

COMMERCIAL REAL ESTATE

Pittsburgh Exchanges Macy's for Mixed-Use Giant

Square Feet

By JOE GOSE FEB. 16, 2016

PITTSBURGH — A plan to convert Pittsburgh's 12-story landmark Macy's department store into a one-million-square-foot mixed-used behemoth has become one of the latest votes of confidence in the decade-long resurgence of the city's downtown.

Core Realty, based in Philadelphia, in July paid \$15 million for the property just months before Macy's closed. The building, on the corner of Fifth Avenue and Smithfield Street, dates to the late 1800s and for years was the flagship of the Kaufmann's department store chain. It went through several expansions and renovations, including a heralded Art Deco interior makeover of the first floor in 1930.

Randy Mineo, executive vice president of Core Realty and a Pittsburgh native, envisions a mix of retailers, restaurants and entertainment spots to complement a 155-room Even Hotel and 312 luxury apartments. Named the Grand at Fifth Avenue, the estimated \$100 million project will feature an open-air atrium beginning on the fifth floor and 600 parking spaces, a sparse commodity downtown.

“I’ve always looked at Pittsburgh as a hidden gem; it’s a city that has been kind of ignored,” said Mr. Mineo, who with the owner of Core Realty, Michael Samschick, began hunting for properties in the city three years ago. “But you could tell that underneath the surface, Pittsburgh was bubbling.”

Developers, corporations, educators and others have pumped about \$5 billion into the city’s downtown, also called the Golden Triangle, over the last decade, according to the Pittsburgh Downtown Partnership.

Investors have converted old office buildings into residential units, hotels and classrooms, constructed new office buildings, and built up the district’s restaurant and entertainment base, even while the state has overseen the city’s budget as a result of Pittsburgh’s near-bankruptcy early this century.

Among other projects, Millcraft Investments, a developer based in nearby Washington, Pa., which evolved from the industrialist Jack B. Piatt’s business interests, converted seven historic buildings in 2010 into Market Square Place, a \$42 million project that houses a Y.M.C.A., retailers and 46 loft apartments.

And Millcraft is putting the final touches on its newly constructed \$108 million Gardens at Market Square, a mixed-use development that offers a 197-room Hilton Garden Inn, office and retail space, and a garage for 330 cars.

“I’ve never seen so much activity in Pittsburgh,” said Lucas B. Piatt, president and chief operating officer of Millcraft. “It’s not down on itself anymore.”

About five years ago, national office investors for the first time took notice of the market after vacancies actually fell and rental rates grew amid the financial turbulence in 2008 and 2009, said Jason T. Stewart, an executive vice president with the brokerage firm Jones Lang LaSalle in Pittsburgh.

That was, in part, because of fortunate circumstances, Mr. Stewart said. The regulator-encouraged acquisition by PNC of the beleaguered National City Mortgage, as well as the merger between the Bank of New York and Mellon Financial, brought thousands of workers downtown.

“After the dust settled in 2010, the fundamentals in Pittsburgh looked very favorable,” he said. “Then in 2011, office trades started happening.”

Class A office space downtown now has an average vacancy rate of about 7.5 percent, although rental rates remained relatively flat in 2015 and coming lease expirations will put more space in older buildings on the market, according to Jones Lang.

Nevertheless, building conversions have cut into office supply and little new construction is underway or planned, which is fostering an environment for rent increases, said Dan Adamski, a managing director with the brokerage.

Shorenstein, an office landlord based in San Francisco, made its first acquisition in Pittsburgh last month, paying \$149 million for the 45-story One Oxford Centre. It plans to update the property, which is about 20 percent vacant.

“In downtown Pittsburgh, 20 percent vacancy is considered high,” said Matthew M. Knisely, a managing director with Shorenstein. “Most Class A towers are very well leased, and we expect the same thing at One Oxford Centre.”

In addition to the promising office market conditions, the decisions of Google, Uber, Apple and Oculus, owned by Facebook, to put operations in Pittsburgh grabbed Shorenstein’s attention, as did the tech start-ups emerging from nearby Carnegie Mellon University, he said. Much of that activity stems from the city’s longstanding strategy to build up its academic, medical and technological base.

The growing population in the downtown area — up 10 percent to more than 12,300 residents since 2010 — also appealed to Shorenstein. The housing supply in the downtown area has ballooned nearly 50 percent to more than 5,300 units since 2000, and the average occupancy is about 95 percent, according to estimates by the downtown partnership group. An additional 3,875 units are under construction or planned.

Conversation among developers and civic leaders is increasingly focusing on how to improve the Golden Triangle’s shopping experience and whether the area population alone can support conventional retailers. Mr. Piatt, for example, doubts

that suburbanites will trek downtown to frequent stores already situated close to home.

Restaurants, entertainment venues and boutiques have replaced four department stores as the Golden Triangle's retail anchors, said Herky Pollock, executive vice president and northeast director of the retail services group for the brokerage company CBRE in the city. But he suggested that the bustling restaurant scene and the growing number of young workers living downtown was generating interest among a variety of operators, from discount retailers like T. J. Maxx to large fitness facilities.

"As long as we add unique offerings, downtown will prosper beyond where it's ever been," Mr. Pollock said.

Still, Macy's closing in September left a gaping hole along Smithfield Street, once the city's most vibrant retail corridor, and has put Core Realty's redevelopment plan under a microscope. Arthur P. Ziegler Jr., president of the Pittsburgh History & Landmarks Foundation, wants to see retailing dominate Smithfield Street again.

His organization led opposition to the plan by a former mayor, Thomas J. Murphy Jr., to replace 64 buildings on 4.5 acres with a mall in the 1990s. In addition to initiatives like protecting old building facades, the foundation has renovated a handful of properties to create space for apartments, clothing stores, a grocer and other shops, generally charging rental rates below the market average.

"We're concerned whether people will live downtown if they have to leave downtown to shop," Mr. Ziegler said. "The Macy's project is going to be very important. We need it full of shops or that street won't come back for retail."

Macy's initially wanted to take part in the renovation and stay on four floors but couldn't make it work financially, Mr. Mineo said. Instead, he is planning 100,000 square feet of shops, restaurants and entertainment on the first two floors, as well as a rooftop restaurant.

The inability to substantially increase the number of entrances into the landmark will require Core Realty to woo larger users, however, and junior apparel

stores, supermarkets and entertainment concepts like Lucky Strike bowling are among his targets.

“We need people,” he said. “But I think that with all the apartments that are here and those that are coming, we’ll have enough to support the project.”

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