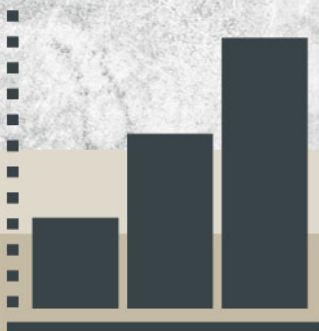




a market analysis

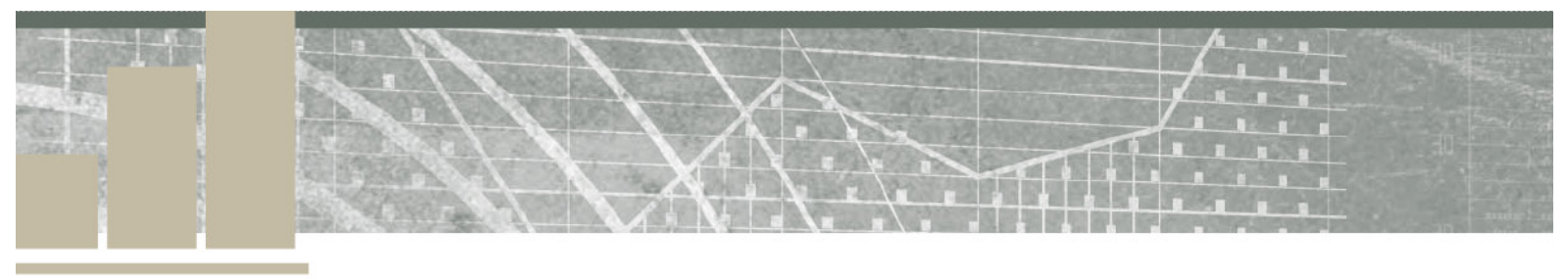


Brownsville, PA Commercial Historic District Market Analysis

June, 2012

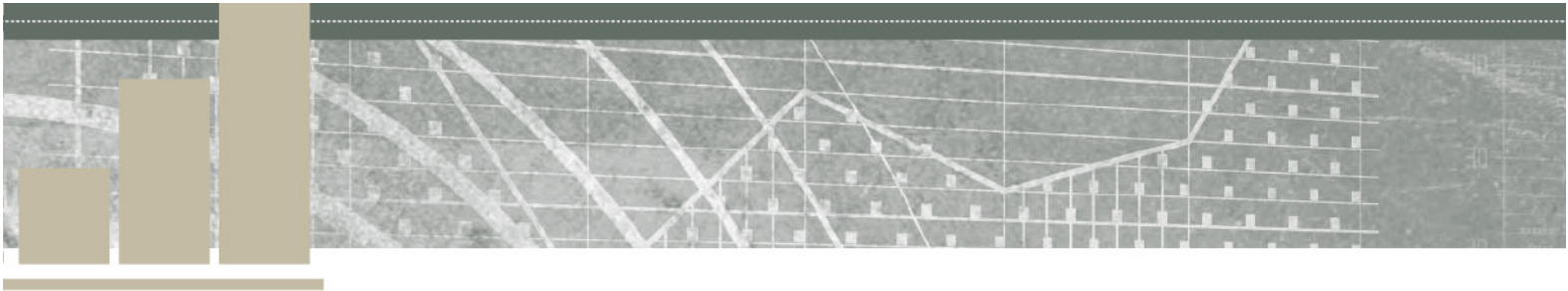


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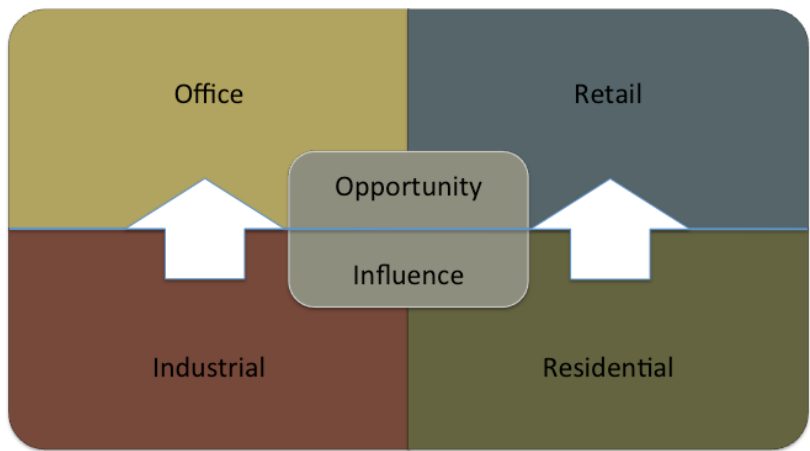
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Brownsville Market Analysis

This analysis considered all four sectors of the local market: Office, Retail, Industrial and Residential. The focus for the redevelopment area however is on Office, Retail and Residential, but the analysis also considered how those opportunities are influenced by trends in industrial sectors.

Market Influences and Opportunities



Based on this understanding, there will be two basic alternatives (Gap Strategy or Destination Strategy) with the focus for the development area falling somewhere between. There are no firm guidelines for how much risk to assume, but if the goal is a Destination Strategy, then it is important to consider the track record of the developer and operator – are they established in this market? Have they demonstrated success in attracting their core demographic? What share of the market would they need to get to be successful? How much of the direct and indirect development cost will fall on the community? What is the potential to repurpose the buildings and sites in the event of failure?

Figure 1

	Pro	Con
Respond to existing unmet needs (Gap Strategy)	Development cost and risk are low	Market growth is limited
Create a new market or attract new customers (Destination Strategy)	Stronger market potential	Development cost and risk are high



Summary of Opportunities

Retail: 44,000 SF of retail potential (see Page 12)

The sectors that would physically fit the best in the available building stock represent a five-year demand of 63,000 to 177,000 SF of space. The development area could capture 15 to 25 percent of the market demand, which provides a retail concentration that complements the residential and commercial development targeted for the district. In total, the development area could support as much as 30,000 to 44,000 SF of additional retail space. Specific retail types are detailed in the report but will be further identified in the building specific reports from LDA. Any retail will have to complement the proposed West Brownsville Wal-Mart.

Residential: Rental demand below \$300 per month and above \$750 (see Pages 17-19)

There is a gap of about 816 units at the lower rental levels, below \$300 per month. Brownsville could capture ten percent of this unmet demand, it would equate to more than 80 units of housing in the development area. At 50% of median household income, affordable rents are \$320 per month. An additional residential segment is the workforce for the Marcellus Shale industry. Gas workers want to live close to where Marcellus drilling activity is occurring. Facilities that provide limited food service, laundry and cleaning will be attractive to gas workers who do not have the time for these household maintenance activities. These units could be priced at \$750 per month or higher, but would include the previously mentioned services and amenities. At this price point, these units would be affordable at 50 percent of the average wage for the ancillary industries. These facilities can also be designed to transition into assisted living or other senior housing if and when the gas boom fades.

Office: 50,000 SF of potential demand (see Page 24)

There is demand for general management and corporate space, which would most likely be small engineering services and technical firms. The development area is able to offer a variety of space where a small firm may be able to absorb an entire floor or a small building and provide the kind of custom space and identity that would not be available in a larger, multi-tenant facility. The other three sectors Administration & Support, Finance & Insurance, and Arts & Entertainment have significant demand and while they tend to provide lower wages, they employ more workers, which improves the traffic count for retail operations but places more stress on parking.



Total Potential Market Capture

Combined these four sectors represent a total demand of approximately 124,000 SF per year in the 15-mile trade area. Over a period of 5 years the total space requirements would be more than 500,000 SF. With the right mix of properties Brownsville could capture as much as ten percent of this demand, or 50,000 SF.

Retail Overview

The retail potential of an area is defined by the expenditure patterns of the trade area and the available shopping alternatives. Consumer expenditures and retail sales are rarely in perfect alignment. Consumers tend to shop near home or work, but they may shop at another location out of convenience, habit, loyalty or preference.

Figure 2

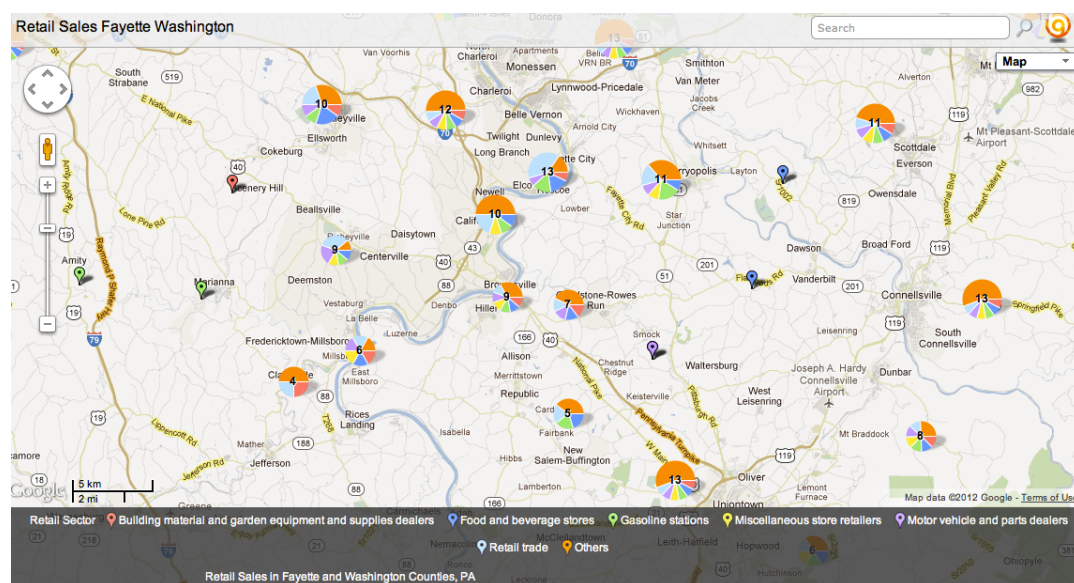


Source: U.S. Census Longitudinal Employer-Household Dynamics (LEHD).

Larger centers of retail establishments will tend to draw more consumers from a larger area as these centers offer more choice and variety. Fourth Economy defines the retail trade area based on commuting patterns and retail employment¹. 80 percent of commuting from or to the Brownsville area is within 25 miles.² Estimates of retail sales by ZIP Code were estimated for all categories of retail expenditure in the Fayette and Washington areas (Figure 3). Estimates of the retail gravity for locations within the 25-mile commuting zone were used to further refine the primary trade area for Brownsville, resulting in a Trade Area of 15 miles displayed in Figure 2.



Figure 3



Note: Data from ZIP Code Business Statistics. Click here for the interactive map.

<http://www.batchgeo.com/map/b7ee400a0f59837f49779b115344bbae>

Estimates of the how much retail spending is captured from Brownsville residents and workers commuting to or through the area were then used to estimate the total purchasing power for Brownsville and the Trade Area (Figure 4). The amount of expenditures captured declines the further from Brownsville.

Figure 4

Distance to Brownsville	Retail Expenditure Capture (%)
Brownsville	50 %
5 Miles	24 %
10 Miles	11 %
15 Miles	8 %
24 Miles	4 %

Note: Data from ZIP Code Business Statistics. Retail expenditure capture estimates how much of the consumer expenditures are captured within the Brownsville area as the distance increases.

Figure 5



One of the biggest developments in the area is a new Walmart store being built 3 miles away near West Brownsville. Until the new store opens in August of 2013, the closest Walmart is nearly 9 miles away in Belle Vernon, but there are a total of four stores within twenty miles of Brownsville (Figure 5). The proximity of this store to Brownsville creates some unique opportunities for the retail district. Walmart can have a negative influence on a small retail district, but in the case of Brownsville, the existing district is already vacant so there is an opportunity to redevelop the district to complement the proximity of the new Walmart store.

The new store will absorb the bulk of local demand for groceries, clothing and household goods, however it will compete more with the existing stores, than it will with existing small retailers. Some retailers have been successful in locating in or near a Walmart, including "...specialty discounters with deep product lines that complement rather than compete can hope to thrive in shopping centers anchored by Wal-Mart."³ Retailers have also been successful in smaller footprints of 1,600 to 8,000 SF (such as those available in the Brownsville business district) that provide brands or styles not available in Wal-Mart or that support quick, convenience trips that are not possible at a large Wal-Mart Supercenter.



Sales and Expenditures for residents and workers were estimated for each retail sector. These estimates define the different kinds of retail opportunities in the trade area and how those opportunities can be approached. It is important to view these results with some flexibility. For example in the Accommodation and Food sector, local businesses are selling far more than local residents and workers are purchasing (Figure 6). This could indicate one of two possibilities: 1) the Trade Area is saturated with these businesses and can't absorb more firms competing for these dollars; or 2) the area is a destination for this activity and draws more expenditures within the Trade Area, as well as potentially attracting consumers from outside the Trade Area. Figure 6 presents potential destination retail sectors where any new businesses must be able to draw new or additional demand and customers from outside the trade area. In addition there are two sectors that would not fit well with the existing space and character of the development area – gas stations and car dealers.

Figure 6: Retail Surplus

Retail Sector	Local Business Sales	Estimated Local Purchase Potential	Local Demand Surplus / (Deficit)
Accommodation and Food	\$5,250,000	\$937,254	\$(4,312,746)
Health and personal care stores	\$4,500,000	\$318,680	\$(4,181,320)
Miscellaneous store retailers	\$1,475,000	\$375,053	\$(1,099,947)
Sectors Not Aligned with Available Space			
Gasoline stations	\$4,500,000	\$1,075,045	\$(3,424,955)
Motor vehicle and parts dealers	\$4,875,000	\$1,001,419	\$(3,873,581)

Note: Data on sales from Dun & Bradstreet and ZIP Code Business Statistics and consumer expenditures from U.S. Bureau of Labor Statistics modeled by Fourth Economy.

This means that any new businesses in the retail sectors listed in Figure 6 will need to consider that they must draw consumers from outside the local market to survive or they must address a specific niche that is not currently served. Because there is no latent local demand, we cannot estimate how much square footage could be absorbed in these sectors. However, if the redevelopment area focused on one or more of these areas to attract more consumers and create a specialty destination, Figure 7 provides the estimates of how much square footage is needed per \$1 million in sales for an average sized establishment. These estimates exclude mega-retailers and big box stores that would be too large for the redevelopment area.

Figure 7: Space Needs for Destination Retail

	SF per \$1M in Sales	SF per Establishment
Accommodation and Food	8,581	4,986
Health & Personal Care Stores	2,758	3,980
Miscellaneous Store Retailers	9,910	6,759
Sectors Not Aligned with Available Space		
Gasoline Stations	4,435	3,266
Motor Vehicle & Parts Dealers	4,602	6,402

Note: Data on sales from Dun & Bradstreet and ZIP Code Business Statistics, square footage from Dun & Bradstreet, and consumer expenditures from U.S. Bureau of Labor Statistics modeled by Fourth Economy.

Similarly, there are sectors where expenditures exceed sales (Figure 8). This generally indicates unmet local demand and in the case of Brownsville there are several sectors with no significant retail presence. This does not mean that a new retail operation will succeed or can capture all of the local demand. For example, there is unmet demand for Clothing and Accessories in the local area, but much of the shopping for those goods is concentrated in regional malls or Big Box retailers, with whom it may be more difficult to compete.

Figure 8: Unmet Local Demand

Retail Sector	Local Business Sales	Estimated Local Purchase Potential	Local Demand Surplus / (Deficit)
Clothing and clothing accessories stores	\$-	\$731,373	\$731,373
Electronics and appliance stores	\$-	\$490,984	\$490,984
Food and beverage stores	\$1,725,000	\$1,972,507	\$247,507
Furniture and home furnishings stores	\$375,000	\$531,937	\$156,937
General merchandise stores	\$-	\$189,714	\$189,714
Sports, hobby, book, and music stores	\$-	\$402,116	\$402,116
Sectors Not Aligned with Available Space			
Building material and garden supplies	\$175,000	\$744,238	\$569,238

Note: Data on sales from Dun & Bradstreet and ZIP Code Business Statistics and consumer expenditures from U.S. Bureau of Labor Statistics modeled by Fourth Economy.



For these sectors with potential local demand, we determine whether demand is sufficient to sustain an average size establishment by comparing the surplus expenditures to the average sales in that category.⁴ This provides some insight into the potential size and sustainability for activity in each sector. It is important to consider other factors driving retail location and expenditure, such as the presence of a dominant retailer or whether co-location is an advantage or disadvantage

Figure 9: Businesses Required for Unmet Local Demand

Retail Sector	Local Demand Surplus / (Deficit)	Average Annual Sales per Establishment	Estimated Number of Businesses
Clothing and clothing accessories stores	\$731,373	\$228,785	3
Electronics and appliance stores	\$490,984	\$236,392	2
Sports, hobby, book, and music stores	\$402,116	\$210,583	2
Food and beverage stores	\$247,507	\$296,356	<1
Furniture and home furnishings stores	\$156,937	\$237,022	<1
General merchandise stores	\$189,714	\$371,472	<1

Note: Data on sales from Dun & Bradstreet and ZIP Code Business Statistics and consumer expenditures from U.S. Bureau of Labor Statistics modeled by Fourth Economy.

Figure 10: Estimated Space Absorbed from Unmet Demand

Retail Sector	Estimated SF Absorption		
	Low	Medium	High
Clothing and clothing accessories stores	3,553	7,056	10,559
Electronics and appliance stores	2,542	4,336	6,130
Sporting goods, hobby, book, and music stores	2,424	4,320	6,216
Food and beverage stores	1,017	2,423	3,829
Furniture and home furnishings stores	1,401	3,770	6,138
General merchandise stores	1,700	2,178	2,655
Subtotal for Aligned Retail Space	12,637	24,083	35,527
Sectors Not Aligned with Available Space			
Building material and garden supplies	3,455	8,151	12,848

Note: Data on sales & space from Dun & Bradstreet and ZIP Code Business Statistics; consumer expenditures from U.S. Bureau of Labor Statistics modeled by Fourth Economy.



Estimates of the square footage that would be sustained by this local retail demand were estimated based on averages of retail square footage by establishment as well as retail sales and employment. For each sector the range of low to high absorption is reported in Figure 10. This provides some guidelines for the building sizes and footprints that are most easily served. Clothing appears to be the most significant opportunity, but any operation will have to attract expenditures from regional malls and other outlets. There is unmet local demand for Building and Garden stores but a lack of sites to accommodate those operations in the development area

For the sectors that would physically fit the best in the available building stock there is annual demand of 12,000 to 35,000 SF of retail space. Over five years this amounts to 63,000 to 177,000 SF of space. Figure 11 shows the potential space that could be supported in the development area based on capture 15 to 25 percent of the market demand. We used a higher capture estimate for the retail space because it helps to concentrate retail activity in a district and it improves the retail “gravity” for the area. Furthermore the retail concentration complements the residential and commercial development targeted for the district. In total, the development area could support as much as 30,000 to 44,000 SF of additional retail space.

Figure 11

	Total 5 Year SF Market Capture		
	Low	Medium	High
15% Market Capture	9,478	18,062	26,645
25% Market Capture	15,796	30,104	44,409



Residential & Demographic Overview

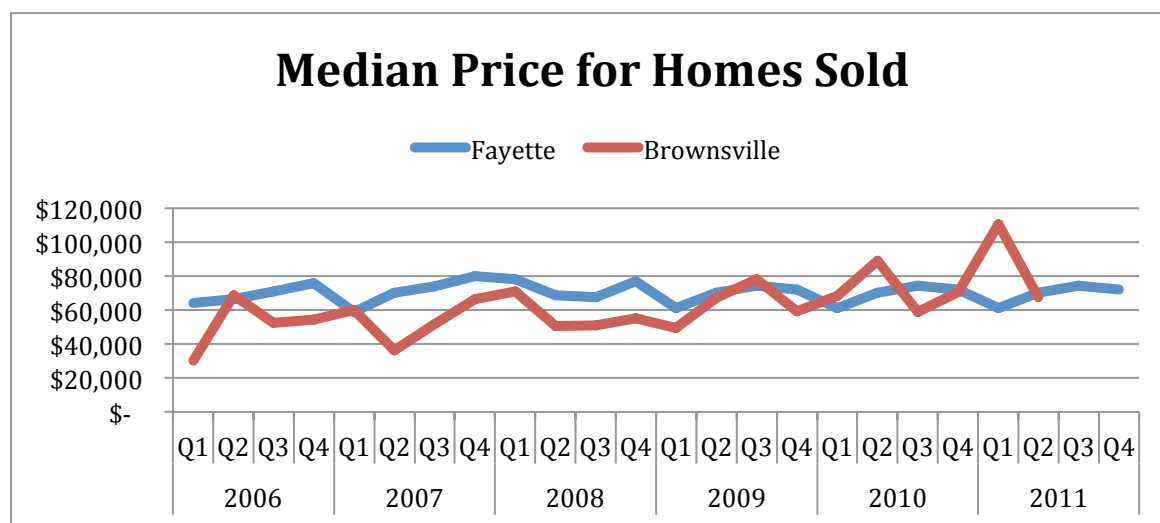
Housing is not a focus for the downtown redevelopment area, however the surrounding residential areas will influence and provide the primary market for commercial and retail development in Brownsville. New development planned for Brownsville should reflect an understanding of the characteristics, conditions and trends in the surrounding area. This section presents some of the basic demographic and income factors that will influence the retail opportunities in Brownsville.

Critical Demographic Factors

- Median household income is below state average.
- Median house values are significantly below state average.
- Age of housing is significantly above state average.
- Residents tend to stay in their homes or in the area longer than average and move primarily within Fayette County.
- Population in Brownsville declined nearly 12% in the 1990s and 7.5% since 2000.
- California PA has enjoyed significant population growth but represents a different demographic from the rest of the Trade Area.

For the purposes of this market analysis, the housing values are a reflection of the buying power of local residents. Housing values in Brownsville generally track Fayette County, but both are below the state average. On the positive side, the home values have been stable in this area, which indicates that homeowners are likely to have avoided the spending binge fueled by increased housing values in the beginning of the decade, and are therefore not over-burdened by debt today.

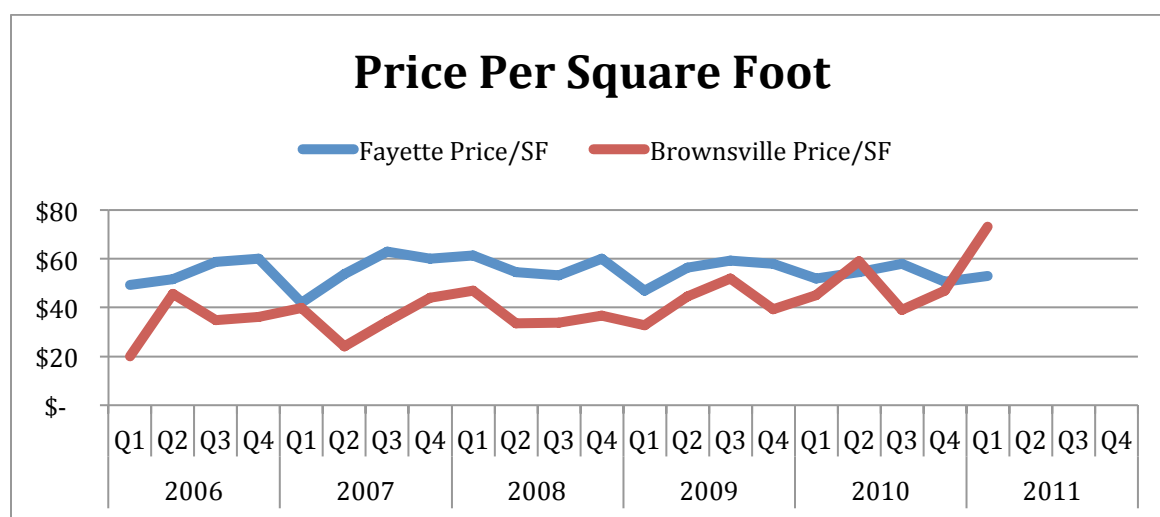
Figure 12



Note: Data on homes sales and prices from Zillow.com.

Analyzing the price per square foot provides a general proxy for separating the issue of housing size, value and quality. A lower price per square foot generally reflects housing that offers fewer amenities.

Figure 13

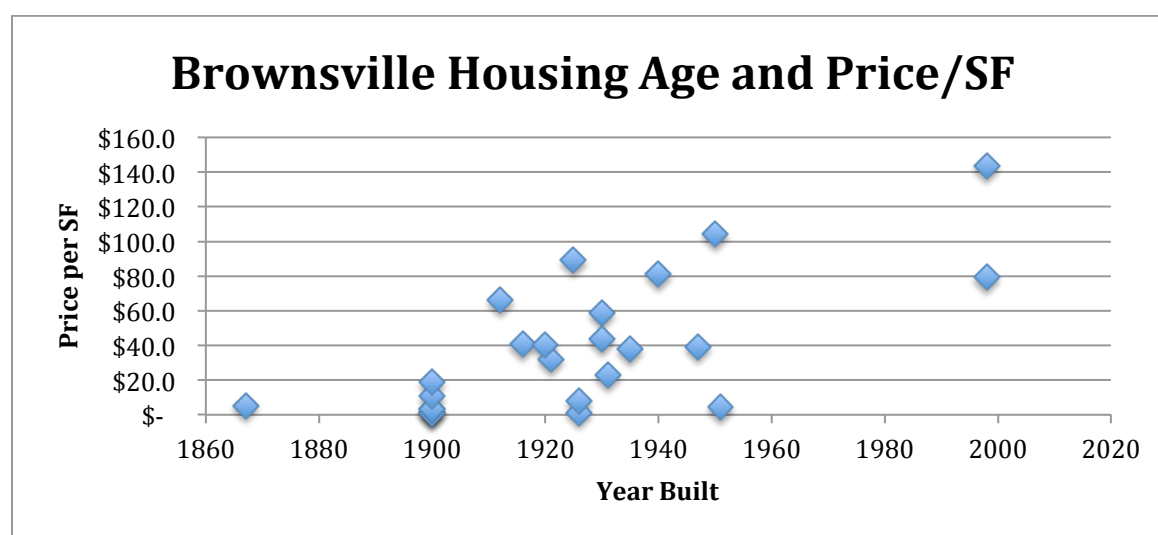


Note: Data on homes sales and prices from Zillow.com.



In the case of Brownsville, the price per square foot exceeded the average for Fayette County in only two of 24 quarters analyzed. The lower prices reflect the age of the housing stock. Older housing does not always mean lower priced, but when the housing stock does not provide the features and amenities sought by current buyers the price suffers. Older houses are devalued when they don't provide adequate closet space, room sizes (especially for modern kitchens and bathrooms), electrical systems, or garage space, all of which require expensive renovations.

Figure 14



Note: Data on homes sales and prices from Zillow.com.

What this reflects about the consumers in the area is that they are not likely to be extravagant spenders but they are not likely to be in a spending freeze. The area has experienced a lower rate of foreclosure than the metropolitan area and the state, both of which have low foreclosures compared to other regions and states. Low unemployment in Washington, Westmoreland and Greene Counties indicate that these nearby consumers have purchasing power to push retail growth in 2012. Similarly, while unemployment has been higher than the state and national average in Fayette and Somerset, it has improved dramatically, so these consumers will be cost-conscious but their purchasing power is increasing (Figure 15).

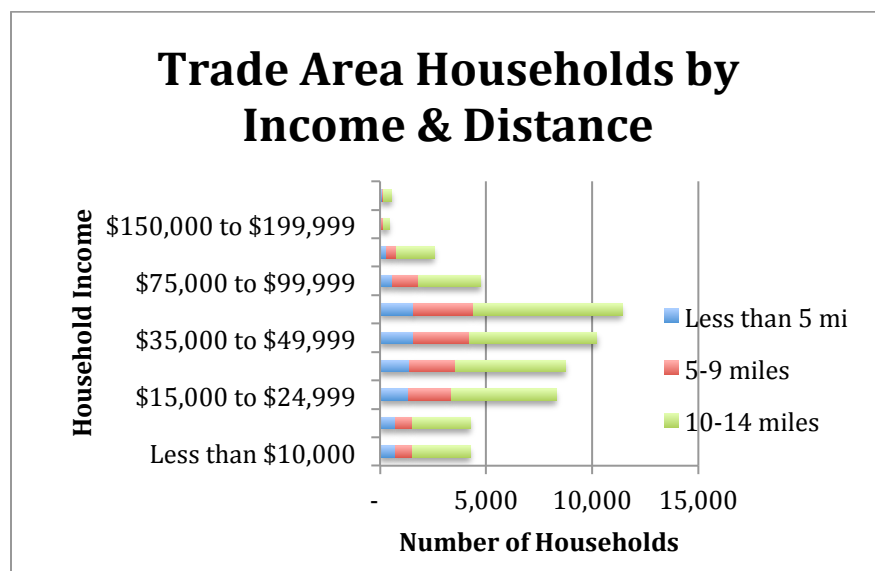
Figure 15

Area	Unemployment Rates		Net Change
	Dec 2010	Dec 2011	
United States	9.1	8.3	-0.8
Pennsylvania	8.1	7.2	-0.9
Fayette County, PA	10.2	8.8	-1.4
Greene County, PA	7.1	6.1	-1
Washington County, PA	7.7	6.6	-1.1
Westmoreland County, PA	7.9	6.8	-1.1

Note: Data from the PA Department of Labor and Industry, rates are not seasonally adjusted.

The core market is composed primarily of households making between \$35,000 to \$75,000, with very few higher income households. Figure 16 shows the distribution of households by income and distance from Brownsville. The majority of households in the trade area earn less than \$75,000 and higher income households are scarcer in the areas closest to Brownsville. Combined with the housing and unemployment data, this reinforces the focus on price sensitive and cost conscious consumers.

Figure 16



Note: Data on households by income from U.S. Census.



Gaps in the market are apparent when you look at the affordability of housing units relative to household income and ownership and rental rates. Figure 17 displays the number of units by value and the households that can afford them. For ownership housing there is a surplus of lower value housing and a lack of housing for higher income households.

Figure 17

Housing Values	Households	Units	Ownership Surplus (Deficit)
<=\$50,000	7,945	18,456	10,511
\$50-99,000	7,550	21,807	14,257
\$100-149,000	12,997	6,065	(6,932)
\$150-299,000	10,791	3,215	(7,576)
\$300-499,000	1,652	318	(1,334)
\$500,000 plus	681	107	(574)
	41,616	49,968	8,352

Note: Data on housing and income from U.S. Census.

The gaps are different for rental units in the trade area. For rental units the most significant deficit is for units that rent for less than \$200 per month, but there is also a significant lack of rental housing at the upper end (Figure 18).. It is difficult if not impossible to build or renovate housing for the lower end of the market given current construction costs. However, it will also be difficult for Brownsville to attract consumers for higher value units without substantial investment and upgrades.

Figure 18

Monthly Rent	Households	Units	Rental Surplus (Deficit)
<= \$200	4,443	2,670	(1,773)
\$200-299	1,874	2,831	957
\$300-499	2,693	8,430	5,737
\$500-750	2,143	3,313	1,170
\$750-999	1,453	451	(1,002)
\$1,000 plus	1,205	101	(1,104)
	13,811	17,796	3,985

Note: Data on housing and income from U.S. Census.



Residential Opportunities

Brownsville and the Trade Area do not have a significant concentration of households with children (Figure 20 and Figure 21). Brownsville is strongly represented by seniors and singles, while the Trade Area also has a strong presence of seniors and singles but adds married couples with no children.

There is significant unmet demand (about 816 units) at the lower rental levels, below \$300 per month. If Brownsville were able to capture just ten percent of this unmet demand, it would equate to more than 80 units of housing in the development area. Median household income is \$25,647, which translates to an affordable rent of \$641 per month. At 50% of median household income, affordable rents are \$320 per month. Currently, the Pennsylvania Housing Search lists subsidized rentals in Brownsville that range from \$478 to \$572.⁵

Brownsville's market opportunities most readily align with retail and commercial services that address seniors and singles. Retail and commercial services oriented to married couples without kids would represent a moderate shift in the existing market, whereas services for households with children is a more significant market shift that would involve greater risk and require greater investment and patience.

An additional residential segment that Brownsville could serve is the workforce for the Marcellus Shale industry. Gas workers want to live close to where Marcellus drilling activity is occurring. However, many of the communities that are currently under major development pressure have little surplus housing. There is a shortage of rental housing in particular. In some communities rents have doubled or tripled in two years, which is creating problems for existing low-income residents. In some cases, companies have rented motel rooms or even purchasing entire hotel or motel facilities creating a shortage of rooms for tourism or other travel into the communities. Gas workers are also taking space in campgrounds for temporary housing for several months.

Brownsville may have a unique opportunity to create moderately priced rental units for gas workers that also provide some level of residential services and amenities similar to a hotel or extended stay residence suites. According to the Pennsylvania Department of Labor and Industry, the quarterly hiring related to the core and ancillary Marcellus industries would provide a very strong market demand, even if the redevelopment area were only able to capture one or two percent of the annual hiring (Figure 19) but including a corporate partner in the development would also significantly lower the risk.



Figure 19

New Hires for 2011 Q2	Core	Ancillary
Westmoreland - Fayette	32	682
Beaver - Greene - Washington	2,031	11,441
Total	2,063	12,123

Note: Data from EMSI and Pennsylvania Department of Labor and Industry

Facilities that provide limited food service, laundry and cleaning will be attractive to gas workers who do not have the time for these household maintenance activities. . These units could be priced at \$750 per month or higher, but would include the previously mentioned services and amenities. At this price point, these units would be affordable at 50 percent of the average wage for the ancillary industries (see below):

In 2010, the core industries had an average annual wage of \$75,176 in the Westmoreland and Fayette region, which was well above the state average for all industries of \$45,747 and over twice the regional average of \$36,192. The ancillary industries also had a higher average wage of \$59,321. The state's average wage for core industries was \$73,150 and for ancillary was \$61,871.⁶

These facilities can also be designed to transition into assisted living or other senior housing if and when the gas boom fades. Currently there are 173 single seniors in Brownsville and 7,595 single seniors in the trade area that would provide a prime market for senior housing and assisted living (Figure 20 and Figure 21).

The greater Laurel Highlands tourism area saw a significant increase in hotel occupancy from 2010 to 2011, according to the Pennsylvania Tourism Regions report by Smith Travel Research. The Laurel Highlands has 4,420 rooms. This increase in occupancy may be due in part to the Marcellus Shale growth cited above but the data is not available. However, if housing is provided for gas workers it should shift demand away from hotels. Extended stay housing for gas workers can also be adapted for hotel use. With the national economy relatively flat and no new tourism amenities there is no reason to expect any organic growth in tourism to provide additional demand for hotel space.

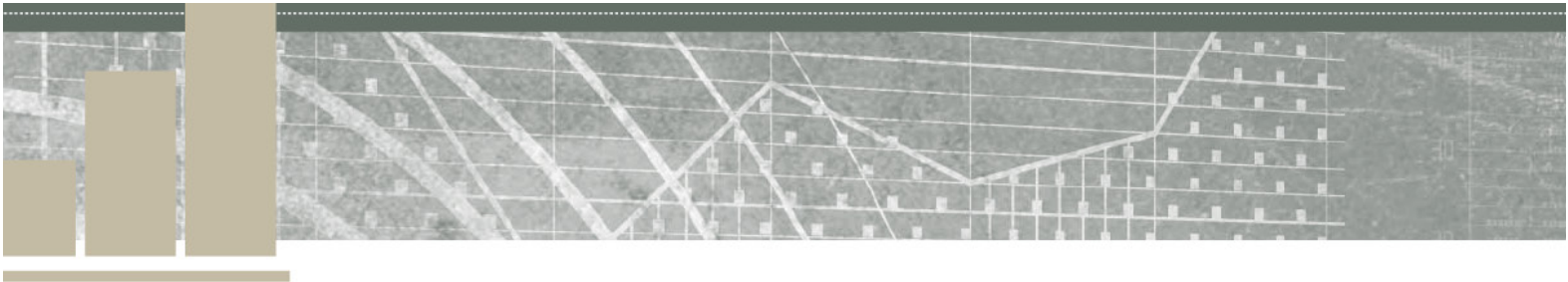


Figure 20

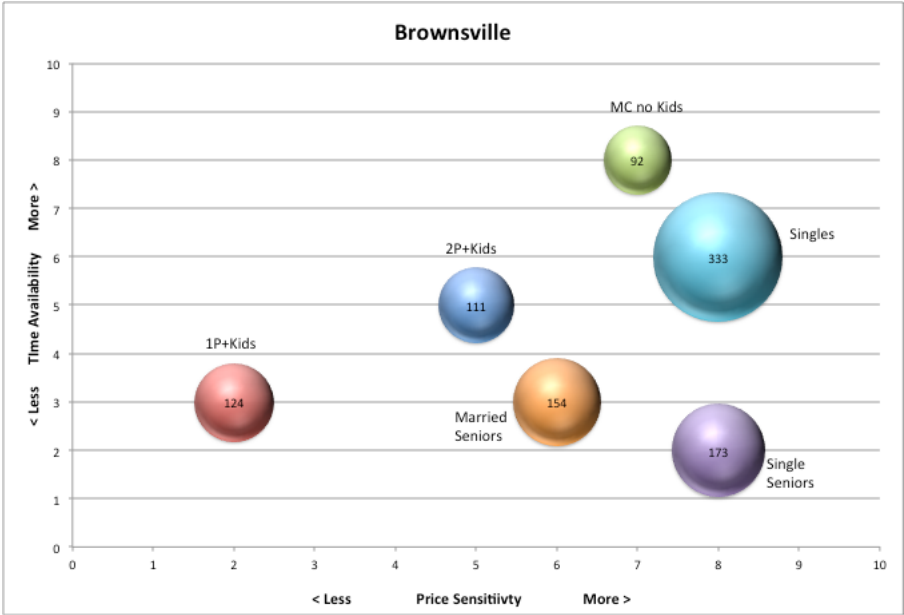
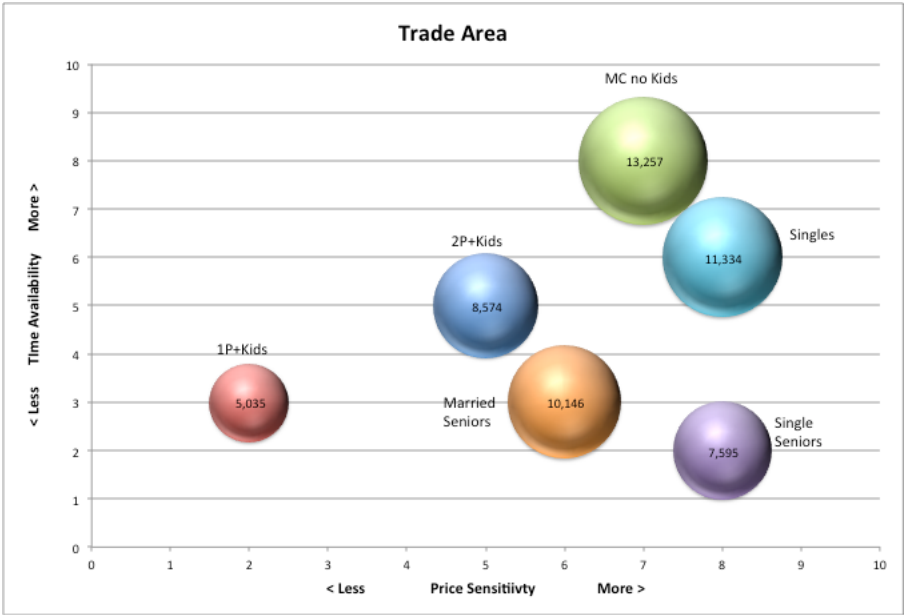


Figure 21





Market Psychographics

The information below provides some general psychographic profiles of the customer demographic in the trade area. This information indicates some of the brand preferences as well as the potential style or atmosphere for the existing market. These generalized preferences do not dictate the kinds of development targets but provide some insight for the kinds of development and amenities associated with these demographics.

Core Market (Married and Single Seniors, Couples with no kids)

Many have lived in the same house for years. They take pride in their homes and gardens; buy home furnishings and work on remodeling projects to update their houses. They use coupons and look for bargains at discount stores and warehouse clubs. They frequently purchase lawn and garden insecticides, flower and vegetable seeds, and plants. Many have a lawn or garden tractor and ATVs and own an assortment of tools. They are Do-It-Yourself types and tackle home improvement projects such as exterior painting and faucet replacement and shop at Ace Hardware or Lowe's.

They read the newspaper daily and prefer to watch news shows on television. They prefer to read newspapers instead of magazines but have an equal preference for fiction or nonfiction books. Although their use of the Internet is nearly average, they are more likely to shop by phone or mail from JCPenney, Avon or QVC versus Internet purchasing. They shop at discount retailers such as Wal-Mart, Kmart or similar Supercenters instead of patronizing high-end stores.

Favorite outdoor activities include fishing, hunting, boating, gardening, and lawn care. They also go bowling, play cards and bingo, gamble in Atlantic City, and go to horse races. They participate in public activities, work for political parties or candidates and belong to fraternal organizations, unions, and veterans' clubs.

They're careful spenders, always looking for bargains, and not swayed by fads. They prefer Folger's coffee to Starbucks. They buy standard, four-door American cars. They prefer domestic vehicles; most households own or lease a truck. Typically, a household member handles vehicle maintenance.

They generally prepare meals at home but when they eat out they patronize fast food or family restaurants and family steakhouse, such as Perkins, Friendly's, Golden Corral and Cracker Barrel. Many homes own a separate freezer to store their produce.



They like to watch a variety of sports, news, or documentary shows on television; home improvement shows, sports events, news programs, game shows, and old reruns on TV. Occasionally, they will also watch a movie or primetime drama preferring rented movies on DVD instead of going to the theater. Favorite channels include Home & Garden Television, the Hallmark Channel, Lifetime Movie Network, The Movie Channel and the Weather Channel.

Secondary Market (Young Singles, 1-2 Parent Families with kids)

California PA presents a different demographic with college students and workers. Overall this demographic is not strongly represented in the Trade Area, but its influence is rising with the growth of California PA, especially with the younger singles.

There are some similarities in the choices and preferences of this segment with the core market – primarily the emphasis on cost. The college town demographic however balances cost with convenience and is more susceptible to brand prestige and fads. They shop at discount stores but prefer to buy branded clothes from Old Navy, Gap, and Target.

Convenience dictates food choices; they usually buy ready-made, easy-to-prepare, or frozen meals, at the closest grocery store. They frequently eat out or order in from fast-food restaurants and pizza outlets.

They have student loans and bank online or by ATM. They tend to be computer-savvy with their own computers and peripheral devices especially cell phones. Internet access is essential for shopping, schoolwork, job hunts and music.

New to living on their own, they purchase bedding, bath, and cooking products. They own few appliances but, at a minimum, have a microwave oven, a toaster, and an upright vacuum cleaner. Their lifestyle is very casual. They rank high for participating in nearly every outdoor sport and athletic activity.

They watch MTV and Comedy Central on cable TV but also attend country music and rock concerts as well as college sports. They prefer an active nightlife as well as public activities such as fund-raising and volunteer work.



Commercial and Office (and Industrial)

Southwestern Pennsylvania has generally weathered the recent economic turbulence well and is seeing growth in a number of sectors. A significant amount of growth is attributed to the energy sector that is being driven by both Marcellus Shale development as well as Westinghouse Nuclear. Industrial development is not a target for the redevelopment study area, but growth in the surrounding 15-mile Trade Area and the metropolitan economy will influence the opportunities for Brownsville. This report summarizes some of the drivers in industrial growth as they impact the potential commercial and office market in the study area.

Pittsburgh ranked 9th in the nation for private sector job creation in 2011 and added 1,500 manufacturing jobs since 2010.⁷ Pittsburgh and Houston are the only major metros that have regained the jobs lost from the 2008 recession.⁸ The estimates on the exact industrial vacancy rate (7.6% to 9.2%) and amount of available industrial space vary, but both Cushman & Wakefield and Grubb & Ellis agree that there is a lack of available space for the foreseeable future. Fayette County has a small inventory of industrial space, higher vacancy and lower asking rents than Washington and Westmoreland, which may attract some industrial development into Fayette County. As this happens, industrial rents may begin to rise and provide incentives for additional industrial space.

In the 15-mile Trade Area, manufacturing industries have a net growth of more than 400 jobs per year. In addition to the Marcellus Shale activity, local expansions such as the \$14 million investment by Brownsville Marine Products, LLC will continue to increase manufacturing employment in the area. Gardner Denver Nash is constructing a 100,000 SF facility in the Alta Vista Business Park for the manufacture of pumps and compressor products that should add another 50 jobs. A little further in Jeannette, the Elliott Group, which makes and services turbomachinery, is investing \$16 Million in a new building that will consolidate 400 existing workers and provide capacity for 100 new hires. Finally, the greater Brownsville area may also see expansion for suppliers and vendors to the proposed Royal Dutch Shell ethane cracker announced for Beaver County. The nearest crackers are located in Ontario and the Gulf of Mexico. As a result, ethane, which is a valuable material in plastic production, is being left in the Marcellus and Utica gas, losing significant value for producers.⁹ As in much of the Marcellus related growth right now, the supply chain for this sector will encompass as many as 12,000 jobs and cover a large geographic footprint. The region will also see benefits to plastics and chemicals manufacturing and other users of the chemicals and by-products of the ethane cracker by providing a better quality or range of raw materials but it will have little impact on input prices.

Estimates for commercial and office demand area based on employment growth in the trade area and reflect industries that could potentially fit in the redevelopment area and which even have a small

presence in Brownsville. The growth estimates reflect relatively conservative assumptions based on a more stagnant period of growth for the region. There is no guarantee that these industries will maintain these growth levels in the future, but the positive momentum from a variety of small and large projects occurring throughout southwestern Pennsylvania lends some confidence to the forecast.

Overall the market for commercial and office space in the Pittsburgh Metropolitan area has been tightening. Years of conservative construction means that less than 350,000 SF are under construction when quarterly absorption has been running at 350,000 to 400,000 SF.¹⁰ New construction is planned for the Central Business District (CBD). Outside of the CBD the major projects are non-speculative buildings for Range Resources in Washington and Shell along the North I-79/279 corridor. In Fayette County, the available inventory is somewhat small and fragmented, with most of the supply in blocks of less than 2,000 SF. Overall vacancy rates outside the Pittsburgh CBD are running as high as 20% but much of the vacancy is outdated stock that doesn't support modern office needs.¹¹ Where new, modern space has been constructed, it has leased or sold.

The office demand forecasts (Figure 22) focus on the sectors that might be suitable for the redevelopment area and which can be expected to benefit from the industrial growth in the Trade Area and larger region. These estimates provide some guidance for the kinds of space and footprints that might be most readily absorbed by the market.

Figure 22

	Trade Area Annual Job Growth	SF per Employee	SF per Establishment	Trade Area Annual SF Demand
Management of Companies and Enterprises	137	337	5,722	46,032
Administration & Support, Waste Management and Remediation	179	236	6,932	42,088
Finance and Insurance	98	258	5,672	25,135
Arts, Entertainment, and Recreation	44	249	3,735	11,018
Sectors Not Aligned with Available Space				
Wholesale Trade	129	1,058	4,558	136,218
Public Administration	161	330	5,610	53,048

Note: Employment and job growth from U.S. Census Longitudinal Employer-Household Dynamics, square footage from Dun & Bradstreet, demand estimates modeled by Fourth Economy.



The largest potential demand is in wholesale trade, which are firms that assemble and sort goods in large lots to repack and redistribute in smaller lots (Figure 22). These firms sell to other businesses versus direct to consumer retail sales. However, some wholesalers such as Wholey's Market in the Strip District may have retail complement whereas other firms, such as Sam's Club blur the boundary by providing bulk sales to consumers. Wholesaling facilities typically employ fewer people per square foot so they do not generate as many indirect benefits from employee spending as other types of businesses. Public Administration represents the second largest demand, followed closely by General Management Offices, both of which require a moderate amount of space per employee but which tend to provide higher wages. Unfortunately, wholesale trade facilities are not compatible with the floor space, parking, loading and transportation limitations in the development area. Similarly, offices for public administration are more likely to be located in the county seat and may not align with the development area.

There is demand for general management and corporate space, which would most likely be small engineering services and technical firms. The development area is able to offer a variety of space where a small firm may be able to absorb an entire floor or a small building and provide the kind of custom space and identity that would not be available in a larger, multi-tenant facility. The other three sectors Administration & Support, Finance & Insurance, and Arts & Entertainment have significant demand and while they tend to provide lower wages, they employ more workers, which improves the traffic count for retail operations but places more stress on parking.

Combined these four sectors represent a total demand of approximately 124,000 SF per year in the 15-mile trade area. Over a period of 5 years the total space requirements would be more than 500,000 SF. With the right mix of properties Brownsville could capture as much as ten percent of this demand, or 50,000 SF.

Building Reuse Potential

LDA estimated the renovation costs of the redevelopment properties as well as potential uses that fit within the building structure, space and character and which aligned with the potential market demand. More details about the options for reuse and the renovation costs are available in the LDA report. These estimated are for finished spaces for the uses identified in Figure 23.

Figure 23: Potential Building Reuse

Address	Name	Stories	Ground Floor	Upper Floors		
			Retail SF	Apartments SF	Unit Count	Office SF
45 Market	Train Station	5	7,900	31,600	30	
62 Market	2nd Nat Bank	3	2,130			4,260
56 Market	Hotel	4	11,100	27,750	27	
46 Market	Mon Bank	3	6,500			9,290
43 Market	Snowden	3	4,700	9,400	9	
39-41 Market	Two Buildings	4	3,700	9,250	9	
35 Market	Drugstore	3	4,145			8,920
29 Market	Church Reuse	3	1,980	3,960	4	
21 Market	Kart's	2	3,600			3,600
17 Market	Gottzman	2	2,030			2,030
5 Market	G C Murphy	5	8,100			17,940
107 Brwnsvll A	Newstand	3	1,800	3,600	4	
124 Brwnsvll A	Lodge	3	2,245	4,490	5	
Totals			59,930	90,050	88	46,040

Capitalization Rates, or Cap Rates, are a common benchmark for evaluating real estate investment that provides a simple estimate of the rate of return on a real estate investment property based on the expected income that the property will generate. The Cap Rate is calculated by dividing the net operating income the property will generate (after fixed costs and variable costs) by the total value of the property: $\text{Capitalization Rate} = \text{Net Yearly Income} / \text{Total Value}$.

Cap rates provide a simple initial comparison of alternative investment opportunities. Other factors that should be considered are the income trend or potential over time, changes in the value of the property and the available alternative investments. Real estate investors often prefer a cap rate of 8-12% but in the current market conditions these opportunities are rare. In the Pittsburgh region cap rates of 4-6% are not unusual. Furthermore the current state of the national real estate market has



reduced the return on investment in many regions, while the Pittsburgh regional market has remained stronger. The cap rates estimated for the redevelopment area are not based on detailed pro formas and should NOT be used to estimate an investor's return but to prioritize buildings for redevelopment. The assumptions used in the calculations are presented in Figure 24.

Figure 24: Assumptions in Cap Rate Estimates

Assumptions	No Subsidy (A)	With Subsidy (B)	With Subsidy (C)
Retail \$/SF	\$6	\$6	\$6
Apartments \$/month	\$500	\$500	\$500
Office \$/SF	\$4.50	\$4.50	\$8.00
Owner Subsidy	0%	50%	50%
Operating Expenses	40%	40%	40%

The cap rates were calculated to enable a prioritization of the buildings and properties for redevelopment by determining those that provide a better balance between income potential and renovation costs. Cap rates were calculated for occupancy rates ranging from 50% to 90%, but the results reported in Figure 25 are for an estimated 75% occupancy. The five highest-ranking buildings are highlighted and numbered.

Figure 25: Estimated Costs and Cap Rates

				Cap Rates at 75% Occupancy		
	Address	Name	Estimated Rehabilitation Costs	No Subsidy (A)	With Subsidy (B)	With Subsidy (C)
	45 Market	Train Station	\$5,530,000	1.85%	3.70%	3.70%
2	62 Market	2nd Nat Bank	\$930,000	1.55%	3.09%	4.53%
	56 Market	Hotel	\$5,210,000	1.97%	3.95%	3.95%
3	46 Market	Mon Bank	\$2,400,000	1.52%	3.03%	4.25%
	43 Market	Snowden	\$2,430,000	1.52%	3.04%	3.04%
	39-41Market	Two Buildings	\$2,220,000	1.54%	3.09%	3.09%
	35 Market	Drugstore	\$1,620,000	1.81%	3.61%	5.35%
	29 Market	Church Reuse	\$880,000	1.83%	3.67%	3.67%
5	21 Market	Kart's	\$1,110,000	1.53%	3.06%	4.09%
	17 Market	Gottzman	\$630,000	1.52%	3.05%	4.06%
1	5 Market	G C Murphy	\$3,230,000	1.80%	3.60%	5.35%
4	107 Brwnsvll A	Newstand	\$760,000	2.06%	4.12%	4.12%
	124 Brwnsvll A	Lodge	\$980,000	2.00%	3.99%	3.99%



References and Notes

¹ Fourth Economy uses a retail gravity method derived from Reilly's Law of Retail Gravitation. Our estimate uses Reilly's formula that relates the distance between locations but substitutes retail employment for the resident population of the locations. The formula determines the distance at which 50% of the consumers will shop at another location.

² Source: U.S. Census Bureau, LEHD Origin-Destination Employment, data from 2002 to 2010.

³ Steve McLinden. http://www.icsc.org/srch/sct/sct0606/cozy_walmart.php.

⁴ Sales estimates area based on establishment data from Fayette and Washington counties.

⁵ PAHousingSearch.com. Search conducted on April 12, 2012 on http://www.socialserve.com/dbh/SearchHousingSubmit.html?city_id=53691&ch=PA&type=rental.

⁶ PA Department of Labor and Industry. Marcellus Shale Regional Reports – Westmoreland Fayette. Available from http://www.paworkstats.state.pa.us/admin/gsipub/htmlarea/uploads/West-Faywia_MS.pdf.

⁷ Cushman and Wakefield. Marketbeat Industrial Snapshot. Q4 2011. Pittsburgh, PA.

⁸ Grubb and Ellis. Industrial Trends Report – Fourth Quarter 2011. Pittsburgh, PA.

⁹ *Region looks to open the ethane bottleneck*, *The State Journal*, <http://www.statejournal.com/story/17233048/region-looks-to-open-the-ethane-bottleneck>; *Understanding the Marcellus Shale Supply Chain*, University of Pittsburgh, http://www.entrepreneur.pitt.edu/sites/default/files/Understanding%20the%20Marcellus%20Shale%20Supply%20Chain_0.pdf; *The Next Big Thing for Marcellus Shale: Ethane Cracker*, *Mod Space Blog*, <http://blog.modspace.com/2012/03/15/the-next-big-thing-for-marcellus-shale-ethane-cracker/>.

¹⁰ Cushman and Wakefield. Marketbeat Office Snapshot. Q4 2011. Pittsburgh, PA; and Grubb and Ellis. Office Trends Report – Fourth Quarter 2011. Pittsburgh, PA.

¹¹ Cushman and Wakefield. Marketbeat Office Snapshot. Q4 2011. Pittsburgh, PA.