

CONNECTING REAL ESTATE IN THE NORTHEAST

NORTHEAST REAL ESTATE BUSINESS™

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MARKET HIGHLIGHTS

PHILADELPHIA MULTIFAMILY MARKET

A shifting multifamily market is presenting opportunities for apartment owners as increasing interest rates limit the supply of renters who can purchase condominiums and single-family homes. While Philadelphia shares a number of trends with other major metropolitan areas, the region's unique dynamics set it apart from other national markets. For instance, Center City Philadelphia is currently undergoing a housing boom, with 3,574 new residential units under development in the central business district. However, unlike other top tier markets such as Miami, Las Vegas, and Washington, D.C., Philadelphia's condominium development is being driven mainly by buyers who will take occupancy of these homes within the next 24 months. Consequently, Philadelphia forecasts call for a soft landing for the Center City condominium market, with some projects being delayed or cancelled due to unrealized demand and others opening to strong sales.

This positive condominium climate will affect the for-rent market in a number of ways. With few investors caught short in the Center City condo boom, there will be limited pressure for them to rent their properties and compete with multifamily rental projects. Also, as interest rates and housing prices continue to climb, potential buyers are likely to stay as renters for longer periods of time, fueling rental demand and setting the stage for rent increases, where appropriate. Consequently, the apartment markets in Philadelphia and the suburbs are seeing increased competition from potential apartment buyers, as occupancy and rental rates strengthen. For instance, in Downingtown, Pennsylvania, Meadowlake Apartments, a Class B apartment complex, built in 1976, is enjoying a 96.4 percent occupancy rate, even as it undergoes a major renovation. Renovation is a major theme for many such complexes. Limited supply of land and increasing zoning restrictions, have severely limited new apartment development opportunities. In many areas, what can be built, has been built. Consequently, smart apartment buyers are acquiring properties with an eye for repositioning the properties to achieve the rent increases required for healthy returns. Current rental rates of \$1 per square foot for well located, Class B properties are rising as high as \$1.25 per square foot after renovations such as new roofs, siding, club-

houses, pools, fitness centers, kitchens and bathrooms. This has put downward pressure on cap rates even in the face of rising interest rates.

Overall, Philadelphia's diverse economy, which is generating a substantial number of new jobs in the suburban markets, along with a real estate market that has not seen the highs of a true real estate bubble, continue to make Philadelphia and it environs an attractive investment.

— Gary Holloway Jr., president, GMH Capital Partners

