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2024 2ND QUARTER REPORT

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PENNSYLVANIA MULTIFAMILY PERFORMANCE MIXED IN THE SECOND QUARTER

The second quarter played out largely as expected for Pennsylvania multifamily. The new construction pipeline continued to deliver units to a dizzying degree and this new supply exerted further downward pressure on average occupancy. Apartment demand extended its upward trend that began last year, but net absorption remained well below new supply. However, beyond the state level metrics there remains quite a bit of variance.

New Supply and Net Absorption

Approximately 4,600 new units were delivered across the state in the second quarter. This was about 800 units fewer than in the same portion of last year but was well above the longer-term average. In both 2019 and 2021, less than 1,000 new units were delivered in the second quarter.

Around 3,300 of these new units were delivered in the Philadelphia metro area. This dynamic of most new supply for the state occurring in the Philadelphia region has been in place since 2022. The only other major Pennsylvania metro area to add more than one new property in the quarter was the Lancaster metro area with three properties accounting for just more than 300 new units.

Apartment demand continued to flounder in the period. On the one hand, net absorption of nearly 1,000 units was substantially better than the net absorption of less than 200 units in the same period of 2023. On the other, the net absorption total was the lowest of the last four quarters. The improvement over the same period last year was not a concentrated phenomenon. Only the Lancaster and State College metro areas underperformed the 2023 total. This step back was unfortunately timed for Lancaster in particular given the recent new supply there.

There was a clear dichotomy in the absorption data across the price classes. The middle two tiers, Class B and Class C, saw moderate improvement from a year ago. Though, it should be noted, demand in both tiers receded from the first quarter. At the top and bottom of the market, in Class A and Class D, the picture was darker. Net absorption was lower quarter-over-quarter and year-over-year for each. Both tiers also suffered a net loss of leased units in the second quarter.

Average Occupancy

An underwater supply and demand relationship has resulted in state-level average occupancy falling for three consecutive quarters to a close at the end of June at 90%. However, this average includes the effect of new supply. For properties that began 2024 already stabilized, occupancy ended June at 95%.

Because new supply has been concentrated in the Philadelphia metro, average occupancy looks very different depending on where in the state you look. In Philadelphia, overall average occupancy finished mid-year at 88%. Lancaster, an area with an active new construction pipeline and negative 2024 net absorption through June ended the second quarter with average occupancy at 87%. A similar situation led the York – Hanover metro area to close the period with average occupancy at 75%.

At the other end of the spectrum, a handful of metros finished June with average occupancy above 95%. This list included the Lehigh Valley region, Erie, Reading, Scranton, and State College. There were all areas with very little new supply in the period, but the Lehigh Valley region also had the second-highest quarterly net absorption behind Philadelphia.

With the bulk of new supply pressure being borne by the top two price tiers, average occupancy looked very different by price class as well to end the quarter. With more than 2,800 new units delivered and a simultaneous net loss of nearly one hundred leased units, Class A average occupancy fell considerably by mid-year to end at about 77%. For Class B, a near break even of new units and net absorbed units resulted in an average occupancy decline of only ten basis points to just above 89%. Class C finished June with an average occupancy of 93% after no change in the period and the Class D average fell slightly to just over 95% thanks to negative net absorption.

Average Effective Rent and Lease Concessions

Looking back over the last five years, rent growth has tended to peak for the year in the second quarter. The only exception in that time was 2020 – a year where numerous seasonal trends were thrown out of whack. This year, average effective rent for new leases rose by 1.6% in the quarter after just a 0.1% gain in the first three months of the year. Should this indeed represent the high-water mark for 2024, the quarterly peak in rent growth this year would be the lowest since 2020.

There was much more variance in the quarter regionally than at the price class level. With the exception of a laggard Class D subset, the price classes were tightly grouped around the state average. Regionally, there were some notable differences.

A 3.3% average effective rent gain made the Reading metro the leader in the state. No new supply and positive net absorption resulted in one of the highest average occupancies in the state there. Both the Pittsburgh and York – Hanover metro areas saw average effective rent beat the state gain in the period with each adding just over 2%. Only two areas failed to achieve at least a 1% gain in the period. The Lehigh Valley region added just 0.7% to the average effective rent and the State College metro added 0.8%.

Interestingly, lease concession availability has declined both from the midway point of 2023 and from the end of the opening quarter of 2024. Despite that movement, the average discount value has increased slightly. About 9% of conventional properties were offering a lease concession for new residents at the end of June with an average value of just more than four weeks off an annual lease. The average discount value is at its highest point since 2021 when that metric was still declining from its 2020 peak.

Takeaways

The second quarter was something of a Rorschach test. Rent growth was robust, and apartment demand improved over the same period last year while new supply came down. In seven of the ten larger metro areas across the state, average occupancy ended June above 92%. However, new supply remained unusually high, state-level occupancy fell to its lowest point in years, apartment demand declined from the first quarter, and rent growth may well have already peaked for the year.

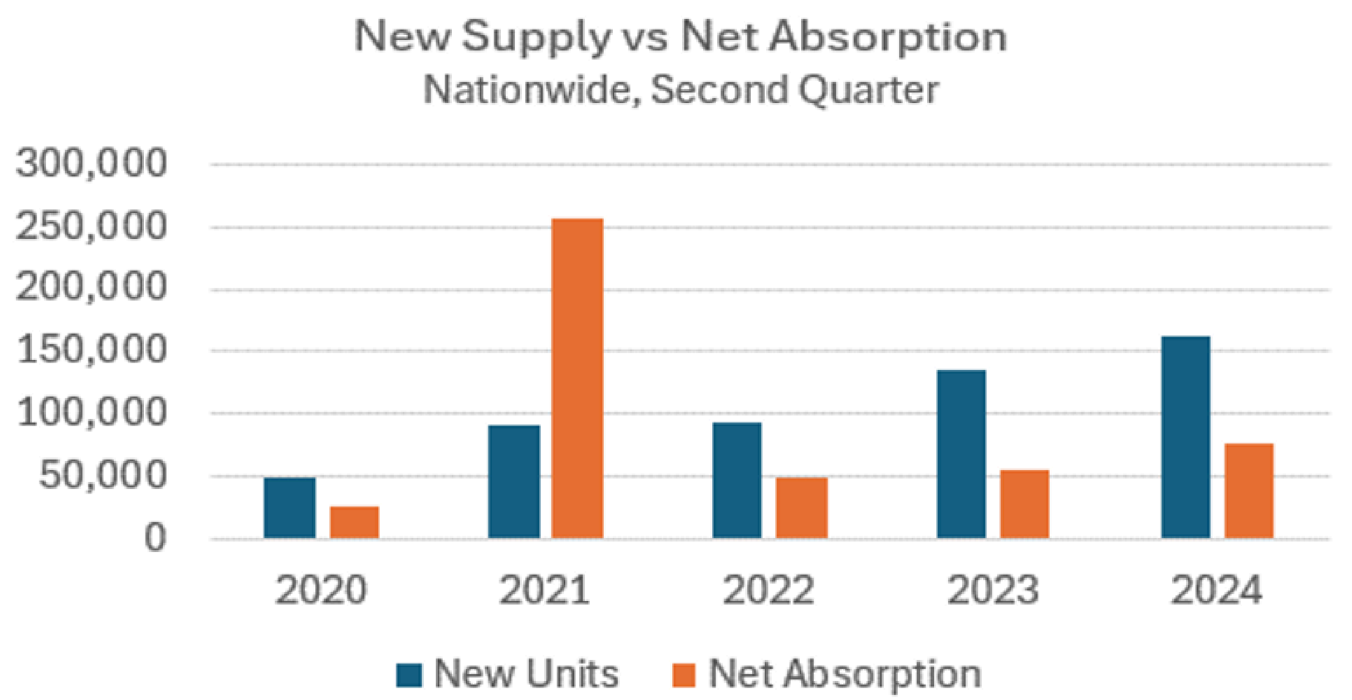
There are some points of connection between these two sets of facts. New supply remains a headwind in an environment where apartment demand has improved from its trough level but remains tepid. Mitigating that headwind is the highly concentrated nature of new deliveries. When speaking of Pennsylvania new supply, that conversation continues to be almost entirely about the Philadelphia metro area. Poor state-level occupancy is also largely due to the short-term difficulties in that same market.

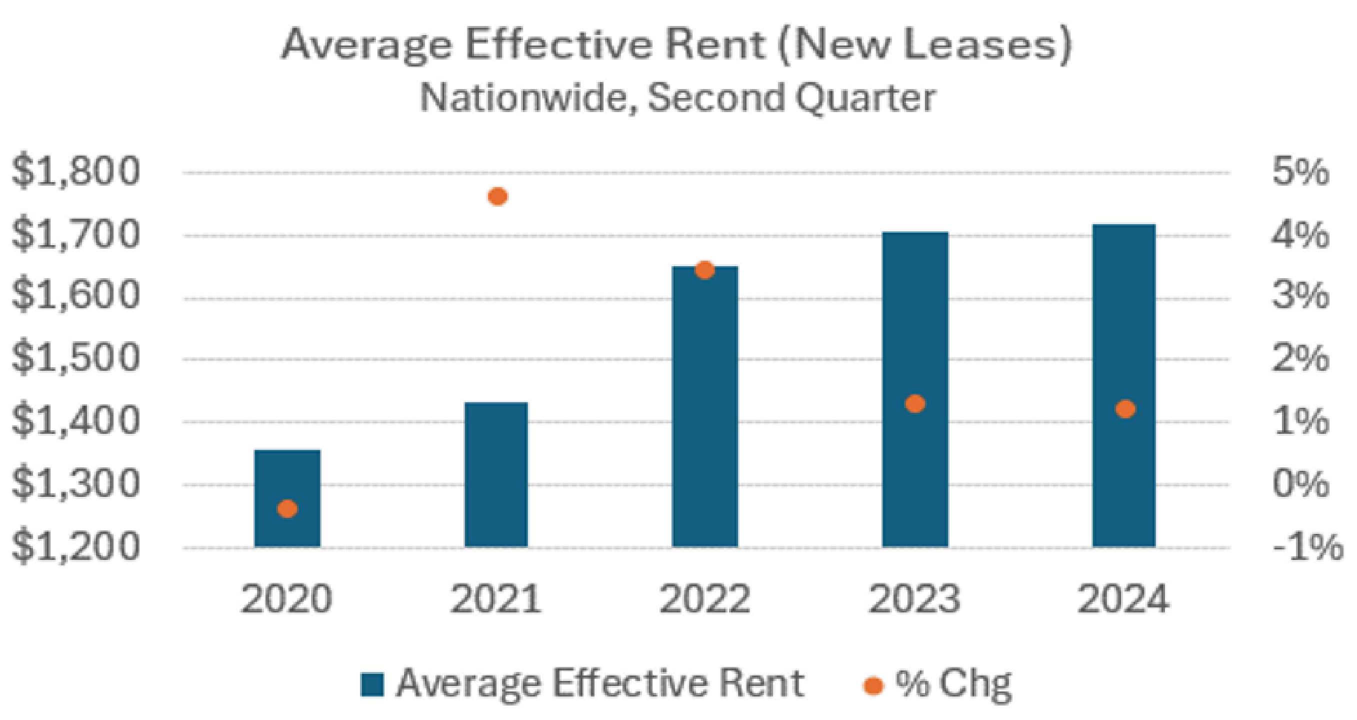
The net absorption picture remains sub-optimal, and there remains a short window in 2024 in which to expect positive news. Once the fourth quarter arrives, next spring is likely to be the next opportunity to see any real improvement. Therefore, average occupancy will almost certainly end the year lower than at midyear and rent growth should slow in the coming months.

Methodological Notes

· All multifamily data refers to conventional properties of at least 50 units unless otherwise specified.
· For MSAs that cross state lines, only properties physically located in Pennsylvania were included in the statistics.
· All multifamily data sourced from ALN Apartment Data

PENNSYLVANIA MULTIFAMILY PERFORMANCE MIXED IN THE SECOND QUARTER (CONTINUED)





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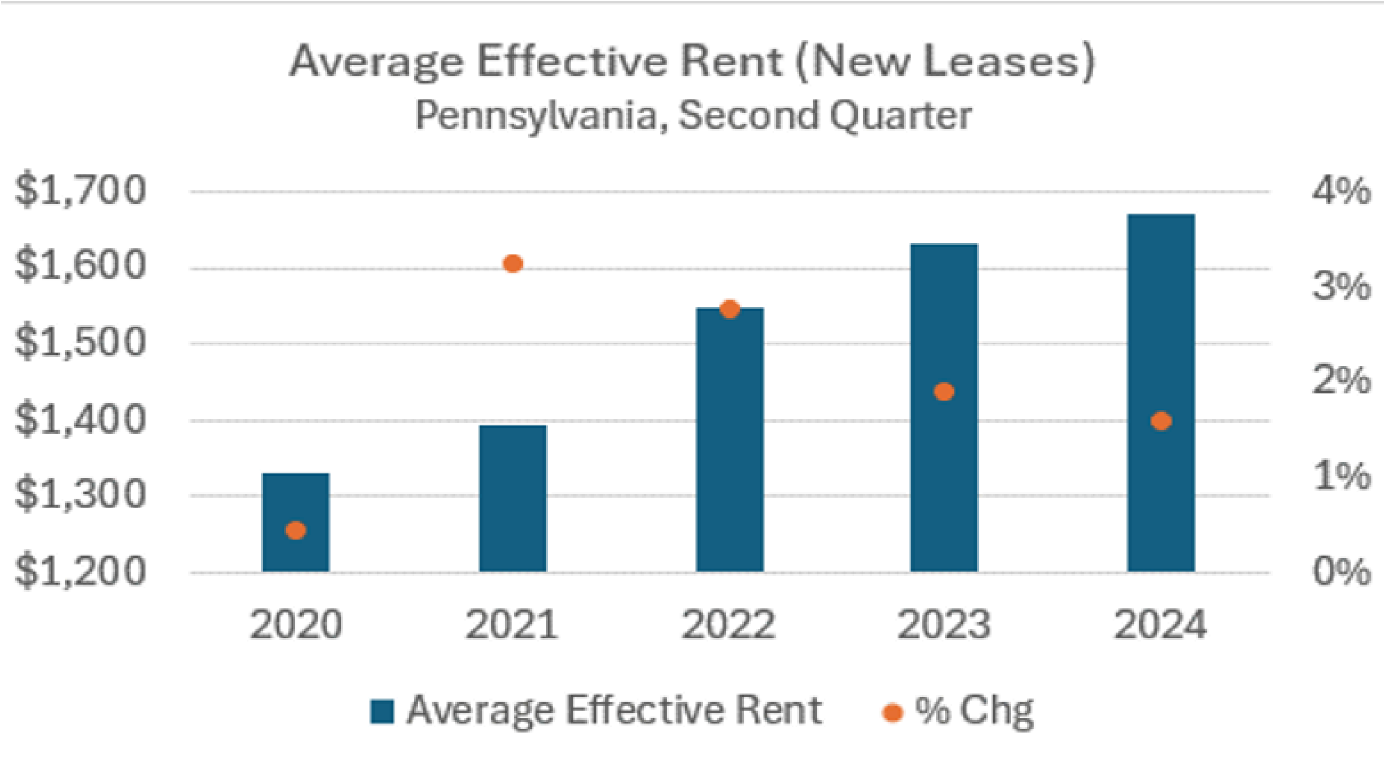

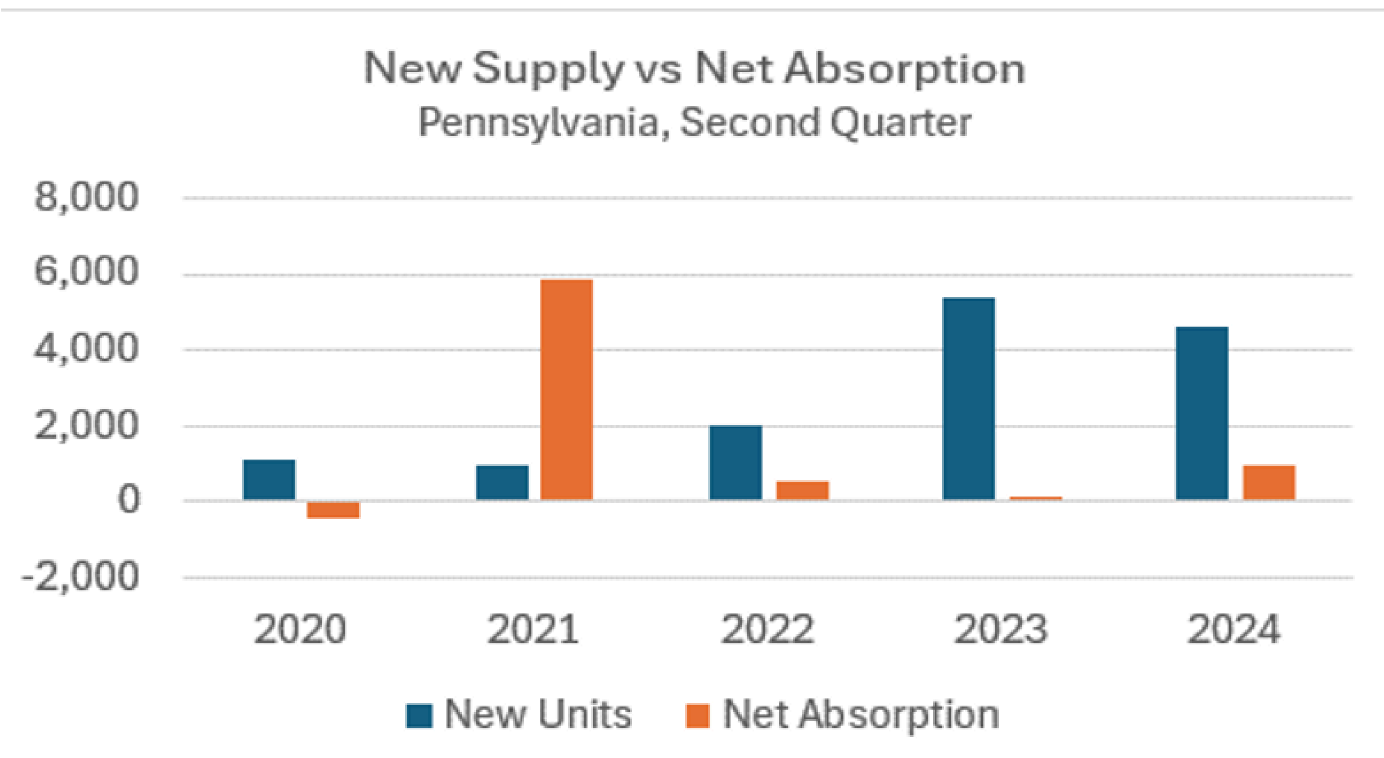

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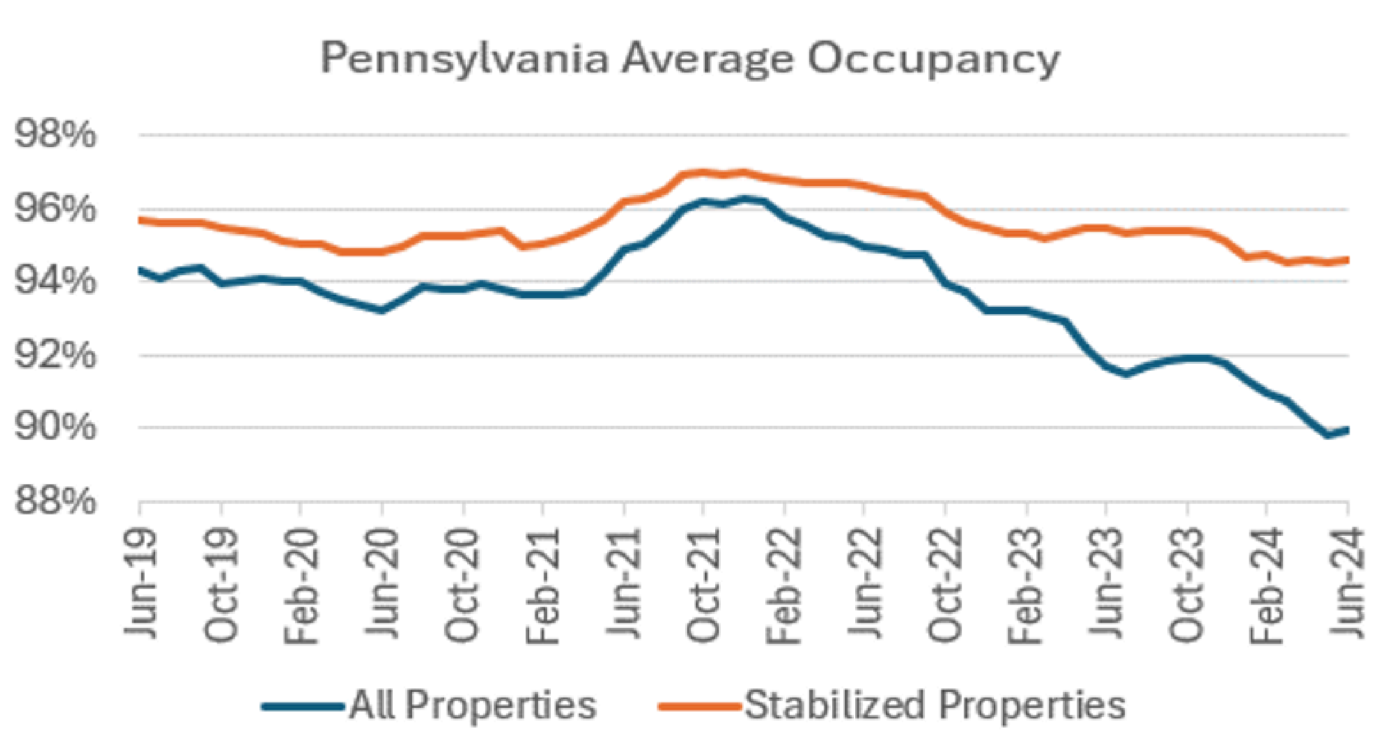

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Additional Information

With the inception of our Locator Program in 1991 and then ALN OnLine in 1993, our market coverage and platforms have grown to what ALN is known for today – market data with integrity. ALN has also developed two separate platforms specifically for Supplier Partners. Vendor Edge Plus is available in all markets across the country while Compass is a one-of-a kind nationwide Multifamily database.

All of our information is gathered by researchers, emails, faxes and data feeds from the owner/management companies. Information reflected today is available in our different database platforms.

From ALN's Research Team Call Centers in Dallas/Fort Worth and Mayfield, Kentucky to our sources within our markets that ALN diligently tracks, each completed survey has gone through a number of proprietary data checks that assure the information collected is correct. Information is obtained from sources deemed reliable; however, ALN Apartment Data provides neither warranties nor guarantees.

ALN's product set consists of conventional, affordable, senior (independent and affordable), student and military housing.

Vendor Edge Plus, ALN OnLine and Locator programs reflect 50+ unit properties. Compass reflects 1 unit or greater. ALN's database contains all property age categories.

ALN continues to provide multifamily professionals the tools they need to make data driven decisions and stay competitive in the nation's fastest growing markets. We are consistently updating and redefining our data to ensure our quality holds true for your expectations.

ALN OnLine
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