Breaking Ground

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA
NOVEMBER/DECEMBER 2011

The BIG PICTURE

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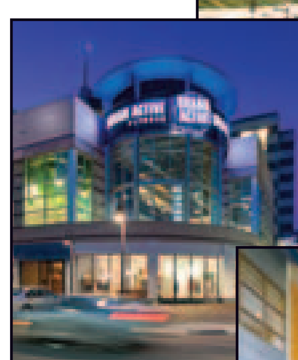

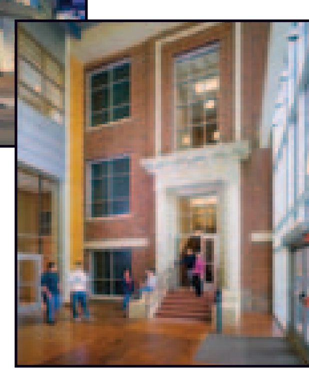

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PJ Dick Projects: (above) CONSOL Energy Center, first LEED Gold arena in the NHL; (top to bottom) BIM design for CONSOL, Urban Active, Penn State Shenango Sharon and Lecture Halls.

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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.
Jim Schafer

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

James Hilliard
412-548-3823
milfordbay@comcast.net

MORE INFORMATION:
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ON THE COVER:
Sis and Herman Dupre Pavilion
St. Vincent College
Photo by Jim Schafer

Correction:
The Carnegie Mellon project reported under construction by Jendoco Construction in the September/October edition should have been Margaret Morrison Carnegie Hall.

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MBA

Publisher's Note

Putting together the annual Big Picture edition is an exercise in examining the expected results of the current year's activity and trying to forecast what to expect in the coming year or so. We try to include the industry's national experts and blend in what we see happening locally. The nature of the subject however, is non-specific. By that, I mean there's no specific focus – like green building or infrastructure – that can inspire these opening comments of mine.

So instead, this year I decided to write about a couple of things I think I think (to borrow from Peter King and a bunch of sportswriters around the country). So here goes:

We use too much gasoline. Energy is the key to America's economic future and national security (that's actually been true my entire career) and we seem to be getting way too comfortable with $3.50/gallon at the pump. It may be my imagination but there seems to be an increase in SUV's on the road again and the car manufacturers seem to be counting on the consumer getting fuel price amnesia again.

It would be a good time to think about how we can use about half the gasoline and diesel we use now. It would also be a good time for smart people to think about how we can run cars on natural gas. Do you think the American consumer might be able to spend a few bucks more (or pay down a few credit card balances) if the prices at the local GetGo dropped to $2.50? How relevant would Hugo Chavez or Iraq or Saudi princes be without the oil that rests below their countries? Oil is in very finite supply in the world and getting to where there might be more is extremely difficult and costly. We used to use coal to heat our houses and power trains. We found oil and got over coal a hundred years ago. It's time to get over oil too. The first step is to figure out how to use less gasoline.

Government isn't the answer. Over the course of the past 80 years Americans have increasingly looked to Washington to provide solutions to the crisis of the moment. Our history books teach us that FDR and government action pulled the country out of the Great Depression. There was certainly plenty of government action but there were also ten years or more of Great Depression before anything got better. Was the Depression that deep or was government's solution that ineffective?

Whatever the government may have been in the past it surely isn't an effective problem-solving machine today. It is bloated and wasteful and corrupt. Would you turn for help to a friend whom you describe in that way? People are going to make mistakes and economic fortunes are going to advance and reverse. When that happens to a lot of us it will be painful for a few years but things will get better. The government was all over the recession in 2009. How did your business fare then?

There are some big problems facing the government these days. I believe the government's answers to all the problems will be based on jobs – the 535 jobs in Congress. Americans think that Congress is doing a lousy job. Less than one person in ten feels Congress is doing an acceptable job. That's why we re-elected 85 percent of them in 2010 (and that was a low mark). Somehow those numbers don't reconcile.

Sustainable living is really important. Take some time and research the global population situation sometime soon. This isn't about green building or tree hugging. There have always been limited resources on the planet but the limits weren't very alarming. If there's a 400-year supply of energy, for instance, I'm not going to feel very threatened. The problem is that there isn't a 400-year supply of anything anymore and a lot of those problems we Baby Boomers were concerned about handing down to our kids may not wait that long. There are a lot of people on the Earth and we're quickly discovering we don't have enough water or food, let alone energy to sustain them for many more generations. Considering how badly we've messed up the calculations of how sustainable our current resource situation is, perhaps we should work on the assumption that we're about to run out soon. We may not be wrong.

Social security and Medicare/Medicaid aren't sustainable. My generation has for the most part viewed our Social Security contributions as a tax, not a savings plan. The unfortunate part about that is that we don't see the massive IOU that is Social Security as money lost. When we're told that our blood pressure prescription co-pay is $400 or we're turned down for our hip replacement because it's unnecessary, the meaning of unsustainable may finally sink in. The better path would be to fix the problem now.

I feel very fortunate to be able to live in Pittsburgh at this time in its history. A lot of very good things are happening here now and Pittsburghers are having a big impact on a couple of the things that I ranted about above. In twenty years, I hope to be able to say the same thing about my good fortune to have lived in America at this time in its history. Too many good things are true about living in this country to list but we have some serious headaches to deal with too. These aren't problems the "other guy" can fix. This nation was launched by a bunch of people who didn't wait for the "other guy" to take action. It is probably a good time to follow that lead. That's my Big Picture thought.

Jeff Burd

REGIONAL UPDATE

If the jury is still out on whether or not the national economy is grinding to a halt (or worse), the regional economy seems ever more surely trending higher. And while that is hardly fresh news, the impact on the market at the end of 2011 is that owners of projects are beginning to believe in the strength of the region. Or at least they are willing to put their projects on the street.

The watch words for the market right now appear to be cautious optimism.

The supply and demand fundamentals for the real estate market in southwestern PA definitely support the optimism. In virtually all categories of commercial property the available space continues to shrink, especially when it comes to large blocks of space. This is not a developing phenomenon. What is different now compared to a year or two years ago is the thawing of the frozen financial conditions.

Unlike in 2009, conditions for borrowing have moderated so that if not exactly back to normal, the conditions are close enough that they won't inhibit a good deal. The expansion of the natural gas industry continues to put pressure on suburban office and industrial space, but availability has been limited in the areas – Southpointe, Cranberry and Fayette County – desirable to the gas industry for the past two years. Now in those areas, new construction is underway and more is being planned in preparation for construction in 2012. Unless a European sovereign default triggers another financial crisis, the demand for yield by investors should be the tipping point that frees financing enough for the developers to build.

Fay-Penn Economic Development Council recently announced its plans for creating new industrial parks and completing the Fayette Business Park in response to the tide of natural gas companies moving into that part of the region. In Southpointe, new office buildings for Range Resources is wrapping up and Mylan Labs should be getting underway in early 2012. Horizon Properties, the developer of Southpointe II has revised its master plan for what was to be the town center to allow for significantly more office space. And in the Cranberry area, several developers have plans being reviewed or already approved for between 100,000 and 200,000 square feet in the RIDC Thorn Hill property, Village of Cranberry Woods, parcels both north and south along Route 228 and in Cranberry Woods.

What is unfortunate for architects, engineers and contractors is that financing remains somewhat constrained – and far from the enabling conditions of five years ago – so that truly speculative projects are still not feasible. Not all of the developers lining up work in Cranberry, for example, have the risk profile to sign on for a spec building of 100,000 square feet or more, but the number of inquiries from prospective users would clearly drive some speculative construction were the money looser.

It is likely the pace of inquiry that has lead to what has been a noticeably busier quarter for most designers and contractors. The activity has been spread across large firms and small, both in terms of request for proposals and bids. With contracting and design activity picking up, the table is set for an improved 2012, at least through the middle of the year. And that's a scenario that was not as likely just 90 days ago.

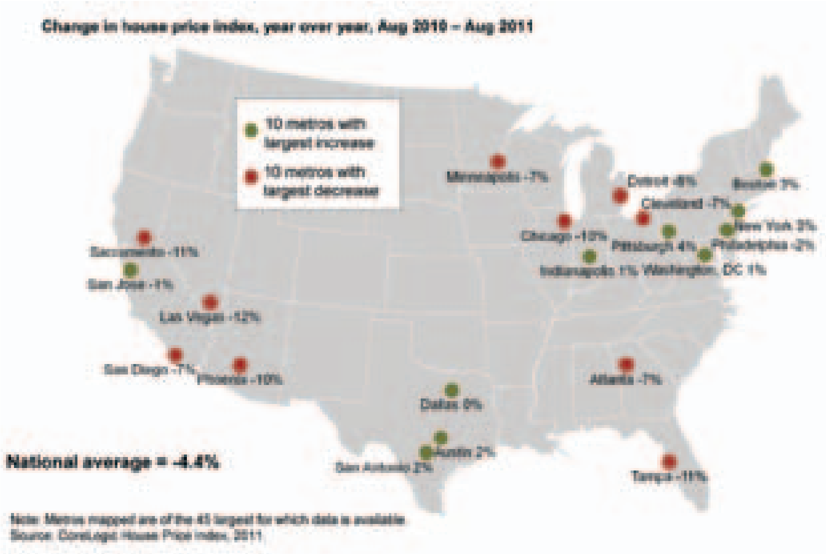
"It's amazing how this region has been so resilient, especially as you see what's going on around us in other markets," notes Ryan Hayes, director of business development for Gateway Engineers. "We have noticed a major uptick in opportunities. Our pipeline for both opportunities and proposals has never been larger. That said, the lead time for projects is longer than it has ever been."

That longer lead time is a reflection of the caution that has been prevalent for more than a year in the face of positive economic evidence. As that evidence piles up, the forecast is that the pressure from users and thriving industries will finally outweigh the caution about what might slow down the local economy.

Among the users and prospects out there looking and planning for new office construction of 150,000 square feet or more are PNC, Mylan, USSteel, Exxon Mobil, Guardian Security and GNC.

Institutional construction will swing into a higher gear in 2012 as well. The business of healthcare continues to drive the need for newer facilities and the battle for market share between UPMC and the Highmark/West Penn Allegheny entity is creating demand for new construction. The success of UPMC's cancer research and treatment has attracted top doctors and researchers and the improved conditions will finally allow construction of its Center for Innovative Science (CIS). The CIS facilities include renovation of the 150,000 square foot former Ford Motor building and 200,000 square feet of new construction. The combined cost of the construction should be approximately $180 million. UPMC also continues to progress with its $125 million expansion and upgrade of the Magee Women's Hospital. Highmark has as yet not announced any detailed capital plans for the West Penn Allegheny system but estimates of how much deferred maintenance and upgrades could cost are $500 million or more. Additionally, rumors from real estate inquiries suggest that the new system is searching for suburban sites for outpatient facilities and possibly a satellite hospital.

The educational market is moving in opposite directions depending on the source of funding. Private higher education seems to have absorbed the blows to endowments and giving that the recession brought and new facilities are being planned at a higher rate. For



Changes in median house prices in the nation's top metropolitan areas show Pittsburgh with the highest appreciation. (Image from 2011 Market Insights Webcast, source AIA Economics)

public institutions, however, the future funding stream has become a trickle.

Among the more ambitious privately-funded projects being planned are the $60 million Cardinal Wuerl North Catholic High School, Penn State's $60 million McCoy Natatorium and $65 million South Hall projects, the $60 million Eden Hall campus for Chatham College, the $25 million Clapp-Langley-Crawford renovation at Pitt and the $65 million Nano-Bio-Energy Technology Center at CMU. Carnegie Mellon also recently approved a new campus master plan, which involves a major expansion across Forbes Avenue, ultimately extending to the Central Catholic campus on Fifth Avenue. The kickoff for that expansion will be the $100 million Tepper Business School building, a project not expected to become active until after 2012.

Of course the most robust sector of the market in 2012 will still be the region's industrial segment. A forecast of a new steel mill in the region made just five years ago would have been laughable, yet construction is underway and trade packages are regularly going to be bidding at the $1.2 billion Allegheny Ludlum plant in Brackenridge. Ensinger Plastics has announced a search for a site for a 250,000 square foot-plus plant near Washington, PA and has taken design proposals. The real driver in the industrial sector is still energy.

As extraction has expanded, the need for processing continues to drive construction of compressing stations. These facilities generally run between $20 and $30 million to build and are mostly process oriented although concerns about both sound and weather seem to be driving more buildings on the sites. Currently construction is getting underway on the Redd Station near Laboratory, the Bluestone Gas Processing Plant near Seneca Valley High School and the Venango Station Plant in Venango County. As exploration moves north and west, additional capacity and stations will be needed, perhaps as many as two or three per year.

The next big development in the Marcellus and Utica Shale play will be the decision on the location of the billion dollar Shell cracker plant, which should set the stage for the expansion of the downstream businesses like chemical, plastics and fertilizer. Indications are that the plant is more likely to be located in one of two former chemical plant sites in northern West Virginia than in southwestern PA, but construction opportunities for the project, as well as the downstream facilities, will impact contractors from the region with comparable experience.

Industrial construction is the primary reason that contracting volume has risen above $3 billion for the metropolitan area through nine months of the year. Even without the start of the Allegheny Ludlum plant, non-residential construction is still running 18 percent above the volume for the same period in 2010. Given the level of contracting activity in early November the estimate of total contracting for 2011 approaches $3.5 billion.

Even the housing market is showing some limited signs of life. Through three quarters of 2011, construction of new housing units in the metropolitan Pittsburgh area was up 12 percent over the same period last year, although the total of 2,164 units is still only 60 percent of the volume in 2006. The growth rate is a reflection of how low new construction has fallen rather than evidence of a hot market but there are other indications of the strength of Pittsburgh's housing.

In an October 13 Market Insights Webcast, Dr. Kermit Baker, AIA's chief economist presented data from CoreLogic on housing appreciation. Baker examined CoreLogic's data on appreciation in the 50 largest metro areas and Pittsburgh had the highest appreciation over the previous year, up four percent. Pittsburgh also experienced the smallest percentage of homes with 'underwater' mortgages, with only six percent of the homeowners owing more than the value of their home compared to a national average of 22.5 percent.

Migration into the region for jobs is certainly helping the residential real estate market – particularly the City of Pittsburgh, which saw 322 new units started this year – but the overarching problems facing housing nationally will still dampen new construction in 2012. The market will see an unusual jump in rental units built in 2012 however, with over 1,000 units being planned in five individual projects on the boards right now. With some modest improvement in the single-family market, the boom in multi-family should drive new housing above 4,000 units. That's a level that hasn't been topped since 2007. BG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NATIONAL MARKET UPDATE

For both the construction market and overall economy, the year 2011 has unfolded in a remarkably similar fashion to how 2010 played out. What is disappointing is that the forecast for 2012 offers more of the same, or at least a similar forecast to the one given for 2011.

The performance of the economy during the twelve months that preceded summer of 2010 saw a recovery from the raw fear and precipitous decline of the winter of 2009. That confidence about a new cycle of expansion was dashed during the summer of 2010 by the fears of another financial crisis triggered by European Union sovereign debt. After a summer and fall of seesawing economic data and a 15 percent correction in the stock market, the American consumer responded by spending confidently at Christmas 2010 and setting up 2011 as the year the expansion would begin. What followed was a Ground Hog Day of a year, buffeted by some of the same issues (Greek and Italian default, high unemployment, depressed housing market, record levels of hoarded cash), as well as some new issues (debt ceiling debate, presidential electioneering) with the same result.

All of these issues have combined to keep consumers and businesses uncertain about the economy. Uncertainty and high unemployment have kept investment and expansion from moving ahead in 2011. Looking forward to 2012, there are some glimmers of hope that construction will shake out of stagnation but a number of structural problems remain.

While the economic news reporting from national and global media is decidedly negative, the actual economic data is not nearly so. In the case of several key indicators the news is actually better. Unemployment is still the biggest drag on confidence and growth but the claims for unemployment are falling and new hiring continues. The overall pace of hiring remains at half what is needed to get back to three or four percent GDP growth but the hidden gem in the employment numbers is that the net hiring is being held down by government cutbacks. Furloughed government workers are still unemployed consumers but private sector hiring is growing. The tradeoff of government employees for private hiring may well be an equation that keeps unemployment from falling much in the coming year but in the long run the shift will benefit the country.

The biggest piece of the economy is consumer spending – making up two-thirds of the gross domestic product. For the past few months, consumer confidence surveys have shown that Americans fear that the economy was slipping back into recession, however, at the same time consumer spending increased every month but June. In the months that followed June, consumers increased their spending by 0.9 percent, 0.2 percent and 0.6 percent respectively.

Factory output and manufacturing capacity utilization continues to grow. The level is still below the 79 percent utilization that was normal during the last boom but the current level is climbing above 76 percent. Likewise spending for new equipment and software is also rising gradually. Both of these indicators come before an increase in capital spending on buildings.

The Equipment Leasing and Finance Association reports economic activity for the equipment finance industry. Their Monthly Leasing and Finance Index showed overall new business volume for September

Private non-residential construction put-in-place (Source Census Bureau)

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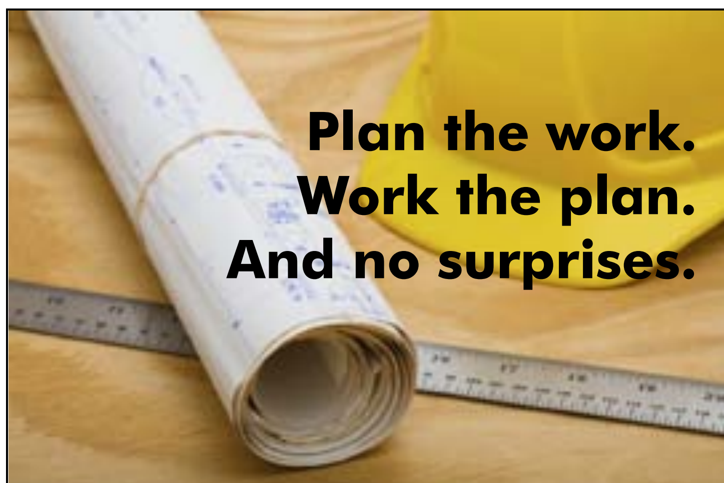

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was $7.1 billion, up 25 percent from the same period in 2010. Volume was also up 25 percent through nine months compared to last year. Receivables over 30 days decreased to 2.3 percent in September from 2.5 percent in August, and declined by 32.4 percent compared to the same period in 2010.

With data on business conditions becoming somewhat more positive there may be more support for the more positive forecasts by leading construction economists for construction in 2012. Tempering the more upbeat outlooks is the reality that the year-to-date volume for 2011 is lagging the 2011 forecasts by a significant margin.

The two national construction reports, Reed Construction Data and McGraw-Hill Construction have slightly different methodologies for tracking contracting, which leads to varying data. For that reason their monthly data has varied, with one often tracking opposite the other. Over the full year, however the trends appear to be similar. In 2011, the most surprising trend has been the rollercoaster-like advances and declines in activity from month-to-month. As an extreme example, both companies reported large declines in September after large increases in August. This could, in reality, be a result of poor timing in reporting of data but the up-and-down nature of the data also reflects what would occur in a market that surged and stopped because of uncertainty.

As an interesting confirmation of the uncertainty explanation, the AIA's Architectural Billing Index – a monthly survey of the trend in firm billings – has fallen and risen three times since peaking at 53.9 in December 2010 and fell again at the latest survey in September. The same index of inquiries has advanced and fallen four times in that same period.

McGraw-Hill's Robert Murray sees the up and down as evidence of stagnation, a condition he forecasts continuing in 2012. "For a variety of reasons, this extended plateau is likely to last a while longer. Tight budget conditions at the federal, state, and local levels of government are restraining the amount of construction that's taking place for the institutional building and public works sectors, notwithstanding the occasional upturn such as shown by public works in September," he says. "The slow pace of job creation and widespread uncertainty about the economy are causing developers and lenders to remain hesitant about new commercial projects, and they're also causing potential homebuyers to remain wary about going ahead with home purchases."

> "The slow pace of job creation and widespread uncertainty about the economy are causing developers and lenders to remain hesitant ...

AIA's chief economist, Kermit Baker says that his association's Work on the Boards survey confirms how developer and lender caution is influencing the architects' work. "The survey showed that 70 percent of the firms had stalled projects at the time and that 62 percent of the firms indicated that financing was the reason for the delay."

Reed's chief U. S. economist, Bernard Markstein sees the roller coaster ride continuing only until early 2012. Markstein believes the recovery in non-residential construction has begun and predicts that the final results for the third and fourth quarters of 2011 will show ten percent growth, followed by a first quarter 2012 that

Reed Construction Data's forecast shows steady long-term growth beginning in mid-2012.

Overall, Simonson does not see a double-dip recession occurring and forecasts that GDP, personal income and job growth will all improve in 2012.

will decline similarly. Reed's forecast for 2012-2014 is for slower but steadier growth in construction, averaging roughly five percent each quarter.

Markstein is unique among forecasters in that he foresees a strong housing recovery – maybe as soon as in 2012 – because of severe constriction of supply.

"Production of new homes is off 35 percent over the past five years," he explains. "Demand has remained that low as well because household formations have fallen off. Kids have been living at home because of finances and there has been a decline in immigration but these factors have been building a bubble of demand. It will only take confidence to move buyers off the sidelines."

The National Association of Homebuilders (NAHB) supports that theory. Their data on the historical long-term trend for household formations suggests that two million fewer households have been formed since the recession began in 2008, an amount equal to the higher estimates of the 'shadow inventory' of homes that are not on the market but need to be sold because the mortgages can't be met by the owners.

AIA also compiles a consensus of housing forecasts from Fannie Mae, Freddie Mac, Moody's, Zelman & Associates, NAHB and the National Association of Realtors. Kermit Baker reports that these various housing groups see the number of new housing starts staying at or below 50 percent of the normal household formation level until 2013. The consensus estimate for 2011 is for 587,000 new units, the fourth straight year below 750,000. The forecast for 2012 is for 753,000 units – only Moody's sees housing topping 1 million units in 2012 – and 1.076 million units in 2013. With the Census Bureau projecting population growth in America at 31.2 million during this decade, such an anemic start would leave demand for new housing at roughly 13 million units for the last seven years of the decade. Without forecasting a housing recovery, Baker makes a compelling case for the demand for one.

Ken Simonson, AGC's chief economist, is less eager to offer an interpretation of the housing demand. "I've given up forecasting when single family housing will recover," he says.

Simonson sees one sector of the housing market in the early stages of a boom; that is market rate multi-family apartments. The demographics and the pent up household formation rate bode well for apartments, since it is first-time buyers who are finding it hardest to purchase

Just as important is the fact that the financing for multi-family housing is actually favorable at the moment.

houses. Just as important is the fact that the financing for multi-family housing is actually favorable at the moment. Demand from investors for apartment projects outstrips the supply of deals at present, making lenders of all sorts anxious to finance the sale or construction of apartments. With housing finance still tightening, the supply of renters is growing, while the supply of apartments is not. And attractive financing products from Fannie Mae, HUD, FHA and even insurance companies offer opportunities for developers to construct apartments with as much as 93 percent loan-to-value deals.

Overall, Simonson does not see a double-dip recession occurring and forecasts that GDP, personal income and job growth will all improve in 2012. He believes the growth rate will be relatively weak however, saying that all three should be "at or below the historical trend line."

Simonson believes the weakness will continue to hold down construction of offices and retail centers but sees strength in power plants, manufacturing facilities, warehouse/distribution and an increase in hospital construction following a three-year slump. He sees big declines in government-funded construction, predicting that sector will move from propping up the industry during the ARRA program to becoming a drag on construction. Simonson is also not optimistic about government's response to some of the economy's biggest problems.

"Without a new federal highway bill or funding increase, infrastructure construction will decline," he predicts. "Whatever debt ceiling agreement there is should result in even more federal spending cuts; and I think passage of the American Jobs Act [which includes $50 billion for transportation and $30 billion for schools] is unlikely."

Ken Simonson's forecast for new construction predicts annual increases of between six and ten percent from 2012 to 2016. Those seem like healthy rates of expansion, however the first years of recovery after a recession usually bring about double-digit growth. Moreover, the growth Simonson forecasts also reflects recovery from the record low volumes of new housing construction, which is more of a reflection of the current weakness than of a robust future. BG

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WHAT'S IT COST?

One of the few positives about the up and down nature of the economy and construction spending is that it has created an environment that offers little support for runaway price inflation. The excess of caution has prevented demand for any commodity from pushing prices to excess. Even with a monetary climate that is ripe for sparking high inflation – with bloated money supply and almost no interest rate – the lack of sustained higher demand will keep inflation for construction material and products at moderate levels.

At the end of 2011, prices for most construction materials will be relatively close to the prices at the end of 2010. For those commodities that did experience increases – steel, cooper and aluminum – the cooling off in the second half of 2011 resulted in year-over-year inflation of between ten and fifteen percent, roughly the increase in 2010. Overall, however, because of those materials and a 30 percent increase in diesel fuel the cost of the materials and products used by construction did go up about eight percent. That's more than double the inflation of construction put in place, conditions that contractors will be unable to sustain. And even four percent inflation was enough to put pressure on developers in many markets still deep in a real estate recession.

PERCENTAGE CHANGES IN COSTS	Sept 2011 compared to			
	1 mo.	3 mo.	1 yr.	Dec. '03
Consumer, Producer & Construction Prices				
Consumer price index (CPI-U)	0.2	0.5	3.9	23.1
Producer price index (PPI) for finished goods	0.5	0.5	6.9	33.2
PPI for construction	0.0	-0.2	8.1	49.3
Costs by Construction Types/Subcontractors				
Residential buildings	0.0	-0.1	6.7	40.0
New industrial building construction	0.1	1.2	2.2	N/A *
New warehouse construction	0.0	1.2	2.8	N/A *
New school construction	-0.1	0.9	3.0	N/A *
New office construction	-0.1	1.0	2.6	N/A *
Concrete contractors, nonresidential	0.0	0.7	-0.2	N/A *
Roofing contractors, nonresidential	0.0	0.6	3.1	N/A *
Electrical contractors, nonresidential	-0.1	1.3	3.6	N/A *
Plumbing contractors, nonresidential	-0.1	0.7	2.5	N/A *
Costs for Specific Construction Inputs				
#2 diesel fuel	3.3	-4.9	39.4	223.5
Asphalt paving mixtures and blocks	-0.1	0.8	8.4	114.0
Concrete products	0.2	0.2	0.3	36.0
Brick and structural clay tile	-0.4	-0.5	-3.2	14.8
Plastic construction products	-0.5	-0.1	6.3	45.7
Gypsum products	-1.7	-3.9	-4.6	11.2
Lumber and plywood	-1.3	-0.7	-0.4	-9.6
Architectural coatings	0.1	0.2	5.3	52.1
Steel mill products	-0.6	-1.0	13.5	93.7
Copper and brass mill shapes	-0.7	1.4	14.8	192.5
Aluminum mill shapes	-1.8	-4.2	10.4	32.3
Fabricated structural metal	-0.3	0.2	4.2	42.6
Prefabricated metal buildings	-2.0	-2.2	10.4	91.6
Crude petroleum (domestic production)	14.5	-1.4	33.2	231.2
Asphalt (at refinery)	-4.9	-4.2	23.1	264.9
Cement	1.3	-1.4	-1.5	24.9
Iron and steel scrap	0.8	1.1	20.7	180.3
Copper base scrap	1.8	-1.5	18.6	324.7

Source Bureau of Labor Statistics, Updated October 15, 2010
Compiled by Ken Simonson, AGC Chief Economist
** Data for this series was unavailable prior to 2010*

Looking ahead to 2012, there is little on the immediate horizon that suggests a different scenario in the coming year, except to say that the industry is highly susceptible to changes in the supply and demand dynamics.

Construction's basic materials are all in global demand and so unexpected growth in other markets would push prices higher. Construction is also dependent upon the price of oil, which has proven to be an unpredictable commodity of late. Oil as energy can make the cost to manufacture goods higher, drive the cost of shipping to distribution and jobsites higher and inflate the cost of equipment usage. Building products generally are bulky and difficult to transport and increasing the capacity to supply them is problematic.

There are few likely scenerios to suggest high inflation at this point, but it's important to recognize that the supply chain for construction requires very little disruption – especially after a period of contraction – to send prices much higher.

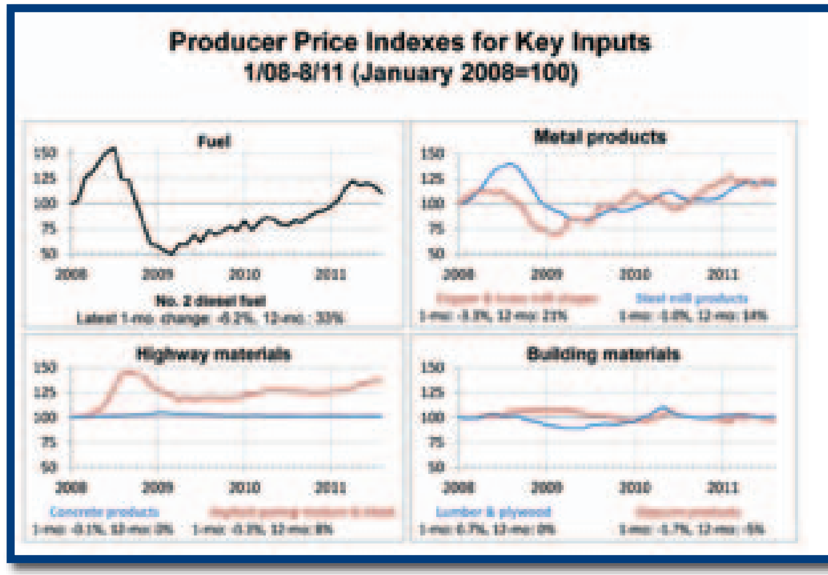
As 2011 ends, however, there is no reason to suspect that demand for more construction is going to spike and cause disruption. Non-residential construction is being restrained by an overhanging supply of commercial buildings, limited government spending and balky financing conditions. And the industry's largest sector – housing – shows no sign of rebounding in 2012.

These market realities make it difficult for manufacturers and suppliers to get pricing leverage. Perhaps nothing better illustrates this than the drywall manufacturers. For the third consecutive year the gypsum board industry has notified customers of its intention to raise prices. Increases of 20 percent were implemented without success in 2010 and 2011, both times owing to the depressed demand for wallboard due to depressed residential construction, compounded by the steep decline in commercial work. This time the manufacturers have stepped up the increase to 35 percent, with the expressed intent of maintaining that pricing level throughout 2012. USG and National Gypsum both took pains to explain the rationale and each also announced the discontinuation of quoting prices during bidding and guaranteeing prices after October 15.

While the manufacturers' frustration is understandable – these companies have lost money for more than four years and laid off thousands – without changes in the supply and demand dynamics it is unlikely that these price increases will stick in 2012.

Drywall makers have continued to shutter plants and reduce line capacity but there is little on the horizon to suggest that supply will be constrained, at least not to the point of supporting 35 percent increases. And no economic scenario supports a 35 percent increase in demand for drywall in 2012.

For gypsum board makers, as well as most manufacturers, the prospects for getting higher prices through the market will not improve until a more robust recovery in construction consumption occurs, something that isn't going to occur until the new housing market begins to grow again.



Source: Ken Simonson, Bureau of Labor Statistics

Of bigger concern for project owners and developers looking at 2012 should be the pricing squeeze that contractors and specialty subcontractors have experienced during the past two years. Most experts predict that construction inflation will remain in the six to nine percent range for the next couple of years, but that rate of inflation is unlikely to be absorbed by contractors. Recessionary pressures on construction have been in place for three years and 2012 may well be the year that contractors respond by passing costs along. Unusually competitive markets – like those that existed in the 1970's – inspire more efficiency and higher productivity. They can also eventually result in higher rates of contractor failure. The prudent course for owners in 2012 would seem to be to plan for higher cost increases than the past few years have produced and be prepared to act on a surprise if the market gives money back. Planning for another tight market in 2012 looks to be a higher risk. BG

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REGIONAL STRENGTH, GLOBAL WEAKNESS

It has been three years now since the world became painfully familiar with phrases like 'too big to fail' and 'collateralized debt obligations' and 'credit default swaps'. In that time the fallout from the over-leveraging has created a new reality for real estate and finance. The recession shuffled the American economic deck, placing regions previously thought to be recession-proof into decline. In a pleasant reversal of fortune, Western PA found that the conservative, 'slow grow' economic model experienced less pain and that their new economic engine was running better than expected.

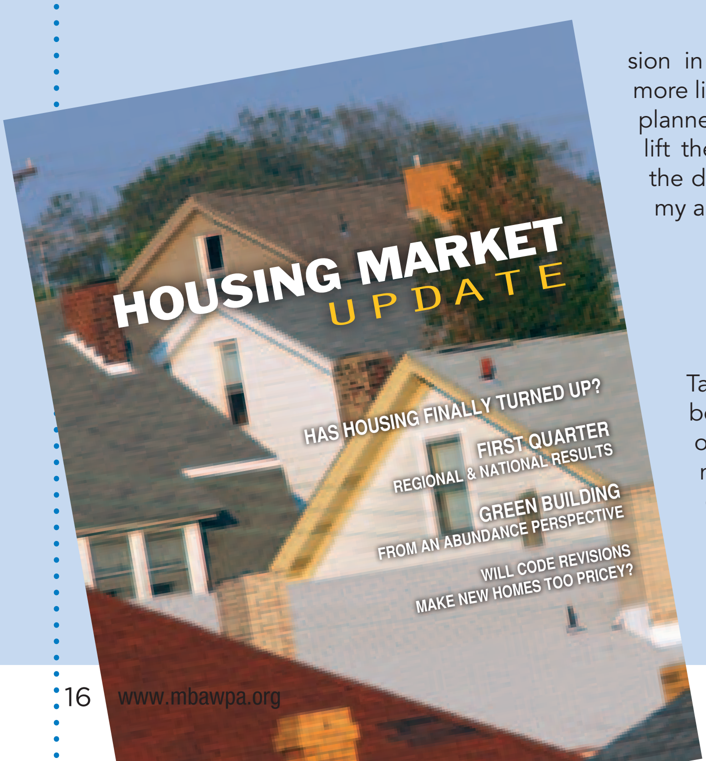
Corporations have recovered by the end of 2011 but their low confidence is betrayed by the piles of cash that aren't being used to hire or reinvest. Consumers have not bounced back as far generally and therefore have a lot of formerly-invested personal savings sitting idle.

There continues to be clouds on the economic horizon but Greater Pittsburgh appears to be headed for clearer skies. The demand for new space and more workers is growing in energy, healthcare, education and even in heavy industry. As a new year looms, Pittsburgh's business and institutional owners are shaking off the concerns about the weaker global economy and forging ahead with development.

2012 is not without its risks. Another recession seems less likely but isn't completely out of the question. The national elections could have a decidedly negative impact on the economy. Global weakness could keep even Pittsburgh businesses from committing to expansion in the coming year. What is more likely is that the current arc of planned construction projects will lift the industry in 2012 because the drivers of Pittsburgh's economy are too sound.

Figure 1: Map of the Existing and Proposed Natural Gas Refueling Network within the PCTC

Source: NGV Roadmap for Pennsylvania by Marcellus Shale Coalition and Gladstein Neandross & Associates



NO DOUBLE DIP

Talk of a double dip recession began after the solid recovery of early 2010 reversed itself in mid-year. By now the American economy has been growing, however slowly, for almost two-and-a-half years. Another recession would not quite be a double dip except for those who remain unemployed. But for all the technical indicators of growth or recession what matters most about an economy's strength is how many people are working.

With the advantage of being able to look back at the 2007-2009 recession, we can get a fuller picture of how steep the job losses were. A comparison of the net jobs gained or lost over the past four decades shows that the losses in the recent recession were worse than any downturn, including the stagflation decade of the 1970's and the high inflation/high interest rate trauma of 1982-1983. Depending on whose estimates are being used, somewhere between seven and eight million American jobs were lost by spring 2009. What is often forgotten is that a significant number of those jobs were previously created by the artificial housing market boom and by government expansion.

The recession hit federal, state and local governments very hard. Public entities have had to cut spending and payrolls to avoid deficits. The net result of this gradual shrinking of government over the past three years has been the loss of more than a half million jobs. That number is a fraction of the private sector losses however it is accelerating and offsetting the private sector hiring that is underway.

This summer's disappointing employment numbers were, in fact not as disappointing upon reflection as they appeared when announced. Even with the declining government payrolls American employers added more than 300,000 jobs from July through September. That's not enough new employment to bring the economy above one or two percent growth in gross domestic product but it's also not recession.

The reality is that roughly two points of the nation's unemployment figure is owed to the reduced level of home construction. That means that until homes are being built at the historical norm of 1.5 million units per year, America is stuck with high unemployment.

As unemployment levels crept higher and stagnated at the national level, the employment picture has begun to improve again in Western PA. The state's Department of Labor reported on November 1 that the metropolitan area unemployment rate had fallen from 7.8 percent in August to 6.8 percent in September. Analyzing that report, Mark Price, an economist with the Keystone Research Center predicted that the metro area would be back to full employment in one year.

The key to the Labor report was the dispersion of the jobs. Jobs were lost on net in finance, insurance, retail and hospitality. More than offsetting the losses were gains in manufacturing, education and education services, healthcare and construction.

A truly global event like the financial crisis of 2008 would set the region's economy back again. Many of Pittsburgh's most vibrant companies do a large share of their sales overseas. But the emerging foundation of energy, healthcare and education sectors are centered and focused on Western PA. Against an uncertain national economy this region is thriving.

THE IMPACT OF ELECTION 2012

One of the wild cards in next year's game is the impact of the national election. Each party has a lot to lose in the 2012 election cycle, with the executive and legislative majorities all in play. That should mean that those who are governing and campaigning will want to demonstrate leadership and vision, and will also want to make as many voters as happy as possible. In past that could mean an increase in pork for their constituents but the federal government's fiscal condition won't allow for the amount of increased spending that might have occurred in the past.

Moreover, the government's fiscal health is likely to be a major issue in the election, not just from the standpoint of whether or not there is growth in output or employment but also from the perspective of the national balance sheet. Party factions like the Tea Party have very simple platforms that will be very difficult to achieve. Fiscal conservatives have become more electable but the recipe for their stated goal – lower taxes and smaller government – includes short term austerity that will require adjustment from Americans before the long term benefits are gained.

> Moreover, the government's fiscal health is likely to be a major issue in the election ...

Belt-tightening by the government will mean a lot of Americans would have less money to work with until they replaced the government largesse. Even though nothing that will be proposed by any campaign can be implemented until 2013, the effect of the rhetoric suggesting further government cutbacks will not lift spirits. As we have observed in the European countries where austerity is needed to balance government budgets, voters don't respond positively to being told to make do with less.

Reed Construction Data's chief economist Alex Carrick noted this phenomenon in his September 19th blog. Among his comments was this observation about the role political rhetoric and leadership is playing in the economy:

"Bubbling up behind the scenes, however, politics – and especially the relationship between politicians and the electorate – may have taken over as the main obstacle to a return to "normalcy." There is one prime reason the realm of politics has become so important in the current problem set - the common man or woman almost everywhere in the developed world is being asked to lower his or her expectations. Neither voters nor politicians are comfortable with this dynamic. Electorates aren't used to being asked for sacrifice. Furthermore, and often justifiably, they're suspicious of such pitches."

What Carrick means is that voters aren't happy with the idea that their future will be less than they dreamed it would be and they are very suspicious of politicians who tell them to expect less from their future.

With the presidency and one-third of Congress at stake in November of 2012, political rhetoric and economic pandering by officials will be at a high level. If Carrick is right about the average voter, the election cycle has much greater potential for sparking consumer response and a greater potential for chilling recovery than any election since the 1970's.

In part that's because the Republicans' goal is taking the White House and their efforts can be aided by the perception that the economy is stuck or going backwards. Like the Clinton campaign did in 1992, a Republican candidate might feel there is a strong incentive to keep the discussion focused on the economy and on the negative. Such a negative focus will make it harder for voters – who are also consumers and business owners – to feel confident about plans to buy homes or expand plants or hire new employees. The influence of the Tea Party and the social issues of the so-called "conservative base" may divert the focus of the campaign to other issues that are not economic, but campaigns have a negative tone in general and that can have a debilitating effect on the American public's confidence.

Common wisdom has long held that elections are good for the economy, at least until they are decided. The last national campaign that included a presidential election wrapped up in November 2008 and the last months of campaigning coincided with a global financial crisis. The world can scarcely afford to have a similar outcome in 2012.

DRIVEN BY ENERGY

It may seem like the energy sector has been a big story for a long time now but the reality is that the exploration of the Marcellus Shale formation only began in earnest in late 2009, just around the time Westinghouse was moving and expanding in its new headquarters, and only about a year after the spiking oil prices created a plethora of alternative energy companies in the region. The intervening two or three years have been a tumultuous period for the global economy. Quite a number of the alternative energy businesses (corn-to-ethanol, big solar, wind) have been found to have some significant head winds. Yet, the momentum behind the business models that are working has been powerful enough to help Western PA weather a tough recession and emerge ahead of the rest of the country.

> ... the Pittsburgh region has not been as severely impacted by the recent recession ...

Without question the expansion of the natural gas and nuclear energy industries have become growth engines for the regional economy. What is remarkable about these businesses is the fact that their expansion has had almost precisely the impact that was predicted, on a timetable that has unfolded pretty much as forecast. An October 5 report by the Energy Alliance of Greater Pittsburgh, using research from the Pennsylvania Economy League of Southwestern PA found that 750 companies were working in the region's energy sector with a gross regional output of $19 billion and employment of 150,000 jobs. That's 16 percent of the regional economy.

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For a more specific look at the impact of the energy sector, the report examined the announcements of expansions over the past five years and found that 204 of them were from energy related businesses. That's one expansion in four out of every five weeks. More than 40 percent of those were in the natural gas and coal sector but 64 announced expansions were at manufacturing companies serving the energy sector. Those are the kinds of businesses that were "never coming back" according to conventional wisdom just a decade ago.

The character of those manufacturers varies widely. A trip along I-70 between Washington PA and New Stanton will give you an indication of the variety and will demonstrate the impact the energy boom has had on places like Belle Vernon, Charleroi and Scottdale. Names like Weatherford and Canary Wellhead Service and Cal Frac have come to the region from other exploration areas but the expansion has also brought established companies like USSteel back to places like McKeesport, which had been abandoned decades ago. In fact, the energy sector has found a home in many locations that Mon Valley agencies have been struggling to redevelop.

"The growth of these industries has been a key reason why the Pittsburgh region has not been as severely impacted by the recent recession and its aftermath as many places," said Dennis Yablonsky, chief executive officer of the Allegheny Conference on Community Development. "According to the Bureau of Labor Statistics, employment in extraction, generation and supply chain increased by 6.3 percent between 2007 and 2010, while overall employment in the region fell by 2.4 percent."

For the nuclear reactor industry, the earthquake in Japan resurrected fears about the safety of nuclear power that have slowed down the expansion of plant construction overseas. That has, in turn, slowed the high rate of employment growth by Westinghouse. The company had put on an additional 1,500 jobs – many of them engineering positions – and has continued to stretch their real estate needs. The cooling off period appears to be temporary while plant plans are double-checked for safety precautions.

The slowdown has also cooled off Westinghouse's seemingly never ending search for space in Cranberry Township. While there are still plans for the lease of a 150,000 square foot new building in the Keystone Business Park in Marshall Township, the construction has not begun, and Westinghouse has told prospective developers that they aren't searching for more space for the first time since the relocation of the headquarters.

Still, a halt to Westinghouse's expansion hasn't meant an end to the demand for space by the supply chain and service providers for the energy giant. Office vacancy remains near zero and plans for more than one hundred thousand square feet of new office space have been pre-

sented by Trammel Crow, Creative Real Estate, Elmhurst Group, Echo Realty Services, Crossgates, Warner Pacific and Landmark Properties.

A slowdown hasn't been a problem for the Marcellus Shale exploration but the evolution of the industry has reached a couple of key mileposts that must be crossed before the growth can accelerate.

Early players in the Marcellus game often laid out a plan for how the exploration and expansion would unfold and up until now reality has come close to that forecast. The smaller, less risk-averse companies have been acquired by the global oil companies. Drilling activity has increased on the pace that was expected and the midstream activities that followed – construction of processing, compressing, distribution and water treatment facilities – have meant more than $1 billion in construction in little more than two years. What comes next are decisions about regulation and legislation, the result of which will kick off the next area of construction, pipelines.

The actual details of the regulations aren't as important to the industry as the outcome itself, according to Steve Forde, director of policy and communications for the Marcellus Shale Coalition.

"There are different pieces of legislation in Harrisburg and through the PUC that are establishing guidelines on pipeline safety and regulation," he says. "It appears they are near the end of that process. That's a good thing for the industry for two reasons: one, we want to see safe pipelines; and two, it will provide certainty about how to develop. That will give momentum to expand the infrastructure."

Pennsylvania's gas infrastructure is outdated and inadequate to handle the production from the Marcellus and Utica Shale formations. Expanding the pipeline network is needed for the producers to get the gas to the markets.

"The changes in the Oil and Gas Act with the local impact fee that the governor proposed are getting a higher profile because of the 'gas tax' issue and the politics involved," says Forde. "But the pipeline expansion is the biggest issue in the Marcellus Shale development."

The second milepost is the construction of ethylene plants, which hold the key to the development of industries downstream from natural gas. Gas extracted in the southwestern portions of the Marcellus Shale formation contain liquids and in processing them ethane is produced. For industry, ethane is refined into ethylene, which is the mother feedstock for chemicals, plastics, fertilizers, pharmaceuticals and others. The ethane-to-ethylene process is done at 'cracker' plants and Shell has proposed one or two in the region. No selection had been made by early November.

Construction of the cracker plant will mean a billon dollar project in the area, a boon to regional contractors and sup-

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pliers regardless of whether the plant is located in West Virginia or Pennsylvania. The more important benefit of the plant will be from the industries that follow. Ethylene is currently refined primarily in the southwestern states near the current center of the oil and gas industry, however a large portion of the users of the feedstocks and the consumers are in the northeast. With the new source of the ethane and ethylene located 1,200 miles closer to the customers, locating plants in this region makes economic sense.

One new development in the natural gas industry that bears watching is the push to use natural gas in vehicles. The politics of the issue are pretty favorable. A decision by the governor, for example, to convert all state fleet vehicles to natural gas would be applauded by the environmental community and business, and it would help reduce the demand for oil, which has global and national defense benefits as well. The problem is that if the decision were made today, most of the vehicles would have no place to get fuel.

One new development in the natural gas industry that bears watching is the push to use natural gas in vehicles.

Building a fueling infrastructure is a chicken-or-the-egg proposition. Absent demand from natural gas vehicles, private filling station operators can't get a return on the investment in the NGV equipment and storage. And without refueling, an NGV fleet won't go far. Private companies like EQT and Giant Eagle have done some test site filling station development and some government agencies like Lower Merion School District and Centre Area Transit Authority have gone to NG fleets, but there is a wide gulf to bridge. Government is looking at ways to create a bridge by building a fueling infrastructure along the Turnpike, for example, but until state and local government is on firmer fiscal ground the solution to this problem will be deferred.

THE HEALTHCARE BATTLE

Perhaps the most important local story of 2011 – certainly it's been the most covered – has been the decision by UPMC and Highmark to discontinue their relationship after the expiration of their contract in 2012.

The mutual decision to not get along has local residents nervous about the kind

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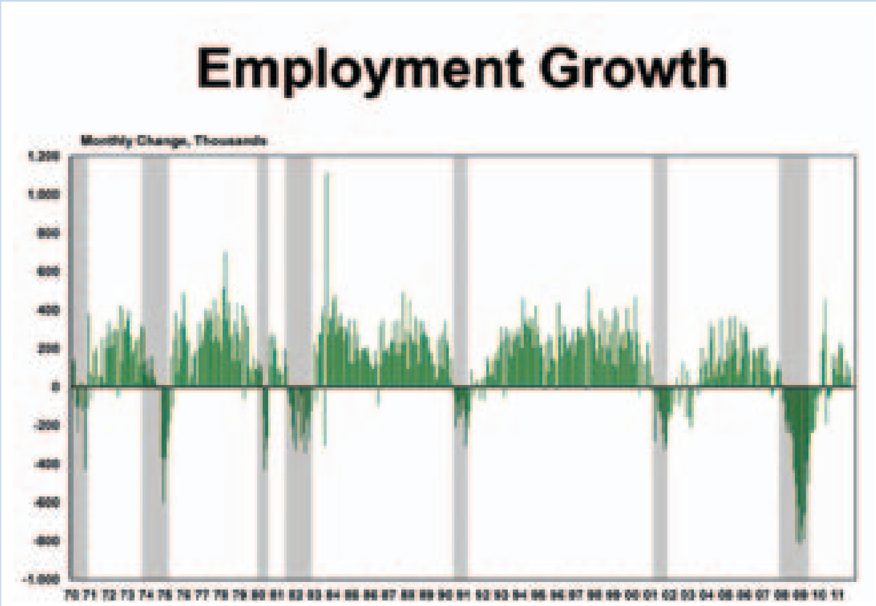


The net change in jobs during the recession was steeper than any recession in the past 40 years. (Image courtesy Reed Construction Data, source: Bureau of Labor Statistics)

of healthcare coverage or services they will get after 2012. Employers could face tough choices about which health system they should choose for their workers. Doctors and nurses are anxious about what the changes will mean for them, even with the knowledge that there is a chance that their services may become more valued with two giants vying for them. The break up has even gotten our legislators attention in Harrisburg, as they seek to garner votes by introducing laws to prevent the breakup. Until the contract expires there is going to be lots of uncertainty about the healthcare market in Pittsburgh but there won't be uncertainty about the impact on construction. For the short term the new order will stimulate construction.

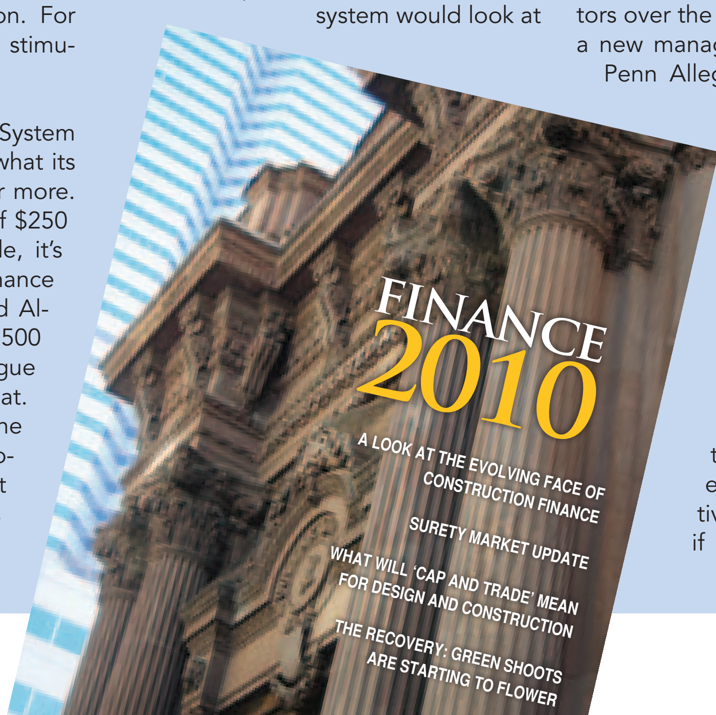
West Penn Allegheny Health System has been spending a fraction of what its competitors have for five years or more. Using UPMC's annual spending of $250 to $300 million as a rough guide, it's likely that the deferred maintenance and upgrading at West Penn and Allegheny General approaches $500 million. It would be hard to argue with an estimate that is double that. Highmark's investment covers the broadest spectrum of hospital operations but a significant amount will be spent to get the facilities competitive.

Some changes have already been announced or put into motion. Forbes Regional Hospital in Monroeville will be converted into a trauma center. The recently closed emergency room at West Penn will be re-opened. Several significant clinical projects within the two flagship hospitals are in design. And real estate brokers around the region have been talking about numerous inquiries about land for healthcare use. If you examine Highmark's modus operandi when it last developed medical space – the Medi-centers of the early 1990's and the Primary Care Centers of the mid-1990's – it seems plausible that the new health system would look at scattered suburban outpatient centers as a delivery model.

As for UPMC, its capital spending continues to follow its strategic and institutional master plans. On the heels of constructing two new hospitals (and tearing one down) at a cost of over three quarters of a billion dollars, UPMC shifted its focus to renovating and upgrading its existing hospitals. The decision to close emergency rooms by West Penn Allegheny did precipitate an investment in UPMC's city hospitals to expand their emergency rooms to meet the higher demand. Likewise, the investment of over $100 million in Magee Women's Hospital may have been in part in anticipation of West Penn Allegheny's reducing or eliminating its labor and delivery. UPMC has made no change in plans to invest more in its Passavant and Cranberry Passavant campuses or to complete its work at Mercy. A new partnership with Hamot Medical Center in Erie includes a $300 million capital plan. And of course, the health system recently unveiled a more detailed plan for its cancer research facility, called the Innovative Science Center, a $294 million investment that will involve more than $150 million in construction.

Assuming that the divorce proceeds as planned, the new healthcare landscape should result in construction growing by 50 percent or more for at least a few years. The more subtle impact of the split will be in the changing relationships. West Penn Allegheny has worked with a small stable of architects and contractors over the years. With a new CEO and a new management team certain, West Penn Allegheny can be expected to try working with new firms for design and construction. The next few years will be stressful for firms that have had working relationships with the hospital but in the end the additional opportunities may ease the transition.

It's fortunate for the industry that West Penn Allegheny had been spending relatively little in recent years, for if the opposite were true it's



far more likely that Highmark would be looking at shutting down redundant facilities. As it stands the change should mean that healthcare will be a positive factor for construction in 2012.

FINANCE IS THE KEY

Perhaps as important as the strength of the local economy is to the demand side of the real estate equation, the availability of financing may hold the key to the strength of the recovery for construction in 2012.

The Great Recession started with the fallout from the residential mortgage bubble but commercial real estate finance was one of the victims of the global financial crisis. For all of 2009 and into 2010 financing of commercial real estate was constricted. For many institutions there remained balance sheet and liquidity problems. For those in good health there was a natural aversion to lending into an industry whose assets were losing 40 percent or more.

The panic that followed the meltdown at the end of 2008 also put a stake in the heart of the commercial mortgage-backed securities (CMBS) market. CMBS was an integral part of the commercial finance structure, reaching a peak of $230 billion in volume in 2007. In 2008 and 2009 there were virtually no CMBS deals. And the other sources of permanent financing, like insurance companies or REITS, were fighting investor outflow and were in no position to look at deals.

During the past two years, lenders have been looking for deals but the terms most were offering involved undesirable loan-to-value ratios, higher spreads and greatly reduced appraised values.

Within the Western PA market the economic conditions were stronger than most markets even in 2010, but the nagging fears of government default or renewed recession rose up each of the last summers to throw cold water on supply of financing.

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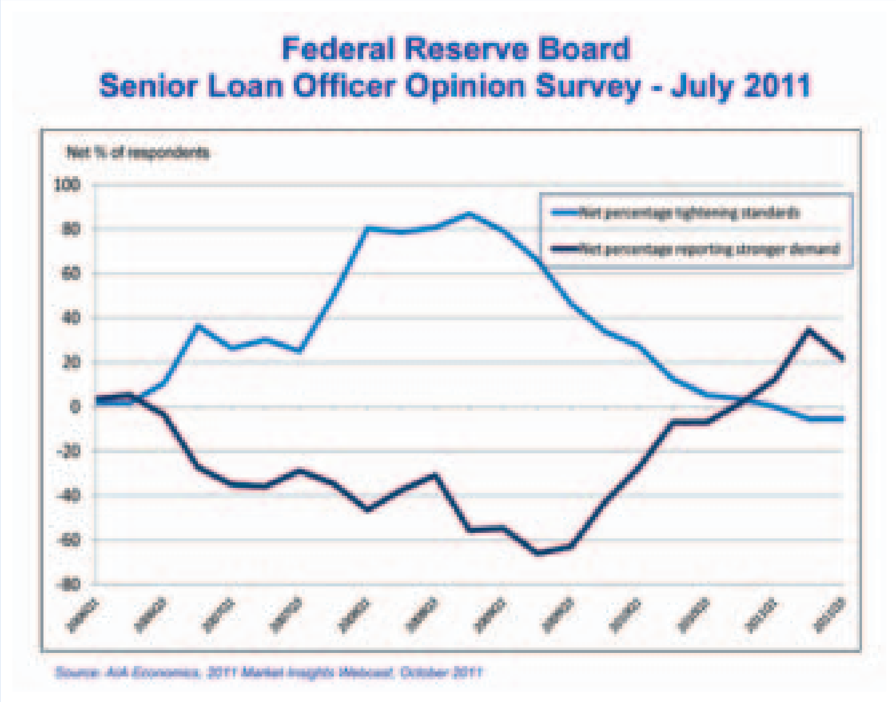


Lenders have seen demand for commercial finance outstrip capacity by as much as 20 percent.

That change in fortune was especially true in the CMBS market. According to Jay Haberman, Mid-Markets Manager at Morgan Stanley, the volume of issuances was forecasted to be $40 to $50 billion in 2011 and was on track for that until the summer. From that point forward, investor interest in CMBS virtually vanished.

"CMBS 2.0 is geared towards greed," he jokes, explaining that the investors should have been very pleased with the conditions on the loans to be securitized but fear of another global financial freeze sent investors to the sidelines. "We'll probably end the year at $20 to $25 billion instead."

Insurance companies and CMBS play an important role in real estate finance and their health contributes to the availability of money. "Banks have limited capacity and risk profiles, and will only be able to meet a portion of the loan demand that's out there," explains Robert Powderly, senior vice president of investment real estate for First National Bank. "A healthy functioning CMBS market would help developers cash out equity to deploy on other projects and help banks defray risk. Without those markets banks are going to fill up."

Lending capacity may become an issue in 2012 if the commercial projects in the pipeline advance but it's been a few years since lenders were deluged with deals, according to Northwest Bank's regional president Chris Martin.

"We have a lot of cash on the balance sheet and the best way to deploy cash is through acquisition or lending," he says. "We have seen some nice opportunities of late but the opportunities haven't come like floodwaters through a flood gate. We're talking to some folks who want to build Class A office space and we're excited to see those kinds of deals coming back."

Both Martin and Powderly see their banks being more active but neither expects the financing conditions to change much from last year.

"For office space we look at 75 percent loan-to-value although we have gone to 80 percent for the right project," says Martin. "A customer doing their first project won't get that kind of liberty but those with a proven track record of success and a good relationship could. A borrower looking to Northwest for transaction banking won't get the best terms; a client looking at relationship banking will."

That 75 percent LTV threshold seems to be as high as the mainstream financial institutions – and there are almost no institutions that aren't in these conditions - are willing to go for the time being. More conservative lenders are still looking for guarantees from principals, although increasingly that can be set aside in the case of credit tenants or a history of high occupancy. It may be little things that make a difference in getting more projects financed in 2012, things like shifting more of your business to one bank to strengthen a relationship, as Chris Martin suggests.

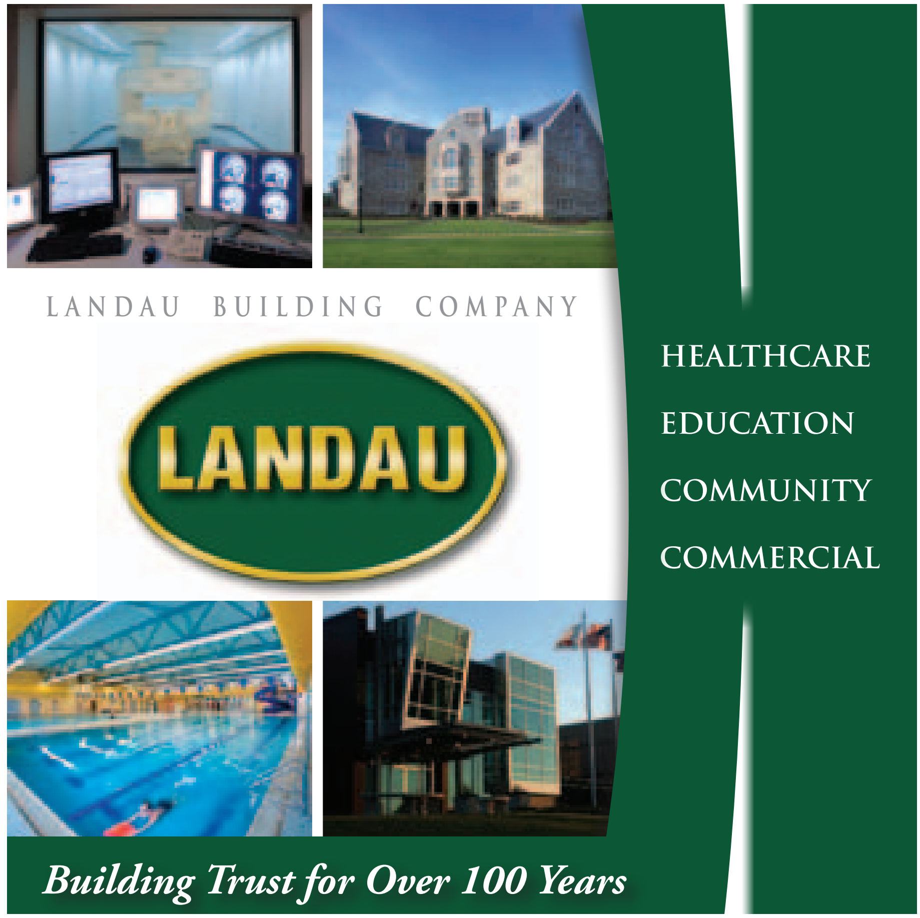
Another condition that may be relaxing is pre-leasing levels, something that has proven to be a stumbling block for most office projects over the past few years. Bob Powderly talked about the importance of the location and targeted lessees for the project. He allowed that the lenders have loosened pre-leasing requirements for projects looking at serving sectors that are in the region's sweet spots right now, like healthcare or hospitality or energy.

> "We have a lot of cash on the balance sheet and the best way to deploy cash is through acquisition or lending ..."

"We lead the financing for Bridgepointe Two with the ERECT Fund just a few years ago and that was entirely speculative," he says. "The University of Pittsburgh came along and leased almost the entire buildings for labs. Education and medicine are strong sectors and Oakland has no space so Pitt came down to Second Avenue."

It's unlikely that any lender would do a totally spec office since the financial crisis, even in Oakland. Nervous lenders have looked at pre-leasing requirements of 60 percent or more, conditions that make development difficult for anything but owner-occupied or build-to-suit deals. Powderly says that FNB is willing to consider significantly lower pre-leasing for projects that are catering to strong markets or locations. "That's one big change that's happened," he says. "We'll want pre-leasing at one-third or 35 percent if the project is in the Cranberry market or Southpointe."

For office projects like those planned along the Route 228 corridor or in Southpointe Town Center, the difference between 33 percent and 65 percent pre-leased can be the difference between pulling the trigger with a 40,000 square foot tenant and waiting to find a second one. That may be the spark that ignites commercial construction in the low-vacancy areas of the region. And that may be the break that a region needs to change potential into construction. BG



ONE OF THE MORE PROFOUND CHANGES IN EDUCATION IN THE 21ST CENTURY IS THE INCREASED EMPHASIS ON THE STUDY OF SCIENCE, TECHNOLOGY, ENGINEERING AND MATHEMATICS (STEM). IN EMERGING COUNTRIES LIKE CHINA AND INDIA THE EMPHASIS ON STEM EDUCATION HAS BEEN A SIGNIFICANT CATALYST IN DEVELOPMENT AND THE U. S. HAS FOUND ITSELF LAGGING IN THE SCIENCES DURING THE LAST DECADE. FOR SMALL PRIVATE COLLEGES LIKE SAINT VINCENT COLLEGE IN LATROBE, MAINTAINING AN EDGE IN STEM INSTRUCTION WAS A WAY TO DIFFERENTIATE ITSELF FROM OTHER COLLEGES AND UNIVERSITIES.

SAINT VINCENT COLLEGE

SIS AND HERMAN DUPRÉ SCIENCE PAVILION

"Math and sciences were always important for the college and a significant number of our students have always elected to pursue a degree in math or science," says Brother Norman Hipps, president of Saint Vincent. "In recent years the number of students electing those studies grew to 40 percent of our student body compared to 30 percent historically."

The sciences were studied at Saint Vincent College in a cluster of four buildings, one each for chemistry, biology and physics plus a commons building. Those buildings were designed and built in the 1960's and reflected the standards of the day, which educated students in theory and labs within the silo of the individual science.

"We built first-class science facilities in 1969 – which was post-Sputnik," Brother Norman joked. "But since then we have added computer science, information technology, biochemistry and bioinformatics and those programs were no longer working well in facilities from 1969. We were doing modern programs but the facilities were holding us back."

The buildings designed in the 1960's had offices with small private labs for the professors' use. Seniors at Saint Vincent are required to conduct an independent research lab project before graduating and used the labs of their professors so that they could get guidance, but that often meant three or four students sharing one small lab. The situation wasn't working well. The buildings also had separate identities (each had a different color scheme for its doors) and the faculty and students remained isolated from those of a different discipline. As the new programs grew the physical plant became an obstacle to collaboration.

During the latter half of the last decade the college – and in particular Brother Norman who was then the head of the Boyer School of Natural Sciences and Mathematics – began planning for a complete renovation of the Boyer School complex. The Boyer School leadership received a grant that supported bringing in two faculty members and a design architect from Project Kaleidoscope to analyze the STEM facilities. That team recommended that the college bring in a consultant to study the feasibility of renovating or building new to meet the standards of a current day STEM instructional program.

Project Kaleidoscope (PKAL) is an advocacy group that advances the building and sustaining of strong undergraduate STEM

Photo by Jim Schafer

programs and Saint Vincent College was a proponent of PKAL philosophies. Among the tenets of PKAL are collaboration between those researching and studying STEM disciplines, both individually and between separate but related disciplines. Project Kaleidoscope included a vision of what such a collaborative facility would accomplish in a 2008 essay "Imagining the STEM Facility of the Future." PKAL director Jeanne Narum wrote the following in the introduction of the essay.

"The facility will make possible a seamlessness between formal and informal learning, between novice and expert learner, between disciplinary communities, between academe and the real world."

The result of the feasibility study was a multi-phase project that would cost $39 million, but would leave Saint Vincent with essentially all new facilities for the Boyer School. In addition to the new labs and classrooms, a driving motive behind the project was the imperative to make the study of the natural sciences, math and information sciences as interactive as possible.

"It was part of the original program statement that there was an interest in updating the facilities but also in bringing the sciences together and integrating them in ways the old buildings didn't allow," says Alan Hohlfelder, principal and project architect for MacLachlan Cornelius & Filoni, the firm hired to design the new facilities. "We decided to tear down the old commons building and build a new science pavilion that was connected to the other three buildings. We also decided to have the building designed to create opportunities to follow Project Kaleidoscope philosophies."

Hohlfelder says that he inferred from the principles of Project Kaleidoscope that one of the primary functions was to make science more accessible to the students and faculty in general. MCF was also guided at the same time by the desire to reflect

Photo by Jim Schafer

Saint Vincent's Benedictine heritage – in fact the monastery still operates – and its core values of environmental stewardship, hospitality and community.

"The project is on track to achieve LEED Gold certification, which is in keeping with the goal of environmental responsibility," Hohlfelder says. "The science buildings are at the end of the academic area and the pavilion was designed to have the concave glass face act as arms wrapping around you, welcoming those coming to it with the plaza as the termination of a central walkway through campus. And the two-story atrium is meant as a gathering place for students and faculty but also to be used as a space for events for groups from across the whole campus."

The plaza includes a nod to Brother Norman, who was appointed president of Saint Vincent during the course of the project. Hohlfelder designed a sculpture at one end of the plaza to act as an anelemma, which is used to chart the sun's path across the sky and identify when the solar equinoxes and solstices will take place. The anelemma has a hole in the metal sculpture, through which sunlight shines and tracks in a figure eight shape as the season progresses.

To begin the domino effect of the program, the design was completed on a new 45,000 square foot common building. The project attracted the attention of a number of key donors, including 1953 Saint Vincent grad Herman Dupre. The college had conferred an honorary Doctor of Sciences degree to the inventor in 1998 and decided to name the new science building in honor of Herman and his wife Mary "Sis" Dupre, who had made a $7.6 million gift to the college.

"Herman was an alumnus and Seven Springs is not far from Latrobe [Dupre owns Seven Springs]," says Brother Norman. "So we had always had a friendship with them. Herman was a chemist and there was a chemistry professor who loved to ski and saw them regularly. Our previous archabbots also had a close friendship with the Dupres. They knew what we were planning to do and that we needed a lead gift to get the ball rolling. That generosity made a big difference."

Dupre Pavilion was put out for competitive bid in February 2009 to a select group of general contractors. In addition to a price for the new building, alternate bids were included for the renovation of the remaining three buildings in succeeding summers. Jendoco Construction Co. was successful in landing the job and construction got underway with the demolition of the Commons Building in May 2009.

From the beginning everyone associated with the project understood that there were two significant obstacles – one physical and one logistical – that had to be solved for the first phase to be completed on schedule and successfully.

Asked about the challenges of the project, Jendoco vice president John Zang says, "It started with the demolition of the existing commons. The physics, biology and chemistry buildings were all connected by it and we had to re-build the connections to all three. There were both underground and covered above ground connections."

"The difficult thing was building the new pavilion while keeping access available to all students, especially those who had wheelchairs," he says. "Most of the access was through ramps, a lot of which were temporary while the project was under construction. We met with students, the architects and faculty regularly to review changes in the access plan and to go over safety concerns.'

Alan Hohlfelder notes, "There was a challenge in connecting the three buildings, which was something the original design did not handle that well." He also explained that the demolition posed more than logistical issues. "All the utilities for the buildings ran through the building being demolished so they had to be relocated. That building sat on a rock ledge so the contractor had to cut trenches to locate the utility lines."

"The foundations were more difficult than usual because the site was originally a hillside that had been leveled on rock," says Zang. "We had to cut trenches – some as deep as 20 feet – to make room for the utilities. We had to drill through rock for the caissons and in the middle of the foundations we got the 20-plus inch blizzard. That made for very difficult and unexpected winter conditions to deal with."

One of the new building's central features also posed some critical challenges during the first phases of construction. MCF's design

"… the fabricator had not seen that level of detail or wasn't accustomed to working with piping as a structural material …


Photo by Jim Schafer

relied on the two-story glazed atrium to express the openness and accessibility of the new building and the sciences studied therein. Hohlfelder gives credit for that design decision to Saint Vincent's archabbot, who had seen a similar treatment on a building in New York City and was insistent upon including that exterior elevation on the Dupre project.

The Dupre Pavilion's atrium is a focal point and a key space from a number of perspectives. Jendoco's project manager, Doug Pfohl says that the transparent design of the space created a number of challenges and obstacles that the team had to be very creative and collaborative to resolve.

"Everything in that building are things you'd want to use in your house, from the colors to the materials to the detail of the ceiling reveals," he says. "Our carpenters and subs really enjoyed working on the extra detail in all the rooms and they were especially challenged with all the angles and level of finish. It wasn't always fun while we were figuring it out but now that it's done we're really proud to have worked on it."

Some of what Pfohl speaks of is the unusual design of the atrium structure itself. The exposed ceiling is a 35 foot high structural web of piping and trusses, which involved as many as 15 customized configurations. Because the trusses and pipes were going to be exposed and painted the cuts in the steel had to be clean and welds had to be ground down perfectly. Trusses were fabricated and welded on the ground before being lifted into place. This method was necessary to ensure that the complex structural elements were accurately done but the painstaking work took about one-and-a-half times as long per truss to do. That extra time wasn't part of Jendoco's plan when they bid the job and because the project was awarded by hard bid Jendoco owned the schedule, meaning they had to come up with a solution rather than look to St. Vincent's for relief.

"What was designed was so customized and the fabricator had not seen that level of detail or wasn't accustomed to working with piping as a structural material so it took much longer for us," Pfohl explains. "That set us back about a month-and-a-half so we had to work extremely hard to find that time elsewhere."

The main problem created by the slower fabrication and erection of the structure was that interior spaces – especially the lab spaces – were not going to be protected from the weather when expected.

"We just kept pushing the schedule once we had the chance to, putting up temporary protection to protect the labs and maintaining the climate control so the lab casework and millwork, and drywall finishes were done in the proper environment," says Pfohl. "The work in those spaces had to continue regardless of how the exterior was going. In the end we worked overtime to get the concrete finished, the atrium finishes done and the front plaza completed so that it all came together before the students returned at the end of August."

Jendoco's project team and the architects were also able to use the time to solve another one of the atrium's finish problems. Because of Brother Norman's active involvement as head of the Boyer College and his training as a mathematician, MCF incorporated curved floor designs that illustrated the Fibanacci sequence of numbers. Fibinacci numbers progress by adding a number to the previous number. The resulting sequence – which increases from 0, 1, 1, 2, 3, 5, 8, 13, etc. – expresses numerical relationships that often appear in nature in the number of flower petals or in linear shapes like in conch shells.

"The patterns of the floor design are intended to mimic some of the patterns in the natural world that the Fibinacci sequence describes," explains Hohlfelder.

Expressing the Fibanacci sequence in flooring created curving designs that were meant to be constructed of various colors of polished concrete. The difficulty of executing this approached the impractical. With the time to attack the problem of pouring and staining concrete the project team hit upon the alternative of using polished epoxy terrazzo to create the same designs in a much quicker, if slightly more expensive manner.

The atrium is also the location for a planetarium, which John Zang noted was somewhat unique in Jendoco's extensive higher education resume. "The planetarium was essentially like doing a freestanding building inside the pavilion," he says. "The planetarium's exterior is all brick with a standing seam roof. The original design, in fact was for the planetarium to be half inside and half outside the atrium. It's funny but I don't know if we'd ever done a planetarium before Saint Vincent and now we have another one wrapping up on a project down in West Virginia."

Both Zang and Pfohl speak highly of many elements of the MCF design and how Alan Hohlfelder's team performed. One area that was especially noteworthy was the laboratories, which are often designed to accommodate the whims of science faculty who may be attracting grants to the university. Often these professors' ability to draw grants garners them more attention from the administration than other building users, but Zang says the indulging of research faculty didn't result in last minute changes.

"MCF did a great job of interpreting the needs of the faculty," he says. "They were the interface between the school and the project. Faculty always changes when you're doing labs and that means changes to the labs because each faculty member wants to do something unique with their lab. At Saint Vincent, the labs were assigned in advance and the professors were encouraged to be part of the construction meetings."

The sense of collaboration between the project team, administration and faculty continued after the $15 million Dupre Pavilion was opened in fall 2010. Jendoco was contracted to begin renovation of the remaining buildings, totaling 57,000 square feet, after the new building opened. Work was completed on the physics building in early 2011 and the chemistry building renovation will wrap up in January 2012, with the biology building scheduled for next summer. Doug Pfohl believes the hard work involved in collaborating on the Dupre Pavilion paved the way for success in the later phases.

"We seem to have developed a sense of trust from MCF on the subsequent phases that we can meet their design intent," he explains. "There are going to be some design details that don't work in the field and they know that we're going to suggest something that solves the problem and is within their design intent."

For Pfohl, the difficulty of the Dupre Pavilion pales in comparison with the result. He says, "The college can now show off Dupre as a trophy science building." BG

PROJECT TEAM

Jendoco Construction	General Contractor
MacLachlan Cornelius & Filoni	Architect
H. F. Lenz Co.	Mechanical/Electrical Engineer
Robert Darvas Associates	Structural Engineer
PVE Sheffler	Civil/Site Engineer
Limbach Co.	HVAC/Plumbing
Ferry Electric Co.	Electrical
Lincoln Fabricating	Steel Fabrication
Century Steel	Steel Erection
Miller Thomas Gyekis	Roofing
L & ET Contractors	Interiors
Harris Masonry	Masonry
Fox Glass	Glazing/Curtain Wall
Redstone Acoustical & Flooring	Flooring
Patrizio Art Mosaic Co.	Terrazzo
Norco Painting	Painting
Northeast Interiors	Lab Casework

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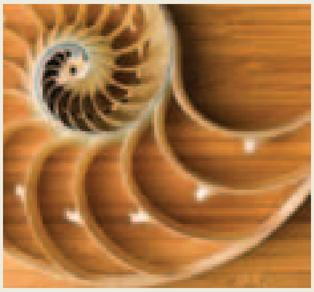
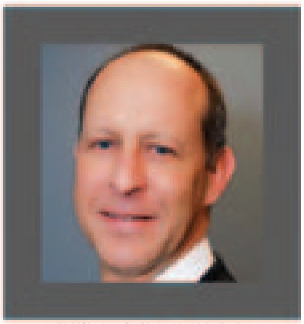
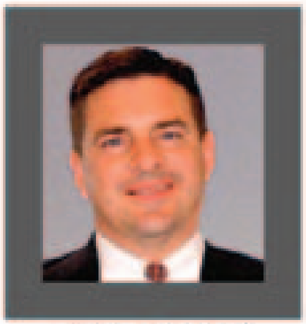


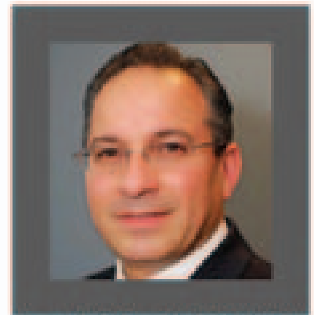
THE PROFESSIONAL CONSULTING BUSINESS IS ONE THAT RELIES HEAVILY ON THE TALENTS AND RELATIONSHIPS OF INDIVIDUAL EXPERTS. WHEN THE BUSINESS CLIMATE SHIFTS CONSULTING FIRMS OFTEN SHIFT WITH THEM, REFOCUSING ON THEIR STRONGEST MARKETS. THAT SORT OF SHIFT FORMED ONE OF PITTSBURGH'S NEWER CONSULTANTS, THE BERKELEY RESEARCH GROUP (BRG).

BRG AS A FORMAL ORGANIZATION IS LESS THAN TWO YEARS OLD, CO-FOUNDED BY DR. DAVID TEECE, A WELL-KNOWN AUTHORITY ON CORPORATE STRATEGY AND INNOVATION. TEECE CO-FOUNDED THE COMPANY WITH A NUMBER OF COLLEAGUES AND ASSOCIATES WITH WHOM HE HAD WORKED OVER THE YEARS, AS WELL AS WITH NEW COLLEAGUES DRAWN TO THE BRG VISION.


Richard P. Easler, PSP


Richard D. Fultineer


Lawrence A. Bastianelli, PMP, CCE


James A. Falconi, CPA, CFF, CFE

BRG's philosophy leans heavily on finding highly regarded talent in expert roles, which leads to new business and to attracting other top talent. In a business model where clients pay for the expertise of key people to provide objective and independent advice and research on economic, legal or risk management issues, having good people is essential to long-term success.

One of the firm's opportunity areas of practice is in the construction industry. BRG grew to a company with almost 120 people during its first nine months in business and by late 2010 decided to bolster its construction practice. In November of that year Richard Fultineer, who was running Navigant Consulting's Midwest construction practice based in Pittsburgh, and Brad Wolf, P.E. came on board to run and grow BRG's business in construction consulting.

Fultineer started as a professional consultant with Peterson Consulting in New York in 1988. He began working in Pittsburgh in 1990 and four years later was in charge of the office here, remaining in that role after Peterson was acquired by Navigant in 1998. For BRG, Fultineer manages the global construction practice from Pittsburgh. That practice has grown substantially and has over 35 experts and professionals globally, 15 of whom work in Pittsburgh.

The end of 2011 marks the close of Berkeley Research's first full year of operations, and the first full year of its focused construction practice in Pittsburgh. Overall, in its first full year of operations BRG has grown to over 300 employees with 19 offices in the U.S. and abroad.

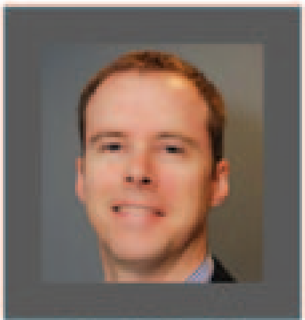
> ... experts who have worked on marquee projects like the Rivers Casino, PNC Park and Pittsburgh International Airport ...

As the construction industry climbs out of recession it presents a climate with many opportunities for BRG since economically difficult times tend to increase the number of disputes and make owners more sensitive to risk management. BRG's experts are called on for litigation support, to evaluate or prepare claims and change order requests, to analyze commercial liability such as standard of care and construction deficiencies, to help manage the critical path of large and complex projects, and to help clients avoid claims and disputes. Tighter economic conditions also have the effect of raising clients' consciousness of claims management, and BRG is seeing that impact their growth in a positive way, especially on large complex projects and overseas work.

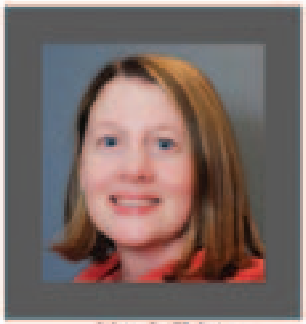
Brad Wolf tells of a client who was reluctant to decide upon using their services for risk and project management on a $6 billion transportation and port project in Brazil. "I reminded him that if his people were right about 99 percent of the project the problems would still cost him $60 million," he says. "He told me he was sure his people weren't right 99 percent of the time." That opportunity became a significant engagement.

The globalization of the consulting business creates new resource issues. One of these is language facility.

"As we get more global business the difference in languages are more of a problem," explains Wolf. The difficulty is not only understanding the language itself but in grasping both the technical translation and the intent of the language in the documents."

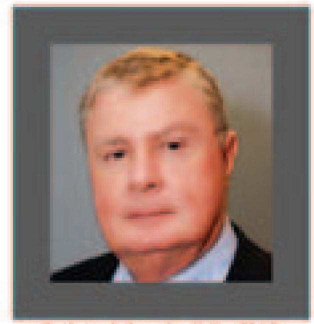


John W. Dillon, PSP



Mara L. Fisher

Bradley Wolf, P.E.



Robert J. Lewis, P.E., PMP

To adapt, BRG has recruited experts who have fluency in multiple languages. The competence in languages commonly taught in American schools is no longer sufficient, since speaking Spanish, French or German only helps with more established markets. "It has been necessary to hire and locate people here who speak, read and translate documents in Russian, Portuguese, Japanese or Chinese because that's where the clients and contracts are coming from," says Bob Lewis, a former Dick Corporation manager and principal in BRG's Pittsburgh office.

Fultineer says that BRG's focus on specialized construction experience gives them the opportunity to put a seasoned expert in a leadership role in every specialty contract area within construction.

"Our construction practice is made up of a highly qualified group of professional engineers, construction management professionals, general contractors, project controls specialists, schedulers, accountants, cost analysts, geotechnical engineers, insurance specialists and others that have expertise in all of the construction disciplines including mechanical, piping, electrical, civil and structural," he explains. Fultineer feels the breadth of their specialty expertise makes BRG clients comfortable that they are getting advice based on extensive experience in the field. In Pittsburgh, that means experts who have worked on marquee projects like the Rivers Casino, PNC Park and Pittsburgh International Airport, as well as previous experience in the natural gas and oil fields. The latter field is one in which BRG's more experienced consultants cut their teeth on decades ago.

One of the burgeoning areas of BRG's practice is energy. The proliferation of projects in power plants – both fossil and nuclear – oil and gas, mining, water treatment and steel has created many more opportunities in market sectors that seemed dormant since the 1970's. Although many of these projects are overseas, it is a happy coincidence that a growing number are in Western PA, near the home of BRG's construction practice.

Tracking where the business will be for the future in construction consulting is often a matter of following where the money is being spent today. Current construction is the source of future disputes and problems to come and also the source of business for firms like BRG. For example, the firm's government contracting practice is seeing growing opportunity as the last of the ARRA projects are winding down.

Bob Lewis recognizes that opportunities will change with markets but knows that the nature of construction is not going to reduce the need for the services that firms like BRG provide.

"There are five steps to resolving a dispute," he explains. "What was supposed to happen? What really happened? How did it happen? Who was responsible for what happened? And how much money is that worth? Our job is to help our clients answer those questions." BG

Company Facts

Berkeley Research Group

One PPG Place, Suite 2910

Pittsburgh, PA 15222

412-235-4070

www.brg-expert.com

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LEGAL PERSPECTIVE

By David Raves

To Commence or Not to Commence that is the Question [Will the Mechanics Lien Law be Amended]

Late in the 2009-2010 legislative session, Representative Turzai introduced legislation which would have amended the Mechanics' Lien Law of Pennsylvania to give a project owner the right to provide a notice of commencement and, if filed, to require all subcontractors to provide a notice of furnished to preserve their right to lien the property. That proposed legislation did not go to vote prior to the end of the session. Once again in this legislative session, Representative Turzai has introduced House Bill No. 1602 which, although different again, attempts to amend the Mechanics' Lien Law to include a notice of commencement and a notice of furnishing. Additionally, the amendment would shorten the time period for the filing of a lien from its current six months to four months, the same time period that existed prior to the 2006 substantial changes to the Mechanics' Lien Law.

The notice of commencement is a document which, no later than fifteen days after physical commencement of work on the property, may be filed by the owner or contractor with the prothonotary of the court of common pleas where the project is located. In order for the notice to be effective, it must include the following:

- The name, address and telephone number of the contractor;
- Name and location of the project;
- Legal description of the property upon which the improvements are being made;
- Name and address of the true owner of the property;
- Name and address of the person other than the owner at whose instance the improvements are being made (if not the true owner); and,
- Name and address of a surety for performance and payment bonds (assuming they are a requirement of the project).

In addition to filing with the prothonotary a copy of the notice must be conspicuously posted at the project site at the time that work commences and a copy be delivered to the contractor within seven days after filing. In addition, if a subcontractor makes a written request of the contractor, the contractor must give a copy to the requesting subcontractor within ten days of receipt of the written request. If the contractor fails to comply, the subcontractor is not bound to a notice of furnishing.

A notice of furnishing is a document provided by a subcontractor as a condition of retaining its lien rights if a notice of commencement has been filed and posted on the property. The notice of furnishing must substantially comply with the following:

- It must be served upon the owner within twenty days after first performing work or delivering materials in connection with the project either by certified mail to the owner's address or personally delivered to the owner – evidence of such delivery must be an acknowledgement signed by the owner.

- The notice must contain, at a minimum a general description of the labor, materials, fixtures, or tools furnished and an estimated price; the name and address of the person supplying the items; the name and address of the person who contracted for the items; a description sufficient to identify the property being improved.

The statute goes on to include a form in which the notice of furnishing must substantially follow which includes a warning to the owner to seek legal assistance in order to avoid having to pay twice for improvements to its property. The filing of a notice of furnishing preserves the lien rights of a subcontractor for all work on the project. If however, the subcontractor does not timely serve the notice, its lien rights only extend for a period of twenty days before the date on which notice is given. Failure to substantially comply with the notice requirements forfeits the subcontractor's right to file a lien claim.

Confused, dazed, bewildered? These amendments are nothing more than aligning Pennsylvania's mechanics' lien law with other neighboring states such as Ohio. If adopted, while the amendments will certainly leave many confused, dazed and bewildered, over time owners and contractors will get into a rhythm in which a notice of commencement and a notice of furnishing will be routine.

What is the purpose of the proposed amendments? In general, the amendments are intended to reduce the risk to owners who potentially pay a contractor in full only to have a subcontractor or material supplier place a lien on their property for non-payment. The protection is provided when the owner files a notice of commencement so that any potential claimants have sufficient information in which to provide a notice of furnishing. The notice of furnishing then provides an owner with notice of potential lien claimants it will need to assure have been paid prior to making final payment to a contractor. If a notice of furnishing is not provided, the subcontractor waives its right to file a lien.
The proposed amendment is silent on how the owner can protect itself once it receives a notice of furnishing.

There are a number of ways for an owner to assure that no subcontractor will file a mechanics lien on the newly constructed improvements. The first is to obtain a release of liens from each and every subcontract. These releases are problematic because contractors are hesitant in paying subcontractors before receiving payment from the owner. While a conditional lien release can be provided (one that states a release will become effective when payment is received) there is no guarantee that the contractor will actually make payment to the subcontractor thereby allowing the subcontractor to still file its lien. An owner may also insist on partial lien waivers during construction in which the subcontractor releases its lien up to the amount of the previous payment. While there are certainly other options, such as the issuance of joint checks, these types of arrangements are difficult to carry out without a great deal of forensic accounting to determine the actual amount due, made even more difficult in the event of a dispute between the contractor and subcontractor. Needless to say, while an owner may know who potential claimants are, any of the avenues to assure that liens are not filed will bring about additional paper work and administrative costs for all involved in the construction process.

The only real benefit of the proposed amendments is that the owner will gain a list of potential mechanics' lien claimants on its project leaving the mechanism up to the contracting parties to determine the manner in which they attempt to assure the owner that no liens will be filed after final payment to the contractor.

From a legal prospective, the addition of more requirements into the statute are problematic, because the courts strictly construe the procedural requirements, making sure that all i's are dotted and all t's are crossed. If the amendments are incorporated into the statute, it remains to be seen whether such strict compliance will be required of owners in the preparation of the notice of commencements and what will be considered substantial compliance by a subcontractor in the filing of a notice of furnishing. The courts will also need to determine what actual affect a contractor's failure to provide a notice of commencement to a subcontractor will have on an owner since the owner will have no notice of a contractor's failure, which failure will allow a subcontractor to file a lien without providing a notice of furnishing.

Of course, if the owner does not want to be bothered by the additional headache it can always decide not to file a notice of commencement, which will absolve a subcontractor from the obligation to provide a notice of furnishing, essentially taking the mechanics' lien law back to its pre-amendment status (but for the shorter window of opportunity to file a lien).

Dave Raves is a principal at Maiello Brungo & Maiello LLP, practicing primarily in the areas of construction, surety and zoning. Dave is also a registered architect in the state of Pennsylvania. He can be reached at 412-242-4400 or dr@mbm-law.net. BG

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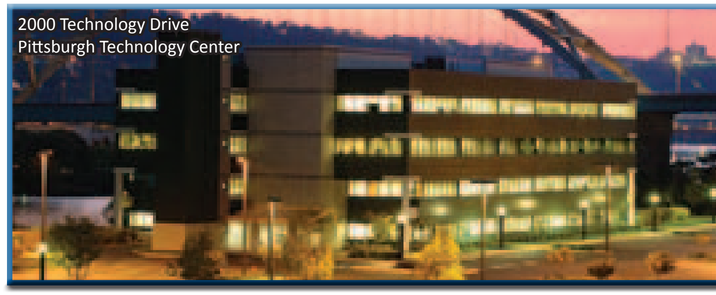
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Financial Perspective

Captive Insurance as a Risk Management Tool

By Sandra L. Fenters

Consider the following hypothetical situation: BJF Contracting was the low bid winner on a North Shore area project for the City of Pittsburgh. The project consisted of building a retaining wall to stop a steep hill from washing onto a local road. Closure of the road was necessary during construction. In order to ensure the road was reopened on schedule, the City had a $2,500 per day liquidated damage clause (LDC) in the contract.

The specifications for the concrete retaining wall called for a special type of cathodic protection to prevent rebar corrosion. There were only two suppliers of this protection system, one in Canada and one in Oregon. BJF subcontracted with the Canadian company, and included the LDC in the subcontract.

Two months later the road was closed, the forms were ready, and the Canadian subcontractor arrived on site with the wrong type of material for the protection system. The inspector would not permit installation of anything but the specified product. Unfortunately the Canadian subcontractor did not have the specified product in stock. To mitigate damages, BJF hired the Oregon subcontractor to complete the work. BJF had to pay an additional $4,800 to the Oregon subcontractor, 12 days of liquidated damages, as well as other jobsite costs incurred during the delay.

BJF is out $54,000 and files suit against the Canadian company for breach of contract. The court ruled that the LDC was in fact a penalty clause and unenforceable, since the subcontract value with the Canadian company was only worth $13,000. The only damage BJF could collect was the $4,800 for their reliance interest.

Unfortunately this is not an uncommon occurrence in the day to day life of a contractor. Unforeseen exposures rear their ugly head on job sites every day which is why managing and mitigating risk factors, including safety issues, is so critical to the health of a contractor's balance sheet.

Have you ever taken an inventory of the risks you inherently absorb in your business everyday as a contractor? Some of the risks you already mitigate by way of paying premiums to the traditional insurance marketplace include workers compensation, auto liability, and general liability.

But what about the risks you assume every day in contracting that are not insured by the traditional marketplace? Possibly risks such as job-site pollution, extensive punch lists, subcontractor disputes, engineering defects and unforeseen conditions the owner will not recognize, and liquidated damages as seen with BJF Contracting? These hazards are often the events directly affecting the profit margin on a project versus a well-thought out estimate. The estimators probably calculate some of the costs associated with these unforeseeable challenges, but if weighted too much in the estimate, you lose the bid.

What could they have done to help prevent or offset the liquidated damages with the City? Typically it is the operational managers of a construction company who try preventing the type of loss incurred by BJF Contracting. While the operational staff works to mitigate these risks, the CEO or CFO can also work to protect the company from these unexpected losses, beyond the utilization of the traditional insurance marketplace.

The construction field is an industry class that has historically been rated by the traditional insurance market as "high risk." The demand for the use of alternative risk finance mechanisms, known as captives*, by contractors began to increase with the advent of the hard insurance market cycle in the early 2000's. As the soft market quickly dissipated during this time, traditional carriers were restricting coverage and increasing rates industry-wide. The result was the best-in-class companies began subsidizing the worst-in-class, forcing contractors to seek alternative forms of procuring insurance. Today a majority of mid-to-large size contractors are participating as members of a group captive arrangement, either


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Closely held contractors, such as BJF Contracting, owning closely held captives, may be a perfect match for weathering through the soft and hard markets of both the construction and insurance industries.

homogeneous (i.e. National Roofers Association) or heterogeneous (multiple trades) in nature.

Joining a group insurance arrangement with like-minded companies is not uncommon in the construction industry. If structured properly, these group captives can provide protection for traditional statutory coverage such as workers compensation and auto liability, and at the same time return investment income and an underwriting profit as a result of good loss experience to the members of the group. While group captives harness these important aforementioned benefits for its members, they are an extension of the traditional market place, not a replacement thereof. In other words, in a group captive environment, coverage may not have been afforded for the loss experienced by BJF Contracting.

In addition to group captives, there are many types of captive arrangements available to assist contractors with strategic planning and if your trusted advisors are not talking to you about these, they should be. Specifically, have you ever entertained the idea of owning your very own insurance company?

It is often a misconception that owning your own insurance company, referred to as a pure single parent captive, is an option not afforded the closely held businesses and their respective owners. While it was once believed that only the publicly traded companies and large well-capitalized private companies could take advantage of the numerous benefits afforded by owning your own insurance company, it is no longer the case.

Actively participating in a group captive arrangement does not preclude a business and its owner from creating its own separate profit center by way of a single parent captive that would underwrite the risks endemic to the construction industry that are inherently and historically self-insured by the owner. By converting the characteristics of a self-insured arrangement (i.e. liquidated damages) to a captive insurance company arrangement, the business may be able to accelerate the deductions of the premiums as an insurance expense to the operating company and the captive may be able to build up reserves and policy holder surplus in a tax advantageous manner.

Harnessing all of the benefits of owning your own captive insurance company, including the tax benefits, is simply prudent strategic planning. As long as the proverbial tail (tax) is not wagging the dog (insurance and business purpose), you should have a solid foundation for your captive to build upon. "Tax litigation has taught that a captive, in order to justify its tax benefits, must demonstrate economic substance and business purpose independent of such tax benefits. This does not mean that a captive cannot openly pursue the tax advantages that ensue from qualifying as an insurance company. Instead it means that the simple pursuit of federal tax advantages is not enough to sustain the decision to create a captive." [1]

What if BJF Contracting had implemented its own single parent captive? First, the contractor would have paid premiums over the course of the year, creating a deductible expense for the contractor in year one and all subsequent annual renewals. Those premiums would have then accrued within the captive, earning investing income, free from third party creditors and liability. At the time of a claim, BJF Contracting would seek reimbursement from its captive for the total loss amount of $54,000 plus legal fees.

In the absence of the captive, BJF incurs those expenses within the contracting business however, the deduction is not allowable until the amount is actually paid, referred to as an "economic performance," which might not occur until future accounting and/or tax periods. By implementing a captive the contractor smoothes out the affects of losses on cashflow, builds up reserves to be utilized for potential future claim activity that may be excluded by other sources of insurance, builds up surplus to be utilized to negotiate with bankers or sureties, and may also experience certain tax and asset protection advantages as well.

Closely held contractors, such as BJF Contracting, owning closely held captives, may be a perfect match for weathering through the soft and hard markets of both the construction and insurance industries.

* The term "captive" comes from Frederic M. Reiss, who coined the term while he was bringing his concept into practice for an industrial client in Ohio in the 1950's, Youngstown Sheet & Tube Company. They had a series of mines where the ore was used solely for the company's operation and its management referred to them as captive mines. When Reiss helped the company incorporate its own insurance subsidiaries, they were referred to as captive insurance companies because they wrote insurance exclusively for the captive mines. Reiss continued to use the term for his concept and both the captive and the term have adopted a far wider context.

[1] November 2008 Captive Review "When the tail wags the dog" Randy Beckie and Phil England of Anderson Kill & Olick.

Sandra Fenters is managing director and principal, Alternative Risk Division of Simpson McCrady LLC, an insurance and risk management brokerage firm located in Downtown Pittsburgh. Sandra can be reached at 412-261-2222 or sfenters@simpson-mccrady.com. BG

Trend to Watch

Wither RACP Grants?

For many administrations in Harrisburg, state taxpayer assistance of local projects has been part of the development landscape. Whether the aid was to reclaim brownfields, augment investment in blighted areas or help small towns preserve community assets, the aim of the many programs was to bridge the gap that would otherwise have prevented the projects from happening.

The state became more actively involved in funding development as part of an overall strategy to create jobs after Pennsylvania was particularly hard hit by the relocation and dissolution of manufacturing businesses in the late 1970's and early 1980's, however there had been mechanisms for providing government assistance in some form prior to that. The land deals that helped launch the industrial development corporations of the various counties were examples of government intervention to aid job creation.

Aid from Harrisburg came in two forms: loans (usually at below market rates) and grants. The lower interest loans were effective in times of higher interest rates but as might be expected the more popular programs were one that allowed for government grants. For taxpayers, the rationale behind the assistance was that the long-term benefits from higher employment in the state would offset the cost of the loans – which were also repaid to the taxpayers' benefit – or the grant.

The Redevelopment Assistance Capital Program (RACP) was both a grant and a program administered at the governor's discretion. Prior to 2003, however it was not used extensively. The guidelines for eligibility impacted the frequency of RACP use, since the applicant had to be a general-purpose government agency, public authority, an industrial development agency or a designated Local Development District. The grants also had a minimum threshold of one million dollars. Likely the biggest reason for the limited use was the availability of other funds.

"People forget that back in the Ridge administration the Opportunity Fund was much larger and the Ben Franklin Technology Fund was three or four times what it is today," says Don Smith, CEO of the RIDC, which used RACP grants for costly preparation of its Duquesne and McKeesport sites during Gov. Ridge's tenure. "RACP became the go-to program when the funding for others was cut. It was also popular because it was under the control of the executive."

As executive, Gov. Ed Rendell had few qualms about the use of RACP grants. During his two terms, $2.11 billion in grants were distributed, which was an amount that far exceeded any of his predecessors' funding for development assistance.

The RACP program came under its toughest scrutiny at the end of Gov. Rendell's terms, when he awarded $230 million in grants last December. Because the grants were made in mid-December the media had some fun with Christmas stocking analogies, but the more serious criticisms of the timing focused more on the distribution of grants that would be the obligation of an incoming administration that was being handed a $4 billion budget deficit. Critics also focused on the political nature of the grants during the Rendell administration, like those to be used for the libraries for Arlen Spector and John Murtha.

In response, incoming Gov. Corbett told those who had been awarded grants that he would not be funding them until his staff had fully vetted them for merit. Projects to be developed in Allegheny County received $84 million as part of that December grant spree and Gov. Corbett's temporary freeze added uncertainty to a number of projects.

"The governor is right to evaluate the grants to ensure that the projects are creating long-term jobs," says Dennis Yablonsky, the CEO of the Allegheny Conference on Community Development. "RACP grants have been used in the region on lots of good projects and he's making sure these [awards] are for good projects."

One of the projects caught in the transition was the restoration of the Highland and Wallace Building in East Liberty, a $28 million adaptive re-use that will create 130 apartments and required the RACP grant to make the project viable. The developers, Massaro Properties and Walnut Capital were not the first to try to rehabilitate the Highland Building, which was built in 1909 by Henry Frick and is on the National Registry of Historic Places. The $4.5 million RACP grant was approved in September and allowed them to overcome one of the nagging problems for the project, its parking solution.

"The grant is dedicated to the parking garage. The only way this project gets done is with a subsidy for the parking," asserts David Massaro, president of Massaro Properties. Their plans are for a 182-car garage to be built between the two older buildings. "Four or five developers have tried to do something with these building and parking was always the stumbling block."

To develop the buildings into apartments, Massaro and Walnut Capital need to commit one space for each of the 130 tenants, leaving only 52 spaces for lease.

"When you look at the cost of building a garage and the income you could generate from leasing, it isn't feasible financially," says Massaro, who believes programs like RACP are necessary to make urban redevelopment projects happen. "It's definitely needed for parking, which is just very tough to do for a private development," he says. "There are projects that need some kind of subsidy, like an old building that needs to be restored. In our case, we're saving a Daniel Burnham building from demolition."

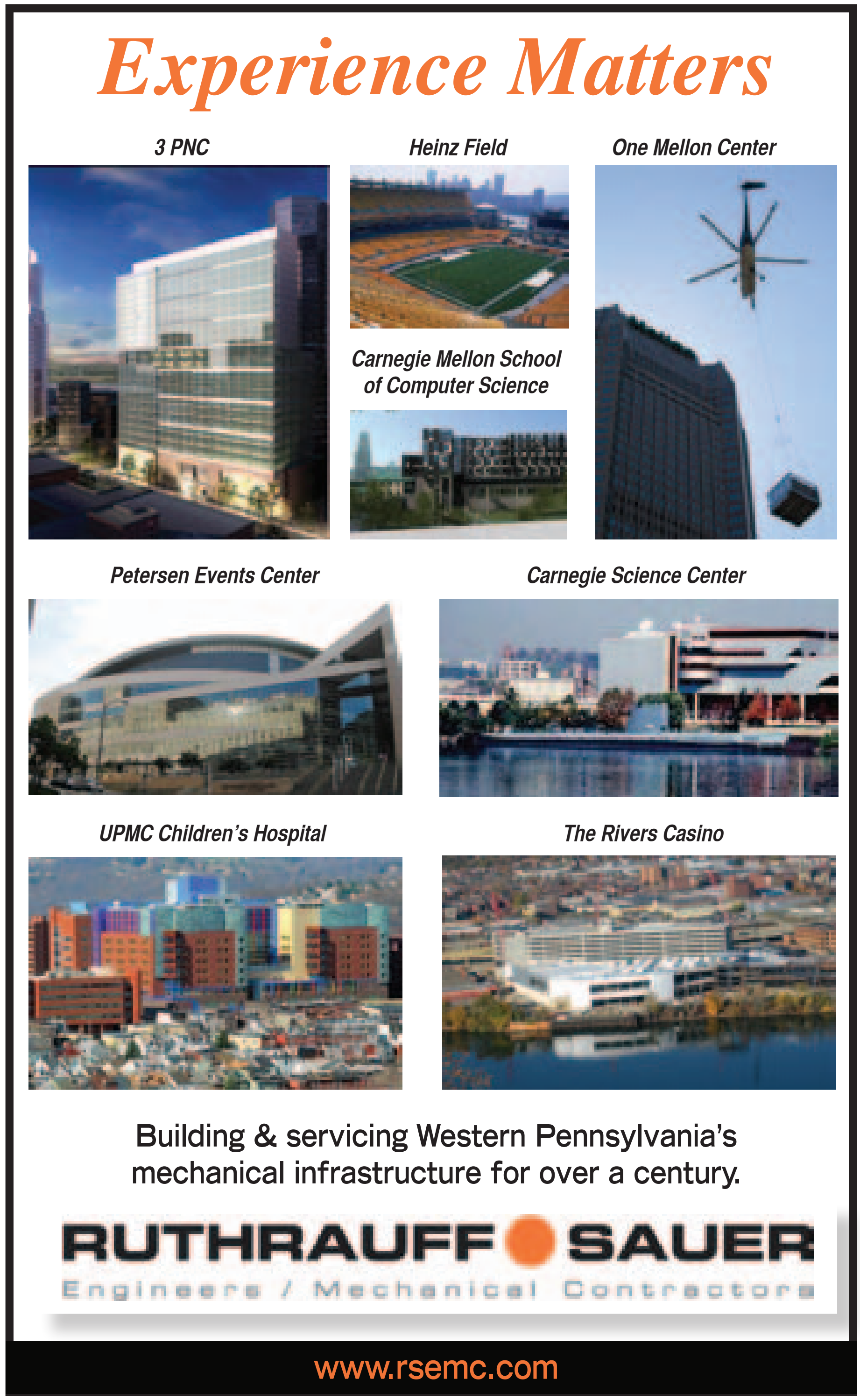
The RIDC found itself with four RACP grants in limbo. Grants for two of those projects, the Sony plant in New Stanton and the City Center of Duquesne have been released and those for Innovation Ridge and Industrial Center of McKeesport are still pending. For the state's various non-profit IDC's such grants allow for development of less desirable assets like former industrial sites or rural sites without infrastructure. Don Smith expects that his pending RACP grants will come through and that similar funding will exist in the future.

"RACP money was best used as an investment in PA's future," he says. "I'm agnostic as to the format but cuts in other programs created a vacuum that RACP filled. I'd like to see the vacuum filled again."

The current fiscal condition of Pennsylvania will make it difficult for the RACP program to be restored after the last round of grants is finally reviewed and funding distributed. Pennsylvania's political climate isn't as extremely conservative as some other states but the voters did put a governor who is fiscally conservative in office and the state's budget requires more revenue or less spending to balance. Increasing the bonding threshold to borrow more for RACP grants isn't likely to happen while Rep. Mike Turzai is majority leader. Still, the eventual recovery of Pennsylvania's economy will result in higher revenues and combined with the benefits of the current belt-tightening there will be better conditions for government support of development. While raising debt limits is politically unpopular at the moment, those sentiments are likely to shift and the issuance of twenty or thirty year bonds affords the taxpayers the best chance for the economic benefits of the funded projects to pay off. And history has shown that the benefits do exist.

"There is a place for RACP on large projects that have sustainable economic value. I don't mean construction jobs – that's consumption not creation," says Smith. "There were a couple of RACP projects that everyone points to that weren't so good but the majority are. If you did an independent audit of the program you would find that the taxpayers of Pennsylvania got more in return than they paid."

Dennis Yablonsky agrees. "Bakery Square is a great example of a project that worked because of RACP funding," he says. "Do I think we got our money back on the Google project alone? Absolutely." BG



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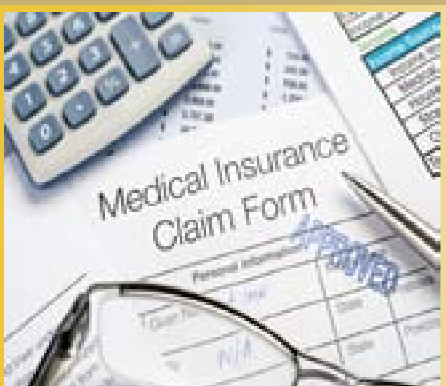

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LEED-certified products. If you'd like to raise the hackles of someone on the advocacy side of green building use that phrase. Building products have to be marketed in order to get into the built environment and so it isn't surprising that over the years manufacturers have occasionally described their environmentally-friendly products in that manner. The problem of course is that LEED isn't a product certification system.

One of the hurdles facing manufacturers that genuinely try to make products that add to a project's sustainability and that are manufactured in an environmentally responsible way is that there has been little in the way of a green product rating mechanism and lots in the way of "greenwashing."

Green building pioneer William McDonough, and German chemist Michael Braungart collaborated on the book Cradle to Cradle: Remaking How We Make Things in 2002. They have developed and trademarked Cradle to Cradle (C2C) certification as a way to recognize responsible producers and create a framework for driving the industrial process towards complete sustainability. Cradle to Cradle design begins with changing the focus of manufacturing from eco-efficiency – or doing less damage to the environment – to eco-effectiveness – a process of engaging an entire organization in a strategy for having a completely positive impact on the planet. An organization that succeeded would create no waste, use no more energy than it generates, manage water usage completely and foster environmental responsibility throughout its entire supply and distribution chain.

The two formed McDonough Braungart Design Chemistry (MBDC) to help rework how humans manufacture by using nature's ecosystems as a model.

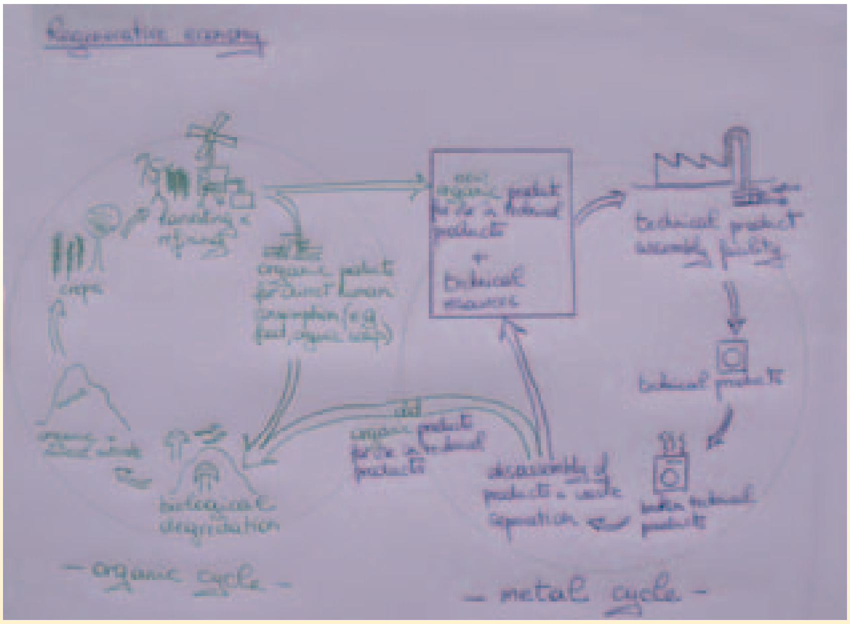
MBDC identifies the processes in nature that allow for the environment to organically replenish its resources and feed itself. They refer to this complex cycle of food-to-waste-to-food as 'biological metabolism.' A parallel system, which MBDC calls 'technical metabolism,' can be developed in the industrial environment to allow products to be made using natural and synthetic materials that can be reused, recycled or recaptured without degrading their value in a perpetually closed loop. Technology simply doesn't exist at this time for complete technical metabolism but C2C certification intends to encourage manufacturers to push for continuous improvement in progress towards that result.

To achieve C2C certification – which can be achieved in ascending levels of basic, silver, gold and platinum – a manufacturer submits a product to a rigorous evaluation of its complete list of ingredients, including those of subcomponents from its supply chain. Ingredients are evaluated for their impact on human and environmental health and categorized as biological nutrients that come from the earth as can biodegrade into healthy soil, or as technical nutrients that can be recycled or reclaimed for use in other products without a decline in quality. To continue with C2C a manufacturer would establish systems for continuously recovering materials from its waste or end-of-life cycle products.

Evaluating ingredients is an enormously painstaking and time-consuming endeavor, especially for products with greater complexity and a deeper supply chain. The disposition of biological nutrients is straightforward. For technical nutrients, however, the evaluation involves the determination of the toxicity or negative impact to human life, including evaluation of the detriment from the base chemical and the chemical in its situational use in the product. After defining if a chemical may be used without harming life, a manufacturer will be left with a list of product ingredients that cannot be recycled or re-used safely as technical nutrients. The first option in C2C design would be to seek replacement of those ingredients with those that can be re-used.

This identification of product ingredients for their metabolic characteristics allows for the achievement of the first leg of the C2C framework, which is the elimination of waste. In C2C parlance, waste equals food. The Cradle to Cradle manufacturer would, in the ideal state, return organic waste to the earth to become micro-organic food and recover synthetic or mineral waste within the manufacturing system to recycle or reuse in the manufacture of other products.

MBDC is clear in its own literature that this step is as far as C2C certification has been applied as yet, a fact that should underline the difficulty of the task.



A schematic diagram by Michael Brungart and colleagues at the Environmental Protection Encouragement Agency showing how a regenerative or Cradle to Cradle economic system would work.

The second leg of the framework is the optimization of energy use. As with zero energy buildings, this involves the use of renewable sources of power generation like solar or wind to offset the amount of energy needed to manufacture. C2C manufacturers also re-engineer the production process to reduce the energy required. At optimization, the manufacturer will use 100 percent renewable energy, produced on site or purchased directly from utilities with renewable energy credits.

Respect for human and natural systems is the third tenet of Cradle to Cradle design. C2C certified manufacturers and their vendors should ensure they are using as little water as possible and ideally keeping that water within closed loops. In addition, water released to the environment should be of at least the same quality as before it was removed from a water source, to promote ecosystem and watershed health. C2C involves management to promote healthy ecosystems and respect the impact of local communities. A significant component of this leg is the respect for social responsibility, including payment of fair wages to workers, embracing diversity and fair play, and pushing these values down through the supply chain.

These key sustainable values are assessed as five criteria in MBDC's C2C certification process are:

1. Material Health. This assesses the chemical composition of the materials that make up the product to judge the hazard to life.

2. Material Reutilization. This criterion is about recovery and recycling at the end of product life.

3. Energy. For the highest level of certification energy needs to be based at least 50% on solar for all parts and subassemblies.

4. Water. Water usage and discharge quality are assessed

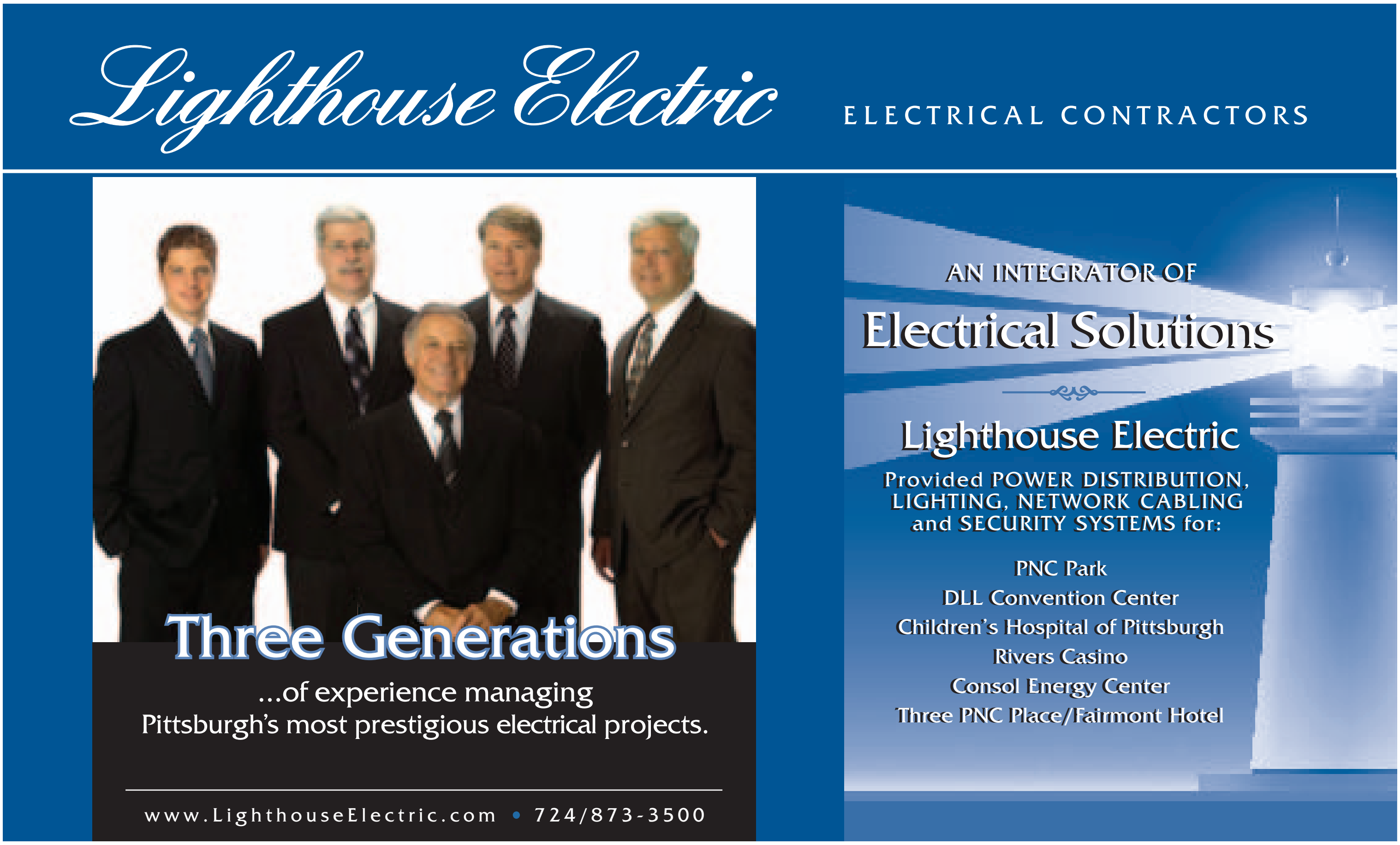
5. Social Responsibility. The fifth criterion judges fair labor practices of the manufacturer, its suppliers, and the manner in which the company relates to the larger community.

C2C certification is granted on a product-by-product basis. Within the region, PPG Industries' architectural glass has been C2C certified and a total of 14 different roofing, siding and flooring products of CENTRIA have been C2C certified. The certification is part of the cultural change at both companies and there is certainly sustainable credibility conferred upon these manufacturers that has marketing value. Cradle to Cradle re-design also has real cost benefits when the processes are viewed properly. The reduction of waste, the elimination of outsourced energy and water supplies and the emphasis on reducing energy and water usage can result in significantly lower cost structures for products.

Ford Motors has been re-designing its River Rouge Center towards Cradle to Cradle goals. The company spent $18 million on a bioretention and filtration system for rainwater, which included planting native grasses on assembly plant roofs. The planted roofs cool the plant significantly but the investment in rainwater treatment saves Ford $50 million that would be spent on chemical/mechanical water treatment.

For the time being Cradle to Cradle is a proprietary certification system, privately owned by MBDC. Proponents of sustainable manufacturing who would like to see McDonough's and Braungart's vision of the future fulfilled criticize the proprietary nature of C2C as limiting competition and hindering the concept from being fully realized. Most critics of C2C downplay the chances of practical implementation of C2C on a large scale or are skeptical of claims of full compostability or reclamation potential of C2C products.

MBDC for its part does not claim that anything close to full adoption of the C2C framework exists in any industrial setting at present. Their most persuasive argument for Cradle to Cradle design is that it forces manufacturers to pursue optimization rather than minimization. McDonough and Braungart see optimizing the sustainability of an industrial process as enabling expansion for the business and see C2C as advancing the vision of industrial success. Cradle to Cradle raises the concept of what is good design above measures of cost or performance, challenging manufacturers to expand their definition of quality to include social and environmental responsibility. BG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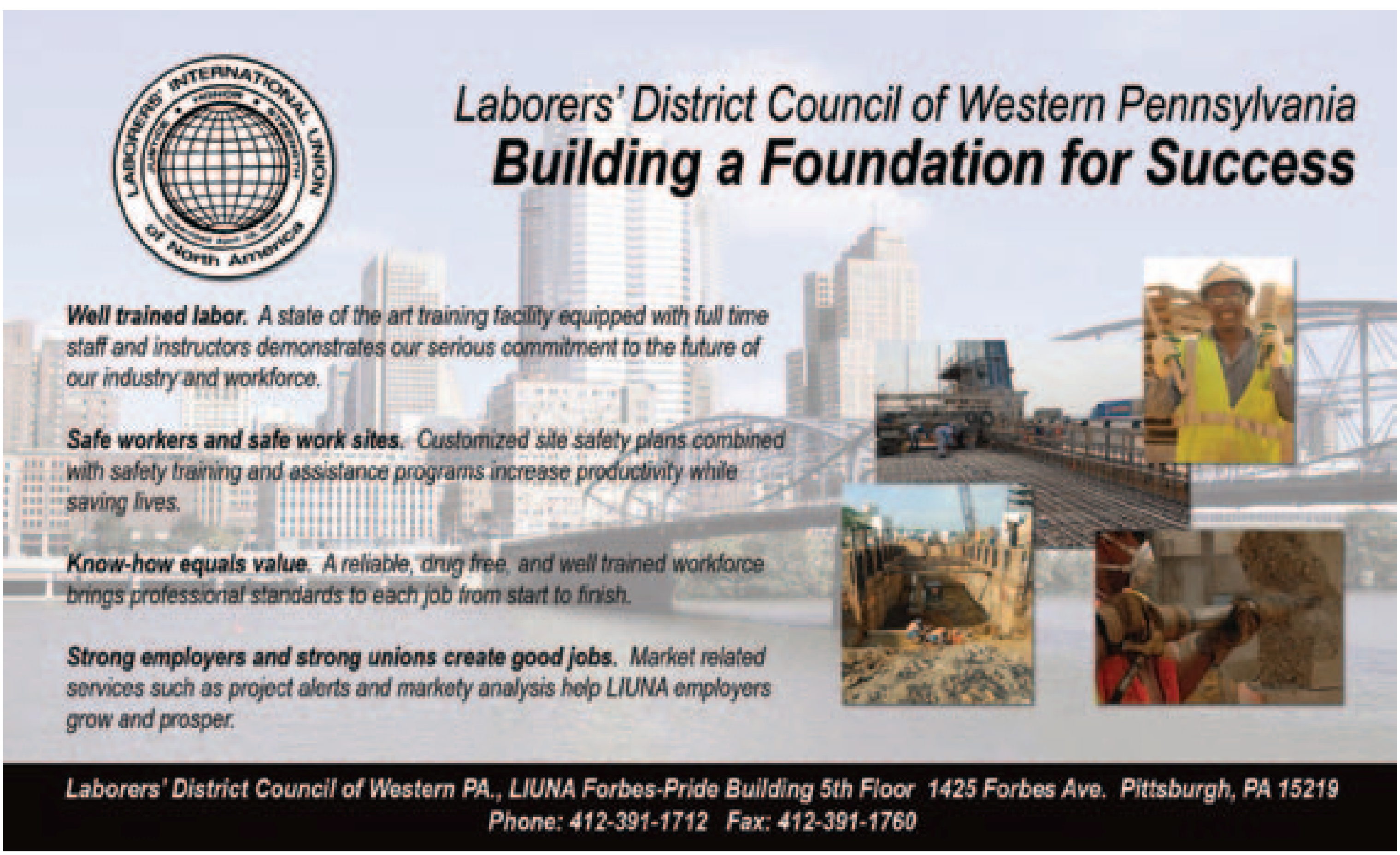
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MBE/WBE Company Spotlight

DCI LOGISTICS

A career in professional sports can provide great experience for someone looking to a business career, with the valuable lessons learned in sports about discipline and perseverance. When the sports career includes a stint with the Pittsburgh Steelers of Chuck Noll, the lessons tend to go a little further.

"My business philosophy definitely comes from the old adage Chuck Noll used with us," says Craig Bingham, owner of DCI Logistics. "Whatever it takes, that was his attitude. As long as it was legal and didn't embarrass your family, you did whatever it took to help the team win."

Bingham was a linebacker in the NFL for five years, playing with the Steelers from 1982 through 1985 and again in 1987 before a knee injury ended his playing time. Players of that era didn't get the kinds of contracts that gave them financial independence and most had offseason jobs to supplement their income. Bingham's offseason occupation took him into business selling safety products and machining services to the steel industry, but unfortunately he entered the business as that industry was deteriorating.

In between stints with the Steelers, in 1986, Bingham made the decision to start his own business but started focusing on the construction industry. While construction is a mature market for safety products it also represents a steady market and one that is open to innovation and new products in safety protection. The late 1980's were also the years that saw markets being created for minority-owned enterprises in construction. In 1994 DCI was approached by one of their general contractor customers to expand their business into supplying concrete and concrete products. As the construction market expanded in the late 1990's the opportunities for DCI grew as well.

DCI now supplies ready mix concrete, precast concrete products and aggregate, as well as some electrical products that have both industrial and construction applications.

Bingham says he has tried to grow steadily by focusing on quality service and remaining as competitive as the market will allow, rather than by expanding for the sake of expansion. While opportunities for placing and finishing concrete have presented themselves, Bingham recognized that as a risk he didn't want to assume.

"I've been fortunate to have good people and to have the opportunity to work for good contractors," he says. "We're grateful to get work from those contractors on more than a few occasions."

Like most construction related businesses DCI finds the recent market conditions to be challenging, especially when trying to focus on service. "Our most important goal is to provide good quality service, but the irony is that while the contractors need good service you're still going to lose work if your price isn't low," Bingham says. "We have plans for expanding our services but in the current climate we're working on doing what it takes to keep our customers and stay busy."

DCI WAS ABLE TO GET A LEG UP ON THE MARKET

BY WINNING BUSINESS ON THE CONSOL ENERGY CENTER PROJECT.

DCI was able to get a leg up on the market by winning business on the Consol Energy Center project. That work kept DCI busy during the recession and into 2011. Craig Bingham says that he was conscious of getting through 2011 after the arena wound down and realizes that the grind-it-out approach has paid dividends. "I looked at the calendar the other day for something and it dawned on me that we're at the tail end of 2011 already," he says.

"I'm thankful to have survived in this business as long as we have and will continue to serve the market in the same way," he observes. A lot of his attitude he says comes from trying to treat people the way he wants to be treated, but when it comes to dealing with the tough breaks of the business he falls back on another lesson from the playing field.

"It's just like when you get hit with a cheap block. You can't go spearing everyone on the field to get revenge," he says. "You keep doing things the way you know you should and things have a way of evening out in the end." BG

Company Facts

DCI Logistics

1 Lane Road

PO Box 515

Carnegie PA 15106

412-429-8564

www.dcilogistics.net

Founded: 1986

Owner: Craig Bingham

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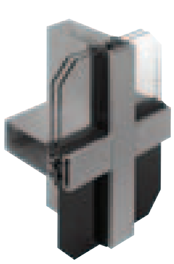

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Green Products Index

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INDUSTRY & COMMUNITY NEWS

MASTER BUILDERS' CELEBRATE 125 Years

Over 400 guests joined the Master Builders' Association of Western Pennsylvania in celebrating their 125th year at the John Heinz Regional History Center on November 5.

Babst Calland's Kurt Fernsler and wife Theresa with Judy and Glenn Sieber of Easley & Rivers.

MBA executive director Jack Ramage (left) and MBA board president Tom Landau accept a commemorative from AGC of America CEO Steve Sandherr at the MBA's 125th Anniversary Gala.

(left) Nikole Lopretto and Angelo Martini Jr. with Gabrielle and Anthony Martini at the MBA's 125th Anniversary Gala.

The Mobile Medical Corp. guests at the MBA's 125th are Victoria Zinsser, Gregory Latsko, Cynthia Latsko, Bob Johnston, Mimi Daquelente and Dave Daquelente.

John Coffey (left) with Lisa and Jordan Coffey of All Purpose Cleaning at the MBA 125th Gala

Rycon's Todd Dominick, Michael Mascaro and Walt Czekaj of PJ Dick at the Master Builders' golf outing on September 26 at St. Clair Country Club.

Kevin Gordon of Carson Publishing (left) with Genarro DiBello of Schneider Downs and Dennis McKamish (right).

Lee Totty of Yarborough with Seubert's Jay Black (right) at the MBA golf outing.

GREEN BUILDING NEWS

ILFI CERTIFIES NET ZERO BUILDINGS

The International Living Future Institute (ILFI) has launched the Net Zero Energy Building Certification program. Modeled in connection with the Living Building Challenge, the program's certifications are based on at least 12 months of consecutive performance data and requirements of five imperatives must be met: Limits to Growth; Net Zero Energy; Rights to Nature; and Beauty + Spirit, Inspiration + Education.

GBA HOSTS HALLOWGREEN PARTY

On October 21 the Hall of North American Wildlife at the Carnegie Museum became the site of Green Building Alliance's Hallowgreen fundraiser. More than 125 guests sported costumes and raised funds for the rebuilding of the Frick Environmental Center for the Pittsburgh Parks Conservancy and the GBA.

Christine Mondor; evolve EA, and Bill Peduto; Pittsburgh City Councilman.

Alexander Denmarsh; Denmarsh Photography, and Nathaniel Doyno, THAR Geothermal.

NIGHT AT THE FIGHTS SCORES FOR HABITAT

CEC's Greg Quatchak (left) with Elmhurst's Bill Hunt at the Night at the Fights.

NAIOP Pittsburgh held its annual Night at the Fights benefitting Habitat for Humanity at the Omni William Penn on November 3, 2011. Roughly 325 people attended and the event raised more than $20,000.

(left) Mark Platt of MMC Land, Verizon's David Salicce with Alexa Jennings of Jones Lang LaSalle at the NAIOP Night at the Fights.

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Mon Valley Progress Council's Joe Kirk with Allegheny County Executive candidate D. Raja and Bill Ligetti of the Ironworkers' Employers Association (right) at the Construction Legislative Council's meeting.

IKM's John Schrott with Ed Massery at the AIA Design Awards Ceremony, Photo by Renee Rosensteel.

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Awards & Contracts

Allegheny Construction Group was awarded a contract for the $2.7 million renovation of the Carnegie Library South Side Branch at 2205 East Carson Street. Karen Loysen of Loysen + Kreuthmeier Architects is the architect.

University of Pittsburgh awarded a contract to Allegheny Construction Group for the first floor restroom renovations at Craig Hall in Oakland.

Uhl Construction Company has contracted with "The Butler Eagle" newspaper to build a new pre-engineered steel storage building addition. This building will be used for storing the inserts that go into newspapers. The project is being delivered design-build with Conway Engineers and Negley Design.

The Butler County Housing Authority selected Uhl Construction to do renovations to the historic Lafayette Apartment Building on North Main Street in Butler, PA. The $5 million rehabilitation was designed by Klauscher Architects.

Dick Building Co. was the successful contractor on First National Bank's Pittsburgh office fourth and fifth floor renovations, a fit-out of approximately 35,000 square feet at One North Shore Center. Harry Levine is the architect on the project.

Moon Area School District announces that Nello Construction won an Engineering News-Record's Best Projects 2011 award for its work on Moon Area High School. Nello, who served as general contractor for the high school project, won the "K-12 Education" category in the New York (NY) Region, which includes Pennsylvania. Nello and the Moon Area High School will be featured in ENR Magazine's NY Region edition the week of November 8.

Rycon Construction was the successful contractor on the $7 million renovation of Medical Office Buildings S & T at UPMC Passavant Hospital in McCandless. The architect on the project is Burt Hill/ Stantec.

CBL Properties awarded Rycon Construction, Inc. a $2.1 million contract to demolish the existing Boscov's store and create new shell space for JCPenney at Monroeville Mall.

At Allegheny Center, Rycon Construction, Inc. has started work on the expansion of a PNC call center. Designed by IKM Architects, this $4 million project will be complete by early spring.

Dick's Sporting Goods will soon have a new location in Mt. Pleasant, MI thanks to Rycon Construction, Inc. This renovation, formerly a Wal-Mart, is scheduled for completion by early spring. At UPMC's Corporate Headquarters within the USS Tower, Rycon Special Projects Group is responsible for the renovation of floors 9 & 25. This 64,000 square foot project is scheduled for completion before the spring season and was designed by The Design Alliance.

The former Park Place School, built in 1903, on the corner of South Braddock Avenue and Brashear Street will soon be home to the expanding Frick Environmental Charter School. The 26,000 square foot space will be renovated by Rycon Special Projects Group. This highly anticipated $1.7 million project, designed by Lami Grubb, is expected to be complete by the spring.

Carnegie Mellon University awarded Mascaro a contract to provide preconstruction and construction services for the renovation of approximately 12,500 square feet of space in Doherty Hall for development of new Materials Science Engineering laboratories.

Mascaro began renovations to the 55th floor in the US Steel Tower for additional office space for UPMC's headquarters. The 40,000 square feet of space will include new executive office space and a full kitchen area.

Mascaro is providing preconstruction services for the University of Pittsburgh on several renovation projects: a Neuroscience Laboratory Suite, an NMR suite, and lab spaces in the Biomedical Science Tower 3 building.

Mascaro was awarded the UPMC Mercy Parking Lot renovation project. This project is expected to complete in early December.

Mascaro, in conjunction with Michael Baker Jr., received a design-build contract from CSX for a reconstruction project to raise the roof of the J&L Railroad Tunnel on the Southside. Design is currently underway and construction is expected to begin in early 2012.

Mascaro received a contract from PNC for the renovation of Hangar 24. The work will involve renovation to the office space, high bay space, and upgrades to building systems.

Mascaro is the construction manager overseeing renovations to the UPMC's Neurology Clinic, located on the eighth floor of the Kaufmann Medical Office Building. The project involves renovation to office space, as well as the clinical and infusion area.

Omni Hotels selected F. J. Busse Co. for two renovation projects at its William Penn Hotel downtown. Busse was the successful contractor on $1.5 million renovations to meeting rooms and $3 million upgrade to 400 guest rooms. CMMI Inc. from Atlanta is the architect.

The Rachel Carson Homestead Association selected F. J. Busse Co. as contractor for renovations to the Carson Homestead. Pfaffmann + Associates is the architect.

dck worldwide's Walbridge-dck Joint Venture has been awarded a contract to build the new $220 million Wayne County Consolidated Jail Facility in Detroit, Michigan. The new 700,000-sf facility will combine three existing jails into a single, centralized detention facility that will be more economical and efficient than the current arrangement.

dck worldwide's dck/TtEC joint venture was awarded a $62.2 million task order from the Navy to design and build a multi-story lodging facility for injured veterans and a separate parking facility, both of which will be in Bethesda, Maryland, at the National Naval Medical Center. This task order falls under a previously awarded Global Multiple Award Construction (GMAC) contract with Naval Facilities Engineering Command (NAVFAC).

dck pacific guam, a dck worldwide company, has received a letter of intent for a $7.6 million design-build project from Guam Memorial Hospital authority for the expansion/renovation of the Emergency Medicine and the combined CCU/ICU departments.

Oakview dck, a dck worldwide company, was awarded a contract to build the $5.5 million replacement of the current Des Moines, Iowa, Fire Station #1. This new two-story 20,000-sf facility is being designed and will be built to obtain LEED Certification.

BRDC, dck worldwide's joint venture with Burns & Roe operating at the U.S. Naval Station in Guantanamo Bay, Cuba, was awarded more than $30 million in task orders over the past year under previously awarded Multiple Award Construction Contracts (MACC) and a Job Order Contract (JOC) with NAVFAC Southeast.

Poerio Incorporated was awarded the contract to renovate the FedEx Ground, on Neville Island Pittsburgh, PA. The project included asphalt, waterproofing, and new landscaping. The project is scheduled for completion in November 2011. FedEx also selected Poerio for the construction of the Salt storage facility in Lenexa Kentucky.

FedEx ground awarded a contract to Poerio Inc. for the construction of the salt storage facility in Toledo Ohio. The facility is approximately 600 square feet that includes asphalt, concrete, steel and vinyl covering.

Poerio Incorporated was the successful contractor on the Call It Spring Renovations at the JCPenney Department Store in Woodbridge New Jersey at the Woodbridge Center Mall. The project is scheduled for completion by December 2011. JCPenney also awarded a contract to Poerio for the renovations of the shoe department at its Tarentum store in Pittsburgh Mills Mall. The renovation includes reconfiguration of the sales floor, new wall coverings and flooring.

PNC Bank has selected Poerio Inc. for the renovations of the Cranberry Township PNC Bank located on Freedom road. The renovations included new teller lines, flooring, painting and electrical work. The project is scheduled for completion December 2011.

PJ Dick was awarded Prime Contractor services for a new 235,000 square foot, three story office building and a 1,000 square foot maintenance storage building in Harrisburg, Pennsylvania for the Pennsylvania State Employees' Credit Union. The new building will house 700 employees and is expected to be completed in August of 2013.

PJ Dick was awarded Construction Management at Risk Services for a new convocation center at Mount Aloysius College in Cresson, Pennsylvania. The building will include a wellness center, main gymnasium, auxiliary gymnasium, athletic offices and training room. The center will seat approximately 2,200 people and will be about 82,000 square feet.

PJ Dick was selected to perform Pre-Construction and Construction Management at Risk services for the Presbyterian University Hospital Radiology Department. The project includes a relocation of functions currently residing in the old Children's Hospital Tower adjacent to the PUH Radiology Department as well as a renovation of the Radiology Suite in UPMC Presbyterian.

PJ Dick was awarded Construction Management Agency services for the Penn State University Cedar building which includes a 35,000 square foot renovation and a pent house addition. This project is part of PJ Dick's current Moore Building project on the campus.

PJ Dick was awarded the interior fit-out of the new Clockwise store at Bakery Square. The new 2,200 square foot retail space will be open for the holiday season.

Landau Building Company was selected to provide Construction Management/General Construction services for the Kureha America, Inc. expansion project. The 30,000 sq. ft. addition is located in Natrona Heights.

Construction of a one story 1,600 square foot hospital addition at WVU Hospitals Chestnut Ridge has begun. Landau Building Company anticipates completing the project in December.

Mitsubishi Electric Power Products Inc. has contracted with Landau Building Company to perform 20,000 square feet of interior renovations to their 547 Keystone Drive location in Marshall Township.

Marks-Landau Construction, a wholly owned subsidiary of Landau Building Company, is serving as the Construction Manager/General Contractor at Monongalia General Hospital. The project consists of renovations and additions to the Catheterization/Electrophysiology Laboratory. Construction is expected to take 14 months to complete.

Joseph B. Fay Co. was the successful bidder on the $31 million rehabilitation of the Mansfield Bridge, which connects the towns of Glassport and Dravosburg. The project was contracted by PennDOT for the Allegheny County Department of Public Works.

The Presbyterian Church of Sewickley selected Massaro Corp. as contractor for renovations to their church. The $1.5 million project is being designed by MacLachlan Cornelius & Filoni.

Massaro Corporation has been selected by Cork II, LLC to serve as the general contractor for the new apartment complex project in the Strip District neighborhood of Pittsburgh. This $12 million project is slated to begin before the end of the year and be completed by summer of 2012.

Massaro Corporation has been selected by Point Park University to serve as the general contractor for the new eatery in Frontier Hall. The project is slated to be completed in spring 2012. Desmone & Associates is the architect on the project.

TEDCO Construction was the successful contractor for the tenant fit-out of 15,000 square feet for Principal Insurance Co. at the Liberty Center downtown.

West Virginia University awarded contracts to TEDCO Construction for the WVU-Parkersburg Applied Technology Center and Child Development Center. Perfido Weiskopf Wagstaff + Goettel is the architect for the $5 million, 24,000 square foot buildings.

The Department of General Services awarded a $1.7 million design/build contract to Mosites Construction for the rehabilitation of the Canonsburg Lake Dam in Peters and North Strabane Townships. Michael Baker Jr. Inc. is the engineer.

Mosites Construction was awarded a contract for the first phase of the $7 million expansion and renovation of Aerotech's facility in the RIDC Industrial Park in O'Hara Township. RSSC Architecture is the architect.

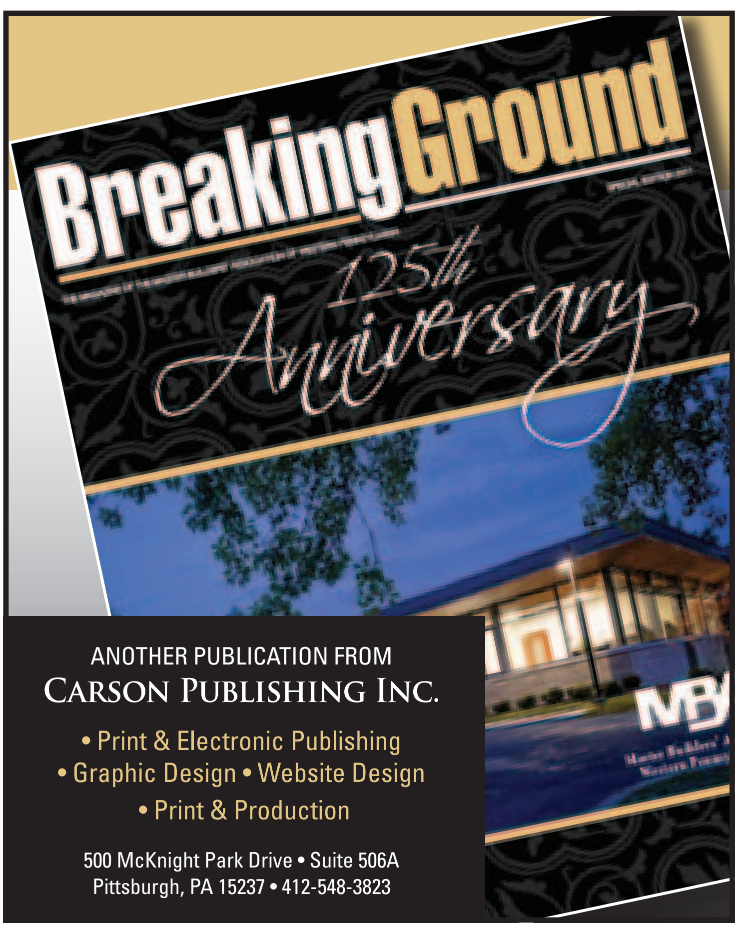
Washington & Jefferson College selected Mosites Construction as the successful general contractor for the Dieter Porter Hall project, a $9 million renovation to approximately 42,000 square feet of science space. Powers Brown Architecture is the architect.

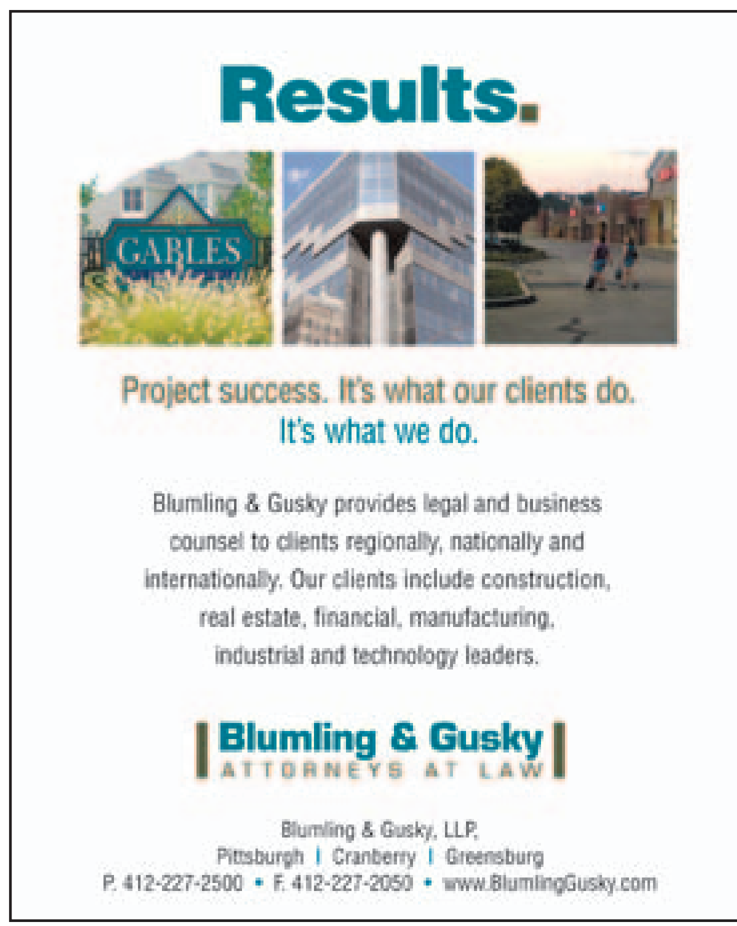
First National Bank awarded contracts to Volpatt Construction for renovations to Suite 120 at its One North Shore regional office and for a new branch office in Shadyside. The projects were designed by Harry Levine Architect.

Volpatt was the successful contractor on West Penn Hospital's $290,000 ninth floor renovation. IKM Inc. is the architect.

Verizon awarded A. Martini & Company a $1.7 million contract for renovation to its Seventh Avenue offices downtown. The project was designed by LLI Engineering.

A.Martini & Co. was selected by REIT Management for tenant improvements for CVS Thermacare at the former Westinghouse Nuclear Center in Monroeville. The $3 million project involves fit-out of 60,000 square feet on the fifth floor.





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Faces & New Places

Landau Building Company is pleased to announce that Mark Johnson joined the company as a Project Engineer. Mark recently graduated with a Bachelor of Science in Architectural Studies and Business from the University of Pittsburgh. While attending college Mark was employed by MSS Services/ US Army Corps of Engineers as a Realty Specialist.

Landau Building Company is very pleased to announce that Jeffrey Landau has returned to the company. Jeff has held several positions with Landau, including carpenter, superintendent, estimator, and most recently project manager/vice-president. Jeff spent the last few years outside the company gaining diversified project management experience.

John Deklewa & Sons has hired Wes Donovan as chief estimator. Donovan had previously served as vice president of operations for Universal Forest Products and had more than two decades of experience in senior estimating and project management roles for Pittsburgh area general contractors.

Rycon Construction, Inc. is pleased to welcome Chris Michaels as Project Manager in the Special Projects Group. Chris received a Bachelor's and Master's degree in Architecture from Kent State University and brings over 10 years experience in the construction/architectural industry to Rycon.

Babst Calland has opened a new office in Charleston, West Virginia at the United Center on Virginia Street East. Energy Attorneys Matthew S. Casto and Steven M. Green join Babst Calland as shareholders of the firm effective October 10. Mr. Casto is admitted to practice in West Virginia, Ohio and Kentucky and Mr. Green is admitted to practice in West Virginia and Pennsylvania.

PJ Dick Inc. is pleased to welcome the following on their project management team: Wes Erskine as Project Engineer on the University of Pittsburgh Freshman Housing project; Denny Herr as Project Manager on the Dorsey Run project located in Jessup, MD; Jim Majernik as Senior Project Manager and Hayley Grabill Dremel as a Project Administrator on the PSECU project located in Harrisburg, PA.

Matt Werner joined PJ Dick as an Electrical Estimator.

Rick Allen has joined dck worldwide as Vice President of Global Healthcare Services. Mr. Allen has 25 years of senior executive experience in all phases of hospital operations, strategy, physician integration, ambulatory center design and development, master facility planning, and millions of dollars of renovation and new construction.

dck worldwide has announced that Dan Garcia has joined its business development team to expand on dck's recent pipeline experience and the opportunities that are here within the company's headquarters region. Mr. Garcia is an attorney who has a background in the Marcellus Shale and pipeline industries.

Mascaro is pleased to announce that Bill Rost has joined the Mascaro team. Bill is a graduate of Notre Dame and brings more than 40 years of specialized electrical experience. He holds master electrician and contractor registrations in Pennsylvania, West Virginia, and the City of Pittsburgh.

John C. "Jack" Mascaro received the 2011 National Philanthropy Day Special Lifetime Achievement Award from the Association of Fundraising Professionals, Western PA Chapter.

Dan Freyer has joined Jendoco Construction Corporation as project manager and Mechanical Coordinator. Dan brings more than 30 years of mechanical contracting experience to Jendoco, enhancing our project management, estimating, pre-construction, and value engineering services. Dan is a graduate of Grove City College with a BS in Engineering.

Massaro Corporation is pleased to welcome Dennis O'Hara as a Project Manager. He has over twenty years experience in the construction industry. Dennis joins Massaro from A. Richard Kacin, Inc. where he served in various roles including sales, estimating and project management for the last 14 years.

Massaro Construction Management Services welcomes Alicia Crumbley as a new project engineer. Prior to Massaro, Alicia has worked in various capacities in the architectural and engineering field. She earned a Bachelor of Architecture from Florida A&M University.

Massaro Corporation is pleased to welcome Larry Weber as a project engineer. Larry joins Massaro with over fourteen years experience in the construction industry, most recently joining Massaro from Evergreen Real Estate and Construction in Charlottesville, VA. . He earned a degree in civil engineering from The Pennsylvania State University.

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The MBA is a chapter of the Associated General Contractors of America, the nation's largest and oldest construction trade association. The MBA is committed to improving the construction trade association through education, promoting technological advancements and advocating building the highest quality projects for owners. To learn more go to www.mbawpa.org.

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Closing Out

By Rich Fitzgerald,
Allegheny County Chief Executive

First Priorities of the Fitzgerald Administration

As Allegheny County's new Chief Executive, I am looking forward to the New Year and the opportunities that leading this new administration provides. The next four years, however, are not without their challenges. This past year has seen cuts in funding to the county from both the federal and state governments. We are being ask to do more with far, far less and must continue to move this region forward in what remains a tough national economy.

There are four major challenges that face this region which will be immediate priorities of my administration.

First, and most pressing, is the court-ordered property reassessment on Allegheny County residents. While our surrounding counties continue to use old property values because they have not had to conduct a reassessment in 40 years, Allegheny County is in the midst of another reassessment. Investment in our region has outpaced the national economy. We have had a stable real estate tax climate for 10 years, but a reassessment will have a chilling effect on investment and demand here. It will also lower property values across the county and could halt the economic growth that this county has seen. There must be uniformity across the state in order for the current system to be fair to everyone. Allegheny County can no longer be the poster child of what a fair assessment system should be, when the fact that it is the only county going through this process makes it inherently unfair and non-uniform.

Second, the transit service in our region must be improved. In addition to being able to count on predictable and dedicated funding at both the local and state levels, the cost of transit service must be as efficient as possible.

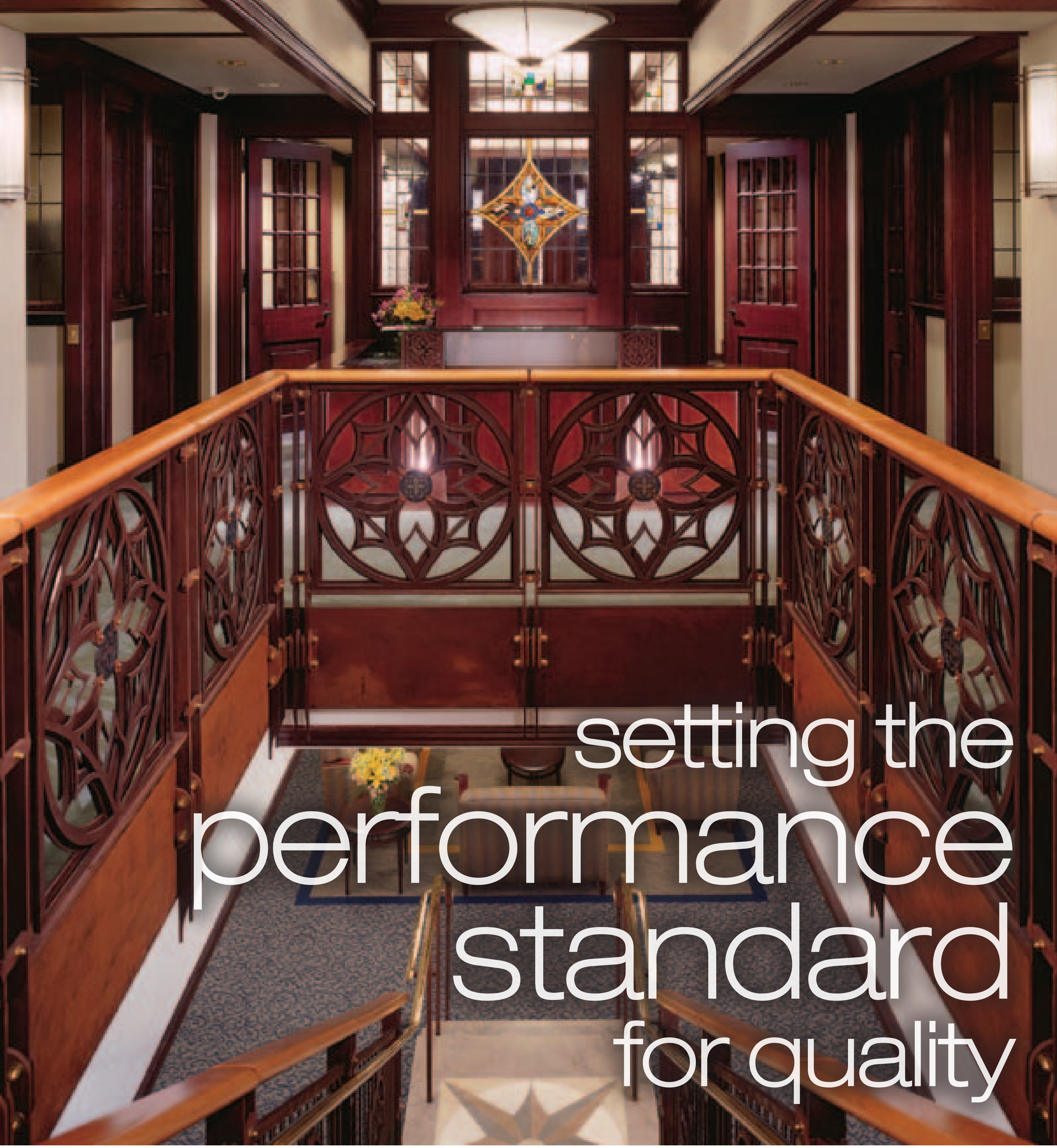
Third, the Pittsburgh airport must have direct service to cities across this country and around the world.

Allegheny County hosts a major city, with a world class airport, but the lack of direct flights is hurting our competitiveness within the corporate community.

A fourth challenge, as well as a great opportunity, is Marcellus Shale. The potential for jobs and wealth generation is unmatched in the region and is an opportunity that has not been seen in a century or more. The interest in those opportunities, however, must be balanced with addressing the environmental and other challenges that come with natural gas extraction.

The future of Allegheny County is bright and its potential great. Working together to implement and carry out progressive and responsible policies will benefit our community for generations to come. I look forward to the challenge.

Rich Fitzgerald was elected County Chief Executive on November 8, 2011. He is the owner of Aquanef and has served on county council for 12 years. Rich, wife Cathy and their eight children live in Squirrel Hill.



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