MARKET REPORT

Multifamily

Pittsburgh Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

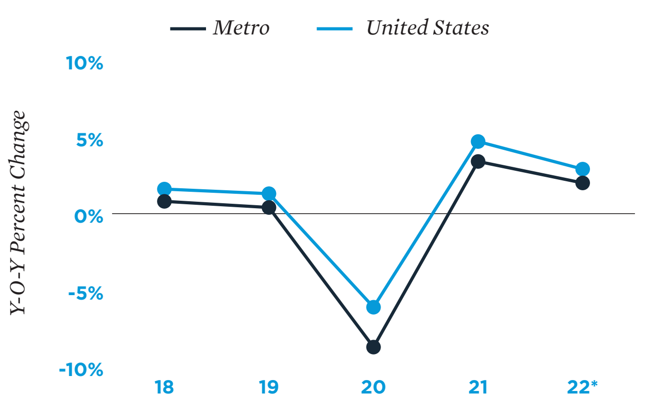
3Q/22

Demand Shows Signs of Easing; Outlooks in Select Zones Remain Strongly Positive

Urban Pittsburgh forges standout demand as vacancy stabilizes. All submarkets reported rising availability in the first half of 2022, with the exception of Oakland-Shadyside. Here, a 30-basis-point reduction was observed, placing vacancy at 3.6 percent. A number of life science initiatives pursuing collaboration with Carnegie Mellon are supporting resident relocations to this locale. This is fostering a consistent renter base of researchers and students that work at, or attend, nearby institutions. Elsewhere, the metro's bevy of tech start-ups and Silicon Valley giants will bolster long-term rental demand. Central Pittsburgh neighborhoods around the Strip, where many tech-focused businesses are found, stand to benefit the most.

Low suburban availability translates to rapid rent gains. Though vacancy increased across all suburban submarkets in the second quarter, conditions here remain tighter than the CBD. Westmoreland-Fayette Counties recorded a notable 0.4 percent availability rate, and vacancy in suburban zones topped out at 3.6 percent in North Pittsburgh. Advances through the end of June brought annual rent gains as high as 29.6 percent in the former submarket, with nearly all areas seeing double-digit growth. Additionally, the suburban pipeline totals just over 1,200 units, indicating minimal supply relief is on the horizon. Rents growing at a faster pace than historical norms may prompt some households to consolidate and enter into shared living situations, potentially contributing further to suburban vacancy stabilization during the latter half of 2022.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

23,000 JOBS *will be created*

EMPLOYMENT:

Economic headwinds may slow hiring velocity during the latter half of the year. However, 2022 will be the second consecutive year in which Pittsburgh's job base expands by at least 2.0 percent in roughly a decade.

1,500 UNITS *will be completed*

CONSTRUCTION:

Builders are on track to expand supply by 1.0 percent on an annual basis for the first time since 2018. Roughly 85 percent of the stock scheduled for a 2022 completion will come online in Pittsburgh proper.

80 BASIS POINT *increase in vacancy*

VACANCY:

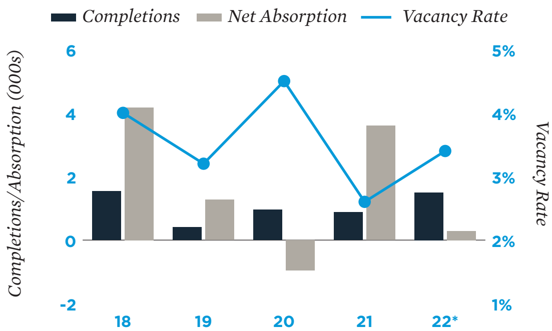
Supply gains proceeding ahead of renter demand will push availability further away from 2021 lows. Vacancy is projected to end the year at 3.4 percent metrowide, 20 basis points above the 2019 equivalent.

7.8% INCREASE *in effective rent*

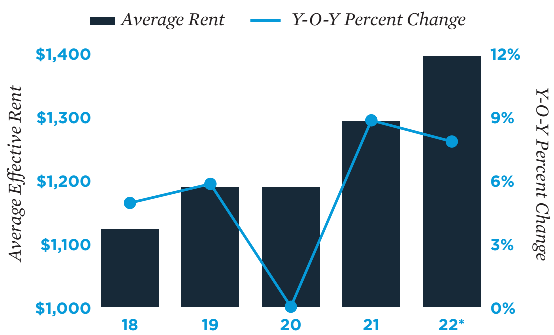
RENT:

Tightness in suburban zones should contribute to rent gains in excess of historical norms, bringing the average effective rate to $1,394 per month by the end of 2022. Pittsburgh's mean rent will rank as the 12th lowest among major U.S. markets.

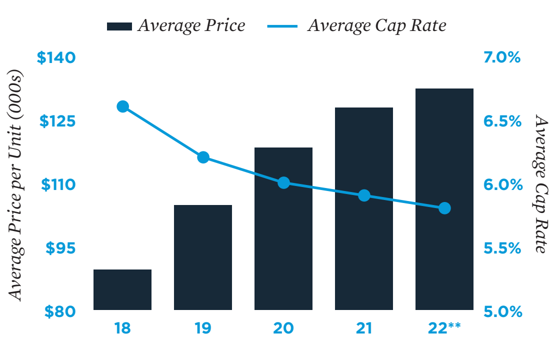
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

1,481 units completed

- Developers finalized the most units in a 12-month span since 2018 during the yearlong period ended in June.
- Recent completions were concentrated in Central Pittsburgh and Oakland-Shadyside, with more than 80 percent of stock finalized in these locales, roughly in line with long-term totals.

VACANCY

110 basis point decrease in vacancy Y-O-Y

- Availability fell to near-record lows during the trailing year before closing out June at 3.3 percent, 10 basis points above the pre-pandemic rate.
- Central Pittsburgh observed a net-zero change in vacancy this period, as availability compressed heavily early on in the span before climbing back to the starting position of 5.3 percent.

RENT

14.3% increase in the average effective rent Y-O-Y

- Effective rents advanced at the fastest pace since at least 2000 during the 12-month interval ended in June, reaching an average of $1,378 per month.
- Due to increasing turnover this period, rents in Central Pittsburgh grew at a notable pace, advancing 20.1 percent. At $1,779 per month, the average effective rent here is the second highest in the market.

Investment Highlights

- Deal flow reached an all-time high during the yearlong span ended in June, eclipsing the next highest annual period by nearly 20 percent. In line with pre-pandemic norms, most trades occurred within Pittsburgh proper.
- Despite record transaction velocity, the pace of sales price growth eased last year, owing to a significant increase of lower-tier properties changing hands as private investors remain the dominant player in the investment market. While annual pricing gains in excess of 10 percent were the norm for nearly a decade preceding 2021, growth in this metric moderated to 7 percent during the 12-month period ended in June. Still, the metro's average price point reached $132,200 per unit, an all-time high.
- A 20-basis-point cap rate compression this period brought the average yield below the 6 percent threshold for the first time in market history. Higher-tier assets transact with an average return in the mid-4 percent range.
- Robust suburban fundamentals may increase the appeal of investment opportunities outside of the CBD moving forward. Growth prospects and pricing below the metro average may steer more institutions to larger-scale mid-tier listings in Fayette and Westmoreland counties.