HANNA
COMMERCIAL REAL ESTATE

PITTSBURGH INDUSTRIAL MARKET REPORT

Q4 23

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226M INVENTORY SF | **5.1%** VACANCY RATE | **$8.30** ASKING RENT | **7.4%** AVAILABILITY | **16.3M** DIRECT SF | **642K** SUBLET SF

Outlook

Q4 23 - Industrial Demand Cools

Though Pittsburgh's Industrial real estate market remained stable throughout 2023, there are indicators that 2024 could bring some slight softening in vacancies, rents, and investment levels. The most important of these is a softening of the national market.

CoStar's national data shows that the second half of 2023 saw some of the lowest levels of industrial absorption in a decade, due in large part to economic headwinds like a slowing housing market and the increased cost of debt (fig 1).

These challenges have caused major distributors like Bed Bath and Beyond, Big Lots, and Ashley Furniture to reduce their footprint. National vacancies jumped by nearly 100 basis points in 2023, and with roughly half a billion square feet of warehouse space currently under construction this trend will almost certainly continue through 2024.

While a cooling at the national level will impact demand in Pittsburgh, its effects are unlikely to be significant. Because Pittsburgh is not a distribution hub, construction has always been constrained and there is little risk of oversaturation. The market's net absorption of industrial space was a robust 1.7 million SF in 2023, and local vacancies hovered around 5.5% throughout the entirety of the year. (fig 2).

Our local economy continues its slow but steady growth and new listings typically find a tenant within 24 months, like Home Depot signing at 251 Solar Drive in Imperial.

INDUSTRIAL DEMAND COOLS NATIONWIDE

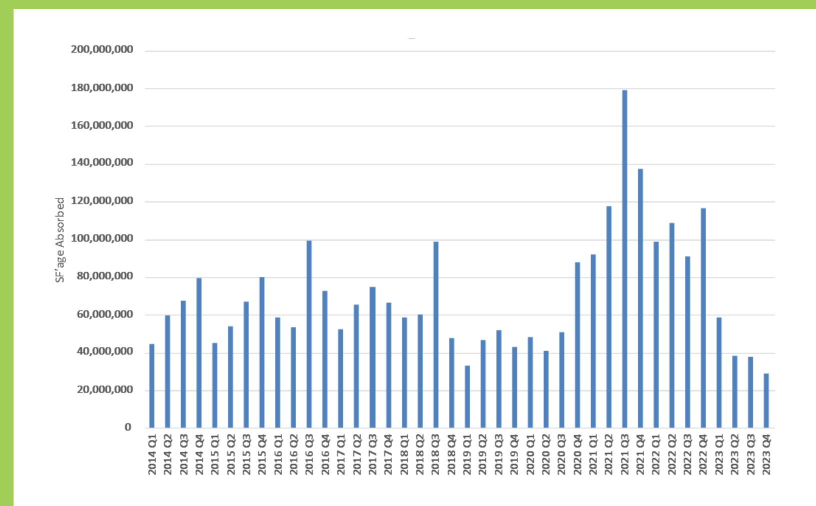

figure 1

PITTSBURGH'S INDUSTRIAL MARKET BUCKS NATIONAL TREND

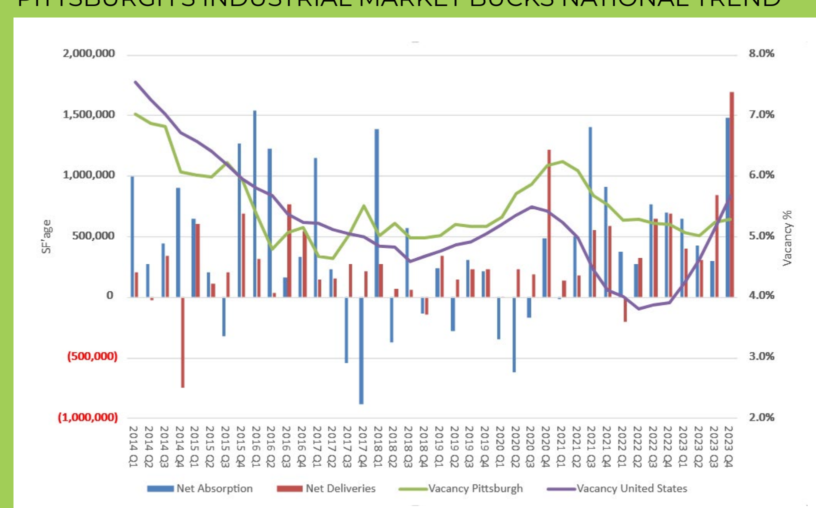

figure 2

INCREASED SUBLET AVAILABILITIES ACROSS THE MARKET

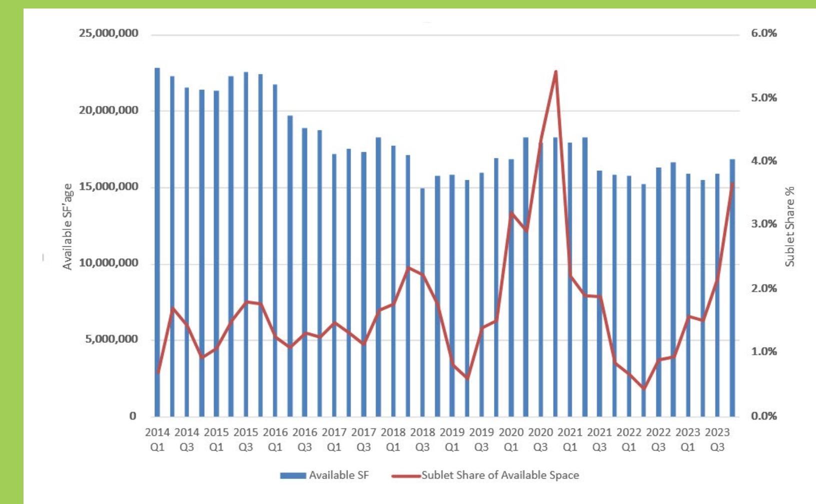

figure 3

RENTS DIP ACROSS THE MARKET

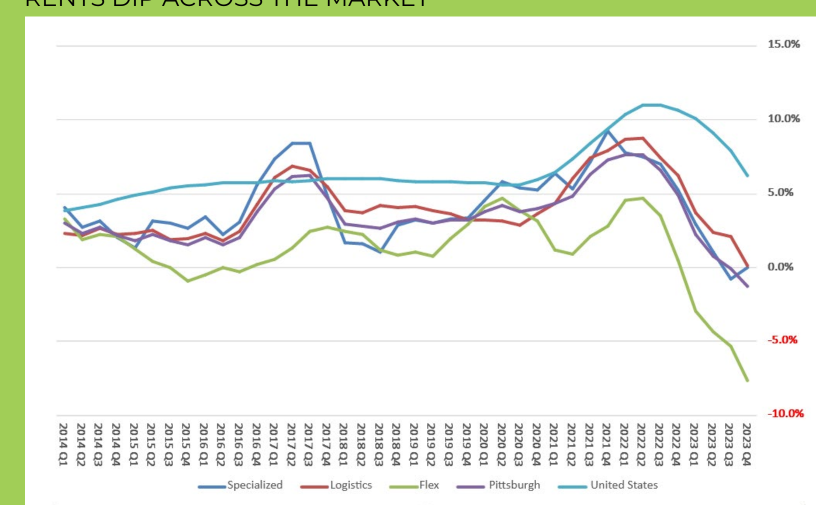

figure 4

However, a closer look at the data reveals the potential for some softening in 2024.

Two transaction that had a significant impact on the absorption numbers were Amazon filling 1 million SF and McCollisters Transportation taking 218,000 SF in Westmoreland County. The third largest new lease in the market was Pepsico's lease of 150,000 near the Pittsburgh Airport.

Outside of these quite notable transactions, leasing activity in Pittsburgh's newer projects was muted and CoStar shows that the handful of industrial properties which delivered between 2020-22 remain around 15% vacant.

There appears to be a trend of national tenants reducing their footprints and subleasing a portion of their space. This spike in sublet space will have a direct impact on rates and vacancy. Sublet availabilities currently represent over 620,000 SF or 3.5% of available square footage. This is double the ten-year average of 1.6% (fig 3). Furthermore, the 1.7 million SF currently under construction represents a near record influx of new supply.

While rental rates remain nearly $1/SF higher today than they were in 2019, averaging $8.30 per square foot (PSF), CoStar shows local rents dipped by around 1% in 2023. This dip was most notable in the flex cohort; However, all sectors of the industrial world saw rents drop throughout the year (figure 5, caption: Rents Dip Across The Market). The increased availability options coupled with reduced national demand and the arrival of new supply will likely put a bit more pressure back onto owners in the coming year, giving tenants a bit of leverage after years of pandemic related rent surges.

Investment
activity

Investment activity is also likely to remain subdued over the next 12 months. The cost of debt remains high, and institutional industrial investors generally prefer to put their money in assets in areas like Columbus or Lehigh Valley. CoStar shows Pittsburgh's 2023 investment levels dipped by 70% and totaled just $95 million (Fig 4). These are the lowest level of industrial investment the market has seen in nearly a decade and barring a change in interest rates, it would not be surprising if this trend continued through 2024.

Even though 2024 could be a relatively slow year for the market, there remains no cause for serious concern about Pittsburgh industrial's overall health. Though the influx of new supply is relatively large, it still amounts to less than 1% of the total inventory and is unlikely to seriously disrupt the equilibrium between supply and demand. Amazon's lease indicates sustained interest in West Pennsylvania logistics by major retailers and the growth of shipping nodes in Central Pennsylvania and Columbus only makes the region more attractive as a midway point between the two.

At a national level, there is also no reason for alarm. Indeed, the narrative and data around industrial could change rapidly if inflation is brought under control and interest rates tighten. Additional positive signs exist regarding the growth of domestic high-end manufacturing, something Pittsburgh excels in. The 2022 CHIPS and Science Act approved more than $400 billion worth of incentives for this industry, and the University of Pittsburgh is involved in this program.

In many ways, this coming year represents a return to normalcy after years of pandemic related construction and leasing surges. The high interest rates have muted national construction starts noticeably, and there is no reason to believe that supply and demand will not sync.

INVESTORS SHY AWAY FROM PITTSBURGH INDUSTRIAL

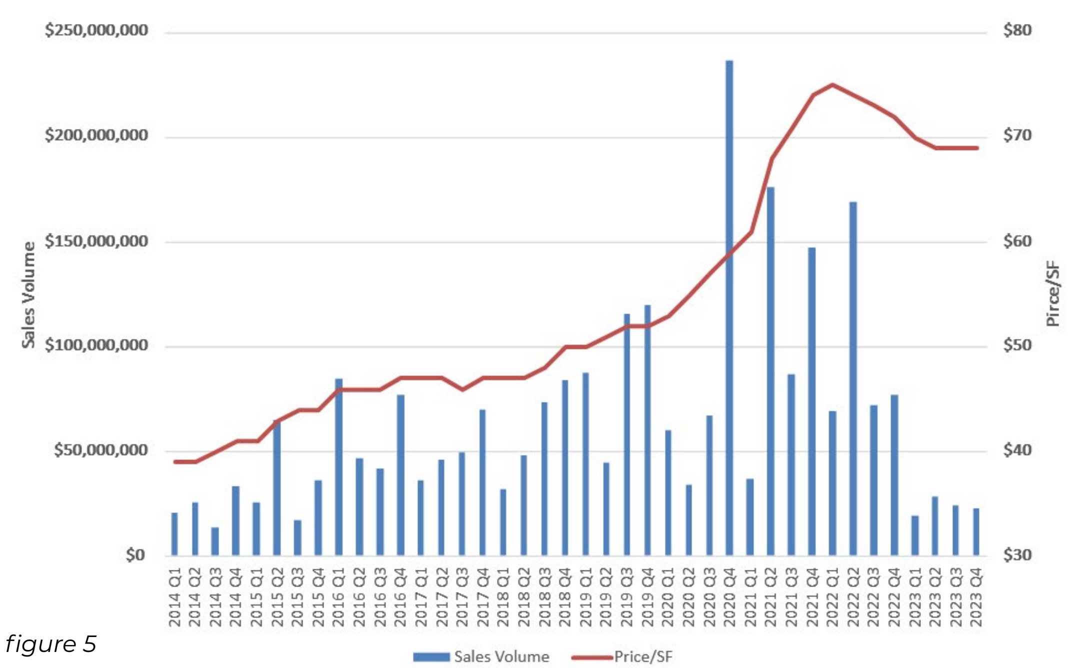

figure 5

Overall Statistics
by submarket

SUBMARKET	INVENTORY SF	VACANCY RATE	AVAILABILITY RATE	MARKET RENT/SF	AVAILABLE SF DIRECT	AVAILABLE SF SUBLET	AVAILABLE SF TOTAL	UNDER CONSTR SF
Pittsburgh	226,000,000	5.4%	7.4%	$8.30	16,300,000	624,000	16,700,000	1,700,000
Westmoreland County	39,734,537	4.7%	6.2%	$7.11	2,477,071	13,405	2,490,476	155,000
South Pittsburgh	20,561,603	2.2%	3.8%	$9.31	750,482	31,500	781,982	100,000
West Pittsburgh	17,742,897	4.1%	6.0%	$7.94	1,039,031	52,600	1,091,631	332,500
Butler County	20,939,941	5.9%	6.6%	$8.92	1,227,492	152,422	1,379,914	0
North Pittsburgh	19,133,701	5.9%	8.4%	$8.65	1,614,111	0	1,614,111	90,000
Parkway West Corridor	14,102,465	10.2%	12.7%	$9.15	1,697,808	293,113	1,800,409	109,348
Northeast Pittsburgh	18,160,633	3.1%	5.7%	$9.58	1,028,652	0	1,028,652	0
Parkway East Corridor	16,638,073	10.9%	15.5%	$7.51	2,590,627	0	2,590,627	60,000
Washington County	17,122,751	5.2%	6.5%	$9.12	1,048,513	56,250	1,104,763	0
Beaver County	15,957,917	4.0%	6.3%	$6.34	1,064,916	0	1,064,916	900,000
Greater Downtown	13,822,836	7.7%	8.9%	$9.99	1,227,185	0	1,227,185	0
Fayette County	5,778,878	3.3%	4.6%	$5.63	266,700	0	266,700	0
Monroeville	3,253,201	1.8%	2.1%	$10.06	42,350	24,375	66,725	0
Armstrong County	2,448,191	2.8%	8.8%	$6.37	215,077	0	215,077	0
Oakland	423,516	2.8%	2.8%	$8.97	12,000	0	12,000	0

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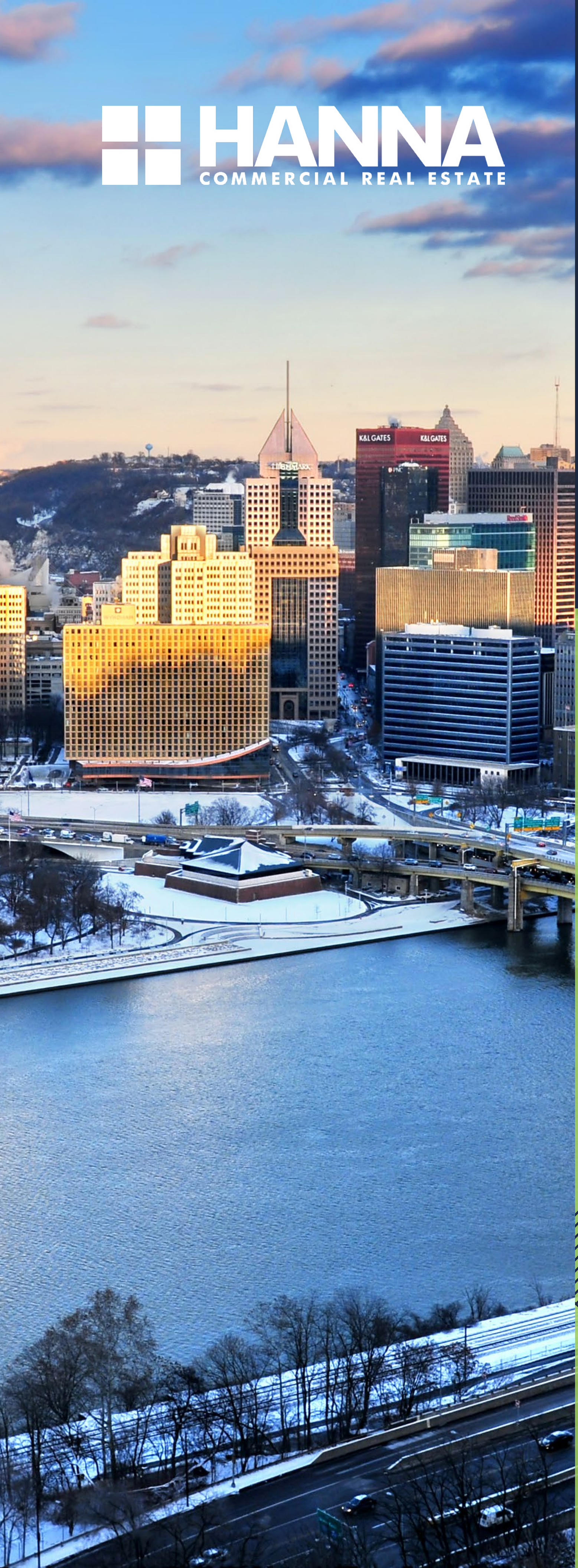
*All market data was collected from CoStar



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