PITTSBURGH

EXECUTIVE SUMMARY

- The strength of the local economy and real estate market will continue to be driven by the services industries with financial, educational and health care being the primary employers.
- The office market will continue to feel the impact, both positive and negative, of many companies moving suburban office users and facilities to urban and fringe locations.
- Demand for high quality and well-located industrial space from both users and investors will continue to out-pace supply, particularly for warehouse distribution and "last mile" fulfilment centers.
- All sectors will be benefiting from the technology innovation and the talented workforce flowing from our universities (Carnegie Mellon, Pitt, and others).

The overall economic outlook for Pittsburgh in 2020 remains stable. Employment levels will continue near historic highs and wages for blue and white-collar workers will steadily increase, although still lagging behind major U.S. metropolitan areas. The population in the five county MSA will remain level, but the composition of residents will continue to transition from an older and elderly dominance to a younger and more mobile subset. Pittsburgh will continue to be recognized as an affordable city to live and work with ready access to high quality health care, leading educational centers and nationally recognized cultural, recreational and sports venues.

The Pittsburgh real estate market in 2020 is likely to realize a "downward adjustment" in certain property classes, specifically multi-family and office development. However, the overall fundamentals will remain strong and Pittsburgh remains well positioned for long-term growth and investment in the real estate sector.

The owners of CBD and suburban properties will continue to consistently compete to maintain and attract new tenants, as the delivery of new and renovated developments in the "fringe" market are in high demand. The dominant trend in 2019 showed major corporate users such as Phillips, Honeywell, Wabtech and Bombardier moving from more distance suburban office buildings to fringe locations, increasing downward pressure on CBD and suburban occupancy and rental rates.

Limited supply of high-quality industrial space will drive steady rent growth in the industrial sector through 2020. Supply and delivery of industrial space has not kept up with demand in recent years, a condition that is even more challenging in Western Pennsylvania due to the limiting geographical and topological factors. The former site of the Pittsburgh International Airport will remain a focal point for new industrial development and investment.

As an example, Amazon is now under construction with a new 1-msf distribution center in Findlay Township that will be completed late in 2020 and generate more than 800 full time jobs. Within the city of Pittsburgh, the development of the 186-acre Hazelwood Green brownfield redevelopment will gain momentum in the year ahead. Carnegie Mellon University's Advanced Robotics for Manufacturing Institute ("ARM") as well as autonomous driving companies such as Uber and Aptiv. This site should serve as a "magnet" for light industrial, R&D, and advanced manufacturing firms that will be drawn to their site drawn to their site.

The retail real estate market in Pittsburgh will continue to fight the "headwinds" that are prevalent throughout the U.S. retail sector. The acceleration of on-line shopping, the resulting consolidation of brick & mortar stores by retailers and the downfall of many retail mall operations have all played out to limit the demand for retail space across the Pittsburgh market. Vacancy rates are increasing and rental rates are declining slightly but steadily. Further consolidation by retailers is likely to continue in 2020.

The investment market activity for real estate in Pittsburgh will see flat to moderate growth in activity in 2020. As was the case in 2019, the industrial properties will benefit the most, as the fundamentals remain strong especially as compared to investment returns in the major U.S. markets. The investment demand for office and retail declined in 2019 and will likely continue through 2020 as rental and vacancy rates for both product types are expected to hold flat or drop slightly.

The Pittsburgh market is expected to see a shift and change in 2020, both positive and negative in all sectors of the economic and real estate markets.

AVISON YOUNG

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	→	↓	↑
Vacant Space	↑	→	↓
Construction Levels	↓	→	↑
Leasing Volume	→	↓	↑
Investment Volume	↓	↓	↑

RETAIL VACANCY RATES

Pittsburgh Year-End Retail Vacancy Rates

Source: Avison Young and CoStar Realty Information, Inc.