

# MARKETBEAT

# Pittsburgh, PA

Office Q3 2018



## PITTSBURGH OFFICE

### Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Pittsburgh Employment	1.2M	1.2M	▲
Pittsburgh Unemployment	4.9%	4.1%	▼
U.S. Unemployment	4.4%	3.9%	▼

Statistics above represent quarterly averages for Q318 Pittsburgh region

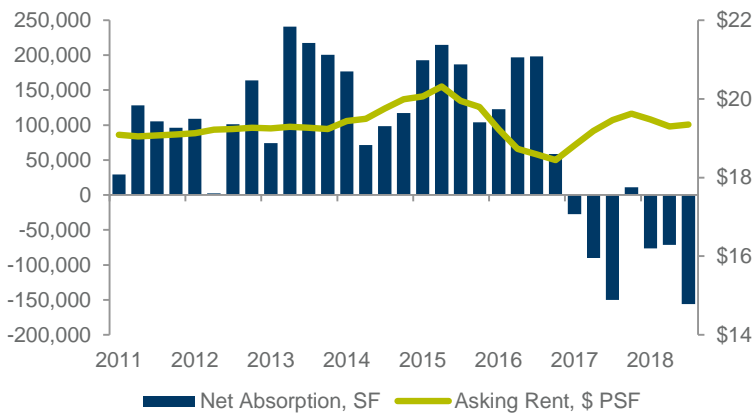
### Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	10.3%	11.1%	▲
Net Absorption (sf)	-265k	-339k	▲
Under Construction (sf)	546k	1.1M	▲
Average Asking Rent*	\$19.23	\$19.42	▲

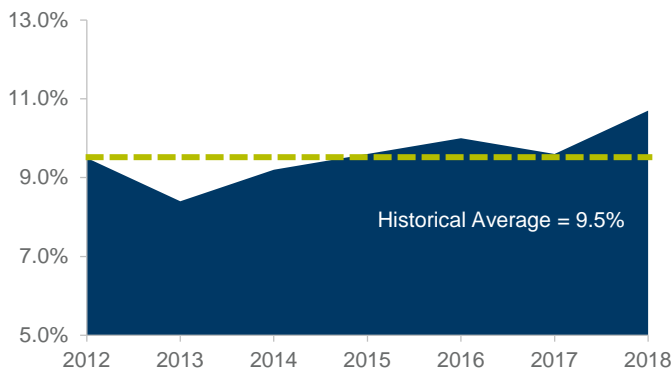
\*Rental rates reflect gross asking \$psf/year

### Overall Net Absorption/Overall Asking Rent

#### 4-QTR TRAILING AVERAGE



### Overall Vacancy



## Economy

Unemployment remained near the 4% mark through Q3 2018, trending near the 11-year low hit in early 2018, but job growth within the Pittsburgh region slipped during the same period, down 0.7% year-over-year with only 8,000 new jobs created. The burgeoning tech sector has strengthened the local economy while simultaneously tightening the labor pool as companies vie for a limited supply of qualified talent to satisfy growing workforce demands. The education and health care sectors continued to lead the charge with 4,000 new jobs created and about a 1.7% increase year-over-year, while the financial sector cut nearly 1,800 jobs during the same period, approximately 2% of its workforce.

## Market Overview

The Strip District – which accounts for more than 11% of new leasing activity in Pittsburgh year-to-date (YTD) – was selected as the new home for Bombardier Transportation, Serendipity Labs and Facebook in third quarter 2018. Set to occupy nearly 250,000 square feet (sf) combined, these three companies join a host of nationally recognized tenants, whose regional headquarters are situated in Pittsburgh's Silicon Strip, including Uber, Argo AI, Robert Bosch, Microsoft and Apple. This area just east of the CBD belongs to the Greater Downtown submarket, which also leads the overall market in new speculative development, with nearly 581,000 sf under construction – nearly three times more than Oakland, the second most active submarket in the region with nearly 200,000 sf of new projects in the pipeline. Relocations and tenant right-sizing, particularly within the CBD have led to negative YTD net absorption of 339,000 sf and an increase in vacancy of nearly 100 basis points (bps) this quarter. Law firms and professional service organizations are moving to more open, modern floor plans resulting in smaller requirements. As a result, landlords have undertaken substantial capital improvements to accommodate these users, driving up the average asking rental rates across all classes.

## Outlook

Leasing activity should surpass 2.0 million square feet (msf) by year-end 2018 but will fall short of the 2017 total by more than 1.0 msf. Though leasing in the CBD for third quarter 2018 was up 157% over the previous quarter, the urban submarkets will dominate new leasing in 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	21,400	11.1%	0	-1,400	0	0	\$8.58	N/A
Beaver County	1,364,142	0	138,513	10.2%	1,381	13,601	12,721	0	\$14.36	\$20.00
Butler County	4,144,285	324,211	130,559	11.0%	45,314	-24,541	62,431	75,000	\$21.72	\$23.86
<b>CBD</b>	<b>24,728,307</b>	<b>118,181</b>	<b>3,385,605</b>	<b>14.2%</b>	<b>-75,615</b>	<b>-633,019</b>	<b>249,450</b>	<b>0</b>	<b>\$26.18</b>	<b>\$30.94</b>
Fayette County	626,698	0	39,939	6.4%	0	44,602	0	0	\$17.00	N/A
Greater Downtown	11,815,597	348,194	1,113,651	12.4%	-97,869	54,117	356,395	580,972	\$23.04	\$26.57
North Pittsburgh	6,683,562	2,695	448,858	6.8%	17,413	-28,432	148,300	45,000	\$20.05	\$25.99
Northeast Pittsburgh	2,204,706	3,225	117,252	5.5%	7,233	50,320	42,794	0	\$18.81	\$24.10
Oakland	3,564,857	0	110,489	3.1%	10,070	-46,712	5,750	192,593	\$23.76	\$39.84
Parkway East	10,710,868	9,559	1,060,952	10.0%	18,654	98,138	265,724	147,500	\$20.10	\$23.00
Parkway West	10,369,901	67,361	1,295,508	13.1%	50,063	79,484	245,284	60,380	\$21.97	\$25.39
South Pittsburgh	6,010,258	30,859	539,782	9.5%	-2,023	-34,014	120,031	11,773	\$18.50	\$25.56
Washington County	5,240,677	25,279	509,923	10.2%	-43,782	144,672	301,752	0	\$22.11	\$24.53
Westmoreland County	3,112,565	0	249,052	8.0%	-15,353	-56,291	11,360	0	\$15.73	\$20.53
<b>PITTSBURGH TOTALS</b>	<b>90,769,990</b>	<b>929,564</b>	<b>9,161,483</b>	<b>11.1%</b>	<b>-84,514</b>	<b>-339,475</b>	<b>1,821,992</b>	<b>1,113,218</b>	<b>\$19.42</b>	<b>\$25.86</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	797,529	3,958,312	14.4%	-175,033	-241,438	1,155,132	1,003,945	\$25.94	\$25.86
Class B	45,613,818	125,375	4,712,645	10.6%	83,604	-115,895	616,040	109,273	\$17.95	\$17.95
Class C	12,160,885	6,660	490,526	4.1%	6,915	17,858	50,820	0	\$14.43	\$14.43

### Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
15 <sup>th</sup> & Smallman Streets / Strip District	105,000	Facebook	New	Greater Downtown
1251 Waterfront Place / Strip District	90,289	Bombardier Transportation Rail Control Solutions Group	New	Greater Downtown
3420 Forbes Avenue	36,323	University of Pittsburgh	New	Oakland
500 Grant Street / BNY Mellon Center	20,822	Vorys, Sater, Seymore & Pease, LLP	New	CBD

### Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
601 Grant Street / Federal Home Loan Bank	163,761	Sheet Metal Workers' National Pension Fund / RDC, Inc.	\$10,100,000 / \$62	CBD
810-814 Penn Avenue	48,000	Genstein Limited Partnership / GoRealty LLC	\$4,700,000 / \$98	CBD
375 Valleybrook Road	22,000	Phillips & Associates Development Co. / A.C. Coy Company	\$2,060,000 / \$94	Washington County

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