

Office Q2 2020

YoY Chg 12-Mo. Forecast

10.4%
Vacancy Rate



-111K
Net Absorption, SF



\$20.31
Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2020

YoY Chg 12-Mo. Forecast

.98M
Pittsburgh Employment



15.9%
Pittsburgh Unemployment Rate



13.0%
U.S. Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW: Unemployment Increases Tremendously

Pittsburgh's unemployment rate ticked up markedly to 15.9%, with the U.S. up to 14.0%, an unprecedented upward trend that has recently plateaued. The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID [here](#). With a recent resurgence driven by loosening restrictions, Pittsburgh's manageable size and large healthcare system bode well for the future.

SUPPLY AND DEMAND: Vacancies Fall, Absorption Increases

Surprisingly, absorption in the second quarter of 2020 ticked up, from -355,304 square feet (sf) to -111,376 sf. In addition to this positive trend, the vacancy rate also ticked down 50 basis points (bps). This was largely driven by the Parkway East and Greater Downtown, as several new leases were signed including Morgan Stanley and 3M, but leasing activity is still down year-over-year. These results don't necessarily show resiliency against the pandemic, but rather the lag in office fundamentals. As expected, sublease activity has risen and will continue to rise. Construction on the nearly 2 million square feet (msf) of office inventory in Pittsburgh has largely resumed, with another building in The Stacks at Three Crossings delivering in the Strip District. The regions most active developers are still building, betting on STEM firms to fill their trophy product. The sentiment surrounding larger developments like 1600 Smallman, Bakery Square 3.0 and The Riviera remains positive. Another boon to the region was Zoom deciding to open a Pittsburgh branch, drawn by CMU's top-tier computer science program. However, submarkets outside these tech and health nodes have struggled to fill existing stock, as companies re-evaluate their footprint.

PRICING: Rents Largely Stable...For Now

It is still too early to tell if there will be material rent discounts, and it would be too reactive at this time for landlords to implement them. Moving forward, certain landlords may be offering shorter extensions if the tenant has leverage, or landlords may offer slight rent relief for longer terms. For now though, rents are largely stable, but a softening market is an absolute certainty. Permanent disruption in the form of remote work may lead to tenants shrinking their footprint, but high quality STEM tenants will still pay premiums for space in Oakland or the Strip District in the \$35-\$45 per square feet (psf) range. Pricing in the desirable suburban markets, which is in the \$20-\$30 psf range, may need to be more elastic, as companies may find current rents untenable due to the pandemic.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION(SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT \$ (ALL CLASSES)*	OVERALL AVG ASKING RENT \$ (CLASS A)*
Armstrong County	123,367	0	0	0.0%	-	-	0	0	8.58	8.58
Beaver County	1,201,455	0	141,589	11.8%	(636)	8,279	13,298	0	16.64	-
Butler County	4,696,201	1,043	184,229	3.9%	45,197	87,412	73,435	0	22.15	24.70
CBD	26,281,109	188,398	3,675,015	14.7%	19,959	(243,839)	112,078	0	27.04	29.15
Fayette County	630,275	0	0	0.0%	-	-	0	0	12.00	-
Greater Downtown	12,399,700	122,869	1,025,210	9.3%	(72,634)	(160,574)	179,752	473,500	25.61	31.89
North Pittsburgh	6,453,478	1,495	492,565	7.7%	(13,684)	(23,915)	81,996	75,500	21.47	24.34
Northeast Pittsburgh	2,536,135	0	172,068	6.8%	(55,136)	(51,807)	5,209	0	18.45	24.81
Oakland	3,153,502	0	25,966	0.8%	1,372	5,000	13,971	399,067	25.26	50.00
Parkway East	10,400,548	16,168	963,185	9.4%	(1,629)	7,531	119,398	735,482	21.37	21.21
Parkway West	7,263,695	27,781	766,966	10.9%	(23,782)	(54,780)	87,022	296,380	22.14	24.04
West Pittsburgh	2,886,272	42,173	431,446	16.4%	23,349	52,363	24,366	0	22.69	24.54
South Pittsburgh	6,059,686	12,917	428,052	7.3%	(15,493)	(3,121)	7,444	0	18.55	23.23
Washington County	5,072,139	82,878	659,717	14.6%	(30,464)	(88,569)	65,469	0	20.43	24.58
Westmoreland County	3,149,693	0	184,103	5.8%	12,205	(670)	26,286	0	16.28	30.73
PITTSBURGH TOTALS	92,307,255	495,722	9,150,111	10.4%	(111.376)	(466.690)	809,724	1,979,929	\$20.31	\$24.29

*Rental rates reflect gross asking **Does not include renewals

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
7514 Thomas Blvd	East End	3M	50,000	New Lease
Bakery Square 1	East End	NA	33,612	New Lease
PPG Tower	CBD	Morgan Stanley	28,203	New Lease
350 Technology Dr	Oakland	Pitt	7,700	New Lease

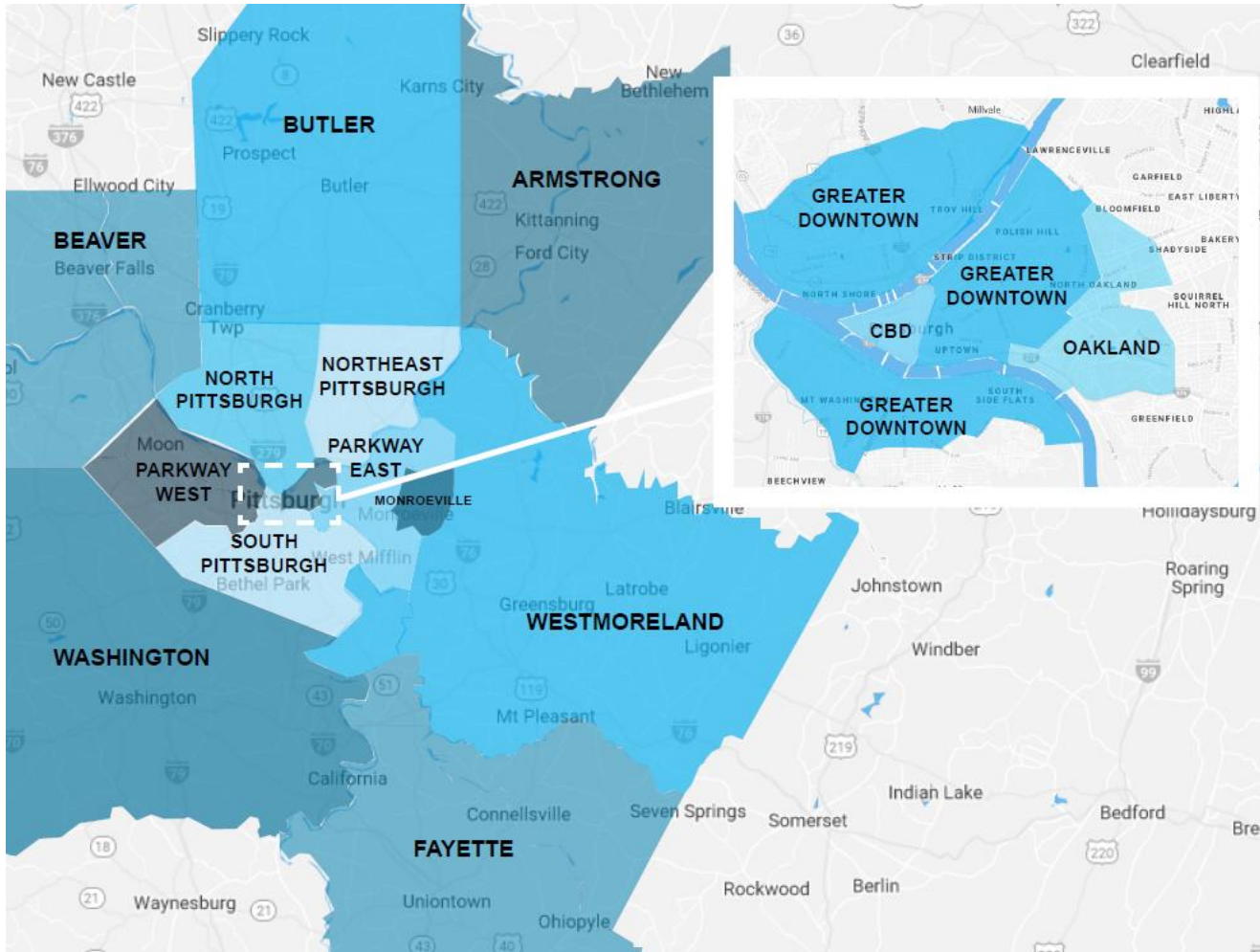
KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
1323 Forbes Ave	Greater Downtown	Life's Work / Duquesne University	124,000	\$6,490,000 / \$52

KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
Three Crossings E	Greater Downtown	NA	54,471	Oxford

OFFICE SUBMARKETS



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