

# MARKETBEAT

## Pittsburgh, PA

Office Q1 2019



### PITTSBURGH OFFICE

#### Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Pittsburgh Employment	1.2M	1.2M	▲
Pittsburgh Unemployment	4.8%	4.1%	▼
U.S. Unemployment	4.1%	3.8%	▼

Statistics above represent quarterly averages for Q1 2019 Pittsburgh region

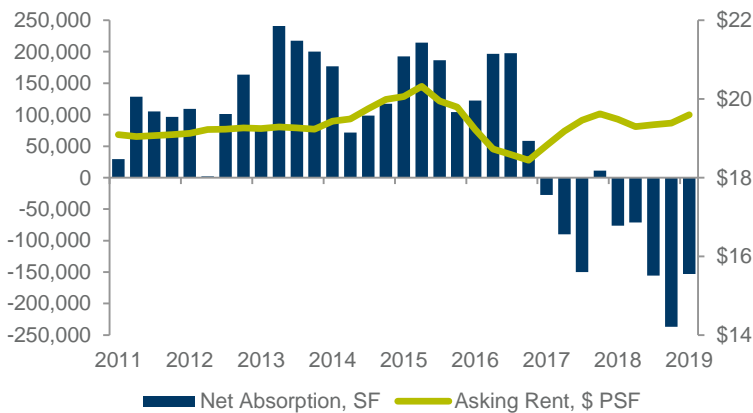
#### Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	10.7%	11.4%	▲
Net Absorption (sf)	-448k	-157k	▼
Under Construction (sf)	616k	1.7M	▲
Average Asking Rent*	\$18.99	\$19.86	▲

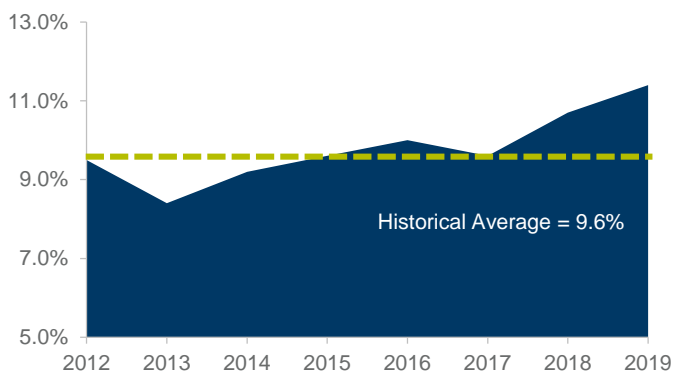
\*Rental rates reflect gross asking \$psf/year

#### Overall Net Absorption/Overall Asking Rent

##### 4-QTR TRAILING AVERAGE



#### Overall Vacancy



### Economy

Unemployment in the Pittsburgh region hit its lowest level in nearly half a century, dropping to 3.6% in February 2019. The workforce grew by 8,000 new jobs, despite announcements by both FedEx Ground and Bayer Corporation of planned consolidations and closures estimated to result in the elimination of more than 700 local jobs. Partners4Work, an Allegheny County workforce development organization reported that online job advertisements nearly doubled in 2018 as employers struggled to match candidates with specific skills required to support the region's top industries of education, medicine, technology and robotics.

### Market Overview

The new construction pipeline for the region topped 1.7 million square feet (msf) in the first quarter 2019, an increase of more than 175% over the same period 2018. More than 75% of new projects announced are located within the urban core, including the Pittsburgh Penguin's redevelopment plan for the former Civic Arena site. The Penguins have partnered with Buccini/Pollen Group to develop and market approximately 190,000 square feet (sf) of retail and 810,000 sf of office space on the site of their former home. Construction on the first 200,000-sf office building is scheduled to begin in the fourth quarter 2019. Across the Monongahela River on Pittsburgh's South Side, Trammell Crow unveiled plans for a 200-room hotel and three additional office buildings totaling 400,000 sf at its Glass Works project just east of Station Square. The first 120,000-sf building is scheduled to break ground later this year. New development in Pittsburgh's office sector is driven not necessarily due to supply issues, but rather by the modern demands of current and future occupiers. Older inventory – in both the CBD and suburban markets – is suffering an uptick in vacancy rates – 70 basis points year-over-year in first quarter 2019 – as tenants choose new speculative or build-to-suit options capable of offering key amenities such as access to natural light, fitness centers, flexible floorplates and onsite food and beverage. Thus, while it is most common to see asking rental rates fall as vacancy rates rise, Pittsburgh's new construction deliveries come with a higher price tag, challenging that trend.

### Outlook

New leasing and net absorption activity should experience substantial year-over-year increases while overall vacancy will edge up slightly throughout 2019.

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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 AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Armstrong County	193,367	0	0	0%	-1,400	-1,400	0	0	\$11.00	N/A
Beaver County	1,364,142	0	138,763	10.2%	-8,500	-8,500	0	0	\$15.12	\$18.76
Butler County	4,144,285	12,289	216,323	5.5%	-63,660	-63,660	16,680	0	\$22.19	\$24.63
<b>CBD</b>	<b>24,728,307</b>	<b>265,383</b>	<b>3,799,769</b>	<b>16.4%</b>	<b>-179,806</b>	<b>-179,806</b>	<b>142,549</b>	<b>0</b>	<b>\$26.44</b>	<b>\$30.14</b>
Fayette County	626,698	0	0	0%	0	0	0	0	\$0.00	N/A
Greater Downtown	11,815,597	225,269	1,002,152	10.4%	23,711	23,711	50,110	581,708	\$22.82	\$26.23
North Pittsburgh	6,683,562	28,883	670,739	10.5%	-40,092	-40,092	49,217	135,000	\$20.53	\$25.09
Northeast Pittsburgh	2,204,906	560	119,615	5.5%	-2,110	-2,110	4,861	0	\$18.79	\$24.56
Oakland	3,564,857	0	38,631	1.1%	25,464	25,464	6,518	399,067	\$23.65	\$39.84
Parkway East	10,710,868	15,663	1,181,536	11.2%	27,521	27,521	37,290	453,833	\$19.59	\$22.18
Parkway West	10,369,901	104,602	1,300,202	13.5%	23,777	23,777	48,047	170,380	\$22.02	\$24.68
South Pittsburgh	6,022,031	42,144	470,599	8.5%	5,663	5,663	23,450	0	\$18.16	\$25.53
Washington County	5,240,677	0	470,004	9.0%	21,705	21,705	152,968	0	\$21.90	\$24.36
Westmoreland County	3,112,565	0	239,768	7.7%	-12,560	-12,560	26,443	0	\$15.91	\$21.75
<b>PITTSBURGH TOTALS</b>	<b>90,781,763</b>	<b>694,793</b>	<b>9,648,101</b>	<b>11.4%</b>	<b>-157,487</b>	<b>-157,487</b>	<b>558,133</b>	<b>1,739,988</b>	<b>\$19.86</b>	<b>\$25.65</b>

\*Rental rates reflect gross asking \$psf/year \*\*Does not include renewals

	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)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	32,995,287	436,802	3,979,439	13.4%	-144,189	-144,189	220,875	1,437,574	\$25.70	\$25.65
Class B	45,625,591	164,080	4,504,713	10.2%	-56,304	-56,304	291,305	302,414	\$20.58	\$20.55
Class C	12,160,885	93,911	1,163,949	10.3%	43,006	43,006	134,402	0	\$13.33	\$13.83

### Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
11279 Perry Highway	45,000	Lucas Systems	Expansion	North Pittsburgh
3250 Craft Place	42,000	UPMC	New	Oakland
437 Grant Street	31,500	Elite Transit Solutions	New	CBD

### Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
4350 Northern Pike	494,344	Lone Star Funds / Four 4350 Propco, LLC	\$18,275,000 / \$37	Monroeville
100 Technology Drive	153,110	Highlands REIT / Bridgeside PITT, LLC	\$38,500,000 / \$251	Oakland
35 Summit Drive	115,000	PNC Bank / DataBank, Ltd.	\$26,400,000 / \$230	Parkway West
100 Commerce Drive	46,500	ADP / R&R Express Properties, LLC	\$3,100,000 / \$67	Parkway West

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