RESEARCH Q2 2021

Pittsburgh Office Market

Back to the Future; Tenant Activity Rebounds

After months of pandemic-related disruption, the nation appeared to have finally turned the corner in the fight against the coronavirus during the second quarter of 2021. The Center for Disease Control removed the mask mandate for those fully vaccinated and eased restrictions on density requirements, breathing optimism into the air.

Most employees are returning to the workplace via traditional and/or hybrid arrangements. Several employers are exploring relocation options, resulting in an uptick in activity levels, which could lead to fewer lease renewals. The Pittsburgh office market closed out the first half of 2021 with an overall vacancy rate of 20.0%, representing 11.3 million square feet of space, a 70-basis-point increase over year-end 2020 and a 310-basis-point increase over year-end 2019 prior to the pandemic. Available sublease space reached a new all-time high of 2.1 million square feet during the second quarter, while asking rents essentially remained stable at $24.41/SF and net absorption was negative 85,114 square feet. Net absorption has posted negative for the past five quarters.

Current Conditions

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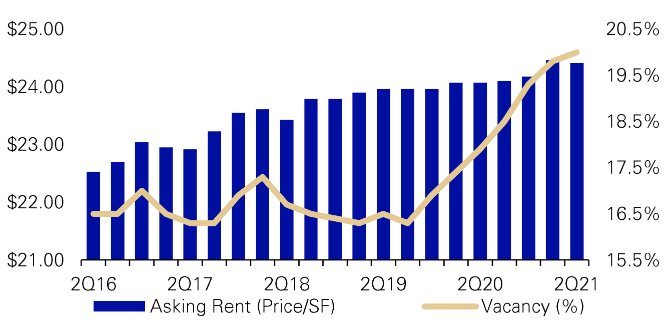
Market Summary

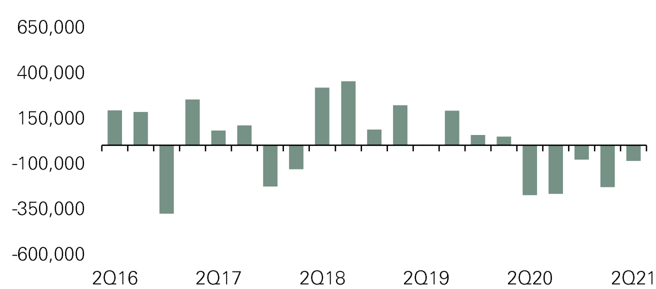
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	56 MSF	56 MSF	56 MSF	↑
Vacancy Rate	20.0%	19.8%	17.9%	↑
Quarterly Net Absorption (SF)	-85,114	-230,119	-274,115	↓
Average Asking Rent/SF	$24.41	$24.46	$24.07	← →
Under Construction (SF)	903,853	903,853	1,079,661	↓
Deliveries (SF)	0	0	0	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



NEWMARK

Central Business District

The Central Business District (CBD) continued to face challenges with high vacancy levels and low demand. Overall vacancy remained stable during the first half of 2021 at 20.1%, while Class A vacancy hovered at 17.3%. Over the past six months, overall asking rents slipped by a negligible $0.07/SF to $25.89/SF and Class A rents dipped by about the same to $29.75/SF. Net absorption has been flat, and sublease space increased by 100,000 square feet with 771,509 square feet on the market.

After a very lengthy delay, the development team for the 28-arce former Civic Arena site finally obtained the required approvals for an office tower to be built on a portion of the property closest to Downtown. The team, which includes the Pittsburgh Penguins and The Buccini/Pollin Group, plans to start construction of the office tower this summer. First National Bank (FNB) previously committed to occupying 165,000 square feet in the 26-story structure, expected to complete in 2023.

One of the city's largest employers, PNC Financial Services Group Inc., acquired Houston-based BBVA USA Bancshares, a deal that boosted the institution to the nation's fifth-largest bank. Continued growth by the financial giant potentially bodes well for Pittsburgh and the CBD, where it is headquartered.

In property sale news, 439 Wood Street changed hands at the very end of March. The building was sold by Oren and Eitan Solomon to Driver Developers, LLC for an astounding $2.67 million, or $267/SF. The 10,000-square-foot building is believed to be part of a larger assemblage along Wood Street, across from the Tower at PNC Plaza.

Urban Markets Outside the CBD

Nutrition giant GNC will be relocating from the CBD headquarters owned by the company at 300 Sixth Avenue into approximately 76,000 square feet at the nearly-completed 146,000-square-foot 75 Hopper Place in the Strip District segment of the Fringe submarket. GNC announced at the beginning of the year that it was searching for a new location within the Pittsburgh marketplace, while also considering placing the current headquarters building on the market for sale. The company expects to move in early 2022 into the building developed by Oxford Development. Building on the success of 3 Crossings, Oxford expects to begin construction on two more office buildings by the end of the year that will be part of a four-building complex totaling over 450,000 square feet.

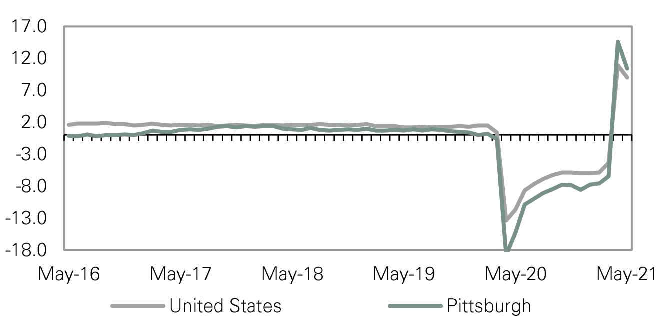
In the North Shore Corridor of the Fringe submarket, two major players in the food industry announced departures. StarKist will be relocating its headquarters from 225 North Shore Drive to Virginia, while Del Monte Foods will be moving to Penn Center West Three in the Parkway West submarket. Del Monte was once the anchor tenant at 375 North Shore Drive. Further, Cleveland developer Continental announced that it has changed course from construction of an office building to a residential structure that will include ground-level retail at the corner of Mazeroski Way and North Shore Drive.

Construction and/or redevelopment projects in the tight Oakland/East End submarket progressed. Developer Wexford Science & Technology announced The Assembly will be the name of the new 105,000-square-foot office/ lab building being constructed next to the redevelopment of the former Ford Motor building in the Baum Centre Corridor. The expectation is that the building will be completed in late 2021 or early 2022.

Further down Baum Boulevard into the East Liberty neighborhood of the Oakland/East End submarket, Highwoods Properties continued to press for approval of a six-story office building located at 6135 Penn Avenue. The company purchased the site in 2019. A similar project by previous ownership was approved; however, the timeframe for previous approval lapsed. A decision by the Zoning Board of Adjustment is expected later this year.

Payroll Employment

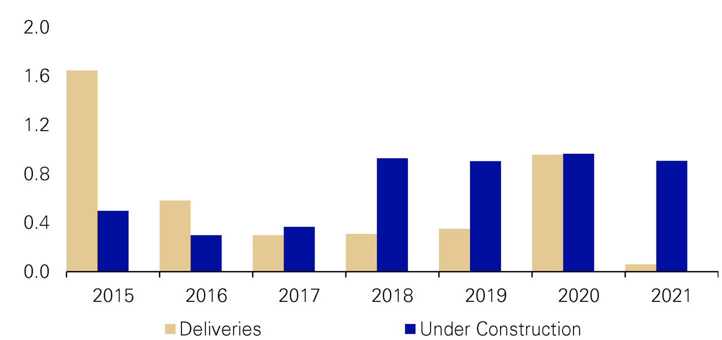
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Construction And Deliveries

SQUARE FEET, MILLIONS



Moving deeper into the East End to North Point Breeze, the 24-acre, former Lexington Technology Park has been renamed Rockwell Park. Spanning Thomas Boulevard, Penn Avenue and North Lexington Street, the collection of existing properties is being renovated by Rockwell Park Development, formerly operating as Icon Development. The mixed-use redevelopment will consist of 800,000 square feet of traditional office space, high-bay tech flex and maker manufacturing space.

In the heart of the Oakland/East End submarket at Fifth and Halket Street, a surprise announcement was made when the University of Pittsburgh decided that it will purchase the 285,000-square-foot Innovation and Research Tower from developer Walnut Capital. The project broke ground in 2020.

At the end of the second quarter, $19.3 million in Capital Investment Grants for the Port Authority of Allegheny County was announced to advance the 15-mile Downtown-Uptown-Oakland-East End Bus Rapid Transit (BRT) project. Once built, the BRT will provide quick access between two employee-dense submarkets.

Suburban Submarkets

During the first half of 2021, vacancy in the suburban markets increased by 120 basis points to 20.8% over year-end-2020, overall asking rents were stable at $21.91/SF. Year-to-date net absorption was a negative 253,170 square feet, with 44,574 square feet of negative absorption added during the second-quarter 2021.

Once a market driver for Southpointe in the South submarket, the energy industry has contributed over 250,000 square feet of sublease availability to the marketplace during the first half of 2021. CNX and Equitrans Midstream are responsible for two large blocks of space of over 100,000 square feet each. A well-positioned development with good highway access, Southpointe has struggled over the past few years; primarily the result of the downturn in the oil and gas sector.

In the Northwest quadrant of the North submarket, Venture Engineering committed to 25,000 square feet at 200 Allegheny Drive in Marshall Township. The company will be relocating from 100 Global View Drive, also within the Northwest quadrant.

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	4,047,786	20.1%	4,224	-8,936	$29.75	$22.29
Fringe	7,362,801	377,292	1,435,349	19.5%	-44,519	-14,313	$29.72	$22.44
Oakland/East End	3,338,722	526,561	488,258	14.6%	-245	-38,814	$43.33	$23.31
City Of Pgh Total	**30,868,329**	**903,853**	**5,971,393**	**19.3%**	**-40,540**	**-62,063**	**$31.40**	**$22.41**
East	3,431,259	0	981,685	28.6%	4225	-29,517	$21.30	$16.74
North	7,694,782	0	1,387,702	18.0%	-10,091	9,535	$24.80	$21.33
Parkway West	8,946,514	0	1,994,246	22.3%	-23,676	-226,184	$23.70	$19.43
South	5,368,014	0	915,739	17.1%	-15,032	-7,004	$23.00	$19.52
Suburban Total	**25,440,569**	**0**	**5,279,372**	**20.8%**	**-44,574**	**-253,170**	**$23.33**	**$19.37**
Pittsburgh	**56,308,898**	**903,853**	**11,250,765**	**20.0%**	**-85,114**	**-315,233**	**$27.19**	**$21.17**

At the same time, NetApp is exploring relocation options. Currently an approximately 85,000-square-foot tenant at 800 Cranberry Woods Drive, the cloud storage company may be rightsizing to 40,000 square feet. Meanwhile, the adjacent Westinghouse headquarters campus in Cranberry Woods is back on the market. The complex was sold in January of 2020 for $180 million to Fortress Credit Advisors.

Civil and Environmental Consultants in the Parkway West submarket has relayed to the ownership of Rosslyn Commons that the company will not be renewing its lease at the 97,000-square-foot building as it searches for a new 100,000-square-foot headquarters location. Further, Michael Baker is considering options for over 100,000 square feet. Currently a tenant at Airside Business Park, the engineering company also has a location in the CBD.

Looking Ahead

During the first half of 2021, activity levels for tenants exploring location options rebounded. However, speculation continues to swirl regarding the long-term impact of the contagion on the Pittsburgh office market. Over the balance of 2021 and into early 2022, it is expected that most users will be looking to reconfigure space requirements with many considering a decrease in square footage and the pursuit of relocation in place of lease renewals. Tenants wishing to remain inside the city may find better value in existing product within the CBD as low occupancy levels offer plenty of options. Furthermore, the soaring cost of construction materials will greatly impact new product being built, placing upward pressure on rents. Competition among landlords to attract and maintain tenants will persist in most submarkets. Owners will continue to offer aggressive concessions as they struggle to retain asset values.

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