MARKET REPORT

Marcus & Millichap

MULTIFAMILY

Philadelphia Metro Area

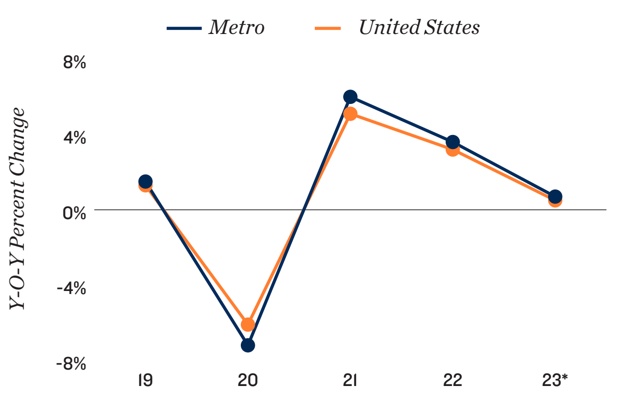
2Q/23

Demand Sustained in New Jersey, While Record Supply Inflows Add Short-Term Pressure Downtown

Eastern suburbs aided by a minimal construction pipeline. Since the opening quarter of 2020, the Camden-Cherry Hill and Gloucester County areas have noted few apartment additions, despite ranking as two of the metro's tightest submarkets. Offering lower average rents than downtown and proximity to the city center, these areas appeal to a diverse renter pool that is supporting below-average unit availability across property classes. Though tightening consumer budgets amid slowing household income growth lead to expanding availability across the metro, fundamentals in these submarkets should register minimal adjustments as a reduced local development pipeline is sustained through the end of 2023. Furthermore, continued supply constraints and below-average availability likely help these eastern suburbs build off their more than 10 percent year-over-year rent growth rates noted in the first quarter.

Robust inventory gains affecting fundamentals. The metro welcomes its largest delivery slate on record this year. Of the amplified pipeline, roughly one-quarter of new units come online in the City Center. A second straight year of more than 2,000 additions may add short-term pressure to an already expanding vacancy rate here, entering the second quarter at 5.7 percent. Conversely, of what would be a record inventory gain in North Montgomery County, the more than 800 units slated to deliver this year should be well received. A Class A availability rate more than 100 basis points below the segment mean indicates strong demand for luxury apartments here.

Employment Trends



** Forecast*

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

Multifamily 2023 Outlook

20,000 JOBS *will be created*

EMPLOYMENT:

Robust hiring efforts ease this year, after more than 100,000 jobs were created in both 2021 and 2022. The manufacturing job count came within 1 percent of its year-end 2019 mark in March, and is on track to exceed this count by December.

8,500 UNITS *will be completed*

CONSTRUCTION:

This year's record delivery count exceeds the previous high set in 2020 by roughly 1,800 units. Of these openings, which equate to 2.1 percent of the metro's existing inventory, about one-third will be in Northeast and Northwest Philadelphia.

110 BASIS POINT *increase in vacancy*

VACANCY:

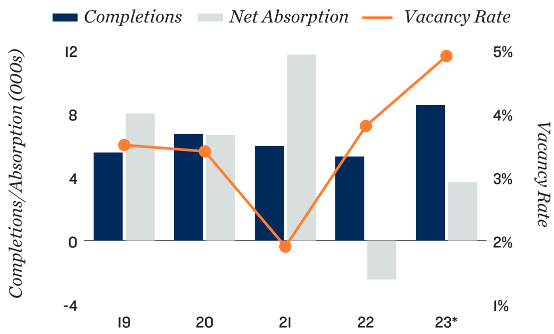
Curbed consumer sentiment amid economic uncertainty, paired with record inventory growth, result in continued vacancy expansion in 2023. This brings the metro's availability rate to 4.9 percent by year-end.

1.2% INCREASE *in effective rent*

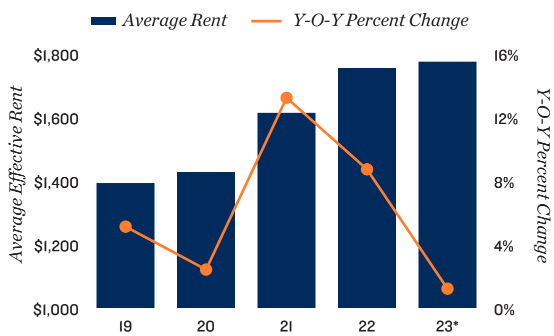
RENT:

A 10-year high vacancy rate results in minimal rent growth this year. The uptick will be Philadelphia's smallest growth rate in a decade, lifting the market's average effective rent to $1,774 per month.

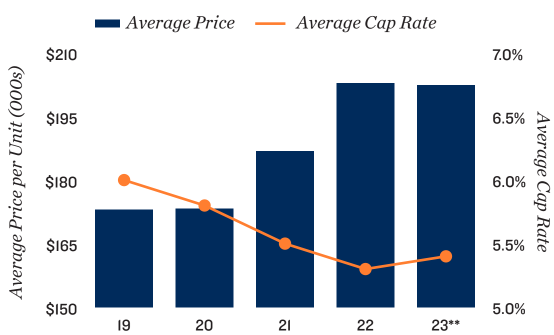
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

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

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1Q 2023 - 12-Month Period

CONSTRUCTION

6,312 units completed

- Builders added nearly 1,800 units during the first three months of 2023, the metro's largest quarterly supply injection in more than two years.
- Approximately 2,400 units were added to Philadelphia's City Center over the previous 12-month span ended in March. The submarket's 5.7 percent inventory growth rate was its fastest pace on record.

VACANCY

250 basis point increase in vacancy Y-O-Y

- After hitting a record low of 1.7 percent in the first quarter of 2022, the metro's vacancy rate rose by the quickest annual pace since 2007. This pushed the rate to 4.2 percent, its highest point since before the pandemic.
- Gloucester County's 2.8 percent vacancy rate entering the second quarter is supported by the metro's tightest Class A and C availability rates.

RENT

6.3% increase in the average effective rent Y-O-Y

- Rent growth tapered from notable gains last year. Negative net absorption from April of last year to March 2023 brought the rate to $1,749 per month.
- The Newark, Outer Wilmington, Camden-Cherry Hill and Gloucester County submarkets achieved double-digit rental rate gains over the year-long period. Of the metro's 16 submarkets, these were the only to do so.

Investment Highlights

- Notable interest rate hikes from the Federal Reserve quickly reduced trading activity starting in the second half of last year. As a result, deal flow in Philadelphia during the first quarter of 2023 accounted for less than 15 percent of transactions during the yearlong period beginning April 2022. Nevertheless, the Fed may pause rate hikes in the ensuing quarters, which would help investors solidify financing strategies and aid deal flow throughout the Philadelphia metro.
- Institutional investors contributed to an uptick in Class A trades over the 12-month period ending in March. However, buyer-seller expectation gaps and debt cost challenges since the latter half of 2022 curbed this trade variety. Of these upper-tier trades that occurred earlier on in 2022, a large portion were accounted for by buyers targeting 150- to 400-unit assets well dispersed throughout the metro's close-in suburbs.
- Transactions in Northeast Philadelphia near Kensington are gaining popularity from buyers targeting sub-50-unit assets below the $10 million threshold. Those looking to deploy additional capital are actively targeting multi-property portfolios, quickly expanding their local footprints.