

FIGURES | PITTSBURGH INDUSTRIAL | Q4 2022

Pittsburgh market nets positive absorption for fourth consecutive quarter



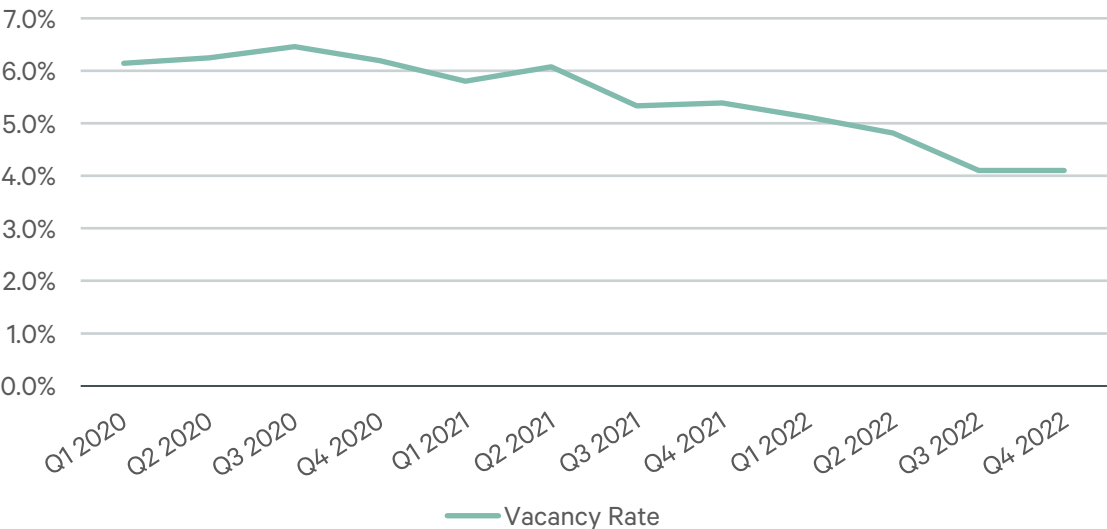
Note: Arrows indicate change from previous quarter.

Market Summary

- The Pittsburgh industrial vacancy rate is down 10 basis points from Q3 to 4.1% in Q4 2022 while availability drops to 5.1% as demand for industrial space remains strong
- Industrial properties net positive absorption for the fourth straight quarter in 2022 at 292,439 sq. ft. in the fourth quarter. 2022 netted over 1.1 million sq. ft. in positive absorption throughout the year.
- The overall net market rent is \$7.80 per sq. ft., up nearly \$0.30 per sq. ft. year-over-year. The R&D/Flex subtype posts rents at \$15.88/sq. ft. as the warehouse/distribution rents are \$5.78 per sq. ft.

The Pittsburgh industrial market remains active as yearly absorption nets positive 1.1 million sq. ft. for the year. There is currently over 2.4 million sq. ft. of speculative construction underway in the Pittsburgh market, a record high. With construction totaling over 3.5 million sq. ft. there is a clear pipeline to meet the ongoing demand for class A industrial space. Market rents continue to rise in the Westmoreland County & West submarkets, \$0.30 year-over-year, as they post positive absorption for the third straight quarter in 2022.

FIGURE 1: Market Vacancy Rate History



Source: CBRE Research, Q4 2022

Market Activity

Leasing activity totaled roughly 400,000 sq. ft. in the fourth quarter of 2022, resulting in leasing activity upwards of 3 million sq. ft. throughout the year. Of all industrial leasing activity in 2022, over 76% are new leases.

Westmoreland continues to be an active submarket throughout 2022 as the area nets positive absorption of 150,000 sq. ft. in the fourth quarter as a result of a sale transaction where Flynn’s Tire & Auto Service bought and occupied the recently delivered building at 1 Excel Drive in Hempfield Commerce Center. Frank B. Fuhrer Wholesale also bought a new development site for 300,000 sq. ft. at 2430 Boquet Road, to be delivered and occupied by the third quarter of 2023.

The Westmoreland County submarket netted 186,000 sq. ft. throughout 2022. Other areas of high activity and demand include the West submarket, where availability fell to 2.6% and absorption totaled nearly 300,000 sq. ft. throughout 2022. Berlin Packaging expanded their footprint in the second quarter of this year, taking 157,000 sq. ft. at 2400 Sweeney Drive in the West submarket. McClaren building 1 at the new class A development site. Skyview Business Park, was leased for roughly 150,000 sq. ft. to an undisclosed tenant. LaserShip signed a lease in the City of Pittsburgh at 1080 River Ave for over 90,000 sq. ft. The South submarket also remains active as the vacancy rate is currently 1.1% and availability 1.6%.

Construction

The development pipeline remains strong as over 625,000 sq. ft. was delivered in 2022 and another 3.55 million sq. ft. are currently under construction. As speculative construction currently sits over 2.2 million sq. ft., a record high for the Pittsburgh industrial market, it accounts for over 62% of all construction. The two submarkets with notable development include the West submarket with 1.28 million sq. ft. and the Westmoreland County submarket with 1.3 million sq. ft. under construction.

The West submarket currently has three notable development sites including the Northfield Industrial Park which will bring over 580,000 sq. ft. to market as building 4 is fully leased and building 3 of over 154,000 sq. ft. broke ground in 2022. The submarket also holds Skyview business park where buildings 1 and 2 are currently under construction where over 390,000 sq. ft. will be delivered in 2023. Westport Ridge is also under construction as building 1 is occupied by Home Depot & RAK Porcelain. The remaining two buildings will deliver throughout 2023.

FIGURE 2: Q4 Net Absorption & Asking Rates by Submarket

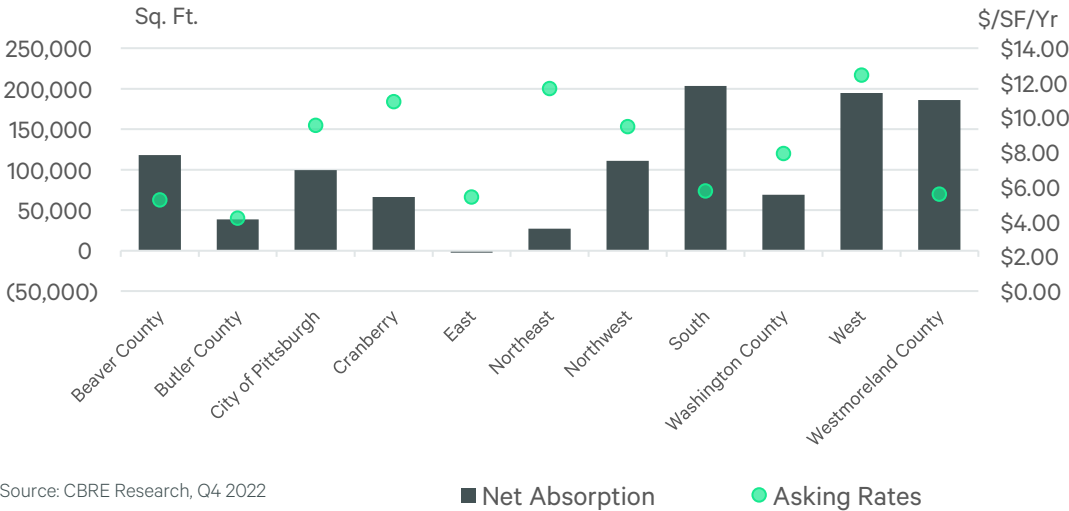
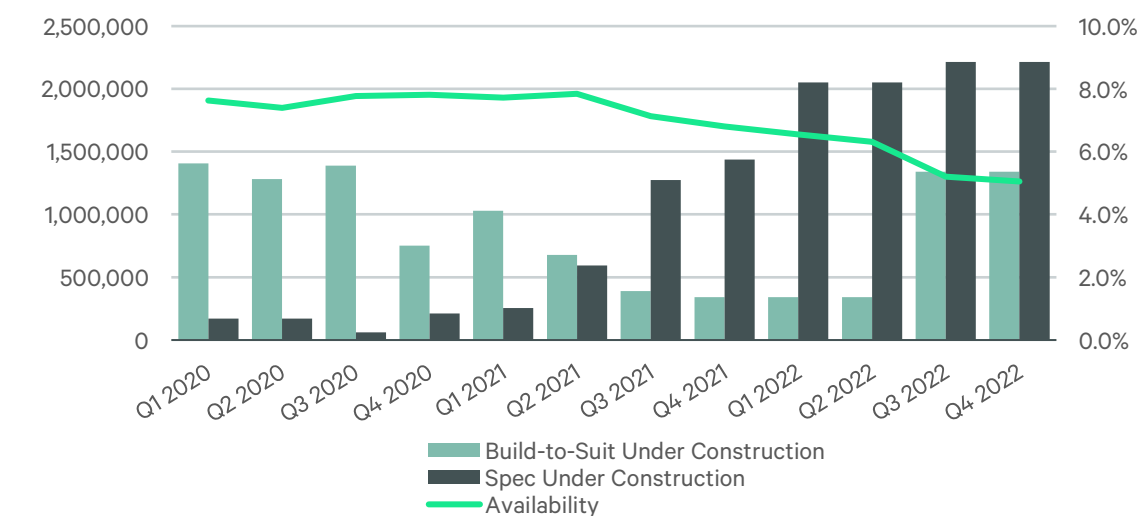


FIGURE 3: Under Construction & Availability



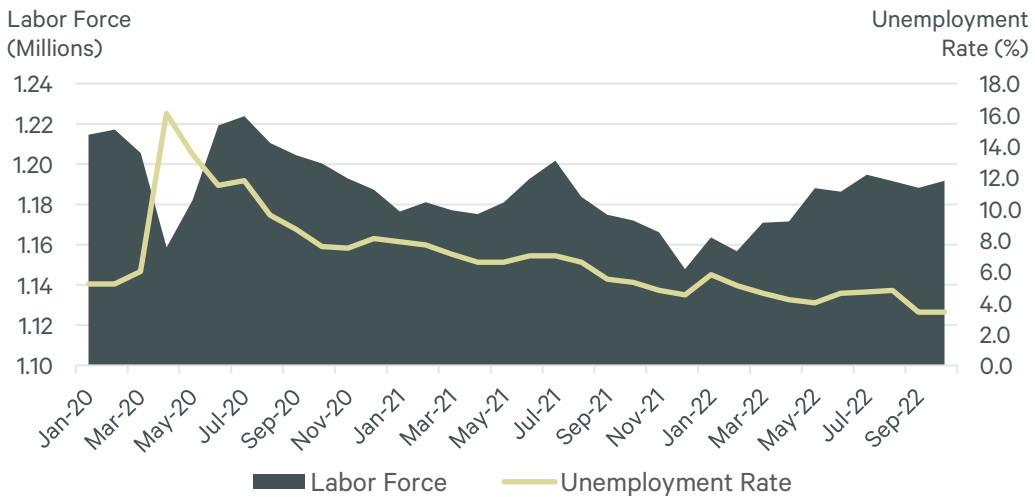
Employment Update

The Pittsburgh workforce continues to recover as it stabilizes at pre-pandemic levels. The current unemployment rate in Pittsburgh falls to 3.5%, a historic low, showing signs of recovery as a result of the return-to-work trend in most sectors. Unemployment is down 180 basis points year-over-year exhibiting the recovery in the office market.

The current labor force in Pittsburgh rose to 1.2 million in the fourth quarter of 2022, up 21,400 from Q4 2021. Most sectors showed growth year-over-year in employment change with manufacturing jobs posting an 11.8% annual growth, leisure and hospitality services up 10.2% annually, and professional and business services up 4.8%. Overall job growth exhibits a 2% year-over-year growth, as industrial -using jobs grows to more than 353,000 for the Pittsburgh market.

Pittsburgh, like all other markets, continues to battle the effects of the pandemic on employment. Despite the implementation of a hybrid work model and economic instability, the Pittsburgh workforce continues to grow stronger through the end of 2022.

FIGURE 4: Historical Unemployment & Labor Force



Source: CBRE Research, Q4 2022

Market Outlook

The problems associated with inflation continue to run their course. Although the pace of inflation may have started to plateau, the Federal Reserve’s hawkish response has been unequivocal in a way that caught markets by surprise. Aggressive rate hikes and Fed balance sheet reductions have successfully resulted in a strong dollar and higher mortgage rates, and the beginning of a slowdown in the US Economy.

Higher rates are not just impeding household decisions; a higher corporate cost of capital is forcing firms to rethink hiring plans. So far resilient consumers have driven further economic growth but now the realities of lower savings rates and chronically poor sentiment suggest excess spending is coming to and end. Consequently, we expect the economy to contract early next year, and unemployment to rise. This should push inflation down toward 3% by year-end 2023. It is possible the Fed may be able to reduce inflation and maintain the unemployment rate below 5%, but we should not bank on that. Once inflation is tamed, both capital and real estate markets will become more predictable again.

U.S. industrial leasing activity is expected to moderate in 2023 as occupiers delay expansion plans and the post-pandemic need to hold additional inventory dissipates. Despite the slowdown, demand will keep up with supply in 2023, posting positive net absorption, a near record-low vacancy rate and solid rent growth.

Larger retailers, occupiers and third-party logistics (3PL) companies will continue to expand despite the economic slowdown as they look to shore up their distribution capabilities. However, smaller businesses don’t have the capital reserves to do the same. Small businesses are the top occupier of light-industrial facilities (under 25,000 sq. ft.), demand for which fell by 20% year-over-year as of Q3 2022. A similar slowdown will occur in 2023 amid economic uncertainty and higher supply chain costs. Groundbreakings will fall by more than half in early 2023 due to construction financing challenges and economic uncertainty, leading to a shortage of first-generation space and a return to record-low vacancy rates at a time when many companies will reenter the market.

Sharply higher interest rates will weigh on the U.S. economy in 2023. House prices and retail sales will decline, and unemployment will rise. The U.S. dollar’s continued strength against other global currencies will further squeeze corporate earnings and export sales, limiting business investment. As a result, CBRE expects a recession in 2023, resulting in less real estate investment and leasing activity. Adding to the contractionary effects of tighter monetary policy is a weaker global economy. Elevated energy prices, the war in Ukraine and weaker housing demand will inhibit growth in 2023.

FIGURE 5: Submarket Statistics by Subtype

| Submarket / Subtype | Inventory | Vacancy Rate | Total Vacant SF | Availability Rate | YTD Net Absorption | Overall Asking Rate |
|----------------------------|------------|--------------|-----------------|-------------------|--------------------|---------------------|
| Beaver County | | | | | | |
| R&D/Flex | 201,810 | 6.4% | 13,000 | 6.4% | 0 | N/A |
| Warehouse/Manufacturing | 11,301,314 | 5.3% | 603,300 | 6.7% | 118,000 | \$5.26 |
| Butler County | | | | | | |
| R&D/Flex | 112,500 | 0.0% | 0 | 0.0% | 0 | N/A |
| Warehouse/Manufacturing | 8,490,212 | 4.1% | 349,350 | 4.4% | 38,750 | \$4.21 |
| City of Pittsburgh | | | | | | |
| R&D/Flex | 1,279,010 | 10.6% | 135,384 | 15.5% | 19,542 | \$16.54 |
| Warehouse/Manufacturing | 14,344,317 | 2.1% | 307,770 | 3.0% | (17,959) | \$7.56 |
| Cranberry | | | | | | |
| R&D/Flex | 1,779,344 | 13.9% | 247,717 | 14.6% | 16,200 | \$15.83 |
| Warehouse/Manufacturing | 7,274,227 | 0.1% | 10,000 | 0.7% | 50,000 | \$7.57 |
| East | | | | | | |
| R&D/Flex | 1,721,093 | 1.8% | 31,644 | 3.2% | 11,530 | \$8.19 |
| Warehouse/Manufacturing | 8,908,740 | 12.7% | 1,132,617 | 13.0% | (13,936) | \$5.12 |
| Northeast | | | | | | |
| R&D/Flex | 3,113,603 | 7.9% | 245,632 | 8.0% | (16,160) | \$17.29 |
| Warehouse/Manufacturing | 10,978,447 | 0.5% | 52,510 | 2.3% | 43,235 | \$7.70 |
| Northwest | | | | | | |
| R&D/Flex | 578,486 | 12.6% | 73,076 | 15.0% | (21,298) | \$8.62 |
| Warehouse/Manufacturing | 5,994,888 | 1.3% | 78,424 | 4.0% | 132,183 | \$6.23 |
| South | | | | | | |
| R&D/Flex | 1,172,433 | 2.5% | 29,850 | 2.9% | 20,047 | \$10.08 |
| Warehouse/Manufacturing | 9,941,551 | 1.0% | 96,341 | 1.5% | 183,181 | \$5.78 |
| Washington County | | | | | | |
| R&D/Flex | 1,023,226 | 3.9% | 40,000 | 7.7% | 28,200 | \$11.00 |
| Warehouse/Manufacturing | 12,024,034 | 3.5% | 426,817 | 4.1% | 40,700 | \$7.16 |
| West | | | | | | |
| R&D/Flex | 3,697,295 | 7.9% | 291,806 | 8.3% | 71,852 | \$16.94 |
| Warehouse/Manufacturing | 18,859,188 | 1.5% | 389,068 | 1.5% | 279,876 | \$7.53 |
| Westmoreland County | | | | | | |
| R&D/Flex | 591,529 | 0.9% | 5500 | 0.9% | 0 | \$7.00 |
| Warehouse/Manufacturing | 23,744,708 | 6.0% | 1,434,962 | 8.2% | 186,046 | \$5.57 |

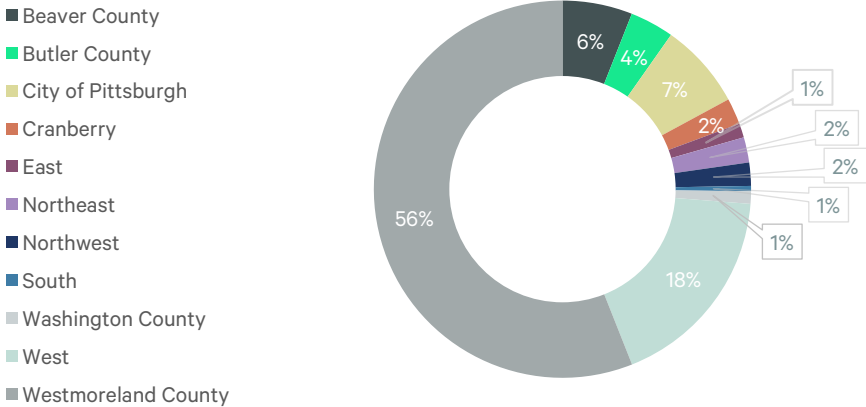
Source: CBRE Research, Q4 2022

FIGURE 6: Statistics by Market Rentable Area

| Market Rentable Area (SF) | Inventory (SF) | Availability Rate (%) | Vacancy Rate (%) | 2022 Net Absorption (SF) | Overall Asking Rate (\$) |
|---------------------------|----------------|-----------------------|------------------|--------------------------|--------------------------|
| <20,000 | 7,828,604 | 2.8 | 1.4 | (12,636) | 9.45 |
| 20,000 - 49,999 | 20,675,185 | 4.6 | 3.5 | 101,174 | 8.90 |
| 50,000 - 99,999 | 25,124,802 | 4.3 | 2.8 | 34,488 | 10.50 |
| 100,000 - 499,999 | 63,024,336 | 4.6 | 3.6 | 617,577 | 6.32 |
| 500,000+ | 30,534,028 | 7.3 | 6.9 | 225,416 | 9.39 |

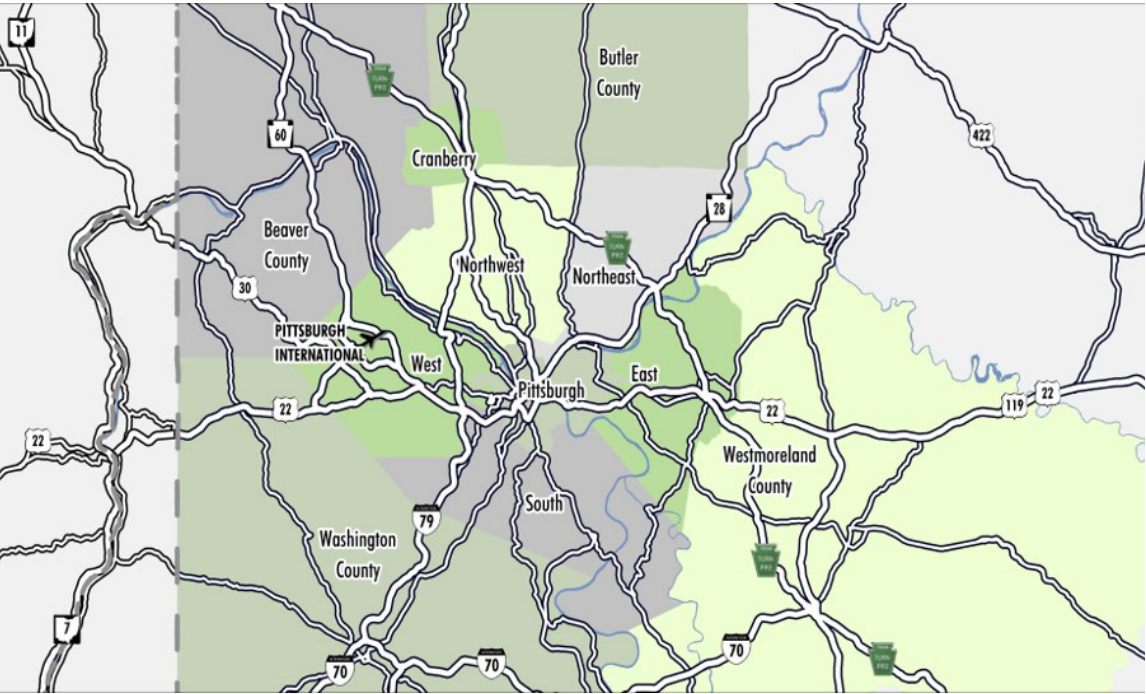
Source: CBRE Research, Q4 2022

FIGURE 7: Leasing Activity by Submarket



Source: CBRE Research, Q4 2022

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Industrial buildings 10,000 sq. ft. or greater.

Contact

James Stocker

Field Research Analyst
+1 412 394 9823
james.stocker@cbre.com

Mamadou Baldé

Managing Director
+1 412 918 5728
mamadou.balde@cbre.com

Kim Clackson

Executive Vice President
+1 412 471 3018
kim.clackson@cbre.com

Matt Clackson

Senior Vice President
+1 412 471 4069
matt.clackson@cbre.com

Robert Blackmore

First Vice President
+1 412 394 9829
robert.blackmore@cbre.com

One Oxford Centre

301 Grant Street
Suite 4000
Pittsburgh, PA 15219
+1 412 471 9500