

Fundamentals remain stable despite wave of new supply

HIGHLIGHTS

- Market fundamentals in the Philadelphia MSA remained balanced in the third quarter, supported by stable vacancy and rent growth. Deliveries have been steady to this point, but volume is projected to accelerate in the fourth quarter as the development cycle peaks.
- Vacancy tightened to 4.5% in the third quarter, representing a 10-basis-point decline from one year ago. Conditions have remained stable since early 2023, holding within a tight 4.1% to 4.7% range, despite the influx of new supply.
- Rents rose 0.4% during the third quarter to \$1,866 per month. Although asking rents are up 1.9% annually, the rate of increase continues to moderate compared to the start of the year.
- Deal activity has outpaced historical norms so far in 2025. While the pace of trading dipped slightly in the third quarter, levels remain elevated compared to last year. This steady demand pushed median pricing to \$237,600 per unit.

PHILADELPHIA MULTIFAMILY MARKET OVERVIEW

Sustained labor market momentum, anchored by the education and health services sector, continues to drive apartment absorption across the Philadelphia metro area. This demand has supported area vacancies, with most urban and suburban submarkets recording year-over-year declines. The trend was most pronounced in the suburbs, notably in Exton–Malvern where vacancy tightened by 250 basis points, while the urban Center City West submarket posted a 140-basis-point drop. Still, future performance will likely vary due to an uneven construction pipeline. Of the 12,400 units currently underway, including 2,800 scheduled for completion by year-end, development is skewed toward the urban core, particularly within the River Wards, Kensington, Fishtown, and Northern Liberties submarkets. This contrasts with limited supply growth activity in suburban areas. Rent trends reflect this dynamic, as suburban asking rents increased 2.1% year over year compared to a 0.5% gain across properties in urban submarkets. These metrics align with long-term demographic patterns, which show a 27% population expansion in suburban counties between 2000 and 2024 compared to 2% growth in the core.

Philadelphia's multifamily investment market cooled somewhat in the third quarter after a strong first half, but year-to-date metrics remain well ahead of 2024. Through the third quarter, transaction counts are up roughly 45% from last year, and 2025 has already surpassed 2024 in total trades. Dollar volume has reached over \$1.0 billion year to date, compared with \$833 million during the same period last year, putting the market on pace to approach its five-year average of roughly \$1.6 billion. Activity has been led by Class A properties and a growing share of transactions above \$20 million, with cap rates ranging between 5.2% and 5.7% in the urban core compared to a lower 5.0% to 5.3% range for suburban trades. Recent closings have occurred in Center City and Greater Center City, along the Main Line, and in suburban corridors such as Montgomery County, King of Prussia, and Phoenixville, where investors are targeting supply-constrained submarkets with durable renter demand.

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **12,424**

UNITS DELIVERED (YTD) **6,607**

MARKET FUNDAMENTALS



VACANCY RATE **4.5%**

YEAR-OVER-YEAR CHANGE **-10bps**

ASKING RENTS **\$1,866**

YEAR-OVER-YEAR CHANGE **+1.9%**

TRANSACTION ACTIVITY (YTD)



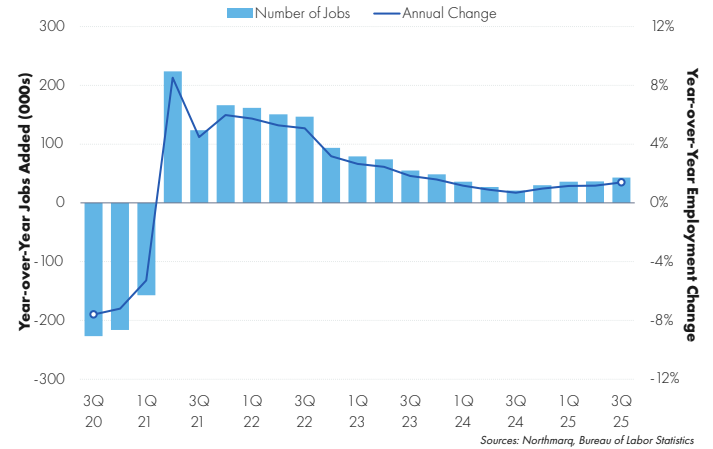
MEDIAN PRICE PER UNIT **\$237,600**

EMPLOYMENT

- Employment in the Philadelphia metro area expanded over the past year, as employers added 43,400 jobs for a 1.4% annual gain, outpacing the market's 10-year average rate of increase.
- Driving the area's employment gains, the health care and social assistance sector expanded by 5.1% in the past year, accounting for 30,000 net new jobs.
- The Philadelphia Navy Yard continues to drive regional economic growth, highlighted by a major \$100 million expansion from Rhoads Industries announced in the third quarter. The investment will double the company's submarine manufacturing capacity and create hundreds of skilled industrial jobs, further diversifying the local employment base beyond the healthcare sector.
- **FORECAST:** Employers are on pace to expand payrolls by about 1.3% this year with the addition of 42,000 net new jobs. This would mark an acceleration from 2024 levels when about 30,000 jobs were created across the region.

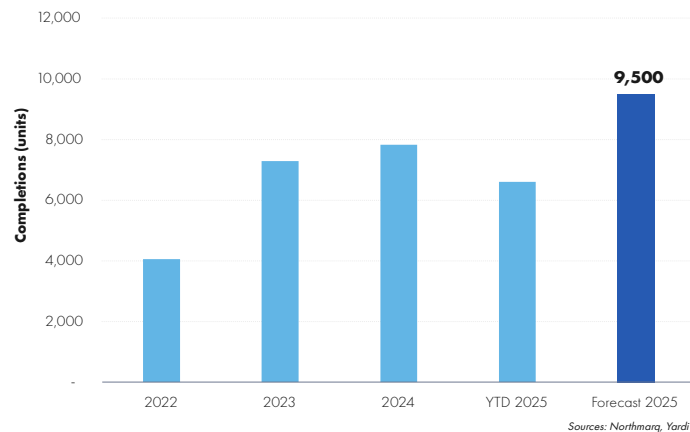
Area employers added 43,400 positions during the past year.

EMPLOYMENT OVERVIEW



Year-to-date deliveries total approximately 6,600 units.

DEVELOPMENT TRENDS

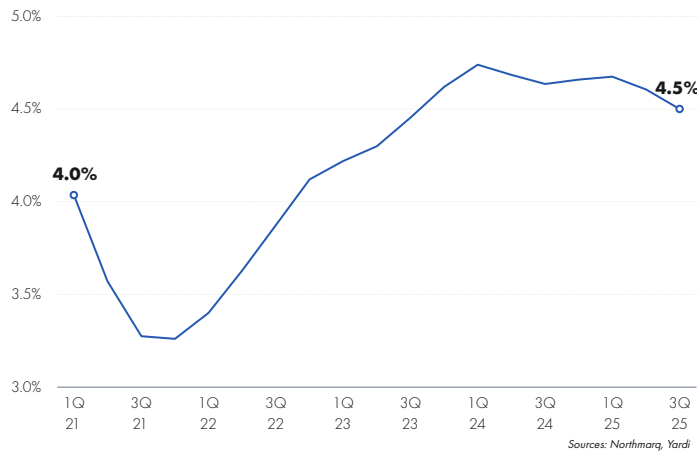


DEVELOPMENT & PERMITTING

- Multifamily deliveries remained elevated through the third quarter of 2025. Developers have brought approximately 6,600 units online year to date, representing nearly a 10% increase compared with the same period last year.
- The development pipeline stabilized in 2025, with approximately 12,400 units under construction at the end of the third quarter. Activity remains concentrated within the Frankford/Kensington submarket.
- Permitting activity has returned to pre-pandemic norms, with roughly 2,500 units permitted so far this year. While consistent with the 2016–2019 pace, full-year volume is expected to trail slightly behind 2024 figures.
- **FORECAST:** The region's development cycle is set to peak in 2025, with projected deliveries totaling roughly 9,500 units. This represents the highest annual supply wave in over a decade and exceeds the six-year average of 6,500 units.

Vacancy compressed 10 basis points to 4.5%.

VACANCY TRENDS



VACANCY

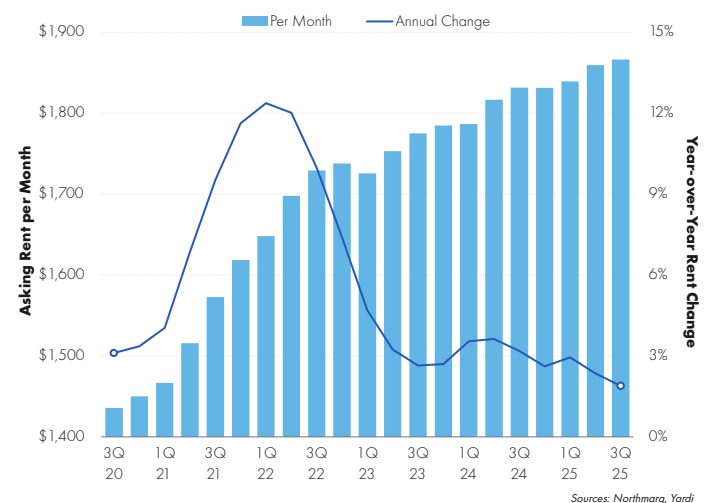
- Regional vacancy tightened in the third quarter, settling at 4.5%. This figure represents a 10-basis-point compression compared to both the previous quarter and the same period last year.
- Fundamentals strengthened in the urban core, with vacancy tightening in three of the five largest submarkets. Northeast Philadelphia posted one of the sharpest declines, with its rate compressing 110 basis points year-over-year to 4.4%.
- Class B vacancy tightened 20 basis points year-over-year to 4.0%. Class A and Class C rates ticked up slightly, ending the third quarter at 4.9% and 4.3%, respectively.
- FORECAST:** Vacancy is forecast to stabilize at 4.5% by year-end. Despite a nearly 10% increase in inventory since 2020, the rate remains in line with the long-term average.

RENTS

- Asking rents across the Philadelphia region ended the third quarter at \$1,866 per month, a 1.9% annual increase. Despite continued annual gains, the rate of growth has slowed for two consecutive quarters, cooling from the stronger pace recorded earlier in the year.
- Most of the region's largest submarkets posted year-over-year rent gains. In the suburbs, Blackwood and King of Prussia led with increases of 4.0% and 3.3%, respectively. In the city, the Southwest submarket recorded a 4.2% annual rise, while the Far Northeast posted a 3.0% increase.
- Rent growth was positive across all asset classes, led by the mid-market segment. Class B rents rose 2.4% year over year. Average rent increases in both Class A and Class C properties were closer to 2% over the past year.
- FORECAST:** Area rents are expected to trend higher through the remainder of 2025, tracking patterns observed over the last two years. The market is forecast to close the year at \$1,872 per month, reflecting a 3.1% annual increase.

Asking rents reached \$1,866 per month, up 1.9% annually.

RENTS TRENDS

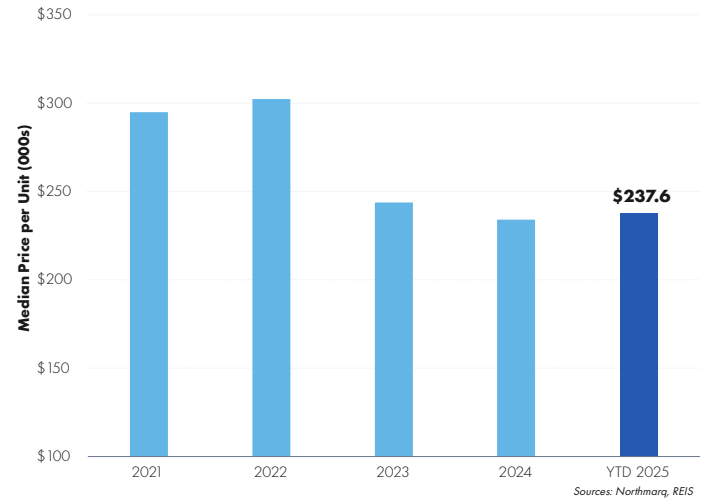


MULTIFAMILY SALES

- Multifamily investment activity picked up in 2025, with over \$1 billion in sales volume for deals over \$10 million. Year-to-date closings have already surpassed the full-year total from 2024.
- The median sale price in 2025 rose to \$237,600 per unit, a 1.5% increase from the previous year's low. Despite this gain, pricing remains well below the 2022 peak of \$302,000 per unit.
- Asset values varied significantly by location. In Chester and Montgomery counties, stabilized inventory consistently traded in a higher bracket, with top-tier assets closing between \$386,000 per unit and \$500,000 per unit.
- In Philadelphia County, premium vertical product generated investor interest. Select mid-rise and high-rise assets—specifically those with mixed-use retail components—traded between \$381,000 per unit and \$431,000 per unit.
- Transactions over \$20 million are outpacing 2024 totals, signaling renewed appetite for scale. Key trades included both recently delivered communities and legacy assets situated in downtown employment corridors.
- Cap rates continued to range between 5.2% and 5.9% during 2025, differing based on location and asset quality.

The median sale price in 2025 is \$237,600 per unit.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

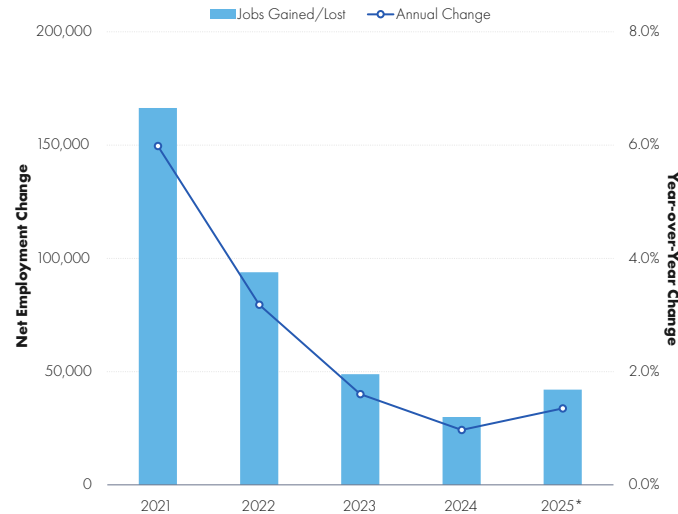
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
2116 Chestnut	2116 Chestnut St., Philadelphia, PA	2013	321	\$138,000,000	\$429,907
Luxor Lansdale	117 S Broad St., Lansdale, PA	2022	205	\$51,000,000	\$248,780
North Crossing	3625 Welsh Road, Willow Grove, PA	1972	146	\$27,600,000	\$189,041
1600 Callowhill	1600 Callowhill St., Philadelphia, PA	1926/2019	95	\$24,500,000	\$257,895

LOOKING AHEAD

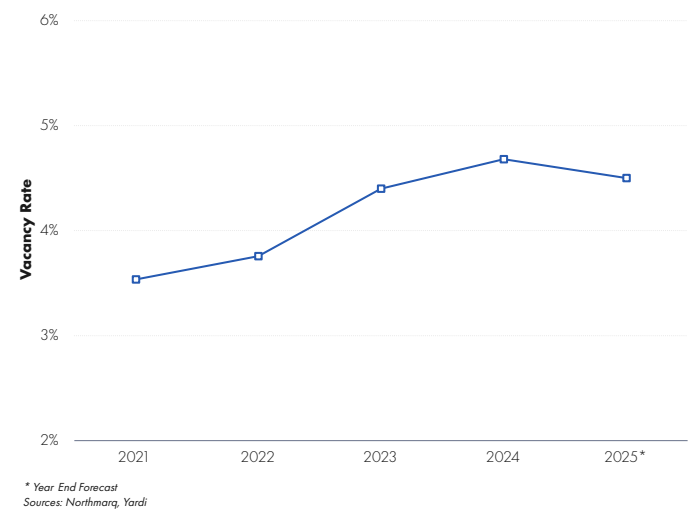
The Philadelphia market is currently experiencing its steepest supply wave in more than a decade, with annual completions on track to reach 9,500 units by the close of 2025. This influx may test operations, but fundamentals have remained resilient to this point, supported by steady job creation and a competitive single-family market that keeps many would-be buyers in the renter pool. Vacancy is expected to hover near current levels through the fourth quarter as absorption largely tracks deliveries, and rents are projected to post modest gains before showing more meaningful acceleration in 2026. The development pipeline is already easing, with construction starts having dropped sharply, signaling that this building cycle has likely peaked and that the pace of new supply growth should decline in 2026.

Transaction volume in Philadelphia's multifamily market is expected to remain above longer-term norms through the remainder of 2025, supported by a solid pipeline of deals currently on the market or under contract. Buyers are increasingly underwriting to a 2026 environment marked by moderating supply, firmer rent growth, and improving net operating income performance as the current delivery wave is absorbed. A more favorable financing backdrop next year, as additional rate cuts materialize, could further expand the buyer pool and support pricing for well-located assets. Continued expansion in healthcare and life sciences employment, along with ongoing large-scale projects in University City and the Navy Yard, should reinforce renter demand and sustain transaction activity beyond 2025.

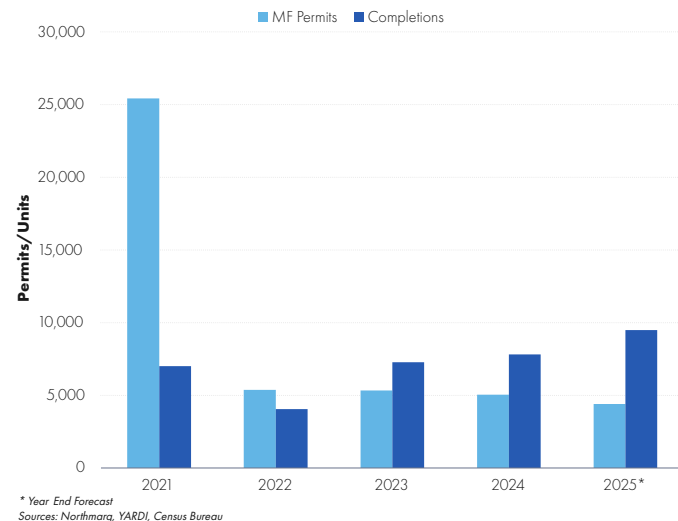
EMPLOYMENT FORECAST



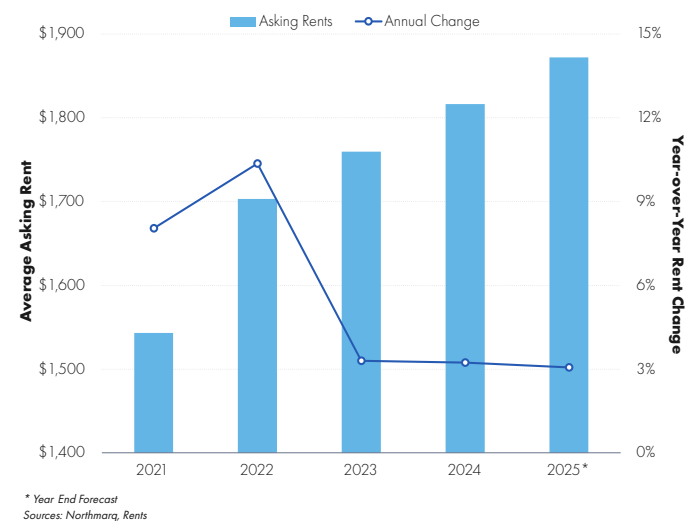
VACANCY FORECAST



CONSTRUCTION & PERMITTING FORECAST



RENTS FORECAST





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