

Multifamily Metro Outlook:

Philadelphia - Q4 2023

Overview:

- Although later than most larger metros, Philadelphia is finally in the above-average expansion phase of their job market recovery. Recovery in the metro continues to build positive momentum from previous quarters as job growth is outperforming the national rate for 2023, job growth in the metro expanded by 1.8% compared to 1.4% nationally. Furthermore, according to Moody's Analytics, the Philadelphia job market's uptick in recovery can be attributed to the job loss during the pandemic being fully eradicated as of late 2022. The later recovery in the metro has now resulted in the Philadelphia metro adding the most jobs of any major Northeastern metro in 2023.
- The local apartment market continues to perform decently despite recent softening that can be attributed to the current economic environment with elevated interest rates. The vacancy rate has been hovering around full for much of the past year but has recently inched up to 5.5% during Q4 2023 and rent growth remains positive at 0.2% 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.
- 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 having pivoted to a hybrid employment model, many in the prime renter cohort, specifically millennials have taken 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.
- Even though the job market economy has finally found its footing, it is not without some hurdles. According to Moody's Analytics, office occupancy rates in the Philadelphia metro are performing worse than other major Northeastern metros. The poor performance of office occupancies has a ripple effect on the local economy as transit ridership is declining and office buildings are facing foreclosure therefore eliminating jobs. Furthermore, many city-based employers have moved to the suburbs to escape the city's employment tax, further exacerbating office vacancy woes in the metro.

Development:

- Construction in the multifamily market has been moderate despite a small uptick recently. Since 2017, approximately 51,000 rental units were added to the rental market and approximately 21,000 units are underway.

Outlook:

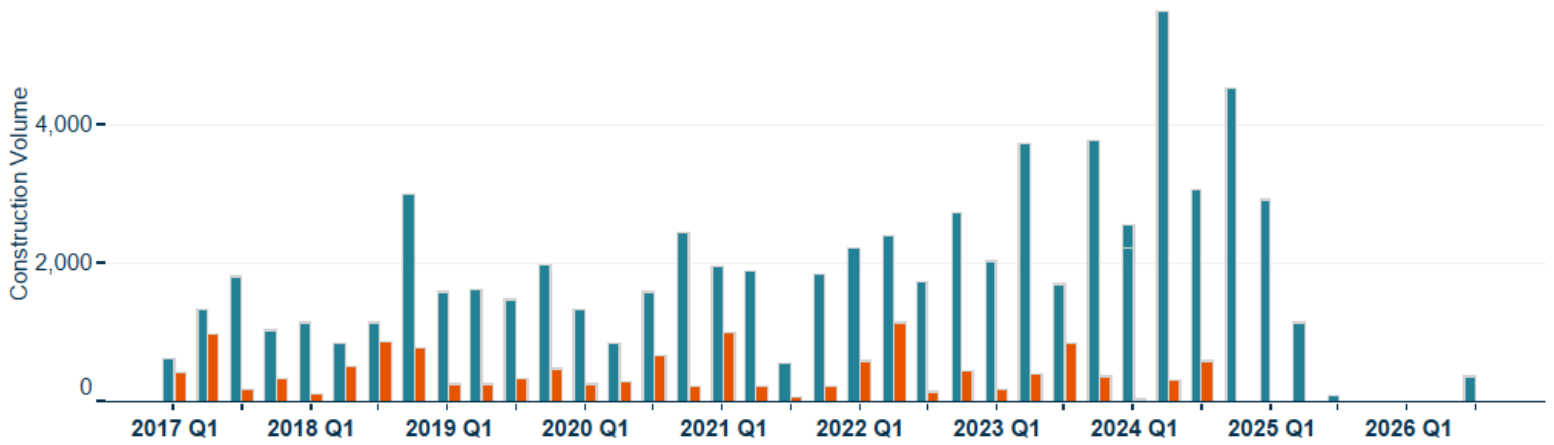
- Despite the recent interest rate hikes and higher levels of inflation, apartment market fundamentals continue to perform well. While supply is ramping up with approximately 21,000 units in the pipeline, the new supply should not alter the steady market largely due to the limited supply that came online 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 will help accelerate the expansion in the metro.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

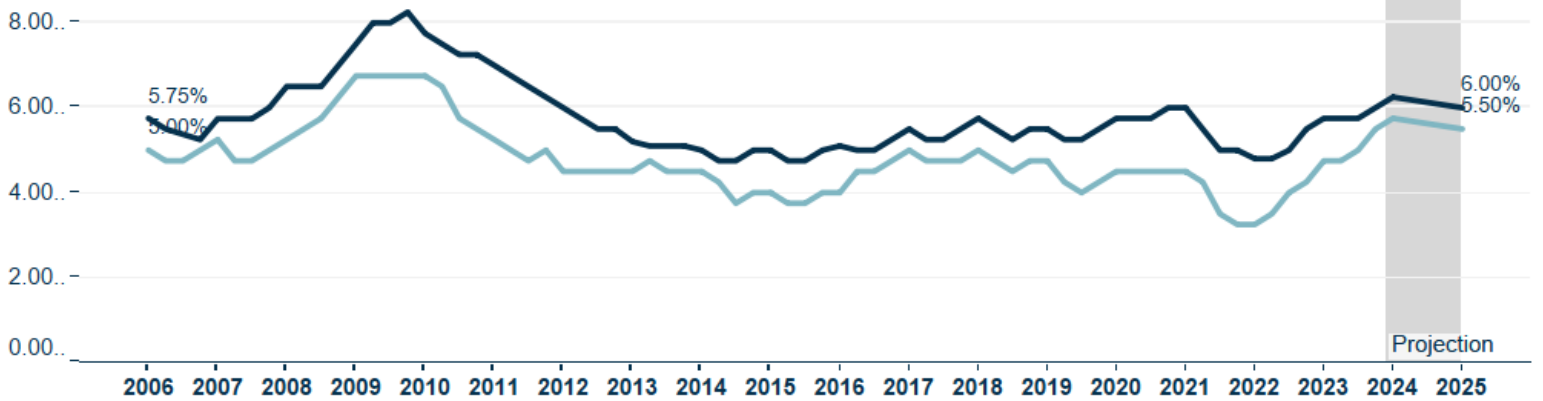
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Philadelphia | National

Q4 2023 Vacancy Rate:

5.50%



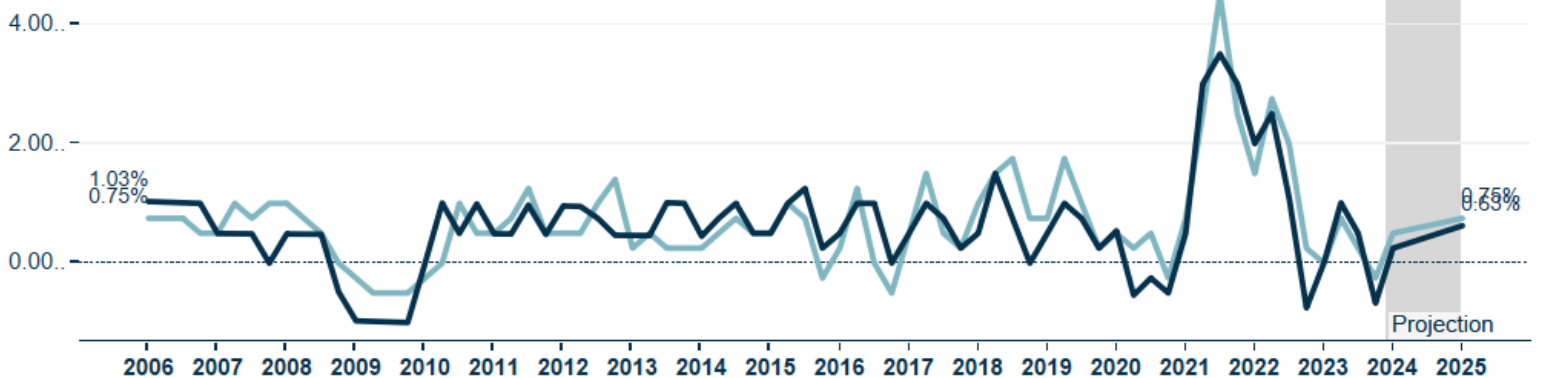
Projection

Asking Rent Growth

Philadelphia | National

Q4 2023 Asking Rent:

\$1,760

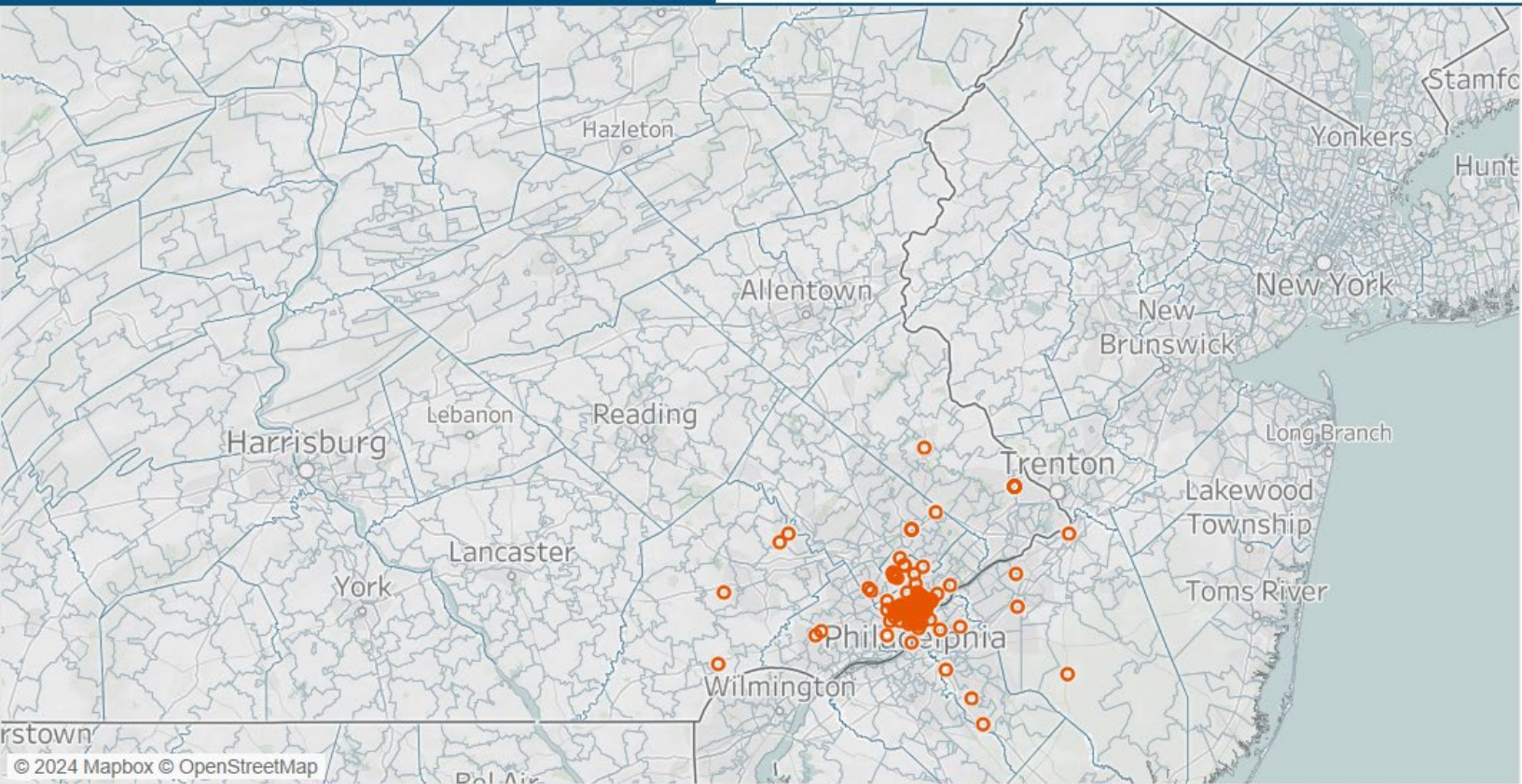


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Bucks County	10	433
Burlington County	4	562
Camden/Cherry Hill	4	964
Center City Philadelphia	42	8,312
Chester County	4	1,201
Delaware County	2	405
Lower Camden County	2	624
NA	2	614
Norristown/Upper Merion/Lower Merion	2	410
North Montgomery County	4	346
Northeast Philadelphia	63	3,678
Northwest Philadelphia	10	351
Southwest Philadelphia	27	2,007
Grand Total	176	19,907

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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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
- Greenstreet
- Dodge Data and Analytics SupplyTrack Pipeline
- CBRE-Econometric Advisors
- Yardi

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