Job Growth Fosters New Households; Out-of-Metro Buyers Seek Pittsburgh Assets

New tech industries drive income growth; rents climb. The considerable number of universities in Pittsburgh will provide a diverse hiring pool for the area's growing tech sector in 2017. The metro's unique road system has attracted companies, including Uber, to test new automated car technology, bringing many high-paying jobs to the area. A rise in income will foster another year of steady household growth, fueling demand for apartments. Development will moderate this year but remain near the average recorded over the past five years. The areas of Oakland and Shadyside will receive the majority of construction, providing housing for college-age students, who typically favor rentals, near Carnegie Mellon and Chatham universities. After a sizable number of rentals came online over the course of the recovery, vacancy will tick up this year as supply outstrips demand. The rise in vacancy will not hamper rent growth this year as rental rates surpass the record average rent per month set in 2016.

High returns and lower entry costs capture investors' attention. Multifamily assets will garner interest from both local and out-of-state buyers in 2017. The metro's steady rental operations have encouraged many owners to hold on to their properties, limiting available listings and placing upward pressure on property values. However, many out-of-state investors are willing to pay a premium for the market's apartment assets after being significantly priced out of nearby metros including New York City and Boston. Additionally, yield-seeking buyers are attracted to Pittsburgh's higher returns, which are up to 300 basis points greater than in these gateway markets. The metro typically boasts first-year returns in the mid-7 percent range. As demand compresses returns and valuations rise, sellers may take advantage, driving additional deal flow. The addition of new Class A product may provide some investors with opportunities at the top end of the market.

2017 Market Forecast

NMI Rank
43, no change

A decline in completions enabled Pittsburgh to retain its ranking in this year's Index.

Employment
up 0.6%

Pittsburgh establishments will add 7,000 workers this year after employment was flat in 2016. A slowdown in Marcellus Shale drilling hampered job growth last year.

Construction
1,400 units

Completions will moderate this year as developers are on track to deliver 1,400 apartments. Last year, more than 2,100 units were built.

Vacancy
up 30 bps

Vacancy will rise 30 basis points in 2017 to 4.9 percent. In the previous year, vacancy fell 80 basis points as nearly 3,100 units were absorbed.

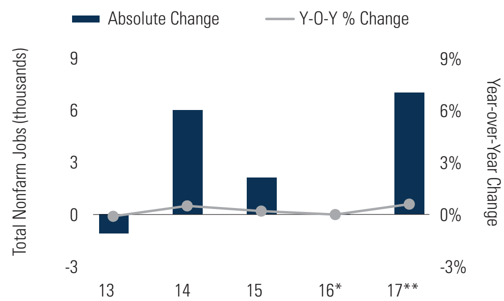
Rent
up 3.5%

Despite rising vacancy, the growing supply of new rentals generates a 3.5 percent increase in rent to $1,116 per month. In 2016, rent climbed 4.1 percent.

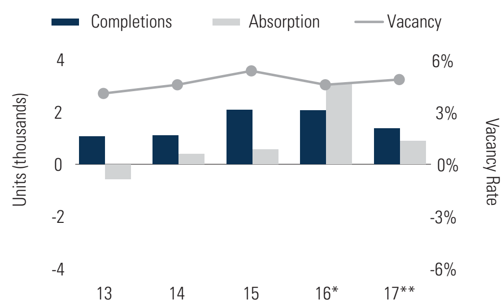
Investment

Strong tenant demand and rising property values will encourage some owners to list their assets. Returns up to 300 basis points greater than nearby coastal markets will attract buyers.

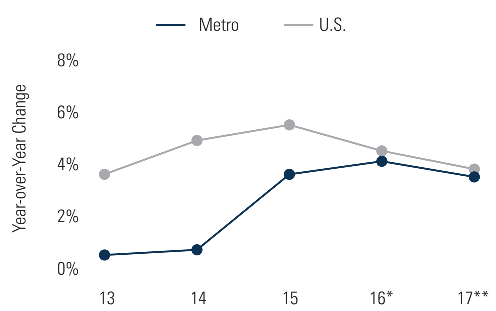
Employment Trends



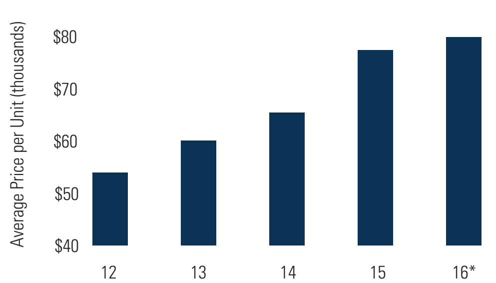
Supply and Demand



Effective Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics