

Pittsburgh Industrial Market

Headwinds and Uncertainty

While 2021 ended on a very high note, the first quarter of 2022 brought significant challenges to the economy due to geopolitical events, rising inflation concerns, Fed tightening and continued supply chain disruptions. While it is too soon to determine the near-term impact on the Pittsburgh industrial market, national trends continue to point to very strong demand for quality industrial space across the country, despite rising land prices and supply chain disruptions delaying the completion of much-needed inventory. Investor appetite for industrial real estate remains strong, with continued cap rate compression in all of the major industrial markets. As interest rates increase in the second quarter of 2022 and beyond, there is uncertainty as to how long before cap rates increase as a result.

With respect to the Pittsburgh industrial market, the first quarter of 2022 was highlighted by several high-profile transactions, resulting in positive absorption and a solid start to the year. The overall market remains at 94.0% occupancy, with Class A occupancy at 97.0%. Absorption was positive at 630,000 square feet; for the first time in several quarters, Class A absorption, while positive at 350,000 square feet, did not exceed overall market-wide absorption. This is a very promising sign as Class B/Class C buildings contributed to positive absorption.

Current Conditions

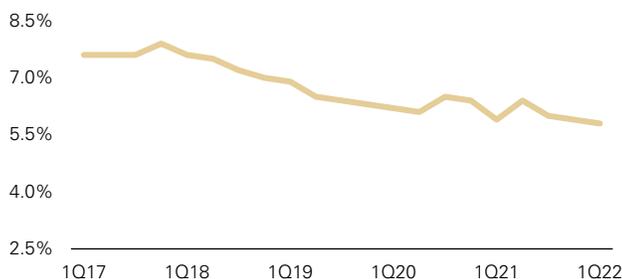
- Investor appetite for industrial real estate remains strong, with continued cap rate compression in all of the major industrial markets.
- The overall market remains at 94.0% occupancy, with Class A occupancy at 97.0%.
- Net absorption was positive at 630,000 square feet; for the first time in several quarters, Class A absorption, while positive at 350,000 square feet, did not exceed overall market-wide absorption.

Market Summary

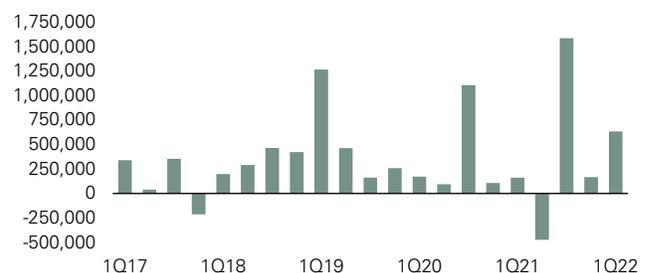
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	145 M	144 M	144 M	↑
Vacancy Rate	5.8%	5.9%	5.9%	↓
Quarterly Net Absorption (SF)	633,026	166,724	160,424	↑
Under Construction (SF)	1,524,082	1,493,625	2,116,607	↑
Deliveries (SF)	496,702	0	0	↑

Market Analysis

VACANCY RATE



NET ABSORPTION



RESEARCH Q1 2022

Market Activity

The biggest news of the first quarter of 2022 was the sudden decision by Amazon to cancel its plans for a multi-story, 2.9-million-square-foot facility at the former George Westinghouse Research Center in Churchill just months after receiving approvals from the Churchill Borough to proceed. As a result, the site will remain undeveloped and largely unused, as it has been for nearly 20 years. It will be interesting to see if future development takes place and how much of the projected \$11.0 million in real estate tax revenue is realized from the plans endorsed by the local community groups who were in opposition to the project.

There were several announcements in the East submarket, including another significant transaction in the RIDC McKeesport as Dura Bond acquired its 300,000-square-foot facility and adjoining land. Dura Bond was a long-term occupier in the project and the acquisition solidified its long-term future on the site. The significance of this transaction and the Trulieve acquisition in 2021 is the culmination of a 30-year effort by the RIDC to successfully transform this prior steel manufacturing site into a diversified light industrial complex, bringing employment and economic development to the Mon Valley for the next generation. In nearby Turtle Creek, the RIDC was able to secure Eos Energy as a new tenant in Keystone Commons, occupying a total of 100,000 square feet in two buildings. The RIDC has done a remarkable job of transforming this former 1.8-million-square-foot industrial facility into a stabilized, multi-tenant industrial complex.

In Westmoreland County, there were numerous major projects announced, including the decision by Frank B Fuhrer Wholesale, the region's largest multi-brand beer distributor, to build a 300,000-square-foot distribution center near the RT 22/RT 66 intersection in Delmont. Reinhart Foodservice announced it is expanding its existing 155,000-square-foot refrigerated warehouse in the Westmoreland Distribution Park by an additional 169,000 square feet. Al. Neyer, LLC continued its role

as a speculative developer by starting construction of a 250,000-square-foot building in the Commerce Crossings in Waltz Mill, while also announcing plans for a second building in the Westmoreland Tech Park II of 150,000 square feet. At the RIDC Westmoreland Innovation Center, City Brewery is expanding its operations by leasing 255,000 square feet in the facility.

In Butler County, SunCap completed a build-to-suit for Bayer Healthcare/FedEx Supply Chain for a 220,000-square-foot distribution center to support the Bayer manufacturing facility in the Victory Road Business Center in Saxonburg.

In Beaver County, Crossgates secured its first tenant for the 105,000-square-foot Westgate Commerce Center by landing Metropolitan Warehouse for 31,500 square feet. Based on the opening of the Shell Petrochemical facility in 2022, it is expected that additional demand will be created throughout Beaver County for quality light industrial facilities, which are in short supply.

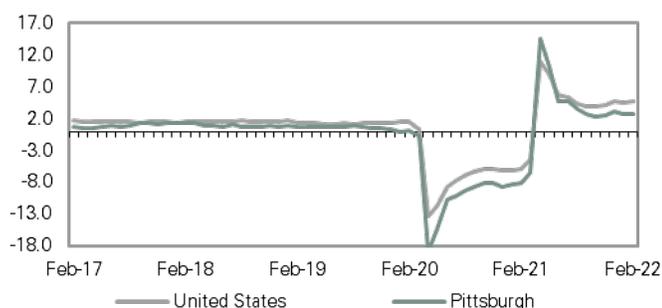
The West submarket continued its consistent performance with several notable transactions. NorthPoint was able to secure two tenants for its first speculative 276,000-square-foot building at Westport Ridge in the Findlay Industrial Park, including Home Depot and RAK Porcelain. NorthPoint also started site work on two other buildings for 200,000 square feet and 220,000 square feet, respectively, with delivery in the fourth quarter of 2022.

In the Clinton Commerce Park, STAG Industrial was able to expand its existing tenant in 2300 Sweeney Dr., Berlin Packaging, to lease 158,000 square feet in the adjacent 265,000-square-foot building at 2400 Sweeney Dr.

The Allegheny County Airport Authority announced that AeroTerm will construct a 140,000-square-foot cargo facility, which will be added to the existing facilities on the north tarmac of the Pittsburgh International Airport. The ACAA also announced that Al. Neyer, LLC was selected as the developer for the Northfield site and has plans to construct four buildings, totaling 700,000 square feet, targeting life science related users.

Payroll Employment

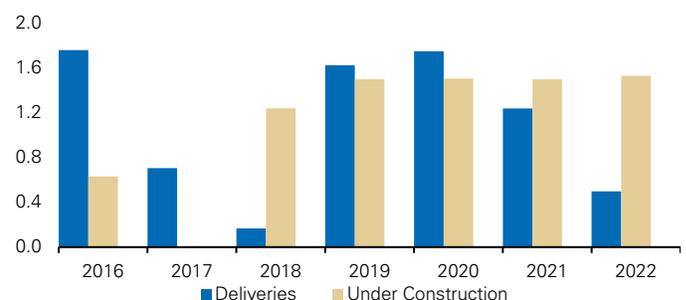
TOTAL NON FARM, NOT SEASONALLY ADJUSTED, 12-MO %CHANGE



Source: U.S. Bureau of Labor Statistics

Construction and Deliveries

SQUARE FEET, MILLIONS



RESEARCH Q1 2022

Capital Markets

Demand for stabilized single tenant and multi-tenant industrial property remains very strong with several major projects under agreement to close in the second quarter of 2022. The most notable sale in the first quarter of 2022 is 2250 Roswell Dr., a 500,000-square-foot building leased to Amazon and Nogin. This sale is notable, as it will be the highest price/lowest cap rate for a Class B building in the Pittsburgh market. To date, most sales have included newer Class A buildings. Several other Class A facilities are expected to achieve sale prices in the 4.5% to 4.9% cap rate range, which continues the trend of cap rate compression as demand for industrial assets exceeds supply.

Looking Ahead

With over 1.5 million square feet of new construction of Class A inventory throughout the region targeting completion in the fourth quarter of 2022, expect pre-leasing to come into play as soon as buildings start vertical construction. There could be headwinds with rising oil prices, continued supply chain disruptions, rising interest rates, inflationary pressures and the Russia/Ukraine conflict all contributing to a potential economic slowdown. The Federal Reserve is on record attempting to engineer a soft landing during 2022 in this very challenging environment. The US consumer appears to be stronger than in prior economic slowdowns based on increased household income and decreased household debt. Expect the next two quarters to provide more clarity of where the economy and industrial markets are headed.

Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Total Vacancy Rate	QTR Absorption (SF)	YTD Absorption (SF)	CLASS A Vacant (SF)	CLASS A Vacant Rate
Beaver	11,977,689	0	1,470,235	12.3%	31,500	31,500	73,500	3.0%
Butler	8,950,693	0	491,178	5.5%	238,432	238,432	68,691	2.7%
East	8,457,877	0	708,364	8.4%	110,765	110,765	0	0.0%
Northeast	14,666,533	0	626,602	4.3%	10,514	10,514	0	0.0%
Northwest	12,898,231	0	542,186	4.2%	-151,273	-151,273	128,273	1.9%
Pittsburgh	13,140,393	192,000	602,923	4.6%	72,600	72,600	199,295	8.6%
South	6,422,988	0	244,600	3.8%	40,000	40,000	0	0.0%
Washington	14,581,291	165,000	434,404	3.0%	-5,500	-5,500	32,588	1.0%
West	21,387,074	766,850	1,054,217	4.9%	40,138	40,138	471,951	4.7%
Westmoreland	32,588,193	400,232	2,210,704	6.8%	245,850	245,850	101,228	1.3%
Pittsburgh	145,070,962	1,524,082	8,385,413	5.8%	633,026	633,026	1,075,526	2.7%

Class A Statistics By Subtype

	Class A Inventory (SF)	Under Construction (SF)	Class A Vacancy (SF)	Class A Vacancy Rate	QTR Absorption (SF)	YTD Absorption (SF)
General Industrial	13,622,930	235,873	179,433	1.3%	62,450	62,450
R&D Flex	3,846,475	192,000	371,785	9.7%	0	0
Warehouse/Distribution	22,963,906	1,096,209	524,308	2.3%	292,345	292,345
Pittsburgh	40,433,311	1,524,082	1,075,526	2.7%	354,795	354,795

