

An aerial photograph of Pittsburgh, Pennsylvania, showing a dense urban skyline with numerous skyscrapers and buildings. The city is situated along the banks of the Allegheny River, with several bridges crossing it. In the foreground, a large green field, likely a sports field, is visible. The text 'Yardi Matrix' is overlaid in the top right corner, and 'Pittsburgh Steels For Future' is overlaid in large white letters across the center. Below this, 'Multifamily Report Fall 2017' is written in a smaller font. At the bottom, three key findings are listed in white text.

Yardi® Matrix

Pittsburgh Steels For Future

Multifamily Report Fall 2017

Rent Growth Trails Nation

Developers Target Greater Downtown

Tourism, Health, Education Buoy Job Market

Market Analysis

Fall 2017

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Iron City Reveals Its Strength

Compared to other metros, Pittsburgh remains an affordable place to live, with rent averaging \$1,054 as of September. Carnegie Mellon University and the University of Pittsburgh continue to provide a skilled workforce for the technology, robotics, education, health-care and financial sectors, which are pushing the city's economy forward, while also sustaining demand for multifamily units.

During the year ending in July, hiring was especially strong in leisure and hospitality: Several new hotels and restaurants opened, primarily in the city's revitalized downtown area, which is bustling with activity, a reflection of Pittsburgh's overall resurgence. And even though the population has been decreasing across the metro in recent years, residents are moving into and around the city's core, indicating a renewed interest in urban living. Education, health care and professional and business services also showed strong employment gains.

Bolstered by young professionals and empty nesters looking to downsize, demand is keeping up with new supply. This dynamic has helped in maintaining an overall occupancy rate of 95.0% as of August, unchanged from the prior year, despite the more than 2,400 units that came online in the interim. Construction is expected to accelerate in the near future, with more than 2,200 units in development and another 7,000 apartments on the drawing board, leading Yardi Matrix to predict moderate rent growth of 1.0% in 2017.

Recent Pittsburgh Transactions

Heinz Lofts



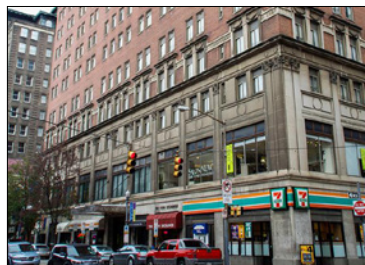
City: Pittsburgh
Buyer: Alterra Property Group
Purchase Price: \$25 MM
Price per Unit: \$94,163

Mifflin Estates/Camden Hills



City: West Mifflin, Pa.
Buyer: BLVD Capital
Purchase Price: \$11 MM
Price per Unit: \$55,224

Roosevelt Arms



City: Pittsburgh
Buyer: Gary S. Wilson
Purchase Price: \$8 MM
Price per Unit: \$40,893

Douglas Plaza



City: Pittsburgh
Buyer: Belveron Partners
Purchase Price: \$4 MM
Price per Unit: \$16,262

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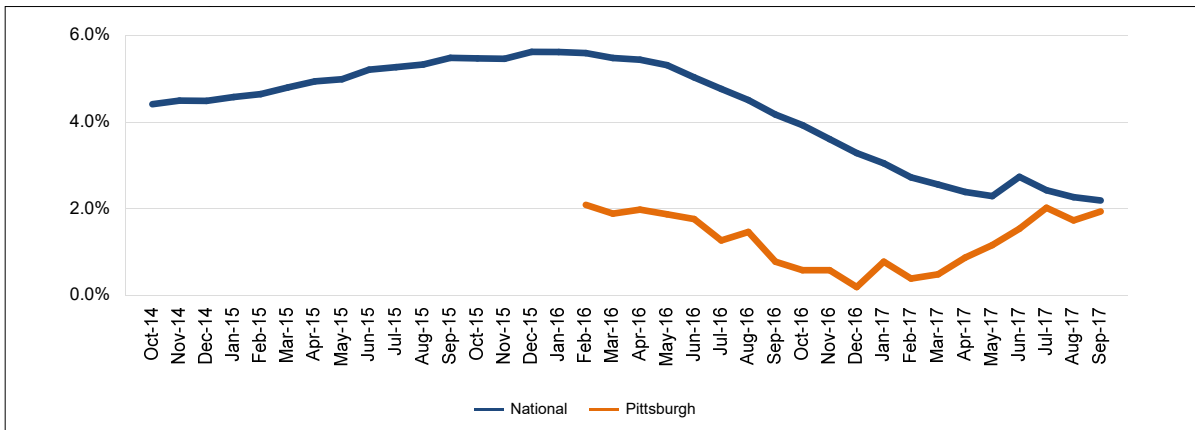
Hollie Zepke

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Rent Trends

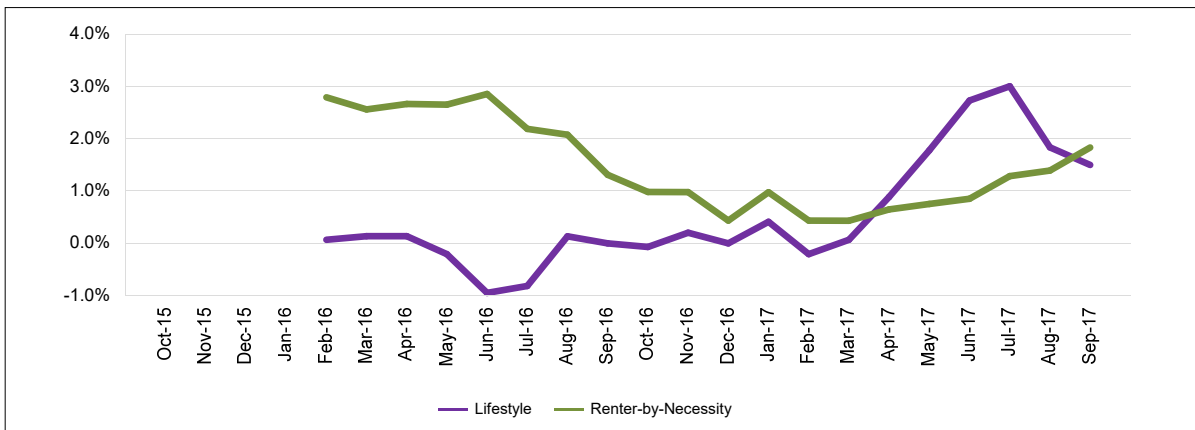
- Rents in Pittsburgh rose 1.9% year-over-year through September, trailing the 2.2% national rate. Monthly rent stood at \$1,054, \$300 below the U.S. average. At 95.0% as of August, the occupancy rate in stabilized properties remains the same as it was 12 months ago, pointing to strong demand, given that more than 2,400 new units came online during the interval.
- Rents in the working-class Renter-by-Necessity segment rose 1.8% to \$943, while Lifestyle rents rose 1.5% to \$1,486. Demand has gotten a boost from young professionals, who tend to choose less expensive apartments, while empty nesters looking to downsize continue to target high-end product.
- The submarket that saw the highest rent hike was Carrick, an emerging South Pittsburgh neighborhood where rates rose 25.8% (or \$234) year-over-year, from \$908 to \$1,142. Home prices are also increasing in that area, which combines a suburban feel with amenities of urban living and boasts legendary pierogi makers, a farmer's market, Bhutanese-owned businesses and historic Phillips Park. Rents in Highland Park in the East End, increased by 9.4% (or \$113), from \$1,196 to \$1,309. The highest rents can be found in Centerville (\$2,421), South Side (\$1,627), Downtown (\$1,589), Fox Chapel (\$1,531) and West Mifflin (\$1,507). Considering that 700 new units are scheduled to come online, we expect rent growth to moderate at 1.0% by the end of the year.

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)

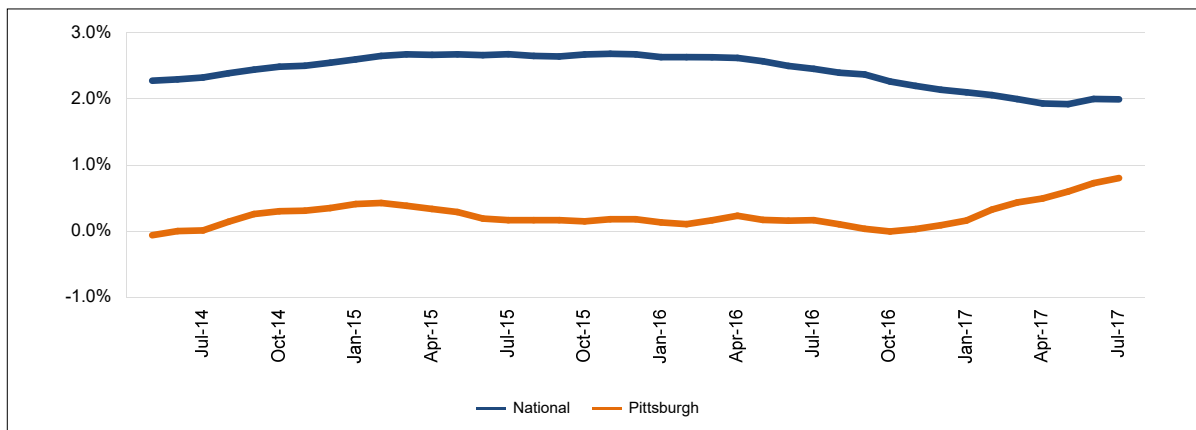


Source: YardiMatrix

Economic Snapshot

- Pittsburgh added 11,300 jobs in the 12 months ending in July, representing a 0.8% increase, below the 2.0% national average. The metro's unemployment rate as of August stood at 4.9%, its lowest level in 17 months. Although this figure was 50 basis points above the U.S. trend, it resulted partially from more people giving up on looking for work this year. According to the state's September workforce report, the regional labor base has contracted by 19,500 people since August 2016.
- Adding 6,200 jobs, leisure and hospitality grew the most, showing the popularity of Pittsburgh's arts attractions and sports events, which continue to draw out-of-towners. According to VisitPITTSBURGH, travel and tourism is a \$5.9 billion business in Allegheny County. This spring, Allegheny County Executive Rich Fitzgerald signed a deal with Caissa, one of China's largest travel agencies, to bring the first Asian charter flights to Pittsburgh. Health care will also continue to expand, as Highmark Health and the Allegheny Health Network plan to invest \$1 billion in new facilities and capital projects in southwest Pennsylvania, creating 800 new jobs.
- Corporate growth has boosted the city's office market, especially downtown, where the thriving technology and robotics industries drive demand. In mid-2017, office vacancy stood at 8.3%, slightly higher than in the first quarter, with an average asking rate of \$21.26 per square foot, according to Colliers International.

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	131	11.1%	6,200	5.0%
65	Education and Health Services	240	20.4%	2,900	1.2%
60	Professional and Business Services	186	15.8%	2,500	1.4%
55	Financial Activities	73	6.2%	1,500	2.1%
40	Trade, Transportation and Utilities	213	18.1%	1,500	0.7%
50	Information	19	1.6%	400	2.2%
80	Other Services	53	4.5%	400	0.8%
15	Mining, Logging and Construction	66	5.6%	100	0.2%
90	Government	108	9.2%	-1,700	-1.5%
30	Manufacturing	84	7.1%	-2,500	-2.9%

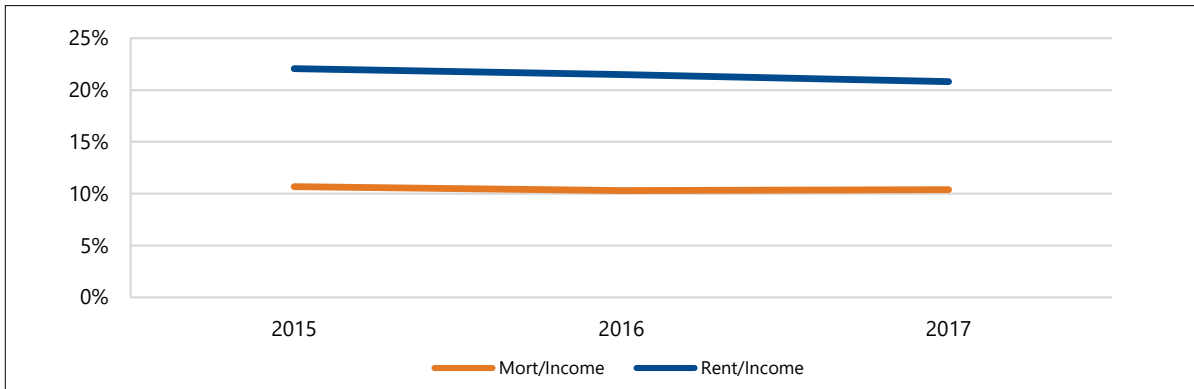
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

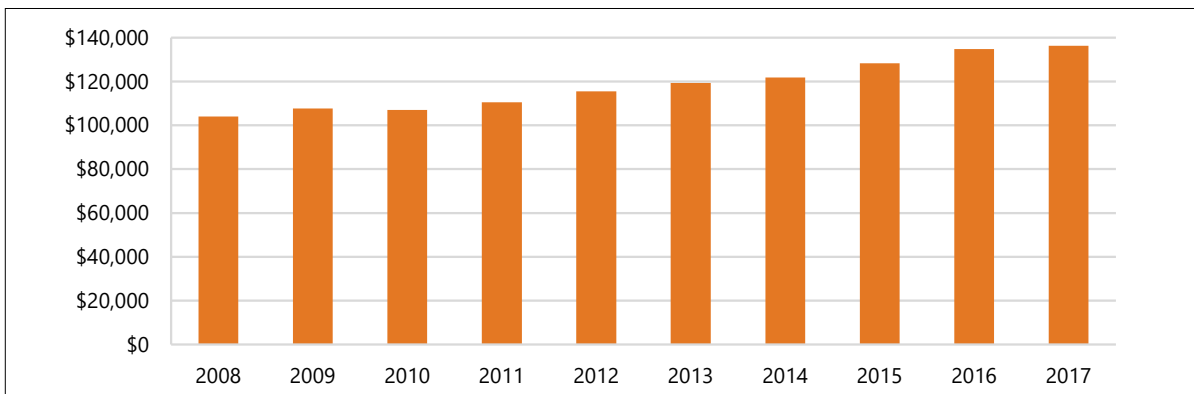
- The median home price in Pittsburgh rose to \$136,297 in the first half of 2017, marking a new cycle high. The average mortgage payment accounted for 10% of the area's median income, while the average rent took up 21%, representing a significant divide between housing options.
- Pittsburgh is revamping its tax abatement programs to encourage the creation of more affordable housing and promote development in underserved areas. Under new legislation, starting in 2018, developers will benefit from greater property assessment reductions of up to \$250,000 for 10 years if they build new homes or make improvements in neighborhoods eligible for community development block grant funding.

Pittsburgh Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Pittsburgh Median Home Price



Source: Moody's Analytics

Population

- Pittsburgh's population decreased by 8,972 in 2016, representing a 0.4% drop from the previous year.
- Since 2012, the metro has lost more than 19,000 residents, a 0.8% decline, as the Rust Belt continues to struggle.

Pittsburgh vs. National Population

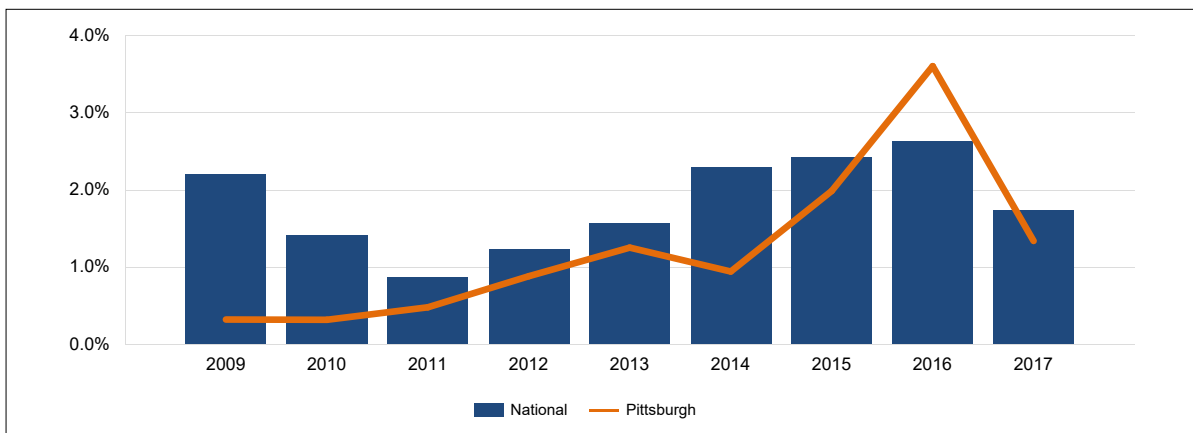
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Pittsburgh Metro	2,361,663	2,361,413	2,357,987	2,351,271	2,342,299

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

Supply

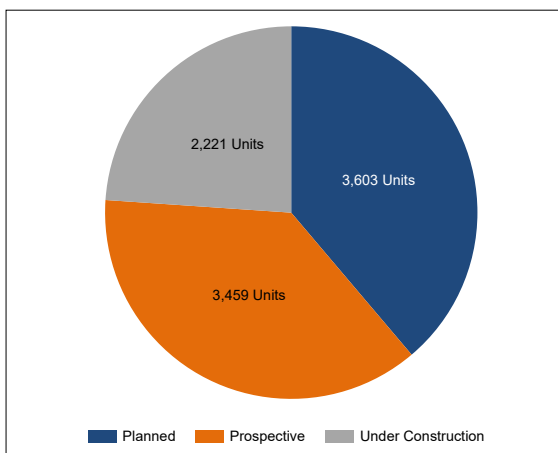
- Some 1,100 units hit the Pittsburgh multifamily market this year through September, indicating that deliveries are likely to dampen as compared to 2016, when 3,125 units came online. Demand has kept up with the pace of new deliveries, maintaining the average occupancy rate in stabilized properties of 95% as of August—the same level it was 12 months ago.
- The city’s multifamily pipeline is robust, with more than 2,200 units under construction as of September and another 7,000 apartments in the planning and permitting phases.
- Developers are targeting greater downtown, with 675 units under construction. The area has flourished over the past few years, attracting redevelopments that include residential, hotel, office and retail projects. According to the 2017 State of Downtown report, the submarket’s population has increased by 22% since 2010. Development activity is also high in Bloomfield (542 units), Oakland (506) and Bethel Park (300).
- The 364-unit Riverfront Landing in the Strip District is the largest project underway as of September. NRP Group is investing \$60 million in the building, which is the inaugural component of Buncher’s \$450 million Riverfront Landing mixed-use development, which will also include office and retail.

Pittsburgh vs. National Completions as a Percentage of Total Stock (as of September 2017)



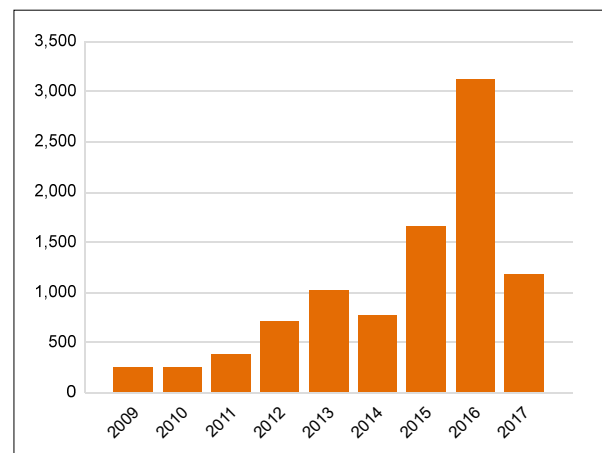
Source: YardiMatrix

Development Pipeline (as of September 2017)



Source: YardiMatrix

Pittsburgh Completions (as of September 2017)

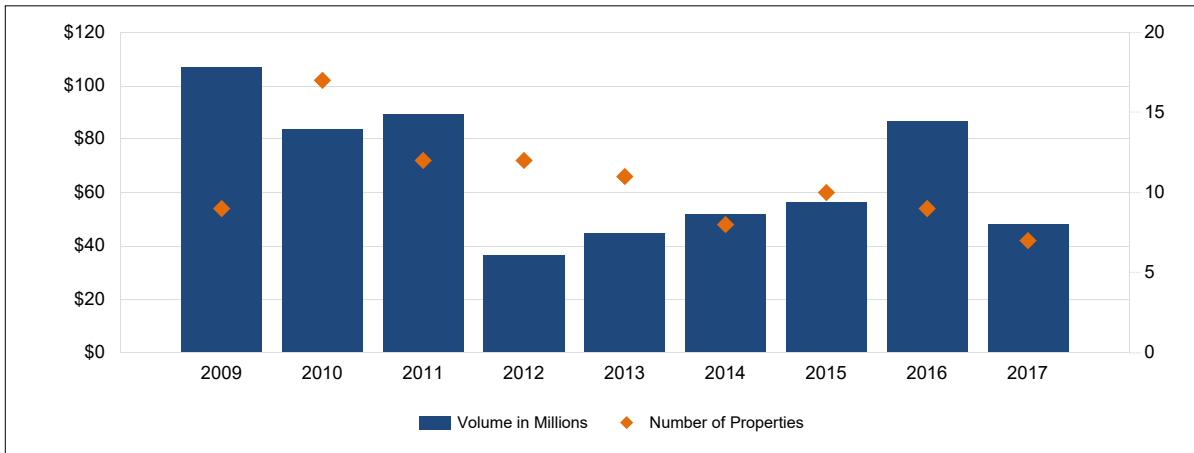


Source: YardiMatrix

Transactions

- Roughly \$48 million in multifamily properties traded in Pittsburgh this year through August. The average price of \$53,015 per unit is well below the national figure of \$134,226.
- Acquisition yields of Class A communities fall between 5.5% and 6.5% for stabilized properties and can go as high as 7.0% for value-add assets. Meanwhile, yields of value-add Class B communities can reach 7.5% and can go as high as 9.0% for Class C, according to CBRE.
- Alterra Property Group's \$25.1 million acquisition of Heinz Lofts, an adaptive reuse of the former H.J. Heinz factory, ranks as the largest multifamily transaction completed in Pittsburgh in 2017. Located on the banks of the Allegheny River in the North Shore submarket, the 267-unit community was sold by The Ferchill Group for a per-unit price of \$94,163.

Pittsburgh Sales Volume and Number of Properties Sold (as of September 2017)



Source: YardiMatrix

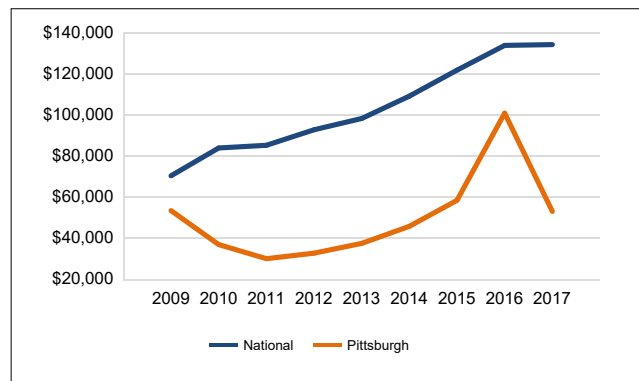
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
North Shore	25
West Mifflin	11
Pittsburgh–Downtown	8
Wilksburg	4

Source: YardiMatrix

¹ From September 2016 to August 2017

Pittsburgh vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Beacon Communities Buys NDC,
\$250M Portfolio



UPMC to Build
Pittsburgh Hospitals for \$2B



Law Firm Relocates
To Pittsburgh CBD

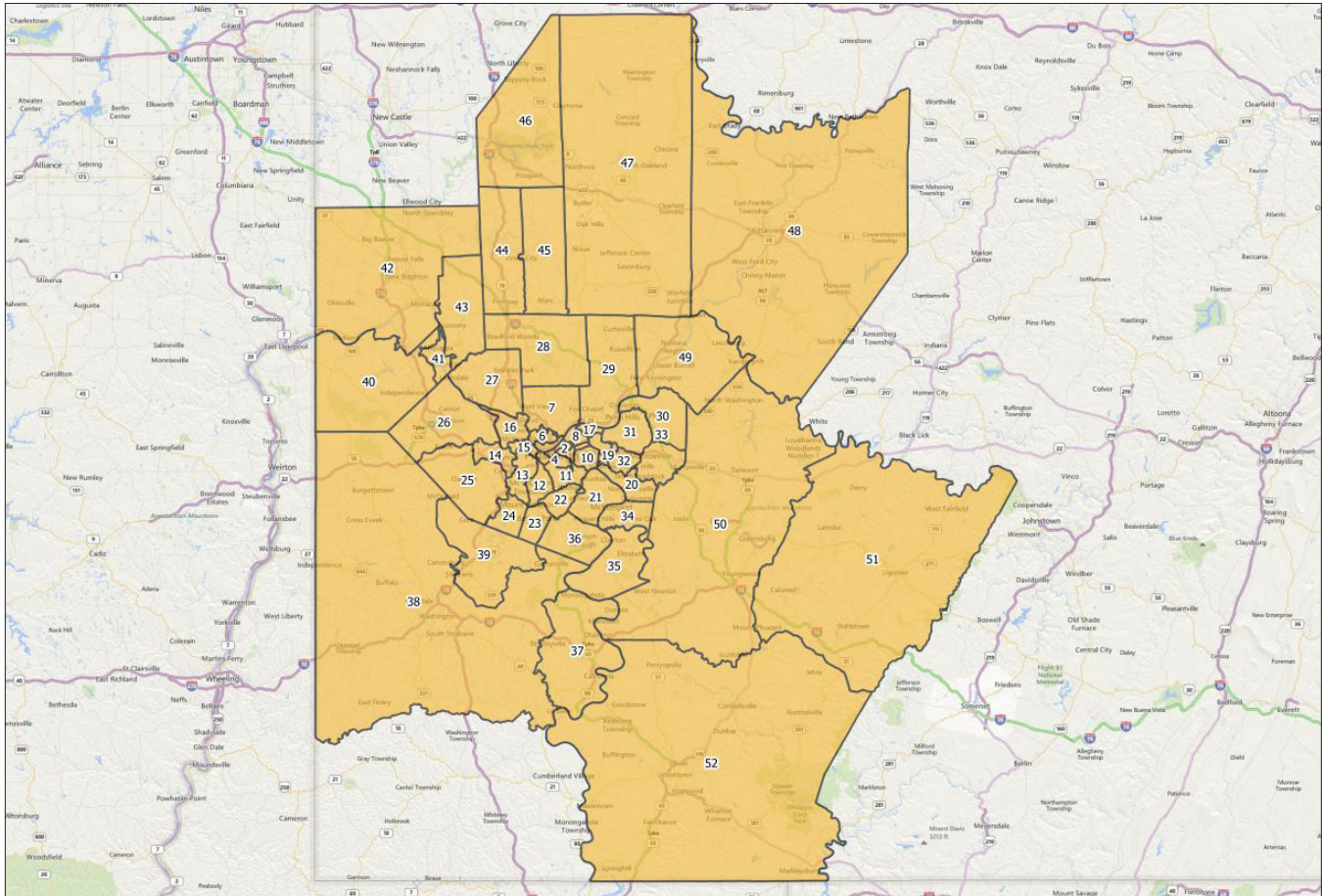


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New Long-Term Lease
With RIDC

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Pittsburgh Submarkets



Area #	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

Area #	Submarket
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
31	Penn Hills
32	Churchill
33	Monroeville

Area #	Submarket
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.

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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