INVESTMENT FORECAST

IPA INSTITUTIONAL PROPERTY ADVISORS

Retail

Pittsburgh

2022

Retail Sector Reaches Recovery Inflection Point; Out-Of-State Buyers Supporting Subdued Trading

First signs of positive absorption emerge. The second half of 2021 provided the first significant glimpse of recovery for the Steel City's retail sector, as businesses began filling vacant stock. This leasing activity pushed quarterly net absorption above 100,000 square feet for the first time since 2018. While large retailers like JCPenney have reduced their footprints in the metro, others like Dick's Sporting Goods and Dollar Tree have steadily increased their presence. At the same time, local health retailer GNC was able to avoid significant closures, even after filing for bankruptcy last year. Developers sharply cut down on projects in 2021, as a result of these headwinds. Even with an acceleration in 2022, less space will be delivered than the trailing five-year average of 400,000 square feet. Even though the market will remain well below pre-pandemic performance at the end of this year, the growing presence of STEM, especially robotics, employers is an additional positive trend, as they provide a path toward future high-paying job creation for a metro traditionally known for its lower-wage employment sectors.

Westmoreland County leads in trading volume by a large margin. The number of properties changing hands has yet to return to pre-pandemic levels, with 2021 marginally outpacing 2020 in terms of sales volume. Notably, a significant number of multi and single-tenant buildings traded recently, a deviation from national trends. Among submarkets, Westmoreland County is recording the most deal flow, driven by discounted pricing and a diverse mix of retail listings. Single-tenant assets here have been targeted by out-of-state investors, with cap rates recorded near 7 percent on average and mean sales prices usually well below the metro average of $290 per square foot. Regional buyers have also been active elsewhere in the metro, due to entry costs being lower here than in larger coastal cities, and both Philadelphia and Cleveland. A substantial portion of last year's sales volume can be attributed to this kind of buyer.

2022 Market Forecast

Employment up 1.9% — Adding 22,000 roles this year keeps the metro below its prior peak, as leisure and hospitality jobs have yet to fully return.

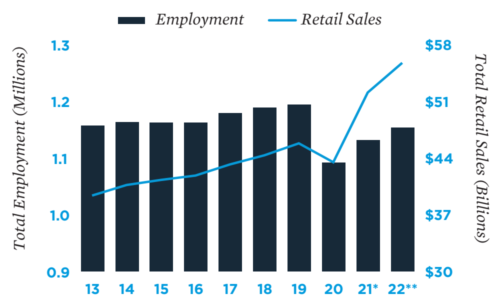
Construction 360,000 sq. ft. — Developers will escalate deliveries in 2022, as more than three times as much space enters the market relative to last year's total. Still, this volume trails pre-pandemic completion levels.

Vacancy down 20 bps — Positive absorption returns to the metro for the first time since 2018 as firms begin to refill vacated space. This activity will induce a small drop in the vacancy rate to 5.1 percent.

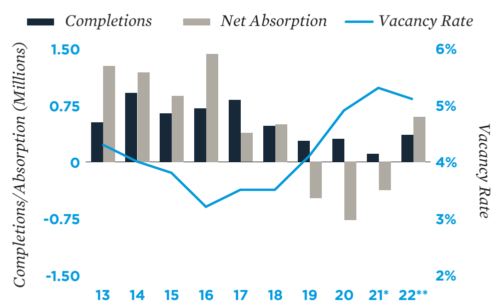
Rent up 3.0% — The average effective rent will climb to $13.80 per square foot, building on a near-12 percent gain last year. This is still roughly 2.2 percent below the recent high established in 2018.

Investment — The eventual full reopening of businesses and colleges in the CBD and Oakland submarkets should boost foot traffic and retail performance, lifting buyer sentiment in these locations.

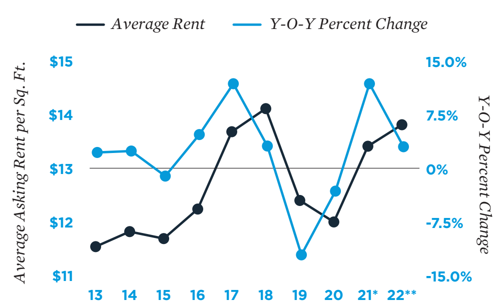
Economic Trends



Supply and Demand



Rent Trends



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

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