

MARKETBEAT OFFICE SNAPSHOT



PITTSBURGH, PA

A Cushman & Wakefield Research Publication

Q1 2015



ECONOMIC OVERVIEW

The Three Rivers Workforce Investment Board predicts that the top five sectors for job growth this year in Pittsburgh will be health care; professional, scientific and technical services; arts, entertainment and recreation;

accommodations and food services; and, management of companies and enterprises. These five sectors account for 75% of job growth in the region and are expected to produce 18,000 new jobs in 2015. Consistent with the Board's predictions, accommodations and food services added 3,600 jobs in March – up from just 100 in the same period 2014 – pushing growth well beyond the 1,800 monthly average for the past five years.

Pittsburgh saw a total increase of 4,600 jobs in March, but the region has fallen behind its average gain of 10,000 during the same period over the past five years. Unemployment within the region remained virtually unchanged, ending the quarter at 5.3%, edging closer to the national average of 5.5%.

INVESTMENT SALES DOUBLE YEAR-OVER-YEAR

National Real Estate Investor named Pittsburgh one of its 2015 top five best markets for office investment – and for good reason: Q1 2015 saw a 113.1% increase year-over-year in total investment sales within the market, ending the quarter at 2.1 million square feet (msf). Making up the majority of that activity were Allegheny Center, a 1.2-msf office and multi-family complex located in the Greater Downtown submarket; and, Keystone Summit Corporate Park, the 554,474-square-foot (sf) former Marconi-Ericsson campus located north of the City of Pittsburgh in Warrendale, Pa. The properties sold for \$67.5 million and \$96.3 million, respectively.

With a class A vacancy rate of just over 6.0%, Pittsburgh's stable economy and rising rental rates have sparked the attention of not just local investors, but institutional and global investment groups, as well. Northstar Realty Finance, a REIT with known interests in the Americas and Europe that are valued at nearly \$13.0 billion, entered the Pittsburgh market with its purchase of Keystone Summit Corporate Center for more than double the previous sale price of \$39.7 million in 2008.

CONSOLIDATION AND RELOCATION ARE FOCUS IN Q1

The Bank of New York Mellon announced that it would sell 525 William Penn Place, its 942,665-sf office asset and the fourth largest building in Pittsburgh's CBD and gradually vacate approximately 650,000 sf in the building, consolidating employees into its two other

Downtown locations. This coupled with U. S. Steel's plans to vacate approximately 400,000 sf at 600 Grant Street in 2017 and relocate to its new headquarters at the Civic Arena redevelopment site will create substantial vacancies of more than 1.5 msf in Pittsburgh's class A market that have not existed for the past several years.

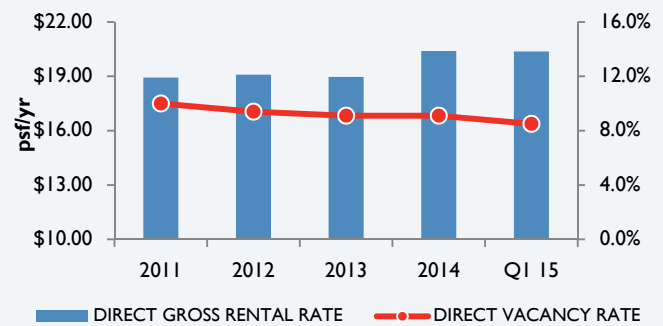
OUTLOOK

While the conversion of several smaller office buildings to residential units has positively impacted absorption and vacancy rates, consolidations and new construction will stall further increases in asking rental rates over the next 24 months.

STATS ON THE GO

	Q1 2014	Q1 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	9.2%	8.8%	-0.4 pp	↔
Direct Asking Rents (psf/yr)	\$20.10	\$20.37	1.3%	↔
YTD Leasing Activity (sf)	863,932	502,348	-41.9%	▼

DIRECT GROSS RENTAL VS. DIRECT VACANCY RATES



LEASING ACTIVITY

