Pittsburgh’s Construction Market
SWOT Analysis 2022-2023

Update for AIA-MBA Joint Committee
March 30, 2022
The Economics

- Short sharp recession followed by steep growth
- CARES/ARP were bridges to recovery; set up strong 2021, better runway to 2022
- GDP declined 3.5% YOY IN 2020; up 5.9% 2021
- Growth in 2022 forecast at 4% vs. 1.5% (2019 forecast)
- Consumer savings driving new spending
- Business investment high despite uncertainty
- Supply chain & inflation threats – supplanting COVID
- U.S. economy facing big secular shift
- Unemployment falling slower in Pittsburgh
- Workforce decline = lower employment in Pittsburgh
- Pgh economy more diverse; could be at tipping point
Consumer Spending (In $Billions)
Pgh Total Non-farm Employment, Seasonally-adjusted (In 000s)
Inflation

• “Transitory” = 2 years
• Construction inflation 15% Y-O-Y
• Price hikes driven by supply chain/demand imbalances rooted in pandemic & response
• Last 2 months show slower rate of increase, broader inflation impact on materials
• Risk of “wait & see” growing in 2022 – could cost 30%
• Long-term supply/demand dynamics unchanged (steel, lumber, oil/gas) but short-term cycles accelerated
• Cyclical threat is wage inflation and reinforcing cycle
• Bond market still telling us not to worry
• 1990s inflation averaged >3%; July 2006 = 4.6%
Producer Price Index for New Nonresidential Building Construction

Year-Over-Year % Change

The Outlook

• Construction market ready to return to strongest conditions in 40 years. 2021 was record $5.29B
• Inflation, uncertainty will drag 2022 lower ($4.4B - $4.8B)
• Development is being driven by the same sectors as economy – emerging tech, logistics, healthcare
• Development aided by cheap money, excess equity
• Major projects returning now
• Inflation top concern in 2022; supply chain issues growing
• Labor market risk will be higher
• Issues influencing construction/real estate remain the same as pre-COVID (home inventory, office, population/births)
• Regional real estate rents will lag inflation, rates – upward pressure on cap rates, downward pressure on values
Major Jobs Moving in 2022-2025

- UPMC/Pitt Immunotherapy ($220 million) *
- AGH Cardio Tower ($300 million)
- UPMC Shadyside Tower ($240 million)
- UPMC Presbyterian Heart & Transplant ($900 million)
- Canonsburg General Hospital Replacement ($140 million)
- 1501 Penn Avenue ($300 million)
- Hillwood/Amazon Distribution Center ($350 million)
- CMU Skibo Hall/Highmark Student Wellness Center ($110 million)
- PIT Terminal Modernization Program ($1.4 billion) *
- South Oakland Gateway Development ($240 million)
- Pitt Central Utility Plant ($100 million) *
- ALCOSAN Wet Weather ($1.5 billion) *
- Suncap/Amazon Warehouse, New Stanton ($125 million)
- Pitt Student Rec Center ($180 million)
- Pitt Center for Human Performance ($160 million)
- Bakery Square Expansion ($500 million)
- Pitt Mid-Campus Residence Hall ($140 million)
- Science@CMU ($150-200 million)
- PTT Dilles Bottom Plant (> $7 billion 2023-2027)