Yardi® Matrix

Pittsburgh Forges Ahead

Multifamily Report Spring 2019

Rent Growth Moderates

Tech Sector Attracts Ventures

Development Maintains Pace

Market Analysis

Spring 2019

Contacts

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Alexandra Pacurar
Senior Writer

Core Housing Demand Fuels Growth

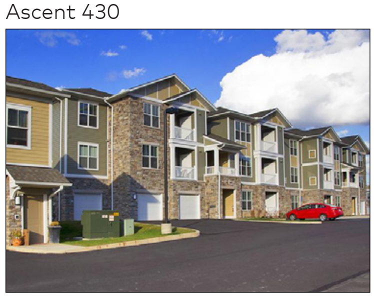
The metro's new economic layers are attracting young professionals looking for modern, urban apartments close to their jobs. This is leading to demographic expansion in Pittsburgh's central neighborhoods, fueling housing demand. The 1,140 units expected to come online this year should be absorbed rapidly, as downsizing Baby Boomers are also looking for well-located units in areas such as North Oakland and the Hill District.

Employment growth dipped, in line with nationwide trends, as Pittsburgh added only 6,400 jobs in the 12 months ending in February. Gains were led by education and health services (3,500), a Pittsburgh staple, followed by mining, logging and construction (3,300). Several employment sectors contracted, including trade, transportation and utilities (-1,400 jobs) and manufacturing (-900). Further layoffs are expected, as pharmaceutical giant Bayer Corp. will be closing its Robinson campus, losing roughly 600 employees and 100 contractor jobs.

Despite a slow start to the year for multifamily transactions, Pittsburgh continues to provide opportunities for investors attracted by high returns, with acquisition yields as high as 9.0% for value-add deals. With housing demand steady in the context of relatively low levels of new supply, we expect the average Pittsburgh rent to rise 2.0% in 2019.

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

Waterford Landing

City: Moon Township, Pa.
Buyer: The Solomon Org.
Purchase Price: $20 MM
Price per Unit: $64,538

York Square

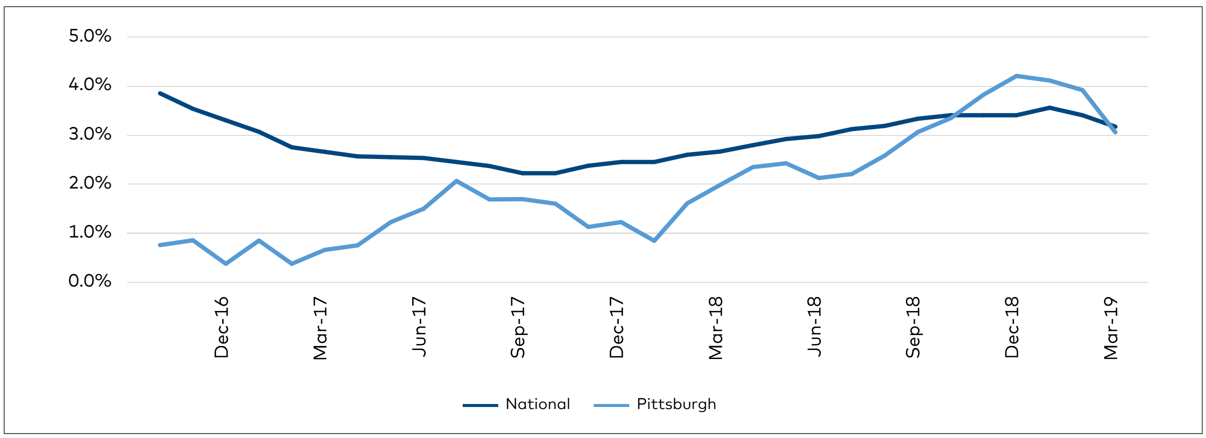
City: Beaver Falls, Pa.
Buyer: Insight Management Group
Purchase Price: $6 MM
Price per Unit: $50,757

On the cover: Photo by f11photo/iStockphoto.com

Rent Trends

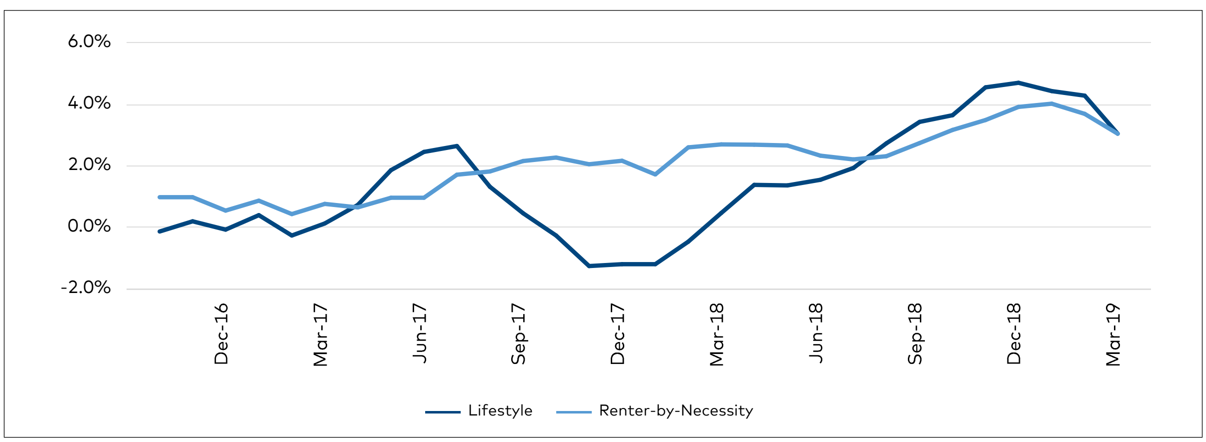
- Rents in Pittsburgh rose 3.1% year-over-year through March, a full 100-basis-point decrease from January and only 10 basis points below the U.S. average. After accelerating in the second half of 2018, rent growth moderated in the first quarter with the 1,502 units that came online in the metro last year. The average Pittsburgh rent climbed to $1,112, behind the $1,430 national figure.
- The average rate for both Lifestyle and working-class Renter-by-Necessity properties rose 3.0% year-over-year. The balance comes after elevated demand for high-end, well-positioned units led to a rent growth rate above the 4.0% mark for the Lifestyle segment in the last two months of 2018 and into 2019. As new product set to come online in the near future caters almost exclusively to high-income renters, rent growth in the city's relatively small upscale segment is expected to moderate further.
- Millennials attracted by jobs in tech and adjacent sectors and downsizing Baby Boomers are fueling housing demand, particularly across core submarkets. Downtown continues to command some of the highest rents in the metro, with the average rate at $1,685, followed by the Southside ($1,592) and Fox Chapel ($1,512). Overall occupancy in stabilized properties increased 30 basis points in the 12 months ending in February, to 95.7%. With supply and demand in a delicate balance, we expect the average Pittsburgh rent to advance 2.0% in 2019.

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)

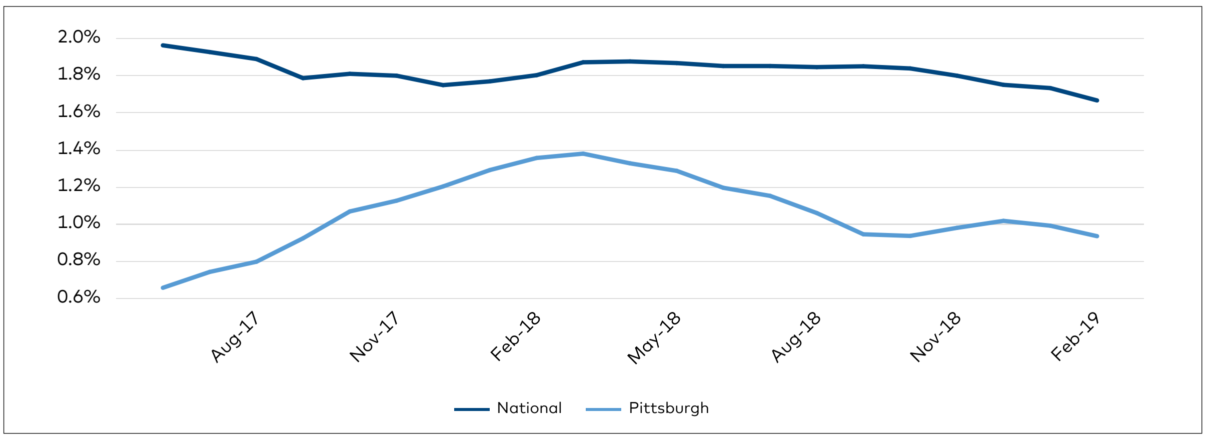


Source: YardiMatrix

Economic Snapshot

- Job growth in Pittsburgh dipped, with the metro adding only 6,400 positions in the 12 months ending in February for a 0.9% expansion, well below the 1.7% U.S. rate. The metro is reinforcing its traditional economic engines, as gains were led by education and health services (3,500 jobs) and mining, logging and construction (3,300), followed closely by leisure and hospitality (2,900).
- Several employment sectors contracted, losing a collective 3,900 jobs, with most in trade, transportation and utilities (-1,400) and manufacturing (-900). Despite the metro's dynamic startup environment, the professional and business services sector contracted by 600 jobs. Natural gas exploration company EQT Corp. laid off part of its 900 employees, based in the city's downtown, by removing management layers, according to the *Pittsburgh Post-Gazette*. BNY Mellon also cut 100 jobs in the region. More layoffs are expected, as Bayer Corp. will be closing down its Robinson Campus in the next two years, cutting roughly 570 administrative jobs and 100 contractors.
- Good news is coming from the metro's dynamic tech sector, which continues to attract ventures in robotics, artificial intelligence and autonomous vehicle research. Alternative lending provider Affirm will open an office in a Class A building on the North Side. The company expects to hire 100 people by the end of the year and reach a staff of 500 by 2024.

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)

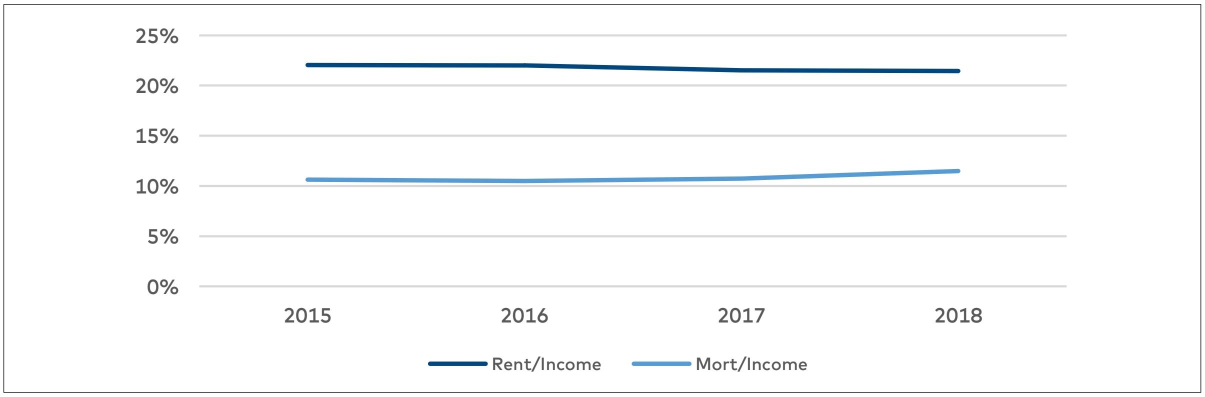
		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	262	22.3%	3,500	1.4%
15	Mining, Logging and Construction	66	5.6%	3,300	5.3%
70	Leisure and Hospitality	116	9.9%	2,900	2.6%
55	Financial Activities	74	6.3%	400	0.5%
50	Information	20	1.7%	200	1.0%
80	Other Services	49	4.2%	-400	-0.8%
90	Government	117	10.0%	-600	-0.5%
60	Professional and Business Services	179	15.2%	-600	-0.3%
30	Manufacturing	85	7.2%	-900	-1.1%
40	Trade, Transportation and Utilities	207	17.6%	-1,400	-0.7%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics
Affordability

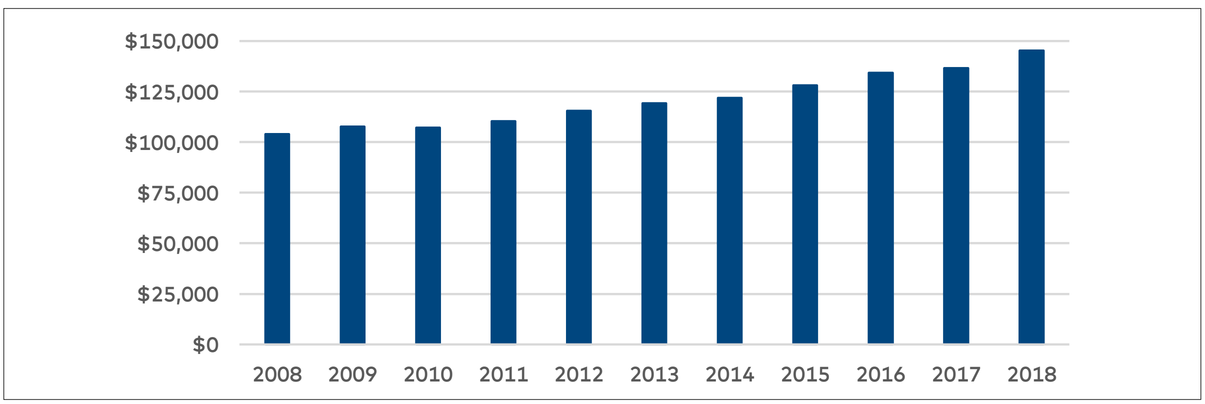
- The median home price in Pittsburgh increased 6% in 2018 to $145,237. Wage gains kept up pace with rising housing costs, maintaining the metro's status as one of the most affordable in the country. Affordability rates remained relatively flat last year, with the average rent accounting for 21% of the area median income. Ownership is still the more affordable option, with the average mortgage payment comprising just 11% of that figure.
- Nonetheless, research by developer Catalyst Communities published by *Affordable Housing Finance* shows that there is a shortage of 20,000 units for residents earning 50% or less of AMI.

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 23,616 residents between 2010 and 2017 for a 100-basis-point contraction.
- However, the downtown population expanded 24% in the same period.

Pittsburgh vs. National Population

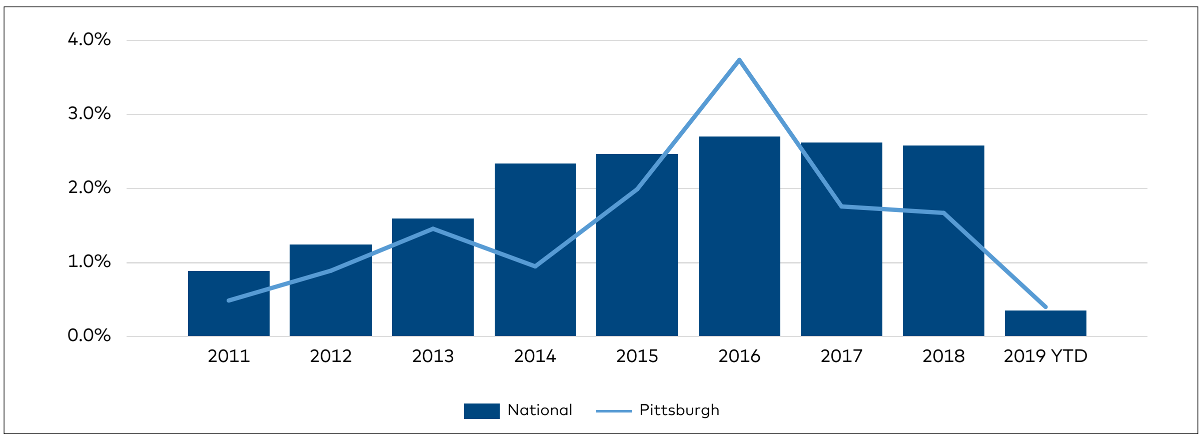
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Pittsburgh Metro	2,359,977	2,356,699	2,349,139	2,341,536	2,333,367

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

Supply

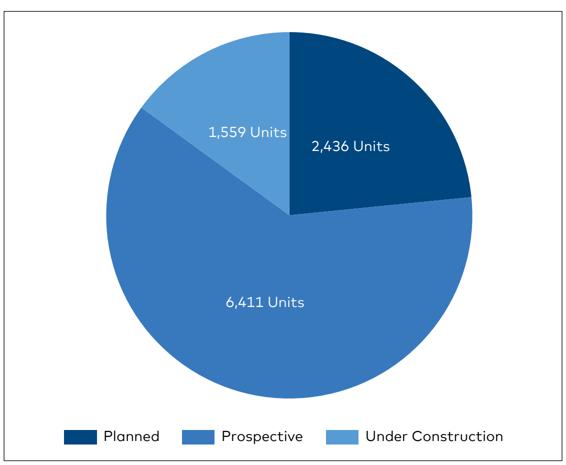
- The metro had 1,559 apartments under construction as of March, with development maintaining the pace of the last two years, when a total of 3,056 units were delivered. After peaking in 2016, when 3,241 units came online, the number of deliveries dropped to about 1,500 apartments per year in 2017 and 2018.
- The 364-unit Edge 1909, located downtown, is the only multifamily property of more than 50 units completed in the first quarter of this year. Yardi Matrix expects developers to bring 1,140 apartments online in 2019.
- The lion's share of Pittsburgh multifamily development remains concentrated in core areas. Downtown Pittsburgh had two projects totaling 447 units underway as of March, followed by the Southside (319 units), Oakland (197) and Bloomfield (150). Contrary to the metro's overall demographic dynamics, downtown Pittsburgh continues to record population growth, having added 4,438 residents between 2000 and 2017, according to the Pittsburgh Downtown Partnership. The influx of residents has fueled housing demand in the urban core.

Pittsburgh vs. National Completions as a Percentage of Total Stock (as of March 2019)



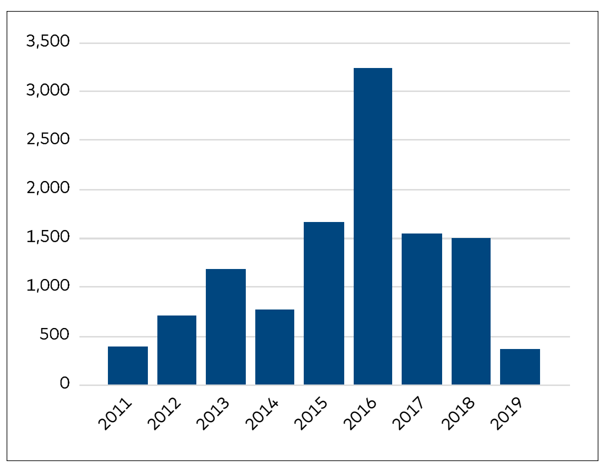
Source: YardiMatrix

Development Pipeline (as of March 2019)



Source: YardiMatrix

Pittsburgh Completions (as of March 2019)

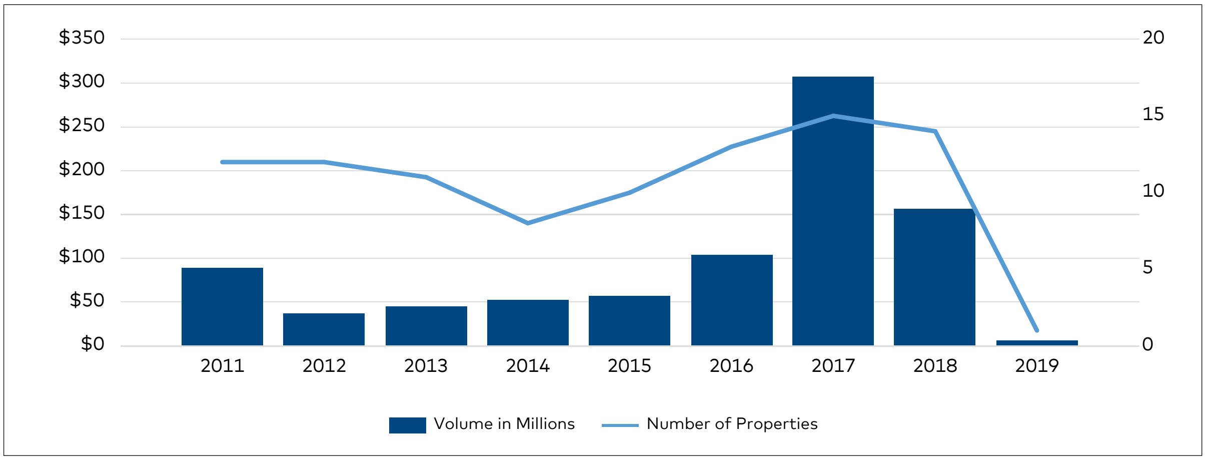


Source: YardiMatrix

Transactions

- In the first quarter of 2019, only one multifamily property of 50 or more units traded in Pittsburgh, for roughly $6 million. Ohio-based Insight Management Group acquired the 118-unit York Square in the metro's Beaver Falls suburb. The deal is representative of the market's investment landscape, which attracts out-of-state investors interested in Renter-by-Necessity properties with value-add potential. Pittsburgh provides acquisition yields in the 7.0% to 9.0% range for both infill and suburban assets offering redevelopment and/or repositioning opportunities.
- Transaction activity reached its peak in 2017, when 15 properties traded for nearly $307 million. Last year, 14 deals closed for half the amount—$156 million—as the price per unit reached its highest value this cycle—$98,974. Relatively healthy housing demand in areas close to the city core and steady supply levels are expected to continue attracting investors interested in higher yields.

Pittsburgh Sales Volume and Number of Properties Sold (as of March 2019)



Source: YardiMatrix

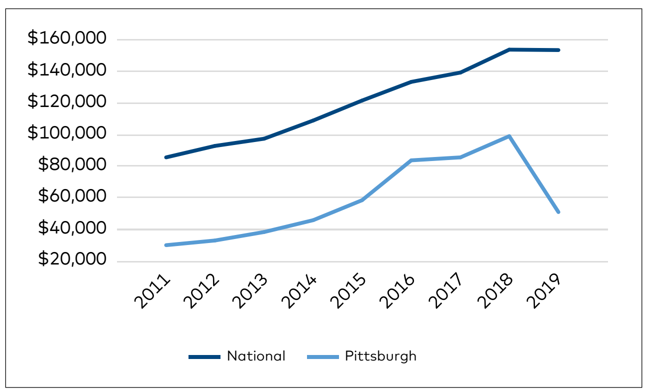
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Hampton Township	61
Oakdale	41
Coraopolis	20
Slippery Rock	12
Whitehall	8
Beaver	6
Wilkinsburg	4
Churchill	3

Source: YardiMatrix

[1] From April 2018 to March 2019

Pittsburgh vs. National Sales Price per Unit



Source: YardiMatrix

Top 5 Multifamily Transactions in Pittsburgh

By Jeff Hamann

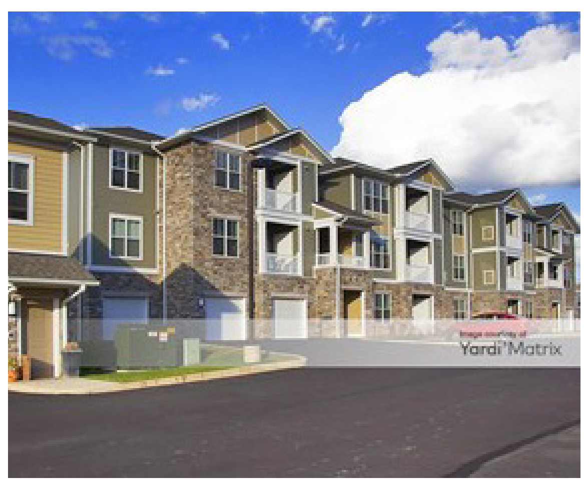
Following a banner 2017 in Pittsburgh, with nearly $307 million in multifamily transactions, 2018 finished significantly slower, with $156 million of assets trading. Despite the sharp decrease in sales volume, the metro remains attractive to investors, with competitive pricing and advantageous acquisition yields across the board.

More than 60 percent of the past year's transactions involved workforce or affordable housing.

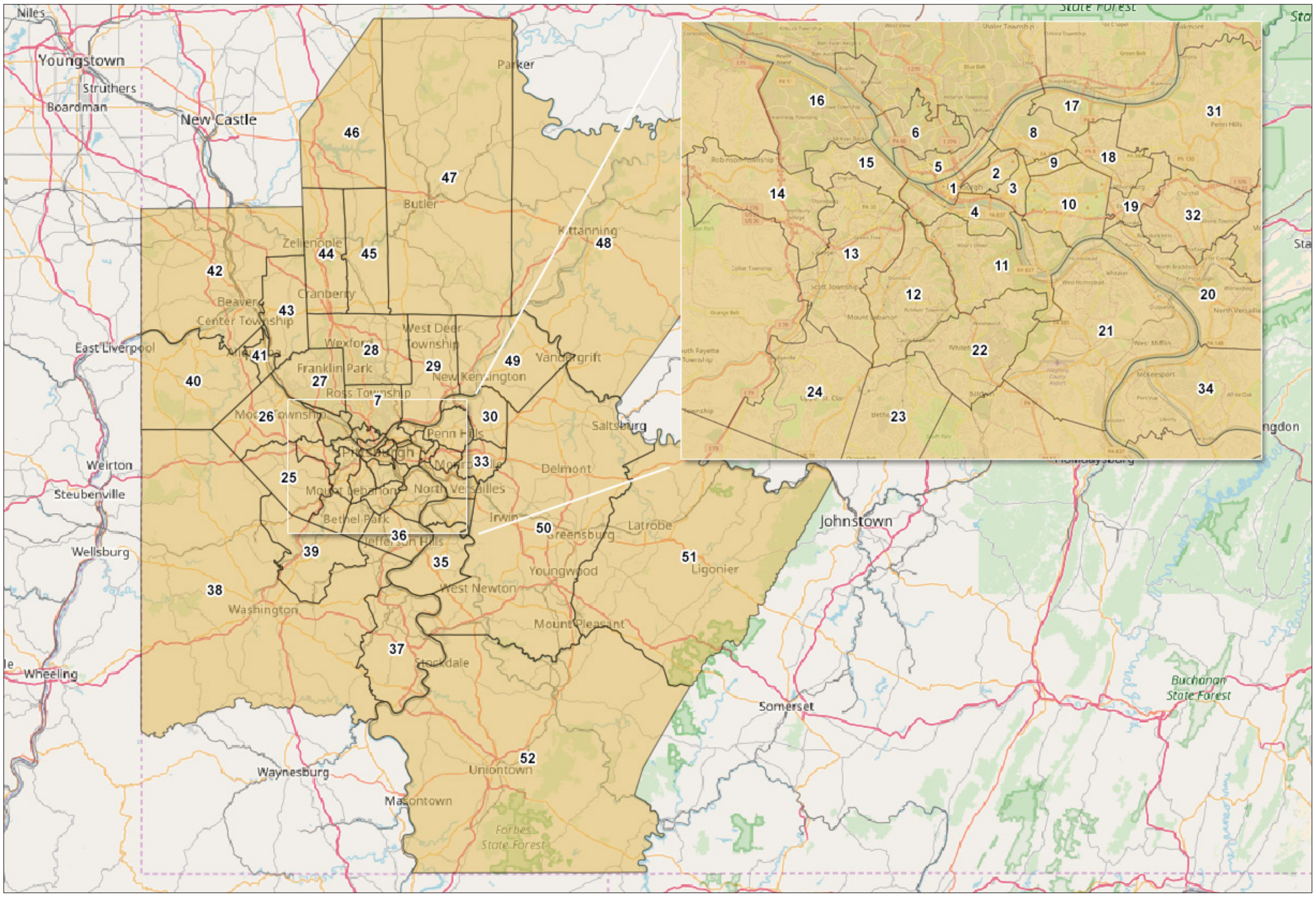
Property Name	Unit Count	Total Sale Price (MM)	Buyer	Seller	Sale Date
Ascent 430	319	61.03	Graycliff Capital	NRP Group	05/23/2018
Waterford Nevillewood	316	41.10	The Solomon Org.	Morgan Communities	09/17/2018
Waterford Landing	308	19.88	The Solomon Org.	Siara Management	12/12/2018
The Heights at Slippery Rock	100	12.17	Channing Realty Advisors	Ares Management	05/22/2018
York Square	118	5.99	Insight Management Group	Amore Management	01/31/2019

ASCENT 430

The largest multifamily transaction in Pittsburgh over the past year was NRP Group's $61 million sale of Ascent 430, a 319-unit Class A community, to a joint venture between Graycliff Capital and Buligo Capital Partners. HFF secured a 10-year, $44.9 million CMBS acquisition loan on behalf of the buyer. The community is located at 430 Ascent Drive in the Hampton Township submarket, some 18 miles north of central Pittsburgh. The property's 17 buildings, which opened to residents in December 2015, contain a mix of apartments and townhome units, with floorplans ranging from 669 to 1,467 square feet. On-site amenities include a 2,500-square-foot fitness center, a swimming pool, a clubhouse, garage parking and outside storage units. The asset was 97.8 percent occupied as of March.



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.