



Pittsburgh Office Market

Ambitious Road to Recovery

While many factors remain uncertain in the office segment, the overall outlook for 2022 is more optimistic than 2021. With COVID-19 cases on the decline and many companies hatching out a plan to return to the office, it appears a sense of normalcy is just around the corner.

One aspect that businesses are struggling with, however, is enticing employees to return in-person. This may require increased tenant improvements with more employee amenities (break areas, fitness center, enhanced bistros, etc.) when leasing a new space or reconfiguring current office designs.

Companies are also rethinking their overall office needs, several of which are requiring less space than pre-pandemic, which is translating to higher sublease availability in the market. Whether that means renegotiating with their current landlord or relocating, tenants are eager to adjust their space needs, even if that means exiting a lease early.

Current Conditions

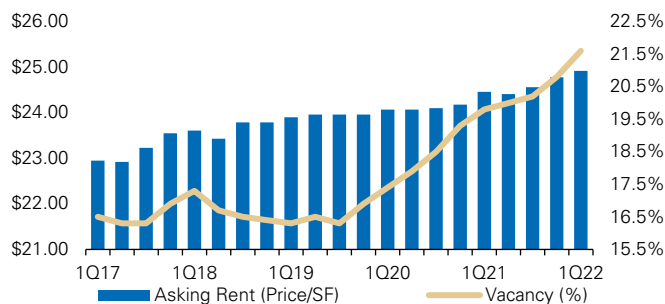
- Overall vacancy in the Pittsburgh office market at the end of the first quarter of 2022 was at 21.6%. The average rental rate nominally increased to \$24.92/SF from the year-end 2021 rate of \$24.78/SF.
- Sublease space continues to be on the rise, which is approaching 2.3 million available square feet in the Pittsburgh MSA.
- No new construction has yet begun in 2022, and the square footage currently under construction remains at over a sizable 1.23 million square feet.

Market Summary

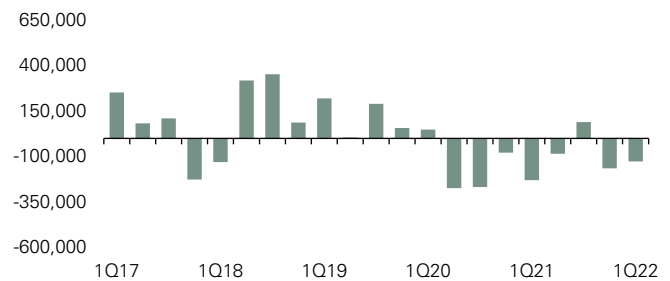
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	57 MSF	56 MSF	56 MSF	↑
Vacancy Rate	21.6%	20.8%	19.8%	↑
Quarterly Net Absorption (SF)	-127,542	-165,521	-230,119	↓
Average Asking Rent/SF	\$24.92	\$24.78	\$24.46	↔
Under Construction (SF)	1,233,561	1,233,561	903,853	↓
Deliveries (SF)	0	145,292	0	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q1 2022

Sublease space continues to be on the rise, which is approaching 2.3 million available square feet in the Pittsburgh metropolitan statistical area. The Central Business District has the highest sublease availability, with 747,850 square feet.

The continuing boom of technology companies migrating to the Pittsburgh region has created demand for premium tech-flex space, specifically in the urban submarkets. As an example, HackEDU relocated its operations from Santa Monica to Pittsburgh's Strip District, while the Oakland/East End submarket's average asking rental rates are at an all-time high of \$43.03/SF.

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The Central Business District

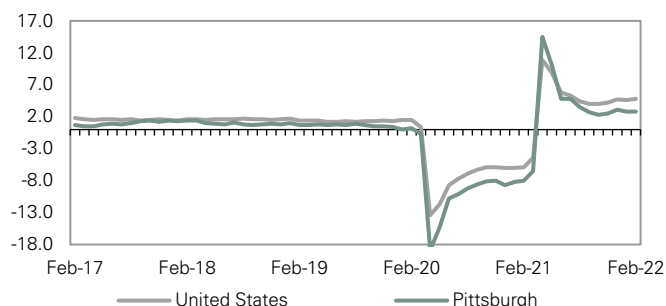
Vacancy in the CBD slightly increased to 20.9% since year-end 2021. One of the biggest deals to take place Downtown was Allegheny County's Department of Human Services signing a 20-year lease renewal at One Smithfield. The long-term tenant inked a 132,000-square-foot deal.

Construction continued on the 26-story FNB Financial Center in the Lower Hill area of the CBD, which is slated to be completed in late 2023.

The CBD office inventory was reduced this quarter to factor in the sale of the former GNC Headquarters on Sixth Avenue. A New York-based developer purchased the building with the intention of converting it from an office-use building into a residential property.

Payroll Employment

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



Source: U.S. Bureau of Labor Statistics

Urban Markets Outside the CBD

The urban submarkets continued to see significant activity. Allegheny Health Network vacated two floors at the North Side's Four Allegheny Center, creating a 48,588 square-foot vacancy. Alcoa's headquarters building on the North Shore was listed for sale with conditions that the company remain a tenant, along with Arconic and Howmet. The three companies combined make up a total of 219,642 square feet.

In the Southside portion of the Fringe submarket, a vertical farming startup, Fifth Season, has established its 7,000 square-foot headquarters at The Highline. DOE has vacated its 18,000 square foot space in the SouthSide Works to a 14,000-square-foot office in the neighboring River Park Commons III.

The Assembly, located in Oakland, finished construction this quarter and has 108,000 square feet of office / lab space available for lease. The University of Pittsburgh and UPMC are anchor tenants at this former Ford Model-T manufacturing plant.

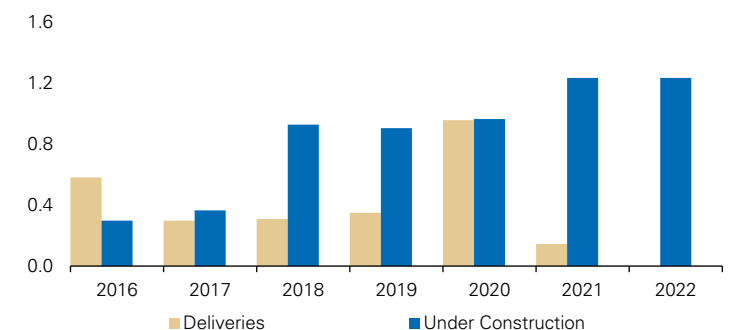
Suburban Submarkets

In the Parkway West submarket, DiCicco Development purchased a portion of the 238-acre complex that was once home to the Bayer Corporation in Robinson Township. Now referred to as Settlers Corporate Campus, the four leasable buildings boast a total of 188,355 square feet of available office space.

In the East submarket, CVS vacated its 50,000-square-foot office at Penn Center East II to consolidate into ProCare Pharmacy's location at the Monroeville Expo Mart.

Construction And Deliveries

SQUARE FEET, MILLIONS



RESEARCH Q1 2022

CONSOL Energy announced it will be moving its headquarters from 1000 Consol Energy Dr. to Southpointe's 275 Technology Dr., where it will occupy approximately 27,000 square feet.

Looking Ahead

Several companies in the CBD plan to return to the office in the upcoming months, which include K&L Gates, Dollar Bank, BNY Mellon and PNC Bank. This influx of employees will positively impact surrounding businesses and the region. Regarding upcoming lease expirations, decisions will have to be made on new models of space use in determining future office needs. Many questions remain regarding working from home, utilizing a hybrid schedule or fully returning to the office. As these decisions are made, the market will begin to see an increase in office market activity.

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	19,905,574	475,000	4,159,787	20.9%	42,970	42,970	\$29.89	\$22.25
Fringe	7,685,093	232,000	1,753,689	22.8%	-100,354	-100,354	\$32.23	\$22.27
Oakland/East End	3,538,722	526,561	651,041	18.4%	11,049	11,049	\$47.47	\$22.41
City Of Pgh Total	31,129,389	1,233,561	6,564,517	21.1%	-46,335	-46,335	\$33.00	\$22.26
East	3,324,559	0	883,836	26.6%	-55,102	-55,102	\$21.25	\$15.56
North	7,748,782	0	1,467,884	18.9%	49,338	49,338	\$24.87	\$20.98
Parkway West	9,302,317	0	2,432,248	26.1%	-81,894	-81,894	\$23.54	\$20.03
South	5,321,686	0	950,757	17.9%	6,451	6,451	\$22.37	\$19.25
Suburban Total	25,697,344	0	5,734,725	22.3%	-81,207	-81,207	\$23.26	\$19.72
Pittsburgh	56,826,733	1,233,561	12,299,242	21.6%	-127,542	-127,542	\$28.02	\$21.19

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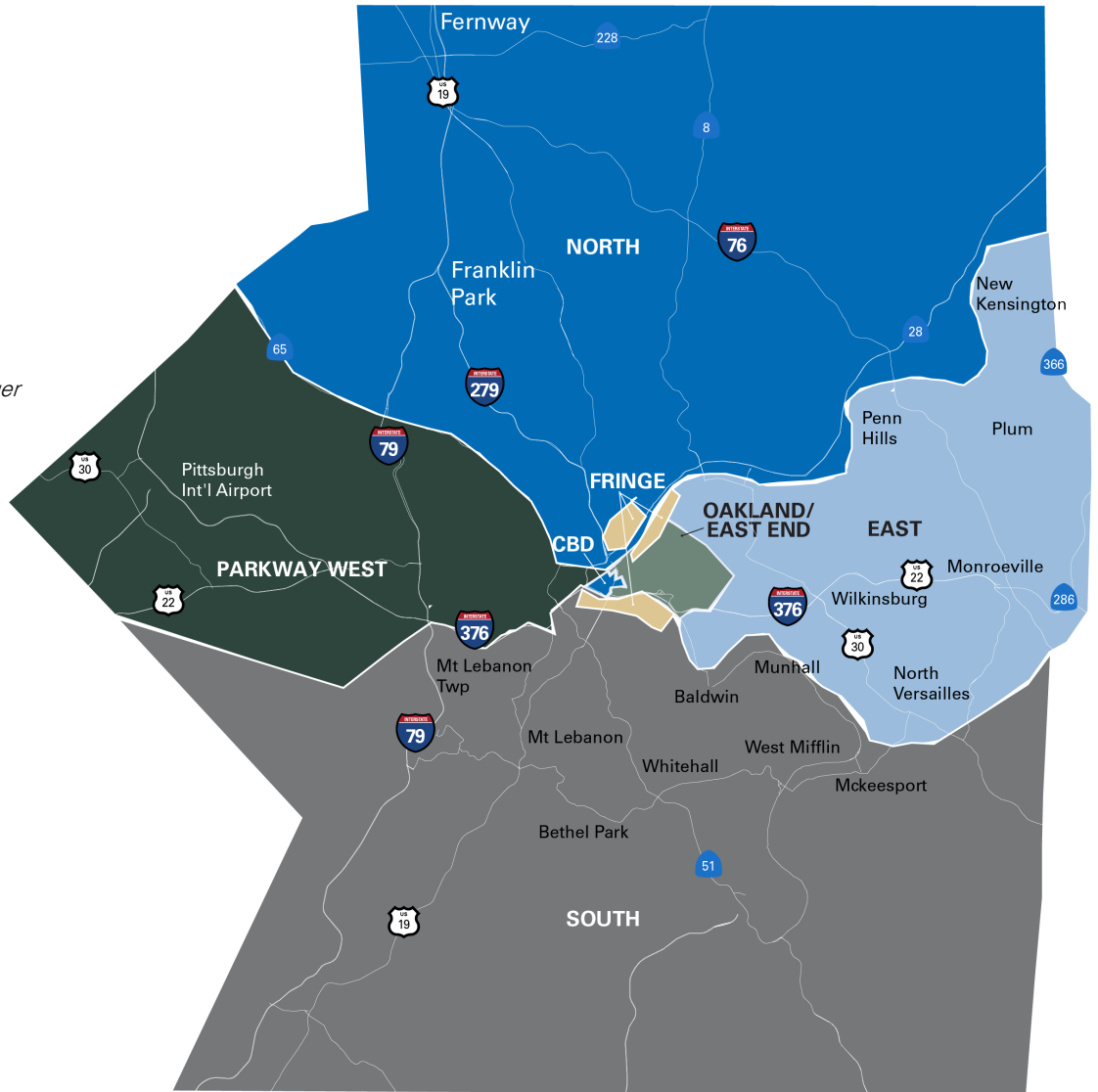
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