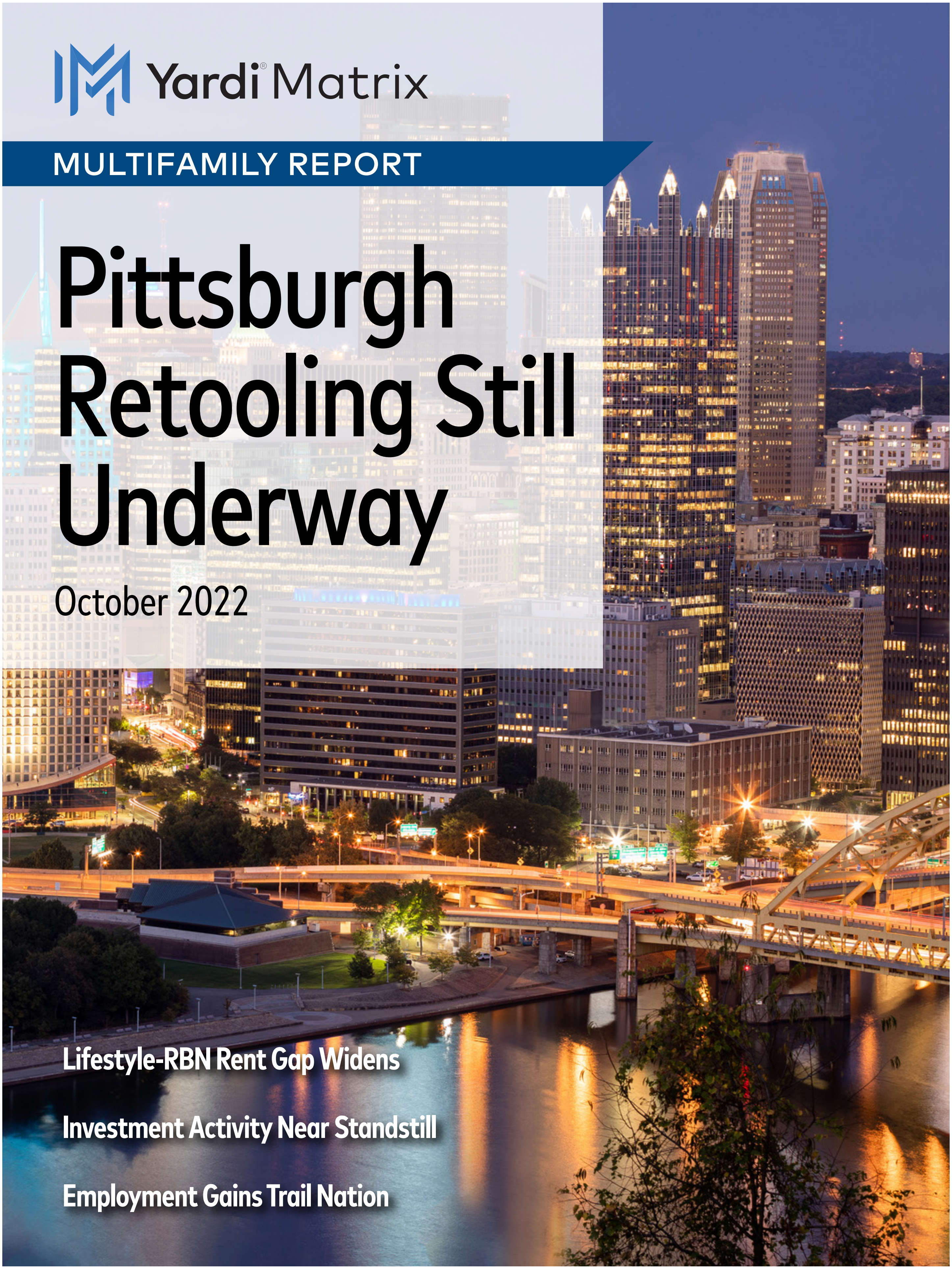
Yardi Matrix

MULTIFAMILY REPORT

Pittsburgh Retooling Still Underway

October 2022



Lifestyle-RBN Rent Gap Widens

Investment Activity Near Standstill

Employment Gains Trail Nation

PITTSBURGH MULTIFAMILY

Pittsburgh Shakes Off Its Rust

As a former manufacturing-heavy Rust Belt market, Pittsburgh has seen some lag in the development of its multifamily sector over the years. However, while national trends point to a significant slowdown or even stagnation, Pittsburgh rent growth is now outperforming, at 0.8% on a trailing three-month basis as of August, while the U.S. rate was 0.6%. The metro's average occupancy in stabilized properties was 96.3% as of July, 30 basis points higher than the national figure.

Following the emergence of the pandemic, the job market found itself in a bit of a hole, but the rebuilding is largely underway. No job sectors recorded losses in the 12 months ending in June, with total employment up 36,100 positions. Anchored by a high-end tech talent pool generated by a number of universities–chief among which is Carnegie-Mellon University–the city of Pittsburgh is using its new profile to aid its residents. A public-private partnership developed by the university, local authorities and micromobility company Spin has initiated a pilot program to examine the potential for free transportation for low-income residents.

Following a hot streak during the first year of the pandemic, Pittsburgh multifamily investment has since dwindled, with limited investment in 2022, as rising interest rates have curbed appetite across markets. With 2,055 units under construction, development is seeing solid but typically oscillating activity.

Market Analysis | October 2022

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Recent Pittsburgh Transactions

Homewood House

City: Pittsburgh
Buyer: Rhodium Capital Advisors
Purchase Price: $7 MM
Price per Unit: $73,880

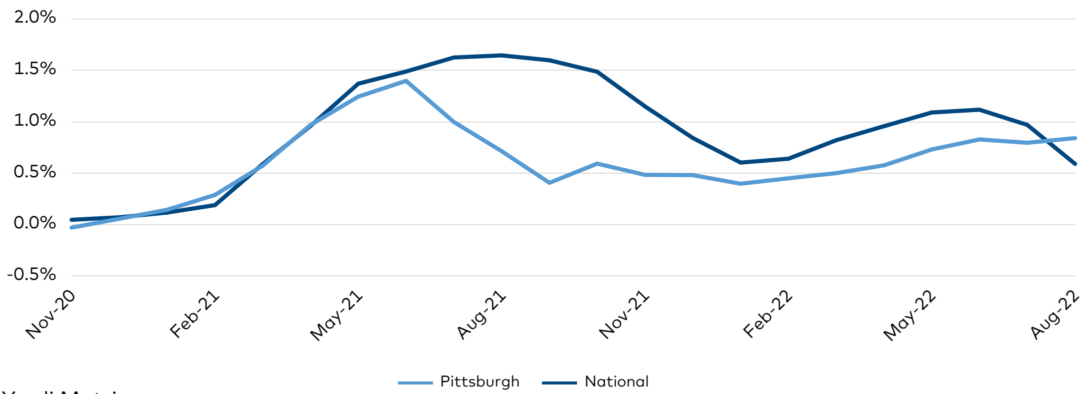
Meridian Point

City: Uniontown, Pa.
Buyer: Clark Capital
Purchase Price: $5 MM
Price per Unit: $63,750

RENT TRENDS

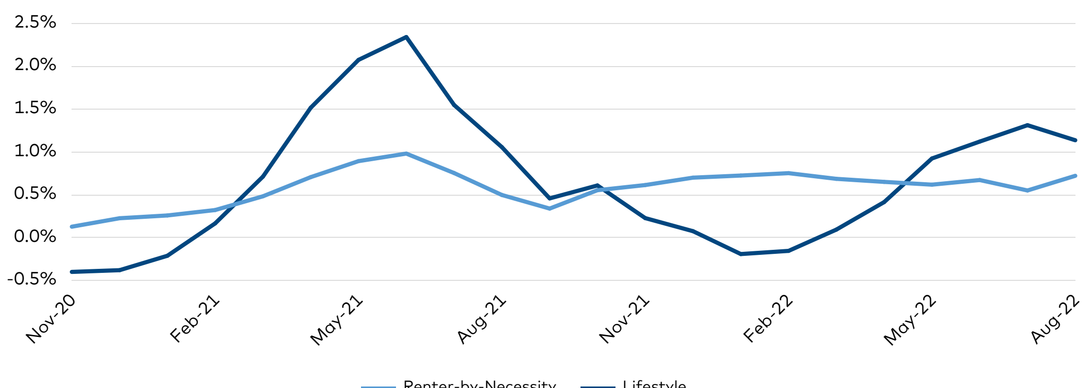
- Pittsburgh rents were up 0.8% on a trailing three-month (T3) basis as of August, 20 basis points lower than the U.S. rate of growth. The metro has typically trailed national growth patterns, especially since rents began accelerating in 2021, but growth held steady through the summer, while national dynamics have cooled.
- Pittsburgh's average overall rent was $1,330, significantly below the U.S. average of $1,718. Despite national figures hitting a wall at the end of summer, overall values are still very high, and year-over-year improvement stood at 10.9%, while Pittsburgh's rate increase was 7.8%.
- Consistent pipeline increases in the Lifestyle segment may continue to dent occupancy in the category–at 95.4%–but haven't affected rent increases. Lifestyle figures were up 1.1% on a T3 basis, to $1,859. The gap to the working-class Renter-by-Necessity segment continued to widen, with rent development at 0.7%, to $1,168.
- Only two of 49 Pittsburgh rental submarkets saw rate decreases on a year-over-year basis, illustrating general improvement for the market. Improvement was driven by Jefferson Hills (19.0%), Hill District (17.4%) and Greensburg (14.4%).
- Pittsburgh's single-family rental sector saw more moderate year-over-year growth through August, at 5.2%, but its occupancy rate improved 1.4%, while most markets have seen somewhat of a slide.

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 is still reeling following significant job losses during the pandemic, as gains have significantly trailed the national rate of employment additions. The metro added 36,100 jobs in the 12 months ending in June, a 2.8% increase year-over-year. However, the national figure stood at 4.7% and has been consistently outpacing the metro.

- Job expansion was heavily driven by the ongoing recovery of the leisure and hospitality sector, which added 18,300 jobs, accounting for more than half the total positions added. Though slightly lagging, Pittsburgh had a 4.7% unemployment rate at the end of July, trailing Pennsylvania by 50 basis points.

- No job sectors recorded losses through the same interval, but construction and government had sub-1.0% increases, while financial activities plateaued. Traditionally a manufacturing hub, Pittsburgh has faced the difficulty of recalibrating its economy over the past few decades, a struggle it shares with other Rust Belt cities. However, the metro benefits from the presence of large schools that produce tech talent, especially Carnegie Mellon University. The school is involved in an ongoing public-private partnership that is working on a pilot program that will provide free transportation to low-income residents in the Pittsburgh metro. The city of Pittsburgh and mobility provider Spin are also involved.

Pittsburgh Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	123	10.6%
60	Professional and Business Services	186	16.1%
30	Manufacturing	84	7.3%
65	Education and Health Services	236	20.4%
80	Other Services	48	4.1%
40	Trade, Transportation and Utilities	202	17.4%
50	Information	21	1.8%
15	Mining, Logging and Construction	72	6.2%
90	Government	111	9.6%
55	Financial Activities	75	6.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Pittsburgh's population was down 0.6% in 2021, largely mirroring regional trends in the Rust Belt, while the U.S. saw a 0.1% demographic increase.

- Former industrial markets in the area have seen demographic struggles through the cycle.

Pittsburgh vs. National Population

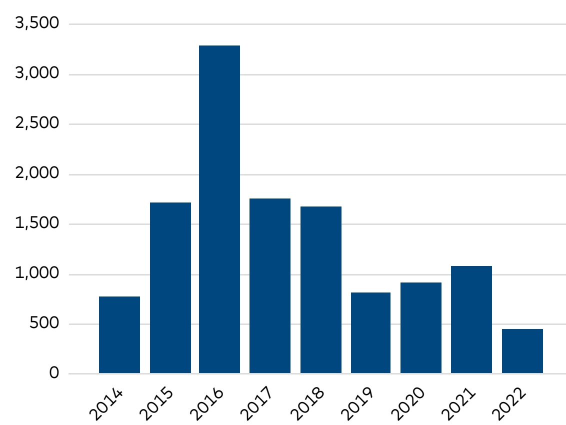
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Pittsburgh	2,323,785	2,317,913	2,367,293	2,353,538

Source: U.S. Census

SUPPLY

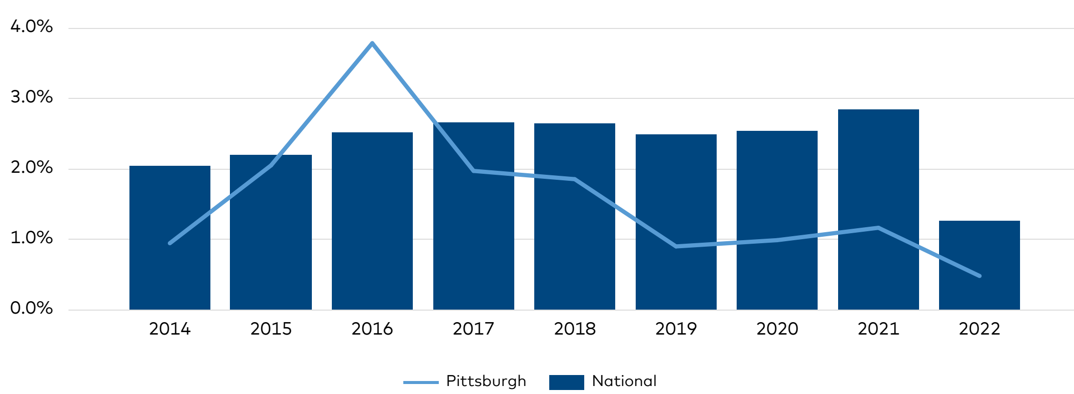
- Developers had 2,055 units under construction as of August 2022. Another 11,000 units were in the planning and permitting phases across the Pittsburgh market.
- Apartment deliveries totaled 450 units in 2022 through August, accounting for 0.5% of existing rental stock. Nationally, incoming inventory accounted for 1.3% of rental stock, for a slight slowdown in deliveries compared to previous years.
- Supply additions have oscillated throughout the decade in Pittsburgh, with three years recording fewer than 1,000 new units, while the decade high was 3,291 completions in 2016. Despite the dynamic, the average occupancy rate in stabilized assets has stayed within the 95% to 96% range since 2015. As of July, the metro's occupancy rate stood at 96.3%, up 10 basis points year-over-year.
- With three-quarters of units underway geared at the Lifestyle segment and deliveries throughout the past year largely skewing the same way, the occupancy rate in the quality segment was significantly lower, at 95.4%. Meanwhile, Renter-by-Necessity occupancy stood at 96.6%.
- Of the units under construction in metro Pittsburgh, more than three-quarters are taking shape in three core-area submarkets. Bloomfield (593 units under construction), Downtown (536 units) and Hill District (429 units) were the submarkets where developers were focusing their efforts as of August.

Pittsburgh Completions (as of August 2022)



Source: Yardi Matrix

Pittsburgh vs. National Completions as a Percentage of Total Stock (as of August 2022)

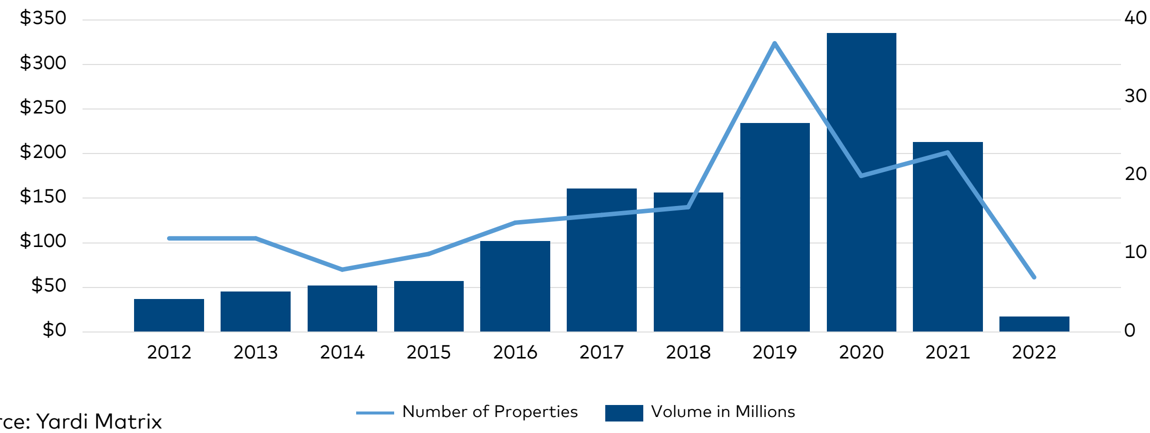


Source: Yardi Matrix

TRANSACTIONS

- Pittsburgh's multifamily sales volume reached $17 million through the first eight months of the year, as activity largely cratered. The market's previous three-year investment volume average was $260 million, pointing to a dramatic decrease in deals.
- The average per-unit price was $62,716, well below the national average of $217,196. Starting in 2021, investment targeted the Renter-by-Necessity segment more heavily, leading to a 40% drop in the average price per unit between 2020 and last year. Further interest rate hikes have put a dent in the amount of capital coming into Pittsburgh's multifamily sector throughout the year.
- In the 12 months ending in August, limited investment has highlighted AION Partners' two purchases in the market. The company paid $44 million for the acquisition of The View North Hills in West View and River Oaks Townhomes in Fox Chapel.

Pittsburgh Sales Volume and Number of Properties Sold (as of August 2022)



Source: Yardi Matrix

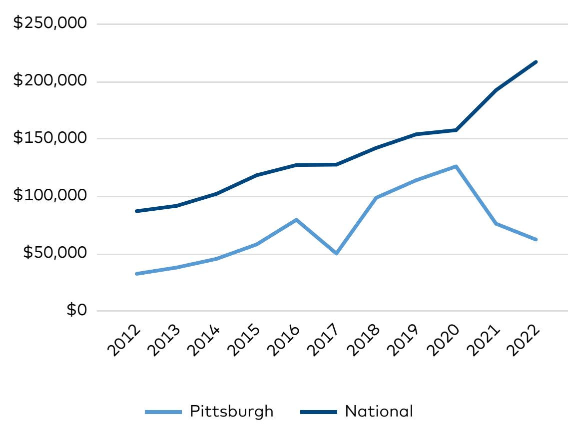
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
West View	23
Fox Chapel	21
Greensburg	15
Carnegie	13
Northshore	11
Homewood	7
Fayette County	5

Source: Yardi Matrix

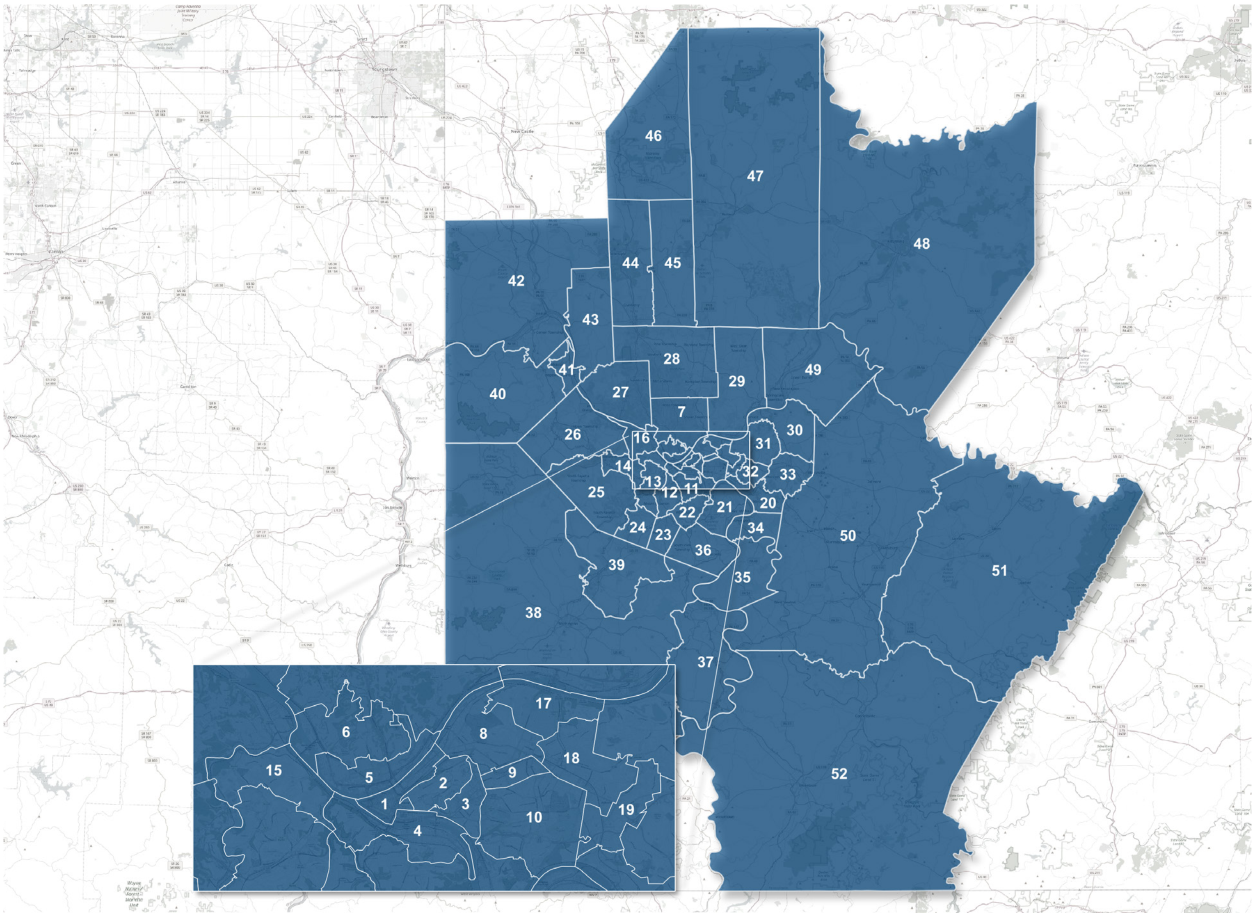
[1] From September 2021 to August 2022

Pittsburgh vs. National Sales Price per Unit



Source: Yardi Matrix

PITTSBURGH SUBMARKETS



Area No.	Submarket	Area No.	Submarket	Area No.	Submarket
1	Pittsburgh–Downtown	19	Wilkinsburg	37	Centerville
2	Hill District	20	Braddock	38	Washington
3	Oakland	21	West Mifflin	39	Canonsburg
4	Southside	22	Whitehall	40	Raccoon Creek
5	Northshore	23	Bethel Park	41	Aliquippa
6	Perry	24	Upper St Clair	42	Beaver
7	West View	25	Oakdale	43	Economy
8	Bloomfield	26	Coraopolis	44	Cranberry Township
9	Shadyside	27	Franklin Park	45	Fox Run
10	Squirrel Hill	28	Hampton Township	46	Slippery Rock
11	Carrick	29	Fox Chapel	47	Butler
12	Castle Shannon	30	Plum	48	Armstrong County
13	Carnegie	31	Penn Hills	49	New Kensington
14	Robinson Township	32	Churchill	50	Greensburg
15	Fairywood	33	Monroeville	51	Latrobe
16	McKees Rocks	34	McKeesport	52	Fayette County
17	Highland Park	35	Elizabeth		
18	Homewood	36	Jefferson Hills		

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 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 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, 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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Yardi Matrix

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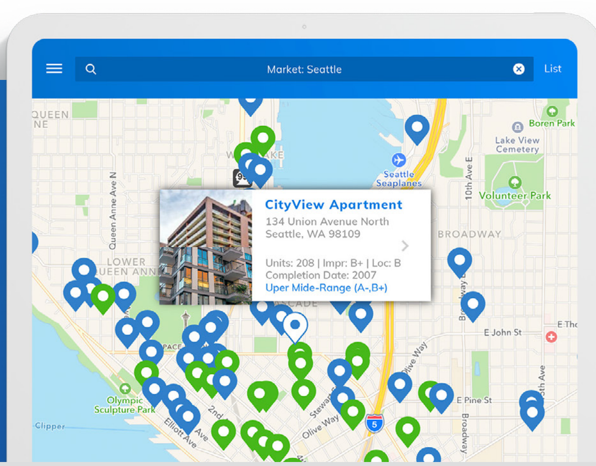
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units,** covering over **92% of the U.S. population.**

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