



**YARDI**® Matrix

# Pittsburgh's Transition

Multifamily Winter Report 2017

**Record Supply Cools Off Rent Hikes**  
**Millennials Drive Downtown Demand**  
**Development Concentrated in Core Areas**

## Market Analysis

Winter 2017

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## Record Completions Fill the Gaps

Pittsburgh's multifamily market is a bit of a conundrum. Population has been almost flat for the past five years and supply mushroomed in 2016, leading rents to contract by 20 basis points. Yet the city has some positive economic signals, led by a growing white-collar job base.

Pittsburgh is in an ongoing transition from its blue-collar, industrial profile to a more diversified job market aiming at young, highly skilled workers. On one hand, the metro is bleeding lower-paid jobs and working-class households are being priced out of some core areas. On the other hand, the greater downtown submarket is thriving on this demographic shift, with highly paid Millennials taking advantage of the area's job market, affordability and quality of life. The city benefits from a deep talent pool fueled by Carnegie Mellon, the University of Pittsburgh and several other institutions. Attracted by the large number of degree-holding young professionals, large tech companies—including Uber quite recently—have chosen to set up a base or expand Pittsburgh operations.

With more than 10,000 units in different stages of development, almost 2,300 of which are slated for completion in 2017, the pipeline is likely to cool off, but not by much. The record-breaking supply volume, together with the high affordability of owning and the city's slowly declining population, have put a strong damper on rent growth. The damper won't be let up, at least not in the short run.

## Recent Pittsburgh Transactions

The Pennsylvanian



City: Pittsburgh  
Buyer: JMC Holdings  
Purchase Price: \$38 MM  
Price per Unit: \$154,959

Carson Towers



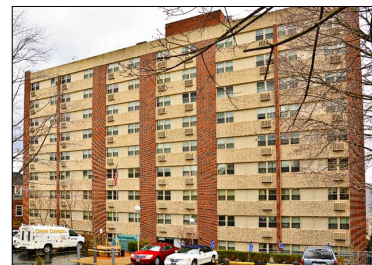
City: Pittsburgh  
Buyer: Standard Property Co.  
Purchase Price: \$14 MM  
Price per Unit: \$102,256

The Heights at Slippery Rock



City: Slippery Rock, Pa.  
Buyer: Ares Management  
Purchase Price: \$13 MM  
Price per Unit: \$126,000

State Manor



City: Coraopolis, Pa.  
Buyer: Millennia Housing Cos.  
Purchase Price: \$6 MM  
Price per Unit: \$55,048

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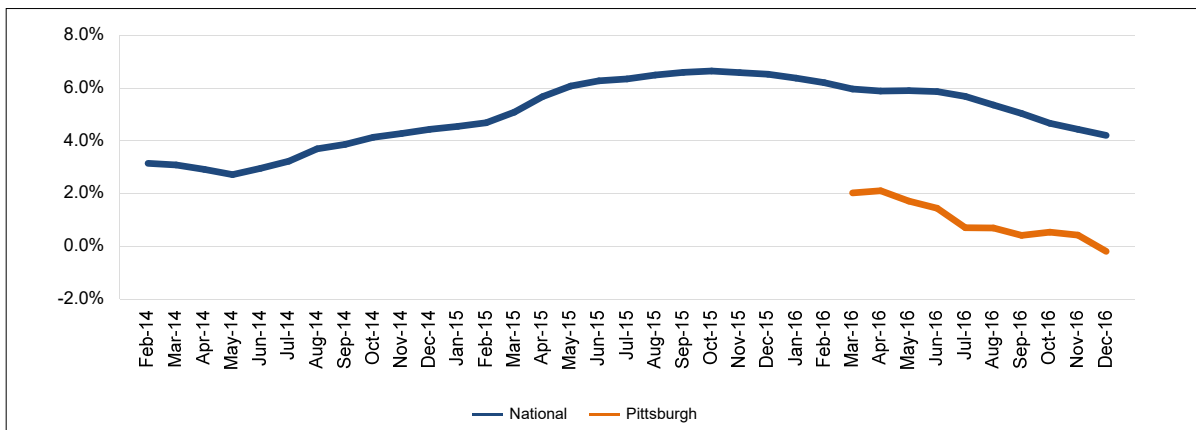
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## Rent Trends

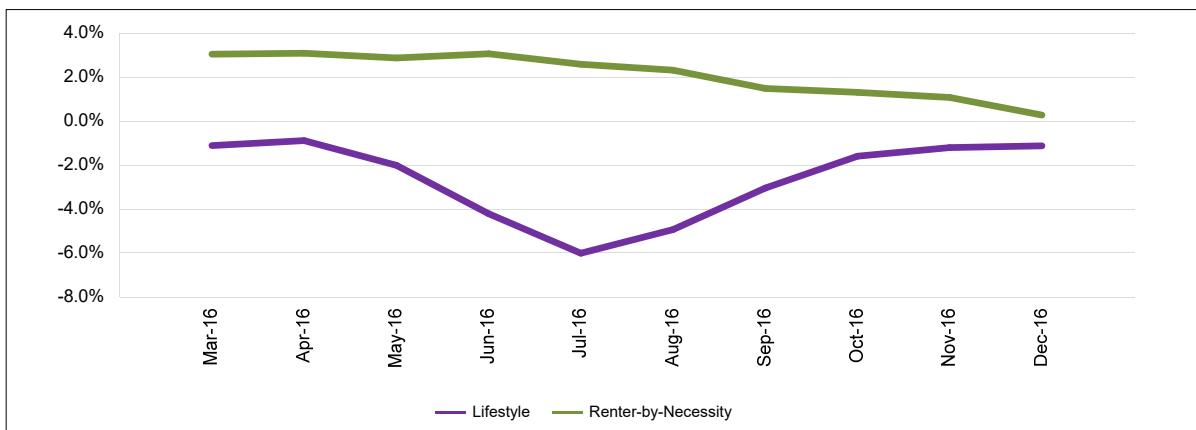
- Pittsburgh rents fell by 20 basis points in 2016, trailing the 3.9% national growth rate. Average rents were \$1,025, almost \$200 behind the national average of \$1,210. During the last three quarters, Pittsburgh rents have constantly trailed the national growth rate by roughly 400 points.
- Rents in the upscale Lifestyle class dropped by 1.1% in 2016 to \$1,278. The average rate peaked at \$986 for the working-class Renter-by-Necessity class, recording a 20-basis-point rise year-over-year. Underperformance was partially driven by record levels of new stock delivered during the last 12 months—a fact that has heavily impacted demand for Lifestyle units during the summer—but also by long-term factors, including the city’s slowly declining population and constant loss of jobs across several sectors.
- Rent growth across the map is spotty, telling two different stories. On one hand, lower-paid renters are being priced out of core areas recording solid hikes, including downtown (13.4% rise), Squirrel Hill (12.8%) and Shadyside (6.9%). On the other hand, demographic shifts and the changing job market are taking their toll on a good number of submarkets, the list being led by Castle Shannon (-8.1%), Penn Hills (-4.2%), Bloomfield (-3.5%) and Robinson Township (-3.3%).

**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)**

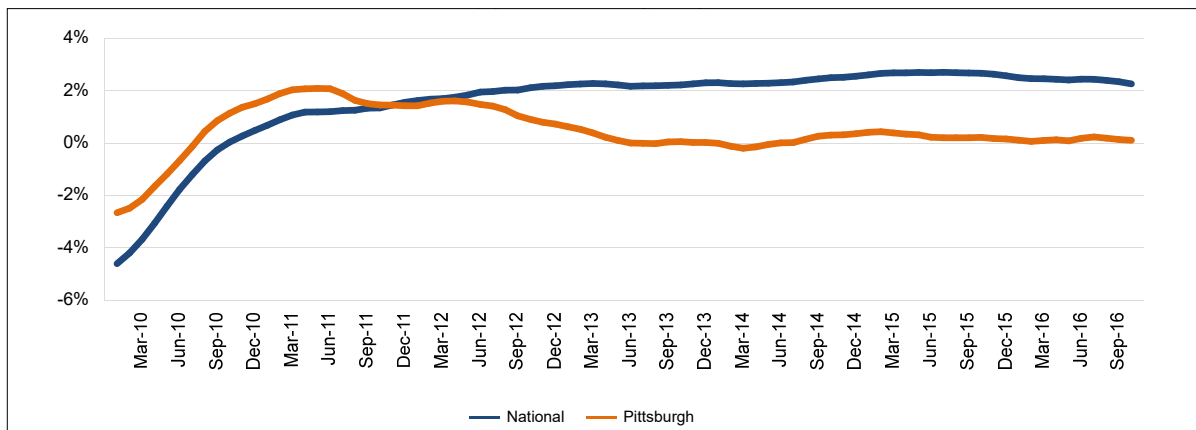


Source: YardiMatrix

## Economic Snapshot

- Pittsburgh added just 2,500 jobs in the year ending in October, marking a 0.1% increase, way below the 2.3% national average.
- The metro is in the middle of a sluggish market shift, losing lower-paid jobs in traditional sectors and gaining well-paid positions in fields requiring highly skilled workers. Slowly moving away from its blue-collar city image, Pittsburgh continues to diversify its workforce by adding jobs in fields including health care, high technology and energy. This explains the 4,800 jobs gained by the professional and business services sector and, at the other end, the 5,300 jobs lost by the construction and trade, transportation and utilities sectors.
- The growth in white-collar jobs is reflected in office activity. Asking rents for office space have increased for 15 consecutive quarters, according to CBRE. Large tenants—including U.S. Steel and Federated Investors—have recently renewed leases, bringing stability to an already strong office market.
- Major projects are concentrated in core areas. Faros' recent repositioning of the 1.5 million-square-foot Allegheny Center/Nova Place and the planned redevelopment of the Civic Arena site are showing strong development potential in the area. At the same time, Shell's \$6 billion plant project in Beaver County is set to boost a struggling industry and create as many as 6,000 construction jobs.

### 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	%
60	Professional and Business Services	186	15.8%	4,800	2.7%
90	Government	120	10.2%	1,700	1.4%
80	Other Services	53	4.5%	1,100	2.1%
65	Education and Health Services	245	20.8%	300	0.1%
70	Leisure and Hospitality	121	10.3%	200	0.2%
30	Manufacturing	86	7.3%	100	0.1%
50	Information	18	1.5%	-200	-1.1%
55	Financial Activities	69	5.9%	-200	-0.3%
40	Trade, Transportation and Utilities	215	18.3%	-2,600	-1.2%
15	Mining, Logging and Construction	66	5.6%	-2,700	-3.9%

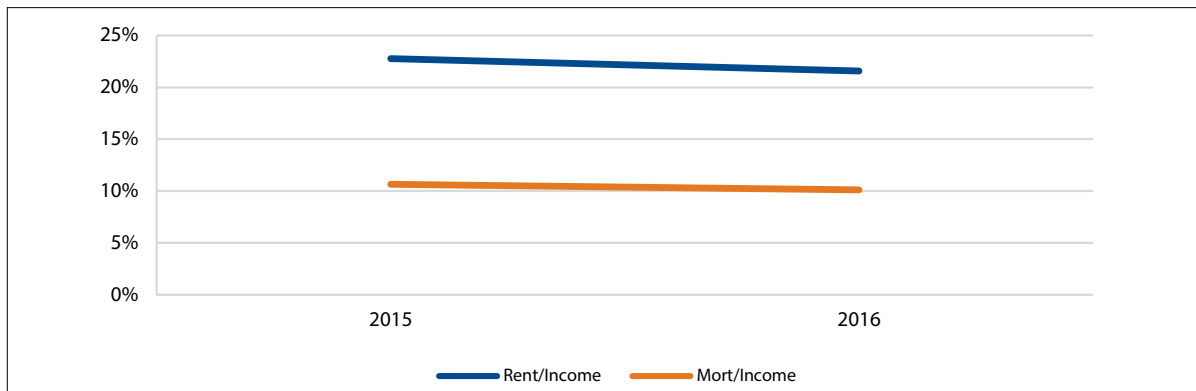
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

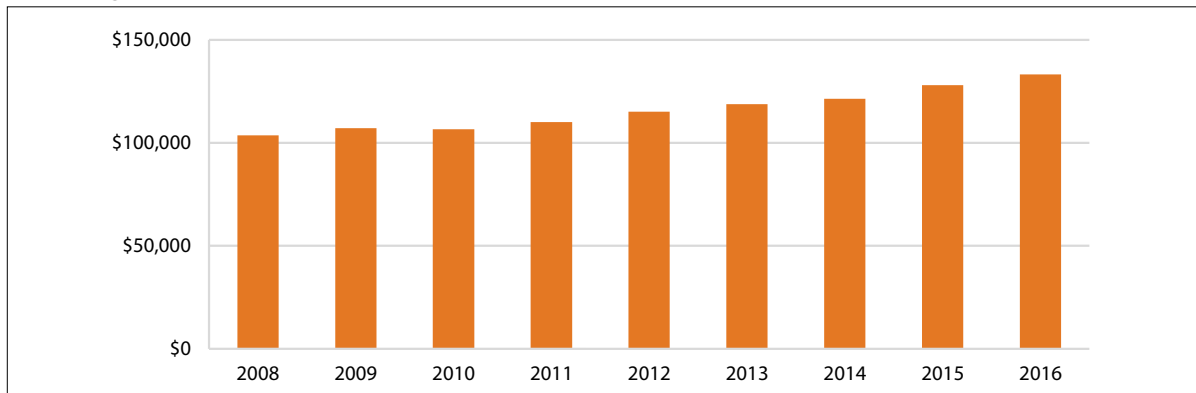
- The median home price rose to \$133,000 in 2016, reaching another peak for the current cycle. Even if this was the sixth consecutive year of home price hikes, Pittsburgh remains relatively affordable. According to the U.S. Census Bureau, the city's homeownership rate was 73.4% in the third quarter of 2016, up 330 basis points from the year prior and the third-highest percentage among the country's 75 largest metropolitan statistical areas.
- Owning remains drastically more affordable than renting in Pittsburgh, as the average mortgage accounts for 10% of the city's median income while renting, at an average of \$1,025 per month, represents 22%.

### 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's population contracted by roughly 7,000 people from 2011 to 2015, a 30-basis-point decrease.
- In 2015 alone, the metro lost 5,000 residents, a 0.2% contraction.

### Pittsburgh vs. National Population

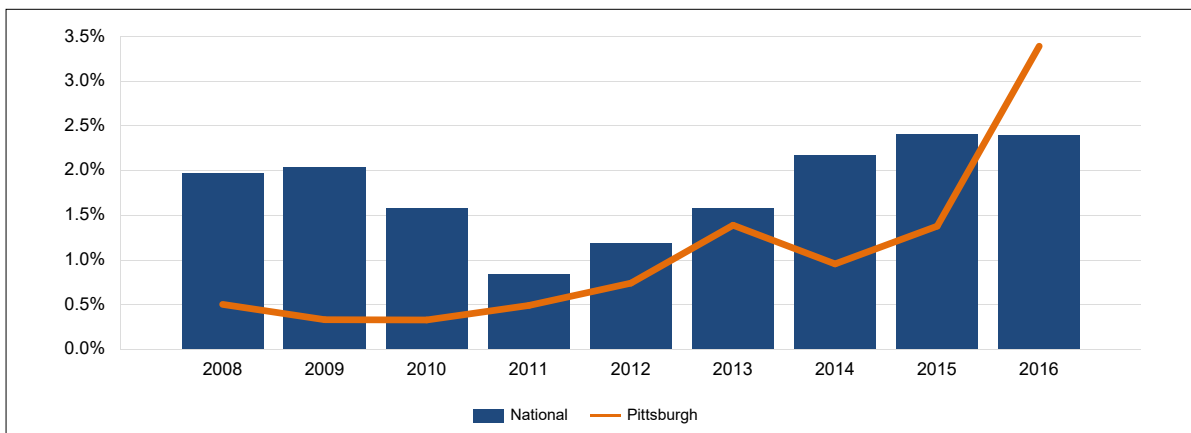
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Pittsburgh, PA Metropolitan Statistical Area	2,360,162	2,361,815	2,361,518	2,358,096	2,353,045

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

## Supply

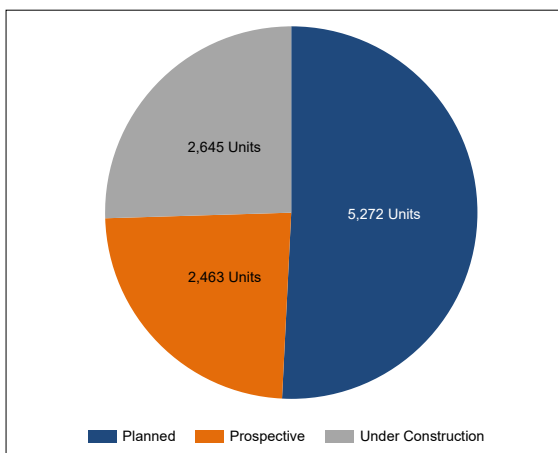
- Roughly 2,900 units came online in Pittsburgh in 2016, a cyclical high that nearly equates to the volume of new deliveries of the previous three years combined. The stock increase accounted for a 3.4% inventory expansion, 100 basis points above the national average. This was the first time during the current cycle that Pittsburgh outperformed the national average rate of new stock.
- Last year's construction surge is poised to continue, as the metro has more than 10,000 units in different stages of development, 2,600 of which are already under construction. Most of 2016's deliveries are located within or close to downtown, with the current pipeline concentrating on the same core areas. According to the Pittsburgh Downtown Partnership, the population of the Golden Triangle increased by 33.7% between 2000 and 2015, another reason for developers to continue betting on the area's potential.
- The Civic Arena redevelopment, one of Pittsburgh's largest projects, includes 1,191 planned rental units. This project reinforces a long-run development boom targeting core areas. The downtown, Oakland and Bloomfield submarkets have more than 1,300 units under construction, 1,000 of which are slated to come online in 2017. Bloomfield alone has more than 2,000 units in different stages of development.

### Pittsburgh vs. National Completions as a Percentage of Total Stock (as of December 2016)



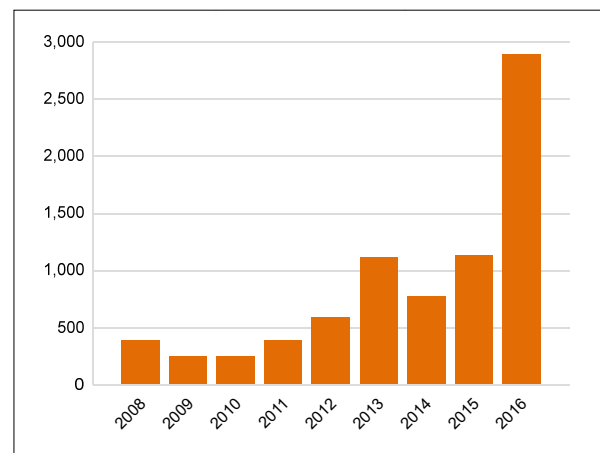
Source: YardiMatrix

### Development Pipeline (as of December 2016)



Source: YardiMatrix

### Pittsburgh Completions (as of December 2016)

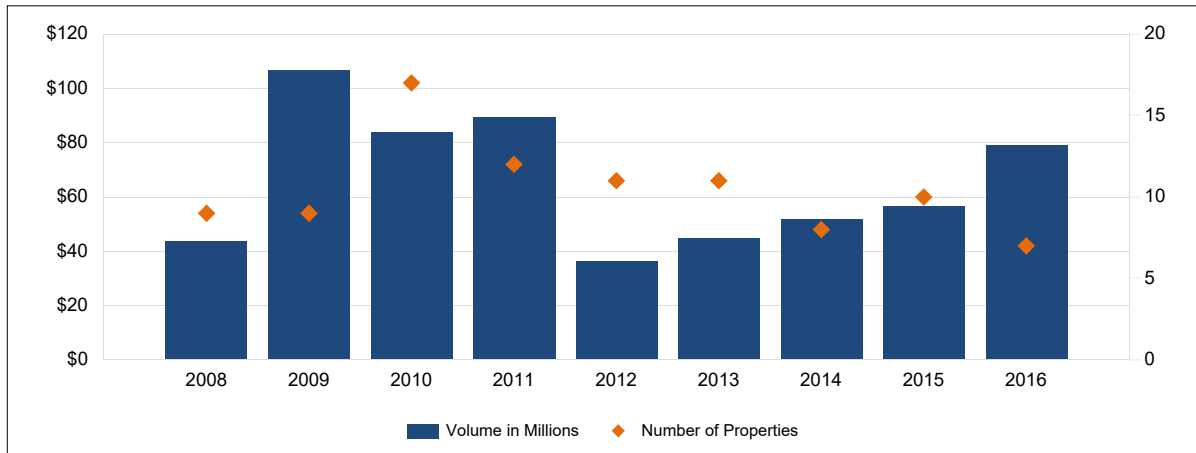


Source: YardiMatrix

## Transactions

- Investor interest in the Pittsburgh market remains tepid, with only \$79 million worth of properties having traded in 2016. The combined investment volume of the previous four years stands below the \$200 million mark. Although investors are searching for yield in secondary markets, there is a decided lack of confidence in Pittsburgh.
- At \$102,140, the average price per unit nearly doubled since 2015, but still remains below the national average of \$134,802. The solid price surge is partially due to the sale of the 242-unit Pennsylvanian in downtown Pittsburgh, which traded for almost \$155,000 per unit. JMC Holdings bought the asset from Brothers Property Co. for \$37.5 million.
- Roughly a third of the total 2016 investment volume is represented by dispositions of local company Crossgates. Its four fully affordable properties—Wood Towers, Carson Towers and Homewood House in Pittsburgh, as well as State Manor in Coraopolis—add up to 433 units and sold for a combined \$29 million, or an average of \$67,110 per unit.

### Pittsburgh Sales Volume and Number of Properties Sold (as of December 2016)



Source: YardiMatrix

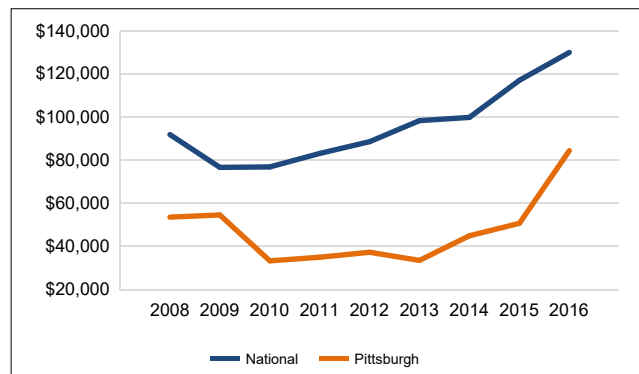
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Pittsburgh Downtown	38
Southside	14
Slippery Rock	13
Homewood	10
Coraopolis	6

Source: YardiMatrix

<sup>1</sup> From January 2016 to December 2016

### Pittsburgh vs. National Sales Price per Unit



Source: YardiMatrix

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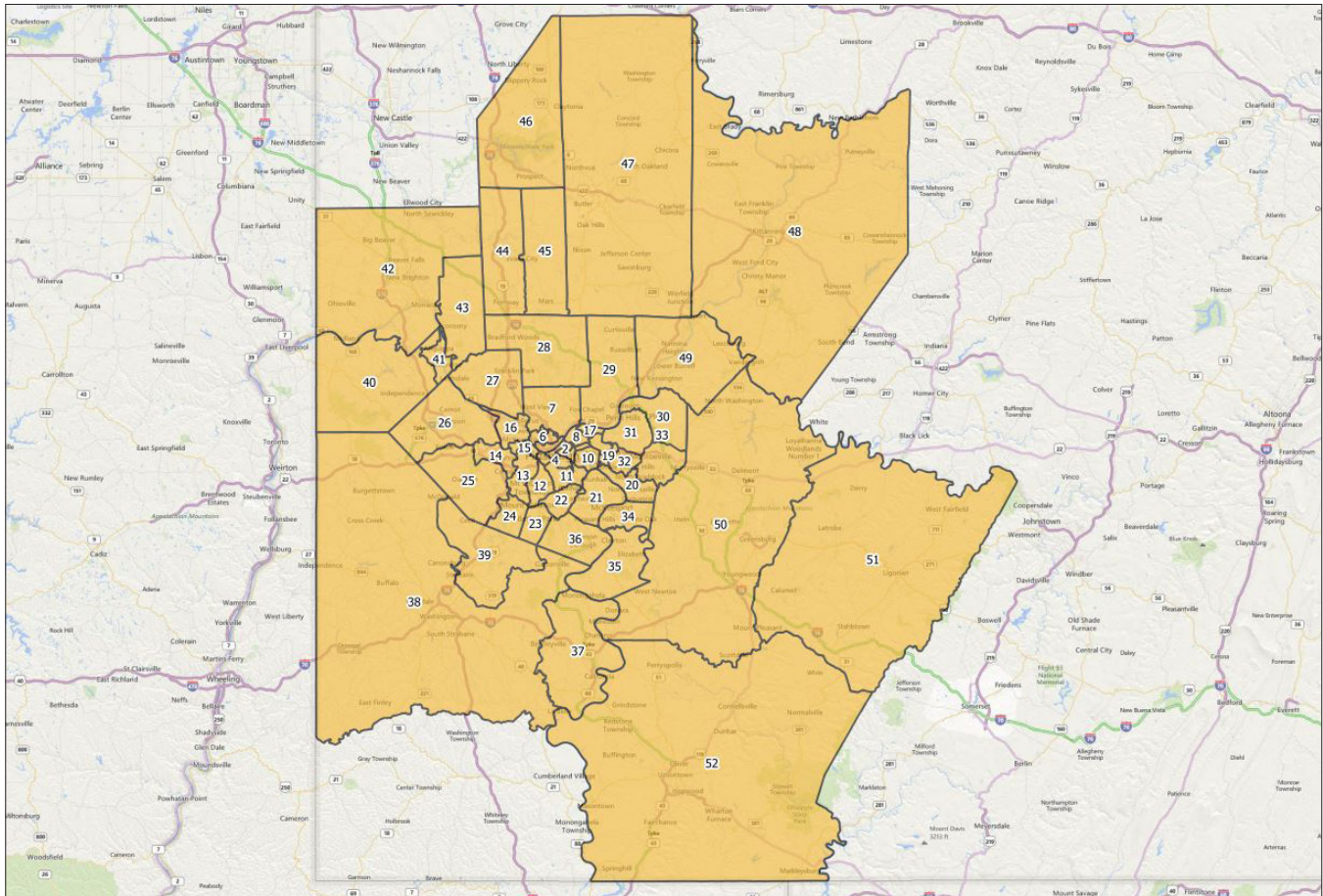


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## Pittsburgh Submarkets



Area #	Submarket
1	Pittsburgh-Downtown
2	Hill District
3	Oakland
4	Southside
5	Northshore
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

Area #	Submarket
17	Highland Park
18	Homewood
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
31	Penn Hills
32	Churchill
33	Monroeville

Area #	Submarket
34	McKeesport
35	Elizabeth
36	Jefferson Hills
37	Centerville
38	Washington
39	Canonsburg
42	Beaver
43	Economy
44	Cranberry Township
46	Slippery Rock
47	Butler
49	New Kensington
50	Greensburg
51	Latrobe
52	Fayette County

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## 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.

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