Breaking Ground

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Housing Market Update

The Multi-Family Bubble Grows

PA's Highway Bill Offers Hope

Mid-Year Market Results

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Publisher's Note

"It's deep in the race for a man to want his own roof and walls and fireplace." - Peter Bailey, It's a Wonderful Life

One of the reasons I pay such attention to the housing market is that the first economist I worked with always talked about the housing market's role as a bellwether. His name was George Christie and he was the economist for the McGraw-Hill construction information businesses when I worked for that company in the 1980's and early 1990's. George was an interesting cat. He was also a pretty fair forecaster, although his motto was that there was always one more forecast than there were forecasters.

The national Construction Outlook conferences he presented at the end of each October drew hundreds of building product and construction executives from around the country, each of whom paid a pretty penny to attend. While the execs were there to get one point of view on the upcoming economic environment, they were also there in hope that George had better news than they expected. Alas, if the report on the direction of the housing market was gloomy, the attendees were going to leave feeling gloomy too.

We learned five years ago just what can happen when the housing market goes bad. The mortgage crisis that spawned the global financial crisis created a whopper of a recession. While that was painful enough, the fact that the credit crisis was rooted in the American homeowner's problems made the bigger economic problems worse.

America as an economic power is usually characterized as an industrial phenomenon. Although that is an accurate characterization – certainly the products we made rebuilt the post-World War II economy – you can effectively argue that the root of America's industrial power was the single-family home.

Americans hold very dear the concept of the home as castle. I believe that it was the ideal of every man (and woman) owning his own home was what stoked the fires of the middle class and the prosperity of the middle class was what separated the United States from almost every other nation throughout history. This almost sacred role that homeownership played in our socioeconomic foundation helped make the home mortgage one of the safest loans a bank could make. People paid their mortgages. When that mortgage became a financial instrument for packaging and trading, it lost some of that sacredness and the consequences were quite unpleasant.

The thing about the family home is that it is an emotional anchor for the economy. When I first began working, saving so you could buy a house was one the top priorities for those first five years working. Burning the mortgage was the goal. Owning a home was a kind of ground zero for building your wealth and there was an economic security about home ownership. We were also taught that our home was our single biggest investment and that the equity we built was our financial security blanket.

In the middle of the last decade, people started doing some pretty frivolous things with the debt on their single biggest investment. Leveraging the single-family home for consumption left hundreds of thousands with a big hole where their economic security blanket was supposed to be. That had some direct practical repercussions, of course, but the indirect consequences were equally damaging. People who lose equity in their homes aren't in a position to spend; moreover, when that most basic of economic standards is shaken to its core, the loss of confidence pervades all areas of the economy. Employers aren't as confident and don't hire. Car makers aren't as confident and cut production. You get the point.

We now find ourselves surrounded with evidence that the housing market has at last recovered from the crisis that started in 2007. Whether or not the improvements are leading to a boom or just a healthy reversion to the mean of appreciation again, the sense that houses are increasing in value is a welcome development for the economy. As homeowners come out of their bomb shelters – figuratively speaking – there will be an increase in the number of people looking to literally build new shelters.

Whenever things get off the rails like they did in 2008, Americans tend to be more conservative as a way of reconnecting with what seems like better days and more basic values. One of those basic values is home ownership. Frank Capra understood that with It's a Wonderful Life. If the housing recovery of 2013 follows the normal course of expansion, the economic growth that will accompany it will give us a sense of relief that hasn't been there since before we knew what words like 'subprime' and 'credit default swaps' meant.

Whether or not you build or sell houses for a living, a healthy housing market makes for a better economy all around. It's why it's important to pay attention to residential real estate and why 2014 looks a lot more promising.

Jeff Burd

REGIONAL MARKET UPDATE

Construction finally seems to be joining the economic recovery that was officially declared by the Brookings Institute last November, with nearly one billion dollars in nonresidential contracts booked in the second quarter of 2013. Residential construction was equally strong, especially in terms of multi-family construction started.

Nonresidential contracts from January to June 2013 totaled $1.45 billion, with $971 million added between April 1 and June 30. Year-over-year contracting was up 20.8 percent. This represents an accelerating growth rate from the first quarter's 8.7 percent increase over 2012. While there was a bit of carry-over from pent up demand in the spring, the activity in quarter two appears to be part of a trend rather than an anomaly. Taking a detailed look into the pipeline of projects which are bidding or scheduled to start in the third quarter of 2013, the volume from July through September should actually be higher than in the second quarter.

Residential starts grew by an even more robust pace, with the total number of dwelling units up 41.8 percent to 2,149 over the first six months of 2012. Several large multi-family projects got underway in the second quarter, pushing the number of attached units to 1,120, an increase of 87 percent. Permits for single-family detached homes also soared, although the 12 percent rate of growth was less dramatic than the rate for townhouses and apartments.

The resurgence of construction follows several historical indicators fairly closely and would be less surprising had the depressed volume of construction not lingered for such an extended period. Work on the boards in architects' offices has been busier for nearly a year. The full recovery of employment and regional GDP, which was observed at the end of 2012, would logically precede decisions to build by six months or so. Moreover, the underlying economic fundamentals in the seven-county metropolitan area truly support expansion of the built environment.

Employment in Pittsburgh reached a record high of 1,169,800 jobs, after adjusting for seasonal fluctuations, a gain of 10,600 from April 2012. Department of Labor and Industry report issued on May 29 that 3,200 jobs were added in the region last month, according to its survey of employers. The seasonally-adjusted unemployment rate in the Pittsburgh region fell slightly to 7.1 percent in April, due to increased hiring in construction, leisure and hospitality industries. That's the same rate as April 2012 but slightly lower than the 7.2 percent in March. Pennsylvania's jobless rate fell to 7.5 percent in May after declining three-tenths of a point to 7.6 percent in April.

The U. S. Bureau of Labor Statistics reported in May that Pittsburgh's unadjusted unemployment rate was 6.4 percent. Increases in warm weather jobs like construction and leisure were responsible for the uptick. Because the colder weather will take these jobs back in a few months, most economists ignore seasonal job improvements; however, with construction projects growing, there is a good probability that this sector will add to the employment numbers through the winter, at least for building construction.

The growth in housing starts also seems likely to add to employment without as much seasonality, especially since there should be roughly 1,500 apartment units under construction when winter begins.

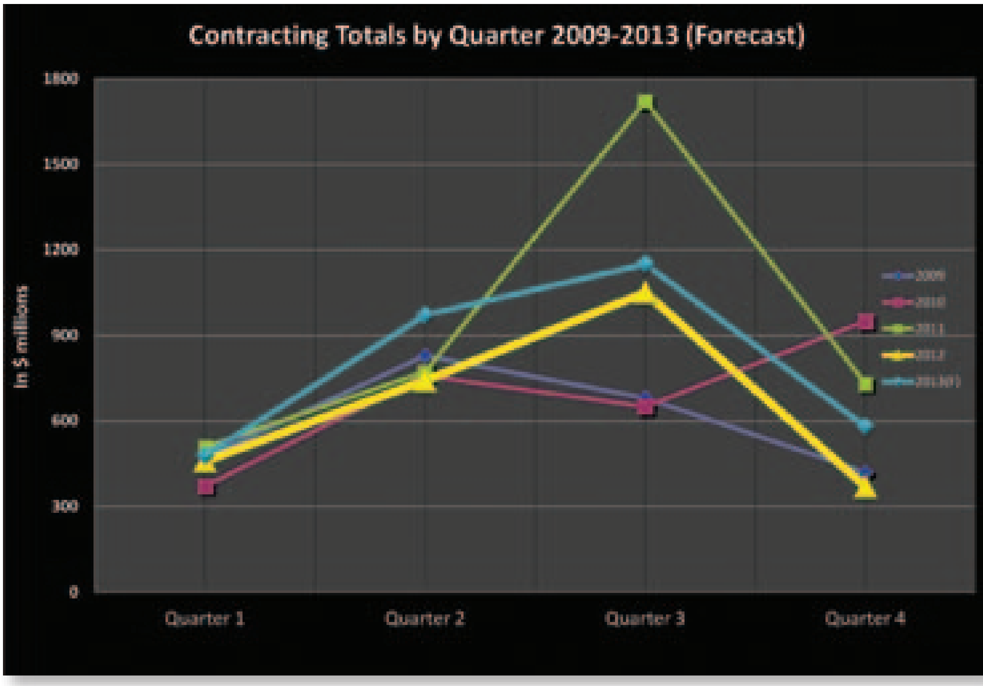
With residential construction taking off, there remains support from home sales to expect the trend to continue. Sales of new and existing homes jumped 21.4 percent in April to 2,324 compared to 1,915 for the same month last year. Pittsburgh-based RealStats reported that both the average and median sales price increased. The average home sold cost 6.8 percent more than last year while the median price increased 3.1 percent. According to RealStats vice president Danial Murrer, the faster pace of growth for the average over the median price is an indication that higher-priced homes are selling faster than other price points. Sales of new construction homes were up 27.1 percent, with the average price climbing 11.9 percent to $332,907.

Pittsburgh MSA	SFD	SFA	Total
Jan-June 2012	919	596	1,515
Jan-June 2013	1,252	1,541	2,793
Variance	36.2%	158.6%	84.4%

New home construction is up significantly over the first six months of 2012 but activity remains some 40 percent below the historical norms.

Commercial real estate fundamentals also remain supportive of new construction. Market reports for the second quarter are not yet available but the volume of new construction planned for delivery between April and June was low enough that the vacancy rates and rents should be largely unchanged from the first quarter of 2013.

The office market remains tight by historical standards, with overall vacancies running between eight and 15 percent, depending on the real estate research methodology. All real estate firms agree that the Class A market is especially tight, running roughly 92 to 94 percent occupied. While much of the office product in the pipeline will be owner-occupied, the restricted supply and improving economic conditions have spawned resurgence in speculative projects. Elmhurst



Normalized contracting levels for second and third quarters of 2013 should be higher than any year in the last five (2011 includes $1.2 billion for Allegheny Ludlum Brackenridge plant).

Group has completed or nearly completed approximately 140,000 square feet of office or flex office in Cranberry and is preparing to build another 48,400 square foot flex building there and a similar size building at the Airside Business Park in Moon. DiCicco Development has started construction on Westpointe Corporate Center Four, a 130,000 square foot office in Moon Township. Chaska/Pittsburgh International Business Parks expects to start another 55,000 square foot office in their Cherrington Parkway location in September. In May, CRD Development announced plans for approximately 350,000 square feet of new offices off Flaugherty Run Road.

The uptick has been manifest in build-to-suit projects outside the suburban Pittsburgh market as well. Jerome Manufacturing broke ground on a $9 million, 150,000 square foot manufacturing facility at the Fayette Business Park, a Fay-Penn EDC property in Georges Township. Lawrence County EDC started construction on a 50,000 square foot facility in the Millennium Park in Neshannock Township. Fourth River Development is planning an 80,000 to 100,000 square foot building in its Starpointe project in Hanover Township in western Washington County.

Industrial properties in the metro Pittsburgh market were at eight percent with the average rent reported between $5.10 and $5.35 per square foot. Class A industrial space – which is the smallest category by far in the region – is running above 95 percent occupied. This segment of the market is expected to see the most significant increase in inventory in the coming twelve months as Jendoco Real Estate, Imperial Land and Chapman Properties all bring Class A space into the market.

Retail occupancy remains at roughly 95 percent. Net absorption of space was slightly negative in the first quarter but the limited amount of new construction will likely result in a reversal of that trend at mid-year. The most notable trends in retail construction within metro Pittsburgh are the lack of big box construction – even as residential picks up – and the renewed investment in older properties. Two of these, Century III Mall and the Waterfront, have new owners who plan to spend more than $20 million on re-branding and updating the shopping centers.

Perhaps the most notable trend that developed during the second quarter of 2013 was the return of the larger projects to the market. One of the harsh realities of a downturn in construction – particularly in a market like Pittsburgh where contractor failure rates are low – is that contractors and architects have to look for work by pursuing projects that are outside of their sweet spot. This virtually always means competing for work that is smaller in size than the firm is accustomed to doing. The result is a hyper-competitive market. While these conditions are welcomed by buyers, the increased competition results in at least as many problems as good prices. And of course, heightened competition compresses profit margins.

During the second quarter, a number of the major projects that have been in the pipeline for much of the downturn moved onto the front burner. Highmark's $80 million Wexford Medical Mall started construction and the major packages went out to bid. Jendoco started construction of the $65 million Sherman and Joyce Bowie Scott Hall – formerly known as the Nano-Bio-Energy Center. And site work should begin in July on the $60 million Ansys/Southpointe II buildings being developed by Burns & Scalo Real Estate Services.

Bids were taken for packages of Millcraft's Gardens at Market Square, a $73 million mixed office/hotel/retail development. Gordon Food Services took design/build proposals for a 500,000 square foot distribution center at the Findlay Industrial Park, although representatives for Gordon and Imperial Land wouldn't confirm that a deal had been consummated.

In the pipeline are the 180,000 square foot expansion of Dick's Headquarters in Findlay Township, being developed through Horizon Properties, and another 200,000 square foot Southpointe office building that Horizon should be putting out to bid later in the third quarter. West Virginia University is prequalifying contractors for its $80 million Agricultural Sciences Building, which should bid in the third quarter.

Chevron used June to accept proposals and interview candidates for its new regional corporate headquarters at Scott Station in Moon Township, finalizing the selection to the Mascaro and Massaro teams for the construction management of what will ultimately be a $250 million campus.

The common denominator for all of these larger projects on the street or in the pipeline is that they are being developed by the private sector. With government revenues down and debt up, public spending for capital projects has been pinched for several years and may not make up a significant role in the overall market for a number more. Private sector construction is a result of private sector expansion, which also means private sector jobs. For the economy to get back on a sustainable track, the private sector needed to grow earnings and reinvest. That appears to be a national trend in mid-2013 but the trend is extremely noticeable in Western PA.

Decreased government spending means that institutional projects – K-12 schools, PASSHE universities and even the University of Pittsburgh – will make up a smaller share of the market until the latter half of the decade.

It is also worth noting that the current growth trend excludes the confirmation of the decision by Royal Dutch Shell to locate an ethane cracking plant in Monaca, although the natural gas industry does not appear to be preparing for anything other than the expectation that the Monaca plant – as well as other billion dollar-plus facilities – will go ahead in the middle of the decade.

The one negative that is a cloud over the construction industry is the slowdown in healthcare construction. Although Highmark is going ahead with its Wexford medical mall and the investment in tens of millions at its affiliated Jefferson Regional Medical Center, the uncertainty about the impact of healthcare reform and research grants has caused UPMC to pull back on its capital plans. Its $394 million Center for Innovative Science project has been shelved as have plans to build a $75 million energy plant at Mercy Hospital. Without certainty about research funding and reimbursements, hospitals will be more conservative builders. Similar concerns have also shelved Excela Healthcare's two outpatient facilities and a stair tower addition, a total of roughly $75 million, although plans are going forward for a 50,000 square foot orthopedic ambulatory surgery center in Greensburg.

Notwithstanding the negative developments in the institutional segment, construction has turned a corner during the first half of 2013. Should the state legislature put a transportation spending plan in place this session – as is expected – the heavy/highway sector would likely double in the next budget cycle. Even without public participation, construction looks to be bullish on 2014. BG

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NATIONAL MARKET UPDATE

The national economy passed some significant tests of strength as spring yielded to summer. Unlike the previous three May's, the momentum of the early second quarter has not been undone by global fears or stock market meltdowns. Evidence that the economy was growing at a better than expected clip – if not at a robust pace – provided motive for the Federal Reserve Board to discuss scaling back its monthly mortgage-backed securities bond buying program earlier than planned. That program, referred to as quantitative easing, was aimed at providing liquidity to the markets during the recession and stimulus to the economy.

News that the Fed was impressed enough to curtail QE was not viewed as good news by the investment markets. Much of the succeeding selloff – especially in the Treasury bond market – was an inaccurate misinterpretation of Fed chair Ben Bernanke's announcement as a signal that interest rates were about to rise. Market experts also saw the response as something like a child's reaction to bad news in an attempt to give the Fed pause in its decision to back off. There was also a lot of fear about whether or not the economy was strong enough to support itself without the stimulus that the QE programs had provided.

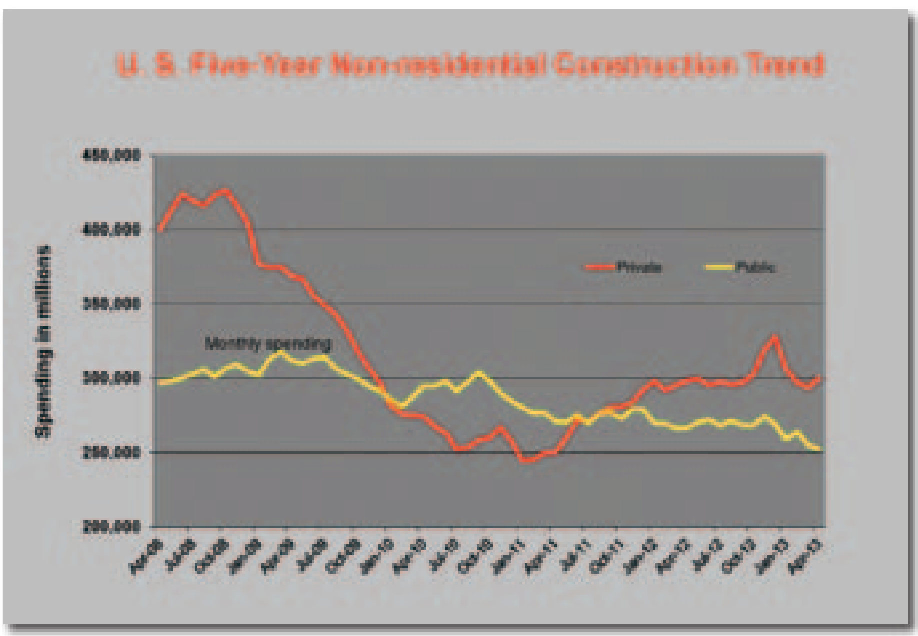
It's worth noting that the stock markets tend to be looking forward six months or more and they have increasingly been disconnected from what is actually happening in the economy. So while the Federal Reserve's actions (or debate about actions) may have created another economic test, the people and businesses that comprise the underlying markets seem to be moving forward with little regard. Much like with the so-called sequester and the tax hikes at the beginning of the year, Main Street seems to be ignoring what Wall Street fears.

The most positive factor thus far in 2013 has been the accelerating creation of jobs. While the pace of new hiring is not more than keeping up with layoffs and immigration, job growth has remained steady but not exceptional nationwide. Private-sector payrolls grew by nearly 180,000 positions in May, bringing the annual gains to 2.2 million jobs. The net gain was approximately 2.1 million jobs, once the loss of 58,000 government jobs is factored into the total.

Declining unemployment seems to be pushing consumer and business confidence higher and the economy is expanding. Expansion is being led by a substantial comeback in housing, resilient consumer spending, a broad-based rally in private sector employment and ongoing growth in the energy and technology sectors. This is especially evident in two sectors that are traditionally bellwethers of growth: auto sales and homebuilding.

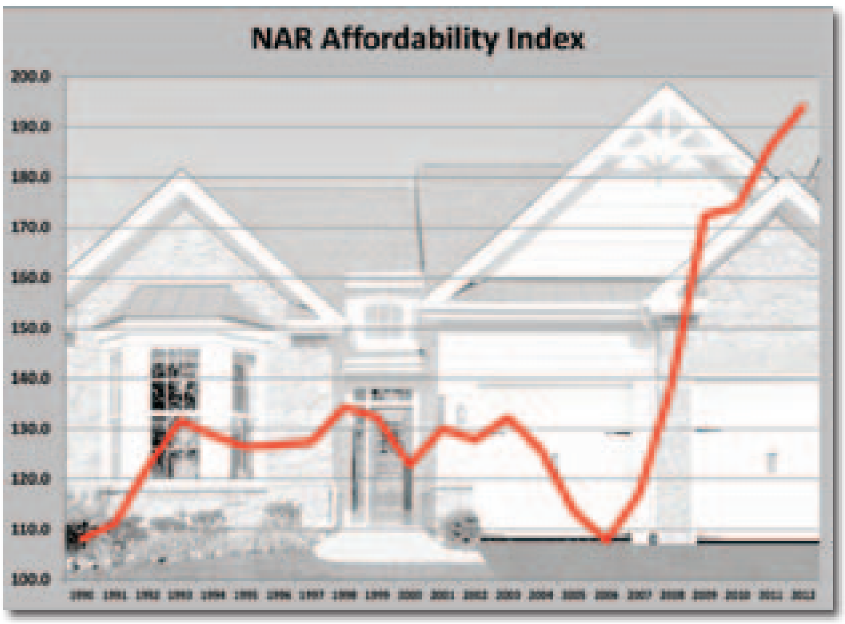
Car and vehicle sales in May jumped higher for all three American manufacturers. Chrysler Group LLC reported U.S. cars sales were up 11% in May. The automaker sold 166,596 cars in May, compared to 150,041 in the same month the year before. The sales were the best for the month for the firm since 2007. Ford sales rose 14 percent for May to 246,585 units, from 216,267 vehicles a year ago. The car company said the total was its best May result since 2006. Likewise, General Motors reported higher sales, with a total of 252,894 vehicles sold in May. The May retail total of 187,658 vehicles were up 8.6 percent, the highest total since September 2008. GM also noted that the Cadillac brand was experiencing 40 percent growth year-over-year.

The more robust sales are resulting in new hiring and price increases, which are a good indicator of industry health. The average U. S. car price rose two percent in May.



Data on home sales indicates an environment that will continue to support higher prices and new construction. The National Association of Realtors (NAR) reported on June 20 that sales of existing homes rose 4.2 percent to a seasonally adjusted annual rate of 5.18 million in May from 4.97 million in April, and is 12.9 percent above the 4.59 million-unit pace in May 2012. Not surprisingly, the median home price rose even faster to $208,000, up 15.4 percent compared to May 2012.

NAR chief economist Lawrence Yun expressed concern that prices were accelerating too fast and estimated that construction of new homes would need to increase by 50 percent from the current levels to allow inventory to grow. As of May, there was a five-month supply of homes in the market. The coming summer and fall months should prove pivotal to how the housing recovery plays out. Factors affecting affordability of homes – price, interest rate, inventory – have all turned unusually favorable over the past two or three years. If the overall economy continues to support buyer confidence and builders can access credit and labor to meet demand, a housing growth cycle should follow.



Conditions for home ownership have improved dramatically throughout the recession. Source National Association of Realtors.

The eight-point jump in the index was the biggest one-month gain since August and September of 2002, when the HMI recorded a similar increase of eight points.

Builder confidence in the market for newly-built single-family homes hit a significant milestone in June, surging eight points to a reading of 52 on the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) released today. Any reading over 50 indicates that more builders view sales conditions as good rather than poor. The eight-point jump in the index was the biggest one-month gain since August and September of 2002, when the HMI recorded a similar increase of eight points.

All three HMI components posted gains in June. The index gauging current sales conditions increased eight points to 56, while the index measuring expectations for future sales rose nine points to 61 – its highest level since March 2006.

Construction activity for May showed an increase over April, according to McGraw-Hill Construction. At a seasonally adjusted annual rate of $495.7 billion, new construction starts in May grew five percent from the previous month. The largest gain was in nonresidential building, which registered moderate growth for the second month in a row. Smaller gains in May were reported for housing and public works and electric utilities construction. During the first five months of 2013, total construction starts on an unadjusted basis were at $187.6 billion, down three percent from the same period a year ago; however the 2013 year-to-date total construction is skewed by a steep decline in the dollars for new electric utility projects that started in the first half of 2012. Excluding electric utilities, total construction starts would be up 10 percent year-to-date.

The other national construction report, Reed Construction Data, said on June 19 that nonresidential building starts had climbed 8.4 percent year-to-date, while non-building starts fell 24 percent, for a combined decline of 4.6 percent. Reed also reported a modest increase in starts in May. Differences in methodology often lead to divergent monthly reports from Reed and McGraw-Hill but the year-to-date conclusions of both seem to be pointing to a market that is expanding robustly for housing, modestly for non-residential construction and falling precipitously for heavy/highway and utilities.

Data from the Department of Commerce for May was not available at the time that Reed and McGraw-Hill released their data but the government's April reports show consistent, if modest, gains in nonresidential spending. As has been the case since 2011, the volume of construction in the private and public sectors are moving in opposite directions.

The gradual increase in private construction is corresponding with a gradual erosion of public spending, which is creating a widening gulf between the activity levels of each sector. After the last of the ARRA stimulus was spent in 2011, private non-residential construction has outstripped public spending. Within the past six months the gap has grown wider, averaging more than $45 billion more private than public spending.

No reversal in the trend is expected in 2013, although the increasing government revenues may reduce the gap in 2014. Even with improving tax receipts, government deficits were steep enough that increased capital spending will be negligible until 2015 or later. With demographics putting additional stresses on K-12 and higher education in the latter half of the decade, public spending increases should be disproportionately higher in the heavy and highway segment of the market. Given the condition of the infrastructure in the U. S., increased highway spending is in order.

The source of hope in that regard is the legislation coming from Congress and the White House to boost employment through federal infrastructure spending. President Obama's previous jobs bill focused on enabling small businesses to grow but was criticized for appealing more to Wall Street than to Main Street. Both the administration and Congress are pushing for bills in 2013 that will create jobs quickly (remember that mid-term elections are just over a year off) and highway bills are effective at accomplishing that. A bill that will earmark funding for something between $30 and $50 billion is likely to result, although Republicans will look for acceptable ways to pay for the additional spending and may weigh the legislation down with unrelated concessions.

There still does not seem to be the political appetite for developing any infrastructure spending for jobs into a more permanent expansion of the Federal highway allocation. Until some budget compromise is reached that moves towards the center of both parties' agendas, Federal capital spending to support educational facilities or to invest in the real estate portfolio of the General Services Administration will be minimal. The solace in the gap between private and public spending is that the variance is growing because private investment is growing. That should continue through 2014. BG

WHAT'S IT COST

The continued uptick in residential construction is being joined by strengthening in commercial and local public construction to add upward pricing pressure on materials that have more domestic demand. Materials that are more strongly impacted by global demand are experiencing softer pricing. These opposing forces are producing relatively stable inflation for the components that go into construction.

The Bureaus of Labor Statistics reported on June 13 the core inflation as measured by the consumer price index (CPI) was negative from April to May, falling 0.1 percent. Inflation for CPI rose only 1.1 percent from the previous May. The producer price index (PPI) for finished goods climbed 0.5 percent in May and 1.7 percent over May 2012. For construction, the PPI was unchanged for both the previous month and three months; and up only 0.8 percent for the 12 month period.

Among the report's details that stood out were a general leveling in the prices of products used in residential products, firming in the products used heavily in office and commercial construction and a decline in the globally-traded commodities.

In the latter category, the materials showing the steepest declines were steel mill products (-1.3 percent in May and -9.5 percent over 12 months), copper and brass mill shapes (-2.9 percent and -7.4 percent) and diesel fuel (-3.4 percent and -5.5 percent). The largest year-over-year price increases among major construction inputs were for gypsum products (0.5 percent and 19 percent) and lumber and plywood (-3.3 percent and 13 percent, respectively).

May's data for residential building products supports anecdotal evidence that earlier price increases were eroding but the Federal Reserve found different evidence in its survey of businesses. The Fed's "Beige Book" reported that the increased housing construction activity from April through May 23 "was a boon to manufacturers who supplied that industry. Firms in the Philadelphia district supplying the homebuilding sector reported strong orders, and the Cleveland district noted that suppliers to residential construction were among those seeing the strongest activity, while the Richmond, St. Louis, Dallas and San Francisco districts all reported increased demand for lumber or wood products…" If the Beige Book survey is accurate, the current activity may be a plateau in an otherwise upward trend.

In its May survey of building products manufacturers Thompson Research Group found that makers of drywall, metal studs, roofing, flooring, lighting and insulation all had industry support for price increases of between five and ten percent, with wallboard pressing to maintain the 25 to 30 percent increases instituted earlier in 2013. Insulation makers reported that products were on allocation, a situation that will support higher pricing.

Regardless of whether or not those residentially-oriented price increases can hold, the outlook for the materials with significant export markets is for continued weakness in demand. European recession and slower Asian growth – especially from China and India – will keep supplies of steel, industrial metals and petroleum products higher and prices lower.

The improving construction employment picture is also beginning to have potential for impacting prices for construction put in place. Manpower Group found in its June survey that construction employers were expecting to hire at an increasing pace in the third quarter. More than one in four expected to increase employment from June to September while only eight percent planned to decrease. The net gain of 18 percent was the highest of all 13 industries that Manpower surveys. BG

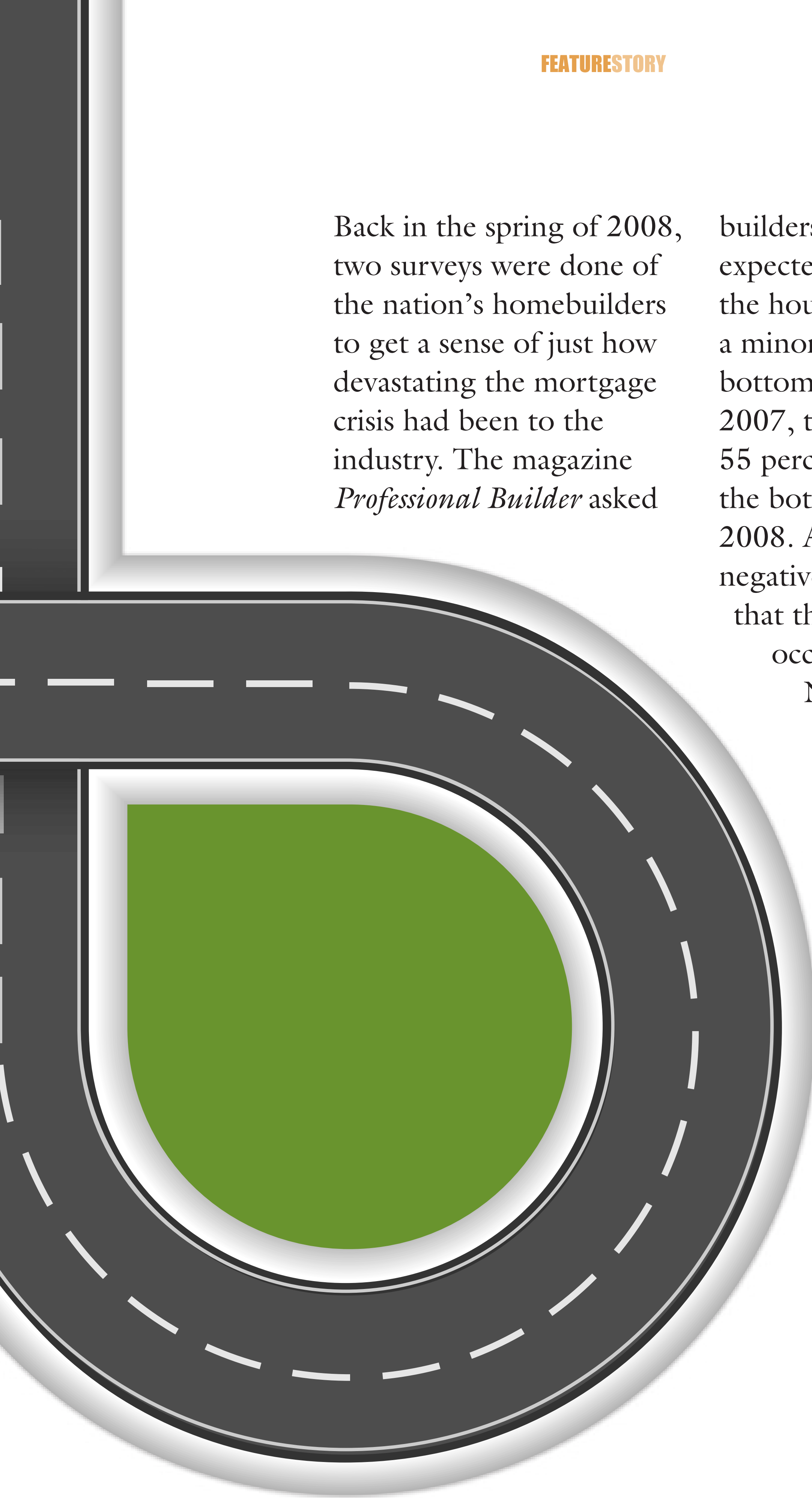
PERCENTAGE CHANGES IN COSTS	May 2013 compared to		
	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	-0.1	1.0	1.1
Producer price index (PPI) for finished goods	0.5	0.4	1.7
PPI for construction	0.0	0.0	0.8
Costs by Construction Types/Subcontractors			
Residential buildings	0.0	0.2	1.6
New industrial building construction	0.0	0.6	1.5
New warehouse construction	0.7	1.3	2.7
New school construction	0.0	0.1	0.4
New office construction	0.3	0.5	1.1
Concrete contractors, nonresidential	0.0	0.6	1.3
Roofing contractors, nonresidential	0.8	1.3	2.7
Electrical contractors, nonresidential	0.1	0.1	0.2
Plumbing contractors, nonresidential	0.0	0.5	1.3
Costs for Specific Construction Inputs			
#2 diesel fuel	-3.4	-9.9	-5.5
Asphalt paving mixtures and blocks	0.8	-0.1	-0.8
Concrete products	-0.2	0.9	2.9
Brick and structural clay tile	-0.7	-0.2	-0.7
Plastic construction products	0.3	-0.4	0.4
Gypsum products	0.5	1.5	19.3
Lumber and plywood	-3.3	2.7	13.2
Architectural coatings	0.8	0.0	0.3
Steel mill products	-1.3	-1.2	-9.5
Copper and brass mill shapes	-2.9	-8.0	-7.4
Aluminum mill shapes	-1.4	-4.0	-3.6
Fabricated structural metal	1.1	1.7	-1.5
Prefabricated metal buildings	0.1	0.3	-1.0
Crude petroleum (domestic production)	-0.1	-0.6	1.3
Asphalt (at refinery)	5.5	11.4	-14.0
Cement	0.7	1.2	5.2
Iron and steel scrap	-6.0	-2.2	-17.9
Copper base scrap	-1.8	-7.2	-6.8

Source Bureau of Labor Statistics, Updated June 14, 2013
Compiled by Ken Simonson, AGC Chief Economist

HOUSING at a Crossroads

Back in the spring of 2008, two surveys were done of the nation's homebuilders to get a sense of just how devastating the mortgage crisis had been to the industry. The magazine *Professional Builder* asked builders when they expected to see a bottom to the housing slump. While a minority believed the bottom had occurred in 2007, the majority – some 55 percent – predicted that the bottom would occur in 2008. A small, seemingly-negative cohort responded that the bottom would occur after 2010. The National Association of Home Builders survey found that most builders didn't expect a sustainable recovery until 2010.

If only either of these results had been prophetic.



Development of new subdivisions creating available lots has lagged demand for new construction throughout the recession and recovery.

As the recession played out, the bottom of the new construction market for housing took place in late 2009 and while there were slight increases in starts in 2010, by the end of that year housing construction had begun to decline again. New home construction fell throughout 2011, almost reaching the lows of 2009 again.

The decline in housing construction was a drag on the economy. As a source of employment, housing construction had the potential to reduce unemployment by as much as two points in 2010 simply by rising to the one million unit start level – a level that has not yet been reached in 2013. The decline in home values and overhang of inventory dragged demand down during the recession, which kept buyers on the sidelines and dampened consumer spending. Those same dynamics weighed on lending as well.

As the housing market's basic dynamics shifted back towards equilibrium, with so few houses built for such an extended period of time, the prices of homes for sale began to rise again. It's important to remember that the housing price decline started in the most overbuilt markets – Las Vegas, Tampa, Stockton, and Phoenix – in the spring of 2007, while the recovery in home prices is really only about a year old. The return of appreciation had a positive impact on the psyche of the American homeowner but there has also been a practical impact: rising prices presages an increase in new construction and that means rising employment. As new construction has moved back close to the one million units per year level, the overall economy has been given a boost.

The Federal Reserve's most recent Commentary on Current Economic Conditions – more commonly known as the "Beige Book" – found that the overall economy was growing at a modest pace in all 12 of its districts. But in its survey of activity from April through May 23 the Beige Book reported that residential construction "increased at a moderate to strong pace in all districts...."

With economic conditions still uneven, few things would help sustain a recovery as well as heightened rate of job growth and a confident consumer. Surveys of businesses over the past few years have repeatedly pointed to the lack of certainty as the main reason businesses aren't hiring. If consumers can again feel assured that their home was not depreciating, they will more confidently buy and invest. Housing makes up 20 percent of the U. S. gross domestic product (GDP). A rebound in home construction back to the trend of the last 30 years would add almost 200 basis points to GDP, bringing growth back above 3 percent. As summer 2013 unfolds, the U. S. housing market appears poised to become a catalyst for growth again.

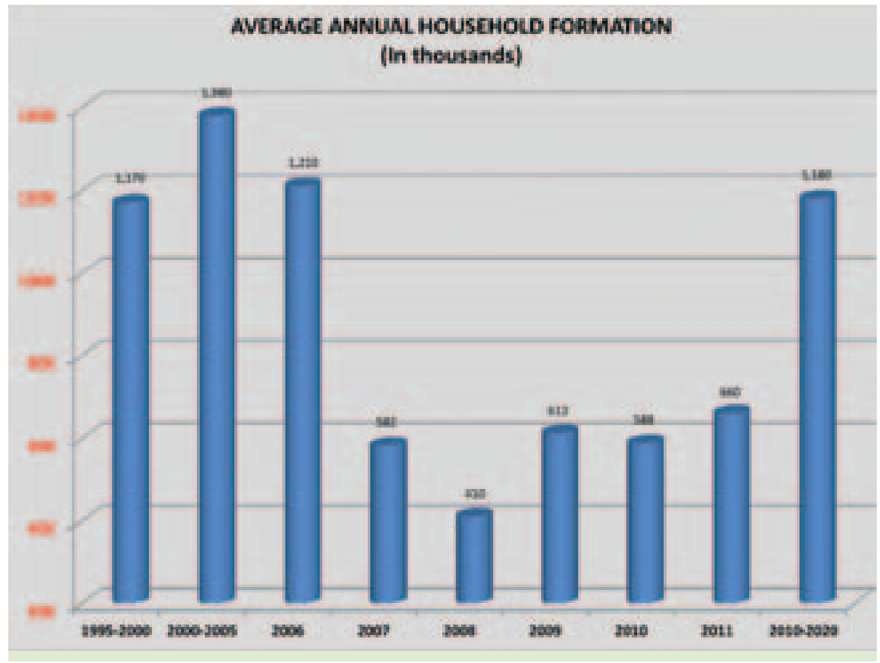
Getting Back in Balance

You could draw an interesting parallel between the current market conditions and those of 2003. A recession triggered by the dot com bubble bursting was deepened by the fear that followed the terrorist attacks of September 11, 2001. Like now, the recovery from that recession was also 'jobless,' with unemployment a stubborn problem. The housing market was also seen then as an opportunity for restoring growth and the Bush administration and the Federal Reserve created policies that encouraged home ownership and homebuilding. Those policies, which included relaxing the underwriting standards for Fannie Mae and Freddie Mac and deregulation of banks, triggered a housing boom built on credit instead of demand.

Those government policies worked. The housing boom of 2005 and 2006 created millions of jobs, pushing unemployment below six percent and opening the floodgates of consumer spending. Of course, the stimuli for the boom were also the seeds of the financial crisis.

It's folly to argue that the recession wasn't the worst unintended consequence of the housing boom but for residential construction the bigger problem was the overbuilding that loose credit spawned. Coupled with a tidal wave of foreclosures that accompanied the bust, the overbuilding meant that supply/demand equilibrium was out of whack to an unprecedented degree.

To put the conditions of the recent years into historical perspective, the housing market at the end of the last recession in 2003 was hardly in the doldrums. For the full year of 2003, more than 1.8 million total units were built and that was on the heels of 1.7 million units in 2002. From those levels the new construction went up by another 500,000 units at the peak in early 2006. By contrast, new construction averaged only 570,000 units during the two full years of 2009 and 2010 and that included a boost from the first-time buyer tax credit incentive in the first four months of 2010. In fact, when the monthly housing construction finally crossed the million-unit mark again in March 2013, new housing construction had been below that level for 56 straight months. No economic downturn had caused a drop below one million units for more than nine consecutive months since World War II.



Household formations took an unprecedented decline following the housing bubble and the forecast is for fewer formations for the decade. Source: Harvard Joint Center for Housing Studies.

In a market that has historically demanded more than 1.3 million units per year for more than six decades, construction for the past five years was less than half that average. This dramatically reduced supply should have created unprecedented pent-up demand. While that may have indeed happened – we don't know yet how buyers will respond over the coming half-decade – the expected rise in home prices that should have been the result of such underbuilding did not happen. Instead, home prices fell and remained depressed because the inventory of homes on the market did not shrink throughout the recession and the recovery. The repercussions of easy credit were foreclosure rates that spiked starting in mid-2007 and peaked at over 100,000 homes per month in summer 2010. Demand for homes may have bounced back to the million-plus level but the inventory of foreclosed homes was a substitute for half the normal number of new homes.

Of course, because the circumstances of a foreclosure are far direr than that of a newly constructed home, the inventory of foreclosures sold at greatly reduced prices from the norm. This kept home values going lower until 2012.

The evidence in 2013 is that prices are finally and sustainably rising again. The S&P/Case-Shiller Index tracks changes in residential real estate values nationally and in 20 major U. S. cities. On May 28, Case-Shiller reported that its 20-city composite rose 1.4 percent in March, the largest monthly growth since July. The growth from the same period of last year was 10.9 percent, which marks the highest year-on-year growth rate since April 2006. Prices rose 10.2 percent for the first quarter of 2013. All 20 cities the S & P/Case-Shiller Index tracks saw year-over-year improvements for a third consecutive month.

Given the normal levels of household formations, the pent-up demand should drive several years of new construction well above the two million-unit mark but it's clear thus far in 2013 that the number of buyers in the market won't support that kind of boom.

Home prices are being pushed up by low inventory and interest rates. There are also fewer distressed sales, meaning that the pent-up demand is creating heightened competition for properties. Without the relief valve of new construction, existing home prices will continue to rise. Even with the recent gains, however, prices remain 28 percent below the zenith in 2006.

Suppressed supply and rapidly rising prices has historically been the recipe for a boom in new construction. Unless there is a significant and unprecedented increase in the number of existing homes for sale, buyers will need more inventory from which to choose in order to keep prices from rising so steeply for an extended period. As in past, the most likely source of new inventory will be new home construction.

The June 7 Kiplinger Letter predicts the increase in new construction will be enough this year to bring supply and demand more closely in balance by 2014. Kiplinger forecasts house prices will rise four percent in 2014, after a year that will see appreciation above eight percent. Moreover, the forecasters expect appreciation to return to its historical norm of roughly one percent above the rate of inflation again in 2015.

The one variable in the supply/demand balance that is still unknown is the degree to which buyers' demand was suppressed because of the recession and the fallout from the credit crisis. Given the normal levels of household formations, the pent-up demand should drive several years of new construction well above the two million-unit mark but it's clear thus far in 2013 that the number of buyers in the market won't support that kind of boom. The unknown variable is the number of households ready to be formed.

It's About Household Formations and Demographics

No single factor drives demand for new housing so much as the formation of new households. Follow the data on household formation rates historically and it tracks with the number of houses built. The current trend in household formations has been greatly influenced by economic conditions and demographics.

The household formation rate is a measure of each new place that a group of people – unrelated roommates, two newlyweds or a nuclear family of four – comes together to live. Because of changing birth rates, immigration or graduations, the number of new homes needed in America will vary from year-to-year. What hasn't varied is the fact that more places to live are needed each year. As a matter of fact, the household formation rate has been steadily increasing over the past 30 years, at least until 2008. Since the financial crisis the household formation rate has remained essentially flat.

In a country where the population increases by about 3 million people each year, maintaining the household formation rate is effectively a decline.

The recession of 2007-2009 had a significant impact on the number of independent households, as increased unemployment and underemployment drove younger people to remain at home after graduation. Studies have shown that somewhere between one-third and one-fifth of adults between the ages of 25 and 34 lived independently since the start of the recession. In 2006, that number was roughly half of all young adults. With declining immigration, this trend of young adults 'boomeranging' back home was a big reason why household formations fell from 1.9 million in 2006 to 410,000 in 2010.

Employment has picked up to the point where the household formation rate should begin to reflect that backlog of young adults who would have historically been on their own already but even the most liberal of forecasts sees the household formation rate climbing to 1.3 million in 2013 and to 1.5 million in 2015. During the duration of the recession and recovery, nearly 3 million fewer households were formed than should have been if the normal trends had prevailed. That should lead to much higher levels of household formation than are being forecasted over the next few years. It's clear that other factors are influencing household formation. Over the longer run, in fact, the most important drivers of household growth will be the size and age of the population.

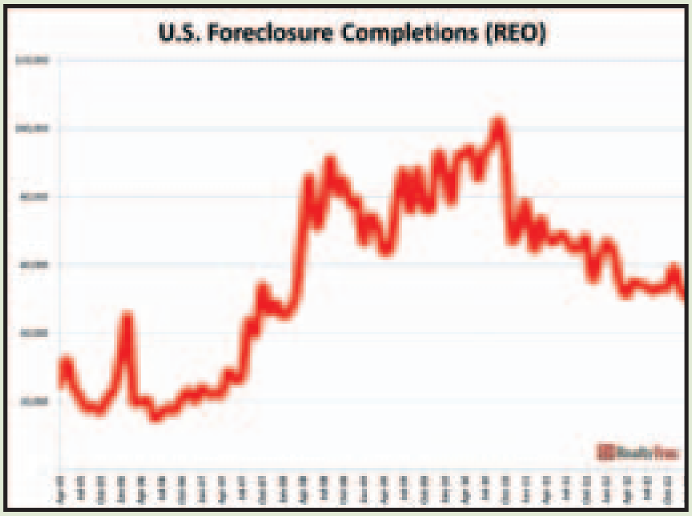
Over the next decade – assuming the economy does not go into serious recession in the next few years – the growth and aging of the current population alone should support the formation of one million new households per year. If net immigration inflows are roughly half the current level, the Harvard Joint Center for Housing Studies projects household growth should average 1.18 million a year in the decade of 2010 to 2020.

The aging of the Baby Boomers is another key factor in future housing demand. The leading edge of this group reached 65 in 2011, entering the phase of life when they are less likely to move to different homes. The Baby Boomers should play a smaller part in setting the pace of housing demand in the coming years, as evidenced by the share of the market owned by Boomers. During the mid-decade housing boom, for example, Boomers occupied 34 percent of homes built after 2000 while those from the Baby Bust generation – who were aged 25 to 44 at the time – occupied roughly half of the newly built homes.

And for all of the economic impact of the Baby Boom, the Echo Boomers have the potential to make a greater dent than their parents did over the next 20 years. For the housing market this is good news. Echo Boomers already outnumber the Baby Boomers at the same ages. With just modest immigration inflows, the Echo Boom generation will grow even larger as its members move into the prime household formation years.

Changing Attitudes + Changing Lifestyles = Apartments

As the housing bubble approached full inflation in 2006 a number of historical metrics for affordability reached unprecedented – and out-of-balance – levels. The time-honored relationship between price and income was slightly more than three times income; however, by 2005 that ratio had risen to almost five times income and was still 4.5:1 in 2006, when the boom peaked. Monthly mortgage costs were 28 percent of household income and the monthly mortgage



Foreclosures have begun to decline more rapidly since the beginning of 2011.

burden was nearly 1.5 times the average rent. Home prices were high and the ability to meet the mortgage obligation was being stretched.

For many analysts these imbalances presaged the bubble bursting regardless of the underlying economic situation.

Once the financial crisis and recession hit, conditions rapidly reversed and made renting more practical for many more Americans. Those who had the misfortune of losing jobs had problems with affordability and with credit worthiness. High unemployment further reduced the field of potential buyers and increased the number of renters. Young adults – who make up the lion's share of the renter demographic in any era – had a particularly difficult time with unemployment and helped keep the rental rolls fuller for longer.

In addition to the economic and affordability issues, the recession appears to have had some psychological impact on consumers as well. Perhaps because of the coincidental attitude shifts about urban living and sustainable lifestyles, more Americans see owning a home, especially in the suburbs, as a bad residential model. Younger adults in particular are choosing to live near urban centers where the lack of available land dictates multi-family living. This model also fits with a non-commuting, low environmental impact lifestyle better than suburban home ownership.

Setting lifestyle considerations aside, it's also cheaper to rent than buy in many U. S. markets. Jay McCanless is a homebuilder analyst for investment firm Stern Agee. McCanless compared the cost of mortgage, insurance and taxes vs. renting. In the 25 top markets of the builders he follows (which excludes New York and Los Angeles but includes Chicago, Indianapolis, Houston, Washington D.C. and San Francisco), it's cheaper to rent instead of buy in 13 markets at an interest rate of 3.5 percent.

McCanless has seen orders go up an average 40 percent and 29.8 percent in the last two quarters. Average closing prices have gone up 7.7 percent and 10.5 percent, and closings have increased 31.5 percent and 37.6 percent. And he points out that mortgage rates have climbed since reaching a cyclical low of 3.47 percent in the week ending Dec. 7. According to Freddie Mac, the 30-year fixed-rate mortgage hit the highest level in a year in the week ending May 30, at 3.81 percent.

Whether or not affordability is an issue in Pittsburgh, the market for apartments in the region is still very much a landlord's market. Rents continue to increase year-over-year and the urban rents are approaching levels that were considered unrealistic just two years ago.

In market conditions such as those that prevail in metropolitan Pittsburgh in 2013, two reactions to the supply and demand imbalance will generally occur. One is for real estate developers to respond to the high occupancy and rising rents by building more apartments. This is already occurring. More than 1,000 apartment units have been or are being added to the stock in downtown Pittsburgh and its surrounding core area and those are being rapidly absorbed. Nearly 4,000 units of new construction are in the pipeline for suburban apartments. Roughly 1,200 units of these projects are underway or about to start. New apartment construction was virtually non-existent for more than a decade until the past year or so. How the market responds to those that are being added will dictate how many of the remaining projects advance and whether or not there will be overbuilding.

The other normal market reaction to tight apartment vacancy and climbing rents is, of course, an increase in new home construction. While construction levels are on the rise, the volume has yet to reach half the 2004-2005 levels, and the conditions are not predicting a new construction boom just yet.

More Buyers Than Sellers

What is keeping the lid on new home construction at the moment is fundamental change in the Pittsburgh marketplace and a relatively limited number of available lots. The problem is not a lack of buyers. In fact, the number of buyers has outstripped the number of sellers for a couple of years.

"The number of homes for sale in the market is 40 percent lower than it was three years ago," observes Howard 'Hoddy' Hanna III, CEO of the region's largest real estate firm. "There is very little new construction. The foreclosure market is down generally and we had a pretty good spring sales season."

According to the data for the first four months of 2013, there are more homes on the market; there just aren't enough to keep up with the growth in buyers. For all homes on the market, West Penn Multi-List reported that there was a 10.9 percent increase in listings in April to 4,145 but a 16.7 percent increase in closings to 4,410. That the supply of homes is increasing is encouraging to the region's real estate professionals but the fact closings still outpace listings means that upward price pressure will continue. And it also means that Realtors™ would like more to sell.

Hanna says that their sales were up 23 percent over 2012, a year which saw even better year-over-year growth. He believes their sales could be even higher if there were more homes on the market, especially new homes.

"The number one driving force in the market right now isn't the first time buyer or relocation but the move-up buyer who didn't move up since 2008," he notes. "Those folks took themselves out of the market because of fear of what was going on in the economy. Over the last year that has subsided because jobs are growing again or their 401-K is growing." What the move-up buyer also wants is new home options that aren't there right now.

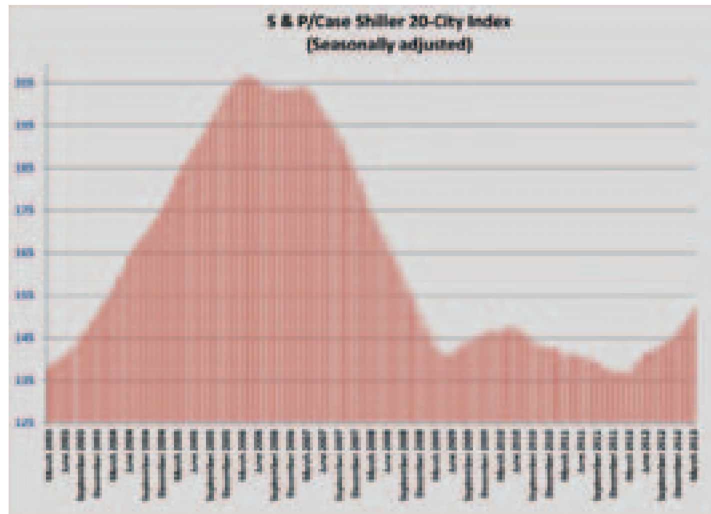
New construction offers an exciting option to buyers, most of who don't start out looking for something new. Hanna refers to the new construction as an 'impulse buy' because the buyer will make the decision to build new after seeing what is possible in a speculative or model home. Right now, there aren't a lot of spec homes to see.

Because overextending credit to spec builders was a big cause of the housing crisis, financing for spec homes dried up until recently, and even those lenders willing to finance a spec are doing so on a limited basis.

Another factor limiting the number of spec homes available is the change in the builder profile in Pittsburgh since the recession. The city has never been the size that attracted high-volume production builders and the share of custom homes in the market has historically been 60 percent or more. But the recession pinched the custom builder, especially those who could not finance speculative homes. In that void the share of the production builder grew to as high as 80 percent. Pittsburgh even became a new market for several production builders from out of the region. This change had a dramatic impact on residential development.

New subdivision development had been slowing before the onset of the recession. At the depths of the downturn, when demand was low it was possible to see a coming lot shortage after the recovery. Subdivision development has remained scarce, even as the economy has turned around in part because developers haven't been able to get financing and also because developers have become interested primarily in working for the production builder. The traditional residential project – communities like Treesdale, Nevillewood or Ehrman Farms – was developed using a model of signing on a handful of custom builders that would build or 'take down' a certain number of lots. Until recently, such an arrangement could be counted upon to be good for 50 homes or so each year, ensuring that the developer was able to recoup his investment and exit in three years or less. Production builders can offer similar take down schedules to developers – sometimes even more aggressive than that – and allow the developer to work with a single builder. Between the financing and the builder/developer dynamics, new subdivisions have been slow to develop.

After half-dozen years of a shifting landscape, developers are beginning to scratch new dirt again. While most of these are



neighborhoods for the bigger builders, the additional inventory is welcome and should also make it easier for developers to consider smaller custom projects.

"Most of what we have done over the past few years were existing [subdivisions] because the loans were sitting there for so long," explains Dave King, partner in the appraisal firm Nicklas King McConahy. "This year for the first time in three years we've been asked to look at new developments."

At the current time there are more than a dozen new subdivisions going through the municipal approval process throughout the region and a few under construction. All of these are in parts of the city that you would expect new development to occur: north and south of the city along the I-79 corridor or the airport area. These should be well-received by the buyers in the market and have the potential to spur more buyers to look at new construction.

One of the common themes of today's residential real estate market is the difficulty in finding a home, particularly in desirable neighborhoods. New construction is the solution to that problem. Coming out of a wrenching time for residential development and finance, these next couple of years will be a barometer for how well the new construction will be absorbed. Existing homes are selling quickly and often getting multiple offers. Stories of sellers getting more than the asking price abound. Those are conditions that should drive new home construction higher.

Pittsburgh has never had more people working at any point in its history and the outlook is for more jobs to be added, even though unemployment remains elevated. Residential construction is one of those industry sectors that employ a lot of people. Presuming the path of employment continues higher in the overall economy, a reinvigorated housing construction industry would benefit and add to the prosperity.

None of these more positive indicators are assured, either regionally or in the global economy. Uncertainty about overseas markets remains. The unwinding of the Federal Reserve's bond buying looms. Fannie Mae and Freddie Mac continue to hold billons in loan assets that are worth less than can be paid back. Head winds certainly exist.

It is difficult to see macroeconomic conditions that can hold back the simple math of the imbalanced supply and demand. New home construction won't be the remedy for bigger problems that could occur in the economy but it should no longer be the cause either. BG

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Fairview Suites sits between the campus and Lock Haven's main drag at the foot of one of the town's rolling hills. Photography by Liam Frederick.

FAIRVIEW SUITES
Student Apartments

Like all universities, Lock Haven University (LHU) has had to face the problems associated with remaining competitive with the myriad educational opportunities available to students in the 21st Century. One of the key challenges in meeting the demands of the current generation of college students has been the change in expectations about student living quarters.

"We learned that 18-year olds don't want to live in the same dorms that you and I were used to," explains Paula Kistler, director of foundation operations for the Lock Haven University Foundation. "They don't want a cinder block room where you grab your robe and toilet kit and go down the hall to the bathroom. All across the SSHE system, we are making changes so that we can compete for students."

Pennsylvania's State System of Higher Education (SSHE) recognized the systemic nature of the challenge and created an approach to the needs of the universities that could work system wide. Each of the universities was tasked with assessing the needs for student housing, doing a feasibility study and a plan for accomplishing the goals that arose. To help the SSHE schools undertake such a major capital program without adding massive debt to the balance sheets, the universities' 501-3C non-profit foundations were empowered to issue bonds to raise the money needed for construction. The bonds were backed by the revenue that would be generated by room fees over the life of the bonds (the same was true for student and convocation centers, which could repay the bondholders from usage fees).

PASSHE also created a blueprint for the new housing that required the schools to solicit proposals from teams that included a private developer with experience in new student housing. The developer's response would include design and construction professionals to create a turnkey approach to the new residences. This approach created a boom of student housing beginning in the middle of the last decade.

Photography by Liam Frederick.

Lock Haven's 2009 master plan – done by WTW Architects – found that the campus had 517 fewer beds than its student capacity and predicted that the need would exceed 600 beds by 2013. While selecting a site for the new apartments was relatively easy – Kistler says, "The site was a no-brainer. It was the only piece of level ground we had." – LHU was still early in the process and put the project on a fast track. "SSHE required us to work through the foundation to create a public/private partnership," says Kistler. "We were required to select a nationally-recognized developer. We went through a multiple interview and scoring process"

The LHU Foundation issued an RFP the following fall and in late October 2010 selected the team assembled by Capstone Development Corporation (now Capstone Development Partners), from Birmingham, AL.

Capstone's team included Mascaro Construction as contractor and the STV Group as architect and engineer for the design. Mascaro had previously worked with Capstone on several projects, including new housing at Washington & Jefferson College, Marshall and Clarion University. Capstone has developed 81 projects in almost all 50 states since 1997, including five in Pennsylvania. The familiarity helped, as the university was interested in getting the new apartments, called the Fairview Suites, open for the 2012 school year, which was slightly more than 18 months away.

The program called for building more beds than were projected to be needed, ultimately settling on 682 beds. LHU's site for the project was a former silk mill located at the western edge of the campus along North Fairview Street. Although the site was level, it fell away to the south and single-family homes were directly across the street from the new building. What the site left the architects was a large building that could really only run from east to west, meaning that the front and rear elevations would be roughly 800 feet long. The configuration gave the architects a difficult design challenge.

"The initial concept from the university was two separate buildings, one on top of the hill and one at the bottom, but during the RFP process they realized they could buy more land and would have one long building on top," explains Michel DeTurck. "The biggest challenge with that was this was a long narrow site with a hillside running right through the middle it. There were places where it was a 40 foot cliff and others where it was just a very steep hill. The site planning was probably the most difficult aspect."

DeTurck notes that with such a severe change in grade there are challenges in trying to fit parking lots, make the building accessible for those with disabilities and to create good circulation within the building. And the building's unusual length made it difficult to give the exterior the kind of residential feel that was appropriate for an apartment in a small town neighborhood.

"It isn't easy to give a residential look to a building that is the length of two-and-half football fields," DeTurck jokes. "We tried to break the building up by arranging it so that it was like several buildings that were attached rather than one long building. We changed materials and how they were put together to break up the exterior and soften the building's mass and length."

The final design resulted in a facility that is nearly 200,000 square feet, with hardboard siding and a brick that matches most of LHU's other buildings as the main exterior finishes. The roof consists of mostly shingled gable roofs, with the roofline broken up into about ten individual sections for a more residential scale. Individual apartments contained two beds, either in separate bedrooms with a small common area or in a more traditional layout of two beds per room with a divided private bathroom.

As the project was being planned the LHU Foundation was keeping an eye on the financial markets. Interest rates were low and creeping lower throughout the spring of 2011 but the concerns over defaulting sovereign debt in Europe and America was making bond prices volatile. Since the $35 million project was going to be financed through a bond issue, LHU wanted to sell its bonds into a market that wasn't getting an unnecessary premium because of unrelated worries.

"We watched the bond market closely. We were scheduled to finance the project in mid-May but couldn't until the end of June so that put us six weeks behind before construction started," notes Kistler. "Mascaro was sitting just outside the construction site waiting for us to call so that they could attack the site."

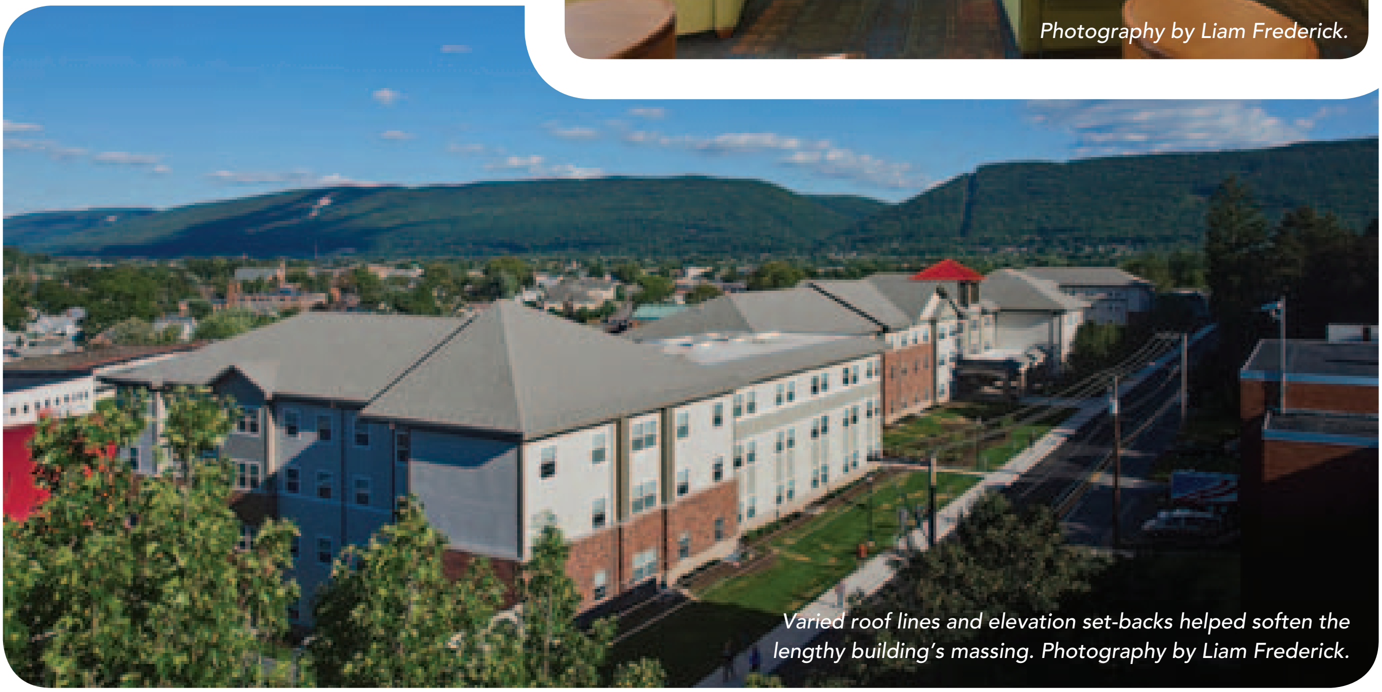
When financing was secured in late June, Mascaro moved quickly to try to make back the ground lost in preconstruction and ran head first into another delay.

"We started construction the first week of July and had a big issue right away. The site was supposed to be a balanced cut and fill of a few thousand yards," explains Bob Singleton, Mascaro's project manager. "As soon as we started digging we hit bad soil.

We ended up bringing in 40,000 yards of fill." Fairview Suites was going on a former industrial site. The former silk mill had not created a hazardous site or environmental problem but the practices of early 20th Century manufacturing were the source of the soils problem. "You know those old factories," says Kistler. "They just took their trash and dumped it out the back door."

The trash Paula Kistler speaks of was actually not trash but ash, the remains of burning both

Photography by Liam Frederick.



Varied roof lines and elevation set-backs helped soften the lengthy building's massing. Photography by Liam Frederick.

for heat and to dispose of refuse. Although it wasn't hazardous, the ash was unsuitable for compaction. Cutting out the unsuitable soil and filling the site was a significant added cost due to unforeseen conditions but the cost was not the biggest headache.

"The trouble was that all the trucks in the area were tied up with the [gas] drilling that was going on in the area. We couldn't get trucks," says Singleton. "With 40,000 yards you could run trucks all day for a while but there were some days we could only get four or five trucks in and out. The site problems put us six weeks behind on the construction schedule."

> "It isn't easy to give a residential look to a building that is the length of two-and-half football fields,"

With work starting late because of the delay in the bond issue, this additional problem put Mascaro twelve weeks behind the original plan for delivering the apartments before August 2012. Paula Kistler was pleased to discover that there was no request for a new schedule in spite of the problems.

"Not once, even from a subcontractor did I hear the word delay from the team. Neither Capstone nor Mascaro ever considered a delay. That was communicated down to the subcontractors and suppliers," she says. "The attitude was just, here's the situation,

Photography by Liam Frederick.

now how are we going to work our way through it. It was an absolutely incredible team. I don't think we could have done it with another team."

Dealing with the site problems also created a sequencing problem because the location of the unsuitable soils was at the opposite end of the building from the mechanical wing, which is ideally where the work would have started by bringing in the utilities for the building. With such a long building, starting the excavation 800 feet away from where the utilities connected was a significant inconvenience.

Mascaro's team for the Fairview Suites included a number of subcontractors that have worked with them many times but a few of the key subs were new to Mascaro and Bob Singleton. Turnkey Electric and PA Masonry are both based in Lock Haven and while each has done the lion's share of work at Lock Haven University, neither had subcontracted to Mascaro. Singleton is effusive in his praise for both.

"Turnkey did a phenomenal job. The quality of PA Masonry's work was among the best I've seen in 33 years on the job," he says. He also highlighted the role that Easley & Rivers played. "I can't say enough about the work E & R did. We loaded them up. They did the drywall, framing, cabinetry, doors and hardware. Neal Rivers just stepped up to the plate and got things done."

Singleton points out that the level of cooperation among all the subcontractors on Fairview Suites was as extraordinary as Paula Kistler observed.

"It sounds corny but it really was a team effort. There were times when subs went out of their way to help another subcontractor," he says. "It was a good team and a good attitude. From the start we saw that the architect was ready to work with us. We saw that Paula was willing to work with us. That makes the contractors willing to work together and quite frankly, it helped to know that we were all getting paid regularly and on time."

Mascaro's management team included project engineer Zach Brehm and superintendent Mike Salopek. The teamwork went a long way towards reeling the schedule back in but it helped to get a little good luck from Mother Nature.

"Last winter was pretty mild. We didn't miss a day all through the dead of winter," Singleton recalls. "I doubt there are many winters you can say that in Lock Haven."

Mascaro's team took full advantage of the good fortune, adapting the critical path sequence as the work accelerated. Work was completed almost twelve months from the start in July 2012, which was two weeks ahead of the original schedule. Within three months the apartments were 100 percent occupied. Since the opening, Lock Haven University was notified that the Fairview Suites had been certified LEED-Silver NC. LHU has plans for another phase of student apartments, which Singleton says Mascaro was hoping to roll right into, but the university is being more conservative in light of the state's funding issues. Whether or not the project goes ahead in the near future, Paula Kistler is clear about how she wants things to go.

"We're doing a new science building that was a state bid job and it's not going as well. Both Turnkey and PA Masonry are on that job too and they tell me all the time they wish Mascaro was the general," she says. Kistler believes that the delivery system used on the Fairview Suites project made their success possible. "We couldn't have achieved that kind of schedule if we were held to doing things the state's normal way. If I had my druthers I'd build everything I ever do with Mascaro."

PROJECT TEAM

Mascaro Construction	General Contractor
Capstone Development Partners	Developer
Lock Haven University Foundation	Owner
STV Group Inc.	Architect & Engineer
Renick Brothers Mechanical	HVAC & Plumbing
EMCOR/Scalise Industries	Fire Protection
Turnkey Electric	Electrical
Easley & Rivers Inc.	Interiors, Carpentry
Eagle Construction	Site Work
Mid-State Roofing	Roofing
Glass Erectors Inc.	Storefront/Glazing
Eastern Elevator Service & Sales	Elevator
PA Masonry	Masonry
Lisanti Painting Inc.	Painting
Massaro Industries	Ceramic Tile

Successful partnerships are often the result of blending the different strengths and weaknesses of very different people. That isn't always easily done with family but brothers Joe and Rob Indovina seem to share a common philosophy about their business and the practice of architecture even if they come to the table in two very different ways.

The origins of Indovina Associates can be found in their father's business, Joseph Indovina Construction Co. Joseph Indovina built homes throughout the city, Fox Chapel and the South Hills and exposed his sons to the business as young men, although Rob says that his father wanted his passion for the industry to be expressed differently in his sons.

"Our dad always wanted us to be architects. He always loved construction, all the aspects of building but he didn't wish to inflict that upon his sons," jokes Rob. "He said you should be architects, not builders." As it turned out, the sons didn't follow his advice completely.

Joe Indovina says the connection to the profession goes further than his father's vocation. "I think it's in the blood. Actually our family in Italy was all architects and sculptors, although we didn't know that at the time," he says. "We grew up in the construction business. There were houses being built up the street and down the street and our house was in the middle of it."

Older by more than three years, Joe Indovina initially started down a path towards the fine arts, earning a degree in painting and sculpture from Penn State. Rob followed Joe to Penn State but chose architecture as his study and followed his undergraduate degree with a Masters in Architecture from Harvard University's Graduate School of Design. As Rob was going off to Harvard, Joe decided to follow his father's advice and went back to school to get his Masters in Architecture at Carnegie Mellon University.

"I worked for a firm downtown for four years but that never really sat well with me. That must be in the blood too," says Rob. "So at some point I said to Joe – it must have been when he finished at Carnegie Mellon – let's just start up and see what we can do."

The Indovina's also received a practical education by working in their father's business while they were getting their formal education. While they were often used as laborers, they also got the opportunity to frame and lay out the carpentry and saw first-hand every day what it took to pull subcontractors together and manage a project. That hands-on exposure to the industry has proven invaluable over the course of their careers but it was especially important when they launched their architectural practice in 1978.

"We spent our time chasing work and when the worked thinned out we built houses," remembers Joe. The projects were ground up design/build custom homes in Fox Chapel and Hampton, involving development as well as the architecture and contracting. "I think we built more houses than we did architecture for a few years."

"HE SAID YOU SHOULD BE ARCHITECTS, NOT BUILDERS." AS IT TURNED OUT, THE SONS DIDN'T FOLLOW HIS ADVICE COMPLETELY...

Joe suggests that the home building experience was seminal to their architectural practice, not only because it was profitable and supported the business but also because of the perspective it provided that would serve their future clients.

"We built things on a budget because it was our money we were working with," he says. "We developed a sort of pragmatism about the practice. On the one hand we were the designer but we couldn't be where we were above it all."

The architectural practice hit a tipping point in 1982 when the firm landed the design of the Lenders Services building on the Parkway West. The project was Indovina's big break and led to a relationship with Bob Murphy, the owner of Lenders Services Inc. that would last decades. Murphy used Indovina as his architect for his other business ventures and the firm designed Murphy's home. The relationship also typified what became the operating philosophy of Indovina Associates.

Rob and Joe seem to be hard-wired to the problem-solving aspects of their profession. Although they may focus on different types of problems, it's clear that the two men derive significant satisfaction from meeting their clients' design needs and ensuring that designs are put together smoothly in the field. Yet, when asked what their favorite project is, the two answer almost simultaneously, "the next one."

"Architecture is still a business…I think the biggest challenge in our profession is staying busy, getting the next job," explains Rob. He recounts an interview done with H. H. Richardson near the end of his career. "That's what Richardson said when he was asked what the three most important things were in architecture: Get the job; get the job; get the job."

At the time the Indovina's went into business, architecture as a practice was not one that used marketing and sales to bring in business. As competition has heated up over the years, architects have become more savvy and aggressive marketers. Indovina Associates has considered adding that function but has never added a sales and marketing professional to develop business. They refer to themselves as being lucky that work always seemed to develop but some early successes, like with Bob Murphy, paved the way for a fruitful network.

One such project involved a woman who called out of the blue to have them design a kitchen remodeling for her in 1983. A friend referred her so they agreed to meet. "I thought do we really want to do a kitchen? We talked with her and did the kitchen and it turned out really well," Rob recounts. "At the end of the project she said by the way, my father owns nursing homes. Would you be interested in working for him?"

The father was Sidney Garfield and he asked Indovina to do a design for what became the Wexford House. "He liked the rendering and said he had about $30 million in work over the next five years and we were interested," Rob jokes. "We had not done a nursing home project but I said nursing homes are my middle name! We hired up in a hurry."

The relationship with Murphy led to work with what is probably Indovina's best-known client, the Pittsburgh Zoo and PPG Aquarium.

"Bob Luffy was the chair of the zoo's board at the time and he ran into Bob Murphy at Froggy's one Friday evening," says Joe. "I don't know how our name came up but we were doing Murphy's house at the time and he extolled our virtues to Luffy. I don't know if that was the tie breaker or not but Luffy hired us for the zoo." Indovina Associates has worked continuously for the zoo for a quarter century, designing each of the expanded facilities that have been added.

The brothers each have stories about gaining clients in a similar fashion. Rather than take it for granted, they have looked at their word of mouth business somewhat analytically.

"It's interesting to chart the connections. It's almost like six degrees of separation," explains Rob. "You do a job for one person who mentions you to another person and so on. It ends up being about eight people that you can trace your work to. We've got a pretty good track record of doing work and they tend to mention us to someone else."

"It seems like it always happened that way. Pittsburgh is such a closed loop and reputation is everything in this city," says Joe. "You don't do anything here without your reputation, for good or bad."

Perhaps the firm has also benefitted from their pragmatic approach to designing and managing the construction.

"We've always designed our client's building, not our building. One of the pitches I make is that we're not going to design our building and let you use it and pay for it," says Rob.

Their approach to construction is similarly practical. "There's no sense trying to fight with people when you're all working to try and get something done," Rob says. "Even if it's a bid we sit down with the contractor to make sure everybody is going in the same direction. Everybody is entitled to make a living. That way when you encounter a problem you can work to solve the problem. You haven't been fighting all along."

The two brothers have also managed to avoid fighting with each other. Keeping the interpersonal dynamics between two partners is a challenge that has undone many a business relationship. That clearly has never been a concern for the Indovina's.

"We've had some frank exchanges of ideas but we were brothers before we were partners," laughs Rob. "We both have tempers but it comes and goes. I guess we have had fights but we've been practicing together for 35 years so I think we've worked it out."

"We're also two different personalities," adds Joe. "I wouldn't say Rob is taciturn but he's much more patient than I am."

The firm employs 13 now and has begun the transition from the two founding partners to the next generation of owners and of Indovina's. Joe Indovina has been devoting much of his time to sculpting and other fine art projects, his original passion. Rob is now the majority owner and manages the business day-to-day. Chuck Coltharp became a principal in 2011. In August 2008, Rob Indovina's son Ryan joined the firm after working first in Los Angeles for Richard Meier and then in New York for three years ("New York has a half life," says Rob). In September Ryan will marry Luna Fruensgaard, who is also a talented young architect. With a plan in place Rob and Joe Indovina can reflect a bit on what their practice has meant.

Indovina Associates has been involved in over 1,200 projects during their 35-year run. ("You can't go around many blocks in Pittsburgh without seeing a project that we worked on over the span of 35 years," notes Joe). Recently the firm has been involved in some of the new high-end residential projects in the city. They designed the 151 First Side and Marbella condominium – which is now coming back to life as the Chapel Pointe – and also worked for Solara Ventures in their two challenging downtown projects, the 941 Penn Avenue and Otto Milk Lofts. But when you ask about the projects that mean a bit more to them, the brothers both return to the zoo.

"My favorites are probably the zoo projects. The Waters Edge. Kid's Kingdom," says Rob. "It's gratifying to see people enjoying them. They are really inventive projects."

"I drive by the zoo every day and what I see are people. You see kids playing there and you realize you have touched people," Joe says. "Any time you can touch people you have changed their lives in a minor way. That's very satisfying." BG

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Legal Perspective

Legal Fundamentals in a Growing Economy

By W. Alan Torrance, Jr., Esquire

As the economic recovery continues its deliberate pace, the prospect of new work for many contractors is a welcome site on the horizon. However, the excitement and enthusiasm for getting new work cannot be a reason to wholeheartedly accept the contract terms of your customer or vendor. While discussing contract terms can be unpopular and seen by some as a lack of appreciation for the opportunity of new revenue, getting the work simply cannot be a reason to ignore some basic fundamentals when reviewing the proposed contracts.

The goal in reviewing contract terms is to protect your company without losing the work. For the most part, a party to a construction contract wants a level playing field where each party accepts responsibility for its own actions. Of course, there are exceptions to every rule. In those instances where your customer or vendor wants you to accept risks well beyond your control, wouldn't you rather know that before you accept the job?

You are reading this article with the expectation that I will recommend that you call your attorney and have the proposed contract reviewed in detail. You are correct, to a point. In many instances, review by an attorney is the best option. However, depending on your experience and circumstances, that may not be the best, first step. Even if you refer the contract review to a lawyer, you can save time and money by reviewing the proposed terms on your own, first.

For prime contractors on competitively bid public projects, other than change orders, the terms of the contracts are typically non-negotiable. Conversely, subcontracts and supplier agreements, prime contracts on private projects and some publicly funded projects are subject to negotiation.

Set forth below is an outline of issues of which you should be aware when reviewing any contract. Certainly, the list is not exhaustive and the comments contained in this article, while not legal advice, can serve as a guide to assist you in getting to reasonable contract terms.

Read the Contract. While this may seem like a basic first step, we are all aware of circumstances when the contract itself is not fully read until after a dispute arises. If you do not understand a provision, ignoring it will not make it better. A good contract is one that everybody can understand.

Contract Documents. Make sure you understand what comprises the contract documents. If the list of contract documents is unclear, your scope of work is unclear. This is the number one cause of contract disputes.

Attorney's Fees. While lawyers may disagree as to whether you want an attorney's fees provision in your contract, the

... getting the work simply cannot be a reason to ignore some basic fundamentals when reviewing the proposed contracts.

safest route is often to strike any language that includes the two words "attorney's fees." In most construction projects you can control your own costs and both parties generally understand the cost of doing certain types of work. However, when you agree to pay someone else's attorneys' fees, even if they agree to pay yours if you are not in default of the contract, is a cost that is beyond your control. Moreover, attorneys' fees and costs can vary widely. Agreeing to pay the other party's attorneys' fees can become a significant risk. If you must accept the risk of paying the other party's attorneys' fees, try to get them to pay yours under the same or similar circumstances. In general, if the rules are the same for both sides the parties typically agree that either including or waiving attorneys' fees, both ways, is fair and acceptable.

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Indemnity. Indemnity provisions in subcontracts and some prime contracts can be extremely burdensome. While striking them in their entirety can be a deal breaker, limiting your indemnity responsibility to only those conditions that you "solely" cause, or at most, partially cause with your responsibility being equal to the amount of damage that you "cause" allows you to control your own destiny. Any indemnity clause that requires you to indemnify another party under practically all circumstances can result in a significant expense and a surprise to the overall profitability and cash flow for the Project. Moreover, while some indemnity paragraphs limit your indemnification responsibilities to personal injury and property damage, the risk of which can be reduced by the purchase of insurance, other indemnity provisions include financial/economic damages which are typically not insurable. Often, those types of clauses are referenced as justification for withholding progress and/or final payments.

Payment. "Pay-if- Paid" clauses are routine and much more common than "Pay-when-Paid" clauses. If you do not know the difference between the two, you should. Depending on your position on the Project, one may be more preferable. Regardless, attempting to strike either clause in its entirety can end the relationship. However, if at all possible, restricting and describing the application of either clause can be helpful. By way of example, for a subcontractor, it is prudent to limit the application of the pay-if-paid mechanism to those situations where the Owner refuses to pay the prime contractor for your work, only. This can be a significant benefit if the payment on the overall project is delayed by the conduct of another subcontractor or your prime contractor, neither of whom is within your control. The justification for seeking this limitation is based on controlling your own destiny and being held accountable for your own actions

Venue of Dispute Resolution. In general, there are two primary options for the location of your dispute: 1) Arbitration; or 2) Court of Law. The first rule of thumb is that if you are a general contractor, you want the ability to bring an Owner into a dispute with a subcontractor, and vice versa. Fighting the same issue on two different fronts in two separate locations is exceedingly difficult. This is particularly true if some of the blame for the condition at issue rests with a party that is participating in a separate proceeding. While this scenario may be an advantage on some projects, in general it is inefficient and ineffective. Not only do you run the risk of inconsistent results, you will incur more attorneys' fees.

As with most contract negotiations, and particularly those in a tight economy, you do not want any position you take with respect to your contract to keep you from getting the work. The goal of this article and your goal when you need the revenue is to limit your risk and get the project. If you approach each situation with proposals that are fair to both parties with the attitude that you are willing to be held accountable for your actions, you will likely achieve your goals.

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Financial Perspective

New Regulations Threaten the Improved Mortgage Lending Environment

Even the most bearish of housing industry observers cannot deny the obvious pent-up demand for new homes that has resulted from the extended under-building since the mortgage crisis began in 2007. As all of the fundamentals are pointing to significant increase in new construction in the near future, one key missing piece to the puzzle remains uncertain; that is, the availability of mortgages.

In dramatic response to the easy credit conditions of the mid-2000's, lenders adopted underwriting standards that made borrowing difficult unless the borrower had above average credit and a down payment that was 20 percent or more. Given the financial difficulties brought on by the crisis and recession, these tougher standards winnowed the number of qualified borrowers dramatically. The reasoning behind the tighter credit was sound. Banks needed to clean up damaged balance sheets and could not afford to take on any additional risks. Moreover, the buyers of mortgages in the secondary market were even more wary, as many had been burnt during the housing bubble.

Over the past 12 to 18 months, money has become more and more available. Equity requirements have fallen to more normal levels and the two major buyers of mortgages, Fannie Mae and Freddie Mac have been more liquid since their takeover by the Federal government. In short, 2013 should have been the year that residential mortgages were accessible to the mainstream borrower.

"Most banks that came through the crisis are in pretty good shape," says Chris Martin, regional president for Northwest Savings Bank. "They have cleaned up their balance sheet, cleaned up their bad loans. Banks have built up capital and there are very few ways to earn on capital right now except to lend."

Martin points out that the lion's share of the capital put to work in residential mortgages over the past few years has been for re-financing of mortgages rather than new loans. Re-financing was less risky in that the loans took advantage of lower rates to reduce monthly debt burdens and the loans were usually for homes with equity accumulated. In short, refinancing made the existing pool of mortgagees a better bet to pay back. The problem for banks is that there are a finite number of mortgages out there.

"Those that could refinance have and those that couldn't have not," he says.

"Our purchase loan volume is replacing the refinance volume," observes Mike Henry, senior vice president of mortgages for Dollar Bank. "Since January we are seeing purchase dollars offsetting the re-fi volume to the point where 60 percent of our volume is for the purchase of a home."

Indiana-based S & T Bank is seeing similar dynamics with their mix of residential loans. S & T's senior vice president of mortgage lending, Joanne Duggan, says that the change was significant and very easy to observe.

"I really have seen a shift since the start of this year. 2012 was still a refinance year as the rates hit bottom," she says. "We saw a tremendous volume increase in new loans this year. It was about 70 percent refinance and 30 percent new but it's now 48 percent purchase and 52 percent re-fi. We were also pleasantly surprised with the amount of the refinances that were new to S & T from the mega lenders."

What all of the bankers are indicating is that new lending is on the rise and that their businesses were being more competitive to get a share of the new business. That competitiveness comes with caveats however, conditions that are giving more borrowers a shot at a residential mortgage, but with a price tag attached to any risk.

"Northwest is putting together affordable home loan programs that have some flexibility. You may have a lower down payment or a lower credit score or you may have better terms but there are limits on income or the type of house," notes Martin. His bank is willing to work with a borrower on some underwriting criterion but there will be a tradeoff in another. "We may do an 80/20 first mortgage with a 15 percent second but the borrower will have to have strong income and has to understand that type of mortgage will come with PMI [premium mortgage insurance] until they get to 80/20."

Duggan says that her bank's underwriting standards are very similar to what they were in the early-to-mid-1990's. By coincidence, the housing market was about five years removed from the Savings and Loan crisis at that point.

Year	Mortgage Payment	Payment-to-Income Ratio	Price-to-Income Ratio	Payment to-Rent Ratio	Price-to-Rent Ratio
1990	1,183	0.28	3.23	1.45	204.1
1991	1,109	0.27	3.39	1.37	207.6
1992	1,026	0.25	3.43	1.27	208.6
1993	925	0.23	3.46	1.15	210.0
1994	1,041	0.26	3.49	1.30	213.5
1995	997	0.24	3.40	1.25	214.2
1996	1,007	0.24	3.43	1.27	219.5
1997	1,014	0.23	3.46	1.27	224.1
1998	985	0.22	3.47	1.21	228.8
1999	1,053	0.23	3.45	1.28	230.5
2000	1,125	0.24	3.45	1.37	231.5
2001	1,041	0.23	3.62	1.24	234.6
2002	1,055	0.24	3.86	1.23	242.8
2003	1,026	0.23	4.09	1.19	253.1
2004	1,082	0.24	4.31	1.26	266.5
2005	1,184	0.27	4.70	1.38	291.9
2006	1,240	0.28	4.58	1.44	287.5
2007	1,163	0.25	4.25	1.33	267.9
2008	984	0.22	3.76	1.13	234.7
2009	780	0.18	3.43	0.87	202.2
2010	739	0.17	3.45	0.84	202.2
2011	669	0.15	3.20	0.77	191.0

The major ratios that impact lending have turned twice as positive as they were during the housing bubble peak in 2006. Source: Harvard Joint Center for Housing Studies.

The flexibility and cooperation that these lenders and others are showing are primarily on loans that they will add to their portfolio of loans. Borrowers with a credit hiccup or who haven't saved enough can still be good credit risks with offsetting assets or high income and the fact that the banks can get a slightly better rate or PMI premium increases their profitability if the loans are held and serviced. For loans that are intended to be sold in the secondary market, however, there is little flexibility. Loans must conform to the standards set by the government sponsored enterprises (GSE), Fannie Mae and Freddie Mac.

As of 2014, the GSE's are set to become even less flexible and lenders are concerned that the regulations that will be put into place will tamp down the growing loan demand and add considerable costs to financing residential mortgages.

The financial crisis brought a legislative response that is known as the Dodd-Frank Wall Street Reform and Consumer Protection Act. As has become too common with Congress, the remedy intended to avert future crises was nearly two years in the making. Moreover, the legislation was so widely reaching that it has taken another three years to establish the regulations that are meant to implement the Act.

To oversee the regulations on mortgages, credit cards and other consumer finance issues, Dodd-Frank established the Consumer Financial Protection Board (CFPB). In January, the CFPB issued new "ability to pay" guidelines for the loan buying that Fannie and Freddie do. Since the two GSE's are the largest buyers of residential mortgages – since reorganizing in 2009, Fannie has provided $3.1 trillion and Freddie $1.9 trillion in liquidity – the standards they use become de facto industry standards. The new standards will establish what is considered a 'qualified mortgage' as of January 10, 2014.

On May 2, 2013, FHFA directed Fannie Mae and Freddie Mac to limit future purchases to loans that are qualified mortgages under the ability to repay rule. Therefore, on or after January 10, 2014, the GSE's will not be allowed to purchase any loans if they are subject to the ability to repay requirements and are either: loans that are not fully amortizing (no interest-only loans); loans with terms in excess of 30 years (e.g., no 40-year terms); loans with points and fees in excess of 3% of the total loan amount or such other limits for low balance loans as set forth in the ability to repay final rule.

Because of a few of the standards, bankers are concerned about the negative impact the new rules will have on the housing recovery.

Mike Henry points out that some of the standards put forward by the CFPB have already been scuttled or changed, so that there is still some guessing involved with what the final regulations will look like. But his biggest concern is the three percent limit on the total costs associated with the loan. These include the origination fees, points, title insurance and other closing costs, including those that are imposed on the bank that are passed through to the borrower.

"The three percent may apply to closing costs from affiliated businesses, like title insurance from a company owned by the lender. It also includes loan level price adjustments," says Henry. "Those are fees the bank pays Fannie and Freddie as part of risk-based pricing. That can add costs to the loan that take it above three percent and if the costs go over three Fannie and Freddie can't buy the loan."

Fannie and Freddie have fees associated with underwriting criteria that align with additional risks of lending. The problem is that most bankers feel the risk-based fees are overly conservative and create a Catch 22 of sorts. The GSE's have limited the costs on the loans they will buy but they are also adding costs to well-documented loans that will make it unsellable. Banks will be left with the choice of putting the loan into its portfolio or putting the costs somewhere else, like the interest rate. Either way, the cost to the borrower goes up.

"The solution is to build that pricing into the interest rate. We're not worried about requirements for income verification or documentation of assets but we are concerned about the pass through costs that don't benefit the bank and hurt the customer," asserts Henry.

If history is any indicator, lenders will figure a work around for the cost limit. Any measures taken will only move costs into another category rather than actually save the borrower money.

Another regulatory change that could have unintended negative consequences for new home construction is the 43 percent total debt-to-income ratio, the so-called back end ratio.

This debt ceiling is meant to keep a borrower's total debt from exceeding 43 percent of his or her income. While the regulation intends to prevent consumers from overleveraging themselves, the 43 percent level will disqualify a lot of borrowers who want to build a new home.

"Most new construction buyers aren't first–time buyers so they will have a mortgage on their existing home while their new home is being built," explains Joanne Duggan. She says that because consumers who build have a single loan that covers construction and becomes their permanent mortgage, it will be easy to reach the 43 percent ratio until the homeowner completes construction and sale of their existing home. "Because of the potential lawsuits that could result if we don't make loans within those regulations, I think we will leave qualified buyers behind."

Duggan makes the point that the 43 percent ratio will be a requirement for all lenders under the regulation of the CFPB, including the largest home builders, who often have their own mortgage arms.

The risk of which she speaks is the loss of 'safe harbor' against future problems with the loan. As a result of the overextension of credit in the last decade, politicians sought to give consumers protection from lenders – and themselves – by providing that a borrower who faces default on a loan that isn't within the new qualified mortgage rules can sue the lender for approving them.

The case for how this could dampen new construction lending goes something like this: The Browns are building a new home that will take nine months. The combined total of the two mortgages – only one of which the Browns are now paying – takes the back end ratio to 45 percent. The Browns sell their home the day they close on their new home and their new back end ratio falls to 36 percent. Five years later Mr. Brown loses his job and can't make his mortgage payment. Because the bank agreed to lend the Browns the money with the non-conforming debt ratio, they are vulnerable to a suit from the Browns claiming that the fault for the bad loan is the bank's. That's a downstream risk that many credit officers won't take.

What borrowers looking for residential mortgages can expect from lenders five years after the phrase 'toxic assets' worked its way into everyday lexicon is more or less just common sense. The rules of thumb that applied to mortgages for generations – buy a house that is three times your salary; keep your mortgage payment at one-quarter of your month's pay – apply again. Down payments of 20 percent are preferred. You can borrow more but expect to pay more to do so. And expect to be able to document everything. Banks want to lend and they want to be paid back. Borrowers want to be approved and they want to pay back.

Conditions have recovered to the point that common sense can re-enter the mortgage market. It will take a bit longer to see if the new regulations make sense too. BG

What is the Expiration Date on the Apartment Boom?

With all the information that is available in the development of real estate, there still seems to be no way to avoid overbuilding a hot property type. Perhaps it is because too much information exists to be used. Perhaps it is because decisions on what and when to build are ultimately still made by humans. Whatever the cause, overheating almost always occurs when one category of real estate heats up.

For the past couple of years the hottest category of construction has been the multi-family apartment complex. Like all property types, apartments have a history of boom and bust. The relevant question in mid-2013 seems to be: when will this boom end?

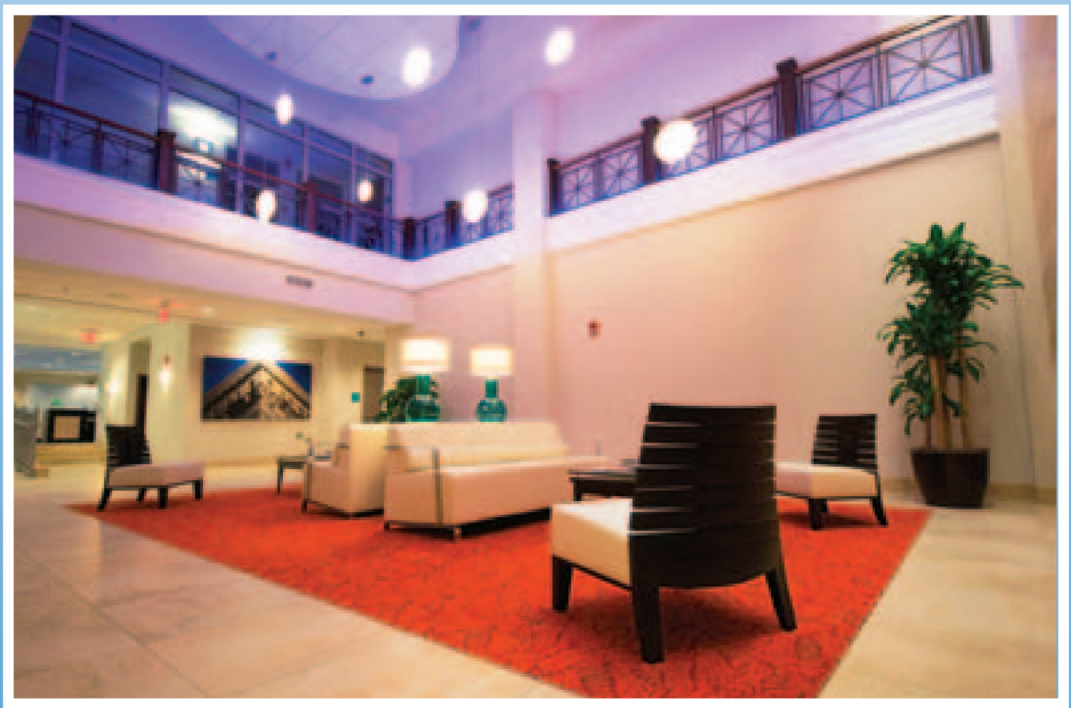
It's pretty clear that 2013 won't be answer to that question. The fundamentals of the apartment market remain strong. National vacancy rates for multi-family at the end of the first quarter were 5.9 percent, well below the 8.2 percent peak prior to the recession. Occupancy is 0.6 points higher than the 15-year average. Rents are still growing – although at a slower rate – and are now 3.6 percent above the pre-recession levels. Moreover, the influx of Echo Boomers into the market has increased demand and raised the bar on the kind of apartment expected.

Improved demographic support and great supply/demand fundamentals have created a target renter who rents by choice and is able to pay a premium rent for high-quality space.

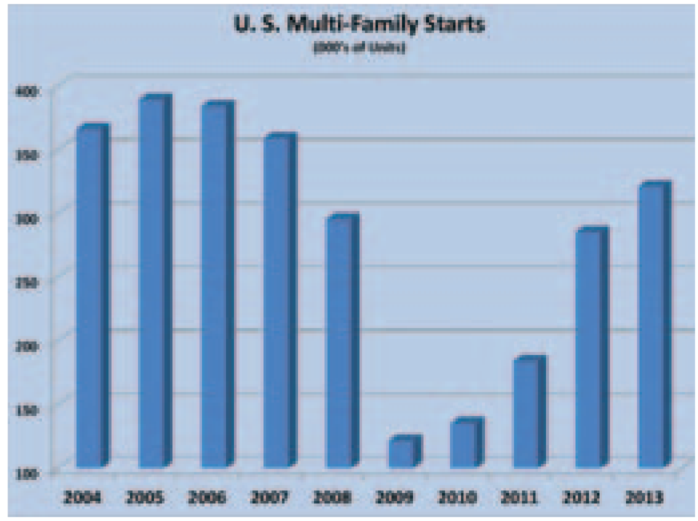
Two projects that have just opened in Pittsburgh illustrate this trend. The projects have several things in common. Both are attracting younger tenants with better-than-average incomes. Both projects included new parking garages as part of the development. And both apartments are renting for two dollars per square foot and up.

Walnut Capital Partners opened the doors of their Walnut on Highland Apartments on June 1. Of the 117 total units, 62 apartments had been leased when the building was ready for occupancy. Walnut Capital's president, Todd Reidbord, says that the average rent is over $2.10 per square foot, which includes a parking space. The property is the result of a renovation of the Highland and Wallace buildings in East Liberty. Reidbord, whose company owns thousands of units in Pittsburgh, explains that the design of the units is aimed at a renter who is looking for a smaller, more upscale apartment in an urban setting.

"This is my theory and I'm sticking to it," he says. "I think people in this market are looking for a higher quality product than is currently offered. We don't have to look for growth in the market because we will be taking renters away from other properties."



The Brix at 26 has multiple gathering and entertaining areas that residents use for social purposes.
Photo courtesy Burns & Scalo Real Estate Services.



The Brix at 26 is an 87-unit adaptive re-use of the historic Jones & Laughlin company store developed by Burns & Scalo Real Estate Services at 2600 East Carson Street. The project just concluded construction in May and three-fourths of the units are leased.

According to Jim Scalo, however, the design of the Brix at 26 plays into the strength of the rental market right now. He sees a very different kind of renter in the Pittsburgh market than has been here before.

"Virtually all of our tenants found the Brix through the Internet and many signed leases sight unseen," Scalo reports. "The average age of our renter is 32. What attracts them are three things: the views – we have the second tallest building on the South Side – the amenities and the secure parking garage. The people who can afford to live here can also afford a nice car and they want to protect it. This is still the city. Security is still important. And our best amenity is the South Side Works right across the street."

Scalo views the Brix at 26 as a "boutique apartment" and notes that the smaller size of the project allows them to hold firm on the rent and their policy of no pets. "We couldn't do that if we had to fill 300 apartments."

Paul Griffith, managing director of Integra Realty Resources in Wexford, helped Burns & Scalo Real Estates Services do the market study for the Brix at 26. He is pleasantly surprised at the rents that the Brix is getting, especially in light of their market study.

"When we did the study, we said the project needed to get $1.60 per square foot or more, which I thought was pretty aggressive," he says. Griffith says he would have considered two dollars a foot to be unattainable when the Brix was being planned in 2010.

Both the Walnut on Highland and Brix at 26 are capitalizing on excellent urban locations and adjacency to some of Pittsburgh's strongest employers. "80 percent of our renters are affiliated with UPMC or one of the medical centers," reports Reidbord. But rents in suburban apartments are climbing too and the new construction is booming there too. EQA Landmark Communities is developing 250 apartments as part of its Newbury project in South Fayette Township. EQA's president, Brett Malky, expects rents to be in the $1.20 to $1.36 per square foot range. That's 30 to 40 cents over the suburban market of just a few years ago.

Newbury's project is one of several projects under construction with more than 100 units. In fact, there are more than a dozen such projects in the pipeline within the metropolitan Pittsburgh market. In all, more than 4,000 units are planned for construction and occupancy in the next two years. That's about eight times the 15-year average.

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The roots of the apartment boom are similar to what drove past apartment booms, albeit with a slight twist this time. Demographics are the biggest driver of apartment demand. This was the case in the early 1980's boom as well. A weak economy or tight credit makes buying a home more difficult than renting. A shift in culture can trigger a change in preference about where most people want to live. All of these factors were at work when the current boom in multi-family development began in 2010. In 2010, there was another factor that raised the heat on apartment development and that was the availability of money.

After the dust settled on the financial crisis, it was clear that the housing market was going to look different for a while. Higher unemployment, foreclosures, lower incomes, and a deep aversion to residential lending risk were but some of the factors that were driving people who formerly owned homes to rent instead.

At the same time the government's response to the crisis ensured that fixed income investors were going to get limited returns from cash and Treasury bonds for an extended period. Investors who needed yields – like insurance companies or retirement funds – had to find someplace safe to put money. With economics that favored renters – and further encouragement from favorable financing from Fannie Mae, Freddie Mac and HUD – investors began looking for apartment projects. If you wanted to develop in 2010 or 2011, the easiest path was to build apartments.

Unit interior at Walnut on Highland. Photo courtesy Walnut Capital Partners.

Those dynamics were why Burns & Scalo pursued the Brix at 26. The company sold its 3,000-unit multi-family portfolio in 1994 but when it purchased the Goodwill building on the South Side, they found themselves getting back into that game.

"When we bought the building in February 2010 there wasn't a whole lot going on," explains Scalo. "We walked through the building and saw that it was perfect for apartments. At the time we were really looking for something to develop and knew that there were grants and financing incentives available for that type of product."

Scalo's story may not be typical but it was certainly common. At a time when conventional wisdom held that you couldn't get financing for commercial real estate, money was chasing apartment projects. The appetite for apartments showed up in acquisitions as well as development. In 2012, sales volume for multi-family properties hit $65.8 billion, just shy of the record $66.2 billion set in 2005, according to CoStar Group.

Investor appeal with apartments has been the rent growth, of course. In 2011, effective rents climbed five percent, which was the highest growth rate in a generation. Comparing that growth rate to a 10-Year Treasury bond that was under two percent made apartments attractive. Even the effective growth rates of 4.05 percent in 2012 and the 3.4 percent rate of first quarter 2013 were beyond safe bond yields but the gap is shrinking. In fact, as the benchmark 10-Year bond yield has risen to 2.5 percent, rent growth has declined to just above three percent. If this decline becomes a trend – and it's hard to argue that it hasn't – you can expect to see REIT's and other large institutional investors further shift assets to other property types.

Financing capacity will be diminished as well, although multi-family will likely still be the most sought-after category for investors. As part of the plan to clean up the assets of Fannie and Freddie, Congress mandated that the market share of the two agencies had to shrink. At the start of 2013 the federal agency charged with overseeing the government sponsored enterprises – the Federal Housing Finance Agency– ordered that Fannie and Freddie must cut back their volume of multi-family lending by ten percent.

The National Association of Homebuilders' May multi-family builder surveys show that the perception of vacancy is rising, a sentiment that should cool off construction of new apartments. Cooling sentiment would actually be a good thing. The averages in April and May were for 321,000 units to start this year. CoStar forecasts that roughly half of those will be added to the inventory, which is a 40 percent increase over the 15-year average. The increased volume of starts in 2013 should add even more to the inventory in 2014, as supply begins to outstrip demand. Assuming that word of a softening market gets out, many planned projects might go on the shelf rather than exacerbating the growing inventory of apartments. Markets generally don't get the word in time to stop a boom, however, so overbuilding is likely.

The final straw for the multi-family boom may come from the recovery in home ownership. Single-family construction is rising again, with forecasts of new homes crossing the million-unit threshold in 2014. An improving economy, even one that is growing slowly, will swing the residential pendulum back towards home ownership again.

"As the economy improves and more people enter the housing market, more will choose single-family homes over multi-family," predicts Paul Griffith. "People chose to stay out of the market because of jobs or credit or other economic concerns but as they come back they will choose single-family again."

Not everyone is as concerned about the number of apartments in the pipeline for Western PA. Dan Puntil, senior vice president for Grandbridge Capital Real Estate sees the rising influx of younger residents to the city and the increasing employment as providing plenty of demand.

"Our vacancy rate is about three percent right now and what we're talking about is adding four or five percent to the total number of apartments in the region," he says. "So if you figure building another 3,800 or 4,000 units and you don't lease one of them – and of course that's not what's going to happen – the vacancy rate goes all the way up to what? Eight percent? That's not so bad." BG

Politicians Are Closing In On Funding Infrastructure

June 5, 2013 was a better day than the highway construction industry has had in a few years.

That day the Pennsylvania Senate passed Senate Bill 1, an additional funding measure that would add $2.5 billion annually to the state's infrastructure and transit expenditures. In a surprising show of political will and bi-partisanship, the Senate voted 45-5 in favor of the measure, which would add $1.9 billion to the pot of money available for bridge and highway projects. Even the dissent was bi-partisan, with the no votes split three and two between Republicans and Democrats.

Unfortunately, the optimism was short-lived.

Senate Bill 1 was authored by Senate Transportation Committee Chairman John Rafferty (R-Montgomery), who chose to find the funding for the work by combining hikes in fees, fines and removing the cap on the Oil Company Franchise Tax (OCFT) rate over the next 3 years. The bill essentially adopted all the measures called for by Gov. Corbett's 36-member Transportation Funding Advisory Commission (TFAC) that studied ways to fund the $3.5 billion that the Pennsylvania State Transportation Advisory Committee recommended investing to address the state's long-term infrastructure needs in 2010.

Rich Barcaskey was part of the Corbett commission. Barcaskey is the executive director of the Constructors Association of Western PA, an association representing heavy and highway contractors. He says that Senate Bill 1 puts back what TFAC recommended.

"They are trying to fill the gap needed to get to the $3.5 billion additional," he says. "The governor's commission came up with $2.6 to $2.7 billion but the governor basically came out and said we can't get to $2.6 but we can get to $1.8 billion by budget submission. Sen. Rafferty seemed to say that it doesn't make sense to do that small amount so he put in everything from the TFAC recommendations."

Regardless of what recommendations were made in Senate Bill 1, the reality is that the passage was just a first step in what will be an interesting legislative negotiation. Most observers, in fact believe that the Senate's $2.5 billion was less of a prescription than it was an opening salvo, an unrealistically high starting price aimed at getting a final compromise that is higher than the governor's $1.8 billion budget proposal.

Getting to the final bill meant referring the Senate's bill to the House Transportation Committee for the first steps through that side of the legislature. And while the bill received overwhelming support from both parties in the Senate, few expect anything but a close vote in the House, where the Republicans in the

> "Funding has dropped each of the last five years from $2.8 billion in 2009 to $1.6 billion in 2013. It will drop further to $1.4 billion without additional funding," says George Mezey, president of PJ Dick and Trumbull Corp. "When you adjust for inflation we're accelerating in the wrong direction."

majority are opposed to any type of tax or revenue increase that is borne by the voters. Many have signed a pledge not to increase taxes. More than a few political experts predict that a transportation funding bill won't get out of the House but judging from the position of Majority Leader Mike Turzai (R-Allegheny), some form of additional funding seems more than possible.

As late as the end of 2012, Rep. Turzai publicly questioned the need for increasing the combined $5 billion spent on infrastructure and transit. Since then, he has moderated that position significantly, perhaps because two studies showed that the additional $2.7 billion was what was required to maintain a safe and efficient highway system. Pennsylvania's neighbors to the south have already taken measures to bridge their funding gaps. Maryland and Virginia each added about $1.2 billion. Evidence is also mounting up that shows that doing nothing is costing PA's residents billions.

On May 29, The Road Information Program (TRIP) released a study estimating that poor Pennsylvania roadways are costing the state's residents approximately $9.4 billion annually in the form of additional vehicle operating costs as well as lost time and wasted fuel due to traffic congestion and traffic crashes.

Pennsylvania is hardly alone in the deficiency of its roads and transit systems. The freeze/thaw cycle, high numbers of bridges, snow removal techniques and heavy traffic all play a part in deteriorating the highways. Like all state's, Pennsylvania's ability to maintain its roads has been significantly curtailed by the higher costs of the basic materials that are predominantly used in heavy/highway construction. Prices for asphalt, diesel, lubricants, concrete and steel all rose dramatically in 2008, when the price of oil spiked above $140 per barrel in July. Since then, costs have remained near those levels compared to the historical norm. Simply put, a dollar spent on highway construction gets about 60 percent of what a dollar spent in 2007 did.

On top of the diminished amount of construction that could be procured, Pennsylvania was hit with diminished revenues within a year of the price spikes. The combination of the higher gas prices and severe recession kept the Commonwealth's residents from driving as much. The high price of gasoline was also an incentive for manufacturers and consumers to put more fuel efficient cars on the road. Since highway construction is funded primarily from fuel taxes and surcharges, revenues dropped off dramatically starting in 2009.

The federal stimulus provided a shot in the arm and PennDOT was amply prepared to have projects ready for the ARRA funding, putting almost two years worth of construction out for bid in 2009. Since then, however, nothing has replaced the lost revenue.

"Funding has dropped each of the last five years from $2.8 billion in 2009 to $1.6 billion in 2013. It will drop further to $1.4 billion without additional funding," says George Mezey, president of PJ Dick and Trumbull Corp. "When you adjust for inflation we're accelerating in the wrong direction."

Mezey explains that the additional funding that has been proposed thus far isn't really gaining on the problem but rather getting the bridge and highway spending back to where it had been. With inflation, even the funding from Senate Bill 1 will buy in 2017 what was built in 2007. Allowing the system to stand still will cause further deterioration and will undermine the increased investment in infrastructure that was done in the 1990's. Mezey's other concern about the status quo is that is fails to address the needs that have developed due to economic growth.

"There hasn't been any new capacity out of PennDOT in 10 or 15 years," he says. "This is the first time in 20 years that the Turnpike Commission has not had new capacity projects. They were contributing $200 million each year to this market."

The Turnpike Commission is in particularly dire straits. All of the same dynamics of reduced revenues and greater costs of maintenance that plagued PennDOT also denuded the Turnpike's ability to keep pace with its system. But its main problem today is the unmanageable debt burden that is the result of Act 44 of 2007.

Most industry professionals agree that shorter is better for the debate over a comprehensive transportation bill.

Act 44 was enacted as a solution to the infrastructure problems Pennsylvania faced. The legislation required the Commission to transfer $450 million each year to fund transit and maintenance, with $200 million earmarked for construction. Act 44 also authorized the Turnpike Commission to borrow to meet its needs and allowed an annual increase in tolls for 50 years to pay for the debt. The problem with Act 44 was that its financial model was based upon turning Interstate 80 into a toll road to cover the funds transferred to PennDOT and the federal government did not permit tolling I-80.

As a result, the Turnpike Commission borrows more annually and its debt is mounting. Both Senate Bill 1 and Gov. Corbett's plan for increasing transportation funding include provisions for eliminating Act 44 to relieve the Turnpike Commission from its debt burden.

For his part, House leader Turzai echoes the concerns of other Republicans about the costs of a highway bill and the impact of the increases that PA drivers and taxpayers will bear. Turzai spoke about the House concerns for the Turnpike in a June 18 press conference with Auditor General Gene DePasquale following DePasquale's testimony before the House Transportation Committee.

"We honestly think that the Act 44 debt is unsustainable and any comprehensive transportation funding has to address that Act 44 debt," said Turzai. He expressed the desire that the final bill designate the first $200 million in revenues from the elimination of the OCFT cap go to replacing the $200 million that is currently being borrowed by the Turnpike Commission for highway and bridge maintenance.

DePasquale's testimony focused on the 50-year legacy costs of Act 44, which is set to run until 2057. He reported that during the first five years the Turnpike Commission needed to borrow $4.3 billion and estimates it will have to borrow another $11.4 billion during the duration of the Act's life. To meet the debt obligations, the Turnpike tolls will have to be raised by three to five percent annually. At that rate, it will cost $50 to cross Pennsylvania via the Turnpike in 2021 and $150 in 2057.

"The longer that the decision [about Act 44] is put off the more expensive it gets," said DePasquale. "As a matter of policy – I'm going to go back to my days as a representative – you cannot end this on day one. Any solution will be phased in over time but the point I want to stress here is, the shorter the better."

Most industry professionals agree that shorter is better for the debate over a comprehensive transportation bill. Gov. Corbett intended that additional infrastructure funding be included in his 2013-2014 budget, which went into effect July 1. And while the House seems willing to bend to accept some forms of increased revenues, they want whatever bill results to include a solution for mass transit, which was not addressed fully in Senate Bill 1. The House also would like to see the Senate bend to accept legislation it believes is crucial: the privatization of wine and liquor sales.

While Republicans have been adamant that the two issues are unrelated – and Democrats have been equally vocal that the state's roads are being held hostage by privatization – the truth is that political compromises ultimately are needed to reach a final transportation solution. And each side of this compromise has an issue that it holds dear.

"There are two issues orbiting at the same time: transportation and liquor," notes Barcaskey.

House Transportation Committee Chairman Dick Hess, R-Bedford, says he could support a funding bill somewhere in between Corbett's and Rafferty's proposals, which would put the bottom line somewhere around $2.1 billion to $2.2 billion. Hess isn't the voice that will carry the day on the highway bill but most observers agree with him about the likely final result. Such a funding level will mean other measures must be found to gain ground on a failing system but it will also be some welcome relief for an embattled segment of the construction industry.

"Even if it is passed, a funding bill is not going to impact 2013," reminds Barcaskey. "But it will be a help for next season."

"All of us in the highway industry have been holding on in anticipation of this bill," says Mezey. "If a bill isn't passed we will have to look elsewhere for work or we'll have to downsize to match the smaller size of the industry. That's 30 or 40 percent smaller."

The failure of the House to work out a compromise that creates the comprehensive funding before Gov. Corbett put pen to paper on June 30 means that highway contractors like Trumbull will end another construction season with uncertainty about the size of their market. With the bipartisan support and Corbett's leadership, some form of increased funding still seems likely when legislators return in September. In politics, however, the bridge between 'likely' and 'certainty' can be tough to repair. BG

INDUSTRY & COMMUNITY NEWS

Annual Josh Gibson Foundation Softball Tournament

On Saturday, June 22, Massaro Corporation hosted the annual Josh Gibson Foundation Softball Tournament. Based in the Hill District, this Foundation was founded in 1994 and it supports several youth oriented programs. The Foundation's president, Shawn Gibson (blue shirt) presented the trophy to this year's championship squad – the MBA. The MBA team was represented by (back row L to R) Matt Pauvlinch (McCrossin), Paul Martin (McCrossin), Brian Chlop (Burchick), Del Walker (Pittsburgh Builders Exchange), (bottom row L to R) Nicole Shook (KFMR), Lane Ramage (MBA), Jordan Ramage (MBA), Bridget Johnson (Advanced Solutions), Pete Ludiciani (McCrossin) and Jon O'Brien (MBA).

PJ Dick Team Rides for MS

On June 8th and 9th a team sponsored by PJ Dick-Trumbull-Lindy Paving rode in the Bike MS 150 Escape to the Lake 2013. Through this, the team was able to raise over $23,000 to fund research for multiple sclerosis.

From left to right: Row 1: Chad Nichols, Bill Beck, Bob Salvatora, Josh Eckenrode, Karen Martin, Corey Deible, Zack Deible, Sandy McKee. Row 2: Kevin Lewarchik, Casey Brenna, Jeff Slezak, Bennett Salvatora, Michael Puskar, Arik Way, Rick Puskar, Bill Curry, Bob Fleckenstein, Jeremy Meadway, Bill Porter, Bruce Ramsey, Jr. and Bruce Ramsey, Sr.

March of Dimes Honors Mascaro and Ameris

The March of Dimes held its third annual Transportation, Building & Construction Awards Luncheon on June 11, 2013. Among those honored were Philip Ameris, president and business manager for the Laborers District Council as Labor Leader of the Year and Jack Mascaro, founder of Mascaro Construction with the Service to Humanity Award. UPMC East, a joint venture with PJ Dick and Barton Malow, was awarded Building Project of the Year.

(From left to right) Jeffrey Mascaro, Master of Ceremonies Rick Dayton of KDKA-TV, Jack Mascaro, John Mascaro Jr. and Michael Mascaro.

Massaro Serves the Benedictine Sisters

As a part of Massaro Corporation's 'Massaro Serves' Program, a group of employees donated a 'Day of Service' to The Benedictine Sisters. We spent the day wrapping up and moving items from their monastery as the Sisters were moving into their beautiful new home on Bakerstown Road. The Sisters were thrilled to have the help and we enjoyed hearing stories from their time living there. It was a successful move and a fulfilling day for all.

(Standing from Left to Right) David Massaro, Sister Benita DeMatteis of the Benedictine Sisters, Tony Pokusa (Sitting from Left to Right) Mike Tarle, Martha Graham, Adam DiMenno, Alyssa Kuhns.

Winthrop's Todd Johnson makes a point about operating the USSteel Tower to Robin Zoufalik at the June 3 GBA tour of 600 Grant Street. PSI's Anne Wagner looks on.

John Zang and Craig Stevenson (right) from James Construction at the MBA/NAIOP Collaboration seminar.

Babst Calland's Matt Jameson (left) with presenters Rob Sklarsky from Deklewa and Penn State's John Bechtel at the MBA/NAIOP 'One Project – One Team' seminar on collaboration on May 21 at the Omni William Penn.

Astorino's Ron Dellaria (left) and Brian Skripac (right) with presenter Mark Dietrick of Case Technologies at the MBA/NAIOP event.

PJ Dick's Mike Koza and Brett Pitcairn (left) with Oxford Development's David Heaton and John Norbut from Highmark (right) at the MBA Young Constructors golf outing at Olde Stonewall.

(From left) Tom Landau, MBA's Jon O'Brien, Matt Jameson from Babst Calland and Drew Parish from the Mario Lemieux Foundation (right).

Nello's Billy Hinton (left), Sean Sheffler from WTW, Rothschild Doyno's Melanie Buzgan Dower and Anastasia Herk from IBACOS (right).

(Left-to-right) Joe Bruce from Schneider Downs with Jeff Lewis and Rob Sernyi from Nicholson Construction and Schneider Downs' Gennaro DiBello.

(From left) Jim Miller from Babst Calland, Bill Gorol from Schneider Downs, Desmone's Chic Noll and Ben Myers from Hill Barth King.

MBA safety award winner Matcon Diamond is represented by Jon Wilson (left) with the MBA's Jon O'Brien. Also pictured are Matcon's Lorraine Canovali with her son Stephen, who was the winner of the 2013 Kid's Art Contest.

Rebuilding Together Pittsburgh Marks 20 Years

The Greater PA Regional Council of Carpenters and the Master Builders' Association commemorated the 20th anniversary of the industry's Rebuilding Together Pittsburgh (RTP) program with a reception at the Mansions on Fifth on May 23. Originally known as Christmas in April, RTP has created a safe and healthy home for hundreds of low-income elderly, veteran and physically or mentally challenged homeowners. MBA president Dean Mosites and RTP co-founder Bill Waterkotte, executive secretary of the Carpenters, spoke about the impact on the community and the less fortunate homeowners who have received the repairs to their homes and announced the launch of the Ann Billak Fund as an endowment for the RTP. Ann Billak, the MBA's director of communications who passed away with complications from breast cancer in 2004, was co-founder of RTP and instrumental in its success. The 20th anniversary celebration raised over $30,000 for the Ann Billak Fund.

Leigh Berry from USG Insurance, Chad Michaelson from Meyer Unkovic and Wells Fargo's John Higgins (right) at the RTP 20th anniversary celebration.

Cohen & Grigsby's Christine Mazza, Anthony Martini and Strada's Nikole Lopretto.

Anthony Malanos from Mosites Construction (left) and wife Laura with Jendoco's Michael Kuhn.

MBA board president Dean Mosites (left) and Bill Waterkotte executive secretary of the Carpenters hosted the RTP 20th anniversary celebration.


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Awards & Contracts

Engineering News Record (ENR) listed their annual Top 400 Contractors in May and six MBA member contractors made the list. The regular MBA members are (ranking in parentheses): PJ Dick Inc. (91), dck Worldwide (96), Mascaro Construction (219), and Rycon Construction (389). Associate members Sauer Inc. (206) and Brayman Construction Corp. (362) were also recognized among the Top 400.

The University of Pittsburgh awarded a contract to FMS Construction for the Fiscal Year 2013 Classroom Renovations, a $1.1 million project at David Lawrence and Victoria Halls. Moshier Studio is the architect.

Allegheny Construction Group was awarded a $2 million contract for the general construction portion of the $4 million second phase of the renovation of the former Allegheny County Morgue, Downtown. The architect is Apostolou & Associates.

Uhl Construction is completing construction of the $600,000 training center expansion for the Ironworkers Joint Apprenticeship and Journeymen Training Committee on Liberty Avenue in the Strip District. Ulery Architecture is the architect.

University of Pittsburgh selected Uhl Construction as contractor for the renovations to Lynch Hall Gatehouse at its Greensburg campus. Landmarks Design Associates is the architect.

Uhl Construction was the low bidder on the general construction contract for the $12 million Becht Hall conversion at Clarion University. The Department of General Services is the owner. The architect is Perfido Weiskopf Wagstaff + Goettel Architects.

G. M. McCrossin Inc. was awarded a $538,000 contract for the preliminary civil/site work package for the new Dining Café at the Indiana University of Pennsylvania. The work is preparing for the construction of a 13,400 square foot dining facility. IKM Inc. is the architect.

Clearfield Area School District awarded a $1.95 million prime contract to G. M. McCrossin as part of its $9.5 million Clearfield Elementary School additions and alterations project. The architect is HHSDR Architects & Engineers.

G. M. McCrossin was the low bidder for the $18.2 million general construction portion of the $27.5 million Bradford wastewater treatment plant expansion for the City of Bradford. Gannett Fleming Inc. is the engineer for the project.

Carnegie Mellon University selected Mosites Construction as construction manager for its 28,000 square foot expansion of the University Center in Oakland. Cannon Design is the architect. Construction is scheduled to begin in spring 2014.

Mosites Construction was the successful contractor for the replacement of Bridges 207 and 208 over the Pennsylvania Turnpike near milepost 12 in Beaver County. The low bid was $12,987,729.

Mosites Construction was the successful contractor on the new Luna Parking Deck, a 1,000-car, $18 million parking garage located near the UPMC Shadyside Hospital campus. Graves Design Group is the architect.

PJ Dick Inc. is doing build-outs for five tenants at Bakery Square in East Liberty. Construction is underway on a 7,000 square foot expansion of UPMC's Technology Development Center; the relocation of Massage Heights and the Verizon Store; 10,000 square feet for TIAA-CREF and the new 36,000 square foot offices for the Software Engineering Institute.

PJ Dick was awarded general contracting services for West Virginia University's New Agricultural Science Building Site Preparation.

PJ Dick was the low bidder for a project at Watson Institute in Sewickley consisting of the conversion of administrative space to classrooms.

PJ Dick is providing CM at risk services for the construction of a $32 million Embassy Suites hotel in the Henry W. Oliver Building located in downtown Pittsburgh. The architect is Ohm Architects.

PJ Dick is providing CM at Risk services for a 2,500 square foot addition to the ACHIEVA building located in Bridgeville.

PJ Dick is providing general contracting services for the demolition of a gas station and the construction of a new American Natural convenience store as well as fuel storage and dispensing systems in Kennedy Township.

McKeesport Area School District selected PJ Dick to provide Agency CM services for a 205,116 square foot renovation and a 47,700 square foot addition to the Founder's Hall Middle School.

PJ Dick is providing Agency CM services for Phase 2 of the University of Pittsburgh's Graduate School of Public Health renovation.

PJ Dick is the low bidder for an addition and renovations to East Suburban YMCA in Plum Borough. The architect is RSSC Architecture.

Burchick Construction was awarded a contract for an $850,000 renovation to the Firefighters Local 1 building on Flowers Avenue in Hazlewood. EDGE studio is the architect. Robert Morris University selected Burchick Construction for renovations to its Lexington Hall in Moon Township.

The Western Pennsylvania School for the Deaf selected A. Martini & Co. as contractor for its new 30,000 square foot dormitory in Edgewood. The architect for the $9 million project is MacLachlan Cornelius & Filoni.

A. Martini & Co. has started construction on the expansion of Google's offices in Bakery Square. The 50,000 square foot build-out was designed by Strada Architecture.

James Construction has begun work on the UPMC Passavant Cranberry Radiology Equipment Replacement Renovation project. The architect on the project is Stantec Architecture and Engineering, LLC.

Walgreen Co. has selected dck pacific construction, a dck worldwide company, to redevelop its first Hawaii store in Honolulu into a two-level store with a three-story parking garage built next to the store. The project is expected to cost approximately $24.5 million, and dck has previously been working on the preconstruction phase of the project.

Oakview dck, a dck worldwide company, was awarded a contract to build a Red Robin in Norridge, Illinois. Having worked in ten different states for this client, this $1.1 million project will be dck's 15th Red Robin built to date.

A $1.46 million contract to upgrade the Wastewater System for Marshalltown, Iowa, was awarded to Oakview dck, a dck worldwide company.

Summit dck, a dck worldwide company, has begun construction of the $39.5 million Argo at Town Lake apartment community on Rio Salado Parkway in Tempe, Arizona. This 605,000 square foot mixed-use development is a 328-unit apartment community atop a ground level parking garage and commercial space.

TEDCO Construction is the successful contractor for the University of Pittsburgh's Mervis Hall renovation. Moshier Studio is the architect for the $650,000 project.

Ohio Valley General Hospital selected TEDCO Construction as construction manager and general contractor for interior renovations and visitors parking lot improvements at its Kennedy Township campus. Pashek & Associates is the landscape architect for the lot improvements.

Mascaro Construction is the Construction Manager at Risk for a renovation project on Level A of Hamburg Hall for the Heinz College at Carnegie Mellon University. The project is fast tracked and will finish in August 2013.

Mascaro is providing preconstruction services for the renovation of Bruce Hall at the University of Pittsburgh Oakland campus.

Volpatt Construction Corp. was the successful contractor on the $7.6 million general construction contract for Phase 2B of Pitt's $24 million Benedum Hall modernization. EDGE studio is the architect for the project.

Wheeling Jesuit University awarded Volpatt Construction a $500,000 contract for the renovation to the Conservatory and Gallery. The architect is VEBH Architects.

Massaro Corporation was the successful contractor for the exterior building envelope and hardscapes for the upcoming Wexford Medical Mall. This new construction will begin in August and is scheduled to be completed in spring of 2014. Oxford Development is serving as the owner's representative on the project and Astorino is the designer.

Logan's Ferry Presbyterian Church has selected Massaro Corporation to perform the repairs and renovations to the facilities roof and sanctuary. The scope of work is anticipated to be completed by fall of 2013. Glance + Associates is the architect on the project.

Massaro has been selected by IKEA to perform the Market Hall renovations to its retail store in Robinson Town Centre. The upgrades are slated to be completed this summer. The architect on this project is Greenberg Farrow.

Massaro Corporation was the successful bidder on the renovation work at Finnegan Fieldhouse on campus at Franciscan University of Steubenville. The work includes renovating the existing 17,000 square feet along with expanding the building by nearly 13,000 square feet. MacLachlan Cornelius & Filoni is the architect on the project.

F. J. Busse Co. is doing renovations at Newell-Simon Hall, Wean Hall and Scaife Hall at Carnegie Mellon University. The work includes renovations to 16,225 square feet of the fourth floor at Scaife.

Rycon Construction is building a new $4.5 million one-story Dick's Sporting Goods at Chapel Hill Plaza located in Cuyahoga Falls, OH. The 51,000 sq. ft. space, designed by Herschman Architects, is scheduled for completion in the fall. Rycon has completed over $200 million of work for this retail giant.

Rycon began construction on a 50,000 sq. ft. Field & Stream outdoor store in Crescent Springs, KY in May. The new concept from Dick's Sporting Goods was designed by FRCH and is scheduled for completion in October.

Rycon is completing demolition to construct new retail shell space at a cost of $2 million at Polaris Towne Center in Columbus, OH. The project was designed by Herschman Architects.

In November, Rycon is scheduled to finish Southpointe Town Center, two new 60,000 sq. ft. mixed-use buildings. Horizon Properties recently awarded Rycon an additional contract to construct a quarter-mile long street which will run between the two buildings.

Rycon's Special Projects Group is completing yet another JCPenney renovation. Located at the Logan Valley Mall in Altoona, PA, the 18,000 sq. ft. home department renovation is scheduled for completion in August.

In Trafford, PA, Rycon Special Projects Group is completing a $1 million renovation of Partners in Health for UPMC. The project, designed by Image Associates, is scheduled for completion by the fall season.

Rycon Construction, Inc. is completing two projects for Duquesne University. An infill addition at Duquesne Towers and a restroom renovation within St. Ann Hall will both be completed before the start of the fall semester.

Landau Building Company has started a project for the UPMC Cancer Center at Heritage Valley Beaver. The project is a replacement of the existing linear accelerator with a new Varian- High Energy Clinac- Linear Silhouette Edition. The scope of work includes upgrades to the vault that houses the equipment and 4,000 SF of exam and clinic space.

Landau Building Company has completed renovations of the 7th floor Rehabilitation Suite, the 4th floor Labor & Delivery and Obstetrics Department and the Cardiology Center at Weirton Medical Center. Work included new patient rooms and nursing stations, the Special Procedures Room and the Chest Pain Center. Paul Slowik & Associates is the architect.

F. J. Busse Co. is doing renovations at Newell-Simon Hall and a robotics lab at Scaife Hall at Carnegie Mellon University. Busse is also renovating 16,225 square feet of the Sorrell's Library on the fourth floor of Wean Hall. The architect for Sorrell's Library is EDGE studio.

Yarborough Development & Construction was the successful bidder on the $8.2 million general construction contract for the New Central Preston Middle School in Preston, WV. Crabtree Rohrbach & Associates is the architect. BG

Faces & New Places

The Master Builders' Association announced that Bernard Kobosky Jr., executive director of business development at PJ Dick Inc. has been elected the new chair of its Construction Marketing Committee.

Jendoco Construction Corporation has promoted Scott P. Koontz, LEED A.P. from Estimator to Senior Estimator. Scott has a BS in Civil Engineering at Penn State University, and has completed courses in Bidding and Estimating Techniques that Work and Effective Negotiations at University of Pittsburgh, Katz Business School. He is a LEED Accredited Professional and has been involved in all estimating aspects of the business since joining Jendoco in 2010.

Allegheny Construction Group, Inc., Bridgeville, PA, is pleased to announce Bert Cherry has joined as the Director of Business Development. Bert comes to Allegheny Construction Group with over 30 years' experience in business development and project management, with an extensive background in the financial facilities industry.

PJ Dick is pleased to welcome Jude Champion as a Project Engineer on the Dorsey Run Correctional Facility project in Jessup, MD.

PJ Dick is proud to announce the hire of Tyler Washburn as a Project Engineer on the PSECU Headquarters project in Harrisburg, PA.

Jeff Clingan has joined PJ Dick as a Project Engineer on the Bakery Square 2 Living project.

PJ Dick is proud to announce the hire of Brianne Kyle as a Project Engineer on the West Virginia University CPASS project in Morgantown, West Virginia.

PJ Dick is proud to announce the hire of Peter Mudar as a Project Engineer in our Self Perform Concrete Group.

Krista Baines has joined PJ Dick as a Project Manager in the Self Perform Concrete Group.

PJ Dick is pleased to announce our 2013 summer interns: Keaton Belasik, Aaron Blakeley, Luke Czerniak, Jayson Driscoll, Benjamin England, Kendra Gaul, Meghan Greenawalt, Christopher Guyan, Ashley Head, James Helmig, Anna Herold, Dennis Hubal, Nina Italiano, Tyler Jamison, Kevin Kelly, Anthony Kirkwood, Miguel Mora-Aguirre, Cody Ondos, Emily Roarty, Kristi Stahl, Larissa Steeb, Shirley Tang, and Shawn Turner.

dck worldwide announced that Executive Vice President John Sebastian was recently appointed to the Board of Directors for the Sarah Heinz House.

Dave DeChicchis joined Mascaro on April 8 and brings 27 years of experience to the estimating team. Dave has a B.S. degree in construction and specializes in concrete estimates.

Beth Larkin became part of the Mascaro team on April 29. Beth previously worked for nine years at Pricewaterhouse Coopers as an HR senior associate.

Janis Konesky started at Mascaro on May 20 in the new position of staff accountant.

Alicia Schneider joined Massaro Corporation this spring as a BIM Coordinator in the Virtual Construction department. A recent graduate of Penn State University with a bachelor degree in architecture, Alicia has worked with the Michael Baker Corporation as well as Front Studio while earning her degree.

Massaro Corporation welcomes Max Waldron, LEED AP BD + C, as a new VDC Engineer in the Virtual Construction department. Previously a co-owner of a small, licensed, design-build firm, Max has a breadth of knowledge and experience in all aspects of the building process. He earned a bachelor of Architecture from Carnegie Mellon University.

Patricia Metts joined Massaro Corporation as the newest project superintendent. With over 20 years of experience in the construction industry, Patricia has gained critical experience in all aspects of the construction process from estimating, engineering, and project management. Patricia earned a bachelor's degree in Construction Management from Arizona State University.

Mike Christ joined Massaro Corporation as a Marketing Design Specialist. With a Bachelor of Fine Arts degree earned from Slippery Rock University, Mike has gained useful real-world knowledge while working in various capacities.

Massaro CM Services welcomes Nathan Mallory as its newest member to the team. Nathan has spent the last 11 years serving in various capacities within the construction management field, which will serve him well in this current role of Project Manager. Nathan earned a civil engineering degree from the Pennsylvania State University.

Rycon Construction, Inc. added Justin Gottron as an estimator in the Building Group. Justin received his Associate's Degree in Construction Management from Hocking College in Nelsonville, OH and brings seven years experience to Rycon.

Kris Brice joined Rycon's Building Group as a project engineer. Kris obtained a Bachelor and Master's Degree in Architectural Engineering, Construction Management from Penn State University. He brings three years of construction industry experience to the Rycon team.

Dingess, Foster, Luciana, Davidson & Chleboski, LLP, a Pittsburgh-based firm specializing in construction and engineering law, is pleased to announce that Patrick Lutz has joined the firm as an associate attorney. Prior to joining DFL Legal, Patrick was an associate in the construction practice group of Seyfarth Shaw in Washington, D.C. Patrick earned his J.D. from the University Of Pittsburgh School Of Law.

The Pittsburgh office of Saul Ewing LLP has added Joe Bucci as partner and Eric Kimbel as special counsel in their construction practice. Prior to practicing law, Bucci was a journeyman steamfitter, an estimator, project engineer and also served as in-house counsel to a large general construction company. He graduated cum laude, from the University of Pittsburgh in 1979, and his law degree from Duquesne University School of Law in 1988. Kimbel earned his undergraduate degree from Methodist University in 1992; his Master's degree from the University of Pittsburgh Graduate School of Public and International Affairs in 1999 and his law degree from the University Of Pittsburgh School Of Law in 1999. BG

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Closing Out

Community matters…one great neighborhood at a time

By Brett Malky

For the first time in a very long time, housing and the home building industry has returned to the national spotlight. It seems as if a day does not pass without some mention of the housing rebound or home building industry on the evening news, in national and local newspapers or as a discussion at a party or among neighbors. And for some time, housing experts and renowned architects and planners have sought to influence - rightfully so in my opinion - a dialogue around sustainable development, smart growth, mixed use planning and design for our communities. This return of the industry to national attention and major shift in discussion from sub-division to neighborhood offers a great opportunity to reexamine the importance of housing to our region as well as to recognize the great opportunity housing and place making represent for our future.

Simply put, we developers are place makers. Our development firm works in many neighborhoods in and around the region and I am hopeful we are helping our partners as well as the communities we serve to create some of the best places to live, work, play, shop and dine in the region. From Summerset at Frick Park in the city to Edgewater in the east, Venango Trails in the North and Newbury in the South, we are working with great partners and communities to create the best new neighborhoods in the region.

As many of you know, Allegheny County is growing for the first time in a generation. Soon, one of the oldest counties in the region will become among the youngest in the nation. The health care economic boom, Marcellus shale and energy industry and the advancements of our universities have played a vital role in our economic revitalization. Great housing value, great places to live and the continued creation of great neighborhoods are vital to the future success of our region. New jobs create a reason to consider moving here, but our homes and neighborhoods create the reason to stay.

We see a large influx of persons from all over the country for the first time ever in many of our communities and heard the same in discussions with our industry colleagues. In our Edgewater project in Oakmont alone, we have seen persons moving from 17 different states including California, Florida, Texas, Georgia and Maryland. In our Newbury neighborhood in the South Hills, folks have moved from Indiana, Louisiana, Virginia, and even Brazil.

Great places exist within our region to live and our region represents a clear home buying and renting value for those living here today and those choosing to live here in the future. From neighborhoods in the city like Squirrel Hill, Shadyside and downtown Pittsburgh, which has become a thriving residential neighborhood, to some of the prettiest towns in America like Oakmont and Sewickley, our region needs to continue to build upon this great place making. Neighborhoods of high quality, varying housing types and pricing should not be the exception and I am hopeful this kind of community will become the norm for our region as a whole.

We need to not only seek to meet the demands of new building codes but also to seek to lead as a region in the creation of the best built homes in the nation. From advancements in water management, shell energy performance to innovative products that bring value to our neighborhoods, our industry needs to push for higher-performance, better-built homes and define this region as producing not only some of the highest quality commercial buildings in the world but also seek to achieve the same leadership for the homes and neighborhoods we are creating. We are supporting alternative energy sources for homes built in our communities and a couple of families in Newbury in South Fayette have chosen solar power as an alternative energy source for their home. Alternative energy isn't part of the mainstream but I encourage our industry to consider these emerging energy performance and sustainable building practices to become a global leader in building the best homes here in Pittsburgh.

While jobs and growth finally give our region a chance to retain our young people and attract great talent and families here, the great places we create will be the reason they will stay and make this place we all love home. Community matters…one great neighborhood AND ONE HIGH PERFORMING home at a time.

Brett Malky is the president of EQA Landmark Communities.


Rest Rooms
Post Office
Ask a Librarian
Elevator
Children's
Customer Services
setting the
performance
standard