MARKET REPORT

Multifamily

Pittsburgh Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

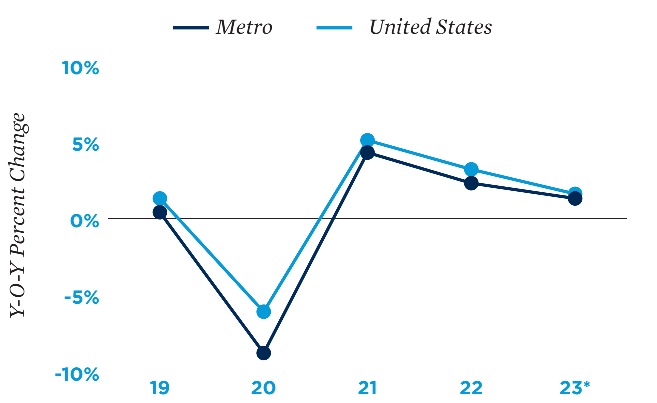
3Q/23

Top-Tier Units Face Housing Market Headwinds; Low Construction Benefits Suburban Metrics

Home affordability creates Class A competition. At the end of the second quarter, the typical monthly payment on a median priced home stayed below the mean effective Class A rent in Pittsburgh. As for-sale home inventory in the metro increases, renters in the Class A segment may opt to purchase a house, creating headwinds for top-tier units. In June, Pittsburgh already had one of the top-10 highest Class A vacancy rates among major U.S. markets. The segment could face further rate adjustments, potentially increasing concession usage as supply-side competition grows. Conversely, Class C properties noted a vacancy rate 190 basis points below upper-tier counterparts at 4.7 percent. Lower-tier apartments could continue to see tight vacancy as renters seek out budget options amid elevated rents in recent years.

Suburban areas receive few supply additions. In June, suburban property performance sharply contrasted the urban core. Vacancy in the suburbs, while above the record low reached in early 2022, was at 4.8 percent exiting the second quarter, roughly 220 basis points below the long-term average. In contrast, the CBD metric was 150 basis points above the long-term mean at 6.2 percent. Central Pittsburgh has been affected by construction as nearly 70 percent of new units marketwide in the last five years delivered here, while the suburbs have seen limited additions. Oakland-Shadyside and West Pittsburgh will each gain over 600 units by 2024, but Westmoreland-Fayette Counties and South Pittsburgh retain sparse pipelines.

Employment Trends



** Forecast*

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

Multifamily 2023 Outlook

15,000 JOBS *will be created*

EMPLOYMENT:

Total employment in Pittsburgh will expand by 1.3 percent by year-end. New positions are most commonly being added in the leisure and hospitality sector, as well as in the trade, transportation and utilities segment.

1,100 UNITS *will be completed*

CONSTRUCTION:

Supply additions will fall below the trailing 10-year average of about 1,500 units during 2023. Consequently, the pace of inventory growth will dip beneath last year's 1.0 percent expansion at 0.7 percent.

100 BASIS POINT *increase in vacancy*

VACANCY:

Despite limited pressure from incoming supply, vacancy will increase to 6.0 percent by December. High vacancy in the urban core during 2023 will contribute to the elevated overall rate in the Pittsburgh metro.

4.8% INCREASE *in effective rent*

RENT:

The average effective rent will rise to $1,510 per month this year, approximately 27 percent above the 2019 mean. The rate will increase at a more moderate pace relative to the 11.4 percent surge witnessed in 2022.

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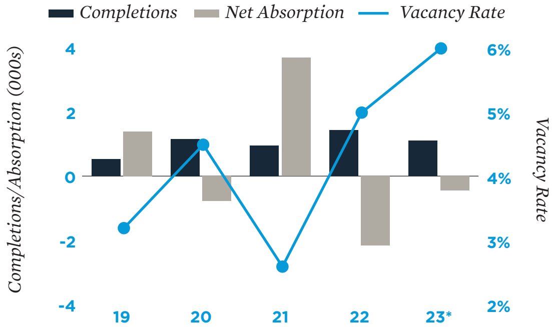
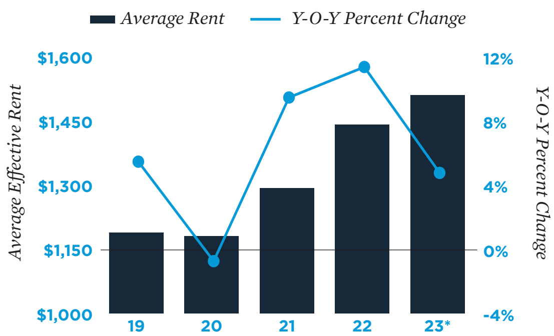
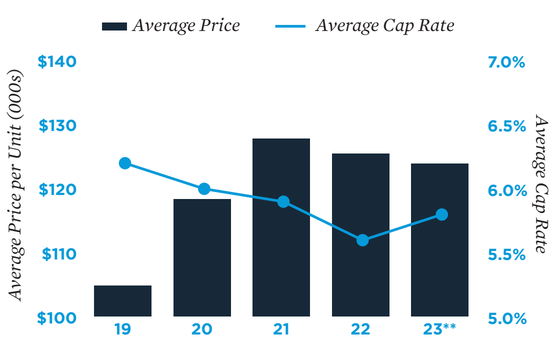
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2023 - 12-Month Period

CONSTRUCTION

1,293 units completed

- Supply in Pittsburgh rose by 0.9 percent during the trailing 12-month period ended in June, just below the previous span's pace.
- New units in Central Pittsburgh and Oakland-Shadyside accounted for three-fourths of deliveries during the yearlong span. Meanwhile, South Pittsburgh and Westmoreland-Fayette Counties logged nominal additions.

VACANCY

240 basis point increase in vacancy Y-O-Y

- Metro vacancy elevated year-over-year to 5.7 percent in June. This is, however, a slight compression from the first quarter rate of 5.8 percent.
- Behind Westmoreland-Fayette Counties, East Pittsburgh noted the second lowest vacancy rate in the metro at 4.6 percent. Stock here expanded by just 0.6 percent in the trailing 12 months, directing tenants to existing rentals.

RENT

8.0% increase in the average effective rent Y-O-Y

- Rent growth was strong over the yearlong span. The average effective rate reached $1,487 per month exiting the second quarter of 2023.
- Class C apartments registered a double-digit increase in the average effective rent annually, enabled by tight sector vacancy. The Class A and B segments recorded more moderate gains of 3.7 and 6.5 percent, respectively.

Investment Highlights

- During the trailing 12 months ended in June, the average price per unit in Pittsburgh contracted by 2.2 percent relative to the previous span. Still, the mean was around 18 percent higher than the 2019 annual mark and has more than doubled over the last 10 years. Transaction activity was hindered during the first half of 2023 by the tight lending environment, but investors who acquired properties before the health crisis may look to sell and capitalize on robust past-decade price appreciation.
- In-state investors were still active in the first six months of the year. South and East Allegheny received a large portion of trades as the area continues to grow, particularly around the medical sector. Allegheny General Hospital has created and presented a long-term expansion plan, including the development of a new structure on its North Side Campus. Buyers could continue to focus on adjacent areas as medical investments continue.
- Going forward, investors looking for properties in areas of low construction could target South Pittsburgh or Westmoreland-Fayette Counties. Both submarkets have a dearth of proposed or underway projects. In June, the latter of these areas noted the lowest vacancy rate in the metro at 1.2 percent.