



Pittsburgh Industrial Market

Developers Responding To Strong Demand

The fourth quarter of 2021 provided mixed results, but the year ended on a positive note with market conditions trending positively for continued strength and growth in 2022. While inflation fears continued to add volatility to the stock market and economists debate if inflation is transitory or secular, the industrial market continued to show signs of relative strength. Several speculative building projects were delayed as construction costs and supply chain issues continued to rise, although signs of leveling off may be on the horizon. Regardless, any projects starting in early 2022 are targeting late 2022/early 2023 delivery, which will lead to an ever-tightening market and expected higher lease rates in 2022.

The overall market enjoys a healthy 94.0% occupancy with Class A inventory exceeding 97% occupancy. While this is great news for landlords, it does not allow for significant expansion within the market or immediate relocations to the region without existing inventory. Net absorption for 2021 approached 1.5 million square feet, with Class A net absorption of 1.7 million square feet offset by losses of Class B/Class C occupiers and plant closures.

The good news is that almost 1.5 million square feet of Class A inventory is under construction with delivery expected in 2022. Of that new inventory, 220,000 square feet has been committed to a build-to-suit and the remainder as speculative inventory scattered throughout the region.

Current Conditions

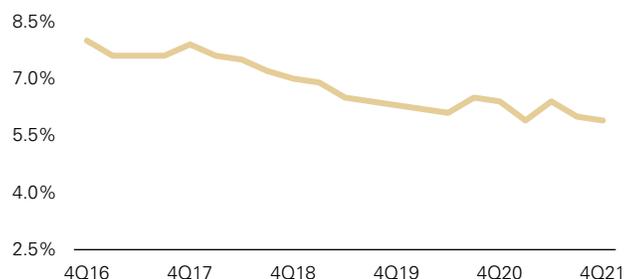
- The overall market enjoys a healthy 94.0% occupancy with Class A inventory exceeding 97% occupancy.
- Net absorption for 2021 approached 1.5 million square feet, with Class A net absorption of 1.7 million square feet offset by losses of Class B/Class C occupiers and plant closures
- Almost 1.5 million square feet of Class A inventory is under construction with delivery expected in 2022. Of that new inventory, 220,000 square feet has been committed to a build-to-suit and the remainder as speculative inventory scattered throughout the region.
- Based on national trends, there is reason to believe that industrial property development and investment should continue in 2022.

Market Summary

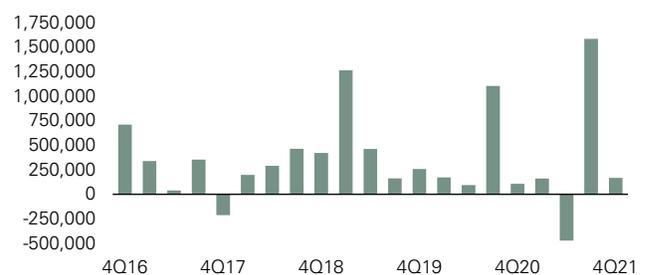
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	144 M	144 M	144 M	↑
Vacancy Rate	5.9%	6.0%	6.4%	↓
Quarterly Net Absorption (SF)	166,724	1,584,803	107,683	↑
Under Construction (SF)	1,493,625	1,243,425	1,499,905	↑
Deliveries (SF)	0	1,190,000	99,200	↑

Market Analysis

VACANCY RATE



NET ABSORPTION



RESEARCH Q4 2021

A tightening labor market continues to be a headwind for industrial users in some submarkets, although the region in total still provides opportunities for employers to find qualified employees.

Market Activity

The dominant story of the fourth quarter of 2021 was the ongoing saga between Churchill Borough and Hillwood Development over the proposed four-story, 2.9 million -square-foot Amazon.com distribution complex at the former George Westinghouse Research Center on I-376 east of Pittsburgh. After years of deliberation, local public opposition with regional political support, Churchill Borough approved the project, which will provide significant employment opportunities and much needed real estate tax revenue (estimated at \$11.0 million annually) to a community and school district in need of funding.

In addition to this project which will take several years to complete, Amazon.com continued its expansion in the Pittsburgh region with two other high-profile projects east of Pittsburgh. The first was the acquisition of the former Eastland Mall site in North Versailles. The long-shuttered and razed retail complex sat on 46 acres and will be used for a 140,000-square-foot delivery station similar to the company's McClaren Road facility west of Pittsburgh.

In addition to Amazon.com, there were several significant transactions east of Pittsburgh in the Mon Valley including major announcements in McKeesport. Trulieve, a medical marijuana manufacturer announced it is expanding its presence in the RIDC McKeesport by acquiring its existing 228,000-square-foot facility and 37 acres for \$10.37 million, with plans to expand its footprint to over 500,000 square feet.

A few miles away, Phoenix Investors announced its second major acquisition in the Mon Valley by acquiring the 600,000-square-foot former GC Murphy warehouse in McKeesport. The building had been owned and occupied by Magic Creations/Rubino Sales for over 20 years. Phoenix acquired the

former Continental Can/South Hills Industrial Park in West Mifflin a few years ago and now owns over 1.2 million square feet in the Mon Valley.

About 20 miles further east in New Stanton/Westmoreland County, it was announced that Amazon.com is considering a 1.0-million-square-foot distribution center on a site near the I-70/I-76 intersection. This facility will be like the company's existing 1.0-million-square-foot distribution center in Chapman Westport, which is 15 miles west of Pittsburgh.

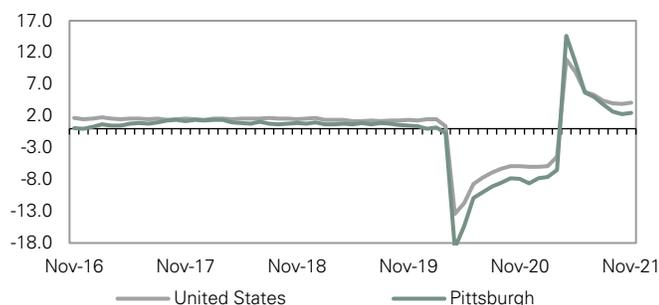
In Butler County, two projects are underway in the Victory Road Business Park in Saxonburg. Sun Cap is nearing completion of a 220,00-square-foot build-to-suit for Bayer Healthcare as a distribution center for products manufactured at Bayer's Saxonburg facility. Also within the park, a 60,000-square-foot building named the Clinton Commerce Center is under construction and will be the first speculative industrial building in the Victory Road Business Park, which historically catered to owner-occupiers attracted by the KOZ status of the former U.S. Steel site.

In Beaver County, Selectrode expanded within the Hopewell Business Park by acquiring a 40,000-square-foot facility from the RIDC for \$3.2 million.

Capital market interest remains very strong in Pittsburgh, with several high-profile properties under agreement and expected to close during the first quarter of 2022. The most noteworthy sale is the acquisition of the recently completed 280,000-square-foot Amazon.com facility in Westport Woods by Tishman-Speyer. The deed transfer has not been recorded but the rumored price is expected to be the lowest cap rate in the Pittsburgh market. It is interesting to note that Tishman-Speyer was recently named the master developer for the Hazelwood Green site in the City of Pittsburgh, so this acquisition could lead to additional investment in Pittsburgh by Tishman. This continues the significant inflow of new capital to Pittsburgh by regional, national and international investors.

Payroll Employment

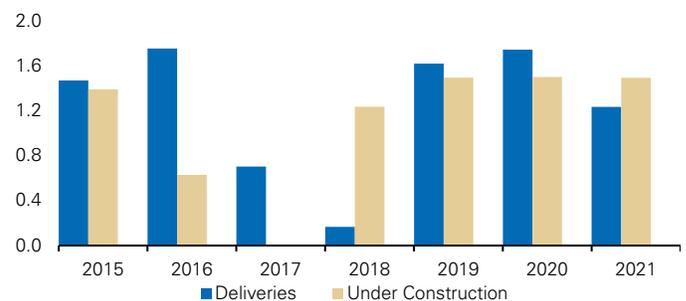
TOTAL NON FARM, NOT SEASONALLY ADJUSTED, 12-MO %CHANGE



Source: U.S. Bureau of Labor Statistics

Construction and Deliveries

SQUARE FEET, MILLIONS



RESEARCH Q4 2021

The sale of the 400,000-square-foot JLG Industries facility in the Clinton Commerce Park is expected to close during the first quarter of 2022. The sale will continue the successful merchant developer strategy deployed by Al. Neyer Inc, which has already developed and sold almost 1,000,000 square feet in the Clinton Commerce Park near Pittsburgh International Airport.

Looking Ahead

The Southern Beltway from the Pittsburgh International Airport I-376 to I-79 north of Southpointe in Washington County opened in October with traffic counts to date well over initial estimates. This 19-mile highway creates the “Energy Corridor” connecting oil/gas/energy companies in Southpointe/Washington County through the significant industrial

development projects along RT 576 at Westport to the Airport and the Shell Petroleum plant in Beaver County. Along with the completion of RT 576, Imperial Land let contracts for the installation of Phase I of Campus Boulevard and utility extensions in the Ft. Cherry Development District at Exit 11 of RT 576, which will provide over 150 acres of industrial sites ready for immediate development in 2022.

Based on national trends, there is reason to believe that industrial property development and investment should continue in 2022. Much-needed speculative Class A projects have started (or will start) throughout the region in Butler, Beaver, Westmoreland and Washington County in 2022. With respect to Allegheny County and the continued success of the West/Airport submarket, it will be interesting to test the depth of the market with three existing

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	1,501,735	12.5%	0	-161,120	105,000	4.3%
Butler	8,671,406	220,000	450,323	5.2%	-18,432	139,624	68,691	2.9%
East	7,741,827	0	558,364	7.2%	3,009	-46,243	0	0.0%
Northeast	14,666,533	0	637,116	4.3%	20,000	-125,330	0	0.0%
Northwest	12,898,231	0	390,913	3.0%	-30,922	421	117,000	1.7%
Pittsburgh	13,245,372	80,000	780,502	5.9%	0	-21,288	303,874	12.9%
South	6,979,988	0	384,600	5.5%	0	37,115	0	0.0%
Washington	14,498,291	165,000	496,829	3.4%	33,094	331,296	32,588	1.0%
West	21,024,372	628,393	817,653	3.9%	-5,247	935,857	247,367	2.5%
Westmoreland	32,588,193	400,232	2,456,554	7.5%	165,222	349,120	91,078	1.1%
Pittsburgh	144,291,902	1,493,625	8,474,589	5.9%	166,724	1,439,452	965,598	2.4%

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	13,622,930	235,873	241,883	1.8%	33,094	466,601
R&D Flex	3,878,454	80,000	403,764	10.4%	-10,247	37,328
Warehouse/Distribution	22,467,204	1,177,752	319,951	1.4%	0	1,170,043
Pittsburgh	39,968,588	1,493,625	965,598	2.4%	22,847	1,673,972

