

MARKETBEAT

PITTSBURGH OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q10

ECONOMY

Pittsburgh continued its slow and steady climb toward recovery throughout 2010, ending the year with an unemployment rate of 8%, remaining below the state average of 8.6% and the national average near 10%. Though construction jobs were lost in the fourth quarter due to a slow-down in residential projects, the region saw an increase of more than 8,000 positions in private industry in 2010. Public funding has produced an influx of new technology companies in the region, driving the demand for office space within the Pittsburgh region.

OVERVIEW

Vacancy rates for the total Pittsburgh market rose slightly in the fourth quarter 2010 to 21.5% from 19.3% in the third quarter 2010; however, the CBD remained virtually unchanged throughout the past three quarters, ending the year at 17.8% overall. Butler and Washington counties continue to buck the vacancy trend with overall rates at 19.4% and 11.6% respectively.

The average asking rental rates for the Pittsburgh market varied minimally from quarter to quarter throughout 2010, ending the year up \$0.20 per square foot (psf) from third quarter at \$22.36 psf annually. Because supply outweighed demand for most of the previous 24 months, landlords were more willing to negotiate lower renewal terms in order to keep large tenants in place and maintain occupancy levels. More scrutiny was shown with tenant improvement allowance as building owners evaluated a prospect's creditworthiness and space requirements before offering build-out concessions.

Demand continues to be strongest in the Cranberry Township area of Butler County near the Westinghouse Nuclear Energy world headquarters and in Southpointe, Washington County. Companies associated with Westinghouse, as well as numerous companies involved in the Marcellus Shale play have selected Cranberry Township as their Appalachian base, often opting to build rather than lease because of limited supply. Likewise, Southpointe II, the second phase of Southpointe Business Park, is home to the new Consol Energy headquarters and also the site of the 180,000-square foot Range Resources regional headquarters, expected to deliver in the third quarter 2011.

OUTLOOK

Pittsburgh will continue to attract the attention of technology companies such as Google and Smith Micro Software throughout the next 18 to 24 months in large part because of the educated workforce matriculating from high-profile universities in the region. Green initiatives will continue to increase as developers take a harder look at redevelopment opportunities that qualify for federal, state and local funding in exchange for new speculative development requiring full financing.

BEAT ON THE STREET

"The office market in Pittsburgh experienced a slow but steady improvement in activity and occupancy over the course of 2010, as evidenced by a slight uptick in rental rates. The CBD and north suburban submarkets continue to lead the way both in rental rates and demand, with an increase in leasing activity in the fourth quarter. If this trend continues, the market in 2011 should look much healthier than it did just a few years ago."


-Simon Franklin – Manager, Office Brokerage and Leasing


ECONOMIC INDICATORS


National	2009	2010	2011F
GDP Growth	-2.6%	2.8%	2.8%
CPI Growth	-0.3%	1.6%	1.5%
Regional			
Unemployment	7.40%	8.51%	9.13%
Employment Growth	-2.5%	-0.2%	0.7%

Source: Moody's | Economy.com

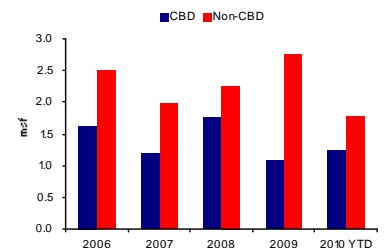
MARKET FORECAST

LEASING ACTIVITY should increase significantly in 2011 as natural resources and technology companies continue to filter into the region. 

DIRECT ABSORPTION will increase to coincide with leasing activity in 2011. Companies entering the market are looking for move-in ready opportunities. 

CONSTRUCTION activities will be focused on build-to-suit projects to accommodate large users who want to be in high-demand submarkets. Developers will focus on green redevelopment opportunities rather than new speculative projects. 

LEASING ACTIVITY 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*
Golden Triangle	21,889,112	109	17.8%	17.6%	1,243,412	0	0	(297,677)	(112,241)	\$23.07
Greater Downtown	7,584,713	67	15.3%	13.8%	350,368	0	0	(127,481)	(55,865)	\$21.75
CBD	29,473,825	176	16.6%	15.7%	1,593,780	0	0	(425,158)	(168,106)	\$22.41
Beaver County	374,354	17	32.9%	32.9%	2,216	0	0	(2,054)	(2,054)	N/A
Butler County	1,112,064	31	11.6%	11.5%	128,868	68,440	582,376	30,683	91,359	\$22.44
Monroeville	1,431,425	19	24.9%	24.9%	52,107	0	0	(22,996)	(21,796)	\$21.00
North Pittsburgh	2,196,199	79	22.9%	22.6%	219,005	36,750	31,000	53,176	53,662	\$21.38
Northeast Pittsburgh	914,735	30	17.2%	17.2%	46,580	0	0	14,142	32,364	\$22.65
Oakland	636,486	12	15.0%	1.0%	22,689	0	0	(14,083)	(14,083)	N/A
Parkway East	3,903,481	76	28.8%	28.2%	183,025	0	0	88,485	88,485	\$23.72
Parkway West	4,421,401	67	24.5%	23.3%	320,539	0	0	111,509	97,332	\$21.49
South Pittsburgh	3,359,778	91	24.3%	23.9%	147,450	0	0	(7,616)	(9,606)	\$22.07
Washington County	1,869,012	38	19.4%	19.4%	138,379	0	0	93,822	93,822	\$20.79
West Pittsburgh	1,222,121	23	25.2%	25.2%	54,178	0	0	(443,417)	(43,417)	\$19.22
Westmoreland County	1,066,201	40	20.9%	20.6%	112,630	0	15,000	16,764	14,702	N/A
NON-CBD	22,507,257	523	21.8%	20.9%	1,427,666	105,190	628,376	(81,585)	380,770	\$21.65
PITTSBURGH TOTAL	51,981,082	699	21.5%	20.3%	3,021,446	105,190	628,376	(506,743)	212,664	\$22.36

*Rental rates reflect \$psf/year for multi-tenant, non-government or medical properties of 10,000 sf or more rentable building area.

MARKET HIGHLIGHTS

SIGNIFICANT 2010 LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
McCandless Corporate Center, Bldg. II	North Pittsburgh	Smith Micro Software, Inc.	55,586	A
The Grant Building	CBD	Huntington Bank Corp.	48,000	A
Del Monte Center	Greater Downtown	Peoples Natural Gas Company	44,900	A
One North Shore Center	Greater Downtown	First National Bank	35,000	A
Bakery Square	Parkway East	Google	24,041	A
11 Stanwix Street	CBD	Allegheny Conference and Affiliates	21,645	A
SIGNIFICANT 2010 SALE TRANSACTIONS				
BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Pittsburgh State Office Building	CBD	River Vue Associates/Millcraft Industries	290,000	\$4,611,000
Verizon Building	CBD	Philadelphia Management Company	285,000	\$4,400,000
Alcoa Business Services Center	Greater Downtown	Healthcare Trust of America	228,870	\$39,000,000
1307 Federal Street North	Greater Downtown	Healthcare Trust of America	191,612	\$40,500,000
One Smithfield Street/United Way Building	CBD	Burns & Scalo Real Estate Services	132,000	\$9,920,000
3000 Park Lane	Parkway West	Matteson Companies	105,315	\$16,900,000
SIGNIFICANT 2010 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Westinghouse Nuclear Energy Hdqtrs.	Butler County	Westinghouse	409,792	9/10
110 Unionville Road, Building 2	Butler County	PLS Logistics Services	70,500	7/10
SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
6031 Wallace Road Extension, Bldg. 2	North Pittsburgh	N/A	36,750	10/11
The Buhl Building	CBD	Production Masters, Inc.	17,050	1/11



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