

MARKETBEAT

PITTSBURGH RETAIL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



MID-YEAR 2009

ECONOMIC OVERVIEW

While the Pittsburgh region has fared well in comparison to other markets, it is starting to feel increasing effects of the deepening global recession. The tight labor markets and net loss of jobs has pushed personal income growth toward the downside of the U.S. pace and has contributed to weak demand for retailers in the first half of 2009. Unemployment in the seven-county Pittsburgh region hit a 17-year high in May, rising to 7.5%. The retail sector has lost 3,300 jobs in the past year. Consumers and retailers alike are looking for the best value for their money now more than ever before.

Despite these forces, Pittsburgh is continuing its growth with several condominium and retail projects planned in both downtown and the surrounding suburbs. The completion of 3 PNC Plaza, the North Shore tunnel rail transit, and Rivers Casino will all add to the vitality of the region.

The market posted a 6.4% vacancy rate at the mid-year mark, down from the 6.8% level at the end of 2008. This can be attributed to the influx of additional space into the marketplace leading to lower rent levels and positive sublease opportunities. While many national retailers are struggling, several local retailers have capitalized on this and are opening new locations. Among these is Crazy Mocha, which plans to open three new area locations and Dozen Cupcakes, which will open its third location in the Cultural District in July. The redevelopment of Downtown's Market Square, an 11,900-square foot (sf) project which will house 2,855 square feet of commercial space and seven apartments is underway and will help strengthen and revitalize the CBD's retail presence. Men's apparel store Heinz Healey's and fine footwear retailer Nettleton's will kick-off the project and are expected to open by the end of August.

BEAT ON THE STREET

"This is an exciting time to be part of the Western PA retail leasing community. Despite the well-publicized national economic downturn, Western PA continues to plod along at a slow and steady pace. In fact, we are experiencing an almost perfect storm with new product coming to market such as Belle Vue Commons, Newberry Market and Bakery Square, while existing product is being reinvented and redeveloped in projects such as Champion Plaza and Doughboy Square. Large office tenants such as UPMC, Reed Smith, and Westinghouse continue to absorb more and more vacancy which in turn means their employees are infusing these communities with cash. It's almost like a reverse tornado."

– J.R. Yocco, Retail Brokerage & Leasing Manager

ECONOMIC INDICATORS

	2008	2009F	2010F
NATIONAL			
Real GDP Growth	1.1%	-3.0%	1.2%
CPI Growth	3.8%	-0.6%	1.7%
Consumer Spending Growth	0.2%	-1.0%	0.6%
Retail Sales	-0.7%	-6.8%	3.6%
REGIONAL			
Household Income	\$42,902	\$45,630	\$47,000
Population	2,351,192	2,304,169	2,257,145
Unemployment	5.3%	7.5%	8.8%

Source: Moody's | Economy.com

KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Cranberry Commons	Ross Dress for Less	25,000
Butler Crossing Shopping	Office Depot	20,030
Strabane Square, Bldg. A	Dollar Tree	11,000
Plaza on Mall Blvd.	Altmeyer's	10,420

KEY INVESTMENT TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
10688 Perry Highway	Levin Furniture	50,198
725 Manor Road	Tractor Supply Co.	19,104
2055 Washington Pike	Walgreen's	14,550

PRIME RETAIL RENTS – 2Q09

LOCATION	RENT sq.ft/yr	rba	Vacant SF	vacant %
Butler County	\$14.93	2,740,600	218,502	7.97%
CBD	\$26.26	2,882,512	179,943	6.24%
Greater Downtown	\$12.95	4,688,568	185,401	3.95%
Monroeville	\$12.50	1,531,920	124,644	8.14%
North Pittsburgh	\$18.37	7,591,672	480,710	6.33%
Northeast Pittsburgh	\$11.60	4,022,818	99,176	2.47%
Oakland	\$26.46	1,485,975	37,390	2.52%
Parkway East	\$13.56	7,044,476	406,833	5.78%
Parkway West	\$6.16	1,915,736	128,095	6.69%
South Pittsburgh	\$11.02	5,580,589	531,814	9.53%
Washington County	\$10.43	2,717,925	247,110	9.09%
West Pittsburgh	\$8.58	945,141	74,267	7.86%
Westmoreland Co.	\$12.26	5,580,337	382,176	6.85%

RETAIL MARKET OVERVIEW

Though consumer confidence appeared to improve in the early part of the second quarter 2009, it flattened in the latter part of the period as big-box and specialty retailers hung sale signs announcing major discounts.

Further closures by major retailers such as Circuit City and Ritz Camera impacted the Pittsburgh retail market, adding supply to an already plentiful inventory. While local brokers continue to woo large exercise centers such as Urban Active and LA Fitness as potential fillers for these vacant spaces, shopping mall developers are looking to office tenants to lease large openings in their projects. At the Galleria at Pittsburgh Mills, Zamias Services Inc. has begun marketing 70,000 – 100,000-sf in one wing of its main building to office tenants. Among its prospects is IIT Technical Institute, who must relocate from the Monroeville ExpoMart, which also is undergoing redevelopment. Zamias expects IIT to occupy approximately 22,500 sf at its Mills site.

Aside from Settler's Ridge and Bakery Square, new mixed-use developments started in late 2007, no new projects have been announced thus far in 2009. Progress continues at Settler's Ridge, whose first phase is expected to open this fall. Barnes & Noble recently announced plans to close its 20,000-sf location at the Pointe at North Fayette in Robinson in order to open a larger 30,000-sf store at Settler's Ridge. It will join Giant Eagle, REI, LA Fitness and Cinemark Theater as the final anchor in the complex.

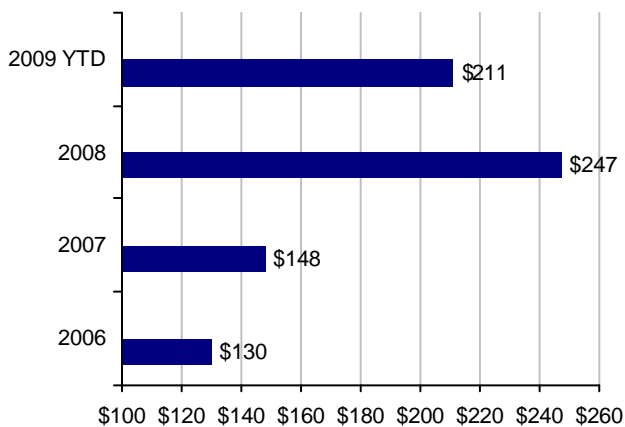
At Bakery Square, a \$130.0-million East End redevelopment project, leasing activity remains constant. The developer, Walnut Capital Management, announced its first office tenant, the University of Pittsburgh's Human Engineering Research Laboratories, which will take about 40,000 sf of the available office space. Pottery Barn confirmed its plans to relocate from Walnut Street in nearby Shadyside to Bakery Square in early 2010. West Elm, Anthropologie and Urban Active Fitness round out the anchors there.

Hofbrauhaus opened its second U.S. location at the SouthSide Works in April 2009. Designed to seat 598 during winter months and more than 1,000 guests during the summer, the 18,125-sf destination serves four daily beers and one monthly seasonal brew along with complete lunch and dinner menus. The Pittsburgh location is expected to exceed its Newport, Kentucky counterpart because of its proximity to local universities and ability to do a big lunch business.

OUTLOOK

Though Pittsburgh remains a stable market in relationship to comparable markets throughout the country, the retail industry will continue to feel the strain from reduced discretionary spending and job loss through the third quarter 2009. Fourth quarter profit margins are expected to improve slightly, but real relief is not anticipated before mid-2010.

INVESTMENT SALES PRICE PER YEAR (\$ PSF)



Source: Real Capital Analytics

NOTABLE TRANSACTION



Cranberry Commons, where Ross Dress for Less leased 25,000 sf in the former Linens 'N Things space. The power center is across from the new Westinghouse Energy Headquarters and is anchored by Lowe's, Target and Kohl's.