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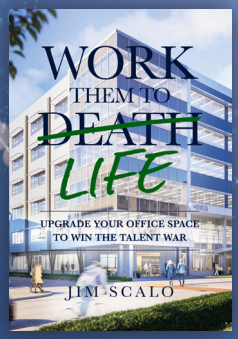
SPRING 2019

THE OFFICE PROPERTY AND BIG DATA PUZZLE:

Putting the Pieces Together

NAIOP Pittsburgh Hall of Famer Writes a Book



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CIB RE REB PDF 1115-0104-200041

PUBLISHER
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DevelopingPittsburgh™ is published by Tall Timber Group for NAIOP Pittsburgh
412-928-8303
www.naioppittsburgh.com

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President's Message

As we reflect on commercial real estate in the region in 2018 and look forward to 2019, I am struck by the radical (by Pittsburgh standards, at least) pace of change and development, and the myriad opportunities on the horizon. There is great opportunity for the region, for the commercial real estate industry and for NAIOP Pittsburgh.

I am lucky to be taking the reins of NAIOP Pittsburgh on the heels of David Weisberg's tremendously successful leadership, and with a talented and engaged staff and board. 2018 saw the organization transition from the long and effective tenure of our first and only Executive Director, Leo Castagnari. Building on that strong foundation, and a new strategic plan that highlighted the importance of advocacy to our industry, we were able to recruit a terrific new executive director in Brandon Mendoza. Brandon brings a host of experience and energy to the advocacy front.

On the industry side, this has been an unprecedented period of new development, driven by new industries, new companies and new residents in our region. Despite these great developments, there are headwinds facing our industry, which could threaten to slow or wipe out the gains that are being made.

Our region, while experiencing many great things, is underperforming the national economy, rather substantially. And while the growth in our region in nascent industries, companies and technologies bodes well for a brighter future, it also presents challenges. Indeed, that rosy future is not a foregone conclusion.

Talent shortages, a lack of population growth, restrictive zoning and burdensome, costly, and often ineffective regulations threaten to undo the progress that has been made. I am a firm believer that markets dictate outcomes and policy helps to shape those market results. When the marketplace tells us that the job creators need to make business location decisions at the same rapid pace as they achieve technological advances, we must adapt our regulatory apparatus accordingly. We must focus on the economics of development – the forces that drive growth – and the impacts it contributes. The industry and public policy makers must work together to keep us competitive.

As the voice of the commercial real estate industry, NAIOP Pittsburgh is taking the lead in advocating for the needs of growth in our region, and to advance an understanding of just how important commercial real estate is to the region's economic prosperity. I firmly believe that opportunity is ripe in Pittsburgh and that we can work together to fuel growth.

We can grow our way to prosperity, and an inclusive and broadly shared prosperity. Without growth, we cannot address the region's challenges. I look forward to working with all of you, our staff and our board to advance the case for support for the commercial real estate development industry and the large economic and social contributions that our industry makes to the region.

Don Smith Jr.
NAIOP Pittsburgh President

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EXECUTIVE DIRECTOR'S MESSAGE

As we begin 2019, I am glad to report that Pittsburgh's commercial real estate (CRE) outlook is strong, with increased demand for top tier inventory, strong growth in the tech sector, and an accelerating need to replace old inventory. However, as with most of the economy, external forces can impact the growth trajectory of our industry. Nationally, monetary policy at the Federal Reserve and trade negotiations between the U.S. and China could swing the economy for the better or worse. A little closer to home, the continued lackluster GDP growth by the Commonwealth matched with minimal state incentive packages, and a snail's paced permitting process, could raise threats to business investment in our state. Locally, the CRE community will need to convince policy makers that, despite the very real growth in development and investment, our region's economy is nowhere near the growth trajectory we need to keep pace with other top tier cities.

As we move into 2019, the CRE community must stay vigilant and prepared for the eventual policy and political debates. For example, the CRE community should focus on potential changes to the City of Pittsburgh's Local Economic Revitalization Tax Act District (LERTA), which could alter the program in a shift to try to get more affordable housing. While this is not a bad policy goal, early analysis shows that the internal rate of return for the new LERTA would need to be attractive to a developer without added incentive. NAIOP Pittsburgh is engaged with City Council and is working to try to inject some potential alternative policies. The CRE community should also stay abreast of possible pilot inclusionary zones within the city. The first such zone could occur in Lawrenceville.

When it comes to Harrisburg, the CRE community must stay engaged in the budget and policy deliberations. While there are no broad-based tax increases included in the Governor's budget proposal, there are some policy debates worth following in 2019, including: marijuana legalization, natural gas severance taxes, minimum wage increases, PA Turnpike's financials and its impact on transit funding. Furthermore, for those of us in Southwestern Pennsylvania, we should be aware that in the aftermath of last year's election, a lot of power in Harrisburg went to Southeastern Democrats, who not only gained seats, but also, more importantly, gained several leadership positions.

Lastly, the CRE community must keep abreast of the upcoming municipal elections and the always important presidential election. As I am writing this, there are more than half a dozen Democrats entered into the primary for the Democratic nomination. The policies offered by them will determine the contrast going into 2020. And this contrast could offer significant risks for the CRE community.

Rest assured that NAIOP Pittsburgh will stay vigilant in 2019 and will work to keep our members abreast of relevant developments. If you or your firms have any policy concerns, please don't hesitate to reach out to me and my team.

P.S., please save the date of March 28, 2019 for our 26th Annual Awards Banquet. Please join nearly 700 of your fellow CRE peers in celebrating excellence in development.

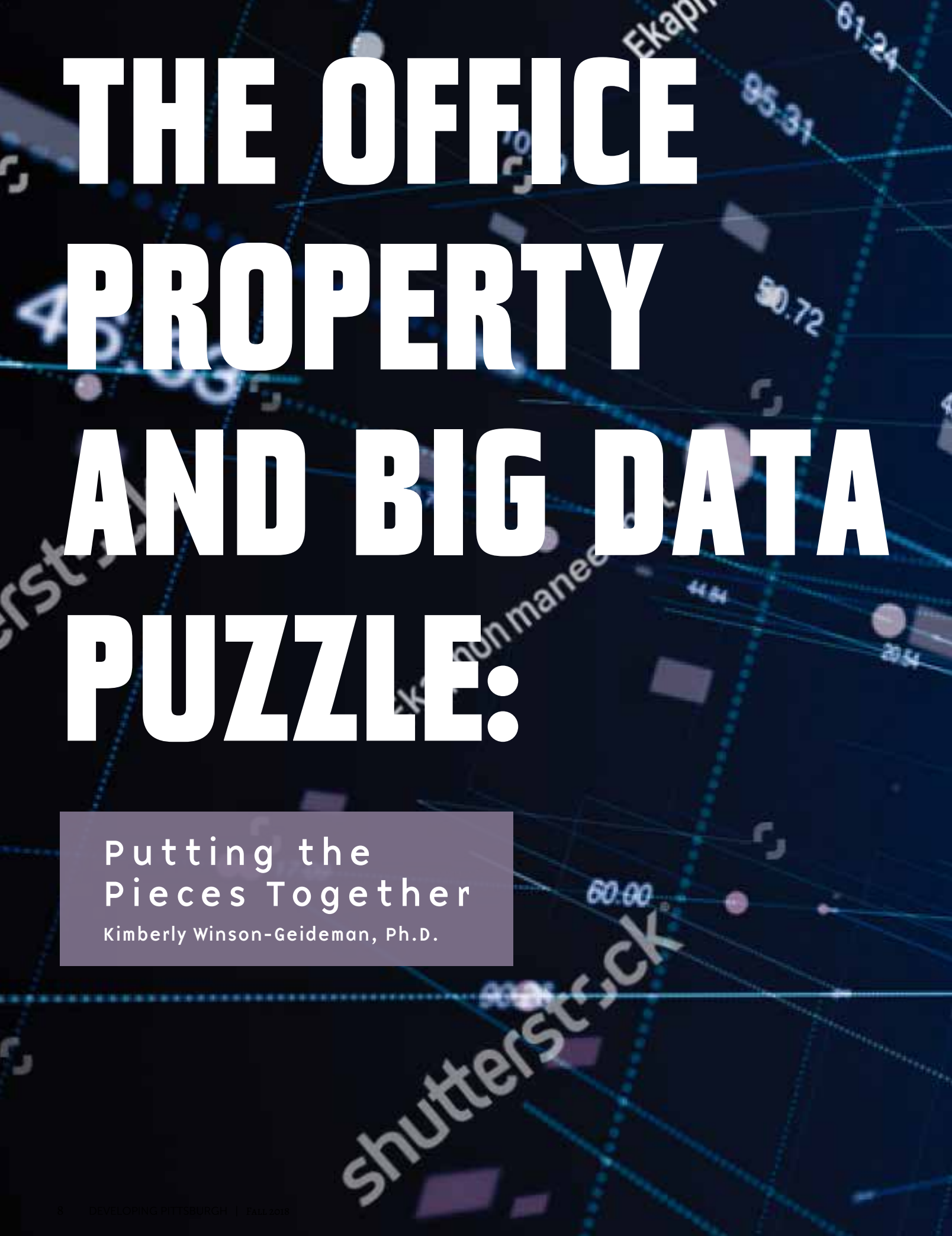
Sincerely,

Brandon J. Mendoza
Executive Director
NAIOP Pittsburgh

THE OFFICE PROPERTY AND BIG DATA PUZZLE:

Putting the Pieces Together

Kimberly Winson-Geideman, Ph.D.



Technology is changing real estate in remarkable ways as advances in computing power, coupled with the development of new data sources, have introduced a range of opportunities to the industry. Firms of all sizes are contending with the speed, depth and breadth of this change, and those with the resources to harness the new technologies are developing a distinct advantage over their competitors.

One of the more recent technological developments capturing industry attention is the concept of "big data." Media attention highlights this trend with Forbes defining big data as a "justifiable obsession" (Stuart, 2018) that will improve transparency and efficiency in real estate markets (Murphy, 2018). CIO asserts that "big data is disrupting the real estate industry" (Rands, 2017). The Financial Review states that there has been a "shift in mindset" as the "property sector is latching on to the power of big data" (Lenaghan, 2017). Furthermore, investors are using "science and big data to make more sustainable investments" (Scott, 2018).

Although the use of big data offers great potential, it also presents challenges. This white paper seeks to define big data and to identify some of the obstacles and opportunities associated with it within the context of office properties. For example, electronic data collection of tenants' movements through an office building may provide insights into how the building is used or could be improved, but it also triggers privacy concerns that may affect the tenant-landlord relationship.

To gain a broader perspective on this topic, the author questioned seven office property management professionals – representing a real estate services company in Minneapolis and a development company in Dallas – to find out if and how they collect and analyze big data in their buildings. Specifically, were they using big data to improve operational efficiencies, attract tenants or both? Their responses are included throughout this paper. See the appendix for the questions emailed to the property managers and selected responses.

It became clear from the author's conversations with the property managers that advanced data collection in office buildings is becoming a priority and is an area that will continue to grow in relevance, especially regarding improving buildings' operational efficiencies (e.g., energy use). A majority of the property managers stated that their industry is gradually using big data in new and inventive ways, either by building on current approaches or by using entirely new technologies. The property managers have been collecting building management data, but not widely using digital data analysis to attract and retain tenants. Collecting and synthesizing various forms of tenant data is an area of interest but is not yet commonplace.

Big data has the potential to be a major catalyst for evidence-based decision-making in the office sector. Big data's usefulness can be categorized into two interrelated areas: 1) how big data improves operational efficiencies; and 2) how to use big data effectively to attract and retain tenants.

Operational Efficiencies

In many respects, the big data generated from the "internet of things" (IoT) provides the greatest potential (and disruption) to the office property sector. The IoT represents the merging of multiple technologies, all of which produce continuous streams of data that interact with each other over the internet. Wireless communications, GPS, smart buildings and machine learning are all part of the IoT. For example, sensors located throughout an office can assist in booking conference rooms, indicate which employees are using specific workspaces and for how long, and monitor energy consumption.

The growth in this area is extreme by any measure. By 2020, it is estimated that 30 billion IoT devices will exist worldwide. International Data Corporation2 estimates that worldwide spending on IoT in 2016 was approximately $737 billion, a number expected to reach $1.29 trillion by 2020. Cross-industry IoT investments that are not industry specific (e.g., connected vehicles and smart buildings) will be among the top expenditures through 2020, and the industries with the fastest anticipated growth in IoT spending include insurance, consumer, health care and retail (IDC, 2017). Furthermore, the "use of IoT technologies to manage office spaces could have an economic impact of $70 billion to $150 billion per year in 2025" (McKinsey Global Institute, 2015).

All of this new information has produced a generation of smart buildings and smart systems that achieve functional efficiencies far greater than imagined possible a few years ago. New buildings like The Edge in Amsterdam use the data collected from computer technology embedded in lighting and ventilation to optimize total building performance and enhance the indoor working environment (Diehl, 2017). Existing buildings retrofitted with new technology realize similar benefits. The New York Times' offices, for example, implemented a system of sensors embedded in lighting and motorized window shades that operate under a single software structure used to monitor temperature and lighting needs. As a result, its 52-story, 1.5 million-square-foot headquarters in Manhattan achieved a 70 percent savings by reducing energy consumption from 1.28 watts of lighting power per square foot to 0.4 watts per square foot. AT&T achieved $8 million in energy consumption savings by installing similar systems in 240 buildings with an average size of 84,000 square feet (Barendrecht, 2017). Figure 1 illustrates the process of integrating multiple systems into a single software structure to optimize heating and cooling.

Furthermore, automated HVAC systems have the potential to reduce water consumption dramatically. Facility Executive cited a case in which a 220,000-square-foot office building saved 364,921 gallons of water per year by eliminating manual heating and cooling of individual offices, which is estimated to contribute 28-48 percent of a building's water consumption. A second study estimated a savings of 778,518 gallons of water per year for a 500,000-square-foot data center with 3,000 tons of cooling power (Dempster, 2017).

The data collected from these systems are analyzed in real time; because the data most often flow in a structured format (e.g., temperature, kilowatts), the analysis is relatively straightforward. This makes the predictability of building system data very reliable. Further, this technology has extended the smart

building infrastructure to such a degree that buildings can now be part of a larger network that constitutes a smart campus or even a smart city.

Network-based security systems also offer some efficiencies to tenants. A building enabled with virtual credentialing technology via smartphones means employees no longer require keys or keycards to gain entrance, and visitors can be prescreened and granted admission with the use of an email barcode. The data shared between the smartphone, server and access reader are encrypted to improve security and access to each entry controlled remotely. If an employee resigns, his or her building access can be immediately terminated without having to collect keys and change locks. Keycards and keys never need to be replaced, further reducing security costs (Dennis, 2018).

Although smart systems and network-based security are some of the most useful innovations in the office sector, they are only as good as a building's internet connectivity. Connectivity is, and will continue to be, one of the primary criteria of tech-savvy tenants, making it critical that owners and operators understand the demand for reliable and robust connections (Barendrecht, 2016). WiredScore,3 a real estate tech startup in New York, addresses some of these issues. The company offers a commercial real estate rating system that certifies buildings' digital infrastructure, with the highest rating going to those with the greatest number of internet service providers, redundancy and resiliency of telecom infrastructure, ease of installation and capacity to readily support new telecom services.

Greater degrees of interconnectedness come at a cost, however, because buildings become more vulnerable to cyberattacks that disrupt or disable entire systems (O'Keefe, 2017). Hacking has evolved from the theft of personal data into cases where internal systems are held hostage for a ransom. Mecklenburg County in North Carolina recently fell victim to this type of scheme when a hacker did not steal, but rather froze access to, the county servers. The hacker shut down all email, printing and web applications; installed bitcoin mining software; and demanded a ransom of two bitcoins (approximately $23,000). Nearly all county services came to a complete halt, including the tax assessor's office (Stack, 2017).

Businesses and governments that fall prey to this type of activity often pay the ransom because it is cheaper and quicker than bringing in experts to resolve the problem internally. This choice of action makes risk management, particularly in regard to technology, a primary issue. The greater the reliance on the IoT to streamline operations and improve efficiencies, the greater the cybersecurity needs.

Attracting and Retaining Tenants

Attracting and retaining tenants is imperative to an investor's bottom line

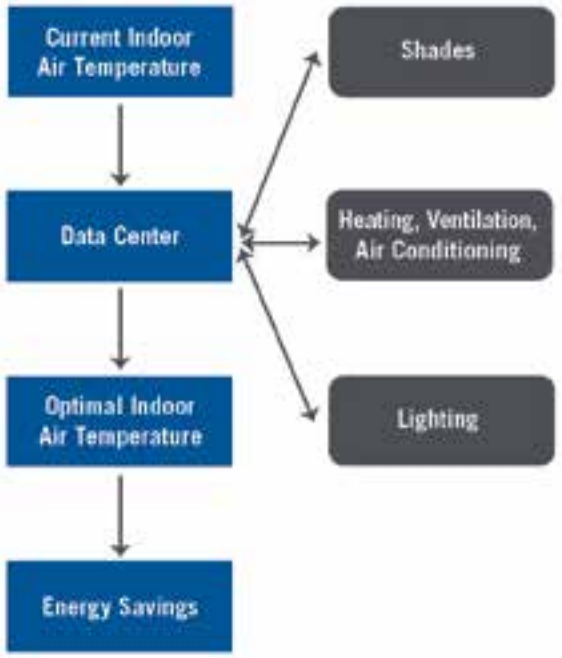
and, in the era of big data, involves a focus on effectiveness along with the efficiencies generated through the use of integrated HVAC and network-based security systems. Creating and maintaining spaces that enhance the tenant experience, improving productivity and developing a cohesive working environment are examples of the potential benefits big data can bring. Much of this potential is being sourced from our seemingly constant companion, the smartphone.

The proliferation of smartphones means that we now have more detailed information on tenants, potential customers and clients than ever before. Big data tells us where people congregate, when they move through buildings, where they came from and in some cases why they were there. Retail is leading this charge as public Wi-Fi and other systems in shopping centers track shopper movements, capturing location information to target advertising and inform tenant placement.

It is important to understand the difference between tracking the number of people moving through a building and tracking their identities. The level of detail retailers collect depends on the degree of access granted by an individual. In many cases, systems preserve nearly complete anonymity because they track only the number of people. Limited (but not strictly anonymous) tracking occurs in shopping centers when individuals access public Wi-Fi by providing an email address or agreeing to terms and conditions that permit tracking and the collection of other information. In other cases, individuals grant permission for more detailed tracking by sharing personal information, by granting access to social media accounts or through the use of apps. Social Wi-Fi, which allows users to log on to the internet using their social media accounts, gives the retailer or landlord access to a virtual treasure trove of information including demographics, "likes" such as movie and book preferences and contact information such as email addresses and mobile phone numbers. When shoppers "opt in," the system can match this information with shoppers' location data and funnel personalized advertisements directly to them.

Beacon technology supported by smartphone apps is another way retailers track customers' movements, specifically their microlocation activities. When a shopper is in range, beacons trigger location-specific messages that can be granulized to the aisle the shopper is standing in. Retailers use these data to maximize sales by delivering personalized promotions that create individualized shopping experiences for customers. This approach encourages customers to stay longer and spend more money (Fung, 2017). Users can regulate what personal data are collected, either remaining anonymous or distinguishable, for example, by linking their membership in a loyalty program to the app. The location-based technology underlying Wi-Fi and beacons is more precise and dependable than the traditional GPS,

Figure 1: Flow of data to and from integrated systems



Source: Kimberly Wilson-Goldeman.

which can be subject to interference and accuracy problems. A phone's GPS does not have to be on for either Wi-Fi or beacons to work, although it can improve accuracy in some instances.

The office sector can realize benefits similar to those seen in retail. From the moment a tenant uses an access card to enter a building, the system can track his or her movements to help understand how tenants use the building. Radio-frequency Identification (RFID) uses electromagnetic fields and Bluetooth technology to monitor the location of labeled items and personnel. Wi-Fi can track past and real-time presence as well as dwell time, and sensors embedded in carpet can record foot traffic (Mobley, 2014).

This information, combined with predictive modeling, can answer questions regarding the type of space needed, where it should be positioned, and when it is most likely to be used. Collaborative space, quiet areas and enclosed offices can be located in the most efficient and effective areas of the building relative to the needs of the tenant. Some examples cited as now being used by property managers are as follows:

Smart bathrooms that track peak use to save on custodial costs. Sensors collect data on restroom visits and use that data to predict when the restrooms will need to be serviced. This analysis has allowed the property manager to redirect the day cleaning staff to clean and restock the bathroom only when required.4

Smart ceilings, containing movement and heat sensors, provide real-time data on occupancy. The data allow property managers to provide space use and analytics to existing tenants, as well as digital building navigation. The system operates on an internet-based platform and aims to improve the tenant experience while helping operators run the buildings and individual spaces more efficiently.5

Although big data can play an essential role in improving the tenant experience, overreliance has risks that can negatively affect the personal connections at the core of the tenant-landlord relationship. Big data needs to be reduced to a useable form to be valuable, but it should be narrowed in a way that does not compromise individual privacy. Narrowing the data can sometimes reveal sensitive information that subjects the tenant or individuals to unnecessary exposure with long-term and far-reaching consequences. Data breaches are relatively commonplace, and the bigger the data, the greater the potential problem. Furthermore, the way firms use data can introduce a host of public relations troubles, particularly when they do so in less than transparent ways. Target Corporation faced a public backlash when it used buying histories to determine if female customers were pregnant so that it could target advertising accordingly. When these incidents gain traction on social media, they can cause damage to reputations that takes years to rectify.

Privacy

Although much of the big data collected by landlords fails to trigger any privacy issues (e.g., energy use data), disclosure and permission are advised in some instances, such as cases where a landlord is monitoring tenant movements using Wi-Fi. In other cases, disclosure may be mandated by the local jurisdiction, for example, by requiring signs indicating camera surveillance in parking garages. Because of these issues, landlords and tenants should approach data collection with a clear understanding of privacy laws and a great deal of transparency. These types of data are most informative when everyone participates, but tenants should be able to opt out of data collection if they prefer. Personal information should not be collected or, at the very least, records should be anonymized. Furthermore, data should be released only in the aggregate, if possible, and systems put in place to ensure the security of the data.

As previously discussed, technology has evolved to such an extent that sensors, RFID and Wi-Fi can produce extremely detailed information about individuals and how they use buildings; however, the fact that the technology exists and the data can be collected does not necessarily mean it should be used. To this end, building owners and operators often hesitate to collect and use tenant data because doing so can be viewed as an intrusion on the tenant's privacy, triggering disputes or even legal problems. This concern leaves landlords and building owners in the somewhat precarious position of deciding what data to use and for what purposes.

The author's conversations with several property managers indicated that they have a strong desire to use data to know more about how tenants occupy buildings (e.g., the locations and times of day that tenants gather in buildings). They also want to use evidence-based information to help make decisions about improving and investing in common spaces, determining peak occupancy hours, analyzing parking use and determining the amount of foot traffic in and around a building. Although landlords are generally comfortable with collecting and using nonpersonalized data to improve operational efficiencies, privacy concerns, along with uncertainty about how to analyze data, have most likely delayed widespread application of tenant- tracking technology. A property manager commented, "The technology to enable data collection has advanced faster than the ethical, legal and moral requirements discussions."6

The general consensus among the property managers the author spoke with was that they are in the early stages of advanced data collection. Although they are aware of privacy issues, they agree it is an area that will grow as landlords begin to realize their competitive advantages in attracting and retaining tenants.

Other Considerations Related to Big Data

Although the most notable effects of big data now relate to operational efficiencies rather than tenant retention, big data and related technologies affect the commercial real estate industry in some other ways, with significant implications for the office sector. Despite being conceptually distinct, all of the following have evolved from the big data framework.

Creation of New Disciplines

Using big data means leaving the confines of the traditional Excel spreadsheet, where an analyst or appraiser could single-handedly process cash flows, and moving to the era of the data scientist, a specialist who can manage volumes of continually streaming data and evaluate their importance to an organization. Working with big data is not impossible, but it is different from working with the data conventionally used in commercial real estate. Firms lacking the specialization of a data scientist may find themselves losing ground in a highly competitive industry. Consulting groups with a real estate focus may fill the need for smaller real estate firms, whereas others may find it strategically advantageous to pay the $100,000-plus salary, the specialization demands (Columbus, 2017). Other new types of positions that have grown around big data include data engineer (liaison between a company and the data scientist), data architect (database designer), data steward (manages and protects data) and data visualizer (explains outcomes to decision-makers in plain language).

Location and Acquisition Decisions Are Subject to More Detailed Analysis

Locating and acquiring sites for purchase or lease that meet long-term tenant needs can be aided by the incorporation of big data into advanced analytic programs that predict macroeconomic trends, demographic shifts, real estate prices and workforce accessibility. This information can be added to a risk-return model to guide corporate strategies and decision-making.

Health care is one example of an industry using this technology to predict demographic shifts that inform site selection and leasing decisions earlier and more cost-effectively. The industry follows cohorts to understand where their best patients are through an examination of health care use, health expenditures, insurance coverage and source of payment. Proprietary information and data from the Medical Expenditure Panel Survey7 are integrated into Geographic Information System (GIS) software to identify trends for improved location decisions (Davidson, 2014). Although the availability of this type of data will likely increase, privacy concerns and government regulation will temper how much and what type can be used.

Data Collection and Aggregation Are Now an Industry

The collection and aggregation of real estate data have become an industry unto itself, with companies such as LoopNet, Real Capital Analytics and CoStar among the first to see the value in collecting, standardizing and automating commercial property data such as transaction prices, cap rates, concessions and operating expenses. These companies have progressed from simply collecting, aggregating and disseminating data to creating their own set of proprietary metrics that can be incorporated into strategic decision-making.

Real Capital Analytics (RCA), for example, launched its latest metric in 2017: the capital liquidity score, which is designed to estimate the depth and breadth of capital and liquidity in a given market. The score incorporates market volume, unique market activity, global cross-border capital, institutional and real estate investment trust (REIT) capital and the presence of top-ranked investors by zone and globally; it can be used in any market where those data are available. Of note is the vetting process used to ensure the relevancy and reproducibility of the metric. According to Leahy (2017), it compared favorably "with the ask-sale price spread in Central London – one market where there is sufficient data on the spread," thus validating the RCA approach to market liquidity. Data aggregators are now, arguably, an indispensable part of the commercial real estate industry.

Although most aggregators focus primarily on traditional sources of data, some smaller firms have developed specialized products using a combination of proprietary and public

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information with real estate implications. For example, Walk Score™8 produces a series of metrics that measure walkability, public transit and bike access within neighborhoods. In a similar vein, Streetlight Data9 provides transportation analytics including travel times, travel distributions and commercial and personal travel comparisons. Other data aggregators combine different data sources to create unique products targeting a specific segment of the industry. CrediFi,10 for example, combines property, mapping and loan information with commercial mortgage-backed securities (CMBS) and financial data to provide detailed loan and asset information for commercial real estate lenders. These new aggregators exemplify the first wave of data marriages and nuanced analytics of the big data era.

Blockchain Will Change Recordkeeping

As big data and the associated technology proliferate, blockchain technology is expected to play an increasingly larger role in data management and storage for property transactions. A blockchain is a digitized, distributed ledger that permanently records and shares data in a hypersecure, unchangeable format. The information a blockchain contains is public and can be searched easily but requires multiple levels of permissions to access. Every computer on the specialized network continuously verifies the sanctity of the blockchain.

In real estate, blockchain has the potential to streamline transactions, eliminate the need for third parties such as escrow agents, increase the reliability of public records and reduce fraud. Specifically, it plays an increasing role in managing smart contracts, computer programs that take the place of traditional contracts and can be executed automatically without the need for intermediaries. For example, an office lease agreement can be entered into a ledger, with the parties agreeing that the contract will be executed at an exact time and date for a certain amount of money. The tenant then places his or her rental fees into a digital cryptocurrency wallet. If the office space is available and occupied by the renter at the agreed upon time, the money is released automatically from the tenant's wallet to the owner's (Spielman, 2018).

Adopting blockchain technology on an industrywide basis will be a challenge, but some are already speculating on its potential. Two of the early market entrants include Ubiquity,11 a "blockchain-secured platform for real estate recordkeeping," and Flip,12 a peer-to-peer residential leasing marketplace that stores records in blockchain format (Ungerleider, 2016).

Conclusion

Conversations with property management professionals confirm literature and media accounts that property managers are using the digital data generated within office buildings primarily to analyze building systems and improve operational efficiencies. However, there is growing interest in using Wi-Fi, beacons and sensors to: 1) track where people go and gather in buildings in order to improve the type and location of amenities in the office building; 2) allow

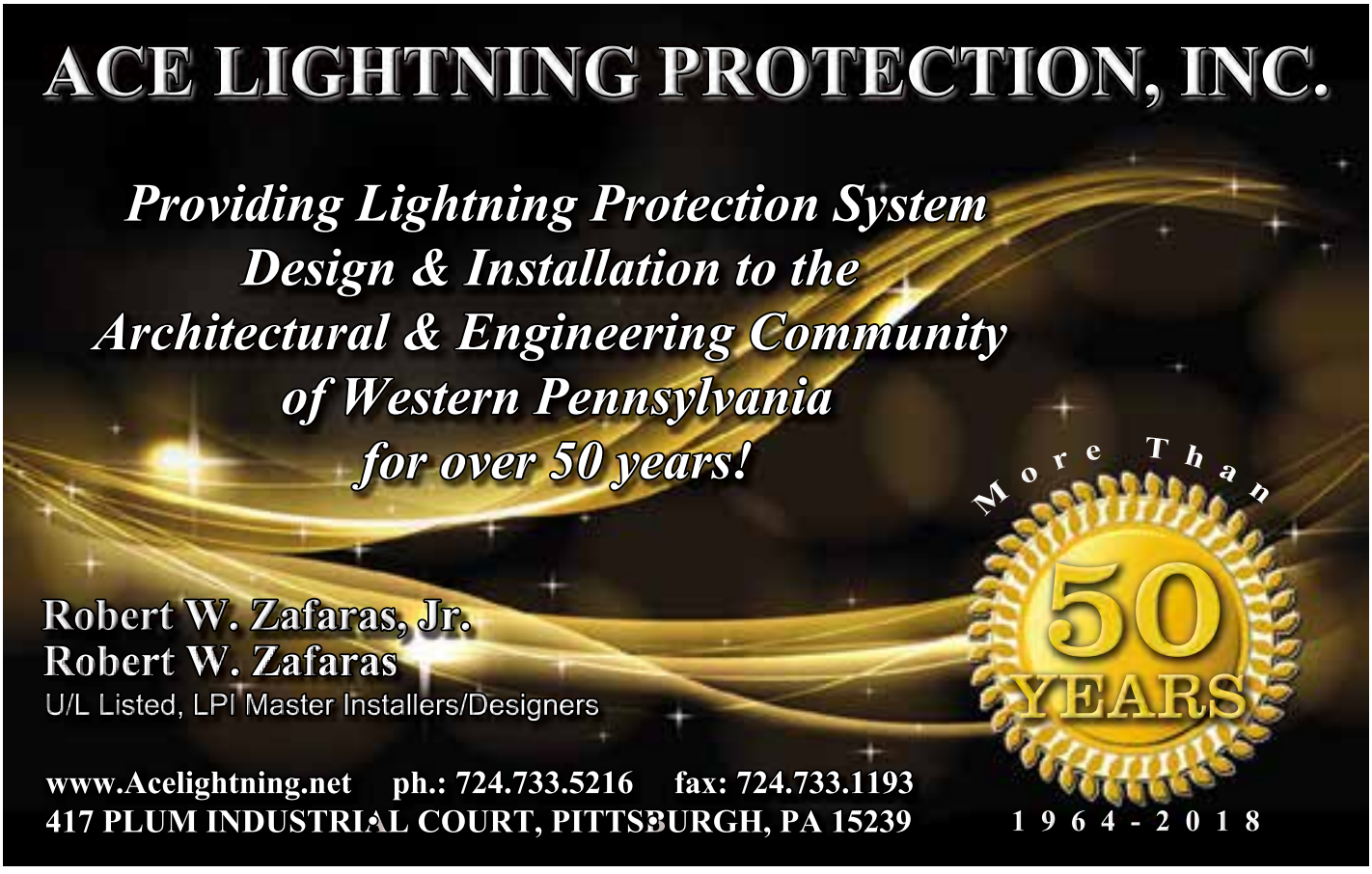
tenants to more efficiently track and manage their own energy use; and 3) provide building navigation through smartphones.

Data collection and analysis have increased operational efficiencies by saving money as well as environmental resources, but privacy issues and effective and efficient data management are obstacles that have hindered its widespread use. Although solutions exist for challenges that may surface relating to collection, storage, analysis and presentation of data, privacy and disclosure concerns may be more difficult to overcome since they are subject to changing laws and social pressures. Firms are rightly cautious when considering how they incorporate big data into decision-making, especially if it involves the use of personal information versus simply numbers of people flowing through spaces.

It remains to be seen how the innovations brought about by big data will change commercial real estate.

However, for now, several critical takeaways presented in this paper deserve the attention of the real estate industry in general and the office sector in particular and lend themselves to further research:

- Big data sets are more than just big. They are dynamic and multidimensional and can be challenging to work with, but they promise to give greater insight into some of the fundamental questions of real estate more than anything has before.
- The concept of big data is not solely about the data; it is also about the tools created to deal with the data. The collection, storage, analysis and visualization all present unique challenges that require innovative and ongoing solutions.
- Small data is still important. Real estate markets are local: to make big data meaningful, sometimes the data need to be selected and sorted to such an extent that they are anything but big.
- Office property managers are comfortable with using nonpersonalized big data to monitor and improve the performance of building systems, but, due in part to privacy concerns, have not yet embraced tracking tenant movements to improve the tenant experience.
- Landlords and tenants must approach data collection with a clear understanding of privacy laws and a great deal of transparency. Personal information should not be collected or, at the very least, records should be anonymized. Data should be released only in the aggregate, if possible, and systems put in place to ensure the security of the data
- Big data is spurring new technologies and disciplines that are affecting the real estate industry. For example, blockchain technology will have an increasingly larger



role in data management and property transactions. The need for job positions such as data scientists, data stewards and data visualizers will continue to grow as companies take stock of their data sets.

Office buildings will most likely become equipped with more sophisticated technologies that will not only monitor energy use but also have broader applications that give landlords greater knowledge of how their building is (or is not) being used by tenants. Furthermore, the aggregation of complex data sets, driven by machine learning and predictive analytics, will affect real estate investment research. For example, how can complex and diverse data sets merge to evaluate investment decisions and improve the investment performance of an office building?

Can big data help determine the ideal location of an office building, either now or several decades into the future? As early adopting sectors, such as retail and social media, lead the charge on big data collection and privacy issues, property managers are learning the value, as well as the pitfalls, of collecting and analyzing diverse sets of data from their properties. Commercial real estate firms of all sizes can no longer expect to remain at the leading edge of their industry unless they begin to harness the potential of big data and its associated technologies. Integrating big data into an industry based on local information and personal relationships will be gradual, but companies that embrace the possibilities of big data will reap powerful advantages. **DP**

Endnotes

1 One zettabyte is the equivalent of 44 trillion gigabytes.

2 A subsidiary of International Data Group, a global tech media company.

3 https://wiredscore.com/en, accessed on March 7, 2018.

4 Author's email conversation with a property manager, April 11, 2018.

5 Ibid.

6 Ibid.

7 U.S. Department of Health and Human Services.

8 https://www.walkscore.com, accessed on March 7, 2018.

9 https://www.streetlightdata.com, accessed on March 7, 2018.

10 https://www.credifi.com/company, accessed on March 8, 2018.

11 https://www.ubitquity.io/web/index.html, accessed on March 6, 2018.

12 https://flip.lease, accessed on March 6, 2018.

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BEST BUILD-TO SUIT OFFICE

Argo AI at 3 Crossings

Argo AI is the major occupant in the Riverfront West building at 3 Crossings. The 131,000 square foot building was completed in June 2018.

DEVELOPER: Oxford Development Company

CONTRACTOR: Rycon Construction

ARCHITECT: WTW Architects

BEST OFFICE RENOVATION

420 Boulevard of the Allies

420 Boulevard of the Allies involved extensive renovations to the 157,290 square foot core and shell to re-purpose the building from the former Art Institute of Pittsburgh to a commercial office use.

DEVELOPER: M & J Wilkow/ CenterSquare Investment Management

CONTRACTOR: Shannon Construction Co.

ARCHITECT: Strada Architecture LLC

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BEST SPEC INDUSTRIAL

Findlay Commerce Center

200 Solar Drive, Findlay Industrial Park

Completed in May 2017, Findlay Commerce Center is a 316,000 square foot speculative industrial development on 23 acres that is fully leased.

OWNER: Ashley Capital LLC

CONTRACTOR: Oliver Hatcher Construction

ARCHITECT: Venture Associates

Photo by Jessica Brackin

BEST TECH/FLEX DEVELOPMENT

Tech Forge on 47th

Tech Forge is a 64,000 square foot flex office/industrial building developed in Lawrenceville's Robotics Row. Principal tenants include the Caterpillar Automation Center and Aruora Innovations.

DEVELOPER: Regional Industrial Development Corp.

CONTRACTOR: Franjo Construction

ARCHITECT: Desmone Architects

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DEVELOPER OF THE YEAR

Al. Neyer LLC

Al. Neyer is a Cincinnati-based developer that has been an active leader in speculative industrial development in Pittsburgh since 2003. Al. Neyer has developed major industrial and office projects totaling 2.1 million square feet throughout the metropolitan Pittsburgh market, with properties in Allegheny, Beaver, Butler and Washington Counties. The firm has delivered or is building a total of 1.4 million square feet as part of Clinton Commerce Center near Pittsburgh International Airport, an exclusive multi-phase development agreement with Allegheny County Airport Authority. It recently announced plans for 473,000 square feet of new industrial product in the Commerce Crossing of Westmoreland County.

Al. Neyer intends to break ground in 2019 on its first major urban Pittsburgh project, a 420,000 square foot, two-building development at 21st and Smallman Streets that Neyer is developing with partner Rugby Realty.

Brandon Snyder, vice president of development in the Pittsburgh office, is a member at large for NAIOP's Pittsburgh board of directors. Jim Neyer, executive vice president for capital and investments, recently completed a one-year term as the national chairman for NAIOP Corporate.

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DRIVER OF DEVELOPMENT

The Mosites Company

In 1999, East Liberty Development Incorporated ("ELDI"), a community non-profit organization, developed a plan to attract a broader range of shoppers and residents, to revive the urban street grid, and to create jobs and housing. Believing in the neighborhood's potential, The Mosites Company joined with ELDI and the Urban Redevelopment Authority of Pittsburgh to redevelop in total 14.3 acres of distressed land within East Liberty, with the confidence that it could build from the economic strength of the adjoining more affluent neighborhoods such as Shadyside, Friendship and Highland Park to fuel the revitalization.

Phase I of the project saw the opening of Whole Foods Market in 2002, with sales that nearly tripled the company projections. One of the key pieces in bringing national retailers to the area, and eventually the success of the revitalization, was the conversion of the former Penn Circle, the one-way ring road, into a two-way traffic road system. The former mayor of the City of Pittsburgh, Tom Murphy, initiated the collaboration between The Mosites Company and the City of Pittsburgh that opened the doors to make this a reality.

Open since 2006, Phase II of the development, Eastside II Shopping Center, a LEED Gold certified mixed retail center with a two-level parking deck, is anchored by Walgreens, Starbucks, PetSmart, and the region's top-grossing Wine & Spirits store. Phases III through V included a multi-modal transit center, a new Target store, and the 360-unit Eastside Bond apartments. Opened in 2017, Eastside Bond marked the conclusion of a 17-year project that included 300,000 square feet of office space, 1,400 parking spaces, and thousands of new jobs. Eastside also sparked nearby development of nearly 1,000 apartment units, one-off retail and hospitality projects, and a new economic foundation for East Liberty.

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SUPPORTER OF DEVELOPMENT

James Palmer

President, Beaver County Corporation for Economic Development

As President of CED, Jim Palmer facilitates private investment and job creation by managing the strategic investments made in businesses and communities to expand and diversify the Beaver County economy. Palmer has over 40 years of community and economic development experience. He has held positions at Beaver County's Planning Commission, Community Development Agency, Redevelopment Authority, and currently the Corporation for Economic Development (CED). Palmer's leadership was integral in attracting Shell Chemicals to Beaver County, navigating both the local and state waters. The project was a multi-year effort that represented the largest from the ground up industrial investment in the region in a generation and was the first major U.S. project of its type to be built outside of the U.S. Gulf Coast in two decades. The project represents a $6 billion capital investment that will bring up to 6,000 jobs at peak construction and 600 permanent new jobs to the region, as well as serving as the anchor to a downstream strategy that is positioned to yield significant economic opportunity for Beaver County and beyond. He also helped to lead the community revitalization effort in Aliquippa, which will see $3.3 million in investments over the next six years. Under Palmer's leadership, the CED has secured 11,829 jobs and 374 completed development projects as of 2017. In addition to these wins, some recent significant investments include a $3.5 million capital investment from Swagelok and $1 million investment from Creekside Spring, LLC to expand operations in the county, and an ALS Global investment which yielded 90 new jobs. These investments will influence the direction of Beaver County and region for generations to come. Palmer is a member of the Pennsylvania Economic Development Association (PEDA) and has been an active member of the Pennsylvania Regional Alliance (PRA) Partnership since its inception.

HALL OF FAME

Dick Donley

Chaska Property Advisors

An Ohio native, Dick Donley has devoted his career to the commercial real estate community in Pittsburgh. Donley is the president of Chaska Property Advisors. Beginning with his first job, working for Pittsburgh National Bank in 1972, Donley spent two decades financing commercial real estate deals, working also for Westinghouse Credit and Carey Kramer Crouse & Associates. He seized an opportunity to partner with Mike Zamagias in 1990 in a venture known as Delta Property Holdings, which worked out and restructured seven million square feet of shopping centers. In 1999, Donley saw an opportunity to begin developing projects, forming Chaska Property Advisors and taking over the build out of the Cranberry Business Park.

Cranberry Business Park was a pioneer in creating a new office flex product in the Pittsburgh market. Built to allow maximum flexibility, Cranberry Business Park was designed to be highly energy efficient, with parking that was unusually generous for flex property. The park consists of 750,000 square feet of occupied space on 180 acres in Cranberry Township, with additional land prepared for an additional 250,000 square feet as the market demands.

In 2013, Donley and partner Continental Real Estate began the development of the Pittsburgh International Business Park on 47 acres of land that was unused within the Pittsburgh International Airport footprint. The first of what the Allegheny County Airport Authority hoped would be large-scale development at Pittsburgh linternational, Pittsburgh International Business Park consists of five buildings totaling 350,000 square feet.

Dick Donley was the president of NAIOP Pittsburgh in 2009-2010 and currently serves on the advisory board to the NAIOP Pittsburgh Board of Directors.

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District 15

Phase two of the District 15 will include twice the office space, structured parking, ground floor retail/ dining and a 20,000 square foot ground floor flex space that can support a wide variety of uses. Image courtesy RDC Star. Rendering by AE7 Pittsburgh.

It's one of the more visible real estate deals done in the last year but the developer that landed the high-profile tenant isn't taking any bows. John R. Deklewa, CEO of RDC Inc. and partner at RDC Star LLC, declined to comment or even acknowledge the widespread reports of Facebook's leasing of the District 15 building that was recently completed in the Strip District. When you listen to Deklewa or his partners talk about the District 15 development plan, however, it's clear that such an emerging technology tenant was the targeted user for the new buildings.

"I was at Oxford Development for a number of years and was part of the 3 Crossings project from its inception," says Shawn Fox, president of RDC Inc. "We saw demand for office space coming from companies that were starting operations in Pittsburgh, whether that was Fortune 500 companies adding a presence here or tech startups that had gotten through a critical funding stage to grow. They needed office and research space. They also needed maker space."

Recognition of those requirements had a lot to do with key elements of the District 15 development, most notably the location and design of the building.

"We wanted to be in the urban fringe and thought the Strip was the place to be," Fox continues. "New construction requires higher rent and there has been rent appreciation in the CBD and in Class A product in the Strip. Because of the type of product people are looking for, the project fell within the parameters of what tenants would bear in the market."

The difficulty in delivering on Fox's calculation, of course, is that the Strip has few available sites. To fulfill its vision of the right product in the right location, RDC was looking at sites between the heart of the Strip shopping district and the convention center. That's hotly-contested land, most of which is under the control of The Buncher Company. The good news is that Buncher had looked at its holdings there, most of which were surface parking lots, and created a master plan for a development, called Riverfront Landing, some five years earlier.

RDC Star LLC is a partnership between Bridgeville-based RDC Inc. and P & S Equities, one of the Orangestar Properties companies owned by the Post family from Mineral Ridge, OH. Orangestar's chief financial and

administrative officer, Brian Post, lives in Mount Lebanon and was the company's principal in the RDC Star venture. Convinced that the Riverfront Landing development was the right spot for their project, the team began negotiations for a long-term ground lease with Buncher in 2017. By spring, they had concluded the deal and announced the new building.

"We have a very good professional relationship with Buncher. They always tell you exactly where you stand, and I appreciate that. I prefer to negotiate with people like that any day of the week," says Deklewa. "They were consistent throughout and extremely professional. I think they recognized that there was a higher and better use for that property. This parcel was an extension of all the planning they had done in the riverfront district."

"That is another reason we chose DLA," Deklewa continues. "Their principal, Nick Doichev, really demonstrated to us that he understood core and shell office buildings, things like column layouts and how to lay out your core as efficiently as possible. They had developed the master plan and were intimately familiar with the details and the zoning. It was very helpful in the approval process. If there was a question Nick could say I wrote that plan and you approved it."

Getting through the City of Pittsburgh's planning and zoning was but one of the steps needed to entitle the project. For the developers, this process represented the biggest challenge. Even though the Buncher master plan had earlier been approved, District 15 required separate reviews from several city departments, plus the neighborhood review and Riverlife. The property is in a Specially Planned (SP) District, which overlaid additional requirements beyond the city's zoning code. One of those dictated the size of the building. Structure parking is mandated for any building that needs more parking than 150 cars. With 150 spaces and generous bike storage, RDC Star was permitted to build 105,000 square feet.

"There were a number of things to consider. One important thing is that the development is in an SP District," explains Doichev, vice president of architectural design and principal at DLA+. "DLA did a master plan for the entire project for The Buncher Company. There are a lot of requirements in the SP but the spirit of them is to make the architecture fit in with the Strip District. That is the style of warehouses, with brick and steel. We started there and asked can we do a new building that looks like someone took a warehouse and made something new from it."

To accomplish that the architects chose an antiquated multi-toned brick for the façade that mimicked the look of bricks that had been more roughly fired and exposed to the elements that nature, and humans, would subject them. Corners of the building have large glazed sections that are meant to appear as though someone tore out those portions of the exterior to let in more light. The end result is a new building that works in the context of the century-old brick and steel structures that it neighbors.

"The way the building is configured it has very generous bay spacing to accommodate open office plans," explains Deklewa "There are 25,000 square foot floor plates, which is a very standard corporate floor size. So, whether you're coming from San Francisco or New York you can identify with that. It sets up well for programming. On all four sides of the building, on all four floors, are really

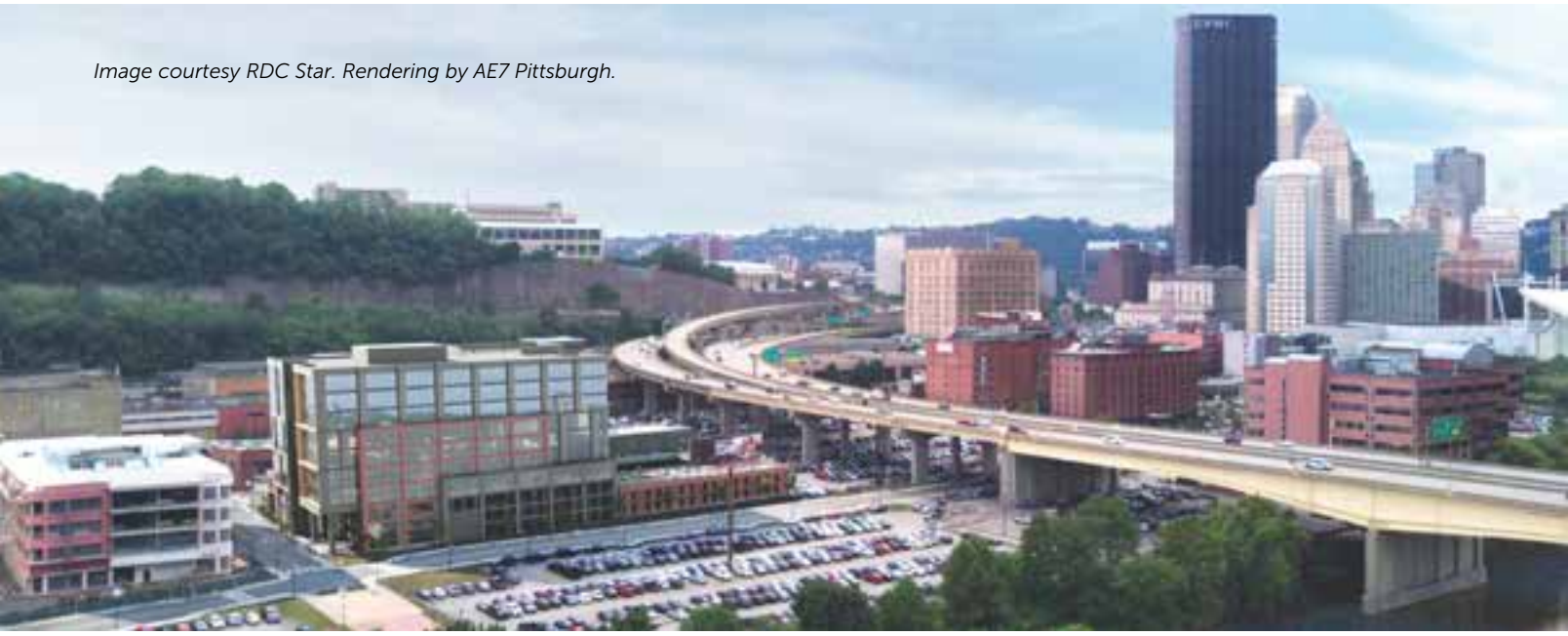

Image courtesy RDC Star. Rendering by AE7 Pittsburgh.

unique spaces with bump outs and glass curtain wall. There is a lot of opportunity for spectacular spaces. Each floor has that 'wow' factor and create four building fronts. Several tenants keyed in on the fact that the first floor has a 10-foot clear ceiling to be able to accommodate R & D functions or pilot manufacturing. Everybody we talked to had some sort of working space or maker space programmed for the first floor."

RDC Inc. had developed other projects in the city, so the process was not unfamiliar. Still, the number of agencies that had to be satisfied, and the inconsistency of the requirements between agencies was a constant challenge.

"Every single review is a potential obstacle and not one of them has a clear path through. They don't all come up with the same ideas," recalls Deklewa. "When there was a conflicting comment about our plans from one department or another it was difficult to get a resolution. There is no one agency to which you can go to get consensus. And some of the ideas aren't practical."

Deklewa cited an example of a comment from Riverlife, wanting them to include public bathrooms and bike repair stations.

"If you think any technology firm today, with their security concerns, would allow public access to their building, that's not realistic," he said.

The other major obstacle to development was the financing. RDC Star's partners believed strongly in the project's concept and vision, but the project was purely speculative. It's not that the developer would not have signed a lease during the initial stages, but as it developed District 15 was proceeding on its own merits. That meant convincing lenders to finance a spec building, a task that has never been easy. RDC Star found support from the Strategic Investment Fund and a banking partner in First Commonwealth Bank.

"They were really smart. They took the time to understand the deal. They

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thought a lot about the market and what might happen if we build it on spec," says Deklewa. "The thing about spec is that you have to show people what you are doing and assure them of the delivery date. That is really hard to do on paper. Not all bankers look at a deal that way and First Commonwealth did. They understood the deal. They understood the market. They understood the location and they understood the borrower."

"We found it attractive for two main reasons. First was recognition of the location in the fast-growing Strip District and the favorable access to the Central Business District," says Craig Howard, senior vice president and head of investment real estate at First Commonwealth Bank.

"The other reason it was attractive was that we had a great deal of faith in John Deklewa and his ability to perform, even in difficult situations," Howard continues. "When you see people in difficult situations, you get to see the true colors of those people. John does everything in his power to make sure that everyone involved in a deal is treated fairly."

Howard recalled that his relationship with Deklewa spanned more than a dozen years, dating back to a project Deklewa's residential construction company had assumed responsibility for during a workout situation with a lender for whom Howard had previously worked. Howard noted that Deklewa took over a project that was painful to complete, but that the builder met his commitments, even when it meant taking some lumps.

One of the key elements to the successful financing was a mezzanine loan of $5 million from the Strategic Investment Fund (SIF), which reduced the loan-to-value for First Commonwealth.

"The fact that the Strategic Investment Fund was able to come in and supplement the first lender is a big story in and of itself," says Josh Lavrinc, CEO of Callay Capital LLC, the fund manager of SIF. "But for these economic development funds, projects

The District 15 office building core and shell is being prepared for tenant improvements.

like District 15 might not happen. You can spin the story of District 15 any number of ways but RDC Star didn't have a tenant. It was speculative."

Another factor strengthening the financing package was the construction cost. District 15 was under construction during a period when inflation for building materials was escalating but RDC Design Build was able to bring the core and shell in for less than $104 per square foot. Deklewa says that working as builder and developer with the project's architect from beginning to end allowed for the discipline necessary to stay on budget. The project's architect agrees.

"Part of it was the process, but we were very conscious of the budget from the beginning. It was a good example of how design/build should be," says Doichev. "From the beginning we knew what was allowed and what was not. It is a fairly simple steel structure with a brick veneer and punched windows. The windows are sizes that are not expensive to work with. But on the river side of the building, or in places where we wanted the building to pop, we designed a curtain wall or a bump out to be an accent."

There were some unforeseen conditions under ground that caused change orders and some upgrading to the exterior lighting package that was planned before bidding, but virtually no other change orders after the construction documents were completed. Deklewa estimates that the total of all the change orders was less the $25,000 on an $11 million construction budget.

Fox takes pains to note that the Local Economic Revitalization Tax Assistance (LERTA) was a critical piece of the project's financing. He points out that having certainty about the tax liability made financing and leasing easier.

"We couldn't have done the project without the LERTA," Fox asserts. "District 15 wouldn't have happened without it, or the mezzanine lender."

RDC Star closed on the financing for District 15 in February 2018 and started construction later that month. They signed the lease for their anchor tenant in September and completed construction on the core and shell just before New Year's Eve. RDC Design Build has a contract for the base building changes for its tenant and hopes to compete successfully for the tenant improvement package, which should start by spring. With the building completed, RDC Star announced plans for a second building, branded District 15 Beta Version. Taking a nod from the software industry, Deklewa says the beta version of the office building will have improvements, like more sophisticated security and more gathering spaces and green space, that the team learned from working with tech occupiers during the leasing of District 15.

The Beta version includes a nine-story, 210,000 square foot office tower, a 390-car parking garage and 5,000 square feet of street front retail space. There will also be 20,000 square feet of ground floor high-bay space that can be flexed from R & D use to a grocery store. The parking garage is being designed with flat floor plates in anticipation that future transit options will make some of the parking garage obsolete.

Deklewa says that District 15 Beta should be under construction in summer of 2019. While he again declined to comment on whether or not District 15's tenant was occupying the entirety of the building, he did not dispute the fact that the website for District 15 shows no space available for lease. That would suggest that any further leasing activity would require a new building.

The two-building complex is the commercial anchor at the west end of the Riverfront Landing development. Rugby Realty and Al. Neyer are developing an office project of similar scope to anchor the east end at 21st Street. Nearly 1,000 units of apartments and townhouses are filling the space in between, with the Terminal Building and 1600 Smallman providing shopping, dining and boutique space. Assuming all projects advance as planned, Riverfront Landing could be built out roughly a decade after DLA+ completed planning.

"It makes me happy that the master plan we developed that many years ago is coming to fruition," says Doichev.

Shawn Fox says that people are missing out on the development's infrastructure, which is still privately maintained by Buncher Company. The street that runs throughout Riverfront Landing, Waterfront Place, is open through to 10th Street and makes for easy access in three different directions from the District 15 site.

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"The public needs to get familiar with this development. Waterfront Place is now open and the best-kept secret in the city," Fox says. "It's a flat, straight street in the City of Pittsburgh. That street connects the convention center right through to the 31st Street Bridge because it becomes AVRR. You can connect all the way to Lawrenceville without seeing a traffic light!"

Deklewa is excited to see the impact of as many as 2,000 new jobs and residents on the already booming Strip District. Josh Lavrinc echoes Deklewa's focus on the economic impact.

"That's the point of all this. Why do you do speculative development? It's to spur economic development," says Lavrinc. "In any market that is not experiencing rapid population growth and business growth it is tough to do speculative development. It's great that Pittsburgh has arrived at a place where there is confidence from lenders like First Commonwealth, because if you don't build then you don't have product available for companies to move into and you may lose them." **DP**

DEVELOPMENT TEAM

RDC Star LLC	Developer
RDC Design Build	Contractor
DLA+ Architecture & Design	Architect
Civil & Environmental Consultants	Civil Engineer
Construction Engineering Consultants	Geotechnical Engineer
First Commonwealth Bank	Primary Lender
Strategic Investment Fund	Mezzanine Lender

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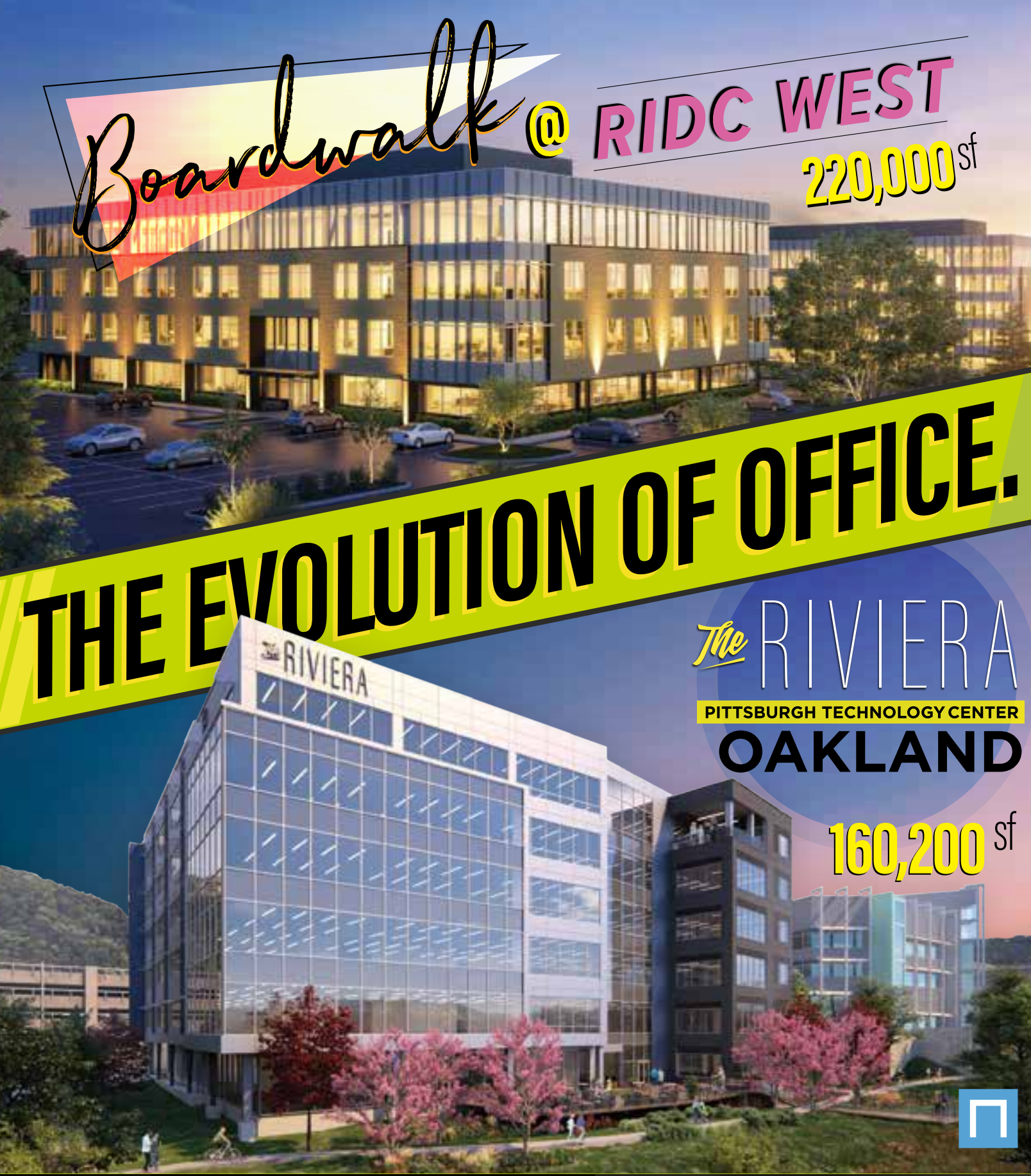

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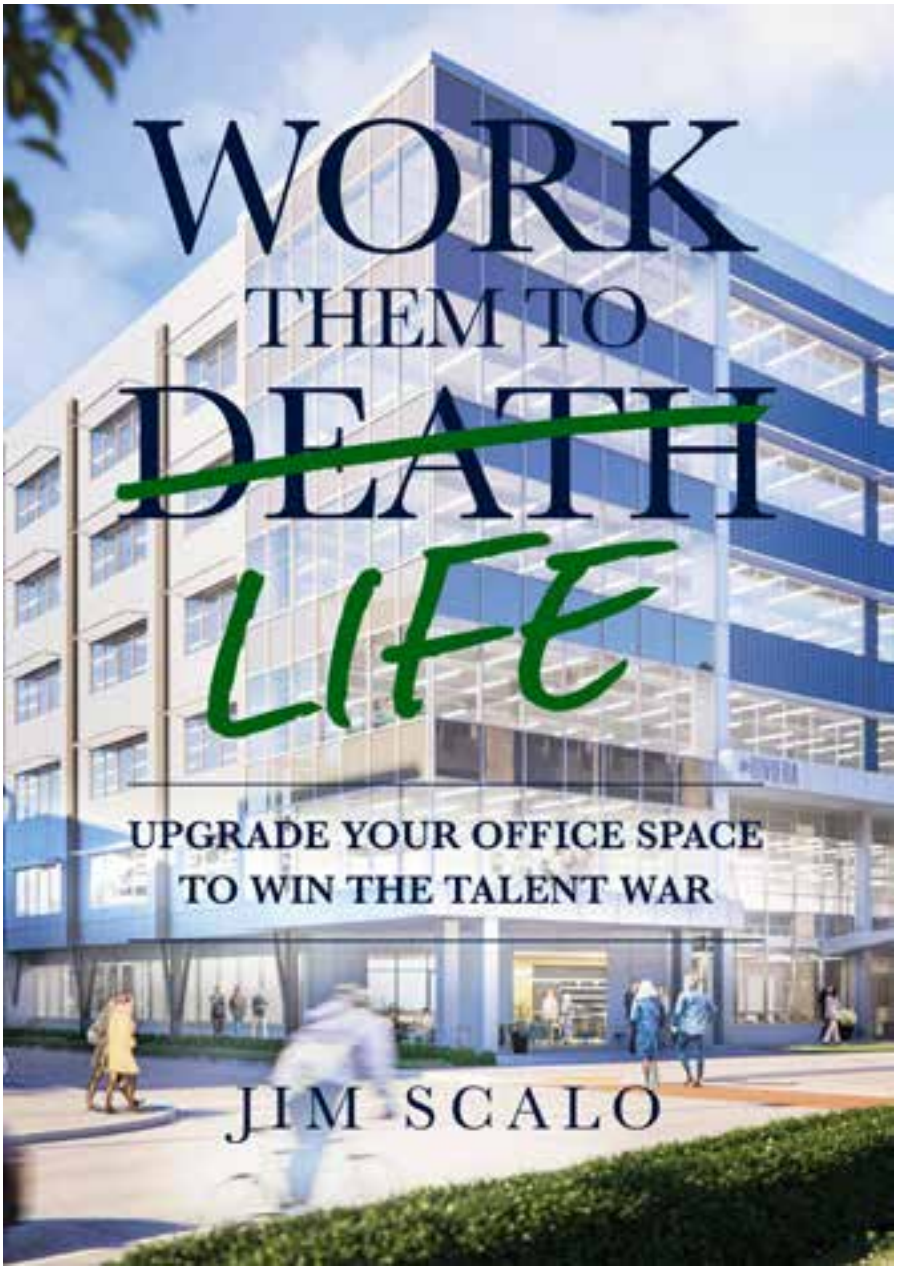
Work Them to Life: Upgrade Your Office Space to Win the Talent War



Jim Scalo, CEO of Burns Scalo Real Estate Services, was one of a handful of developers and real estate professionals who revitalized the dormant NAIOP Pittsburgh chapter in the mid-1990s. Scalo was an original NAIOP Pittsburgh Hall of Fame inductee and has worked for the past year on a book that crystallizes his views about the future of the office workplace. Published in fall of 2018, Work Them to Life, puts forward Scalo's belief that real estate is integral to a culture that welcomes and enhances the lives of the workforce.

To attract the most talented people, he believes, companies need to offer a workplace experience that is modern and rewarding. Work Them to Life is for sale on Amazon.com but Scalo gives away hundreds of copies each month, believing that eductaion will elevate the commercial real estate industry.

The following is an excerpt from Work Them to Life, a chapter that examines the value proposition that commercial property owners can offer their occupants.

CHAPTER 8: FLIP THE VALUE PROPOSITION

"The memory of bad quality lasts longer than the shock of high prices."
- Quote from a Fortune Cookie

Recently I had lunch with a friend who had just bought a new house. He and his wife had gone into the search knowing exactly what they wanted, so they'd assumed that they would quickly find the right place for their family. They were wrong. The process wound up being long and exhausting.

"There were just so many factors that meant more to us than we thought they would," my friend explained. There were the obvious things like the number of bedrooms; the quality of the kitchen and bathrooms; the condition of the driveway, the roof, the windows, and the climate control; the size of the yard; and the number of luxury amenities. And then there were the other factors that limited their search in ways they hadn't anticipated: the proximity to work; the commute times; the tax rate; and the quality of the neighborhood, the school system, and the local government.

"When we started the process," he said, "I had a number in mind for what I wanted to pay for the mortgage." That number helped him narrow the search, but in the end, the total mortgage

payment wasn't anywhere near the top reason he and his wife made their final choice. Ultimately, they decided that they were willing to pay more than their original projection, because really, what's a couple hundred extra dollars a month if it's the difference between living in a house you kind of like and living in your dream home? "We figured we're going to spend a huge part of our lives in this house," my friend said, "so why not make it a place where we're comfortable and happy with everything?"

Most people who have ever set out to buy a new house can identify with my friend's story. And I'd wager that most people do exactly what he did. It's just so easy to justify going over cost when you're talking about the quality of the place where you and your family will spend most of your time each day. We don't usually think about our office space in the same light, even though many of us spend more of our waking weekday hours at the office than we do at home. I've been involved in hundreds of these transactions, and it never ceases to amaze me how almost everyone asks the same question first:

"What's the rent?"

It never fails. When considering the home they will buy, almost no one places the mortgage payment at the top of their list of deciding factors. But when mulling one of the most important decisions they will ever make for their employees' quality of work life, and for their company's ultimate productivity, most people primarily think about what it's going to cost them (even if it's only going to cost them an almost incidental 3% to 7% of their total operating budget). As a result, everyone from agents to brokers to consultants to occupiers frame the commercial office space value proposition pretty much completely upside down. Here is the order that most people rank the top ten items on a traditional value proposition:

1. Rent (or price)
2. Total space
3. Track record of the landlord
4. Location
5. Age of building
6. Mechanical systems
7. Technology
8. Amenities
9. Wellness and Sustainability
10. Employee recruitment/ retention

Now, some of those factors are pretty well-placed. Obviously, space is a key component, and location is as important today as it has ever been (even if the way we think about location has to change if we're going to stay competitive for talent). Nobody wants a bad landlord. And the age of the building, the quality of the mechanical systems, and the available technology are all significant factors, as well. The bottom three we can rank in just about any order according to

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a company's identity and culture. But here's the thing: those three at the bottom are increasingly important to business success. And here's the other thing: anyone who allows rent or price to drive this value proposition is going to get left behind.

A huge part of the reason my friend was willing to pay more for the mortgage than originally planned was because of his kids. He and his wife wanted them to be proud of their home, and to be as comfortable and happy there as possible. That didn't mean negotiating and settling for the best mortgage they could get. The kids would never even know what the mortgage was in the first place, and even if they did know, they wouldn't care. What mattered more than the mortgage was nearly every other item on that value proposition list.

Now, the employees of your company aren't your children, but they probably care just exactly as much about your rent as your kids do about your mortgage. They aren't ever going to see your rent bill. All they will see is the quality of the building you put them in. So, why allow rent to be such a key (and often leading) determining factor?

To make a strong choice in where to house your company, the first things you should worry about are all those elements that will a) help you attract top talent, b) help you keep the talent you already have, and c) ensure the highest possible quality of work-life and productivity from a happier, healthier, more engaged, and more present staff. Don't make your choice based first on the rent bill; make it based on how your people will respond to the space you choose for them. Yes, business is about making money, and the rent bill plays a factor in that equation, but if it's the difference between improving the bottom line and doing the right thing for your people, why not do both?

A BRAND-NEW PROPOSITION

These changes in how people work and how they live have a clear impact on the traditional value proposition. We don't necessarily need to invert the list precisely, but we can certainly flip it (almost) on its head. The new value proposition should look something like this:

1. Location
2. Total space
3. Technology
4. Employee recruitment/ retention
5. Amenities
6. Wellness and Sustainability
7. Mechanical systems
8. Track record of the landlord
9. Age of building
10. Rent (or price)

The first thing you'll note is that location and space maintain their positions near the top of the list. But as we've seen already, the way we

assess them is drastically different, and the data we can use to make quality choices is far enhanced, thanks to recent advances in technology. Like anything else in modern business, it's all about efficiency. New data-collection capabilities allow the design of more efficient layouts for contemporary office environments, including adaptable furniture systems that maximize use of space. The effort streamlines the space dedicated to common areas and can help reduce overall space requirements by 10% to 20%. This is part of why considering rent or cost first is so problematic. Why worry so much about rent when: 1) at 3% to 7%, it's such an insignificant portion of your total operating budget, 2) the cost difference in renting an outdated space and a premium space is so small, and 3) modern design can save you up to 20% of the total space you need.

Of course technology remains near the top of the list, and its impact will only increase between now and 2030, as connectivity grows ever stronger, automation continues changing the way businesses operate, digital mobility becomes more ubiquitous, and companies begin integrating Artificial Intelligence into the daily workflow. In many ways, we are facing cultural and technological pressures that impact the way we work on a level not seen since the Industrial Revolution. In this data-driven, digital age full of rapid, almost overnight change, only the most agile and adaptable companies will survive and thrive. Keeping that agility and adaptability in mind when choosing and designing an office space is paramount.

Employee recruitment and retention comes next because, as we've discussed, the talent war will only intensify in the years to come. Most employers expend considerable resources to attract, train, and retain employees. A well-designed office space reflects not only the company's image and work ethic, but is a crucial component of successful hiring practices, stable employee tenure, and long-term retention of any company's or organization's most valuable assets: its people.

Complicating the talent war is the skills gap, which is widening with every passing year. "The National Federation of Independent Business reports that 45% of small businesses were unable to find qualified candidates to fill job openings and 60% of all employers have job openings that stay vacant for twelve weeks or longer, which costs them $800,000 annually in lost productivity and advertising fees. With the constant flow of technological advancement, and the encroachment of automation on the jobs picture, roles change and then become obsolete at far more rapid rates than ever before. Companies that can use their office space to help attract and retain more talented people will find themselves better equipped to train upward for these ever-changing and ever-more-demanding roles. Along the way, those with the best amenities will be in a better position to reduce costly absenteeism and turnover.

Next up is amenities, as they are one of the most direct means to attracting and retaining talent, and also improving the employee's quality of work-life blend, and as a result, their productivity. The key here is to consider the vibe of both internal and external amenities. Just because we're talking about space efficiency and multi-use common areas, that doesn't mean spartan design features and layout compromises.

Modern office space design can often allocate for collaborative meeting areas, open cafés, multiple sizes of conference rooms, inviting reception areas, and fitness areas with the open plan and natural light contributing to a far more productive work environment. The size of the project or investment usually dictates the extent that owners of all new buildings or full-scale renovations of existing properties recognize the importance for common area amenities and strongly consider additional amenities (such as integrated classroom-style or auditorium conferencing with high-tech connectivity, ground-floor restaurants or coffee shops, external patios, and rooftop decks).

For most, seeing "Wellness and Sustainability" so high on the list might seem startling, but it's important to keep in mind that 1) people prefer to work for companies that have their wellness in mind, as well as the impact they're making on the environment and the world at large, and 2) the customer cares about these things, too, and often lets you know with their wallets.

To the first point, incorporating eco-friendly and sustainable building and management practices is simply the right thing to do, but by implementing these practices, landlords and tenants both win. Landlords can certainly promote their conscientious efforts while employers realize that "eco-friendly" and "sustainability" are heavily embedded into the vocabulary of Millennials. While impacts of daylight harvesting, lighting controls, air quality, LED lighting, and Low-E glass are evident, low VOC's (Volatile Organic Compounds), solar energy, water collection, managed recycling, and more are also not only becoming corporate mandates, but highly noticeable aspects for coveted employees considering places of employment.

On the second point, more than ever before, consumers place their trust in companies that do the right thing for their employees, and for the people they impact. Stories abound in social media about how the employee experience can translate into either a positive or negative response from a consumer base. If you treat your people well, and you demonstrate a conscious effort to lower your impact on the environment, the public will know about it, and the return will be measurable.

Mechanical systems come next because no one wants to pay more than they have to for optimal building performance. Technology plays a major role in the way we think about mechanical systems these days, as well. The Internet of Things allows us to track power, light, and temperature fluctuations and usage. Having this data in turn makes it possible to adjust and optimize these elements in ways never before seen. These systems allow new buildings to outperform their aging counterparts. They also save on operating cost, improve operational efficiency, and help track and predict

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when maintenance will be necessary. More importantly, with modern mechanical systems, your people enjoy better overall comfort levels, which directly translate into lower absenteeism and turnover and higher productivity.

We close with the triumvirate of factors that far too many decision makers still place at or near the top of their value propositions. No one wants a bad landlord, of course, so if all other elements are equal, that begins to factor into the decision. The same goes with the age of the building. Old buildings don't tend to perform as well as newer ones, but with the right systems and the right planning, age can be rendered a far less important factor. Finally, there is the rent.

"There will always be a certain subset of the occupier population that is going to have rental rates as their highest priority," said Dan Adamski, Managing Director of the Pittsburgh office of JLL. "But there's a trend that more and more companies are looking at more holistic measures instead of thinking just about cost per square foot. They're using real estate as not just an expense, but as a means to improve productivity, and as an offensive weapon in that war for talent.

"Anecdotally, we once worked with a company that opened a big office in Pittsburgh with the plan to hire five hundred employees. Their head of real estate told us his goal was to get the cheapest space possible. We got that for them, and they were happy about the deal. But then, two years later, they had to close the office because they couldn't hire anybody. They're the perfect example of what can happen when you get a great real estate deal, but a poor operations deal."

Of course none of this is to say that higher rent always equals a better decision. Rather, instead of leading with the question about the rent, we should be leading with the efficiency of space, mechanical systems, and the dramatic and measurable increase in employee productivity that comes from wellness, happiness, and collaborative work opportunities.

When it comes to deciding on the next office space, we shouldn't be looking for the lowest cost alternative or lowest rent. We should be searching for the space that best suits the vision of what our company does, what it stands for, and how it hopes to pass that message onto employees and to the community.

The ideal space isn't the least expensive one. It's the one that you can see yourself in for at least ten years because: it serves as an extension of your company's cultural values; an enhancement of your brand; a tool to help attract and retain talented people; a sustainable and efficient environment; a means to promote health and wellbeing for your people; and a collaborative, inspiring, agile, innovative, communal, and ultimately productive space that everyone who contributes to your company can be proud to call their workplace. With all these benefits come greater profits.

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As the economic expansion that began in 2009 closes in on the longevity record for economic growth, several shocks to the economy in the fourth quarter have experts equivocating about the chances of a downturn in the next 12 months. While few are willing to forecast a recession outright, there is near unanimous agreement that 2019 will see significantly slower growth.

One of the firms that is clearly in the upbeat camp is The PNC Financial Services Group. During a span of two weeks in January, PNC's chief economists and CEO all expressed confidence in the continued expansion of the U.S. economy, explaining that the financial services giant was seeing no signs of an impending decline. During his January 17 presentation to NAIOP Pittsburgh and BOMA Pittsburgh, Senior Vice President and Chief Economist Gus Faucher noted that there weren't the kinds of imbalances that trigger recessions in the U.S. marketplace.

"Absent a geopolitical shock – like an extended government shutdown – we don't see a recession coming in 2019," Faucher concluded.

The overused baseball analogy is no longer relevant for the current business cycle. By all historical measures the U.S. economic expansion is in extra innings, but virtually all metrics for measuring the economy remain positive in 2019. Signals from global markets may be flashing warnings but the U.S. economy is still on green.

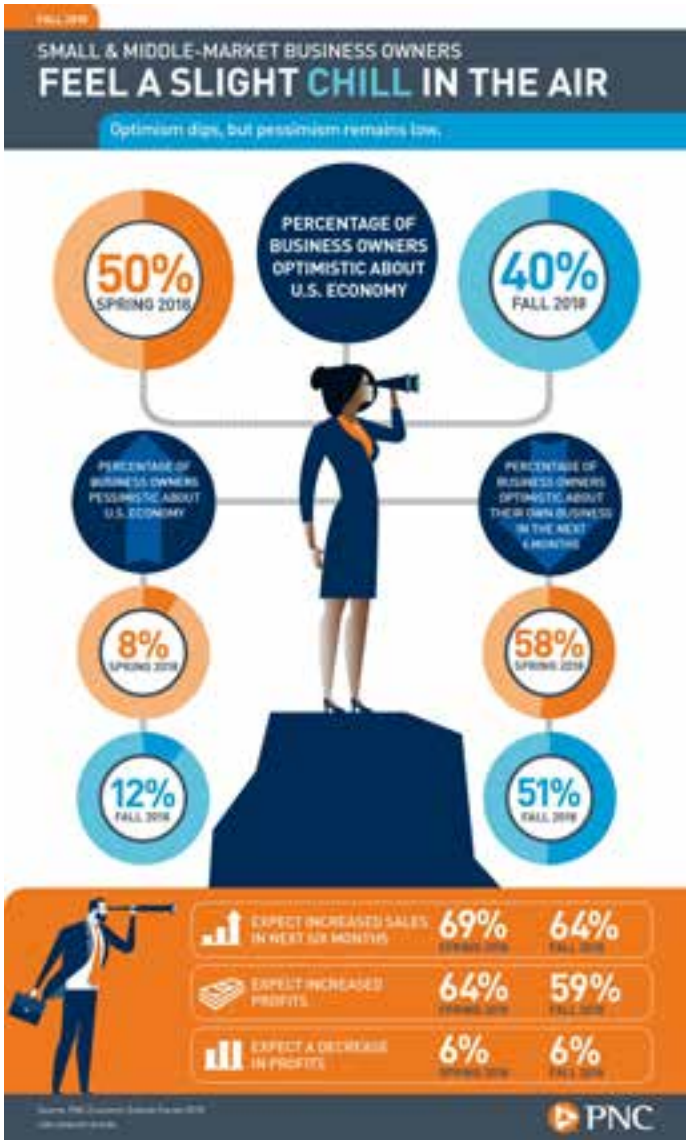
Gross domestic product (GDP), the most widely-used metric of economic activity, is going to slow down in 2019. After two strong quarters above three percent, GDP slipped back slightly to 2.7 percent in the fourth quarter, according to the Atlanta Federal Reserve Bank's estimate. That rate will be fairly close to the full year growth in GDP. The consensus forecast for GDP growth is in the 2.5 percent range. That is less robust than the growth over the past 18 months, but still represents solid expansion in a mature business cycle.

One metric that should be ignored as an indicator of economic health is the stock market. Common wisdom holds that the stock markets are an indication of investor sentiment about the economy six months hence. If that were ever true, it is not a driver of the market in 2019. What is generally overlooked about stocks is that the ultimate driver of price is supply and demand. There is certainly a correlation between investors' outlook on the economy's health and the amount of demand for stocks, but it is the latter that pushes prices higher or lower. Over the past six months, it has been the uncertainty of Trump Administration policies and the steady increase in interest rates that have turned buyers into sellers. And as fears of continued rate hikes lessen and policy uncertainty abates, the relative calm brought buyers back.

Faucher expressed little concern about the stock market's volatility, noting that the relative calm of the previous 24 months was unusual. He characterized the wide swings in the major equity indexes at the end of 2018 as "returning to normal levels" of volatility.

It's also becoming clearer that rising rates have been a sell signal because the risk-adjusted return on short- and medium-term bonds has become attractive to more fixed-income investors, rather than concerns for higher rates damaging economic growth. In fact, most of the economic data during that period suggests that the U.S. economy is unaffected by higher interest rates.

For industries like commercial real estate and construction, the danger posed by higher interest rates is more visceral, as higher borrowing costs put unwanted pressure on pro forma projections. Thus far, however, the higher short-term rates haven't pushed the long-term rates that govern mortgages much higher. The bellwether 10-year Treasury bill began

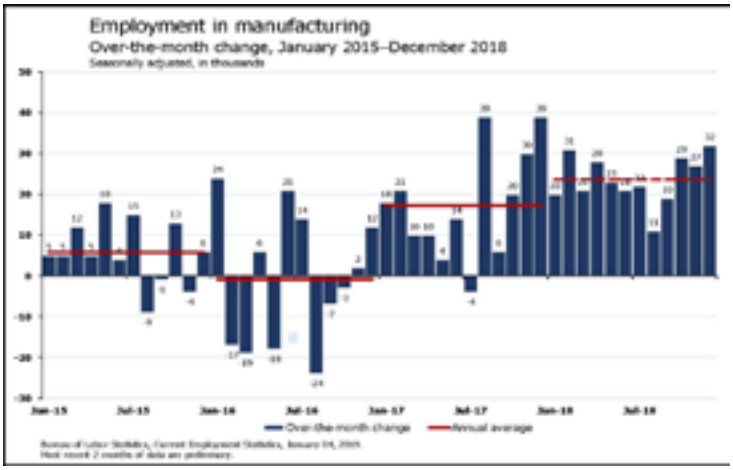


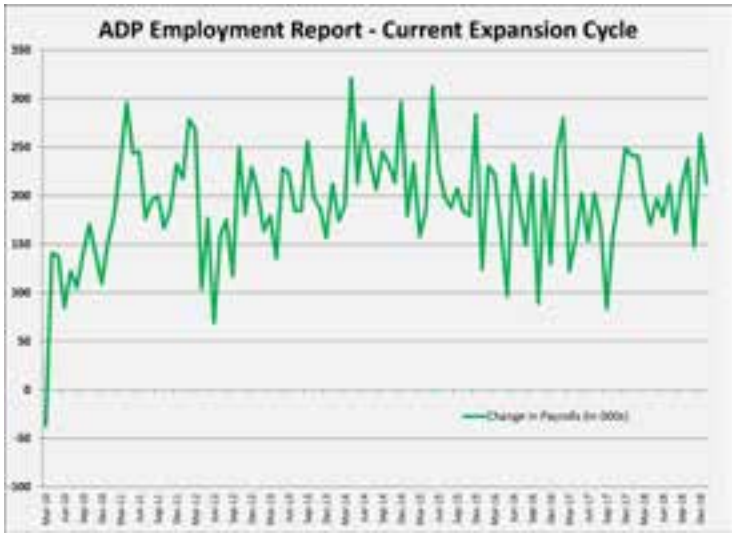
2019 at roughly the same level as the beginning of 2017, within 20 basis points of the three-month bond yields. If borrowing costs remain as low in 2019 as they were in 2017, interest rates shouldn't spook development.

Another economic metric that has turned more favorable for commercial real estate, and received less coverage of late, is the easing of construction inflation. After prices popped by nearly ten percent in May 2018 in response to Trump Administration tariffs, the rate of year-over-year inflation eased nearly every month since. The Bureau of Labor Statistics most recent data showed that the cost of non-residential construction put in place remained five percent higher in January compared to the same month in 2017. Tight labor supply may continue to cause temporary and/or regional increases in bid prices, but the significant drop in energy prices and the slowing of global demand for construction should tamp down construction inflation.

The upshot of this price certainty, even though it signals more expensive construction, is that commercial real estate projects in development will have more certainty during development. Lenders will have confidence in costs. Developers will have more confidence that rent expectations can cover costs and provide competitive returns on investment.

With inflation seemingly under control again within the Federal Reserve Bank's guidelines, the outlook for short-term interest rates changed significantly in the fourth quarter. Following the anticipated 25 basis point bump in the Fed Funds rate in December, a majority of the Federal Reserve Bank regional presidents offered opinions about further rate increases that varied from neutral to dove-like. It's expected that this dove-ish sentiment will inform the Fed's Open Markets Committee (FOMC) to hold off on any increases until the second half of 2019, giving the markets a couple of quarters to absorb the current rate environment. The Federal Reserve Bank's January meeting readout provided further comfort that it was holding off on further rate hikes for the time being.





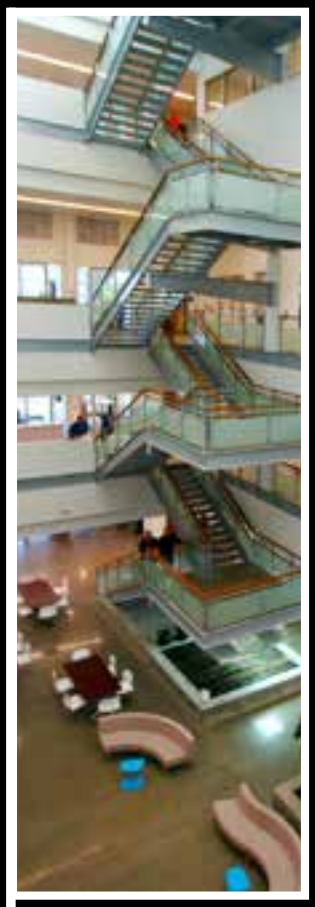
Private payroll growth remains above the monthly 200,000 benchmark. Private payrolls have added jobs for 72 consecutive months.

One of the concerns evolving from the steadily more aggressive posture of the FOMC since December 2015 is the inversion of the yield curve, as long-term rates have barely moved while short-term rates have jumped 200 basis points. It's anticipated that a pause in the hikes of short-term rates will allow the market to correct long-term yields, providing higher returns for riskier bonds. Of course, the demand for long-term instruments will ultimately dictate whether or not long-term yield investors ask for higher returns, which will result in higher costs for long-term borrowers.

The underlying U.S. economy continues to show remarkable strength and resilience, regardless of what the macroeconomic signals are flashing. In fact, a consistent bifurcation has developed in recent months between what consumers and business owners are saying and doing. Consumer confidence took a significant hit again in January but consumer spending continued to grow. Despite early indications of less buying at Christmas, for example, spending for the 2018 holiday season ended 5.1 percent higher than in 2017.

Business confidence has also eroded, according to numerous surveys, but the key actions of businesses – hiring, pay increases and purchases – continue to signal confidence in the next year. In the area of capital investment, businesses have slowed or shelved plans at a higher rate than in 2017, but the trend in business investment is diverging between private companies and publicly-traded corporations.

News of large layoffs, like those recently announced at General Motors, BNY Mellon and Ford in Europe, are indications that publicly-traded corporations aren't seeing top line growth that will allow them to meet the earnings that will satisfy shareholders. Corporate layoffs are also a signal that new hiring has shifted to small businesses. During 2018, it was the small business sector of the economy that perpetuated the strong job



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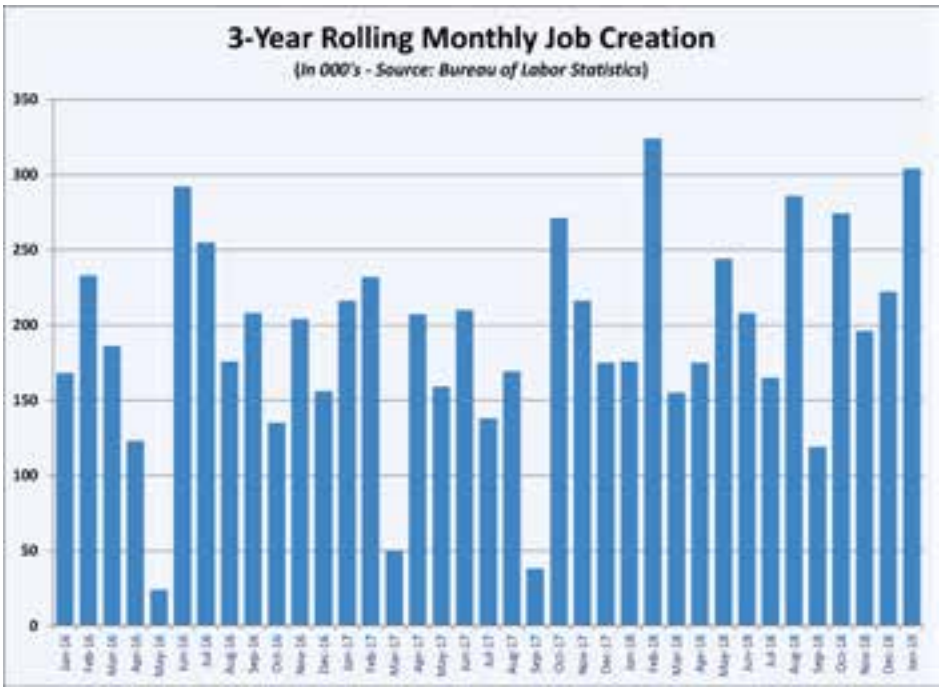


creation that drew more people into the workforce than in many years. Small businesses were also better stewards of the benefits received in the Tax Cuts and Jobs Act of 2017.

PNC's outlook on the economy may well have been influenced by the very optimistic responses to its semi-annual Small Business Outlook Survey. The October 2018 survey found a slight erosion of the record levels of optimism in the spring survey, but small and mid-size business owners still overwhelmingly responded that their outlook was positive. Four out of ten owners described their outlook as positive. Only 12 percent described their situation as negative, the second lowest in the 15-year history of the survey. Two percent of respondents said they planned to decrease staffing in 2019, another record low.

Businesses increased staffing at high levels again in 2018, and hiring in the Pittsburgh metropolitan market ended the year with solid, if unspectacular, gains.

The January 4 announcement by the Bureau of Labor Statistics that employers hired 312,000 new workers in December seemed to change the narrative about the economy. The strong jobs data reinforced the assertions of those who felt the stock markets had overreacted, that the underlying economy was still strong. For those pushing the narrative that the economy was on the brink of recession in 2019, the robust hiring was a dash of cold water. The January jobs report, which showed a gain of 314,000, reinforced that more positive narrative. The February 1 report adjusted the December hiring back to 222,000, but the good news on wage growth (up 3.2 percent) and the strong hiring in the face of the government shutdown, are evidence that businesses are still seeing strong signals in their markets.

Payroll processor ADP added further evidence that employers were still expansion-minded when it announced its January 2019 employment report, which showed 213,000 new private sector jobs were added to the payrolls. The January report was significant because it spanned the full federal government shutdown. Following an increase of 271,000 jobs in December, ADP's most recent report suggests that private businesses viewed the battle between Congress and the White House as background noise.

Following the monthly employment announcements is something of a fool's errand, as too many irrelevant factors can render any month's data less than instructive. What is instructive – at least for now – is the data below the headline. Job creation in sectors that pay better – construction and manufacturing – were strong. Wages continued to grow faster than the rate of inflation, although at a rate that does not appear to be triggering higher prices. Perhaps the most important data was the significant increase in workforce participation, which indicates that the strong jobs market is bringing marginally-employed or discouraged workers back from the sidelines. These cohorts of workers are needed to engage in the workforce in order to allow growing businesses to keep growing.

The imbalance between retiring and new workers is one of the main reasons that hiring gains were modest in Pittsburgh in 2018. The government's report on December job creation was solid, with 17,100 more people employed than the year earlier, but the one percent increase for the full year of 2018 is half that of Pittsburgh's benchmark cities. Job creation for the full year is estimated to be 9,600. Absent higher population growth, more robust employment gains will be difficult.

Demographics and stagnant population growth may be limiting the employment gains in Western PA but the foundation of the regional economy has continued to strengthen. There are four major economic engines – healthcare, energy/chemicals, emerging technologies and life sciences – that are all growing, with significant future upside potential. Should the more optimistic forecasts for 2019 prove not to be true, it's more likely than not that Pittsburgh will be insulated from the worst effects of a national or global slowdown.

"Pittsburgh is so diverse from submarket to submarket, but holistically its economy is strong. We're cautiously optimistic," says Steve Drahnak, market president, Western Pennsylvania, for S & T Bank. "I don't have a lot of concerns about this market. I think energy is going to continue to grow and I like the technology development that is going on." **DP**

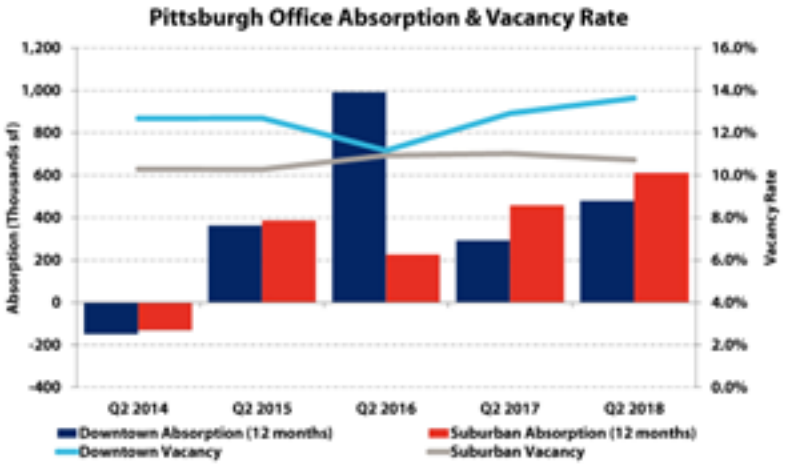
OFFICE MARKET UPDATE

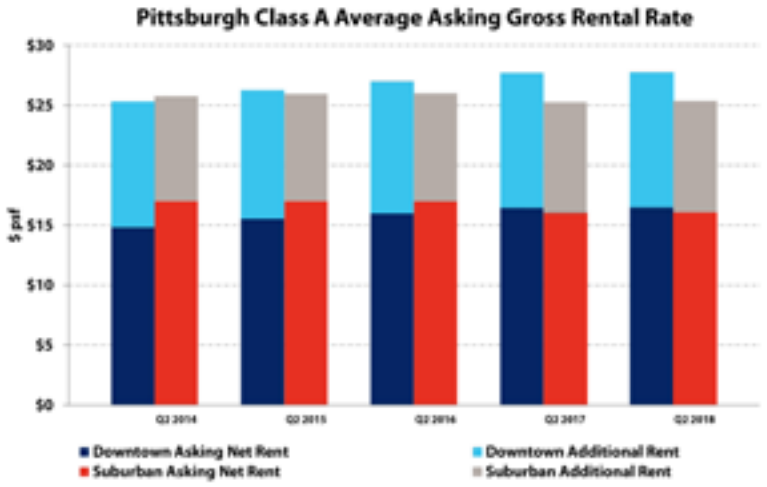
Both CBD and suburban office leasing markets in Pittsburgh remained relatively stable in 2018. There was slight up-tick in Class A asking rental rates, despite a nominal decrease in real occupancy due to the influx of several large blocks of sublease space. These spaces are still leased, but not occupied and therefore a competitive factor impacting both landlords and tenants. Examples of such sublease blocks delivered to the market in 2018 included the Westinghouse headquarters in Cranberry for ±300,000 square feet, the Allegheny Health Network space at 30 Isabella Street on the near North Side for 130,000 square feet and several blocks of space in various CBD buildings of 40,000 to 60,000 square feet that collectively have weighed down that core submarket.

Despite these challenges, the CBD's Class A asking rental rates and occupancy levels were nearly unchanged for the year, while occupancy and rental rates along the Parkway West increased. The historically wide gap in full-service Class A asking rental rates between office space in the CBD and Parkway West suburban buildings narrowed somewhat, but still weighed heavily in favor of the CBD in range of $5.00 to $6.00 per square foot per year. The East suburban office market continues to lag behind all other quadrants with a vacancy rate in excess of 22 percent, little leasing activity to speak of and a couple of sales of former Westinghouse properties that traded at discounted prices.

The most positive and definitive trend in the Pittsburgh office market for 2018 took place in the Fringe submarkets. Unlike recent years where the CBD was the focal point for leasing activity and positive absorption, the great majority of transaction volume took place last year in the Fringe or inner-city/ urban sub-markets. Examples of these areas include the Strip District, Lawrenceville, East Liberty/ Shadyside and Oakland/ Hazelwood.

The demand for these locations was driven primarily by the technology and medical sectors, with companies competing to recruit and retain top talent in the growing millennial workforce. Both new and renovated (in some cases re-purposed) office buildings on the Fringe or in urban locations have become increasingly popular and perceived to be more easily accessible for younger employees who are more frequently walking, biking, "Ubering" or taking public transportation to their workplace. With landlords of these properties delivering more on-site amenities (including fitness, wellness, daycare centers and programs) in conjunction with "authentic" neighborhood amenities (coffee shops, cafes, bars, walking and biking trails) the Fringe markets capitalized in 2018. Several large tenants that were previously located in more traditional office buildings in the CBD or suburbs opted to make long term lease commitments in these Fringe markets. Examples of leasing transactions that support this noticeable shift in market activity include: Bombardier (90,000 square feet) and Facebook in the Strip District; the "ARM" Institute lead by CMU's investment in Advanced Robotics for Manufacturing leased approximately 90,000 square feet in Mill 19 at Hazelwood Green; and at Bakery Square in East Liberty, Philips Sleep & Respiratory Care business unit leased 230,000 square feet in a building currently under construction





Pittsburgh Total Office Market – Peer City Comparison

4th Quarter 2018

	2018 Overall Office Vacancy Rate	2018 Overall Office Inventory (Square Feet)
Pittsburgh	12.9%	68,426,939
Cleveland	13.1%	105,901,949
Columbus	7.4%	77,308,994
Detroit	10.2%	145,820,130
Indianapolis	16.2%	35,866,394
Denver	11.8%	150,947,743
Raleigh	12.8%	46,083,712
Overall U.S.	12.8%	5.2 (bsf)

that will be ready for occupancy late in 2020. For Philips, this move involves relocating several hundred employees performing corporate, sales, marketing and R&D functions that have historically been located in the Eastern submarkets, approximately 12 miles from the new destination.

From a market "shift" standpoint, it is noteworthy that the full-service lease rates for many of these Fringe lease transactions were in the range of $33.00 to $37.00 per square foot on an annual basis and in certain cases in excess of $40.00 per square foot. These rates are far above the asking full-service rental rates for Class A high-rise buildings in Pittsburgh's CBD, with a current average asking base rate of slightly less than $30.00 per square foot per year for a full-service lease. The second most noteworthy trend that impacted office leasing during 2018 across the entire Pittsburgh market, was the measurable increase for costs incurred for completing interior tenant improvements, commonly referred in the industry as "T.I.'s". An analysis and comparison of similarly sized leased transactions with a consistent scope of interior tenant improvements that took place in 2016 as compared to 2018 transactions indicates a clear cost increase in the range of 15 percent to 20 percent, on a per square foot basis. This rising cost for completing interior construction is a challenge for landlords competing for tenants, as well as for the end-users/ tenants, as it directly translates to an added cost of occupancy and paid often times by tenants either as a lump-sum at lease commencement, or amortized as "additional" rent for the term of the respective lease.

While a portion of these higher construction costs are the result of inflating material costs, the majority of the increase is attributable to the labor shortage for skilled building trades that is currently impacting all of Western Pennsylvania. With the construction of the Shell Cracker Plant in Beaver County now fully underway, the labor "employment" level at that site is now at peak capacity with more than 5,000 workers across all trades and specialty fields actively working at that site. That project along with several other major developments, both public and private, is driving the steep demand for laborers, which far exceeds the available supply. This dynamic has had a measurable impact on the office leasing market, with incumbent landlords often having an added advantage due to the value of "in-place" improvements for existing tenants, which may be more willing to renew at more affordable rental rates in light of the increasing cost to relocate and construct new improvements. In either case, this on-going labor shortage will continue to put upward pressure on office rental rates in 2019 and beyond. **DP**

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INDUSTRIAL MARKET UPDATE

Pittsburgh's 144 million square foot industrial market completed a strong 2018 with expectations of solid activity in 2019. Market fundamentals remain sound, investment activity for stabilized properties was active, the oil and gas sector is generating user demand, and workforce/labor's role in the real estate decision making process has become much more important; all of which should make 2019 an exciting year in the local market.

Market Fundamentals

2018 was another positive year for the regional industrial market, recording net positive absorption of over 1.5 million square feet. While the Pittsburgh market is not seeing the explosive growth of bulk distribution markets such as Eastern Pennsylvania from a new construction and absorption standpoint, vacancy rates (particularly for well located, functional product) continue to compress and the market has responded with strategic speculative construction and a number of notable build-to-suit (BTS) projects. 2018 saw absorption of first generation speculative construction projects including West Pittsburgh Business Park, Building 100 at Chapman Westport, Findlay Commerce Center, Building 4000 at McClaren Woods Business Park, Building 2 at Clinton Commerce Park, and Imperial Business Park. While there were only two new leases signed in 2018 for over 100,000 square feet (Kenco Logistics for 455,000 square feet at Starpointe Business Park and Shell for 265,000 square feet at Clinton Commerce Park), combinations of smaller leases resulted in meaningful steps forward for several projects.

The combination of solid bread and butter (20,000 square feet – 50,000 square feet) user activity and the delivery of several BTS projects that started in 2018 (most notably Niagara Water's purchase of land for the construction of a 465,000 square feet bottling plant and the Kenco Logistics lease of 455,000 square feet) provides a strong outlook for 2019 absorption. On the other side of the ledger, two notable vacancies that will provide a check on net positive absorption are Siemens vacating over 400,000 square feet of quality crane-served space in New Kensington as a part of their consolidation to New Stanton, and Em Ache Productions (Netflix) vacating 265,000 square feet of fully conditioned space in the former American Eagle distribution center in Warrendale.

Regarding the much heralded robotics and technology growth in the region, unlike some previous years, 2018 did not experience a wave of transaction activity within that sector at industrial properties. 2019 should be a more active year based on potential BTS projects and planned speculative "Tech/Flex" development.

Given current levels of supply and demand, we expect availability to remain compressed in 2019, and the market to continue to be characterized by low vacancy and upward pressure on pricing.

National Trends: Implications for the Regional Market

The national industrial market continues to boom with many markets seeing record low vacancies, coupled with high levels of speculative construction. Industrial real estate's rise in most markets across the country is largely driven by e-commerce related growth. Per CBRE Research, for every $1 billion increase in e-commerce sales, an estimated 1.25 million square feet of warehouse space is needed to keep up with demand. Thus, e-commerce generated warehouse demand could grow by an additional 191.2 million square feet from 2018 to 2020. This has driven industrial land prices to record levels as the average land price for single-story warehouse development in the U.S. has doubled in the past five years to $30 per buildable square feet (FAR). As land prices continue to rise, multi-story warehouses are underway or in the pipeline in New York City, Seattle and San Francisco. While efficiently accommodating the 53-foot trucks commonly used in U.S. logistics is a challenge (much smaller trucks are used in Asia and Europe), if successful, these new multi-story projects could set an example for developers in other cities that face similar land conditions.

Industrial land prices continue to rise in the local market, particularly in infill locations with a constrained supply of existing industrial land, let alone vacant land. In many submarkets, there is currently a very limited supply of developable industrial land. Additionally, site preparation costs (for all sites) continue to rise, largely due to 1) more regulations regarding land development and storm water management, all of which contributes to more time and higher costs; 2) excavation and sitework costs continue to increase; and 3) many sites that are currently vacant often have major topographical, geotechnical, and development (utilities, easements, etc.) challenges, all of which makes land development, if feasible, very expensive. While industrial land prices will absolutely continue to increase in the local market, we don't expect a scenario in the near term future where multi-story warehouse development will become prevalent in Pittsburgh.

The market continues to see an increased number of e-commerce related requirements, with the majority being small to mid-sized "last- mile" third-party logistics (3PL) requirements. While sizeable fulfillment requirements have been the exception rather than the rule, the market is seeing an uptick in larger requirements including

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the 2018 announcement by Urban Outfitters of plans to build an 850,000 square foot fulfillment center in Indiana County, northeast of Pittsburgh.

Oil and Gas Impact

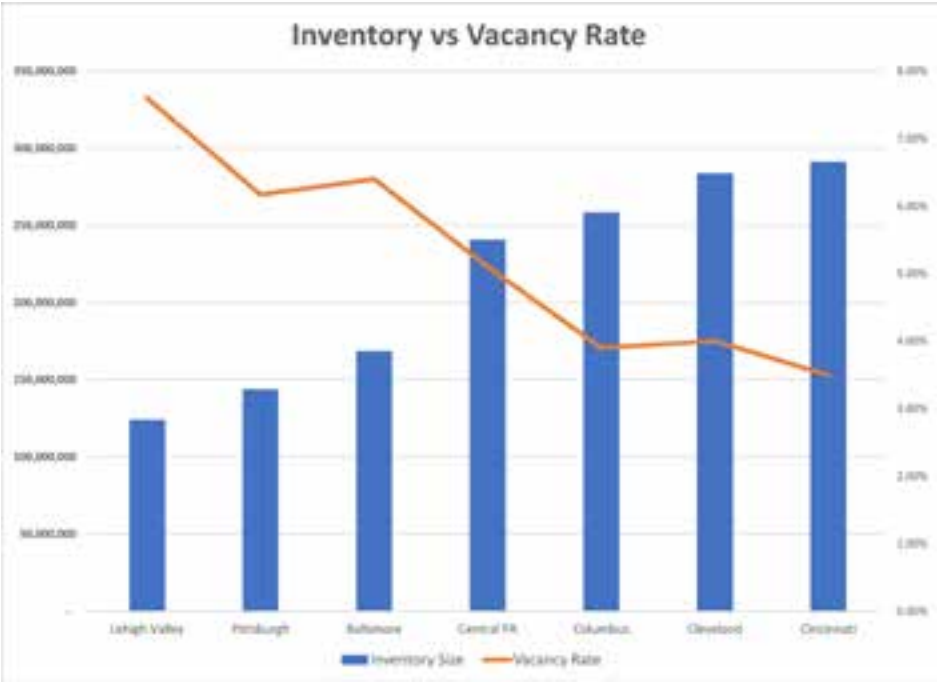
Shell Polymers continues to increase activity at its plant site in Monaca. The project's long term implications regionally for industrial job growth and real estate demand are significant. At this time, demand largely continues to be tied to the construction of the plant. While there are other projects in the works in the Ohio River Valley, it is highly likely any major downstream demand directly related to the Shell cracker will come after the plant is fully commissioned, which is currently scheduled for 2022.

2017 and 2018 saw a return of transactions for service firms supporting the upstream and midstream energy industries. Companies in the energy industry's supply chain have been in the market looking to upgrade and often times, consolidate, facilities to help facilitate growth. The market experienced numerous energy related transactions over the past 24 months, including several BTS projects.

Lastly, a final investment decision is expected in 2019 for PTT Global Chemical America's proposed ethane cracker in Belmont County, OH. The project did receive an air-permit from the Ohio EPA in December 2018, although several parties have since filed appeals. If in fact the project moves forward, as it is expected to, that will result in additional long term growth in the region's industrial market.

Capital Markets

One trend in particular from 2018 that we expect to see carry over into 2019 is historic levels of activity in the industrial capital markets. With industrial real estate arguably the darling of the capital markets on a national and global scale, and significant compression on cap rates in core markets, investors are increasingly looking to secondary markets with strong fundamentals like the Pittsburgh region for opportunities. STAG Industrial was the most active buyer in the market in 2018 by far,



completing acquisitions of five separate buildings totaling nearly 1 million square feet.

2019 is expected to be another active year for investment sales, with several significant projects at various stages of the marketing and transaction process. A key item to watch in 2019 will be the number of unique buyers that make successful acquisitions in the market. The Pittsburgh market is fragmented and presents a number of complexities from an underwriting standpoint, which has served local operators and parties with significant holdings in the market well. As cap rates continue to remain low in core markets and Pittsburgh's visibility continues to increase on a national and global stage, expect the pool of groups investing in the Pittsburgh industrial market to grow.

Challenges

Several question marks to watch in 2019 include uneven user demand, scarcity of space in specific submarkets, limited infill development opportunities, and users facing workforce/labor challenges.

While overall user demand in the market is solid, it is often uneven with it being concentrated among well located, higher quality properties. 2018 saw several instances of a space returning to the market being leased before the tenant in place vacated. However, it also saw the continuing unexpected vacancy of numerous other buildings and projects across the market.

Regarding scarcity of space in certain submarkets, there is some correlation here tied to limited development opportunities and entitled industrial sites in many submarkets. As a result, the relatively low amount of speculative construction in the Pittsburgh market has been pushed out beyond the core infill markets to the Airport Corridor, Jackson Township north of Cranberry, Beaver County, and Westmoreland County. Even BTS projects, which currently make up the bulk of space under construction, are largely being pushed to the perimeter markets as land pricing and availability forces tough decisions for users.

One challenge consistently heard from users of industrial space (and from developers related to rising construction costs) is the difficulty of finding labor. This spans many industries, ranging from manufacturers to contractors to truck drivers. While workforce questions have been on the radar for the last few years, its importance has increased for

companies when making real estate decisions. Workforce/Labor questions will be a point to watch in 2019 both from a standpoint of availability and its impact on construction costs.

Summary

Overall, the local industrial market certainly has positive momentum with many indicators pointing in the right direction. Market fundamentals remain sound, capital remains available for additional development opportunities, and the long term implications of the oil and gas industry are very strong. While certain challenges remain, the long term view of the regional industrial market is overwhelmingly positive. . **DP**

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CAPITAL MARKET UPDATE

There has been a measure of anxiety about the future of interest rates in commercial real estate finance since the Federal Reserve Bank began tightening rates and unwinding its portfolio of mortgage-backed bonds. Three years of steady 25 basis point hikes by the Fed have had little real impact on commercial real estate financing. The real risk seems to be more psychological than financial.

Commercial real estate has become a widely-accepted major investment asset class over the course of the last decade or so. Once the province of the wealthy or specialized risk-tolerant investor, real estate has become a vital part of a diversified portfolio. It is an asset class that has been vital to yield-seeking institutional investors, like pension funds or life insurance companies, during the extended low interest rate environment. It would have been impossible for funds such as these to maintain their distribution obligations since the financial crisis without increased allocations for commercial real estate.

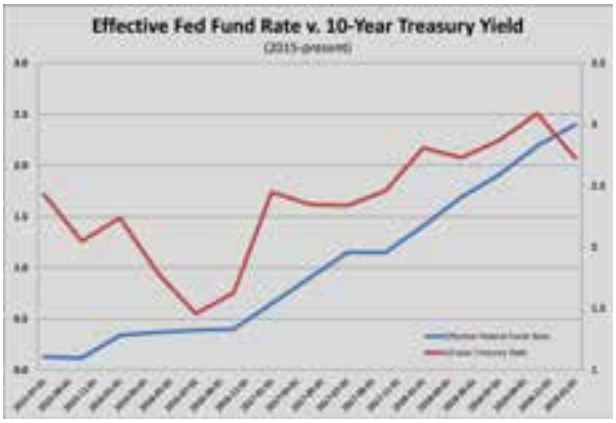
The downside of this heightened appetite for real estate has been a diminution of the perceived risk of commercial real estate. Capitalization rates on office buildings have been compressed to the levels of institutional warehouses, even though the risk associated with office properties has not declined. The elevated risk of investors chasing more real estate for yield is in the creation of a bubble, which inevitably pops. Thus far, however, fundamentals supporting real estate values have more than justified most investments. At the end of a three-year stretch of tightening monetary policy, it's worth examining the alternative investment vehicles to commercial real estate to see whether there is evidence that cash is being diverted to other asset classes.

As of the first of 2019, the answer is no.

With the Federal Reserve Bank adding 225 basis points to its Fed Funds rate since December 2015, a market for short-term cash investments has begun to return, but investors have not yet changed their appetite for long-term investments. And it is the long-term investor that drives the allocation of funds between stocks, bonds, cash and real estate.

"The end of last year really spooked some people and it looked like the new paradigm was going to be an interest rate above five percent," says Nick Matt, senior managing director and co-head, HFF Pittsburgh. "Now we've slid back to a 270-point Treasury yield and we're still able to do deals in the mid-fours for apartments and a little higher for other commercial properties. It's silly but there is a psychological barrier between 4.99 percent interest rate and a 5.01 percent rate. As long as we're in the fours everyone feels a little better."

Investment psychology comes into play in asset allocation. The fact that ten years is a common financing term for commercial real estate makes the 10-year Treasury note a benchmark for gauging when investment assets might be shifted to or from real estate. As the perception of the Treasury bill as a safe haven has grown over the past decade, the demand for U.S. treasuries has been driven by factors other than yield. More buyers mean lower yields.



"For a while we were definitely tracking the 10-year as an indicator of future interest rates but anything that acts as a security is subject to market fluctuations. I would say that the 10-year, as opposed to other benchmark lending rates, is more influenced by factors outside of the real estate market," notes Josh Lavrinc, CEO of Callay Capital LLC. "People fly to the 10-year for safety from other investments. That's obviously going to increase pricing and decrease the yield. The current situation is a reflection of insecurity about the equity markets since December. That makes the yield curve analysis a little less transparent."

Thus far the demand for Treasury bills has not come at the expense of commercial real estate. Now that the Fed has signaled a cessation of its quarterly rate hikes, the risk of asset flight is reduced, especially since the central bank has also indicated that it is willing to respond to economic sluggishness by lowering rates again.

Corporate bonds have begun to see some upward movement since late 2017. But the yield on corporate bonds was low enough that even a 20 percent jump in junk bond yields translated to only an 85-basis point spread over Treasury bills. These aren't yields that will send investors selling off REIT shares. On a risk-adjusted basis, yields for commercial real estate still outperform corporate bonds.

U.S. stock markets have returned to a level of volatility that often suggests a downturn is looming, although even the 15 percent swings of recent months are historically normal for equities. After a decade-long run that has seen the S & P 500 Index nearly quadruple, however, there is less new money willing to bet on the upside of U.S. corporations. Overseas markets are even less appealing at the moment. The Eurozone is at risk of a significant economic shock from a badly-executed Brexit, and softer EU economies – like Italy's – have begun to teeter on the edge of recession. Even the emerging market economies have seen growth pinched since 2015. China and India are growing at rates below seven percent. Consumer prices in most countries are below the rate of U.S. inflation. There are few, if any, economic environments that are enticing investment in stock markets.

So, while a significant increase in borrowing costs or decline in investment interest would dampen capital flows into commercial real estate, it seems there will be few impediments to financing commercial real estate in 2019.

Wells Fargo U.S. Interest Rate Forecast

	Actual				Forecast							
	2018				2019				2020			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Quarter End Interest Rates												
Federal Funds Target Rate	1.75	2.00	2.25	2.50	2.50	2.75	2.75	3.00	3.00	3.00	3.00	2.75
3 Month LIBOR	2.31	2.34	2.40	2.81	2.70	2.95	2.95	3.20	3.20	3.20	3.20	2.95
Prime Rate	4.75	5.00	5.25	5.50	5.50	5.75	5.75	6.00	6.00	6.00	6.00	5.75
Conventional Mortgage Rate	4.44	4.57	4.63	4.64	4.55	4.70	4.80	4.90	4.90	4.85	4.85	4.80
3 Month Bill	1.73	1.93	2.19	2.45	2.50	2.70	2.70	2.90	2.90	2.90	2.90	2.65
6 Month Bill	1.93	2.11	2.36	2.56	2.60	2.75	2.80	2.90	2.90	2.90	2.85	2.70
1 Year Bill	2.09	2.33	2.59	2.63	2.70	2.85	2.90	2.95	2.95	2.90	2.85	2.75
2 Year Note	2.27	2.52	2.81	2.48	2.75	2.85	2.90	2.95	2.95	2.90	2.85	2.75
5 Year Note	2.56	2.73	2.94	2.51	2.80	2.95	3.05	3.10	3.10	3.05	3.00	2.95
10 Year Note	2.74	2.85	3.05	2.69	2.95	3.10	3.20	3.30	3.30	3.25	3.25	3.20
30 Year Bond	2.97	2.98	3.19	3.02	3.20	3.45	3.55	3.60	3.65	3.70	3.65	3.60

For construction lending and semi-permanent financing, banks appear to be in a supportive mode. Banks have more than recovered from the damage that the financial crisis of 2008 inflicted. As 2019 began, total assets in U.S. banks had risen to $125 trillion, 28 percent higher than in 2009. The return on assets for banks had risen from 0.1 percent to 0.9 percent; and the Tier 1 capital-to-asset ratio was 6.7 percent. That's six times the ratio of a decade earlier. A combination of self regulation and federal regulation has healed the industry. From all indications, bank lending conditions have tightened somewhat over the past two years, but not so much that development has become constrained.

"Banks have been disciplined about their underwriting and their leverage," says Steve Drahnak, market president, Western Pennsylvania, for S & T Bank. "I'm not seeing any indications of problems coming."

The Federal Reserve's Senior Lending Officer's Opinion Survey (SLOOS) reflects the mostly status quo market for banks. As the business cycle ages, lenders are tightening standards on the categories of loans that have higher cyclical risks, commercial real estate among them. SLOOS respondents also saw demand for commercial and industrial loans soften in the fourth quarter.

One of the key factors impacting bank lending for commercial real estate – regulations – remains a barrier. Trump Administration policy has produced legislation that has reduced some of the more onerous regulatory burdens and aimed to make compliance less burdensome for banks with assets between $50 billion and $100 billion. High velocity commercial real estate (HVCRE) regulations were softened as part of the Economic Growth, Regulatory Relief, and Consumer Protection Act. Enforcement from the Consumer Financial Protection Bureau has declined precipitously. There are still potential changes pending from the so-called Volcker Rule, but in general the federal regulatory environment has eased. But the impact of easing regulations hasn't been felt at the local level.

"We've not seen deregulation trickle down to our level. As far as softening regulations, we have not seen a big change," says Drahnak. "We are still looking at the commercial real estate space with no more or no less interest than we did last year."

As enthusiasm for globalization wanes, there is a growing move away from implementing synchronization of lending and accounting standards, like Basel III, to allow individual countries to respond to individual economic growth needs. Within the U.S. there is also an increase in state-level regulations that will replace some of the Dodd Frank rules that have been relaxed since 2017.

Most of the conditions impacting capital markets are macroeconomic in nature. Interest rates, terms and lending conditions won't differ widely from market to market. If the global economy is pushing rates higher, borrowing costs in Pittsburgh will go higher. What can vary from market to market, however, is the amount of capital seeking investment.

Pittsburgh was not a market that attracted commercial real estate investors from out of town until after the financial crisis in 2008. National investors weren't moved by the city's relatively low rent growth, less-than-exciting economic prospects, and the general surfeit of transactions. As real estate began to recover, the steadiness of the Pittsburgh market became more attractive than markets that experienced steep declines a few years earlier. The coincidental shift in Pittsburgh's economy into a higher growth mode was icing on the cake. Property purchase prices jumped dramatically overnight, as income investors from around the globe found Pittsburgh properties to be bargains.

As 2019 began, there are real estate success stories throughout the region for developers and investors from outside Pittsburgh and major development deals in the pipeline. Nick Matt believes that will help the region when a downturn occurs.

"I know it may sound a little strange but we've gotten ourselves somewhat recession proof," he says. "I think Pittsburgh will get as much interest, if not more, if there is a recession. The issue in our market continues to be the lack of deal velocity. We don't have a big institutional owner presence in Pittsburgh. We continue to entertain investors who want to look at Pittsburgh because of what they have heard but it's tough to find a deal here."

Investors from outside the region may have to be content with participating in projects with local developers that have longer horizons than transactional developers.

"Think of all the speculative deals being done. That only happens when developers are positive and they are able to communicate that to lenders, because you can't get a deal done without a lender," says Lavrinc. "In

Pittsburgh right now I feel like things are good. You ask about impediments to lending and I don't see many."

Another indication that bumpier markets aren't on the horizon is the weak demand for higher risk financing vehicles.

Uncertainty with the general economy created a slowdown in deals and CMBS issuances in the fourth quarter and, as a result, the spreads on CMBS issuances jumped by almost a full percentage point. The fact that the 10-year Treasury bond remained stubbornly below three percent helped keep the effective interest rate for CMBS competitive with traditional financing. Ultimately, however, competitive rates were not enough to prevent a slowdown in the CMBS market.

CMBS volume for 2018 fell below $80 billion, declining from 2017 in a reversal of the upward trend. Because of several headwinds facing the CMBS market, it's anticipated that volumes will decline in 2019 by another ten percent.

One of the main drags on lending volume is the decline in the number of maturing loans. Huge CMBS loan volumes prior to the financial crisis led to five- and ten-year "echo" increases when those loans matured, primarily in 2011-2012 and 2016-2017. The peak years for CMBS loan maturities have now passed. The volume of maturities dropped from highs of $136.0 and $124.6 billion in 2016 and 2017 to $18.6 billion in 2018, according to Trepp, a transactional information service. The volume of annual maturities is set to increase somewhat in 2019 and 2020 to about $40 billion, and isn't going to exceed that mark for at least another five years.

Competition from traditional lending sources has also eroded demand for CMBS issuances. CMBS has traditionally been the dominant capital source for higher leverage loans, since it offered the opportunity for higher yields proportional to the increased risk. In today's market that would mean loan-to-value ratios of 70 to 75 percent. There has been more capital moving into that higher leverage space in search of higher yields in recent years. Traditional lenders are pushing leverage higher and non-traditional sources, like private equity, have increased allocations for commercial real estate to boost yields.

Troubles in the retail sector, long a favorite for CMBS lending, will continue to increase defaults on loans. In 2019, there is expected to be increases in defaults in two other segments due to overbuilding. The increases in delinquency of office and student housing loans in 2018 will translate into higher defaults on loans in those property types in 2019.

In general, there seem to be few forecasts of dynamic capital markets. Underwriting standards are judged to be stringent rather than loose. Forecasts for flat long-term interest rates and a flat yield curve are reflections of the difficulty of seeing a clear economic turning point. History shows that markets rarely stay calm for very long. Capital market indicators are signaling uneasy stability. That may be the clearest signal available for 2019. **DP**

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Can Pittsburgh's Office Rents Keep Climbing?

Pittsburgh's office market has been a beneficiary of the rejuvenation of the regional economy during the past decade. After years of stagnant rent, little speculative construction, the Pittsburgh metropolitan office market saw growing demand from new sources since the Great Recession. Energy, healthcare and emerging technology companies have driven office demand faster than construction could keep up for most of the past decade. The result has been office rents that have been on a steady upward trend. With vacancy increasing and significant spec projects in the pipeline, the $64 million question facing the office market is: can rent growth keep up?

For developers of new speculative projects throughout the city, the answer is a hopeful yes. Unlike at any time in the past 20 years, there are numerous spec office projects under construction and in the pipeline for 2019. The performance of spec projects developed during the past few years suggests that occupiers have pent-up demand that hasn't been met. Long-time observers of the market have been surprised by the vigor of the office market and aren't prepared to bet against continued growth.

"These are the highest rents I've ever seen," says Tim Goetz, managing principal of Cushman & Wakefield|Grant Street Associates.

Jerry McLaughlin, executive managing director for Newmark Knight Frank, also expresses optimism about the upward trend for rents, with one reservation. McLaughlin sees the demand for space and almost immediate absorption in the urban fringe neighborhoods as far from over. He points to the quick lease-up of District 15 and 3 Crossings as examples of how developers will be able to justify higher rents for the next projects. At the same time, the fundamentals in Pittsburgh's other sub-markets aren't as exciting.

"I think the trend in the CBD is flat," McLaughlin predicts. "It will be flat in the suburban markets too, in some markets, maybe worse than flat."

McLaughlin pointed specifically at the technology sector as the force driving the higher occupancy levels and rents in the urban fringe. He contrasted the current technology industry growth to that of the 1990s, when the boom was driven by startups that ultimately left town. Now, large tech companies are establishing large presences in Pittsburgh and their site selection is focused on the products coming out of the universities. That talent attraction motive is making the lower rent and driving convenience of the suburbs less of a factor now.

"There are properties that are struggling a bit. I'm not talking just about the CBD, but also about the Parkway West and East," Goetz says. "There are some "B" properties in the CBD where rents in the low $20s are still doable. And we have landlords in "A" properties getting rents in the high $30s, especially from companies coming here from out of town. If I'm in one of those "A" properties do I really need to pay $12 or $13 more in rent? Well, maybe, if I need to be there for recruiting talent."

Goetz cited the examples of Evoqua and Bombardier as clients that were in suburban locations, with ample free parking, but which found the suburban headquarters weren't attractive to the talent that was going elsewhere to work.

"Look at Robotics Row. They are getting near $40 per square foot for the new development," he notes. "Tech employees are looking for live/work/play locations, so the employers are willing to pay more in rent if they want to attract talent."

The Strip District may become the litmus test for the Pittsburgh office market. There is little or no office space available and nothing under construction at the moment. Oxford Development's Stacks at 3 Crossings should be the next available property later this year but there are upwards of one million square feet in the development pipeline. Given the success of the District 15 project and the well-known impatience of tech companies, developers that take the risk of doing a spec office should be rewarded. The question is how many truly speculative projects get underway?

Owners in the Strip, Second Avenue and the North Shore are jockeying to position those properties as the outskirts of a new central business district, but the existing CBD – the Golden Triangle – is not quite as hot. Large blocks of space have been unavailable for a decade in Downtown but that has changed in the past 12 months. K & L Gates Center has 200,000 square feet of availability. Renovations at One Oxford Centre are ongoing but the building is said to have as much as 100,000 square feet of additional vacant space beyond the 260,000 square feet that are being marketed. At 525 William Penn Place, Pearson Partners is investing heavily but some 600,000 square feet of vacant former BNY|Mellon space will need to be backfilled.

Thus far, the only significant new-economy occupier that has embraced the CBD is UPMC, having expanded their footprint by another quarter-million square feet in the past 18 months. The energy sector has not leased in the city. And the emerging technology industries have thus far located near their university partners or in urban areas along the Monongahela and Allegheny rivers. It would be difficult for tech companies to locate high-bay research Downtown but, for office or research in software or artificial intelligence, Downtown's office buildings are suitable.

"At some point, the technology sector will discover and utilize Downtown office space, its public transit, restaurants, multi-family, and overall walkability," says Jason Stewart, executive vice president, director of

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agency leasing at JLL. "Tenants chase existing inventory, and the most existing inventory right now is in the CBD."

That available inventory is at least part of the reason that two notable lease deals were done with technology companies Downtown. Microsoft's 10,000 square foot space in Liberty Center was recently completed and Elite Transit Solutions agreed in February to take 31,500 square feet in the renovated Frick Building.

Hot urban fringe and Downtown properties may be getting most of the press for the escalating rent conditions, but the trend is not confined to the city. Burns & Scalo Real Estate Services has been developing spec buildings in the Parkway West and I-79 corridor with success during the past five years or so. The most recent deals the company has reached – particularly at its new Boardwalk campus in North Fayette Township – have been for rental rates that are above the market with aggressive annual increases. Jim Scalo sees the motives of those occupants as similar to those renting in the Strip or Oakland, but with a slight difference.

"There's a reason the Parkway West is the largest office submarket. There are companies that still need to be in close proximity to the airport and the I-79 corridor. But those companies have the same demands for attracting and retaining talent," Scalo says. "Smart, well-run companies are creating environments that make their people want to come to work. Walkability is a key ingredient, even in the suburbs. Employers want amenity-rich buildings. They want buildings that enhance their investment in technology and people. We can do that in new construction. The rent becomes a secondary consideration in the selection process."

Burns & Scalo's first 105,000 square foot building at Boardwalk is under agreement at $28 per square foot, a rate that easily tops the market in the Parkway West.

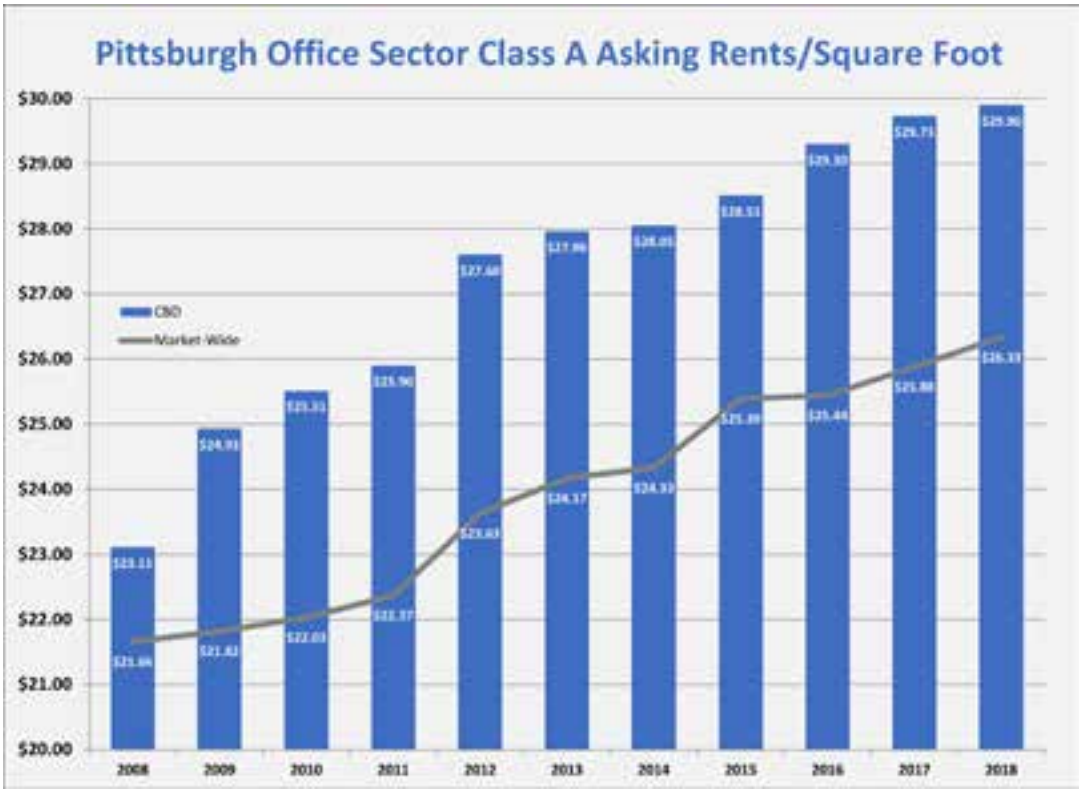
Those rents underscore the correlation between new and existing office product. The fundamentals of the Parkway West are hardly supportive for rent growth. According to Newmark, the vacancy rate for space for rent in the Parkway West submarket was 18.8 percent at year's end. Bayer's decision to vacate its Robinson Township headquarters will only add to the office inventory. The average Class A rate is $23.50 per square foot, about $4.50 less than the rent at the Boardwalk. Demand for new space is justifying higher rents in properties like Nova Place, on the North Side, and PPG Place, Downtown, which have had major upgrades and makeovers.

Those same dynamics have proven to be true in Pittsburgh's hotter submarkets, where new construction has commanded higher rents than the existing space. Even in space-constrained Oakland, with its three percent vacancy rate, new construction has commanded as high as 20 percent above the $30 per square foot average rent.

Goetz also credits the developers that have come to Pittsburgh over the past five years or so with raising the bar on office expectations.

"The owners from out of town have been willing to put their money where their mouths are. They aren't taking a 'wait and see' attitude, but are upgrading their properties and getting higher rents," Goetz says. "Take Shorenstein, Faros, Highwoods and Davis Companies. They are making investments and expect to get higher rents. They have created properties where tenants are willing to pay the rent."

The answer to the question of whether or not rents will continue to climb seems to be an unqualified "it depends." Like with most things real estate, it depends on location. More than any other factor it depends on whether the property is new or newly renovated, or not. For a time anyway, the rising tide of Pittsburgh's economic success may no longer be lifting older Class B buildings. For those looking to build new or add value to a well-positioned neglected property, the rent growth trend still has some legs. **DP**



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What is your observation about the amount of investor capital or investor interest in Pittsburgh real estate relative to the past few years?

Autumn Harris
Owner
Rose Finance LLC

"It is my observation that investor interest in the Pittsburgh market remains strong. I think that the most compelling depiction of this is that outside investors who have invested within the Pittsburgh market over the past few years continue to do so. A notable example is McCaffrey. They completed the historic re-use of the Cork Factory in 2006. This was one of the first projects to be completed in Pittsburgh's modern day renaissance and certainly one of the first in the renaissance of the Strip District. Fast forward to today and this Chicago-based investor continues to modernize the Strip District with the recently announced Produce Terminal project. This five-block mixed-use project is projected to result in a $100 million revitalization, inclusive of construction and community improvements. McCaffery is not alone. Other out of town investors that entered the Pittsburgh market over the past few years continue to invest including, but certainly not limited to: Red Rocks Group from Philadelphia who completed their first multi-family project in 2014 and are investing in two more buildings in 2019; Chicago-based, M&J Wilkow; New York-based Faros Properties and New Jersey-based Rugby Realty. I think that investor capital will continue to grow in the Pittsburgh real estate market relative to the last few years."

J.C. Pelusi
Market Director
JLL

"Pittsburgh has received a lot of attention in the past several years from outside investment. Looking back, in 2016 we saw a peak in total sales volume of office, industrial, retail and multifamily at nearly a billion in total sales. In 2017 and 2018, total sales were a little less, but still relatively high compared to prior years.

Out of all the asset verticals, the most pronounced spike in outside investment sales volume was in CBD in 2016. That year, One Oxford, Centre City Tower, 420 Boulevard of the Allies, 525 William Penn Place and Liberty Centre all sold to investors from other cities. Last year, office investment sales took a breather, which was to be expected. After the influx of outside investment, new ownership has begun adding capital into their new assets. Now we are entering the stage where investors are evaluating the returns, but also available inventory is limited."

Claire Lobes Hosteny
Partner
East End Development Partners

"From my perspective as a developer in the East End of Pittsburgh, we are experiencing more interest from outside investors than ever before. This surge of interest has been generated both by national exposure from local developers soliciting out of town investment for projects and by out of town developers bringing new investors to the Pittsburgh market. I think commercial brokers have also played a key role helping developers access the national markets.

Pittsburgh real estate deals offers good returns, a stable market without the volatility of the coasts, and the typical deal size is small enough to appeal to a variety of investors that might not have enough money to be competitive in more expensive markets. However, some national partners want to write checks that are more appropriate for the size of coastal deals but are too big for a well constructed local deal. Sometimes local partners cannot write big enough checks to get the big deals done. Therefore we need a balance of local and national partners to access all the financing tools required to serve a dynamic and growing real estate development market."

Jason Campagna
Managing Director/Senior Advisor

SVN | Three Rivers Commercial Advisors

"We have seen increased interest from outside markets, both nationally and internationally. We have several foreign investment groups looking at our market right now at projects that are not major deals, but are in the $5 million to $10 million dollar range. Two-thirds of everybody we see looking at investing in Pittsburgh is either a 1031 exchange from a primary U.S. market or it's a foreign investor.

"I think local investors are being priced out of the market. I always go through the list of transactions for the year to reach out to buyers who I don't know and there are a lot of new names on the list. I think the trend continues to be that in the primary markets, although they are starting to plateau, investors need to cash out and re-deploy their capital. The Pittsburgh market may look to the local investors that prices are bubbled up, but that's not the case."

Anthony Rossi
First Vice President
CBRE Capital Markets

"2018 was a strong year for investor interest in Pittsburgh, a trend I expect to continue in 2019. Despite some volatility in the global financial markets, Commercial Real Estate Assets in Pittsburgh continue to have strong relative value compared to other MSAs in our peer group. This relative strength results from a stable underlying employment base rooted in the Education, Medical and Financial Sectors. Further strengthening the market is a growing Technology and Robotics Industry that continues to garner national headlines.

Pittsburgh's relative strength is not only consideration for buyers of real estate, but providers of debt capital as well. Liquidity remains strong for well positioned development projects with qualified sponsorship. For projects seeking a permanent financing solution, the secondary market remains healthy and competitive. Freddie Mac, Fannie Mae and FHA/HUD continue to provide excellent non-recourse options for multifamily projects and Life Insurance Companies, Conduit (CMBS) Lenders, and other boutique capital markets firms provide capital across all asset classes.

All these facts considered, it is no wonder why Pittsburgh ends up on the short list for investors looking to safely deploy capital as we enter the late stages of a historically long expansionary cycle."

Jessica Jarosz
Executive Vice President
Century Realty LLC

"I have been involved with 1031 exchange buyers that sold property in California and exchanged into higher CAP rate properties in our region.

I believe a lot of the outside investors are already here in Pittsburgh and are continuing to grow their real estate portfolio here. Globally, yes, outside investors are continuing to invest in commercial real estate. As compared to a few years ago, I think our market is currently stable and will continue to attract investors, especially with the new Qualified Opportunity Zones in our region."

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Carmine DiLucente & Pat Greene of CBRE
Randall McCombs, SIOR & Sam McGill of
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Office Lease of the Year – Suburban
100 Beecham Drive - 50,500 SF
Jeremy Kronman, SIOR &
Adam Viccaro of CBRE
Robert Geiger of
Cushman & Wakefield | Grant Street Associates

Office Lease of the Year
Bakery Square - 208,000 SF
Jeremy Kronman, SIOR & Andrew Miller of CBRE
Dan Adamski, SIOR, Nick Francic, &
Mike Nelson of JLL

Office User Sale of the Year
420 Blvd of the Allies
Jason Stewart & Jeff Adams of JLL
Jeremy Kronman, SIOR & Gerry Dudley of CBRE

Industrial Lease of the Year - Light Industrial
663 Avenue A
Brian Goetz of The Buncher Company
Louis V. Oliva, CCIM, SIOR of
Newmark Knight Frank

Industrial Lease of the Year – Warehouse
Starpointe Blvd.
Richard Gasperini of CBRE

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120 Beta Drive
Robert Blackmore, SIOR & Mateo Villa
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Greg Broujos or Colliers Pittsburgh

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501 Technology Dr.
Mark Popovich, SIOR & Nick Unkovic

Investment Sale of the Year
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4350 Northern Pike
Gerry Dudley, Dan Sliger, Kyle Prawdzik & Brendan Bash

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200 Simko Blvd.
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Industrial/Multi Tenant
Keystone Commerce Center
Richard Gasperini & Mateo Villa of CBRE

Investment Sale of the Year
Industrial/Speculative
Schreiber Industrial District
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Findlay Industrial Park
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Allegheny County

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By working together and investing in our local communities, Allegheny County continues to thrive, and our institutions, amenities, and overall quality of life are grabbing attention and accolades across the world. From our robust economy to our expanding transportation options, we're experiencing widespread success and have positioned ourselves for sustained growth.

Local workers and companies are capitalizing on that success. Our unemployment rate recently reached an historic low, and we've become a leader in health care, finance, education, manufacturing, arts and culture, and emerging sectors such as robotics, artificial intelligence, autonomous vehicles, and clean energy. Our businesses and renowned colleges and universities are training the next generation of innovators, attracting young people and companies to our area as well as enticing our current residents to stay.

Those drawn here quickly see why longtime residents love this area so much. Allegheny County is one of the most affordable places to live, work, and play in the country. And whether it's our emerging culinary scene, numerous arts and cultural amenities, one-of-a-kind museums, or beautiful and accessible trails and parks, there's something for everyone in this vibrant region.

Our cutting-edge airport and public transit system are making it easier to get to those attractions. A $1.1 billion terminal modernization project is in the works at Pittsburgh International Airport, which continues to add national and international nonstop destinations through carriers that see the importance of connecting our region to the rest of the world. The Port Authority, meanwhile, is embracing new technology and enhancing the experience of riding on our buses and light-rail system, which helped it buck an industry trend and increase ridership last year. It's also developing a Bus Rapid Transit line between the area's two largest job sectors.

ALLEGHENY COUNTY ECONOMIC DEVELOPMENT ...COORDINATING SUCCESS

The tremendous quality of life we enjoy in Allegheny County has been getting a lot of attention. Just in the past few months, the Economist Intelligence Unit ranked the Pittsburgh area as the most livable in the continental United States, and Forbes wrote about this region's "contagious charm." We've also received accolades from various publications recently about our growing culinary scene, world-class airport, abundant and beautiful parks and trails, exceptional schools, and more.

When you consider that we also boast plenty of job opportunities in technology, education, health care, banking, arts and culture, tourism, energy, and other sectors, and we have one of the lowest costs of living in the country, it's easy to understand why so many businesses and young people have decided to relocate here.

Yet there remain challenges to making sure that all residents reap the benefits of living here, including the need for additional housing, human service programs, infrastructure upgrades, and workforce development and training. By working together with partners, Allegheny County Economic Development is making significant investments to meet those needs.

Through collaboration, we will ensure that everyone – regardless of their social and economic backgrounds – can take advantage of everything Allegheny County has to offer.

Rich Fitzgerald
County Executive

ALLEGHENY COUNTY
ALWAYS INSPIRING

Lance Chimka, Director Economic Development
One Chatham Center – 112 Washington Place – Pittsburgh, PA 15219
412.350.1000 – www.alleghenycounty.us/econdev

Allegheny County Economic Development is playing a big part in this region's growth by making significant and strategic investments. Its Allegheny Together program offers technical assistance and planning resources to communities interested in working to revitalize their main street corridors. Its Allegheny Grows program, in partnership with the Western Pennsylvania Conservancy, is further beautifying the area. Over the course of two years, the program has provided materials as well as technical, organizational, and educational support to garden groups throughout the county.

Vital investments in transportation and recreation are also taking place. Now in its third year, the Active Allegheny program is supporting the implementation of projects that will provide bicycle and pedestrian connections to important community destinations and transportation systems, such as trails and transit routes. Last year, related projects included planning of segments of major trail corridors, such as on the Three Rivers Heritage Trail and the Montour Trail. Overall, the program has awarded $581,667 to 24 different projects.

Through public and private partnerships, including those involving Economic Development, this region is continually discovering new and innovative ways to grow and prosper. Our ability to work hard and collaborate will no doubt help us build on our accomplishments and pursue a future full of promise and prosperity for all who choose to call Allegheny County home.

Armstrong County

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Several economic development projects moved toward completion in Armstrong County during the latter part of 2018. Chesapeake Controls, Inc., headquartered in Chesapeake, Virginia, opened their Pittsburgh division, Allegheny Technology in Northpointe Technology Center II, a multi-tenant office building owned and operated by the Armstrong County Industrial Development Council. Allegheny Technology and Chesapeake Controls provide professional HVAC services, integrated Building Automation Systems and energy related solutions to optimize building comfort, lower energy usage and proactively reduce equipment downtime. Chesapeake Controls is the largest independent provider of Honeywell Building Automation Systems in Virginia.

Britt Energies, Inc., a veteran owned and operated aggregate company, recently secured low-interest loans for their new operation, South Bend Limestone Company. The loans, through various county, regional, state and federal low-interest loan programs, were used to purchase machinery and equipment and construct an aggregate testing facility

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NAIOP, the Commercial Real Estate Development Association, is the leading organization for developers, owners and related professionals in office, industrial and mixed-use real estate. NAIOP provides unparalleled industry networking and education, and advocates for effective legislation on behalf of our members. NAIOP advances responsible, sustainable development that creates jobs and benefits the communities in which our members work and live.

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at the new limestone mine in Armstrong County. The mine and aggregate crushing operation, which opened in June 2018, currently employs eleven, and will create five new jobs over the next three years. Participants of the loan package, totaling $1,050,000, included: Armstrong County Industrial Development Council Revolving Loan Fund; Catalyst Connection Manufacturing Technology Loan Fund; Pennsylvania Industrial Development Authority (PIDA); and Southwestern Pennsylvania Commission (SPC) Revolving Loan Fund with support from the Appalachian Regional Commission (ARC) and U.S. Economic Development Administration (EDA). Operations have commenced on 16 acres of surface mining which is expected to produce high-quality aggregates for up to five years. Upon the completion of all surface mining, operations will proceed on an underground mining phase. The current underground leasehold totals 950 acres. Utilizing standard underground mining techniques, this acreage will yield in excess of 40 million marketable tons.

In December 2018, Senator Don White (PA-41st) joined other state, local and county officials as they celebrated the completion of the Kittanning Market Street revitalization project. The streetscape project took more than five years, four phases and close to $7 million to complete. The scope of the completed work included removal and relocation of overhead utilities, sidewalk replacement, construction of safer pedestrian crossing areas, decorative historic-style street lights and mast-arm traffic signals, new street trees and landscaping, implementation of two-way traffic on Jefferson and McKean Streets, street resurfacing and signage.

Also worth noting were the infrastructure projects completed in Armstrong County in 2018. The projects included water treatment plant upgrades (Ford City Borough), street reconstruction (Kittanning Borough & Manor Township), water line extension (Manor Township), and water line replacement (West Kittanning Borough) totaling in excess of $4.5 million utilizing CDBG, PENNVEST and other funding sources. PennDOT designed and or completed numerous bridge replacement projects throughout the county, in addition to the almost $11 million Route 422 realignment/ relocation project located two miles east of Kittanning.

For information about the services offered by the ACIDC, or to search available land and buildings in Armstrong County, visit http://www.armstrongidc.org.

Beaver County

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Mount Airy Pittsburgh announced its intention to build a mini-casino in Big Beaver Borough. The casino will be built on a 100-acre site at the intersection of I-76 and I-376. Plans include additional entertainment and recreational facilities as subsequent phases of development. The company expects several hundred construction jobs and upwards of 700 permanent jobs at the site once the casino and complex are fully built. The casino will have 750 slot machines, 30 gaming tables, and include a sports bar and restaurant. Mount Airy Pittsburgh was the successful bidder on the license offered by the Pennsylvania Gaming Control Board in February 2018. The Big Beaver location was selected over several competing sites. Subject to final approval by the Gaming Control Board, Mount Airy Pittsburgh hopes to open the casino in late 2019.

Millcraft Investments is constructing a Hilton Garden Inn in Center Township. The 140-room facility will include a 3,000 square foot conference center/events room that will accommodate up to 200 people and a full-service restaurant. It is expected to open in May 2019. This is the ninth hotel to locate in Center Township and the second for Millcraft, which completed and opened a 107 room Home2Suites in Center in October 2017.

The Beaver County Corporation for Economic Development (CED) sold its 67,000 square foot facility in New Brighton Borough and Pulaski Township to Creekside Springs, LLC. Creekside had been a tenant of CED at the site since 2012. Creekside is a private label and contract packager of water-based beverages. Acquisition of the property solidifies the Creekside's position as the company continues its rapid growth. Creekside has been the beneficiary of two major equipment financings at the site by CED and the Commonwealth of Pennsylvania over the past several years.

Butler County

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Butler County continues to attract new business as Mr. Medical Solutions, LLC recently purchased 2.553 acres at the Pullman Center Business Park Expansion. The company plans to build a 10,000 square foot manufacturing facility on the parcel. Groundbreaking will get underway this spring with a winter, 2019 completion date projected. Once completed the firm will bring 30 new employees to Butler County.

Two new grocery stores have recently opened in Butler County. A Save-A-Lot grocery store opened at the Pullman Square in the City of Butler. The Butler location is the first corporately owned Save-A-Lot in Pennsylvania. The 19,000 square foot store offers fresh cut meats, fresh fruits and vegetables and a full line of groceries. It will employ between 15 and 30 people. A Fresh Thyme grocery store recently opened in the Cranberry Commons Shopping Center. The grocer is based in the Midwest but has recently expanded into Western PA with other locations in Pleasant Hills and Bridgeville. The chain's goal is to make healthier products more attainable for members of the community.

The CDC has parcels available at both the Victory Road Business (Clinton Township) and the Pullman Center Business Park Expansion (Butler Township and the City of Butler). If you are interested in parcels at either of our business parks please contact Executive Director Joe Saeler at (724) 283-1961. You can also view sites and buildings available for sale or lease in Butler County by visiting the CDC website, www.butlercountycdc.com.

Fayette County

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Bob Shark, Executive Director, bobs@faypenn.org

In the last six months of 2018, Fay-Penn Economic Development Council, through its ongoing $15 million revolving loan fund, approved two loans totaling $100,000 with $75,000 in pending loan closings. With this financing, area businesses were able to get start-up funding as well as financing for projects including building acquisitions and renovations. Those businesses have projected creating or retaining 20 jobs as a result of the funding. Economic investment of these projects total more than $665,000.

Additionally, there were three large expansion projects in which Fay-Penn was involved. NiSource/Columbia Gas, Boeing and Contact US all expanded their facilities with projects totaling almost $2.8 million.

Fay-Penn was able to give Fayette County businesses more than $35,000 to assist in providing paid internships. Ten businesses were given about $3,500 each to provide internships that are intended to result in a possible permanent position. This funding was made possible through a Fayette County Local Share Account grant. Fay-Penn is seeking additional funding to be able to continue this great program.

The Fayette LaunchBox, which is an initiative of the Invent Penn State program, is a partnership between Penn State Fayette – The Eberly Campus and Fay-Penn. The 6,000 square foot state-of-the-art incubator/accelerator/co-working space currently houses two tenants. These businesses have been able to take advantage of Fay-Penn services such as government contracting assistance and trainings.

The Fayette Leaders Academy started its fourth cohort in September with 12 participants. New to the program this year is a partnership with Penn State Fayette campus in which participants in the Fayette Leaders Academy can earn up to 4.8 continuing education units. The group also has chosen a service project assisting the East End United Community Center in building a basketball court, fencing and purchasing play equipment. Recruitment will soon be underway for the fifth cohort.

Fay-Penn Economic Development Council assists in growing and diversifying the economy in Fayette County, Pennsylvania. We desire to be the pre-eminent "1st stop shop" economic development organization in Fayette County by providing comprehensive business development services through our staff or partners to make our clients more competitive in a global marketplace.

Fay-Penn's ultimate objective is to sustain a supportive environment for business start-up, expansion, and attraction.

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Don Chappel, Executive Director
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The gas and oil industry continue to drive the economic engine in Greene County. The continued resurgence of the coal mining industry through CONSOL Energy, Inc and Contura Energy over the past few years additionally provides economic growth opportunities by way of employment and its corresponding supply chain. WVU Medicine, which commenced construction in the second quarter of 2018 on a 24,300 square foot facility in Franklin Township, continues to grow its foot print on the site with a 2019 opening.

Sheetz opened its third Greene County location in the fall with a site along SR 0021 in Franklin Township. Arby's was successful in its grand opening in Waynesburg during the third quarter of the year.

In December, Dunkin Donuts premiered its first Greene County operation also along SR 0021 in Franklin Township adjacent to the I-79 interchange.

Equitrans Midstream completed a 29-acre purchase in EverGreene Technology Park for a $100 million compressor station project to be completed in the fourth quarter of 2019.

NexGen, a Greene County construction company, completed a purchase of eight acres, also in EverGreene Tech Park, for a new headquarters and building location to house its 100 person operation.

Ryerson Station State Park in the western part of Greene County had plans approved for a new swimming pool, a new water spray ground and bath house, upgraded parking facilities and road upgrades to the state park.

GMS Mine Repair and Maintenance location in Mt. Morris was approved for an addition to construct a simulated mine facility to train new coal miners.

Mackin Engineering completed work on the new Municipalities Planning Code required for the Greene County Comprehensive Plan that requires updating every 10 years with final adoption slated for the first quarter of 2019

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Philadelphia-based retailer, Urban Outfitters, Inc. (URBN) which operates more than 600 stores globally, purchased nearly 48.5 acres from the Indiana County Development Corporation (ICDC) to construct a 750,000 square foot fulfillment center at the Windy Ridge Business & Technology Park in Indiana County, creating 225 permanent full-time jobs. In preparing the site, the ICDC utilized various state programs including Redevelopment Assistance Capital Program (RACP), PENNVEST, Commonwealth Financing Authority Multimodal Transportation Fund (CFA MTF), PennDOT MTF, and provided matching loan funds through local public and private bank sources. They will invest $30 million into developing the fulfillment center. In addition to the 225 permanent positions, as many as 600 temporary construction jobs are expected to be created. The project began in October and the initial phase of the fulfillment center is expected to open in the third quarter of 2019.

A local steering committee comprised of a variety of community partners, including local government, IUP Penn State Extension, and Mahoning Creek Far received technical assistance for agriculture and food production. The Sustainable Economic Development Task Force wants to show aspiring growers how to make a living farming and revitalize the downtown as a commercial and social center.

Local economic development leaders reported Indiana Borough was one of the first areas of Indiana County named as an eligible site for a federal tax incentive program comparable to the Keystone Opportunity Zone programs sanctioned by the state. Pennsylvania Department of Community and Economic Development designated several census tracts in the borough among 300 statewide as Qualified Opportunity Zones. Developers could earn tax credits for investing in the designated areas.

The Pennsylvania Industrial Development Authority (PIDA) provides low-interest loans and lines of credit through certified economic development organizations for eligible businesses that commit to creating and/or retaining jobs in addition to the development of industrial parks and multi-tenant facilities. Contact Angela Campisano, Economic Development Specialist, Indiana County Office of Planning & Development, 724-465-3873.

Lawrence County

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Linda Nitch, Executive Director
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The Lawrence County Regional Chamber and Economic Development Corporation are 'transforming lives' as part of their shared mission. We have begun to accomplish this task by creating a new Leadership Lawrence County program. Seventeen individuals from a variety of industries are participating in this nine-month program that includes the completion of a class project, mastering six University of Georgia Fanning Institute training modules, and familiarizing themselves with various locations in the county. This is a first step in creating a vibrant group of leaders for the county and the region.
Recent private investment in the county totals over $1 billion. The largest project currently underway is Hickory Run Power Plant. This $863 million natural gas-fueled electric generation plant in North Beaver Township is being described as a very active construction site. With 500 full-time employees, Kiewit Contractors is one of the top ten employers in Lawrence County. When the project is completed it will supply 1,000 megawatts of power to the region, which is enough to power more than a million households.

At the end of 2018, PA American Water had nearly completed their new $50 million dual source, water treatment facility in New Beaver Borough. The plant will provide safe drinking water to approximately 18,000 consumers in Ellwood City, Ellport, New Beaver Borough, Koppel, Perry, Wayne, Franklin, North Sewickley and Jackson Townships in Lawrence County Beaver Counties. The daily capacity will be expanded from 5.2 million gallons to 8 million gallons and will be expandable to 16 million gallons with further construction.

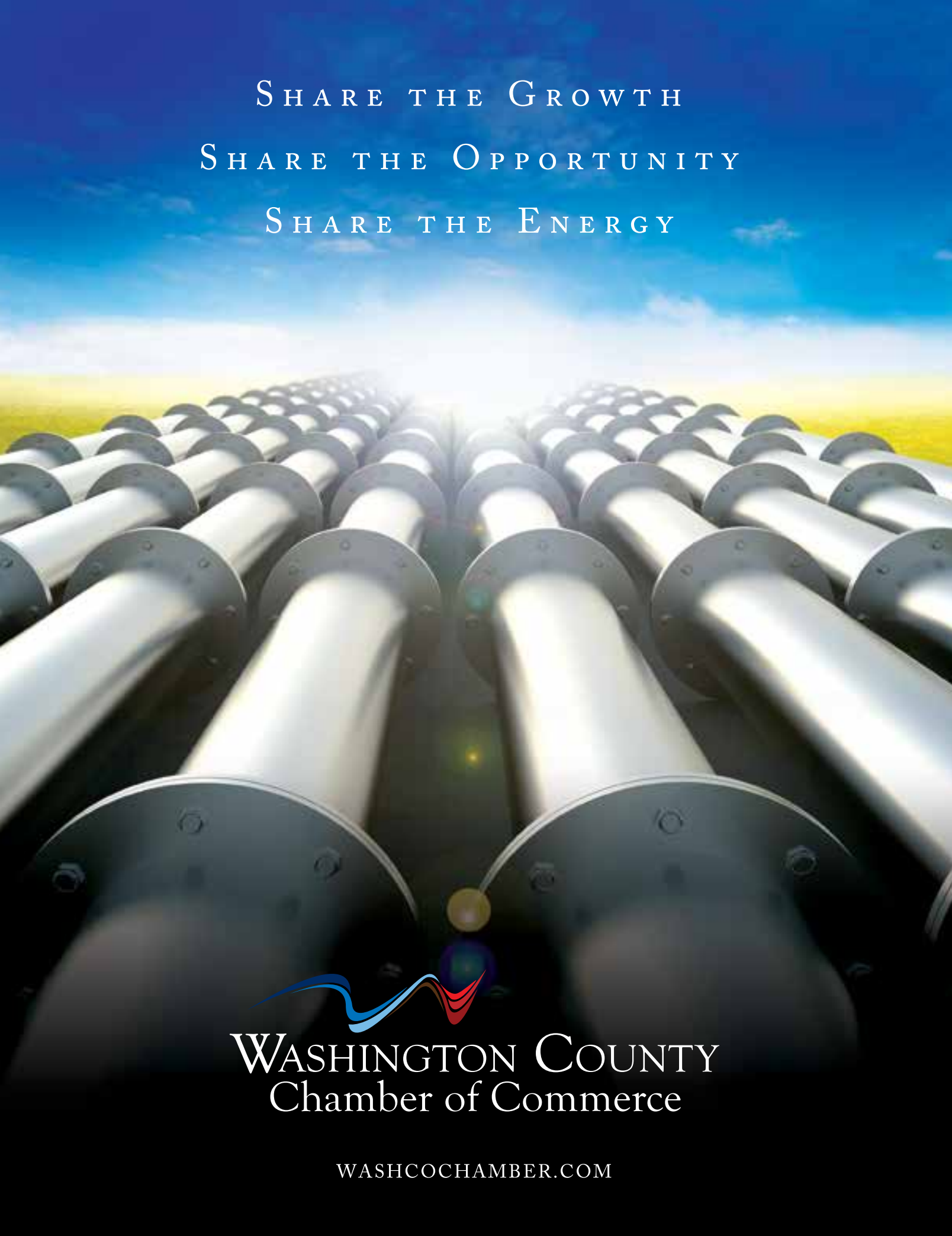
Another exciting economic development project in Lawrence County is the Ellwood Group's construction of a new 110,000 square foot, stand-alone building near the former A-Space in New Castle. This $60 million project will house a steel re-melt operation for high alloy steels serving the aerospace and defense markets.

Container Services, Inc (CSI) of Hillsboro, Kansas recently purchased a 45,700 square foot facility from Wish Development located in the Neshannock Business Park. CSI manufactures plastic containers designed to meet the specific requirements for a variety of packing industry needs. This new facility will serve customers in Ohio, Michigan and Pennsylvania. CSI will start with two shifts at this location and may employ as many as 75 workers.

New York Blower put the finishing touches on their 30,000 square foot $4.7 million expansion project located in the Shenango Commerce Park. The addition will increase the company's facility to 45,000 square feet and will retain 18 jobs and create 22 new full-time jobs. New York Blower is based in Willowbrook, Il and specializes in manufactured fans and blowers for the industrial and original equipment manufacturing marketplace.

Steelite International is well underway with its expansion project in Millennium Park, Neshannock Township. The company embarked on a $4 million project a few months ago that will expand their warehousing operation by 52,000 square feet. The project is being funded in part by a $1.5 million Redevelopment Assistance Capital Program grant that the LCEDC helped to secure and will administer on behalf of Steelite. Steelite expects to complete the project in 2019.

Commercial development continues along the Route 18 corridor in Neshannock Township. Wish Development finished the new UPMC School of Nursing and Radiology. The facility provides an enhanced, modern learning environment for students and the additional space needed to support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the school's growing enrollment. This upcoming school year, the school expects to have a class of 55 students and is aiming to further expand class size.

These projects are evidence that Lawrence County has had a strong year for industrial and commercial investment. With new industrial and commercial projects being planned, the prospect of a prosperous year for 2019 is bright!

Washington County

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The strong economic growth in the first half 2018 continued throughout the year with robust activity in the manufacturing and energy sectors, the attraction of outside-investment dollars, and investments made in infrastructure and development projects.

Corelle Brands will spend $16 million in the next few years at its plant in Charleroi to rebuild a glass tank and incorporate modern technologies to the facility. The state has committed a Redevelopment Assistance Capital Program (RACP) grant in the amount of $2.5 million to help with the project. The improvements are projected to create 40 jobs and help preserve the existing 350 jobs at the plant, where glass has been manufactured for more than 100 years and where Pyrex glassware is currently manufactured.

The Tech Met facility located in Donora, will receive a $1 million RACP grant to renovate its facility in the industrial park. The company will immediately use two-thirds of that building, leaving 28,800 square feet for growth, a project that is expected to generate more than 40 full-time jobs. Tech Met was honored recently by being featured on a segment of Fox Business News Manufacturing Marvels.

Apex N.A. closed on 13 acres of land in the Alta Vista Business Park to build a 100,000 square foot facility. The site will allow the company to consolidate its employees from the current operation in the Donora Industrial Park and its offices in Allegheny County and allow room for expansion. Construction is targeted to begin this year with a 2020 completion. More than 70 are expected to be employed there with room for growth.

Washington County's dominance in the energy sector is evidenced by the Pittsburgh Business Times report that eight of the region's top energy companies, ranked by number of local employees, are in Washington County. In addition, Washington County saw huge gains in shale gas production in the first three quarters of 2018. The statewide production increased by 12.9 percent over 2017 production with 36 percent of the statewide increase being attributed to Washington County.

Steel Nation, a company that builds pre-engineered metal buildings for the energy industry, consolidated the 36 employees from its South Strabane headquarters location and an office in Wexford to a larger, newly remodeled office in Cecil Township at Southpointe Square Lane.

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Ground was broken at the Alta Vista Business Park for a new building that will be occupied by Nine Energy Service. The move from Museum Road to the 38,000 square foot building at Alta Vista will accommodate the company's growth and increase the number of employees beyond its current level of 125.

Bestway Oilfield Inc. expanded its presence in Washington County by purchasing a 45,000 square foot building in the Starpointe Business Park.

The 350-mile Mariner East 2 pipeline from Washington County to the Marcus Hook complex near Philadelphia officially went into operation in December. The pipeline carries ethane, propane and butane from the natural gas fields in this region to Marcus Hook for distribution nationally and internationally. This new transportation outlet will allow natural gas liquids to go to premium foreign markets and will bring higher revenue for producing companies in the region.

The Pennsylvania Department of Environmental Protection approved permit applications for the Shell Pipeline Co. Falcon project. The pipeline will begin at the MarkWest natural gas processing facility in Chartiers Township and run through Washington and Allegheny counties to the Shell Chemical Appalachia Petrochemical Complex in Beaver County.

The second half of the year saw outside-investment dollars flow to the county as well as investments in infrastructure and development projects. Stag Industrial Holdings, a Boston-based company, has purchased a 100,000 square foot manufacturing building in the Alta Vista Business Park. The facility was built in 2011 for, and has a long term lease agreement with, Gardner Denver Nash. Global solutions integrator AGC Networks, based in Singapore is acquiring Black Box, a leading global technology solutions provider located in Lawrence PA. The merger will add more than $600 million in annual revenue and about 3,000 employees to AGC.

Road projects led infrastructure investments with the award by the Turnpike Commission of a $116.2 million dollar contract for the construction of the next segment of the Southern Beltway, a 13 mile stretch that will connect Route 22 to Interstate 79. Also, as part of the ongoing $700 million Southern Beltway Project, construction began in November for the improvements to Morganza Road, as well as placement of two new bridges, a roundabout at Baker, Morgan and Morganza roads and a cul-de-sac on Morganza Road.

The Washington County Authority will receive a $2.895 million grant from the Transportation Infrastructure Investment Funds program for traffic improvements to two intersections with Morganza Road. The intersections need upgraded to handle the increased traffic flow the Cool Valley project will bring to the area. T&R Properties Inc. of Dublin, Ohio was awarded a $1.0 million RACP grant to begin excavation, grading and installation of basic infrastructure for the Cool Valley Project.

Penn DOT, City of Washington and Washington County are partnering on a $12.6 million project in the Tylerdale section of the city. Jefferson Avenue from the intersection with Henderson Avenue to Wylie Avenue will be resurfaced and a portion of East Wylie Avenue along with Jefferson Avenue from that intersection to Tyler Avenue will be reconstructed. A turning lane will also be added near Tyler Avenue for a right-turn lane onto the I-70 ramp.

In addition to the transportation investments made in roads, construction of a new lock chamber at Locks and Dam No. 4 in Charleroi was approved by the U.S. Senate and the Washington County Commissioners are investing in the County Airport to rehabilitate a runway and the main access road as well as to purchase property for the runway extension project.

Finally, Running Brooke II Associates was awarded a $1.5 million RACP grant from the state to redevelop and repurpose the site of the former Brockway Glass Plant in Canton Township. Dilapidated metal structures and a sand silo will be removed, and the site will be prepared for a new 130,000 square foot building with loading docks and parking for industrial and manufacturing purposes.

This momentum will carry Washington County into 2019 as a leader of economic growth in the region.

Westmoreland County

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Developments and expansions in Westmoreland County were strong in the second half of 2018.

Elliott Group has officially announced their intention to relocate manufacturing and testing of cryogenic pumps and expanders to the City of Jeannette. The cryogenic pumps and expanders will be manufactured at Elliott's global headquarters at 901 North Fourth Street. The testing will take place at a proposed facility located at the former Jeannette Glass property, which is currently owned by the Westmoreland County Industrial Development Corporation (WCIDC.) In March, the WCIDC approved a resolution authorizing the sale of the property to Elliott. The company anticipates an increase to its workforce of approximately 110 to 140 as a result of this expansion. Construction is expected to begin in 2019, with operations to begin in 2020.

Adjacent to the Jeannette Glass site, Excel Glass, Inc. is undergoing their second expansion at the Jeannette Industrial Park. William P. Pecora, President of Excel Glass, recently purchased a 3-acre lot in the industrial park where he intends to build a 32,000 square foot warehouse facility. Currently, construction efforts are underway on a 3,500 square foot addition on Excel Glass' existing Granite Division facility at the park. The first expansion took place in 2011, at that time the company added 10,000 square feet of warehousing onto its existing 10,000 square foot building.

WCIDC broke ground at Commerce Crossing at Westmoreland in October. The 206-acre site will be developed into the county's newest industrial park and will consist of five pad-ready sites each ranging in size from 19 to 29 acres. The park will

accommodate the need companies have for pad-ready sites with direct access to active rail and the interstate highway system.

Infrastructure work and land site development began at the beginning of December and is expected to finish in the third quarter of 2019. The WCIDC received a $1 million grant from RACP in addition to a $3.8 million grant and $5.8 million loan through the Business in Our Sites program to support the development efforts. Visit www.westmorelandcountyidc.org to take a virtual tour of the site.

In November, Siemens celebrated the opening of the company's new 300,000 square foot Pittsburgh Service Center, located at RIDC Westmoreland. The $32 million state-of-the-art facility is home to Siemens Turbine Generator Specialty Services (TGSS), which supports approximately 150 employees working in the company's large-scale turbine and generator business.

Since moving into the new Mount Pleasant facility, Siemens has formed an apprenticeship program for machining and welding students with the Westmoreland County Community College's (WCCC) Advanced Technology Center, also located at RIDC Westmoreland. The redevelopment of RIDC Westmoreland into a multi-tenant facility has been a joint effort between the Regional Industrial Corporation of Southwestern Pennsylvania (RIDC) and the WCIDC.

In December, the Westmoreland County Commissioners adopted the comprehensive plan update, Reimagining Our Westmoreland.

The overarching goal of the comprehensive plan is to enact strategies that attract, develop, and retain a diverse and stable workforce that will sustain a healthy economy. To get to this point, over the past two years, more than 5,000 people have been involved in the development of the plan. From this process, one goal, seven core objectives, and nearly 40 strategies were identified.

WCIDC is actively involved in supporting several strategies outlined in the plan, which include but are not limited to:

- Assisting small business by providing small business resources and supporting small business education.
- Advancing entrepreneurialism by identifying and preparing resources for individuals and entities. Along with regularly evaluating assets with the county for starting a new business and supplying space, such as The Corner, where startups work to form and operate their business.
- Provide development-ready sites across the county to help spur both large and small-scale developments.
- Invest in the next industrial revolution, Industry 4.0. To do this we must build a workforce for the future, develop digital maker spaces and smart city hubs; along with expanding opportunities to support Industry 4.0.

To learn more about economic development projects in Westmoreland County, visit WestmorelandCountyIDC.org.

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(From left) Developing Leaders Ginny Loaney from HRG, JLL's Ashley Koltonski, Kim Harkobusic from Anderson Interiors, CEC's Kelsey Kanspedos and Janae Shore from Providence Engineering.

(From left) JLL's Jackie Bezek, John Minarik from JT & Sons Construction, Desmone's Jim Ambrose and Core Realty's Michaela Robbins.

(From left) Janae Shore from Providence Engineering, Pieper O'Brien Herr's Robin Zoufalik, Red Swing's Matt Smith and Robert Smith, Shannon McGuire from Burns & Scalo Real Estate at the NAIOP Pittsburgh holiday party.

Chapman's Steve Thomas (left), Kris Volpatti from Key Bank and Chaska's Dick Donley.

(From left) Tony Rosenberger from Chapman Properties, RIDC's Don Smith, Emily Sipes and Cameron Davis.

Newmark's Paul Griffith and HFF's Claudia Steeb.

CREW Pittsburgh new board was introduced at the CREW holiday party on January 10. Pictured are (front row left to right) Alicia Smith, CREW administrator; Mimi Fersch from Chicago Title, past president; T Construction's Angela Gillot, current president; and Virginia Weida, president elect. (Back row left to right) Rose Finance's Autumn Harris, treasurer; Sarah Gianotti, secretary; MBM's Missy Powell, events director; PJ Dick's Jessica McKinney, community action director; LGA'sMary Rose Hopkins, membership director; Jamie Kusevich from Stephany Associates, communications director. Board members missing were Alicia Wolfe, programs director; Babst Calland's Krista-Ann Staley, sponsorship director; and Cohen Grigsby's Maureen Jordan, general counsel.

(From left) Gateway Financial's Dave Malone, Elhurst's Bill Hunt and PenTrust's Jim Noland.

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(From left) Shannon McGuire and Ruby Scalo from Burns & Scalo Real Estate, Berkshire Hathaway's Marcy Pocci, and Burns & Scalo's Kelley Hoover Heckathorne.

(From left) Chip Desmone, Von Fisher from Value Ambridge Properties at the Allegheny Conference's annual meeting.

David Storer from the Allegheny County Airport (left) with Columbia Gas's Mike Belsky and Garrett Krummert (right) at the 2018 Night at the Fights.

(From left) Mary Rose Hopkins from LGA Partners, MBM Contracting's Andrea Babb, Dollar Bank's Sandra Wise and Matthew Bright.

State Representative Austin Davis (left) with BNY|Mellon's David Weisberg, past president of NAIOP Pittsburgh.

Jeffrey Shelton and Jennifer Portaro from ECS Mid-Atlantic.

NAIOP Pittsburgh members spent time with Congressional representatives in Washington DC on February 4. Pictured from left are Mascaro's Alyssa Kunselman, JLL's Jackie Bezek, NAIOP's Erica Loftus, NAIOP Pittsburgh president Don Smith from RIDC and LLI Engineering's Jamie White.

At the Developing Leader Mentorship kickoff were (from left) Desmone's Jim Ambrose, DL chair, RIDC's Don Smith, event host Jim Scalo, and Brandon Mendoza, NAIOP Pittsburgh executive director.

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