

# Pittsburgh Office Market

## Conditions Advantageous for Tenants; Urban Neighborhoods Rule Development

During the first quarter of 2021 in the Pittsburgh office market, activity levels gained momentum, albeit minimal. As coronavirus inoculations infiltrate society, the beginnings of an end to the stifling pandemic are finally in sight. While the full impact of the virus outbreak on the Pittsburgh office market has not completely surfaced, near-term effects have begun to resonate.

Overall vacancy in the Pittsburgh office market climbed by 50 basis points over fourth-quarter 2020, resting at 19.8%, marking the sixth quarter in a row of continued increases. Sublease space increased by 199,166 square feet over the previous quarter, reaching nearly 1.86 million square feet, or 15.2% of all available space. Net absorption posted negative 230,119 square feet, and average weighted asking rents rose to \$24.46/SF, increasing by \$0.28/SF over year-end 2020.

Boosted by the pandemic, market conditions in Pittsburgh have placed tenants in most submarkets in a favorable position, leaving landlords scrambling to attract and maintain users. As a result, many owners have become agreeable to increased concessions, while attempting to maintain rents.

### Current Conditions

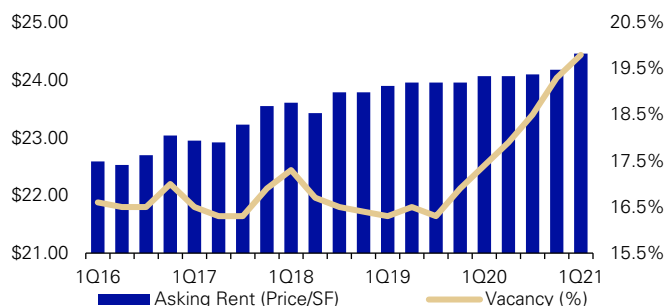
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### Market Summary

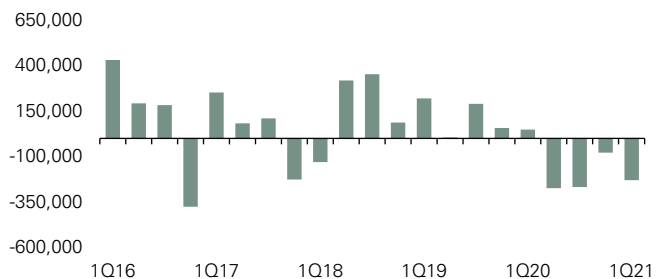
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	56 MSF	56 MSF	56 MSF	↑
Vacancy Rate	19.8%	19.3%	17.4%	↑
Quarterly Net Absorption (SF)	-230,119	-78,925	47,979	↓
Average Asking Rent/SF	\$24.46	\$24.18	\$24.07	↔
Under Construction (SF)	903,853	963,853	739,661	↓
Deliveries (SF)	0	416,333	445,490	↑

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



## RESEARCH Q1 2021

A few of these enticements include free rent; the number of months offered have almost doubled, and proposed tenant improvement dollars which have increased by close to 20% on new transactions. Early tenant renewals have some landlords considering short-term reductions in current rent in exchange for increased lease term, while upcoming tenant termination right terms may be poised for renegotiation. Users pursuing opportunities in submarkets with hefty availabilities are in the best position to capitalize on the pressure facing market fundamentals.

### Central Business District

During first-quarter 2021 in the Central Business District, overall vacancy and net absorption were essentially static. Vacancy was flat over the end of 2020 at 20.1%, and net absorption was negative 13,160 square feet, while average weighted asking rents dipped by \$0.08/SF to \$25.88/SF.

Conversations continued regarding the redevelopment of the 28-acre former Civic Arena site. Facing a variety of challenges over the past nine years, in late 2019, First National Bank announced intentions to occupy over 160,000 square feet in a proposed 26-story office tower within the development; however, shovels have yet to hit the ground on the office space as final approval by the City Planning Commission is still pending.

### Urban Markets Outside the CBD

Urban markets outside the CBD persisted in generating high levels of interest from developers. While 2020 may have delayed the speed with which some developments progressed, these neighborhoods continued to lead construction in the Pittsburgh office market during first quarter of 2021.

In the Strip District segment of the Fringe submarket, New York-based Acram Group, formerly JMC Holdings, began deconstructing the Federal Cold Storage Building at 1501 Penn Avenue. The Company received approval for a 23-story office

tower, although a date for the start of construction of the new building has not yet been announced. Moving deeper into the Strip, McCaffery Interests completed renovations of the former Produce Terminal. While primarily retail, a portion, known as The Auction House at The Terminal, is being marketed to office users.

At the same time, the Chicago developer is completing renovations at 1600 Smallman Street and is considering uses for a 3.5-acre site across the street at 21<sup>st</sup> and Smallman Streets. Oxford Development's 145,000-square-foot 75 Hopper Place progressed during the quarter and is on schedule for a September completion, while Burns Scalo Real Estate's 265,000-square-foot Vision on Fifteenth moved forward as well. The properties that just completed and those currently under construction/renovation bring nearly 560,000 square feet of office inventory to the Strip.

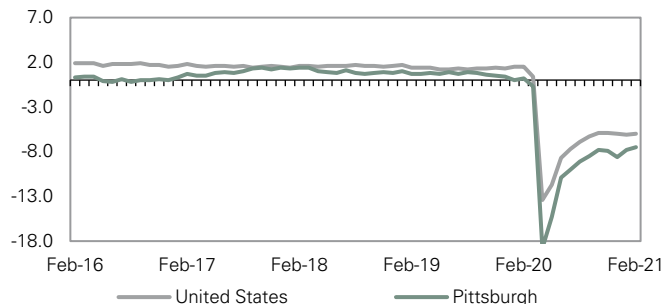
In the Southside, the new owners of the Southside Works announced the redevelopment of a former theatre in the complex to an office use. New York-based SomeraRoad will be converting the movie house into 77,000 square feet of office space. The company also has plans for a riverfront project featuring 200,000 square feet of office space and 230 multi-family housing units.

Along the North Shore, Gecko Robotics committed to 70,000 square feet at Nova Place, expecting to take occupancy later this fall. The company is relocating from the Oakland/East-End submarket, expanding in size, and marks the largest new lease in the Fringe submarket during first-quarter 2021.

Construction of the 250,000-square-foot Liberty East in the East Liberty neighborhood of the Oakland/East-End submarket forged ahead with an anticipated completion date of late this year. Deeper into the heart of Oakland at Fifth and Halket, Walnut Capital's 280,000-square-foot Innovation Research Tower progressed, while nearby Wexford Science + Technology's 200,000-square-foot office building continued to face headwinds.

### Payroll Employment

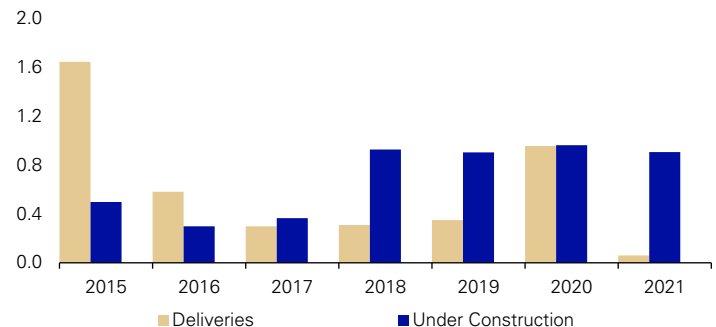
**TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE**



Source: U.S. Bureau of Labor Statistics

### Construction And Deliveries

**SQUARE FEET, MILLIONS**



## RESEARCH Q1 2021

However, the Baltimore development group's project with the University of Pittsburgh at 5051 Centre Avenue moved ahead. When completed in 2022, the property will provide 108,000 square feet of competitive office and lab space.

In tenant news, Google has committed to an additional three floors in the Bakery Square complex in East Liberty. The technology giant will occupy over 300,000 square feet in the redevelopment at the former Nabisco site.

### Suburban Submarkets

During first-quarter 2021, the suburban markets experienced a 100-basis-point uptick in vacancy over the end of 2020, resting at 20.6%, and weighted asking rents inched up a minimal \$0.07/SF to \$21.99/SF. Further, net absorption was a negative 208,596 square feet, accounting for all but 21,523 square feet of the total negative net absorption in the Pittsburgh office market.

In the Waterfront complex in the East submarket, the repositioning of a former Macy's retail store to an office use has led to the sale of the 140,000-square-foot property to Commonwealth Charter Academy. The educational institution purchased the building from M&J Wilkow for approximately \$28.5 million. The highest level of vacancy continues to plague

the East submarket, where 28.7% of all office space is unoccupied.

In the Southpoint segment of the South submarket, CNX placed 113,000 square feet of available sublease space on the market in March, adding to numerous opportunities in the well-positioned development. At the same time, the overall South submarket experienced a 40-basis-point decrease in vacancy over year-end 2020 to 16.8%. Net absorption was a positive 8,028 square feet; one of only two suburban Pittsburgh submarkets to experience positive net absorption, albeit minimal. The North submarket was the only other suburban submarket to experience positive net absorption, posting 19,626 square feet.

### Looking Ahead

Work-from-home restrictions currently remain in place in Pennsylvania; however, activity levels have increased slightly over the past few months as tenants have slowly begun to consider workspace options post-pandemic. High-quality sublease space will persist as a formidable competitor for direct space. Ample vacancy will place further pressure on rents and cause most owners to continue offering enhanced concessions throughout the coming year.

## Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)
CBD	20,166,806	0	4,052,010	20.1%	-13,160	-13,160	\$29.70	\$22.24
Fringe	7,362,801	377,292	1,390,830	18.9%	30,206	30,206	\$29.59	\$22.44
Oakland/East End	3,338,722	526,561	488,013	14.6%	-38,569	-38,569	\$43.33	\$23.25
<b>City Of Pgh Total</b>	<b>30,868,329</b>	<b>903,853</b>	<b>5,930,853</b>	<b>19.2%</b>	<b>-21,523</b>	<b>-21,523</b>	<b>\$31.33</b>	<b>\$22.38</b>
East	3,431,259	0	985,910	28.7%	-33,742	-33,742	\$21.30	\$16.90
North	7,694,782	0	1,377,611	17.9%	19,626	19,626	\$25.05	\$21.46
Parkway West	8,946,514	0	1,970,570	22.0%	-202,508	-202,508	\$23.73	\$19.56
South	5,368,014	0	900,707	16.8%	8,028	8,028	\$22.79	\$19.58
<b>Suburban Total</b>	<b>25,440,569</b>	<b>0</b>	<b>5,234,798</b>	<b>20.6%</b>	<b>-208,596</b>	<b>-208,596</b>	<b>\$23.36</b>	<b>\$19.47</b>
<b>Pittsburgh</b>	<b>56,308,898</b>	<b>903,853</b>	<b>11,165,651</b>	<b>19.8%</b>	<b>-230,119</b>	<b>-230,119</b>	<b>\$27.21</b>	<b>\$21.20</b>

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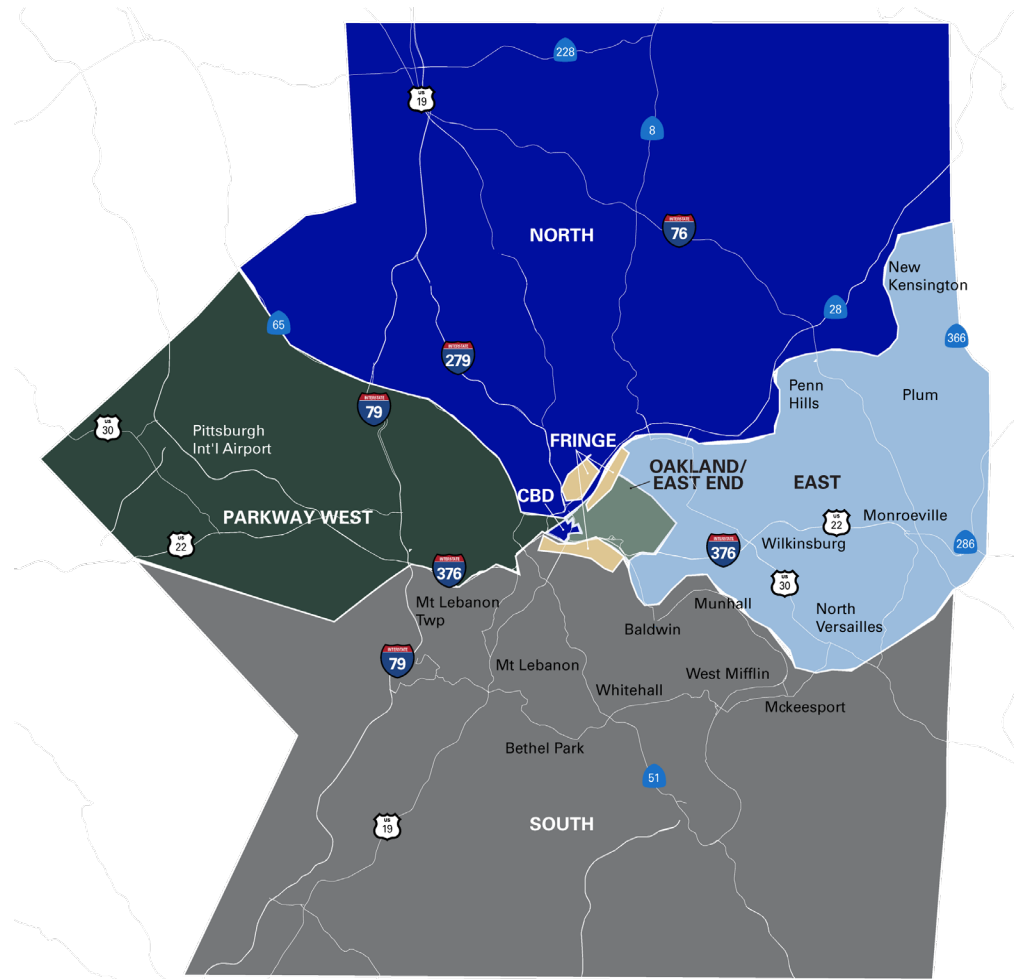
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