# Demand for office space begins to recover as market vacancy drops

▼ 15.5%
Vacancy Rate

▲ 108,278
SF Net Absorption

▶ 1.42M
SF Construction

▲ $25.10
Overall Avg Asking Rate

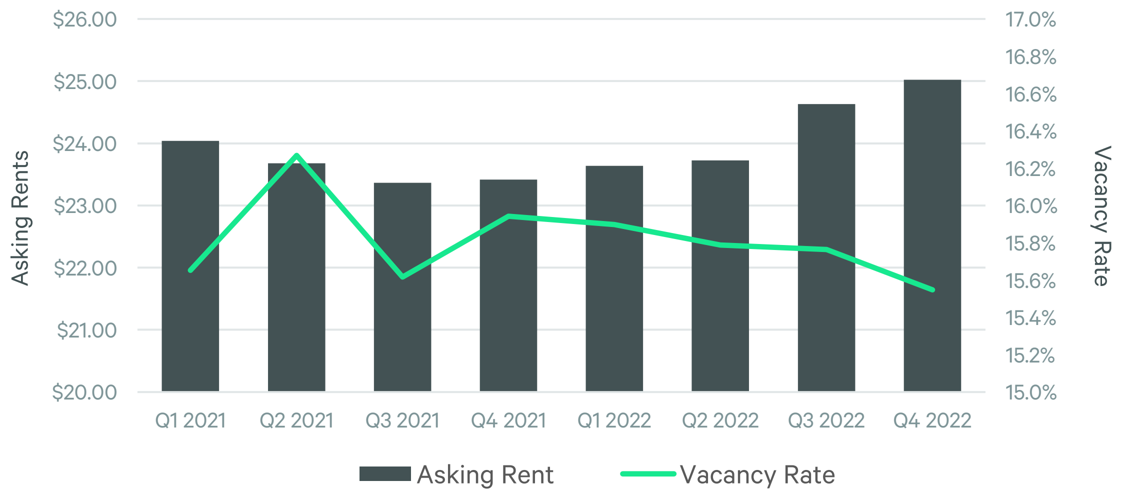
Note: Arrows indicate change from previous quarter.


## Summary

- Office vacancy rates fall to 15.5% as the demand for office space persists with employers pushing for a continued return to work.
- Leasing activity for the quarter totals to over 294,000 sq. ft. as Q4 posts positive absorption of 108,278 sq. ft., the highest posted absorption since Q4 2020.
- The Pittsburgh office construction pipeline remains strong at over 1.4 million sq. ft. as companies continue the demand for Class A space. More than 65% of the current pipeline exists in the CBD and Downtown Fringe submarkets.
- Market rents rise to $25.10 per sq. ft., up from $23.42 year-over-year. Class A space rents remain strong as they post over $29 per sq. ft. in Q4 2022.


Tenants in the Pittsburgh market continue to demand less space for their employees to accommodate the hybrid work model. Despite demand for less space, the flight to quality trend is exhibited as over 68% of leasing activity in Q4 2022 was signed in Class A office space, totaling to greater than 50% in 2022.

FIGURE 1: Historical Rents vs Historical Vacancy




Source: CBRE Research, Q4 2022

## Market Activity

The Pittsburgh office market netted positive absorption over 108,000 sq. ft. as a result of strong leasing activity in the fourth quarter of 2022. Apple signed a 72,000 sq. ft. lease at the Assembly, a recently delivered office class A building in the Oakland/East End submarket. Other notable leases include Metz Lewis and LGA Partners both signing leases for 19,228 sq. ft. floors at Four Gateway Center.

Market activity remains strong in the CBD throughout 2022 as average asking rents climb to $27.26 in the fourth quarter. Most likely a result of a high volume in CBD class A leasing activity throughout the year including Dickie McCamey & Chilcote taking 79,719 sq. ft. and Citizens Bank relocating to roughly 60,000 sq. ft. at Four Gateway Center. Leasing activity remains strong in Class A space despite the $0.15 increase in market asking rates.

Leasing activity throughout 2022 favored Downtown as nearly 60% of leases signed were signed in the CBD, Downtown Fringe, and Oakland/East End submarkets. Despite downtown rents climbing over $27 per sq. ft., vacancy and availability rates fall for the third straight quarter in 2022.

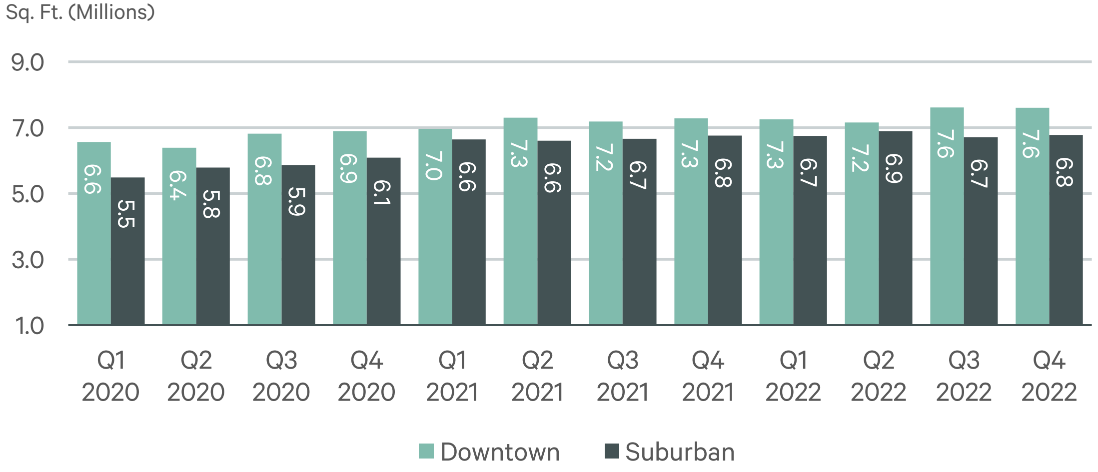
The suburban market vacancy rate falls to 15.1% as rents rise to $20.22 per sq. ft.. In Q4 2022. Allegheny Clinic and GSA signed leases for 15,056 and 14,683 sq. ft. in the South and Parkway West submarkets. They join the suburban leasing activity throughout 2022 that also includes PennEnergy signing a lease for 45,000 sq. ft. at the Westinghouse Complex in Cranberry, NVR Mortgage taking 37,000 sq. ft. at Penn Center West Five and Montauk Energy leasing 24,000 sq. ft. at Two Marquis Plaza -- both in the Parkway West. The flight to quality trend persists in the suburban market as Class A offices netted positive absorption of nearly 60,000 sq. ft. in the fourth quarter of 2022.

The Pittsburgh office market is persistent in its recovery from the pandemic as companies seek to occupy spaces to accommodate their flexible work style. Tenants demand smaller spaces in more favorable locations and amenitized spaces. Class A space in the Pittsburgh office market netted positive absorption of over 176,000 sq. ft. in the fourth quarter of this year. 2022 exhibits positive signs on a road to recovery as office leasing totals nearly 1.7 million sq. ft. and vacancy falls to 15.5 percent, the lowest vacancy posted since the fourth quarter of 2020.

FIGURE 2: Historical Average Asking Rates


Source: CBRE Research, Q4 2022

FIGURE 3: Downtown vs Suburban Availability




Source: CBRE Research, Q4 2022

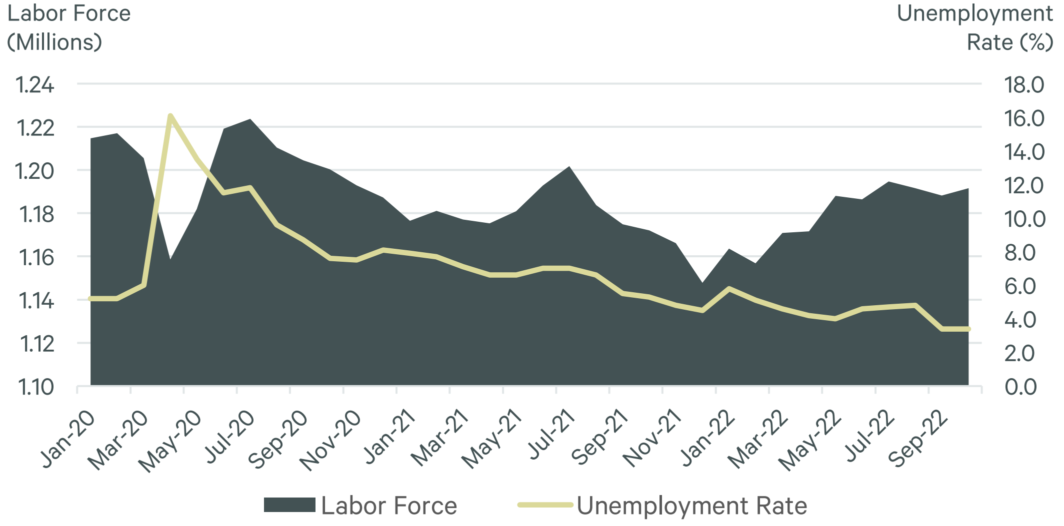
## Employment Update

The Pittsburgh workforce continues to recover as it stabilizes at pre-pandemic levels. The current unemployment rate in Pittsburgh falls to 3.5%, a historic low, showing signs of recovery as a result of the return-to-work trend in most sectors. Unemployment is down 190 basis points year-over-year exhibiting the continued road to recovery in the office market.

The current labor force in Pittsburgh rose to 1.2 million in the fourth quarter of 2022, up 21,400 from Q4 2021. All sectors showed growth year-over-year in employment change with financial activities posting a 1.3% increase, professional and business services showing a 4.7% increase, and manufacturing posting an 11.7% increase. Overall job growth exhibits a 3% year-over-year growth, as office-using jobs grows to nearly 286,000 for the Pittsburgh market.

Pittsburgh, like all other markets, continues to battle the effects of the pandemic on employment. Despite the implementation of a hybrid work model and economic instability, the Pittsburgh workforce continues to grow stronger through the end of 2022.

FIGURE 4: Historical Unemployment & Labor Force




Source: CBRE Research, Q4 2022

FIGURE 5: Under Construction & Pre-Leasing


Source: CBRE Research, Q4 2022

## Supply & Demand

The Pittsburgh office market currently has 1.42 million sq. ft. under construction as the demand for new Class A product persists. Of the office space currently under construction, 54.1% is pre-leased exhibiting ample supply for the ongoing demand of the newly amenitized office projects.

The FNB Financial Center is currently under construction in the Uptown neighborhood of the Downtown Fringe submarket. The new class A development will deliver roughly 450,000 sq. ft. in the second half of 2023, bringing a new trophy building to the market that will include a fitness enter and tenant lounge, outdoor patios, and 1,000 parking spaces onsite. First National Bank currently holds all pre-leasing where they will occupy over 160,000 sq. ft. upon delivery.

The first building in the Diamond Ridge development has begun construction in the West submarket of Pittsburgh. The building will deliver in the first half of 2024 where over 170,000 sq. ft. will come to market. The building is the first of a three-building campus that will provide more than 500,000 sq. ft. of class A office space in the Parkway West.

## Market Outlook

The problems associated with inflation continue to run their course. Although the pace of inflation may have started to plateau, the Federal Reserve's hawkish response has been unequivocal in a way that caught markets by surprise. Aggressive rate hikes and Fed balance sheet reductions have successfully resulted in a strong dollar and higher mortgage rates, and the beginning of a slowdown in the US Economy.

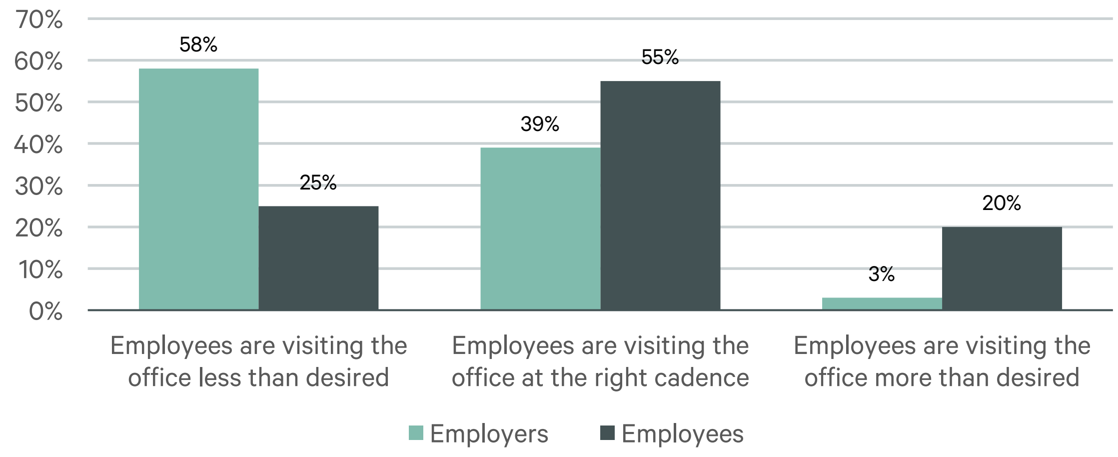
Higher rates are not just impeding household decisions; a higher corporate cost of capital is forcing firms to rethink hiring plans. So far resilient consumers have driven further economic growth but now the realities of lower savings rates and chronically poor sentiment suggest excess spending is coming to and end. Consequently, we expect the economy to contract early next year, and unemployment to rise. This should push inflation down toward 3% by year-end 2023. It is possible the Fed may be able to reduce inflation and maintain the unemployment rate below 5%, but we should not bank on that. Once inflation is tamed, both capital and real estate markets will become more predictable again.

The slow and uneven recovery of the U.S. office market in the aftermath of the pandemic has created a deep divide between prime and secondary office buildings that will continue to widen in 2023. Demand for the best buildings in attractive locations will support rent growth in top-tier office towers. By contrast, there will be a smaller pool of tenants interested in older office buildings.

This bifurcation comes as both occupiers and landlords adjust to new working patterns. Tenants will continue to shed underutilized office space next year, adding to the already high amount of available supply. As such, 2023 will be a favorable market for tenants, especially those previously priced out of desirable submarkets or properties.

Office utilization rates likely won't meet employer expectations next year. While most companies see office attendance as critical to their success, many workers want the autonomy to decide where and when they work. As companies find an optimal balance over the next few years, office utilization and the space needed per worker will reach a new equilibrium that could ultimately reduce demand for office space per employee by up to 15% from the pre-pandemic norm.

Figure 6: Employers' vs Employees' Perception of Return to Office




Source: CBRE Research, CBRE Office Occupier Survey, August 2022

FIGURE 7: Notable Flight to Quality Lease Transactions

| Tenant | Previous Location Building Class | Current Area Leased (SF) | Current Location Building Class | Current Submarket |
|---|---|---|---|---|
| Dickie, McCamey, & Chilcote PC | A | 79,719 | Trophy | CBD |
| Citizens Bank | A | 60,000+ | Trophy | CBD |
| Management Science Associates | B | 37,082 | Trophy | Downtown Fringe |
| Metz Lewis | A | 19,228 | Trophy | CBD |
| LGA Partners | B | 19,228 | Trophy | CBD |

Source: CBRE Research, Q4 2022

FIGURE 8: Submarket Statistics

| Submarket / Class | Market Rentable Area (SF) | Total Market Vacancy Rate | Total Market Availability Rate | Q4 2022 Net Absorption | Avg Market Asking Rate |
|---|---|---|---|---|---|
| **CBD** | **24,188,121** | **17.1%** | **20.3%** | **(17,318)** | **$27.26** |
| A | 14,627,326 | 17.9% | 20.6% | (12,890) | $30.39 |
| B | 8,771,507 | 16.6% | 20.8% | 4,122 | $23.50 |
| C | 789,288 | 9.3% | 9.6% | (8,550) | $20.25 |
| **Cranberry** | **3,485,332** | **13.2%** | **19.0%** | **1,149** | **$19.54** |
| A | 2,258,085 | 12.0% | 18.2% | 5,462 | $21.56 |
| B | 1,106,685 | 17.2% | 22.6% | (4,313) | $18.09 |
| C | 120,562 | 0.0% | 0.0% | 0 | $16.00 |
| **Downtown Fringe** | **11,285,090** | **14.9%** | **16.9%** | **52,296** | **$27.35** |
| A | 4,147,530 | 18.7% | 19.5% | 21,855 | $31.46 |
| B | 6,485,923 | 13.8% | 16.8% | 30,441 | $24.64 |
| C | 651,637 | 1.9% | 2.1% | 0 | $11.04 |
| **Oakland/East End** | **5,694,283** | **12.9%** | **13.9%** | **89,963** | **$37.27** |
| A | 2,662,616 | 22.3% | 22.2% | 97,034 | $43.03 |
| B | 1,905,838 | 7.2% | 9.1% | (6,334) | $21.67 |
| C | 1,125,829 | 0.4% | 2.2% | (737) | $15.50 |
| **Parkway East** | **5,314,418** | **17.0%** | **23.4%** | **985** | **$16.02** |
| A | 1,569,762 | 35.6% | 41.3% | 11,575 | $19.92 |
| B | 2,887,905 | 11.7% | 17.1% | (10,841) | $15.39 |
| C | 856,751 | 0.9% | 11.6% | 251 | $11.12 |
| **Parkway North** | **6,929,995** | **12.7%** | **15.7%** | **(11,035)** | **$21.05** |
| A | 2,028,842 | 19.4% | 24.7% | 14,451 | $23.89 |
| B | 4,407,752 | 10.6% | 12.9% | (29,721) | $19.49 |
| C | 493,401 | 3.4% | 3.4% | 4,235 | $11.03 |
| **Parkway West** | **11,449,887** | **17.5%** | **21.2%** | **10,093** | **$21.93** |
| A | 5,753,716 | 16.4% | 19.7% | 27,238 | $24.26 |
| B | 4,992,922 | 18.9% | 23.5% | (16,340) | $19.71 |
| C | 703,249 | 16.3% | 17.1% | (805) | $17.35 |
| **South** | **3,563,169** | **7.5%** | **11.8%** | **(13,901)** | **$17.70** |
| A | 304,504 | 24.7% | 25.4% | 0 | $21.07 |
| B | 2,589,384 | 6.1% | 11.3% | (13,331) | $19.69 |
| C | 669,281 | 5.1% | 7.6% | (570) | $9.74 |
| **Southpointe** | **3,179,477** | **16.5%** | **26.8%** | **(3,954)** | **$20.03** |
| A | 2,641,026 | 15.6% | 27.3% | 742 | $21.69 |
| B | 538,451 | 21.0% | 24.5% | (4,696) | $18.40 |
| **Pittsburgh Total** | **75,089,772** | **15.5%** | **19.0%** | **108,278** | **$25.10** |

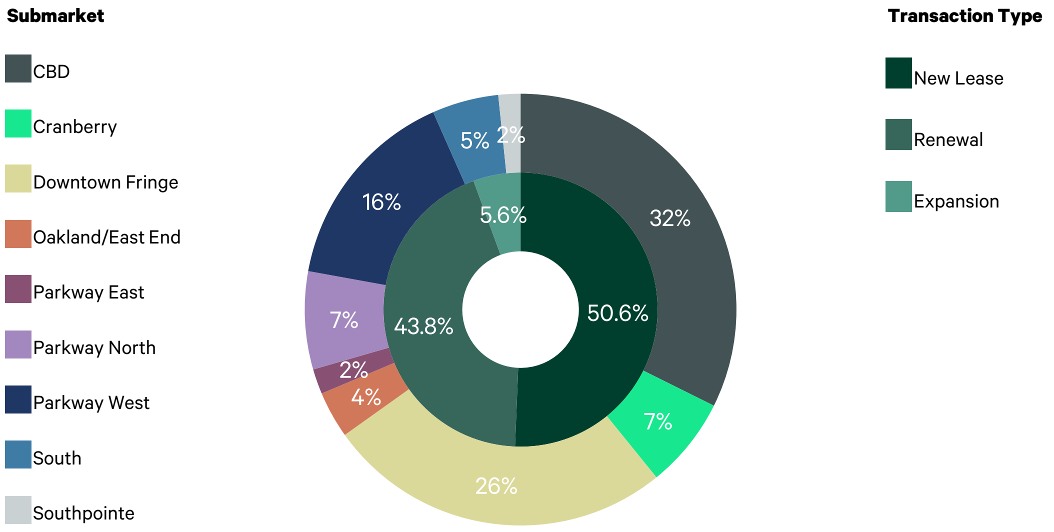
Source: CBRE Research, Q4 2022

FIGURE 9: Downtown vs Suburban Statistics

| | Market Rentable Area (SF) | Total Market Vacancy Rate | Total Market Availability Rate | 2022 YTD Net Absorption | Avg Market Asking Rate |
|---|---|---|---|---|---|
| **Downtown** | **41,167,494** | **15.9%** | **18.5%** | **197,886** | **$28.20** |
| A | 21,437,472 | 18.6% | 20.6% | 53,191 | $31.87 |
| B | 17,163,268 | 14.5% | 18.0% | 151,033 | $22.16 |
| C | 2,566,754 | 3.5% | 4.4% | (6,338) | $16.91 |
| **Suburban** | **33,922,278** | **14.9%** | **19.7%** | **(210,880)** | **$20.28** |
| A | 14,555,935 | 18.3% | 24.0% | (3,258) | $23.28 |
| B | 16,523,099 | 13.4% | 17.6% | (216,499) | $18.65 |
| C | 2,843,244 | 6.1% | 10.1% | 8,877 | $13.42 |

Source: CBRE Research, Q4 2022

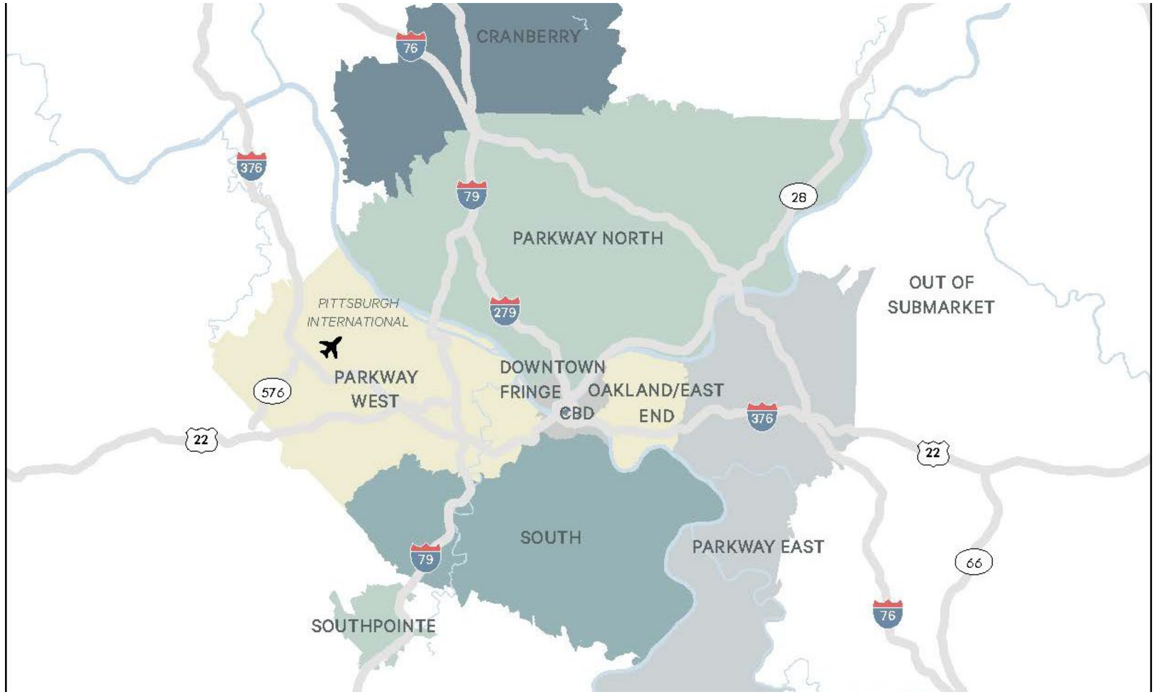
FIGURE 10: 2022 Leasing Activity




Source: CBRE Research, Q4 2022

## Market Area Overview




### Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the "drip line" of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the "net" costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

### Survey Criteria

Office buildings 10,000 sq. ft. or greater. Excludes single-tenant owner-occupied buildings, Government owned and occupied buildings, or Medical buildings.

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