

MARKET REPORT

Multifamily
Philadelphia Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

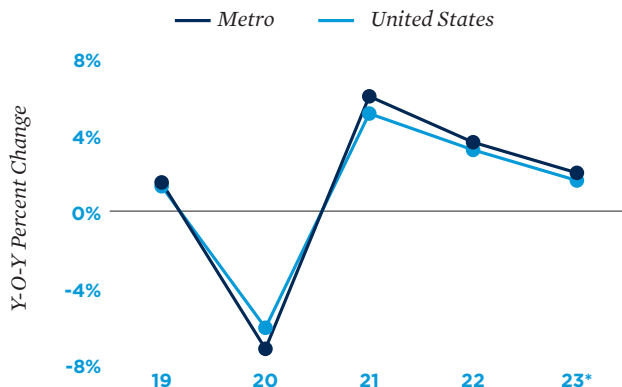
3Q/23

Nationally Resilient Labor Market Aiding Renter Demand Amid Recent Economic Headwinds

Vacancy remains comparatively tight. Entering July, vacancy was at 4.3 percent. Although this figure is roughly 260 basis points above the all-time low achieved in early 2022, it still ranks as the ninth-tightest rate among all major U.S. metros. The recent rise in vacancy can be attributed to headwinds, such as lower personal savings and lingering concerns of a recession, that slowed leasing activity. However, the 1,320 units that were taken off the market on a net basis from April to June of this year is a welcome sign, as the metro posted negative net absorption in each of the prior four quarters. The strength of the local labor market should help provide a lift to renter demand amid this stretch of historic multifamily development. Through the first half of 2023, the metro ranked third in the nation for employment growth, with the addition of 49,300 jobs.

Build levels reach unprecedented heights. Historic renter demand in 2021, coupled with numerous developers looking to take advantage of the City of Philadelphia's 10-year property tax abatement program before its dilution, has led to record levels of development. Annual deliveries in both 2023 and 2024 are projected to outpace the previous all-time high by more than 3,000 units. Completions will be heavily concentrated in Center City and Northeast Philadelphia, accounting for more than half of the total pipeline. Metro vacancy is expected to remain elevated in the near- to mid-term, until construction activity begins to slow and newly-delivered units enter stabilization.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook



**61,000
JOBS**

will be created

EMPLOYMENT:

Philadelphia is projected to rank fourth among all major U.S. markets in annual job gains, as headcounts increase by 2 percent. Employment growth will be bolstered by the local education and health services sector.



**10,500
UNITS**

will be completed

CONSTRUCTION:

Annual deliveries surpass the 10,000-unit threshold for the first time on record as developers lift apartment inventory by 2.6 percent. Competition from new supply will be most evident inside the city of Philadelphia.



**100
BASIS POINT**

increase in vacancy

VACANCY:

Vacancy will rise on an annual basis for the second straight year, following the 200-basis-point jump recorded in 2022. Still, at 4.8 percent, Philadelphia remains among the top 10 tightest apartment markets in the nation.



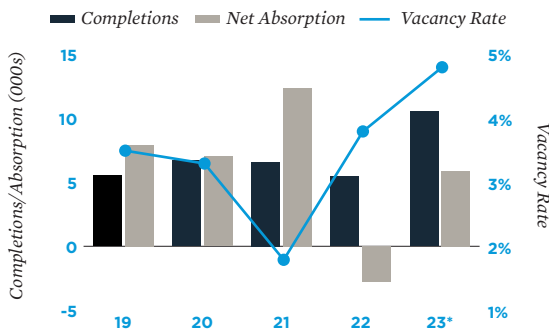
**3.6%
INCREASE**

in effective rent

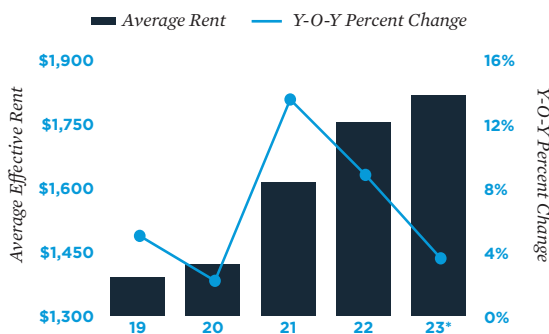
RENT:

Rent growth returns to more sustainable levels, following two consecutive years of robust gains. The advancement in 2023 mirrors the long-term average, as the mean effective rent reaches \$1,815 per month.

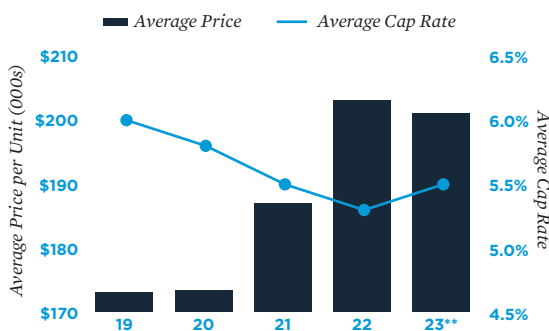
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

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Price: \$250

2Q 2023 - 12-Month Period

CONSTRUCTION
6,958 units completed

- Developers increased local apartment inventory by 1.7 percent during the trailing 12 months ending in June, with nearly 40 percent of all new supply delivering in the Center City submarket.
- Central Wilmington led all suburban areas in supply growth during this span, as local stock expanded by 2.6 percent.

VACANCY
210 basis point increase in vacancy Y-O-Y

- A slowdown in renter demand, coupled with elevated supply pressure, lifted metro vacancy to 4.3 percent in June.
- The rate in the CBD rose by 90 basis points during the past four quarters ending in June to 5.3 percent. Meanwhile, suburban vacancy jumped by 220 basis points during this span to 4.3 percent.

RENT
5.0% increase in the average effective rent Y-O-Y

- Despite rising vacancy, annual rent growth still outpaced the long-term average, bringing the mean effective rate to \$1,780 per month in June.
- Gains were driven by the suburbs, as the mean rent in the CBD inched up by just 0.6 percent year-over-year in June. Gloucester County, Bucks County and Outer Wilmington each recorded annual growth exceeding 9 percent.

Investment Highlights

- Transaction velocity from April through June 2023 fell to the lowest quarterly volume since 2010. Elevated borrowing costs have widened bid-ask spreads between buyers and sellers, which has complicated the deal-making process. However, interest rates are expected to be more stable during the second half and may remain within their underwritten range from contract execution to close, which could help facilitate more trading activity in the coming months.
- Buyers who remain active in the metro have been targeting assets in Center City and North Philadelphia most often as of late. Proximity to major employers in the CBD and the presence of Temple University in the city's Northside have stoked investor interest. Institutional investors have been seeking Class A and B properties with more than 100 units in these submarkets, with entry costs averaging above \$330,000 per unit.
- Investor demand may rise in suburban submarkets, such as Newark, Delaware County, Gloucester County and Burlington County, over the coming quarters. These areas face much less supply pressure relative to the CBD, with local vacancy rates at least 40 basis points below the metro average.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc. © Marcus & Millichap 2023 | www.MarcusMillichap.com