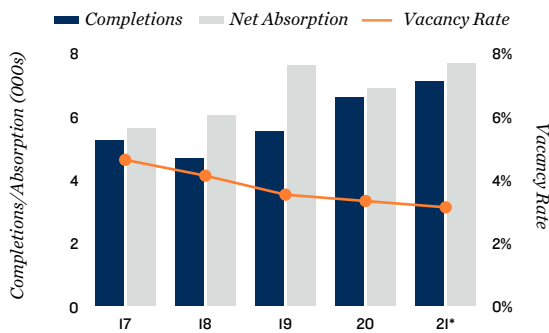


5.9% INCREASE
in effective rent

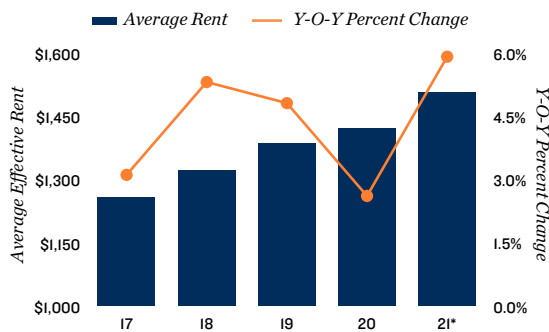
RENT:

Philadelphia apartments will extend their streak of uninterrupted rent growth to a 12th consecutive year in 2021. The average effective rent will climb by a record margin to \$1,505 per month, driven primarily by growth in the Class B and C segments.

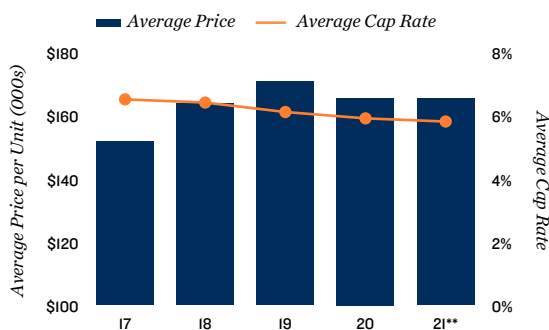
Supply and Demand



Rent Trends



Sales Trends



* Forecast; ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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2Q21 – 12-Month Period

CONSTRUCTION

6,783 units completed

- Philadelphia’s inventory expanded by 1.7 percent over the four-quarter period ended in June, comprising approximately 1,300 more units than in the prior yearlong span.
- More than 1,000 rentals opened in both Center City and Chester County over the past year, leading all other submarkets.

VACANCY

70 basis point decrease in vacancy Y-O-Y

- Apartment absorption reached a new pandemic-period high in the second quarter, pushing the metrowide vacancy rate down to 3.1 percent, its lowest level since mid-2001.
- Availability contracted the most year over year in Lower Camden County, down 210 basis points to 1.5 percent.

RENT

5.2% increase in the average effective rent Y-O-Y

- Rent growth accelerated over the past 12 months, lifting the market average effective rent to a new high of \$1,478 per month. Rates have improved by an average of 3.1 percent per year over the past decade.
- While rent in the urban core advanced in the second quarter, annual growth was limited to the suburbs, up by an average of 5.9 percent.

Investment Highlights

- Transaction velocity improved by 5 percent over the 12-month period ended in June relative to the prior yearlong span. The uptick in sales activity lightened the downward pressure on pricing. After contracting by 3 percent in 2020, sale prices barely shifted during the subsequent six months, arriving at an average of \$165,300 per unit in June. The average cap rate dipped 20 basis points over the same span to 5.8 percent, partially influenced by more Class A trades.
- Institutions seeking assets priced at \$10 million or above focused primarily on well-established suburban submarkets outside the urban core, including along the Main Line as well as in Bucks and New Castle counties. Assets were predominantly Class B with yields ranging from low-4 percent to mid-5 percent.
- Private buyers were more active on the Pennsylvania side of the metro than they were the year before, including in Montgomery County and West Philadelphia. Several Class C properties also changed hands in Center City. Assets were generally over 100 years old with fewer than 10 units in historically popular residential areas within the urban core.