CUSHMAN & WAKEFIELD

PITTSBURGH

SUBLEASE REPORT

Q1 2023

INTRODUCTION

THE CHARACTERISTICS & BEHAVIORAL MOTIVATIONS OF SUBLEASE SPACE

In times of economic uncertainty, many companies shed office space and reduce headcount to mitigate costs. Often, this results in an influx of sublease space to the office market. The staying power of hybrid work has only compounded these effects.

As of May 2023, overall sublease space in Pittsburgh has increased 11.6% year-over-year (YOY). We provide a data driven investigation of sublessors and tenants who sign subleases, to uncover the motivations behind such decisions. We find:

- Tenants in the F.I.R.E. (Finance, Insurance, and Real Estate), Utilities, and Health Care industries offer the most available sublease space.
- Of all the available sublease space, 59% is within the Central Business District (CBD), Greater Downtown, and East End submarkets (i.e., the city limits of Pittsburgh).
- Most of the available sublease space has more than five years remaining on the term, and is a block in excess of 10,000 sf.
- Many executed subleases had a five plus year term remaining at the time of execution. Moreover, 45% were less than 5,000 sf.
- Tenants in the Professional, Scientific, and Technical industry sublease a disproportionately large portion of the available sublease space (compared to industry size and what they offer as sublet available).
- There is weak statistical evidence emerging that the effectiveness of a firm's Return to Office (RTO) policy has a correlation with sublease space offered.

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FIVE FAST FACTS

INVENTORY
93,244,292 sf

SUBLEASE COUNT
128 Blocks

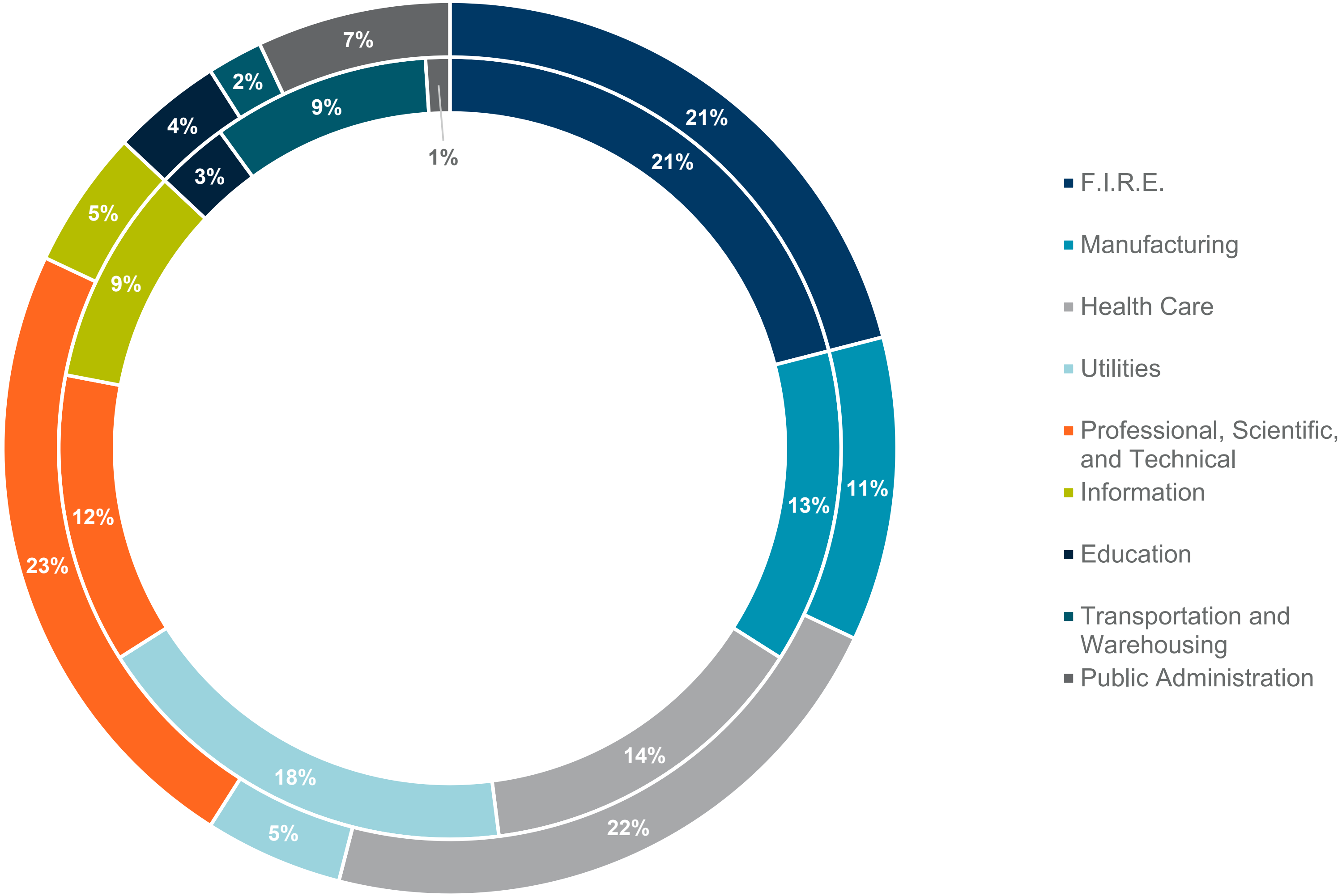
SUBLEASE SPACE
2,098,928 sf

QOQ % CHANGE
9.4%

Q1 SUBLEASE ACTIVITY
186,315 sf

SUBLEASE INDUSTRY COMPOSITION

AVAILABLE SUBLEASE SPACE BY SUBLESSOR INDUSTRY



*Only office space was considered in this analysis, regardless of the tenant industry (e.g., Warehousing tenants in this analysis are using traditional office space).

Sources: Cushman & Wakefield Research and Costar

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KEY TAKEAWAYS

The inner circle represents the percentage of sublease available space offered by sublessor industry sector.

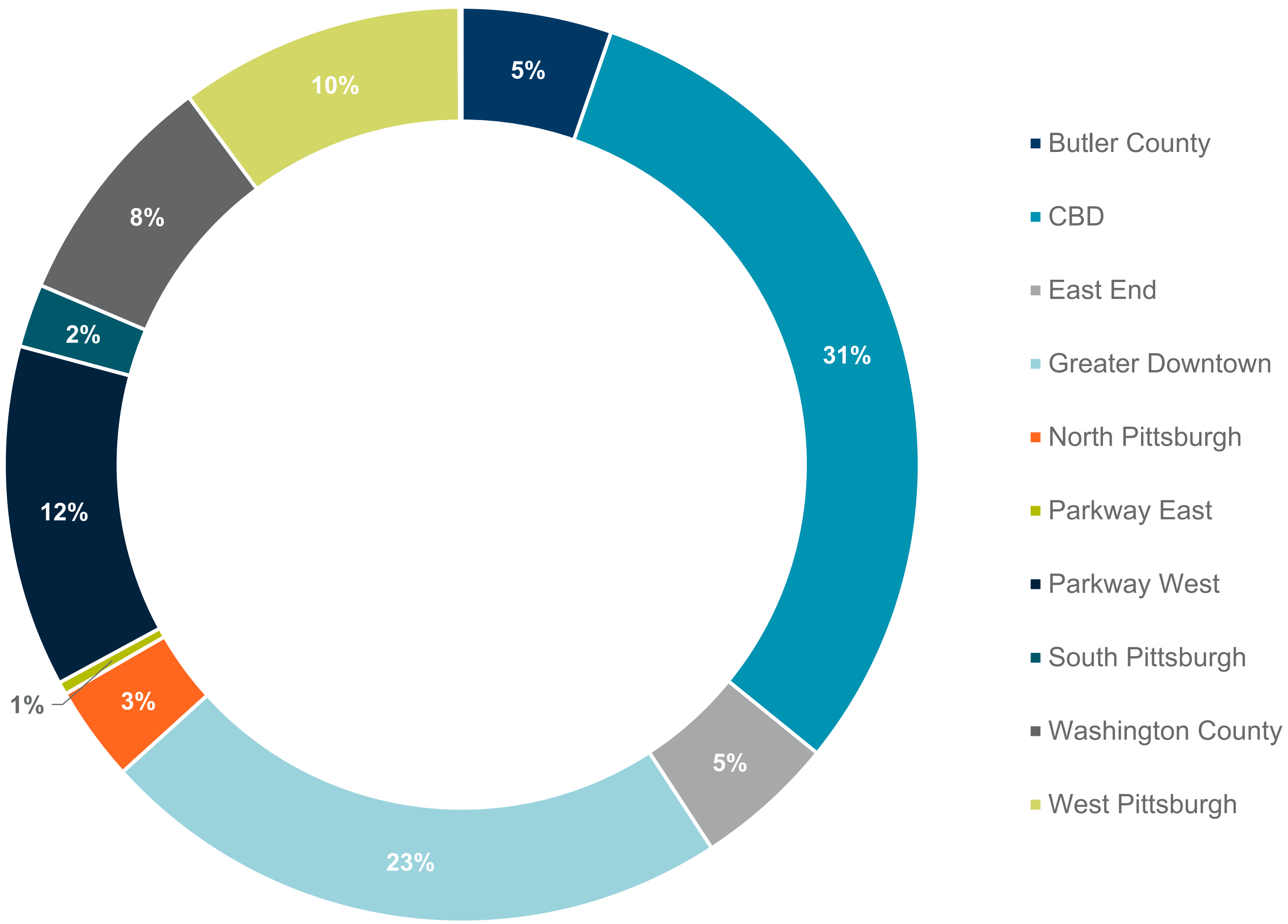
The outer circle represents the percentage of total space occupied in the Pittsburgh MSA by an industry sector.

Health Care and Professional, Scientific, and Technical tenants offer a disproportionately low amount of sublease space.

Utilities, Transportation and Warehousing, and Information tenants offer a disproportionately high amount of sublease space.

SUBMARKET COMPOSITION

AVAILABLE SUBLEASE SPACE BY SUBMARKET



Sources: Cushman & Wakefield Research and Costar

KEY TAKEAWAYS

Of all available sublease space, **59% is within City Limits**.

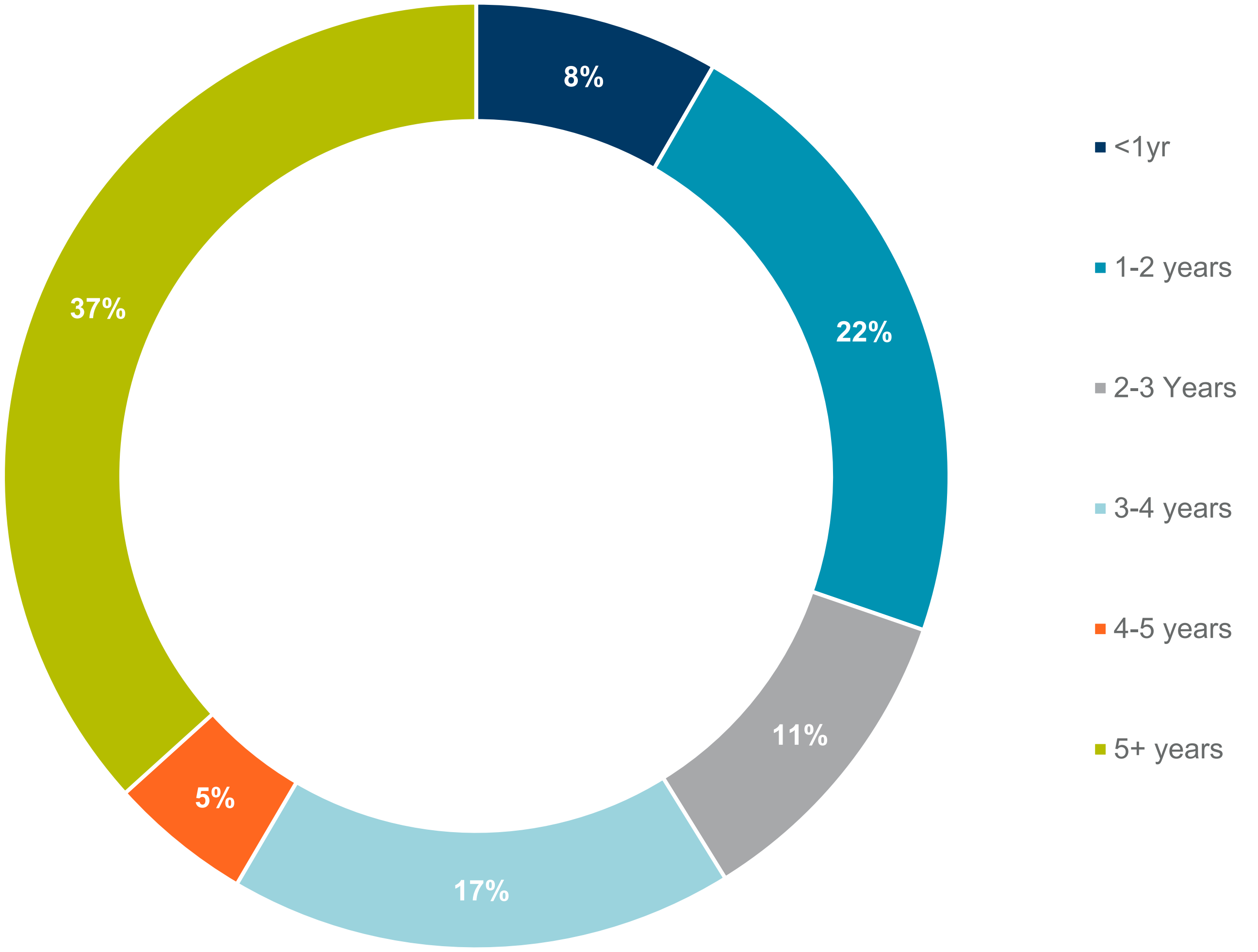
- CBD: 31%
- Greater Downtown: 23%
- East End: 5%

The Airport Corridor accounts for **22% of all sublease space**.

For reference, the City and Airport Corridor currently account for 50.4% and 19.7% of the direct availability. This suggests that sublease market is slightly overrepresented in these submarkets.

TERM REMAINING

AVAILABLE SUBLEASE SPACE BY TERM REMAINING



Sources: Cushman & Wakefield Research and Costar

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KEY TAKEAWAYS

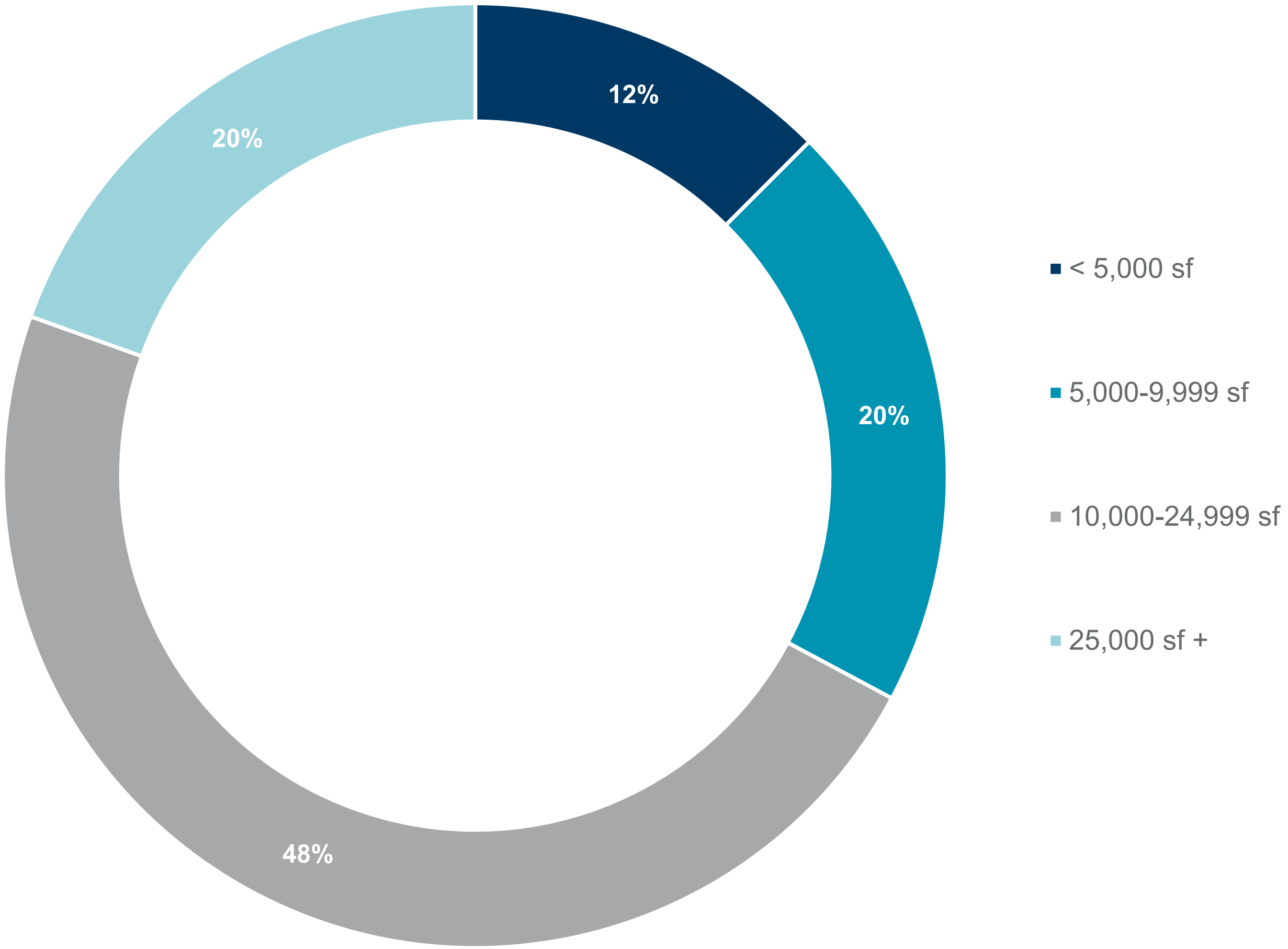
Of all the sublease space available, **37% of the space has an expiration date outside of five years**.

Of all the sublease space available, **30% of the space has an expiration inside of two years**. On average, these spaces have been marketed for 31 months.

This suggests that sublessors tend to market sublease space with long remaining terms, and most short-termed available spaces have been marketed for a while.

BLOCK SIZE

AVAILABLE SUBLEASE SPACE BY BLOCK SIZE



Sources: Cushman & Wakefield Research and Costar

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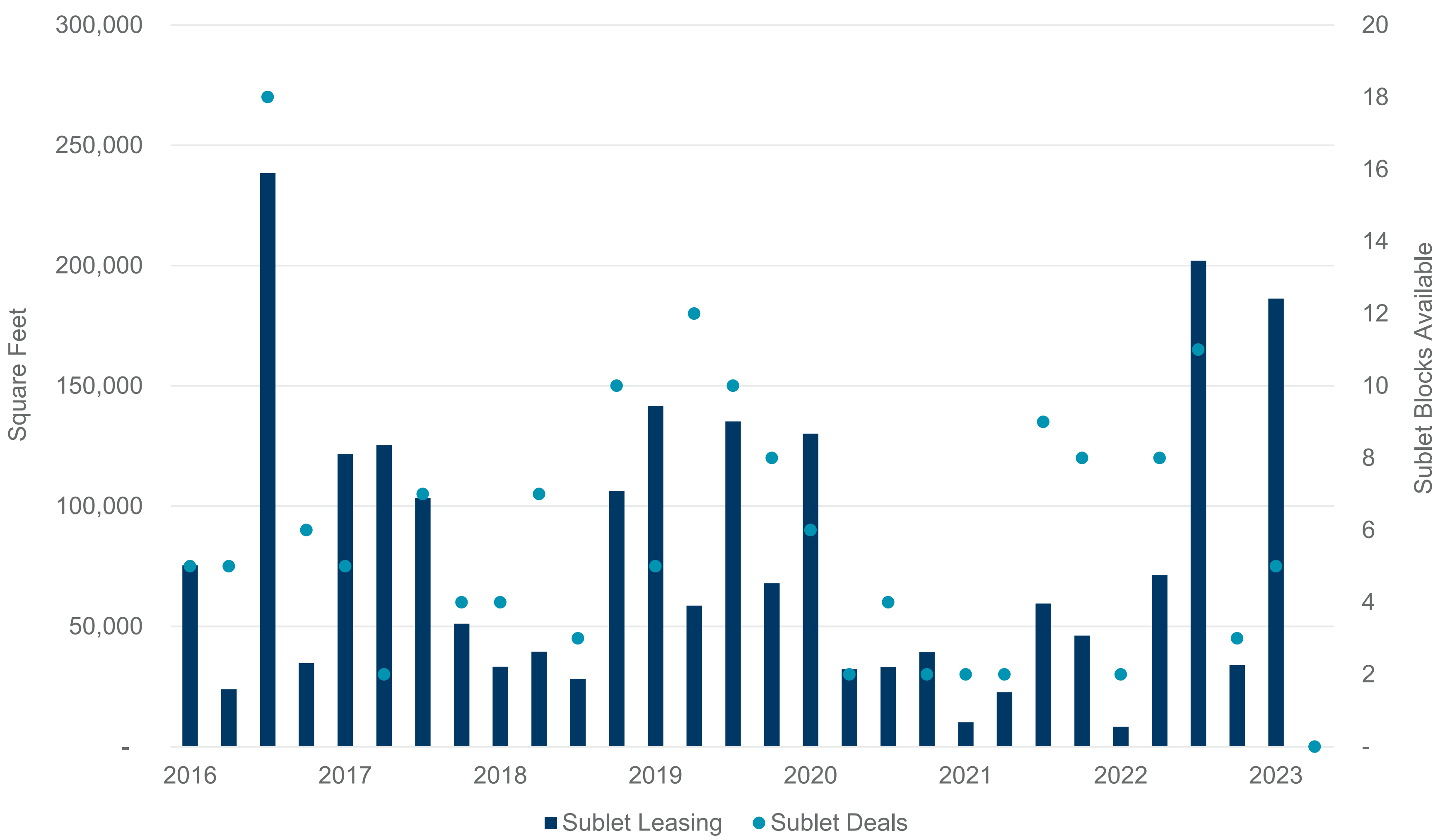
KEY TAKEAWAYS

Of the sublease space available, **20% is in blocks in excess of 25,000 sf**. This size range is indicative of more than an entire floor.

This illustrates that firms are shedding large percentages of their initial lease. Specifically, **firms that offer sublease space, while maintaining a footprint, shed 51.9% of their initial lease**.

SUBLEASING ACTIVITY

A HISTORIC LOOK AT SUBLEASE ACTIVITY IN THE MARKET



Sources: Cushman & Wakefield Research and Costar

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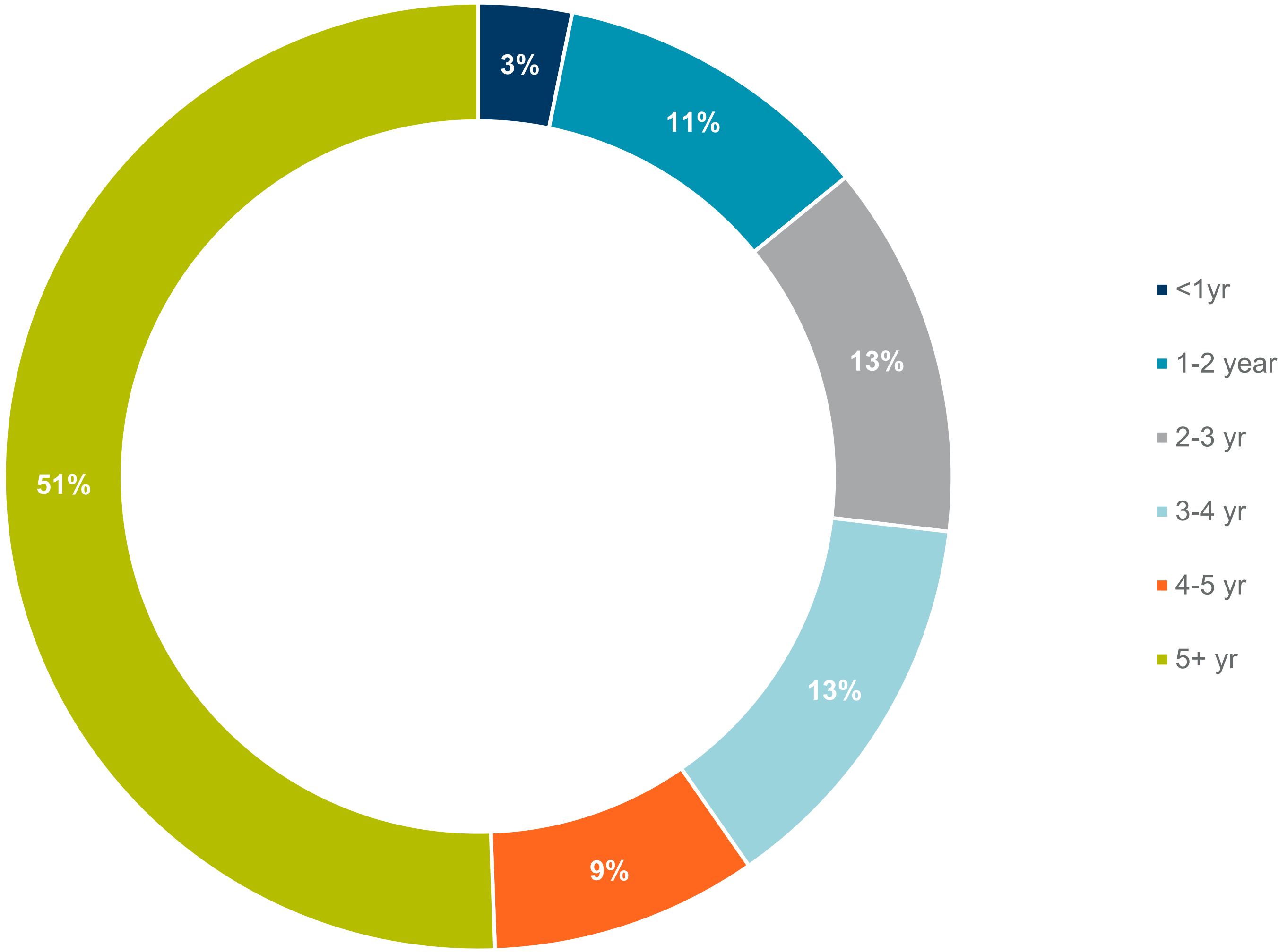
KEY TAKEAWAYS

Subleasing activity over the past seven years has followed no discernable pattern. However, two of the past three quarters have posted strong subleasing activity.

186,315 and 202,000 sf of sublease space was leased in Q1 2023 and Q3 2022, respectively. These are the highest totals since Q3 2016.

SUBLEASED SPACE BY TERM REMAINING

CURRENT OCCUPIED SUBLEASE SPACE BY TERM REMAINING AT SIGNING



Sources: Cushman & Wakefield Research and Costar

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KEY TAKEAWAYS

51% of the space subleased over the past 15 years has had a lease expiration date outside of five years at the time of signing.

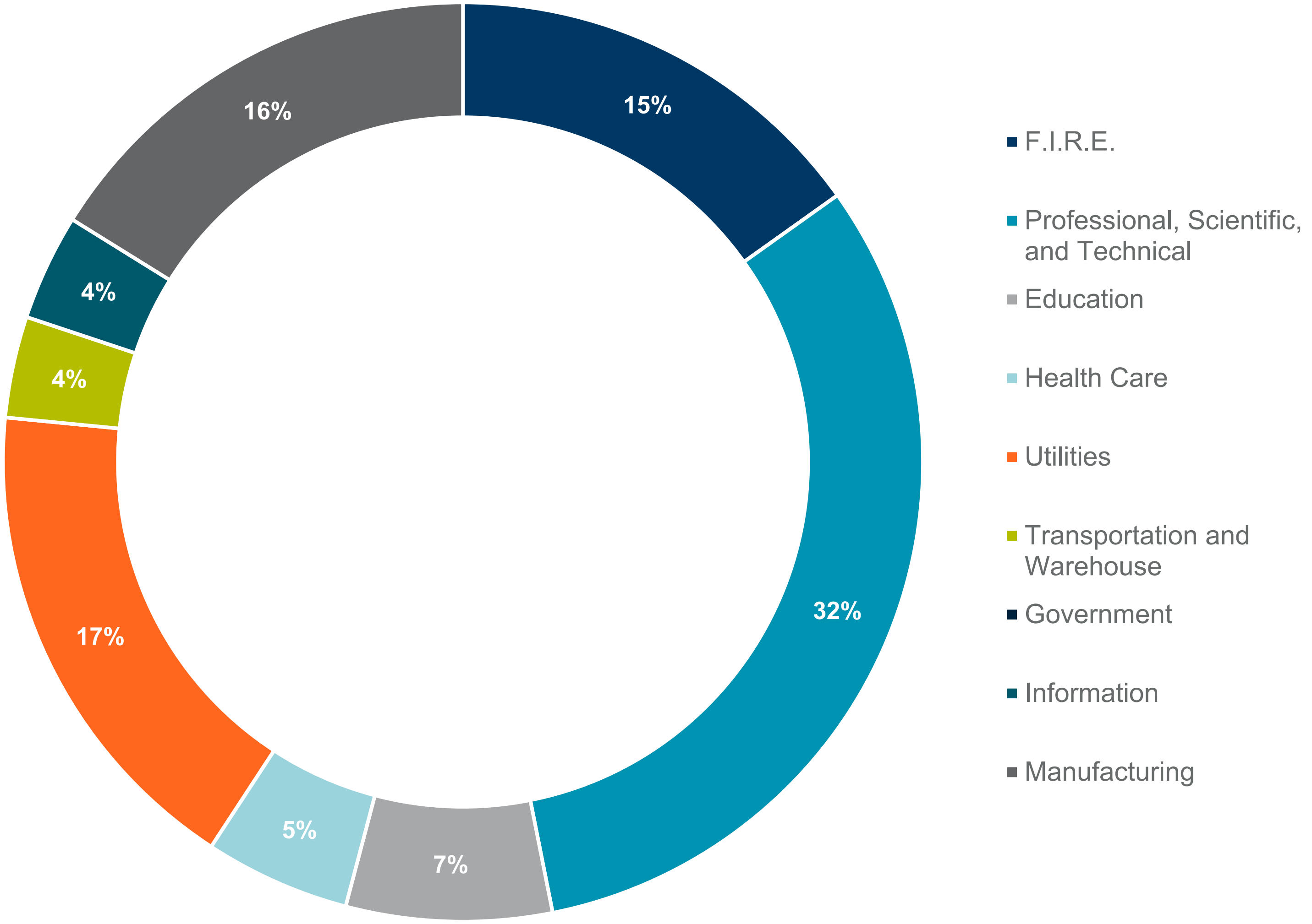
Less than 14% of subleases signed has a lease expiration date inside of two years.

Unsurprisingly, tenants value longer terms, which provide stability.

Larger sf requirements are especially prevalent in the over five-year remaining term.

SUBLEASED SPACE BY TENANT INDUSTRY

CURRENT OCCUPIED SUBLEASE SPACE BY INDUSTRY



Sources: Cushman & Wakefield Research

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KEY TAKEAWAYS

Professional, Scientific, and Technical tenants have leased 32% of all subleased space, despite only offering 12% of the available sublease space.

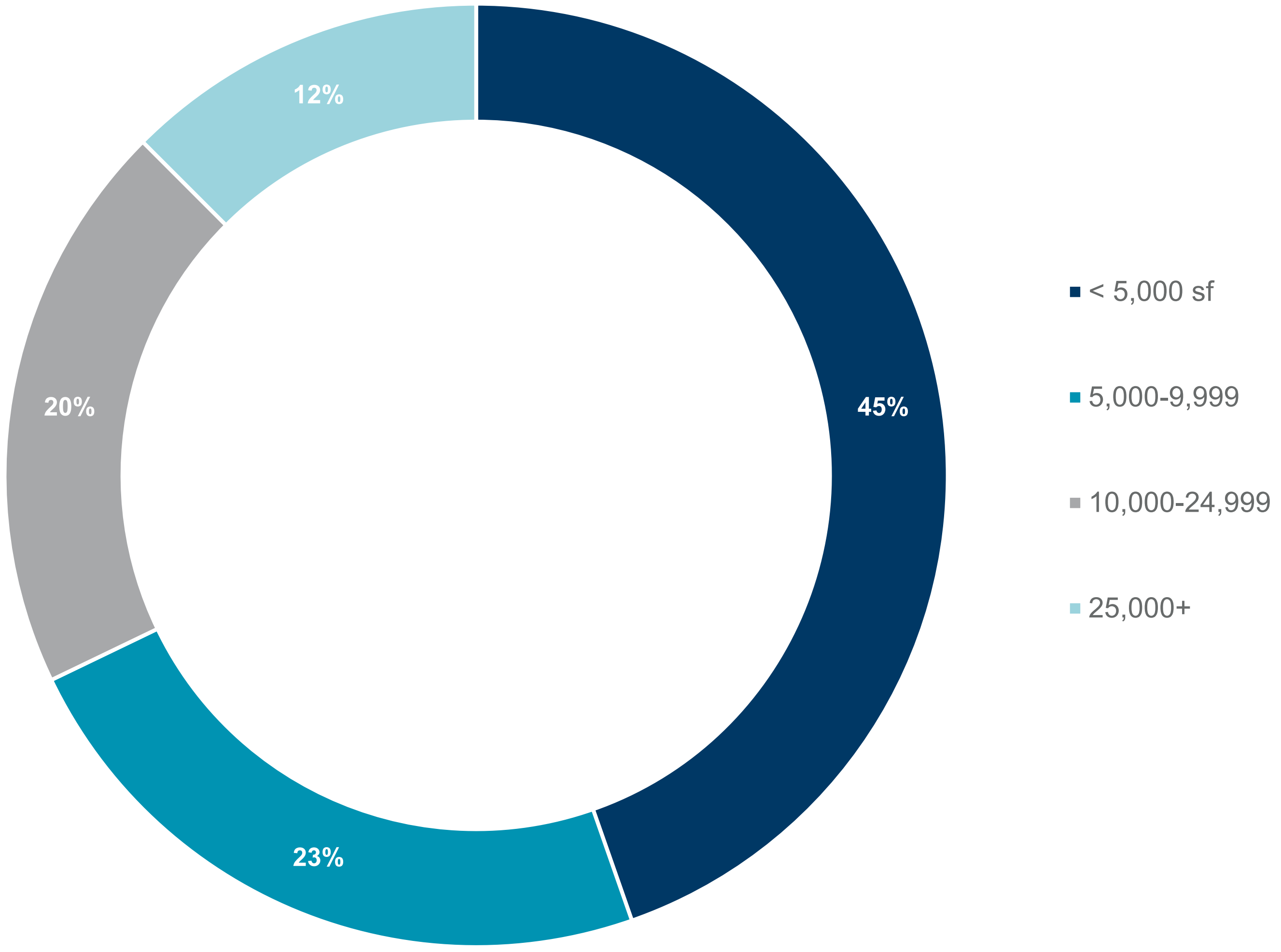
- These firms trend toward traditional office space - space requirements are more easily met, affording them the opportunity to take advantage of sublease space.

Health Care tenants only occupy 5% of subleased space, despite offering 14% of the available sublease space.

- Health Care industries often have the most specific space requirements – there are few opportunities to take advantage of fixed terms of sublease space.

SUBLEASE SPACE BY BLOCK SIZE

CURRENT OCCUPIED SUBLEASE SPACE BY BLOCK SIZE



Sources: Cushman & Wakefield Research and Costar

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KEY TAKEAWAYS

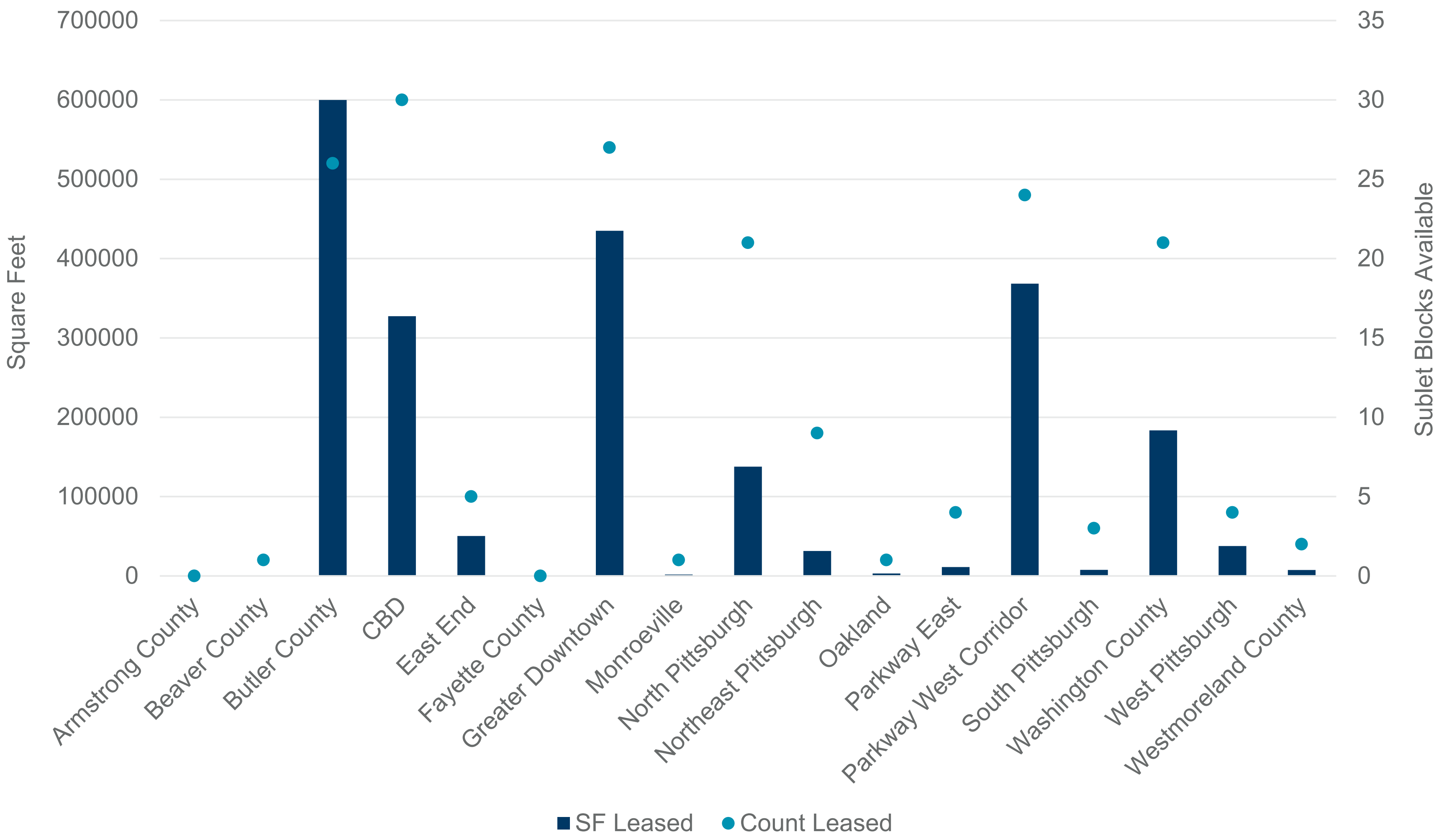
45% of the sublease space was less than 5,000 sf. Only 12% of the space offered matches this size requirement.

68% of the available sublease space offered is in excess of 10,000 sf, while of 32% of the space subleased is in excess of 10,000 sf.

Therefore, supply does not equal demand, and a disequilibrium exists.

SUBLEASE SPACE BY BLOCK SIZE

CURRENT OCCUPIED SUBLEASE SPACE BY SUBMARKET



Sources: Cushman & Wakefield Research and Costar

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KEY TAKEAWAYS

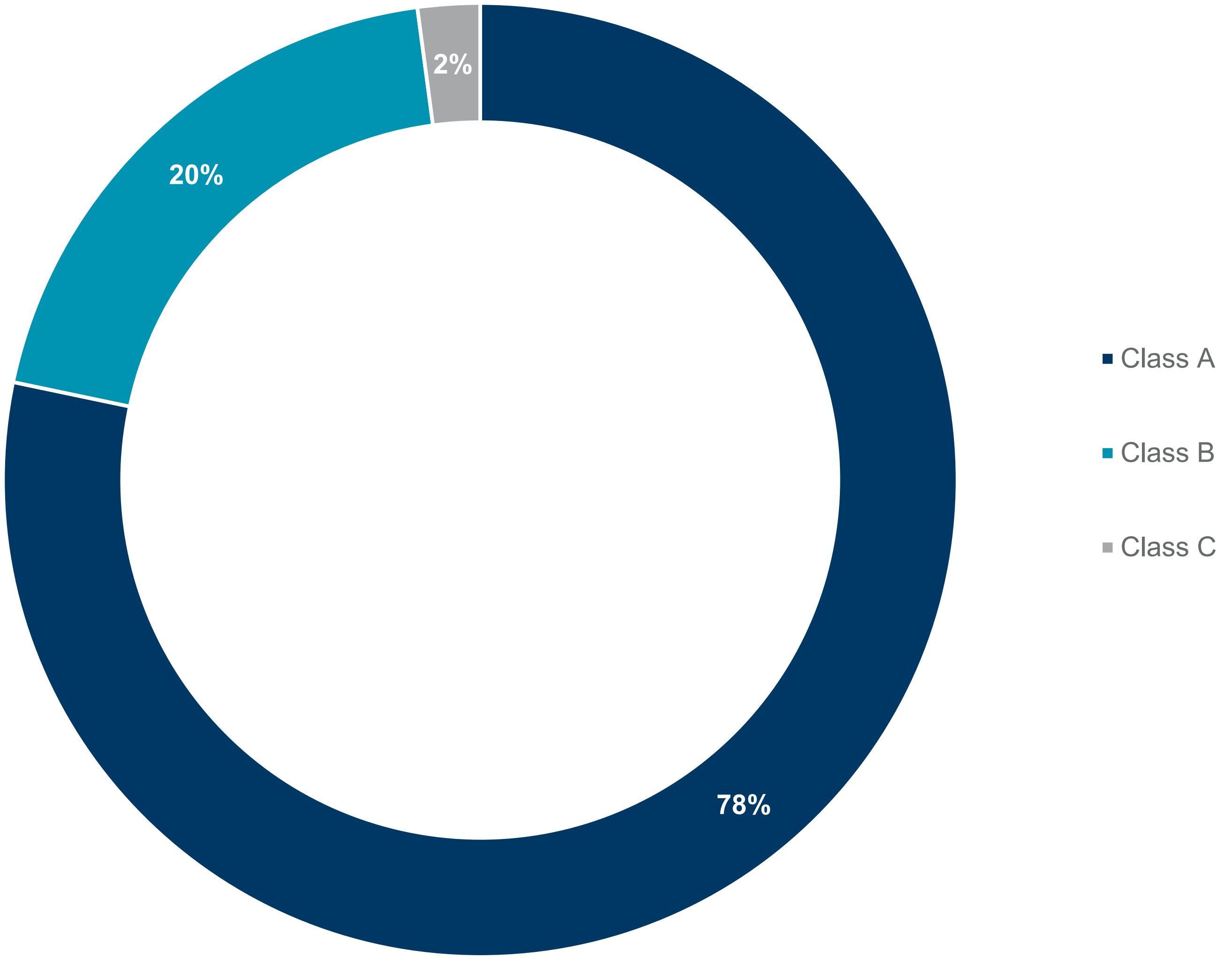
27.7% of all active, executed subleases are in Butler County, which accounts for 5.0% of the current available sublease space.

14.9% of all active executed subleases are in the CBD, which accounts for 31.0% of the current available sublease space.

19.7% of all active executed subleases are in the Greater Downtown, which accounts for 23.0% of the current available sublease space.

SUBLEASE SPACE BY BLOCK SIZE

CURRENT OCCUPIED SUBLEASE SPACE BY CLASS



Sources: Cushman & Wakefield Research and Costar

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KEY TAKEAWAYS

If tenants take on a sublease, 78% of the time they lease Class A space.

40% of tenants that took on a sublease favored to upgrade* to a higher quality space.

90% of tenants stayed the same or upgraded* from their prior location. This implies that tenants do not compromise on quality.

*A tenant is said to "upgrade" if they occupy a higher-class space (e.g., the move from a Class B space to a Class A space).

NOTABLE SUBLESSORS & SUBLEASES

TOP SUBLESSORS & SUBLEASES IN THE MARKET

ADDRESS	SF AVAILABLE	SUBLESSOR	EXP DATE	INDUSTRY
1400 Cherrington Pkwy	53,202 sf	ServiceLink	4/2024	F.I.R.E.
1200-1350 Penn Ave	52,185 sf	South University	12/2024	Education
3011 Smallman	47,047 sf	Uber	12/2026	Transportation
325 6th Ave	46,480 sf	BDO	1/2025	F.I.R.E.
600 Grant St	37,916 sf	UPMC	3/2030	Health Care

ADDRESS	SF LEASED	TENANT	DATE LEASED	INDUSTRY
1000 Westinghouse Dr	142,044 sf	Emerson	3/20/2023	Manufacturing
6420 Penn Ave	37,082 sf	Management Science Associates Inc	9/26/2022	Professional, Scientific, and Technical
375 N Shore Dr	29,350 sf	Hatch	3/28/2023	Professional, Scientific, and Technical
2000 Commerce Dr	22,496 sf	R&R Express	9/13/2022	Transportation
2 Allegheny Ctr E	8,478 sf	ThoroughCare	2/8/2023	Professional, Scientific, and Technical

Source: Cushman & Wakefield Research and Costar

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KEY TAKEAWAYS

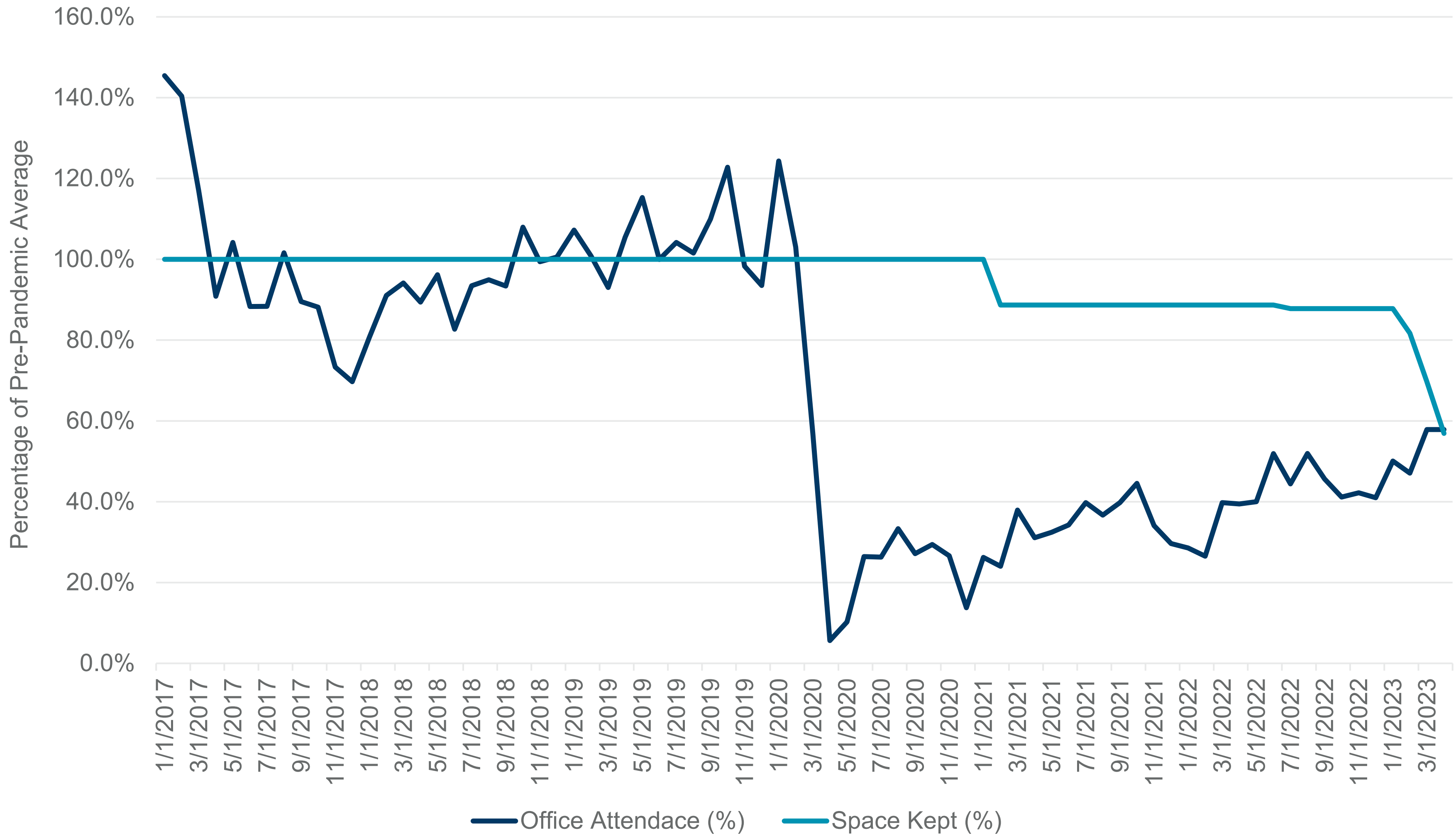
The four largest blocks of available sublease space have less than four years remaining on term.

Based on recent leasing activity, the most desirable subleases have been those with five or more years of term remaining and less than 5,000 sf.

Similar to the aggregate, the Professional, Scientific, and Technical industry represents the largest share of the top recent sublease transactions.

RETURN TO OFFICE

THE IMPACT OF RTO ON SUBLEASE SPACE



Source: Cushman & Wakefield Research and Placer Ai

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KEY TAKEAWAYS

In person office attendance dropped considerably at the onset of the pandemic, but is slowly converging toward pre-pandemic levels.

In the sample of buildings analyzed, sublease space was rarely available prior to the pandemic, which suggests that companies respond to the reality of sluggish office attendance by offering sublease availabilities.

As a percentage of pre-pandemic levels, office attendance and space occupied are at similar levels. Whether or not this is an equilibrium remains to be seen.

METHODOLOGY

RESEARCH METHODS & STRUCTURED PROCEDURE

- All the space considered in the report is strictly office use space. That is, industrial, flex, and life science is omitted from the report.
- All available sublease space analysis is conducted on a block-by-block basis based on the size marketed by the sublessor (or sublessor's representation agency).
- All executed sublease analysis is conducted on the space that is currently occupied by tenants who signed a sublease (unless otherwise specified).
- All industry calculations are based on an aggregation of sublessor and tenant NAICs Codes.
- All submarket calculations are based on Cushman & Wakefield proprietary research data.
- All term remaining analysis pertaining to available space uses May 1, 2023, as the initial condition (i.e., $Term\ Remaining = Expiration\ Date\ - May\ 1, 2023.$)
- All term remaining analysis pertaining to tenants currently occupying a subleased space considers the term remaining at the time of execution (i.e., $Term\ Remaining = Sign\ Date\ - Expiration\ Date$).
- All office attendance is sourced from Placer Ai. Office attendance includes both office visitors and office employees since 2017. The analysis only considers buildings occupied by a single tenant that offer sublease space to isolate the behavioral motivations behind offering sublease space.

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GLOSSARY

- **Sublessor**: A tenant that offers some of their space on the sublease market
- **Active Executed Sublease**: A space in which a tenant signed a sublease and currently occupies said space
- **Office Attendance**: The number of employees and visitors within an office building over a specified interval of time
- **Occupied Space**: Space in which a tenant is physically using
- **Industry**: How the tenant is classified according to NAICs Codes
- **Term Remaining**: The amount of time remaining on a lease until expiration