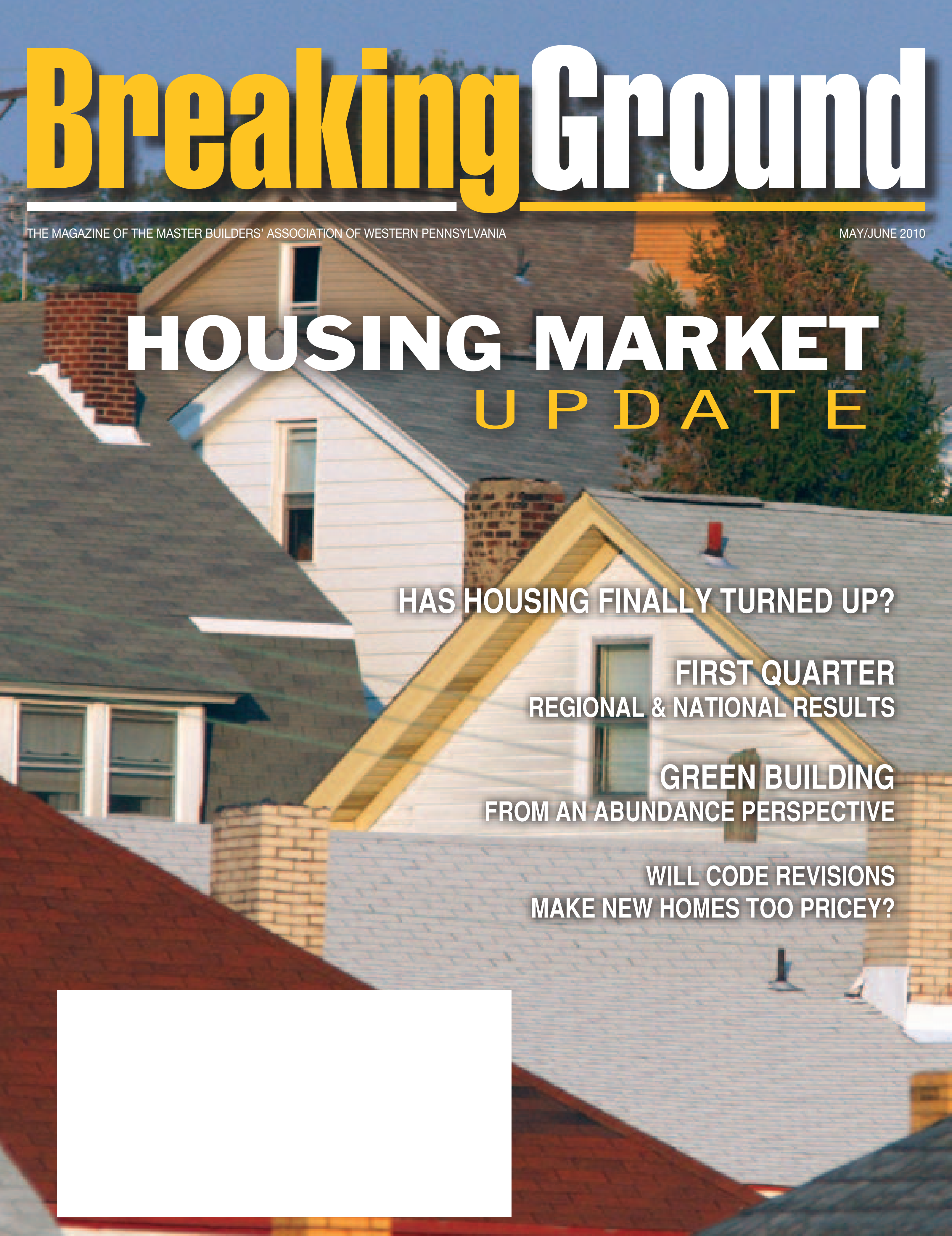

Breaking Ground

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA
MAY/JUNE 2010

HOUSING MARKET UPDATE

HAS HOUSING FINALLY TURNED UP?

FIRST QUARTER
REGIONAL & NATIONAL RESULTS

GREEN BUILDING
FROM AN ABUNDANCE PERSPECTIVE

WILL CODE REVISIONS
MAKE NEW HOMES TOO PRICEY?

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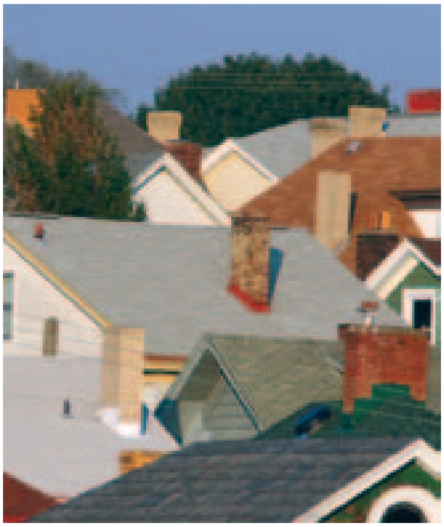

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Publisher's Note

I've been putting this edition of *BreakingGround* off for quite a while now. In early fall of each year I put together the editorial calendar for the coming year. It's a foolish idea to try to set up the calendar to anticipate events that might be 15 months away, but since I present myself as a forecaster of sorts, I can't resist. And since we published a few editions during the first few years that seemed like we *could* anticipate the future (who could forget the energy edition in July 2008?), I am guilty of believing that there is something other than blind luck involved.

The housing-focused edition should have disabused me of that notion by this time. My concept for the housing edition was to focus on the housing turnaround, if not nationally then regionally. That concept was first put on the calendar for mid-2009. By the time that half the Wall Street banks had gone under at the end of 2008 that idea seemed a bit out of touch. After cleverly swapping out the housing edition for the ARRA special edition in March 2009, I decided to give it another year or so.

I hope that in a year from now it looks like *BreakingGround* was on the leading edge again by focusing on housing, but the truth of it is that I was tired of waiting for a turnaround.

Most of *BreakingGround's* readers don't make their living in residential real estate or construction, but I hope most will understand the importance of the housing market to the bigger picture. As we learned in 2007-2008 an unhealthy housing market can wreak havoc on commercial construction, and the economy as a whole. During this last go-round the declining housing market wasn't just an indication of a weak economy, it was ground zero for a recession and a breakdown of financing for real estate of all types.

The housing market has always interested me. At its root, the new home market is just one person feeling good enough about the future to take out a mortgage and build a house. Over the past decade or so, around 5,000 new units of housing were built annually in metropolitan Pittsburgh. That means only two people in a thousand have to decide to build a new house to perpetuate that rate. Two people in a thousand hardly seem like a trend. As bad as things were the last couple of years, you probably knew at least two people who were making out well enough to afford a new home. Yet if two people in a thousand build a new home this year, the market will effectively double the volume of 2009. So as subtle as the difference seems, the confidence in the economy that inspires that one extra person is both elusive and powerful.

Economic health and robust new construction go hand-in-hand. And since the same emotions and decision-making drive the big picture economy as new housing, it's good to know when housing is getting better or worse. At the least it gives you an idea about where to place your bets.

Judging from the first quarter housing numbers it may not be quite the right time to bet the house (pun intended) on the economy, but the stars are beginning to align in a pattern that is usually present when the economy starts to grow. We'll all probably still hear of a friend who loses a job still this year but people are beginning to go back to work. If that continues there will be support for keeping the recent trend in home sales and housing construction moving upward. The same is true with consumer spending and the related improved health of retailers.

We won't know for another half decade or so what scars remain from the 'Great Recession' but we'll get an idea when housing starts growing again. The 'McMansion' of the last decade was the symbol of the excesses in credit and consumption that led to the painful snapback. The economic psychologists would have us believe that the fear of 2008 will have a lasting effect that will dim our appetite and make Americans poorer consumers but better savers. You'll know about that in another couple of years, but here's a tip. If you start getting the feeling that everybody seems to have twice the space they need in their new house (and a Hummer in the garage), it will be time to short the housing market again.

Barnum famously said that you wouldn't go broke underestimating the intelligence of the American public. Let's hope he's wrong about us where the housing market is concerned.

Jeff Burd

News From The Street

Forbes Says Pittsburgh Most Livable, More Top Tens

For the second time in three years, metropolitan Pittsburgh has been named the most livable city in America. *Forbes.com* published its list of the best places to live in 2009 in early May and Pittsburgh was again at the top of the list. *Forbes* rated the top 200 MSA's in the categories of unemployment, crime, income growth, the cost of living, and artistic and cultural opportunities.

Pittsburgh also rated at the top of the list in recent Bureaus of Labor Statistics data on educational attainment among it's employment base, particularly in the 25-34 year old cohort, according to Pitt's University Center for Social and Urban Research. The data for 2009 showed that Pittsburgh was fifth in the percentage of its 25-34 year olds with college degrees, with 48.1% of the workers having bachelors degrees compared to the national average of 34.7%. For graduate degrees, however, Pittsburgh ranked highest, with 21.5% of its workforce holding post-bachelors degrees. Similarly, the city ranked lowest in the percentage of its workforce that had not attained a high school degree, with only 2.2% of total employment.

Pittsburgh Office Vacancy Forecast is Top 5

The National Association of Realtors (NAR) released its 2010 forecast for office vacancy in April. Reflecting the lag of rising unemployment from last year, office vacancies continued to rise in the first quarter. One of the markets that was an exception to this trend was Pittsburgh, which showed an office vacancy rate of 11.5% compared to the national average of 16.9% (up from the 16.1% of the fourth quarter of 2009).

SPRING 2010 OFFICE VACANCY RATES	
New York	8.4%
Honolulu HI	9.2%
Stamford CT	10.9%
Long Island NY	11.3%
Pittsburgh PA	11.5%
Boston MA	13.7%
Washington DC	14.1%
San Francisco CA	14.5%
Philadelphia PA	14.9%
Fort Worth TX	14.9%
Source: National Association of Realtors and CBRE Econometric Advisors	

Spring office vacancy.

Other markets with low vacancy rates include New York City (8.4%), Stamford CT (10.9%), Long Island, NY (11.3%), Boston (13.7%) and Washington, DC (14.1%).

At the other end of the spectrum were the markets that remain mired in recession. A number of areas will see vacancy rates well above the 20 percent mark, including Phoenix (26.4%), San Jose (25.7%), Detroit (24.6%), Tampa (24.0%), and Riverside (23.4%). It is worth noting that, most of these metros are in states also struggling with high home foreclosure rates.

Steel Mill Construction Update

At least two years after the initial announcements of capital programs were made, the major construction projects at three area mills are progressing again.

The first of the projects to get underway in earnest is the upgrade of the Butler Works of AK Steel. First announced in late 2007 as a $180 million project that featured the replacement of two arc furnaces with a larger, more efficient one, the project is estimated to represent a significantly larger investment now.

At the USSteel Clairton Works, the company's $1 billion upgrade of its coke batteries was shelved when the market for steel took a nose dive during the past two years. Project officials have been inquiring about labor conditions and planning is underway to do a portion of the work, probably on battery 'C' this year. That investment should run about $450 million.

In Brackenridge, Allegheny Ludlum's plans for a new $1.2 billion plant are still on the back burner for 2010 but the company has continued to make progress with the preliminary work necessary for the project. Demolition has been completed on the structures that were located on the site of the new mill and contracts have been let to replace those buildings, the Locomotive and Mobile Equipment Repair facilities.

Pittsburgh Downtown Apartment Market Thriving

Two recently opened Downtown projects have become fully occupied within months. Millcraft Industries has leased all 46 apartments in the Market Square Place, an adaptive reuse of the former G.C. Murphy store and adjacent properties, located along Fifth and Forbes below Wood Street. Also, the Century Building on Seventh Street leased all 60 of its apartments in a three month period, according to Trek Development.

Desmone & Associates' rendering of the One Grandview project proposed for Mt. Washington.

Units at Market Square Place lease from $750 to $3,000 a month for the largest unit overlooking Market Square, with an average of about $1,400. Rates average $718 to $1,370 a month at the Century Building, though some income-restricted units lease for as low as $565 a month.

In the wake of the success of the projects, Millcraft Industries is moving ahead with its plans for renovating the former 274,000 square foot State Office Building into rental units. The project, called Rivervue, will require about $30 million to complete and will result in approximately 300 units for rent. Construction is scheduled to begin later this summer with units available in fall 2011.

While the downtown condo market has been slowed by the recession and general credit freeze, the first major Mt. Washington condo project in a generation is moving ahead. The One Grandview project, being developed by Steven Beemsterboer from Chicago, was granted approval from the city zoning and planning process in February. The project, designed by Luke Desmone, will feature a 110-room hotel tower with 55 condominiums. Most of the condos will be built on an outcropping below Grandview Avenue.

GREEN BUILDING NEWS

PA's Home Heating Rebates

The long-awaited Pennsylvania Home Heating Equipment Rebate Program officially opened April 21. Funded through the American Recovery and Reinvestment Program, the $11 million program is designed to help consumers save money and energy by making it more affordable to upgrade a home heating system.

Model Green Building Codes and Standards Established

The International Code Council (ICC); American Society of Heating, Refrigerating and Air Conditioning Engineers (ASHRAE); U.S. Green Building Council (USGBC); and the Illuminating Engineering Society of North America (IES) recently launched the International Green Construction Code (IGCC), representing the merger of two national efforts to develop adoptable and enforceable green building codes. The IGCC provides the building industry with language that both broadens and strengthens building codes in a way that will accelerate the construction of high performance green buildings across the country.

ENERGY STAR Awardees

The 2010 ENERGY STAR Awards Ceremony was held in March in Washington, D.C. to honor organizations that have made outstanding contributions to protecting the environment through energy efficiency. Pennsylvania award recipients were: Continental Refrigerator, Bensalem; Council Rock School District, Newtown; Giant Eagle, Inc., Pittsburgh; Gorell Enterprises Inc., Indiana; PECO Energy Co., Philadelphia; Saint-Gobain Corp., Valley Forge; Sunoco Inc., Philadelphia; and, West Penn Power Sustainable Energy Fund, State College.

GBA's greenSCENE

Green Building Alliance is hosting a networking event and celebration of Western PA green 'firsts' for industry professionals June 10 from 5:30 to 7:30 PM at the John Heinz History Center, 1212 Smallman St. Cost is $55 per person for members and non-members of GBA.

To register go to http://www.gbapgh.org/Files/REG-FORM-2010.pdf or contact Michael Imbrescia at 412-431-0709 or michaele@gbapgh.org

Bike Parking Ordinance Passed

In an effort to reduce traffic congestion within city limits, Pittsburgh City Council unanimously passed an ordinance that requires bike parking facilities to be located at all new and change-of-use buildings. The ordinance ensures secure bike storage in well-lit, convenient locations. Residential developments with 12 or more units and commercial developments over 6,000 square feet must provide bike parking.

Bike Pittsburgh, the Department of City Planning and Pittsburgh's bike and pedestrian coordinator have been working on this ordinance for more than two years. BG

REGIONAL UPDATE

Spring has sprung some surprises (and, unfortunately some confirmed expectations) on the construction market in Western PA. With the consensus at the national level that the recovery phase of this business cycle is underway, the outlook for the regional construction market also seems fairly certain, even if it isn't yet positive.

Data from the first quarter shows that the construction cycle has turned a corner for residential work, remained tough for commercial projects, and won't improve fast enough to keep 2010 from being a difficult year.

For the first quarter in more that two years, housing starts in the metropolitan Pittsburgh market showed improvement year-over-year. Moreover, the first quarter marked two consecutive quarters of significant improvement over the previous year. Between January 1 and March 31, permits for single-family detached houses were up 48% over the same period in 2009. At the same time, however, permits for attached housing and apartments were down 42.7%, leaving the number of total housing permits up 3.8% higher at 514 units. And, while even a modest increase is welcome, it is worth noting that this level is roughly half that of the peak year of 2004.

Somewhat related to the low levels of new home construction is the continued appreciation in housing prices in the region. Home sales are up, foreclosures remain very low, and the lack of new inventory has kept supply and demand from getting out of equilibrium. With unemployment about two points better than the national average and improving faster than the overall economy's jobless rate, the stage is set for increased demand for housing throughout 2010. As yet, there has been no rush of new homes for the expected new workers exploring the Marcellus Shale or the Westinghouse hiring boom, but a surge from either of these employment bases could trigger new development in the north and south. As of May, though, this is more hope than forecast.

Non-residential contracting shrank 21.2% in the first quarter, falling to $371 million compared to the $471.5 million contracted from January through March of 2009. Increased activity was seen primarily in hospital/healthcare projects and large public education jobs. Commercial contracting lagged particularly compared to previous years, along with private education and industrial projects.

The decline in non-residential construction was expected, and was consistent with the scale of the decline in architectural and engineering commissions during the spring and summer of 2009.

Noteworthy among the non-residential projects put under contract or bidding during the first quarter were the $140 million UPMC East Hospital in Monroeville, the AK Steel modernization in Butler, the $60 million American Water plant at Becks Run in the city, the $33 million West Mifflin Middle School and $42 mil-

TOP HOUSING MARKETS IN METROPOLITAN PITTSBURGH (JAN-MARCH 2010)

Municipality	#SFD	#SFA	Total
Single-Family Detached			
Jefferson Hills	25	0	25
South Fayette Township	21	5	26
Pittsburgh	20	15	35
Cranberry Township	19	12	31
Moon Township	19	6	25
Franklin Park	16	4	20
Marshall Township	15	18	33
Adams Township	14	2	16
Ohio Township	12	9	21
Peters Township	12	0	12
Total Pittsburgh MSA 2010:1	**376**	**138**	**514**
Total Pittsburgh MSA 2009:1	**254**	**241**	**495**
% Change	**48.0%**	**-42.7%**	**3.8%**
By County	**SFD**	**SFA**	**Total**
Allegheny	190	83	273
Beaver	30	12	42
Butler	47	17	64
Fayette	16	0	16
Washington	46	8	54
Westmoreland	47	18	65

The municipalities with the most permits for new home construction during the first quarter of 2010 (Source Metro Pittsburgh Housing Report).

lion Montour High School. Still out for bid or set to bid were the $181 million SCI-Benner prison, the $55 million Connellsville High, $30 million new student union at Slippery Rock University, and the $45 million Salk Hall expansion at Pitt.

"Another good indicator is the unexpected advancement of retail projects being planned AND THE CONTINUED INCREASE IN RETAIL CONSTRUCTION."

The unfortunate reality of the calendar is that for firms involved in contracting and the subsequent tiers behind them, the die is cast for 2010. Earlier in the year, the volume of bidding had perked up but as of the end of April there had been no next wave of projects to take contracting to a higher level. The number of projects listed on the Pittsburgh Builders Exchange as actively out to bid has been stuck between 225 and 250 since March. Even if a tsunami of contracting occurred by the Fourth of July, the time needed to negotiate contracts, finalize submittals and shop drawings, mobilize, and get even early progress payments will push any cash flow out to the holidays.

Hand in glove with that reality is the fact that the competitive situation should remain tough throughout the remainder of 2010. There are signs that some of the extreme competitive pressure has abated but seeing fewer bidders now may also be a sign that the more desperate firms filled their plates earlier, rather than an indication that more work is being spread around. Judging an easing trend in competitive conditions will be difficult until backlogs burn off later this summer.

So what are the hopeful signs?

Well, certainly the improvement in the national economy will benefit the regional construction market. Moving from panic mode to more normal conditions doesn't create demand for new construction. This next phase of recovery, if it is imminent, will require growth in capital spending to gain momentum. For this region the improvement in global conditions means happier customers for many firms based here. The better conditions must inspire confidence before business owners respond, and that appears to be happening in Pittsburgh.

The most recent PNC business survey showed that significantly more owners felt that business conditions were improving, and roughly one in four said they were planning to invest in their business or hire in the coming quarters.

Another good indicator is the unexpected advancement of retail projects being planned and the continued increase in retail construction. Two $100 million-plus developments, Newbury Market in South Fayette and McCandless Crossing along McKnight Road and Duncan Avenue in the North Hills, have been doing site work for almost a year. Both are starting construction on their first retail buildings, and interest is growing from other retailers. Work is underway on the Crate and Barrel at Ross Park Mall and Saks Fifth Avenue outlet store at the Tanger Outlets. Apple has apparently decided to locate a store in Ross Park and work should start this summer on the new Whole Foods in Wexford. Retail tenant buildout work continues in healthy malls. With consumer confidence on the rise and spending bouncing back, it appears to be the beginning of another retail build cycle following the large-scale closings of the past two years.

More specifically within the retail sector the increase in new store development by the grocery stores is a particularly good sign. Aldi's has two stores underway and plans for as many as a dozen new locations over the next couple of years. The dominant Pittsburgh grocer, Giant Eagle, currently has two 'upgrade' stores under construction, in Indiana and Shaler, with a couple more in the planning stages. Grocery chains are historically among the first retailers to slow construction and the first to pick back up. Since coming into this market more than a decade ago, in fact, Aldi's new store construction waves have come just ahead of the last two construction booms.

Assuming that a wave of renewed demand comes into the market, the historically low vacancy rates offer the best hope for a quick return to construction growth. Commercial vacancies have actually improved in many categories during the recession, and several submarkets – Oakland, Cranberry, Southpointe – have virtual full occupancy. Improved demand will have to result in new construction in Class 'A' office or industrial space. Unlike other recessions, or other parts of the country, the supply of commercial space did not become slack.

One other project that looms out there as the regional economic lottery ticket is the vaccine and immunization facility proposed by the University of Pittsburgh Medical Center and its corporate partners. Without speculating as to the likelihood of UPMC's proposal being the winner, it is likely that a decision on who the winning proposal is will come in advance of the midterm elections this fall.

Landing a vaccine factory, and all the development and construction that would follow, won't help the firms struggling to survive 2010 but it would get the next cycle started with a bang.

NATIONAL MARKET UPDATE

One of the quirks of a major shift in the direction of the economy is that a little bit of news can influence sentiment in a short period of time. So it's a bit dangerous to make too much of the raft of good economic news that greeted the start of the second quarter. With that caveat in place, the data and economic surveys, coupled with upbeat earnings reports from the stock market are showing the first signs of a sustained recovery.

Some of the news was good enough to embolden economists to start talking about a 'V' recovery instead of a double-dip 'W-shaped' recession.

Among the highlights of the data was a surprising rise in consumer spending during the first quarter, with the 3.5% rate of growth the highest in almost three years. March inflation was virtually flat from February and the core consumer price index was up only 1.7% in the previous twelve months, the smallest rate of inflation since early 2004. China reported stronger than expected growth in the first quarter at 11.9%, signaling better prospects that a global recovery was in higher gear. The Federal Reserve's Beige Book of economic anecdotes showed that businesses here in the U. S. were reporting 'somewhat faster' rates of recovery than expected, even while indicating that loan volume and credit quality continued to decline. And in the bad news is better than worse news category, the NAHB reported on April 15 that its monthly builders' index had risen four points in March, from 15 to 19.

The two-year trend of jobs lost fully reversed to jobs created during the first quarter 2010 (Source Bureau of Labor Statistics).

The most encouraging report from the first quarter was the first significant growth in jobs during March. After mid-April revisions the Labor Department showed a gain of 220,000 jobs in March, approximately 150,000 of which were private sector created. March also marked the third straight month of job gains and the fourth month in the last five. Improving business conditions and consumer spending are only sustainable if steady progress is made in reclaiming the more than eight million jobs lost during the recession.

PNC chief economist Stu Hoffman and AGC's Ken Simonson spoke of the economy in a forum held at the Master Builders' Association headquarters on April 7. Hoffman laid out six steps to recovery and pointed to the improved employment situation as a critical transition step.

"The fiscal stimulus was necessary to head off the financial crisis and to restart the economy, but it's tinder not fire wood," he said. "For a recovery to begin there must be a handoff from the public sector to the private sector for job growth." Hoffman sees the employment data as consistent with the trend at this stage in a typical recession cycle. "In the first quarter the job creation followed the trend of permanent hiring following several months of growth in temporary and part time jobs."

Hoffman laid out his 'recipe' for continued progress, with a recovery in the housing market, an across the board global recovery, further availability of credit and continued confidence from consumers and business as the key ingredients. He also called out six speed bumps in the road to recovery: job growth that is too slow to enhance demand; high oil prices that inhibit consumption; commercial real estate problems; budget problems at the state and local level; increases in taxes plus the sunset of the Bush tax cuts in 2011; and the sovereign debt problems, here and abroad.

For the construction industry the most threatening of these speed bumps are the depressed commercial real estate values and the interrelated stressed credit markets. Among those reporting stronger than expected first quarter earnings were banks and financial institutions. Most of this good news was built on the reduction in overhead and the artificially high spreads for lenders. With overnight borrowing rates near zero, even historically low mortgage rates are still yielding margins of 400 basis points. What isn't readily known from the earnings reports is how much of their loan portfolios are being carried at levels that approach reality, especially with the prospects for a commercial real estate recovery nonexistent until at least 2011.

There is a certain 'High Noon' feel to the commercial real estate market as summer approaches and more lenders edge closer to facing down the value of their asset portfolios. Many banks are continuing to extend short-term loans, hoping that the market will recover enough to get the asset value more in line with the original appraisal (a slim hope at best) or that the borrower's overall condition will continue to improve enough that he or she will be able to contribute more equity to the refinance arrangement. Either strategy will be undone if regulation requires that financial institutions recognize current market value and reset their reserves accordingly.

"I think that if every bank in the country had to recognize the true market value of its commercial real estate portfolio, twenty five percent of the regional banks would be illiquid," says Jack Kopnisky, partner in SJB Escrow, a Boston-based private investment fund. "Balance sheets are still stressed at a lot of banks. The worst are A D & C [acquisition, development and construction] portfolios because the rate of absorption is slow and uncertain."

This dilemma – slow lot takedowns freezing ADC lending and shrinking portfolio values prohibiting commercial lending – will keep the mother's milk of construction financing from flowing freely for privately-funded new residential or non-residential development through at least the end of 2010.

An optimistic scenario for lenders with shaky portfolios is based on the fact that the 40% to 50% decline in value that occurred in 2009 was driven by a lack of buyers. The current phase of decline is rooted in the recession's fallout, with higher vacancies and tenants getting lease rate concessions that are damaging the internal return of the property. Assuming that economic conditions are on the mend, improvement in the performance of the properties will follow later this year and in 2011. The final piece of that optimistic puzzle would follow, as investors with cash begin to come back into the market, sensing a bottom to the decline and hunting bargains. This is how the last two commercial real estate bubbles re-inflated.

Prospects for a sustained recovery have not surfaced in the numbers just yet. The lag in national construction data reporting means that full first quarter results aren't available yet from many sources, and those that are have been showing different trends.

The U. S. Commerce department reported on April 1 that total construction spending had fallen 1.3% in February, following a 1.4% decline in January. It's likely that follow up adjustments will move the February number down once the full effect of the major snowstorms is evaluated. On an annual basis Commerce shows the construction level at $843 billion, down more than 20% from the 2008 levels.

Private publisher McGraw-Hill Construction reported a 5% rise in construction in February, to a seasonally adjusted $440.9 billion. McGraw-Hill's data showed a 19% jump in non-building construction, a 5% increase in residential building and a 7% decline in non-residential contracting. "The pattern shown during February is what's expected for 2010 as a whole – more public works construction, improved activity for residential building, but further weakness for nonresidential building," stated Robert A. Murray, vice president of economic affairs for McGraw-Hill Construction.

Reports from Reed Construction Data showed nonresidential construction starts in March starts 4.5% higher than in March 2009. For the first quarter as a whole, starts rose 8.6% from the same period of 2009. Commercial starts fell 16% and industrial dropped 9.4% but institutional starts climbed 11.5% and civil projects grew 28%. As the quarter closed, Reed reaffirmed its overall forecast of an 8.1% drop for U. S. construction in 2010, with a 7.4% increase forecast for 2011. "The total value of starts is expected to be steady to slightly down in the next few months and then begin to rise slowly later in the year," Reed's chief economist Jim Haughey said.

Within that national forecast, Reed sees an increase of 4.4% in residential new construction and remodeling, but a drastic 20.5% decline in non-residential in 2010. The company also differs slightly with McGraw-Hill in the non-building construction market analysis, reflecting the decline in stimulus spending with a 1.6% drop in contracting in that category.

Regardless of the potential for recovery in the bigger economy during the rest of 2010, there is little to suggest that any of the better conditions will impact the construction industry this year. Infrastructure construction will see some lingering benefits of ARRA but the uptick will be offset by the dire situation in state coffers. Residential construction is a good bet to see significant growth in terms of a percentage of 2009 volumes but the level is still depressed by historical standards. And non-residential construction will be off significantly because of the drag of commercial real estate.

The upside of the current status is that improving conditions suggest that a national real estate recovery is in the works for 2011. BG

WHAT'S IT COST?

With the most recent months' reports on consumer and producer prices showing that inflation is being kept at bay you wouldn't expect to see construction material and building product prices rising, but increases in a number of basic items are raising red flags about the cost of construction.

As a general rule, the beginning of a recovery is usually marked by rising prices while supply capacity is added to meet the growing demand. During the past eighteen months manufacturers and distributors have certainly struggled with the opposite side of the coin, cutting prices throughout the decline as demand shrunk faster than supply could respond. It would be logical then for prices to start inching up now that economic conditions are improving, except that conditions in the construction economy are pretty much as bad as the conditions have been for a year or more. With the long-term impact of inflationary fiscal policies still theoretical rather than reality, most economists feel the price increases are a temporary phenomenon.

AGC's chief economist, Ken Simonson, listed a variety of reports of price increases from contractors around the country in his April 5-13 weekly DataDIGest. Simonson reported that diesel had topped $3/gallon again, up 38% from a year ago and the diesel-derived liquid asphalt was similarly up, rising 21% over May 2009 to more than $650. Although smaller increases on building products were reported in April as well, Simonson forecasted a reversal of the trend as 2010 continues at an April 7 cost seminar in Pittsburgh.

"Prices for a number of basic materials may continue to rise even more this spring, but the price increases will be hard to make stick without demand from new construction," he predicted.

Economic consulting firm IHS Global Insights also weighed in on the prospects for rising prices. IHS sees weak global demand beating back increases during the last two quarters of 2010. In their report, they called out depleted steel scrap inventories for the recent structural steel hikes. They also feel that the copper and aluminum markets have gotten "way ahead of market fundamentals."

PERCENTAGE CHANGES IN COSTS	March 2010 compared to:		
	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	0.4	0.8	2.3
Producer price index (PPI) for finished goods	1.1	1.7	6.0
PPI for construction	1.3	2.6	4.8
Costs by Construction Types			
Highway and street construction	1.6	2.7	8.5
Nonresidential buildings	1.3	2.2	4.4
New industrial building construction	-0.5	-0.6	-5.3
New warehouse construction	-0.2	-0.3	-5.7
New school construction	0.0	0.5	-2.2
New office construction	-0.3	-0.5	-4.8
Multi-unit residential	1.0	2.3	3.0
Single-unit residential	1.0	2.3	2.8
Costs for Specific Construction Inputs			
#2 diesel fuel	8.9	9.9	61.8
Asphalt paving mixtures and blocks	0.6	4.6	3.1
Concrete products	0.0	-0.3	-2.0
Brick and structural clay tile	0.5	0.3	-0.3
Plastic construction products	1.4	2.5	2.7
Gypsum products	1.0	0.2	-9.1
Lumber and plywood	2.2	7.1	14.0
Architectural coatings	-3.4	-3.3	-3.9
Steel mill products	3.4	10.3	11.3
Copper and brass mill shapes	-3.3	-3.1	46.8
Aluminum mill shapes	-1.5	3.0	13.0
Fabricated structural metal	1.0	1.3	-7.7
Prefabricated metal buildings	-0.2	2.2	-6.4
Crude petroleum (domestic production)	12.1	17.9	83.9
Asphalt (at refinery)	2.4	9.6	49.4
Cement	-0.5	-1.1	-2.9
Iron and steel scrap	12.3	36.2	106.8
Copper ore	1.6	-5.5	74.0
Copper base scrap	9.6	12.1	110.3

Source Bureau of Labor Statistics, Updated Jan. 24, 2010
Compiled by Ken Simonson, AGC Chief Economist

Indeed, the International Monetary Fund's predictions for manufacturing capacity for 2010 suggest that the supply of precious and industrial metals will be more than adequate to meet even slightly better demand. Copper in particular seems to be building capacity in anticipation of global demand. World copper mine production is forecast to increase by 3% to 16.1 million metric tons as a number of new projects commence operations. Production is also forecast to be higher, since a number of mines that closed in 2008 as a result of low prices are expected to reopen. In 2010, refined production is expected to increase by 2% to 18.4 million metric tons, as an increase in demand for refined copper supports higher production. These dynamics are why Ken Simonson predicts that prices for copper won't approach the 2008 highs of $4-5 per pound. At the same time, futures prices on April 1 were $3.60/pound.

Another of the observations by IHS Global was for an overall decline in wallboard prices of 6.7% in 2010, a prediction that flies in the face of the current environment. IHS Global bases its forecast on the logic of the double dip of depressed residential

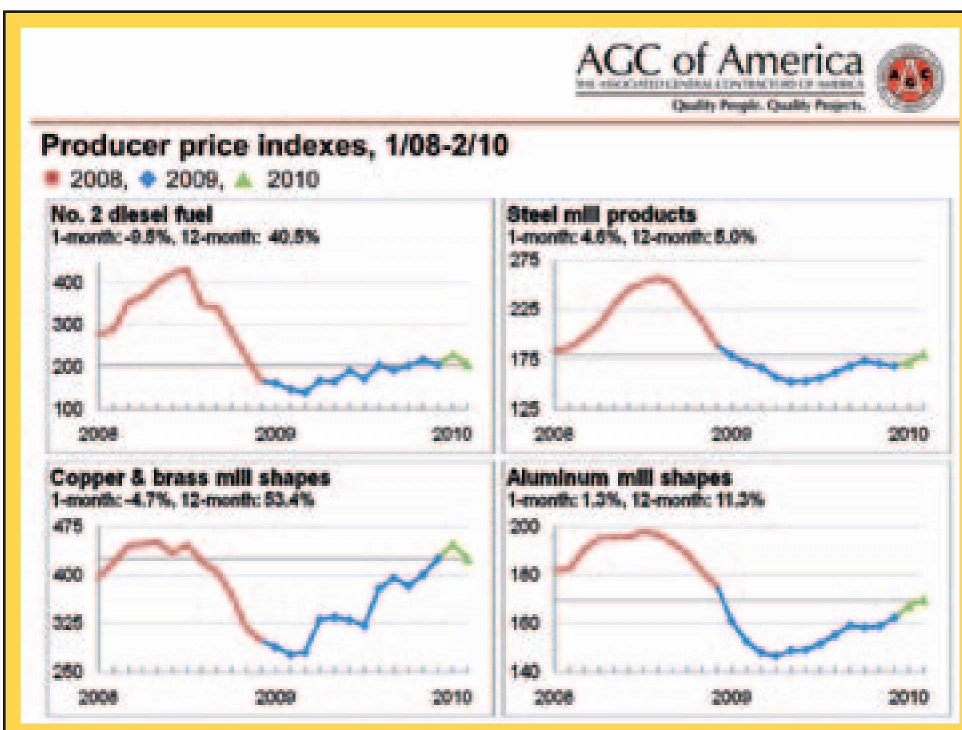
construction meeting markedly lower non-residential demand; however, the forecaster may be overlooking a less scientific factor that appears to be gaining steam. Both US Gypsum and National Gypsum, the two largest American producers, put drywall price increases of 20% into the market in mid-March. As of late April these price increases were still in place. The explanation for the price hikes was not demand related but rather a reaction to two-and-a-half years of losing money.

This pricing strategy, raising prices in order to raise revenues, may not follow the laws of supply and demand but it may represent a resolve that is not limited to the drywall business. Laura Huch Kerckhoff, president of local precast manufacturer Castcon Stone refers to the condition as pricing fatigue, a sort of 'we're mad as hell and we're not going to take it anymore' for suppliers. Almost all vendors have been surrendering margin since the start of the recession and most manufacturers have been losing money until this most recent quarter, even as they downsized drastically. The fatigue Kerckhoff describes is a capitulation of sorts, a decision to turn down business rather than go any lower.

There is nothing but anecdotal evidence to support this theory, of course, but one factor that is worth noting is that the recession has forced consolidation throughout the supply chain, leaving fewer competitors to work against price increases. Manufacturers understandably blanch at the suggestion of concerted pricing, but in an era where information tends to saturate an industry, don't rule out the possibility of 'price fatigue' gaining momentum. BG

		'07	'08	09	'10/F
Sources: World Bureau of Metal Statistics, Brook Hunt Group, CRU Group, AME Mineral Economics, ABARE, Bank of America-Securities-Merrill Lynch Research					
Aluminum	Supply	38.14	38.87	37.69	38.21
	Stocks	3.89	5.51	6.32	6.83
	Demand	38.01	38.38	36.89	37.7
	Surplus/Deficit	4.02	6	7.12	7.34
Copper	Supply	18.01	18.17	18.39	18.77
	Stocks	0.68	0.78	1.19	1.45
	Demand	17.7	17.85	17.5	17.93
	Surplus/Deficit	0.99	1.1	2.08	2.29
Nickel	Supply	1.45	1.34	1.25	1.28
	Stocks	0.16	0.18	0.19	0.21
	Demand	1.38	1.32	1.23	1.26
	Surplus/Deficit	0.24	0.19	0.21	0.23
Zinc	Supply	11.17	11.53	11.32	11.54
	Stocks	0.1	0.1	0.19	0.44
	Demand	11.44	11.45	11.23	11.23
	Surplus/Deficit	-0.17	0.18	0.27	0.75
Lead	Supply	8.1	8.8	9.13	9.38
	Stocks	0	0.29	0.57	0.86
	Demand	8.27	8.61	8.85	9.1
	Surplus/Deficit	-0.18	0.48	0.85	1.14

Estimates for output and demand for industrial metals gathered by the IMF from various sources.



Price inflation for key construction inputs have turned up recently.

HOUSING

MARKET UPDATE

IT HAS BEEN MORE THAN THREE YEARS SINCE THE TERM 'SUBPRIME MORTGAGE' FIRST BECAME PART OF THE NATIONAL DIALOGUE. LOOKING BACK IT IS HARD TO IMAGINE HOW SUCH SYSTEMIC OVERLEVERAGING OF THE NATION'S HOMES COULD HAVE BEEN MISSED BUT, AS KEN LEWIS HAS DOCUMENTED IN HIS BOOK ABOUT THE FINANCIAL CRISIS CALLED *THE BIG SHORT*, BY THE TIME MOST AMERICAN BUSINESS PEOPLE LEARNED ANYTHING ABOUT SUBPRIME MORTGAGE PROBLEMS THE DAMAGE WAS DONE.

The ills and excesses that created the housing bubble and the subsequent collapse have been reported pretty widely by this time. In overbuilt markets, the housing recession is going on five years now, and the discussion has moved from how it happened to how to make it go away. The passage of time has revealed the path out of the woods and it's now a good time to take a closer look at how the deep recession in housing has reshaped the industry and the nature of housing itself. New trends have emerged as a result of the turmoil and also as a result of other cultural influences, which will affect the housing market in general and in Western PA specifically.

Housing is a big industry, but it should only affect you if you work in residential construction in some fashion, sell houses, finance houses or live in houses.

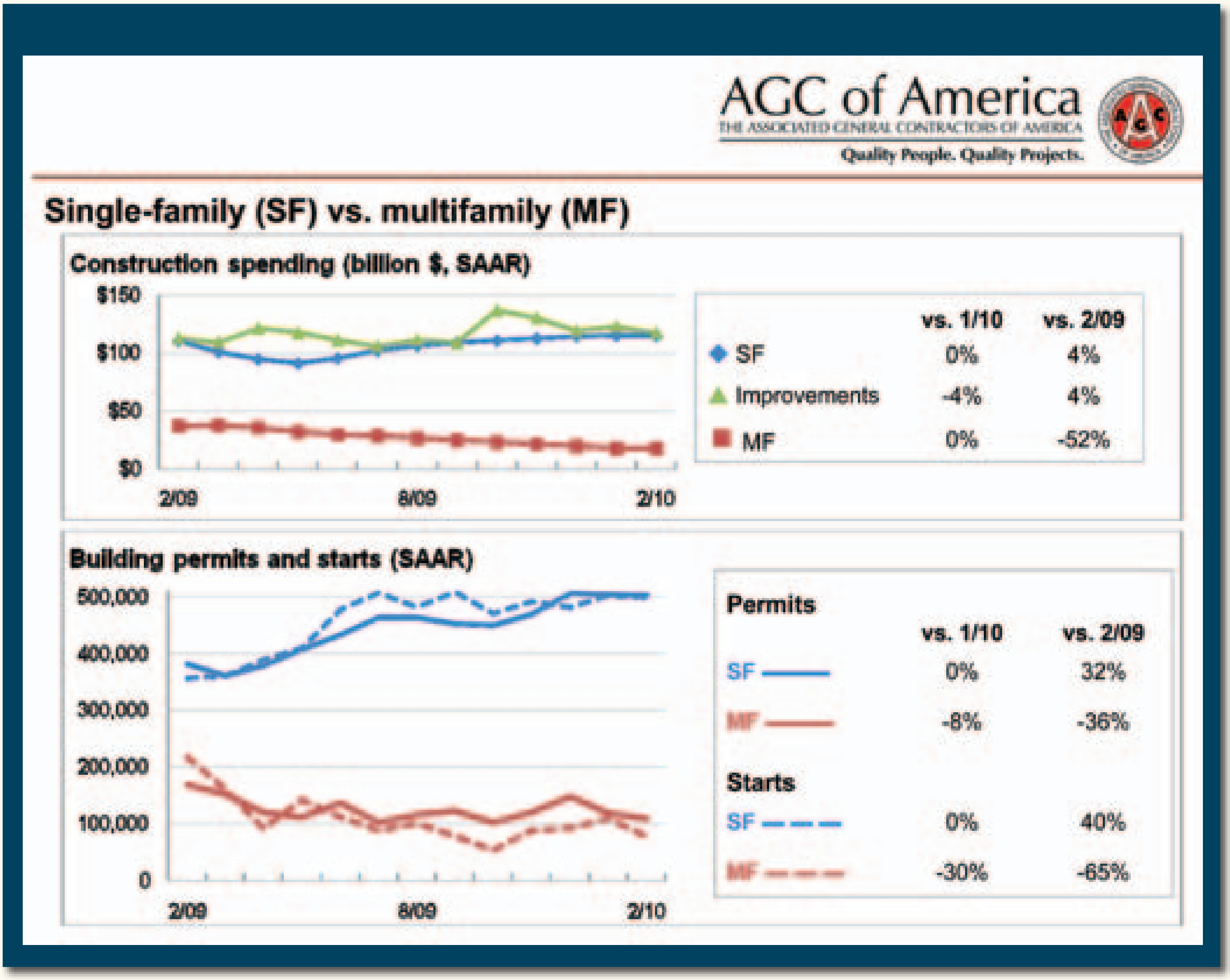
THE BIG HURDLE

Before we can get too concerned about what the next housing market trend will look like it will be necessary to get past the last one and there are still a number of indications that we aren't out of the woods just yet.

For many regional observers (none of whom are involved in the housing industry) there has been consolation in the fact that the housing market in Western PA didn't overheat or collapse. But the market size in metro Pittsburgh is about half that of the market for new homes in 2005. The fact that it took four years to get to the bottom gradually is of little consolation for businesses that now have half the prospects they once had. For them, the next business cycle can't come soon enough.

Whether the subject market is Pittsburgh or Los Angeles the number of new construction buyers has been enough to erode the excess inventory over the past eighteen months. Demand may not be healthy but it has grown pent up enough to re-start the cycle. What has presented the biggest hurdle to that re-boot is the sick mortgage business. And while we have a good handle on what the problem is – too many homes not worth what was owed on them – even residential mortgage experts are having a hard time deciphering whether or not the problem has been worked through.

In this one aspect of the housing recession, Pittsburgh was more insulated. Perhaps because our lenders were so much



The trend for single & multi-family housing is diverging as the recession ends. (Source AGC chief economist Ken Simonson).

shrewder (or perhaps because the Pittsburgh market wasn't on many national mortgage brokers' radar before the recession) the foreclosure rate moved up only slightly during the worst of the problem, and declined significantly last year. But that hasn't been true of the national market.

First American CoreLogic reported in April that more than 11.3 million, or 24 percent, of all residential properties with mortgages, were in negative equity at the end of the fourth quarter of 2009, up from 10.7 million and 23 percent at the end of the third quarter of 2009. An additional 2.3 million mortgages were approaching negative equity at the end of last year, meaning they had less than five percent equity. Together, negative equity and near negative equity mortgages accounted for nearly 29 percent of all residential properties with a mortgage nationwide.

On April 15 came a report from RealtyTrac Inc. that more homes were lost in the first quarter than in any quarter since the company began tracking foreclosures in January 2005. The data points to the likelihood that the recovery in housing still faces some headwinds; however, RealtyTrac also sees the foreclosure data as a long term positive, believing that the 35% jump over 2009 is a signal that banks are ready to process the non-performing loans that they had previously forestalled.

The million-dollar question is whether the banks are responding because they can no longer hold off or because they are now healthy enough to take their medicine and move on. The former scenario will extend the pain of the recession further. The latter one, however, offers the hope that the banks can now put their asset portfolios into a realistic state, which would allow investors to feel comfortable about buying residential debt and homeowners to feel comfortable that the value of their new home is not going to plummet.

If the last hurdle – the workout or foreclosure on the final chunk of nonperforming mortgages - is upon us and the lenders and borrowers have the capacity to overcome the hurdle, that won't necessarily signal the start of another boom. Even with several years of pent-up demand the inventory of houses on the market will still require another couple years of absorption to reach a supply shortfall. And at that point, the mindset of the American homebuyer will probably be different from what the builders understood five years ago.

REACHING EQUILIBRIUM REFUELS CONSTRUCTION

At the height of the bubble, several common characteristics drove the overheated markets to the point of explosion. Demand for housing in the hottest of areas – Las Vegas, Florida, California, metro Phoenix – was so high that costs for materials and labor rose as fast as the prices of the homes. Magnifying that was the fact that the easy credit, or unworthy credit, motivated builders to offer ever larger homes with a dizzying array of upgrades as standard features. And the belief that significant appreciation would continue unabated fueled buying by speculators, intent on turning the quick profit as buyers lined up.

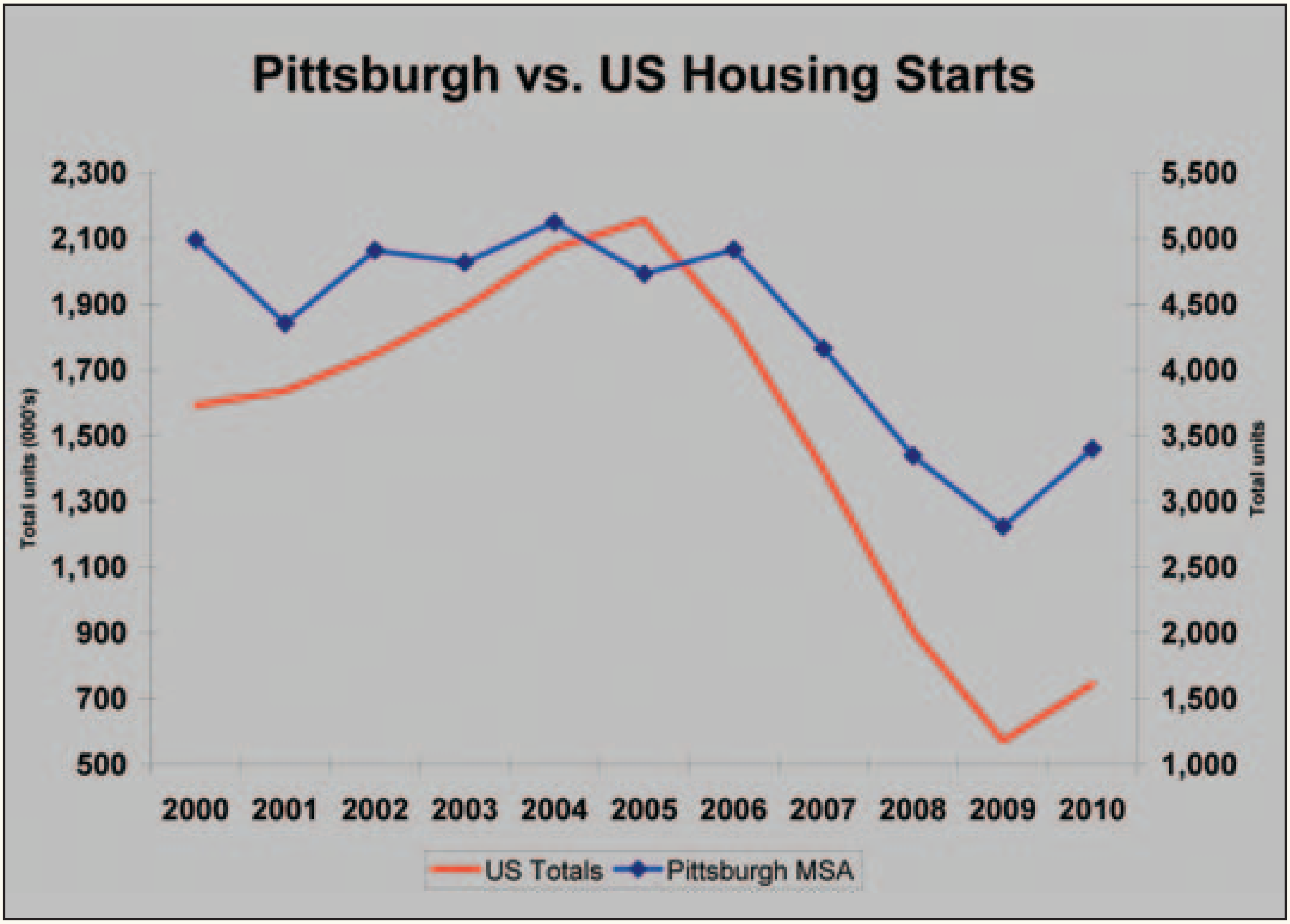
When the bubble burst the effect on the markets where these factors had gotten furthest out of control was like a river when a dam bursts. The 'river' of demand, which had risen artificially, rushed out of the market. As you visualize that image, picture with it the jobs and businesses washed away like trees and debris in the river's wake. Taking that analogy to its logical conclusion, the rush ultimately leads to a new water level and calmer conditions at equilibrium. In some of the worst hit markets, that new equilibrium has created the conditions for a new market.

In central and south Florida, some of the most extreme of these conditions existed, both on the way up and down. Yet after an extremely painful readjustment, homebuilders are now ramping up volumes again. Local data for the Tampa and Orlando markets for the first quarter showed a 60% increase in home permits. Builders are adding to their labor forces, and in new developments demand his risen enough that prices are actually going up.

The pain of the readjustment shouldn't be dismissed lightly, however, and builders have drastically re-shaped what they are offering.

It's important to remember that the cause of the housing problems was somewhat artificial in its own right. With U. S. population growing by about three million each year, more households are forming and about a million and a half new units are needed to meet that annual demand. This is about twice what has been started the past three years. It was the imbalance on the supply side – too much house, unsustainably high prices, and too many buyers without the ability to maintain a long-term mortgage – that let the air out of the balloon.

Again, a glimpse at the nascent Florida revival offers hints at what will refuel the national rebirth of housing. The new houses popping up are roughly 1,000 square feet smaller than the average home of a few years ago. Amenities like granite counter tops, stainless appliances and marble tub enclosures are upgrades again. And the buyers are the kinds of occupants who had been driven out of the market, young families and retirees.



Housing activity in metro Pittsburgh has picked up, following the national trend.

What made the difference was simply time to heal. In Sarasota, for example, the average number of homes on the market throughout 2006 was 8,000. At the end of 2009, only 1,700 homes were for sale. A lot of homeowners had to take a haircut in order for 75% of the available inventory to be worked out of the market, but at the end of the day that inventory burn off was the only way to rebalance the supply/demand equilibrium.

Most U. S. markets didn't get as overheated as the western or Sunbelt big cities, yet almost all cities have felt the steep construction decline. As each market recovers, the characteristics that are the new normal in Florida seem destined to mark the new 'average' house in America. The AIA's housing characteristics survey in 2009 found that the average home size had fallen again for the third straight year. Builders are still operating on thin margins and are not going to extend their costs by building larger homes without contracts and significant deposits. Whatever the new normal for home mortgages becomes, buyers should expect that standards for gross and net income multipliers for debt will look more like those from the 1970's than 2005. And the trend of the past fifteen months, with consumers reducing debt each month may actually be a signal that Americans are willing to de-leverage their lifestyles.

Any of these trends would have the net result of contractors building smaller houses. All of them in concert will certainly act to keep the average American house much smaller.

SUSTAINABLE HOUSING

Smaller houses are also part of a larger trend towards sustainability, which is itself a residual of the acceptance of green building across all building types. Similar to the credo that the greenest building is the one you don't build, the most sustainable house is one that takes up no more space than you need. Smaller houses require less land, disrupt less of the environment, use less energy, and represent a shift away from consumption for it's own sake.

Over the past decade a number of institutional residential or apartment projects have been LEED-certified, including a feature

couple of the higher profile projects Downtown, the Encore on 7th and the Residences at 3 PNC Plaza. A number of individual builders have taken the steps to become EnergyStar builders, and they are building projects as diverse as the Windom Hill townhouses and production neighborhoods in the suburbs. Similar to LEED certification, EnergyStar certification involves a set of criteria that must be verified independently for each home. Because EnergyStar focuses on a limited number of building systems and characteristics (most relating to the home's energy efficiency) builders can get a high number of homes certified each year.

These energy saving and sustainable design measures focus on the individual home, but the most significant trend in the region now is the development of large-scale sustainable neighborhoods, which focus on a broad spectrum of sustainability issues rather than only energy efficiency. Most of these new neighborhoods fall into the category popularly called Traditional Neighborhood Developments (TND).

There have been several notable TND's developed in Pittsburgh in the past decade. The South Side Works has much more emphasis on work and play than live, although more housing is planned, and the Summerset at Frick Park neighborhood east of Squirrel Hill is primarily single family homes, although it has much more of the architectural style and layout of the current state of the art for TND's. As new home construction begins to re-emerge, three separate TND's have gotten underway in separate parts of town that have the best of TND principals and energy efficient homes.

In Cranberry Township, the Park Place development is well underway with its first phase. Almost a dozen single-family homes have been started or completed, all of them EnergyStar certified. Park Place will have the scale of old fashioned neighborhoods, with rear alleys, parklets throughout, and walkable connections to Graham Park's athletic fields and community park amenities.

EQA Landmark Communities is developing the other two TND's, Newbury in South Fayette Township and Edgewater in Oakmont. The Newbury project will have energy efficient residential units built along the hillside overlooking the valley between Presto-Sygan Road and I-79, which will be the site of offices, retail and live/work spaces. Newbury is laid out to allow for easy walking access from the residential area to the commercial spaces. It will require an investment in the neighborhood of $100 million before all is done and it will transform South Fayette Township, giving the sprawling suburban community a center of town.

The newest EQA project, Edgewater, is a brownfield reclamation of the former Edgewater Steel facilities in Oakmont. The project will include 240 for sale homes of a variety of sizes and styles, and approximately 45,000 square feet of office, commercial and neighborhood retail space. Edgewater is somewhat of a culmination of the experiences EQA has gained developing cutting edge neighborhoods, according to EQA president Brett Malky.

"Edgewater will be the quintessential TND; it will be the picture of what a TND should be in three years," Malky says. "We're taking a nuked site and converting it to a neighborhood, greening it to the riverfront. The homes will be highly energy efficient or zero energy, and will sell for $190,000 to $700,000 and there will be eleven different styles. What is best about it is when we're done it will look like it's been there forever."

Malky says that the architecture, done by Rothschild Doyno Partnership, is meant to be an extension of the architecture of Oakmont. As laid out, the street grid of Edgewater will literally extend that of the existing Oakmont street system. Edgewater is also one of seven LEED pilot neighborhoods nationwide. For older cities like Pittsburgh, sustainable developments like Edgewater fit well with the constraints of the limited land and difficult terrain. Like green building, traditional neighborhood developments and sustainable housing will not be a fad, but rather a trend to be followed.

THE TRENDS

No matter whether you look at the national or regional trends these days the best that can be said about the housing market is that it has enormous potential for growth, which is another way of saying it surely can't go lower.

A look at the February national data show that one distinct trend that is continuing is the divergence in the single-family and multi-family markets. Over the past year both spending and starts have grown steadily in the single-family sector while multi-family activity has declined. The near term expectation is for that trend to continue, since permits for new construction continue to show a decline, with starts following for at least another quarter. Beyond the next quarter, however, the market forces should begin to push the multi-family market back up.

> "WE'RE TAKING A NUKED SITE AND CONVERTING IT TO A NEIGHBORHOOD"

There has been a virtual drought of multi-family apartment construction in southwestern PA for a half-decade. While vacancies for apartments are almost non-existent, the perception of demand is relatively low as well. The strength of the colleges in the region could bring renter demand except for the campus housing programs that most of the universities have been implementing. What is bringing about a change for the near-term is the influx of employment in the natural gas business.

Owing in part to the nature of drilling activity, the exploration of the Marcellus Shale formation has proven to be less of a boon to housing sales than for rentals. Even where the natural gas companies have brought in engineering and office staff the desire seems to be for leasing housing rather than buying. Assuming that the industry is going to need at least a fraction of the employment that has been touted, the second half of 2010 will see a significant rise in demand for apartments. Until more can be built, this pressure will start driving rents higher, which in turn will improve the financial outlook for apartment owners and developers.

One project that is already moving ahead is a plan for 271 units in the Southpointe area in Cecil Township to be developed by Cranberry-based Kellaur Corporation. The project is similar to others, like Berkeley Square in Cranberry or Ventana Hills in Robinson, developed by Kellaur roughly a decade ago.

Another trend that is developing as a result of the recession here could have a more lasting effect on the regional housing market: the demise of the custom builder.

Western PA has historically been characterized by a strong cohort of small custom builders, most averaging five to ten houses per year. In fact, since 1995 no more than five builders have started at least 50 homes in any given year. As the housing demand began to slow more steeply in 2007, the custom builders responded quickly by reducing their new home construction. When slow demand gave way to the housing crisis over the past two years, activity levels for custom builders shrank further. The market share of custom builders, which was historically 60% or more, fell to barely 50% in 2009; and during the first quarter of 2010 the share of the four production-minded builders – Ryan, Heartland, S & A Homes and Maronda – was 55.9% of the total single-family detached market.

With fewer developers willing to create subdivisions for multiple builders, this phenomenon is unlikely to reverse. In fact, the region is attracting interest from other production builders. Dan Ryan Homes, based in Frederick MD, has plans to expand its Morgantown operations into Western PA, likely aiming at grabbing five-to-ten percent of the market share. And the share of national 'build on your lot' builders – like K. Hovnanian, Shumacher and Wayne Homes – has grown steadily here, approaching ten percent of the market share in 2009.

WHY HOUSING MATTERS NOW

Stability in the housing market is generally reflective of a stable, healthy economy. Because the recent recession started with the deflation of a housing bubble, and the financial crisis (which doomsayers say has only been through phase 1) was triggered by overleveraging risky mortgage securities, a stable housing market will be an indicator that the economy is in full recovery during this business cycle. Unemployment is highest in the construction category and the highest unemployment is for jobs in homebuilding. A bottom in house pricing is needed to inspire confidence from prospective buyers and debt investors. Housing must recover before the overall economy can breathe freely again.

> THE RECOVERY IN HOUSING WILL ALSO HAVE TO LEAD TO A SHIFT IN FINANCING TO ENSURE THAT A REPEAT OF 2007-2009 ISN'T IN THE WORKS.

The recovery in housing will also have to lead to a shift in financing to ensure that a repeat of 2007-2009 isn't in the works. In an ideal world, consumers will have learned that over the course of a thirty or fifteen year mortgage their home will appreciate two or three percent a year, and that periods of more rapid appreciation are likely to be offset by declines later. This would keep consumers from thinking of their home as an ATM, and encourage refinancing to add to their long-term investment, which won't include a new Hummer or trip to France.

Owning a home represents confidence in the future. When home values decline there is a related decline in confidence in the future, and that's bad for the economy. The craziness of the mid-2000's relied on the overconfidence of the consumer. One of the characteristics of the so-called Greatest Generation was that they never outlived the doubt created by the Great Depression, which stripped many of them from childhood homes. A little of that doubt will go a long way in preventing a repeat of the past few years. BG

The Vista Grande at 501 Grandview Avenue.

VISTA GRANDE

CONDOMINIUMS

If satisfaction can be drawn from tenacity, Dan DiPardo has to be extremely pleased as his Vista Grande project becomes reality. Developing a multi-story building on Mt. Washington requires patience and a long view of the project's success, and DiPardo found out why more than a few developers have walked away shaking their heads from the iconic neighborhood. He has a slightly more cynical evaluation of the process.

"Yeah, I should probably have my head examined," he joked. "But when you look at the market in that neighborhood there really isn't a lot up on Mt. Washington to choose from. The most recent comparable at the time was over $600,000 in a 20-year-old building." He believed the inventory for sale didn't meet the demand that existed.

Dan DiPardo started the official planning process for Vista Grande in 2005, but he was hardly a stranger to the neighborhood. The managing partner of DiPardo Baldacci, a certified public accounting firm on Banksville Road, he had purchased an interest in the building which preceded Vista Grande at 501 Grandview back in 1981 as an investment property. For the next 24 years DiPardo and his two partners owned and managed the eleven-unit building, and during those years took the opportunity to buy out one of the partners during a refinancing. The apartment building made him money but his eye was on the possibilities of a grander development at the site.

As the economy was recovering from the last recession, DiPardo began planning for a small but high-end eight-unit condo to be built on the site of his apartment. During the process he discovered that his remaining partner was not as committed to the project as he was, so he decided to forge on alone. But he didn't realize how much forging would still be required.

In spring 2005 the project was taken through the city's planning and zoning process. Since the project was planned as a five-story building DiPardo asked for and received a variance from the restriction on building height on Mt. Washington. It was then that the plot thickened. Then Mayor Murphy objected to the decision and a group of citizens appealed the decision, which was upheld in court. Further legal action attempted to halt the project, along with a larger project being proposed by Craig Cozza, but the Vista Grande ultimately prevailed, but at a cost.

"We won the suit but we also lost two years," remembers Dan DiPardo. "The delay put us in the midst of the recession." The timing was also unfortunate in that the final pricing took place during a more expensive market climate. Bids from four contractors convinced DiPardo that he needed to modify the design to a masonry bearing and plank structure. It also convinced him that he should contact another contractor.

In his career DiPardo has provided audit and advisory services for a number of contractors, including larger firms like Mellon Stuart, Dick Corp. and the former Limbach Co. The experience gave him a comfort level with what went on behind the scenes, and he felt comfortable calling on an old friend and customer to help him out.

Yarborough Development had been an audit client of DiPardo Baldacci, and its president, Lee Totty, was a longtime personal friend of Dan DiPardo's. Initially, though, that was more an obstacle than a benefit. "I've been friends with Dan for over 30 years, and at one point I actually was a tenant of his at 501 Grandview," Totty says. Totty, however, subscribes to the theory that it's OK to

Vista Grande fills in the Mt. Washington skyline overlooking the Mon Wharf side of Downtown.

become friends with the people you work for, but it's a bad idea to work for the people who are your friends.

"Lee's an honest guy and I trusted he would give me the best job possible at the fairest price," says DiPardo. "When he was a client I saw his business from the other side of the table, so I knew he could be tough when he had to be but that he was also fair with his clients. After getting the bids from our revised design I was uncomfortable with the potential for where the costs would end up. Frankly, if it wasn't for Lee I probably would have shelved the project."

The final design was a $6 million, 36,025 square feet building with a lower level parking garage and five floors of condominiums ranging between 2,200 and 2,600 square feet. Units are either two-bedroom or three-bedroom designs. The building is situated immediately to the west of St. Mary of the Mount church, just a few doors from the intersection of Grandview and the P. J. McArdle Roadway. The exterior is brick with lots of glass and balconies on all sides. While the individual units will be fitted out as desired by the buyer, the base finishes include hardwood floors, granite throughout, Jacuzzis and upgraded finishes as standards. And, as the street name suggests, the views are indeed grand.

Construction started in July 2008, but hit a snag fairly early in the process. " In October 2008, I was at the job site for a meeting after we put the first floor up when I got a call that the architect had suffered a stroke," Totty recalls. "Fortunately the rest of the building had repetitive floor plans so we weren't going to encounter any surprises to complete the construction."

The architect, Fred Denig, had been instrumental in adapting the original conceptual design to what was ultimately submitted for construction. "I enjoyed working with Fred as he took the original plans and re-worked them," says DiPardo. "But I had to have an architect on the job to administer the construction." During that phase of the project their were some questions for the structural engineer to work out, and he recommended to DiPardo that he bring in architect Edwin Pope to see the project through the remainder of the construction while Denig recovered.

As an infill along Grandview Avenue's skyline, Vista Grande was being fitted into a fully built-out street, with almost no setbacks. Like most projects built in city neighborhoods this created its own set of headaches for Yarborough Development.

"You had the usual challenges of city construction. The crews had problems parking; there were the logistics of closing off streets and sidewalks for safety; opening streets up on Mt. Washington was interesting, getting phone calls at 5:00 AM about the steel plates rattling when cars drove over them," chuckled Totty. "The building is only five or ten feet from the property line on three sides so there was no staging area. We were lucky to get help from Craig Cozza."

Cozza was still in the planning process for his Vici condominium, which was just on the other side of St. Mary of the Mount from the Vista Grande project. The site is fenced off and accessible, and it made a convenient spot to stage for Yarborough.

For Dan DiPardo the biggest challenges took place long before construction started. Even though the residents' group included his project in the legal action to delay the Mt. Washington condos, DiPardo doesn't hesitate in calling out the city government as his primary obstacle. "The city seems to put as many roadblocks in front of you as possible. We asked for no abatements from the city so I don't understand why they would tie up a project that was going to create tax revenue. I could quote you chapter and verse on the problems we've had with the city bureaucracy since we started."

One challenge that DiPardo relishes undertaking is the marketing of the property. A Vista Grande website has been created and it has attracted a fair amount of attention.

"We have had over 1,500 hits since the site was created so we have a lot of play," he reports. "Because it's Pittsburgh there are a lot of 'doubting Thomases' who are interested but won't buy until they can walk through a finished unit, even if they want something completely different."

Yarborough is in the process of completing the first unit as a model (even though it will likely end up being redone later), and DiPardo is anxious to begin showing it. "I have a couple of prospects who want to see the model to judge what we're doing,' he says. "I've seen people pay a million dollars for homes on Mt. Washington and then pay a million more in updates to get what they want. I believe someone would rather spend less and work with something new." BG

PROJECT TEAM

Yarborough Development
- General contractor

Atelier Denig Architect
- Architect

Harris Masonry
- Masonry contractor

Alliance Drywall
- Interiors

Multimetals Inc.
- Structural steel

Pennsylvania Roofing
- Roofing contractor

Partners Dave McConahy (left) and Dave King flank founder Jack Nicklas.

NICKLAS KING MCCONAHY & COMPANY

One of the professions that have received a bit of a black eye during the past couple of years of recession has been the appraisal business. In many parts of the country, as the housing bubble inflated, the workload and the human nature of the business created conditions where appraisals became as unrealistic as the mortgage industry. It's a scenario that tends to happen periodically, which is one of the reasons why Raymond J. 'Jack' Nicklas talks first about the character of his younger partners when he talks about the company he founded.

"When each of them was offered the opportunity to become partner, it was as much because of the character of the man as their capabilities," Nicklas says. "They are both the kind of men you can count on to represent the integrity of our firm; they are dedicated to their families. In this business you rely on your reputation."

The men Nicklas speaks of are partners David J. King, now the managing partner, and David E. McConahy. King joined the firm in 1974 and McConahy joined in 1987, after spending two summers interning with Nicklas King during his college years.

Nicklas King McConahy has had a history that very closely parallels the evolution of the appraisal profession over the past sixty years. The firm is an offshoot of a family real estate business, founded by one of the pioneering women in Western PA business, realtor Agnes Nicklas, the mother of Jack Nicklas. He joined Agnes R Nicklas Realtor & Associates after college, and in 1952 started insurance and appraisal lines of business. Jack had received the education and training to do appraisals but the industry at that time wasn't as specialized as it is today.

At the time, the only legal requirement of an appraisal was that it had to be done by someone with a real estate brokerage license. For the most part the appraisal was protecting the interests of the lender, so it was commonplace for banks to have appraisal departments or to hire a third party appraisal management firm and split the fee. It was not uncommon for a board member of the lender to write up the appraisal that was used for the loan. Firms like Nicklas King McConahy were valued that much higher because of their objectivity, but the industry was not highly regulated.

As fallout from the savings and loan crisis in the late 1980's, the federal government passed legislation that effectively forced states to draft regulations and a certification process for real estate appraisers. The law may have raised the bar on the profession but it had unintended consequences for firms like Nicklas King McConahy.

Dave King was a member of the State Board of Real Estate Appraisers at the time (he would chair that board twice between 1995 and 2000) and recognized that the new regulations would alter the landscape. "We built our business doing residential appraisals in the 1980's. The key for us was service, the timeliness and accuracy of the appraisals," he explains. "At the height of that period we had seven appraisers on staff, but when the law passed in 1991 the certification was for individuals, which allowed individual appraisers to compete with companies they worked for."

King says their business was 70/30 residential to commercial appraisals in 1991. The firm's leadership recognized that fee compression was going to follow the new requirements, and believed they had to move their expertise into areas, like commercial, where it would have a better chance to differentiate Nicklas King McConahy from others. By 1995 their residential department employed only two appraisers, and today their business mix is close to 90% commercial and 10% residential.

"We still maintain some residential work because we work with several local institutions who still want to know what an expert thinks the property is worth," says King.

"WE HAVE ACCESS TO MUCH MORE DATA THAN EVER BEFORE, electronic maps, records, photos ..."

That sort of caution obviously would have benefited the economy as a whole as the residential finance business headed off the rails in the middle of the last decade. Appraisers find that their perceived value tends to go up at the top and bottom of the business cycle. "We are really busy when times are very good or very bad, because those are times when our clients really want to know what property is worth," noted Dave McConahy.

Nicklas King McConahy has a broad spectrum of client types. While they still do a lot of work for the category of lending concerns (banks, brokers and investors) in support of transactions, the firm has a robust business with a wide variety of government agencies. Most of the counties north of Allegheny County use the firm to assist with their volume of property tax appeals. Nicklas King McConahy has contracts with the state of Pennsylvania, and its work with the federal government includes contracts with the FDIC, the FBI and the Department of Homeland Security, often assisting in the evaluation of properties during an investigation of fraud.

A significant piece of their business comes from attorneys, assisting with valuations for dissolution of businesses or estates, evaluating property for divorce settlements, providing appraisals for eminent domain proceedings, and estimating value for insurance claims. The latter provides what Dave King says are the best jobs for appraisers. "My favorite assignment is an appraisal of a building that isn't there anymore," he jokes. "In a fire insurance claim we're usually appraising a property that has been torn down so it's difficult to say we're wrong."

Because of the growth of the business and to be closer to where the action was in the 1980's, Nicklas King McConahy moved from its original location on Route 8 in Valencia to Cranberry Township in 1986, and built its current location in 1991. The firm also merged with two residential appraisers to serve the markets to the south and east, operating Nicklas King Kirsch in Bethel Park and Nicklas King Irwin in Greensburg.

The firm has continued to evolve to meet the challenges of competing. Jack Nicklas has now retired. The remaining partners see the emergence of technology as an opportunity to keep an edge.

"We have access to much more data than ever before, electronic maps, records, photos," says Dave McConahy. "When I started we had to have a person go to the county courthouse to get the information we needed on a property from the recorder of deeds, and that might happen daily. Now we can get that from a county website in minutes. That person we used to use can now do something else productive for our client. It's imperative that we keep up to date with the latest technology."

Like all professionals, appraisers face the challenge of justifying a fee for expertise in a marketplace that tends to commoditize services. For firms like Nicklas King McConahy technology allows them to leverage their competitive advantage, their knowledge, more effectively.

"Our job is to estimate the value of a property by applying our experience to the best available data about the property and the market," says Dave King. "Technology allows us to raise the expectations of our clients about the accuracy and timeliness of our estimates." BG

Company Facts

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Hidden Design Delegations Raise Risks to Contractors

By: D. Matthew Jameson III, Esq.
and Lauren C. Rodriguez, Esq.

Nearly 100 years ago, in United States v. Spearin, 248 U.S. 132 (1918), the United States Supreme Court ruled that if a contractor performs according to the plans or specifications furnished by the owner, the contractor will not be responsible for damages related solely from defects in the plan or specifications. This ruling has become known as the Spearin doctrine. Based on this doctrine and the traditional design-bid-build project delivery system, contractors often assume that they have no design responsibility. As a result of attempts by architects to minimize their own potential liabilities, contractors may now be unintentionally accepting some degree of design risk as a result of the language of their bids and contracts.

The 2007 version of the AIA A201 provides that the contractor will not be required to provide "professional services that constitute the practice of architecture or engineering" unless specifically identified in the contract (section 3.12.10). However, even when no other design responsibilities are identified, the A201 also requires the contractor to perform the following obligations which necessarily implicate some degree of professional services: (1) "carefully study and compare the various Contract Documents relative to that portion of the Work, as well as the information furnished by the Owner"; (2) "take field measurements of any existing conditions related to that portion of the Work"; (3) "observe any conditions at the site affecting it"; and (4) "promptly report to the Architect any errors, inconsistencies or omissions discovered by or made known to the Contractor" (section 3.2.2). The A201 further provides that the contractor will be liable for all costs and damages that the owner suffers as a result of its failure to perform these obligations (section 3.2.4). In other words, the contractor, rather than (or in addition to) the design professional, may be responsible for any design defects of which the contractor was aware and failed to report.

Recent bid documents for a local school construction project (the "Project") attempted to make an even greater, and possibly illegal, delegation of design responsibility to contractors. A questionnaire which all bidders were required to complete contained the following question, which presumably must be answered in the affirmative for a bid to be considered responsive: "Does the Bidder agree that the Contract Documents are clear, understandable and successfully convey the Architect's intentions of the design; and provides the information necessary for the complete and functioning system?"

At the most basic level, an unqualified, affirmative response to this question is impossible since a bidder is incapable of knowing the "Architect's intentions." Furthermore, if a bidder were to answer the question in the affirmative, the significance of such answer is manifold. First, the owner and/or design professional for the Project could argue that as a result of certifying the accuracy and effectiveness of the design the contractor has accepted the responsibility for any defects in that design, thereby eliminating any defense the contractor may have under the Spearin Doctrine. Such certification goes even further than the AIA A201 provision by transferring the risk of design defects to the contractor before a contract is even awarded. Essentially, a contractor who responds to the question in the affirmative may be accepting the risk associated with a design-build contract without being given the opportunity to actually provide the design services or receive compensation reflecting the assumption of that risk.

Second, assumption of the risk of design defects may prohibit the contractor from pursuing change orders necessitated by errors or omissions in the original design. The owner may take the position that the contractor's affirmative answer to the design question is, in essence, a representation that no design-based changes will be necessary on the project, thereby eliminating the contractor's right to request such change orders.

Third, a contractor who affirmatively responds to the question may be engaging in the unlicensed practice of a design professional. Pennsylvania law requires those engaged in the practice of professional engineering or architecture to be licensed by the state. See 63 P.S. §34.1 et seq. and 63 P.S. §148 et seq. While there are exceptions for design-build contracts, those exceptions are only applicable if a design-build entity contracts with a properly licensed design professional to perform all design work on the project. Such a project delivery system is not contemplated by the Project.

An entity which engages in the unlicensed practice of engineering or architecture will be subject to both criminal and civil penalties, ranging from fines of up to $5,000 and imprisonment of up to two years. An entity that engages in the unlicensed practice of architecture will also be required to return all fees associated with such work. In this context, the successful bidder for the Project could face the prospect of liability for design defects, civil and criminal penalties for its unauthorized practice, and the return of all fees associated with the Project. In addition, all unsuccessful bidders that make the requested certification could also be subject to the statutory penalties.

Finally, the transfer of risk associated with an affirmative response will require contractors to obtain sufficient insurance coverage for such risks. As the contractor will essentially be accepting the risks of a design-builder, the contractor should obtain both professional liability (E&O) and commercial general liability (CGL) insurance. The type of coverage under each policy will vary. For example, CGL policies exclude coverage for professional services, pure economic losses and the cost of repair or replacement of defective work. Because of the licensing issues discussed above, carriers may be unwilling to provide E&O coverage for the Project, leaving the contractor completely exposed to the types of claims specifically excluded by the CGL policy.

Contractors should be aware of the implications of the transfer of risk from design professionals inherent in all contracts. In the AIA A201, contractors should seek deletion of the obligations related to the review of the design or, at the very least, attempt to limit the types of damages recoverable for the breach of such obligations. Bidders responding to the questionnaires such as the one discussed in this article should carefully consider the potential for increased liability, limitations on change orders, statutory penalties and insurance coverage exclusions prior to providing an unqualified, affirmative response.

Matt Jameson and Lauren Rodriguez are attorneys in the construction practice with Babst, Calland, Clements & Zomnir, P.C. Jameson is the shareholder chairing the construction practice. BG

Financial Perspective

Construction Company Owners – Be Prepared for the IRS

By Gennaro J. DiBello, CPA
& Matthew M. McKinnon, CPA

The IRS has renewed its interest in the construction industry with the Construction Industry Audit Technique Guide (ATG) revision in May 2009. The ATG is a tool that is used by IRS field agents to better understand issues unique to a particular industry and it assists them in the examination of taxpayers. A year has passed since the release of the revision, and owners of construction companies – and the related financial professionals who serve them – should be aware that the IRS will likely step up compliance efforts for the construction industry. With the instability of the economy over the past two years and the increasing budget deficit, the government will attempt to seek revenue dollars from many market segments.

Although the ATG is primarily a training tool for the IRS, the guide is a valuable resource to better understand areas to be investigated while under exam and to evaluate whether current accounting and reporting methods are being correctly used for tax purposes. The guide provides owners, CFOs, CPAs, and other financial professionals' detailed background and analysis of the tax intricacies of the construction industry. Be advised, however, that the IRS has disclaimed the ATG as an unofficial pronouncement of the law or the position of the IRS. The ATG cannot be cited as authority; however, the concepts can be traced to the Internal Revenue Code, Treasury Regulations, case law, and other authoritative guidance for proper substantiation.

Topics Addressed by the ATG

The May 2009 revision includes eleven chapters of subject matter covering the following technical issues:

- **Introduction to the Construction Industry -** intended audience, types of contracts, and bonding
- **Long-Term Contracts -** definitions, rules under IRC Section 460, and exceptions
- **Small Contractors -** exceptions to general rules, methods of accounting, and Alternative Minimum Tax (AMT)
- **Large Contractors -** cost-to-cost method, allocation of direct and indirect costs, and percentage-of-completion
- **Look-Back Interest -** rules that require the payment or receipt of interest due to the deferral or acceleration of tax liability from long-term contracts
- **Financial Accounting vs. Tax Accounting -** differences in methods of reporting and sample financial statements
- **Homebuilders and Developers -** definitions, inventory vs. real estate, and allocation of costs to each parcel of property
- **Other Construction Tax Issues -** accounting method issues, errors in revenue and expense reporting, and specific tax matters (Accumulated Earnings Tax, AMT, and Employment Tax)
- **Income Probes -** understanding the accounting system, internal controls analysis, and indirect methods of proving income

- **Construction Joint Ventures -** common types of arrangements and examination methods
- **Contractor Square-Foot Costs -** industry averages for site work, foundations, framing, exterior walls, roofing, interiors, specialties, mechanical, electrical, and overhead and profit

Impact of the ATG on Owners (and Employees)

Construction company owners are interested in business and individual tax matters, particularly if the issue impacts their business, the owner and/or their employees. Owners rely on financial professionals (CFOs and CPAs) to guide and advise on tax matters and to assist in compliance with the law. Several matters specifically covered in the ATG could directly impact owners and employees upon examination and are identified as follows:

- **Other Compensation Income -** A contractor or owner may receive an interest in a project for his or her services, in lieu of a cash payment. This ownership (without an initial investment in capital) can trigger income recognition under IRC Section 83.
- **Per-Diem and 50% Disallowance of Meals on Out-of-Town Travel -** Contractors may be paying employees' out-of-town expenses on a per-diem basis and may not be considering any of the reimbursement for meals. Revenue Procedure 2004-60 provides the per-diem guidelines and establishes an amount to be attributed as 50% non-deductible meals expense.
- **Depreciation of Automobiles and SUVs -** Generally, passenger automobiles used by a contractor are considered listed property, subject to limits on depreciation expense under IRC Section 280F. SUVs are very common in the construction industry and can be exempt from the passenger automobile depreciation limits, depending on the gross vehicle weight. In addition to being aware of depreciation limitations, owners and employees should ensure compliance with the income inclusion requirements for the personal use of company vehicles.
- **Personal Use of Business Assets –** It may be determined that a closely-held business owner may utilize company assets for personal purposes. If the company is organized as a C Corporation, the disallowance of the expense could trigger a potential dividend issue. The business, in addition, would be unable to deduct the personal expense. If the company is an S Corporation or a partnership, such expenses would be deemed a distribution to the share-

holder or partner, versus an ordinary and necessary business expense.

An employment tax issue can also surface if the contractor offers to build a home for a discount. Any discount on real property does not meet the exclusion from income guidelines under IRC Section 132 and must be included in the wages of the employee or owner.

- **Unreasonable Compensation -** In the construction industry, officer and owner compensation amounts can fluctuate significantly and frequently; however, the IRS could challenge the amounts. Contractors often make the argument that the higher present-year compensation is a result of artificially low compensation in earlier years. This is a realistic expectation if the contractor is in its early years of existence and the operational results were used to build capital. From an S Corporation perspective, unreasonable compensation becomes a different issue. The IRS wants to ensure that the shareholder-employee has an adequately high salary, so that he or she does not avoid the FICA tax by taking distributions in lieu of salary. While reasonable (or unreasonable) compensation is generally based on facts and circumstances, a good rule is to ensure that the shareholder-employee earns more in salary than the highest-paid rank-and-file employee.

... PROPER PLANNING AND EXECUTION CAN MITIGATE THE POTENTIAL EXPOSURE AND UNWANTED TAX CONSEQUENCES ...

- **Related Party Transactions –** Generally, contracting firms and their owners enter into business arrangements. Examples include the rental of commercial property, management services and other types of services provided between related parties. It is important to ensure that these types of arrangements are executed at arms length to ensure deductibility. In the event that these arrangements are deemed to not be at arms length, the IRS could impute income and/or disallow deductions, which may result in unintended tax consequences.

- **Employment Tax -** Using subcontractors is a very common practice in the construction industry. Some contractors treat employees as subcontractors to avoid paying employment taxes. Such improper treatment of employees could subject the employer to the back-up withholding requirements on payments made to subcontractors. A bargain sale of a house or improvements to an employee at a discounted sales price could produce imputed wages and an employment tax liability.

What to Do Now?

Construction company owners should be aware of the key tax areas that could impact their business and personal tax liability. Keeping in mind the key areas addressed in the ATG, owners should meet with their CFOs and CPAs to review their practices, operations and transactions to ensure proper compliance with the tax law. Proper planning and execution can mitigate the potential exposure and unwanted tax consequences if the construction company would be examined by the IRS.

Matt McKinnon and Gennaro DiBello practice tax and construction accounting/advisory services for Schneider Downs & Co. in Pittsburgh. DiBello is a shareholder and manager of the construction and real estate practices. BG

Management Perspective

When it comes to property rights and right-of-way agreements, what you don't know can hurt you.

By Stephen Fleming and Dave Scott

If you don't conduct a proper investigation into right-of-way issues during the due diligence phase of your development project, you could pay a heavy price in the form of project delays arising from avoidable permitting and agency approvals or property rights disputes. If your project involves any sort of federal funding (for example, off-site roadway improvements that are necessary for your project to receive municipal approval are receiving federal funds), that money could be lost, as well, if you fail to follow proper right-of-way negotiation procedures – thereby endangering the entire project. You know the cost of purchasing property, but do you know the value of investigating in right-of-way in the initial planning phases?

When does right-of-way come into play?

Right-of-way impacts can come in many shapes and sizes. Typically, when people think of right-of-way agreements, they think of purchasing property outright for development and construction: for example, purchasing land from a homeowner that will be used for the construction of a shopping center. But less conspicuous right-of-way impacts can easily go unnoticed. Commonly overlooked aspects of development that typically involve right-of-way impacts include:

- the construction of utilities or infrastructure.
- temporary use of adjacent properties for staging and vehicle and equipment access during construction.
- roadway expansions made necessary by the increased traffic your development will bring.
- storm discharges.
- open space and conservation requirements.
- mineral rights.

Suppose your project will require the construction of additional water or sewer lines that will run, in part, under an adjacent property or under state or local roadway right-of-way. While you do not need to purchase this property outright, you do need to negotiate the right to use a portion of the property underground. (This is called an easement.)

Or perhaps your contractors will need to house equipment or vehicles on a neighboring property as they work. Even though this is only a temporary impact, you still need to negotiate a right-of-way agreement – a temporary construction easement – with the property owner. If you fail to do so, they may object to the use of their property and cause significant delays when shovels are already in the ground.

If your project is expected to bring new traffic to an area, the adjacent, off-site roadway may need to be expanded with additional lanes, and this will also likely require the purchase of right-of-way. If the roadway is municipally owned, the project and right-of-way plan will likely require municipal input. If the roadway is state-owned, PennDOT will likely withhold approval of the Highway Occupancy Permit until you have satisfied the requirements of their right-of-way department.

But there are other items that can easily be overlooked, too; one of them is identifying all of the various parties that have interest in a particular piece of property. One site doesn't necessarily have just one owner. That site may already have existing right-of-way agreements for the construction of utilities, roadways, and other infrastructure. Each entity that has negotiated a right-of-way agreement on that property must be negotiated with again if you desire to use that property. Since ownership can be defined in many different ways, determining who all of the interested parties are can be very complicated. Proper title research is an invaluable component of right–of-way planning and services.

Title to a site may be transferred in-fee (meaning the owner has unlimited usage of the site on the surface or sub-surface and to the height of the heavens) or as an easement (meaning the owner has limited usage of the site – on the surface or under the sub-surface – for the construction of infrastructure). Boundaries of an easement can be described by a right-of-way line or property lines or to the centerline of the road. Understanding exactly where the rights begin and end is an issue that is best left to seasoned professionals to interpret.

How do you minimize the impacts and their cost?

The most important step you can take to minimize the cost right-of-way impacts will have on your next development project is to investigate right-of-way as part of your due diligence activities. If you know the potential impacts you are facing before planning and design begin, you can maximize the buildable area of your site. Say, for example, there are easements on your site that existed prior to your purchase. These easements may prevent you from building on portions of your property, but a team of engineers and right-of-way experts can help you design around these easements to get the most square footage possible out of your site.

A team of engineers with right-of-way expertise can also often design a site to avoid potential right-of-way issues or integrate them successfully into the plans with the least possible impact.

If the site cannot easily be designed around such obstacles, a knowledgeable engineer with right-of-way expertise can potentially apply for a design exception from a permitting agency that will enable you to minimize or avoid the impact to another property. For example, if your project requires roadway construction, state and federal standards spell out how wide the shoulders should be (based on the volume of traffic the road will have). However, the design engineer may be able to negotiate with PennDOT to get approval for shoulders that are slightly less than the required width in order to minimize or avoid right-of-way acquisition.

Due to the complexities and the changing nature of right-of-way law, it is wise to hire a professional with experience in right-of-way acquisition to assist with the development of your site. Hiring a land development engineer that also has right-of-way expertise is an even wiser choice because your team will be better able to integrate its efforts and design around potential right-of-way obstacles throughout the design and construction process.

Leaving any necessary property negotiation to a seasoned right-of-way expert can also be very beneficial. He or she will make sure you only purchase the rights you need and no more. (If you only need temporary access, there is no need to purchase permanent access, and you wouldn't want to be responsible for maintaining the property indefinitely if you didn't need to be. If you only need to access a portion of the property underground, you don't need to negotiate in-fee ownership.) In addition, having a third party negotiate the right-of-way agreements can make the process run more smoothly. A right-of-way professional knows how sensitive these issues can be to the affected property owner and can minimize emotions associated with property negotiation.

Before design begins for your next development project, make sure you hire a trusted professional to fully investigate the potential right-of-way impacts, one who can make sense of the varied legal terms and can design your site to minimize or eliminate their impacts. Investing in this expertise on the front end can save you thousands of dollars later as the project progresses through design and construction.

Stephen Fleming, P.E., is a project manager in the Land Development Group of Herbert, Rowland & Grubic, Inc., a consulting firm that provides civil engineering, surveying, and environmental compliance services to public and private sector clients throughout the Mid-Atlantic Region. David Scott is a right-of-way specialist at HRG who has more than 14 years of experience in the field. Both men can be reached at (717) 564-1121 or hrg@hrg-inc.com. BG

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Trend to Watch

Code Changes Will Mean Increased Home Construction Costs

On December 31, 2009 the adoption of the 2009 updates of the international building codes took effect as part of the Uniform Construction Code (UCC) of the state of Pennsylvania. The revisions involved significant changes in the standards to be used in the construction of residential projects, changes that are causing widespread consternation among the state's 8,200 homebuilders, code officials and realtors. The new regulations have also become controversial because their adoption will add costs to the construction of new homes at a time when the poor economy has already made the housing market very difficult.

The UCC was originally enacted as Act 45 in 1999 to put in place a statewide building code. Legislators passed Act 45 to put safety and energy codes throughout the state on the same page, meaning that in many municipalities code enforcement would be put in place for the first time. The legislation also mandated a triennial review of the International Construction Codes (ICC) to judge the relevance to PA's UCC. This provision is proving to be problematic to some.

Gov. Rendell signed legislation into law on October 10, 2008 that established the UCC Review and Advisory Council, a 19-member panel that is to review the revisions to the various international codes every three years. As established, the Council is to act as advisor to the legislature and to Labor and Industry. For its first task, the Council reviewed and recommended that the ICC's revisions become part of the 2009 PA statewide building code.

Unlike the revisions of 2006, which established mild changes that could be taken in stride by most contractors, the revisions of 2009 included several changes that builders and code officials say will have a big impact on construction costs. The best publicized of these has been the requirement for fire sprinklers in residential construction, a regulation that has now gone into effect for townhouses and becomes effective for detached single-family homes on January 1, 2011. Additional revisions that affect the home's energy efficiency, electrical and structural systems will likely add an amount equal to the sprinklers.

As you might imagine, homebuilders are quite concerned about the imposition of regulations that will add to the cost of new construction at a time when home sales are at generational low volumes. For a region with a large mature stock of housing, any factor that makes new construction less price competitive means that existing homes will get a longer look by new buyers. How much of a cost inflator are the new regulations? The statewide homebuilders' organization, the Pennsylvania Builders Association, has studied the changes and made estimates on the cost impact they bring.

The national average size of a new home in 2009 was 2,271 square feet. The average cost of sprinkler installation was $2.66 per square foot nationally. A survey of Pennsylvania builders already installing sprinklers in Pennsylvania is $3.30 per square foot. Using this rate and the national average, the average house will cost $7,494 more with sprinklers. While it is not required by code, many municipalities have already stated that they will require a design professional to submit sprinkler plans, which will add another $600 on average.

The IECC revisions recommended a number of measures. While these changes have a lower profile so far, the added cost is about 25% of the total. Insulation and fenestration increases, air infiltration barriers, duct sealing, attic insulation, programmable thermostats, blower door and duct blaster testing will all be required to improve and verify the energy efficiency of new homes. PBA estimates these measures will add $3,800 to the average house.

In response to recent increases in natural disasters like earthquakes and hurricanes (neither of which has a high incidence rate in PA) the IRC imposes increased wall bracing requirements. PBA estimates the additional structural work and its design will cost $1,800, although it's difficult to accurately estimate as it will vary dramatically from one plan to another.

The code agencies also recommended several electrical and mechanical changes that are aimed at making new construction more efficient and safe. These include make-up air for kitchen exhaust hoods over 400 cubic feet per minute, increased dryer duct requirements, arc fault breakers and tamper-proof receptacles. The estimated additional expense: $1,800.


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The builders' total estimated cost of the 2009 code revisions on the average home is $15,494. More conservative estimates have placed the additional cost at $13,000, but regardless of the estimator it's clear that the changes will add more than $10,000 to the first cost of a new home.

Code officials agree that the changes may add cost to the new home, but aren't convinced of the negative impact. Robert John Smith is Fox Chapel's code enforcement officer, chairman of the O'Hara Township board of supervisors, and a leader of the PA Association of Building Code Officials. "There are more myths about sprinklers than anything else," Smith explains. "First they won't be installed in every room; they are engineered so that a fire will only activate the sprinklers in that area – not the whole house. These aren't like commercial sprinklers; they require much less water because they're not designed to put the fire out but to give people enough time to get out when there is a fire."

The homebuilders have taken action on multiple fronts to seek to reverse or slow down the coming changes. In January, the PBA filed suit in Commonwealth Court, contesting the implementation of the new building codes and seeking a preliminary injunction, asking that the latest code revert back to the 2006 requirements. At the heart of the PBA's suit is the fact that the code changes were accepted by the independent UCC Review and Advisory Council, which the PBA contends is an unconstitutional delegation of the lawmaking responsibility of the legislature. While the Council includes industry professionals, it is put together by political appointment and few of the members are involved in the business day-to-day.

On March 11th Commonwealth Court Judge John Butler denied the petition from the PBA that sought an injunction against the implementation while the constitutionality issue remained unresolved.

The PBA contends that the frequent code changes and their associated cost hikes are a drag on the new home market. Builders are frustrated that the mandated triennial update is thrust upon them by an organization, the ICC, whose business is funded by the sale of new code books. It's a bit like your college chemistry professor who keeps updating his syllabus with the latest version of the Organic Chemistry textbook. The principals of chemistry don't change enough to justify new textbooks nearly as much as the $175 price tag does.

The flash point of the controversy is the inclusion of the fire sprinkler systems in all new homes, a requirement that isn't put on all new commercial structures. The builders cite surveys that have shown that the overwhelming majority of new homebuyers don't want sprinklers. Builders are willing to install them if their customers request them, but feel the sprinklers should remain an option for homebuyers, not a government mandate. Proponents say the code update is about energy efficiency and fire safety, both public safety issues in the eyes of the state.

But the new codes don't address the real root of the problem says Builders Association of Metropolitan Pittsburgh director James Eichenlaub. "People aren't dying in new construction; they are dying in older homes that aren't even equipped with smoke detectors and this set of codes doesn't address that problem at all, he says"

Another sticking point for opponents of the sprinkler mandate is the origin of the ICC regulations. A multi-party coalition of firefighters, fire safety experts and advocates lobbied the ICC, including at least one session in Las Vegas, but the funding for the effort came from sprinkler companies who would benefit most directly from the new requirements. For homebuilders' associations that's a little less objective than they would like a code writing organization to be.

In the end homebuilders are worried the revisions will make their playing field less level. What builders are most concerned about is the buyer's perception that the extra $10,000 or $15,000 makes an existing home that much better a bargain. And existing homes (even new homes under contract from late 2009) are exempt from the code changes. For an industry already ravaged by a housing bubble bust, a deep recession, nearly unprecedented foreclosures and difficult credit conditions, another competitive disadvantage feels like a potential knockout blow. BG

Best Practice

THE NATURAL APPROACH TO GREEN BUILDING

Applying the abundance mentality and natural laws to lower the first cost for green building projects.

Chris Klehm, LEED Faculty and Jennifer Turchin, LEED-AP, AIA, NCARB

The past 150 years of progress have brought amazing advances in science, technology, medicine and communications that have resulted in tremendous social and economic gains throughout the world. It has become apparent that these advances have not been without great costs, particularly to our economy and environment, both of which have begun to exhibit their limited and fragile nature.

The design and construction industry has provided many responses to both of these conditions from Building Integrated Modeling (BIM) to Lean Construction methods to the US Green Building Council's LEED Green Building Rating System. The problem is these projects cost more money. Isn't this what many people in the design and construction industry say everyday as an excuse not to build more sustainably? The abundance mentality is a way of thinking that can be used to lower 'LEED premiums' and get the project team to use an integrative design process to incorporate LEED strategies that make design, financial, and environmental sense.

Steven A. Covey, author of the *Seven Habits of Highly Effective People* coined the term 'abundance mentality' to mean a mindset that looks at possibilities and opportunities rather than obstacles and problems (scarcity mindset). An abundance mentality is not just having a positive mental attitude, but a positive mental attitude is important for success in any endeavor and is the first step in creating an abundance mentality. Another key aspect of an abundance mentality is eliminating small thinking and removing negative energy. People with an abundance mentality are whole systems thinkers who incorporate and celebrate the differing opinions of others without being threatened by those opinions.

A fundamental attitude of abundance mentality is don't compete, collaborate. People with an abundance mentality believe that success does not equal beating others, instead, that if they are more successful, they can affect others in a more positive way. People with an abundance mentality are also happy when others are thriving – they do not believe they have lost. In a business sense, people with an abundance mentality believe there are only two kinds of people. There are those who are clients to them and those who could be.

If we apply the abundance mentality to building design and construction we will begin to see that there are positive ways of influencing the process that result in more effective projects. Many people who are designing, constructing, and owning LEED projects still believe that just the word LEED means the project is going to be more expensive. This is a result of using the scarcity mentality instead of an abundance mentality. If we use an abundance mentality, we will not assume that making something better means that it either makes something else worse, or will cost money – we can look at a holistic approach to working within a cost model to improve buildings in a way that does not add first costs.

The common approach to LEED projects has been to simply design and construct as we always have, and simply add greener flooring, a bike rack or a higher performing mechanical system. This thinking has led to projects that essentially function the same as a traditionally designed and built project but are more expensive. The better solutions can come from applying basic physics to design and increasing awareness of how buildings work as a whole.

Natural laws govern the behavior of objects in the universe and we have come to learn that nothing can violate these laws. When we design and construct projects we are aware of natural laws such as gravity, and understand that violating that law will result in negative and expensive consequences. At the same time we seem to ignore other natural laws, such as the laws of thermodynamics. The first law of thermodynamics, which mandates conservation of energy, states that the flow of heat is a form of energy transfer. Energy is neither created nor destroyed, but simply transferred – it moves from one place to another or from one form to another. The second law of thermodynamics, the law of entropy, states that energy will always move from a higher region to a lower region.

Buildings are complex interdependent, interacting systems, all of which are governed by natural laws. A building system includes the interactions of the building structure and shell, mechanical systems, occupants and environment. When we change one aspect of a building, many other areas respond to that change and we need to understand how to make those changes positive in order to balance costs and performance. If we add energy in one area, we should be able to remove that energy in another area in order to keep the whole building system in balance. Integrative Design is a process that is used as a whole building approach tool to involve the entire project team from early in the process and create a better solution than a typical linear design process.

If we look at abundance and natural laws together, we begin to see that it is in the understanding of these two together that we can bring about cost effective change in building design and construction. When we think about sustainable design we often address concepts such as minimizing site disturbance, lowering water consumption, saving energy, decreasing the use of VOC's and cutting costs. If we were to view this from an abundance perspective we would say that we wanted to enhance habitat, increase water availability, generate energy, improve human health and add value. One looks at having less, while the other looks at using more. One focuses on obstacles, while the other focuses on opportunities.

To better understand this, we need to increase our awareness of what abundances we have in our region, in our company, and on our project. We need to recognize available natural energies such as sun, wind, water, habitat and regional thermodynamics and understand how design can tap into those energies rather than fight them.

One example is the sun. An abundances of sunlight can be used to decrease project first costs and operating costs. Swimming pools at The Palazzo project in Las Vegas are heated with an expansive solar pool heating system. In the summer, the excess solar energy not needed for the pools is directed to the hotel's hot water system, reducing the need to heat water for guest suites. The efficiency and cost of solar thermal systems reduce the size of mechanical systems and provide very cost-effective renewable energy to the project.

Another example is to look at abundances that are created through the design or the function of the project. Our firm analyzed the energy flows for a new data center project in Kansas City viewing the abundance of heat generated by the data center as an opportunity, rather than an obstacle. What type of complimentary use could take advantage of that excess heat? We concluded that a hotel would be an ideal fit, using the abundance of heat for hot water, space heating, kitchen and laundry. Heat pumps would take the excess heat, use it and return chilled water, which was then used to cool the data center. The entire system was seasonally modulated by installing a ground source loop to maximize the efficiencies. Using this abundance thinking reduced the project's first cost by 8% and dramatically improved the performance of the mechanical system, reducing operating costs.

We have man-made energies throughout our region that can be tapped for success as well. These include economic and social energies, traffic patterns, transportation, knowledge base and technology. Look at how we can use our abundances of water and wind with those of economics, social strengths and knowledge base. Think about how we can work with these energies rather than against them.

The key is awareness and goal setting from the beginning. If we set goals and share the process for achievement of those goals with the team, we strengthen the project by using the abundance of creativity the team brings. If we do not clearly articulate those goals, we risk having a design process that is not interdependent and could result with one system fighting another. This requires a shift in project development to ensure that an integrative approach is used, along with understanding cost models and team goals. It is important that goals are written down and agreed to by the entire project team and that they be clear and specific. Use the expertise that is on the team. Surround yourself with a project team that is knowledgeable and will collaborate. Share the wealth of that knowledge.

Become aware of the abundances in your region and on your project and use natural laws to better understand how to take advantage of those energies. Using natural laws and awareness to influence building orientation, massing and window design could reduce first costs and long-term operating costs. Having a mindset that encourages and uses an abundance mentality will create more opportunities for creativity and cost savings that benefit the environment and the project goals. Expect success. You get what you focus on most.

Chris Klehm is president of Energy & Environmental Solutions (e2), a sustainability and green building consulting firm that provides organizations with sustainable solutions to business problems. e2 is headquartered in Pittsburgh with offices in St. Louis and Las Vegas. Jennifer Turchin is a Senior Project Manager with e2. BG

Awards & Contracts

Burchick Construction was awarded a contract to renovate 2022 Chateau Street on the North Side for the Amalgamated Transit Union Local 85 new offices. Complete interior and exterior renovations will be done on the 9,260 square foot, $1.3 million facility. EDGE Studio is the architect.

Jendoco Construction Corporation was the successful contractor on West Virginia University's $22.7 million White Hall renovation. The project involves approximately 108,000 square feet of renovation and two-story addition for the Department of Physics. IKM, Inc. is the architect.

Crate & Barrel awarded Jendoco Construction a contract for Phase One construction package for the new Crate & Barrel Homestore at Ross Park Mall. The package includes footings and foundations, site supervision of steel erection in preparation for the new construction of the 26,000 square foot free-standing store. The project is being designed by Good Fulton & Farrell Architects.

Volpatt Construction was awarded the $8 million Roberts Chapel at Waynesburg University. VEBH Architects designed the new 2-story facility. Construction is to start June 1.

Mon Valley Hospital has awarded two projects to Volpatt Construction Co. at their facilities in Carroll Township. Approximately $500,000 in renovations are being done to the main hospital 5 East and hospital's parking garage.

Volpatt Construction was the successful contractor on Canonsburg Hospital Alterations to the Women's Center for West Penn Allegheny Heath System. VEBH is the architect for the $579,000 project.

PJ Dick Inc. was awarded Construction Management Agency Services for the New Middle School project for West Mifflin Area School District. Graves and McLean is the architect for the two-story, 177,000 square foot new middle school to be located on the same site as the current high school building. The approximately $25 million New Middle School is planned to be constructed from March 2010 to March 2012.

Pine-Richland School District in Gibsonia, PA awarded Agency Construction Management services to PJ Dick for High School/District Administration Additions and Renovations. The project consists of a two-story, 100,000 square foot high school addition and 63,000 square feet of renovations; a 4,500 square foot addition for District Administration and 7,000 square feet for the nurses suite. The project scope also includes new roofing and approximately $2.5 million site development. Eckles Architect and Engineering designed the $34 million High School/District Administration Additions and Renovation project.

The University of Pittsburgh selected PJ Dick to provide Agency Construction Management Services for the Addition, Renovation and Infrastructure Upgrades to Parran and Crabtree Halls. The approximately $23 million project was designed by a Joint Venture between Renaissance 3 Architects and Wilson Architects, Inc. Preconstruction will begin immediately with construction planned to begin in late 2010. The four-story research tower addition will be located at the corner of 5th Avenue and connected to Parran Hall. Most of the new 57,000 square feet will provide new laboratory research space for the University of Pittsburgh's Graduate School of Public Health.

PJ Dick, Small Projects Group was awarded General Construction services for the Alterations to the First Floor Training Center project for Mylan, Inc in Canonsburg, PA. The 5,000 square foot renovation project was designed by Gerard Associates Architects.

PJ Dick, Small Projects Group was awarded PNC Workplace Interiors Fitout at 3 PNC Plaza. The 92,000 square foot fitout, designed by Gensler Architects in San Francisco, includes interior glass partitions, drywall, millwork and flooring.

TEDCO Construction Co. has completed minor renovations to the National Association of Letter Carriers offices at 841 California Avenue on the North Side. Dave Brenenborg of Brenenborg Brown Group was the architect.

Yarborough Development Inc. was awarded the general contract for the $42 million additions and alterations to the Montour High School in Kennedy Township. Apostolou Associates is the architect.

Yarborough was the successful general contractor on the $12 million Lafayette Elementary School addition and renovations for the Uniontown Area School District. Mechanicsburg-based Crabtree Rohrbach & Associates in the architect.

Rycon Construction was the successful contractor for the construction of a $7 million new Giant Eagle store at the Town Fair Center in White Township, outside Indiana PA. DL Astorino Horizon Architects is the architect for the 83,600 square foot store.

UPMC chose Rycon Construction for the 14-week renovation of their offices on the 23rd & 24th floors in the USX Tower. The Design Alliance is the Architect.

In Dormont, Rycon Construction is responsible for building a new 12,000 sq. ft. CVS Store. The project includes demolition of the existing theater building and neighboring houses along Route 19.

At Carnegie Mellon University, Rycon will renovate the Roselawn Terrace apartments which will start at the end of the school year and will need to be completed in August before the start of the fall semester.

Rycon Special Projects Group started Phase II of the St. Ann Assumption Hall renovation at Duquesne University along with the renovation of the School of Music.

PNC Bank selected Rycon Special Projects Group and Rycon's Casework & Millwork Division for the renovation of their Tri-County and Uniontown bank branches.

At the University of Pittsburgh, Rycon Special Projects Group will renovate the 7,000 sq. ft. 5th floor at Craig Hall.

Rycon Special Projects Group was awarded contracts to complete the following three retail renovations: Saks Fifth Avenue at Tanger Outlets, Dunham's Sports in Monroeville and Dick's Sporting Goods Lab Support Store.

dck north america, a dck worldwide company, in conjunction with its partner Innisfree Development, has been selected to develop and operate a hotel and multi-use development on property owned by Eglin Air Force Base through an Enhanced Use Lease (EUL) agreement. The proposed $24 million development resort will be built on a 17-acre parcel of land in Fort Walton Beach, Florida. The dck/Innisfree partnership, known as the Emerald Breeze Resort Group, currently plans for the resort to feature a 152-room hotel in the first phase of development, with two commercial outparcels available for lease. The hotel will feature a Gulf-front swimming pool and direct access to the beach.

dck pacific construction, a dck worldwide company, was awarded a new $12.7 million design-build contract by the Naval Facilities Engineering Command (NAVFAC) Hawaii. The project involves the construction of box magazines and supporting facilities at Pearl Harbor's Navy Munitions Command. Along with building five standard "type C" earth-covered box magazines, the scope of work also includes access roads, a concrete apron, interior lighting and power, exterior lighting, and other electrical work.

dck pacific construction, a dck worldwide company, was awarded a $12.5 million guestroom renovation project at the Grand Hyatt Kauai Resort & Spa in Poipu, Kauai. This 12-month project is slated to begin in April 2010 and involves the renovation of 565 typical guestrooms.

dck worldwide, along with its partner ECC, was awarded a $21.4 million firm-fixed-price contract for the construction of a complete working substation, distribution feeders, and switching stations at Andersen Air Force Base. The contract also contains nine unexercised options which, if exercised, would increase the cumulative contract value to approximately $24.5 million.

dck pacific guam, a dck worldwide company, received notice of award for an $18.4 million firm-fixed price contract for the design-build of the Guam Army National Guard Readiness Center at the Guam Army National Guard Complex in Barrigada. The new facility will be used to train and prepare members of the Army National Guard for their dual mission of responding to any emergency on Guam as well as being ready to support off-island missions.

EDMC – Art Institute of Pittsburgh awarded Poerio Incorporated a contract for renovations to approximately 5,000 sq feet of class rooms on the 1st, 3rd, & 4th floor of Shannon Hall and the Fashion Design Hall. The Architect on the job is TKA Architects from Pittsburgh, PA.

The University of Pittsburgh awarded Poerio Incorporated a contract for renovations to the Salk Hall School of Dental Medicine. The 1500 sq foot renovation included all interiors, millwork, flooring, ceilings, electrical, and HVAC. The project is scheduled to be completed in May of 2010. Dunn & Associates designed these renovations.

Poerio Incorporated was selected as the contractor for the renovations to the JC Penney Department Store in Salisbury Maryland. The 1,500 sq foot renovations were in the hair salon which included flooring, electrical, painting and wall coverings. The project was completed within LEED guidelines and is scheduled to be completed in April 2010.

Poerio Incorporated was selected by the University of Pittsburgh to provide General Construction services for the renovations of Lothrop Hall. The 15,000 square foot renovations include all interiors, framing, new ceilings and flooring. Pfaffmann & Associates are the Architect on the project. The project is scheduled to be completed in August 2010.

Poerio Incorporated was the successful contractor for the JC Penney Renovation at the Centerville Mall in Centerville Ohio. The 5,000 square foot renovations included the Restrooms and the Shoe Department. Nudell was the Architect on the project.

Parkhurst Dining Services awarded Mosites Construction a contract to renovate space in the former Allegheny Center Mall for the Eco Café to be used by PNC Financial Services. Lami Grubb Architects designed the project.

ATI Allegheny Ludlum has selected Massaro Corporation to serve as the general contractor on the Locomotive and Mobile Equipment Repair Buildings. This 27,500 square foot project is slated to begin in April and has a three month schedule. Hatch is the architect on this $1.4 million project.

Massaro Corporation has been awarded a project by Duquesne University to serve as the general contractor on the campus Tower Bathroom Renovations. Burt, Hill Pittsburgh is the architect for this $688,000 renovation project.

Heinz Field has chosen Massaro Corporation to serve as the general contractor for their storage enclosure project. This 2,200 square foot renovation project will have a six week schedule. The architect on this project is Axis Architecture.

The Rivers Casino selected Massaro Corporation as the general contractor for the Human Resources department project. FortyEighty Architect designed the space and Massaro will have six weeks to complete this interior fit-out.

Mansfield University has selected Massaro as part of the Allen & O'Hara Development team. Massaro has been selected as general contractor for phase one of their student housing replacement project. This $25,000,000 project will break ground in June 2010 and is slated for completion in July 2011.

Massaro has been selected by Allen & O'Hara through the Foundation of Indiana University of PA to serve as the general contractor for the new hotel at IUP. This $12,000,000 project is scheduled to start in September of 2010 and be completed by November 2011. DRS Architects is the architect for the project.

Nello Construction was awarded a contract to build a new 18,000 square foot worship and multipurpose facility for the New Life Christian Ministries in Saxonburg. Desmone & Associates Architects is designing the new church which should begin construction in the summer.

Brayman Construction Corporation received the "#1 Bridge of 2009 Award" for the I-64 Kanawha River Bridge by Roads & Bridges magazine. The record setting bridge, located in Charleston WV, is a cast-in-place cantilever segmental bridge and is the longest concrete-box-girder span in the U.S. The box-girder construction is continuous over the entire length of the bridge, 2,975 feet, along an "S" curve alignment. The magic is the post tensioning of steel cables, which run through ducts cast into the bridge.

Landau Building Co. is the successful contractor for the $4 million expansion of Orchard Hill Church in Franklin Park. Goss Pasma Architects from Evanston IL is the architect.

Murrysville Medical Commons LLC awarded Landau Building Co. a contract for the construction of a new 22,000 square foot medical office building on Old William Penn Hwy. in Murrysville. The project was designed by RSSC Architecture. BG

Faces & New Places

Landau Building Company is pleased to announce that Jason Scheible has joined the company as a Project Engineer. Jason brings over eight years experience in private and public commercial construction. He holds a Bachelor of Science Degree in Structural Design and Construction Engineering from the Pennsylvania State University and also an Associates Degree in Architectural Engineering.

Alyssa Kuhns joined Massaro Corporation in March of this year as a BIM project engineer. She is a recent graduate of Carnegie Mellon University and has been a great addition to the Design/Build department.

Samantha Heaton joined Massaro Corporation as the Estimating Assistant in March of this year. She recently received her Bachelor of Science degree in Communications from Slippery Rock University.

Spectra Contract Flooring is pleased to welcome three new faces to the team. Steve Maggio joined Spectra in May 2009 after working in the field and having over ten years of experience in tile work. He is now a Project Manager for our ceramic division. Steve oversees all aspects of a project from sales to estimation to installation. Jonathan Fox joined Spectra in July 2009 as an Account Manager. He is a recent graduate of the University of Kentucky. Mike Greer joined Spectra in January 2010 as the new Manager of the Ceramic Division. He brings 30 + years of experience to the position. Finally, Spectra Contract Flooring is also pleased to welcome back Bill Rossi as an Account Manager. He returned from a two year interlude with Mohawk Industries. Bill brings over 30 years of experience.

The Pittsburgh law firm of Maiello Brungo & Maiello was unanimously appointed Solicitor for the Westmoreland County Tax Collection Committee. Partners Lawrence J. Maiello and Michael L. Brungo and Associate Falco A. Muscante will be the primary attorneys for the TCC. The firm also serves as solicitor to the Allegheny County Southwest TCC.

Roger W. Foley, Jr. has joined Maiello, Brungo & Maiello, LLP as an associate. He has fifteen years experience and will focus his practice on litigation, school and municipal law, and construction litigation. A summa cum laude graduate of LeMoyne College B.A., 1991 and The Dickinson School of Law J.D., 1994, Mr. Foley is licensed to practice law before all Pennsylvania state courts and the United States District for the Western and Middle District of Pennsylvania. He is a member of the Pennsylvania Bar Association and Allegheny County Bar Association. BG

The Industry in the Community

NAIOP Banquet Recognizes the Region's Top Developments

March 18th marked the 17th annual NAIOP Pittsburgh annual banquet, held this year at the David L. Lawrence Convention Center. Approximately 625 NAIOP members and guests celebrated the top development projects from the past year. The projects honored at the banquet were:

Best Mixed Use: Piatt Place, Millcraft Industries
Best New Park: Findlay Industrial Park, Imperial Land Corp.
Build-to-Suite Office: Dick's Sporting Goods Headquarters, Horizon Properties
Green Building Office: Dick's Sporting Goods Headquarters, Horizon Properties
Green Building Industrial: Building 900, Leetsdale Industrial Park, Chapman Properties
Renovation: 615 Alpha Drive, McKnight Realty
Speculative Building: Bridgeside Point II, The Ferchill Group
Supporter of Development: Dan Cessna, PA Dept. of Transportation District #11

(left-to-right) Scott Irmscher of Buchanan Ingersoll, Guardian's Tony Bucciero, Mike Bozzone of Lynrose Development, Chip Desmone and Buchanan Ingersoll's Donna Pacek at NAIOP's banquet.

Kristen Pleasants, FNB (left), Sharon Landau of Landau Building, Maureen Ford of Lawrenceville Dev. Corp and Marcia Grimes, Babst, Calland, Clements & Zomnir.

CEC's Steve Donaldson (left) with Jackee Ging of HRV and Pete Licastro of Grant Street Associates.

NAIOP director Leo Castagnari was honored for ten years of service at the 17th Annual Banquet. With Castagnari are event Master of Ceremonies David Johnson of WPXI (left) and NAIOP national board chair Larry Pobuda (center).

Jendoco's Dom Dozzi (left) and Pierre Brun flank Christine Fulton, executive director of the Allegheny County Parks Foundation.

Ironworkers Celebrate Apprentices

Ironworkers Local #3 held its annual Apprentice Competition on April 16 at its training center at 24th Street and Liberty Avenue in the Strip District. Over 250 apprentices, families and industry leaders attended to tour the Ironworkers training facility and watch the apprentices compete in seven contests designed to showcase the different facets of the Ironworkers training.

(left-to-right) Ironworker's business agent Tom Melcher, Local #3 business manager Mark Thomas and IWEA director Bill Ligetti (right).

Competitions were held for skills in rigging, rod tying, welding, burning, instruments as well as a written exam. The highlight is a column climb, a vertical climb of a three-story structural steel column, won this year by apprentice Jake Desko. Other winners include Braden Shipe (Written Exam), Sean Lehr-Nuth (Rigging), Chris Scasserra (Rod Tying), Josh Abbott (Welding), Jason Ryan (Burning), and Brock Urlakis (Instruments).

The competition features an overall winner for best results in all skill contests. This year the highest overall scores were from (1) Jeremy Brewer, (2) Dan Douylliez and (3) Scott Lowers. Brewer and Douylliez move on to District Council Competition being held in Cleveland, OH.

PJ Dick Hosts Penn State Alumni

On March 23, Chinemelu Anumba, the head of Penn State's Architectural Engineering Department made a presentation to local PSU architects and engineer's at the new PJ Dick corporate offices on the North Shore. Dr. Anumba gave an update on the architectural engineering school's programs and presented advance plans for Penn State Engineering's 100th anniversary celebration to be held this coming July in State College.

Chimay Anumba, head of Penn State's Architectural Engineering Dept., is flanked by Mark Gillespie (left) of McKinney Properties and Matt Wetzel of PJ Dick.

dck worldwide's Joe Zukowski (left) with Andy Gildersleeve of Elmhurst Group and TEDCO's John Lipp (right).

Massaro Volunteers with Little Sisters of the Poor

On March 23, 2010 a group of Massaro Corporation employees spent the day volunteering at the Little Sisters of the Poor. They helped the Sisters do a number of tasks including organizing office and closet space, hanging up new handrails, cooking lunch, and moving furniture.

(left-to-right) Mike Larson-Edwards, Sam Bargerstock, Joe Stanonis, Alice McIntyre, Mariela Viloria, Sister Rosemarie, Marc Battistone, Tammie Siano, James Johnson, Christine Salton, Erin Conley, Martha Graham, AnnMarie Kiszka (in front) Lisa Ziska

BreakingGround

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BreakingGround is mailed to a controlled distribution of approximately 3,000, covering all of the region's developers, institutional owners, property managers, architects, engineers and contractors.

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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

Sustainable Housing is a Must
By Michael Dickens

The terrible shakeout of the US housing market has been painful for our industry for several years. With all the pain of the resultant decline in new construction has come an opportunity for us to re-examine our assumptions about the character of residential design and development, both as professionals and consumers.

Going forward it is imperative that new residential construction be sustainable in as many aspects as possible. Sustainability in practice has many facets. For our organization, IBACOS, sustainable design relates first to reducing the amount of energy to operate the home to the minimum possible, and ultimately to zero. Responsible, sustainable projects also use methods and materials which have the smallest possible impact on the environment.

The house of tomorrow will be generally smaller, with a high performance, highly insulated structural shell, with every nook and cranny tightly sealed for unwanted air or moisture infiltration that usually hurts energy efficiency, occupant comfort and long-term durability. This new thermal envelop will include high performance, energy efficient double- or triple-glazed, 'smart' windows to optimize the home's energy efficiency. Enabled by all this, the home will then have a much smaller, fully integrated comfort and energy management system, replacing the big old, 'un-integrated' HVAC system. Smart programmable thermostats and new energy meters, that track power usage and program appliances to run when utility rates are lowest, will control the indoor environment and help dramatically shrink monthly home operating costs for homeowners - ideally towards zero dollars! Highly efficient appliances and compact fluorescent or LED lighting will become everyday standards, with the final leg of the zero financial ideal being achieved with the aid of emerging, commercially-viable renewable energy solutions, such as photovoltaic systems, solar water heating, and even wind technologies.

Designing, visualizing and marketing homes will be done in full 3-D, and building the home so that it is 'future-proofed' to be able to adapt to the latest technology will lead the way. This level of thinking ahead can already be witnessed in today's marketplace where one leading national builder, KB Home, is now offering pre-wiring in the garage for electric vehicle charging stations!

The more subtle facet of sustainable design has to do with scale. The excesses in residential construction of the past decade have involved not only irresponsible financing, but also over-the-top development in terms of size and character of home. Americans seem to have reacted quickly to the shift in the financial landscape by downsizing their expectations. Surveys about new home design done by both the National Association of Homebuilders (NAHB) and the American Institute of Architects (AIA) have shown a significant reduction in the average size of a new home in each of the past few years. According to Census Bureau data, the new single-family U.S. house averaged 2,373 square feet last year, down from 2,507 in 2007.

As Baby Boomers look to retirement with their first experience of significant financial uncertainty, this phenomenon is likely to continue as a trend for older Americans. Another massive trend is the growing number of singles - both male and female – who are looking to buy a smaller but high quality home, with low maintenance and monthly operating costs as the central part of their new model of the American Dream. The trick will be to educate these consumers, as well as those who are at the other end of the demographic spectrum, first-time owners and move-up buyers, that McMansions and sprawling subdivisions aren't the reward for their hard work and good fortune.

Similar to our cousins across the pond (spoken by a true Welshman!), we will experience the increase of 'smart growth', where more houses and apartments will be built within the urban core, or in close proximity. According to the Environmental Protection Agency, house-building permits more than doubled since 2000 in the downtowns and close-in suburbs of 26 of the nation's largest metro areas. We will see an increase in walkable neighborhoods, close to public transit so more of us can get to work without driving, with bike paths and other natural amenities.

The persistent efforts of the many organizations dedicated to reducing construction's impact on the environment have had a dramatic impact in a relatively short period of time. Those efforts are gaining momentum, but truly sustainable residential design won't be realized until we, as professionals and as consumers, understand that our goals are not achievable in houses that are twice the size we need for comfort or neighborhoods that don't promote sustainable lifestyle practices as well.

Michael Dickens is a partner and co-founder of IBACOS a pioneering research and service organization committed to improving the performance of residential design and construction.

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