

Yardi® Matrix

MULTIFAMILY REPORT

Pittsburgh: Not Yet In The Clear

Spring 2020

Employment Still Shaky

Developers Target Downtown

COVID-19 Restrictions Ease



PITTSBURGH MULTIFAMILY

Yardi® Matrix

Pittsburgh Eyes New Cycle

Following moderate employment and deliveries in 2019, Pittsburgh's economy is once again being tested. As of April, rents were down 0.2% on a trailing three-month basis, to \$1,135, well below the \$1,465 national average. With strict statewide shelter-in-place orders in effect to contain the spread of the coronavirus, and with operations in many sectors—including construction—halted after being deemed nonessential, Pittsburgh reached a temporary impasse, further straining its real estate market.

The metro gained 3,000 jobs in the 12 months ending in March—a 0.5% uptick and 90 basis points below the U.S. average. By May 5, more than 1.7 million Pennsylvanians had filed initial unemployment claims. However, several bright spots are surfacing. The tech sector is gaining traction in Pittsburgh, headlined by Facebook, Google and Argo AI. The University of Pittsburgh continues to stimulate high-tech firms to move to the metro. In the meantime, work at construction sites resumed and some businesses reopened in May, after a six-week shutdown due to the COVID-19 outbreak.

With only 686 apartments delivered in 2019 and no property with more than 50 units completed this year through April, demand for multifamily product is expected to hold, despite the shutdown. However, the lingering effects of the pandemic will likely keep rent growth moderate.

Market Analysis | Spring 2020

Contacts

Jeff Adler

Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 303-615-3676

Jack Kern

Director of Research
and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.

Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Laura Calugar

Senior Associate Editor

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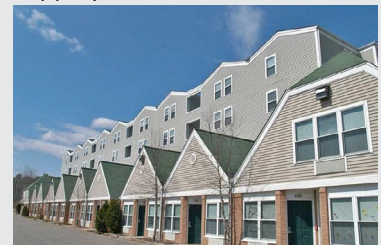
Recent Pittsburgh Transactions

Torrente at Upper St. Clair



City: Pittsburgh, Pa.
Buyer: Morgan Properties
Purchase Price: \$37 MM
Price per Unit: \$167,727

University Commons at Slippery Rock



City: Slippery Rock, Pa.
Buyer: DBC Real Estate
Management
Purchase Price: \$12 MM
Price per Unit: \$80,822

Penwood Square



City: Pittsburgh, Pa.
Buyer: Steiner Realty
Purchase Price: \$7 MM
Price per Unit: \$75,209

Beacon Hill

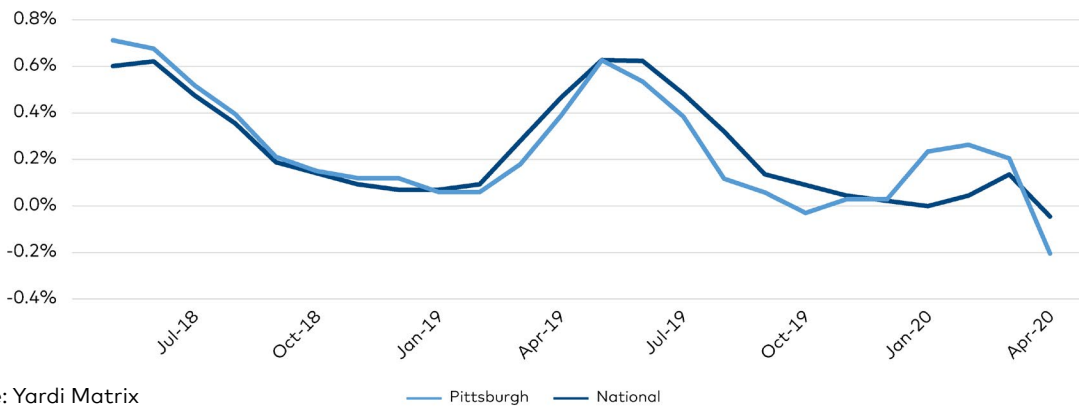


City: Pittsburgh, Pa.
Buyer: Costello Management
Purchase Price: \$2 MM
Price per Unit: \$25,120

RENT TRENDS

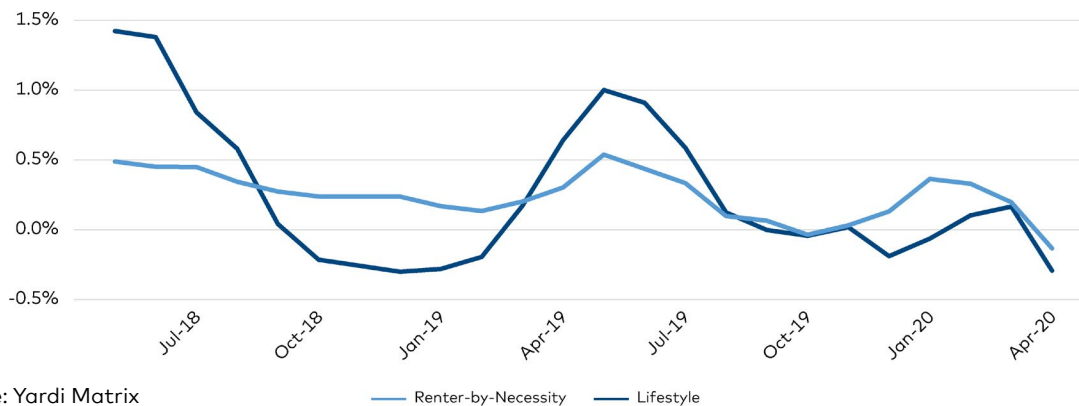
- ▶ Pittsburgh rents were down 0.2% to \$1,135 on a trailing three-month basis through April, while the national rate remained flat. As upscale properties are among the most vulnerable asset types during crises, Lifestyle rents contracted 0.3% to \$1,585. Rents in the working-class Renter-by-Necessity segment fell only 0.1% to \$1,006. (average rent up 20.2% to 1,553). This area not only includes large employers in education and health services but also provides easy access to Robotics Row, an emerging hotbed of artificial intelligence companies. With an average rent of \$1,683, Pittsburgh-Downtown remained the most expensive submarket.
- ▶ In order to protect tenants that have been laid off or furloughed due to the COVID-19 outbreak, Pennsylvania Gov. Tom Wolf signed an executive order that suspends all evictions and foreclosures in the state through July 10. Additionally, Pennsylvania is set to receive roughly \$5 billion in federal funding for coronavirus-related issues.
- ▶ The highest-performing submarket in Pittsburgh in the 12 months ending in April was Oakland
- ▶ Following the pandemic, and in the medium to long term, Pittsburgh is likely to see some interest from people's reluctance to living in high-density metros such as New York City, Washington, D.C., or Philadelphia. The metro's affordability and the strengthening tech sector are two other elements that are sure to lure Millennials and Generation Z in the future.

Pittsburgh vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Pittsburgh Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ Pittsburgh's employment growth has been slowly decelerating over the past 18 months, at 0.5% year-over-year through March and 90 basis points below the national rate. The ongoing health crisis has propelled the metro's unemployment rate to 6.2% in March, according to preliminary data from the Bureau of Labor Statistics. The Pennsylvania Center for Workforce Information and Analysis showed that between March 15 and May 5, more than 1.7 million initial unemployment claims were filed in Pennsylvania.
- ▶ At the end of March, state authorities ordered all nonessential businesses to close, including construction. Only a few companies obtained a

waiver, while work on health-care facilities was also exempted. For example, the University of Pittsburgh Medical Center continued work at its 410,000-square-foot tower, which is part of UPMC's \$2 billion investment in specialty care. Allegheny Health Network and Highmark Health also moved forward with their \$275 million AHN Wexford Hospital in North Hills.

- ▶ In late April, Gov. Wolf announced plans for certain regions of Pennsylvania to reopen, as part of a color-coded system. Although the recent "yellow" status brings the state closer to a sense of normalcy, several restrictions and guidelines are still in effect.

Pittsburgh Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	183	15.4%
55	Financial Activities	78	6.6%
90	Government	119	10.0%
15	Mining, Logging and Construction	71	6.0%
70	Leisure and Hospitality	117	9.9%
50	Information	19	1.6%
30	Manufacturing	88	7.4%
80	Other Services	48	4.1%
65	Education and Health Services	260	21.9%
40	Trade, Transportation and Utilities	202	17.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Pittsburgh lost 5,540 residents in 2018—a 0.2% drop.
- ▶ According to the University of Pittsburgh's University Center for Social and Urban Research, the demographic contraction in the metro is primarily the result of ongoing natural population decline and domestic migration.

Pittsburgh vs. National Population

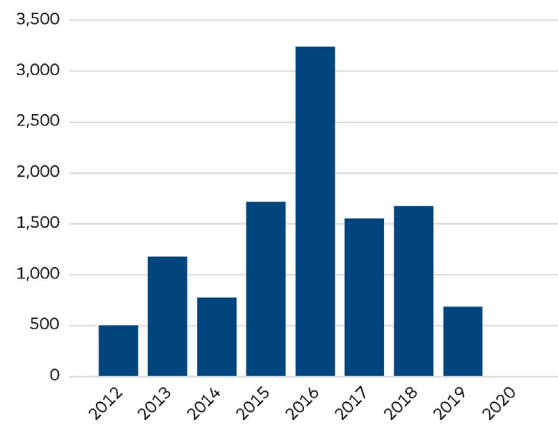
	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Pittsburgh Metro	2,347,907	2,340,576	2,330,283	2,324,743

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

SUPPLY

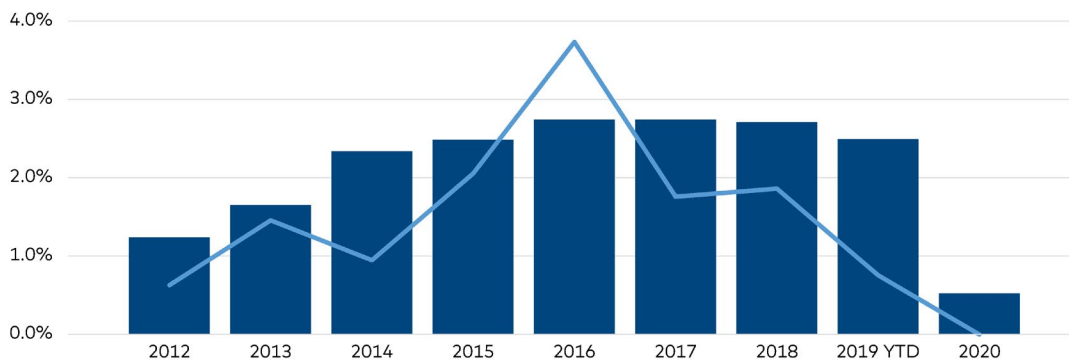
- ▶ At the end of April, there were 2,374 units under construction in Pittsburgh, 1,501 of which were slated to be delivered this year. The addition of these new units by year-end will help alleviate the pressure of demand.
- ▶ No multifamily property with more than 50 units was completed this year through April. After reaching a 3,241-unit peak in 2016, rental deliveries slowed down, with only 686 units coming online last year. The strict stay-at-home order imposed by state authorities on April 1 has adversely affected the construction industry, which was deemed a nonessential business. Construction work resumed six weeks later, so delivery dates are likely to get pushed back, further exacerbating the ongoing imbalance.
- ▶ Pittsburgh-Downtown is a hotbed for development: The submarket accounts for more than half of the units underway in the metro, followed by the Southside with 599 apartments under construction. Young professionals are attracted to Pittsburgh's core for its revitalized CBD and its affordable advantage over other tech metros.
- ▶ Cleveland-based The NRP Group is developing the second phase of Edge 1909, the largest project underway in the metro as of April. The 443-unit development in the heart of Pittsburgh's Strip District and at the edge of the Allegheny River will provide easy access to several tech employers in the emerging Robotics Row area.

Pittsburgh Completions (as of April 2020)



Source: Yardi Matrix

Pittsburgh vs. National Completions as a Percentage of Total Stock (as of April 2020)

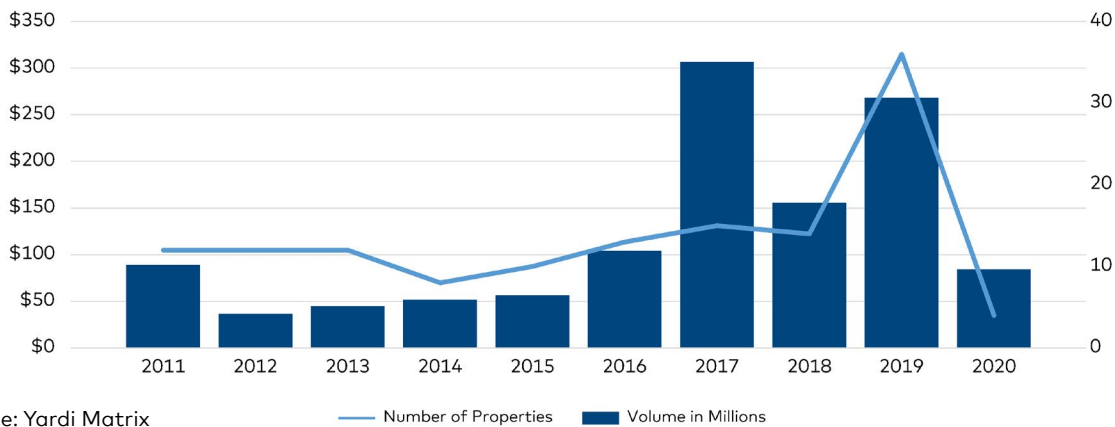


Source: Yardi Matrix

TRANSACTIONS

- ▶ In the first four months of the year, \$84 million in multifamily assets traded in Pittsburgh, a slight slowdown compared to the same interval in 2019. After all nonessential businesses across the state were ordered closed as of March 20 to contain the spread of the virus, transaction activity in the metro dampened significantly. Real estate agents were unable to show homes to prospective buyers and inspectors couldn't enter apartments to complete reports.
- ▶ The per-unit price actually rose to \$168,028 this year through April, surpassing the U.S average for the first time. Fewer than 4,000 units were delivered across the metro between 2017 and 2019, which is mainly why prices have held up.
- ▶ AHJ Management's \$81 million acquisition of the 376-unit 1400 Main at Southpointe Town Center in Canonsburg accounted for one-third of the total transaction volume through the 12 months ending in April.

Pittsburgh Sales Volume and Number of Properties Sold (as of April 2020)



Source: Yardi Matrix

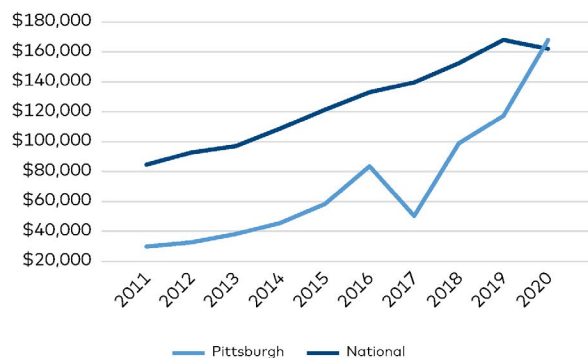
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Canonsburg	81
Upper St. Clair	37
Robinson Township	29
Hampton Township	27
Greensburg	18
Slippery Rock	12
Highland Park	10

Source: Yardi Matrix

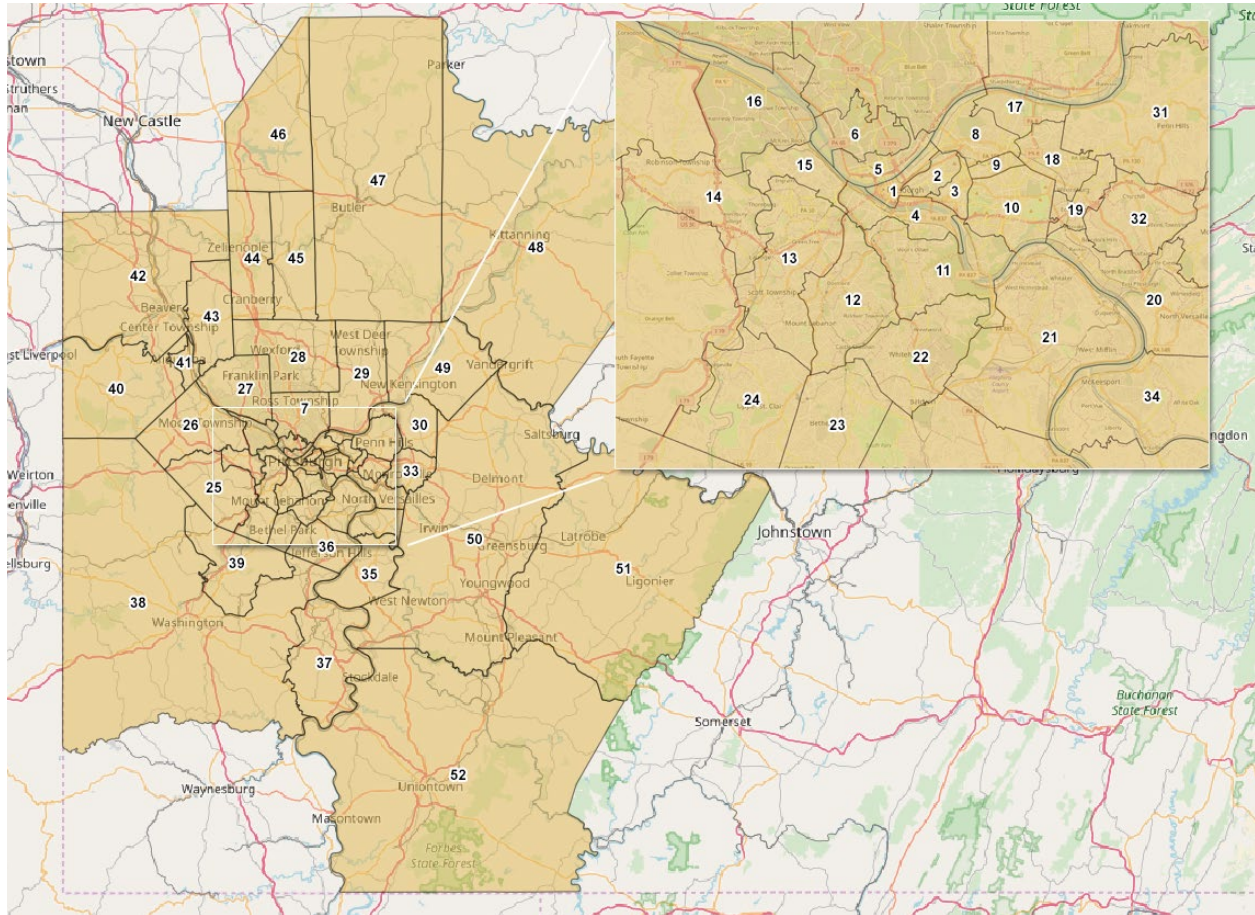
¹ From May 2019 to April 2020

Pittsburgh vs. National Sales Price per Unit



Source: Yardi Matrix

PITTSBURGH SUBMARKETS



Area No.	Submarket
1	Pittsburgh-Downtown
2	Hill District
3	Oakland
4	South Side
5	North Shore
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

Area No.	Submarket
19	Wilkinsburg
20	Braddock
21	West Mifflin
22	Whitehall
23	Bethel Park
24	Upper St. Clair
25	Oakdale
26	Coraopolis
27	Franklin Park
28	Hampton Township
29	Fox Chapel
30	Plum
31	Penn Hills
32	Churchill
33	Monroeville
34	McKeesport
35	Elizabeth
36	Jefferson Hills

Area No.	Submarket
37	Centerville
38	Washington
39	Canonsburg
40	Raccoon Creek
41	Aliquippa
42	Beaver
43	Economy
44	Cranberry Township
45	Fox Run
46	Slippery Rock
47	Butler
48	Armstrong County
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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