

MARKETBEAT

PITTSBURGH INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



4Q09

ECONOMY

Despite its history of slow economic recovery following recessionary periods, Pittsburgh fared surprisingly well in the fourth quarter 2009. The job loss rate improved from 35,000 in December 2008 to 23,000 in December 2009. Although this improvement is hardly anything to brag about - the region suffered particularly hard from major downsizing in the business and professional services, government and leisure sectors - Pittsburgh is maintaining greater stability than markets of similar size and demographics.

The impact of the recession is most evident in the 26.5% decrease in barge traffic between 2008 and 2009, with the most significant loss in coal traffic at a 27.3% loss over the previous year. Aside from single-family home construction, new building permits were down 19.3% due in large part to the restructuring of the lending industry and the unavailability of financing for speculative projects. Lenders were just as hesitant to provide financing for the purchase of existing properties and industrial sales fell dramatically - nearly 80.0% - from the fourth quarter 2008 to fourth quarter 2009. On a positive note, juju.com ranked Pittsburgh as the 12th-Best Job Market out of the 50 largest cities in the United States, and manufacturers Solar Power Industries, R&H Supply and Silicon Vox announced expansion and hiring plans for 2010.

OVERVIEW

Pittsburgh's industrial market continued to weather the economic storm with a combined average asking rental rate at \$5.00 per square foot triple net (psf/NNN) and a vacancy rate hovering near 10.0%. The efforts of several economic development groups to bring new business to the area are often thwarted by Pittsburgh's lack of large blocks of quality warehouse space; however, the manufacturer sector provided stability in 2009 with several new projects. FLABEG Solar US Corporation constructed a \$30.0-million solar mirror plant in Clinton Commerce Park, West Pittsburgh submarket that will create at least 200 clean energy jobs. Also in the airport corridor, robotic leader SEEGRID Corporation has expanded its regional operations into 30,150-square feet (sf) in the RIDC Park West, moving some of its manufacturing operations from Massachusetts to Pittsburgh.

Leasing activity slid 40.0% over the previous year to 2.5 million square feet (msf) for 2009 and the vacancy rate rose just slightly from 9.9% one year ago to 10.5% with less than 15.0 msf vacant and available.

FORECAST

Economists predict that it will take a minimum of three years to stop losing jobs and at least five years to return to positive job growth in Pittsburgh; thus, we anticipate a slow but steady improvement within the commercial real estate market with moderate leasing activity but stable rental and vacancy rates and positive absorption throughout 2010. New construction will be limited to qualified build-to-suit projects with little or no new speculative construction in the industrial sector throughout the next nine to 12 months.

BEAT ON THE STREET

"Rental rates for quality warehouse space in the market are reflective of the demand for 100,000-sf or greater facilities by companies looking to consolidate distribution operations for better cost control. The Marcellus Shale play, which has created a wave of industrial users entering the market, has further increased this demand and is expected to contribute to positive absorption in both the commercial and industrial sectors in 2010."


-Scott 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%

Source: Moody's | Economv.com

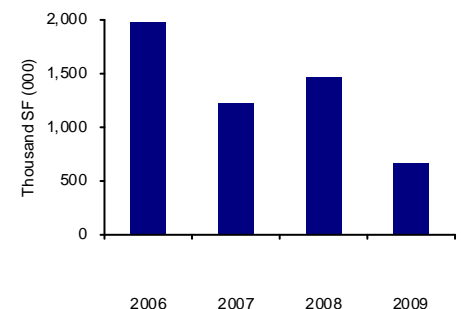
MARKET FORECAST

LEASING ACTIVITY dropped significantly in 2009, but is expected to begin rebounding in the second half of 2010. 

DIRECT ABSORPTION has remained positive despite the economic recession and is expected to remain stable. 

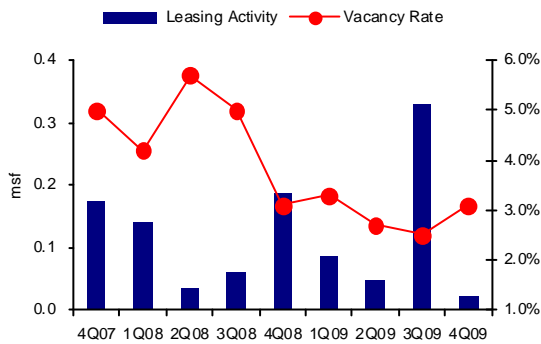
CONSTRUCTION: A lack of available funding for speculative projects will prevent the increase of new construction projects in 2010. 

OVERALL ABSORPTION



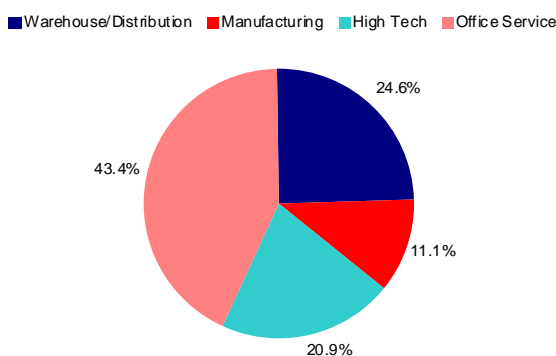
NORTHEAST PITTSBURGH

OVERALL LEASING ACTIVITY VS. VACANCY RATES



- During the past twelve months, the overall vacancy rate for the industrial sector in the Northeast Pittsburgh submarket has dropped 46.0% to its lowest point (3.1%) since 2001 (3.0%).
- In correlation with the extremely low vacancy rate in this submarket, the average asking rental rate for warehouse/distribution space remains the second highest in the region at \$5.68 (psf/NNN).

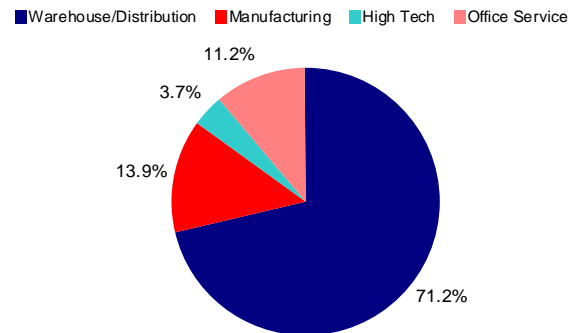
AVAILABLE SPACE BY PROPERTY TYPE



- The availability of manufacturing space and warehouse/distribution space at 68,900 sf and 153,000 sf respectively, continues to drive rental rates up within the Northeast Pittsburgh submarket.
- Office-service and high-tech space have seen the greatest increases in vacancy following the recent economic downfall. Vacancy in these sectors is expected to decrease as the market rebounds largely because of this submarket's proximity to the Pittsburgh region's university center.

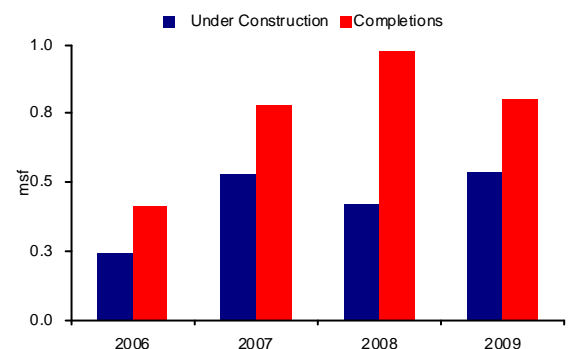
WEST PITTSBURGH

INVENTORY BY PROPERTY TYPE



- Industrial space in the West submarket is dominated by the warehouse/distribution sector (4.8 msf) with less than 1.0 msf of manufacturing space and less than 800,000 sf of flex space in the submarket.
- Despite the level of inventory in the submarket, the West maintains a vacancy rate of less than 7.0% for warehouse space, thus driving the asking rental rate here to more than \$7.00 psf.

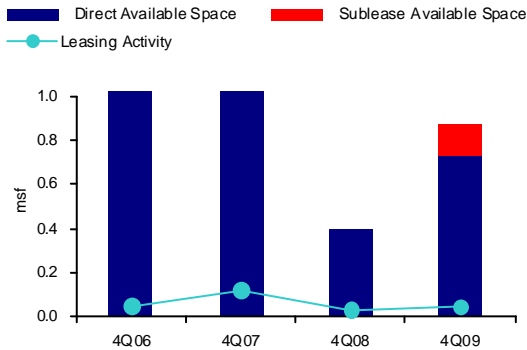
SF UNDER CONSTRUCTION VS. COMPLETIONS



- The submarket's largest construction completion in 2009 was a 228,940-sf manufacturing facility constructed for FLABEG Solar US Corp. The company has leased the building in Clinton Commerce Park for 24 years.
- On Neville Island along the Interstate 79 Corridor, the redevelopment of the former Dravo site is underway. Release of the first 25,000-sf flex building is expected in the summer 2010.

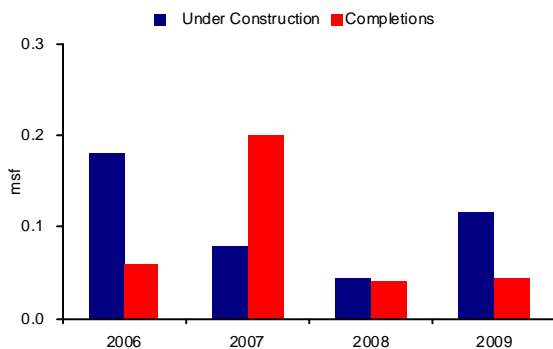
WASHINGTON COUNTY

AVAILABLE SPACE TRENDS VS. LEASING ACTIVITY



- With 394,000 sf at 330 Hudson Street now temporarily off the market, Midtown South's class A direct rental rate (\$47.63 psf) fell 10.5% since the first quarter (\$51.73 psf), but remains nearly 28.0% higher year-over-year.
- Year-over-year, Midtown South availabilities slid 42.1% to 2.2 msf. Increased leasing activity pushed the class A overall vacancy rate down to 1.0%. At 3.5%, Midtown South's overall vacancy rate is the lowest of any CBD in the nation.

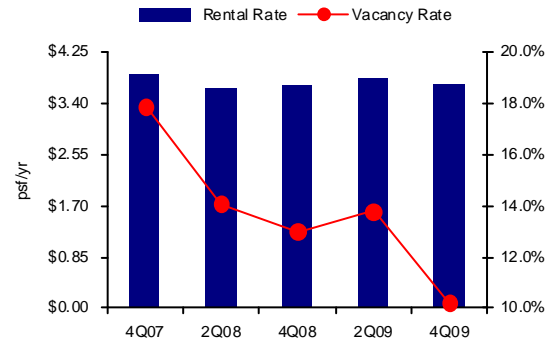
SF UNDER CONSTRUCTION VS. COMPLETIONS



- Class A direct asking rents now average \$52.61 psf, a 23.4% year-over-year increase. Currently there are more than 40 buildings Downtown with asking rents north of \$40.00 psf.
- The overall vacancy rate has decreased by 4.6 percentage points in the past twelve months. There are only ten blocks of available space greater than 100,000 sf, which account for 36.5% of all available space. There were twenty total large blocks at the close of second quarter 2006.

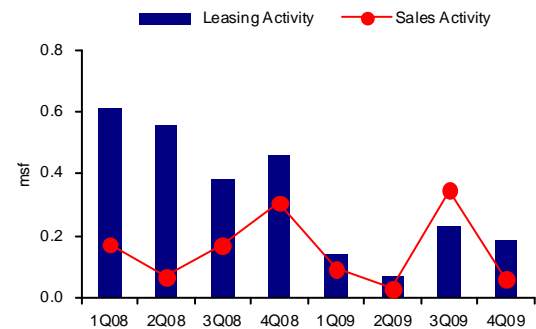
WESTMORELAND COUNTY

OVERALL RENTAL VS. VACANCY RATES



- Year-end leasing activity finished at 428,285 sf with a 10.2% overall vacancy rate – approximately 21.5% lower than last year. 2010 should see an increase in leasing activity as more than 300,000 sf of new product is released to the market.
- Rental rates continued to climb back from their early 2008 slump throughout 2009, stabilizing near \$3.80 psf NNN.

OVERALL LEASING ACTIVITY VS. SALES ACTIVITY



- Notable 2009 leases included CDP Industries at 410 Unity Street (37,000 sf); Matamatic, Inc. at Westmoreland Tech Park (30,300 sf); American Industrial Felt & Supply at 450 Industrial Blvd. (27,744 sf); and Turbo Air, Inc. at Youngwood Industrial Center (20,000 sf).
- The largest sale transactions were at 12th Street at Donner Avenue, a 294,955-sf manufacturing building purchased for \$1.3 million by Alumisource, LLC, and 621 Hunt Valley Circle in Westmoreland County Business and Research Park, a 61,800-sf warehouse building for \$3.7 million by N.L. Ventures VIII Hunt Valley L.L.C.

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	2,057,469	28	13.6%	152,378	0	0	155,000	N/A	N/A	N/A	\$2.79
Monroeville	673,151	21	9.6%	0	0	0	(13,720)	N/A	N/A	\$6.75	\$7.40
Northeast Pittsburgh	12,417,127	200	3.1%	226,011	0	101,828	221,085	\$8.30	\$4.05	\$8.40	\$5.68
Oakland	160,035	7	3.7%	0	0	0	0	N/A	N/A	N/A	N/A
Parkway East	5,104,496	88	6.8%	124,700	0	0	49,660	N/A	\$4.00	\$4.50	\$4.20
Westmoreland County	10,496,687	128	10.2%	428,285	339,955	35,000	(141,119)	N/A	\$3.09	\$6.00	\$4.18
Pittsburgh East	30,908,965	472	7.8%	931,374	339,955	136,828	270,906	\$8.30	\$3.71	\$6.41	\$4.85
Beaver County	4,868,926	42	15.1%	218,736	0	0	196,315	N/A	\$3.35	N/A	\$4.66
Parkway West	3,047,473	48	18.7%	150,169	0	0	(181,458)	\$8.01	\$4.19	\$8.95	\$4.19
West Pittsburgh	6,205,943	68	9.4%	350,044	0	228,940	453,530	\$9.38	\$4.25	\$10.10	\$7.20
Pittsburgh West	14,122,342	158	14.4%	718,949	0	228,940	468,387	\$8.70	\$3.93	\$9.53	\$5.35
Butler County	6,305,610	100	8.1%	188,665	78,634	34,527	11,452	\$9.63	\$3.50	\$11.00	\$5.40
Greater Downtown	8,010,303	184	6.9%	235,976	0	33,000	360,566	\$12.00	\$3.95	N/A	\$4.29
North Pittsburgh	9,744,622	190	9.6%	195,557	0	261,738	(90,996)	\$10.32	\$3.80	\$10.00	\$5.72
Pittsburgh North	24,060,535	474	8.2%	620,198	78,634	329,265	281,022	\$10.65	\$3.75	\$10.50	\$5.14
South Pittsburgh	8,498,634	73	12.3%	180,030	0	64,355	(392,300)	\$7.34	\$3.25	\$8.80	\$3.98
Washington County	3,603,580	57	10.7%	103,956	115,450	45,000	30,430	\$5.55	N/A	N/A	\$7.15
Pittsburgh South	12,102,214	130	11.5%	283,986	115,450	109,355	(361,870)	\$6.45	\$3.25	\$8.80	\$5.57
TOTAL	81,194,056	1,234	10.5%	2,554,507	534,039	804,388	658,445	\$8.52	\$3.66	\$8.81	\$5.23

*Rental rates reflect \$psf/year **Inventory reported includes properties that are 10,000 square feet or greater in size and excludes government and medical buildings.
 HT = High Tech MF = Manufacturing OS = Office Service W/D = Warehouse/Distribution

MARKET HIGHLIGHTS

SIGNIFICANT 2009 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
31st Street Business Park	Greater Downtown	Mogul Mind Studios	330,000	Warehouse/Distribution
Monessen Industrial Park	Westmoreland County	Alumisource, LLC	294,955	Manufacturing
Clinton Commerce Park	West Pittsburgh	FLABEG Solar US Corp.	228,940	Manufacturing
SIGNIFICANT 2009 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Imperial Business Park	West Pittsburgh	Terry Palmer	187,000	\$9,000,000
Weyerhaeuser Warehouse	Washington County	Weyerhaeuser Company	100,000	N/A
Former Fortco Plastics Building	Northeast Pittsburgh	Pittsburgh Civic Light Opera	68,000	\$1,100,000
SIGNIFICANT 2009 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
2201 Sweeney Dr./Clinton Commerce Park	West Pittsburgh	FLABEG Solar US Corp.	228,940	9/09
Sharpsburg Business Park, Building A	Northeast Pittsburgh	N/A	101,828	4/09
900 Riverside Place/Leetsdale Industrial Park	North Pittsburgh	Atlantic Precious Metals Resources, Inc.	53,375	7/09
SIGNIFICANT PROJECTS UNDER CONSTRUCTION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
135 Meadow Lane/Fort Pitt Industrial Park	Washington County	N/A	57,570	7/10
Pennwood Place Phase I/RIDC Thorn Hill Ind.	Butler County	N/A	53,634	5/10
106 Turnberry Circle	Westmoreland County	N/A	45,000	1/10



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