

INVESTMENT FORECAST

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2020

Industry Advancements in Innovation Engineer A Gateway for Value-Add Opportunities Downtown

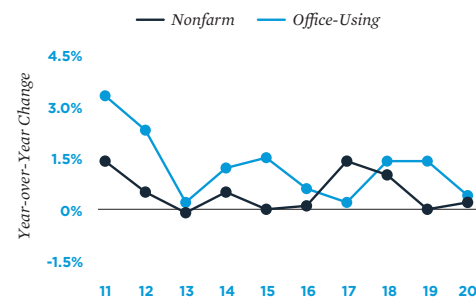
Research and development firms drive expansion throughout core. The professional and business services field continues to support hiring in Pittsburgh. Recently, medical equipment research and manufacturing company Philips announced it is relocating from northwest of the city center to Pittsburgh's downtown Strip District. The firm will be moving into one of the metro's newest office developments, the Bakery Office Three building. Philips chose this area for expansion to be near thriving tech innovators and research firms. Collectively, the company will relocate 1,700 workers to the new property. South of the Strip District, the Oakland area is also making room for medical and technology firms with the completion of the 160,000-square-foot Riviera in the Pittsburgh Technology Center. The area draws leading engineering and tech companies seeking to be near major employers that serve as their clients. Cost-conscious firms are also drawn to the area to avoid higher rents than those in the greater downtown area.

Value-add opportunities spanning downtown to South Pittsburgh. Class B/C transaction velocity continues to comprise a bulk of deals in the metro, with nearly 90 percent of last year's deals being finalized within this category and a majority of the sales occurring in the urban core. Downtown, the aged building stock trades in the \$100 to \$130 per square foot range, with returns from the mid-7 percent to mid-9 percent area. Healthcare sales comprise nearly 30 percent of overall Class B/C sales, with a majority of these deals occurring southwest of the central business district toward Canonsburg/Hendersonville, and southeast of downtown near Greensburg. These buildings are selling for around \$200 per square foot, approximately 40 percent above the metro average medical office rent rate of \$114. Returns here range slightly above the metro medical-office average yield in the mid-7 to low-9 percent band.

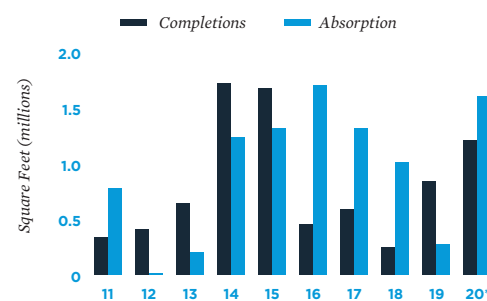
2020 Market Forecast

<p>Employment up 0.2%</p>		<p>Hiring will increase from last year as 2,000 workers are added to the metro this year. Last year employment did not change.</p>
<p>Construction 1.2 million sq. ft.</p>		<p>Completions will increase significantly from last year's 842,000 square feet of deliveries, rising to over 1 million square feet.</p>
<p>Vacancy down 40 bps</p>		<p>The average vacancy rate will decline to 11.2 percent. In 2019, a 40-basis-point increase in the rate was noted.</p>
<p>Rent up 1.5%</p>		<p>Following a modest rental increase in 2019, rising occupancy will lift the average asking rent to \$22.38 per square foot.</p>
<p>Investment</p>		<p>Office listings near the urban core draw value-add buyers pursuing assets for sales prices nearly 20 percent below the metro average transaction value.</p>

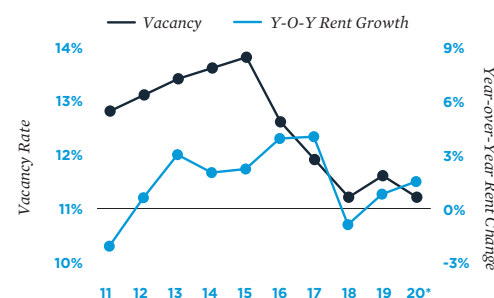
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.