

MARKETBEAT

PITTSBURGH OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



1Q10

ECONOMY

Evidence of Pittsburgh's endurance was revealed in the first quarter of 2010 as the region was named one of the nation's top business investment performers by *Site Selection* magazine. An estimated \$3.0 billion in capital was invested in the region in 2009, impacting 197 economic development projects that will create or retain more than 16,000 jobs. Western Pennsylvania continues to attract corporate and regional headquarters, particularly those associated with the Marcellus Shale play. Among those entering or expanding in the region within the past 12 months are American Eagle Outfitters, Inc., Cabot Oil and Gas Corporation, Talisman Energy, and First Niagara Bank. Perhaps the largest relocation projects involved Dick's Sporting Goods, who moved into its new \$150 million, 670,000-square-foot (sf) headquarters in February, and Westinghouse Nuclear Energy, who expects to occupy two additional buildings, totaling 409,792 sf in the second quarter 2010. Once completed, the new Westinghouse campus will total nearly 1.0 million square feet (msf). Thermo Fisher Scientific purchased the former Dick's Sporting Goods headquarters in Findlay Township and expects to move more than 1,100 employees to the new building this year.

Despite the turnaround the region appears to be experiencing, the unemployment rate for the first quarter topped 8.9% up from 8.1% for the same period in 2009. The construction industry seems to be the most affected by this change as it saw the number of jobs drop by nearly 5,000 year over year. This 11.0% drop is mostly attributed to the completion of several major projects in the region, including Consol Energy Center and Three PNC Plaza, as well as to the difficulty in obtaining funding for speculative projects.

OVERVIEW

Leasing activity within the market rose 52.3% year over year for the first quarter 2010, signaling growth in the area's strongest sectors: healthcare, technology, education and energy. The region also experienced an increase in investment activity with Burns & Scalo Real Estate Services' \$6.5 million purchase of the Goodwill Industries building on the South Side and their subsequent purchase of One Smithfield Street for \$13.0 million from Allegheny County. The county will continue to lease the entire 132,500-sf building to house its Human Services Department for the next 20 years at \$15 per square foot (psf). Burns & Scalo expects to convert the Goodwill building into housing with underground parking for 75 cars and plans a 16-story or more high-rise building on the lot adjacent to One Smithfield Street. Millcraft Industries completed the purchase of the State Office Building for \$4.61 million. The developer plans to renovate the 274,787-sf building, possibly for residential condos or apartments, hotel rooms or retail. The state moved 800 employees out of the building over the past several months and into three other downtown buildings, positively influencing overall absorption in the CBD for the quarter which finished at 318,227 sf.

FORECAST

Leasing and investment activity within the Pittsburgh market is expected to increase over the balance of 2010 as lenders regain confidence and tenants ramp up hiring efforts to meet increasing demands from clients and consumers.

BEAT ON THE STREET

"While the area shook off the effects of a snowy winter, office leasing activity continued to pick up during the first quarter. Significant moves, particularly in the CBD by K&L Gates at 250,000 sf and the Commonwealth of PA at 290,000 sf, contributed to positive absorption for the market. However, with the exception of a few submarkets, the leverage remains with the tenant with average rental rates holding steady at \$19.73/psf in the CBD."


-Randall McCombs, SIOR, Principal


ECONOMIC INDICATORS


National	2009	2010F	2011F
GDP Growth	-2.4%	2.8%	3.7%
CPI Growth	-0.3%	1.9%	2.1%
Regional			
Unemployment	7.5%	7.8%	7.1%
Employment Growth	-2.3%	-0.1%	0.8%

Source: Moody's | Economy.com

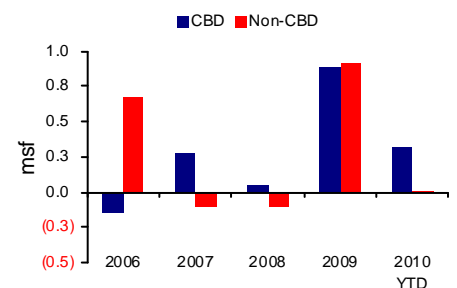
MARKET FORECAST

LEASING ACTIVITY increased 52.3% over first quarter 2009 and is expected to continue to climb throughout 2010. 

DIRECT ABSORPTION should increase in 2010 in response to new energy companies entering the market. 

CONSTRUCTION: A lack of available funding for commercial projects will continue to plague the construction industry through 2010. 

OVERALL ABSORPTION CBD VS. NON-CBD



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	24,132,972	110	14.9%	14.0%	682,875	0	0	313,686	318,227	\$22.52
Greater Downtown	7,256,693	64	17.0%	15.8%	139,649	121,000	0	(104,589)	1,821	\$22.34
Urban Core	31,389,665	174	16.0%	14.9%	822,524	121,000	0	209,097	320,048	\$22.43
Butler County	1,580,105	31	18.1%	18.1%	21,503	409,792	0	(1,613)	(6,730)	\$22.78
North Pittsburgh	3,156,422	94	26.7%	25.0%	31,200	31,200	0	(17,834)	(17,834)	\$22.98
North	4,736,527	125	22.4%	21.6%	52,703	440,992	0	(19,447)	(24,564)	\$22.88
South Pittsburgh	3,080,858	77	25.9%	25.9%	40,362	0	0	4,390	8,414	\$21.98
Washington County	2,053,543	46	16.9%	16.9%	37,071	0	0	9,249	6,588	\$19.90
South	5,134,401	123	21.4%	21.4%	77,433	0	0	13,639	15,002	\$20.94
Beaver County	676,253	16	28.5%	28.5%	0	0	0	0	0	N/A
Parkway West	4,175,987	62	25.7%	25.7%	100,020	0	0	39,505	6,754	\$21.11
West Pittsburgh	1,520,611	23	20.7%	20.7%	15,373	0	0	15,373	5,373	\$19.03
West	6,372,851	101	25.0%	25.0%	115,393	0	0	54,878	12,127	\$20.07
Oakland	514,365	10	17.6%	17.6%	0	0	0	(9,239)	(9,239)	N/A
Parkway East	3,254,713	76	31.5%	31.0%	19,477	0	0	5,929	39,236	\$20.17
Monroeville	1,764,979	19	25.9%	24.9%	13,630	0	0	(5,616)	(5,616)	\$20.66
Northeast Pittsburgh	1,389,600	33	21.6%	20.0%	7,300	0	0	3,400	3,400	\$16.42
Westmoreland County	1,174,369	47	23.7%	23.7%	5,889	0	0	(27,650)	(27,650)	\$21.25
East	8,098,026	185	24.1%	23.4%	46,296	0	0	(33,176)	131	\$19.63
CBD	24,132,972	110	14.9%	14.0%	682,875	0	0	313,686	318,227	\$22.52
NON-CBD	31,598,498	598	22.0%	21.4%	431,474	561,992	0	(88,695)	4,517	\$21.17
PITTSBURGH TOTAL	55,731,470	708	18.9%	18.2%	1,114,349	561,992	0	224,991	322,744	\$21.77

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q10 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
One North Shore	Greater Downtown	P.J. Dick/Trumbull Corporation	60,000	A
Cranberry Business Park	Butler County	Pittsburgh Logistics Solutions	40,000	A
Bakery Square	Parkway East	Google, Inc.	24,041	A
SIGNIFICANT 1Q10 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
State Office Building	Central Business District	Millcraft Industries	290,000	\$9,920,000
One Smithfield Street	Central Business District	Burns & Scalo Real Estate	118,800	\$4,611,000
Crestmont Building - 9576 Perry Hwy	North Pittsburgh	Oxford Solutions, Inc.	25,000	\$1,328,452
SIGNIFICANT 1Q10 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Cranberry Woods, II	Butler County	Westinghouse Nuclear Energy	204,896	6/10
Cranberry Woods, III	Butler County	Westinghouse Nuclear Energy	204,896	6/10
Schenley Place	Greater Downtown	N/A	110,000	12/10

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

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