

# MARKETBEAT

## PITTSBURGH RETAIL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



MID-YEAR 2008

### ECONOMIC OVERVIEW

The Pittsburgh retail market has managed to remain unchanged for the first half of the year, though it is beginning to experience many of the same pressures facing the majority of the country. The vacancy rate for the first and second quarters of 2008 have remained stable at 6.5%, while rental rates are up over the previous four quarters by nearly 10.0%.

Leasing activity in the region has slowed considerably in comparison with 2007, as a number of major retailers – both regional and national – declare bankruptcy and shutter locations. Expansion plans originally scheduled for 2008 have been halted or tremendously reduced. However, the market is experiencing growth on the side of big-box retailers such as Wal-Mart, Kohl's and Target. Large discount stores are in high demand as local residents look to balance the ever-increasing cost of fuel.

The travel and tourism industry continues to drive the local economy with the addition of lifestyle centers, hotels and entertainment venues throughout the region. The City of Pittsburgh is celebrating its 250<sup>th</sup> anniversary this year, with the majority of related activities scheduled for the second half of the year. The preparation for this celebration has added more than 10,000 jobs to the region over the past five years.

Another burgeoning field in Pittsburgh is the film-making industry. More than 14 films have been produced in Pittsburgh year-to-date, and several more are expected before year's end. The labor requirements for film production have helped to maintain an unemployment rate in Pittsburgh that is lower than the national average. Both of these emerging industries have enticed new interest in the region from major retailers, such as Nordstrom's, who previously had not settled here.

### BEAT ON THE STREET

“Per capita, Pittsburgh is still an under-retailed market. With over 4.5 million square feet of retail under development, Pittsburgh still remains a firm market. The Pittsburgh retail market is catching up with other retail markets across the country with additional lifestyle projects slated for delivery within the next 12 to 18 months.”

–Jared S. Imperatore, Retail Brokerage & Leasing Manager

### ECONOMIC INDICATORS

NATIONAL	2008F	2007	2006
Real GDP Growth	1.6%	2.2%	2.9%
CPI Growth	3.6%	2.9%	3.2%
Consumer Spending Growth	1.4%	2.9%	3.1%
Retail Sales	2.1%	4.0%	5.8%
REGIONAL			
Household Income	\$46,958	\$43,657	\$43,260
Population	2,372,535	2,372,530	2,370,776
Unemployment	4.6%	3.9%	4.5%

Source: Moody's | Economy.com

### KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Settler's Ridge	Giant Eagle	150,000
Century Square	UPMC Physicians	100,000
Settler's Ridge	L.A. Fitness	45,000
Settler's Ridge	Barnes & Noble	30,000

### KEY INVESTMENT TRANSACTIONS

PROPERTY	TENANT	PRICE PER SF
324 Hulton Road	Walgreen's	\$480
Route 228 & Adams Ridge	Walgreen's	\$404
420 Home Drive	PetSmart	\$139
Raceway Plaza	Wal-Mart	\$86

### PRIME RETAIL RENTS – 2Q08

LOCATION	RENT SQ.FT/YR	RBA	VACANT SF	VACANT %
CBD	\$35.00	1,824,479	170,421	9.3%
Butler County	\$30.00	5,330,625	158,093	3.0%
North Pittsburgh	\$21.50	5,576,777	196,246	5.1%
Greater Downtown	\$27.50	837,137	109,469	13.1%
Monroeville	\$20.00	6,480,767	690,885	10.7%
Washington Co.	\$25.00	5,131,471	154,715	3.0%
Westmoreland Co.	\$21.00	3,901,145	99,033	2.5%
Northeast Pittsburgh	\$24.00	4,581,861	181,707	4.0%
West Pittsburgh	\$15.00	3,714,709	450,308	12.1%
Parkway East	\$19.00	1,917,982	45,700	2.4%
South Pittsburgh	\$27.50	9,285,777	527,042	5.2%
Parkway West	\$25.00	5,838,638	559,492	9.6%

### RETAIL MARKET OVERVIEW

Despite a significant slow-down in the expansion plans of most major retailers throughout the country, the Pittsburgh region is ripe with new mixed-use development, bringing a number of new names to the local slate. Southpointe Town Center, an open-air pedestrian-centered streetscape project being developed by Horizon Properties and Cullinan Properties Ltd. of Illinois, is in negotiations with Orvis, the Vermont-based fly-fishing outfitter, to occupy a 10,000-square foot (sf) location. In addition, the companies hope to lure Firebirds, a wood-fired grille restaurant, and Brio Tuscan Grille, an Italian eatery by the operators of Bravo.

In the Airport Corridor, ground broke on the \$120.0-million, 600,000-sf Settler's Ridge, a mixed-use development located off the Parkway West. Major tenants already committed to the project include Giant Eagle Market District, REI and P.F. Chang's China Bistro. The development, scheduled to open in the summer of 2009, also will feature a Courtyard by Marriott hotel, a 16-screen Cinemark Theatre, Barnes & Noble and L.A. Fitness.

The rapid expansion of higher education in the Pittsburgh region is driving demand in the Greater Downtown, Oakland and Northeast submarkets, including the Shadyside-Bloomfield area near the campuses of the University of Pittsburgh and Carnegie Mellon University, where developers of a complex called Baum-Liberty Crossing revealed revised plans for the project in June. The \$230.0-million complex will feature a seven-story, mixed-use building that

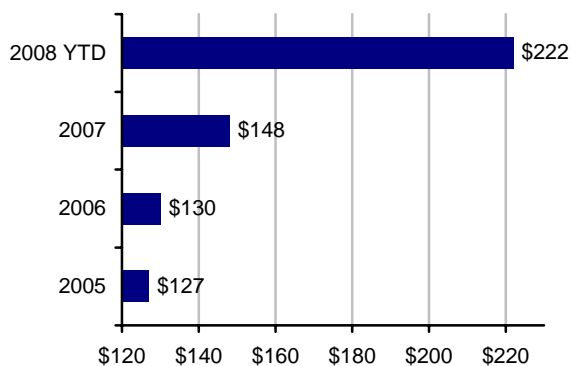
will include a hotel, condominiums and retail shops at the intersection of Baum and Liberty Avenues on the site of the former Don Allen Auto City.

North of downtown Pittsburgh, Ross Park Mall has enhanced its retail offering with the addition of a Nordstrom's – scheduled to open this fall – Kate Spade, Louis Vuitton, Tiffany, True Religion and L.L. Bean. Mall Market rental rates in the North submarkets are approaching \$30.00 per square foot (psf).

The gaming industry continues to drive mixed-use development throughout the region, including in the Washington County submarket near the Meadows Racetrack and Casino. Scheduled to open in August of this year, Tanger Outlet Center and Bass Pro Shops are among the first new developments in the I-79 South corridor. A 204-acre site nearby called Meadows Landing is now in the planning stages and consists of a mix of commercial and residential development including a possible movie theater, water park, grocery store and car dealership.

The Central Business District was dealt a blow earlier this year when the Pittsburgh Cultural Trust put RiverParc, its \$460-million mixed-use development downtown, on hold, citing market woes and lack of adequate funding for the halt. The plans, which included environmentally friendly buildings, theaters, shops and a new link to the Allegheny River, have not been terminated but are being evaluated and revised.

### INVESTMENT SALES PRICE PER YEAR (\$PSF)



Source: Real Capital Analytics

### NOTABLE TRANSACTIONS



*Century Square Shopping Center where University of Pittsburgh Physicians signed a long-term lease, and Raceway Plaza – recently acquired by The Red Apple Group, Inc., a New York-based conglomerate with oil, food, real estate, aviation service and newspaper operations.*



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Grant Street Associates, Inc.  
One Mellon Center, Suite 2350  
500 Grant Street  
Pittsburgh, PA 15219  
(412) 391-2600

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

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