

MARKET REPORT

OFFICE

Pittsburgh Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

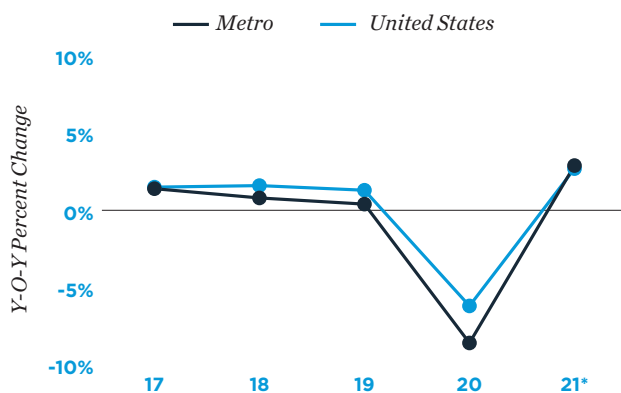
2Q/21

Medical Tenants Drive Demand at Local Healthcare Hub While Central Pittsburgh Faces Hurdles

Oakland a bright spot in a clouded office sector. The pandemic has weighed on office fundamentals across Pittsburgh, with the exception of Oakland. The submarket is home to the University of Pittsburgh Medical Center, where numerous healthcare and life science tenants have preserved office demand, as such work cannot be done remotely. In contrast to the market's 180-basis-point jump, Oakland's vacancy rate fell 190 basis points last year to 3.3 percent, a fraction of the metrowide rate. Tight availability in the submarket has in turn prompted greater development, with inventory set to grow by 8 percent over the next two years. The healthcare hub is nonetheless expected to outperform this year as firms in other industries evaluate space needs.

CBD and Greater Downtown submarket challenged. Offices in the central business district will continue to face dilemmas this year after fundamentals softened in 2020. While many prominent firms have announced plans to return employees safely to offices nationally, companies in downtown settings will have to contend with added hurdles. In Pittsburgh, urban space is continuing to lease, but the larger agreements are in low-rise facilities outside the CBD in the adjacent Greater Downtown submarket. Construction is a complicating factor for the area, however. Over 500,000 square feet will be delivered to the submarket this year, with most of that space yet to be leased, placing added pressure on vacancies and rents for this year.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



**31,300
JOBS**

will be created

EMPLOYMENT:

More business reopenings, aided by ongoing vaccinations, will support job growth of 2.9 percent in 2021. Last year staff counts contracted by 8.6 percent. The less-impacted traditional office-using sector will expand by 2.2 percent, or 5,800 roles this year.



**760,000
SQ. FT.**

will be completed

CONSTRUCTION:

Completions slated for 2021 will fall short of last year's delivery total, a half-decade high. The most space will open in the Greater Downtown submarket, although sizable projects are also underway in other areas, including the city of Oakland.



**120
BASIS POINT**

increase in vacancy

VACANCY:

The protracted process of safely bringing employees back to offices will temper leasing this year, while new supply continues to arrive. The added available space will push the vacancy rate up to 14.6 percent, the highest level in at least 15 years.



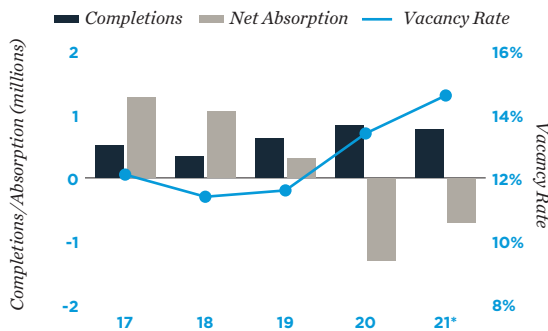
**2.3%
DECREASE**

in asking rent

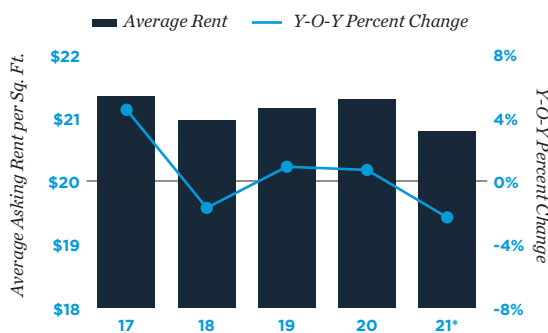
RENT:

As the office sector settles into a new equilibrium, the average asking rent will drop to \$20.79 per square foot, also reflecting the impact of some older space rejoining the leasing market. Downward rate pressure will be most apparent in the urban center.

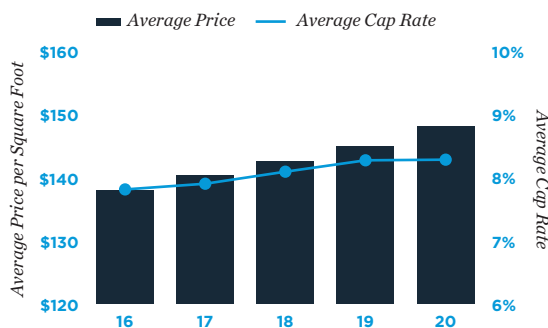
Supply and Demand



Rent Trends



Sales Trends



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

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The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics
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2020

CONSTRUCTION

820,000 square feet completed

- The health crisis did not impede development from reaching its highest level since 2015 when 1.3 million square feet were completed.
- While metrowide inventory only grew by 0.7 percent, office stock increased by 2.6 percent in the Parkway West Corridor. Oakland and Washington County also welcomed new arrivals last year.

VACANCY

180 basis point increase in vacancy Y-O-Y

- The net return of 1.3 million square feet to the leasing market pushed the vacancy rate up to 13.4 percent last year.
- New supply pressure contributed to a 200-basis-point jump in the suburban vacancy rate to 12.3 percent, although the urban rate also increased by 150 basis points to a higher overall level of 15.1 percent.

RENT

0.7% increase in the average asking rent Y-O-Y

- Following a 0.9 percent gain in 2019, the average asking rate improved in 2020 by a similar modest margin to \$21.29 per square foot.
- The average Class A rent increased by 1.0 percent to \$26.75 per square foot while the average rate for Class B and C floor plans remained fairly stable at \$18.37 per square foot.

Investment Highlights

- After slowing by 25 percent in 2019, sales activity dropped a further 20 percent last year due to decreased trading in the early months of the health crisis. The average sale price nevertheless continued to increase in 2020, climbing 2 percent to an average of \$148 per square foot. The mean cap rate, meanwhile, remained flat at 8.3 percent. Initial yields are 60-300 basis points above those in other major Northeast metros.
- Buyers engaged in the market targeted properties in the Parkway East Corridor, the CBD and Westmoreland County most often, for sales prices often below \$10 million. A larger share of last year's trades were Class C assets, most under 10,000 square feet in size.
- In contrast to the overall office market, transaction velocity for medical offices remained stable in 2020, with both in-state and out-of-state buyers pursuing Class C properties. Facilities in Westmoreland and Washington counties changed hands more than in other parts of the metro, for an average sale price above \$200 per square foot.