

MARKETBEAT

PITTSBURGH OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



2Q09

ECONOMY

Employment growth in Pittsburgh fell below zero on a year-over-year basis during the second quarter 2009, and the rate of hiring for most industries tracked steadily downward over the past six months. However, development activity in the sports and entertainment industry has buoyed the local economy for the first half of the year. The Rivers Casino is scheduled to open later this year, contributing significantly to new job creation. Construction continues on Consol Energy Center, the Pittsburgh Penguins' new facility, as well as on the North Shore Connector, a light-rail tunnel that will expand Pittsburgh's downtown to include PNC Park, Heinz Field, Rivers Casino and several museums and attractions. The local housing market has escaped the volatility other comparable markets have faced in recent months, and demand for downtown residential space continues to drive conversion and renovation projects in the CBD.

OVERVIEW

While the rest of the country continued to weigh the impact of the national economy on the commercial real estate industry, Pittsburgh conducted business as usual during the second quarter 2009. The CBD experienced a decrease in overall vacancy from 13.1% in the first quarter to 12.9% mid-year. Total market rental rates increased to \$21.60 per square foot (psf) for direct available space and \$21.39/psf overall from \$21.52/psf and \$21.34/psf, respectively, in the previous quarter. Among the more notable leases for the second quarter was First Niagara Bank's entrance into the Pittsburgh market with a 50,000-square foot (sf) lease at 11 Stanwix Street, as well as the University of Pittsburgh's lease of 145,000-sf at the new Bridgeside Point II building in Pittsburgh Technology Park.

Investment activity within the region remains strong, particularly in the CBD. Polaris Real Estate Equities purchased the 93,000-sf former Salvation Army Headquarters on Third Avenue with plans for a \$70.0 million mixed-use conversion for use by the neighboring Art Institute of Pittsburgh and Point Park University. Point Park, which recently purchased the 101 Wood Street Building for \$1.5 million for its Academic Village project, plans to invest \$280.0 million transforming several downtown properties into its green downtown campus.

Demand for quality office, medical and research space in the Oakland submarket has fueled development plans by a few major real estate players in the Pittsburgh market. The Elmhurst Group announced plans for Schenley Place, a 101,000-sf office building near the University of Pittsburgh and Carnegie Mellon University campuses; and Massaro Corporation, TKA Architects, Inc. and Kratsa Properties announced a \$40.0 million mixed-use project on the site of the current Allegheny County Health Department building, which it has purchased for \$4.9 million. The development group plans to demolish the existing structure and construct a 95,000-sf office building, 150-room select service hotel and 510-car parking garage in its place.

FORECAST

The sale of the State Office Building in the CBD and the subsequent plans to convert the building to residential units will further increase direct absorption in the market as state office tenants assume spaces in other downtown office buildings. Vacancy and rental rates should remain stable through the remainder of the year.

BEAT ON THE STREET

"Though the economy continues to challenge the commercial real estate industry, Pittsburgh has seen a glimmer of hope with increased requirements coming from the oil and gas industry's exploration of the Marcellus Shale and the expansion of Westinghouse. Demand for downtown residential units has provoked numerous conversion projects in the CBD, and several new office buildings are in development for the extremely-tight Oakland submarket."

– Timothy R. Goetz, President

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	1.1%	-3.0%	1.2%
CPI Growth	3.8%	-0.6%	1.7%
Regional			
Unemployment	5.3%	7.5%	8.8%
Employment Growth	0.1%	0.0%	0.1%

Source: Moody's | Economy.com

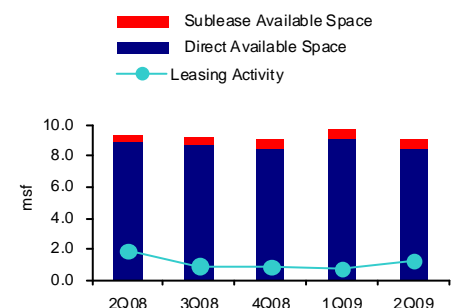
MARKET FORECAST

LEASING ACTIVITY should continue to increase as several large users are shopping the market. ↑

DIRECT ABSORPTION is expected to increase with the completion of a number of new build-to-suit projects in the suburban markets. ↑

CONSTRUCTION: Though existing projects are approaching completion, new developments are expected to remain in the pipeline until mid-2010. ↓

SPACE TRENDS VS. LEASING ACTIVITY



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. CLASS A GROSS RENTAL RATE*
Central Business District	26,596,265	130	12.9%	11.9%	375,757	780,000	0	(108,468)	\$22.42
Greater Downtown	10,968,802	111	10.0%	8.2%	180,846	150,000	0	56,301	\$22.39
Downtown Total	37,565,067	241	11.5%	10.1%	556,603	930,000	0	(52,167)	\$22.41
Butler County	2,368,277	37	5.2%	4.0%	475,695	408,000	210,496	356,220	\$20.69
I-279/I-79 North	1,458,130	22	10.0%	6.8%	67,093	0	0	23,323	\$21.07
North Pittsburgh/Rte. 19	2,928,746	75	12.3%	11.6%	121,974	0	0	(30,821)	\$21.42
North Pittsburgh	6,755,153	45	9.2%	7.5%	664,762	408,000	210,496	348,722	\$21.06
South Pittsburgh/Rte. 19	2,526,571	49	16.1%	15.8%	21,649	0	0	(29,941)	\$21.94
South Pittsburgh/Rte. 51	1,148,175	29	14.1%	14.1%	38,193	0	0	(73,382)	\$16.00
South Pittsburgh/I-79	592,786	13	7.2%	5.9%	1,800	0	0	(15,102)	N/A
Fayette County	514,542	7	30.0%	30.0%	0	0	0	(26,711)	N/A
Washington County	3,352,390	62	12.1%	10.6%	223,992	0	0	80,066	\$18.79
South Pittsburgh	8,134,464	160	15.9%	15.3%	285,634	0	0	(65,070)	\$18.91
Monroeville	1,990,071	26	16.6%	16.4%	3,200	0	0	80,066	\$21.76
Northeast Pittsburgh	1,342,771	33	10.8%	9.7%	74,026	141,700	47,000	28,165	\$22.30
Oakland	3,607,510	40	1.3%	1.3%	14,435	0	0	9,935	N/A
Parkway East	5,104,552	100	13.2%	12.3%	96,479	0	0	34,611	\$20.43
Westmoreland County	1,002,801	48	10.4%	9.9%	67,231	0	0	58,507	N/A
East Pittsburgh	13,047,705	247	10.5%	9.9%	255,371	141,700	47,000	211,284	\$21.50
Beaver County	737,116	15	11.2%	11.2%	0	0	0	(2,900)	N/A
Parkway West	5,714,457	85	19.7%	17.6%	91,129	0	0	(80,613)	\$20.53
West Pittsburgh	2,128,562	36	14.6%	13.5%	107,895	0	0	63,214	\$19.54
West Pittsburgh	8,580,135	136	15.2%	14.1%	199,024	0	0	(20,299)	\$20.04
CBD	26,596,265	130	12.9%	11.9%	375,757	780,000	0	(108,468)	\$22.42
NON-CBD	47,486,259	699	12.0%	11.1%	1,585,637	699,700	257,496	530,938	\$20.83
PITTSBURGH TOTAL	74,082,524	829	12.3%	11.4%	1,961,394	1,479,700	257,496	422,470	\$21.60

*Rental rates reflect \$/psf/year.

Report includes multi-tenant buildings that are 20,000 SF or greater.

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

MARKET HIGHLIGHTS

SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Piatt Place - 301 Fifth Avenue	Central Business District	Commonwealth of Pennsylvania	180,000	A
Westinghouse Energy Center	Monroeville	Bank of New York Mellon	110,000	A
11 Stanwix Street	Central Business District	First Niagara Financial Group	50,680	A

SIGNIFICANT 2Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
One Smithfield Street	Central Business District	Burns & Scalo	132,500	\$13,000,000
424 Third Avenue	Central Business District	Polaris Real Estate Equities	93,000	N/A
169 40th Street	Parkway East	Emperor Hotels	91,852	N/A

SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Westinghouse I, Cranberry Woods	Butler County	Westinghouse	434,000	6/09
450 Second Ave. Bridgeside Point II	Oakland	University of Pittsburgh	160,000	6/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Cranberry Woods, Westinghouse II	Butler County	Westinghouse	204,000	6/10
Cranberry Woods, Westinghouse III	Butler County	Westinghouse	204,000	6/09
19 Hot Metal Street, South Side	Greater Downtown	American Eagle Outfitters	150,000	9/09



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

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