Northmarq

## CONSTRUCTION ACTIVITY

| | |
|---|---|
| UNDER CONSTRUCTION | 2,699 |
| UNITS DELIVERED | 580 |

## MARKET FUNDAMENTALS

| | |
|---|---|
| VACANCY RATE | 5.1% |
| YEAR-OVER-YEAR CHANGE | +70bps |
| ASKING RENTS | $1,385 |
| YEAR-OVER-YEAR CHANGE | +2.3% |

## TRANSACTION ACTIVITY (YTD)

| | |
|---|---|
| CLASS A SALES MEDIAN PRICE PER UNIT | $324,500 |

Pittsburgh Multifamily
**1Q 2024**

MARKET INSIGHTS

# Ongoing renter demand provides operational stability

## HIGHLIGHTS

- The Pittsburgh multifamily market has maintained a fairly steady set of operational performance metrics in recent quarters. Even with an uptick in vacancies, rents have managed to trend higher in the past year.
- Fewer than 10,000 units have been delivered in the Pittsburgh area since 2016, and projects totaling 580 units came online in the first quarter.
- Rents peaked in the third quarter of last year and trends have been mixed in recent periods. During the first quarter, rents ticked higher, reaching $1,385 per month; in the past year, rents have advanced 2.3 percent.
- Permitting for new multifamily units slowed to just 165 units in the first quarter, down more than 40 percent from levels during the same period in 2023.

## PITTSBURGH MULTIFAMILY MARKET OVERVIEW

Operating conditions in the Pittsburgh multifamily market have generally been consistent through the past 12 months. Vacancies have inched higher in each of the past seven quarters—including a 10-basis point uptick at the start of 2024—but the current rate of 5.1 percent is only 140 basis points higher than the cyclical low. Rent trends have been mixed; current rents are up year over year, but slightly lower than the peak level recorded during the second half of 2023. Developers have increased activity levels in recent years, and deliveries were elevated in the first quarter. New deliveries reached an 8-year high in 2023, and first quarter completions put the region on track to reach a new high in 2024. Still, fewer than 10,000 units have been delivered in the Pittsburgh area since 2016, which has kept vacancy levels fairly stable for the past several years.

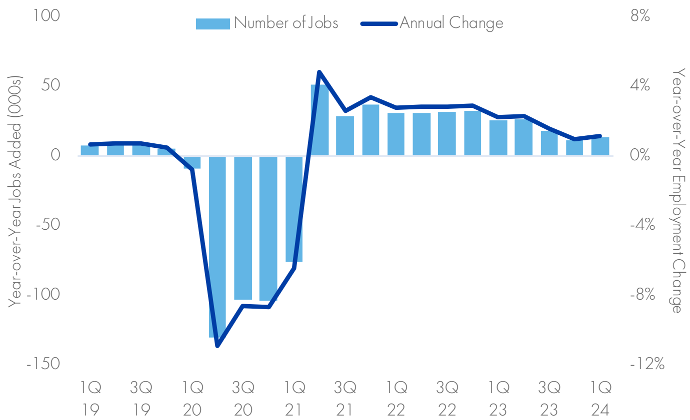
The multifamily investment sales market in Pittsburgh had a soft start to the year after an uptick in transaction activity at the end of last year. Recent investment activity represents a return to the market's historical patterns, following a surge in sales velocity in 2022. Outside of a handful of older vintage, workforce property sales, the bulk of the transaction activity since 2022 has been mainly Class A product. Many of these properties have been built since 2000, consist of at least 200 units or more, and have been priced between $50 million and $150 million. Cap rates in these institutional sales during the past 12 months have averaged 5.5 percent.

## EMPLOYMENT

- Employers in Pittsburgh have continued to expand payrolls in recent years, but the pace has cooled. During the 12-month period that ended in the first quarter, area employers added 13,100 workers, a growth rate of 1.1 percent.
- The healthcare and social assistance has been the leading industry for net job growth. Year over year, approximately 4,000 healthcare jobs have been created, an increase of 2.3 percent.
- Excelitas, a developer and manufacturer of high-tech photonics and light technology products is moving its headquarters to Pittsburgh, leasing 50,000 square feet of office space in the Strip District. The new headquarters will employ roughly 250 workers.
- **FORECAST:** Employment growth in Pittsburgh is forecast to reach 1 percent in 2024, a slightly slower pace than in the prior two years. Area employers are expected to add a total of 12,000 net new jobs during the course of the year, after 14,600 positions were created in 2023.

*Area employers added 13,100 workers to payrolls.*

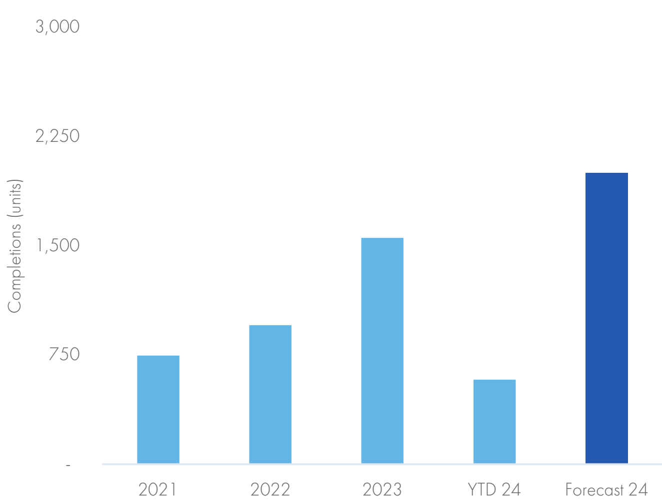
### EMPLOYMENT OVERVIEW




*Sources: Northmarq, Bureau of Labor Statistics*

*Projects totaling more than 1,300 units are under construction.*

### DEVELOPMENT TRENDS



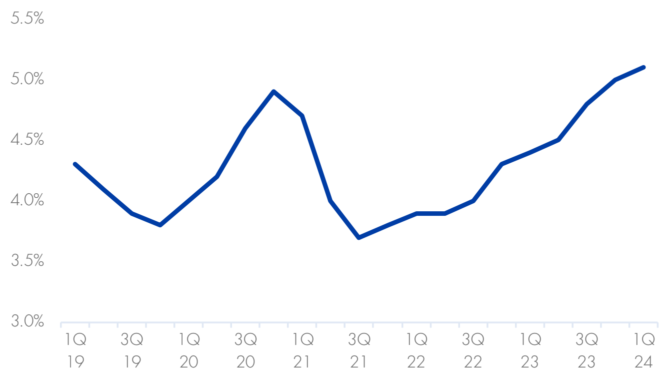

*Sources: Northmarq, CoStar*

## DEVELOPMENT & PERMITTING

- Developers in Pittsburgh delivered 580 apartment units in the first quarter, roughly 100 more units than came online in the same period in 2023. The pace of supply growth has accelerated; since 2017, completions have averaged nearly 250 units per quarter.
- Projects totaling nearly 2,700 units are currently under construction across the Pittsburgh metro area, with about half of the new developments expected to be delivered by the end of 2024. The number of units in the development pipeline represents about 4 percent of existing inventory.
- Permitting for new multifamily units in Pittsburgh slowed to just 165 units in the first quarter, down more than 40 percent from levels during the same period in 2023.
- **FORECAST:** New construction in Pittsburgh is expected to total approximately 2,000 units, after more than 1,550 units were delivered last year. This is expected to be the most active year of deliveries in nearly a decade.

*The rate rose 10 basis points to 5.1 percent at the start of 2024.*

## VACANCY TRENDS




*Sources: Northmarq, Yardi*

## VACANCY

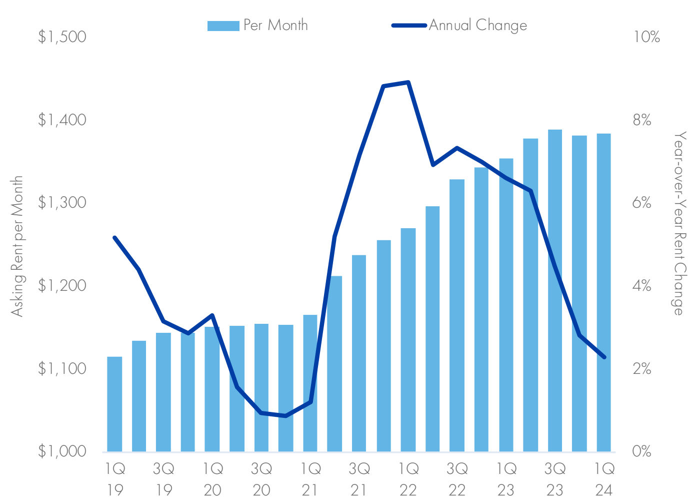
- After trending higher throughout 2023, vacancy in Pittsburgh ticked up again in the first quarter. The rate rose 10 basis points to 5.1 percent at the start of 2024. This marked the seventh consecutive quarter where vacancy pushed higher. Increases have been mild however, totaling just 120 basis points since early 2022.
- Year over year, vacancy in Pittsburgh has risen 70 basis points. The rate has remained in a fairly tight range over the past several years. Since the beginning of 2019, the rate has averaged 4.3 percent, with a low of 3.7 percent and a high of 5.1 percent.
- **FORECAST:** A moderating pace of employment and an uptick in completions will likely result in higher vacancy levels by year end. The rate is forecast to rise 50 basis points in 2024, ending the year at 5.5 percent.

## RENTS

- After strong gains in 2021 and 2022, rents in Pittsburgh have largely stabilized in recent quarters. During the first quarter, area asking rents inched up 0.2 percent, reaching $1,385 per month.
- Current rents are up 2.3 percent from one year earlier. Rents peaked in the third quarter of last year and have posted mixed performance over the past six months.
- The North submarket has outperformed in the past 12 months. The area is already Pittsburgh's most expensive submarket, and rents have increased by 3.2 percent annually.
- **FORECAST:** Rents are on pace to post steady gains in 2024. Average asking rents are forecast to end 2024 at $1,405 per month, an increase of roughly 1.7 percent.

*Rents in Pittsburgh have largely stabilized in recent quarters.*

## RENT TRENDS



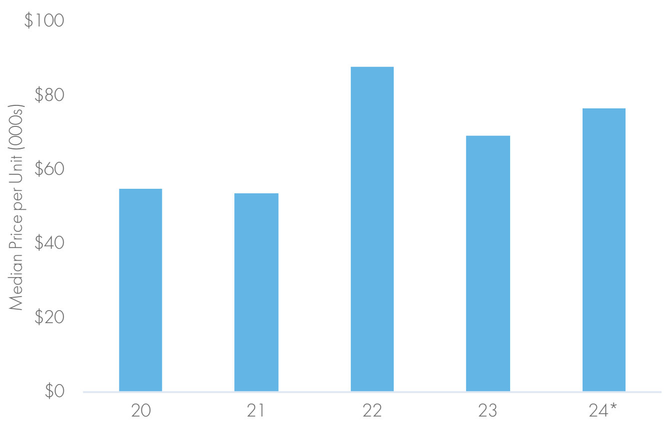

*Sources: Northmarq, Yardi*

## **MULTIFAMILY** SALES

- After an increase in transactions at the end of last year, investment activity in Pittsburgh got off to a slow start in 2024. Only one significant property sold during the first quarter of this year.
- During the past 12 months, the median sale price in Pittsburgh was $76,500 per unit, slightly lower than the recent peak. The highest prices in the market were recorded during the second half of 2022.
- Multifamily properties in Pittsburgh trade within a wide range of per-unit values. New, Class A properties can trade for $200,000 per unit or more, while older Class C assets often sell for between $60,000 per unit to $80,000 per unit.
- Cap rates for institutional assets are around 5.5 percent.

*Cap rates for institutional assets are around 5.5 percent.*

### **INVESTMENT TRENDS:** ALL CLASSES




*Sources: Northmarq, CoStar*
** Past 12 Months*

## **RECENT TRANSACTIONS** MULTIFAMILY SALES ACTIVITY

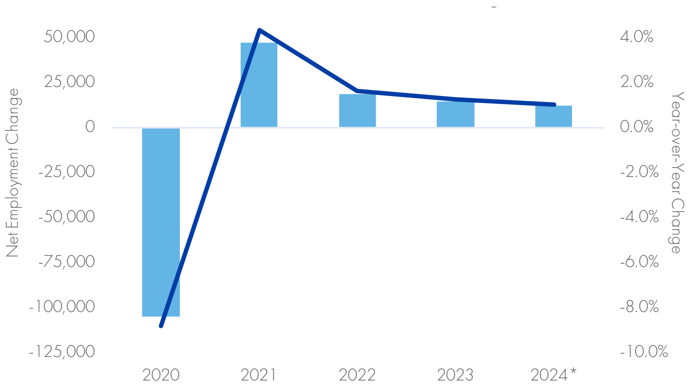
| PROPERTY NAME | STREET ADDRESS | UNITS | SALES PRICE | PRICE/UNIT |
|---|---|---|---|---|
| The Residences at South High | 930 E Carson St., Pittsburgh | 76 | $14,000,000 | $184,211 |
| Summit Apartments | 206 N Shenandoah Dr., Latrobe | 100 | $6,350,000 | $63,500 |
| Landmark | 151-175 Dix Dr., North Versailles | 90 | $5,425,000 | $60,278 |

# **LOOKING** AHEAD

While apartment vacancies in Pittsburgh will likely maintain a slight upward trajectory through the remainder of this year, increases should be mild, and renter demand should be strong enough to support modest rent gains. Area vacancies are not expected to rise much higher than the region's long-term average, and with supply and demand fairly closely linked, rents have already inched higher to start the year and additional gains are likely. Class A and Class B vacancy rates may trend higher—after remaining above 6 percent in recent quarters, but conditions in the Class C segment are forecast to remain tight, with vacancy rates between 3 percent and 4 percent.

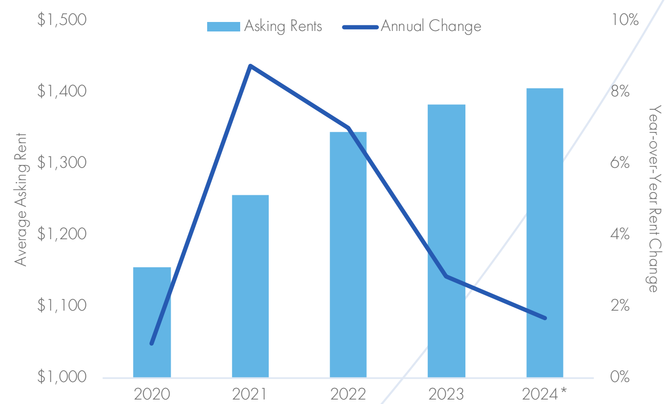
A handful of factors should attract investment activity in Pittsburgh in 2024. While transaction counts are likely to remain well-below peak levels, many of the factors that are limiting sales velocity nationally will not apply to Pittsburgh in 2024 or 2025. While new units are being delivered, the vacancy rate is expected to remain in a reasonable range, and operators should be able to implement modest rent increases. The supply-side pressures that are discouraging investors in many markets will not impact operations significantly in Pittsburgh. Further, the Pittsburgh area did not record the steep spike in prices and the dramatic cap rate compression that was achieved across many larger markets, and distress is not expected to play a significant role in local transactions.

## EMPLOYMENT FORECAST



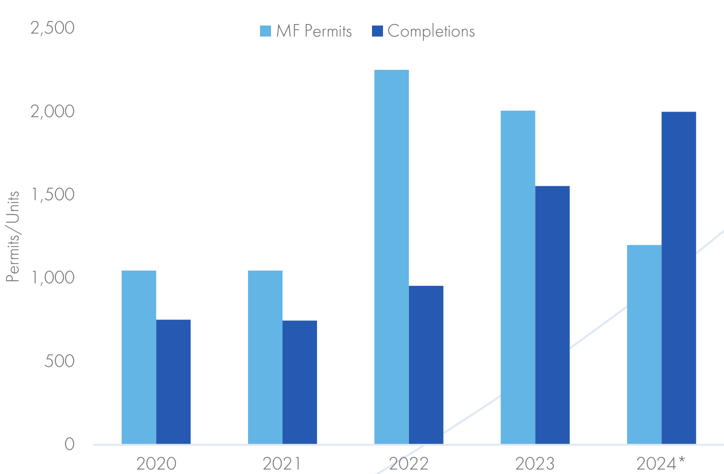

** Year End Forecast*
*Sources: Northmarq, Bureau of Labor Statistics*

## RENT FORECAST



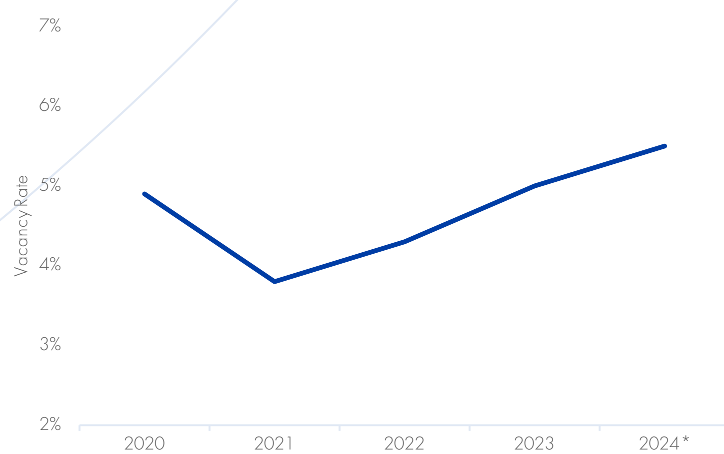

** Year End Forecast*
*Sources: Northmarq, Yardi*

## CONSTRUCTION & PERMITTING FORECAST




** Year End Forecast*
*Sources: Northmarq, Census Bureau, CoStar, Yardi*

## VACANCY FORECAST




** Year End Forecast*
*Sources: Northmarq, Yardi*

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## ABOUT NORTHMARQ

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