Yardi® Matrix

Steel City Shifts To Expansion Mode

Multifamily Report Winter 2018

Core Growth Remains Paramount

Transaction Volume Hits Cycle High

Major Projects to Spur Development Activity

Market Analysis
Winter 2018

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Golden Triangle's Growth Spurt

Although underperforming against the U.S. average, Pittsburgh's multifamily market has stayed relatively stable. Boosted by the emergence of its urban core as a popular live-work-play destination, the city's apartment demand remains tepid but steady, with rents up 0.5% year over year as of January.

Anchored by Carnegie Mellon University—along with the health-care, technology, finance and tourism sectors—the metro is adding jobs across the board. The city is slowly losing residents overall, but according to the Pittsburgh Downtown Partnership, greater downtown's population expanded by 22% between 2010 and 2016. Meanwhile, several large-scale projects are underway or moving closer to breaking ground, including Shell's $6 billion plant and eight new hospitals with a collective price tag of $2.7 billion. At the same time, the Pittsburgh Penguins and the mayor's office have struck a new deal for the $750 million, multi-phase redevelopment of the former Civic Center arena, which could bring roughly 1,000 residential units, as well as office and retail space, to the Lower Hill District.

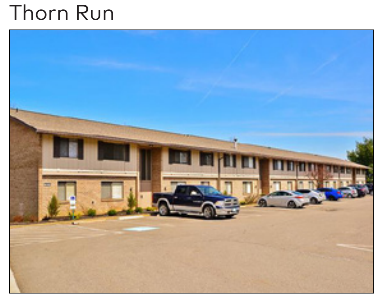
Roughly 1,500 units came online in Pittsburgh last year, with an extra 2,500 units under construction as of January, 2,000 of which should come online in 2018. Even so, as Pittsburgh continues to add jobs at an accelerated rate, Yardi Matrix expects rents to increase 1.8% in 2018.

Recent Pittsburgh Transactions

Heinz Lofts

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

Thorn Run



City: Moon Township, Pa.
Buyer: Steiner Realty
Purchase Price: $23 MM
Price per Unit: $78,231

The Residences of South Hills

City: Pittsburgh
Buyer: AION Partners
Purchase Price: $18 MM
Price per Unit: $17,370

Mifflin Estates/Camden Hills

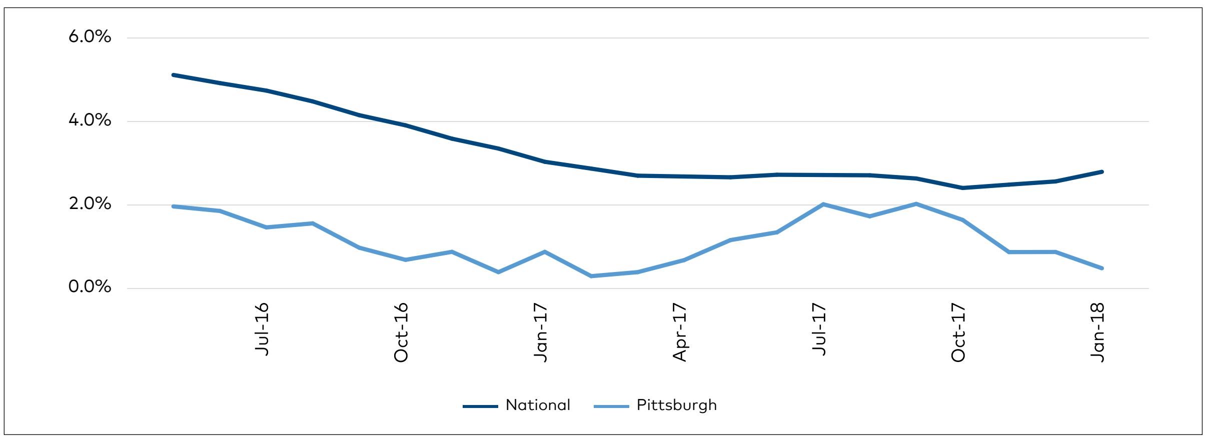
City: West Mifflin, Pa.
Buyer: BLVD Capital
Purchase Price: $11 MM
Price per Unit: $55,224

On the cover: Photo by Sean Pavone Photo/iStockphoto.com

Rent Trends

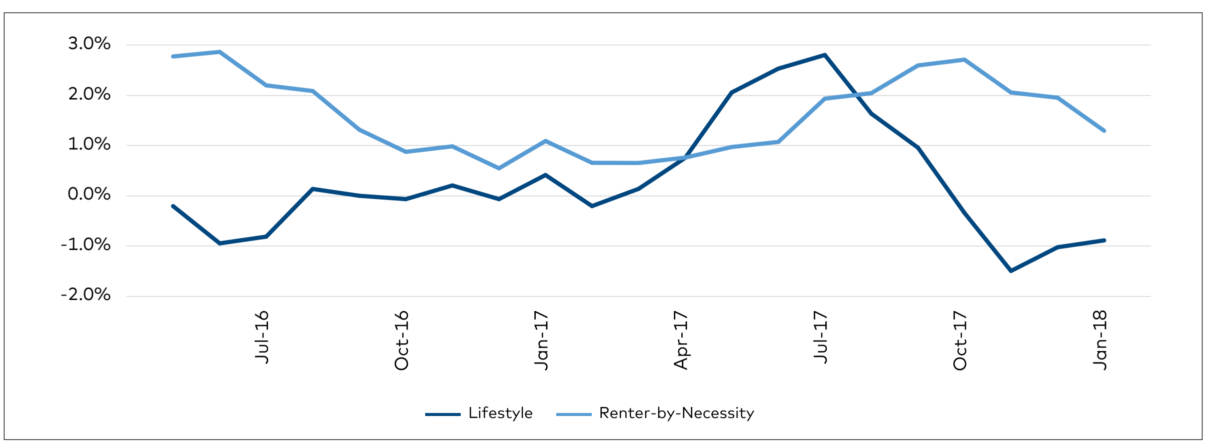
- Pittsburgh rents rose 0.5% year over year as of January, trailing the 2.8% U.S. rate. Although the city's job market has picked up steam in the second half of 2017, the lack of overall demographic growth and the recent wave of Class A deliveries have dampened demand in the metro once again. The average Pitttsburgh rent was $1,044 as of January, some $300 below the national rate.
- Rents in the working-class Renter-by-Necessity segment led growth and were up 1.3%, reaching $939. Meanwhile, Lifestyle rents contracted by 90 basis points, to $1,447. Although the addition of high-paying jobs should sustain upscale rent growth, demand for Lifestyle communities has taken a hit due to an oversized spate of deliveries over the past three years. Some 5,600 Class A and B+ units have come online since the beginning of 2015, hinting toward potential future overbuilding.
- Rents are dropping in several core submarkets, including Oakland (-1.8%), South Side (-0.5%) and North Shore (-3.6%). However, rapidly expanding Pittsburgh–Downtown, where 538 units have been delivered since 2015 and an additional 811 are underway, continues to record gains, with rents up 4.4%.
- Despite the metro's demographic contraction, the ongoing expansion of the city core and the addition of jobs should keep demand relatively steady. We expect Pittsburgh rents to increase by 1.8% in 2018.

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)

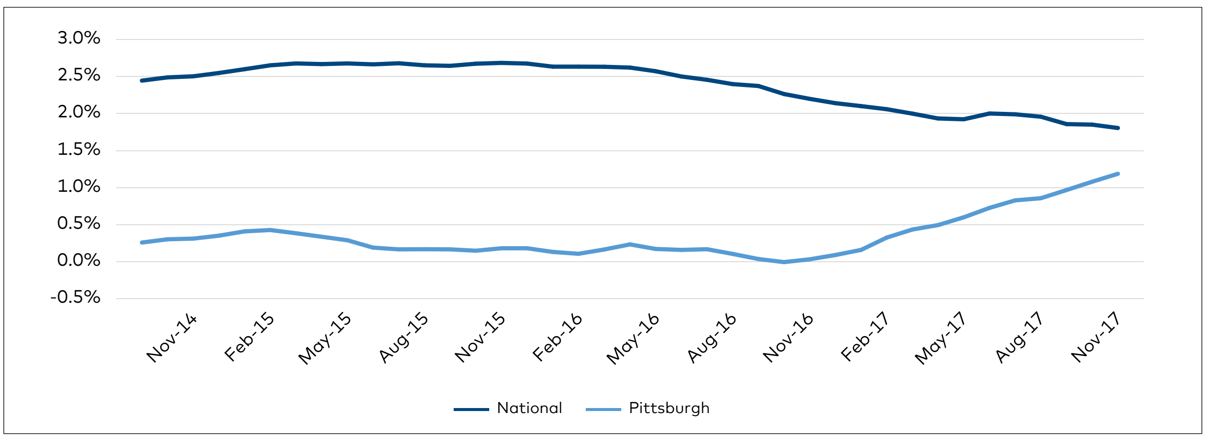


Source: YardiMatrix

Economic Snapshot

- Pittsburgh added 16,500 jobs in the 12 months ending in November 2017 for a 1.2% expansion, roughly 60 basis points below the U.S. average. Although lagging the national growth rate throughout this cycle, the metro has picked up steam in 2017 and is steadily closing down on the performance gap.
- Boosted by a deep talent pool supplied by institutions like Carnegie Mellon University, Pittsburgh's economy continues to diversify. Recent arrivals or expansions of companies such as Google, Uber and Amazon underpin the metro's growing technology hubs, which have gained additional traction in recent years. Financial activities (1,700 jobs) and leisure and hospitality (4,700) also expanded in Pittsburgh.
- Trade, transportation and utilities added 2,300 jobs and, with CSX wrapping up its $850 million rail terminal, the sector is poised for further growth. In late 2017, rivaling companies UPMC and Allegheny Health Network unveiled plans for a total of eight new hospitals with an aggregate cost of $2.7 billion. Manufacturing is also poised to see a short-term spike, following the newly imposed tariffs on steel and aluminum, with U.S. Steel already adjusting its projections for 2018 to accommodate a revenue surge.
- Pittsburgh's office vacancy rate is inching up, but economic expansion is drawing developers. According to Yardi Matrix data, the metro had 1 million square feet of office space underway as of February 2018.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
70	Leisure and Hospitality	124	10.4%	4,700	4.0%
65	Education and Health Services	253	21.2%	3,000	1.2%
40	Trade, Transportation and Utilities	221	18.5%	2,300	1.0%
60	Professional and Business Services	188	15.7%	2,200	1.2%
15	Mining, Logging and Construction	64	5.4%	2,000	3.2%
55	Financial Activities	72	6.0%	1,700	2.4%
80	Other Services	52	4.4%	600	1.2%
90	Government	118	9.9%	400	0.3%
50	Information	19	1.6%	-100	-0.5%
30	Manufacturing	83	7.0%	-300	-0.4%

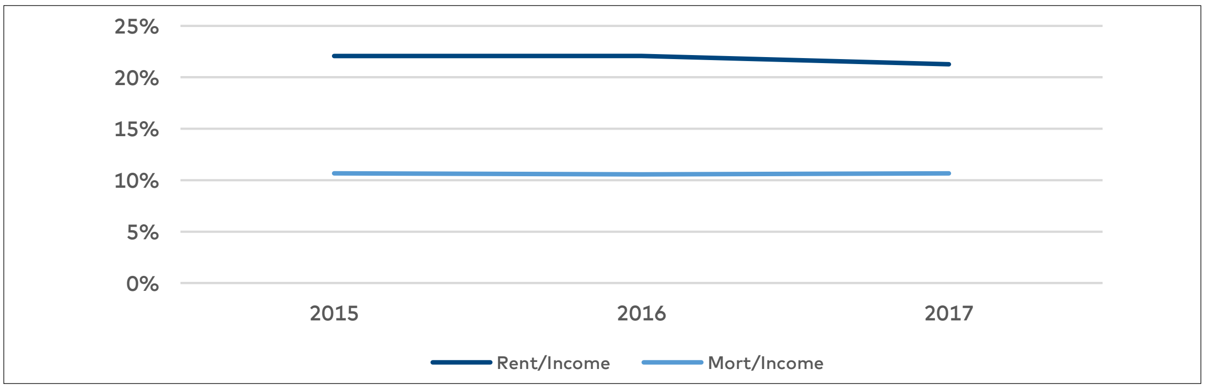
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

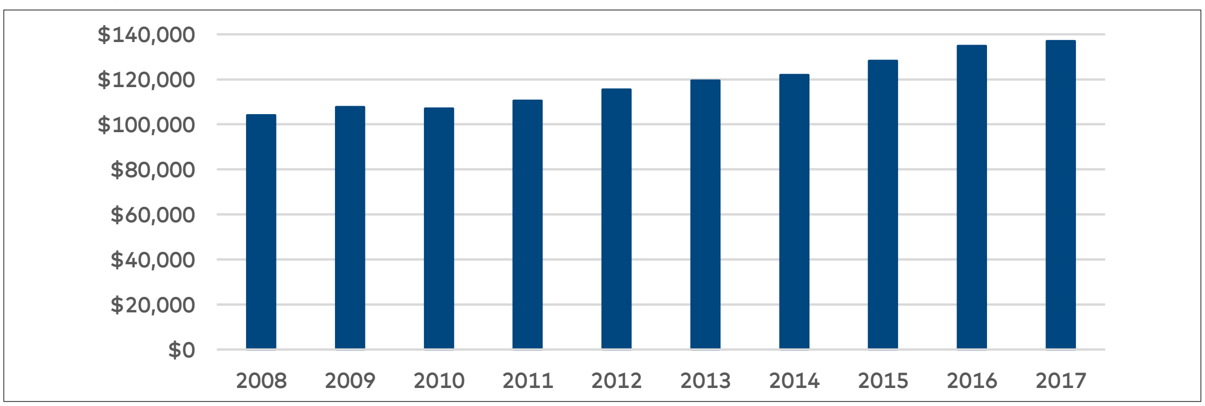
- The median Pittsburgh home price climbed to $137,014 in 2017, a 1.6% uptick over the previous year and up 32% in a decade. Due to its Rust Belt history and high stock of workforce housing, Pittsburgh remains a relatively affordable place to buy a home while at the same time having access to a growing job market.
- Owning is much more affordable than renting in Pittsburgh, with the average mortgage payment accounting for just 11% of the area's median income. Meanwhile, the average rent of $1,044 takes up as much as 21%.

Pittsburgh Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Pittsburgh Median Home Price



Source: Moody's Analytics

Population

- Although Pittsburgh's downtown core is thriving, the metro's population fell by 15,000 people between 2010 and 2016, marking a 0.6% contraction. Meanwhile, the U.S. population expanded by roughly 4.5%.

Pittsburgh vs. National Population

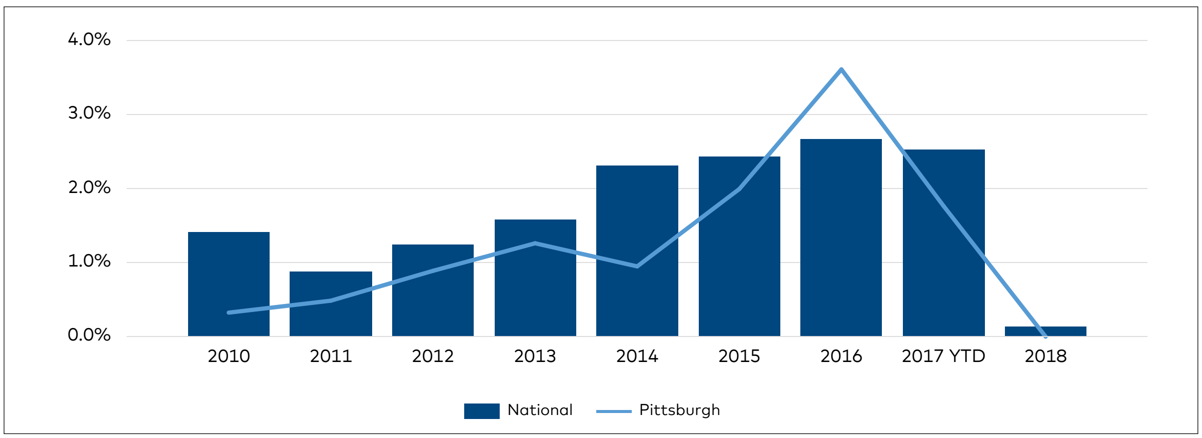
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Pittsburgh Metro	2,361,663	2,361,413	2,357,987	2,351,271	2,342,299

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

Supply

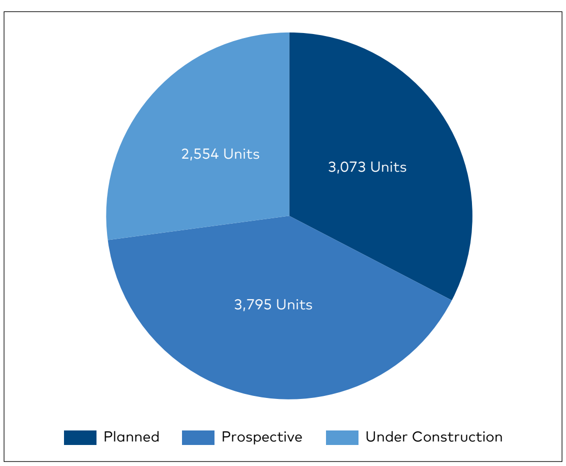
- More than 1,500 units came online in Pittsburgh in 2017, representing 1.8% of the total stock. This marks a return to more sustainable levels after 2016's cycle high of 3,125 units. Roughly 6,300 units were delivered in the metro between 2015 and 2017, more than half of which are in communities located within five miles of downtown.
- There were 2,544 units under construction as of January, the bulk of which are in developments in the market's core. We expect approximately 2,000 units to come online in 2018. When adding projects in the planning and permitting stages, Pittsburgh's total pipeline adds up to about 9,500 units.
- Pittsburgh–Downtown continues to lead construction activity, with three projects scheduled to add 811 units to the submarket. Several other submarkets follow suit, including Oakland (523 units) and Bloomfield (418 units).
- Most projects underway are scheduled for completion this year, but several notable developments are only expected to come online within the following two years. The list includes Madison Realty's 315-unit Village of Cranberry Woods and Campus Advantage's 197-unit Bridge on Forbes student community.

Pittsburgh vs. National Completions as a Percentage of Total Stock (as of January 2018)



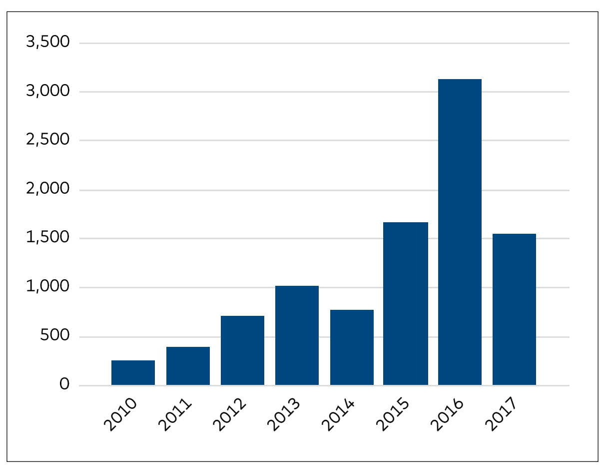
Source: YardiMatrix

Development Pipeline (as of January 2018)



Source: YardiMatrix

Pittsburgh Completions (as of January 2018)

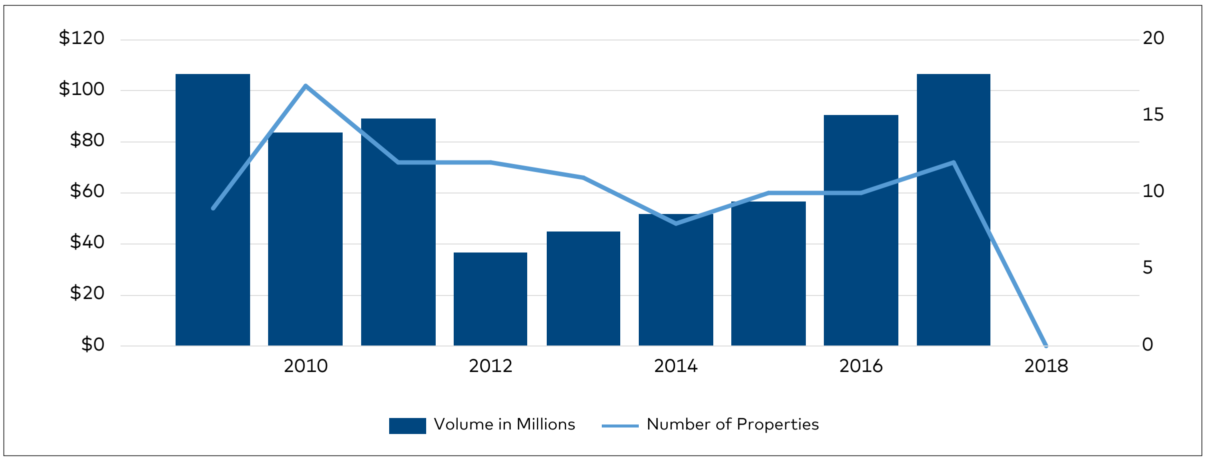


Source: YardiMatrix

Transactions

- Roughly $107 million in multifamily assets changed hands in Pittsburgh last year, almost 18% over 2016's transaction volume. Although this marks a new cycle high, investor appetite remains low across both suburban and core submarkets, as slightly more than $250 million in properties have traded since the beginning of 2015, with the bulk of them being either workforce assets or fully affordable communities.
- Due to its industrial past, Pittsburgh has a lot of value-add potential, with about 60% of all multifamily stock having been built before 1980. Investors are taking advantage of this, and the average Pittsburgh unit traded for just $40,736 in 2017, heavily trailing the $138.167 U.S. average. This is an ongoing trend: Of the 27 assets that traded since the beginning of 2015, more than half were built before 1980.

Pittsburgh Sales Volume and Number of Properties Sold (as of January 2018)



Source: YardiMatrix

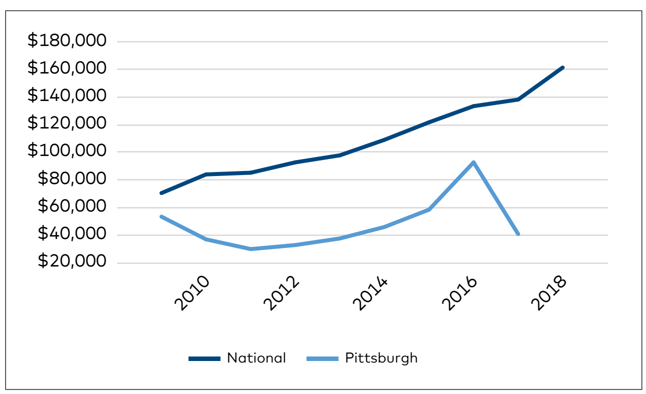
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North Shore	25
Coraopolis	23
Whitehall	18
West Mifflin	11
Pittsburgh–Downtown	8
Greensburg	7
Beaver	6
New Kensington	4

Source: YardiMatrix

[1] From January 2017 to December 2017

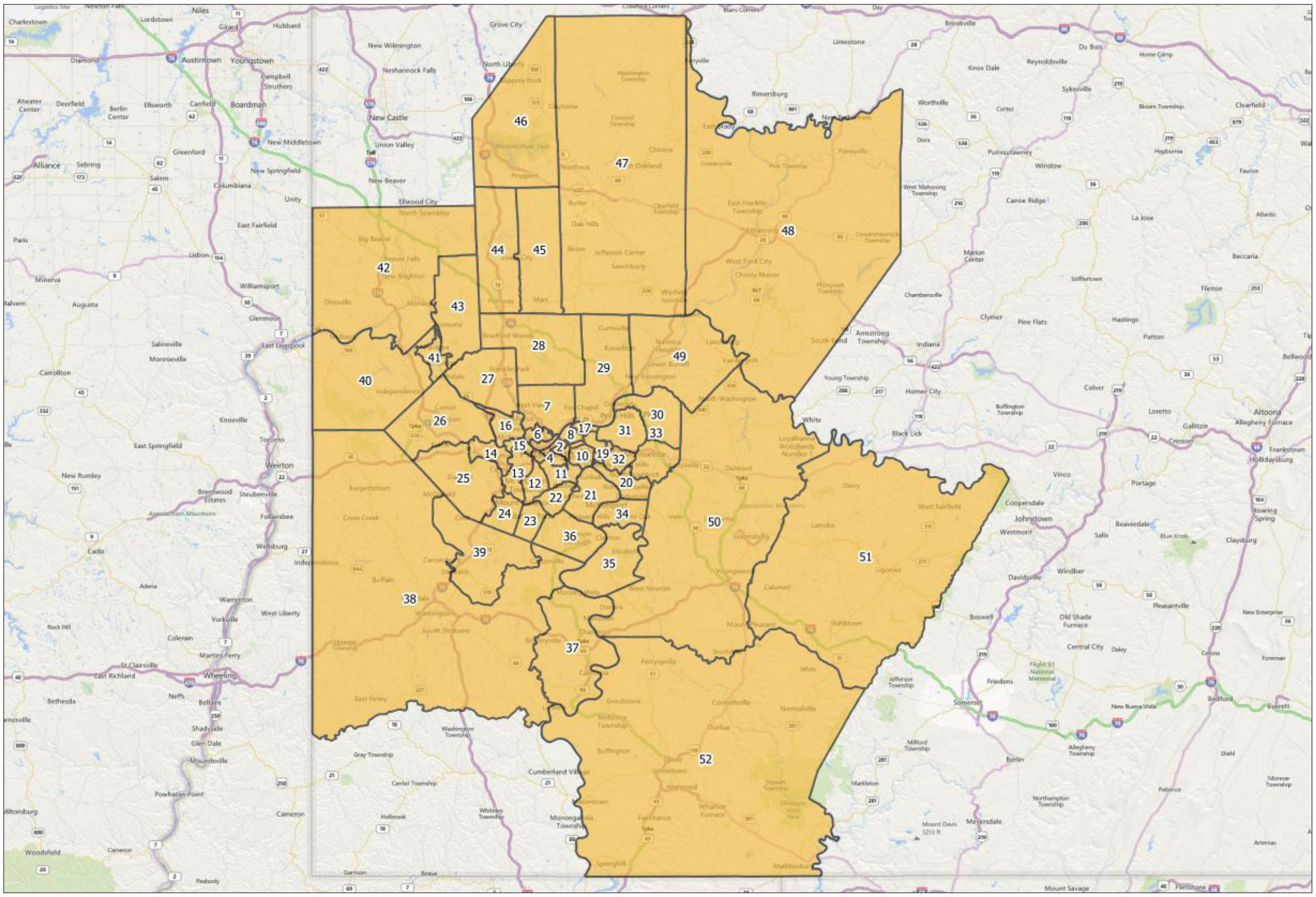
Pittsburgh vs. National Sales Price per Unit



Source: YardiMatrix

Pittsburgh skyline by Pgiam/iStockphoto.com

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
17	Highland Park
18	Homewood

Area #	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 #	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.

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