Breaking Ground

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

JANUARY/FEBRUARY 2021

THE BIG PICTURE:
Road to Recovery

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On the cover: WVU Medicine Mountaineer Field Garage, Roy Engelbrecht Photography

MBA

PUBLISHER'S NOTE

It needs to be different this time. Vaccines have begun to roll out across the country, putting the end of the pandemic (if not COVID-19) in sight. Whether that means knocking the virus down to negligible levels in April or October, the medical solution should clear the way for economic recovery. It should not, however, clear the way for business as usual.

Pittsburgh has been on a great run and there's no reason that run shouldn't continue into the next decade. But the playbook for producing that great run is not going to work as well after COVID-19 is in the rear view mirror. If we're honest with ourselves, it was not working as well before this virus disrupted life as we knew it.

In the feature article in this BreakingGround edition, we go on at great length about the recession and the recovery. After the Great Recession, Pittsburgh's economy recovered faster than most other cities. Government/corporate partnerships played a big part in Pittsburgh's transformation from steel town to diverse economy but the turnaround a decade ago had a lot to do with the gas industry finding Western PA interesting. That's OK. It helps to get lucky sometimes. Planning on getting that lucky a second time isn't a good plan.

The good news is that the elected officials and corporate leaders in Western PA don't see getting lucky as the plan for recovery and growth. The bad news is that the plan sounds a lot like what the plan was before the pandemic hit.

As I talked with business owners, economic development professionals, contractors, and academics during the preparation of this edition, there wasn't much argument with how things are going in Western PA. Most people see the incredible advances in technology, manufacturing, medicine, and communications as the centerpieces of the Pittsburgh economy for the future. Most understand that for those emerging economic drivers to take Pittsburgh to another level, there will need to be more people and businesses attracted to Western PA. It's the plan for attracting those people and businesses that is less clear.

I had a customer years ago who loved to talk about fishing. He would say that he spent the first day of a fishing trip examining the fish he caught to see what they had eaten. "How can you bait a hook if you don't know what the fish are eating?" he used to ask.

We're fishing for people and businesses. There will be many opportunities for Pittsburgh to make the case for moving to our region. That will most likely involve incentives of some sort, or at least presenting the advantages that Pittsburgh has to offer. I hope that the economic development professionals are empowered to be very aggressive in offering incentives as bait. The question is: will they know what bait to use?

To succeed to any degree, there must be an increased investment in marketing, starting with better understanding what the fish are eating. Who is leaving the gateway cities and why? Why did the last 100 people who moved to Pittsburgh pick Pittsburgh? Why did the last 100 people who didn't pick Pittsburgh choose Austin, or Miami, or Nashville? Where are companies that are leaving the big cities going? What drove those choices? Where are people looking for entertainment or information that can be used to tell Pittsburgh's story? We're going to have to ask lots of questions and accept the answers we get, especially when they are different from what we thought they would be.

Once we understand the fish better, maybe we can use some of the incredible technology being developed in Pittsburgh to tell our story. This is a job for big data and predictive analytics.

It feels like if we talk to someone about buying a new lawn mower, we see lawn mower ads on every web page we land on for the next week. I know that's not possible (right?) but, if it was, I'd bet someone from Carnegie Mellon came up with the algorithm to do it. It seems like there should be a way to learn when people in other cities are thinking about moving. Sounds like a job for artificial intelligence. Isn't that what we do here?

Pittsburgh is no longer the shiny new thing we were (or thought we were) in 2010. We are a victim of our own success in that Pittsburgh has emerged as a competitor for businesses that never considered this region before. The industries that have been successfully nurtured in Western PA are the industries of the future, but that puts Pittsburgh in the running for talent and companies against cities that have been more successful at attraction for much longer. And it means competing against places that have way better weather, more diversity, less government obstruction, and much lower taxes.

Maybe I'm being anxious over nothing here, but the past nine months have been something of a reset for the economy. Pittsburgh has some great advantages, but I fear we are going to miss out on the opportunities that the reset will provide. It was said that Pittsburgh was a big winner in the Amazon HQ2 contest because of what we learned during the process. It's time to apply what was learned about selling. One of the truisms of sales is that everyone loves to buy; no one wants to be sold. It's time to find out what people are buying when they shop for a city.

Jeff Burd

REGIONAL MARKET UPDATE

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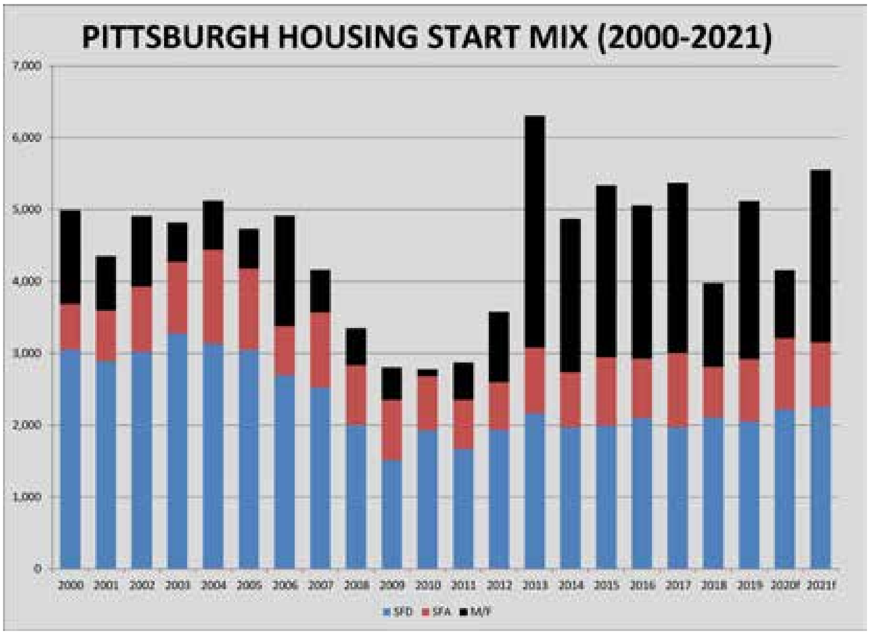
There were some very good signals that the pace of economic activity in Southwestern PA was improving as 2020 ended. Architects and engineers reported an increase in new proposal requests and an increase in projects coming off hold. Firms were hiring again. Contractors were seeing fewer bids and requests for proposals – and more re-budgeting – than is typical for the slower end of year period; however, the pace was improved over the early fall. And the local economy was seeing improvement in the most important economic metric: job creation.

On December 4, the Allegheny Conference on Community Development released its November update of the Pittsburgh Region Employment report. The headline unemployment rate dropped in the seven-county metropolitan level to 7.3 percent, 40 basis points higher than the national unemployment rate but nearly 9.7 percentage points lower than the April peak. Hiring in Pittsburgh returned a higher share of the jobs regained since April than most regions, 69.3 percent versus the average of 63.3 percent. The number of people filing Continuous Unemployment Claims declined, with the four-week average at 60,582 during the week ending November 7. That number declined from a high of 197,347 in May.



Construction of single-family homes increased in 2020 but apartment construction fell by more than 50 percent. Source: Pittsburgh Homebuilding Report.

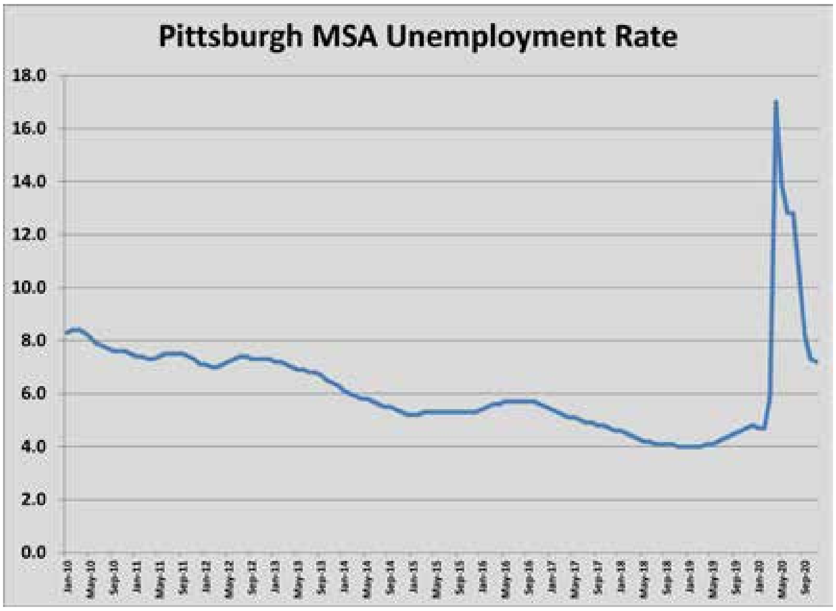
While the unemployment rate decline was principally due to a decline in unemployed persons, the nagging increase in workers leaving the labor force remains troubling. Through November, the workforce in Southwestern PA declined by 3.7 percent, almost a full point more than the decline statewide. It is too early in the jobs recovery to judge whether this decline is owed to Baby Boomers choosing to retire early, exhaustion of discouraged job seekers, or the byproduct of parents (likely mothers) leaving the workforce to care for children. If it is the former, the trend represents an acceleration of a problem that is to worsen from 2021 to 2025.

Consumer confidence in individual employment situations has fallen in Pittsburgh since the surge in infections in November. The Allegheny Conference's Regional Consumer Confidence Survey for December showed that confidence in employment status fell 10 points to 17.1 percent from mid-October to the week before Thanksgiving. Some 48.7 percent of Western Pennsylvanians expressed positive employment sentiments in March; however, those sentiments have dipped three times since then, in between increases in positive sentiments in June and October.

The Pittsburgh consumer has significantly higher confidence in their personal finances. Positive sentiment towards personal finances also dipped in late November, to 39.9 percent. Like with the employment sentiment, confidence in personal finances has waxed and waned with the progression of COVID-19 but has bounced higher than the levels expressed in March throughout the spring and summer. Similarly, confidence in the six-month outlook in November was roughly the same as it was in March and has been less volatile than the sentiments regarding employment and the current economic situation. Confidence in the regional economy was higher in November than October, and 13 points higher than in July.

It appears from responses that consumers are optimistic about the effectiveness of vaccines to rebuild the economy and anticipate being participants when the community spread of COVID-19 falls.

That confidence will be important to the higher education sector, which has seen better-than-expected enrollment in the fall semester but less-than-optimal



Source: PA Department of Labor

conditions. Educators fear that the measures taken to prevent widespread infections on campus have led to a college experience that is less satisfying. With full vaccination possible by the fall semester of 2021, colleges worry that a portion of the student body may opt to sit out the spring semester and return to normal later this year. Until students return in January, higher educational institutions remain uncertain about their financial strength and capital spending.

While Carnegie Mellon University has moved ahead with its Scaife Hall replacement and expects the $100 million Skibo Hall expansion to proceed in the summer, Duquesne University and University of Pittsburgh have delayed major projects. Duquesne's new College of Osteopathic Medicine building will not start until spring 2022. Pitt is in the process of making final evaluations about which projects, if any, will go ahead from its ambitious master plan. The plan's priorities, which put several $100 million athletics projects first in line for construction, have been scrambled by COVID-19. A decision on which projects will advance in 2021 is anticipated by February 1.

The prospects for healthcare construction are better, although the sharp rise in COVID-19 hospitalizations elevates financial concerns again. Assuming that Pittsburgh area hospitals are able to maintain elective surgical procedures throughout the winter, healthcare construction should return to pre-COVID levels for several systems.

Allegheny Health Network plans roughly $300 million in capital spending in 2021. The design and construction management team is expected to be selected before spring for the $300 million cardiovascular tower at Allegheny General Hospital. UPMC, which put a handful of major infrastructure projects on hold in 2020, is expected to move those forward this year. No announcement has been made on the status of the $900 million Heart and Transplant Hospital at UPMC Presbyterian, but the design should be ready for early package bidding by late fall. West Virginia University Medicine has plans for significant investment in Uniontown Hospital, as well as several community hospital projects.

One of the sectors of the construction market that disappointed in 2020 was multi-family. Following a 91.5 percent jump in construction of multi-family units from 2018 to 2019, the pipeline of apartments in 2020 foretold another year of close to 2,000 units of new construction. The pandemic, with its delays in entitlement and construction, and economic uncertainty, slowed the pipeline measurably. Roughly 925 units of new multi-family construction will be started in 2020. Nearly 1,200 units are tracking to get underway by mid-2021, but uncertainty about the apartment rental market still linger.

Pittsburgh's run of new apartment construction has been absorbed rather quickly. Observers of the market note that the new construction, which virtually disappeared from the market from 2000 to 2010, provided upwardly mobile renters the opportunity to upgrade their lifestyle. But the downturn sparked by the COVID-19 outbreak started a trend of downgrading in search of lower rent.

Data from the Apartment List quarterly renter migration list showed that the economic disruption caused by the pandemic has increased the number of renters looking to move, either to another city or another apartment within the same city. The survey found that there had been a 30 percent increase in the number of requests for leases of six months or less compared to the third quarter of 2019. It was not a surprise that more than 20 percent of the renters in San Francisco reported to be looking to locate to another metro. San Francisco ranked first in out-migration, followed closely by Seattle and San Jose. Pittsburgh ranked ninth on the list of renters demanding short-term leases, with 17.7 percent demanding six-month leases, compared to 11.4 percent a year earlier. The number of people looking to move to Pittsburgh from another city also ticked slightly higher, moving to 19.6 percent of renters compared to 19.5 percent in 2019.

These slightly negative trends have had very minor impacts on occupancy and rental rates in Pittsburgh, with properties experiencing no more than a five percent slip on average. If that level of decline marks the low point in the market, the planned new construction should proceed. Among the major multi-family projects lined up to start in the first half of 2021 are the 150-unit 5803 Centre Avenue being developed by Charles Street Investment Partners, 370-unit Brewer's Block Apartments, 300-unit 3500 Forbes Avenue development by Clark Street/CA Ventures, 200-unit Baumhaus proposed by Laurel Real Estate, and the 114-unit 32nd & Penn Apartments by Oxide Development/Schiff Capital.

The Pittsburgh market has not been able to escape the damage done by COVID-19 to the hospitality sector of the

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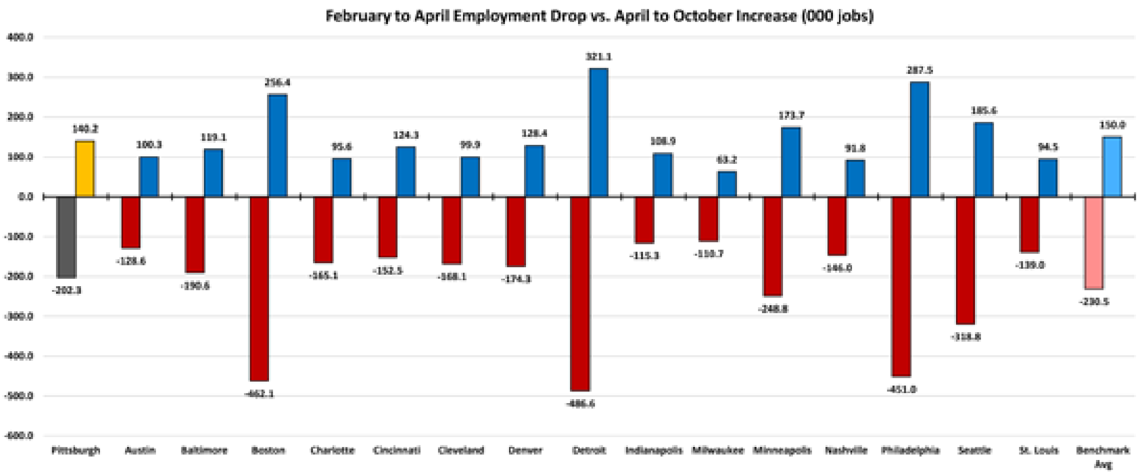
economy. Construction opportunities for hotels and retail properties, including restaurants and bars, will be few in 2021, although business activity in the latter is likely to be robust once vaccines have been widely distributed. Other sectors of the commercial real estate market are expected to fare better in 2021.

It's not a surprise that industrial development is continuing to add new product. After the addition of roughly one million square feet of distribution space during the past two years, occupancy remains nearly full for Class A warehouse. Amazon is the poster child for the boom in distribution and fulfillment centers. The ecommerce giant recently signed a lease for 300,000 square feet at the former Sears Outlet in Lawrenceville and is reported to be the user for the 850,000 square foot center being planned by Hillwood Properties at the former Westinghouse Research Center in Churchill, and a 278,000 square foot distribution center proposed by Suncap Development in Findlay Township. Additional large distribution centers are in the pipeline throughout the region for other users as well. Since the fall the 400,000 square foot Clinton Commerce Center Building 5 been started, along with the first 150,000 square foot building at Hempfield Commerce Center. Suncap also purchased land to develop a 250,000 square foot distribution center, likely a build-to-suit, at the Victory Road Business Center in Butler County. Other large users of warehouse space are in the market but have not announced site selections as the year ended.

More surprising has been the continued development of office projects during the pandemic. Nearly 400,000 square feet of speculative office space is under construction in the Strip District. JMC Holdings received planning commission approval for its 550,000 square foot office at 1501 Penn Avenue and has begun demolition of the former Wholey's warehouse on the site. Elmhurst is moving forward with the first phase of its 175,000 square foot tech flex development on Second Avenue, as is Oxford Development with its 53,000 square foot Factory 26 tech-flex space on Smallman Street. FNB and developers Buccini Pollin continue to push forward with plans to start construction in 2021 on the bank's new $220 million headquarters on the former Civic Arena site.

The outlook for public construction is less sunny coming into 2021. School construction will be limited to small repair and replace projects for building systems, with the exception of a few major new school projects. Capital funding for public higher education will be stretched thin in 2021, although the pandemic has proven to be a boost to enrollment for some state universities. A boost in funding for construction in Pennsylvania State System of Higher Education universities will not come until after a plan for reorganizing the PASSHE system is concluded. Infrastructure spending is also under



Pittsburgh's job losses through April and gains through November were slightly smaller than the benchmark average cities. Source: BLS Current Employment Statistics

pressure from tight state and municipal finances. Relief for heavy and highway spending will depend upon Congressional agreement on a federal infrastructure package.

Regional construction has been underpinned by the Shell Franklin plant since 2017. While work at the Monaca site will continue at or near peak employment levels through 2021, the project is expected to wind down in 2022. It seems unlikely that the proposed PTT cracker in Dilles Bottom, OH is going to proceed on a track fast enough for the workforce building in Monaca to transition down river. In fact, PTT recently announced that no final investment decision would be made any sooner than mid-2021, another delay in a series of delays. Assuming the rollout of vaccines unfolds as expected throughout 2021, a return to expansion in construction should be noticeable by the third quarter. It will depend upon the progress of one of the region's other mega projects – the $1.2 billion USS Mon Valley Works modernization, the $1.1 billion Pittsburgh International Airport Terminal Modernization Program, or the UPMC Presbyterian Hospital replacement – to provide the underpinning for the resumption of a boom that should carry Pittsburgh's construction industry through the next decade. BG

NATIONAL MARKET UPDATE

After a roller coaster of a year in 2020, the U.S. economy enters 2021 with the first signs of certainty about future demand since 2019. While it is still possible that the medical solutions to COVID-19 will be less effective or slower to roll out, and U.S. monetary and fiscal policy be less stimulating than necessary, economists are reaching consensus about the direction of the economy in 2021. As the effective vaccines are distributed throughout the winter, the rate of transmission of the virus begins to slow dramatically, particularly once warmer weather allows for more outdoor social activities. The economic stimulus and safety net allows consumers to stave off mass evictions and foreclosures, and business failures are minimized. This scenario, or some reasonable facsimile, restores more normal economic activity each month. A robust recovery gets underway after the second quarter, leading to a strong construction market going into 2022.

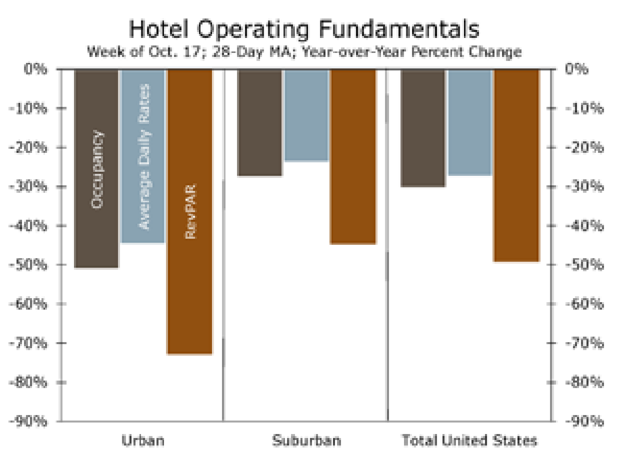
Of course, the fly in the ointment to this upbeat scenario is the response to the expected increase in hospitalizations and infections during the 2020 holiday season. How well the population responds to what should be the final stages of the pandemic will determine how much damage is inflicted on the economy.

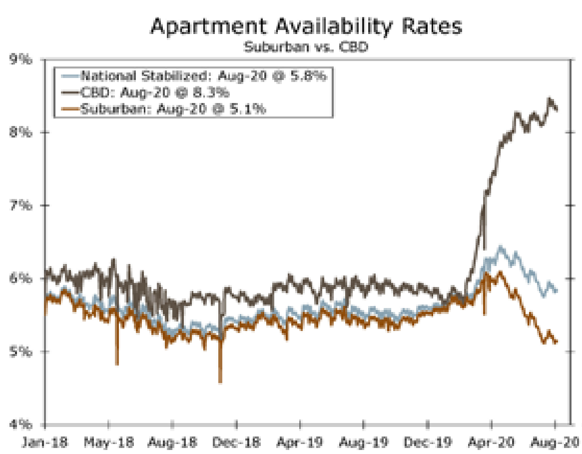
The surge in hospitalizations led to mitigation steps similar to those taken in the spring of 2020, but the economic recovery that is expected to follow the rollout of vaccines has boosted the outlook for commercial real estate. The pandemic put a severe dent in demand for commercial space and raised questions about the future demand for office space, but signals from the key capital markets suggest that lenders anticipate demand to return to normal levels as the year unfolds.

CBRE released its report on commercial real estate capital markets during the critical third quarter 2020 recovery and the results showed activity that was already shifting to normal. Underwriting became more conservative, as expected, during the third quarter. Among the key underwriting conditions surveyed, average loan-to-value ratios declined to 61.5 percent. That was 5.7 points lower than a year earlier. Debt service coverage ratios expanded year-over-year from 1.38 to 1.59 during the third quarter. Neither of these shifts appeared to dampen demand.

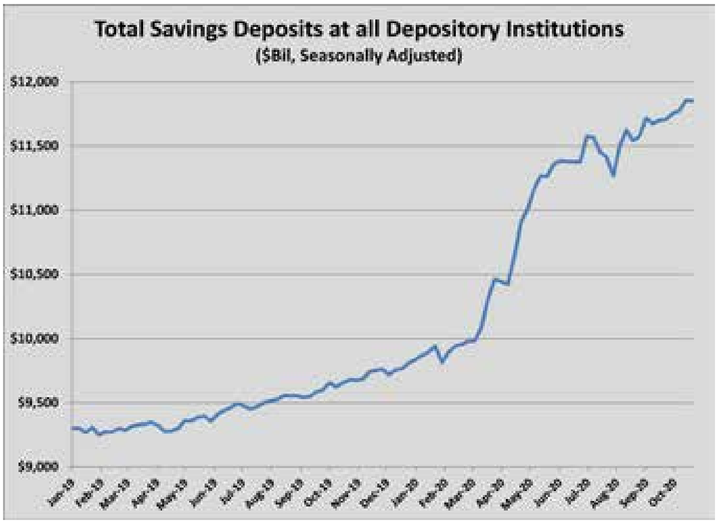
Another positive sign was the return of a balance of capital sources. While banks originated 70 percent of the loans during the second quarter, banks' share of the market fell to 39 percent from July through October. Life insurance companies originated 22.5 percent of loan closings during the third quarter. Commercial mortgage backed securities increased the number of loans closed to $10.4 billion, although that pace is roughly 30 percent lower than the volume in 2019. Alternative lenders, like REITs, debt funds, and finance companies, re-emerged after nearly shutting off the flow of financing in the second quarter, closing 34 percent of the commercial real estate loans from July to October. These lenders are primarily sources of bridge and construction lending.

The future of the office market has been debated to death during the duration of the pandemic, generally to no conclusion. One conclusion that can be drawn is that work from home is bad for central business districts (CBD). Changes that work from home may bring to the urban office market will unfold as leases expire and/or are renegotiated. The dramatic reduction in daily occupancy that has occurred since March had already made its impact on real estate properties that are dependent upon CBD occupancy. That impact is pronounced for hotels and apartments.

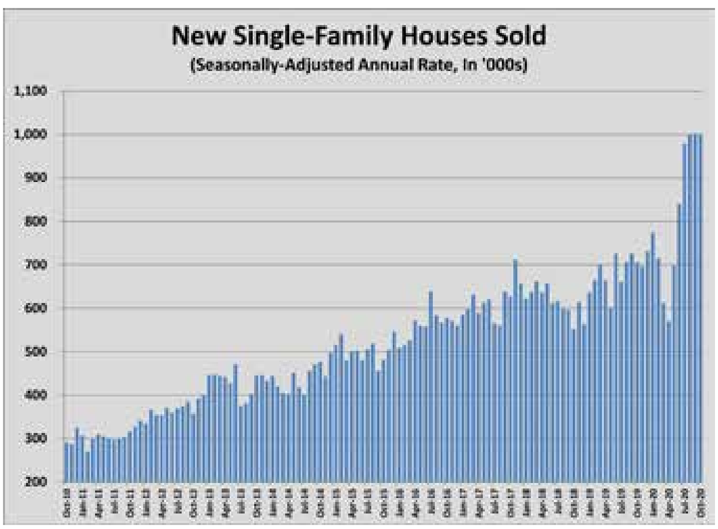




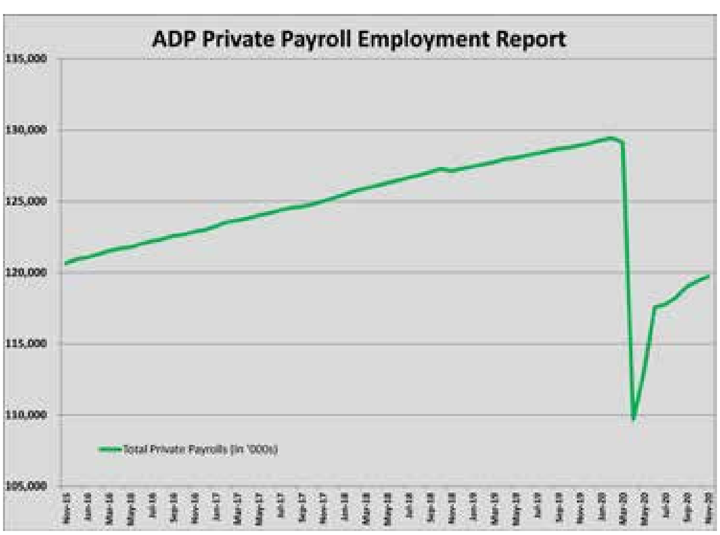
Source: STR, CoStar Inc. and Wells Fargo Securities



The huge jump in personal savings that occurred as a result of the COVID-19 relief and dampened demand represents dry powder for recovery in 2021. Source: Federal Reserve Bank of St. Louis.



Sales of new homes soared in summer and fall to levels not experienced since September 2006. Source: U.S. Bureau of Census.



Hotel fundamentals have been devastated across the board, as reduced travel has diminished the demand. In urban office locations, the lack of routine business travel has pushed down occupancy by over 50 percent at the end of October. Revenue per available room (RevPAR) is down more than 70 percent. RevPAR is a key financial metric for hotels.

Apartments saw a slight uptick in vacancy rates at the end of April but occupancy has been increasing steadily since then, except for urban multi-family properties. While the average availability of units for all stabilized multi-family properties was 5.8 percent nationally at the end of October (and was 5.1 percent for suburban apartments), availability in CBD apartments climbed to 8.3 percent. Downtown apartments have been attractive to renters who worked in CBD office for their proximity. That attraction has also been reflected in higher rents. With CBD office occupancy down, CBD renters are choosing to seek out cheaper suburban apartments from which to work from home.

A flurry of economic reports released since Thanksgiving showed how delicate the economic situation was as 2020 wound down. Unemployment claims continued to rise during the previous week, with nearly 21 million people remaining on unemployment insurance. Data from various job posting sources suggested that the job creation numbers could turn negative in December. The slowdown in hiring and resurgence of COVID-19 brought household income down 0.7 percent in October, according to the Commerce Department. Consumer spending, however, increased 0.5 percent, which was better than expected.

Factory orders rose one percent in October, according to the Commerce Department's December 4 report. That followed an increase of 1.3 percent in September. Durable goods orders jumped 1.3 percent in October, while orders for consumable goods rose 0.7 percent.

The Institute for Supply Management (ISM) released its last reports before New Year's on November's Purchasing Managers' Index (PMI) for manufacturing and non-manufacturing industries (NMI). The manufacturing index fell slightly in November to 57.5 percent. Within the PMI, the sub-indexes reflected the state of the overall economy, as business activity continued recovering while employment lagged. New Orders Index was 65.1 percent and Production Index was 60.8 percent, while the Employment Index fell to 48.4.

Reports on hiring echoed the falling ISM Employment Index. Payroll processing giant ADP reported that November private payrolls increased by 307,000 in November, a further slowing from October's 365,000 increase in jobs. The December 9 Job Openings and Labor Turnover Survey (JOLTS) found that openings edged up slightly in October, but layoffs left 1.63 people unemployed for every job opening. The

November Employment Situation Summary showed employers adding 245,000 jobs, a further slowing of the pace of the labor market recovery that was not unexpected.

Breaking down that December 4 jobs report below the headline, there are still disconcerting trends. Most concerning is the dip in the labor participation rate to 61.5 percent. That is nearly two percentage points, or six million people, fewer in the workforce than in February. The decline in the unemployment rate to 6.7 percent is more attributable to that decline in participation than job growth. The number of people on temporary layoff decreased again by 441,000 people, but the number of permanently unemployed remains unchanged and is 2.5 million higher than in February 2020. That stubbornly high long-term unemployment rate underscores the need for a continuation of unemployment benefits until the threat of pandemic recedes.

Assuming that confidence in public safety grows as the vaccine is delivered in the first months of 2021, the pace of recovery will be determined by the capital available to deploy.

At the same time, the data from the construction industry continues to improve. New home sales maintained the torrid pace that had been set in the summer, with 990,000 new construction units sold in October, a 41.5 percent increase over the previous year's total. Nearly 40 percent of those sales were for homes that were not yet under construction. That reduced the inventory of homes under construction to a 3.3 month supply. Without a surge in new construction in the coming months – something that will be difficult in cold weather regions – the pace of new home sales will become impossible to sustain because of inadequate supply.

Residential construction lifted total construction spending 1.3 percent from September to October, according to the December 1 report from the Census Bureau. Construction spending was $1.44 trillion in October, an increase of 3.7 percent compared to October 2019. Private residential spending was up a whopping 14.2 percent year-over-year, while total nonresidential construction declined by 3.7 percent during the same period.

Private nonresidential construction spending declined 0.7 percent from September to October, with decreases in nine out of 11 categories. The October total was 8.2 percent lower than in October 2019. Construction of commercial buildings – offices, warehouses, and retail – declined by one percent. Public construction spending increased 1.0 percent in October and 3.7 percent year-over-year.

Construction lags the economy, so the relatively mild decline in nonresidential construction in 2020 may only be an indicator of a slower 2021; however, the 2020 recession was the result a short-lived event rather than an imbalance in the economy. The four-month recession occurred in an environment that had regulatory guard rails for the lenders, which kept those institutions strong heading into 2021. Government response has been uncertain since summer but the CARES Act provided a bridge that staved off individual and business financial disasters to a greater degree than in 2009 or 2001, for example. Following a "normal" downturn, you could expect the second year to be the trough for construction. The current conditions suggest that result is less likely this business cycle.

In the final analysis, the recovery of the economy rests on a medical solution unlocking the confidence of the average consumer to return to pre-COVID habits. Assuming that confidence in public safety grows as the vaccine is delivered in the first months of 2021, the pace of recovery will be determined by the capital available to deploy. For businesses and investors, the health of the stock market and poor yields on cash mean that there will be ample capital to put to work. The low cost of borrowing should be an incentive that also reduces the risk of developing early in the recovery, rather than after demand has returned. That bodes well for the construction and real estate markets.

For the majority of the economy, the health of the consumer is paramount. It will take at least six months after a vaccine is initiated to judge the state of the household balance sheet. But, in the meantime, one measure of financial health points to a strong post-COVID recovery. Among the few upsides to the efforts to mitigate community spread of COVID-19 was the increase in savings for households that did not experience layoffs or reduced incomes. Including the virus relief packages from spring/summer, consumers added more than $2 trillion to their savings from February to year's end. That's equivalent to 11 percent of the annualized GDP at the end of the third quarter of 2020. Such a cache of cash will be an enormous source of fuel to drive an economic recovery by mid-2021. BG

The City of Pittsburgh's Fire Safe Building Inspection Program requires that fire and smoke dampers be inspected and tested regularly by an HVAC Fire Life Safety Technician certified by the International Certification Board. It also requires that smoke control systems be inspected by an air balancer who has been certified by the International Certification Board as an HVAC Fire Life Safety Technician.

Failure to meet the code and have your systems inspected regularly can mean fines of up to $300 per offense!

The ordinance can be found at: **https://pittsburghpa.gov/fire/fire-safe-buildings**

You can find certified technicians at: **https://www.nemionline.org/resources/find-an-icb-tabb-certified-professional/**

Please schedule your inspections today! Don't wait until there is a fire to find out that your fire life safety systems are not working properly! The costs are just too high!

WHAT'S IT **COST?**

As expected, producer price inflation was slowed in November by increases in unemployment claims and decreases in economic activity brought on by the resurgent COVID-19 coronavirus. The December 11 report by the Bureau of Labor Statistics found the producer price index (PPI) for goods rose 0.4 percent from October to November, while PPI for services remained unchanged. Year-over-year, PPI for final demand – change in prices received by domestic producers for goods, services, and construction sold for personal consumption, capital investment, government, and export – rose 0.8 percent. That is well below the two percent inflation goal set by the Federal Reserve Bank.

Producer prices saw higher inflation than consumers in November, as the pandemic chilled demand for dining, travel, entertainment, and gasoline. The consumer price index edged up only 0.2 percent compared to October.

For the construction industry, the pace of inflation remained on the slowing trend line that has been in place since summer. PPI for final demand construction was up 0.1 percent in November compared to October and rose only 1.2 percent year-over-year. The increase in prices for new nonresidential construction was 1.3 percent compared to November 2019.

Supply chain disruptions, which caused spikes in certain building materials, have mostly been rectified or offset by slowing demand. Most materials and building products are seeing changes in pricing that are within a narrow range of one or two percent. Of those outliers, the spike in lumber prices continued to retreat in November. PPI for lumber was still 28.4 percent higher year-over-year, but the 90-day and 30-day increases shrank to 1.1 percent and -11.7 percent respectively. Likewise, the year-over-year decline in diesel fuel has slowly reversed as the production war between Russia and OPEC states has been derailed by plunging global demand. With nation states cutting production to cut losses, the glut in supply has stabilized. Diesel prices were 6.8 percent higher in November than October, although still 10.0 percent lower year-over-year. With the U.S. no longer a net importer of oil and gas, the rebound in diesel prices – and related materials like asphalt – will be limited.

An emerging trend worth following is the increase in steel and metal scrap prices, because of the predominance of metals in construction products. Global demand for steel is unlikely to drive prices dramatically higher in 2021 but, with China turning its steel manufacturing inward, the level of excess global capacity will decline. BG

PERCENTAGE CHANGES IN COSTS	Nov 2020 compared to		
Consumer, Producer & Construction Prices	**1 mo.**	**3 mo.**	**1 yr.**
Consumer price index (CPI-U)	0.0	0.5	1.2
Producer price index (PPI) for final demand	(0.2)	0.5	0.8
PPI for final demand construction	0.1	(0.1)	1.2
PPI for new nonresidential buildings	0.1	(0.1)	1.3
Costs by Construction Types/Subcontractors			
New warehouse construction	0.4	0.1	(0.1)
New school construction	0.3	(0.3)	1.5
New office construction	0.4	0.4	1.7
New industrial building construction	(0.2)	(0.5)	1.7
New health care building construction	(0.3)	0.0	1.1
Concrete contractors, nonresidential	0.2	0.3	0.7
Roofing contractors, nonresidential	(0.1)	0.3	2.7
Electrical contractors, nonresidential	0.1	0.2	1.9
Plumbing contractors, nonresidential	0.2	0.3	0.4
Construction wages and benefits	N/A	0.4	2.6
Architectural services	(0.2)	(0.6)	0.6
Costs for Specific Construction Inputs			
#2 diesel fuel	6.8	4.5	(10.0)
Asphalt paving mixtures and blocks	0.0	(0.5)	(3.2)
Cement	0.0	0.2	1.8
Concrete products	(0.9)	(0.1)	1.6
Brick and structural clay tile	0.0	0.9	3.2
Plastic construction products	1.5	4.2	6.0
Flat glass	0.1	0.1	0.9
Gypsum products	4.0	3.5	4.0
Lumber and plywood	(11.7)	1.1	28.4
Architectural coatings	0.0	0.0	2.6
Steel mill products	2.8	4.1	(3.2)
Copper and brass mill shapes	1.8	4.2	12.5
Aluminum mill shapes	0.3	3.2	(5.1)
Fabricated structural metal	(2.2)	(0.7)	(2.2)
Iron and steel scrap	0.9	16.1	25.0

Source Bureau of Labor Statistics, Updated December 11, 2020
Compiled by Ken Simonson, AGC Chief Economist

THE BIG

Leaders in the construction industry see a major infrastructure investment plan as a key to kick starting a booming economy. Photo by Independence Excavating.

PICTURE
ROAD TO RECOVERY

Mark Twain is credited for saying that history doesn't repeat itself, but that it rhymes. That is true of economic recessions. No two recessions are alike but there is something familiar about one to another. That is, until 2020.

Recessions are caused by imbalances. The Great Recession was different from the terrible recession of 1981-1982; however, both were caused by imbalances in supply and demand that required correction. Those periods of correction are the times we recognize as recessions. When too many people owed mortgage loans they could not repay, the correction – 3.9 million foreclosures – resulted in a deep recession. But when an invisible virus caused most economic activity to come to a halt at a point in time when supply and demand, wages and employment, interest rates and inflation, all seemed to be in balance, the resulting recession lacked precedent in modern America.

The stark difference between the U.S. economy at the end of 2020 compared to 2010 or 1991, for example, should be a source of optimism for the coming expansion cycle. Vaccines are already being distributed and, depending on the ability to widely distribute them, Americans may begin to move about freely again by the second quarter of 2021. This doesn't mean 2021 will be without economic pain. It is fairly obvious that the winter will see the widest community spread of the pandemic, with greatly reduced economic activity as a result. But successful widespread vaccination will begin the recovery for the millions of businesses damaged by that reduced level of activity.

A medical solution early in 2021 also means that the upside economic surprises of the COVID-19 recession will be intact and ready to fuel recovery. A strong stock market means that retirement plans, savings accounts, and pension funds avoided the kind of wealth destruction that marked previous recessions. The almost universal forbearance of debt staved off waves of foreclosures and kept lender liquidity intact. The other side of the coin of the economic stand down was a boost in personal savings. Likewise, private capital has been sidelined, leaving trillions of dollars available for fresh investment.

The stage is set for the road to recovery. That road is not without potholes and hairpin turns, but it is a road that looks more passable than we would have expected just six months ago. How quickly can pharmaceutical companies manufacture and distribute 300 million or so vaccines? Will vaccines become the next public health political football? Will we return to the office? Will we return to restaurants? And when? Can Pittsburgh pull off another early recovery, as the region did in 2011? Many questions remain about the road to recovery but the recovery is not in question.

2021 vs. 2011

The recession that followed the COVID-19 outbreak was 180 degrees different in nature from that which the U.S. endured in 2008-2009. Both downturns followed record high levels of employment and gross domestic product (GDP) growth. But, as has been documented throughout 2020, the current recession was induced by forces outside the economy. Where the recession a decade earlier was the inevitable result of an artificial asset bubble, the economic downturn that started in March resulted from a black swan public health event. Many economists and CEOs believed that the U.S. was heading towards a slowdown by 2021 but no one had an inkling of what occurred in March.

One understated trend that will be a drag on the coming recovery is the difference in demographics. Ten years ago, the generation that should be now fueling a boom in new home and school construction, the Millennial generation, was just entering the workplace in large numbers. For a variety of reasons – ranging from poorer economic status to fear of bringing children into a perceived unstable future – Americans between the ages of 25 and 40 are slowing the birth rate rather than accelerating it. Pittsburghers are well aware of how difficult it is to generate higher rates of economic growth while population is growing slowly or declining. Slower population growth will dampen demand relative to previous business cycles, including the 2010-2014 recovery. That business cycle kicked off the longest expansion in U.S. history but also gave us an indication of how protracted a recovery without resurgent demand can take.

Time, and the strength of the economy one year ago, has tended to dull the memory of how slow and weak the recovery from the 2008-2009 recession was. For construction, the stimulus to infrastructure that came from the American Recovery and Reconstruction Act of 2009 provided short-lived benefits that failed to offset the steep decline in private residential and commercial construction. At the February 2011 trough in the construction recession, spending was off 37 percent from the peak in March 2006. Three years later, total nonresidential spending (including infrastructure) was less than 20 percent higher than the trough.

What should be different this time is the drag on demand. Measures that mitigated the spread of COVID-19 had negative impact on the economy but, with the benefit of time, we can see that demand for travel, restaurants, entertainment, and the like would have fallen dramatically without government mandates. The upside of that decline in demand due to caution is that there will be more dry powder for consumers to deploy when the danger from COVID-19 abates (See page 10.) There will be decline in demand due to lost jobs and wages but those will recover as the economy heals. Consumers are in a better position to respond than they were in 2011.

"There's the regulatory question of what's allowed to be open and at what level. Then there's the consumer confidence side of things, particularly the retail and restaurant," says Lance Chimka, director of economic development for Allegheny County. "Like anything else there will be early adopters, people who are ready to go out right now, virus be damned. And then there will be people like my parents who have not left their house for nine months. They are going to have some type of anxiety re-acclimating to society. Some of those consumer preferences will not change. My mother is thrilled having her groceries delivered. That kind of behavior change will have an effect on the regional economy."

Business demand, as measured in investment, is also likely to bounce back much quicker than in 2011. Private equity reserves are in the trillions of dollars and the stock markets have reached new heights. Coupled with the low cost of borrowing, the availability of hungry capital should enable demand to translate into active investment quickly. That, in turn, will drive job creation.

Perhaps the most salient difference is in the housing market. In 2010, the fallout from the mortgage and financial crisis was reaching its peak. By the time that year ended, almost four million homes had been place into foreclosure. Since the outbreak of COVID-19 in March, forbearance and the CARES Act kept lenders from foreclosing; however, the level of delinquency has continued to rise. It's estimated that 3.3 million mortgages will be delinquent when forbearance ends. While that is a number that could cause a ripple of pain, there are several factors mitigating the impact on the housing market.

First, homeowners have five times more equity in their homes today as in 2010, when the U.S. average loan-to-value ratio was 94 percent. That meant selling the home wouldn't get the owner out from under water in 2010. Today, the average loan-to-value is 70 percent. That provides banks an incentive to refinance the mortgage, giving homeowners opportunities to extend repayment at low interest rates. Homeowners who have to sell will have enough equity to pay off the mortgage from the proceeds. Should owners choose that route, buyers are plentiful. The inventory of homes for sale, is extremely low, with less than three months supply on the market.

It seems likely that mortgage foreclosures will rise in the coming months, causing pain in unwanted sales of homes, but the housing market will be able to absorb the disruption that occurs.

A recovery in construction will be abetted by the lack of inflation. The shock that resulted from the spring COVID-19 outbreak disrupted supply chains worldwide and caused spikes in specific materials, like lumber. Weak demand drove prices much lower throughout 2020, however, and inflation is steady and low. Unlike in 2011, when the price of oil hovered between $105 and $130 per barrel and steel hit $800 per ton, there should be no unexpected price jumps to slow owners who want to bring projects off the shelf. A boom in construction projects could push prices of materials with tenuous supply chains higher; however, such a boom is not expected in 2021.

In Pittsburgh, conditions are very different for a couple of sectors that led the robust recovery in the early 2010s.

Most notably, the energy sector is in a very different place than it was in 2010. Perhaps the Pittsburgh region's greatest success story at the time was Westinghouse, which had recently opened its new headquarters in Cranberry Township and grew its workforce by 50 percent. Although the accident at the Fukushima Daicchi nuclear plant put a damper on Westinghouse's industry in 2011, another energy sector was kicking into high gear.

Horizontal drilling had begun in the Marcellus shale formation in 2004. By 2008, wells had proven to be productive and the buildup of the play had begun. The number of rigs doubled in 2009 to 67 and then doubled again by 2011. The drilling activity brought in wildcatters, who needed lodging, meals, and entertainment. Economically moribund small towns across Western PA came back to life. The natural gas industry drove the creation of between 30,000 and 40,000 new jobs and annual economic activity in the tens of billions. Construction companies saw several billion dollars in capital expenditures each year as the gas industry built its infrastructure. By 2015, however, all this activity created a supply glut that sent the price of natural gas through the floor.

The drilling rig count in Pennsylvania is 24, half what it was in 2019. Only 233 unconventional wells were drilled in the southwestern PA footprint in 2019, compared to 1,984 in 2009. The gas industry is still a major employer and economic driver but it will not spark Pittsburgh to an early recovery in the way it did in 2011.

Nick Deluliis, CEO of CNX Resources Corporation and co-chair of Pittsburgh Works Together, sees the changes in the industry as typical of other industries with disruptive technology.

"It's an evolving story with multiple chapters. Although the names and characters are very specific to our industry and region, the plot we've seen in many industries across the globe," Deluliis says.

"The first chapter was the story of disruptive technology. There has always been the understanding that there are prolific amounts of methane trapped below the traditional gas reservoirs developed in this region decades ago. There was no readily available technology to extract it economically," he continues. "Through innovation, and the market doing its thing, a series of technologies for horizontal drilling and completion were deployed that suddenly and fundamentally changed the supply of methane and the cost to extract it."

The successful development of the Marcellus play attracted competition. As happened with microchips or automobiles, the growth and efficiency of the gas industry brought about market conditions that made the business less profitable. Consolidation has followed. The gas industry has not, however, gone away. Pennsylvania is the second-largest natural gas producing state in the nation. And the drillers have become exponentially more efficient, in terms of time and production and cost. It's the end of what Deluliis has often in the past called the disruption and innovative phase. Until the industry moves to a new phase, capital markets and private equity will be more reluctant to invest.

Emerging technologies in fields other than energy – life sciences, robotics, artificial intelligence (AI), and advanced manufacturing – were also emerging in 2011 but were generating few new jobs. Several of the most prolific new technologies, like autonomous vehicles, were practically nonexistent as commercial enterprises in 2011. Regional economic leaders, like Chimka, are hopeful that Pittsburgh's tech sector is ready to accelerate hiring even more than during the past five years.

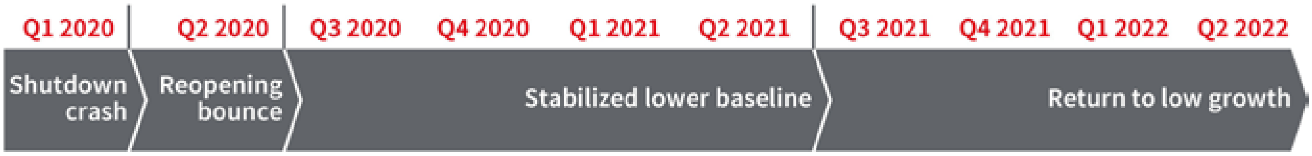
"When you look at the growth in technology, so much of it is in automation and artificial intelligence and Pittsburgh is well positioned for both of those," says Bill Hunt, CEO of The Elmhurst Group. "Cars are just the beginning for autonomous vehicles. Machinery and other equipment are the next step. The need for understanding big data is critical now that we have so much data being driven to the Internet. Pittsburgh is very well positioned for both those."

There is a general expectation that technology, life sciences, and advanced manufacturing will begin to drive Pittsburgh's economy post-COVID in the way that civic leaders have imagined for 30 years. Unlike in 2011, advances in any and all of those fields should find investors and lenders anxious to invest. Ultimately, the most important difference between 2021 and 2011 may be that supply and demand are both poised and able to support recovery. There does not appear to be the need for deleveraging or holding massive reserves against future losses. In fact, reserves that have been mandated thus far have proven to be unnecessary. Support for recovery will be there.

Recovery Economics 101

Even in an unprecedented recession, the recovery should begin the same way: when there is confidence that the worst is over. During previous recessions, that meant evidence that the imbalance had been corrected. In the stock market this is known as capitulation, that point in time when the last hopeful bull sells and buying can begin again. For the current business cycle, the confidence will be built upon the rollout of a safe effective vaccine.

"What drives the economy is certainty, the predictability of the future. Businesses want to know where to invest and where risks are low. Obviously we won't have any predictability very soon," explains Vera Krekanova, chief strategy and research officer for the Allegheny Conference on Community Development. "We're dealing with a public health crisis and what we know is that the situation is going to be worse for the next weeks or months. The positive results from the vaccine trials make it seem like the public crisis could ease before the spring or certainly by the second quarter."



The construction industry is expected to return to pre-COVID growth of two to four percent annually in 2022. Source: JLL Construction Outlook.

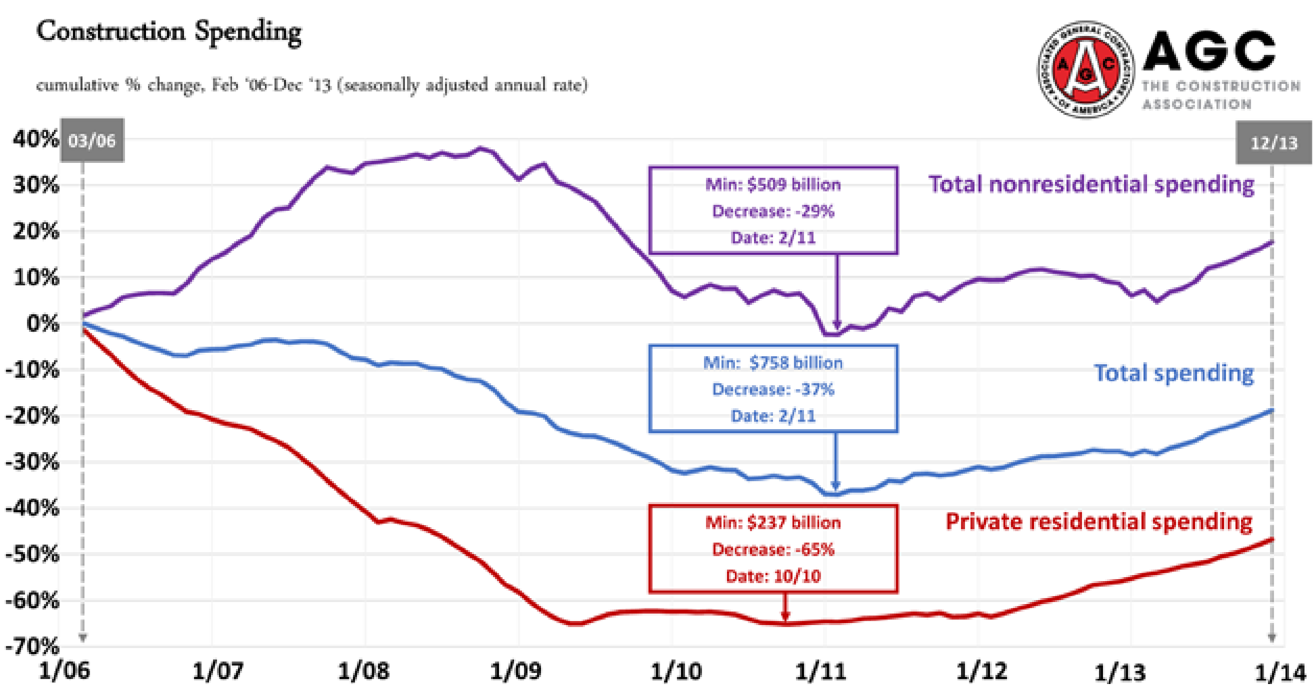
The worsening of the public health picture at year's end is expected to dampen the pace of recovery in the first quarter of 2021. Although the uptick wasn't inevitable, it also wasn't unexpected. The impact on the economy of the accelerated community spread will result in the slower growth of the fourth quarter to bleed into 2021.

Economists surveyed monthly by the Wall Street Journal (WSJ) see little chance of a double-dip recession as a result of the surge in infections; however, those surveyed lowered their expectations for growth and hiring in the first quarter. The WSJ Economic Forecasting Survey reported on December 10 found that GDP growth expectations for the first quarter of 2021 fell to 1.9 percent, down from 3.3 percent in November. Economists also lowered the forecast for the average number of new jobs from January through March from 440,000 to 295,000. The same survey found that economists expected the rollout of vaccines to boost growth and hiring in the second and third quarter, delaying the recovery that was expected at the beginning of 2021. The economists surveyed forecast that GDP will expand by 4.2 percent from April through June, and 4.3 percent in the third quarter.

"My guess is the rebound in activity has been stronger than we expected. GDP could recover next year but there will be winners and losers. Airlines are getting hit hard. Service industries are still struggling, but there are sectors of the industry the economy that are above pre-COVID levels," says Mekael Teshome, vice president and senior regional officer for the Federal Reserve Bank of Cleveland's Pittsburgh office. "The problem is employment. There are so many people out of the labor force and we're still trying to figure out what is causing that. It's most likely a combination of things. It also sounds like firms are hesitant to rehire at least in significant numbers and that concerns me. Most are unsure of what demand is going to look like."

Teshome says he is watching three metrics to judge whether the third quarter turnaround in the economy is durable. He notes that stability, if not outright steady declines, in the initial unemployment insurance claims will indicate recovering labor markets. He is also keeping an eye on delinquency levels and retail sales.

"Delinquency broadly includes consumer and business loans, and other obligations like rent. Until now, delinquency



Construction volume declined steadily from 2009 until spring 2011 and recovered more slowly than is expected in the current business cycle. Source: Associated General Contractors, U.S. Census Department.

What played well in other regions was the fact that Pittsburgh was one of the first two or three cities to emerge from the Great Recession.

rates for various categories have been surprisingly low. If they stay somewhat stable at these low levels, that tells me that financial stress is not getting worse," Teshome says. "I'm concerned that the end of the special unemployment compensation programs at the end of the year will weaken spending. It could also lead to higher delinquencies. A significant weakening in retail sales would remove what has been an important driver of the economic momentum we've experienced so far. For context, retail sales growth averaged 3.6 percent during 2015 to 2019. If growth rates somewhat close to this are sustained, it would be a sign that the recovery has legs."

"The Fed Open Markets Committee has said many times that the path of the economy depends upon the path of the virus. That's really important to keep in mind. It sounds like a throw away statement but it's not. If you ask what this recovery needs, it is a recovery in the public health dimension," Teshome concludes.

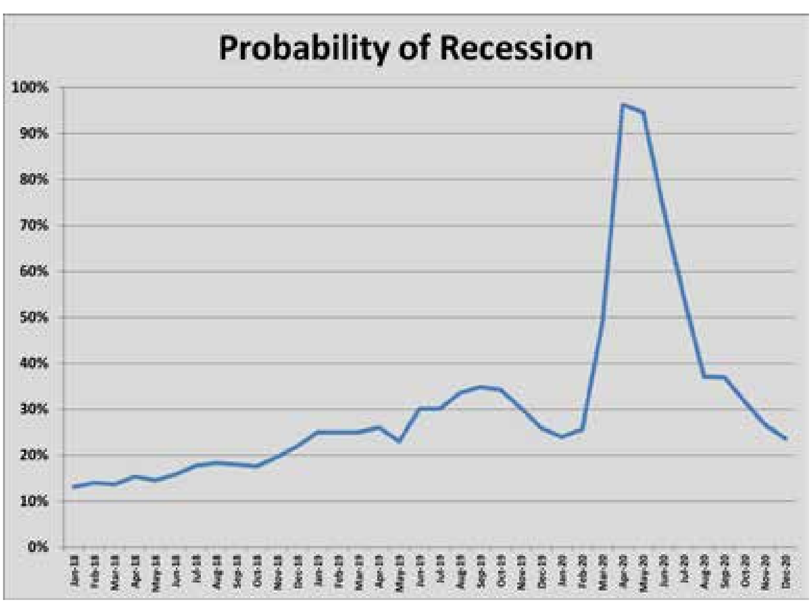
Kenneth Simonson, chief economist for the Associated General Contractors of America, echoes Teshome's sentiments about the need for an end to the pandemic.

"The economic recovery is very dependent upon finding a vaccine that is safe, effective, free, and accessible to a large part of the population that is willing to take it. There are really five conditions there," Simonson says. "Once we have a large portion of population vaccinated, presumably people will start returning to restaurants, stores, and schools to get the economy going again. I think it's going to take longer for construction to get going again and I think the recovery will vary by project."

Simonson is optimistic about sectors of the market that have thrived during the pandemic, like warehousing, manufacturing of medical equipment, and data centers. He also likes the demographic support for senior living, stressing that the impact of COVID-19 on that population is likely to spur investment. Simonson also likes the prospects for public K-12 education, although he is less bullish on public construction overall.

"The rest of public construction depends very heavily on whether something comes through from the federal government," he says. "State and local governments will be stressed for a long time. Unless there is federal funding to make the departments of transportation whole or just replacement funding for state and local budgets, public construction will be in decline for a couple of more years."

Simonson noted that forecasting the coming year would be difficult, given the unusual circumstances. Based upon the contracting activity and AGC data, Simonson suggested that nonresidential construction would be off by five to ten percent.



The probability of a recession in the coming quarter is lower in January 2021 than in January 2020. Source: Wall Street Journal Economic Forecasting Survey.

Dodge Data & Analytics sees the economic hole created by the pandemic outbreak in March and April as too large to backfill. Dodge expects construction starts to fall an estimated 14 percent in 2020 to $738 billion. It predicts that total construction starts will regain just 4 percent in 2021, with residential construction leading the recovery. Within the nonresidential sector, Dodge forecasts commercial building to rise five percent and public spending to push institutional construction up one percent.

The American Institute of Architects last updated its Consensus Construction Forecast for 2021 on July 20. The forecast is the combined outlook of economists from eight organizations, including

Dodge Data and Analytics, Moody's, IHS Economics, Construction Connect, and FMI. In July the consensus of these forecasts was that nonresidential construction would decline 4.8 percent in 2021, with only the healthcare and public safety segments showing modest increases.

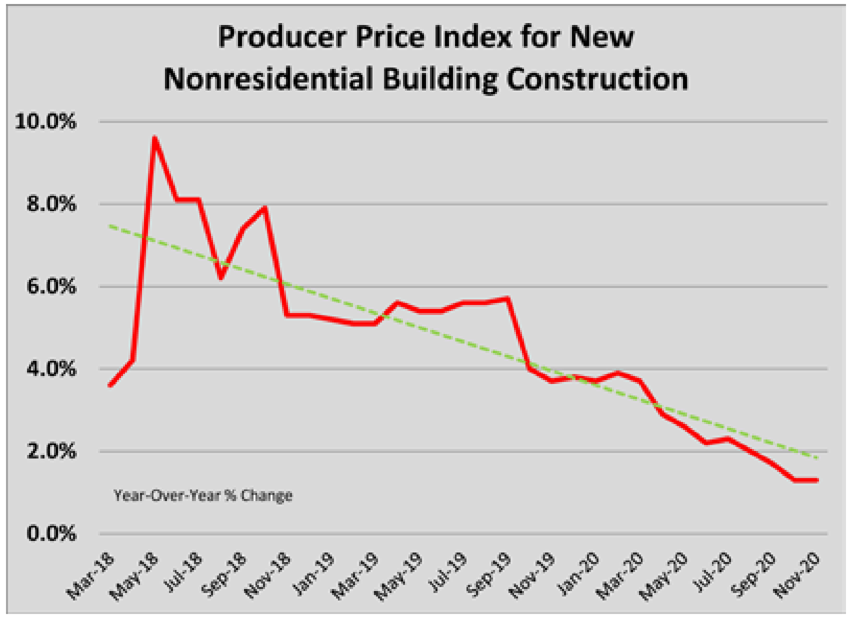
Economic recoveries are part mathematics and part exercises in faith. As demand returns to the marketplace, companies hire more workers, which boosts demand further. Expansions don't become booms until there is speculation that gets ahead of demand. Unlike in 2011, speculation is already anticipating the return of demand. The open question is, from where will demand come? In Pittsburgh, the playbook for recovery has changed.

What Gets Pittsburgh There First?

A decade ago, Pittsburgh's economic fortunes had begun to change. The launch of the "Imagine Pittsburgh" campaign had transformed perceptions about the region, particularly for those who lived in Pittsburgh. The real transformation story, however, had to do with job recovery, not feeling better about ourselves. What played well in other regions was the fact that Pittsburgh was one of the first two or three cities to emerge from the Great Recession. As noted above, that emergence was largely due to the Marcellus shale play. The question for 2021 is whether or not Pittsburgh can repeat that same early recovery with a different playbook.

The jury remains out on the answer but, thus far, the signs are positive. As weak as the job market is in Pittsburgh – some 72,400 fewer people were working in October compared to 2019 – the percentage of jobs recovered has been higher than most major cities. Among the true peer cities, only Cincinnati has seen a higher share of its jobs recovered than Pittsburgh's 69.3 percent. Even compared to other competitive cities, only Indianapolis has fared better. (Indianapolis leads all major markets with 94.4 percent of jobs recovered.) But when compared to Pittsburgh's aspirational peers – places like Denver, Austin, or Seattle – the jobs gains in Western PA fall to middle of the pack.

If job creation and growth is to reignite Pittsburgh's economy in 2021 in the way that the gas industry fueled growth in 2011, the gains will have to come from an acceleration of the emerging industries and new technologies being developed. Most leaders see the challenge as two separate problems: creating the jobs and making sure everyone else knows about it.



Lower global demand reined in construction inflation, which removes an obstacle for re-starting construction projects. Source: Bureau of Labor Statistics.

"The question is are people going to find a place like Pittsburgh relatively more competitive if the big cities that take up most of the growth in the country lose some of their competitiveness," asks Chris Briehm, regional economist at University of Pittsburgh's Center for Urban and Social research. "I don't think New York, or Los Angeles, or Silicon Valley are going away but at the margins are people finding those locations a little less competitive? Will Pittsburgh be a place that gains from some of that activity as people distribute away from those places? I don't have that answer yet. People are reading the tea leaves on every single item out there and I think it's a little overwrought at this point. There clearly will be some permanent shifts but only at the margins."

"Before the recession our growth was very sluggish compared to other regions. In many ways, that's tied to our demographic deficits, our lack of demographic growth," says Krekanova. "The pandemic has not created any demographic benefits. Pittsburgh won't be in any better position unless we take advantage of the relocating workers and can capitalize on the fact that Pittsburgh has lifestyle advantages that are highly sought after by professionals. If professionals can work from anywhere, a city that is lifestyle competitive, like Pittsburgh, can gain."

Krekanova believes Pittsburgh demonstrated the ability to manage public health safety during the COVID-19 outbreak and that can be another competitive advantage, if people hear about it.

"We have found that people don't really know enough about Pittsburgh. It's not that they have a bad perception of Pittsburgh; they just don't know what Pittsburgh is really like," she says. "Investors don't really understand what's been happening here so we're adding tools to help us with the branding and building energy. Marketing needs to be done in a more collaborative way so that we combine our branding and marketing with entities like the airport or Visit Pittsburgh."

Bill Hunt wonders if campaigns targeting specific professions in specific cities would be the most effective marketing for Pittsburgh. Lance Chimka says that the county would focus its efforts on a few targeted areas.

"We'll play to our strengths that are amplified in the post-COVID economy," Chimka says. "The region is well positioned for re-shoring manufacturing now that companies are rethinking supply chains, for logistics operations with the rise of ecommerce, particularly for suburban and hard to develop sites, and for expansion of tech companies, particularly with a now fully-distributed workforce that may want to relocate to a city with a higher quality of life."

Briehm sees the population and demographic challenges becoming more magnified after the pandemic subsides. He is concerned that failure to attract people to the region will be a drag on growth. Briehm also raised an alarm about the vibrancy of the central business district, which was seeing lower occupancy prior to the pandemic.

"There would be some major shifts in the region if Downtown doesn't maintain its 100,000 employees that have worked there pretty consistently for the past 60 years. If that level of occupancy doesn't return, will workers redistribute to other areas or is it tele-work?," Briehm asks. "Downtown Pittsburgh is a unique agglomeration of jobs. If occupancy goes down, there would be a reevaluation of those properties, which would have tax implications across the city and Pittsburgh Public Schools."

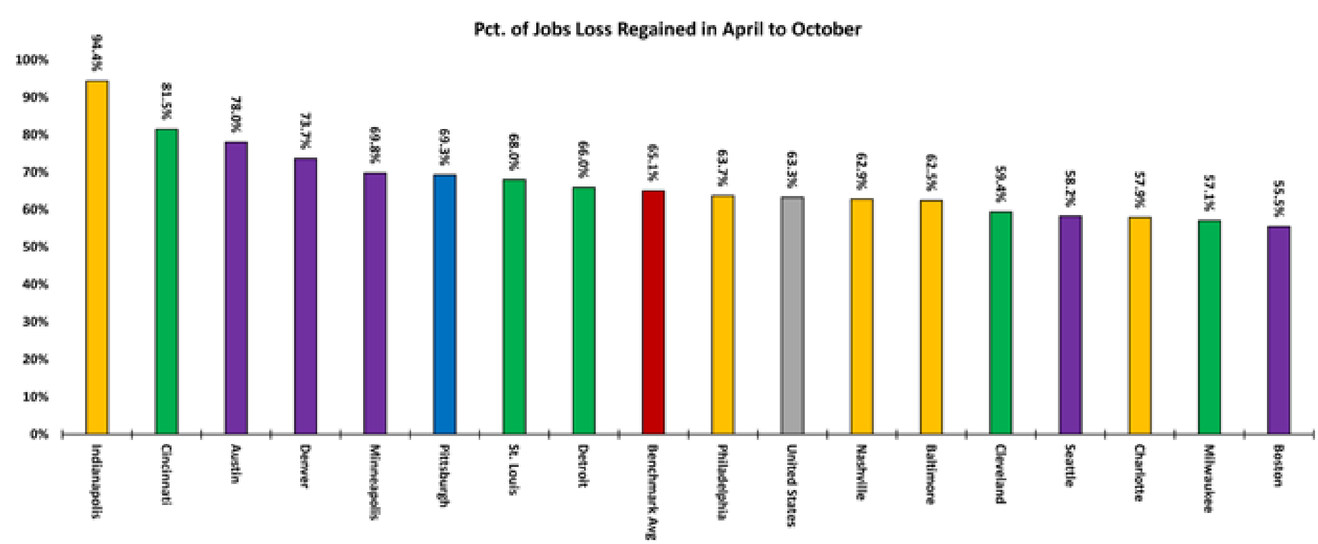
"We have found that people don't really know enough about Pittsburgh. It's not that they have a bad perception of Pittsburgh; they just don't know what Pittsburgh is really like."

Among the many speculated outcomes of the pandemic is the scenario of workers moving to suburban or exurban office locations, perhaps as part of a hub and spoke strategy by employers. There is no objective evidence that such a movement is occurring as yet; however, the increase in demand for industrial space is clearly boosting the activity in the counties surrounding Pittsburgh.

Westmoreland County Industrial Development Corporation has increased its acquisition and pad preparation activity over the past few years, with notable success. Work is underway on a new tech-flex building in Westmoreland Technology Park II, and new construction will begin in spring on the first building at the 480,000 square foot Commerce Crossing in Sewickley Township, near I-70.

Joe Saeler, executive director of Community Development Corporation of Butler County, says that the activity level in its footprint has accelerated and he thinks the virus outbreak played a role.

"I think COVID-19 is bringing about a changing direction. What has really changed is how we operate in the office atmosphere," Saeler says. "I think you will see a lot of office space come available. The pandemic has certainly increased the demand for trucking and logistics."



Green=Peer Markets
Purple=Aspirational Markets
Orange=Competitive Markets

Source: BLS Current Employment Statistics

Source: Allegheny Conference on Community Development, Pittsburgh Region Employment Update, December 2020.

Saeler reports that his organization recently sold two lots in the Victory Road Business Park for development. Suncap Property Group will build a 250,000 square foot facility there, reported to be for Bayer. In the adjoining lot, W. K. Thomas & Associates will develop a 20,000 to 30,000 square foot warehouse. Saeler says that Altmire Trucking expanded its facilities near Eau Claire by 25,000 square feet. He also noted an uptick in manufacturing development.

"GaDova Technologies is just completing construction of a 15,000 square foot manufacturing facility in Pullman Park. RPP took 180,000 square feet in East Butler as a manufacturer of distribution of oil and window washer fluid," Saeler says.

"We're working with CERTA Management out of Cincinnati, which bought Plant 2 from AK Steel. There is approximately 400,000 square feet of manufacturing plant that will be renovated. There is interest in smaller manufacturing on that property. And there is a major plastic company out of New Jersey that is going to be landing in Evans City. They are in the process of purchasing a facility to use for plastic shredding and melting to create small pellets for reuse in plastic manufacturing."

No matter where workers ultimately land, COVID-19 has altered the landscape of the region's labor force. Since the middle of the 2010s, Pittsburgh employers have been scrambling to hire skilled workers and have been staring at a demographic outflow of roughly 15 percent of the workforce by 2025. Construction was one of those labor sectors facing severe shortages. COVID-19 has altered the equation by pushing older workers into early retirement and forcing many working parents to the sideline. Construction labor utilization has been impacted, but not nearly as much as other industries.

"It's really a mixed bag and still a bit of an unknown," says James Kunz, business manager for the Operating Engineers Local 66. "We don't think it's going to be a bad year. This year is going to end up like 2017 for us in terms of man hours. We considered 2017 to be a pretty good year, but then came 2018 and 2019, which made 2017 look kind of slow. At this point I'll take 2017 man hours, and next year too."

"We are certainly in a 'proceed with caution' mode here. The hours have dropped off but the unemployment within our group was less than we feared and I think that was due to the government stimulus," notes Bill Sproules, executive secretary and treasurer for the Eastern Atlantic States Regional Council of Carpenters. "When we reconcile the calendar year it will be somewhere between 14 and 16 percent fewer hours worked this year. We were kind of booming before the pandemic. It's a darn shame because in most of the regions we were experiencing full employment. We were recruiting new apprentices and new members in a lot of places."

Both Sproules and Kunz see the pandemic dampening the outlook for 2021, with conditions improving as the vaccines roll out. They share concerns about the slowdown in the gas industry (although Sproules is more optimistic about the petrochemical industry expansion) and the government's inability to address the aging infrastructure, which has the potential to create thousands of construction jobs. Kunz thinks the hangover from the virus will carry through 2021 and raises an interesting question about vaccination that Elmhurst's Bill Hunt also posed.

"What will happen if your employer requires you to have a vaccine before you return to work?," Kunz asks. "We don't have a problem with that. There's been talk within the industry that contractors will require their workers to have the vaccine or they won't be working. Employers need to have stability and certainty. They can't afford to have business going well again and in the middle of July somebody shows up on a job site and infects half the workforce or shuts them down."

Sproules thinks that the economic damage from the pandemic requires a coordinated response from the government, not just on vaccination but to hasten the healing of the economy.

"The best thing that we can all hope for, and that goes for people in the trades and the general economy, is an infrastructure package as part of COVID relief to really accelerate the economy," Sproules says. "If Congress and President-elect Biden and his team can come to an agreement on something involving infrastructure that is a couple of trillion dollars, within another year or 18 months the troubled sectors will be stimulated. I think we'll see another bull run similar to the one coming out of the Great Recession. It's just a little hard to throw the dart at the bull's eye right now."

Dave Weber, senior vice president of commercial lending at Dollar Bank, says that it's hard to see any upside to the pain caused by the pandemic but acknowledges that difficult times tend to build resilience. He believes that the CARES Act and subsequent relief delayed the problems from COVID-19 into 2021. Banks and businesses must be ready to re-boot once the danger to the economy fades.

"Businesses are going to need capital to rebuild. People are talking now about surviving, but if their business survives they are going to need to be prepared to restart," Weber says. "The banks are going be faced with businesses coming to them with capital needs and are going to be looking at 2020 financials that will be less than desirable. We will have the challenge of lending money to a business that just reported a sizeable net loss but is saying that their business is going to be back to100 percent capacity. That's something that we're going to have to work through and business owners are going to have to think about."

Weber suggests that the exercise of writing a business plan could be useful to companies that were disrupted because of the pandemic.

"We always talk about business plans for new businesses. You write a business plan so you can stay on track and have metrics to hold yourself accountable. It feels to me that many businesses would do well to sit down and rebuild their business plan," he says. "It will be a rebuilding plan. I think some businesses will see that their plan is very different from the plan of five or six years ago."

"What will happen if your employer requires you to have a vaccine before you return to work?," Kunz asks. "We don't have a problem with that... Employers need to have stability and certainty. They can't afford to have business going well again and in the middle of July somebody shows up on a job site and infects half the workforce or shuts them down."

That assessment certainly describes the Pittsburgh regional economy. The expectations for Pittsburgh's economy are higher than they were a decade ago. Nick Deluliis sees the current conditions in the energy sector as an inevitable byproduct of the success of the shale gas plays. He sees the next chapter in the gas industry's story as one that parallels the region's story. Deluliis is optimistic about the ending, but with some caution.

"We have become a victim of our success. Whether we admit it or not, this level of success is exactly what we had hoped for when we started out 15 years ago," Deluliis says. "This phase inevitably leads to the next chapter. That chapter is the one I'm the most focused on because it holds the most potential. But, if we get it wrong, it could be very damaging to our region and the working men and women in this region." BG

The site for the garage sloped steeply from north to south, as well as from the east, where apartments abutted the construction zone. Photo by Roy Engelbrecht Photography.

PROJECT PROFILE

WVU MEDICINE MOUNTAINEER FIELD PARKING GARAGE

West Virginia University Medicine's (WVUM) Morgantown campus is a sprawling collection of hospitals, medical schools, and research facilities located just north and east of the West Virginia University's Evansdale Campus. During the past decade, as WVUM expanded its operations and invested hundreds of millions in new construction, its vast surface parking lots became insufficient to the demand. With construction looming on the new $150 million Children's Hospital the following year, WVUM developed a plan to address the parking needs.

"We grew so quickly that we ran out of parking for the employees," explains Ken Rockwell, manager of planning, design and construction for WVUM. "Years ago, we began to ask employees to park off site and we shuttled them to the hospitals from the remote lots, but we even filled those. We realized we needed more parking so we planned for two new garages."

As planning and budgeting for the Children's Hospital continued through 2019, attention turned to the parking garages. In addition to the need for more parking WVUM had another major factor to consider: its neighbor's Big 12 football program.

"Parking at the hospital site is odd. We're directly next to the football stadium and six times a year it's football day," says Rockwell. "We make special provisions for visitors on those days but on a West Virginia University football home game that is tailgate city. Anything on site to help with parking is a massive improvement."

The chance to ease major event parking crushes became a factor in the schedule and the delivery method. As program decisions were being finalized, there was an opportunity to have the new parking garage available for the start of the 2019 football season. That target date also meant that the garage would be nearly completed when the construction of the Children's Hospital started. To get to that goal, WVUM realized it would need to approach the project with a design-build delivery method. That choice helped drive the selection of general contractors.

"We try to bid everything except for when there are good instances to do design-build," explains Rockwell. "We called Carl Walker Construction because this is what they do and they're great at it. They had a good solution within our budget, so we were able to look at getting this project under construction on our timetable. We did look at other contractors, but this was the best option for us."

Greg Heddaeus, senior project manager and principal, for Carl Walker Construction, notes that WVUM was familiar with his company's work first-hand.

"We built a garage for them around 2006 at Ruby Memorial Hospital. In 2008 or 2009, we went back and added a level to that garage. We've had a relationship with them for the better part of two decades," he says. "The design-build method was chosen because of speed. They had been working on the children's hospital design for some time and hadn't put the time into the parking garage situation. We did review two or three sites. We discussed with them building a one-level deck at Ruby Hospital. They had a site picked out across the road that was the best solution for them."

The site was logical if viewed from a map but, as a construction site it was less than ideal. Located directly across the street from Mountaineer Field at Mylan Puskar Stadium and Ruby Memorial Hospital, the preferred site was being used for recreational vehicle and trailer storage in fall of 2018. The property fronted Willowdale Road to the north and the Georgetown Apartment complex extended almost to the property line to the south. The elevation of the site fell steeply from the east to west property lines. Those conditions would make for a challenge regardless of any other factors, but Willowdale Road was also undergoing a widening project by the West Virginia Department of Transportation concurrent to the garage's construction. That project included a reworking of the Valley View Avenue intersection, which was where one of the garage's entrances would be located.

What WVUM presented to Carl Walker Construction was a blank, if challenging, slate. The program required 800 parking spaces. No conceptual design existed to limit Carl Walker's solution, but the clock was ticking.

"It took us 319 days from start to finish. When we say start to finish, that was 319 days from the day that the owner hired us, not construction time on site," Heddaeus says. "This was as true a form of design-build as could be. They called us with a piece of ground, told us they needed space for 800 cars, and asked us what the garage should look like. We went through the planning and zoning process after they selected the option they wanted. The hardest part of this project was the Morgantown topography. We had 120 feet of fall from the high end to low end of the site when we started design. We brought up the site on one end so that brought the final change in elevation to about 80 feet."

The final design was a 275,000 square foot, 810-space precast concrete structure on deep caisson foundations. An 80-foot pedestrian bridge linked the garage to the surface lot at Mylan Puskar Stadium. The layout of the garage was dictated by the topography. Because of the elevation change, there is access to the garage on the top level to the east on Irwin Street and at the bottom level on Valley View.

Carl Walker Construction has carved out a niche in parking garage construction, including an extensive portfolio of design-build projects. Founded in 1996, the company has built 70 new garages and expanded or renovated countless others. For Mountaineer Field, Carl Walker Construction laid out the garage to minimize the amount of excavation needed, putting the fewest number of spaces on the ground floor and increasing capacity with each floor. That design used the sloping conditions instead of fighting them, which helped contain the cost to $16.5 million or just over $20,000 per space.

"We do our own schematic design and layouts. Once our client approves, we bring in consulting engineers to work on foundations and systems. At that early stage, before we bring in architects or engineers, we have a design pretty well developed and price real-world numbers," Heddaeus explains. "We brought Lovorn Engineering in to do mechanical, electrical, and fire protection. For foundations, we went with Stiffler McGraw. Our subcontractors were true design-build as well. We gave them our layout and CAD backgrounds. They designed a system that works, and the consulting engineers reviewed and provided backup calculations."

Construction began before the end of 2018. In addition to the topography presenting challenges for locating and laying out the garage, there were additional problems with stormwater and the logistics of crane placement.

"Water obviously runs downhill. Where we had designed the retention pond was a great location because the entire time we were on site it was full of water," Heddaeus says. "We ended up installing temporary natural underground waterways just to keep the site as clean as possible. There were days down there when we dumped ten trucks of #3 limestone on the ground and compacted it, but by the end of the day you couldn't tell we had done it. It was such a wet and muddy site from all the runoff coming down the hill.

Mother Nature wasn't a friend to the project either, as there were 122 days of inclement weather through the duration of construction.

The precast concrete erection was also complicated by the topography. Because the adjacent properties were occupied, the crane placement was limited to the building site. The garage's design meant there would be lifts that would be impractical or unsafe to do with one large crane. Carl Walker Construction had to develop a plan that included a crane switch.

"The challenge was to stage and size the cranes correctly to be able to lift from outside of the footprint of the garage and be able to reach over the retaining wall some 60 or 70 feet to erect the back of the structure," recalls Heddaeus. "In a typical garage you start at one end, where the elevator is, and work your way back. The problem was that the crane was so big that we were boom locked for the rest of the project. We ended up changing to a crane that was nimbler three quarters of the way through the project. Switching out cranes is not something companies typically plan to do but because of the topography we had to. No owner wants to see you shut down a

construction site for two weeks to switch out a crane, so we had to have that baked into our proposal. We had the first crane disassembled in one day and the second crane up that same day."

The Willowdale Road upgrade could have been a significant problem for the garage construction. In addition to adding a turning lane, the Willowdale Road scope of work involved burying electrical lines that had been overhead. The project was a public hard bid, with a contractor beholden to the state as a client, rather than to WVUM or WVU. Carl Walker Construction took a creative approach to working with the general contractor for the road project, Anderson Excavation. They hired them.

"We worked alongside Anderson for the road widening to make sure that we were staying out of each other's way. The smartest thing that we did was hire them to do the dirt work on site," says Heddaeus. "On any given day they were installing 10-inch to 26-inch duct banks underground a couple of feet from our retaining wall. Then they had to add roadway and sidewalk. They had those areas taken up throughout the construction project. There were economies of scale because they had equipment already on site, but we also avoided any conflicts during the job. We would have the site meetings for both jobs at the same time to make sure that the coordination was perfect. Anderson finished the road widening a week after we finished the garage.

Anderson was one of a handful of subcontractors on the project. Aside from the mechanical and electrical, Carl Walker Construction subcontracted the precast concrete and self-performed the remaining major trades, including removing 30,000 cubic yards of soil, 75,000 square feet of cast-in-place concrete toppings, waterproofing, carpentry, and all the general finishes.

Despite having poor weather for one-third of the project's duration, construction on the WVUM Mountaineer Field Garage wrapped up three days ahead of the schedule, in time for the August 31 Mountaineers' home opening football game against James Madison University.

"The owners are extremely happy with the project. We are currently working for WVU Medicine in other places, repairing and maintaining their garages," says Heddaeus. "We think of them as a long-term client."

That client ticks through a laundry list of obstacles to completing a project on time and on budget.

"Schedule was the biggest challenge, first and foremost, because of the game day. We had to get done ahead of football season," says Rockwell. "Carl Walker was able to come up with a precast solution that was easily put together. It was a challenge on the site working in close proximity to Willowdale Road, which is extremely busy. We had to work with the state to put in a new intersection down below. The site constraints were difficult. If you look at the site, the garage is almost the exact same footprint as the lot. There were lots of logistics issues."

"The project went well," he continues. "Carl Walker Construction did a great job. For us, it was one of those cruise control projects."

PROJECT TEAM

Carl Walker Construction	General Contractor
West Virginia University Medicine	Owner
Lovorn Engineering Associates LLC	Mechanical/Electrical Engineer
Stiffler McGraw & Associates	Structural Engineer
Anderson Excavating LLC	Excavation
Sidley Precast Group	Precast Concrete
Elco Mechanical Contractors	Plumbing-HVAC
Mon Valley Electric Inc.	Electrical
Harris Masonry Inc.	Masonry
Pass Fire Protection Inc.	Fire Sprinklers
McKinney Drilling Co.	Deep Foundations
Otis Elevator	Elevator

WILCO Construction

FIRM PROFILE

WILCO CONSTRUCTION LLC

Darrell Williams, founder of Wilco Construction LLC, laughs and agrees with the notion that owning a construction business is a bit of financial Russian Roulette. But Williams says the decision to start his company seemed like a logical next step.

"It was the challenge, the opportunity to do different things in the field. I fell in love with the industry. I love every aspect of construction and starting my own business seemed like the only thing that made sense," he says. "I loved working with my hands – I still do – but learning the administrative and management side of the business was something I was always interested in."

Williams is a 1989 Penn Hills High School graduate who did a four-year tour of service in the Navy after finishing high school. After his discharge, Williams was drawn to the construction industry and became an apprentice carpenter. He found the work interesting and developed a passion for the business.

"I think I enjoyed the diversity of the work the most. I'm one of those guys that can't sit at a desk all day. To me that's a death sentence," Williams explains. "I enjoyed the fact that I was working in a different location every day. I liked the fact that there was travel and that you were going to start something new every day and it was never the same thing."

Williams founded his company in 2002 as a residential contractor, remodeling kitchens, bathrooms, doing roofing and additions to homes throughout the area. In 2016, he shifted focus to commercial construction, forming Wilco Construction LLC and becoming signatory with what is now the Eastern Atlantic States Regional Council of Carpenters.

"I started out as a union carpenter and practiced as a union carpenter for ten years starting in 1993 before starting my own company," Williams says. "Commercial construction was my background. Fresh out of the Navy I worked on commercial construction. That was my first love."

"We specialize in interior commercial construction build-outs. We perform metal stud framing, drywall installation, acoustical ceilings, hollow metal doors and frames, and hardware," he continues. "We cover pretty much the entire interior commercial package, including casework. We don't have a millwork shop at this point, but we plan to in the future."

Wilco's experience has run the gamut of project types. The company has been involved in the Liberty Lofts renovation in downtown Pittsburgh, 7800 Susquehanna Street, the University of Pittsburgh's Community Engagement Center in Homewood, Thread International, and the Homewood YMCA renovation. Wilco is currently working on the Ohringer Building restoration in Braddock.

"We currently operate with between five and seven full-time carpenters. There are only two of us in the office so far," Williams says. "That's the tough part. My days are getting shorter because I pulled myself out of the field and committed myself to running the company two years ago. My being out in the field on each job and micromanaging things kept us from growing. I had to train and hire on more workers that were knowledgeable so I could take on the administrative side of the business. We outsource the estimating right now. We have tried three different people so far and eventually we want to move it in house so we can turn around as many bids as possible."

Wilco Construction's office is in Churchill. Williams says that detaching himself from the field frees him up to handle the development of new business. That means maintaining relationships with repeat customers and evaluating the opportunities for new work. Williams says that task has been helped by the fact that Wilco is a certified Minority Business Enterprise (MBE) and a veteran-owned business.

"The biggest surprise has been how much MBE work is available. We have been pulled into that MBE market and it was just amazing how many projects need minority business participation," he notes. "We have not had a shortage of work at all. Our biggest problem is keeping up with the growth of the company."

Williams' goal is to grow Wilco Construction to the point that it will become a general contractor. Two of his children have

Darrell Williams

followed him into the Carpenters' Union. He says his emphasis on Wilco's office operations are to prepare for a growing future, strengthening its bench in accounting, project management, and estimating. Williams credits the relationships with his bank, PNC Financial Services Group, and bonding company, Platte River Insurance, with helping build a strong financial foundation. He plans to focus on building Wilco's strengths.

"I would say what differentiates us is the years of experience and the dedication to the quality of the project," says Williams. "I'm from the old school. We focus as much on quality as quantity and take pride in the quality of our projects."

Williams is also working on expanding the construction industry's reach and workforce. He is collaborating with founders Maxwell Malone and Matthew Dean of dotss LLC, who are establishing a training school and incubator to introduce the construction industry to students while they are still discerning a career path. Dotss is aiming to build a job-creating school inside an Opportunity Zone that will feed people into formal trades training by the local unions.

Almost 20 years after moving from carpenter to contractor, Darrell Williams still hasn't lost the love for the problem solving of the construction industry.

"I like that I can drive by a project and say that I helped build that, or we did the interiors on that building," Williams says. "That's very satisfying." BG

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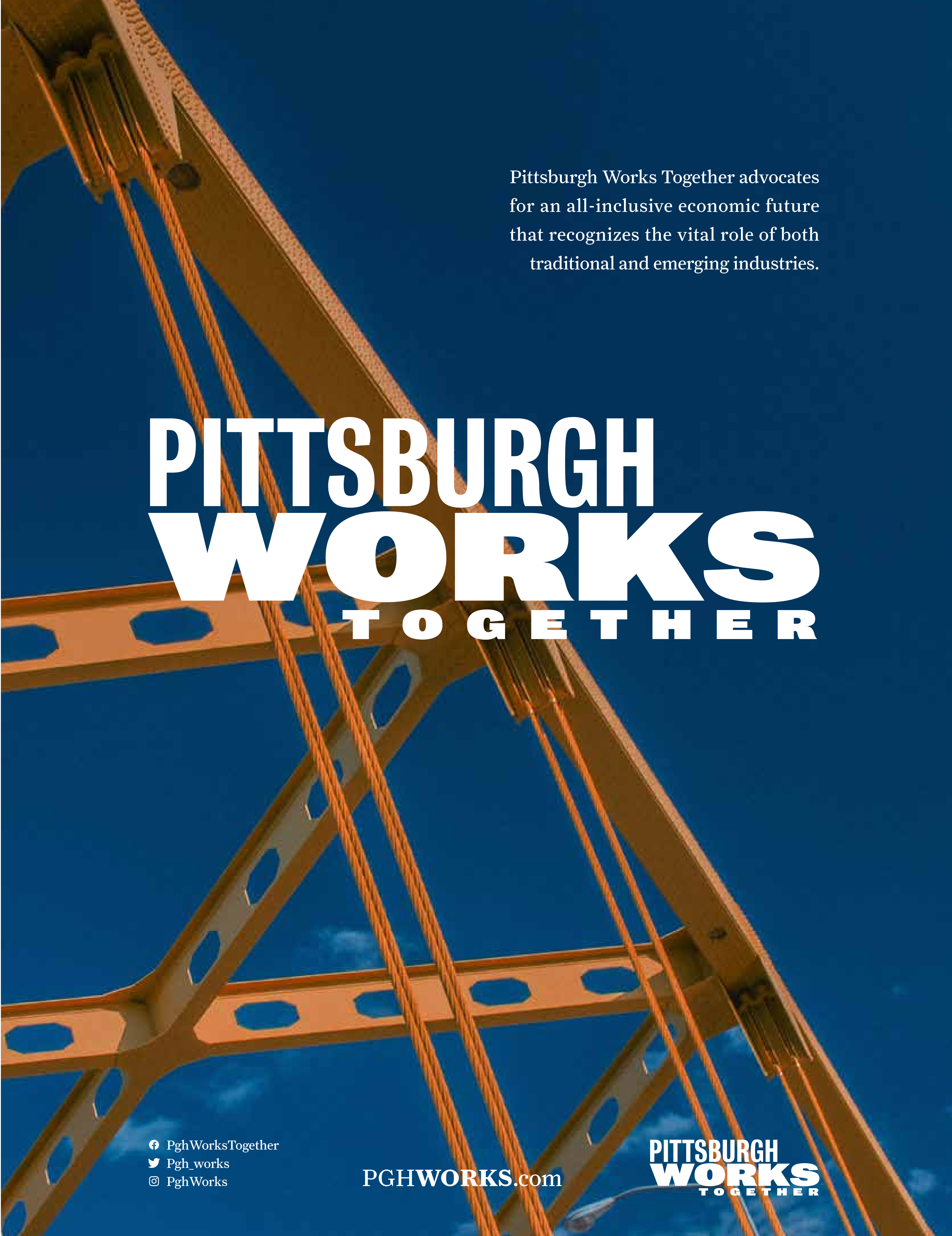
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CONSTRUCTION CONTRACTS DURING COVID-19

BY D. MATTHEW JAMESON III, ESQ.

Much has been written on the use of force majeure clauses in construction contracts as relates to the impact of COVID-19. The key concept behind a force majeure clause is an unforeseeable event. For example, Section 8.3 of AIA A201 General Conditions document speaks to "labor dispute, fire, unusual delay in deliveries, unavoidable casualties, [and] adverse weather conditions," while Section 6.3 of the ConsensusDOCS 200 Standard Agreement includes "epidemics" as a cause beyond the control of the contractor that may entitle the contractor to an extension of time. The question that remains as we move forward in these uncertain times is whether COVID-19 will be viewed as an unforeseeable event for construction contracts that are being negotiated now.

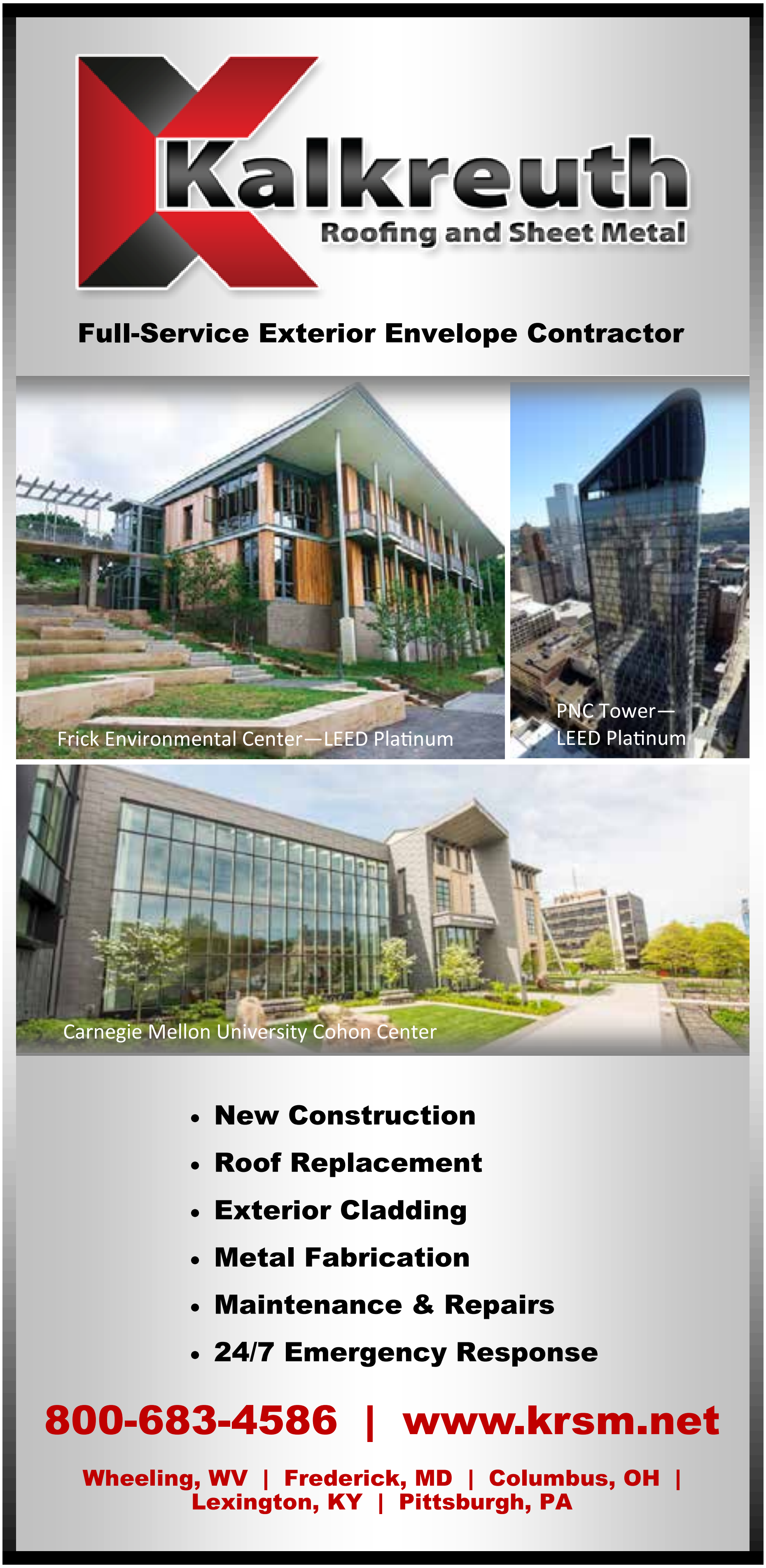
Given the unprecedented amount of media coverage regarding COVID-19, it seems like it would be difficult to argue that the potential for delays or cost impacts caused by COVID-19 are unforeseeable for construction contracts currently being negotiated. This, in turn, begs the question how parties should address the arguably foreseeable risks created by COVID-19. The most commonly-used construction contract is the traditional lump-sum contract where the contractor agrees to build to a defined set of plans and specifications in a prescribed amount of time for a stipulated sum of money. COVID-19 certainly throws a high degree of uncertainty into that traditional contracting method. For example, if a contractor includes in its price all of the costs associated with implementing with the current restrictions imposed by COVID-19 (social distancing, hand-washing stations, sanitizing protocols, limited tool sharing, jobsite screening, etc.) what happens if those restrictions are increased in the future? Is the contractor forced to bear those costs given the foreseeability of additional potential restrictions? On the other hand, with an effective vaccine in the near future and current COVID-19 construction restrictions are no longer necessary, does the contractor just get to keep that windfall as unanticipated profit?

A word of caution – contractors should not bid a project assuming that they will be able to get a change order for the costs of complying with COVID safety measures. As noted above, these potential costs are foreseeable at this time, so owners are likely to reject change orders for costs related to COVID safety measures that are foreseeable. In fact, from an owner's perspective, it would make sense to indicate in the bid documents that all costs associated with complying with all government COVID-related Orders and Mandates in place at the time of bid submission will be the responsibility of the contractor without entitlement to any change order. Furthermore, an owner should consider including a separate line-item in the bid for COVID-related safety measure costs while including contractual language indicating that if the COVID-related Orders and Mandates are removed during the project, the Owner will be entitled to a deduct change order for the pro-rata share of COVID-related safety measure costs that are not used on the project.

In some respects, the uncertainty resulting from COVID-19 is similar to the uncertainty that contractors frequently face with rock excavation in Pennsylvania. If the owner deems all excavation unclassified, the contractor has to make assumptions about how much rock they may have to excavate. At times owners assume that this is the best result for them because it removes the risk of receiving claims for rock excavation from the contractor. This assumption, however, ignores the reality that by making all excavation unclassified, the contractor will have to increase its price to protect itself from the possibility of encountering rock. Similarly, if an owner attempts to contractually allocate all COVID-19 risks on the contractor, the contractor will have to build a significant COVID-19 risk premium into its price. Instead of attempting to allocate the risk of COVID-19 on the contractor at the time of contract formation, the owner may be better served by excluding the costs of COVIC-19 from lump-sum contracts and handling those costs via change order during the project. While potentially adding to cost uncertainty, this approach will likely minimize the costs that the owner would pay due to COVID-19 construction restrictions.

Given the unprecedented amount of media coverage regarding COVID-19, it seems like it would be difficult to argue that the potential for delays or cost impacts caused by COVID-19 are unforeseeable for construction contracts currently being negotiated.

Another contractual option would be to include an allowance for COVID-19 costs that would then be tracked during the project. Definition is key to this approach – both the owner and the contractor would have to agree on what costs the allowance can be used for and how those costs should be tracked. If that allowance is exhausted (perhaps due the implementation of additional restrictions), the contractor would be entitled to change order for additional COVID-19 costs. On the other hand, if the allowance is not exhausted (perhaps due to a vaccine eliminating the need for the COVID-19 restrictions) the remaining balance of the allowance would remain with the owner.



In lieu of a lump-sum contract, parties may also want to consider a cost-plus contract with a guaranteed maximum price ("GMP") with a shared-savings clause. Under this contractual arrangement, the contractor agrees to a GMP and if the contractor is able to bring the project in below the GMP the contract gets to keep a portion of the savings. This approach would incentivize the contractor to keep its COVID-19 costs to a minimum while also being vigilant in protecting the project from COVID-19 risks so as to avoid a delay that would certainly increase its costs.

Finally, an owner may want to consider phasing a project in an attempt to minimize the potential impact of COVID-19. For example, an owner could enter into a contract for its site work as an initial phase with the hope that by the time the site work is complete a COVID-19 vaccine may be in place and the risks and uncertainties caused by COVID-19 will be either eliminated or dramatically reduced. Then future phases of the project could be contracted with less risk to allocate among the parties. Regardless of which of the above contractual approaches are taken, it is important for parties to remember that while COVID-19 presents parties to a construction contract with many risks that are difficult to define and allocate, these risks will most likely be viewed as foreseeable at this point in time. Therefore, parties should consider the above-discussed contractual-allocation methods to deal with these risks. BG

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SURETY MARKET UPDATE

Since the surety business righted its ship in 2005, the industry has been profitable and relatively calm, despite the cyclical nature of construction. Losses never exceeded 30 percent at the bottom of the Great Recession (losses need to remain below 40 percent for insurers to make a profit) and the annual loss ratio has been between 15 and 18 percent since 2014. Alas, a combination of events – most unrelated to construction – has made surety bonding less certain coming into 2021.

Construction surety is a small portion of the insurance business. The total of all premiums written for surety is roughly \$5.5 billion, a fraction of the \$633 billion revenues from all commercial insurance products. Following the consolidation of the industry in the mid-2000s, surety bonding has been dominated by five major insurers, which earned 49.5 percent of the premiums thus far in 2020, with 100 or so remaining players in the market.

The financial stability of construction surety began to attract new insurers over the past few years, which helped keep capacity high and rates low. During that time, however, the insurance industry suffered losses from natural disasters at some of the highest rates ever in 2017 and 2018. The impact of those rising non-construction losses hadn't affected surety yet when another outlying event – the COVID-19 pandemic – hit in March 2020.

The ramifications of COVID-19 on the construction insurance industry could have (and may still be) incredibly costly. If no other impact from the pandemic was felt, the shutdown of businesses and dramatic drop-off in construction volume could have created a big drop in premium revenues. Beyond the direct loss of premiums, COVID-19 was unique in its potential for huge unknown risks to an industry that rises or falls based upon its ability to understand and mitigate risks. As the year unfolded, COVID-19 did not have the disastrous effect that was feared.

"The market had momentum certainly coming into 2020 and then COVID hit. I don't think it's been as brutal as it could have been, especially with Paycheck Protection Program [PPP] helping along the way and with the vaccines on the horizon," says Jay Black, principal and vice president of surety for Seubert & Associates, Inc. "It's not a hard market. There are really no changes to capacity. Under writing isn't getting any tougher that I've picked up on. Sureties are asking more questions regarding COVID and how contractors are dealing with it. It's all about funding and forgiveness going forward."

"Hard market" is the industry's jargon for tightening in the insurance business cycle. Hard markets follow increases in losses and tough economic conditions. For surety customers, hard markets mean lower bonding limits, higher premiums, closer financial oversight, and more skin in the game for business owners. In the insurance business cycle, hard markets often follow periods of overly soft conditions for insurance, which lead to greater risk and oversize losses. The latter is not an accurate description for market conditions coming into 2020.

"I think it's safe to say that, for the most part, 2020 should be a decent year for the surety companies," notes Rick Gasiorowski, surety agent for Travelers Bond. "The year began on a very positive note and was strong through the end of March. Once the government reestablished construction as an essential industry, it was pretty solid through the rest of the year."

"One of the benchmarks I look for is how many of the top 20 sureties have a loss ratio over 40 percent. Expense ratios for the sureties run in the 60 percent range, so if the losses are over 40 percent the company might be in an overall loss position for the line of business," explains Jim Bly, managing director for subcontractor default insurance and surety analysis for Alliant Insurance Services. "Through the second quarter there were only two underwriters with a 40 percent loss ratio. Four of the top five had loss ratios under 20 percent. There were very few big headline losses in 2020."

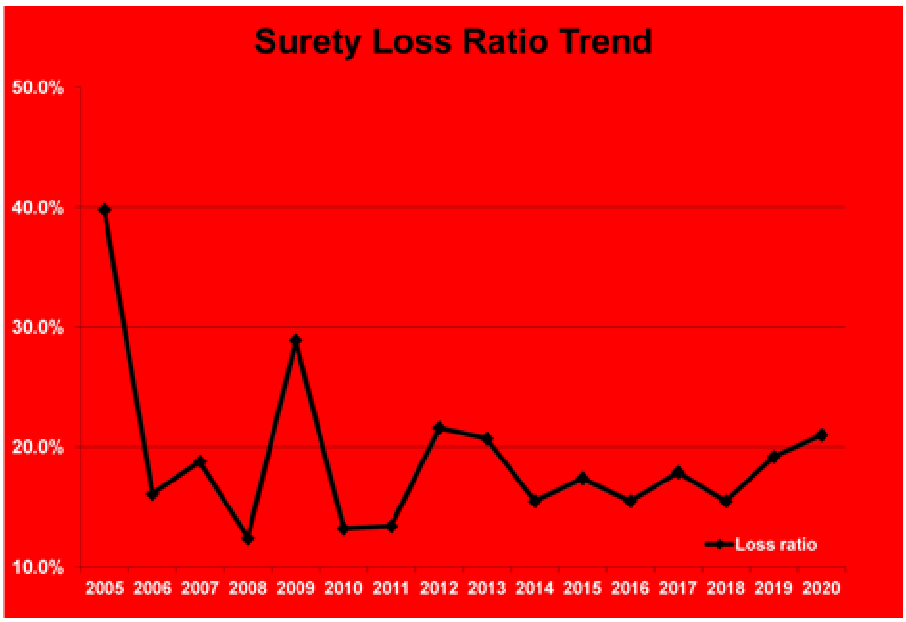
The latter points are goods signs for the bonding market. The dominance of the five insurers means that changes in market response by those companies will shift the market. Feedback from the other four top insurers, excluding Travelers, confirms that capacity is not an issue, especially for contractors with good financials and strong performance over the past few years. While none would characterize the market as hardening, there was consensus that customers could expect to report more regularly and rates would not be going lower. There was also the expectation that more business owners would be expected to indemnify the insurers personally.

The relatively small number of losses or defaults over \$100 million helps to keep those five large insurers steady. In Western PA, the largest defaults have been well under \$5 million. Tracking defaults, particularly among subcontractors, helps track the direction of the surety market.

Alliant Insurance's Contractor Credit Model (C2M) looks at the financial and performance data of specialty contractors across the U.S. to evaluate their credit status for surety purposes. The C2M analysis is used by Facebook, and major engineering-procurement-construction firms like Fluor and Bechtel, along with regional construction managers like Mascaro Construction, Rycon Construction, and Massaro Corporation. Bly's quick take from the incomplete 2020 results is that the COVID-19 recession is having an impact, but so is the Paycheck Protection Program (PPP).

"We analyze about 2,500 subs here across our footprint. That gives us a pretty good view of the health of the subcontractors across the US. The PPP money has had a significant impact on improving financial scores," says Bly. "In Pennsylvania, even though some jobs were shut down, most subcontractors' balance sheets have improved this year if they were able to get PPP money. That is a band-aid on a problem. We are seeing a higher volume of net losses in the subcontractor portfolio, but the balance sheet erosion has not occurred because of PPP money. There are some problems bubbling up, but nothing could wander into the range of a major insolvency."

While PPP loans provided a needed bridge to help small businesses get past the COVID-19 downturn, there is some uncertainty clouding the picture about 2020. Passed in a hurry as part of the CARES Act, Paycheck Protection Program had unanswered questions about how the loan would be treated by the Internal Revenue Service (IRS) if it was later forgiven. As of this writing, expense deduction rules are just coming out of the IRS and still require further clarification for the overwhelming majority of businesses that took the PPP loans and met the conditions for loan forgiveness. It's that loan forgiveness that Black sees as one of the keys to the market.



Surety losses remained just above 20 percent through the second quarter of 2020. Source: Surety and Fidelity Association of America.

"When the money was dispersed the impression was that it was without strings, except for maintaining employment. How that is going to be treated is a big question these days," Black says. "It is a significant number and it was a significant help to many companies, but it is a fluid situation in terms of the regulations. The government hasn't decided how much is going to be taxable. If you took the money, you kept people working. But, if you thought there would be tax consequences you may not have pursued the loan, or you might not have taken as much. It's really an unfair situation that hasn't been ironed out yet."

Surety companies thus far assumed that loans would be forgiven but few, if any, have factored that into their balance sheet analysis. If the IRS rules that expenses covered by PPP aren't deductible, profits will be impacted. PPP loans are still counting as debt rather than equity, which could have a significant impact on how the insured contractor is viewed in 2021. Higher debt to equity ratios can lead to requirements for the company's ownership to reserve more profits for equity or to add equity to the business. With financial scrutiny increasing, the health of the insured's balance sheet will gain in importance in 2021.

"I would say throughout the course of the year we've gotten more frequent inquiries for updates about the financial performance of the contractors," observes Bly. "There are tighter requirements around quarterly reporting and more requests for periodic updates than usual, particularly if there's a large project generating inquiries."

Bly also notes that COVID-19 has had a severe impact on industries like, hotels, cruise lines, and entertainment, which also require commercial surety bonds. Bonds for license and permitting or financial guarantees have been triggered by the loss of business in those industries. That is likely to have a tightening effect on insurers in those lines that also write construction bonds.

The outlook for 2021 is therefore less certain than it has been in a decade. Bly sees conditions brewing that could tighten the market, particularly if the surety companies must recover from losses overall that resulted from the global pandemic. He suggests that contractors and owners prepare for that possibility.

"I would say contractors should start preparing for a harder market. Owners should certainly have a bond program in place and a tighter prequalification program in place," Bly suggests. "Sureties are tightening their underwriting a bit. It's a time for contractors to be vigilant, staying on top of how their sureties are performing. Contractors should have a Plan B in place in case there is a pullback that affects their surety. Our philosophy is that clients with $200 million or more in backlog should have a co-surety. There should be two sureties on every bond so that, if there's a problem with one, the other can step in."

Hard markets usually start with smaller insurers, typically ones that are more reliant upon riskier reinsurance for revenues. Insurers with losses will exit lines to reduce risk, even lines that haven't been responsible for the losses. Contractors with no problems can lose bonding capacity because of the surety's problems and a hard market is not a good time to be shopping for more capacity.

Most insurers and agents do not expect 2021 to become a hard market. In fact, few expect the coming year to mark the low point in the business cycle. The worst years for losses come after a recovery has begun, when the increase in new business overwhelms unprofitable work in progress.

"It takes time for the problems to surface. After the banking crisis in 2008-2009, the surety losses didn't start kicking in until 2011 and 2012. The subcontractor default insurance losses didn't kick in until 2012 and 2013. When all that happened, everything tightened up. Requirements for subcontractor prequalification and reductions in capacity happened in 2012 and 2013, not in 2009. It's after the dip, when people start building backup, that the defaults begin. Overeating is the number one cause of default in construction."

"Is anything drastic happening in the marketplace right now? I would say no, but I would keep an eye on what transpires in 2021, and even 2022 and 2023," agrees Gasiorowski.

For most construction businesses, concerns about 2021 are a higher priority than worries about three years down the road. The pipeline of construction projects was extremely full coming into 2020, which bodes well for a recovery after the public health crisis passes. COVID-19 caused damage that will cancel some of those projects, but the fact that highly effective vaccines are already being distributed has lifted much of the uncertainty that has existed since March. There will be questions unanswered about certain sectors of the construction market throughout 2021, but demand for construction should increase steadily from the outset.

"I think the news on vaccines is creating a different scenario in terms of optimism looking forward. I think there's optimism that 2021 can be good if there is funding for construction," says Black. "The surety companies are making money and want to continue to make money. They want to continue to write business and aren't shedding accounts. It's an active marketplace but actual bid and bond activity is down slightly. The business needs to get that construction funding back in place."

"I think there are challenges heading into 2021. Most contractors had sufficient backlog heading into 2020. Now, with the PPP money exhausted, most contractors are looking to set the plate for 2021," says Gasiorowski. "As we start looking toward next year, we're seeing large numbers of bidders on small- to medium-sized projects. That begs the question, are contractors going to be much more aggressive with pricing? If you look at the recent PennDOT lettings, there are projects with upwards of 15 bidders. I think that is what we're going to see more of in 2021." BG

MANAGEMENT PERSPECTIVE

1600 SMALLMAN STREET: A SALES CASE STUDY

Construction is a conservative industry. For reasons of safety and financial prudence, the way buildings are built has changed at a glacial pace for centuries (even millennia), despite rapid changes in technology in nearly all other industries. The process by which projects are delivered has changed quite markedly in the past four decades, however. The story of the window replacement at 1600 Smallman Street offers an interesting view into just how the business has changed.

1600 Smallman Street is the 140,000 square foot former warehouse that was converted into Class A office space as part of McCaffery Interests' redevelopment of the Produce Terminal in the Strip District. Built in 1921, the building has the type of heavy industrial construction that made it ideal for the kind of adaptive re-use that is popular with technology tenants. It has large floor plates, high ceilings, exposed brick and structure, and large windows. But 1600 Smallman Street had been vacant for more than 40 years prior to its renovation in 2019-2020. That doesn't mean there was nothing going on of course.

For most of 2020, Specified Systems Inc. from McMurray replaced the windows, which are the predominant architectural element on the exterior elevation. Bill Wilson, president of Specified Systems Inc., chased that project for most of the 40 years that 1600 Smallman was vacant. The story of his $1.4 million sale has a few twists and turns.

"I had formal inquiries on it four times but put a price on it three times including the final time. The first occurrence was in 1984 and then again in the early 1990s it resurfaced," Wilson recalls. "It was a massive window project because it was all industrial steel framing. It was pretty typical of what you found in these districts in Western Pennsylvania. In the Strip District at that time the idea of historical restoration was popular and we were asked to try to do some sort of replication. We offered them a price to give them as close to replication as possible. You have to realize that the exact same windows were no longer available; so sight lines were going to change; materials were going to change."

In 1984, Wilson was running the architectural window division at Cassady-Pierce Company, one of the largest building products distributors in the city. The owner of 1600 Smallman Street was KML Wholesale Foods from Buffalo, NY. KML Wholesale's use of the building was slightly unorthodox, partly because the building was in disrepair. Part of the building was rented, and one of the KML Wholesale's owners had an apartment up on an upper floor that he used during the week.

Wilson had been referred to KML by Joe Paski, who had worked with Wilson while renovating numerous row houses in the Strip. Wilson developed relationships with a number of property owners that took advantage of the Urban Redevelopment Authority's rental housing improvement plan. That kind of approach was not unusual in the 1980s if you were selling building products. The supply chain of the construction industry was more distributed than it is today. Manufacturers employed direct sales reps who called on architects to influence specifications and often quoted projects directly. Building products, like architectural windows, still went to market through distributors, but the market was made by the manufacturer. Distributors that wanted to sell products outside the plan and spec market hustled to create their own networks direct to owners.

"It was so much more competitive back then that manufacturers spent a lot of time chasing work directly. Sales reps drove around and chased the buildings they had their eye on," says Wilson. One of the ways that you got negotiated business with developers and property managers was to go to the building and knock on the door to find a manager to connect you with the owner."

Joe Paski was one of those owners. The referral to KML Wholesale was going to lead Wilson to a large commercial order. Or so he hoped. After a few months of indecision, the project was cancelled.

Asked why KML did not proceed with the project, Wilson laughs.

"They were cheap," he says. "I think what they were doing was talking to a number of different trades and trying to figure out what it was going to cost them to renovate the building. When all the costs came in they never did anything."

In 1984, the price quoted to replace the windows was $750,000, of which $450,000 was the cost of the windows. That was a project Wilson didn't want to ignore.

"We kind of kept our eye on them to see what they were going to do and annually I would follow up to see if there was anything going on," he says. Manufacturers always had people trying to find buildings that they could bid direct and get a window sale. What was unusual about this project was that we were putting a number on it as an independent distributor. So I had my eye on it for years."

"The second time we bid the project I was with another window company. We had gotten a call on the Produce Terminal from John Coffey of Coffey Construction. We put a bid together for the produce terminal but that ended up going nowhere," Wilson says. "By coincidence, I got a call at the same time that KML was speculating about selling the building and doing some renovations. They were interested in changing those windows again. We didn't bid it very aggressively because it did not seem like it was going to go. That turned out to be correct."

In 1992, Wilson founded Specified Systems Inc. He says that every few years he would hear that the project was back to life. He would find out what architect KML had employed, make some inquiries, but no opportunity ever resulted. At the end of the decade, Wilson got word that the project was definitely going ahead. The same calls to architects ensued. The same answer came back. Rather than dismissing the next rumor, Wilson kept his eye on the building.

"By that time I had invested so much time into it and it was a high enough profile project that I decided I wasn't going to miss it," he says.

Over the next decade, Wilson says he assumed that someone would renovate 1600 Smallman Street or tear it down to build something new in its place. Specified Systems had been involved with projects all around that building, like the Homewood Suites and District 15, and Wilson thought that there was enough momentum in the Strip that something would happen, although he was not without reservations.

"Things were starting to happen down there. We were getting little projects here and there but a lot of the owners of buildings in the Strip were like KML and didn't invest in their buildings," he says. "When Eric Pascucci from PJ Dick called me to say that they were looking at it for McCaffery and asked if I was interested, I told them I would like to retire if I ever sell that project!"

In the intervening years, much had changed about the project and the business. No manufacturer had been chasing the owner or architect, and the project barely had a specification. Specified Systems budgeted the project based upon a commercial window, the Kawneer NX-3800, which was very different from the true divided light steel windows in 1600 Smallman Street.

"It ended up being fixed units. We had originally priced it as all operable units; so, apples to apples, it was more like four times as expensive," Wilson explains. "There are also new standards for thermal performance and wind loads that didn't exist back then. We bid the project in August of 2019. We moved on to the site in December and construction took the better part of 2020 to complete."

The evolution of the sales process from 1984 to 2019 didn't change the fact that it is still possible to doggedly track a project to a successful conclusion. But the shift in responsibilities for sales, which has changed the roles of manufacturer and architect in the supply chain, was apparent right through the project meetings. Wilson relates how different the kickoff meeting was.

"During the first meeting we had with the architect, Antunovich, the owner, and PJ Dick's people, we had some preliminary cut sheets and the project architect said he had never heard of NX-3800 windows," Wilson says. "I had to

After 35 years of prospecting, quoting, and being told "never mind," Bill Wilson got the project he thought he landed in 1984. If he was tempted to throw his hands up, Wilson does not admit it.

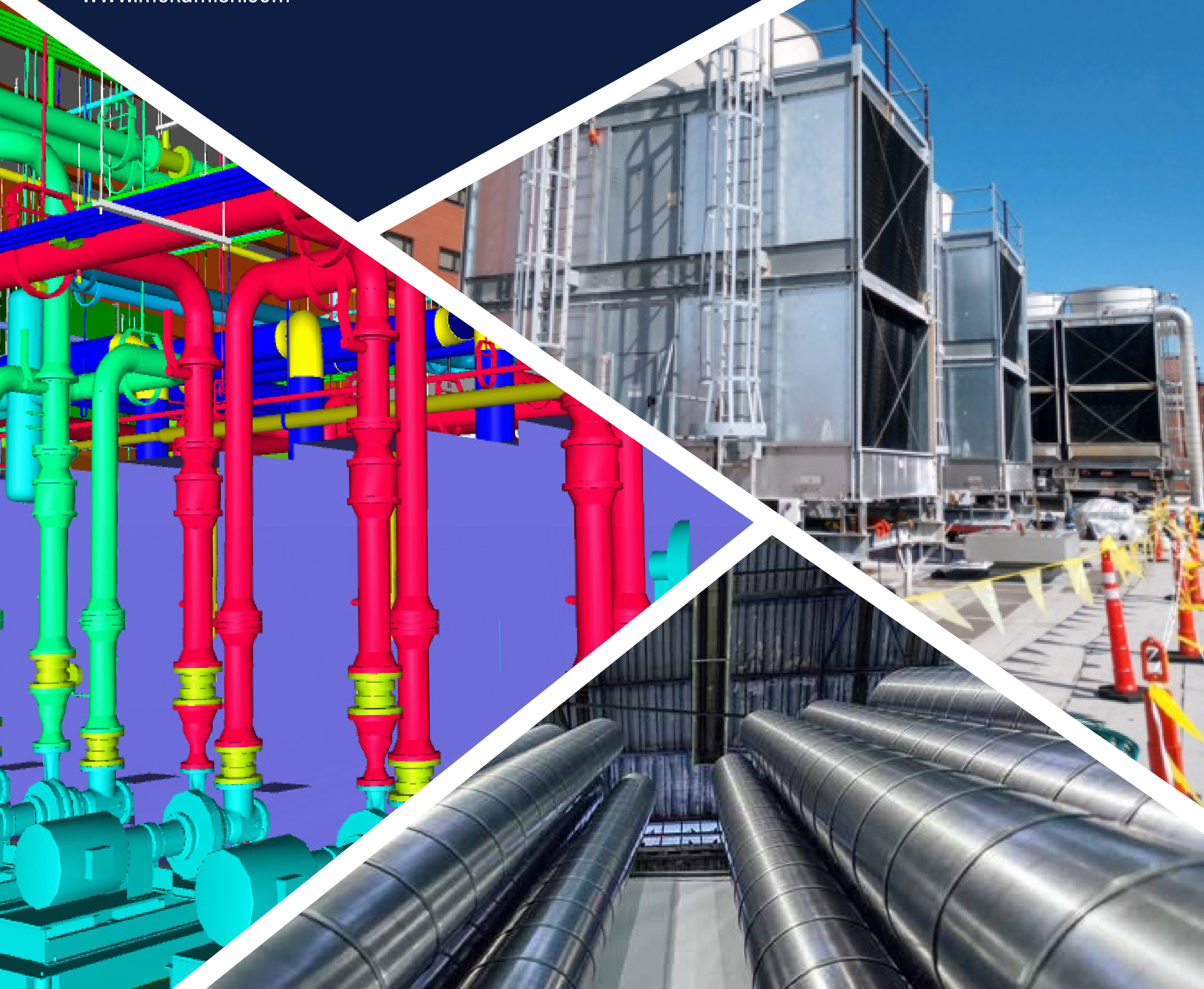
flip the drawings around to show the page where it said the Kawneer NX-3800 was the basis of design."

"Ultimately they have a tremendous product there," he continues. "Kawneer had a big hole in their manufacturing schedule at the time, so they were pretty aggressive. And their quality is immaculate."

After 35 years of prospecting, quoting, and being told "never mind," Bill Wilson got the project he thought he landed in 1984. If he was tempted to throw his hands up, Wilson does not admit it.

"To me it's a window guy's dream. I wanted to be able to tell my competitors that I knew they had looked at it all these years but it was me who got it," he jokes. "In any part of the industry there are marquee projects that you want to do if you have the opportunity. They are high visibility to the buying public and high visibility to the construction industry. And they are probably projects you have wasted time on before. We have several of those projects, like Mount Lebanon High School, the Pittsburgh Athletic Association and Bakery Square. I guess they are a little more complicated, so they are an indication of your craft.

"To me, 1600 Smallman Street was the completion of a trifecta for window guys. The building is stunning compared to what it was. That is the goal we were after." BG



RISK MANAGEMENT VANTAGE POINT: EMBRACING THE WHOLE WORKER

BY JOE KOPKO, MS, CSP

We have all heard the stories, the co-worker who left the job at shifts end and went on to take their own life, only to find that they had been suffering. An employee injured at work, who has healed yet is still struggling with an addiction to opioids and that leaves them unable to work. Or a worker distracted by their personal issues loses focus on the task at hand and is seriously injured. There is no shortage of scenarios where capable, qualified workers are senselessly lost, and while attracting fresh, young workers into the industry is of vital importance, the sustainability of our existing labor force is ripe with opportunity and can no longer be overlooked or the problem will continue with the new recruits. There is a dwindling window for the construction industry to take a proactive stance and protect our workers from the dangers that their industry of employment presents. We first have to acknowledge that the backs and bodies we depend on to build and service our infrastructure are human as well, and without a fundamental shift in the way we work with our labor force we are headed for dark times. The "whole worker" concept is not new, and out of necessity is becoming a strategy that many organizations are wondering why they didn't embrace years ago. Whether you are looking to improve the health and well being of your employees, reduce the cost of your insurance program, or simply do the right thing, investing the time now to improve your culture will pave the way towards greater resilience, profitability, and sustainability.

The harsh reality is that many organizations are looking back over the last decade and counting on two hands the number of employees lost to suicide, wondering if they could have done more, and reflecting on the lingering effect it has had on their organization. The long-standing adage, it's not personal it's business, simply doesn't contemplate the losses that many construction employers have to overcome by ignoring the personal factors of people management. While personal issues outside of the scope of employment may not seem like "your problem", they play a significant role in your employee's ability to work. When they affect critical components of safety, quality, productivity, and reputation, they may not be "your problems", but they become your risks to overcome. It's important to be aware that your workplace and management practices are a major contributing factor on your employee's health and their work output, both positively and negatively. In an industry so focused on managing the compliance of physical hazards and regimented checklists we have forgotten to look up. To actively listen and take note of the people standing in front of us and acknowledge that fact, we must adapt and change the way we work with our labor force and include them in the process. Injury prevention, improved quality, higher retention, and a solutions-oriented culture are many of the benefits of adopting a whole worker mindset. Mosites Construction was early to the cause, and their humble, people first focus is fueling their culture to prevent the losses that routinely cut construction workers down like injuries, financial/personal issues, and mental health challenges.

We have long discussed the physical demands and hazards of construction, however suicide among construction workers claims five times as many lives as all other construction fatalities combined. Worker fatalities in construction typically involve things like falls, caught in's, electrocutions, and struck by's. Suicide among construction employees has become a crisis that poses a far greater risk to our workers than the traditional perceived workplace safety hazards. Yet it hasn't been subject to the same kinds of discussion or preventative focus. In fact, the mental health of our employees is often not taken into consideration when we investigate the events of an injury or near miss. We may note the employee was distracted, but do we ever dig deeper into why? If we are not looking at our people holistically and just at their work output, be prepared to deal with the aftermath of senseless losses from suicide, work related injuries and fatalities, and a backlog of work with fewer people to complete it.

To really stem this epidemic takes a multi-dimensional approach, along with the leadership and courage to tackle what most anticipate is an uncomfortable subject. Jason Malatak, risk manager for Mosites Construction and Development will be the first to tell you that wasn't necessarily the case. Jason spearheaded the efforts for Mosites after sharing a 15 minute "Ted Talk" on suicide that he had found particularly moving, the management and field response was the same. Every participant recognized that they knew of someone who had committed suicide, talked to someone about suicide, or even thought about suicide themselves. Mosites set out to change their direction and began focusing on total employee health and how best to support this initiative. That sparked a series of discussions and self-reflections to fine tune the way they were currently supporting their employees and shift that focus to include enabling a positive work-life balance. They were already providing regular training on a number of topics and had implemented employee provided safety suggestions. Mosites had established a foundation within their culture that demonstrates they value employee feedback, and they have been more than happy they asked, and continue to ask the important questions. Mosites conducts an annual evaluation for all employees, both field and corporate. This provides an opportunity to discuss their professional challenges, needs and successes. Prior to the pandemic, they demonstrated their appreciation through lunches, incentives, thank you emails and even the "quote of the day" email. This simple gesture lets them know that they are thought of every day, and it has become a means of allowing their employees to share their positive culture with the people close to them. The demonstrated care and consistency of these messages have continued throughout the pandemic and present a high point for many in their day as they look for inspiration or an uplifting thought that someone appreciated them enough to share.

As a result of the directional shift Mosites made toward their employee's total wellness, it has given them the opportunity to begin more meaningful conversations with employees and demonstrate that they are not just a number, but rather an integral part of the company's success. As such, Mosites has experienced a reduction in losses and an increased awareness of the importance of supporting an employee's work-life balance. More importantly, a number of employees have crossed the threshold and reached out for help, for themselves or someone they know, testament to the impact of embracing the risk rather than ignoring it. Mosites makes it a point to support an employee in need beyond pointing them in the direction of help by assisting to find a local counselor and options to schedule appointments. Job satisfaction is a key element to Mosites's success, they recognize the impact that a "how are you" can have to extend that olive branch to an employee who needs a little direction, or more.

While there is no defined process to solving this problem, much can be learned from the approach that Mosites took with their cultural safety program. Mosites's safety program is rooted in looking at the whole worker, not just the parts we "rent "Monday through Friday. Their program is known as "Safety Beyond Zero", a mindset that accepts that even with zero injuries on the books, there are many risks, both physical and mental, which are present and must be addressed. Safety Beyond Zero is focused on the whole worker, not only at work, but at home where the real dangers can lie. Mosites isn't just helping itself, they're evolving the industry. When an employee feels safe enough with their employer to ask for assistance with a mental health challenge, without fear of judgement of it impacting their career, that is real progress, and that's the culture at Mosites. Jason proudly elaborated on their approach, stating that it started with a shared vision and commitment across the organization. It wasn't just a safety thing.

"Our obligation is: Safety Beyond Zero. It is a daily approach in defeating complacency and continually making our employees' mental and physical health a priority," Malatak says. "Our goal and focus are on the total employee. Our program gives the employee tools to talk about issues like suicide, health, wellness and safety with others — whether on the job or at home."

If there was a decade long forecasted shortage of half-ton pickups and service vans and we knew that we were going to have to run our vehicles for many years longer than expected, would we not immediately invest in preventative maintenance to keep them operating, and as efficiently as possible?

The overarching issue we cannot lose focus on is the sustainability of your existing labor force and the resilience of your organization to handle a crisis. As construction employers continue to talk about the labor shortage, more action needs to take place to position the people working for you today to be as safe, productive, and efficient as possible. As we are in the early stages of the compounding effects of an aging workforce, a growing labor shortage, increasing insurance premiums, and growing mental health issues, it is on you to position your organization and people to withstand an ever-evolving landscape of threats.

The time for proactively managing the problem at hand is quickly passing but the good news is that adopting a "whole worker" culture can be accomplished relatively simply and provide your organization with more than just a plan, but a culture where your employees can survive, and thrive. Start with basic roundtables and generate some feedback loops on where your organization could improve. Is there any part of their job or task they are concerned with, who does what we do best and how. The most critical element of this is listening, which costs nothing. Then translating your employee's feedback into positive action. Make it a point to ask more often how your people are doing, and in a manner that demonstrates an authentic interest. Leverage your industry and tooling partners to demonstrate innovation and fuel further problem-solving momentum. Tactfully reach out to those you may suspect are struggling and demonstrate the support you would hope is extended to a loved one of yours. Large problems are solved by consistently doing the small things and accepting the insights from the people closest to it. You already have access to the foremost subject matter experts on your culture: your employee. Start asking.

Joe Kopko is executive vice president, client services for HUB International. For more information on crafting your culture and assessing your organization's risk, contact joe.kopko@hubinternational.com

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INDUSTRY & COMMUNITY NEWS

(From left) Chris Haupt, Dennis Astorino, and Sung Jung from DLA+ Architecture & Interior Design at the Tees & Traps fundraising event for HEARTH at Longue Vue Country Club.

Mascaro held its annual "Pink Day" for breast cancer awareness at the office and jobsites. For each item of pink apparel worn by an employee, Mascaro made a donation to the American Cancer Society. Prizes were also handed out for most pink items and most creative. Pictured are Joe Pawlak (left), Jamie Gildersleeve, and Kristina Falvo (right).


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AWARDS & CONTRACTS

Massaro Corporation was selected as construction manager for the $6 million expansion of the Pittsburgh Glass Center in the Garfield neighborhood of Pittsburgh. The architect is Indovina Associates Architects.

Holy Family Institute selected **Massaro Corporation** as general contractor for its $2 million renovation. DLA+ Architects & Interior Designers is the architect.

Duke LifePoint selected **Massaro Corporation** as construction manager for the $50 million Conemaugh Hospital Building D in Johnstown, PA.

The Sisters of Divine Providence awarded a contract to **Massaro Corporation** for renovations to their facilities in McCandless Township. The architect is Studio St. Germain.

A. Martini & Co. was selected as general contractor for the restoration of the historic Hunter Building, located at Penn Avenue and Ross Street in Wilkinsburg. Desmone Architects is designing the $6 million adaptive re-use of the 34,000 square foot building for Civically Inc. and Bridging the Gap LLC.

Allegheny Health Network selected **Volpatt Construction** as construction manager for the $1.25 million Hybrid Operating Room at Allegheny General Hospital. Stantec is the architect.

Turner Construction will start work in the spring of 2021 on the 110,000 square foot life sciences research building at 5051 Centre Avenue in Shadyside. The project is the second phase of a $300 million development by Wexford Science + Technology. ZGF Architects is the architect.

Turner Construction was awarded a $3.5 million contract for the tenant improvements for Curology. The project was designed by Ware Malcomb Architects.

UPMC selected **Turner Construction** for the main lobby renovation at its Passavant Cranberry Hospital in Cranberry Township. The architect is MacLachlan Cornelius & Filoni.

Turner Construction has started construction on the tenant improvements for PwC in One Oxford Centre. The architect for the $4 million build-out is Vocon Architects.

Turner Construction was awarded a contract for the fit-out for Deloitte Pittsburgh. Gensler is the architect.

Mosites Construction started work in November on the $25 million Hilltop Community Center for the Brashear Association in the Knoxville neighborhood of Pittsburgh. The project involves renovations to 38,000 square feet of existing space. Margittai Architects is the architect.

Landau Building Co. was selected Allegheny Health Network as construction manager for the $2 million Allegheny General Hospital Emergency Room CT Scan. The architect is Stantec.

Landau Building Company is the construction manager for the second and final phase of renovations to the Fluoroscopy and X-Ray Rooms at AHN Forbes Hospital located in Monroeville, PA. Phase one was finished by Landau in 2019. This final phase is expected to be completed in June 2021. The architect is Michael Baker International.

Marks-Landau Construction has begun a 3,500 square foot conversion of a former bank space into a sleep clinic for Wheeling Hospital. The project is expected to be finished in early 2021 and is located off campus in a convenient satellite location for the Wheeling community. The architect is Mills Group.

Mascaro received a contract for the final grading of roads at the AMG Cambridge project. This contract is a continuation of ongoing work at the site for Mascaro's heavy/industrial group.

Live! Casino Pittsburgh opened its doors to the public on November 24. **Mascaro** renovated two levels in Westmoreland Mall to create this new destination place for Pittsburgh.

Rycon's Building Group was selected as the construction manager for this 58,000 square foot facility for Light of Life Rescue Mission, a non-profit for families experiencing homelessness, poverty, or addiction. The $8 million project includes a renovation of the lower, first, and second floors, and a new, 13,000 square foot addition.

Rycon's Building Group is completing a $4 million medical office on the third and fourth floors of the AHN McCandless Neighborhood Hospital. Rycon provided preconstruction and construction management services for this new, $29.8 million micro hospital, which opened in January 2020.

Oxford Development Company chose **Rycon**'s Building Group as the construction manager responsible for converting a 54,000 square foot former warehouse into a new Class A creative and technical office, research/development, and workshop space, dubbed Factory 26. DLA+ is the architect on the $3.9 million project located in the Strip District.

Rycon's Special Projects Group is the general contractor responsible for renovating two Starbucks totaling $820,000 in Teays Valley, WV, and Groveport, OH.

Work has begun by **Rycon**'s Special Projects Group on a $500,000 Panda Express renovation at West Virginia University in Morgantown, WV. The project is scheduled to wrap up February 2021

In Dallas, GA, **Rycon** was awarded the contract for a new, $8.3 million U-Haul storage facility. This is the fourth U-Haul storage facility **Rycon** was selected to work on within the last year. The other facilities are located in GA, SC, and FL.

On the island of Maui, **Rycon** is the general contractor completing renovations to an Office Max in Kahului, HI. The project is set to begin January 2021.

Rycon is renovating a Chevrolet Service Center for repeat clients AutoNation in Spokane, WA. The $800,000 project spans 28,000 square feet.

Work is underway by **Rycon** on a new out-parcel building at the Shoregate Town Center for Phillips Edison & Company. The new, $2.2 million construction spans 12,200 square feet is located in Willowick, OH.

Rycon began renovations on a 4,000 square foot American Family Care medical facility in Mentor, OH. The $400,000 project is scheduled to wrap up January 2021.

In Hialeah, FL, **Rycon** continues work at Countyline Corporate Park with construction of a new, 221,000 square foot facility, Building #26 for Flagler Global Logistics. In addition, an interior build-out is underway on an 88,000 square foot facility, Building #25. The combined $13 million core/shell projects are the latest **Rycon** has built within the corporate park, bringing the total to six, since 2018.

Humana selected **Rycon** to fit-out a former restaurant into a medical office in Hialeah, FL. The $1.2 million project, which encompasses 6,000 square feet, is scheduled to start March 2021.

Rycon is the construction manager awarded a $10.1 million contract from VF Acquisitions, LLC. to construct two new warehouse buildings. The project totals 64,200 square feet and is located in Miami Dade, FL.

Rycon was awarded a 10,000 square foot warehouse addition and loading docks project by El Dorado Furniture. The $1.5 million project is located in Miami Gardens, FL. **Rycon** is also wrapping up a completely upgraded El Dorado location in Miami, FL.

In Bensalem, PA, **Rycon** was selected to convert a former 99,200 square foot Kmart into two core/shell spaces for future tenants. The $6.1 million project includes interior demolition, new exterior facade, building utilities, new loading dock, and extensive site improvements.

PJ Dick is providing CM at Risk services for the 5,000 square foot fit-out of Tākō in Bakery Square. It will feature an expansive Tequila wall, outdoor seating, and a covered outdoor patio.

PJ Dick is providing CM at Risk services for the PPG Paints Arena Concessions Renovation project, which aims to create a safe, contactless experience for fans. The project consists of renovating eight existing spaces on the main concourse and upper concourse into modern, self-checkout grab & go markets. Changes will also include self-checkout scanners, self-ordering kiosks, and mobile ordering.

(Continued on page 68)

FACES & NEW PLACES

Mascaro welcomed **Sarah Staroba** on November 2, 2020. Sarah is the project administrator for the Carolina Panthers Rock Hill Development project. Sarah has a Bachelor of Arts degree in organizational communications from the University of Michigan, and previously worked for a general contracting firm in Charlotte, NC.

Mascaro promoted **Ed Swiatek** to senior project manager. Ed joined Mascaro in 2004 and is a LEED Accredited Professional and received a bachelor's degree in civil engineering and construction management from the University of Pittsburgh.

Turner Construction Co. announced that **Mark Mancini** had returned to the Pittsburgh office as project manager. Mancini started with Turner in Pittsburgh in 2013 before moving to its Baltimore office in 2016. He earned a Bachelor of Science in Engineering from University of Pittsburgh.

Rycon's Fort Lauderdale office welcomes **Jennifer Companion** as an experienced accounting clerk.

John Rowell joins **Rycon**'s Atlanta office as a project manager. He brings over six years' experience to the team. John is a graduate of Southern Polytechnic State University, University of West Georgia, and Mercer University.

In **Rycon**'s Philadelphia Office, **Warren Tasca** has been hired as lead estimator. Warren has over 16 years' experience in estimating and is an alumnus of Neumann University and Drexel University.

Rycon's Atlanta office welcomes back **Joel Vasquez** as a project engineer.

Matt Pentz has been promoted to vice president for **Rycon**'s Philadelphia office.

Providence Engineering Corporation is excited to welcome **Ashley Langford**, P.E. to the firm. Ashley is a Project Manager working from our Pittsburgh, PA office. She is a graduate of The Pennsylvania State University with a Bachelor of Civil Engineering degree

NEXT architecture announced the hiring of **Taylor Schaffron** as interior designer. Schaffron brings professional experience in corporate, higher education, healthcare & sports design and is a recent graduate from Mercyhurst University's interior design program.

NEXT architecture announced the hiring of **Vince DeFazio**, RA, LEED AP BD+C as project architect. DeFazio brings over seven years of professional experience with varying project types including higher education, healthcare and government.

NEXT architecture announced the hiring of **Jennifer Ranallo** to the position of controller. As controller at NEXT, Ranallo utilizes her experience in invoicing, payroll processing, reconciliations, scheduling, and benefit administration.

NEXT architecture announced the hiring of **Tony Kosec** as intern architect. Kosec is a recent graduate of Carnegie Mellon University's Graduate Master of Architecture program.

AWARDS & CONTRACTS

(Continued from page 64)

JMC Holdings selected the **PJ Dick/Dick Building Co.** venture to provide construction management services for its proposed 1501 Penn Avenue office building. The $220 million, 550,000 square foot office is being designed by Brandon Haw Architecture.

UPMC awarded contracts to **Dick Building Company** for renovations to the UPMC Magee Women's Hospital fifth and sixth floors.

Nello Construction was the successful contractor for general construction on the $6.2 million Community College of Allegheny County Center for Faculty Innovation Building Alterations at the Allegheny Campus on the North Side. The architect is Hayes Design Group.

M & J Wilkow awarded **Shannon Construction** a $5.5 million contract for the core and shell landlord renovations to accommodate 90,000 square feet of new tenant space for Target at the Gateway Port Chester Shopping Center in Port Chester, NY.

Shannon Construction was successful on the tenant improvements for Morgan Stanley at PPG Place. Hengst Streff Bajko Architects & Engineers designed the $600,000 renovation.

Shannon Construction is the contractor for the landlord renovations and tenant improvements for the new Five Iron Golf in the former food court space in 2 PPG Place. The 14,000 square foot golf simulator will be Five Iron's fifth location in the U.S.

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High-Impact Networking

NAIOP Pittsburgh members can connect with nearly 350 members in the Pittsburgh region and 19,000 across North America as a part of NAIOP's extensive chapter network.

Connect with Industry Leaders

Network with the power players in the Pittsburgh region through events such as monthly chapter meetings, project tours of innovative developments, annual golf outing, ski trip, iconic Night at the Fights, Annual Awards Banquet and holiday party.

Movers and Shakers Wanted

There's no stronger association for commercial real estate in the Pittsburgh region. NAIOP Pittsburgh members build partnerships that further their careers and their businesses.

"In commercial real estate, you need the right partners at the right time. There's no better organization for building relationships than NAIOP Pittsburgh."

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CLOSING OUT

SO, NOW WHAT?

BY JEFF NOBERS

With COVID-19 vaccinations underway and businesses beginning the hard work of finding a fresh footing in the post-pandemic world, Pittsburgh and southwestern Pennsylvania can play a central role in the economic comeback.

We have the components for success: A skilled and motivated workforce, world renown academic institutions, best of class technology companies, abundant and inexpensive energy, and a legacy as a region of fighting back from whatever knocks us down.

What we need now is a willingness to cooperate, to prioritize based on logic and economic sense, to understand that a 100 percent win for one group typically means a 100 percent loss for another.

Though not easy, we believe we can find that common ground. That's why Pittsburgh Works Together has drawn a blueprint to position our region to lead the recovery statewide and nationally. Tens of thousands of members of organized labor, important legacy industries, business, economic and workforce development and civic leaders have joined.

Launched in March 2020, one day before the pandemic induced orders shutting down businesses, closing schools and limiting public gatherings, our agenda was at once simple and far-reaching:

Create an economy that works for all, combining the values and tradition of our legacy manufacturing industries with the innovation and fresh perspective of the emerging sectors in technology, healthcare, and academia.

While that message resonated with trade and labor unionists and private sector leaders as they left the gathering that day even the most visionary could not grasp the depths of devastation that were about to happen.

Many American manufacturing centers had already slowed to a halt because component suppliers in Asia had shut down in the first wave of the pandemic. The fragility of this supply chain, while long suspected, now became reality.

Forty years ago, as the steel industry vanished from our industrial landscape, labor leaders expressed worry that, at some point, America would find itself unable to function economically. Now, the high-tech, manufacturing, pharmaceutical and medical equipment sectors, all of which assemble sophisticated products with components largely coming from foreign suppliers, were making the same discovery.

At midyear, we released an agenda for the region's future, already looking toward the end of the pandemic and the hard work of restarting an idled regional economy.

It focuses on creating a favorable and welcoming business climate regionally and statewide, energy, training, competitive policies, infrastructure, and a focus on putting Pennsylvania products and services first when it comes to economic investment.

The emergence of Pennsylvania as a center of energy independence must be encouraged, not hobbled by politically inspired opposition. Tens of thousands of construction, transportation, hospitality, retail, hospitality, and other jobs have been created both directly in the Marcellus Shale industry, by the Shell cracker plant and the hundreds of millions in regional investment spurred by the energy industry.

Recovering what we have lost will not be easy.

We must put Pennsylvania and our residents first. To create a business, environmental and equitably inclusive platform by which we can grow investment and expansion of all business in the state. And most critically protect and create thousands of new jobs in both legacy and new industries that offer family sustaining wages and bolster and grow the critical middle class.

Our policy agenda which we believe can be the basis for a vigorous comeback:

- Revise Pennsylvania Corporate Tax Code and others to create a better economic basis for companies to expand or locate here.
- Supply Clean and Inexpensive Power from the second largest energy reserve in the world to keep regional energy cost in check while meeting national and global demands
- Support responsible energy exploration and development in the region and throughout the Marcellus Shale play through meaningful yet sensible regulation and oversight.
- Pennsylvania First requiring or using incentives to ensure products made in Pennsylvania/USA are used in both public and private sectors.
- Responsible Environmental Policy based on applied science and considers economic and job impacts.
- Workforce Development based on the true industry directed skill needs for the region in construction, energy, manufacturing, and healthcare.

Our diverse membership does not always agree. Yet labor unions, corporations, business, economic and workforce development and civic leaders have made common cause to do all that we can to broker bi-partisanship and cooperation to not only recover, but to grow an economy for all.

We invite you to visit our web site: www.pghworks.com for more information on our policy agenda, its reception among lawmakers and other news and commentary from Pittsburgh Works and our members.

Jeff Nobers

Jeff Nobers is executive director of Pittsburgh Works Together and the Builders Guild of Western PA. He can be reached at jnobers@buildersguild.org.

WASHINGTON COUNTY, PENNSYLVANIA

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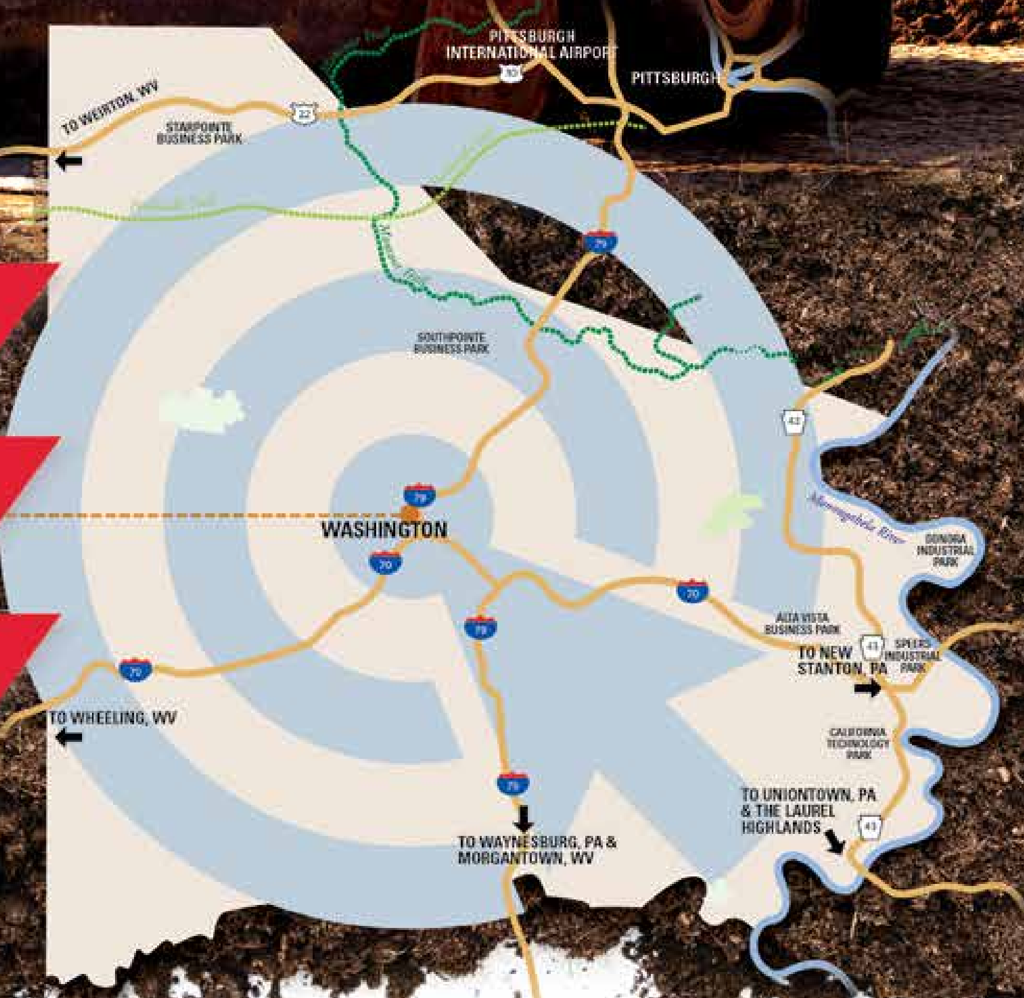

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