Pittsburgh's Steely Resolve

Multifamily Report Fall 2019

**Rent Growth on Par
With National Average**

**Developers Target
Greater Downtown**

**Property Values
Reach New High**

PITTSBURGH MULTIFAMILY

Yardi® Matrix

Market Analysis
Fall 2019

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Population Declines, Income Rises

A diverse business climate and strong talent pool coming out of local universities are drawing companies to Pittsburgh, boosting the region's innovation economy. And while the metro's population may be declining, steady job gains in high-paying industries are driving demand for luxury properties.

As the hiring pool shrinks, Pittsburgh's employment rose just 0.5% in the 12 months ending in July, while unemployment has dipped to levels not seen since the 1970s. Construction led growth with 3,200 jobs, boosted by major developments, including the $1 billion Hazelwood Green mixed-use project that recently opened its first building for Carnegie Mellon University's new research and development hub. Leisure and hospitality gained 3,000 jobs, followed by professional and business services (2,400). Pittsburgh's artificial intelligence research is thriving, attracting tech powerhouses such as Google, Uber and Argo AI.

Nearly $130 million in assets traded in Pittsburgh in the first nine months of 2019, at an average price per unit of $104,661, a cycle high as new construction in recent years has begun to attract more capital. Some 2,100 units were underway as of September, with more than half concentrated in the downtown area. Demand is expected to remain robust, allowing for an average rent growth of at least 2.0% by the end of 2019.
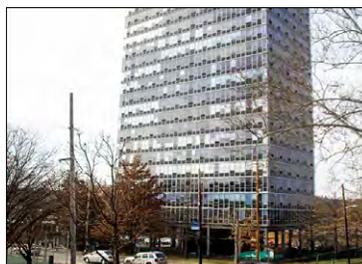
Recent Pittsburgh Transactions

Morrow Park City

City: Pittsburgh, Pa.
Buyer: Albion Residential
Purchase Price: $51 MM
Price per Unit: $237,127

Bear Run Village

City: Pittsburgh, Pa.
Buyer: Nexus Real Estate
Purchase Price: $46 MM
Price per Unit: $104,452

Highland Park by Albion

City: Pittsburgh, Pa.
Buyer: Albion Residential
Purchase Price: $10 MM
Price per Unit: $60,823

Greenview Gardens

City: Butler, Pa.
Buyer: Evergreen Real Estate Services
Purchase Price: $8 MM
Price per Unit: $54,818

Rent Trends

- Rents in Pittsburgh rose 3.1% year-over-year as of September, almost on par with the 3.2% national rate. The metro's average rent stood at $1,144, below the $1,471 U.S. figure. Following a slowdown in deliveries in the first half of 2019, occupancy in stabilized properties increased by 20 basis points year-over-year as of August, to 95.9%, above the 95.1% national average.

- Rents in the working-class Renter-by-Necessity segment rose 3.3% to $1,009, while Lifestyle rates increased by 2.7% to $1,608. A rise in the region's millennial and generation Z workforce coming out of local universities is bolstering rental demand, along with empty nesters looking to downsize. Moreover, the area's steady growth in high-paying jobs is creating demand for additional Lifestyle products, while having a multiplier effect on the local economy, especially on services. As new multifamily units come online, we expect an average rent growth of at least 2.0% by the end of 2019.

- Submarkets that saw the highest rent gains include Canonsburg (up 10.4% to $1,392); Coraopolis (up 7.9% to $1,139); Butler (up 7.8% to $882); McKees Rocks (up 7.2% to $977); Bethel Park (up 6.9% to $1,170); Hill District (up 6.8% to $1,307); Robinson Township (up 6.6% to $1,270) and Monroeville (up 6.2% to $965). Pittsburgh–Downtown commands the highest rents (up 1.3% to $1,747), followed by the South Side (down 0.7% to $1,649); Oakland (up 3.4% to $1,536) and Shadyside (up 0.7% to $1,463).

Pittsburgh vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)
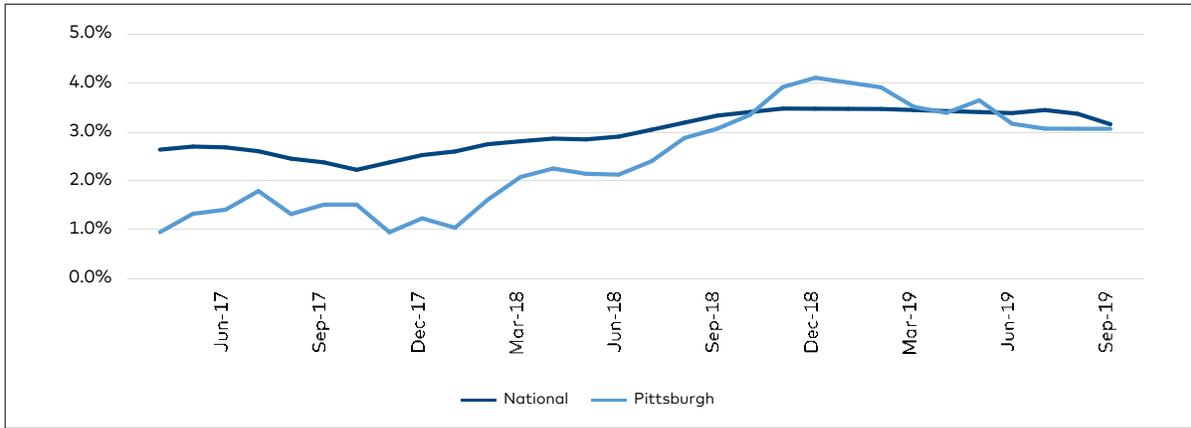
Source: YardiMatrix

Pittsburgh Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)
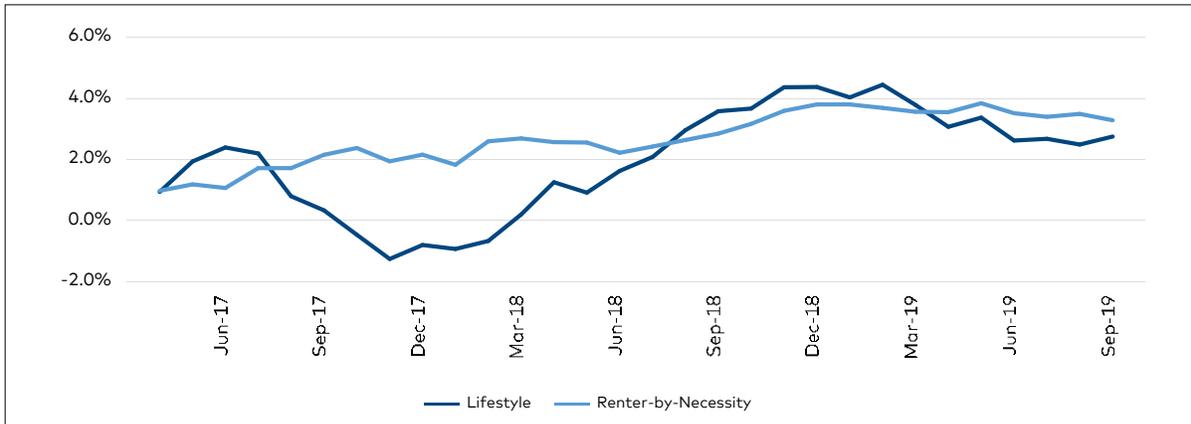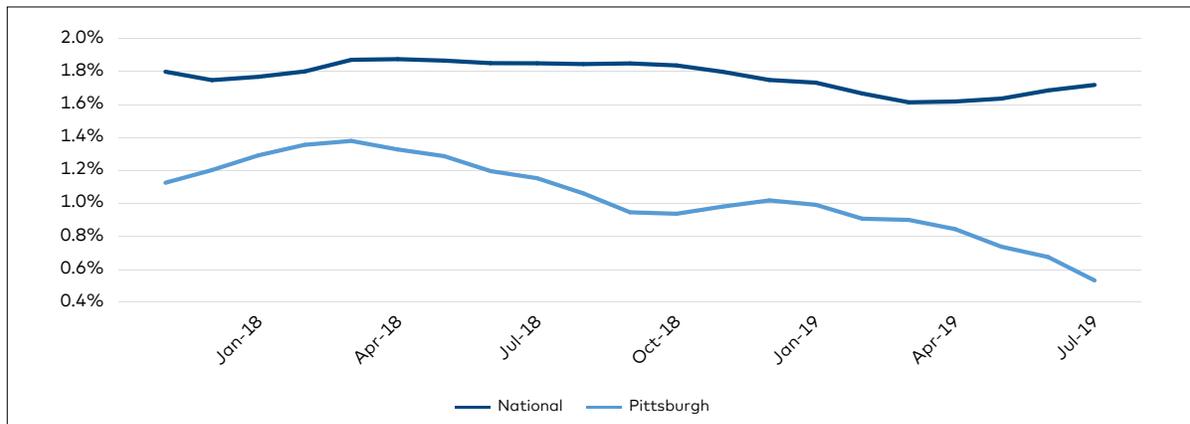

Source: YardiMatrix

Economic Snapshot

- As the hiring pool shrinks, Pittsburgh only gained 800 jobs in the 12 months ending in July, a 0.5% year-over-year increase, well below the 1.7% national average. In 2019, the unemployment rate—4.5% as of July—dipped to levels not seen since the 1970s, before the collapse of the steel industry.

- Construction led growth, with the addition of 3,200 jobs. The metro is in the midst of an office development boom, with nearly 2.5 million square feet of projects underway as of September. Many of the upcoming developments are mixed-use, including Hazelwood Green, a $1 billion project that already opened its first building—Mill 19, Carnegie Mellon University's new research and development hub. Pittsburgh International Airport's Innovation Campus is also in the pipeline, calling for a 195-acre mix of office and industrial space. The campus will operate in a foreign trade zone, a designation meant to lure foreign advanced manufacturing firms through tax exemptions.

- Leisure and hospitality added 3,000 jobs, followed by professional and business services (2,400 jobs). A talented workforce is drawing major companies to the region. Pittsburgh's innovation economy is thriving: Google is expanding its artificial intelligence research in East Liberty, while Uber Advanced Technologies and Argo AI are testing self-driving cars in the Strip District. By sponsoring tech incubators, Carnegie Mellon University and the University of Pittsburgh also boost tech employment.

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	%
15	Mining, Logging and Construction	77	6.5%	3,200	4.3%
70	Leisure and Hospitality	128	10.8%	3,000	2.4%
60	Professional and Business Services	187	15.8%	2,400	1.3%
80	Other Services	53	4.5%	1,000	1.9%
50	Information	20	1.7%	600	3.1%
55	Financial Activities	76	6.4%	-200	-0.3%
90	Government	108	9.1%	-300	-0.3%
65	Education and Health Services	247	20.8%	-2,400	-1.0%
30	Manufacturing	85	7.2%	-2,800	-3.2%
40	Trade, Transportation and Utilities	205	17.3%	-3,700	-1.8%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

- The median home price in Pittsburgh rose to $144,808 in 2018, up 6.1% year-over-year and 35.3% above the 2010 level. The average rent accounted for 21% of the area median income, while the average mortgage payment remained much more affordable, comprising only 11%.

- While the metro's population is slowly declining, high-tech manufacturing helped the Pittsburgh area increase its per capita income by 24% between 2000 and 2017, according to the most recent inflation-adjusted data from the U.S. Bureau of Economic Analysis. Moreover, Pittsburgh incomes have outpaced the national average since 2010.

Pittsburgh Rent vs. Own Affordability as a Percentage of Income
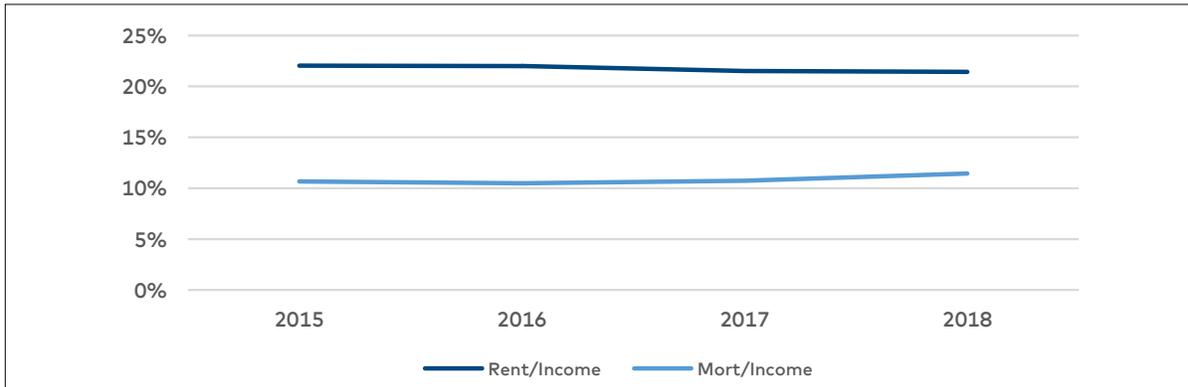
Sources: YardiMatrix, Moody's Analytics

Pittsburgh Median Home Price
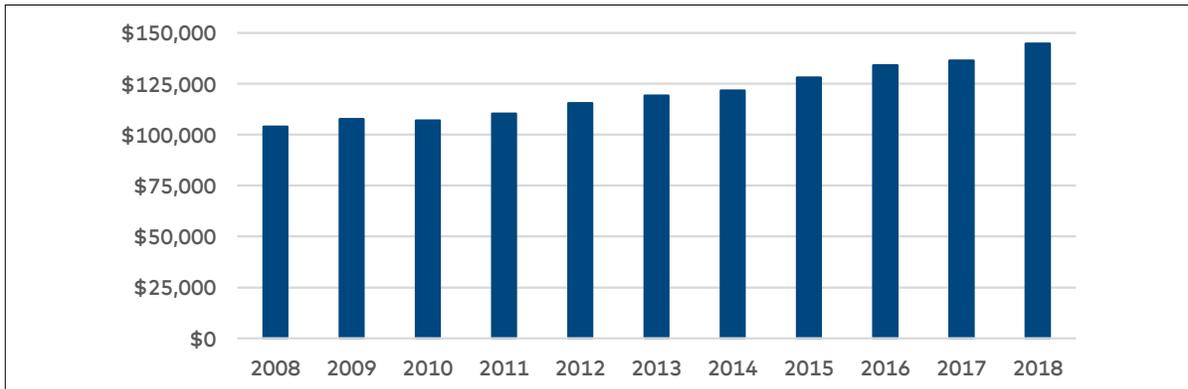
Source: Moody's Analytics

Population

- Pittsburgh lost 5,540 residents in 2018, a 0.2% decrease, while the U.S. population rose by 0.6%.

- Between 2014 and 2018, the metro's population dropped by 31,458 residents, representing a 1.3% decline.

### Pittsburgh vs. National Population

	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Pittsburgh Metro	2,356,201	2,347,907	2,340,576	2,330,283	2,324,743

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

Supply

- Twelve properties totaling 2,172 units were under construction in Pittsburgh as of September, eight of which cater to Lifestyle renters. In the first nine months of 2019, only two projects came online totaling 561 Class A units and representing 0.6% of total stock year-to-date, well below the 1.6% national average.

- Supply growth is concentrated around the metro's intellectual capital nodes, especially in Pittsburgh– Downtown, which had five projects totaling 1,130 units under construction as of September. Despite a declining population across the metro, the number of residents in the Greater Downtown area increased by 24% between 2010 and 2017, sustaining multifamily demand. The Southside also had a 319-unit development underway, while Jefferson Hills had a 180-unit community in the works. The metro's pipeline also included 8,365 units in the planning and permitting stages.

- NRP Group's 443-unit second phase of Edge 1909 ranked as the largest multifamily project. The downtown community is part of a mixed-use development along the Allegheny Riverfront in the Strip District that is scheduled for completion by the end of 2020. The project will cater to professionals who commute to an area known as Robotics Row, a haven for local and national tech firms.

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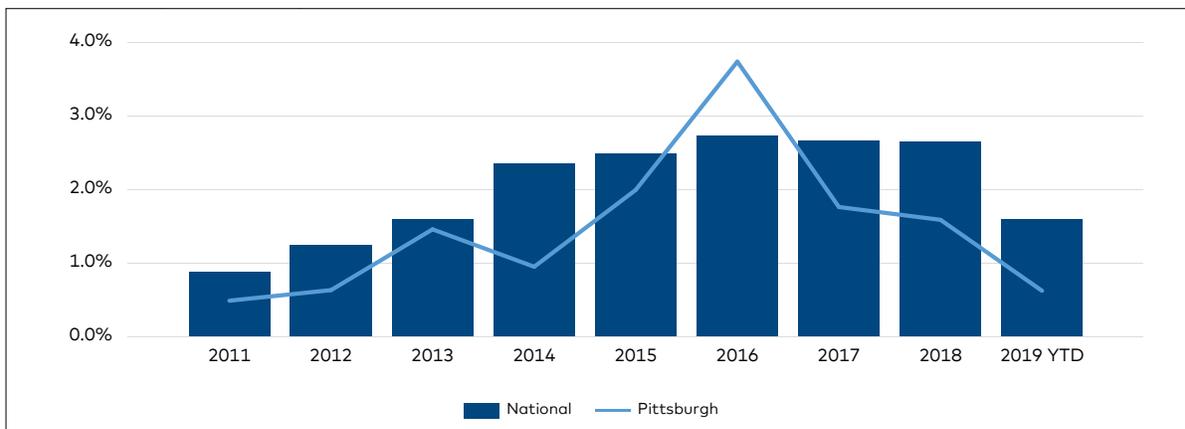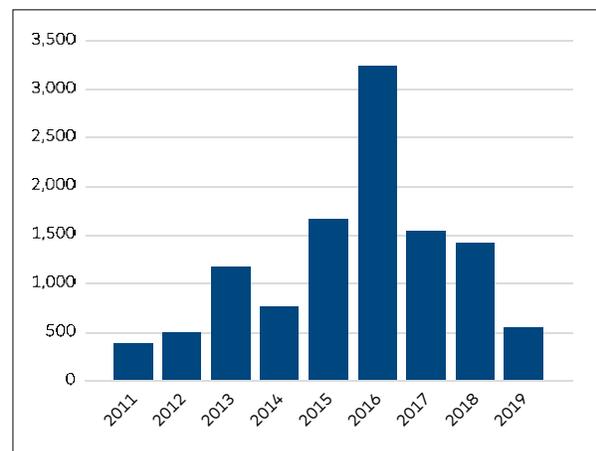

Source: YardiMatrix

Development Pipeline (as of September 2019)
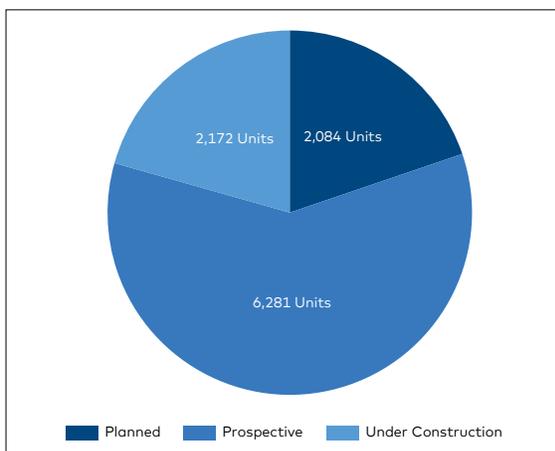
Source: YardiMatrix

**Pittsburgh Completions** (as of September 2019)

Source: YardiMatrix

Transactions

- Nearly $130 million in multifamily assets traded in Pittsburgh through September, at an average price per unit of $104,661, a new cycle high, as construction in recent years has begun to attract more capital. The figure, however, remains below the $158,670 national average. In 2018, nearly $156 million in properties traded at an average per-unit price of $98,974.

- Drawn by the market's solid fundamentals, a more diversified investor landscape focused on Renter-by-Necessity properties in both infill and suburban locations, where acquisition yields can go as high as 9.0%, as well as on Lifestyle assets that offer first-year returns in the 5.0% to 6.5% range.

- Albion Residential's $50.5 million acquisition of Morrow Park City ranked as the largest deal of 2019 through September. Village Green Management sold the Class A property for $237,127 per unit.

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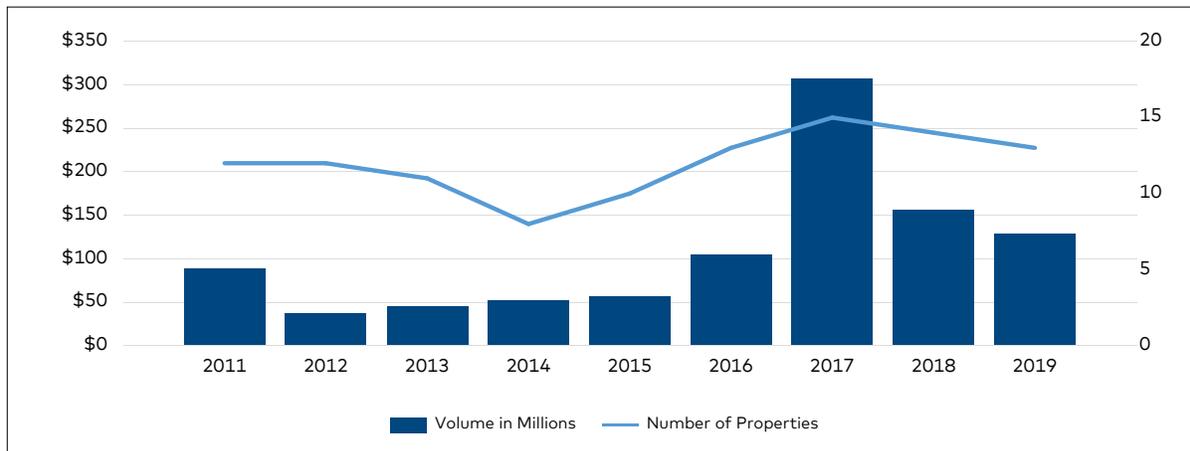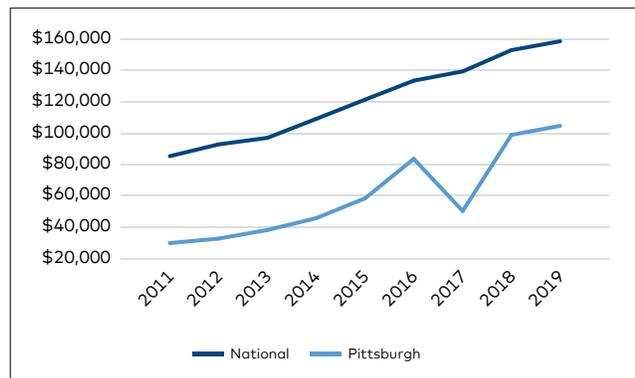

Source: YardiMatrix

Top Submarkets for Transaction Volume[1]

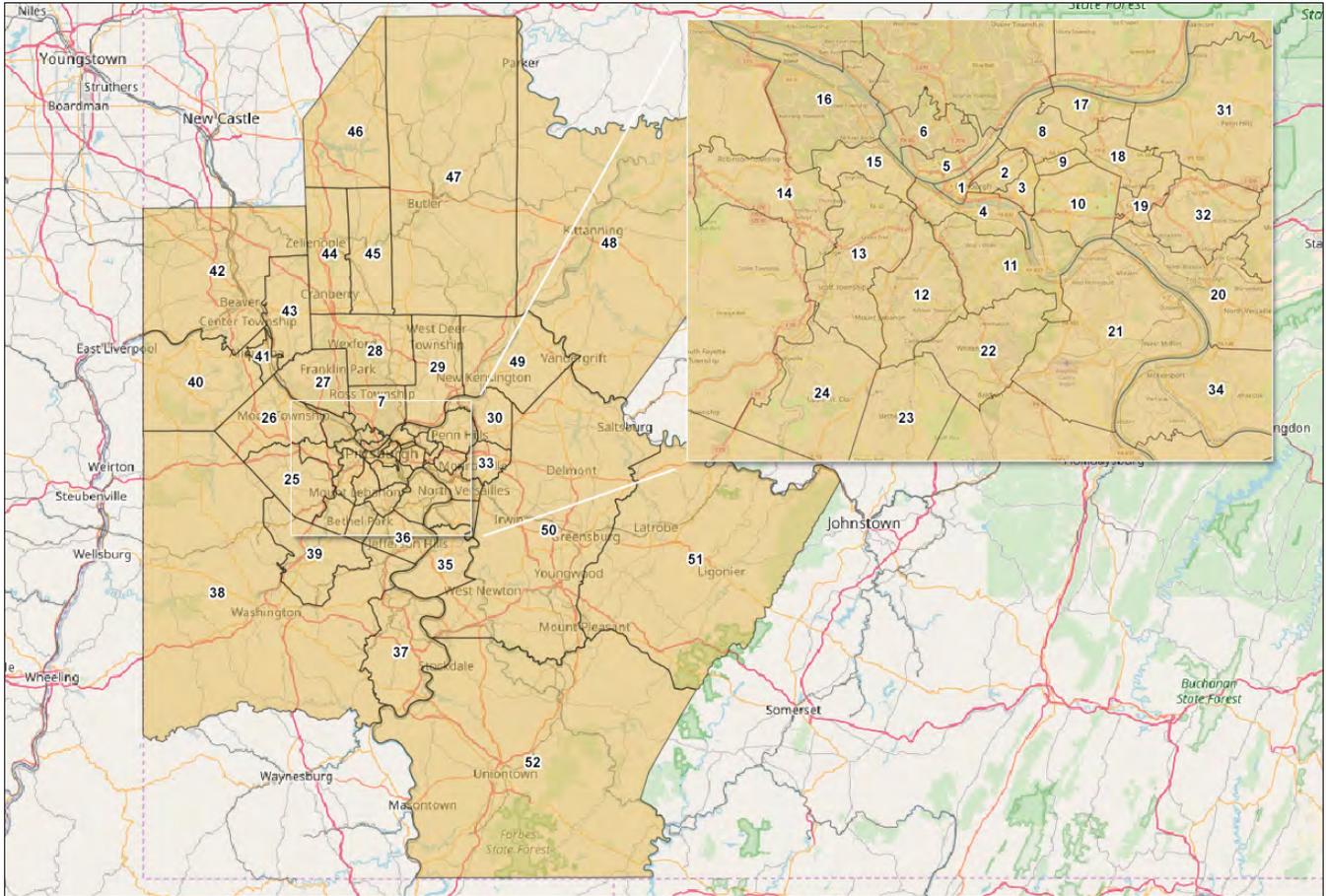| Submarket	Volume ($MM)
Bloomfield	51
Franklin Park	46
Coraopolis	20
Highland Park	10
Butler	8
Oakdale	7
Beaver	6
Fox Chapel	2

Source: YardiMatrix
[1] From October 2018 to September 2019

Pittsburgh vs. National Sales Price per Unit

Source: YardiMatrix

Pittsburgh Submarkets

Area #	Submarket	Area #	Submarket	Area #	Submarket
1	Pittsburgh–Downtown	19	Wilkinsburg	37	Centerville
2	Hill District	20	Braddock	38	Washington
3	Oakland	21	West Mifflin	39	Canonsburg
4	South Side	22	Whitehall	40	Raccoon Creek
5	North Shore	23	Bethel Park	41	Aliquippa
6	Perry	24	Upper St. Clair	42	Beaver
7	West View	25	Oakdale	43	Economy
8	Bloomfield	26	Coraopolis	44	Cranberry Township
9	Shadyside	27	Franklin Park	45	Fox Run
10	Squirrel Hill	28	Hampton Township	46	Slippery Rock
11	Carrick	29	Fox Chapel	47	Butler
12	Castle Shannon	30	Plum	48	Armstrong County
13	Carnegie	31	Penn Hills	49	New Kensington
14	Robinson Township	32	Churchill	50	Greensburg
15	Fairywood	33	Monroeville	51	Latrobe
16	McKees Rocks	34	McKeesport	52	Fayette County
17	Highland Park	35	Elizabeth		
18	Homewood	36	Jefferson Hills		

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.