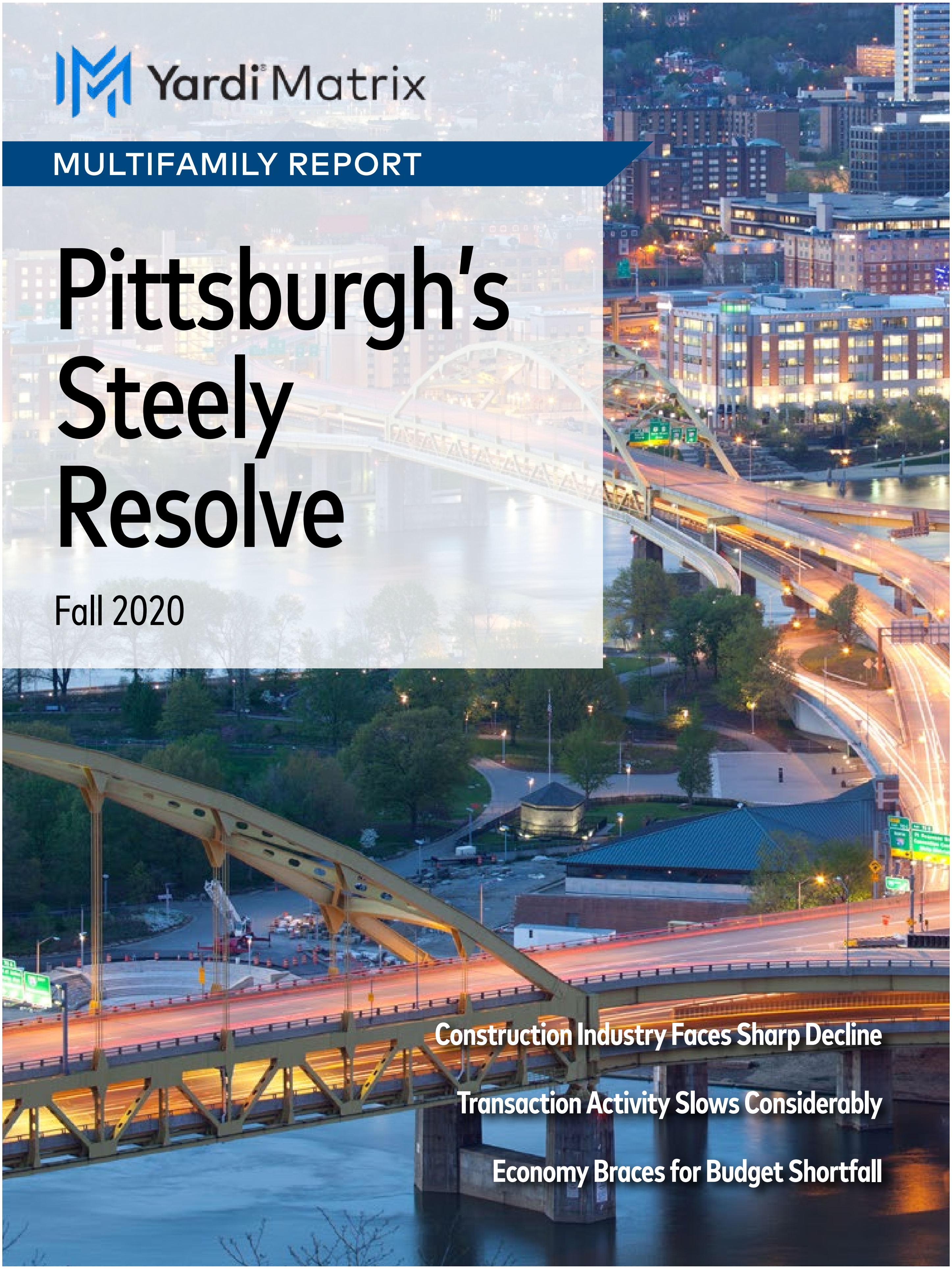
Yardi Matrix

MULTIFAMILY REPORT

Pittsburgh's Steely Resolve

Fall 2020



Construction Industry Faces Sharp Decline

Transaction Activity Slows Considerably

Economy Braces for Budget Shortfall

PITTSBURGH MULTIFAMILY

Yardi Matrix

Rental Market Down, Not Out

Pittsburgh's multifamily market faces a slew of challenges, though the metro's economic diversification in recent years may favorably position it for a longer-term recovery. In September, overall rents averaged $1,140, declining by 0.1% on a trailing three-month basis. While Lifestyle rents fell by a much steeper 0.6% during the same period, upscale units make up only a small part of the market's inventory.

The metro's economy continues to struggle, although many of the job losses initially caused by the pandemic have since been reversed. Pittsburgh's unemployment rate was 10.8% in August, according to preliminary Bureau of Labor Statistics data—a significant improvement from April's peak of 16.4% but well below the 8.4% August U.S. rate. However, further job growth could be on the horizon, with several notable tech firms announcing expansion or relocation plans.

While new developments have overwhelmingly targeted Lifestyle renters during the past five years, no new projects have broken ground since the debut of the health crisis. Multifamily investment volume and velocity also slowed in 2020, with $110 million in transactions closed through September, just two-thirds of the 2019 total. Given ongoing volatility, both investment and development are likely to remain muted in the near term.

Market Analysis | Fall 2020

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(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
Jeff Hamann
Senior Associate Editor

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Recent Pittsburgh Transactions

Torrente

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

Park West 205

City: Pittsburgh
Buyer: Morgan Properties
Purchase Price: $29 MM
Price per Unit: $176,829

Morgan at North Shore

City: Pittsburgh
Buyer: Coastal Ridge Real Estate
Purchase Price: $26 MM
Price per Unit: $110,009

Marquis Place

City: Pittsburgh
Buyer: Morgan Properties
Purchase Price: $18 MM
Price per Unit: $156,356

RENT TRENDS

- Pittsburgh rents fell by 0.1% on a trailing three-month (T3) basis through September, while the average U.S. rate was up by 10 basis points. The metro's average rent was $1,140 as of September, 22% below the $1,463 national figure.

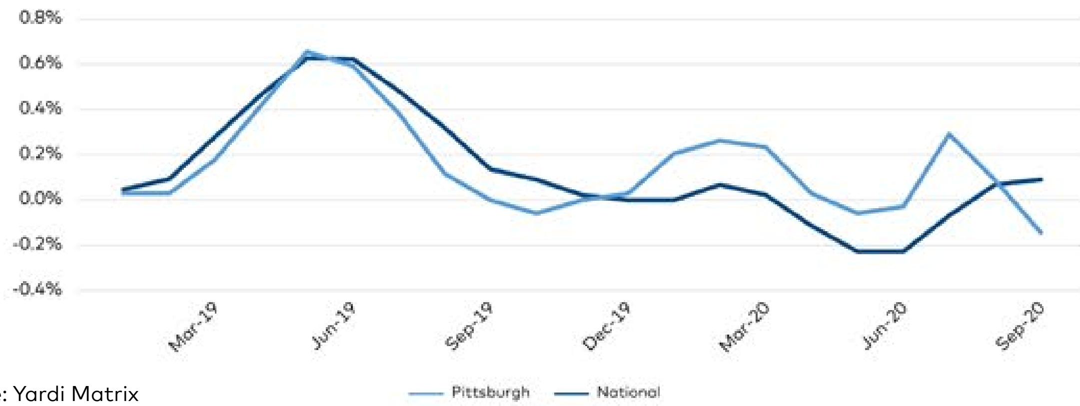
- Lifestyle rents dropped by 0.6% on a T3 basis to $1,567, while working-class Renter-by-Necessity rates held steady, up 0.1% to $1,016. Even though 90% of units added to the market's stock since 2015 have been upscale, RBN assets account for more than 75% of Pittsburgh's total multifamily inventory.

- Pittsburgh–Downtown had among the highest rents at a submarket level, averaging $1,666 in September. Although this marks a year-over-year decrease of 1.6%, the downtown area may be positioned to recover faster due to its proximity to major employers, universities and transportation hubs.

- The state's comprehensive eviction moratorium expired at the beginning of September. Although the Centers for Disease Control and Prevention's nationwide ban took effect on Sept. 3, it is more limited in scope and expires at the end of the year.

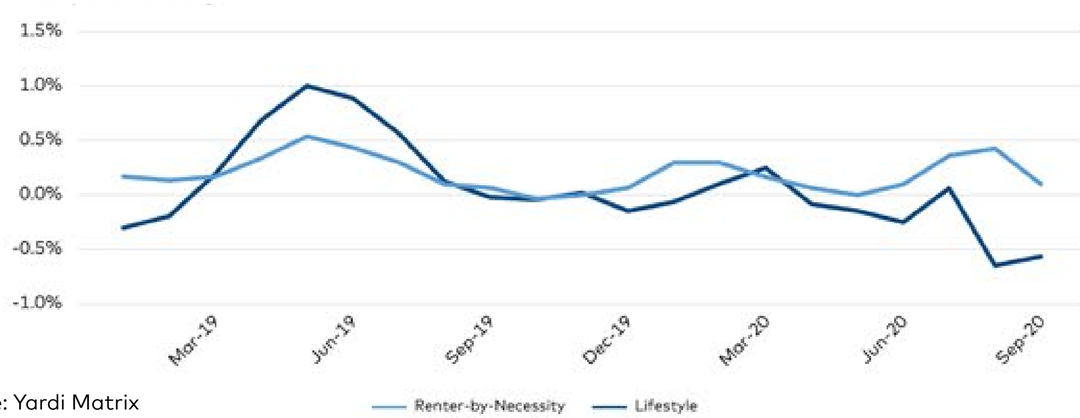
- In May, Pennsylvania set aside $175 million in rental assistance and mortgage relief, though the state's housing finance agency acknowledged it had only paid out $9.7 million through the end of September to fewer than 5,700 renters.

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 growth has long trailed the national economy, and recent volatility has led to a reversal of gains made in recent years. After peaking at 16.4% in April, unemployment fell to 10.8% in August but remained significantly higher than the 8.4% national rate. During the 12 months ending in July, Pittsburgh shed 105,300 jobs for an 8.8% year-over-year contraction. While leisure and hospitality was hit the hardest, education and health services—the metro's largest employment sector—lost 14,800 jobs.

- The metro started diversifying its economy during the most recent economic expansion, attracting tech companies, including Google, Facebook and Uber, which could ease Pittsburgh's eventual recovery. In May, videoconferencing provider Zoom announced the development of a research and development center in the city, and other software companies have also detailed relocation or expansion plans.

- Although all of Pittsburgh's counties entered the state's green reopening phase during the summer, the impacts of the coronavirus pandemic will take time to fully unfold, particularly the effects of declining international admissions to city universities as well as declining tax revenues. The city of Pittsburgh is expecting a $100 million budget shortfall for the year.

Pittsburgh Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	742	21.5%
60	Professional and Business Services	603	17.5%
70	Leisure and Hospitality	339	9.8%
15	Mining, Logging, and Construction	143	4.1%
50	Information	95	2.8%
55	Financial Activities	230	6.7%
90	Government	398	11.5%
40	Trade, Transportation, and Utilities	539	15.6%
80	Other Services	131	3.8%
30	Manufacturing	235	6.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The metro's population contracted by 0.3% in 2019 with the loss of 7,143 residents, compared to a 0.3% increase nationally.

- Pittsburgh's median age was 42.1 years, the highest among the country's largest 30 metro areas.

Pittsburgh vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Pittsburgh Metro	2,340,576	2,330,283	2,324,743	2,317,600

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

SUPPLY

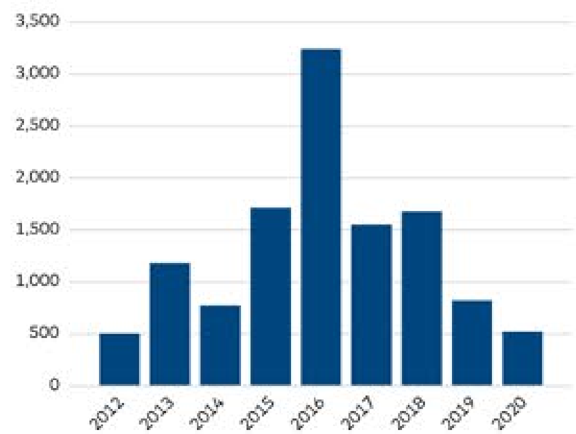
- At the end of September, there were 2,087 units under construction in Pittsburgh, accounting for 2.3% of completed inventory. Only two developments totaling 524 units were delivered during the first three quarters, marking a continued decline from the 3,241 units completed in 2016.

- Construction activity nearly came to a complete halt as part of Pennsylvania's stay-at-home order issued in late March. Although projects were permitted to resume in early May, strict safety requirements and social distancing measures led to constrained development activity amid widespread economic uncertainty. No major multifamily developments broke ground after February and few, if any, are anticipated to move forward until next year.

- Downtown was the most active submarket for development as of September, with 904 units underway. The NRP Group's 443-unit The District was the metro's largest ongoing project. The two-building development broke ground in November 2019 and is slated for completion by mid-2022.

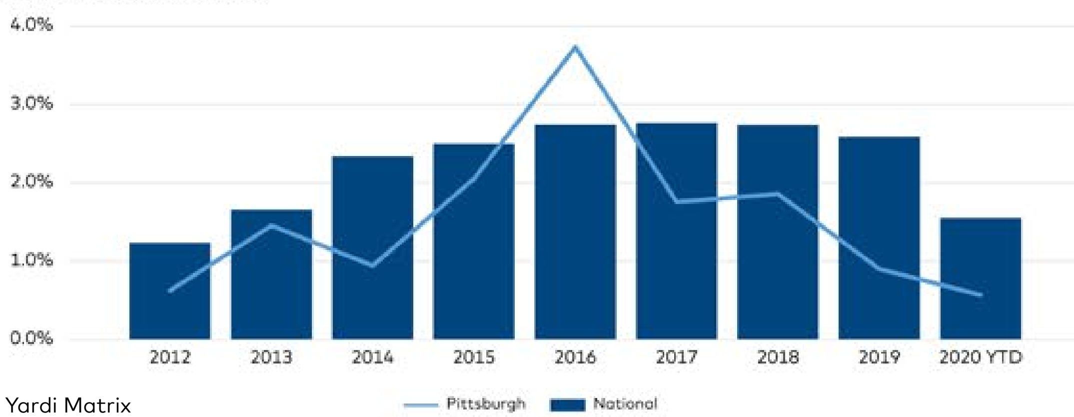
- High Street Residential's September delivery of the 319-unit Glasshouse Apartments was the largest completion of 2020. Northwestern Mutual financed the luxury project, located in the Southside submarket, with a $54 million construction loan. The development broke ground at the start of 2018.

Pittsburgh Completions (as of September 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

TRANSACTIONS

- Pittsburgh's transaction volume totaled $110 million in 2020 through September, down 33.3% compared to the same period last year. Nearly all sales occurred in the first three months of the year, prior to the state's stay-at-home order going into effect.

- The metro's average per-unit price for the first three quarters clocked in at $149,689. While below the U.S. average, the figure is far greater than Pittsburgh's 2019 average price per unit of $114,218. RBN assets traded for an average of $138,101, making up three-quarters of transactions this year.

- Morgan Properties was the metro's most-active investor in the first nine months of 2020, acquiring four properties comprising 917 units. The largest deal was the $37 million acquisition of the 220-unit Torrente in Upper St. Clair from John Deklewa & Sons. Wells Fargo provided $24 million in financing for the purchase.

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

Source: Yardi Matrix

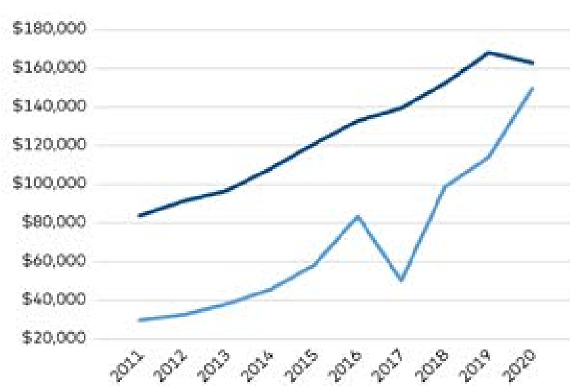
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Upper St. Clair	37
Robinson Township	29
Hampton Township	27
North Shore	26
Greensburg	18
Monroeville	16
Slippery Rock	12

Source: Yardi Matrix

[1] From October 2019 to September 2020

Pittsburgh vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top 5 Multifamily Projects Under Construction in Pittsburgh

By Corina Stef

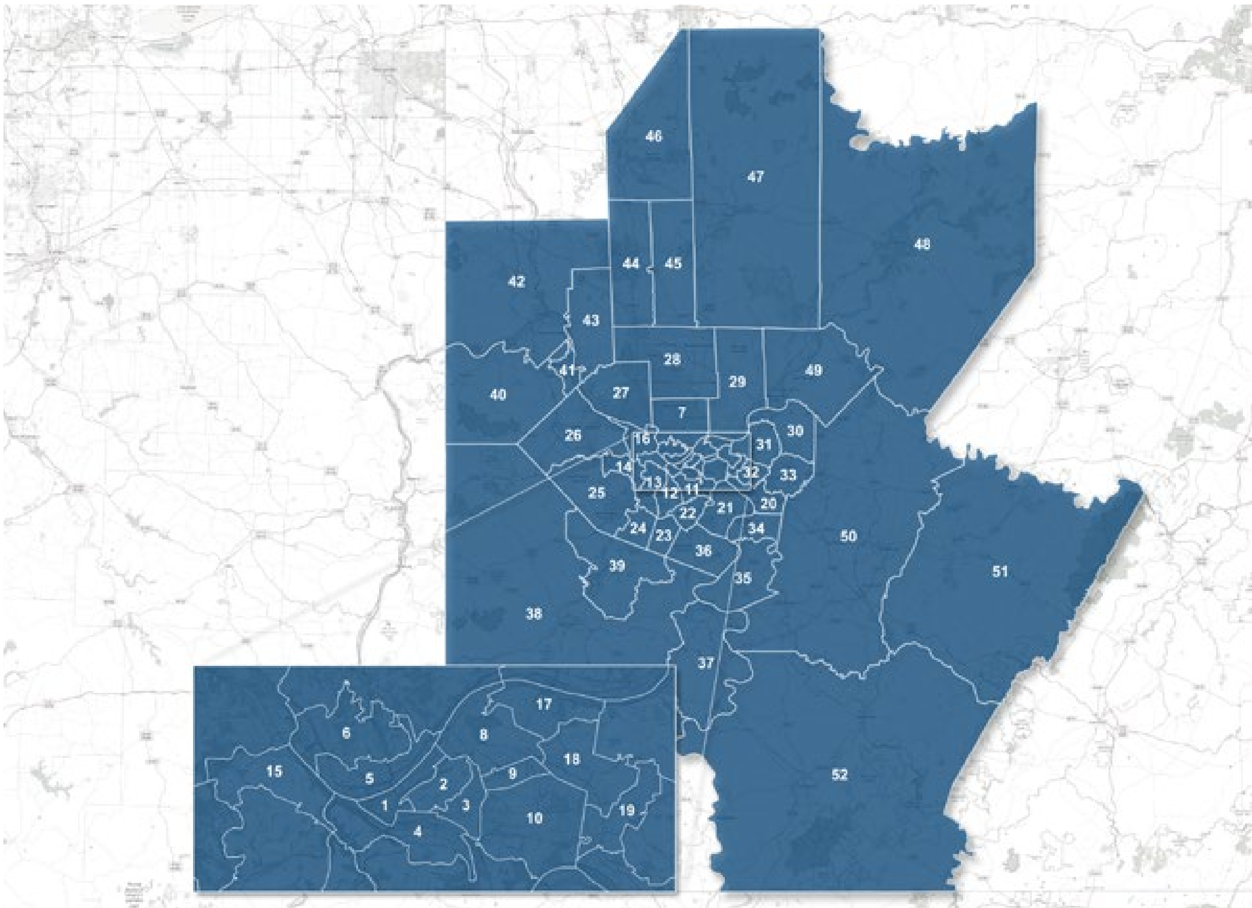
Multifamily development in Pittsburgh is maintaining its steady pace, despite last spring's halt on nonessential construction. The pipeline included close to 2,000 units underway across 10 properties as of September, Yardi Matrix data shows. Three multifamily projects totaling 674 units were completed year-to-date through September, with the largest one being High Street Residential's 319-unit Glasshouse.

Rank	Property Name	Owner	Submarket	Units
1	The District	The NRP Group	Pittsburgh–Downtown	443
2	Arsenal 201 Phase II	Milhaus	Lawrenceville	343
3	Kaufmann's Grand on Fifth Avenue	Core Realty	Pittsburgh–Downtown	311
4	Connection @ South Side	TWG Development	Southside	280
5	The Flats at Summit Station	T&R Properties	Jefferson Hills	180

THE DISTRICT

The largest property on the list is The District, a 443-unit community in downtown Pittsburgh. The NRP Group teamed up with The Buncher Co. to develop it in November 2019. Completion is scheduled for the second quarter of 2022. The project features a mix of studios, one- and two-bedroom floorplans, offering views of the city's skyline, the Allegheny River and the iconic Strip District, dubbed the metro's tech hub. The asset is part of a larger 28-acre master-planned development encompassing more than 800 residential units and townhomes, and one million square feet of office, retail and hotel space.

PITTSBURGH SUBMARKETS



Area No.	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

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 September 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 September 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, September 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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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