

Office Q1 2024

	YoY Chg	12-Mo. Forecast
17.0% Vacancy Rate	▲	▲
-284.7K Net Absorption, SF	▼	▼
\$25.10 Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2024

	YoY Chg	12-Mo. Forecast
1.2M Pittsburgh Employment	▲	▲
3.3% Pittsburgh Unemployment Rate	▼	▲
3.8% U.S. Unemployment Rate	▲	▲

Source: BLS

Economic Conditions

The Federal Reserve (Fed) kept the federal funds rate constant throughout all of the first quarter 2024, indicating that 75 basis points (bps) worth of cuts may occur by year end. The Fed can take this relaxed position because the data suggests runaway inflation has tapered out, registering at 3.2% year-over-year (YOY). On the other end of the Fed's dual mandate, the national unemployment rate is 3.8%, up 30 bps YOY. Locally, the Pittsburgh economy is traversing potentially rocky waters. The assessed valuations of several prominent downtown skyscrapers were drastically cut due to a lowering in the common level ratio. This near \$245 million reduction in the total assessed value of the buildings in the Central Business District (CBD) directly implies \$5.6 million less in tax revenue for the city of Pittsburgh. The loss in tax revenue is not necessarily the only impact; what is lost by the city in tax revenues is transferred to landlords by way of less taxes owed. However, in this case, the owners of the devalued assets are managing national portfolios, with 90.7% of the portfolio's size in other markets. Therefore, it is not guaranteed that all the value saved via tax cuts will be reinvested in Pittsburgh, thereby likely draining the local economy on a net basis.

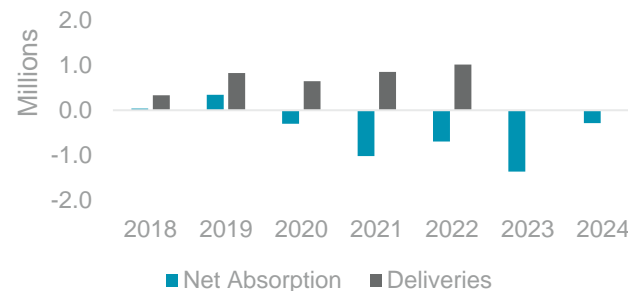
Supply and Demand

No new buildings delivered in the first quarter. However, nearly 700,000 square feet (sf) of premier office space is slated to deliver during the second quarter of 2024. The remaining proposed office projects continue to stall due to low demand and high construction costs. Moreover, many of the rumored office to multifamily conversion projects have stalled due to a lack of capital. These projects had the potential to reduce the CBD's high vacancy rate by converting lower tier product. Leasing activity for the quarter was strong, with over 800,000 sf leased, 630,000 sf of which were linked to new leases. Of this leasing activity, 90.2% occurred in non-CBD markets, despite the CBD buildings historically driving the market. This reversal in leasing trends is, in part, due to financial stress of any CBD office buildings. Within the CBD, nine buildings, totaling 5.0 million square feet (msf) are distressed or soon to be distressed. Moreover, a few prominent buildings have already foreclosed. Financial distress makes it difficult for landlords to finance the concessions (i.e. rent abatement and tenant improvements) as demanded in this tenant driven market. With a high concentration of buildings under loan pressure in the CBD, tenants have had to look outside the CBD to get desired deal terms.

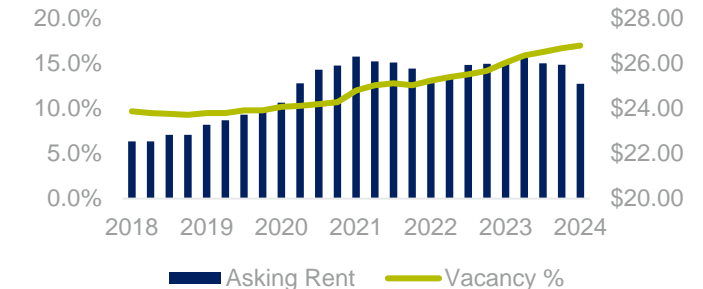
Pricing

Asking rates decreased 3.3% quarter-over-quarter (QOQ), dropping from a face rate of \$25.95 per square foot (psf) to \$25.10 psf. The cause of this reduction in asking rate was twofold. First, over 100,000 sf of trophy space, charging premium rents, was leased. Second, anemic demand has necessitated a cheaper effective rate. Given the recent precarious financial status of many landlords, generous tenant improvement packages (which allow for higher asking rates in times of anemic demand) are scarcely possible. As such, asking rates had to adjust downward in line with the weakening demand.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Office Q1 2024

MARKET STATISTICS

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	Overall Vacancy Rate	Current Qtr Overall Net Absorption (SF)	YTD Leasing Activity*	Under Cstr (SF)	Overall Avg Gross Rent	Overall Avg Gross Rent (A)
Armstrong County	150,472	1,500	0	1.0%	-1,500	0	0	\$17.50	-
Beaver County	1,177,610	88,585	0	7.5%	7,813	0	0	\$15.14	\$15.13
Butler County	3,914,424	511,375	34,472	13.9%	-21,807	40,131	0	\$21.63	\$23.63
CBD**	26,706,241	4,886,725	315,593	19.5%	-8,250	79,596	462,268	\$27.74	\$29.07
East End	3,600,645	600,836	105,445	19.6%	-18,979	117,621	0	\$35.64	\$39.50
Fayette County	661,826	3,000	0	0.5%	0	0	0	-	-
Greater Downtown**	13,822,974	1,764,462	387,043	15.6%	-67,770	90,885	0	\$27.92	\$35.73
Monroeville	2,449,713	583,240	0	23.8%	-26,683	1,879	0	\$17.79	\$18.98
North Pittsburgh	6,399,069	886,022	69,421	14.9%	-3,665	51,833	0	\$22.79	\$24.94
Northeast Pittsburgh	2,483,907	342,600	0	13.8%	-75,595	8,524	0	\$16.63	\$21.03
Oakland	3,513,690	295,123	0	8.4%	-12,330	50,299	0	\$25.26	\$34.00
Parkway East	4,961,226	814,880	0	16.4%	-55,900	412	0	\$20.08	\$29.61
Parkway West	8,643,850	1,906,809	300,531	25.5%	-30,630	75,334	0	\$22.86	\$24.00
South Pittsburgh	5,008,063	320,482	17,500	6.8%	12,700	21,436	0	\$19.14	\$22.86
Washington County	5,784,088	744,238	114,253	14.8%	74,099	33,870	0	\$19.38	\$22.47
West Pittsburgh	2,931,976	771,378	132,202	30.8%	10,192	28,604	224,621	\$22.50	\$24.65
Westmoreland County	3,218,138	238,754	0	7.4%	-66,430	28,922	0	\$14.01	-
Total	95,427,912	14,760,009	1,476,460	17.0%	-284,735	629,346	686,889	\$25.10	\$27.99

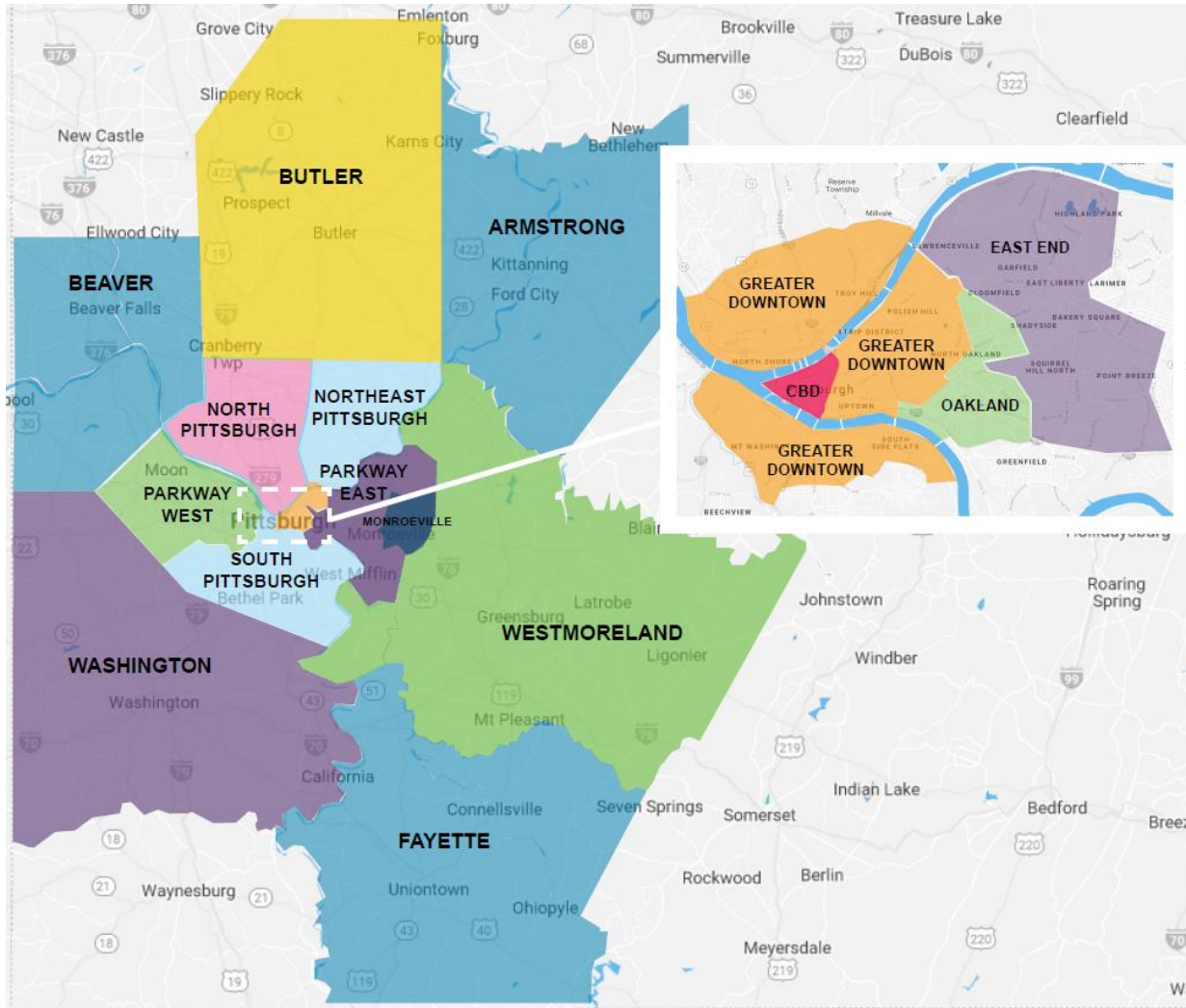
KEY LEASE TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
141 South Saint Clair St	East End	DuoLingo	110,000	Direct / Expansion
2545 Railroad St	Greater Downtown	Excelitas Technologies Corporation	50,000	Direct / New Lease
875 Greentree Rd	Parkway West	Allegheny County – Human Services and Judicial Court	35,000	Direct / New Lease
50 Pennwood Pl	Butler County	FedEx	26,923	Direct / New Lease
2555 Smallman St	Greater Downtown	Robert Bosch LLC	25,787	Direct / Renewal
2000 Park Lane Dr	Parkway West	Harbison Walker	25,143	Direct / New Lease
2400 Market Place Blvd	West Pittsburgh	AssuredPartners	19,000	Direct / New Lease

*Does not include renewals

**CBD plus Greater Downtown submarkets equals the Greater CBD market

OFFICE SUBMARKETS



Steven Patterson
Research Analyst
 Steven.Patterson@cushwake.com

Michael Hanes
Senior Research Manager
 Michael.Hanes@cushwake.com

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