Yardi® Matrix

# Pittsburgh Gears Up

## Multifamily Report Summer 2018

Rent Growth Trails Nation

Employment Gains Pick Up

Transaction Volume Declines

## Market Analysis
Summer 2018

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# Health Care, Technology Drive Growth

Thanks to a highly educated hiring pool, pockets of growth in the health-care, banking and technology sectors are pushing the economy forward in Pittsburgh, bolstering demand for multifamily product.

Following a sluggish 2017, job growth began to pick up, reaching 1.5% year-over-year as of April. Gains were led by education and health services, a trend which is set to continue, with upcoming projects such as UPMC's $2 billion plan to build three specialty hospitals on the campuses of UPMC Presbyterian in Oakland, UPMC Mercy in Uptown and UPMC Shadyside. Employment growth was also significant for leisure and hospitality, as well as for professional and business services. Moreover, the high-tech startup scene is expanding in the city, which is home to Carnegie Mellon University and the Robotics Institute: Some $687 million was invested in local tech companies last year, according to the Pittsburgh Downtown Partnership.

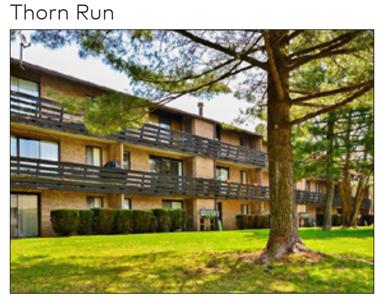
Despite a shrinking population at the metro level, Greater Downtown saw a 24% demographic expansion between 2010 and 2017, which has prompted developers to consistently target the area for new multifamily development. The recent boost in higher-paying jobs is slated to continue underpinning rental demand, especially in core urban areas. We expect rents to advance 1.8% in 2018.

### Recent Pittsburgh Transactions

Ascent 430

City: Wexford, Pa.
Buyer: Graycliff Capital
Purchase Price: $61 MM
Price per Unit: $191,301

Thorn Run



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

Brightwood Manor

City: New Brighton, Pa.
Buyer: Treetop Development
Purchase Price: $6 MM
Price per Unit: $41,118

Edgewood Court

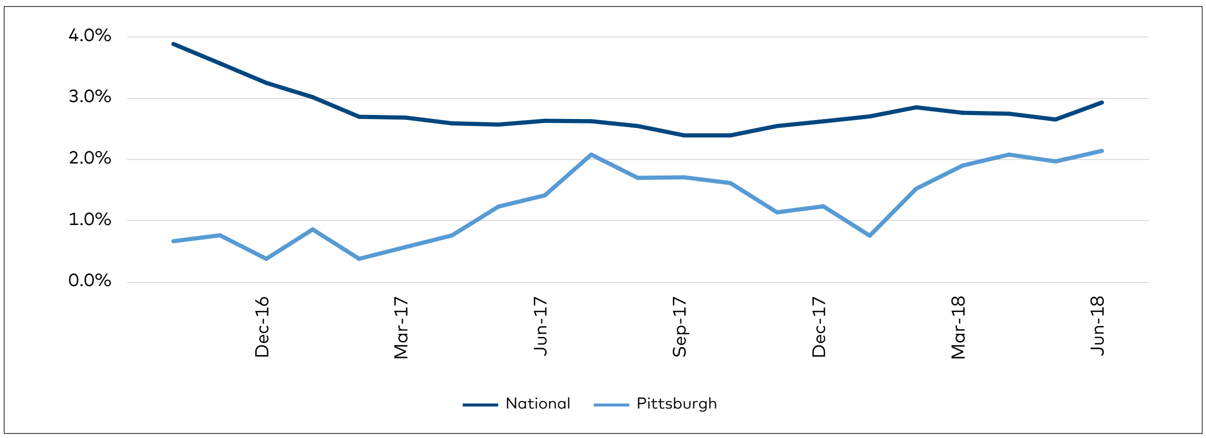
City: Pittsburgh
Buyer: Birchmere Ventures
Purchase Price: $4 MM
Price per Unit: $62,429

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

## Rent Trends

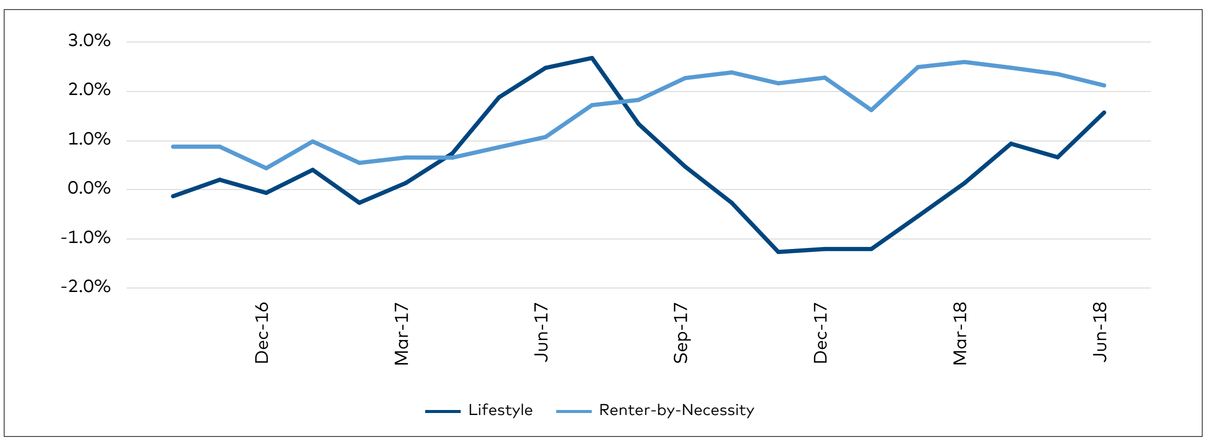
- Rents in Pittsburgh rose 2.1% year-over-year as of June, trailing the 2.9% U.S. rate. The metro's average rent stood at $1,097. Following a modest increase in apartment deliveries in 2017, occupancy in stabilized properties stood at 95.5% as of May, a slight year-over-year decline of just 30 basis points.
- Rents in the working-class Renter-by-Necessity segment rose 2.1% to $964, while Lifestyle rates went up 1.6% to $1,556. Higher-paying job growth, household formation, young professionals entering the workforce, as well as empty nesters looking to downsize sustain demand across asset types, especially in core areas. Although the Pittsburgh MSA's population decreased 0.6% between 2010 and 2017, Greater Downtown saw a 24% demographic expansion during the same timeframe.
- Submarkets with the highest rent growth included Homewood (9.3% to $925) and Oakdale (6.3% to $1,198). Downtown Pittsburgh, which continues to rank as the top submarket in new construction, recorded a 4.4% rent spike, to $1,689. Other core submarkets, however, registered negative or flat growth: Northshore (-2.8%, $1,291), the Hill District (-0.6%, $1,223) and Oakland (-0.3%, $1,482).
- The recent boost in higher-paying jobs will most likely continue to underpin multifamily demand: Overall, we expect Pittsburgh rents to rise 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)

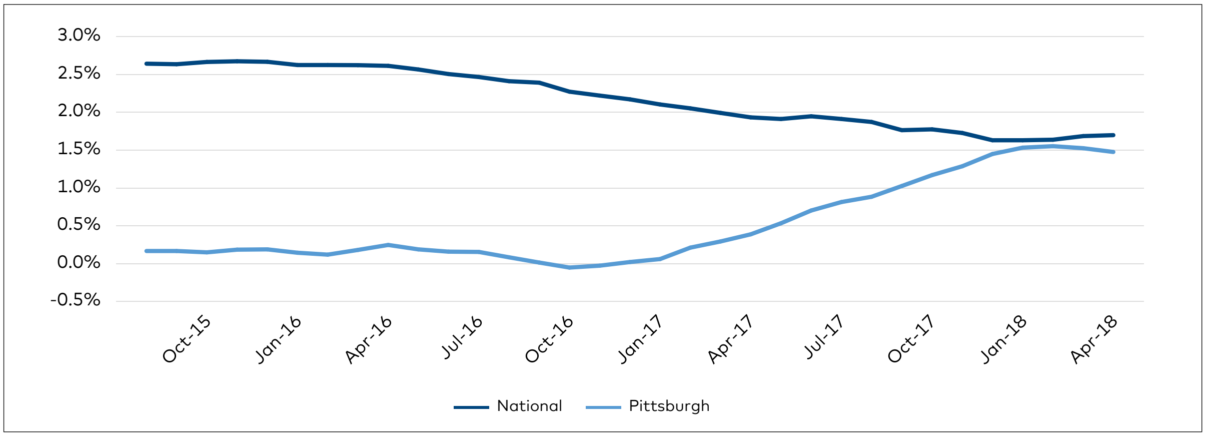



Source: YardiMatrix

## Economic Snapshot

- Employment growth is ramping up in Pittsburgh, which gained 13,800 jobs in the 12 months ending in April, a 1.5% year-over-year increase, slightly below the 1.7% national average. The unemployment rate dropped in the 4.0% range as of April, one of its lowest levels since 2007.
- Education and health services, which added 5,400 jobs, led growth. This trend is set to continue, with upcoming projects such as UPMC's $2 billion plan to build three specialty hospitals on the campuses of UPMC Presbyterian in Oakland, UPMC Mercy in Uptown and UPMC Shadyside. Leisure and hospitality also gained 3,500 positions. Greater Downtown's sports, arts and museums attracted 8.8 million visitors in 2017, bringing hotel occupancy to an average of 62% for the year. By the end of 2018, three more Golden Triangle hotels, totaling 386 keys, are set to open.
- More than $687 million was invested in local tech companies in 2017, according to the latest State of Downtown Pittsburgh report. Office-using employers are bolstering demand for space in the city, one of the nation's top robotics research hubs. According to Marcus & Millichap's 2018 forecast, nearly half of this year's office completions are slated in Oakland's innovation district. Coworking is also becoming more popular, with downtown now home to spaces such as Industrious, Level Office and Beauty Shoppe.

**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 | % |
| 65 | Education and Health Services | 257 | 21.6% | 5,400 | 2.1% |
| 70 | Leisure and Hospitality | 122 | 10.3% | 3,500 | 3.0% |
| 60 | Professional and Business Services | 185 | 15.6% | 2,700 | 1.5% |
| 15 | Mining, Logging and Construction | 68 | 5.7% | 2,600 | 4.0% |
| 30 | Manufacturing | 87 | 7.3% | 1,300 | 1.5% |
| 80 | Other Services | 52 | 4.4% | 1,000 | 2.0% |
| 50 | Information | 19 | 1.6% | - | 0.0% |
| 90 | Government | 118 | 9.9% | -500 | -0.4% |
| 55 | Financial Activities | 72 | 6.1% | -800 | -1.1% |
| 40 | Trade, Transportation and Utilities | 210 | 17.7% | -1,400 | -0.7% |

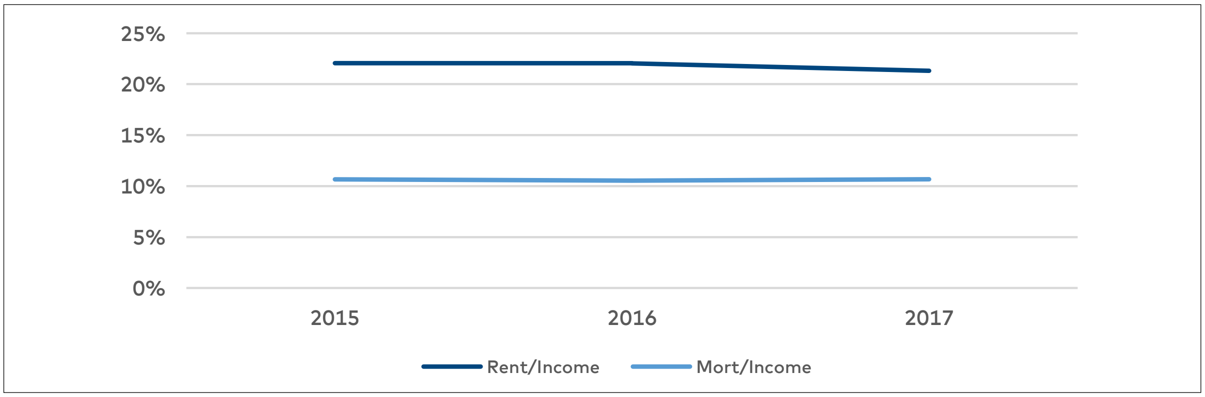
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

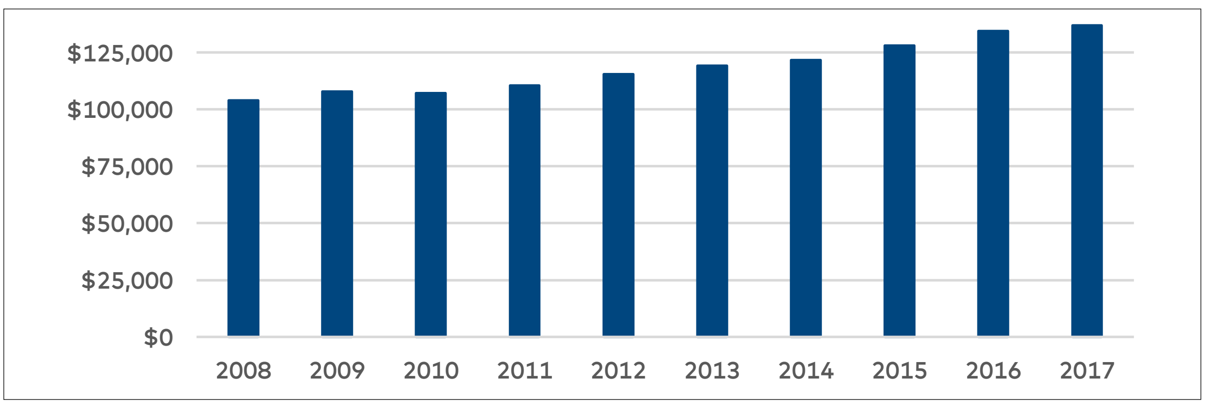
- The median home price in Pittsburgh exceeded $137,000 in 2017, marking a new cycle peak. The average rent accounted for 21% of the area median income, while the average mortgage payment remained more affordable, comprising only 11%.
- Pittsburgh remains one of the most affordable cities in the U.S. to own a home, according to company SmartAsset, which performed a nationwide study. The index took into account prices as well as closing costs, real estate taxes, homeowners insurance and mortgage rates, and ranked Steel City number four in the U.S., behind only Fort Wayne, Ind., Detroit and Buffalo, N.Y.

**Pittsburgh Rent vs. Own Affordability as a Percentage of Income**




Sources: YardiMatrix, Moody's Analytics

**Pittsburgh Median Home Price**




Source: Moody's Analytics

### Population

- Metro Pittsburgh's population declined by 8,169 residents in 2017, down 0.3%, while the U.S. population increased by 0.7%.
- Since 2013, the metro's population dropped by 26,610 people for a 1.1% contraction.

**Pittsburgh vs. National Population**

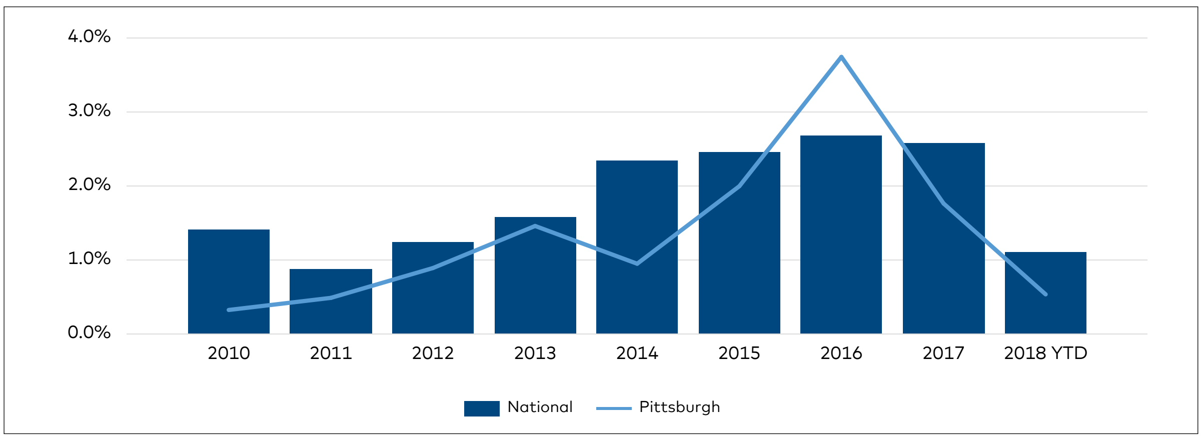
| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| National | 316,234,505 | 318,622,525 | 321,039,839 | 323,405,935 | 325,719,178 |
| Pittsburgh Metro | 2,359,977 | 2,356,699 | 2,349,139 | 2,341,536 | 2,333,367 |

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

## Supply

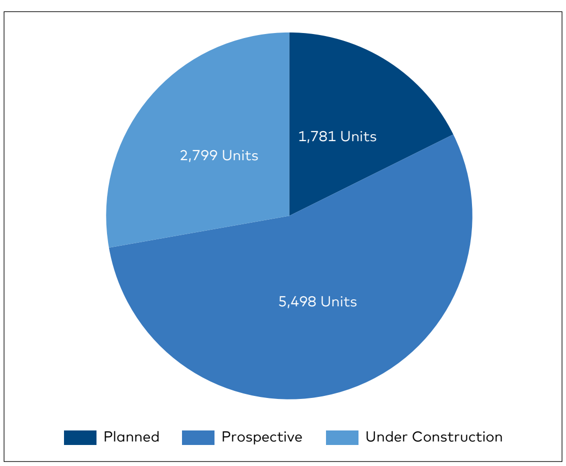
- The Ashby at South Hills Village Station and Coda on Centre, two properties totaling 475 units, came online in the first half of 2018. This marks a slowdown from 2017, when 1,554 units were delivered.
- Nearly 2,800 units were under construction as of June, while another 7,279 were in the planning and permitting stages. By the end of 2018, more than 1,000 new apartments are scheduled for completion, most high-end.
- Pittsburgh–Downtown continues to lead in construction activity, with three projects underway totaling 811 units. Two of these—the 364-unit Edge 1909 and the 311-unit Kaufmann's Grand on Fifth Avenue—are set to open by year-end. There is high rental demand in Greater Downtown, where 40% of all jobs in the city of Pittsburgh are based, which has prompted substantial development in recent years. According to the 2018 State of Downtown Pittsburgh report, 23% of current residents moved to Greater Downtown from another state or country, 30% moved from surrounding suburbs, 23% from another neighborhood in the city, and 12% moved from other counties in Pennsylvania outside of Allegheny County.

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



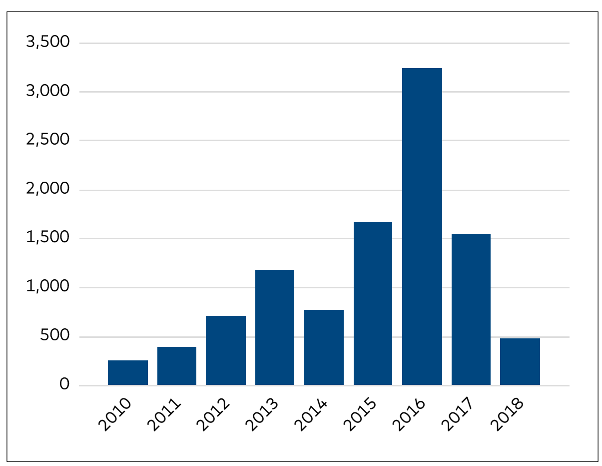

Source: YardiMatrix

**Development Pipeline** (as of June 2018)




Source: YardiMatrix

**Pittsburgh Completions** (as of June 2018)

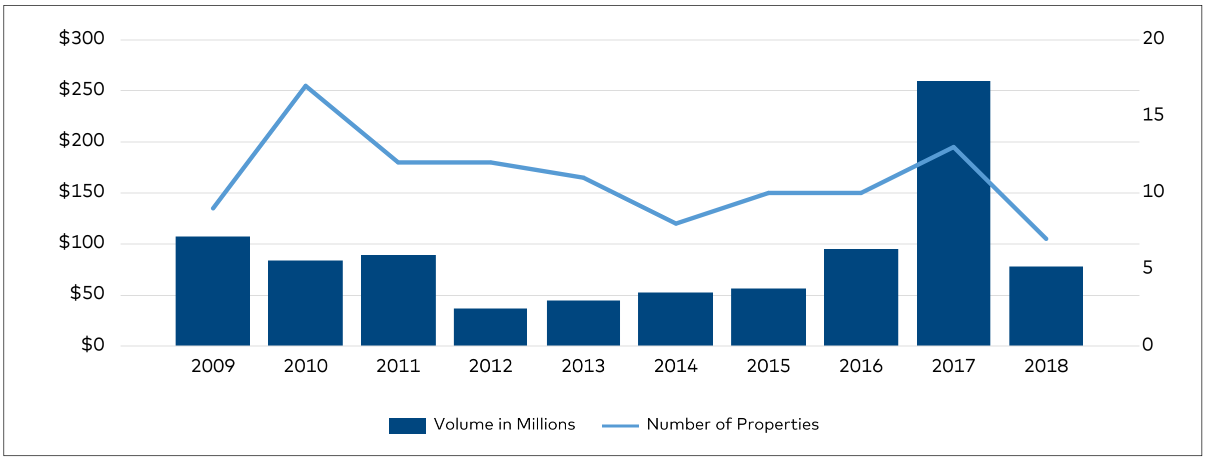



Source: YardiMatrix

## Transactions

- Seven multifamily properties traded in Pittsburgh in the first half of 2018 for a combined $78 million. The average per-unit price of $107,077 remained well below the $150,760 U.S. average. Six of these communities were Renter-by-Necessity assets. In 2017, 13 properties traded for nearly $260 million.
- Investors mostly targeted properties with a value-add component, for which acquisition yields can go as high as 7.0% for Class A assets, 7.5% for Class B and 9.0% for Class C.
- Graycliff Capital's $61 million acquisition of the 319-unit Ascent 430 in Wexford ranked as the metro's largest multifamily transaction of the 12 months ending in May. Developer NRP Group sold the community—which features 17 three-story buildings, a 2,500-square-foot fitness center and other amenities—for $191,301 per unit.

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




Source: YardiMatrix

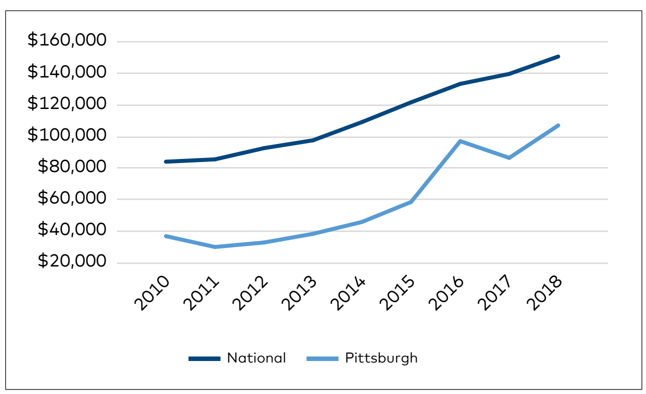
**Top Submarkets for Transaction Volume**[1]

| Submarket | Volume ($MM) |
|---|---|
| Hampton Township | 61 |
| Coraopolis | 23 |
| Beaver | 6 |
| Wilkinsburg | 4 |
| Elizabeth | 4 |
| New Kensington | 4 |
| Churchill | 3 |
| Whitehall | 3 |

Source: YardiMatrix

[1] From July 2017 to June 2018

**Pittsburgh vs. National Sales Price per Unit**




Source: YardiMatrix

# News in The Metro

Brought to you by: MULTI-HOUSING NEWS

## Suburban Pittsburgh Asset Trades For $61M

Buligo Capital and Graycliff Capital acquired Ascent Four Thirty, a 319-unit community in Wexford. At the time of sale, the property was 94 percent occupied.

## CPC Arranges $11M For PA Asset

The borrower used Freddie Mac's Green Advantage program, committing to 27.8 percent water savings. Terrain Apartments, formerly a hotel, includes 152 units across 19 buildings.

## Radnor, Harrison Street Pick Up Pittsburgh Student Housing

The partners acquired the 314-unit high-rise at Duquesne University for $23 million, with plans to modernize the half-century-old community over the course of four summers.

## GMH Capital Partners Opens PA Upscale Asset

The luxury community—dubbed The Pendleton at Cranberry Woods—is a short distance north of downtown Pittsburgh and provides a mix of one- to three-bedroom units.

Log on to Multi-HousingNews.com to get the latest metro-specific news.

## Top 10 Pittsburgh Apartment Owners

By Corina Stef

MULTI-HOUSING NEWS

data by Yardi® Matrix

Once the center of the American steel industry, Pittsburgh is now home to a large number of companies from the health-care, education, finance, tourism and technology sectors. The metro area is on its way to successfully transitioning from a manufacturing-dominant city to a more diverse, multi-industry economy.

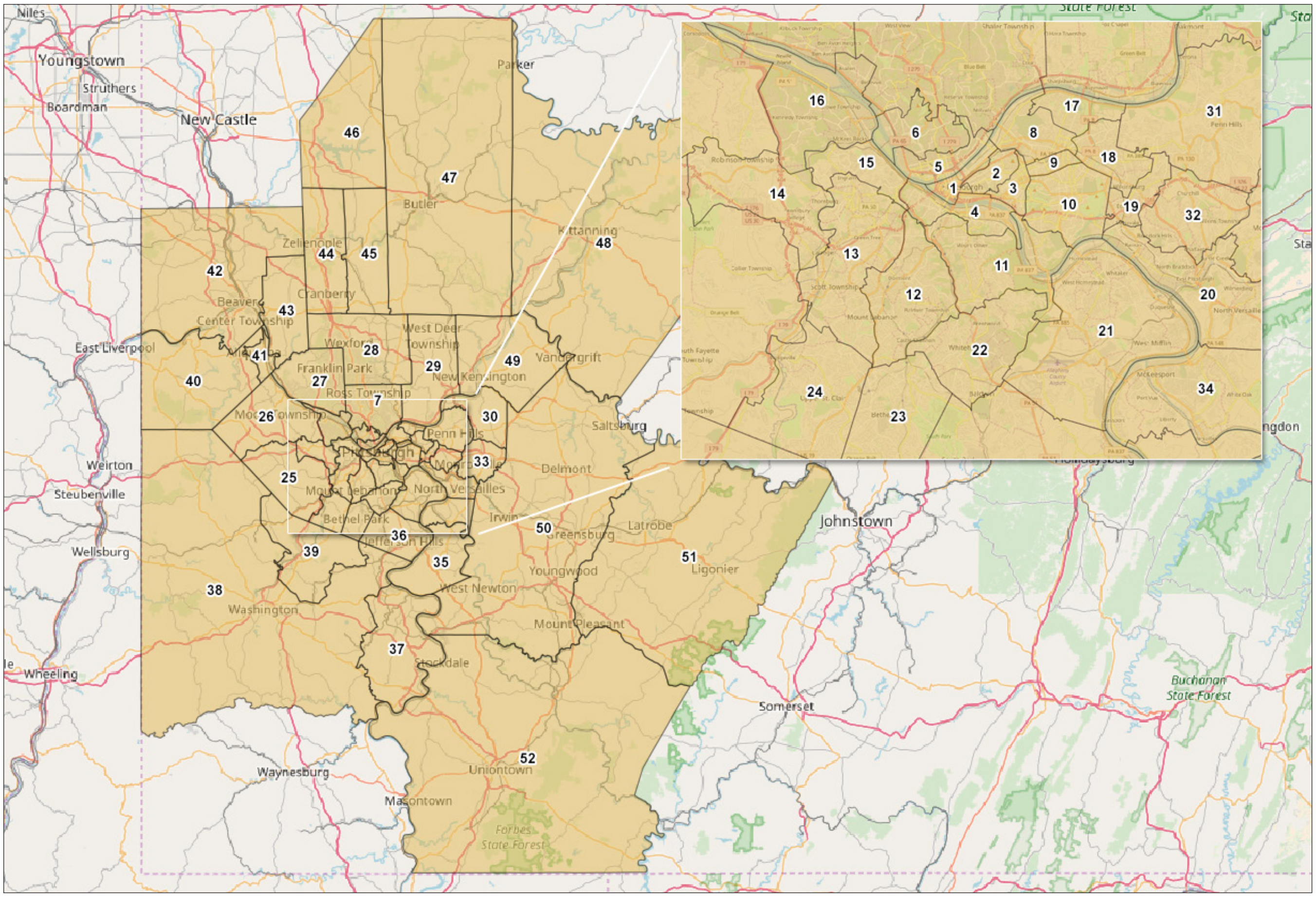
Although the housing sector wasn't hit by the most recent recession as hard as other metros were, Pittsburgh's population continues to dwindle. The reduced number of multifamily developments in the pipeline stands as a testament to that dynamic. Development is concentrated in Allegheny County, but rents remain low compared to other metros, especially in the suburbs, where demand has plateaued. According to the latest Yardi Matrix Pittsburgh report, 2017 saw the completion of approximately 1,500 units, while 2,000 units are expected to come online by the end of this year.

| Owner | Owner Type | Units Pittsburgh | Units National |
|---|---|---|---|
| Morgan Management | Private Owner | 4,316 | 34,254 |
| The Housing Authority of the City of Pittsburgh | Government Agency | 3,705 | 3,763 |
| A.R. Building | Private Owner | 3,198 | 7,583 |
| Allegheny County Housing Authority | Government Agency | 2,874 | 2,874 |
| Westmoreland County Housing Authority | Government Agency | 2,011 | 2,011 |
| Brandywine Agency | Private Owner | 1,611 | 1,611 |
| The Housing Authority of the County of Beaver | Government Agency | 1,605 | 1,605 |
| Sampson Morris Group | Private Owner | 1,591 | 1,591 |
| Dreyfuss Management | Private Owner | 1,570 | 4,404 |
| Amore Management | Private Owner | 1,532 | 1,532 |

### Morgan Management

Holding the top position is New York-based Morgan Management. The private owner's footprint counts more than 34,000 units across the nation, more than 4,300 located in Pittsburgh. Its largest asset here is Maiden Bridge and Canongate, a 415-unit community located at 100 White Hampton Lane in Pittsburgh's Whitehall neighborhood. The property consists of two buildings completed in 1974 and 1979, on 30 acres. The unit mix comprises studios and one- and two-bedroom floorplans ranging between 630 and 1,484 square feet. Lifestyle amenities include a heated swimming pool, fitness facility, community center, library, as well as free shuttle to nearby shopping.

## 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.

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