Breaking Ground

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

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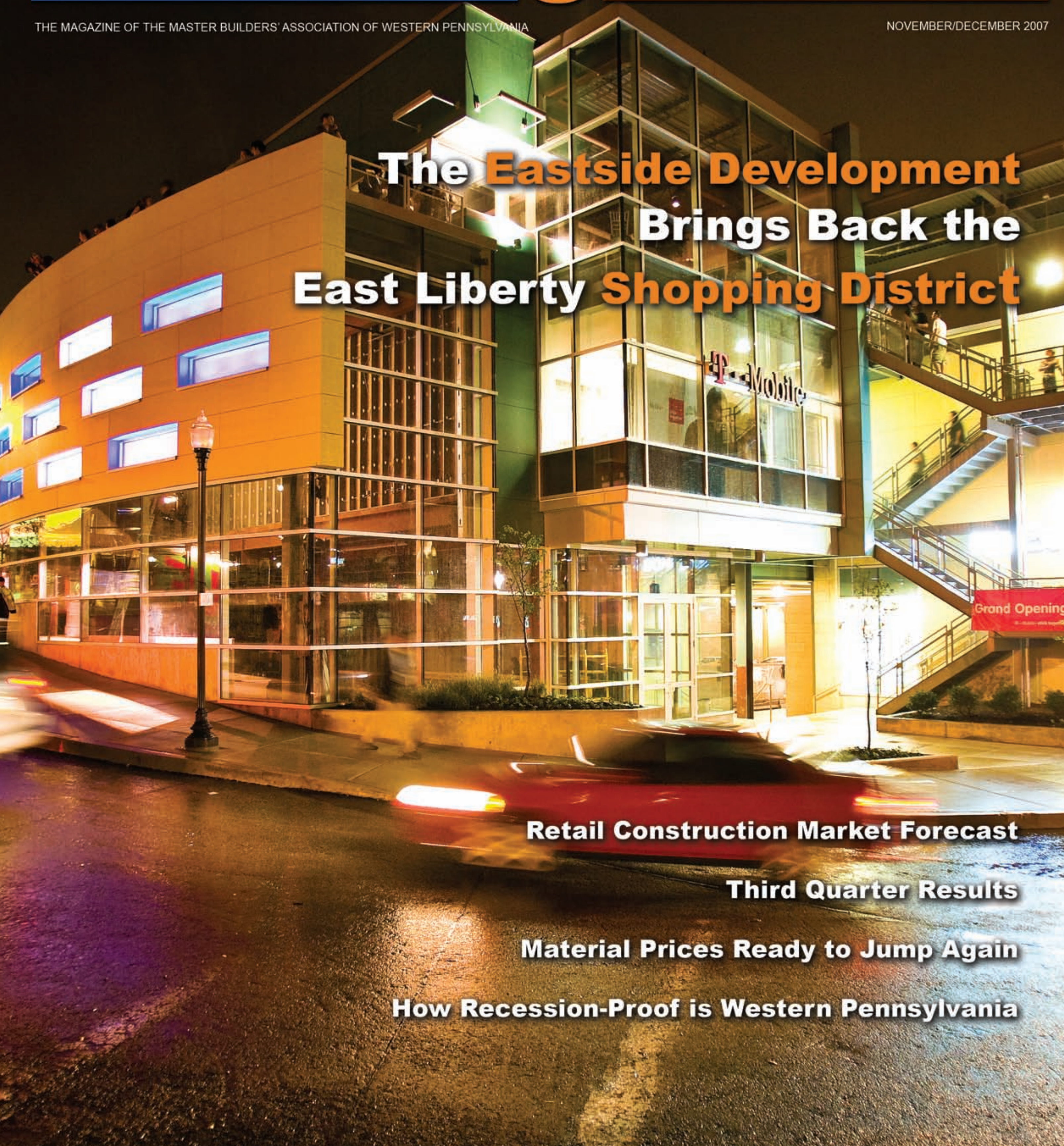

The Eastside Development Brings Back the East Liberty Shopping District

Retail Construction Market Forecast

Third Quarter Results

Material Prices Ready to Jump Again

How Recession-Proof is Western Pennsylvania

COMING FALL 2007

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Cover

Phase 2 of the Eastside Development
Mosites Construction, Contractor
The Design Alliance, Architect
Mosites Company, Developer
Photo by Alexander Denmarsh

Features & Departments

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Publisher's Note

When I think of the contribution that my generation (I'm a late Baby Boomer) will make to the American real estate landscape I fear that the legacy will be either the 'McMansion' or the 'power center.' Other generations built great dams, or modern skyscrapers. We shop.

That is, of course, an overly cynical simplification of the impact of America's largest generation, and one that is completely unfair. But it is undeniable that, at the least, the prime years of this demographic group's life have coincided with a period of heavy consumption. To match that consumption developers have been creating new retail building concepts over the past 40 years. Large enclosed malls caught the public fancy in the 1960's and 1970's. As business cycles changed the makeup of the malls went from many small specialty stores linked to anchor department stores, to fewer and larger specialty stores (still linked to anchors), and back again. Now the expense and staleness of that model has given way to something more akin to the model the mall replaced, the small town center.

Now the expense and staleness of that model has given way to something more akin to the model the mall replaced, the small town center.

Retail shopping and development have undergone quite a bit of transformation in the past generation in our region, in some ways parroting the ebb and flow of the national retailers, but also in moving from mostly mainstream shopping experiences to more upscale shopping than was thought to have support in Western PA.

This edition focuses on the retail construction market in Pittsburgh. Unlike some of the previous BreakingGround editions, this one isn't aimed at trying to examine a hot sector so much as to give a little depth of coverage to what has been a steadily increasing share of the regional construction pie. When I started the Pittsburgh Construction News in 1994, the question was, 'where are all the shoppers coming from for these new malls?' At that time the projects that seemed a bit too extreme to work were the nutty idea that people would shop in Homestead or whatever it was that Damian Soffer was going on about in South Side. Time would prove the developers right on those projects, and in the intervening years more than 10 million square feet of new retail space was built here.

All indications are that the curtain is going down on another phase of retail expansion nationally. Every half-decade it seems the retailers need to regroup, re-brand, and then start over again building new stores. Here, in Western PA, if a slowdown occurs it will be after another handful of high profile and very large developments get built, adding another 3 million square feet to the inventory.

As 2007 ends, a few important questions seem poised for answers that will give some clue to where our regional economy is going. Has the decline in housing construction ended in Pittsburgh? Has that happened because our 'new economy' is stronger than other regions? Can regional government really create new economic opportunities by getting out of the way? And will the next administrations of our city and county executives bring us to a more streamlined, or merged, local government? Will the Christmas stockings be more or less full this year?

It has been a heckuva commercial construction market the past two years, and the fourth quarter of the year is shaping up to be more of the same. There may be a little more of the 'haves and have-nots' than a year ago, for example, but the near term future still bodes well. I talked to a lot of architects at the AIA Design Gala in October who had still more work, which isn't a bad sign. So pop an extra cork for 2007 this holiday season. We may be recovering before the hangover sets in.

Sincerely,

Jeff Burd

News From The Street

Contract Document Debate Heats Up

On parallel tracks, two sets of standard contract documents have been developed over the past few years and released this fall, the AIA A201 General Terms and Conditions (2007) and the ConsensusDOCS. The recent decision by the Associated General Contractors of America (AGC) not to endorse the 2007 AIA A201 documents underlines the difficulty in developing standard contract forms that will address the rapidly changing forms of agreements and delivery systems that are evolving, and to assess risk allocation accordingly.

In their decision to withhold endorsement the AGC cited a philosophical difference with a shifting of risk to those outside the design team in the A201 documents, and with the "architect's authoritative role and mandated linear process." As one of the 21 industry groups that helped draft ConsensusDOCS, the AGC expressed concern that the AIA A201 did not address the trend toward more collaborative project delivery methods and innovative technology.

The AIA A201 General Terms and Conditions is the basis for the lion's share of the construction contracts written nationally, and the 2007 version was a routine update such as has been done every decade. Revisions made to the A201 were part of a series of updates aimed at better defining the architect/owner contractual relationship, clarifying the scope and responsibilities of the architect, and allocating risk within the separate two-party agreements between owner, architect and contractors.

Yellow Book Update & Input Request

The AIA-MBA Joint Committee was chartered in 1965, originally designated as the Standards and Practices Committee. Its purpose: to investigate, research and develop Recommended Construction Practices for the Western Pennsylvania area. These local practices were to reflect the existing industry customs and procedures involving drawings and specifications, bidding, contract documents and administrative procedures during construction.

The Committee compiled and published these guidelines for local architects, general contractors, and owners in 1967, as the AIA-MBA Yellow Book of Recommended Construction Practices, also known as the Yellow Book.

The use and recognition of the Yellow Book as a reference has increased since its inception, as the need for documented, impartial recommended construction practices grew. Today, the Yellow Book serves as a respected, valid source of information, substantiating positions taken on related issues to the construction industry. The Committee continues to update the recommendations, to accommodate changing job site conditions and construction procedures. The following sections are in the process of being updated: Sharing of Electronic Documents; Release of Liens; and Unit Prices.

The Committee would like to hear from BreakingGround readers: which sections of the Yellow Book do you think the Committee should target to update and do you have suggestions for new sections. Please send comments to: breakingground@mbawpa.org.

Note: A link to the Yellow Book can be found on the MBA homepage (www.mbawpa.org).

Green Building News

Phipps Chooses Design Team

Phipps Conservatory has selected the team of The Design Alliance & CJL Engineering to design a set of buildings to serve Phipps' administrative, education and maintenance needs. The intention of the project, which is estimated to cost $6 million, is to create a living building that will be self-sustaining, capable of operating 'off the grid.'

Richard V. Piacentini, Executive Director, said, "Phipps Conservatory and Botanical Gardens has accepted the challenge to exceed LEED Platinum and build a zero net energy building, the Center for Sustainable Landscapes. The Center will advance Phipps' leadership role in the public garden world as demonstrated by the Silver LEED certified Welcome Center, the first LEED certified building in a public garden, and the Tropical Forest Conservatory, the most energy efficient conservatory in the world."

Call for 2007 Shades of Green

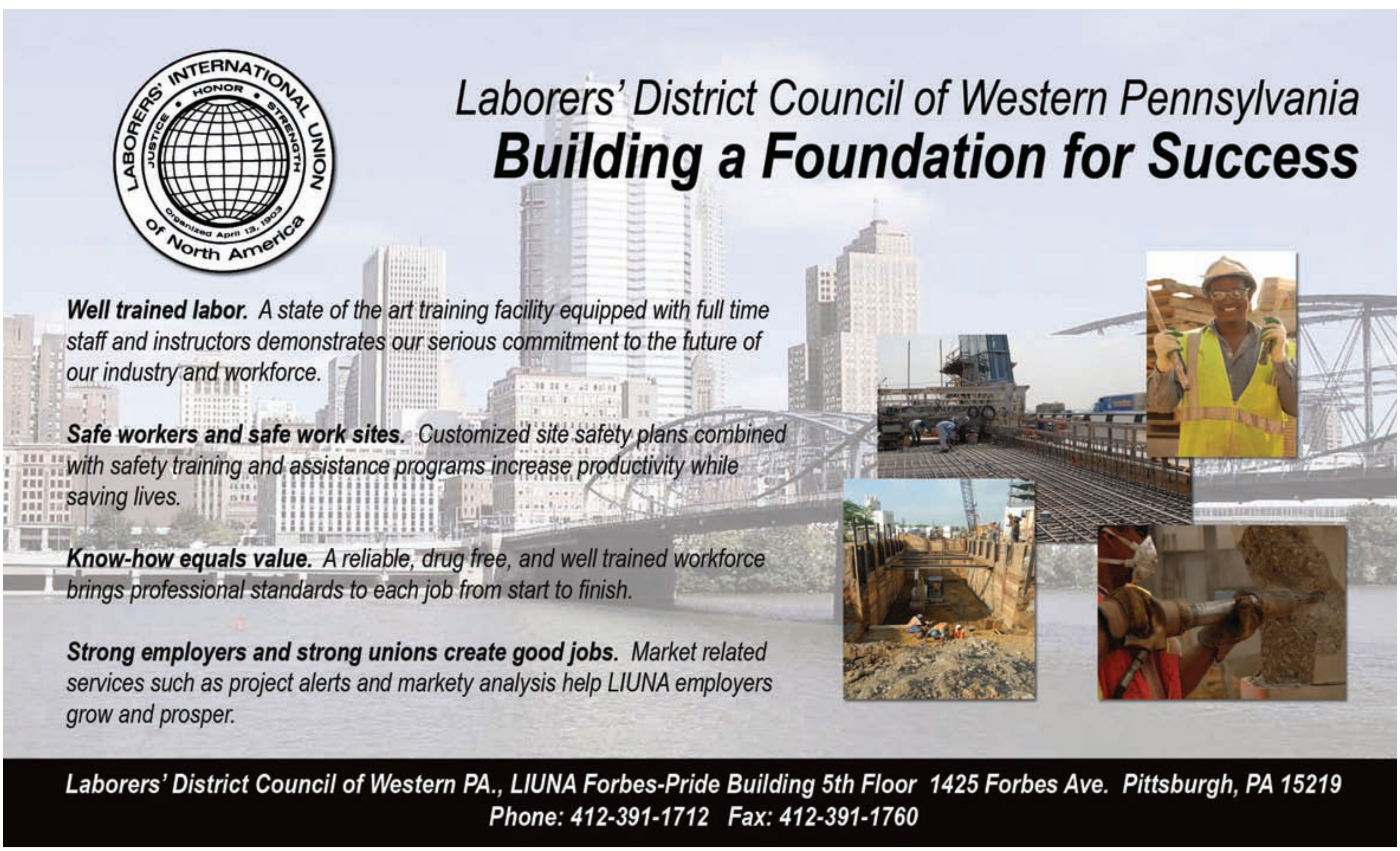
The Green Building Alliance is in the process of preparing the 2007 *Shades of Green* report. *Shades of Green* is a comprehensive chronicle of the region's efforts to move sustainable design and construction forward. A key component of the report is the regional information on LEED accredited professionals and LEED projects.

GBA encourages developers, designers and contractors to participate in identifying LEED projects and professionals for their firms. To add information to the 2007 Shades of Green please fill in the form online at www.gbapgh.org/buildingintake.pdf.

Legislature Still Considering Cell Phone Ban

The state legislature is being asked to consider amending Title 75 of the Pennsylvania Consolidated Statutes to prohibit the use of handheld mobile phones. House Bill #1827 states, "No driver shall operate any moving vehicle on a highway of the Commonwealth, which shall include Federal, State and municipal highways, while using a handheld mobile telephone." The law, which creates a $50 penalty for violation, provides for use of hands-free telephones, described as, "A mobile telephone that has an internal feature or function, or that is equipped with an attachment or addition, whether or not permanently a part of such mobile telephone, by which a user engages in a call without the use of either hand…"

The bill was referred to the Transportation Committee on September 11, which seemed to be the trigger for a flurry of emails proclaiming the law's passage and effective date of November 10. Transportation Committee Chair Rep. Joseph Markosek's staff has since identified the email as false, and expects the bill to remain in committee for the remainder of the session. Prospects for passage of the legislation in the near term seem unlikely. BG



Site work is being done by Trumbull/P. J. Dick on the new Westinghouse Nuclear facility in Cranberry Woods.

REGIONAL MARKET UPDATE

While some of the ills plaguing the national economy have certainly impacted the regional market in Western PA, the results of the first nine months of 2007 reveals a construction market that is relatively strong, and trending stronger.

Non-residential contracting activity has maintained an almost eerie quarterly pace of about $750 million since the fourth quarter of 2005. Through nine months of 2007 the volume of non-residential building contracts was $2.34 billion compared with $2.31 billion last year. The third quarter marked another large project, the Allegheny Energy Cheswick Scrubber project, and the bidding for a number of significant projects, like Passavant Hospital, Westinghouse Nuclear, Bridgepointe II and the Majestic Star Casino. Even if the contracting were to slow somewhat in the fourth quarter (and bidding activity doesn't indicate that), contracting for 2007 should exceed $3 billion for the second consecutive year.

The other very positive trend that is shaping up in metropolitan Pittsburgh is the end of the housing market skid. Building permits for new housing in September was up slightly over 2006, marking the fourth month out of five during which housing starts had increased. As this trend has played out, the rate of decline in the regional housing market has gone from falling more than 20% in the first quarter to only 7.5% through three quarters. Understand that the good news is a *reduced level of decline*, but it is hard not to draw positive conclusions about the direction of the local market, or to see more regional strength when comparing the performance to a national decline of more than 25%.

Site work began on the Settlers Ridge shopping development off Campbells Run Road in Robinson Township. While building construction won't start until 2008, the developers of the properties, CBL Properties and Faison Development indicated that they were close to announcing their lead tenants. Another large retail and mixed-use project, the Bakery Square, moved into the active phase, with demolition being done on the portions of the former Nabisco property that will not be renovated. The project ambitiously adds another $75 million or more in commercial development to the East Liberty/Shadyside neighborhoods. Also anticipated in the fourth quarter will be plans for the retail and town center developments along Route 228 proposed by Simon Properties, Lauth Development and Creative Real Estate.

Beyond these developments it does appear that the pace of retail development will begin to slow in 2008. New housing has been declining, although slowly, since 2004 in metropolitan Pittsburgh, but the development of retail and restaurant space has remained strong throughout. Fewer new developments are in for municipal approvals right now, and there is evidence that some projects already proposed may be scaling back or delaying, as the national A credit tenants look to the holidays for signals about the next year or so.

On the upside, several other sectors are showing increased activity. Office vacancy rates have begun to increase in sub-markets that had previously been soft, most notably in the Central Business District. Tenant fit-out has begun on the first floors of U. S. Steel tower for the UPMC lease space, taking nearly 200,000 square feet of the building, and ultimately occupying 500,000 square feet. Also, work began on the improvements of 85,000 square feet for H. J. Heinz in One PPG Place. Other projects of similar size to the Heinz project are in varying stages of planning for Deloitte in One PPG, Jones Day in One Mellon Bank Center, and Cohen & Grigsby in Dominion Tower.

Contracting and planning for construction of religious and non-profit sector projects has increased through 2007. While the volume of these kinds of projects is very low in the context of the overall market, the level of activity is a subtle indicator of the region's economy because the funding is very dependant upon philanthropic giving from individuals and corporations. Large new spaces are underway or proposed for St. Killian's Parish in Cranberry, Holy Trinity Greek Orthodox Church in McCandless and Northway Community in Pine Township. These projects are all in the $10 million ballpark, and represent the larger of what is an unusually robust church market. The Pittsburgh Opera's announcement of plans to renovate and relocate to the former Redzone building in the Strip, and the continued health of the arts community in a climate of reduced corporate giving underscore the grass roots support for the non-profit sector.

Another small sector of the regional market that will show increased activity over the next twelve months is the hotel/motel niche. In recent years, no more than a handful of lodging projects have been built in the metropolitan area. Hotels are currently underway or wrapping up in South Side Works and Meadowlands, and several more are being proposed each in the Cranberry/Butler County, Washington County and extended Central Business District.

Like the rest of the nation our region can look to the holiday consumer spending for an indication of how the confidence level in the economy rests. The residual benefits of the economic development in Western PA, however, have created a momentum for non-residential contracting that will carry well into the next few quarters. BG

NATIONAL MARKET UPDATE

It seems as though there is but one influence over the national construction economy: the credit crunch. Even though similar chills went through the markets in February and May when lenders reported their status and builders weighed in, the fear that palpitated the stock markets in August ended up shaking the housing sector so hard that the Federal Reserve Open Markets Committee felt the tremor and dropped rates unexpectedly.

Both nationally and sub-regionally, the August 16 market slide threw a splash of cold water on the housing market, stopping new construction almost overnight. While the pace of activity has recovered since then it's clear that there will be a workout period that affects the whole industry into next year.

As usually happens when a business cycle gets long in the tooth, as this one goes back more than fours year, the signals and indicators are very mixed. The most negative data to digest comes from housing starts and retail sales.

Housing is down between 25% and 28% compared to the first nine months of 2006 (which were also down significantly from 2005). Between the overbuilt inventories of some of the publicly traded homebuilders and the higher lending requirements, there is dramatically diminished demand for new housing. More than any time in the past year, the sentiment now points to an extended recovery period. Several major markets where real estate was a major growth industry are also experiencing conditions akin to a general recession. South and central Florida, southern California, and even markets close to home like Columbus, are probably not going to see increased residential construction until 2009 or 2010.

The retailer reports do shed a little more light on how the credit market problems may spill over into the construction market. With big name retailers like Target and Wal-Mart reporting same store sales down, and discretionary retailers like Best Buy and Circuit City reporting declines in sales, it is clear that the reduced credit available is reducing the consumer demand. The lower retail numbers also reflect some level of belt-tightening by homeowners scraping to meet mortgages, or in response to foreclosure. The unanswered question is whether or not consumers feel so nervous about the coming year that this reduced demand continues. This holiday shopping season will be watched closely for economic signals.

> One possible bright spot for the consumer is that there is a growing voice to take Federal action to bail out homeowners.

One possible bright spot for the consumer is that there is a growing voice to take Federal action to bail out homeowners. Treasury Secretary Paulson made strong comments about the need to help struggling homeowners keep their homes in mid-October, and a growing number of legislative campaigns are picking up on the theme for next year's election. As the Bush Administration seems to be casting about for a legacy issue in 2008, mortgage relief could become a reality.

August and September also marked the first evidence that the commercial market is being hurt by the credit problems. While the liquidity of lending seems sufficient, the lending standards and approvals process have been adjusted more conservatively to ensure that backs are covered before making deals. National office developers and realtors saw significant declines in deals completed as the third quarter ended. The slowdown seems to have two causes: additional requirements and interest rate concerns.

The former will have an impact that can probably be worked through without long-term damage to the market. There will be marginal developers who may lose qualification, but the stiffer requirements will more likely delay deals than squash them, particularly since demand for commercial space, like offices, remains strong. Where tighter standards have translated to increased rates or higher equity ratios, deals have been killed, or deferred. Some of this action has effected developers whose projects were higher risk, as was intended, but the bigger concern comes from the portion of the development projects that has gone on the shelf over uncertainty about the future direction of credit.

Another sector of the market feeling the stress of the housing slowdown is public construction, which has already been adversely effected by soaring oil prices and construction inflation generally. As the credit turmoil has started to negatively influence housing values and consumer spending, there has been a steady reduction in state and local revenues, which are dependent upon property and sales taxes for part of their revenue stream. Coming at a time when the cost to improve highways or build new facilities is 40% to 50% higher than it was in 2005, the reduced income levels will put more pressure on state houses to streamline government spending.

Even in the midst of all these caution signs, however, the non-residential construction market is robust nationally. Contracting for the first three quarters is up more than 15% over last year's volume, with private non-residential building projects leading the market. The Bureau of Labor Statistics released employment numbers for August that show that the increased non-residential activity is still keeping pace with the loss of residential construction jobs.

Even more promising was the continued increase in architectural and engineering hiring. Considering that the job activity in 2006 was a reflection of the non-residential contracting that has occurred in 2007, the fact that A/E employment is 3% more than 2006 bodes well for the contracting in 2008.

One other significant regional trend of note is the continued rebuilding of the Gulf Coast. The three parishes (counties) surrounding New Orleans are seeing huge increases in construction. Orleans Parish's 3,698 residential permits this year are up 180 percent from 1,322 in all of 2005 and 43 percent from 2,582 in 2006. It's the same story in Jefferson Parish where 3,307 residential permits this year are up 180 percent from 1,185 in 2005 and 24 percent from 2,676 in 2006. St. Tammany Parish's 4,506 residential permits this year are up 722 percent from 548 in 2005 and 30 percent from 3,479 in 2006.

Even with this higher level of construction, the majority of the recovery dollars have not been spent. To date approximately $6.7 billion of the $26.9 billion allocated for recovery have been spent for construction. Depending on how quickly the Federal response converts into spending this effort could impact both material and labor availability in 2008.

WHAT'S IT COST?

After a couple of early bumps in the prices of steel and paving, costs in 2007 have remained much more constant than in the previous four year period. The steep decline in housing construction, both nationally and locally, has offset a booming commercial and institutional market, and the resultant changes from reduced demand have allowed budgets to be better anticipated this past year.

Concern is growing that the pressures from the elevated price of oil and the resumption of aggressive importing from high growth foreign markets will force another rise in construction material costs in the coming 18 to 36 months. While the costs of most categories of construction raw materials and finished goods have risen at twice the rate of consumer inflation over the past five years, these two forces, surging oil and high foreign demand, have had the most dramatic impact.

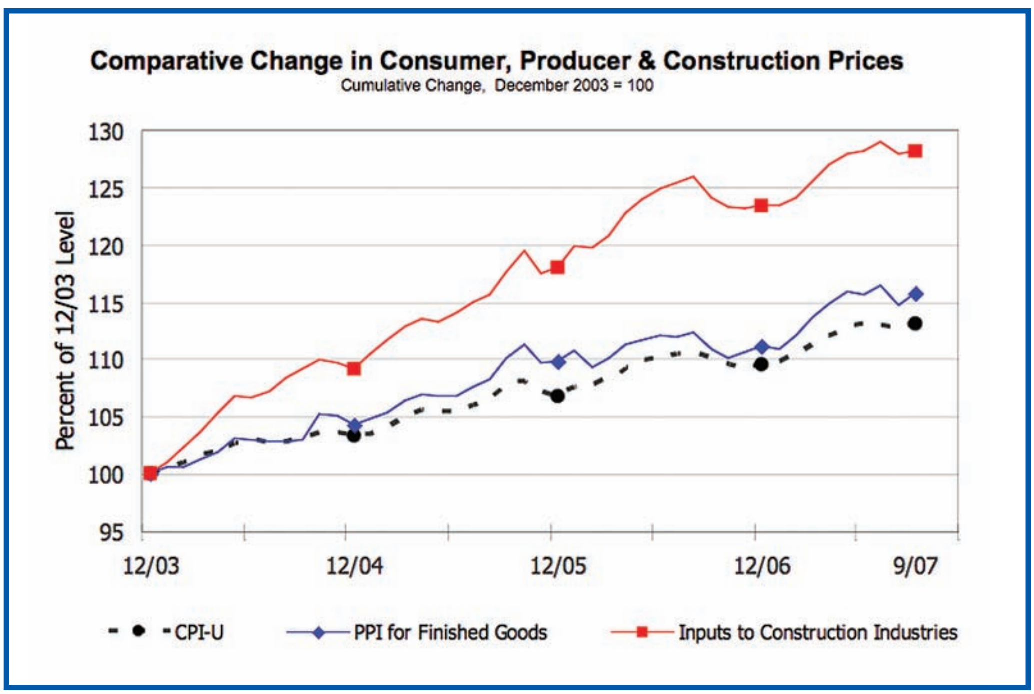
Looking at the period between December 2003 and August 2007, one can see that the categories driven most by energy and export have risen at rates that are two-to-four times that of the remaining categories. Copper and brass have risen over 168%, crude petroleum 137%, #2 diesel fuel 140%, and asphalt at a rate of 107% during those four years. During almost all of that period, unfortunately, crude oil has traded below (often well below) the historical highs of $90 per barrel or more that have been the level of late. Steel mill shapes have risen between 61% and 80% during that same time. Recent mill price action has been to increase prices locally by $27 per ton, with further price pressure coming from the scrap surcharges and heightened energy costs yet to be factored in.

Percentage Changes in Costs

September 2007 Over Past —

	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U) (through July 2007)	-0.2	0.0	2.5
Producer price index (PPI) for finished goods	1.0	0.2	4.4
PPI for materials and components for construction	-0.2	-0.1	1.2
Costs for Inputs by Construction Types			
Highway and street constructiontion	0.9	0.2	6.2
Nonresidential buildings	0.3	0.2	3.3
New warehouse construction	-0.1	1.3	5.3
New school construction	1.0	0.8	9.8
New office construction	0.0	0.4	5.4
Multi-unit residential	0.2	0.1	2.9
Single-unit residential	-0.1	0.1	1.9
Costs for Specific Construction Inputs			
#2 diesel fuel	4.6	8.2	22.3
Asphalt paving mixtures and blocks	-0.2	0.6	1.6
Concrete products	0.3	0.3	3.6
Brick and structural clay tile	0.3	0.5	1.1
Plastic construction products	-0.3	-0.3	-1.9
Gypsum products	-1.5	-7.7	-21.6
Lumber and plywood	0.8	0.7	1.1
Architectural coatings	0.0	0.1	4.3
Steel mill products	-1.2	-6.8	-3.7
Copper and brass mill shapes	-3.9	-3.3	0.5
Aluminum mill shapes	-2.2	3.2	1.9
Fabricated structural metal	0.1	-0.2	3.8
Prefabricated metal buildings	0.0	0.6	2.7

Source, Bureau of Labor Statistics



Source, Department of Census, chart by Associated General Contractors of America

For products whose major producers can be traced to publicly traded companies the pressure to raise prices is also higher, as these companies face eroding profit margins due to increased energy costs. Businesses tied to structural and specialty metals, aluminum products or copper have seen their stock prices tumble of late in anticipation of lowered profits. While price increases will not avert a decline in stock value over the long haul if the costs of energy remain high, the addition of oil-related surcharges over the short term will likely be employed to recover some of the costs. In a market that is experiencing double-digit growth in non-residential building these costs will be passed along quickly to the cost of the projects.

The biggest danger of this scenario is that it could cool off hot non-residential momentum. In most markets the contractor competition is relatively low, with contractors profitable enough that the increase in costs will pass through to the owner. Should these energy-related costs go high enough, quickly enough, that the increases blow budgets that were set 12-15 months earlier, then projects will begin to be cancelled or deferred as they were in 2004 through 2006. With consumer confidence in the economy running cold as 2007 wraps up, this would be a bad time for promising projects to be killed by the cost, or supply, side of the equation.

Demand from high-octane economies like China, India, Dubai and South Africa should remain high next year, and the call for exports, which softened some in late 2006 into 2007, will likely increase again in 2008. The weakened dollar will only add to this call. In addition to the structural and specialty metals, foreign demand for cement, lumber and other residential materials whose inventories in the U. S. are higher will have the most noticeable effect.

Labor costs represent the other half of the cost of construction put in place. Like most material costs in 2007, labor costs have remained flatter than would be expected in times of high non-residential activity. The stability of wages is owed primarily to the steep decline in residential construction, allowing for a large pool of residential tradesman to seek reclassification or work in commercial projects. After 18 months of steady housing construction decline, however, it appears the end is in sight for reclassification, as most trades' people who could transfer to non-residential work have done so.

No projects advance without regard to budget. As the 2007 construction season winds down in Western PA, however, there is compelling evidence that the costs of some of the basic materials, and labor, will begin pushing upward faster in 2008. Particularly for projects slated to get going early in the coming season, a double check is in order.

Photo by Alexander Denmarsh

Rejuvenated *Retail*

Next to activity in the housing market, the construction level in the retail sector is the best indicator of future economic direction. Like new housing, new retail construction is a reflection of the demand of the consumer, which is in turn, a direct reflection of how the consumer is feeling about the coming year or two. Simply put, if the average person feels that his or her job and earnings are insecure, that sentiment will be demonstrated by less spending. And, any period of lower consumer spending will be followed by reduced new store openings. Good feelings, of course, precede greater store construction.

It's a logical progression then to track new retail in very close proximity to new housing. The trend is so predictable that, on a national level, one can take the housing start trend and lag it by 12-18 months to predict the retail trend, almost without fail.


Photo by Alexander Denmarsh

In Western PA this predictable trend was interrupted by the economic disruption caused by the precipitous decline of the steel economy in the early 1980's. While new housing continued to develop after the mid-1980's, the bad vibe coming out of the region in the wake of the mill closings caused the national retailers to look at other markets instead of Western PA for new stores.

That's why after a decade of housing construction that created almost 5,000 new homes, Cranberry Township's Dan Santoro could declare in 1995 that the municipality 'needed' about 250,000 square feet of new retail. What Santoro couldn't anticipate was that Western PA would get back on the national radar, and that his estimate of pent-up demand would be off by a magnitude of ten in southwestern Butler County alone.

When Santoro made his observation, there had been precious little retail development in the region during the previous decade. The newest malls at that point were the original Robinson Town Center, Edgewood Square and Ross Park Mall, all developed in the mid-1980's. The interest of retail developers, even those from Western PA, and national retailers was focused on markets like Charlotte, Atlanta or Washington DC, where rapid population growth had left demand well ahead of supply.

Consider that as late as a decade ago The Waterfront, The Mall at Robinson Town Centre, and The Pointe at North Fayette were still in the planning stages. Route 228 was a two-lane road connecting the Route 19/I-79 intersection with the housing and farms in Seven Fields and Mars. The I-70/Route 19 intersection in Washington was still mostly pasture. And the Pittsburgh Mills was being called the Frazer Galleria, and was dead in the water (as it had been for almost two decades before). As the region's economy recovered, a prolonged period of new housing construction began, leaving Western PA poised to attract national interest.

Since that time more than five million square feet of mall or lifestyle center space has been constructed. Even more new retail space than that has been built in stand-alone, big box stores like Target, Sam's Club, Kohl's, Costco and of course, WalMart Stores. Most of these were built in 'big box centers' like The Pointe or Cranberry Square, or combined with enclosed malls or lifestyle centers, as was done at the Pittsburgh Mills and The Streets at Waterfront.

As important as the amount of construction was the nature of the developments. While many of the retail projects were aimed at the vast middle of the market, a number of developments were planned with higher-end retailers, which had not been previously attracted to Western PA, as the target tenants.

Perhaps the best example of these is the Southside Works, which was conceived as a project aimed entirely at attracting 'one off' tenants. To succeed, the project's developer, The Soffer Organization, had to be correct that there was a significant supply of 'one off' shoppers in Pittsburgh. When Soffer was able to get the Cheesecake Factory to commit to putting its first restaurant here, the credibility of the Southside Works jumped considerably, and other tenants without a Pittsburgh presence came aboard. As companies like Joseph Beth Booksellers, Z Gallerie, McCormick & Schmick's and REI signed leases at Southside Works, other national upscale retailers began to re-evaluate their take on Pittsburgh's consumer.

With a housing market that has been up over 2006 for four of the last five months, and continued demand for commercial space right through 2008, the Pittsburgh region is beating the national market trends right now. In several ways, though, what is going on in Western PA is an accurate reflection of the bigger retail market.

Less Room in the Middle

The extraordinary growth of retail space in Western PA has mirrored the national trend of more square feet per capita, which developed over the previous decade. Like most trends, this one too can be credited to the Baby Boomers. More willing to spend and consume than past generations, the Boomers have simply created demand for more shops. Even in times of national recession, such as occurred between 2001 and 2004, retail vacancy rates have remained low and steady while office or industrial occupancy rates plummeted. National retail vacancy has remained between 6% and 7% since the beginning of the decade.

Since 2000, the most significant trend for retail construction has been the shift in retail destinations away from conventional enclosed malls toward lifestyle centers. Steve Dodds is a national retail consultant based in Dallas/Fort Worth. He believes that mall costs were the impetus for the rise of the lifestyle center. "Rents were just enough higher in malls that the tenants started looking for alternatives as their competition increased in the last decade," explains Dodds. "Malls have a lot of space under roof that can't be leased and is expensive to maintain, so developers weren't reluctant to embrace a different model either."

Adding further stress to the malls was the consolidation of the department store chains. These stores were typically the anchors in the malls, the stores that drove traffic for the smaller retailers. When Federated merged with the May Co. their dominance left most malls with redundant department store anchors, at a time when department stores were already weakened. "Losing the anchors during the Federated/May consolidation forced the malls' hands," says Diane Hamilton, President and COO of Brooks Brothers. "Malls in strong areas, like Ross Park Mall, are moving to add lifestyle center elements. Those in areas without demographic support will end up being re-used for some other community purpose."

Here again, the Baby Boomers willingness to accept new shopping alternatives, and to drive to more than one center, meant that the lifestyle center wouldn't face diminished demand or inconvenienced shoppers. While the design and construction issues were quite different from the massive enclosed mall, the open and dispersed

layouts allowed for retail accommodations that a mall did not. Aside from walkway cover, all the square footage built could be used for rentable retail space. The additional land needed also provided for parking adjacent to the retailer's front door. And the space formulas of the malls were thrown out, creating the possibility of attracting brands that didn't fit the conventional model. Stores like Staples, Best Buy or Ross Dress for Less, which were too small for anchors but too big for the traditional mall rent, are now essential components of most lifestyle centers.

It's the adjacency of dissimilar, but highly popular, retailers that maximizes the effect of the lifestyle center. "There are really only 20-25 national retailers that are looking to be in every town or every center," says Steve Dodds, "So the synergism of a center comes from the mass of tenants that you can assemble." Dodds points out that there are a couple of types of lifestyle centers: those that combine retail with offices, hotels and apartments (like Southside Works, The Waterfront or Reston Town Center in VA), and those that combine big box staple retailers with separate higher-end boutique shops and restaurants (like The Pittsburgh Mills or Easton Town Center in Columbus).

The lifestyle center also accommodates the other main trend in retailing nationally, which is the polarization of

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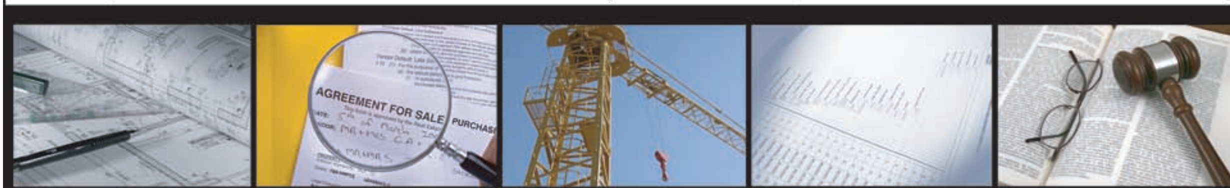

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Lifestyle centers, like Short Pump Town Center in Richmond, offer more opportunities to mix upscale tenants with restaurants and value retailers, and allow for more varied architecture than enclosed malls.

retailing. Competition and demographics have combined to make it a fertile market for those at the high end, and those offering low price. "We don't see much contraction on the luxury end," says Brooks Brothers Hamilton, "But the retailers in the middle are like an animal caught in the middle of the road at rush hour." Businesses like Wilson's Leather, KB Toys or Casual Corner, who depended on mall anchors to drive traffic to them but offer merchandise that is neither compelling nor cheap, are struggling to find a niche in the new landscape.

Bucking the Trend

One ray of hope for the middle market retailers is the adapted mall model in the northern states. For malls like Monroeville Mall, which built 80,000 square feet of new space and re-positioned its brand, or Ross Park Mall, which is replacing Macy's with Nordstrom's and adding an upscale outer ring, the middle market retail tenant still has space and the hope that the new tenant mix will revitalize traffic.

One mall that has developed from the ground up in this model is the Pittsburgh Mills. The project has had an interesting and checkered history, taking several decades to come to fruition. The mall's original developer, Johnstown's George D. Zamias, recently took over the mall from its development partner, The Mills Corp. Zamias Services Vice President, Stephen Zamias, was amused to hear The Mills characterized as schizophrenic. "That's not a bad description," laughed Zamias, "We inherited the property with some things that didn't work, but we have been working hard to re-position the asset with the right mix of anchor tenants."

The Mills is a combination of a million-plus square foot enclosed mall, with traditional anchors like Macy's, Sears and J. C. Penney's, on the same property as ultra-big box mainstays such as Sam's Club, WalMart and Lowe's. To blend those retailers Zamias has developed 94,000 square feet of new Village space to attract Best Buy, PetSmart and Ross Dress for Less, and has replaced the Lucky Strike Lanes with two popular local restaurants, Abate and Dingbats. Zamias also expected to make an announcement before year's end on a replacement anchor for the ill-fated NASCAR Café.

His faith that the non-traditional lifestyle mix will support the enclosed mall is strengthened by the inevitability of winter weather. "There will still be winter conditions," says Zamias, "that will make it more comfortable for people to stay indoors."

The Local Forecast

In spite of the recent slowdown in the pace of real estate deals nationally, plans for a number of big retail projects are moving forward, inspired by favorable demographics in Western PA, even as the national markets are growing cautious. Local broker Gregg Broujas, of NAI Pittsburgh, has seen some chilling effect of the mid-August credit panic. "(Since mid-August) the interest from national firms has gone cold," says Broujas. "From what I read and see, Pittsburgh is still under-retailed though, and the active areas still need more retail services."

That observation seems borne out by the projects planned. Several sites are in the process of getting more than 500,000 square feet of retail construction, and the common denominator seems to be location. The biggest developments are in already hot retail sites, the Parkway West, Route 19 in Washington, Route 228 in Cranberry, and the East Liberty/Shadyside neighborhood.

In South Strabane, Premier Properties has opened The Foundry and is completing construction this year and early 2008 on a total of 575,000 square feet of space. Just up the road, across from the Meadows Racetrack, work is underway on the Tanger Outlets, with 343,000


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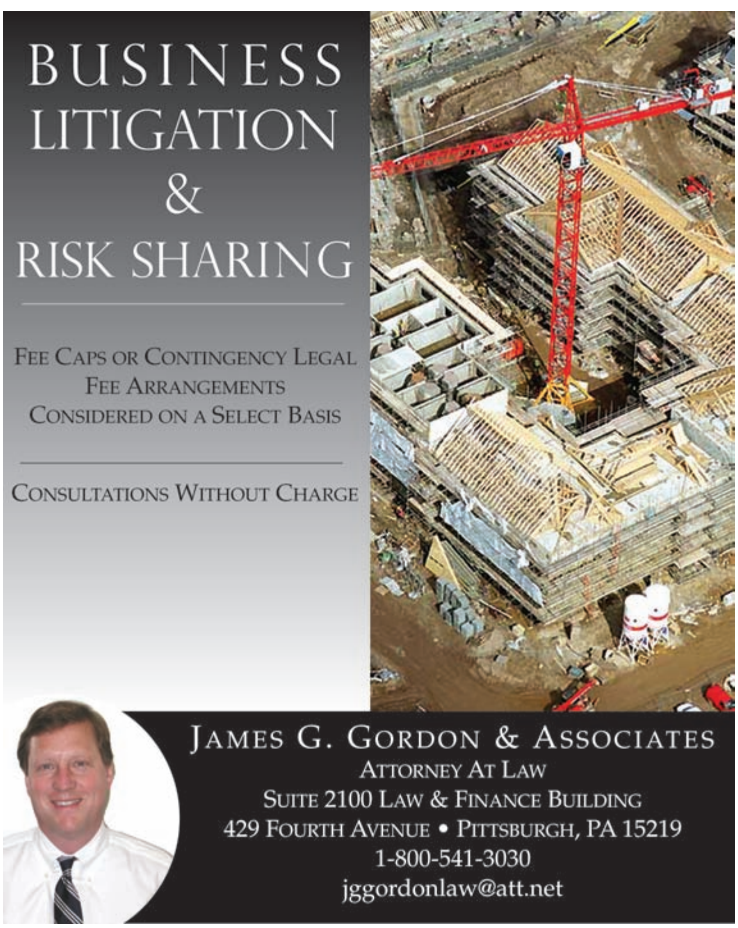
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square feet of shopping. In 2008 work should also begin across Racetrack Road on the Bass Pro Shop development of a 200,000 square foot store, and related retail and hotels.

One of the North Hills first enclosed malls, Northway Mall is undergoing major renovation and the addition of 58,000 square feet of value retailing space to stay competitive.

Settlers Ridge is another lifestyle center that is being developed by Faison Development of Charlotte, NC and CBL & Associates Properties of Chattanooga, TN. While the mall opening may be delayed until 2009, site work on the 580,000 square foot center is underway. Boscov's and Cinemark have been identified as lead tenants for 75,000 and 60,000 square feet respectively, although Faison marketing director Howard Biel declined to comment on any specific leases, noting only that announcements were forthcoming.

Another project for which preliminary work is underway is Bakery Square, an adaptive re-use and new construction urban center at the site of the former Nabisco plant in East Liberty. Walnut Capital Partners is developing the project, which involves renovating the 350,000 square foot plant, constructing a 992-space garage, 132,000 square feet of new retail space and a 120-room hotel. Approximately 153,000 square feet of office, as well as an undetermined number of apartments are also involved. P. J. Dick Inc. is building the project, which is being designed by Astorino, and could cost upwards of $75 million.

The largest of the retail projects on the boards for the coming year or two is the long-awaited Simon Properties development in Cranberry Township. Planned as a $100 million lifestyle center for several years, the project was put on higher heat in this past year as the competition for the Westinghouse Nuclear site wound down. Simon's retail plans were folded into a colossal mixed-use development proposed with Lauth Development of Indianapolis, and was pitched to Westinghouse as The Summit at Cranberry. When Westinghouse ultimately chose a site in Cranberry Woods, across Route 228 from the Simon/Lauth site, Simon's original plans became just as viable.

Called the Cranberry Towne Center, the project is proposed as an 850,000 square foot lifestyle center that will get underway next year and be open in 2010, as the Westinghouse facility is first occupied. In the wake of the announcement, Lauth Development continues to market its site, adjacent to Simon's on Route 228, as a corporate office campus, and Creative Real Estate has put forward a preliminary concept for a residential/retail project on its site adjacent to Cranberry Woods.

This handful of projects represents the first of perhaps a dozen large-scale retail developments being contemplated for Western PA. As configured, the projects will add another 4 million-plus square feet to the already busy commercial corridors in the south, west and north. It's clear fromthe tenant responses that Pittsburgh is being viewed with more optimism than other markets.

Kathy Samuels, Vice President at Grubb & Ellis, sees reason for the optimism. "There is a slowdown right now due to the tightening credit requirements, but deals are still going through," says Samuels. "I'm cautiously optimistic about the market, particularly in downtown Pittsburgh." Samuels leases the first-floor retail space in PPG Place. "In the past, it was difficult when a space was vacant, but the momentum from the residential space downtown and the entertainment venues is really building."

Comparing rents here to other markets is a more objective measure of Pittsburgh's relative strength. At the end of 2006, Grubb & Ellis surveyed 57 North American markets, comparing average rents for national credit tenants in in-line shop spaces. Pittsburgh's rate of $28/square foot tied with Phoenix and Richmond for 15th out of 57. That was ahead of markets like Las Vegas ($27), Boston and Philadelphia ($26), Dallas/Fort Worth ($22.25), Atlanta ($22) and Orlando ($14.40), all of which carry much 'hotter' reputations (and we also beat Cleveland and Cincinnati). Aside from the measure of hometown pride, the survey indicates that demand is running ahead of supply in metro Pittsburgh, which is good news for the projects being planned.

Even though recent news from retailers indicates lower year-to-year same store sales, and publicly-traded retailer stocks are lagging, the recessionary concerns don't mean that store development will disappear. "Retailers need to open new stores, even if it means scaling back a bit on size during a downturn," notes Steve Dodds. Even a national recession doesn't necessarily mean bad news for the region's retail plans. "Good retailers will still add stores to grow," says Dodds. And good markets will still attract shoppers.

A rejuvenated retail sector is an indicator of a rejuvenated economy in Western PA. While the ultimate success of any of these projects is still to be determined, what has been determined is that a lot of bricks and mortar will go into new retail building between now and 2010. BG

The Eastside Development Shows Off the New East Liberty

Retailers, and therefore retail developments, like following traffic. Mostly that means that the new development of retail is usually preceded by increased population and new housing that would look for retail services. The hottest development trend in the country, though, is New Urbanism, which attracts tenants on the basis of an area becoming a 'hot' place to go. Often, these projects have involved re-using old sites, like New York's South Seaport or our own Homestead Waterfront.

The Eastside Development has a bit of that flavor in its perception, but the reality is quite different. Developer Mosites Company was attracted to the area because of the realities that East Liberty Development Inc. (ELDI) presented them. The picture was not one of a blighted neighborhood, but rather an underutilized suburb. East Liberty's historical role was that of an upscale suburb, and many of its institutions and architecture reflect that today. "Our site certainly wasn't blighted or stigmatized," says Mark Minnerly of Mosites Co. "There just wasn't anything there, except old industrial or warehouse buildings. When we looked at the density of population, the transportation infrastructure and the proximity to the neighborhoods we became very interested."

Indeed, when the traditional three-to-seven mile circles are done surrounding the Centre and Highland Avenue intersection, one finds 300,000-500,000 people with better than average education, and whose average incomes exceed $50,000. At the same time, ELDI was working hard to remove the last vestiges of the 1960's urban redevelopment, especially those like the Penn Avenue towers, which severed the community from the adjacent neighborhoods. Mosites Co. found the project to be an opportunity to be an anchor in an overall larger district.

Still, the project had a high-risk profile. "Getting started on our own might not have been attractive if it wasn't for ELDI's vision for a bigger picture, and their willingness to invest and attract non-traditional, philanthropic investors," explains Mark Minnerly. Having investors who were looking to do good more than to do well allowed the developer to create an architectural and environmental standard that was higher than a normal retail pro forma allows. "We stood at the corner of Centre and Highland and did a 360° and felt enormous pressure to have Eastside hang together with that amazing architecture."

Non-traditional retail elevations have added value to the urban shopping environment. Photo by Alexander Denmarsh

Because they were looking to do a non-traditional development that didn't look like a power center, Mosites Co. may have been influenced to look for a non-retail architect. Pittsburgh's The Design Alliance (TDA) was already involved in master planning studies of the entire East Liberty neighborhood, looking at what parcels were more suitable for development. Mark Minnerly's brother Chris is a principal at TDA who worked on the project. "It was a challenge to design buildings that were good neighbors, that were different from Home Depot or Whole Foods, because that meant multiple stories and retailers generally don't like multi-story buildings," remembers Chris Minnerly. "It's also unusual because it's multi-level with two elevations, oriented at street level on Centre but having an upper level that flips around towards Highland Avenue and Shadyside."

The project's design had other non-traditional retail objectives. Mosites Co. wanted to use durable materials, like brick, metal panels and curtain wall, which had architectural appeal, and wanted the new construction to be LEED-certified. "We knew that the quality of architectural detail wouldn't bring higher sales to our tenants," says Mark Minnerly, "but we believed that a high quality environment would."

Mark Minnerly thinks that belief has already been validated. "The PLCB came to the site and you could tell they 'got it', because they asked for the store to be designed not like a PLCB store. And the store is consistently at the top of store performance statewide." Minnerly also feels the LEED-certification will benefit tenants. "The energy savings help the tenant weather the startup."

As it stands today, the two phases of Eastside consists of more than 80,000 square feet of new retail, 40,000 square feet of new office in three structures, two of which are connected as one building served by an adjoining two-level, 52,000 square foot post-tensioned parking deck. The buildings are home to Walgreen's, Borders, PNC Bank, a large Starbuck's, FedEx Kinko, T-Mobile, Trek Bike Shop, Taste of Chocolate, a PLCB wine & spirits, and Eve Szabo Salon.

The success of Whole Foods showed the public the opportunity that existed in East Liberty

And there was a little grocery store in phase one. That 'little grocery store' in phase one marked the tipping point in what has followed in the rebirth of East Liberty. The store, of course, was Whole Foods. With an emphasis on organic foods and merchandise, upscale meat and dairy and trendy prepared food, Whole Foods had been looking for a place to plant a store in our region when the opportunity arose in fall 2001. Adding 7,000 square feet and renovating the 25,000 square foot Witt Exterminating building, Whole Foods took a chance that the demographics and the diligence of the ELDI would create another successful operation.

The store has a user-friendly design, but having an upscale target customer doesn't mean that construction dollars weren't tight. "During the Whole Foods project it was always one struggle or another, getting paid as quickly as we wanted or getting the owner's extras worked out," says Dean Mosites of Mosites Construction, who built out the Whole Foods store. "Three weeks after the doors opened Whole Foods brought us all to the table, asked what the outstanding issues were, and settled them up right there. They said they loved Pittsburgh!" Opening for the holiday season, the store's sales were more than double its expectations, and have excelled since.

Mosites Construction has also built the development's new construction in phases 2A and 2B. The sites they worked with were mature and level, but not without some surprises. "It was an old site so there were pieces of old buildings and foundations subsurface that we discovered, and the new foundations had to be caissons," explains phase 2A project manager Tom Edwards. The neighbors created some interesting coordination challenges. "The PAT rail lines runs along the back, so we had to coordinate carefully with the authority to keep things running, and keep our guys and their guys safe," remembers Edwards. "And, of course Whole Foods was interested is seeing that we kept their lot clear while we worked in the adjacent lot."

Mosites Construction's Dean Beresford recalls that the unusual nature of the buildings and the development schedule made things interesting. "The project was done on a fast-track schedule, and the city worked well with us, getting permits approved for partial plans as we went along," he says. Expediting materials was a little different from tracking down a couple hundred thousand split face block or standard aluminum storefront systems. "Phase 2B has an unusually large, radiused GFRC panel system from Switzerland, that's made of recycled material and fastens with stainless steel rivets."

The newer space is coming on the market and the pace of interest from tenants hasn't slowed. TDA's Chris Minnerly feels that what's been done so far is pretty exciting. "The project is going to be a case study at the Urban Land Institute's national conference in California," he says. "It's really a great project, having a client who had a vision and was willing to pay for it."

Planning for phase 3 and 4, which total 267,000 square feet, is underway and rumors of a lease with Target or another big box have circulated. After more than five years of frantic pace, Mosites Co. sees next year as a planning year. "We'll begin the site prep for the infrastructure that the city wants done, but if we're out of the ground in 2008, it will be late 2008," offers Mark Minnerly. Asked if he thought the retailers would be attracted in what could be a tougher economic climate, Minnerly brightened. "Do you know there's no sporting goods store, or consumer electronics or discounters in this neighborhood? We think there's a lot more demand left in East Liberty." BG

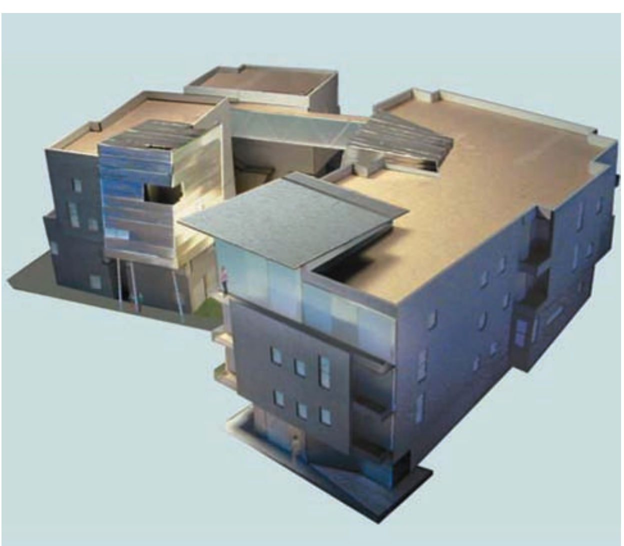
Firm Profile

Lubetz Architects Turns 40

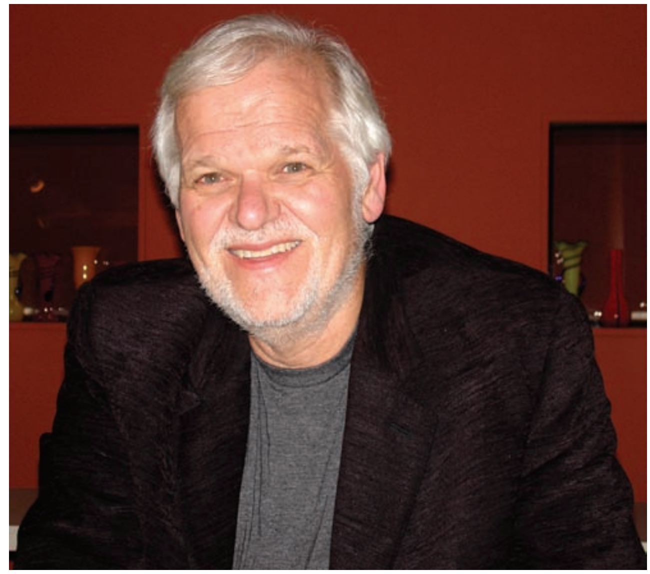
Historical studies by sources ranging from the Department of Commerce to Business Week to Ivy League Business Schools have shown that somewhere between 60% and 68% of new businesses fail within the first four years. The broad category of construction, which includes all types of design and contracting firms, has a survival rate at the low end of the spectrum. Getting to 40 years, as Lubetz Architects has this fall, is a very rare accomplishment.

The difficulty of keeping the doors open 40 years as a sole proprietor architectural firm is almost insurmountable, if for no other reason than the actuarial odds. To get there the founder must be very old, or start very young, as Arthur Lubetz was in 1967.

Art Lubetz has not traveled a traditional path. "My interests and experiences have been varied," he explained. "I was one of the founders of the Environmental Design Collaborative in 1970. It was architects, landscape architects and planners from Philadelphia and Pittsburgh who wanted to promote environmental design." Lubetz was also a President of Preservation Pittsburgh, a group committed to preserving Pittsburgh's architecture, and the Pittsburgh Community Design Center. And throughout his career he has developed real estate, both for residential and commercial use.



The Glass Lofts at Penn & Fairmount



Arthur Lubetz in his Oakland Studio

The experiences as developer helped Lubetz understand early in his professional career that projects had to be designed so that they could make sense financially. "We try to design from the budget out, and I know that there will be times throughout the job when we'll have to work with the owner and the contractor to find ways to stay within budget," Lubetz says. "I've been in business forty years and never had a project not built because of budget."

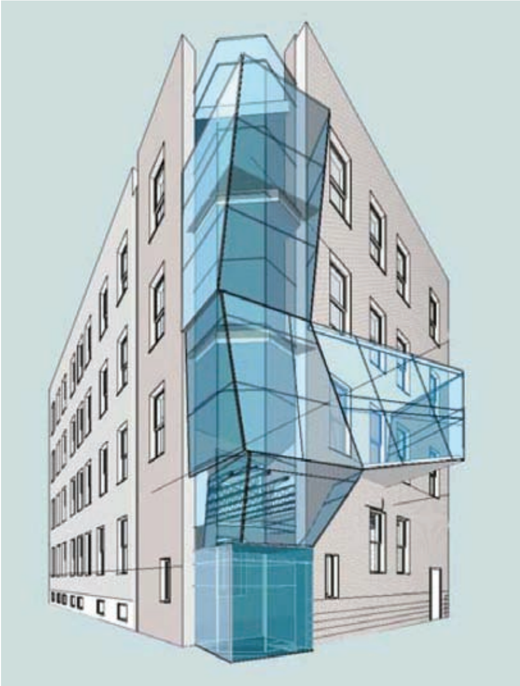
Lubetz has always tried to be accurate in his own estimates, but he also points to the fact that his projects more often than not have involved negotiated general contractors. "My first job on my own, the client had already chosen a contractor, so I was able to get plans to him to start construction that weren't really complete plans. As the project moved along we always related any problem that came up back to the original budget, and it worked very well." Lubetz found he preferred working in contracting arrangements where the client and contractor agreed to a number early, and then the design and methods stayed within the budget. In the late 1960's and early 1970's, however, that approach was contrary to the market, and got Lubetz some flak for embracing it.

"I got a call from an older architect who accused me of short-changing my clients because I wasn't getting him the lowest bid," remembers Lubetz. "He said that (bidding) was part of our professional ethic. I told him I wasn't trying to be unethical but that my clients were all getting the building they wanted for the budget they set, and that they were all very happy about that!"

That first project, The Cascades Apartments in Ross Township, was actually a project that Art Lubetz had brought to his employer at the time. The following summer, when his firm turned down the Cascades project, he began to work on the project as a side job. By fall, Lubetz had converted his second bedroom into a studio, and gave his notice. The Cascades Phase 2 followed shortly after, and Lubetz Architects never looked back.

For most of its 40 years, Lubetz Architects has been located on North Craig Street in Oakland, first in the now-demolished Howard Hanna Realty office, and since April 1983, working in a building at 357 North Craig that Lubetz bought and converted.

Over the years Lubetz Architects has changed in accordance with the ebb and flow of the markets and the proprietor's ambitions. At its peak in the late 1980's, Lubetz grew to 14 employees, nearly all with architectural or interior design experience. That size moved Arthur Lubetz off the front lines and into a role he found he didn't like. "When we had 14 people here we were too big for me to be involved with the designs the way I wanted to be," says Lubetz. "Around that same time I had the opportunity to begin teaching classes at Carnegie Mellon, so I had even less time at the office." Lubetz let the firm get smaller so he could work with all the clients and still have time to teach.



North Side Christian Health Center

Liberty Avenue Medical Office Building

During the late 1990's Lubetz Architects collaborated with a Columbus architect to open an office in the Ohio capital. "The gentleman I worked with found this opportunity to convert an old bridge into an American version of the Ponte Vecchio," recalls Lubetz, "but we could not get the approvals needed to build the project." After that the work that they landed in Columbus was profitable, renovating 40 Value City stores for the Shottenstein Co. for example, but not very stimulating. "I opened an office in Columbus to expand the opportunities for interesting work, but we ended up doing work I wouldn't have done here," explains Lubetz. "He didn't need me for that kind of work, and I didn't need to manage another office from here."

Today Lubetz Architects is back to one office on North Craig Street and six on staff. The firm's also busy with three projects getting underway as they begin the 41st year of operation.

Art Lubetz says he misses some of the things that have changed about the industry over the years. "My first commissions got started on a handshake, and we resolved problems instead of litigating." Yet he finds plenty of offsetting challenges in architecture today. "It used to be a client brought you a program-so many units to build or something," he noted. "Our society changes so fast that the projects are much more dynamic, and involve much more mixed use. That makes work very exciting." BG

Working Out of Financially Troubled Construction Projects

by Peter N. Pross
Gary M. Schildhorn

Real estate development is a risky and speculative undertaking. During good markets, even in great locations, the success of a project can be in doubt right up until lease-up occurs. Likewise, the processes associated with contracting, estimating, purchasing, managing and closing out construction, entail risks that can lead to troubled projects in untroubled times.

The perverse reality of financing development and construction is that the mission of the lender is to find the most lucrative deals with the least risk. When the pressure to grow leads lenders to make loans that begin to unravel, we can end up with credit market conditions like the current climate.

As a direct result of the credit crunch we are beginning to see more troubled construction projects. While this started primarily in residential projects it has also effected other areas as the ripple spreads. Whether one is an owner, developer, lender, contractor, subcontractor or design professional it is important to be on the look out for signs of trouble and evaluate how to protect ones' interests and the project, where appropriate.

The first visible sign of trouble is the slow down in sales and the lack of movement of inventory. Since the developer can't pay down the bank by selling the vacant house he therefore has less money to pay subcontractors and suppliers, and all the variations of "the check is in the mail" start to be heard. When this happens, contractors may find that their subcontractors pull off the job for fear of non-payment and, when the specter of a bankrupt project looms, the rush to litigation commences (and mechanics liens under the new rules now in effect in Pennsylvania). The bank begins to become concerned and limits advances even further, and the developer has trouble drawing down lots from the owner. Another fact of life—when a project is in financial trouble there are increased claims of construction defects and delay claims (although which comes first varies from project to project).

What can the Participants do? Once creditors begin the rush to be the first to judgment bankruptcy may be inevitable. After all, one creditor can't afford the risk of being left behind. So in order to have a fair and equitable, and orderly, solution it is important that the developer, hopefully with the cooperation of the lender, come up with a plan to work out the project's difficulties. Usually a workout is in everyone's best interests—it costs less than bankruptcy, it provides for a distribution to creditors besides the bank, it defers payments until funds begin to flow as economic difficulties are alleviated and generally provides a higher recovery for lower transaction costs. For contractors, it is never too early to demand proof of adequate financing by the owner so that one can determine the likelihood of non-payment and make decisions based on solid information, not threats and rumor. For subcontractors, payment bonds and mechanics liens have increased importance. Nevertheless, neither of those remedies is a quick solution and each subcontractor must be careful to prioritize work to maintain cash flow, and need to seek a place at the table with the contractor and developer to avoid becoming a casualty of a problem project.

What does a workout for a Developer look like? Each workout differs based on assets, liabilities, collateral and lien issues, but workouts are usually created in the same basic way. The constituents with their professionals (attorneys, accountants and turn around managers) evaluate assets, liabilities and liens. They project a reasonable cash flow based on the reality of reduced or slow sales or leasing. They create a model to service debt on a new amortization table based on the realities that the economy has brought about, and on a one on one basis they negotiate the plan with the creditors—maintaining certain fundamental concepts: new trade debt is entitled to more favored treatment, but otherwise similarly situated creditors are treated equally, with the same variations that would apply for priority claims in bankruptcy so no one has an incentive to force a bankruptcy proceeding to get fair treatment.

A side note on performance and payment bonds. If the developer/contractor has bonded jobs there will also be a surety company to deal with and special rules that apply to bonded jobs and their contract proceeds. These issues require special attention in the workout process and professionals who have expertise in these areas. For example, the bank may be very surprised to learn that it might not have a lien on accounts receivable from those bonded jobs and that the mysterious concept of "subrogation" applies."

What do you do with a financially troubled project to protect yourself? Here are a few suggestions:

Pre-contract:

- Negotiate contract provisions defining default based on early warning signs—look for clauses that give you advance warning of trouble on the horizon (these will vary based on the original projected trajectory of the project).

- Negotiate guarantees to keep the principal parties in the game. Look very carefully at projects where the principal has insulated himself and isn't at risk.

- Seek collateral or third party sureties.

- If you are a subcontractor consider what protections the owner might give you given the new mechanics lien law.

After execution and during performance:

- Monitor performance on a current basis and be vigilant in looking for signs of trouble.

- Look at whether there has been a sign of incipient default that would support a demand for adequate assurances of future performance (a legal concept that effectively lets you get additional protections right before a default).

- Try to seek collateral and security in lieu of exercising rights or as a demand for adequate assurances.

- Consider joint checks and whether this can be negotiated now.

- Again, look very carefully at the new mechanics lien law.

The panic that can set in during tight credit markets can spread from developers, to contractors, to subcontractors, to owners and other participants. There is no 'one size fits all' workout, but there are common themes. The biggest single variable to increase the chance of success is to recognize early on that you might need a workout (or that someone you are doing business with needs a workout); and the sooner you start planning the greater the likelihood of success. Your professional advisors should bring a team of professionals to address the issues—workout and lending professionals, but also experts in real estate, mechanics liens and construction litigation. These professionals are trained to coordinate with accountants, bankers and turn around managers to create a team solution. BG

Gary Schildhorn and Peter Pross are part of the construction practice at Eckert Seamans Cherin and Melloit LLC. Pross can be reached at 412-566-5934. Schilhorn can be contacted at 215-851-8400.

ENHANCING CASH FLOW THROUGH A COST SEGREGATION STUDY

If you own real estate, you should explore the tax savings associated with a cost segregation study ("CSS").

By Michael J. Sluss

A CSS is a comprehensive analysis that entails the review of all construction documents utilizing an engineering-based approach, cost estimating techniques and on-site inspections to identify costs related to separate components of a property. A CSS of your real property may uncover ways to accelerate income tax depreciation deductions and provide you with significant cash flow savings.

A cost segregation analysis will generate tax savings by carving out shorter-lived assets (qualifying for 5-, 7-, or 15-year depreciation periods) that would otherwise be included in a building's construction or acquisition costs, and depreciated over 27.5 or 39 years.

Real estate properties that could benefit from a CSS are: New buildings presently under construction; Existing buildings undergoing renovation, remodeling, restoration or expansion; Purchases of existing properties; Office/facility leasehold improvements and "fit outs;" Post-1986 real estate construction, building acquisition, or improvements for which no CSS was performed.

Who can benefit from a CSS?

A CSS can be utilized by a broad spectrum of businesses, including commercial real estate lessors, financial service businesses, bank branches and food processing companies. For example, the food service industry, including fast-food restaurants and sit-down eateries, could benefit from a CSS. The health care sector, including hospitals, physician practices, medical centers and long-term care facilities, could also benefit, as could hotels, motels, recreational resorts and golf courses. Apartment houses, office buildings, manufacturing facilities, pharmaceutical companies, public utilities, department stores, distribution centers, shopping malls, semiconductor companies, automobile dealerships and sports facilities round out the list of businesses that should consider a CSS.

Even though the statute of limitations (generally 3 years) might have closed on the property construction/acquisition year, a CSS can still generate current tax savings based on the shortfall in prior depreciation. An Internal Revenue Service ("IRS") procedure allows you to deduct depreciation amounts that you were legally entitled to but did not claim (e.g., due to erroneous property classification as a 27.5- or 39-year depreciable building), entirely in the tax year in which you complete the study. This cash flow windfall is available to you even though the statute of limitations might have previously closed on the property construction or acquisition year.

A CSS will also provide legal documentation supporting your depreciation deductions in the event that the IRS audits you. IRS guidance requires that experts prepare the CSS based on accurate contemporaneous records and appropriate tax authorities. The study would provide a complete "audit trail" that traces unit costs from contract documents and other source data to the CSS.

The Process

As part of the CSS, a physical inspection of the property and examination of the architectural/engineering drawings and specifications are done for potential asset reclassification. The cost data is then analyzed, including the contractor's application of payments, change orders, owner-incurred costs and indirect disbursements. Based on this information, an itemized list of property units qualifying for shorter-life classification based on relevant income tax authorities is prepared. Indirect costs such as the architect's fee, architect overhead, management fees, general conditions, contractor's fee, contractor's contingency, and interest are allocated to capitalized project costs based on the engineering analysis. The final step is to reconcile total costs per the engineering analysis to capitalized project costs as reflected in the accounting records.

A CSS may provide present value cash flow savings of 10 to 20 times the investment for the study. Some examples of the benefits of recent cost segregation studies are as follows:

Hotels. A CSS identified eight percent of the construction costs as personal property and 10 percent as site improvements. The total present value savings from the CSS totaled $374,000.

Retail Center/Strip Mall. A CSS analyzed a $3.9 million retail center and identified three percent of the construction costs as personal property and 44 percent as land improvements, which generated a present value benefit of $209,000.

Apartment Complex. Twelve percent of the construction costs were classified as personal property and 14 percent as land improvements, which generated a present value benefit of $227,000.

Office Headquarters. For this facility, six percent of the construction costs were identified as personal property and seven percent as land improvements, providing a present value benefit of $180,000.

Shopping Mall. A $15.7 million project was reviewed resulting in a reclassification of five percent of the costs to personal property and 14 percent to site improvements, providing a present value benefit in excess of $350,000.

More to Consider

In addition to the income tax benefit from a CSS, there may be other tax benefit opportunities. Many states provide sales tax relief for tangible personal property used in manufacturing. Other states have exemptions for property used in research and development. Some costs might also be excludable costs from your company's property tax base. Specifically, overtime hours, building demolition costs and select change orders could be exempt from a building's tax base in certain jurisdictions. Many states also provide special tax credits, incentives or abatements for new construction, which we can help you to obtain.

For questions please contact Michael J. Sluss at (412) 697-5440 or msluss@schneiderdowns.com. Michael J. Sluss is a Senior Tax Manager in the Tax Department. He has more than 18 years of experience in public accounting. Mike's background includes advising closely held businesses in the areas of income tax compliance and planning. BG

The Construction Industry Evening of Excellence

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LOCATION: PNC Park Lexus Club

DATE: Thursday, February 28, 2008

TIME: 5:30 to 8 pm

MBE/WBE Company Spotlight

Alliance Drywall Interiors

By Jon O'Brien

In 1996, three co-workers found themselves out of work when the commercial contractor that employed them went out of business. The three – an estimator and two field superintendents (one being Gene Brown), noticed that there were not many minority-owned interior contractors in the Pittsburgh area.

"Together, the three of us had over thirty years experience in the construction industry, in field and office capacities,"said Gene Brown. "We felt good about the chances of our company making it in the Pittsburgh-area construction market."

'To make it', the three toiled in the residential sector for five years. When starting out profitability was the goal, but that shifted quickly to cash flow, the key ingredient for successfully managing a construction firm on a daily basis. Then, still together from the rough beginnings, the partners knew they had something special – a strong alliance. And the name was born: Alliance Drywall Interiors. The alliance was more than a bond between the three co-founders of the construction firm.

"Those early years were rough. We knew we had to establish a reputation for producing quality, while trying to strengthen our alliances with both our clients and labor. And as if creating a reputation and improving our relationships within the industry were not enough, we also had to crack into the commercial market sector," said Brown. "Yes, starting out was rough, but I believe we are now recognized first as a productive and reliable interior contracting company, who just so happens to be a minority business enterprise."

Alliance Drywall set a self-imposed standard to not only be an MBE firm, but to be recognized for its workmanship. And the standard is right in line with its business philosophy of establishing its company as a strong contributor to the evolving façade of the tri-state area construction industry and to utilize the assets of entities within the industry to achieve its goals.

Alliance Drywall's contribution to the Western Pennsylvania construction industry has not gone unnoticed.

"Gene and I go way back, to when we both were low men on the totem pole as Journeymen. We worked together on many projects in the '80s and spent many hours constructing Foster Plaza. Gene is the type of guy that makes anyone that truly knows him happy to see

Alliance Drywall President Gene Brown

him succeed. He's a hard working man who earned everything he has," says Lou Gilberti, Council Representative, Greater Pennsylvania Regional Council of Carpenters.

"We are currently renovating the Jewish Community Center in Squirrel Hill. We subcontracted with Alliance Drywall and couldn't be happier. They are manning the project, being cooperative and coordinating very well. They are a good asset to this project and a pleasure to work with. The company is good people,"says Anthony Martini, President, A. Martini & Company.

Gene Brown knows the Western Pennsylvania construction industry is a tough market to enter, but Alliance Drywall is proof that it can be accomplished. Gene Brown offers the following advice for the entrepreneur trying to enter the local market. "This industry is about relationships and the unions have opened many doors for me, leading to many relationships. So the first piece of advice would be, if you're going to do it, do it union. Maybe I'm biased because the union has been so good to my family and me for over thirty years now. The second piece of advice is to maintain quality and you'll get noticed by the key figures in the market." BG

Company facts:

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Fax: 724-864-1537
Email: genebrown@alliancedrywall.net
Years in Business:11 years
Number of Employees: 10-25 tradesmen
Specialty: Interior Finishes (drywall, plaster, metal studding, insulation, acoustic ceiling)
Affiliations: African American Chamber of Commerce, Carpenters Union
Current Projects:
Carnegie Library, Hill District (A. Martini Construction)
Jewish Center (A. Martini Construction)
Science Hall, Slippery Rock University (Fred Burns)

Incentive Programs Can Help With Tight Talent

By Jon O'Brien

The talent pinch for field and management that exists today is similar to what existed in the late 1990's. The struggle for field talent was real a decade ago in Western Pennsylvania's commercial construction industry. Our region was about to embark on a building boom that included the David L. Lawrence Convention Center, Heinz Field and PNC Park. Field talent that was available was being absorbed to construct the major projects and the contractors not involved on the marquee projects had to struggle to man their projects.

One solution to the problem in 1998 was for active recruitment by the union contractors in the area of field management that was employed by the non-union contractors. The disparity in salary structures was such that many key people left jobs on the spot to capitalize on the higher salary and benefits.

Fast forward to today: a struggle for field talent exists in Western Pennsylvania's commercial construction industry as our region is in the midst of a building boom that includes the Penguins Arena, The North Shore Connector, Majestic Star Casino, and literally a dozen projects worth more than $100 million. Contractors who may have been raided for talent ten years ago have closed the compensation gap. Are incentive programs the key to attracting and retaining talent? And are firms catering its employee incentive programs to retain and attract talent?

The right employee incentive program can catapult a company to an improved bottom line. It can be a great opportunity for an employee to meet financial goals, while an owner can make its company more valuable and marketable. Construction employers reward employees for completing a project or meeting specific goals to show appreciation, and it should come as no surprise that employers find money as the easiest incentive to provide.

"In this current market, where it's difficult to find qualified people, I think employers need to consider retaining its talent and attracting new talent," said Todd Dominick, President, Rycon Construction, Inc. "We've debated internally as to whether or not to offer employees a productivity-based, excess-profit incentive system in hopes of retaining and attracting talent. But due to our industry, in which no two jobs are the same and even the best crew cannot deter a bad project sometimes, I decided that a per project incentive system does not fit. To me it's just not fair to dock a workers incentive pay because he ended up running the impossible job, which had unforeseen and uncontrollable events. I believe strongly in the team approach; if Rycon has a successful year, then Rycon employees should benefit at year's end. This approach has worked so far."

Another construction executive discussed the talent attraction from college: "We try to reach the Penn State construction management fifth-year students. I'm finding that more and more, the fifth-year students already have employment offers by the beginning of their fifth year. The college students we do reach have very little interest in our employee incentive program. The first question in the interview process is almost always: can you explain the healthcare coverage? The next topic the students raises relates to a monetary bonus."

Money is an easy reward, but local firms appear to be at odds with the incentives offered in other parts of the country: "For sure there's a demand for qualified cost estimators and project managers, it's a competitive market out there," said Jim Frantz, President, TEDCO Construction Corp. "I hear and read about other parts of the country, where PMs are enticed to leave their firm by a large signing bonus or a generous profit-sharing plan, but I haven't seen it locally. I hear about college graduates being offered unreal, off the chart starting salary that is unheard of in this region. The bargaining chip may be held by the employee in other parts of the country, but not here."

Western Pennsylvania construction firms have held steady on the bargaining chip and not caved to demands for employees, for the most part. There are few exceptions. "It's very seldom that our firm offers a signing bonus. We have [given a signing bonus] on some occasions to offset expenses an employee may spend to relocate to Western Pennsylvania and a few other times for other reasons," said an area construction executive on the condition of anonymity. "However, our firm stays the course when it comes to our profit-sharing program. If an employee wants to be with us, then the employee will have the same plan as everyone else."

Another area firm agrees that the bargaining chip is not necessarily on the employee's side of the table. "We've maintained the status quo for our employee incentive program. We make decent offers, especially for loyal employees," said another construction executive who requested to be unknown for the article. "I realize there are people out there trying to lure my talent away from me and I want to make sure my loyal workers don't find themselves torn so I like to keep them happy. On the flipside, I also know that some employees are roamers, constantly searching for something better no matter what I offer, so I focus on keeping the loyal ones satisfied."

The loyalty of a worker can be the by-product of a successful incentive plan. A well-crafted incentive plan provides multiple benefits to a company. These include improved employee morale, enhanced productivity, better customer repeat service, cultivation of a team atmosphere, employee ownership for work performed, a greater sense of responsibility and reduced turnover. "Our firm offers what I refer to as the Cadillac plan for profit-sharing," said Dwight Kuhn, Executive Vice President, Jendoco Construction Corp. "Details? It's the Cadillac plan, those are the only details I'll share. We haven't changed due to the condition of our current market. Our company's low turnover is proof the plan doesn't need changed. We have long-term employees in the field that are proud to say they work for Jendoco and I think our incentive program is a big part of our retention."

The workplace has become more competitive, even on the architectural side. However, the abundance of applicants varies from the construction firm. "Our firm probably receives two resumes a week. Pittsburgh is progressing, the steel mill days are over and, at least on the architectural side, professionals are being attracted to Pittsburgh," said Alan Cuteri, Principal at Strada Architecture. "Our firm recently tweaked its employee incentive program, but not because we felt we needed to in order to compete. It was time for a routine maintenance on the plan and we made some minor adjustments, nothing major. As for the details, I'd rather not comment, but Pittsburgh has a strong architectural community and word gets around of which firm offers what."

The employee incentive program can be a motivational tool for a construction company, maybe even the type of tool that can fill the void for field talent in today's market. Incentive pay shows gratitude and creates a sense of participation in the company's success that salary dollars don't convey. A properly implemented incentive program can pull employees together, giving direction to the firm and provide the extra push a company needs in today's competitive environment. BG

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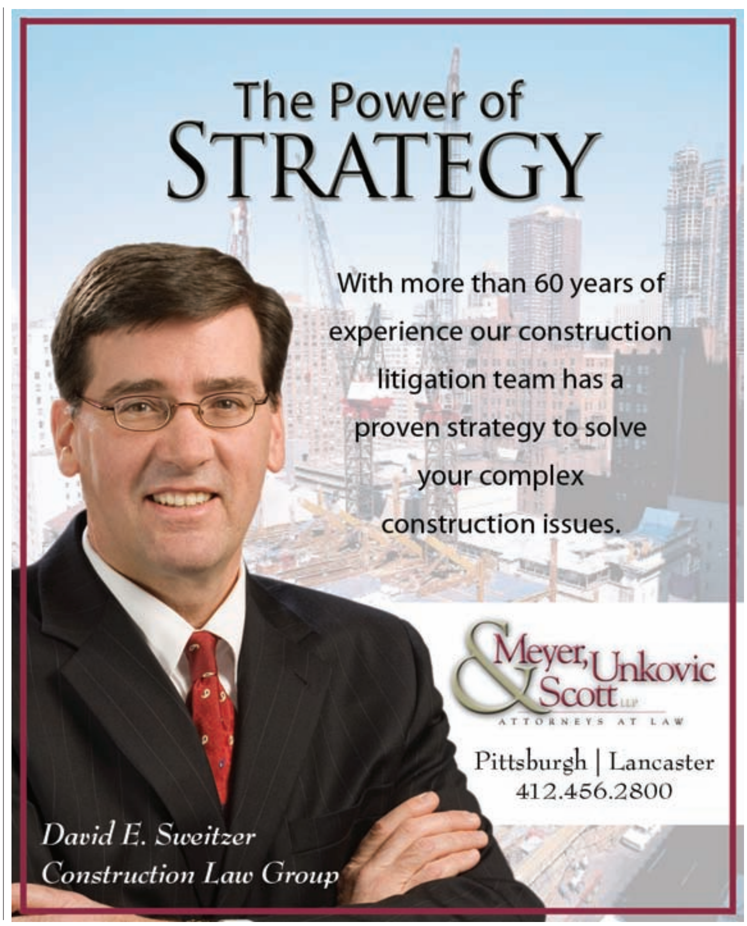

Is Slowing Growth Leading to Recession?

Economists can be scary people. They don't always look all that scary, and their profession is not viewed as all that exciting or sexy (try not to picture Alan Greenspan in a Speedo), but when the business cycle gets long in the tooth, like it is right now, the wit and wisdom of a respected forecaster becomes much more interesting.

One only needs to look at the roller coaster ride the bond and stock markets have taken this year after someone like Greenspan or Federal Reserve Chairman Ben Bernanke clears his throat, to gauge the anxiety. The reason isn't that investors are such thrill seekers, but rather that the conventional, historical business cycle has tended to run five-to-seven years from trough to peak, and 2008 will mark about six years since the last trough.

One of the problems in trying to spot the key indicators that a recessionary trend is happening is that there is a lot of disagreement about what is and what causes recession.

The classic macroeconomic definition of recession is a decline in gross domestic product (GDP) for two consecutive quarters. During two of the most recent classically defined recessions, however, in 1991 and 2000, the effects of the recession didn't enter the public consciousness until after the bottom was reached. For this reason a number of economic organizations look to response indicators, like consumer confidence or industrial purchasing, to determine if a recession is coming. Their logic is that if it feels like a recession, meaning businesses and consumers spending less, it is a recession.

There is also fragmentation among economic scholars about the causes of recession. Depending on what economic school you follow the causes can be external traumas like war, or spiking oil prices (Keynesian school), inflation in the money supply (Austrian school), mishandling the money supply by mismanaging interest rates (monetarists), or an imbalance in supply and demand (Free Market school).

If you're trying to weigh the evidence of today's market it's easy to see the dilemma: all these classic factors are in play right now. But before slashing next year's sales budget, consider that the business cycle in the U. S. isn't the same model as it has been for most of the post-World War II era.

Natural business cycles are also a function of the delay in human reaction to demand. Businesses work hard to avoid risks that can erode profitable operations, and ill-timed expansion is a big risk to avoid. That tendency means that most businesses expand or contract after there is an obvious shift in demand. That is how overbuilding occurs in our industry: somebody has to arrive late to the party.

As the party that is 2007 winds down there are a couple of factors that indicate that we're not trending towards recession generally, and that Western PA may be immunized from even a downward trend.

"There's not much reason to expect recession," says Ken Simonson, Chief Economist for the Associated General Contractors of America (AGC). "The economy has enough areas of strength to continue to have slow growth rather than recession, and if housing starts to recover more quickly that should accelerate." Simonson sees challenges for American companies in serving domestic demand, but feels that isn't the point anymore. "The world's economy is continuing to grow rapidly, which adds to demand because American companies are exporting so much more." Besides the effort made by U. S. companies to become global businesses, the weakness of the dollar makes U. S. products more affordable overseas. That makes American goods more competitive without manufacturers having to cut prices.

The ever-increasing export volume helps explain why the economy can continue to grow while American consumers are scaling back.

Another factor that changes the effect of a nationally measured GDP slowdown is the shift in regional demand over the past generation. Major metropolitan or regional markets are their own growth engines, and can completely miss the larger-scale problems that will cyclically occur. If you lived in Houston in 1975, or Phoenix in 1989, or Las Vegas in 2003, you probably missed the news about the recession.

Jim Haughey is the economist for Reed Construction Market Data (CMD). He shares Ken Simonson's opinion about the big picture. "I think there's no more than a

25%-30% chance of a recession in the next year or two," offers Haughey. "I think it would take some large negative event that we can't foresee right now." But Haughey also sees regional impact. "There will be cities where the local news will be able to say 'we're in a recession' even without a national recession. Cities like Miami or L. A. have real weakness," says Haughey, "but there are as many other markets that are expanding."

While neither economist sees any key indicator that suggests recession, both see 2008 as the turnaround for the indicator market that has suffered most recently, the new housing market. And both see the credit markets impacting non-residential minimally.

"I expect we'll see the change in home sales by mid-year," notes AGC's Simonson. "It will be harder to get financing than a few years ago, but the sales will increase, and new home starts should start upward a few months later." He adds, "The sectors that are more sensitive to credit, lodging construction for example, may have more trouble, but projects with longer horizons, or public projects shouldn't be effected by credit issues."

CMD's Jim Haughey believes some of the credit market problems are attributable to the cycle. "Late in the business cycle credit always gets tight. (Developers) start to do some crazier things to compete and eventually the lenders have to react." His take on the housing market is that the big hit is behind us. "The starts have dropped almost 30% so I don't think you'll see more than another 3% to 4% decline this season," he said. "We'll see progress in 2008, but the volume will be down compared to 2005, and it may be that way right through 2009."

Regardless of the trend in the national economy, the next couple of years appear to be lining up very well for southwestern PA. The current non-residential construction market is being driven by private money in support of growing jobs in healthcare, sciences, university technology transfer and energy. Public money has participated little in this recent growth spurt, since neither the city, county or state has been dealing from any position of financial surplus for several years.

Looking forward, the economic fortunes of the region will be less tied to the national trends than to supporting the new economic engines. With housing starts rebounding in metropolitan Pittsburgh in recent months, and the downstream development from the mega projects still to come, there is little to suggest a recessionary trend between the Susquehanna and Ohio in the foreseeable future. BG

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Emphasize Diligence During Due Diligence

Most of the assessment of value in construction and real estate ultimately turns on an astute estimate of the risk involved in the project, whether it's a new building or an acquisition.

In contracting and design the risk is usually proportional to the value; in other words, the cost or fee rises as the potential for risk rises. The art of negotiation in the industry is mostly the ability to shift risk away from your interest without shifting a proportionate share of the money.

For commercial real estate, value is determined in an inverse proportion to the degree of risk to the continuance and stability of the income stream from the property. The lower the perceived risk of continued full rental income, the higher the value of the property. And of all the commercial property types, perhaps none is more complex in evaluation than a multi-tenant property, either office or retail.

The function of due diligence is to verify that your initial assumptions about the property, which you represented as an offer, are valid. There are an enormous number of tools and sources available today to get information and get comfortable with the risk associated with a new project or acquisition. In the end, though, your success will rest on how far you're willing to push. As one local developer said, "Until I give an owner a piece of information about his property he didn't already have, I'm not done."

Start in Negotiations

Due diligence actually starts in the contract negotiation. Unless the seller understands what you are going to be asking for before the deal is signed, there is going to be trouble in getting to the closing table. Two key elements of the sales contract should be the list of documents required for due diligence and the schedule for completing it.

For the true due diligence master, the document list can reveal the first vital bit of information about the seller. The most sophisticated buyer will literally require every document associated with the building or property, and every reasonable (and some unreasonable) test and study be performed. The seller's reaction to the list of due diligence items, particularly those that are of a personal nature, will give an indication of his or her character and expectations. A sophisticated seller will expect most of this, but the degree of openness will be an indicator of other aspects of the negotiations to follow.

Be sure to provide ample time, at least 30 days, to complete due diligence. Try to specify that the due diligence period starts with the delivery of the last item, and get missing items to trigger extensions. To gain the most control you can over the process, also include in the agreement that due diligence requires written notice that you are complete and satisfied to your sole discretion. Aside from maximizing the time, this control gives the buyer additional leverage when the deal gets close to closing. Last minute requests that keep the due diligence period open put more pressure on the seller, which is a state of mind that can breed concessions. Due diligence ninjas also seem to have a great sense of when this sort of gamesmanship should end, although usually not until after a few deals have blown up, so assess your brinkmanship skills honestly.

Every Document Means Every Document

Beyond the physical condition of the building, there are multitudes of intangibles that have to be taken into account when evaluating a commercial property for acquisition. Literally every document concerning the building and its operation, or the land and its rights and encumbrances, should be examined. This includes leases with any and all extensions and modifications, notes and mortgages (whether you are assuming them or not), title policy, certificate of occupancy, insurance policies, ADA compliance, elevator maintenance contracts, tax receipts and history, licenses, parking lot contracts, surveys, environmental assessments, zoning entitlements, measements, future infrastructure plans, and searches for any other rights that could be held that would limit your free and clear use of the property.

Your experience with due diligence, including the mistakes, should inform the list of items you have included in the purchase agreement. This list, however, doesn't limit what can be performed, or even what can be added to the agreement. The risk of seeming unprepared may erode some negotiating position but each building or piece of land has unique characteristics and the possibility of research needed that you haven't done.

Losing a little face with the seller can be survived, overlooking a serious risk cannot.

This is the time that due diligence is all about. Use the list generated in the purchase agreement and assign the task for it to some member of your team, whether it's the lawyer, surveyor, building inspector, environmental engineer or accountant. Make sure they are each contacted, given the timetable for the deal and then follow-up daily.

Three Must-See Documents

Of the due diligence documents listed for rental properties, the most important are the leases, the insurance policy, and title policy. The leases are ultimately important. Depending on the age and stability of the buildings, there are likely to be several different lease forms used for the current tenants. Revisions to documents can reflect minor changes in law, but also the incorporation of concessions or additional provisions that will mean more or less revenue for you as buyer.

Read every word of every lease and make notes of things you don't understand or need to clarify. Have someone else read every word of every lease, and take notes. Then compare notes and start asking questions. As trite as that sounds, the questions and answers will be your best opportunity to find out the details the seller forgot, and the things he'd rather you didn't ask.

This is when you'll look through rental payment histories looking for signs of problem tenants or things that don't quite add up. Buying a chronic headache tenant can't usually be avoided, but identifying them now raises the risk profile and reduces the expected operating income stream. That also reduces the value of the property. Here again, all inconsistencies should be questioned.

One of the more difficult facets of this piece of the process is the evaluation of the tenants' quality. Your own business acumen will come into play on this one. Understand as best you can what conditions are good or bad for your tenants' businesses so that you can assess whether their rental stream is reliable, regardless of their history or intentions. For example, a fast-growing mortgage company offering creative mortgages to first-time buyers sounded like an excellent tenant three years ago, now, not so much. The tenants' relative health is another factor that lowers or elevates risk, and building value.

Unless you've got a bulldog personality, you should be on guard against the basic human instinct that the seller will have 'had enough' questions by this time in the process. The truth is that the tolerance point was probably reached long ago, and this information exchange cannot be done better at any other time, at least from the buyer's perspective. Especially resist the temptation to defer a question until after the closing. If there's a detail worth questioning you'll want to ask when the seller is trying to get you satisfied so that the deal can close. Cooperation has a way of evaporating after the money has changed hands.

The insurance policy can be a treasure trove of information, especially in the case of an older building. If you can get a copy of the last risk assessment you can be miles ahead of the game. Insist that the seller requests a copy for you. Also get a claims history for the property. In many cases you will have to rely on the owner's memory if he has switched insurance companies frequently. If the paperwork isn't available require an affidavit from the owner that says he attests to the truth of the claims represented as being complete to the extent of his knowledge.

An existing title policy will give you the information regarding easements, rights of way, and the like. Be on the lookout for any special exceptions to title.

Stay Involved Until Closing

In the ideal scenario the due diligence acceptance would occur about five minutes before closing. Since that is neither fair nor practical it is important to remember to use every tool available while the clock is moving. Unless this is your first foray into real estate (or your seller's) there will likely be dozens of people with whom you interact who will have experience with the building or its tenants. Search your own relationships to see if there is any common experience somewhere. And talk to the seller as often as you can. Even if the seller wishes to disclose every detail about your prospective property (and especially if he or she doesn't), much can be learned through the course of routine conversation that would otherwise be overlooked.

The buyer's sign off on due diligence will likely not end your information gathering process. Information requested from third parties will come straggling in late, and you will continue to have chances to ask questions right up until closing. While the written acceptance may change your legal standing somewhat, you're not obligated to purchase a building with serious problems. A late discovery of a tenant problem or legal complication that will significantly reduce the building's performance or the cost of development may well be worth many times the money you have spent on due diligence, or earnest money you'll have to forfeit. In the end, small losses are better than big ones.

For those without the resources or stomach to become immersed in this level of minutia, there are professional due diligence consultants. Many of these firms justify their fees by finding enough holes that the seller's price can be reduced accordingly. The good firms even allow you to make a higher offer to the seller, safe in the knowledge that you will find reasons to negotiate back to your desired price during due diligence.

Regardless of the approach, due diligence is a real estate practice that allows us to enter into a significant relationship with as full disclosure as possible. Most of us make some very serious personal choices (employee hiring, college selection, spouse) with much less than full disclosure. Take advantage of the opportunity. BG

Awards & Contracts

Rycon Construction was selected by Fifth Third Bank as the contractor for its Upper St. Clair branch at 1614 Washington Road. The project involves renovations to 4,200 square feet of space. Weber Architecture is the architect.

Rycon was awarded contracts for the construction of two new Kohl's Stores to be started in spring 2008. Kohl's plans an 88,000 square foot store in State College and a 68,000 square foot store in Johnstown.

Construction has begun on a 120,000 square foot, $10 million office building for Level 3 Communications at Southpointe 2 office park. Rycon Construction is the contractor. The developer is Horizon Properties and Gerard Associates is the architect.

Landau Building Co. was awarded the contract for $2.9 million renovations to the Book Depository at the West Virginia University Evansdale Campus. Palowski & Haman Architects designed the project.

Dick Construction Company, parent company to Dick Corporation, has been awarded a contract to construct a $125 million Big Sky Resort project in Big Sky, Montana. The 270,000 square foot lodge is the centerpiece of The Club at Spanish Peaks, a new 3,500 acre private club community which includes a Tom Weiskopf Signature golf course and private ski lift access to the Big Sky Ski and Summer Resort. The Lodge includes two levels of below grade parking, and seven levels of above grade structure, which includes 49 condominium units, restaurants and common areas themed in a rustic, cabin style. The architect is CTA Architects and Engineers.

Dick Pacific Construction, a subsidiary of Dick Corporation, and Pinnacle Las Vegas LLC, have entered into a joint-venture agreement to complete development, construction and eventually operate the 1,100 unit, $740 million condominium-resort project known as The Pinnacle on 12 acres situated less than two miles from the famed Las Vegas Strip and adjacent to the Orleans Casino/Hotel and Arena. The Falconi Group of Pittsburgh, a strategic partnership consisting of the Falconi Group, Dick Pacific Construction, Praxis Resources and Elysium Enterprises, originally conceived the idea for the project in 2004. The Pinnacle will feature two 36-story towers connected by unique "sky bridge" suites. The plans call for nine spacious floor plans - all with balconies, including 31 pool-side bungalows, restaurants, boutiques, a unique hibiscus-shaped pool, cabanas, as wells as a full service spa and fitness center. The project is being designed by YWS Architects.

Jendoco Construction was the successful contractor on the new Oakmont branch, to be built on Allegheny River Blvd. The 3,600 square foot building is one of PNC's LEED-registered branches. Gensler is the architect.

The University of Pittsburgh Medical Center awarded P. J. Dick Inc. the second phase of the Passavant Hospital East Pavilion Expansion. This phase involved the construction of the building addition, a seven-story, 100,000 square foot expansion. Burt Hill is the architect for the project, for which the total investment is estimated at $110 million.

Three P. J. Dick Incorporated projects were awarded the Western Pennsylvania Golden Trowel Awards for Excellence in Masonry Design and Construction 2007. In August, the International Masonry Institute selected the Children's Home of Pittsburgh, the Gailliot Center for Newman Studies and the B2 Retail/Office Building in SouthSide Works for their collaboration in the creation of quality masonry products.

P. J. Dick's K-12 Construction Management has been selected by Montour High School to renovate 270,000 square feet of existing space and to build 47,000 square feet of new space. The project consists of a new roofing system for the entire high school, an expansion of the kitchen and cafeteria area, a new security system, a safer entrance road to the campus, and interior improvements, such as redefined classroom layouts and energy efficient walls.

John Deklewa & Sons was awarded four projects in the West Penn Allegheny Health System. The projects were

Operating Rooms 5 & 6, Pharmacy, and Nuclear Camera at AGH Suburban, and the Angio Bi-Plane and Pharmacy Renovation at the main Allegheny General campus.

Deklewa was also awarded several projects by the University of Pittsburgh Medical Center. The work involves renovations at Presbyterian University Hospital C-Arm Level 5 and Emergency Department CT Scanner, and a fit-out of Biomedical Science Tower 13th Floor. Burt Hill is the architect.

CBRE/Trammel Crow selected John Deklewa & Sons to do tenant fit-out work for Danielli Engineering and DePuy Orthopedics at 600 Cranberry Woods. The projects involve approximately 12,900 square feet of build-out. The Design Alliance was the architect.

Mascaro Construction Company, LP received a contract from MEDRAD for interior renovation of their 910 Building in Indianola, Pennsylvania. Mascaro is currently in the final phases of the SDP Saxonburg project, which is scheduled for completion in October 2007.

Engineering News Record ranked Mascaro Construction Company, LP number 24 on their list for the Top 50 Green Contractors. Mascaro is the only contractor from the Western Pennsylvania area included in the list. ENR identified the top firms based on their volume of sustainable and green projects that have been registered or certified by third-party organizations.

Mascaro Contracting, LP received the 2007 Outstanding Highway Engineering Award from the American Society of High Engineers for its work on the Route 8, Mae West Bend project.

Nello Construction was awarded the $9,085,000 general contract for the Additions & Alterations to the Lenape Elementary School in Ford City. The school is part of the Armstrong School District. Hayes Large Architects is the architect for the $16 million project.

St. Clair Hospital awarded TEDCO Construction the contract for an addition to its Emergency Department. The $6 million project involves 18,000 square feet of new construction. IKM Inc. is the architect.

TEDCO is the successful contractor for the Third Floor Renovations at University of Pittsburgh Eberly Hall. IDC Architects designed the project.

Allegheny Construction Group was selected by Fifth Third Bank as general contractor for its East Liberty branch. The project involves a 3,850 square foot build-out. The architect is Devlin Architecture. Allegheny Construction Group was also awarded the contract for Mobile PET/CT Unit at UPMC West in Moon Township. Image Associates is the architect.

A. Martini & Company was awarded the contract to renovate Latrobe Hospital 3 North by Excela Healthcare. The $478,000 project was designed by Burt Hill.

Martini has started construction on the new Carnegie Library Hill District branch. The project is an 8,500 square foot new building that will be LEED-certified. The architect for the $2.5 million building is Pfaffmann + Associates.

Volpatt Construction is working on a $350,000 interior and exterior renovation to Lutheran University Center on Forbes Avenue near Craig Street. Celli Flynn Brennan Associates is the architect.

Uhl Construction was awarded the contract for renovations to Historic Pullman Park in Butler. The $4.5 million dollar project to renovate the field is aimed at drawing a Frontier League baseball team to the park, where minor league teams played from 1935 to 1951. The Butler Redevelopment Authority is overseeing the reconstruction of the baseball park on Pillow Street, which is part of the revitalization of the West End section of Butler. The architect is Ligo Architects.

Massaro Corporation was the successful contractor for the UPMC Data Center Renovations at the Hoechstetter Tower and Forbes Tower in Shadyside and Oakland. TKA Architects is the architect for the $6.6 million renovation to 21,000 square feet. Massaro was also awarded a $2.1 million contract for construction of a 15,000 square foot living facility, called the Groves at Woodlands. TKA Architects designed the building, which includes 14 single bedroom units.

Massaro Corp. has been selected to provide preconstruction services for two new church projects. Holy Trinity Greek Orthodox Church is relocating to McCandless adjacent to LaRoche College, planning a 30,000 square foot first phase. CJK Architects of San Francisco is the architect. Saint Elizabeth Ann Seton is planning a $4 million new church and social hall. Glance & Associates is the architect. BG

FACES & NEW PLACES

Burchick Construction is pleased to welcome Joseph J. Wardman P. E., as project manager. Joe has over ten years of experience in the construction industry and has a BS in Civil Engineering from West Virginia University. Burchick also added Paul J. Parise as MEP coordinator for their Moorhead Federal Building project in downtown Pittsburgh. Paul received a BS in Mechanical Engineering from West Virginia University.

P. J. Dick is pleased to welcome a few new employees: Luis Guerrero, Project Engineer; Janice Ososky, Project Administrator; and Robert Vickers, Project Manager. One correction from the last edition: Matthew George (Assistant Project Manager) was incorrectly listed as George Matthew.

Spectra Contract Flooring has moved to a new office in the Lawrenceville Commerce Park at 26- 39th Street, Pittsburgh, PA 15201. For the past 12 years, Spectra Pittsburgh has serviced the Western Pennsylvania market and the Northern West Virginia market.

Spectra Contract Flooring welcomes back to the team, Brian Waldron, an alumni of Seton Hill University. He has been newly hired as an account manager, focusing on sales in new construction, renovations or repairs. Spectra also welcomes Leslie Waldron, Associate, IIDA, an alumni of the Indiana University of Pennsylvania. She has been newly hired as a design liaison to assist with business development, focusing on building relationships within the design community.

David Banta was hired by A. Martini & Company as an expansion to their estimating department. Banta is a 2005 graduate of California University.

Massaro Corporation hired Justin Lamb as new project manager. Lamb has spent the past eight years in the Marines Corp. and served three tours in Iraq. Massaro has also added three new members to its marketing team: Jean Mignogna was hired as corporate marketing coordinator after working at Highmark and The Soffer Organization. Maureen McGinley was added as marketing assistant. McGinley is a recent Indiana University graduate. Zach Schweitzer was hired as graphic designer. Schweitzer is a 2007 graduate of Canisius University. Deonna Gossard has joined Massaro Corp. as network administrator after 10 years experience in network infrastructure.

Massaro Restoration LLC added two experienced staff: Sam Bargenstock joined Massaro as field technician, and Dan Berger joined Massaro with 15 years experience in the industry.

Rycon Construction is pleased to announce the hiring of Dave Candello for their estimating department.

TEDCO Construction has hired Jack Gearheart as chief estimator to replace John Wurtzer, who retired in August.

The law firm of Tucker Arensberg, P.C. announces that Nawshin A. Ali and Paul J. Atencio have joined the firm as Associate attorneys. Nawshin Ali is an attorney in the firm's Business and Finance Department and concentrates her practice in commercial and corporate finance transactions. Nawshin received her Bachelor of Arts degree in International Relations and Economics, Cum Laude, from the University of Pennsylvania in 2002. She received her law degree from the University of Pittsburgh School of Law, with a certificate in International and Comparative Law, and a master's degree in International Affairs from the University of Pittsburgh Graduate School of Public and International Affairs in 2006.

Paul J. Atencio is an Associate in the firm's Business and Finance Department. Paul concentrates his practice in the areas of business transactions and general corporate law, securities and corporate finance. Paul graduated from the University of Colorado, Boulder in 1995 and received his Juris Doctor, cum laude, from the University of Pittsburgh School of Law in 2003.

Pietrogallo Bosick & Gordon have added five shareholders from the firm of Miller, Alfano & Raspanti to expand their Philadelphia office. The five, Gaetan Alfano, Marc Raspanti, Kevin Raphael, Michael Morse and Daniel McGarvey, along with five other associates and support staff will join with P B & G's office in Philadelphia in January 2008. The firm will then be known as Pietrogallo Gordon Alfano Bosick & Raspanti LLP. Pietrogallo Bosick & Gordon, based in Pittsburgh, also has offices in Mechanicsburg, Sharon, West Chester, Steubenville and Weirton. BG

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AIA Design Gala

On October 5 the AIA Pittsburgh held its annual Design Gala to celebrate the entries for its Design Pittsburgh awards at 933 Penn Avenue building downtown. This year the number of entries reached 93 projects. Prior to the Gala, AIA Pittsburgh held a reception to honor the Children's Museum's Jane Werner.

Chris Haupt and Jacky Kaiser from L. Robert Kimball's Pittsburgh office, with Doug Shuck of WTW Architects

Jim Frantz, Pres. Of TEDCO Construction (left) with George Halkias, L. Robert Kimball & Associates

Construction Careers Highlighted

City County Career (C3) Day was held at the David L. Lawrence Convention Center on September 18. Representatives from 235 employers and 40 service organizations exhibited their companies, meeting with over 4,000 people interested in starting careers in the region. Throughout the day career-building seminars were given, PennMobile was open to help with drivers license

Rich Stanizzo, of the Construction Trades Council, address the C3 Career Day as County Executive Dan Onorato, Yarone Zober and Ed Gainey of the mayor's office, Harold McDonald of the Carpenters Council and James Kunz of Operating Engineers Local #66 look on.

Builders Guild Executive Director Jason Fincke talks with one of the attendees at the C3 Career Day.

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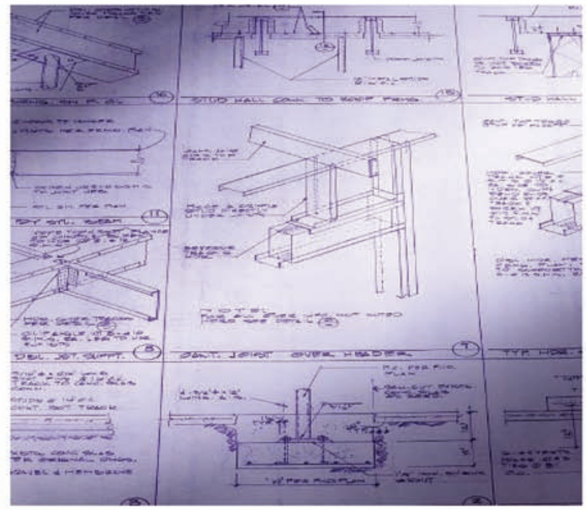

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problems and the Steelers, Pirates and Penguins donated memorabilia for doors prizes.

C3 Day is one of the key opportunities for the construction industry to spotlight careers in the building trades. 16 of the 17 training programs were represented at 14 booths, which included the Operating Engineers Simulator.

YC Into The Future Kicks Off

October 4 marked the first YC Into the Future series, presented by the Young Constructors Committee of the Master Builders Association. The seminar focused on workforce issues facing the industry over the next decade, concentrating on the efforts to recruit students into the design and construction professions, and the issues surrounding the immigrant workforce.

Mike Barnard, of Oxford Development and one of the founders of the Pittsburgh chapter of the ACE Mentoring program addressed the group of more than 40 construction executives and managers about the goals of the ACE Mentor program, and the status of the new Pittsburgh chapter. Dale Glavin, Director of Training for Steamfitters Local #449, and Bill Waterkotte, Assistant Director of the Greater PA Council of Carpenters, outlined some of the strategies for recruiting and training in the building trades. BG

Oxford Development's Mike Barnard, who helped found the Pittsburgh ACE Mentoring affiliate, addresses the managers attending the YC Into the Future Seminar

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

Dan Onorato Takes Stock

Allegheny County Executive Dan Onorato just completed an unopposed election campaign. After being elected as an economic development Democrat, Onorato focused his administration on creating growth opportunities. Looking forward to his second term, Dan Onorato reflects on the changes he's seen in four years.

BG:What was your highest priority for economic development?

Onorato: I believed that we had to look at creating a better business environment by streamlining government, using the regional assets better and being more responsive. Jim Roddey and I agreed on this in the last campaign. When I took office, I was a Democrat with a Democrat-controlled council so I was able to take the lead in getting things done. I was able to go to the five 911 centers and tell them there wasn't funding unless we consolidated into one state-of-the-art center, which saved $3 million a year to the city and county. We eliminated six of ten row offices at the county, and are doing services for the city to consolidate functions, to operate more efficiently. My last budget takes 200 more government jobs off the payroll, down more than 700 jobs during my first term. That's saved more than $35 million in salary and benefits. Government has to do more with less.

We have continued to take our old assets and make them big new assets. During my term we identified over 2,000 acres of former industrial brownfields and environmentally cleaned up 800 acres. There were about 6,000 acres sitting around the airport without any water lines or sewer lines, and now we have 800 acres there with utilities. That's 1,600 acres we have banked that didn't exist before, and some of those sites are where we have the USAirways Operations Center, and the three new distributions centers underway by the airport. We've also focused on taking care of our other assets, our great universities, our healthcare systems and our existing corporations.

I think the other thing we're doing better is working more closely as a region. We have a tri-county partnership with Washington and Beaver County that looks at development by the airport. We draw a ring around the airport and work to bring businesses there, regardless of which county gets them. The hardest thing I had to do was taking off my Allegheny County hat and put on my regional hat during the Westinghouse deal. While that was going on there was some bickering between Allegheny and Butler, and Steve Tritsch from Westinghouse was starting to get nervous about all the public rhetoric. The Republican Butler County commissioner and I called (Tritsch) and said that we didn't care what site he picked as long as it wasn't in Charlotte. They chose Cranberry, but the region is keeping 2,000 jobs, and there will end up being 5,000 jobs some day. Those people will live in Allegheny, Butler, and Beaver counties.

BG:How do you envision building on the first term.

Onorato: We have to continue to have a business friendly government. I think the one missing piece from the region is getting daily international flights again. USAirways reneged on the agreement to keep Pittsburgh as a hub so we lost those flights. That was the bad news, but of course the good news was that the airport opened up to more airlines and more competitive airfare, and we now have 2 million more passengers flying out of Pittsburgh than before.

We'll continue to look at making government more efficient, and I think you'll see more consolidation of city and county functions. The mayor and I are awaiting the report of the task force chaired by (University of Pittsburgh) Chancellor Nordenberg, which should be out in the next couple of months, and we're committed to streamlining local government.

So, it's about a better economic environment, streamlining government, making the best use of the region's assets, and working as a region. I also sit on the Southwestern Pennsylvania Council, which is a ten-county regional organization, and we're working to make more happen in the entire area. We all believe if one county wins the whole region wins.

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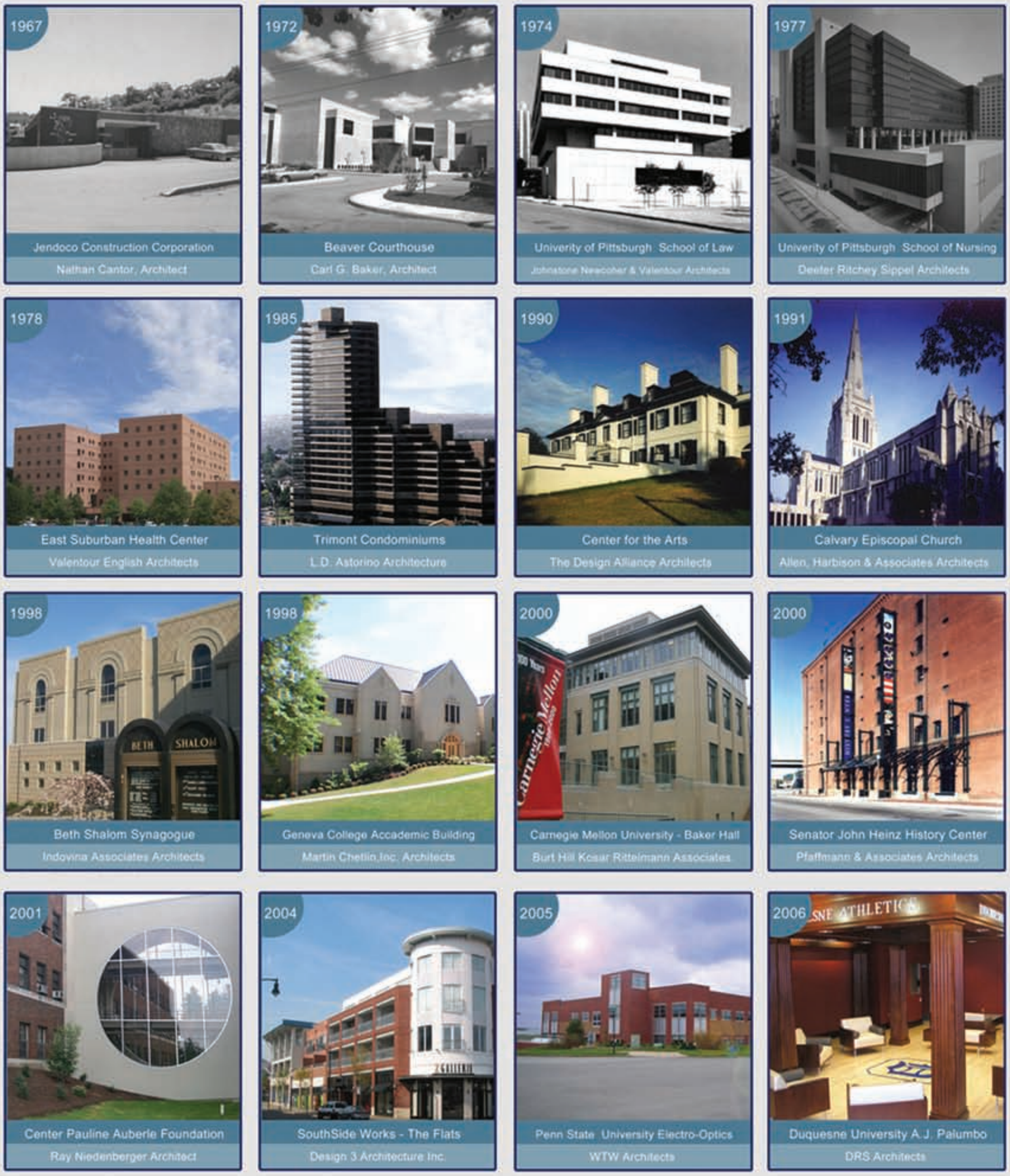
Today, company President Domenic Dozzi leads with the same principals his father believed when he founded Jendoco Construction.

Jendoco is unique in thriving fifty years with the same ownership, and having a fifty-year track record of zero litigation with its clients. Few businesses in any industry maintain repeat client and service relationships for fifty years, or have a high percentage of its staff working there for more than thirty years.

The Dozzi family and its experienced team is committed to continuing that track record into the future.



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