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Pittsburgh's static high office vacancy rate

By Colin McNickle

Pittsburgh's central business district office vacancy rate remained stubbornly high in 2021's second quarter. And trends – those eminently controllable by public officials and those totally out of their control – are not encouraging for improvement, concludes an analysis by the Allegheny Institute for Public Policy.

The wild card of the continuing coronavirus pandemic, tax-subsidized new office space and government policies that discourage business creation and expansion all will play a role, says Frank Gamrat, executive director of the Pittsburgh think tank (in *Policy Brief Vol. 21, No. 32*).

Keep in mind that the vacancy rate is a measure of available space that is not under rental agreement. So even though a large amount of office space was not being used during the pandemic, most of that space was under lease and not vacant for the purpose of vacancy rate reporting.

And though Pittsburgh's high central business district (CBD) office vacancy predates the pandemic, there's ample reason to believe that, long term, the pandemic will exacerbate it as work-from-home trends precipitated by (but now lifted) government-ordered shutdowns show staying power.

"This will likely affect the vacancy rate in Pittsburgh's CBD going forward as some firms will allow employees to continue to work from home and look to reduce their footprint and rental costs," says Gamrat.

A little perspective here:

Prior to the lockdown -- in the fourth quarter of 2019 -- the vacancy rate for class A office space in Pittsburgh's CBD stood at 15.9 percent, the highest since the recession year of 2010. In 2013, a low of 5.2 percent was recorded—one of the lowest in the country.

For the first quarter of 2021, Pittsburgh's CBD vacancy rate reached 18.1 percent, reflecting a further softening of demand for office space.

New data, for 2021's second quarter in which economic activity began to approach normal, show Pittsburgh's class A CBD office vacancy rate remained flat at 18.1 percent. For classes A and B office space in the second quarter, Pittsburgh's rate rose slightly from the first quarter, from 19.4 percent to 20 percent.

All data come from real estate research firm Jones Lang LaSalle (JLL).

And future warning signs abound for Pittsburgh.

"While there currently isn't any office space being developed in the central business district, class A or B, according to the JLL data, there is almost 1.2 million square feet of office space being developed, 1.1 million class A, in the fringe and the Oakland/East End sections of the city," reminds Gamrat, a Ph.D. economist.

"This will put more pressure on the CBD as existing firms will have options to explore outside the Golden Triangle," he says.

Additionally, "The much anticipated, and taxpayer-subsidized, office building at the former Civic Arena site will also put pressure on an already soft office market," says the think tank scholar.

And that old bugaboo of bugaboos likely will continue to play a role in the Pittsburgh CBD's high office vacancy rate.

"(T)he business climate in the city is such that there is little to draw new firms to enter the city to assume any vacant office space," Gamrat reiterates. "With City Council pushing mandates covering sick leave and wages, most businesses that are unable to pass along the higher costs from these mandates will look elsewhere to set up.

"Given this climate, and the lingering, or ramping up, of the pandemic, the office buildings in the CBD will continue to have high vacancy rates," Gamrat concludes, which could have consequences for property tax revenues, payroll tax revenues and the local service tax collections.

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