

MARKET SNAPSHOT: Philadelphia Will Be Multifamily's "Sweet Spot" in Near Future *Published: April 01, 2009*

By Erika Schnitzer, Associate Editor

Philadelphia—In the next three years, the city of Philadelphia will be a sweet spot for multifamily investment, asserts Carl Dranoff, president and CEO of Dranoff Properties, a developer and owner of Class A multifamily communities in Philadelphia.



Dranoff notes that while home prices throughout the nation have dropped from about 12 percent in New York to 40 percent in Phoenix, Philadelphia is weathering the storm relatively better, having seen only a 10 percent decline in value—which, though substantial, seems to point to the relative health of the state's largest city.

“I would say we are probably more sheltered from the storm than other markets,” he tells MHN. “Overall, it just doesn't seem like the economy has had quite the same jarring effect as in other cities. He attributes this to the city's high barrier-to-entry and the fact that it has not been entirely overbuilt, as well as the—relatively—decent-looking employment picture.

“Philadelphia will buck the downward trend because of its relative stability and balance of supply and demand,” Dranoff predicts. “If anything, the apartment market could get tighter because nothing new is being built.”

That being said, Class C fundamentals in the city are predicted to weaken in 2009, according to Marcus & Millichap's 2009 National Apartment Report. And, as home prices have declined, the for-sale market has become much softer than the

rental side.

Rents have increased slightly, though at a slower rate than in previous years. Asking rents are predicted to gain 2.3 percent, to \$1,054, while effective rents are predicted to increase 1.9 percent, to \$1,008, according to Marcus & Millichap's report.

Dranoff's newest project, the 146-unit luxury 777 South Broad St. (pictured, top right), is expected to achieve monthly rents from approximately \$1,900 to \$2,700 when the project begins lease ups in early 2010. Though the project has not yet begun pre-leasing, Dranoff notes that the Website has received 500 interested prospects.



Condos at the luxury 31-story, 163-unit Symphony House (pictured, bottom right), which is 90 percent sold, sold for \$550,000 to \$4 million. Dranoff notes that some investors are renting out their residences at Symphony House and are achieving higher rents than what is anticipated at 777 South Broad St.

As for the future, Dranoff predicts that the city will see former New York residents—perhaps those who graduated from the city's numerous universities—moving to Philadelphia, as well as a large number of Echo Boomers, as downtown Philadelphia has had a resurgence in restaurants and outdoor cafes in the last year, becoming livelier than ever before.

In the meantime, he tells MHN, Dranoff Properties currently has three to four projects in the pipeline. "I'm of the opinion that we will get past this downturn, and those of us who have the capital to keep the pipeline full will reap the benefits," he says. "In three years, [Philadelphia] will be a sweet spot for multifamily."

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