

MARKETBEAT

PITTSBURGH OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



2Q10

ECONOMY

The City of Pittsburgh maintained its ranking as the 61st largest city in the country during the second quarter 2010, and for the first time in a long time, Allegheny County experienced a slight nudge upward in population, an encouraging sign that the Pittsburgh metro has begun to recover from the recession. Residential real estate sales in Pittsburgh were up 31% over the previous year, despite a steady decline of housing sales across the country. The expansion of oil and natural gas companies and the services companies who support them continues to fuel economic growth in the market, particularly in Cranberry Township, north of the city, and in Washington County, south of the city.

After being number one in the country for job growth in the month of April, unemployment in Pittsburgh inched upward after two consecutive months of declines. The area added 9,000 jobs in May 2010; however, of those jobs, more than 25% of them were temporary positions created by the government to conduct the national census.

OVERVIEW

Investment activity in the Pittsburgh office market picked up pace throughout the second quarter 2010, with the \$40.5 million sale of 1307 Federal Street, a 191,612-square-foot (sf) building on Pittsburgh's North Side, as well as the sale of Park Place @ Chapel Harbor in Pittsburgh's Northeast corridor. The 33,000-sf office building was purchased by Park Place Associates, LLC for \$4.5 million. The investment activity in Pittsburgh has produced a crop of new offerings within the CBD, as several prominent buildings have been placed on the market. Among them are the Henry W. Oliver Building, a 471,000-sf office building currently celebrating its 100th anniversary; EQT Plaza, which last sold in 2005 for \$45 million; and, Gateway Center, a four-building, 1.5 million-square-foot (msf) complex which was purchased by Hertz Investment Group in 2004 for \$55 million. Federated Department Stores announced that it was taking its 750,000-square foot downtown building to the market, though it plans to lease back a portion of the building for its downtown retail store and regional offices. The Regional Enterprise Tower and the Red Cross regional headquarters building also are being marketed for sale.

The overall vacancy rate for the Pittsburgh office market remains stable at 19.2%, up slightly over last quarter by 1.5%. Leasing activity continues to be slow within the market, and is largely supported by the entrance or expansion of Marcellus Shale-related companies.

FORECAST

Leasing activity and direct absorption through the balance of 2010 should be steady as several large users enter the market looking for opportunities to right-size or expand in new spaces. Despite relatively consistent vacancy rates and a better-than-average economy, Pittsburgh remains a tenant's market and below-market transactions are expected to drive activity, particularly in the CBD and Greater Downtown areas, for the next several quarters.

BEAT ON THE STREET

"At 1.9 msf year-to-date, leasing activity within the region has slowed significantly over the past 90 days. With six CBD buildings posting vacancies of 100,000 sf or more of contiguous space, landlords are vying for the handful of larger prospects currently surveying the market. However, sales activity in the region is increasing and investors continue to show confidence in the Pittsburgh market's stability."


—Timothy R. Goetz, Principal


ECONOMIC INDICATORS


National	2009	2010F	2011F
GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.8%	2.1%
Regional			
Unemployment	7.4%	8.7%	8.8%
Employment Growth	-2.5%	-0.3%	1.3%

Source: Moody's | Economy.com

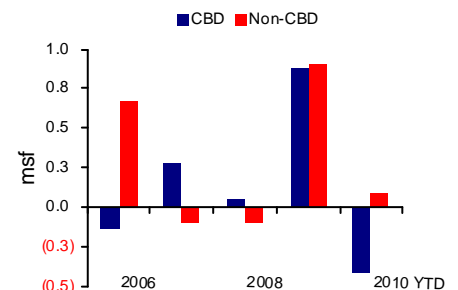
MARKET FORECAST

LEASING ACTIVITY has improved over 2009, however, it is expected to remain steady through the balance of 2010. 

DIRECT ABSORPTION is expected to improve over the second half of the year as large users move into new and expansion spaces. 

CONSTRUCTION: Demand for flex space will stabilize construction activity throughout 2010, but no new office projects are expected. 

OVERALL ABSORPTION CBD VS. NON-CBD



GRANT STREET
ASSOCIATES, INC.

MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT ABSORPTION	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Central Business District	24,308,596	110	16.9%	16.0%	902,874	0	0	(146,741)	(112,894)	\$22.61
Greater Downtown	7,779,144	70	14.5%	13.5%	207,850	110,000	0	(58,283)	48,127	\$22.43
Urban Core	32,087,740	180	15.7%	14.8%	1,110,724	110,000	0	(205,024)	(64,767)	\$22.52
Butler County	1,200,827	30	14.0%	14.0%	97,559	409,792	70,500	6,932	6,932	\$22.91
North Pittsburgh	2,910,189	94	21.0%	21.8%	98,304		31,584	(6,952)	(11,614)	\$21.58
North	4,111,016	124	17.5%	17.9%	195,863	409,792	102,084	(20)	(4,682)	\$22.25
South Pittsburgh	3,059,705	77	22.0%	21.0%	61,728	0	0	4,732	9,919	\$22.04
Washington County	2,249,490	46	30.5%	29.0%	53,571	0	0	(54,927)	52,266	\$20.64
South	5,309,195	123	26.3%	25.0%	115,299	0	0	(50,195)	62,185	\$21.34
Beaver County	360,580	16	32.0%	32.0%	3,060	0	0	3,060	3,060	N/A
Parkway West	4,262,142	62	23.4%	23.1%	183,697	0	0	(68,215)	31,375	\$21.26
West Pittsburgh	1,290,516	21	22.7%	22.7%	20,906	0	0	(3,123)	13,123	\$19.02
West	5,913,238	99	26.0%	25.9%	207,663	0	0	(68,278)	47,558	\$20.14
Oakland	766,756	14	14.4%	14.4%	2,215	0	0	(33,539)	(33,539)	\$25.49
Parkway East	3,233,142	75	27.0%	26.2%	109,648	0	0	(76,149)	76,149	\$23.39
Monroeville	1,434,778	19	24.7%	24.7%	26,454	0	0	(7,617)	(9,368)	\$20.96
Northeast Pittsburgh	940,753	32	20.5%	20.5%	29,388	0	0	2,689	(1,875)	\$22.35
Westmoreland County	1,140,804	44	16.0%	16.0%	105,549	45,000	0	23,365	20,698	\$20.00
East	7,516,233	184	20.5%	20.4%	273,254	45,000	0	(91,251)	52,065	\$21.68
CBD	24,308,596	110	16.9%	16.0%	902,874	0	0	(146,741)	(112,894)	\$22.61
NON-CBD	30,628,826	600	21.0%	20.5%	999,929	564,792	102,084	(268,027)	205,253	\$21.57
PITTSBURGH TOTAL	54,937,422	710	19.2%	18.5%	1,902,803	564,792	102,084	(414,768)	92,359	\$22.07

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Pennwood Place, Phase I	Butler County	Talisman	50,000	A
925-929 Penn Avenue	Central Business District	N/A	16,134	B
Building 220 Cranberry Bus. Park	Butler County	Sage Software, Inc.	10,117	A

SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
1307 Federal Street	Greater Downtown	HTA-Federal North MOB, LLC	191,612	\$40,500,000
306 Fifth Avenue/440 Wood St.	Central Business District	Carol Jean Management, LLC	41,591	\$3,139,000
938 Penn Avenue	Central Business District	938 Penn Avenue, LLC	35,200	\$2,525,000

SIGNIFICANT 2Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
3120 Unionville Road, Building 110	Butler County	PLS Logistics, Inc.	70,500	5/10
6021 Wallace Road Ext. Building 1	North Pittsburgh	N/A	31,584	4/10

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Cranberry Woods, II	Butler County	Westinghouse Nuclear Energy	204,896	7/10
Cranberry Woods, III	Butler County	Westinghouse Nuclear Energy	204,896	7/10
Schenley Place	Greater Downtown	N/A	110,000	12/11

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Grant Street Associates, Inc.
 BNY Mellon Center, Suite 2350
 500 Grant Street
 Pittsburgh, PA 15219
 (412) 391-3900
www.gsa-cw.com

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*Market terms & definitions based on BOMA and NAIOP standards.

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