

MARKETBEAT

PITTSBURGH OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q08

ECONOMY

After riding the storm for the past 12 months, the economic crisis has finally come to Pittsburgh. Job growth in the region dipped into the negative column for the first time in six months during the fourth quarter of 2008. There were 500 fewer jobs in November 2008 than there were a year earlier, even though the region had been defying the national average by boasting 5,000 to 7,000 new jobs over the prior year in previous months.

A significant decline in new positions in the leisure and hospitality and manufacturing sectors is largely responsible for the drop in overall job growth. The retail sector buoyed growth in the fourth quarter with the addition of 2,600 positions; however, this number was 1,500 less than in the two prior years. While disappointing, this drop is not surprising given the reduction in discretionary spending and deep concern over long-term financial losses occurring in the stock markets.

Although the loss of jobs over the past quarter is indicative of the economy's reach into the region, Pittsburgh has fared far better than many of its counterparts throughout the country. At less than 0.05% reduction over the past year, Pittsburgh looks substantially better than markets such as Detroit, Milwaukee, Minneapolis and St. Louis, where job losses are nearly 100 times greater.

OVERVIEW

Despite recent cut-backs and lay-offs in the major manufacturing and financial services industries, Pittsburgh was awash with large, long-term lease transactions in the fourth quarter 2008. Among them, Equitable Resources signed a long-term lease at 625 Liberty Avenue for 257,098 square feet (sf) after out-growing its current headquarters on the North Shore, and Federated Investors committed to relocating their off-site data center from 5800 Corporate Drive in the Route 19 North submarket to 93,874 sf at the former Ericsson complex in Warrendale, in the I-279/I-79 North submarket.

Dick's Sporting Goods signed a 30-year lease for a new 730,000-sf build-to-suit headquarters in the North Field of the Pittsburgh International Airport. Horizon Properties is constructing the corporate campus on behalf of Dick's with an expected occupancy date in early 2010.

Overall leasing activity for 2008 did drop by approximately 7.5% from 2007; however, the inventory of class A office space continued to decrease, driving rental rates to nearly \$22.00 per square foot (psf).

FORECAST

The Pittsburgh region has entered the recession much more slowly than the U.S. as a whole, but the overall economic crisis will continue to impact the market as manufacturers and professional service firms have fewer customers nationally and globally. Continued lay-offs and hiring freezes may increase the inventory of sublet space available in the market, which could be attractive to large users looking for opportunities to consolidate multiple offices during the short-run. Rental rates and overall absorption are expected to remain stable throughout 2009.

BEAT ON THE STREET

"The slow-down in speculative office development and the scarcity of direct class-A space available in the market will perpetuate consistency in rental rates throughout the first half of 2009. Confidence in the stability of the Pittsburgh region is expected to continue driving investment activity among qualified buyers for CBD and suburban properties particularly in the north and south submarkets."

– Timothy Goetz, President

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

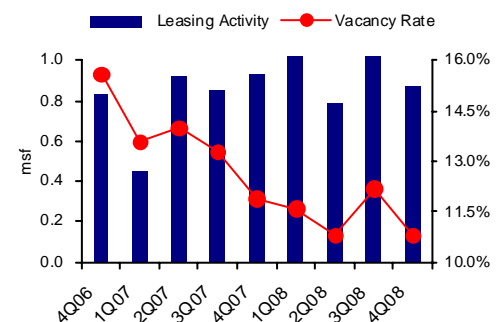
MARKET FORECAST

LEASING ACTIVITY dropped nearly 7.5% from 2007 to 2008 but is expected to stabilize in the second quarter of 2009.

DIRECT ABSORPTION is expected to remain stable through most of 2009, as large tenants take occupancy for long-term leases.

CONSTRUCTION: New construction of speculative space is expected to halt through 2009.

OVERALL LEASING VS. VACANCY RATES



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	28,288,097	184	12.3%	11.5%	1,760,964	780,000	158,000	793,118	\$23.53
Greater Downtown	10,966,575	145	10.8%	8.9%	652,048	161,000	12,000	113,084	\$20.71
Downtown Total	39,254,672	329	11.6%	10.2%	2,413,012	941,000	170,000	906,202	\$22.12
Butler County	2,314,126	65	6.9%	6.2%	112,373	842,000	0	124,902	\$21.26
I-279/I-79 North	1,399,462	28	9.5%	6.9%	48,898	33,000	20,000	(16,406)	\$21.39
North Pittsburgh/Rte. 19	3,890,737	153	10.9%	10.8%	206,837	0	36,000	103,777	\$21.09
North Pittsburgh	7,604,325	246	9.1%	8.0%	368,108	875,000	56,000	212,273	\$21.25
South Pittsburgh/Rte. 19	2,484,192	80	11.4%	11.2%	97,389	40,000	0	(20,650)	\$21.00
South Pittsburgh/Rte. 51	1,235,934	47	15.5%	15.5%	62,168			19,636	\$17.00
South Pittsburgh/I-79	750,198	29	4.6%	4.6%	73,379			32,781	\$0.00
Washington County	3,507,312	97	10.4%	10.4%	57,947	16,000	120,000	49,702	\$18.87
South Pittsburgh	7,977,636	253	10.5%	10.4%	290,883	56,000	120,000	81,469	\$14.22
Monroeville	2,110,596	39	16.5%	16.5%	52,653			13,479	\$21.69
Northeast Pittsburgh	1,697,602	67	8.7%	8.7%	91,585	49,551	45,947	20,950	\$14.77
Oakland	3,660,118	57	1.4%	1.4%	23,864		160,000	57,290	\$0.00
Parkway East	6,322,487	175	9.3%	9.1%	72,066	212,052		103,912	\$18.53
Westmoreland County	2,646,579	126	8.2%	8.2%	78,711			8,010	\$0.00
East Pittsburgh	16,437,382	464	8.8%	8.8%	318,879	261,603	205,947	203,641	\$11.00
Beaver County	1,115,606	47	11.6%	11.6%	13,459			(21,052)	\$0.00
Parkway West	6,379,789	111	16.5%	16.0%	488,184		89,718	182,429	20.56
West Pittsburgh	2,362,985	57	15.3%	13.0%	115,518			21,052	\$20.04
West Pittsburgh	9,858,380	215	14.5%	13.5%	617,161	0	89,718	182,429	\$20.04
CBD	28,288,097	184	12.3%	11.5%	1,760,964	780,000	158,000	793,118	\$23.53
NON-CBD	52,844,298	1,507	10.8%	10.1%	2,247,079	1,353,603	483,665	792,896	\$20.15
PITTSBURGH TOTAL	81,132,395	1,691	11.3%	10.6%	4,008,043	2,133,603	641,665	1,586,014	\$21.90

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2008 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
625 Liberty Avenue	Central Business District	Equitable Resources	257,098	A
One Oliver Plaza	Central Business District	K&L Gates	251,196	A
4000 & 5000 Ericsson Drive	I-279/I-79 North	Federated Investors	93,874	A
SIGNIFICANT 2008 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Reed Smith Building	Central Business District	Mika Realty Group	181,348	\$6,500,000
First & Market Building	Central Business District	First & Market Building	80,000	\$3,900,000
SIGNIFICANT 2008 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Bridgeside Point II	Oakland	N/A	160,000	11/08
4000 Town Center	Washington County	John T. Boyd Company	120,000	12/08
Sharpsburg Business Park, Bldg. B	Northeast	N/A	45,947	12/08
SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Three PNC	Central Business District	Reed Smith Law	780,000	10/09
Cranberry Woods Drive	Butler County	Westinghouse	434,000	6/09
Bakery Square	Parkway East	N/A	212,052	3/09

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

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