

# MARKET REPORT

Office  
Pittsburgh Metro Area

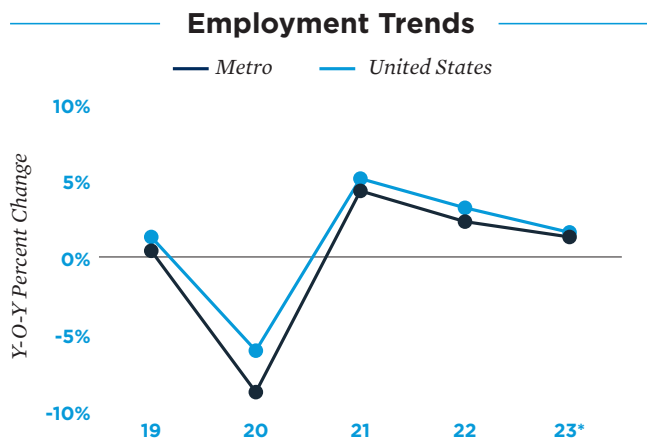
IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

4Q/23

## Low Vacancy Around Academic Centers and Limited Development Offer Positive Notes

**Pockets of stable demand remain amid rising metrowide vacancy.** More than 1.6 million square feet was relinquished to the market on a net basis from April to June, the most dramatic quarterly negative net absorption figure recorded in the metro since at least 2006. The Greater Downtown area represents the bulk of this increase, as the vacancy rate here jumped 290 basis points during the second quarter of 2023 alone. On a positive note, biotech demand facilitated by Pittsburgh's academic research base has kept conditions tight in Oakland. This locale noted a 6.5 percent vacancy rate entering July, 980 basis points below the marketwide average. Highlighting the tech sector's importance here, Apple occupied a 72,000-square-foot lease at The Assembly in April, indicating the company sees long-term expansionary potential in the market.

**Narrow construction pipeline benefits outlying submarkets.** A boon for existing assets, construction activity significantly trails historical norms. As of October, the metro's active pipeline comprised just under 700,000 square feet of traditional Class A office space scheduled for delivery in West Pittsburgh and the Greater Downtown area by mid-2025. Since 2007, metrowide inventory additions have averaged over 830,000 square feet annually. Still, less than 30 percent of space underway was accounted for in early October, which could hamper the ability of existing top-tier facilities in these locales to attract tenants as new assets are added to the market.



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2023 Outlook



**15,000  
JOBS**

*will be created*

### EMPLOYMENT:

Pittsburgh is on track to expand staffing counts by a solid 1.3 percent in 2023. An unemployment rate of 3.5 percent noted in August is the lowest on record, which could hamper recruitment in the following months.



**516,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

This year's development total marks the second-lowest amount of space to be added to the metro on an annual basis in more than a decade. Space additions in 2023 will be divided between a handful of projects.



**260  
BASIS POINT**

*increase in vacancy*

### VACANCY:

Vacancy is on track to rise by the largest margin recorded in an annual span, with the year-end metric of 17.2 percent marking a post-2006 high. The Downtown area is expected to lead in vacancy increases this year.



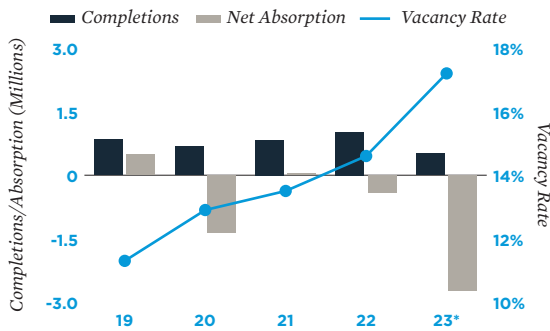
**1.8%  
DECREASE**

*in asking rent*

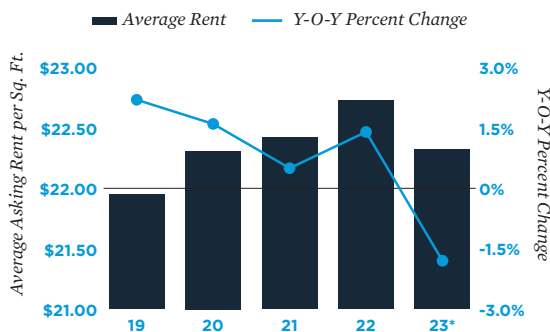
### RENT:

A half-decade of consecutive annual vacancy increases will translate to negative rent momentum this year. The mean marketed rate will close 2023 at \$22.32 per square foot, just above the year-end 2020 level.

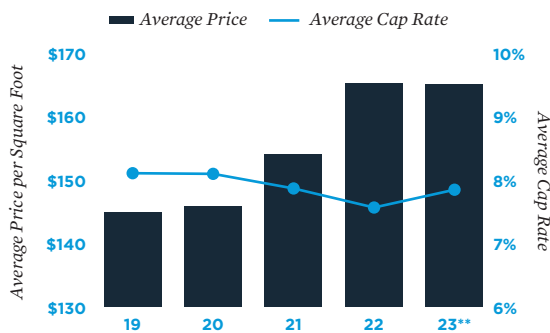
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q 2023 - 12-Month Period



### CONSTRUCTION

**729,000 sq. ft. completed**

- Completions during the trailing year ended in June were concentrated in the last half of 2022, with nominal additions during the first half of 2023.
- All notable space brought online this period was added to Oakland and the Parkway East Corridor. Stable vacancy in the former submarket indicates supply additions are well in line with tenant demand trends.



### VACANCY

**210 basis point increase in vacancy Y-O-Y**

- More than 1.9 million square feet was relinquished on a net basis during the four-quarter period ended in June, driving vacancy to 16.3 percent.
- Top-tier additions drove most of the increase in vacancy, with a 420-basis-point advance lifting this segment's metric to 24.5 percent. The Class B/C measure moved up just 80 basis points to 11.6 percent.



### RENT

**0.9% increase in the average asking rent Y-O-Y**

- While the average asking rent increased on an annual basis, rates fell after peaking at the end of 2022, entering July at \$22.50 per square foot.
- Pittsburgh's CBD noted a 0.7 percent rent advance, with the mean marketed rate here reaching \$26.11 per square foot at the end of June. A 0.9 percent gain in the suburbs placed the average at \$19.82 per square foot.

## Investment Highlights

- Transaction velocity during the first two quarters of 2023 was comparable to more languorous periods noted roughly a decade prior, when the office market was recovering from the effects of the financial crisis. Moving forward, elevated vacancy could make it difficult for investors to gauge long-term tenant demand, particularly in downtown zones where high amounts of space have been released to the market in a short period.
- Deal flow during the first six months of the year predominantly involved trades in the sub-\$10 million price tranche. Buyers seeking such properties are often targeting smaller late-20th century and early 2000s builds in the market's first-ring suburbs. Trades involving larger assets may pick up when the long-term structure of hybrid schedules becomes more clear.
- Apple's recent move to the Oakland submarket highlights this area's continued draw for major technology and life science firms. This is supported by the area's proximity to Carnegie Mellon University and the University of Pittsburgh. Additionally, low vacancy compared to nearby downtown zones should prove attractive to investors moving forward, particularly those specializing in life science laboratory properties.

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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