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The cause of 'The Pittsburgh Pause'

You'll recall that some observers in Pittsburgh pooh-poohed the prospective sale of two hallmark commercial properties owned by a North Carolina company as being any harbinger of poorer things to come for the city's office occupancy fortunes.

But a new analysis by the Allegheny Institute for Public Policy posits that it could be just that – if not more – if harmful government behavior doesn't change.

"While local leaders have shrugged off Highwoods [Properties'] decision as just business -- and nothing to worry about -- it could be evidence of a softer office market outlook brought about by lack of population growth and very meager gains in employment in Pittsburgh and the region in recent years," says Frank Gamrat, executive director of the Pittsburgh think tank (in *Policy Brief Vol. 22, No. 30*).

As noted by the Jones Lang LaSalle (JLL) real estate firm, it is likely that economic conditions and slower than anticipated return-to-office plans by workers in the post-COVID era are slowing the demand for new construction in the Pittsburgh area.

Call it "The Pittsburgh Pause."

And that's what caused Highwoods to put up for sale the PPG Place and EQT Plaza high rises, marquee properties, to raise cash to concentrate on the Dallas market.

But what's interesting about this move is that, at least on paper, the Dallas office market doesn't seem as well off as Pittsburgh's.

"The vacancy rate for all office space in Pittsburgh's central business district (CBD) was 18.2 percent in the second quarter of 2022. For Dallas' CBD, it was 31.4 percent," notes Gamrat. "For the urban market, Pittsburgh's vacancy rate was 21.3 percent whereas Dallas' rate is 27.4 percent.

"Even suburban Pittsburgh fares better, coming in at 21.2 percent. Suburban Dallas's total vacancy rate was 22.7 percent," says the Ph.D. economist.

And it was the amount of square feet under development that offers a reason why Highwoods has chosen Dallas over Pittsburgh.

"In Dallas' urban market, there were 944,494 square feet under construction, which represents 2.3 percent of the total inventory," says Gamrat, citing JLL statistics. "In Pittsburgh's urban market, there were 458,000 square feet under construction (presumably the *taxpayer-subsidized* FNB Tower), or 1.3 percent of total inventory."

Dallas' suburban office market has over 5 million square feet of office space under construction, spread out over a few areas (3 percent), whereas the Pittsburgh suburban market has just 100,000 square feet under construction (north suburbs), or 0.4 percent of total inventory.

"Clearly, the ongoing pace of development of office space in the Dallas suburbs points to expectations of strengthening leasing activity in the near future as the Texas economy continues its far-better-than-national performance."

Pittsburgh's overall and continuing economic malaise was brought about as the result of a very poor business and labor climate in the city, region and state.

And do remember that Pittsburgh's high top-notch office vacancy rate was a chronic problem even before COVID-19 affected, perhaps forever, how and where office workers work.

"High tax rates, onerous regulations and poor schools in several municipalities … have and will continue to dissuade businesses from moving into the city and region," the think tank scholar notes.

"Until these issues are addressed and see radical improvement, the economic torpor of the city and region will continue," Gamrat warns.

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