March 8, 2023 **Allegheny Institute Op-Ed**

710 words

Pittsburgh's still stubbornly high office vacancy rates

By Colin McNickle

Pittsburgh's top-notch Downtown office vacancy rate remained stubbornly high at the end of 2022. And there are serious questions whether it will see much in the way of recovery in 2023.

But one possible fix for the shortfall – a deficit pre-dating the Coronavirus pandemic and further exacerbated by it -- might not be a fix at all.

And an increasingly popular alternative trend to fill empty office buildings is fraught with taxpayer peril, concludes a new analysis by the Allegheny Institute for Public Policy.

"The effects of the pandemic are still weighing on the office market in the Pittsburgh area," reminds Frank Gamrat, executive director of the Pittsburgh think tank (in *Policy Brief Vol. 23, No. 10*). "The work-from-home culture has caused firms to rethink their personnel strategies."

As 2022 closed, high vacancy rates continued plaguing office markets across the United States. In the final quarter of 2022, vacancy, for all classes and markets, came in at 19.6 percent, just one-tenth of a percent better than in 2021.

The Pittsburgh office market was no exception to this rule as the vacancy rate for all classes and markets in the final quarter of 2022 was 21.3 percent, which was four-tenths of a percent higher than it was at the same time in 2021 (20.9 percent).

"In the Pittsburgh market, in all areas, the fourth quarter 2022 vacancy rate for class A office space came in at 20.5 percent whereas for the remaining classes it was 22.4 percent," Gamrat notes. "It was more pronounced in the fourth quarter of 2021 when class A vacancy was 21.0 percent; the remainder was 23.6 percent."

Among those strategic "re-thinks" has been firms placing sublease space – made available by existing tenants reducing their office space footprints -- on the market to reduce costs.

To wit, nationwide, 136.6 million square feet in 2022 was subleased to other firms. This was a record with most of that being done by the tech sector (54 percent).

In Pittsburgh's East Liberty neighborhood, Philips, the electronics and medical equipment maker, recently announced that it is relinquishing 74,000 square feet in East Liberty's Bakery Square development.

In 2022, it had subleased about 37,000 square feet. Philips blamed the hybrid model of working to "optimize our footprint while maintaining a world class working environment."

And in August 2022, Citizens Bank moved across town, from 525 William Penn Place to Four Gateway Center. In that move, the bank relinquished 100,000 square feet in its former home to assume just 60,000 square feet in its new home.

The bank listed as a reason the flexible/hybrid work environment of its employees.

"This appears to be a more common post-pandemic strategy of companies to use space more efficiently, provide better amenities and make it more inviting for employees to return to work," Gamrat says. "The result is a shrinking of a firm's footprint and driving up vacancy rates."

That said, such remodels might not automatically translate into lower vacancy rates.

"It is worth noting here that both buildings -- Four Gateway Center and 525 William Penn Place -- spent money to upgrade their buildings to keep and/or lure new tenants," Gamrat reminds.

But, "With the loss of its main tenant, Citizens, the vacancy rate was near 58 percent [at William Penn Place]."

Do note that Northwest Bank says it will take over some of the space vacated by Citizens at William Penn Place, citing improvements made to the building. But it's only a fraction of what Citizens was using.

Then there's the growing trend nationwide and in Pittsburgh to begin converting buildings with lower-class office space into residential spaces.

"This will certainly lower the inventory of office space and likely the vacancy rates," Gamrat concedes. "However, if this is to take place, it should do so without the interference of government agencies.

"Taxpayer funds should not go to subsidizing this conversion," the Ph.D. economist stresses. "If the market is there for residential dwellings, then let the owners of the buildings shoulder the cost and the risk."

Colin McNickle is communications and marketing director at the Allegheny Institute for Public Policy (cmcnickle@alleghenyinstitute.org).

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079
E-mail: aipp@alleghenyinstitute.org
Website: www.alleghenyinstitute.org
Twitter: AlleghenyInsti1