

# Pittsburgh Office Market

## Another Year, Same Challenges

While approaching three years of COVID-19 ramifications, the question on everyone’s mind remains: When will employees return to the office, if at all? The office sector has been hit the hardest with regards to the pandemic, specifically office landlords. With vacancy rates continuing to be high, it is becoming increasingly challenging for landlords to make mortgage payments while offices remain empty. According to recent data provided by the Pittsburgh Downtown Partnership, the Downtown office building employee occupancy was at 22.0% in November of 2022.

However, with a possible recession on the horizon, there continues to be a growing number of companies making a more rigid push for employees to return to the office. In-person collaboration amongst employees, as well as client interaction, is becoming an increasingly important factor for employers.

One of the biggest trends seen this year is the implementation of office upgrades in an effort to entice employees back to the office. Office occupancy still remains much lower than pre-pandemic levels, and the ROI on these building/office improvements remains to be seen.

### Current Conditions

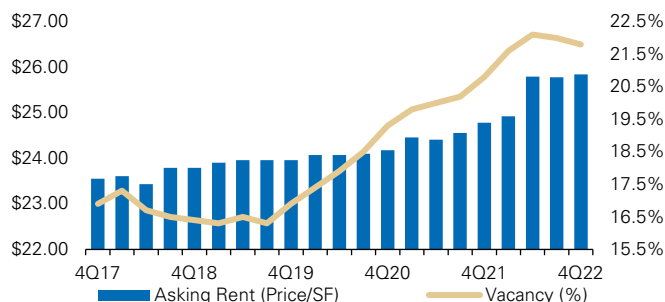
- The overall Pittsburgh office vacancy rate ended 2022 at 21.8%, up 1.0% from the fourth quarter of 2021. The highest vacancy remains in the East submarket at 25.8%. During that same timeframe, average asking rental rates increased from \$24.78/SF to \$25.84/SF.
- A positive outcome of the year is the 240,517-square-foot decrease in sublease availability from the fourth quarter of 2021 (over 2.2 million square feet) to the fourth quarter of 2022 (just under 2 million square feet).
- Year-to-date net absorption was 9,608 square feet, a vast change from 2021’s year-end absorption of negative 391,030 square feet.

### Market Summary

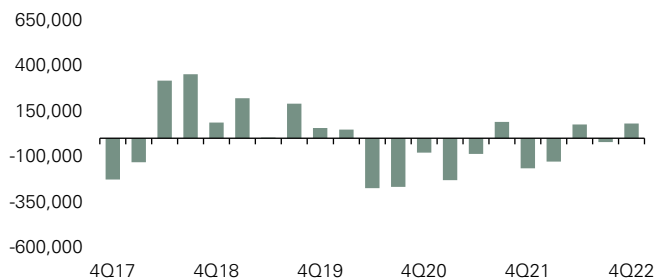
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	57 MSF	57 MSF	56 MSF	↑
Vacancy Rate	21.8%	22.0%	20.8%	↑
Quarterly Net Absorption (SF)	80,909	-20,462	-165,521	↓
Average Asking Rent/SF	\$25.84	\$25.78	\$24.78	↔
Under Construction (SF)	926,000	926,000	1,233,561	↓
Deliveries (SF)	0	0	145,292	↑

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



## RESEARCH Q4 2022

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Year-to-date net absorption was 9,608 square feet, a vast change from 2021's year-end absorption of negative 391,030 square feet. The amount under construction is 926,000 square feet, with no new or completed projects this quarter.

### The Central Business District

Average vacancy in the Central Business District was 21.4% this quarter, primarily due to the increase in Class B vacancy, which ended the year at 32.7%. The Class A vacancy rate decreased slightly from the past year, from 17.2% to 16.9%.

The law firm Metz Lewis announced it will be vacating its 21,117-square-foot space at 535 Smithfield St. and taking 19,228 square feet at Four Gateway Center. The move is set to take place in the summer of 2023.

TriState Capital Bank is expanding its office at 11 Stanwix and inked a deal for an additional 22,000 square feet, bringing the bank's total space there to 45,000 square feet.

Douglas Development recently purchased Centre City Tower at 650 Smithfield St., with the intention to renovate the Class B office building and add several tenant amenities.

The architectural firm LGA Partners announced it will no longer be making a move to the Union Trust Building; instead, it will be taking 20,000 square feet at Four Gateway Center.

### Urban Markets Outside the CBD

In Pittsburgh's Strip District, autonomous vehicle company Aurora Innovations announced it will be subleasing more than 110,000 square feet at the Crucible Building at 31st St. and

Smallman St. and consolidating into its Pittsburgh headquarters down the road at 1600 Smallman St. Aurora's lease term at the Crucible Building goes through the end of 2026. In other autonomous vehicle news, Argo AI announced the company will be shutting down, leaving its 130,500-square-foot space at the 3 Crossings Development in limbo. Rycon Construction will also be vacating its nearly 12,000-square-foot-space at Riverfront West to consolidate into its headquarters at 2501 Smallman St.

After Management Science Associates stated it will be leaving its 123,000-square-foot space in the Chatham Eastside Building earlier this year, it was recently revealed that it will be moving to Bakery Office Three, where it will be taking nearly 1/3 of the space at Chatham. The move to Bakery Square is slated to take place this coming spring.

A long-term project making recent headway is the Esplanade in Pittsburgh's Northside neighborhood. With the help of a \$10.0-million state grant, Piatt Companies' mixed-use redevelopment will ultimately be 1.2 million square feet and include office space, residential and retail, as well as entertainment venues.

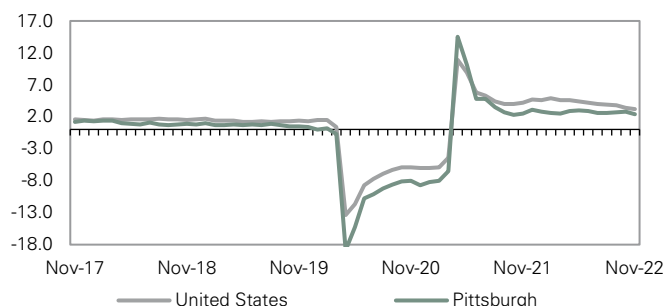
### Suburban Submarkets

In the Parkway West, Pittsburgh's largest engineering firm, Michael Baker International, announced it will be reducing office space and subleasing nearly 50,000 square feet at 100 Airside Dr. Also in the Parkway West, RareMed Solutions will initially be taking 13,000 square feet in the previous Dick's Sporting Goods headquarters and establishing its own headquarters with the option to expand.

In the North submarket, PennEnergy Resources LLC announced it will be taking 45,000 square feet of sublease space at the Westinghouse Electric headquarters campus in Cranberry Woods. South College Pittsburgh also expanded its presence at the Cranberry Woods campus by 23,327 square feet.

## Payroll Employment

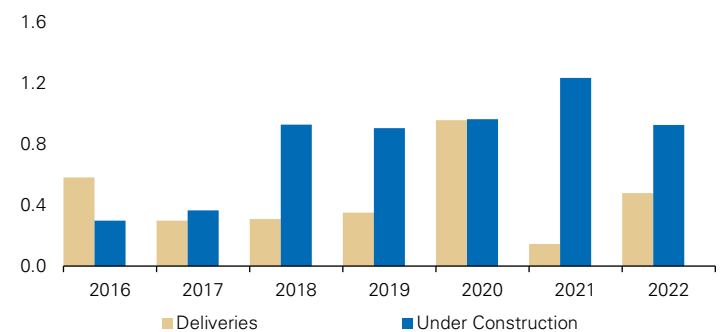
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

## Construction And Deliveries

SQUARE FEET, MILLIONS



## RESEARCH Q4 2022

### Looking Ahead

Many Pittsburgh companies are concluding that they require smaller, yet higher-amenitized spaces. This trend seems to be one that will carry over into 2023 and beyond, primarily due to the seemingly permanent hybrid-work arrangements that employers are embracing. Even though decisions are finally being made regarding office-space needs, expect to continue to see leasing challenges in the coming year.

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	19,799,574	475,000	4,231,571	21.4%	37,823	-74,286	\$30.27	\$22.91
Fringe	8,190,072	0	2,004,602	24.5%	-90,945	-66,288	\$36.12	\$21.93
Oakland/East End	3,846,323	280,000	813,121	21.1%	42,254	156,570	\$43.41	\$22.59
<b>City Of Pgh Total</b>	<b>31,835,969</b>	<b>755,000</b>	<b>7,049,294</b>	<b>22.1%</b>	<b>-10,868</b>	<b>15,996</b>	<b>\$34.17</b>	<b>\$22.58</b>
East	3,324,559	0	857,812	25.8%	-1,876	-29,078	\$21.11	\$15.83
North	7,748,782	0	1,407,311	18.2%	126,308	109,911	\$24.87	\$20.63
Parkway West	9,213,569	171,000	2,325,053	25.2%	-61,259	-116,473	\$24.35	\$20.29
South	5,321,686	0	894,570	16.8%	28,604	29,252	\$22.30	\$19.35
<b>Suburban Total</b>	<b>25,608,596</b>	<b>171,000</b>	<b>5,484,746</b>	<b>21.4%</b>	<b>91,777</b>	<b>-6,388</b>	<b>\$23.46</b>	<b>\$19.87</b>
<b>Pittsburgh</b>	<b>57,444,565</b>	<b>926,000</b>	<b>12,534,040</b>	<b>21.8%</b>	<b>80,909</b>	<b>9,608</b>	<b>\$29.11</b>	<b>\$21.48</b>

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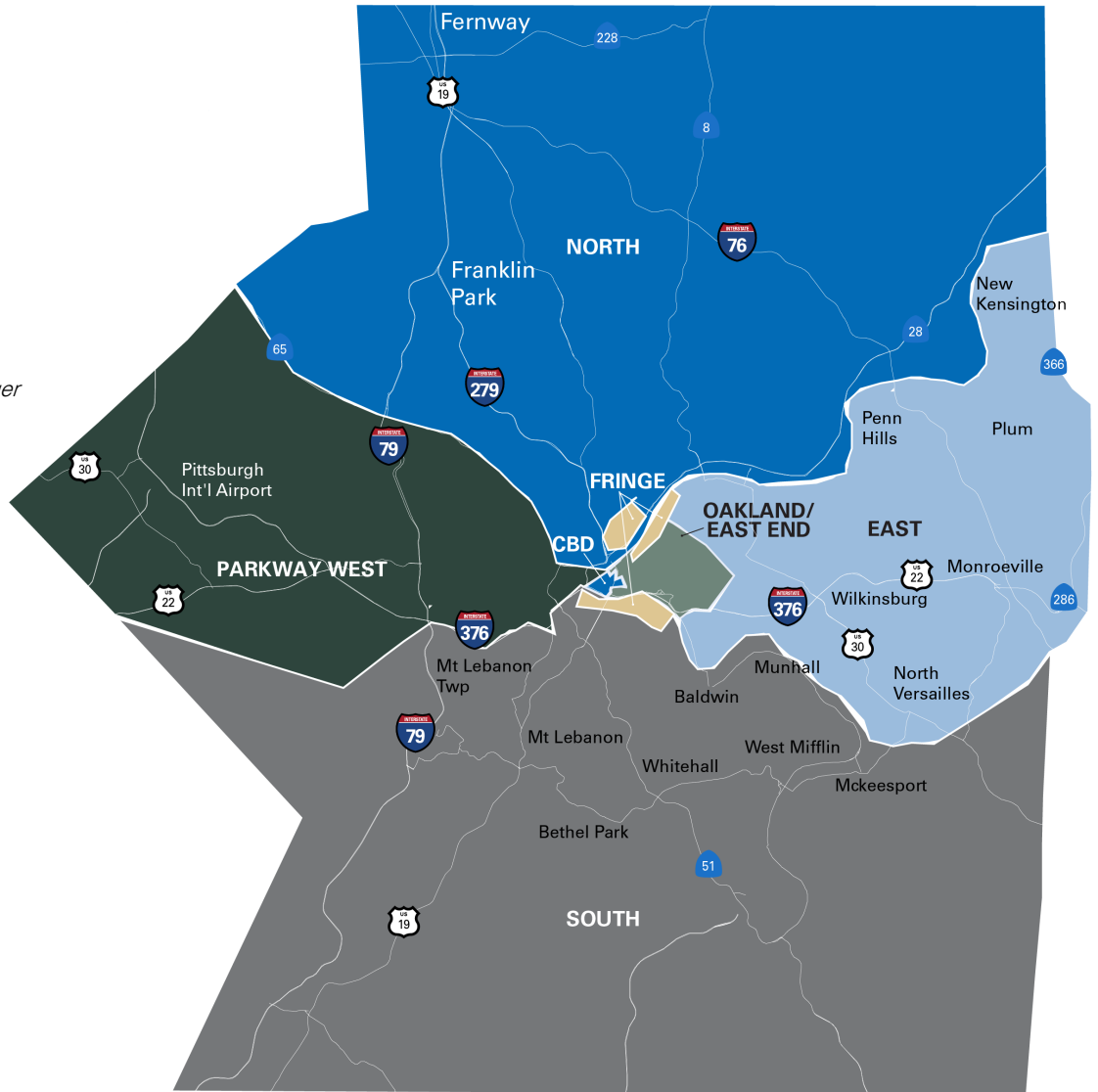
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