



Philadelphia

Bucking a Trend, Sales Of Rental Units Climb

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July 25, 2007; Page B6

The Philadelphia region, which doesn't typically outperform many other U.S. commercial real-estate markets, has seen rising demand for its apartment-rental complexes even as sales have slumped nationally.

The total value of rental units sold in the Delaware Valley based on deals valued at \$1 million or more rose about 19% to about \$1.1 billion in 2006 from 2005, according to Hessam Nadji, managing director of research services for Marcus & Millichap Real Estate Investment Services. The region is on track this year to exceed last year's volume based on the first-quarter deals valued at \$426.5 million, he says.



Marcus & Millichap Real Estate Investment Services

Suburban Court, a 100-unit apartment complex in Ardmore, Pa., was sold last month for \$10.6 million.

The rise in Philadelphia-area apartment sales bucks the nationwide trend, which saw volume fall about 23% in the first quarter from the year earlier to \$22.4 billion after standing roughly flat in 2006 from 2005, according to Encino, Calif.-based Marcus & Millichap. In Philadelphia the number of transactions rose 21% in 2006 from a year earlier, while transaction levels fell in such metropolitan areas as San Jose, Calif. and Orlando, Fla.

Like much of the area's real estate, Philadelphia-area apartment complexes appeal to Northeastern bargain hunters. Median prices for rental-apartment units based on deals valued at more than \$5 million in the first quarter were \$109,269 in Philadelphia compared with \$381,254 in Manhattan and \$316,251 in Washington, D.C., according to Real Capital Analytics, a New York-based real-estate research firm. That helps to offset the prospect for rising but unexceptional apartment rents.

Many buyers are also betting that Philadelphia rentals are better positioned going forward than in some other markets that have drawn investors buying condominiums they don't plan on living in. As such, Philadelphia's apartment market is steadier than markets where some fear unsold condominiums will be repositioned as rentals, analysts say.

Still, there are signs that the condominium market is softening. This year through June, sales of condominiums for the greater Philadelphia region composed of 13 primary counties fell 4.7% to 4,159 though the median sales price rose to \$205,000, according to the TREND multiple listing service in King of Prussia, Pa.

First-quarter Philadelphia-area apartment, office, retail and warehouse rents were below national levels, largely due to the region's below-average job and population growth, according to Property & Portfolio Research Inc., a Boston-based real-estate research firm. However, despite the construction of many new condos in recent years and the development of the Comcast Center office tower, the amount of planned construction is low, which is expected to keep apartment and office vacancies stable, PPR says.

The region boasts a growing education and health-services sector, but its shrinking manufacturing base has helped keep job growth at 0.6% in June from last year, well below the 1.4% rate nationally, according to the Bureau of Labor Statistics. Meanwhile, the area's population rose just 0.1% in 2006 to 3.9 million, below the national rate of 1%, according to Moody's Economy.com. The city of Philadelphia is also struggling to combat crime as the total number of murders has risen in recent years to 406 in 2006 from 288 in 2002, according to Captain Benjamin Naish of the Philadelphia Police Department.

While Philadelphia has seen its overall population decline, its downtown Center City area has attracted more restaurants and residents, in part by offering tax abatements. The state has also made a bid to bring in more revenue with the approval of licenses for two separate casinos to operate along the waterfront.