

# MARKETBEAT

## PITTSBURGH OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



1Q09

### ECONOMY

Economic conditions in Pittsburgh worsened significantly during the first quarter of 2009. Between February 2008 and February 2009, the region lost nearly 20,000 jobs – the largest loss of jobs in a single year in the past two decades.

The single greatest contributor to the rise in unemployment is the manufacturing sector, which saw a loss of 6,000 jobs in the past year. General Motors decision to close its nearly 1.0-million-square foot (msf) stamping plant in Pittsburgh's West Mifflin neighborhood, as well as the closing of the last remaining Sony television plant in North America, dealt severe blows to the local manufacturing scene.

Despite the gloom and doom surrounding the manufacturing industry, Pittsburgh's job loss rate remains well below that of the national average and most large regions throughout the country. Higher education and health care continue to add jobs to the region, with more than 5,000 new jobs this year in those sectors than one year ago. In addition to higher education and healthcare, the energy and coal mining industries are expected to increase the region's job growth throughout the next several years.

### OVERVIEW

Though overall leasing activity has dropped more than one percent over the past four quarters, the demand for significant contiguous space continues to drive the office market in Pittsburgh, both in leasing and owner/user sales. The University of Pittsburgh (Pitt) announced its plans to lease 130,000 square feet (sf) in a speculative office building being constructed at the Pittsburgh Technology Center in the Greater Downtown submarket. Pitt will occupy four of the five floors available at Bridgeside Point II, the 291,000-sf building, which is expected to be completed later this year.

Thermo Fisher Scientific, Inc. has purchased the current 189,000-sf Dick's Sporting Goods headquarters in the West submarket of Pittsburgh. The company, which paid \$28.0 million to buy the property, plans to move its laboratory catalog business from its current location at Park Lane, a few miles away in the Parkway West corridor. The move will occur in 2011 after its current lease expires and Dick's moves into its new 670,000-sf headquarters presently under construction near Pittsburgh International Airport.

In Washington County, Taggart Global LLC, a coal preparation and processing company, has added 25 employees and will move to 4000 Town Center, the latest office building constructed in Southpointe II Business Park. The company has outgrown its current 22,000-sf office and plans to add another 25 employees upon occupancy of the new space in May.

### FORECAST

Although new construction projects are expected to remain stalled throughout 2009 ongoing projects such as the North Short casino, the new Consol Energy Arena for the Pittsburgh Penguins and a number of smaller neighborhood projects will see completion either late this year or in early 2010. The office vacancy rate will rise but not to levels seen in other large markets throughout the country.

### BEAT ON THE STREET

"Despite the nationwide downturn in real estate, there are some very exciting projects occurring in Pittsburgh. Construction on 3 PNC Plaza, a 780,000-sf mixed-use building in the CBD, is nearing completion.

In Cranberry, construction continues on the new 1.0-msf headquarters for Westinghouse. These projects and Bakery Square, the conversion of a former Nabisco plant into a mixed-use facility, are indicative of the enthusiasm and momentum for Pittsburgh real estate."


–Simon Franklin, Brokerage & Leasing Manager


### ECONOMIC INDICATORS


	2008	2009F	2010F
<b>National</b>			
GDP Growth	1.1%	-2.9%	1.8%
CPI Growth	3.8%	-1.0%	1.9%
<b>Regional</b>			
Unemployment	5.6%	7.6%	8.0%
Employment Growth	0.9%	-1.0%	0.5%

Source: Moody's | Economy.com

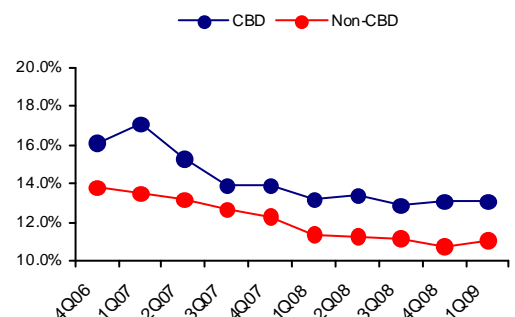
### MARKET FORECAST

**LEASING ACTIVITY** dropped 1.5% over the past four quarters, but it is expected to stabilize in the second half of the year. 

**DIRECT ABSORPTION** is expected to decrease with lease renegotiations and office downsizing. 

**CONSTRUCTION:** Difficulty obtaining financial backing for new construction projects will further delay any new office development. 

### OVERALL VACANCY RATES



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 OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Central Business District	26,864,231	169	13.1%	12.2%	162,070	780,000	0	(137,928)	\$23.12
Greater Downtown	12,084,451	159	9.2%	8.6%	120,000	193,000	0	(117,703)	\$21.10
Downtown Total	38,948,682	328	11.2%	10.4%	282,070	973,000	0	(255,631)	\$22.11
Butler County	2,385,184	67	7.1%	6.3%	9,999	470,000	0	(20,831)	\$21.00
I-279/I-79 North	1,449,585	28	9.1%	6.5%	34,761	0	0	10,128	\$20.00
North Pittsburgh/Rte. 19	3,980,148	153	10.1%	9.9%	54,375	33,000	0	(36,322)	\$19.50
North Pittsburgh	7,814,917	248	8.8%	7.6%	99,135	503,000	0	(47,025)	\$20.17
South Pittsburgh/Rte. 19	3,067,327	89	14.4%	12.2%	9,934	0	0	(13,617)	\$19.00
South Pittsburgh/Rte. 51	1,370,944	48	14.8%	14.7%	5,577	0	0	6,544	\$16.00
South Pittsburgh/I-79	804,653	29	7.8%	7.8%	1,800	0	0	(26,570)	\$0.00
Washington County	3,914,263	98	10.7%	10.2%	92,519	0	120,000	41,682	\$19.50
South Pittsburgh	9,157,187	264	11.9%	11.2%	109,830	0	120,000	8,039	\$18.17
Monroeville	2,160,720	39	15.8%	15.5%	3,200	0	0	1,574	\$19.00
Northeast Pittsburgh	1,670,053	67	8.7%	8.7%	27,544	47,100	0	5,948	\$18.50
Oakland	3,882,241	59	1.5%	1.5%	9,435	175,151	0	435	\$0.00
Parkway East	6,986,642	178	11.6%	11.4%	75,069	0	0	40,947	\$19.60
Westmoreland County	2,857,424	129	8.5%	8.5%	58,465	0	84,496	60,275	\$0.00
East Pittsburgh	17,557,080	472	9.2%	9.1%	173,713	222,251	84,496	109,179	\$19.03
Beaver County	1,177,854	48	12.4%	12.4%	1,800	0	0	(15,176)	\$0.00
Parkway West	5,959,833	105	16.0%	16.3%	48,402	0	0	(53,486)	\$19.34
West Pittsburgh	2,413,109	57	15.6%	13.3%	16,864	0	0	7,354	\$18.45
West Pittsburgh	9,550,796	210	14.7%	14.0%	67,066	0	0	(61,308)	\$18.90
CBD	26,864,231	169	13.1%	12.2%	162,070	780,000	0	(137,928)	\$23.12
NON-CBD	56,164,431	1,522	11.1%	10.4%	569,744	918,251	204,496	(108,818)	\$20.08
<b>PITTSBURGH TOTAL</b>	<b>83,028,662</b>	<b>1,691</b>	<b>11.7%</b>	<b>11.0%</b>	<b>731,814</b>	<b>1,698,251</b>	<b>204,496</b>	<b>(246,746)</b>	<b>\$21.52</b>

\* Rental rates reflect \$psf/year

Report includes multi-tenant buildings that are 10,000 square feet or greater.

Government and medical office buildings are excluded from the inventory reported.

### MARKET HIGHLIGHTS

#### SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
30 Isabella Street	Greater Downtown	West Penn Allegheny Health	31,225	A
Buhl Building	Central Business District	Production Masters, Inc.	19,000	B
Four Gateway Center	Central Business District	Willis of Pennsylvania, Inc.	18,686	A

#### SIGNIFICANT 1Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
300 Liberty Avenue	Central Business District	Millcraft Industries	274,000	\$4,600,000
300 Industry Drive	West Pittsburgh	Thermo Fisher Scientific, Inc.	189,000	\$28,000,000
2735 Mossdale Blvd.	Monroeville	UPMC	35,000	\$3,000,000

#### SIGNIFICANT 1Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
4000 Town Center	Washington County	Metso Minerals	43,000	2/09
3720 Brownsville Road	South Pittsburgh/Route 51	Brentwood Medical Group	26,700	3/09
631 Excel Drive	Westmoreland County	Mine Safety & Health Admin.	12,000	1/09

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Cranberry Woods Dr., Building I	Butler County	Westinghouse Electric	434,000	6/09
Cranberry Woods Dr., Building II	Butler County	Westinghouse Electric	204,000	4/10
19 Hot Metal Street	Greater Downtown	American Eagle Outfitters	150,000	7/09

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

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