BreakingGround

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

MARCH/APRIL 2012

LAW & FINANCE

Facing New Paradigms

The Mechanics Lien Law gets a broad interpretation

New apartment development booms

The CMBS maturity wave looms (or not)

How is GenNext networking?

Flooring failures are causing headaches

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PUBLISHER
Tall Timber Group
www.talltimbergroup.com

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

PRODUCTION
Carson Publishing, Inc.
Kevin J. Gordon

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

CONTRIBUTING PHOTOGRAPHY
Carson Publishing, Inc.
Media Quest
Michael Moran

ADVERTISING SALES
W. Carson Gordon
412-548-3823 ext. 201
w.carson.gordon@gmail.com

MORE INFORMATION:
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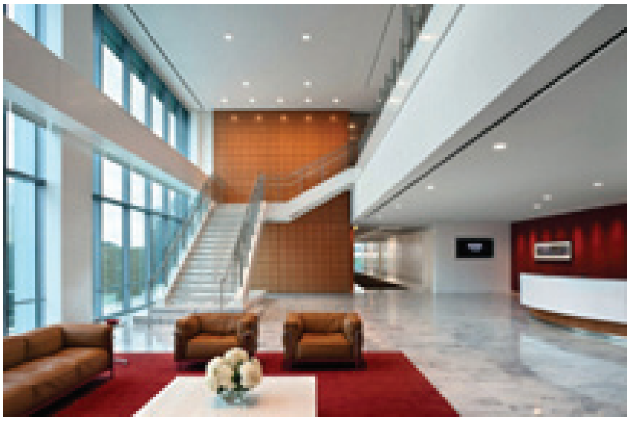
Corrections:
The January/February edition contained two errors on page 56. The architect for the St. Clair Hospital Cancer project was reported in error. The architect for the project is Image Associates Inc. The cost of the JC Penney's project for Rycon Construction was a typographical error. The cost of the shell and fit-out is $6 million.

ON THE COVER:
Main lobby of Reed Smith offices Photo courtesy Rycon Construction and Reed Smith. Photography by Michael Moran.



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MBA

Publisher's Note

"Research studies show that scientists are starting to use lawyers instead of rats for their scientific studies. They do this for two reasons: one, because scientists are less attached to their lawyers, and two, because there are some things even rats won't do."

It's too easy really. When I went to put down my observations about this Law and Finance edition, the first thing that popped into my head was the lines above from the 1991 movie Hook, starring Robin Williams as Peter Banning, the grown up Peter Pan who became a lawyer. Williams tells the joke about his profession at a dinner honoring him and gets easy laughs.

Starting off the March/April edition by telling a lawyer joke is unfair and a little too easy. Of course, since the financial crisis picking on bankers has become pretty easy too. In fact, the public perception of bankers and Wall Street has taken some of the heat off the lawyers for a while.

A couple times each year our feature article is focused on a topic that isn't terribly self-evident. While that makes for more work than usual, I find that research and writing in those instances takes me places I wasn't expecting. That is especially true of this edition of BreakingGround. What started out as an article on what trends were emerging in law and finance became instead the product of many discussions about the challenges facing the professions, the challenges of running the law firms and financial institutions themselves. It would be nice to say that these kinds of articles write themselves – and also untrue – but without question it's much more fun to have the interview subjects tell you where the writing should go.

At the end of the research I was struck by an interesting paradox about these two industries as businesses. It seems to me that most people think they understand how a law firm works but really do not, while most people think finance is extremely complicated when the business is really pretty simple.

Law and finance aren't exactly two sides of the same coin when it comes to construction and real estate. The two disciplines can intersect on a project but you could develop or build construction projects for an entire career without that happening. Design and contracting intersect on every project but lawyers and bankers can certainly play their roles independent of each other. What the two professions do share is getting blamed for the negatives about the way the industry operates these days.

Lenders let too many people borrow money who shouldn't have because the opportunity to make lots of money off all those transactions was too tempting, or at least that's one version of how the financial crisis occurred. Similarly, common wisdom is that the threat of excessive law suits has made it impossible for people to take the risks needed to effectively develop or build something. When people behave irresponsibly or incompetently and law suits follow it's easiest to blame the lawyers.

As I said, it's been pretty easy to put blame for our difficulties the past few years at the feet of those rotten bankers and lawyers. The truth of the situation is more nuanced than the versions we get in the news. The financial crisis and so-called Great Recession were the children of many fathers. It's also easy to categorize the bankers and lawyers as greedy and amoral too, except for the ones who are our friends, of course.

Construction has to be financed, whether it's public or private sector work. When the financial markets aren't working properly the whole of construction and real estate suffer. We in southwestern PA have seen first hand how a poor financing climate can hold back development for which there is ample demand. We need those banks and investors to feel comfortable again and that means there has to be a fair spread between borrowing and deposit rates and borrowers have to be paying back their loans.

We need the legal profession to have a fully functional construction market as well. Law firms are coming to grips with how they can be a valued advisor to their clients while not pricing themselves out of the job. The concept of the construction industry without lawyers is Utopian and might not be as carefree as you imagine. The power in the food chain of construction and real estate is distributed very unequally and, humans being the way humans are, it wouldn't take long before disputes would grind construction to a standstill. Lawyers are obstructions to construction, unless you need one.

Whatever emerges as normal for the next cycle of business will involve lawyers and bankers too. The reality is that what bankers and lawyers figure out is the new normal will help determine what the industry finds is normal. It may be harder to tell jokes about them when we feel normal again but that's a concession I'll make.

Jeff Burd

REGIONAL UPDATE

The optimism that was generated by the improved economic news and unusually brisk contracting at the Holidays – especially for several high profile projects – may have raised expectations for 2012 but the seasonal lull that has followed in February has brought the mood back to normal for winter. As bidding begins to pick up going into March there are several key sectors of the market that bear closer examination.

Many in the region – including almost all of the political leaders – have been collectively holding their breath awaiting the (still) imminent announcement of the site selection for the $1.5 billion Royal Dutch Shell ethane cracker. Given that a decision was considered "day-to-day" in early January you might well question the use of the word imminent since as of March 1 that was still the status.

Rumors of real estate professionals searching the area around Aliquippa for suitable residential development potential triggered a wave of excitement that the C. J. Betters site was about to be selected; however, the kind of research being done would be routine for any site search. It's testament to the economic changing power of the project that such rumors would get legs so quickly.

One negative note for the natural gas industry is the continued slide in the commodity's price. Through February the price continued to hover in the $2.50/million BTU range, a price that is not getting any help from winter weather demand. That price is down 35 percent from last year and over 80 percent from the July 2008 record high.

The ramifications of the historically low pricing are positive for consumers and buyers of commodities with natural gas as a feed stock; however the impact on the gas producers and the burgeoning gas industry in Pennsylvania is decidedly negative. Such low prices do not encourage extraction or further drilling, which is a threat to the expansion of the industry within the region. Moreover, the continued strength of oil prices is an incentive for the gas companies to expedite the exploration of the Utica Shale formation because it contains oil and the gas there is 'wet' gas, allowing producers to also extract propane, ethane and butane. The bad news for Pennsylvania is that the Utica is more accessible in Ohio.

ONE SEGMENT OF THE EXPLORATION THAT IS STILL SEEING RAPID GROWTH IS THE MIDSTREAM ACTIVITY ...

The Marcellus Shale in southwestern PA has wet gas also and the industry is already responding to the unfavorable pricing by shifting more of its assets from other parts of the state to this region. For the near term this has meant a scaling back of activity in the northeastern corner of the state, which for now means that exploration in the southwestern corner will remain on a growth path.

One segment of the exploration that is still seeing rapid growth is the midstream activity, which includes processing, storage and distribution. In the south, MarkWest Development has the Redd compressor station under construction and the Houston processing plant is preparing for a fourth phase of expansion. Construction should be imminent on the extension of the Montour Rail link to connect with the now-massive Houston plant. MarkWest has plans for more compressor stations in 2012 and the midstream market is beginning to expand in Butler County.

In 2010 and 2011 one of MarkWest's competitors, Keystone Midstream built the Sarsen compressor station on Route 528 in Forward Township and started construction on the Bluestone gas plant just north of Seneca Valley High's campus in Jackson Township. These cryogenic plants each involved investments of roughly $25 million. Keystone is a joint venture between Colorado-based developer Stonehenge and Rex Energy from State College. The firm currently has four additional processing/compressing plants in the permitting stages for southwestern Butler County.

Also joining the fray in Butler County is Mountain Gathering from Indiana, PA. They are developing a ten acre site in Penn Township for what will be the Hicks Processing plant for energy giant XTO. The initial development is supposed to double in size, with a reported frac water plant on site as well. Mountain Gathering is also in the planning stages for a plant off Saxonburg Road in Jefferson Township.

The heightened activity is further evidence of the shift in focus for the natural gas industry. Leasing activity to the north and west of the metropolitan area has quietly increased. Because of easier access to Utica Shale, drilling in the Mahoning Valley should ramp up as rapidly as the activity in Ohio. The construction of midstream gathering and processing in Butler County could support those activities.

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Energy is one of the drivers of new jobs that are inspiring a surge in new office development. A consensus of data from the Bureau of Labor Statistics and the State's Department of Labor finds that job growth in metro Pittsburgh was roughly 25,000 in 2011. That growth, in concert with very little new construction in recent years has created generational low vacancy rates in the region and moved rents much higher over the past three years.

ONE SECTOR OF THE MARKET THAT IS NOT EXPERIENCING EITHER FAVORABLE CONDITIONS OR A MARKED UPTICK IS PUBLIC CONSTRUCTION.

Estimates of office vacancy run between 8.6 percent and 11.2 percent, according to reports by CoStar, PA Commercial, CB-Richard Ellis and Jones Lang LaSalle at year's end. According to Grubb & Ellis' Office Trends Report for 2012 the office space available for sublease was also low. Estimated at just over 350,000 square feet, the office sublease inventory is expected to remain even with that of 2011, which is roughly half the ten-year average for space. Grubb & Ellis also tracked 406,000 square feet of office construction in 2011, only 15 percent of which was available for lease. These dynamics and the perceived change in financing have brought a significant number of projects to the verge of construction in 2012.

BreakingGround's own research database is tracking over 3 million square feet in office projects being proposed within the past year. That total excludes the 800,000 square foot 4 PNC and 250,000 square foot Mylan Labs headquarters to be started by PJ Dick Inc. this year, as well as the space being rumored as build-to-suit for corporate users like USSteel, Exxon Mobil, GNC and Guardian Security. It's not surprising that most of these projects are proposed for Cranberry, Southpointe or Oakland. And the developers include a roster of Pittsburgh firms who have delivered multiple offices into the market over the past decade, including Chaska Property Advisors, Spectra Development, Burns & Scalo Real Estate, Horizon Properties and the Elmhurst Group. The market awakening has revived the Oakland Portal project, with developer L. W. Molnar announcing plans for 300,000 square feet of office.

This litany of projects is speculative, meaning that construction will be subject to success in pre-leasing and financing. The number of 100,000 square foot users conducting property searches currently indicates that more than a few will find anchor tenants in the coming year. Using historical ratios for planning to construction you would expect to see construction total one million square feet in 2012 in addition to the owner-occupied construction being planned. For all offices the new construction should be four times the volume of 2011.

One sector of the market that is not experiencing either favorable conditions or a marked uptick is public construction. State and local coffers are empty and the current Pennsylvania administration has signaled a resolve to maintain fiscal discipline until revenues rise organically. Most parties interested in public construction were somewhat relieved to find that Gov. Corbett's preliminary budget did not cut beyond previous expectations. In the K-12 budget, however there is a proposal for revamping the PlanCon process that could severely limit construction for the next two years.

What has elevated concerns is the Governor's proposal to put a one-year moratorium on new construction so that PlanCon can be reformed. According to officials from the PA Association of School Board Officials, the Department of Education is already developing plans to hold up projects that have not advanced in PlanCon. By stopping the review process during the early stages for a year, the moratorium has the effect of holding back bidding and construction for an equal length of time. School districts could, of course, pay architects to continue to design projects without going through the PlanCon process but the uncertainty of what will be in place in 2013 – and the certainty that getting reimbursed would be in jeopardy – will stop design cold.

At the heart of the problem is the fact that the state reimbursement fund is either stressed or broke. More than 200 projects that have completed construction and the PlanCon process are awaiting reimbursement. A moratorium will be spectacularly unpopular among those serving the K-12 market. Opponents of a moratorium have quickly mobilized but if the funding is indeed dry, very little can be done to change the situation. For K-12 market businesses a tough market could get tougher.

Outside of publicly funded construction, spring 2012 offers some hope. Construction put in place is still lagging the pace of the growth years of the last business cycle but March should bring announcements of a construction manager for the UPMC Center for Innovative Science and – we hope – the ethane cracker. Barring any dramatic global incidents the recovery of spring should yield to growth by summer. BG

NATIONAL MARKET UPDATE

The global economy can no longer be viewed as a 30,000 foot observation on the long-term direction of things. You only need look at the impact of Japan's earthquake to judge how global events can impact the local business of construction. A tragically damaged nuclear plant caused China to temporarily slow down its pace of nuclear reactor purchases, which in turn slowed the expansion of its reactor supplier, Westinghouse. Had the event occurred four years earlier, who knows what the effect would have been on the construction of Westinghouse's Cranberry campus?

Evaluating all the data available on the world's economies is mind-numbing, however. For the purposes of attempting to forecast growth or recession, especially for one year, the best guess about what's ahead will come from analyzing the largest economies.

For the world's largest economy almost all the data continues to track a recovery that is still tepid but one that is gathering surprising steam. The metrics for measuring America's economy are improving, especially since the later part of 2011.

As of February's data releases, American gross domestic product grew at an improved pace in the last quarter, expanding by 2.8 percent net of inflation after a 1.8 percent increase in the third quarter. The Bureau of Economic Analysis report on GDP also showed a net increase in private investment in construction in the fourth quarter but a further half-percent decline in public construction investment.

Census Bureau reported on February 3 that new orders from U.S. manufacturers increased 12 percent for all of 2011. Orders for construction materials and supplies climbed 3.9 percent for the full year and orders for construction machinery rose 38 percent. That same day the Institute for Supply Management reported that economic activity in the non-manufacturing sector grew in January for the 25th consecutive month according to its survey of purchasing and supply executives.

	Consensus	MHC	IHS	Moody's	FMI	Reed	Census
Total Non-residential	-	272.5	244.4	250.5	343.2	276.6	279.0
Commercial	-	86.0	53.2	70.4	152.1	86.4	78.0
Industrial	-	34.9	28.5	34.7	29.8	35.9	38.0
Healthcare	-	40.1	37.9	10.4	40.7	40.4	39.0
Education	-	82.8	72.0	71.1	89.8	84.7	86.0
2012 % Growth	2.1%	-2.5%	0.2%	3.9%	2.0%	5.3%	-
2013 % Growth	6.4%	8.7%	4.2%	6.5%	4.5%	8.1%	-

The forecasts of leading industry organizations vary but less than the same forecasts from a year earlier. Source, AIA Economics.

Construction spending reached a 20-month high at the beginning of 2012, according to a Census Bureau report. On February 14, the Federal Reserve reported that industrial production in manufacturing increased 0.7 percent in January compared to December and was up 4.5 percent from January 2011. Capacity utilization in manufacturing rose to 77 percent in January and within 2 points of the 1972-2011 average of 78.9 percent. January marked the highest level since April 2008.

Even in the area of employment, news is better. For 18 months the signal that everyone has been looking for to mark a true recovery is sustained employment growth. Data from the past months continues to show steady and growing improvement. January's jobs created blew away all expectations and the most recent weeks' unemployment filings remain below the breakeven point of jobs lost, meaning that roughly 50,000 fewer jobs are lost than gained.

That's a fair amount of recent data that shows the American economy is heading towards a position of strength. Such positive data can even create a self-fulfilling cycle of hiring by businesses, as the fear of decline fades.

So perhaps the best question may be why so few forecasters see this positive information having a more positive impact on real estate and construction.

The American Institute of Architects (AIA) annually asks economists from FMI, Moody's, McGraw-Hill Construction, IHS Global Insights and Reed Construction Data for a two-year forecast. The AIA dubs this group the Consensus Construction Forecast Panel and for the second year in a row the Panel is somewhat conflicted.

"Consensus Construction Forecast Panel is projecting very modest growth overall for 2012," AIA chief economist Kermit Baker reported on January 20. "Total nonresidential [building] activity is forecast to increase just 2 percent in 2012 over 2011 levels, with somewhat stronger growth in the commercial and industrial sectors, but no growth in institutional activity. The hotel market is expected to see the most growth in the commercial arena, bouncing back from a steep slide in 2011. The healthcare market is expected to be one of the strongest institutional construction sectors. A modest recovery in 2012 is projected to turn into a stronger upturn by 2013."

The individual panelists see a tighter range of possibilities than they did for 2011 but still vary in opin-

DECLINES IN PUBLICLY-FUNDED CAPITAL SPENDING

WILL CONTINUE BUT SHOULD BE LESS PRONOUNCED ...

ions from an overall decline in activity – McGraw-Hill's 2.5 percent decline – to fairly robust growth – Reed's 5.3 percent increase in volume. It's interesting that the two construction information services represent the outliers of the panel.

What may be behind the lukewarm and conflicted outlook for domestic construction is the uncertainty about the economies of the rest of the globe. A look at the highlights of the International Monetary Fund's World Economic Outlook for 2012 provides insight into the delicate state of the economy.

IMF's forecast for world gross domestic product is for 3.3 percent growth in 2012 and 3.9 percent in 2013. This is following increases of 5.2 percent in 2010 and 3.8 percent in 2011. While those sound like healthy enough growth projections, the devil is in the details. When you consider that China is the world's second largest economy and is looking at slower growth that is still three times that of the global estimate, you realize that some other significant markets are slowing. Of course, the market with the most significant problems currently is Europe.

The rollercoaster drama that has played out over the past few weeks in the Eurozone is the same as has played out since late spring 2010. Whether or not the resolution of Greece's current problems gives way to a similar drama over Italy, then Portugal, Spain, et al (as it did each of the past two summers) is beside the point.

European borrowing costs have risen to the point where it will be difficult to repay sovereign debts, even with the severe cutbacks that European governments have been pledging. The deals being cut now are not avoiding the threat of default but rather negotiating the degree of the default that has already occurred. That uncertainty – how big a haircut bondholders will take and how invested are commercial banks – is causing financial institutions in Europe to deleverage. Lending is declining. Consumers cannot spend. Foreign trade is drying up. This isn't a recipe for recovery and the IMF's Outlook lists a litany of low expectations:

- GDP in the Eurozone is now projected to decline 0.5 in 2012.
- Germany and France will hover around 2011 GDP levels, while Spain and Italy will decline by nearly 2 percent.
- Spain is currently experiencing overall unemployment of 22.9 percent in the past quarter.
- The Euro area is expected to recover slightly in 2013, with 0.8 percent GDP growth.
- India's GDP will rise 7 percent this year and 7.3 percent in 2013, roughly the same as in 2011.
- The forecast for Japan is for mild recovery of roughly 1.5 percent from the one percent decline in GDP last year.
- The IMF's Outlook for Latin America was more upbeat than the rest of the west. Mexico is forecast to grow GDP 3.5 percent in each of the next two years.
- Brazil will slow to 3 percent in 2012 but accelerate to 4 percent the following year.

Europe's problems will weigh down growth in the emerging nations in 2012. Exports to Europe are important components of the emerging economies, especially to China. In fact, the IMF estimates that a deep European Union recession will erode China's GDP by as many as four percentage points. In its outlook, the IMF forecasts Chinese GDP growth slowing slightly to 8.2 percent in 2012 and 8.9 percent in 2013.

In the short term the improving demand for commercial property, the surge in apartment construction, and the constriction of supply over the past few years are solid fundamentals to support modest increases in construction in the U. S. market. Declines in publicly-funded capital spending will continue but should be less pronounced than in 2010 and 2011. Improved lending conditions will create a financing environment that is not hindering development, even if the environment is not supportive.

Beyond the end of this year, however, there remain a number of significant global question marks, enough that the AIA Forecast Panel's 6.4 percent growth consensus for 2013 seems a bit optimistic without a fairly robust recovery in housing construction. BG

WHAT'S IT COST?

The data on prices for construction materials, building products and construction put in place for the past two months shows a continuation of the trends of the fourth quarter of 2011. The slowdown in the economy in the third quarter of 2011 helped cool inflation in metals and oil-related products and brought the inflation rate for the full year to just over six percent, a rate that was at the middle-to-lower end of most forecasters' estimates.

At the end of January, the producer price index (PPI) for all finished goods was at 4.1 percent, with PPI for construction products and materials only slightly higher at 4.5 percent. This flattening of the spread between construction inputs and overall producer prices was also reflected in the moderating of price increases throughout the roster of individual construction inputs. While there remain inputs with inflation or deflation that buck the overall trend – principal among these being oil/diesel, asphalt, steel and copper – the majority of inputs for construction are showing inflation rates that are less than one percent from previous months and within the annual range of four to five percent.

PERCENTAGE CHANGES IN COSTS	Jan. 2012 compared to		
	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	0.4	0.1	2.9
Producer price index (PPI) for finished goods	0.3	0.0	4.1
PPI for construction	0.4	0.1	4.5
Costs by Construction Types/Subcontractors			
Residential buildings	0.4	0.0	4.8
New industrial building construction	0.3	0.2	3.5
New warehouse construction	0.5	0.5	4.2
New school construction	0.6	0.9	4.6
New office construction	0.6	0.9	4.0
Concrete contractors, nonresidential	-0.2	-1.0	1.3
Roofing contractors, nonresidential	0.7	0.6	4.6
Electrical contractors, nonresidential	0.2	0.4	3.2
Plumbing contractors, nonresidential	0.9	1.2	4.4
Costs for Specific Construction Inputs			
#2 diesel fuel	3.2	3.6	19.1
Asphalt paving mixtures and blocks	1.4	1.3	9.7
Concrete products	0.7	1.4	1.4
Brick and structural clay tile	-3.2	-3.1	-2.8
Plastic construction products	0.2	-1.1	3.6
Gypsum products	5.9	6.1	7.6
Lumber and plywood	0.2	-0.1	-2.2
Architectural coatings	0.5	0.8	4.4
Steel mill products	1.3	-0.5	9.4
Copper and brass mill shapes	-0.7	-3.4	-12.8
Aluminum mill shapes	-0.8	-4.1	-1.7
Fabricated structural metal	-1.0	-0.7	2.0
Prefabricated metal buildings	-0.8	-0.6	5.1
Crude petroleum (domestic production)	5.9	13.7	17.6
Asphalt (at refinery)	0.5	3.2	36.7
Cement	2.8	5.0	4.8
Iron and steel scrap	3.4	3.0	2.5
Copper base scrap	3.0	3.4	-3.9

Source Bureau of Labor Statistics. Updated February 16, 2012

Even among the outlying materials, only copper and those items related to oil (diesel and asphalt) are reflecting imbalanced supply and demand market conditions. In the case of both steel and gypsum products, manufacturers had previously announced aggressive price increases that took effect January 1. For steel, the inflation of more than nine percent is in line with the price increases that manufacturers have implemented. Makers of drywall announced a dramatic 35 percent increase at the end of 2011, an increase that was at odds with the suppressed demand, but the price inflation thus far – 5.9 percent for the month and 7.9 percent since January 2011 – indicates that markets are rejecting most of the price hike. Without a significant recovery in housing or commercial construction, drywall prices are likely to drift further south.

Copper pricing is the most interesting and volatile of the construction inputs right now. In August 2011, copper futures reached $4.40 a pound but fell to nearly $3 by early October. At the end of February the metal – which is heavily used in electrical and plumbing construction – had rebounded to the $3.80 levels. Experts in copper trading cite the uncertain path of Chinese manufacturing and fitful U. S. construction as primary reasons that the volatility will remain, forecasting a trading range of between $2.50 and $4.50 per pound during 2012. Such a wide range will make purchasing more difficult in the mechanical and electrical specialties, especially for large projects with long lead times and durations.

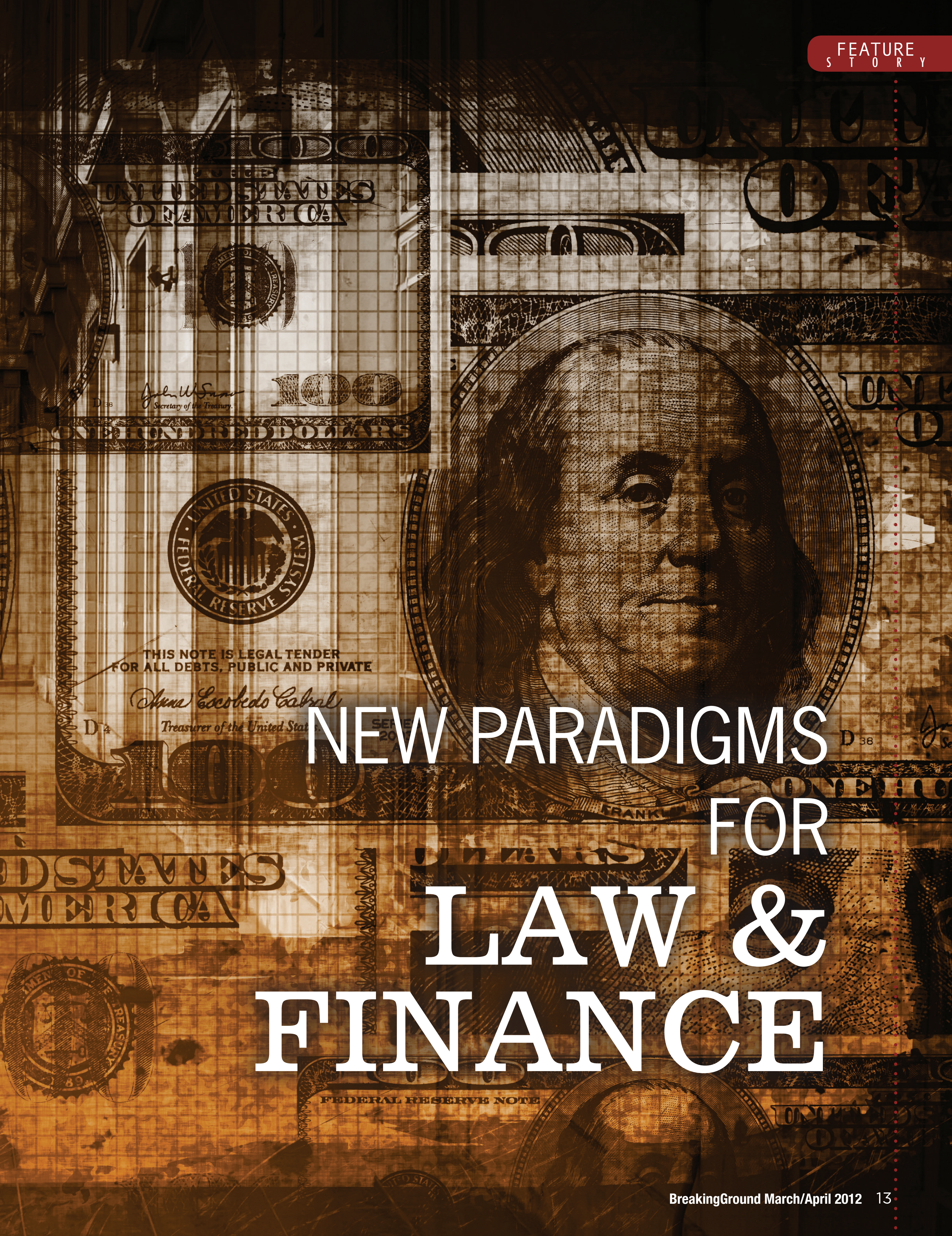
Overall, however there is producer pricing stability that should make estimating more reliable for at least the first half of 2012. Year over year increases are at the lowest levels in more than two years. Ken Simonson, chief economist for the Associated General Contractors of America, sees upward pressure looming as prices for oil are trending higher.

"This slowdown has already ended for some key materials," Simonson warned. "Crude oil and diesel prices have moved up significantly since the January price index data were collected."

Diesel prices have risen about 40 cents per gallon since the January price data was collected by the Bureau of Labor Statistics. Crude oil has moved above $100 per barrel in the New Year, as speculators see a recovering U. S. economy boosting demand in the coming months and rising tensions in the Middle East threatening supply. Without a change in these factors, the cost of asphalt, roofing, and fuel will continue to rise much more rapidly than either consumer inflation or producer price inflation. BG

When the business world experiences what happened in the last quarter of 2008 and early 2009, few are left untouched. Unless you were one of the very few who had the wisdom and the wherewithal to profit from the financial crisis your business changed in 2009, at least for a while. For some industries the business changed fundamentally.

Financial institutions were at the epicenter of the crisis. Banks and Wall Street enabled the housing bubble and created the financial instruments that became almost worthless almost overnight. It's not a surprise that their business would not resemble what was the status quo five years ago. There has been much recrimination and quite a bit of new regulation since 2009 and the industry went into a crisis mode for a couple of years; however, the industry has begun to operate more and more like in normal times again. In fact, more experienced hands in the business expect that the cycle of heating credit up again has already begun, just as it did after the Savings and Loan crisis in 1985 and the collapse of Long Term Capital Management in 1998.



NEW PARADIGMS FOR LAW & FINANCE

THE legal profession, on the other hand was one of the businesses that seemed to be more insulated from the effects of a recession. Tough economic times usually stimulate more conflicts and litigation. Even the process of companies collapsing requires attorneys. An overall slowdown in business that accompanies a recession would, of course put a pinch on transaction-related legal services but that would recover in time. But five years after the crisis, the legal landscape is different and law firms have seen more fundamental change than in a generation.

THE BUSINESS OF LAW

Managing the practice of law seems like it should be straight-forward and relatively simple. Lawyers possess knowledge and professional experience that is available for hire. Clients pay for that service based on the time needed to render it and the law firm charges a premium that allows it to make a profit on the attorneys' time and cover its overhead and unrelated expenses. In reality there are more nuances obviously, but the basic formula seems pretty basic.

Of course few professional service businesses are that basic, even in the very smallest of scales. Legal services are a discretionary expense, even if the client can't avoid being involved in a lawsuit. A company may not be able to settle a dispute without defending its position but there is discretion about how much it can spend to do so. Businesses have always been looking to better manage their legal expenses but the recent downturn seems to have magnified that impulse. And law firms have become proactive about that trend.

"We look a lot more about being cost conscious with our clients," says Scott Cessar, partner in charge of Eckert Seamans' Pittsburgh office. Part of that effort is to balance the amount of work done by senior attorneys – who clients want handling their cases – and that which can be done by associates or the client themselves at lower costs. "We're coaching clients in handling documents and getting them actively involved in reviewing their own documents. Our clients are going to be much more efficient dealing with their own documents and often the architect's or engineer's documents have duplications or irrelevant documents to the case." An attorney can be used for such document review but the process will often take longer and a client is paying for a lawyer's time when no legal expertise is required.

Law firms are also trying to evaluate the work their clients ask them to take on for its value and to help the clients understand the prospective value of the work to judge the merit of pursuing it. This goes against the popular perception of the legal profession creating its own work but the new paradigm seems to focus as much on relationships as billing.

"At the end of the day we are providing a service to our clients and its one that our clients would really like to avoid using," jokes Matt Jameson, a shareholder and chair of Babst Calland's construction practice group. "Everyone likes to think their claim is a winner but that's not the case. The hardest thing I have to do is look at a client and say your claim stinks."

An emphasis on value assessment requires that the attorney understand his client's business completely so that he or she can determine where the break even point is on a claim or counsel the client on steps to resolve a problem sooner, even if that means a smaller financial reward. Decisions about resolution strategies depend as much on what's going on with the clients business at the time as they do on any universal playbook. A business owner may not want to hear that he should be willing to settle a claim for less than he thinks is valid but if the decision solves a cash flow problem that may be the best decision for that point in time, especially since pressing the issue won't guarantee the desired result.

"Getting to know the client's business thoroughly is the way to understand what the most effective way to handle a problem," says Cessar. "Value assessment provides a lot greater predictability about outcomes for our clients. It's the best way to manage the risk."

The greatest risk associated with pressing an issue is taking it to litigation. There are times when two parties to a dispute are so far apart that going to court is the only recourse but that's rarer than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not. For most businesses the cost of litigating can make pressing a claim economically unfeasible and even if the payoff justifies the expense there is no certainty that a court, let alone a jury will agree with your argument. It's interesting to note that law firms see litigation as a riskier business model as well. Because of the dynamics listed above, litigation-centered firms risk much lower business volume and the costs associated with trial preparation aren't always recoverable from the client.

Bob Blumling and Henry Gusky were known as strong litigators when they founded their firm in 1999. Over the years, however, Blumling says he has worked to broaden the share of other business because it's a more sustainable model.

"Henry and I started by doing what was our core competency and culture, which was litigation but I've taken the firm from 90 percent litigation to a 50/50 mix now," he says. "We're paid to solve our clients' problems. Over time as you represent your clients you begin to solve different kinds of problems for them. There are a lot of ways to solve problems. Litigation is just one."

Attorneys are generally serving smaller, closely-held businesses in Western PA, often family-owned. That means dealing with planning for succession, retirement, labor issues, response to bankruptcy, and a host of family-related or personal business. Blumling deals with those dynamics by hiring lawyers he calls 'acrobats' that have strength in multiple, often unrelated fields.

Another way of handling the multi-faceted needs of clients is to go the opposite direction by growing a firm with more specialists. This business model has worked especially well over the past generation for larger firms, especially in light of the globalization of business. As corporations became global the law firms who represented them responded by establishing offices overseas or, more often than not by acquiring firms from another part of the world.

Large global law firms have awesome resources that they can bring to bear on a client's needs. The scope of the problems that they are solving means that there are large sums of money at stake, which allows them to bill at much higher rates. A firm with thousands of lawyers also has thousands of relationships that can be helpful in solving problems in other markets, as well as in gaining new business.

But the size also creates an overhead burden that can be a drag on profits in slower times. Managing conflicts – instances when lawyers from the same firm represent both sides of the same argument – becomes a full-time effort. Larger firms work on bigger transactions and deals, which means the risk of problems is proportionally greater. After the Enron collapse or the financial crisis, for example, those with losses sue the accountants and then the lawyers. With hundreds or thousands of attorneys on staff it becomes very difficult to manage the quality of the work done. Since the recession, the biggest law firms in the world have also been vulnerable to key personnel spinning off on their own.

Pittsburgh's John Dingess was one of those experienced specialists who started out on his own. In 2010, Dingess and four other partners at K & L Gates formed what is commonly called DFL Legal. He had seen K & L Gates grow dramatically over his career and felt that he could carve out a niche.

"When I started practicing in 1978 the global law firm didn't exist," he recalls. "K & L had 68 lawyers in one office. When I left there were over 2,000 attorneys in 38 offices."

Dingess and his partners had been doing work for clients all over the world from Pittsburgh. They knew that serving a large geographic footprint wasn't going to be a problem since they could count on having a very long history with many of those businesses. "There's always room for a boutique firm that is deep in experience," says Dingess. "Our firm has a lot of experience with engineering but our expertise – my partners have over 100 years combined – is with the big EPC contractors."

The kinds of firms Dingess is talking about number maybe a couple of dozen worldwide. For attorneys looking to start a boutique practice, those aren't great numbers of prospects, unless you are confident in your relationships. Attorneys leaving a firm are prohibited from asking their existing clients to follow them so there is an element of faith that your relationships will survive a move. Generally speaking, an attorney with a book of business migrates a significant share of the business relationships when he or she changes firms or starts an independent firm. That reality is why so many firms see hiring key people from competitors as a viable growth strategy. Attorneys with their own book of business are very familiar with the community of recruiters serving the legal profession and will usually have plenty of opportunity to make a move during a career. Such a move doesn't come with a guarantee of course.

"When you are talking about bringing on a lateral [attorney move] you can get hung up on what the revenues tied to a book of business were," warns Matt Jameson. "What you should focus on is who the clients were and how long were the clients with the attorney. It's difficult to control the amount of work you do for a client. Just because there was a big case and lots of revenue one year doesn't mean it will be that way again. In fact, it's not likely."

The goal of a lateral hire of an attorney or attorneys is first to attract business that the firm wouldn't otherwise have. In the right circumstances the relationships fit well with other competencies at the hiring law firm, so that the key relationship can be leveraged to grow other practices by serving other needs the clients have. Simply grabbing another firm's clients will add to a firm's revenues but without other synergies such a move will not grow the bottom line.

Bottom lines have been a concern for legal firms during the recession too. The pressure on profitability has created headaches and solutions that may not commonly be associated with the practice of law.

One surprising issue is the discounting of bills. Legal bills are recorded differently from firm to firm but there is an excruciating level of detail, often billing by the tenth of an hour. What surprises many outside the profession is the practice of reviewing clients' bills for reasonableness. Partners look at the billing from associates and others in the firm and weigh the time billed against their sense of a fair amount of time and the value of the client's relationship. Associates who routinely have their bills discounted aren't viewed as money makers and will have a hard time making partner.

Another surprising business problem for law firms is receivables. Most people would think that the last person you would try to slow pay or stiff would be your lawyer. Most law partners laugh at that misconception. Especially in a sluggish economy, clients who may not want to negotiate lower fees before an engagement will do so by attempting to pay less afterwards. Like any professional service, legal services once rendered are tough to repossess.

The sluggish economy may be the biggest hurdle for the legal profession at the moment. Law is in some ways a lagging indicator of the economy since the conflicts that invariably arise out of bad business conditions take time to resolve and always carry on well into the recovery phase. Most attorneys are seeing that effect in 2012.

"Like many businesses our industry is flat right now," notes Bob Blumling. "This recovery is not a 'V' shape or up and down "W" shape recovery; it's a 'hockey stick' recovery that will take a long time to come back. Over the first 25 years of my career – I've been practicing 30 years now – many of our clients grew larger and more diversified and we grew with them, but in recent years that hasn't been the case. The challenge is looking for areas of growth in a non-growth economy."

Blumling sees two paths to reaching that goal: growing the firm's capabilities or hiring other firms' attorneys with those expanded capabilities. He also sees the rapid growth of the natural gas industry as a potential for that organic growth that he espouses to come back.

"The Marcellus Shale is creating a lot of opportunities for law firms who are rushing to find a place in that business but it will also create opportunities for many kinds of related businesses who will be consumers of legal services."

The natural gas business has been a boon to demand for legal services. From start to finish the gas business needs lawyers for lease negotiations, land usage, mineral rights, environmental law, regulatory compliance and toxic torts. Until the Marcellus Shale exploration began a few years ago, however there were few oil and gas companies here and even fewer oil and gas lawyers. As a growth area, oil and gas law is attracting more young lawyers and at the outset of the gas boom in Western PA it wasn't uncommon for local counsel to be sitting across the table from a much younger *and* more experienced attorney.

Pittsburgh's emergence as an energy center is changing the legal landscape too. More lawyers with oil and gas experience are being recruited here than to anywhere else. The University of Pittsburgh law school has introduced an oil and gas law class. Building a regional expertise in oil and gas law is an important strategic objective for firms who want to represent that industry directly, but the inherent liabilities should discourage firms who want to dip their toe in the water there. For firms that aren't interested in investing in that expertise there is comfort in the fact that the rising tide of the region should soon lift all businesses, and create demand for legal advice as well.

FINANCING A RECOVERY

At the risk of overstating the obvious the financial industry was one that had little uncertainty about the effects of the crisis of the fall of 2008. Simply put, the wheels came off the industry in a matter of months. You could make the argument that the course of the financial industry was set during the three weeks following September 14, 2008. As one bank after another collapsed the scope of the crisis surprised even those in the midst of it.

"The Marcellus Shale is creating a lot of opportunities for law firms who are rushing to find a place in that business but it will also create opportunities for many kinds of related businesses who will be consumers of legal services."

Jim Rohr, PNC's CEO, tells of having lunch with Merrill Lynch's CEO during the week of September 9, 2008 and being assured that the investment bank had adequate liquidity and the staying power to survive. By Friday of that week their stock had collapsed and by Sunday, the 14th they had sold themselves to Bank of America.

Dollar Bank's Andy Devonshire was in Italy during that time and came down with a bad flu virus. He tells of awakening one morning to the sound of a newscaster talking of Lehman Brothers collapse. He assumed he was hallucinating from the virus.

What ultimately resulted from those weeks of turmoil was uncertainty about the viability of financial institutions within the global markets and the underlying assets that were the foundation of the institutions. The most visceral manifestation of that mistrust was the freeze in the bank-to-bank lending, one of the most basic components of banking. After initially jacking up the rates for overnight lending (known as LIBOR) the fear of having capital tied up even a few days if another bank collapsed caused a stoppage in the trading.

After the panic receded, banks spent the next couple of years acting in a more predictable manner. Lending became constricted and institutions built capital while trying to: a) figure out how bad their assets were; and b) use the capital to write off losses in those assets. Over the past 12 to 18 months lending has remained limited as demand began to grow and as 2012 opens this once-decimated industry has bounced back. For certain there were losers in the process, some of whom did not survive, but those that did are remarkably open for business.

Like a phoenix from the ashes, the financial industry has re-emerged. What does that mean for the construction and real estate businesses that have seen available financing as the missing piece of a recovery puzzle?

"Banks are hungry again," says Greg Sipos, senior vice president of commercial banking at First Commonwealth Bank. "Obviously the appetite is for quality assets but with insurance companies and CMBS coming back on line it has hurt banks' share and freed up capacity."

"I just got back from the Mortgage Bankers Association convention and everyone was extremely optimistic," related Gerard Sansosti of mortgage broker HFF. "Life companies had their best year ever in 2011 and they want to do that again and more. If your looking at yield there's no better place than commercial real estate right now. The life companies won't come out of the box, though. They are looking for the best borrower."

What is emerging is a story of lots of capacity and few places to earn money. With the Federal Reserve using interest rates to stimulate the economy and with the stated intent to keep rates at almost zero until mid-2014, institutions of all sorts have to look for ways to get investors acceptable yields beyond the money market. Lending is like a see-saw with the fulcrum being the place where two divergent questions meet. For a few years lenders were concerned about the answer to the question, "why did you make that bad loan" and decided to make none. Now the more motivating question is "why aren't I making more return" and the see-saw is tipping in the direction of lending.

The key word is 'deployment' according to Chris Martin, Northwest Savings Bank's president for southwestern PA. "Banks have accumulated a great deal of cash and you can't make much money sitting on cash earning 20 basis points."

Dan Puntil is senior vice president for Grandbridge Capital and runs their Pittsburgh office. He says Grandbridge saw a big improvement in the deals they brokered in 2011, with volume growing over 50 percent and expects more deals in 2012. "I had many lenders call to tell me their allocations were upped again this year," he says. "The bond market is still not great. If you're benchmarking the 10-year T-bill at two percent and can get four-and-a-half or five in commercial real estate that's a good return."

What all of these experts are talking about is the pressure to get reasonable yields for investors with reasonable risk. Whether the investor is a real estate trust or a life insurance company trying to grow returns for its policyholders, the opportunities to get what would be considered normal conservative returns have been few and far between since 2008. After all, the trigger of the financial crisis was debt – home mortgages – that was considered among the more conservative and safe to buy. Since then even investing in the 10-year Treasury debt has produced yields that won't meet the needs of most retirement plans. In order to get back to investing in real estate debt again the big institutions had to be assured that values were stabilized and that the outstanding loans of the banks were no longer the 'toxic assets' that were supposed to rot the system for years.

Getting there took a combination of time, recovering performance and sufficient reserves to allow for writing down asset values to recognize current value. Even though market values didn't erode much in Pittsburgh, the financial institutions that serve the region had exposure to many loans that did experience erosion of values. Time has helped banks build reserves and allowed many properties to improve. 'Extend and pretend' – the strategy PNC's Stu Hoffman jokingly calls 'delay and pray' – has worked to a degree.

"I know that we have been appraising some of the same properties for clients for three years in a row," say Integra Realty Resources managing director Paul Griffith. "That's a bank trying to value their portfolio. I think now they know what they have and what it's worth and have written off or down any losses."

Martin thinks the banking industry as a whole has been dealing with the problems of overvalued assets and as it has healed over the past few years is ready to get the lingering losses written down in 2012.

"The industry has taken the position to write down losses and write them down now; and I think most problems have been recognized and addressed," he says. "I don't think there's anyone who hasn't taken provision for losses and isn't prepared for losses. What we don't know is whether or not we have reached the bottom for values."

"Banks have taken the opportunity to take a hard look at their loan portfolio," agrees Julie Fallon-Hughes, regional president for Fifth Third Bank in Pittsburgh. "Once we invested the time to understand what was in the portfolio it gave us the chance to decide what wasn't going to perform. Doing that takes the distractions off the table."

Aside from the potential for further declines in portfolio value, the uncertainty about the property value of individual buildings could be a hindrance to sales and refinance. That can hamper construction and development lending as well, since the financing for all of those activities come from many of the same places. And anecdotally at least, there are still stories of lean appraisals, even in a stable region like Pittsburgh. In the case of one downtown office, the building was appraised significantly lower two years after a loan even though the occupancy and rents were unchanged.

If the planning cycle is any indication the demand for lending has come back to pre-recession levels. Within the region the pipeline of development and construction deals is filling up. Borrowing rates are at all-time lows. Is a healing financial industry ready to respond? Chris Martin thinks so but says there will still be caution.

"With development, equity is going to be paramount. In the hey day we may have looked less at cash and considered soft cost equity but now it will be hard equity only," he says.

Martin is of the opinion that the business took some painful medicine that will prevent the kinds of misjudgment and mismanagement that took place in the mid-2000's. He believes that customer and shareholder loyalty will depend on continued transparency and reasonable conditions. Dan Puntil agrees with that opinion, for now at least.

"There is still caution. If you have a deal that fits all the boxes you'll have competition for the loan, but if you have a deal with a little hair on it it's still tough to find capital," he says. Puntil is among those who do not wish for a return to the go-go days. "The day when banks do non-recourse loans is the day we get our hats handed to us again."

The end of year Federal Reserve Senior Loan Officer Survey found no evidence that lenders were heading towards non-recourse loans any time soon. The results were for the most part showing continued conservative standards, although the residential lenders indicated a willingness to move above 80 percent loan-to-value in 2012. Developers and property owners have for the most part become accustomed to the tighter conditions and there is evidence that 2012 may see more anxious lenders than borrowers. Economic indicators are improving but skeptics about the recovery have ample support from the data as well. Observers of the CMBS and REIT business are seeing evidence that the problems in those markets is a lack of deal supply, as investors are oversubscribing to opportunities.

Interest rates and rate policy are also something of a hindrance. While borrowing costs are extremely favorable there is little indication that they will be unfavorable for another 18 months. That blunts the sense of urgency for a borrower, especially if it's a developer that is on the fence about the economy.

"It's great to be a borrower right now but the problem is that you're sitting there with a bank loan at LIBOR plus 200 basis points [two percent] and the Fed says it won't change rates for two years and the question is why should I do something now?' says Sansosti. "I say you should do something now because your 10-year rate is 4.5 percent!"

Similar reluctance existed in the marketplace in 2004, as the nation was emerging from the 2000-2001 recession. The Federal Reserve helped spur activity when they started raising rates again and owners moved to get financed before another rate increase took effect. With the Fed signaling no such hike until 2014, the market benefits of development alone will have to motivate borrowers.

Reluctant borrowers are a drag on the economy. In construction and real estate, however, that's a drag no one was worried about two years ago.

COLLABORATIVE LAW AS AN ALTERNATIVE TO LITIGATION

BY SUSAN DIGIROLAMO

Collaborative law is a method of dispute resolution in which parties hire specially trained attorneys who represent them throughout the process. All parties to the dispute sign an agreement that they will negotiate a resolution and will not resort to litigation. If the process is not effective in allowing the parties to reach agreement, the parties agree that their collaborative attorneys will not represent them in any future litigation of that matter. Used frequently in family law cases, collaborative law has application in construction.

Many disputes involve parties with generally successful working relationships, relationships both parties would like to preserve in spite of the immediate issues which may give rise to litigation.

Some of the advantages of the collaborative process over litigation are:

CONFIDENTIALITY

Parties to the collaborative process sign a confidentiality agreement which assures that the information revealed won't be part of the court's public record.

FULL DISCLOSURE MEANS REDUCED DISCOVERY COSTS

All parties agree, in writing, to disclose to one another all relevant information they have regarding the issues in dispute. This eliminates wasted effort and expense in preparing and answering too-broad discovery requests and in taking depositions.

NEUTRAL EXPERTS AS OPPOSED TO "DUELING EXPERTS"

In the collaborative process, parties agree to select a neutral expert to evaluate evidence as is necessary or desirable. In the event a party disagrees with the expert, it is free to obtain another opinion at its own cost, and present that information to all participants.

CONTROL OVER THE OUTCOME

One of the most frustrating things about litigation is the uncertainty of the outcome of a trial or appeal. In the collaborative process, negotiations continue until the parties reach a resolution. No party can be forced to agree to an outcome that it cannot accept.

The collaborative process helps generally amicable parties resolve issues when difficult issues arise. Many believe that the process itself can lead to better communication of difficulties before they rise to the level which may otherwise result in litigation, thus improving the overall atmosphere in which business is conducted. The attorneys trained in collaborative law are the same ones practicing within traditional law practices.

For more information about collaborative law and the lawyers who have been trained in it, go to the Collaborative Law Association of Southwestern Pennsylvania (CLASP) website at www.clasplaw.org

Susan DiGirolamo is a family law attorney specializing in collaborative divorce. She can be contacted at sd@susanlaw.com. BG

The upper level of Reed Smith's client lobby. Photo by Michael Moran, used with permission by Reed Smith.

ARCHITECTS HOPE THAT THEIR DESIGN OF A PROJECT EXPRESSES SOMETHING ABOUT THE WAY THEIR CLIENT THINKS OR LIVES OR DOES BUSINESS. MORE TIMES THAN NOT THE OWNER OF A CONSTRUCTION PROJECT DOESN'T HAVE THE SAME VISION OR BUDGET FOR THAT KIND OF EXPRESSION. IN THE CASE OF THE PITTSBURGH OFFICE OF LAW FIRM REED SMITH, THEIR NEW OFFICES WERE VERY MUCH ABOUT EXPRESSING A SEA CHANGE IN HOW THEY DID BUSINESS AND THEIR DECISIONS REFLECTED THAT FOCUS.

REED SMITH

OFFICE AT THREE PNC PLAZA

James Rudisill is the director of operations for the Pittsburgh office and has been responsible for Reed Smith's facilities since the firm was located in the Union Trust Building (now 501 Grant Street). When the programming for a major new office project began, Rudisill says the discussions had a different tone than in earlier projects.

"We had just outgrown the space in the [Reed] building," he recalls. "But the focus of the project was more to keep up with the changes in the firm. In the old building you were seeing a facility that no longer matched how a global modern firm worked."

Offices in stately architectural gems like the Union Trust Building or the James Reed Building – to which the firm had moved in 1984 – conveyed the stability and tradition of the kinds of hide-bound law firms that corporations wanted to hire. Reed Smith's offices were beautiful and designed to show off the firm's strengths. Visitors were greeted in a memorable main lobby, off which were wood paneled conference rooms and from which could be seen the firm's expansive law library through glass walls in the atrium. The problem was that the building was designed to support a business model that was obsolete for Reed Smith.

"There were a lot of factors in effect to dictate whether the firm was to stay in place or relocate," says Steve Martin project architect for Gensler, who was commissioned to design the project. "They had to consider their growing size and how they worked. Law firms have been re-thinking their business model since the economic downturn. In Reed Smith's case the firm decided that it was better to look at new space that communicated who they are as a firm, space that showed they are forward-thinking and modern."

The new business model for Reed Smith required space that was going to be more efficient, flexible, digital and sustainable. According to Martin, whose firm has also done Reed Smith offices in New York, San Francisco and London, new metrics for law design scaled back the design of partners' offices since client meetings were rarely held there anymore. Libraries like the one that was so prominent in the Reed Building, were largely digital and online, and took up space that could be used for other purposes. Conference rooms were still expected to be beautiful but were meant to have multiple uses – both external and internal – and be convertible into entertaining spaces. The dynamics of the partner/associate hierarchy – partners with windows and associates grinding away in interior offices – were changing and both size and location of offices were more equitable. And, offices needed to be energy-efficient and green.

For the Pittsburgh office, an opportunity existed to be the anchor office tenant in a new building, the Three PNC Plaza building which would start in 2006. The building was to be located in the heart of the new Fifth Avenue, across from Market Square. Roughly one-third of the building was going to be the new Fairmont Hotel. The design and construction was aiming for LEED Gold certification and – not insignificantly – the building's architect happened to be Gensler. Reed Smith seized the opportunity.

While the coincidence of an office, search and an available new downtown tower was perfect for Reed Smith that decision also created what would be one of the project's enduring challenges: coordinating a tenant improvement in a building while the shell was being built.

Another of the project's coincidences was that Reed Smith selected to use an owner's representative and selected the same firm – Oxford Development – that PNC had chosen as developer for the tower itself. After initial concerns about potential conflicts, Oxford proposed assigning two separate managers for the project to operate independently. Scott Pollock, Oxford's vice president of development was handling the Three PNC Plaza project for the bank and David Heaton, assistant vice president for development was chosen to handle the project for Reed Smith. Such an arrangement – with two firms handling what could have been the role of four independent professionals – could have led to some awkward situations but instead allowed for critical solutions to tough coordination problems later.

An early decision that also enabled progress on the project was the hiring of a contractor for Reed Smith's work during the early stages of design.

"We worked with Gensler to draw up qualifications for an RFP that went out to contractors that we knew could manage the project," says Heaton. "From there we drew up a short list of four firms for interviews and proposals. The owners selected Rycon based on their fee, the team they proposed and their approach. They came on as construction manager and then negotiated a guaranteed maximum price throughout the design process."

For Reed Smith the choice turned as much on intangibles as qualifications. "We wanted someone who was hungry, anxious to do our job; someone who knew what a high profile job this was going to be," remembers Rudisill.

Rycon Construction's project manager, Alan Hopperstead was less focused on the project's high profile than on what looked like a high wire act of schedule management.

"We knew there were agreements by PNC, Reed Smith and Oxford on a date when they needed to be in the space, but we were trying to build a finished space in a building that wasn't even closed in yet," he says. "The shell building barely had a roof on when

This would develop in design as 'client floors' and 'attorney floors' and different design standards were in place for each.

we started running ductwork on our floors down below. We had to work very closely with [PNC's contractor] PJ Dick to get things done."

A year before any of those coordination issues became reality in the field however there were many issues to be worked through in preconstruction. In addition to the usual battery of cost and constructability questions, there were several key design considerations that came from the vision of Reed Smith's managing partner, Craig Jordan. Part and parcel to the new design was the delineation of client space and attorney space. This would develop in design as 'client floors' and 'attorney floors' and different design standards were in place for each. From Jordan, a key piece of that client space design was a memorable first impression, which translated to a main client lobby that was connected by a monumental stair case to the floor above.

"That stairwell between the 12th and 13th floors was Craig Jordan's vision. He wanted clients to come upstairs to a view that just keeps getting bigger," explains Rudisill. He says Reed Smith still kept an eye on their budget at the same time it was trying to create memorable space for its customers. "We wanted client space to look good but not like we spent a lot of money on it. And we wanted the practice floors to look good without spending a lot of money."

The building itself was of significant aid in getting the most out of the space for the dollar. The nine foot floor-to-ceiling glass exterior allowed for the design to maximize the amount of daylight that gets into the offices and the views as well. Offices for the firm's associates were designed with window views. Partners' offices in the new space are roughly one-third smaller but according to Jim Rudisill, the spectacular views and light more than make up for the size, about which they have had no complaints. Steve Martin says that the building itself provided design solutions that had multiple benefits.

"Going to PNC meant that all the attorneys could have outward-facing offices with spectacular views of downtown and of PNC Park," he says. "Instead of having to use corner offices for partners we were able to carry the corridors through to the windows to get more daylight into the space. With today's energy codes you need to be able to offset as much manmade light as you can. But the important part is the view."

Visitors to the new space will find it hard not to focus on the views and the impressive common spaces but the details of the design are noteworthy as well. Gensler's design called for all finish joints to align, meaning that grout lines, ceiling and wall joints all had to be meticulously planned. The 'lunch room' is an employee restaurant operated by Parkhurst Dining Services. The lobby corridors are clad in sustainably forested eucalyptus panels. One surprising element is the exterior space. The building design allowed Reed Smith to take recessed roofs on the 12th and 13th floors and create landscaped terraces that are extensions of the building. These spaces weren't created easily.

"Plantscape had to get more than 300 cubic yards of topsoil up to the 12th and 13th floors by using a crane and bucket to lift from the plaza below. The cost was about five times what would be normal," says Hopperstead. "They brought trees up through the elevators and rolled them out to the site for planting. It was a lot of effort but I think about how nice that is for the employees to eat lunch out there or just take a break for some fresh air."

The eucalyptus panels were also a source of extraordinary effort. Eucalyptus is especially sensitive to moisture and the panels needed to be stabilized prior to installation to ensure that the joinery was accurate and that there was no movement or cracking. Hopperstead says that the architect and designers selecting the wood couldn't have anticipated that the installation would be taking place in offices without permanent mechanical systems.

Photo by Michael Moran, used with permission by Reed Smith.

The difficulty of building out space by taking one floor at a time as it became weather tight – more or less – was the overarching project management issue throughout the course of the job.

Two terraces provide outdoor living space for employees, clients and events. Photo courtesy Rycon Construction.

Photo by Michael Moran, used with permission by Reed Smith.

"We had to get the wall panels and fine trim acclimated to the moisture and environment before we could install it by getting the material on site well ahead of time," he explains. "We brought in a temporary heat and humidifiers and used hydrometers and thermometers to maintain the environment to the specifications."

The difficulty of building out space by taking one floor at a time as it became weather tight – more or less – was the overarching project management issue throughout the course of the job. Whether the problem was climate control for finishes, sequencing mechanical and electrical systems work efficiently or dealing with the occasional infiltration of rain and snow, the conditions were a regular wild card in what is normally supposed to be an orderly process. Jim Rudisill feels that the project was especially fun, perhaps because of the circumstances. He credits Rycon's management with a resolve that made the deadlines work no matter how difficult. That was a resolve that he put to use elsewhere in the Golden Triangle.

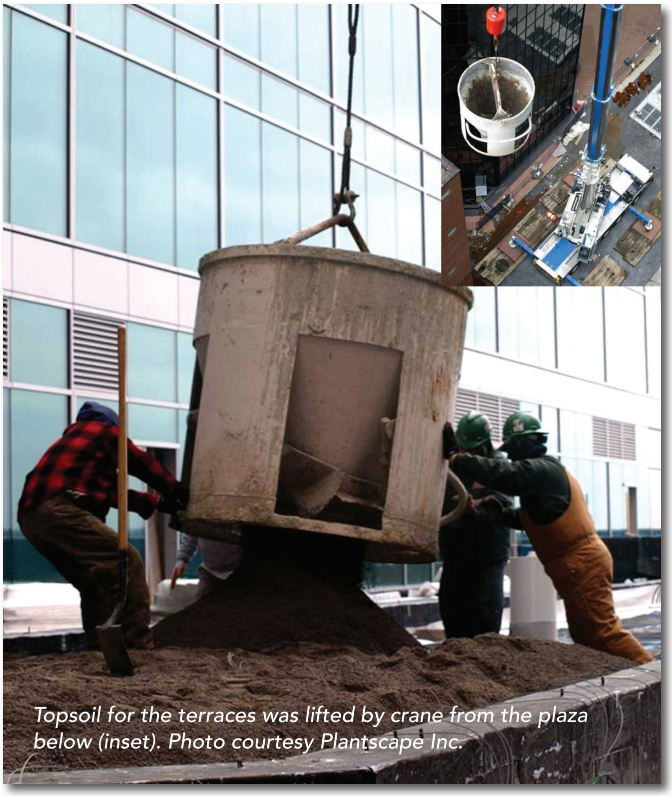
"While this job was going on we decided to move our global support center to 20 Stanwix Street and hired Rycon to manage that project as well," he says. "It meant they had to do 51,000 square feet in eight weeks. They set the tone that this is our deadline and we'll do what we have to do to get done."

Getting done with Reed Smith's new headquarters meant building out 191,000 square feet from September 2008 until June 2009. At the end of 2011 the team found out that the project was certified LEED Gold-CI. Jim Rudisill says operating the building has been a delight, although there was quite a bit of adaptation as the building became occupied all around them.

"If you had told me what our utility expenses would be compared to the old building I wouldn't have believed you. It's amazing," he says. "With technology we have much more efficient automated systems, chilled water loops, systems that turn on and off areas of the building during downtime. In our old building if we ran the air during overtime it cost $75 to $80 per hour. Here, it's $16 or $17 an hour."

Alan Hopperstead is happy to hear that the building is performing so well. He's also very proud of the high-end finishes and detail. But in the end he still marvels at pulling off the coordination.

"Doing $20 million in construction in ten months in a building under construction by another contractor that had no exterior walls or roof; coordinating all that with PJ Dick, Oxford, Reed Smith, that took a good team of subcontractors and superintendents." BG



Topsoil for the terraces was lifted by crane from the plaza below (inset). Photo courtesy Plantscape Inc.

PROJECT TEAM

Rycon Construction................ General Contractor

Gensler.................................... Architect

WTW Architects...................... Associate Architect

Scalise Industries/EMCOR.... HVAC

Ruthrauff Sauer....................... Plumbing

Wellington Power Co............. Electrical

Preferred Fire Protection...... Sprinklers

Wyatt inc.................................. Interiors

Phoenix Roofing...................... Roofing

Fantin Flooring........................ Ceramic/Porcelain Flooring

Wright Contract Interiors...... Carpet/Vinyl Flooring

Plantscape Inc........................ Landscaping

Curran Taylor Inc................... Food Service Equipment

AGENCY ASSIST

Outsource Solutions LLC

The old adage that says that one door opens when another closes certainly applies to the founding of Agency Assist and owner Christy Neroni, even if the door closed pretty hard. Ten months after joining United General Title (UGT) to become the company's general underwriting counsel, Neroni found herself out of work when the company ceased operations in mid-January 2008.

"In mid-December the president of United General came into my office with the head of human resources. I thought, this can't be good," laughs Neroni. "They explained that they were closing the doors; that we wouldn't get any more calls after January 1 and that we would shut down on January 11."

Getting laid off – especially getting the news just before the Holidays – is a wrenching experience. In Neroni's case the situation was compounded by the difficulty of her decision to join United General in the first place. During the preceding seven years she had worked as a real estate attorney for Tucker Arensberg. Neroni enjoyed the work and was building a solid career but the opportunity to become corporate general counsel was too tempting. Less than a year later she was forced to prematurely consider her next move when a friend from Babst Calland called her to help with some of their title work. Neroni says her next move became obvious, even if not to her.

"My husband said, do you need a ton of bricks to fall on your head? This is what you wanted to do," she remembers.

The jump to starting a business that served the title insurance industry was pretty natural. Neroni's husband, Mark, is a title abstractor. Her career had begun in the title insurance industry and she had spent a significant amount of time in underwriting capacities, assisting agents with title insurance policies. After completing law school she worked extensively with the title insurance process, eventually becoming vice president of TARES, Tucker Arensberg's wholly owned title insurance subsidiary.

During her years as a real estate attorney Neroni became active with Commercial Real Estate Women (CREW) and served a term as the Pittsburgh chapter's president. That experience played a significant role in her decision about self-employment.

"I had thought of working for myself and part of the motivation came from my time on the board at CREW," she explains. "I had attended lots of meetings nationally as a CREW officer and one of the big issues that came up repeatedly was the risk aversion of women in business. I had that in my mind and when the UGT situation happened I decided it was the right time to take the risk."

Christy Neroni

She founded Agency Assist in March 2008. The company's primary role is to provide back office services for title agencies and other firms involved in the title insurance process. Title insurance is an almost universally chosen policy purchased for all real estate transactions. The insurance is so eponymous that many buyers do not even realize that they have purchased a policy during the transaction and it functions in a way that is slightly counterintuitive to other common forms of insurance. While most insurance protects the policyholder from unexpected losses that may occur in the future – and premiums are based on actuarial estimates of the likelihood of the loss occurring – title insurance is intended to protect its owner from losses that may occur because of past events or omissions. The premiums for title insurance are meant to cover the costs of researching and curing any deficiencies that could prevent the owner from a free and clear title to the property being conveyed.

Changes in the real estate industry over the past couple of decades have created more pressure for agents, developers or attorneys to handle title insurance with fewer resources. At the same time the compensation for title insurance provided incentives because the premiums represented steady fee income for those firms. As a result, opportunities grew for a third party to provide processing and research services to the title insurance market, allowing agencies and professionals to maintain competency without adding staff.

"... WE HAVE TO TAKE THE TIME TO

ALLEVIATE THEIR CONCERNS ABOUT PROVING OUR COMPETENCE."

Agency Assist provides that competency to the processing, taking a proportional share of the premium. As a third party, Agency Assist receives a limited portion of the premium but the fee is predictable and gives the company the chance to increase its profits through efficiency and productivity. Christy Neroni says that is where they gain an edge.

"We make heavy use of technology," Neroni explains. "That allows us work with clients on their systems – often they have proprietary or licensed software. We can work in their office or from a virtual private network or other remote. We can do remote closings and the parties assume we're in our clients offices."

Technology is important for one significant piece of Agency Assist's business, which is municipal lien letters. It is incumbent upon the seller in any real estate transaction to provide documentation that assures the buyer that no liens exist on the property for unpaid taxes, open permits, zoning or building violations or claims from water or sanitary authorities. Many municipalities require dye testing of sewers prior to releasing the 'no lien' letter. The work requires meticulous documentation, a thorough understanding of the requirements of each municipality and diligent follow up to ensure that the letters clear well ahead of closing. In cases where some curative measures are needed, Agency Assist acts to assure that the actions are taken and the property is free and clear of liens by closing.

Neroni estimates that the municipal lien letter work makes up about half Agency Assist's revenue but the work is redundant and offers a big opportunity for efficiency. A completed lien letter takes five mailings in and out for an average transaction. The company is in testing now with a new software product that will upgrade their processing, making it easier for clients and increasing Agency Assist's ability to process letters by a multiple of three or four times.

Increasing her ability to serve clients without increasing her overhead is important to Neroni. Agency Assist has three full-time employees and she is reluctant to add to the staff when there are other ways to improve their service or productivity. "I guess that's where I live up to the stereotype about female risk aversion," she jokes. Her long-term plans include growing to double the staff, with a highly experienced title insurance manager or lawyer relieving some of her work load. She knows the importance of business development from her days at the law firm but is still trying to figure out a market that has been through incredible turmoil during the entirety of Agency Assist's brief history. That turmoil, she believes has been something of a blessing.

"We were actually lucky with the timing because so many of our customers let people go. The way the mortgage business collapsed, agencies had to cut staff," she explains. "I think we hit upon a niche at the right time. An agent or lawyer who hires us isn't paying a salary, taxes or benefits full-time. They are only paying for the work by the deal."

Because Agency Assist offers an a la carte menu of services to a downsized industry, the sales process involves a cycle of identifying a client's needs and filling the gaps in the work that have to be filled. As transactions have picked back up over the past year or so, Neroni feels that Agency Assist is in a good position, having built relationships on performance during a tough market.

"It takes time in a relationship to build the trust that's needed," she says. "People can sometimes have a hard time literally giving up control over the work file. We have to take the time to alleviate their concerns about proving our competence."

Neroni has been building Agency Assist upon relationships formed over more than 15 years in the commercial real estate and legal professions. The value and responsibility of those client relationships were among her most lasting 'Eureka' moments in business.

"When you first start you think you can make your own schedule and take control of your life," she recalls. "Pretty soon you realize that you still have a boss. From a business perspective your clients are your boss." BG

Company Facts

Agency Assist Outsource Solutions LLC

3439 Babcock Boulevard, Suite 200

Pittsburgh PA 15237

412-548-3391

FAX 412-548-3422

www.agencyassist.net

RECENT MECHANICS' LIEN LAW DECISION COULD SEND SHOCKWAVES THROUGH THE INDUSTRY

By Edward Gentilcore, Esq.

On January 6, 2012, a decision was issued by the Superior Court of Pennsylvania in a companion case involving the Bricklayers of Western Pennsylvania Combined Funds (the "Bricklayers' Funds"), as well as the Laborers Combined Funds of Western Pennsylvania (the "Laborers' Funds"), both in matters adverse to property owner and developer, Scott's Development Company. At issue in both of these matters were mechanics' lien claims in the respective amounts of $17,072.98 and $24,935.73. What was particularly unusual about these two claims is that they were being asserted by the Bricklayers' Funds and the Laborers' Funds against Scott's property located in Erie County because of amounts which the Bricklayers' Funds and the Laborers' Funds asserted had not been paid by the contractor, J. William Pustelak, Inc. ("Pustelak"). The substance of the lien claims at issue was unpaid contributions of health, welfare, retirement and/or fringe benefits that Pustelak was obliged to pay pursuant to a Collective Bargaining Agreement entered into by and between the Bricklayers and Trowel Trades International, Local No. 9 (the "Bricklayers Union") and the Laborers District Council of Western Pennsylvania (the "Laborers Union"), respectively.

The lien claims, therefore, contained the assertions that these outstanding amounts were lienable under the terms of the Pennsylvania Mechanics' Lien Law of 1963, as amended more recently in 2007 and 2009 (the "1963 Lien Law"). In particular, the liens sought to establish status of the lien claimants as "subcontractors" as that term is defined under the 1963 Lien Law. Following complaints to enforce the two lien claims, Scott's argued on preliminary objections that the Bricklayers' Funds and the Laborers' Funds lacked standing to assert claims under the 1963 Lien Law. Scott's argued that these entities could not assert lien claims on behalf of the members of the Bricklayers' Union and the Laborers' Union because the members themselves were not "subcontractors" as defined by the 1963 Lien Law and, because they were instead employees and/or laborers of Pustelak, they were not within the scope and protection of the 1963 Lien Law.

The trial court, on March 25, 2010, sustained the preliminary objections to both lien claims and dismissed the complaints. In so doing, the trial court concluded that these claiming parties "did not meet the statutory definition of 'subcontractor' and thus, lacked standing to assert a mechanics' lien claim. The union members providing the services are not the employees of the Unions or [Trustees], but rather, are employees of Pustelak. The Unions and the [Trustees] are merely the representatives of the employees. The Court does not view the [collective bargaining agreements] as a subcontractor agreement. Rather, it is an agreement, made on behalf of the contractor's employees, which defines working conditions, compensation, and other terms." Therefore, the trial court held that the members of these respective Unions were not subcontractors under the 1963 Lien Law. This is because the trial court viewed the Union members to be employees or laborers of Pustelak and not subcontractors and that the collective bargaining agreements were not subcontractor agreements. With the Union members not being subcontractors, therefore, the Bricklayers' Funds and Laborers' Funds could also not be construed as subcontractors.

The Bricklayers' Funds and Laborers' Funds sought timely appeal of the dismissal of the complaints to the Superior Court of Pennsylvania (the "Superior Court"), who ultimately agreed to hear the appeal en banc, which meant that the matters would be heard and decided by a complement of nine judges. Consequently, even the Superior Court recognized the weight and significance of the cases and issues presented before them. At no time before would the Superior Court be in this position at this time to expand the potential class of subcontractors beyond even what the Pennsylvania legislature did with its 2007 amendments to the 1963 Lien Law. Those amendments, among other things, expanded the potential pool of lien claimants to sub-subcontractors (e.g., second tier subcontractors) and suppliers to first tier subcontractors.

After hearing argument on the matter, the Superior Court issued a 41 page decision on these combined matters involving on their face $42,000 of principal claims, but in principle meaning far greater to the multitude of projects around the Commonwealth employing union workforces to supply the labor of construction. In an opinion that cannot be characterized as anything less than groundbreaking, the Superior Court reversed the trial courts dismissal of these lien claims. What is truly significant about the majority opinion in these cases is not only that the Superior Court recognized the respective union members as subcontractors, but also that the Bricklayers' Funds and Laborers' Funds could advance lien claims on their behalf. Equally monumental to those who closely follow the developments of the 1963

Lien Law in Pennsylvania was the means by which the Superior Court reached this determination, as that pathway rocked the very foundation of decades of decisions interpreting a myriad of issues and claims under the 1963 Lien Law, many of those decisions meaning the end of many other lien claims attempted in the Commonwealth.

Briefly stated, the most significant aspect of the Superior Court's decision—other than giving the union members, their benefit funds, and by extension, the unions themselves standing to make lien claims—is best captured by the following words of the Superior Court majority opinion, namely, "We conclude that under the applicable rules of statutory construction, the definition of 'subcontractor' in the [1963 Lien Law] is entitled to a liberal interpretation. Contrary to the trial court, we conclude that traditional subcontractor agreement is not a mandatory prerequisite to confer 'subcontractor' status. Instead, given the averments in the trustees' complaints, the trustees have sufficiently pled the existence of a necessary contract between the unions and the contractor, particularly an implied in fact contact to furnish labor. We further conclude that under the specific facts presented in this case, the unions are subcontractors and given the unique legal relationship that exists between the trustee and the union, the trustee has standing to asset a mechanics' lien claim on behalf of the union."

The foregoing few sentences captures so much and changes so much jurisprudence in so little amount of space, it almost staggers the mind and requires a point by point repetition to truly embrace the impact of its meaning.

One, the meaning of the 1963 Lien Law will now be subject to a liberal construction, notwithstanding a bulwark of case law stating that this statute required a strict construction and strict compliance because it was a special and powerful remedy in favor of a narrow and unique class of creditors.

Two, the limited class of creditors, which are defined exclusively by the 1963 Lien Law as "subcontractors" will now be viewed liberally in meaning, even though the statute itself provides a limitation on who may be characterized as "subcontractors" entitled to wield the substantial power of a lien claim, a prejudgment attachment and security interest in a owner's real property interest.

Three, even with an express contract in place in the form of a collective bargaining agreement, an implied contract could be found.

Four, that this implied contract between the contractor and the unions makes the unions subcontractors.

Five, this presumably means the union members work for the unions as the "unions are subcontractors."

Six, the benefit funds, which in other contexts have advanced themselves as entities separate and apart from the unions and in many instances the beneficiary of the right to seek benefit fund contributions under equally many collective bargaining agreements, are now extensions of the unions "given the unique legal relationship that exists between the trustee and the union."

Seven, that relationship means the benefit funds have standing to file a lien claim even though it is the union that has been identified as a subcontractor entitled to lien rights for the first time under the lien jurisprudence in Pennsylvania.

Eight, even though the benefit funds' claims are not the unions' claims to enforce in the first place, the benefit funds can make a lien claim for the unions, when past case law held laborers were not entitled to lien rights or relief.

A detailed analysis of the full breadth of the Superior Court's majority opinion and the two dissenting opinions totaling 14 pages of their own are well beyond the confines and limitations of this space and article. However, several points are extremely important to emphasize while the fates of these opinions, the parties to these cases, the 1963 Lien Law and the entire landscape of contracting in Pennsylvania await the initial decision of the Supreme Court of Pennsylvania (the "Supreme Court") on the Petition for Allowance of Appeal of the majority's decision which was filed on February 6, 2012 by Scott's. If the Supreme Court chooses to hear this case, hopefully much will be addressed regarding the standard of interpretation to be applied to the 1963 Lien Law and whether the Supreme Court agrees with this truly unprecedented non-legislative expansion of the potential class of mechanics' lien claimants. If the Supreme Court does not choose to hear this appeal or if the Supreme Court agrees with the Superior Court's decision, a chilling effect on the use of union labor on privately funded projects in Pennsylvania may ultimately be the legacy of this decision. This decision may also be the watershed event in discarding the 1963 Lien Law, its even more elderly roots of the earlier 1901 iteration of the statute and the more recent "bolt on" 2007 and 2009 amendments in favor of a "factory new," modern and innovative lien law approach like those more recently undertaken by some of its other neighbors in the United States, including, notably, New Jersey.

Ed Gentilcore is a shareholder and director at Sherrard German & Kelly PC in Pittsburgh. He is a LEED AP and heads the construction practice for the firm. BG

The Next Generation of Industry Professionals Gets a Leg Up on Networking

By Jon O'Brien

In the Western Pennsylvania commercial construction industry, there are a variety of groups that meet and deal with industry issues. For working construction professionals who want to expand their knowledge of the industry and develop new relationships, joining a professional association is a great way to do it. And as a young professional, it can be even more important to belong to a professional association so that you can access tools and resources to allow you to succeed in your profession, plus you can establish the relationships that will last a career.

Western Pennsylvania is fortunate to also have a supply of young groups for professionals to belong to. Some of the leading industry young groups include: AIA Young Architects Forum; GBA Emerging Professionals; MBA Young Constructors; and, NAIOP Developing Leaders. An abundance of groups for young professionals in the commercial construction industry has not always been the case.

"Ten years ago in spring of 2002, I sat next to Jack Ramage at an AGC Convention seminar. The panel for this seminar spoke about the launching of a forum for young professionals, a forum that educated future leaders on all aspects of the industry. They called it the AGC Young Constructors," said Jim Frantz of TEDCO Construction. "After the seminar, I looked at Jack and we both said at the same time, 'we have to launch a Young Constructors group in Pittsburgh.'"

Following the AGC event, when they returned to Pittsburgh, Jim and Jack sat down and jotted down a few names of individuals that could be counted on to launch a successful group for young professionals. The following joined Jim in launching the YC in the summer of 2002: Alex Paul of Alpern Rosenthal; Glenn Sieber of Easley & Rivers; Rebecca Snyder of FRANCO; Michael Kuhn of Jendoco; Anthony Martini of A. Martini & Company; and Tim Hengelsberg of Uhl. This group of aggressive, go-getters would brain-storm and fill a void of what was needed for future industry leaders: a heavy dose of construction education for the industry's next generation of leaders.

Over the first few months of its infancy, the YC group spent a lot of time to make sure this launching was built on a solid foundation. "We knew this was a great idea and that this group would last a long time so we wanted to do everything properly," said Frantz. By the end of 2002, the YC steering committee had created its bylaws and hosted some memorable events, such as: a tour of the David L. Lawrence Convention Center while under construction; Risk Management Boot Camp; Lean Construction Concepts; and ways of increasing workforce productivity.

"We were lucky to have a devoted group of individuals that could be counted on for creating the MBA's Young Constructors. I can't believe the YC is in its 10th anniversary year and I also can't believe the growth of this group over the past decade," said Frantz. "As an owner of a construction company, I am very pleased with the direction and efforts of the YC in educating young professionals to succeed in Pittsburgh's construction industry."

Now in its tenth year, the YC has been successful due in large part to a diverse group of professionals that have served on the committee and the group's chair that have each stressed a different area of importance. Frantz placed a priority on education. Following him, Michael Kuhn served as chair and expanded the focus of the YC professional beyond education to also include networking and community service. In Kuhn's years as chair, the YC created its marquee YC Kickoff and YC Holiday Party - two events that are extremely successful due to the camaraderie of industry peers. Next in the line of Chairs came Brett Pitcairn of PJ Dick. Brett placed a strong emphasize on preaching the benefits of the MBA and their standing committees.

"The MBA has been fortunate to have the Chairmen that we have had for the Young Constructors," said Jack Ramage. "It's almost as if each Chair wants to outdo the others and expand the role of the YC and raise the awareness of the YC. It's a friendly rivalry that benefits the MBA."

In line now for this friendly rivalry Chair position is Gino Torriero. He began his path of expanding the role of the YC while serving as YC Vice Chair, under the chairmanship of Brett. Initially, the Vice Chairman was supposed to fill in for an absent Chair and bide their time until it was their time to lead. But that changed and the Vice Chair was tasked with improving the relationships with other young industry groups.

"We're not the only show in town, and that's fine," said the newly elected Torriero. "We can learn from the other groups out there, like the YAF, GBA Emerging Professionals and NAIOP Developing Leaders and hopefully they can learn from us. It's beneficial for all of us to have strong lines of communication, especially when you consider that the people we meet in these groups can be friends for our entire career. An example of something new and exciting that one group is doing is the YAF Mentor Matching Program. Maybe the other groups can learn from them."

The YAF's mentoring program is a career coaching idea that matches an established architectural professional (the mentor) with a design intern or young architect (the protégé) with similar interest and design philosophy. "We want to prepare the future leaders of the AIA the best we can and what better way than to have the current establishment coach the next wave of leaders," said newly elected YAF Chair Anastasia Herk. "The YAF is delighted to not only have the approval of the AIA Board but to also have each Board member volunteer to serve as a mentor."

The YAF mentor matching program is just one example of something exciting that's happening by one of the region's young industry groups. There's a lot of excitement buzzing amongst the few young industry groups. The YC will soon announce a big event to celebrate its 10th anniversary, plus the new leadership at NAIOP's Developing Leaders and GBA's Emerging Professionals have exciting plans as well in 2012 and beyond.

Young Industry Groups in the Greater Pittsburgh Region:

AIA Young Architects Forum (YAF)

Mission: To support and encourage young professionals in the field of architecture to: obtain their license, become more involved with career development opportunities, and engage allied professionals through collaboration. The YAF continuously seeks out new and fresh ideas and the energy and resources to implement them, and have fun doing it.

Contact: Anastasia Herk (aherk@ibacos.com)

Green Building Alliance Emerging Professionals (EPs)

Mission: The GBA's Emerging Professionals are the energetic and dynamic leaders of tomorrow's green building movement. The EPs group enables like-minded sustainability professionals to be a force for advancement within the GBA community by providing a forum for networking and education. Though there are exceptions, EPs are generally young(er) professionals in early stages of their careers who are interested in or working in the green building industry.

Contacts: Co-Chairs Katie Flynn and Tyler Haak (to contact either or to be added to the EPs email list use: info@gbapgh.org)

MBA Young Constructors:

Mission: The MBA Young Constructors aim to expose and educate young industry leaders to all aspects of the commercial construction industry through continuing education, peer networking and community service.

Contacts: Gino Torriero (gtorriero@nelloconstruction.com) and Jon O'Brien (jobrien@mbawpa.org)

NAIOP Developing Leaders (DLs)

Mission: To foster career growth and organizational diversity through collaboration, education, and long-term relationships.

Contacts: Tyler Noland (tnoland@pentrustonline.com) and Mike Embrescia (mike@class-g.org). BG

2012 Is a Pivotal Year for Commercial Mortgage Recovery

During the current calendar year approximately $100 billion in loans pooled in commercial mortgage backed securities (CMBS) are scheduled to mature. Of that amount, $72 billion is coming due for the first time, and another $30 billion in loans are delinquent loans from earlier issues but rolling on a monthly basis past their maturity date.

Because roughly half of the first time maturities involve loans made in 2007 at the height of the last real estate cycle observers have been watching this year anxiously. Many have written about 2012 as the beginning of a wave of maturities that will be the chickens coming home to roost for commercial real estate. But analysis of the data suggests that 2012, while stressful for the CMBS market, isn't necessarily the start of a troubled period.

For one thing, the total securities maturing represent less than ten percent of the value of the entire CMBS universe. Those CMBS issues that have been extended past earlier maturities may be dealt with in 2012 but further extensions are also possible.

Gerard Sansosti leads Holliday Fenoglio Fowler's structured finance business line in Pittsburgh. He points out that the recession had a big influence on why 2012 is more of a bump in the road than the beginning of a wave. "If you look at the makeup of 2012 the interesting thing is that maybe 30 percent are five year maturities," he explains. "If you think about what happened in 2008 and 2009 there won't be much following in the pipeline."

Sansosti is referring to the precipitous drop-off in both commercial loans and CMBS issues after 2007. After jumping from $93 billion to $234 billion between 2004 and 2007, CMBS volume for 2008 through 2010 was less than $20 billion for all three years combined. Moreover, he believes that loans that were part of the volume prior to the 2006-2007 top of the market had the benefit of some amortization and had more underwriting discipline than the following years. The properties financed before 2006 had at least a couple of years of stronger performance and quite a number of those loans have since been re-worked.

So what's the big deal about 2012? Well, for starters the market conditions for the projects funded in 2007 were the opposite of those described above. As many as ten percent of the loans are delinquent and almost 15 percent are already with a special servicer, a firm that will be charged with resolving the problem loan through liquidation or modification. Many of the loans that are current have had interest only payments thus far, meaning no amortization has occurred and almost 40 percent of the loans in the securities that are maturing have Debt Service Coverage Ratios (DSCR) that are below the 1.25 level that financers are currently requiring. The big deal is that an unusual number of the 2012 maturities won't be able to refinance.

Standard & Poor's, one of the credit agencies that rated the 2007 issues, estimates that 50 to 60 percent of the 2007 vintage five-year-term loans maturing next year may fail to refinance.

The rating agencies were an important ingredient in the decline of the CMBS market. At the root of any asset-backed security is the certainty that the investor has in the quality of the assets themselves, in this case commercial loans.

CMBS TRAILING 90-DAY DELINQUENCY

	Dec-11	Nov-11	Oct-11
30 Days	$ 6.34	$ 6.42	$ 6.77
60 Days	$ 3.24	$ 3.21	$ 2.86
90 Days +	$ 20.45	$ 20.75	$ 22.65
Foreclosed	$ 14.42	$ 15.09	$ 15.07
REO	$ 14.72	$ 14.43	$ 13.92
Current	$ 666.85	$ 671.62	$ 672.90
Total CMBS	$ 726.02	$ 731.52	$ 734.17
Delinquency rate	**8.15%**	**8.19%**	**8.35%**

Morningstar's research on trailing delinquency rates in the fourth quarter showed a decline but their forecast for 2012 sees delinquency rates rising again. (Dollars in billions. Source Morningstar Inc.)

CMBS issues are made of loans or portions of loans pooled together, some of which will be of lower quality because of the financial weakness of the borrower or the poorer performance of the underlying property. CMBS works because the better income of the higher rated loans offsets any hiccups from the weaker sisters. Of course for this method of risk mitigation to work the ratings of each loan have to be accurate. As the real estate bubble peaked and competition for loans increased, the big three raters – S & P, Moody's and Fitch – were all guilty of missing the mark on a lot of properties rated AAA. Five years hence the number of rating agencies with significant share has grown to six.

Rob Dobilas is president of one of those firms, Morningstar Structured Credit Ratings (formerly Realpoint), which took over the third place in market share in 2011. Like most observers, Dobilas sees s shortfall in the lenders who will be willing to refinance many of the 2012 maturities. He sees the special servicer as the key player in the market right now.

"Special servicers play the most critical role in the CMBS market right now," he says. "Once the loans get delinquent they are turned over to the special servicer to decide on either default and foreclosure, sale or reworking the loan."

Loan modification requires agreement from parties who may be less-than-motivated right now, especially since the prospect for an improving economy actually motivates lenders to takes losses on bad assets to clear the decks and create better balance sheets going forward. Dobilas also points out that the special servicer's role isn't aligned with the interests of those who would want to give the loan more time to improve.

"The special servicer has an obligation to bondholders who may prefer resolution right now, unlike a balance sheet lender who can extend a maturing loan," says Dobilas. "In the CMBS industry there is a move to ensure that the special servicer represents the interests of the whole spectrum of bondholders."

Those bondholders are investors who have continued to deploy their assets since the recession and are likely to cut losses unless the underlying loans are showing promise of gaining health. Morningstar Structured Credit's recent research finds that many of the 2007 loans maturing in 2012 have never met pro-forma underwriting expectations or have experienced significant performance declines, even though they may be current on loan payments. As such, they are unlikely to secure take-out financing. Morningstar believes that such denial of borrower requests for loan modifications or debt restructuring by the special servicers, or a decision by borrowers to surrender the collateral, is a significant concern heading into 2012.

For all the concern about 2012, the potential volume of losses will still represent only a percentage or two of the entire CMBS market, even if special servicers decide to flush an unusually high number of loans. Of greater concern is the negative impact the write-offs would have on the overall market value, especially since most experts look out to the middle of the decade with more trepidation.

Most of the loans maturing in 2013 and 2014 currently have DSCRs of 1.40 or greater and are well-positioned to refinance with interest rates stuck below five percent during that period. Interest rate expectations are higher for the years beyond the 2014 target that the Federal Reserve has set for its current rate policy. With rates generally in the five-to-six percent range for loans written during the 2005-2007 vintages, potential rate scenarios for the ten-year maturities have analysts worried.

"The ten-year loans in 2015 to 2017 are what will have problems if rates go up because values will probably still be lower than were expected when they were underwritten," notes Sansosti. "If rates are at eight percent in three to five years then there won't be sufficient debt coverage and values aren't likely to return by then."

A couple of scenarios do exist that will mitigate the impact of what would be much greater loss volumes. Hand in glove with the higher interest rates will be higher inflation. The fear of inflationary forces on the economy is well founded but one upside of an inflationary cycle is that real estate values will increase, potentially offsetting the insufficient debt coverage. Of course, the better scenario is for a sustained and robust recovery in the global economy in the interim. That kind of improvement will bring about millions of jobs, filling underperforming buildings with tenants and increasing income. In a recovered economy, "extend and pretend" will have accomplished its goal, making it possible to modify several years of dodgy loans before the next wave hits the beach. BG

MBE/WBE Company Spotlight

urbanlending SOLUTIONS®

In mid-2006, as the housing boom was creating work for his settlement services business, Charles Sanders saw some rough waters ahead for residential lending. He was running Urban Settlement Services, the company he founded in 1999, and shared his concerns with friend Michael Forgas that a wave of foreclosures was building. Forgas was CEO of National Real Estate Information Services (NREIS), which had grown its business during the growth in sub-prime mortgages.

"Urban Settlement was in the prime mortgage market. Mike was a friend and we had always looked for small opportunities to work together," Sanders says. "I thought there would be a boom in foreclosures coming and that we should be prepared to respond."

Sanders expected that banks would be forced to change the focus of their lending and would need back office help dealing with problems that hadn't been anticipated. While he doesn't claim to have foreseen the magnitude of the foreclosure problem, he did shift the focus of Urban Settlement's capabilities towards supporting loan modifications and workout, appraisals and home retention. As the mortgage crisis mushroomed, Urban was positioned to provide the kinds of services that banks needed as they struggled to keep up with their dynamic portfolios of loans and regulatory changes. Sanders saw his business grow over 700 percent the next couple of years to more than $50 million, with 125 employees involved in 600,000 transactions in 2008.

By 2011, the firm's business grew to 700 employees and $124 million in revenues. In February of 2011 Sanders changed the company's name to Urban Lending Solutions (ULS) to reflect the broader scope of its services and in November of that year Mike Forgas was named president of ULS. Urban Lending was ranked at 205 in *Inc.* magazine's Top 500 fastest-growing companies and Sanders was named one of the ten fastest growing Black entrepreneurs in the country. An opportunity recognized had transformed a business.

Urban Lending Solutions CEO Chuck Sanders

Chuck Sanders had capitalized on recognizing opportunities before, however. His ability as a running back had afforded him the opportunity to get a degree in business at Slippery Rock University. During his senior year he led Division II in rushing and inspired the university

... URBAN SETTLEMENT WOULD BE BUSY FROM THE OUTSET.... SANDERS' STRATEGIC SHIFT AT THE HEIGHT OF THE BOOM

HAS ENSURED THAT URBAN LENDING SOLUTIONS REMAINS SO.

to launch a Heisman trophy campaign that poked fun at the seriousness of the big school publicity machines. The publicity landed Sanders a spot in the East-West Shrine game, however and he responded by running for 71 yards. A business career got sidetracked.

"My dad was a businessman. He had his own trucking company and so I got a degree in business at Slippery Rock," he says. "There was no plan for being a football player but then the NFL came along."

Sanders was drafted by the San Diego Chargers in 1986. He got to fulfill every Pittsburgh kid's dream by playing for the Steelers that year and in 1987. While he received acclaim as a special teams player, Sanders was correct in his assessment of his prospects for a long football career. During his playing days he networked with local business people and made a friend, Bob Murphy, who would start Sanders on his career path. Murphy owned Lenders Services and had several sporting businesses, including Quicksilver Golf Club. Sanders was hired to run the club and help manage the sports business but he was more interested in Murphy's financial services business. When Murphy started Value America in the mid-1990's Sanders joined the firm.

"I took to the work like a fish to water," Sanders recalls. "It played to my personality. The business was very competitive. There was a high ceiling for achievement and earnings. And I just absorbed everything about it that I could. Bob was a great mentor and friend and when I decided that I wanted to go out on my own he supported me."

That decision was inspired by family as well, but this time by the birth of a son rather than by his father. The American economy was in the process of getting a serious jolt, sparked by the pop of the dot com bubble, but the climate in residential finance was hardly negative. The Federal Reserve had lowered interest rates and a refinancing boom was getting underway. The spike in refinance and the housing boom that followed a few years later ensured that Urban Settlement would be busy from the outset. And Sanders' strategic shift at the height of the boom has ensured that Urban Lending Solutions remains so.

As banks have returned to focusing on examining the risk of each loan the opportunities have increased for firms to provide outsourced analysis, document management and other underwriting services. The banking landscape has changed, with far fewer players in the residential mortgage sector. ULS has master service agreements with a number of those firms, including banking giants Citi, Wells Fargo, Bank of America and Suntrust. ULS has been active with loans in the Homeowner Affordable Mortgage Program and is certified with the National Minority Supplier Development Council as a minority-owned business.

"One thing about this business is that it stays exciting," Sanders chuckles. "Five years ago you couldn't throw a rock without hitting a loan service company or mortgage originator. The mortgage crisis really purged the industry and I like our position going forward." BG

Company Facts

Urban Lending Solutions

1001 Liberty Avenue, Suite 1050
Pittsburgh PA 15222
412-325-7046

11802 Ridge Parkway, Suite 200
Broomfield CO 80021
303-996-8300
www.urban-ls.com
info@urban-ls.com

Trend to Watch

A Hot Apartment Market Is the First Step to a Housing Recovery

The traditional arc of the American homeowner's life cycle starts with renting an apartment. Apartments have traditionally been less expensive than a mortgage and renters generally haven't had the credit history or time to save needed to get a mortgage. The housing bubble certainly skewed this typical progression but a growing boom in apartment construction is creating a parallel to that traditional housing cycle that is showing the way out of the prolonged housing slump.

When the bubble burst in 2007 there were a number of conditions that proved to be unsustainable and that were out of character with how the housing market historically operated. The most salient of these were the high debt-to-income ratios of many borrowers and the unusually high appreciation rates of many markets. For a few years there were arguments made that the bubble was actually the beginning of a new paradigm but the crash showed that the historical housing market dynamics cannot be ignored. What has followed since could accurately be described as a reversion to the mean.

During 2011, as the overall housing market slumbered, the construction of new apartments picked up at a rapid pace. According to the Commerce Department, construction of multi-family buildings jumped over 30 percent in 2011, while the total housing market increased only 2.4 percent and single-family housing starts continued a decline. A few significant factors are driving this resurgence in apartment construction and renting.

The most obvious of these is the recent recession. Unemployment levels remain more than five million people higher than in 2007, which means fewer people can afford homes. The higher unemployment also means fewer people have sufficient income to qualify for mortgages, even in normal credit conditions.

Loan underwriting has been much more conservative, even as the economy has healed and borrowers who may have qualified in 2006 – or even in more normal conditions – have been declined for credit during the past few years.

Among those tougher conditions has been a return to traditional standards for loan-to-value ratios. In practical terms, that means prospective home buyers must have more of a down payment. This has especially impacted apartments, since the higher down payment requirement has meant more first time buyers have remained renters while they saved, thus occupying units that would normally have been turned over. This lower turnover from renting to buying has boosted occupancy levels in apartments to record high levels. Higher occupancy levels mean higher rents, improved cash flow and profitability for the apartment owners and developers, greatly improving the chances of approval for financing of apartment deals.

As luck would have it, the sharp increase in demand for apartments is coinciding with an equally sharp interest in financing.

Lending has slowly shifted from reverse to neutral to cautiously forward since the fall of 2008. During that time, however, those with money to use have had few options that matched their need for yield with their appetite for risk. As things have recovered, particularly since the end of 2010, cash heavy financial institutions have been facing greater pressure to find ways to get returns better than the flat line of the money markets. Lenders are aware of the changes in the home buying market and the suddenly tight supply of apartments. Beginning in 2011, money has been chasing these favorable supply and demand dynamics, creating competition among lenders to find and close on apartment deals.

The shift in rental dynamics and the steady rise in rents are making multi-family development work again in spite of the affordability of owning, says First Niagara vice-president Kris Volpatti.

"It used to be that if you were developing multi-family in this region you were looking at five years or more down the road to get a return. You could buy existing for much cheaper than building new," she says. "Now rents are starting to catch up and the question is why pay a premium to rent compared to owning. [Since the recession] people who can afford $1,600 or $1,800 a month don't want the baggage that comes with owning a home."

PROJECT	LOCATION	DEVELOPER/BUILDER	# UNITS
Southpointe Town Center	Cecil Township	Horizon Properties/TBD	280
Summerset at Frick Park	Pittsburgh	EQA/Rubinoff/TBD	130
Chatham Commons	Cranberry Township	A-R Development	128
Summit at Cranberry Woods	Cranberry Township	Creative Real Estate/TBD	160
Cranberry Woods Apartments	Cranberry Township	CBRE/Trammel Crow	240
North Hills I-279 - Yet Unnamed	Ohio Township	Phillips Brothers Development	200
Lot 24	Pittsburgh	McCaffrey Interests/Hammel/Massaro Corp.	96
1600 Fifth Avenue	Pittsburgh	Castlebrook Development/Massaro Corp.	49
Oakland Portal Apartments	Pittsburgh	L. W. Molnar	88
City Vista Apartments	Green Tree	Oxford Properties	272
Newbury Apartments	South Fayette Township	EQA Landmark Properties	250

Almost all of the new construction is focused in or around Cranberry, Southpointe or downtown Pittsburgh.

"The real challenge has been and will continue to be meeting the demands of a younger, more lifestyle driven customer that no longer sees owning a home as the American dream," says Lynn DeLorenzo, multi-family developer for PWC Property Group and current NAIOP president. "Lifestyle has outstripped ownership, for now."

What Volpatti and DeLorenzo are describing is counterintuitive for American homeowners, who over the years counted on the steady appreciation of their homes as a safe investment. For those who suffered losses when the bubble burst, that assurance has been dashed. And for first-time buyers – many of whom were college students or newly working when the mortgage crisis hit – their collective experience includes almost five years of headlines about foreclosures and falling home prices. Even though those negative stories didn't apply to metropolitan Pittsburgh, the effect has been to change the way those consumers think about the home as an investment, at least for now.If the psychologies of renting and financing are favoring development of new apartments, the supply and demand fundamentals are even more persuasive.

Multi-Family Executive listed the multi-family occupancy rate for metropolitan Pittsburgh at 97.8 percent when 2011 ended. That was tops in the country by their estimates. Integra Realty Resources showed the market slightly softer, but at 3.86 percent vacancy that level of performance was higher than any other U. S. city except New York City. The news is equally good nationally, with vacancies falling to 5.4 percent in 2011 and estimates of vacancy rates at 5 percent by year's end, according to Marcus & Millchap Real Estate Services.

MPF Research's multi-family market analysis for 2012 showed a 4.7 percent increase in rents nationwide, more than double the average rate of wage increases. Their data found that the average rent increase in Pittsburgh was 6.8 percent, a rate that puts the metropolitan area in the top seven cities for rent growth. Tight occupancy and rising rents often trigger higher demand for home buying but those conditions also make building more apartments make sense, at least for the near term. And that is the state of the market right now.

Bob Morgan is a fan of the market right now. His business is based in Rochester, NY, a town with market dynamics similar to Pittsburgh's. Morgan Management is actively developing about 2,000 units of new construction in Rochester and has been building a portfolio in Western PA for a few years. Morgan believes the Pittsburgh market is ready for new construction. His company is beginning construction on the 228-unit Freedom Village at Park Place in Cranberry Township and expects to begin on the 370-unit Morgan Southpointe project by late summer.

"I like the Pittsburgh market, with what has been done to reform the economy from the steel industry to the businesses that are driving the economy now," he says. "I like the healthcare economy, the financial services and the Marcellus Shale. Right now we're at 97 percent occupied in our portfolio. Our hope is that the market doesn't attract a lot of development. I remember when Nationwide came into the market ten years ago and it got overbuilt."

What will be the state of the market to come will depend on how much of the current pipeline of apartment projects is built; how many new dwelling units are needed and when the dynamics of home ownership change.

"We're getting calls almost every week from out-of-town developers interested in this market, kicking the tires," says Paul Griffith, managing director of Integra Realty Resources. Griffith jokes that it seems the developers are all reading the same research reports and he understands that the flow of positive economic news from Pittsburgh is spurring the interest. "Occupancies are high now because of the shift to renting from buying and Pittsburgh is getting the benefit because of the lack of supply."

Perhaps no variable in the supply and demand equation is as critical to new residential construction as is household formation. New households can be formed by a nuclear family growing up and the children moving out to start their own families, but more often than not household formation is a function of population – and employment – growth. By the Census Bureau's estimate the region had 26,700 more jobs at the end of 2011 than existed in 2010, bringing the total non-farm payrolls to 1.18 million. New jobs mean new households, which in turn create demand for more housing. Using some simple analysis, it appears that the new jobs in the region last year will support more than 25,000 new people and create the demand for more than 11,000 new dwelling units, of which 3,000 or more should be apartments. Given that less than 2,900 new dwelling units of all kinds were built last year, a shortage of housing looms.

The problem with this kind of statistical analysis is that it relies on the accuracy of government statistics and to paraphrase Mark Twain, statistics often lie. But the statistics help us understand why so many developers are planning new apartments and where the demand may come for a next wave of new home construction. And a new wave is forming, at least in terms of project being planned.

The table below lists nearly 1,900 units of new construction under construction or planned to start in 2012. While most of the development is far north and south of Pittsburgh, the other hot spot for apartment development is the city itself. Downtown is experiencing another wave of residential since development shifted from condos to apartments. The two largest projects are Piatt Properties' renovation of the former State Office Building into 218 units it calls the Rivervue and PMC Property Group's conversion of the former Verizon headquarters into 158 apartments. The Pittsburgh Downtown Partnership is tracking a number of other projects as well and sees 560 units coming on line in the Central Business District within a year.

Perhaps the most important impact of the surge in apartment construction is that it portends a recovery in the overall housing market. Housing starts began falling precipitously in 2007 and 2011 marked the fourth consecutive year in which no more than half as many residential units were built as the number of households were formed. The huge overhanging inventory of housing is responsible for some of that overbuilding but the pendulum has swung far past in the opposite direction and a backlog of demand is building.

Almost universal apartment occupancy is a sign that Americans who were living at home or sharing a place are now looking for a place of their own. If history is a reliable indicator, those renters will be looking for a new home to buy in a couple of years. BG

Uncertain Solutions for A Rash of Flooring Failures

Late last year a group of local contractors and architects formed a task force to examine a growing problem: finish flooring failures. The AIA/MBA Joint Committee originated its task force to look into the issue, which has been cropping up more frequently and has caused some problems on some high profile jobs. It turns out that the problem is not a regional headache. At least eight other AGC chapters have formed similar groups in cities around the U. S.

At the crux of the problem is moisture being emitted from lightweight concrete slab on deck or slab on grade substrates. Concrete contains moisture that evaporates as the concrete cures and is emitted through the surface. Many of the failures occur when water-based adhesives break down as the excess moisture escapes and the finished flooring no longer adheres.

Concrete slabs have been part of the structural and flooring systems for many decades but the failures have been occurring since the industry began adopting the use of adhesives with little or no volatile organic compounds (VOC). Low-VOC adhesives, like other low-VOC materials, are used to improve the environment, a decision that also helps with LEED certification. With the growth of LEED certification and the recognition of the health benefits of low-VOC materials, the incidence of these problems has grown. The low-VOC adhesives use water as a base rather than solvents. That makes them vulnerable to moisture problems.

At first blush it would seem to be a simple problem to solve but if that were the case there wouldn't be the need for task forces.

A few issues come into play that prevent the straight line solution to the problem. First, while it is universally accepted that the failures are the result of the water-based adhesives, a comprehensive pathology of failures has not been developed.

Second, the solution to the problem will not be increased use of solvent-based adhesives. Manufacturers aren't going back to making solvent-based adhesives, nor should they says Mascaro Construction senior project manager John West. "I know the saying 'if it doesn't stink it doesn't stick' but you can't just throw your hands up and go backwards," he says. "VOC reduction is an important piece of LEED both for the health of the construction workers and especially for the occupants. We have to do the research to come up with something that satisfies both needs.

Third is the fact that the problems have a widespread incidence, both in new construction and renovation, and can occur in the application of soft goods, hard tile, stone and even wood.

Fourth, and most vexing, is the fact that the flooring manufacturer's specifications for the appropriate moisture content in the concrete is inconsistent with chemistry of concrete specified by the Portland Cement Association and ASTM. Let the finger pointing begin.

West is coincidently a newly elected member of GBA's board of directors. An outspoken advocate for green building, he encountered the potential magnitude of the flooring problems while overseeing the construction of the Bethel Park High School, a $90 million ground-up new facility. At Bethel Park the problem was actually one of potential failure discovered roughly a year before the installation was to occur. Finished floors were to be installed in moisture conditions that were slightly higher than specified. The manufacturer's warranty was then invalid, leaving the flooring contractor – a Mascaro subcontractor – in the position of risking a failure or asking for a large change order. Part of the problem at Bethel was that suggested solutions varied from upgraded adhesives at 50 cents per square foot to bead blasting the new concrete and applying a sealant at a cost of $5 or $6 per square foot.

"Ultimately the school district decided not to remediate the moisture and accepted the risk of failure later," West explains. "The board questioned why they should pay $5 or $6 to avoid the failure of $3.50 flooring when no one can be sure it will even fail. They decided to roll the dice."

Such an approach isn't always an option for owners, however. The region's most prolific buyer of construction services is also a hospital At the University of Pittsburgh Medical Center failures of installed products take on a different dimension. Loose flooring can mean liability for tripping or a breeding ground for infection. And with an annual capital budget that exceeds $250 million UPMC has to deal with moisture control in both newly poured concrete and the renovation of existing floors that may have been redone multiple times before.

"We have a greater exposure than a developer or even a school district because if (flooring failure) happens, it happens in a critical area," explains Tom Kennedy, director of capital projects for UPMC. "We had an issue in one hospital, for example, where the flooring was coming up in a nurses' station. That's a serious tripping hazard in a 24/7 operation."

Remediating the problem in a continuously used area like a nursing station is a nightmare but dealing with moisture control in any situation is inconvenient at best. Whether the application is new or renovated space one of the inherent problems is that there is a period of time when the area must be left alone, either for testing or for remediation. Flooring goes in late enough in the process that the sentiment of all parties is usually biased towards completion of the work, if not acceleration of the schedule. And moisture control measures are somewhat methodical.

To meet the specifications the ambient moisture content on the concrete surface has to be below a specified level, usually around 75 percent. Verifying that requires a vapor emissions test and a bit of patience.

"The vapor test uses a three inch diameter container that has calcium chloride in it to absorb the moisture," explains Michael Suchar P. E., vice president of testing engineer ADA Engineering. "You place the container on the floor and cover it with a lid sealed to the floor. The calcium chloride is weighed before and afterwards to judge the moisture content." The headache is that the test requires 60 to 72 hours. Suchar says they try to deal with the delay by timing the test for the weekend. "We can start the testing on a Friday at the end of the day and read it Monday morning so that we minimize the intrusion, but it still means nothing can be done on the weekend."

"Manufacturers are now changing the testing too," warns Coleen DeFilippo, president of Spectra Contract Floors. "Calcium chloride tests relative humidity. Contractors would call us asking how to fix high humidity. Well you turn up the heat but that doesn't fix the moisture in the concrete. Now manufacturers are requiring that you drill holes to test the moisture emissions from the concrete."

Once the moisture content is determined the fix can vary from allowing more time for curing to bringing in temporary heating and dehumidifying equipment to applying coatings to seal the concrete. Since the moisture level can be influenced by ambient humidity, temperature, groundwater and the inherent variance of the content in the concrete, part of the issue with the remediation is that resumption of work can be indefinite. At the point of installing finished flooring an indefinite resumption is everyone's headache.

The indefinite nature of the fix creates another problem: indefinite cost. Even professionals who are experienced with the problem find it difficult to anticipate the cost.

"We tell our clients they need to include $5 per foot for moisture remediation," says architect Chuck Parker of Stantec. "My work is almost entirely in healthcare and remediation can be very challenging. There are a lot of flooring options that won't work because of the types of facilities I design and flooring manufacturers are putting in specification minimums that are almost impossible to reach."

Moisture content specs, like most specifications, are likely to take into account the worst case scenarios in order to provide the manufacturer the most protection for their warranty. As the flooring failures multiplied, the disputes over whose fault they were multiplied as well. What can happen however, is that a manufacturer can respond with an approval for a specific situation. Jendoco Construction's Rob Borland encountered such a case on a project at Carnegie Mellon's Robotics facility in Lawrenceville.

"We were putting a mezzanine in and had to wait while we tried to bring the moisture content of the new concrete floor down to 70 percent," he says. "The subcontractor went back to the manufacturer with the details and they moved the acceptable level up to 80 percent."

On a project with a broader scope of flooring applications such an exception is not as likely. For a project like a new or expanded school the site is exposed to such a wide variety of conditions and related contractors that controlling individual environments is impossible. The best solution for schools is one that is also unpopular or impractical.

"In a new facility you need to fire up the HVAC system early and you can eliminate most of the moisture problems," explains George Leasure, president of Nello Construction. "Owners are understandably reluctant to do that though because the systems aren't completely ready; it's too dirty and then they are initiating the warranty well ahead of the occupancy of the building."

Leasure also has concerns about how the remediation is priced in the larger institutional settings that are publicly-owned. Those projects are competitively and openly bid. In a market that is quite competitive the successful bidder is obligated to price the job by adhering to the plans and specs closely, regardless of how they may believe a best solution should be developed. In the case of moisture remediation, Leasure advocates using unit prices for a variety of measures so that when the solution is decided the owner has some certainty about the contractor's costs and the contractor is not held to a price that was based on a non-specific solution. The latter situation isn't likely to occur of course since contractors can't afford to take risks pricing undefined conditions.

The price of remediation isn't even the biggest risk with mitigation, counsels DeFilippo. "There are suddenly a lot of people out there selling mitigation and owners have to be careful because the mitigation company assumes the warranty not the manufacturer," she says. "The mitigation company better be financially sound or be able to bond the work in case there's a failure."

When UPMC began construction on its new hospital in Monroeville they decided to take measures to avoid the unknown conditions that could cause the kinds of flooring failures they had experienced before. They built mockups of several systems and exposed them to the full range of temperature and environmental conditions for almost a year before choosing a system that included concrete with a micro silica additive to reduce the moisture emission. Kennedy says they followed the manufacturer's specifications strictly and expects the system to perform. He says UPMC has adopted that approach to flooring in all its facilities, even if the specs call for what might be considered excessive measures.

"We aren't doing these things to build a case or to make sure we get the warranty," he explains. "The warranty doesn't cover ICRA measures or the cost of being down while we have the floor replaced. That can turn into a $100,000 job for which we get $500 for an adhesive warranty. We're following the specs because we believe we'll get a flooring system that works."

Coleen DeFillippo and her people have been on an educational tear during the past year, doing about 35 presentations to architects, contractors and owners to explain the conundrum that flooring contractors find themselves in at the moment. "It's a no-win situation for all of us. Because so many people weren't aware of the problem we felt almost a duty to tell people that we didn't have a solution for them," she says. " Right now, no one does." BG

INDUSTRY & COMMUNITY NEWS

Evening of Excellence Sets Records

The MBA's annual networking and awards program drew over 800 people to Heinz Field for the fifth Evening of Excellence on February 23. The winners were PJ Dick Inc. for Carnegie Mellon University Gates Center/ Hillman Center as well as for their Chatham Plaza renovation; Landau Building Co. for Orchard Hill Church Children's Ministry; Volpatt Construction for Benedum Hall Renovations and Shadyside Presbyterian Church; and Jendoco Construction Corp. for the restoration of Mansions on Fifth. The complete list of finalists and winners is available at the MBA'w website (www.mbawpa.org) and at the Evening of Excellence LinkedIn event page.

Building Excellence Award winners Shadyside Presbyterian Church were represented by Alexis Fox (left) and Nancy Shaytar, with thei contractor Ray Volpatt Jr.

Shawn Regan of Spectrum Environmental with Jean Mignogna and Demeshia Seals (right) of Massaro Corp.

Partner Mike McDonnell (left) from IKM with Emily Landerman Goldberg from A. Martini & Co. and Anthony Martini.

(left) Pat Naughton of PNC Institutional Investments with Tim Helch from Sprinkler Fitters Local 542.

Sandy Hughes (left) from Mitsubishi Electric Products with Landau's Steve Bishop and Jen Landau.

Alliance Drywall's Gene Brown with Jim Dilla of Easley & Rivers (right).

Burdchick's Joe Scaramuzzo (left) with Corky Cost.

Ross Fazio from FMS Construction and Bristol Environmental's Tammy Seiler.

Mark Golebie from Knepper Press and Brian McGrady with Highmark (right).

Building Excellence Award jurors Paul Whitehead, Joe Beck and George Ehringer with MBA president Tom Landau.

Eric Cartwright from UPMC with MBA communications director Jon O'Brien (right).

(left to right) Mark and Andy Vater of A. J. Vater with Randy Milliron from A. Martini & Co.

Master Builders Award Scholarships

The Master Builders' Association (MBA) held its annual membership banquet on January 20 at the Duquesne Club. Speaker Senator Pat Toomey addressed the legislative and economic challenges facing the Congress. The program's highlight was the awarding of scholarships by the MBA's Construction Industry Advancement Program (CAP). Citing an exceptional group of candidates in 2012, CAP trustee Ray Volpatt Sr. announced that three Pitt engineering students would receive scholarships. John Ferragonio Jr. was selected to receive a $7,500 scholarship. CAP also awarded scholarships to Michael Quarantillo and Alaina Elias.

Pitt junior John Ferragonio Jr. with Ray Volpatt Sr. (left) and CAP trustee John E. Deklewa (right).

(Left-to-Right) MBA board president Tom Landau, Sen. Pat Toomey and MBA executive director Jack Ramage.

Jendoco president Dwight Kuhn was recognized by the MBA/AIA Joint Committee for 30 years of service. With Kuhn is committee co-chair Rob Sklarsky from John Deklewa & Sons.

Mobile Medical's Gregg Latsko with Marsa president Paul Scabilloni at the MBA membership banquet.

Carpenters Training Center Hosts Schneider Downs Construction CPE

On December 16, 2011, the Carpenters Training Center opened its doors to Schneider Downs & Co.'s annual construction continuing professional education seminar. Schneider Downs' Construction Focus Group conducts this annual internal CPE event to provide its professional staff with industry-specific training and education encompassing the most recent accounting, auditing, tax and construction industry trends. This year's seminar included a presentation from Ray Vogel, the Center's Training Director, and Rich Okraszewski, the Center's Apprentice Training Coordinator, and a tour of the 93,000-square-foot facility.

Following the presentation and tour, the CPE participants returned to the Training Center's 150-seat auditorium for the half-day education, which included presentations from members of Schneider Downs' Construction Focus Group and others on a variety of construction-related topics.

Ray Vogel instructs Schneider Downs' Kerstin Makowski during the accounting firm's visit to the Carpenter's Training Center for a continuing professional education seminar.

GREEN BUILDING NEWS

GBA Volunteers Speak Out For Green Buildings

The first Pennsylvania Green Building Advocacy Day convened on January 24, 2012 at the Harrisburg Capitol Complex. Over 30 advocates from Green Building Alliance, USGBC Central Pennsylvania, and the Delaware Valley Green Building Council participated. GBA fielded a dozen individuals from across western Pennsylvania to meet with legislators and lobby for HB 193 and green schools. HB 193 or the High Performance, State Building Standards Act would require state-owned and leased construction projects be built to specific energy and environmental building standards.

The bill passed the House of Representatives on January 25 by a vote of 170 to 18 and now awaits action in the Senate. Montgomery County Republican Representative Kate Harper sponsored the bill and Allegheny County Democrat Matt Smith was a co-sponsor.

U. S. Rep. Tim Murphy with Marshall Elevator's Dave Heiner at the ASA/NAWIC meeting January 10.

Social media panelists Patty Swisher of IKM, Ron Kubitz from Brayman, Meyer Unkovic & Scott's Jane Lewis Volk and Karyle Rowles of Schneider Downs.

(Left-Right) Tammy Ribar of Houston Harbaugh, Katelyn Diener and Amy Hopkins from Morris Knowles & Associates at the CREW Holiday Party at Tavern 254 on January 12.

Awards & Contracts

UPMC awarded a contract to Landau Building Co. for the build-out of the fourth floor of the Hillman Cancer Center in Shadyside. Radelet McCarthy Polletta Architects designed the project, which is a build-out of approximately 30,000 square feet.

Landau Building Co. was the successful contractor on the $500,000 renovation to the Stem Cell Lab at the UPMC Children's Hospital of Pittsburgh.

Marks Landau, a wholly-owned subsidiary of Landau Building Co. has started construction on another MedExpress location in Hagerstown MD. Paul Slowik & Associates is the architect.

TEDCO Construction was the successful contractor on the University of Pittsburgh's $300,000 renovation to the School of Information Sciences eighth floor.

Federated Investors awarded TEDCO a contract for the renovation of the 24th through 26th floors of its offices in Liberty Center. The project involves conversion of 37,000 square feet into an investment center. The Design Alliance is the architect.

St. Ferdinand's parish awarded a contract to A. Martini & Co. for the addition and renovations to its education building in Cranberry Township. The 23,000 square foot building includes classrooms, multipurpose space, and offices. RSSC Architecture is the architect.

A. Martini & Co was selected as general contractor to complete the renovation of an additional two floors, Phase II at 4350 Northern Pike. URS is the architect.

A. Martini & Co was selected by Reit Management to be the general contractor for renovations to 600 Cherrington . This project includes the renovation of the base building and the exterior. Completion is set for May 2012. URS is the architect.

Nello Construction was awarded a contract for the new Volkswagon showroom for #1 Cochran in Dormont. The project involves 6,860 square feet of new construction and renovation of a former service building. Nudell Partnership is the architect.

Yarborough Development & Construction was awarded a $7.5 million contract from Hempfield Area School District for the general trades portion of the $21.6 million Wendover Middle School Additions and Alterations. The architect for the project is Foreman Architects and Engineers.

St. Clair Hospital awarded dck north america, a dck worldwide company, a $1.62 million contract for their St. Clair Professional Office Building Lobby Project. This project includes giving a face lift to the first floor entryway, lobby, and corridors.

Oakview dck, a dck worldwide company, was awarded its 38th Wal-Mart project—a Sam's Club in Lincoln, Nebraska. This $11 million, 138,000 SF project also includes a fueling station.

Iowa State University awarded Oakview dck, a dck worldwide company, a $7.2 million contract to build Troxel Hall, a 21,600 SF, 400-seat auditorium with a goal of achieving LEED Gold Certification.

Oakview dck, a dck worldwide company, has been awarded a $6.1 million contract to build a new water treatment plant for the city of Harlan, Iowa.

Massaro Corporation is the low bidder for the renovation to the first floor of the Outpatient Center at St. Clair Hospital. The renovation will include a new Diagnostic Suite and a new Physical Therapy Suite within over 16,000 square feet of space. The architect on the project is IKM, Inc.

Massaro Corporation is the successful contractor for the renovation work to be performed at the UPMC McKeesport Emergency Department. This 14,000 square foot renovation will be heavily phased with ICRA 3 requirements. Image Associates is the Architect on the project.

West Virginia University awarded a $16.5 million contract to Massaro Corp. for construction of a new 32,000 square foot Animal Facility Annex at the Robert C. Byrd Health Science Center in Morgantown. Stanley Beaman & Sears from Atlanta are the architects.

Carl Walker Construction was awarded a design/build contract from Marshall University for its new 400-car, $7 million parking garage. The architectural design will be done by Indovina Associates Architects.

Saint Vincent College awarded Jendoco Construction Corporation a contract for renovations to the 30,000 square foot laboratory space at the existing Physics Building on the campus in Latrobe, PA The architect is MacLachlan Cornelius & Filoni.

Rycon Construction, Inc. was awarded a $1.8 million contract to renovate a 12,000 square foot PetSmart in Mt. Pleasant, MI. This project will be finished by the summer.

Rycon's Special Projects Group is responsible for two projects at Duquesne University. Laboratories within Mellon Hall will undergo a $330,000 renovation starting in March. As this project wraps up in May, Rycon will then start a $740,000 remodel of the 2nd floor restrooms at St. Ann Hall.

UPMC McKeesport Cath Lab is currently undergoing an $825,000 renovation by Rycon's Special Projects Group. Designed by IKM, this 2,200 square foot project will be complete in June.

Rycon was the successful contractor for the tenant improvements to Incline Equity on the third floor of EQT Plaza. The Design Alliance is the architect.

PJ Dick was awarded contracts for two tenant improvements at Bakery Square, the retail fit-out for Clockwise Tees and the build-out of 31,500 square feet for the UPMC Technology Development Center 2.0.

The relocation the One PNC Boardroom built by PJ Dick Inc. has achieved LEED Gold certification.

Mosites Construction was selected to renovate eighth floor labs at the Mellon Institute in Oakland.

UPMC awarded a construction management contract to Mosites Construction for the first phase of the new $40 million power plant at Mercy Hospital. Construction will begin later this spring on the project, which is being designed by Stantec.

Volpatt Construction was the successful contractor on the new $7 million Peters Outpatient Center for St. Clair Memorial Hospital, located at 3928 Washington Road in Peters Township. IKM Inc. is the architect for the 40,000 square foot new building.

FACES & NEW PLACES

dck worldwide welcomes L. David Jacob as a Project Engineer for its Passavant Retirement Community Campus Building Replacement project. Mr. Jacob comes to dck with a variety of construction experience, along with a BS in Construction Management from Southern Utah University.

Massaro Corporation is proud to announce the addition of Erin Dunbar as a Project Engineer to the Massaro Team. Erin earned a Bachelor of Science in Civil and Environmental Engineering with a concentration in Construction Management and Sustainability from the University of Pittsburgh. She has experience working as a Facilities Engineering Co-op at Curtiss-Wright EMD as well as a Student Temporary Employee at the U.S. Army Corps of Engineers.

Matthew Highlands has joined the team at Massaro Corporation as an Estimator. Matthew earned a B.S. in Civil Engineering from the University of Pittsburgh. Mr. Highlands is currently qualified as an E.I.T. and USACE Construction Quality Management (CQM).

Mark Torbic recently joined the team at Massaro Corporation as a Project Manager. Marc has over 15 years of experience within the industry with a concentration in MEP and HVAC systems.

Landau Building Company is pleased to announce that Jeremy Bowlby has joined the company as a Project Manager. Jeremy holds a Bachelor of Science Degree in Civil Engineering from the Pennsylvania State University and a Master of Business Administration from the Katz Graduate School of Business at the University of Pittsburgh.

Jendoco Construction is pleased to announce that F. Brennen Garrison has joined our Project Management team. Brennen has an Architecture degree from the University at Buffalo and a Masters degree in Architecture, Engineering, and Construction Management from Carnegie Mellon University.

PJ Dick Inc. is pleased to welcome Lawrence Faunce as a superintendent on the Penn State University Cedar project; Marie Madden as an Assistant Project Engineer on the Tullio Arena Project and Charles Ward as an M.E.P Coordinator on the PSECU Headquarters project.

The Master Builders' Association Young Constructors (YC) announced its new slate of YC executive officers for 2012. Chairman, Gino Torriero of Nello Construction Company; Vice-Chairman, Jennifer Landau of Landau Building Company; Secretary, Dustin Giffin of Giffin Interior & Fixture Inc.

Matt Facer, Design Technology Manager for The Gateway Engineers, recently passed the Certificate of Management-Building Information Modeling (CM-BIM) exam through the Associated General Contractors of America (AGC). It is the industry's first and only BIM assessment-based certificate program that teaches the practical application of the building information modeling process.

The Pittsburgh law firm of Sherrard, German & Kelly, P.C., recently elected three new shareholders and two new directors. Newly elected shareholders are: Edward B. Gentilcore, Chair of the firm's Construction Services Group. He is Co-Chair of the Construction Litigation Committee of the American Bar Association's Section of Litigation. John M. Tedder, a member of the firm's Construction Services Group. He is a Council Member of the Allegheny County Bar Association Construction Law Section, and a member of the American Bar Association Forum on the Construction Industry. W. Chad Pociernicki, a member of the firm's Estates and Trusts, Litigation, and Corporate Services Groups. Newly elected Directors are: Mark O. Scioscia, a member of the firm's Corporate Services Group; and Beverly A. Block, a member of the firm's Litigation Services Group. She is a member of the Executive Council of the Women in the Law Division for the Allegheny County Bar Association and a member of the ACBA's Gender Equality Committee.

Architectural Innovations, LLC, is pleased to welcome Philip Meadows, RA to the firm as the Director of Media & Technology. Georgia Glass has also joined Architectural Innovations as the Director of Marketing & Business Development. Prior to joining Architectural Innovations, Ms Glass was a Business Development Manager with the architectural-engineering firm of Burt Hill/Stantec, in Butler

Pennoni Associates, an ENR Top 100 engineering, design, and consulting firm is pleased to announce the hiring of John Skorupan to work on business development, and the promotion of David Hohman, RLA, ASLA, LEED AP, to Civil/Site/Landscape Architecture Division Manager in the firm's Monroeville office.

MBA

Master Builders' Association of Western Pennsylvania, Inc.

2011 MBA Building Excellence Awards

PROJECT: Carnegie Mellon University Gates Center & Hillman Center
PJ Dick Incorporated

Photography: Denmarsh Photography

PROJECT: Benedum Hall Renovations
Volpatt Construction Corporation

PROJECT: Orchard Hill Church Children's Ministry
Landau Building Company

Photography: Denmarsh Photography

PROJECT: Mansions On Fifth
Jendoco Construction Corporation

PROJECT: Chatham Plaza
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Closing Out

THE ALLEGHENY COUNTY PERSPECTIVE

By Howard J. Schulberg

Although the basic nature of legal services has been constant in Pittsburgh for generations, the way that lawyers practice has changed dramatically over the last twenty five years. As the President of the Allegheny County Bar Association and more importantly, as a practicing lawyer, it is my job to help identify the challenges, track the trends and develop policies that will help our lawyers provide excellent service to their clients with the highest levels of professionalism. Although not unique to Pittsburgh lawyers, these are some of the changes that are shaping our profession.

Fees and Billing

Legal bills. The simple phrase strikes a negative chord with many legal clients. One reason for the discontent is the billable hour so prevalent among lawyers and law firms. Critics of the hourly billing model suggest that the system promotes inefficiency and places a premium on time as a measure of value rather than outcome or client satisfaction. It is clear that clients do not expect free legal services. Rather, clients are looking for more predictability, efficiency and value in the delivery of legal services.

In response, lawyers are listening and working with their clients to forge creative alternative fee arrangements ("AFAs"). These value-oriented approaches encourage increased collaboration and cooperation between lawyers and clients. Examples of AFAs include fixed fees and outcome-based fees. As AFAs increase, law firms feel the need to deliver services more efficiently, assess and communicate the value to the client, and leverage their work product more effectively.

There are differing opinions about how significant and pervasive this shift in billing practices will be. Hourly billing is not going the way of the dinosaur. For some it is still the most cost effective way to proceed. However, there is no reason to believe that AFAs will not disappear from the conversation between counsel and client anytime soon.

Technology Rules the Day

One of the clearest examples of change in the legal profession is in the realm of technology and information management. Lawyers practicing twenty-five years ago worked largely without any personal computing resources. Today, technology is a silent business partner for virtually all lawyers. Our offices can be anywhere; at the brick and mortar law firm, our home, our car and even the local coffee shop. We can carry endless tomes of legal treatises on our laptop computers or iPad and access it in minutes.

Technology for lawyers, as for other industries, is a double-edged sword. Email and text messages have sped up the pace of our communications, and as a result, clients expect faster responses. Research is streamlined through various subscription services, at the same time that lawyers find themselves competing with on-line resources and Google. This access to information challenges the traditional role of many lawyers as trusted and unquestioned advisors. Technology raises the expectations of a client to deliver higher quality services at a lower cost on a compressed time schedule. Buried in each of these challenges is a catalyst for lawyers to achieve a higher level of performance and client satisfaction.

With the advances and widespread nature of technology, come the important questions about confidentiality and protection of client information. Back when this information was kept literally under lock and key, lawyers could be assured of client confidentiality by simply clearing the paper off their desks. Today, lawyers need to understand cloud computing, encryption and third-party provider protocols in order to have the same level of confidence. No matter what technology develops, lawyers must assess the risks and benefits before employing it in their practice.

Changing Face of Dispute Resolution

Whether as a matter of television dramas, civics lessons or personal experience, most clients are aware that serious, unresolved disputes could land the matter in a courtroom with a judge and/or jury left to decide the outcome. Our clients also recognize that there is a significant cost to get to the courtroom.

Over the last twenty five years, litigation has opened up to include other dispute resolution forums including arbitration or mediations. In the construction field, the American Arbitration Association ("AAA") service was often selected compelled through the contract. Packaged into this selection was a process, rules and arbitrator panel list. In construction litigation, this "alternative" dispute resolution process was heralded as a cost saver. Today there are alternatives to the alternatives.

Other local arbitration services, like the Allegheny County Bar Association's Construction Arbitration Service, can provide a cost savings to parties. There is certainly a role for arbitration in our justice system and it is continuing to evolve.

Many clients and lawyers are now familiar with mediation and collaborative processes as a means to solving problems. Unlike arbitration, these can be fast, inexpensive and effective. However, a mind-set that allows for compromise is required. In light of the litigation alternatives, there are many solid business reasons to be flexible and consider alternative dispute resolution options.

Local Reflections

So how does a profession so deeply entrenched in tradition and precedence challenge itself to evolve? By doing what all good counselors do: listen to our clients and solve problems. Our Pittsburgh lawyers, armed with technology and common sense approaches, are well suited to serve our clients into the future. Pittsburgh law firms will continue to think more strategically, manage more effectively, and strive to be more client-centered than they have been in the past. Just as Pittsburgh evolved after the steel industry shut down, I am confident that our Pittsburgh legal community will continue to evolve and serve our growing region, meeting the new challenges that face us all.

Howard J. Schulberg has been a practicing lawyer in Allegheny County for over 30 years. He is a partner in the Pittsburgh-based law firm of Goehring, Rutter & Boehm in its Litigation Group. He currently serves as the President of the Allegheny County Bar Association.