

Multifamily Metro Outlook:

Overview:

Philadelphia - Q1 2021

- The Philadelphia metro is beginning to recover from the toll that the virus took on the local economy. Just as pre-pandemic, the recovery in the metro area remains tepid and lagging compared to other major metro areas in addition to the national pace. As of Q1 2021, job growth in the Philadelphia metro expanded by 0.9 percent compared to 2.6 percent nationally. The metro has been able to recapture nearly two-thirds of the jobs lost as a result of the virus, however the economy is still faring 6 percent worse than it was during the pre-pandemic era in 2019 according to CoStar.
- The apartment market continues to perform well and has been minimally impacted by the virus' presence. The vacancy rate remains low at 4.5 percent and rent growth has rebounded after a down quarter to 0.75 percent compared to 0.5 percent nationally 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. Many of the jobs within the education sector were either furloughed or eliminated as many schools pivoted to remote learning in order to mitigate the toll from the virus. However, with schools and universities expected to re-open fully in the Fall semester, many of these jobs will be returning. Furthermore, according to Moody's Analytics, Penn Medicine, the metro's largest employer, will be opening a new hospital sometime during the summer months of 2021. This will be Penn Medicine's largest project in the metro and should bring about many new jobs for the healthcare sector.
- The cost of living and costs of business in the metro are approximately four percent and one percent (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 0.2 percent compared to 0.5 percent nationally.
- According to CoStar, the Philadelphia metro's wage taxes are a problem for the metro. Approximately 4 percent is taken from city residents and 3.5 percent 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, workers who chose to live in the city of Philadelphia are still required to pay the wage taxes. The wage taxes combined with remote work could make Philadelphia a metro that experiences suburban sprawl.

Development:

- Construction in the multifamily market has been moderate despite a small uptick recently. Since 2016, approximately 27,000 rental units were added to the rental market and 12,000 units are underway. Additionally, nearly 44,000 rental units are in the planning stages.
- 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 decent amount of supply underway scheduled to deliver by the first half of 2022.

Outlook:

- Multifamily Outlook: Steady. Despite the onset of the virus, apartment market fundamentals continue to perform well. While supply is ramping up with approximately 12,000 units in the pipeline, the new supply will 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.
- Economic Outlook: Stable. Tepid job growth coupled with the onset of the virus will keep Philadelphia job growth middling for the foreseeable future. However, 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" once the virus is contained.

Five Year Metro Area Growth Forecast

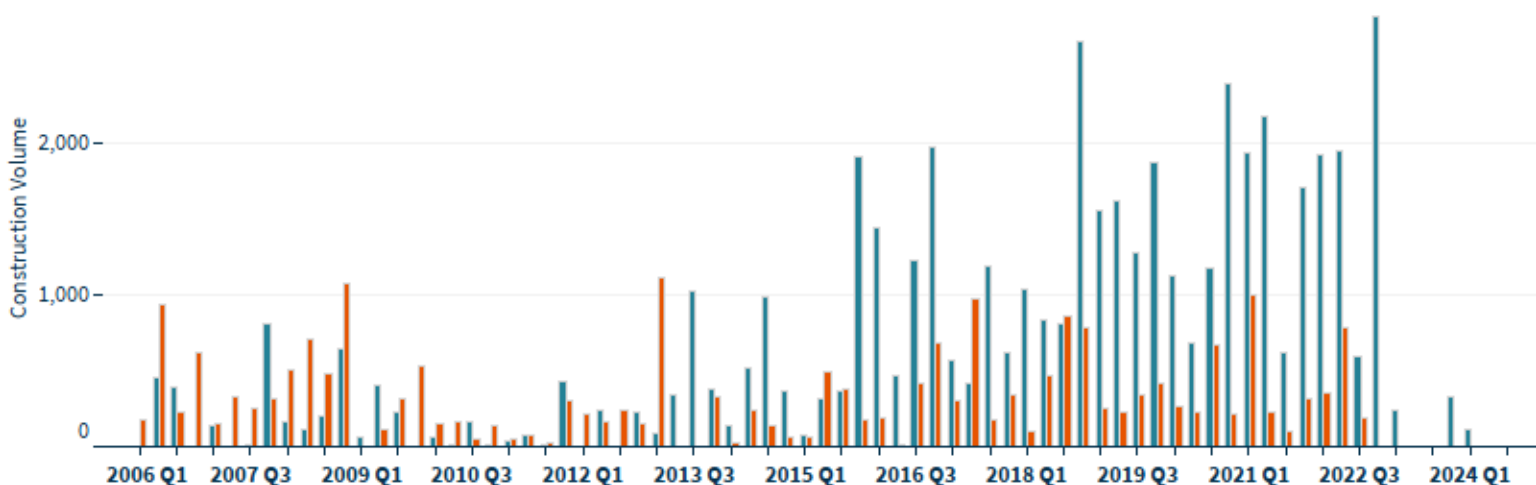
	Q4 2020	Q4 2025	Philadelphia (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	2,158	2,174	0.15%	0.52%
Households (000s)	852	895	0.99%	1.41%
Renting Cohort (Ages 20-34) (000s)	525	501	-0.92%	-0.26%
Total Employment (000s)	921	995	1.54%	1.71%
Median Household Income	\$55,299	\$65,408	3.41%	2.83%
Median SF Home Price	\$216,927	\$282,954	5.46%	4.30%
Net Migration (Annualized)	-872	-3,823		

Source: Moody's

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



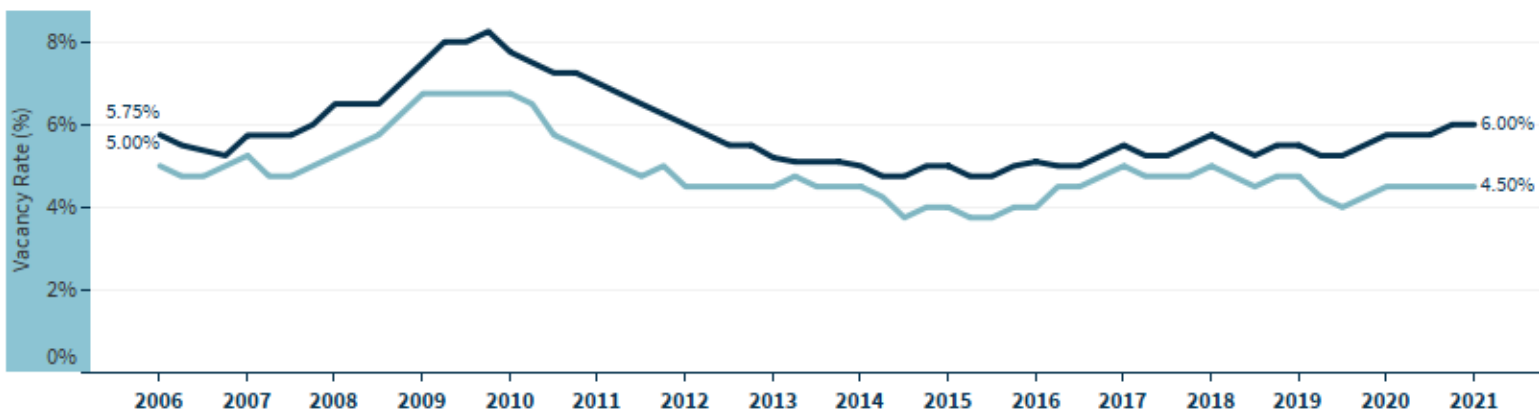
Vacancy & Rent Composite Estimates

Vacancy Rates

Philadelphia | National

Q1 2021 Vacancy Rate:

4.50%

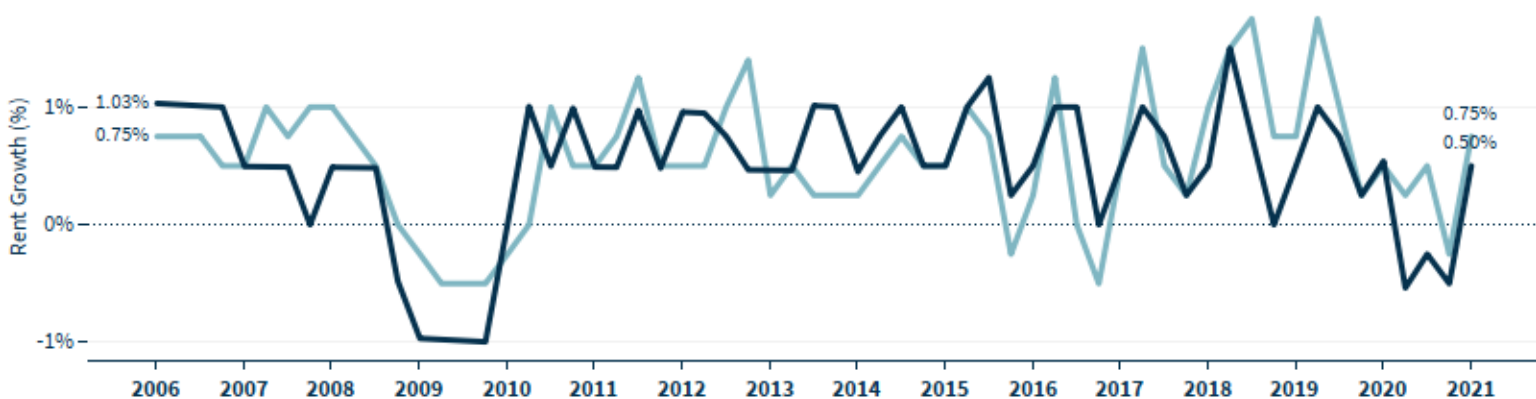


Asking Rent Growth

Philadelphia | National

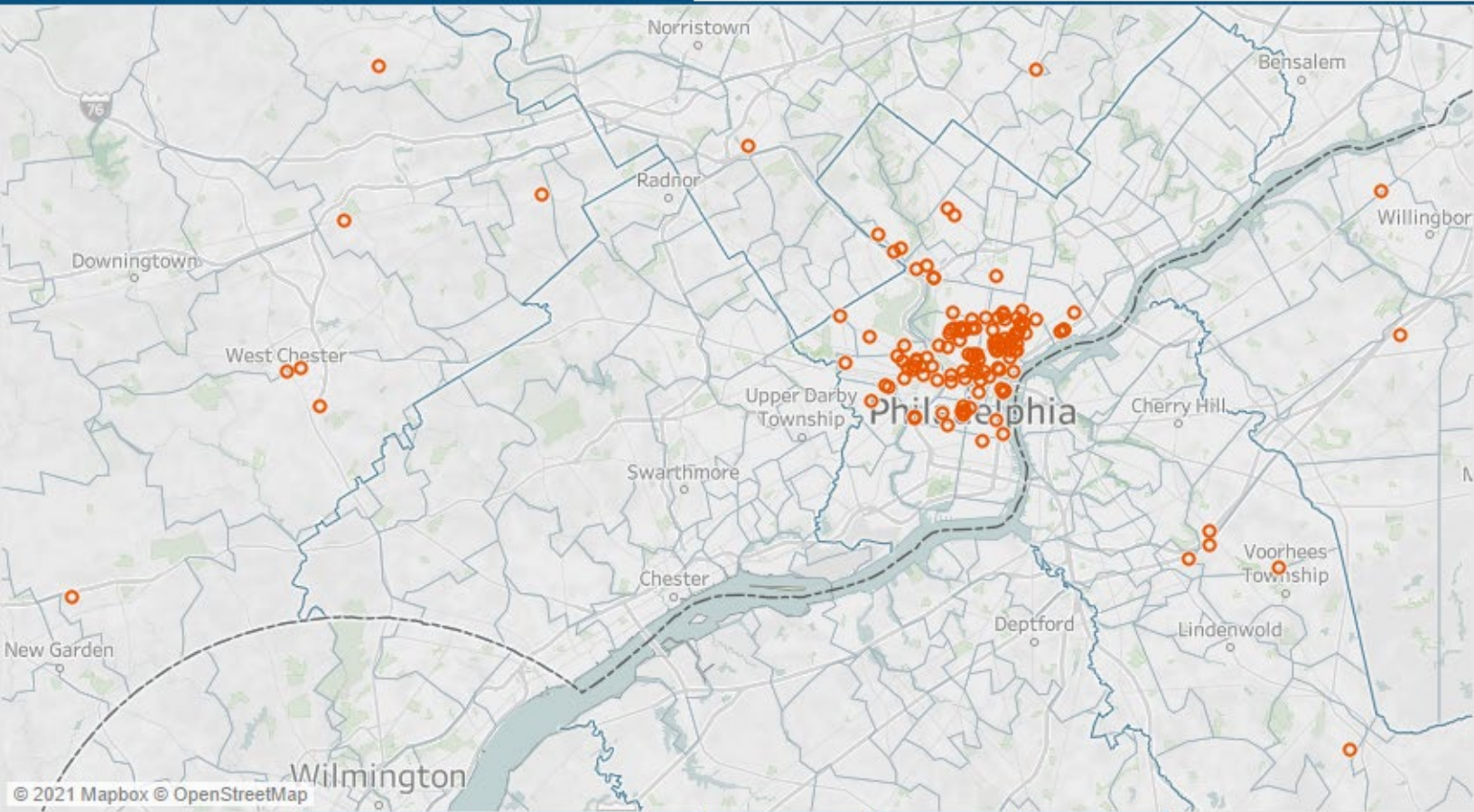
Q1 2021 Asking Rent:

\$1,440



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>Sub-Market</i>	<i>Projects</i>	<i>Units</i>	<i>Sq. Ft. (M)</i>
Burlington County	2	300	0.32M
Camden/Cherry Hill	4	648	0.67M
Center City Philadelphia	36	5,695	6.00M
Chester County	8	765	0.86M
Lower Camden County	1	472	0.50M
Norristown/Upper Merion/Lower Merion	1	310	0.31M
North Montgomery County	1	50	0.08M
Northeast Philadelphia	52	1,722	1.67M
Northwest Philadelphia	9	455	0.45M
Southwest Philadelphia	22	2,074	2.21M
Grand Total	136	12,491	13.07M

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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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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