INVESTMENT FORECAST

RETAIL

Pittsburgh Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2019

Ultra-Low Vacancy Attracts Investors; Buyers Expand Search Parameters to Obtain Greater Yields

Moderated development helps normalize rent gains. Pittsburgh's household income growth should remain above the national rate in 2019, improving spending power and enticing more retailers to western Pennsylvania. Because of this, market vacancy is expected to drop, keeping the rate one of the lowest in the nation. Contributing to the tightening conditions is sparse construction as roughly 230,000 square feet will come to market, the lowest volume in more than a decade. Approximately two-thirds of this year's completion total are single-tenant structures including numerous convenience stores and quick-service and fast-casual dining options. However, there are several small strip centers to be finalized across the metro in 2019; most of them are located in outer-lying submarkets like Fayette County and Westmoreland County. Limited supply growth should give rents a chance to stabilize after several consecutive years without an identifiable trend. Areas near downtown Pittsburgh headline the market's solid rental gains this year, particularly the Carson Street corridor and the Strip District, where revitalization efforts have boosted consumer interest.

Pittsburgh supportive of high-yield strategies for many investors. Improving fundamentals continue to drive retail investment in the Steel City. Though local buyers are involved in the majority of deals, regional investors are making their presence known, specifically those coming from large coastal markets like New York City and Philadelphia. These investors often come for more favorable yields as some suburban shopping centers can be acquired with cap rates reaching the mid-9 percent band. Small strip centers closer to the core produce yields in the mid-7 percent realm, still considerably higher than the primary metros where a number a regional buyers originate. Meanwhile, local investors will stay focused on assets in far outer-ring submarkets where returns can exceed 10 percent, contingent upon location, tenant mix and a variety of other factors.

2019 Market Forecast

Employment up 1.2% — Employers will accelerate their pace of hiring in 2019 as 14,000 workers are staffed. New jobs in tech-related fields will remain abundant this year.

Construction 230,000 sq. ft. — Construction is nearly cut in half this year with single-tenant completions accounting for the majority of deliveries.

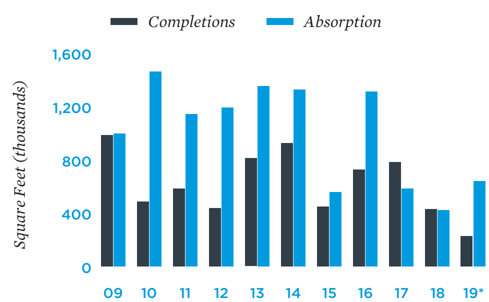
Vacancy down 30 bps — With limited supply growth, vacancy squeezes tighter, contracting to 3.4 percent. In 2018, the rate remained stagnant.

Rent up 5.2% — Rents rise to $15.01 per square foot in 2019 after a substantial decrease last year. Rental changes have been rather sporadic, including a 19.5 percent increase two years ago and an 11.2 percent reduction in 2018.

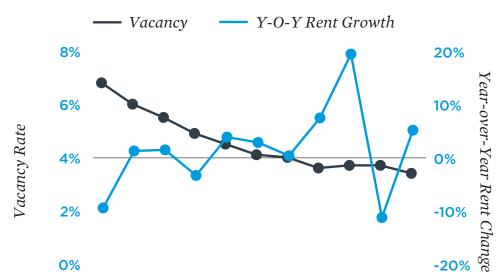
Investment — Significantly tight vacancy should lure more developers to Pittsburgh moving forward as they look to alleviate pressure and provide space to retailers struggling to find locations.

Employment vs. Retail Sales Trends

Retail Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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