

From the Philadelphia Business Journal:

<https://www.bizjournals.com/philadelphia/news/2020/08/11/q2-data-show-apartment-market-slowing.html>

Bright spots emerge in Philadelphia-area apartment market, despite signs of slowing

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University Realty was nearing the end of construction on a new 5-story complex with 96 apartments at 42nd and Chestnut streets in the University City neighborhood of Philadelphia when the pandemic hit in March.

It wasn't long before universities decided to close and send students home to finish the semester online. The prospect of leasing out the new apartments seemed bleak.

“Even before we knew classes would come back, I would have told you we would have been at 50% at the end of June,” said [Todd Potter](#) of University Realty about his leasing projections for the project called 4200 Ludlow.



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All 96 apartments at 4200 Locust in University City have been rented.

Instead, by the end of June, the project was 100% rented out. "I would have never have guessed," Potter said. "We rented it out during the pandemic."

Nearly all of Potter's renters are undergraduate and graduate students from the University of Pennsylvania and Drexel University. The pandemic sent students to seek out apartments early in University City as schools such as Penn and Drexel in West Philadelphia and Temple University in North Philadelphia guided students to various options that either fit into the school's reopening plans or made parents feel more comfortable sending their children back to college in housing off campus.

At Penn, the university had pre-arranged leases by late June with several landlords for a variety of housing options within walking distance to campus for those students who would have been displaced from their original on-campus housing requests due to the school's de-densification efforts, according to a spokeswoman for the school's facilities and real estate services. As a result, no hotels were leased or construction projects accelerated to provide addition student housing for the upcoming academic year.

The situation remained fluid all summer because of the pandemic and Penn announced Aug. 11 that no students would be returning to campus and it would conduct courses virtually. It was unknown how that might, if at all, affect those arrangements made earlier with apartment landlords. It couldn't be determined which apartment owners were involved in those prior agreements with Penn. Potter said his properties were not involved.

While 4200 Ludlow and others properties highlighted areas of strength in the region's multifamily market, they belied undercurrents affecting the sector, which began to show signs of slowing during the second quarter as a result of the pandemic, according to second-quarter data from Delta Associates. From Center City to the Pennsylvania suburbs to South Jersey, vacancy rates rose or were essentially flat and absorption sluggish,

according to the data.

Rents fell in the suburbs and South Jersey but eked out a slight 0.1% increase in Philadelphia. Rents were down 2.3% in the Philadelphia suburbs and 0.4% in South Jersey, but across the region the overall decline stood at 1.3% over the 12-month period ending June 30, according to Delta.

Average rents across the region fell during the second quarter and came in at \$1,935, or \$2.09 a square foot. Effective rents averaged \$2,284, or \$2.68 a square foot, for high-rise apartments in Center City and came in at \$1,738, or \$1.76 a square foot, for low- and mid-rise units in the suburbs.

The stabilized vacancy rate in the suburbs saw the most significant jump, rising to 5.2% in June 2020 from 3.8% a year prior, and Center City's vacancy slightly rose to 4.5%. South Jersey's vacancy ticked down a bit to 2.2% from 2.8%.

Delta's projections for the remainder of the year remained mixed. "Market conditions in Philadelphia are holding up so far during the disruption caused by Covid-19," the second-quarter report said. "We expect lower than average rent growth over the next year or so, while vacancy will rise in the short term. Absorption in the city of Philadelphia will also remain below average for the next 12 months, followed by a rebound closer to the levels seen over the past couple of years — these predictions assume a vaccine is developed and becomes widely available over the next 12 months."

University Realty's 125,000-square-foot apartment complex at 4200 Ludlow bucked many the trends revealed by the Delta data. Rents had started at \$750 a bed but went up to \$1,000 a bed during lease-up.

Potter attributed the success to his philosophy to incorporate a lot of amenities in each of his buildings. Some of those include smart technology, an efficient package delivery system, shuttle service to nearby campuses, free laundry and lots of security. "We decided years ago to load up on

amenities so we can compete with the new high-rises, but we're cheaper and we blow out the Mom and Pops," Potter said.

Not only has that worked with 4200 Ludlow but also the 15 other apartment complexes the company has built — all within about two blocks of the Penn and Drexel campuses. Those properties are also 100% leased up.

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