

MARKET REPORT

Retail
Pittsburgh Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

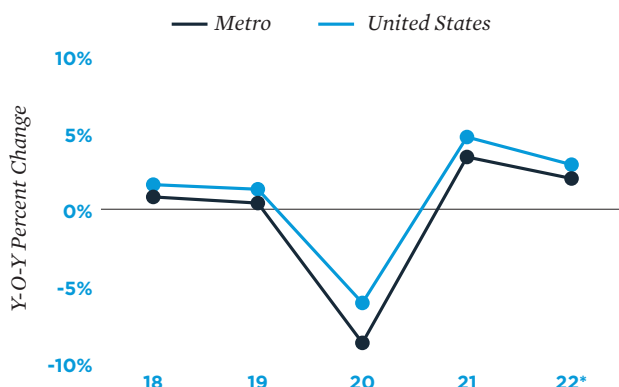
3Q/22

Tightening Vacancy a Cause for Optimism; Big-Name Brands Take on Space in the Steel City

New retailers enter the market as metro recuperates. Pittsburgh's retail market is moving in a positive direction, after a challenging period that began prior to the pandemic. From early 2019 to mid-2021, more than 1.5 million square feet of space returned to the market on a net basis. This appears to have reversed, as a net of more than 800,000 square feet was absorbed during the trailing 12 months ended this June, the best performance in this metric in five years. Still, vacancy is elevated over the pre-2019 norm, with Greater Downtown and the CBD among the locales reporting the highest availability. On a brighter note, a rise in pandemic-driven concessions has allowed a number of larger franchises to expand into the metro. Joining a UFC-branded training center and Crunch Fitness, Target opened the Golden Triangle's lone supermarket in July.

Tempered development supports contracting vacancy. Construction starts have decreased dramatically since the onset of the health crisis, translating to a languorous pace of deliveries this year. As of September, the market's long-term pipeline, including deliveries scheduled for late 2022 into 2023, is also just over 120,000 square feet. Scheduled move-ins during the latter months of 2022 exceed this figure in Pittsburgh County alone. Less than a tenth of the space underway is unaccounted for, indicating supply gains will have a minimal effect on availability. However, some retailers are rethinking space needs as economic uncertainty mounts, which will keep vacancy above pre-2019 lows for the foreseeable future.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**23,000
JOBS**

will be created

EMPLOYMENT:

The employment base will expand by the second fastest rate in a decade this year. Pittsburgh employers must add more than 40,000 jobs to reach the pre-pandemic level, though an unemployment rate equivalent to previous lows presents recruitment headwinds.



**120,000
SQ. FT.**

will be completed

CONSTRUCTION:

Development has tapered since 2020, with a 0.1 percent stock expansion anticipated this year representing the slowest rate of increase since at least 2007. The largest building underway is a 50,000-square-foot project in southern Allegheny County.



**10
BASIS POINT**

decrease in vacancy

VACANCY:

A historically low amount of new construction is restraining vacancy, pushing the rate down to 4.8 percent by the end of 2022. During the half decade preceding 2019, availability averaged in the mid-3 percent zone.



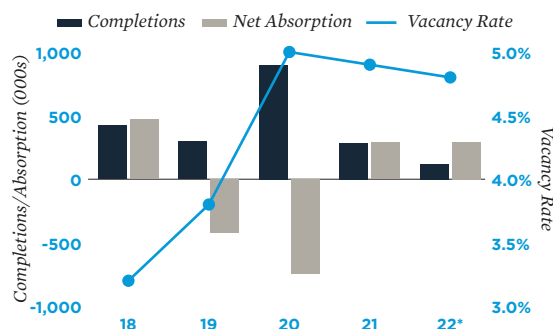
**6.4%
INCREASE**

in asking rent

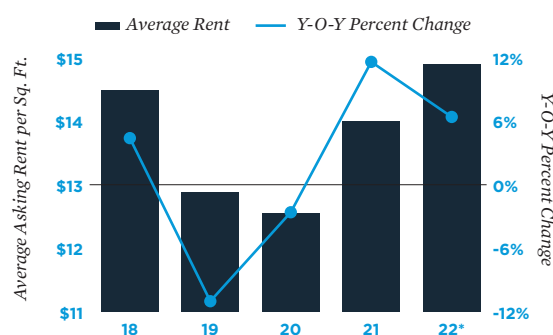
RENT:

The return of positive absorption has supported a full rental cost recovery in 2022. The average marketed rent will close the year at \$14.90 per square foot, exceeding the pre-pandemic high by nearly 3 percent.

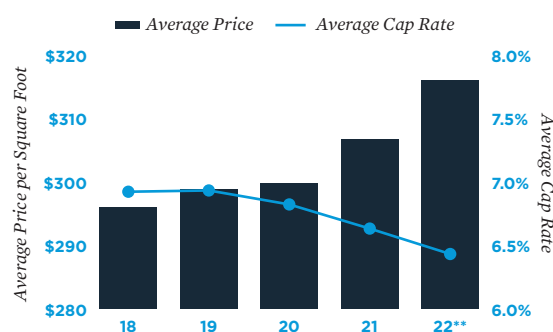
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

184,000 sq. ft. completed

- Development activity hit a record low during the 12-month period ended in June, with deliveries not exceeding 35,000 feet within three of the four quarters comprising this span.
- Multi-tenant deliveries were negligible during this period, as developers focused on single-tenant properties, mostly in southern Allegheny County.



VACANCY

40 basis point decrease in vacancy Y-O-Y

- Net absorption remained positive in four consecutive quarters as of July, the first time this has occurred in the metro since 2017. After peaking in 2021, availability decreased to end the second quarter at 4.9 percent.
- While availability tightened in most of downtown, Oakland and the Golden Triangle saw vacancies increase by 30 and 180 basis points, respectively.



RENT

9.8% increase in the average asking rent Y-O-Y

- The mean marketed rent surpassed its pre-pandemic peak during the second quarter, entering July at a record \$14.61 per square foot.
- Recovery is still ongoing in the multi-tenant sector, but proceeding at a rapid pace. The average asking rent in this segment rose 19.8 percent during the trailing year ended in June, reaching \$13.60 per square foot.

Investment Highlights

- As health restrictions loosened, investors anticipated a rapid recovery in consumer spending, which brought transaction velocity during the 12-month period ended in June to more than 50 percent above the preceding span, roughly equaling pre-pandemic peaks. Deal flow remained steady through midyear despite rising interest rates, but capital headwinds are expected to intensify in the latter months of 2022.
- Resurgent deal flow, combined with an increasing proportion of trades involving high-credit tenants, translated to substantial cap rate compression in the single-tenant segment. The average yield among trades during the trailing year ended in June compressed 50 basis points from the previous period to 5.8 percent, the largest decline seen in Northeastern markets. While the market previously boasted the highest single-tenant yields regionally, it now ranks among the lowest.
- Buyers are most active in the suburbs, with sales in Pittsburgh proper accounting for under 10 percent of deal flow. The outlying suburban areas of Allegheny County are replete with both multi- and single-tenant assets in the sub-\$5 million price tranche.

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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