



Pittsburgh Industrial Market

Market Pauses

The second quarter of 2021 was relatively quiet for the Pittsburgh industrial market as compared with the strong performance of the previous three quarters due to the optimism created by the vaccine rollout and enthusiasm for a return to normalcy in business and daily life. As vaccination rates seemed to plateau and back-to-work start dates fluctuated between early summer and the fall, activity slowed in second-quarter 2021; however, the lack of significant closed new leases or sale transactions did not have a negative impact on the market statistics, which remain very healthy.

Second-quarter statistics reflect a healthy, stable market with an overall occupancy of 94.0% and Class A occupancy at 97.0%. Class A space absorbed 150,000 square feet during the quarter with year-to-date net absorption at a meager 240,000 square feet, which is well below the pace of recent years. Overall market absorption during the quarter was negative, with close to a 500,000-square-foot loss, bringing the year-to-date total to a disappointing -300,000 square feet. This continues a trend of a move-up market at the expense of Class B and Class C buildings. It will be interesting to see if the second half of the year can make up for the slower activity in the first half of the year.

Current Conditions

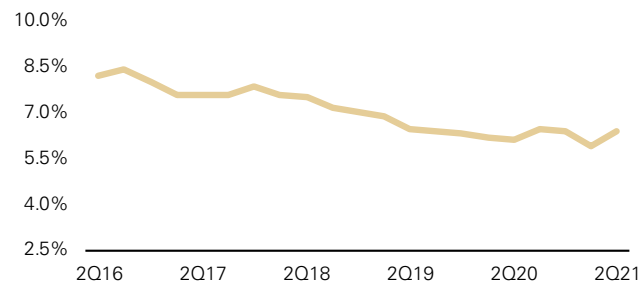
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Market Summary

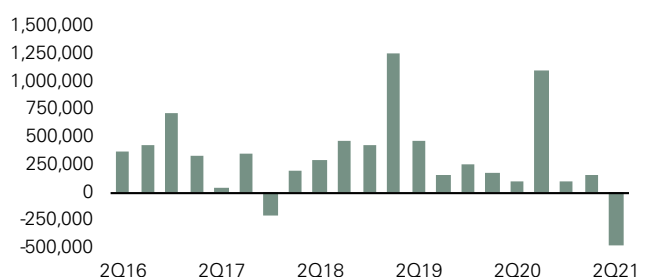
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	143 M	144 M	142 M	↑
Vacancy Rate	6.4%	5.9%	6.1%	↓
Quarterly Net Absorption (SF)	-472,499	160,424	94,275	↑
Under Construction (SF)	2,072,607	2,116,607	1,694,200	↑
Deliveries (SF)	44,000	0	0	↑

Market Analysis

VACANCY RATE



NET ABSORPTION



At the same time, the lack of available alternatives for Class A users has resulted in a 98.0% tenant retention/renewal rate, with rent increases across the board regardless of tenant size.

The primary business point getting the most attention is annual rent increases as both landlords and tenants grapple with perceived inflation concerns, whether inflation is more transitory, as expressed by the Federal Reserve, or a legitimate concern based on government spending for the American Rescue Plan and the proposed American Jobs/Infrastructure Plans. There will be an impact by the trillions in spending, but it will take another three to six months to determine if the economy is making a full-scale recovery that results in inflationary pressures across the board or just wage inflation.

Market Activity

The biggest impact on new projects or planned projects was the disruption to the supply chain and continued price increases for steel, concrete and other materials needed for industrial buildings. Many proformas of speculative buildings are being adjusted to reflect the impact of higher construction prices on planned rental rates and absorption schedules. A few planned buildings and build-to-suit projects have been delayed as developers/occupiers decided to wait, with the hopes that both pricing and supply chain lead times will return to more normalized levels.

There are many significant build-to-suit projects nearing completion and several speculative projects in the site grading/utility extension phase that will be pushed into third- and fourth-quarter deliveries. These buildings have not yet been added to inventory or deemed absorption until completion occurs. Based on current timelines, it is estimated that over 1.2 million square feet will be completed during the third quarter with

projects, including: the 280,000-square-foot Amazon.com facility in Westport Woods; the 400,000-square-foot facility in Clinton Commerce Park; and the 240,000-square-foot Komatsu facility in Alta Vista.

Several speculative construction projects are underway with planned fourth-quarter deliveries, including: the first building in Westport Ridge for 276,000 square feet; the last remaining site in Clinton Commerce Park for 70,000 square feet; and 150,000 square feet in the Hempfield Commerce Center in the Westmoreland Tech Park II.

The Airport/West submarket continues to be the market leader, with over 200 acres in site grading/development, which should be available by yearend to provide vertical development to accommodate an additional 1.3 million square feet within the I-376/RT 576 Corridors.

Investment Activity

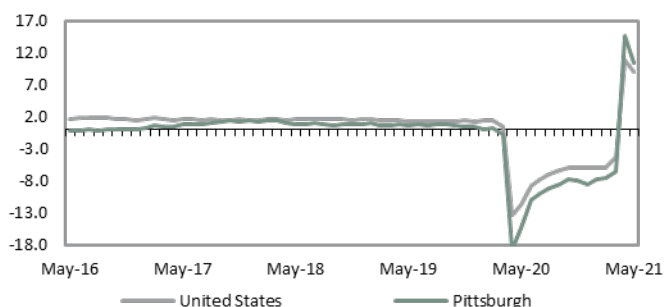
Despite the demand for industrial property, there were no significant sales closed during second-quarter 2021; expect a few transactions involving single tenant net lease deals will close in the second half of the year.

Outlook

Existing tenant activity and buildings in due diligence will likely result in a significant amount of closed lease/sale transactions in the second half of the year that will further strengthen the Pittsburgh industrial market. Perhaps the disruption in the supply chain and inflation fears may provide a break in the activity to allow for a more orderly completion schedule and continued absorption and health in the market.

Payroll Employment

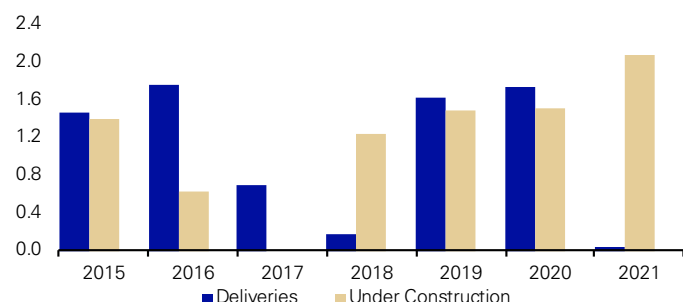
TOTAL NON FARM, NOT SEASONALLY ADJUSTED, 12-MO %CHANGE



Source: U.S. Bureau of Labor Statistics

Construction and Deliveries

SQUARE FEET, MILLIONS



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	1,504,615	12.6%	-158,700	-164,000	105,000	4.3%
Butler	8,671,406	220,000	431,891	5.0%	110,000	158,056	68,691	2.9%
East	7,741,827	0	601,373	7.8%	-49,252	-49,252	0	0.0%
Northeast	14,666,533	0	637,116	4.3%	-147,030	-145,330	0	0.0%
Northwest	12,838,231	60,000	299,991	2.3%	20,531	31,343	57,000	0.9%
Pittsburgh	13,192,393	0	727,523	5.5%	-4,200	-21,288	250,895	10.9%
South	6,979,988	0	384,600	5.5%	37,115	37,115	0	0.0%
Washington	14,248,291	415,000	585,829	4.1%	23,296	-7,704	145,588	4.6%
West	20,244,372	1,127,575	846,969	4.2%	58,843	126,541	293,430	3.2%
Westmoreland	32,488,193	250,032	3,100,215	9.5%	-363,102	-277,556	235,532	3.0%
Pittsburgh	143,048,923	2,072,607	9,120,122	6.4%	-472,499	-312,075	1,156,136	3.0%

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	13,477,930	485,873	346,883	2.6%	3,601	216,601
R&D Flex	3,765,475	60,000	316,011	8.4%	40,393	12,102
Warehouse/Distribution	21,482,204	1,526,734	493,242	2.3%	110,000	11,752
Pittsburgh	38,725,609	2,072,607	1,156,136	3.0%	153,994	240,455

