

YARDI[®] Matrix

Pittsburgh's Slow Awakening

Multifamily Fall Report 2016

Rent Growth Inches Up, Trailing Nation

STEM Hiring Keeps Demand Ahead of Supply

Out-of-State Buyers Target Prime Locations

Market Analysis

Fall 2016

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Millennial Magnet Draws Slow Growth

Pittsburgh's multifamily market is a mixed bag, but improving on the whole. Although the metro's population is declining, recent studies of U.S. census data show that the city has joined the national leaders in attracting degree-holding Millennials. Plus, there are positive economic trends, driven by job gains in the leisure and hospitality, education and health care, and professional and business services sectors.

Demand for apartments is sustained by young professionals, who are particularly drawn to the city because of its diverse career development opportunities, affordability and high standard of living. The quality education system is also attracting businesses that can easily recruit skilled talent, especially in the science, technology, engineering and math (STEM) fields. Uber, joining the growing list of tech companies headed to Pittsburgh, recently partnered with Carnegie Mellon University to develop an advanced robotics facility near the campus. Royal Dutch Shell is building a \$6 billion petrochemical plant in Beaver County, which should help western Pennsylvania, a region affected by the struggling shale-gas industry.

Developers ramped up apartment deliveries in 2015, marking a peak in the current cycle. Upcoming supply is also significant, as more than 10,300 units are currently in the pipeline. Absorption is expected to keep up, making rents relatively stable by year end.

Recent Pittsburgh Transactions

The Pennsylvanian



City: Pittsburgh
Buyer: JMC Holdings
Purchase Price: \$38 MM
Price per Unit: \$154,959

Carson Towers



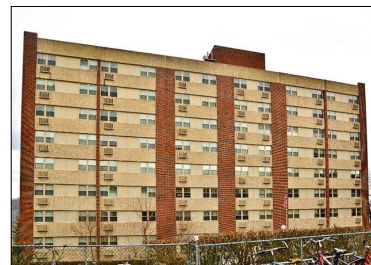
City: Pittsburgh
Buyer: Standard Property Co.
Purchase Price: \$14 MM
Price per Unit: \$102,256

The Heights at Slippery Rock



City: Slippery Rock, Pa.
Buyer: Ares Management
Purchase Price: \$13 MM
Price per Unit: \$126,000

State Manor

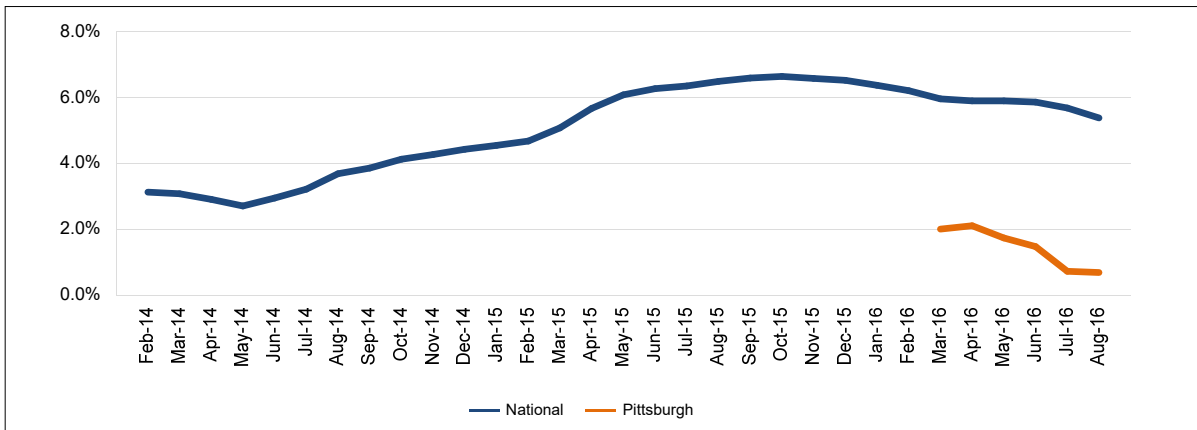


City: Coraopolis, Pa.
Buyer: Millennia Housing Cos.
Purchase Price: \$6 MM
Price per Unit: \$55,049

Rent Trends

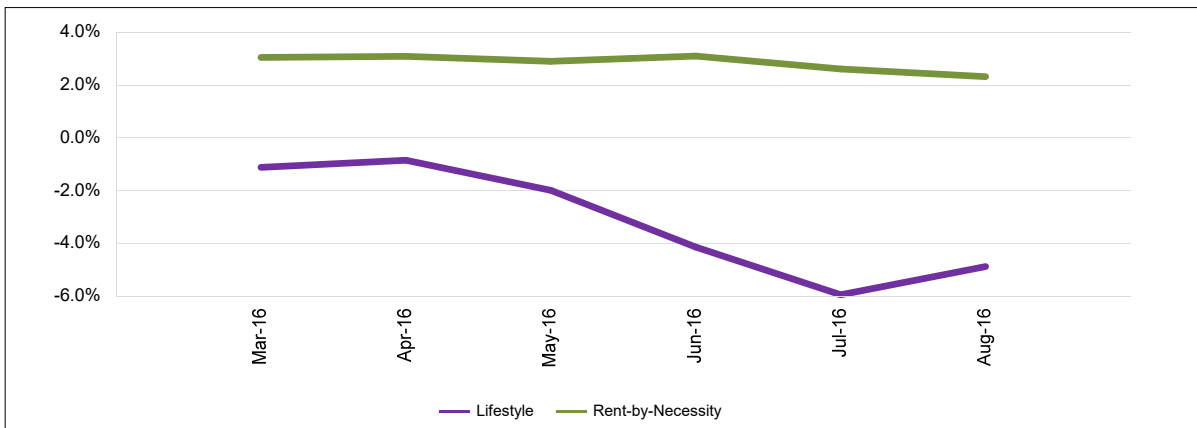
- Rents in Pittsburgh rose only 0.7% year-over-year through August, well below the 5.4% national growth. Average rents across the metro stood at \$1,043, trailing the \$1,220 national average.
- Rent growth by asset class is sharply bifurcated: The working-class Renter-by-Necessity segment advanced by 2.3% to \$1,000, while Lifestyle rents declined by 4.9% to \$1,316.
- Submarkets with the highest growth included Downtown, Squirrel Hill, Slippery Rock, Shadyside and Carnegie. Demand stems mostly from young professionals—degree-holding Millennials who move to Pittsburgh because of its affordable cost of living, diverse employment and career development opportunities, high quality of life and social mobility. Federal census data shows that even though the city's population decreased by 29,000 residents between 2000 and 2014, the number of young graduates grew by 53%, or almost 15,000, marking the third-highest growth in the nation after Jersey City and Washington, D.C.
- On the other side of the spectrum, several suburban submarkets with weak market conditions reflect a tale of two cities. Lower-income families are being priced out of city core neighborhoods, which highlights the need for equitable development and more affordable housing units as new projects come online.

Pittsburgh vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Pittsburgh Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

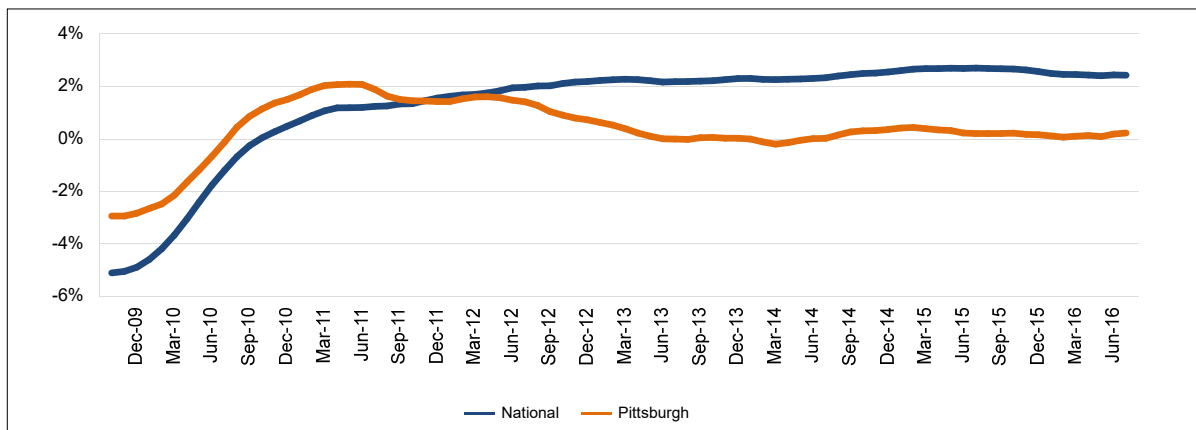


Source: YardiMatrix

Economic Snapshot

- Hiring rose a meager 0.2% year-over-year in the metro through July, way below the 2.4% national average. Employment trends are bifurcated: Occupational clusters including hospitality, education and health care, and professional and business services added 10,300 positions, while financial activities, manufacturing, government, and trade, transportation and utilities lost more than 7,000 jobs.
- The recent hotel building boom has generated employment gains in the leisure and hospitality sector, which added 5,300 jobs year-over-year through July. However, the supply glut of more than 2,000 guestrooms over the past year has put a downward pressure on the region's occupancy rates and per-room revenue, leading banks to become more hesitant in providing financing for new projects.
- Joining other tech giants like Apple or Google, Uber recently partnered with Carnegie Mellon University to develop an advanced robotics facility with a focus on self-driving cars. The center is generating additional jobs, while furthering the Steel's City's reputation as a hub of technological innovation.
- Royal Dutch Shell's long-anticipated decision to build a \$6 billion ethane cracker plant in Beaver County will be a game-changer for western Pennsylvania's struggling shale-gas industry. As many as 6,000 construction workers will be involved in building the plant, which is expected to hire 600 permanent employees upon completion.

Pittsburgh vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Pittsburgh Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
70	Leisure and Hospitality	127	10.9%	5,300	4.3%
65	Education and Health Services	238	20.4%	4,000	1.7%
60	Professional and Business Services	183	15.7%	1,000	0.5%
80	Other Services	54	4.6%	700	1.3%
15	Mining, Logging and Construction	71	6.1%	400	0.6%
50	Information	18	1.5%	-400	-2.2%
40	Trade, Transportation and Utilities	213	18.3%	-1,300	-0.6%
90	Government	108	9.3%	-1,300	-1.2%
30	Manufacturing	87	7.5%	-2,100	-2.4%
55	Financial Activities	69	5.9%	-2,400	-3.4%

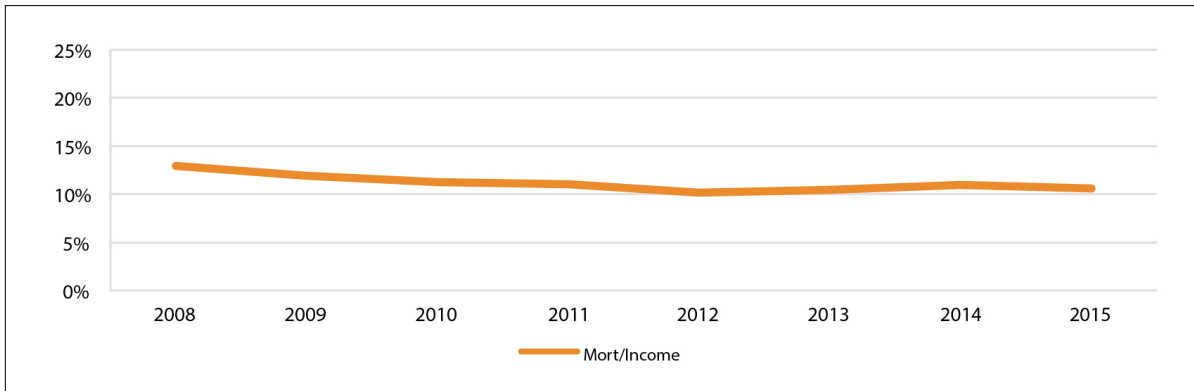
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

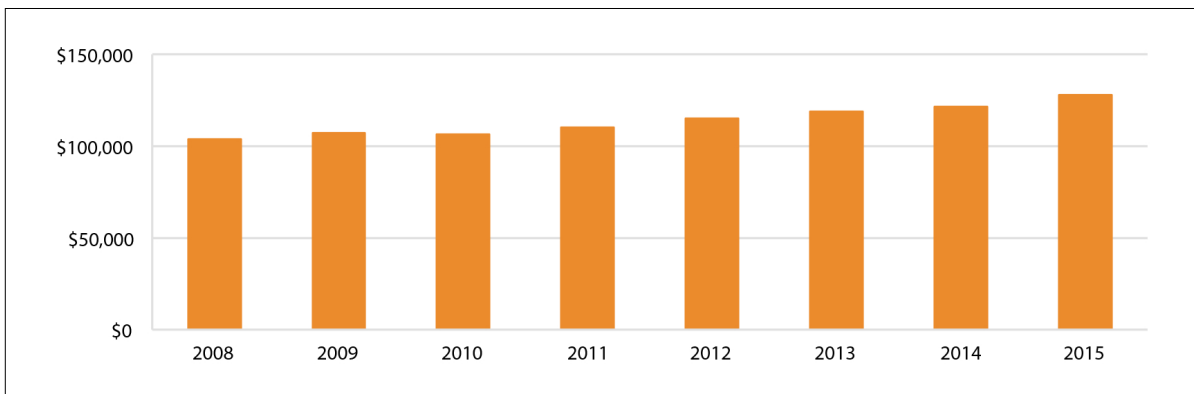
- For home buyers, Pittsburgh continues to be one of the most affordable metro areas in the country. Median home values reached \$128,014 in 2015, the highest level in recent years. The average mortgage accounted for 11% of the area's median income of \$53,954 during the same period.
- Leasing an apartment is less affordable than owning a home in Pittsburgh, where the average rent of \$1,026 in 2015 accounted for 23% of the area's median income. As rents continue to rise, more people are considering buying a home, which they view as a long-term investment or a means of creating generational wealth.

Pittsburgh Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Pittsburgh Median Home Price



Source: Moody's Analytics

Population

- The population in Pittsburgh has been declining since 2013, but the drop has been mitigated by a steady influx of Millennials.
- The metro lost more than 5,000 residents in 2015.

Pittsburgh vs. National Population

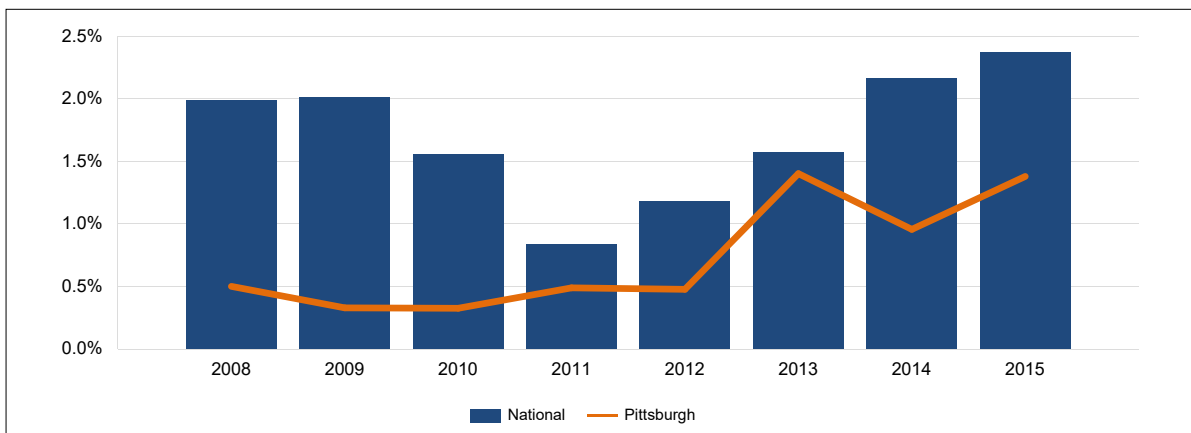
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Pittsburgh, PA Metropolitan Statistical Area	2,360,162	2,361,815	2,361,518	2,358,096	2,353,045

Sources: U.S. Census, Moody's Analytics

Supply

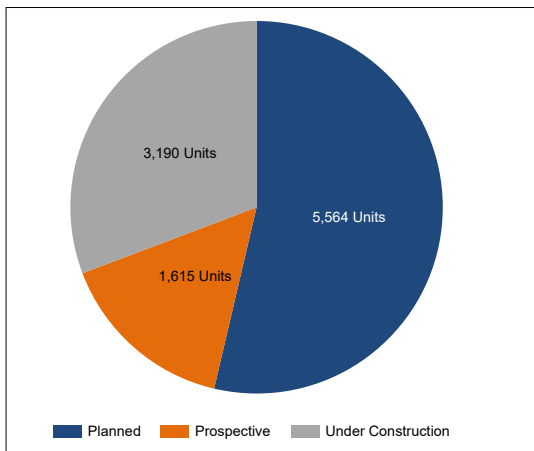
- Completions in Pittsburgh are weak, though they reached a cyclical high in 2015, when about 1,135 units came online. This represents a 1.4% expansion of stock, well below the 2.4% national growth rate.
- More than 10,300 multifamily units are currently in the pipeline, with 3,190 under construction and over 7,100 in the planning stages. Demand is expected to keep up, sustained by increased hiring, especially in the STEM fields. The ripple effect from Shell's decision to build a petrochemical plant in Beaver County will also create the need for additional residential development across the region in the coming years.
- Estimates also show that only 300 units, or about 3% of the new supply, will be affordable. Aiming to allow longtime residents to stay in their communities, the city of Pittsburgh recently created the Affordable Housing Task Force to find the best ways to preserve neighborhoods while securing affordable housing.
- Upcoming deliveries are concentrated in Bloomfield, Shadyside, Oakland and McKees Rocks. The largest projects include the 389-unit Skyvue development in Oakland, the 360-unit Eastside Bond in Shadyside and the 264-unit Southside Works City Apartments in Southside.

Pittsburgh vs. National Completions as a Percentage of Total Stock (as of August 2016)



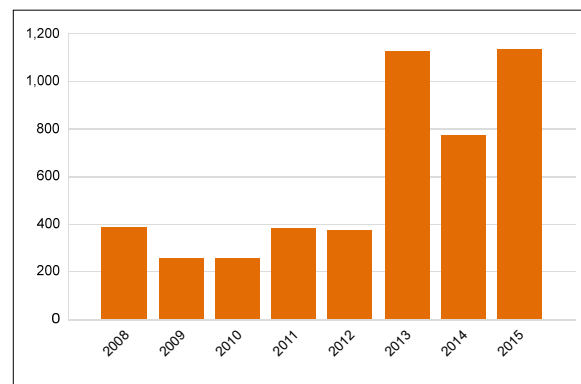
Source: YardiMatrix

Development Pipeline (as of August 2016)



Source: YardiMatrix

Pittsburgh Completions (as of August 2016)

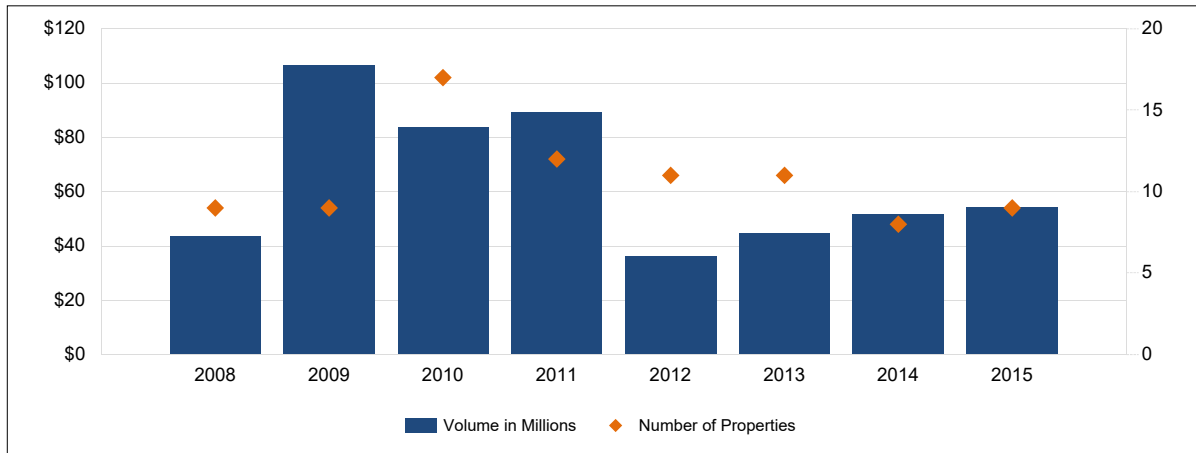


Source: YardiMatrix

Transactions

- More than \$54 million worth of properties changed hands in 2015, with average cap rates in the upper 6% range. The average price per unit reached \$50,920, the highest since 2009 but significantly lower than the national average of \$117,358.
- Investors, especially out-of-state buyers, are targeting well-located assets that offer high yields and trade for less than what is available in core markets. The extra risk of investing in a secondary market is counterbalanced by the city's improving economy, while demand for apartments continues to rise.
- Intense activity was recorded in Downtown, Southside and Slippery Rock. The largest deals included JMC Holdings' acquisition of The Pennsylvanian for \$38 million, Standard Property's acquisition of Carson Towers for \$14 million and Ares Management's purchase of The Heights at Slippery Rock for \$13 million.

Pittsburgh Sales Volume and Number of Properties Sold (as of August 2016)



Source: YardiMatrix

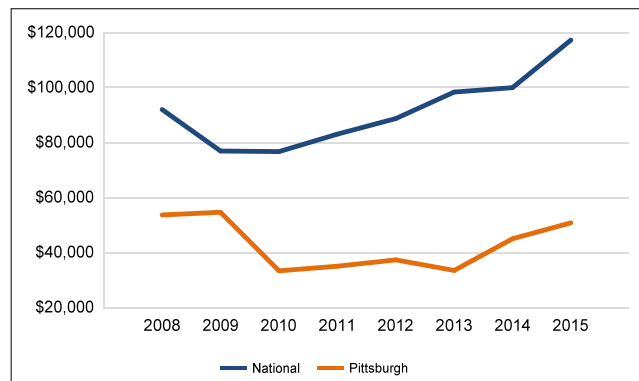
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Pittsburgh Downtown	38
Southside	14
Slippery Rock	13
Homewood	10
Coraopolis	6
Fayette County	3
Highland Park	2

Source: YardiMatrix

¹ From September 2015 to August 2016


Pittsburgh vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



 Q&A with Daniel Farber,
Executive VP at HLC Equity

 Kimco Goes Solo
With 4-Property Portfolio

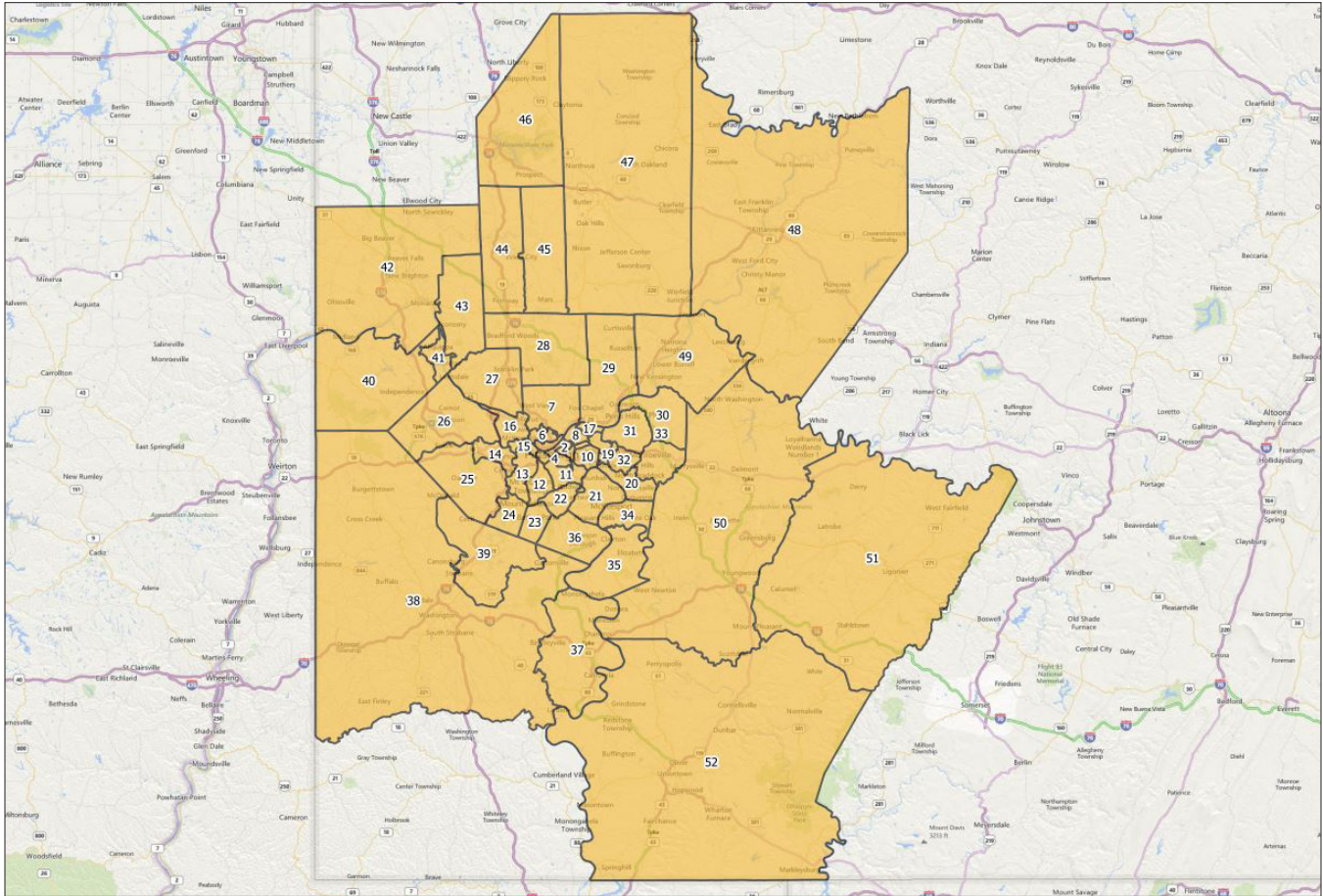
 How Will Shell's Investment
Decision Boost Beaver County?

 Almono Mill Building
Redevelopment Gets
The Green Light

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Pittsburgh Submarkets



Area #	Submarket
1	Pittsburgh-Downtown
2	Hill District
3	Oakland
4	Southside
5	Northshore
6	Perry
7	West View
8	Bloomfield
9	Shadyside
10	Squirrel Hill
11	Carrick
12	Castle Shannon
13	Carnegie
14	Robinson Township
15	Fairywood
16	McKees Rocks
17	Highland Park
18	Homewood
19	Wilksburg
20	Braddock
21	West Mifflin
22	Whitehall
23	Bethel Park
24	Upper St. Clair

Area #	Submarket
25	Oakdale
26	Coraopolis
27	Franklin Park
28	Hampton Township
29	Fox Chapel
31	Penn Hills
32	Churchill
33	Monroeville
34	McKeesport
35	Elizabeth
36	Jefferson Hills
37	Centerville
38	Washington
39	Canonsburg
42	Beaver
43	Economy
44	Cranberry Township
46	Slippery Rock
47	Butler
49	New Kensington
50	Greensburg
51	Latrobe
52	Fayette County

Definitions

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter by Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income (“gray collar”) households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property’s ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property’s status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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