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Pittsburgh office market report

Q3 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Higher vaccination rates and relaxed restrictions have allowed the Pittsburgh MSA unemployment rate to recover from a high of 16.6 percent in April 2020 to **6.6 percent** in July 2021.
- Office-using job losses in Pittsburgh MSA have decreased **3.8 percent**, with the Federal Government adding 3.3% of office-using jobs from early 2020 to the end of third quarter 2021.



Recovery rate

- The average delta between Pittsburgh MSA and U.S vaccination rates for the past three months was **4.23%** and can be anticipated to increase.
- Pittsburgh office occupiers have had to continuously navigate their **return-to-work strategies** throughout the entirety of 2021, with tech and law firms planning to return more quickly than banking and financial institutional users.



Office demand

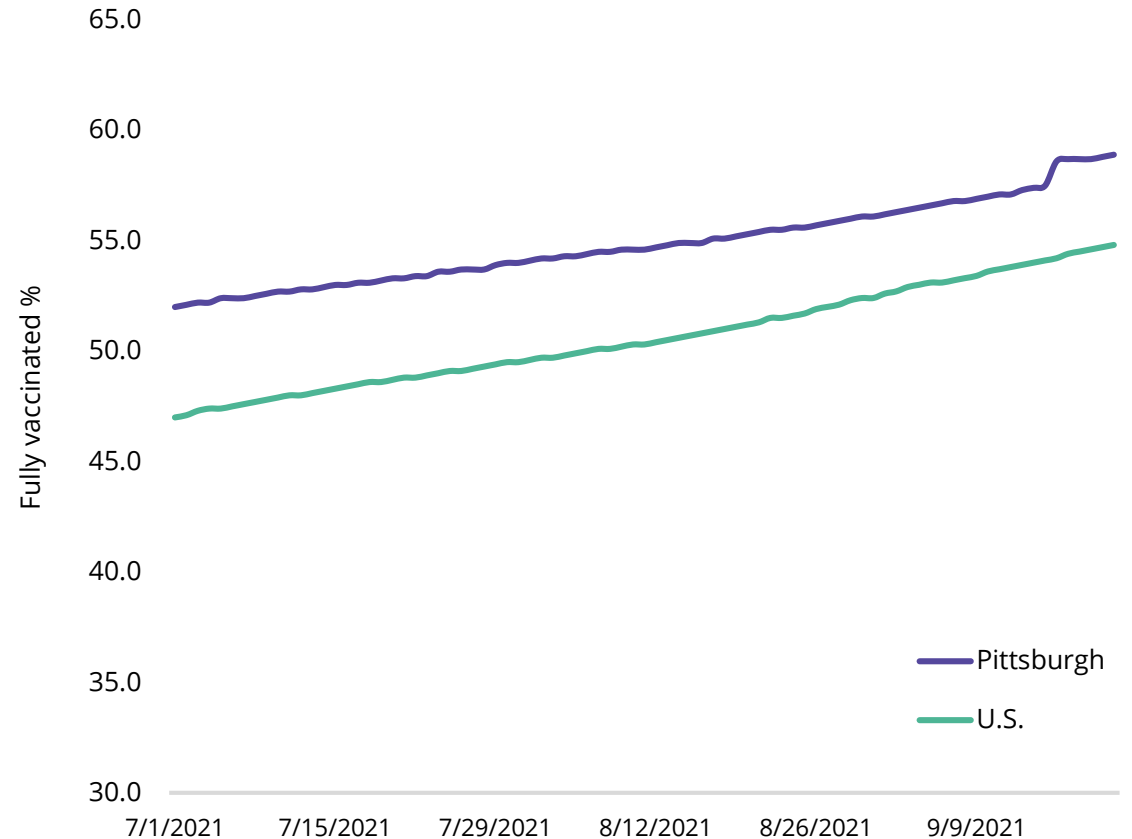
- Leasing activity remains stagnant, decreasing by **42.6 percent** compared with long-term historical averages.
- Vacancy has increased throughout 2021, **up 187 basis points (bps)** from 10.3% recorded in 2020.
- Pittsburgh is seeing an **increased office demand in the Strip District** as another 1.5M SF is in the pipeline to add to its existing 2.4M SF rentable office space

Vaccination rates

58.9%

Share of total Pittsburgh MSA population that is fully vaccinated

Pittsburgh vaccination rates continue to exceed U.S. averages, which will enable office-using industries to safely return to office sooner than other metropolitan areas.



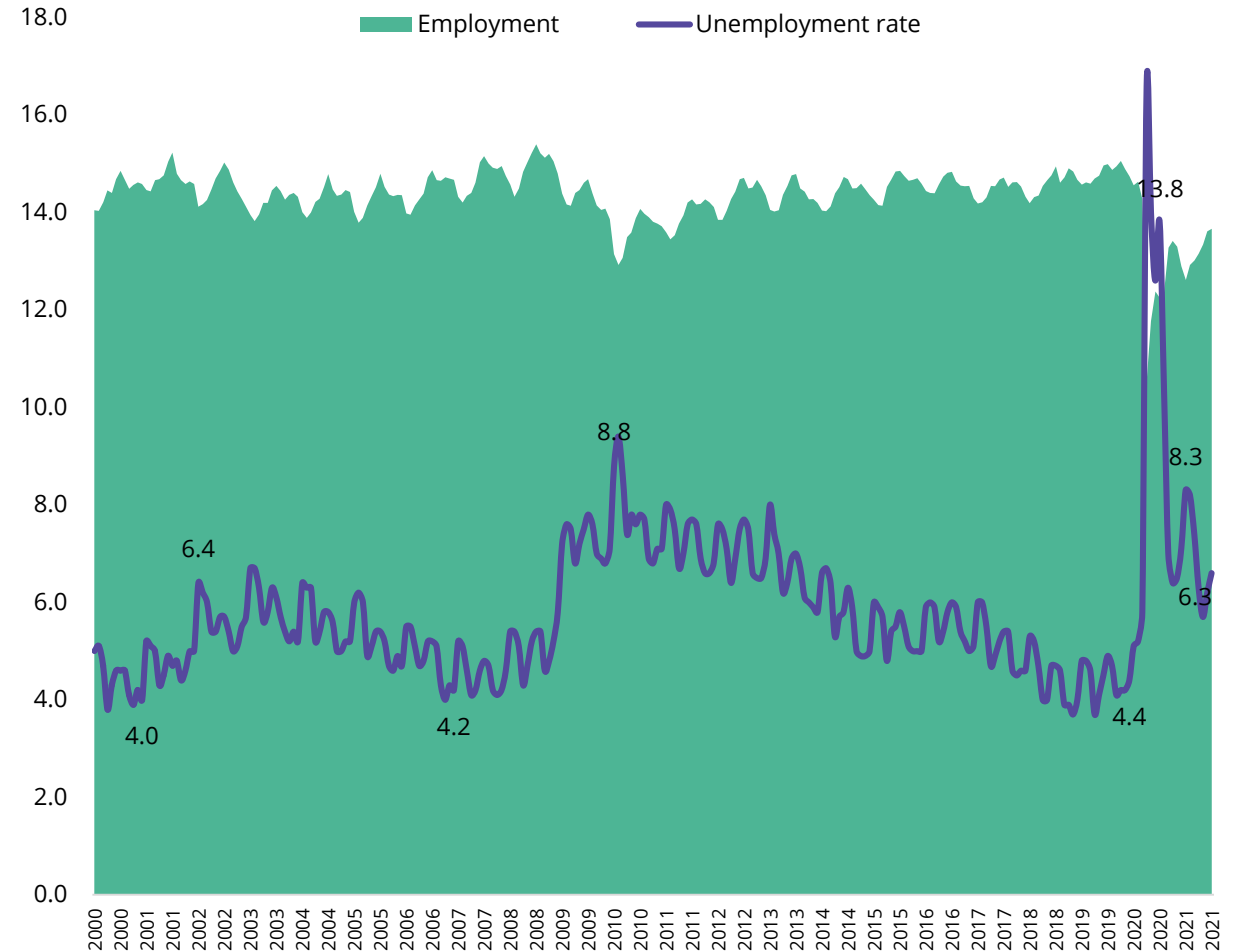
Source: CDC

Employment and unemployment rate

6.6%

Pittsburgh MSA unemployment rate as of July 2021, dipping below the height of the financial crisis

Historically tightened labor market conditions were halted by the pandemic with nearly 180,612 job losses since February 2020. However, positive signs throughout mid-2021 enabled a 14.2% job growth, with current unemployment still standing at 2017 levels and continuously trending toward pre-pandemic rates.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

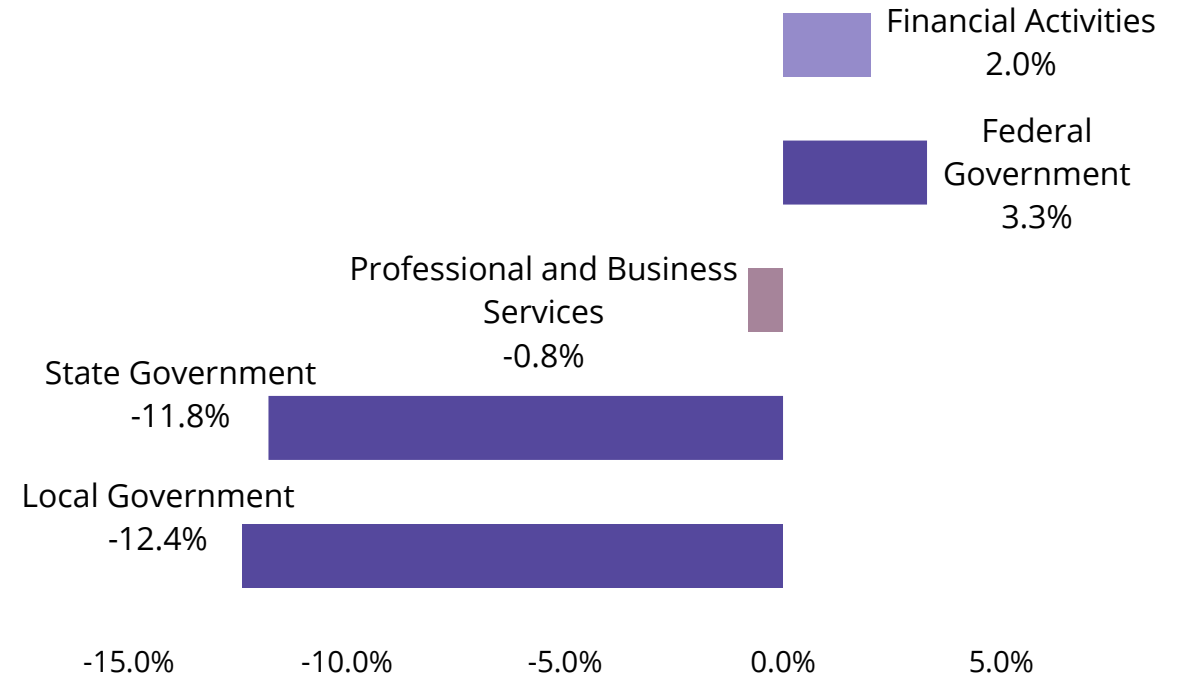
-3.8%

Change in office-using employment during the pandemic

Pittsburgh MSA job losses have declined by 4.6% since the start on the pandemic in February 2020, though office-using jobs contracted by 3.8%.

Total change in Pittsburgh MSA* job gains/(losses)

February 2020 to July 2021



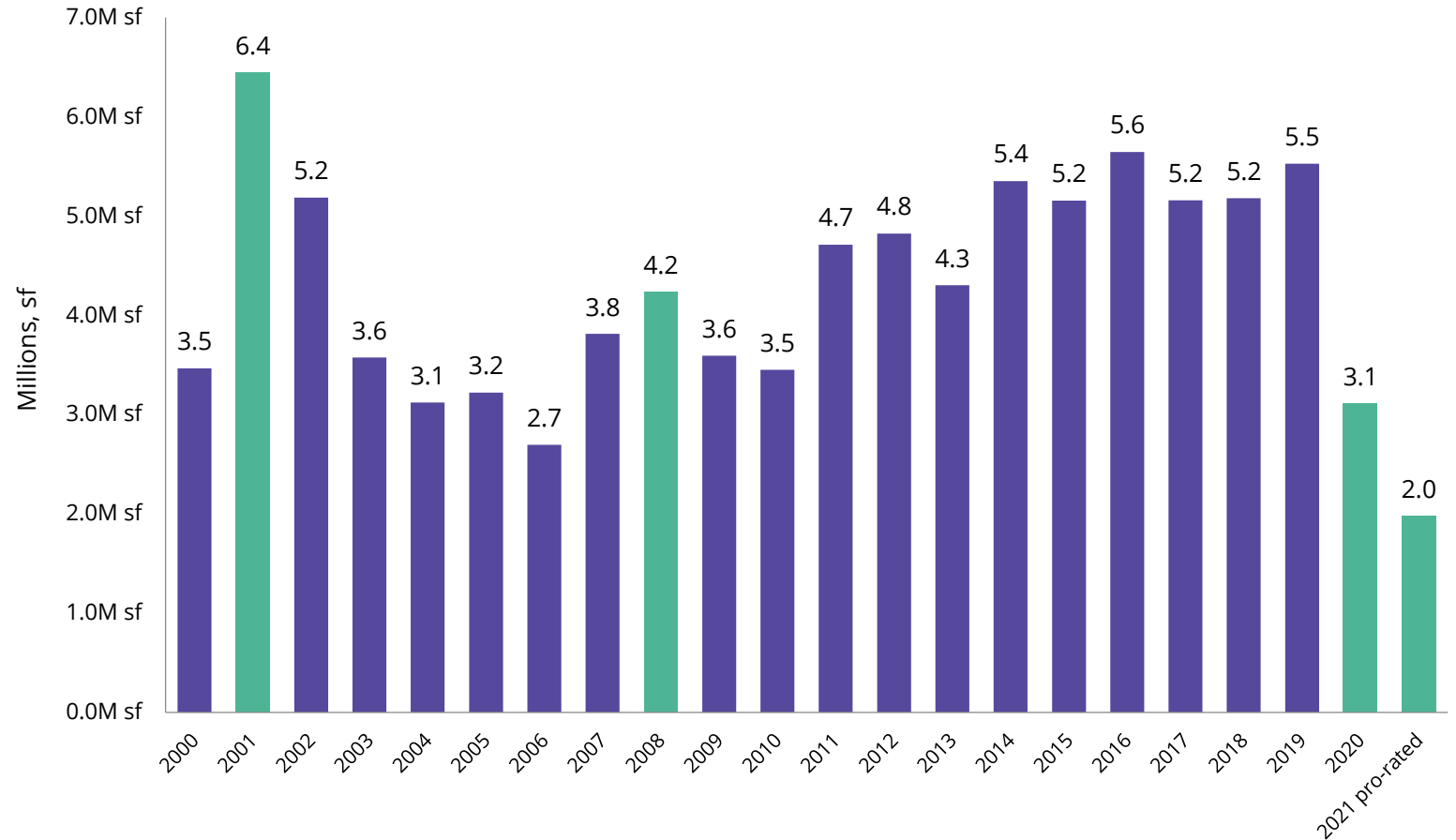
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Office leasing activity

-42.6%

2020-pro-rated 2021 vs. prior 20-year annual average leasing activity

The stall in leasing activity has been extended due to the Delta variant, which has further delayed office occupiers' future workplace strategies and overall office leasing activity.



Note: Green columns represent years with financial crisis.
Source: AVANT by Avison Young, CoStar

Office development pipeline

10 properties

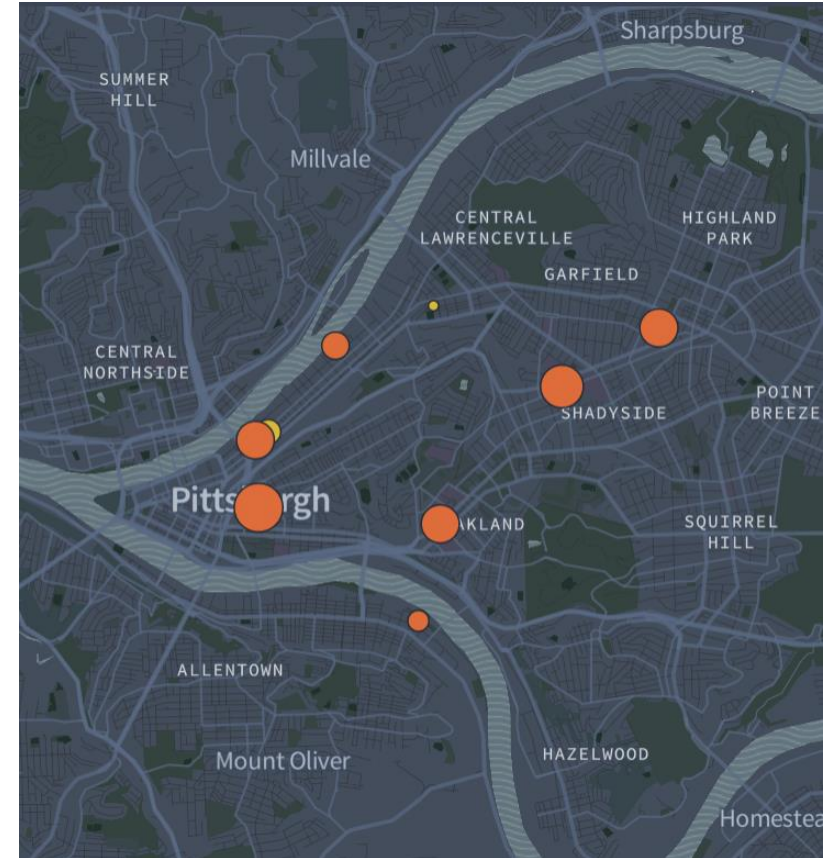
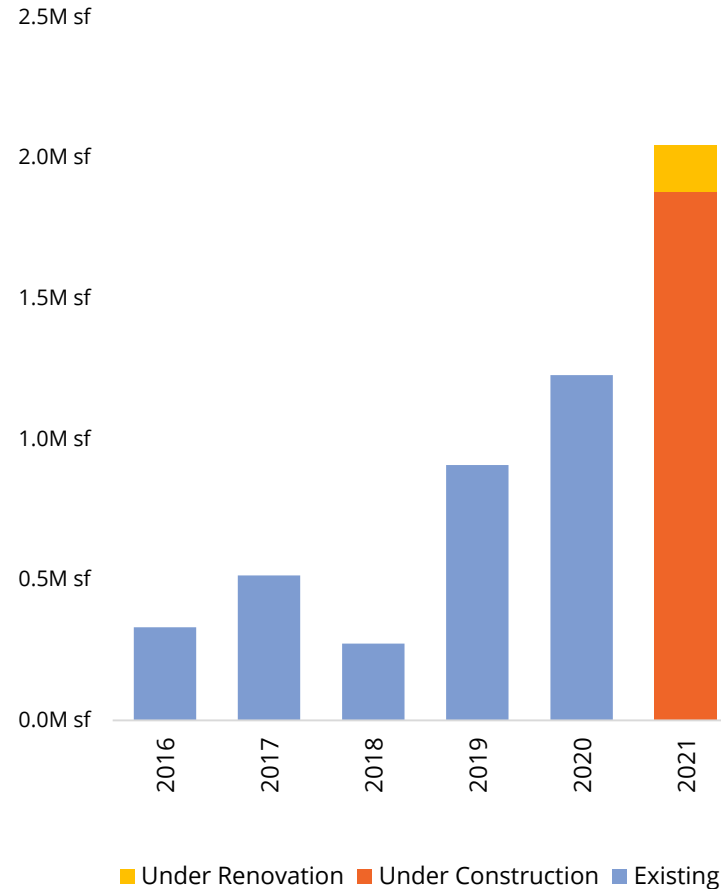
under construction & under renovation

2.06 msf

under construction & under renovation

2.6%

share of office inventory



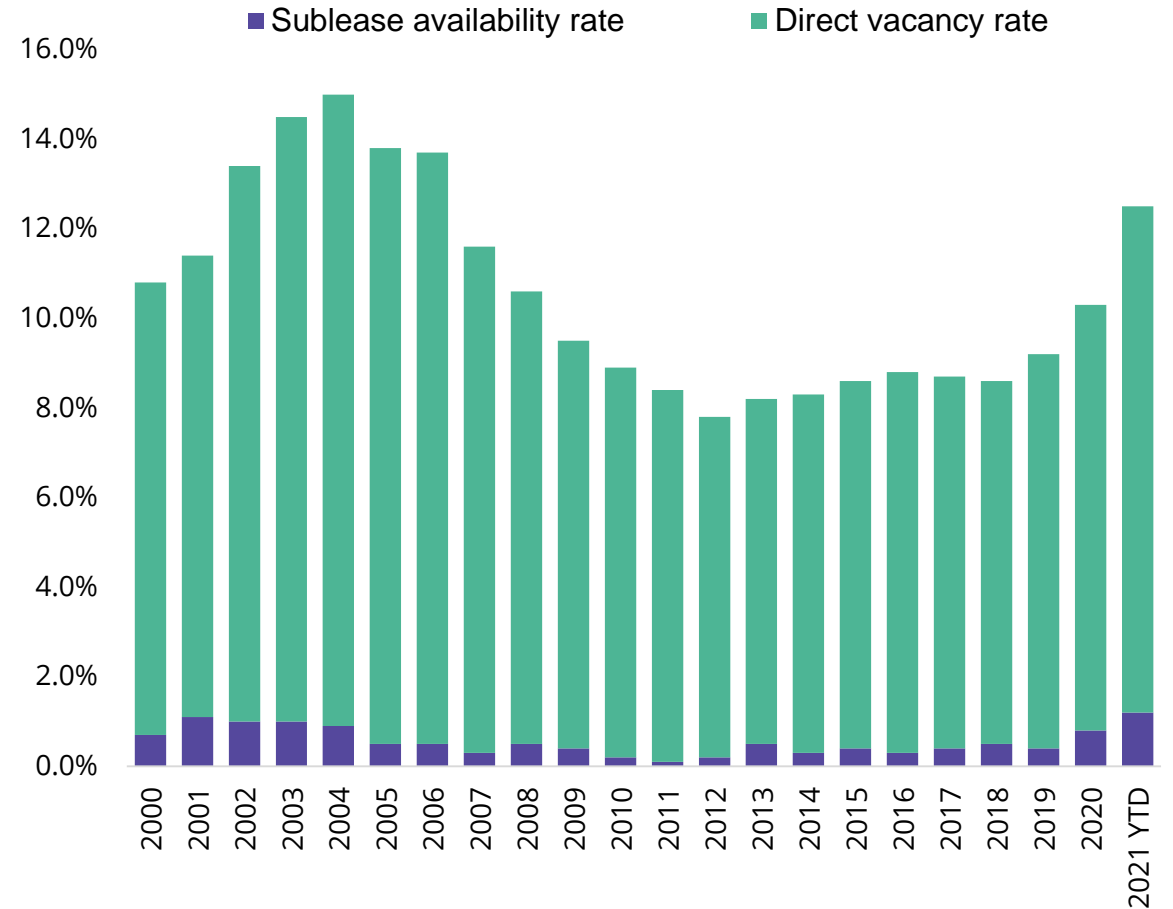
Source: AVANT by Avison Young

Vacancy Rate

12.5%

Pittsburgh MSA vacancies as of Q3 2021

The Q3 2021 vacancy rate spiked throughout 2021, recorded at 12.5% and up 187 basis points (bps). Due to limited activity in the leasing environment, asking rents continue to remain stagnant, as companies are reevaluating their real estate needs during this uncertain time.

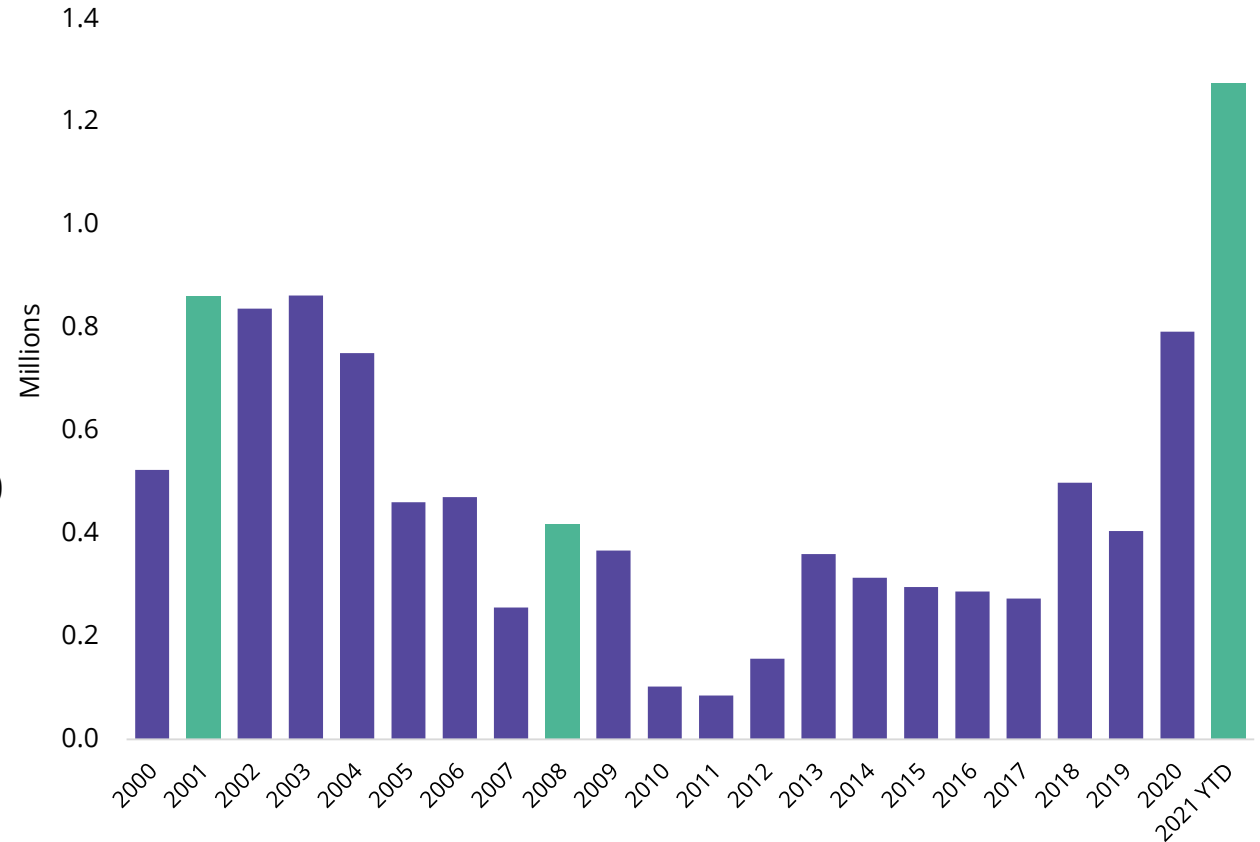


Source: AVANT by Avison Young, CoStar

1.3 msf

Record levels of vacant sublease space

Pittsburgh MSA's sublease space has increased from 2020 and remains at record high. Large companies are decreasing their real estate footprints as they embrace hybrid working models due to lingering effects of the pandemic.



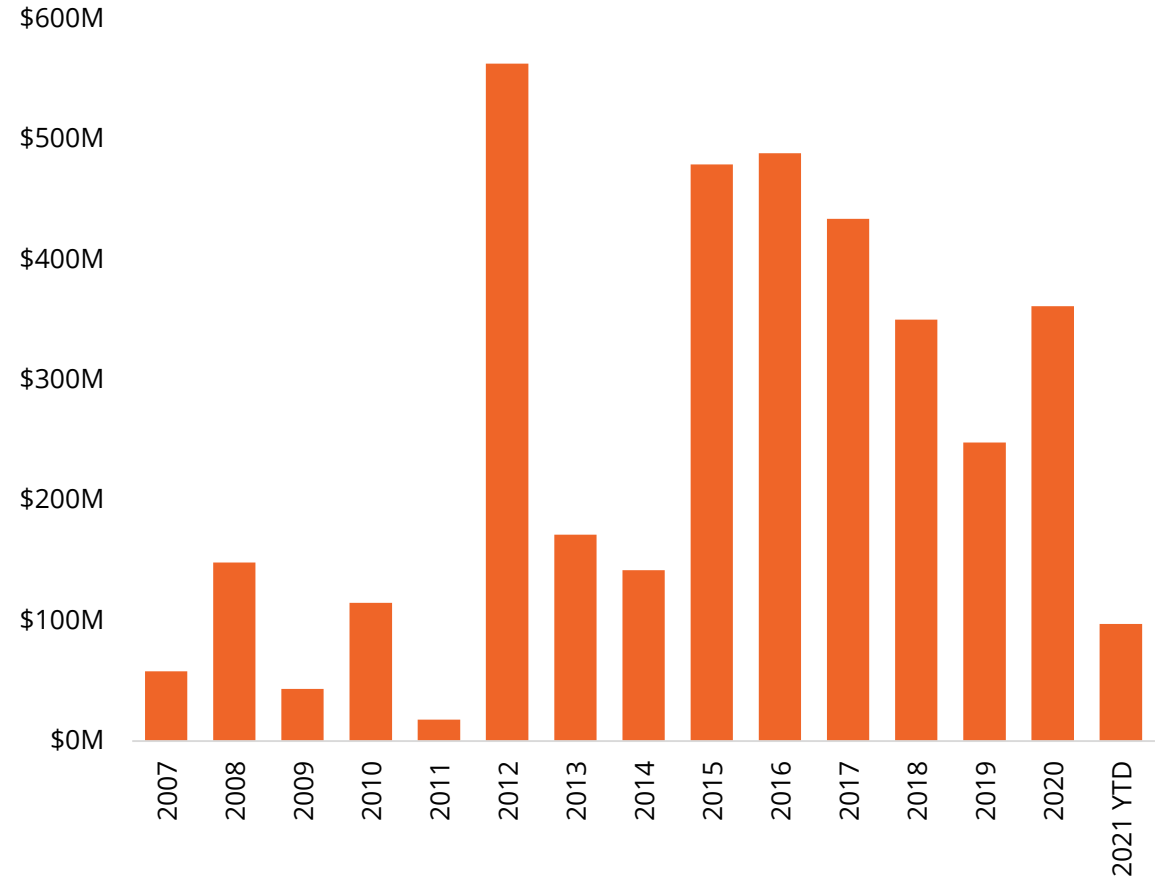
Note: Green columns represent years with financial crisis.
Source: AVANT by Avison Young, CoStar

Office investment dollar volume

\$458.6M

Pittsburgh MSA office dollar volume 2020 to present

Office sales activity has halted over the course of the year, decreasing by an annualized rate of 42.6% compared with the prior five-year average dollar volume. Deals closed prior to COVID were at record rates, driven by portfolio tied assets that contributed to these totals.



Source: AVANT by Avison Young, CoStar

Looking forward



Here's what we can expect

- Planning commission approved the first phase of a \$1 billion revitalization project at former Civic Arena site, allowing FNB to move forward with its office tower as the **first and only groundbreaking** to happen since the start of the pandemic.
- Emerging entrepreneurial companies continue to be a driving force for short-term **leasing activity**
- **Asking office rents have remained stable throughout COVID**, however this is due to the lack of activity, and owners not adjusting pricing. Next 6-12 months will be telling as to where true rental rates will for market will establish themselves.
- Local companies continue to grow via **mergers & acquisitions**. These companies are typically not leaving the market, but instead expanding footprints, particularly for companies acquired that had large operations where relocation due to cost of operations and living are preferable.



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Let's talk

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