

Multifamily Metro Outlook:

Pittsburgh - Q4 2023

Overview:

- Pittsburgh's economy continues to lag the nation's and this trajectory is expected to hold steady for the next five years at least. Multifamily demand is damped by the relative age of the population and the affordability of the for-sale stock. However, multifamily construction is currently relatively slow and will likely remain so for the next year and possibly longer. Though demographic and economic growth expectations are low, there are also no signs of sharp declines in the next five years.
- Vacancy rose in the fourth quarter due to a burst of new construction, but construction is slowing faster than national trends and the market is anticipated to be balanced within the next two quarters, if not sooner.
- Multifamily demand fell in the quarter down due to slowed household formation, rising rents, and inflation.
- Overall, employment remains flat, and the metro is anticipated to see a slight decline in population or grow at a maximum rate of about a third of the nation's growth. Sources agree, however, that the population is aging faster than the US population, which bodes ill for multifamily demand over the long term.

Market Strengths:

- While the economy currently lags the nation, major investments in manufacturing, including a \$6 Bn plastics plant, could help boost demand for housing.
- Educational and research institutions, such as Carnegie Mellon University and the University of Pittsburgh, remain strong.
- The cost of living is low relative to other northeast metros, and income growth is relatively strong.

Market Weaknesses:

- While the US is expected to gain population at healthy rates over the next decade, Pittsburgh is not expected to grow substantially. Some estimates suggest it will lose population over the next five years. However, the metro may densify, as the county that the City of Pittsburgh is in increased in population during the 2010s, ending decades of population loss.
- Manufacturing, an important part of the metro economy, is expected to face challenges in the future, with elevated interest rates likely dampening investment and demand. While the tech sector remains strong, venture capital remains less readily available relative to other tech hubs such as Austin, TX and Silicon Valley.

New Development:

- The metro saw a historically high level of development in 2023, but development activity appears to have slowed sharply in Q4.
- Multifamily permitting is expected to slow substantially over the next five years, relative to levels over the past decade.
- The pipeline of multifamily development currently stands at 1.3% of inventory, (1,400 units) relative to 4.6% nationally.

Outlook:

- Multifamily sales volume has recently been anemic relative to past five years, and 2023 was the weakest 3rd quarter since 2017, at 60% below 3rd quarter pre-pandemic average. However, market fundamentals do not show a substantial weakening or improvement in the balance of multifamily supply and demand in the next year or two. Vacancies, rent growth, cap rates, and asking rents are expected to hold relatively steady over the next year. Demand is not expected to strengthen, but supply is not expected to grow substantially.
- Relative to the nation, Pittsburgh's employment has not rebounded as well after the pandemic, with total employment either slightly lagging or barely reaching pre-pandemic levels. This is driven by the industrial mix, particularly manufacturing's importance in the local economy. Oxford Economics forecast that the metro's economy will lag growth relative to the nation in the next five years. Still, unemployment remains slightly lower than the nation's and the median income has remained steady.

Slide 1

TKO

Asking rents for MF or SFR?

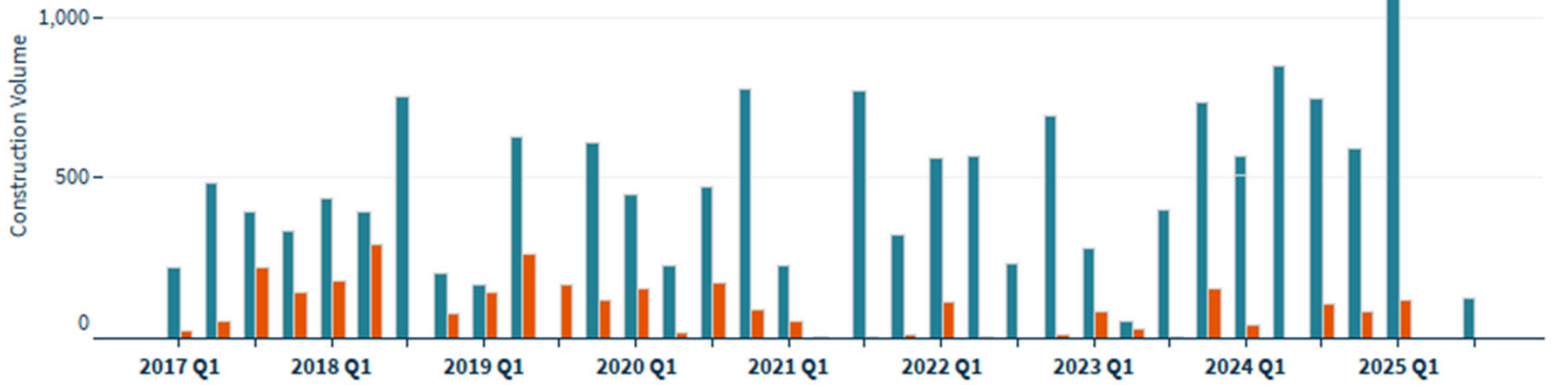
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Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

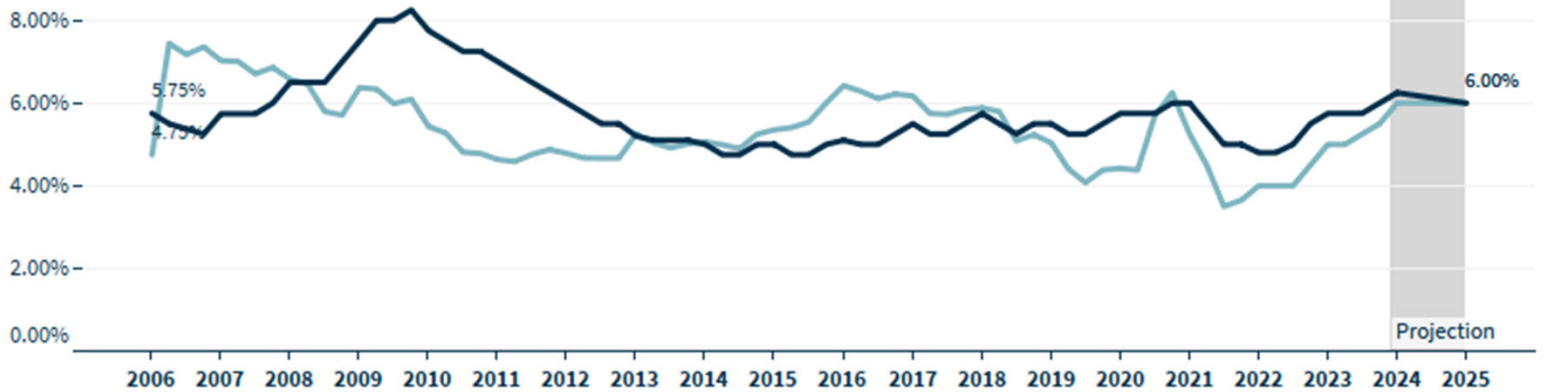
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Pittsburgh | National

Q4 2023 Vacancy Rate:

5.50%



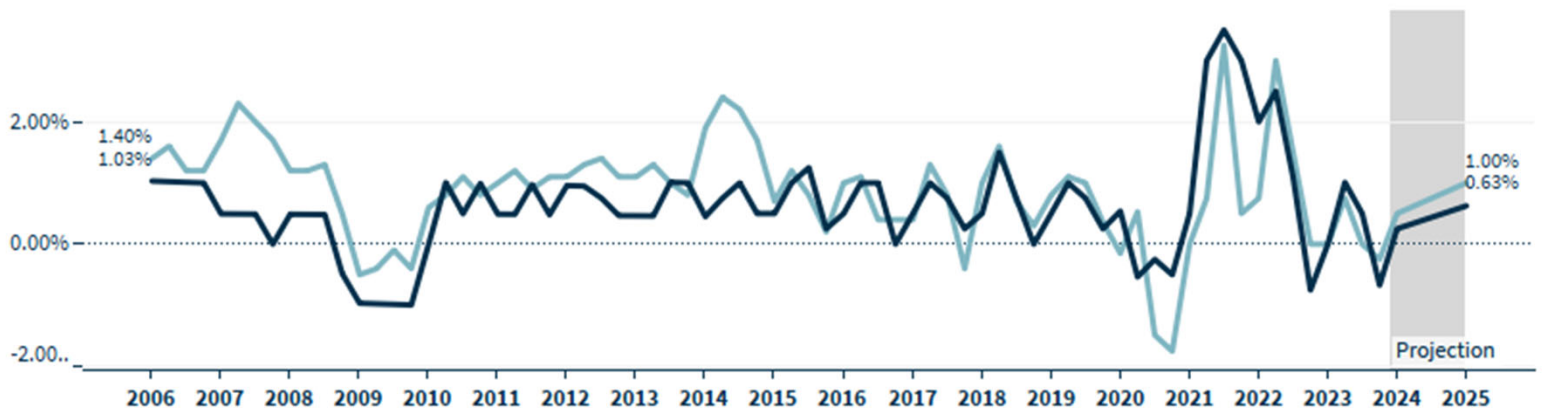
Projection

Asking Rent Growth

Pittsburgh | National

Q4 2023 Asking Rent:

\$1,350

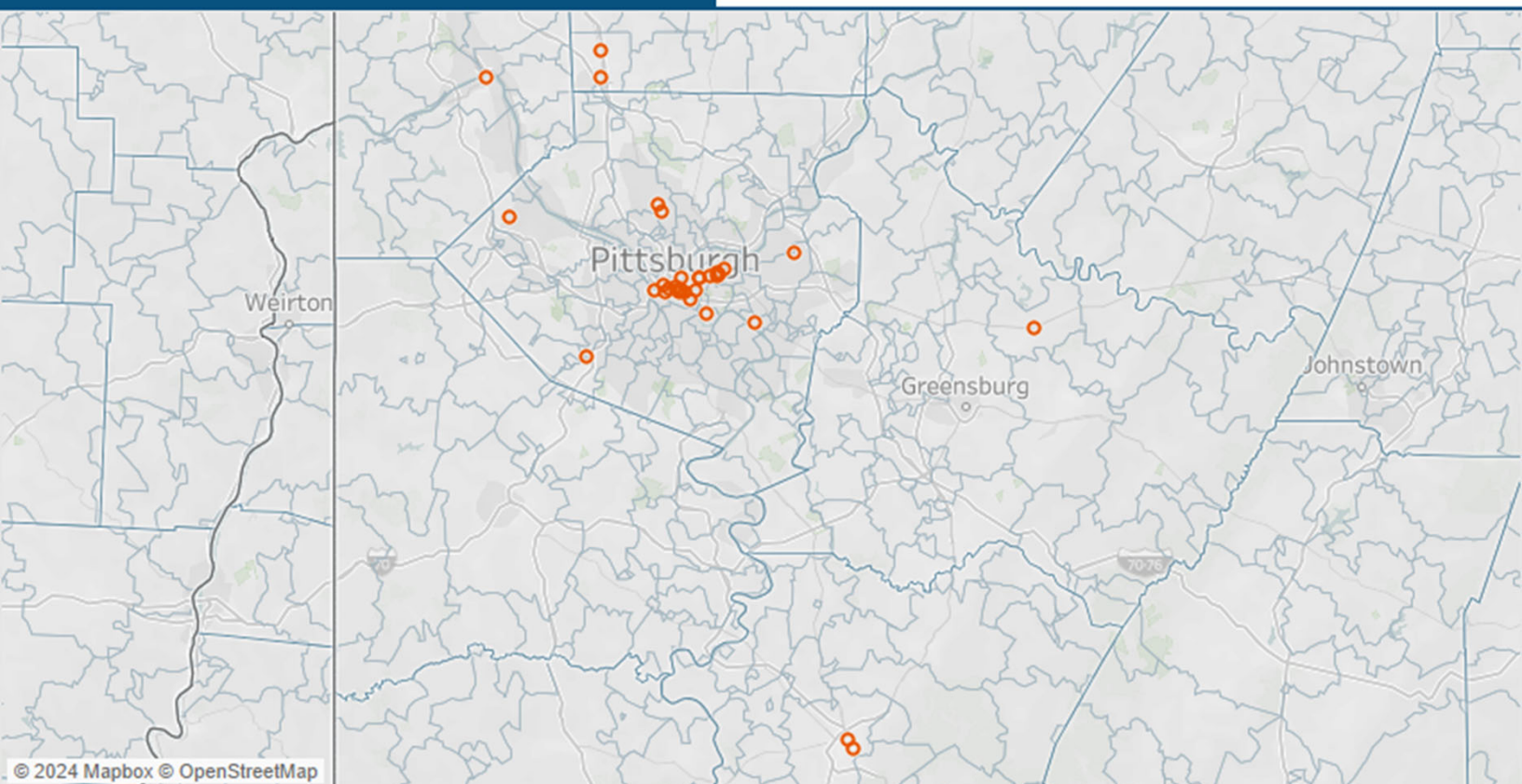


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Central Pittsburgh	12	1,262
East Pittsburgh	2	48
North Pittsburgh	4	446
Oakland/Shadyside	8	1,069
South Pittsburgh	2	328
West Pittsburgh	2	255
Westmoreland/Fayette Counties	3	590
Grand Total	33	3,998

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Greenstreet
- Dodge Data and Analytics SupplyTrack Pipeline
- CBRE-Econometric Advisors
- Yardi

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