

MARKETBEAT

RETAIL SNAPSHOT

PITTSBURGH, PA

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Q2 2015



ECONOMIC OVERVIEW

Unemployment fell to 5.1% in June, the lowest posting year-to-date (YTD) and down 0.2 percentage point (pp) from 2014. The region's ability to absorb new entrants into the workforce, nearly 13,000 in June, enables

Pittsburgh to post continuous declines in unemployment. Despite losing some ground in the financial activities sector because of the downsizing and branch eliminations of several of Pittsburgh's top banks, the region added 57,900 new jobs during the first half of 2015.

Commercial and institutional construction activity jumped 24.3% in the first half of 2015, reaching \$1.38 billion. Among the largest projects to kick off this year is Carnegie Mellon University's (CMU) 425,000-square-foot (sf) mixed-used development located on a two-acre parcel in Oakland. The project, which caps a campus building boom expected to total more than 750,000 sf, will feature a hotel with conference center, shops, restaurants and flexible meeting areas for students, faculty and staff collaboration.

RETAIL MARKET OVERVIEW

Pittsburgh's retail vacancy dropped 0.6 pp year-over-year in the first half 2015, while average asking rental rates rose 6.9% to \$23.00 per square foot (psf) from \$21.50 psf in the same period 2014. Asking rental rates for class A new construction range from \$27.50 psf to \$35.00 psf. Net absorption was positive 171,935 sf with approximately 102,820 sf of new space delivered and 219,176 sf currently under construction. More than 90% of the under-construction space has been pre-leased, signaling that demand continues to outpace supply in the region. Subsequently, YTD leasing activity is down 68% from the same period in 2014, reaching just 301,927 sf.

The construction focus within much of the market has shifted to redevelopment opportunities rather than new construction. Perhaps the most significant is The Block at Northway, the redevelopment and rebranding of the 500,000-sf Northway Mall, one of the nation's first enclosed shopping centers that originally opened in 1962. New ownership group, LRC Realty, an Akron-based real estate developer, announced in April that Nordstrom Rack would serve as a 40,000-sf anchor to the project. This will be Nordstrom Rack's first Pittsburgh location, just up the street from its sister store, Nordstrom, at Ross Park Mall. Scheduled for completion in Q2 2016, The Block at Northway will offer shops, restaurants and a variety of gathering areas designed to complement its neighboring retail developments McCandless Crossing, McIntyre Square and Ross Park.

Whole Foods continues its expansion in the market with a 40,000-sf new store in the Route 19 South Corridor, and BJ's Brewhouse entered the North Pittsburgh retail market with its first 7,500-sf stand-alone restaurant in McCandless. Planet Fitness, Burger King and Domino's currently are surveying the market for expansion opportunities, while newcomer Orange Theory Fitness opened a 3,200-sf store in East Liberty, Parkway East submarket.

OUTLOOK

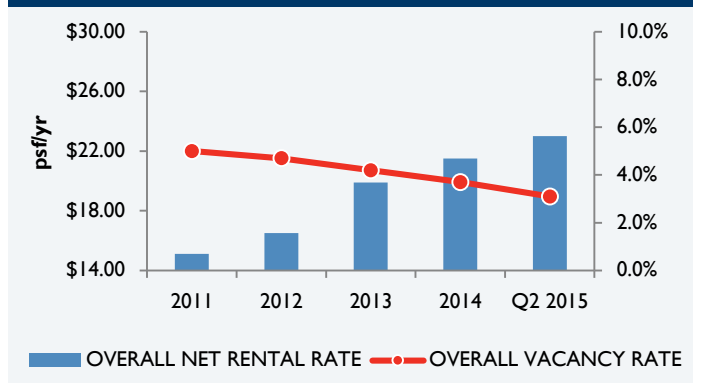
With very little new construction delivering in the second half of 2015, vacancy rates will stagnate while asking rents will continue to increase. Consumer spending activity has surpassed pre-recessionary levels and Pittsburgh shoppers are eager to experience the look and feel of redeveloped retail destinations, which should allow for continued growth in retail sales for the next 18 to 24 months.

ECONOMIC INDICATORS

NATIONAL	2014	2015	2016F
GDP Growth	2.4%	2.4%	3.0%
CPI Growth	1.6%	0.4%	2.7%
Consumer Spending Growth	2.6%	3.4%	3.8%
Retail Sales Growth	3.8%	2.8%	5.6%
REGIONAL	2014	2015	2016F
Household Income	\$52,946	\$54,706	\$57,094
Population Growth	-0.2%	0.1%	0.1%
Unemployment	5.6%	5.2%	5.1%

Source: Moody's Analytics

OVERALL RENTAL VS. VACANCY RATES



Source: CoStar, Inc.