Pittsburgh Office MarketView

Q3 2013

CBRE Global Research and Consulting

CLASS A VACANCY	PITTSBURGH UNEMPLOYMENT	CBD CLASS A ASKING RATE	NET ABSORPTION
▼ 5.0%	▼ 6.7%	▲ $26.24	▲ 415,081

*Arrows indicate change from previous quarter.

NEW CONSTRUCTION AND REDEVELOPMENT BRING FRESH LIFE TO DOWNTOWN PITTSBURGH

Quick Stats

Q3 2013		QoQ	YoY
Vacancy Class A (overall)	5.0%	↓ 40 bps	↓ 140 bps
Vacancy Class B (overall)	13.0%	↓ 30 bps	↑ 30 bps
Asking Rate CBD Class A	$26.24	↑ $0.18	↑ $1.74
Net Absorption	415,081	↑	↑
Construction	1,929,141	↓	↑

Hot Topics

- The Gardens at Market Square, a Silver LEED-certified mixed-use complex, broke ground in August
- Work at Northshore Place I and II, two mixed-used buildings totaling 120,000 sq. ft., began in August
- Liberty Center sold for $135 million – upgrades to the office space and connecting hotel will begin soon
- The former Federal Reserve Bank sold for $3.75 million and is planned to undergo renovation
- The CBD's Class A vacancy rate decreased to 5.9%, the lowest in 30 years
- *Coming Soon: Suburban Development*

Downtown Pittsburgh Development

Downtown Pittsburgh is shaping a new look, inside and out, with development projects sprouting on many fronts. Various new development or redevelopment initiatives are underway proving, once again, the strength of our market to bear the weight of construction activity.

On the new development front, two major projects broke ground during the third quarter of 2013. The Gardens at Market Square, being developed by Millcraft Industries, will contain approximately 125,000 square feet (sq. ft.) of office space along with a Hilton Garden Inn, a 335-space above ground parking garage and street level retail space including Roost 50 and Burgatory, when completed. On the City's Northshore, Continental Real Estate, in partnership with the Pittsburgh Steelers and Pirates, broke ground and began construction on Northshore Place I and II. The two mixed-use buildings are expected to total 120,000 sq. ft. with 80,000 sq. ft. dedicated to office space and the remainder of the complex reserved for retail space. Committed retail tenants include Toby Keith's I Love This Bar & Grill, Burgatory, North Park Lounge and Cabana Bar.

Recent building sales and investments from real estate firms have prompted a boom in renovating and repositioning properties. In the CBD, Liberty Center and the attached hotel will be refurbished, and a complete renovation of 11 Stanwix is coming to a close. The U.S. Steel Tower began major upper lobby renovations, and the process will begin on modernizing to a destination based elevator system.

A number of buildings downtown, some iconic, will be repurposed for new use. As housing trends continue to shift toward urban living, several buildings are planned to be redeveloped into multi-family apartment units, including the Clark Building, the Standard Life Building, the Regional Enterprise Tower and the Wholey's Building. Two new hotels are planned to be built and two office buildings are being remodeled to accommodate current hotel demand. The top 11 floors of the Henry W. Oliver Building will be converted to an Embassy Suites Hotel, and the former Reed Smith Building will become a Hotel Monaco. Two Holiday Inn Express hotels are planned, one on the Northshore and one at First Avenue and Cherry Way. The former Federal Reserve Bank, which was sold in July to M&J Wilkow, is being considered for renovation as office or hotel space, and PNC Bank is converting the former Mellon Bank on Smithfield Street, most recently home to the Lord & Taylor department store, into a call center.

Investors infusing capital expect a return on their asset; as a result, a new floor will be set for rental rates. Class A Landlords throughout the market have incorporated rental rate structures that utilize escalated pricing models to match the standards used throughout much of the U.S.

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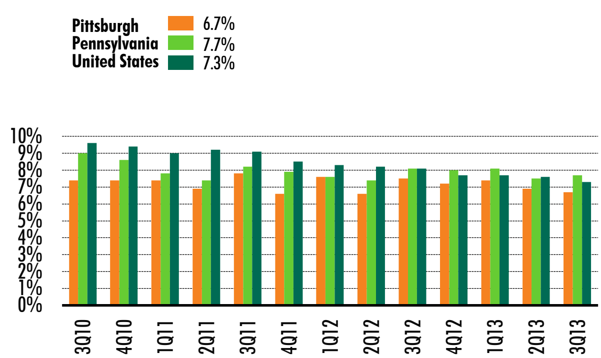
Table 1: Market Statistics

Submarket	Rentable Area	Total Vacant SF	Class A Vacant (%)	Class B Vacant (%)	Total Available SF	Class A Asking Rate $SF/YR	Class B Asking Rate $SF/YR	Under Construction SF
CBD	24,784,611	2,734,094	5.9%	15.6%	4,059,673	$26.24	$17.47	925,000
Cranberry	3,650,608	134,174	3.4%	4.4%	227,543	$25.68	$22.35	
Downtown Fringe	10,312,108	896,842	0.9%	12.8%	1,520,877	$22.78	$21.33	80,000
East End	3,371,721	682,354	0.5%	17.7%	734,098	$27.00	$15.68	400,000
Oakland	2,292,636	108,502	3.8%	5.1%	109,502	$27.25	$19.01	
Parkway East	4,279,265	733,322	21.8%	17.0%	1,105,922	$20.10	$19.78	
Parkway North	6,274,550	468,821	2.8%	7.7%	651,361	$24.39	$16.98	
Parkway West	10,606,793	901,775	3.0%	14.2%	1,471,332	$22.06	$18.30	130,000
South	4,564,121	508,240	2.7%	10.9%	591,306	$22.60	$16.27	
Southpointe	2,073,175	96,556	5.2%	0.0%	147,011	$22.84	$20.00*	394,141
Total	**72,209,588**	**7,264,680**	**5.0%**	**12.9%**	**10,618,625**	**$24.46**	**$18.60**	**1,929,141**

*Indicates average lease rate. The rate(s) are not included in total asking rate figures and are for informational purposes only.

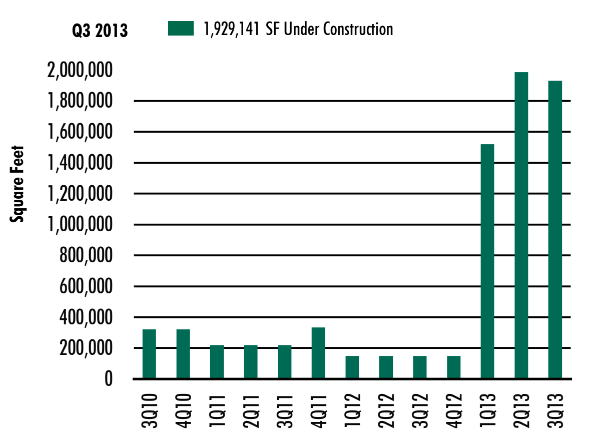
Source: CBRE Research, Q3 2013.

Chart 1: Unemployment Rate



Source: CBRE Research, Q3 2013.

Chart 2: Construction Activity



Source: CBRE Research, Q3 2013.

The U.S. Bureau of Labor Statistics' preliminary report indicates the Pittsburgh metropolitan statistical area unemployment rate dropped to 6.7% in July 2013, a decrease of 0.2% from May 2013 and a decrease of 0.6% from July 2012. Pennsylvania's unemployment rate increased 0.2% to 7.7% between May 2013 and August 2013, and the U.S. national average decreased to 7.3% in August from 7.6% in May. Pittsburgh unemployment still remains well below U.S. and Pennsylvania averages, showing stability in our economy.

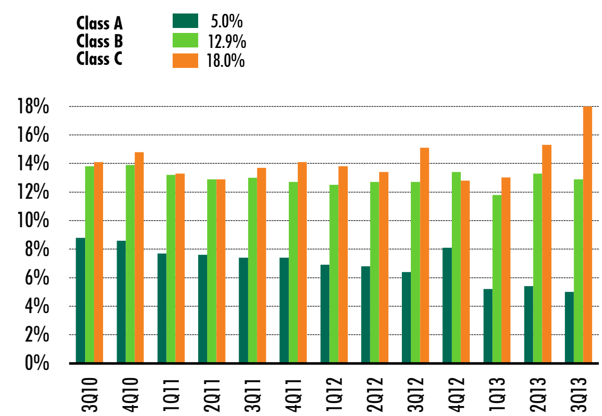
According to the U.S. Bureau of Labor Statistics, natural resources/mining/construction jobs in Pittsburgh grew 4% from August 2012 to August 2013, financial services grew 5.5%, professional and business services grew 4.1%, and education and health services grew 1.7%. Government jobs decreased 2.5% year-over-year reflecting recent budget restrictions.

In July 2013, the construction field accounted for 57,800 employees in the Pittsburgh area, a slight increase of 0.7% over the year.

Construction activity in the marketplace continued through the third quarter with no indication of slowing in the near future. ServiceLink moved into their two build-to-suit office buildings at Pittsburgh International Business Park, each 53,000 sq. ft., in July when construction finished. Also completed in July was construction on the J. Barry Center, a155,000 sq. ft. building in Southpointe. J. Barry is the new home to MarkWest Energy Partners' 30,000-sq. ft. Canonsburg offices. Total construction deliveries for the third quarter were 261,000 sq. ft.

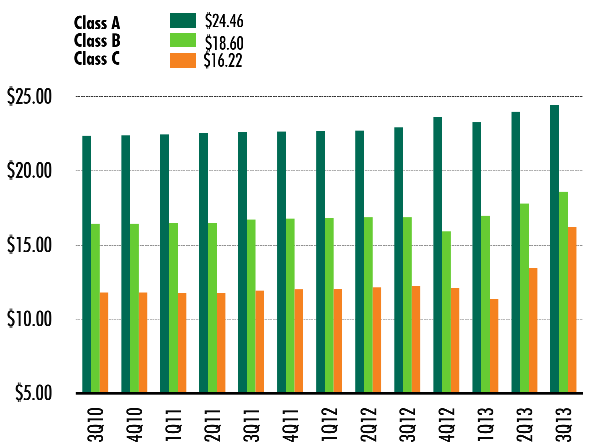
In the CBD, the Gardens at Market Square broke ground in August and is expected to deliver in 2015. In the Downtown Fringe submarket, Northshore Place I and II also broke ground in August bringing new office starts for the third quarter of 2013 to 205,000 sq. ft. Total under construction activity for the quarter topped at 1,929,141 sq. ft.

Chart 3: Vacancy Rate by Class



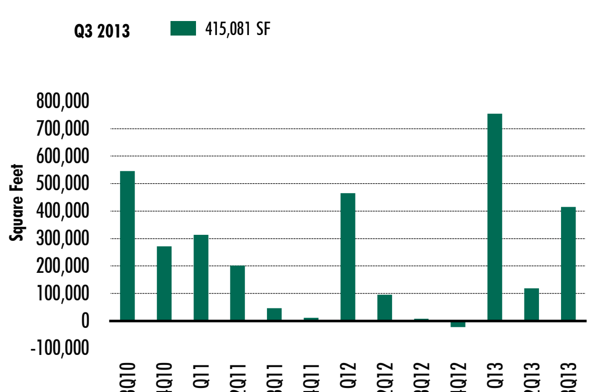
Source: CBRE Research, Q3 2013.

Chart 4: Asking Rates by Class



Source: CBRE Research, Q3 2013.

Chart 5: Net Absorption



Source: CBRE Research, Q3 2013.

The CBD Class A market continued to tighten with a 1.0% decrease in vacancy to 5.9% over the quarter. After increasing in the second quarter, Cranberry's Class A vacancy declined from 5.9% to 3.4% largely due to the lease PPG Industries signed to locate its North American Architectural Coatings headquarters at Westinghouse Building IV located in Cranberry Woods. Although drops in Class A vacancy were seen in many submarkets, the Oakland and Southpointe submarkets experienced increased vacancy due to new office space coming online that was not completely pre-committed by tenants. In Oakland, 428 N. Craig Street was remodeled into Class A space increasing the vacancy rate to 3.8%. This marks the first time Oakland's Class A office product has not been fully occupied in three quarters. In Southpointe, new construction deliveries over the past couple of quarters have caused vacancy to increase to 5.2%.

The overall vacancy rate for the Pittsburgh market decreased slightly from 10.3% to 10.1% quarter-over-quarter, and both Class A and B average vacancy rates declined.

Average asking rental rates continued to climb across all classes in the third quarter of 2013. The CBD Class A average asking rental rate rose, once again, to $26.24 per square foot (per sq. ft.), an increase of $0.18 from the second quarter. The sustained rental rate increases in the CBD are a sign that activity remains high.

Class A asking rental rates increased in all submarkets boosting the marketwide rate to $24.46 per sq. ft. from $23.99 a quarter ago. Class B followed suit with an increase of $0.79 to $18.60 per sq. ft. Five of the 10 submarkets registered average asking rental rates (all classes) above $20.00 including the CBD, Cranberry, Downtown Fringe, Oakland and Southpointe.

Southpointe continues to experience strong demand from oil and gas companies locating in Pittsburgh. Class A asking rental rates in Southpointe climbed from $21.31 in the second quarter to $22.84 in the third quarter.

Overall, rental rates should remain steady or continue to increase if demand stays high and investors continue to infuse capital into their properties, as expected.

The Pittsburgh office market absorbed 415,081 sq. ft. of space in the third quarter of 2013.

Major deals and activity in Q3 2013:

– Liberty Center sold to Starwood Capital Group for $135 million

– The former Federal Reserve Bank, 717 Grant Street, sold for $3.75 million

– PPG leased 120,000 sq. ft. at Westinghouse Building IV in Cranberry Woods

– Ryan Homes, an NVR subsidiary, leased 49,000 sq. ft. at Penn Center West 1 establishing its new headquarters

– McKesson renewed their 43,000-sq. ft. lease at Airside Business Park

– KPMG renewed 22,000 sq. ft. at BNY Mellon Center

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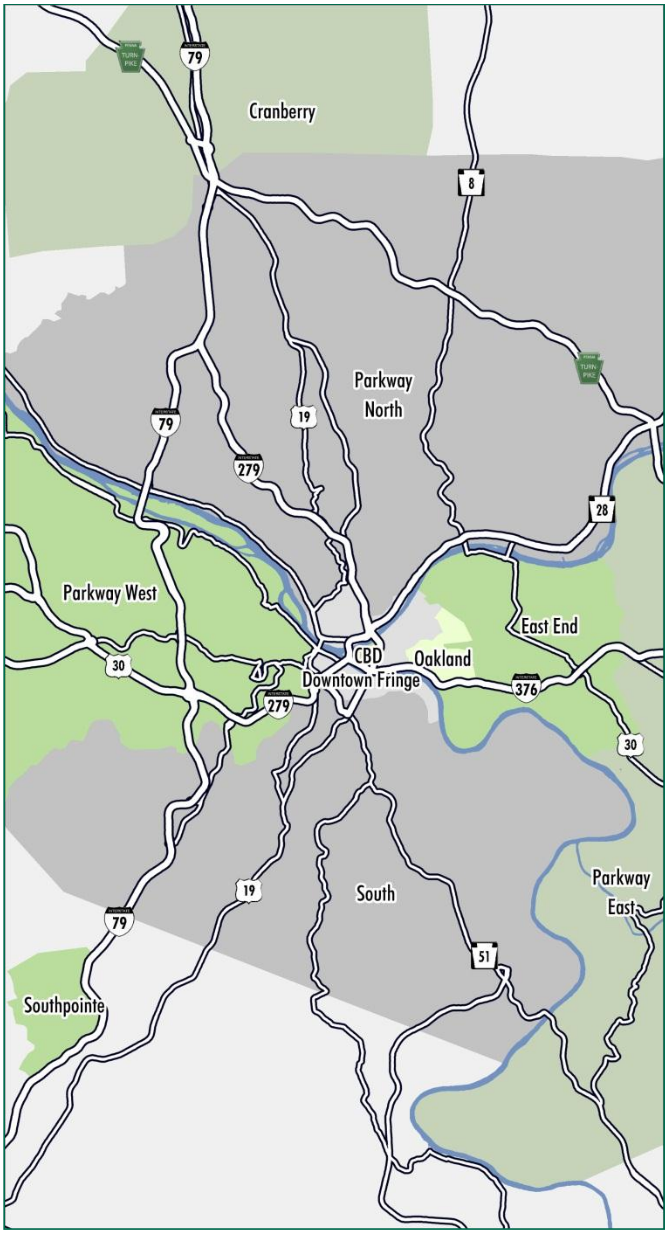

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