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The wrong kind of 'growth' for Pittsburgh

By Colin McNickle

Pittsburgh's office vacancy rate grew worse in the first quarter of 2023. And it likely will continue to do so for years, finds a new analysis by the Allegheny Institute for Public Policy.

"It doesn't appear the upward trend is going to change anytime soon," concludes Frank Gamrat, executive director of the Pittsburgh think tank.

"Clearly, the Pittsburgh office market vacancy and usage rates are not improving and are likely to get worse before there is any improvement," he says (in *Policy Brief Vo. 23, No. 19*). "This will have significant consequences for rental rates, valuations of properties, lease prices and property tax assessments as appeals of valuations are filed."

The fourth quarter 2022 office vacancy rate for all building classes in 54 office markets across the nation was 19.6 percent. For the Pittsburgh area, it was 21.3 percent, according to real estate firm Jones Lang LaSalle (JLL, jll.com).

The national vacancy rate climbed to 20.2 percent for 2023's first quarter; Pittsburgh's rate hit a high of 21.8 percent.

For all classes of buildings in Pittsburgh's central business district (CBD), the total vacancy rate in 2023's first quarter was 20.2 percent, with a net absorption rate of -0.7 percent. That latter metric measures whether used office space becomes unleased (negative absorption) or unused space becomes leased (positive absorption).

For just class A office buildings, the vacancy rate was 17.5 percent. But the net absorption rate was worse at -1.0 percent.

Two years prior, in the first quarter of 2021, vacancy rates were 18.1 percent for class A and 19.6 percent for all classes of buildings. Thus, the rate for class A has dropped while the other classes of buildings rose, lending credence to the flight-to-quality theory—firms looking for better office space and amenities to draw employees back to the office.

For the entire Pittsburgh area—from Cranberry in the north to Southpointe in the south and west and east Allegheny County—the two regions with the highest vacancy rates were the Oakland/East End market with a 29.5 percent overall vacancy rate with a 39.9 percent vacancy rate for class A office space.

The suburban East market followed with an overall vacancy rate of 27.5 percent and a 36.5 percent rate for class A space.

The best regions in the area for overall vacancy rates were found in the suburban South market (13.5 percent) and the suburban North market (17.9 percent). For class A office space, the suburban South market again led with an 11.3 percent vacancy rate followed by Pittsburgh's CBD and then the urban fringe at 19.5 percent.

"Unfortunately, the rush to 'do something' to reverse the upward vacancy rate trend is likely to cost taxpayers as developers are going to plead their case for government financial assistance," Gamrat warns.

(**EDITORS: OPTIONAL TRIM BEGINS HERE**)

That's already happening in Pittsburgh. The city Urban Redevelopment Authority (URA) has waded into the subsidy pool by offering a $300,000 loan to convert the non-class A Triangle Building into residential. The expected cost is to be $13.2 million for a structure built in 1866.

And according to a news report, "the building's infrastructure was found to be in worse shape than anticipated," no doubt the first of many "worse than anticipated" discoveries.

"The URA loan is designed to cover the cost overrun for the building's infrastructure," Gamrat notes, adding how the article also states that, as of now, the developer's share of financing is just 26.5 percent, which is a ridiculously low percentage.

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Indeed, and has been well-documented, the pandemic has changed the office culture as many employees have opted to keep their work-at-home status. But the JLL data also point to a nationwide slowdown in office-using sectors such as finance, information technology and professional services. Pittsburgh likely is no exception.

But one likely and more powerful justification for employees not coming into the city— but doesn't make research like the JLL reports—is the prevalence of panhandlers, homelessness and crime in downtown Pittsburgh.

"Many Downtown merchants and other businesses have expressed the need to have the area cleaned up," Gamrat says. "Some have threatened to leave.

"This is perhaps the most pressing matter before the city and county," the think tank scholar stresses. "Until workers feel safe walking to the office, even during the day, they will be reluctant to return and the vacancy rate problem will continue."

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