



## **MARKET SNAPSHOT: Philadelphia Rental Market, Driven by 'Eds and Meds,' Sees Strong Rebound for 2013**

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By Erika Schnitzer, Managing Editor

Philadelphia—Vacancy rates are decreasing and concessions are burning off across the Philadelphia metro.

Vacancy is down about 20 bps from the end of 2009, according to Carl Dranoff, founder and president of Philadelphia-based Dranoff Properties, who tells *MHN* that most Philadelphia multifamily property owners are optimistic that rents will soon begin to increase.

Buoyed by the so-called 'Eds and Meds,' the Philadelphia market has been relatively stable throughout the recession. "People want to live downtown, and it's driving the market," Dranoff notes. A member of the board of trustees at Drexel University, he adds that the freshman class is 10 percent larger than the previous year—a sure sign that multifamily will thrive in this market.

Despite all this, Dranoff does acknowledge that there is some shadow market in the metro area that has been affecting the luxury rental pool to some extent, keeping rents at Class A communities from increasing. "We compete well against them, but overall, over a period of time, it tends to hold rents down," Dranoff notes.

As for the near term, "no one knows what interest rates will do, but values will continue to rise," he predicts. At the same time, "nothing really big [has been] sold in the region, but I'm getting calls from financial institutions. Cap rates on multifamily in general are low—6 percent cap rates on offers. Things aren't for sale, but there are buyers and brokers out there" who are interested in the Philadelphia market, Dranoff notes.

Because of the city's relatively strong fundamentals, Dranoff has continued to add new product to the market. The company recently opened its 777 South Broad, the first LEED (Leadership in Energy and Environmental Design) Silver-certified multifamily community in Philadelphia, comprised of 146 units. The community is approximately 50 percent leased and is achieving rents of \$2.50 per square foot.

In addition, Dranoff has several projects in the pipeline, including the transit-oriented Ardmore, which will feature 120 apartments and a 600-car garage. The community, which is receiving a \$15 million grant from the state of Pennsylvania, is being built adjacent to a new train station and is slated for completion in 2013.

Dranoff is also working on Radio Lofts, 86 condos on the Camden waterfront—“yes, we think we can sell condos in a down market because of the pricing and location of the product,” Dranoff tells *MHN*. The condos are slated for delivery in 2012, and Dranoff is optimistic that he’ll be delivering in a rising market. “Everyone thought it would be heaven in 2011. My new mantra is, ‘things will be keen in 2013.’”

In addition to those in education and medical employment bases, Dranoff notes that Baby Boomers are looking to move to the downtown area. When the market bounces back for resales, he expects that this demographic will contribute to the marketplace. Currently, though, he notes that it’s “mostly echo boomers driving the market, but Philly should be at the head of pack, up there with New York, Boston and San Francisco. Those are cities you’d expect at the top—Philly was always in the shadows.”

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