

MARKET REPORT

Retail
Pittsburgh Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

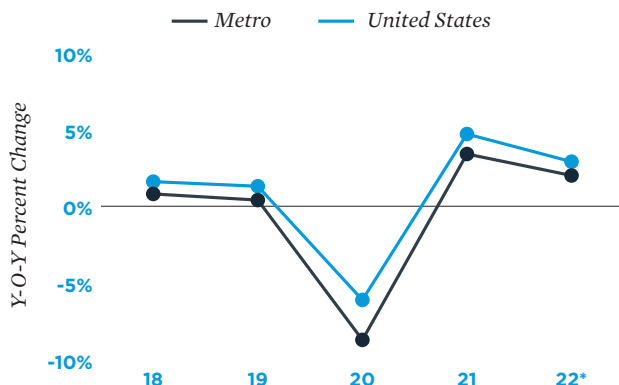
2Q/22

Robotics/Tech Sector Growth Boosts Retail Spending Amid Less Development

Downtown leasing ticks up as tech employment grows. The influx of young professionals and skilled laborers stemming from the city's expanding robotics and technology sectors have resulted in increased retail spending, especially in central neighborhoods. The types of vendors moving into the CBD and closer-in locales are largely experiential retailers looking to cater to the leisure demands of the younger and higher-income cohort. Two indoor golfing facilities moved in, one in the Strip District and one in the CBD, in addition to new gyms, a boxing facility and high-end eateries. South Side Flats is another central locale reporting strong leasing, with at least 10 deals inked on East Carson Street in the past 12 months. While interior areas are still home to elevated vacancy, recently strong leasing suggests movement toward 2019 levels is emerging.

Post-pandemic outlook strengthens in high-income suburbs. Vendors continue targeting consumers closer to their residences, with affluent suburbs near Bradford Woods and Gibsonia recording heightened retail performance. Northeast Pittsburgh reported annual net absorption over 310,000 square feet in the year ended in March, bringing the area's vacancy rate 110 basis points below the year-end 2019 level. Nearby submarkets like North Pittsburgh and Butler County also reported vacancy below pre-pandemic norms in March of this year. Additionally, South Pittsburgh and the Eastern suburbs between Squirrel Hill and Turtle Creek have recorded sizable first quarter absorption swells.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**23,000
JOBS**
will be created

EMPLOYMENT:

The addition of nearly 8,000 jobs in the first quarter of this year aids the metro in expanding local employment by 2 percent in 2022. A heightened number of the roles are opening in the higher-income, office-using segment of the workforce.



**140,000
SQ. FT.**
will be completed

CONSTRUCTION:

Supply additions fall below the 200,000-square-foot threshold this year, marking the only time since 2007 that annual deliveries fail to reach this level. Furthermore, this total lags the trailing five-year average by more than 400,000 square feet.



**10
BASIS POINT**
decrease in vacancy

VACANCY:

After rising in each of the previous three years, vacancy tightens to 4.9 percent in 2022 as positive absorption returns to the metro. By year-end, Pittsburgh's availability rate will sit 40 basis points below that of Philadelphia.

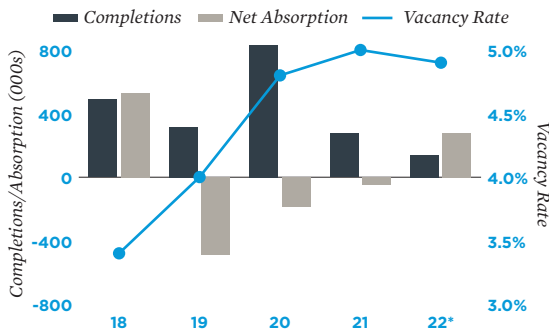


**5.8%
INCREASE**
in asking rent

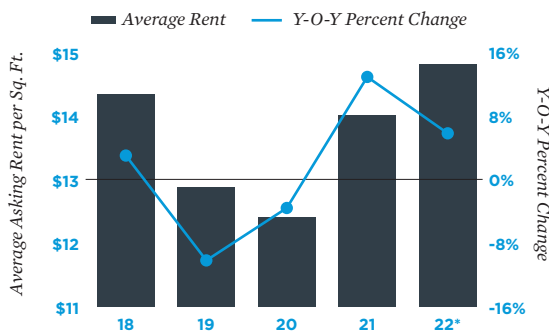
RENT:

Following a nearly 13 percent gain in 2021, the average asking rent will reach \$14.82 per square foot by year-end. This puts the two-year rate of marketed rent growth just below 20 percent in Pittsburgh, the second-fastest pace of major U.S. metros.

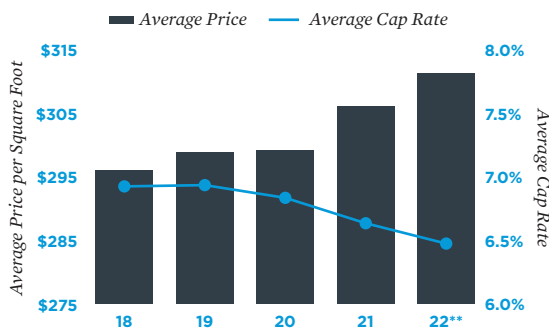
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

218,000 sq. ft. completed

- Builders completed fewer than 250,000 square feet in the 12 months preceding April, the lowest annual total since at least 2007. South Pittsburgh added more than 110,000 square feet in the last year.
- Developers were underway on less than 140,000 square feet entering April, suggesting annual totals will remain subdued in the near term.



VACANCY

10 basis point increase in vacancy Y-O-Y

- Metrowide vacancy rose to 5.0 percent during the last year; however, positive absorption was recorded in each of the past three quarters.
- Multi-tenant vacancy compressed 40 basis points year-over-year in March, yet still remains 160 basis points above the single-tenant rate, which rose 10 basis points to 4.7 percent.



RENT

11.7% increase in the average asking rent Y-O-Y

- Following consistent dips to the average asking rent in 2019 and 2020, the average marketed rent swelled during 2021, reaching \$14.26 per square foot in the first quarter of this year.
- Rent growth was most pronounced in the multi-tenant segment, rising 23 percent, while the single-tenant sector noted a roughly 10 percent gain.

Investment Highlights

- Sales velocity in the 12 months preceding April exceeded 2019 levels, but fell short of the recent high established in 2018. Transaction activity has risen sharply year-over-year in the CBD, East End and Greater Downtown submarkets following a steep drop in 2020. Heightened liquidity in higher-cost areas resulted in yield compression, with assets changing hands at a 6.5 percent average cap rate during the year ended in March. Single-tenant yields have retreated more quickly, dropping 50 basis points to 5.9 percent over the same time span.
- Yield-motivated investors seeking below-average entry costs have been active in South Pittsburgh and Fayette County. Both single- and multi-tenant assets change hands regularly here, with fully-leased strip centers, discount stores and chain restaurants trading often, especially along Saw Mill Run and Clairton Boulevards.
- Investors have also been active in affluent northern suburbs and outlying counties, like Beaver, Butler and Armstrong. Average pricing is above the metro average of \$311 per square foot in these locales, but can vary based on the income level and desirability of certain neighborhoods. Single-tenant trades are most common in more distant areas.

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. 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: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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