MARKET REPORT

Marcus & Millichap

MULTIFAMILY

Philadelphia Metro Area

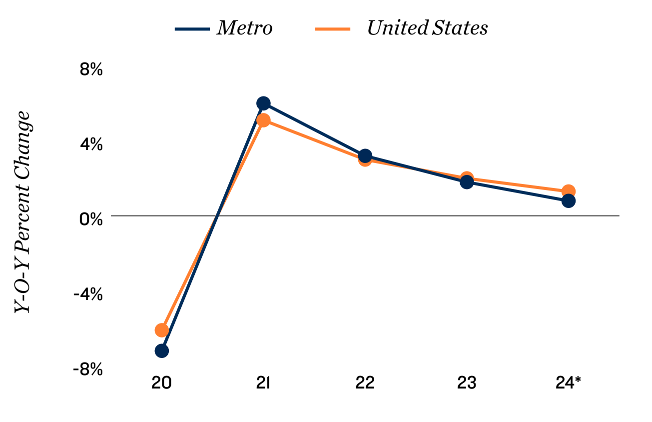
2Q/24

Philadelphia Boasts Nationally Low Apartment Vacancy, Aided by Strong Suburban Demand

The impact of new supply is concentrated downtown. Net absorption in Philadelphia was strong in 2023 as more than 4,700 units were newly occupied. This carried into the first quarter of 2024. While deliveries reach a record high this year, placing upward pressure on vacancy by December, Philadelphia will still maintain one of the lowest rates in the country. Most of this year's construction pipeline is focused in and around downtown, isolating supply pressure to these areas. Vacancy in Center City, where inventory has increased more than 18 percent since 2019, has the highest rate among the metro's submarkets at 6.2 percent. Meanwhile, Bucks County saw stock increase by only 1.3 percent in the same span, and vacancy exited March 140 basis points below the overall metro mark.

Commuters favor suburbs. Philadelphia suburbs benefited from in-market migration last year. Montgomery and New Castle counties, as well as South New Jersey suburbs, logged the most notable population gains. Burlington County subsequently claimed the lowest vacancy rate in the metro at 3.2 percent in March. Limited construction here will likely keep local vacancy tight long term. Montgomery County may soon follow suit as the northwestern area hosted the largest number of residents commuting into Philadelphia last year. This could grow in 2024 as cost-conscious renters look for more space outside the CBD. Active home listings have held below 10,000 for the last year, further augmenting the renter pool.

Employment Trends



** Forecast*

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

Multifamily 2024 Outlook

25,000
JOBS
will be created

EMPLOYMENT:

Total employment will increase by 0.8 percent in Philadelphia. Excluding 2020, this year will have the lowest expansion rate since 2013. A slowdown in trade, transportation and utilities hiring is a contributing factor.

10,700
UNITS
will be completed

CONSTRUCTION:

Deliveries will reach a 25-year high in 2024 as Philadelphia's inventory will grow by 2.6 percent. Center City accounts for nearly 45 percent of new units. More than half of the projects here will have fewer than 100 doors.

10
BASIS POINT
increase in vacancy

VACANCY:

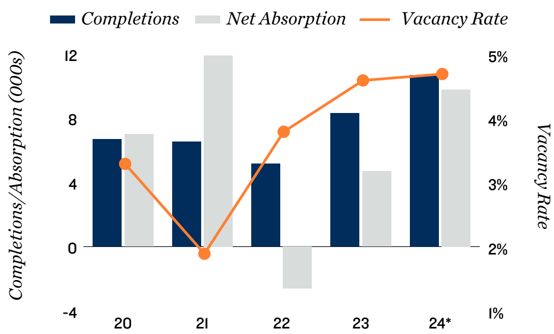
Among major Northeast metros, Philadelphia will record the smallest vacancy increase. The metric will end 2024 at 4.7 percent. This is tied with two other markets for the fourth-lowest rate among major U.S. markets.

1.8%
INCREASE
in effective rent

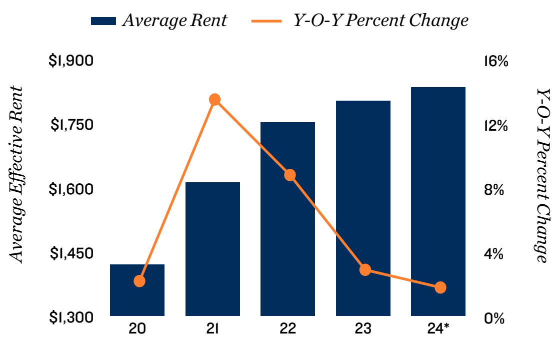
RENT:

The average effective rent in the metro will close 2024 at $1,834 per month, roughly 32 percent higher than the 2019 mark. This will be a new all-time high in the metro.

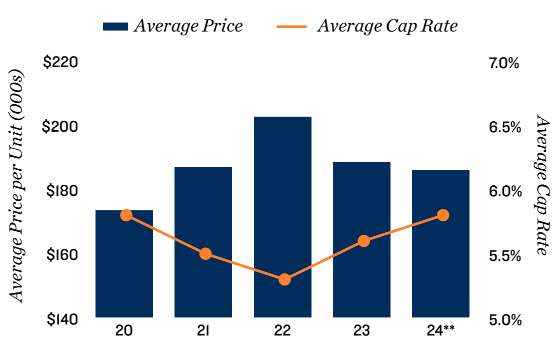
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

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

1Q 2024 - 12-Month Period

CONSTRUCTION

9,402 units completed

- Total inventory expanded by 2.3 percent over the trailing 12 months ended in March, the largest increase since at least 2000.
- Center City, Northeast and Northwest Philadelphia accounted for more than half of all units completed during the yearlong span. Center City alone welcomed more than 2,470 apartments.

VACANCY

60 basis point increase in vacancy Y-O-Y

- Net absorption fell short of completions in the first quarter, pushing vacancy up to 4.8 percent. However, this was just a 20-basis-point increase from the fourth quarter of 2023.
- Class C apartments logged the lowest vacancy rate among the three tiers at 3.9 percent. Class A and B assets were at 6.0 and 4.8 percent, respectively.

RENT

3.0% increase in the average effective rent Y-O-Y

- The average effective rent rose year-over-year to $1,800 per month in March. This rate is roughly in line with the December 2023 mean.
- During the trailing 12 months, the average rent in the CBD increased faster than in the suburbs. The urban mean lifted 4.2 percent to $2,533 per month, while the suburban metric rose 2.1 percent to $1,713 per month.

Investment Highlights

- Transaction velocity in Philadelphia slowed during the trailing 12 months ended in March, similar to other metros. Transactions in the $1 to $10 million price bracket were most common in 2023 and, according to preliminary data, in the first three months of 2024. This has placed some downward pressure on the average price per unit in the metro. Philadelphia, however, did not see the same extreme price appreciation between 2019 and 2022 that other markets did, making this adjustment more mild and offering relative cost stability to buyers and sellers.
- During the first three months of the year, investors were cautiously active in the market. In-market buyers, in particular, sought out Class B and C assets built prior to 2000. Trades were scattered across submarkets, with some portfolio sales taking place in Lower Bucks County and Upper Delaware County where vacancy rates sat below the overall metro level.
- Outside the urban core, investors targeted properties near university campuses. Buildings near the University of Delaware, West Chester University, and University of Pennsylvania offer slightly lower entry costs, are located in dense suburbs and attract younger residents who are more likely to rent.

Philadelphia Office:

Timothy B. Stephenson, Jr. *Regional Manager*

2005 Market Street, Suite 1510

Philadelphia, PA 19103

Tel: (215) 531-7000 | timothy.stephenson@marcusmillichap.com

Prepared and edited by:

Jessica Henn

Research Analyst | Research Services

For information on national multifamily trends, contact:

John Chang

Senior Vice President, National Director | Research & Advisory Services

Tel: (602) 707-9700 | john.chang@marcusmillichap.com

Price: $250