



Pittsburgh Office Market

Another Challenging Year

Ramifications from COVID-19 continued to impact the nation throughout 2021. Glimmers of normalcy emerged despite the year ending with another new variant. Adaptation has become the new normal as businesses develop solutions to co-exist with the stubborn nemesis.

Several trends impacting the office sector have strengthened or resulted from the pandemic throughout the year. While greater than 2020, the velocity of activity continued to be below pre-pandemic levels and average transaction size has dropped to single digits. Companies are beginning to recognize the need for a physical office to maintain culture and business operations, but they continue to struggle with appropriate space requirements, configuration and work week structure. Many users have opted for shorter lease terms and increased requests for early termination options, exercising a 'wait-and-see' approach to better understand the direction of their businesses. Further, tenant renewals have turned into a heightened degree of tenant relocations. Increasing inventory availability and attractive deal structures have encouraged a more robust flight to quality.

Current Conditions

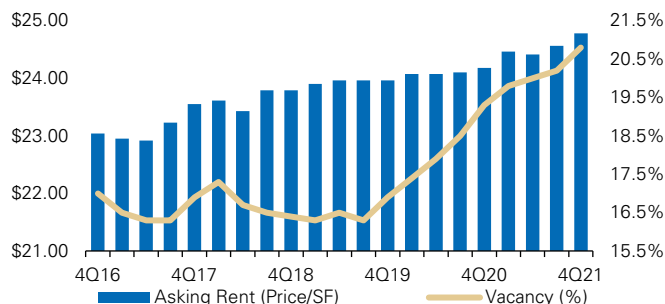
- Overall vacancy in the Pittsburgh office market ended 2021 at 20.8%, a 150-basis point increase over year-end 2020 and overall asking rents were up \$0.60/SF during the same timeframe ending the fourth quarter of 2021 at \$24.78/SF.
- After a minor decrease during the third quarter of 2021, sublease space jumped back up to a new record high of 2.2 million square feet.
- The 145,300-square-foot 75 Hopper Place in the Strip District segment of the Fringe submarket was the only newly constructed building to complete this year.

Market Summary

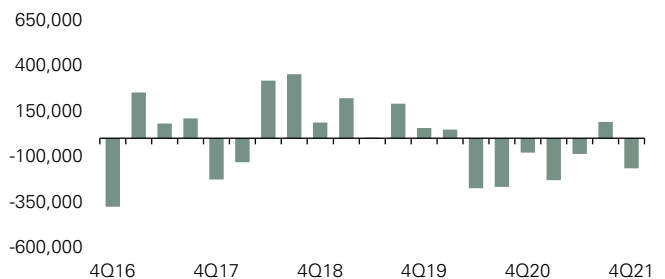
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	56 MSF	56 MSF	56 MSF	↑
Vacancy Rate	20.8%	20.2%	19.3%	↑
Quarterly Net Absorption (SF)	-165,521	89,724	-78,925	↓
Average Asking Rent/SF	\$24.78	\$24.56	\$24.18	↔
Under Construction (SF)	1,233,561	1,378,853	963,853	↓
Deliveries (SF)	145,292	0	416,333	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q4 2021

Landlords in many submarkets have increased concessions including free rent and are providing higher tenant improvement dollars in an attempt to attract users, while maintaining base rents. Continuing low interest rates at least partially tempered some of the challenges facing owners. Specifically, very manageable borrowing costs provided owners assistance with loftier tenant improvement dollars and the funding of higher construction costs. Additionally, properties mortgaged with low interest rates are better able to withstand vacancies and free rent periods.

The biotech/life sciences and the technology industries have mostly managed to stay the course creating demand in urban markets outside the Central Business District for lab and high-quality, amenitized office space with developers responding. Asking rents for newly constructed office space have pushed substantially to well north of \$40.00/SF. In comparison, seven years ago, Class A office space in the Oakland/East-End and Fringe submarkets hovered around \$27.50/SF and \$24.70/SF respectively.

Overall vacancy in the Pittsburgh office market ended 2021 at 20.8 %, a 150-basis-point increase over year-end 2020 and overall asking rents were up \$0.60/SF during the same timeframe ending the fourth quarter of 2021 at \$24.78/SF. Year-to-date net absorption was negative 391,030 square feet, a slight improvement over year-end 2020 when absorption was negative 573,064 square feet. After a minor decrease during the third quarter of 2021, sublease space jumped back up to a new record high of 2.2 million square feet.

The 145,300-square-foot 75 Hopper Place in the Strip District segment of the Fringe submarket was the only newly constructed building to complete this year, while 309,000 square feet of renovated space came online, all in the urban markets outside the CBD.

The Central Business District

The supply of space in the CBD has greatly increased over the past few years, with the pandemic an added catalyst. Since year-end 2018, overall vacancy rose by 390 basis points to 20.4 % at the end of 2021,

with Class A space rising by 420 basis points during the same timeframe and closing the year at 17.2%. However, Class A vacancy experienced some improvement during 2021, decreasing by 40 basis points over year-end 2020.

Several tenants announced new downtown addresses during the fourth quarter of 2021. Larger transactions included real estate firm CBRE moving from U.S. Steel Tower into 19,000 square feet in One Oxford Centre and LGA Partners into 15,000 square feet in the Union Trust Building. At the same time, the offices of District Attorney Stephen Zappala inked a deal for 19,000 square feet in the Frick Building.

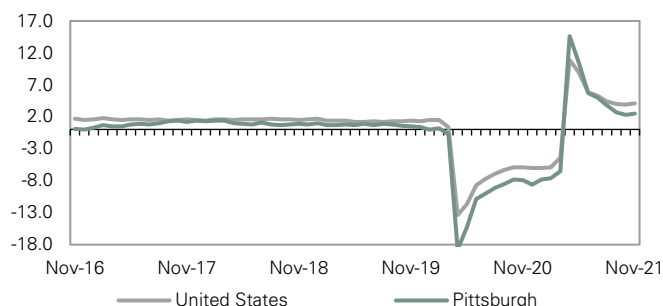
Urban Markets Outside the CBD

The Oakland/East-End submarket experienced a flurry of activity during the fourth quarter. The East Liberty neighborhood of this submarket became home to what was likely the largest new urban lease of the fourth quarter. Technology-based language learning company Duolingo committed to a 38,000-square-foot lease in the soon-to-be completed eight-story, 281,000-square-foot Liberty East. The building is expected to complete, and the company is projected to take occupancy by the middle of next year. Deeper into East Liberty, convenience store Sheetz signed a deal for 20,000 square feet in Bakery Office Four, the former Matthews Corporation building. Owner/ developer Walnut Capital Partners is in the process of renovating the 60,000-square-foot building adjacent to the existing Bakery Square complex.

Along Second Avenue in the Oakland/East-End submarket, BlueSphere Bio, a biotechnology company, increased occupancy by 17,000 square feet in the Riviera. Further down Second Avenue to Hazelwood Green, the Regional Industrial Development Corporation, received Planning Commission approval for a 96,000-square-foot office, lab and research facility. While Hazelwood Green primarily consists of manufacturing/flex space which does not affect the office market statistics, it is a massive, 178-acre project that may have a greater impact on the office sector in the future and should not be ignored.

Payroll Employment

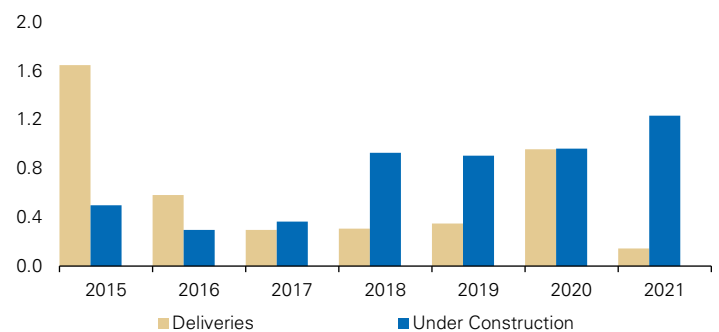
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Construction And Deliveries

SQUARE FEET, MILLIONS



RESEARCH Q4 2021

Fenway Sports Group became owners of the Pittsburgh Penguins hockey team during the quarter, also providing the company development rights for the 28-acre former Civic Arena site in the Lower Hill/Uptown section of the Fringe submarket. Among various interests, the company is also involved in real estate. The group has a history of being active in developments surrounding sporting venues. New ownership's experience will likely have some influence on the site, which broke ground in September on the 26-story FNB Financial Center.

Suburban Submarkets

Overall vacancy in the suburban submarkets increased by 190 basis points between year-end 2020 and 2021, ending 2021 at 21.5%. Net absorption was negative 402,811 square feet, similar to the close of 2020 when net absorption was negative 424,859 square feet. Overall asking rents increased by \$0.14/SF to \$22.06/SF.

The Parkway West submarket experienced a 340-basis-point increase to vacancy over the past 12 months, the greatest of all the submarkets. Adding to an already plentiful supply of space,

NOVA Chemicals placed 130,000 square feet of sublease space on the market at Westpointe Corporate Center II in the fourth quarter of 2021.

Looking Ahead

Pittsburgh's innovative nature and diverse economy in industries including finance/professional services, technology and biotech/life sciences position the region to weather the storm. While more robust return to the office is expected by the middle of 2022, the office market is expected to remain soft throughout the majority of 2022 and tenants will continue to be in a favorable position in most submarkets. As the Fed wrestle with inflation, interest rate hikes are forecasted, which will impact business decision-making.

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	475,000	4,104,416	20.4%	5,825	-65,566	\$29.89	\$21.99	
Fringe	7,685,093	232,000	1,653,335	21.5%	32,993	89,993	\$33.63	\$22.28	
Oakland/East End	3,430,722	526,561	554,090	16.2%	4,520	-12,646	\$45.80	\$23.00	
City Of Pgh Total	31,282,621	1,233,561	6,311,841	20.2%	43,338	11,781	\$32.60	\$22.15	
East	3,431,259	0	935,434	27.3%	-12,626	16,734	\$21.27	\$17.00	
North	7,648,782	0	1,447,222	18.9%	-43,193	-86,485	\$25.21	\$20.96	
Parkway West	9,025,214	0	2,095,751	23.2%	-60,696	-248,989	\$23.54	\$19.95	
South	5,368,014	0	992,806	18.5%	-92,344	-84,071	\$22.86	\$19.15	
Suburban Total	25,473,269	0	5,471,213	21.5%	-208,859	-402,811	\$23.49	\$19.53	
Pittsburgh	56,755,890	1,233,561	11,783,054	20.8%	-165,521	-391,030	\$27.85	\$21.06	

