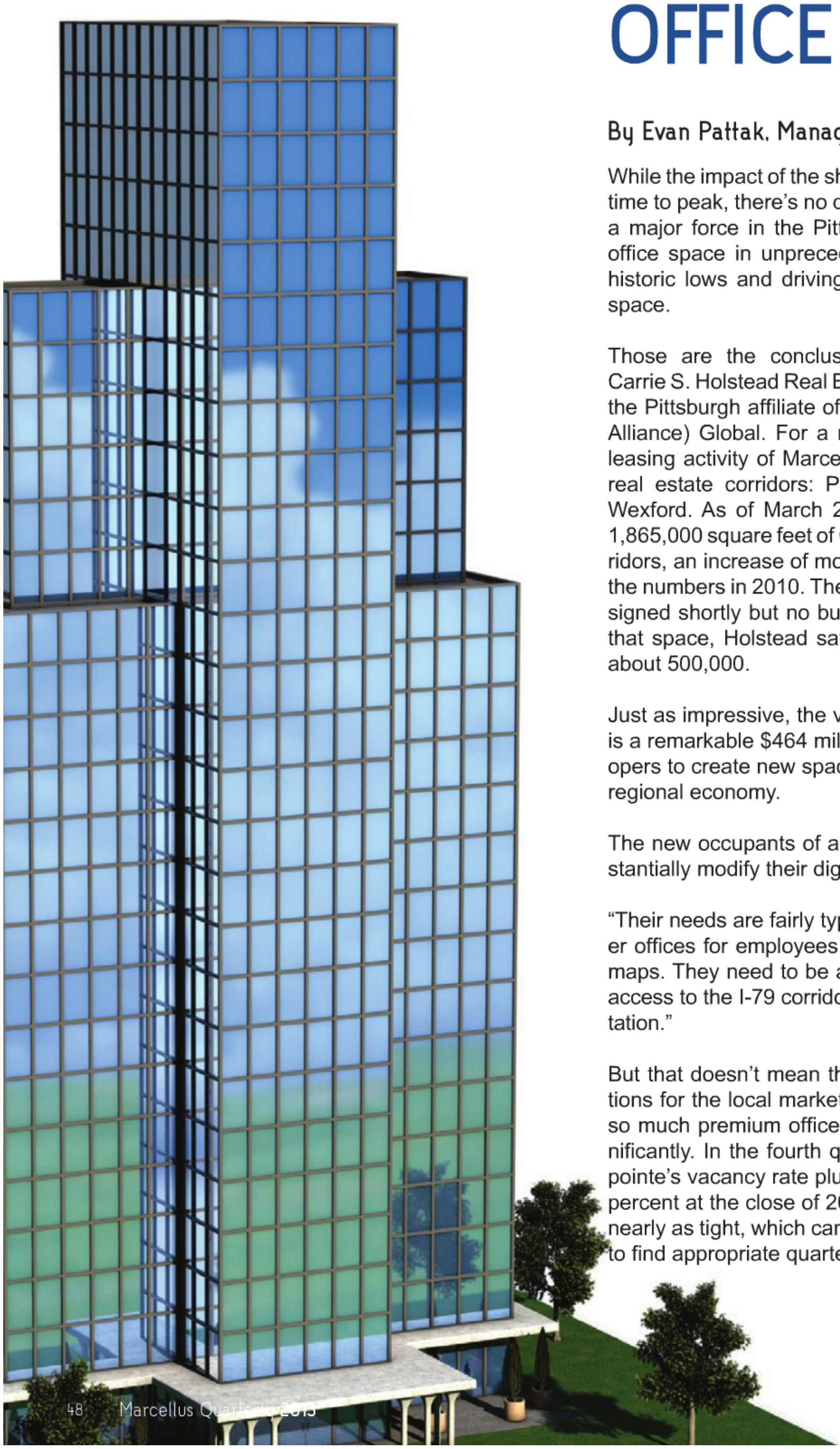
MARCELLUS OPERATORS SPARKING PITTSBURGH AREA OFFICE SPACE BOOM



By Evan Pattak, Managing Editor

While the impact of the shale industry on manufacturing will take some time to peak, there's no question that Marcellus operators already are a major force in the Pittsburgh real estate market. They're leasing office space in unprecedented numbers, sending vacancy rates to historic lows and driving up prices for rapidly diminishing premium space.

Those are the conclusions of Carrie S. Holstead, president of Carrie S. Holstead Real Estate Consultants, a tenant services firm and the Pittsburgh affiliate of ITRA (International Tenant Representatives Alliance) Global. For a number of years, Holstead has tracked the leasing activity of Marcellus producers in three important Pittsburgh real estate corridors: Parkway West, Southpointe and Cranberry/Wexford. As of March 2013, major oil and gas firms were leasing 1,865,000 square feet of Class A and Class B office space in those corridors, an increase of more than 20 percent since Holstead crunched the numbers in 2010. The total includes several leases expected to be signed shortly but no buildings that Marcellus operators own. Count that space, Holstead says, and total square footage would soar by about 500,000.

Just as impressive, the value of leases signed within the last decade is a remarkable $464 million, an infusion big enough to inspire developers to create new space. That's growth that rolls through the entire regional economy.

The new occupants of all this space have found little reason to substantially modify their digs.

"Their needs are fairly typical," Holstead reports. "We are seeing larger offices for employees driven by the need to read large geological maps. They need to be able to spread those out. The major driver is access to the I-79 corridor for shale locations and employee transportation."

But that doesn't mean the Marcellus space race hasn't had implications for the local market. For one thing, producers have gobbled up so much premium office space that availabilities have dwindled significantly. In the fourth quarter of 2011, to cite one example, Southpointe's vacancy rate plunged to 1.3 percent before rising a bit to 3.3 percent at the close of 2012. Premium space in the other corridors is nearly as tight, which can make it difficult for newcomers to the region to find appropriate quarters.

"It's challenging," Holstead confirms. "We've seen some new development, so you can find large blocks of space but not the opportunities there used to be.

"The normal lease analysis process for a medium-to-large tenant can take 12 to 18 months. These folks expedite that. Once they decide to get in, they need to be in, often within 90 to 120 days. That's making a dramatic impact. If a tenant is looking at space that an oil or gas company may want, you better move quickly or you'll lose the space. We've seen that happen."

And as vacancy rates have plunged, square-footage rates have risen correspondingly. Southpointe's asking rates have jumped nearly 23 percent to $20.35 over the past five years, while Parkway West and Cranberry/Wexford have seen increases of about 6 percent and 17 percent, respectively.

Another characteristic of the Marcellus-related real estate boom: the long-term lease. Notes Holstead:

"If the decision has been made that this is a target market, and there's a commitment to establishing a large presence, then the terms are longer, sometimes pushing 10 years."

Perhaps the most compelling aspect of the phenomenon is that it's unlikely to be a bubble that will burst with this turn or that in the economy.

"It's unique to the extent that it's happening now and will continue to happen," Holstead says. "One industry executive said to me, 'This is here to stay for at least 100 years.' That resonates with me, and I think it will resonate with everyone." **MQ**