

Multifamily Metro Outlook:

Philadelphia - Q4 2022

Overview:

- The Philadelphia metro is continuing to recover and now the rate of recovery is slightly faster than the national average. Recovery in the metro continues to build positive momentum as job growth continues to be (slightly) above-average. As of Q4 2022, job growth in the metro expanded by 2.9% compared to 2.6% nationally. Furthermore, according to Moody's Analytics Reis Inc., the Philadelphia job market is close to recapturing all the jobs lost as a result of the virus and is on track to recapture all the jobs lost by the beginning of 2023.
- The local apartment market continues to perform well and has been minimally impacted by the virus' presence. However, seasonality combined with increasing interest rates has caused fundamentals to take a slight dip compared to previous quarters. The vacancy rate continues to be nearly full at 4.25% during Q4 2022 and rent growth remains positive at 0.25% 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, Jefferson Health, the metro's largest employer, is currently constructing a new hospital that will open in 2024 and create thousands of jobs. This will be Penn Medicine's largest project in the metro and should bring at least 600 new jobs for the healthcare sector.
- Furthermore, the Healthcare employment sector is poised to further strengthen its position as an economic pillar in the local economy as the baby-boomer generation, specifically residents aged 70+ will expand by more than 40% over the next decade according to CoStar.
- The cost of living and costs of business in the metro are approximately 2% below the national averages according to Moody's Analytics. Furthermore, as a result of the virus and many employers pivoting to a hybrid employment model, many in the prime renter cohort, specifically millennials are beginning to take advantage of the new corporate working environment. According to CoStar, many millennials with jobs in more expensive Northeast metros such as NYC, Boston, and DC continue to look 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 be flat compared to 0.4% growth 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 -1.2% compared to -0.4% 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 a hybrid employment model, 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 37,000 rental units were added to the rental market and approximately 22,000 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 recent interest rate hikes and seasonality, apartment market fundamentals continue to perform well. While supply is ramping up with approximately 22,000 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 is now on par with the national average for the near-term and long-term, after another consecutive quarter of above average growth. Furthermore, a below average demographic 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 help recapture all the jobs lost.

Five Year Metro Area Growth Forecast

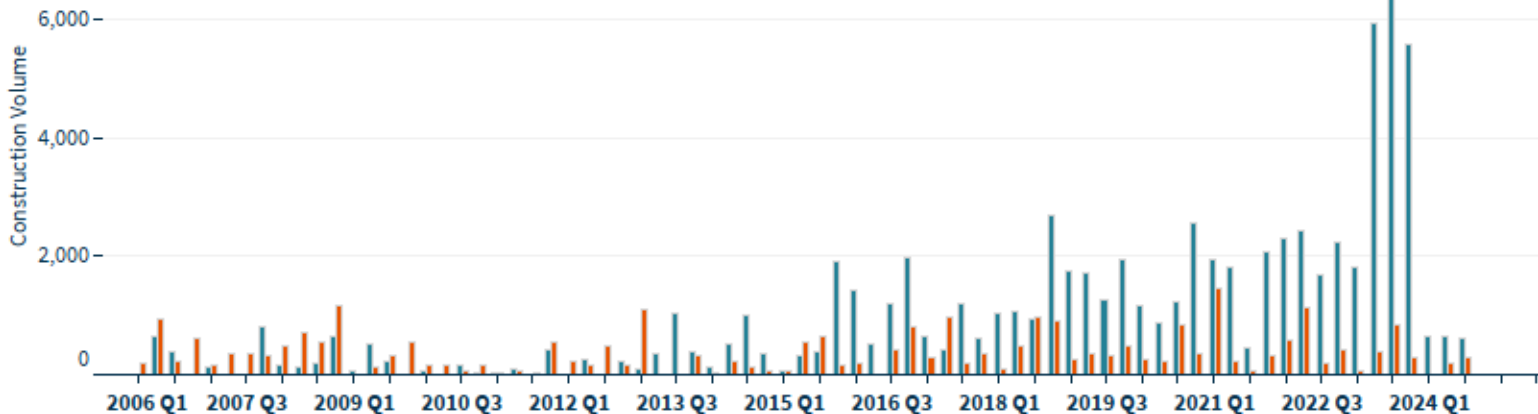
	Q4 2022	Q4 2027	Philadelphia (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	2,149	2,152	0.03%	0.41%
Households (000s)	854	870	0.37%	0.75%
Renting Cohort (Ages 20-34) (000s)	514	484	-1.21%	-0.40%
Total Employment (000s)	971	996	0.49%	0.52%
Median Household Income	\$61,480	\$73,387	3.60%	3.45%
Median SF Home Price	\$225,869	\$255,378	2.49%	-0.04%
Net Migration (Annualized)	-2,366	-7,286		

Source: Moody's

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



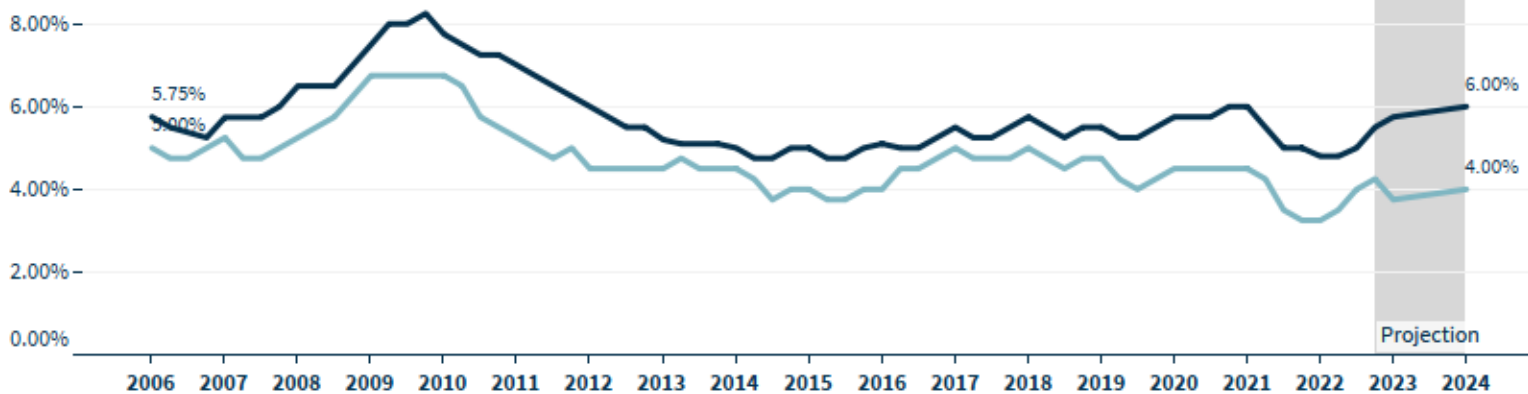
Vacancy & Rent Composite Estimates

Vacancy Rates

Philadelphia | National

Q4 2022 Vacancy Rate:

4.25%

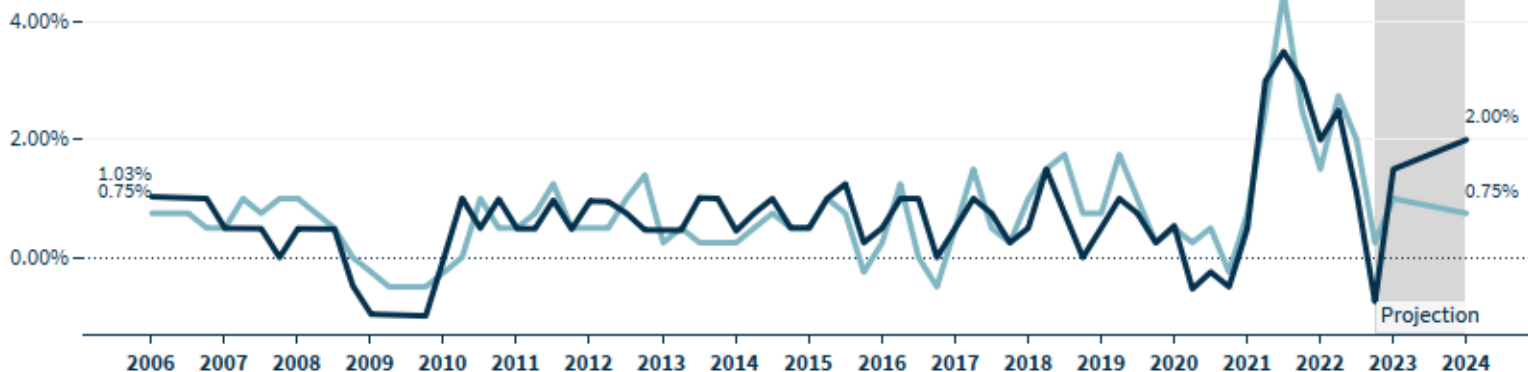


Asking Rent Growth

Philadelphia | National

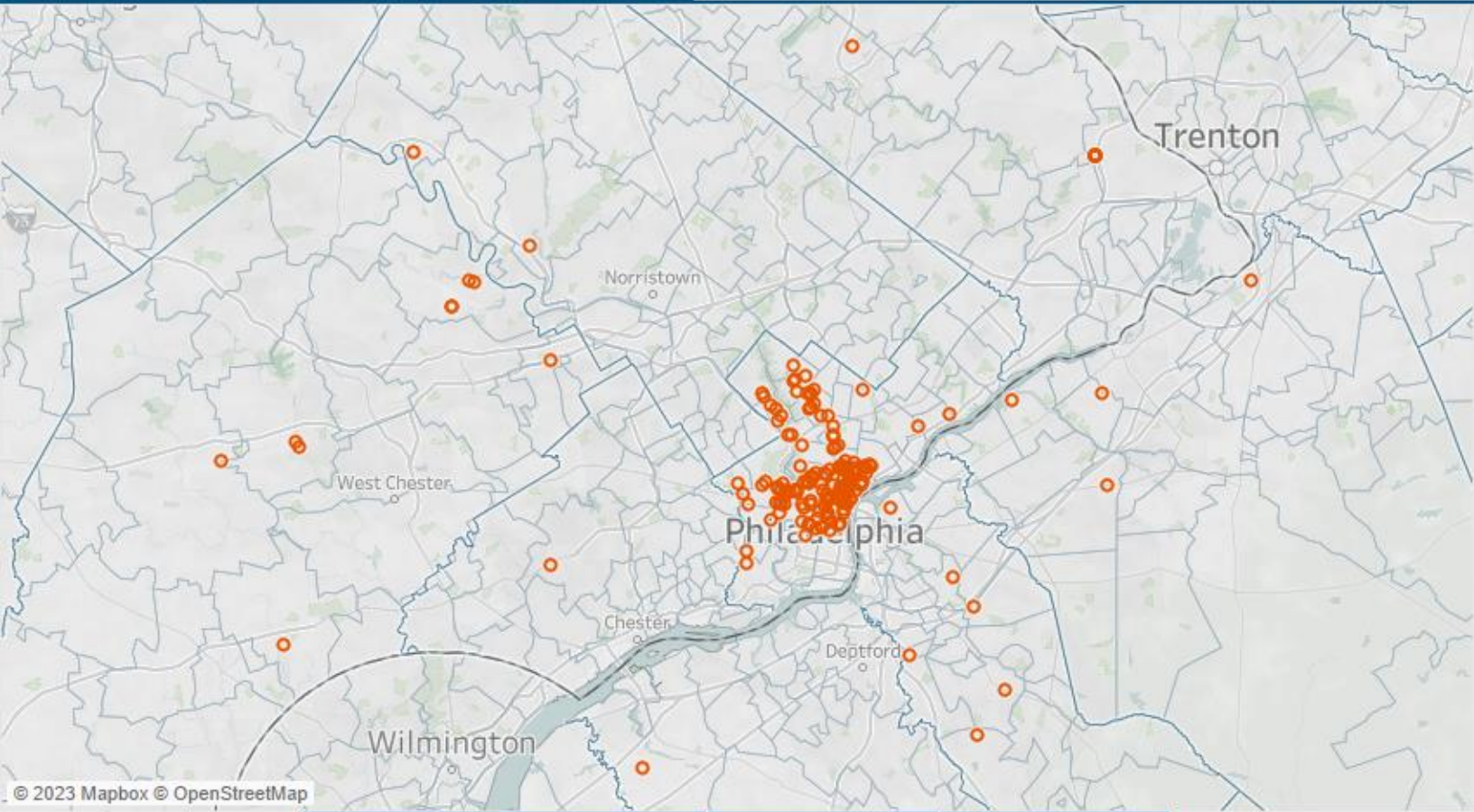
Q4 2022 Asking Rent:

\$1,730



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>
Bucks County	10	433
Burlington County	4	819
Camden/Cherry Hill	4	825
Center City Philadelphia	47	9,733
Chester County	10	2,474
Delaware County	1	197
Gloucester County	2	144
Lower Camden County	2	357
North Montgomery County	3	901
Northeast Philadelphia	46	2,911
Northwest Philadelphia	28	1,230
Southwest Philadelphia	28	1,870
Grand Total	185	21,894

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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

Sources Used

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

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