PAA PENNSYLVANIA APARTMENT ASSOCIATION

ALN APARTMENT DATA
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2024 1ST QUARTER REPORT

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NEW SUPPLY CONTINUES TO DRIVE MULTIFAMILY PERFORMANCE

Elevated new supply in 2023 put downward pressure on Pennsylvania average occupancy despite improvement in apartment demand from the trough of 2022. This decline in occupancy and the mismatch between new units and absorbed units took much of the remaining wind out of the rent growth sails from 2021 and 2022. In the opening quarter of 2024, deliveries continued to make their impact felt across the other performance metrics during a portion of the calendar not typically known for robust demand.

All numbers will refer to conventional properties of at least fifty units.

New Supply and Net Absorption

Approximately 4,700 new units were added in the opening quarter of the year across the state. This level of new supply was significantly beyond anything from the same period in recent years and more than doubled last year's first quarter deliveries. New supply nationally rose only about 8% in the quarter relative to last year, so the increase in new supply at the state level was much more pronounced.

As was mentioned in last year's annual review, new supply pressure will be most acute in the Philadelphia metropolitan statistical area (MSA). Of the approximately 4,700 new units delivered in the first quarter statewide, roughly 3,300 units were introduced in the Philadelphia MSA. However, the new construction pipeline was not a factor only there to begin the year. New supply in the Lancaster and York MSAs was much lower in terms of aggregate units. However, those new units taken as a share of existing stock were notably higher than was the case in Philadelphia.

Unfortunately, net absorption took a step back in the quarter relative to recent years as new supply was ramping up considerably. About 1,400 net absorbed units was the lowest total for the period since 2020 and represented a 23% decline from the opening quarter of 2023. As with new supply, Pennsylvania apartment demand performance did not mirror the nation. Across the United States, first quarter net absorption more than tripled that from the first three months of last year.

As would be expected given the high supply and tepid demand environment, statewide average occupancy fell 110 basis points in the quarter to finish at 89%. For properties that entered the year already stabilized, that average was just under 95% after a net loss of more than 1,000 leased units in the period.

Average Effective Rent and Lease Concessions

Despite the aforementioned struggles to begin the year, average effective rent growth managed to stay above water to start the year. Even so, a 0.1% gain added only $2 to the average monthly rent and was lower than the national 0.3% gain. For additional context, the previous low-water mark for the first quarter in recent years was last year's 0.4% gain.

Some interesting differences in rent performance emerged at the price class level. The Class A and Class B subsets followed up last year's decline in the period with positive growth this year. For Class A, average effective rent for new leases rose by 0.1% to $2,291 per month. For Class B, a 0.3% increase brought the average to $1,791 per month.

Class C was the only price tier to suffer an average effective rent decline to start the year. A 0.6% decline was not only the largest change in the quarter for any price class, but it was also the only decline of any first quarter in more than five years for this price tier. The loss brought the average Class C unit to $1,543 per month. For Class D properties, a 0.1% gain brought the average unit to $1,291 per month for a new lease.

Unsurprisingly, operators across the state continued to lean on lease concessions to maintain occupancy. An increase of about 20% in the availability of discounts for new residents meant that by the end of March roughly 11% of conventional properties were offering a lease concession. That rate of availability remained well below the national mark of 20% of properties offering a discount. The average discount value increased slightly in the period to just more than four weeks off an annual lease. Philadelphia, with its flood of new supply, led major markets in the state with around 15% of properties offering a discount for new leases.

Takeaways

The first quarter got off to a rocky start for Pennsylvania multifamily. Average occupancy fell in each month of the quarter and that trend is likely to continue all year. Average effective rent growth, while positive, was below the national rate and underperformed relative to recent years for the state. Both lease concession availability and the average discount value rose in the quarter as well.

These developments can largely be attributed to an unrelenting new construction pipeline but that is not the whole story. Apartment demand also failed to continue the positive momentum of 2023. After month-over-month improvement from January to February, net absorption actually took a step back in March at a time when demand would generally be expected to begin ramping up toward a summer peak.

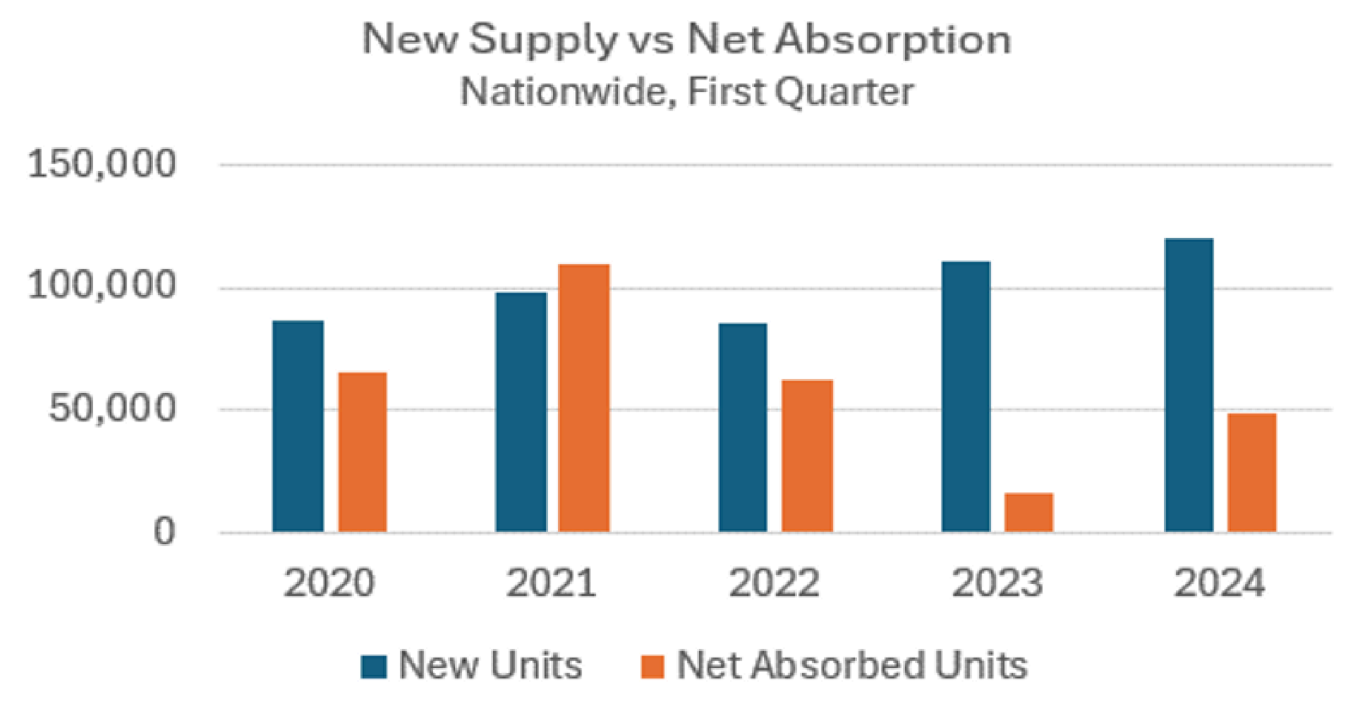
The demand struggles were also not concentrated in just one market or in a specific price class. In six of ten major MSAs in the state, net absorption in the first quarter underperformed last year – including in Philadelphia. All four price classes suffered the same fate.

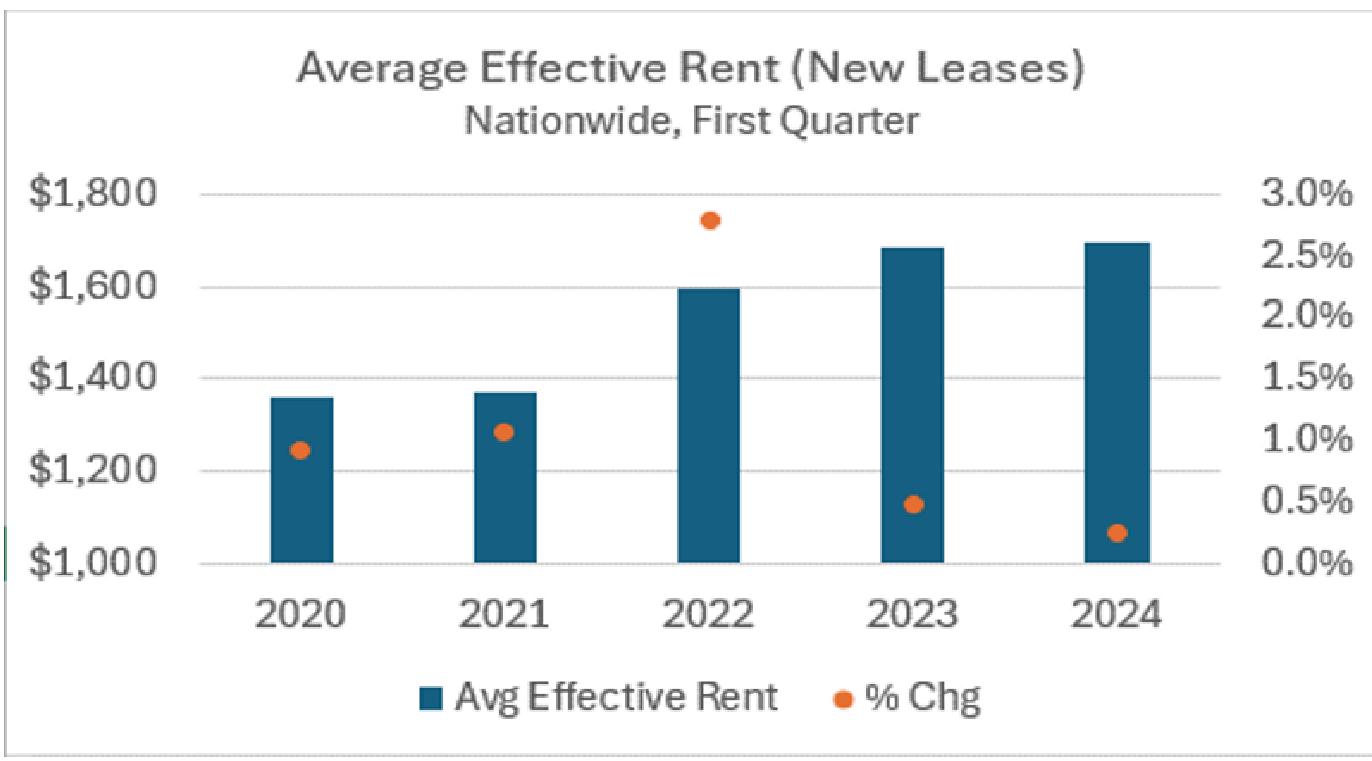
Looking ahead, continued elevated deliveries are a given, and so apartment demand in the second quarter will go a long way toward determining how 2024 ultimately shapes up for the industry. Early indications have not been encouraging. At the time of this writing, monthly net absorption has moved even lower in both April and May. A turnaround will need to materialize quickly to avoid a substantial loss in average occupancy this year and a negative move in average effective rent for new leases.

Methodological Notes:

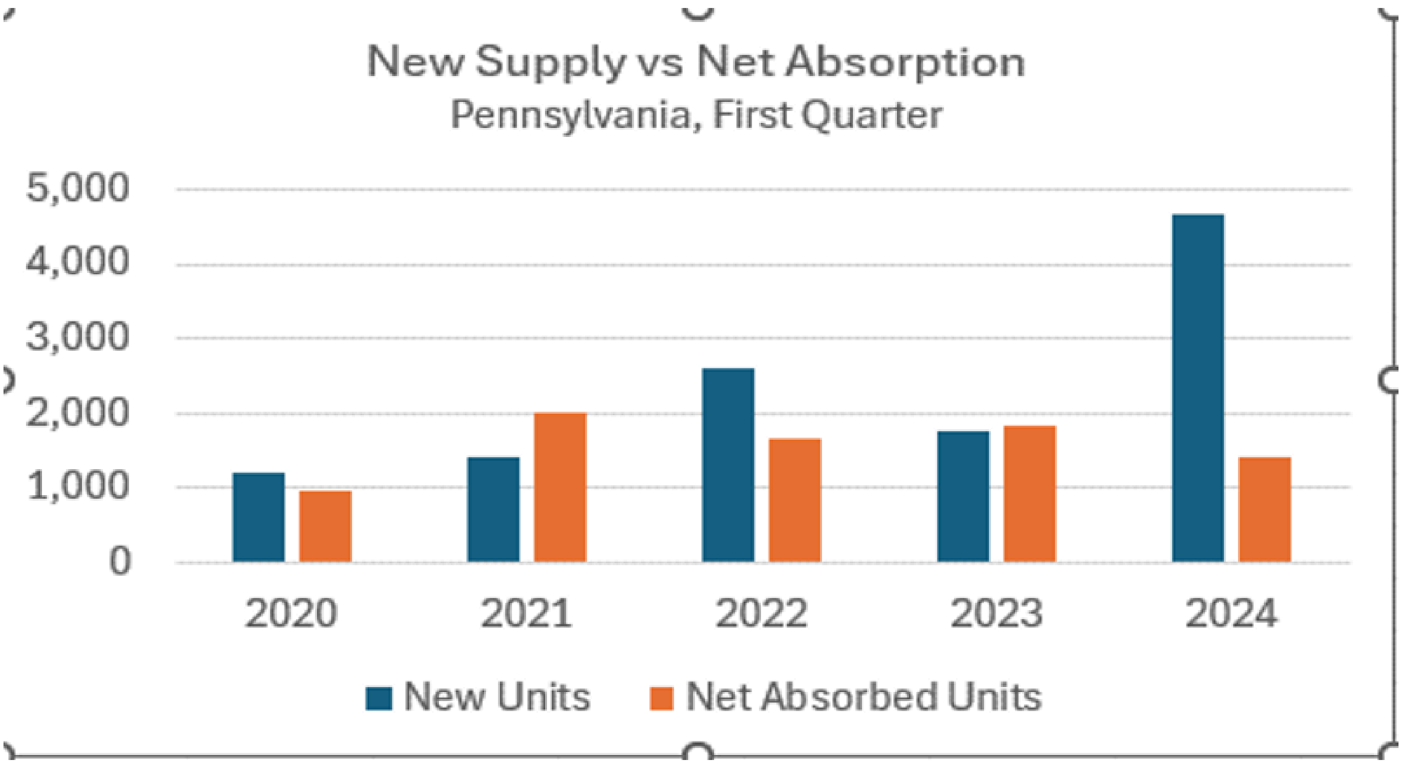
- All multifamily data refers to conventional properties of at least 50 units unless otherwise specified.
- For MSAs that cross state lines, only properties physically located in Pennsylvania were included in the statistics.
- All multifamily data sourced from ALN Apartment Data

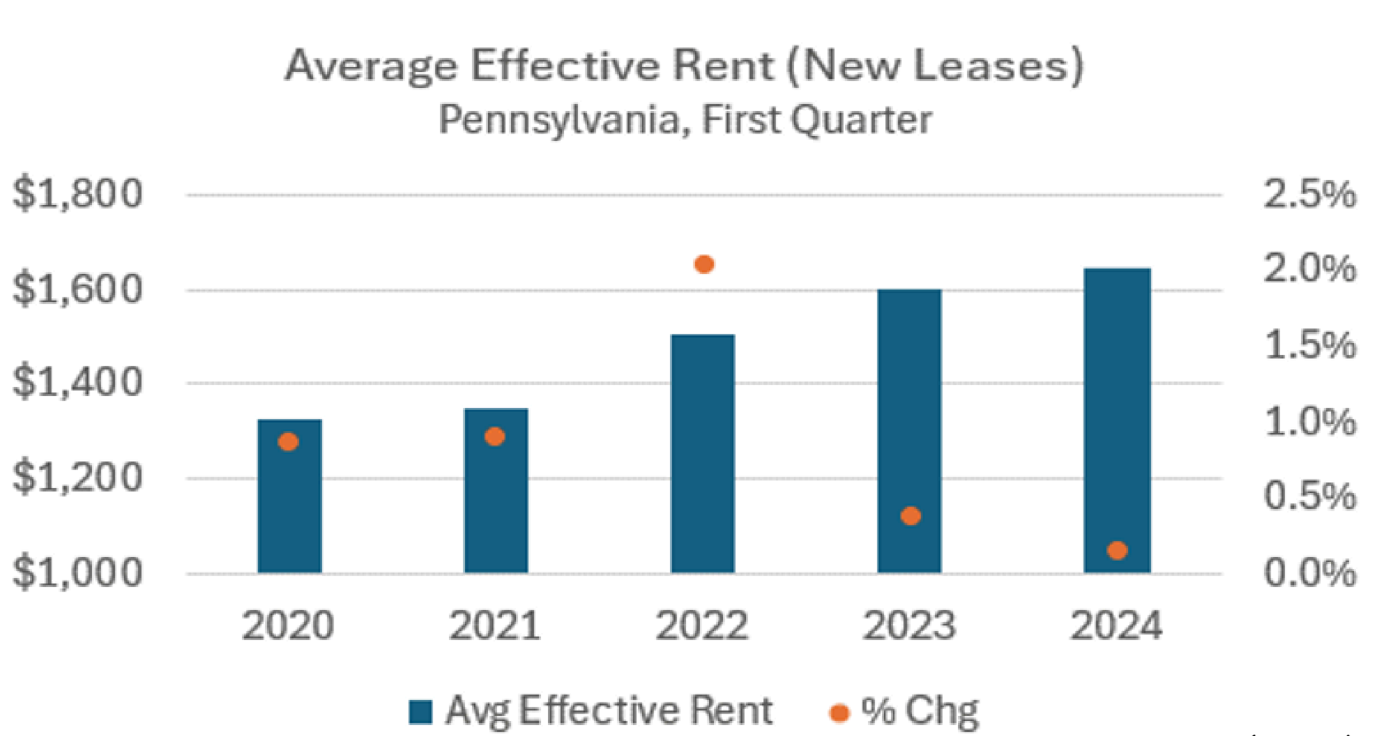
NEW SUPPLY CONTINUES TO DRIVE MULTIFAMILY PERFORMANCE (NATIONWIDE DATA)





NEW SUPPLY CONTINUES TO DRIVE MULTIFAMILY PERFORMANCE (PENNSYLVANIA DATA)





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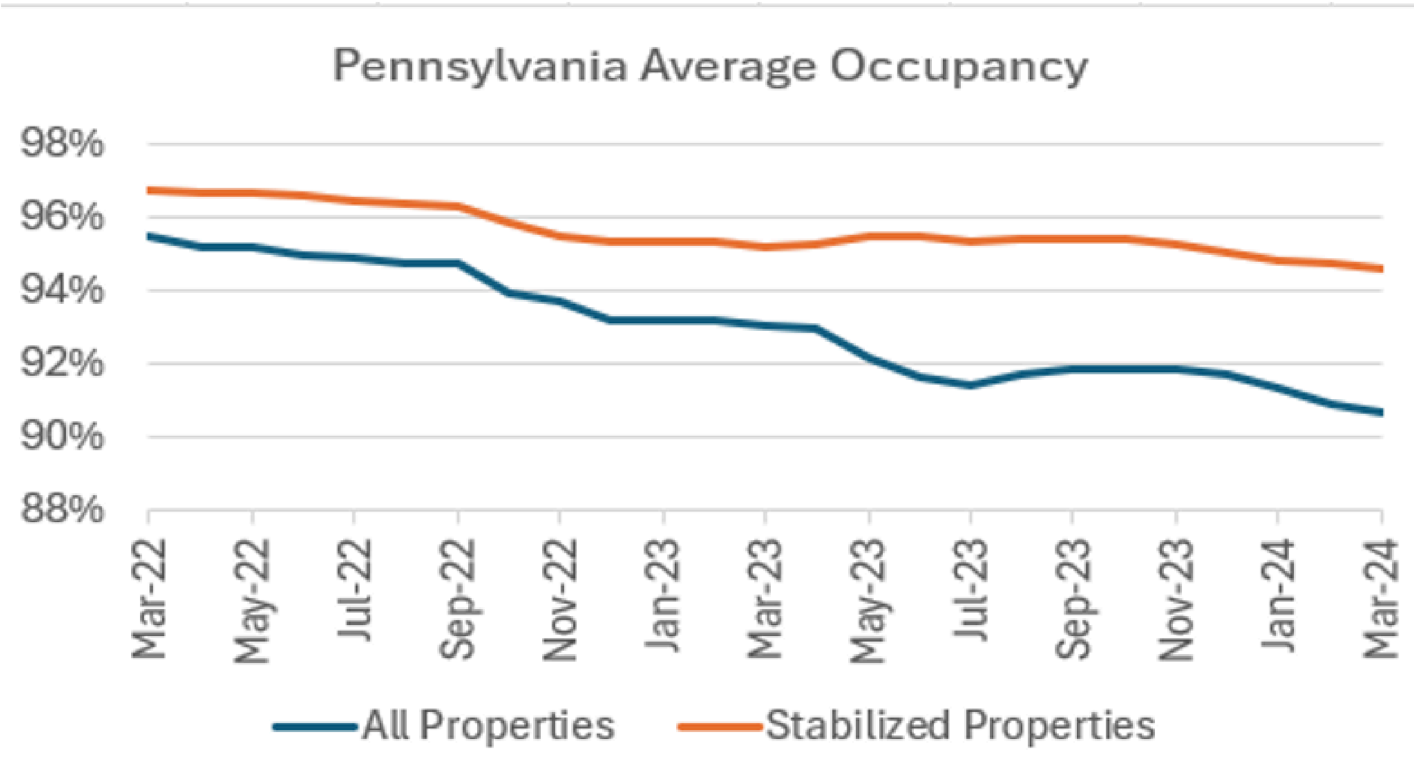

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Established
1991

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Carrollton, TX

Industry
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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*

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

Vendor Edge Plus & Compass
Multifamily Suppliers

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Apartment Locators

Affiliate
Apartment Associations