Yardi® Matrix

Pittsburgh's Moving Forward

Multifamily Report Winter 2019

Rent Growth Accelerates

Health Care, Technology Propel Demand

Downtown Draws Millennials, Baby Boomers Alike

Market Analysis
Winter 2019

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STEM Jobs Boost Rental Demand

A diverse and balanced economy has begun to slow the region's population decline, underpinning multifamily demand. For years, the metro lost many graduates of local universities to larger cities, but an increasing number of young professionals have begun to call Pittsburgh their home.

Professional and business services led employment growth in the 12 months ending in September (4,000 jobs), followed by mining, logging and construction (3,100) and education and health services (3,000). The region's tech scene is thriving in and around intellectual nodes including Downtown Pittsburgh, Cranberry Township and East Liberty/Shadyside, while public-private partnerships such as InnovatePGH are accelerating the city's innovation economy. Pittsburgh benefited from $5.5 billion in venture capital in 2017, with health care and life sciences accounting for more than half of the funding, while IT and robotics emerged as the most active sector.

Investors seeking higher returns than in gateway cities focused on Renter-by-Necessity assets with a value-add component. Multifamily development was concentrated in Downtown and Cranberry Township, where demand is boosted by Millennials and Baby Boomers alike, including empty nesters looking to downsize. Absorption is expected to keep up, bolstered by the ongoing increase in higher-paying health-care and technology jobs.

Recent Pittsburgh Transactions

Ascent 430

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

Waterford Nevillewood

City: Presto, Pa.
Buyer: The Solomon Org.
Purchase Price: $41 MM
Price per Unit: $130,063

The Heights at Slippery Rock

City: Slippery Rock, Pa.
Buyer: Channing Realty Advisors
Purchase Price: $12 MM
Price per Unit: $121,713

Edgewood Court

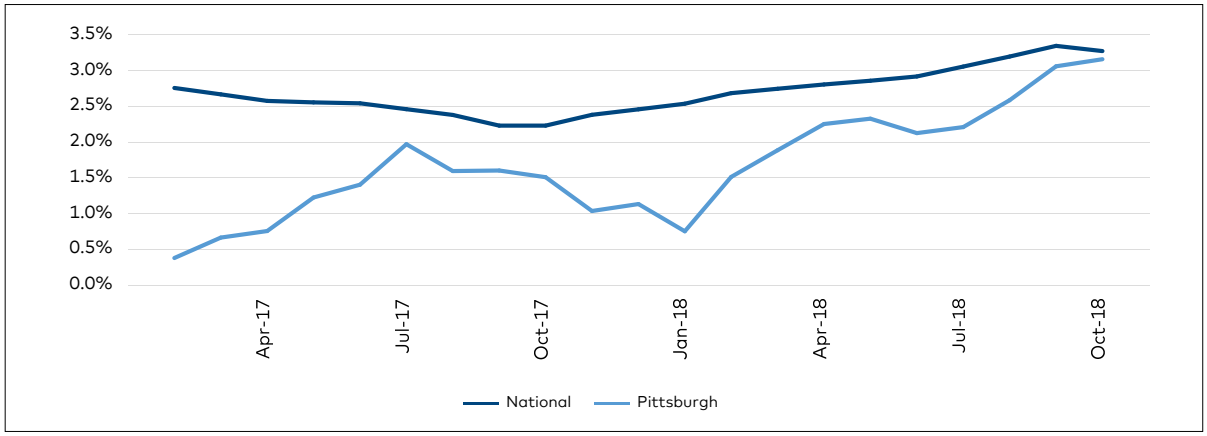
City: Pittsburgh
Buyer: Birchmere Ventures
Purchase Price: $4 MM
Price per Unit: $62,429

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

Rent Trends

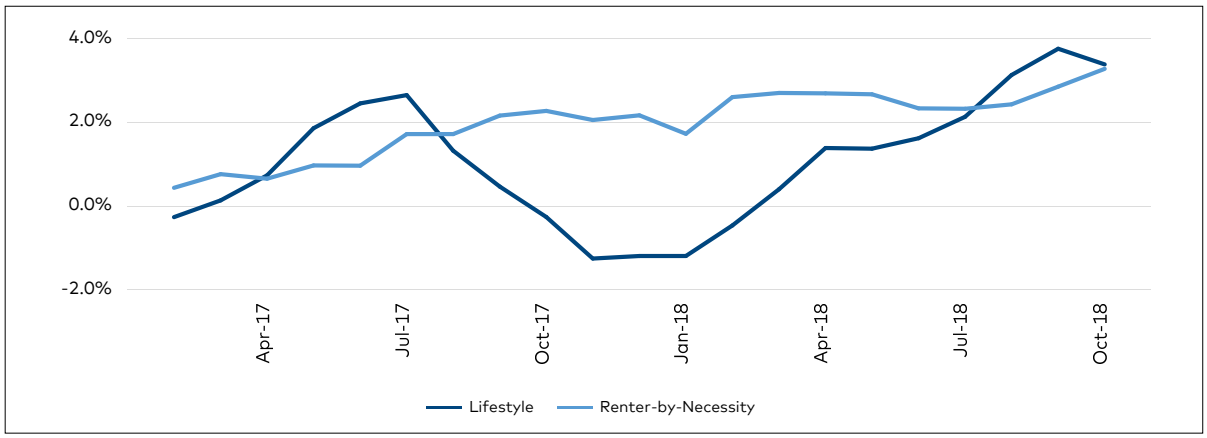
- Rent growth in Pittsburgh accelerated to 3.2% year-over-year as of October, almost in line with the 3.3% national rate. The metro's average rent stood at $1,110, below the $1,420 U.S. figure. Multifamily construction has been ramping up since 2015, and despite a stock increase of about 1,500 units in 2017 and another 1,000 units in the first 10 months of 2018, occupancy in stabilized properties rose to 96.1% as of September, above the 95.4% national rate and up 50 basis points over 12 months.
- Rents in the working-class Renter-by-Necessity segment rose 3.3% to $976, while Lifestyle rates increased 3.4% to $1,558. Demand is sustained by well-paid Millennials working in high-tech and health care, as well as Baby Boomers, including empty nesters looking to downsize. Properties that offer a walkable lifestyle as well as proximity to entertainment options are the most popular.
- Jefferson Hills saw the highest growth (up 9.8% to $929), followed by Oakdale (8.0% to $1,214), Southside (5.9% to $1,651), Hampton Township (5.9% to $1,146) and Shadyside (4.4% to $1,453). Rents in Centerville, which commands the metro's highest rates, decreased 11.5%, from $2,406 to $2,130. Rents in Downtown Pittsburgh, which attracts a large number of professionals, are also high but continued to rise (up 2.9% to $1,744). Despite the metro's 1.0% population decline between 2010 and 2017, Greater Downtown actually recorded a 24% demographic expansion during the interval.

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

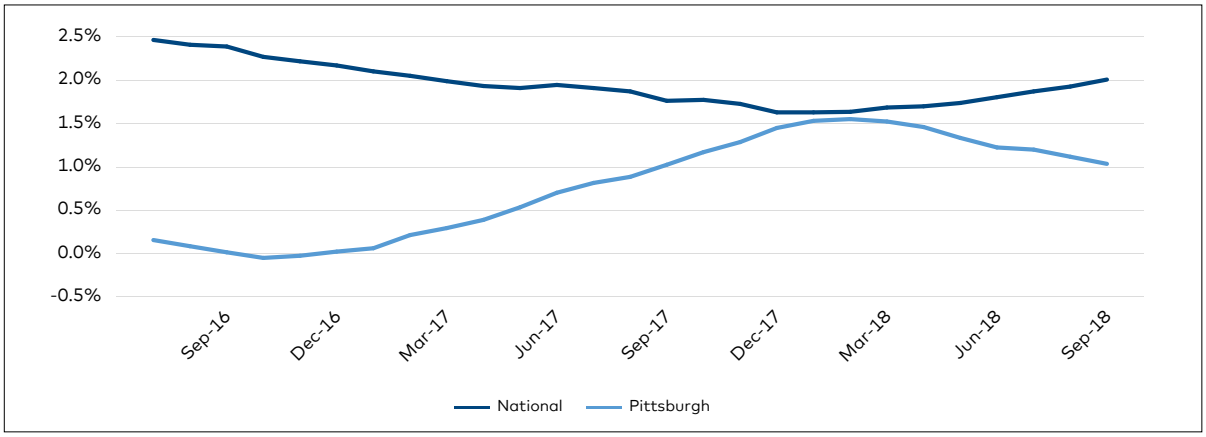
Economic Snapshot

- Pittsburgh gained 8,800 jobs in the 12 months ending in September, a 1.0% year-over-year increase, trailing the 2.0% U.S. average. Following nationwide trends, the unemployment rate in the metro has been decreasing in recent months, clocking in at 4.4% as of August, above the nation's 3.9%. Butler County saw the steepest drop at 4.0%, followed by Washington and Allegheny counties, both at 4.2%.

- Professional and business services led growth (4,000 jobs), followed by mining, logging and construction (3,100) and education and health services (3,000). The region's tech scene is thriving in and around intellectual nodes such as Downtown Pittsburgh, Cranberry Township and East Liberty/ Shadyside, which attract a wide range of businesses. Earlier this year, a new public-private partnership called InnovatePGH was created with the purpose of accelerating Pittsburgh's innovation economy.

- In 2017, 258 investment and development deals—totaling $5.5 billion in venture capital—led to 12,000 new and retained jobs across the region, according to Pittsburgh Regional Alliance, a subsidiary of the Allegheny Conference on Community Development, up 5.5% year-over-year. Health-care infrastructure and life sciences accounted for $3 billion, including funding for three UPMC specialty hospitals as well as a new 160-bed Allegheny Health Network hospital. IT and robotics was the most active sector, with 59 deals totaling $212 million, which created almost 1,900 jobs and retained another 100.

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	%
60	Professional and Business Services	187	15.7%	4,000	2.2%
15	Mining, Logging and Construction	76	6.4%	3,100	4.3%
65	Education and Health Services	254	21.3%	3,000	1.2%
30	Manufacturing	87	7.3%	1,700	2.0%
90	Government	118	9.9%	700	0.6%
70	Leisure and Hospitality	122	10.2%	500	0.4%
80	Other Services	51	4.3%	200	0.4%
50	Information	19	1.6%	-	0.0%
55	Financial Activities	71	6.0%	-2,000	-2.7%
40	Trade, Transportation and Utilities	209	17.5%	-2,400	-1.1%

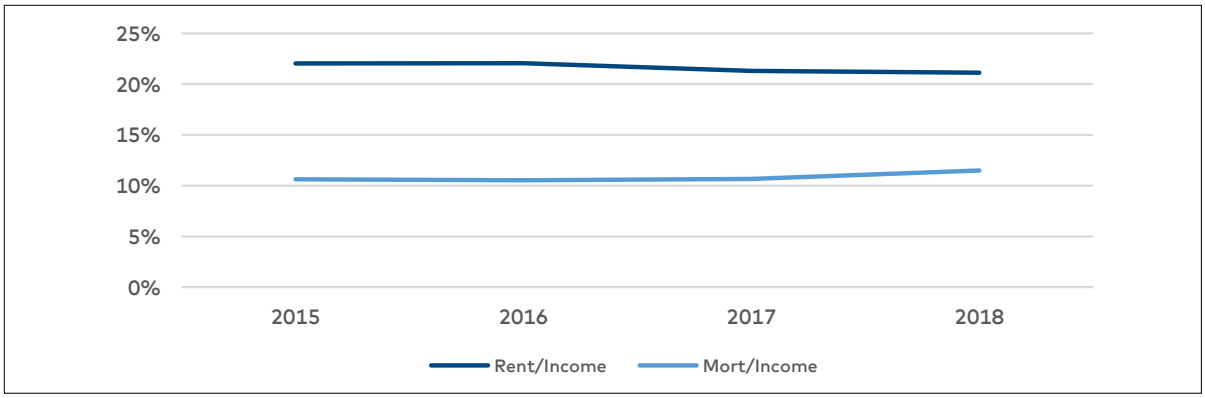
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

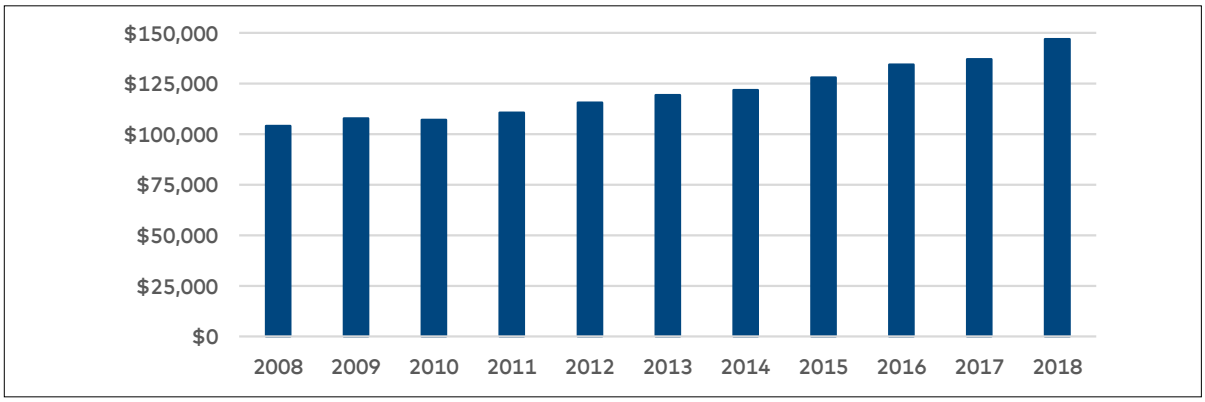
- The median home price in Pittsburgh rose to $146,948 in the first half of 2018, marking a new cycle peak. The average rent accounted for 21% of the area median income, while the average mortgage payment remained much more affordable, comprising only 11%.
- Pittsburgh remains more affordable than other Northeastern metros, attracting companies and residents alike. For the second year in a row, personal finance startup SmartAsset ranked Pittsburgh as No. 1 among best cities for first-time homebuyers in a nationwide study that took into account prices as well as closing costs, real estate taxes, homeowners insurance and mortgage rates.

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 lost 8,169 residents in 2017, a 0.3% population decrease, while the U.S. population increased by 0.7%.
- Between 2013 and 2017, the metro's population dropped by 26,610 residents, representing a 1.1% contraction.

Pittsburgh vs. National Population

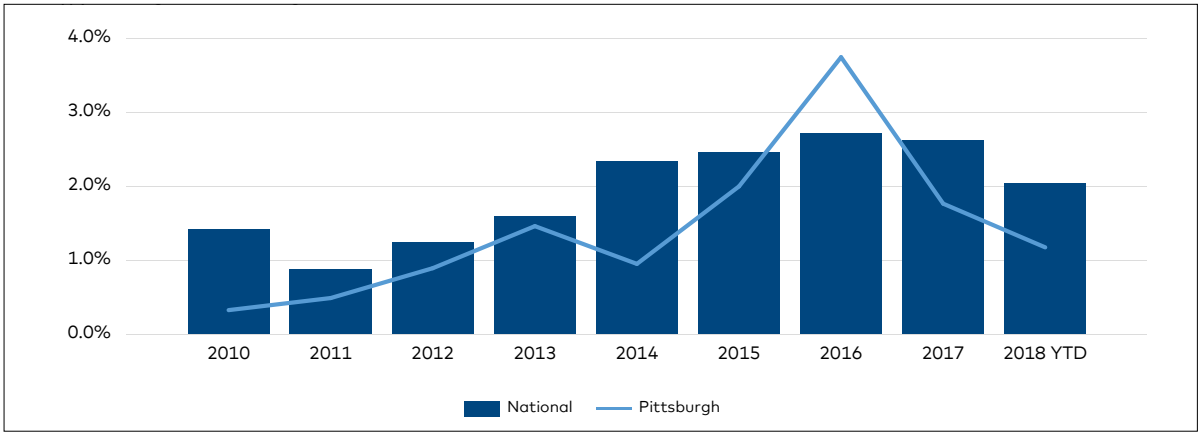
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Pittsburgh Metro	2,359,977	2,356,699	2,349,139	2,341,536	2,333,367

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

Supply

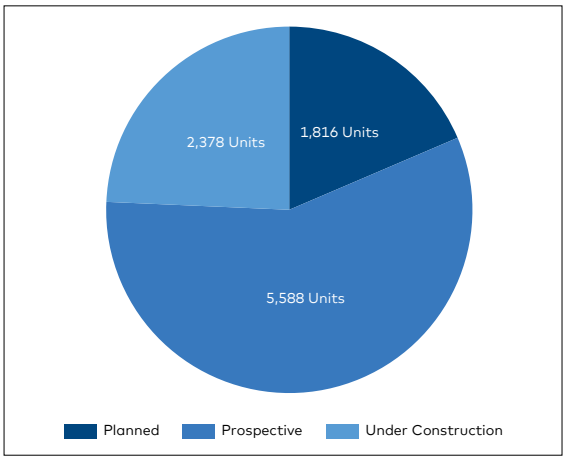
- Four properties totaling 1,047 units came online in Pittsburgh in 2018 through October, all catering to Lifestyle renters. In 2017, 1,554 units were delivered, but the cycle's peak was recorded in 2016, when 3,241 units were completed.
- More than 2,300 units were under construction as of October, while another 7,404 units were in the planning and permitting stages. Absorption is expected to keep up with the pace of new supply, as the metro's population decline has begun to reverse in recent years and is relatively small compared to the 1980s' population drain.
- Downtown Pittsburgh had three projects totaling 811 units underway as of October, followed by Cranberry Township (320 units), Southside (319 units), Oakland (197 units) and Bloomfield (150 units). These are areas that have recorded demographic growth since 2010, with many Millennials accounting for the expansion. For years, graduates from local universities were moving to larger metros, but this trend has begun to reverse, as tech giants such as Google, Facebook and Uber have opened offices in the region and young professionals started to make Pittsburgh their home, boosting rental demand.

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



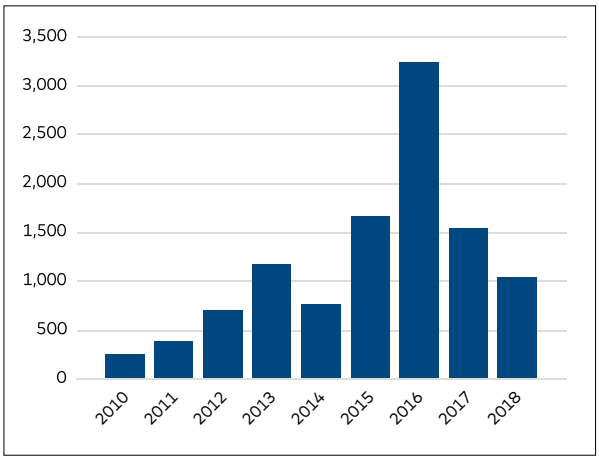
Source: YardiMatrix

Development Pipeline (as of October 2018)



Source: YardiMatrix

Pittsburgh Completions (as of October 2018)

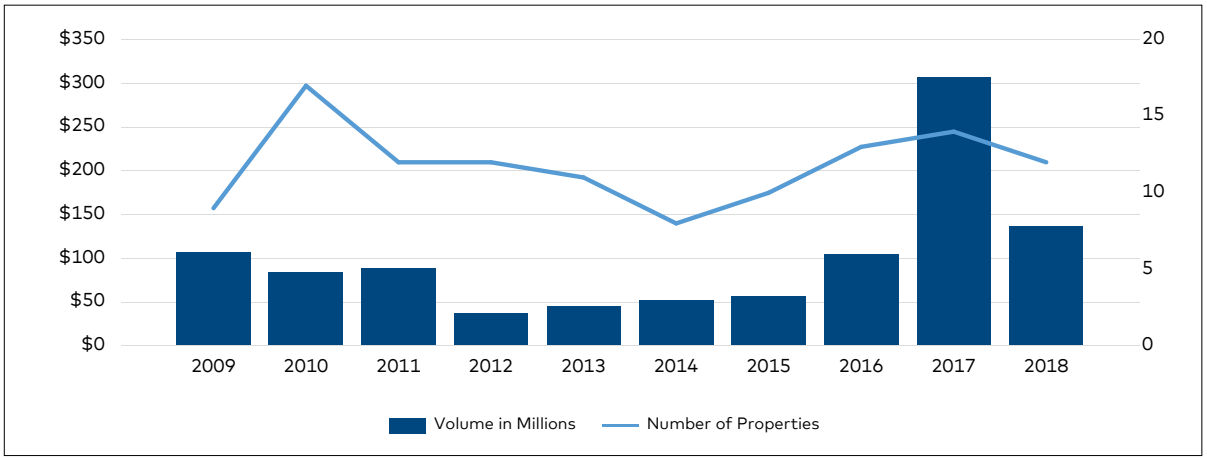


Source: YardiMatrix

Transactions

- Twelve properties worth a combined $136 million changed hands in Pittsburgh this year through October, at an average price per unit of $107,352, which marks a cycle high but remains well below the $152,579 national figure.
- Investors primarily focused on Renter-by-Necessity assets with a value-add component, for which acquisition yields range between 7.0% and 9.0% in both infill and suburban locations.
- Continued rent growth and rising occupancy rates amid moderate apartment supply prompted many owners to hold on to their larger properties in 2018. This comes in contrast with 2017, when 14 properties traded for more than $300 million, a cycle peak.

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



Source: YardiMatrix

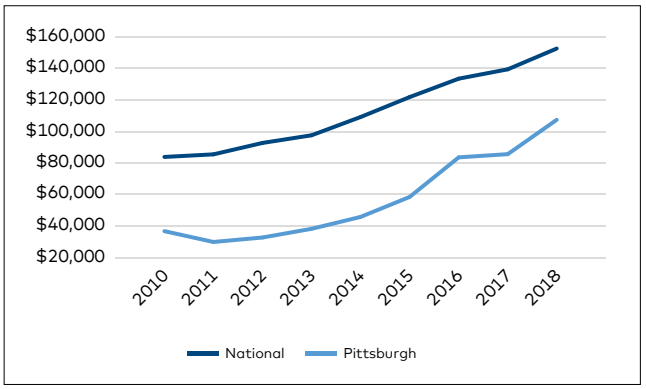
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Hampton Township	61
Oakdale	41
Coraopolis	23
Slippery Rock	12
Whitehall	8
Wilkinsburg	4
Elizabeth	4
Churchill	3

Source: YardiMatrix

[1] From November 2017 to October 2018

Pittsburgh vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Solomon Org. Acquires Pittsburgh Community for $41M

The buyer financed the acquisition of the 316-unit property with a $32.4 million Freddie Mac loan originated by M&T Bank.

Pittsburgh Community Changes Hands

The 124-unit Class C property sold for nearly $5 million. The new owner financed the transaction with a $7.5 million acquisition and development loan.

PA Retirement Community Completes Affordable Expansion

The $10 million project added 48 rental units for residents 62 and over to the existing Windy Hill Village, which houses 179 people.

Carnegie Mellon Purchases Pittsburgh Community

A private investor sold the 78-unit property for $17 million. The new owner plans to renovate the building and repurpose it as dedicated university housing.

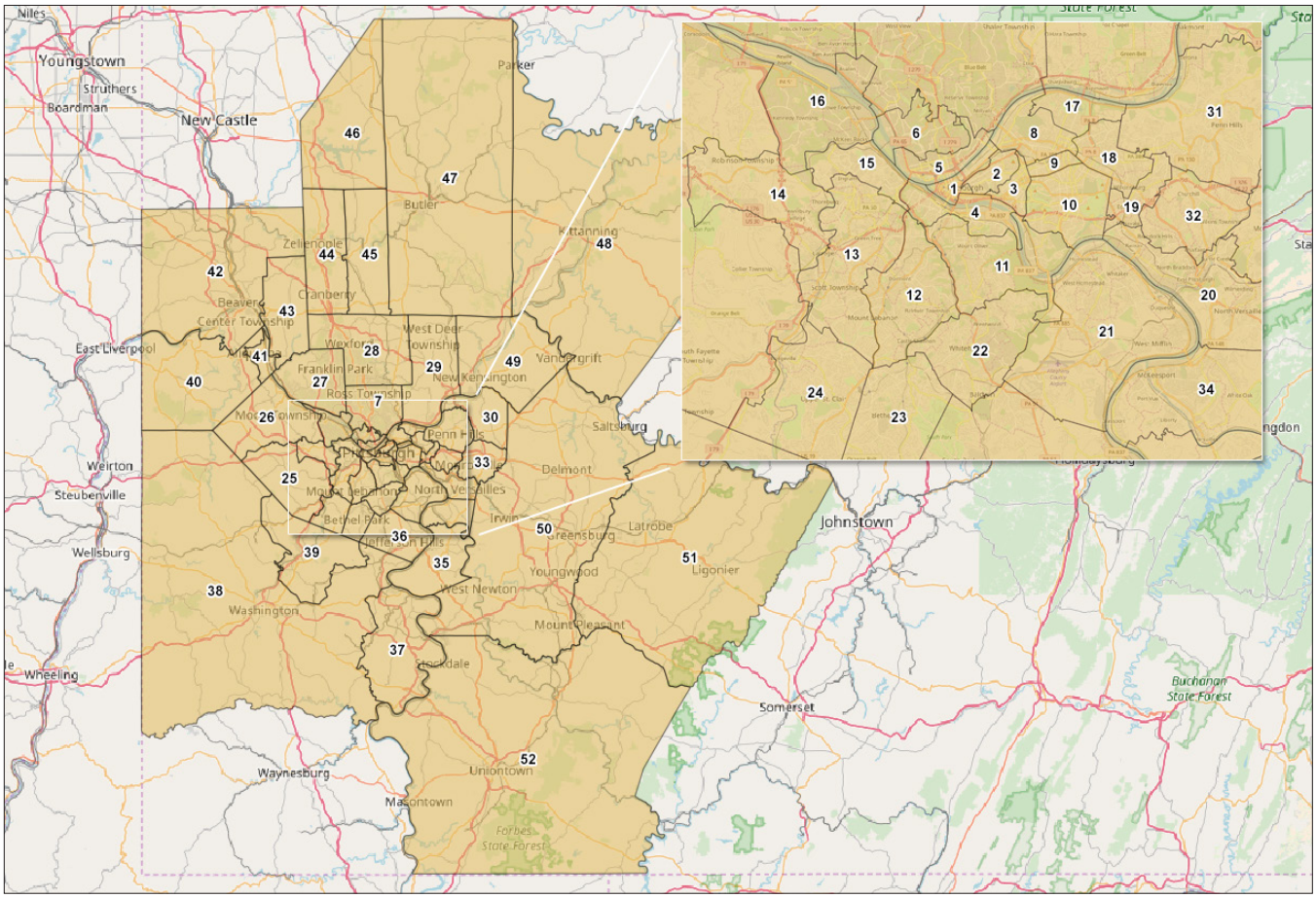
Affordable Pittsburgh Asset Receives HUD Loan

Telesis Corp. acquired Maple Ridge this spring. The 91-unit Class C rental property is located in the East Hills submarket.

Pittsburgh To Convert School Into Community

The city's housing authority plans to use federal funding to transform the vacant, late 19th-century school into 35 units of affordable housing.

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.

Fogelman drives deals with Yardi® Matrix

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Mark Fogelman
President
Fogelman Properties

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