Breaking Ground

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

NOVEMBER/DECEMBER 2023

SPOTLIGHT ON NORTHERN WEST VIRGINIA

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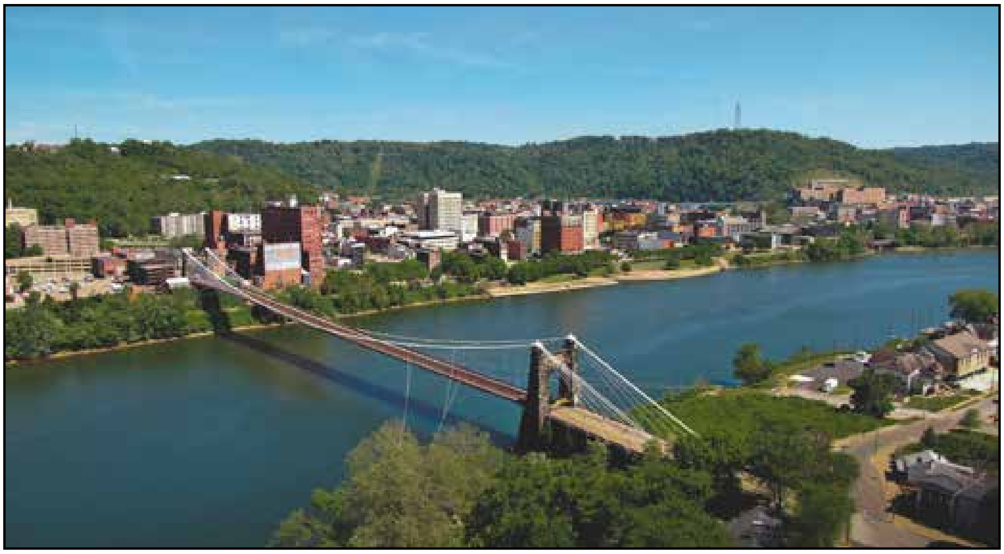

On the cover: Downtown Wheeling's waterfront. Photo by Wheeling Heritage.

PUBLISHER'S NOTE

I am a Pittsburgher. That means I have a God-given right to make fun of West Virginia. I have told my share of West Virginia jokes. However, after talking with local leaders and developers in Morgantown and Wheeling over the past couple of months, I am afraid to confess that the joke may be on us Pennsylvanians.

In the feature article in this edition of BreakingGround, you will read about what the local and state governments are doing to facilitate business attraction and employment growth in northern West Virginia. The state government prioritizes infrastructure spending (to a degree anyway) to drive private investment. City and county governments work together on which projects and initiatives have the best chance of succeeding, or on which projects are closest to the finish line. In Wheeling, communities are asked what kinds of services or end users they would support before private capital is brought in. Small transformative projects are supported with the same enthusiasm as big projects.

Does any of that sound like a description of doing business in Pennsylvania? In Pittsburgh?

The priorities of the Gainey administration are nowhere near those of a pro-business city. Over the past year, it appears that the Allegheny Conference is re-orienting its priorities towards business attraction again but has lost time to make up. And, at the state level, where the optimism of the Shapiro administration's "open for business" attitude was high, early accomplishments have begun to be bogged down in politics that are typical of the past decade. Hyperbole, obstruction, and extortion are the modus operandi of the legislature and leadership of the Commonwealth.

House Bill 623 is the latest example of our disconnected leadership. This is Pennsylvania's version of the debt ceiling legislation. It authorizes the general obligation bond sale that finances the Commonwealth's capital spending that does not come from tax revenues. HB623 passed the House on June 22 by a 102-101 straight party-line vote. The PA Senate Appropriations Committee passed it unanimously – meaning both Democrats and Republicans voted yes – on June 27. But the Senate has taken no further action since, and the bill was tabled on October 4.

The last authorization of bond issuance was almost 18 months ago and the proceeds from those 2022 bonds are exhausted. On October 20, Pennsylvania's secretary of the budget sent a letter to contractors and grantees of capital funding to say that it would no longer be able to make payments from capital accounts until HB623 or another authorization bill was passed. This affects construction at schools and PASSHE universities, highway and transportation projects (including PennDOT), flood control projects, and developments receiving RACP grants.

I assume this dispute will be settled by the time we publish but what message has been sent to businesses in the meantime.

Assuming that the resistance to HB623 is the size of the debt being authorized – and I don't take that on good faith anymore – failing to authorize general obligation bonds to pay for projects that have already been approved and contracted does not remove or reduce the expenses. We should expect lawmakers to have a lively debate about future projects or how much capital spending to authorize. That's the role of the legislature. Once the debate has been settled, don't take hostages by refusing to accept the invoice.

After listening to private businesspeople rave about how cooperative and welcoming the leaders in Wheeling and Morgantown are, this kind of government debacle is embarrassing. The government in West Virginia is building new exits to make it easier for developers to attract new tenants. In Pennsylvania, we're refusing to pay for grants we already made.

By the time you are reading this, we will have elected ourselves a new county executive in Allegheny County. I do not believe that Pittsburgh will fall to ruin if Sara Innamorato has been elected; however, I also do not believe that the county's voters want to see Allegheny County become a place where business is not welcome. County Executive Innamorato will have to overcome the impression that she is anti-business on day one. County Executive Rockey will not. That may not be fair, but it will be the reality.

Regardless of which candidate was successful, the next county executive will have the opportunity to work with civic leaders to make the county a better place to work and live. That means better parks, cleaner rivers and air, and better opportunities for all residents. And it means more employment. None of that will happen because the county made it happen. It will happen if the county government helps businesses make it happen. There are things good government can do to make Allegheny County more attractive, including getting out of the way. It is important that we have good government now because, until there is more change in Harrisburg, we may be on our own in Western PA.

The question the next county executive should ask businesses every day is, how can I help? That is what our first three county executives did. That is what leaders are doing in Wheeling and Morgantown.

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REGIONAL MARKET UPDATE

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Barring a spectacular year-end contracting blitz, construction activity will end 2023 with a whimper not a bang. Despite strong demand from most of the major construction consumers, new activity has been dragged down by higher construction costs and higher interest rates.

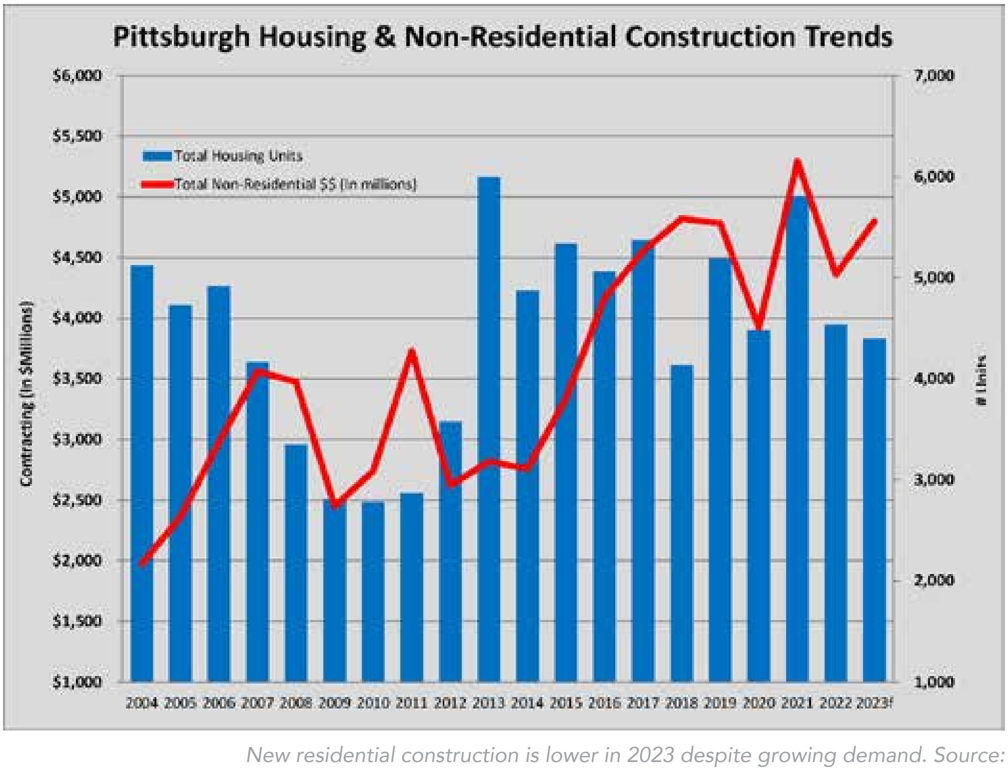
The latter is not a regional problem. Higher borrowing costs have plagued commercial real estate and residential construction since the Federal Reserve Bank began tightening its monetary policy aggressively in March 2022. Mortgage rates have jumped 180 percent since hitting record low levels at the end of 2020, with 30-year fixed mortgage rates jumping a full percentage point again to 7.7 percent over the past nine months. Commercial mortgage rates are 2.5 percent (or more) higher than 18 months ago, which is chilling new development and purchases.

The impact of that global financing problem has limited new residential construction. On the single-family side of the market, pent-up demand has far outstripped the supply of homes for sale, a recipe for a new construction boom. Yet, the difficulty and higher cost of residential development financing has kept a lid on new lot inventory. Higher mortgage rates have pushed potential new construction buyers to the sidelines. The result is new construction that is 1.9 percent lower through three quarters of 2023 than the year before.

From January through September, permits were issued for 2,163 single-family homes, a decline of 40 dwelling units compared to the same period in 2022.

Multi-family construction has been affected even more dramatically. After a 16.6 percent decline in new apartment construction from 2021 to 2022, the prospects for multi-family development were strong coming into 2023. The pipeline of new projects had grown to more than 8,000 units. The combination of higher rates and construction costs has deferred most of those projects. Pittsburgh Homebuilding Report's initial forecast for new multi-family construction was 2,100 units. Through September 30, however, only 785 units had started construction, and it is unlikely that more than 1,200 units will be started by year's end.

Even as household formations in Pittsburgh grew by more than three percent in 2023, new residential construction will be off by more than 17 percent overall. While there are 600-900 apartment units in the pipeline that are already fully entitled and for which the property purchase has closed, higher borrowing costs are expected to push most or all these projects into 2024. On the single-family side of the market, new construction is still constrained from long-term robust growth by lack of buildable lots and, in the short term, the recent jump in mortgage rates chilled traffic at the end of the third quarter. That slowdown will dampen permit activity in the fourth quarter, likely leading to a decline of 100 homes compared to the 2,825-unit single-family total in 2022.



New residential construction is lower in 2023 despite growing demand. Source: Pittsburgh Homebuilding Report, Tall Timber Group.

	#SFD	#SFA	M/F	Total
Pittsburgh Metro 2023:3	1,380	783	785	2,948
Pittsburgh Metro 2022:3	1,456	748	1,373	3,577
% Change	-5.2%	4.7%	-42.8%	-17.6%

Source: Pittsburgh Homebuilding Report.

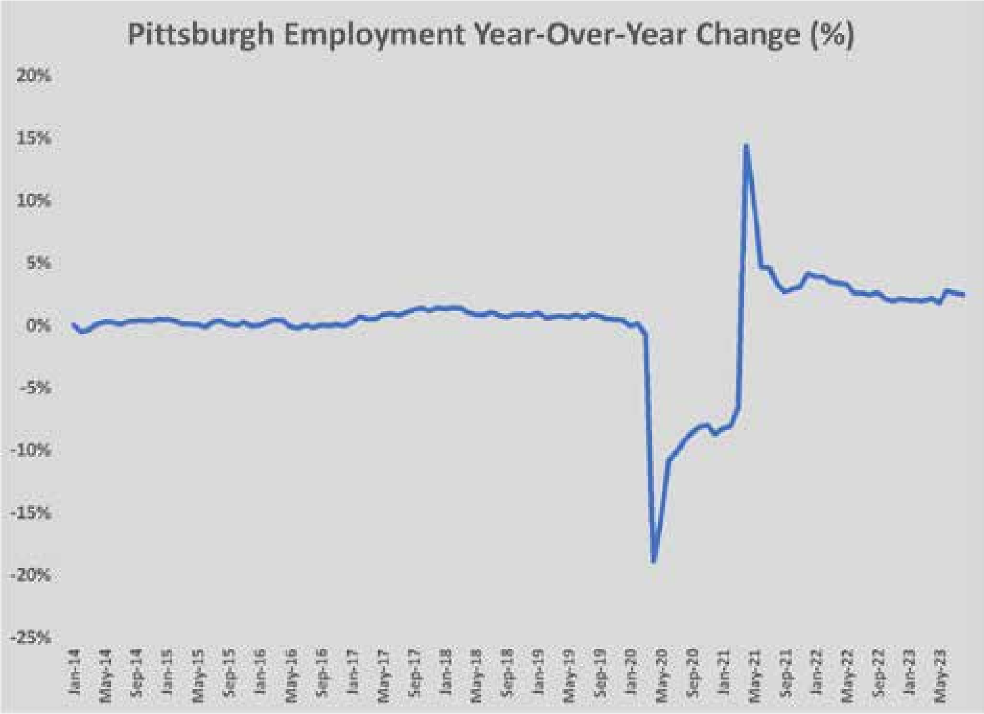
Nonresidential/commercial construction slowed in the third quarter, plagued by continued high interest rates, growing uncertainty about the economy, and construction costs that are still higher than owners expected. The latter has primarily applied to projects that originated prior to 2021 (particularly if project estimates were not updated regularly) and public sector projects. Feedback from the public sector suggests that the higher costs were a result of the strength of many of the specialty contractors in the general construction scope of work. Contractors and architects report difficulties in getting multiple bids on roofing, windows and glazing, masonry, steel fabrication, wall panels, ceramic tile, and other trades. This dynamic has increased the number of project re-bidding and slowed the volume of work going from construction documents to construction in progress.

Through September 30, contract awards and construction starts (including building permits) totaled $3.16 billion in the seven-county metropolitan Pittsburgh market. That is a 4.5 percent decline from the same period in 2022. With what is in the bidding pipeline in October and November, it is likely that construction activity will exceed the $4.3 billion started in 2022; however, it is unlikely that volume will reach the $4.8 billion forecast from earlier this year.

The pleasant surprise of the fourth quarter is the strong public construction bid market. Activity was higher because of a combination of re-bidding from earlier in 2023, rollout of American Recovery Plan funds, and bidding on several major city-county projects, including the Airport Terminal Modernization Program.

K-12 investment continues to be weak and will remain well below historical norms until a funding mechanism is created for public education. Despite the under-investment, there were a few major K-12 bidding opportunities. Two of these, the $32 million Knoch High School and $20 million Environmental Charter High School in the East End, were re-bids of projects that were over budget on the general construction contracts in the spring. Although the largest K-12 project in Western PA, Hempfield's $132 million high school expansion and renovation is being redesigned for bidding in spring 2024, the $95 million Bethel Park Elementary School was released for bidding on November 14. Two of the Department of General Services (DGS) projects assigned to the University of Pittsburgh, the $51 million Crawford Hall and $17 million Chevron Science Building, were also released for bid to pre-qualified contractors.

This handful of educational projects will be an interesting test of the market's competitiveness. Through most of 2023, public bids for mechanical and electrical separate prime contracts have been on or close to budget; however, bids on the general trades have been significantly over budget. An analysis of the bidding market found that general contractors struggled to find more than one or two bids from most of the major trade contractors. The subcontractor market is characterized by strong backlogs and tight skilled labor, which has limited capacity and elevated the risk of additional work. The more limited bidding response has come in roofing, concrete, masonry, windows, glazing, steel fabrication, tile, and wall panels. The outcome of these larger public projects may depend upon how much backlog remains for specialty contractors, and what their perception is of the market conditions for 2024.



Source: Bureau of Labor Statistics.

Allegheny County Airport Authority has taken bids on the $45 million Airline Fit-out Package, a re-bid of the $32 million Border Protection and Customs Package, and the $7 million County Police Department/ Drug Enforcement Agency Package, all part of the $1.5 billion Terminal Modernization Program. PJ Dick Inc. was the low general bidder on the $37 million Highland Park Reservoir Booster Pump Station for the Pittsburgh Water and Sewer Authority.

The daily average number of employees in downtown Pittsburgh climbed above 60 percent after Labor Day, a steady increase since falling to 48 percent in December 2022. Source: Pittsburgh Downtown Partnership, Placer:ai.

The college and healthcare sectors that historically have driven the construction market are in a lull.

Both Allegheny Health Network (AHN) and UPMC are deploying most of their capital spending on improving the mechanical and electrical infrastructure at most of their hospitals. Construction will continue on the UPMC Heart and Transplant Hospital at UPMC Presbyterian for several years. AHN has selected the design team for its $425 million cardiovascular tower at Allegheny General Hospital and is moving forward with its plans for facilities in northern Washington County, but neither major project is approved for construction funding.

Colleges are wrestling with declining enrollment and escalating costs, which means much of the capital spent on campuses will be donor driven. In addition to the DGS-funded projects bidding at Pitt, it is expected that there will be progress on the $140 million O'Hara Street residence hall, to be built by Mascaro, and the $160 million Bouquet Street residences, to be built by PJ Dick, in 2024. Early bid packages on Pitt's $120 million BioForge project are set to be released by Turner Construction in November. At Carnegie Mellon, the Gilbane-Mosites team is underway with the $90 million Robotics Innovation Center at Hazelwood Green. Early bid packages on the $280 million R.K. Mellon Hall of Science should be available from PJ Dick-Mascaro team in November/December.

Pittsburgh's economy continues to add employment, despite its well-publicized declines in population and workforce. Unemployment was at a record low of 3.5 percent in September. Employment grew 2.5 percent compared to the previous year. That gain was typical of year-over-year job growth since spring 2022, when the basis for comparison was a post-vaccine environment. Year-over-year job gains have exceeded two percent in all but one month – May 2023 when growth was 1.8 percent – since April 2021.

The pace of job growth is not sufficient to reverse the drag on office occupancy or the general uncertainty about the economy that remains a threat to commercial development. In its third quarter Five Fast Facts on the office market, Cushman & Wakefield notes that the vacancy rate climbed 0.2 percentage points in the third quarter, while rents fell 1.3 percent. That was the first decline in rental rates since 2021.

Industrial properties are facing more favorable conditions than the office market, but activity has slowed from the brisk pace of 2020 through 2022. Because of the volume of construction that is being delivered into the market in 2023-2024, vacancy rates are likely to tick upward slightly. Absorption is still positive, however, and rental rates are stable. According to CBRE, there was nearly 660,000 square feet of positive absorption in the third quarter. According to Newmark, 1.77 million square feet of new construction has been delivered into the market year-to-date, but the vacancy rate remained below seven percent overall. The vacancy rate for Class A industrial property was 5.9 percent. Roughly 875,000 square feet of new industrial property remains under construction.

The long-term drivers of the Pittsburgh economy are still trending towards growth. The more challenging macroeconomic conditions have hurt the operating performance of some of these, notably financial institutions, healthcare, and some technologies. Higher interest rates present headwinds for growth in emerging technologies, which require more debt and higher-risk investment. These macroeconomic headwinds – more than regional factors – will cool off construction through 2024, but demand is strong enough that the market should not feel a significant decline. BG

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NATIONAL MARKET UPDATE

As summer ended it was becoming clear that the battle to tame inflation was reaching a turning point. Virtually all data was consistently pointing to inflation that was nearing the Federal Reserve Bank's arbitrary two percent goal. As expected, economic data was increasingly showing the effects of the 500-basis point hike since March 2022, although not to the point of recession. What remains as the year winds down is to see if the Fed has overplayed its hand, as it has in the past, or has successfully whipped high inflation without causing a recession.

It will be understandable if the former scenario plays out. The Fed can point to the 1970s as an example of extended economic malaise that resulted from easing before inflation was fully tamed. It will be much easier to defend remaining steadfast for too long than for losing resolve too early, especially since the economy is not showing that a recession is imminent. Absent higher unemployment, it will be difficult for the Federal Open Market Committee (FOMC) to pause rate hikes or cut rates until core inflation has fallen to the desired range.

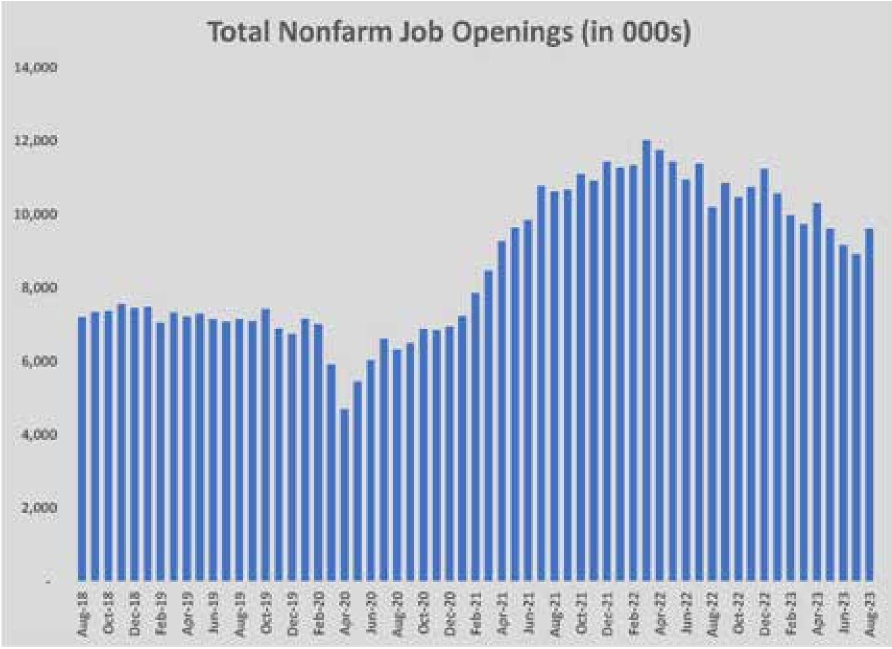
The October 6 report of the Employment Situation Summary showed that employment may still be a bulwark against recession. Employers added 336,000 jobs in September, which was double what was expected. And unemployment remained at 3.8 percent in October.

Below the October 6 headlines, however, employment data has been pointing to a weaker labor market for most of 2023. Changes in employment lag the changes in the economy, as employers are reluctant to add to payrolls until growth is assured or cut staff until their prospects are clearly weaker. To be certain, fewer people who want to work are unemployed; however, the growth trend has clearly slowed.

Employment growth has been reported as evidence that the U.S. labor market was resilient and strong in the face of the restrictive monetary policy. While that's true to a point, the headlines on employment gains have drowned out the underlying downward revisions in job growth each month. The Labor Department revises the previous two months' estimates when the jobs report comes out each month. For all of 2023, the previous months' estimates have been revised downward and the total gains for 2022 were revised downward by 300,000 when the Labor Department did its annual revision earlier in August. (Again, the upward revision of 119,00 jobs in the October report reversed this trend.) The trend of downward revisions is consistent with what happens when the economy is slowing (When it is growing, the revisions are upward for a year or so.) This pattern of downward revisions is not a secret, nor is it a sure sign of a coming recession. It is a strong indication that the labor market is not as robust as the headline unemployment number suggests, however, and a signal that is being overlooked in the mainstream media.

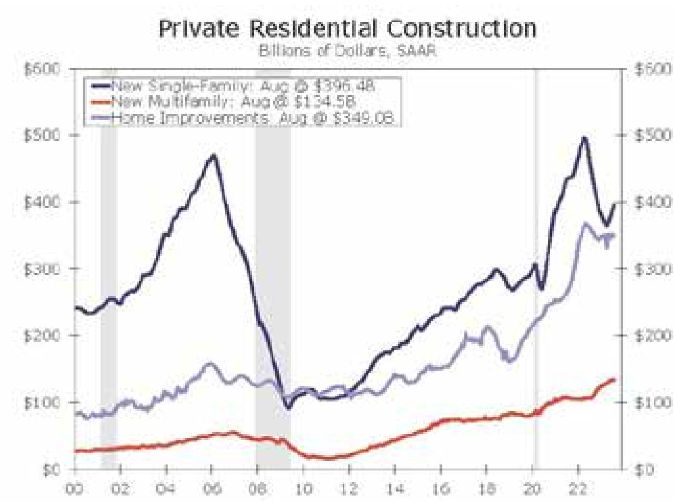
Job openings have been on a similar track to employment growth. According to the Bureau of Labor Statistics' Job Openings and Labor Turnover Survey (JOLTS), the number of unfilled positions reached a peak in March 2022, the month that the Fed began aggressively raising rates. From that point, when there were more than 12 million openings, until Labor Day 2023, the number of openings fell by nearly 28 percent. The downward trend in open positions also reversed in September but remained 25 percent lower than the 2022 peak.

It was not surprising that the FOMC left the Fed Funds rate at the 5.0 to 5.25 percent range at its September 20 meeting. In his remarks following the meeting, Fed Chair Jerome Powell again expressed concern that key inflation sectors were still running higher than desired and that policy easing was not on the table. His remarks did not indicate that the odds of another hike in November, which the markets are putting at one in four, were higher.



The number of open positions has fallen steadily since the March 2022 peak above 12 million. Source: Bureau of Labor Statistics, Federal Reserve Bank of St. Louis.

Source: U.S. Department of Commerce and Wells Fargo Economics



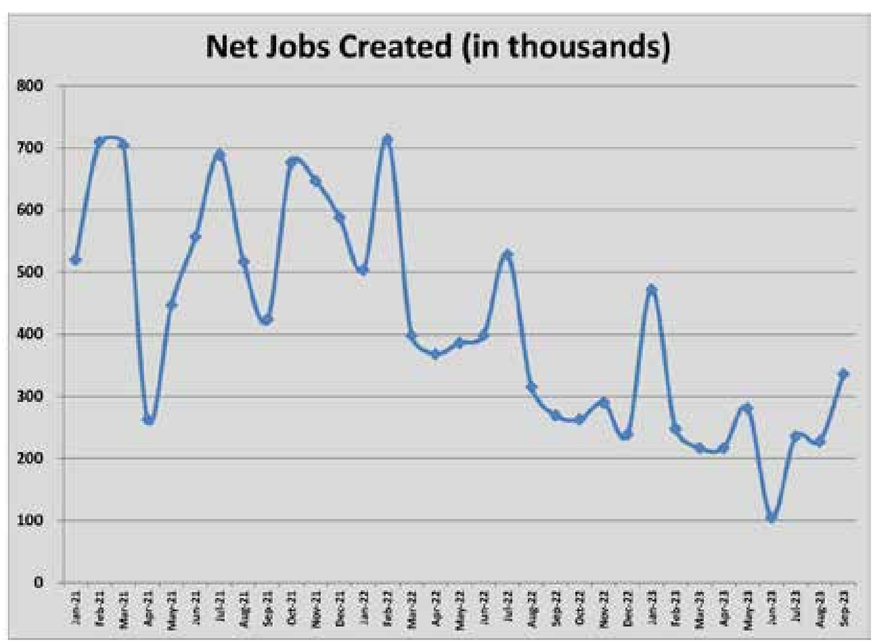
Source: U.S. Department of Commerce and Wells Fargo Economics

The Fed's monetary tightening has created a follow-on effect in global markets that keeps upward pressure on interest rates. Higher rates in the U.S. strengthen the dollar and weakens foreign currencies. To combat this effect, nations that hold stockpiles of U.S. debt and currency sell those assets, using the proceeds to buy their own currency back. That lifts the value of foreign currencies relative to the U.S. dollar, putting downward pressure on the price of U.S. debt and upward pressure on the yields the U.S. Treasury must pay to attract buyers.

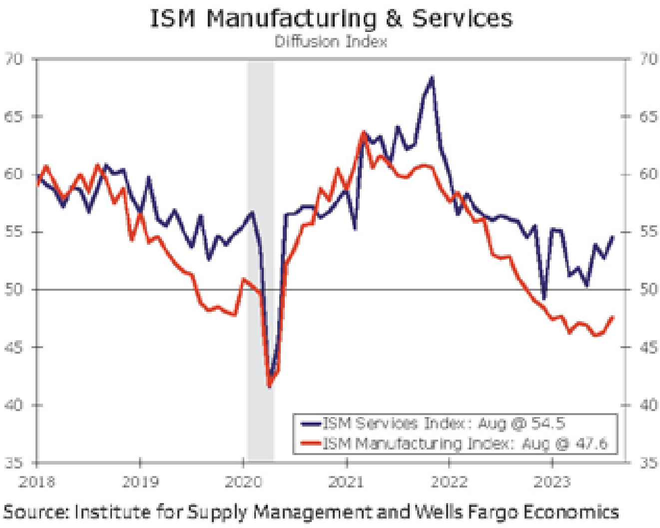
For commercial real estate, the prospect of elevated interest rates through 2024 increases the risk of systemic problems. Loans that have matured during the past year on troubled assets, especially office buildings, have faced refinancing at rates that are 200 to 300 basis points higher. Higher vacancy rates have pushed rents lower, reducing the operating income as operating costs have increased. Most properties being refinanced are seeing lower loan-to-value ratios, which has forced more equity into commercial real estate deals. In many cases, the new loans do not pencil out for the owners. That has slowed transactions and chilled development.

Of greater concern is the prospect of default or foreclosure at the time of refinancing. Thus far, many regional lenders have extended maturing loans, but that is a tactic that may not be sustainable if interest rates on commercial real estate loans remain at current levels through 2024. Wall Street banks have begun writing down these untenable assets. It remains to be seen to what extent Main Street banks are exposed to loans on non-performing buildings and how much these assets drag down earnings. A recovery in commercial real estate finance is unlikely until 2025.

The pressure on commercial real estate was borne out in the latest construction spending data, which covered the year-to-date through September 1. Spending on commercial construction fell 0.9 percent from July to August and was up only 4.6 percent compared to a year ago. The largest year-over-year gain in commercial construction was in multi-family, which was up 24 percent but only .04 percent since May. The combination of higher rates, flattening rents, and record inventory in the pipeline is chilling new multi-family development. Spending on retail and industrial construction fell 1.6 percent and 1.2 percent, respectively, from July to



The September surge in hiring fits into the overall downward trend begun in March 2022. Source: U.S. Census Bureau.



The indexes from the Institute for Supply Management (ISM) continue to fall from post-pandemic highs.

August. An increase in office leasing and tenant improvements helped boost office construction by 0.2 percent month-over-month. Office construction spending increased 6.8 percent compared to August 2022.

Total nonresidential spending increased 0.4 percent in August to $1.98 trillion annualized, the 15th consecutive monthly increase. A surge in manufacturing construction and public power and infrastructure accounted for most of the gain in spending, which lagged the pace of inflation over the past year.

Construction of single-family homes continues to be boosted by the short supply of existing homes for sale, even as the housing market has been constrained by higher mortgage rates. Builders have increased incentives for new home construction, which has also benefited from stabilized material pricing. Recent activity has been dampened by mortgage rates that have drifted to 7.75 percent for a 30-year mortgage. Builder sentiment has dipped accordingly.

Housing starts in September Housing starts in September recovered from the steep monthly decline in August but remain well below the construction activity of a year ago. Private housing starts were 1,358,000 units, seasonally adjusted on an annualized basis, in September. That was 7.2 percent lower than a year earlier. There were 383,000 units of multi-family housing, a slowdown from the half-million-unit pace of the past year. The slowdown in multi-family reflects a recognition that supply was beginning to outstrip absorption. It also reflects a decreasing difficulty in financing, as banks cool on market rate multi-family developments.

Banks are something of a wild card for the overall economy. As credit deteriorates generally, delinquency and defaults begin to rise. That is occurring now; however, banks insured by the Federal Deposit Insurance Corporation (FDIC) are in a better position to manage poorer credit than they were prior to the pandemic. According to the most recent FDIC Quarterly Banking Profile, the volume of non-current loans held by FDIC member banks was $93.0 billion, up $5 billion from a year earlier, but down more than $11 million from the second quarter of 2018 and roughly half the volume in 2014. Bank reserve ratios were 224.8 percent. That is double the ratio of five years ago and the highest reserve ratio since the financial crisis.

Counterbalancing this high level of reserves is the highest level ever of unrealized losses on Treasury holdings by banks. It was losses on long-term Treasury bonds that forced Silicon Valley Bank into insolvency in March 2023 when it experienced a mass drain of deposits. The hike in interest rates dramatically devalued the Treasury bonds held by banks. Those unrealized losses peaked at nearly $675 billion in fall 2022 and have fallen to roughly $550 billion currently. Those unrealized losses are the difference between market value and the book value of the securities. Since March 2023, the Federal Reserve has propped up these loans through the Bank Term Funding Program, which allows banks to exchange Treasuries dollar for dollar, without marking them down to current market value. This program expires in March 2024, at which time banks would repay the cash received in exchange for posting their Treasury bonds.

Most observers expect the Fed to extend the program until interest rates are cut and Treasury values increase. The continued extension of the program would give banks more time to bolster their balance sheets. Those balance sheets could also be improved by lower interest rates. Wells Fargo recently forecasted that rates will be cut by two percentage points by the end of 2024, citing the need for lower rates to finance the national debt and to avoid a crisis for banks. At its September meeting, the FOMC signaled that it expects no rate cuts in 2024, but rate cuts have come after similar Fed forecasts in almost every monetary cycle since the 1980s.

Lower interest rates would stimulate an economy that does not appear to need stimulation but might need intervention to rescue the fatigued consumers that have been carrying the economy. Lower rates would also allow commercial real estate to resume more normal activity levels, avoiding what could be a real estate triggered recession. It is unlikely that the Fed will declare the battle to whip inflation has ended before spring of 2024; however, the window for a soft landing may have passed by then. By spring, the battle may be about recession. BG

WHAT'S IT **COST?**

Except for a few major categories of construction materials, the excessive inflation and volatility that has characterized the market since mid-2021 appears to have ended. Prices for specific materials and products will continue to fluctuate, as they always have, but the hyper-inflation caused by the disruption of the global supply chain during the pandemic has stabilized, albeit at a new higher level.

The October 12 report from the Bureau of Labor Statistics (BLS) on September's wholesale inflation showed producer prices (PPI) rose higher than expected, but still less than 60 percent the rate of consumer inflation. PPI for final demand rose 0.3 percent from August to September and 2.2 percent year-over-year. Increases for construction were higher, but down dramatically from the rate of inflation in 2021-2022. The bellwether PPI for new nonresidential buildings (which tracks all inputs) rose 0.1 percent from August and 3.8 percent from September 2022. That level of annual escalation is the same as in October 2019 and January 2020.

Much of the increase in producer prices in September can be traced to the rise in fuel and energy costs. As has always been the case, prices for oil and gas will be more volatile than the overall construction material market, causing downstream increases in transportation, lubricants, fuel consumption, and petrochemical-derived products (like asphalt, plastics, and roofing). The PPI for #2 diesel was 30.2 percent higher than in June, although it was 18.6 percent lower than a year ago.

For construction materials, the other significant influence continues to be the increased spending on infrastructure from the Bipartisan Infrastructure Law and the American Recovery Plan. Prices for cement, concrete products, and paving mixtures were the other materials that saw higher increases than the overall for the month and year-over-year. The outlier was the PPI for asphalt at the refinery, which fell 0.2 percent from August and 25.7 percent from September 2022.

Other notable declines in prices came in steel mill products (-3.7 percent for the month and -12.1 percent year-over-year), steel pipe and tube (-1.7 percent and -20.6 percent), and lumber and plywood (-0.5 percent and -13.6 percent).

Changes in PPI for specialty contractors appear to be reflecting the higher backlogs and shortage of skilled workers, which put upward pressure on the cost of construction put in place. In the four trades covered by the BLS – concrete, roofing, plumbing, and electrical nonresidential contractors – year-over-year prices were up for three. Concrete construction was off 2.1 percent, while roofing rose 10.1 percent; electrical rose 4.1 percent; and plumbing was 7.1 percent higher. All four specialties were flat or down from August to September. BG

PERCENTAGE CHANGES IN COSTS	Sept 2023 compared to		
Consumer, Producer & Construction Prices	1 mo.	3 mo.	1 yr.
Consumer price index (CPI-U)	0.4	1.0	3.7
Producer price index (PPI) for final demand	0.3	1.4	2.2
PPI for final demand construction	0.1	(1.0)	3.7
PPI for new nonresidential buildings	0.1	(1.1)	3.8
Costs by Construction Types/Subcontractors			
New warehouse construction	0.0	(0.6)	1.3
New school construction	0.0	(1.0)	3.4
New office construction	(0.2)	(1.8)	5.4
New industrial building construction	0.8	(0.7)	3.3
New health care building construction	0.0	(0.7)	4.3
Concrete contractors, nonresidential	0.0	(2.6)	(2.1)
Roofing contractors, nonresidential	(0.5)	(0.9)	10.8
Electrical contractors, nonresidential	0.1	(1.4)	4.1
Plumbing contractors, nonresidential	0.0	0.6	7.1
Construction wages and benefits	N/A	1.2	4.1
Architectural services	0.0	0.1	1.5
Costs for Specific Construction Inputs			
#2 diesel fuel	4.3	30.2	(18.6)
Asphalt paving mixtures and blocks	0.3	1.0	(1.0)
Cement	0.7	1.7	10.8
Concrete products	0.5	2.0	9.1
Brick and structural clay tile	0.0	(0.1)	6.4
Plastic construction products	0.8	0.6	(4.2)
Flat glass	0.4	(1.4)	2.9
Gypsum products	(0.7)	(1.3)	(2.0)
Lumber and plywood	(0.5)	(1.5)	(13.6)
Architectural coatings	0.0	0.1	1.8
Steel mill products	(3.7)	(9.1)	(12.1)
Copper and brass mill shapes	(0.1)	0.1	2.3
Aluminum mill shapes	(0.9)	(2.5)	(4.2)
Fabricated structural metal	(1.0)	(0.8)	(2.7)
Iron and steel scrap	0.7	(1.5)	4.0

Source Bureau of Labor Statistics, Updated October 12, 2023
Compiled by Ken Simonson, AGC Chief Economist

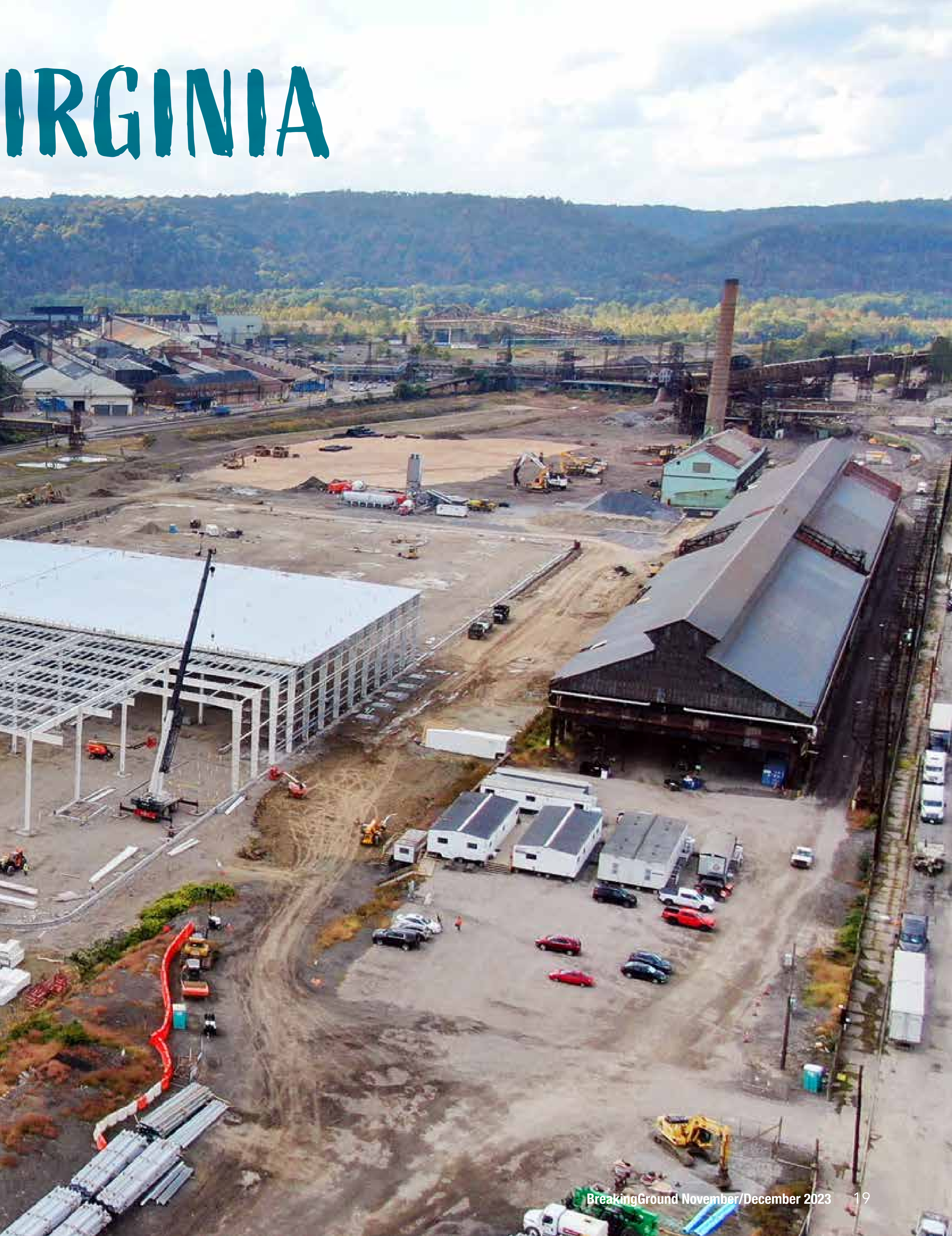
NORTHERN WEST V

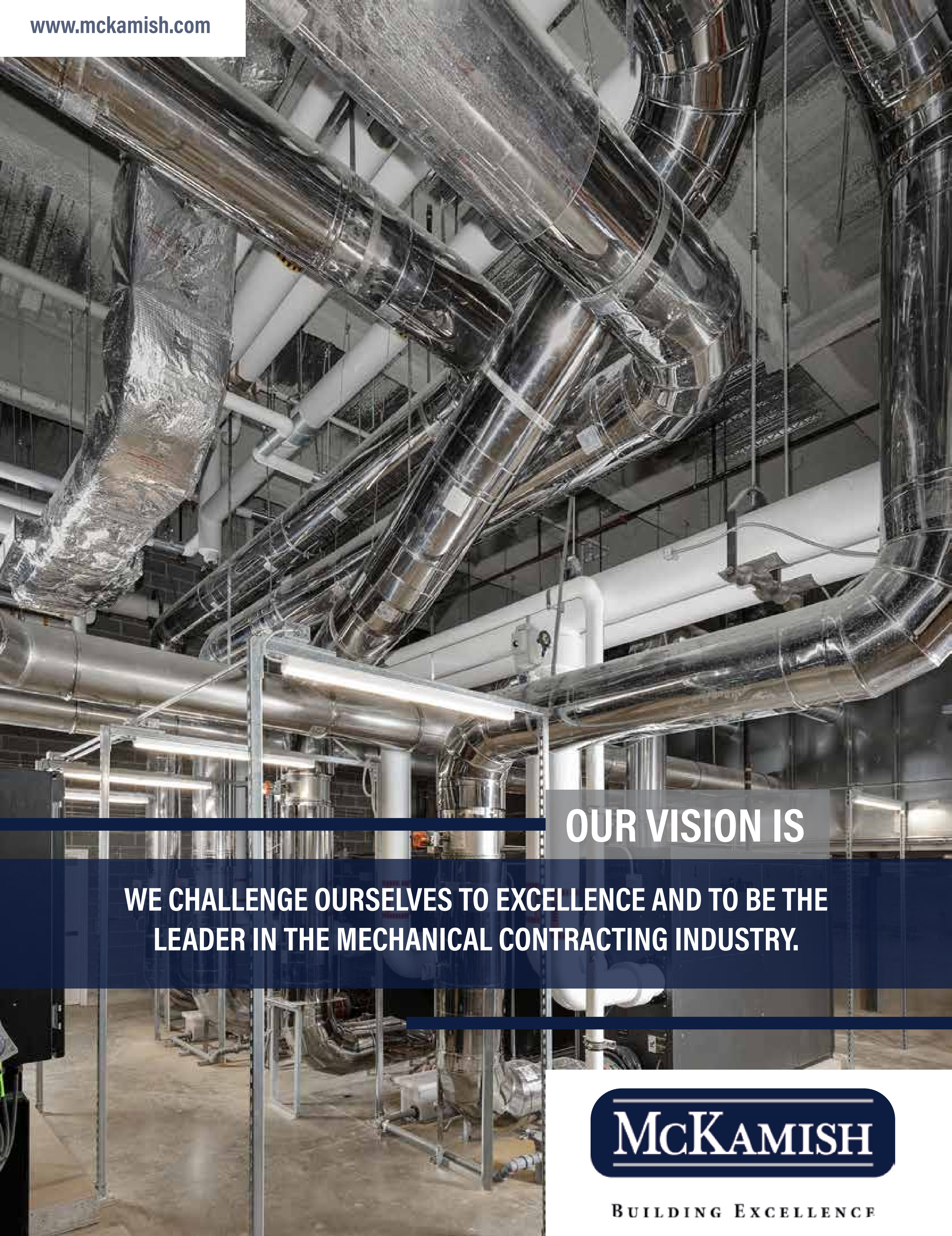
MARKET UPDATE

There is a strong resemblance of the economy in Northern West Virginia to that of Western Pennsylvania's. There is a pocket of legacy manufacturing built along the Ohio River that is regaining its footing after decades of decline. There is also an economic stronghold that is buttressed by a diverse base of activity in education, healthcare, research, and innovation. The hottest development corridor borders Interstate 79. National players in science, energy, lifestyle, and logistics are investing in the area.

Form Energy's $760 million battery plant in Weirton is the biggest new job creator in decades in the Ohio Valley. Photo by Massaro Corporation

IRGINIA

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The resemblance fades a bit after that. Unlike metropolitan Pittsburgh, Northern WV is a tale of two distinctly different cities. One of those, Wheeling, is being revitalized by reversing the policies of a generation and embracing small victories. The other, Morgantown, is more resilient than its neighbor (and Western PA) and benefits from a commitment to business attraction that is matched in Charleston, the state's capital.

What is happening in Northern WV is important to the Pittsburgh construction and real estate industries for two reasons. First, Northern WV has become a market of interest for Pittsburgh-based contractors, architects, brokers, and owners. And business and civic leaders in Western PA could take a lesson from the approach to economic development that Wheeling's and Morgantown's leaders are taking.

Collaboration in Wheeling

It's a familiar scene to Pittsburghers. You drive down a hill on a four-lane highway. You go through a tunnel, and there is downtown…Wheeling, West Virginia. For those familiar with the breathtaking experience of exiting the Fort Pitt Tunnels (especially at night), the view is somewhat less spectacular in Wheeling, but civic leaders there want a memorable gateway similarly to greet visitors to "The Friendly City."

Wheeling is a city of roughly 26,000 people, half of what the population was in 1960. It is the seat of Ohio County, which has maintained a population of about 15,000 outside of Wheeling since the 1930s. The decline in population is attributable to the same problems that have caused a decline in Pittsburgh's population: aging demographics and manufacturing job losses. Wheeling was a steel town, home to Wheeling Pittsburgh Steel and plants of several competitors. Along with Weirton, 30 minutes upriver, Wheeling looked and felt much like the steel towns on the rivers in Western PA.

Since the loss of much of its heavy industrial economic base in the 1970s and 1980s, Wheeling has seen decline. Nearly all the strategies employed to revitalize the area failed to attract much in the way of sustainable new business or population. That has changed over the past decade.

"A decade ago, we did several brownfields projects. We got buildings in the hands of people who had plans to do

Victorian era homes on Wheeling's Chapline Street have been restored, bringing residents to within blocks of downtown businesses. Source: Wheeling Heritage.

something with them," says Nancy Prager, director of the City of Wheeling's Community Development Department. "That was a catalyst for what's now happening 10 years later, because people saw success stories. Once there is a success story, people think they can do it too."

Among those early projects were the adaptive reuse of an old warehouse that was converted into Waterfront Hall, a food hall, and the headquarters of Kalkreuth Roofing and Sheet Metal, which adapted a 10-story historic office downtown, and the adaptive reuse of a 100-year-old building as operations center for global law firm Orrick Herrington and Sutcliffe in 2002. Those successes sparked interest and a different strategy for revitalizing the city, one which enabled individual investors to pursue small projects. The new strategy also came with new leadership.

"We had a generation of leadership that was in enthusiastic support many of the initiatives that decimated our downtown. During the urban renewal of the 1960s and 1970s, Wheeling received a ton of funding, and it was used blow through many of our historic neighborhoods. In the wake of the industrial decline, the city's position was to demolish what is vacant and dilapidated rather than implement preservation strategies," says Betsy Sweeny, director of heritage programming at Wheeling Heritage.

"When we talk about the small-scale individual developer being the backbone of revitalization in communities like this, they need those little buildings that they can buy at a low cost, which often means smaller dilapidated buildings," she continues. "Instead of keeping that inventory as a priority, for a long time the city took a position of demolishing properties to make it more attractive to big developers. Big developers were not coming to save anybody. The shift in perspective towards avoiding demolition of our commercial buildings has been an important philosophical change that has got us to where we're going today."

Sweeny knows something about small-scale revitalization. A historic preservationist with degrees from the University of Missouri and College of Savannah, Sweeny moved to Wheeling in 2019 and became well-known for her years-long restoration of the McClain house, which she chronicled on social media. She is one of dozens of private owners who have restored Victorian era homes within a few blocks of the heart of downtown Wheeling. Prager says the same type of investor has been revitalizing downtown.

"Our mayor purchased the Professional Center and is rehabilitating that building. We had a woman come to us who wanted to open a medical spa and has now hired 25 to 30 people in the heart of downtown," Prager says. "Money was put into the Capital Theater. That allowed different shows to come in and gave restaurants the idea that they would have customers. One local man bought an old restaurant across from the Capitol Theater called The Bridge Tavern and renovated the upper floors to residential and remodeled the tavern. It's been successful enough that they are renovating the restaurant and having another reopening. The success of the first opening gave them confidence to invest more."

The successes of the one-off revitalization sparked investment from outside developers and corporations beginning in the mid-2010s. The mechanism that made commercial development work in Wheeling was one that was overlooked by past economic leaders.

"The historic tax credit, in my opinion, is the single most catalytic change in the economic environment in this region in the last 50 years. We had policies that were not supportive of rehabilitation, so that when historic tax credits became available in the 1980s, it took quite a while for that to be used," Sweeny says. "When I joined the team, we had this huge incentive that nobody really understood. I was tasked with helping the public understand what that meant, building confidence and trust to undertake those projects. Tax credits certainly were the biggest driver here in Wheeling. Until The Health Plan relocated in 2016 there hadn't been new construction in multiple decades. But there had been some rehabilitation so that the public could begin to get proof of concept. That provided some assurance and some comps for banks. That helped lay the foundation for these bigger projects."

The Health Plan built a $16 million, 53,000 square foot headquarters at 1100 Main Street, bringing 450 employees to downtown Wheeling from St. Clairsville, OH. Today, construction is in progress on the Wheeling Artisan Center, a $31.9 million streetscape program, the $12.3 million Market Street Garage – being built by Carl Walker Construction – and the mixed-use 1400 Market Block, which is being developed by Desmone Architects and Tipping Point Development.

The 1400 Market Block development has partnerships with the Wheeling YMCA, Helping Heroes, and Grow Ohio Valley, and its uses are being determined by through a process that sought community input before the programming was fully established. That is a model endorsed by Tipping Point to optimize public subsidy and government support. Jim Ambrose, a principal at Tipping Point, explains that its development model starts with community input on a property concept, gaining agreement from the groups that will eventually facilitate or impede any public participation. By working with community groups to include uses that it felt were needed at 1400 Market Block, Tipping Point and Desmone unlocked New Market Tax Credits that helped bridge the financing gap.

"We've been engaged to use this process on the former Clay School property. Our process asks what experiences they want to have in the neighborhood," Ambrose explains. "We create an executive summary of what those needs are.

We'll go to the community with those needs, take a deeper dive and quantify them visually. And then we would produce drawings and concepts off those data points and then have another meeting to verify that we connected the dots from their survey. If they agree with the concepts, we will solve for the development plan after that.

"The reason we're doing it with that property is that is a historically African American school in a place where many after-school services were provided that kept kids out of trouble. Once it was closed and the community lost those assets, it has been on a bad trajectory. The city wants something positive to happen on that site."

Ambrose notes that it is the developer and private capital that ultimately must create a viable plan; however, in communities where development needs public subsidy to be financially viable, the community will ultimately be needed to acquiesce to the project before public officials will back the subsidy. Ambrose says that giving the public input accelerates the path to community support and makes the project more attractive to private investors, who know that the public subsidy is not a risk to the development.

This process is also being used for the Wheeling Gateway project, a signature redevelopment being done by the Wheeling Convention and Visitors Bureau, in collaboration with Wheeling Heritage, the City of Wheeling, and the Regional Economic Development Partnership (RED). The Wheeling Gateway will be a commercial development located at the east end of the newly restored historic suspension bridge across the Ohio River. It will be the first thing visitors from the east see when the exit the tunnel off I-70.

"At minimum, we need to build something that acts as a visitors' center. Wheeling is one of 63 national heritage areas. Because of that designation by the National Park Service, there needs to be a heritage piece to this redevelopment. That becomes an operational expense that the region has on its tab every year," Ambrose says. "Tipping Point has been hired to figure out how to create revenue generating uses that would be of interest to private capital, bring that partner in to do what supports and complements those kinds of uses. That allows the private capital partner to fund the uses year after year. The private partner would make a profit on its investment and the public uses would be funded as well."

The kind of public-private partnership Ambrose describes is easier done now in Wheeling because the public agencies have adopted a collaborative approach to economic development that subjugates the goals of the individual agencies to the goals of the region overall.

"The agencies work well together. Particularly in the last few years there's been a turnover in leadership and fresh perspectives. People have become even more willing to work together in a collaborative environment," says Sweeny. "Wheeling Heritage's mission is to be a catalyst for revitalization. We work in any and all capacities that we feel accomplishes that. Our job is to be the connector."

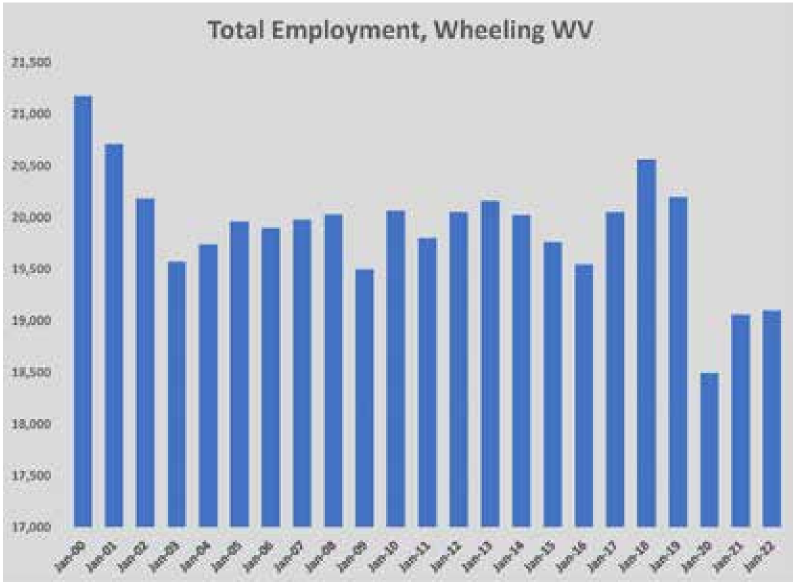
"There is a unique relationship in Wheeling between the economic development players that exist there and the city government. They collaborate. They share the same missions, values, and goals. They clearly communicate what those goals are to private capital," says Ambrose. "They will vet private capital to accomplish these things and then they trust private capital to deliver them, instead of trying to micromanage every step of the way. There are executive directors for each of those organizations and they sit on each other's boards, so everyone is held accountable to one another and are moving forward in the right direction together."

Prager has been in economic development in Wheeling for three decades and has a first-hand understanding of how much things have changed. She cites the example of a recent video call concerning the Wheeling Gateway developer selection.

"I was on a Zoom call yesterday with the Convention and Visitors Bureau, City of Wheeling, Ohio County Economic Development, RED, Jim Ambrose and Wheeling Heritage. Everyone is on the same call. Everyone will get the same proposal and work on the project together," she says. "Earmarks are back. We get together as a group and prioritize projects that are ready to go because you can't keep getting earmarks if your projects don't go forward. If Wheeling Heritage has a project that is ready to go - the Artisan Center for example - we'll put that ahead of one of our projects that may be a year or two out. Obviously, we are hoping there is still brownfields money and earmarks in the future, but we have found that we are greater working together than any of the pieces themselves."

"What Wheeling did differently from other cities was it put a large share of its American Recovery Plan dollars back into supporting commercial real estate," notes Ambrose. "[City Manager] Bob Herron deserves a lot of credit. He's been in that role for 25 years so he's seen the best and worst of it. He has a strong city council and mayor that support economic development. They are the ones that would pass legislation to cover the gaps on projects that make sense. Once they had a handful of those projects rolling, they began to attract other major players like WVU Medicine."

The latter acquired the former Ohio Valley Medical Center in southwestern Wheeling that will be demolished to make way for a new $100 million-plus cancer center. The project



Source: Bureau of Labor Statistics.

will bring hundreds of well-paying healthcare jobs to the Wheeling area.

The region's largest construction project is also its largest job creator and may be the first in a line of investments that brings more manufacturing back to the Ohio Valley. Massaro Corporation started work in May on Form Factory 1 in Weirton, a 480,000 square foot iron-air battery plant for Form Energy. The project is the first phase of an 800,000 square foot, $760 million investment in total that will employ 750 people when at full capacity. The building structure for Form Factory 1 is 50 percent completed and is on schedule to begin manufacturing operations around Labor Day 2024.

Maintaining Momentum in Morgantown

Like in Wheeling, civic leaders in greater Morgantown recognize the value in partnerships across economic development organizations; however, there are several tailwinds in Morgantown that its neighbor up the Ohio River does not have pushing it forward. Morgantown is home to two major institutions, West Virginia University (WVU) and WVUM, that generate enormous economic activity. Both have added to their physical footprint and helped drive employment creation. Morgantown has also had strong links to the state legislature and governor's mansion in Charleston, not to mention to Senator Robert Byrd in his day, that have resulted in hundreds of millions being steered to Monongalia County. And both the city and county have experienced double-digit population growth since 2000.

The greater Morgantown/Monongalia County area has seen two interesting demographic shifts since the beginning of the century. Its non-student population has increased rapidly, in contrast to West Virginia's overall decline. And the concentration of its employment has shifted. The latter shift has been more subtle physically, with employment centers shifting less than a mile, but the changes mirror the change in principal employers from WVU to WVUM and the private employers in the Wharf District.

While it is true that WVUM and the spinoff companies are tied back to WVU, the growth in the enterprises that have risen from university research and healthcare has proven more sustainable than that of the purely educational institution.

This shift has influenced other employment patterns in Morgantown. Since 2000, the number of workers living inside Morgantown city limits declined by 3.9 percent, even as its population grew by 14 percent. According to the *Morgantown 2033* demographic study, the majority of workers in Morgantown now commute from residences outside the city. Moreover, the number of employees who work within one mile outside the city limits has grown by 43 percent since 2000. That helps explain the 29 percent population growth in Monongalia County during the same time.

Andrew Gast-Bray, director of planning for Monongalia County, cites the widely known availability of jobs at WVU and WVUM as magnets for population. He also called out two other trends that are less obvious. One was Morgantown's role as a "Green City" climate haven that has ample natural beauty with none of the natural disasters of coastal cities. While Gast-Bray acknowledged that was attracting a small number, he says that the economic and social difficulties of many small cities in West Virginia were pushing people to look to Morgantown's prosperity for opportunity. Gast-Bray notes that the largest share of new residents in Monongalia County are coming from within the state.

Not coincidentally, the growth in development and construction mirrors this shift. Nearly half of the housing stock within one mile of the city limits was built since 1990. That has been a source of concern for the City of Morgantown. As the center of the county, Morgantown draws visitors and business from outside the city limits because it is the lifestyle and cultural center of the region. That increases the strain on the city to provide services. Morgantown's night life is driven by the thousands of WVU students who reside in and around the city during the school year; however, the university-owned buildings function as a de facto city, with its own police and governance. This arm's length relationship means that the City of Morgantown gets no direct revenues from the residents and operations of WVU, but it does have to provide services and public safety for the students and faculty when they leave the university property.

Of course, that does not mean that the city feels no benefit from the university. It is hard to overstate the impact of WVU on the city and greater Morgantown. Even in a period of declining enrollment, WVU has nearly 30,000 students and occupies over 900 acres. University-owned properties comprise 29 percent of Morgantown's total land. University

Avenue, which connects the downtown campus to Evansdale, is an economic pipeline between the students and faculty and the stores, restaurants, and other businesses in the city.

The recent headlines from WVU suggest that the university will not be the growth engine for the Morgantown economy during the next few years. Its board of governors approved a reorganization of its graduate and undergraduate majors in mid-September, eliminating or consolidating 28 of the 338 majors offered. The decision affected 148 undergraduate students, or less than one percent of the enrolled students, and 238 graduate students. The transformation also reduced the faculty by 143 positions and cut operating budgets by 30 percent.

WVU spokesperson Shauna Johnson explains, "West Virginia University has been facing difficult headwinds for some time, including a declining college-aged population, a lower college-going rate, rising financial costs, a national narrative that questions the value of college, changes to Public Employees Insurance Agency, and an increase in costs of goods and services.

"After two years of financial challenges with the pandemic, 2022 saw first-time freshmen return to a stable number through an improved market share. The University also saw dramatically improved graduation rates — and that is good news. But because we did not account for a higher graduation rate, it affected our bottom line when there were fewer students on campus," Johnson continues. "Due to the current challenges, combined with those of 2019, the University is projecting a $45 million structural budget deficit for Fiscal Year 2024. And as we face the demographic cliff over the next five years, that deficit could grow to around $75 million based on conservative enrollment and inflation projections."

Johnson also points to a phenomenon that has recently been identified, known as the "The Great Dropout." According to data from the National Student Clearinghouse, undergraduate college enrollment dropped 8 percent from 2019 to 2022 as a response to the pandemic. That share of enrolled students chose not to return to college after in-person attendance resumed. Students cited lost confidence in higher education, rising costs, and the strong job market as reasons for dropping out.

WVU President Gordon Gee has been proactive in communicating the university's problems, which he traces to a transformation in how Americans are viewing higher education. Gee points out that WVU chose to deal with its budget shortfall early and publicly and accepted that there would be fallout. He also notes that nearby state universities face larger deficits – Penn State's is projected to be $63 million this year and Rutgers is facing a $77 million shortfall – but have not made the adjustments necessary to solve the problems in the way WVU has.

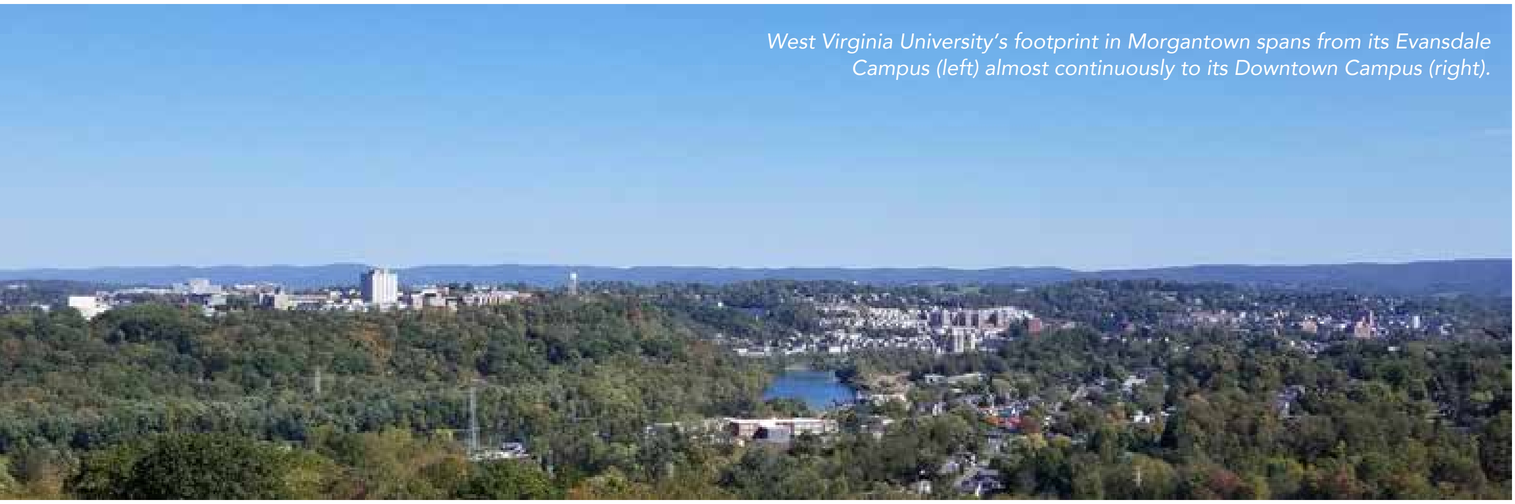
As might be expected, such a steep cut in the operating budget will impact WVU's capital spending over the next couple of years. According to Johnson, WVU has no projects over $50 million in its current capital project pipeline.

While it is too early to judge the impact of the budget cuts at WVU, owners do not seem to be overly concerned.

"I think you hear about WVU because of the shortfall and the cuts they've had to make, but it's similar to what's going on in the universities everywhere," says Brad Frankhouser, the principal at Desmone Architects who manages the firm's Morgantown office.

"Monongalia County has proven to be a resilient county. While WVU is important to the overall economy of our area, there are plenty of other employers feeding the economy. Certainly, the announcement with the hydrogen hub and the Department of Energy and the role that it will play will be impactful. We have proven that our economy can weather a storm," says Mark Nesselroad, CEO and founder of GlenMark Holdings. "The other thing is that WVU has proven that they are the land grant university and are resilient as well. What it's going through is nothing that any other university isn't going through and probably needs to go through."

WVUM will build a new cancer center at the site of the former Ohio Valley Medical Center in Wheeling. Rendering courtesy WVUM.



West Virginia University's footprint in Morgantown spans from its Evansdale Campus (left) almost continuously to its Downtown Campus (right).

Nesselroad notes that the closing of Mylan's main plant in Morgantown was supposed to be a blow to the economy that never materialized. The data backs that assertion up. While 1,400 persons lost jobs when the plant closed in July 2021, net employment grew by more than 1,200 jobs from 2021 to 2022.

"The economy in Monongalia County is growing because of multiple industries," agrees Gast-Bray. "Yes, there is education but also healthcare, new technology, research, tourism and recreation."

Public officials in the Morgantown area do not expect that the university's current problems will have a negative effect on the region's economy. That optimism might change should the long-term demographic trends create regular budget shortfalls. Some of WVU's efforts to monetize its research are paying dividends in new jobs that will offset those lost by the layoffs. There is also the fact that the healthcare system that also calls Evansdale home finds itself in the opposite trajectory now.

Population History and Forecasts								
	1990	2000	2010	2015	2020	2030	2040	Change 2000 to 2020
Morgantown	28,272	26,697	29,660	30,708	30,347	31,582	32,645	14%
Monongalia Co.	75,645	81,907	96,189	104,681	105,822	116,538	126,591	29%
West Virginia	1,792,000	1,803,000	1,852,944	1,842,000	1,793,716	1,837,675	1,846,781	-1%

As the state of West Virginia lost population from 2000 to 2020, both the City of Morgantown and Monongalia County saw double digit gains. Source: Census Bureau.

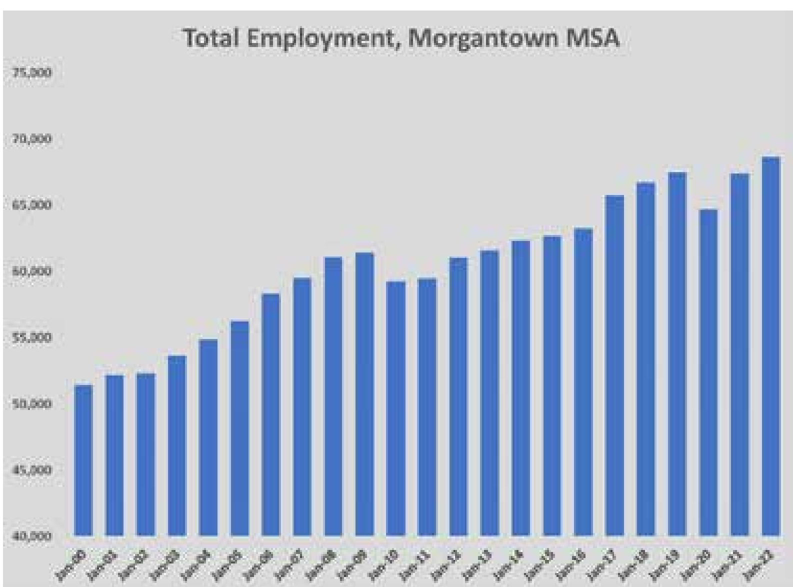
Over the past decade, WVUM has completed two $100 million-plus expansion projects at its Ruby Hospital, the South Tower and the new Children's Hospital, and doubled the footprint of that campus. During that time, Albert Wright became CEO and WVUM's leadership pursued a strategic plan that aimed to get world-class healthcare delivered throughout the state so that West Virginia residents could get treatment near their homes. West Virginia's sparse population density makes that goal very challenging, but WVUM is making progress. That has meant a wider expansion of its facilities.

WVUM is gearing up for more major projects during the balance of the decade. The health system recently approved $155 million for projects to backfill the space in Ruby Hospital that was formerly occupied by WVUM's Children's Hospital. Wright says the planning is underway for the next major project at Ruby Hospital, a cancer institute. Among the enabling projects for that will be the $200 million eye institute.

"We're renovating the Mylan building as we bring in occupants and having pretty good success with that. In December, we're going to take the Eye Institute project to our board of directors," says Wright. "We have begun the demolition of the Ohio Valley Medical Center, to clear the way for the new cancer center in Wheeling. There is a theme of cancer treatment in West Virginia that is a big part of our plans for the next decade."

Outside the Ruby Hospital campus, WVUM is expanding its physical footprint to other sites in northern West Virginia. The team of Landau Building Company and Harley Ellis Devereaux are renovating the former Fairmont Medical Center, where WVUM will be investing another $150 million throughout the rest of the decade. (See page 31 for more.) Landau is also currently managing the construction of a 60,000 square foot Outpatient Rehabilitation Center at University Town Center. WVUM recently commissioned IKM Inc. to begin planning for a 300-bed patient tower at Camden Clark Medical Center in Parkersburg. Wright says that it will replace the older north tower of the hospital. The Mills Group is currently designing

The first two multi-tenant office buildings have been completed as part of the 1,000-acre WestRidge mixed-use development. Photo by Denmarsh Photography. Photo courtesy Desmone Architects.



Source: Bureau of Labor Statistics.

a 27,000 square foot professional office building at Camden Clark. The needs of WVUM's network have grown to require the construction of a 350,000 square foot logistics warehouse for Owens Minor that will supply the medical system.

Aside from the expansion and renovations planned by WVUM, the biggest development in the Morgantown area is WestRidge Business + Retail Park. Spanning roughly 1,000 acres between two exits on I-79, WestRidge is a massive mixed-use development that includes Class A office, flex and technology space, retail, hotels, and recreation destinations.

Prior to the pandemic, the completion of the exit that linked West Ridge to University Town Center east of I-79 sparked construction of two 45,000 square foot office buildings, a tech-flex incubator for technology giant Leidos, and a massive Bass Pro Shops and Tracker Boat Tower store at WestRidge Crossings, an anchor for 400,000 square feet of retail. The development is also home to Menard's, Kohl's, and more than a dozen smaller retail and service outlets. The interchange extension facilitated a connection for consumers between the retail at the Star City exit through WestRidge and University Town Center to Morgantown Mall. Infrastructure improvements have been a key that has unlocked development in Morgantown for decades.

"When we opened the office in Morgantown in 2016, they were building the interchange that went from University Town Center over to WestRidge," recalls Frankhouser. "The governor was here recently to announce another interchange further south on I-79 that will allow access to the Morgantown Industrial Park that is being developed by Glenmark. They recently completed Mountaintop Beverage there."

Mountaintop Beverage opened its new milk products plant in Morgantown Industrial Park in May 2023. The 330,00 square foot facility is the first phase of a multi-year expansion. The owners expect to start work soon on the 175,000 square foot second phase and add another 250,000 square feet within a few years. Governor Jim Justice announced the new interchange at Harmony Grove, which will be at River Road about one mile south of the Westover exit. Work should begin on the $70 million interchange in spring 2024. The project also includes a bridge over the Monongahela that will connect the industrial park to Route 119 and I-68 to the north.

The Harmony Grove interchange construction is one of several major infrastructure projects that the state is doing to improve transportation around northern West Virginia.

The section of I-79 in Marion County from the South Fairmont to the Pleasant Valley exits is being widened to three lanes in each direction at a cost of $72.5 million by Swank Construction. In December 2022, the state awarded a $62.4 million contract to renovate all major bridges on I-79 from Clarksburg to the Pennsylvania state line. The contract is a mix of widening, rehabilitation, and substructure work and has a completion date of May 27, 2027. Also approved for 2024 is a $68 million plan to reconfigure I-79 exit 155 that would improve access to Star City, Granville, and the West Virginia University campus.

Nesselroad's point about Morgantown's economic diversity has been borne out by two recent economic development gains.

UNDBIO Inc. signed a lease in April 2023 to build a new $100 million insulin plant at the WVU Research Park east of Morgantown. Construction of the new plant is contingent upon USDA approval of its dosage, which will allow insulin users to have weekly injections. The plant is expected to employ 200 when it opens, with plans to add 1,000 manufacturing jobs as the plant expands throughout the decade.

Morgantown will be central to the hydrogen hub that Appalachian Regional Clean Hydrogen Hub (ARCH2) will be developing at various sites in West Virginia, Ohio, and Western PA. ARCH2 was selected as one of the recipients of federal funding from the Bipartisan Infrastructure Law for the development of hydrogen as an alternative energy source. The $925 million grant from the Department of Energy will result in jobs and new businesses, a significant share of which will be associated with the National Energy Technology Lab outside Morgantown.

New development and construction in the Morgantown area are being dampened by the elevated interest rates and higher construction costs, just as has happened in other cities. Developers like GlenMark, Adrian Industries, and Metro Properties have irons in the fire, including opportunities to do large build-to-suit projects. The history of commercial development in Morgantown over the past 25 years or so is one of surges of new development, followed by a period of absorption before another surge. The market is currently in a quiet period. With economic drivers that are mostly on the upswing, and a unique opportunity to participate in a major energy transformation project, the next surge in Morgantown will not be too far down the road. BG

Photo by Candidly Yours

PROJECT PROFILE

WVUM FAIRMONT MEDICAL CENTER SKILLED NURSING UNIT RENOVATION

The people of Marion County, WV faced two public health crises in March 2020. As Governor Jim Justice was ordering businesses to lock down in the face of COVID-19, Alecto Healthcare Services closed the doors of Fairmont Regional Medical Center (FMC) on March 19, 2020. Within a month, West Virginia University Medicine (WVUM) agreed to acquire FMC and re-opened the emergency room and other critical service areas. It then was faced with a difficult decision about what to do with its "new" facility.

"It wasn't clear to us exactly what the capabilities of the hospital were or how many patients there were. When we opened the hospital temporarily to get the emergency department and a few patient beds up and running, we started to recognize the significant number of patients that originated from Fairmont. Demand for beds was larger than we realized," says Albert Wright, CEO of WVUM. "We essentially chose to rebuild the hospital in place and that decision became easier in time for a couple of reasons. WVU Medicine is really a collection of healthcare communities, and that Fairmont site sits in the heart of the community. We felt there was historic value in having it there, along with the fact that a lot of the patients are from the western part of Marion County, which is much more rural. In an emergency situation, the additional 10 minutes to get to the hospital could be material. Rebuilding it in place will be slow and painful but I think it will be gratifying in the long run."

WVUM engaged architect Harley Ellis Devereaux (HED) to develop a master plan for renovating FMC. While demolition of the old hospital and new construction would have been the simplest solution, HED also recommended resurrecting the hospital in place. Following that path would allow WVUM to provide more services sooner and save capital expenses in the long run; however, reconstruction of an operating hospital was a more complicated choice and one for which costs could spiral unnecessarily. To manage the process better, WVUM decided to bring a construction manager on board as the master plan was being completed and selected Landau Building Company in a competitive proposal process.

"This is a multi-year project. There will be many phases throughout the campus over five or six years. We tried to work with contractors that we could start the project with and work collaboratively with the architects through a constant, almost design-assist method," explains Ken Rockwell, manager of planning, design, and construction for WVUM. "Landau's proposal left us feeling they were the best fit for this project.

It was a hard choice because we had four or five contractors proposing that were all solid."

"The whole Fairmont Medical Center had been abandoned for about a month when WVUM purchased it. We helped them do a quick once over to make sure that all the systems were working. We knew that the building had not been maintained in the best way," says Jennifer Landau. "Due to their certificate of need requirements, they needed their skilled nursing unit open first. We needed to find a way to do that before they upgraded new systems in the building. There were people occupying the first floor, the third floor, and a portion of the fourth floor and we did a complete gut of the second floor right in the middle."

The logistics of constructing a new inpatient unit in a building that was going to get a complete renovation around it later presented numerous challenges, not least of which involved the mechanical systems and penetrations to occupied areas. But before any of those challenges were to be met, there was the challenge of fixing a price for a project that was intentionally embracing its unforeseen conditions.

"Chris Priest on our estimating team did an amazing job of putting together a guaranteed maximum price that identified areas where we anticipated there would be issues," Landau says. "He made sure there were appropriate allowances there so that we did not have to halt every time we ran into an issue. We didn't have to take three weeks to reprice something and get that approved. It allowed us to keep on moving because the hospital did have a deadline for moving patients in. The architect was from out of town, and you never know how present they will be, but they jumped right in and welcomed us as part of the team."

Landau Building Company's approach to the project was consistent with how the firm likes to approach construction. Jen Landau acknowledges that accounting for what is not in bidding documents works best with repeat clients, not in hard bid situations.

"We cannot in good faith give a client a number that we know will not cover everything, no matter what the drawings show. We're much better at negotiated projects where we can talk through the issues that can't be shown on the drawings," she says. "We won't know what the answers are in advance, but we can estimate an allowance for an issue and work to solve it because everybody knows something has to happen with that issue. We tried to do our due diligence to make sure all those items are identified and put a number to them."

Such an approach requires that a client wants to be told the truth about the costs and that the architect is willing to accept that the drawings will not always reflect the existing conditions or the unexpressed needs of the client. HED Principal David Jaeger emphasized that the skilled nursing unit project, and the overall hospital renovation program, needed that level of transparency.

"In some respects, we were designing and building the plane while we were trying to fly it. It's an old expression but it was what was going on," Jaeger jokes. "We were designing this 30-bed skilled nursing unit while updating the master plan cost and trying to keep the administration from going insane."

Rockwell notes that while his staff is accustomed to working with known and well-documented conditions in its flagship Ruby Memorial Hospital in Morgantown, the situation in Fairmont was completely different. Having Landau identify and price areas that could be problems during construction was an unusual approach to estimating for WVUM, one that required mutual trust.

"We were uncomfortably comfortable. For my team to step into a building that was well behind on routine maintenance

and code compliance issues was very difficult," Rockwell says. "We were comfortable with Landau's approach mainly because we did not want to be wrong in the numbers we were sharing with leadership. Because there were so many unknowns, it made sense to put cost placeholders there so that our leadership could have a predictable outcome. We did a lot of pre-construction work, even ahead of construction documents, so that we could get accurate information from the industry."

Designed during a period of hyperinflation and using what Jaeger refers to as "a 1970s vintage chassis," the team needed to work very closely on constructability and budget to get the skilled nursing unit project off the ground.

"The biggest challenge was coming up with an operational design footprint that made sense. The footprint was acceptable enough to be transitioned into a contemporary hospital," says Jaeger. "The secondary challenge was that the expectations from the hospital for the design potential for this facility were probably higher than reality, so we had to manage those expectations through the design process. We spent time going back and forth while we were designing it reconciling budget to reality."

Both Landau and Jaeger admitted that they approached preconstruction with some caution, having not worked together prior to the Fairmont Medical Center.

"The third challenge was the relationship between us and Landau on the estimating process which turned out to be quite good. It wasn't a challenge at all," says Jaeger. "In a complicated project, if you had to deal with challenges from relationships, it would just make it a miserable project and it has not been."

The most complicated aspect of the project was probably the integration of the new skilled nursing unit into the obsolete mechanical system at FMC. Landau notes that the previous owner had cannibalized some of the systems and had deferred maintenance for an extended time. Moreover, the master plan called for the construction of a new central utility plant after the skilled nursing unit was to be operational, meaning that the new space would have to be tied to the obsolete existing equipment for a year or more.

"Part of what we're doing down the road is building a new central utility plant, which will have all new boilers, generators, and upgraded systems. We had to do a mechanical design of a system to add to a building that is making do before adding new systems," explains Landau. "It was the struggle to get everything we needed for this floor without taxing the existing systems. The mechanical upgrades for the skilled nursing unit will be tied into the new central utility plant. There is a new rooftop unit for that skilled nursing unit that is running that area in the interim. We put it in new space knowing that the old systems are going to be demolished."

Landau notes that tying the new space into the existing plant meant numerous floor penetrations into surrounding spaces that were occupied by patient areas and administrative offices that were opened prior to construction of the skilled nursing unit.

"A lot of the penetration work was done in phases. It required a lot of communication with the different departments. We had to worry about what the census in the hospital was. If things were busy, we would have to delay work," recalls Landau. "We had to close portions of the lab. We had to relocate and do work arounds while we shut off risers and put in new shafts. It was a little bit of everything. We had night work. We had weekend work. We also had to have the ability to pivot as needed when the patient census was higher than expected."

Photos by Candidly Yours

"The existing structure itself was a challenge. We had to understand not only the new penetrations but if the structure required new support," she continues. "There was a room full of old drawings that were flung together, which we worked with the architects and engineers to try to understand."

"Some of the more high-tech components that were requested, such as high-capacity lifts for bariatric patients, were an incredible technical challenge to fit into the infrastructure, not only for design but for construction. There was a combination of structural and mechanical changes that were necessary," says Jaeger.

During construction, some of the structural modifications revealed more issues that were expected to accommodate the improvements for the skilled nursing units. There were issues that none of the team could have anticipated during preconstruction.

"The building had a lot of concrete block walls that had been pieced together. As we began to modify some of the block walls, they began to fail. It was unsafe. We took down a lot more perimeter wall than anticipated. On some of the perimeter walls the plaster was falling off and you could see to the outside," says Landau.

"We had to work with the architect to come up with a new plan to insulate the exterior wall. The existing building was precast concrete and had towers. Our floor was an infill, so we had what had been precast exterior walls in the middle of our floor. Some of the penetrations took a bit more coordinating and preparation than a typical mechanical penetration of a concrete block wall."

Construction began August 29, 2022, and patients began occupying the renovated skilled nursing unit on August 17, 2023. As that project was wrapping up, Landau Building Co. was underway with mechanical upgrades on the third floor and renovations of the endoscopy suites on the ground floor. Construction documents were being completed for the new central utility plant, which should bid and be under construction by the beginning of 2024. Over the next five years, there will be an additional $100 million or more invested in FMC.

Asked why the project was successful, Jaeger says, "It was the low-key, problem-solving, professionally friendly relationship of all

Photo by Candidly Yours

parties. Everybody understood what we had and understood that we had to be patient with each other and solve the problem in front of us."

"The project was successful because we dealt with the unknowns as they came up. We didn't have the best as-built and site conditions documented," says Rockwell. "The team worked well. The general contractor and the MEPS raised their hand as issues arose. They offered good suggestions to fix what was in question."

"I want to stress the high level of collaboration and teamwork. All the members of the project team were able to switch gears as needed together," says Landau. "The communication between everyone allowed that to happen. We were able to make decisions on the fly and make sure that everybody bought into those decisions."

It worked because the culture came both from the top down and the bottom up," Landau continues. "As a group we would come together and jump on a [Microsoft] Teams call. As much as we may all roll our eyes about Teams, that allowed us to grab the architect, the engineer, the owner, and the subs on site and talk through it. We could pinpoint the issue and talk about our options. Our subs were very good at resolving issues without spending a lot of time. The solutions took a couple of days, not a couple of weeks."

Both Landau and Rockwell emphasized that the project also benefitted from the way the staff at FMC worked with the team to get the facilities back in service to the community.

"Fairmont is a good story," says Rockwell. "It's a hospital that closed and a lot of people lost their jobs. The local community supports it, both from the medical side and the construction side. There was a lot of local labor involved to help the community and their own families."

"The community aspect of this was important too," says Landau. "When the hospital closed it really hurt the community of Fairmont. It's not only that WVUM opened it up as quickly as they could, but they are investing the money they need to create a first-class facility. It's beneficial for the whole community." BG

PROJECT TEAM

Landau Building Co.	General Contractor
West Virginia University Medicine	Owner
Harley Ellis Devereaux	Architect
CJL Engineering	Mechanical/Electrical Consulting Engineer
H.E Neumann Co.	HVAC and Plumbing
Infinity Electric	Electrical
Dan Taylor Interiors	Flooring
A.J. Vater & Company	Painting
Titan Barriers, LLC	Fireproofing
Brewer & Company of WV, Inc	Fire Protection
J.P. Phillips Inc.	Ceramic Tile
Tri State Roofing & Sheet Metal Co.	Roofing
Tri State Lockers & Shelving, Inc	Lockers
Stonhard	Resinous Flooring
Specialized Steel Solutions, LLC	Steel Erection
Fox Cluss Glass Company, Inc	Windows and Glazing
Mazella Welding & Fabrication	Miscellaneous Metals
V.O. George Group Inc.	IV, Cubicle Track, Wall Protection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CONSTRUCTION LAW 2023 – THE YEAR IN REVIEW

BY D. MATTHEW JAMESON III, ESQ. AND DANIEL M. MAIER, ESQ.[i]

On Thursday October 5, 2023, the Construction Law Group of the law firm of Burns White LLC held its annual Year in Review Seminar. Throughout this seminar, Burns White Attorneys provided attendees with a summary of 2023's most important legal issues impacting the construction industry, addressing the implications of each topic in detail.

The Ever-Evolving Cybersecurity Liability Risk

Over the past several years, cyber-attacks have become an omnipresent hazard across every industry, and in every household, worldwide. The legal and financial consequences of becoming a victim of such an attack are significant, complex, and ever-changing.

Cyber-attacks come in a variety of forms. In the construction industry, the most common types of attacks are phishing and ransomware. A phishing attack occurs when an attacker gains access to the credentials of the victim, often through a malicious link or query, and masquerades as the victim to obtain payments from a second source who believes the request to be originating from the unsuspecting victim. Contractors are prime targets for these attacks; in fact, in September of 2023, Moss Construction and the City of Fort Lauderdale became victims of such a phishing attack. The City received an email request from Moss for payment of $1.2 million which included all the required paperwork, properly completed, and a blank check matching the City's records. The City paid the $1.2 million only to learn that Moss had made no such payment request. Though an investigation is ongoing, the money is, for now, gone and presents a significant loss for the City. Preventing phishing attacks requires diligence and an understanding of what a phishing attempt looks like. Employee training, security evaluations, and response plans are all important, but not 100% effective, measures for avoiding phishing attacks.

Ransomware attacks present a more stereotypical form of cybersecurity breach, occurring when an attacker gains access to a victim's computer system and locks all or part of the system down, preventing access and stealing sensitive data. The attacker then demands money (ransom) in exchange for unlocking the system and returning or destroying the data. In a recent, high profile breach, on September 25, 2023, Johnson Controls International (JCI) reported a massive ransomware attack, leading to loss of access to significant portions of its systems. The attackers sent a ransom note as a part of the breach claiming they had stolen 27 terabytes of data and demanding $52 million in exchange for the key to unlock the system and a promise to destroy the stolen data. Of particular concern for JCI, and its government clients, is the possibility that the stolen data contains sensitive government information. JCI is now faced with the options of either dealing with an untrustworthy bad actor and paying the ransom or attempting to regain control of its systems and risk the release of 27 terabytes of potentially sensitive data. The risk of disclosure of this sensitive data could lead more government agencies to require cybersecurity insurance for contractors submitting construction bids or proposals to those agencies. To prevent being faced with the lose-lose choice presented to JCI, it is important to properly evaluate your cybersecurity measures (including cybersecurity insurance) to ensure you are prepared to stop or respond to a cyber-attack if and when it occurs.

In the event of a cybersecurity breach, victims must comply with the legal requirements of all applicable jurisdictions. Depending on the type of data involved, a breach may need to be reported to multiple state attorney's general as well as employees, clients, and other effected entities. Though some states have breach reporting laws in place, most are still catching up, with numerous laws pending throughout the United States. At the federal level, the law is likewise actively developing, including a new SEC rule requiring annual disclosure of cybersecurity governance. Given the ever-evolving nature of the cybersecurity field and the increasing frequency of cyber-attacks in the construction industry, ensuring you and your business are protected and prepared for an attack has never been more important.

Proposed Pennsylvania Legislation

The Pennsylvania legislature has been busy this year; proposing a number of bills directly and indirectly affecting the construction industry. Of particular interest are HB 1164, SB 763, and SB 359.

Similar to prior proposed legislation regarding indemnity, HB 1164 would void all indemnity provisions in construction contracts which indemnify a party for damages resulting from its own negligence as a matter of public policy. HB 1164 was referred to committee on May 18, 2023 and, should it become law, would cause a fundamental shift in construction contract standards and contractual liability balancing.

Continuing the theme of shifting liability, SB 763 proposes a revision to the Pennsylvania Wage Payment and Collection Law making a general contractor "jointly and severally liable" with a subcontractor who violates the Wage Payment Law. The revision would thus make a general contractor liable for the unpaid wages of the employees of its subcontractor. A general contractor's liability under the proposed revision would extend to all tiers of subcontractors. The liability implications of SB 763 are greatly concerning and general contractors should pay close attention to the bill's status. Should it pass, general contractors, in conjunction with their legal counsel, will need to consider how best to address this new, potentially significant, source of liability.

Finally, SB 359 responds to the escalation of material prices throughout the Covid-19 pandemic by permitting the Secretary of General Services to adjust the prices of construction material line items within eligible contracts. The law would apply to public contract bids between March 15, 2020 and the effective date of the statute and for which material acquisition costs have increased "in excess 5% since the time of the contract award." To obtain a price adjustment, eligible contractors would be required to apply to the Department of General Services through a yet to be determined application process. Passage of SB 359 is uncertain but would provide relief, late though it may be, to eligible contractors who remain uncompensated for significant material price increases during the Covid-19 pandemic.

Whether you are a general contractor, subcontractor, or operate a fabrication facility, delivery service, or other business in the construction sector, understanding how the Davis Bacon Act's updated rules will affect your business is key to avoiding liability down the road.

Davis Bacon Act - Final Rule Update

In 2022, the Department of Labor's proposed changes to the Davis Bacon Act (DBA) took center stage for many in the construction industry. On August 23, 2023, the Department published its Final Rule updating the DBA. The Rule is effective as of October 23, 2023 making significant changes to the DBA, including, among many others, prevailing wage determination methodology and the definitions of "Prime Contractor" and "site of the work."

The Final Rule returns to the DBA's pre-1983 prevailing wage standard. Under the new standard, where no majority wage rate exists, the prevailing wage is set at the rate earned by the greatest number of workers so long as at least 30% of workers earn that rate. The Department has provided no timeline for the rollout of new wage rates under this rule and has indicated the new rates will be developed over time, not all at once. Once rollout begins, it is important that all contractors participate in the wage determination surveys to ensure their wage data is counted. Nonparticipation, particularly by smaller contractors, could result in wage rates driven by larger, higher rate companies, potentially forcing out smaller operations from DBA-covered projects.

Equally as significant are the changes to the DBA's definitions for "Prime Contractor" and "site of the work." The revised definition of "Prime Contractor" now includes joint ventures and partnerships holding a prime contract, and controlling shareholders or members of the entity holding the prime contract, as well as any contractor delegated responsibility for overseeing the prime contract. Though the intention is to prevent the use of single purpose entities to avoid DBA liability, there is the potential for individuals to have personal liability for DBA violations, though the extent of this liability is unclear at this time.

The definition of "site of the work" has been expanded to include any site where a "significant portion" of a building or work is constructed, provided that the site is established for or dedicated exclusively or nearly exclusively to performance of a single DBA-covered project for a "period of time." On its face, this expanded definition is concerning for businesses performing offsite construction activities and prefabrication; however, the Department has explained that only sites which exclusively, or nearly so, perform work for a covered project for a period of more than a few days will be considered a "site of the work." In fact, the Department has expressly excluded sites, such as fabrication facilities, performing work on multiple projects at once, each of which may or may not be subject to the DBA. Additionally, the requirement that exclusive work be for more than a few days excludes facilities performing rush jobs in order to meet a tight deadline.

Whether you are a general contractor, subcontractor, or operate a fabrication facility, delivery service, or other business in the construction sector, understanding how the DBA's updated rules will affect your business is key to avoiding liability down the road. If you have any questions regarding the DBA or any of the above topics, the attorneys at Burns White are prepared to provide assistance to you and your business.

Matt Jameson is co-chair of the Construction Law Group at Burns White. He can be reached at dmjameson@burnswhite.com. Daniel M. Maier is an associate attorney in the Construction Law Group at Burns White. He can be reached at dmmaier@burnswhite.com.

FINANCIAL PERSPECTIVE

BE PREPARED AND PROACTIVE TO MANAGE POTENTIAL BANKING CHALLENGES .

BY MICHAEL J. KAPICS, CPA, MBA, CCIFP

We all know that financial stability and a good banking relationship are crucial for the success of a construction company. Cash flow can be a never-ending issue. Your lines of credit are vital to getting through long and delayed cash-flow cycles and, of course, to securing surety bonding. But lately we've seen banks becoming more scrutinizing, even reticent to lend, and that has led to disruptions and financial strain for construction businesses. We believe it is essential to be prepared, and we've been advising our construction industry clients to be proactive in order to manage banking or financing challenges.

For insights on the current construction banking environment, we talked with veteran contractor David M. Hatherill, P.E., President & COO, Corcon, Inc., a family-owned construction firm based in Lowellville, Ohio, that specializes in industrial painting, and banker Andrew Hopper, Senior Business Relationship Manager with Chase Business Banking.

Securing a line of credit

"We rely on a commercial line of credit to cash-flow our jobs," Hatherill told us. "It might be 60 to 90 days to acquire material, mobilize the job, pay consulting fees to engineers who do the designs, and get approval by the project owner before we even physically break ground. Then it will be another two-to-four weeks before we can complete enough of the job to be able to submit a payment application. It might be three months of expenses paid out before we can bill.

"As a firm that works exclusively on public projects for state or quasi-governmental agencies, there is no question that we'll get paid. For private sector financing, cash flow is even more critical. It can take three or four months to get paid."

Hatherill said that he has seen banks grow "less independent. The industry is so highly regulated that there's less and less leeway, so it's strictly about the numbers now. Loans must be backed with tangible assets. Given that public works contracts require surety bonds to be put into place, the surety will take first position on receivables. Therefore, such bonded receivables cannot be used as tangible assets to support the line of credit, placing greater demand on the company's financial resources to support the line of credit necessary to cash flow a given project."

Hopper proposed that a bank will consider its history with a client in determining whether to issue a line of credit:

"When looking at lending prospects, banks will also take into consideration your deposit relationship. For example, Chase reviews the entire relationship history when making lending decisions. The bank is not a transaction lender."

He confirmed Hatherill's position on backing loans with tangible assets. "Generally, banks require first and only lien position on collateral, so understanding that collateral is very important. I have found that when making decisions that impact owners and companies, getting to an answer quickly fosters strong relationships."

As accountant and financial advisor to Corcon for more than 15 years, HBK participates in their discussions with contractor and banker.

"We're looking for the biggest line of credit with the most favorable terms. Our accountant can speak the banker's language. He'll present our story, our history, and four or five years of financials."

Keeping a close eye on your financial statements

To stay prepared for potential banking issues, construction companies should conduct regular financial health checks. This involves monitoring key financial indicators, such as cash flow, debt levels, and liquidity ratios. You should watch these indicators regularly and ensure you understand how they impact your position with your bank. Up-to-date financial statements allow open conversations with the bank to ensure they understand your situation and will not be surprised in the event of a downturn in your business.

Hopper agreed. "The balance sheet and income statement should always be up to date. Updated financials give the executive team a snapshot of the company's performance and its trends. Make good use of your CPA to help you with trend and forecast analysis. This will help put you in a nimbler position to pivot and shore up any areas that need attention."

"You need an accountant who knows this industry to be able to explain a down year if you have one, or to express your projections for the coming years," Hatherill added. "We consider HBK our business partner, just as we do our surety and insurance brokers, financial institution, and outside counsel. We have found it's important to keep the line of communications open with those partners."

Maintaining strong communications

Establishing continuous lines of communication about ongoing projects, financial projections, and any significant changes in your company with your bank is essential. Regular and open dialogue helps build trust and allows for early notification of any potential banking issues. Being proactive with communication has always been looked upon favorably by banks and allows them to prepare alternative routes of financing when needed.

"Look at your bank as a trusted advisor," Hopper advised. "They know the business climate in your area, can offer access to resources and networking opportunities, and have likely worked with other clients raising similar questions or

A strong working relationship with your bank is critical, but most important is to work with a bank that understands the construction industry as well as to establish and maintain relationships with other business partners, including your accountant and insurer, who have deep experience and expertise in your industry.

concerns, so they have the experience to provide advice across a range of topics.

"If you work with a quality bank that knows construction, they'll work with you and give you some leeway," Hatherill explained. "Our policy is full disclosure. We don't hold anything back from our bank. We meet with them quarterly or at least semi-annually and go through our performance for the past year and project performance for the upcoming years.

"We had a down year during Covid, but we still had to retain our employees, so we were depleting our financial resources and the value of the company. Some people don't want to tell their bank they're having problems but telling them up front and showing them, you understand what you're doing and explaining your alternatives, like reducing financial assets to bridge the gap, has worked for us. We have always found that if we tell someone six months to a year out, and we can explain our workload and expenses, banks are far more tolerant. The better you know your business partner the easier the conversations are."

"Partnering with a bank that has experience with projects within the size and scope of your project does help with communication and bringing projects to completion," Hopper explained and talked about Chase's approach to what he called "construction risk management."

"For real estate projects, the goal is to complete the project on time and within budget, but that doesn't always happen. It is the work that is done before shovels are on the ground that can make a difference. Chase has a dedicated team to assess the project, review the drawings, and set up project review calls with the borrower, construction manager, and our relationship manager. We inspect the project monthly and disburse based on work that is verified to be complete, with oversight to be sure completion is moving along in a timely manner."

Having a backup plan in place

It is true that banks can pivot away from an industry when they feel their exposure is over-weighted, or from a construction company that has had a bad year. Sometimes, even relatively healthy companies can be asked to look elsewhere for financing. Options can be limited for construction companies. Building a relationship with a secondary bank, before times of uncertainty or financial downturn, is the proactive step that can keep your company alive if your current bank is no longer interested in financing your company. It is a good business practice to keep a secondary bank up to date on your company's financial status so they can quickly engage your company if such a situation occurs.

A strong working relationship with your bank is critical, but most important is to work with a bank that understands the construction industry as well as to establish and maintain relationships with other business partners, including your accountant and insurer, who have deep experience and expertise in your industry. Industry-dedicated business partners remain current on regulations and industry trends, so they can advise you proactively on such issues as changes in reporting standards, and changes in tax laws and steps you can take to minimize their impact on your operations. They attend industry and regulatory conferences and seminars to be able to arm you with current, relevant information.

Your business partners should not only understand the specialized rules and requirements of the construction industry but have the depth to provide the wide range of financial and business consulting you need to improve your bottom line and remain competitive in the ever-changing and challenging construction industry.

By being prepared and proactive, you can strengthen your resilience and mitigate the impact of challenging times. BG

Mike Kapics is principal, national director at HBK Construction Solutions. He can be reached at mkapics@hbkcpa.com.


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THE SUBTLE ART OF RAPPORT: HOW OFFICE DESIGN CAN HELP TO REBUILD WORKING RELATIONSHIPS

Do you remember how it felt to walk into your office for the first time after COVID lockdowns?

If you, like many of us, had been working remotely for an extended period, facing an office populated with—gasp!—other people—might not have been a wholly comfortable experience. Our office habit was thoroughly broken during the pandemic, and with it the daily practice of interacting with coworkers in countless unremarkable, but important, ways.

Rapport—a comfortable, familiar connection—grows in ordinary moments at the office, like helping a coworker fix a jam in the copy machine or teasing your colleague about their meticulously organized desk. It develops through repeated, friendly encounters that tend to happen naturally when people spend time together in the office.

Now, as return-to-office (RTO) mandates are put in place and enforced, it is vitally important to consider how workplace design can help to rebuild the working relationships that came apart during the pandemic.

Reluctant RTO

This year, 2023, has been called the year of the return-to-office mandate for good reason. An August 2023 ResumeBuilder.com survey of 1,000 business leaders found that 90 percent of companies have already returned to the office or plan to return by 2024. Of those companies, nearly two-thirds will expect employees to work in-person between three and five days per week.

But expectations and reality are not yet aligned. New research from McKinsey suggests that being in the office about 50 percent of the time is the 'sweet spot' for hybrid workers, while Kastle System's Workplace Barometer, pulled from badge-swipe access activity across 10 major markets in the U.S., shows that workplace occupancy in the last week of September was just under 50 percent of pre-pandemic levels. At the same time, data from CBRE found that 64 percent of office space is underutilized despite widespread efforts in the last two years to reduce and repurpose unneeded space.

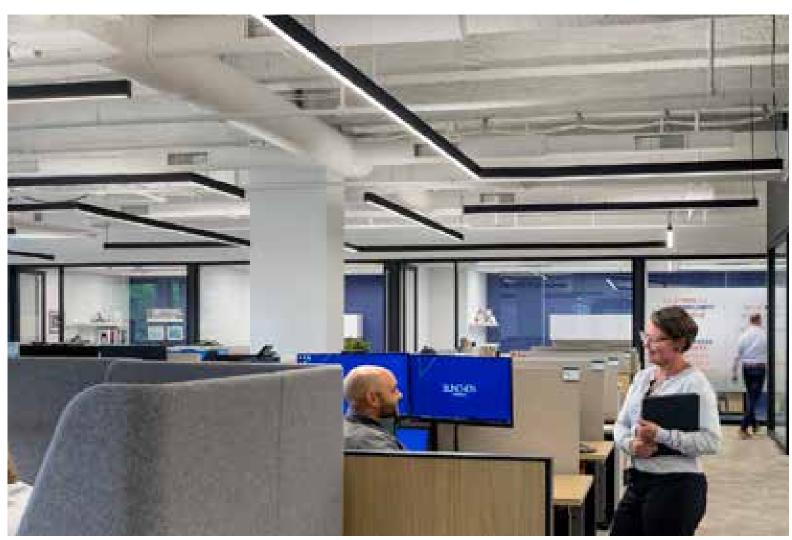
It's clear that the post-COVID office is still in a major stage of transition. But for all the enthusiasm to fill empty desks, there is relatively little discussion of what employees are missing out on by working from home—and what they might gain from coming back to the office.

Rebuilding rapport

We know that professional networks suffered during the pandemic, a fact that has been confirmed by numerous surveys and studies since the start of 2020. According to a report published in the scientific journal Nature, professional networks became increasingly siloed and static with the shift to remote work. This means that people interacted less frequently with contacts outside of their immediate circles and added fewer connections to their existing ones, a potential threat to innovation and productivity.

Working together and in person has important but often overlooked benefits, not least of which is the opportunity to see and interact with a broader network of people on a regular basis. Even if those encounters are limited to eye contact and a friendly nod, your network of "familiar strangers" expands through the simple act of repeated exposure.

Another overlooked benefit of working in person is the opportunity to connect with coworkers outside of formal communication channels. The value of these informal interactions is validated by research; a 2020 study published in Language and Speech suggests that "off-task communication"—small talk—can lead to more balanced group dynamics and better collaboration. Research conducted by the famed scholar Michael Eraut suggests that a large portion of on-the-job learning happens informally through processes like observation, experience, and "working alongside others." Notably, Eraut makes clear that the success of those processes depends on the "quality of relationships in the workplace", or, in other words, good rapport.



The Buncher Company Corporate Headquarters at One Waterfront Place. Photo © Copyright Andrew Rugge. Courtesy Perkins Eastman.

Turner Construction Company Pittsburgh offices at 600 Grant Street 27th floor. Photo © Copyright Andrew Rugge. Courtesy Perkins Eastman.

Rapport is good for business

Rapport isn't just about making work more enjoyable; positive workplace relationships are tied to a number of measurable outcomes:

- Teams who engage in rapport-building behaviors are more productive and give extra effort compared to those who don't engage in rapport-building, according to a research article published in the Journal of Organizational Behavior Management in 2019.
- High levels of social support at work are linked to better job performance and increased job satisfaction, according to an article published in Time magazine on the importance of work friendships.
- Rapport facilitates psychological safety, a vital "performance enabler" according to research published in Frontiers in Psychology. Another study published in Current Psychology suggests that psychological safety accelerates learning and innovation in the workplace.
- Positive relationships at work are tied to increased productivity, profitability, job satisfaction, and retention, according to an article published in the Harvard Business Review.

It's not (just) about being together

Getting back to "normal" isn't as simple as reinstating pre-COVID work policies. Forcing resistant, unmotivated workers back to their desks is not likely to produce favorable results on either side. And, of course, simply putting people together in an office doesn't mean they will connect with each other or with their organization. Building connections in "closed system" settings like the office where reference groups are assigned rather than self-selected is more challenging, according to research published in the Journal of Social and Personal Relationships. You can't pick your coworkers like you can pick your friends, but closer relationships at the office are more likely to develop through activities that are voluntary and not directly work-related.

Designing for rapport

Many elements contribute to strengthening working relationships and building rapport. While workplace policies, hiring practices, the type of work being done, and the industry in which a company works play a major role, the physical office environment, from fixtures and furnishings to programmatic adjacencies and circulation, has a powerful influence on workplace culture. The following case studies illustrate how integral workplace design is in providing the setting and structure for these kinds of interactions—rapport—to occur.

The Buncher Company

Perkins Eastman's design for The Buncher Company's new corporate headquarters in Pittsburgh, PA, uses design strategies to bring people together in an organic way.

The program includes workstations, private offices, collaboration space, meeting rooms, and a large pantry area. Initial test fits explored different locations for bulkier programmatic elements; in early iterations, the pantry and large meeting room took center stage but created a physical and visual barrier between the two open work areas.

The final configuration co-locates the pantry and large conference room near the office entry point, unifying the work area and allowing visual access across the entire space.

Jeff Young, co-managing principal of Perkins Eastman's Pittsburgh studio and design lead for the project, points out the intentionality behind decisions to create a more integrated, connected space. "We didn't want to divide the work area with such a prominent element [the pantry or boardroom], so we opted for tall seating and phone booths to define smaller neighborhoods within the open work area."

The office layout balances privacy and openness. Semi-opaque partitions between workstations provide seclusion while seated, but do not obstruct views across the office at standing-height.

The pantry, separated from the large meeting room by an operable partition, offers a variety of different seating options.

"We were purposeful about creating a living room, kitchen-style space just off the reception where people can mingle and eat together", says Young. Perched bar-height seats at the window allow people to be 'alone together' while the large table offers a more communal experience. "Many of these strategies are subtle, but they encourage people to get up and move around—which of course means they will be bumping into coworkers more often."

Turner Construction

Sometimes, a winning workplace strategy starts before the lease is signed.

In early 2023, Turner Construction had earmarked an 8,000 square foot footprint in downtown Pittsburgh's iconic U.S. Steel Tower, a building Turner constructed in 1971. The original plan positioned all programmed space south of the reception. In this scenario, a tenant demising wall would have obstructed the view from the elevator lobby and forced all traffic to turn in one direction down a long, deep corridor.

A subtle adjustment—shifting the footprint to the north by approximately 50 feet—transformed the flow and function of the office. "Starting with a better footprint made all the difference for this project," says Young. "It opened up a lot of options that didn't exist before and allowed us to get more out of the same amount of space."

The revised boundary line allows for a bright and welcoming reception experience that allows traffic to flow from three directions and maximizes visibility.

"We think very hard about the way we can deploy the program in meaningful ways," says Young. "The triangular-shaped meeting room, which is a nod to the steel building, anchors the open amenity zone and allows movement around all sides."

The result is an office that provides ample opportunities for unplanned, informal encounters and walk-and-talk conversations, along with a variety of private and semi-private spaces for working and meeting.

"Building rapport with coworkers really comes down to developing a level of comfort with seeing people face-to-face on a daily basis. And those little unplanned moments can happen anywhere in the office. You probably aren't going to ask Bill to meet you in the collaboration hub for a casual chat, but you might run into each other at the microwave and end up moving the conversation to the high-top table while you finish your lunch." BG

Author: Perkins Eastman | Design Strategy

COMMERCIAL REAL ESTATE'S MOTTO IS "SURVIVE UNTIL 2025"

There are signs that the office market is beginning to recover. Leasing activity has increased, described by several owners as "robust." Daily occupancy in most buildings is higher, aided recently by corporate decisions to enforce back-to-office decrees. There are even reports that some of the companies that chose to downsize their footprint over the past two years have realized that they overcorrected in response to the hybrid work model. There is no office market boom on the horizon, especially for new construction or for central business districts, but conditions are improving.

In other commercial real estate sectors, the fundamentals are firming up. Industrial properties are no longer being built everywhere but occupancy and rents are stable. Retail is still evolving but, other than outdated regional malls, demand for space and rent growth is good. Multi-family has seen an end to the double-digit rent growth, but demand is still outstripping supply overall and rents are stable. Even hospitality has recovered, although there will be few new hotels built.

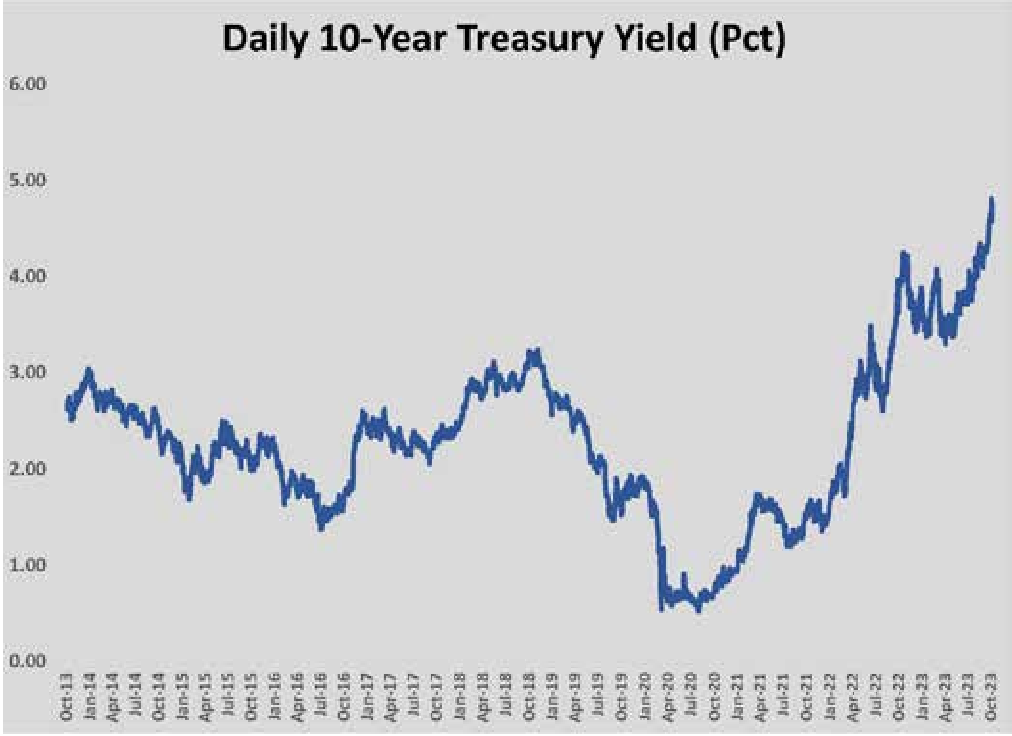
But, even as the fundamentals of supply and demand are re-balancing, commercial real estate remains a troubled asset class. That is because the cost of capital has risen dramatically since March 2022, when the Federal Reserve Bank began aggressively hiking rates.

Commercial real estate runs on financing and refinancing leveraged to properties. Higher interest rates hang like the Sword of Damocles over the industry. With the prospect of the current rate climate remaining in place through 2024, commercial real estate owners – and their lenders – have been adopting a strategy like what was called "extend and pretend" after the financial crisis of 2008. Loans that were made at rates that were two to three percentage points lower are maturing and refinancing in conditions that require that owners put cash in, rather than taking cash out. That reduces the value of the property being financed.

Roughly 15 percent of the outstanding commercial real estate loans mature annually. By the end of 2024, about 40 percent of the loans on commercial properties will have matured since rate hikes began. Most economists and lenders expect rates to fall in 2025. "Survive until 2025" has become the new "extend and pretend."

Extend and pretend worked because the economy healed, operating income increased, and interest rates remained so low that property values rebounded robustly within a few years. That staved off fears about the "tsunami" of commercial loans maturing from 2013 to 2106 that were made during the easy credit years ahead of the financial crisis. By the time those loans matured and required refinancing, property values had recovered enough that a wave (or tsunami) of foreclosures and distressed sales never happened.

Conditions are nowhere near as dire today, but there are some real differences that could make surviving until 2025 more challenging. Most salient among them, of course, is that the interest rate environment is 180 degrees opposite that of 2013. There has been some value destruction of commercial properties, primarily in office buildings, but the main culprit is the higher interest rate that created the challenging capital markets.



Source: Federal Reserve Bank of St. Louis

The combination of higher interest rates and lower loan-to-value ratios for financing means that net operating income for any property will fall when a new loan is closed. That means that an existing building that refinances a maturing 10-year mortgage in 2023 will see the operating income drop by double digits, even if occupancy and rental rates have not changed. In the example of a fully leased property with stable rents, the refinancing of its 2013 mortgage at October 2023 interest rates will result in a reduction in the value of the property by 20 percent or more.

Commercial property values are compared using capitalization rates, or cap rates, that equate to the anticipated return on investment. Cap rates are calculated by dividing the net operating income by the property value. Higher cap rates mean lower property values. The low interest rate period that followed the financial crisis increased net income and property values for the past decade. Now, the bill for that decade is coming due.

As a result of this shift in value, buyers and sellers are nowhere near an agreement on what properties are worth, even when the buyers and sellers are the same people. JLL's Claudia Steeb related a blind survey of investors her firm conducted earlier this year, in which respondents were asked what they would expect as a cap rate if they were selling or buying a grocery store-anchored retail center. The same group of investors answered five as sellers and seven as buyers. That means the same group of experienced investors expected the price of the same property to be dramatically different, depending upon whether they were selling or buying it. On a $10 million property, that difference in perceptions equals a difference of $3 million in value. It is tough to reach agreement on a sale in conditions like that, which is why few deals are being done except those that have to be done.

The good news is that when buyers and sellers agree on a price, there is ample liquidity in the market. While banks have been shedding commercial real estate exposure, investors and other lenders remain in the market. Fannie Mae and Freddie Mac have maintained their allocations for multi-family. Life insurance companies are still lending, even after signaling that there would be less capacity. More importantly, private investors and private equity lenders abound. Steeb estimates that there is six times as much capital in the market for the number of deals being done. That excess capital is the reason cap rates have not risen as fast as interest rates and it has kept bottom feeding to a minimum.

Thus far, these more difficult conditions have resulted in mild value destruction. CBRE's Tony Rossi reports that commercial property prices are off roughly 10 percent in the U.S. Green Street's Commercial Property Price Index (CPPI) is down 11.8 percent in 2023. Moody's Real Capital Analytics CPPI is down 9.6 percent. Those indexes only reflect deals that were closed, so it is likely that declines would be steeper if there were more sales and refinancings concluded. But, with each passing month at elevated commercial mortgage rates, more properties will experience devaluation.

Pittsburgh has not been immune to the headwinds facing commercial real estate; however, the fundamentals of the market in Western PA should make it easier to "survive until 2025." Pittsburgh landlords will have to deal with whatever economic and financing challenges arise, but supply and demand are not as out of balance in Western PA as in many other markets.

Industrial construction has boomed during the past few years, but so has absorption. New construction slowed in 2023, so new buildings being delivered will have less competition. Likewise, apartment construction has dropped dramatically in 2023, especially considering that the pipeline of entitled projects is roughly three years' worth of average construction. With multi-family starts likely to be half the 10-year average of 2,100 units and single-family construction at roughly 3,000 units (also below the 10-year average), demand for apartments will continue to outstrip supply. The one area of concern, the office market, is unlikely to fundamentally improve until the second half of the decade; however, there is less than 500,000 square feet of speculative construction underway throughout the seven-county metropolitan statistical area.

There has been much speculation about the fate of the distressed office buildings that are facing maturing financing, but lenders have been willing to extend mortgages rather than force a sale or foreclosure.

"So far, borrowers and lenders have been getting along very well," says Nick Matt, senior managing director and co-head of JLL Capital Markets' Pittsburgh office. Matt notes that calculations of value are mostly out the window in favor of debt service coverage since the spike in interest rates occurred.

The secret sauce in commercial real estate financing is, not surprisingly, cash. The higher cost of borrowing cannot be passed along to tenants when occupancy is weakening and so many rental options exist. The only way to reduce the debt service coverage is to reduce the size of the loan by adding equity. Lower loan-to-value ratios are a fact of life in 2023 and that reality is not going to change until rates fall and property values reset to reflect the market conditions. That will slow down the amount of commercial construction, but it will also increase the opportunities for developers and buyers with dry powder. Matt says that the highest percentage of deals JLL has done has been with private equity and high net worth individuals.

"Survive until 2025" means that much of the multi-family activity proposed for 2023 will slip until 2024 or later, when it is assumed that rates will be lower, and it will be easier

FIGURE 2: Class A Downtown vs Suburban

Source: CBRE Research, Q3 2023

to take out the construction loan with more favorable permanent financing. More than 8,000 apartment units are in the entitlement pipeline in the metro Pittsburgh area. Fewer than 1,500 will start this year, likely fewer than 1,000 units.

A recent sale offers a glimmer of hope that the path forward is becoming clearer. It was reported that the two apartment blocks developed by NRP Group are in the process of being sold. The 442-unit The District and 364-unit Edge 1909 were built when construction costs and financing were significantly lower. New properties in one of Pittsburgh's hottest neighborhoods, Edge 1909 and The District are nonetheless selling for what is reported to be $50,000 per unit less than the asking price.

"If that's the case, that's a function of the higher interest rate, which forces buyers to put more equity into deals," says Dan Puntil, senior vice president at Colliers Mortgage. "I think buyers and sellers are now starting to reach common ground, but it is the sellers that are impacted because the properties are selling for less."

While details of the deal have not been released, people familiar with the potential sale note that there will need to be significant equity raised to make the financing work. The sale suggests that there is confidence that the multi-family market in Pittsburgh is still attractive; however, the buyers of those properties will be backing up that confidence with significantly more equity than if the deal was being done five years ago. Moreover, there will need to be additional sales to judge whether the market, or at least the multi-family market, is thawing.

"There are private equity investors with billions on the sidelines who believe this downturn will end soon, that things will stabilize, and rates will decrease. But a lot of the institutions are on the sidelines," notes Matt. "We'll see if those two deals happen, but I think we're a long way from saying it's a trend."

The current environment has also chilled the industrial market, which reached a peak for rents and property values when online shopping spiked during the pandemic,

Wells Fargo bucked conventional wisdom in its October Economic and Financial Activity Commentary by predicting that the Fed will cut rates by two percentage points or more in 2024. That forecast is built upon the assumption that the economy will need stimulation. A slower economy is never good for commercial real estate, but lower rates are. Should Wells Fargo prove correct, even if not in its full rate cut forecast, "survive until 2025" will be a successful strategy.

accelerating the logistics boom that was already underway. That trend has hardly reversed but the growth rate has eased, as has the appetite for industrial property purchases.

"Sales have absolutely slowed," says Lou Oliva, executive managing director for Newmark. "Absorption year to date through the second quarter was only 600,000 square feet for the whole market. I don't expect the third quarter activity added much to that. We are back below pre-COVID activity levels after a pretty strong run."

Rich Gasperini, founder and principal at Genfor Real Estate, echoes Oliva's observation about slower sales. He says that while there are still transactions occurring for owner/user occupants, investment sales are severely limited.

"We haven't seen an industrial investment sale over $7 million since June of 2022. What was driving the industrial market in 2020 and 2021 was new build-to-suit and speculative construction. There isn't as much capital chasing deals now," Gasperini says. "It's a combination of uncertainty about the direction of interest rates and sellers are not taking properties to the market. Sellers understand the market is very different than it was in 2020 and 2021. Educated sellers understand that we're not in a five-cap market anymore. We're probably in a seven-cap market. As a result, owners are choosing not to test the market."

Investors have reason to be similarly discriminating about purchasing commercial real estate. The 10-year Treasury note has been yielding roughly 4.75 percent since late September, more than four percentage points higher than the August 2020 low. On a risk-adjusted basis, that is strong competition for commercial real estate that is yielding just a couple points higher. The institutional money that drives long-term investment is on the sidelines until interest rates and property values realign.

Sovereign holders of Treasury debt have been selling bonds, a move that pushes yields higher. China sold more than $45 billion in Treasury notes since March 2023 and the Federal Reserve Bank has been reducing its balance sheet by letting Treasuries expire without purchasing new bonds to replace them. This policy of quantitative tightening has the same effect as a rate hike.

Wells Fargo bucked conventional wisdom in its October Economic and Financial Activity Commentary by predicting that the Fed will cut rates by two percentage points or more in 2024. That forecast is built upon the assumption that the economy will need stimulation. A slower economy is never good for commercial real estate, but lower rates are. Should Wells Fargo prove correct, even if not in its full rate cut forecast, "survive until 2025" will be a successful strategy. BG

INDUSTRY & COMMUNITY NEWS

Members of the committee that planned the March of Dimes Transportation, Building, and Construction Awards included (front row from left) Dan Laird from Bowman Consulting, Therese Shearer from Hill International, UPMC's Roger Altmeyer, and Amity McClelland from Hatzel & Buehler. Standing from left-to-right are Matt Sickles from GAI Consultants, Ed Roethlein from Whitman, Requardt and Associates, Mascaro's Bob Breisinger, Committee Chair Jodi Rennie from Turner Construction, Roseanne Rodgers from RETTEW, Turner's Drew Kerr, and JLL's Nick Francic.

(From left) Massaro Corporation's Josh Hardaway, Anthony Didiano, Jack Montgomery, and Matt Cortazzo at the March of Dimes Transportation, Building, and Construction Awards.

Members of the Massaro Construction Group team helped prepare meals at The Red Door. Pictured (from left) are David Massaro, Kolby Randolph, Katie Doreman, RC Schultz, Jean Markewinski, Ryan Petrunia, and Tim Jones.

(From left) Dan Friday from Mosites Construction, Bill Moldovan from Kimley-Horn, Mosites' John Wattick, and Darrin Smith at the ACE Mentor Golf Outing, which was held September 18 at Seven Oaks Country Club. Photo by Macey Austin, BrightTree Studios.

(From left) Imbutec's Richard Taylor, Lance Harrell from the MBA, PNC's Craig Guthoerl, and the MBA's Tim Mackin. Photo by Macey Austin, BrightTree Studios.

(From left) Goettle's Ralph Pagone, Rachel Halbedl and Trent Knight, with Rick Cannon from Simpson Reinforcing. Photo by Macey Austin, BrightTree Studios.

(From left) PJ Dick's Jude Champion, Carmen Melocchi, Noah Shaltes, Riti Talreja, Drishika Dugar, Ryan Vaz, and Dara Collins at the Green Building Alliance's Emerald Evening held September 21. Shaltes is the GBA board chair emeritus.

Jendoco's Michael Kuhn (center) was honored by the Green Building Alliance with a Lifetime Member status at the GBA's Emerald Evening gala. With Kuhn are GBA Board Chair Jeff McDaniel (left), and Jenna Cramer from GBA.

(From left) A. Martini & Company's Mike Yohe, Emily Landerman, Zak Roberts, and Jake Roberts at the AIA Design Gala on October 12.

Izzy and the Mascaro Team won first place at the UNcathlon! Alongside Izzy (in blue) are (left-to-right) Zach Michak, Kara Ross, Joe Mascaro, and John A. Mascaro. The team participated in basketball free throws, sprinting, bocce, lifting, and more. Mascaro's team was also the top fundraisers, raising over $7,000.

(From left) Rich Saxe and Matt Jameson from Burns White, Ted Pettko from Schneider Downs, and Pete Veltri, COO with City Line Capital at the MBA Members Golf Outing at Laurel Valley Golf Club on September 8.

(From left) Jim Mauler from Cadnetics, MBA's Lance Harrell, Mike Gunning from Gunning Inc., and AJ Fusco from Milwaukee Tools.

(From left) Menard's Marty Taube, Seth Pearlman, Jason Griffin and Phil Myles.

(From left) Jeff Carlson from Allegheny Health Network, with Turner's Brian Peglowski, Drew Kerr, and Adam Hinds.

(From left) CBRE's Geno Mercuri, Greg Heddaeus from Carl Walker Construction, PNC's Brian Austin, and Phil Bishop from Echo Realty.

(From left) Todd Muirhead from MarinoWARE Industries, Dale Arnold Jr. from Patrinos Painting and Drywall, Chris Singleton from L&W Supply, and Alliance Drywall's Gene Brown.

(From left) Matt Yohe, Brooke Waterkotte, John Lane, and Rich Yohe from Easley and Rivers.

(From left) PJ Dick's Mike Roarty, Frank Babik, Steve Sterf, and Eric Pascucci.

PenTrust's Jamey Noland (left) with Burchick Construction's Dave Meuschke and Joe Wardman (right).

(From left) Mark Duane from HDG Architects, Volpatt Construction's Ray Volpatt Jr., MBA's Tim Mackin and Dave Daquelente.

(From left) Mascaro's Joe Keith, Tom Salopek, Mark Hast, and Ron Cortes at the ACE Mentor golf outing.

Gary Lotz from Dick Building Co. (left) with LLI Engineering's Jamie White at the NAIOP Pittsburgh chapter meeting.

Jamison Vernallis from Landau Building Co. (left) and TEDCO's Kyra Sarver at the MBA YC Axe Throw on October 16.

(From left) Brandon Lee, Olivia Williams, Miranda Anderson, Lydia Fink, and Toni Pietz from Rycon Construction, with Aaron Reed from Reed Building Supply.

AWARDS & CONTRACTS

GEM Building Contractors & Developers, an **E&G Development Inc.** company, was the successful general construction bidder on the $1.8 million softball field complex at the George Washington Intermediate School in New Castle. DRAW Collective is the architect.

CHN Housing Partners and Amani Christian Community Development Corporation selected **Mosites Construction** as general contractor for its Brownsville Road Affordable Housing development. Rothschild Doyno Collaborative is the architect for the $20 million redevelopment of the former Berg Place.

Massaro Corporation was awarded the Chilled Water Plant Expansion project at Indiana University of Pennsylvania via a hard bid process. Architectural Innovations is the architectural consultant and HF Lenz Company is the engineer of record.

Citizens Bank awarded **Massaro Corporation** the interior fit-out of its space located at Gateway Center 4 via a negotiated process. LGA Partners is the architect for the 60,000 square foot renovation project, which encompasses floors 18 - 20.

Massaro Corporation was awarded the Shuman Juvenile Detention Center Project – Phase I via a public bid process. HGD Architects is the architect for this renovation project.

UPMC St. Margaret Hospital, Three Rivers X-Ray Replacement project was awarded to **Massaro Corporation** through a bid process. DRS Architects is the architectural firm for this project.

The Johnstown Area Heritage Association awarded **Massaro Corporation** the renovation of the Exhibition Renovations. Springboard Design is the architect of record.

AHN Grove City Hospital awarded **Massaro Corporation** the MRI renovation project.

AHN Grove City Hospital awarded **Massaro Corporation** the Nuclear Camera 2,000 square foot renovation project. The architect is JPT Architects.

Steris has contracted with **Massaro Corporation** for an office addition to its existing facility. Design Stream is the architect of record on this 6,000 square foot project.

A. Martini & Co was selected to provide preconstruction and construction services for Gwen's Girls, a renovation and addition for a new central hub located in Wilkinsburg, totaling 20,000 square feet. The space will include classrooms, therapy offices, a science and a computer lab, kitchen, community spaces as well as administrative offices. GV Realty Development Services, LLC is the owners' representative. Rothschild Doyno Collaborative is the architect.

A. Martini & Co was selected as the general contractor by LG Realty Advisors to build out 10,000 square feet of speculative tenant space in their Liberty East building. The Design firm is AE7.

Rycon's Special Projects Group is the general contractor for a $4.4 million renovation to a radiation oncology LINAC vault.

In Altoona, PA, a $1.3 million Chick-fil-A renovation is underway by **Rycon's** Special Projects Group.

Raising Cane's chose **Rycon's** Special Projects Group to renovate a location at Boston University in MA

Rycon's Special Projects Group is the general contractor responsible for the 3,500 square foot renovation of Duolingo's Kitchenette at their HQ in Pittsburgh, PA.

Dick's Sporting Goods selected **Rycon's** Special Projects Group to renovate the 6,400 square foot footwear department at their store located in Jackson, TN.

Starbucks selected **Rycon's** Special Projects Group as the general contractor responsible for the renovation of two Starbucks locations totaling $1 million in Westchester, OH and East Liverpool, OH.

In Pittsburgh, PA **Rycon's** Building Group is the general contractor responsible for the $16.9 million extensive renovation to completely transform Homewood Park with a new high-performance football field, large swimming pool, and playground.

Rycon's Building Group is the general contractor for the $3.7 million, 17,800 square foot three-floor dorm renovation for Urban Impact, a non-profit holistic ministry program for at-risk youth.

Mascaro was recently awarded the contract for the U.S. Army Corps of Engineers - Baltimore District: Building 350 Renovations at Letterkenny Army Depot. This project includes the design-bid-build phased interior renovation of a 379,300 square-foot occupied building.

Mascaro's Client Services Group was awarded The Pittsburgh Foundation Tenant Interiors Fitout project at 912 Fort Duquesne Boulevard.

PJ Dick's Special Projects Group Project is managing the 5,200 square foot classroom addition to the existing Watson Institute Education Center South. The addition also includes a renovation of the existing building in areas adjacent to the addition, including 1,500 square feet of existing gym space on the first floor and 460 square foot mechanical room space on the second floor. The scope also includes site work such as site utility extension/relocations, walks, a small exterior courtyard, added parking, and a semi-enclosed canopy over an existing playground.

PJ Dick's Special Projects Group continues work in the Produce Terminal with the Richard King Mellon Foundation tenant fit out on the second floor of the Auction House. The new 18,000 square foot office will include a kitchen, additional restrooms, a fitness center, a large event space, and open office coworking space.

The Sentinel - **PJ Dick** Joint Venture is managing the interior office fit out at FNB Financial Center. The scope of work includes an interior office fit out and demountable partitions on floors occupied by F.N.B. Corporation and its affiliates.

PJ Dick is managing the demolition and renovation of a portion of Providence Point to convert an entire floor of assisted living units to 10 independent living residential apartments.

Facility Support Services was recently awarded the renovation of Wean Hall 3716 at Carnegie Mellon University.

Shannon Construction completed the tenant improvements for Crews Control LLC at 641 Alpha Drive at the RIDC in O'Hara Township. NEXT Architecture was the architect for the 15,000 square foot build-out.

University of Pittsburgh awarded **Volpatt Construction** a contract for Crawford Hall Swing Space renovations. The architect is Renaissance 3 Architecture.

Volpatt Construction was selected as construction manager for the $5 million Newell Simon Robotics Institute at Carnegie Mellon University. NEXT Architecture is the architect.

UPMC awarded a contract to **Volpatt Construction** for the CT replacement at the Robert E. Eberly Pavilion in South Union Township, Uniontown, PA. The architect is CPL Architecture Engineering & Planning.

Allegheny County Airport Authority awarded **Mosites Construction** a $7.3 million contract for the general construction work on its $12.8 million Airside Terminal Restroom Renovations at Pittsburgh International Airport. The architect is Michael Baker International.

Mosites Construction was the successful general construction contractor on the $11,948,000 West Mifflin Garage Renovations for the Pittsburgh Regional Transit Authority. The project was designed by Whitman Requardt & Associates.

Allegheny Construction Group was awarded a $1.55 million contract Allegheny County Airport Authority for the general construction work on the Airside Lighting and Control Systems Renovations at the Pittsburgh International Airport.

Pittsburgh Water and Sewer Authority awarded **PJ Dick** a $27 million contract for the general construction portion of the $36 million Highland Pump Station and Rising Main. The engineer is Mott MacDonald.

FACES & NEW PLACES

Master Builders' Association of Western PA announced that **Mary Chuderwicz** has been promoted to membership and communications coordinator. She has been at the MBA since 2008. The MBA also announced that **Ellianna Fry** has been hired as communications and events administrator. Fry is a 2023 graduate of Grove City College, with a B.S. in Entrepreneurship and Management.

Burchick Construction announced that **Shelley Ewusiak** joined its team as project coordinator. Shelley has worked in the construction industry for 20 years and will be supporting the Operations Department at Burchick in this new role.

Matt Cortazzo was hired by **Massaro Corporation** in June of this year as a project manager. Matt graduated from Slippery Rock University and has been in the construction industry since 2016.

Greg Dalpiaz has been in the construction industry for more than 10 years and joined **Massaro** as a project manager with a wealth of relevant commercial building experience.

Massaro Corporation hired **Joseph Fisher** in late summer as a project manager to spearhead the DGS-DNA Lab project in Greensburg, Westmoreland County. Joe has more than 10 years of diversified experience in the industrial/commercial construction industry.

Mike Pruitt was hired by **Massaro Corporation** as a senior project manager to fulfill the needs required for the Form Energy plant in West Virginia. Mike brings with him an amazing 24 year construction career serving a variety of market segments in the Pittsburgh region.

Cliff Van Kirk was hired as a superintendent for **Massaro Corporation** in early summer. He brings with him a wealth of on-site experience with 36 years in the construction industry.

Kolby Randolph was recently hired as a project coordinator in **Massaro Corporation's** operations department. Kolby graduated from West Virginia University and has six years of development/construction industry experience.

Jack Montgomery graduated from Virginia Tech in 2022 but was already working in the construction industry for several years as an intern. He was recently hired as a project engineer at **Massaro Corporation** to assist with projects in a variety of market segments.

Jake Sepesky joined **Massaro** as a project engineer after graduating from The Pennsylvania State University, with a

Bachelor's of Science degree in mechanical engineering.

Ryan Petrunia was hired in late summer by **Massaro CM Services** as a project engineer. Ryan graduated from Xavier University with a business degree and with a focus on project management, finance, supply chain and operations.

Rycon Pittsburgh's human resources department welcomed **Paige Duncan**, York College of Pennsylvania alumna, as human resources generalist.

Rycon Pittsburgh's Special Projects Group welcomed **Amy Bogaski** as project coordinator.

Ashley Fagnilli joined **Rycon's** accounting department as accounts payable data entry clerk.

Abby Crystol recently joined **Turner** Pittsburgh as our marketing manager. She brings eight years of A/E/C marketing experience in Pittsburgh to this role and is a member of the American Marketing Association.

Angeline Mozer has joined **Turner** Pittsburgh as human resources manager. She has eleven years of HR experience and is a SHRM Senior Certified Professional.

Turner welcomed **Monica Zaman** to its Pittsburgh office as assistant engineer. After working in Turner's Philadelphia office for three years, she relocated to Pittsburgh.

Brad Lomago joined **Mascaro** on September 18 as a senior estimator for the Heavy/Industrial Department. He has more than 15 years' industry experience in both estimating and in the field.

On September 18, **Perry Cansick** joined **Mascaro** as an assistant project manager for the Carnegie Mellon Uuniversity Highmark Health and Wellness Center project. He served eight years in the Air Force as a civil engineer and received his mechanical engineering degree from the University of Pittsburgh.

Dave Soles rejoined **Mascaro** on October 2 as a project engineer. He spent the last year working in Florida on commercial projects.

Alec Kinslow joined the **Mascaro** team as a health safety and environment manager on October 9. He has over seven years of safety experience.

Todd Tvaruzek joins **PJ Dick** as a cost accountant in its Pittsburgh headquarters. He graduated from Duquesne University with a BS in accounting and previously worked in accounting and finance for a local roofing company.

Corey Wood joined **PJ Dick's** Mid-Atlantic office as superintendent. He brings 28 years of industry experience to the team.

Project Manager **Robert Dettore** joined **PJ Dick's** Mid-Atlantic office.

Jendoco Construction Corporation welcomed **Ron Sinopoli** as senior project manager. He has a Bachelor of Science in Architectural Engineering from Penn State University. Ron brings with him over 23 years of experience.

Jendoco Construction Corporation welcomed **Dominic Ammon** as project manager. Dom has a Bachelor of Science in Civil Engineering from Penn State University.

Dan Miller, PMP, recently joined **Facility Support Services** as project manager.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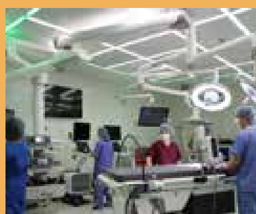

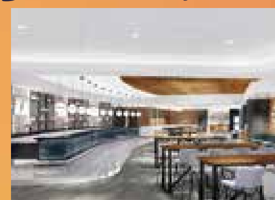


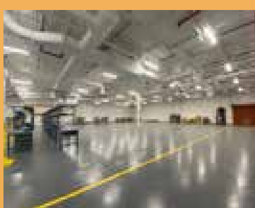

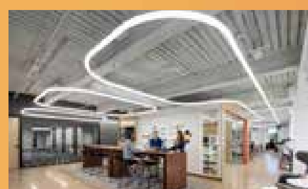








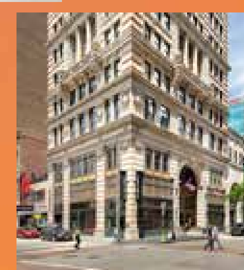
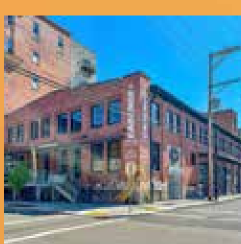


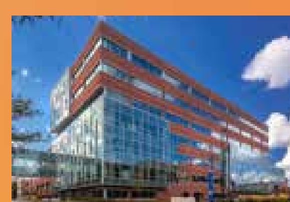
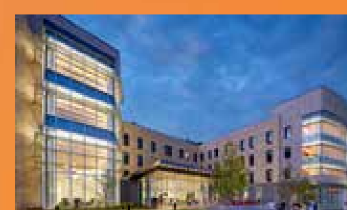

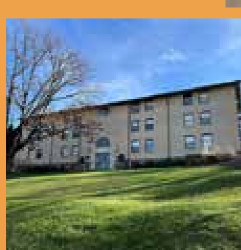
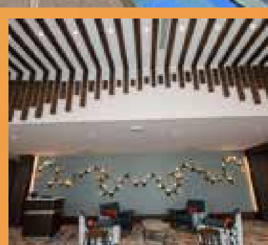
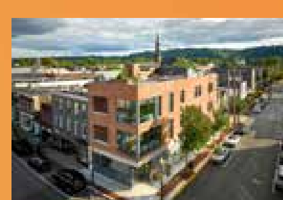
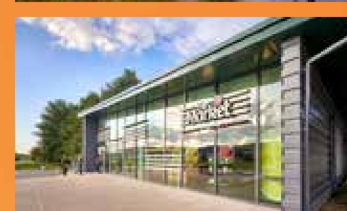


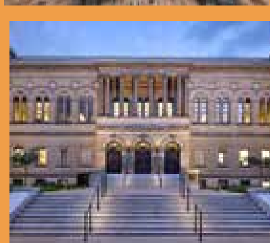
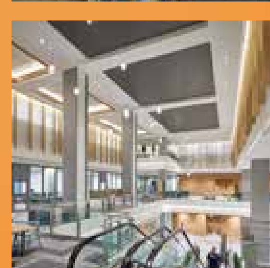


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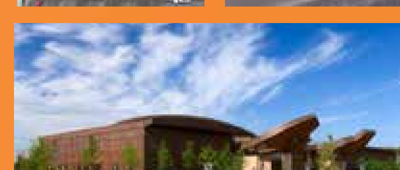

CLOSING OUT

BY ROBERT HERRON

So, what is happening in Wheeling, West Virginia? It doesn't take long to see when driving the streets of Wheeling, particularly downtown and the Centre Market areas. As a visitor, you would be amazed at the construction and investment occurring in this beautiful, historic, and magnificent city.

To understand Wheeling's current renaissance, one needs to go back 20 years or so to the city's recruitment of the "back office" operations for the global law firm Orrick, Harrington and Sutcliffe and the creation of the city's Tax Increment Finance District. The city's TIF was the first such district in the state after voters agreed to amend the state's constitution. The Orrick project converted a seriously dilapidated warehouse into a global operations center that serves their 17 offices around the world and employs 350 professionals. The TIF district started out with the city and a local economic development agency acquiring a large vacant downtown department store and converting it into a vibrant, multipurpose anchor that now is home to Williams Lea, WVU Medicine's full-service urgent care, and fully occupied market rate apartments and lofts. From its beginning, the downtown Wheeling TIF district has been the most lucrative downtown district in the state.

Since then, there has been a steady series of projects and investments that put Wheeling back on the map and positioned the city as the economic and cultural leader of the Upper Ohio Valley area and an example across West Virginia.

The historic Capital Theatre was purchased by the Wheeling-Ohio County Convention and Visitors Bureau, renovated by various community partners, and reopened to an incredibly successful run. A generally vacant, dilapidated block of the central business district was purchased by the city utilizing TIF and is now the headquarters of The Health Plan. Over $15 million has been invested in upgrades to the city's WesBanco Arena, home of the Pittsburgh Penguins ECHL AA affiliate the Wheeling Nailers. Lowe's built on an urban Brownfield site just south of the downtown, a project that won recognition from the Environmental Protection Agency.

The recipe for this revitalization is a city government willing to be responsive, innovative, and understanding, cooperation from the West Virginia Governor's Office, engaged federal and state legislators, supportive county government, Wheeling Heritage Inc., Regional Economic Development Partnership, Convention and Visitor's Bureau, and Chamber of Commerce. All played a significant role in the city's resurgence and have been working together in a harmony that would make any community envious. The common good of our city is the focus and drives the vision of a solid, dynamic, engaging community, flexible enough to adapt to challenge while keeping an eye on the future and staying true to our mission.

Back to that drive around the city. The first project that you notice is the $35 million streetscape project, which began in April 2023 following eight years of planning. Governor Jim Justice saw the value of this project and his administration agreed to fund most of the project. The various utility companies are investing an additional $15 million, transforming Wheeling's downtown streets. Two public safety buildings and a $12 million parking garage are well under construction.

There is significant private investment in several older buildings. In the 1400 block of Market Street, a private/public partnership is investing $8 million, converting once seedy bars and an adult bookstore into hip commercial spaces and market rate downtown living. Up the street is another private/public partnership is renovating the former Wheeling-Pittsburgh Steel headquarters, a $40 million conversion into market rate apartments and commercial space. WODA Cooper Companies renovated an old downtown warehouse into market rate apartments. And the new "Doris on Main" residential building is being built near the north end entry into the downtown.

Just as important are the private investments in the historic Bridge Tavern and apartment building, again market rate, the Waterfront Hall, the DiCarlo's Waterfront condo project, renovation of the city's historic Flatiron building, and renovations by Wheeling Heritage to the city's Artisan Center building. All of this is currently under construction within 10 square blocks in the city of Wheeling.

And there is more to come. Wheeling Hospital/WVU will demolish the former Ohio Valley Medical Center and create a new state of the art regional cancer center. This facility will generate 50,000 patient visits a year and represents a $95 million investment in the Centre Market section of Wheeling. The state- and federally funded $18 million complete renovation of the historic Wheeling Suspension Bridge is nearly completed and a new $20 million Gateway Visitor/Tourist Center will be constructed adjacent to this magnificent bridge.

There is so much happening that residents, tongue in cheek, are grousing. Locals are a little frustrated, but at the same time they recognize and are excited about what's happening to this city. Pride, enthusiasm, optimism, and unprecedented levels of interest abound for more investment. Wheeling's future has never been brighter, and it truly has been a community effort for years.


Robert Herron

Bob Herron City Manager for Wheeling WV. He can be reached at rherron@wheelingwv.gov.