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Office Vacancy Rate Continues to Climb in Pittsburgh

As news reports continue to extol the building of residential units in the Downtown corridor, the rising vacancy rate for office space goes strangely ignored for the most part. A recent real estate company survey shows that the Downtown office vacancy rate rose sharply to 20.4 percent by the end of the third quarter from 17.8 percent at the end of the second quarter and is up a full two percentage points from 24 months earlier.

Nationally, office vacancy rates in central business districts had fallen to an average of 13.9 percent at the end of the second quarter of 2006 and are going through a "classical recovery cycle", having fallen from a rate of 15.3 percent in the second quarter of 2004. However, real estate analysts note that the generally accepted equilibrium is around 12 percent. Thus, the rate in Pittsburgh's Downtown market is nearly double the national equilibrium rate. But that is not stopping new taxpayer subsidized office construction by PNC.

The worsening vacancy rate trend is likely to be maintained as office space continues to open up on the fringe of the Golden Triangle in places such as the North Side and Southside Works. Compounding the problem for the owners of the office buildings in the Golden Triangle is the competition from buildings that received taxpayer subsidies. The Southside Works, built with a tax increment financing plan and other large outlays of taxpayer money, has been trying to lure Downtown office users to the Southside.

Another blow to the struggling Downtown office vacancy rate is the decision of Mellon Financial to consolidate its office space, vacating the Union Trust Building and leaving only a few tenants in the 11-story building. This continues a trend that saw the Dominion Tower, Warner Center, and the Frick Building struggle with high vacancy rates. Dominion Tower and Warner Center both were sold at Sheriff's auction.

The bright spot for the City is the Oakland neighborhood where the vacancy rate is a reported 12.2 percent due, in large part, to the universities and health care facilities. These same sectors come under constant barrage from City officials for being exempt from paying real estate taxes, yet are largely responsible for the City's strongest office market. Many of these buildings with low vacancy rates are not directly associated with the universities and hospitals but derive their business from them.

What can be done to lower the Golden Triangle vacancy rate? The simple answer is to improve the business climate in the City to make it more attractive to firms needing office space. The new payroll preparation tax, which has replaced the mercantile tax and is in the process of replacing the business privilege tax, applies to all firms including those previously exempt from the business privilege tax who may now find it worthwhile to leave the City. Furthermore, the very high parking tax in the City has undoubtedly caused firms to leave or consider leaving for the suburbs where parking is plentiful and free.

Finally, the City needs to refrain from government driven and subsidized development of commercial buildings. Subsidies should not longer be doled out to every developer that comes asking. Subsidizing new developments at the expense of existing ones creates an over supply of office space and drives down the value of existing buildings. These buildings pay less in property taxes to the City, which reduces revenues. This reduction in property tax revenues puts the City into a further bind forcing them to rely on other taxes, such as parking, worsening the tax climate in the City.

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