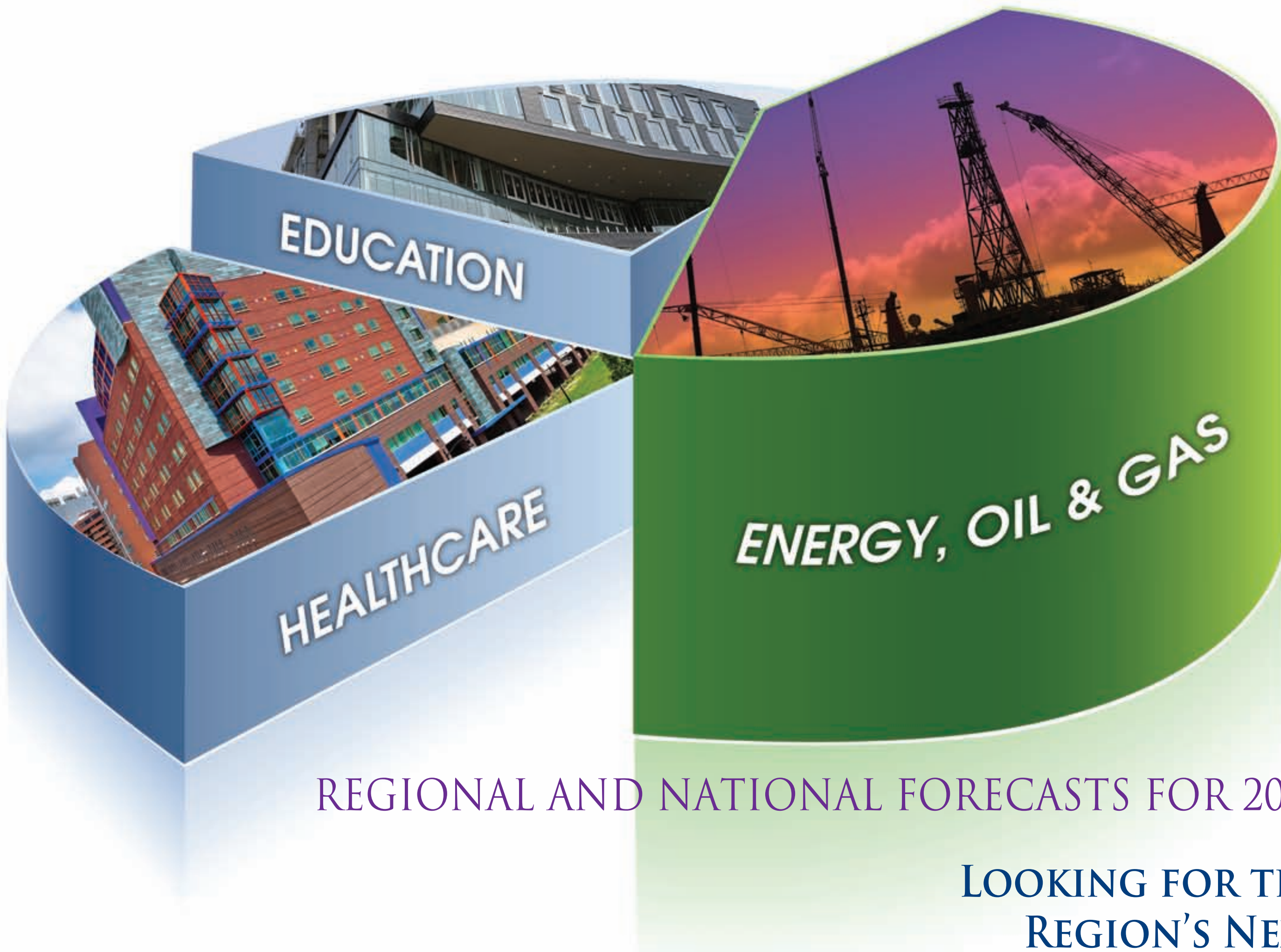
BreakingGround

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

NOVEMBER/DECEMBER 2009

THE BIG PICTURE

Which Slice of the Pie Will Create the New Jobs?



REGIONAL AND NATIONAL FORECASTS FOR 2010

LOOKING FOR THE REGION'S NEXT GAME-CHANGING INDUSTRY

ANALYZING HOW 'GREEN' YOUR ROOF SHOULD BE

HOW TOUGH WILL IT GET FOR COMMERCIAL PROPERTY?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PUBLISHER
Tall Timber Group
www.talltimbergroup.com

EDITOR
Jeff Burd
412-366-1857
jburd@talltimbergroup.com

PRODUCTION MANAGER
Carson Publishing, Inc.
Quellé Diggs

ART DIRECTOR/GRAPHIC DESIGN
Carson Publishing, Inc.
Jaimee Greenawalt

CONTRIBUTING PHOTOGRAPHY
Carson Publishing, Inc.

ADVERTISING SALES
Doug Shymoniak
412-201-3222

MORE INFORMATION:
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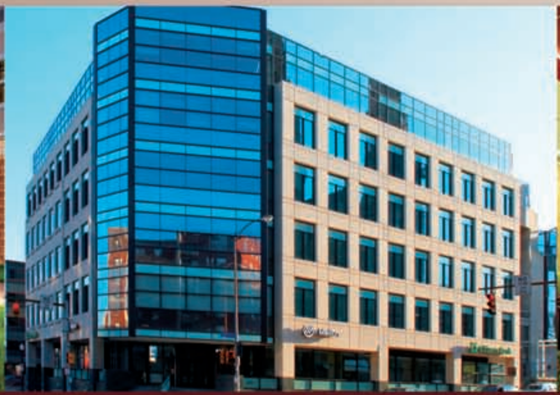


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MBA

Publisher's Note

I'm pleased to have seen no tee shirts to the effect of 'I Survived the Pittsburgh G-20' so far. While no capitalist has seen fit to immortalize the sentiment, it is at least a true sentiment.

Pittsburghers handled the whole thing about like I was hoping they would. While the mainstream media hashed out a lot of stories about the potential negative impact on local business, how would we handle the riots, etc; most people I deal with treated it almost like a major highway project: it was inconvenient; we needed to find our way around it; things are better off now that it's over. For the most part, though, we accepted it for what it was: a good thing for the region.

The proof of the pudding for me came when I checked in with out-of-town friends about the coverage in their cities. For people in Houston, Orlando, Chicago or Boston, it was not front page news. They didn't see any footage of riot police dragging screaming protestors off the streets, or even get much more than coverage of the politicians as talking heads. There just wasn't a lot to talk about.

That's definitely a good thing when the subject is politics these days, because nothing good gets discussed for very long. The bad news on the other hand, lingers. While downtown may have been a tad empty (one of my friends, Dave Hickton, wondered if Pittsburgh was going to look like Rock Ridge in Blazing Saddles), the lasting impression visitors got wasn't that Pittsburgh was a ghost town. About the only negative that came out of the media coverage was that the line at Pamela's probably got a little longer after Barack Obama's latest plug.

A few weeks ago there was another gathering at the Convention Center that got almost no media attention. It was a conference for the natural gas industry, called the Developing Unconventional Gas Conference, or DUG East. This little shindig was brought here to coincide with the growing interest in the Marcellus Shale formation, and was moved to the Lawrence Center because they were having a little trouble with the attendance. It seems that instead of attracting the expected 300 or so interested parties, the pre-registration hit 1,500!!

Imagine that you're planning an event for 300 and 1,500 people RSVP. If the event was meant to showcase what you thought was the 'next big thing' you'd be forgiven if you thought you might be onto something.

This edition is the annual 'Big Picture' look at the industry and region. As I was researching what I thought was going to be a comprehensive look at next year I was drawn to two stories that I realized could be enormous opportunities, real game changers. The focus of the feature became clearer. Now, one of these stories is about something that doesn't exist and may never materialize, the vaccine facility proposed by UPMC. It offers some exciting possibilities for the region, but is still on the horizon.

Marcellus Shale is the exact opposite story. While it offers enormous future possibilities too, the more compelling story is that it's already real. And the lion's share of the drilling is actually taking place in metropolitan Pittsburgh! More than 20,000 jobs have already been attributed to the natural gas exploration, but nobody seems to know how far along the industry is. Well, nobody but the 1,500 people who knew to show up here October 19.

Later that month I had occasion to address a group of Penn State engineering students who were planning to enter the construction industry (no, I couldn't talk them out of it), and present an upbeat forecast of the job outlook. Without many positive perspectives I spoke about the opportunities for construction in support of the natural gas industry. Most of the audience seemed not to understand (I have that effect), but one young man approached me afterwards to tell me that there have been four to six wells on his family's farm north of Scranton for more than a year now, extracting gas and paying an 18% royalty. He wasn't sure how it would end up but he said he was glad that it meant his mom didn't have to work anymore.

I can't say where the Marcellus Shale play will end up either, but I bet there are 1,500 people who can give us a pretty good idea.

Jeff Burd

News From The Street

DGS Prison Program Derailed by Separations Act Challenge

A legal challenge to the state's right to issue design/build single prime contracts and project labor agreements has put the statewide prison expansion program on ice, delaying construction and threatening non-compliance with judicial orders to remedy overcrowding.

To meet the mandate the Department of General Services (DGS) undertook an aggressive $862 million prison building program that would have resulted in new $200 million prison units at SCI-Rockview in Centre, and SCI-Fayette and a $400 million prison unit at SCI-Graterford in Montgomery County, while the state also planned to construct four additional housing units in Crawford, Forest, Indiana and Northumberland counties. These housing units were budgeted at around $17.5 million each.

The state had issued design-build requests for proposals in April 2009 with the hope of starting construction before fall. Proposals were reviewed and letters of intent to award were issued for Indiana, Crawford and Northumberland County projects, each roughly $6 million under the budgets. These projects have been delayed because of a legal challenge to state imposed project labor agreements and compliance of the design-build procurement method with the PA Separations Act.

Fortune and Kauffman Foundation Rank Pittsburgh #2 for Small Business

FORTUNE Small Business magazine and the Ewing Marion Kauffman Foundation announced October 13, the 2009 list of the 50 best places in the United States to launch a business. Topping the list is Oklahoma City, Oklahoma, as the number one large city; Pittsburgh was ranked second among cities with a population over one million, with Raleigh NC coming in third. Huntsville, Alabama, is the no. 1 medium city (population between 250,000 and one million); and Billings, Montana the no. 1 small city (under 250,000). The study found Pittsburgh had 57,272 businesses with less than 50 employees.

On an unrelated (and completely unsurprising) note *The Sporting News* **named Pittsburgh the number one sports town in America** in its October 12th edition, an acknowledgment of the accomplishments of the Steelers and Penguins, along with some rather enthusiastic fans.

Rank	Metro Area
1	Oklahoma City
2	Pittsburgh
3	Raleigh
4	Houston
5	Hartford
6	Washington DC
7	Charlotte
8	Austin
9	New York City
10	Baltimore

The top ten large cities for small business formation (source CNN Money).

URA Looks to Infill Pittsburgh Technology Center

On September 30, the Urban Redevelopment Authority (URA) released a request for proposals for development of four build-to-suit sites at the Pittsburgh Technology Center (PTC), the URA's riverfront office park and regional center for research and development along Second Avenue.

"These sites offer a unique opportunity to develop in the region's premier research and development hub," Mayor Luke Ravenstahl said. "We are committed to positioning Pittsburgh for the growth and expansion of the high-tech industry."

The center hosts a broad range of the region's technology leaders such as the University of Pittsburgh Center of Biotechnology and Bioengineering, the Carnegie Mellon Entertainment Technology Center, Union Switch and Signal, ThermoFisher, and the Sunoco Polypropylene Research and Development Center. Seven buildings totaling 684,400 square feet have emerged at the PTC over the past twelve years, and are fully leased at this time. PTC is a nationally recognized example of brownfield reclamation and the first project in Pennsylvania to use tax increment financing. The site currently generates more than $1 million in annual local tax revenues.

"Pittsburgh was ranked as the top commercial real estate market in the country earlier this year," Rob Stephany, Executive Director, URA said, "and despite the national rise in vacancy rates, we have remained a stable economy for investment."

Over the next several years, the region's institutions forecast a need for more than one million square feet of additional research and lab space. In order to meet this demand, the URA is expanding and enhancing the PTC by increasing site density to create an urban center with office and retail tenants while maintaining its strong, quality open-space system.

Based on development of similar parcels, the projects are expected to be in the range of 150,000 square feet each. The URA will award development rights as viable proposals are received in the coming months.

AIA Design Gala Honors Projects

AIA Pittsburgh celebrated the work of its chapter architects at their annual Design Gala on October 23 at the August Wilson Center downtown. More than 400 guests attended the event which recognized outstanding design in several categories.

AIA Honor Award winning project, the CMU Tepper School West Addition, architect: EDGE Studio, contractor: Jendoco Construction.

Honor Awards were presented for Carnegie Mellon University, Tepper West Addition, Architect: EDGE Studio, Contractor: Jendoco Construction Corporation; and South Side Courtyard House, Architect: Studio D'Arc Architects.

2009 Peoples Choice Award was given for the West Virginia University Alumni Center, Architect: IKM Incorporated.

Certificates of Merit were awarded to Yale University, Chemistry Research Building, Architect: Bohlin Cywinski Jackson/Cannon Design; Eastside Building B, Architect: The Design Alliance Architects, Contractor: Mosites Construction Company; Eastside Building D, Architect: The Design Alliance Architects, Contractor: Mosites Construction Company; Saint Vincent College, Fred Rogers Center, Architect: FortyEighty Architecture, Contractor: Massaro Corporation; Carnegie Library of Pittsburgh, Allegheny Branch, Architect: Loysen + Kreuthmeier Architects, Contractor: Massaro Corporation; Carnegie Library of Pittsburgh, Hill District Branch, Architect: Pfaffmann + Associates, Contractor: A. Martini & Company; Penn at 29th, Architect: Rothschild Doyno Collaborative, Contractor: Mosites Construction Company; East Liberty Green Vision, Architect: Perkins Eastman; and Monastery Street Park, Architect: Loysen + Kreuthmeier.

AIA also presented a Timeless Award for Shenley High School, which was given to architect MacLachlan, Cornelius & Filoni on behalf of the firm's founder Edward Stotz, who designed the school.

Bill to Make CM Services Reimbursable to Schools - HB1891

A piece of legislation, House Bill 1891, allows school districts to be reimbursed for costs associated with construction management services. Presently, the CM service is not on the list of reimbursable items for construction. Under the current PA Separations Act many schools rely on the CM to assist the school districts with administrating and coordinating the multiple prime contractors; in essence, the schools are paying a CM to be a General Contractor, but with the PA Separations Act there is no contractual relationship and the CM does not have the authority that a General Contractor possesses.

House Passes School Overhaul Bill; Authorizes Federal Investment in School Construction

On September 17, 2009, the House passed H.R. 3221, the Student Aid and Fiscal Responsibility Act of 2009, which authorizes more than $4 billion for elementary and secondary school facility projects over the next two fiscal years, and ensures that school districts will receive funds for school modernization, renovation and repairs that create healthier, safer and more energy-efficient teaching and learning climates. The bill allocates the same percentage of funds to school districts that they receive under Part A of Title I of the Elementary and Secondary Education Act, except that it guarantees each such district a minimum of $5,000. The bill also provides grants to states to help community colleges finance new construction, modernization, renovation and repair projects.

The bill is seen as providing a substantial opportunity for investment in upgrading and improving the unmet need for school construction and renovation, which is estimated to be $3.7 billion. The average age of a public school building is estimated to be over 40 years old, the same age that schools have been documented to deteriorate.

GREEN BUILDING NEWS

PNC Hosts GBA Building Tour for G-20 Journalist

On September 16, 2009, Green Building Alliance offered a Tour of Pittsburgh and Panel Discussion presented by PNC for journalists covering the G-20 Pittsburgh Summit. As part of the Downtown-based tour, media got behind-the-scenes insights into the following green buildings:

- August Wilson Center for African American Culture
- David L. Lawrence Convention Center
- Phipps Conservatory and Botanical Gardens
- PNC Firstside Center
- Point Park University Dance Complex
- Three PNC Plaza

Following the tour, a public panel featuring the following individuals was held at Phipps Conservatory and Botanical Gardens:

- Holly Childs, Executive Director, Green Building Alliance
- Caren Glotfelty, Director, Environment Program, The Heinz Endowments
- Tom Paladino, Founder and President, Paladino and Company
- Richard Piacentini, Executive Director, Phipps Conservatory and Botanical Gardens
- Gary Jay Saulson, Senior Vice President and Director of Corporate Real Estate, PNC Financial Services Group.

With an audience of 100 attendees, the panel discussed how Pittsburgh's nonprofit organizations, corporations, foundations, and individuals worked together to create the leading green city we have today, as well as how we all continue to contribute to Pittsburgh's green revolution.

The panel considered the trends that are on the horizon that could bolster the economic vitality of this region, and answered questions from the audience regarding other past, present, and future challenges Pittsburgh faces in becoming more sustainable.

Advanced Solar Training Course

Conservation Consultants, Inc. (CCI) is offering an advanced solar training course from December 7-11 at Clarion University of Pennsylvania. It is essential for anyone who is serious about getting into the solar industry. The Advanced Photovoltaic (PV) workshop is designed to follow the PV Design and Installation (hands-on or online) or Grid-Tied PV workshops with the next level of design criteria, maintenance issues and troubleshooting skills, with a special focus on compliance with the National Electric Code. Participants must have successfully completed either the hands-on or online PV Design & Installation workshop or Grid-tied PV workshop (with supplemental stand-alone curriculum), or have the permission of the instructor to enroll in the course. The workshop is also offered as a six-week online course.

Tuition of $1,000 (10% discount for online payment) includes a 2008 NEC codebook, while providing 32.5 cumulative hours of training that may be used towards NABCEP certification purposes.

Further details and online registration are available on CCI's website. You may also call Michelle Rupert at (412) 431-4449 x240.

GBA State of the Union

The annual year-in-review of the issues facing green building locally and nationally, including information about the LEED Rating System, U.S. Green Building Council, and LEED AP continuing education, and GBA's exciting undertakings, will be held at the HYP Club of Pittsburgh, on December 9 between 7:30 and 9:30 AM. Attendance fee is $35 for GBA members and $45 for non-members. The registration deadline for the breakfast briefing is December 3rd. BG

Green building tour panel included (from left) Richard Piacentini, Holly Childs, Gary Saulson, Caren Glotfelty and Tom Paladino.

REGIONAL MARKET UPDATE

It would be difficult to imagine any company looking forward to the fourth quarter as an opportunity to put icing on the cake of 2009, but as the year winds down there appears to be continued thawing. At least there seems to be no evidence that a repeat of the shut down of 2008 will occur.

For most firms involved in construction or real estate the year has not picked up enough to offset the steep decline in business earlier in the year; however, inasmuch as sentiment can be ascertained there seems to be a shift in attitude for development. Even as far back as August or September, developers appeared to become less concerned about overextending themselves and more concerned about entering a recovery without sufficient inventory to meet an increase in demand.

Vacancies in the major commercial categories of office and industrial remain at low rates compared to historical norms. Office and industrial space continues to be virtually nonexistent in submarkets like Cranberry or Oakland, and absorption of commercial space along the airport corridor has sparked the groundswell of planning for another round of new construction. Retail space remains soft, but again, the market in Western PA is outperforming the balance of the country.

The salient question that remains unanswered is whether the region has seen the bottom of the recession without seeing double-digit unemployment or rapidly rising vacancies that are plaguing most American metropolitan areas. The keys to the direction of the regional construction market in 2010 will come from the trend in the global recession. While it is common wisdom around here to look for our region to lag the national economy by six to twelve months, the truth is that the region's economy is now built on industry sectors that slowed later in the business cycle and are likely to lead recovery. What isn't known is whether or not there is 'another shoe' that will fall to plunge the economy back into a bunker mentality such as we seem to have recently emerged.

What is more certain heading into 2010 is that backlogs for contractors and architects and engineers are significantly lower than at the same juncture in 2008. For the larger firms, remaining large will necessitate working in a much larger geography, as big projects will be few, and those that may advance will be more suited to specialty and industrial concerns, many of which will compete from out of town. The competitive environment is downright Darwinian for those who will pursue work inside the region. And the sectors that are our new job creation engines – education, healthcare and energy – face obstacles to their expansion in the near term.

As a starting point let's look at the leading indicator segment of the market, housing. Housing continues to be weak from a new construction perspective. Single family housing starts fell more than 32.3% during the first nine months of 2009, but that volume represents an improvement over mid-year levels. During the January through September period 1,090 permits were issued for single-family detached units, down from 1,609 last year. Attached units also declined, with 807 units started compared to 1,056 during 2008. The overall housing construction market was down 28.8%.

From the perspective of macroeconomic factors, housing in the region remains stable. While home prices have slipped in recent months the median value remains higher year-over-year through three quarters in metropolitan Pittsburgh. And for the same period, foreclosures have declined significantly, falling 19.6% compared to three quarters of 2008, according to South Side-based RealSTATS. Assuming no dramatic reversal of trend in the fourth quarter (and none is expected), 2009 will mark the third consecutive year of declining foreclosures. Moreover, the decline in foreclosures was pervasive, with only Washington County showing an increase (of only seven home foreclosures) among the seven metropolitan counties.

Like the national trend, regional demand for housing has begun to show a positive reversal. One of the biggest marketing opportunities for new housing construction is the annual Festival of Homes, put on by the Builders Association of Metropolitan Pittsburgh in late September. Builders reported noticeably higher traffic this fall than any of the past few years, with a number of new homes selling during the weekend. While the 'wait and see' attitude that has plagued residential real estate was still evident, even slight increases in demand will have an impact because the homebuilders' response to the housing recession here has been a radical cutback in production of new homes.

Next year's outlook for new residential construction is brighter than the past couple of years, but there are some caveats. First, the improvement may be statistically impressive but only because of the severely depressed volume that was built in 2009. A much better 2010 could still come in at 60% of the number of housing starts in 2003 or 2004. Secondly, the distribution of the improved activity will be uneven. Demand for new homes will be higher in the areas where jobs have been created more disproportionately, like the far North Hills, the western suburbs, northern Washington County and to an extent, within the city of Pittsburgh.

The non-residential side of the market is gloomier, with construction during the first three quarters of the year down 26.6% from last year. Non-residential contracting

TOTAL PITTSBURGH MSA 2009:3	1,090	807	1,897
TOTAL PITTSBURGH MSA 2008:3	1,609	1,056	2,665
% CHANGE	-32.3%	-23.6%	-28.8%
BY COUNTY	SFD	SFA	Total
ALLEGHENY	505	536	1041
BEAVER	67	14	81
BUTLER	144	106	250
FAYETTE	57	4	61
WASHINGTON	149	108	257
WESTMORELAND	168	39	207

New home construction for metropolitan Pittsburgh through Sept. 30 showed a continued slowdown as builders responded to keep inventories low. Source Tall Timber Group.

during January-September was $1.98 billion, down from $2.7 billion during the same period in 2008.

More of a problem than the reduced contracting volume is the significant decline in the number of projects that have gotten to the construction stage this year. Year to date 535 projects over $200,000 have been contracted, compared with 795 during the same period in 2008. Moreover, the quarter-to-quarter volume has been steady, without the normal rhythm of the building cycle. In a typical year, contracting in the second and third quarters will make up 60% to 70% or more of the year's total, but volume has been almost even throughout 2009. While this could portend a stronger finish to the year, the evidence of the current bid market doesn't support that theory. During most of October and into November the number of active projects in the Pittsburgh Builders Exchange has remained steady in the range of 150 projects. That's not a booming finish.

Reduced global demand has dampened the plans for almost all of the big projects slated to start in 2009, and profit pressures on corporations, combined with poorer results from the institutional sector has limited capital expenditures across the board. The early stages of construction have begun on the UPMC Monroeville project being built by PJ Dick, but no definite schedules have been announced for the re-starting of the USS Clairton Works Upgrade (although rumors of 2010 construction have circulated) or the Allegheny Ludlum Brackenridge mill. Demolition of existing buildings continues to be a hopeful sign in Brackenridge, and the improvement in the global metals market may be the trigger for these projects.

On a smaller scale there were at least a handful of projects in the $30 million range being contracted. The West Mifflin Middle School, Water Treatment Plants in Morgantown and Altoona, the Slippery Rock Student Union and Grove City College's new $75 million Hopeman Science Center were all in the process of bidding or selecting a contracting team.

For the mainstream portion of the design and construction industry, however, things are at a cyclical slow point. That may be one small consolation. Our fears at this point in 2008 were that an unprecedented financial cataclysm was going to alter the business cycle permanently. While the jury is still out on that fear, the fact that the construction market has unwound in much the same way as in past recessions is an indication that this business cycle may proceed to recovery in a typical way.

The long-term economic fundamentals of the region are stronger than they have been in a generation, and the prospects for energy or advanced healthcare to be a high-powered growth engine are good; unfortunately, long term prospects aren't likely to prevent a tough winter ahead. BG

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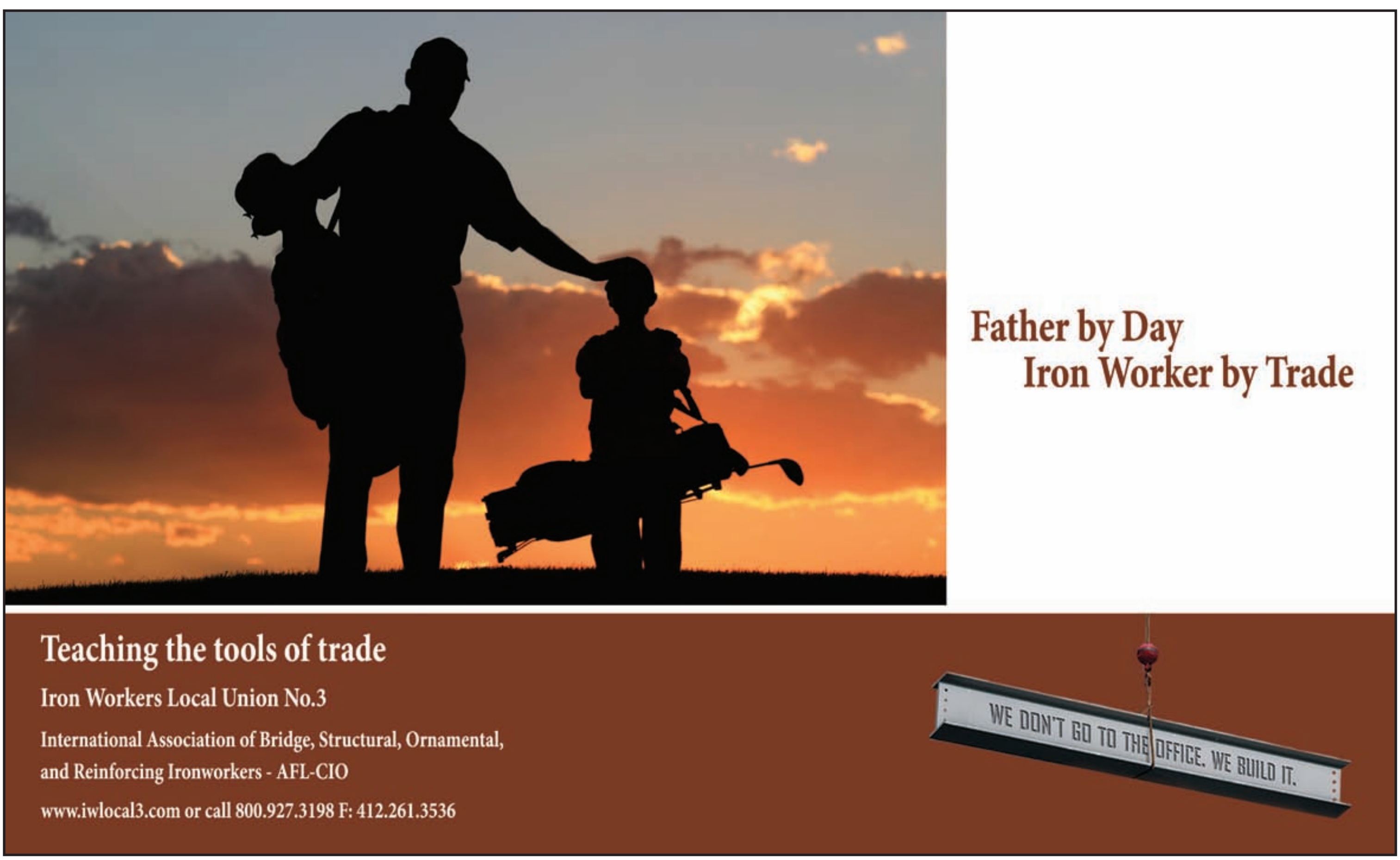
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NATIONAL MARKET UPDATE

The end of 2009 brings down the curtain on the most recent seven-year business cycle with a resounding thud. Like with the overall economic cycle, the loss of jobs in construction lags the start of the contraction in construction by six to twelve months, and at year's end the deepest construction job losses in a generation had occurred. According to the Bureau of Labor Statistics construction employment is 15% lower than October 2008. Maintaining the cyclical trend, losses in non-residential labor and crafts were even with the average monthly loss of the past year, or slightly more than 50,000 jobs, while losses in residential employment had slowed to about one-third the average monthly loss over the same period. If the cycle holds form, non-residential job losses should ease in coming months as a recovery begins.

Looking towards the other side of this recession, a quartet of national construction economists weighed in on their view of how this business cycle would unwind.

Robert Murray has been the vice president of economic affairs for McGraw-Hill Construction (MHC) for over 15 years. McGraw-Hill has been reporting modest improvement in several construction sectors since spring, but has seen the overall level of construction decline precipitously. The company's forecast is for the first stages of a rebound in 2010. Their forecast is for the level of construction starts in 2010 to climb 11%, following the 25% decline predicted for 2009.

"The U.S. construction market in 2010 will be helped by growth for several sectors, following three straight years of decline that brought total construction activity down 39% from its mid-decade peak," says Murray. "The benefits from the stimulus act will broaden in scope, lifting not just highway construction but also environmental public works and several institutional structure types. With continued improvement expected for single family housing, after reaching bottom earlier this year, the overall level of construction activity should see moderate expansion in 2010."

MHC predicts that single-family housing for 2010 will advance 32% in dollars, corresponding to a 30% increase in the number of units to 560,000 (McGraw-Hill Construction basis). Multifamily housing will improve 16% in dollars and 14% in units, after steep reductions in 2008 and 2009. Commercial buildings will drop 4% in dollars, following a steep 43% drop in 2009. The weak employment picture will further depress occupancies, making it even more difficult to justify new construction. Institutional buildings will begin to stabilize after losing momentum in 2009. Square footage will retreat another 2% after sliding 23% this year. The dollar amount of construction for this sector will edge up 1%, helped by a growing amount of energy-efficiency upgrades to federal buildings and continued strength for military buildings. Manufacturing buildings will drop 14% in dollars and 3% in square feet, hampered by the substantial amount of excess capacity. Public works construction is expected to rise 14%, given more wide-ranging strength across all project types. Electric utility construction will slip 3%, continuing to settle back after a record high in 2008.

Murray warns that the monthly data continues to suggest that any improvement in 2010 is not likely to follow a straight line. "The September decline for construction starts is one more reminder that the very modest upward trend that seemed to take hold during the spring will be uneven and at times halting," he says. "More of this uneven performance can be expected in coming months, given the divergent behavior from construction's main sectors. On the plus side, the steep decline for single family housing has reached its end, and funding from the stimulus act is beginning to have a broader impact beyond highways and bridges."

Ken Simonson, chief economist for the Associated General Contractors of America, sees opportunities for building contractors from the delayed impact of the

ARRA funding, but his forecast is for continued softening in demand for construction.

"Expect to see some improvements in areas that are consumer or stimulus driven, like retail, higher education and hospitals, but not enough to offset further declines in office, hospitality, warehouses and spending at the state and municipal levels," predicts Simonson. AGC sees an overall decline approaching four percent, with non-residential down about five percent, offsetting an expected increase in residential spending.

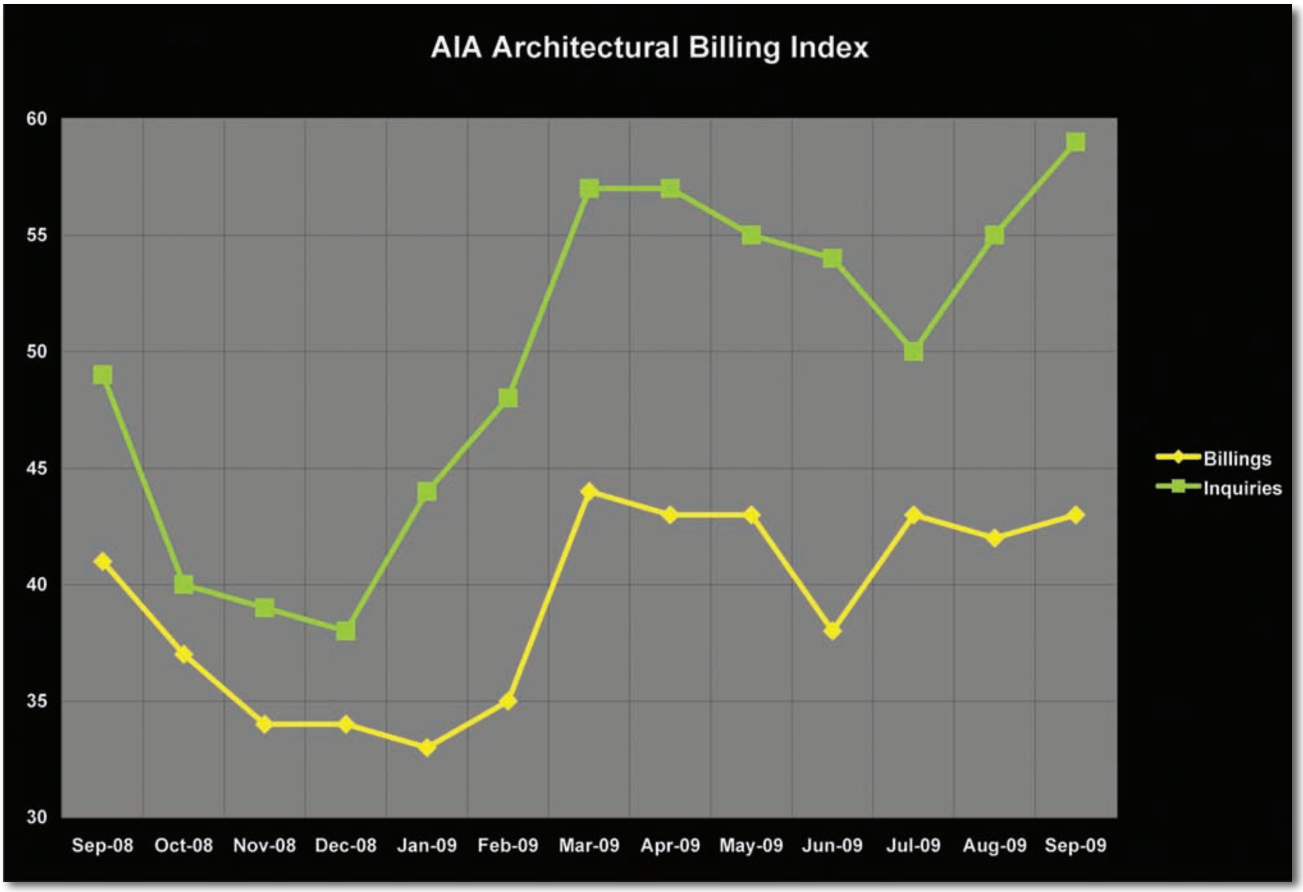
Simonson again encourages contractors that the stimulus impact will be greater in the building sector in 2010.

"Even though there was $35 billion in ARRA to go directly to building construction, the distribution was spread among many more agencies than the infrastructure spending, and many were not prepared," he says. "I talked with a contractor in Lexington KY, for example, who told of winning a contract to do a renovation at a national park. There were no problems but the contracting officer asked if he could wait six to eight weeks for the preconstruction meeting because he was swamped processing other contracts."

Simonson says that the consolation is that more stimulus dollars are still to come in 2010 for buildings than for infrastructure. His biggest worry heading into 2010 is the specter of rising material costs, which he predicts will top five percent, and could go higher if some of the larger nations see recovery early in the year. Such a run up could derail a fragile real estate recovery here if costs get ahead of budgets.

Business conditions will improve in 2010 because cyclical automatic recessionary correction mechanisms will go into effect, rather than more government intervention, according to James Haughey, of Reed Construction Market Data. Haughey believes that most businesses took their medicine in 2009, drastically reducing inventories and cutting back production. The result will be positive cyclical corrections going forward. But, he warns, no significant growth is in the offing.

"The stimulus impact is now mostly behind us. Certainly there will be less impact in 2010," Haughey says. "The major economic improvements will come from cyclical recovery factors. I think we'll see GDP begin to recover in the third quarter of this year, maybe as much as three percent. There is already GDP growth in the economies



AIA's billing index shows weak improvement, even after eight months of increased inquiries.

of some of our foreign trading partners. Credit is starting to ease, and the credit problems next year will be with smaller and regional banks, and specialty credit firms, like retail factoring companies."

Haughey's forecast is for modest improvement; however, not all sectors will see it. Reed predicts double digit declines in office, warehousing, hotels, and power generation, which grew well ahead of demand over the past few years. Moreover, he sees an extended period of cyclical correction, especially for the most distressed sectors.

"Although there will be improvements, credit problems will persist systemically through 2011-2012, but the headaches should be more steady than dramatic," he says. "There will be surplus space through next year, foreclosures will continue to rise until mid-2010, public construction will be well off due to sharply lower tax revenues, and costs will begin to rise ahead of inflation. It looks as if it will be 2012 before we regain the peak level of construction of 2006."

The housing market is the area that offers the most optimism (or least pessimism) for 2009, according to Kermit Baker, economist for the American Institute of Architects. He points out that the extended period of low construction has helped reduce the inventory of houses for sale, a precondition to the resumption of housing appreciation. Baker offers one catch though:

"The number of vacant homes for sale went from 2.277 million in the first quarter of 2008 to 1.916 million in July 2009, a significant reduction in the inventory," he said. "The unknown factor is the number of homes that have been off the market waiting to go up for sale when things improve. An unexpected increase in inventory would keep housing prices from rising again."

Baker also sees a trend emerging from the housing bubble that will influence the future of residential construction. "AIA surveys residential architects each year about their business. The AIA Home Design Trend Survey for 2009 confirms a couple of interesting trends," Baker revealed. "First is that the home size is getting smaller again. Architects reported that 42% of their clients were building bigger homes in 2005, but only 4% in 2009. During the same time, 13% of clients were building smaller in 2005 but 50% were downsizing in 2009. While homes are getting smaller, energy efficiency and aging accommodation features are growing in use, even when including them in the design adds to the cost."

Baker's conclusion is that the combination of the demographic shift and the economic impact of the 2008 market crash have altered the face of the housing market for the near term, requiring less home with more accommodations for accessibility and efficiency.

The AIA also provides one of the better trend indicators for the coming health of the construction industry. Kermit Baker developed the Architectural Billing Index to measure the relative health of the member firms' business now and in coming months. The survey asks each month whether members' billings and inquiries are higher or lower than the previous month. A score of 50 indicates flat performance. Since design tends to lead construction by six to twelve months, improving ABI, especially one over 50, is a positive sign for contracting. Unfortunately, the current ABI offers uneven indications about 2010.

"September is 43.1, which is much better than the January index of 33.3; however, in absolute terms it's not an indication of real improvement," explains Baker. "The best news is that the index for inquiries remains above 50 (September was 59) going back to February. But even that data may not be entirely positive, since the recession has spurred increased marketing activity among AIA firms, and the higher inquiry index could be an indication of more architects pursuing the same amount of work."

Declining commercial property values, recessionary pressures on consumer demand and business growth, tepid housing recovery and lingering credit problems all are weighing on the forecasts for 2010. Getting four economists to agree on the market is unusual, but their scenarios may have the best analogy in battlefield terms: 2009 marked the retreat, and 2010 will be a time of retrenching and reclaiming earlier positions. None seem to expect a charge again until another year has passed. BG

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WHAT'S IT COST?

Construction costs have followed suit for most of the year in 2009. With suppressed demand for construction and with the global consumer demand in decline as well, most of the supply/demand dynamics revolved around suppliers rightsizing their operations and raw materials positions, not raising prices. As the year ends, however, recent trends are suggesting that the end of price stability is approaching.

Through September, the year-over-year comparison of prices for almost every major category of construction material or building product is negative in 2009. In fact, according to the Bureau of Labor Statistics only architectural coatings cost more in September 2009, up 4.9% compared to last year. Concrete products were even with last year's cost, but many of the categories were down more than 10%. The problem in looking at those twelve months, however, is that the period reflects more on how high prices had moved through mid-2008. A closer look at the one-month and three-month trends reveals the potential for higher prices, particularly in the materials that had fallen farthest.

One of the best signals for coming change in any trend is when the short-term motion varies significantly with the long-term direction. Those sort of dynamics describe the current state of the market for basic metals and diesel, materials which make up a large portion of a construction project's cost, and have many downstream effects on finished or refined goods.

The two most dramatic market changes have occurred in iron and copper ores. Iron ore is running ahead more than 45% over the past 90 days, after declining nearly 30% during the previous twelve months. Copper ore has soared 30% during the recent quarter after falling more than 13% since September 2008. These materials are the two cited by AGC economist Ken Simonson as the most volatile during the next year.

PERCENTAGE CHANGES IN COSTS	Sept 2009 compared to		
	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	0.1	0.1	-1.3
Producer price index (PPI) for finished goods	-0.5	-0.4	-4.8
PPI for construction	-0.4	0.2	-8.2
Costs by Construction Types			
Highway and street construction	-0.6	-0.5	-13.9
Nonresidential buildings	-0.5	0.1	-8.4
New industrial building construction	-0.2	-4.2	-0.2
New warehouse construction	-1.3	-3.3	0.1
New school construction	-0.8	-1.4	0.8
New office construction	-2.0	-3.8	0.8
Multi-unit residential	-0.2	0.2	-6.1
Single-unit residential	-0.3	0.4	-4.5
Costs for Specific Construction Inputs			
#2 diesel fuel	-4.7	1.2	-43.5
Asphalt paving mixtures and blocks	-0.6	0.5	-18.1
Concrete products	0.0	-1.1	0.0
Brick and structural clay tile	-0.2	-0.2	-0.7
Plastic construction products	1.2	0.9	-2.5
Gypsum products	-1.2	-2.8	-4.4
Lumber and plywood	-0.3	5.0	-8.1
Architectural coatings	-0.6	-0.5	4.9
Steel mill products	3.0	11.9	-32.8
Copper and brass mill shapes	10.0	10.9	-2.2
Aluminum mill shapes	2.1	7.2	-17.2
Fabricated structural metal	-1.2	-2.3	-14.4
Prefabricated metal buildings	-1.9	-1.8	-18.2
Crude petroleum (domestic production)	-0.4	0.2	-35.1
Cement	-1.4	-1.3	-1.6
Iron and steel scrap	6.9	45.8	-29.4
Copper ore	20.1	30.8	-13.3

Source Bureau of Labor Statistics, Updated Oct. 20, 2009
Compiled by Ken Simonson, AGC Chief Economist

"Copper will be the most volatile because there are very few mines and declining prices didn't encourage opening any more this past year. Its demand is global and one of the big consumers, China, makes big purchases that are hard to judge whether they are stockpiling or consuming," Simonson says. "Likewise iron ore is sourced in just a few places and is vulnerable to speculation in times when there is a perception of big changes in demand."

The impact of the soaring ore prices has made its way into the market for copper products and steel mill products in short order. Both categories are up more than 10% over the past three months after being depressed this year, with steel products down almost 33% September-to-September. Coincidental to these increases, the price of fabricated aluminum is up 7.2% in recent months after declining 17% during the year. All of these increases, should they turn into a longer trend, will push prices higher for structural steel, rebar, electrical wire and equipment, ductwork, plumbing, as well as all related finish products.

Another trend reversal is occurring in the diesel fuel market (as well as most petrochemical markets), where prices remain fairly flat the past 90 days (up 1.2%) but are moving sharply counter to the twelve month decline of 43.5%. Diesel is a crude oil derivative and global politics could easily reverse the recent run upwards, but the downstream impact of diesel on construction is dramatic and its price bears close scrutiny.

Construction job sites run on diesel. It's the fuel of construction equipment, but also the fuel of heavy transportation, meaning that increased diesel costs will add surcharges to all the materials delivered to the site. Diesel is also the feedstock for #2 asphalt, and the recent price action is reflected in the increase in paving, which has begun to rise in counterpoint to its 18.1% decline since September 2008. The same dynamics will impact base materials for waterproofing, roofing and lubricants.

A troubling aspect to the current pricing trend is the brewing impact of the global response to the financial crisis of the winter, when national treasuries increased the supply of money drastically aiming to restore liquidity and confidence. Most commodities are dollar-denominated, which means their prices will go up if the value of the dollar declines, as it has with the stimulus of the Federal Reserve. With economies resetting in China, India and Brazil, and the hope of continued recovery in the U. S., there will be less downward pressure from the demand side of the equation to offset the inflation of the money supply. The scene is set for extraordinary commodity inflation over the coming years without expert handling of the money supply.

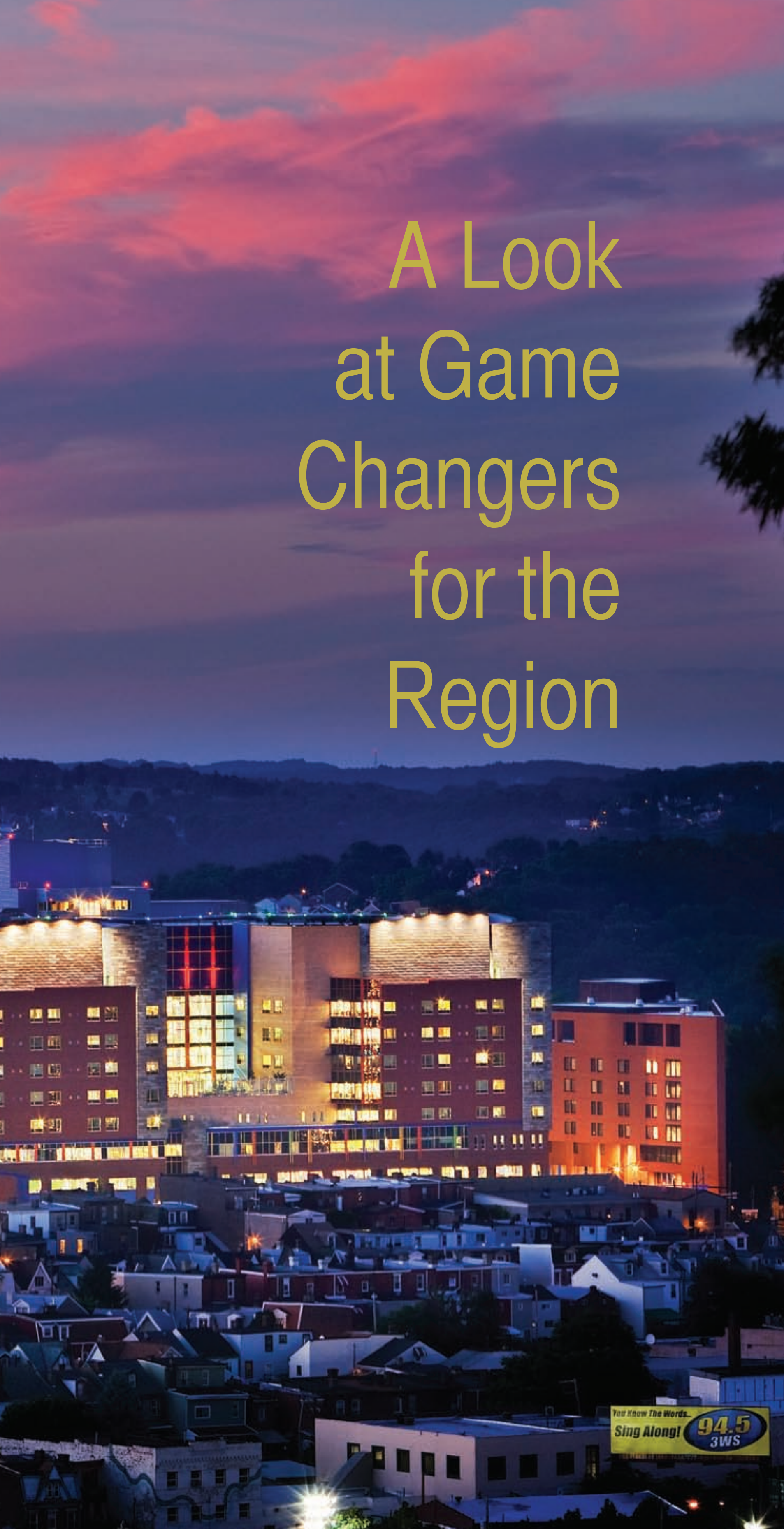
Most observers expect that a certain amount of inflation is now inevitable, and is a tolerable price to pay for the fiscal actions taken last fall, which are viewed as a necessary response to the crisis. But managing an extraction of the money supply can be as simple as returning toothpaste to the tube once it has been squeezed out. History suggests that predictions of a collapsing dollar and runaway inflation are unrealistic, but then so are the expectations that the dollar can be propped back up in an orderly, painless fashion.

Increased costs in the construction marketplace will return in 2010. It is hard to imagine a scenario in which prices rise less than 5%, and it won't be a stretch to see 8%. Without a robust recovery, even these levels of inflation will probably dampen construction volume in 2010. The most prudent strategy for delivering projects with the least exposure will be to expect your budgets to be low, and compress the preconstruction phase. For the foreseeable future, time will equal more money in construction.

THE BIG PICTURE

The new Childrens Hospital in Lawrenceville is the largest construction project of the past two decades. (Photography by Alexander Denmarsh)

A Look at Game Changers for the Region



The celebration of Pittsburgh's new economy is only a recent phenomenon within the region. With the buzz phrase of 'eds and meds', regional cheerleaders have touted the role that our universities and hospital systems have played in creating new jobs and new technologies for the future. Things have gotten so good that we have become Barack Obama's adopted hometown, and he invited the world's leaders here for a shindig in September.

Now that the hubbub over the G-20 has died down it may be a good idea for the regional economic leaders to throw away all the marketing materials, because a couple of game changing opportunities - one real, one a prospect - are looming which could cause a rewrite to our economic driver brochures. Ironically, if either develops fully Pittsburgh may well get some of its blue-collar image back.

What we're talking about are the blossoming natural gas exploration business and the potential vaccine and biological defense industry. The ripple effects of either economic development at maturity will have an effect similar to the growth of the steel industry a hundred years ago.

Part of the problem of examining the potential impact of game changing economic development is that there is an element of 'too good to be true' to it. For Western Pennsylvanians, who saw their economic rug pulled out from under them a generation ago, there is a heightened sense of what could be called their 'BS detectors.' Over the past decade or so, telecommunications, Internet ventures, even maglev, have all been touted as the next big thing to reshape the region. So it's understandable that the response to the possibilities of a mature healthcare or energy industry has been viewed a bit cynically. But the potential impact is big and it's worth supporting.

Healthcare and Jobs

A confluence of demographics, available medical research, aggressive competition and long-term vision has put the region in a position of leadership in healthcare around the world. The payoff for the region has been the growth of employment in this sector that is twice the national average for healthcare jobs.

Over the past eighteen months, many of the headlines have focused on the turnaround efforts at West Penn Allegheny Health System, the struggles of smaller and older hospitals, and of course lots and lots about the University of Pittsburgh Medical Center. The current economic situation has dealt a series of blows to the healthcare industry, but for the most part the setbacks have been cyclical, not unlike those experienced between 1991 and 1994. That recession weakened many of the independent hospitals, making them unviable without joining the bigger systems, and saw the end of one major system, AHERF.

Yet, in the aftermath of that recessionary cycle came another period of growth and a number of significant healthcare construction programs.

Several of the region's biggest projects over the past decade were hospital projects built between 1999 and 2005. The Hillman Cancer Center; UPMC Northwest between Oil City and Franklin, and the new Children's Hospital were three new facilities, representing almost $1 billion in design and construction investment. Advances in oncology and cancer treatment resulted in more than a dozen cancer centers at hospitals and stand-alone locations throughout the region, each involving $10 million or more in investment. Regional medical facilities were expanded significantly at Uniontown Hospital, UPMC Passavant, Jefferson Regional Hospital, Allegheny Kiski Medical Center, Heritage Valley Beaver Medical Center and Excela Healthcare has spent tens of millions consolidating and reorganizing services in three Westmoreland County hospitals. And the Veterans Administration consolidated the facilities of three VA hospitals, investing more than $300 million in Oakland and Aspinwall.

Beyond these highlights were hundreds of millions more in ongoing capital improvements to keep clinical and research efforts at the cutting edge.

The challenges facing the healthcare industry now range from the cyclical and known, like reduced investment performance, more limited grants, and reduced revenues, to the unknown, such as the uncertainty of the face of the industry if a healthcare reform legislation package is put into effect. The former challenges limit the amount of capital available for construction, and the latter raises questions about the level of reimbursement and cost of administration for a new healthcare paradigm. These uncertainties will dampen capital spending for the coming year, but the long-term demographic realities mean that healthcare as an industry will continue to play a big role in Western PA's economy.

Even with the tougher conditions, hospitals will still be one of the busiest sectors of the construction industry in 2010.

West Penn Allegheny has made an interesting move recently, hiring the property management group of CB Richard Ellis to begin handling its facility management responsibilities, including administering design and construction in professional offices and hospital clinical space. CBRE's Bill Dignon will head up the effort.

Several of the region's independent hospitals have made plans for smaller but significant projects in 2010. St. Clair Memorial Hospital is planning to expand its operating facilities in Mt. Lebanon. Jefferson Hospital will continue to expand and repurpose the former Mercy Smart Health facility it acquired in Bethel Park. Excela's reorganization and suburban expansion in Westmoreland County will produce more projects. And, outside its CARES Consolidation program, the VA system has commissioned designers for more than $30 million in projects in Pittsburgh and Butler, much of it funded by the ARRA legislation.

The University of Pittsburgh Medical Center continues to have the most ambitious plans, even as the economic landscape shifts. Its Monroeville facility, a 300,000 square foot hospital and parking garage, has received the municipal approvals to start construction. With the new Children's Hospital now fully operational, the opportunity exists for a reconfiguration of the Oakland physical plant of the hospital, which could ultimately lead to the construction of a new Presbyterian Hospital to combine the services at Presby, Montefiore, Eye and Ear, and Western Psychiatric Institute in part or completely. Unfinished plans for the Reidbord/Hillman cancer research center, a new tower at Mercy Hospital, additional patient rooms or a new garage at Shadyside Hospital, some of which will exceed $100 million to construct, will have to be completed or reconsidered as post-recession priorities emerge. Even without further action on any of these projects, UPMC will still administer a significant capital improvement budget in 2010.

The Healthcare Game Changer

At the outset of any discussion about a vaccine or immunization production facility it's worth noting that any such facility is still an unfunded proposal yet to be approved as a real property to be developed. Beyond the mere feasibility of the project, it is only hopeful speculation that such an approved initiative would end up in Western PA. With that disclaimer fully stated, it is worth a few paragraphs to entertain what the impact of a regional vaccine/immunization facility would be.

Westinghouse's new campus will be home to upwards of 5,000 employees.

Image used by permission of LLI/IKM. Photo by Alexander Denmarsh.

First, as to the likelihood of the facility, the threat of a biological event, whether man-made or naturally occurring, has been considered a defense priority by both the Bush and Obama administrations. The spread of the H1N1 virus, currently working its way across the country, will give fairly clear feedback about the state of the nation's ability to protect against a widespread epidemic. Regardless of the outcome, there will be a call for an effort to boost American capacity for immunization. Lastly, the price tag associated with the project, at least $500 million, has become relatively smaller when compared to the cost of prosecuting a war, or in comparison to the investment needed to prop up the financial system. Politically, numbers without a 'b' at the beginning aren't as scary as they used to be.

AS FOR PITTSBURGH'S CHANCES, THE POSSIBILITY SEEMS BETTER NOW THAN AT ANY OTHER TIME.

UPMC has declared its interest in competing for such a facility. Its capabilities and willingness to invest is in the same league as the top ten or fifteen health systems in the country. Observers point to the selection of Pittsburgh for the G-20 as an indication that the administration takes the region seriously, maybe even to the point of envisioning a vaccine plant as a quid pro quo for the event. The city has both the proximity and distance from the nation's capital to satisfy needs for convenience and security. And the infrastructure and available sites are more than adequate.

So, taking the hallucinatory leap to the conclusion that the vaccine plant is funded and that Pittsburgh is the selected location, how is it a game changer?

Few pieces of a puzzle fit together as nicely as this bit of economic development might dovetail with a region's strengths and weaknesses. First, the sheer size of the construction opportunity will have an enormous impact on that industry. Assuming the numbers being discussed are in the ballpark, the facility is likely to be a million square feet or more under roof. That's a lot of construction jobs.

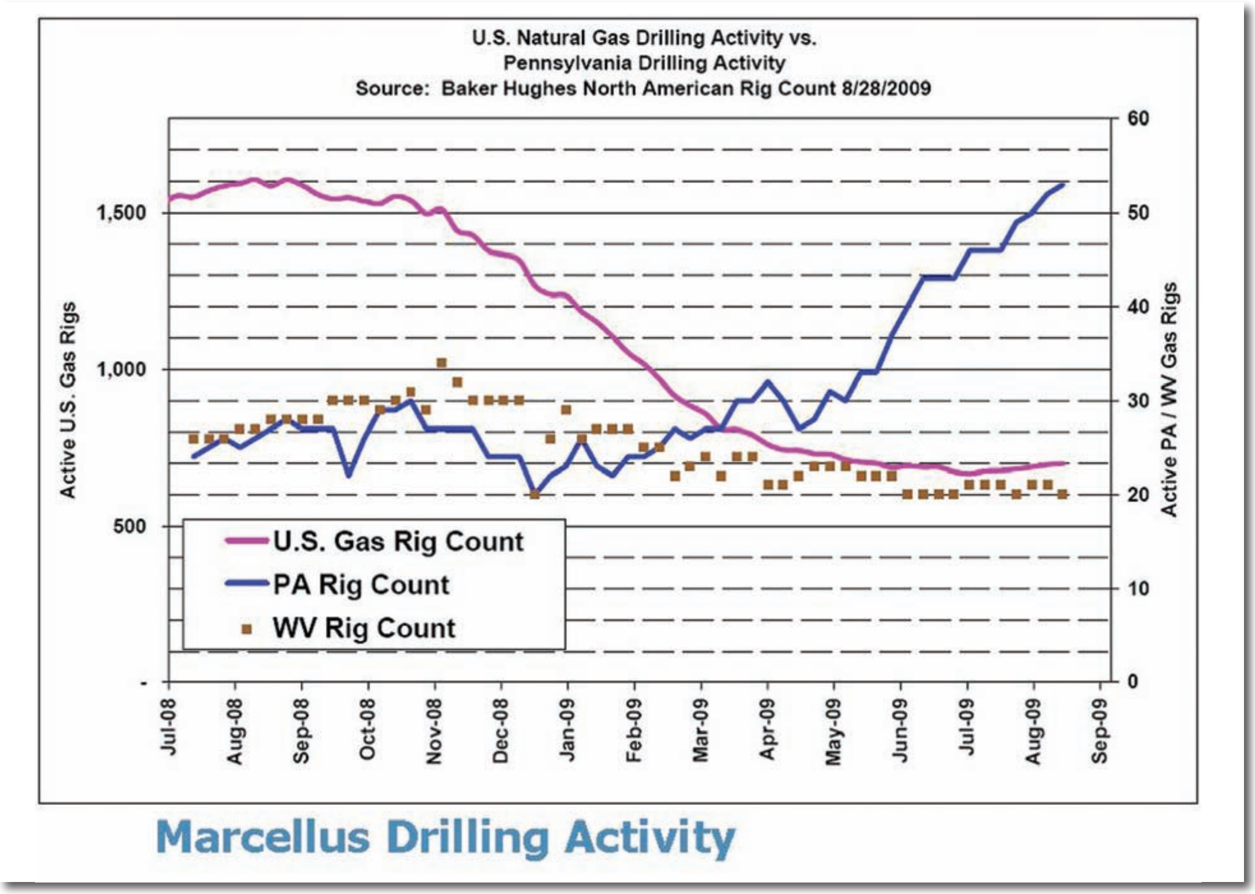
Secondly, the possible locations for a facility that size are limited. In fact, only the area surrounding the airport has the acreage and access to transportation that would be viable. The airport area also makes sense for the part that comes next, which is the expected location of research and production facilities for every major pharmaceutical and/or bio-defense company that would want to have proximity to the vaccine plant.

This clustering of facilities would allow Allegheny County to complete the offloading of thousands of acres of unused land from its balance sheet, and onto the tax rolls.

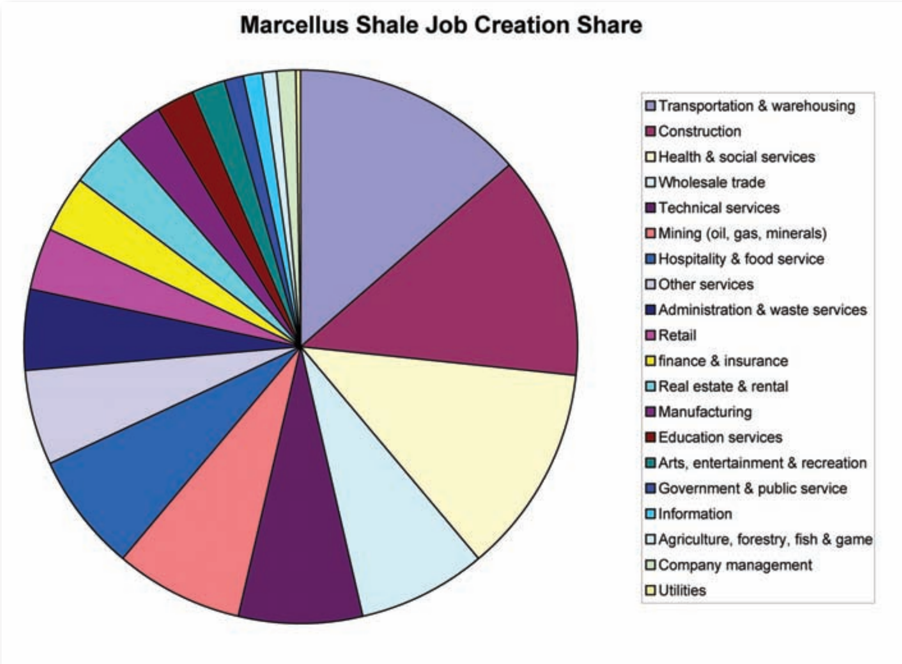
UPMC estimates that the facility will create 1,000 jobs, and a total of 6,000 jobs related to the facility. That many jobs in proximity to the airport would create a surge in air travel demand, reversing the trend that resulted from USAirways move away from Pittsburgh International Airport. The increased usage could conceivably trigger an expansion of PIA, and would certainly improve cash flows to the county's Airport Authority. The impact on the region's GDP would exceed half a billion dollars.

Even on a political level, the possibilities are interesting. Locating this kind of economic engine at an airport site will benefit the Allegheny County treasury immensely. In a relatively short period of time the county budget issues could be resolved. Think of how this might shift the balance of power with the city of Pittsburgh, and the opportunity that might create for city-county consolidated government. How much more likely does a Port Authority request for a downtown-to-airport rapid transit system become?

Before this gets too carried away, it's time to remember that this is a proposal without a request thus far. But it's not a terrible stretch to start connecting the dots.



Low natural gas prices has depressed drilling nationally at the same time drilling in PA has tripled. Chart courtesy of Range Resources.



The chart shows the share of the jobs expected to result from mature natural gas exploration of the Marcellus Shale formation (source Penn State University).

Energy and Jobs

The energy sector has provided the region with two of its better economic development stories in recent years. In 2006, Westinghouse selected Cranberry Woods as the site for its new worldwide headquarters. Now open, the facility is home to 3,000 employees, and is only the start of a long-term growth cycle.

Westinghouse is in the business of designing and building nuclear reactors. The dynamics of the crude oil market have pushed demand for alternative energy sources to very high levels. In addition to this business driver, coincidental demand grew from among the fastest growing economies in the world, principal among them China. Unlike the U. S., China and many of the world's other nations view nuclear as an acceptable alternative from among the means of producing electricity.

The completed Westinghouse campus includes 845,000 square feet in three buildings; however, the company's growth has spurred the construction of a fourth building, as well as the leasing of several hundred thousand square feet in both Cranberry and Marshall Township office complexes. Westinghouse has previously announced that its plans are to employ 5,000 people in the coming years.

As the Westinghouse campus was being developed there were numerous inquiries but few plans for space that would be needed for businesses that serve the company, and would want to be nearby. During 2009, however, developers have moved from the sniffing about stage to the active stage, with a half dozen new office or flex buildings in design or under construction.

Beyond the development spurred by Westinghouse, the region's whole energy sector has received a boost from the fallout of the skyrocketing oil prices. Western PA is home to coal, oil and natural gas companies and it remains a quiet leader in energy research and technology.

Pittsburgh's leadership in green building and green technology has also been given a higher profile by the energy crisis. Energy conservation and alternative energy moved from tree-hugging ideas to national defense issues when Americans started paying $4 per gallon at the pump. In cooperation with state funding agencies, the Green Building Alliance has launched and grown an initiative to spur the development of more jobs by aiding companies who make green building products in Western PA.

The creation of jobs in the energy sector is still at the early stages, but the recognition of the prominence of energy as an economic driver may not be.

In mid-October an energy industry conference dedicated to discussion of developing unconventional gas, call DUG East, was held in Pittsburgh. The conference featured presentations from executives of gas exploration and distribution companies, and was expected to attract 300 attendees. 1,500 people attended.

The Energy Game Changer

The second economic development story is, of course, the exploration of the Marcellus Shale formation to extract natural gas. Over the past few years, as energy independence has become a focus again, natural gas companies have had the impetus to expand their production significantly. That incentive led the industry to decide to start exploration of what it knew was the largest shale depository of natural gas, the Marcellus Shale formation.

It is difficult to put the size of the formation into perspective unless you are in the industry. The formation which is currently the hot bed of drilling, the Barnett Shale near Fort Worth, TX, is dwarfed by Marcellus. In fact, the Marcellus formation is the second largest area in the world for oil or gas exploration. Only the Persian Gulf region is larger. In terms of output, the estimates of production are terribly sketchy at this point, but the range is between 50 trillion and 500 trillion cubic feet. The conservative estimate is that the formation could be actively drilled for one hundred years, without any further discovery. On top of that, the first horizontal drilling is just being done to determine the viability of exploring the shale formations immediately above and below the Marcellus layer.

One of the more intriguing aspects about the Marcellus Shale exploration is that the industry is being talked about in terms of future economic impact, when in fact the exploration has already begun. With natural gas prices hovering around $3 per million BTU's there isn't a lot of reward for the effort of drilling, yet the imperative to get underway in Marcellus has been sufficient that drilling activity has tripled in PA at the same time drilling nationally is off by 50%. Activity is high enough that an August 2009 impact study done by Penn State can already estimate the economic effects. Yet the story is just getting legs.

What makes the Marcellus Shale exploration an important story locally is that the action is so far centered in metropolitan Pittsburgh. After analyzing drilling data submitted by the gas companies and Department of Environmental Protection data, the Penn State study estimates that approximately 315 wells have been drilled in PA. Of that total, 258 have been in the seven county Pittsburgh metro area, 158 in Washington County alone.

Construction of these big projects has employed hundreds of skilled laborers over the past year or so, but the bigger construction impact will actually come from the ongoing activities. Each well is a construction site of its own, requiring access roads, 500 tons of structural steel and 750 tons of concrete per bore.

The Penn State economic impact study is eye opening, in part because of the impact already logged, but also because of how quickly the impact spreads. The study shows that the current drilling activity has resulted in $4.6 billion in gross spending output, a localized version of gross domestic product. The study anticipates that by the end of 2010 the activity will add $9 billion in spending, create 110,000 jobs, and add $800 million in state and local tax revenues. By 2020 those figures are expected to grow to $13.5 billion in spending and 175,000 jobs. The cumulative revenue to the state by that time should be $1.4 billion.

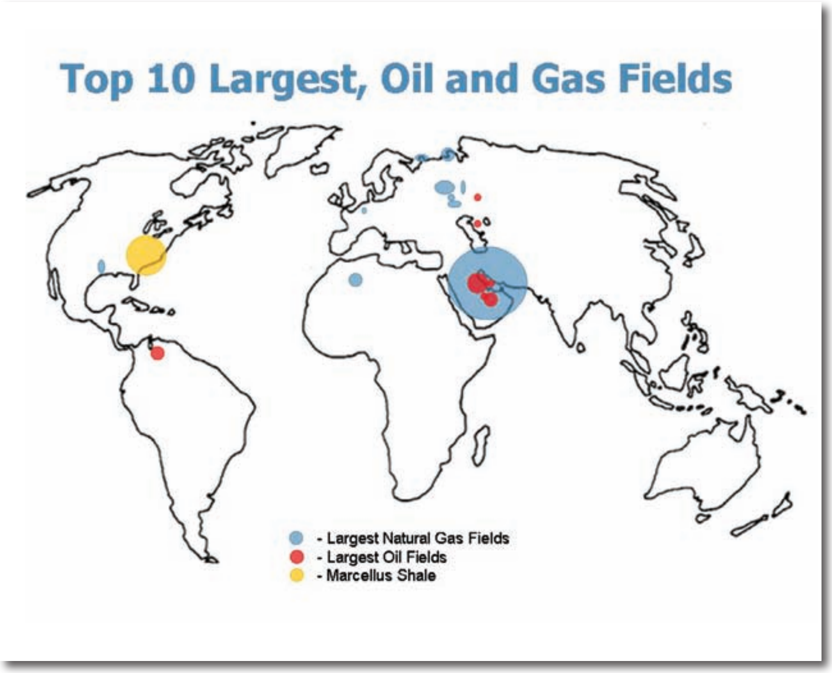
These numbers express urgency to the exploration that hasn't been understood much outside the industry, and equally understated has been the wide reaching impact of having such a large industry centered in the region.

"What happens to a region when a plentiful resource – like natural gas here – is discovered," asked Pitzarella rhetorically. "Look at what developed around the steel industry just because of the available resources. The natural gas is a huge feedstock for other industries, like fertilizers, petrochemicals, plastics, and pharmaceuticals. Developing Marcellus Shale is truly a once in a generation opportunity." BG

In addition to the drilling activity, Washington County has also been the site of one of the quietest $300 million construction projects done in the last few years, the processing plant developed by MarkWest in Chartiers Township. Another significant phase of that plant is scheduled for 2010, and additional phases should develop over the next three to five years, according to Matt Pitzarella, a spokesman for Range Resources, which uses the Chartiers plant.

"So far all we can do at the plant is extract and transport; we still have to take it somewhere else to refine it," he says. "As exploration grows, the plant will have to expand to do further refinement."

MarkWest will also be the developer for a large-scale distribution facility to be located in Majorsville, Washington County. Budgets haven't been released as yet but the facility is expected to run several hundred million dollars.



Only the Persian Gulf oil and gas fields are larger than the Marcellus formation.


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Photo by Derek Wahila, used courtesy of Carl Walker Construction

MEADOWS CASINO PARKING GARAGE

Carl Walker Construction Group Inc. is one of those firms that you don't really hear too much about, unless you happen to wander into their niche. If you're in the parking garage business, however, chances are you have heard of them. The owners of the Meadows Racetrack and Casino are certainly glad they eventually did.

The two remaining owners of Carl Walker Construction, Joe White and Len Tsupros, were part of a four-man team that founded Carl Walker Construction. White and Tsupros, along with Dave Monroe, had been key managers at Mulach Parking Systems in the 1980's and early 1990's. Along with parking garage engineer Carl Walker, from Kalamazoo MI, the three started Carl Walker Construction in 1996. Walker and Monroe have since sold their shares of the company, which has stuck to its specialty for most of the firm's history.

"We decided to be a general contractor in a niche business, even though that means some slower periods when garages aren't being built," says Tsupros. "It helps the business that we're in the Northeast, where garages get pretty beat up by winter and the freeze/thaw, so our restoration work gives some stability to the cash flow. We prefer to stick to what we know."

In the spring of 2008 some friends who were subcontractors on the Meadows Casino project made Tsupros, Carl Walker's president, aware that the casino's construction manager was having difficulty fitting the number of cars that the owners wanted to park into the garage's design and budget. It was the kind of opportunity that Carl Walker Construction looks for. "Our tag line is that we don't design garages; we design parking solutions," says Tsupros. "So we contacted Tim Jones [of LP Ciminelli] and arranged to meet to see what we could do."

Photo by Derek Wahila, used courtesy of Carl Walker Construction.

"OUR TAG LINE IS THAT WE DON'T DESIGN GARAGES; WE DESIGN PARKING SOLUTIONS,"

The parking garage was expected to hold 1,000 cars, and the 327,000 square feet was adequate size, but the structure was designed to be a short-span, cast-in-place post-tensioned concrete garage. Cast-in-place construction meant more columns, and eliminated the precious final parking spaces. Carl Walker's suggestion was to consider revising the design to a total precast structure, which would create longer spans and fewer columns. The revised design also eliminated the deep foundations, which saved additional expense. With the changes, Carl Walker Construction was comfortable taking on the project at a price that met the owner's budget.

"Changing the frame design created big savings, about $2 million from the original cost as designed," explains Tsupros. "The switch to precast also gave an edge on schedule, since we could get Sidley to erect the precast quicker than we could pour the frame. That saved us about 60 days on what became a nine-month schedule."

The compressed schedule became an important issue pretty quickly, since the design changes and negotiations had extended the preconstruction. The parking garage worksite was turned over three months behind schedule, in October instead of July, which pushed erection and concrete installation well into the winter months. To meet the deadline for completion, which was April 1, 2009, Carl Walker added additional shifts, worked weekends and implemented innovative cold weather concrete installation techniques to accelerate the construction process.

To facilitate the installation of slab-on-grade concrete during the winter months, Carl Walker Construction rented a Thawzall system that defrosted frozen ground to a depth of 30 inches. The company also utilized electric heating mats to warm the concrete in the precast sections. This allowed concrete washes and crossovers to be installed, despite inclement weather. Using the heating equipment, Carl Walker Construction was able to successfully pour concrete throughout the winter and maintain the construction schedule.

"The Thawzall kept the ground pliable and the heated mats let us pour concrete. We couldn't have met the schedule otherwise," says Tsupros. "It was an extra expense but it was worth it and the owner was very agreeable to pay for the change."

Managing the site had a few extra twists as well. The new garage joined the casino at a shared column line, and since the casino construction was racing towards the same completion date, there was a real possibility of conflicts with subcontractors working on the project. To maintain clear access and avoid the casino's subs Walker confined lay down space to within the footprint of the parking garage.

Architect David Climans had met his client's request that the garage emulate the design of the casino by choosing a similar material to be used on the exterior surfaces of the parking structure. The casino was skinned with a synthetic stucco, Dryvit, which Climans was using for architectural features on the garage.

"There are three major stairtowers that were to have the architectural features. The towers were the best place to do that because they are the tallest section of the garage and a smaller area to work with,' explains Len Tsupros. "CGL decided to use the Dryvit on the towers with cornices. But they also wanted to do the Dryvit along all the spandrel panels. That was going to be very costly and we were concerned about the durability of that application."

Carl Walker Construction and Sherwin Williams partnered to propose, develop and apply a three-coat, high-build elastomeric paint system that mimicked the appearance of synthetic stucco. Considerably more durable than Dryvit and less expensive, this paint system saved the owner approximately $300,000. The innovative exterior elastomeric finishing system was applied on-site to plain, precast façade panels that were free from texture or architectural detail. Once the exterior façade panels were installed and pressure washed, the finishing system was applied. The completed product delivered an exact match in both color and texture to the Dryvit system.

After a nine-month push Carl Walker Construction turned the $13.6 million garage over to the owner to get a certificate of occupancy from North Strabane Township three days before the opening of the casino. For an operation expecting to pull in one million dollars a day from slot machines, providing its customers with covered parking when the casino opened its doors (and 60 days ahead of the original schedule) removed one more obstacle to succeeding.

"It's a textbook example of what our business approach is all about," says Len Tsupros. BG

PROJECT TEAM

Owner	Cannery Casino Resorts
Architect	Climans Green Liang
General Contractor	Carl Walker Construction
Plumbing Subcontractor	Manion Plumbing
Electrical Subcontractor	Wellington Power Corp.
Precast Subcontractor	Sidley Precast

LLI Engineering

John Shaginaw

Jamie White

Ernie Tillman

100 YEARS OLD.

That's a milestone that less than one percent of businesses ever achieve. For LLI Engineering, which is wrapping up their 100th year of continuous service this year and planning their centennial celebration in 2010, the surprise was in discovering that being a 100-year old engineering firm in Pittsburgh didn't put the firm in a class of its own; but to quote Bud Phillips, "It sure doesn't take long to call roll."

When engineer E. N. Hunting and architect L. N. Davis founded their firm in 1910, the Boy Scouts of the United States were founded, the first car race at a speedway was held, the Pittsburgh Pirates went 86 – 67, and Pittsburgh was in the midst of exploding as a center of the industrial age. Hunting Davis Company had developed a design niche, using reinforced concrete as a structural system, which they wished to exploit. Their business came from a wide variety of sources, but they established a reputation with some of the burgeoning industrial companies, like Pittsburgh Plate Glass, Union Switch & Signal and Cheesbrough-Ponds.

As the firm evolved, becoming Hunting Davis & Donnells in 1930, Hunting Larsen & Donnells in 1947, and then Larsen & Ludwig in 1964, its capabilities changed, but the reputation as an industrial construction expert remained.

But the company found itself as an expert without an audience in the 1980's as many of its clients closed down, became defunct or were acquired or moved away from the area. Larsen & Ludwig became a much smaller firm. In 1988 a new ownership team, which included current managing principal John Shaginaw, took control of the firm with a plan for a new direction, but utilizing the same approach of bringing emerging technologies to the market.

The firm began to get more work with science and technology related clients, and established a niche in the 1990's in telecommunications that would lead to its explosive growth, and some of its toughest decisions.

Larsen & Ludwig had come to have regular business with A T & T, and after the forced breakup, with its ultimate successor Verizon. The demands of that client led them to develop competency at a variety of non-construction technology disciplines. The firm developed in-house web-based systems for managing work that later became a project management system used by Verizon and other clients to manage the hypergrowth of the collocation work that they did. They did website design and hosting. The focus of their business was so oriented in new technology that the firm changed its name to reflect it in 1995, becoming LLI Technologies.

At the peak of the telecomm boom (which coincided more or less with the dot.com boom) LLI had over 85 employees, most working for telecommunications clients. Although they were immersed in the industry, LLI didn't see a bubble building that would pop in late 2001, creating a serious management issue for LLI.

"At the time, we thought the work had stopped because of the rebuilding after the September 11th attacks," remembers John Shaginaw. "But in hind sight it was just over saturation of the market. It wasn't until I read Thomas Freidman's *The World is Flat* that I saw the numbers of how much telecom infrastructure was built in only a few short years. Our clients added significantly to the size of their facilities, as did their competitors. And because the transmission equipment was becoming much more efficient due to fiber optics, there ended up being four times the capacity that the market could absorb, even with the cell phones and internet growth."

As the lead designer for a team of engineering and architectural firms that did billions in Verizon capital construction, LLI was suddenly looking at an empty pipeline of work from its biggest client. The decisions that followed were difficult but laid the foundation for the next stage in LLI's development.

Jamie White had been a partner for a few years by that time, and remembers how painful the business became. "After a few months we were forced to make some dramatic cuts to a great staff," he explains. "This was particularly hard for everyone. Not just because we invested so much in each individual through recruiting, training, equipment, software and real estate, but they were close friends who were soon working for competitors"

One bit of good fortune was that the company's strategic planning had identified the concentration of business in telecommunications as a potential weakness earlier, and the principals had begun pursuing a broader base of projects. Among other projects, LLI had accrued a growing backlog of work through a division of Westinghouse that served the all but dead nuclear power market. As a veteran owned small business LLI also found there were opportunities for much more work in the federal, state and local government markets. While neither of these niches created a new wave of business, each would become important to LLI's later success.

Diversifying the client base worked. By 2005 the company's business mix was sufficiently broad that they sought to reinforce their brand by changing the name of the firm to something more representative, LLI Engineering.

The previous year LLI had taken the risk of acquiring a general contracting firm, CMI Construction, with the intent of leveraging their design/build capabilities further. It proved to be a reasonably successful marriage, but by 2008 the management team of both organizations decided that each business could be more prosperous on its own. A former LLI partner and other investors now own CMI without any ties to LLI Engineering.

During that same period of time LLI formed a joint venture with architect IKM Inc. to take on a new commission from that Westinghouse division they had been quietly serving. The unbridled pace of growth in China and a new global energy crisis had given rise to new demand for nuclear reactors, and Westinghouse was growing rapidly to meet demand. In what was the largest corporate real estate deal of that year, Westinghouse selected Cranberry Woods to be its new headquarters, and the LLI/IKM joint venture began working on what would become a series of projects exceeding $200 million in construction. One significant capability that LLI brought to the project was their experience in sustainable mechanical and electrical design. Jamie White is passionate about the subject and believes it's going to drive a big part of LLI's future business.

"LEED continues to grow and is working to become part of the building code. Successful firms will have to be able to earn LEED ratings with no additional cost to the owner," White says. "The time has passed for firms to invest in teaching their staffs how to design or build sustainably. Failure to provide these services will simply result in a lost client."

A firm that sticks around 100 years has to keep one eye on the future while it works in the present. Planning for LLI Engineering's succession has moved onto the management team's radar.

"In the next 10 years several of our senior engineers will have retired," explains Ernie Tillman. "So we are actively building a new group of young engineers and project managers to take over and manage the various departments and clients. We are continuing to add expertise in a variety of building design specialties." LLI is increasing its knowledge base in building information modeling, and Tillman anticipates that design will continue to move towards the complete integration of all of a project's design, construction, operations and maintenance information.

"I do think in 2110 someone will be looking at our electronic CAD files of the Westinghouse Complex in amazement that we spent that much time producing documents that were only printed out for someone else to fabricate and build, as opposed to integrating with the process."

"We really have been fortunate to continue to thrive and grow these many years, and we feel a responsibility to ensure that continues yet again," says John Shaginaw.

Shaginaw illustrates his sense of continuity with a story. "In our archives are plans done with ink on velum of some of Pittsburgh's great buildings. A few years ago we were pursuing a project for H.J. Heinz in Muscatine, Iowa. I happened to recall seeing something in our archives with that name. When we went back to see what we had, we discovered that LLI provided the engineering for an expansion in the 1930s. It really is amazing how much the industry has transformed over those years and how much it is still the same." BG

Company Facts

LLI Engineering Inc.

6000 Brooktree Road, Suite 300

Wexford, PA 15090

724/934-8800

www.lliengineering.com

jwhite@lliengineering.com

Professional engineers: 14

Registered architects: 1

Total employees: 36

IS IT TIME FOR AN OLD DOG (AND NEW) TO RELEARN OLD TRICKS?

By David Raves

Current economic conditions are forcing many companies to tighten their belts and think creatively to remain competitive or even afloat. Waiting for the trickle down of stimulus funds to rejuvenate the industry may be too little too late. Thinking outside the box may be helpful but too risky. Relearning old tricks, actually not tricks, but sound protocols for doing business may be just the thing. The protocols may be a new way to do business or may merely be minor adjustments to current procedures.

One major device is sometimes referred to as a "teaming agreement" or most recently "lean project delivery", which is a delivery system that may be worth revisiting in the current economic climate. Although around for several years both the ConsensusDOCS and the American Institute of Architects have developed standardized tri-party agreements for construction projects involving the owner, designer and contractor as equals.

Treating these entities as equals has the effect of focusing each party on reliably meeting individual commitments on the project, allowing better overall project delivery. It avoids a singular focus on individual productivity at the expense of another stakeholder, with a goal of increasing overall productivity. It also allows the team members to share the financial risk and rewards by providing incentive to meet overall goals of cost and schedule for the overall project.

For the participants, the team approach might be a means of getting that project off the ground by revealing hidden efficiencies that each individual may not have otherwise realized. Team consensus allows all parties to work efficiently with an underlying goal of saving money and time. Associated with cost savings is also a means for understanding and spreading risk to all project participants on a more equitable basis.

Of course the system requires open communication and a commitment to the process. Imagine a project where requests for information ("RFI's) are a thing of the past. Collaborative parties flow information freely and timely, allowing for smooth construction and overall planning. This delivery method even flows down to major subcontractors and major material suppliers who also have a significant stake in the outcome of the project.

OF COURSE LIKE ANY ENDEAVOR, UNDERSTANDING AND COMMITMENT ARE IMPERATIVE. IF THE RIGHT TEAM IS ON-BOARD, THIS COLLABORATIVE METHOD MAY BE JUST THE TRICK.

Assuming that the project is not appropriate for lean project delivery, there are still a number of protocols to consider in building an understanding from the client that timely payment makes for a more efficient project. Most in the industry acknowledge that controlling the purse strings is a key to ensuring good performance. In most instances the owner is holding the purse. What mechanisms can be employed in an agreement to keep the purse open?

One method is to incentivize timely payment by inserting a provision that allows for a discount when payments are made within a certain period of time. Usually these incentives are on a percentage basis of payment. Another method is to insist on interest for late payments along with a penalty. While the recovery of attorneys' fees is provided by statute in Pennsylvania, in the public sector, recovery is only allowed if there is a showing of bad faith. A specific reference in the contract would eliminate the obligation to show bad faith.

Contractors could also request that the construction funds held by the owner are "in trust" for payment of obligations relating to the project. Such a reference creates an additional obligation on the part of the owner to only distribute the available funds for the project. If these "trust" funds are diverted the contractor has a greater ability to recover the funds from the owner. Alternatively, a contractor could request a letter of credit which can be called upon in the event that the owner fails to meet its payment obligations. This type of letter of credit should be drafted carefully to allow the contractor to call on the letter only when payments have been certified for payment by the administering design professional.

Contract payment terms can also be written in a manner in which payment is conditioned on receipt of payment from the owner. These clauses are sometimes call "paid-if-paid" clauses and are different from "paid-when-paid" clauses. Care must be taken in drafting these clauses because the courts are more apt to interpret payment clauses as timing devices rather than prohibiting payment until a condition is met.

Another means is to simply enforce the terms and conditions of payment from the beginning of a project. Most standard form agreements provide the contractor the ability to stop work upon non-payment. Remember the squeaky wheel usually gets oiled first.

Another tool, generally overlooked by contractors is the simple enforcement of standard contract provisions which allow a contractor to request the owner to verify that sufficient funding for the project exists. Many contractors are apt not to make such a request early in the project for fear of getting off on the wrong foot, but it's better to find out that the shoe is too small before starting the race. Institute new internal procedures that require checking contract fund availability from projects over a certain limit, and then the owner can be notified that this is your normal operating procedure and is not specific to them but only to satisfy internal procedures.

If payment is not forthcoming, there are legal protections available to contractors to place liens on the property. Pennsylvania allows for the filing of a mechanics lien. While the lien will not guarantee payment, it does place a lien on the property that must be satisfied before the property can be transferred. A mechanics' lien relates back to the first date of the visible commencement of work at the project site, which in some instances also prohibits permanent financing from going forward until the lien is satisfied.

Other payment protections include payment bonds. Payment bonds are not just limited to protecting the owner and can be requested by any entity. For example, contractors may require their subcontractors to obtain pay-

ment bonds to guarantee that when the subcontractor is paid they pay their creditors on the project and do not misdirect funds. The cost of these bonds will need to be weighed against the protections they provide.

The preceding suggestions of doing business are not intended to pull a fast-one but are to open communication between parties involved in the construction process allowing each entity to understand and share risk when appropriate leading the overall success of the construction process.

David Raves serves as Principal and Construction Practice Group Lead with the law firm of Maiello Brungo & Maiello LLP, which has offices in Pittsburgh East, Wexford and South Side. Mr. Raves is also a registered architect in the Commonwealth of Pennsylvania. Your questions are welcome at dr@mbm-law.net or call 412.242.4400. For Mr. Rave's complete bio and additional information, check www.mbm-law.net. BG

Financial Perspective

Commercial Real Estate Will Start Facing the Music Next Year

For the portion of the forecasting media that specializes in doom and gloom, the commercial real estate market default 'tsunami' has been the predicted 'other shoe' waiting to drop on the U. S. economy, derailing the nascent recovery and throwing the world into financial meltdown part two. With the approach of 2010, it's a good time to look at what is likely to unfold.

Commercial properties, those that are built for the purpose of renting to others, aren't as monolithic as residential property, and because the tenants are so broadly mixed, the performance of the properties varies from one category to another. Since the end-user of commercial property can be an apartment dweller, an office renter, a retail company or a small manufacturer, the total impact of a cyclical recession lags the start of the recession, and the decline that follows extends well past the point of recovery.

While all categories of real estate will ultimately suffer during this recession, there is a big difference in how the decline plays out for residential and commercial properties.

For single-family homes, the home's value is determined when it sells. So long as the homeowner is happy with his or her house, and can continue to meet the mortgage payment, the relative value of the property is almost irrelevant, especially over the long haul. The value of the property relates more to the supply/demand dynamics at the time of sale. Commercial property is all about cash flow. Property values for commercial buildings follow cash flow directly; so recessionary pressures can cause higher vacancies without causing default, but the lower cash flow devalues the property. In a deep or protracted recession, and this one qualifies, the rents for occupying tenants also decline with demand, further reducing cash flow and property values.

Unlike residential property, commercial property values are very relevant to the overall real estate market because property owners leverage their existing portfolios to develop more property or to extract cash for operations or profit. And where new construction is involved, the completion of the project initiates the conversion of a construction loan into permanent debt. This leads to a sort of perpetual refinancing market for commercial property, which means current values are critical to the ability to borrow.

"Our approach is to get bank loans to acquire and improve the building, then get a mortgage after we have added value to the property through renovation or improved leasing performance," explains John Markey, founder of the Huntley Group and a partner in McKnight Realty Partners. The firm owns downtown landmarks like the Heinz 57 Center, the Grant Building and the Brooks Brother Building at Sixth and Smithfield, among others. Their business model has historically rewarded them with a profit on the appreciation at the time of the mortgage, as well as the long term profit of the building's rents.

McKnight's model isn't unique, and the current state of commercial real estate has made it difficult for value-adding developers to function, since the declining perception of value is leading to appraisal and loan-to-value issues that eliminate the profits that a developer like McKnight would earn for fixing up a property. That removes incentive for the risk, which is keeping investment capital on the sidelines. And the result of fewer investors and fewer deals is a further declining perception of property values.

For many observers there is a fear of a looming commercial property downward spiral that will domino into a second credit freeze, and derail whatever sort of recovery that may have begun. Most experts, however, believe that such an eventuality is not likely, even though they expect 2010 to be painful for the commercial market.

"I don't think it's going to be anything close to the roiling of markets globally that we experienced last fall," says Robert Bach, senior vice president, client services research for Grubb & Ellis in Chicago. "The problem and pain is more concentrated in smaller regional banks, and the FDIC has a time tested process for dealing with that."

Bach makes the point that many more banks will experience the headaches, rather than just a handful of 'too big to fail' institutions. His confidence is in the systematic way the federal regulators manage struggling banks, but he doesn't minimize the downside. "The FDIC does reviews of troubled banks all the time. They go in every weekend and shut down a bank that is under water. It's painful, but it's predictable."

It is the latter that is the reason that the commercial mortgage problems won't cause the panic that was experienced in late 2008. There will be a lot of problems but the disposition will proceed along lines that are expected.

ter of 2013, those numbers should fall to 4.6 percent and 4 percent, respectively. Normal default rates are around 2.5 percent.

"There's a lag between what's going on in the broader economy and what's happening with property cash flows," said Sam Chandan, the president and chief economist of Econometrics "Up until about last September, the real driver of defaults in the market were refinancing issues," Mr. Chandan said. "Since then, there's been a more significant deterioration in the underlying fundamentals of the properties. That diverges from the expectations that were embedded in the underwriting when the loans were made."

The problems will fall into one of several categories: the expiration of short-term interest only refinancing deals done in the middle of the decade during the real estate boom; the completion of construction on projects started in 2008 and 2009, requiring the conversion to permanent long-term financing; and the poor performing loans that have been effected drastically by deteriorating business conditions. In most of these cases the reasons that the deals will be problems will be the lack of interested buyers/financiers and the steep decline in the value of the properties on which the debt exists.

Recent estimates are that commercial property values as a whole have declined more than 40% in 2009. Most analysts expect that this represents most of the decline, but most also expect the decline to continue well into 2010.

For developers who are completing the construction on a property, that means financing 100% of the cost of a property that may be worth 60% of that now, or less. Property owners who refinanced in 2005 and did short-term interest only deals now face expiring mortgages that are leveraged to property values well above current levels. Developers with a long horizon and cash in reserve may opt to contribute the equity shortfall, but many will simply choose to let the property default.

In the fourth quarter of this year, Real Estate Econometrics forecasts that 4.1 percent of commercial mortgages and 4.5 percent of multifamily mortgages will default. Defaults should peak sometime in 2010 or 2011, with 5.2 percent of commercial mortgages and 5.5 percent of multifamily defaulting in the fourth quarter of 2010; and 5.3 percent of commercial mortgages and 5.1 percent of multifamily defaulting in the fourth quarter of 2011. In the fourth quarter of 2013, those numbers should fall to 4.6 percent and 4 percent, respectively.

Chandan highlights another of the commercial real estate headaches: property appraisals. There seems to be little evidence that many of the mortgages were based on appraisal assumptions of never-ending appreciation, as the residential appraisals were; nevertheless, existing appraisals that are older than twelve months will likely be suspect, and will probably be unusable. Regardless of whether the financing is for construction loan conversion or refinancing, new commercial loans will be appraised as though they are being underwritten originally, especially since almost all of the lending will be through traditional conduits. Almost no one sees a return of securitization in the offing.

Jeffrey Ackerman, executive vice-president of investment properties for CB Richard Ellis in Pittsburgh, expects this to be the new normal for the next few years. "It's something we're going to have to live with. With loans that have low maturities and no CMBS market, most of the loans will originate with banks or insurance companies," he says. "There is almost no long-term financing market, which is clogging development everywhere."

The most likely scenario as troubled commercial properties arrive for financing is that developers with dry powder – cash – will begin to pick off bargains. Thus far banks have been able to push off confronting the issues ('pretend and extend' is what Bob Bach calls it) by keeping interest rates low, raking in higher spreads and improving their balance sheets, but time isn't on their side. Unlike after the 2001 recession, borrowers can't exploit lower interest rates to refinance over the underlying performance problems; current rates simply can't go lower. Defaulted properties will end up on the banks' books. Banks will be anxious to write down the problem properties and move on, a scenario which will create opportunities for those with cash.

Thus far in this recession there has been little pressure from buyers to stimulate sales. "This cycle closely resembles the recession of the early 1990's – there were no anxious buyers then," explains Bob Bach. "Now there seem to be buyers lining up at the starting line, waiting for the signal to begin. I think buying confidence is returning now that there is a perception that there is upside to real estate. There isn't any data to support it, but I feel the hot property wil be the purchase of debt rather than equity."

If there is an upside to the current status it's that the structured debt market has been broken for most of the past two years. That means the problem is limited somewhat to newer projects and five-year maturity deals done in 2005 through 2007, and that the system should be purged for the most part by 2012. Between now and then, the opportunity also exists for alternative financing solutions to arise. In the meantime, commercial real estate will have a Darwinian feel to it, with winners for the losers in a distressed property. Like in past cycles, some of the losers will be done in, but the winners will own properties at the reset values, properties that will be profitable for the new owners, and which will generate profitable interest for the new lenders.

Commercial financing is a global market. Working through these problem properties will take some time and the workout will keep the capital supply low until some sense of bottom emerges. These issues will impact the available financing for all markets, but not all markets will experience the same level of distressed properties. In Western PA the reality is less gloomy than in most markets.

"We're doing better than most regions," observes Ackerman. "Commercial property here has weathered things better and values haven't declined as they have in other markets."

John Markey would agree. "Pittsburgh, and other Midwestern markets like Cincinnati or Indianapolis, never fly too high during good times or fall too low during bad. Having said that, I don't think we're out of the woods yet in terms of leasing space or retaining tenants," he says. "But for most properties here the cash flow is good, so I don't believe we'll experience a decline in perceived value." BG

The World of Tomorrow is Built on Trust

by Sean E Sheffler, AIA

Here's a true story: On a recent project, the contractor called me with a question. It was ostensibly a simple matter – should the standpipes be painted, and if so, what color? – but one that had the potential to become a minor issue, especially if it became a punch list item later on. The contract documents, of course, weren't clear, giving the contractor an opportunity to vent some frustration over the seemingly boilerplate paint specifications (turns out that the specs gave chapter and verse on HOW metals should be painted, but nothing told him specifically WHAT metals should be painted). He and I worked through the issue and came to a mutual decision about what to do next. And then I asked a very simple question: "What can I do on the next project to avoid that issue from happening again?" There was a deafening silence from the other end.

The question was an honest one – I respect this contractor and value his experience, and was sincerely interested in his input into how I can make sure the architect's documents are actually providing the information that the contractor needs – but that momentary silence spoke volumes to me. It meant that he wasn't used to being asked such a question. And why should he? Our respective professions don't often work that way.

We've all heard about what's next for our industry, our world of tomorrow: Integrated Project Delivery (IPD), a virtual utopia where architects and contractors, owners and consultants will work together, from planning through ribbon cutting, harnessing the power of BIM to produce error-free and efficient construction projects. While the construction industry is certainly not waning (the United States Census Bureau reported the value of new construction in the 2007 fiscal year at nearly 1.2 trillion dollars), it has not seen the same increase in productivity as virtually every other major industry. Poor relationships between the major parties are often cited as the main reason. In other words, we hold ourselves back from reaching our true potential.

Our current model is often referred to as one of silos: our respective disciplines sit in our respective offices and do our respective work in our own respective timeframes, often without any perception of the other interrelated parts of the process. The architect produces the documents, usually without input from the constructor. The contractor bids the drawings and then builds the building, often without appreciation of the architect's intent. It doesn't take very long for the flaws in the process to reveal themselves, often unspooling in reverse… requests for information start pouring in regarding poorly thought-out details… that came about because of last-minute changes to the documents… made necessary by an eleventh-hour scope change by the owner… on top of an already-compressed documentation schedule and too low of a negotiated fee. The architect and contractor end up guarding their own respective interests, giving up on being proactive (envisioning creative solutions to problems) because too much time is being spent being reactive (documenting the process, establishing a timeline, make sure you can blame the proper party when the time comes). Our silos become bunkers, situated on opposite ends of the warzone formerly known as the owner's project.

I'm about to enter my tenth year of practice, and my fourth as a registered professional. Like many of my peers, one of my favorite parts of my job is working together with the contractor to solve a construction issue. It's that sort of interaction that gives a project a sense of a cooperative effort, where the silos begin to break down. But then the inevitable change order slaps a price tag on that conversation. Collaboration ends, and we're plunged right back into the same old adversarial relationship.

I still have a long career ahead of me, but I've been doing this long enough to know that these same sorts of situations occur on virtually every project. I chose this profession because I wanted to create beautiful, functional projects, not spend the rest of my career fighting over them. What can be particularly disheartening is the idea that past experience has created professional labels that prejudice our viewpoints before we've even come to the table. The relationship between the three principal parties – owner, architect and contractor – is inherently adversarial, so it would seem our job is to develop habits that overcome that inherent weakness to foster more collaboration. Yet the weakness seems to have overcome the process so that each prejudice (architects overdesign, contractors are always out for change orders) sets the tone for the project meetings that follow. Hardly the basis for collaboration.

My experience is limited but I believe it has taught me that simply calling a project an "IPD job" won't dissolve those biases. The technology part of the equation is moving rapidly toward integrated project delivery as a normal method, but the human side isn't. So, how important is change on that side of the equation?

THE KEY, OF COURSE, IS TRUST.

Advocating that we all learn to trust each other always seems to come across as idealistic, or worse, unrealistic. The truth is that the case for trust is founded on practical and profitable motives. In no industry is time equated with money any more than construction. For design professionals it is literally our billable currency. For contractors, it is the judgment of time that can spell the difference between more or less profits in the field. And for developers, time is the obstacle between when they are spending money and when they can begin collecting it. For all the technology we may employ, the biggest weapon we all have for speeding up the process is trust.

This is the point Stephen M. R. Covey makes in his best-seller, *The Speed of Trust*. His thesis is that trust is a hard, measurable asset, one that increases the speed of business because it optimizes the decision making process. Think about your most recent project-related meeting. Imagine how the conversation would have been if the basis for all the negotiations was trust rather than self-interest. How much faster would the meeting have gone? How many future issues would get resolved without formal meetings? How much more likely would your client be to hiring you again without 'testing the market'? Covey's point is that trust is the foundation for these more favorable results, not soft, nurturing trust, but rather a strong, reliable basis for solving business's problems. Isn't that what collaboration ultimately achieves?

The groundwork is there; it's just up to us to capitalize on it. Take, for example, the AIA/MBA Joint Committee, a group of like-minded individuals from both sides of the table. One of the committee's primary goals has been updating the "Yellow Book" of Recommended Construction Practices, a "best practice" guide based on the collective experiences of the group. As we move to a more integrated form of project delivery, it's a book that should be on everyone's shelves.

Ideally, the collaborative process should be easy to achieve; we may come from different backgrounds, but we're all working together toward the same goal, and that gives us something in common. Or in the words of one of our greatest idealists, together we have created wondrous things, "revealing through them to our perturbed world that the things we have in common far outnumber and outweigh those that divide us." That man was Walt Disney, someone who truly did create a World of Tomorrow. Our industry has the opportunity to do the same. In setting aside our differences, we will build many things together, the greatest of which will be a collaborative relationship.

Sean Sheffler is a project architect for Astorino, an architectural, engineering and construction management firm headquartered in Downtown Pittsburgh. BG

'Green' Roofs Aren't Always Green

Recently the decision was made by Allegheny County to retrofit half of the County Office Building roof with a green roof. The investment is meant to be a leadership example by the county, demonstrating its commitment to energy efficiency and environmental stewardship. The project is the first such roof on any public building in Allegheny County, but it's one of a growing number of green, planted roofs in the county. It's also only one of several alternatives that could have been selected to make the building's roof more sustainable.

What the county is looking for when it asks for a green roof is, of course, a sod or planted roof. However, in much the same way that 'green building' is an omnibus title given to describe the broad variety of sustainable, energy efficient or environmentally conscious building designs, 'green roof' could be used to describe any of the sustainable solutions to the roof design.

Roofing plays a fairly limited role in the building's overall function. It keeps the building dry. Because it is located at the top of the structure a roof can be used to add to the thermal performance of the building, and maybe improve the soundproofing of a facility, but for the most part a roof exists to keep the elements out.

On the other hand, the roof system can do a lot to add negatively to the undesirable effects of a building. Because roofing is designed to keep out water, the roof adds to the stormwater runoff problem, creating the need for draining stormwater into an already stressed sewer system. Thermodynamics also doom roofs to heat loss, requiring insulation to prevent heated air from escaping through convection. Most roofs are dark in color, absorbing solar radiation and heat (which detracts from the building's cooling efficiency), and increasing the building's heat island effect. And roofing has historically been made of materials that are not particularly friendly to human health (or in the case of coal tar, downright carcinogenic), and when heated, emit volatile compounds toxic to the environment.

Those are a lot of problems to mitigate or eliminate with one roofing solution, and therein lays the dilemma. Choosing the 'greenest' roof may mean choosing a system that's not green at all. To get to the right solution requires sorting through the laundry list of goals desired for the building (and roof in particular) to establish a hierarchy of needs that the roofing will have to serve.

What has been commonly referred to as a green roof is a multi-component sod and planted system that creates a living, growing ecosystem on the roof of the building between Mother Nature and the interior. The roofing system consists of four basic components: a waterproofing layer, drainage, the soil (or growing medium) and the vegetation itself. Used elsewhere for thousands of years, planted roofs are meant to offer thicker insulation for the building to maintain a more constant temperature. The plants themselves require irrigation, which allows for the benefit of reducing stormwater runoff by creating a pervious system where an impervious one normally exists.

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The Green Building Alliance identifies two types of green roofs in its white paper on the subject: extensive and intensive roofs.

The extensive green roof is the less expensive ($15 to $35 per square foot) and lighter (10 to 50 pounds per square foot) of the two. The growing medium is shallower, usually two to six inches deep, and thus the vegetation selected is low-growing groundcover that can thrive without much water in dry seasons.

Often these roofs don't involve an irrigation system. Maintenance costs are low, usually between $1.25 and $2 per square foot initially, with a significant reduction after the plants become established in a few years.

Intensive green roofs are much heavier (80 to 120 pounds per square foot) and cost from $30 to $250 per square foot depending on the intensity of the design. Vegetation selected will include shrubs and shallow trees, along with grasses and groundcover, so the growing layer will be between eight inches and a foot thick. Irrigation is necessary and requires thoughtful planning. Maintenance will be ongoing, although the cost should be similar to the initial years of an extensive roof.

When architect Kevin Gannon was designing WYEP's new facility in South Side he knew the client's intention was to include a green roof for its LEED Silver building. Gannon, a partner at Forty Eighty Architecture, discovered that a green roof might need to go in a different direction, including becoming white.

"We did an analysis of what a green roof would mean to WYEP," he remembers. "The building has a relatively small footprint [less than 10,000 square feet], and was the home of a non-profit so every cost presented a challenge to the client. We found that the planted roof created a need for deeper and larger foundations, and would cost between double and triple a regular roofing system. When we considered the limited thermal performance benefit for heating we began to look at picking a roof that met some of the owner's other requirements."

Gannon looked at his client's need for energy efficiency, low maintenance, and tight budget, and sought to find a roof that would be sustainable in other ways. Ultimately Forty Eighty chose a reflective white thermoplastic polyolefin (TPO) membrane, which had similar benefits to the green roof for limiting the building's heat island effect, and when combined with beefed up insulation saved significantly more energy.

Another project recently completed with a green roof is the Gates/Hillman complex at Carnegie Mellon University. There the solution was for both a green and a white roof. The complex is designed with two separate linked buildings with a handful of smaller roofs in addition to the main buildings roofs. The larger roofs feature a two-ply Siplast reflective roof, while a modified version of the planted roof is used on five smaller roofs.

"The green roof is actually a tray system, which is easier to install," explains Ralph Shipe, project executive for contractor PJ Dick Inc. "It's pretty much a standard roof with planted trays set on top, whereas the planted roof involves laying a topsoil layer and installing more like a landscaping job. The larger roofs have a base ply and a separate wearing ply with reflective granules embedded in it. It's a heftier roof and with the insulation gets it to an R-30."

The roofing contractor for the Gates/Hillman project was Cuddy Roofing. Cuddy's COO, Carl Humes, is proud of the work done at the CMU building, but explains that the best roofing solution isn't always going to be the most obvious one.

"When we approach a project our questions are about the client's project goals. Is it to attain a specific LEED rating or is there a genuine interest in sustainable construction," Humes explains. "Reflectivity accomplishes a number of things towards achieving a cool roof, reducing the building's heat island effect, but depending on where the building is geographically and the size of the building footprint a black roof may be a better solution."

The Gates/Hillman roofs were relatively small, and in an urban setting. Humes tells of another client, a manufacturer in the Midwest, which had the opposite dynamics. The building's roof was one million square feet, and the site was in an area that experienced 5,400 heating days per year compared to 800 cooling days. Heating/cooling days are measured by the number of degrees above or below the 30-year historical seasonal mean, as recorded by NOAA. For example, a January day that is 20 degrees below the mean would rack up 20 heating days.

"Carlisle Roofing has a cost comparison model, called Roof$ense, which compares the life cycle expense associated with both a black and white membrane," says Humes. "For this building, over 20 years, a black roof would cost almost $400,000 more to cool the building, but would save over $800,000 to heat. We tend not to think of a black EPDM as 'green' but for this client the black roof saved them $420,000 and reduced its carbon emissions by almost 4,700 tons."

Carl Humes points out that the roof offers potential for sustainability well beyond the energy efficiency. "A vegetative roof will retain between 60% and 85% of the rainwater, which greatly reduces the need for stormwater measures on the ground. Its life cycle is about twice what a traditional roof system is; so vegetative roofs contribute significantly to waste diversion measures. A green roof reduces gradient thermal cycles, improves the air quality and most owners think it is an improvement aesthetically over a traditional roof."

Cuddy Roofing is one of the firms proposing on the county's green roof. Humes is excited about the opportunity for his firm, but is also pleased that the county's request includes intensive monitoring after the installation. "The county's project will allow for quantification of the benefits of a green roof, and that should make the decision easier for other owners to come." BG


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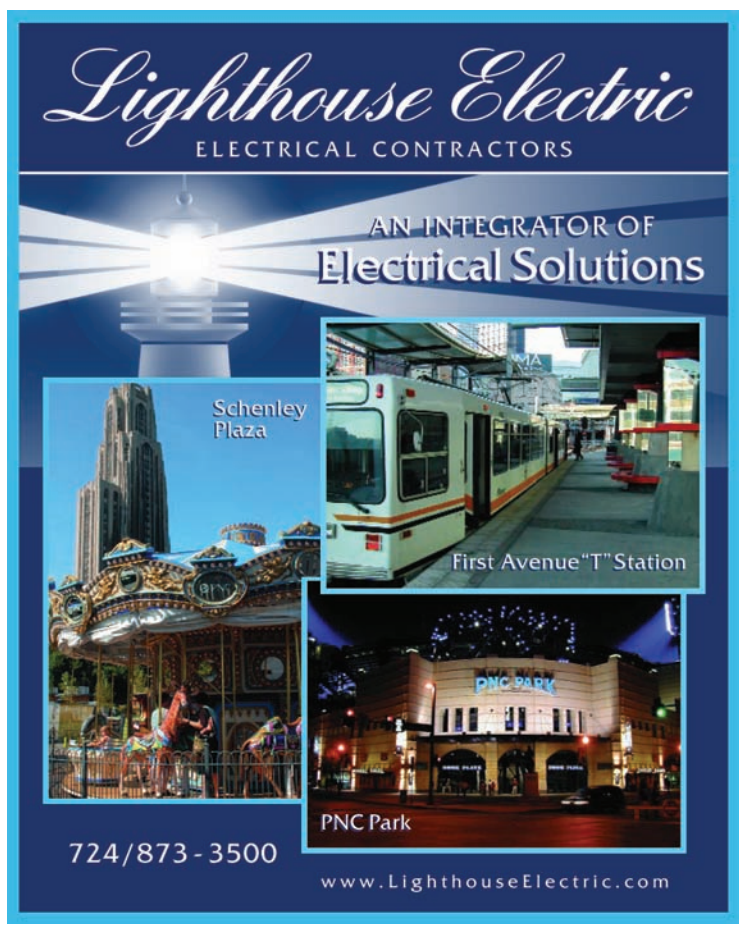
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Awards & Contracts

Jendoco Construction Corporation was selected to renovate existing office space for Compunetix at their Monroeville facility. Design 3 Architecture did the design.

Mountour Heights Country Club awarded a design/build contract to Jendoco Construction for construction of a new $500,000 locker room and storage building for its tennis and swimming facilities.

John Deklewa & Sons was awarded a contract for $1 million renovation to the Verizon Wireless Call Center in Youngstown, OH. Nelson of Atlanta, GA is the architect.

Allegheny Construction Group was the successful contractor on the buildout for advertising agency Yellow Submarine at Bessemer Court. The $1,500,000 project involves construction in 16,687 square feet of office space. The project was designed by DJDC Design of Wexford.

Direct Energy selected F. J. Busse Co. for the tenant fit-out of two-and-a-half floors at Liberty Center downtown. Desmone Associates Architects designed the $1.5 million project.

F. J. Busse Co. was the successful contractor on the Community College of Allegheny County's South Campus Bookstore renovation in West Mifflin. Source Architechnology Systems Inc. is the architect.

Uhl Construction was the successful general construction bidder on the new $6.6 million Intermodal Transportation Facility for the Butler Transit in the Pullman Park. Camp Dresser McKee designed the building.

Landau Building Company was recently awarded a contract from the University of Pittsburgh Medical Center to build a new SPECT/CT room at Presbyterian University Hospital in Oakland.

Waynesburg University selected Landau Building Company to construct improvements to the Church Street pedestrian link. The landscape architect for this project is Pennoni Associates.

Landau was the successful contractor for the new offices Reproductive Health Services in Penn Hills. The $3 million project involves renovations to an existing restaurant building. L. Robert Kimball & Associates is the architect.

Rendering of the Butler Transit Authority (BTA) Transportation Center by CDM. Use courtesy of BTA.

Landau Building Company was awarded a contract from Huntington National Bank to build a new 3,500 square foot branch at Village at Pine in Wexford, Pine Township. Milan Liptak is the architect.

dck worldwide was awarded a contract with CT Studios, LLC for pre-construction services and general construction of a new motion picture studio campus to be located on 30 acres of land in South Windsor, Connecticut.

The contract currently includes the overall site development and construction of a movie studio, which consists of four sound stages/office space totaling 248,000 sf and a 100,000 sf mill/storage facility. dck will provide pre-construction services such as estimating, value engineering, constructability reviews, scheduling, bid package phasing, and more.

dck worldwide, doing business as BRDC in a joint venture with Burns and Roe, has recently been awarded 20 new projects under our Large MACC, Mini MACC, and JOC contracts currently in place with NAVFAC Southeast. The total of all new contracts is approximately $14.6 million.

The largest project won during this recent round of awards is the $10.8 million design-build project at the Guantanamo Bay Naval Hospital. The work to be performed provides for design and construction of repairs to flood-damaged portions of the facility interior and additional construction and renovation in other portions of the facility. Work will be performed in Guantanamo Bay, Cuba, and is expected to be completed by September 2012.

Saint Vincent College has chosen Massaro Corporation to provide preconstruction and general construction services for the addition and renovation to the Basilica Crypt. This 7,500 square foot project includes an updated HVAC System, demolition and reconstruction to the storage space, and extensive restoration to the stone altars, brick columns, stone walls and stain glass windows. Saint Vincent College is pursuing LEED Certification on this project. FortyEighty Architecture is the architect on the project.

MEDRAD has selected Massaro Corporation to serve as the General Contractor on their 1,500 square foot 910 lab renovation. The scope of work will include demolition, drywall, paint and flooring. WTW is the architect on the project.

Riverview Towers has selected Massaro Corporation who is partnering with Sterling Contracting to work as Joint Venture for their upcoming construction project. The scope of work includes expansion and renovation to their existing cafeteria, a multi-purpose room addition, a lobby area renovation, as well as the replacement of their fan coil units in the residence suites. Rothschild Doyno Collaborative is the architect on this project.

411 7th Avenue Associates has selected Massaro Corporation as the prime general contractor for a 48,000 square foot interior renovation project which will be leased by the state. The first, third, and fourth floors will be renovated and updated. Lami Grubb is the architect on the project. This project is slated to be completed the first quarter of 2010.

The Catholic Diocese of Pittsburgh has chosen Massaro Corporation to serve as the construction manager on a 2,500 square foot renovation project. Massaro is updating a living space and adding office space. The project has a three month schedule. Glance + Associates is the architect on the project.

Massaro Corporation has been chosen to serve as the Construction Manager for the 16,000 square foot renovation project at La Roche College. The Wright Library will undergo significant MEP system upgrades and architectural improvements. The Design Alliance is the designer for this project.

The University of Pittsburgh awarded Massaro Corporation for the Eberly Hall Sowell lab renovations project to serve as the general contractor. This 1,200 square foot space, which includes 3 labs, will be complete for the start of spring semester in 2010. Renaissance 3 Architect is the architect on the project.

Massaro Corp. and Massaro Properties were selected to develop and construct a new sterilization facility for Beam One in the Victory Road Industrial Park in Clinton Township outside Saxonburg. The project involves a 25,000 square foot new building.

JC Penney Department store selected Poerio Incorporated for the renovations of the JC Penney store in Monroeville PA, a $311,000 renovation. Howard Nudell is the Architect on the renovation that is to be completed in the fall of 2009.

Poerio Incorporated was awarded a contract from PNC Financial Services for the construction of the PNC Branch in the Mountianlair- Student Union on the campus of West Virginia University. The tenant fit-out included all interiors for this new branch. This 1,500 square foot renovation is being built under the LEED guidelines.

Grove City College selected PJ Dick Inc. for pre-construction services and construction management for its new $75 million Hopeman Science Center, to be built in two phases beginning in 2010. The project is being designed in BIM by Ballinger.

PJ Dick, as part of a Joint Venture with Graziano Construction, is providing preconstruction services to Wheeling Hospital for a new, seven-story expansion in Wheeling, West Virginia. The approximately 150,000 square foot hospital addition, designed by Burt Hill, is scheduled to begin construction in December 2009 and complete in late Fall 2011.

PJ Dick's Small Projects Group was awarded the general construction services contract for Larrimor's New Retail Store at One PNC Plaza for $695,100. Larrimor's will replace the space currently occupied by the One PNC Plaza Bank Branch in downtown Pittsburgh. The two-story, 13,000 square foot retail space, designed by Cenkner Engineering Associates and RMRP Design, Inc. is scheduled for construction from November 2009 to February 2010.

The Western Pennsylvania Minority Supplier Diversity Council awarded PJ Dick with the honorable John H. Adams Corporation of the Year award. This honor is given to the company that showcases commitment to the Council's mission, which is to register and certify minority-owned businesses (MBEs), and to foster business relationships with local corporations to benefit the economic development of the minority business community. PJ Dick is a long-time corporate sponsor of the Western Pennsylvania Minority Supplier Diversity Council.

JJ Operating Co. awarded A. Martini & Co. a $1.5 million contract for tenant improvements for the Department of Public Welfare. Integrity Design is the architect for the project, which involves 35,000 square feet at the Warner Center downtown.

Rycon Special Projects Group was awarded contracts for these projects: UPMC Presbyterian Shadyside Level 1 Retail Space Renovation, UPMC Western Psychiatric Institute & Clinic Dr. Conklin Suite Renovation, 3 PNC Plaza Condo Renovation.

Rycon Construction was the successful contractor on the West Virginia Air National Guard Multi-purpose Building at Camp Dawson, near Kingwood WV. The $8.5 million project was designed by Assemblage Architects of Madison WI.

TEDCO Construction was the successful contractor on the new recreation and wellness center for University of Pittsburgh, Johnstown campus. The project is a 38,000 square foot, $7.2 million new facility, designed by WTW Architects.

Construction is nearing completion on the Humanities Learning Center for the University of Pittsburgh. TEDCO Construction is the contractor for the 3,000 square foot renovation to a portion of the sixth floor in the Cathedral of Learning. Pfaffmann + Associates is the architect. BG

The new wellness center at the University of Pittsburgh at Johnstown (Rendering by WTW Architects).

FACES & NEW PLACES

Jendoco Construction Corporation is pleased to announce the addition of Doug Pfohl to their staff as part of the Project Management Team. Doug is a University of Pittsburgh Graduate with a Bachelor's of Science and Engineering in Civil Engineering.

Mike Sanders joined the Massaro Restoration Services, LLC team as a Project Manager. He will be responsible for running crews, scheduling subs and quality control. Mike has been in the insurance restoration industry for over ten years.

The Master Interior Contractors Association (MICA) announced its new slate of officers. The new president is Fred Episcopo of Wyatt, Inc. Episcopo replaces Thomas Milletary of Easley & Rivers, who served as President of MICA since 1996. The other officers are: vice-president, Michael Nehnevajsa of Easley & Rivers, Inc; treasurer, David Balmert of J.J. Morris & Sons, Inc; and secretary, Richard Ostrom of RAM Acoustical Corp. MICA is a professional trade organization representing qualified commercial interior contractors performing work in the Greater Pittsburgh region.

Trumbull and PJ Dick will be moving into their new headquarters in December 2009. The Companies will lease the fifth and sixth floors of the Equitable Building at 225 North Shore Drive in Pittsburgh. Equitable Resources, or EQT, recently vacated these floors and relocated back across the river, and the Companies were able to negotiate a very favorable, long-term lease.

Carbis Walker LLP, Certified Public Accountants & Consultants, has announced the following promotions: Supervisor level – Tim Adams, CPA, a member of the firm's Construction & Real Estate Services Team; Darrell Carley and Rachel Gordon, both members of the Manufacturing & Distribution Services Team; and Jessica Kline, a member of the Health Care Services Team. Promoted to the Senior Associate level is Christina Marinoff, a member of the Firm's Tax Services Team. In addition, Kelly Domenick, CPA and Kelly Nord, CPA have both been promoted to the Senior Manager level.

Brian May, P.E. joined Gateway Engineers as Project Manager. May, previously with a Montana-based engineering firm, is a graduate of Penn State University and possesses over 10 years of structural engineering experience executing projects from analysis through construction.

Emily Gaspich, P.E., LEED AP recently joined Gateway Engineers as Project Manager. Gaspich brings over a decade of engineering and consulting experience to the company.

Gateway Engineers CEO Mike Zavoina was selected as a 2009 Pacesetter on behalf of *Smart Business* and the St. Barnabas CEO Leadership Conference. Mike was presented with the Pacesetters Award in late September during the annual conference and his accomplishments are featured in the 2009 October edition of *Smart Business Pittsburgh*. The Pacesetter award recognizes outstanding and innovative leaders who have had a significant impact to their business and region.

Gateway Engineers Kim Kyriakis was one of the finalists selected to receive the first annual *Pittsburgh Business Times* 2009 Human Resources Leadership Award.

Marc Pugliese recently joined The Duggan Rhodes Group as a Project Consultant. Prior to this position, Mr. Pugliese was a Project Engineer with Dick Corporation. Mr. Pugliese holds a Bachelor of Science Degree in Industrial Engineering from Pennsylvania State University.

This month, Green Building Alliance expanded its staff, filling some recent openings and increasing its capacity in key areas. New employees being welcomed by the organization are: Michael Embrescia, Manager of Green Building Education, Membership & Funding Development; Melissa Ott, Graphic Design & Web Communications Assistant (part-time); Sarah Moore, Research & Resource Assistant (part-time); Rob Zahorchak, Green Building Products & Policy Specialist.

Elmhurst Group CEO Bill Hunt was elected as an officer of NAIOP's national organization for 2010. Hunt will serve as Vice Chair of Government Affairs for the commercial real estate development association. BG

The Industry in the Community

AIA/MBA Names First James Kling Recipient

The AIA-MBA Joint Committee announced that Ted Frantz is the inaugural recipient of the James Kling Fellowship Award. Mr. Frantz, founder of TEDCO Construction, was a past Co-Chairman of the Joint Committee, serving alongside Mr. Kling.

The James Kling Fellowship Award was established by the AIA-MBA Joint Committee to recognize those individuals who best exemplify collaboration between the design and constructor professions. These individuals, through their action and example, provide both members of the AIA and the MBA standards of excellence to strive for in an effort to bridge the gap between both professions.

Mr. Kling, principal with DRS Architects, served on the Joint Committee as a representative of the architectural community for over three decades. He passed away in November of 2008. The plaque to commemorate this award features a picture of Three Rivers Stadium, one of many projects designed over the highly regarded career of Mr. Kling.

Chartered in 1965, the AIA-MBA Joint Committee consists of ten architects and ten contractors representing the AIA Pittsburgh Chapter and the Master Builders' Association of Western PA, respectively. The committee provides a unique forum that promotes the exchange of ideas between architects and contractors.

For more information on the AIA-MBA Joint Committee, please call 412-922-3912 or visit www.mbawpa.org.

Ted Frantz accepting the James Kling Fellowship Award from AIA-MBA Joint Committee Co-Chairman Charles Parker of Burt Hill.

Master Builders' Dedicate New Headquarters

On September 17 the new headquarters office for the Master Builders' Association of Western PA was formally dedicated, and more than 150 attended an open house and tour of the new facility. The dedication included comments by MBA executive director Jack Ramage, board president Cliff Rowe, and building committee chair Joe Burchick, along with Ken Doyno, the partner in charge for architect Rothschild Doyno Collaborative (RDC).

The building is a 10,000 square foot office and education center. The construction was done by longtime MBA member firm F. J. Busse Co., and involved a complete rebuilding of the former Iron City Sash & Door facility. The MBA selected RDC for its sustainable design, and the renovations were done with the goal of LEED gold certification.

(left-to-right) Cutting the ribbon at the MBA's office dedication on Sept. 17 are Elisa Brewer-Pratt from AGC of America, MBA board president Cliff Rowe of PJ Dick, chairman of the Carpenters Joint Apprenticeship Training Committee Howard Pfeiffer, executive director Jack Ramage and Joe Burchick.

Architect Ken Doyno, interior designer Mary Ann Mozelewski and MBA board member Dean Mosites (right) enjoy the open house.

Massaro Cleans Up at the Phipps Conservatory

Several employees of Massaro Corporation spent the day at The Phipps Conservatory and Botanical Emporium on September 18, 2009 in order to ensure it was polished and beautiful for the G20 Summit.

The employees spent the day cleaning, painting, and performing odd jobs. Pictured below is part of the Massaro team that helped out that day.

(left-to-right) George Knoll, Chris Fink, Bob Turcic, Mariela Viloria, Barb Haas, Lisa Clark, Della Miller, Jeremy Bowlby, Adam Dimenno, Brian Miller, Stevan Mranca. Not pictured: Laura Petrak, Josh Kerestesi, Dave Disque, Chuck Derito, Justin Lamb, Michael Katz, Christine Salton, Nancy Gorgas, Ryan Wallace, and Steven Peterman.

WTW Architects CEO Rich DeYoung (left) with Jennifer Wisbon of the Pittsburgh Builder's Exhange, and Jendoco's Andy Bajuszik and Chris Kondas at the Young Constructors/Young Architects Forum value engineering seminar.

Value engineering seminar panelist Ron Dellaria with Anastasia Herk, both from Astorino.

(left-to-right) Richard Piacentini, Gary Saulson and Sy Holzer at the Green Building Tour for the G-20 journalists on Sept 16.

Carpenters' Annual Design/Build Carpentry Competition

The Joint Apprenticeship Committee of Greater PA Council of Carpenters held its annual design/build contest at their Training Center on Neville Island. The contest teams an apprentice carpenter with a professional from a local contractor and architectural firm to design and build an entry in one day. This year's winning team was Kevin Vernocy of Local 142, Chris Kondas of Jendoco Construction and Emily Dritz from Peter Margittai Architects.

Chris Kondas of Jendoco Construction (left), Kevin Vernocy of Local Union 142 (at top) and Emily Dritz of Peter Margittai Architects (bottom).

Lead donors Henry Hillman and Bill Gates cut the ribbon at the Sept. 22 dedication of the Gates Hillman Center for Computer Studies at Carnegie Mellon University, built by PJ Dick Inc. CMU president Jared Cohon holds the ribbon at right.

Nello Construction president George Leasure presents Bishop David Zubik with the key to the new St. Joseph's Catholic Church sanctuary at the Oct. 18 dedication service in O'Hara Township. Architect Charles Brown and parish priest Fr. Thomas Miller are in the background.

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

It's Time for 21st Century Contracting Laws in Pennsylvania

By Jack Ramage

Recent events have made it clearer that the Pennsylvania Separations Act and its out-of-date requirements for multiple contracts are wreaking havoc on tax-payer funded construction across the Commonwealth. A recent initiative by the Pennsylvania Department of General Services (DGS) to improve and expand state prisons has also fallen prey to the inefficiency of this state law. Six projects that would otherwise be completed under a widely supported design-build delivery system are now on hold because of the archaic separate contracts law that Pennsylvania enacted back in 1913.

Under the Separations Act, the governmental entity in charge of a project is required to bid separately and award separately a minimum of four prime contract packages; general trades, electrical, plumbing, and HVAC. And, each prime contract has to be a direct relationship between the government agency (DGS in this case) and the prime contractor. The attractiveness of the design-build delivery system, on the other hand is that DGS can select a single contractor that is completely responsible for the design and construction of a project for a single price.

Because of the bidding quagmire now handcuffing DGS, and the wastefulness continually forced upon school districts by the Separations Act, the General Contractors Association of Pennsylvania (GCAP), which represents the member interests of the Master Builders Association of Western PA, the Keystone Contractors Association and the General Building Contractors Association, believes the time is now to repeal this statute. Until we do, more practical and efficient options such as design-build will not be available to the Department or school districts or anyone else engaged in public construction.

We applaud DGS for its ambitious campaign to construct three new correctional facilities and four new housing units to meet the needs of our Commonwealth. Public safety is a top priority for all of us, and we support their decision to use the design-build process to construct the kinds of facilities that will keep those sentenced to prison securely behind bars.

That said, we find it incredibly unfortunate that DGS has not been able to issue a single notice-to-proceed for any of these projects. In fact, some of them have yet to be bid, and the Department may be forced to re-bid those for which they already have a winning proposal.

All of these delays have been caused by a legal challenge filed by the Pennsylvania Associated Builders and Contractors (ABC) chapters and other non-union contractors. While the primary target of the challenge was the legality of state imposed project labor agreements–agreements that GCAP opposes in public construction – the pending litigation also contends that the design-build procurement method does not comply with the Pennsylvania Separations Act. Unfortunately, the challenge to the Separations Act has sent the State Attorney General's office and DGS scrambling to determine how a proven design-build delivery method can meet the parameters of a law that provides for no flexibility in its execution.

For example, the solution suggested for the $400 million SCI-Graterford in Montgomery County, which was already in the midst of a design/build contracting process, is to not only re-bid the job lump sum, but once the contractor is selected to require that the contractor re-bid as separate prime contracts some of the packages which were already bid on the project by subcontractors.

So, instead of being able to move forward on judicially-mandated improvements to the state correctional infrastructure, contractors, subcontractors, architects and engineers are spinning their wheels – wasting hundreds of thousands of dollars on bidding and re-bidding projects that are likely to be re-bid yet again. All because DGS must conform to the Separations Act, a statute so contrary to construction best practices that all but four states have eliminated such statutes from their books. And, separate prime contract bidding is non-existent in the private sector.

To its credit, DGS has identified and selected a project delivery method that is ideal for prison construction projects. Given the time constraints and budgetary considerations, design-build is clearly in the tax payers' best interest. This approach was moving successfully on a very aggressive schedule, with letters of intent issued for the first four projects, and very competitive bidding offering the taxpayers more than $10 million in savings. But, as November begins, no projects have proceeded. Roughly 200 workers, who would already be working on building the projects, sit idle; and, contracts that would have resulted in the employment of more than 3,000 Pennsylvanians are in limbo.

The Separations Act was put in place to safeguard major subcontractors from unfair payment practices of bad contractors. This concern has since been remedied by the Prompt Payment Act, legislation that GCAP supports and applauds. Whatever the benign intent of the Separations Act may have been it's clear that it exists now as an obstacle to the creativity of state and local agencies who want to streamline government contracting. Until the Act is permanently shelved or substantially amended, the investments made in public construction will be needlessly more wasteful.

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