

# LAWYERS JOURNAL

L A W P R A C T I C E M A N A G E M E N T

## State of downtown Pittsburgh: Must-know trends and market fundamentals to make sound real estate decisions

By Dan Adamski

Hybrid work and increased flexibility will remain constants in the post-Covid environment; however, the office is far from obsolete. JLL research shows that despite corporate right-sizing, 65% of all new deal activity in 2022 occurred in Class A office space – 15% more than in 2021 – indicating companies are committed to providing a differentiating work environment for years to come.

There is a lot to glean from the last several months, and despite economic headwinds and negative absorption at 2022 year's end, the Pittsburgh market is trending in the right direction relative to the figures seen in 2020 and 2021.

### What's happening to the downtown real estate market?

Like much of the last two years, the downtown Pittsburgh office market remains very tenant favorable, meaning companies making decisions now will secure greater cost savings and concessions than those who wait until the market turns.

As a result, companies are exploring their options in the market early, especially law firms. Today, firms are often looking 24-48 months ahead of their lease expiration to lock in aggressive concession packages reaching up to \$100 per square foot for tenant improvement allowances and 12+ months of free rent.

Rental rates are crawling upward, though, as owners grapple to maintain face rates in the wake of these record high concessions. In our latest Office Outlook, office rental rates increased by \$1.19 per square foot at the end of Q4 2022. There was also 159,522 square feet of negative absorption in 2022. And, while still not at pre-pandemic levels, it's a welcome improvement compared to the more than 1.5M square feet of negative absorption seen in 2020 and 2021 combined.

### Change in deal type, residential conversions among emerging trends to watch

JLL research shows Pittsburgh companies are embracing the opportunity to take advantage of a favorable market while it lasts. An emerging trend is the change in deal type



Dan Adamski

in 2022 compared to 2019. In 2022, more new leases and fewer lease renewals were signed, indicating companies are committing to a new office being the focal point of its work ecosystem. In many of these cases, companies signed leases at higher class buildings fit out with modern space and amenities that focus on health, wellness, and reenergizing the workforce.

Take Metz Lewis and LGA Partners as examples: Both companies signed new leases at Four Gateway Center at the end of 2022, vacating their offices at Class B buildings downtown.

This trend is expected to continue well through 2023, begging the question, what will become of existing commodity space at Class B and C buildings in Pittsburgh's CBD?

Many signs point to increased office-to-residential conversions, which would not only level-set and even strengthen local market fundamentals but would bolster the city's downtown vibrancy. Since 2000, more than 5 million square feet of commercial space has been converted – most of it to residential space. This trend will lead to the tightening of office vacancies and the influx of talent, especially young professionals, downtown.

Today, downtown Pittsburgh is home to nearly 7,000 residents – a 42% jump in population since 2015. And with its current residential inventory in the pipeline, the downtown population is expected to grow by another 25% over the next four years.

As the number of downtown residents grows, Pittsburgh's CBD becomes an even more attractive place for both companies and investors. More public amenities, retailers, and improved quality of existing public services – like transit, bike lanes, or green spaces – frequently go in tandem with an increased downtown population.

### The importance of working with an experienced advisor

Real estate is the second largest investment a company will make behind its people. As more companies solidify their return to office plans, they need a real estate partner to help answer questions such as how much space do I need? What kind of space do I need and in what location? What

workplace strategies will create a dynamic environment to entice employees into the office?

Working with a Tenant Advisor saves time, minimizes risk and creates invaluable leverage in lease negotiations, whether a new lease, renewal, or lease extension. A key differentiator, though, is an advisory firm with a multi-disciplinary platform, which provides tenants the ability to tap into valuable services like workplace planning or project management when planning a new office and determining an occupancy strategy.

As the environment becomes increasingly more competitive to attract and retain high-performing talent, it's vital for companies to understand that their workplace and retention strategy go hand in hand. ■

---

*Adamski is JLL Pittsburgh's Senior Managing Director who specializes in the execution of complex transactions for firms seeking to align their real estate needs with business objectives. Dan is a leader in JLL's Law Firm Practice Group and is among the 1% of commercial real estate professionals nationally to hold both the prestigious Certified Commercial Investment Member (CCIM) and the Society of Industrial and Office Realtors (SIOR) designations. A multiple awardee of the Pittsburgh Business Times Power 100, Adamski is a well-regarded voice in the Pittsburgh business community.*