

# PITTSBURGH INDUSTRIAL MARKET

## POST PANDEMIC TREPIDATION

After taking a multi-month timeout in the second quarter of 2020, the Pittsburgh industrial market experienced both positive signs of activity and negative signals of disrupted businesses in third-quarter 2020. It is still too early to tell if the economic recovery will be V-shaped, K-shaped or a Nike swoosh, but one thing is for certain: the expansion of Amazon.com and ecommerce is taking shape in Pittsburgh, and institutional investor appetite remains strong.

Historically, the third quarter experiences a seasonal slowdown due to summer vacations, but the disruption of COVID-19 on travel and vacations allowed the third quarter to act as an extension of the previous quarter, as occupiers, developers and investors remained active throughout the summer. As a result, there is optimism that current activity will lead to completed transactions in the last quarter of the year or a strong start to 2021.

The overall market occupancy remained at 94.0% with Class A vacancy still at extremely low levels of less than 4%. Net absorption for the quarter was a positive 1.1 million square feet, although a bit misleading as almost 1.4 million square feet was attributed to two new Amazon.com facilities that came online during the quarter. Year-to-date absorption is a positive 1.37 million square feet with Class A absorption of 1,900,000 square feet, indicating a weakness in Class B and Class C inventory with a year-to-date net loss of 530,000 square feet. Given the Pittsburgh industrial market's historical range of 1 to 2 million square feet of annual absorption, this quarter is clearly an outlier.

## SIGNIFICANT TRANSACTIONS

The West submarket continues to be the center of activity, especially in the I-376 and Route 576 Corridors. The long-awaited 1.3-million-square-foot-plus Amazon.com distribution center opened in Chapman Westport; employment is expected to exceed 1,000. A few miles east at the McClaren Distribution Park, Amazon.com opened a 115,000-square-foot delivery station with parking for over 900 trucks/vans.

In the Clinton Commerce Park, Al. Neyer Inc secured an undisclosed tenant for 400,000 square feet, leaving only one pad of approximately 70,000 square feet available in the highly successful Allegheny County Airport Authority project. The Clinton Commerce Park is now home to 11 companies with a combined 2,178,000 square feet under roof. Two other Airport Authority projects are moving forward. Al. Neyer Inc is nearing completion of a 100,000-square-foot build-to-suit for Pittsburgh based startup Krystal Biotech on the Northfield site adjacent to the International Drive/Cargo area on Business I-376.

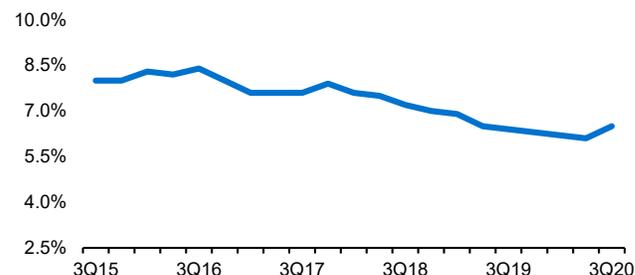
## CURRENT CONDITIONS

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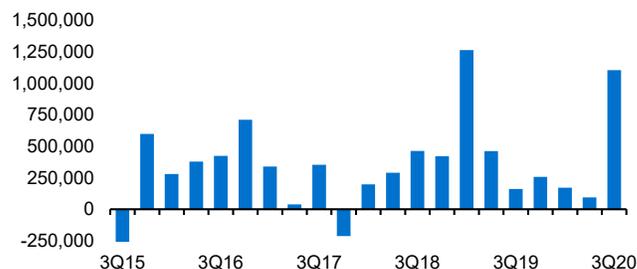
Based on low interest rates, aggressive investors and lenders looking to meet 2020 investment allocation targets, numerous closings are expected to occur during fourth-quarter 2020.

## MARKET ANALYSIS

### Vacancy



### Net Absorption (SF, Millions)



## MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	143 MSF	142 MSF	137 MSF	↔
Availability Rate	6.5%	6.1%	6.4%	↓
Quarterly Net Absorption	1,104,911	94,275	162,166	↑
Under Construction	614,200	1,694,200	751,700	↔
Deliveries	1,645,000	0	66,387	↔

At the McClaren Road exit, site work is underway for a planned industrial development with two buildings planned, totaling 420,000 square feet.

GE announced the closure of its 125,000-square-foot Innovation Center for 3D Printing in Chapman Westport, and the property is available for sublease. It is too early to tell if this closure will have a negative impact on the Neighborhood 91 project adjacent to the Pittsburgh International Airport and the attempt to create an industry cluster around 3D printing.

In Northwest Allegheny County, The Buncher Company secured Hemp Synergistics for 51,000 square feet in the Leetsdale Commerce Park. At the same time, GNC announced the closing of its distribution center located in the Leetsdale Industrial Park. GNC was a tenant at the park for over 20 years. The closure is a result of the company filing for bankruptcy.

In Westmoreland County, Weaver Investments held a groundbreaking for a 100,000-square-foot building in the Bushy Run Park for MedCare Equipment. Bushy Run is continuing a successful run with over 300,000 square feet completed in the past few years. The Westmoreland County Industrial Development Corporation announced that site work at Commerce Crossings on I-70 at Waltz Mill is nearing completion and announced two new projects at the Westmoreland Tech Park II in New Stanton/Mt Pleasant. Al Neyer Inc will begin construction on a 150,000-square-foot speculative building with delivery planned for second-quarter 2021. Fossil Industries announced plans to construct a 40,000-square-foot facility for its expansion.

In the South submarket in Munhall, Sampson Morris announced the acquisition of excess property from Marcegaglia Steel and will renovate an existing 100,000-square-foot steel building and construct a 60,000-square-foot building, with a focus on attracting tech/flex users. This site is adjacent to the Industrial District at The Waterfront.

## CAPITAL MARKETS UPDATE

While industrial capital markets activity took a breather in the second quarter, new deals came to market in the third quarter, with the hope of closings by year-end. Several high-profile assets are being marketed for sale, including the 410,000-square-foot Thorn Hill Distribution Center, the 115,000-square-foot Amazon.com delivery station and several single-tenant net lease properties in the 30,000-square-foot to 150,000-square-foot range. Based on low interest rates, aggressive investors and lenders looking to meet 2020 investment allocation targets, numerous closings are expected to occur during fourth-quarter 2020.

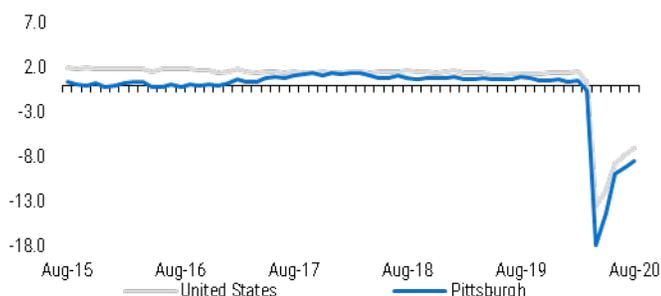
## OUTLOOK

The industrial property class appears to be holding up better than other property types, but clearly there is uncertainty in the markets, including the upcoming election cycle in November. With concerns about a contested election, the positive COVID-19 diagnosis for President Trump, indecision regarding a stimulus package from Congress, and growing evidence that there are now two separate economies with large publicly-held companies performing well and small- to medium-size privately-held businesses being impacted the hardest, expect business to delay capital investment decisions until after the election or early January.

There is reason for cautious optimism as the fundamentals of the Pittsburgh industrial market remain strong with limited speculation and limited available supply in case demand softens in 2021. Class A inventory continues to outperform the overall market; expect the submarkets experiencing growth to continue going forward.

## Payroll Employment

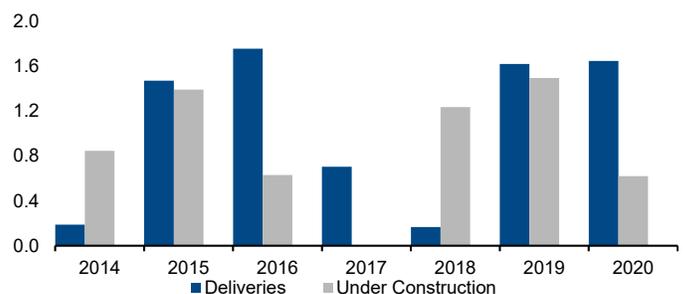
Total Nonfarm, Not Seasonally Adjusted, - 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## Construction and Deliveries

Square Feet, Millions



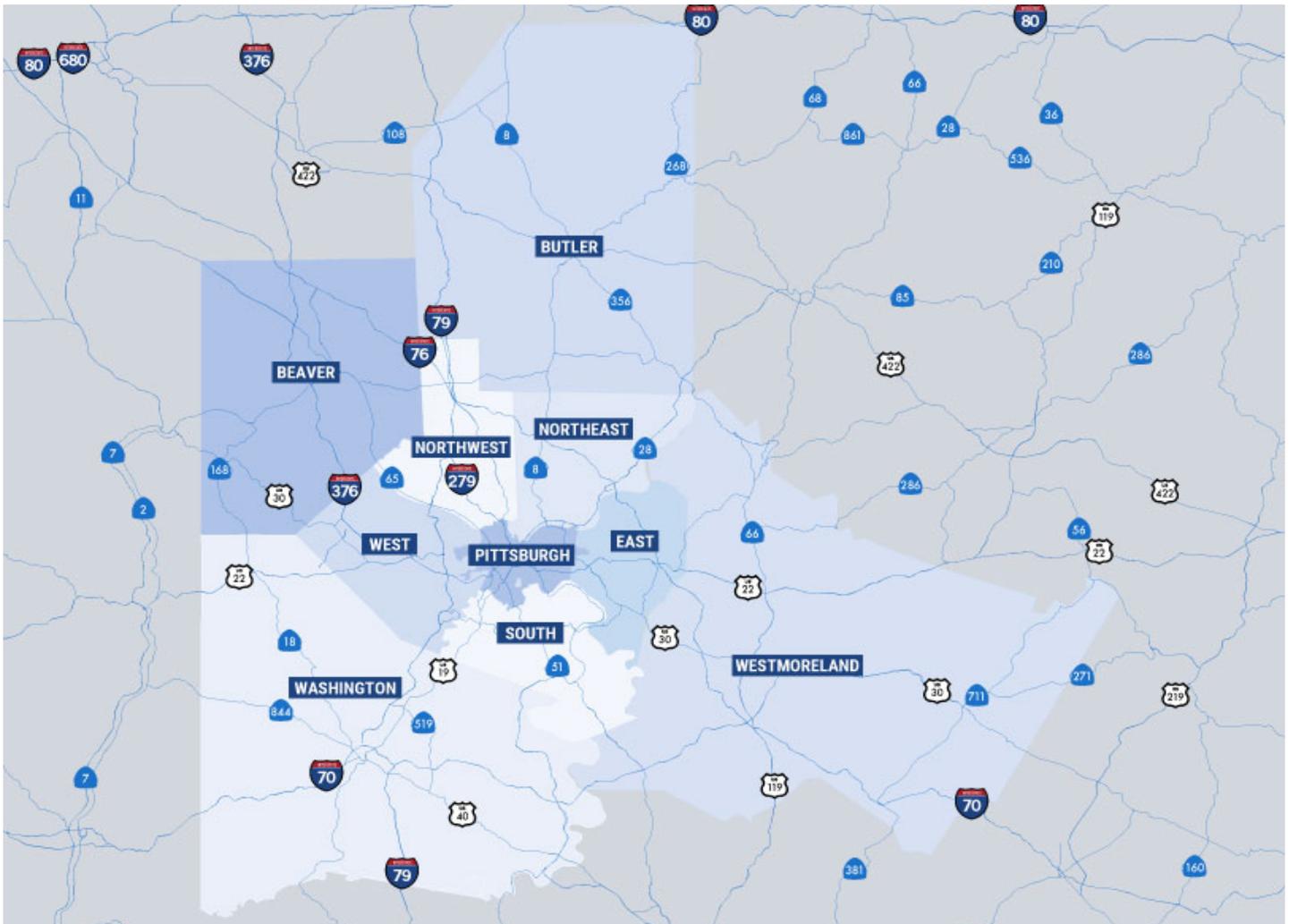
## SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Total Vacancy Rate	QTR Absorption (SF)	YTD Absorption (SF)	CLASS A Vacant (SF)	CLASS A Vacant Rate
Beaver	11,977,689	0	1,340,615	11.2%	-423,356	-446,236	105,000	4.3%
Butler	8,424,861	0	469,947	5.6%	0	0	221,897	9.1%
East	7,731,827	0	525,086	6.8%	-8,922	-193,966	0	0.0%
Northeast	14,198,307	0	483,398	3.4%	0	-51,357	0	0.0%
Northwest	12,802,231	0	345,998	2.7%	129,270	84,456	43,328	0.7%
Pittsburgh	13,524,897	70,000	625,826	4.6%	28,423	59,849	45,918	2.1%
South	7,044,988	0	486,715	6.9%	0	95,400	0	0.0%
Washington	14,999,291	415,000	1,425,125	9.5%	-41,250	47,832	129,088	4.1%
West	20,182,274	29,200	1,185,163	5.9%	1,537,731	1,842,482	455,884	5.1%
Westmoreland	32,340,971	100,000	2,372,659	7.3%	-116,985	-67,785	265,000	3.4%
<b>Pittsburgh</b>	<b>143,227,336</b>	<b>614,200</b>	<b>9,260,532</b>	<b>6.5%</b>	<b>1,104,911</b>	<b>1,370,675</b>	<b>1,266,115</b>	<b>3.3%</b>

## CLASS A STATISTICS BY SUBTYPE

	Class A Inventory (SF)	Under Construction (SF)	Class A Vacancy (SF)	Class A Vacancy Rate	QTR Absorption (SF)	YTD Absorption (SF)
General Industrial	13,321,430	415,000	473,469	3.6%	125,000	155,000
R&D Flex	3,790,075	70,000	420,620	11.1%	-8,283	44,036
Warehouse/Distribution	21,651,563	129,200	372,026	1.7%	1,415,000	1,709,309
<b>Pittsburgh</b>	<b>38,763,068</b>	<b>614,200</b>	<b>1,266,115</b>	<b>3.3%</b>	<b>1,531,717</b>	<b>1,908,345</b>

## NEWMARK KNIGHT FRANK PITTSBURGH INDUSTRIAL SUBMARKETS



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