

Multifamily Metro Outlook:

Pittsburgh - Q1 2024

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, unlike many metros, Pittsburgh is not oversupplied, and the pipeline suggests that the market will be relatively tight in the next two years. Rent growth, though modest by historical standards, is currently above national averages. Though demographic and economic growth expectations are low, the region's institutions of higher learning and growing tech sector buoy what might otherwise be a declining market.
- Vacancies continued to rise in early 2024 due to new construction, but construction did not boom in the metro as it did in other areas and is slowing faster than national trends leaving the market more-or-less balanced.
- Multifamily demand fell in the first quarter down due to slowed household formation, rising rents, and inflation.
- Like most of the US, MF sales volume in the metro is anemic relative to past five years but rose slightly in 2023 and continued its rise in early 2024, mostly due to one large deal. This is mostly due to high interest rates and rent growth that is slow relative to prior years.
- 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. However, 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.
- 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 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 generation slowed sharply in early 2024, and is likely to be around 25% lower this calendar year relative to 2023.
- The pipeline currently stands at 1.1% of inventory, which is well below most metros
- Single family permitting has risen from pre-pandemic levels and is expected to remain elevated for the next three years.

Outlook:

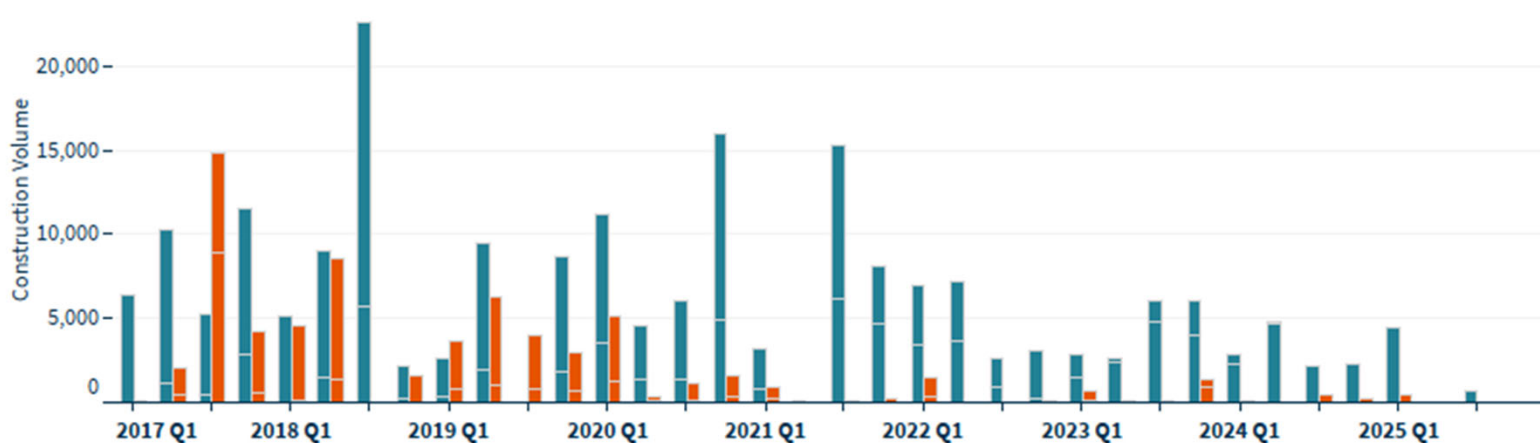
- Multifamily Outlook: Generation in the metro will probably decline in coming years likely leading to a decline in vacancy rates and boosted rent growth for the next three years, Market fundamentals, particularly job growth and change in the population of young adults, do not show signs of either weakening or improvement in the next two years year. 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.
- Economic Environment: 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, which still faces the challenges with labor and troubled supply chains. Oxford Economics predicts 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.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

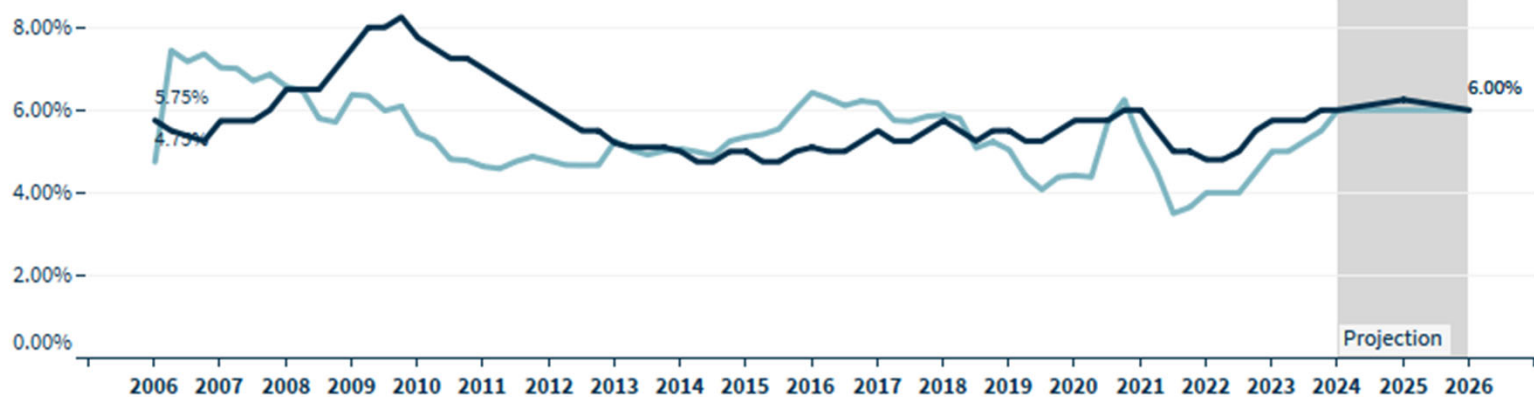
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Pittsburgh | National

Q1 2024 Vacancy Rate:

6.00%



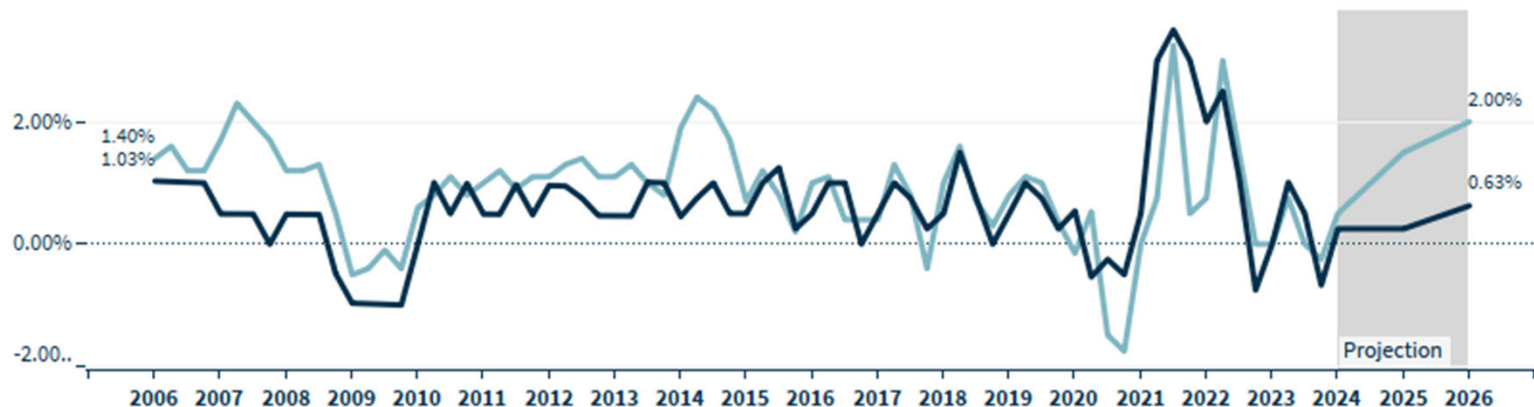
Projection

Asking Rent Growth

Pittsburgh | National

Q1 2024 Asking Rent:

\$1,360

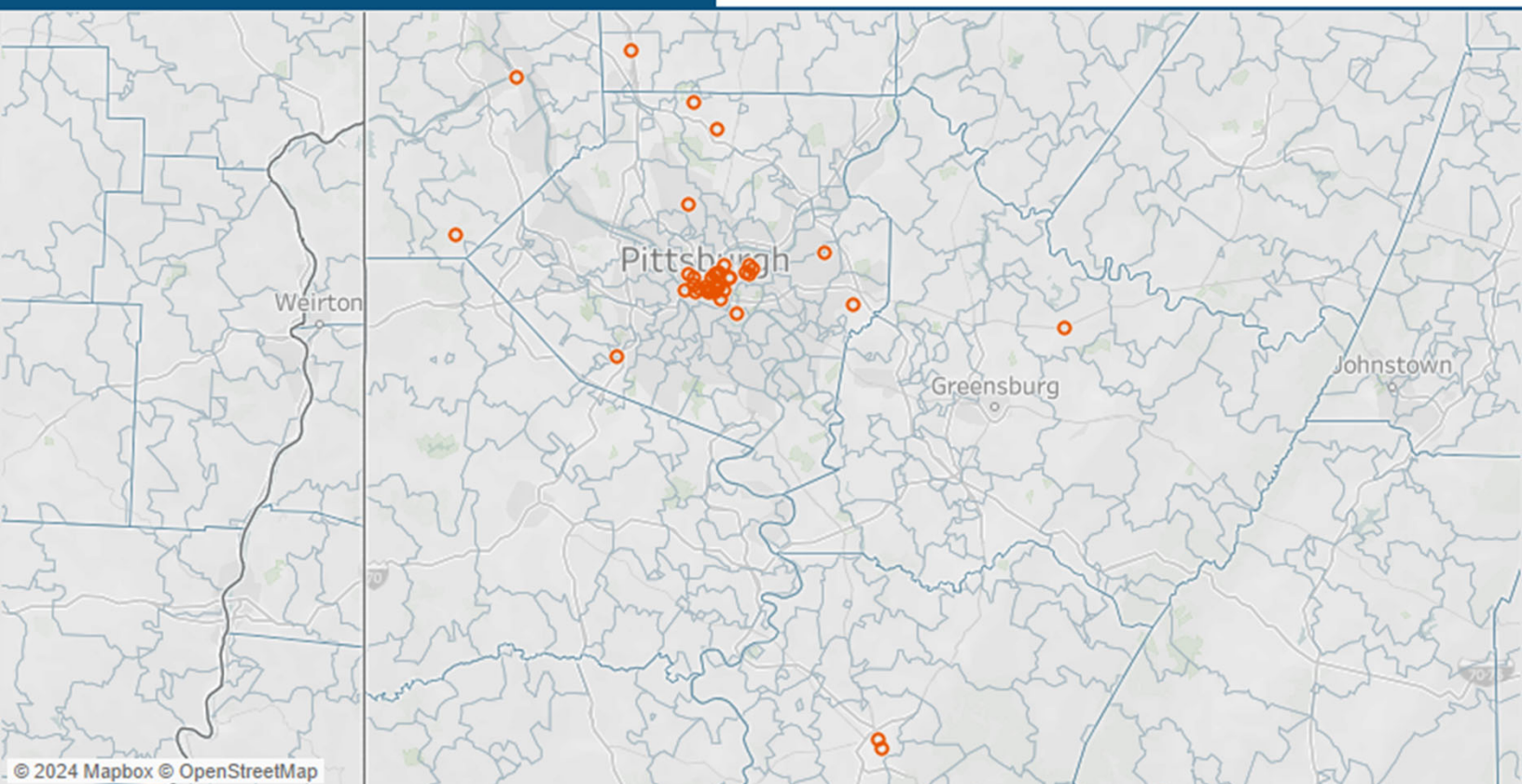


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Central Pittsburgh	18	1,431
East Pittsburgh	2	244
North Pittsburgh	4	122
Oakland/Shadyside	13	1,300
South Pittsburgh	2	328
West Pittsburgh	2	351
Westmoreland/Fayette Counties	3	590
Grand Total	44	4,366

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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