

# INVESTMENT FORECAST

Office  
Pittsburgh

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2022

## Stock Expansion Targets High-Skill Industries; Local Investors Take a Wait-And-See Approach

**Pittsburgh's innovators the biggest factor in market preferences.** Despite vacancy remaining elevated throughout the 2022 calendar year, metro office stock is expected to grow by 910,000 square feet, the largest amount in over five years. While this delivery volume is substantial, the 600,000 square feet added to the Oakland submarket will benefit from the locale's proximity to the University of Pittsburgh and Carnegie-Mellon, in addition to several medical centers. Here, the burgeoning life sciences sector is spurring demand for lab space from academic-linked biotechnology firms. The remaining space is scheduled to come online in Greater Downtown's the Strip neighborhood, which had been attracting tenants exiting higher-cost leases in the CBD even prior to the health crisis. Aurora Innovations announced its expansion into the metro last year, joining competitor Argo AI in the Strip as Pittsburgh becomes a regional center for driverless technology research. This follows as the city's tech firms select relatively less dense urban submarkets with a supply of amenity-rich offices. While the placement of this year's new stock should help mitigate upward-trending availability, a considerable amount of proposed square footage in the pipeline may weigh on vacancy in the near- to mid-term if those projects move forward.

**Investors wait for normalized leasing activity before returning to market.** As vacancy still hovered above pre-pandemic norms, general office deal flow in 2021 remained roughly at the subdued levels observed in the previous year. Buyers in the \$1 million to \$10 million range were most active in Washington County. Investors here trade Class A office buildings for below \$10 million in addition to properties of all other classes. Suburban Class B complexes southwest of the city are trading at cap rates ranging from high-7 percent to more than 10 percent on occasion. Private buyers remain active in the CBD, where smaller assets under \$5 million change hands. Investors in this submarket may consider capital improvement strategies in response to tenant flight to areas with newer stock.

## 2022 Market Forecast

- Employment** up 1.9%
 

The recovery continues, but office-using sectors add just 5,500 new positions as the total headcount increases by 22,000 jobs.
- Construction** 910,000 sq. ft.
 

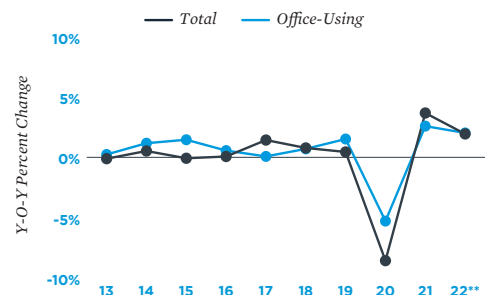
Developers finalize a multiyear high in square footage, split among three large projects in the metro's core. Two-thirds of this new stock is located in the Oakland submarket.
- Vacancy** up 20 bps
 

Despite marking positive annual net absorption for the first time since the onset of the health crisis, weighty deliveries lead to a 20-basis-point uptick in vacancy to 15.0 percent.
- Rent** up 0.5%
 

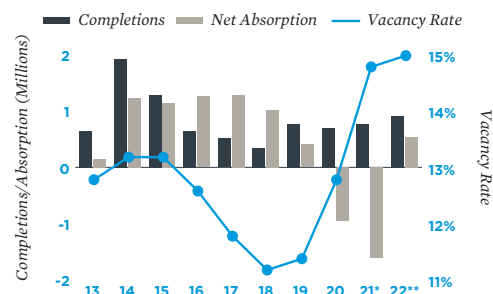
After maintaining marginal year-over-year growth in the face of spiking pandemic vacancy, asking rents are projected to end this year at a new market high of \$21.70 per square foot.
- Investment**

Demand for smaller medical offices under \$10 million remains steady. Buyers in this segment tend to be local investors targeting properties within Allegheny County.

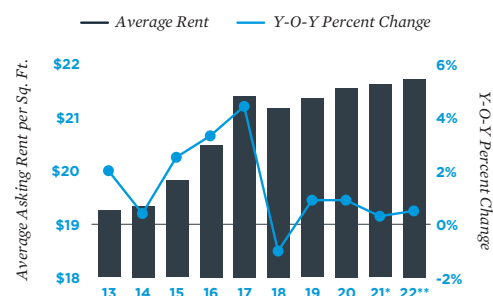
### Employment Trends



### Supply and Demand



### Rent Trends



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

**Al Pontius**  
Senior Vice President  
Director IPA Office  
Tel: (415) 963-3000 | [apontius@ipausa.com](mailto:apontius@ipausa.com)

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.