MARKET REPORT

Multifamily

Pittsburgh Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

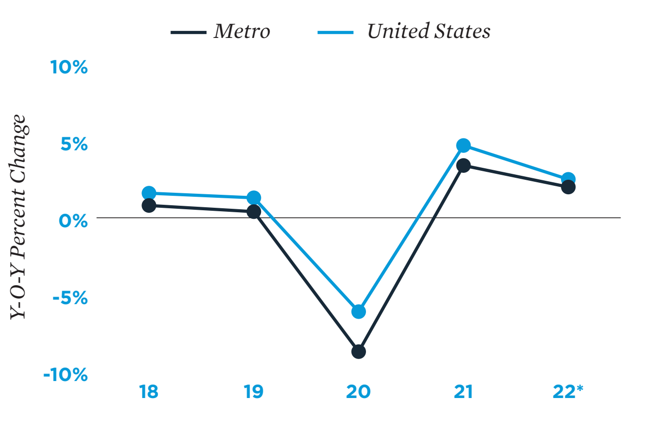
2Q/22

Tech Labor Shifts Renter Trends; Sparse Suburban Deliveries Keep Vacancy Down

Highly-skilled labor drives leasing trends. A rich academic environment generated by Carnegie Mellon University has attracted firms seeking to capitalize on joint-research opportunities and a university-educated talent pool. DoorDash and Waymo, Google's autonomous driving division, are just two examples of engineering-focused operations that have recently expanded into the Steel City. Silicon Valley giants have supported a growing tech worker population here, helping to push overall vacancy into the mid-2 percent band, despite regional population loss. An influx of well-compensated professionals is translating to a shift in the renter base and higher demand for Class A units. The average effective rent in this tier advanced 9 percent year-over-year in March, almost doubling the increase observed in Class C.

Low suburban availability likely to continue. A thin suburban pipeline should drum up competition for available rentals outside of the core. First quarter 2022 vacancy in these submarkets tops out at 2.7 percent, which should translate to a second consecutive year of high rent growth here. While tight exurban conditions justify an increased development pace, nearly all of this year's deliveries will come online in the Central Pittsburgh and Oakland-Shadyside submarkets. As of March, these areas posted the highest unit availability among Pittsburgh locales, at 4.5 percent and 3.9 percent, respectively.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

23,000 JOBS *will be created*

EMPLOYMENT:

A local unemployment rate above previous cyclical lows should support a 2 percent rise in active positions this year; however, Pittsburgh is projected to close out 2022 more than 45,000 roles below pre-pandemic levels.

2,000 UNITS *will be completed*

CONSTRUCTION:

Annual completions breach the 1,000-unit threshold for the first time since 2018, as builders expand metro inventory by 1.4 percent. Finalizations have surpassed 2,000 units just once since the turn of the millennium.

10 BASIS POINT *decrease in vacancy*

VACANCY:

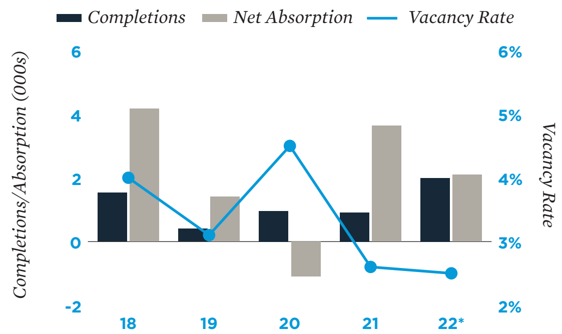
Vacancy declines to 2.5 percent in the wake of last year's 190-basis-point compression. High development activity in Central Pittsburgh and Oakland-Shadyside could result in a bump to unit availability here.

6.7% INCREASE *in effective rent*

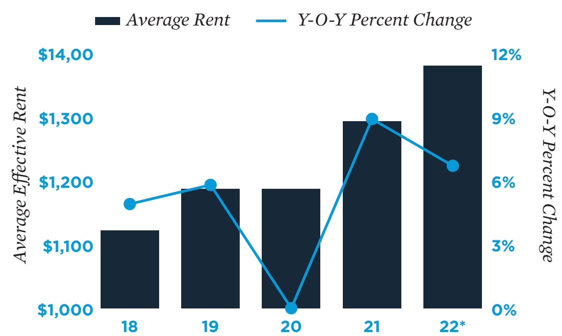
RENT:

Following an 8.9 percent rent increase in 2021, tight conditions will propel the average effective rate to $1,380 per month. Low first quarter vacancy in some suburban submarkets could generate higher rent growth momentum here in 2022.

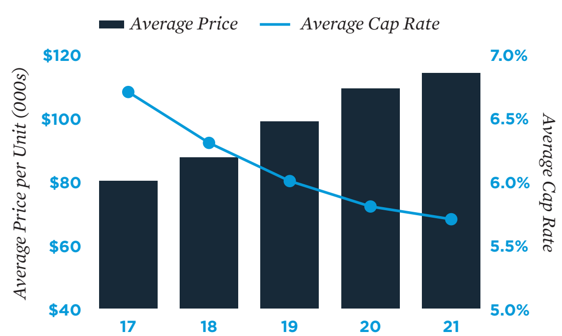
Supply and Demand



Rent Trends



Sales Trends



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Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

1,074 units completed

- The pace of development jumped from the previous 12-month span ending in March, when developers finalized fewer than 800 units.
- Almost all projects delivered during this period came online in Central Pittsburgh or Oakland-Shadyside, though some projects were also delivered to first-ring suburbs.

VACANCY

280 basis point decrease in vacancy Y-O-Y

- In-migration was spurred on by the metro's tech sector and drove vacancy down to 2.5 percent in March, the lowest rate recorded since mid-2012.
- Westmoreland-Fayette Counties posted the lowest unit availability, with just 0.2 percent of doors here unleased. An average effective rent 59 percent below the metro average drew renters here.

RENT

9.9% increase in the average effective rent Y-O-Y

- Tight conditions helped lift the average effective rent to $1,309 per month in the first quarter, as annual growth nearly reached 10 percent.
- Three out of Pittsburgh's seven submarkets reported double-digit rent growth this trailing year ending in March, led by Central Pittsburgh, with a 16.4 percent gain.

Investment Highlights

- Though economic recovery generated robust fundamentals, transaction velocity in 2021 held steady to levels observed the previous year; however, positive outlooks from the buyers operating in the market still generated pricing gains. The average per-unit price rose to $114,000 last year, in concert with a 10-basis-point drop in the average yield to 5.7 percent. As of 2022's first quarter, activity appears to be picking up as investors take notice of solid asset performance.
- Vacancy rates in the sub-3 percent band drew investor interest to assets in the metro's suburbs last year, where deal flow overshadowed activity in Pittsburgh proper for the first time since 2016. Moving forward, low development outside the CBD should make suburban zones an attractive option for growth-focused investors.
- The Pittsburgh metro may see an uptick in investment from southeastern Pennsylvania. The average yield in Philadelphia and adjacent suburbs has fallen below the local equivalent, which may incentivize some westward capital migration as buyers look for greater returns.