

# Multifamily Metro Outlook:

## Philadelphia - Q1 2021

### Overview:

- The Philadelphia metro is continuing to recover from the impact that the virus took on the local economy. Recovery in the metro is actually faring slightly better than initially thought. As of Q1 2022, job growth in the metro expanded by 4.7% compared to 4.4% nationally. Furthermore, according to CoStar, the Philadelphia job market is close to recapturing all of the jobs lost as a result of the virus, approximately -2.4% compared to pre-pandemic employment levels.
- The local apartment market continues to perform well and has been minimally impacted by the virus' presence. The vacancy rate continues to tighten and remains full as vacancies were 3.25% during Q1 2022 and rent growth continues its to perform well as it expanded by 1.5% during the same period.

### Market Strengths:

- The local Education and Health Services sector is primed for a big boost this year and in subsequent years. According to Moody's Analytics, job creation in the Education and Health Services industry will account for 40% of future jobs in the metro which is higher than both the national and regional average for this employment sector. Furthermore, according to CoStar, Penn Medicine, the metro's largest employer, completed the construction of its 1.5 million square foot new hospital, the Pavilion late in 2021. This will be Penn Medicine's largest project in the metro and should bring at least 600 new jobs for the healthcare sector.
- The cost of living and costs of business in the metro are approximately 3% and 1% (respectively) below the national averages according to Moody's Analytics. Furthermore, as a result of the virus and many employers pivoting to remote work, many in the prime renter cohort, specifically millennials are beginning to take advantage of the lax rules of their employers. According to CoStar, many millennials with jobs in more expensive Northeast metros such as NYC, Boston, and DC are looking to Philadelphia's lower costs of living since they no longer need to live near their jobs.

### Market Weaknesses:

- Philadelphia has an unfavorable population growth rate. According to Moody's Analytics, over the five-year forecast, the population growth rate is expected to expand by 0.1% compared to 0.5% nationally. Furthermore, the 25-44 aged cohort which helped spur local economic growth and home values during the last economic downturn grew at a rate twice the national rate. However, this sector is now contracting by -1.1% compared to -0.3% nationally.
- According to CoStar, the Philadelphia metro's wage taxes are a problem for the metro. Approximately 4% is taken from city residents and 3.5% is taken from nonresident commuters to pay for city services. Many employers are looking to move their businesses to the suburbs or elsewhere as city employers are charged a municipal services and school tax on top of federal and state income taxes.
- Philadelphia already has a demographic issue that lags the national pace; and furthermore, the city's wage taxes could potentially exacerbate that problem. While many employers have embraced remote work for the foreseeable future, the mayor has proposed to lower the city's wage taxes in an effort to lure businesses (back) to Philadelphia, specifically the Downtown area.

### Development:

- Construction in the multifamily market has been moderate despite a small uptick recently. Since 2017, approximately 32,000 rental units were added to the rental market and approximately 24,000 units are underway.
- The condo market is active and could pose a shadow supply risk. Since 2006, about 19,000 condo units were completed and there is a modest amount of supply underway scheduled to deliver through 2024.

### Outlook:

- Despite the onset of the virus, apartment market fundamentals continue to perform well. While supply is ramping up with approximately 24,000 units in the pipeline, the new supply should not alter the steady market largely due to the limited supply that came online within the last few years and the emergence of the younger cohort moving to downtown and urban areas.
- Job growth recovery in the metro continues to lag the national rate, despite an above average quarter of expansion. Furthermore, below average demographic and job growth will prevent the metro's multifamily market from receiving a stronger rating. Philadelphia's ongoing tax issues, inconsistent job growth, and unfavorable population growth will also continue to impede the metro's recovery. Fortunately, the metro does have diversity in their economic composition which will speed up the process in a return to "normal."

## Five Year Metro Area Growth Forecast

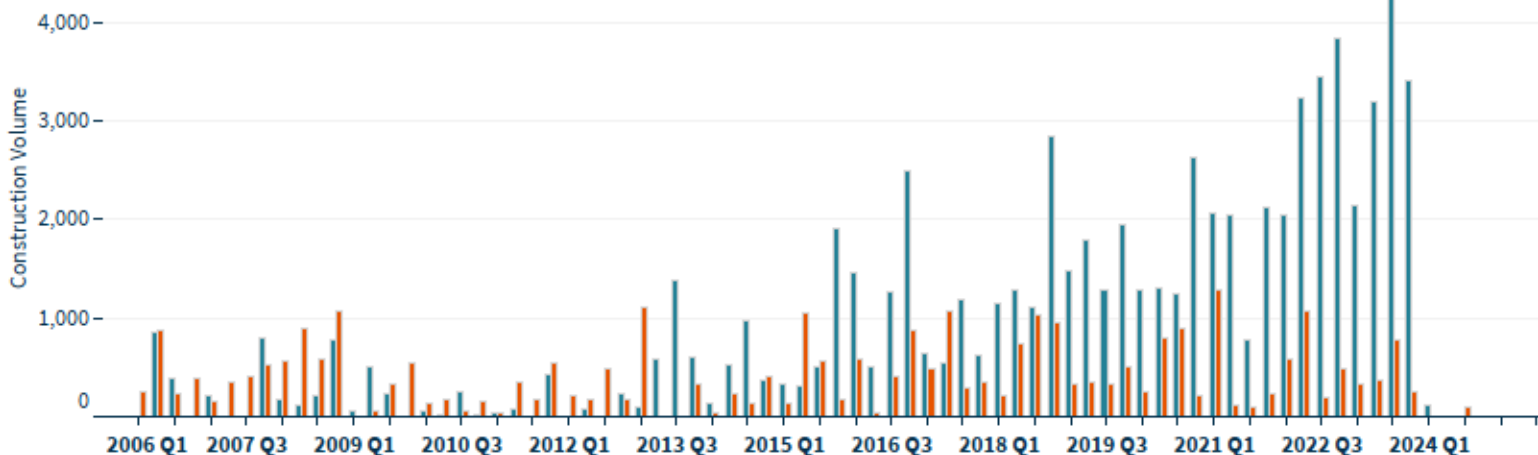
	Q4 2021	Q4 2026	Philadelphia (5-Year Annual Average Change)	National (5-Year Annual Average Change)
<b>Population (000s)</b>	2,157	2,169	0.11%	0.47%
<b>Households (000s)</b>	866	889	0.52%	0.90%
<b>Renting Cohort (Ages 20-34) (000s)</b>	521	493	-1.08%	-0.30%
<b>Total Employment (000s)</b>	919	969	1.05%	1.08%
<b>Median Household Income</b>	\$55,884	\$66,598	3.57%	3.30%
<b>Median SF Home Price</b>	\$234,896	\$267,154	2.61%	1.93%
<b>Net Migration (Annualized)</b>	-1,717	-5,229		

Source: Moody's

## SupplyTrack Pipeline

### Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



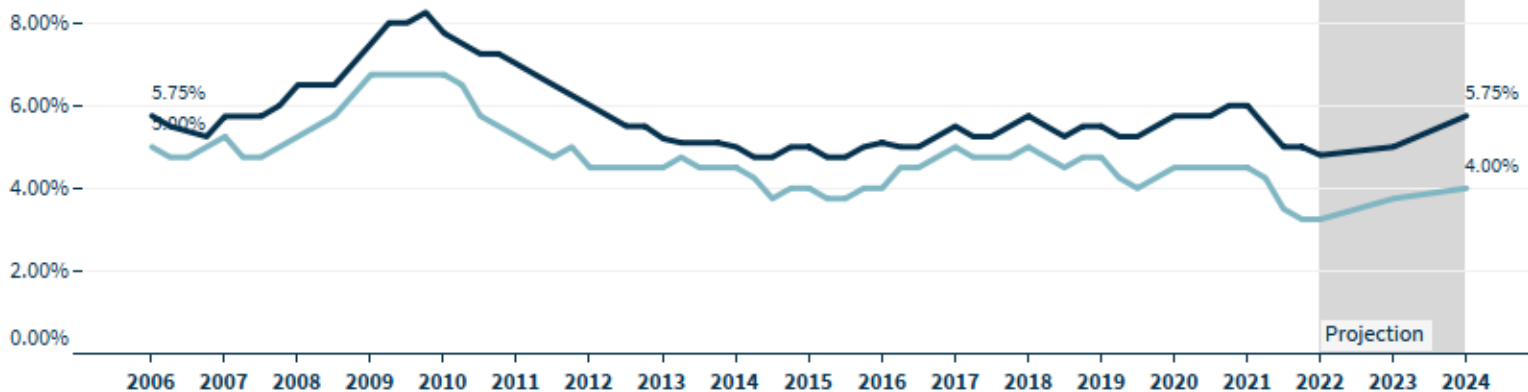
## Vacancy & Rent Composite Estimates

### Vacancy Rates

Philadelphia | National

Q1 2022 Vacancy Rate:

3.25%

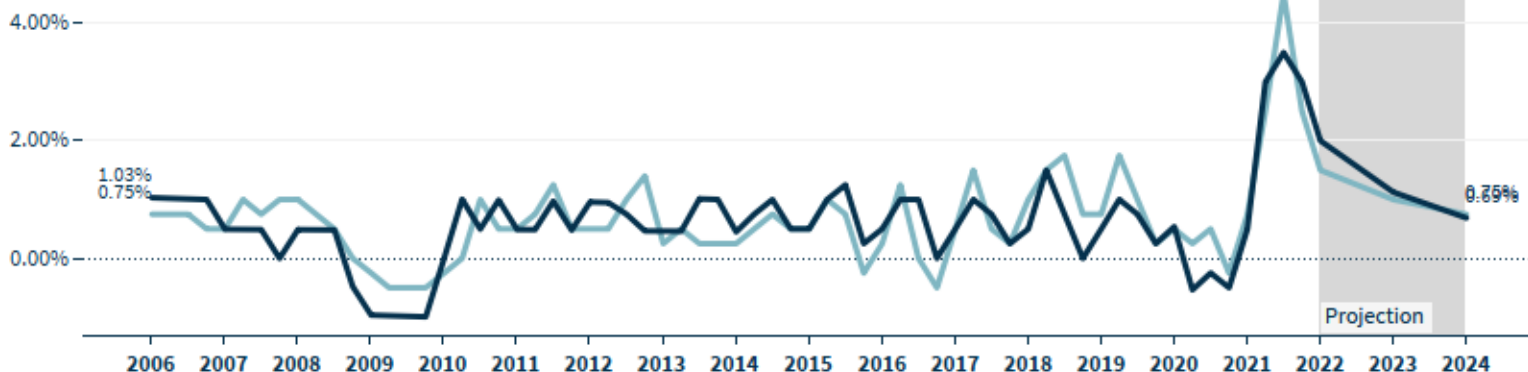


### Asking Rent Growth

Philadelphia | National

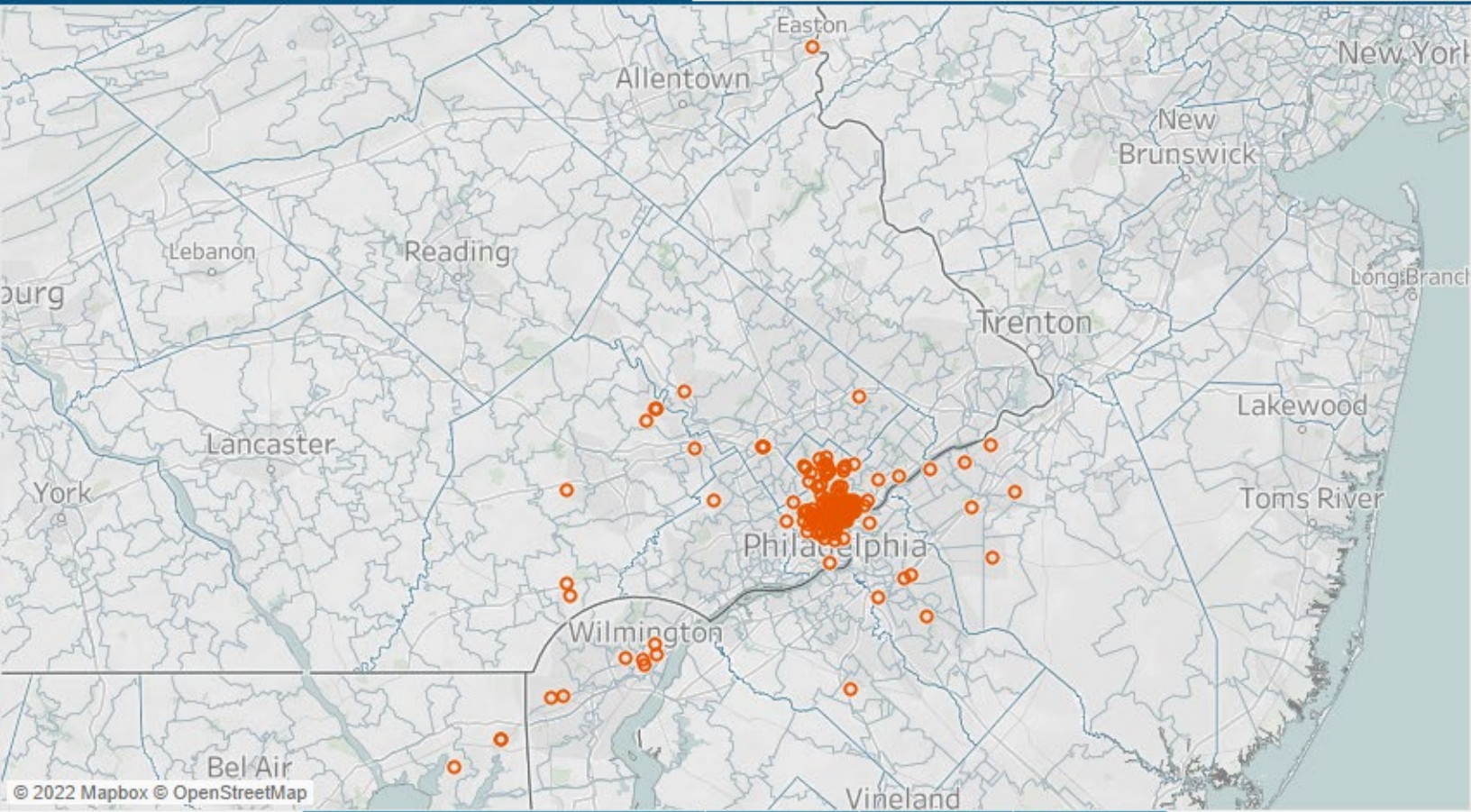
Q1 2022 Asking Rent:

\$1,630



Source: Multifamily Economics and Research

## Construction: Bidding & Underway



<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>	<i>Building Area SF</i>
Burlington County	6	863	0.95M
Camden/Cherry Hill	4	949	0.96M
Center City Philadelphia	54	10,433	10.83M
Chester County	8	1,618	1.52M
Delaware County	3	450	0.68M
Gloucester County	1	65	0.07M
Lower Camden County	1	45	0.05M
n/a	11	1,369	1.64M
Norristown/Upper Merion/Lower Merion	3	894	1.07M
North Montgomery County	2	413	0.41M
Northeast Philadelphia	66	3,134	3.36M
Northwest Philadelphia	23	1,166	1.20M
Southwest Philadelphia	29	2,100	2.59M
<b>Grand Total</b>	<b>211</b>	<b>23,499</b>	<b>25.33M</b>

## Multifamily: ESR Team

*We welcome your feedback! Please give us a call or send an email with any comments, suggestions, or insight you may have or information you'd like covered in future editions.*

# Multifamily Metro Outlook: Philadelphia Q1 2022

## Multifamily Economics and Market Research Team

Francisco Nicco-Annan, Economic and Strategic Research - Economics – Advisor

### Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

*Opinions, analyses, estimates, forecasts, and other views of Fannie Mae's Economic and Strategic Research (ESR) Group included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the ESR Group bases its opinions, analyses, estimates, forecasts, and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current, or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts, and other views published by the ESR Group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.*