



Pittsburgh Office Market

A Rocky Start to the Year

The first quarter of 2023 proved to be a difficult start to the year for the Pittsburgh office market. With a quarterly net absorption of negative 659,280 square feet and a vacancy rate of 23.4%, it is becoming clear that the market will take substantial time to rebound.

Several local and national economic factors have contributed to this recent decline. Many companies, especially in the technology industry, have cut costs and laid off employees over the concerns of a longer economic downturn. Cost of capital is another influencing factor for all projects. As quoted by JP Morgan, prime lending rates have shot up to 8.0% from 3.50% from just 1 year ago. With increasing interest rates coupled with lesser demand for office space, the threat of office property loan defaults appears to be increasing nationwide. In an attempt to entice employees back to the office, many landlords opted to invest in building amenities such as gyms, restaurants and high-end common areas. While this has proven successful for some, others continue to struggle with high office vacancy. According to recent data, \$17.0 billion in mortgage bonds nationally will be due in 2023, up \$10.0 billion from 2022.

Current Conditions

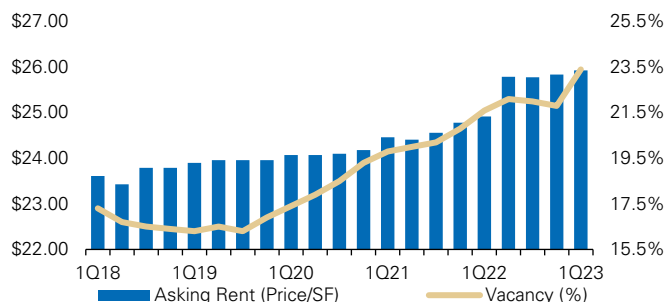
- With a quarterly net absorption of negative 659,280 square feet and a vacancy rate of 23.4%, it is becoming clear that the market will take substantial time to rebound.
- With increasing interest rates coupled with lesser demand for office space, the threat of office property loan defaults appears to be increasing nationwide.
- A massive increase in Pittsburgh permitting and zoning fees has also become a recent setback and an incremental challenge for developers and construction projects.

Market Summary

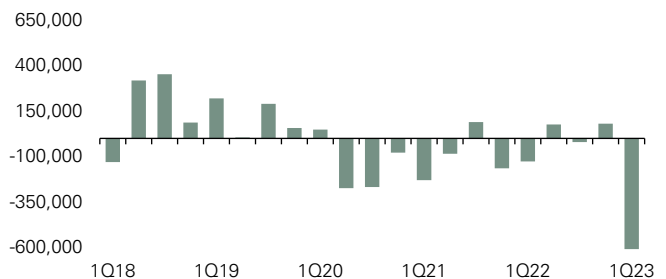
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	58 MSF	57 MSF	57 MSF	↔
Vacancy Rate	23.4%	21.8%	21.6%	↑
Quarterly Net Absorption (SF)	-659,280	80,909	-127,542	↓
Average Asking Rent/SF	\$25.93	\$25.84	\$24.92	↔
Under Construction (SF)	690,000	926,000	1,233,561	↓
Deliveries (SF)	0	0	0	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q1 2023

The construction industry is also facing increasing challenges. With 690,000 square feet of office space currently under construction, this is the lowest number the Pittsburgh office market has seen since 2017. The topic of long shipping delays and high material costs continue to be at the forefront of construction discussions. A massive increase in Pittsburgh permitting and zoning fees has also become a recent setback and an incremental challenge for developers and construction projects. The City Administration's new policy has been met with considerable opposition, specifically from regional developer, Walnut Capital Management, who alleges the fee increases are illegal. For commercial developments, zoning fees are now \$3 per \$1,000 of a project's cost, a staggering 2,000% increase from last year.

The Central Business District

Pittsburgh's Central Business District ended the first quarter of 2023 with a 22.8% vacancy rate, up 1.4% from last quarter. Absorption was negative 286,996 square feet, the highest of the submarkets.

Not all businesses downsized this quarter. In an expansion effort, Steptoe & Johnson PLLC announced it will be moving from BNY Mellon Center to PPG Place, where it will be taking 23,000 square feet. Northwest Bank will be relocating its Downtown office from 535 Smithfield St. to a 5,322-square-foot office at 525 William Penn Pl. Also at 525 William Penn Pl., the law firm Leech Tishman signed a 10-year lease renewal at its 46,000-square-foot office. At the same time, neither lease has influenced any net absorption in the market.

Ongoing safety concerns continue to be an issue Downtown, with one law firm, Flaherty & O'Hara, outright stating that it is leaving the CBD mainly for safety reasons. The firm will be taking over 10,000 square feet at The Highline in the South Side. These concerns have not gone unnoticed, and the mayor's office is implementing a plan to improve the state of Downtown, which includes increased police presence and cleaning up many areas.

Although announcing a return-to-office policy, Highmark has placed an additional five floors at Fifth Avenue Place on the market, bringing its total availability to more than 145,000 square feet at that office building.

Urban Markets Outside the CBD

The Fringe submarket was the only submarket to experience positive absorption this quarter, with 49,434 square feet. The University of Pittsburgh School of Health and Rehabilitation Sciences inked a 23,321-square-foot deal to be the anchor office tenant at The Box Office, the newest mixed-use development in the SouthSide Works.

Allegheny Family Network left its offices in Oakland and relocated to the Cardello Building in the North Shore neighborhood, where they signed a long-term lease for 14,411 square feet.

In the East End, Philips Respironics vacated two additional floors at its Bakery Square Three Headquarters, creating 76,000 square feet of sublease availability.

While still staying in the Strip District, the Buncher Company moved its headquarters from 1300 Penn Ave. to One Waterfront Pl., taking Limbach Holdings Inc.'s 19,000-square-foot sublease space. The development company already owns the office building at One Waterfront Pl.

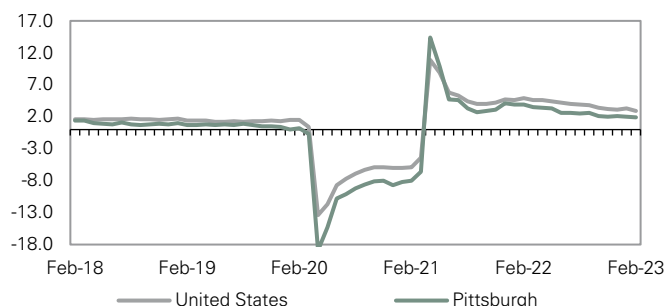
Suburban Submarkets

One of the biggest announcements this quarter is Emerson's anticipated move from RIDC O'Hara to 1000 Westinghouse Dr. in Cranberry Township. Set to take place in June, the company will be leaving its 270,000-square-foot space and occupying 142,000 square feet in the former Westinghouse Headquarters, which has been available for sublease for nearly six years.

The Parkway West submarket experienced 183,123 square feet of negative absorption this quarter, bringing its vacancy rate to 27.2%, up 2.0% from the fourth quarter of 2022.

Payroll Employment

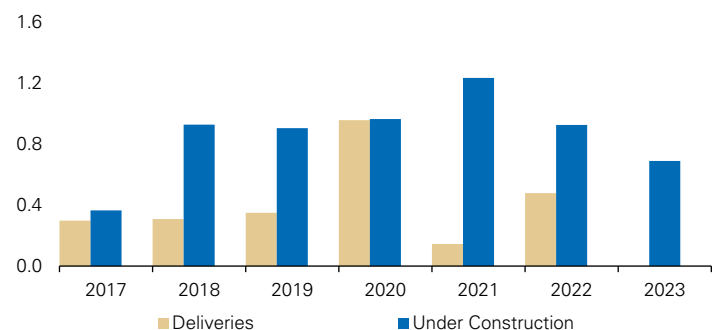
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Construction And Deliveries

SQUARE FEET, MILLIONS



RESEARCH Q1 2023

This makes it the highest vacancy rate of all the submarkets. Various properties became available ranging from 15,000 square feet to 37,000 square feet.

The only new construction that began this quarter was in the Parkway West at 200 Beecham Dr. Horizon Properties broke ground on a 44,000-square-foot, single-story flex office building that boasts numerous amenities and outdoor patio spaces.

Looking Ahead

It is clear the hybrid-work model is having an impact on the market, and many companies are opting to re-design their office space. This is frequently resulting in less square footage

while creating more collaborative spaces. Another discussion point is if a permanent four-day work week is viable and what influence it may have on office demand. While some companies like Panasonic, thredUP, and Bolt Financial have already adopted this schedule, it is uncertain whether or not this is a movement that will gain real traction.

Businesses are continuing to do their research on what is best for their employees' productivity and overall wellbeing.

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	19,799,574	475,000	4,518,566	22.8%	-286,995	-286,995	\$30.45	\$22.94
Fringe	8,380,072	0	2,213,392	26.4%	49,434	49,434	\$35.81	\$22.87
Oakland/East End	3,970,323	0	1,050,113	26.4%	-166,113	-166,113	\$45.36	\$25.98
City Of Pgh Total	32,149,969	475,000	7,782,071	24.2%	-403,674	-403,674	\$34.25	\$23.18
East	3,324,559	0	865,228	26.0%	-7,416	-7,416	\$21.14	\$15.78
North	7,748,782	0	1,459,248	18.8%	-51,937	-51,937	\$25.45	\$20.74
Parkway West	9,213,539	215,000	2,508,146	27.2%	-183,123	-183,123	\$24.20	\$20.33
South	5,321,686	0	907,700	17.1%	-13,130	-13,130	\$22.32	\$18.79
Suburban Total	25,608,566	215,000	5,740,322	22.4%	-255,606	-255,606	\$23.64	\$19.82
Pittsburgh	57,758,535	690,000	13,522,393	23.4%	-659,280	-659,280	\$29.12	\$21.91

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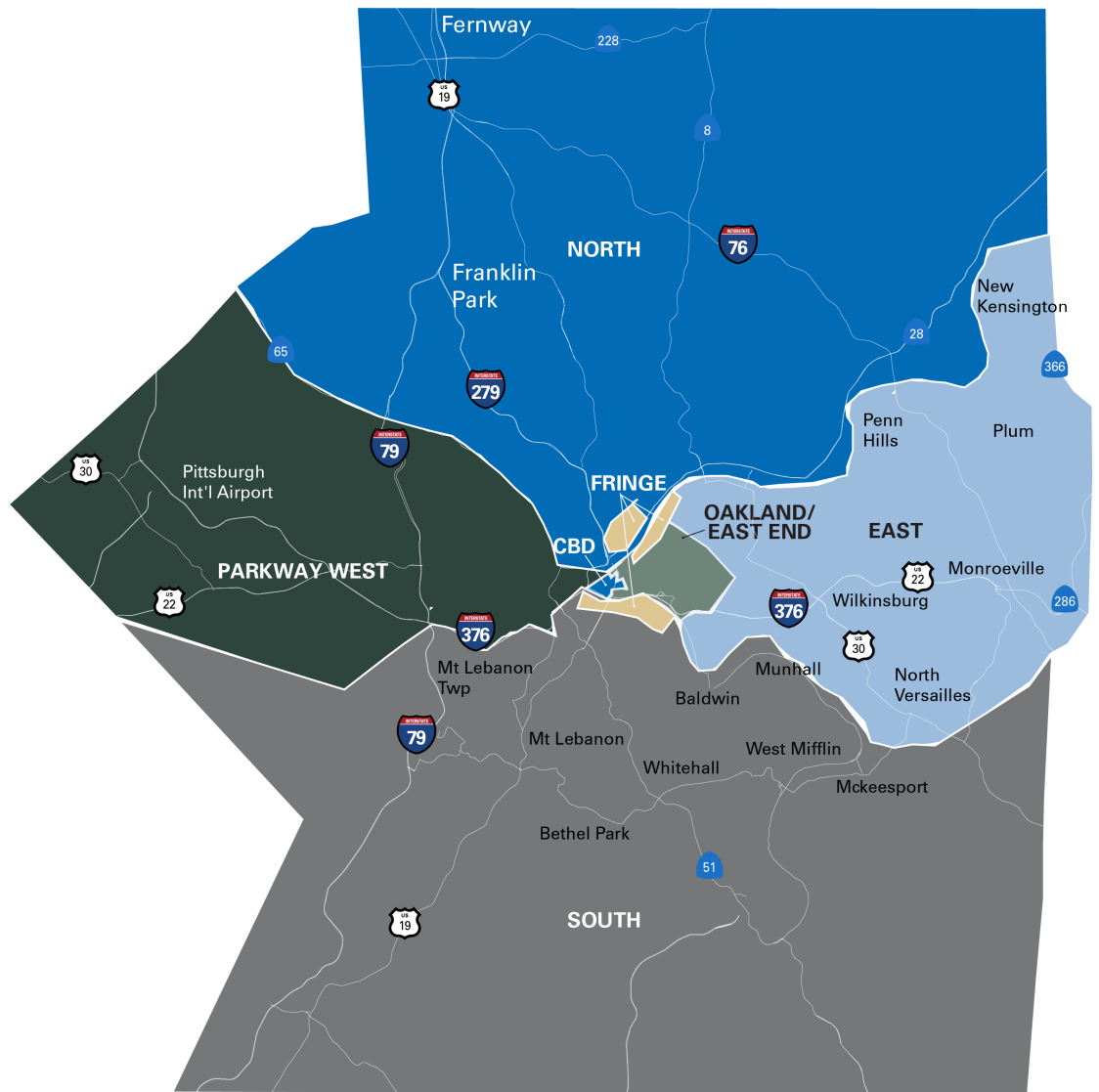
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