

PITTSBURGH OFFICE MARKET

KEEPING CALM AND CARRYING ON

During the third quarter of 2020, vacancy in the Pittsburgh office market rested at 18.5%, a 60-basis-point increase over the second quarter, while net absorption ended the third quarter with negative 268,000 square feet. Overall weighted asking rents essentially remained unchanged quarter-over-quarter, posting at \$24.10/SF. Despite the challenges caused by the pandemic, the construction pipeline ended September with 1.4 million square feet expected to deliver between the end of this year and 2022, almost all of which can be attributed to the urban Fringe (377,300 square feet) and Oakland/East End (854,600 square feet), where asking rents in certain pockets are well north of \$35.00/SF.

CENTRAL BUSINESS DISTRICT (CBD)

While Class A vacancy hovers at 17.0% in the Central Business District, DiCicco Development Inc. has remained optimistic. The owner of the Post-Gazette Building, located along the Boulevard of the Allies and Commonwealth Place, is pitching a redevelopment of the former home of the newspaper into over 500,000 square feet spread across two buildings that would include dedicated parking. The CBD began experiencing a slowdown in transaction activity prior to the recent pandemic as many technology companies driving growth have opted for less traditional high-rise space in other urban areas.

Another redevelopment project on the horizon is that of the Allegheny Building. Adding to its portfolio, PMC Property Group purchased the 150,000-square-foot, 19-story Allegheny building located at 429 Forbes Avenue from King Penguin Properties for \$10.075 million, or \$67/SF, during the third quarter. However, PMC plans to convert the office building into residential use, removing yet another property from CBD inventory. Over 3.5 million square feet has been converted to residential or hospitality use since 2001 in Pittsburgh's Downtown.

In tenant news, after much speculation, an official announcement came during third-quarter 2020 in the CBD, marking what will likely be the largest lease signed in the CBD during 2020. Longtime tenant Dollar Bank disclosed that it will relocate from 444 Liberty Avenue (Four Gateway Center) to 20 Stanwix Street. The financial institution will be vacating 100,000 square feet at its soon-to-be former home and has agreed to a 16-year, 76,000-square-foot lease in the top floors of the recently-refurbished building. Other tenants shuffling between buildings within the CBD include Perkins Eastman, an architectural firm, relocating into 22,000 square feet at 525 William Penn Place from the Pennsylvanian located at 1100 Liberty Avenue.

SUBURBAN MARKETS OUTSIDE THE CBD

The highly-sought-after Strip District remained a hot topic during the third quarter. In addition to Dollar Bank's CBD announcement, the

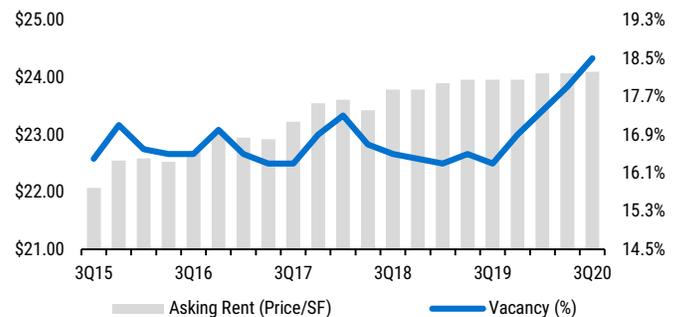
CURRENT CONDITIONS

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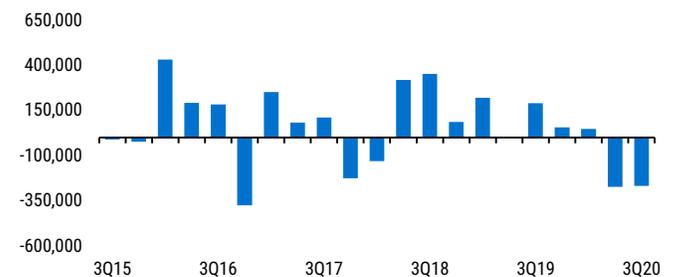
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MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	56 MSF	56 MSF	55 MSF	↑
Vacancy Rate	18.5%	17.9%	16.3%	↑
Quarterly Net Absorption	-268,003	-274,115	190,435	↓
Average Asking Rent	\$24.10	\$24.07	\$23.96	↔
Under Construction	1,401,853	1,079,661	1,059,200	↓
Deliveries	95,100	0	24,000	↑

depository will be expanding by 35,000 square feet at its Strip District location at 2700 Liberty Commons.

In an unusual twist in the Pittsburgh marketplace, Oxford Development, owner and developer of the very successful mixed-use 3 Crossings complex in the Strip District, sold the land under Phase One of 3 Crossings for \$82.0 million to Woodbranch Investment Corp, while retaining a ground lease on the property for 90 years. Such a sale is atypical and a testament to the strength of this locale.

At the same time, Rugby Realty decided to relinquish the company's holdings in the Strip District. The real estate company sold an approximately 4-acre site to McCaffery Inc. for \$19.5 million. McCaffery has not announced plans for the acquisition. The firm is in the process of redeveloping the neighboring Terminal Building and 1600 Smallman Street. The former will primarily house retail, while the latter will be the new home for Aurora, an autonomous vehicle company leasing over 100,000 square feet in the redeveloped former warehouse. The technology company will vacate its current, much smaller space, at Tech Forge in the Lawrenceville neighborhood of the Oakland/East End submarket, which it leased only two years ago. Spring 2021 is the anticipated move-in date.

In other development news, JMC Holdings, owner of the former Federal Cold Storage building, received an unwelcomed ruling when the planning commission denied plans for the New-York-based company to demolish the massive 336,000-square-foot structure located between 15th and 16th Street along Penn Avenue and Smallman Street. JMC's proposed plan included a glass tower providing 520,000 square feet of office space with 40,000-square-foot floor plates, parking for over 800 cars and first floor retail space.

Cranes and hard hats continued to dot the landscape in the Oakland/East End submarket, where 854,600 square feet, the largest amount of square footage in the Pittsburgh office marketplace, is under construction. The East Liberty neighborhood accounts for 574,600 square feet in the pipeline, including the construction of Liberty East and Bakery Square Three, while the Innovation Research Tower in Oakland proper will add 280,000 square feet to inventory upon completion in 2022.

Meanwhile, The University of Pittsburgh is redeveloping a former car assembly plant along the Baum Boulevard corridor that is expected to include 108,000 square feet of office and/or lab space. The project is scheduled to complete late next year.

SUBURBAN SUBMARKETS

The suburban submarkets experienced an 80-basis-point increase to vacancy over last quarter, ending third-quarter 2020 with a vacancy rate of 18.8%, yet asking rents essentially remained unchanged, posting at \$21.77/SF.

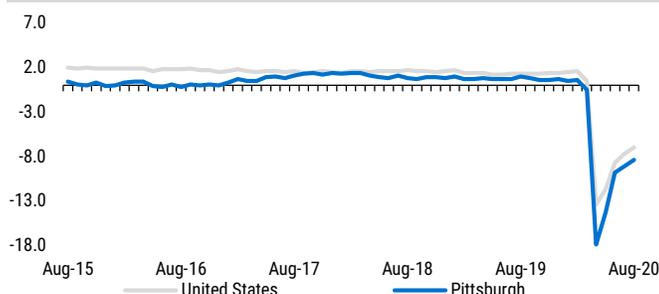
As has been the case for the past several quarters, the Parkway West submarket continued to make headlines. DiCicco Development made plans to gobble up buildings currently owned by Bayer in a twofold transaction expected to occur at the end of this year. The healthcare giant will sell its headquarters campus to spin-off Covestro. Shortly thereafter, DiCicco will purchase Buildings 7, 8, 10, 12, 14 and 16, totaling over 340,000 square feet, and will lease back the 150,000-square-foot Building 8 to Covestro.

In the northwest quadrant of the North submarket, the 300,000-square-foot block of sublease space at the Westinghouse headquarters in Cranberry continued to dwindle. Seneca Resources inked a deal for 33,200 square feet. The exploration and production segment of the National Fuel Gas Company is relocating from McCandless Corporate Center, also in the northwest quadrant of the North submarket. Further, 2605 Nicolson Building IV completed this quarter. The 35,000-square-foot building will be fully occupied by PA Distance Learning Charter School.

Some welcomed news arrived for the Southpointe office market in the South submarket. The former Ansys headquarters, now referred to as 275 Technology Drive, completed a 40,000-square-foot lease transaction with Inovalon. The technology company, which provides cloud-based tools to support the healthcare industry, will occupy the second floor of the building. Further, 701 Technology drive greeted two new tenants totaling 41,000 square feet, and 121 Champion Way signed a deal with Hefren-Tillotson for 13,600 square feet.

PAYROLL EMPLOYMENT

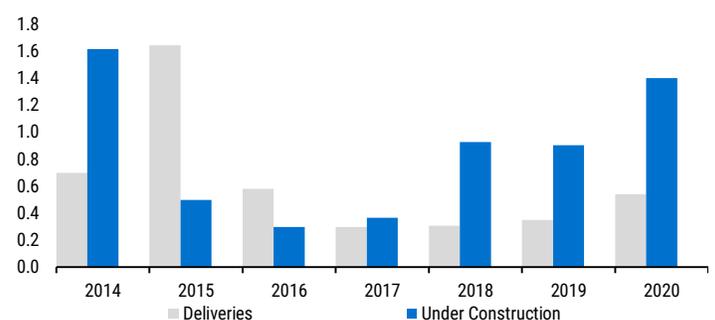
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSTRUCTION AND DELIVERIES

Square Feet, Millions



The struggling East submarket suffered another blow during the third quarter when Honeywell vacated its former home at 703 Rodi Road for a new location in the Strip District, leaving an 80,000 square foot vacancy in its wake.

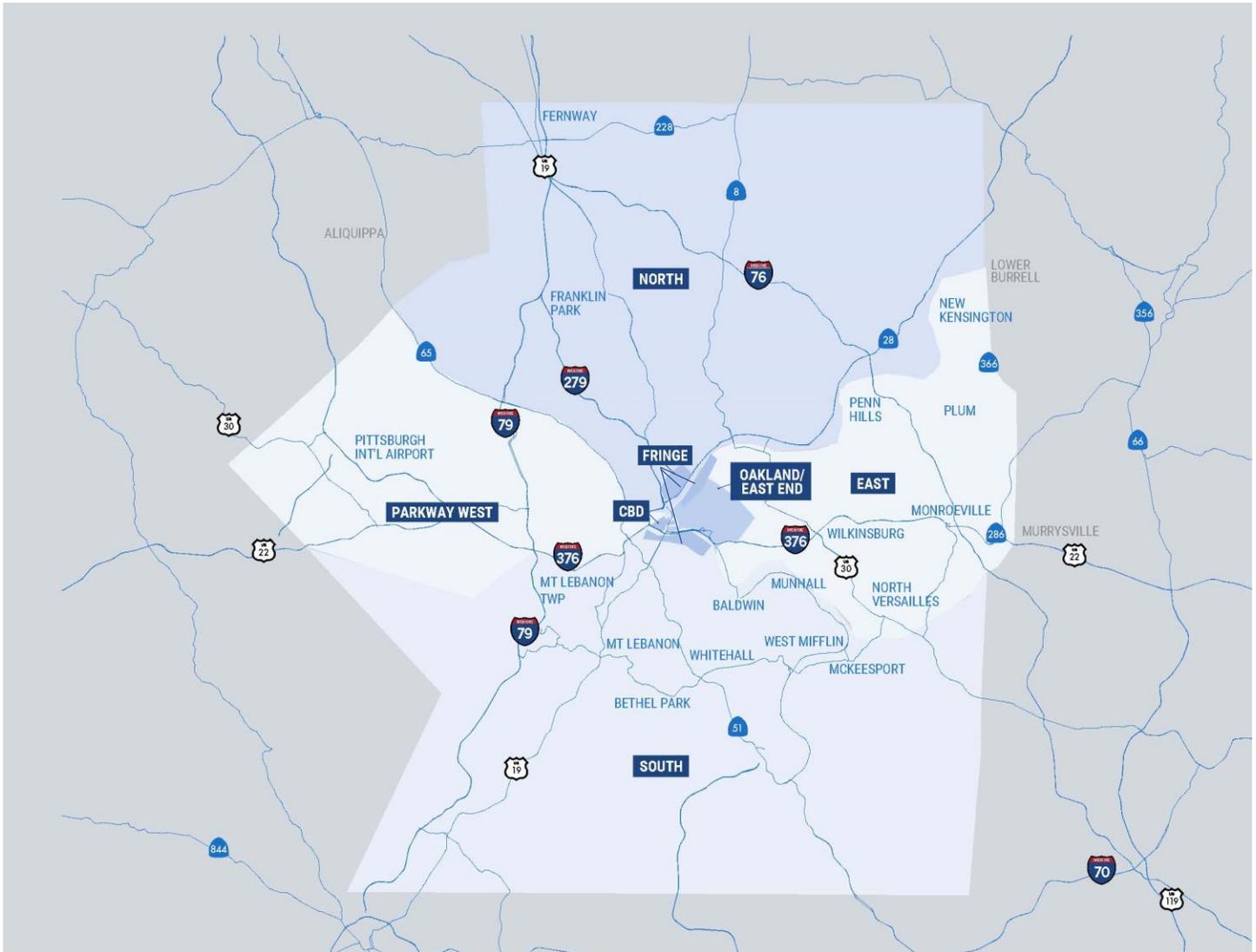
The East submarket has been tested over the years with challenges, including highway access. The emergence of new submarkets and existing submarkets with improved infrastructure partially contributed to the difficulties affecting the East submarket.

LOOKING AHEAD

Prior to the pandemic, the look and feel of office space began changing. Multiple building amenities were no longer optional; they became a requirement, technology companies looked for wide open spaces instead of office towers and walkable retail space that included live-work-play environments became a major draw for tenants. However, adding to this evolving transformation is the pandemic. At a minimum, this disruption will give pause to demand as users grapple with the proper mix of office and work-from-home space requirements.

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)
CBD	20,253,818	0	3,922,229	19.4%	-56,613	-195,313	\$29.85	\$22.86
Fringe	7,254,077	377,292	1,294,845	17.8%	-67,014	-1,124	\$28.19	\$21.68
Oakland/East End	3,017,389	854,561	354,688	11.8%	-10,171	8,382	\$34.71	\$24.23
City of Pgh Total	30,525,284	1,231,853	5,571,762	18.3%	-133,798	-188,055	\$30.09	\$22.47
East	3,372,464	0	894,787	26.5%	-84,188	-113,693	\$21.11	\$16.76
North	7,669,539	60,000	1,206,667	15.7%	61,979	-85,185	\$25.04	\$20.83
Parkway West	8,835,551	110,000	1,760,557	19.9%	-112,178	-71,565	\$23.79	\$19.44
South	5,463,128	0	908,316	16.6%	182	-35,641	\$22.05	\$19.28
Suburban Total	25,340,682	170,000	4,770,327	18.8%	-134,205	-306,084	\$23.18	\$19.02
Pittsburgh	55,865,966	1,401,853	10,342,089	18.5%	-268,003	-494,139	\$26.62	\$21.11



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