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Is Pittsburgh a good city for investing in rental properties?

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Abstract — Investing in the United States of America can be a lucrative process. Even many Canadians come to the U.S. to buy and invest in rental properties. It is more about knowing the process in detail and being prepared for small but important fees such as a landlord's license. As of 2014, Pittsburgh has been listed in the top 25 cities for buying residential rental properties. While there is a clear division of wealth in the City, there has been recent, hardy growth in all sections of the City: north, south, east, and west.

Keywords— Pittsburgh, Investing, rental properties, United States

INTRODUCTION

As of 2014, Pittsburgh has been listed in the top 25 cities for buying residential rental properties. While there is a clear division of wealth in the city, there has been recent, hardy growth in all sections of the city: north, south, east,and west. The time to invest in Pittsburgh seems to be now (2015). The growth in the city is undeniable as well as on an upwards trend. More and more people are coming to town as Pittsburgh evolves from its recent industrial past. Many neighborhoods are surrounded by historic or expensive pockets, making them a prime location for new rental properties. Pittsburgh is seeing upward trends for income, drops in homelessness, and many new revitalization projects have already been completed or are in the works. Now seems to be the perfect time for investment before the market becomes saturated. Also, since projects by the city for remodeling are being completed, there is already a growing attraction for the land. By utilizing this time to open up new rental properties, one could capitalize on the projects of others the city for personal profit. Pittsburgh has a lengthy, arduous past behind it and the future is just as tantalizing. Now is the time for investment if one wants to embark upon a profitable commitment.

PITTSBURGH CITY

Pittsburgh city is the 20th largest city in the United States of America (U.S.). Being the second largest city in the Commonwealth of Pennsylvania, it is home to about 305,842 people as of 2013 [U.S. Census Bureau, 2010]. It is a town known for many accomplishments, such as the "steel city", for Pittsburgh houses over three-hundred steel-related businesses. It is also frequently referred to as the "city of bridges", since Pittsburgh has 446 bridges. As of 2015, Pittsburgh was listed in the top eleven cities to live in. This is well deserved, since Pittsburgh has great diversity in population, especially in the areas such as the South Side, which has become a popular destination for millennials. Pittsburgh also has a plethora of museums celebrating its long history. It is home to 68 colleges and universities as well as harboring the nation's fifth largest bank, PNC. Pittsburgh is located in Pennsylvania, a state located in nearly the most northeastern part of the United States. The state is located between two major climate zones: that of humid continental zone and that of the humid subtropic zone (Pittsburgh, Pennsylvania Climate, 2015). The southeastern part falls under the first and the southernmost region of Pennsylvania falls under the second. Pittsburgh, even though it is located in the southwestern part of Pennsylvania, is still in the humid continental zone. This means the region is characterized by dramatic temperature differences through the year with thriving forests. The population of Pittsburgh as of 2013 was 305,842 people [U.S. Census Bureau, 2010]. While Pittsburgh does not make it on the list for the most baby boomers, it is second on the 2013 statistic for how many millennials are currently living in the metropolitan areas in Pennsylvania. Millennials are those born between the years of 1977 to 1992. Thus, choosing rental locations that bode well with younger generations would be a smart investment since they compose 27.7% of the population ("RealtyTrac Reveals Top 25 U.S. Markets For Buying Rental Properties," 2014). There are nine distinct areas in Pittsburgh. Hazelwood is one of the nine and is located in the southeastern region of Pittsburgh. While it was once an industrial region, as of 2013 there are plans to redevelop the entire area; a project costing nearly US $900 million ("Planners Approve Zoning For Massive Hazelwood Project at LTV Site," 2013). Part of the plans include adding 1,300 housing units. The Hill District is a historic area, once full of jazz and African-American neighborhoods. This area is undergoing revitalization. For example, the Hill District struggled with crimes and did not have a grocery store for about 30 years. As of 2013, the Hill District officially has a food market. In 2010, the Hill District community opened the first university-run pharmacy in the United States of America. More plans for development are in the works. Homewood, in the northeastern region of Pittsburgh, is divided into three neighborhoods: the North, South, and West Ends. All neighborhoods in Homewood have a much

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lower income per capita as compared to the rest of Pittsburgh, making this neighborhood not the best choice for opening new residential rental properties. Lawrenceville is one of the largest neighborhood areas in Pittsburgh. Located northeast of Downtown City of Pittsburgh, this area has an industrial background. While this area is still undergoing development and growth, it has become a prime destination for young 'hipsters' as well as millennials ("Real Estate Prices Higher in Some Places," 2007). As of 2007, real estate appreciation here was the highest just after the South Side, according to Carnegie Mellon University. Real estate appreciation refers to whether the property value has gone up or down. This is a way to determine if investments will pay off or prove lucrative. The North Side is a collaboration of many neighborhoods, none proving too noteworthy. While there are many places to visit, such as museums or observatories, the population is low income, and there is not much room for growth in the immediate future. Oakland is the academic and healthcare center of Pittsburgh. Here is Pennsylvania's third largest downtown. The social and economic activity of this region is particularly noteworthy, making this a prime destination for many visitors and people looking to move to a new location. It is bordered by rich neighborhoods such as Shadyside and Squirrel Hill. This makes Oakland a modest rental investment region with nice surroundings without the extra-nice price. The Southside of Pittsburgh is full of many row houses and those still involved in industrial production, such as paper mills. Since 1982, this area has attracted 250 new businesses. This region has also undergone revitalization which has created over 6,000 new jobs. This area has experienced growth and has a thriving nightlife, making for popular neighborhoods. Squirrel Hill is a wealthy neighborhood with over 11,000 residents. With an expansive history, Squirrel Hill also has houses of Carnegie Mellon University and Chatham University. Even lower levels of education are of high quality in this region, making it a perfect destination for new families and motivated college students. The West End is a business district that has experienced demolition of indigenous landmarks in recent years. Today, the most noteworthy parts of this area are the highways passing through, making this a poor region for investment. Ultimately, the best regions for rental property investments would be Lawrenceville, Oakland, the South Side and Squirrel Hill. The other areas may offer future profits, but too much uncertainty would make for an uncertain investment.

Investing in rental properties

Investing in the United States of America (U.S.) can be a lucrative process. Even many Canadians come to the U.S. to buy and invest in rental properties. It is more about knowing the process in detail and being prepared for small but important fees such as a landlord's license. It is key to set rules and stick to them to make in the rental home investment business. Such as rent: set a late fee and apply it in every circumstance. One of the greatest pitfalls of any landlord is stress ("What I Wish I Knew Before Buying Rental Property," 2014). If you are stressing about whether or not a tenant will pay on time this month, you are wasting energy that could be utilized in other facets, like opening more rental units. Being prepared for unexpected repairs is also key to holding a profitable property. As a rule of thumb, investing in expensive markets are difficult as well as a bad place to invest. They are costly for starting up (buying land, construction, etc.) as well as the return on the investment usually takes much longer than investing in good, modestly priced neighborhoods. For example, Austin, Texas homes are priced an average 8% higher than the monthly income for the populace in the area ("Best Buy Cities," 2015). This means finding tenants who can afford rent will be hard to come by and every month you do not have renters, you are missing out on profit. As of 2013, Pittsburgh had the highest rate of homeowners without any debt at a staggering 38.6% (Pittsburgh Pennsylvania Residential Rent and Residential Statistics,2013). In that same year, Pittsburgh had 30.21% of all households being renters (Full Home Ownership Here is Nation's Best, 2013). Both markets are thriving, selling and renting, since the city is undergoing constant revitalization since the deindustrialization of the region. With so many renters, this allows for a potential investor to enter a market where there is actual demand. Since Pittsburgh is on the crux of remodeling as well as populations are rising, it is a great time to get in on this opportunity. It is better to invest in an area where it is thriving but not yet concentrated with competition. The average income in Pittsburgh in 2013 was $50,489 (Pittsburgh's Median Income, 2013). Over the previous three years, income has risen in the community from $49,809. While the average for metropolitan areas in the United States is a bit higher, at $53,607, Pittsburgh is slowly growing and prospering every year. This is due to projects such as South Side Works, which is creating and supplying jobs to many residents of the area. In 2014, only 4.50% of people were homeless in Pittsburgh, compared to the national average of 7.3%. More opportunities are arising for the people of Pittsburgh and investing in rental units that are close to the average rent of the area will only prove profitable.

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Budget and profit

Buying a property already constructed and ready to go may be the easier option but will cost more up front. There are currently 501 condominiums in Pittsburgh for sale with an average asking price of US$195,734. Neighborhoods in Pittsburgh such as Shadyside or Squirrel Hill are not ideal locations as they are already expensive and it would be difficult to break into that market as well as not as profitable in the long run. There are several land properties for sale. In Oakland, one of the better locations to invest in, has three acre sized properties selling at US$20,000. This neighborhood is a great investment as it is good but not too expensive and has seen recent growth in population, social and economic activity as well as many millennials moving in. Buying land also avoids the cost of demolition and cleanup of the previous houses. The average cost to construct a single condominium unit is about US$102,000. That includes furnishing costs and setting up water, natural gas, and electricity. So to build a property and have it ready for rental purposes, it would cost about US$122,000. As for monthly charges as a landlord I would have to pay, the average runs about US$550. This includes taking care of water, sewage and offering recycling to tenants. Since the installation costs of electricity is under the US $122,000 upfront cost, I would not have to pay any further since that monthly cost would be placed upon the tenants. Since many landlords expect to pay about 15% of the monthly rent in fees associated with owning the property (repairs, maintenance), charging slightly above Pittsburgh average rent of US$991 will ensure this investment is profitable. The average rent in Pittsburgh for a three bedroom apartment is US$991 a month. I plan on investing in a condominium, which is of higher quality, and charging US$1,100 a month to ensure payoff in a sooner future. For example, if I only charged US$991 a month, I would only make US$11,892 a year. Subtracting average maintenance costs, I would be left with a net of US$11,342. This would take about eleven years for me to see a return on my initial investment before making actual profit. This is also assuming there are no unexpected fees, such as repairs, damages, etc. Instead, I will charge US$1,100 which means I am only using about 4% of the monthly rent to upkeep the property. I will also make US$13,200 a year and after expenses about US$12,650. This means I will see my money back in about nine and a half years from just the one rental unit. Many investors will only invest in a property if they see their money back within ten years. There is a chance many years there will not be a fee of US$550 through the year, but I accounted for it every year as a safeguard to ensure this is a profitable choice. The area of Oakland is only on an upwards trend for population, work and other opportunities so the investment is wise and is sure to pay off.

Conclusion

Ultimately, investing in Pittsburgh through rental properties does seem to be a good investment. Even during the economic downturn and housing market crash after 2006, Pittsburgh was the only City to see growth and rising prices. Since the deindustrialization of the City, Pittsburgh has been pursuing many different paths all the while maintaining standing in the corporate world. Many millennials are moving in and taking the City by storm. From museums, trends in the art community and the social atmosphere, Pittsburgh is becoming a place people want to be. The area falls in a goldilock region; it is not too expensive nor are most parts too poor. The neighborhoods I described above are thriving without much crime and now is the time to invest before the area becomes developed and therefore hard to break into.

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