The Office
and
Industrial
Market Update

A Look at the Surety Market
Trends in the Region’s Office/Industrial Sector
Are Commodities Prices Resting or Cooling Off?
Profiling the Urban Land Institute
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A HELPING HAND IN THE PLACES WE CALL HOME.
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My commuting companion is the radio. Listening to WYEP’s morning show recently I heard one of those songs that bring an immediate flashback. During a segment where a listener programs three selections, the song ‘New York City Serenade’ from Bruce Springsteen’s The Wild, The Innocent, and the E Street Shuffle came on. I could instantly sense in my mind the smells of my freshman dorm, the less than delectable food from the cafeteria at Grove City College, and the general sense of more gentle times.

Aside from indulging my overactive sense of nostalgia, the incident reminded me that my elders in 1975 probably felt the same way about their lives then. Those old enough to remember the mid-70’s well know that those were not such happy times either. High inflation was hitting the gas pumps and grocery stores, the stock market was in the tank, and a President of the U. S. had just destroyed all confidence in the government. I’m guessing my old man probably felt a little tug at the heart when he heard an Elvis Presley or Percy Faith song along about then.

There is a sense that the sky is falling as you read the papers this summer. Even an optimist (and I am one) is going to get a little uneasy looking at the near term outlook.

That is why researching this edition of BreakingGround was so fascinating. Aside from reconnecting with a lot of old friends in the development community, the discussions made me aware of how strong the local real estate business was, and really opened my eyes to some of the specifics of the renewed local economy that I had only thought about in general terms. You can’t listen to story after story about falling vacancy rates and rising rents without believing that the regional economy is creating lots of new jobs and demanding more and more space.

One of the advantages of interviewing a lot of real estate professionals is that you get a tip here and there from each one about this deal or that one that adds up to one heck of a backlog of potential. In all corners of the metropolitan area, the office and industrial segment is experiencing good health. And when you take into account the fact that office and industrial construction follows job creation, the worrying about the direction of the U. S. economy fades a bit.

My other déjà vu moment during the preparation came from a meeting with Joe Massaro. He shared with me a copy of the April 1991 edition of City Business, a defunct side publication of the Pittsburgh Business Times that reported on regional real estate. Joe lent me the magazine to read about his tough stretch in the late 1980’s, but I also noticed a regular section called the ‘Monthly Query’ that asked “When will the commercial real estate market rebound and why?”

It was eye-opening, first because so many of the respondents then are still active developers and brokers, but mainly because you could have been listening to a current conversation and known no difference. The residential market had been abused by the financial sector (back then the S & Ls), and the remedy was spilling into commercial construction. Credit was tight. Recovery would involve a necessary endurance of pain for a couple of years. The more things change...

Pittsburgh is much stronger than it was in 1991, even if the national economy is not. How much of this cycle’s pain we’ll endure here is still uncertain. What isn’t uncertain is that the conditions that affect the market now will give way to others before too long. And I guess that thirty years from now my daughters will get the same ‘good old days’ feeling when they hear Coldplay on the radio.

Since the last edition of BreakingGround hit the market, we’ve added another medium for getting information about the construction and real estate market to our arsenal. The blog buildingpittsburgh.com was launched in August, giving me an outlet for sharing news about what’s happening in the region’s construction market on a more regular, and timely basis. It’s an exciting opportunity for me to stay in touch with the market, and I hope, for the market to learn more about what’s going on. You can get to the blog from the Tall Timber Group website www.talltimbergroup.com, or directly at www.buildingpittsburgh.com. Please check it out and call me with any complaints!

Jeff Burd
More Business Magazines
Rank the Region at the Top

Business Facilities Magazine released its 2008 rankings of the best places to do business across a variety of metrics and Western PA held up well. Pittsburgh ranked #17 in best-educated workforce, and third as a Green City, behind Seattle, Chicago & Portland. It’s worth noting that the Green City ranking doesn’t necessarily compare apples to apples since the USGBC (and GBA) don’t count projects outside Pittsburgh’s city limits as within the metro area. The state of Pennsylvania ranked first in overall biotechnology strength, fourth in venture capital investment with $2.8 billion, and third in drugs/pharmaceutical and medical research/testing.

Forbes rated Pittsburgh 13th best city for young professionals. The magazine interviews the graduates of the nation’s top colleges to see where they are living ten years after graduation. By looking at where the class of 1998 from Harvard, Stanford, Princeton, Rice, Northwestern and Duke settled 10 years later, Forbes reasons that is where the top-notch jobs for young people exist. Pittsburgh ranked ahead of Atlanta, Dallas, Los Angeles, Philadelphia, Las Vegas, Seattle, Portland, and most importantly, Cleveland.

Hospital Construction
Plans Advance

While news of casinos and the Pittsburgh Arena dominate the headlines, the region’s hospital construction boom continues somewhat under the radar.

As in most things, the University of Pittsburgh Medical Center is playing the lead role in construction of new space, with the $570 million Children’s Hospital heading into the home stretch of construction in spring 2009. The $90 million East Pavilion expansion at Passavant Hospital is almost one year into construction. With less fanfare, however, UPMC is also moving ahead with plans for its $200 million-plus Monroeville facility, selecting the P.J. Dick/Barton Malon team as construction manager. Planning continues on the renovations to the Mercy Hospital, with as much as $90 million to be invested in 2009. And the Riedbord Research and Hillman Cancer Center expansions in Shadyside, expected to cost more than $200 million, are moving towards planned 2009 contracting.

Also continuing its program is the VA Pittsburgh Healthcare System, which is in the middle of a $300 million consolidation of its Highland Road hospital into the Oakland and Heinz (in Aspinwall) facilities. Having let the $40 million Heinz project in July, the Veteran Administration is currently contracting for its $70-$100 million VA CARES Building 29 Ambulatory Center in Oakland.

Work is also going ahead in a couple of outlying hospital systems in the metropolitan area. Washington Hospital is in the second year of construction on its $70 million expansion; and preliminary demolition and site work has begun on the roughly 220,000 square foot expansion of Butler Memorial Hospital. Foundation, concrete and steel packages were being finalized in August on the $95 million project, with contracting on the remaining packages expected to continue throughout the winter.

DGS Begins Job
Order Contracting

The Pennsylvania Department of General Services (DGS) announced a new method for awarding competitively bid contracts for certain public works projects. This new approach, Job Order Contracting (JOC), allows DGS to award a series of individual projects to the successful bidder. Similar to the federal government’s Task Order Contracting, it is an indefinite quantity contract based upon competitive sealed bids for each discipline within six designated regions across the state.

Bidders for each of four separate contracts (general, HVAC, plumbing and electrical) will submit a sealed proposal that includes a multiplier for overhead, profit, bonds, insurance, and for work performed beyond normal hours and in secure areas. The successful four firms will be given three-year contracts for work in the respective regions.

DGS will award a total of 24 Job Order Contracts throughout the state, four in each region. Jobs are jointly scoped by DGS and the selected contractor for the 14-county Southwest PA region, which virtually eliminates change orders and claims. Construction typically starts within weeks of a project being identified compared to months under traditional systems. Projects will develop as DGS and user agencies of the state government identify needed work. The first batch of JOC’s bid September 3rd.

JOC method will be used on single prime projects valued at $100,000 to $300,000. The provisions of the Separations Act will limit the use of JOC on multiple prime projects, and DGS will not use that method on construction over $300,000.
Pittsburgh Contractors on BDC Top 25 Construction Managers List

Building Design + Construction magazine recently ranked the top 25 construction managers as part of its Giants 300 listings, and Pittsburgh-based dck Worldwide rated number 19 on the list. The former Dick Corporation had $204 million in construction management volume put in place in 2007. The parent company of Pittsburgh’s Walbridge East was also on the list, ranked 24th.

Giants 300 Construction Managers

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Dollars</th>
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<tbody>
<tr>
<td>1</td>
<td>Tishman Construction</td>
<td>3,555.4</td>
</tr>
<tr>
<td>2</td>
<td>Jacobs Engineering Group</td>
<td>3,516.2</td>
</tr>
<tr>
<td>3</td>
<td>Hill International</td>
<td>3,500.0</td>
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<tr>
<td>4</td>
<td>URS Corp.</td>
<td>3,000.0</td>
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<tr>
<td>5</td>
<td>Bovis Lend Lease</td>
<td>2,825.7</td>
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<tr>
<td>6</td>
<td>Henry International</td>
<td>2,400.0</td>
</tr>
<tr>
<td>7</td>
<td>Gilbane Building Co.</td>
<td>1,333.3</td>
</tr>
<tr>
<td>8</td>
<td>Parsons Brinckerhoff</td>
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<td>9</td>
<td>Barton Malow</td>
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<td>10</td>
<td>Swinerton Inc.</td>
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<td>11</td>
<td>Power Construction</td>
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<td>12</td>
<td>The Beek Group</td>
<td>314.9</td>
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<td>13</td>
<td>STV Group</td>
<td>469.8</td>
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<td>14</td>
<td>The Layton Companies</td>
<td>466.0</td>
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<td>15</td>
<td>Alter Construction Group</td>
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<td>16</td>
<td>L.E. Driscoll Co.</td>
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<td>17</td>
<td>Hunt Construction Group</td>
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<td>18</td>
<td>Kraus-Anderson Construction</td>
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<td>19</td>
<td>dck Worldwide/Dick Corp.</td>
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<td>20</td>
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<td>21</td>
<td>Granary Associates</td>
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<td>22</td>
<td>Turner Construction</td>
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<td>Walbridge</td>
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<tr>
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<td>PCL Construction Enterprises</td>
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</tbody>
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National’s First Coal-to-Liquids Gas Plant Announced

Officials from West Virginia’s state and federal government delegations held a ground-breaking ceremony in July to announce the construction of the nation’s first modern coal-to-liquids plant near Benwood, Marshall County in the Northern Panhandle of WV.

CONSOL and SES propose that the plant will be a ‘mine mouth’ facility with feedstock supplied directly from CONSOL’s nearby Shoemaker complex. The feedstock will be a blend of run of mine coal and coal otherwise not recovered in the normal preparation process. Coal will be converted to syngas utilizing SES’s proprietary U-GAS® technology. It is expected that the syngas will be used to produce approximately 720,000 metric tons per year of methanol that can be used as a feedstock for the chemical industry. It is also expected that the project will be capable of converting methanol production to approximately 100 million gallons/year of 87 octane gasoline. NAF is currently negotiating with ExxonMobil Research and Engineering to license their proprietary methanol-to-gasoline technology. As envisioned, the project will include a river terminal facility, where products will be stored in tanks for off-loading into barges for distribution.

“This project has the potential to transform West Virginia from a major coal producing state to a national energy center as well,” said J. Brett Harvey, CONSOL Energy President and Chief Executive Officer. “By converting some of our region’s abundant, high-Btu coal into gases and liquids, not only will we create economic value for the state, but we will help West Virginia become the linchpin of American energy security.”

The Board of Directors of CONSOL and SES have authorized funds for development activities, including the front-end engineering design (“FEED”) package. Each member company will contribute equally to this phase of the project. NAF is finalizing agreements with Aker Solutions US Inc., a subsidiary of Aker Solutions ASA (OSL: AKSO), to perform the FEED. The FEED will include a carbon management strategy that will focus on carbon sequestration in a deep saline aquifer. At a later date, NAF will file for environmental and other permits necessary for the construction of the plant.

UCC Building Code Officials Database Launched

On July 2, 2008, the Commonwealth of Pennsylvania launched a database of all municipal “Building Code Officials” on the PA Building Codes website. The database contains the names and phone numbers of each Building Code Official by County/Municipality, plus the municipality’s status under the Uniform Construction Code. This database is a pdf file that will be hosted on the PA Building Codes website, which is located here:

http://www.dli.state.pa.us/landi/cwp/view.asp?a=310&q=248489

Or you can link to it by going to www.mbawpa.org
GREEN BUILDING NEWS

$25 Million Approved by State for Green Building Projects

During the Independence Day holiday, the Pennsylvania legislature and governor agreed to a package of programs that will invest $650 million in alternative and renewable energy deployment, conservation and efficiency, and innovative research and development. Special Session House Bill 1 was approved by the PA House and Senate on July 4th and includes $25 million for green building projects. This component was added as a result of the leadership and advocacy of the Green Building Forum, a statewide coalition with which GBA has been active and assumed a leadership role.


In addition to the $25 million included specifically for green buildings, the bill also sets aside $165 million to encourage alternative energy projects. It should be noted that green buildings are included in the definition of an alternative energy project. Other components of the bill are:

- $180 million for solar energy;
- $25 million for pollution control;
- $40 million for emergency energy assistance;
- $40 million to support early-stage activities related to energy efficiency technologies; and
- $25 million for wind and geothermal.

$150 million will be available over seven years to help consumers and small businesses weatherize their homes and adopt conservation tools, and offer tax credits to businesses developing and building alternative energy projects in the Commonwealth.

Green Building Alliance Announces $140,000 In Product Innovation Grants

Three grants were awarded from fourteen proposals received by the Green Building Alliance for the second round of Product Innovation Grants. Recipients include:

- $100,000 for commercialization of an innovative ventilation air energy recovery unit that utilizes a patent-pending membrane technology to allow water vapor molecules to pass freely while blocking other air molecules and particles; a project of Energy Wall, LLC, and Pennsylvania State University.

Two $20,000 Proof of Concept grants: A modular, reconfigurable, and sustainable residential floor & wall system; a project of Drexel University; ReD, a responsive daylighting panel integrating phase change material; a project of Temple University.

Proposals are assessed based on the criteria of green building leadership, technical merit, commercialization plan viability, partnership resources, and potential market impact. Grant award decisions are made at the discretion of GBA on the recommendations of the Product Innovation Grant Review Committee, which is comprised of individuals with a variety of relevant experience, expertise, and background, including consultants, manufacturers, investors, economic development stakeholders, and academic researchers. Participation on the Review Committee is kept confidential.

A Request for Proposals for the third round of Product Innovation Grants was released in August. Awards will be announced in December 2008.

Certification Bodies Announced for LEED Green Building Rating System

As a part of the broader vision for LEED V3, the certification bodies for the LEED Green Building Rating System were announced today. Well-known and respected for their role in certifying organizations, processes and products to ISO and other standards, they are:

- ABS Quality Evaluations, Inc. (http://www.abs-qe.com)
- BSI Management Systems America, Inc. (http://www.bsi-global.com)
- Bureau Veritas North America, Inc. (http://www.us.bureauveritas.com)
- DNV Certification (http://www.dnvcert.com)
- Intertek (http://www.intertek.com)
- KEMA-Registered Quality, Inc. (http://www.kema.com)
- Lloyd’s Register Quality Assurance Inc. (http://www.lrqa.co.uk)
- NSF-International Strategic Registrations (http://www.nsf.org)
- SRI Quality System Registrar, Inc. (http://www.sri-i.com)
- Underwriters Laboratories-DQS Inc. (http://www.ul.com/mss)

The change in the certification process is being undertaken as an integrated part of a major update to the technical rating system which will debut in January as LEED 2009. The update will also include a comprehensive technology upgrade to LEED Online aimed at improving the user experience and expanding its portfolio management capabilities.

Currently, all LEED project submissions are reviewed by USGBC with the support of independently contracted reviewers. In alignment with its vision of market transformation, beginning in January 2009, the U.S. Green Building Council (USGBC), developers of LEED, will move administration of the LEED certification process to the Green Building Certification Institute (GBCI), a non-profit organization established in 2007 with the support of USGBC.
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REGIONAL MARKET UPDATE

As bad as the news has been for the national economy and construction market, the outlook for the regional market remains steadily upbeat, especially for the non-residential side of the ledger.

August 14 was a great example of how the regional market was diverging from the national one. Here in Pittsburgh, on that date the Pittsburgh Arena held its groundbreaking, the Urban Redevelopment Authority approved Aiello Development to take on the first pieces of the Federal North project, and the state’s gaming board gave approval for the transfer of Pittsburgh’s gaming license from Don Barden’s PITG Gaming to Pittsburgh Gaming Holdings, controlled by developer Neil Bluhm. Within a week, construction had re-started on the casino.

All this took place within one month of one of the financial markets darkest days this year, July 15, and just a few days before some of the worst construction economic data was announced to the national business press.

It is certainly reasonable to look at where the activity is in the Western PA market and conclude, as many Pittsburgh business people do, that we are just lagging the national business cycle again, and that the storm should be showing up here about this time next year. There has definitely been enough of a lull in bidding activity to inspire some caution about 2009. It is also reasonable to see the current volume of activity in the metropolitan area as the pleasant hangover from the boom of the most recent years. But there remains a robust number of projects in the pipeline, many of which are funded, and an examination of the region’s economy suggests that much of what has plagued the national market won’t get a foothold in this region.

First for the bad news: runaway costs have made a noticeable impact on the summer’s volume. Pennsylvanians were on pace to drive a million miles less this summer, using between 30 and 40 million fewer gallons of gasoline. Those are good numbers for energy, bad for state revenue. The revenue for state and local highway work comes from a surcharge on gas consumption. Fewer miles mean fewer dollars for repairs. Coupled with the spiking asphalt, steel and cement costs, conditions slammed the heavy and highway market, causing deferment of PennDOT contract lettings recently.

Higher costs also caused deferment and re-design of an unusual number of public projects in the building sector. In Western PA the casualties were somewhat less noticeable. The two main projects affected by this were the $45 million Montour School District project, and Indiana University’s Convocation Center, which had a five-year-old allocation of around $38 million but came in more than 50% higher. Doubtless there were many smaller municipal and school district maintenance and repair projects deferred or downsized, but the effect of the inflation locally seemed to be in slowing down the planning of some of next year’s work.

The other bit of bad news that hasn’t changed is the slowdown in housing construction. While residential activity remains strong in selected pockets, within the City of Pittsburgh and the Cranberry/Adams areas for instance, activity throughout the region continues to lag 2007. Through the end of August, permits for new housing were off by more than 6%, and prospects for new housing were off by more than 6%, and prospects for a recovery, or at least a bottom, in this year seem unlikely. One bit of good news for the local housing market was the National Association of Realtors report on housing prices for the middle of 2008. While the national median price of a single family home dipped another 7.4% in the first half of the year, housing prices in Pittsburgh saw another rise in value of 1.4%.
Those negatives aside, the regional non-residential contracting volume is off only slightly from 2007, which was the highest volume year in two decades. Contracting through August was approximately $2.2 billion, right on the $2.8 billion pace that was expected; however, the pending contract market makes it likely that contracting will exceed $3 billion again by year’s end because of some unexpected large projects that are poised to get underway.

Those projects, the USS Clairton Works upgrade and the Beech Hollow Power Plant in Robinson Township of Washington, will each be around $1 billion in heavy industrial construction. While the nature of these projects will limit the breadth of the trades and materials needed, the size of the projects will add big burdens to already strained labor and material markets. The demand for many of the early-stage materials – aggregate, concrete, rebar and steel – will stretch pipelines that are currently limited because of commercial construction and the lesser-known boom in natural gas and coal production facilities that is underway in Fayette, Greene and Washington Counties.

The region is also seeing labor conditions that are as close to full employment as can be achieved. With aggressive recruiting, and the attraction of skilled craftsmen from slower adjacent markets like Ohio and Baltimore/DC, it is expected that demand for labor will not outstrip supply, even in the first half of 2009.

As the fourth quarter approaches there are a few signposts to pay attention to for indications of whether the honeymoon is ending in 2008, or as it appears, the demand from our retooled economy will keep construction going into the next business cycle. Some of these are national indicators and some regional, but all could impact metropolitan Pittsburgh.

The first, and most critical, is the direction of the commodities market. Since mid-July the prices of the most overheated commodities - oil, natural gas, copper, gold – have fallen by as much as 20%. With demand falling from a slowing national economy and conservation of energy, it seems likely that this is a trend not a temporary correction. A reversal in this trend, particularly in the cost of diesel and its derivatives, could put a drag on a market that is still experiencing growth.

Another factor to watch will be the impact of the poor investment markets this year on the financial performance of foundations and non-profits, particularly the University of Pittsburgh. With the aggressive plans for construction in Oakland, and especially at UPMC, declining revenues from endowments and investments could halt plans for new work. The year-end fiscal results
for UPMC showed a decline in excess revenue after expenses of $607 million, of which $531 million was directly attributable to investment losses. No comment has been forthcoming about the effect of fiscal year 2008 on the plans for new construction in Monroeville, Mercy or Shadyside, which had been moving along. Beyond plans at Pitt, the institutional market in general has been a big part of the boom in the past three years. Diminished or deferred income from investments and foundations could chill dozens of programs at universities.

Financial markets have been upside down for almost a year now. While that has created a bad environment for all regions, the turmoil has clearly not kept Western PA from building. Unlike the signposts above, a change in the financial markets, such as a re-opening of the secondary loan market, or a return of investors in publicly-traded banks, is likely to make development less difficult in the near term. On the downside, a change in the policy of the Federal Open Market Committee of the Federal Reserve from maintaining the current low overnight borrowing rates to increasing rates to deal with inflation, could induce another round of belt-tightening.

Finally, the big signal to look for will be the result of the fall elections. The outcome is as unpredictable as any election since perhaps 1976, with the possibility of a lame duck governor in Harrisburg, a split in White House and Congressional control, or a shift in federal power to the Democratic Party. There are literally countless scenarios that could result from the election, and countless estimates of the effect on business. Perhaps the best indicator will be to watch the reaction of the markets between Election Day and Thanksgiving Day. Monitor the demand for the dollar, any significant shift in short term/long term interest spreads, and any response from the stock markets to see if investors are drawing a clear presumption from how we vote on November 4th.

Nothing that happens between now and the year’s end can have much of a dampening effect on the construction market in Western PA for 2008. A slow housing market and robust non-residential market will remain on those paths for now. The gap between firms that have and have not seems to be widening as this year winds down, and 2009 should be the first real test of Pittsburgh’s new economy.
NATIONAL MARKET UPDATE

As the late summer figures start rolling in, there is really no sugar coating that can cover up the problems of the national construction market. The industry’s in a bad spot, and the only thing that will fix it is time.

The amount of baggage that has been laid upon the real estate and construction market in the past few years has been unprecedented. Even though the problems have been chronicled to death, it’s only when you look at the totality of the issues that you begin to see just how difficult conditions have become. The crux of the problem is that while all of the negative factors have affected markets in past, seldom has a market been affected by so many at the same time.

Housing declined by 15% in the fourth quarter of 1988 alone, but the market dropped half that again the following year, and began recovering in late 1991. Housing construction has dropped more than 25% each of the past three years.

Inflation devastated different aspects of the industry in the mid-1970’s, and again ran into double digits in 1982-1983. While inflation during those periods steadily ground the economy into deep recessions, the pace of increases paled in comparison to the 30% or 40% or 50% price hikes that were seen in a matter of months for copper, diesel, steel or natural gas at various times in this cycle.

Financing for construction has been difficult during some of these periods as well. Interest rates flirted with 20% in 1982, making borrowing too expensive. And in 1990-1991, the availability of credit was pinched by the response to the savings and loan crisis. Neither of those markets saw the kinds of capital flight that has reduced the market value of most mortgage banks by 80% to 90%, or placed the lender of more than half the mortgages in America on the verge of illiquidity, as Fannie Mae and Freddie Mac are now.

That’s a whole lot of baggage. July’s results appear to show that the burden is taking its toll across the board.

July’s homebuilding permits, an indicator of future construction, dropped to an annual rate of 937,000, well below the 970,000 analysts polled by Reuters had forecast. It was the lowest level since March, when they were 932,000, the Commerce Department said. Single-family homes, which constitute the bulk of new housing, were especially weak. The annual unit rate of 641,000 single-family homes started in July was the lowest since January 1991, when they were 604,000. Building permits were 584,000, the lowest since 523,000 in August 1982.

According to Reed Construction Data, non-residential building starts were down 31% compared to July 2007,
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More alarming was a report from the Portland Cement Association (PCA) on cement consumption. PCA reported a 29% decline in non-residential contract awards during the first half of 2008. and the year-to-date pace had fallen to 7% below the first seven months of last year. More alarming was a report from the Portland Cement Association (PCA) on cement consumption. PCA reported a 29% decline in non-residential contract awards during the first half of 2008. This data, if corroborated by additional sources, is an indication that future construction will drop off more precipitously than expected, and more than current backlogs indicated. Because PCA data includes non-building work, there is the assumption that their numbers may reflect a more dramatic decline in highway work, something that would be logical considering the spike in asphalt prices and decline in state revenues. But, the trend should not be ignored.

“Real construction activity is expected to decline nine percent in 2008, and another seven percent in 2009,” predicted PCA Chief Economist Edward Sullivan. “The combination of high home inventories, weak economy-wide demand conditions, and poor state budgets will hit all sectors of construction.”

Some other mid-year data that points to difficulties in commercial construction came from the retail sector, with a number of high-profile companies, including Home Depot, and Walgreen’s, announcing stronger than expected earnings, but also cutting back on the number of new stores. The International Council of Shopping Centers reported that it estimates 144,000 stores will close this year, up seven percent from 2007. Foresight Analytics LLC reported that delinquencies on construction loans reached 9% in the second quarter, up from 7.2% in quarter one, and from 2.4% in second quarter 2007. The research includes residential properties, but a portion of the increase is attributed to problems with non-residential loans, principally with retail centers.

Yet another negative indicator also gave hint as to where strength will be in the industry in 2009. The AIA monthly billings survey showed that more respondents in June said that billings had fallen from the prior month. While this marked the fifth month of such declines this year, the survey showed that architects with specialties in institutional projects reported continued growth in billings, with no reporting of decline in 2008. This indicator suggests that areas with strong institutional markets (like Western PA) may see more bidding opportunities in 2009.

Perhaps the only positive data among this deluge of bad news was that the decline in home values had slowed to 7.6% in the second quarter. While no economist has yet predicted a bottom to the decline, the slower pace and the cumulative decline of nearly 20% since the 2005-2006 peak suggests that the housing market may be approaching a correction point where prices will have fallen enough to spur renewed demand.

As the dog days of summer 2008 fade away, that may be the first glimmer of a recovery signal in the nation’s housing slump. The same, however, does not appear to apply to the non-residential side of the market.
WHAT’S IT COST

As Labor Day approached, the market for construction materials had become very choppy. The month-long plunge in the price of oil had put a peak on the steady rise in petroleum-related materials. Continued softness in residential construction was beginning to spill over into the commercial market, with a downturn in non-residential construction slowing demand for products and materials that support that market. At the same time, energy and fuel surcharges (which have lagged oil’s run-up) continue to drive up many materials, while asphalt and steel continue to escalate.

Assuming the short-term decline in diesel prices becomes a real trend into the fall, however, this crisis in highway contracting should be short-lived, and it is possible that the fever has broken on the runaway increases across the full spectrum of materials and building products.

The dramatic change in direction of the oil price may not remain the new trend, but it hasn’t taken long for the decline to translate into a commodity price pullback. By mid-August the market prices for the main commodity culprits had declined, with the exception of steel. Diesel fuel had dropped more than 10% to below $4.25 per gallon; copper had fallen over 10% to $3.35 per pound; and crude oil had dropped over 20% to below $115 per barrel.

On a number of fronts, however, the steady climb of prices over the past year or so continues to contribute to increases in current pricing. The Producer Price Index for inputs to construction industries—materials used in all types of construction plus items consumed by contractors, such as diesel fuel—surged 10.4 percent over the past 12 months. The index for highway and street construction leaped 18.9 percent.

In the futures markets, aluminum has been setting records, while natural gas has doubled in price from a year ago. That has triggered jumps in the cost of construction plastics—such as polyvinyl chloride pipe, insulation and flooring—that use natural gas as a feedstock. And the elevated oil price has jacked up transportation costs to the point that building product manufacturers have been passing those costs along, even for products with reduced demand. On July 14 two gypsum makers told contractors that wallboard prices would rise at double-digit rates in each of the next three months.

While building costs may be moderating, the cost of highway construction has not experienced a top as yet. Prices for asphalt have risen over 60% since June, reaching nearly $850 per liquid ton; and rebar prices rose another $200 per ton in July. The increases caused

<table>
<thead>
<tr>
<th>PERCENTAGE CHANGES IN COSTS May 2008 Compared to—</th>
<th>1 mo.</th>
<th>3 mo.</th>
<th>1 yr.</th>
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<td>PPI for materials and components for construction</td>
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<td>0.9</td>
<td>327.4</td>
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Sources: Bureau of Labor Statistics
Compiled by Ken Simonson, Chief Economist AGC
* Note: Costs for office, school & warehouse not available
PennDOT to delay contracting in selected districts, deferring new bidding until September. The problem appears to be a national issue as well, with contracting in most states outstripping the budgeted programs.

"Unless Congress passes additional funding to keep highway construction funds flowing, many states will stop awarding contracts," warned AGC Chief Economist Ken Simonson. "Other public agencies, as well as private owners, must adjust their budgets promptly to reflect the new price realities for construction."

Assuming the short-term decline in diesel prices becomes a real trend into the fall, however, this crisis in highway contracting should be short-lived, and it is possible that the fever has broken on the runway increases across the full spectrum of materials and building products. Shrinking demand in both residential and nonresidential markets, coupled with the flight of investment dollars from commodities integral to construction materials, and a stronger dollar, will all contribute to softer pricing conditions as 2008 winds down. For a region, like Western PA, where new construction demand is healthy, softer costs should help sustain the projects already in the pipeline.
Before getting too far into the details of the state of the market for industrial and office construction, it’s important to remember that no other real estate segment so closely mirrors the health of the regional economy. Demand for offices and industrial space comes from jobs, pure and simple.

As 2008 transitions from the third to fourth quarter, the profile of the office and industrial market is coming clear. Two trends have emerged to define the market in Western PA: first, office and industrial space is getting scarce; second, money to build more space is even scarcer.

The executive summary for the region’s office and industrial real estate would read something like this: Vacancy rates for both kinds of property have fallen significantly, and are continuing to fall. Rents have risen smartly over the past few years, and are expected to increase again in the next year or two. Financing for new construction or acquisition is extremely tight, with conditions becoming even more difficult for borrowers.

And development of new office and industrial parks is almost nonexistent, with more difficult lending standards discouraging developers who are interested in taking the risk.

It’s a good market for office and industrial property. The regional focus on technology, education and healthcare is paying off in higher rates of job creation than the national average, and higher salaries as well.

Take a moment and think about the companies that are doing the biggest construction projects right now. Medrad, Westinghouse Nuclear, Respironics, and Bechtel all have projects underway or wrapping up that reflect their growth in engineering development. UPMC, which will spend over a billion dollars in construction contracts in the last half of this decade, has grown in response to demographics, creating thousands of healthcare and research jobs in the process.

Metropolitan Pittsburgh is not a homogenous market, and its counties have very different demographics one from the other. The common theme is that in all directions, in office or industrial development, space is getting tight.
Office Market Update

The office market in Western PA is more centralized than other sectors. While there are office buildings in all seven counties, of course, most of the changing dynamics in the office market occur within Allegheny County, or just outside its borders. Like most things business, the distribution of office buildings in the region has shifted historically as big industry shifted.

Most people know the old statistic that Pittsburgh was once the home of the most corporate offices in America, outside New York and Chicago. When that stat was shattered in the 1980’s one of the results was a depressed downtown office environment. As the region’s economic base shifted during the next two decades, the resultant new office development more closely resembled the hot cities of the south and southwest. Development moved to the open spaces adjacent to interstate highways, or convenient to the airport. Mass transit became much less important and service jobs replaced manufacturing jobs, allowing development to take place on less expensive land located away from the center of town.

That recipe was followed throughout the 1990’s, creating new office parks and expanding existing parks along the interstate system in the north, south and western suburbs. Even with an economy in transition, Western PA businesses supported construction of a handful of large office parks throughout the region.

Notable among these were the complete build out of millions of square feet of new Class A office in Southpointe and Cranberry Woods. Others that were rewarded for speculative construction during this time were DiCicco Development’s Westpointe, Chaska Properties Cranberry Business Park, Soffer’s Parkway Center West expansion, and several of Westmorland County Business Parks.

As the decade wraps up there are very different dynamics influencing the market than twenty years ago, however, most of the hottest areas remain the same. One exception is the re-emergence of downtown.
The Golden Triangle suffered from a lack of new office product after the construction of the six towers that wrapped up in the late 1980’s, leaving much of the vacancy in class B and class C buildings that weren’t very adaptable to modern office requirements. Downtown was also at a competitive disadvantage as more business developed in the suburbs, since doing business meant more driving and suburban parking was free.

Vacancy in downtown remained stuck near 20% until the last few years when several key developments triggered significant change.

First among these was the development of residential property, and adaptive re-use to residential, in the center city. Aside from creating some increased demand for office space from professionals who began to live downtown, the residential rebirth also absorbed some office properties that were not tenable as offices anymore.

Also, UPMC made the decision to consolidate many of its executive and administrative functions and relocate them to the USS Tower. This move absorbed a couple hundred thousand square feet, and will ultimately result in taking a half million square feet of office space off the market. At the same time Point Park University has been acquiring buildings along the Boulevard of the Allies corridor near their Wood Street home base, removing around 800,000 square feet of office space for student residential and educational use.

NAI Pittsburgh principal Patrick Sentner thinks the latter development is especially important. “Point Park took class C product off the market that was unleasable as offices. Those buildings kept the vacancy rates higher than they really were.”

In a more organic style, a number of downtown legal firms have leveraged their business growth into larger spaces, and two of the nation’s largest financial firms, PNC and Bank of New York/Mellon, have experienced growth in the business units based in downtown.

"Vacancy in class A space is likely to be less than 10% when all the current projects get completed,” says Jeremy Kronman, Vice President at CB Richard Ellis. Kronman headed a team that took on the assignment of marketing one of downtown’s most beautiful (and empty) buildings, The Union Trust Building. CB’s success in securing an anchor tenant, Siemens Power Generation, to absorb 185,000 square feet, points to another trend that is driving the office market in Pittsburgh. "We did our homework with Siemens," says Kronman. “Their leadership was committed to a LEED-certified building and a sustainable project. MIKA Realty Group (the owner) is going to renovate the building to LEED standards, and the downtown location allows Siemens employees options to live and work there, or use mass transit to commute.”

The Union Trust Building project is an example of another factor positively impacting downtown’s health, that of outside investment. MIKA’s entry into the market follows that of Rugby Realty, Hertz, Blackstone and others from either coast who have snapped up buildings like One Mellon Centre, National City Center, the Gateway Towers, and Gulf Tower. For investors accustomed to New York or West Coast prices, Pittsburgh real estate seems a bargain, and with today’s new construction costs spiraling ever upward, downtown Pittsburgh has been a bargain for any investor.

MIKA purchased the Union Trust Building for $24.1 million, leaving a lot of room for renovations. “If they spend $60 a foot renovating the building to lease-up, that adds up to $100 a square foot. Where can you build even a suburban office for that kind of number?” asks Jeremy Kronman.

Prospects for other big chunks of class A space downtown are still out there shopping for buildings. The Commonwealth of PA is in the market for 220,000 square feet to replace their space in the State Office Building, which the state is trying to sell. And Equitable Gas is expected to lease the remaining available space in Dominion Tower to handle the needs resulting from their merger, while maintaining a full house at their North Shore headquarters.

PA Commercial’s Mark Anderson is another broker who thinks downtown is hot again, along with some other sub-markets. “We seem to be avoiding some of what’s happening nationally,” he says. “The vacancy rates are good in downtown and Cranberry, and of course in Oakland. We could really use a good spec building in Cranberry or Oakland right now.”

These two areas are the beneficiaries of the new economy of the region. Cranberry has been one of a handful of breakout communities in Pennsylvania for more than a decade, but its current attraction is the Westinghouse Nuclear office, under construction in Cranberry Woods. The $200 million project has continued to mushroom in size throughout its development, and the relocation has kick-started a deluge of interest from businesses intending to serve Westinghouse. It has been the catalyst for the development of several new hotels and a large mixed-use project, The Village at Cranberry Woods, on an adjacent property.

For all the excitement, issues with upgrading Route 228 and a real shortage of good ground available for office
development has kept any large scale plans from going ahead. There are plans for 100,000 to 120,000 square feet of office to be built in the Cranberry portion of the Thornhill RIDC Park by PA Commercial, but most brokers feel that three times that could be leased in 2009.

Oakland has some of the same development issues, at least from the standpoint of precious land for use. No other market in Pennsylvania can boast such a high concentration of jobs, research, commerce and services in such a concentrated area. Oakland’s economic drivers, Carnegie Mellon, Pitt and UPMC, are also the region’s. Vacancy is rarely above seven or eight percent and the rents show it.

The consensus of the market reports done by Grubb & Ellis, GVA Oxford and CB Richard Ellis puts class A rents in Oakland near $20 per square foot, higher than any sub-market but downtown. And the newest class A buildings, the Rand Building and the Collaborative Innovation Center, are fetching as much as 50% more than that. Mark Anderson expects that trend will continue. “If the second Sterling building had gone ahead I think you would probably see $28 per square foot rent there.”

The two major projects which are circling for a landing in Oakland are the Elmhurst Group’s proposed 100,000 square foot office building, and the million square foot mixed-use development known as the Oakland Portal, planned for the western edge of the area by Frank Gustine’s FWG Real Estate. For differing reasons, both of these projects have taken a while to get underway, but each will be welcome once construction starts. Even though UPMC is relocating several thousand feet of office workspace, the replacement space will be clinical or research, not other office use.

Another part of town that could use more space is the southern suburbs. With the opening of Southpointe II a few years ago, the stage seemed set for more growth in northern Washington County, but the selection of that site by Consol Energy, and the quick response by the market to other opportunities have virtually maxed out the park. The developer, Horizon Properties, has a 120,000 square foot building under construction now, but that is already 50% leased and likely to be fully occupied shortly after opening. The remainder of Southpointe II is planned for retail, hotel and residential development.

Horizon is also the developer for Meadow Pointe Plaza, two 40,000 square foot buildings on Racetrack Road near the Meadows, which are fully leased. Smaller developments in Peters Township and new construction in downtown Washington, PA have been successful as well, pushing vacancy to around 12%, the lowest levels of all the suburban sub-markets.

One sub-market which has had the highest vacancy rates over the past few years is the Parkway West. Plagued by overbuilding in the late 1990’s and early years of this decade, plus the downsizing of USAirways, the west suburban market had vacancy rates above 20% for much of this decade. During the past two years, however, new ownership in a number of buildings, and growth from several key employers, has generated a number of medium sized deals that quietly put the Parkway West in the pink.

Dick’s Sporting Goods has been one of those notable employers, and their growth has led to the construction of a new $100 million, 670,000 square foot headquarters in Findlay (their third HQ in a decade).

With net positive absorption of nearly 100,000 square feet during the past 15 months, the class A market in the west is tightening along with the rest of the metro area. Depending on the brokerage source you listen to no contiguous vacancy exists in this sub-market over 25,000 to 40,000 square feet. AETNA’s recent lease at 9 Parkway Center seems to validate that, as they were unable to find the 110,000 square feet needed to consolidate operations.

The tightening western market has caused some shifting in product to meet demand, and is spawing more development again.

“We represent Sampson Morris’s park and we’re getting a lot of interest in buildings that have historically been 70/30 warehouse for tenants that needs 70-80% office,” says NAI’s Patrick Sentner. “The flex building has an open floor plate and lots of parking, and the tenant can get 100% of the space rentable, instead of the add-on space of a class A property.”

To meet the demands for larger class A space, DiCicco Development has plans for two projects, Cherrington Commerce Park and Scott Station, in Moon Township. Cherrington will be a 600,000 square foot office park located off Ewing Road near the Parkway. Plans are for a 50,000 square foot first building in 2009. Scott Station is adjacent to GlaxoSmithKline and FedEx Ground, and will be the site of two new hotels, but also planned is a 130,000 square foot office building that will advance as the market dictates.

Interest in the Parkway West area should continue to be stronger in the next 12-18 months, as the availability of space to the north and south remains tight. New owners, McKnight Development and Wells Group, should bring new life to some mature properties. Several out-of-town prospects for large office buildings have been floated for the I-79 corridor and with the completion of the missing I-79/279 ramps, a significant barrier to the Parkway West will be removed.

**Industrial Market Update**

Unlike the office market, Pittsburgh’s industrial market is more distributed throughout the seven-county metropolitan area. The industrial market in Western PA has made a big transition from manufacturing-heavy space to distribution-heavy space in the past generation.
Distribution needs access to highways, and large flat tracts of land. Those drivers are more readily available in the outlying counties surrounding Allegheny, which is why almost 40% of the 115 million square feet of industrial space in metro Pittsburgh is located outside of Allegheny County.

In particular, the industrial development arms of Westmoreland, Butler and Washington counties have succeeded in creating industrial sites with the required access to highways, reduced tax structures and a workforce that was skilled. The CDC’s and IDC’s of these counties find their challenge going forward is finding additional land to develop, rather than additional prospects.

One legacy of the manufacturing past that limits the region is the disproportionate amount of older industrial buildings. Class A industrial space here is fully occupied, and any new space in that category would be welcome. “Columbus has eight or nine times the class A industrial space we have with two-thirds the number of people,” notes Chapman Properties owner Steve Thomas. Thomas notes that the region’s topography has a lot to do with the shortage of sites as well, but believes the creation of class A sites is the most important imperative for Allegheny County to accomplish, if it wants to grab a share of the opportunities that will occur.

“One of the more unsung successes within the region has followed that model.

The Fay-Penn Economic Development Council took advantage of state programs like Keystone Opportunity Zones and the Governor’s Action Team to get development grants and favorable tax environments for industrial development. Fay-Penn was able to develop nine tax-free sites, locating several along the path of I-43, and attracted defense-related businesses through Congressman Murtha that have created momentum for engineering and technology jobs.

“We are seeing growth from businesses that started from Homeland Defense industries, sensing and security technologies, that are attracting businesses that want to support those industries,” explains Barry Senera, Director of Development for Fay-Penn. “IT has come on strong in this area. We’re close enough to attract engineers from the universities in the region.”

While the payoff for each new business has been small, the cumulative effect has not been. In the Fayette Business Park in Georges Township, the proximity to the I-43 exit and the rail system has attracted nine manufacturers, including the 118,000 square foot Johnson Mathey facility now under construction. “When Johnson Mathey opens, there will be over 1,000 people working in that park,” says Senera. “Most of the jobs are new, and most of the businesses were absolute start-ups in Fayette County, even if they had facilities elsewhere.”

For Allegheny County, the opportunity exists at the 4,200-plus acres surrounding the Pittsburgh International Airport that the county is preparing for development. Construction has been completed on two buildings in the first of these, the Clinton Commerce Park, being developed by Buncher Development. A third building, a 209,000 square foot build-to-suit for Flabeg USA, will get underway shortly. The 240-acres site should eventually yield 1.5 million square feet of new space.

Even with its successes, the Clinton project and the pace at which the county is shedding land for development doesn’t seem to be satisfying the perceived demand.

Asked what project the region needed most, Steve Thomas says, “In the ideal world I’d say a 300,000 square foot class A building along the interstate system.” He laughed as he pointed out that that was why he was developing Chapman Commerce Center, a 2.8 million square foot project along the Southern Beltway by the airport and Route 60 exit.

Rich Gasperini, from CB Richard Ellis also believes the demand in the west is strong, but is also emphatic about
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what should be developed. “More product and higher quality product. There is a lack of available properties in many submarkets, let alone available modern product with 24 feet or more clear ceiling heights. We need more speculative warehouse development like that.”

Grubb & Ellis Vice President Lou Oliva sees activity in the airport corridor increasing. “We have three deals we’re working now with owners looking for land and projects in the 100,000-150,000 square foot range to build.” The need for new construction is imperative because of the current market, he explained. “The gap in the market is that there are very few high quality industrial buildings for sale, and even less for rent.”

Grubb is working with Appliance Dealers Coop., a consortium of dealers that provides third-party logistics services, which is coming to Pittsburgh. ADC is taking 61,000 square feet in the Turnpike Distribution Center in Beaver County, and has plans to build a 150,000 square foot warehouse in Imperial Land Co.’s WestPort in Findlay Township.

The ADC project highlights a demand driver that is becoming more of an issue in Western PA due to higher diesel costs. Third party logistics, or 3PL, companies provide outsourced logistics management and warehousing for businesses that either lack the resources to do it themselves, or just want to shed the expense. The growth in 3PL’s around the country has lead to development of huge centralized distribution centers, like those that exist in Columbus, New Jersey, or like Lauth Development’s Key Logistics Park in Cumberland County PA, which has 3 million square feet of warehousing along I-81.

“Before, the trend was for consolidated super-regional warehouses that served a 300 mile radius,” explains Rich Gasperini. “With diesel at $4.50 or $5 the retailers don’t want to go more than 100 or 150 miles.”

Steve Thomas agrees. “The cost of diesel is causing logistics to re-think their distribution network. You can’t cost-effectively serve an MSA, like Pittsburgh with two-and-a-half million people, from New Jersey or Columbus.”

Projects like the Appliance Dealers Coop. would use Pittsburgh as an intermediate stop on the I-79/76/70/79 corridors to serve this market using cheaper transportation from the manufacturer to get goods to Western PA warehouses.

The outlook for industrial construction in 2009, like the office market, presents problems that haven’t plagued Western PA real estate for quite a while. Demand is expected to continue to rise without much addition to the supply. Accordingly, upward pressure on rents will continue. Development will remain the biggest variable in the equation.

Projects like Chapman Commerce Center, WestPort and Clinton Commerce Park are planning to move forward in 2009, but the market needs more speculative construction, which will be very problematic unless the financing climate changes quickly. In the North, Chaska Properties is building a 48,000 square foot, 16-foot clear height warehouse, and Don Rodgers’ Creative Real Estate should start the first of what will be 160,800 square feet of 24-foot clear height warehouse. That’s not a lot more supply for a growing market demand.

The growth in industrial construction will come almost entirely from owner-occupied or build-to-suit projects. As for future years, it’s clear that Western PA is figuring out how to attract industrial business again, and it will be important for the government to follow the market where it can, remediating brownfield sites and tailoring infrastructure investment that will best promote interstate access and transportation.

As far as the private sector goes, it’s likely that development that occurs after the financial market thaws will have upgraded to national standards for industrial buildings, or at least Rich Gasperini hopes so. “There has been a flight to quality nationally for industrial construction. This includes tilt-up construction, clear ceiling heights of at least 32 feet, at least 50’ x 50’ column spacing, an increased percentage of dock doors – two or three per every 10,000 square feet leased, significant trailer parking areas, even LEED-certified warehouses,” he says. “The current wave of new construction and what is in the pipeline is of that quality and that should continue in the future.”

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**Top Cities for Rental Rate Change - Office**

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<tr>
<th>City</th>
<th>2008</th>
<th>2007</th>
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<tr>
<td>Charlotte</td>
<td>8.1%</td>
<td>7.7%</td>
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<tr>
<td>Raleigh</td>
<td>7.9%</td>
<td>6.1%</td>
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<td>Pittsburgh</td>
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<td>Dallas</td>
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<tr>
<td>Indianapolis</td>
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**Top Cities for Rental Rate Change - Industrial**

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<td>10.7%</td>
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<td>San Jose</td>
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<td>Akron</td>
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<td>New York</td>
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<td>Pittsburgh</td>
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You would have to have been a true visionary to foresee the way the EverGreene Technology Center has developed. It certainly wasn’t in the mainstream of thought to have Greene County become a hub of high technology when the Greene County Industrial Development Corporation began planning EverGreene. Even though Greene County’s seat, Waynesburg, is roughly equidistant between Pittsburgh and Morgantown (which were both experiencing separate high tech growth), neither seemed close enough to create the inertia to stretch into Greene.

Greene County IDC Executive Director Don Chappel counted on a couple of key factors to predict that the park could be developed successfully. “Every request that comes through here always focuses on access to the interstate system, and most want to be within one hour of the airport,” he explained. “Evergreene is at an exit for I-79; I-70 is twenty miles north of us, and I-68, which is a beautiful highway to drive, is twenty miles to the south. And until the WalMart was developed this year, I could drive the 53 miles from the site to Pittsburgh International without hitting a traffic light.”

Greene IDC also banked on the proximity to the technology and energy growth in between Morgantown and Pittsburgh. “The Department of Energy has a big research center in Morgantown and Bethel Park. There’s an I-79 technology corridor in northern West Virginia. And there are still 3,000 people directly employed by the coal
industry in Greene County.” Chappel and his board figured that enough businesses would want to serve the industries in both towns, and would be attracted by the infrastructure and the tax advantages of a Keystone Opportunity Zone.

What Greene County lacked was experience developing on such a scale. Several of the board members had personal experience working with Rod Piatt in the past and recommended using a professional developer like Horizon Properties to get their ideas out of the ground.

“EverGreene certainly wasn’t our brainchild,” clarifies Mike Swisher, principal at Horizon Properties. “The owner started putting a plan together in the 1990’s for a high tech park, but didn’t have the resources to develop the project. Greene County IDC selected us to help them execute the vision.”

Creating a high tech development in Waynesburg may still have been too daunting a task for even an experienced developer, but fate interceded on September 11, 2001. After the attacks in New York and Washington DC, one of the new security best practices that surfaced was to locate defense-critical businesses and government installations off the main power and communications grid to reduce the vulnerability of the defense and technology infrastructure.

“We thought an opportunity existed in Greene County to develop a high tech park that would attract defense and security businesses away from the grid,” explains Swisher.

An alliance was formed with the Pittsburgh Supercomputing Center that would attract tenants who could have facilities removed from a big city but still connected with the technology resources of nearby universities like Carnegie Mellon, West Virginia University and Pitt. Working through a partnership with Comcast, Greene County IDC had a fiber line installed connecting EverGreene and Pittsburgh.

Although Horizon had worked early on with Greene County to create a master plan, the company was too busy with the first stages of Southpointe II to answer the call to begin development in late 2004. Mike Swisher remembered, “We had to beg off initially when the IDC asked us to put the plan into action, but the owner decided to wait six months until we were available.” The timing turned out to be perfect.

By early 2005, state officials and local economic agencies were looking to invest in building a new economic base in Greene County. The infrastructure grants had been put to use, and public bids taken for site work. When Horizon was able to jump in with both feet, they found that Greene County had, in fact, secured a tenant for their first building. Monroeville-based R. J. Lee Group had a number of defense and government contracts, and was searching for a location like Waynesburg. R. J. Lee needed more than 20,000 square feet, making the 40,000 square foot first building non-speculative, and their security and schedule needs created a solution that would bring Horizon and Burchick together for the first time.

“Lee had strict requirements for security and the structure that made tilt-up concrete a good choice, and the method also allowed us to meet a ‘hurry-up’ schedule,” says Swisher. “There may have been other ways to build, but with the covenants in the park the buildings had to be masonry or concrete.”

What Horizon found was that the site cast tilt-up concrete construction project portfolio in southwestern PA was pretty lean. For a variety of reasons, the market had historically consisted of steel, wood, masonry or cast-in-place concrete structures. As a practical matter, there were a number of contractors capable of technically performing tilt-up construction, but only a couple that had actual resumes with tilt-up buildings. The longest resume belonged to Burchick Construction.

Elmhurst Corp. had chosen Burchick to build the first two of its three-story offices at the Airside Business Park, constructed using site cast tilt-up concrete structures. Burchick had also built the Carpenters’ Training Center in
Lebanon, PA as a tilt-up structure. The experiences convinced Burchick Vice President John Finney that the method could be superior to others. “Five years ago no one did these kinds of structures, but the time savings is so significant that the owner saves a lot of money and schedule, even if you end up waiting for steel or shop drawings.”

While the tilt-up experience gave Burchick an edge, the EverGreene One building was put out for competitive design/build bids in spring 2005. Teamed with Pittsburgh architect EDGE Studio, Burchick put together the winning proposal, and was released to start construction in August 2005.

Beginning in late summer should have provided ample time to beat the weather, and avoid winter condition protection, but the building’s design changed as the tenant mix shifted to almost entirely office use, and when excavation uncovered a lot of rock. With some good weather luck, the building was erected with winter protection for only about one-quarter of the concrete pour. Even with less than perfect conditions, the structure was up in less than four days. “If you get started at an ideal time of year it’s much faster,” explains Finney. “We did a three-story, one hundred thousand plus square foot building in a week. Once you get the experience, the only variable should be the reveal on each panel.”

EDGE Studio’s design for the one-story, 40,000 square foot R. J. Lee building incorporated glass and glazing with canopy entrances to offset the mass of the 22 ft. high panels and present a high-tech look. The architect put reveals and form liner relief to mimic masonry and tile details in the exterior walls.

While the building was originally expected to be as much warehouse or industrial flex space EverGreene One became mostly office as the remaining half of the building was leased to CNX Gas Corp. and Westmoreland County Community College took a small space.

The growth of energy company CNX Gas provided an impetus to the development of EverGreene Two in spring and summer 2007, as plans for another 40,000 square foot flex building developed. JSA Architecture was the architect for this building, which featured a rounded central entrance at one corner and significantly more reveals and architectural detail in the tilt-up panels.

Construction began in September 2007, and although the later start meant more winter protection, some of the lessons learned during the first building were applied on building two.

“The site had a lot of rock. We actually blasted to six feet below the foundation on the first building,” recalls John Finney. “On the second building we used a Vermeer machine to cut the rock precisely for the foundations, sewer lines, and utilities. It’s about $60,000 a month for the Vermeer but it was more than paid for since we got all that site work done in one month.”

Finney explained that the decision to invest in the Vermeer was typical of the kinds of decisions his boss makes. “That is what Joe (Burchick) has always done: looking at a set of plans and identifying the key things that are critical to the job. We self perform the concrete, storm system, all the carpentry, interiors, and hollow metal doors. Even though we hired an excavator on a time and material basis, we directed him because Joe wants to control the quality and the schedule.”

Burchick’s tight controls benefited the developer in more tangible ways than just high quality and on-time delivery. Both buildings were done as guaranteed maximum price contracts with shared savings. “We gave them copies of all the bills so everybody is comfortable with what’s being done,” says Finney. “Horizon got back $100,000 on each building.”

With CNX Gas leasing up the second building prior to completion of construction, plans have begun for the third building in the EverGreene Center. “The preliminary planning and architecture is being done on a 60,000 square foot building,” says Horizon’s Mike Swisher. “We’d like to start this fall if we can.”

Meanwhile, progress on other EverGreene projects continues. The state Department of General Services opened bids in early August for a new armory, and planning for developing the remaining ten or so parcels continues. And east of the park, along Route 21 between I-79 and the town of Waynesburg, a long-awaited retail center is under construction that will give tenants in EverGreene Tech Center additional shopping and dining alternatives.

Natural gas prices have spawned drilling activity in Greene County, and the Marcellus Shale exploration should accelerate the pace of new wells. The defense and security businesses in northern WV continue to grow, and the distance between Pittsburgh and Washington, DC shrinks with development in each market. The prospects for the EverGreene Technology Center have never been brighter.

That doesn’t surprise Don Chappel, who jokes about Greene County’s ‘pastoral splendor.’ “Not everybody wants to live in a big city, you know.”
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ULI is not the omnibus testing lab that assures that the products you buy are safe for use in your home. The Urban Land Institute is a national non-profit cooperative forum for real estate professionals, across many disciplines, which serves to provide research and education for the highest development of urban properties.

Pittsburghers may recall that the ULI is the place where erstwhile mayor Tom Murphy went to work after leaving office in 2005. Real estate professionals in Western PA may know ULI better as a place where leaders from development, brokerage, property management and investment meet to foster the best practices in the industry. With as gritty and mendacious as construction and real estate can be, it’s good that there can be an organization that exists to rise above the daily battles in order to move the business forward.

ULI is first an international organization. Local members and readers of its publications get the benefit of the experiences of development worldwide. The individual chapters of ULI organize as there is sufficient interest in a region, and for the most part the local council focuses on implementing the national goals, sort of a ‘think globally, act locally’ for real estate.

ULI Pittsburgh gets the benefit of having experienced and talented real estate professionals who are interested in continuing the high-minded work of the regional council. For any local ULI council to succeed that participation is essential, because local councils are volunteer organizations. “ULI Pittsburgh is driven by the passion of its membership for promoting responsible urban development,” says current District Council Chair John Watt. “The group provides great information about what’s going on in Pittsburgh and relates it to the national agenda. Some of the most important leaders of the region are willing to put the time in, and there has been a lot of growth in younger members, which is really exciting.”

The Pittsburgh Council has a Young Leadership Group, with programs unique to that group of professionals in the early stage of their careers. The programs, which typically draw between 20 and 40 people, focus on local developments that represent ULI goals put into action.

Some of the most important leaders of the region are willing to put the time in, and there has been a lot of growth in younger members, which is really exciting.

The program involves an evening tour of the project, which gives the attendees the chance to have one-on-one conversation with the development team. Recent programs involved RIDC’s Brooks Robinson and the renovated former Heppenstahl plant in Lawrenceville, and Joel Edelstein discussing Butler’s revitalization.

The local organization boasts 175 members. Its regular meetings provide a variety of educational experiences. “For the breakfast programs we try to bring in national speakers to talk about ‘big picture’ stuff-green building, affordable housing, workforce issues, how to reinvest in infrastructure. Our year-end event brings in the author of Emerging Trends and local experts to look at the important issues for the coming year.”

The next event will bring representatives from Duquesne, Point Park and Seton Hill Universities to talk about how they are investing in the urban core of their communities to highlight that
important component of sustainable development. These kinds of events have earned ULI the reputation as the group that puts on great education programs. “I think they still put on the best programs in the region,” says John R. Deklewa, of John Deklewa & Sons.

Like most volunteer industry organizations, Urban Land Institute runs a lean budget. Program sponsors come from the development and real estate services sector, and funding comes from a portion of the national membership dues that is returned to the local council and the nominal charge for program attendance. The Pittsburgh council has a part-time coordinator, Holly Muchnok, and its volunteer steering committee.

On the national level, ULI provides high-level research and education for both member organizations and owners of buildings. It is uniquely qualified to respond to crises needs, like the rebuilding of New Orleans, or to advocate politically for issues that are important to the development community.

In addition to the educational program, ULI also offers resources for owners and developers who desire to make urban investment and want input from the professional development community. ULI District Councils can provide Advisory Services Panels for local owners. Advisory Services Panels will be made up of local volunteers who are willing to study a development issue and make recommendations as to the best solutions. In October 2007, just such a panel was sponsored by Point Park University to assist in its mission to create a community in downtown that could foster live/work/play facilities. The panel made five recommendations that Point Park could use in carrying out its programming for the Wood Street/Boulevard of Allies neighborhood.

One of ULI’s greatest successes as an organization has been the continued fostering of information exchange between professionals who ordinarily work very hard at keeping information from each other.

ULI Product Councils are groups that study and advance property types. To sponsor a product council there must be at least 50 members involved, of which at least half must be developers. “Product Councils are meant for sharing best practices among members who are generally competitors,” explains John Watt. “Members will answer other members’ questions, and talk about issues that they couldn’t otherwise talk about. Confidentiality is huge. These are developers that are willing to share the ins and outs of their deals so that others in the council can benefit when they encounter similar problems.”

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Legislative Activity Affecting Contractors and the Construction Industry
By David Raves

Contractor Licensing Act Could Cause Confusion

Currently under consideration by the state legislature is an Act, entitled the Fair Contracting Act, providing for the licensing of contractors. The Act defines a contractor as anyone who, for compensation, offers to undertake, undertakes to construct, alter, repair or demolish any nonresidential building, highway, road, railroad including the erection of scaffolding. Contractor also includes a construction manager. The Act further defines subgroups of contractors including electrical, general building, general engineering, HVAC, piping, plumbing and specialty contractors.

The Act specifically exempts certain categories of entities or individuals including one who furnishes materials or supplies without fabricating or consuming them in the construction project (this definition does not answer the question of whether a steel fabricator or other manufacturers of specialty equipment would need to be licensed even though their product is installed by others); a person who personally performs work on property they own or lease; a person who is licensed or registered as a professional under the control of any other board whose primary business is real estate sales, appraisal, development management and maintenance (not sure it is appropriate to exempt real estate agents who perform construction work); registered architects or engineers whose primary purpose is to prepare construction documents; a residential contractor; work done by a employee of the Commonwealth or other municipal corporation; work performed by owners of agricultural or farming enterprises on their property; public utility companies; and work performed by a contractor’s regular employees on property owned by the employer which is not intended for speculative sale or lease. The last exemption may conflict with the general rule which only requires an officer of a firm, partnership, corporation or association to hold a license.

In order to carry out the licensing of contractors, the Act establishes a board consisting of the Secretary of Labor and Industry, the Director of the Bureau of Consumer Protection, a contractor from each of the above defined groups of contractors and two public members. Under the Act the Board is given the power to promulgate regulations for the licensing of the various contractors, to establish the minimum qualifications for licensing, to enforce its regulations, to maintain a publicly accessible database over the internet on information concerning licensees and to conduct examinations.

Although the regulations developed will spell out the detailed requirements for licensing, the Act does generally direct the Board to create regulations that require an applicant to submit an application, pay an application fee (not to exceed $200) demonstrate appropriate amount of work experience, honesty, trustworthiness, integrity, and proof of financial responsibility. The applicant must also maintain workers compensation insurance and be a U.S. citizen.

Licenses issued must be renewed yearly which will include a yet to be determined renewal fee. In order to qualify for renewal, the applicant must have completed four hours of continuing education dealing with applicable national codes and state laws and regulations regulating the license holder. The actual content of the courses will be approved by the Board.

The Board has the authority not to renew, suspend or revoke a license if it finds that the licensee is negligent or incompetent; willfully or repeatedly violated the Act; committed fraud or deceit; had a licensee suspended or revoked or received disciplinary action in another state; acted in a manner, with respect to contracting, that presents an immediate and clear danger to health, safety or property; or possessed, used, acquired or distributed a controlled substance.

As currently drafted, the Act provides a general understanding of things to come and the future potential for confusion which may or may not be remedied through amendments or the adoption of clear and concise regulations. We will need to wait and see the fate of Contractor Licensing in Pennsylvania. At the time of this writing the bill was still in house committee with public hearings schedule for July and August. Even if acted on by the House of Representatives after the summer break, action would still be required by the Senate for passage. Although time is limited, anything can happen.
Construction Industry Independent Contractor Act – Employee /vs/ Independent Contractor

This Act provides for definitions to distinguish between employees and independent contractors. For the purposes of the Minimum Wage Act, Wage Payment and Collection Law, Unemployment Compensation Law, and the Workers’ Compensation Act an individual engaging or performing services in the commercial or residential construction industry are presumed to be an employee, unless that individual is free from control or direction of performance, and is in a customarily separate trade. To be presumed an independent contractor the individual must comply with all of the following, must have a separate business location; operates under written contracts which articulate the scope and cost of work; reports income and losses for services on income tax schedules; incurs expenses related to the work; is liable for the completion of the work; individuals business success depends on income and expenses; has assets to perform the work; makes services available to other entities; has recurring business expenses; and performs the work through an entity in which they have an ownership interest. The Act is an attempt to eliminate the improper classification of employees as independent contractors to evade compliance with federal and state laws including Social Security, overtime pay, and other benefits.

New False Claims Act

HB2509 Similar to the Federal False Claims Act, the Pennsylvania legislature has introduced legislation allowing for the imposition of damages equal to three times the amount of damages the Commonwealth sustains as a result of a person knowingly submitting a false claim or record in an attempt to have the claim paid. The same holds true if the individual conceals or avoids information which would decrease an obligation of the Commonwealth. Commonwealth is defined broadly to include any governmental unit performing a governmental or proprietary function.

Under this Act the Attorney General is responsible for investigating and prosecuting such allegations of false claims and provides the Attorney General with broad subpoena power to investigate such allegations.

David Raves serves as Principal and Construction Practice Group Lead with the law firm of Maiello Brunigo & Maiello LLP, which has offices in Pittsburgh East, North Hills 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.
Will Anyone Finance a Spec Building?

Commercial real estate development is all about speculation. Like contracting, the development community puts significant effort into limiting the amount of risk undertaken on any project, but at the end of the day the best developers are the ones who foresee demand before it arises and are positioned to build space on the come.

That’s why it probably doesn’t make sense to the average bystander when Mike Swisher of Horizon Properties grouses a little, “We’re not in the best place a developer can be, in that we have 100% occupancy in our completed buildings, and the one project we have under construction is 50% leased already.” Horizon Properties, the building owner, loves 100% occupancy, but Horizon Properties, the developer, fears the potential for lost opportunity.

Like most developers, Horizon would like to be one building ahead of full occupancy. One of the enduring principals of commercial real estate development is leverage. Using the value of other assets to secure the extension of credit to purchase or develop additional space gives developers the opportunity to respond to market conditions as they see them. The check and balance on this is the developer’s profit motive (i.e. the developer has a strong motive to make sure his buildings perform before taking on more risk), and the fact that professional developers will be right more often than wrong about market conditions.

In the current financial market, however, there is almost no level of risk that is deemed comfortable. The rule of thumb is that there should be enough leases in advance to cover debt service, or interest only, on the building. That principle has gone on the shelf for a while. Bankers surveyed for this article indicated pre-leasing requirements as low as 50% (for the perfect scenario, and under the corporate radar), but mostly between 60% and 70%. At that level, the building is virtually stabilized.

“Our comfort level for that is about 60%,” says Andy Devonshire, an Executive Vice President at Dollar Bank. “That really hasn’t changed for us though. Our taste for lending to the spec market has never been great.” Devonshire, who also carries the responsibility of President of Dollar Bank of Ohio, has seen the effects of the credit crunch first hand in northeastern Ohio.

Dollar is one of the more conservative banking models in our region, but their approach isn’t terribly far from the mainstream in Western PA. Even a bank like National City, which has been hard hit by the mortgage problem, has not seen its Pittsburgh area portfolio deteriorate like in other regions. For the most part that's because regional lenders have not historically been pure spec lenders, in part because regional developers haven’t been spec developers either.

Even without a robust spec building market in Pittsburgh, the need for commercial mortgages here isn’t extraordinarily low. And all forms of financing risk are heading for the hills.

In recent years, the lending industry has used the sale of mortgages as a means to shift the majority of the risk of lending to a broader group of investors through financial instruments or securities, backed by the mortgages. The collapse of the housing market and the resulting loss of

Financial Perspective

In 2007 there were $236 billion in CMBS deals, in 2006 there were $203 billion, and $169 billion in 2005......So far this year there have been between $12 and $15 billion.
home values has eliminated that security bundling in the residential sector, and the shock wave that created has chilled the commercial mortgage backed security (CMBS) market as well. While there has been no appreciable increase in commercial loan defaults, those commercial loans currently have the appeal of a Hummer2.

“The CMBS market is still so tied to the residential market,” explains David Rudolph, Vice President of TriState Capital Bank. “The CMBS market decline started the problem. There were fewer places for stabilized projects to get re-financed. Developers had to go to the insurance market, who then pulled their reins in, so that now we’re stuck with investment banks, and we know how they have tightened up.”

The banks Dave Rudolph is referring to are what we’d generally call Wall Street banks: Merrill Lynch, Lehman Brothers, Bear Stearns. There are also significant commercial loan portfolios at super-regional banks like National City or Wachovia Bank. What do they all have in common? Take a look at their stock charts for 2008. All have declined badly.

Holiday Fenoglio Fowler LP is an international mortgage broker whose Executive Managing Director, John Pelusi, is based in Pittsburgh, and has been through similar cycles during almost three decades in the business. “The CMBS market just got out of control, and this kind of global de-leveraging is going to continue until the market gets it out of its system,” he sighs. “CMBS is effectively shut down. All the activity in 2008 is deals that are holdovers from 2007.”

Pelusi believes the market for mortgage-backed securities is probably right-sized at $100-$150 million per year. “In 2007 there were $236 billion in CMBS deals, in 2006 there were $203 billion, and $169 billion in 2005,” Pelusi recounts. How tight are things now? “So far this year there have been between $12 and $15 billion. The market is back to high equity participation.”

But even developers with higher equity potential still have to work hard to put credit packages together.

“We have an international equity base, so we’re covered on the equity side,” says John Economou, Principal in DOC Economou, Chicago-based developers of the $300 million mixed-use project at the Don Allen site in Shadyside, as well as a $50 million hotel/condo at the South Side Works. “On the debt side things are more dicey. We’re using corporate guarantees, enhanced credit instruments, a lot of different creative ways of securing credit.” Economou noted that even that didn’t guarantee success. “We’re finishing two projects right now with banks that are out of the business of lending in those markets now,” he laughed.

“Spec to me is 0% to 30% pre-leased, max, and those aren’t deals we’re trying to find” says Bank of Pittsburgh President, Ted Randall. Bank of Pittsburgh is one of the first new banks to start up in Western PA in a decade or more, and is part of the $4 billion Capitol Bancorp family. While his bank will be looking to make inroads into the real estate market here, the approach will be measured.

“We’d look at a spec building in the right conditions,” explained Randall. “I’d want a project in a good market location, with a reasonable lease-up potential, and a developer with the wherewithal, the staying power, to support the bank to the degree that the bank’s supporting the project.” Asked to define the latter more specifically Randall replied, “The borrower has to be willing to have a capital call agreement and add capital to the building if the building stays vacant.”

There’s the rub. When you ask a developer to put 30% down, pre-lease 50%-60% of the building, and agree to a capital call agreement, the risk has shifted entirely in one direction. The problem is no longer about an inability to put financing together but rather the inability to put together a desirable pro forma. The tighter credit conditions make it more difficult for developers who are right to anticipate market trends; and that anticipation is critical to a free real estate market.

Conditions in the far North Hills are an example of how the credit tightening is constraining the market from functioning as it should, even in a region that has improving commercial real estate performance. Already a solid market, Cranberry/Marshall area has become white hot since the announcement of the Westinghouse Nuclear project. Vacancy rates for office and commercial property are well below ten percent in the market, and the vacancies that exist are small, almost entirely consisting of spaces less than 10,000 square feet. The situation cries out for another Cranberry Woods or Penn Center scale project, but putting a pure spec building into that market would seem only marginally less risky to the lending community.

Still, demand for space in Cranberry is building, and there are projects in the pipeline, some in excess of 100,000 square feet. And if the speculative part of the project has to be smaller, or the equity piece larger, in order to get a lender to bite on the deal, it seems the concessions will be made. Mike Swisher seems unconcerned about the prospects for the market. “The industry is resourceful enough to find a way to make the deal work,” he says. “We have a strong brokerage community here, with good planning because of it. We’ll know about it if someone needs space, and we’ll find some way to get it done.”
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Management Perspective

The Surety Update
Surety companies aren’t the construction industry’s watchdog. It’s doubtful that anyone in that business ever wanted the reputation, but since the whipsawing of losses and profits in the past decade, most sureties are happy for the average schmoe to understand that theirs is a business first and foremost; and one in which the need to respond to changing conditions can drive the business decisions more than an overarching mission to protect the construction industry from itself.

Most bonding agents or surety pros come across like an accountant or the trusted hometown insurance agent, calm and analytical. Like a duck on a pond, sureties can seem calm on the surface only because they are paddling so furiously under the water. As 2008 heads into the last quarter of the year, the surety business has good reason to be paddling hard again.

Business observers tend to look at trends in annual terms. What kind of year will this one be? How is the next one shaping up? The reality is that construction industry changes when supply and demand get thrown out of kilter, just like all other free markets. That happens when it happens. For the insurance industry, that happens when construction changes direction. For residential construction that happened in late 2005. But for the largest portion of the surety market that is happening as these words are being written.

Bonding is a relatively small piece of the overall insurance industry. It’s important to remember that decisions about becoming more or less aggressive with bonding often originate in response to events in the general property and casualty insurance business. This was the case in the past two business cycles, when sureties were more aggressive as the market declined, because their parent companies were hungry for revenues from other premium sources; and then, in response to unusually high losses from the September 11th attacks and several years of natural disasters, the insurance business tightened the standards just as the construction industry needed extra capacity in 2005. The trauma of those years resulted in tight market conditions and accelerated consolidation of the surety companies.

Perhaps because of those extremes, surety executives seem more proactive now in looking at the expected changes in the market, and have taken measures to soften the reaction. The more basic and conservative underwriting standards applied in the past half decade have restored profitability to the business, and allowed the sureties to build capital reserves that are needed to ride out a bad year, which is what is expected in 2009.

Three common issues seem to be most on the minds of insurance managers as sureties close in on a fourth consecutive year of positive loss ratios:

1. The slowdown in non-residential construction seems to be unavoidable. What sort of decline is coming and how much will it eat into contractor backlogs and profits?

2. Safeco Insurance and Liberty Mutual are completing a merger that will move the fourth and fifth largest insurers up to second, and eliminate one more surety. How will the integration of those companies effect the competitive environment?

3. Contracting slowdowns combined with runaway inflation expose contractors and developers who haven’t done their jobs right. Will a rise in contractor defaults follow?

“Very few owners and developers, even those with vast experience, can ever deduce just how well their contractor has really estimated and managed their job, until things go wrong.”
Character, capacity and capital are the ‘Three C’s’ of bonding. For all the high-minded explanations of those principals that you might get from a surety professional, most would trade all three for the fourth ‘C’, cash flow.

Without question, the current direction of the tide appears likely to put some level of strain on contractor cash flow, which will begin to expose problems on projects that had escaped notice before.

Jim Altman, Chief Underwriting Officer at Chubb Surety, recently noted in Engineering News Record, “We believe that if the slowdown persists you’ll see an increase in defaults, because part of what may have been keeping defaults at bay is cash flow. As that cash flow slows down people are going to have problems.”

Very few owners and developers, even those with vast experience, can ever deduce just how well their contractor has really estimated and managed their job, until things go wrong. In busy times, contractors have opportunity for higher margins (although that isn’t always the case), and have better cash flow, so that small problems can often be accommodated within the contractor’s discretion. In tougher markets, however, there’s often no room for any extra dollars in the contract, and if cash flow is tight, there isn’t a lot of money to throw at a problem until it is resolved. Problems with projects increase, problem projects become losers, and in extreme cases, losing projects become defaults.

It’s worth noting at this point that the construction market being discussed is national, not regional. For as well as the Pittsburgh region is faring, the fate of the U. S. market will drive the surety conditions that Western PA contractors and developers must navigate.

“What we’re hearing the most noise about in the channels is the lack of opportunities in certain pockets, not so much in Pittsburgh but around the country,” notes Westfield Insurance’s Barb Brizendine. “There are a lot of markets where there isn’t enough work and contractors who didn’t prepare will start to see red ink again.”

Liberty Mutual’s Chris Pavone echoes Brizendine’s comment. “We’re waiting for a big slowdown. Everything seems to be OK for completing this year, enough backlog, but our people feel the slowdown is coming next year,” he says. “That’s why we’re looking to our contractor customers, seeing what plans they have in case it slows down. We might have a little leeway locally if our underwriter is really in tune with what is going on in the local market.”

Providing the underwriters are willing to listen, a little extra knowledge about the western PA market should help. In the past few years there have been relatively few defaults, and only one of significance, the Butler County Prison. In the case of that project the general trades contractor defaulted, and Travelers Bond fulfilled the performance bond by contracting with Rycon Construction for the remaining work at approximately $8 million of an original $40 million job. The Butler job seems to validate what most surety agents caution about the public markets in good times: a contractor was low with no prison experience, bidding at or near the maximum of his capacity.

Capacity is the other major issue on Jim Bly’s mind as he looks to 2009. “Capacity hasn’t been an issue for a couple of years, but the (Liberty/Safeco) merger will be interesting to watch to see whose underwriting philosophy wins out.” The Marsh Vice President also cautioned that even if the more liberal philosophy emerged, the merger still could cause capacity problems. “It will impact contractors with programs over $200 million because there’s one less surety,” Bly says. “For $50 million contractors, though, there are still six or seven players who can offer a program. That means that capacity for our regional firms should be fine.”

One other regional concern is that the change in Pennsylvania’s Mechanics Lien Law, which has increased the amount of bonding for subcontractors, may push the need for bonds beyond what tighter surety conditions will
tolerate. “Subs and specialty contractors don’t have as many options,” explains Jim Bly. “Most sureties still don’t want to write subs unless their balance sheet looks like a generals, lots of cash and no debt. Only Arch Capital has been willing to fill the gap.”

Bly also sees the pain the industry went through early in the decade as having a purifying effect of sorts. “The good news is that a bond is again a good indicator that you’re dealing with a good contractor,” he says. “And on the highway side there seems to be more capacity and tolerance. Sureties seem to think that highway work is less risky right now.

One of the remedies for the prolonged surety losses of 2002-2004 was increased oversight and communication, meaning reporting, between contractors and their surety partners. Liberty Mutual’s Chris Pavone thinks that style of relationship will bridge the shift from high construction volume to slowdown. “Our approach right now is just to continue to monitor customers, maintain frequent dialog, talk about the challenging projects, whether it’s good times or not.” Pavone noted hopefully, “The last time we had good years we got a little crazy, but that hasn’t happened the last few years.”

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<th>TOP 10 SURETY WRITERS</th>
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<td>Company</td>
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<td>Travelers Bond</td>
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Source: Surety & Fidelity Association of America. Rankings based on 2007 premiums.
The Market Has Some Subcontractors Saying No

Subcontractors usually feel like they have a similar lot in life to the second dog in a sled team: the view stinks, and no matter how hard they work someone else controls where they are going.

One of the characteristics of the overly competitive environment that has marked the post-steel construction economy in Western PA is that there were more good subcontractors than there was work to keep them busy. Even in the best years, like the ‘Plan B’ boom of the late ‘90’s, most projects attracted a half-dozen or more subs in the major trades, and some of the biggest projects brought out even more. Most of the owners and architects in the region followed conventional wisdom about this heightened level of competition, believing that it lead to better pricing.

An excellent theory, that one, but in the reality of the marketplace, an overly competitive environment invariably leads to pricing that is below the market, which often then leads to a daily battle over any issue that might allow an underpriced contractor to get some money back. Most public owners experience this phenomenon, fraught with picayune change orders and countless claims, on a regular basis. Most would gladly pay the right number to avoid the headaches.

There were a few business changes after the slowdown in the early decade that created higher barriers to entry for construction start-ups. Higher costs of insurance, tougher bonding requirements, especially personal indemnification, and generally more rigorous financial conditions acted as disincentives for experienced mechanics or project managers to strike out on their own. Moreover, the wrenching slowdown in 2002 took a larger number of big players out of the market than past recessions, either by consolidation with another sub or just the decision to leave the plan and spec market alone.

Thus we find ourselves in the summer of 2008 with most subcontractors looking at solid backlogs, and profitable recent years. With labor resources close to fully employed, many subcontractors are turning down work from all but ‘must bid’ customers, whether those are generals or owners.

“If we’re probably more selective now than we have ever been,” says Lighthouse Electric President Todd Mikec. “We’ll still bid jobs that we have to, for repeat customers, but we’re looking very closely at other opportunities.”

Fred Episcopo, President of interiors contractor Wyatt Inc. is taking the same approach. “Manpower is going to get real tight very soon. We’re not really trying to go after a whole lot of work,” he says. “There’s no sense loading up with a bunch of work if you’re not sure who’s going to build it.”

For general contractors, the more selective sub environment means that putting a job out to the market won’t be as reliable as in past. “If you don’t have a good handle on the sub’s number on bid day, you’re in trouble because you may only be getting one bid,” warns Lee Totty, of Yarborough Development & Construction. Totty
says he has been shifting his subcontractor pool according to the work he’s doing. “It goes back to the team concept. We have a different group of subs to bid Montour than for the Mt. Washington condo.”

Mike DellaMea, of A. Martini & Company, has been estimating in the Pittsburgh market since the 1980’s. He sees the subcontracting selectivity showing up in different ways. “It’s starting to depend more on how difficult the owner is to work for, how the architect is, what building you’re working in,” he explained. “For instance, it’s harder to get as many subs interested in working on small jobs at Magee or BST, because they are complicated facilities to work in.”

Perhaps the emphasis on pursuing profitable opportunities is the underlying theme of the current market conditions. Under ideal circumstances all contractors, subs or generals, would evaluate projects to bid on that basis, comparing the type of work to their available labor resources, matching their assessment of the risks of the project - the promptness of payment, the chances of back charging or unpaid scope creep - and putting an appropriate margin that reflects that risk. Reality can be different. For right now, though it is clear that a larger number of subs are being that selective.

Risk evaluation may also be an explanation why not all generals have the sense that the subcontractor market is picky at the moment. “We haven’t bid jobs lately that weren’t covered by subs, but then again we haven’t bid all that much either,” laughed Ray Volpatt Jr., President of Volpatt Construction. “Maybe it’s because we don’t go out to a lot of subs on each trade, but I haven’t heard about subs not bidding.”

“We’re not seeing anything different from the subs, no real trend anyway,” noted Jeff Thorla, who directs estimating at P. J. Dick Inc. “We’re not bidding every week in this market but there hasn’t been anything out of the ordinary, except for some of the sections, like miscellaneous metals or waterproofing, that are always like pulling teeth.”

Thorda and Volpatt represent two very different sizes and approaches to contracting, but each has characteristics that would be appealing to subs, even in a tight market. P. J. Dick Inc. has had success in securing some of the largest projects in the region, working on Children’s Hospital, the Gates Center, 3 PNC Plaza and the Pittsburgh Arena. The bullpen of subs large enough to handle that kind of work is limited, and all would be anxious to land those jobs. Volpatt Construction works almost entirely on private projects, mostly for a handful of repeat clients who want stable teams or prequalify subs. In the case of both contractors, though, subs would take a risk in not responding.

Still, even some of the big private work has gone wanting. “Ciminelli called us trying to get us to bid the tele/data on the Meadows because they only got two bids,” says Todd Mikec. “It’s a good size job just down the road from our office, and I would normally hate to pass that up, but it just wasn’t the kind of job I’m after now.”

That level of selectivity is unusual for a $300 million dollar casino project, but it underscores the mindset of pursuing profitability, even to the point of matching strengths to opportunities.

Fran Donatelli, Vice President of fabricator Zottola Steel, says those factors are driving their decisions about bidding too. “If you know your business well enough you know what kinds of projects you can be most profitable on,” she explained. “We are definitely more selective about the type of job we’re bidding and who we’re bidding to.”

“This summer about 60% of our stone has been going to new well sites,” says Chris Schweiger of Laurel Aggregates. “That’s material that would normally be going to a paving contractor. I don’t like not having stone for a long-time customer but the driller is more concerned about on time delivery, and I’m not getting beat up for price.”

There also seems to be some difference in response from trade to trade. “We’re noticing we have to make phone calls to our favorite subs to make sure they are on the jobs we’re bidding,” says Mike DellaMea. “But we bid a Verizon Wireless job in Warrendale recently that was nothing more than eighty feet of sidewalk and a couple of trees, and we got eight landscape bids!”

But DellaMea doesn’t believe he can count on that kind of response every day. “Gone are the days when you can send out a Bid Fax and get a lot of bids.”
Attracting Industry Should Be Government Job #1

Most government officials know that they shouldn’t head out to meet the constituents empty-handed. Our governor and local representatives like to come bearing gifts, like grant checks or scissors for ribbon cutting. One of the politicians’ favorite scenarios is to arrive for a groundbreaking or press conference for the new plant, which will bring fill-in-the-blank number of jobs to PA.

All cynicism aside, it is one of modern government’s more important roles to create incentives and opportunities to attract businesses to within its borders. The Commonwealth has the deepest pockets and the most juice to use, but the role of economic development is more often than not a county level function. During the past two decades, the successes of these agencies have been integral to the regional economic turnaround.

The current climate for attracting industrial business to western PA is as good as it’s been in a long time. Perhaps no time will be better for the economic development community to examine what has worked and where the opportunities lie, so that such a ripe time can be exploited. “We all know the bellringers, big flat sites, close to infrastructure, competitive tax packages,” laughs Diane Sheets, Director of the Community Development Corp. of Butler County. “I think what tips the balance in our favor is how well any of us communicate the advantages of Butler or Allegheny or Westmoreland or whatever the location is.”

Sheets says the Butler CDC bases its choices for sites with the community’s best interest in mind, which usually means that they will invest in sites that private investors won’t. That has often meant that she is marketing industrial parks that don’t have immediate access to anything but a state route. She cites two main ingredients for their success.

“First, we keep the process transparent to the prospect,” she explained. “We have to know the strengths and weaknesses of doing business in Butler County and in Pennsylvania, and we have to communicate both of those to the client. It builds credibility and ensures that there are no surprises as the deal progresses.”

The other factor is the engagement of elected and civic leadership during the development process. I know I can get the county commissioners to meet with a prospect regardless of the size of the opportunity, and we get the same support from our state and federal representatives without partisan consideration.”

Support from federal and state government has been a key component in the success experienced by Fay Penn Economic Development Council in Fayette County. With the county agency acting as developer on smaller scale multi-tenant buildings, usually 40,000 square feet or less, momentum built in Fayette County for defense and homeland security businesses, which were supported directly through federal grants. Fay Penn also took advantage of Governor’s Action Team grants and other state funding for infrastructure and workforce development to make their parks financially attractive to businesses looking to locate in Fayette. The result has been the addition of more than 1,500 jobs over the past decade.

While Fayette County was able to leverage its rural nature and economic situation to attract aid, the businesses that settled there have been more in line with the kinds of enterprises that have flourished closer to Pittsburgh. Fay Penn’s Barry Senera, feels that closer connection daily. “We’re working with the Allegheny Conference and the Pittsburgh Regional Alliance more closely, and Fayette County is being marketed as part of the metro area,” he says. “Those connections mean we can offer greater access to the resources of the city but at lower lease rates.”

DeWitt Peart, PRA President, believes that offering that kind of trade-off of lower rent for more remote facilities is a necessary part of the equation if the region wants to be attractive to a broad spectrum of businesses. “One of the key ingredients (an economic development agency can add) is to lower the cost of doing business.”

When asked to name the three things he felt were the highest priority to attracting business, Peart put that factor at the top. “First, we need to lower the business taxes. Ohio has just restructured their tax system so that there is in essence no corporate income tax, and we need to have a competitive response. Second is to have the right workforce in place, with the appropriate skills for the different industry sectors. And third, the right infrastructure needs to be in place to serve any needs. That means roads, rail, communications and airways.”

James Renzas, President of site selector Location Management Services of Mission Viejo CA believes most
governments, including ours, need to revisit their aid structure because businesses have changed. “Most state and local governments don’t understand how companies do business now. Pennsylvania’s incentive programs don’t line up with how companies are doing business today. For example, there are few biotech companies that show tax liability, due to the high research and development cost of bringing a new product to market - yet the state hopes to entice them by offering them an income tax credit - how absurd!”

Renzas was critical of Pennsylvania’s more centralized aid system, he points to the state’s positives – closeness to markets, experience in international business, availability of natural resources and raw materials, skilled labor force, infrastructure – as real assets to site selectors. “(Positive decisions) turn on the importance of labor force skills, quality and cost of the development, and proximity to markets and incentives.”

De Peart believes that public sector support for private industry comes down to the public investing in the things that attract and support business, like infrastructure, education and training, while the private sector invests in the risk-taking elements of their businesses.

One of the public improvements that have bedeviled locals for years is the work needed to meet Federal Highway Administration (FHWA) guidelines for designating what we call the Parkways as I-376, from the Turnpike in Monroeville to the Turnpike in Beaver, and eventually to the Route 60/I-80 interchange in Sharon. It turns out there’s more involved than signage. Almost $35 million in improvements are needed just to meet FHWA standards for guide rails, median barriers, lighting and right-of-way fencing. An additional $57 million would be spent to improve the Route 22/30/60 cloverleaf in Robinson Township. And that doesn’t include the more than $100 million invested in the completion of the full I-79 and I-279 interchange.

Site selectors feel the designation is critical to staying on prospect lists of those firms not familiar with the area. As it is now, looking at a map, you can conclude that it would require getting on and off four highways, two of which are state routes, to get from the Parkway East to the airport.

PA Commercial’s Bob Cornell agrees the designation would be helpful, if not critical. “Chances are someone from out of town will come here with a notion of what the highway is without the designation,” he cautions. “But site selectors are like everyone else: they want to be able to tell their client that they have done their job diligently. When the Parkway is designated I-376 it will mean no explanation of the system will be necessary.”

Lou Oliva, from Grubb & Ellis supports the re-designation, but also takes a practical approach. “To be honest, getting the missing ramps built at 79 and the Parkway West will mean more to industrial prospects than the I-376.” Oliva nonetheless predicted that the designation would get done in 2009.

Almost without fail the industrial real estate brokers in the region feel the best recent government initiative is the county’s decision to begin cutting loose the 4,200 acres it controls surrounding the airport for private development. County Executive Dan Onorato has had that as one of his two major economic initiatives since taking his oath. Onorato has also pushed for converting brownfield sites, but regional developers and brokers alike seem to support the latter initiative to a much lesser degree.

Chapman Properties President Steve Thomas prefers the focus on new development at the airport because it allows for a clean slate. “I think 20% of the existing industrial space is functionally obsolete,” he asserts. “It’s not going to be adapted or renovated to today’s standards without spending what you’d spend for new construction of high quality industrial space. The airport area offers you access to the best interstate section in the region.”

One recent success in Allegheny County underlines how much the reality may be changing in western PA for government incentives. Flabeg Corp. is a German-owned maker of specialty glass and glass coatings. With their mirrored glass business exploding because of the solar industry’s growth, Flabeg could not produce its orders in its Brackenridge facility. State and local government cobbled together financial aid of $9 million to attract Flabeg to the Clinton Commerce Park in Findlay.

The $30 million, 209,000 square foot plant, to be developed by Buncher Company, will employ 200 people by 2010. The location offers great highway access, the opportunity to build on a pad-ready site now (Flabeg’s 2009 production is already sold out), and adjacency to the airport for ease of travel to home office and global customers. The incentives were icing on the cake.

Flabeg CEO Axel Bucholz called the $9 million state and county incentive package, “a nice add-on” in making a final decision on a location, but he said packages offered by other states were higher. “We expect to pay in back in taxes in a pretty short term because we will be profitable very short term,” he said.

The PRA’s De Peart also sees an increasing trend toward one quality issue: sustainability. “The national and international market is leaning toward a total concept of sustainability, not just green buildings but sustainable communities as well,” he explains. “When corporate users are looking they want class A options, meaning a high performance building plus a sustainable environment. With these companies – and this was a big thing for Westinghouse by the way – the initial look at a community starts with sustainability.” Peart concluded, “It’s beginning to be the first cut.”
Carl Walker Construction (CWC) was recently awarded a $13.6 million contract to build a five-story, 1,000-car parking garage at The Meadows Racetrack & Casino in Washington, PA. The new 327,000 square-foot garage is a design/build assignment for CWC. Millennium Gaming, Inc owns the Meadows Racetrack and Casino. CWC will be working with LP Ciminelli, of Buffalo, the construction manager on the project. The garage is scheduled for completion in May of 2009.

The Allegany County Human Resources Development Commission awarded Rycon Construction the contract for construction of its new office building in Cumberland, MD. The project is a $5 million, 22,000 square foot new facility, which will infill an historic downtown neighborhood. Pittsburgh-based Moshier Studio is the architect for the LEED-certified project.

Rycon Construction was awarded an $8 million contract by Travelers Surety for the general construction completion of the $40 million Butler County Prison project, which was in default.

Ryon was awarded the construction management contract for Washington & Jefferson College’s new $33 million John A. Swanson Science Center. The 68,000 square foot building, designed by Einhorn Yaffee Prescott, is expected to open in 2010.

F. J. Busse Company was the successful contractor for the renovations to Joy Mining Machinery’s space at the RIDC Thornhill Industrial Park in Warrendale, Marshall Township. Becky Jarold of B. Jarold & Co. LLC was the designer for the 28,000 square foot renovation. Burt Hill selected F. J. Busse Company to renovate the 16th floor of Centre City Tower downtown for 10,500 square feet of additional space.

Poerio Inc. was the successful contractor on the renovations to the Brentwood branch office for PNC Financial Services. Radelet McCarthy Architects designed the $250,000 project. PNC also awarded a contract to Poerio Inc. for a new branch in Collegeville, outside Philadelphia. The project is a Gensler-designed, LEED certified new building, approximately 3,400 square feet. Construction has started on the Vista Grande, a new 5-story condominium at 501 Grandview Avenue on Mt. Washington, being built by Yarborough Construction. The 36,025 square foot, $6 million building will have 11 condo units. Atelier Denig is the architect.

dck worldwide, LLC, (formerly Dick Corp.) announced today that it received the LEED Silver award by the U.S. Green Building Council for the Child Development Center at the Oceana Naval Air Station in Virginia Beach, VA. This Project, on which dck served as the Design/Builder, is the first CDC to be awarded a USGBC LEED certification in the entire Department of Defense. The Alexandria, VA office of Michael J. Baker Jr., Inc. was the project’s Architect/Engineer.

Trammel Crow awarded John Deklewa & Sons a contract for tenant improvements to McKesson Automated space at 500 Cranberry Woods. The $500,000 involves build-out of 25,000 square feet of space. The Design Alliance is the architect.

P. J. Dick Incorporated has been selected to provide Construction Management at Risk services for the new 42,000 square foot church for Saints John and Paul Parish. Desmone & Associates Architects provided the design of the approximately $7,500,000 new parish church.

P. J. Dick was selected by UPMC to renovate office space on the first floor of the Kaufman Building. The renovations, valued at $366,000, include complete demolition and renovation of the existing space. Image Associates served as the architect for this UPMC project.

P. J. Dick Incorporated was awarded a contract to provide General Construction Services to build out approximately 30,000 square feet of the Greater Johnstown Tech Park to house incoming tenant Northrop Grumman. L. Robert Kimball & Associates is the architect for the $1,710,000 project.
P. J. Dick was selected by the Upper St. Clair School District to provide Construction Management Services for their Middle School Project. Graves and McLean is providing design for the project, which consists of renovations and additions to Fort Couch Middle School and Boyce Middle School. Initial estimates for both projects are approximately $45,000,000.

Groundbreaking was held on August 14 for the construction of the $300 million New Pittsburgh Arena in Uptown. Construction management is being done by P. J. Dick/Hunt Construction joint venture. HOK Sports is the architect.

Jendoco Construction Corp. was the successful contractor for Duquesne Light Co.’s Expansion to the Legionville control house located in Ambridge, PA. Jendoco Construction was also awarded the College of Fine Arts Room 310 Interior Renovations. Quad 3 Design is the architect.

Duquesne University selected Jendoco Construction Corp. to do interior renovation of an existing space at Canevin Hall. The project was designed by CJL Engineering.

Landau Building Company was recently awarded a contract from West Virginia University Ruby Memorial Hospital Eye Center for the elevator addition and renovations of the existing hospital.

Landau Building Company continues the renovations to the Andrew Carnegie Free Library and Music Hall in Carnegie. The music hall support areas have been renovated as part of this phase. The Design Alliance is the architect.

A. Martini & Company was awarded a contract by Baker Hughes for a new 50,000 square foot warehouse and 16,000 square foot, two-story office building in New Stanton. The $8-9 million dollar project is being delivered design/build with Desmone Associates Architects.

A. Martini has started construction of the phase 1 of Vincentian Nursing Home. CSD Architects of Baltimore is the project’s designer. The $22 million dollar project is scheduled for completion in 2010. A. Martini was the successful general contractor for the interior renovation of the Fox Chapel PNC bank branch.
A. Martini & Co. has been selected as the general contractor for the sanctuary renovations to the Sewickley Presbyterian Church. MacLachlan Cornelius & Filoni are the architects for the project.

Garden Ridge Retail Center awarded a $2.7 million dollar contract to FMS Construction for the fast track, 158,000 square foot renovation of the former Wickes Furniture Store building in the Robinson Town Centre area. The renovation will be complete and open for business in September of 2008. This project was designed by The Design Alliance.

FMS Construction was the successful contractor for the Coliseum Interior Renovations at West Virginia University. This project involves interior office renovations and the conversion of the existing racquetball courts into two levels of classrooms. The contract award is $725,000 and was designed by Paradigm Architecture.

FMS Construction was awarded a $4.4 million contract to remodel Giant Eagle #66 in Chippewa, PA. The grocery store is 55,000 square feet and will be open for business during the remodel. McCormick Architects designed the project.

Community College of Allegheny County awarded FMS Construction a $113,422 contract for the replacement and refurbishing of various doors throughout Beyes Hall, the Visual Arts Center, the Physical Education Building, and the Library at the Allegheny Campus.

Selectrode Industries of Huntington Station, NY awarded a contract to Uhl Construction Company for a warehouse addition in the Hopewell Business Park in Hopewell Township, Beaver County. The $1.15 million project involves a 13,600 square foot expansion. Olsen & Associates is the architect; Murray Associates Inc. did the structural design.

Girls Hope has chosen Massaro Corporation as the design/build contractor for a 7,600 square foot new home to the residents of Girls Hope in Baden. Construction on this $1.3 million housing project began in July of 2008 and will be completed by December of this year. Burt Hill is the architect on the project.

Carnegie Library of Pittsburgh has chosen Massaro Corporation as the general contractor for their new North Side branch library. The $4.4 million, 15,000 square foot, one-story building will be complete by February of 2009 and is slated for LEED Certification. The architect on the project is Loysen + Kreuthmeier.
Massaro Corporation and The Design Alliance have signed a design/build contract to build a new 9,000 square foot office building for The Baron Group in Springdale, Pennsylvania. Construction is slated to begin in November 2008.

Plextronics, Inc. has chosen Massaro Corporation as the design/build contractor for their new cleanroom. The class 10,000 cleanroom is designed to provide a controlled environment that will be used by Plextronics for testing organic electronic materials. It will be located adjacent to the company’s existing space on the UPARC campus in Harmarville. The construction project is expected to be completed by November 2008.

Ringgold School District has chosen Massaro CM Services, LLC as their construction advisor for their $4.5 million high school cafeteria renovation project. Construction began in late July of this month and will be completed by January of 2009. HHSDR is the Architect on the project.

L. Robert Kimball & Associates has chosen Massaro CM Services, LLC to serve as the preconstruction consultant for the Blairsville/Saltsburg School District project. Massaro will work with Kimball throughout the design phase of the $23 million addition and renovation project. Preconstruction services have already begun and construction is slated to begin May of 2009.

Community Bank has selected Nello Construction Company to construct a new 3,000 sq. ft. branch office located in Washington, PA on West Chestnut Street. Jeffrey A. Schroder is the Architect. Construction began in July.

Southwest Neurology has selected Nello Construction as design builder for their new 14,000 sq. ft. offices in Washington, PA. The building includes 6,500 sq. ft. of office space for Southwest Neurology and 7,500 sq. ft. of future tenant space. Brenenborg Brown Group is nearing completion with design. Construction scheduled to begin in September 2008.

St. Joseph Parish, located in O’ Hara Township, awarded Nello Construction a contract to build a new 19,000 sq. ft. facility. The project consists of new parking space, renovations to existing classrooms, as well as a new sanctuary and parish hall. Construction began in June. The architect is Brenenborg Brown Group.

The Wine Loft, a Baton Rouge, Louisiana-based franchise is opening its first Pittsburgh location in South Side Works. Ownership selected Nello Construction as design builder to complete the 3,500 sq. ft. interior. Dunn & Associates is the architect.
Poerio Inc. is pleased to announce the hire of Dave Sibenac Jr. as a project estimator. Dave is a California University graduate and has worked in the construction industry for the past five years.

Charles Churches, Sr., P.E., recently joined the management team of Carl Walker Construction (CWC), experts in parking garage construction. Formerly the Principal Engineer for Churches Consulting Engineers, Churches has been appointed Director of Marketing and Business Development at CWC. A graduate of University of Pittsburgh School of Engineering, Churches holds registrations in Pennsylvania, Ohio, West Virginia, Jersey, Indiana, Michigan, Kansas, Massachusetts, Maryland, New York, Florida, Kentucky, Vermont, New Hampshire, Maine, Connecticut, and Minnesota.

Zambrano Corporation, located at 260 Alpha Drive, RIDC Park, Pittsburgh, PA, is pleased to announce the addition of Gary A. Gill as Chief Financial Officer. Gary, who has an MBA from the University of Pittsburgh and a BSBA from Indiana University, brings with him 30 years of financial experience in both commercial real estate and construction.

Civil & Environmental Consultants, Inc. is proud to announce that Emily Jo Gaspich, P.E., has achieved the status of LEED Accredited Professional. CEC is also pleased to announce that Raymond J. Sinagra, AIA, was recently hired to lead the property condition assessment service within the firm’s due diligence practice. He is a graduate of Carnegie Mellon University with a BA in Architecture and a BA in Biomedical Engineering.

The Construction Legislative Council of Western Pennsylvania (CLC) announced the election of its officers for the 2008/2009 calendar year: Chairman: Walt Krasneski, National Association of Industrial & Office Properties Vice-Chairman: Joe Fecek, American Society of Civil Engineers Treasurer: Michel Sadaka, Pennsylvania Society of Professional Engineers Secretary: Jon O’Brien, Master Builders’ Association

The CLC is a multi-discipline coalition of 12 construction industry organizations, representing the interests of thousands of contractors, architects, engineers, owners and material suppliers from Western PA. Their primary purpose is to advance an informed dialogue with elected leaders and policy makers who will advance the economic and political interests of the construction industry. For more information on the CLC, visit www.clcpa.org.

A. Michael Gianantonio has joined the construction practice group, as an associate, at Cohen Seglias Pallas Greenhall & Furman, PC. Mr. Gianantonio will join the firms Pittsburgh office. Mr. Gianantonio received his J.D. from the Duquesne University School of Law and his B.A. from Grove City College. Mr. Gianantonio is admitted in the state of Pennsylvania. Prior to joining the firm, Mr. Gianantonio was an associate in mid-size firms working in the areas of complex commercial and construction litigation.

R.I. Lampus Company, a leading manufacturer and distributor of hardscaping, landscaping, concrete masonry products, silicon carbide and ferro alloys based in Springdale, PA, recently announced that Don Lampus, Jr. has been named President of the R.I. Lampus Company. Don Lampus, Jr. is the third generation of the Lampus family to lead the company. He holds an engineering degree from The Pennsylvania State University and has 20 years experience in business, including serving as President for five years at Doren Inc., the sole manufacturer of landscape products for R.I. Lampus Company.

Also joining R.I. Lampus Company is Bill Stevens. He will serve as Executive VP and CFO. Bob Welling was named Vice President of the Concrete Products Division, which includes both landscape products and concrete block products. Tom Dudley was named Key Account Manager, specializing in sales of grey and architectural block to major masonry customers. Joe Dufour has been hired as Manager of Customers Service. Rich Wild has been hired as Block Plant Supervisor. Neil Christopher has been hired as Inside Sales Supervisor of the Concrete Products Division. Joe Vansovich was hired as an addition to their accounting department. Joe joins R.I. Lampus Company direct from First National Bank of Pennsylvania, where he served as a credit analyst at their corporate headquarters.

Desmone & Associates is pleased to welcome Beth McGregor, AIA, LEED Professional as a Project Manager. Beth received her B.S. in Architecture from the University of Virginia, and a M.Architecture from Princeton University. As Project Architect at her previous
firm, Beth acted as one of the interior architecture leads on the new 1.5 million square foot Children’s Hospital project in Pittsburgh.

Brad Knapik, Project Engineer for Landau Building Company, recently passed the LEED Professional Accreditation Exam. Brad has a B.A. in Pre-Engineering Physics from Thiel College and a B.S. in Civil Engineering from the University of Pittsburgh. He has been with Landau since 2004.

David Burton has joined dck worldwide as Vice President of Operations for dck north america, LLC. Focusing on projects in the western U.S., David will assist with overseeing the operations in the region, particularly in the west, and will also work closely with business development personnel in developing new projects. David comes to dck worldwide from Rotondo Weirich, Inc., where he held the position of Vice President. Previously, David worked for Dick Corporation for over 20 years.

James Johnson joined Massaro Corporation as a Network Administrator to assist Massaro’s IT Director/Manager of Information Technology with the day-to-day operations of maintaining and upgrading computer systems, networking and communications. James relocated from Akron, Ohio to join the Massaro team.

Nello Construction Company is pleased to welcome project managers Jason Betters and Mali Torriero to their team. Jason, a graduate of Gannon University, has 10 years of experience in both residential and commercial construction which includes working as a site superintendent, construction manager and project manager. Mali, a graduate of Virginia Tech, brings eight years of industry experience which includes working for two Pittsburgh-based architectural firms.

Roger Dunlap joins Rycon Construction, Inc. as a Site Project Coordinator for the new Reed Smith offices to be built in 3 PNC Plaza. Roger brings over 30 years of diverse construction experience and has recently completed the Additions and Renovations of Fisher Auditorium at IUP.

Denny Nugent joins Rycon Construction, Inc as a part of Rycon’s Interior’s Division. Denny brings over 30 years of interior experience.

Mascaro Construction is pleased to announce that the following employees passed the U.S. Green Building Council exam and are LEED® Accredited Professionals: Bill Charles, Jr., Bill Derrence, Mike Kuchera, Joe Manganello, Matt Morris.

Mascaro welcomes the following personnel to its build with the best team: Mike Ellis, director of business development, Buildings Group; John Machen, project manager; Ken Comella, superintendent; Mark Meneely, safety manager.
Rebuilding Together Pittsburgh Celebrates 4th Club Noir

Friday, July 11th, marked the fourth annual Club Noir, the principal fund-raising event for Rebuilding Together Pittsburgh (RTP). Over 500 guests attended, and the evening grossed close to $80,000. The funds will be used to support Operation Urgent Care, which provides emergency home repairs for the region’s poorest and oldest homeowners in Allegheny so they have shelter. Held at Heinz Field’s East room, the evening featured casino games, silent auctions of local art and sports memorabilia and over 300 prizes (including a 42” flat panel Visio TV) raffled off to lucky guests.

RTP is a joint effort of local labor, contracting, design and service businesses who work in the construction industry, to repair and rebuild houses for Pittsburgh residents who cannot afford the work themselves. The effort culminates in Rebuilding Day, which is held each April.

NAIOP Presents Developers Showcase

The Pittsburgh chapter of the National Association of Industrial & Office Properties (NAIOP) presented a developers showcase devoted to the burgeoning energy-related industry growing in southwestern PA. The showcase, entitled “Pittsburgh: Energy Works Here,” was held at the Regional Learning Alliance building in Cranberry Woods on July 30. Featured were a presentation from Westinghouse Nuclear on the growth of the nuclear power industry support in western PA, along with site selection experts who put forward ideas on attracting and retaining energy-related companies to the region. Approximately 300 professionals attended the event.

FMS Supports West Penn Burn Center Summer Camp

Since 2005, FMS Construction has participated in the West Penn Burn Center Summer Camp. The camp provides a supportive environment where West Penn Hospital staff, local firefighters, and other caring volunteers come together to assist children with burn injuries in the
physical and emotional healing after the trauma of being burned. Burn Camp is a welcoming place for these kids who often feel separated from the other kids in their schools. 2008’s itinerary included five days at Camp Kon-O-Kwee, and excursions to the Carnegie Science Center, a Pirates game, and Duck Tour. FMS Construction is proud to be part of this program.

ACE Enters 2nd Year in Pittsburgh

Embarking on its second year, the Pittsburgh Chapter of the ACE Mentor Program is doing its part to ensure there will be enough Architects, Contracting professionals and Engineers to fill our industry’s needs ten years from now.

The ACE Mentor Program’s mission is to enlighten and increase the awareness of high school students to career opportunities in architecture, construction and engineering and related areas of the design and construction industry through mentoring; and to provide scholarship opportunities for students in an inclusive manner reflective of the diverse school population. ACE is a unique partnership among industry professionals — architects, interior designers, engineers, construction managers, college and university representatives, and other professionals from related corporations and professional organizations — who work together to attract young people to their professions.

The Pittsburgh Chapter has attracted a diverse board of directors. The chair is Mike Barnard, Oxford Development; vice-chair is Brett Pitcairn, P. J. Dick Inc. The remaining directors and advisors are Tom Callahan, treasurer, from Crown Advisors; Alicia Avick, Advantus Engineering; Don Matthews, Turner Construction; Daniel Paul, Youth Workforce Development, Mary Linn Theis, International Masonry Institute; Charles Toran, SciTek Environmental; Alan Traugott, CJL Engineering, and Jay Suknernek, Schneider Downs & Co.

With programs ramping up and active response from local high schools, Pittsburgh’s ACE chapter needs design and construction professionals willing to dedicate approximately 30 hours during the school year, and financial contributions to support the program. For more information on ACE and to find out how this organization can best utilize your talents and resources, please contact Mike Barnard at 412-261-1500.
The Master Builders’ Association of Western PA held its annual membership golf outing August 4 at the Pittsburgh Field Club in Fox Chapel. On a perfect day for golf 155 golfers made their way around the Alex Findlay-designed links.

(left-to-right) Tony Delisio of E&C Management, Bill Lemanski of Walbridge East, Bob Santillo of McCarl’s Inc. & Joe Segina of US Steel.

P. J. Dick managers Mike Roarty, Dale Lostetter, Frank Babik & Bernie Kobosky.

Perry Roofner of Robert Morris University with Anthony & Angelo Martini Sr., & Chad Brinkley of CB Richard Ellis.

Bob Blumling & Babst Calland’s Kurt Fernsler jousting at the MBA’s 19th hole.
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Is commercial real estate development a demand generator or a reaction to demand? As is the case most of the time with real estate, “it depends”. The commercial real estate market is generally driven by job creation, some of which it generates itself through design/engineering professionals, equipment and material vendors, and actual construction related jobs. Construction related jobs are now projected to continue to increase over the next two years.

“Build it and they will come” has been shown not to work when it comes to vertical brick and mortar construction. In regard to speculative space, if the rate of supply outstrips absorption a rapidly unhealthy condition is created that reduces rents and diminishes adequate returns. The result is a feast or famine cycle. With infrastructure however there is a different result. Private and public investment in infrastructure is durable and an enabler that allows a market to compete with other markets when demand is available. Over the past ten years significant private and public investment has been made in infrastructure within the Greater Pittsburgh region.

There has been 2,040,000 square feet of net positive absorption in the Pittsburgh office market over the last four quarters; absorption of office space is projected to be an additional 1,500,000 square feet through the end of 2009 reflecting overall growth in the number of office workers; average rents are projected to grow $2.50 per square foot over the same time frame; while the rest of the U.S. is contracting in office demand!

The above statistics reflect the relative health of a regional economy that has increasingly relied on healthcare, education, financial services, energy, and technology sectors. The growth in these sectors of the Pittsburgh economy is resistant to economic cycles, and is significant enough to now push the market forward, when less diverse and more prominent markets are beginning to contract. As Moody’s attests in its “Précis METRO, May 2008”, “Pittsburgh’s high-quality universities and medical centers not only provide highly skilled labor, a critical component to the success of high-end services and high-tech industries, but they are also less affected by the business cycle.”

Growth in employment in these sectors rapidly reflects itself in new development projects, thereby strengthening the demand for construction related jobs. The investment that has been made by both public and private sources in infrastructure and bricks and mortar telescopes this job growth. The installation of infrastructure and the existence of pad ready sites at Cranberry Woods, Tech 21, Southpointe II, Southside Works, Airport Authority land around Pittsburgh International, Airside Business Park, Cranberry Business Park, and a host of other public/private installations now too numerous to list, has allowed the additional demand to be easily accommodated and retained in the Pittsburgh marketplace.

Most notable among the infrastructure investors have been the Redevelopment Authority of Allegheny County, the Urban Redevelopment Authority of Pittsburgh, Allegheny County Airport Authority, Tech 21 Partners, Mine Safety Appliances, Washington County Redevelopment Authority, Community Development Corporation of Butler County, RIDC, and others. In the mid-nineties this was not the case, but continued emphasis on the need for pad ready sites has resulted in effective supply today.

This substantial inventory in Western Pennsylvania has successfully accommodated numerous move decisions involving significant expansions, such as: Westinghouse Electric Corporation, Medrad, Bechtel, American Eagle, and Dick’s Sporting Goods, to name a few.

A lot has been accomplished, but there is more to come. As long as there is a willingness to provide advance infrastructure, commercial real estate investors will continue to compete arm in arm with the public sector to maintain a bright future for Western Pennsylvania.

Jack Norris is Managing Director and founder of CB Richard Ellis’s Pittsburgh office.
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