

Office Q1 2020

	YoY Chg	12-Mo. Forecast
10.9% Vacancy Rate	▲	▲
-355K Net Absorption, SF	▲	▼
\$20.03 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2020

	YoY Chg	12-Mo. Forecast
1.2M Pittsburgh Employment	■	▼
4.7% Pittsburgh Unemployment Rate	▲	▲
4.4% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMIC OVERVIEW: Unemployment Increases, But Only the Beginning of Downturn

Pittsburgh’s unemployment rate ticked up markedly to 4.7%, with the U.S up to 4.4%, but the upward trend is only beginning. Some are forecasting a peak of 15% U.S unemployment and cumulative GDP contraction of 10%, which would mark the deepest recession on record, and nearly five times worse than the post-war average. Pittsburgh is in for a bumpy ride as the country rides out COVID-19, as local metrics have historically been worse than national averages. Pittsburgh is also exposed to Russia and Saudi Arabia’s oil price war which has caused energy markets to implode, as energy represents a significant percentage of employment here. However, healthcare and tech do provide some protection once the COVID-19 curve flattens.

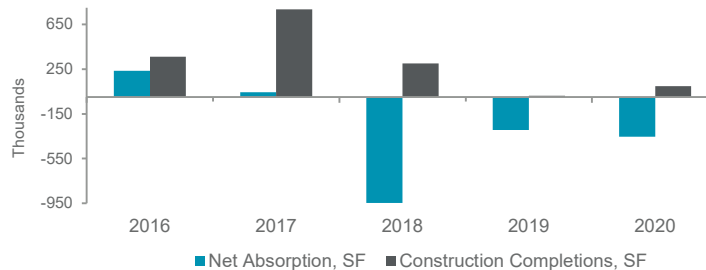
SUPPLY AND DEMAND: Vacancies Rise, Absorption Declines

Unfortunately, absorption in the first quarter of 2020 turned negative once again, to -355,304 square feet (sf), and succumbed to a trend that was in place before last quarter. This was largely driven by the CBD, as more companies migrate to fringe markets into newer product with a surplus of amenities. As a result, vacancy rates in the submarket increased almost 200 bps. However this wasn’t a phenomenon unique to the CBD, as several other submarkets had large upticks in vacancy. These negative results were not driven by COVID-19, as there will be a lag, and it will greatly effect next quarters figures. Construction on the 2 msf of office inventory in Pittsburgh has been halted, and plans for future developments will likely be shelved for a few quarters as developers await clarity on the lingering effects of the pandemic. The virus has come at an unfortunate time for a city in transition; the diversifying local economy built around tech and healthcare was continuing to trend up, but there will now be significant downward pressure on all metrics. Vacancies were up only 70 bps on a link quarter basis, but this number will increase dramatically going forward, as tenants aim to downsize amidst an imminent recession. Absorption may decrease rapidly, as businesses find ways to become more lean in the face of the downturn.

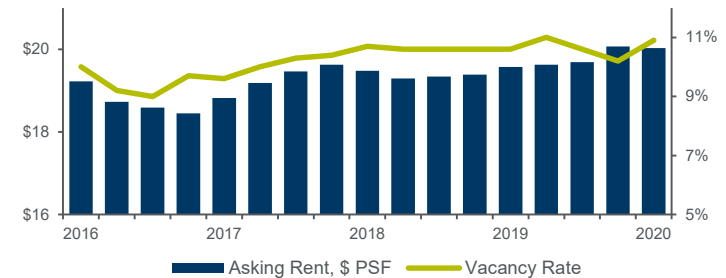
PRICING: Rents to Drop Soon

Asking rents in the region decreased modestly overall, but are expected to drop at a rapid pace in the coming quarters. While Pittsburgh is not over-exposed as far as inventory, the newer properties that were driving respectable rental rates will likely struggle, and landlords will have to adjust accordingly. Even submarkets like Greater Downtown, which includes the Strip District, will encounter pricing issues as demand for higher end space on a broad scale wanes. There will be tenants still willing and able to pay the \$35-\$45/sf price tag, but on a considerably smaller scale.

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%	-	-	-	-	8.58	8.58
Beaver County	1,201,455	0	140,953	11.7%	8,915	8,915	13,298	-	16.11	-
Butler County	4,696,201	1,043	144,556	3.1%	42,215	42,215	63,327	-	22.09	24.66
CBD	26,281,109	209,726	3,757,314	15.1%	(263,798)	(263,798)	87,630	-	26.75	29.06
Fayette County	630,275	-	-	0.0%	-	-	-	-	-	-
Greater Downtown	12,345,229	160,630	1,033,744	9.7%	(87,940)	(87,940)	123,139	527,971	25.32	31.89
North Pittsburgh	6,418,978	1,495	588,145	9.2%	(10,231)	(10,231)	44,127	110,000	20.39	23.98
Northeast Pittsburgh	2,536,135	-	172,773	6.8%	3,329	3,329	2,709	-	19.51	24.81
Oakland	3,153,502	-	27,725	0.9%	3,628	3,628	5,884	399,067	22.57	-
Parkway East	10,400,548	19,668	1,149,258	11.2%	9,160	9,160	47,868	735,482	21.12	21.11
Parkway West	10,400,548	34,739	782,854	11.3%	(30,988)	(30,988)	61,741	296,380	22.38	24.07
West Pittsburgh	7,263,695	40,165	417,699	15.9%	29,014	29,014	18,866	-	22.91	24.54
South Pittsburgh	6,059,686	12,917	414,442	7.1%	12,372	12,372	6,261	-	18.55	23.23
Washington County	5,072,139	38,542	666,941	13.9%	(58,105)	(58,105)	46,172	-	20.23	24.22
Westmoreland County	3,149,693	0	195,076	6.2%	(12,875)	(12,875)	23,240	-	16.75	30.73
PITTSBURGH TOTALS	92,218,284	518,925	9,491,480	10.9%	(355,304)	(355,304)	544,262	2,068,900	\$20.03	\$24.21

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

KEY LEASE TRANSACTIONS Q1 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Foster Plaza 8	Parkway West	Confidential	78,306	Expansion
401 Liberty Ave	CBD	Confidential	22,500	New Lease
401 Liberty Ave	CBD	Urish Popeck	18,000	New Lease
1501 Reedsdale St	Greater Downtown	EyeNavision	10,500	New Lease

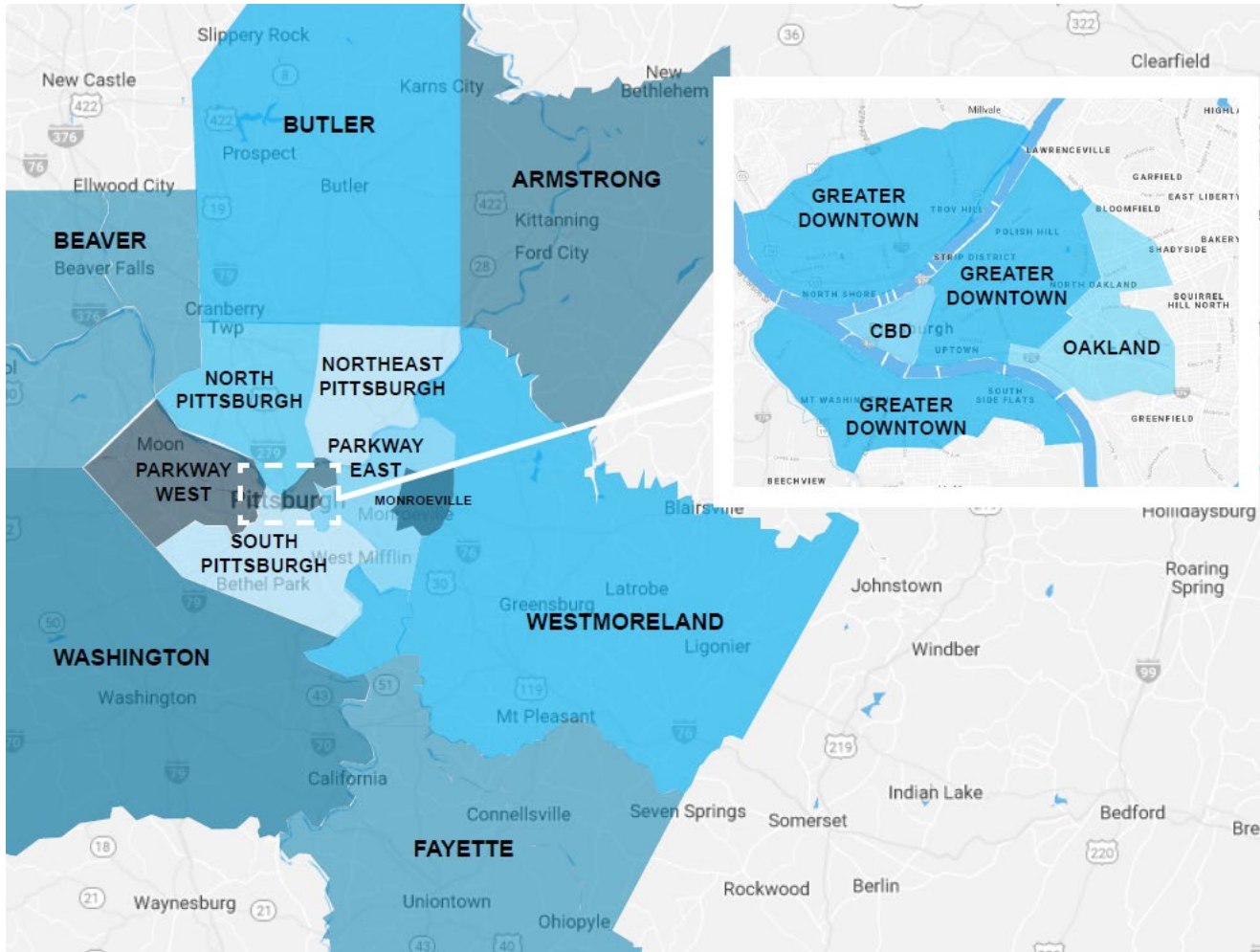
KEY SALES TRANSACTIONS Q1 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
34 Blvd of the Allies	CBD	PPG / DiCicco	200,000	\$13,250,000 / \$66
1005 Beaver Grade Rd	West Pittsburgh	Edgetowne Partners / Madison Acquisitions	55,269	\$2,462,500 / \$45
810 River Ave	Greater Downtown	Nightingale Properties / PCRE	47,000	\$5,690,000 / \$121

KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
Three Crossings	Greater Downtown	Smith & Nephew	53,737	Oxford

OFFICE SUBMARKETS



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