

MARKETBEAT

PITTSBURGH INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q08

ECONOMY

Economic activity in the Pittsburgh region is down but not out. The employment growth has fallen about 1.0% from its mark in the fourth quarter of 2007 in large part because the rate of hiring has tracked steadily downward in recent months. Manufacturing employment, in particular, has suffered a significant blow with the recent announcement by Sony that it will close its Westmoreland County television plant, laying off 560 workers. The plant, which is set to close by March of 2010, is Sony's last television-manufacturing facility in the United States. Pittsburgh lost approximately 1,900 jobs between November 2007 and November 2008.

The financial troubles of the U.S. auto industry also are impacting Western Pennsylvania. Steel, glass and coatings demand is falling in response to weak car sales globally. Pittsburgh's continued reliance on the steel industry could harm the region as economic conditions are expected to worsen through 2009. However, U. S. Steel's planned \$1.0-billion upgrade to its Clairton Works facility and Allegheny Technology's \$1.2-billion investment in its Brackenridge plant should balance the short-term economic challenges.

The influx of research and technology companies into the Pittsburgh region throughout 2008 should stabilize the local economy for the next 12 to 18 months. The new 165,000-square-foot (sf) manufacturing facility for Respironics was delivered in the fourth quarter of 2008, as well as, the 120,000-sf MEDRAD manufacturing facility in Victory Industrial Park. Construction on the 209,000-sf facility for Flabeg, a German-based manufacturer of high-tech and mirror applications, is scheduled to deliver in the second quarter of 2009.

OVERVIEW

Despite a decline in manufacturing activity throughout the region, the industrial market experienced a further drop in vacancy rate, closing out 2008 at 9.9%. The increased demand in flex/service space continues to drive overall rental rates upward to an average of \$5.00 per square foot (psf) at year-end.

The Parkway West submarket near the Pittsburgh International Airport continues to be a hotbed of development activity with two build-to-suit transactions closing in the fourth quarter. Appliance Dealers Cooperative of Monroe Township, N.J., expects to close on a sales agreement to build a 150,000-sf regional warehouse facility at the Imperial Land Corp's five-parcel industrial park there, while Tricor International Corp. is building an 80,000-sf warehouse for The Okonite Co., an electrical cable and wire manufacturer which plans to move its service center from its current location at Leetsdale Industrial Park in Pittsburgh's North submarket. Both companies intend to hire additional workforce upon completion of their new facilities.

FORECAST

Leasing activity and absorption rates are expected to fall throughout the first half of 2009, stabilizing late in the fourth quarter as the U.S. economy begins to emerge from a recession. Rental rates are expected to remain largely unchanged throughout the coming year.

BEAT ON THE STREET

"Despite the current economic crisis, demand for large blocks of warehouse/distribution space continues to drive construction and leasing activity in the Pittsburgh market. Though we do not anticipate any additional speculative development within the next 12 to 18 months, we will see the completion of several build-to-suit warehouse projects."

— John M. Lisowski, Industrial Brokerage & Leasing Manager

ECONOMIC INDICATORS

National	2007	2008	2009F
GDP Growth	2.0%	1.2%	-1.5%
CPI Growth	2.9%	4.2%	0.9%
Regional			
Unemployment	5.4%	5.5%	5.6%
Employment Growth	0.9%	-1.0%	-1.2%

Source: Moody's | Economy.com

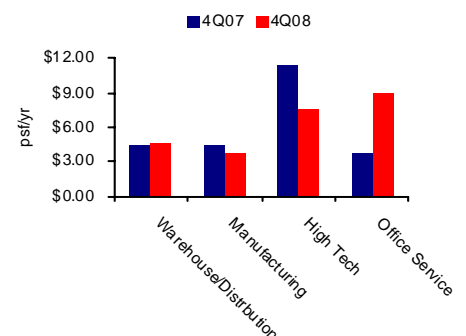
MARKET FORECAST

LEASING ACTIVITY in 2008 dropped approximately 9.0% from 2007 and is expected to further decrease in 2009. ↓

DIRECT ABSORPTION is expected to continue to drop as the manufacturing sector suffers from current economic conditions throughout 2009. ↓

CONSTRUCTION: Projects currently under construction are expected to deliver as scheduled in 2009. ↔

RENTAL RATE COMPARISON



MARKET/SUBMARKET STATISTICS

MARKET/SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE*			
								HT	MF	OS	W/D
Fayette County	2,838,582	17	15.7%	18,000	0	0	16,500	N/A	N/A	N/A	\$3.20
Monroeville	2,272,771	14	6.7%	166,089	0	0	40,909	N/A	N/A	N/A	\$4.75
Northeast Pittsburgh	14,179,190	135	2.3%	394,900	0	0	82,792	\$7.30	\$4.00	\$8.30	\$5.38
Oakland	32,890	1	0.0%	16,900	0	0	16,900	N/A	N/A	N/A	N/A
Parkway East	4,923,912	43	7.4%	485,026	0	0	201,226	\$4.25	N/A	\$6.18	\$5.00
Westmoreland County	8,277,696	75	13.0%	725,570	20,000	190,000	549,057	\$6.00	\$3.60	\$6.49	\$3.43
Pittsburgh East	32,525,041	285	7.5%	1,806,485	20,000	190,000	907,384	\$5.85	\$3.80	\$6.99	\$4.35
Beaver County	4,855,401	28	18.0%	413,100	0	60,000	(142,200)	N/A	\$2.75	N/A	\$4.79
Parkway West	3,051,349	33	17.3%	268,739	132,500	176,500	122,450	\$8.00	\$3.38	\$10.00	\$5.07
West Pittsburgh	4,772,080	43	14.5%	456,380	0	48,705	311,070	N/A	\$3.00	N/A	\$4.19
Pittsburgh West	12,678,830	104	16.6%	1,138,219	132,500	285,205	291,320	\$10.00	\$3.04	\$10.00	\$4.68
Butler County	6,272,216	66	4.7%	266,471	68,500	120,000	137,122	\$5.50	\$3.14	\$8.60	\$4.21
Greater Downtown	5,930,782	92	10.0%	183,673	41,905	1,744	(57,341)	N/A	N/A	N/A	\$5.23
North Pittsburgh	10,851,320	162	6.0%	366,207	90,113	295,534	136,162	\$8.48	\$4.71	\$12.60	\$5.32
Pittsburgh North	23,054,318	320	6.9%	816,351	200,518	417,278	215,943	\$6.99	\$3.93	\$10.60	\$4.92
South Pittsburgh	9,489,338	75	7.9%	298,120	26,587	44,650	(140,380)	N/A	N/A	\$10.92	\$3.74
Washington County	2,542,314	34	9.0%	222,040	45,000	41,350	187,040	N/A	\$4.25	\$5.72	\$5.45
Pittsburgh South	12,031,652	109	8.5%	520,160	71,587	86,000	46,660	N/A	\$4.25	\$8.32	\$4.60
TOTAL	80,289,841	818	9.9%	4,281,215	424,605	978,483	1,461,307	\$7.61	\$3.75	\$8.98	\$4.64

*Rental rates reflect \$psf/year

HT = High Tech MF = Manufacturing OS = Office Service W/D = Warehouse/Distribution

MARKET HIGHLIGHTS

SIGNIFICANT 2008 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
1750 Shenango Rd./Turnpike Distribution Ctr.	Beaver County	Iron Mountain	170,000	Warehouse/Distribution
216 Finley Rd./I-70 Commerce Center	Westmoreland County	Elliott Company	147,310	Warehouse/Distribution
615 Alpha Drive/RIDC Industrial Park	Northeast Pittsburgh	Keystone Automotive Industries, Inc.	78,000	Warehouse/Distribution

SIGNIFICANT 2008 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Cranberry Corporate Center/215 Executive Dr.	Butler County	Silk & Stewart	215,000	\$18,800,000
615 Alpha Drive/RIDC Industrial Park	Northeast Pittsburgh	McKnight Development Corp.	330,725	\$9,400,000
E. Hillis Street & South 3rd Street	Westmoreland County	A&C Property Holdings, LLC	450,000	\$5,300,000

SIGNIFICANT 2008 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
312 Alvin Drive	Westmoreland County	Respironics, Inc.	165,000	12/08
150 Victory Road	Butler County	MEDRAD	120,000	2/08
3000 McClaren Woods Drive, Building 3000	Parkway West	Baule USA	132,500	11/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
135 Meadow Lane - Ft. Pitt Industrial Park	Washington County	N/A	60,000	3/09
990 Ricerside Place, Bldg. 900	North Pittsburgh	N/A	53,750	3/09
100 E. Kensing Road, Building 120	Butler County	Millenium Pharmacy Systems, Inc.	48,500	5/09

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

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