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Higher office vacancy rates not confined to City of Pittsburgh

By Colin McNickle

The City of Pittsburgh is not alone in its struggles with chronically high office vacancy rates. So, too, are Pittsburgh's suburbs.

And the same deleterious domino effect of the pandemic-fueled changed work habits, coupled with a lack of regular property assessments, could lead to the same serious challenges for suburban taxing bodies, says a researcher at the Allegheny Institute for Public Policy.

"The impact of not having frequent assessments has been magnified by the persistently high vacancy rates in commercial and office space," says Frank Gamrat, the think tank's executive director (in *Policy Brief Vol. 24, No. 19*).

"Successful appeals of commercial property values that lower assessments and reduce property tax payments are a problem that is not confined to the City of Pittsburgh but has also begun to affect taxing bodies around the county as other commercial property owners follow suit," the Ph.D. economist notes.

To wit, and as a recent Tribune-Review story noted, it is estimated that Allegheny County has lost $1.4 billion in property values from all sources with $570 million coming from outside of Pittsburgh.

"Suburban school districts such as West Allegheny lost $105 million in commercial property value, Montour lost $89 million and Gateway lost $69 million," the Trib article detailed.

"Retailers are also appealing their assessed values, blaming lost sales to online shopping, contributing to the substantial loss of commercial property value," Gamrat says.

The most recent data, for 2024's first quarter (from the real estate firm Jones Lang LaSalle) shows the urban office vacancy rate for all classes dropped to 21.8 percent while the suburban rate ticked up to 22.4 percent.

Gamrat reiterates that the impact of not having frequent assessments has been magnified by the persistently high vacancy rates in commercial and office space.

"Firms have reduced the need for space as the work-from-home culture seems entrenched," he notes. "Subsequently, empty buildings bring in less and less rental revenue, driving down their market value."

Some Downtown properties, facing possible foreclosure, are seeking lower assessments to reflect the new reality that reduces their property tax obligations.

"School districts, which rely so heavily on property tax revenues, are not only seeing future revenue streams decline but are also responsible for refunds for past collections," Gamrat reminds. "It is likely that for districts that have been hit hard by this office vacancy problem, they will raise millage rates on all classes of property, which will shift more of the tax burden from office and commercial to residential."

Gamrat says frequent countywide reassessments provide the most accurate and up-to-date information on the true taxable value of all properties so owners, buyers and sellers can make better-informed decisions and plan accordingly.

The same holds true for taxing bodies.

But it's not only an Allegheny County problem, Gamrat cautions.

"(It) could be an issue for any county with a mix of high vacancy rates and old assessments," he says. "This could cause building owners to seek lower assessments to reflect current market values and impact the property tax revenues upon which many taxing bodies have become so reliant."

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