

Pittsburgh Office Market

A Year Like No Other

Battered by a pandemic, 2020 was a volatile year. The Pittsburgh office market mirrored national trends: diminished activity levels; rising vacancy; historically high levels of sublease space; negative net absorption; and increased landlord concessions placing downward pressure on net effective rents.

Vacancy ended the year at 19.3%, a 240-basis-point increase from year-end 2019. Asking rents increased by \$0.22/SF during the same period, and net absorption closed out 2020 at negative 573,064 square feet. Sublease space increased by just over 200,000 square feet during the last three quarters of the year, ending 2020 with 1.65 million square feet of available sublease space, accounting for 14.2% of the total available space in the marketplace. In 2015, sublease space hit the million-square-foot mark and continued to increase every year thereafter. The majority of sublease space available was the result of corporate decision making prior to the pandemic. Nevertheless, the market was flush with the highest level of sublease space in over 25 years.

Current Conditions

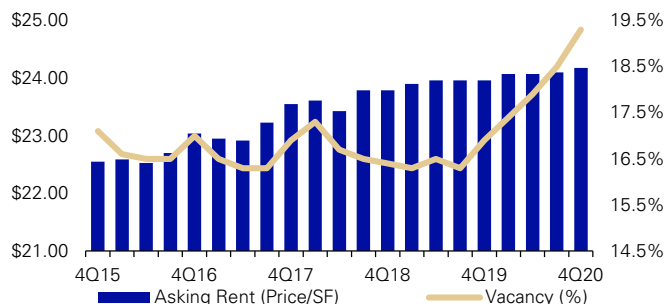
- The Pittsburgh office market mirrored national trends; diminished activity levels; rising vacancy; historically high levels of sublease space; negative absorption; and increased landlord concessions placing downward pressure on net effective rents.
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Market Summary

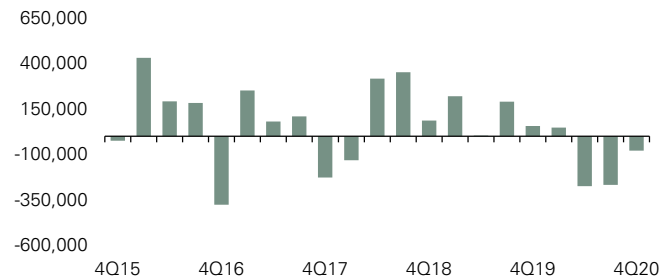
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	56 MSF	56 MSF	55 MSF	↑
Vacancy Rate	19.3%	18.5%	16.9%	↑
Quarterly Net Absorption (SF)	-78,925	-268,003	56,557	↓
Average Asking Rent/SF	\$24.18	\$24.10	\$23.96	↔
Under Construction (SF)	963,853	1,401,853	904,200	↓
Deliveries (SF)	416,333	95,100	95,000	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Central Business District (CBD)

A struggling Central Business District ended 2020 with an occupancy rate just under 80.0% and negative net absorption of 337,573 square feet. The Class A market fared slightly better with an occupancy rate of 82.4% and 105,817 square feet of negative net absorption.

Reflecting the ability of some industries to embrace the work-from-home platform, accounting firm PwC announced during the fourth quarter that it will relocate from 600 Grant Street, adding 21,200 square feet of sublease space to the market, to One Oxford Centre, where the company inked a deal for 15,000 square feet. Once occupying over 80,000 square feet at 600 Grant Street, the firm has right-sized space requirements over the past few years.

Urban Markets Outside the CBD

New York-based SomeraRoad Inc, new owner of the Southside Works In the Southside segment of the Fringe submarket, revealed plans to convert the development’s former movie theater from retail use to an approximately 75,000-square-foot office use during the final quarter of 2020. Ownership’s plans were met with approval by the Pittsburgh Planning Commission, although a completion date for the project was not disclosed.

In the Strip District segment of the Fringe submarket, JMC Holdings, owner of the former Wholey’s building, also received welcomed news from the Pittsburgh Planning Commission during the fourth quarter. The company can now move forward with the redevelopment of the site, located at 1501 Penn Avenue. Approval was granted for 550,000 square feet of office space with parking for nearly 900 cars. The next hurdle will be the demolition of the existing 300,000-square-foot structure constructed of three-foot thick concrete walls. Deconstruction is slated to begin sometime in 2021.

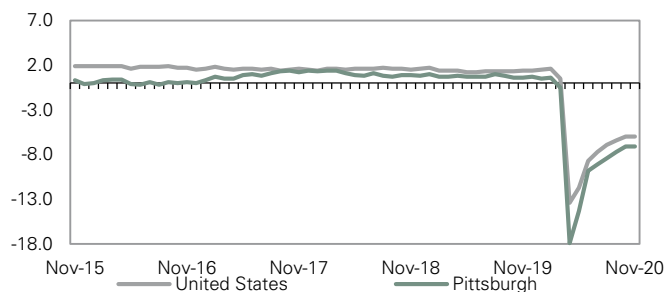
During the final month of 2020, autonomous vehicle company Aurora, announced plans to purchase competitor Uber’s Advanced Technology Group (ATG). Aurora recently committed to approximately 100,000square feet in the newly renovated 1600 Smallman Street. Much of Uber’s real estate straddles the Strip District section of the Fringe submarket and the Lawrenceville neighborhood of the Oakland/East End submarket, totaling over 320,000 square feet. Consolidation of space is expected, although how much and where is yet to be determined. The potential for existing quality space coming to market will be welcome news for users seeking to locate in these highly coveted areas.

Further, Spear Street Capital’s plans for redevelopment of the former Sears Outlet building into 250,000 square feet of office space in Lawrenceville were redirected when Amazon swooped in to secure the 330,000-square-foot warehouse as a last-mile facility. While the pandemic has rocked the office sector, the industrial sector has benefited with the demand for storage and distribution space soaring.

In the Baum/Centre Avenue segment of the Oakland/East-End submarket, Baltimore-based Wexford Science + Technology announced intentions for a new 110,000-square-foot building on the corner of Morewood and Centre Avenues. The developer has again partnered with the University of Pittsburgh Medical Center (UPMC) on the site, which is in proximity to Wexford’s other project with UPMC, an Immune Transplant and Therapy Center. Deeper into East Liberty, Walnut Capital’s Bakery Square Three completed at the end of 2020. The building will be anchored by Philips Sleep and Respiratory Care, occupying 208,000 square feet of the 306,000-square-foot building, and joined by the Software Engineering Institute, who will occupy 23,000 square feet.

Payroll Employment

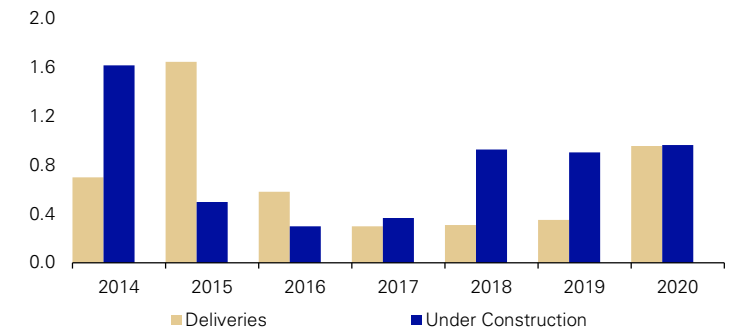
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Construction And Deliveries

SQUARE FEET, MILLIONS



RESEARCH Q4 2020

It is worth noting that the Oakland/East-End submarket continues to boast the highest asking rental rates in the Pittsburgh marketplace: \$33.41/SF across all classes and \$37.78/SF for Class A space, as well as the highest occupancy level at 86.5%.

Suburban Submarkets

Vacancy in the suburban markets rose by 280 basis points over year-end 2019 to 19.6%, overall asking rents rose by \$0.15/SF and net absorption ended 2020 with negative 424,859 square feet.

The North submarket experienced the greatest gain in vacancy within the Pittsburgh marketplace between the third and fourth quarter of 2020 with a 250 basis-point increase, ending 2020 at 18.2%. An announcement in December by Giant Eagle that the supermarket giant would not be renewing a lease at 701 Alpha Drive for 75,000 square feet contributed to the gain.

Between the third and fourth quarters of 2020, vacancy in the Parkway West experienced a decline to vacancy, albeit minimal, with a 10-basis-point drop to close 2020 at 19.8%.

During the fourth quarter, the 110,000-square-foot Boardwalk II completed. ConnectiveRx will be occupying the building in its entirety.

Looking Ahead

The effects of the pandemic will persist throughout much of the coming year. A more robust return by tenants to the office space they deserted in March of 2020 is expected by the summer of 2021, with many safety protocols remaining in place. Landlords eager to boost occupancy levels will continue to provide incentives, translating into good news for tenants. Pandemic-reluctant buyers motivated by low interest rates are predicted to return to the market to capitalize on opportunities.

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	4,064,489	20.1%	-142,260	-337,573	\$29.81	\$22.81
Fringe	7,290,512	377,292	1,360,747	18.7%	-29,467	-30,591	\$28.59	\$22.62
Oakland/East End	3,323,722	526,561	449,444	13.5%	211,577	219,959	\$37.78	\$23.08
City Of Pgh Total	30,868,052	903,853	5,874,680	19.0%	39,850	-148,205	\$30.55	\$22.74
East	3,372,464	0	893,373	26.5%	1,414	-112,279	\$21.26	\$16.86
North	7,673,182	60,000	1,397,237	18.2%	-190,570	-275,755	\$25.08	\$21.49
Parkway West	8,945,551	0	1,768,062	19.8%	102,495	30,930	\$23.82	\$19.49
South	5,463,128	0	940,430	17.2%	-32,114	-67,755	\$22.25	\$19.28
Suburban Total	25,454,325	60,000	4,999,102	19.6%	-118,775	-424,859	\$23.25	\$19.40
Pittsburgh	56,322,377	963,853	10,873,782	19.3%	-78,295	-573,064	\$26.72	\$21.41

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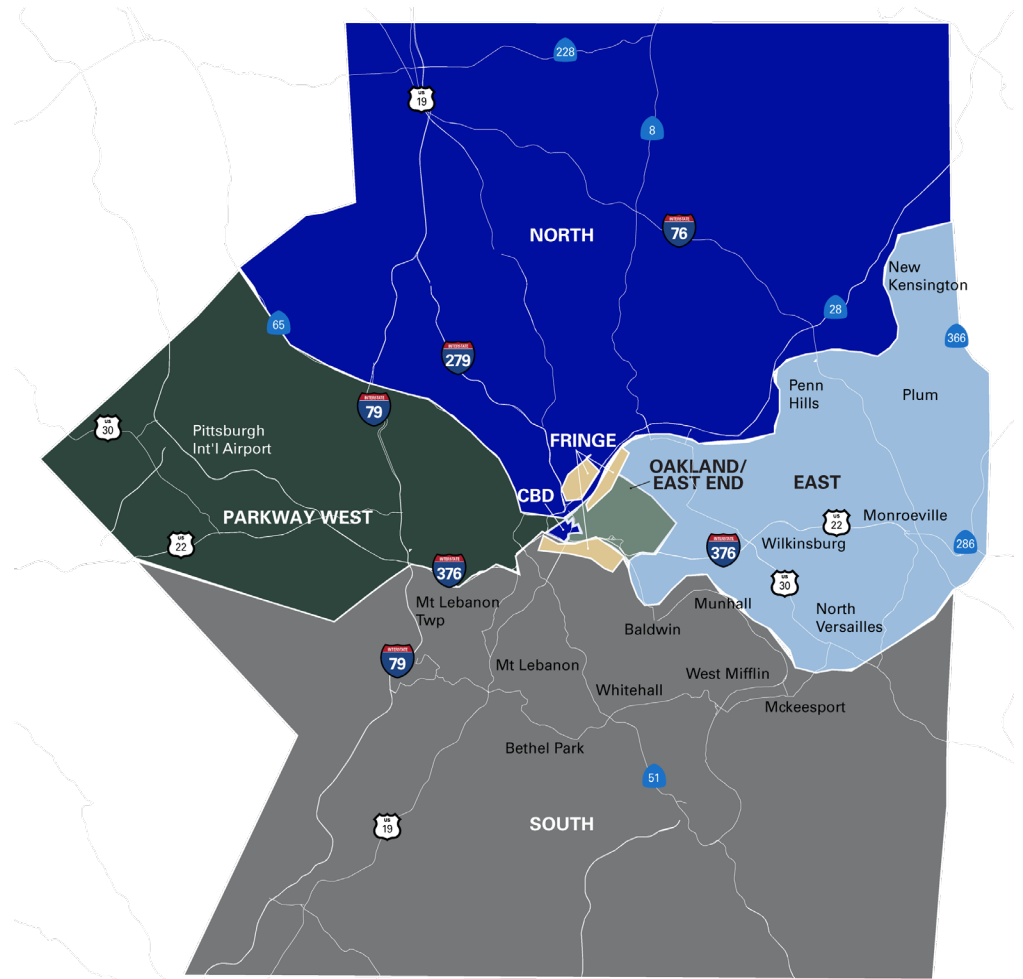
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