

Commercial leasing

Pittsburgh market facing challenges, opportunities

INTERVIEWED BY SUE OSTROWSKI

While the COVID-19 pandemic has had a significant negative impact on downtown

Pittsburgh's commercial leasing market, it has also created new opportunities for both tenants and landlords.

"While the pandemic changed a lot in the commercial real estate market in Pittsburgh, increasing vacancy rates and creating other challenges, it has also provided the chance for tenants and landlords to negotiate better terms," says Mary Binker, a shareholder in the Real Estate, Corporate and Commercial, and Energy and Natural Resources groups of Babst Calland. "It has also allowed new tenants, who previously may not have been able to access the downtown commercial real estate market, to more seriously look into the downtown space."

Smart Business spoke with Binker about how landlords and tenants can adjust to an evolving commercial real estate market.

HOW HAS THE PANDEMIC IMPACTED DOWNTOWN PITTSBURGH COMMERCIAL REAL ESTATE?

Rates, lease terms and tenants' concerns have changed, and vacancy rates have increased. Before the pandemic, the commercial real estate vacancy rate downtown was in the mid to low teens, but in January 2022, it was just over 20 percent, which is higher than in recent years. We are also seeing more tenants attempting to sublease all or part of their space.

Employers are grappling with how the pandemic is impacting office space, with many moving to remote work or, more recently, a hybrid model. What does that look like? Will the number of desks be limited? If everyone is in the office on the same days, how will that work? How do you accommodate a cleaning schedule

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and provide storage if different people use the same workspace on different days? In addition, there has been a change in technology needs. Businesses must have great audio and video technologies available because everyone is using them more.

As new COVID variants arise, employers will continue to grapple with whether to operate on a hybrid or remote basis, and the amount and look of office leasing will continue to change.

HOW CAN EMPLOYERS AND LANDLORDS ADDRESS THE EVOLVING COMMERCIAL REAL ESTATE MARKETPLACE?

Early in the pandemic, tenants tried to claim force majeure — unforeseeable circumstances that prevent someone from fulfilling a contract — to get out of their lease or negotiate terms, but that is happening less commonly now. Renewals are allowing tenants and landlords to change things in their leasing agreement that had previously been the norm.

Many landlords are offering smaller spaces and shorter lease terms, and amenities such as memberships to building fitness centers. The trend will likely be for landlords to have not one tenant occupying several floors but have several in much smaller spaces. In addition, I think there will be a change in the type of tenants moving downtown. Traditionally, it has been home

to larger, more established companies, but the expansion of lease options and the availability of smaller spaces may make moving downtown more attractive to smaller or younger companies. With space available and landlords looking to lease, companies may be able to enter a market that historically would have been a challenge.

In addition, new development is still happening in the commercial real estate space that will provide opportunities for landlords, tenants and brokers, even though it may look different than it has in the past.

HOW CAN A PROFESSIONAL HELP LANDLORDS AND TENANTS NAVIGATE THE MARKET?

A professional has experience negotiating leases and knows the trends locally. What was true two years ago has greatly changed, and it's critical to work with an expert who knows what standards have changed to get the best deal terms.

Work with an attorney and a broker on the current terms they are seeing in the marketplace. Rates have changed — in some areas square footage rates have softened — but there have also been changes in tenant allowances and other things that can be a monetary benefit to a tenant, even if the base rental rate is unchanged. If you're stuck in a lease, have too much space or are facing negative lease terms, consulting with an attorney may help you resolve those issues. ●