MARKET REPORT

Office

Pittsburgh Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

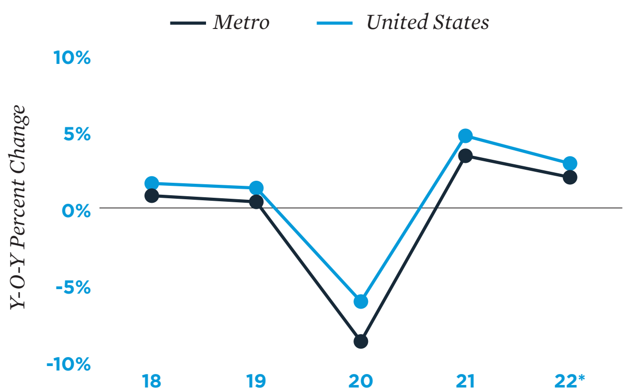
2Q/22

Transition Back to Workplaces Underway; Employers Use Location to Attract Labor

Local firms make decisions on future operations. Pittsburgh's most prominent companies are beginning to reinstate in-person work models, resulting in movements to floor plans that better accommodate their needs. Many firms are reducing their footprints. However, the recent stability of asking rents, especially in the core, has led to smaller, high-end lease signings. GNC recently announced a relocation to a Class A property in the Strip District, exemplifying the flight-to-quality trend that is impacting demand for Class B/C assets downtown. Many operators in this segment are using concessions or improvements to strum demand. These efforts have been successful for some, as Class B/C vacancy in the core contracted since the start of last October. Some investors with older stock, like the owners of the former GNC building, are converting assets into multifamily units, taking vacant office stock off the market.

Trendy suburbs see performance momentum. Employers like Duolingo and BNY Mellon decided to reintroduce in-person operations this spring, prompting a shift in leasing habits to entice prospective employees to physical offices. Firms are expanding into residential areas, as well as locales with a high proportion of younger workers. Duolingo grew its footprint in the metro, after signing a lease for 38,000 square feet in East Liberty. Just south, in Oakland, home of the University of Pittsburgh and Carnegie Mellon University, there was less available space in March than prior to the pandemic, with pre-leasing over 80 percent on upcoming deliveries.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook

23,000 JOBS
will be created

EMPLOYMENT:

Job growth equating to a 2 percent expansion to local payrolls will leave the metro 45,000 jobs short of the year-end 2019 figure. Meanwhile, the gain of 6,500 traditional office-using roles will bring the segment within 1,000 jobs of the pre-pandemic count.

915,000 SQ. FT.
will be completed

CONSTRUCTION:

Developers are expected to expand inventory by 0.8 percent in 2022, signaling the quickest pace of stock growth in the metro since 2016. Builders have additional space in the pipeline, but supply chain issues have pushed back timelines.

40 BASIS POINT
increase in vacancy

VACANCY:

Vacancy will rise year-over-year to 14.0 percent by the end of 2022, largely due to a 60-basis-point surge in the first quarter of this year. While the rate is rising, the pace of attrition has slowed relative to the months immediately following the onset of the pandemic.

0.2% INCREASE
in asking rent

RENT:

Modest growth to the average asking rent this year will bring the rate to $22.12 per square foot by the end of December. The last time the mean marketed rent decreased during a calendar year was during the Financial Crisis.

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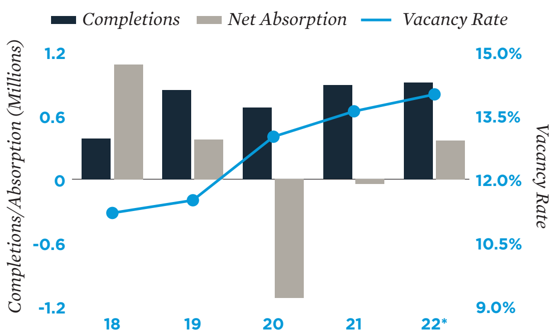
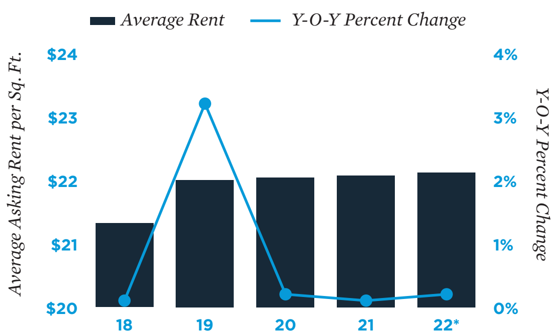
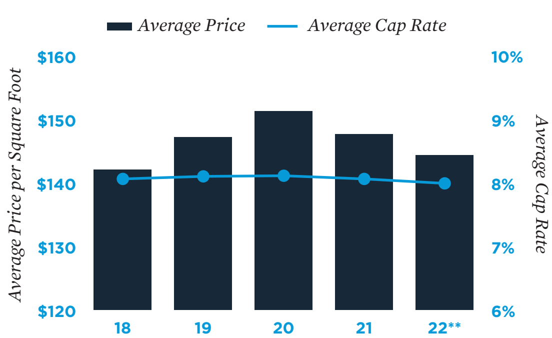
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

356,000 sq. ft. completed

- Construction during the 12-month period ended in March expanded the metro's office stock by 0.3 percent, the lowest recording since 2018.
- The Greater Downtown submarket, which includes the CBD, the Strip District, North Shore and South Side Flats, added more than two-thirds of the new space. The bulk of the active pipeline is also located here.

VACANCY

40 basis point increase in vacancy Y-O-Y

- Vacancy climbed to 14.2 percent in March, largely due to a 60-basis-point rise in the first quarter of 2022, after tightening at the end of last year.
- The Far East-Southeast, Oakland and South Pittsburgh submarkets are the only locales with at least 2 million square feet of inventory recording sub-10 percent vacancy entering April.

RENT

1.1% decrease in the average asking rent Y-O-Y

- Negative net absorption in the first quarter of 2022 diminished the mild gains made last year, dropping the mean asking rent to $21.88 per square foot in the opening frame of this year.
- Since the onset of COVID-19, Class A rents in the core have risen more than 4 percent, while the mean Class B/C rent fell 4 percent here.

Investment Highlights

- Transaction velocity has yet to recover to pre-pandemic levels on an annual basis, but the final three months of last year saw more office trades than in any quarter since the final period of 2018. The mean sale price has been contracting since the end of 2020, lowering from a high of $151 per square foot to $144 per square foot in the most recent yearlong interval.
- While private investors account for the majority of activity, cap rates above the national average have kept some institutions active here throughout the health crisis. Pittsburgh's average cap rate during the annual period preceding April was 8.0 percent, 140 basis points above the national mean. Institutions are most active in Oakland and Greater Downtown locales like the Strip District and North Shore. Entry costs are slightly above the metro average here, while cap rates have risen to the mid-7 percent area.
- Local investors increased activity in Westmoreland and Washington counties since the end of 2019, with transactions often involving sub-50,000-square-foot assets in the Class B/C segment. Average entry costs are well below the metro average in these locales, with several properties changing hands for less than $100 per square foot. Washington County does report some activity involving larger Class A complexes as well.