BreakingGround

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RETAIL MARKET UPDATE

Adapting to the New Shopping Reality

First Quarter Results

Owners Raise the Profile of Workplace Safety

The Trouble With Interest Rates

Doing Business with EPC Contractors

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Publisher's Note

The April 7 edition of the *Pittsburgh Post-Gazette* had a piece in the Forum section that really caught my attention. What really got me going was not so much that I disagreed with the author – although I did – as much as the fact that the ideas put forward were reminiscent of a type of thinking that I hoped was gone from our part of the world. That is the idea that "they" should do something about a problem.

Like has happened a number of times in the past, a concern was raised that the "right" kind of retail is being developed Downtown. It was my hope that civic leaders (including our newspaper publishers) had realized – after wasting millions of dollars – that government-driven planning of best use of private real estate should be avoided, especially when it comes to Downtown Pittsburgh. While this editorial didn't specifically call for government intervention, it did offer the opinion that the next mayor would have to work hard to keep attracting development Downtown.

(The surprising and amusing part of the article was that the Ravenstahl administration was given credit for having a 'Main Street' policy about Downtown development, as opposed to the Murphy administration's grand plan. I wasn't aware of any 'Main Street' policy. I just thought the City was too broke to interfere and the free market was able to do its stuff.)

Comprehensive planning at the regional and municipal level isn't what I'm talking about here. That kind of advance thinking has resulted in some very successful projects and economic assets as Pittsburgh has redeveloped over the past 30 years. The *Post-Gazette* was engaging in a level of micro-planning of tenants that just doesn't work.

With an ever-increasing number of people living in Downtown, there is greater demand for the kinds of lifestyle amenities that would be present in an affluent neighborhood of 8,000 people. The call from the experts in the editorial was for more specialized retail and, of course, a grocery store. The comparison was even made to "boutiques that people would not be able to find in malls." Considering that malls intend to provide a soup-to-nuts shopping experience under one roof, I am not sure what kind of boutique is being referenced but I imagine the authors are thinking of something really cool.

It's my opinion – and experience – that the only "they" who should be thinking about what kinds of stores should be developed are the ones who will be taking the risk of opening the stores.

Former Mayor Murphy was pilloried for the Lazarus and Lord & Taylor deals because of the scale of the investments but the more legitimate criticism should be for his insistence on a retail model that was dying on the vine pretty much everywhere else. Department store anchors were becoming the dinosaurs of retail because of how shopping had changed. The merchants who take the risk of opening stores were paying attention to how people were shopping and adjusted accordingly. The reason the department stores agreed to the deals Downtown was that the risk was almost entirely mitigated by the City of Pittsburgh.

Politicians and government officials are good at understanding the supply and demand of voters. They have a poor track record with retail development and job creation. Government can create a better environment for an improved economy by improving the education of its citizens or ensuring that its roads and bridges make commerce work smoothly. Public policy that provides funding to deal with obstacles like brownfields or obsolete infrastructure facilitates private investment but government attempts at targeting specific retail needs haven't worked well.

The demographics of Downtown Pittsburgh make most retailers drool. Retailers looking for well-educated, well-compensated professionals with discretionary income will find them in Downtown. That word is getting out too. Have you been to Market Square lately? It didn't take long for the storefronts to fill up once the residents moved in. It would be interesting to see how the occupancy levels would be without the $5 million that was spent fixing up Market Square itself. I'm glad that project was done. The Square itself looks beautiful. My guess is that the restaurants and bars were just as interested in the six or seven hundred residents who moved into Market Square Place, the Rivervue, 201 Stanwix and the Residences at 3 PNC as they were in the streetscape improvements.

One of the brokers interviewed for the Forum article used the old adage "retail follows rooftops." With more residential properties coming to Downtown, the next mayor needs only to keep the streets clean and stay out of the way. Let the market take care of the rest.

Jeff Burd

REGIONAL UPDATE

After nearly a half decade of divergence from the U. S. economy's trend, the Pittsburgh market seems to be synchronizing with the national economy as 2013 unfolds. While that hasn't meant good news for the construction industry thus far, prospects for an improved second half of the year are brighter.

PNC economist Kurt Rankin projects the region will get a boost later this year from a nationwide pick up in the economy. Rankin focused on the continued growth in jobs created in Pittsburgh and downplayed the rise in unemployment rate in the region, pointing out that because Pittsburgh is one of the few markets where the unemployed have confidence that they will find work, the number of people searching for a job in the region is growing. PNC forecasts that the U. S. gross domestic product will rise after a sluggish first quarter and that the second half of 2013 will see a 2.4 percent GDP growth rate. With first quarter growth of 2.5 percent announced on April 26, that forecast may be conservative. The improved national economy will benefit Pittsburgh businesses, which have relied more on the relative strength of the regional consumers during the past few years.

"That's where we see Pittsburgh's growth potential ramping up again," Rankin said in a March interview with the *Pittsburgh Post-Gazette*. "Businesses across the country will be taking profits they've been accumulating since 2009 and putting them to work," buying supplies, software and equipment, and adding staff. Pittsburgh, like elsewhere, will reap the benefits, he said.

A more robust global economy does have some direct impact on Pittsburgh's real estate and construction fundamentals. Many Pittsburgh-based businesses have prospered from expanded exports of products and services and the recession in Europe and the slowdown in China and the other BRIC nations has trimmed the top lines for those companies. More important than the direct sales impact, an improving economy gives owners that boost of confidence that pushes a project from planning to fruition.

At the April 18th AIA Build Pittsburgh event, architects expressed optimism about their businesses for 2013 and beyond; moreover, the more common concern was about hiring and sufficient space for their people, rather than finding more work. Busy architects are an indicator of a busy construction market to come and even those architects who were not talking about high activity were still expressing confidence.

The improved economic prospects have helped get one of the region's long-awaited mixed-use developments closer to the starting gate. The Newbury Market project, which has been re-branded slightly as the economy contracted and recovered, is close to getting underway on the first of the commercial parcels. EQA Landmark closed on the first of the retail projects, called the Gateway Shoppes, to be built at the Newbury entrance along Route 50, just east of I-79. That construction should allow for further infrastructure development needed for the previously-announced Giant Eagle store. Plans for a 125-room Courtyard by Marriott, to be developed by Kratsa Properties are also advancing, along with 288 units of garden apartments.

Like with Newbury, development of a number of projects is moving from the talking stage to construction. Several of the region's largest projects are still moving slowly or have been shelved for the time being but what is moving the market this spring are mid-size commercial and industrial projects, particularly those that are owner-occupied or built to suit. And to Rankin's point, the driver seems to be earnings.

The natural gas and energy business continues to be a source for new construction. The supply chain expansion is producing projects along I-70 in Washington and Westmoreland Counties. New buildings for Scientific Drilling and Waukesha Pierce are underway or about to start in Alta Vista Business Park and plans for two others this year – including another building for Gardner Denver – are moving along. Noble Energy seems to have narrowed its selection to one of Horizon Property's new buildings for its 150,000 square foot space.

Shell's delay in making a final decision – which some have said will be pushed back until 2014 – is being seen as a potential cooling off about the prospects for development of the downstream applications for shale gas within the Marcellus and Utica formations but there is no indication of that from the industry participants themselves. Concerns about the delay seem to be based on the expansion of the downstream capacity within the existing Gulf Coast infrastructure but little is known about the size of the global demand that is developing as new applications for natural gas are being pursued. Shell's protracted decision-making process probably says more about the longer horizon of the industry than it does about any loss of interest. And the focus on Shell's site also overlooks the possibility that another industry player will pre-empt Shell's decision. Rumors from the brokerage community persist about both Chevron and BP searching for heavy industrial sites, either for liquefaction or another cracker facility.

Short-term prospects for expansion of two other economic drivers in the region are not as bright. Both healthcare and education construction have cooled and opportunities in each sector will be fewer for the balance of 2013.

Education is being adversely affected by government budget cuts and the decline in property values that reduced local revenues. State and municipal revenues are on the upswing and have been for the past two years but any improvements in revenue will be needed to retire deficits rather than increase capital spending. Private educational institutions have seen a recovery in both their giving and the bal-

Municipality	#SFD	#SFA	Total
Single-Family Detached			
South Fayette Township	25	4	29
Cranberry Township	25	4	29
Peters Township	24	0	24
Adams Township	21	14	35
Pine Township	20	17	37
Moon Township	19	0	19
Marshall Township	15	13	28
Kennedy Township	14	0	14
North Huntingdon Township	14	2	16
Cecil Township	13	8	21
Single-Family Attached			
Pittsburgh	10	71	81
Franklin Park	12	36	48
Collier Township	11	20	31
Pine Township	20	17	37
North Strabane Township	12	16	28
Total Pittsburgh MSA 2012:1	**408**	**396**	**804**
Total Pittsburgh MSA 2013:1	**466**	**275**	**741**
% Change	**14.2%**	**-30.6%**	**-7.8%**
By County	**SFD**	**SFA**	**Total**
Allegheny	216	195	411
Beaver	26	6	32
Butler	67	18	85
Fayette	26	0	26
Washington	69	24	93
Westmoreland	62	10	72

Permits for single-family detached housing were up over 14 percent in the first quarter despite limited lot inventory.

ances of endowments and that should only improve if the current stock market rally expands. Capital spending on private education – which is primarily occurring in colleges and universities – is being muted by planning for unfavorable demographics that will create a drop in enrollment later in the decade.

What this means for construction is an increased emphasis on smaller projects that upgrade or repurpose existing facilities, although construction is starting on Carnegie Mellon's $65 million nanotechnology/energy center, now officially the Sherman and Joyce Bowie Scott Hall. More opportunities will exist for projects that are $5 million or less during the next couple of years.

The more significant decline in opportunities will occur in the healthcare market, which has contributed $400-$500 million in construction to the regional market annually not counting the new hospitals.

Healthcare reform has made reimbursement much more uncertain but for the certainty of lower revenues. The fiscal second quarter financial performance for UPMC and West Penn Allegheny Health System showed that the reduced reimbursements will be significant and results from the January-March period are not expected to improve. Coming at the same time as the heightened competitive environment between UPMC and Highmark, the cloudy revenue forecast doesn't help the prospects for construction.

An apartment, called Bakery Living, will be the first component started at Bakery Square 2.0.

While no official announcement has been made, word of UPMC's shelving of most of their major capital projects – including the $394 million Center for Innovative Science – had filtered through the industry. Likewise, Highmark's plans for investing in the West Penn Allegheny facilities have been deferred. Construction has begun on the $80 million Highmark medical mall in Wexford and projects that are part of the $100 million expansion of Jefferson Hospital will proceed but the bulk of the estimated billion dollar-plus upgrade to the WPAHS facilities is on ice.

The brightest prospects for 2013 and 2014 will be in the commercial sector. Extremely constrained supply is driving rents for offices, industrial space, apartments and hotels up by five percent or more. This rate of growth is attracting investors from across the globe and creating demand for new space.

Multi-family projects have been in the spotlight for more than a year but the full pipeline does not seem to be discouraging new projects. The market dynamics have encouraged alterations to several developments that had not originally included apartments. Multi-family will now be the end use at Oxford's 2900 Sidney Street project and the Village Green development of the Don Allen site in Shadyside. An apartment, called Bakery Living, will be the first component started at Bakery Square 2.0. Apartments will also be a key piece of the Mosites Company's East Liberty Transit Center development, bringing another 366 units to the East End. Including suburban developments, more than 3,800 apartment units are in the pipeline for the next two years in metro Pittsburgh.

Bracketing the apartments at the Don Allen site will be a 128-room Hyatt House, being developed by Concord-Sierra. Hotels are the other category of new construction that is booming well above historical norms. According to Smith's Travel the occupancy rate in Pittsburgh was 69.4 percent in 2012, ranking the city above all comparable cities in the U. S. Those kinds of fundamentals are driving new hotels throughout the region. In addition to the Hyatt House, Concord Sierra is constructing the 120-room Homewood Suites at Scott Station in Moon Township and the 110-room Hampton Inn at Settlers Ridge. Construction should be starting by summer on the Fairfield Suites on the North Shore, Holiday Inn Express in Greensburg and the Embassy Suites in the Oliver Building. Five other hotels with between 80 and 90 rooms each have started construction in Southpointe, the Meadowlands, Chippewa and Uniontown. Construction schedules have not been announced for high profile hotels on Mount Washington and at the Gardens at Market Square but work should be underway in 2013.

The other commercial category seeing more construction is office. Rental rates have increased at around a five percent clip for the past few years, which is encouraging investment and construction. New speculative projects by Elmhurst at Cranberry Crossroads and Commons at Thorn Hill and by Landmark Properties on Dutilh Road – along with some downsizing at Westinghouse – have created the first significant inventory availability in the Cranberry market in half a decade. Most other submarkets, however, continue to see tightening occupancy with only build-to-suit product coming on the market.

Several large corporate user projects will add to the construction market this year. Industrial Scientific's $40 million headquarters is expected to start this summer. The 250,000 square foot expansion of Dick's headquarters complex should bid later this year. And progress is being made on Chevron's Marcellus headquarters, to be built along Montour Run Road in Moon Township. The building is being designed by HOK's Houston office and the company has had prequalification conversations with contractors, although a formal prequalification has not been completed.

For all the concerns about the slow start to the year, contracting for the first quarter actually showed improvement over the same period in 2012. Non-residential contracting for January through March totaled $479.1 million, an 8.7 percent increase over the same period last year. Bidding activity and sentiment in the early second quarter pointed to an upward trend. Construction in the first quarter is typically between 15 and 20 percent of the year's total. Using that ratio and analysis of the trend, a total of $3 billion in contracting for 2013 is realistic.

Residential construction was improved even more so over 2012. Permits for new single-family dwellings were up over 14 percent compared to the first quarter of last year. Given the poor weather – which impacts housing construction more – and the limited lot inventory, such an increase in the first three months was a surprise. Overall housing starts were down slightly, with 741 units compared to 804 units in 2012. The decline in attached and multi-family housing was due mainly to timing. Because of the projects in the pipeline, permits for this category of home will outpace the full year of 2012 by at least 400 units. BG

NATIONAL MARKET UPDATE

The U. S. and global economies continue to show uneven progress in breaking out of the slow growth mode since the recession. Information from European markets indicates that the recession there remains and that the debilitating impacts of the various sovereign fiscal crises are impacting even the German economy. On the other side of the globe, Chinese economic activity continues to slow down, albeit to growth rates that are still double or triple that of the U. S. economy.

Here in the states, the most recent economic reporting shows growth that is slightly better than expected, while consumer sentiment slips more than expected. On April 26, Bureau of Economic Analysis' announced that its estimate of GDP growth for the first quarter of 2013 was 2.5 percent. As was expected, the BEA also released revised numbers on the fourth quarter of 2012, showing 0.4 percent growth rather than the decline that was previously announced in January.

The BEA explained that, "The increase in real GDP in the first quarter primarily reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, exports, residential investment, and nonresidential fixed investment that were partly offset by negative contributions from federal government spending and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased."

Most observers look to the second half of 2013 for the long-awaited beginning of the employment recovery, which is expected to boost business across the board. Another BEA report on the first quarter showed corporate earnings remained healthy in 2012, in fact reaching roughly 12.5 percent of the nation's GDP. That's the highest ratio of earnings to GDP in more than 20 years and a half point higher than 2006. Optimism over that earnings high point must be tempered by the fact that corporate earnings were at 12 percent of GDP in 2010 and 2011 also. The reinvestment of those earnings in 2013 is the key to expansion.

Thomson Reuters/University of Michigan Consumer index on consumer sentiment was also released on April 26 and it showed a decline to 76.4 from 78.6 in March. That decline was based on the delayed consumer awareness of the impact of the two percent increase in Social Security withholding, but it was a smaller decline than forecasted. The declining sentiment creates concerns for economists about future consumer spending, which climbed 3.2 percent in the first quarter, the highest increase since the end of 2010.

While the underlying economy remains sluggish, data is consistently pointing to improvements in the national construction industry in the first three months and suggests a better overall economy later this year. As has been true for more than a year, the recovery in the U. S. housing market is leading the expansion of construction but steadily improving commercial real estate fundamentals are indicating better conditions across the board. And one of the best indicators of future construction remains positive.

Housing starts in March were 1.036 million units, seasonally adjusted, according to the Commerce Department's April 16 report. March marked the first time that monthly volume topped the million unit mark since June 2008. The activity in March was 7.0 percent higher than the upwardly-revised February volume and a whopping 46.7 percent higher than March 2012. Not surprising was the robust volume of multi-family units, which were reported at a 392,000 unit annual pace in March.

Underpinning the new construction market are improvements in the sales and values of existing homes and an improvement in the overhanging inventory of foreclosed homes. Real estate data researcher RealtyTrac® showed foreclosure filings were reported on 152,500 U.S. properties in March in its U.S. Foreclosure Market Report™ for March and the first quarter of 2013. Those volumes were a decrease of one percent from February and a 23 percent drop from March 2012, the lowest level since the second quarter of 2007.

As has become the norm, reports from Reed Construction Data and McGraw-Hill Construction (MHC) showed varying trends for new construction starts in March and the full first quarter of 2013. Both construction tracking firms reported their data on April 19 but MHC reported that total construction was unchanged compared to the first quarter of 2012, while Reed reported significant increases year-over-year. According to MHC, public works and utility work declined 23 percent during the first quarter while nonresidential building work declined nine percent. Offsetting these declines was residential construction, which MHC reported up 33 percent from 2012. Reed reported that nonresidential starts for January through March 2013 were 16 percent higher than a year ago. Within nonresidential, commercial starts were up eight percent; industrial construction increased 27 percent; institutional activity grew 14 percent and heavy/highway work was up 23 percent.

Construction spending data from the Commerce Department haven't yet been released but the data through February showed increases in total construction of 7.9 percent and a 2.6 percent increase in nonresidential construction over the previous year.

What is also trending consistently upward is the activity level in design firms. One of the measures of planning activity is the American Institute of Architects Architectural Billing Index (ABI), which surveys member firms each month asking if the firm's billings were higher or lower than the previous month's. A simple binary survey, the ABI measures 50 or above if the answer is higher. The most recent reading in February showed billings in positive territory for the seventh consecutive month, the longest such trend since before the recession. The ABI has trended up each of the last three winters only to

reverse below 50 during the spring/summer economic chills. If that trend continues in April or May, and beyond, prospects for a sustained recovery will remain uncertain; nonetheless, the sustained higher billings from the late summer 2012 indicates a high degree of certainty that construction activity in spring/summer 2013 will be more robust.

"Conditions have been strengthening in all regions and construction sectors for the last several months," said AIA chief economist, Dr. Kermit Baker. "Still, we also continue to hear a mix of business conditions in the marketplace as this hesitant recovery continues to unfold."

As has been true for more than a year, the recovery in the U. S. housing market is leading the expansion of construction but steadily improving commercial real estate fundamentals are indicating better conditions across the board. And one of the best indicators of future construction remains positive.

According to the Thompson Research Group, contractors are reporting a more optimistic outlook for business prospects in 2013. Thompson's April 19 quarterly survey of executives at major construction firms across the U.S found "79 percent reported an increase in bidding activity [year-over-year], up meaningfully from 49 percent in our prior quarterly survey." The survey also showed 54 percent reported margin improvement. The share of private backlog compared to public projects was 62 percent.

The declining share of public construction work is consistent with funding problems in the public sector, although indications are that conditions may be improving on the state level. The Census Bureau's March 26 report on 2012 tax revenues showed state revenues increased 4.6 percent in 2012. Local revenues grew only 0.8 percent, primarily because the lion's share of local taxes are property-based. State revenues have showed a similar increase in seven consecutive quarters but the outlook remains difficult for state construction funding because of the total lost revenues during the recession. A recent report estimated the states lost $150 billion in aggregate after the financial crisis, funds that cannot be replaced unless a change in tax structure occurs.

Changes in the Federal tax structure and spending plans make it less likely that the Federal government will provide relief to the states.

On March 29, President Obama signed the Consolidated and Further Continuing Appropriations Act of 2013, replacing the "sequestration" that cut funds for federal agencies through September 30. The Appropriation Act relaxes some spending constraints that would have negatively impacted construction but also imposes further discretionary cuts than the mandates of the sequestration. The Congressional Budget Office reported that defense and nondefense discretionary spending has been reduced by $87 to $91 billion per year through 2021. Construction funding is almost entirely covered by discretionary budgets, with the exception of the Highway Trust Fund and the Airport Improvement Program.

With the share of private construction growing, the improving fundamentals in the commercial real estate market are a positive indicator.

The Urban Land Institute (ULI) presented its forecast for commercial real estate at an April 10 webinar. Based on the ULI/ Ernst &Young Real Estate Consensus Forecast, economists expect steady improvement for both economic growth and employment. The forecast reflects consensus reached on 27 economic and real estate indicators, based upon the median forecast from the 38 survey respondents. Comparisons are made on a year-by-year basis from 2009 through 2015.

According to the forecast presented April 10, real gross domestic product (GDP) is expected to rise by 2 percent this year, by 3 percent in 2014, and then rise by 3.1 percent in 2015. The unemployment rate is expected to drop to 7.5 percent by the end of this year, fall further to 7.0 percent by the end of 2014 and to 6.5 percent by the end of 2015. All of these forecasts are more optimistic than those in the September 2012 survey.

"The survey suggests that despite some tapering off of price increases and returns, the commercial real estate industry will, in general, be on solid footing for the next three years," said ULI senior vice president Dean Schwanke, also executive director of the ULI Center for Capital Markets and Real Estate. "After a prolonged period of uncertainty, we're seeing a revival of investor confidence as the economy continues to recover."

Manufacturing buildings are gaining momentum as a category. Even though the uneven recovery since 2010 has created little certainty about the need for increased capacity for manufacturing consumer and durable goods, the upward trend in construction of plants related to the development of U. S. shale gas is increasing. Driven by maturing exploration of the Barnett Shale in the Southwest and the Bakken Shale in North Dakota, chemical manufacturers are planning 97 construction projects "representing cumulative capital investments totaling $71.7 billion," according to the American Chemistry Council (ACC). This level of investment should grow even larger as the more productive Marcellus and Utica Shale formations transition into downstream development later in the decade.

One downstream application that is accelerating dramatically is the liquefaction of natural gas for export. Demand from foreign countries, especially in Asia, is growing rapidly and the logistics for liquefaction and export significantly lag the demand. The ACC identified some 19 liquefaction plants worth $55 billion on the Gulf Coast that are in various stages of regulatory entitlement or planning. BG

WHAT'S IT COST?

The cost trends of recent months continued to extend at the end of the first quarter, as consumer prices (CPI) remained relatively flat, while producer prices for construction materials mirrored the trends in demand for the major construction categories. Materials that are used primarily in housing and non-residential buildings – like drywall, lumber and plywood, roofing and siding – saw price increases in March and significant inflation compared to the year before. Those materials more commonly associated with non-building construction or related to diesel fuel costs – which plunged in March – saw declining prices again.

According to the Bureau of Labor Statistics (BLS) report of April 12, overall CPI grew somewhat sharply in March from February, climbing 0.8 percent. That rate of inflation was the same for the entire quarter, however and consumer inflation since March 2012 was only 2.0 percent. Producer price index (PPI) for all finished goods showed lower inflation, up only 0.2 percent for the month and 1.1 percent for the previous twelve months. PPI for construction materials was still smaller, with no change from February and an increase of less than one percent since March 2012.

"Thanks to a recent, sharp drop in diesel fuel prices last month—along with continuing declines in steel, copper and aluminum prices—overall construction costs were unchanged from February and up only 0.9 percent over the past year," said Ken Simonson, chief economist for the Associated General Contractors of America. "However, building contractors had to absorb another month of increases in the cost of lumber and plywood, gypsum products, construction plastics, paint and roofing materials."

Prices for building construction put into place increased by one or two percent since March 2012, even though prices for building-related products increase at more than double that rate. That trend is an indication that contractors are not passing increases along on their bids. The inflation rates for major subcontractors that repair or maintain non-residential buildings were similar – although electrical contractors saw their prices decline by half percent. Highway contractors have been even more aggressive, according to the National Highway Construction Cost Index, a weighted average of accepted bids on all state highway and bridge projects. That index decreased 1.7 percent during the fourth quarter of 2012 after falling 1.3 percent in the third quarter.

Among the detail highlights from the BLS report were gypsum products – which cost 0.7 percent more in March and nearly 18 percent more than a year earlier; lumber and plywood – which spiked 3.7 percent from February and 10.6 percent year-over-year; construction plastics – which went up 2.6 percent for the month and 4.5 percent from March 2012; copper and brass mill shapes – which fell 2.6 percent and 6.6 percent respectively; steel products – which declined only 0.4 percent in March but fell 9.5 percent year-over-year; and #2 diesel fuel – which dropped 6.0 percent from February and 6.7 percent compared to March 2012. BG

PERCENTAGE CHANGES IN COSTS	March 2013 compared to		
	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	0.8	0.8	2.0
Producer price index (PPI) for finished goods	0.2	1.5	1.1
PPI for construction	0.0	2.0	0.9
Costs by Construction Types/Subcontractors			
Residential buildings	0.2	2.0	1.7
New industrial building construction	0.0	0.6	1.1
New warehouse construction	0.0	0.6	2.3
New school construction	-0.4	0.2	0.5
New office construction	0.0	0.4	1.0
Concrete contractors, nonresidential	0.0	1.1	1.2
Roofing contractors, nonresidential	-0.2	0.3	1.7
Electrical contractors, nonresidential	0.0	-0.1	-0.5
Plumbing contractors, nonresidential	0.3	1.5	1.6
Costs for Specific Construction Inputs			
#2 diesel fuel	-6.0	1.5	-6.7
Asphalt paving mixtures and blocks	-0.1	0.4	0.9
Concrete products	0.2	0.9	2.2
Brick and structural clay tile	0.1	-0.7	-0.7
Plastic construction products	0.5	0.7	1.5
Gypsum products	0.7	17.6	17.9
Lumber and plywood	3.7	10.6	17.7
Architectural coatings	0.4	1.0	0.6
Steel mill products	-0.4	-1.3	-9.5
Copper and brass mill shapes	-2.6	-1.3	-5.5
Aluminum mill shapes	-0.1	0.8	-2.7
Fabricated structural metal	0.1	-0.1	-1.2
Prefabricated metal buildings	-0.1	0.8	-0.9
Crude petroleum (domestic production)	-3.9	6.3	-12.5
Asphalt (at refinery)	0.4	-8.7	-17.8
Cement	-0.3	3.4	5.3
Iron and steel scrap	6.6	3.2	-13.0
Copper base scrap	-3.3	-0.1	-5.2

Source Bureau of Labor Statistics, Updated April 12, 2013
Compiled by Ken Simonson, AGC Chief Economist


Market Square
Graeme St
NICHOLAS COFFEE CO.
FRESHLY ROASTED COFFEE, TEA & SPICES
IMPORTED FOODS
TEAS
NICHOLAS COFFEE CO.
ROASTERS
AND
IMPORTERS
OF BETTER
COFFEES, TEAS & SPICES
23
DENHAM & CO.
DENHAM & CO.
SALON

The Changing Face of Retail

It is not uncommon in life that a single event can trigger an avalanche of changes in behavior. The loss of a job or divorce will precipitate wholesale changes in a person's lifestyle because the catalytic event laid open a host of other problems that had been brewing undetected for some time. Mid-life crises are made this way.

That's the story of retail in America at this juncture. The Great Recession changed the game. American consumers went from being the most voracious shoppers in the world to a defensive mode within a few months in 2008. Within two years, however, the consumer started coming back and in 2012 spent as much as in pre-crisis years. In many ways the face of retail remains changed, regardless of how strong consumer demand is. Even as the mid-2000's boom rolled along there were fundamental shifts in shopping habits and retailing that would have eventually become apparent to owners and developers. A downturn simply exposed what was already happening.

The Fall of the Mall

One of the most dramatic shifts in shopping, at least from the standpoint of its impact on commercial real estate is the demise of the shopping mall. It should be noted from the start of any discussion about malls that their death is exaggerated. Malls still offer to the consumer what he or she originally wanted: the convenience of shopping at multiple stores under one roof. What changed for malls in general was that customers began to find other forms of convenience in their shopping and the inventory of malls became underutilized.

For all the efficiency that malls offer shoppers, the structure itself is not necessarily the most efficient for the stores. A significant amount of the space in a mall is dedicated to providing access to the shopper but it must still be maintained, heated, cooled and lit. The cost of keeping the common areas of a mall falls to the tenants, adding to the effective rent for the retailers. Malls usually received a piece of the sales as well. For decades, the additional cost of renting in a mall was more than offset by the traffic that a mall provided. It was only when the traffic slowed that conditions became less desirable.

Shopping malls themselves had been changing as well. The original mall concept was generally a small number of large anchor stores, usually very recognizable regional or national department stores, connected by lots of small retailers. These smaller shops were often as not local ‘mom and pop’ concerns. The advantage to the mall developer was that no single vacancy was much of a blow if it occurred. That model meant more leasing efforts but small retailers followed the anchors pretty closely. This model was the standard for many years but then the foundation of the shopping mall began to crack – figuratively – when shoppers began to lose interest in department stores.

The drop in popularity of department stores began more than a generation ago. The root causes of the downslide are similar to those that are eroding mall popularity today. People didn’t need to do all of their shopping in one place. Suburban sprawl created shopping patterns that included more driving, more stops and free parking. The costs associated with operating a department store made it impossible for the store owners to compete with specialty stores and especially with the discount chains. For a couple decades the erosion of the department store share meant heightened competition among department stores. There were winners and losers and lots of consolidation but ultimately few survivors.

“The department store as an industry is almost gone,” says architect Ed Shriver, principal at Strada Architecture and former International

The proven model of department store anchored malls has fallen out of step with shoppers needs over the past decade.

Council of Shopping Centers board member. As a principal and later president at JSA Architects, Shriver served the May Company – parent of Kaufmann's – and other department store chains for many years. "Macy's is still out there but department store brands are mostly gone. As much as anything else it's a function of WalMart's impact on the market and spinoffs like Target or Marshall's."

The rise of discount chains presented a form of competition for the department store that was tough to manage. WalMart and Target are department stores, just not in the traditional real estate or merchandising sense. What made them a perfect fit for the times was that their lower pricing matched perfectly to the rise in consumption of the American shopper.

What the big discounter meant to retail was that chains could have bigger footprints and generate bigger profits overall if they could sell lots of stuff, even if the sales generated smaller profits per item. This meant a 5,000 square foot appliance department could become a 30,000 square foot Best Buy. As that model procreated in the 1990's it spawned a different kind of mall – the lifestyle center.

Lifestyle centers or their big box power center cousins offered similar convenience to their consumers but with the twist that the shopper had to walk or drive across a set of parking lots to get to the next store on their list. Instead of a common mall under roof, the connective tissue was landscaping and parking lots. Retailing in a lifestyle center was still slightly more expensive than in a strip center but again, there was an assurance of traffic and favorable demographics. Still, by 2008 there were cracks in this model as well. Big box centers required lots of land and were accelerators of sprawl. America was starting to look back to its cities again.

Of course, none of these trends and changes have had the impact that online shopping has. The Internet is still quite new compared

to the history of shopping and for most of its viable life was not a convenient alternative to 'analog' shopping. The theory was that shoppers liked to touch and try on what they bought. On a less tactile level, shopping online shared the inconvenience of mistakes and returns with catalog shopping. But about five years ago, retailers began to convert some of the profits from online shopping into lower cost or free shipping and began to provide an easier browsing experience. In less than five years, the share of online buying went from one percent or less to seven percent and ten percent is within a few years reach. That's a tide that can't be turned back.

The impact on shopping malls – including lifestyle centers – was dramatic.

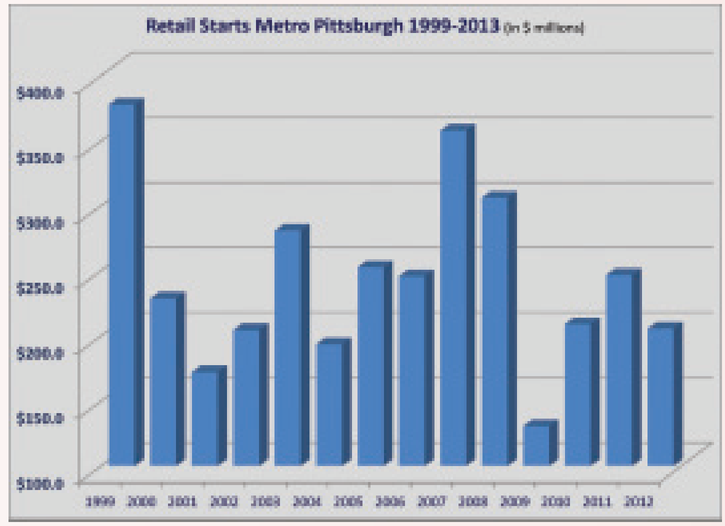
The CoStar Group, a Washington, D.C.-based research firm that tracks all types of retail properties, estimates that ten percent of the 1,200 to 1,400 malls in the U. S. will fail and be repurposed or demolished. The rise of online shopping and the recession widened the gap between good malls and bad malls, creating a surprising dynamic: good malls were able to hold their own and could become more valuable with investment; nothing seems to help the bad mall.

Ross Park Mall is a clear example of this disparity in Western PA. In late 2006, Simon Property Group announced the beginning of its strategy to change the character of Ross Park Mall by bringing upscale department store Nordstrom's to the region. The signing of Nordstrom's was the first domino to fall in the re-branding of the mall. Simon leased more than a dozen new retailers, almost all of which were luxury brands, and began allowing middle-of-the-road brands to leave. The Cheesecake Factory opened a second Pittsburgh restaurant there. The move brought Tiffany's, the Apple Store, Coach, Louis Vitton and other top names to Pittsburgh. Construction of many of these new brands was geared towards a holiday season and the grand openings were held in late October 2008.

If there were ever a scenario where a good plan met disastrous bad luck it was the Ross Park Mall expansion. Yet instead of drowning in the wake of the financial crisis, Ross Park Mall thrived. Within a year L. L. Bean joined the mix and Crate & Barrel added its only Pittsburgh retail outlet to the mall. A great strategy prevailed in a bad environment.

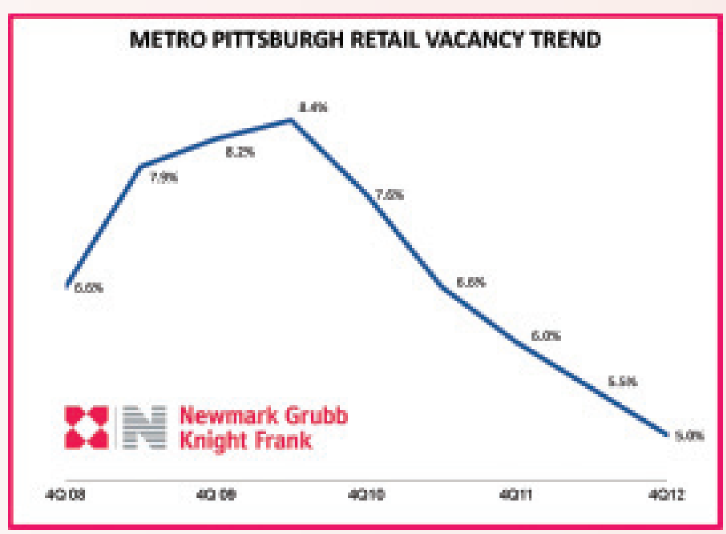
David Glickman, director of retail services for Newmark Grubb Knight Frank in Pittsburgh, says that Ross Park's success fits a larger trend of luxury goods faring well, even in recession. "Ross Park Mall stopped leasing to tenants that didn't fit the mix of retail they wanted," he says. "That became a snowball that wasn't going to be stopped."

The good mall/bad mall dynamic is borne out in mall property sales. Investor interest in shopping malls is still there – 34 percent of all shopping center transactions were malls since 2010 compared to 28 percent from 2005-2008. But malls with vacancy rates of five percent or less traded at a 45 percent premium to malls with greater than five percent vacancy. That premium was two percent from 2005-2007.



New retail construction in metropolitan Pittsburgh has followed the trend in the overall economy.

Ross Park Mall thrived during difficult economic times after attracting Nordstrom's and dozens of one-off and high-end brands to the North Hills mall.



Vacancy rates in metropolitan Pittsburgh have fallen to pre-recession levels. Source Newmark Grubb Knight Frank.

Perhaps the best evidence of the mall gap is the fact that poor performing malls aren't trading at a discount; they aren't selling at all. Investors are still very willing to own malls in desirable locations with access to affluent buyers and that have vibrant mix of retail that consumers expect in their 2013 shopping experience. In many cities with high vacancy rates, retailers looking for 10,000 square feet or less can't find a location. It's not that there isn't available space; it's that they don't want the space that's available.

The availability of financing and appetite for yield during the last decade created an environment where investors – especially institutional investors – chased retail projects without much due diligence. Buyers were hungry for CMBS bonds so the underwriters of those securities found projects

to finance. That led to overbuilding and shopping centers being built where they could rather than where they were wanted.

Industry leaders have concluded that the development of new retail outlets during the 2000's was excessive. That variety of factors – online shopping, construction driven by financing supply, new Urbanism, exploding costs – was exposed by the recession, which may ultimately have created a shopper that will consume less of his or her income at a retail store. Regardless of the factors, the sentiment about retail development is best summed up by notes Stan Hurwitz, CEO of DDR Corp., a Cleveland-based REIT, in CoStar's report. "I don't think we're overbuilt. I think we're under-demolished," he says.

The Forecasts

CoStar forecasts that new retail completions will total 52 million square feet in 2013. That figure would constitute only a third of average annual completions for the 2006-2008 period, although it will still be more than double the 20 million square feet delivered in 2012.

	Demand			Supply		Performance		
	New Jobs Total Emp.	Net Absorp (SF x 1000)	Absorp Rate (%)	Compltns (SF x 1000)	Compltn Rate (%)	Avail. Rate (%)	Rent Index ($/SF)	Rent Infl (%)
2011	27,300	261	1.3	65	0.2	10.1	10.36	-0.6
2012F	-1,200	243	1.1	14	0.1	9.2	10.47	1.1
Q1	-2,900	44	0.3	11	0.0	9.9	10.43	0.7
Q2	-100	1	0.0	3	0.0	9.9	10.41	-0.2
Q3	5,000	155	0.6	0	0.0	9.4	10.32	-0.9
Q4	-3,200	43	0.2	0	0.0	9.2	10.47	1.5
2013F	16,600	202	0.8	67	0.3	8.7	10.98	4.9
Historical Performance (1980 - Present)								
Min	-73,200	-850	-3.6	0	0.0	4.5	6.40	-3.1
Max	51,900	1,070	4.8	858	4.4	12.2	10.66	6.5
Mean	5,200	256	1.2	299	1.4	7.5	9.10	2.1

Pittsburgh Retail Forecast Summary: 2013. Source CBRE.

Marcus & Millichap Real Estate Investment Services, a Calabasas, Calif.-based brokerage firm, is slightly more optimistic. They expect to see 60 million square feet of new retail space delivered in 2013.

Construction research firm Reed Construction Data forecasts new retail starts increasing 33.6 percent from last year to 82.2 million square feet, not counting additions to existing properties and alterations.

Based on projects currently under construction, single-tenant stand-alone buildings such as department stores, drug stores and restaurants will make up the bulk of new deliveries in 2013, according to CoStar. At the end of 2012, there were 17.5 million square feet of general retail under construction. The volume of new power centers under construction continued to dwindle for eight quarters in a row, with less than 600,000 square feet under construction. This is in contrast to five years ago when there were more than 29 million square feet of power centers being developed.

Retail construction is one of the categories that track the overall economy very closely. Even on a regional level, retail starts tend to drop off very quickly during a downturn and pick up briskly just ahead of the recovery. A look at the construction of retail space in Pittsburgh for the past two business cycles shows the steep decline in starts after the dotcom bubble and the financial crisis. An analysis of the data also suggests that the next recovery will continue the overall trend of less retail space.

What the Stores are Planning

Some of the brand competition that has been aimed at WalMart over the years has resulted in erosion of market share for the retail giant but the battle for the discount shopper hasn't resulted in Target or Costco expanding aggressively. Plans announced by the big box retailers – regardless of category – more closely resemble those of a start-up. Without the attraction of the power center or lifestyle center boom, big box stores are left with infill or stand-alone sites in most markets. Virtually all of the 'supercenter' retailers are limiting their expansion plans to two dozen stores or less. For as well as the Pittsburgh economy is doing, almost no new big retail is planned for 2013.

The trends being observed throughout the country can be seen in the pipeline of what is being built and planned in metropolitan Pittsburgh.

One regional company that has curtailed plans for more construction in 2013 is Giant Eagle. The grocery store giant had plans for at least one new store in Pittsburgh and more of its GetGo gas station/convenience stores. There were also plans for major renovations, including a $14 million upgrade of its Waterworks store. While expansion of the GetGo chain will continue, the heightened competition Giant Eagle is facing has put its capital plans on ice for the time being.

Giant Eagle has seen Food Lion's discount chain, called Bottom Dollar, aggressively join Aldi's as competitors for the value shopper. At the beginning of 2013, each of those competitors has more than a dozen stores in the region. In response, Giant Eagle opened its own value brand, Good Cents, with a store at Ross Town Center on McKnight Road. The grocer is also getting stiff competition at the higher end, as Whole Foods has established a presence in East Liberty and Wexford and plans to build a third in Upper St. Clair. Fresh Foods has joined the higher end grocery space in Mt. Lebanon. While technically not a high-end grocery chain, California-based Trader Joe's is attracting shoppers in upscale shopping areas, with stores in Upper St. Clair, East Liberty and a planned new store in McCandless Crossing.

The GetGo Station is also going to be facing new competition beyond the Sheetz Stations. Enon, Ohio-based Speedway is planning seven locations in metropolitan Pittsburgh. The company is currently bidding a project in Washington OH, west of Wheeling, and had projects all along the Ohio-Pennsylvania border. Speedway is affiliated with Marathon Oil and builds outlets that have multiple gas pumps along with a 3,500 square foot store.

The trends being observed throughout the country can be seen in the pipeline of what is being built and planned in metropolitan Pittsburgh. Rather than big box stores, development of retail is happening on a smaller scale in neighborhood-style and mixed-use centers.

During the last 12 months, just over 680,000 square feet of new retail space was started under construction. Of that total, only 15 stores were more than 10,000 square feet and only one was a 'supercenter', the WalMart at the old Northern Lights Shopping Center. Even looking at the pipeline for the next 12 months, only the 250,000 square foot McCandless Crossing Phase IV will bring more than 100,000 square feet into the market at one time. Even that project will be mostly an accumulation of individual or small cluster buildings. The region's other large retail/mixed-use development, Newbury Market, has plans only for their 25,000 square foot Gateway Shoppes phase. Giant Eagle plans to build a 96,000 square foot store in a later phase, along with more neighborhood retail, office buildings and a hotel.

Some of the projects under construction or expected to start this year include the 54,528 square foot retail buildings at Southpointe Town Center and the 33,500 square foot shops at The Street at the Meadowlands, both projects developed by Horizon Properties with either office or apartments as equal pieces.

Also by the Meadowlands, Park Place is being constructed by Metro Property Management from Morgantown. The first

building there is a 35,000 strip center at the intersection of Route 19 and Racetrack Road. The site could potentially handle a grocery store or other medium size tenant.

Partners Mark Baranowski and Herky Pollock are developing the Blue Spruce Shoppes at the site of the Blue Spruce Motel on Route 22 in Murrysville, just east of the border with Monroeville. The 68,000 square foot center will include a Goddard School and a handful of restaurants and is 85 percent committed.

Further back in the pipeline are plans for the Siena, a mixed-use development by 1800 Washington Road Associates – led by Gerard Cipriani – at the former CONSOL Energy offices in Upper St. Clair. Siena will be home to the Whole Foods and 85,000 square feet of shopping center to go with 33 higher-end patio homes and townhomes.

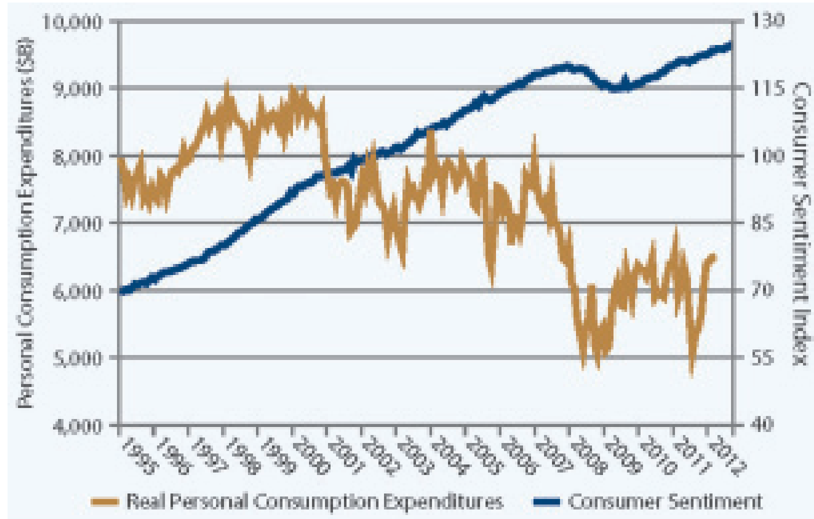
If you assume that Pittsburgh's prosperity merits retail offerings that are equivalent with the rest of the country, then it's easy to understand the conclusion that more retail can be absorbed.

A partnership that includes St. Louis developer THF Realty and Mosites Construction is in the midst of stabilizing the site and demolishing the 575,000 square feet of stores at The Foundry in South Strabane on Route 19 near I-70. No concrete plans for the new center have been announced but the location is large enough to handle construction of more than the buildings that were built there in the mid-2000's.

Retail in the Region

The less robust new construction activity is not a reflection of a poor retail market in Pittsburgh. Retail real estate experts are reporting varying vacancy rates for retail properties in the region at the start of 2013 but the consensus is that less than six percent of the roughly 138 million square feet of retail space in metropolitan Pittsburgh is vacant. That's about half the national rate of over 11 percent vacancy.

Just as important to the retail market is the absorption rate of retail space. According to CBRE Econometrics, over 200,000 square feet of net positive absorption is forecasted for 2013. With fewer than 75,000 square feet of space set to be delivered, the absorption of space puts pressure on rents. In CBRE's forecast, rents are expected to climb nearly five percent after four years of flat rents.



Consumer spending has been trending downward while sentiment rose over the past 15 years. ©Integra Realty Resources. Source: Federal Reserve Bank.

The milder unemployment in Western PA helped retailers hold onto their markets better than those in other parts of the country during the recession. Even at the trough of the business cycle, occupancy remained relatively stable and shopping centers in excellent locations maintained their business. It was during the downturn that Simon Properties upgraded Ross Park Mall and added its many one-off stores.

At the same time, development of new retail space in Western PA followed the progress of the global economy, with developers reacting to the risks of overbuilding rather than the missed opportunity of not building. In 2010, for example, more than one million square feet of projects in the pipeline were cancelled. To date, few of those have been resurrected. Several have been changed to other uses. The nimble response is one of the reasons that Pittsburgh did not see retail space become overbuilt but another is the fact that Pittsburgh was historically not seen as a market that needed much new retail.

Developer Kevin Dougherty is in the middle of the 1.2 million square foot McCandless Crossing and has developed retail for more than 25 years. His opinion is that the Pittsburgh market has not seen the amount of retail space that other regions have. Indeed, on a per capita basis, residents in metropolitan Pittsburgh have about 30 square feet/person compared with 56 square feet/person nationally. If you assume that Pittsburgh's prosperity merits retail offerings that are equivalent with the rest of the country, then it's easy to understand the conclusion that more retail can be absorbed. It's also possible to conclude that Pittsburgh was fortunate to have missed out on the amount of development done elsewhere.

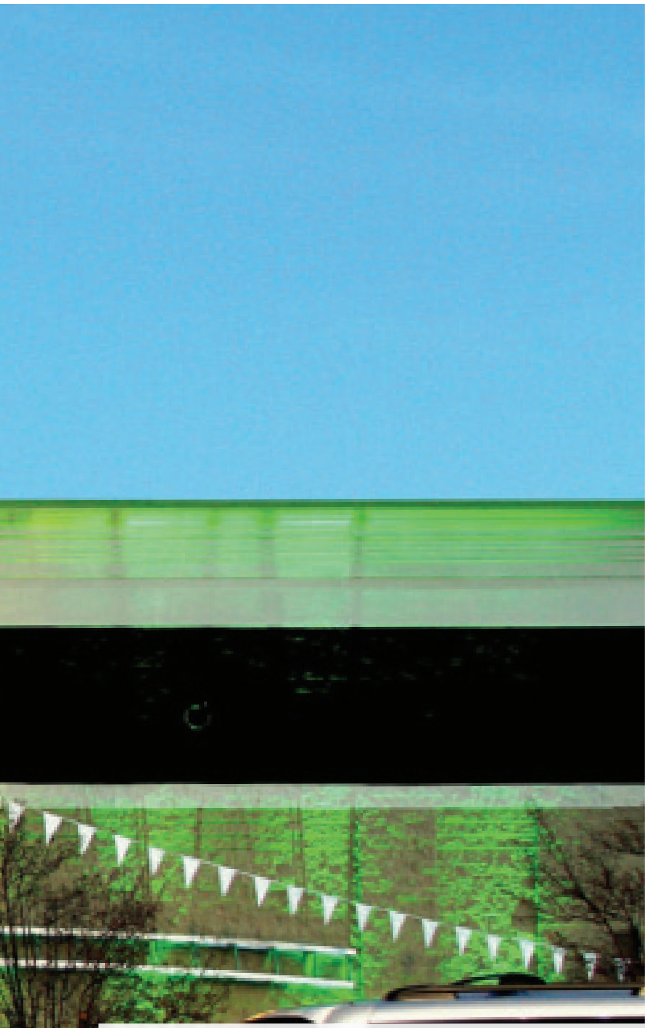
Until the last five years or so, prevailing wisdom about the Pittsburgh market was that there wasn't sufficient household wealth to support the variety of retailers – especially at the high end – that were exploding throughout the U. S. during the mid-2000's boom. It appears that most of that sentiment was based on myth rather than research, as Pittsburgh has clearly become a strong market for retailers like Whole Foods, Nordstrom's, Tiffany's and the co-tenants that follow them. At the same time, it has become clear that much of the support for the retail explosion of the last decade was unsustainable, begging the question: Is Pittsburgh really "under retailed"?

It will take the passage of a decade or more to judge whether or not the so-called Great Recession did alter the way Americans shopped. Nearly five years after the financial crisis broke, shoppers are again spending on a par with the abandon they showed in 2006 and there has been no return to the ten percent savings rate that marked earlier generations. As with most economic issues in America it will come down to how the Baby Boomers age. That cohort has already shown a higher risk tolerance for longer into their investing lives but assuming that Boomers will pull back on their consumption levels as they become more elderly, there will be fewer consumer dollars spent as the first quarter of the 21st Century winds down.

Pittsburghers have earned their conservative reputation – including that of conservative shoppers – over the years. If the next decade does result in a change in consumption for Americans, Pittsburgh will have been ahead of the game. BG

LATITUDE 40

Pittsburgh native Brent Brown was involved in residential development, construction and investment banking in the Jacksonville FL area for 15 years when he was introduced to the concept of luxury bowling in 2007.



Brown saw how this 'bowling renaissance' was catching on and how the luxury bowling facility made an effective anchor to an entertainment venue. As he looked for other business opportunities to expand his Brownstone Group's business – and as the residential development business was declining rapidly – the idea of a new type of entertainment experience energized him.

"Brunswick equates [luxury bowling] with what Cirque du Soleil did for the circus," he says. "It brought bowling up to date. I traveled around the country to visit restaurants, clubs, and gaming facilities to see what was working and evolved what became the Latitude concept."

Brown signed the first lease for his new concept in Jacksonville in December 2008 and spent all of 2009 designing that location. Using the latitudinal location of the city to brand the venue, Brown named the Jacksonville location Latitude 30, which opened to a big response in 2011. Even as Latitude 30 was being built, the search was on for new locations.

One of the cities Brown had in his sights was Pittsburgh. He knew that the economy hadn't been as severely effected in Pittsburgh and had a pretty good idea about what and where he would build.

"I thought there was no real competition in Pittsburgh for our concept. I knew the area and really wanted to build in the Robinson area," Brown says. "We have strong corporate bookings – over 30 percent of our business is corporate group events. People don't realize how much corporate business is done here." Brown found a vacant Roomful Express at the Pointe at North Fayette and began planning Latitude 40.

In April 2011, Rob Sklarsky saw a story in the paper about Brown bringing his entertainment/restaurant concept to The Pointe. Sklarsky is senior vice president of John Deklewa & Sons and takes an active role in business development. He recognized Brown's name as a fellow Montour High School graduate and realized that he and Brown had siblings that had been in the same class.

"I contacted Brent via LinkedIn and he responded. I followed up with an email suggesting that we could help him with the project," remembers Sklarsky. "[Deklewa] was having our weekly Friday operations meeting when I got a voice mail from Brent asking if I could meet him at the building at 2:00 that afternoon and then maybe go across the road to Bravo for a drink."

Through a bit of good luck, the plot thickened at this point. By coincidence, one of Sklarsky's daughters worked at Bravo and was scheduled to work there later that evening. He called her and asked that she give the manager on duty a heads up so that Sklarsky would make a good impression on Brown. After touring the building Latitude was going to lease, the two adjourned to Bravo and were met by the general manager ("Brent liked him enough that he hired him to run Latitude 40"). Brown and Sklarsky reminisced about growing up in Kennedy Township and Montour High and then talked about the Latitude 40 project. To Sklarsky's surprise, Brown began to talk about Deklewa doing the project.

"When we were talking about his schedule I told him that my 30th high school reunion was going to be in late 2012 and that we could hold it at Latitude 40 if it's open," says Sklarsky. "Brent said that if it isn't, it would be our fault. I called Dave Deklewa and said you're not going to believe this – heck, I don't believe this – but we got the job."

Brent Brown's comfort level with Sklarsky and his own background as a builder gave him confidence that he didn't need to go through an involved process to select the contractor for Latitude 40, especially since he would need to rely on the contractor during the design and approvals for the project. "The other venues I built myself but we were opening three at almost the same time and I knew we couldn't do that ourselves," he

"OUR KITCHEN IS TOP SHELF. THE AUDIO/ VISUAL IS STATE-OF-THE-ART. THERE ARE A NUMBER OF SPECIALTY PEOPLE WE HIRE OURSELVES."

explains. "I felt after meeting Rob that we could work well together."

Part of Brown's concern was the fact that Latitude Global would be hiring and training 200 employees at each site, a task that would stretch his staff's capabilities. Another issue was that the Latitude concept was still evolving with each store. But the biggest problem Brown foresaw was the task of coordinating a large team of players in a very short period of time.

"The big challenge with our venues is the complexity of things. We do so much under one roof," he says. "Our kitchen is top shelf. The audio/visual is state-of-the-art. There are a number of specialty people we hire ourselves. Coordinating all of the construction with that and our equipment vendors can be very challenging."

For architect Roy Williams, the challenges started with getting people in the door and impressing them with the Latitude 40 experience, while allowing them to understand how to access all the entertainment options.

"The exterior needs to read well to the people driving by. For lack of a better way to describe it, I tried to 'Disney-fy' the building with lights and architectural features," Williams explains. "We want to show it's not an office or retail store by creating an exterior that attracts them. A lot of that is done with lighting because most of the customers are coming at night."

LATITUDE 40

THE STAGGERED COMPLETION OF DOCUMENTS MADE FOR SOME CHALLENGES FROM THE START AND THE SCHEDULE WAS GOING TO GET EVEN TIGHTER.

Once the customer is inside the challenge is to impress them and inform them at the same time, a task that isn't easy given the variety of entertainment sub-venues within Latitude 40. Customers enter into a facility that offers dining, gaming, live entertainment, bowling, bars, and wall-to-wall video and most of that is within the customer's visual field from the front door.

"We try to make it so when you walk into the facility you can get a glimpse of all the venues. It's a little overwhelming at first but you don't want to section the areas off," says Williams. One of the architectural devices used to demise the space is variety in ceiling designs. "The ceiling plan is just as important as the floor plan. I look at it as the floor plan turned upside down. You have to do things with the ceiling treatment to make the spaces exciting aesthetically and give each different venue some separation."

Although the location was just where Brent Brown wanted to be and the building was a good deal, there were a few major modifications to be made. For one thing, Latitude 40 was going to be a larger venue and a 22,000 square foot addition would be required to allow for a theater, additional live entertainment and outdoor dining space. Beyond the entertainment space needs the expansion became necessary to meet some of the life safety codes as well. Architect Williams notes that the change in use played a significant part in the adaptation.

"The Pittsburgh site was a furniture store with retail occupancy that was being converted to assembly occupancy. That meant the occupant loads went from a few hundred to maybe 2,000," he says. "There weren't nearly enough exits so we had to add stairs and additional exits as part of the addition. The change in use created life safety issues."

As Brown had expected, Deklewa had a role in budgeting and managing the planning process. Sklarsky accompanied the building owner to planning and zoning meetings at North Fayette Township. The contractor helped with an emergency repair and demolition during Labor Day weekend 2011 after a sprinkler pipe burst. Work on the addition and renovation of the space began in May 2012. At that point, however, drawings for the interiors were still being developed and the opening was scheduled for late November. The staggered completion of documents made for some challenges from the start and the schedule was going to get even tighter.

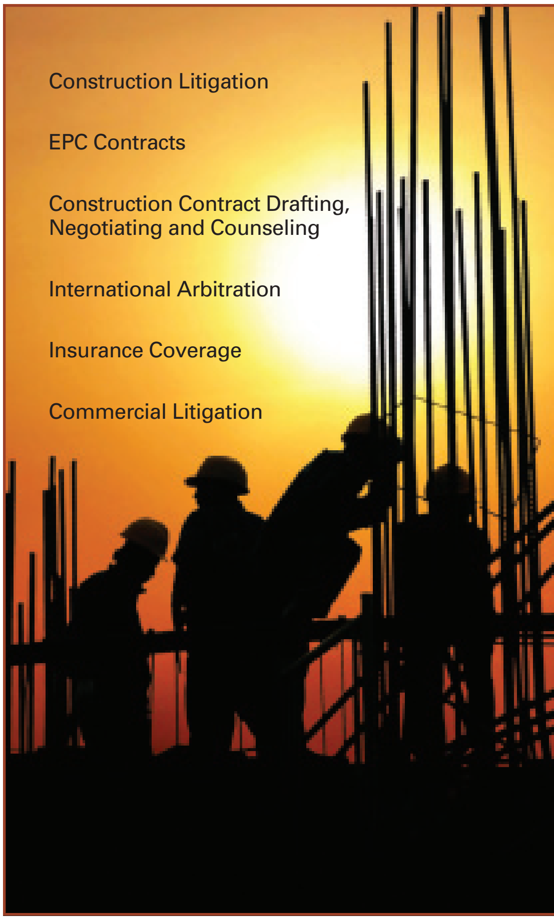
"We awarded some of the subcontracts late. You always want your ductwork up in the air first but we didn't have that opportunity because of the schedule," says Sklarsky. The schedule also dictated that the potential subcontractors be limited to companies that could do their own fabrication. One of those was HVAC contractor SSM Industries. "The amount of sheet metal that they got out there in a short time was impressive," Sklarsky says. "I was a little leery because I hadn't worked with SSM on something like this before but they really came through for us."

It was the managing of conflicts that proved to be the biggest project management task on the project. Projects with compressed schedules can create more conflict because there isn't enough flexibility to work around a subcontractor not having access to a critical area, for example, or for a vendor who delivers equipment a day early or late. Subcontractors on projects like Latitude 40 can't always keep their work flowing like planned and often have to adjust to being directed to an unplanned portion of their work. That can lead to frayed nerves after a while.

"I thought Scalise's superintendant was going to kill me," jokes Sklarsky. "There were lots of small conflicts and we just had to talk them through. We'd remind them it was our fault not the other subs' fault. You had to keep telling them, we've got to work together."

Deklewa put superintendant Paul Pikulin on the project and added Jim Williams as a second superintendant as the project moved along. Because of his early involvement, Sklarsky also became a second project manager for the job, often spending ten hours there and working on site seven days a week.

Managing subcontractors and schedule weren't the limit of the challenges, of course. Like all projects the Latitude 40 job had some difficult construction problems as well.



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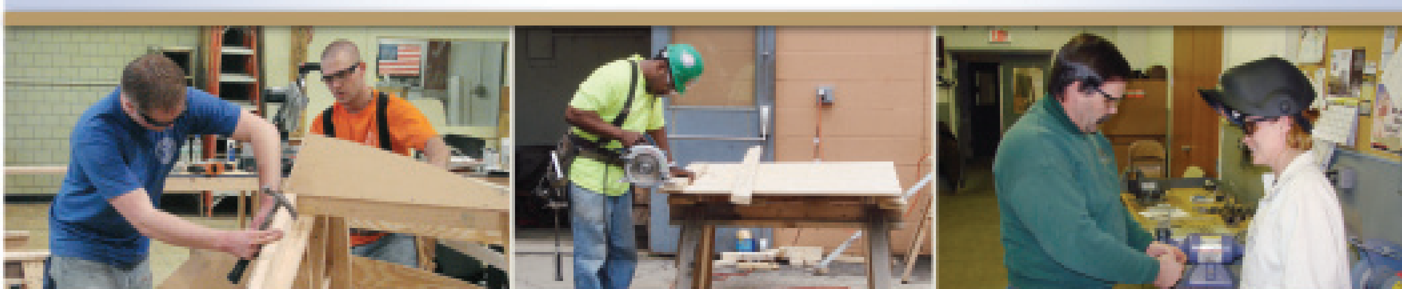

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ACCELERATING THE OPENING IN PITTSBURGH WOULD AVOID A NUMBER OF LOGISTICAL PROBLEMS …

"Just as we were getting the stage framed, Brent brought investors through the jobsite. There was a column in the middle of an aisle and the investors insisted that it be removed so there was nothing to obstruct the view," explains Sklarsky. "We had to replace it with a 70 foot long beam that was 40 inches deep and had to be rigged in three pieces. We cut three holes in the roof and boomed in each section. Each piece was attached to the structure, shored and welded in place. It was a big relief when we cut out the column and all of the structure held."

The sheer size of the pin setting equipment required structural reinforcement on the second floor as well. Before installing the 2,500-pound equipment Cooper & Cooper welded an additional brace on the top leg of both sides of the existing bar joists and the amount of concrete for the floor slabs was doubled. The bowling venue was also a potential headache because Brunswick asks that all the finish work be completed before installing the alleys. Because of the schedule that wasn't going to be possible, so Deklewa decided to accept the risk of fixing any damage that occurred after the lanes were installed. It was their good fortune that no damage occurred.

Even though the original schedule was tight, things became more compressed in September 2012 when Latitude Global's management realized that training crews for simultaneous openings in Pittsburgh and Indianapolis would be asking for trouble. They turned to Deklewa for a solution.

"Brent asked if we could move the opening up three weeks to early November to avoid opening in Indianapolis right behind our project," says Sklarsky. Accelerating the opening in Pittsburgh would avoid a number of logistical problems for the client but it meant putting a fast-track project into a whole other gear. That meant reassessing the coordination of all the finish trades. In particular, the juggled sequence was going to impact those subcontractors who were interfacing with the vendors that were hired directly by Latitude Global.

"We had to work the subs around the owner's subcontractors. The ceramic tile contractor had to hop scotch around the kitchen equipment installation," Sklarsky recalls. "To meet the opening the drywall crews ran two shifts for five weeks; the low voltage guys ran second and third shifts. The last days were so tight that Latitude 40 employees ended up doing the construction clean up instead of us because of the event. At one point, I looked at one side of the room and saw our guys putting in base and on the other side of the room their people were wiping down surfaces to get ready for the party."

Latitude 40 opened on November 13, 2012 after a flurry of activity in the last 48 hours and some last minute drama with the occupancy permit. The Friday opening was a VIP party for 1,100 people, including investors from all over the country.

"North Fayette has been tremendously supportive. The community embraced the concept and it's doing better than expected," notes Brent Brown. "I really couldn't be happier with the building; in fact, we will be duplicating it in two deals next year." BG

PROJECT TEAM

Latitude Global Inc.	Owner
John Deklewa & Sons	General Contractor
Roy Williams Architect	Architect
SSM Industries	HVAC
Mongiovi Plumbing	Plumbing/Fire Protection
EMCOR/Scalise Industries	Electrical
Cooper & Cooper	Structural/Miscellaneous Steel
Linkrist Construction	Interiors
Priority Flooring Inc.	Flooring
Rex Glass & Mirror Inc.	Glazing
Higgins Professional Wallcovering & Painting	Painting

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Thursday, May 23, 2013
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Mansions on Fifth
Event Chaired by:

Dean Mosites & William Waterkotte
MBA President
Greater PA Regional Council of Carpenters & RTP Co-Founder

The proceeds for this event will benefit the Rebuilding Together Pittsburgh Endowment Fund –Ann Billak Fund.
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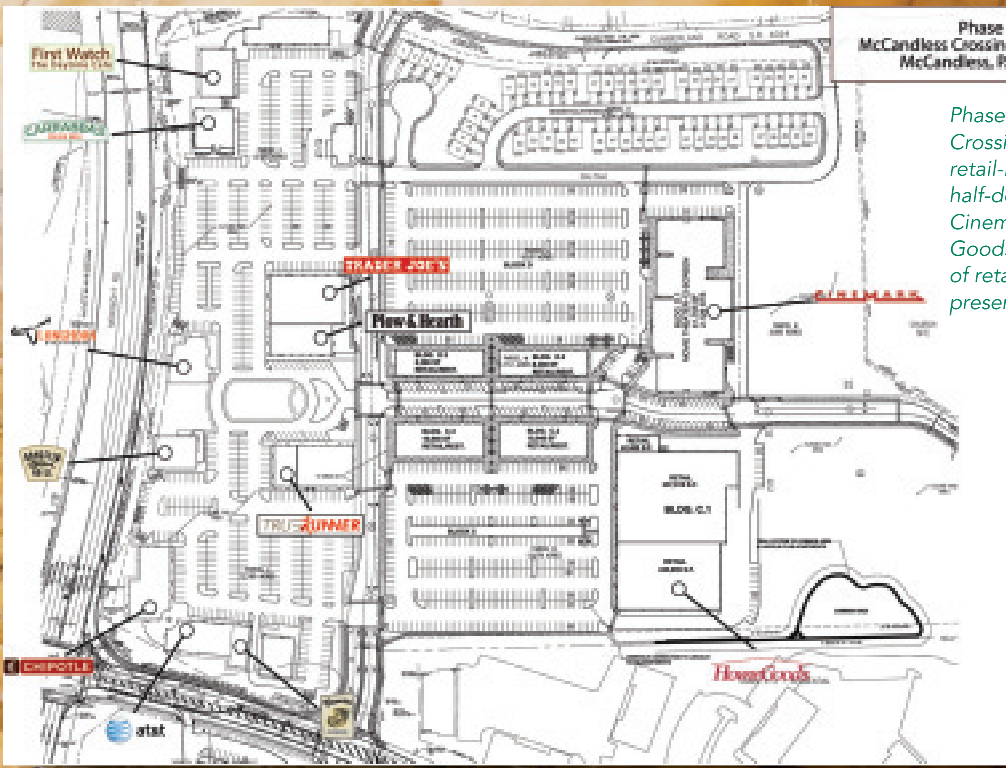

Phase 4 of McCandless Crossing will be the most retail-intensive, including half-dozen restaurants, Cinemark Theater, Home Goods store, and a number of retailers with limited presence in Pittsburgh.

AdVenture founder Kevin Dougherty (left) with Bob McGurk at the McCandless Crossing site.

AdVenture DEVELOPMENT, LLC

The developer of the largest retail center under construction at the moment got started in commercial real estate by doing something that college students rarely do: listening to his mother.

Kevin Dougherty was finishing his freshman year at John Carroll in the spring of 1979 and finding it difficult to land a summer job back in Pittsburgh. His mother suggested he go to the alumni affairs office and get the names of alumni who had businesses in Pittsburgh. Armed with a lot of names, Dougherty embarked upon a direct mail campaign. "I wrote a letter telling them that I was looking for a job where I could make $2,000 during the summer for school," he recalls. "I got a box of 100 envelopes, sent the first batch out and got a response from Bob Carey."

Carey was one of the partners at mortgage banker Carey Kramer Crouse. Dougherty says he was hired to be the office 'go-fer' that summer but the job gave him the opportunity to work on parts of deals during a particularly interesting economic time. He worked at Carey Kramer Crouse during the remaining summers while he was in college and worked on a broad spectrum of commercial properties, among them the sale of the Monroeville Mall and South Hills Village as part of the split of the original partners of Oxford Development.

After graduation in 1982, Dougherty joined Carey Kramer Crouse full time. During the next four years he got the opportunity to develop relationships with lenders throughout the Pittsburgh region and also around the country.

In 1986, Dougherty was offered an opportunity to become the director of retail development for Charter Properties Inc. He decided to try working on the opposite side of the table from the lenders and moved to Charlotte, NC. During his tenure at Charter, Dougherty worked on more than 750,000 square feet of retail development. He also met his wife in Charlotte. While the time in North Carolina was good to Dougherty, the late 1980's were not good to commercial real estate development. Overbuilding, overextension of credit and a general recession created a tough environment for developers and in late 1989 Dougherty was looking at a 1990 that was less rosy.

"[In 1990] I was going to take a haircut or a salary cut so instead I asked Charter for a parachute to leave. That allowed me to go out on my own," he explains. "In early 1990, I wrote a business plan with Guy DiRienzo, who was a friend of mine in college. I moved back to Pittsburgh and on November 1st we opened Michael Joseph Development Corporation (MJDC)."

That business plan attracted some impressive early investors. Patsy Graziano and son-in-law Ralph Pampena – who was at the helm of Graziano Construction at the time – were backers of Michael Joseph. They were also involved in MJDC's early project opportunities, one of which ended up in MJDC's portfolio because the company was new enough not to have any baggage.

"We were definitely blessed. Our first job was the 200 St. Margaret's Medical Office Building," says Dougherty. "We were one of the developers asked to put a proposal in for the project. In 1991, most developers were tied up trying to work through their problem properties." While Michael Joseph didn't have a lengthy resume of projects that might predict success in developing an 88,000 square foot building, they also had no balance sheet problems.

Their first significant retail project was the WalMart/Sam's Club/Food Lion development at Plank Road Commons in Altoona, PA. "That was the one that put us on the map," notes Dougherty.

'On the map' meant that those big box retailers, along with Lowe's Home Improvement stores, were willing to align with MJDC as the big box expansion hit its stride. One of the things that was probably attractive about Michael Joseph was their willingness to develop projects in smaller cities, a business model that Kevin Dougherty says was a result of their taking what the market would give them.

"We were 30 years old. We didn't have two nickels to rub together so we had to go to the places nobody else paid attention to, like DuBois, Indiana or Carlisle," he says. "There was not much competition in terms of developers in those smaller towns."

MJDC ultimately developed roughly a million and half square feet of property and was involved in $200 million in transactions during the fifteen years that Dougherty was president and partner. In 2004, MJDC sold its retail assets in Dubois and Indiana to Cedar Centers Partnership and its Carlisle Commons to Inland Retail Real Estate in late 2003. Even though the firm was working on a WalMart Supercenter at the Highlands Mall site in Natrona Heights, the sale of its shopping centers marked a point of departure for Kevin Dougherty.

"We decided that with the sale of the assets it was never going to be easier to split things up," he recalls. "So we did."

The clean break set the table for Dougherty to start over again. He founded AdVenture Development in 2005 and moved to North Carolina, keeping a promise to his wife that was five years past due. "The deal was no more than ten years in Pittsburgh but when we left she was the one who had a harder time leaving," he says. Dougherty looked for a home base that had close access to an airport and a major interstate in the Raleigh area, settling on Selma, NC, about 20 miles southeast of the city.

Although Dougherty and his family left Pittsburgh, his new company's first project was an ambitious mixed-use development that he had been working towards since 1992, McCandless Crossing. Dougherty had grown up in Perrysville in the North Hills, just a few miles from the McKnight Road shopping district. During the years he was part of MJDC, he had seen tremendous growth in the north from Wexford to Cranberry Township, but one major section of McKnight remained untouched that was strategically located but logistically-challenged. The stretch of McKnight that runs between Babcock Boulevard and Cumberland Road was somewhat isolated from the east-west corridors that connected several of the North Hills communities. The opportunity to change that appeared just as Dougherty was starting AdVenture.

"I had been chasing after it – the Coyne property – since 1992 but there had been a series of litigations between the owners and the municipality," says Dougherty. "In 2005, one of the other pieces of land came available. I knew that we would have to re-zone the property and expected it to be tough going but I thought it would be easier to re-zone if I owned it instead of optioning it."

When he approached McCandless about the zoning, the municipality encouraged him to assemble all six parcels before starting the process. That meant negotiating sales with LaRoche College, North Allegheny School District and four individual owners. AdVenture finally accomplished this in 2008 and the process put them in good standing when they put together the plan that the Town of McCandless was asked to approve.

"The zoning process required that we meet with NA, UPMC, LaRoche, Vincentian and the commercial and residential owners adjoining the property to see what they needed," Dougherty explains. "We came up with a plan that would not compete with but would complement anything that existed, both for use and architecturally."

These neighbors and the municipality wanted the development to be a walkable green property, which led to McCandless Crossing being a mixed use of medical and commercial office, housing, hospitality and no more than 50 percent retail. The meetings revealed several commercial uses for which there was pent-up demand on McKnight. Roughly 6,000 people are employed by the businesses and institutions adjacent to the site and the employers expressed the need for more dining options and, especially, hotels. In fact, there were no hotel rooms between Seibert Road and Cranberry.

Construction began in summer 2009, with the excavation of a million yards of earth and improvements to the McKnight Road intersections, including the extension of Duncan Avenue through to the west side of McKnight. In March 2010, construction started on a Lowe's Home Improvement store (for which Dougherty had an approved site back in 1995) west of McKnight and a Fidelity Savings Bank (now Wesbanco) on the east side. Although leasing interest was affected by the recession, construction of additional projects continued throughout the downturn. Added between 2010 and 2013 were a small retail strip at the Lowe's location, LA Fitness, Home2Suites Hotel, CVS and Doodlebug's.

In 2009, as the McCandless Crossing project heated up, AdVenture needed someone to be at the site managing the day-to-day construction and hired Bob McGurk to act as project manager. McGurk was a veteran construction and development manager, spending more than 30 years with the DeBartolo organization, including overseeing DeBartolo's interests in the Mall at Robinson and the Metro Properties development of The Pointe at North Fayette.

"Kevin contacted me to see if I would be willing to be his feet on the ground at McCandless," McGurk recalls. "The timing was perfect because I was just wrapping up the work at Robinson."

McGurk's current challenge is getting the site work completed to start Phase IV of the McCandless Crossing, the 250,000 square foot Town Center. AdVenture has been having great success attracting tenants to the new phase, especially retailers who are still newer to Western PA. In addition to the new casual restaurants, North Hills residents will be happy to have easy access to a new Trader Joe's, Home Goods, a Plow & Hearth store and a Cinemark movie theater. Phase IV also includes 53 townhouses and another hotel.

Dougherty spends two days in Pittsburgh most weeks, taking advantage of the three daily flights from Raleigh. AdVenture now has five employees, including two in Pittsburgh. Even though McCandless Crossing still has at least a few more years of development remaining, AdVenture is beginning the work on a similar project in the Raleigh area at the intersection of I-95 and Highway 70 near Selma, NC. Called Eastfield, the project includes 1.2 million square feet of retail, medical office and hospitality space. AdVenture has been acquiring flex and industrial properties in North Carolina in the past couple of years as the company diversifies and expands. Kevin Dougherty isn't forgetting his roots, however.

"Retail square footage per capita in Pittsburgh is much less than other cities. It was about half and even now it may be about 60 percent of similar cities," he explains. "I'll always be looking for something new in Pittsburgh." BG

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Legal Perspective

EPC Contracting in the "Downstream" Marcellus Shale Market

By Brian R. Davidson, Esq.

The Marcellus Shale has the potential to provide a significant economic boom to Western Pennsylvania for the next twenty-plus years. Already, the "upstream" market is booming with the dramatic increase in natural gas drilling across the region. In the "midstream" market, Shell Oil Company and Williams Partners have recently announced their plans to form a joint venture, Three Rivers Midstream, to build a system to gather and process Marcellus Shale gas. However, the biggest long-term impact to the region as a result of the Marcellus Shale boom may come with the development of the so-called "downstream" market comprised of petrochemical processing facilities.

Shell has publically announced its intentions to build a multi-billion-dollar petrochemical facility, including an ethane "cracker" and other associated units, in Beaver County. If this construction project goes forward, it would likely last four to five years, would be one of the largest construction projects ever in Western Pennsylvania, and would bring thousands of construction- and engineering-related jobs to the region. Once completed, the facility will transform ethane extracted from Marcellus Shale gas into other products such as ethylene, a material used in the manufacture of various plastic products. (As we all remember from the movie The Graduate, the future is in "plastics.")

One of the first decisions that Shell, or any other owner of a large-scale industrial construction project, will be facing is the selection of the appropriate construction delivery method for its project. The most common types of contract delivery methods for these projects include: Engineering, Procurement and Construction ("EPC"); Engineering, Procurement and Construction Management ("EPCM"); Cost-Reimbursable; and Cost-Reimbursable with a Fixed Fee Component.

Generally speaking, under an EPC contract, the EPC contractor is responsible for all phases of the project from the development of the engineering through the commissioning and testing of the completed project. The EPC contractor must deliver the project by a guaranteed completion date, for a lump-sum fixed price, and at certain guaranteed performance levels. Under an EPCM contract, the contractor furnishes the engineering and procurement and manages the construction undertaken by a separate contractor. The major difference between EPC and EPCM contracts is that a third party is the construction contractor under the EPCM method. Cost-Reimbursable contracts are often tied to target price guarantees with sharing mechanisms in place for any cost savings or overruns with respect to the target price. It is not uncommon for a construction project to start out with a Cost-Reimbursable contract and then convert to an EPC contract once the scope of work has been properly defined.

In today's marketplace, the most common project delivery method for large-scale industrial construction projects is the EPC contract. The EPC contract provides the project owner with a single point of responsibility for the completion of the project on time and within budget. An EPC contract is often referred to as a Turnkey contract because the EPC contractor is required to deliver a completed project and all the owner has to do is "turn the key" to start the operation of the facility.

The EPC contract can be preferable to the owner from a project management perspective. However, there are relatively few construction companies that have the knowledge, experience and balance sheet sufficient to take on an EPC contract for a project as large as Shell's proposed cracker facility. As such, the EPC contractor is often a joint venture, or a consortium, of construction and engineering companies.

As the name suggests, under an EPC contract, the EPC contractor is responsible for the detailed engineering, the procurement of all necessary equipment and materials, the construction of the facility, and, most often, the commissioning and testing of the facility. In certain circumstances, a specialty engineering company with a proprietary technology process will provide a part of the engineering, either directly to the owner, or as a subcontractor to the EPC contractor. In addition, the owner may procure some of the long-lead capital items, such as turbines, generators, and compressors, directly prior to the execution of the EPC contract and later assign those purchase orders to the EPC contractor. Otherwise, the EPC contractor, which will be largely responsible for the supply chain, will enter into multiple purchase orders with equipment manufacturers and suppliers from around the world. Some EPC contractors will self-perform the construction activities, while others will subcontract that scope of work to specialty construction subcontractors.

The EPC contract will be executed based on a lump-sum fixed price, which can be subject to increases or decreases based on owner-approved change orders. Thus, the EPC contract provides the owner, and its project lenders, if any, with a degree of certainty as to the total capital price of the project. Conversely, the risk of a cost overrun, as well the benefit of any cost savings, will generally fall to the EPC contractor. The EPC contract price will include the contractor's profit and a contingency component for risks allocated to the EPC contractor, such as contractor-caused delays and construction materials quantity variations.

An EPC contract will include guaranteed dates for interim milestones, such as mechanical completion or substantial comple-

... the biggest long-term impact to the region as a result of the Marcellus Shale boom may come with the development of the so-called "downstream" market comprised of petrochemical processing facilities.

tion, as well as overall project completion. The EPC contractor's failure to achieve the guaranteed completion dates will typically expose it to significant liability for delay liquidated damages in a specified per diem amount. The total amount of liability for delay liquidated damages is usually subject to specific caps based on a percentage of the overall contract price. The purpose of delay liquidated damages is to compensate the owner for the projected losses or damages resulting from not finishing the project by the guaranteed completion date, such as loss of revenues or profits and extended financing costs. Under Pennsylvania law, delay liquidated damages are enforceable if they are a reasonable estimate of anticipated loss; otherwise, the delay liquidated damages could be deemed an unenforceable penalty.

In most instances, the EPC contract will include a detailed performance specification which sets forth the performance standards that the completed facility must achieve, such as quantity and quality of production and utility and raw material consumption. The performance specification is often prepared by the owner itself using its own engineers or on behalf of the owner by a third-party engineer. In the normal course of events, the EPC contractor has the opportunity to review the performance specification before it agrees to the performance guarantees. The EPC contractor will have to carry out various functional and guarantee tests to demonstrate that the performance guarantees for the completed facility have been achieved. The failure to pass these tests may expose the EPC contractor to performance liquidated damages typically based on the percentage of the performance shortfalls. Generally, the EPC contractor cannot limit its liability to the payment of performance liquidated damages unless it has achieved minimum guaranteed performance levels. Until the minimum guarantees are met, the EPC contractor at its cost is required to make plant modifications to improve plant performance. This is referred to in the industry as a "make good" guarantee.

The standard EPC contract will include various contract provisions that provide additional protections to the owner. For example, the EPC contract will include general warranty provisions under which the EPC contractor, for a specified period of time following project completion or other specified milestones, will be required to remedy any discovered defects or deficiencies associated with its scope of work. The interplay between the obligations of the EPC contractor under its performance guarantees and general warranty can often be misunderstood by those not familiar with the industry. The EPC contractor will also be required to provide any or all of the following financial instruments as additional protection to the owner: a performance bond and a labor and material payment bond from an approved surety company, each in the amount of 100% of the contract price; a parental guarantee; and/or an on-demand irrevocable letter of credit equal to an agreed upon percentage of the overall contract price.

From the EPC contractor's perspective, the EPC contract can also provide significant protections. In particular, the EPC contractor will have the opportunity to seek additional time and/or money for the impacts of various events including, delays caused by the owner or its other contractors, owner initiated change orders, suspensions of the work, and events of force majeure. In order to protect itself against unlimited liability, the EPC contractor will seek caps on its liability for delay and performance liquidated damages, as well as its overall liability, all based on a percentage of the total contract price. The owner will typically seek exceptions to these limitations of liability based on events of willful misconduct, fraud, or material breach by the EPC contractor. The EPC contract will expressly define the owner's remedies for warranty claims and performance shortfalls as the owner's "sole and exclusive" remedies.

Both parties will want mutual disclaimers of consequential damages, and the right to terminate the EPC contract based on certain specific events of default by the other party. In the end, a successful project will be based upon an EPC contract that fairly allocates the risks between the EPC contractor and the owner.

If Shell elects to go forward with the construction of a cracker plant in Beaver County, the positive economic impacts will be felt throughout the region for years to come. Construction and engineering jobs will be created, and local equipment manufacturers and suppliers will be called upon to provide the materials necessary to construct the facility. In short, while an EPC contract provides for a single point of responsibility, thousands of individuals and companies will contribute to the construction of the Shell cracker, or any other large-scale industrial plant constructed as a result of the regional Marcellus Shale gas boom.

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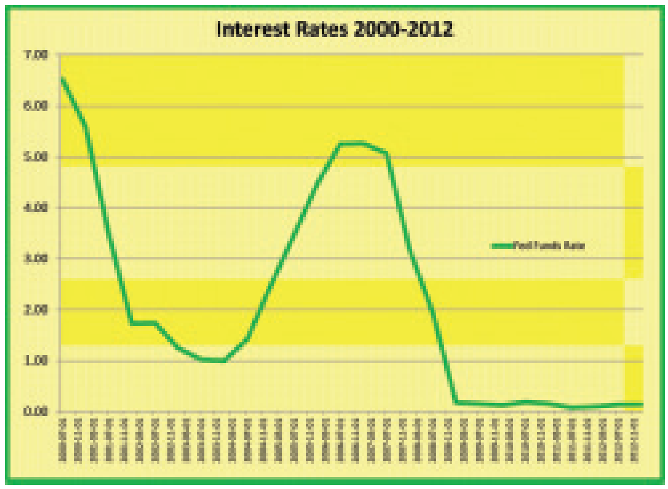
What is the Risk of Rising Interest Rates?

For more than four years interest rates have been at levels that very few people ever thought they would see. Designed as the major tool to combat the deep recession of 2007-2009, low rates were tied to the unemployment rate by the Federal Reserve's Open Market Committee last September, a decision which will likely keep rates at record low levels into 2015. As the real estate market has slowly recovered, low interest rates have become a source of concern for professionals throughout the industry. Low rates were once a salve on a wounded economy, but have become something of a double-edged sword.



On the upside is the advantageous borrowing environment. Since the recession began, business conditions and uncertainty limited construction and expansion, regardless of the cost of money. Dollar Bank senior vice president of marketing, Joseph Smith, says that this year has been different for their customers in commercial real estate.

"A lot of people sat on the sidelines last year because of the uncertainty with the tax situation and how extended this period of low rates would go on," he explains. "We have seen a pretty good uptick from our customers this year putting capital to use. With the announcement of low rates into 2015 and the settlement of the tax situation – even with some of the things going on in the Capitol – there is more activity."

The downside of a low-rate market is that the value of the deal can be overstated because the income of the property is inflated by the low financing costs. If those conditions existed on your family's home it would be okay. For commercial real estate, where properties are regularly refinanced to access the equity, the low rates today set up a potential trap in the coming years.

"The ultra low rate environment has existed for longer than I expected and the Fed and foreign investors buying our bonds will keep it there," observes Kris Volpatti, vice president for First Niagara's commercial real estate department. Volpatti makes the point that the low rates could create an easy money environment even with careful underwriting. "With today's rates you effectively end up with the same results as in 2007. If rates go back up, today's 75 to 80 percent loan-to-value will be over 100 percent."

What Volpatti is talking about has to do with the capitalization rate of a property. Cap rates are a ratio of the property's net operating income compared to its price or value. Because the actual income and value of properties vary from place-to-place and owner-to-owner, cap rates are meant to be an objective measure of potential property values. Lower interest rates increase a project's cash flow which tends to inflate the value of real estate, which results in a lower cap rate being utilized. That's the problem at the moment. The historical norm for office buildings is a cap rate between eight and ten. Coming out of a commercial real estate recession, cap rates should be at the higher end of the range but in many markets – and Pittsburgh is one of them – cap rates are below the normal range because demand for yield is chasing investors into real estate. When interest rates go up, investors will look back to bonds for yield again and property prices will again depend on the income.

Lower cap rates mean higher values and vice versa. Debt originated during a period of low cap rates can be a problem when the term of the loan ends or when the property is refinanced at a higher interest rate.

"Cap rates for all property types – but particularly office and multi-family – are at record lows but they will move back toward equilibrium," asserts Paul Griffith, managing director for Integra Realty Resources. "If investors are borrowing based on a short-term debt maturity there is a big risk coming out the back side. Rents won't grow enough to cover the difference."

Griffith is concerned about the amount that lenders will be willing to fund on the re-finance of a low-rate loan that terminates at a point when interest rates are at more normal levels. Let's say you borrowed $8 million to purchase or build a $10 million office building while rates were less than five percent and you sought to re-finance in a market where interest rates had gone back up to 7.5 percent. The higher interest rates will reduce the price for the building because the perception of the future income is lower. The lower value elevates the cap rate. While that makes the lender more comfortable, it means the likely proceeds for the loan will go down. For you to take out the original loan balance you'll have to take a smaller equity return than planned or borrow more than the building is worth.

Higher interest rates in the future have always been a risk for purchase or construction and a small allowance for rate increases has usually been built into the underwriting of a loan. The lender evaluated the performance of the building or the results of a sale at a slightly higher interest rate so that they could cover that contingency of higher rates when the loan expired. What's interesting is that finance professionals all seem to agree on what would be reasonable for that test today and it's much higher than normal.

"We normally thought in terms of 50 to 75 basis points [half or three-fourths percent] coming out the back end of a deal but if you can underwrite at 200 basis points today it's probably a good idea," says Griffith.

"In an ideal world we would underwrite at an assumed underwritten rate that is higher than the actual rate so there is a cushion for the future," says Volpatti. "Even in 2007, when the 10-Year [Treasury Bill] was at five percent, projects had to make sense at seven percent."

"It's a guessing game to anticipate interest rates in coming years but if we look out it's 200 basis points," says Tyler Noland, underwriting director for PenTrust Real Estate Advisory Services. PenTrust invests pension and retirement funds for unions and government entities so their risk appetite is low. Noland says that the extended period of low rates seems to have dulled memories. "I'm seeing that expectations have been lowered over the past couple of years. One year out people seemed to understand that rates couldn't stay low forever but now there seems to be the sense that maybe they can stay this low."

The concern you hear from financial professionals is a reflection of the conundrum lenders face at the moment. The low rates that were supposed to create an incentive to lend are in fact, holding back lending. Interest rates should be a reflection of the perceived risk of lending the money over a period of time. Longer terms should yield better rates. Right now, the bellwether 1-Year T-Bill is at two percent, more or less. What incentive does a bank have to lend when the risk-adjusted rate for a ten or fifteen year mortgage is four or five percent? The 200 basis point rise that is discussed above would erode whatever spread is on such a loan.

Rates need to go up before anything like 'normal' financing can return but that means trouble for those who have an interest in loans at today's rates.

Rising interest rates always have a negative effect on investments that are yield-oriented, like commercial real estate debt. When rates climb in 2015 or later, cap rates will go with them and property owners and investors will take a hit unless the rental incomes can rise with the rates.

"HFF continues to emphasize the risk of rising interest rates relative to a 'hold/sell' strategy decision," notes Holliday Fenoglio Fowler senior managing director Mark Popovich. "We believe cap rates and interest rates are correlated, and our regression analysis concludes net operating income must increase 10 to 15 percent to offset a 100 basis point move in interest rate/cap rates."

It's an historical fact that a period of normalcy has returned after each credit crisis during the 20th Century and in those cases, economic prosperity returned with it. If it is lower unemployment that triggers higher rates then the demand for more space that accompanies the increased workforce will also push up rents and values. But the worrisome question in today's interest environment is how high rates will go once they begin to rise.

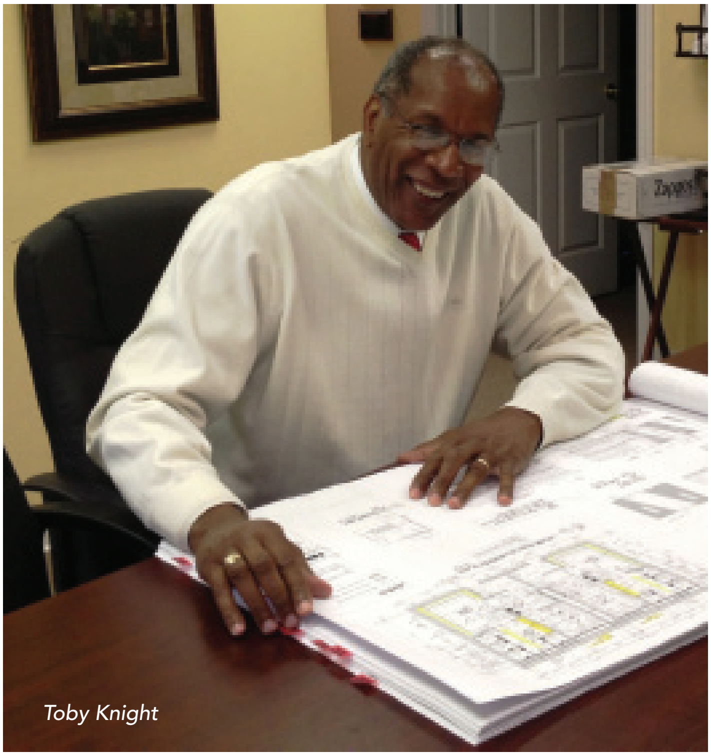
The long-term trend suggests that rates won't go higher than the previous cycle's highs, which occurred in 2006 when T-Bills were at 5.1 percent and corporate bonds returned 6.8 percent. Supply of sovereign debt is much higher now than in 2006, however, and demand for Treasuries could be softer, especially if other countries remain less interested in buying U. S. debt. In either of those cases, prices for bonds will be low and interest rates will keep rising.

Of course, interest rates don't usually rise in a vacuum. While the current yields are being artificially maintained, the trigger mechanism the Federal Reserve is monitoring is a return to healthy levels of employment. That means that the overall economy will be much improved, which also means that real estate fundamentals will be healthy as well. Cap rates will increase but the adjustments from higher income and perceived property values will limit the increase. If the Fed raises rates and markets do not accelerate them, the probability is that equilibrium will return to both the perception of the time value of money and the value of real estate.

Regardless of the long-term risks associated with extended low rates Kris Volpatti points out one significant advantage to the current environment. "If property owners are looking to lock a rate on project financing for the next five or ten years, this is an optimal rate environment to do just that." BG

MBE/WBE Company Spotlight

Knight Athletics


Toby Knight

By Jon O'Brien

Typically, behind every successful startup company is a person that is viewed as an expert in their specific line of work. That person for Knight Athletics is Toby Knight. Toby started his institutional equipment dealership that services athletic facilities and auditoriums in 2006, but he became a knowledgeable specialist in gymnasium products well before this 2006 launching.

"I started in this industry, in the field, working my way up the ranks through Porter Athletics in 1991," said Toby Knight. "In 2006, Porter was sold and my wife and I decided to start Knight Athletics. I had nearly two decades in this line of work and I had all the contacts and relationships already established so it was an easy transition for me."

Joining Toby at the inception of the new company was his wife, Mary Ann, who previously was employed at Chartiers Valley School District at an elementary school.

Knight Athletics is an institutional equipment dealership servicing athletic facilities, auditoriums and theaters in Pennsylvania, Ohio, Kentucky and New York. We represent leading manufacturers in the institutional markets such as Spalding, Interkal Bleachers, Electro-Mech Scoreboards and Haro Sports Floors, to name a few. Knight installs all of the equipment that they sell. "On the labor side it's been extremely helpful in being signatory and being able to pull from the Carpenters union hall to get workers with bleacher experience," said Toby.

The initial challenges for Knight were not as drastic as can be expected from a new company since Toby did not have to build his business rolodex or learn the ins and outs of the industry. "We were definitely at an advantage on the onset since I took what I was doing with Porter and transitioned my efforts under a different company name. I had the relationships established with contractors and manufacturers, plus the Porter sales crew came to work for me since Porter had left this market when it was sold. And we were running a successful Porter office in this area; we were second in sales outside of the home office."

The top challenge associated with the startup of Knight was finding support staff. Toby had a topnotch sales team and the operations side was in good shape due to his eighteen years of managing the process. But tasks like invoicing, accounting and scheduling the install were issues. "The people that we hired initially were great but had no experience in this line of work. We were able to find software systems applicable to provide the support we needed. This software provided the structure needed early on to make sure all business tasks were handled in a timely manner. Now, after five years of this system, the support staff uses this software as a reminder to assure office duties are carried out," said Toby.

The operations side was never really a challenge for Knight. Due to their reputation that carried over from the previous company, they have been invited to bid on some noteworthy projects and have had their fair share of success getting the work. They were a sub to Mascaro Construction on the Indiana University of Pennsylvania convocation center, which has seating for over 4,000 people. At the California University of Pennsylvania, Knight worked on their 5,000-plus seat convocation center. Knight also worked for Mascaro Construction on Bethel Park High School to install the 2,300 seat telescoping bleacher and 1,300 seat auditorium and is one of Nello Construction's subcontractors on the new $80 million Mt. Lebanon High School.

"Nello Construction has worked with Toby each year for nearly 30 years, from the Porter days and now with Knight Athletics, and I have nothing but positive comments and high respect for this man," said George Leasure, president, Nello Construction.

"I had the pleasure of working with Knight Athletics on the new Bethel Park High School Project and they are currently working for Mascaro Construction on the new Cardinal Wuerl North Catholic High School," says John West, senior project manager for Mascaro. "I find that there are never any surprises when it comes to working with Toby Knight and his staff. Mascaro Construction always knows that we can expect a reliable and professional performance when we hire Knight Athletics on any project."

Company Facts

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Knight Athletics is registered with the Pennsylvania Department of General Services as a Minority Business Enterprise.

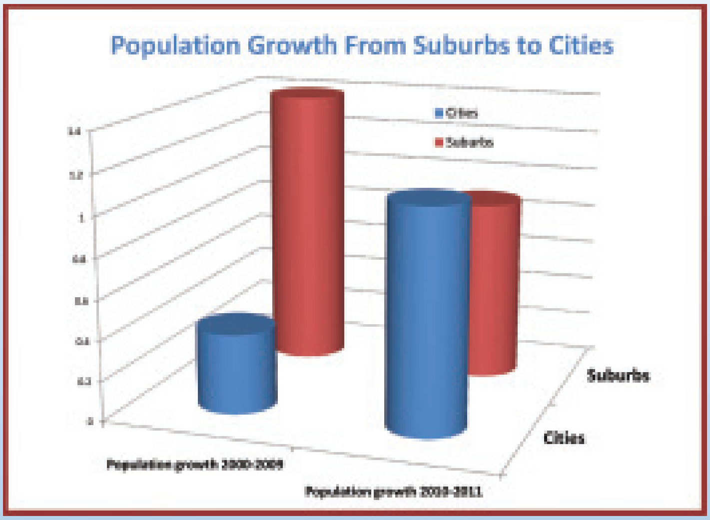
Trend to Watch

The Trend Towards Smaller Stores Isn't Going Away

By Karen Kukish

An economic downturn will make any industry examine how it does business. Retailers certainly had a rough time during the Great Recession but most had been getting signals that their stores were too big before things slowed down.

Retail stores are getting smaller because they just couldn't get any bigger or build any more in the suburbs, where it seemed there was always room for another shopping mall. Most suburban markets across the country are retail-saturated although the Pittsburgh region itself is not. Big-box retailers are closing suburban stores and finding that their experiments with smaller locations that follow the population migration back to the city are proving profitable. These new urban retail stores have less risk and more profits on roughly comparable amounts of sales.



Urban population growth is accelerating faster than growth in the suburbs, a trend that is reinforcing the trend towards smaller stores. Source: Bureau of Labor Statistics.

The birth of the big-box retailer chains began in 1962 when Walmart, K-Mart and Target all opened their first large discount stores that offered a broad selection and low prices to a growing population of suburbanites who left the cities.

These and other chain stores dominated retail development for the next few decades so that by 1986 the United States had built about 15 square feet of retail space per person in shopping centers. That figure jumped to 20 square feet in 2003 and by 2011 it more than doubled again to 56 square feet of retail space per person.

Comparing the U.S. to other countries makes the over-abundance of retail space in the U.S. more than obvious. The next country on the list – the United Kingdom at 23 square feet - is half the U.S. rate.

As the big box retailers sprung up all over America, suburban markets became saturated. New retail stores no longer brought in new retail dollars - they just took market share away from existing retailers. Michele Reeves in "Retail, REITs, and Cannibalization" on www.civilisconsultants.com May 4, 2012 writes, "Every time a city adds retail space, it is cannibalizing its own existing retail infrastructure. This trend gets exacerbated in areas with sales tax, as cities duke it out over who lures Wal-Mart from the next county over."

"Flawed philosophy, policy and practice create retail oversupply. Persisting at every level of government and business is the entrenched belief that more development, despite population and demographic trends, is good for governments and taxpayers. This belief is so strong that chain retailers often enjoy hefty subsidies from governments," according to Evan Lowenstein in his "Retail store overabundance blights, strains New York's regions." Since the 2008 recession, big-box retailers have struggled. Walmart, Best Buy and Target have all posted declining same-store sales for 2011 and 2012. Shopping malls have vacant space and there are more store closings to come in 2013.

Based on retailers' announcements and calculations made by The DailyFinance.com's staff, Best Buy, Sears, J.C. Penney, Office Depot, Barnes & Noble, GameStop, Office Max, and Radio Shack are the top contenders for store closings in 2013. The estimates are that retailers will close at least 2,190 stores and maybe as many as 2,665 in 2013.

"While the big-box retail model is far from dead, stores such as Walmart, Best Buy, and Cabela's are realizing that the enormous, one-size-fits-all approach doesn't work for all shoppers—nor all locations. To grow, many retailers are shrinking, sometimes with smaller stores, sometimes by introducing smaller, more intimate and approachable locations within larger stores," observes Brad Tuttle in July 2012 in Time.com's Business & Money section "Big-Box Shrinkage: Retailers Embrace Sales on a Smaller Scale."

There are many examples of retailers successfully chopping the number of products offered in a smaller location – Nike, Anchor Blue, Target, even Bloomingdale's and Walmart. It's easier and more profitable to turn over the inventory in a smaller store that can be rearranged quickly to put fast-moving merchandise where it is easy to find.

The Urban Effect

Store sizes are also being affected by the growing shift in population back to cities, where land for development is both limited and more expensive. In 2011, Census reported that 86.9 percent of the nation's 171 metropolitan areas experienced gain in population within the city limits. For the first time in years, population growth in the urban areas outstripped that of the suburbs.

The urban migration is also being felt in Pittsburgh. Internal Revenue Service released data in 2011 that confirmed the reversal in migration trends seen in Pittsburgh in 2009 was not a one-year anomaly, reporting that 1,430 more people moved into the Pittsburgh Metropolitan Statistical Area (MSA) between 2009 and 2010 than packed up and moved out. 2010 Census data also showed that Pittsburgh experienced an estimated growth of nearly 2,000 people between 2010 and 2011 and that more young people between the ages of 20-24 call Pittsburgh home than ever before bringing the city's median age to 33.

More evidence to support this is a U-Haul survey published in April 2013 ("U-Haul survey suggests young are moving to Pittsburgh" by Ann Belser, Pittsburgh Post Gazette, April 19. 2013) found that more of its trucks were arriving in Pittsburgh than leaving it at just over 9% growth - well above the second highest city of Henderson, Nevada at just about 7.5%. "The U-Haul study also jibes with a report by the website Pittsburgh Today, which showed that while Pittsburgh lost population from 2003 to 2009, that trend reversed in 2010 and carried through 2012. The Pittsburgh Economic Quarterly also looked at U.S. Census data last month and found the regional growth rate to be 0.2 percent since April 2010, raising the total metropolitan population to 2.36 million."

This recent population growth in the cities is coming from city dwellers in two age brackets. First are young professionals who choose urban apartment life because they are marrying and having children later; and second are retired baby boomers who choose urban apartment life after a lifetime of suburban living. Both demographic groups report that a main advantage of urban living is the ability to walk to shopping and entertainment.

Retailers have responded to these new demographics by reducing the store size

Year	Total Sales Dollars (in billions)	E-Commerce as % of Total Sales
2000	$2,989	0.90%
2001	$3,068	1.10%
2002	$3,134	1.40%
2003	$3,268	1.80%
2004	$3,480	2.10%
2005	$3,697	2.50%
2006	$3,880	3.00%
2007	$4,006	3.40%
2008	$3,953	3.60%
2009	$3,638	4.00%

Country	Retail Sq. Ft. Per Person
United States	56.0
United Kingdom	23.0
Canada	13.0
Australia	6.5
Sweden	3.0
France	2.3
India	2.0
Mexico	1.5
Italy	1.1

The amount of retail inventory per capita had grown well beyond the norm for other countries. Source: International Council of Shopping Centers

for a more intimate experience, reducing the size of packages so pedestrians can carry them more easily, and putting up better signs to help expedite a shopper's visit.

Stephanie Clifford in her "Retailers' Idea: Think Smaller in Urban Push" explains, "Target opened its first CityTargets, in Chicago, Los Angeles and Seattle. At 80,000 to 100,000 square feet, CityTarget - which at its smallest is just over half the size of a remodeled Target - is aimed at urban shoppers. For instance, City-Targets would not carry a six-piece patio set, but a three-piece balcony set instead."

After acquiring Duane Reade, Walgreen's saw how Duane Reade used their knowledge of locals' buying behavior to customize its product inventory based on neighborhoods and carried foot products for the unprepared tourists, along with cosmetics and snacks, while the branch just north of [Union Square] was more heavily stocked with household-cleaning items, toothpaste and the like.

Office Depot is another retailer that has made a significant revision to the design of their urban stores, which have models that are as much as 80 percent smaller than the typical 25,000 square foot suburban Office Depot. Shelves are shorter in the new urban model and the merchandising is aimed at replacement items rather than sizes appropriate for stocking (reams versus cartons, for example). Still, the urban model sells 4,500 different items, which is roughly half of the number of items sold in a typical Office Depot.

The smaller layout is also intended to expedite the shopping experience, something that is counterintuitive to the retail concept of browsing to add sales. But the results of the smaller model are exciting. According to Office Depot's North American president, Kevin Peters, sales in the new urban models run about 90 percent of the typical stores that were replaced.

Effect of Online Retail

A third factor influencing the size of retail stores is the evolution of Internet shopping. When online shopping first gained traction, the experience was marked by some of the problems that plagued catalog shopping – inconvenience of returns, difficulty in judging color and appearance, shipping costs – but the sheer volume potential was an incentive for retailers to improve the experience. Technology advances allowed the online shopper to gain confidence about what he or she was buying. Shipping deals became commonplace. And returning merchandise was made more convenient. Shoppers noticed and responded.

During the last decade, the share of online purchases quadrupled and the evidence is compelling that share will double again soon. Cyber Monday became the second most important day in retail each year, trailing only the Friday after Thanksgiving as a bellwether for activity.

The chart on page 46 documents e-commerce market share based on US Census, E-Stats, 2009 E-commerce Multi-Sector Report, May 2011. This is consistent with Forrester Research's report ("E-retail spending to increase 62% by 2016" by Thad Rueter, Internet Retailer, February 27, 2012) that by 2016 e-commerce will "account for 9% of total retail sales, up from 7% in both 2012 and 2011." Steady growth in the number of web shoppers is helping to boost e-commerce sales. Forrester says that 192 million U.S. consumers will shop online in 2016, up 15% from 167 million in 2012. But the bigger factor driving e-commerce growth is that each shopper will spend more on average. "U.S. consumers in 2016 will each spend an average of $1,738 online, up 44% from $1,207 in 2012. "

As much as any other effect, the growth in online shopping motivated online shopping services like Amazon and Ebay to broaden their offerings. That meant more competition for stores, especially the big boxes. The biggest beneficiary of the rise of online shopping has been Amazon.com, which has taken market share from Walmart, Best Buy and Target. In addition to reducing the size of their stores, the big box retailers have ramped up their own Internet shopping experience, using online shopping to drive costs down and drive shoppers to local stores.

Another byproduct of the growth of online shopping is "showrooming", where online consumers go into the retail store for a real-world experience with items like computers or furniture. They handle the merchandise and decide which brand and model to purchase. Then they go home and make the purchase online and maybe even from a competitor. This consumer behavior will be hard to change or influence. Best Buy has seen the negative effects of showrooming and has significantly reduced the number of items it displays in many product categories.

Retail Fundamentals

The Holy Grail for retail real estate is the ratio of sales per square foot. While stores with the highest sales per square foot are also businesses that sell expensive items that require less space (i. e. Apple, Tiffany's), some of the category leaders include companies that have responded quickly to the market forces at hand. Increasing sales is the more difficult and time-honored way to get the sales per square foot ratio up but shrinking the denominator – square feet – is also effective.

It seems that market forces - profit margins and population trends - are once again governing retail development – just like they did at the beginning of big-box retailer phase.

Safety in the Workplace is Becoming an Owner's Priority

By Robert McCall

When it comes to their project, every purchaser of construction services is concerned with safety - one would be hard pressed to find an owner to declare otherwise. Yet, through their actions, most owners leave it to their contractor to assure that they have a safe jobsite. With increasing frequency today, however, project owners are placing a higher priority on safety. As more corporate cultures embrace safety as a core value – particularly as manufacturing and energy industries expand – this is a trend on the upswing.

"I don't hear about green building so much from prospective tenants and corporate users but what I do hear about is safety," says Jim Scalo, CEO of Burns & Scalo Real Estate Services. "Especially with the oil and gas companies coming here we get safety questions about our buildings. I have been in many meetings that begin with evacuation discussions of how to leave the building in the event of an emergency. I see back-in parking becoming the standard."

There are a number of compelling reasons for safety's higher profile. Construction sites contain many potential hazards that must be managed diligently to avoid becoming dangerous work environments. As an industry, construction has an injury rate similar to all workplaces. The total injuries for all industries – including government – are 3.8 per 100 full-time employees, while the rate is 3.9 injuries per 100 employees for all construction. For MBA contractors that rate is 1.38 injuries per 100. When it comes to lost-time injuries the average for all MBA contractors is .57, while the all industries rate is 1.2 and construction is 1.5 (all per 100 full-time workers).

From a practical standpoint, safer construction projects result in less expensive projects. The incentives associated with low accident rates offset any costs. Safe projects stay on schedule too. But with increasing frequency, business owners are finding that a safe workplace makes sense for the sake of their employees.

Few things an owner can do have as big an impact on a worker's morale as assuring the worker on the job site understands that being safe trumps all other concerns. When an employee in the field believes that the boss is invested in ensuring that he gets home safe every evening, the worker believes that his fortunes are tied to the company. Those kinds of employees care about how the project is going and will go the extra mile to make a project successful. Safety becomes a strong tie that binds management and labor as a family.

"Safety is a huge part of everything we do. We just raised the bar for our contractors to exceed the normal RIR and EMR standards," says Mike Mamone, construction safety rep for First Energy. He explains that First Energy's expectation is for any pre-qualified contractor to have a Reportable Incidence Rate (RIR) of 3.0 or lower or an Experience Modification Rate (EMR) of 0.9 or lower. "As of [March 1] these standards apply to all our standing or alliance contracts and all of our jobs."

Michael Barnard is a project director for Oxford Development. Barnard promotes safety to the project owners Oxford represents as one of the differentiating factors in contractor selection. The value he personally places on a safe workplace was shaped in part by his experience working for mechanical contractor Limbach Inc.

"When I was working with Limbach, safety was a big part of the culture. [CEO] Charlie Bacon really drove that from the top down," say Barnard. He says Bacon recounted a meeting early in his career working for a global general contractor when the death of two employees on a project was presented to him in an annual performance review as 'you killed two people this year'. "With Charlie you got the feeling that safety was very personal."

Barnard was involved in the CONSOL Energy Center project as the owner's representative. That project's safety performance was exemplary and the owners reaped tangible benefits. "CONSOL was a successful project because of safety, for both budget and schedule," he says. "The owner got savings from the OCIP and the schedule benefitted as well."

Another measure that was taken during the CONSOL project was a partnership between the major parties and the Occupational Safety and Health Administration (OSHA). The OSHA partnerships were created in the late 1980's. The program is a voluntary, cooperative relationship between OSHA and groups of employers, employees, employee representatives and other interested stakeholders. The partnerships are designed to encourage, assist and recognize efforts to eliminate serious hazards, create effective safety and health management systems, measure results and achieve a high degree of worker safety and health. The OSHA partnership works like this: together OSHA and the partner develop strategies, goals and performance measures to address these issues; and then the partnership is established through a written and signed agreement. The benefits offered through an OSHA partnership are commensurate with participating partners' commitment to and success in providing safe and healthy working conditions for their employees.

One of the members of the construction management joint venture, PJ Dick Inc. suggested a similar partnership on the construction of the new UPMC East hospital, which it was building in joint venture with Barton Malow.

"Since we're not builders, we didn't know such a partnership existed, but we're glad that we got to know about this program. I'm thankful that PJ initiated it as the East project turned out to be a good, smooth and safe project," said Eric Cartwright, UPMC vice president of corporate real estate.

For the UPMC East partnership, the goal was to encourage joint cooperation between OSHA and PJ Dick/Barton Malow and to foster a safe work environment for all project employees as prescribed in this agreement. "This partnership was an effective way for everyone associated with the project to be aware of the safety goals. Plus it established a safety culture to be associated with the UPMC East project. The agreement is about accountability and results," said Joseph Franceschini, PJ Dick vice president of safety.

UPMC senior project manager Joe Badalich agrees with Franceschini. "On East we had two injuries. We had one guy fall off a ladder and break his wrist. And we had another person cut on a metal stud which required a few stitches. With the magnitude of this project, it was pretty amazing that we only had two and half days lost due to injuries," he said. "This was a result of a few things: the OSHA partnership showed to all contractors that safety was going to be very important on this project; and we had a clean site that set the foundation for a clean and safe project. I can't stress enough the role that a clean site played with East. The clean site was extremely helpful nearing the 11h hour as we were nearing completion and the hospital was trying to prepare to open – the cleaner site made it much easier for move in."

Another partnership that is improving the safety on our region's construction jobsites is the Western Pennsylvania Construction Industry Drug-Free Partnership. Effective April 1, 2013, area building trade unions in affiliation with their contractor associations unified many of their drug-testing provisions in accordance with the Western Pennsylvania Construction Industry Drug Free Partnership, including the types of drugs for which their members and employees will be tested. They include all drugs as currently identified under Department of Transportation regulations as well as several others, such as oxycodone, hydrocodone and other prescription medications when taken illegally or above medically prescribed limits.

The decision to add various prescription medicines when taken illegally or in excess of medically prescribed limits was made as a recommendation of a joint labor/management Substance Abuse Testing Task Force based on a number of factors, including: worker safety, an understanding of the potential abuse of certain pain-killing prescription drugs, and input from responsible industrial owners and companies which share in the concerns for worker safety.

"Just by the physical nature of the work, a construction zone already has enough inherent hazards that require the full concentration and focus of every worker," said Rich Stanizzo, Business Manager for the Pittsburgh Regional Building and Construction Trades Council. "To allow the abuse of substances which can alter and impair the safety of the worker and his or her colleagues is foolhardy and cannot be tolerated."

This uniform change to the drug-free program is a welcome modernization. In 2000, the MBA and the region's union construction trades launched the Drug-Free Program, a substance abuse testing program intended to prevent the use and/or abuse of drugs and alcohol in the industry. At its inception, this Drug-Free Program was one-of-a-kind in the construction industry and was emulated around the country. With other unions and associations following suit, starting and administering their own segregated programs, the time was right to integrate into a single unified program that was easy to communicate to owners. And owners do understand the importance of a drug-free environment to a safe workplace.

"We actually just awarded a contract to Mobile Medical as a third party testing agency. We have had problems at facilities, with a couple random [positives] in the past couple months," says Mamone. "They have implemented testing at two sites and it has had a huge impact in just a few weeks."

Mamone says that First Energy also implemented what it calls a Contractor Leadership Team, comprised of representatives from nine general contractors and seven First Energy employees. The Team meets bi-monthly in an open-floor forum to discuss problems and exchange ideas. Mamone explains that First Energy believes that they have to meet contractors and vendors as though they are employees in order to understand how the vendors do business and to promote the culture of safety within their organizations. In the end, the safety culture means both owner and contractors have to choose safety above all else, including productivity.

"That's the hardest point to get across but everyone on the job has to know that if they are not sure whether or not they are doing something safely they have to stop," Mamone says.

"Safety first" has been the MBA contractors' mantra for years and this focus has improved jobsites, but now more owners are shifting towards viewing safety as less of a burden and more of a requirement. A safe jobsite makes financial sense because of the direct and significant effect on the business' bottom line. But safety on the construction site sends the message that more owners want to send: the work isn't more important than making sure everyone goes home safely each night.

Bob McCall is director of safety for the Master Builders' Association of Western PA. BG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INDUSTRY & COMMUNITY NEWS

Meet the MBA Draws MBE/WBE Firms

On March 27, the 2013 Meet the Master Builders event was held at the Cambria Suites at CONSOL Arena. This annual event was created to introduce small, emerging companies (especially minority, women and veteran owned) with established local construction companies. This year's event was the biggest success yet in the three year history as over 130 guests attended to meet with 16 MBA General and Prime Contractors. As a result of this event local owners have reached out to the MBA to assist with planning their diversity vendor events. For more information contact the MBA at 412-922-3912 or jobrien@mbawpa.org.

(From left) The planning team for the 'Meet the MBA' day included Mascaro's Kathy Agostino, George Germany from Massaro, Angella Arrington, Neil Locust, Kimberly Slaterwood, Jon O'Brien of the MBA and Jennifer Howe of PJ Dick/ Trumbull/Lindy Paving.

Derek Mathis with TEDCO's Jim Frantz.

Walnut Capital's Todd Reidbord (left) and Greg Perelman with Eric Pascucci of PJ Dick (right) at the NAIOP Annual Banquet.

Newmark Grubb's Lou Oliva and Lou Ferraro from Rycon Construction (right).

Amy Brocato from Langholz Wilson with Jendoco's Pierre Brun and CBRE's Rich Gasperini.

Rebuilding Together Pittsburgh Day

Saturday, April 27 was Rebuilding Together Pittsburgh Day in our region. 21 homes were renovated, bringing the 2013 total to 63 homes. During the weekend, Rebuilding Together Pittsburgh (RTP) achieved a notable landmark in repairing its 2,000th home over the organization's proud 20 year history.

To celebrate the accomplishments of RTP over 20 years, the Master Builders' Association is honored to serve as the presenting sponsor on the evening of May 23 at The Mansions on Fifth for The Rebuilding Together Pittsburgh's 20 Year Celebration & Endowment Fund Kick-off. To assure RTP continues its success for the next 20 years and beyond, during the May 23 event, RTP will launch the Rebuilding Together Pittsburgh Endowment – Ann Billak Fund. To support RTP and to join your industry peers in celebrating the achievements of this exceptional organization, you can reserve your tickets now by contacting Vicki Johnson of RTP at 412-922-0953 or vjohnson@rtpittsburgh.org. Tickets are $500 per couple; $250 for an individual.

Established in 1993 by the MBA and the Carpenters, RTP had a vision to create a safe and healthy home for every low-income elderly, veteran and physically or mentally challenged homeowner.

Members of the Mascaro Construction team with homeowner Constance Caputo.

(Left-to-right) Chaska's Dick Donley, Ron Puntil and Rep. Mike Turzai.

AIM Construction's John Bessette (left) and Tim Belanger flank Jeff Landau at the CMAA 2013 Construction Industry Forecast.

NAIOP executive director Leo Castagnari (left) with Sharon Landau, Tom Landau and ALCOA's Maureen Ford.

Awards & Contracts

G. M. McCrossin Inc. was the successful contractor for the general construction portion of the $13 million water treatment plant renovations for the Southwestern Pennsylvania Water Authority in Waynesburg. The project was designed by Bankson Engineers.

The University of Pittsburgh awarded a contract to TEDCO Construction for renovations to School of Information Systems 8th Floor and ADA upgrades. The architect for the $500,000 project is Desmone & Associates Architects.

TEDCO Construction was the successful contractor on Duquesne University's $700,000 Clinical Legal Education Program in the Anna Schultz Building. TEDCO is also the contractor for a $1.4 million renovation of the 2nd, 3rd, 7th, and 8th floors at Duquesne's Libermann Hall. The architect for both projects is DLA+ Architecture & Interior Design.

University of Pittsburgh selected Mascaro Construction to build a new $5 million, 103-bed residence hall at its Bradford Campus in McKean County. MacLachlan Cornelius & Filoni is the architect.

Mascaro Construction has started construction on Energy Innovation Center, a $40 million renovation of the former Connelly School at 1435 Bedford Street for Pittsburgh Gateways Corp. DLA+ Architecture & Engineering is the architect.

Duquesne University selected James Construction as the contractor on the Duquesne Union Atrium Enclosure project. The scope includes a structural steel frame system and aluminum storefront system. The architect is Stantec.

James Construction was awarded a contract for the UPMC Presbyterian Shadyside Med Call Expansion Project. IKM Incorporated is the architect.

Landau Building Company has begun construction on a WVU Urgent Care facility for WVU Healthcare. It is located in the Suncrest Towne Centre in Morgantown, West Virginia. There is an anticipated completion date for the end of May 2013.

Landau Building Company began renovations of the 7th floor Rehabilitation Suite at Weirton Medical Center and anticipates a completion in April. Work includes patient rooms and nurse stations. Renovations on the 4th floor Labor & Delivery and Obstetrics Department are in progress. Work will be complete in May 2013.

Renovations of several chemistry laboratories at Duquesne University's Mellon Hall are underway by Landau Building Company. Renaissance 3 Architecture is the designer for the project which will be complete in July of this year.

Landau Building Company has begun construction of the WVUH Drop-Off Relocation at Ruby Memorial Hospital. The new Drop-Off area is a stand-alone structure approximately 25 feet from the front of the existing hospital. This structure will become the new front entrance of Ruby Memorial Hospital.

Landau Building Company has begun construction of the Heritage Valley Health Systems Esmark Center. This project is an interior fit-out of 20,000 square feet on two floors of the existing 3 story building. Paul Slowik and Associates is the architect.

Marks-Landau Construction, a wholly owned subsidiary of Landau Building Company was awarded the contract to build a 31,000 square foot, 50-bed addition to the existing William R. Sharpe Jr. Hospital in Weston, West Virginia.

University of Pittsburgh selected Volpatt Construction as contractor for the $1.87 million William Pitt Assembly Room and Restroom Renovations in Oakland. The architect is RSH Architects.

Volpatt Construction was the successful contractor on the $450,000 UPMC McKeesport Hospital Painter Building 2nd and 3rd Floor Renovation. Images Associates is the architect.

Volpatt Construction is starting construction on the $4.3 million Phase 2 of Waynesburg University's Stewart Science Center Renovations. The project was designed by VEBH Architects.

Dick Building Co. was awarded a contract for a new Holiday Inn Express & Suites in Greensburg by developer Winter Associates. The 72-room hotel is located at Route 30 and North Greengate Road in Hempfield Township. The architect is Architectural Design Inc.

Jendoco Construction has started construction on the Sunset Building, a 22,000 square foot speculative office building being developed by Jendoco Real Estate on Brandt School Road in Franklin Park. Next Architecture is the architect.

PNC Financial Services selected Jendoco Construction Co. as contractor for the renovations for its branch bank at Two PPG Place in downtown Pittsburgh. The architect for the 3,000 square foot project is Fukui Architects.

Jendoco Construction was selected by St. Vincent College and Archabbey for the reconstruction of the Monastery roof. Atlantic Engineering Services designed the $3 million project and Radelet McCarthy Polletta Architects is the architectural consultant.

Fox Chapel Area School District selected the construction management division of Massaro Corporation to oversea the $50 million renovation and expansion program at the district's middle, high school and elementary schools. The architect for the program is Axis Architecture.

Massaro Corporation has been selected to perform the interior renovation project for Point Park University on the West Penn Hall, Phase IV work. The project will begin in April and be complete for the start of the fall semester on campus. TKA is the architect on the project.

Franciscan University of Steubenville has selected Massaro Corporation to serve as their general contractor for the upcoming summer renovations to Trinity Hall. Phase II of work will begin in April and is slated for completion by mid- August to allow for the return of students to campus. MCF is the architect on the project.

Rycon Construction, Inc. is the successful contractor on the Children's Hospital of Pittsburgh of UPMC's new out-of-ground Bridgeville Medical Office Building. The 62,000 sq. ft. facility was designed by IKM and is scheduled for completion by the fall of 2014.

Rycon Construction is currently building a new industrial substation control house in Jefferson Borough for Duquesne Light Company. Designed by Galletta Engineering, the project is scheduled for completion by mid-summer.

At a cost of nearly one million dollars, Rycon's Special Projects Group is renovating a Marshall's store in Washington Crown Center in Washington, PA. The 25,000 sq. ft. project was designed by CREATE.

Rycon Special Projects Group is renovating two laboratories within Duquesne University's Mellon Hall. The $590,000, 3,300 sq. ft. project will be completed before the start of the fall semester.

Over the summer break, Rycon Special Projects Group will complete renovations of the 5th and 6th floor within the Cathedral of Learning at the University of Pittsburgh. Strada is the architect on the $630,000 job.

Rycon's Special Projects Group was selected to fit-out the entire 22nd floor and one unit on the 21st floor of "The Residences" within 3 PNC Plaza into one large 7,350 sq. ft. single condo. This project was designed by Biglin Architectural Group and is scheduled for completion mid-summer. Rycon is also responsible for the fit-out of two units on the 15th floor into a large 3,000 sq. ft. condo. This project was designed by DLA+ and is scheduled for completion before summer.

Yarborough Development & Construction was awarded a $3.7 million contract for the general construction portion of the $6.17 million South Side Area Middle/High School project. The work involves renovations to the two schools and a 1,600 square foot addition. The architect is VEBH Architects.

Carnegie Mellon University selected Mosites Construction as construction manager for its $18 million University Center expansion, which is slated to start construction in 2014. Cannon Partnership is the architect.

Mosites Construction was the successful contractor on the foundation package of the new 175,000 square foot Wexford Medical Mall for Highmark in Pine Township. The architect and construction manager on the project is Astorino.

JC Penney's awarded a contract to Mosites Construction for renovations for the Home Department, Arizona/Levi/Izod and Joe Fresh roll-outs at various stores at Westmoreland Mall, Clearview Mall in Butler, Johnstown Galleria, Beaver Valley, Pittsburgh Mills, Logan Valley Mall in Altoona, Highlands Mall in Triadelphia WV and Harrisburg.

dck pacific construction, a dck worldwide company, has been awarded a contract for preconstruction and construction services for the Queen's Medical Center, West Oahu Renovation project in Honolulu, Hawaii. This $30 million project involves the renovation of five floors of the hospital building and renovation of the clinical services center.

Summit dck, a dck worldwide company, finalized a contract for the Marine Avenue Hotel project in Redondo Beach, California. This $30 million

Awards & Contracts cont'd

project includes a Hilton Garden Inn and a Marriott Residence Inn on the same site, along with a third parcel for future development.

Summit dck, a dck worldwide company, was awarded the Marriott Residence Inn project in Austin, Texas. This project is a $7 million, 100-room, four-story hotel (shell only).

A negotiated project to complete the Goree Prison in Huntsville, Texas, was awarded to Summit dck, a dck worldwide company.

Summit dck, a dck worldwide company, has been awarded the negotiated preconstruction and construction of the Shade Hotel in Redondo Beach, California.

dck pacific construction, a dck worldwide company, broke ground last month on a $46.6 million air station operations complex at Marine Corps Base Hawaii. The new complex will include an air passenger terminal, dormitory for the Aircraft Rescue and Firefighting Marines, six new fire truck bays, and new office space.

Oakview dck, a dck worldwide company, was awarded a $1.4 million contract for the construction of The Viking Center, a 25,350 square foot, two-level community center in Stanton, Iowa.

Oakview dck, a dck worldwide company, has been awarded its 45th project from Wal-Mart. This latest is a $5.2 million, 42,073 square foot, Neighborhood Market in La Vista, Nebraska.

Memorial Park Church selected Nello Construction as contractor for its $2 million classroom and educational wing addition. Pieper O'Brien Herr is the architect.

Faces & New Places

The American Hospital Association (AHA), in conjunction with the American Society for Healthcare Engineering (ASHE), has recognized James Construction's executive vice president, Craig E. Stevenson, as a Certified Healthcare Constructor (CHC). This elite designation has been awarded to fewer than 500 professionals nationwide and James Construction is the only construction company in Western PA to have a designated CHC professional.

James Construction is pleased to announce that Michael Conti has joined our team as Safety Director. Michael is a graduate of Slippery Rock University's Safety and Environmental Management Program, is recognized by the Board of Certified Safety Professionals as a Construction Health and Safety Technician (CHST), and is an OSHA Authorized Construction Trainer.

John W. Zang, III has joined James Construction as Vice President of Business Development. John comes to James with over 30 years of experience in business development and project management. John is a graduate of Penn State Architectural Engineering program, holds a Masters' degree from the Oklahoma State University's School of Architecture and an MBA from the University of Pittsburgh.

Rob Modany, P.E. recently joined the Massaro Corporation team as a Senior Project Manager. Rob earned his bachelor's degree in Civil Engineering from The Pennsylvania State University with an emphasis in construction management.

dck worldwide named Joe Belechak the first Chief Operating Officer of the company. Mr. Belechak joined dck in October 2012. In the role of COO, Mr. Belechak has complete responsibility for all company operations and will continue working across dck to increase its ability to deliver operational excellence and value to dck customers.

Elizabeth Bowers, dck worldwide's Small Business Administrator, received two awards at the MWDBE Governmental Committee 12th Annual Small Business Opportunity Fair. During this event, she received from the City of Pittsburgh a proclamation declaring March 7, 2013, "Elizabeth A. Bowers Day" in Pittsburgh. The City's proclamation recognized and congratulated Elizabeth for her many accomplishments and dedicated commitment throughout her 30-year career to strengthening economic opportunities for minority, women, and disadvantaged business enterprises in the City.

dck worldwide promoted Jason Largent, Assoc. DBIA, to Director of Quality Control. Mr. Largent has more than 12 years' experience in the construction industry and this promotion allows him to utilize all of his QC experience and provide hands-on support to project teams and QC managers and representatives throughout dck. Mr. Largent is a LEED AP with experience on projects ranging from $10 Million to $100 Million in both private and government sectors.

PJ Dick is proud to announce that Del Dosch has joined our team as a Project Executive. Mr. Dosch brings over 35 years of experience in the engineering and construction industry to the PJ Dick team.

Ken Boeltz has joined the team at Marsa, Inc. as a Project Manager/Estimator. Ken has specialized in masonry repairs for thirty years with award winning results and will enhance Marsa's performance capabilities to include masonry restoration.

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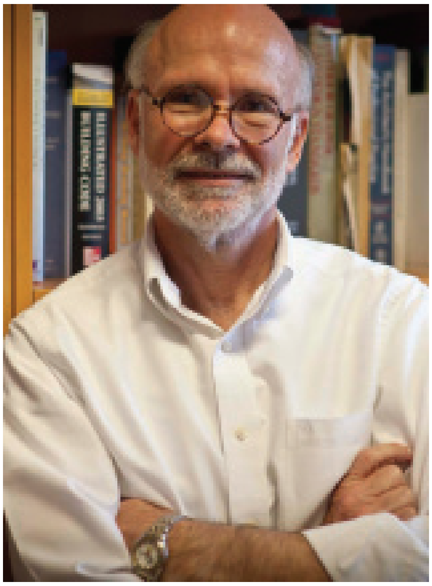
Closing Out

By Edward A. Shriver AIA



We hear regularly (some might say constantly) that the US economy is driven by the consumer. I've heard numbers as high as 70% of the economy is classified as 'consumer' and Stuart Hoffman, Chief Economist at PNC recently confirmed it. I have to admit I'm conflicted by that thought. On the one hand, it bothers me that our economy is so dependent on consumption rather than manufacturing or something more 'productive'. On the other hand, retail is a social function. It's how we connect as a culture, maybe even as a species.

Apparently, we are what we buy.

Jane Jacobs, the author of "The death and life of the American City" speculated that cities actually started not as farming communities but as trading centers. It makes a lot of sense. When I think of farming, I picture the solitary farmer or at most the hardworking family tilling the soil to pull from the land a livelihood. It requires lots of land and spreads human populations out. Retail requires density, community, collaboration. It requires people to interact and we like to interact. Humans are a social species. Retail is a social function. Hence, we like to shop.

In Stuart Hoffman's presentation, he also noted that the percentage of retail in an economy appears to correlate to the state of that society. In 'the developed world' like the US, Canada, Western Europe, the percentage of the economy dedicated to the consumer is higher. That suggests that we will see more retail in the long term, not less.

Retail does not happen in a vacuum. It does not happen alone. Even the classic big box retail like Walmart or Costco happens within a larger framework. Think Robinson Town Center or Monroeville. Like an ecosystem, retail is survival of the fittest; a constant evolution of products and delivery methods, responding to consumer changes, new opportunities and changing competition. One result is that retail is splitting along the internet divide, where online shopping is the primary 'low cost' option, and bricks and mortar addresses respond to the social side of our desires, particularly in higher density areas.

Think about the implications of the move back to the cities. Globally, more people now live in cities than outside them. Pittsburgh is a prime example. Housing downtown and in the rest of the city proper is booming. If we're not a 24 hour city, we're up from an 8 hour city to maybe 16 hours. More restaurants and bars, more shops in urban locations means major change to retail environments. Walnut Street in Shadyside looks more like a mall than most malls do anymore. How does Walmart change to fit into an urban context? They're working now to develop prototypes to address just that. How does the city adapt to accommodate modern large floor-plate retail typologies? East Liberty is just such an experiment. How do retailers and city planners deal with the connection between retail and parking? We're still working on that.

If you are involved in retail - as a designer, a constructor or an owner, you already know that retail is about change. Change will be faster (like you aren't already going 90 miles an hour?) but more importantly, change will be about adaptability. When you're driving as fast as we are now, you need to look further down the road. You need to anticipate more. You need to take chances (I'd prefer if you didn't take more chances if you're driving 90 mph). We will see more 'one off' shops where the retailers test new concepts. At the same time we'll see retail that is more flexible, so the stores can be readily adapted to next years changes. Brands will be more important because in a changing world, the only thing you have is that identity. Kohl's means something to the consumer, whether it's a 150,000 square foot box in suburbia or a 50,000 square foot store in an urban retail center.

This is an exciting time to be involved in retail. I started my career doing department stores, and am now doing research work on main-street connectivity, looking to understand the social aspects of retail and the architectural responses to those drivers. You are all seeing similar changes, I'm sure.

That's retail.

Ed Shriver is principal and co-founder of Strada Architecture LLC and was Private Sector Chair for the International Council of Shopping Centers' Pennsylvania/Southern New Jersey/Delaware Alliance Program from 2006-2010. BG