

An aerial photograph of Pittsburgh, Pennsylvania, showing a dense urban skyline with various skyscrapers and buildings. In the foreground, a prominent blue steel arch bridge spans across a river. The sky is filled with white and grey clouds. The text 'Yardi Matrix' is overlaid in the top right corner.

Yardi® Matrix

Pittsburgh Shows Its Mettle

Multifamily Report - Summer 2017

Rents Inch Up

Downtown Draws Millennials

Supply Growth Outpaces Nation

Market Analysis

Summer 2017

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Eds and Meds Spur Growth in the Steel City

Once a predominantly blue-collar city, Pittsburgh today relies on a diversified innovation economy and a highly educated workforce. University-based research is focused on life sciences, information technology and robotics, which are major economic drivers for both the region and nation.

Despite a slowly shrinking population, the city's multifamily market remains steady, bolstered by increased hiring in recession-resistant sectors—such as education and health services—which has had a ripple effect on the region's economy, driving demand for apartments and office space. Most of the growth can be attributed to the two largest health-care systems, UPMC and Allegheny Health Network, as well as education institutions such as the University of Pittsburgh, Carnegie Mellon University, Duquesne University and Robert Morris University. Increased tourism activity over the past year has also led to significant employment gains in the leisure and hospitality industry, offsetting the loss of manufacturing and mining jobs.

Demand for apartments is especially strong downtown, where more than 40% of all residents are Millennials. Developers are targeting the area, which has seen the city's fastest population growth in the seven years post-recession. Overall, the metro continues to be an affordable place to live, with rents averaging \$1,038 as of May and a median home price of approximately \$135,000 over the past year.

Recent Pittsburgh Transactions

The Heights at Slippery Rock



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

The Venue



City: Pittsburgh
Buyer: JoCo Partners
Purchase Price: \$7 MM
Price per Unit: \$110,448

Wood Towers



City: Pittsburgh
Buyer: Millennia Housing Cos.
Purchase Price: \$5 MM
Price per Unit: \$50,871

Douglas Plaza



City: Pittsburgh
Buyer: Belveron Partners
Purchase Price: \$4 MM
Price per Unit: \$16,262

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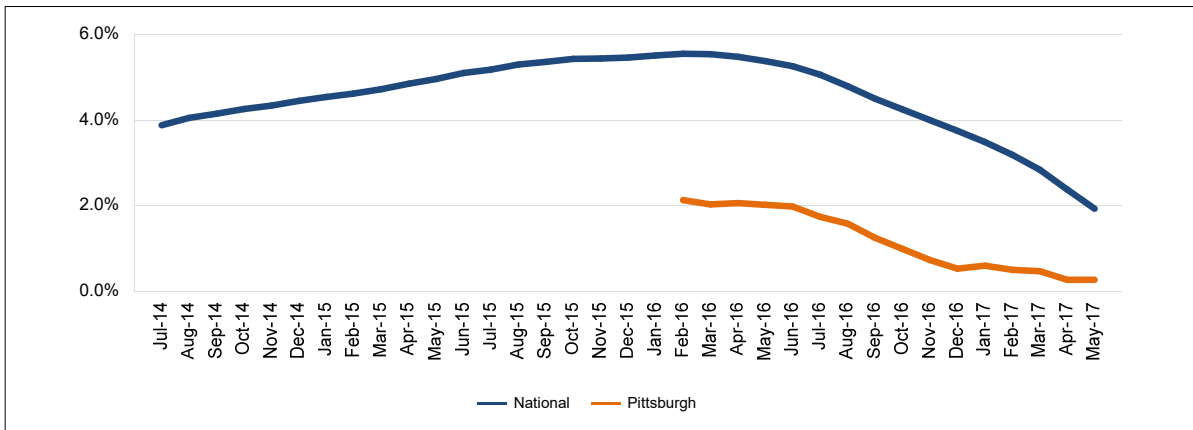
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Rent Trends

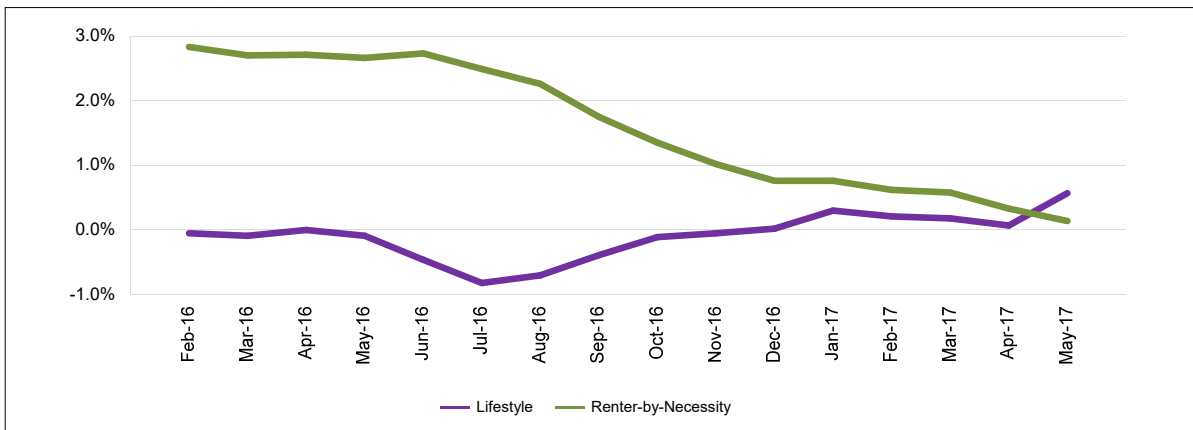
- Through May, rents in Pittsburgh rose 0.3% on a year-over-year basis, trailing the nation's 1.5% rate. Average rent reached \$1,038, significantly below the \$1,316 national figure. The overall occupancy rate has been around 94% for the past six years, as growth in population and new apartment supply has been stable.
- Rents in the working-class Renter-by-Necessity segment rose 0.1% to \$929, while Lifestyle rents rose 0.6% to \$1,476. Demand for multifamily housing benefits from health care and higher-education institutions, which employ more than one-fifth of Pittsburgh's workforce. Housing communities in the East Side, Oakland and North Shore neighborhoods benefit the most from the presence of universities and large hospitals.
- Submarkets with the highest rent hikes included Latrobe (7.8%), which is increasingly connected to the region through additional flights at Arnold Palmer Regional Airport in Unity Township, Pa., followed by Cranberry Township (5%), renowned for its high-quality schools. The Village of Cranberry Woods, a 47-acre mixed-use development, will bring a hotel, apartments, retail and office space to the area. Rents in Bethel Park, which has not seen new multifamily development in many years, also rose by nearly 5%. On the other side of the spectrum, rents decreased in Raccoon Creek (-7.5%), Oakdale (-5.3%) and Carrick (-5.2%). Strong demand and low supply are keeping rents high in Centerville (\$2,448), South Side (\$1,609) and Downtown Pittsburgh (\$1,548).

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)

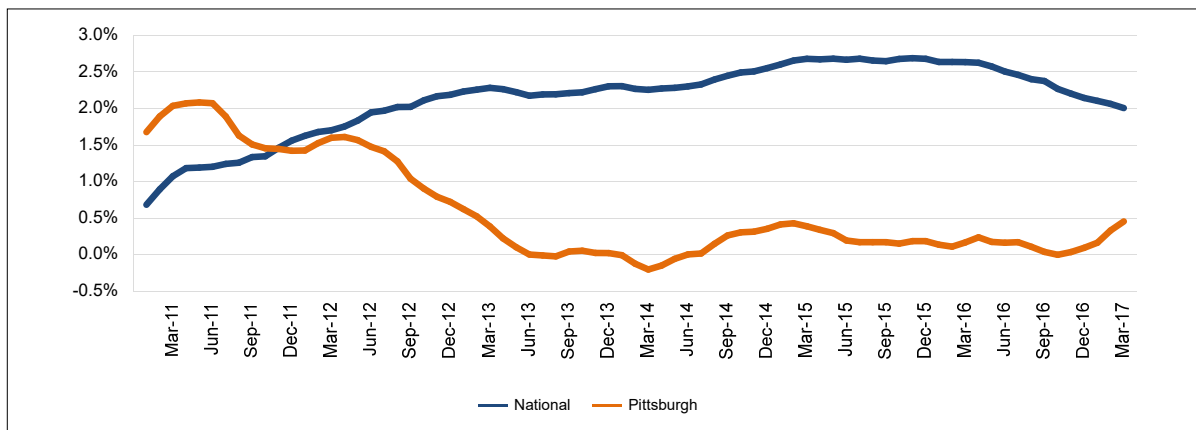


Source: YardiMatrix

Economic Snapshot

- Pittsburgh added 9,200 jobs through March, marking a 0.5% year-over-year increase, well below the 2% national growth rate. The region's seasonally adjusted unemployment rate rose to 5.3% as of April, as more people joined the labor force looking for jobs. Manufacturing and mining employment dropped to an all-time low.
- Job growth was strongest in leisure and hospitality. Tourism is thriving in Greater Downtown, where sports, cultural and entertainment venues attracted 8.8 million visitors in 2016. Recent hospitality projects include the Drury Plaza Hotel, which brought new life to the former Federal Reserve Bank on Grant Street; the Embassy Suites by Hilton, which opened in the renovated top floors of the Henry W. Oliver Building downtown; and the Hilton Garden Inn, part of the mixed-use Tower Two-Sixty development near Market Square. Another eight hotels totaling nearly 1,200 guest rooms are planned for the Golden Triangle, North Shore and Strip District.
- Hiring was strong in professional and business services, education and health care. The tech sector is also growing, driven by Google, which has doubled its staff, and Uber, which launched its self-driving cars initiative in Pittsburgh. Office-using employment has pushed the average rental rate for Class A office properties in the CBD to \$25.90 per square foot in the first quarter, according to Colliers International. The 105,000-square-foot Burns White Center at 3 Crossings in the revitalized Strip District ranks as one of the city's largest new office projects.

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	%
70	Leisure and Hospitality	119	10.3%	6,000	5.3%
65	Education and Health Services	249	21.5%	4,700	1.9%
60	Professional and Business Services	182	15.7%	1,800	1.0%
55	Financial Activities	72	6.2%	1,600	2.3%
40	Trade, Transportation and Utilities	213	18.4%	1,000	0.5%
50	Information	18	1.6%	600	3.4%
80	Other Services	51	4.4%	400	0.8%
90	Government	118	10.2%	-600	-0.5%
30	Manufacturing	83	7.2%	-2,300	-2.7%
15	Mining, Logging and Construction	56	4.8%	-4,000	-6.7%

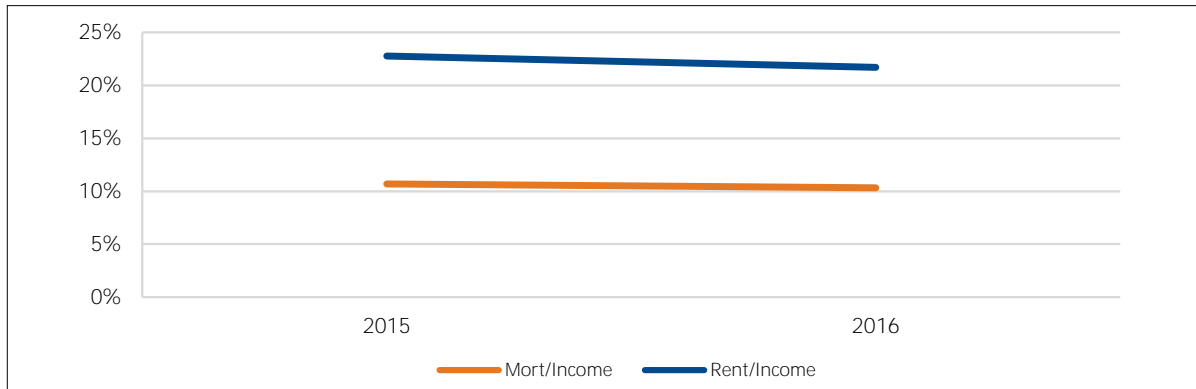
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

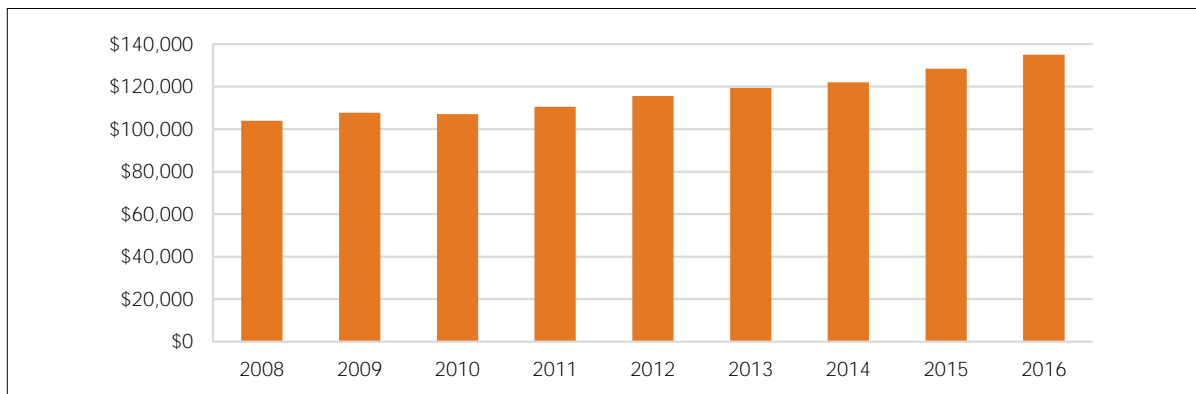
- The median home price in Pittsburgh rose to \$135,076 in 2016, representing a post-recession high. Although home prices in the region have been steadily increasing since 2008, Pittsburgh continues to remain an affordable place to live, compared to other U.S. metros. The area is in fact one of the most attractive markets for Millennials who seek homeownership, due to its competitive pricing and economic vitality, according to online loan provider LendingTree.
- Leasing an apartment is less affordable than owning a home in Pittsburgh, where the average rent of \$1,038 as of April accounted for 22% of the area's median income. The average mortgage accounted for only 10%.

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 8,972 residents in 2016, a 0.4% decrease from the previous year.
- Since 2012, the metro has lost more than 19,000 residents, marking a 0.8% decline.

Pittsburgh vs. National Population

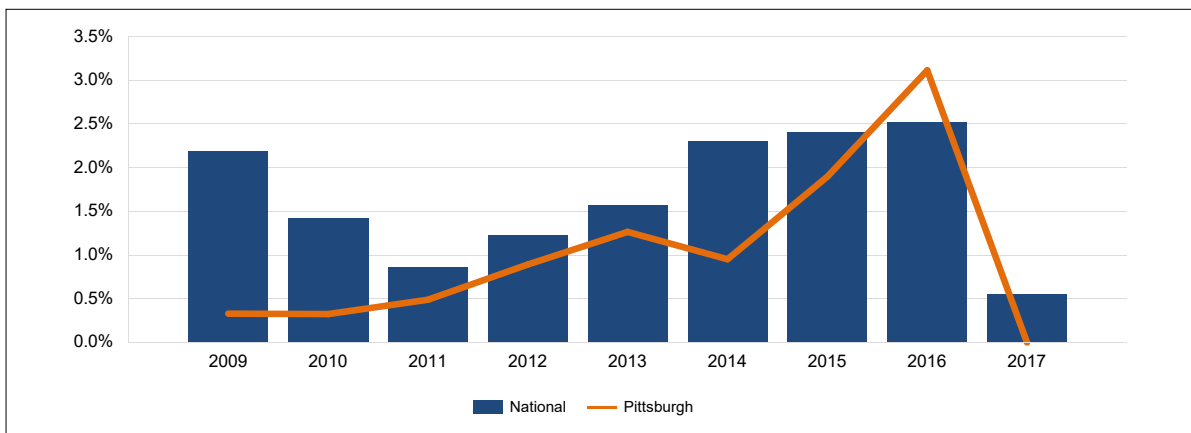
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Pittsburgh Metro	2,361,663	2,361,413	2,357,987	2,351,271	2,342,299

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

Supply

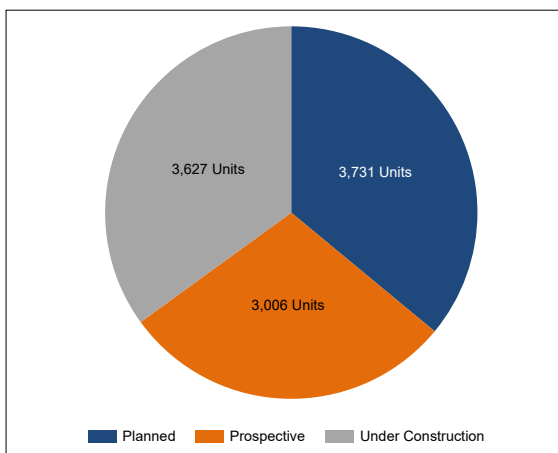
- Nearly 2,700 units came online by the end of 2016, a 3.1% year-over-year inventory increase, higher than the 2.5% national average. This figure represents more than the new supply of the previous two years combined.
- The pipeline is also significant, with more than 3,600 units under construction as of May and some 6,700 units in the planning stages. Many apartment projects in Pittsburgh cater to Millennials, but as the Baby Boomers hit retirement age in increasing numbers, demand for luxury apartments targeting seniors will become stronger.
- Submarkets with the highest number of units under construction as of May included areas in and around the city core: Oakland (895 units), Downtown (676 units) and Bloomfield (552 units). The Greater Downtown population is seeing the fastest growth, having expanded by 22% between 2010 and 2016. Millennials make up 42% of residents, according to the 2017 *State of Downtown* report released by the Pittsburgh Downtown Partnership. Over the last seven years, the area added about 2,000 residential units.
- SkyVue, which replaced the former Allegheny County Health Department building, brought 389 units to Oakland, where in spite of strong demand, traditionally there has not been land available for apartments.

Pittsburgh vs. National Completions as a Percentage of Total Stock (as of May 2017)



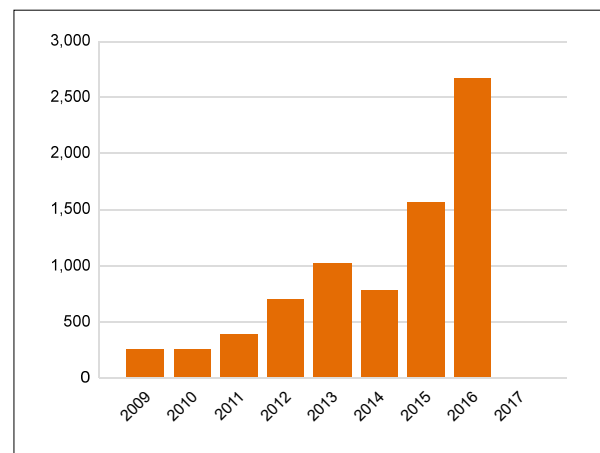
Source: YardiMatrix

Development Pipeline (as of May 2017)



Source: YardiMatrix

Pittsburgh Completions (as of May 2017)

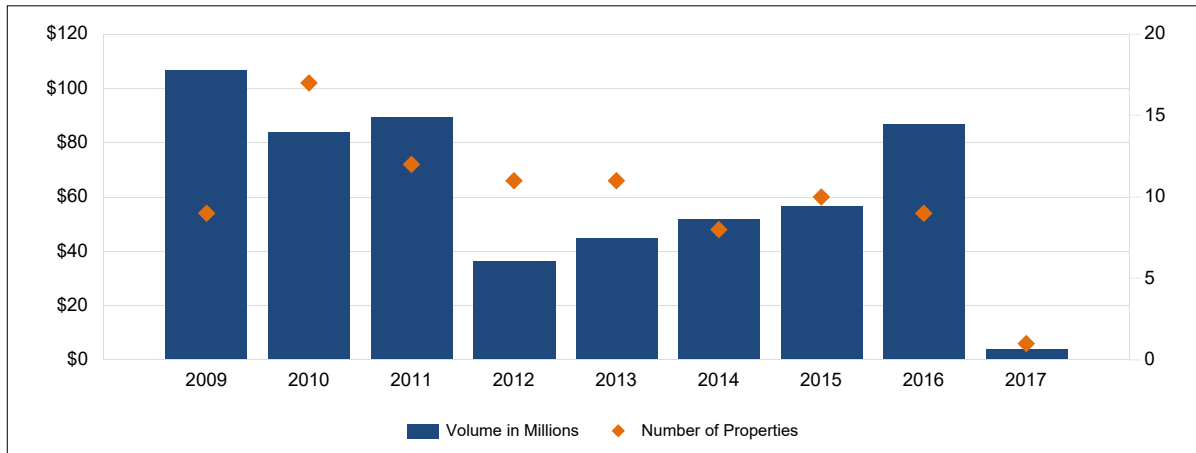


Source: YardiMatrix

Transactions

- Property sales in Pittsburgh have flatlined. Fewer than \$100 million in transactions were completed in 2016, and sales have been few and far between in 2017. Some of the reduction is national, as investors have paused while digesting policy changes from Washington, amid worries that market values have peaked. However, investors also have concerns about growth potential, since Pittsburgh's population has flattened and the city struggles with a lack of public transportation. At \$102,801, the average price per unit reached a post-recession high, but it remained below the national average of \$133,500.
- Ares Management's \$13 million purchase of The Heights at Slippery Rock, a 100-unit student housing community in Slippery Rock, ranked as one of the largest multifamily transactions in Pittsburgh over the past year. The off-campus townhouse project caters to attendees of Slippery Rock University, where enrollment has ramped up in recent years as a result of the town's facelift and economic revitalization.

Pittsburgh Sales Volume and Number of Properties Sold (as of May 2017)



Source: YardiMatrix

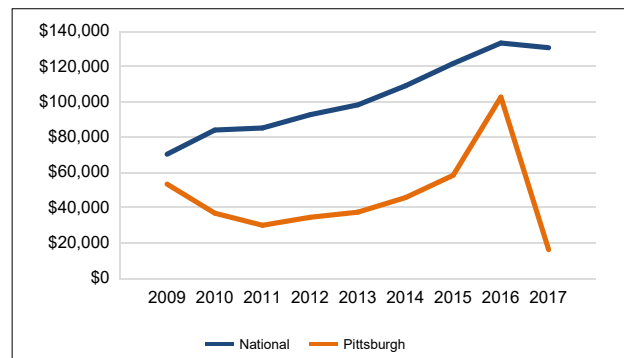
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Slippery Rock	13
Pittsburgh–Downtown	7
Homewood	5
Wilkinsburg	4

Source: YardiMatrix

¹ From June 2016 to May 2017

Pittsburgh vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Carnegie Robotics
Named Top Industrial Renovation



Pennsylvania Warehouse
Trades for \$16M



Marriott Opens
New Pittsburgh Hotel

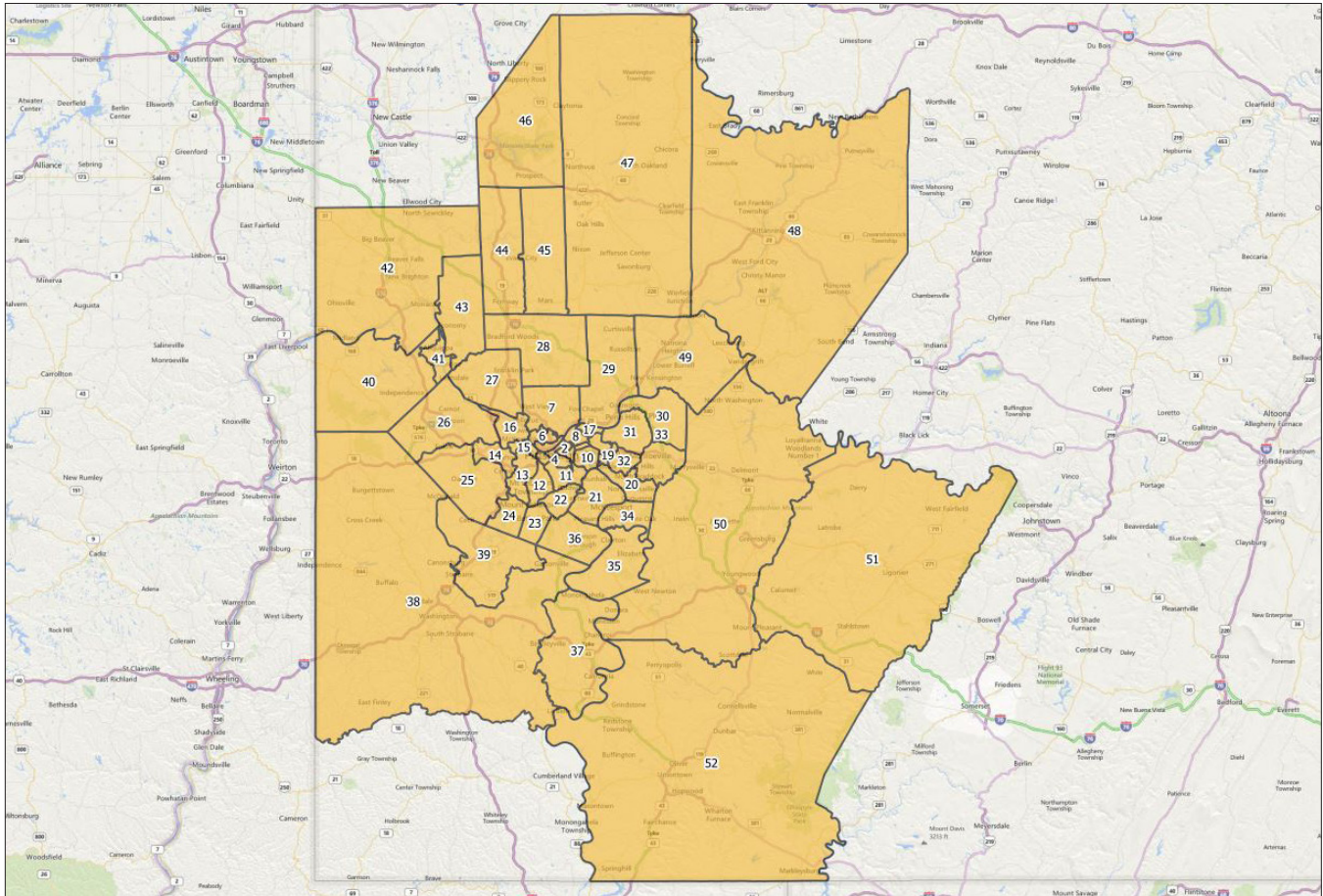


PREIT Sells
Last 2 Non-Core Malls
For \$49M

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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

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

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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