RESEARCH Q3 2022

Pittsburgh Industrial Market

Speed Bump or a Brick Wall?

Historically, the third quarter is a seasonally slower time of the year; 2022 was no exception as the market undeniably paused over the summer. Opinions range from a much busier summer vacation and travel schedule due to post-pandemic demand, while others attribute the immediate impact on the spike in higher interest rates and the potential for additional rate hikes in the fourth quarter of 2022 as the Fed tries to tackle inflation and avoid a recession, which seems more likely with each passing week.

In our last report, we referenced the 10 Year Treasury at 2.98% at the end of June; at of the end of September, the 10 Year Treasury had risen to 3.83%. The Consumer Price Index was at 9.1% in June and had fallen slightly in August, down to 8.3%, with September not yet available.

The most immediate impact appears to be in the capital markets for both financing and valuation for industrial properties. Institutional investors have expectations for higher cap rates of at least 50 basis points; construction financing and conventional debt financing is now in excess of 6%, which has impacted current projects and planned projects as developers attempt to predict if rates have peaked or still have room to move higher.

With respect to the overall Pittsburgh industrial market, the results of the third quarter of 2022 portray a slight slowdown, with concerns that the seasonally strong fourth quarter of 2022 may also be slower due to macroeconomic concerns and cautious decision-making. Anecdotally, demand remains strong based on tenants in the market, but many have either downsized the requirement or delayed decisions without terminating the planned projects.

Current Conditions

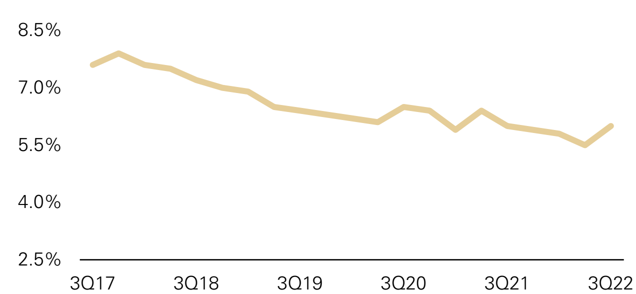
- With respect to the overall Pittsburgh industrial market, the results of the third quarter of 2022 portray a slight slowdown, with concerns that the seasonally strong fourth quarter of 2022 may also be slower due to macroeconomic concerns and cautious decision-making.
- Overall market vacancy increased slightly from 5.5% to 6.0%, with Class A vacancy increasing from 2.3% to 4.2%.
- Overall absorption for the year was slightly lower at 1.0 million square feet, with Class B/Class C space having more absorption year to date than Class A space for the first time in several years.

Market Summary

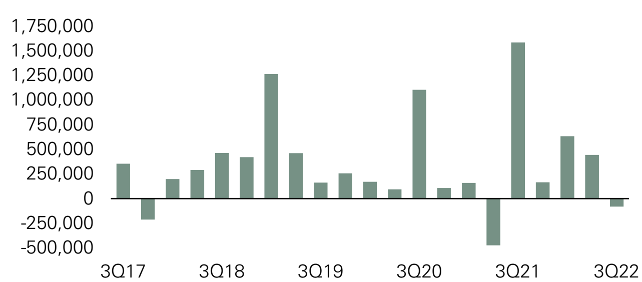
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	146 M	145 M	144 M	↑
Vacancy Rate	6.0%	5.5%	6.0%	↓
Quarterly Net Absorption (SF)	-80,430	443,114	1,584,803	↑
Under Construction (SF)	1,793,580	1,933,430	1,243,425	↑
Deliveries (SF)	330,200	49,500	1,190,000	↑

Market Analysis

VACANCY RATE



NET ABSORPTION



Overall market vacancy increased slightly from 5.5% to 6.0%, with Class A vacancy increasing from 2.3% to 4.2%, due primarily to new speculative projects coming online and a couple previously occupied buildings coming available.

Overall absorption for the year was slightly lower at 1.0 million square feet, with Class B/Class C space having more absorption year to date than Class A space for the first time in several years. The good news is, viable Class A product of 1.7 million square feet is located throughout the region, which should bode well for industry clusters that continue to show signs of strength. The construction pipeline remains active, with over 1.8 million square feet of projects under construction throughout the region.

Market Activity

While not as brisk as prior quarters, there were numerous transactions throughout the third quarter of 2022 that warrant mention. Within the City of Pittsburgh, Robotics Row continued its impressive growth as one of its original success stories, and Carnegie Robotics announced an expansion into an additional 35,000 square feet in the remaining available space in the Buncher Business Center in Lawrenceville. The entire Lawrenceville/Strip District industrial inventory is enjoying full occupancy, with users looking for other alternatives to accommodate future growth. It will be interesting to see if/how other locations near Lawrenceville will be able to attract this industry cluster (robotics, AI and autonomous vehicles).

Across the river from the Strip District, Golden East Investors closed on the former 900,000+-square-foot multi-building, multi-use Heinz/Riverbend Foods facility for $15.0 million. Golden East is considering several options for the former office/R&D space but has a freestanding 150,000 square feet of warehouse/distribution space immediately available and 160,000 square feet of manufacturing space immediately available.

In the Northeast submarket, a California-based investor acquired the 147,000-square-foot former L3 Harris building in the RIDC Industrial Park and is repositioning the building for either single-tenant or multi-tenant occupancy, with an eye on providing the aforementioned alternative for robotics/tech/AI/AV users just 10 minutes from Lawrenceville.

There were several transactions completed in the West Submarket during Q3. At the Northfield Site adjacent to the Pittsburgh International Airport, Al. Neyer secured its first tenant for a 175,000-square-foot build-to-suit, with construction underway for delivery in the third quarter of 2023. The Airport Authority also announced that it had secured HAMR Industries to occupy space in Neighborhood 91 in one of the planned buildings under construction in the additive manufacturing business park.

In the Findlay Industrial Park, two of the remaining available development sites were sold to owner/occupiers. Cochran Automotive acquired a site on Solar Drive for $1.25 million to build an 80,000-square-foot service/repair facility, with expectations of completion in late 2023. JS Paris, a Youngstown-based site contractor acquired a site for $750,000 to build a 55,000-square-foot light industrial building, with a target completion date of late 2023.

Construction activity is well underway throughout the West submarket with several projects to be completed in the fourth quarter of 2022 and the first quarter of 2023, including the following:

– In the Clinton Commerce Park, Al. Neyer has 70,000 square feet under construction, with an expected announcement of a 35,000- to 40,000-square-foot anchor tenant in the fourth quarter of 2022.

– In the Skyview Business Park, Al. Neyer is nearing completion of a 280,000-square-foot building and just started erecting wall panels on the neighboring 109,000-square-foot building.

– In Chapman Westport, Chapman Properties is erecting wall panels on its 99,000-square-foot light industrial building.

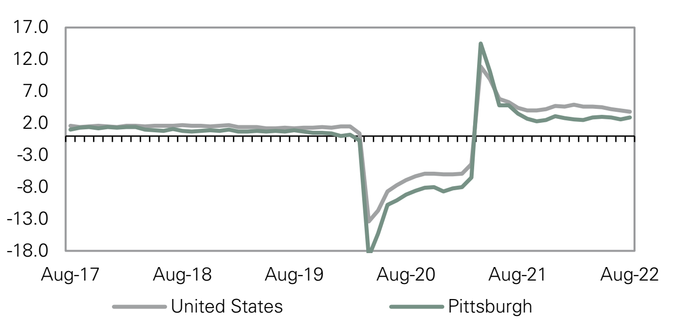
– In Westport Ridge in the Findlay Industrial Park, NorthPoint completed site work and is nearing shell completion for the 191,000-square-foot Building III in the fourth quarter of 2022 and pouring the floor for the 224,000-square-foot Building II, which will be completed in the first quarter of 2023.

In Westmoreland County, the WCIDC secured grants to enable site work to be initiated on the remaining sites in the Distribution Park North. The plan is to subdivide the 70-acre site into three pad sites that can accommodate users from 100,000 square feet to 350,000 square feet, for a total of 625,000 square feet. This location has been very successful based on recent leasing activity in the RIDC Westmoreland, as well as a pending announcement in the fourth quarter of 2022 for the acquisition of a 150,000-square-foot spec building completed by Al. Neyer in the Westmoreland Tech Park II.

There has been considerable mention throughout the summer of the slowdown of Amazon nationally, resulting in closed facilities or facilities being made available for sublease across the country.

Payroll Employment

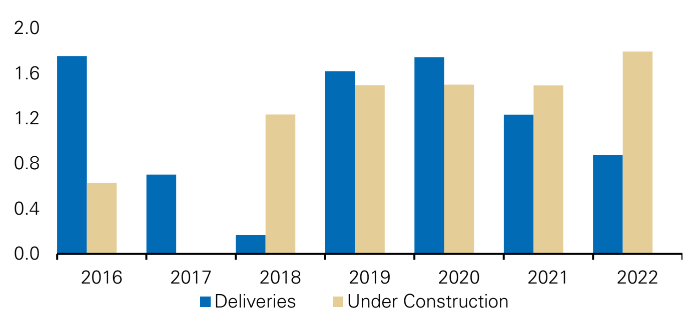
TOTAL NON FARM, NOT SEASONALLY ADJUSTED,12-MO %CHANGE



Source: U.S. Bureau of Labor Statistics

Construction and Deliveries

SQUARE FEET, MILLIONS



It appears that Pittsburgh may be impacted slightly. The opening of the recently completed 130,000-square-foot delivery station in North Versailles has been postponed indefinitely. Interestingly, the somewhat controversial Amazon location at 51st Street in Lawrenceville in the former 321,000-square-foot Sears Outlet Service Center has never opened, despite Amazon paying rent for over two years and the building being sold to an investor based on the income generated from that long-term lease. It appears the other four Amazon facilities throughout the region are operating business as usual.

Capital Markets

Capital markets activity came to a sudden halt in the third quarter of 2022, with no significant investment sales throughout the region. Investors continue to prefer Class A industrial assets, but pricing expectations have changed, with higher interest rates resulting in negative leverage for the first time in five years. Higher-bond yields have forced expectation for higher cash on cash returns for equity. This thesis may be tested in the fourth quarter of 2022 as The Buncher Company is bringing two buildings totaling 630,000 square feet in the Clinton Commerce Park to the market. One asset is a 230,000-square-foot single tenant building, and the other is a 400,000-square-foot multi-tenant building. The offering is unpriced, and it will be interesting to see how institutional investors respond to the opportunity. This could be a bellwether for capital markets activity in 2023.

On the other side of the capital markets activity, anecdotally, value-add investors of Class B and Class C buildings have been scouring the market, looking for opportunities to acquire distressed industrial assets with very little inventory to consider. This could change if a recession takes place in 2023 and individually owned assets become vacant or otherwise distressed.

We remain cautiously optimistic that the existing demand for Class A space is real and that the question will be when, not if, continued growth and absorption continues in early 2023, if not Q4 2022.

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	1,545,537	12.9%	-121,369	-43,802	163,369	6.7%
Butler	9,073,193	60,000	471,023	5.2%	-147,132	258,587	165,723	6.2%
East	8,457,877	0	651,546	7.7%	8,660	167,583	0	0.0%
Northeast	14,716,033	0	550,367	3.7%	0	26,249	49,500	1.4%
Northwest	13,078,231	0	615,144	4.7%	-9,412	-79,231	103,405	1.5%
Pittsburgh	13,456,127	112,000	814,786	6.1%	10,574	157,182	449,067	16.6%
South	6,422,988	0	240,800	3.7%	0	43,800	0	0.0%
Washington	14,581,291	165,000	277,706	1.9%	118,098	151,198	32,588	1.0%
West	21,459,366	975,198	1,108,448	5.2%	52,651	58,199	429,765	4.2%
Westmoreland	32,838,393	481,382	2,450,809	7.5%	7,500	255,945	351,428	4.3%
Pittsburgh	**146,061,188**	**1,793,580**	**8,726,166**	**6.0%**	**-80,430**	**995,710**	**1,744,845**	**4.2%**

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	13,745,430	235,873	290,589	2.1%	-122,500	-48,706
R&D Flex	3,975,975	211,000	448,078	11.3%	22,247	53,207
Warehouse/Distribution	23,514,106	1,346,707	1,006,178	4.3%	-97,054	263,386
Pittsburgh	**41,235,511**	**1,793,580**	**1,744,845**	**4.2%**	**-197,307**	**267,887**

RESEARCH Q3 2022

For more information:

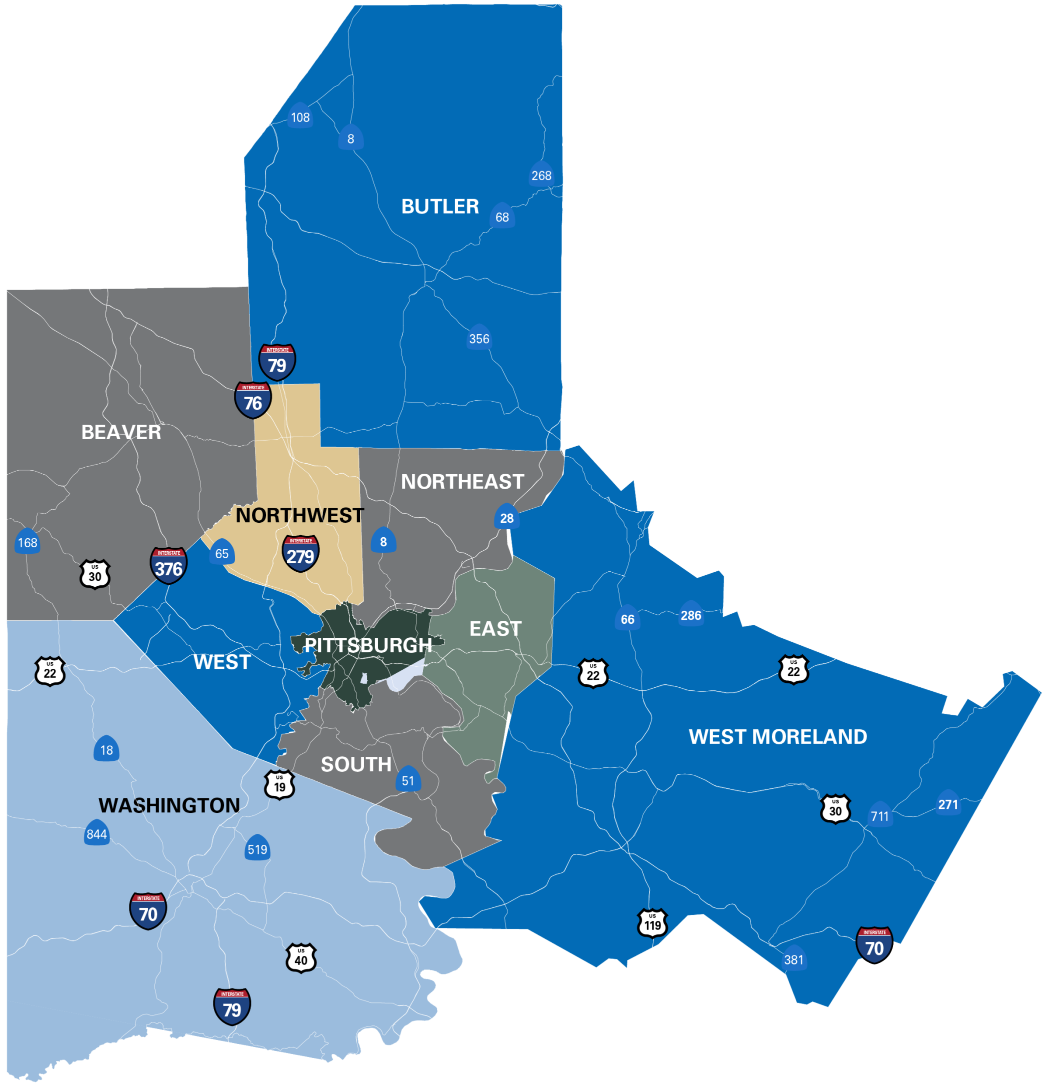
Pittsburgh Office
210 Sixth Ave
Pittsburgh, PA 15225
t 412-281-0100

Gerard McLaughlin
Executive Managing Director
gerard.mclaughlin@nmrk.com

Louis Oliva, CCIM, SIOR
Executive Managing Director
louis.oliva@nmrk.com

Jessica McKinney
Research & Marketing Manager
jessica.mckinney@nmrk.com

nmrk.com



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