Mellon's Orchard Strategic Plan

Market Analysis

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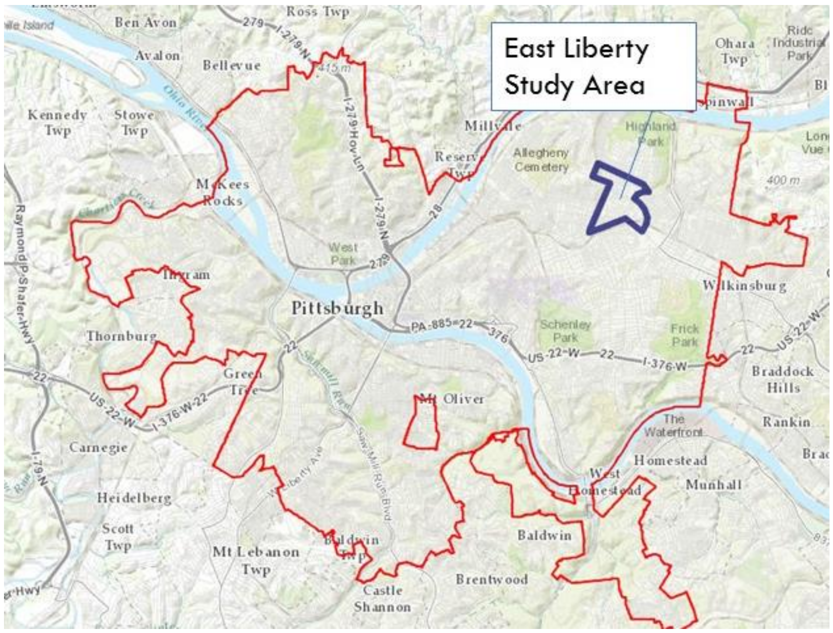
Report Purpose

The information contained in this report is intended to serve as a resource for the Urban Redevelopment Authority of Pittsburgh's future plans for the Mellon's Orchard site. This market analysis summarizes the current and past demographic and real estate market trends in and around East Liberty, in support of the Mellon's Orchard Strategic Plan. The chapters below describe market conditions for varied asset types, including residential, office, retail, and hotel uses, to inform the potential market-supportable program on the Mellon's Orchard site, and how these may be part of a future vision for the site that meets key stakeholders' objectives.

INTRODUCTION

The Mellon's Orchard Strategic Plan project is intended to produce a framework for future disposition and development of the Mellon's Orchard site in the northwest quadrant of East Liberty. The three-acre site sits on the edge of a transition zone for the neighborhood – between the commercial district and lower-scale residential neighborhood. Given its size, location, and recent development trends in the neighborhood, stakeholders in the site's redevelopment range from the local development community to long-time and new residents to the Urban Redevelopment Authority (URA, commissioning this study). The Strategic Plan is guiding a process of outreach, analysis, and preliminary planning to define market-supportable uses for the site that meet the objectives of stakeholders for future development.

Figure 1: Study Area



A key component of this plan is this market analysis report, which provides an overview of the current market trends surrounding the Mellon's Orchard site, for both the immediate East Liberty area and broader geographies, including Pittsburgh, Allegheny County, and the MSA, to inform market-supportable uses for the site. This includes:

- An overview of key demographics for East Liberty, and for East Liberty compared to Pittsburgh as a whole;
- Residential market analysis: Analysis of market trends, comparable transactions and properties, projected residential demand, and potential absorption on site;
- Commercial office market analysis: Analysis of market trends, comparable transactions and properties, and potential for office use on the site;
- Retail market analysis: Analysis of market trends and projected supportable retail space on site;
- Hotel market analysis: Analysis of market trends, comparable properties, and development pipeline.

HR&A Advisors, Inc. (HR&A) will use this data to inform future work with Fu Wilmers Design and the URA to recommend a successful planning framework for the Mellon's Orchard site.

East Liberty History

In the 1940s and 1950s East Liberty was a social, cultural, and economic center within Pittsburgh – sometimes called "second downtown." The neighborhood was the third largest commercial business district in Pennsylvania, home to a robust cluster of local businesses and department stores, and local entertainment including six movie houses and a roller skating rink. Following national trends that saw a decrease in urban manufacturing jobs, compounded by residential relocation to the suburbs, city leaders embarked on an ambitious urban renewal plan to compete with growth in the suburbs. East Liberty faced steep decline in the second half of the 20th century.

Through Urban Renewal, residential and commercial properties alike were bulldozed to make way for three large high-rise apartment buildings that would bring over 1,000 units of apartments to East Liberty. A four-lane ring-road was built around the central business district in East Liberty and a number of large-scale parking lots were built near the core. Instead of facilitating traffic to the core of East Liberty, the ring-road diverted consumer traffic. In the years between 1980 and 1999, East Liberty lost over 18% of its population, owner occupancy declined 25%, and more than 300 local businesses were lost.

Following Urban Renewal in the 1970s and 1980s, the local community began a series of planning efforts to revitalize the area. In the 1980s and early 1990s, East Liberty Development Inc. (ELDI), worked to reopen Penn Avenue, Highland Avenue, and Broad Street to vehicular traffic, and much-needed investments were made in the area's housing stock. In 1999 ELDI issued East Liberty's first Community Plan in an effort to revitalize the once-vibrant East Liberty. This plan was followed by a number of physical planning studies and additional community-based plans designed to strengthen the area.

By the early 2000s, new development had started to pick up in the area, including the introduction of big-box retailers Home Depot and Whole Foods. Since then, national retailers such as Target, Trader Joe's, and Starbucks have moved in, sparking an influx of new retail and newly-strengthened existing retail throughout the central commercial corridors.

Removal of two of the high-rise apartment towers in 2005 spurred new residential development. 400 units of high-quality mixed-income units have been developed since, with leasing priority given to those who had been displaced from the towers. Additional public investment in East Liberty sought to remove the barrier of the ring road by recreating two-way flows of traffic and supporting the development of active ground-floor uses, especially at the ground floor of new apartment developments.

The development climate within East Liberty today is on a continuing upward trajectory, as local developers have continued to move forward on mainly residential and retail developments in the area, and development along East Liberty's "strong edges" has created an influx of new locally-owned businesses. As East Liberty continues to strengthen economically, new opportunities arise to continue diversifying the space uses that contribute to a vibrant urban core.

KEY STAKEHOLDERS

East Liberty is home to a number of active public and private stakeholders who have shaped the character of the neighborhood over the past decades. These organizations continue to be part of the ongoing conversation in East Liberty about both commercial development and community-driven planning.

As owner of the Mellon's Orchard site, the Urban Redevelopment Authority of Pittsburgh (URA) will play the leading role in determining the future of the site. Mellon's Orchard is the URA's only remaining parcel in East Liberty, and presents the URA with a significant opportunity for to incentivize growth and guide the community along the path of positive and community-focused development.

Founded in 1979, East Liberty Development Incorporated (ELDI), has been an active force behind development in East Liberty and has worked with the community as it rebounds from Urban Renewal throughout the late 1990s and 2000s. ELDI has a large presence in East Liberty, having gone through two community planning processes, and will be an essential stakeholder in ensuring that future planning efforts are in line with community needs.

A major landholder in East Liberty, the Pittsburgh Parking Authority oversees public parking spaces throughout Pittsburgh. By virtue of the parking-centric character of East Liberty, the Pittsburgh Parking Authority will be party to future planning and redevelopment processes in the area.

East Liberty is also home to a very active commercial development community, consisting mainly of local Pittsburgh-based developers. Mosites has played a large role in reshaping East Liberty through the EastSide development that brought Target and Whole Foods to the neighborhood. Walnut Capital has been engaged in a number of residential developments, as well as Bakery Square and Bakery Square 2.0. A number of smaller firms and individuals also play a large role in East Liberty development. While East Liberty has not seen heightened activity from national developers, new development opportunities are attracting the attention of larger local firms, and may be of interest to regional or national developers.

Demographics

The East Liberty neighborhood in Pittsburgh's East End is home to a population of 6,087 residents who form 2,945 households. The area is predominantly African-American (68.7%), compared with just 26% of Pittsburgh's overall population. HR&A's analysis of local demographic and residential trends compares East Liberty to the city as a whole, and to neighborhoods that can be seen as comparables given the level and type of growth they are currently experiencing, including the Strip, Bakery Square, and East Side.

After several decades of decline during urban renewal efforts, East Liberty's population has started to grow slightly. Pittsburgh's population declined 8.7% from 2000 to 2015, continuing a long-term decline within the city. Within East Liberty however, population trends have reversed slightly, showing growth of 3.7% since 2010, following loss of 14.5% between 2000 and 2010. While today's population is modest in comparison to the neighborhood's peak population of 15,000 residents in 1950, recent growth aligns with a rise in the East End's popularity, and specifically with local public and private investment in East Liberty.

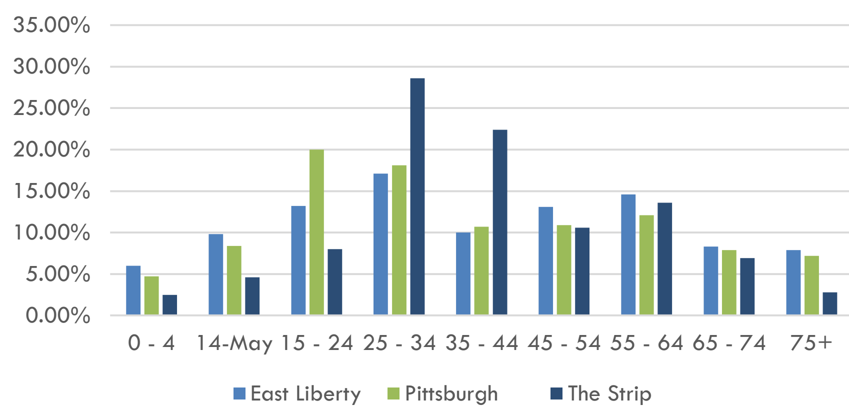
Figure 2: Population trends

	2000	2010	% change	2015	% change
Pittsburgh	334,349	305,704	-8.5%	305,150	-0.1%
East Liberty	6,874	5,872	-14.5%	6,087	+3.7%

Source: ESRI, Census

East Liberty has a smaller concentration of young adults than Greater Pittsburgh. East Liberty's population, with a median age of 38.8 years old, includes a significantly smaller share of young adults, between the ages of 15 – 24 years old, and a slightly smaller population of ages 25 – 44 years old, than the city overall. By comparison, areas like the Strip, which has in recent years become an enticing destination for young professionals, is capturing nearly twice the rate of 25-44 year olds as East Liberty, as shown below. This suggests that a relatively static population in East Liberty has been aging in place, and that attraction of a younger population has not yet shifted age cohorts significantly within the neighborhood.

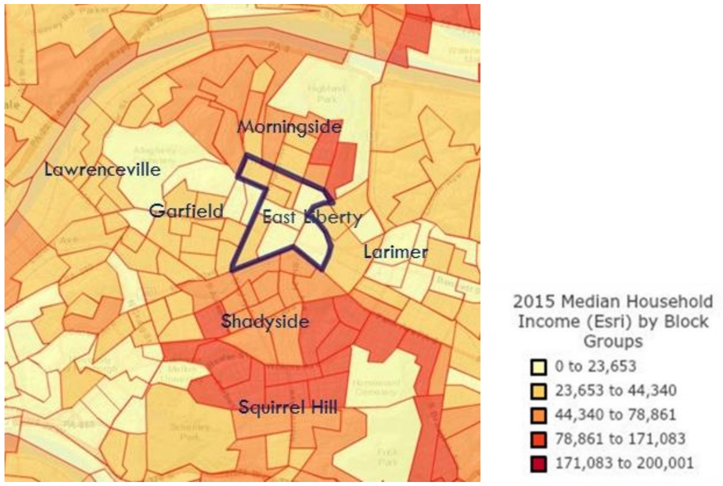
Figure 3: Age Distribution (2015) by Neighborhood



Source: ESRI, US Census

East Liberty sits at a crossroads of wealth and poverty within Pittsburgh. To the south in Shadyside and Squirrel Hill and to the North in Morningside, median income is as high as $120,000. To the east and west in the neighborhoods of Larimer and Garfield, median incomes are lower than in East Liberty, in some census tracts reaching $15,000 to 17,000 per household. The income dividing line on the south coincides with the physical barrier of the rail cut and MLK busway which separates East Liberty from neighborhoods to the south. To the north, income levels increase as smaller townhouses transition to larger estates closer to Highland Park.

Figure 4: Median Incomes by geography



Source: ESRI

Median income lags behind the city. East Liberty continues to have a disproportionate number of low income residents, with a median income of $21,741 compared with citywide median of $38,324.

However, incomes are on the rise. However, the area's median income has increased significantly since the 2000 median of $18,778, in part due to a reduction of households earning less than $15,000 annually from 43.2% in 2000 to 35.2% in 2015. The area experienced substantial growth in households earning above $75,000, from 5.1% in 2000 to 9% in 2015. In the same period, families earning less than $15,000 decreased 8%. This potentially represents a positive trend for the economic fortunes of the neighborhood as both Pittsburgh's and East Liberty's incomes rise overall, as well as perceptions that East Liberty may be increasingly attractive to more affluent residents.

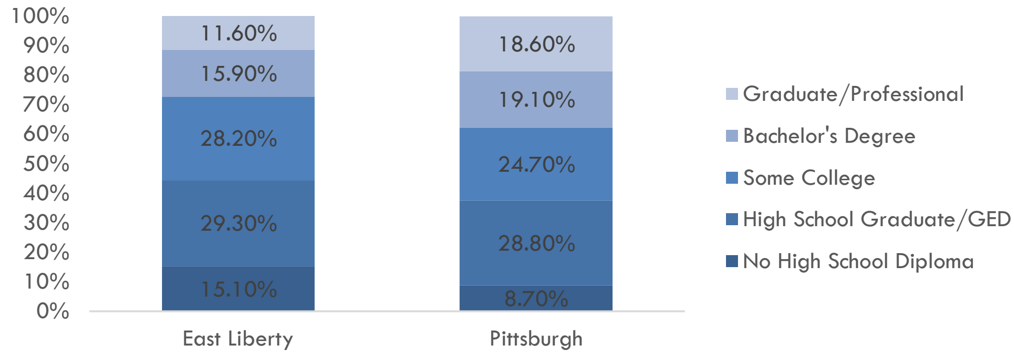
Figure 5: East Liberty Median Household Income by Income Cohort

Household Income	2000	2008	2015
Less than $15k	43.2%	39.3%	35.2%
$15k - $24k	17.9%	17.8%	19.4%
$25k - $34k	13.8%	13.9%	17.5%
$35k - $49k	11.5%	12.5%	10.2%
$50k - $74k	7.8%	9.2%	8.6%
$75k - $99k	4.0%	4.1%	4.9%
$100k - $149k	0.1%	2.2%	3.3%
$150k - $499k	1.0%	1.0%	.8%

Source: ESRI, Claritas, East Liberty Community Plan

East Liberty's educational attainment is relatively low compared to the city. East Liberty's population has higher high school attrition rates than Pittsburgh, with 15.1% not completing a high school degree, versus 8.4% of the city. Only 27.5% of the population of East Liberty has completed a full four-year college degree, compared with 37.7% of the total population.

Figure 6: Educational Attainment in East Liberty and Pittsburgh



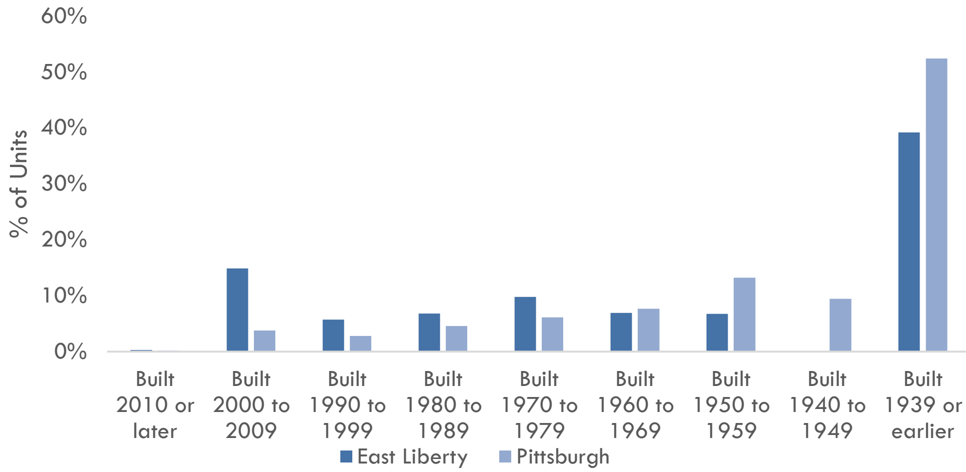
Source: ESRI

Residential: Housing Stock & Market Trends

East Liberty's established residential areas are primarily found along the northern and western edges of the neighborhood, those surrounding the Mellon's Orchard site, with lower-scale development varied between single-family homes and moderately-size apartment buildings. The southern portion of the district, the core of the urban renewal district, has historically been commercial in nature.

Age of housing stock. The majority of structures (62.5%) in the study area were built over 50 years ago. However, from 1970 onwards, new residential construction in East Liberty has outpaced the city as a whole, and was particularly robust in the 2000s, which contributed 536 units to East Liberty's housing stock, 15% of stock compared with 3.8% of the citywide total.

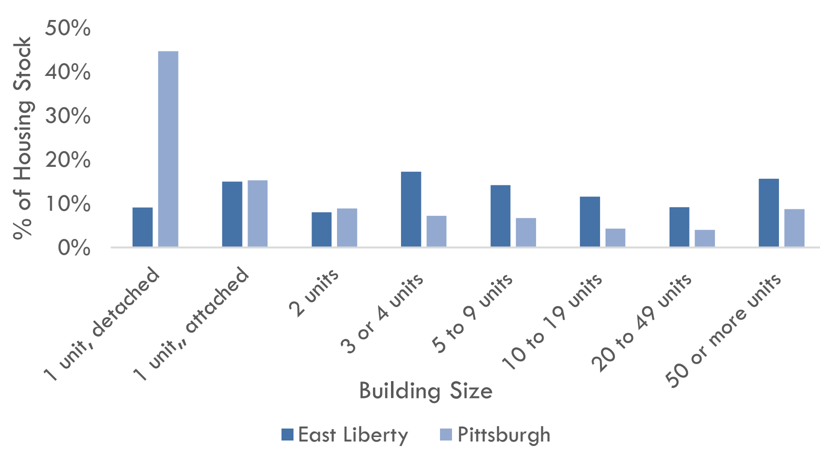
Figure 7: Housing Stock by Build Year



Source: ESRI, U.S. Census

The majority of housing units in the study area are in small to mid-sized multifamily buildings. In contrast to lower density single-family neighborhoods found throughout Pittsburgh, East Liberty is characterized by a mix of townhomes, smaller multifamily rental buildings, garden apartment-style complexes, and a few larger rental buildings with a large component of affordable rental units. Within the 3,699 housing units in the study area, 24.1% are single family, compared with 60% citywide. 24.8% of units are contained within buildings with over 20 units, compared with 12.7% citywide.

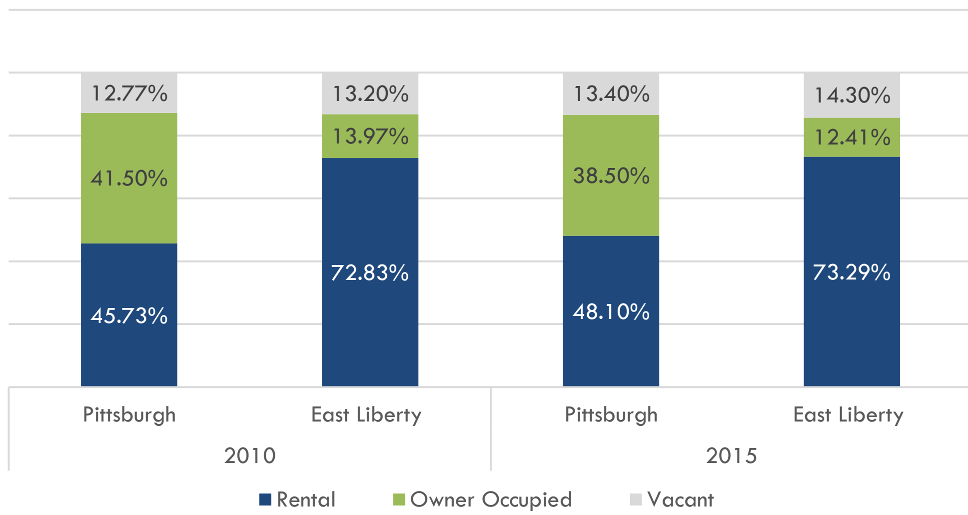
Figure 8: Housing Stock by Building Size



Source: ESRI, Census

East Liberty is well positioned to meet increasing local demand for rentals. Pittsburgh is currently split nearly equally between owners and renters but has been trending towards renters since 2000, with an increase from 42% to 48% renter-occupied units during that time period. Of the 3,699 units within East Liberty, 73.3% are renter-occupied and 12% owner-occupied, with that split remaining relatively constant since 2000, as a result of most new construction continuing to be marketed as rental.

Figure 9: Housing Tenure within East Liberty and Pittsburgh



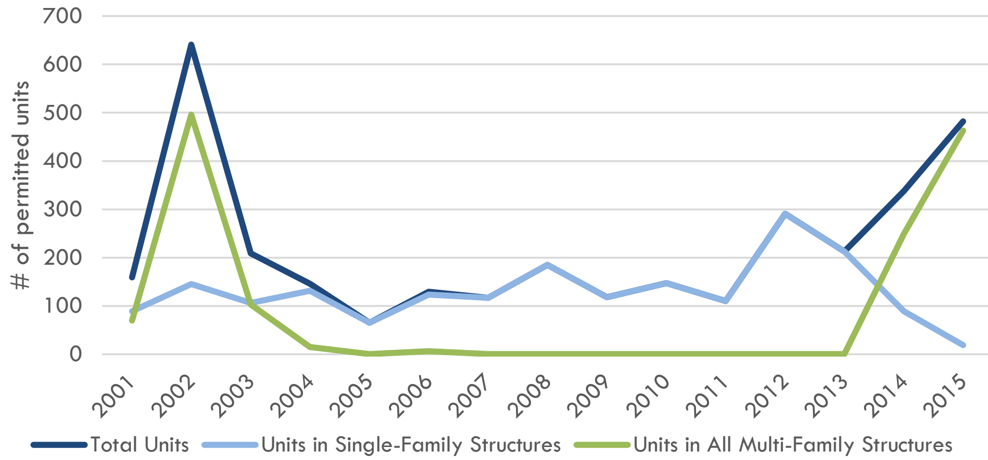
Source: ESRI, U.S. Census

For-sale properties are a modest portion of both existing stock and pipeline The 459 owner-occupied properties currently within the area are predominantly single family homes, with over 50% of occupants having been in those homes for over 35 years. New construction in the area has not included for-sale property, with the notable exception of Bakery Square Village currently under construction, discussed further below. Condo production in larger format multifamily buildings has not had much of a track record in the Pittsburgh market in the past, however, developers noted some future potential for a condo market, particularly in areas such as the Strip.

A strong component of the East Liberty housing stock is composed of regulated, affordable units. A total of 38% of East Liberty housing stock is regulated, affordable rental units, with many making use of LIHTC, Section 8, supportive housing, and senior housing subsidy programs. Of units created since 2000, nearly 70% have incorporated public subsidy. However, in recent interviews, developers with a focus on affordable housing development noted a tightening of available financing for affordable housing product, potentially straining the potential for new affordable housing in the area.

Multifamily development in East Liberty reflects a citywide upward trend. In line with the increasing demand for apartment living, production of multifamily units is peaking throughout Pittsburgh. The current peak is on par with a previous peak in multifamily production, while a smaller steady flow of single family production persisted through the recession even as multifamily projects flatlined.

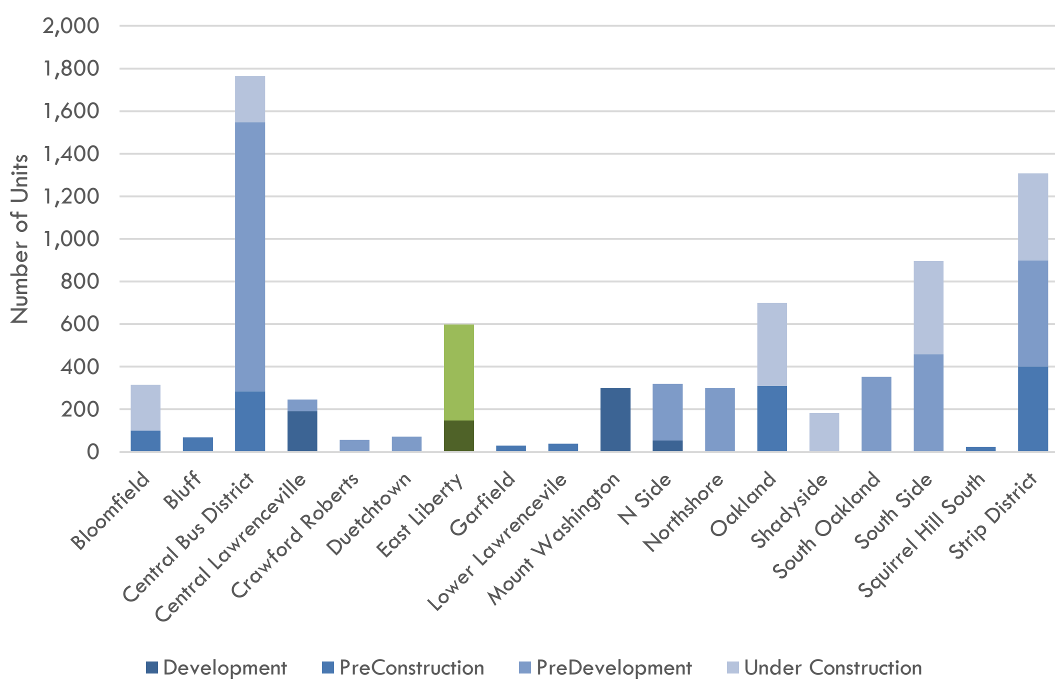
Figure 10: New Residential Permits 2001-2015



Source: ESRI, U.S. Census

The multifamily housing pipeline is anticipated to remain strong into the near-term future, based on projects currently under construction and proposed. Based on recent analysis performed by the Urban Redevelopment Authority, there are approximately 10,000 units currently in the development pipeline, including projects from construction to proposed projects, with delivery of 1,000 to 1,500 units per year anticipated over the next two years.[1] The bulk of new units are anticipated in the CBD, but with approximately 600 units anticipated in East Liberty and immediately surrounding developments (including EastSide and Bakery Square), the area is set to expand its stock by nearly 16%.

Figure 11: Pipeline of New Housing by Neighborhood

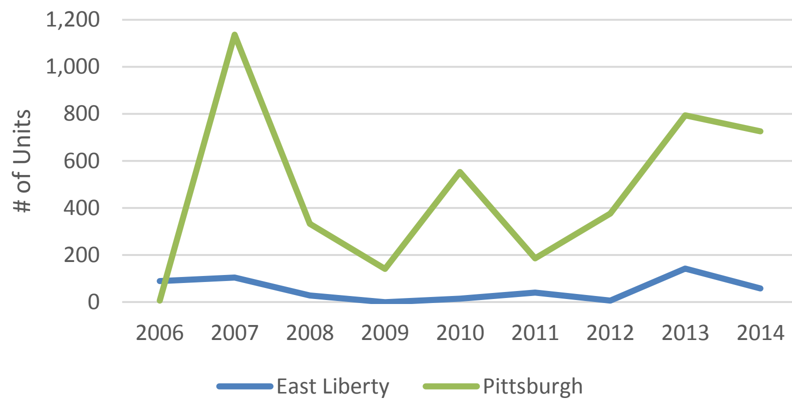


Source: ELDI

[1] Reflects the sum of projects classified as in "Development, Pre-Development, Pre-Construction, and Construction" within URA's multifamily market study data.

As production peaks, absorption has slowed, and should be carefully monitored as new product is considered. Pittsburgh is experiencing slower absorption rates in 2015 as a significant number of units come online. Absorption within East Liberty reflects these trends, though with a slower decline in absorption to date. If residential uses are considered for the Mellon's Orchard site, appropriate phasing and a longer-term strategy are necessary to ensure that development on the site is correctly paced for the market.

Figure 12: East Liberty Absorption of Units 2005-2015



Source: CoStar

Effective rents in East Liberty have been increasing steadily for over a decade, at roughly 2.25% per quarter. Today, average asking rents are approximately $1.30 per square foot, slightly higher than the citywide average of $1.26 per square foot. These rates are reflective of both affordable units with rent restrictions, as well as recent construction properties with asking rents as high as $2.20 per square foot (especially in new developments including a higher level of amenities, described further below).

High vacancy rates for the total residential market do not capture a tight multifamily market. Residential vacancy in East Liberty remains high (14% in East Liberty, 12% in Pittsburgh). However, the market for multifamily properties is reported to be much tighter both citywide and in East Liberty, where vacancy has been relatively constant around 3-4% for over a decade.

Pipeline Residential Development

Over 500 new units will be delivered in East Liberty between 2014 and 2015, with several additional projects in the planning stages. Outside of East Liberty, neighborhoods including Bakery Square and the Strip are also experiencing a burst of multifamily development activity, described further below. These projects represent the pipeline and stock that will be directly competitive with development on the Mellon's Orchard site, including in adjacent and comparable neighborhoods.

Figure 13: Recent and Pipeline Residential Development

Property	Address	Opening	Total Units
East Liberty:			
Walnut on Highland	6000-6018 Penn Ave	2012 (Conversion)	117
The Penn at Walnut on Highland	123 South Highland	Summer 2016	75
Comparable Properties:			
The Yards at 3 Crossings	2634 Railroad Street	Spring 2016	300
Bakery Square Blue	6454 Living Pl	Summer 2016	176
Bakery Square Orange	6480 Living Pl	2014	176
Bakery Square Village	6454 Living Pl	Summer 2016	52
The Emerald, Oxford on Centre Ave	5739 Centre Ave	Under permitting	146
East Side III	East Side Transit Center	1st phase 2016	360

Walnut on Highland: Opened in 2012, the Walnut on Highland by Walnut Capital delivered 117 units in a converted bank building. Rents in the building range from $1300 for a typical one-bedroom and $1,870 for a two-bedroom.

Penn at Walnut on Highland: Following the success of the Walnut on Highland, Walnut Capital is constructing an additional 75 units in a new adjacent building. The building contains 49 studios, 16 one-bedrooms, and ten two-bedrooms, with rents starting at $1100-$1200 per month.

Immediately outside of East Liberty and in neighborhoods closer to the downtown core, developers are creating mid-scale and large-scale residential projects that seek to attract the same market that could be captured on the Mellon's Orchard site. These include:

Bakery Square: A six-acre development by Walnut Capital, includes three residential components: Bakery Living Orange, a 176-unit rental building which opened in 2014, Bakery Living Blue, an additional 176 rental units currently under construction, and 52 for-sale townhomes also currently under construction. The rental buildings are approximately 25% studio, 50% one-bedroom, and 25% two-bedroom, with rents ranging from $1,400-$2,000 (approximately $2.50 per square foot). The townhouses will start in the high $400,000s.

The Emerald on Centre Ave: Oxford Properties is developing The Emerald, which will be a 146 unit building featuring 32 studios, 106 one-bedrooms, and 8 two-bedrooms. The project will also include a fitness center and a bike shop. This project is currently under review by the Zoning Board. Rents are anticipated in the $2.20-$2.30 per square foot range.

East Side III: The 14-acre development site surrounding the East Side Transit Center will enter its third development phase this year. Under control by Mosites Development, the site is planned for three additional residential buildings totaling 360 units, the first of which is under construction, as well as an additional 50,000 square feet of retail space.

The Yards at 3 Crossings: Within the Strip, Oxford Properties is creating a large mixed-use development, for which the office component is described later in this report. The residential component, the Yards, is a 300 unit residential component of the 16-acre 3 Crossing development, which will also include retail and office components as part of a TOD strategy to connect the Strip, downtown, and East End neighborhoods. Projected for occupancy in spring 2016, the building will have units ranging from 474-1,198 square feet in size, with a 70/30 split between smaller and larger units. The development will also include an outdoor courtyard, pool, fire pit, access to river trail, fitness center, lounge, game room, bar and kitchen area, conference and workrooms. The building is being constructed to LEED Silver standards. Rents are anticipated in the $2.10 per square foot range.

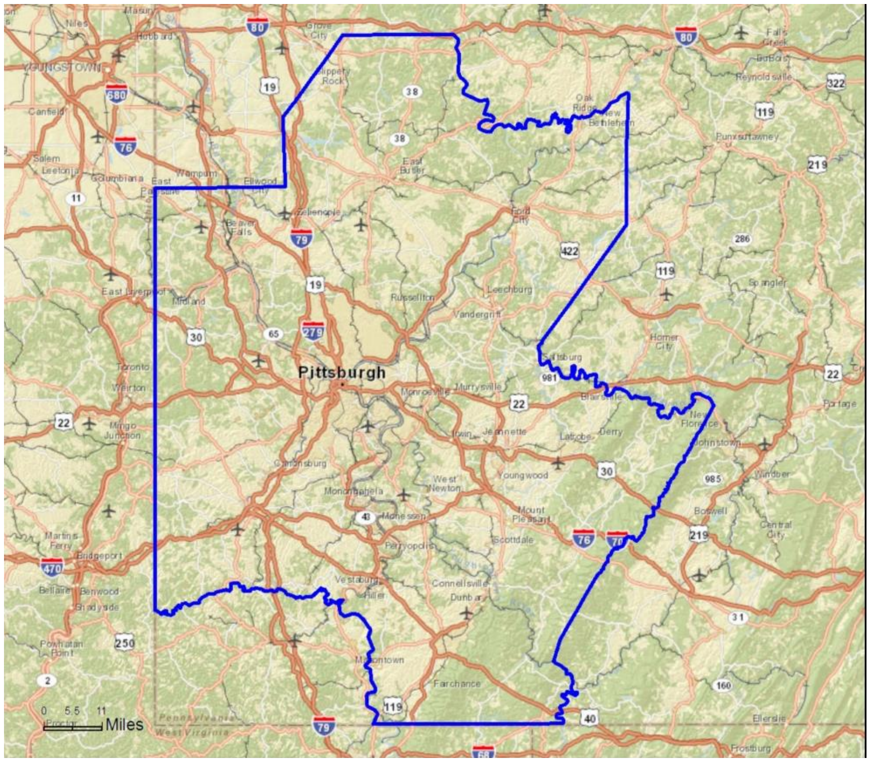
Residential Demand Analysis

Demand Projections

To project potential demand for new residential units within East Liberty study area, HR&A analyzed data from the US Census Bureau, ESRI, and other national data sources. The following methodology provides a quantitative estimate of the potential for average annual absorption within the study. This analysis considered the following factors:

- ***Residential Catchment Area:*** HR&A analyzed the entirety of the Pittsburgh Metropolitan Statistical Area (MSA) as the basis for a catchment area for housing within East Liberty. Households living in or considering moving to this market constitute a market for residential development, particularly given a relatively centralized base of employment in the CBD market, mobility within the MSA given Pittsburgh's predominant car culture, and application of a factor to filter results for a "preference for urban living," described further below, which differentiates between households in the market for urban product versus suburban formats.

Figure 14: Residential Catchment Area, Pittsburgh MSA



Source: ESRI

- ***Required Household Income:*** HR&A established an appropriate income bracket as a baseline income required for current identified market-rate units, and evaluated the total number of households within this range by age of head of household and household income.
  - ***Rental:*** Based on current market-rate rents as noted above, and national guidelines for housing expenses in relation to household income (that housing should be no more than 30% of household income), HR&A set income parameters to support new rental product between $35,000 and $99,999 in annual household income.
  - ***For-Sale*:** Given the strong market preference for rental units in this area, the analysis focuses on rental properties. While anecdotal comments from the development community suggest a potential for future for-sale multifamily property, there is minimal established pipeline for such product and thus minimal information regarding the absorption of such product as distinct from rental units.
- ***Turnover Rate:*** HR&A applied turnover rates for renters to this sample to generate the total residential demand within the study area. Turnover rates were calculated using US Census Bureau data regarding the portion of renters who remain in the same place of residence from year to year. For renters, HR&A calculated the annual turnover rate, based on the average turnover for renters within the identified income bracket, which equates to 27% of the total pool of qualified renters (by income).[2] This 27% represents the number of renter households who will be "in the market" to move into a different housing unit within the catchment area.
- ***Preference for Urban Neighborhoods:*** HR&A then calculated demand for housing units in an urban setting by applying a factor for preference for urban living, grouped by the same age

[2] ACS home ownership and rental turnover data, 2008-2013 Estimates

cohorts used to analyze households by income, based on responses to a 2011 survey by the National Association of Realtors. Demand for urban living captures factors such as a desire to live in a walkable location, near retail and restaurants, and in an apartment setting, reflecting the type of dense development that could be considered for the Mellon's Orchard site.

- ***Long term growth projections*** are not considered, however, given a relatively static total population we do not believe growth projections are an impactful factor.

HR&A's analysis resulted in MSA-wide demand for approximately 2,276 units of rental product, reflecting a snapshot of current demand for 2015. To evaluate the portion of demand that could potentially be absorbed within East Liberty, HR&A applied a range of capture rates to model the potential annual absorption of rental units that are in demand within East Liberty (as shown in **Figure 15**). Capture rates are based on the historic proportion of multifamily construction within East Liberty in relation to the total multifamily construction within the MSA, which has ranged from East Liberty absorbing 2% of MSA-wide new construction, to 5% of MSA-wide new construction over the past ten years. Historic absorption data considers both affordable and market-rate units, for which HR&A assumes affordable units are absorbed promptly. As financing for affordable units becomes more limited, and potentially slows production, absorption may decrease slightly.

Figure 15: Residential Demand Summary

Age of Householder	Total Households	Renters	Turnover Rate	Preference for Urban Living	Demand for Downtown Housing
< 25	13,110	56%	27%	18%	354
25-34	65,628	39%	27%	13%	850
35-44	66,985	26%	27%	7%	309
45-54	83,799	24%	27%	5%	265
55-64	90,562	22%	27%	4%	211
65-74	74,298	21%	27%	4%	167
75+	49,149	23%	27%	4%	120
Total	311,689	37%	27%		2,276

Capture Rate	***2%***
Potential Annual Absorption	**46**
Capture Rate	***5%***
Potential Annual Absorption	**114**

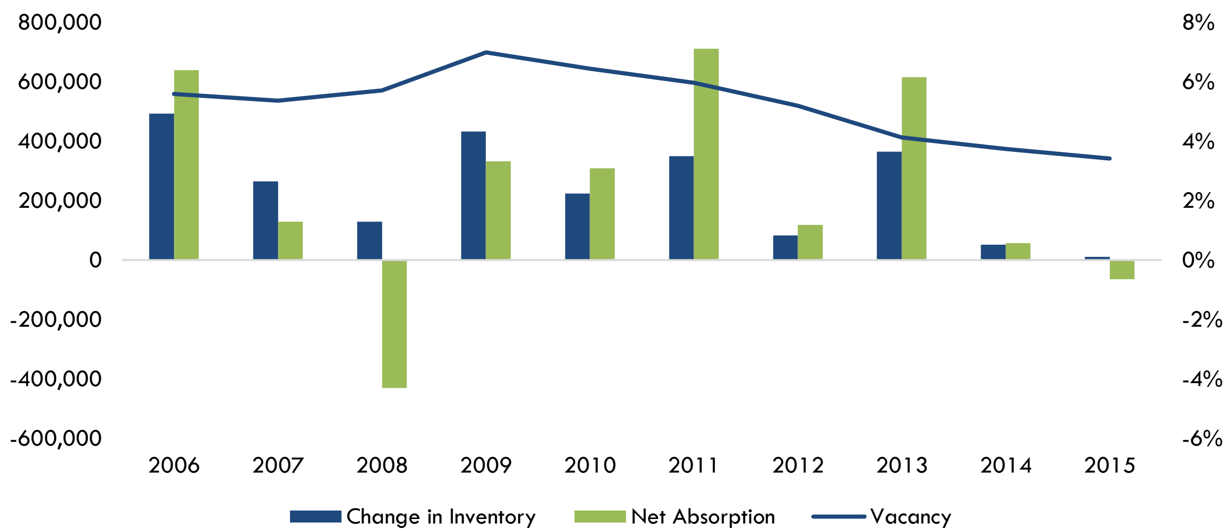
Source: US Census Bureau, ESRI, National Association of Realtors

Based on these assumptions, there is a market for 46-114 units to be delivered annually as multifamily rental units on the Mellon's Orchard site. Rents achieved could likely mirror those seen in Bakery Square or the Walnut on Highland, given an appropriate level of amenity that matches the lifestyle expectations of residential consumers. However, given the high level of development in the short term both within East Liberty and citywide, careful attention should be placed on the timing of product delivery and potential phasing strategies.

Retail: Stock & Market Trends

The retail market is strong throughout Pittsburgh. Over the last decade, absorption has kept pace with, and often exceeded, the delivery of new retail space throughout the urban core. As such, vacancy rates within Pittsburgh have remained low – 3.4% in the first quarter of 2015 – and they continue to fall. In comparison, the broader Pittsburgh metro area had a slightly higher vacancy rate in the first quarter of 2015 at 3.7%. These indicators point in a very positive direction for Pittsburgh – signaling that retail product throughout the city is in high demand. Average rents in Pittsburgh are about $12.70 triple net, per square foot. However, rents are variable depending on the neighborhood, and desirable sites can command higher rates, especially for national retailers.

Figure 16: Pittsburgh Retail Market Trends

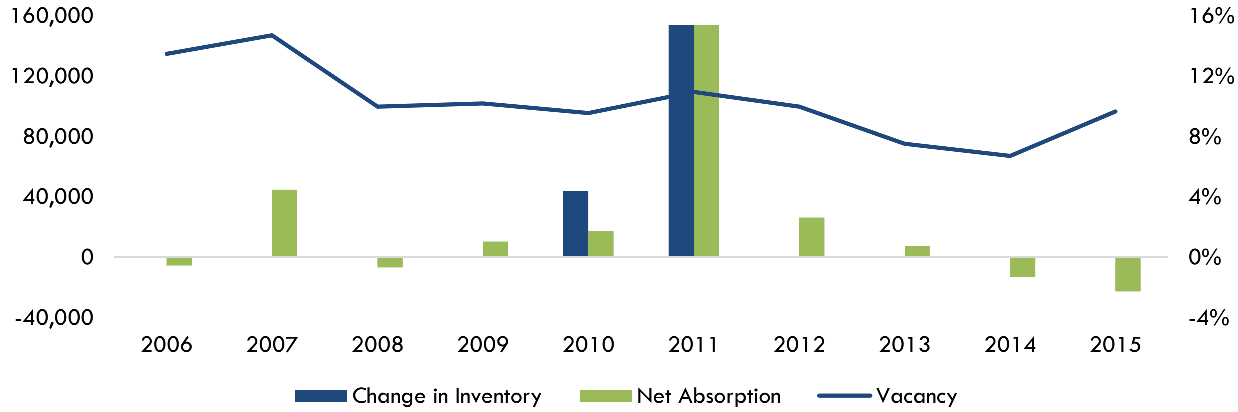


Source: CoStar

In the aggregate, East Liberty's retail market does not perform as strongly as the citywide market. However, a number of new developments point to a pivot of the market to a much stronger position. In East Liberty, vacancy rates are significantly higher than Pittsburgh, at 9.7%. Vacancy rates have hovered around 10% since 2008. However, retail rents do command higher rates than citywide averages, at an average of $19.70 triple net in the first quarter of 2015. This average is likely driven upwards by the plethora of national retailers located along the edges of East Liberty.

The opening of Target in Mosites' EastSide development was a significant milestone for East Liberty as the largest major retail space delivery in recent years. This came in response to local planning efforts that suggested placing new development at the neighborhood's outer edges as a strategy to create "strong edges" that could facilitate the development of a strong core. The idea of the "strong edges" was suggested in the 2007 Streetworks plan that also called for an immediate "Centre Avenue Strategy" and an anchor tenant where Target now sits. The development of Target also fell in line with suggestions for a new format for retail in the area – one that places more emphasis on attracting national and big-box tenants.

Figure 17: East Liberty Retail Market Trends



Source: CoStar

East Liberty Retail Context

A challenged local retail market in East Liberty stands in contrast to the success of large-scale retail-driven developments at and outside of the edges of East Liberty. Penn Avenue, one of the main corridors through East Liberty has seen relatively weak retail development in recent years, with local retailers like Zeke's Coffee struggling to maintain their brick and mortar locations, and remaining with an outpouring of community support. Local developers also reported difficulty quickly absorbing new retail spaces, and much of the ground-floor retail includes convenience and drugstores, such as CVS and Rainbow, or recently, a new gym. Bright spots exist at the junction of Centre and Highland Avenues, where a small number of local delis and restaurants, including Paris 66 and Everyday's a Sundae café, have located. Further along Centre and Highland, new restaurants including Spoon on the corner of Centre and Highland and Pig and Chicken on Highland and Harvard Street, have attracted neighborhood attention, and may provide a link to the Highland Corridor flowing into Shadyside, where there is a stronger local, food-driven retail corridor.

National and big-box retailers have strengthened the edges around East Liberty, and have performed well since opening. One of the first, Home Depot was the beneficiary of public funding that helped convince the chain to move to East Liberty, and may have contributed to many of the subsequent successful developments, including Whole Foods, the first anchor tenant in the five-phase EastSide development by Mosites, opening in 2002. While at first thought to be misaligned with the character of East Liberty, Whole Foods has proven to be very successful and operates at three times the initial projected sales rate. The success of Whole Foods spurred confidence for subsequent phases of development. EastSide II was completed in 2007, and includes major national retailers like Walgreens, Starbucks, PetSmart, and Chipotle. The final two phases – EastSide III and EastSide IV – will include a mixed-use development and a transit center. The mixed-use development will be home to 360 residential units and 40,000 square feet of retail space. The multi-modal transit hub will offer residents easier access to other parts of Pittsburgh, while also making East Liberty more accessible to residents of Pittsburgh Proper. EastSide has attracted a number of smaller local shops as well, including Top Gear Bicycle Store, Plum Pan, Asian Kitchen, and Dinette, all of which influence and add to the character and vibrancy of the Centre Avenue Corridor.

While not technically in East Liberty, Bakery Square has contributed to the influx of new retail in the area as a "strong edge" development. Bakery Square opened in 2010 as a mixed-use development including Office, Hotel, and Retail space – its main success has been in drawing many new workers to the area and presenting appealing facilities for residents. The site includes over 120,000 square feet of ground-floor retail space, as well as a 41,000 square foot anchor fitness center – Urban Active Fitness Center. The retail tenants include Anthropologie, Free People, Coffee Tree Roasters, Panera Bread, and Jimmy Johns. The retail in Bakery Square offers attractive amenities to employees of the firms that rent office space in Bakery Square. Bakery Square's success as a center for office and retail has contributed to the development of Bakery Square 2.0, which will include both office and residential property.

Retail Gap Analysis

HR&A assessed demand for new retail space in East liberty by looking at the spending potential in the vicinity. We considered spending potential for the three following groups:

- Households within a ten-minute drive of the Mellon's Orchard site: **61,217 households**
- Office workers employed within East Liberty: **20,113 workers**
- Visitors to Pittsburgh each year, with East Liberty anticipated to capture a modest share of these visitors, mainly those who are attracted to the area's reputation as part of the "cool" redeveloping East End: **3,126,000 visitors**

If the combined spending potential of these three groups exceeds the current sales for the area, there exists an opportunity to bring new retail space to the area to satisfy that spending gap. HR&A assessed the potential for each type of retail store by categorizing stores into either "convenience" or "comparison" retail categories. When analyzing convenience retail – grocery stores, drug stores, etc. – we considered households within a ten-minute drive of Mellon's orchard. When analyzing comparison retail – home furnishing, clothing stores, etc. – we considered households within a twenty-minute drive of Mellon's Orchard. For both, we analyzed all workers in East Liberty and all visitors to Pittsburgh.

HR&A then quantified the total population of consumer groups within the study areas. To determine the total share of households in our two study areas HR&A used data from ESRI, a national data provider. To understand worker spending, HR&A used average worker spending data according to a 2008 ICSC study on worker spending, combined with Census data from LED on the Map. For visitor spending and tourism numbers, HR&A relied on data from Visit Pittsburgh, and estimated the portion of visitors who visit Pittsburgh from the ratio of hotel rooms found in Pittsburgh versus all of those found in Allegheny County with data provided from STR.

To quantify spending potential, HR&A applied specific capture rates to each consumer group, which represent an estimate of how much total retail demand we believe can be realistically captured by a new retail development. Our capture rates are based on an understanding of existing retail in the area and how visitors, residents, and workers may interact with and perceive new retail. Comparing total spending potential to current spending, a figure provided by ESRI, we are able to identify whether or not there is a spending gap – i.e. unmet spending potential.

Based on our analysis, HR&A has determined that there is no significant demand for new stand-alone retail space in East Liberty. This is not unsurprising given the high levels of development and investment in big-box retailers along East Liberty's edges. The area is also generally oversaturated with convenience retailers, leaving little room to capture new spending in new convenience establishments. In each case, we found that the total spending in the area currently outpaces any new potential for stand-alone retail product. However, retail may very well play a role in activating any mixed-use development, where new spending generated by on-site residents could be captured.

Conclusions

East Liberty's retail market is already performing well along its edges, which strengthen and influence East Liberty's retail corridors at Penn, Highland, and Centre Avenues. New retailers and food shops continue to move to East Liberty as retail located along the "strong edges" has proven to be successful in catalyzing development along traditional retail corridors. Furthermore, the success of larger retailers along the edges of East Liberty has caused a rise in rents to a significantly higher level than found in greater Pittsburgh.

There is not new demand for mid to large-scale retail at the Mellon's Orchard site, given the presence of large retailers around East Liberty's edges. Our analysis showed that the market will not likely support new stand-alone retail space. However, retail may be a key ingredient in creating an active ground floor and lively, mixed-use site. Moderate, well-curated ground floor retail could prove to be very attractive to office tenants as well as to visitors to the area.

OFFICE

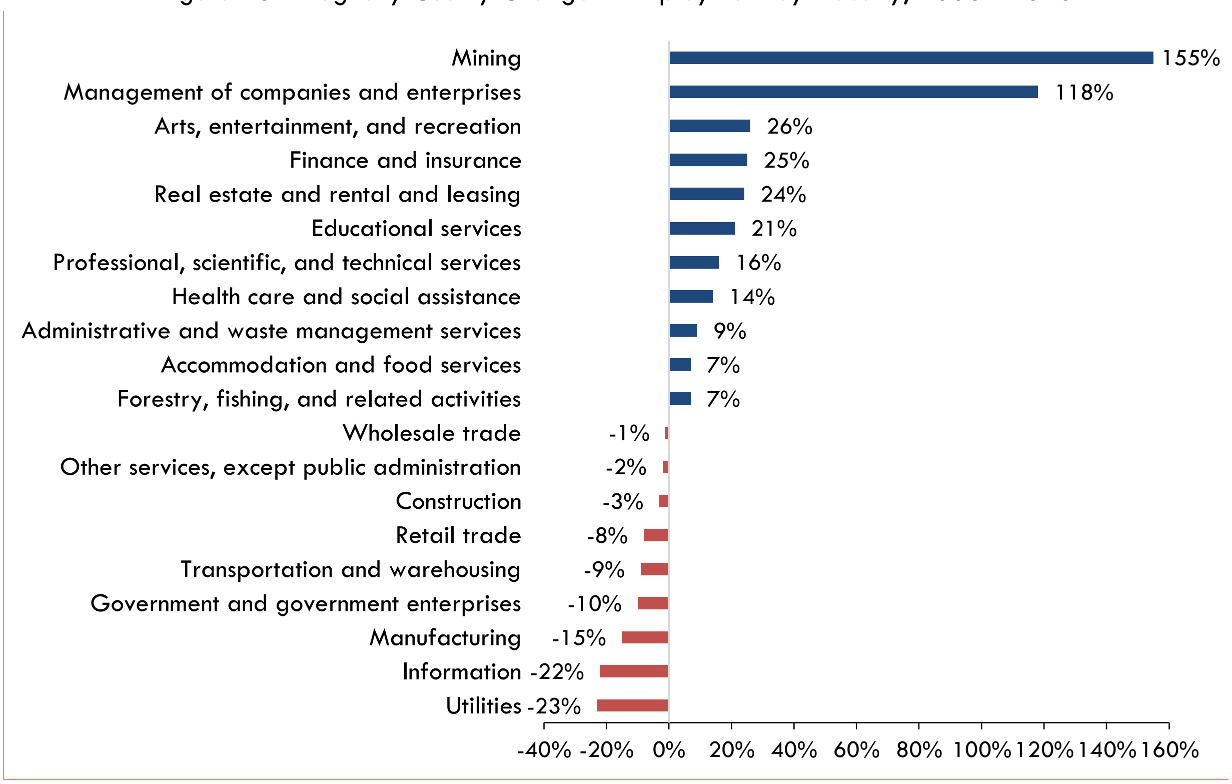
Office Market Character

The Pittsburgh office market, made up of about 76 million square feet of space, has performed well over the last decade. Much of this space is Class B, available at rental rates below the market average for Class A. However, new construction that is occurring is largely outside of the downtown core, as employers are seeing advantages to locating near great amenities for their employees, especially within mixed-use developments and non-traditional neighborhoods. These market trends, and Pittsburgh's unique market office opportunities are described below.

Economic Analysis

Allegheny County added approximately 70,000 new jobs in the decade between 2003 and 2013, with the largest growth seen in mining and management of companies and enterprises, as shown in**Error! Reference source not found.**. While the mining sector has grown over the past decade, it remains a relatively small sector, and not one that would likely require the type of office space that could be considered for the Mellon's Orchard site. However, the growth among management, finance, and professional services indicates that there is continued demand for new office product – especially when coupled with the notion that many firms are seeking to attract employees by locating themselves near great retail and amenities. Growth in management sector jobs could imply a growth of both new and traditional firms throughout the region, while the growth of the arts and entertainment sector and the scientific and technical sector could point to new demand for urban flex space – which has shown to be successful in other parts of Pittsburgh.

Figure 18: Allegheny County Change in Employment by Industry, 2003 - 2013

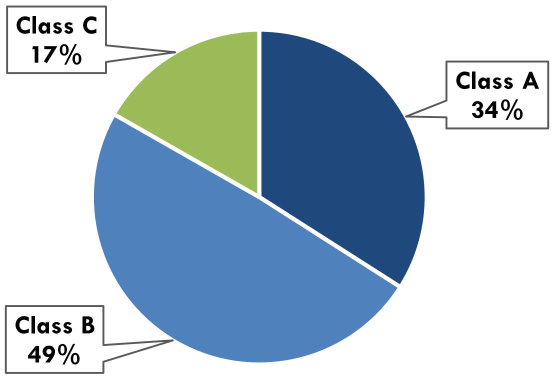


Source: Bureau of Labor Statistics

Market Trends

The Pittsburgh office market is performing moderately and is slowly strengthening. The average vacancy rate for Pittsburgh proper is 8.4% with Class A and Class C space having lower vacancies than Class B space. Compared to the Pittsburgh Metro area – with a vacancy rate of 8.1% - Pittsburgh proper is experiencing a slightly elevated vacancy rate. However, absorption has kept pace with new deliveries – contributing to a steady decline in vacancy rates since 2007. Rental rates are performing well, with Class A space commanding rates of about $24.80 per square foot and downtown Class A space specifically is commanding rates of $25.90 per square foot.

Figure 19: Pittsburgh Office Class



Source: CoStar

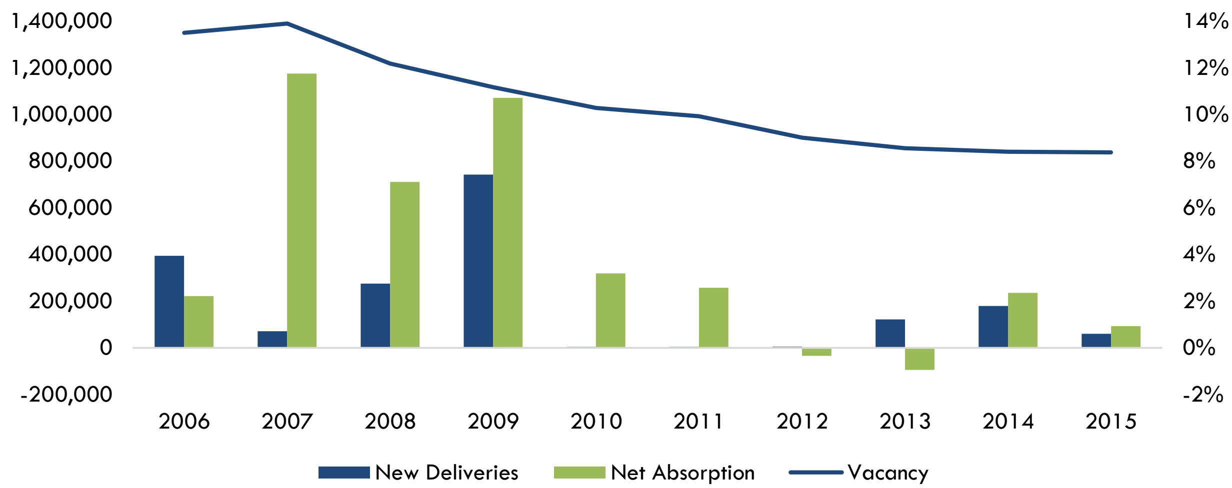
Figure 20: Pittsburgh Rental and Vacancy Rates

	Rental Rate	Vacancy Rate
Class A	$24.81	5.1%
Class B	$19.41	10.5%
Class C	$16.23	6.8%
Total	$20.95	8.4%

Source: CoStar

Pittsburgh is seeing a significant amount of new construction, with three new buildings completed in the first quarter of 2015, for a total of about 300,000 square feet. There is also another 1.7 million square feet of new construction underway in the longer-term pipeline in the Pittsburgh metro area, 500,000 of which is in Pittsburgh proper. Of the space under construction in Pittsburgh proper, about 75% of it is already leased – indicating high demand for office space. Despite traditional firms condensing into smaller office space or downsizing in Pittsburgh, many users – especially tech and tech-related firms – are moving into new office space outside of the traditional CBD. Firms are moving into up-and-coming neighborhoods and developments like Bakery Square and the Strip that offer food and other amenities to employees. This trend has produced positive effects in the office market overall such as reduced vacancy rates and slowly increasing rents.

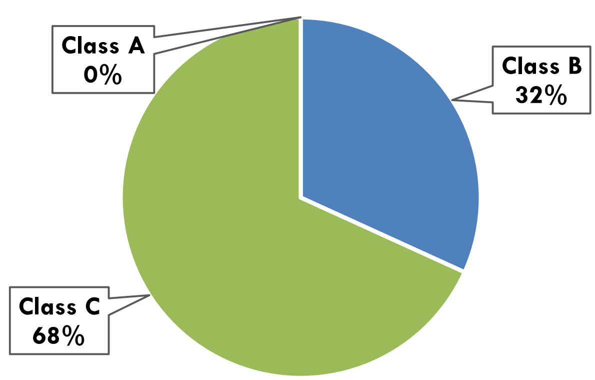
Figure 21: Pittsburgh Office Market Trends



Source: CoStar

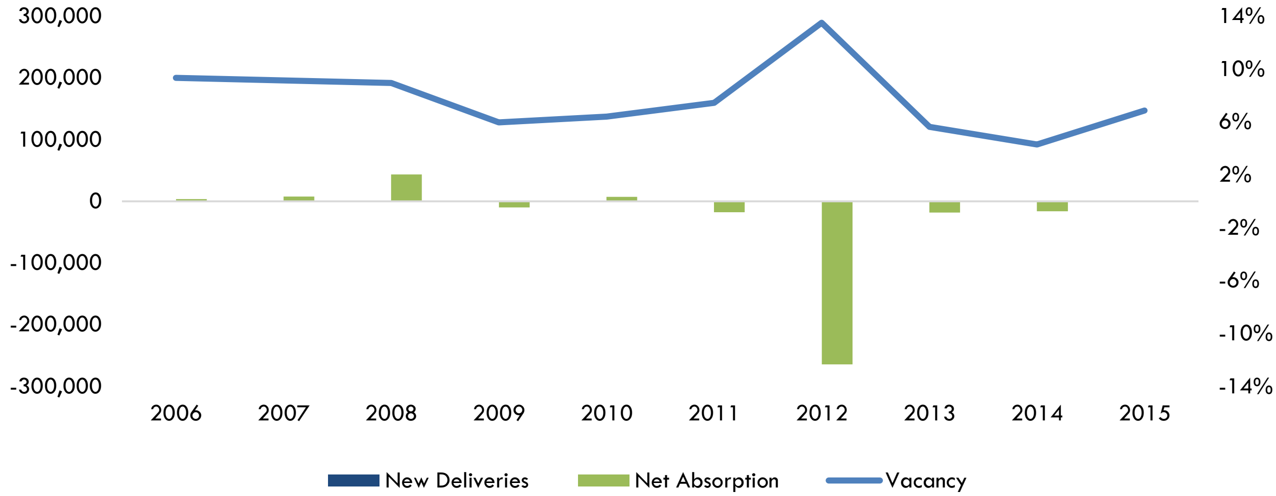
The East Liberty office market is saturated with Class C space, and has not performed as strongly as Pittsburgh as a whole. Office space in East Liberty makes up a relatively small share of total office space in Pittsburgh – just under 900,000 square feet total, as this is not a traditional office market, and much of this is Class C space. Class B office space has a very high vacancy rate of 17.5%, while Class C space experiences a much lower vacancy rate. Average rents are in line with the citywide Class B average, with an average just under $19 per square foot for all East Liberty space. Save for a relatively large loss of space in 2012, absorption has been relatively flat, with the decline in vacancy due to product removal from the market rather than new absorption. No Class A space currently exists within the neighborhood which stands in juxtaposition to neighborhoods nearby which have used new or refurbished Class A space to successfully draw tenants like Google and Apple. While East Liberty itself may not yet be considered a hub for office space, recent trends in East Liberty and in Pittsburgh as a whole point to new emerging trends in local office use that could potentially find a home in East Liberty.

Figure 22: East Liberty Office Class



Source: CoStar

Figure 23: East Liberty Office Market Trends



Source: CoStar

Office Space for the Innovation Economy

A new and unique office market trend, seen in Pittsburgh and across the country, is also being experienced in East Liberty. The Beauty Shoppe and The Cube offer incubation and co-working space for very early-stage companies. These companies differ from larger, more traditional operators of co-working space in that they tend to target companies who are exceptionally early on in their careers, while other co-working spaces tend to attract growth-stage companies. Due to the unique advantages offered by co-working spaces, they tend to be very popular among early-stage tech companies.

The Beauty Shoppe was opened in 2011 as a co-working space for entrepreneurs and startups from a wide range of industries. The Beauty Shoppe – converted from a former beauty shop into a co-working space – offers about 4,000 square feet of shared space to its members. The Beauty Shoppe offers memberships between $100 - $350 per month, which includes office space that is open 24/7 and offers coffee, printing services, conference rooms, and event spaces. The founders view this as investing in "space as a service" – a potentially new model for office space in East Liberty, that has precedent in other cities across the country. This type of space is invaluable to new firms that benefit from collocating with other early-stage firms who can offer a network advice and support. The initial success of the Beauty Shoppe led to the opening of "The Cube" nearby.

Launched in 2014, the Cube has a similar model to the Beauty Shoppe but focuses on slightly-more established firms that would benefit from their own enclosed office space. The Cube – also a converted space – offers 20 private offices in total that can house companies with up to 15 employees across 10,000 square feet. The space also houses a lounge area, event space, a gym, a bike store, and a chiropractor. The Cube offers an opportunity for Beauty Shoppe companies to move to their own private space while still being a part of the co-working community that the founders have created.

Other office trends in Pittsburgh reveal a market that is adapting to meet emerging and changing needs of tenants across the city. For example, a property owned by Bridgeway Capital in Homewood has been converted from a factory to an innovative, multi-story space for production, including space for artists and light manufacturing, and workforce education. The industrial-quality space located on site allows tenants to access the necessary space and infrastructure to carry out their work (in varied trades), including the production of goods and provision of workforce training, and, in the future, will include gallery space available for community events. The Mellon's Orchard site could capitalize on new emerging trends in incubation and maker space in the Pittsburgh Market.

The Pittsburgh innovation economy – specifically maker and tech startups – have seen much growth in recent years. A growing number of maker companies and maker spaces have been calling Pittsburgh home - aided by programs at Carnegie Mellon, accelerators like AlphaLab, and maker spaces like TechShop in Bakery Square. Simultaneously, investment in Pittsburgh's tech sector has accelerated recently – increasing 46% in 2014 to $438 million of investment in Pittsburgh tech companies. This growth is seen both by venture capitalists and by angel investors. There is a sense throughout Pittsburgh that it is becoming a hub for a nascent tech innovation economy, and that is being driven by a growth tech and maker startups. As this sector continues to grow, new firms will require space. With the successes of incubation space like the Beauty Shoppe, new creative or co-working space at Mellon's Orchard could capture some of this new demand.

Comparable Developments

New developments in Bakery Square as well as 3 Crossings set a precedent for the type of office development that could potentially succeed at the Mellon's Orchard site.

Bakery square opened in 2010 with Google as its anchor office tenant, and within a year after moving in, Google tripled its occupancy to 115,000 square feet. Other tenants include UPMC Tech Development Center, the University Of Pittsburgh School Of Engineering, and the University of Pittsburgh School of Health and Rehabilitation Sciences. The University of Pittsburgh Dept. of Rehab science and tech leases 23,000 square feet of space in Bakery Square. Tenants pay as high as $36.00 per square foot to rent space at Bakery Square, indicating both that this is a desirable location, and that new Class A space in East Liberty could command higher rates than seen throughout the rest of Pittsburgh.

Bakery Square has been so successful in attracting office tenants due to its proximity to amenities that are attractive to their workers. Bakery Square's retail amenities are proving to be very attractive to firms who are prioritizing the comfort of their employees over locating in a perhaps more traditionally-prestigious location like downtown Pittsburgh. The success of Bakery Square has prompted Walnut Capital to move forward with the development of Bakery Square 2.0, which will include an additional 218,000 square feet office building – one third of which will be leased by Google.

The Strip is home to 3 Crossings, an 11-acre mixed-use development that will include residential units, a multimodal transportation facility, street-level retail, and a significant amount of new office space. The development will offer wholly 375,000 square feet of Class A urban flex space across 4 different buildings. Urban flex space is at once adaptable, flexible, and efficient – offering tenants the ability to rearrange their space as needed and to undertake a variety of different types of work. It can accommodate tenants who need traditional office space, space for research and development, and tech and product assembly. It allows tech companies, for example, to easily expand and contract and is not seen in more traditional downtown product.

Oxford announced that Rycon Construction will anchor the 3 Crossings project, leasing 27,000 square feet in one of the buildings. Recently, news broke that Apple will be leasing the other 26,000 square feet of space within the same building as Rycon Construction. One of the biggest draws to these companies is the other amenities that will be offered in the 3 Crossings development. Residential housing will make it easier for employees to be close to work; street-level retail, restaurants, and pubs offer easily accessible entertainment, and a multi-modal transit hub will allow commuters an accessible workplace. Oxford expects to charge $26 per square foot for tech and established tenants.

Conclusions

Any new development in East Liberty could be successful in attracting tech companies in the future. The growth in the professional and scientific services sector in Pittsburgh as a whole, and the growing presence of tech companies in Pittsburgh inspires confidence in tech as a growing industry. Aside from Google and Apple, Uber recently announced that it will build a new Advanced Technology Center in Pittsburgh, and the global IT firm –

Computer Sciences Corporation – is relocating from Falls Church to Pittsburgh. Other urban markets reveal that tech companies and tech professionals tend to cluster in specific areas – like Silicon Alley in New York, Silicon Valley in the Bay Area, and Silicon Beach in Southern California. Many smaller startups are drawn to clusters and networks of early-stage tech companies that can offer support and resources they would not find otherwise. The Mellon's Orchard development could tap into this new growth.

As a new office space, the Mellon's Orchard site would be the only Class A space in East Liberty. This poses the advantage of limited competition within East Liberty itself; however, it also poses a challenge of higher rental rates for tenants and higher construction costs for the developer. It is likely that the Mellon's Orchard site will have more success in attracting established firms rather than early-stage tech firms that can be found in the Beauty Shoppe and The Cube. From our interviews and research into new office development in the area, we have come to understand that the success of a new office development would largely depend on the accompanying amenities – retail, restaurants, a gym, etc. Firms will be attracted to the amenities and opportunities that any new development could offer to their employees.

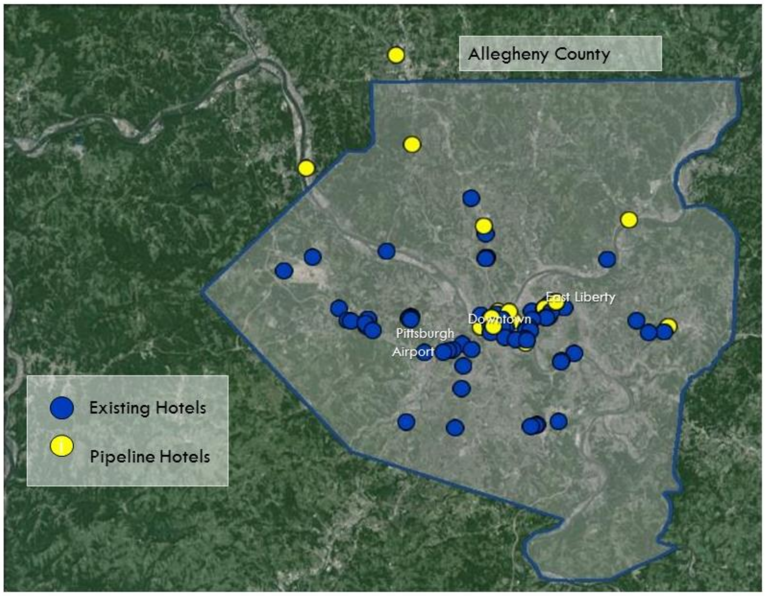
Developer conversations noted a demand for spaces between 20,000 to 30,000 square feet of office space, geared toward established and growing companies, with potential for additional development and absorption coming from the numerous small firms who are locating throughout Pittsburgh. Assuming that job growth continues throughout the county (an average of 7,000 jobs per year over the past 10 years), this could equate to over one million square feet of demand for new office space, assuming that all new jobs require an average square footage between 150 and 200 square feet. However, in considering the market for new office development, we also consider the current pipeline within the Pittsburgh urban core, set to absorb almost half of this demand, and potential for East Liberty to attract some demand where it has not historically, suggesting a low capture rate. If East Liberty captured a modest amount of new demand (after absorption of the current pipeline), it could potentially support between 25,000 and 85,000 square feet of new office space. However, this development would likely be led by an anchor tenant, suggesting that developers may seek to have commitments in place before taking on the risk associated with new construction in the area.

The Mellon's Orchard site could command higher rents than those found in existing developments. The current average office is around $17.30 per square foot however, newer developments like Bakery Square are commanding much higher rents. We anticipate that any new development would need to aim for similar rates to the 3 Crossings development – close to $25.00 per square foot – in order to support development costs.

Hotels

Pittsburgh's hotel market is experiencing a large boom, with significant new construction dramatically increasing room supply. The 2015 inventory consists of 229 hotels including 25,841 rooms. These figures represent a 6.2% one year increase in supply, and a 17% gain over 2007 inventory level[3].

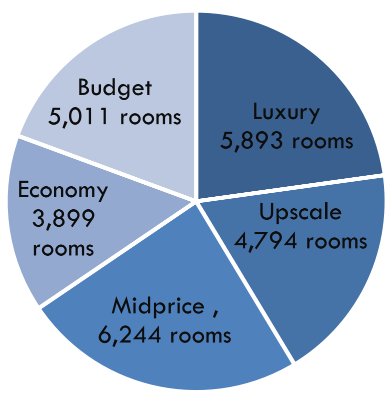
Figure 24: Hotels within the Region



Source: Google

The supply is evenly split between high-end and low-priced options, with higher priced options clustering downtown, and lower priced options available near the airport and at suburban interchanges. Hotels downtown tend to be larger, with over 300 rooms on average and conference or meeting spaces, compared to approximately 100 rooms on average for airport area hotels.

Figure 25: Pittsburgh Hotel Rooms, by Class



Source: STR[4]

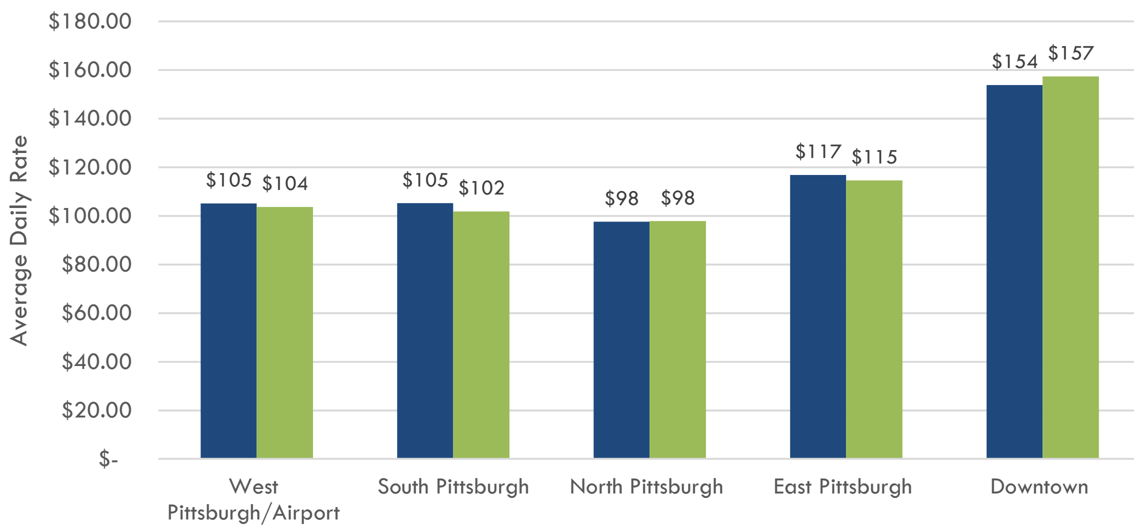
[3] Source: STR, Visit Pittsburgh, Pittsburgh Tribune

[4] According to STR, branded hotels are grouped based on the actual average room rates. Independent hotels, regardless of their average room rates, would be included as a separate scale category. Luxury hotels make up the top 15% of average room rates, Upscale the next 15%, Midprice the middle 30%, and Economy and Budget the next 20% increments.

The boom in construction is driven by high occupancy rates and growing revenues throughout the sector. Occupancy averaged 70% in 2014, with occupancies averaging 72-75% for the higher end hotels. Occupancy has continued to climb, and although 2015 occupancy to date is slightly lower than 2014 (58.3% vs. 59.8% YTD occupancy), market expectations are for continued strength in the market following absorption of 2015 pipeline projects.

Similarly, Pittsburgh continues to see strong numbers in average daily rates (ADR) and revenue per available room (RevPAR) in all classes and submarkets, with Downtown leading the market at an average of $154 per night. East Pittsburgh saw the strongest growth in ADR and RevPAR in the city, which may be due to its relatively affordability as a close competitor to more expensive and fully subscribed downtown hotels.

Figure 26: Average Daily Rates, by Location



Source: STR

The Hotel market in Pittsburgh is seasonal, with highest occupancy rates of 80% in October when both sporting events and convention center activities are in high gear, and lowest months around December and January, where occupancy sits around 45-50%.

Drivers of Hotel Demand

Strong occupancy in the Pittsburgh market is driven by three major factors: a generally healthy and growing economy, a robust special events economy with conference, sporting and cultural events, and a growing tourism economy. Visit Pittsburgh, the official tourism promotion agency for Allegheny County, estimates that approximately 60% of visitors are transient (business or tourism) visitors, while 40% are group travelers driven by sporting or convention center events.

- Business travel demand has grown as Pittsburgh has transformed its economy from primarily industrial to a diverse range of "eds and meds", finance, and other business services. The city hosts between six to nine Fortune 500 companies, and recent entrants like Google have spurred additional demand. Additionally, perceived opportunity for fracking within the Marcellus Shale formation has increased demand from the energy sector, particularly in more suburban locations.

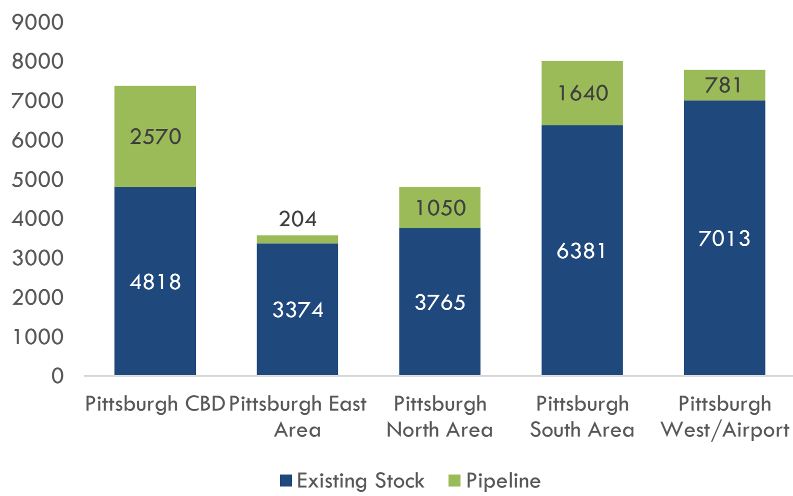
- Investments in the David L. Lawrence Convention Center as well as four sporting facilities (Consol Energy Center, Heinz Field, PNC Park, Highmark stadium) have resulted in strong demand for downtown hotels around major business and sporting events. In 2014, annual attendance at over 100 annual major sporting events is estimated at almost five million, while another 600,000 to 800,000 attend non-sporting events at the three largest arenas. The Convention Center averages approximately 180 events annually, including international Quilt Makers, which attracted 8,000 visitors, and National Catholic Education Association with 6,300 visitors. Nearly half of the Center's total attendance was for public shows such as the Home and Garden Show, the Auto Show, and Pirates Fest[5].

- A large museum, theater and cultural scene, as well as regional draws like Falling Water have put Pittsburgh on the map as a tourism destination, drawing weekend visitors from Columbus, Cincinnati, Cleveland, Toronto, Baltimore, and increasingly New York City and Washington, DC. In 2014, 11 million visitors spent $7.6 billion in Allegheny County, up 58% from $4.8 billion in 2010. Downtown Museum and Arts attendance was three million in 2014, while the Zoo (1M visitors annually), the Carnegie Museum (60,000 annually), the Phipps Conservatory and Gardens (180,000 annually) and the Frick Center (100,000 annually) provide cultural destinations east of Downtown. Additionally, annual festival style events such as the Pittsburgh Three Rivers Arts Festival, Highmark First Night, Light Up Night and the Three Rivers Regatta as well as outdoor markets continue to be major draws for locals and visitors alike.

Pipeline

High occupancy and revenues are driving a large increase in supply of new hotels in Pittsburgh over the next few years. With 61 hotel projects representing 6,245 new rooms in the pipeline, the inventory is set to increase 24% over today's stock.

Figure 27: Pipeline of Planned Hotel Rooms by Location



Source: Visit Pittsburgh

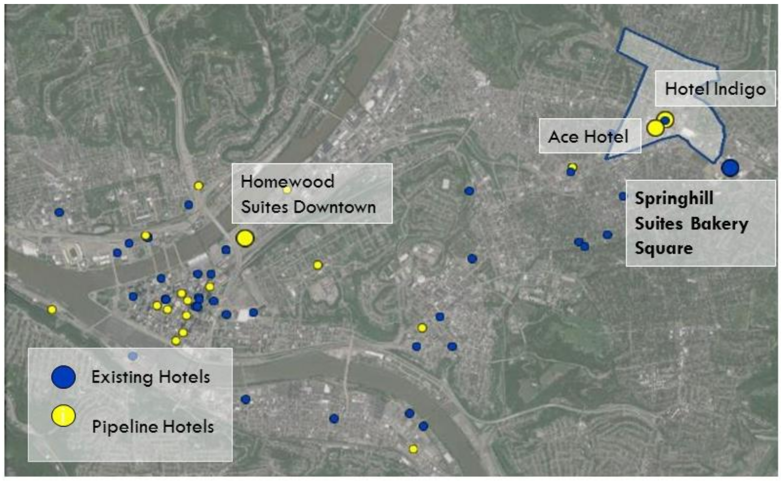
The largest concentration of new hotels is in the urban core (which, as defined by Smith Travel Research, includes East Liberty), with 18 new proposed hotels potentially expanding the supply by 2,570 rooms. The new pipeline also continues a trend in the development of upper scale hotels containing 100-150 rooms. These hotels are delivering a range of boutique amenities – dining, lounges, attractive architecture and environments, etc. that create a lifestyle brand attractive to both business travelers and tourists. A list of notable pipeline project follows in Figure 28.

Particularly of note is hotel development in East Liberty (including the Ace Hotel and Hotel Indigo), and areas outside of the traditional downtown cluster in the Strip, Shadyside, and around the Carnegie Mellon and University of Pittsburgh campuses. These hotels are relatively isolated from downtown, and therefore are reliant

[5] Source: Downtown Pittsburgh Partnership

upon local drivers like the new Google headquarters, and place-making and programming strategies that establish their locations as destinations in their own right.

Figure 28: Descriptions of Selected Pipeline Hotel Projects



Hotel	Address	Opening Date	# of rooms
Hotel Indigo	123 North Highland Avenue (East Liberty)	Summer 2015	135
Ace Hotel	120 South Whitfield Street (East Liberty)	Summer 2015	63
Springhill Suites Bakery Square	134 Bakery Square Boulevard (Bakery Square)	2010	110
Homewood Suites Pittsburgh Downtown	1400 Smallman Street (The Strip District)	Fall 2015	150

Hotel Indigo

Hotel Indigo Pittsburgh East End is set to open this fall. The hotel is a combination of three older buildings – the Consad building, the Whitfield building, and the Governors Hotel-- and a new edition combining to deliver 135 rooms with a restaurant and lounge. Part of a six-building redevelopment plan by developer Nigel Parkinson, the complex will also include an outdoor plaza, as well as an adjacent three story restaurant and nightclub space. The hotel will achieve LEED certification for sustainability.

Ace Hotel

Following a stalled plan to convert the East Liberty YMCA into condos, development is now underway for Pittsburgh's first Ace Hotel, the trendy boutique hotel chain with locations in Seattle, Portland, NYC, LA, London, Palm Springs, and Panama. The chain prefers to rehab old buildings in emerging locations and link its hotels to local culture. The hotel will also include a restaurant, ballroom and gym, and like Ace's other properties, is expected to be highly programmed. Recent reports suggest opening will be this summer or early fall, despite construction delays due to the complexity of the renovation.

SpringHill Suites Bakery Square

Opened in 2010, Springhill Suites is part of Walnut Capital's Bakery Square Complex. This portion of the project was sold to Capstone development for $21.8 million, or $198,181 per room, in 2013. The hotel features indoor and outdoor lounge space, and is immediately adjacent to significant retail offerings of Bakery Square.

Homewood Suites Pittsburgh Downtown

Walnut Capital and Concord Hospitality have proposed a 150-room hotel along Smallman Street in Pittsburgh's Strip District. The $20 million property is limited service, but will feature amenities such as an indoor pool, fitness center and an outdoor dining area. The site has been under construction since early 2014, and is anticipated for opening in fall 2015.

Conclusion

Hotels will continue to be a stable and growing section of Pittsburgh's economy, and there is continuing demand for hotels outside of the traditional downtown area. However, the hotels that are successful in these secondary urban areas are generally tied to large mixed use developments, and/or offer enough amenity and programming on-site to compensate for the lack of immediately proximate tourism generators.

CONCLUSIONS

Over the long-term, there is potential for a successful, mixed-use development at the Mellon's Orchard site. Our analysis indicates potential for a mixed-use program – office, limited residential, and amenity retail to activate the ground floor – to be developed on the site as the market evolves, and in conjunction with improvements to the public realm surrounding the site. The feasibility of all program components at a scale suitable to establish urban density across the site rests on the continuing maturation of the East Liberty market, along with advancement of strategies to strengthen perceptions of the immediate area's connections and character.

While there is no precedent for ground-up office development in East Liberty, the Pittsburgh market is seeing promising growth trends. Based on proximity to neighborhoods like Bakery Square, Oakland, and more recently, the Strip, that have successfully captured tech and innovation tenants, as well as the emerging innovation community in local coworking spaces, suggests potential for office uses on the Mellon's Orchard site as the environment surrounding the site provides other amenities to support office workers. Bakery Square and 3 Crossings' successes in attracting tech giants Google and Apple, respectively, indicate that on-site and district activation will be key requirements for office construction on the Mellon's Orchard site.

There is a robust pipeline of residential development in East Liberty. While this represents a strong residential market, it leaves only moderate potential for multifamily residential development on and surrounding the Mellon's Orchard site until this pipeline is absorbed (estimate of 4 to 6 years). Once greater pipeline is consumed, the site has potential to capture and support approximately 45 to 115 residential units. Any new residential development would likely require amenities within the building and/or at other well connected locations on the block to entice new residents to move to the development. However, residential uses may tie well to the predominantly residential neighborhood north of the site, and can be an important driver of day-long activity at the site.

An activated and amenitized ground floor will be a requirement for new office and market rate residential development, particularly in the face of limited activity on the blocks immediately abutting the sit. As residents seeking local amenities and employers count on active retail options to attract new employees, exciting ground-floor retail will be an important selling point for a new mixed-use development at the Mellon's Orchard site. However retail is oversupplied in the East Liberty area, with strong and significant destination retail East Liberty's edges and substantial vacancies along the Penn Avenue retail corridor. While cross-subsidy with other program elements will therefore likely be necessary at the Mellon's Orchard site, retail there should focus on attracting local businesses, especially food and beverage, which will provide a nice complement to on-site workers or residents.

The Pittsburgh hotel market is strong, but the Mellon's Orchard site faces untested local competition for this use. With two new hotels slated to open imminently in East Liberty, there is limited potential for additional hotel product on the Mellon's Orchard site in the near term. The ACE and Indigo hotels will prove to be test projects for future hotel development in the area, and can inform whether additional demand for a hotel use exists for later phases of development on the site.

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