Breaking Ground

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

JANUARY/FEBRUARY 2010

FINANCE 2010

A LOOK AT THE EVOLVING FACE OF CONSTRUCTION FINANCE

SURETY MARKET UPDATE

WHAT WILL 'CAP AND TRADE' MEAN FOR DESIGN AND CONSTRUCTION

THE RECOVERY: GREEN SHOOTS ARE STARTING TO FLOWER

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CORRECTIONS/AMPLIFICATION:
In the September/October edition several of the AIA Award of Excellence open plan categories were inadvertently omitted from the News From the Street. Pfaffmann + Associates were recognized for their work 'A Civic Renewal' done for Preservation Pittsburgh/DOCOMOMO; Renaissance 3 Architects was awarded for the 'London Barge Gallery' designed for the Arquitectum Design Competitions; and Strada Architecture was recognized for their work on the Point Park Public Space Competition.

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FEATURES & DEPARTMENTS

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Publisher's Note

It was harder than usual to figure out how to stick to the theme of this edition of *BreakingGround*, mainly because there hasn't been an edition of the magazine in the past 18 months that hasn't devoted a substantial amount of space to the issues of finance. Since the two government -sponsored enterprises, Fannie Mae and Freddie Mac, came unglued in July of 2008, the world of finance has dominated the mainstream news on many days.

Most of us don't think of finance in great detail, at least not when things are working well. One of the reasons I have a degree in history instead of history and business, is that the business major required taking Intro to Finance (now there's a course title to excite a 19-year old), and Finance had the most boring professor by reputation in the entire school. There was a certain mystique to it because the only people that seemed to enjoy and understand it weren't typical college students of the 1970's. These folks were probably geeks before there really were geeks and what made matters worse was the sense you got that they understood something you didn't, and it was highly marketable.

It turned out exactly that way, of course. The guys I knew that really got finance ended up working in jobs that you really couldn't understand (arbitrage? derivatives?), but made money that I could very easily understand. And for a few years in the late 1980's, it seemed like these kinds of guys ran everything.

What's interesting about finance as the second decade of the century gets underway is the back to the future quality about where the industry stands. What happened in the late 1980's was that financial innovations that fueled recovery from a pretty prolonged set of recessions in the previous decade led to the abuses and downfalls of the junk bond market, the savings and loan crisis, and the leveraged buyout. Around 1990, you couldn't find banks that wanted to make a loan, and the business world was leery of tricky financial instruments, so leery that it took about a dozen years for the same kinds of things to happen all over again.

Finance is a multifaceted industry, or group of industries really. Like most sectors, the financial markets exist on the edge between risk and reward, but the edge is probably thinner and sharper than most. Over the past twenty years or so the regulations that defined the various players in finance have been blurred, lessened or eliminated. As a result it is harder to make clear distinctions between commercial banks and investments banks, for example, or between the many different classes of financial firms that invest in real estate. Real estate trusts, banks, insurance companies and private equity groups all essentially offer funding for development, but each has a different risk tolerance and a different role in the market. The events of last fall will certainly lead to some form of new regulation on banking and finance, and defining the players and their roles is likely to be part of any new regulation.

ONE OF THE REASONS I WANTED TO FOCUS ON FINANCE NOW WAS THAT I THOUGHT THE INDUSTRY WOULD BE GETTING ITS SEA LEGS BY THIS TIME AND STARTING TO RETURN TO BUSINESS AS USUAL. WHILE THERE IS EVIDENCE THAT IS HAPPENING, THE UNCERTAINTY OF THE STATE OF COMMERCIAL REAL ESTATE AND THE NEW FACE OF LENDING HAS KEPT PROJECT FINANCE FROM BECOMING PREDICTABLE AGAIN SO FAR.

The sense I've gotten over the past 60 days of researching this edition is that the market has pruned back the dead wood from the financial industry and that a new chapter will begin. Of course, the general recession has dampened the need for as much financing so the industry is in a spot like an athlete injured near the end of a losing season. The business is healing, but there's no need to rush back in. It might be best to think of the current market as that rehab period before the preseason starts. Now is the time to rebuild the financial markets' strength. Construction and real estate will need to use them again soon enough.

Jeff Burd

Forbes Ranks Pittsburgh in Top Ten Cities for Recovery

Using a variety of metrics to measure the durability of a regional economy, *Forbes* magazine published a list of the nation's top 100 metropolitan areas by population, ranking their prospects for recovery. Forbes measured the cities' economic productivity growth, unemployment rate, home pricing and rate of home sales, plus the percentage of homes in foreclosure to rate the cities with the best economic prospects.

Pittsburgh had a cumulative rating that placed it fourth among US cities. The metropolitan area rated its highest in home pricing stability (2nd) and number of days on the market (5th), which was Forbes measure for sales rate. The gross metropolitan product, a measure of economic output comparable to GDP, of the region ranked 46th with a rate of .8%, roughly that of the national average. The city had the 12th best foreclosure rate and the 25th lowest unemployment level.

Rank	Metro Area
1	Omaha NE
2	San Antonio TX
3	Austin-Round Rock TX
4	Pittsburgh, PA
5	Harrisburg-Carlisle PA
6	Dallas-Fort Worth TX
7	Rochester NY
8	Houston TX
9	Raleigh-Cary NC
10	Baton Rouge LA

Forbes magazines ranking of the top ten American cities for economic recovery.

Google Grows Out of CIC Space

Since moving to the region in 2006, Google has grown its operations to over 100 people in Pittsburgh, a capacity that required it move to space in the newly constructed Bakery Square in East Liberty. One of the original tenants in the Collaborative Innovation Center on Carnegie Mellon's campus, Google was looking for more than double its original lease and found 44,000 square feet in the Walnut Capital development, which has redone the old Nabisco bakery on Penn Avenue.

Said Andrew Moore, Google's site director in Pittsburgh, "The city of Pittsburgh is a world center for computer science and so it makes perfect sense for Google to have the increased commitment represented by this move. We are so excited about the feel, location and history of Bakery Square -- just the right kind of place for this growing bunch of creative software engineers to be building some of the next generation of Google products."

"We are seeing our vision of the Collaborative Innovation Center come to fruition -- to serve as a landing zone where businesses can flourish and grow in the region. One of the consequences of our success is that Google Pittsburgh continues to grow and is now moving to Bakery Square, where it can continue its expansion." said CMU president Jared Cohon. "This is another example of how university-industry partnerships develop innovations that spur economic growth."

Just before the holidays there was a furious one-week process completed to select a design and construction team for the project's $4 million tenant improvement in the spring. Google interviewed a small group of contractors and architects, selecting A. Martini & Co. as contractor and Strada Architecture LLC to do the design.

Prison Construction Program Update

The Department of General Services made several announcements on December 17, 2009 marking progress in the delayed prison construction program. After the Department of Corrections had earlier made the decision to place 2,000 of the states inmates in prisons in Michigan and Virginia, and following a Commonwealth Court decision to deny the preliminary injunction preventing DGS from awarding contracts, the Department contracted the first three design/build projects it had previously awarded, at Pine Grove near Indiana PA, Coal Township in Northumberland County and Cambridge Springs in Crawford County, which was awarded to Pittsburgh contractor PJ Dick Inc. Each of these projects had received proposals that were more than $5 million below DGS budget projections, but were held up by legal opposition about the best value process.

DGS also announced that design work on the $200 million Fayette prison expansion would begin in January, with the hope of seeking design/build proposals before spring. It is believed that the contracting process for the SCI Rockview, near State College, and the Graterford prison, in Montgomery County, will remain on hold indefinitely. Proposals for each had been received and rejected in summer 2009.

PA Department of Environmental Protection Proposes TDS Standards

The Pennsylvania Department of Environmental Protection's Environmental Quality Board had proposed a rule-making change to amend 25 PA Code Chapter 95, which relates to wastewater treatment requirements, in order to set new standards for the emission and treatment of total dissolved solids (TDS). Largely as a result of a November 2008 incident in the Monongahela River and in anticipation of the increased treatment demand coming from natural gas frac drilling, the DEP researched what it feels are the negative impacts of increased TDS levels.

TDS occur naturally but are largely the result of runoff or treatment of industrial or municipal wastewater. According to the DEP increased TDS levels cause toxicity to water by raising salinity, changing the ionic composition of the water, and by increasing the levels of specific toxic ions like chloride or bromide.

The proposed new rules would limit discharges of TDS to concentrations of 500 parts per million, and also set discharge limits on sulfate, chlorides, barium and strontium that would take effect Jan. 1, 2011.

The Pennsylvania Environmental Quality Board held public hearings across the state during the second week of December. The comment period on the proposal closes on Feb. 12. The full text of the rule making was published in the Nov. 7 issue of the Pennsylvania Bulletin and can be read at www.pabulletin.com.

Federal Government Approves Use of ConsensusDOCS Template Contracts

The federal government has joined a growing list of groups that allow for the use of template construction contract documents prepared by a coalition of building, owner and surety groups known as ConsensusDOCS. The decision by the U.S. Department of Agriculture's Rural Utility Service opens the way for key template documents to be used in water construction projects worth up to $20 billion each year.

The federal agency announced that it will allow the use of two of the coalition's documents, the Electronic Communications Protocol and the Contractor's Qualification Statement for Engineered Construction. The protocol allows for key project information to be transmitted electronically, saving significant time and money. The qualification statement, meanwhile, provides federal officials with an easy-to-use form for evaluating contractor qualifications.

The federal government is the latest in a series of large-scale project owners to embrace the ConsensusDOCS contracts. States such as South Dakota, Michigan and North Carolina allow the use of the coalition's documents. Habitat for Humanity now routinely uses ConsensusDOCS contracts on a number of its key projects.

Charles Vander Kooi to Present at February Conference

Small business expert Charles Vander Kooi will be presenting "Managing Your Company in a Tight Economy During 2010" on February 16, 2010 at R.I. Lampus Company's annual Contractors Seminar, a 2-day event on February 16 and 17, 2010 at the Regional Learning Alliance at Cranberry Woods.

"Charles is an expert of speaking to contractors through stories and humor, so that the financial aspects of his presentation resonate," says Bob Welling, VP Concrete Product Division, R.I. Lampus Company. "He talks like our audience talks, dresses how they dress - he's known as a favorite near and far. R.I. Lampus Company is proud to have such an effective speaker come to our region."

Vander Kooi has been involved in the construction industry for over 4 decades as an estimator and upper-management employee of companies as well as professional speaker and consultant. As a private consultant, he has helped over 1,500 companies in their estimating/bidding systems and has lectured to over 200,000 people nationally and internationally.

GREEN BUILDING NEWS

GBA Brings Back LEED Test Prep

Green Building Alliance's signature LEED test prep sessions are resuming in January 2010. Designed to help prepare building professionals for the LEED Green Associate professional accreditation exam, these instructor-led study classes will focus on the basic requirements of each LEED credit, regulations and intents, reference standards, and an overview of the LEED certification process. Classes begin January 20. Seats are going fast and registration is limited to GBA members only. Contact Mike Embrescia at 412-431-0709 ext. 6003 or michaele@gbapgh.org for details.

EID Awards Entries Being Sought

ED+C (Environmental Design + Construction) magazine is seeking completed project entries for its eighth-annual Excellence in Design awards. Buildings submitted for consideration must have been completed between January 2009 and January 2010, and clearly demonstrate a commitment to green building and sustainable design. The entry deadline is February 12, 2010. Entrance fee is $50 per entry.

More details and application can be found at http://eid.edcmag.com/10EIDapp.pdf

URA Adds Green Incentive to Consumer Loan Program

The URA Board announced on December 18 that the Pittsburgh Home Rehabilitation Program has been enhanced to promote energy efficient improvements to owner occupied homes in the City of Pittsburgh.

The URA administered Pittsburgh Home Rehabilitation Program (PHRP) provides 0% interest loans and grants for improvements to eligible City of Pittsburgh homeowners. The loan term can be spread over 20 years, making payments as low as possible. Income limits apply for participation; qualifying households earn less than 80% of the area median income. (A household of one cannot earn more than $35,000, a household of two cannot make more than $40,000.)

Homeowners may borrow up to $25,000 for a single unit home and $35,000 for a two-unit home. In combination with the loan, grants are available for an assortment of needs, including repair or replacement of the sidewalk, exterior improvements, removal of lead hazards, and accessibility improvements.

PHRP Plus features a $2,500 grant to be used to pay for an energy audit (required) and insulation, air sealing and duct sealing. Participants in this program are eligible to receive $10,000 above the $25,000 limit for the standard PHRP loan. The additional borrowing limit can be used for qualifying energy efficient improvements, including insulation, air and duct sealing, efficient heating and cooling, lighting, water heating equipment, and efficient windows and doors.

West Penn Energy Solutions will provide energy-auditing services, which include diagnostic testing as well as combustion safety testing. A report will be generated that will provide recommendations for energy efficient improvements, along with the approximate cost and savings associated with these improvements.

Which Green Building Features are Most Liked?

A survey conducted by Dovetail Partners revealed that, while overall green building satisfaction is high, continued occupant education is important for achieving the best results in LEED-certified buildings. The survey sought to understand what if any changes in green practices or materials are made after a green building is occupied, focusing on occupants' level of satisfaction (or dissatisfaction) with specific green building attributes and materials.

The results, detailed in the report, *Satisfaction with Certified Green Buildings – An Inquiry of Building Occupants in Minnesota*, (http://dovetailinc.org/reportsview/2009/responsible-materials/green-buildings-inquiry) help identify which products are likely to be changed over time. Building projects included in the survey were, per the report title, built in Minnesota and had achieved certification through at least one green building program. BG


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REGIONAL MARKET UPDATE

Most of the national economic news at year-end is trending positive, and indicators for 2010 are for continued growth, although at a slower pace. The national economic picture is unfortunately brightening at the same time the regional market is entering the trough point of the recession.

Local architects and engineers were reporting very noticeable drop-offs in RFP's and new commissions last spring and summer, and the reflection of that decline will be felt during the next three to six months. IKM partner Joel Bernard remarked on his firm's status, which seems to be typical, "We may not have one project in construction documents right now," he said. "All of our work is either in construction administration or preliminary stages of design."

While the hole in the bid market seems temporary, the overwhelming sentiment on the front lines has turned decidedly negative. Layoffs have occurred at many contracting firms, just as they did at architectural/engineering offices all summer; and the pool of available labor is growing for the first time in nearly half a decade.

One source of objective data, the Pittsburgh Builders Exchange bid calendar, is showing that the negative sentiment may be oversold. Researching the number of projects bidding at year's end showed 186 projects with bid dates in December. While that isn't a project volume that will create a labor shortage, it is 40% more work to bid than the 133 projects that bid in December 2008.

Whether or not the prevailing sentiment shifts toward recession or recovery, one reality is that the slowdown in contracting in the second half of 2009, and the prospect of a lighter-than-usual bid schedule in the winter/spring of 2010 makes for a tough start to the New Year, with backlogs lower than in a number of years. Those companies which were able to build backlog have done so in a more competitive environment, and likely at lower margins than desired.

A hallmark of the regional market at this stage of the business cycle is the intensity of competition for the projects that are available. A sampling of projects recently bid gives a good indication of how bid lists have lengthened.

- A $4.7 million first floor build-out at the WVU Biomedical Research Center attracted 14 bidders, including generals from Pittsburgh, Maryland and Washington DC.

- Heritage Valley Health System bid several projects in November and December. The hospital system historically bid their projects to two or three contractors, with two pre-qualified subcontractors for mechanical and electrical trades. The recent projects involve six invited contractors and almost a dozen subs.

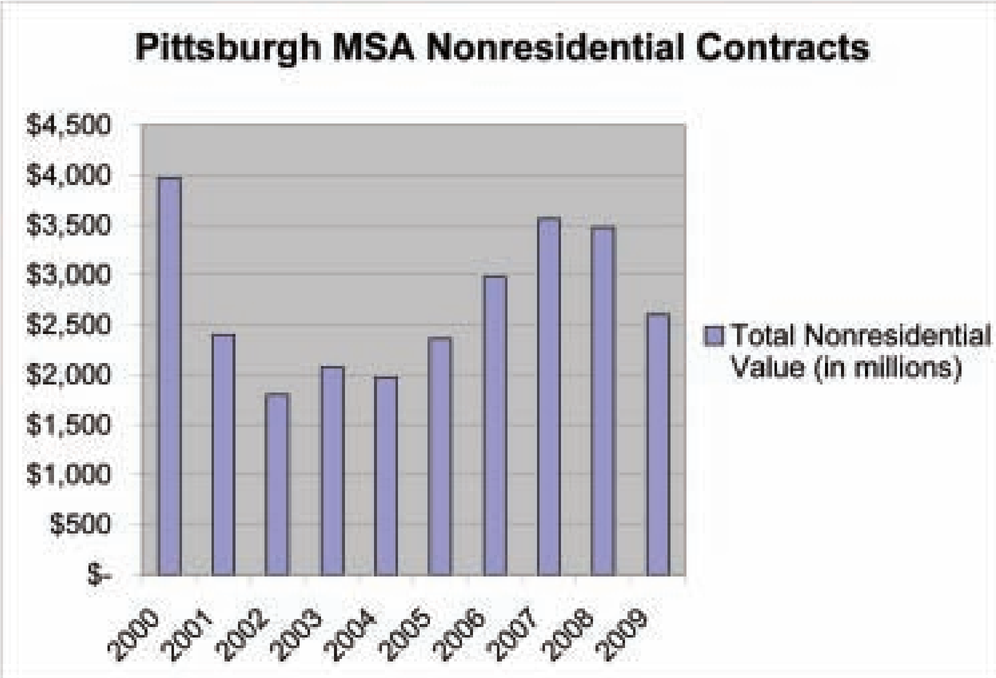
- The Penn State Gary Schultz Child Care Center, a $7 million building, was bid by 13 contractors, including firms from Pittsburgh, Chambersburg and Harrisburg. A similar size project in early 2008 drew four bids from local contractors only.

This kind of market condition can be exciting for buyers of construction services, at least on bid day. For owners experienced with hyper-competitive bidding environments this kind of action also means much more work after the contracts are let, as contractors and subs will have no room for flexibility in interpreting intent and won't be likely to pass up opportunities to regain reasonable margins. In the public arena, tighter bidding means that claims and change orders will be daily headaches.

The recession has put a damper on what has been a very robust commercial real estate market for the past few years; however, at worst, the current conditions can be characterized as mixed. Office vacancy rates have begun to edge up by fractions of a percent in the Central Business District, the eastern suburbs and the western corridor; however offsetting declines in vacancy occurred in Oakland, southern suburbs and Southpointe/Washington County. Bucking the steady trend was the vacancy rate in the north, which dropped from 18% to 12%.

Total Pittsburgh MSA 2009	1,381	1,163	2,544
Total Pittsburgh MSA 2008	2,006	1,342	3,348
% Change	-31.2%	-13.3%	-24.0%

Housing permits declined 24% in Allegheny, Beaver, Butler, Fayette, Washington and Westmoreland counties.



Contracting in the seven-county metropolitan statistical area pulled back in 2009 after a four-year growth run.

The story in the northern suburbs, of course, is Westinghouse related. The nuclear engineering company consummated a 180,000 square foot lease at the former Ericsson campus, now known as Keystone Summit, and began construction on its fourth building in Cranberry Woods. In total, the Westinghouse leasehold in the Cranberry/Marshall area is nearly 1.4 million square feet. With the related influx of other businesses into that market leasing has been brisk, with the Keystone Summit rather quickly filling up its 574,000 square foot campus and the RIDC Thorn Hill Park operating at 95% occupancy for its nearly 4 million square feet.

Industrial space has seen its demand become sluggish in recent quarters but the good news is that a number of larger lease tenants have made moves that have kept the vacancy rates low. FedEx SmartPost, Flabeg, Appliance Dealers Cooperative and Seegrid Corporation have taken space in the Parkway West market. Precision Therapeutics agreed to take a big portion of the Chocolate Factory in Lawrenceville. And ModCloth is taking 46,215 square feet in the Gateway View Plaza on West Carson Street. With very little new construction, and no speculative activity, the best industrial opportunities should remain build-to-suit projects in 2010.

Two portions of the industrial market that are poised to boom in 2010 appear to be the manufacturing and energy sectors. American Water is taking bids on a $60 million plant on Becks Run. The steady improvement in the global steel market should move one or both of the super-projects planned by Allegheny Ludlum and USSteel into the construction stage. In Fayette County, southeast of Uniontown, the $80 million Chestnut Ridge wind farm project for Iberdola Renewables was being bid at the end of 2009. Early packages were underway for the Majorsville gas distribution facility and the second phase of the gas production facility in Chartiers Township, both developed by MarkWest Energy.

The final piece of the commercial market, retail, was understandably less active in 2009, but even that sector, which was in ruins nationally, is showing a pulse in Western PA. Mall vacancies in the majority of the bigger properties remain much lower than the national averages. The Settler's Ridge lifestyle center has seen brisk traffic throughout the holiday season, with the Giant Eagle Market District store causing an unusual buzz. In the north, the site construction is well underway on the McCandless Crossing being developed by AdVenture Development and former Pittsburgher Kevin Dougherty. The contracts should be let for the Lowe's at McCandless Crossing this spring.

The Lowe's is emblematic of how the region is being viewed by outsiders. Capital expenditures and new store development in retail will remain unusually light in 2010, yet Pittsburgh remains an exception market. Target has identified less than ten new store locations for 2010, yet East Liberty will be one of them. Whole Foods, which has similarly pulled its wings in, will open a new 35,000 square foot store in the Wexford Plaza. Crate and Barrel will open a 32,000 square foot freestanding store in Ross Park Mall, and the vacant Boscov's is being eyed by Dick's Sporting Goods. The retail sector will not make anyone rich in 2010 but there will be activity.

The Pittsburgh housing market remains a counterpoint to the national picture as well. Prices rose in the Pittsburgh area, where the median price in the third quarter was $124,600, vs. $122,700 in the same quarter last year. The bad news is that housing starts have remained low, supporting current housing prices by keeping inventory low. A positive for residential sales, the low activity has been very hard on the local homebuilding community. New construction volume in 2009 was lighter than at any time in the past quarter century, with just over 2,500 total units, a 24% decline from 2008, and less than half of the 2005 volume.

> *New construction volume in 2009 was lighter than at any time in the past quarter century...*

Residential construction in 2010 is set to pick back up, but the activity levels will remain anemic by historical standards. Single-family detached homes should again break above the 2,000-unit level but that volume remains well below the 3,600-plus units started at the high water mark in 2003.

Nonresidential contracting volume was likewise off in 2009, with approximately $2.6 billion in total value. Missing from the mix in 2009 was the number of large projects that had begun in the preceding few years. Had one of the steel mill projects proceeded, however, the total volume would have masked the decline in overall opportunities. Assuming that one or more does get underway in 2010, the increase year-over-year will not be reflective of what will be a tough year for commercial construction.

NATIONAL MARKET UPDATE

The construction market ended 2009 in as bad a shape as it has been in for almost two decades, with non-residential construction plummeting and housing construction at record post-World War II lows. For the overall economy, however, the year ended with a host of indications that recession was morphing into recovery.

Some of the boldest pronouncements came from the National Association of Business Economists (NABE). NABE conducted its annual meeting in October in St. Louis, and made headlines by declaring that the Great Recession was over. On the heels of their annual meeting NABE published its 2010 outlook. The forecast contained a number of major points:

- Gross domestic product will grow at a 3.2% rate for all of 2010 (this is an upward adjustment from NABE's earlier forecast).

- The jobless recovery will turn to a recovery adding jobs in the first quarter of 2010. NABE's economist panel predicted a decline in unemployment to 9.6% by fourth quarter 2010.

- Household spending will remain sluggish but housing will gain momentum. Experts forecast a 38% jump in housing starts and an 8% increase in residential investment in 2010 due to low prices and low interest rates.

- Business investment will be the main engine of growth in 2010

- Corporate profits will climb 12.4% in 2010

- The dollar will remain weak. Short-term interest rates will remain below one percent and inflation will not be a problem in 2010.

NABE's economists were divided about the need for further stimulus or Federal Reserve manipulation. The biggest source of concern expressed was for the federal deficit during the next five years.

Reinforcing NABE's optimism about the housing market, the National Association of Realtors reported that existing-home sales increased 11.4% to a seasonally adjusted annual rate of 5.3 million units in the third quarter from 4.76 million units in the second quarter, and are now 5.9% above the 5.01 million-unit pace in the third quarter of 2008. Sales increased from the second quarter in 45 states and the District of Columbia; 28 states and D.C. saw double-digit gains. Year-over-year sales were higher in 32 states and D.C.

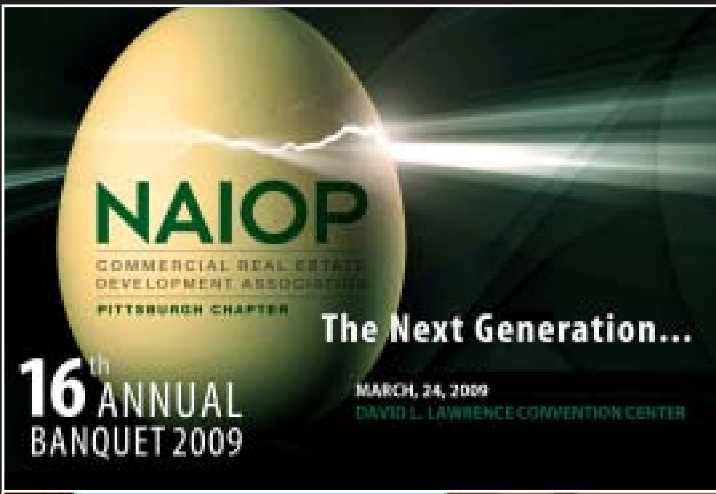
Lawrence Yun, NAR chief economist, said the tax credit is a significant factor. "We can't underestimate just how powerful a catalyst the first-time home buyer tax credit has been for the housing sector," he said. "It's given buyers the confidence they needed to get off the fence and take advantage of extremely affordable housing conditions. The buying conditions this year are the most favorable on record dating back to 1970, but the tax credit is allowing buyers to set aside any reservations about waiting for a better deal."

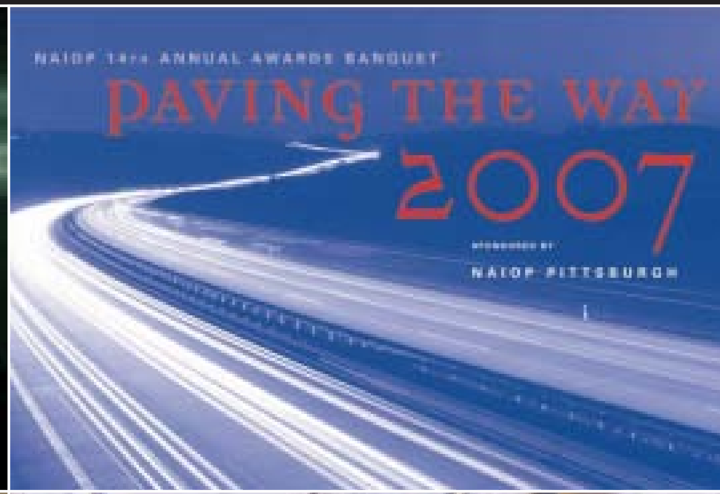
Data on home values was mixed, however. During the third quarter, 123 out of 153 metropolitan statistical areas reported lower median existing single-family home prices in comparison with the third quarter of 2008; however, the national median existing single-family price was $177,900, up for the second consecutive quarter but still 11.2% below the third quarter of 2008.

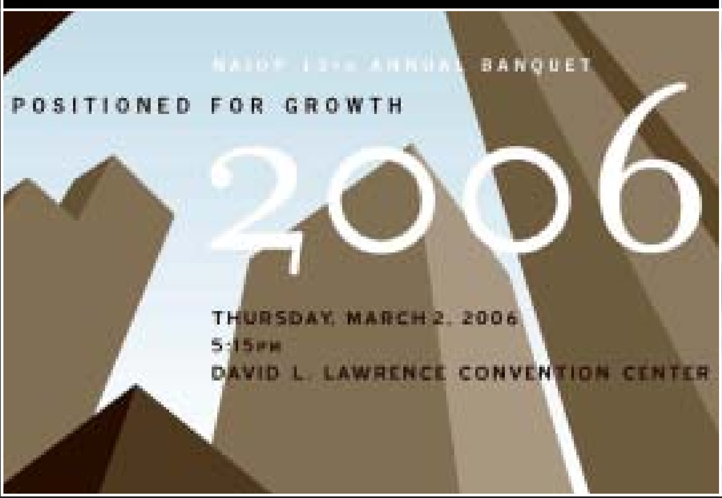
DISTRESSED SALES ACCOUNTED FOR 30% OF TRANSACTIONS IN THE THIRD QUARTER, WHICH CONTINUED TO WEIGH DOWN MEDIAN HOME PRICES.

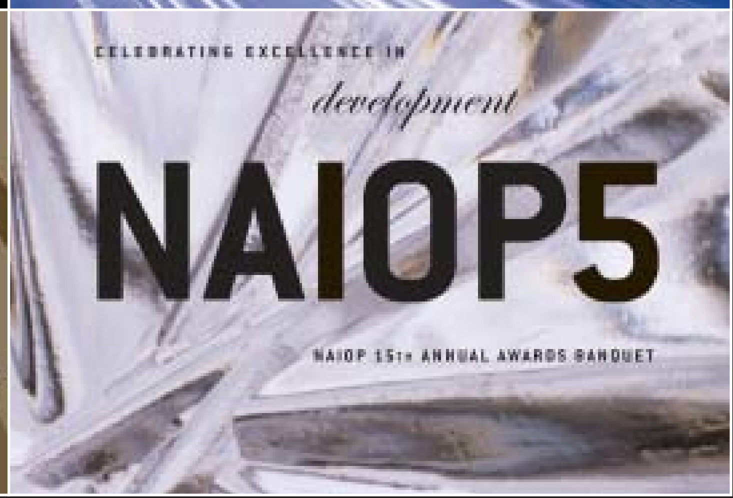
During the second week in December, the economy received several surprising bits of data that added to the hope of a recovery underway. First came the Department of Labor report showing a decline in unemployment from 10.2% to 10%. At the end of the week came the report on consumer spending in November that showed a 1.3% increase on the heels of a 1.1% increase in October. November's data also marked the fourth straight month of increases. And the University of Michigan's Consumer Sentiment Index showed an increase to 73.4 in its early December survey, up from 67.4 in October and the low near 40 in January.

Some of NAIOP Pittsburgh's Greatest Hits









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THE BIGGEST QUESTION MARKS FOR CONSTRUCTION IN 2010 REMAIN THE PACE OF JOB RECOVERY AND THE HEALING OF THE CREDIT MARKETS.

PNC chief economist Stuart Hoffman assessed the November jobs report with relief rather than celebration but did find cause for optimism.

"We're still losing jobs – that's not good – but the rate of job losses has really tapered off," Hoffman remarked in a podcast for Marketwatch on December 4. "Our forecast all along has been that the economy will be creating private sector jobs in the first quarter of 2010, and we came pretty close to it in November. With revisions we may still find that we did."

Hoffman noted that while it looked like the jobs recovery may have finally begun, it is important over the next year for the job creation to move from government to private business.

Assuming that the reversal in these indicators is part of a trend, the national economy is setting up the conditions for a recovery in the amount of non-residential construction, although it is virtually inconceivable that such a recovery will occur before 2011. In the meantime, the data on national construction activity is showing a slowdown in the rate of decline year-over-year.

The Bureau of Economic Analysis announced in late November that real investment in non-residential buildings fell 15% in the third quarter, following a 17% decline in the previous quarter and a 43% drop in the first quarter of 2009. Mirroring the trend in other data the real residential investment popped 19.5% in the third quarter, the first increase in residential investment in 14 quarters. BEA also tracks governmental gross investment in structures, which rose 10% in the third quarter after a 24% increase in the second quarter. The increased government investment, of course, is tied directly to the American Recovery & Reinvestment Act, which is moving through the state budgets. A Federal Highway Administration report in November found that 77% of the stimulus money earmarked for highway construction had been obligated (meaning contracted) and about 14% had been actually expended in payments to contractors.

No real report card exists as yet for the ARRA impact; however, a few trends have emerged that are important to next year's construction economy. The most efficient conduits for the stimulus have proven to be the departments of transportation, primarily because they have a formula for assessing needs and distributing money as allocated. Much of the ARRA funding was earmarked for federal agencies, which have been less nimble, or is being distributed through multi-agency channels, like in the case of water projects, which originate locally but fund through states. The net effect seems to be that the stimulus will be distributed fairly evenly between 2009 and 2010.

If this proves to be the case, the additional funding will be some relief for state level construction in 2010. States are currently facing revenue shortfalls across all categories of taxes. The recession has suppressed consumer spending, keeping sales taxes lower, and reduced fuel consumption, which also reduced fuel tax revenues. And the precipitous decline in home values has eroded the property tax base. As of December 1, shortfalls existed in 35 states for the current fiscal year, and the likelihood is that revenues will actually be lower in most states in fiscal year 2011.

The lower revenues have already meant less public construction in many states, even with the added influx of funding from ARRA. By the start of fiscal 2011, most states will face a real gap between their available capital and their capital needs. Beyond the direct capital spending impact, the revenue shortfall is also beginning to be felt in the states' ability to provide secondary or incentive funding to municipal government and private development. Budget showdowns, like the one in Harrisburg last summer, also have negatively impacted construction even when funding has been left intact, because the release of funds was delayed by the protracted negotiations. Showdowns have occurred in a number of states, and that number is likely to rise next year.

After eighteen months of economic turmoil the American economy appears to be moving again. On a limited basis, the drivers behind the growth in residential and retail construction are firming up. Global recovery, particularly in the emerging countries, is perking up manufacturing and the related categories of transportation and distribution. The biggest question marks for construction in 2010 remain the pace of job recovery and the healing of the credit markets. BG

WHAT'S IT COST?

During the week of December 14, markets got the first whiff of a change in the deflation trend when the November producer price index (PPI) showed a seasonally adjusted increase in PPI of 1.8%. While most of the materials in the PPI, as well as those that impact construction, maintained similar patterns to what has been the status quo since last fall, increases in the prices of diesel (6.3%) offset the trend.

One major construction commodity which did not move appreciably in November, steel, is poised to begin another move higher in price this year. After reaching price bottoms in early fall 2009, steel prices jumped $65 per ton just before Christmas. With manufacturing capacity trimmed, in many cases permanently, this increase is going to stick and more should follow.

On the assumption that the Rubicon has been crossed again for inflation, in the next three editions we're going to more fully examine three of the commodities that should experience some of the more volatile pricing changes during 2010: oil/diesel, steel and copper.

The difficulty in judging the future prices of oil and diesel is that it's a two-headed monster. The normal driver of oil prices is supply and demand equilibrium. The fly in the ointment is that oil is increasingly being viewed as an inflation hedge on a par with gold, only with (no pun intended) much better liquidity. Adding to the difficulty in assessing the impact on construction is the fact that oil and diesel prices could be diverging for an extended time due to increasing refining problems.

"By all accounts there seem to be record inventories of petroleum in land storage and in tankers off shore," observed AGC chief economist Ken Simonson. "Production is ramping back up across the globe and supply is likely to outpace demand that will grow at a slow but steady pace in 2010. I would have expected oil prices to have started lower already but the weak dollar has kept prices higher."

Another theory supporting higher than expected oil prices at this point in a recession is that a premium exists above the supply and demand equilibrium because of inflationary speculation. As we have seen during the first six months or so of recovery since the market bottom inspired the Federal stimulus, the fear of future inflation has driven up the price of gold to record highs. Gold speculators draw hope from the forecasts of gold prices at $2,000 per ounce or higher (extreme prognostications place the top at $5,000). For all its appeal, however, an inflation-driven gold rush won't make the commodity any more liquid. Large investors who believe in the inflation scenario long-term are finding that oil is a better reserve currency than gold, particularly since demand for oil isn't going away, thus ensuring that the reserve oil can be converted for necessary goods.

PERCENTAGE CHANGES IN COSTS	Nov 2009 compared to			
	1 mo.	3 mo.	1 yr.	6 yrs.
Consumer, Producer & Construction Prices				
Consumer price index (CPI-U)	0.1	0.2	1.8	17.4
Producer price index (PPI) for finished goods	1.2	1.1	2.4	21.9
PPI for construction	0.6	0.0	-2.3	33.2
Costs by Construction Types				
Highway and street construction	0.8	0.0	-1.4	52.3
Nonresidential buildings	0.7	0.1	-2.2	31.1
New industrial building construction	0.1	-0.2	-4.3	*
New warehouse construction	0.2	-2.3	-4.4	*
New school construction	0.3	0.2	2.2	*
New office construction	0.6	-1.6	-2.8	*
Multi-unit residential	0.4	-0.2	-2.5	30.4
Single-unit residential	0.5	-0.1	-2.3	27.0
Costs for Specific Construction Inputs				
#2 diesel fuel	6.3	6.4	-3.7	120.1
Asphalt paving mixtures and blocks	-0.3	-1.0	-15.8	87.5
Concrete products	-0.1	-0.6	-1.2	36.4
Brick and structural clay tile	-0.3	-0.4	-1.1	18.5
Plastic construction products	-1.1	0.4	-2.2	33.9
Gypsum products	-0.5	-3.6	-8.2	15.3
Lumber and plywood	1.1	-0.1	-2.9	-14.9
Architectural coatings	0.0	-0.7	-0.4	47.6
Steel mill products	-1.6	4.1	-19.9	52.8
Copper and brass mill shapes	4.6	11.3	26.2	144.5
Aluminum mill shapes	0.0	1.3	-12.4	11.0
Fabricated structural metal	-1.0	-2.8	-14.5	35.0
Prefabricated metal buildings	0.1	-0.8	-15.9	58.7
Crude petroleum (domestic production)	7.0	12.6	41.8	156.9
Asphalt (at refinery)	11.2	4.8	-16.9	188.7
Cement	-1.1	-2.6	-2.6	35.0
Iron and steel scrap	-8.9	-7.0	56.8	56.2
Copper ore	-0.9	1.2	78.2	208.4

Source Bureau of Labor Statistics, Updated Dec. 15, 2009
Compiled by Ken Simonson, AGC Chief Economist
** Data for these categories not available in Dec. 2003*

If you happen to be one who believes that runaway inflation isn't around the corner the peculiar dynamics of the refining business may keep prices for diesel and gasoline higher, even if oil prices sag.

One of America's commercial weaknesses is its decaying refinery infrastructure. For better or worse, the Environmental Protection Agency has created a regulatory environment that has completely de-motivated refiners from building new capacity. With each passing year the U. S. inventory of refineries erodes further, requiring extraordinary maintenance and repair cycles, which in turn cuts aggregate capacity that much more. U.S. refineries find it hard to compete as new refineries, which are much more efficient, come online worldwide. The result is more imports of refined products, primarily gasoline, and higher prices.

Refiners have also had to deal with a lack of profitability, so some have been shutting down less-efficient units. This helps boost profits from the remaining newer, more efficient units since their income is not being used to subsidize the older inefficient units. But the strategy also contributes to the declining capacity. In fact the current situation, with oil prices range bound while demand for diesel and gasoline increases again allows refiners to push the spread between the cost of the input oil and the price the refiners can get for the output fuels. By reducing capacity, even if only for extended maintenance the refiners can boost the spread that much more.

The PPI table on page 14 has been expanded for this edition to include the change in price compared to December 2003. Comparisons over a six-year period almost always span a full building cycle. In the case of the November data the coincidence is that the comparison is with a point in time that marked the end of the last national building recession (just over one year after the stock market began its last bull run). One quarter into the alleged recovery from the 'Great Recession' we don't see a dramatic change in the twelve month or less trends; however, matching today's prices against those of the end of 2003 shows a long-term trend that is steadily upward.

One of the maxims of the investment markets is 'the trend is your friend'. The implication is that while volatility may impact a stock or commodity price during a short time frame the long-term trend will hold. For construction materials and building products the trend isn't a friendly one.

FINANCE 2010

It has been almost two years since the first whiffs of the financial crisis that gripped the global credit markets last fall. While the collapse of Lehman Brothers, Merrill Lynch and Wachovia cascaded through the headlines in October of 2008, the first Wall Street titan fell in March of that year when Bear Stearns virtually dissolved in less than a week. There have been almost eighteen months of recriminations and hearings. The media was given a constant story for its 24-hour cycle that it could fit in around elections or celebrity Escalade accidents. At the start of what everyone hopes will be the year we feel economic recovery for real, what is the landscape of finance?

The answer depends on what facet of the industry you are looking at, what part of the country (or world) you are talking about, and even what kind of financial institution you mean. About the only common answer that might cover the whole industry is: more cautious.


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One of the things that we should have learned for certain as the events unfolded in 2008 was that the financial industry has become incredibly interrelated. The most commonly cited culprit of this financial debacle was the sub-prime residential mortgage market. *BreakingGround* examined the problem's potential in May 2007 and concluded that it involved a small piece of the big picture and (probably) wouldn't spread. Wall Street's involvement wasn't known at the time and we subsequently discovered how delicately the global financial system was balanced.

The other lesson that would benefit the business community is that the root cause of the problems wasn't very hard to find. It was simply bad risk management. James Fuchs and Timothy Bosch of the Federal Reserve Bank of St. Louis recently put together a white paper entitled "Why Are Banks Failing?" Their conclusion was that, although today's challenges are extraordinary, the four underlying reasons for bank failures aren't. Their paper cites:

1. An imbalance of risk versus return
2. Failure to diversify
3. Offering products and services that management doesn't fully understand
4. Poor management of risks

Fuchs and Bosch made the point that the excessive executive compensation, 'too big to fail' banks, derivatives and credit default swaps all made for great media fodder to fire up the emotions of the viewer/reader, but that the breakdown in systemic risk management was the real culprit.

The Status

As 2010 begins, what difficulties exist in the financial industry are more resultant from the general economic recession than remaining fallout of the mortgage crisis. Residential mortgage issues still exist, but the lion's share of the 'toxic' mortgages have been dealt with (although most have not yet been disposed of completely – a potential headache). All is not rosy in the residential mortgage business, however, as unemployment has created its own wave of homeowners falling behind or defaulting on conventional mortgages.

Lenders have returned to a more normal status in originating residential mortgages. The Federal Reserve Bank's extreme rate cutting has opened margin spreads wide for lenders, who can get as much as a 400 basis point spread between overnight bank-to-bank rates and 30-year interest rates. Even at those spreads, the rates to borrowers fell low enough to trigger an onslaught of refinancing during the past year. The refinancing probably saved a portion of the homeowners from problems, and it created another source of fee income for lenders.

For residential borrowers, the new reality reflects the bad decision-making that created the problem, but that's a good thing. Loan-to-value ratios are back to historical norms, appraisals reflect current values rather than hoped for values, and full documentation is standard (although amazingly not universal even today).

Like a deer in an anaconda, the progress of the financial problems has been easy to track. What started as a consumer problem has now moved into commercial finance.

Some of the commercial finance issues do stem directly from the residential mortgage meltdown.

While we tend to segregate the asset classes in construction, residential and commercial lenders and investors are often the same institutions. In normal times both classes of real estate offer their own strengths, appealing to slightly different levels of risk tolerance; and investing in both classes offers some diversification within the real estate category of a portfolio. So some of the extreme indigestion of the residential bellyache remains for commercial financiers.

Portions of the commercial finance problems are also regional and correlate pretty directly to the areas hardest hit by the mortgage crisis. Central Florida, Las Vegas, southern California, and some of the big southern financial centers, like Charlotte and Atlanta, have experienced commercial vacancy spikes since early 2008 (or before) and lenders in these regions have been dealing with loan defaults ahead of the recession.

For the most part, however, the problems for commercial finance come from the performance deterioration of the commercial asset class that is typical of this stage of the business cycle. Declining consumer demand distresses retail fairly early in a recession, and the downstream effects – lower warehouse capacity utilization, rising unemployment, bankruptcies – all contribute to cyclically declining occupancy in office buildings, shopping centers and industrial parks. The market response to those recession-driven conditions has been fairly predictable. The appetite for commercial property has declined, reducing transactions; cash flow has declined, reducing commercial property values significantly, more than 40% by many estimates.

What is less normal for this stage of the cycle is that the lenders are either more sensitive because of the turmoil of 2008 or they have had their liquidity or working capital (or both) eroded because of the crisis.

During the worst of the panic, the financial institutions were hit with the full spectrum of problems that can negatively impact a bank's ability to function. Directly related to the rise in bad mortgages, many institutions were forced to increase their reserves for bad loans, thereby cutting the capital they could leverage for lending. In the worst cases, banks found themselves virtually without capital to leverage. Publicly traded companies faced selloffs of their stock, again deleveraging their working capital. In these worst cases, like Merrill or Washington Mutual, companies lost almost all of their working capital in days. For many institutions, the crisis resulted in record redemption requests, either to meet obligations or in response to the panic itself. Lehman Brothers was the worst case of these 'runs' but many financial institutions that were not about to collapse had their ability to operate drastically impaired by pulled deposits or money market redemptions.

What each of these, and several other, scenarios did to the institutions was to limit the amount of capital available to be used for loans.

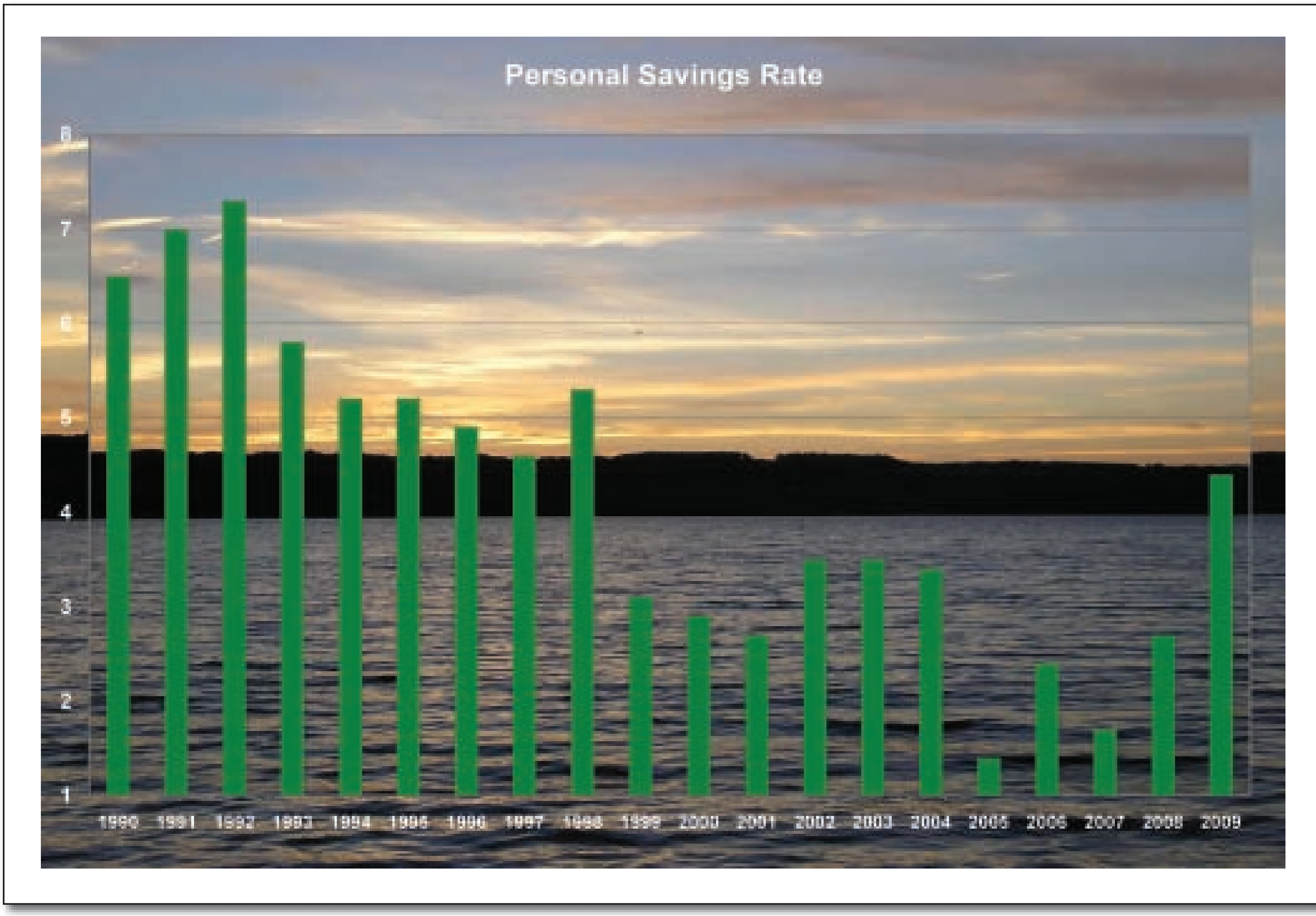
The nation's largest bankers were taken to task by President Obama on December 14 for not making an 'extraordinary commitment …to help rebuild the economy." He was admonishing banks for not doing more lending since the government took a variety of extraordinary measures to keep a number of banks and financial institutions solvent in the fall of 2008. While this is the kind of speech that makes presidents popular with the middle class, it does little to address the reality of banking today.

Irrespective of lender attitudes, the demand for loans is off as much as the desire to lend. Recessions have a way of draining loan demand. The statistics express what you would expect from the economy right now, and they indicate that borrowers are doing what they need to do to recover. According to the Federal Reserve, borrowing declined eight percent in 2009, still totaling $6.7 trillion. Businesses and consumers showed that they understood how to reverse the damage caused by too much credit, by not borrowing more. The FDIC announced in mid-December that it expected $6 trillion in untapped lines of credit in 2009, and the consumer was even more reactionary, increasing its savings rate from virtually zero to 4.4% of disposable income by year's end.

Lenders are still in a mode of rebuilding capital and strengthening their balance sheets. That means not making more bad loans that drain reserves further, and it means adding revenues and using reserves as investments to grow capital. You can think of the early part of this year as the convalescence period for the financial industry, and the current time as the rehabilitation. The patient may have survived the operation, but he's not ready to suit up just yet.

SOME OF THE COMMERCIAL FINANCE ISSUES DO STEM DIRECTLY FROM THE RESIDENTIAL MORTGAGE MELTDOWN.

The good news is that earnings growth for financial institutions won't get back to normal until they start lending and collecting interest (or selling loans) again. For the time being, at least, normal is starting to return, with conditions of course.



Personal savings reversed a four-year trend in 2009, climbing to 1997 levels (Source Bureau of Economic Analysis, Revised December 22, 2009)

The Future Isn't What it Used to Be

Late 2009 saw a number of indicators that credit was beginning to loosen. The sources of the capital weren't relaxing their standards for lending, and the line of borrowers was still short, but on a number of fronts the appetite for debt was returning slowly. And moreover, there were indications that our region was going to benefit more than others.

In the latter part of the fall, some of the more conservative sources of capital, the life insurance companies, began to look for opportunities.

"We got a call out of the blue from one of our better sources of capital, Sun Life, that they were looking for deals," says Grandbridge Capital's Dan Puntil. "They said they had a chunk of money available to lend and wanted us to help them find deals with our better clients." Puntil said it was clear they meant the kinds of developers that had always made their payments, and that the terms would be no better than 75% loan-to-value (LTV) for the best credit, yet he was very encouraged. "Sun Life is a big player who had been out of the game, so it's a positive sign that they are calling us."

Other brokers have reported getting inquiries from Northwestern and Nationwide, two insurance giants that had been skittish about real estate lending. All indications are that capital sources were placing Pittsburgh among their first markets to reinvest.

Another landmark event in mid-November was the sale of $400 million in commercial mortgage-backed securities by Developers Diversified Realty. While the sales had no direct impact on Western PA, there were several key aspects to the issue that indicate another open channel to commercial real estate finance in general. The sale was the first CMBS issue done since June 2008. The AAA-rated five-year bonds were oversubscribed overnight prior to the date of issue, and at a risk premium that was well below what was initially offered, ending at 140 basis points above the five-year rate swap. DDR's issuance were the first commercial bonds under the government's Term Asset-backed Securities Loan Facility (TALF) and was done with 28 retail properties as collateral. Experts pointed to the reassurance of the TALF program, but also felt that the tight spreads were an indication of a returning appetite for the asset class, if the deals are clearly and simply structured.

"It's hard to say whether or not the CMBS market is going to return in 2010," says Holliday Fenoglio Fowler executive managing director John Pelusi. "At the end of 2009 there will have been three issues, including DDR's, for a total of less than $1.5 billion. Compared to normal volumes, like in 2003 when there were $50 to $100 billion issued, there is still no market." Pelusi noted that regulations were pending that would impact the organization and structure of mortgage-backed securities and that the uncertainty would probably tamp down volume.

Bill Hunt, president of Elmhurst Group, has seen further evidence of the thawing in the fourth quarter, but also sees being anchored in Pittsburgh as a double-edged sword.

"We were able to refinance a conduit loan that was due in January. That would have been very difficult to do reasonably if it had been three or four months earlier," he says. "The LTV was lower than I'd like but it was doable. One of the advantages of being in Pittsburgh is that there are smaller regional lenders who recognize higher quality projects and good credit customers." At the same time he believes the steady nature of the Pittsburgh market works against borrowers when appraisals are done. "We're getting penalized by appraisers in both directions. When the national market was going crazy our appraisals weren't going up as fast because the appraisers were saying, 'Well this is Pittsburgh,' but now that property values are down everywhere else we're getting lower appraisals, even though the property values haven't declined."

Hunt sees the lower appraisals and conservative loan-to-value ratios as part of the landscape for the near term, as lenders employ a variety of tools to limit their risk. "If the LTV is 75% but the appraisal is lower than it should be, you effectively reduce the LTV. Lenders are looking for higher cap rates, higher reserves, all these incremental things that have a significant impact on the loan."

$$\text{Cap rate} = \frac{\text{Net operating income}}{\text{Value}}$$

$$\text{Value} = \frac{\text{Net operating income}}{\text{Cap rate}}$$

Cap (short for capitalization) rates are the real estate equivalent of price to earnings (P/E) ratios with stocks. Like P/E the cap rate is a mathematical formula intended to give some predictability and consistency in valuing property. The problem is that in times of unusual activity the cap rate gets skewed by the activity.

The calculation is that the cap rate equals the net operating income of a property divided by its value. A $10 million dollar building with a $1 million dollar net income has a cap rate of 10%. This is a rate that is on the high side of normal. During periods of rapid appreciation the cap rate will decrease. This is called cap rate compression, and it's not always a good thing. The cause of the cap rate compression that occurred prior to the real estate bubble popping was primarily the oversupply of buyers because of easy credit, a significant shift in investment towards the real estate asset class, and to an extent business conditions that did not support equivalent increases in rental income.

Before the party ended for commercial real estate, cap rates around 7% weren't hard to find. Lenders use cap rates as another valuation method, sort of a litmus test for the appraisal, by applying an assumed cap rate over time to the income expected, to arrive at a value or price to pay for the property. It really is a matter of changing the equation (this is where that 8th grade Algebra comes in handy) so that value equals net operating income divided by the cap rate. In real life it's not the math that's the problem; it's when the lender's cap rate assumption changes that the problem occurs.

In today's market the lenders are assuming cap rate decompression and with tight credit the borrower is going to have to live with those assumptions. In the example above, if the developer of the $10 million building built during those 7% cap rate days, he might expect to refinance it based on a value of over $14 million ($1 million income divided by 7%). The developer can probably expect the lender in 2010 to be thinking 10% cap rates. The difference on a 75% LTV refinance would be a cool $3.2 million, roughly 30% less than the developer was expecting.

The Future, Until it Changes

Two trends are emerging from the ashes of the flameout of the financial markets that bear a bit of examination. One has troubling prospects and the other is a more encouraging trend.

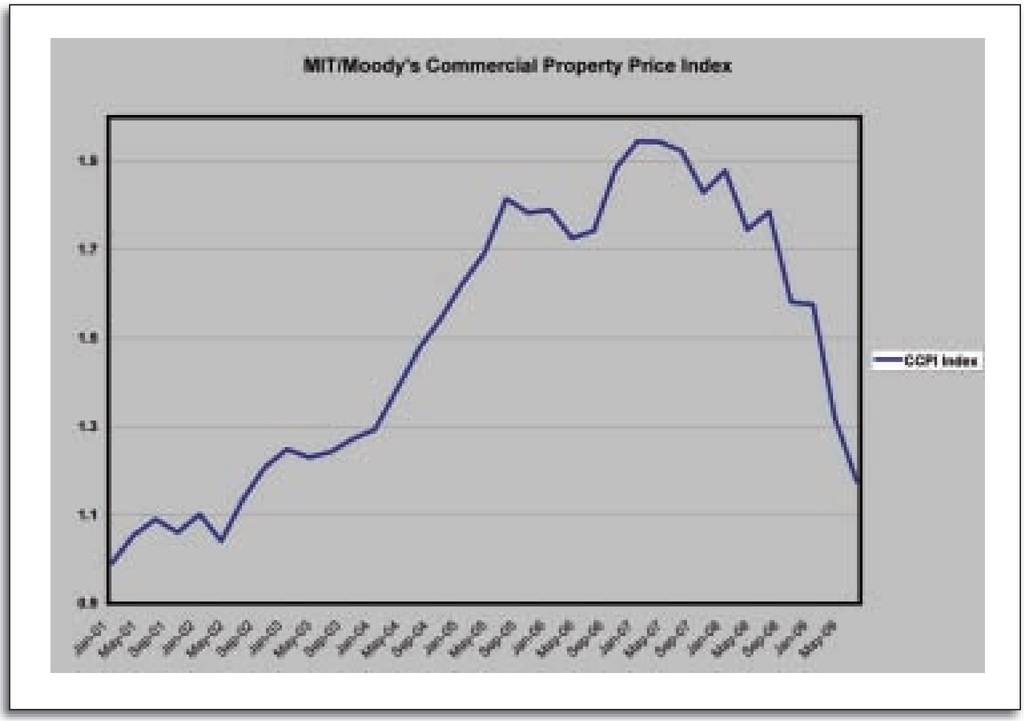
The more troubling and inevitable trend that will emerge is for increased regulation of banks and financial institutions. In the immediate aftermath of the panic last fall, Congress reacted predictably by conducting hearings into who should be blamed. Aside from the political posturing the hearings set the stage for the oversight of the financial industry that is in the works. Federal Reserve Banks around the country have been given previews of the regulations during the fall, and what has been presented is not popular with the bankers.

... ESTABLISHING WHO WILL BE THE ULTIMATE REGULATOR ...

As of the first of the year, no regulatory changes have been approved or even released but the concepts proposed are likely to be aimed at several key areas: establishing who will be the ultimate regulator, redefining banks and separating what each class of bank can do, protecting banks from themselves by regulating lending, and protecting consumers from what are viewed by regulators as unfair banking practices.

The latter is the most political of the three. The opponents of these regulations, like the Overdraft Protection Act and the proposed Consumer Financial Protection Agency tend to be community banks. Governance of consumer banking protection, in whatever form it takes, will likely fall to the banks to implement and many will simply reduce services to avoid the unproductive use of resources to manage the new regulations. Banks may take the lead on some of the issues, like excessive overdraft or bank service fees, by making changes on their own as a compromise.

The trend for commercial property pricing since 2001.
Data source MIT Center for Real Estate Research (http://mit.edu/cre)



The bigger battlefield will be the regulations that attempt to reinstitute the separation of commercial banks from investment banks, as the Glass Steagall Act had formerly done. It will be difficult for the financial institutions to make a case that the involvement of Wall Street in the domain of commercial banks didn't magnify the mortgage problems of 2008 into the global panic of 2008. This is a battle the government is likely to win.

It's the regulation that will intend to keep banks from getting into another mess that has the biggest potential for harming the economy. Regulation of the lending operations, however well intentioned, will probably focus on limiting lenders from deviating from underwriting standards, decreasing the leverage that can be applied to assets of the financial institutions, and increasing reserves against bad loans.

Regardless of the philosophical merits of government intervening in banking or protecting citizens from abuses or simply exacting a toll as a response to the Treasury Department bailouts of 2008, the net result of new regulation is certain to be a short-term pinching off of credit. If the U. S. economy is actually in the first quarters of a recovery, these new regulations will kick in during the second half of 2010, right when growth will need more credit.

The more positive long-term real estate trend that seems to be underway is the reset of commercial property values to allow for the re-inflation of another real estate bubble. While most observers seem to be warning against getting sucked into another bubble, Dr. David Geltner, director of Massachusetts Institute of Technology's commercial real estate research lab, believes that is what will happen next naturally.

"Our Commercial Property Price Index (CPPI) is down 41% so far [as of November 5] but sales volume was up for two consecutive quarters. In fact, the CPPI fell 18% in the second quarter at the same time transactions were up 2%," Geltner explained. "That's very interesting – I feel the price decline drove the volume increase. I expect CPPI to continue to decline at a much smaller rate right into the first quarter of 2010. At the same time I believe we'll see a return to historically normal transaction levels in 2010." MIT tracks the price performance of what it considers healthy versus distressed properties. Geltner noted that healthy properties

... IS SUBJECT TO LONG GROWTH CYCLES OF 15-20 YEARS ...

experienced a 33% decline, while distressed properties declined 56%. He believes this divergence will lead to a 'negative bubble', which creates opportunities for supernormal returns for buyers. Geltner attributes the low spring 2009 transaction levels (which were 10% of the peak volume and 20% of normal volume) to bargain hunters allowing the negative bubble to expand.

"The real estate asset class is subject to long growth cycles of 15-20 years, which seem to naturally create bubbles," he says. "Commercial property values crashed in the 1970's and then again in the 1990's. Transaction volume returns to normal after a couple years, and the markets always return to excessive pricing about ten to twelve years after the trough. So I would expect to see another peak in about 2020."

That sounds like the first sell signal of 2018, or at least the first prediction of the financial crisis of 2020. BG

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MT. LEBANON BRANCH

Northwest Savings Bank understands the concept of 'location, location, location' in real estate. When the company absorbed a handful of Bell Federal Savings locations a few years back, Northwest was pleased to take over a branch at the corner of Cochran Road and Cedar Boulevard in Mt. Lebanon, even if the new building didn't quite meet all its operating needs.

The branch, which was an interesting 1970's style designed by George Commanderos, put Northwest on a heavily traveled road surrounded by fairly dense residential neighborhoods, but the quirks of the building limited the bank. "The total footprint of the main floor was only 1,700 square feet," explains Dennis Lowery of Northwest Savings. "The additional space was in the basement. The size and the location on the site limited the amount of space for offices, teller, and drive-through compared to our normal standards."

So the bank kept an eye out for an opportunity to move up. "Last year we started hearing quiet talk that Skidgy's restaurant was closing and interested in selling," says Lowery. "The site was on a corner just a couple blocks away. We had a good customer base in that neighborhood. We liked the building's character and size. Once we started looking at it closer it made more sense to convert the building than to tear it down and build new on that site."

Skidgy's had been a neighborhood fixture on Cochran Road since 1989, but many South Hills residents remember the building as home to Friendly's for decades before that. As home to two restaurants the building needed a lot of adaptation to assume its new identity.

After four decades as a restaurant the building's exterior was worn out. Acid washing brought the whitewashed brick back to a Colonial appearance.

Northwest Savings had worked with architect Rick Avon of Lami Grubb Architects during the construction phase of the bank's McKnight Road conversion. Avon was brought in to assess the building and begin designing the project in late 2008. "The building itself was going to work well as a bank," he says. "But there wasn't going to be much of it that didn't need attention."

Lowery liked the fact that the finished product would blend in with the neighborhood. "So much of Mt. Lebanon is brick and stone. When it was completed, this branch was going to look like it belonged, like it had been in the community for a while."

The plan was to gut the whole interior and rebuild it as a bank, of course. In addition to the cosmetics, the building's mechanical systems needed to be replaced, and new security and banking specialties were to be installed. The decision was made to address the building envelope as well. Windows, doors, roof, gutters and downspouts all had to be replaced. One of the architectural details from the Friendly's era was a cupola that had fallen into disrepair. To maintain the continuity, Northwest decided to replace it with a new cupola. Also, a faded white paint job on the exterior brick had to be acid washed off. Perhaps the biggest undertaking was to repurpose the site to handle the addition of drive-up lanes, which meant changing the site's grading, landscaping and allowing for Mt. Lebanon's parking and traffic requirements.

"The original design had to be re-done to adjust to the code requirements for stacking cars in a drive-through," says Lowery. "That meant a significant change to how and where the drive-through was going to connect to the building, and the traffic and parking. The architect overcame that with some clever design changes."

Bids were taken on the project in February of this year. Bridgeville contractor John Deklewa & Sons was the successful bidder on the job. Since Northwest Savings had not done much construction in metropolitan Pittsburgh it had little or no experience with local contractors, so it was helpful that Rick Avon had worked with Deklewa on a couple of projects before, including a design/build project for the Army Reserve. Those experiences, combined with the access to the building he had during design, gave Rick Avon confidence that the project team wouldn't have many surprises.

"Between the owner, contractor and myself, we had a good feeling from the very first day that we had an opportunity to give Northwest a real winner on this project," remembers Avon. "Besides bringing back a tired building we were adding a lot of little touches to the landscape that the neighborhood was going to appreciate."

That confidence didn't mean that there weren't a few surprises, including an unexpected leftover.

"I guess Skiddgy's must have closed in a hurry because we found racks with loaves of bread still on them when we started the demo," laughs Deklewa project manager Tim Fryer. "There are always things that you find once you open up an existing building. There was water damage to the ceilings in the mezzanine, and we found a partial footer and foundation wall underneath the middle of the floor when we cut out the slab."

The plans for the new teller line meant demolishing a bearing wall. To manage that Deklewa had to dig and pour footers in the interior to support structural steel, which would bear the weight of the roof above. This aspect of the project made the biggest change in the appearance of the design. The demolished bearing wall had

For his part Dennis Lowery was equally happy with the process and the team, particularly since Northwest had invited local contractors to bid the project, almost all of who had not worked for the bank previously. "We had never dealt with Deklewa before but we were very pleased with their management of the project. They got it completed on budget and on time," he says. "And we were very pleased with the level of their craftsmanship."

The new teller line was placed where a bearing wall was located in Skidgy's. The completed space completely hides the structural fix.

been used to separate the customers from the kitchen in the restaurant; but in its place would be the teller line, one of the key places where Northwest's customers interacted with the bank.

Construction on the Mt. Lebanon branch started in mid-March 2009, with a mid-October opening planned. Work moved along briskly from the start, however, and the project was turned over on September 11, a month earlier than planned. Much of the work was done by Deklewa's forces or its design/build subs, but doing a bank project meant working with a specialty subcontractor like Diebold, who was responsible for pneumatic tubes, ATM, drive-through and bank specialties that required them to have access inside and outside the building.

"We all worked together very well to coordinate a job that had a lot of moving parts, doing interior and exterior work at the same time," say Fryer. "The subs really delivered on the schedule. It also helps to work with an owner that knows what he wants. Dennis Lowery knows what he's doing – he grew up in his dad's architectural office – and he's not afraid to tell you if he doesn't like what he sees."

Rick Avon echoes Fryer's sentiment. "A lot of clients seem to be focused on getting the most, the biggest bang for their buck. Dennis made choices based on his experience, not just the cost. He doesn't like to do something twice, so when we opened up the building he wanted to deal with every issue that might arise down the road."

The finished product is a colonial brick bank with a new landscaping plan that brings a Mt. Lebanon landmark corner new life. The corner location allows Northwest's customers to get convenient access from Lansdale Place, without jumping into the Cochran Road traffic. "Everyone in Mt. Lebanon seems to know a back way around without ever using Washington or Cochran Road," says Lowery. "Our customers find it much more convenient now that we are on a corner."

The bank's corner location turned out to be a convenience for its contractor as well.

"You can't believe the number of calls we got from having our job sign out on that corner," recalls Fryer. "People thought we were moving. We got calls from some of our subs that weren't on this project. I bet we got four or five calls per week. It was a little inconvenient but that corner gave us great exposure." BG

Regional Industrial Development Corporation

One of the byproducts of the first Pittsburgh 'renaissance' was the incorporation of a regional non-profit development company that could meet the unfilled demand for office and industrial parks that was frustrating the Southwestern Pennsylvania Regional Commission and the Allegheny Conference on Economic Development. More than fifty years later the company, best known by its acronym RIDC, appointed a new president who was willing to ask some uncomfortable questions.

"My first job was to create a new strategic plan that answered the questions of what the RIDC's mission is today," says Dr. Donald J. Smith Jr., who became the RIDC's fifth president in January 2009. "We needed to examine our whole portfolio and ask if each property was a good fit for our mission. I also felt we needed to ask if there was still a need for the RIDC."

Don Smith is quick to joke that he knows a number of regional developers who might answer no to that question, but says that the mission of the RIDC still has plenty of life, even if the mission has morphed over time.

"The landscape of development is completely different now than in the mid-1950's," he explains. "We have plenty of local developers with a great deal of sophistication to meet the demand for new construction of office and industrial properties, but there are still a lot of properties that are strategic to the region but risk/reward dynamics aren't attractive to a for profit developer. There is still a role for an entity that can take on projects with lower returns, which require a longer horizon for development."

RIDC president Donald Smith Jr. PhD

The RIDC was founded in August 1955 with the aim of enabling industrial development and job creation. Through its first four years the corporation followed the direction of promoting the region and trying to find an identity or mission. In May of 1959 the board of directors mothballed the RIDC with the intention of reorganizing with more specific plans.

In January 1962 the board reorganized the RIDC to create the business parks that the SPRC and the Allegheny Conference felt were needed to rejuvenate the region's economy. Robert H. Ryan was named the president of the new RIDC. The steel industry was more than capable of driving the local economy but the economic development agencies had a vision of a regional economy less dependent on steel (and less vulnerable to its cycles). Both agencies found their attempts to attract new businesses to the region floundered as much because the region did not have the office/industrial product that other cities had. Many of these cities were in the south and west, and were emerging from an agricultural based economy. Land and incentives were plentiful there. In the older industrial cities, such real estate products were less common. Without demand, the few local developers didn't try to create inventory and had little experience to draw upon to create business parks.

RIDC began putting the new mission into action the following year, acquiring 700 acres of the Allegheny County Workhouse and Inebriation Asylum, a work farm in the county's justice system, in O'Hara Township. The goal was to invest $40 million to create 5,000 jobs over ten years. With access to PA Industrial Development Authority (PIDA) loans and state grants, the RIDC built the infrastructure and started the first building, for Globe Ticket Co., in 1965. Within five years the RIDC had disbursed $7 million for development in the RIDC Industrial Park; another $21 million in PIDA loans had been made to businesses locating there and 300 acres had been taken down, creating 4,000 jobs. By 1980, the park included 107 buildings that were home to 11,000 jobs.

The first twenty years of the reorganized RIDC of Southwestern PA saw accelerated growth in pursuing its mission. In 1968 the agreements were signed with the county to acquire the Thorn Hill Youth Development Center's 1,400 acres for the development of the Thorn Hill Industrial Park, which welcomed its first building in 1971 when the USPS Bulk Mail Facility was built. And in 1976, RIDC acquired 340 acres in Findlay Township from Westinghouse to create the RIDC Park West, which was established as a foreign trade zone. By 1980 the first three buildings were underway there.

RIDC was initially funded through a combination of foundation grants, private donations and government sources. Through the successful development of its industrial parks, it was able to plow excess revenues over expenses, what would have been profits, into further developments.

The Industry Center of McKeesport lies between the Fifth Avenue corridor and the Youghiogheny River on the site of the former USSteel plant.

By the time Frank Brooks Robinson Sr. became RIDC's president in 1981, the regional economic landscape had shifted radically. While development of the three industrial parks would continue, along with a handful of individual projects, the RIDC began to shift its mission to align with new regional needs.

"The dislocation of heavy industry became the region's number one issue in the late 1970's and 1980's," says Don Smith. "Beyond the loss of jobs the abandoned sites were very difficult to deal with. They had bad environmental problems, bad buildings and the towns the plants were in simply had no money to fix the problems. RIDC saw an opportunity to take on projects that for-profit developers couldn't, and take a long-term approach even though that was less lucrative."

Beginning in the mid-1980's the RIDC made agreements to acquire former industrial sites in McKeesport, Duquesne and the former Westinghouse Electric facilities in Turtle Creek. The latter became the property known now as Keystone Commons. Acquired in 1989, the existing facilities encompassed 4.2 million square feet on 91 acres. After redevelopment of roughly half the space, Keystone Commons became the largest industrial re-use site in Pennsylvania history, with 2.2 million square feet under roof accounting for over 1,000 jobs.

These projects fit what Don Smith sees as the 'go to' nature of the RIDC, a quality he jokingly says makes them the 'developer of last resort.' "Although it's a private entity, the RIDC is public oriented in its response to regional needs," he says. "The redevelopment of those industrial sites and brownfields was a huge need that the private sector just couldn't make economic sense of and turn a reasonable profit. As a non-profit we have the luxury of putting public need first."

Smith explains that the public need is what led the RIDC into some uncharted waters, like the 117-unit Penn Garrison Apartment project downtown, and its long relationship with Carnegie Mellon University.

The original RIDC Industrial Park in O'Hara Township still contains roughly a dozen buildings owned by the RIDC.

"Universities don't want to be in the commercial real estate business. We can be the interface between them and the private companies who want to do technology transfer with the university research," he explains. When CMU wanted to create the Collaborative Innovation Center to leverage its cutting edge technology research, it was faced with development issues that were well beyond the realm of college facilities, and which would have stopped a for-profit developer in its tracks. "Because of the location on the side of a ravine the project was very difficult and expensive. To get the rent needed to justify the development costs would have made the building commercially untenable," Smith says. "But the public benefit – jobs and new technology – was as important as the private benefit of profitable development."

Smith is keenly aware too that the RIDC cannot behave as though its portfolio performance doesn't matter. His board expects the corporation to maintain a focus on keeping its expenses below revenues. Smith relishes the opportunity to take a hard look at the portfolio and to develop a correlating strategy that keeps the RIDC relevant.

Asked about the RIDC over the next ten years, Smith warms to the task.

"I think the RIDC's future is one that focuses more on partnerships. We now operate in an environment that has a strong development community but one that is tougher for financing, and we need to look at partnering with for-profit developers. Another of our imperatives as a non-profit is to be a better communicator to the municipalities, developers, tenants and the region as a whole."

His belief is that the new regional need is pretty clear. "In the next ten years we'll focus on technology because that's where the future of Pittsburgh's economy is," he says. "Pittsburgh today is a phenomenal success story, but not all the chapters have been written. RIDC will play a role in seeing the next chapters unfold."

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PENNSYLVANIA COURT RULES CONTRACTORS ENTITLED TO POST-JUDGEMENT COLLECTION FEES

By Ryan James, Esq.

In a court decision that will delight the construction industry, the Pennsylvania Superior Court recently held for the first time that contractors and subcontractors may recover the expenses incurred after a judgment against a developer or property owner.

In the case in question, Zimmerman v. Harrisburg Fudd I, L.P., 2009 Pa. Super 2002 (Oct. 19, 2009), a contractor sued the owner of a new restaurant who had not paid for construction work under the state contractor payment law. Even after the contractor won, the owner still did not pay. Only after incurring additional attorney fees and other costs was the contractor able to recover the amount of the award.

Resolving a question of first impression, and in the process assisting contractors and subcontractors in their efforts to recover for unpaid invoices, the Pennsylvania Superior Court held that a contractor who had obtained a judgment against a project owner under the Pennsylvania Contractor and Subcontractor Payment Act, 73 P.S. §§ 501-516 (the "Prompt Payment Act") was entitled to recover post-judgment expenses incurred in attempting to enforce and collect upon the entered judgment.

In the Zimmerman case, the contractor had initially obtained a stipulated judgment against the project owner under the Prompt Payment Act which consisted of the amount due and owing for completed floor and wall installation work at a restaurant building site, and pre-judgment statutory interest, penalties and attorneys' fees warranted by the Prompt Payment Act. The original amount owed by owner was $10,108.70 (the contract claim amount). The stipulated judgment, which included interest, penalties and attorneys' fees under the Prompt Payment Act, increased the amount owed to $21,673.99. The contractor executed on the judgment by garnishing the owner's bank account, which caused the owner to file a claim for an exemption from execution and to seek a stay of execution with the trial court.

The trial court denied the owner's requests for an exemption and a stay of execution, and the owner's bank paid the judgment amount to the contractor. The owner then filed an appeal. One year later, the Superior Court affirmed the trial court's order denying the requested exemption and stay.

Two months afterward, the contractor filed a motion with the trial court to recover the statutory 1% interest and penalty under the Prompt Payment Act for the period from the date the original judgment was entered to the date that the bank made the payment. The contractor also sought to recover the attorneys' fees and litigation costs that he incurred during post-judgment collection proceedings before the trial court and the Superior Court in which the owner challenged the judgment execution. The trial court denied the contractor's motion for additional costs, prompting his own appeal to the Superior Court.

On appeal, the Superior Court ruled that the trial court erred in denying the contractor's request for post-judgment statutory interest and penalties without first conducting a hearing to determine whether the owner withheld payment without good faith reason under Sections 506 and 512(a) of the Prompt Payment Act.

More importantly, the Superior Court also held that the trial court abused its discretion in refusing to award to the contractor his post-judgment attorneys' fees and costs incurred during the collection phase, including the two appellate proceedings. In so holding, the Court highlighted the mandatory language of Section 512(b) of the Prompt Payment Act, which provides that "the substantially prevailing party in any proceeding to recover any payment under this act shall be awarded a reasonable attorney fee in the amount to be determined by the court or arbitrator...." The Court found that this language encompassed the fees and expenses incurred by the contractor over the course of the two-and-a-half years after the trial court initially denied the owner's request for an exemption and a stay of execution through the contractor's appeal because they were incurred in "recovering any payment [due] under this act.' Therefore, not only was the contractor entitled to recover the fees and expenses incurred in connection with his collection efforts and the appeal commenced by the owner, but, the Superior Court concluded, the contractor was also entitled to recover the fees and expenses incurred to pursue his own appeal regarding fees and expenses.

The impetus behind the Court's decision was twofold. First, the Court emphasized that its holding was designed to comport with the underlying purpose of the Prompt Payment Act which is to protect contractors and subcontractors by establishing disincentives for owners to withhold payment, and to make unpaid contractors whole. Secondly, the Court stressed that to construe the attorney fee provisions of the Prompt Payment Act differently would result in contractors being required to exhaust any recovery under the statute on further litigation "necessitated by a defendant's obstructionist tactics."

According to the Court in Zimmerman, under the Prompt Payment Act, a substantially prevailing contractor or subcontractor is entitled to recover: (1) post-judgment statutory interest and penalties until a judgment under the statute is satisfied; and (2) attorneys' fees and costs incurred during the post-judgment collection phase, including trial court and related appellate court proceedings.

In the Zimmerman case the restaurant owner did not defend its non-payment by claims of incomplete or defective construction, nor did the defendant offer inability to pay as a reason for not fully complying with the decision of the courts. While it is impossible to decipher the motives of Harrisburg Fudd, its actions represent the kind of non-payment that is frustrating throughout the construction industry: an amount that is judged to be too small to chase. After the appeals and collection phase, Harrisburg Fudd owed $41,989.84, more than four times the original amount due and owing to the contractor. Zimmerman's tenacity was rewarded; however, without the Court's favorable judgment, the plaintiff's expenses to pursue the debt would have been almost $32,000 to recover just over $10,000. That's a risk/reward ratio most businesses would not accept.

As a result, although not providing a carte blanche for contractors to claim excessive attorneys' fees and expenses (they will only be awarded in an amount that is "reasonable" under Section 512(b) of the Prompt Payment Act), the Superior Court's holding in Zimmerman provides further incentive to unpaid contractors and subcontractors on small and medium-sized projects to pursue payment for completed work.

Ryan James is a partner in Meyer, Unkovic & Scott's construction practice. For more information regarding this decision, or other information concerning the firm's Construction Group, please contact Ryan at (412) 456-2873, or via email at rj@muslaw.com.

Management Perspective

Surety Market Update

In early fall 2009, the National Association of Surety Bond Producers (NASBP) held it national seminar in Washington DC and, as you might imagine, the mood was less than cheery.

The association released its mid-year and 2009 projected results, which showed a 28.9% loss ratio, more than double the loss ratio for 2008. Beyond the negative results, the prevailing feeling that losses will continue to mount throughout the coming year influenced the mood. After five straight years of significant profits the surety industry is bracing for a difficult year in 2010; and it's making the kinds of adjustments that usually accompany a recessionary cycle.

Surety company executives are concerned about the potential problems looming on the horizon, like a shortage of new profitable work, low backlog, shaky project financing, a conservative banking industry, and unresponsive contractor business strategies. Contractors who work to address these concerns will be best positioned to expand their surety programs in 2010.

> SURETY COMPANY EXECUTIVES ARE CONCERNED ABOUT THE POTENTIAL PROBLEMS LOOMING ON THE HORIZON...

A principle difference between today's market conditions and those of the last business cycle is the relative calm before the downturn. In the late 1990's the surety industry was marked by increased competitors, a surprising number of who took an aggressive approach to gaining market share as the growth period wound down in 2000. During that growth cycle contractors were offered bonding programs that often exceeded their historical capacity, and the financial strength of the contractors was overlooked in favor of taking share.

When the dot com bubble popped, setting off a string of economic problems that ultimately peaked around the time of the September 11th attacks, surety losses were at record high levels of almost 83%. One positive result of that time was that underwriting common sense stayed in control of things as the latest bubble expanded, and the response to the declining economy may be more measured, particularly in Western PA.

"Zurich's underwriting standards have remained consistent over the years, so customers have a better understanding of what to expect in terms of surety capacity," says Regis McKaveney, who leads underwriting in Zurich NA's Pittsburgh office.

Kevin Waldron, a vice president and the director of construction for Chubb Surety, echoes that feeling. "We have no plans to change our underwriting approach throughout the cycle, whether it's a soft or hard market. Our customers look to us for stable, consistent and predictable capacity."

Even though most surety companies would agree that their underwriting didn't loosen as it did in the late 1990's, few would argue that the current recession isn't going to bring about some changes in how they view their customer's programs.

"We saw some tightening already in the fourth quarter of 2009 as the sureties started to see some red ink," observes Jim Bly, vice president at insurance broker Marsh. "There will certainly be some belt tightening by underwriting. I think that means more qualifications and requirements for the insured. This kind of environment brings more requirements for leaving liquidity in the company and a greater focus on the company's bank debt and more personal guarantees from the business owners."

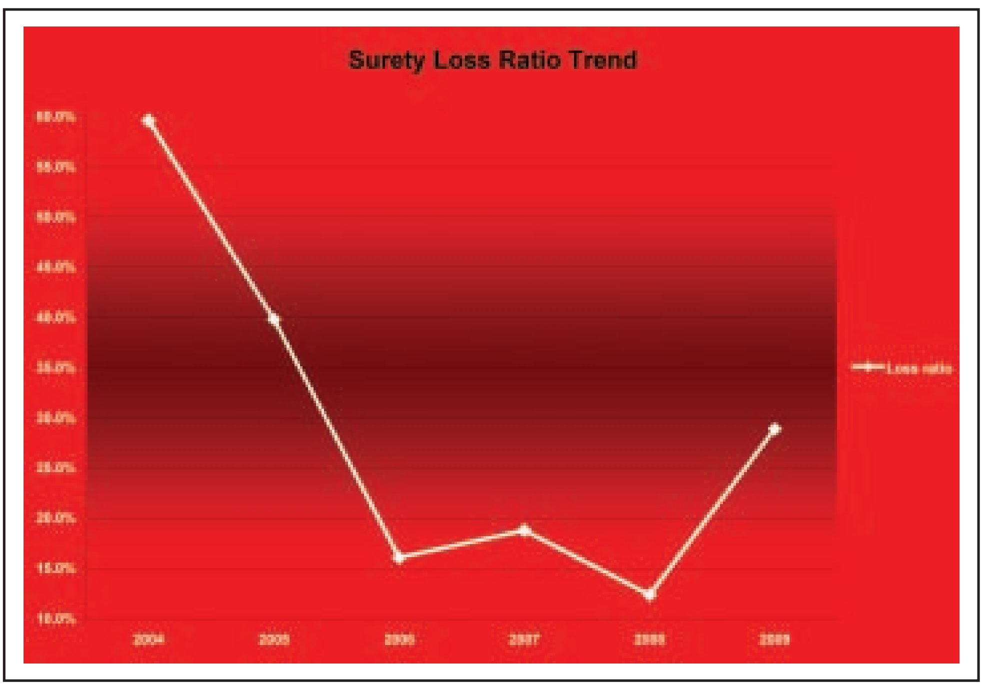
Of course, the surety industry is built upon risk management. At risk on each and every project for which it insures successful completion is the ability of all parties to perform. While contractors can suffer lapses in technical competence, the mother's milk of performance is profitability. And it is profit that suffers in a recession.

Nick Tropiani of HDH Group says shrinking profits are his company's highest priority concern in a down market. "We're probably most sensitive to our contractors' ability to get profitable work and to maintain profitability on jobs they have," he says. "Once the profits shrink or disappear it affects all aspects of the contractor's business. Their clients will pay more slowly and there aren't profits to cover the slowdown. The big problem then becomes cash flow."

Tropiani sees the current environment as ripe for what can be the 'perfect storm' of bad cash flow. If cash flow slows, the banking industry isn't in a position to extend as much credit and contractors will discover they have a limited ability to finance all their projects.

One seemingly unavoidable result of the slower economy is slower pay, which starts the strain on cash flow, and ultimately a tough market tends to increase the chance that a 'slow pay' account will become a 'no pay' account. Contractors, understandably, will tend to keep the slow paying accounts on the books for longer periods, and human nature kicks in, making it difficult for many business owners to write off a debt which still has a glimmer of hope. In those kinds of situations the surety company will be more proactive in 2010.

"We'll look at assets that are questionable, like very old receivables, and remove them from the equation in working up a debt-to-equity ratio," explains Regis McKaveney. "Accounts receivable may be discounted or removed in this kind of market to see what the ratio is like without them. We want to see more cash than credit, rapid receivable turnover, no extremes in overbilling or under billing, all signs that a contractor has been proactive in strengthening his balance sheet."



2009 marked the reversal in a five-year trend of lower loss ratios for the issuers of construction bonds. (Source NASBP)

For most contractors, the change they are likely to feel most in 2010 is the increased reporting and oversight. This is where strategies for coping with a recession are expected to show up. Surety companies will look to see measures taken to increase the amount of cash in the business (or see more put back in), and to see that a higher percentage of the business's profits are being used to pay down debt, especially if there are lower margins on the work to justify paying interest.

Reporting will be more frequent and the surety company will be more likely to require audited statements.

"Our expectation for any account is an annual review, which involves a personal meeting and open communication, and obviously our preference is for an audit with supporting schedules," says Kevin Waldron. "For customers where we have larger exposures we will want to meet more frequently than that." Waldron clarified that more exposure may mean either higher capacity or simply more risk in a customer's business.

Most observers expect to see more conservative ratios in 2010. "For a general contractor the benchmark is a five percent working capital position for the total work to be completed – the backlog – but that will probably rise to seven-and-a-half percent," predicts Jim Bly. "For specialty trade contractors the standard is higher because of the higher risk of labor overruns and variable profits. Their ratios may go to ten percent this year"

In addition to tighter scrutiny of financial results, the surety companies have higher expectations of their customers for developing strategies to ride out the recession. They will want to see realistic plans, strategies that anticipate a "U" shape recession that may cause break-even results for a couple of years. And they will want to see a strategy that reduces unnecessary risk, and overhead, to a bare minimum.

"Contractors are naturally optimistic so they are apt to wait a little longer before they pull the trigger on cutting back staff," explains Jay Black, managing partner of surety at agency Seubert & Associates. "It is especially difficult when it involves crews that have been with the company a long time. A lot of employers are still feeling bad about their 401-K's becoming 201-K's last year."

Black sees the surety company dampening that natural optimism when it comes to evaluating what to bid during the short term. The predominant tendency among contractors is to err on the side of volume rather than profitability, feeling more comfortable with normal backlogs, even when the competitive environment dictates getting the work on very thin margins. The dangerous thinking in this kind of market is that the profit can be found somewhere later in the job, or worse, on the next job.

"There are going to be contractors who honestly believe that everything will be OK if they can just get that next big job that's out to bid," says Nick Tropiani. "But I expect to see the sureties run from that way of thinking, and they should."

It's important to remember that the driving force behind this additional caution in the surety industry is the rising losses. While the insurance side of the transaction is looking to tighten up controls to prevent contractors from being their own worst enemies, the reality is that some portion of the increased losses stems from the surety industry extending its standards too far, even if the business didn't get carried away.

"I wouldn't discourage a contractor from having a relationship with a backup surety, in case their capacity decreases because the surety isn't doing well," says Tropiani.

"There are really only four things we can do to grab more share: we can offer more capacity; we can reduce or release personal indemnity; we can lower rate; or we can relax the financial reporting requirements," notes Jim Bly. "Some of the companies took a more aggressive stance than others and so their losses will be worse. Contractors should ask the surety about its performance too. A company that isn't performing well could limit the contractor's performance, even if the contractor is doing OK." BG

> FOR MOST CONTRACTORS, THE CHANGE THEY ARE LIKELY TO FEEL MOST IN 2010 IS THE INCREASED REPORTING AND OVERSIGHT.

MBE/WBE Company Spotlight

DeConstruction King


Owners Barbara and James (Rev) King Jr. of DeConstruction King

ENTREPRENEURS OFTEN TAKE INDIRECT ROUTES ON THEIR WAY TO SELF-EMPLOYMENT, BUT NOT MANY BUSINESS OWNERS NAVIGATE FROM ASBESTOS ABATEMENT TECH TO RESTAURATEUR, BAPTIST MINISTER AND FINALLY DEMOLITION CONTRACTOR. JAMES KING JR., BETTER KNOWN AS 'REV' IN THE INDUSTRY, TRAVELED THAT CIRCUITOUS PATH ON HIS WAY TO STARTING DECONSTRUCTION KING IN JANUARY 2007.

James and his wife Barbara operated the Centre Avenue Grille until the building's landlord became an obstacle to profitably continuing the business. At the same time, the pair were acting as part-time ministers for the Second Baptist Church in East Liverpool, OH. The three-hour round-trip commute for worship services and ministerial duties had become exhausting on top of the restaurant's hours, so James began to explore other opportunities.

The region's construction industry was in the middle of a five-year boom period at the time, and King believed there remained a lot of opportunities for minority businesses. He drew on a valuable lesson learned while working for an abatement contractor a few years before. "I remembered that no matter what projects I was on there were about five guys that seemed to be busting their backs on any given day," King recalls. "I remembered it was the same five guys always working hard, so I went about tracking down those guys."

'Rev.' King also had another valuable asset: his wife Barbara.

"Well, I seem to end up getting dragged into his ideas," laughs Barbara King. As James was working on setting up the operations of the business, Barbara, who is still a practicing nurse, went about establishing the administrative systems of the business. That included the daunting task of completing the MBE certification process. Rather than being frustrated by the paperwork, Barbara approached the process methodically, researching and completing the certification in less than a day, a feat that the commerce department staffer handling their certification had never seen.

DeConstruction King got off to an auspicious start, being in the right place at the right time when the Sports and Exhibition Authority (SEA) let the contract for demolishing the St. Francis Medical Center to make way for what is now the Consol Energy Center. As a startup, DeConstruction King was able to pursue the ten floor, 70,000 square foot project as a subcontractor for the interior demolition, and was successful as a sub to Empire Dismantling. The project led to further work around the project site, including a delicate demolition of the rectory at Epiphany Catholic Church on Washington Place, a project that caught the eye of local contractor Massaro Corporation.

"We cut the rectory in half and had to pull down the other half without doing any damage to some irreplaceable windows. Our crews pulled the whole project off in three days," recalls James King. "One of Massaro's superintendents saw how quickly we finished the work and called us to look at some of the selective demolition they were planning to do with their own labor." Massaro was able to expedite the project with DeConstruction King's handling the demolition, and has most recently used the firm to handle the demolition of the Kovalchick scrap yard in Indiana in preparation for the construction of the new convocation center at IUP.

Because more than half of DeConstruction King's work is selective interior demolition, James King adopted an approach that is reflective of the company's name, and has led to other business advantages.

"We call ourselves 'DeConstruction' because we do everything backwards from the way it was built, and I mean that in a good way," King explains. "This is a small business and it helps to salvage whatever we can from the demolition, so we do the job in steps from the finishes on and segregate the materials for scrap." The organized approach to the demolition makes working on green projects just business-as-usual, rather than requiring retraining for those kinds of projects.

... WE DO EVERYTHING BACKWARDS FROM THE WAY IT WAS BUILT...

In addition to the work for Massaro and the SEA, DeConstruction King has worked for the Housing Authority of the City of Pittsburgh, Mascaro Construction, and done several Pittsburgh Public Schools projects for Gurtner Contracting. That workload has allowed King to keep his crew of five laborers and one operator active, with about half his workload being interior demolition, one quarter being complete demolition and roughly one quarter in asbestos abatement. Like most newer business owners, James King has found the demands of running the field operations, finding time to estimate new work and wrestling with cash flow to be all that he bargained for. But the stress of managing the business hasn't diverted his focus from his top priority: job site safety.

"Construction as an industry has so many accidents that you have to pay attention to what's going on at the jobsite," says King. "General contractors have less tolerance with us if we aren't minding our business. There are just too many risks in the field to take chances with your crews, or your business." BG

Company Facts

DeConstruction King Inc.

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412-224-2220

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ADVANTAGE

Real Estate Receivership Services are Gaining Market Share

Within the universe of the projects developed are always properties that don't turn out as planned. Either through weakness in the developer or adverse market conditions, lenders are forced to examine some portion of their portfolio as underperforming and take steps to mitigate the losses associated with the property.

During normal conditions, or even the early stages of a 'routine' recession, the route often taken is foreclosure. Much like in a residential default situation, the value of the property in normal markets will offset the outstanding balance on a loan in peril. To the extent it comes up short, the write-off associated with liquidating the property during most market periods is small compared to the interest paid by performing loans in the portfolio. Besides, even at the beginning of a slowdown the routine provisions for bad loans taken by most lenders will cover their exposure.

The commercial real estate market at the beginning of 2010 bears no resemblance to normal times, however. To make matters worse, the pressure felt by banks and other lenders started with financial issues unrelated to tough commercial real estate conditions, so the capital reserves or balance of loans performing as expected aren't as adequate to cover the problems as in past cycles. There isn't as much money around to cover the shortfalls in so many bad properties.

As poor real estate performance collides with poor loan portfolios, the conditions become ripe for lenders to look to bankruptcy as an alternative to foreclosure. The rising bankruptcy rate has opened up another line of opportunities for real estate service companies.

The Great Recession's effect on commercial real estate has lagged the decline in other sectors of the economy, but now that the problems are hitting commercial properties the impact has been dramatic, with estimates of commercial property values declining between forty and fifty percent. Most of that decline occurred between the end of 2008 and the present. Such a precipitous decline had resulted in properties that are of much less value to the lender as is, and business conditions that have discouraged buyers. Foreclosure in this market is going to bring a lender greater loss to write down, and with many financial institutions already digesting significant write-downs of residential mortgages, a round of commercial foreclosures would cause severe financial indigestion.

The trend towards bankruptcy is a result of the need for more flexibility in disposing of the property. By wresting control of the property from the borrower, then placing the property in the hands of a receiver the lender is given more options and opportunity to recover the balance of a bad loan, or at least minimize the loss to the institution.

While this strategy makes sense financially, the reality is that few (if any) lenders have the wherewithal to assess the commercial viability of a building and then take the steps needed to add the value. That gap in capabilities has opened a door for real estate service businesses to become turnaround specialists.

Obviously, the first step in the process is for the property owner to recognize the situation as a receivership option, or for the lender to successfully petition a court to have the property turned over to a receiver to satisfy the loan default. It's the receiver, rather than the lender, who will have control over the distressed asset during the turnaround process, even though it will usually be using the lender's money to improve the property. For the service provider to be effective it will have to have the ability to judge the market potential of the property, and assess the likelihood of successfully improving the value enough to maximize the lender's recovery. The workout specialist will also have to be able to implement the plan to add the value.

Because of the nature of the relationship, the goal of all parties is to dispose of the property in the most desirable way possible and that may mean recognizing the futility of the situation and selling as is. In some of the truly desperate regional markets – Las Vegas, Phoenix/Scottsdale, central Florida – there is little enough demand that investing further is just good money after bad. But, more often than not a property that is a good candidate for receiv-

... IT'S THE RECEIVER, RATHER THAN THE LENDER, WHO WILL HAVE CONTROL OVER THE DISTRESSED ASSET DURING THE TURNAROUND PROCESS ...

ership will be an underperforming asset or incomplete project of a developer who can't justify further investment, or simply can't come up with the needed capital to proceed.

Once the property is put into receivership it's imperative to establish the true current value of the property. This task definitely requires an objective and dispassionate comparison of the property's position in the market. A 40,000 square foot office building that cost $8 million to build in 2006 with an outstanding loan of $7 million is going to be upside down in many regions right now. But the feasibility of investing more in marketing and improvements will depend on whether the asset's value has now fallen to $5 million, or if the value is at least in the ballpark of the outstanding balance on the lender's books.

Some of the most creative projects for companies to turnaround are buildings that have become distressed during construction. These projects offer the opportunity for full-service companies to complete construction or renovations, lease up the property to stabilize for sale.

The company that is the receiver has to act as superintendent, leasing agent, project manager, real estate lawyer and juggler to reenergize the project.

The project site and trailer has to be secured, right down to fencing off the site and locking down the job trailer. The job's original contractor and subcontractors are ideally going to be re-engaged but there is a lot of sifting through wreckage to determine what was done and paid for, and what still needed to be done. It takes an experienced project manager to understand the original scope of work for each contractor and then accurately compare that to the work left to complete, all without getting hoodwinked about the details or costs.

Another big headache is the negotiation through the payments made and outstanding. In many cases this kind of project will have been liened by a number of firms. Getting the contractors and suppliers paid for what was done is a first step towards getting them to complete the project for the original price. Here the diligence of this work will minimize or eliminate the lender's double payments, and help create an accurate trail back to the amounts disbursed to the developer/borrower, but not disbursed as intended.

Much of the other work is similar to the due diligence and entitlements the developer would have done prior to construction, but the receiver will need to see what was promised and delivered by the developer in terms of municipal issues and permits, insurance, easements or any covenants made with neighboring property owners. Any one of these, and others, may become obstacles to what the lender is ultimately looking for: making the title free and clear to convey.

At the same time the development issues are being resolved, the real estate issues will be dealt with. The receiver has to reach out early on to the prospective tenants to gauge their frame of mind about the project, to keep the lessees committed and assure them that the project will be completed as promised (even if it will never reach the original schedule). It's not unusual for tenants to get cold feet in such circumstances, and in market conditions like 2010 the lessee's business may have deteriorated to the point of seeking an exit from the lease. Care has to be taken to enforce agreements at the same time the receiver works around lease 'back doors' that may exist because the project stalled.

While a proactive and competent receiver may have headed off all the problems and persuaded a full complement of tenants, one of the realities is that the investment in the property will have gone up by the time the property is ready for sale. Adding costs to a property that is already distressed will make it harder for the lender to get even; however, a skillfully handled receivership will come out miles ahead of the result of the lender taking back the keys on a distressed property.

In the current commercial real estate market, "better" may just keep the lenders happy, and can keep the arteries of credit from clogging again. BG

Carbon Trading Adds Another Dimension to Green Building

Sustainable design and construction have made great strides in reducing the negative effects of America's biggest polluting and energy consuming segment: the inventory of buildings. Up to now the business case for green building has been built on social responsibility and long-term benefits of ownership. But one of the key pieces of the Obama administration's environmental policy, cap and trade, may offer real short-term economic incentives for being green.

There's a philosophical argument about the need for carbon emission caps, as well as the validity of the global warming science. The cost of the credits would be borne by regional economies that are built on manufacturing and fossil fuel energy; and there is hot debate over whether or not this will be a blow to the middle class. For the purposes of this discussion, however, the assumption is that cap and trade is coming, regardless of its virtues and vices.

Putting the rhetoric aside for a moment, it might be worthwhile to talk about what cap and trade aims to accomplish. The stated goal is to create economic incentives for companies to reduce their emission of greenhouse gases and various forms of excess carbon by placing a cap on the amount of carbon emitted, and issuing credits for incremental reductions below that cap. Companies that operate below the cap will accrue credits that are available for trade with those who have not met the cap limits. So what is the effect on construction?

Construction is an energy intensive industry, one that has taken strides to become more efficient in its processes. The job site is still a big point of consumption, especially of diesel fuel and power, and offers an opportunity for savings. Buildings themselves are big polluters, representing more than 35% of the energy consumption and 56% of the CO^2 emissions nationally. Here too, strides have been taken to improve the built environment and to develop responsibly. The opportunity for the construction industry lies in the size of its existing carbon footprint and its ability to innovate solutions. Innovators will be in line to earn carbon credits; and it's the value of the credits that is getting the attention of many in the industry.

The enticement of the opportunity is that carbon trading is still in it infancy and the dynamics of the market indicate that carbon credits could be a steadily, perhaps dramatically, appreciating asset in the near future. That means the value of the carbon credits earned through sustainable practices and energy efficiency could go through the roof.

New Energy Finance, a group which tracks the trading of carbon credits, thinks that the global carbon market will be worth around $122 billion by the end of 2009, a 3% increase from roughly $118 billion in 2008. New Energy estimates the value of the global carbon trading market could rise to nearly $2 trillion by 2020, assuming the passage of U.S. emissions trading legislation that is pending. Currently there are three carbon or emissions trading systems in place, in Switzerland, New Zealand and the European Union, but the market will grow geometrically with legislation from the U. S.

Even without U. S. involvement the carbon trading market is growing warmer in response to the Saudi Arabian ratification of the Kyoto Protocol, which uses carbon trading as one of its greenhouse gas reducing mechanisms.

"The Saudis signing the Kyoto [Protocol] should really grow the amount of trading and the price of a carbon credit because Kyoto established a base year for consuming carbon [1990] and the Saudis use is off the charts," suggests Jamie White of LLI Engineering. "They will buy a huge amount of credits and the value could really soar."

Saudi Arabian companies have already begun to implement strategies to offset those needed credits. Saudi Solar has expressed the plan to put approximately 20 gigawatts of solar generation in plants around the world. In addition to generating the power, the plants would accumulate Solar Renewable Energy Credits (SREC) to offset the fossil fuel emissions of Saudi oil consumption. With most of the country's 840,000 square miles a desert, the Saudi back yard would be an easy place to start.

Pittsburgh-based Energy and Environmental Solutions, which does energy and LEED consulting, is planning to take advantage of SREC's by developing a solar farm near its Las Vegas office.

"We're leasing 26 acres in the Mojave Desert to build a solar farm for a couple of reasons," explains E2 Solutions president Chris Klehm.

"One was to put our money where our mouths are, but the business reason is to set up a consortium to harvest and sell carbon credits." Klehm says the pro forma returns at present conditions are in excess of 20%. "I was running numbers for a client interested in harvesting credits and was impressed by the returns. Our plan is to let the farm's profits finance the next farm, take a developer's fee and ultimately sell the farms as the market matures."

E2 Solutions' strategy is strikingly similar to that of any real estate developer or long-term developer: diversify the type of generation and location to spread the risk.

"We're leasing 26 acres in the Mojave Desert..."

Another driver of the emission trading market will be the mandates on electrical utility companies to generate a portion of their output to the grid by alternative or renewable means. Alternative energy credits, (AEC) like SREC's, can be earned by the utilities themselves but the reality is that most utility companies have plants tied to fossil fuels and won't be able to meet the Alternative Energy Portfolio Standards (a percentage of the utility's total output) without buying credits. Companies can earn AEC's for every 1000 kW hours generated from alternative sources. A 100 kW wind system produces about 110 MW hours of electricity in a year's time. At $250 per AEC that system will generate $27,500 in revenue and save about $15,000 in electricity costs.

The 2004 legislation that established the PA Alternative Energy Portfolio Standards, mandates that 18.5% of electricity supplied in the state by 2021 be from renewable sources. This includes hydro, biomass, wind, solar and others. By 2021, the solar portion of that is to be .5%. In 2009, that portion was .0063%.

To get a quick and dirty sense of the potential size of the solar credit market, PECO Energy announced in August 2009 that it was approved to buy SREC's to meet some of its portfolio standards. Its plan is to purchase 80,000 credits over a ten-year period. The price tag at today's rates is $24,000,000.

Demand for carbon or other emission credit is going to grow rapidly as cap and trade is implemented. But the price of credits will also be driven by dwindling supply as time goes on. This part of the strategy will be a result of environmentally conscious companies exercising the option to retire some portion of the credits they earn or purchase. Companies that are already working to reduce or eliminate their carbon footprint will be in especially good positions, since they will earn credits earlier in the cap and trade era that will be worth considerably more down the road. Those credit 'profits' will easily pay for the credits purchased and retired.

"Companies that are already being diligent for their own purposes don't have to change when cap and trade kicks in – they will be ahead of the game," notes Aurora Sharrard, research manager for the Green Building Alliance. Sharrard cited one company, carpet manufacturer Interface Inc., as an example of a green business that is positioned to benefit when cap and trade is enacted.

"Interface makes modular carpet that is carbon neutral. They are very diligent in doing everything possible to reduce their carbon footprint, and they buy offsets to get to carbon neutral," she explains. "They assign vintages to the offsets, buying them in the year the carpet is made and then retiring them."

Sharrard says Interface is a pioneer in manufacturing with less energy, constantly working to reduce emissions, use recycled materials, recycling their waste, even creating a program for taking back their carpet after the useful life cycle is over for further recycling.

Companies like Interface, who are already enormously committed to environmental responsibility, will have a substantial impact on the global carbon trading market, particularly if all the emerging markets move from making an effort to be sustainable to joining the global community in accepting carbon emission base lines. Global acceptance will put a finite cap to the amount of carbon allowed and subsequent retirement of purchased credits will reduce the supply, making carbon credits ever more expensive.

With mandatory greenhouse gas reporting in 2010, and recent restrictions on high-sulfur diesel (which dominates construction), the construction industry will be living with increased environmental regulations starting this year. Cap and trade inspires a lot of emotions, but the business of cap and trade also offers opportunities for those prepared to respond.

AWARDS & CONTRACTS

Rycon Construction was awarded a contract to build a 30,000 square foot residence hall at the University of Pittsburgh Bradford campus. Construction on the $4.5M project began in November and is scheduled for completion by August. MacLachlan Cornelius & Filoni is the architect on the project.

UPMC Mercy selected Rycon Construction as contractor for the $9 million renovation of their Department of Emergency Medicine. This 20,000 square foot renovation was designed by GBBN Architects.

Rycon Construction was the successful contractor on the third phase of tenant improvements for CVS Caremark in the former ExpoMart in Monroeville.

Rycon Special Projects Group was awarded contracts for these projects: UPMC Dr. Kensler's Laboratory, Cigna Corporation office renovation located on Carson Street, University of Pittsburgh Posvar Hall Server Space renovation and University of Memphis Dining Hall renovation.

Burchick Construction was awarded a contract for the general trades portion of the $20 million Chevron Hall Science Center expansion. The project involves a 31,331 square foot addition and renovations to the Chevron lab space. Renaissance 3 Architects is the architect. Mascaro Construction is the construction manager.

Elmhurst Group awarded a contract to Burchick Construction for the general renovation of the ballroom at the Doubletree Hotel Downtown. Desmone & Associates are the architects.

Hebron United Presbyterian Church selected TEDCO Construction for its expansion project on Frankstown Road in Penn Hills. Gerard Associates Architects designed the project.

PJ Dick was awarded design-build services for the Research Building – Animal Facility Upgrade project by the Department of Veterans Affairs on November 20, 2009. The 5,000-square foot renovation project, located at the VA Medical Center in Washington, DC, involves the conversion of rooms containing animal cages in fully operational vivariums. PJ Dick partnered with LSY Architects of Silver Spring, Maryland. The project is scheduled to begin construction in March 2010.

PJ Dick was awarded Construction Management Services for the University of Pittsburgh's Bouquet Gardens Expansion project. The new, $7.5 million apartment-style housing facility on the Oakland Campus was designed by Perkins Eastman Architects. The 6-story, 200-bed dormitory is projected to begin construction next spring and be completed and ready for students August 1, 2011.

F. J. Busse Company is doing renovations to the Joy Mining offices in the RIDC Thorn Hill Industrial Park in Marshall Township. B. Jarold & Co. was the interior designer for the project.

JC Penney Department store awarded Poerio Incorporated a contract for renovations to approximately 98,000 square feet on the JC Penney Lacrosse, WI store in the Valley View Mall. Nudell is the architect of record for this project.

Poerio Incorporated was chosen by JC Penney Department store to renovate the Portrait Studio's at the JC Penney Nashua NH store, the JC Penney Peabody MA store and the Sanford NC store. This renovation was approximately 800 square ft per store. The renovations included track lighting, studio lighting, wall covering carpet and trim work.

JC Penney Department store awarded Poerio Incorporated a contract for the JC Penney Farmington Connecticut store, a 12,000 square foot renovation to the existing fitting rooms and restrooms. This renovation included new ceramic tile, fixtures, and lighting. This modernization brought all project areas to ADA code compliance.

Landau Building Co. was the successful contractor on the Precision Therapeutics 23,000 square foot tenant build-out at the RIDC Chocolate Factory in Lawrenceville. Renaissance 3 Architects was the architect on the $5 million project.

Nello Construction was awarded a $10,344,000 contract to perform addition and renovation work to the Cooper Science Building at Edinboro University. Astorino is the architect for the project, which involves a 60,000 sq. ft. addition and over 100,000 sq. ft. of renovations. Construction is scheduled to begin in January.

Google selected A. Martini & Company as the contractor for the tenant improvements to their new 44,000 square foot space in Bakery Square, the former Nabisco plant. Construction is expected to start in April on the $4 million project. Strada Architecture LLC was selected to design the project.

A. Martini & Co., Inc. was awarded the PNC Bank Lebanon Shops branch renovation. This project is scheduled to be complete in February 2010. The architect for this project is RSH Architects.

Salem University, Salem, West Virginia has hired A. Martini & Co., Inc. to renovate the athletic building. The project will be complete March 2010.

A. Martini & Co., Inc. was awarded the contract to renovate the third floor A and B wing of Westmoreland Hospital. This project entails a major renovation of the patient areas. The completion is scheduled for March 2010. Burt Hill is the architect for this project.

A. Martini & Co., Inc. has started construction on the new specialty Italian Market store in Wexford for Labriola Markets. This project is scheduled for completion June 2010. Next Architecture is the designer for this project.

Mascaro Construction received two contracts under the American Recovery and Reinvestment Act (ARRA). The General Services Administration awarded Mascaro a contract to begin preconstruction services for energy repairs and alterations to the Huntington Federal Building in Huntington, West Virginia. Renovation of the seven-story structure will require compliance with the National Historic Preservation Act and is intended to achieve LEED certification. The other ARRA project is under the direction of PennDOT and it is for the Parkway West Bearing Replacement. The work involves bridge rehabilitation, bearing replacements, concrete repair, and modular dam replacement to the Interstate 279 Parkway West bridges at Carnegie, Pennsylvania.

The SEA awarded Mascaro Construction a design-build contract for the David L. Lawrence Riverfront Park project. Mascaro will build five structures: three retaining walls, an elevated walkway dubbed the "Ribbon Walk" and a wide, elevated dock that will be 320 feet wide and extend 23 feet into the river.

Mascaro was the low bidder on the FBI's Biometric Technology Center parking garage and site development package. The scope of work is for the construction of a four-level, 1277-car parking structure, and development of approximately 30 acres at the Criminal Justice Information Services Division in Clarksburg, West Virginia.

Mascaro began construction of the Chevron Science Center Annex in December. The work consists of two floors of new lab construction plus mechanical penthouse to be built over the existing Ashe Auditorium, which is adjacent to the Chevron Science Center.

The University of Pittsburgh Langley Hall Microscopy Lab project was awarded to Mascaro Construction. The $500,000 project involves renovations to 1,600 square feet and was designed by IDC Architects.

Mascaro received the supervisory training award for its "Feedback for Performance Workshops" from the Associated General Contractors of America (AGC) on October 28, 2009. The AGC recognized Mascaro for the implementation of a company-wide training program that focused on soft skill development in the areas of giving and receiving constructive and reinforcing feedback through coaching and mentoring for Mascaro's personnel.

Mascaro received a GreenSite Award on November 5, 2009 for its work on the LEED® certified Encore on 7th. Winning in the Multifamily category, The Encore on 7th is an 18-story, post-tensioned, cast-in-place concrete framed building located in downtown Pittsburgh. Awarded by Concrete Producer and Concrete Construction magazines, it recognizes projects that best exemplify the concrete production industry's contribution to sustainable construction.

Volpatt Construction is doing renovations to Domenec Hall Entrance at St. Paul's Seminary for the Catholic Diocese of Pittsburgh. Hayes Design Group is the architect.

St. Clair Memorial Hospital selected Volpatt Construction for renovation to its Unit 5B; and West Penn Allegheny Health System selected Volpatt for its $700,000 MRI and mammography department project at Canonsburg General Hospital. The architect on both projects is VEBH Architects.

dck north america has been awarded a Construction Manager as Constructor (CMc) contract by the General Services Administration (GSA) for the A.J. Celebrezze Federal

Building Façade Recladding Project in Cleveland, Ohio. This project entails façade recladding, over-cladding or replacement, roof replacement, and interior alterations to accommodate DOD facility security requirements and to improve the 32-story building's energy performance. The project also includes a $98+ million Construction Phase option, which is scheduled to begin after the 14-month Pre-Construction Phase.

The team of dck north america, PB Americas, and DRS Architects was awarded a GAEC (General Architectural & Engineering Construction) contract to provide design services and construction management services for the Westmoreland County Transit Authority's (WCTA) New Construction and Re-Construction of their Transit Fleet Maintenance Facility in Greensburg, Pennsylvania. WCTA provides public transit services to all of Westmoreland County, as well as transfer services with the Port Authority of Allegheny County. The construction value of this new facility is approximately $8 million.

PB Americas, also based in Pittsburgh, will provide all design engineering services as the prime consultant, and dck will provide the construction management services.

dck north america was awarded a $3.6 million design-build project, the first contract under its Southern Florida & Andros Island IDIQ MACC with NAVFAC Southeast. The project consists of a new Reaction Force Facility (RFF) Communications Addition at Naval Submarine Base Kings Bay, Georgia. dck's design partner for this project is Bullock Tice Associates.

Adagio Health awarded Jendoco Construction Corporation a contract for interior renovations to the 5th and 6th floors of their existing office building. Springboard Design is the architect.

The Pittsburgh Ballet Theater selected Jendoco Construction Corp. to build out its $600,000 student residence units at 2900 Liberty Avenue. Fukui Architects designed the 9,500 square foot space.

Jendoco Construction was the successful contractor at Carnegie Mellon University for the Wean Hall Research MRI, a 2,400 square foot renovation to an existing space at Wean Hall for a new MRI research suite. IKM Inc. is the architect. Jendoco was also awarded Bernhard Lab Renovations project, a 2,592 square foot renovation at Mellon Institute for a new laboratory. IDC Architects designed the project.

Duquesne University selected Jendoco Construction for renovations to Room 3a/3b and 2nd Floor of Mary Pappert School of Music, a 1,200 square foot interior renovation to a locker storage space and four offices.

The Center Township Supervisors awarded a contract to Uhl Construction for the general construction of its new $2.4 million public works facility in Butler County. The 10,000 square foot building was designed by Olsen Engineering.

Uhl Construction is underway on the construction of a 20,400 square foot flex warehouse building for Bryant Road Properties at the Bryant Industrial Park in Hampton Township.

Massaro Corporation has finished a 15,514 square feet design/build renovation to expand both the restoration division and construction management division. This is a second major renovation for the corporation and it was done to the 604 Delta Drive property, part of the LEED-certified Massaro campus.

Massaro Corporation has been selected to serve as the general contractor for the kitchen renovations at the Villa of St. Joseph's. This 1,000 square foot renovation is scheduled for completion in January of 2010. Perkins Eastman is the architect on the project.

Plum Borough School District has selected Massaro CM Services, LLC to provide both preconstruction and agency construction management services for the district's 2011 renovation and construction project. The scope of this $27 million project is three-fold, including renovations to the Adlai Stevenson and Holiday Park Elementary Schools and a new 66,780 square foot Pivik Elementary School. The architect for the program is L. Robert Kimball & Associates.

FACES & NEW PLACES

PJ Dick hired Ryan Helbling as a Project Engineer on the Upper St. Clair Middle School Renovation Project. PJ Dick also hired Jonathan Revtai as a Project Engineer in it's Estimating Department.

PJ Dick and Trumbull moved into their new Pittsburgh headquarters December 14, 2009, occupying the fifth and sixth floors of the Equitable Building on Pittsburgh's North Shore. The new address is:

PO Box 6774
225 North Shore Drive
Pittsburgh, PA 15212
412.807.2000 Phone
412.807.2050 Fax

The Pittsburgh law firm of Maiello Brungo & Maiello was appointed Solicitor for the Allegheny County Southwest Tax Collection Committee (TCC) on December 1, 2009. Lawrence J. Maiello, Partner, Michael L. Brungo, Partner and Associate, Falco A. Muscante will be the primary attorneys for the TCC. The firm has closely monitored the implementation of Act 32 on behalf of its school district and municipal clients and look forward to assisting the TCC from its inception.

The Pittsburgh chapter of the National Association of Women in Construction (NAWIC) recently elected the following officers for the 2009-2010 fiscal year: Erin Fallon of The Duggan Rhodes Group as President, Maureen Sweeney of Blumling & Gusky LLP as Vice President, Jennifer Cerce of Maiello Brungo & Maiello, LLP as Recording Secretary, and Mary Ann Scott of Oxford Development as Treasurer. Rebecca Posonby of Alpern Rosenthal and Carmin Sbarro of Raudenbush Engineering, Inc were both elected as Directors.

James A. Pitzer, CPA, has been elected to the partnership of Carbis Walker LLP, Certified Public Accountants & Consultants. As a member of the Carbis Walker Team for over fifteen years, he serves as the Firm's Coordinator of Construction & Real Estate Services.

Oxford Development Company announced the appointment of Steven J. Guy as President and CEO, effective when current CEO David Matter retires in February. Mr. Guy joined Oxford in 1987, serving in a variety of capacities, most recently as Chief Operating Officer.

Carson Publishing, Inc. moved into their new Pittsburgh office on January 18th occupying Suite 506 on McKnight Park Drive. BG

THE INDUSTRY in the COMMUNITY

Pittsburgh Builders Exchange Banquet Honors 'Ricky O'

Ricky Okraszewski (Ricky "O") is a tireless and unselfish volunteer in his neighborhood of Green Tree and throughout the region. The Pittsburgh Builders Exchange recognized 'Ricky O' on November 6 with the Tink Bryan Award for his outstanding service to the community and to the construction industry at its annual banquet.

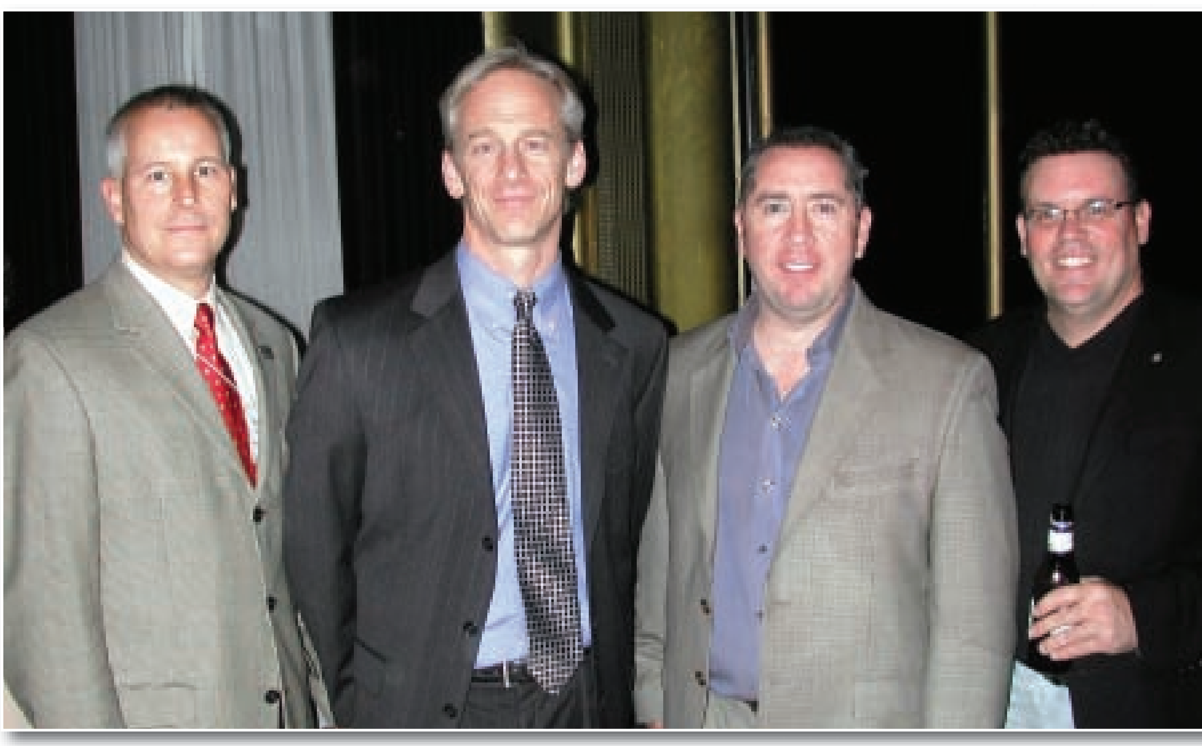
Named in honor of Thomas J. (Tink) Bryan, who managed Frank Bryan Incorporated until he was fatally injured in a construction related accident in 1998, the Tink Bryan Award is presented to individuals who emulate Tink's giving spirit, dedication, modesty and hard-working attitude.

Tink Bryant Award winner Ricky Okraszewski is flanked by Matt Bryan (left) and Justin Bryan (right). PBX executive director Del Walker (rear right) and board president Joe Burchick presented the award at the PBX banquet November 6.

Neil Rivers of Easley & Rivers Inc., Massaro Corp.'s Michael Stimpson and Andy Bajuszik of Jendoco Construction at the Builder's Exchange banquet.

NAIOP Night at the Fights Benefits Habitat

NAIOP Pittsburgh held its tenth annual Night at the Fights on November 5 at the William Penn Hotel downtown. Over 300 people attended the event, which raised over $5,000 for the local efforts of Habitat for Humanity.



Pittsburgh chapter president Mark Dellanna, Lawrence Maiello, of Maiello Brungo & Maiello, Gregory Coyle of Gregory Development, and CADnetics owner Jim Mauler at the Night at the Fights.

Young Constructors Set Holiday Record

The Master Builders' Association's Young Constructors held their holiday party benefitting the Toys for Tots program on December 9 at the Hofbrauhaus at the South Side Works. The third annual event attracted over 175 people, collecting more than 200 toys and $5,000 for Toy for Tots. Marine Sgt. Suggs was there to accept the donation on behalf of Toys for Tots.

Matt Jameson (left) with Justin Hough of PJ Dick and Gateway Engineers' Tom Turner (right) at the Young Constructors holiday party.

Celebrating with the Young Constructors at the Hofbrauhaus were TEDCO's Jim Frantz (left), Steve Engel of Blumling & Gusky and Ferry Electric's Jim Ferry.

Wyatt Inc. president Fred Episcopo with Jeff Turconi of PJ Dick at the Hofbrauhaus on Dec. 9.

Mascaro Tends Bar for Cystic Fibrosis Cure

On November 19, 2009, Mascaro held its second annual "Get Together with a Cause" at McFaddens on the North Shore. Nate Martin and John Mascaro Jr. were the celebrity bartenders and all tips benefitted the Cystic Fibrosis Foundation. The grand tally for the night including tips, Chinese auction, silent auction and 50/50 raffle was over $6,000.

Mascaro's Nate Martin (left) and CEO John Mascaro Jr. acted as guest bartenders at McFadden's as a fundraiser for Cystic Fibrosis.

Duggan Rhodes Shops for Toy for Tots

On December 4th members of The Duggan Rhodes Group (DRG) headed to Toys "R" US to fill a Toys for Tots wish list coordinated through their community service partner, Pittsburgh Cares. The list included gifts for 60 girls at Gwen's Girls, a local not-for-profit dedicated to "inspiring new destiny" in the lives of at-risk girls through gender-specific programs and education. After shopping, DRG staff members returned to the office to wrap the gifts and decorate and write cards for each of the girls. With the gifts all wrapped, staff members loaded the bus and traveled to Gwen's Girls' Homewood location to drop off the gifts.

(Left-to-right) Jim Huber, Burchick Construction, Scott Harris of Harris Masonry and Jendoco's John Zang at the International Masonry Institute's Golden Trowel awards ceremony at the Heinz History Center.

Enjoying the IMI Golden Trowel awards were Dan Scabilloni (left) and Paul Scabilloni (right) from Marsa Inc., along with Kevin Turkall and Susan Fairtrace of Designstream Architects

MBA Membership

MBA MEMBERSHIP

The Master Builders' Association (MBA) is a trade organization representing Western Pennsylvania's leading commercial, institutional and industrial contractors. MBA contractors invest in a skilled workforce, implementing award-winning safety programs and offer the best in management and stability.

The MBA is a chapter of the Associated General Contractors of America, the nation's largest and oldest construction trade association. The MBA is committed to improving the construction trade association through education, promoting technological advancements and advocating building the highest quality projects for owners. To learn more go to www.mbawpa.org.

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Closing Out

This Too Shall Pass
By Steven Guy

We in real estate development (and by extension the design and construction business as well) have been through an extremely interesting and trying year. The global unraveling of the financial markets that started in 2008 took a lot of people by surprise, and created an environment of fear that we haven't experienced in quite some time. But as we head into what is likely to be another challenging year, it's important to remember to take a long view of where we are going. We have been here before and we'll live through it again.

By all accounts, what happened last fall was the unavoidable result of too many people borrowing and lending money without enough information or caution needed to maintain the normal risk and reward relationships in the debt market. While the crisis atmosphere fueled the sensation that this was like nothing that has happened before (no doubt aided by an overload of media that covered each situation in real time), the reality is that a credit crunch of some sort always occurs in the early stage of a recessionary period.

I'll grant you that the credit crunch usually follows a slowdown in business, rather than kick-starting the recession, but regardless of the sequence of events the problems in the credit markets won't eliminate the appetite for debt as an investment.

Debt, whether it is in the form of commercial paper or residential/commercial mortgages or municipal bonds, has always been a desirable investment product. Remember that one man's debt is another's asset. The asset class that was at the heart of the crisis in 2008 was residential mortgages, a financial instrument that has historically been very secure. Throughout the history of residential finance more than 95% of the borrowers repay their mortgages without a hitch. Those are good odds in return for an interest rate that is usually a couple of points above what the U. S. Treasury will pay. That's a reflection of what is true about most debtors in all classes of debt, which is that people and businesses tend to pay back what they borrow.

Much has been written about the root of the problem being derivative financial products or credit default swaps, but those products created no crisis until the underlying root issue of poor underwriting standards came to the surface. Mortgage backed securities were not a problem until too many mortgages were written for people who couldn't pay them back. When mortgage repayment underwriting was based on a hope that the borrower will somehow make a lot more money in three years, or that the property will continue to appreciate indefinitely at velocities that will significantly out pace inflation, there are going to be hopes dashed and mortgages defaulting.

Hope makes a terrible underwriting criterion.

Commercial mortgages, which help drive our business, aren't built on the hope that someone will do better, but rather on the performance of the commercial property and the rational assessment of asset appreciation over time. The financial products based on commercial mortgages have to find buyers in order for them to work, and for almost two years there have been few buyers willing to risk the uncertainty that the financial meltdown inspired. During the same time period, of course, the recession gave commercial property lower returns, which dampened the buying appetite as well.

It looks like 2010 isn't going to be a whole lot better environment for commercial property performance. The market may be dampened by the existing high leverage, more conservative underwriting and valuation metrics that will cause equity to be increased in order to achieve refinancing. But there are signs that the buyers of commercial debt are returning. With the real assets priced lower, and some confidence restored in the lenders' judgment, smart investors will be looking to underwrite debt again. The market will return with a trickle at first, but deals will begin to flow again. And it won't be long before the creative minds on Wall Street and Main Street come up with new ways to package and sell debt so that the risks are shared and smaller investors can participate in our next real estate growth cycle.

By that time the business community will have moved on from the pain we felt a year ago, and might retain those painful lessons learned. But I wouldn't bet on it.

Steve Guy is President and CEO of Oxford Development.