PAA PENNSYLVANIA APARTMENT ASSOCIATION

2023 Annual Report

Prepared by

The PAA Team, ALN Data, & Mahaffey Apartment Company

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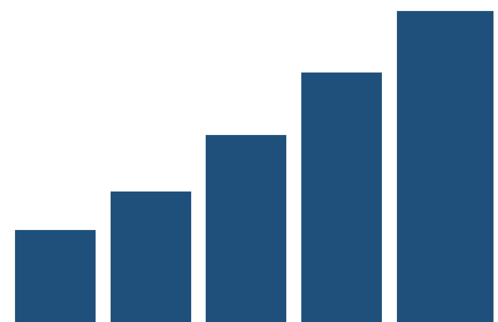


About PAA

The Pennsylvania Apartment Association was established on January 1st, 2020, through the merger of three NAA affiliates: PAA-West, PAA-Central, and PAA-East, into a single state association. However, the trajectory of the Association's goals and initiatives took an unexpected turn with the onset of COVID-19.

In response to the challenges posed by the pandemic, PAA's advocacy team sprang into action, ensuring the industry's designation as essential. They collaborated with local, state, and federal authorities to mitigate pandemic-related evictions while facilitating the ability of housing providers to maintain operations, meet financial obligations, and adhere to CDC safety guidelines.Our member engagement and education teams adapted swiftly, offering virtual alternatives for events, panel discussions, and learning opportunities. Whether through concise updates, online discussions like "Around the Water Cooler," or virtual trade shows, PAA remained committed to meeting the evolving needs of our membership.

Today, we proudly stand as one of the top ten largest apartment associations in the nation, with a continued upward trajectory. Collaborating closely with legislators and regulators, we proactively advocate for policies that benefit both our members and the families they serve. Through in-person educational programs and credentialing courses, we strive to enhance the skills of current and future multifamily professionals. Additionally, we facilitate gatherings across the Commonwealth to foster relationships, enhance knowledge, and create lasting connections. We are providing a home-field advantage for all stakeholders to elevate the Pennsylvania multifamily industry!

Meet Our Team

CAROL CHRISTNER

CEO

Carol Christner has spent the majority of her career working with nonprofit organizations, including charitable, professional, and trade associations. As the CEO of the Pennsylvania Apartment Association, Carol oversees governance, strategy, and operations. She has been with PAA since 2021.

Upon joining PAA, Carol transitioned from the oncology sector to the rental housing industry, bringing a fresh perspective to the organization. Despite her newcomer status, she wasted no time in immersing herself in the intricacies of the industry. Through active engagement with members and supplier partners, Carol swiftly identified the most urgent needs of the sector and devised effective strategies to address them.

Advocacy, networking opportunities, and improved education emerged as clear priorities. In response, the PAA team mobilized with vigor to ensure robust member engagement and a dynamic association environment. Under Carol's leadership, PAA has embarked on a proactive journey, responding with diligence and enthusiasm to the evolving demands of its members.

Carol earned her Master’s degree from Central Michigan University and her Bachelor’s degree from Walsh College of Accountancy and Business Administration. In her free time, she loves traveling, the theater, and snuggling with her adorable dog, Maddie.

Meet Our Team

AMY PONTIUS

EXECUTIVE VICE PRESIDENT

Amy began her career working in the multi-family industry with Lincoln Property Company in 1998. Amy has a love of new construction and opened over 6 new properties in the Pittsburgh market as a property manager. She held an executive board seat as treasurer for PAA West for two years. Amy retired from the property management side of the business as a Regional Property Manager with Morgan Communities in 2015. She started working with PAA West as the Association Executive in 2015 and worked to merge the three PA associations in 2019. Amy is now the Executive Vice President of the PAA and works with the Member Engagement, Events, and Marketing teams.

ROGER DICKSON

VICE PRESIDENT OF EDUCATON

High-energy, results oriented executive with an outstanding record of delivering high impact results. Recognized for superior leadership with over 35 years in multifamily, student and commercial housing; Proven track record in leadership and educational development; A team player with excellent interpersonal and communications skills; A consummate professional recognized for the ability to develop strong, productive partnerships within and outside the organization; Effectively able to trouble-shoot in challenging situations. Enjoys reading, volunteering, travel, gardening and watching BBC mystery shows.

Meet Our Team

ASHLEY PORRINI

DIRECTOR OF OPERATIONS

Ashley began her career in 2008 with AAGP (Apartment Association of Greater Philadelphia) as an Administrative Assistant. Shortly thereafter she became the Office Manager for PAA East before stepping into her current role as Director of Operations. Her job consists of being responsible for day-to-day management of the PAA offices, providing organizational assistance to multiple departments, all while overseeing external relationships regarding office standards. Ashley also handles accounts payables, receivables, and is the active liaison for the Helping Hands committee. When she is not working, Ashley enjoys spending time with her family, vacationing at the beach, and walking with her dog.

BETH WEACHTER

SENIOR DIRECTOR OF MEMBER ENGAGEMENT

Beth spent several years in the healthcare sector before discovering her calling in the non-profit association management industry. Having tenure as account administrator to events manager to executive director for various specialty organizations and boards of directors, her array of experience serves as a valuable asset to PAA. In her current role as Member Engagement Director, she seeks to create win-win opportunities that drive results and provide value for members and sponsors. When time allows, she serves as sous chef and 'chief idea person' in a side-hustle catering business with her husband. Beth enjoys travelling out west, and when at home she can usually be found gardening or spoiling her precocious pets.

Meet Our Team

CHRISTOPHER KENT

DIRECTOR OF MARKETING AND COMMUNICATIONS

Chris joined the PAA team as the Marketing Coordinator in December 2021. Chris' background in public relations, advertising, and strategic communications helped propel him into his current role as the Marketing Manager for PAA, working across different departments and overseeing communication and marketing efforts on behalf of the association. Chris has a BA in Strategic Communication from Temple University in Philadelphia and is an avid sports fan, who in his spare time enjoys weightlifting, spending time with friends/family, and hosts a sports-based podcast.

RICKIE ZANONE

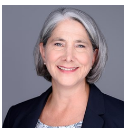
BUSINESS DEVELOPMENT MANAGER AND PAC FUNDRAISING COORDINATOR

For 30 years, Rickie has worked as a Supplier in the Multi Family industry with National and Tristate Companies in Pittsburgh Pennsylvania. Her career experience in Sales and Business Development has allowed her to develop many relationships across the state as well educate owners, management teams and customers with diverse products, market research and trends to help businesses succeed and grow in all levels of customer satisfaction. She has been involved in the Pennsylvania Apartment Association since 2004, and represented the PAA West Board of Directors and held an executive Board position as Secretary for several years. She was also recognized with multiple honorary awards for her contributions and commitments made in the Multi Family industry. Rickie enjoys spending time with family and friends, relaxing on her parent’s farm with their horses, traveling with her husband Bob, and taking long walks at local area parks.

Meet Our PAA Board of Directors

Donna Colbert
Senior Vice President of Operations, The Klein Company
PAA BOARD PRESIDENT

Connor Woodward
CEO, Woodward Properties, Inc.
PAA BOARD VICE PRESIDENT



Linda Hart
CFO, Scully Company
PAA BOARD TREASURER

Lisa Delgado
Vice President, Boyd Wilson
PAA BOARD SECRETARY

Charlene Delia
Founder and CEO
MEMORe
PSC CHAIR

Laura Beyer
Vice President of Property Management, Metropolitan Management Corporation
DIRECTOR

George Cowden
Vice President of Operations, Multi-Housing Depot
DIRECTOR

Robin Flagler
DIRECTOR

Sam M. Goldstein
The Galman Group
DIRECTOR

Michael Hankin
COO, Hankin Apartments
DIRECTOR

Tonaus John
COO, DBC Real Estate Management, LLC
DIRECTOR

Brad Mowbray
Senior VP & Managing Director, Residental Division, High Real Estate Group
DIRECTOR

Anne-Marie Niklaus
COO, Berger Rental Communities
DIRECTOR

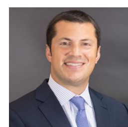
Michael Reynolds
Vice President, Armina Stone
DIRECTOR

April Sample
Vice President of Property Management, The Kamson Corporation
DIRECTOR

James Smith
CFO, Campus Apartments, LLC/ University City Associates
DIRECTOR

Alex Stefanelli
CEO, Westover Companies
DIRECTOR

Jason Tribue
Regional Vice President, Beacon Communities LLC
DIRECTOR



Jonathan Morgan
President, Morgan Properties
PAA IMMEDIATE PAST PRESIDENT

Vision And Mission

Vision

The vision at the PAA is simple. PAA provides homefield advantage for all stakeholders to elevate the Pennsylvania rental housing industry. This vision allows our association and the Board of Directors to provide services and support for Property Management Companies, Properties, and Supplier Partners throughout the commonwealth.

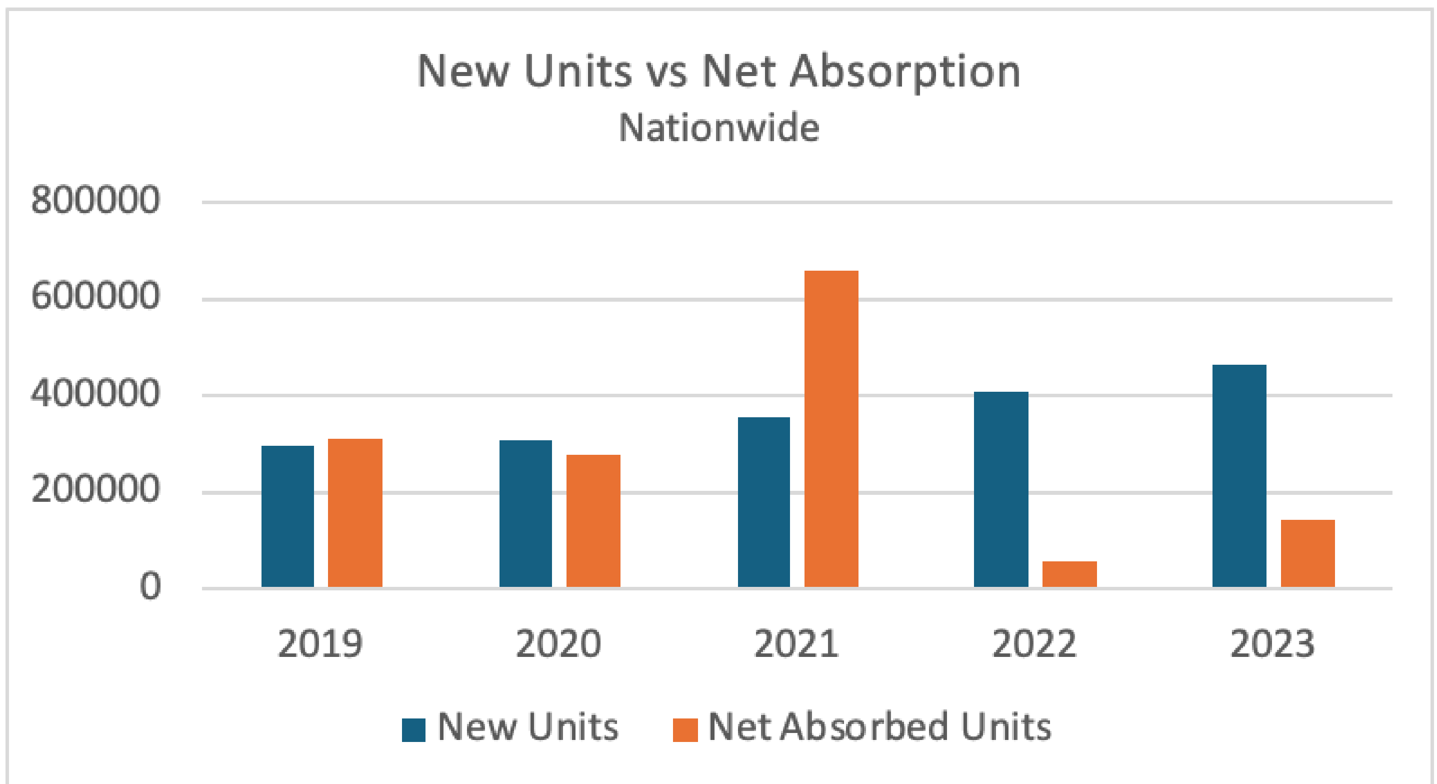
Mission

Serve the Pennsylvania apartment industry as the trusted, preeminent resource for all stakeholders and partners through advocacy, education and collaboration.

National Multifamily Performance in 2023

Apartment demand improved considerably last year from its basement level in 2022 but remained below the normal range from the pre-pandemic period. A little more than 140,000 net absorbed units nationally represented a 150% increase from 2022. Even so, last year's total was the lowest of any recent year aside from 2022 – and by a wide margin.

The considerable improvement in apartment demand was not enough to offset last year's volume of new supply. More than 460,000 new units were delivered across the country, making 2023 the second consecutive year with multifamily new supply above 400,000 units. Dallas – Fort Worth and Houston led the way with about 32,000 and 21,000 new units, respectively. New York, Denver – Colorado Springs and Atlanta rounded out the top five and were joined near the top of the list by high-growth Sunbelt markets such as Austin, Orlando, Phoenix, and Nashville.



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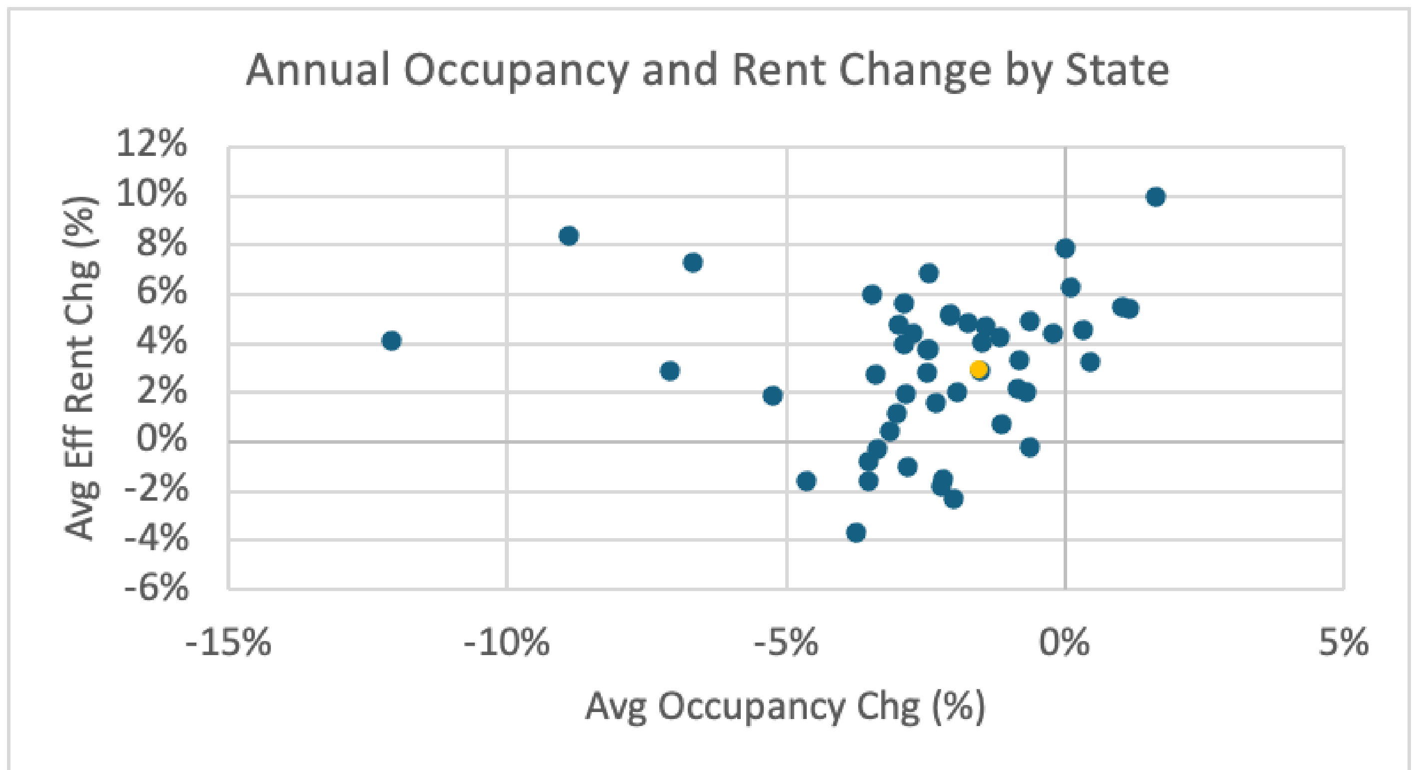
National Multifamily Performance in 2023

As would be expected after two years of historic new supply and stubbornly low apartment demand, average occupancy continued its steady decline last year. A 270-basis point softening in 2022 had already returned national average occupancy from its peak in late 2021 to below pre-pandemic levels. The further deluge of new units last year dragged average occupancy down an additional 240 basis points to end the year at 89%. For properties that entered the year already stabilized, national average occupancy closed 2023 at 93% after a net loss of more than 100,000 leased units during the year.
Within the context of falling occupancies, the wind finally came out of the rent growth sails. After an unprecedented run in 2021 and 2022, the national average effective rent for new leases rose by only 1.1% in 2023. The year ended with four straight months of negative rent growth which ended up cutting the annual gain in half.

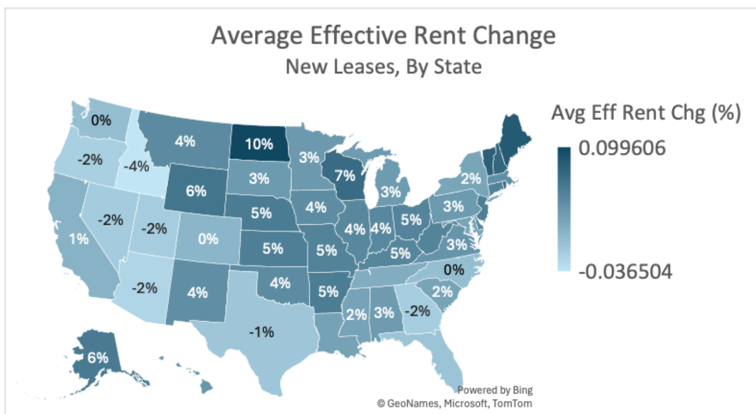
*Data from ALN Apartment Data

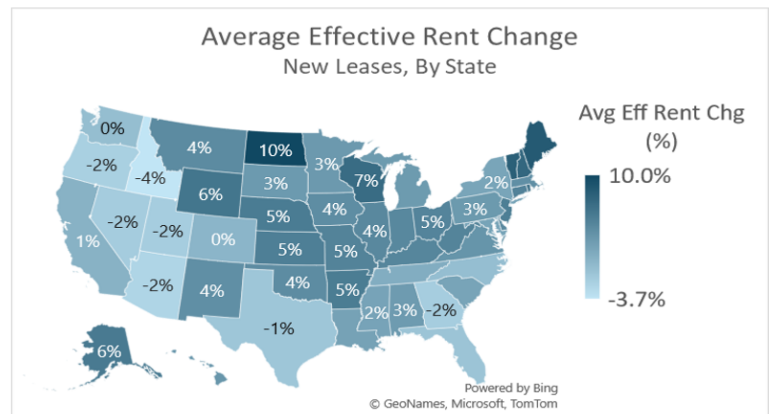


National Multifamily Performance in 2023

State	Avg Eff Rent Chg (%)
AK	5.6%
AL	2.8%
AR	5.4%
AZ	-2.3%
CA	0.8%
CO	0.5%
CT	4.9%
DC	1.6%
DE	4.3%
FL	-0.8%
GA	-1.6%
HI	3.2%
IA	4.0%
ID	-3.7%
IL	4.4%
IN	4.4%
KS	5.2%
KY	4.6%
LA	2.1%
MA	3.8%
MD	2.0%
ME	8.4%
MI	2.8%
MN	2.9%
MO	4.8%
MS	2.0%

State	Avg Eff Rent Chg (%)
MT	4.1%
NC	-0.3%
ND	10.0%
NE	5.5%
NH	7.3%
NJ	5.2%
NM	3.8%
NV	-1.5%
NY	1.9%
OH	4.7%
OK	4.0%
OR	-1.8%
PA	2.9%
RI	6.3%
SC	2.0%
SD	2.9%
TN	1.2%
TX	-1.0%
UT	-1.6%
VA	3.3%
VT	7.9%
WA	-0.2%
WI	6.8%
WV	4.8%
WY	6.0%

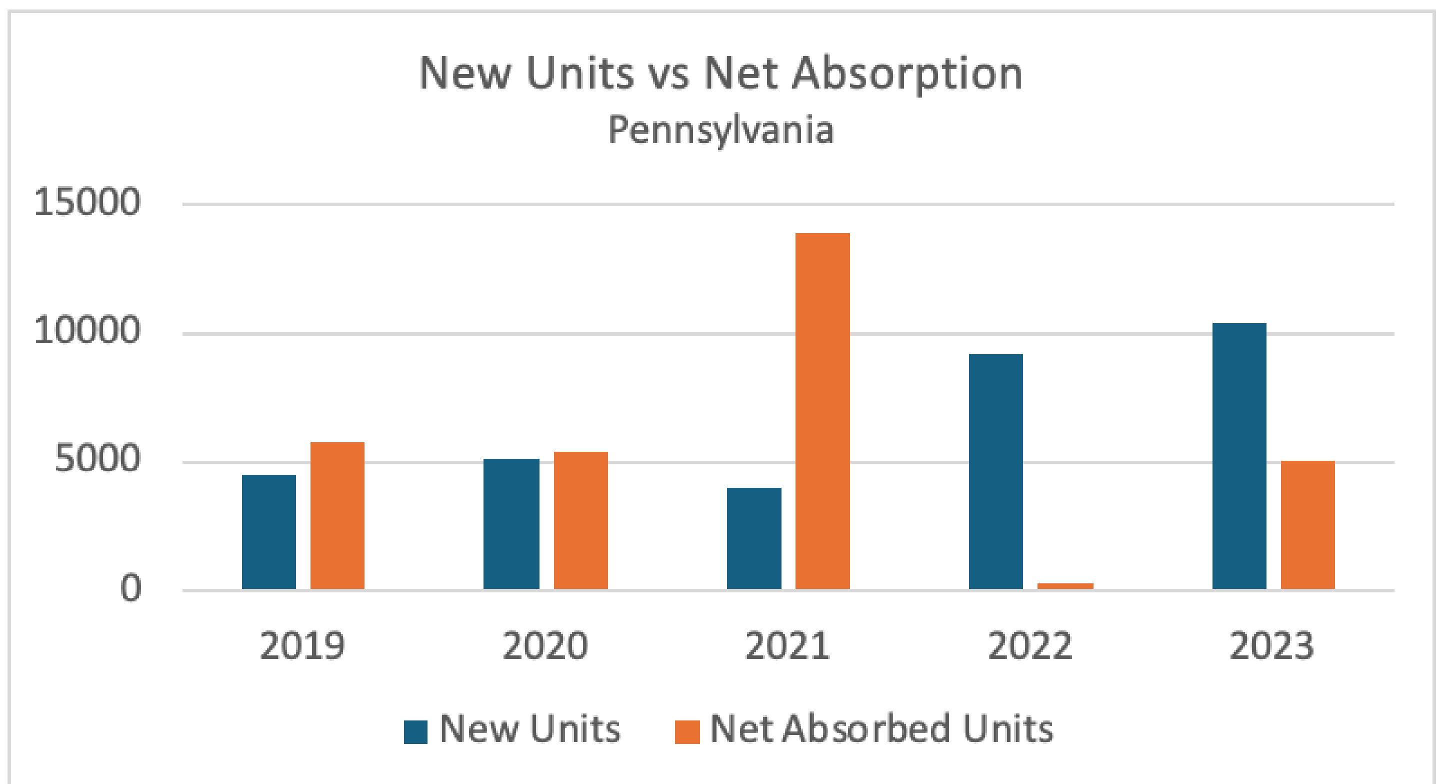




Pennsylvania Multifamily Performance in 2023

Relative to national trends, 2023 was a solid year for Pennsylvania multifamily. A point of similarity was the uptick in new supply. The roughly 10,400 new units delivered across the state was the most of the last five years – and by a wide margin. In 2022, approximately 9,200 new units were introduced across Pennsylvania. In the three years prior, the annual average was only about 4,500 new units. The state has been in the midst of the same construction boom that has played out across the Sunbelt and Mountain West regions in particular.

Whereas the annual change to new supply resembled the national picture, apartment demand was quite different. After net absorption of fewer than 300 units for the entire state in 2022, the 2023 total managed to just top 5,000 units. The year-over-year improvement was more robust than at the national level and the annual absorption total was much closer to the recent average range than was the case for the country as a whole.



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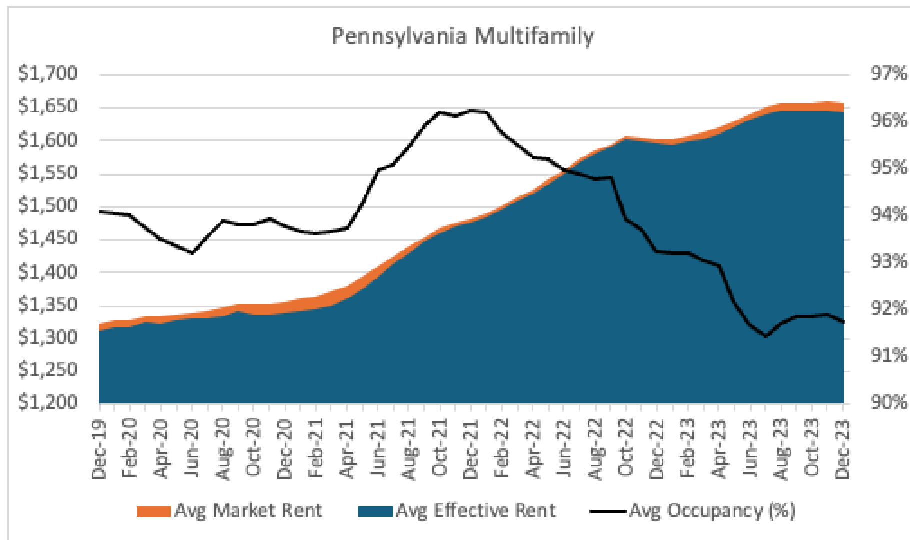
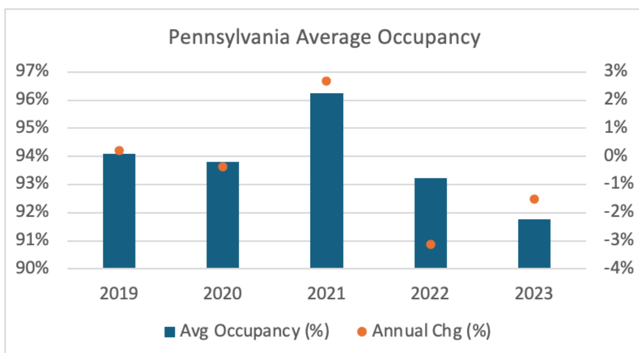
Pennsylvania Multifamily Performance in 2023

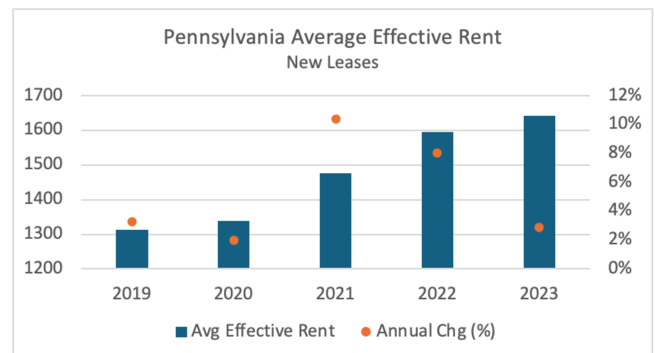
Encouragingly, demand improvement occurred across the price classes. Class A net absorption nearly tripled the 2022 total while both the Class C and Class D groups moved from a net loss of leased units in 2022 back to positive net absorption in 2023.

Despite the improvement in apartment demand, average occupancy continued its decline last year due to the level of new supply. A 150-basis point decline brought the overall average for the state to just under 92% to close 2023. Both the annual decline and the year-end value compared favorably to the national metrics. For properties that entered the year already stabilized, average occupancy ended the year at 95% - also better than the national average.

As would be expected in an environment with more resilient demand and a reduction in average occupancy loss, Pennsylvania rent growth outperformed in 2023 as well. A 2.9% increase in average effective rent for new leases nearly tripled the 1.1% national gain despite being a far cry from the 10% or 8% jumps at the state level in 2021 and 2022, respectively.
*Data from ALN Apartment Data







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A Shift in New Supply

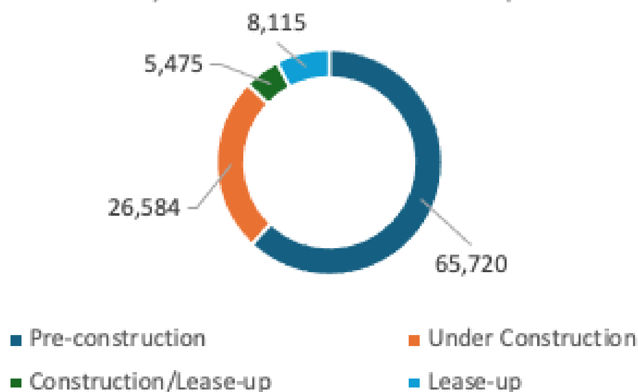
An interesting dynamic in the new supply data from 2023 both nationally and in Pennsylvania was an increase in deliveries outside of the premium sector of the market. Because ALN assigns a price class based on each property's average effective rent per square foot percentile rank in its market, changes in the positioning of new properties compared to existing stock can be elucidated. For reference, Class A corresponds to the top 12% pf properties, Class B to the next 20%, Class C to the next 38%, and Class D to the remaining 30% of properties.

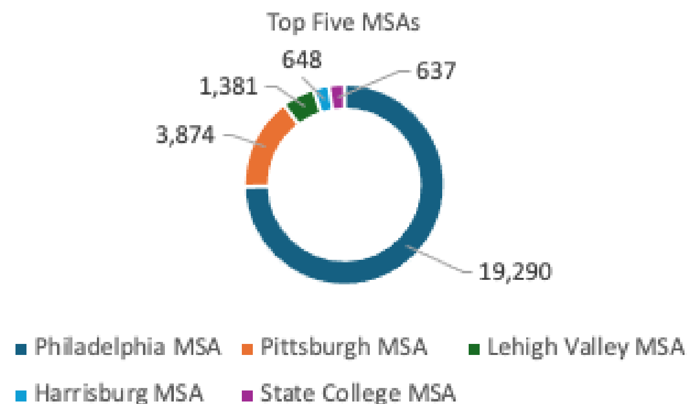
As development activity has expanded geographically during the current construction boom in multifamily, new properties have entered the market in a wider range of average rent percentiles. Rather than a concentration of deliveries in the top few most expensive submarkets, projects have begun to come online in areas of their markets where a high rent for the submarket is not necessarily within the top 12% of market-level average effective rent.

In 2023, around 4,000 new Class A units were delivered. This level of new supply was very high relative to a longer-term average but was slightly down from a 2022 peak. However, price Class B and Class C new supply increased significantly in 2023. Just over 2,100 new units entered the state in the Class B subset and the Class C tier added about 2,400 new units. For both price tiers 2023 new supply was the highest of the last five years, but this was especially so for Class C.

This dynamic was a positive one in a broad sense for the multifamily industry in an era where housing affordability is of paramount importance. Substantial new supply within the middle two price tiers according to the methodology described above will play a role in easing the price pinch residents have felt from the 2021 and 2022 period.

*Data from ALN Apartment Data





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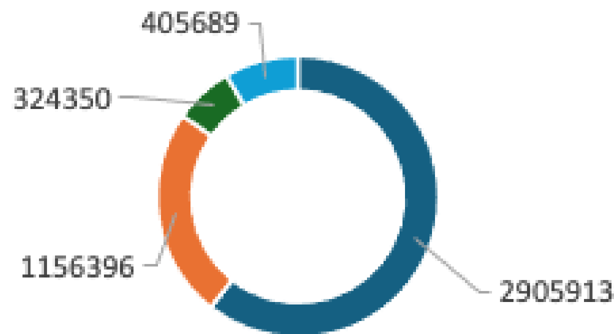
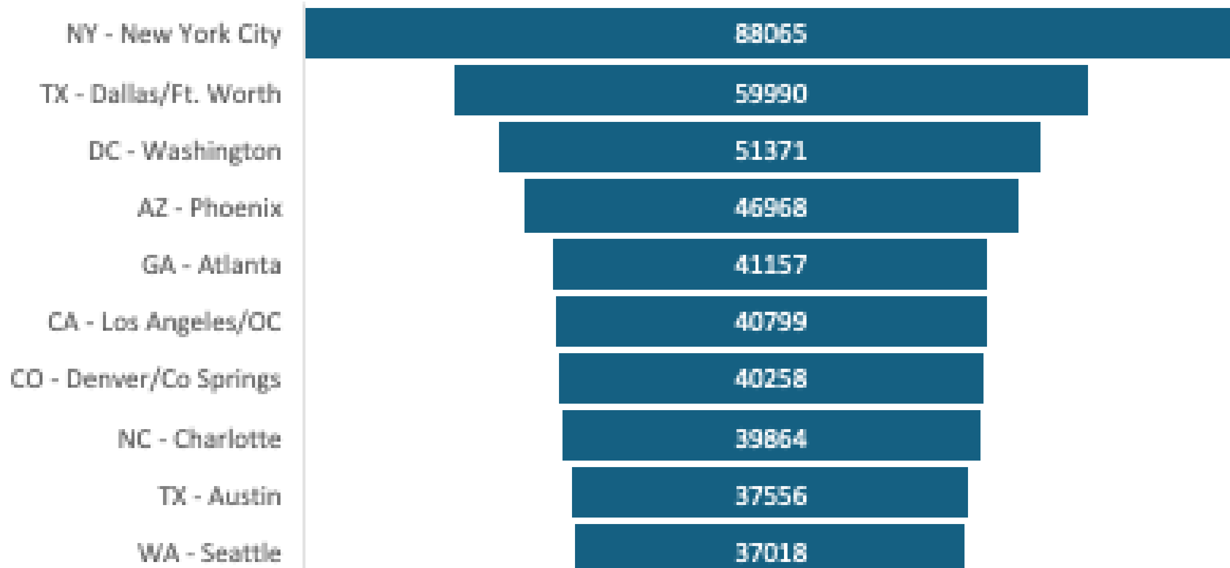
A Shift in New Supply

*Data from ALN Apartment Data



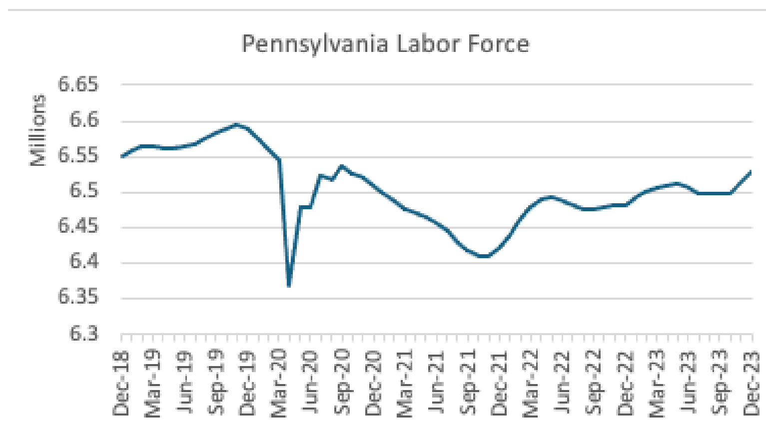


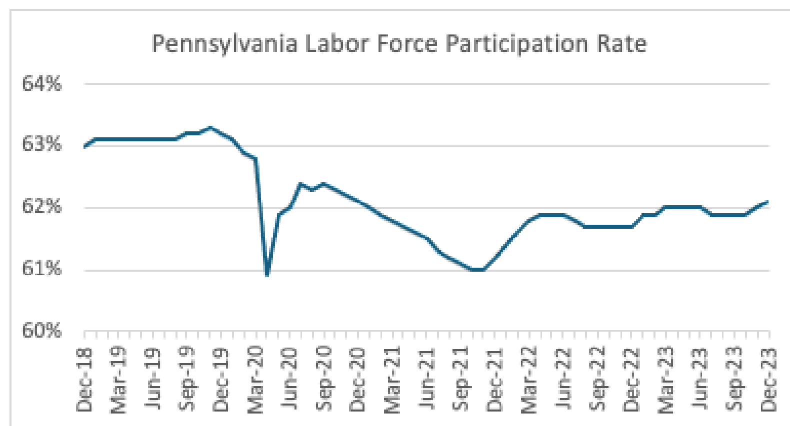
Macroeconomic Background

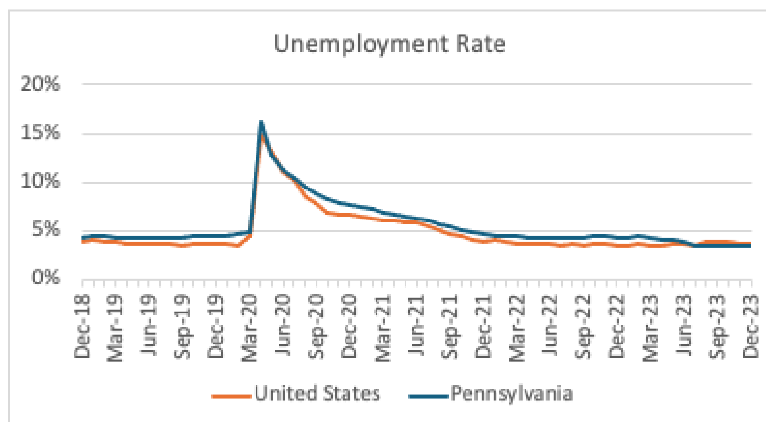
Looking Ahead: Labor Market

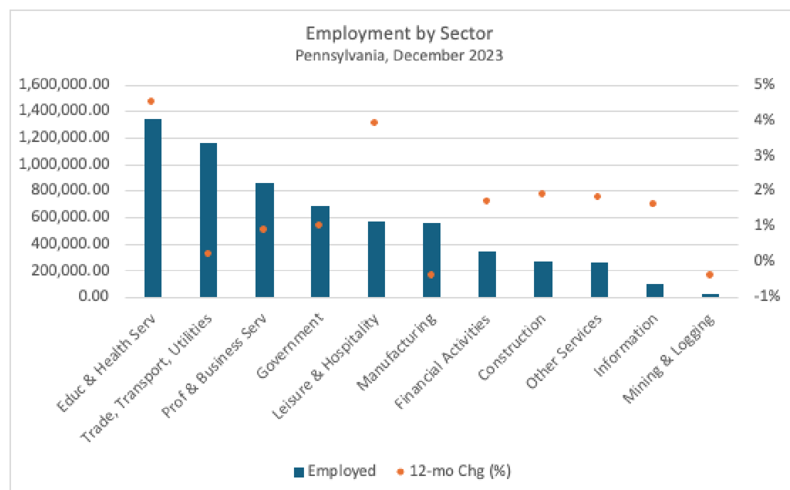
- The U.S. labor market cooled some in 2023 but remains tight.
- The national labor force participation rate currently sits below where it was pre-pandemic but improved slightly in 2023.
- Both initial weekly jobless claims and continuing weekly jobless claims remained stable and within their normal range all year at the national level.
- The Pennsylvania unemployment rate finished 2023 slightly lower than the national average.
- The labor force in Pennsylvania remains slightly smaller than was the case pre-pandemic, but the state has a slightly higher number of employed people.
- Of the eleven major employment sectors, only employment in the Mining & Logging and Manufacturing sectors declined in 2023 – and each by less than 0.5%.

*Data and Chart Data from the U.S. Bureau of Labor Statistics (BLS)









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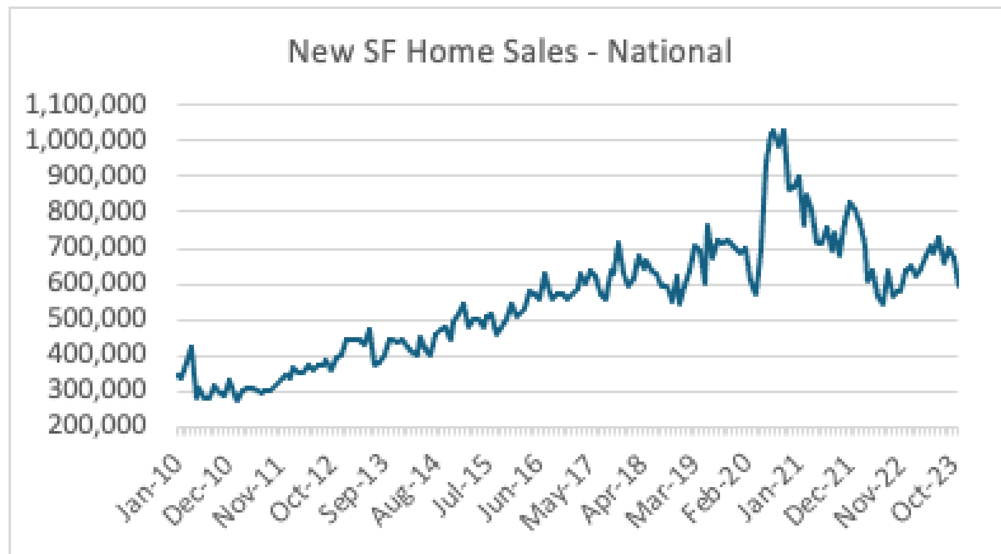
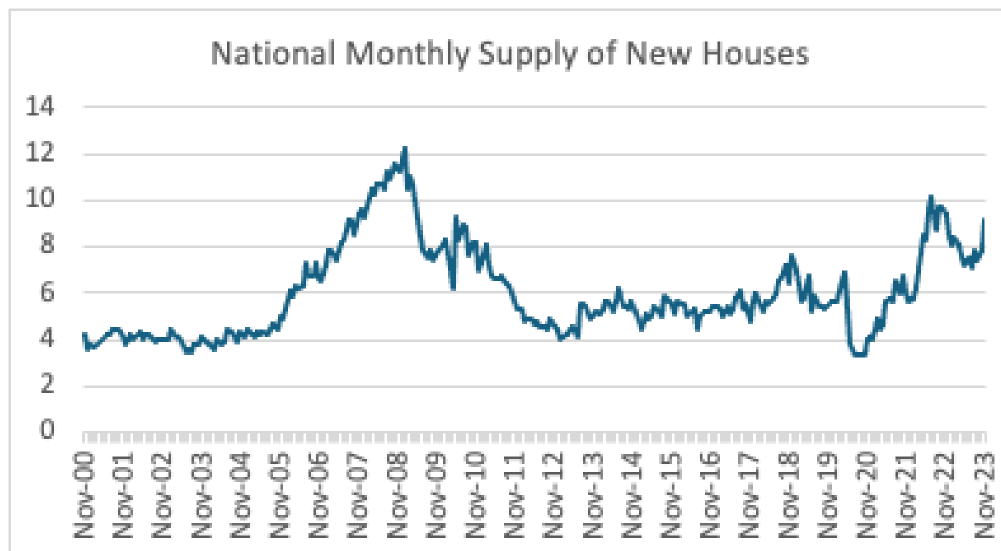
Macroeconomic Background

Looking Ahead: Single-Family Housing

- High mortgage rates, high home prices, and generally low supply led to a reduction in activity on the single-family side of the housing industry in 2023. This status quo will not necessarily hold in 2024.
- Home builders have adjusted to the new environment, including by reallocating upgrade allowances to rate buy-downs in order to entice potential buyers as inventory has grown.
- For existing home sales, supply remains low but that could change should the labor market soften further.
- Any boost to multifamily demand in 2024 from a slow single-family year would be more focused in markets with a traditionally higher rate of home ownership and within the top two multifamily price classes.

*Data from ALN Apartment Data





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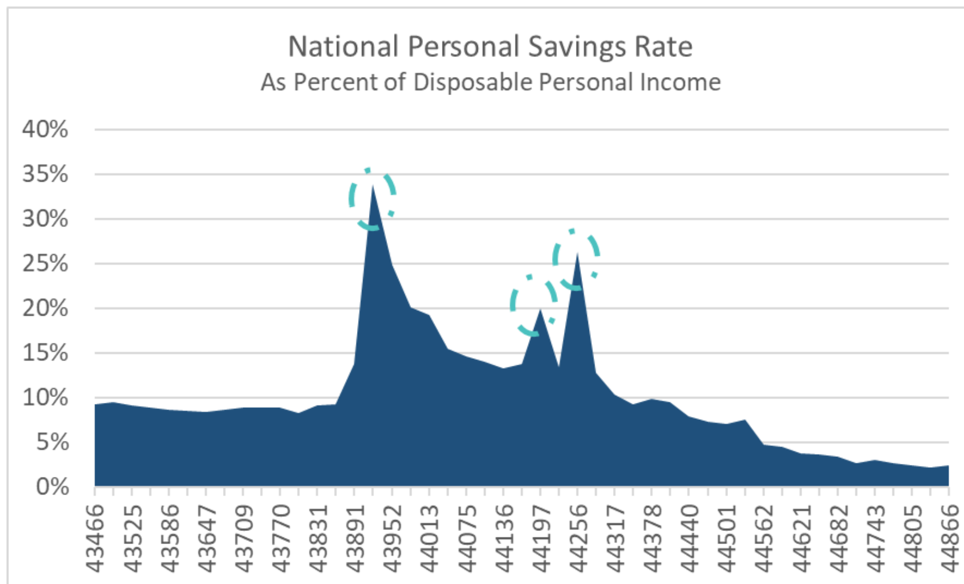
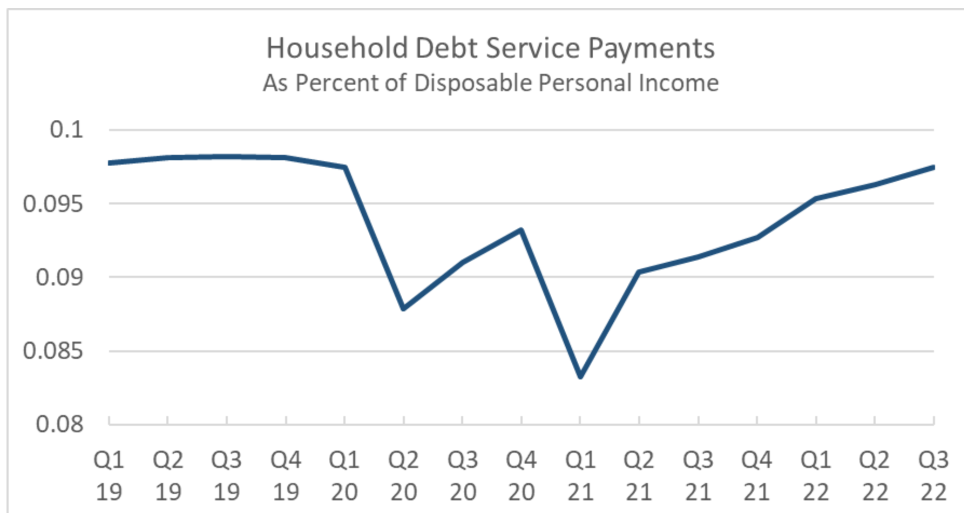
Macroeconomic Background

Looking Ahead: Multifamily New Supply

- National new supply will not be slowing in 2024 with more than 400,000 new units expected to be delivered.
- Pennsylvania is set to remain a part of the construction boom this year, but deliveries will be quite concentrated.
- Of the more than 25,000 multifamily units already under construction across the state, about 19,000 units are located in the Philadelphia MSA.
- With roughly 3,900 units, the Pittsburgh metro area is the only other market in Pennsylvania with at least 2,000 units already under construction.
- Pennsylvania finished 2023 with every major metro area with an average occupancy above the national average. With new supply pressure expected in 2024 only for the Philadelphia market, that occupancy over-performance should largely continue.

*Data from ALN Apartment Data





Metro Area Multifamily Performance in 2023

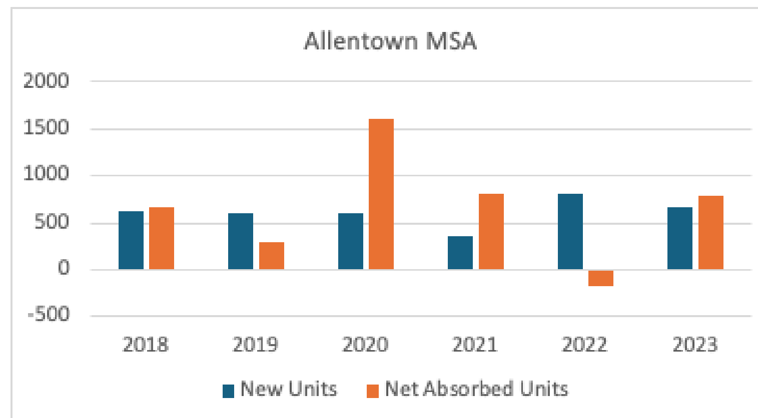
Allentown-Bethlehem-Easton MSA

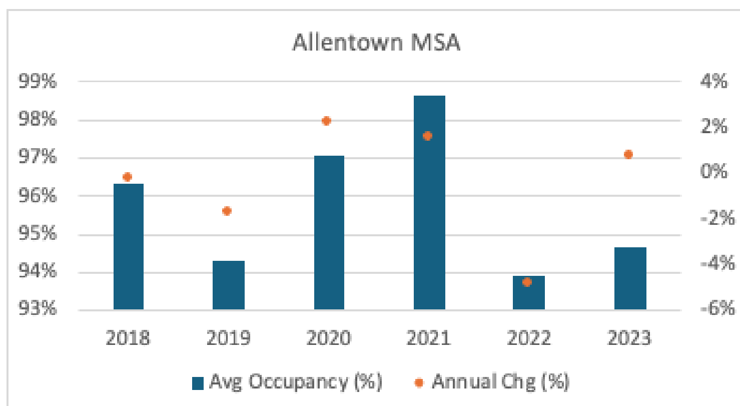
Uniquely among these seven metro areas, the Lehigh Valley region managed to avoid an average occupancy decline in 2023. The gain was fairly small at 80 basis points, but the improvement brought average occupancy to around 95% at the close of the year.

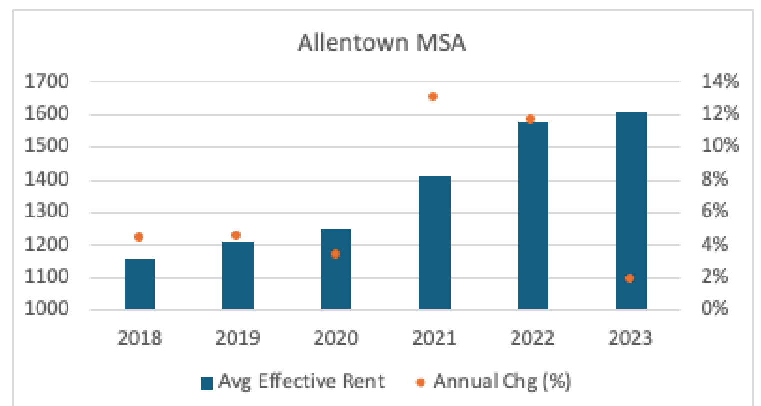
A lack of new supply was not the reason for higher occupancy. Almost 700 new units were delivered across the metro. This was lower than the roughly 800 new units introduced in 2022 but higher than in any other recent year aside from 2022.

Rather, a positive supply-demand ratio led to higher average occupancy. Approximately 800 net absorbed units exceeded the number of new units delivered by more than 100 units and led to a small improvement in occupancy as a result.

In 2022, both the Erie and State College – Altoona regions managed annual net absorption higher than new supply. In 2023, the Lehigh Valley area was alone in that category.
*Data from ALN Apartment Data







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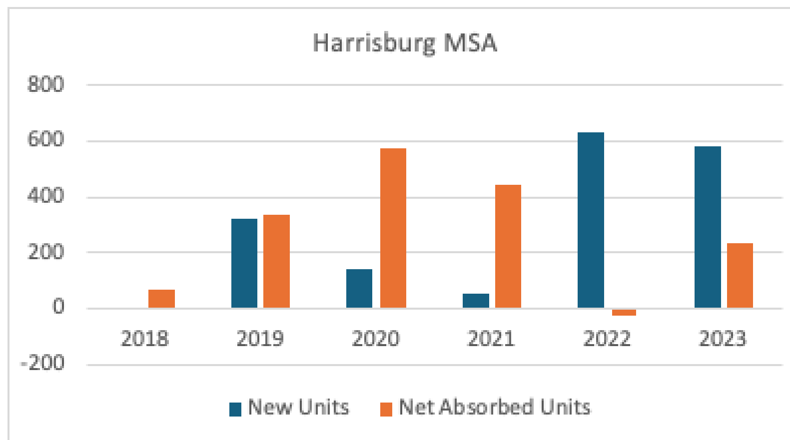
Metro Area Multifamily Performance in 2023

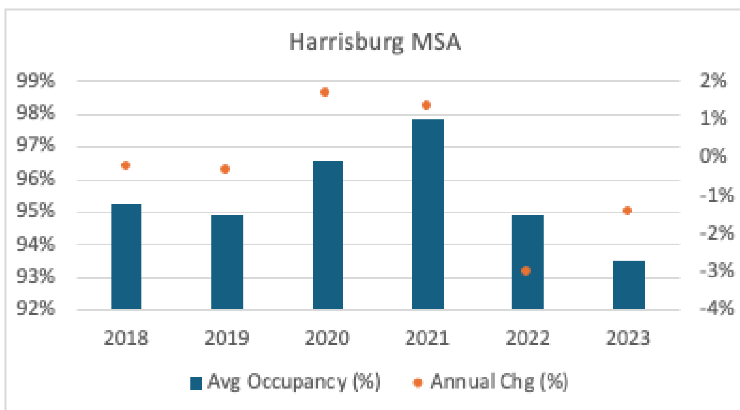
Harrisburg-Carlisle MSA

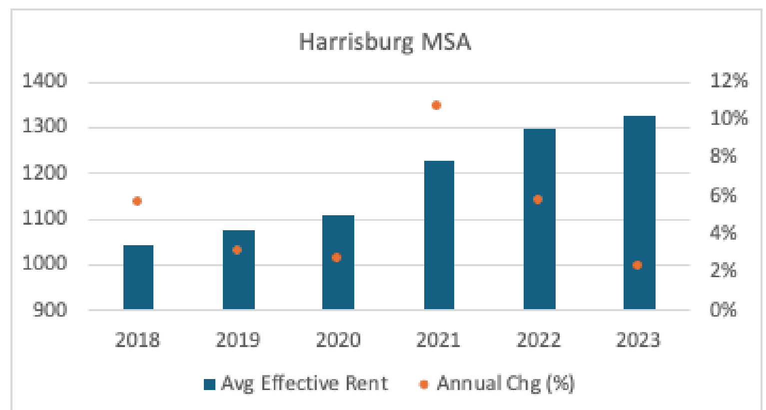
With just less than 600 new units delivered, new supply was slightly lower in 2023 than in 2022 for the Harrisburg metro. Delivery volume in both years was considerably higher than any recent annual total from preceding years.

Net absorption improved from a slight net loss of leased units in 2022 to net absorption of more than 200 units in 2023. This level of apartment demand brought the Harrisburg area back within a normal range after a trough in 2022.

The effect of consistently elevated new supply over the last two years on average occupancy has been apparent. A 140-basis point decline last year brought average occupancy to just below 94% to end December. This was considerably higher than the state or national averages, but quite a distance from its 2021 peak of 98%.
*Data from ALN Apartment Data







Metro Area Multifamily Performance in 2023

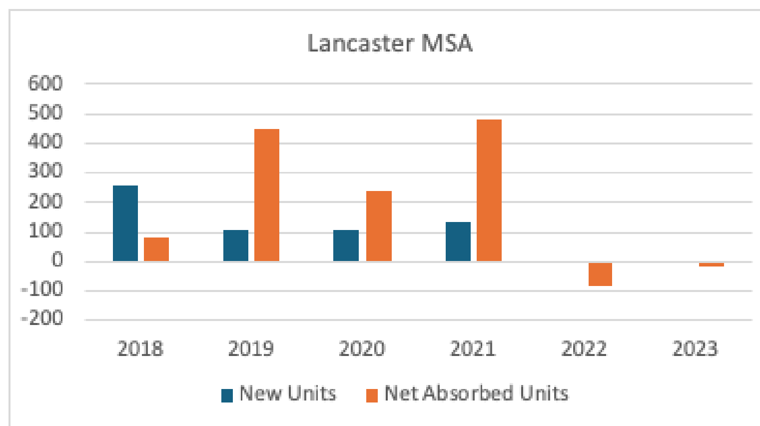
Lancaster MSA

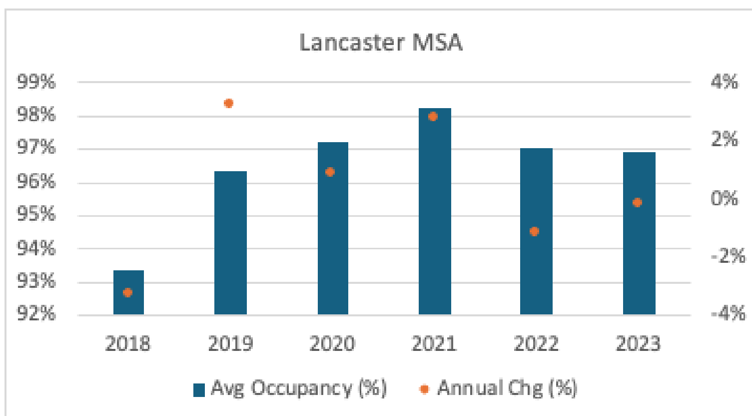
The Lancaster metro presented an example of a Pennsylvania market operating without pressure from new supply last year. With no new deliveries and a net loss of only about two dozen leased units, average occupancy remained virtually unchanged at 97%. This area has been fairly atypical in that net absorption outpaced new supply in each year from 2019 through 2021 before deliveries paused in 2022 and 2023.

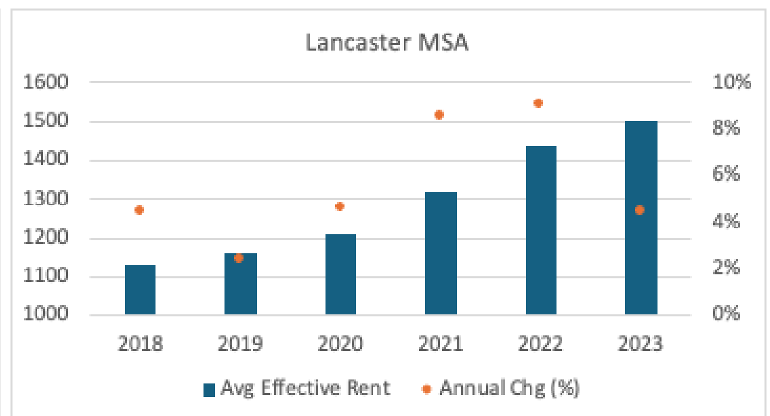
Unsurprisingly, annual average effective rent growth for new leases of 4.5% was notably higher than at the state level. Last year's total was lower than in either of the two previous years but at the top end of the range from the 2018 through 2020 period.

It should be noted that annual net absorption has now been slightly negative for two consecutive years. Lancaster is the only one of the MSAs profiled here to have earned that designation. However, without a steady flow of new units and with average occupancy well above the average, the impact of the net loss of leased units has been mitigated.

*Data from ALN Apartment Data







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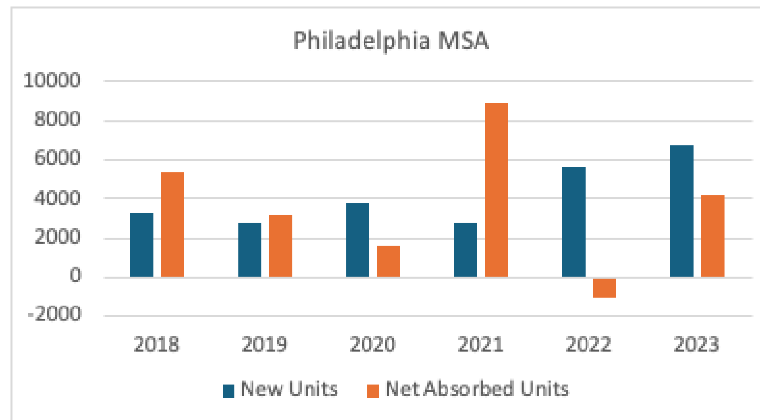
Metro Area Multifamily Performance in 2023

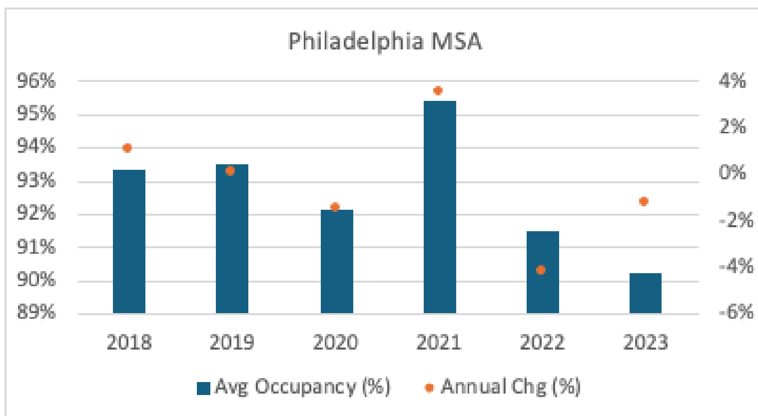
Philadelphia-Camden-Wilmington MSA

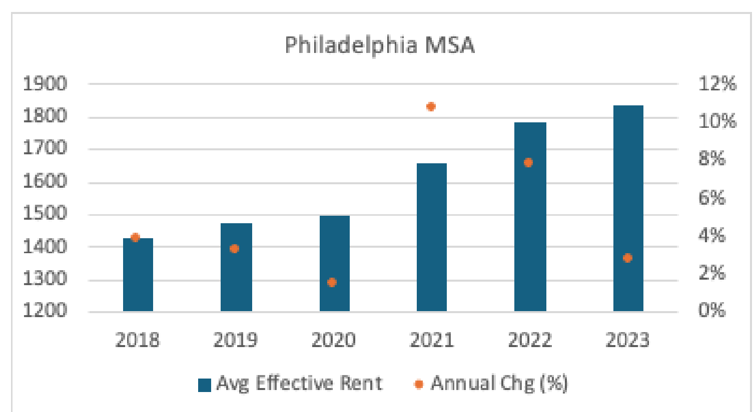
About two-thirds of Pennsylvania new supply last year was delivered in the Philadelphia metro area. The approximately 6,800 new units introduced in 2023 exceeded the 2022 total by roughly 1,000 units and exceeded total new supply from 2020 and 2021 combined.

The area dominated statewide apartment demand to an even greater extent. Net absorption of about 4,200 units in the Philadelphia metro region accounted for more than 80% of Pennsylvania net absorbed units last year. Whereas net absorption for the state in 2023 bettered only the 2022 total among recent years, Philadelphia's result last year outperformed both 2019 and 2020.

The 2.8% increase in average effective rent for new leases last year for Philadelphia nearly exactly equaled the state-level gain of 2.9%. Last year's rent growth was, of course, a sharp decline from the previous couple of years but was also lower than in 2018 or 2019 in the pre-pandemic era.
*Data from ALN Apartment Data







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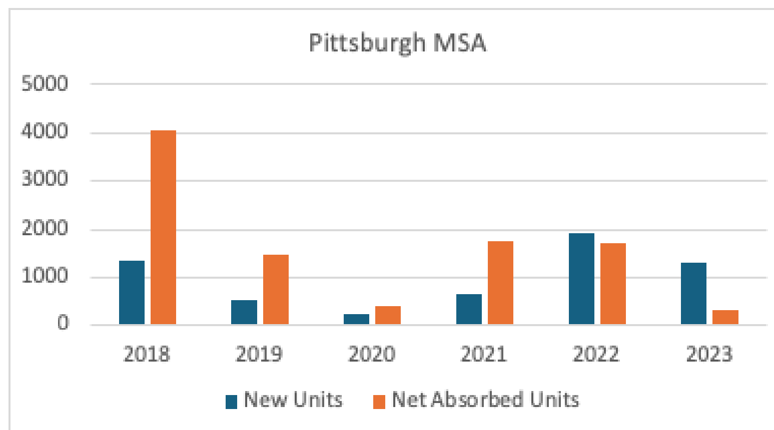
Metro Area Multifamily Performance in 2023

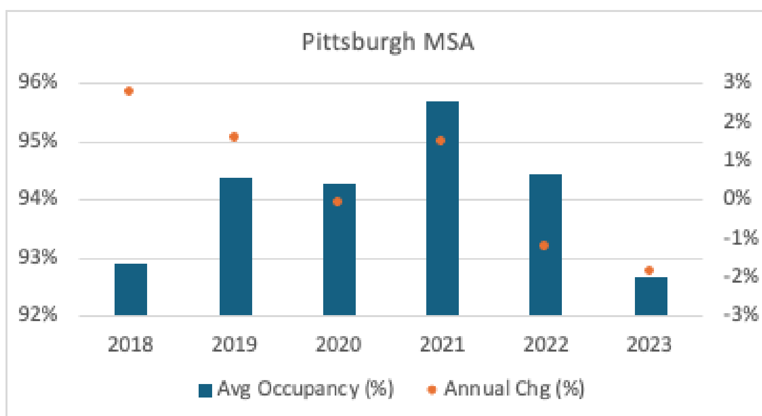
Pittsburgh MSA

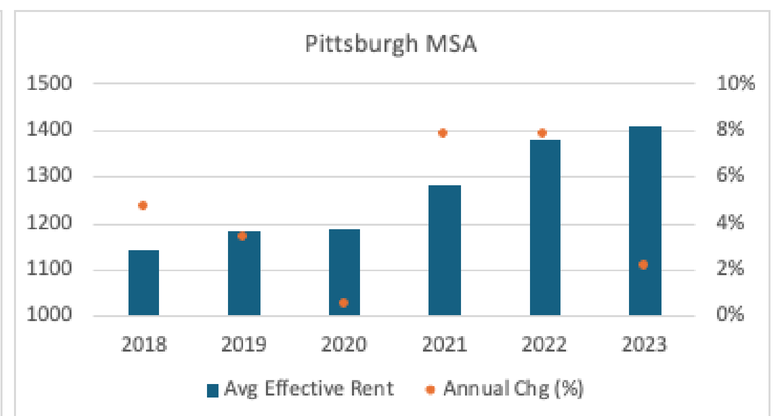
Pennsylvania's second-largest metro in multifamily stock had a very different year than the Philadelphia area did in 2023. About 1,300 new units delivered was less than in 2022 but still a relatively high total for the market. Prior to 2022, the last year with more new units delivered than 2023 was 2018.

The demand picture diverged even more so from the Philadelphia metro. Net absorption of only around 300 units was well below the approximately 1,700 net units from 2022 and was the lowest annual total in more than five years. The result was a 190-basis point decline in average occupancy to finish the year at just under 93%.

Despite the challenges from tepid demand and falling average occupancy, average effective rent growth increased by 2.1% last year – almost double the national gain. The average new unit closed December leasing for $1,411 per month, which was more than $400 lower than the Philadelphia average.
*Data from ALN Apartment Data







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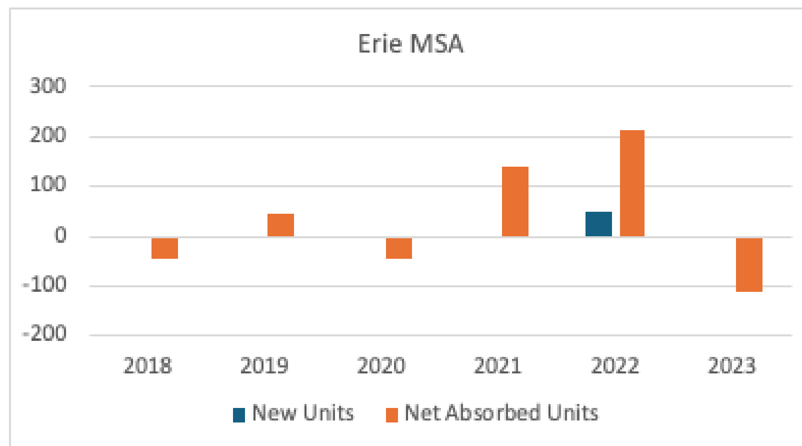
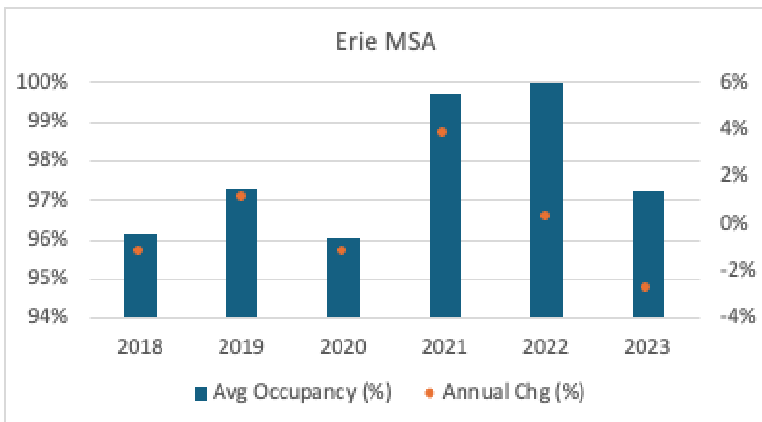
Metro Area Multifamily Performance in 2023

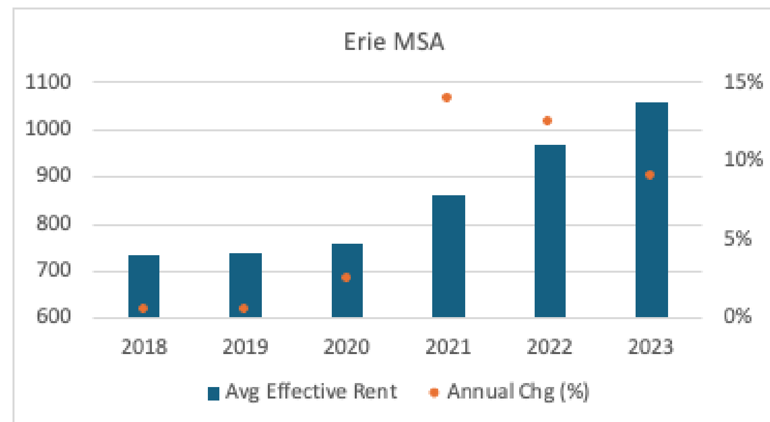
Erie MSA

Erie is the smallest of the metros covered here, and the area avoided a new supply challenge in 2023. Even so, a 280-basis point decline in average occupancy after a net loss of about 100 leased units was the largest annual slide of the group. Due to the dearth of new supply for the region over the last handful of years, average occupancy closed the year at 97% despite the annual decline.

The lack of apartment demand last year may have been partially due to aggressive rent growth. A 9% increase in average effective rent for new leases was double the next-highest gain in the state for these metro areas. Rent growth in 2023 was only moderately lower than in 2021 and 2022 when annual average effective rent growth equaled 14% and 13%, respectively.
*Data from ALN Apartment Data







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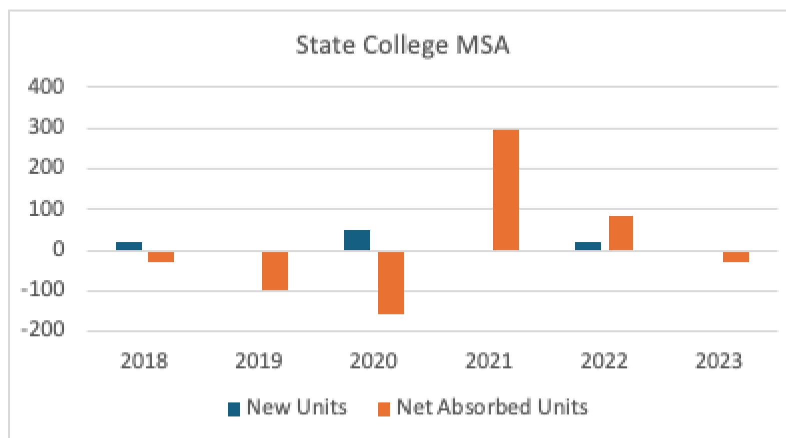
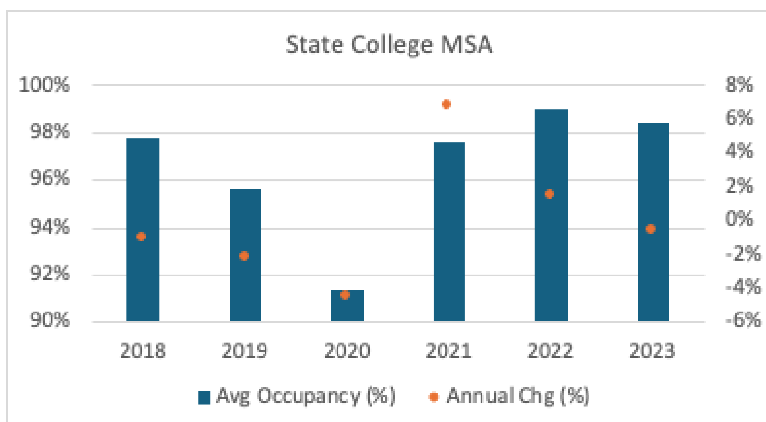
Metro Area Multifamily Performance in 2023

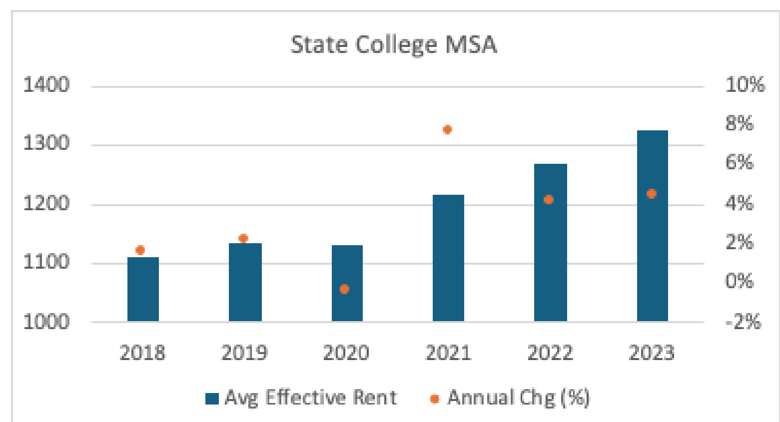
State College – Altoona (Combined MSAs)

State College – Altoona was another region of the state last year that sidestepped the deluge of new supply. In fact, as with Erie, the area has not seen much new development in the last handful of years. As a result, despite a 60-basis point decline in average occupancy last year, average occupancy finished 2023 at just over 98%. The decline in occupancy was due to net absorption finishing the year slightly below zero with a loss of around 30 leased units.

This high average occupancy allowed rent growth to outperform the state despite the lack of net absorption. A 4.5% annual gain in average effective rent was actually slightly higher than the 2022 mark – a very unusual occurrence last year. For State College – Altoona, only 2021 rent growth was higher than in 2023.
*Data from ALN Apartment Data







Expectations in 2024 for Pennsylvania Multifamily

The robust improvement in apartment demand across the state that materialized in 2023 will need to continue in 2024. New supply has been significantly higher in the last two years, and despite slowing starts and permitting, deliveries will not be slowing until probably 2026. This is because more than 26,000 units were already under construction at the end of 2023 and the majority of these units will be coming online over the next two years.

However, headwinds to demand remain. For one, in-migration trends remain less than stellar for the state. While year-over-year improvement was made in 2023, Pennsylvania's population nevertheless declined slightly by 0.1%. For the first time since 2000, state-level population fell for two consecutive years.

Another potential issue is the labor market and the economy more broadly. Inflation has improved but remains stubbornly above the Fed's target – especially in some key line items. The financial position of households, after multiple years of high inflation and far removed from the stimulus payments of the pandemic period, has eroded across metrics such as the savings rate, credit card balances, and loan delinquencies. With significant layoffs in the tech and banking sectors in particular nationally, and a lagging labor force participation rate in Pennsylvania, maintaining the status quo of low unemployment and positive inflation-adjusted wage growth in 2024 would be a win.

Lastly, geopolitical headwinds have grown since this time a year ago. The economy tends to slow in presidential election years, and with major wars on two continents, the risk of a black swan event coming from outside of the domestic economy must be mentioned.

Despite these risks, there is cause for optimism. Pennsylvania apartment demand outperformed last year even with the aforementioned lagging labor force participation and lackluster in-migration. New supply pressure will be present, especially for the Philadelphia metro area, but another step in the right direction for apartment demand would likely propel annual rent growth in 2024 slightly higher than last year's 3% gain and further mitigate the near-unavoidable annual average occupancy decline.

*Data from ALN Apartment Data

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.**

PAA State of the Property Insurance Market Today and What's in Store for the Future

The property insurance market in the United States is a dynamic, ever changing global financial system that cannot be viewed through a singular lense. For the better part of the past 7-10 years, the property insurance market has been hardening to the tune of double digit to 100+% increases (primarily in catastrophe prone regions) and hardening ever more sharply in the immediate past 2-3 years. As programs, carriers, and reinsurers further attempt to insulate their bottom lines from increasing claim activity, the market as a result, has seen a complete restructuring to include increased deductible structures, increase in replacement cost valuations, and limitation on deployable capacity to meet the increasing demans of more frequent and severe climatic events, as recent trends would suggest. So why do record breaking insurance losses affect multifamily properties in Pennsylvania? Afterno all the state has had little to no hurricane or severe convective storm losses, and has been relatively left unscathed from winter freezes like its other regional counterparts in the Midwest, Mid Atlantic, and North East. The answer to that question is not very straight forward, and is primarily what I hope to unravel in this article, in efforts of proving a "road map" of why we are here, what is in store for this year, and to outline challenges and concerns that may lie ahead.

So how did we get here? That conversation must begin with a historical analysis of insured losses in the multifamily arena over the last 5-7 years. Typically, insured and economic losses can get conflated when numbers are being thrown around in and after major hurricanes or climatic events. For all intents and purposes, we will be focusing on insured losses. According to Moody's, "Global insured natural catastrophe losses have averaged about $100 billion over the past five years…with 71% of the losses occurring in North America"(Source: Moody's Reinsurers defend against the rising tide of natural catastrophe losses for now) , from a period of 2017-2022, (where 2022 reached a total of $125bn) (Source: MunichRe.2023). In 2022, as the second-costliest natural catastrophe year in history from an insurance perspective, Hurricane Ian was responsible for about 30% of economic and 40% of insured losses globally, stated Aon, accounting for $50-65 billion in losses in the United States which accounted for 75% of US insured losses, comparable to the $125-$130 billion in losses globally, which was higher than the typical US average share of global losses of 60%. (Source: Insurance Journal. 2023). 2023, although relatively a quiet year having a below average named storm season in the United States, in addition to a below average total of globally insured losses at $95billion, $71 billion of those globally insured losses occurred in the United States, with the primary driver of those losses being secondary perils or also referred to as severe convective storms(SCS).

Secondary perils and or severe convective storms, has to be addressed in understanding why we are continuing to see rates climb for the multifamily asest class. The major caveat to the 2023, as noted above, was the lack of major singular climatic events like major hurricanes hitting the Gulf of Mexico region. The majority of the $71 billion of insured losses hitting primary insurer's balance sheets in 2023, include but are not limited to tornadoes, large hail events, winter freezes, and flooding. According to Swiss Re Institute, about 50% of the world's insured secondary peril losses have come from SCS over the past 10 years, with about 50–80% of SCS losses resulting from hailstorms. During the past two decades, the average annual number of loss-generating SCS events in North America has risen by about 2% per year. During the five-year period 2018 – 2022, the total insured losses from SCS was USD 133bn (adjusted to USD 2023), 90% higher than the prior five year period (2013 – 2017). This was driven by significantly larger losses in 2020, 2021 and 2022 (Source: SwissRe. 2024) Risk knowledge Mitigating Climate Risk Tornadoes and Hail). It is also prudent to point out that data from the Prague for Impact Forecast, a unit of Aon PLC, "suggests that up to 80% of the increase in insured losses to severe convective storms is due primarily to factors such as increasing population exposure and inflation driving up the cost to repair or replace structures due to increases costs of materials, labor, and transportation" (Source: Business Insurance. 2023). Which for the Southeast, in a 5 year period, population increased 3.7% to the tune of 2.75 million people, where multifamily properties grew 20% 790,000 units of new supply in that same period.

What is important to know is that although peak perils or primary perils as they are more commonly referred to are still considered the largest drivers of singular occurrence of insurance related losses, the continued growth of severe conductive storms and secondary perils is changing the way in which primary insurers, excess and surplus lines programs, and reinsurers model, and subsequently rate commercial property exposures. More than ever, insurers are valuing the increasing importance in projecting loss costs from climate change. In the past, insurers have typically undervalued the importance of this emerging risk and probable maximum loss driver (PML), as compared to long term "loss creep" typically associated with these types of events, from increasing property valuations and repair costs impacting profitability for insurers over a longer sustained period of time. In addition, the advent and persistence of Third Party litigation financing and legal system abuses in Florida lead to enhanced loss creep and claims amplification adding to PML and AAL from a modeling perspective. The industry is attempting to evolve modeling methodology to cover events and subsequent valuations, that are very difficult to project on the occurrence basis for severe convective storms and secondary perils, as easily as it is to model hundreds of year of historical hurricane data as a primary loss driver.

It's fair to say that losses, holistically, are increasing in value on average to the tune of 5-7%, which is driving property rate increases not just in Pennsylvania, but across the country for the asset class. From an underwriting perspective, Multifamily properties are a difficult risk to underwrite, and in previous years primary carriers, MGA's, and MGU's were offering rates that were so low, programs and carriers could not actuarially account for losses that were incurred. Take the Florida homeowners market where 15 different insurers (primarily carriers that wrote homeowners insurance) went insolvent since 2020 with more expected in the coming years. In addition, prior years of heavy attritional low-deductible business, in particular to garden style apartments which accounted for the 10% of the worst segment of some carriers' business or programs, ultimately driving rate and raised concerns for future carrier profitability. According to Fitch Ratings, reinsurers average return on equity from 2021 to 2022, for example, was the direct result of low investment portfolio returns, high inflation, and increased losses from catastrophes went from 8.5% to just 1.2% (Source: Average ROE of reinsurers in Fitch peer group decreases to 1.2% in 2022). In 2023 alone, the United States had 28 separate billion dollars events, that typically were not large enough on the singular occurrence level to push off that risk to their reinsurer, where the majority of those losses were netted at the primary carrier level.

But why are the rate increases, reduction in coverages, increases in deductibles structuring, and restriction of deployable capacity coming from for the asset class? The simple answer is Reinsurance, which in Lehman's terms is insurance for insurance companies, which have renewals annually on 1/1, 4/1, 6/1, and 7/1. In its simplest form it comes down to supply and demand economics. More capital in the reinsurance market signifies more supply and deployable capital at relatively affordable rates. However, the phenomena that we find ourselves in today is a 3-4 year flattening of new capital entering the reinsurance market for deployable capital, with a steep increase in the demand for reinsurance by primary carriers and programs as climatic and weather related events increase year over year driving severity in claim values. The demand for more reinsurance capacity at primary carrier levels is still high, as more and more losses are being retained on the primary carrier balances sheets, as reinsurers rates and retention (deductibles for primary carriers) are increased, further insulating losses from hitting the reinsurers balance sheets. In addition, cost of claims have risen drastically in recent years from inflationary pressures stemming from Covid-19, and valuation increases being pushed by reinsurers and primary carriers in terms of replacement cost. Carriers over the past 3-4 years have not addressed diligently enough, the costs of construction to rebuild multifamily properties, as the Florida Apartment Association has tracked in the past, construction costs are up 40% since 2020, which feeds into higher expenses to repair storm damage leading to increased claim severity.

Coupled with major climatic event losses, reinsurers view their overall profit in two separate silos, their underwriting portfolio, where typically anything under 100% Loss Ratio (premiums in vs claims paid out) is considered profit, in addition to the investment portfolio, which historically were fairly low. The weighted cost of capital for reinsurers is around 6-7%, where overall return on equity has to be higher than the cost of capital. As a result, with increased losses from climatic events in underwriting profits and low investment returns, reinsurers have seen a lack of new capital flow into the market from investors signifying a reduction in supply, but with an all time high demand for reinsurance. Years like 2017, 2020, and 2022 respectively saw reinsurance combined loss ratios top 100%, which in turn, reinsurers began charging rate of 30-40% increases back to the primary carriers seeking the reinsurance coverage. This increased premium at the reinsurer level, is then passed to the primary carrier seeking the coverage, which in turn is directly passed onto the policy holder, the multifamily owner and operator. The reinsurers in turn began to insulate themselves from claims, protecting their balance sheets by increasing occurrence aggregate retentions passing off most of the risk to the primary insurer. Depending on the reinsurer in question, rates from 2022 headed into 2023 increased on average from 30-40%, which nationally lead to an average of 15-20% increase on policies. In some parts of the country, like my home state Florida, rates increased at the primary carrier and program level well over 100% which was not uncommon entering 2023 from 2022. This in turn was solely due to reinsurance price increases, replacement cost valuation increases, age, build quality, and individual risk losses all of which has attributed to the rates multifamily owner operators have seen and will continue to see into 2024 and 2025.

Although 2023 did not have any major singular catastrophic events, 2023 was littered with 28 separate billion-dollar losses from severe conductive storms, fires in Maui, and flooding from a hurricane in southern California, all of which are an extremely hard risks to model. There was improved return on equity at the reinsurance level to signify a more "normal" reinsurance treaty renewal and overall market stabilization on 1/1/2024. With a strong performance in the first three quarters of 2023 exceeding reinsurers cost of capital for the first time since 2016 this has allowed the market pricing to return to a sense of normalcy, following years of a bruised investor appetites.

However, pricing, underwriting discipline, and more scrutinized risk selection in a more "basis risk" approach, will remain for those programs offering capacity in North American property reinsurance, where it is my anticipation that this underwriting discipline will continue through the remaining reinsurance renewal treaties in 2024 on 4/1 and 6/1 respectively. Higher retentions and restrictions on available capacity will continue to drive rate at the primary level year over year in multifamily asset class, partly due in to increases in the volatility of primary insurers' portfolio as loss potential cannot be pushed back to the reinsurer with the implementation and continued use higher retentions in renewal treaties. However, secondary, and tertiary primary carriers up the stack will become more competitive with an increase in capacity on the higher limits to mirror the same effect occurring at the reinsurance level. Reinsurers will continue to be more cautious of the effects of climate change evidenced in the hard to model risks of SCS driving rate. However, we have seen since the 1/1/2024 reinsurance renewals a renwed desire of deployable capacity, which is still historical low but an overall improvement from 2023, in addition to a willingness to change deductibles structures, and particularly in the layered and shared program approach even some decreases dependent upon location, build quality, vintage, and overall spread of risk.

However, there is a large "BUT" that needs to be stated. The reinsurance and primary market in 2023 was relativity unscathed and a return on equity was seen for a the first time in a long time in the space. The market truly needs a few years of strong underwriting and investment results to further stabilize rates over time, to attract new capital to match the persistent demand. Although this is needed, it is hard to shy away from the data which suggests an increase in named storms for North Atlantic Hurricane Season in 2024 and projected for 2025. In addition, there is still a need for certain risks and asset classes to have valuations increased, but the majority of this push occurred in 2023. Unfortunately, for CAT exposed risks like the Gulf States, Southeast, and Mid-West, Reinsurance rates are expected to remain high as unmodeled SCS continues to amplify, to the tune of 10-50% on average and potentially even higher for individually exposed risks, which in turn will continue to drive the persistence of the hard market we have seen in the past two years into 2024 and through 2025.

One of the largest concerns facing the aquisition of property insurance, multifamily banking, and multifamily owner operators will be the implementation of RMS v.23. RMS is a modeling platform that has been adopted in large part by many insurers and reinsurers for the sake of modeling Probable Maximum Loss and Average Annual Loss across time express in term of events (ie 1/500 year, 1/1,000 year, 1/2,500 year event). Most of the rate you are charged from your insurance carrier and subsequently reinsurance carrier is based off modeled PML and the overall likelihood of loss occurring for a set type of perils. RMS has released their version 23 of which is expected to be adopted by MunichRe later in their 6/1 reinsurance renewal treaties, but holistically to be adopted by reinsurers and primary carriers at the start of January 1 2025 renewals. How does this affect premiums? It is expected that total PML and AAL will be increased on average 22% as a result of RMS v.23 being rolled out this year. In some cases, we may see up to a 200% increase in PML and/or AAL based on individual risks particularly in cat prone areas. This is a result by the industry leaders to evolve, to better model risk seen with the increases in catastrophic climate event loss, SCS, increases in replacement cost values for properties, and subsequent claims cost.

Although there will be headwinds for the foreseeable future in the market into 2024 through 2025, there are overall some signs of relief, expressed in the return to normalcy post 1/1 reinsurance renewals. According to Gallagher, in their piece titled "What a Difference a Year Makes", "retained earnings, modest new capital raises, ample retrocession capacity and buoyant ILS markets combined to increase available catastrophe reinsurance limit"(Source: GallagherRe). This is also due in part to high frequency loss events shifting to primary insurers, or cedants, balance sheets as opposed to the reinsurer balance sheets, freeing up capacity and capital for 2024.

Pennsylvania multifamily risks will see relatively flat to 10% increases headed into 2024. Primarily due in part to the state preforming very well, with relatively low activity in SCS and catastrophic events, in addition to being left unscathed from winter storm freeze activity. As compared to the rest of the market where, admitted carriers like Travelers, the Hartford, Nationwide, etc just to name a few, have all the while left Gulf States as a result of the the common occurrence of major hurricanes stemming back to the 90's beginning with Hurricane Andrew. These programs have stayed writing in the Mid-Atlantic and Northeast either offering stand-alone policies and or master programs even into the hard market. It is my anticipation that this trend is expected to stay but perhaps with a small retraction in coverage or capacity dependent upon construction type, age, and proximity to coastal areas. However, Pennsylvania owners and operators should anticipate the value that RMS v.23 will have on the market for later 2024 renewals and certainly into 2025. A caveat to this would be a major influx of newly issued capital into the reinsurance market through cat bonds or Insurance Linked Securities. However, this will be dependent on portfolio underwriting performance and overall investor appetite.

Owners and operators, in efforts to mitigate the future increases and continued hardening of the market over the next few years should continue to partner with insurance brokerages who have a dedicated real estate practice, strategizing their renewals at a minimum 120 days out. My advice would be to start these negotiations early and to involve your lending partners at the same time so all parties are on the same page as the market unfolds throughout the year. In a world where cost of capital, property taxes, and insurance were all relatively flat, most of these costs are variable further adding the multifamily NOI pressures. That the market is moving into a basis risk driven underwriting world, it is important to provide the most up to date data on your portfolio or property in efforts to further differentiate yourself and express your "insurable-ness" as compared to the next multifamily property. These data points can include roof replacement, types of roof straps, any type major repairs or capital projects completed, up to date replacement cost valuations completed to leverage through your renewal and with your lending partners, having currently valued loss runs, and if you are a developer, creating a profile for your true cost to build new.

Written by:
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Mahaffey Apartment Company

Chris Conlon is the Director of Risk Management for the Mahaffey Apartment Company a St. Petersburg, FL based multifamily owner/operator and developer. Chris has an extensive background in property and casualty insurance, prior to joining the Mahaffey Apartment company and large national based insurance firms holding roles in specialty areas like claims advocacy, account management, and market placement relating to all things CRE and multifamily. He is an expert in commercial property, general liability, umbrella/excess, workers compensation, and other risk financing alternatives like parametrics and captives. Chris currently serves on the Board of Directors for the Bay Area Apartment Association. In addition, Chris has been featured commenting on the current market conditions of the commercial insurance marketplace in Florida, in addition to providing speaking on tactics that owner operators can employ to better position themselves going into insurance renewals in publications such as YardiMatrix, Multifamily Dive, NAA Units Magazine, and University of Florida's research article from the Warrington College of Business. Chris is a graduate from the University of South Florida, and currently holds his P&C license in Florida, his FCN from the National Flood Insurance Program, in addition to his Associate in Claims (AIC) and Professional Risk Consultant (PRC) designations from The Institutes.

2023 PAA Government Affairs

1The Pennsylvania Apartment Association continued to build off its commitment in 2023 to elevate our members voices at all levels of government, our brand, and cross collaborating where we find common ground, and defeating cumbersome policies that impact our industry across the Commonwealth. In 2023, PAA met with over 100 elected officials from the Federal Government to our State Officials, and local officials across Pennsylvania to ensure we advocated on behalf of our industry and are proud to announce that we defeated a number of bills including: Philadelphia's Automatic Sprinkler Retrofit requirement, fought off Rent Control, Record Sealing, the required testing on building owners for legionnaire's disease, the elimination of the Landlord Tenant office, rental application fee caps, preventing non-refundable pet fees and security deposits to name a few.

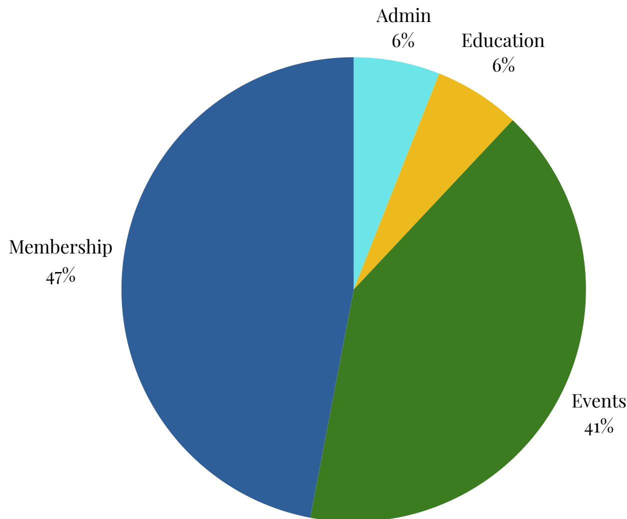
Through those meetings we were able to save our members the following:

- Estimated Pittsburgh savings through PAA advocation for the industry: $2,094,000.00
- Estimated Cheltenham Township savings through PAA advocation for the industry: $1,741,000.00
- Estimated Philadelphia savings through PAA advocation for the industry: $735,000,000.00
- Estimated Plymouth Township savings through PAA advocation for the industry: $16,450,0000.00+
- Estimated State Level savings through PAA advocation for the industry: $305,000,0000+

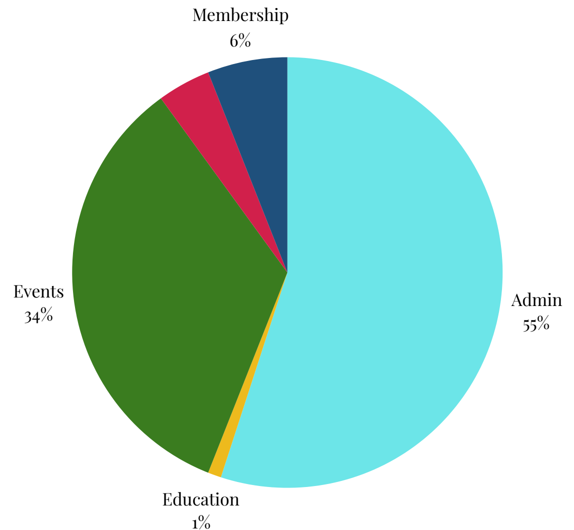
The Pennsylvania Apartment Association proactively met with members on both sides of the aisle, testifying at several hearings throughout the year across the Commonwealth as we continued to build our reputation of a cross collaborative approach to legislation which ensured a seat at the table, and remaining off the menu. While we had several victories in 2023, we know that 2024 will be full of challenges and new legislation that we will continue to advocate on behalf of our industry to ensure that cumbersome policy stays off the agenda at all levels of government, whether you operate in a township or major city, PAA is fighting for you!

2023 Financials

Income $2,948,635



Expenses $2,836,032



PARC

ONGOING MAINTENANCE AGREEMENT

1. Effortless Maintenance: Set It and Forget It
2. Comprehensive Oversight: Benefit from 3 Scheduled Inspections Per Year
3. Insightful Reports: Receive Detailed Inspection Reports for Informed Decision Making
4. Transparent Pricing: Get Itemized Quotes for Every Asphalt Repair
5. Priority Treatment: Enjoy Priority Scheduling for Approved Repairs
6. Cost Savings: Avail an Additional 10% Discount on Approved Repairs

PotholeRepair.com

REQUEST A FREE QUOTE

SIGN UP FOR YOUR PARC MAINTENANCE AGREEMENT

OVER 100,000 POTHOLES FIXED

Membership Growth

As a member of PAA, you are part of a strong organization invested in the future of the rental housing industry. The PAA has experienced a steady growth in the number of units represented by our 317 Management Companies in the commonwealth. PAA reported a total member unit count of 271,229 units at the end of 2022. The PAA wrapped up 2023 with a total member unit count of 276,799. This amount reflected a growth in unit count of over 5,500 units and awarded PAA the title of the 9th largest rental housing association in the country. Although the number of Management Companies declined minimally, the association still saw strong growth in member unit representation. Covid effects were still present in 2023, with large interest rates crippling some of our smaller owners, as a result, properties were acquired by some of our PAA members adding additional unit counts to their existing portfolios.

Supplier Partners members reflect the largest growth for 2023. A total of 50 new supplier partners were added to the expert list giving Property Management professionals access to nearly 400 trusted companies throughout the state. The 13% growth can be attributed to the support of the Pennsylvania Supplier Council and the PAA Membership Team.

To summarize, PAA has seen significant growth year over year and 2024 has started strong with membership growth in Supplier Partners, Property Management Companies, Properties, and Unit Counts.

For membership questions or to update your portfolios, please email membership@paahq.com.

	2020	**2021**	**2022**	**2023**
Management Company/Owners	291	311	323	317
Number of Properties	2326	2787	2893	2636
Suppliers Partners	360	330	348	397

Event, Education, and Legislative Performance

2023 YEAR IN REVIEW

PAA PENNSYLVANIA APARTMENT ASSOCIATION

membership

Education

13 Signature Education Courses
15 NAA Credential Courses
3 Fair Housing Courses
+1750 Students

26 New Management Companies
139 New Properties
16,367 New Apartment Homes
73 New Suppliers

over 300 volunteers

APARTTOGETHER

PAA TRADE SHOW & EDUCATION CONFERENCE

Largest Multifamily Trade Show and Education Conference in the Northeast. Two Locations in Philadelphia and Pittsburgh. Combined Attendance of over 2700 people and more than 250 booth sales.

SIGNATURE EVENTS

Legislative

- Over 250 meetings with elected officials
- Testified in over 12 hearings
- Over 3 dozen bills stopped
- multiple media interviews across the Commonwealth

- 3 Courses
- +500 Participants

the keystone awards

- Over 1000 Entries
- 3 Galas
- +1500 Gala Attendees

- 2 Locations
- 33 Management Companies
- +150 Supplier Partners

PAA Rock the River

Three cities. One day. One PAA.

+600 attendees from across the state to celebrate PAA.

Contact Us

610.664.1800

info@paahq.com

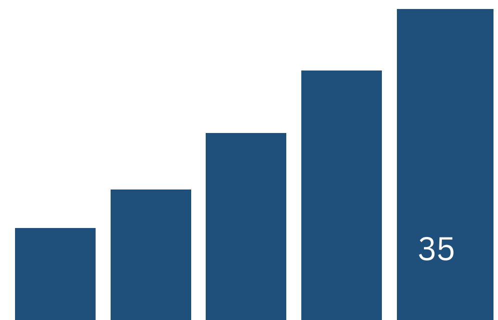
www.paahq.com

Ensure you are receiving PAA's emails!

Add info@paahq.com as a contact to your address book.
Make info@paahq.com a trusted sender.
Ensure PAA's messages appear in your main or focused inbox (and watch your junk and clutter folders).
Engage! Actions like clicking on a link, replying to us, and forwarding the message to your peers all help keep PAA at the top of your inbox!
Follow us on our social media channels.

PAA Social Media Platforms:

FaceBook: 1PAAHQ
LinkedIN: Pennsylvania Apartment Association
Twitter: PAA_HQ
Instagram: the_paa_hq
YouTube: PAA HQ



Thank you to our Partner

ALN APARTMENT DATA
www.alndata.com

About Us

Established
1991

Headquarters
Carrollton, TX

Industry
Multifamily

Coverage
All 50 US States and DC
1000 Census MSAs (Metropolitan and Micropolitan)
Combined into 185 ALN Markets
179,612 Properties*
23,376,963 Units*
stats change daily

Newsletter
my.alndata.com/newslettersignup

Blog
alndata.com/blog

LinkedIn
linkedin.com/company/alnapartmentdata

Facebook
facebook.com/ALNApartmentData

Twitter
twitter.com/ALNAptData

Instagram
instagram.com/alnapartmentdata

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
Management Companies, Brokers, Lenders, Appraisers, Tax Assessors, Acquisitions, Dispositions, Developers, Government Agencies, and more

Vendor Edge Plus & Compass
Multifamily Suppliers

Locator
Apartment Locators

Affiliate
Apartment Associations