Market Report

MULTIFAMILY 2Q/26

Philadelphia Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

Class C Properties Excel as Select Suburbs Exemplify the Market's Tight Conditions

Affordability pressures impact demand dynamics. After falling 50 basis points year-over-year to 2.9 percent in March, Philadelphia's Class C vacancy ranked as the fifth tightest among major markets. Meanwhile, Class B vacancy declined 10 basis points to 3.9 percent, while Class A vacancy rose 30 basis points to 5.4 percent. These trends highlight a slight shift in demand away from the higher end of the market amid escalating affordability pressures. The average effective rent in Philadelphia has grown at the fastest rate among major East Coast markets over the past three years. During the same span, local median household income growth trailed the U.S. pace, narrowing the ratio of average effective rent to median household income by over 15 percent.

Easing development benefits key corridor. Employment growth is stabilizing alongside a cresting supply wave, suggesting conditions at the higher end of the market will likely improve. This is poised to primarily benefit the area spanning Central City-Elkins Park-Cornwell Heights, where supply growth has concentrated in recent years. Elsewhere, the northeastern suburbs in Bucks and Burlington counties, as well as the stretch between Drexel Hill and Newark, maintain strong positioning, with overall vacancy hovering near 3 percent in early 2026.

2026 FORECAST

EMPLOYMENT

11,500 — Jobs will be created

0.4% — Increase Y-O-Y

CONSTRUCTION

4,100 — Units will be added

1.0% — Inventory increase Y-O-Y

VACANCY

3.7% — Vacancy rate

20 — BPS decrease Y-O-Y

RENT

$1,960 — Average effective rent by year-end

2.6% — Increase Y-O-Y

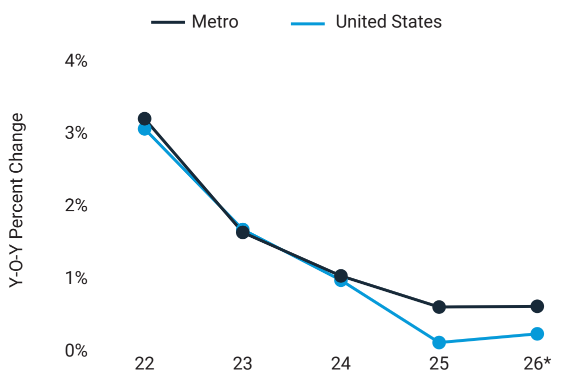
EMPLOYMENT

Philadelphia's labor market is improving after slowing through much of 2025. Over the past six months ended in May, the market added a net of roughly 10,000 positions. This helped bring the unemployment rate down to 4.4 percent, after it reached its highest point since 2021, 4.8 percent, in late 2025. While healthcare and local government sectors will likely continue to support job growth, overall hiring in 2026 is still expected to fall below the trailing decade average of 1.0 percent.

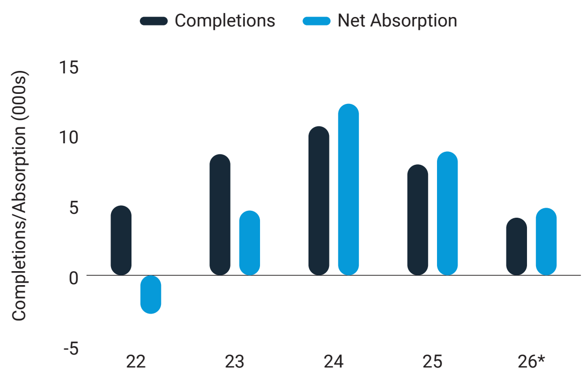
CONSTRUCTION

After more than 27,000 units opened over the past three years, the metro's supply wave is cresting in 2026, as inventory growth falls to its lowest level since 2013. Southwest Philadelphia is the only submarket expecting a meaningful acceleration in supply growth, with over 800 units delivering. Elsewhere, Center City's forecast of 1,700 rentals marks a sharp deceleration from the more than 7,500 units added in the past two years, while Northeast Philadelphia's 700 projected rentals represent a more modest decline.

EMPLOYMENT TRENDS



CONSTRUCTION TRENDS



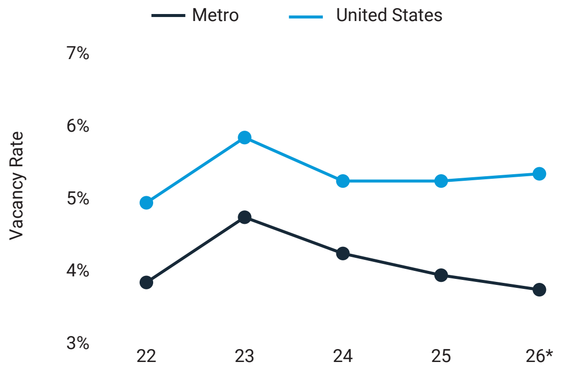
* Forecast

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

VACANCY

The metro's vacancy edged down to 3.9 percent in the 12 months ended in March, nearly in line with the trailing-decade average. While vacancy reached 5.9 percent in Center City, where construction has been heavily concentrated since 2020, every other submarket posted a rate near or below 5 percent in the first quarter. Metrowide conditions are expected to tighten further through year-end amid minimal supply pressure and firming demand, helping Philadelphia retain one of the 10 lowest vacancy rates among major markets.

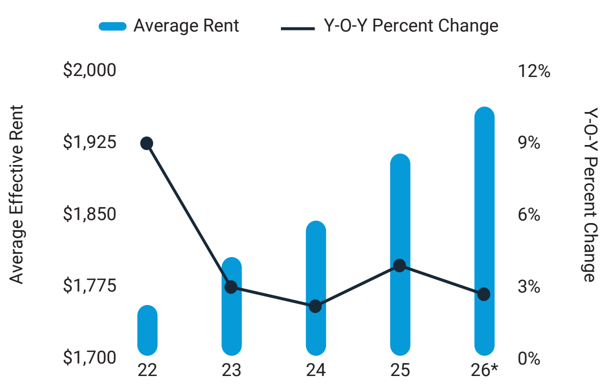
VACANCY TRENDS



RENT

Philadelphia's average effective rent growth of 4.0 percent over the trailing 12 months ranked as the third-fastest among major markets. Bucks and Chester counties, along with Northeast Philadelphia, each recorded gains exceeding 5 percent. Meanwhile, the share of units offering concessions reached a post-pandemic high of 20 percent in the first quarter, with a similar prevalence across all property classes. This may modestly temper overall rent growth, compared to last year's 3.8 percent gain.

RENT TRENDS



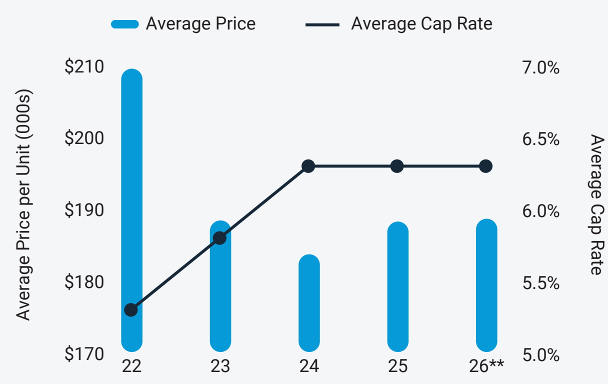
* Forecast ** Through 1Q

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

INVESTMENT HIGHLIGHTS

- Local transaction activity rose nearly 50 percent during the year ended in March, approaching historical peak levels reached in 2021. Deal flow improved across price tranches, reflecting increased activity among both private and institutional investors. As development slows, favorable fundamentals among Class A and B properties could heighten competition from out-of-state investors for newer-built assets.
- Center City will likely remain a focal point for multifamily investment as strengthening apartment demand in early 2026 and new employment catalysts bolster the area's appeal. With local units under construction falling to less than a third of their peak in 2023, declining supply pressure should be sustained beyond 2026. Meanwhile, improving leasing conditions in Philadelphia's office sector since early 2024 point to growing momentum in the urban core. Chubb's newly opened headquarters adds a significant employment anchor, while ongoing Avenue of the Arts improvements should further reinforce Center City's position as a premier employment and lifestyle destination.
- Despite noting annual rent growth of $93, Northeast Philadelphia remained the metro's most affordable submarket in March, while Class C vacancy held in the mid-3 percent range, roughly half that of the higher tiers. Combined with access to transit, major roadways, and employment centers, investor interest appears sustainable here. The bulk of transaction activity in the submarket has historically involved Class C properties built before 1970 that trade for less than $10 million.

SALES TRENDS



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