

MARKETBEAT

PITTSBURGH OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q09

ECONOMY

The Pittsburgh market has begun to stabilize during the 4th quarter of 2009. While the national economy has continued to slow and job loss continued throughout the year, the Pittsburgh region continues to rely heavily on the sectors of education and healthcare which support more stable employment and income levels.

Pittsburgh was one of only a few select cities which was able to post a positive net absorption for the 4th quarter and a total of 1,876,703 sf for the year overall. Layoffs and closures have created vacancies within the office market and have resulted in favorable sublease and direct deals. The vacancy rate continues to remain well below the national average, with the majority of available space spread throughout lower classes of space. Efforts to minimize the vacancy rate of this space are expected to take place early in the coming year.

OVERVIEW

The Pittsburgh office market finished the year with a combined average asking rental rate of \$18.50 per square foot triple net (psf/NNN) and a vacancy rate of 12%. The delivery of Three PNC Plaza was completed during the 4th quarter and marks the first new complex within the Central Business District in 20 years. Bridgeside Point II, a 160,000 sf-class A laboratory and office building, was delivered in the Oakland submarket. The site is part of the Enterprise Zone Program which provides grants for preparing and implementing business development strategies.

4MOinfo, an Indiana based company which has a patent-pending process of adding short audio clips to print display advertisements via a four digit calling code, announced its plan to expand into the Central Business District and will create additional jobs in the area. CNNMoney.com recently named Pittsburgh as the "Nation's No. 2- Best Metro to Launch a Small Business" largely in part of the talent pool with a mix of highly-educated students from nearby universities.

Education Management Corporation (EDMC) is expanding its downtown Pittsburgh headquarters and the online higher education facility in the Strip District. This \$30 million will create 600 new jobs over the next three years.

Overall leasing activity increased significantly to 4,976,929 for the year, compared to 4,008,043 sf in 2008.

FORECAST

Further stabilization is expected in the coming year. While the economy should improve slightly, there will not be a large increase in hiring or wages. We do not expect job creation to begin until the second half of the year. Economic recovery and growth will continue to be slow and steady.

BEAT ON THE STREET

"The fourth quarter brought an increase in leasing activity and rental rates in Pittsburgh. In addition, the market experienced positive net absorption for the second quarter in a row signaling a comeback from the current recessionary conditions. The overall vacancy rate has dropped and leasing activity is expected to steadily increase."

– Scott K. Astorino, Brokerage & Leasing Manager

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.5%	2.3%
CPI Growth	3.8%	-0.4%	1.7%
Regional			
Unemployment	5.3%	7.9%	7.0%
Employment Growth	0.1%	-2.1%	0.0%

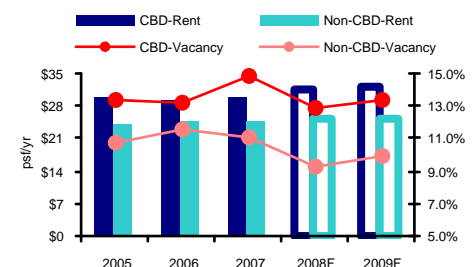
MARKET FORECAST

LEASING ACTIVITY dropped off through 2009 and will likely continue a slow but stable trend. ⇄

DIRECT ABSORPTION is expected to increase as space is released and positive sublease deals are available in the upcoming quarters. ↑

CONSTRUCTION: Rising overall construction costs and uncertain economic conditions have cancelled and delayed new construction. ↓

OVERALL RENTAL VS. VACANCY RATES



MARKETBEAT

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Central Business District	27,983,927	136	13.1%	12.3%	1,040,572	780,000	0	1,172,813	\$22.42
Greater Downtown	13,022,097	163	9.3%	7.8%	631,403	121,000	150,000	319,928	\$22.39
Downtown Total	41,006,024	299	11.2%	10.1%	1,671,975	901,000	150,000	1,492,741	\$22.41
Butler County	2,776,794	71	6.1%	5.9%	570,993	480,292	504,500	464,423	\$20.69
I-279/I-79 North	1,580,072	33	9.7%	7.4%	176,807	0	20,000	67,315	\$21.07
North Pittsburgh/Rte. 19	4,116,815	158	12.7%	12.5%	331,915	31,200	33,000	(52,658)	\$21.42
North Pittsburgh	8,473,681	87	9.5%	8.6%	1,079,715	31,200	557,500	479,080	\$21.06
South Pittsburgh/Rte. 19	3,299,985	90	18.8%	18.5%	106,023	0	0	(49,941)	\$21.94
South Pittsburgh/Rte. 51	1,906,953	61	7.7%	7.6%	124,513	0	26,700	69,041	\$16.00
South Pittsburgh/I-79	846,255	31	8.0%	8.0%	37,373	0	21,000	(15,655)	N/A
Fayette County	725,227	21	29.3%	29.3%	5,567	0	0	(33,964)	N/A
Washington County	4,242,490	113	10.5%	9.6%	410,495	0	120,000	(36,716)	\$18.79
South Pittsburgh	11,020,910	316	14.9%	14.6%	683,971	0	167,700	(67,235)	\$18.91
Monroeville	2,423,948	41	14.5%	14.4%	73,852	0	0	(1,634)	\$21.76
Northeast Pittsburgh	2,179,202	76	9.1%	9.1%	137,033	0	77,100	78,232	\$22.30
Oakland	3,912,681	62	2.1%	2.1%	41,235	0	18,655	(2,800)	N/A
Parkway East	7,137,662	184	14.5%	14.1%	299,800	0	0	(59,289)	\$20.43
Westmoreland County	3,282,822	140	9.9%	9.9%	122,224	0	84,496	6,697	N/A
East Pittsburgh	18,936,315	503	10.0%	9.9%	674,144	0	180,251	21,206	\$21.50
Beaver County	1,270,234	52	8.8%	8.8%	53,611	0	0	17,400	N/A
Parkway West	6,251,708	111	18.0%	17.8%	672,851	0	0	(40,626)	\$20.53
West Pittsburgh	3,087,273	55	10.8%	10.4%	140,662	0	0	(25,863)	\$19.54
West Pittsburgh	10,609,215	218	12.5%	12.3%	867,124	0	0	(49,089)	\$20.04
CBD	27,983,927	136	13.1%	12.3%	1,040,572	780,000	0	1,172,813	\$22.42
NON-CBD	62,062,218	1,287	11.2%	10.7%	3,936,357	152,200	1,055,451	703,890	\$20.83
PITTSBURGH TOTAL	90,046,145	1,423	12.2%	11.5%	4,976,929	932,200	1,055,451	1,876,703	\$21.60

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

411 7th Avenue	CBD	Duquesne Light Company	86,264	A
RIDC Thorn Hill	I-279/I-79 Northwest	Westinghouse Energy	83,200	A

SIGNIFICANT 4Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
1000 Commerce Drive	Parkway West	DiCicco Development LLC	203,046	\$5,200,000
4024 Ohara Street	Greater Downtown	Concordia Club	12,562	\$1,400,000

SIGNIFICANT 4Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
450 Second Ave	Oakland	N/A	160,000	4Q09
3101 Preble Ave	North Pittsburgh	Alcosan	20,000	4Q09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Cranberry Woods Drive	Butler County	Westinghouse Energy	204,896	2Q10
Bigelow Boulevard- Schenley Place	Greater Downtown	N/A	110,000	1Q11