Multifamily Metro Outlook:

Philadelphia – Q4 2024

Overview:

- Although later than most large metros, Philadelphia is finally in the late expansion phase of its job market recovery. The metro continues to build positive momentum from previous quarters, as job growth outperformed the national rate for 2023. However, even though job growth was robust in 2023, it has come back down to earth and is now level with the national rate. In 2024, local job growth expanded by 1.3%, which was slightly above the national rate of 1.2% during the same period.
- The local apartment market continues to perform decently despite recent softening that can be attributed to the current economic environment's elevated interest rates. The vacancy rate has been hovering around full (which is approximately 4%) for much of the past year but has recently remained at 5.75% as of Q4 2024, however rent growth is also now beginning to show some signs of softening as it contracted to -0.25% during the same period.

Market Strengths:

- Both the costs of living and costs of business in the metro are approximately 4% and 1%, respectively, below the national averages, according to Moody's Analytics. Furthermore, as a result of the pandemic and many employers pivoting to a hybrid employment model, many in the prime renter cohort, specifically millennials, have taken advantage of the new corporate working environment. Despite the overall population growth rate performing lower than the national average, since 2019, the population growth rate in the Philadelphia suburbs has expanded by approximately 2.3%.
- According to Moody's Analytics, there has been a recent surge in return-to-office mandates, which has boosted white-collar employment in both the financial activities and professional business services employment sectors. With large employers such as Comcast issuing return-to-office mandates, public transit ridership rates have increased nearly 20% year over year and are within 80% of pre-pandemic levels.
- The metro offers many development-friendly incentives that will help lure both residents and employers. According to CoStar, the metro offers development incentives such as Keystone Opportunity Zones, tax increment financing, and 10-year tax abatements.

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 (0%) compared to 0.4% growth nationally. Furthermore, the 25-44 age cohort, which helped spur local economic growth and home values during the last economic downturn, grew at a rate twice the national rate during the period ending Q4 2024. However, this cohort is now contracting by 1.2% compared to a 0.4% drop nationally.
- While most of the Philadelphia job market is in the late expansion phase of recovery, there are some segments that are laggards and hindering growth. One of these employment sectors is retail and during 2024 this employment sector contracted by -0.3% compared to 0.2% growth nationally. Furthermore, Moody's Analytics reports that return to office mandates have had mixed results for other employment sectors such as retail. Both payrolls in this employment sector and badge swipes tracked by Kastle Systems, are below peak levels within the last few years.

New Development:

- Construction in the multifamily market has been moderate despite a small uptick recently. Since 2017, approximately 63,000 rental units were added to the rental market and approximately 13,000 units are underway.

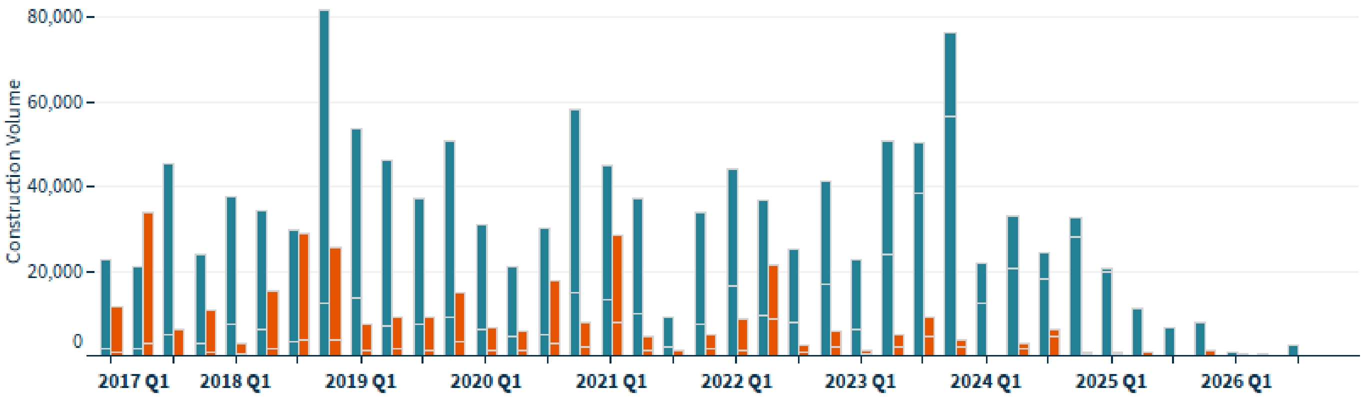
Outlook:

- Despite headwinds from current economic factors, apartment market fundamentals continue to perform decently. While supply is ramping up with approximately 12,000 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.
- Philadelphia's economy is projected to continue slowing down into 2025. While health care services will continue to expand, it will likely do so at a pace slower than previous years (when growth was robust), requiring other sectors to compensate for this deceleration. In the long run, unfavorable demographics and a challenging business environment are likely to result in job growth that outpaces the state average but remains behind national trends. As various industries attempt to pick up the slack, it will be crucial for sectors like technology and professional services to maintain robust growth to support overall economic stability.

Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | *Condos*



Source: Dodge Data & Analytics SupplyTrack Pipeline

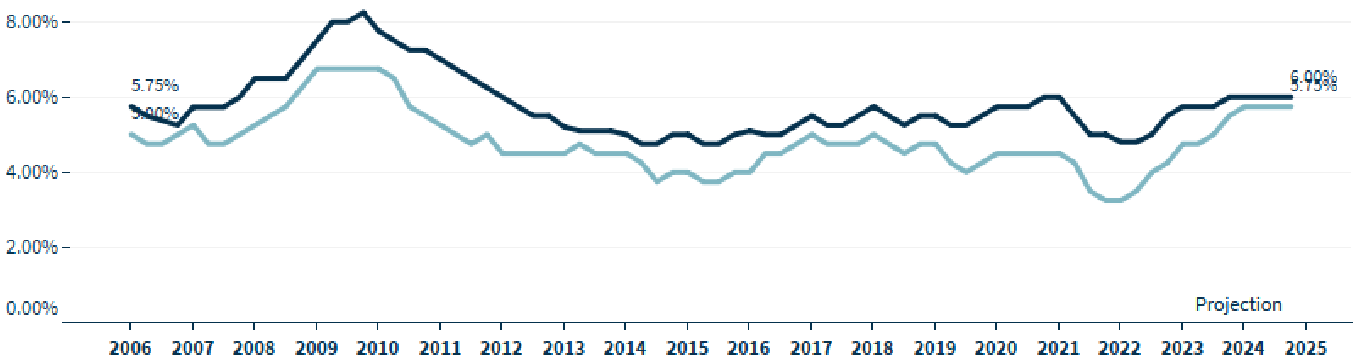
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Philadelphia | *National*

Q4 2024 Vacancy Rate:

5.75%

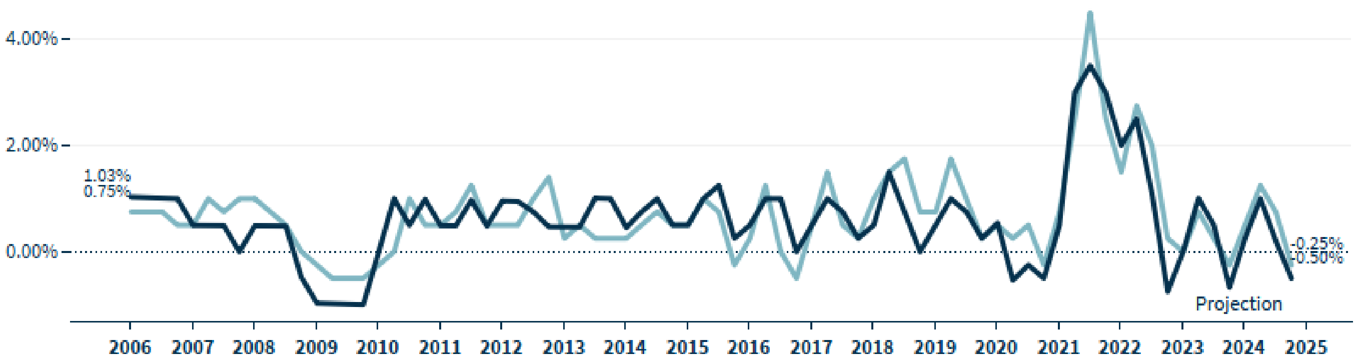


Asking Rent Growth

Philadelphia | *National*

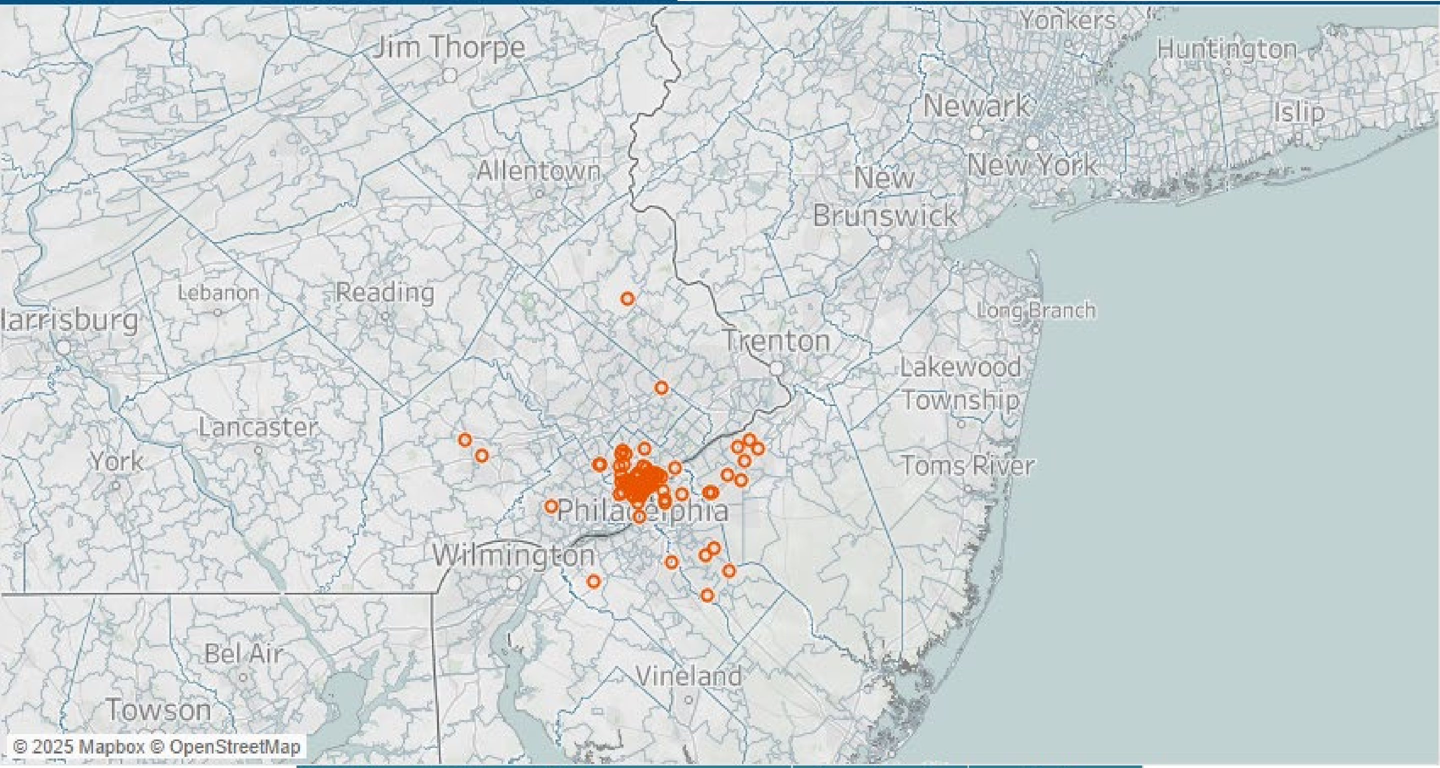
Q4 2024 Asking Rent:

$1,840



Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Bucks County	1	78
Burlington County	8	1,875
Camden/Cherry Hill	4	407
Center City Philadelphia	18	4,187
Chester County	2	137
Delaware County	1	208
Gloucester County	1	73
Lower Camden County	5	602
NA	2	614
Norristown/Upper Merion/Lower Merion	4	559
North Montgomery County	1	36
Northeast Philadelphia	28	2,219
Northwest Philadelphia	4	146
Southwest Philadelphia	22	1,416
Grand Total	**101**	**12,557**

Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily: ESR Team

Multifamily Metro Outlook: Philadelphia Q4 2024

Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics Real Estate Analyzer
- CBRE-Econometric Advisors
- Yardi