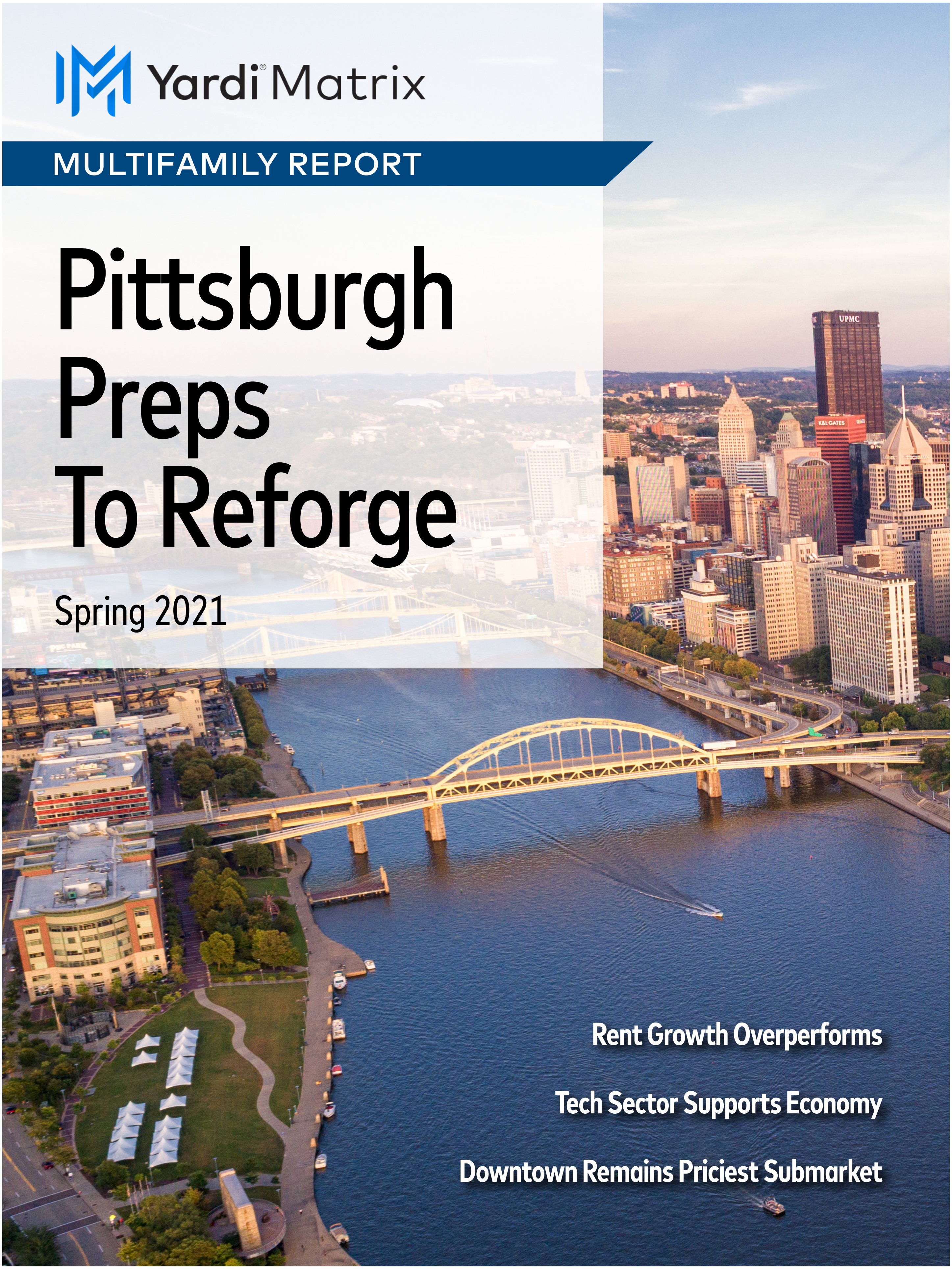
Yardi Matrix

MULTIFAMILY REPORT

Pittsburgh Preps To Reforge

Spring 2021



Rent Growth Overperforms

Tech Sector Supports Economy

Downtown Remains Priciest Submarket

PITTSBURGH MULTIFAMILY

Yardi Matrix

Ready for a Comeback

Pittsburgh's multifamily market continues to face its share of challenges, though the metro is showing some signs of recovery. Rents were up 0.3% on a trailing three-month basis through February, exceeding national growth. Working-class Renter-by-Necessity rents expanded by 0.3%, as demand continued to grow for lower-cost units across the metro.

The metro's economy took a significant hit over the past year, with job losses totaling 86,300 in the 12 months ending in December. Unemployment stood at 6.6% in December, slightly leading the national rate of 6.7%. Pittsburgh's diversifying economy could prove to be a driver of long-term growth, however technology firms raised nearly $1 billion in the metro last year, according to an Ernst & Young and Innovation Works report.

While multifamily transactions in the first two months of 2021 totaled only $15 million, last year's volume of $245 million was a nearly 5% increase from 2019, despite challenges brought about by the pandemic. Pittsburgh's low price points may drive additional investment due to growing renter demand for lower-cost units. Some 3,000 units were under construction in February, with more than one-third breaking ground in 2020. Though deliveries slowed last year, we expect an uptick in 2021 with more than 1,000 units slated to come online by the end of summer.

Market Analysis | Spring 2021

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

On the cover: Photo by Mindaugas Dulinskas/iStockphoto.com

Recent Pittsburgh Transactions

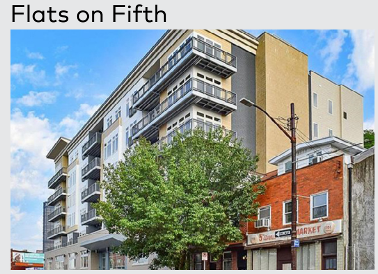
Lindenbrooke

City: Pittsburgh
Buyer: Berger Rental Communities
Purchase Price: $44 MM
Price per Unit: $120,254

Morgan at North Shore

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

Flats on Fifth



City: Pittsburgh
Buyer: GCU
Purchase Price: $15 MM
Price per Unit: $202,703

Wellington Square

City: South Park, Pa.
Buyer: Lobos Management
Purchase Price: $8 MM
Price per Unit: $62,303

RENT TRENDS

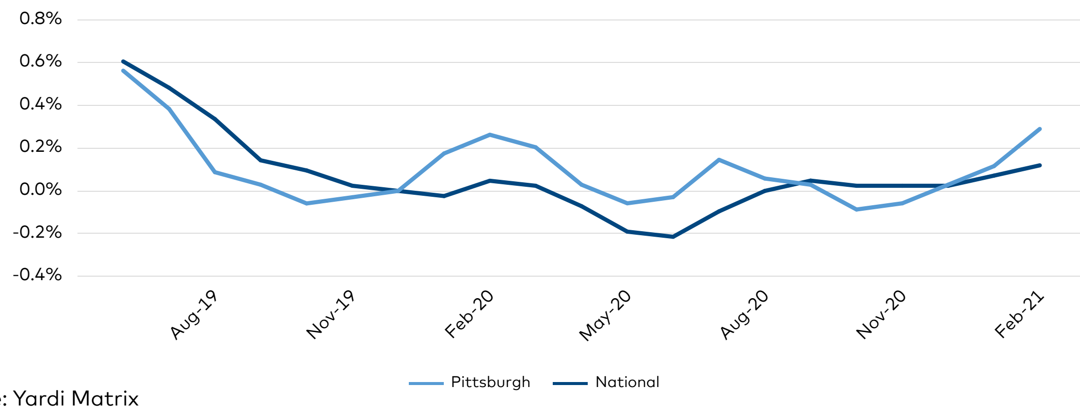
- Pittsburgh's rents increased by 0.3% on a trailing three-month (T3) basis through February, exceeding national figures by 20 basis points. The average rent was $1,156, 17.4% less than the national average of $1,399.

- RBN rents grew the fastest, up 0.3% on a T3 basis to $1,033. Rent expansion is likely to continue this trajectory as a result of upward pressure from growing affordable housing demand. Lifestyle rents increased 0.1% during the same period to $1,570.

- The Jefferson Hills submarket had among the strongest year-over-year gains in the market, up 8.9% to $1,020 in February. The Northshore submarket, despite its advantageous location near downtown, saw rents fall the most, down 6.4% to $1,275 during the same period.

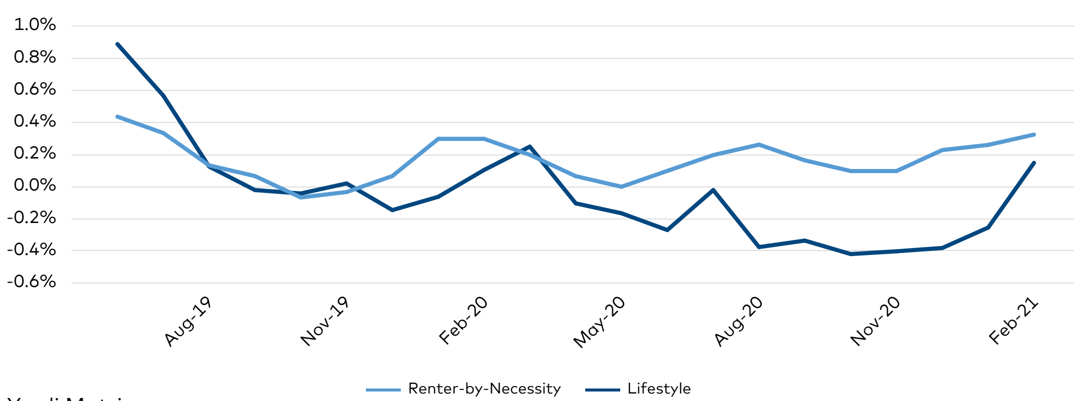
- Though rents fell by 1.8% year-over-year in Pittsburgh-Downtown, the submarket remained one of the metro's most expensive: Rates averaged $1,612 in February. While the submarket's nearly 1,000 units under construction are expected to soften prices further, demand in the city center is likely to recover as the metro's economy begins to rebound. Rents in neighboring submarkets were similar even as growth diverged, with Oakland up 3.4% to $1,601 and Southside down 4.1% to $1,594.

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

- The Pittsburgh economy has struggled during the past year, shedding 86,300 jobs in the 12 months ending in December. Employment was down 7.7% across sectors during the six months ending in December, a steeper decline than the 6.8% reported nationwide during the same period. The metro's unemployment rate was 6.6% at the end of the year, according to preliminary Bureau of Labor Statistics data. While this marked a stark contrast from the April 2020 peak of 16.4%, the rate increased by 30 basis points from November, potentially signaling a more protracted recovery.
- Nearly all employment sectors registered net job losses for the 12 months ending in December. The lone exception—financial activities—gained 500 jobs for a year-over-year increase of 0.5%. Similar to nearly all metros, the leisure and hospitality sector was the hardest hit, shedding 41,400 jobs for a 34.1% decline.
- Despite setbacks, Pittsburgh is positioned for longer-term growth due to a diversifying economy with a growing tech sector and the presence of major universities. The metro's affordability will likely aid in its short-term recovery as the city attracts remote workers and federal stimulus spending alleviates some economic distress.

Pittsburgh Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
55	Financial Activities	77	6.9%
50	Information	17	1.5%
90	Government	113	10.1%
80	Other Services	44	3.9%
60	Professional and Business Services	180	16.1%
30	Manufacturing	82	7.3%
15	Mining, Logging and Construction	67	6.0%
40	Trade, Transportation and Utilities	205	18.3%
65	Education and Health Services	254	22.7%
70	Leisure and Hospitality	80	7.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Pittsburgh's population has slowly but steadily declined, losing nearly 23,000 residents between 2016 and 2019.
- A relatively low cost of living and a growing tech sector have boosted growth in the Millennial and Generation Z cohorts.

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

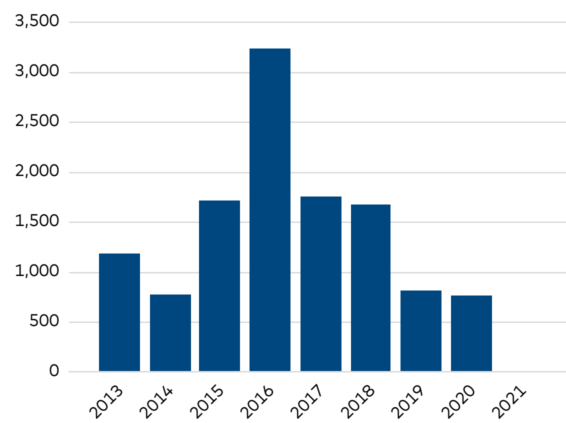
- Pittsburgh had 3,004 units under construction at the end of February, accounting for 3.3% of existing inventory. More than 1,100 units broke ground in 2020, including three projects totaling 826 units in the second half of the year. Similar to most markets across the country, developments targeting Lifestyle renters comprised the overwhelming majority of the pipeline, or 88% of units underway.

- Multifamily deliveries slowed in 2020, with 762 units added, or 0.8% of total inventory. This marked a 7.3% decline from 2019 and is far lower than the cycle peak of 3,241 units added in 2016. No projects were completed in the first two months of 2021, though more than 1,000 units are expected to deliver by the end of summer.

- The largest project underway in February was The District, a 443-unit development in downtown Pittsburgh. The NRP Group and The Buncher Co. broke ground on the two-building community in late 2019, and completion is scheduled for mid-2022. The property is located next to Edge 1909, a 364-unit community NRP completed in 2019.

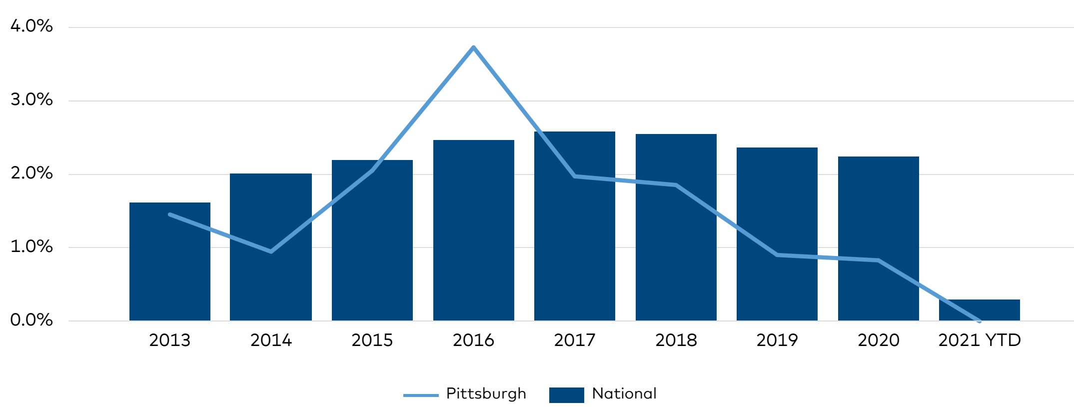
- High Street Residential's September delivery of the 319-unit Glasshouse was the market's largest of 2020. The property in the Southside submarket broke ground in early 2018, backed by a 10-year $54 million construction loan from Northwestern Mutual. Two other projects are underway in Southside totaling 334 units.

Pittsburgh Completions (as of February 2021)



Source: Yardi Matrix

Pittsburgh vs. National Completions as a Percentage of Total Stock (as of February 2021)



Source: Yardi Matrix

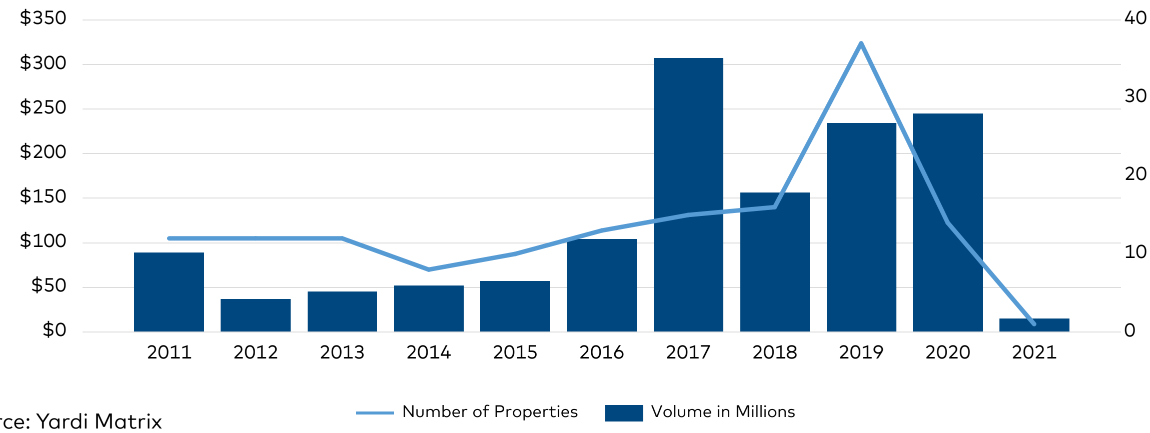
TRANSACTIONS

- Pittsburgh's multifamily transaction volume was $15 million in the first two months of 2021, following $245 million closed in 2020. Last year's volume marked a moderate 4.6% increase from 2019, even as deal velocity slowed amid economic headwinds. In 2020, the market's average price per unit was $124,216, an 8.8% increase compared to the previous year.

- Investment was nearly evenly split between Lifestyle and RBN assets in 2020. Per-unit pricing for Lifestyle properties was $176,532, nearly double the amount for RBN units ($94,201).

- Berger Rental Communities' $44 million acquisition of the 366-unit Lindenbrooke in the Jefferson Hills submarket was one of the largest multifamily transactions in 2020. Seller Amore Management exited the community after nearly 25 years of ownership. Newmark provided the buyer with $30 million in CMBS financing.

Pittsburgh Sales Volume and Number of Properties Sold (as of February 2021)



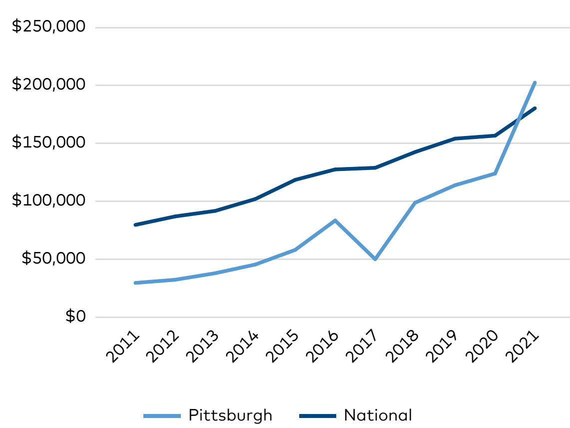
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Franklin Park	80
Jefferson Hills	44
Northshore	26
Hill District	15
Penn Hills	8
Monroeville	4

Source: Yardi Matrix
[1] From March 2020 to February 2021

Pittsburgh vs. National Sales Price per Unit



Source: Yardi Matrix

Brought to you by:

MULTI-HOUSING NEWS

What Makes Pittsburgh a Competitive Market?

By Laura Calugar

Banking on its affordable cost of living and low population density, the Pittsburgh multifamily market is in a favorable position to swiftly recover from health crisis-induced hardships. Dan Croce, managing principal at real estate private equity firm Birgo Capital, believes that the Greater Pittsburgh area can act as a safe haven for investors looking for new markets to deploy capital into.

Please describe the state of the Pittsburgh multifamily market, more than a year into the pandemic.

Pittsburgh's real estate market has historically proven itself to be remarkably resilient through economic downturns and the COVID-19 pandemic has been no exception—particularly for multifamily. The big headline is that the pandemic has been an accelerant for trends that have been in the works for a long time. We've always believed that the disproportionate affordability of Pittsburgh rents, coupled with the region's economic diversity, makes it an attractive place to deploy capital into multifamily, and it seems that markets are wising up to that conclusion.

What are the strengths of the Pittsburgh neighborhoods that fared better over the past 12 months?

As with most major metropolitan areas, the suburbs and areas outside of the urban core fared particularly well. Multifamily

product in those areas is affordable and spacious, and those two components of an apartment—affordability and spaciousness—are what renters have prioritized here in the past 12 months. In virtually every direction from the city, the suburbs are doing well.

How much have stimulus provisions aimed at housing helped the metro's multifamily market?

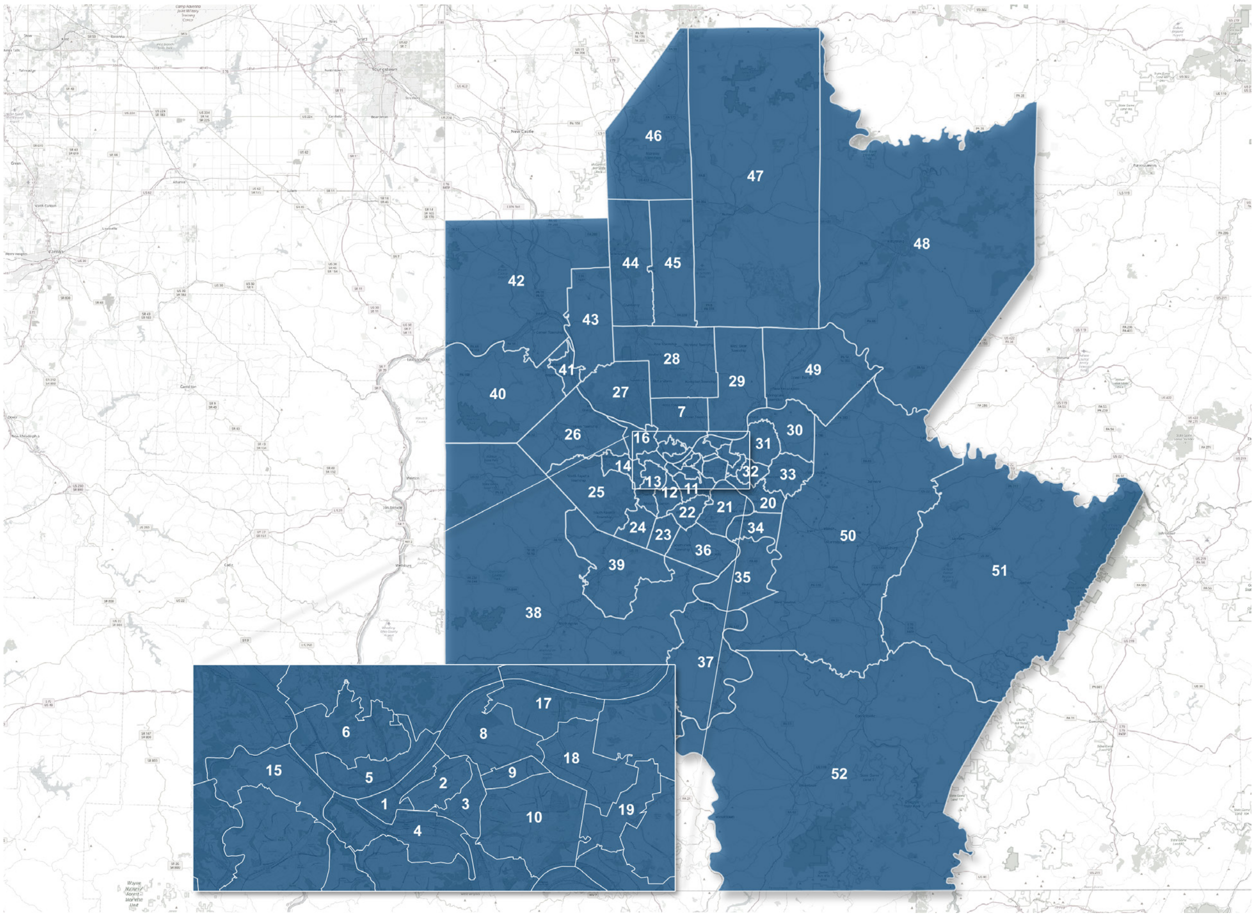
Stimulus measures have, of course, been helpful to the economy at large and the trickle-down effect has been very noticeable to the multifamily industry, and Pittsburgh is no exception. However, this region's economy was not disproportionately impacted by the pandemic-induced economic shutdowns. We're not uniquely exposed to the hospitality, travel, entertainment or retail industries, so most targeted stimulus provisions weren't aimed directly at this region. That said, Pittsburgh is a city that is largely supported by small businesses, so we hear time and again that the Paycheck Protection Program was an incredible lifeline to so many.

What are your expectations going forward?

In the past several years, Pittsburgh has become an extremely competitive acquisition environment and the exuberance around multifamily that's come from the pandemic has been yet another accelerant to investor demand for this product. So, I expect prices to continue moving up, cap rates to continue moving down and new acquisitions to be hard to come by, especially for unknown buyers.

(Read the complete interview on multihousingnews.com.)

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
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
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 December 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 December 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, December 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

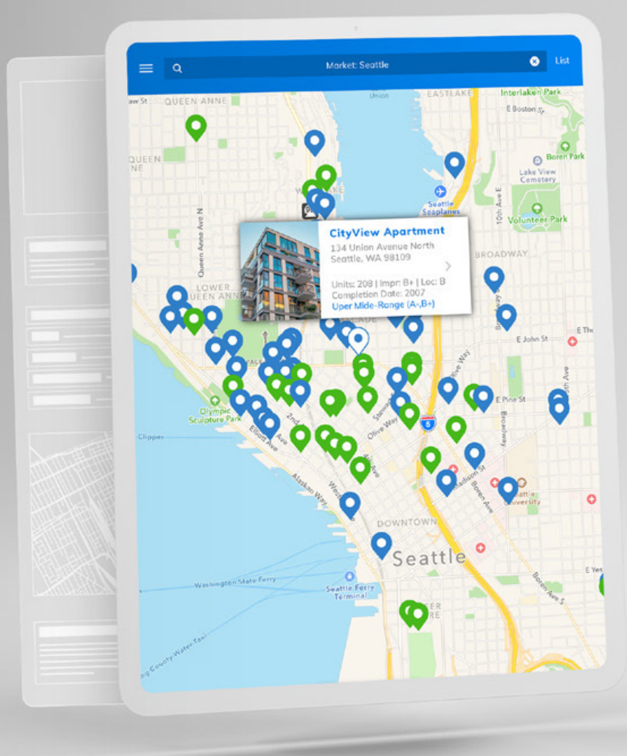
The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

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.

Yardi® Matrix

Power your business with the industry's leading source for originating,
pre-underwriting and managing assets for profitable loans and investments.



Yardi Matrix Multifamily provides accurate data on **19+ million units**, covering over **90% of the U.S. population.**

Key features

- Pierce the LLC every time with true ownership and contact info
- Leverage patented improvement and location ratings, unit mix, rental, occupancy and current manager information
- Gain complete new supply pipeline information at the asset, competitive set and market level
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access exclusive aggregated and anonymized residential revenue and expense comps

See how we can help you achieve your investment goals.
Request a personalized demo at yardimatrix.com/**contact-us**

(800) 866-1144 | yardimatrix.com/multifamily

YARDI