
1Q24

Pittsburgh Office Market Overview



NEWMARK

Market Observations

Economy

- The Pittsburgh MSA continues to exhibit a low unemployment rate at 3.6%, still below the national unemployment rate of 3.9% as of February 2024.
- While the national and local economy remains stable, there are increased concerns about geopolitical risk, higher oil prices, stubborn inflation and a slowed consumer spending.
- An increase in bond yields has tempered expectations regarding the timing and number of rate reductions by the Federal Reserve in 2024.
- Recent property tax appeals throughout Allegheny County in general and the City of Pittsburgh in particular have raised concerns about the negative impact on local government and school districts reliant on property tax revenue.

Transactions

- Duolingo signed a large expansion at Liberty East taking an additional 110,000 SF, increasing its total footprint to 148,000 SF.
- Diamond Ridge, in the Parkway West submarket, completed construction and secured Assured Partners as its first tenant for 19,000 SF.
- Harbison Walker International signed a lease at 2000 Park Lane Drive to take 25,143 SF, leaving behind a sublease of 42,000 SF at Pittsburgh International Business Park,
- NVR renewed their lease at Penn Center West I.
- Sisterson & Co, while keeping its presence in the CBD, is leaving their longtime home in the Grant Building to relocate to 525 William Penn Place.

Leasing Market Fundamentals

- The vacancy rate remained stable in the first quarter of 2024: however, the Oakland/East End submarket had a significant decrease in availability with the expansion of Duolingo.
- While Class A asking rates remained relatively stable since year end 2023, Class B rates have been on a continual rise for the last three consecutive quarters.
- Sublease space made up 3.5% of the total availability for the office market in first quarter of 2024 which is slightly lower than end of 2023.
- The total current under construction inventory is less than 1% of the total market inventory.
- Most new leasing activity appears to be tenants opting to locate to higher quality space with modern amenities to retain and attract new employees.

Outlook

- There appears to be an increase of tenants in the market seeking large blocks of space exceeding 50,000 SF.
- Additional CBD buildings continue to be granted lower reassessment while even more are in the appeal process. This will result in a significant reduction in tax revenue for the city.
- More buildings are facing foreclosure and continued possible conversions of their properties to alternate uses.
- Increased activity in the East End and Parkway West submarkets point to an optimistic outlook for the future office market.

1. Economy
2. Leasing Market Fundamentals
3. Submarket Overview

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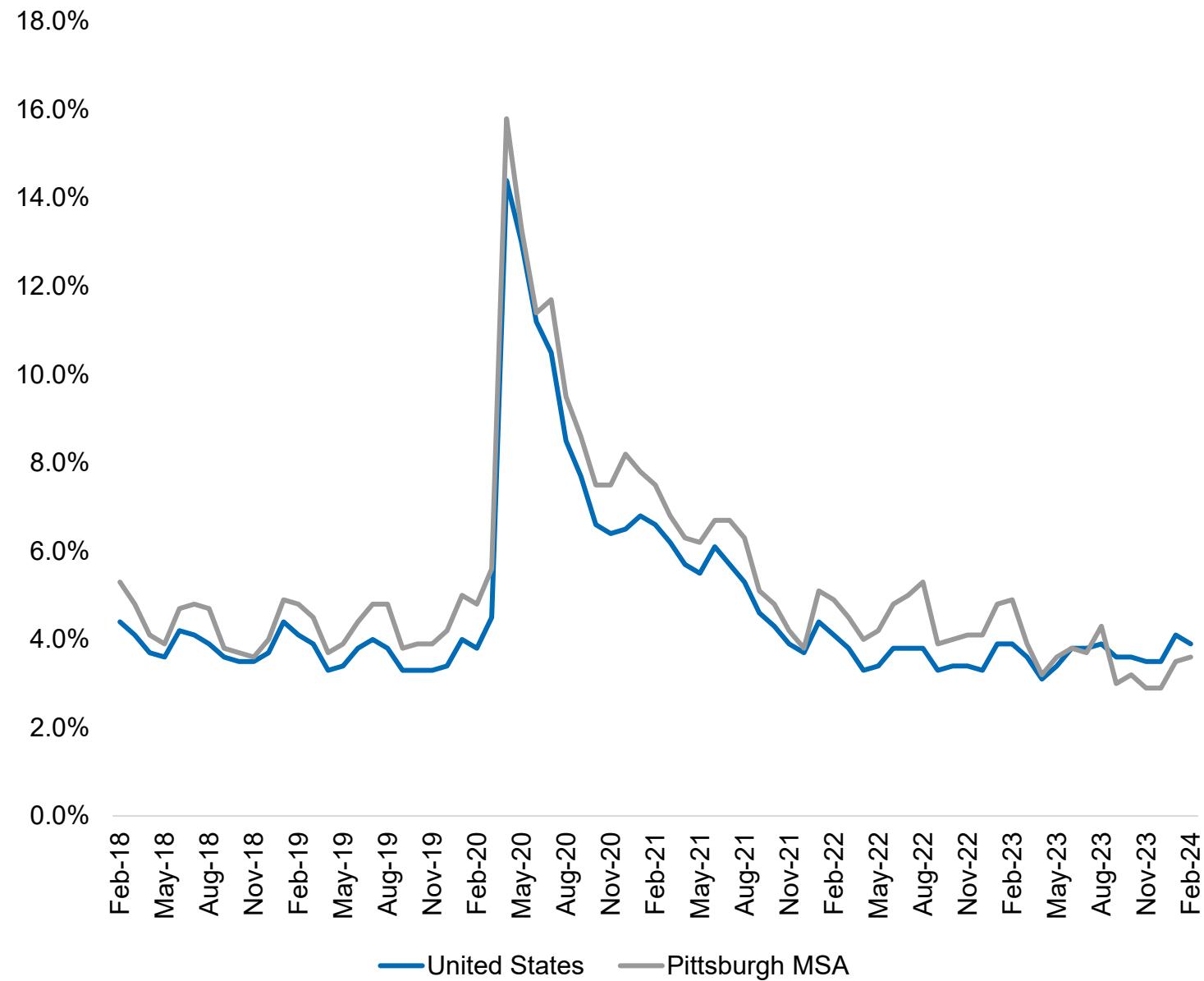
Economy



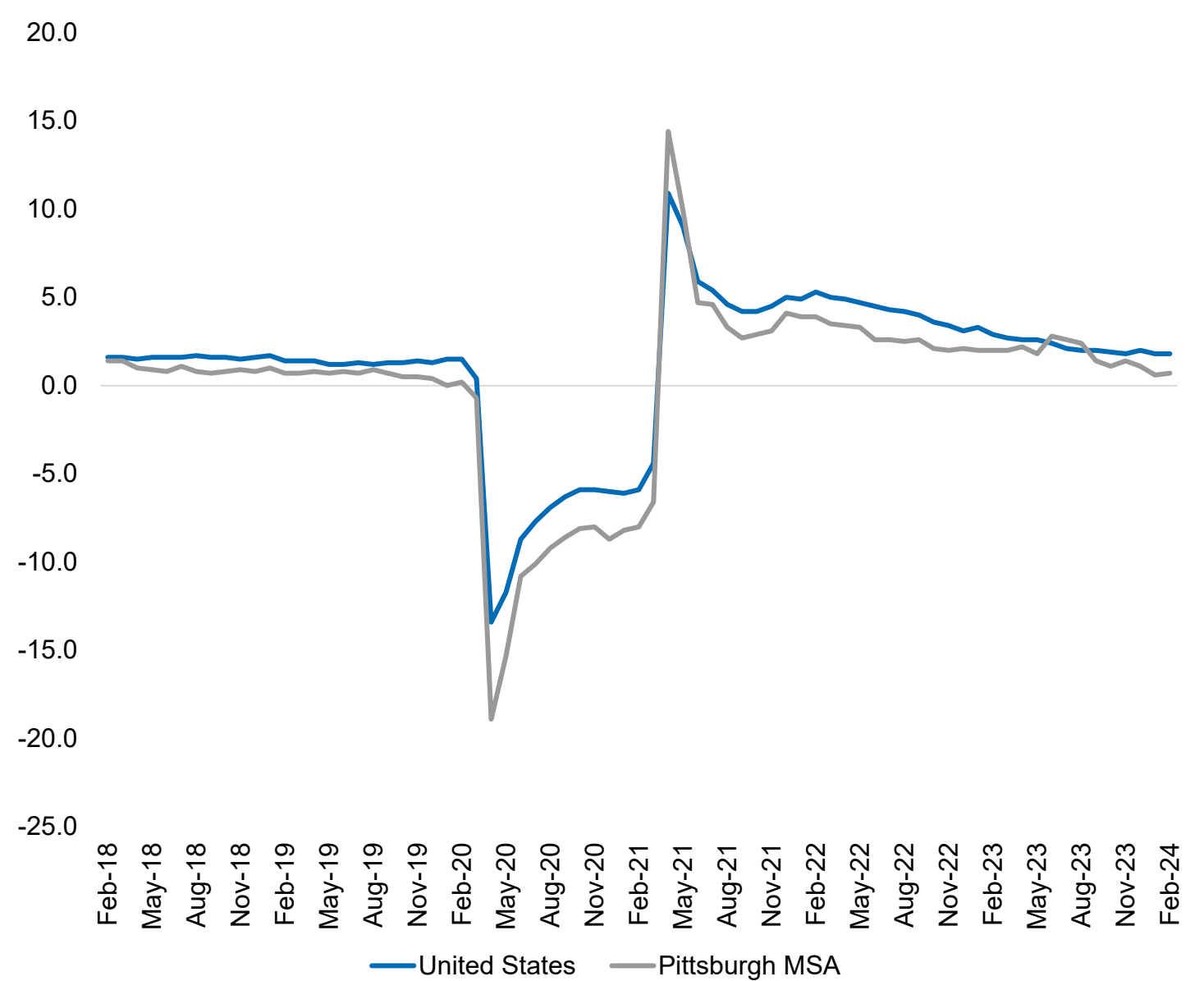
Pittsburgh Employment Strong

The Pittsburgh MSA continues to exhibit a low unemployment rate at 3.6%, still below the national unemployment rate of 3.9% as of February 2024. Payroll employment is still experiencing solid growth and returning to pre-pandemic levels

Unemployment Rate, Not Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

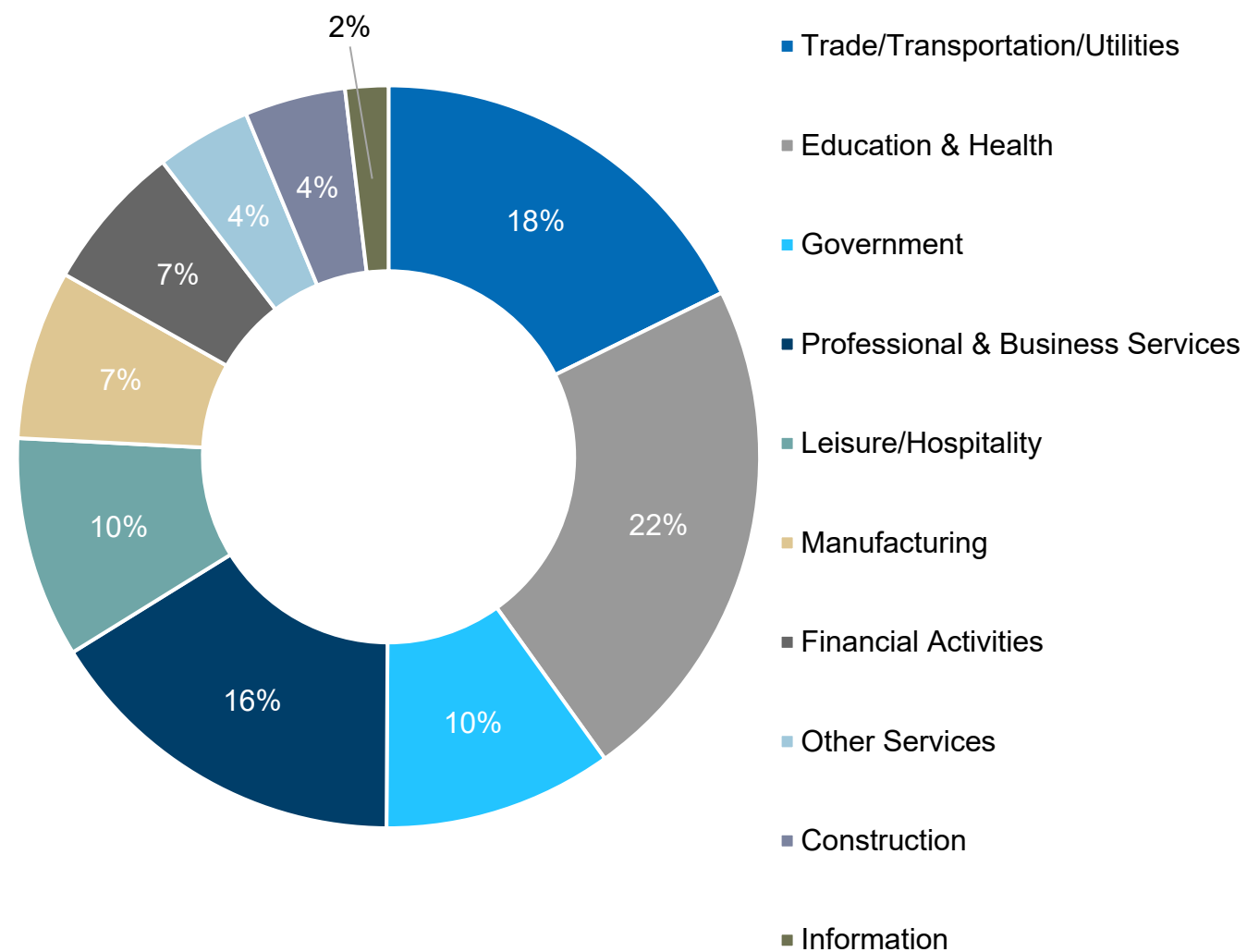


Source: U.S. Bureau of Labor Statistics, Pittsburgh MSA

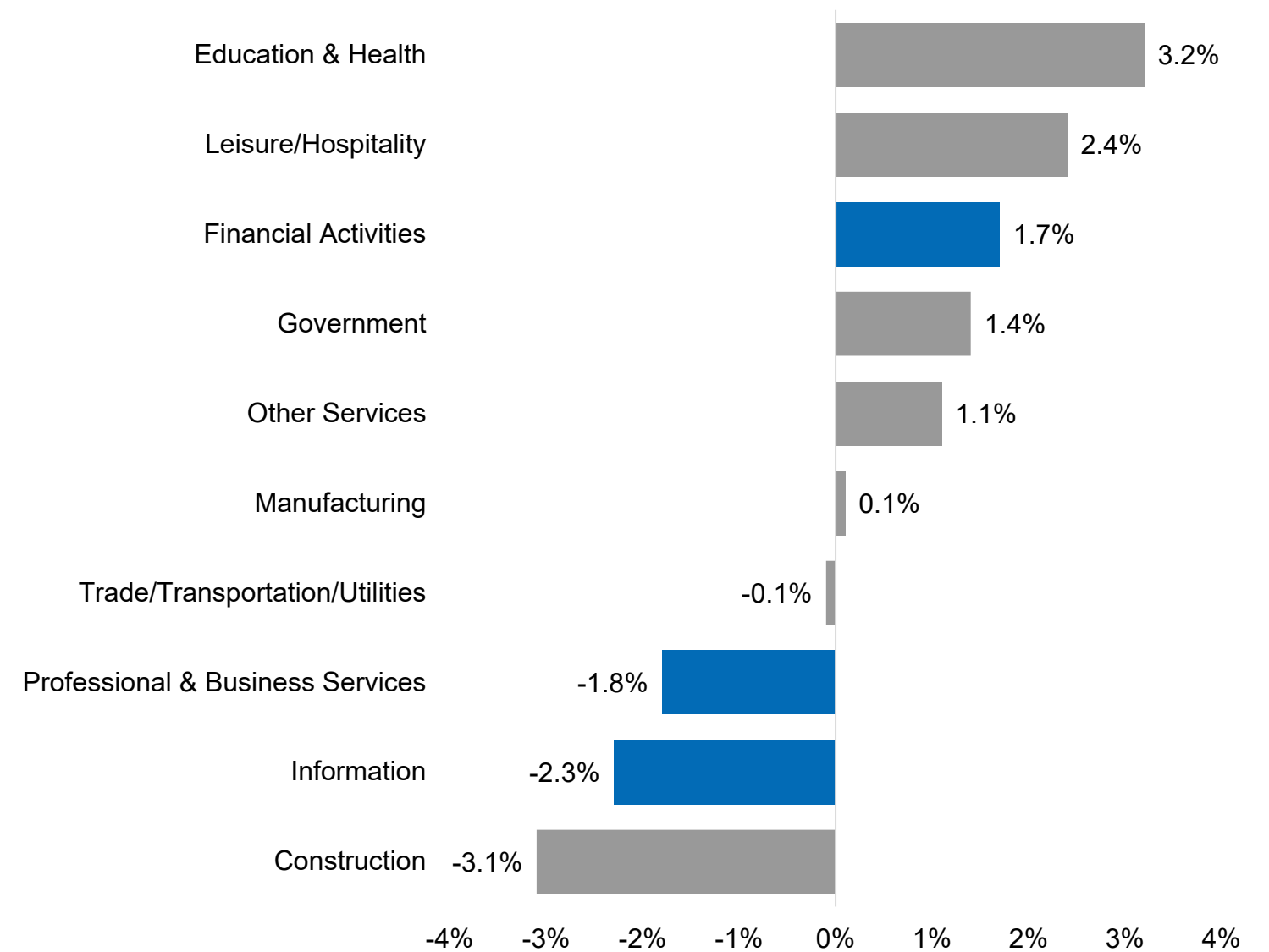
Education and Health Employment Remain Strong

The largest job-producing sector in the Pittsburgh MSA is Education & Health thanks to the continued strength of our universities and health care centers.

Employment by Industry



Employment Growth by Industry, 12-Month % Change, February 2024



Source: U.S. Bureau of Labor Statistics, Pittsburgh MSA

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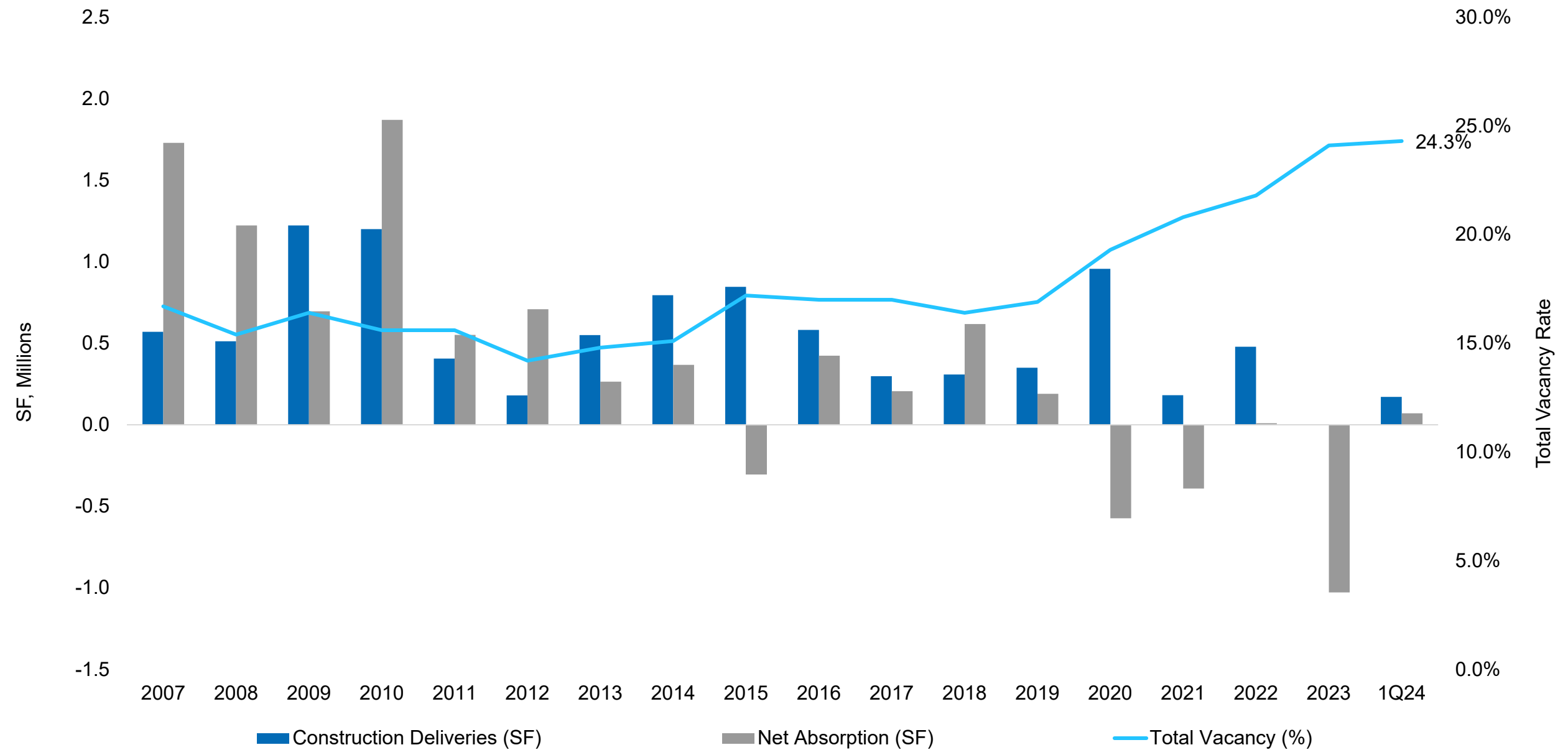
Leasing Market Fundamentals



New Construction On Hold - Vacancy Stable

The delivery of a new 171,000 square-foot building in the Parkway West further reduced the under-construction pipeline. The vacancy rate remained relatively stable in the first quarter of 2024. The market also experienced a slight positive absorption of existing inventory.

Historical Construction Deliveries, Net Absorption, and Vacancy

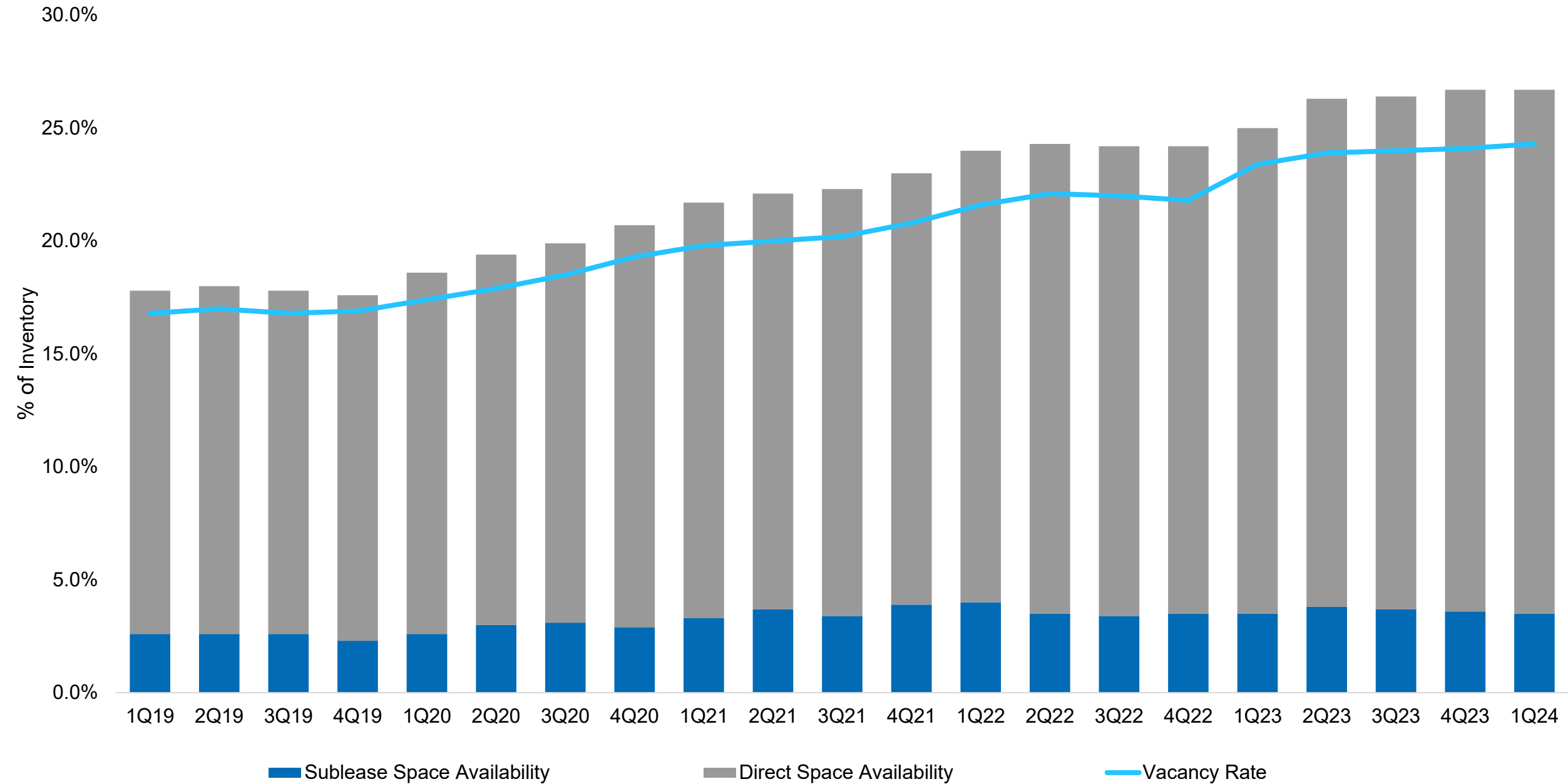


Source: Newmark Research, CoStar

Overall Availability Remains Steady

Many factors are impacting the availability such as relocations and consolidations while also looking for higher quality office space. Sublease space made up 3.5% of the total availability of the office market in first quarter of 2024.

Available Space as Percent of Overall Market

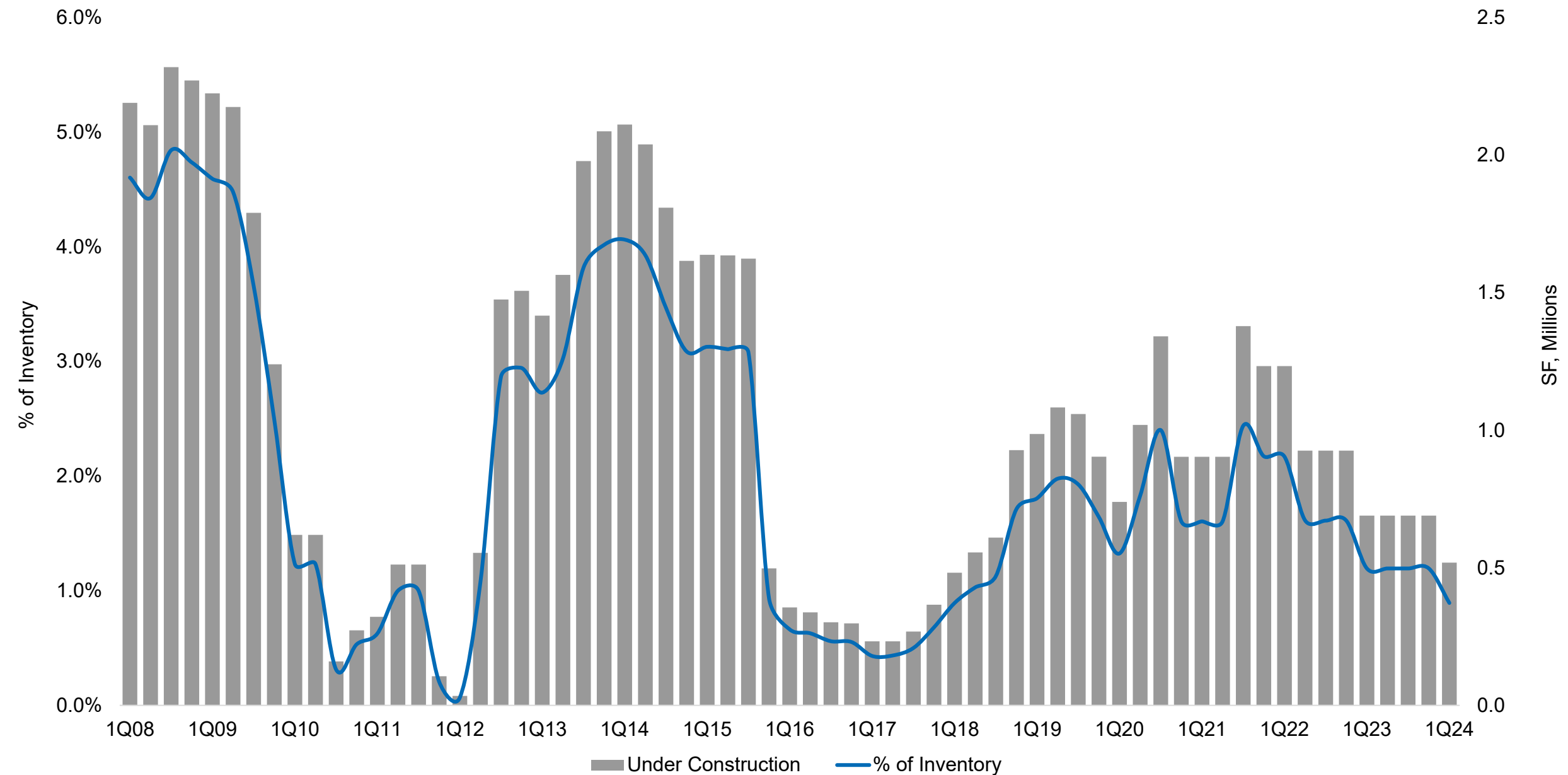


Source: Newmark Research, CoStar

No New Construction Projects on the Horizon

Diamond Ridge completed construction and the first tenant signed a lease for 19,000 SF. The remaining building in the pipeline, FNB Financial Center, is scheduled to complete before end of 2024. Construction has been put on hold for a few projects due to the cost of materials and ability to secure financing. The total under construction square footage is less than 1% of the total market inventory.

Office Under Construction and % of Inventory

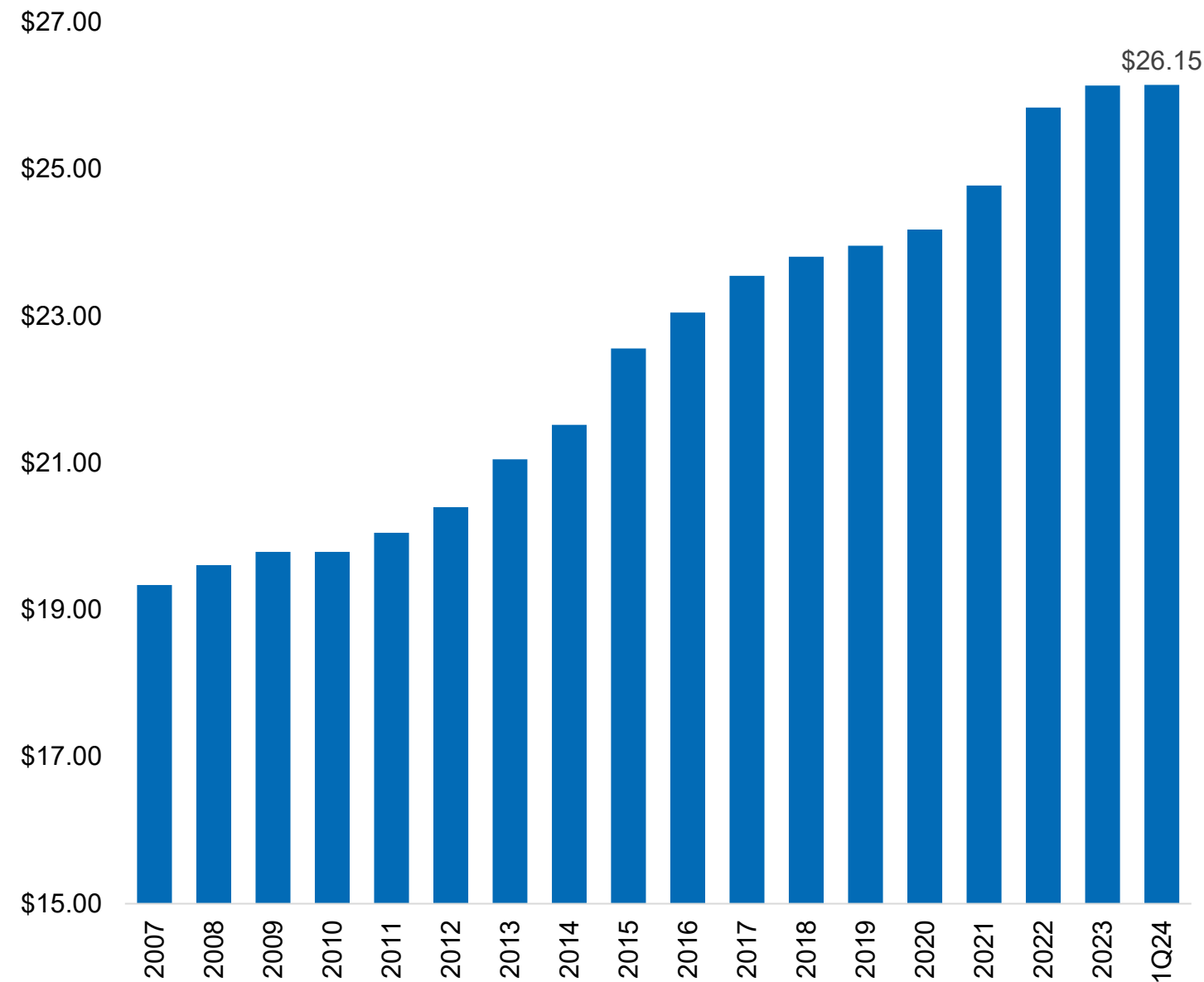


Source: Newmark Research, CoStar

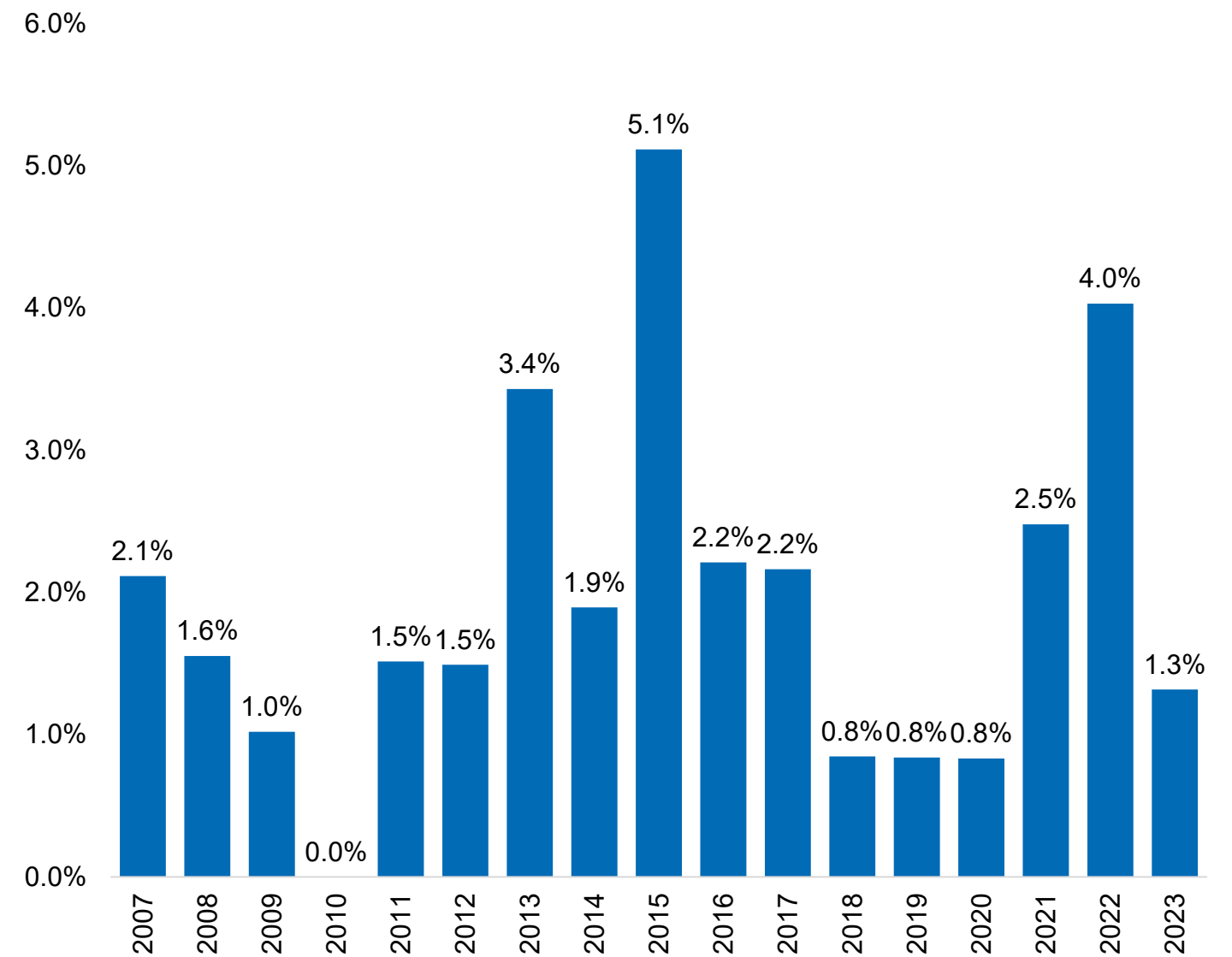
Overall Average Asking Rents Appear to be Stabilizing

Overall asking rates seem to be leveling off at \$26.15 at the end of first quarter of 2024. Landlords are continuing to offer concessions such as larger tenant improvement allowances and additional rental abatement to balance the higher rents.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

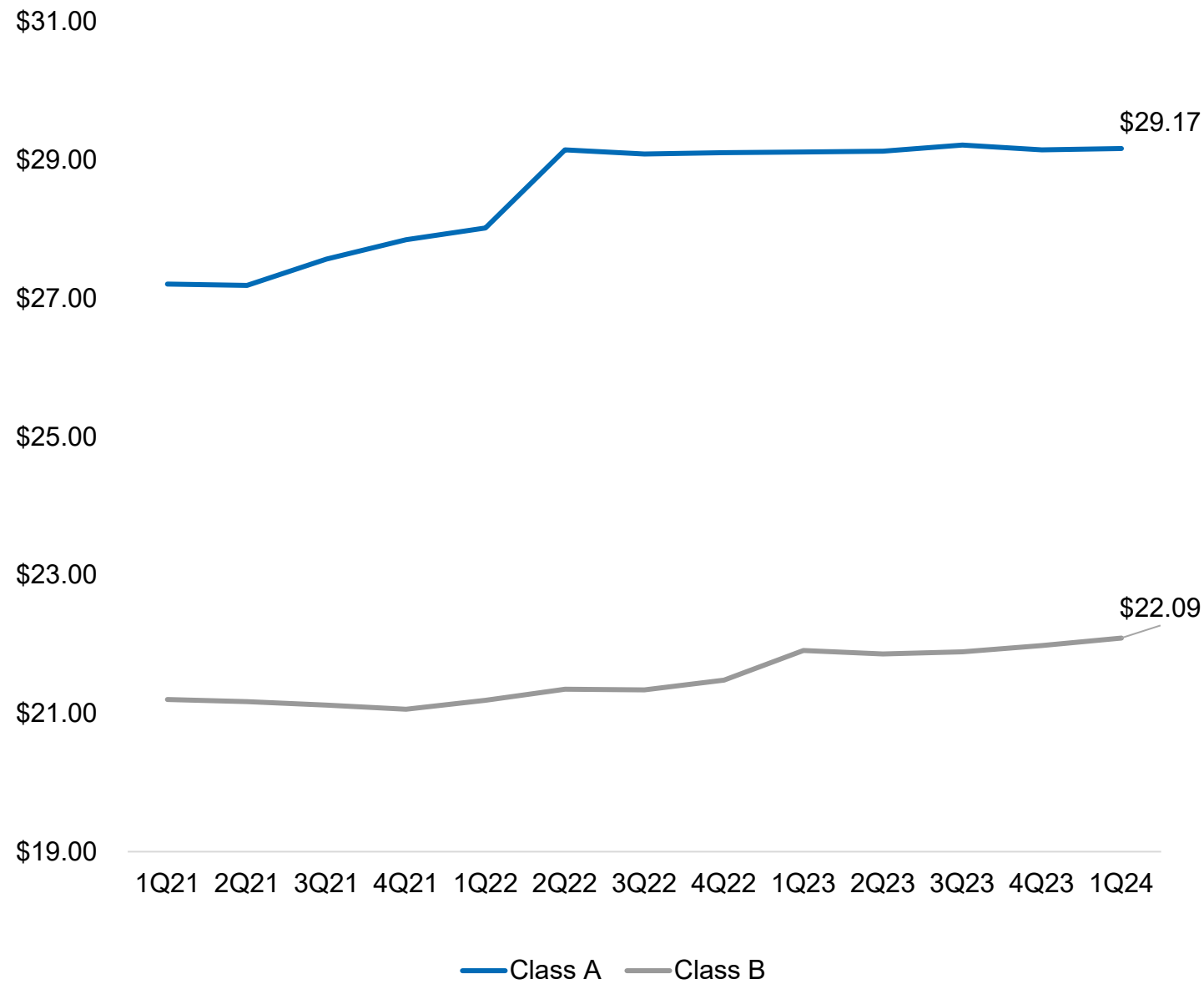


Source: Newmark Research, CoStar

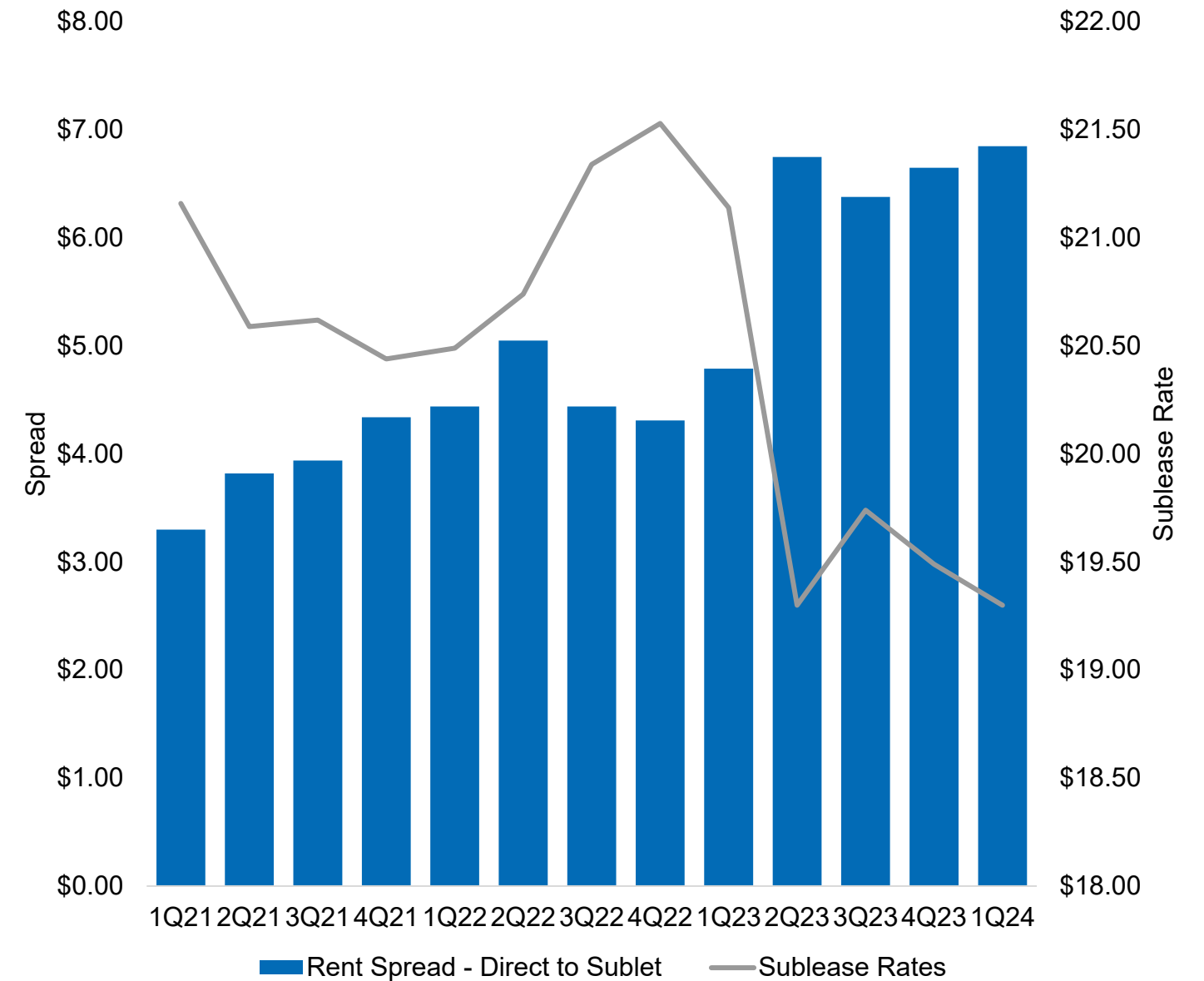
Class B Asking Rents on Steady Rise

While Class A asking rates remained relatively stable from year-end 2023 to the first quarter, Class B rates have been on a continual rise from \$21.86 in the second quarter of last year to \$22.09 in the first quarter 2024. There continues to be a significant rent spread between sublease and direct rates, with the overall asking rent of \$26.15 compared to \$19.30 sublease rate.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

1Q24 Leasing Activity

Leasing activity saw a significant increase in the first quarter of 2024, particularly within the Oakland/East End submarkets with the expansion of Duolingo and the new leases and renewals in the Parkway West submarket.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Duolingo	141 S St Clair St	Oakland/East End	Expansion	110,000
NVR	Penn Center West I	Parkway West	Renewal	36,397
Allegheny County Human Services	Nine Parkway Center	Parkway West	New Lease	35,000
Harbison Walker Int'l	2000 Park Lane Dr	Parkway West	New Lease	25,143
Confluence Technologies	Nova Tower One	Fringe	Renewal	21,847
Fenwal Inc	300 Allegheny Dr	North	New Lease	21,561
Assured Partners	Diamond Ridge	Parkway West	New Lease	19,000
Sisterson & Co LLP	Union Trust Bldg	CBD	New Lease	16,420
Jewish Healthcare Foundation	EQT Plaza	CBD	New Lease	16,000
Freemarkets Health	Crane Building	Fringe	Sublease	15,408

Source: Newmark Research, CoStar

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Submarket Overview





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