Breaking Ground

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA

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DEMOGRAPHICS: SHIFTING YOUNGER

Does a land bank help?

The economic case for diversity

First quarter data

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Publisher's Note

I imagine there are a few readers out there yawning in advance about this edition of *BreakingGround* and its focus on demographics. I, frankly, have been waiting for the chance to examine and write about the changing demographics of the region for some time. It may sound like a boring subject but it's a timely one for Pittsburgh.

In the 2010 U. S. Census, there was a remarkable finding about Pittsburgh: the population in the seven-county metropolitan area had increased. That reversed a trend of 16 years, dating back to the last increase in 1993. Census estimates since then show that this population has grown again twice since, totaling about 5,000 new residents. That's positive news – however slight the increase.

The concept of population growth is one that is new to our region again. Kevin Acklin, the chief of staff for Mayor Peduto, recently made the point that their administration has the enviable task of managing growth again instead of decline. That's a happier thought but managing growth is in fact a task and it's worth contemplating that for a few moments.

If Pittsburgh is indeed growing in population and getting younger, there will be problems attendant to that change. For commuters heading west in the morning it already must seem like all 5,000 people who have moved to Pittsburgh since 2010 are trying to get to the airport at the same time. Our transportation systems have been put to the test by the fiscal stress of our governments. Adding more people to the mix every day will increase the problem. But beyond road conditions and traffic it's incumbent upon us to think about growth and its consequences.

A friend of mine, Tim Inglis, is CEO of the Colcom Foundation, which has population control as its main cause. I imagine Tim is as happy as anyone else about the improving prospects for Pittsburgh but he invariably reminds us that growth may not be as lofty a goal as we think. His point is that many of the things we say we love about Pittsburgh – affordable housing, convenient access to amenities, green space, etc. – will disappear or be threatened by population growth. There's no chance that a growing Pittsburgh will consume its environment but more people living here will make life less convenient.

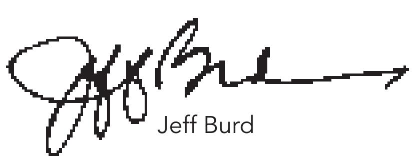
Of course at the same time, local businesses are doing better. There are natural resources here that can be extracted to provide energy solutions around the globe. Prosperity is increasing and it's impossible to root against that.

The interesting conundrum that results from the current prosperity is that there are lots of jobs – more than 23,000 in fact – that aren't being filled quickly because we don't have enough of the kinds of people being sought. That's not just a Pittsburgh problem. It's also not a problem leaders here thought would <u>be</u> a Pittsburgh problem too many years ago. There are at least several solutions to the problem of more jobs than qualified people but the most simple and efficient one is for more qualified people to move here. And there is ample evidence that the migration of such qualified people is what is behind the growth in younger residents in Pittsburgh.

One of the things that political and civic leaders often blather on about in situations where there is inconvenient growth is controlling growth. I'm not sure who came up with that phrase but it's an oxymoron in practical terms. In most human endeavors, growth is a function of everybody jumping on the bandwagon. Stock prices. Car sales. Facebook. Growth tends to happen at its own rate. If significant population growth happens, I'm certain you'll hear someone in authority talking about sustaining but controlling growth. Please don't expect that to work.

Lots of interesting things have happened in Pittsburgh as a result of the growth or change in complexion that has occurred during the last five years here. We have really cool restaurants. Investors are trying to find ways to spend money here. These are good things. If it continues to expand, the Pittsburgh economy will bring us all kinds of other new things. Pittsburgh will not look the same or feel the same or sound the same. The "same" is comforting to us humans, so we should prepare for the discomfort of things changing.

Thirty years ago, we lost a lot of same-ness too. Since steel's decline, there are dozens of towns around the region that have never been the same. Growth will probably be inconvenient, but it sure beats decline.



Jeff Burd

REGIONAL MARKET UPDATE

First Commonwealth Bank
Time to be first.

As April wound down, another round of favorable data on the Pittsburgh economy rolled through the media. For most in the construction industry in Western PA, the improved economic data provided solace about the future and questions about why more projects weren't on the streets.

From January 1 through March 31, nonresidential construction for the seven-county metropolitan market totaled $491.2 million, an increase of 2.5 percent over the same period in 2013. Bidding and contracting from late February through March was improved, as evidenced by the roughly $400 million uptick in starts in April. This improvement proved temporary, however, as most bid boards went blank as April wore on. Western PA it seems is sitting on significant pent-up demand. What is missing at the moment is a trigger.

Here is a quick recap of the economic reviews:

• April's Beige Book report from the Federal Reserve Bank of Cleveland found that weekly wages for Pittsburgh workers increased 13 percent between June 2009 and the end of 2013, more than double the gain throughout the rest of the state and far more than the 1.5 percent increase nationally. Pittsburgh's unemployment rate decreased from 7.3 percent to 6.3 percent last year, following the national trend.

• The U.S. Bureau of Labor Statistics' reported that Pittsburgh's unemployment rate dropped again, registering 5.7 percent in February, while Pennsylvania's Department of Labor & Industry reported Pittsburgh's unemployment rate was 5.8 percent. Pittsburgh's unemployment was the lowest since the financial crisis in November 2008. The unemployment level for the state was 6.2 percent.

• The Federal Reserve also reported that metropolitan gross domestic product – the value of the goods made in Pittsburgh – has grown faster than other areas of the United States.

The general economic activity suggests that improvement in the unemployment rate should continue, even if more slowly, during 2014 and accelerate in 2015. The improved hiring forecast assumes some renewed higher activity in the natural gas industry, although concerns do linger about the commitment of the biggest companies to the Marcellus and Utica play.

Gas prices remained slightly elevated in late April at $4.70/MBtu. Gas traded in a range between $4.30 and $4.75 throughout the winter, failing to top the psychological $5 mark even in an unusually cold winter. This has prompted observers of the shale plays to forecast conservative growth in the Marcellus and Utica but the pessimism seems misplaced. Producers may have ramped up shale gas production in anticipation that gas prices would rebound quickly back to the elevated levels seen in 2008, but the boom in drilling that occurred from 2010-2012 coincided with a decline in prices to roughly $2.50/MBtu. Moreover, the price for the liquid components of the wet Marcellus and Utica gas remained stable. You could even make the argument that the natural gas processed for heating was the byproduct, instead of the other way around.

Drilling expansion has slowed by some 80 percent but that decline seems to have stabilized. What remains as a drag on exploration seems to be that the big producers – who will dominate the gas play from this point in the cycle forward – are struggling with profit growth in oil and gas globally. Decisions by Royal Dutch Shell and Chevron to trim capital expenditures have made headlines on Wall Street and caused a ripple of concern in Western PA. Chevron's decision to put its Appalachian headquarters project on hold has only heightened that concern. The growth of applications for natural gas as a fuel for electricity generation and for liquid natural gas will continue to create markets for greater production to fulfill. Producers look at the energy markets with long views, particularly when compared to the horizon of Wall Street, and Western Pennsylvania businesses will have to adjust their horizon accordingly.

For 2014, that means that continued expansion of midstream activities will occur in the less-developed counties like Butler and Beaver, even as well counts remain stagnant. Selected facilities like compressor stations will continue to see incremental expansion in Washington and Greene counties. The burgeoning pipeline network construction will grow.

Activity from businesses in the service and supply chain for the natural gas industry is not seeing such a slowdown. Support businesses are naturally going to be reactive to the expansion of the industries they serve and many companies serving the gas business are still establishing their presence in Western PA. Owners of Southpointe properties report continued expansion and relocation of law firms, accountants and other related tenants at the office park. New construction for well service and engineering companies like Waukesha Pearce, Gardner Denver Nash and Mark West are planned or underway.

Total MSA Housing Starts	SFD	SFA	Total
Total Pittsburgh MSA 2013:1	466	275	741
Total Pittsburgh MSA 2014:1	409	228	637
% Change	-12.2%	-17.1%	-14.0%
By County	SFD	SFA	Total
Allegheny	161	174	335
Beaver	22	2	24
Butler	71	18	89
Fayette	11	0	11
Washington	76	24	100
Westmoreland	68	10	78
Total MSA Residential Spending (In $millions)		$	149.7
Total MSA Nonresidential Contracting (In $millions)		$	491.2

Much of the construction of these supply chain businesses is driven by developers, which are taking a larger-than-normal share of the nonresidential construction market in 2014. With commercial real estate financing moving quickly from loosening to aggressive again in 2014, the improved fundamentals are pushing projects to construction. Of the ten projects over $20 million which bid or started construction in the first quarter, four were commercial developments.

CBRE reported in its first quarter office market review that demand for Class A office space remains very high, even though the Class A vacancy rate increased from 5.2 percent to 5.4 percent since year end. According to CBRE, "the Downtown Fringe, East End, Oakland, Parkway North, Parkway West, and South submarkets all recorded vacancy rates below 4 percent. Only two submarkets, Cranberry and Parkway East, have Class A vacancy rates over 6 percent. The East End submarket had the lowest Class A vacancy rate for the third consecutive quarter at 1.9 percent."

Newmark Grubb Knight Frank's first quarter industrial market report showed a slight increase in vacancy rate from 7.8 to 7.9 percent since the fourth quarter of 2013. Rents also fell four cents to $5.10/square foot, although the decline is likely less about rising vacancy than about the quality of the inventory. NGKF makes the point that virtually all Class A space is occupied and that most of the available space is of lower quality and lesser rental rate.

The report also raises concerns that absent significant new construction – and a few developers are considering spec industrial space at the moment – the lack of industrial inventory presents a risk of lost opportunities to attract employers and jobs. The lack of industrial space could become a drag on economic growth in the region as soon as this year.

Public construction remains the biggest drag on the nonresidential market. While the ten largest projects bid or started in the first quarter include four public projects, the lack of overall activity in public construction – especially in the education and infrastructure segments – persists. Market conditions remain hypercompetitive. Contractors who serve the public market have little backlog built and are aggressively bidding the projects that come out. Each of the four projects over $20 million that bid in quarter one saw low bids that were well below budget.

On the residential side of the industry, unusually cold winter weather seems to have chilled both new construction and home sales during the first quarter. The Pittsburgh Homebuilding Report tallied 409 single-family detached homes permitted during the first three months of 2014 compared to 466 during 2013, a 12.2 percent drop. Permits for single-family attached and multi-family units were off 17.1 percent in the first quarter, with 228 units started compared to 275 in 2013. Multi-family starts were limited, with only 74 units permitted. The total new housing market was off 14 percent year-over-year for the first quarter.

The cold weather could do little to cool off the apartment market. New York-based Real Estate Information Services (REIS) reported on April 22 that the apartment vacancy rate had fallen in Pittsburgh to three percent, although local real estate sources show the rate as slightly higher. Rents in the metropolitan market continue to climb, topping $900 per month.

Some of the more than 4,000 units that have gone under construction since the third quarter of 2012 are coming on line in the first two quarters of 2014, which should give developers the first indications of how quickly units are being absorbed. Real estate consultant and appraisal firm Integra Realty Resources estimates that roughly 1,800 units will become available in 2014, the largest number in more than ten years. Thus far, demand still seems to outrun supply. At the Bakery Living Apartments, for example, developer Todd Reidbord says that pre-leasing has reached the 25 percent level well before occupancy can begin.

Apartments, hotels and office projects will continue to trend higher than the historical norms, while public construction, higher education and hospital projects will lag.

Activity continues to build at the Horsehead Monaca site as the demolition and pre-preparation work gets underway. Approximately 50 workers are now on site clearing the way for what could become the first ethane cracker and chemical processing facilities in the Marcellus formation. With the deadline for its final option extension roughly 45 days away, a decision is imminent. With dozens of local Congressional representatives and a governor up for re-election, don't be surprised if the announcement is kicked down the road a few more months. BG

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NATIONAL MARKET UPDATE

The coming of spring brought the first evidence that the thaw in the weather may have thawed the construction market as well. After dropping off significantly in January and February, construction activity in March showed strong rebounds in both residential and nonresidential construction categories.

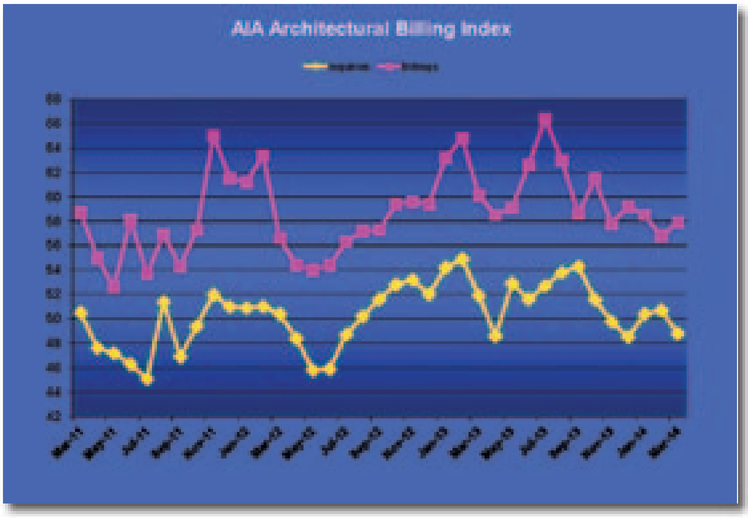
Housing starts rose 2.8 percent (seasonally adjusted) in March from February but were down 3.9 percent compared with March 2013 levels, the Census Bureau reported on April 16. Starts in the first quarter of 2014 declined 2.4 percent compared to the same period in 2013. The impact of the severe winter weather is likely still reflected in that data. The government's data on building permits, which is an indicator of future starts, rose 6.7 in the first quarter. The increase in permits was heavily influenced by multi-family, which was up 22 percent. Growth in single-family construction remains sluggish due to higher interest rates, increased lending regulations and poor weather.

The Census Bureau reported on May 1 that construction put in place totaled $943 billion in March, 0.2 percent above the revised February total. Spending in March was 8.4 percent higher than a year earlier. Spending for private residential construction increased 0.5 percent in March, reaching the highest rate since November 2008. Public construction spending declined 0.6 percent for the month and 0.8 percent year-over-year, sinking to its lowest mark since November 2006. Increased spending in heavy and highway projects was more than offset by the decline in educational projects. Private nonresidential spending increased 0.2 percent for the month and 8.6 percent over 12 months. Investment in power and communications projects increased significantly year-over-year and the improving job market helped drive increases in office construction.

According to Newmark Grubb Knight Frank's (NGKF) first quarter report on the U.S. office market, absorption of space accelerated to 11.2 million square feet. That is above the quarterly average of 10.3 million square feet since 2011. NGKF also reported the vacancy rate at 14.7 percent, down 20 basis points over the quarter and 70 bps over the year. This was the lowest level since the fourth quarter of 2008. The average rent was $26.60, a 4.1 percent increase over the previous year.

Not surprisingly, the improved fundamentals triggered more new construction. The quarter ended with nearly 64 million square feet under construction, the highest level of activity since the first quarter of 2009.

Data from the industrial market was equally strong. NGKF reported the vacancy rate fell to 7.7 percent in the first quarter, the lowest level in seven years. Net absorption was 43.3 million square feet and 42 out of 50 top U. S. metropolitan markets showed positive absorption. As would be expected, the average rent rose 5.1 percent year-over-year, reaching $5.49/square foot.

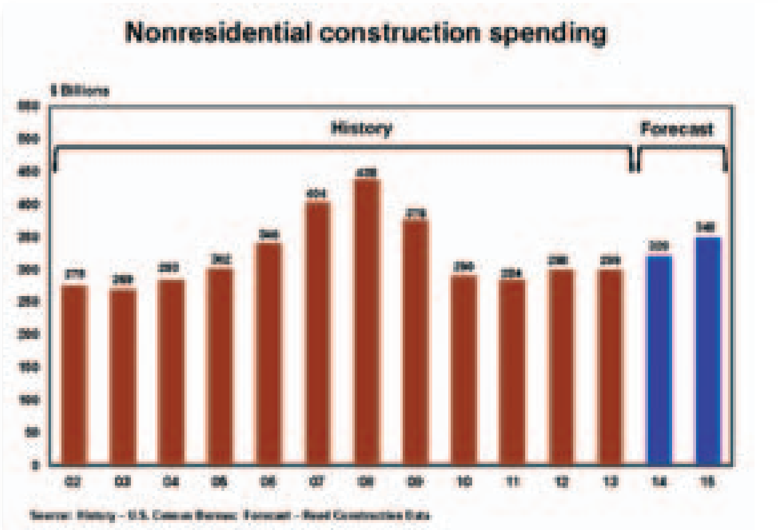


The AIA's survey of architectural practices showed a continuation of the break-even pattern that has been in place for six months.

Reed Construction Data reported on April 17 that nonresidential construction starts in the first quarter of 2014 fell 2.9 percent compared with the same period in 2013. According to its own data collected during the first quarter, nonresidential building starts fell 12 percent, influenced heavily by a steep decline of 24 percent in commercial starts. Institutional starts climbed 7.2 percent. Heavy engineering starts jumped 16 percent.

During Reed's April 17 webinar on the first quarter's outlook, Bernard Markstein, Reed's chief U. S. economist, was bullish on the construction market for the coming 18-24 months. Markstein sees more upside to the residential market and growth returning to the commercial segment.

"I think we need 350,000 units per year to accommodate [demand for] multi-family. We're almost there now but there's still room for growth," he says. "I see seven percent growth in nonresidential in 2014 and nine percent in 2015." Reed's forecast for the total spending in the next two years, however, remains well below the 2007-2008 peak, mirroring the spending totals from 2005 and 2006 very closely.



Forecast by Reed Construction Data shows construction spending just reaching the 2005 levels in 2014.

"The soft pattern for single family housing has probably been the result of tough weather conditions in recent months, so it's expected that construction will pick up during the second quarter ...

Construction consulting and research firm, FMI, was equally bullish in its recent update on the market. Among the highlights of its forecast, FMI predicted an increase of seven percent for the commercial segment, five percent for manufacturing construction (with an eight percent increase in 2015) and a seven percent increase in transportation spending. The latter seems particularly optimistic in that the forecast anticipates approval of President Obama's proposed $73.61 billion in transportation spending in the 2015 budget. Even in a mid-term election year, it is a reach to suggest that Congress will break its pattern of non-support for a sustainable highway bill. FMI's forecast also expresses optimism about educational and healthcare construction, two segments of the market that are showing little strength in funding or support.

The other national construction reporting company, McGraw-Hill Construction (MHC) reported on April 22 that total construction starts rose seven percent in March over February but had declined two percent in the first quarter compared to the first quarter of 2013. Here again, weather was given much of the blame and a look at the 12-month moving totals shows that the 12 months ending March 31, 2014 experienced a six percent increase compared to the 12 months ending March 31, 2013.

Within the major categories, nonresidential building in March jumped 24 percent to an annual rate of $176.3 billion, although a significant share of that increase was attributable to two large manufacturing plants totaling $1.2 billion. Commercial project spending rose one percent, as office and hotel construction jumped 17 and 19 percent respectively while warehouse and retail declined. MHC showed a significant spike in institutional construction, but most of the 30 percent increase was due to the start of an $820 million Kaiser Permanente hospital in San Diego and two courthouse projects totaling $422 million in Los Angeles and St. Louis.

Residential building in March fell back 2 percent to an annual rate of $208.6 billion. The decline was due mostly to a nine percent retreat in the multi-family segment. Multi-family remains strong despite the pause, with March's lower volume still 17 percent higher than the average monthly volume for 2013. Robert Murray, MHC's vice president and economist, noted about the single-family market, "The soft pattern for single family housing has probably been the result of tough weather conditions in recent months, so it's expected that construction will pick up during the second quarter, given tight inventories of new homes for sale and what are still low mortgage rates. At the same time, the limits of the single family housing recovery are becoming more apparent, including constrained demand as the result of strict bank lending standards and the preference by some segments of the millennial generation for apartments in urban locations."

Two other economists who presented their forecasts at Reed's April 17 webinar were Dr. Kermit Baker of American Institute of Architects and Dr. Kenneth Simonson of the Associated General Contractors of America.

Simonson echoed the forecast of growth for nonresidential construction, at least in the private sector, and for the multi-family market. His forecast is for a ten percent increase in total spending, with an equal rise in private nonresidential and a 14 percent increase in total residential spending offset by a slight decline in institutional construction.

The continued decline in government spending is one of three headwinds Simonson sees facing nonresidential construction. He also expressed concern about the steep decline in demand for space for retail projects, especially malls, even as consumer demand increases; and Simonson feels the rebound in office construction will be constricted by the trend towards employers shrinking the amount of office space per employee.

AIA's Kermit Baker offered a similar forecast on the construction economy, pointing to the 6.4 percent increase in total nonresidential construction through February and the robust 14.8 percent increase in commercial/industrial projects. While optimistic, Baker characterized the recovery in nonresidential construction as "still in the early innings" and pointed to recent weakness in the AIA's Architectural Billing Index (ABI) as a concern for the coming year.

The Index had been solidly above the break-even benchmark of 50 for about 18 months prior to the fourth quarter of 2013 – 13 consecutive months at one point – before falling just below 50 during November and December. While the ABI rebounded above 50 again after the first of the year, it has been sluggish, falling below 50 again in March. This prompted Baker's concern, especially since a recent AIA white paper found that the ABI was a very reliable predictor of future construction activity. The research found in *Designing the Construction Future* showed that "The relationship between the ABI and nonresidential building spending significantly improved in recent years, with the correlation rising from 0.82 over the 1995-2003 period to 0.90 in recent years….The lead of the ABI over construction activity [averaged] 14 months between 1995 and 2003, the lead shortened to 11 months during the 2004 to 2007 upturn, and then increased to 12 months since 2008."

Baker felt that some of the weakness expressed by members in the ABI was due to the winter weather. He also said, "Some of it is still financing; we're hearing from architects that financing of nonresidential projects is still difficult. And some of [the weakness] I think is still from a lack of confidence in the economy."

While Baker's explanations of potential reasons for why architectural billings have remained flat are rational and defensible, the outlook being predicted by the ABI is for the growth in nonresidential construction to grind to a halt at the end of 2014. BG

WHAT'S IT COST?

When the Bureau of Labor Statistics (BLS) reported its data on March inflation April 10, a couple of trends were apparent. First was that the unusually cold winter had dampened demand for materials that are used heavily in new home construction; and second, the continued expansion in non-residential construction was locking in increases that are well above the overall inflation rate.

Since January 2014, the BLS began incorporating a new price analysis index, producer price index (PPI) for final demand, that measures price change for goods, services, and construction products sold for personal consumption, for capital investment, for export, and to government. The measurement of final demand pricing is meant to provide a clearer picture of inflation to differing end users after value is added. The PPI for final demand covers not only the prior headline PPI for finished goods (about 34 percent of total final demand), but also final demand services (64 percent of the total) and final demand construction (2 percent of the total).

The PPI for final demand increased 0.7 percent in March and 1.4 percent over 12 months. Consumer price inflation (CPI) fell to 0.4 percent in March and 1.1 percent year-over-year. The increase in inputs for construction, the cost of all materials used in construction plus items consumed by contractors, was nearly identical to CPI at 0.5 percent and 1.1 percent. By comparison, the PPI for final demand construction was flat in March and rose 3.2 percent over the 12 month period, more than double the final demand inflation for all goods and services.

PERCENTAGE CHANGES IN COSTS	March 2014 compared to		
	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	0.4	0.7	1.1
Producer price index (PPI) for final demand	0.7	1.3	1.4
Construction final demand	0.0	0.7	3.2
Costs by Construction Types/Subcontractors			
PPI for all inputs to construction	0.5	1.8	1.1
Residential buildings	0.5	1.9	1.5
New industrial building construction	0.1	0.6	4.0
New warehouse construction	0.1	0.4	2.7
New school construction	0.1	0.9	4.1
New office construction	0.0	0.6	2.9
New healthcare construction	0.0	1.2	3.8
Concrete contractors, nonresidential	0.4	-0.6	1.4
Roofing contractors, nonresidential	0.7	0.2	1.9
Electrical contractors, nonresidential	0.0	0.0	1.7
Plumbing contractors, nonresidential	1.1	1.2	4.2
Costs for Specific Construction Inputs			
#2 diesel fuel	-1.9	-3.0	-3.3
Asphalt paving mixtures and blocks	1.0	0.7	1.6
Concrete products	0.8	1.1	2.8
Brick and structural clay tile	-0.2	0.5	2.3
Plastic construction products	0.7	1.1	0.1
Gypsum products	7.4	8.1	11.6
Lumber and plywood	2.4	3.2	7.7
Architectural coatings	-0.3	0.0	-1.5
Steel mill products	1.2	2.3	0.5
Copper and brass mill shapes	1.2	1.1	-5.0
Aluminum mill shapes	0.6	0.5	-4.7
Fabricated structural metal	-1.4	-2.3	0.2
Prefabricated metal buildings	2.0	3.2	5.7
Asphalt (at refinery)	-2.2	-8.4	-2.5
Cement	2.0	1.5	3.5
Iron and steel scrap	4.8	17.4	14.9

Source Bureau of Labor Statistics, Updated April 10, 2014
Compiled by Ken Simonson, AGC Chief Economist

Inflation for construction is being driven by the improving demand for nonresidential buildings, which is allowing contractors and the supply chain to add pricing beyond the rate of inflation. The overall PPI for new nonresidential building construction was also unchanged for the month but rose 3.5 percent compared to March 2013. Within the nonresidential category, year-over-year increases in the component building types were 2.7 percent for new warehouses; 2.9 percent for offices; 3.8 percent for medical buildings; 4.0 percent for industrial buildings and 4.1 percent for educational construction.

According to the analysis of the BLS by the Associated General Contractors, "major construction materials with notable one- or 12-month price swings included gypsum products, for which the PPI slipped 0.9 percent in March, but climbed 9.5 percent year-over-year; insulation materials, 3.7 percent and 7.5 percent, respectively; lumber and plywood, 1.4 percent and 4.7 percent; diesel fuel, -1.1 percent and -1.0 percent; aluminum mill shapes, -.0.1 percent and -2.3 percent; and copper and brass mill shapes, -2.6 percent and -7.1 percent." BG

The Demographic Shift: Pittsburgh Gets Younger

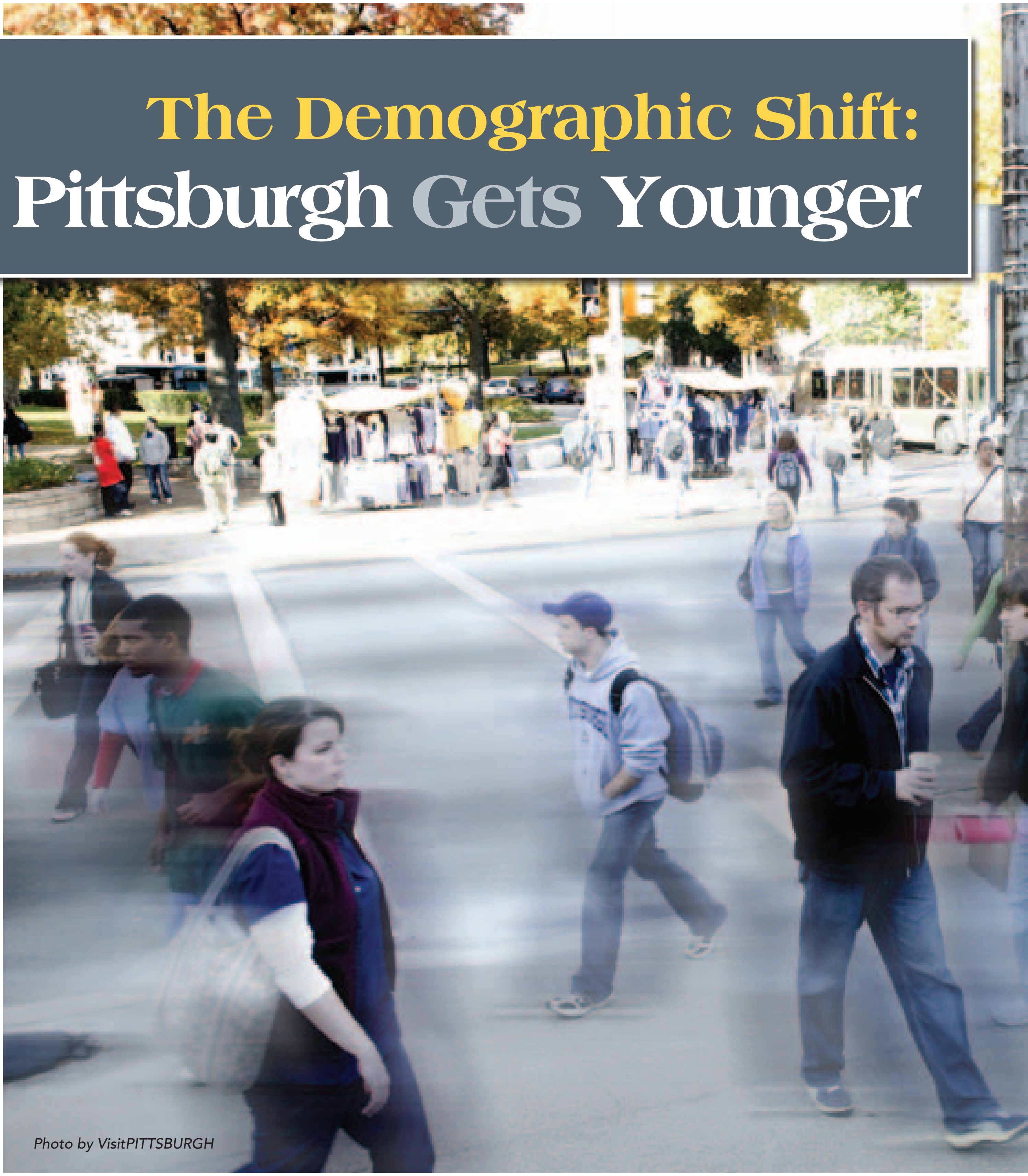


Photo by VisitPITTSBURGH

The statistic was quoted so often that most people never thought to check if it was actually the truth. "Allegheny County has the oldest population of any county in the United States except Dade County" (unless the quote used Palm County). While the rate of one person in five over the age of 60 was one of the highest for major cities, Pittsburgh's demographics were the same as other Northern or Midwestern cities that experienced industrial declines – Buffalo or Cleveland for example – and Allegheny County wasn't as old as a number of retirement Mecca's.

That may be putting too fine a point on the issue. Pittsburgh wasn't West Palm or Scottsdale and the city had a real problem with insufficient opportunities to attract people in their early to peak working years. The shutdown of the steel industry and its supply chain resulted in hundreds of thousands leaving the area to find better employment opportunities. Leaders who were realistic – the late Mayor Richard Caliguiri comes to mind – predicted that it would take a generation of effort to recover from the out-migration. That forecast turned out to be correct.

A generation has now passed and the good news is that the most recent census and updates show that the median age of the residents of Pittsburgh and much of the region is declining. It shouldn't be a surprise that the economy of the region has recovered at the same time, providing jobs that young people previously had to look elsewhere to find.

Pittsburgh is getting younger. The city is also on the radar of those who look for places that are on the leading edge of things. Pittsburgh is suddenly "cool" in the same way that Portland or Austin is considered cool. The efforts of many political administrations and civic leaders have paid off in the 21st Century, as emerging technology companies and re-emerging natural resources industries are creating demand for workers with the skills that well-educated and trained younger people possess.

Pittsburgh is getting younger. What does that mean for the economy? What does it mean for construction?

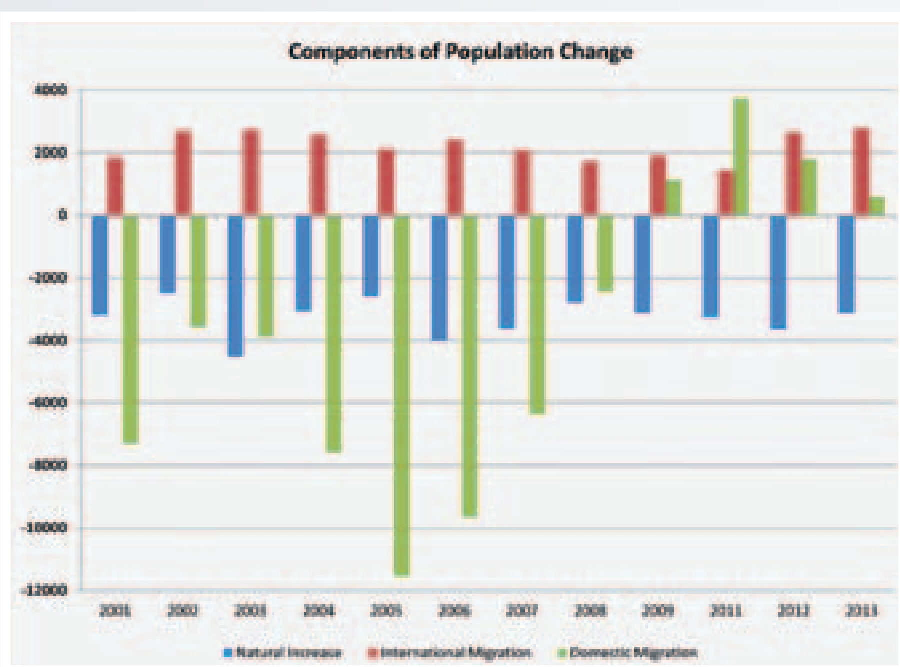
Proving Out the Census

Pittsburgh's loss of young workers and families didn't require a report from the Census Bureau to prove. A drive through the towns in the Mon Valley or Beaver Valley provided all the evidence anyone would need. Because the recovery of the regional economy took a different shape than the economy that existed in Western PA prior to 1980, you couldn't go to towns like Charleroi or Beaver Falls and see offices and stores filling back up.

As population has returned, people have moved to where their jobs are located or from where they can conveniently get to their jobs. The recent resurgence of urban living in Pittsburgh is concurrent with a national trend towards living in cities; however, that trend has been abetted here by the fact that the job creating engines – universities, hospitals, financial institutions – are located in the Central Business District and in Oakland. If you look at the previous housing trends – which were suburban – you see the pattern of proximity to jobs. The housing boom in the North Hills in the 1980's and 1990's followed the opening of I-279. The growth in the western suburbs followed the boom in suburban office growth and the heyday of USAir at the airport.

Between 1995 and 2005, more than 45,000 housing units were built in the six-county metropolitan area (Armstrong County wasn't included in the MSA for all that time). It's possible that the decline in population may have abated by that time and the Census Bureau's estimates hadn't accounted for that yet, but at minimum the growth in new homes demonstrated the shift in population from the city to the suburbs.

Regardless of the degree of decline and rebound in population that occurred over the past few decades, it's evident now that the face of the region looks different. There is no comparison between what places like Market Square, East Liberty or Lawrenceville look like today versus just a few years ago. The anecdotal evidence we see with our eyes tells us that there are more people, younger people and people with more disposable income out and about than before. The data backs up that observation.



The increase in population in Pittsburgh has come from the reversal of the outmigration trend. Source: Bureau of Census. Chart courtesy Allegheny Conference.

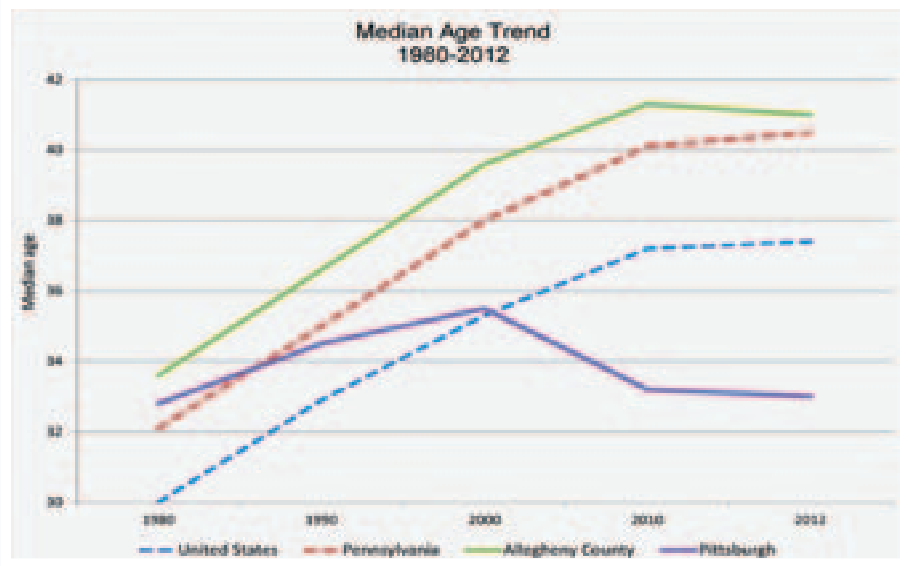
According to the 2012 Census update, the median age of U. S. residents went up again by two-tenths of a point to 37.4 years since 2010. Likewise, the median age of Pennsylvanians rose from 40.1 to 40.5 years old during that time. Compare to 1980, the median ages went up 7.4 and 8.4 years respectively in the country and state.

In Pittsburgh, conversely, the median age declined from 2010 to 2012, falling two-tenths to 33 years old. The median age of Allegheny County residents fell from 41.3 to 41 years old. Like with the state and U. S. demographics, the median age for

Allegheny County increased significantly since 1980, matching the 7.4 years that the average American aged. The median age in Pittsburgh, however, was virtually the same. After climbing from 32.8 years in 1980 to 35.5 in 2000, the median age in Pittsburgh returned again a dozen years later. Given the direction of the trend, it's likely that the 2014 update will find Pittsburgh residents are younger now than 30 years ago.

What is remarkable about the shift is that Pittsburgh's trend is counter to the national and global trend.

When you look at the data from year-to-year, it's apparent that there have not been big moves in either direction. The largest increase in any year since 1990 was 9,054 (or 0.4 percent) and the largest decline was 14,634 (or 0.6 percent). Examining the components of the population trend gives a bit more clarity, especially into how the region's age is declining.



The median age of Allegheny County and City of Pittsburgh residents is falling in contrast to the larger trends. Source: Bureau of Census. Chart courtesy Allegheny Conference.

Throughout the period, the one constant has been that the natural order of change has been remarkably consistent. "Deaths still outnumber births," notes Jim Futrell, vice president of market research and analysis for the Allegheny Conference. That difference averaged 3,286 more deaths over the past dozen years, with every year having between 2,500 and 4,000 more deaths, except 2003. Net foreign immigration was even more consistent than the death rate, averaging 2,243 during the past 12 years. What has changed is the flow of domestic movement.

Until 2009, net outmigration occurred every year, averaging 6,500 more people leaving than moving to Pittsburgh. From 2009 to 2012, over 2,200 more people moved to Pittsburgh than left it and the makeup of those coming was decidedly younger.

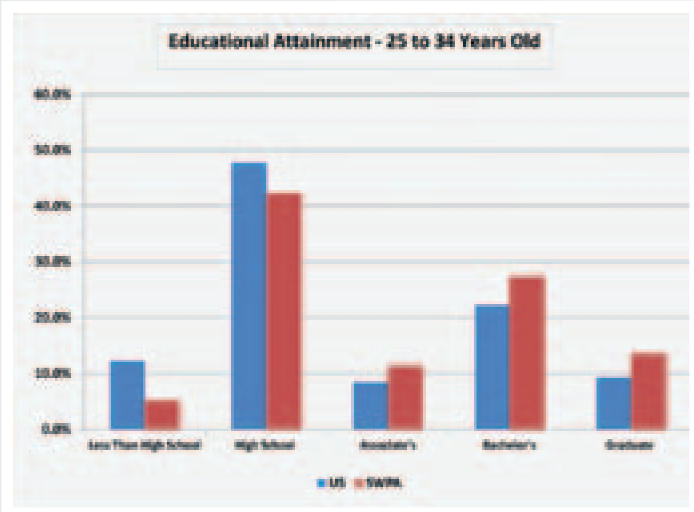
In addition to getting younger, Pittsburgh is also getting smarter, or at least better educated. While the educational attainment of Pittsburghers of all ages is roughly the same as that of the rest of the country – we have slightly more high school grads and fewer dropouts – the educational attainment of 25-34 year olds is significantly higher. The share of residents with a bachelor's degree is more than five points higher than the U. S. average; and the share of Pittsburghers with graduate degrees is 13.6 percent versus the U. S. average of 9.3 percent. Moreover, the change in population of those in Pittsburgh who have graduate degrees and are between 25 and 34 years old is 50.8 percent since 2000.

PNC economist Kurt Rankin sees the business environment as a key to the latter statistic. "Pittsburgh has had the university base that normally attracts younger workers. That hasn't changed over the years," Rankin explains. "The start-up and tech base – Google and other technology companies – has grown and allowed those younger people to stay and work."

In Pittsburgh, conversely, the median age declined from 2010 to 2012, falling two-tenths to 33 years old. The median age of Allegheny County residents fell from 41.3 to 41 years old.

Coming and Staying for the Jobs

During the decades of reconstructing and rebranding what Pittsburgh was, much was done to make the lifestyle of the region more attractive. The cleanup of the rivers and air quality – a result of dedicated individuals and a lack of manufacturing –



Source: Bureau of Census. Chart courtesy Allegheny Conference.

improved the quality of life. Investment in the Cultural District created a destination in Downtown and was at the beginning of a wave of lifestyle amenity additions that put Pittsburgh in a league with other attractive cities. All these incremental improvements helped with the attraction and retention of younger workers but in the end, the tipping point was the growth of jobs that required the skills that 25-to-35 year olds possessed.

As Rankin points out, the magnet has been technology. Whether from the transfer of university research into commerce or through the application of new technology to existing economic drivers like healthcare, it has been technology at the heart of the new Pittsburgh economy. Because the epicenter of the tech economy was Oakland's universities, the City of Pittsburgh has benefitted most from this job growth.

With New Urbanism becoming a dominant trend reviving city living, the emergence of a job-creating engine in the heart of Pittsburgh is not only attracting talent to the region, but also to the city itself.

Bruce Katz, Brookings Institute vice president of the Metropolitan Policy Program, spoke of this convergence when he visited Carnegie Mellon University in late March. Katz believes that there is a shift underway throughout the country that stems from the way business fosters innovation. Whereas companies primarily did innovation in suburban research and development settings – like the Research Triangle Park near Raleigh-Durham, NC – industry leaders now look to open collaboration that thrives on proximity of its employees and supply chain. The

With New Urbanism becoming a dominant trend reviving city living, the emergence of a job-creating engine in the heart of Pittsburgh is not only attracting talent to the region, but also to the city itself.

density of an urban setting better serves the 24/7 innovation culture that exists at the best companies today.

Katz addressed this phenomenon in remarks to Mayor Peduto during his visit. "You're taking office at a time when cities are being revalued by the market place and by the millennials and by a broad segment of society," said Katz. "These are big disruptive trends in a country that basically perfected sprawl and perfected dispersion."

The changes in workplace dynamics of which Katz speaks play into the regional strengths of Southwestern PA. The cost of living in Pittsburgh is relatively low, especially when compared to the markets from which companies in the region are recruiting. Cities that attracted tech companies in the 1990's – Palo Alto, San Francisco, Boston – are much more expensive than Pittsburgh to live. Today's workplace doesn't require proximity for workers or even companies to take advantage of synergies with their industry and customers. At the risk of belaboring the Google example, the company's location in Pittsburgh was recognition of the talent available at Carnegie Mellon and the more affordable lifestyle of the city. In half a decade, Pittsburgh has become Google's third largest employment center.

Of course, the other industry driving employment in Western PA is natural gas exploration and processing. While not specifically attractive to younger workers alone, the nature of the work is like construction's and therefore draws younger workers. As the

Photo courtesy Bar Marco

Twenty years ago, the concern about Pittsburgh was that there weren't enough jobs to get young people to stay here after college. Today, job creation has begun to outstrip the demographics.

gas industry ramps up, the need for more engineers and technicians has grown, again attracting graduate and young professionals from around the country.

The need for technical education and skills has grown among employers faster than the educational system has responded with training. As an indicator of this trend, some 23,000 jobs remain unfilled in the 14-county region, according to the Pittsburgh Regional Alliance's (PRA) tracking of openings. Some 57 percent of those jobs are in high tech companies or IT within other industries. Those are opportunities that more often than not are filled by younger people. In other cities, those are also the kinds of jobs that attract skilled foreign immigrants.

Dewitt Peart, president of the PRA and the Greater Pittsburgh Chamber of Commerce, believes the hottest jobs are what will continue to attract young people to the region but he also says that domestic in-migration won't be enough.

"The fact that there are unfilled jobs is not unique to Pittsburgh. We work closely with other cities we benchmark like Milwaukee or Cleveland and they have the same problem," Peart says. "Everyone sees the same answer and that's foreign immigration. We need to have a federal policy that allows for more higher-skilled workers to immigrate to this country. In part that's a concern. In part it needs to be a wakeup call for our educational institutions. A lot of these jobs don't require college educations. We've just had a mismatch between what we need and what we've been educating our workforce to do."

Twenty years ago, the concern about Pittsburgh was that there weren't enough jobs to get young people to stay here after college. Today, job creation has begun to outstrip the demographics.

Playing Out the Trend

What does "getting younger" mean for the future of the Western PA economy and demand for construction? Before examining that question, it's important to remember that while the median age is declining in the center of the region's population, there are still lots of people getting older in place.

"There are three main demographic waves coming through. The first is the Baby Boomers, which is so much bigger than any previous group," explains Dr. Shelby Stewman, professor of sociology and demographics at Carnegie Mellon University. Stewman notes that the Boomers' size, wealth and lifestyle expectations have affected everything in American culture over the past 50 years. Nearly 76 million Americans were born during the Baby Boom between 1946 and 1964. That age cohort still makes up one quarter of the total population and their actions and expectations have enormous influence on the economy.

As Boomers begin to retire in greater numbers over the next decade or so, there will be two major impacts on the economy as a result. One is that the healthcare-related costs associated with aging and dying will rise and the size and expectations of the Boomers will put enormous pressure on those systems. The second impact will be the loss of workers from the retirement of the biggest generation. Since the Baby Boom was followed by a decade of lower birth rates, this wave of retirements will be followed by a cohort that already represents a hole in the workforce. The size of that hole is estimated to be 140,000 workers.

The latter impact is significant for Pittsburgh because it is the age group that would take up the place of the Baby Boomers that moved away during the 1980's in the wake of the steel industry's collapse. By the middle of the next decade, Pittsburgh should offer plenty of employment opportunity.

Aging Baby Boomers will need access to more healthcare facilities – assuming there is a means to pay for that access – and could create opportunities for more medical research. You can follow the arc of Boomers' lives by tracing the advances in healthcare and drug technology to meet the demands of that generation for prolonged and enhanced activity into middle and later years. In terms of bricks and mortar, an elderly Baby Boom generation will increase demand for no-maintenance housing, assisted living facilities and the facilities that are designed for the end of the continuum of care. As they wind down the acquisitive stage of their lives, Boomers will also impact retail and hospitality business by spending less of their discretionary funds in those pursuits.

"The Echo Boom is coming into its 20's. That key cohort will also be coming into its household formation years," notes Stewman. "Echo Boomers will be hitting their primary productivity age shortly and we should see increases in the birth rate again.

At the same time, the fact that Boomers have also accumulated much more wealth than other generations will create opportunities for developers who can build higher end experiences for all of the Boomers' needs. The market for luxury elderly facilities and experiences will exist in ways that didn't before.

The third wave of the demographic sea is another large one, the Echo Boom or the children of the Baby Boomers. There is ample early evidence that this cohort will behave differently as adults than their parents did.

Rankin and Stewman see the lifestyle choices of the Echo Boomers differently and lay out two different possible scenarios for that generation's maturation.

"The Echo Boom is coming into its 20's. That key cohort will also be coming into its household formation years," notes Stewman. "Echo Boomers will be hitting their primary productivity age shortly and we should see increases in the birth rate again. The suburbs have stabilized and growth there should continue. That hinges on the 25-35 year old age cohort."

"I think the impact will be in the form of multi-family as opposed to single-family homes. That seems to be the trend that is developing around the country for younger people," says Rankin. Referring back to the changes in workplace and expectation, Rankin sees the growth of that age group as a challenge and opportunity for Pittsburgh developers. "One reason is a lack of urban living. Connectivity is the key to where people are living. This will cause Pittsburgh developers to expand living in the urban core and that's happening."

Both of these scenarios represent growth opportunities but the infrastructure to support growth for another surge in residential development varies significantly from urban to suburban. Within the city and the first ring of suburbs, there is a surplus of land and building stock to redevelop for residential purposes. Much of the vacant land lies adjacent to riverfront property. Pittsburgh and the municipalities that are adjacent to the city remain proactive in attracting residential development. Many of those communities are magnets for government redevelopment assistance. It's not difficult to see projects developing in The Strip, McKees Rocks, Millvale or Braddock. It's more difficult to envision demand at this point, but assuming economic growth and continued demand for urban living, the inventory of property is available.

On the other hand, suburban development is facing several hurdles. Tight financing mostly eliminated new development between 2008 and 2013. Demand for lots is very high now and the cost of land is rising more than the norm. Demand for land from gas drillers is creating competition for residential development and is driving prices higher. The traditional single-family residential development is becoming costly, pushing the new construction price higher. For the foreseeable future, most new construction under $300,000 will be confined to townhouses. That's a departure from the norm in Pittsburgh.

Shelby Stewman predicts another change that will be a departure for this region. "I think people in the region are going to be in for a surprise when the birth rates rise again," he says. "We have had a delay in the child bearing period but when you look at the Echo Boomers, they're out there."

Stewman predicts that Echo Boomers may push back having children for a while but that the numbers eventually catch up to the trend. He points out that the birth rate has been stable at between 1.7 and 1.9 children per family for almost 40 years. During the 20th Century, the highpoint for birth rate was 1957, when 3.8 children per family were born; and the trough occurred in 1976 when the rate was 1.74 children per family. By 1980, the rate was 1.8 and in 2007 it was 1.9. When the second largest generation born in this country passes through its child bearing years over the next two decades, Stewman predicts another rise in newborns, even with a stable birth rate.

Babies born since the end of the recession will be leaving high school in 2030. What will the economic landscape of Pittsburgh look like for them?

There seems to be some big trends emerging from the shifting demographics. By 2030, the last of the Baby Boomers will have hit the traditional retirement age. Many of the people that would be filling in behind the Boomers left town with the steel industry; so a kind of reverse Diaspora will be needed or there will be increased opportunities for workers in their 30's and 40's to have more responsibility. If the reemergence of manufacturing occurs as predicted, Pittsburgh will be a city with lots of jobs across a broad spectrum of industries, most of which will rely on a steady stream of younger, well-trained workers.

While most of the country will be struggling with economic stagnation that could result from having nearly a quarter of the population retired and dependent upon consuming savings or government-backed support, the economy of Western PA has the potential to be expanding and searching for younger and smarter workers.

"There are jobs open to be filled and you're going to have to go to a younger workforce to fill those positions. I think we're in the midst of that kind of conversion to the overall workforce," predicts Peart. "Baby boomers – and I count myself among them – have maybe ten more years to work and I think over the course of ten years this city is going to change dramatically in its age."

"Those prime earning years – early-30's to mid-40's – you can't have growth in that group without establishing that base of young workers. We're establishing that base in Pittsburgh," says Rankin. "The big takeaway is that ten years out, Pittsburgh has the potential for a big income boost."

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The new paint scheme and iconography by New Guild Studio transformed the sanctuary (below right, prior to renovation).

St. Ursula Catholic Church Renovation

Churches can be among the more difficult projects for architects and contractors to manage. Most church projects are run by a committee and members of a church can have significant emotional attachments to their place of worship, emotions that don't surface on a flex building or parking garage. It's not surprising then that professionals who become proficient at dealing with churches tend to become specialists at the craft and will get repeat business. For the members of one North Hills church, Landau Building Co. has become such a company.

St. Ursula's Catholic Church in Hampton Township is an older church serving a parish of about 1,500 families. Early in the last decade the parish priest, Father Garrett Dorsey, began leading a process of master planning to deal with several trends he saw that would require changes to the church's physical plant.

One of the issues was demographic. Fr. Dorsey was concerned with the advancing ages of the parish priests and anticipated a future time when St. Ursula would have fewer masses as priests retired and would therefore need more seating. St. Ursula also sits on a steep hill, with its parking lot across the street below the entrance. Older members were having difficulty accessing the church's steep stairs. Lastly, the church was dated, both in architecture and infrastructure.

"There was an effort by the parish to get everyone together to find out what are the things that we need to do to our building here," Fr. Dorsey recalls. "That started the master plan. The first project was to improve accessibility to our school and church. The next was to be the renovation of the interior of the church."

Church member Todd Havekotte, partner in the architectural firm Intelligent Design Group (IDG), gives Fr. Dorsey credit for driving what became a multi-phase, multi-year capital program.

"The primary driver of the whole project was Father Dorsey recognizing that the building needed to be maintained and he made sure that everyone was aware of that," Havekotte says.

Improving the accessibility was primarily a matter of site work and the construction of a new parking lot on the hill adjacent to the church and creating a new entrance. Accomplishing the rest of the project was going to involve more planning and fundraising. In some ways, the time needed to raise funds and plan worked to the advantage of St. Ursula. Architect Havekotte thought initially that the expansion was going to put the final cost of the program at eight million dollars. Within a few years, however, it became clear that the additional space would not be necessary. The additional planning time also allowed for a bit of bad luck.

In 2006, the Diocese of Pittsburgh put out a request for qualifications to contractors with the intention of interviewing and selecting a general contractor to work with IDG during the planning. Landau Building Co. was chosen to negotiate with the parish and worked out an agreement that allowed for the project to develop like a design/build delivery. On Christmas Day 2006, however, a burst pipe in the education building created a detour to the project. The church needed to spend much of the funds that had been raised to repair the damage and used the opportunity to make other needed renovations to the school.

It was during the planning for the third phase – the church remodeling – that it became apparent that the scope of the project didn't need to be as grand as originally envisioned. The number of masses hadn't declined. The expansion of the church shrank and shifted to the addition of a welcoming area and porte cochere by the upper parking lot. Todd Havekotte says that input from the congregation – along with a conservative budget – helped define what ultimately the final program became.

"When we polled the people in the parish they didn't want us to pull down walls and change the church. They liked their place so we just redecorated," Havekotte says.

For Landau, the time and planning wasn't without inconvenience. The duration of the preconstruction period meant familiarizing and re-familiarizing the key staff with the project more than once; and even Landau's organization changed while the project was incubating.

"We had the project for six or seven years prior to construction. I was originally supposed to be the project manager," notes Steve Bishop, now Landau's vice president of operations. "We probably did five or six conceptual estimates during those years they were fundraising," recalls Andrew Marsic, the eventual project manager.

That Marsic became the project manager was a matter of matching skills to the project's requirements but there was a personal connection to the parish that was quite a coincidence. Marsic had been baptized at St. Ursula. "When I was very young my parents owned a small house about a block from the church right off Kirk Street," he says.

By spring 2012, the program had been defined and Landau was able to bid out the subcontracts. Within the existing church, the plan was to renovate the church's basement into an entertainment and multi-purpose room for church gatherings. Above that in the sanctuary, the

The welcome area and porte cochere addition (front) were the only new construction in the project.

altar area was reduced by about half. A major refurbishment of the interior finishes would be done, including rebuilding the confessional booths, replacing HVAC and electrical systems and a major repainting. To the east of the church, a two-story, 2,500 square foot welcome center would be built that allowed cars to drop off people under a canopy and connect into the sanctuary, with stairs and elevator access to the basement space.

It's an understatement to refer to the work in the sanctuary as "re-painting."

It's an understatement to refer to the work in the sanctuary as "re-painting." Part of the design/build team was Braddock-based New Guild Studio, a liturgical artist and design firm. Its work involved creating a large mural of iconography on what had been a drab wood panel and solid paint backdrop to the altar. The walls and arches were similarly transformed, changing what had been painted white to a palette of blue, gold, rose and green.

"The color scheme was taken from the stained glass windows in what the architect called the clerestory," noted Fr. Dorsey.

A major challenge facing the construction schedule was the need to keep the church functioning fully during the work. Regardless of the work going on, masses were to be held as normal each day. Seasonal events were going to proceed as planned. The sanctuary was going to have to be taken out of commission for a few months while that work occurred there, but a lot of work was going to occur in a short period of time. As seemed natural for this project, the plan got one more detour just before construction was to start.

"We got the go ahead to start work in July but when we went in for the final building permit, Hampton Township told us that their code review process had been contracted with Codesys because their code official had just retired," says Marsic. "We had to go back through the process with them, which delayed the start until September. Luckily, there was good weather that fall."

Getting back to the original critical path was important because the sanctuary renovation had a fixed window of time that was dictated by Christian holidays. Landau didn't have access to the sanctuary until after Christmas and the work had to be entirely completed before Easter. During that time, the sanctuary would be off limits to the congregation. The temperate fall weather allowed for the addition to be completely "dried in" and the basement work to get well underway ahead of Christmas mass. "But come January 2nd, we were ripping out pews," says Marsic.

During the basement construction, the crews made a discovery that had eluded members of the church for nearly a century, according to Havekotte. "We didn't know there was a creek underneath the church," he says. An active spring was discovered when crews saw-cut the concrete basement floor. "We had to create perimeter drainage and put in sump pumps."

As might be expected, gutting and rebuilding an old church that had not be renovated in more than 50 years meant finding surprises and taking a fresh look at the scope of work constantly. Landau had to coordinate construction work with a consultant, New Guild Studio, with which it did not have a contractual relationship. The circumstances required constant communication and had the potential for lots of confrontation. According to the church's representative, Mary Jaconski, the confrontations were nonexistent.

"I've been on the building committee for 20 years. The few projects I've been involved with, there's always been a gap between what you think is going to happen and what the contractor thinks is going to happen," she jokes. "The best thing about Landau is they were very tolerant of me. There was always something that I was asking about and Andrew or [project superintendent] Wayne Rabbit always took the time to explain it all to me."

Marsic explains that there were also several instances where he felt that he should suggest doing some work beyond the scope that would improve the building well beyond the cost. Marsic says the items, like rebuilding the pews and adding some strip lighting, made a big difference to the look of the building and were what his owners expected. He says the best example was the terrazzo flooring.

There was nothing in the scope to update the terrazzo and the church wasn't looking to spend additional money. Once the new finishes of the sanctuary started coming together, Marsic felt the floors would look that much more worn and dated; and he explained that addressing the floors later would result in another inconvenient shut down of the sanctuary.

"I pushed them to do it. I told them they wouldn't regret it," he explains. "I knew if Tom Landau saw the terrazzo he'd want to know why it wasn't done. If I told him that we didn't do it because it wasn't in the budget he would have said that's not who we are. That's not the kind of work we do."

PROJECT TEAM

Landau Building Company	*General Contractor*
St. Ursula Catholic Church Parish	*Owner*
Intelligent Design Group	*Architect*
New Guild Studio Inc.	*Liturgical Artists*
Mardo Masonry	*Masonry Contractor*
Pennsylvania Roofing Systems	*Roofing Contractor*
Courtman Painting Inc.	*Painting Contractor*
Massaro Industries	*Flooring Contractor*
Marble Life	*Terrazzo Restoration & Polishing*

This kind of suggestion can be a touchy situation, as owners can be naturally suspicious of the contractor's motives and view the suggestion as up selling. Mary Jaconski sensed that Marsic was sincerely adding value to the project.

"I had that sense all the time, that they were doing the right thing for the job," she says. "Andrew was amazing about it. He didn't just suggest we fix the terrazzo and tell me the cost, he checked with about ten different places. He really didn't want to spend money any more than we did."

Marsic says that the spirit extended to the subcontractors. "All the subs joked that you'd think this was a five million dollar job not a two million dollar project. It was a great group of subs," he says. "Whenever there were issues there weren't problems. Everyone just wanted to solve the issue. The subcontractors were proud of the project. I came in one morning and the mason wanted to show me that he had put a cross into the brick exterior without anyone telling him to. He didn't want anything for it; he just volunteered."

Subcontractors may have been motivated by the nature of the work. The project offered plenty of opportunities for a level of craftsmanship that others don't. Aside from the painting and terrazzo, there was extensive millwork and liturgical furnishings. The project was recognized in February 2014 as the winner of the Master Builders' Association Building Excellence Awards for Craftsmanship. Todd Havekotte observes that the excellence of the work is reflected as much in what isn't seen as what is.

"I told the [Building Excellence] jury that this was a project where the craftsmanship was such that when the project was completed you couldn't tell where anything

had been done," he explains. "The confessionals are a perfect example. They were completely taken apart and broken carvings and pieces replaced. They were completely rebuilt but it looks like they have always been there."

The same can't be said for the sanctuary. Because the sanctuary had been closed off from the congregation throughout the process, the re-opening had a feel like the unveiling in a DIY Network reality show. The dramatic change caught some of the members off guard but Mary Jaconski reports that the response has been universally positive. Father Dorsey says it's the best part of the project for him.

"I'm most pleased with the interior of the church, with the way it worked out redoing the finishes for the floors and walls," he says. "The heart of a Catholic church is the area immediately around the altar. It has given us the look of a brand new church."

"The smartest thing the architect did was get out of the way of the people who knew what they were doing," jokes Havekotte. "The project is a very good example of what you can do with paint. It's essentially a two-dimensional appliqué but it transformed the sanctuary.

"I go sit there when I have a bad day and I want to remember what it's like when things work well. When I look at the front of that sanctuary, it's just spectacular." BG

Marsa Inc.

Like many owners of small family-run businesses, Paul Scabilloni takes business personally. He and his four brothers – Dan, Sam Jr., Matthew and Alan – are hands-on owners of Marsa Inc., a second-generation masonry subcontractor located in Castle Shannon. Paul thinks that's an advantage that differentiates Marsa from many companies.

"One of the things we can say that not many others can is that when you come to any one of us brothers we can get you an answer," Paul says. "None of us is a college kid that just has an office and doesn't know his trade. Every one of us knows the trade and can solve a problem in the field."

Marsa was the second masonry contracting business that Sam Scabilloni Sr. owned. During the 1950's his first company, Scabilloni Masonry, was a growing business. Scabilloni worked on a broad spectrum of projects, but unfortunately got involved with a New York-based developer with shady business practices and a poor vision of the retail future. They developed the Mayfair South Shoppers Forum on Route 88 in Bethel Park. Unfortunately for Scabilloni, his partner ran out of money. And then, South Hills Village opened up within a short time after the construction of the Mayfair, making it virtually obsolete and putting Scabilloni Masonry out of business.

Sam Scabilloni went back to the business he knew. Founded on October 1, 1967, Marsa is a combination of Sam's name with his wife Mary's. "My dad was more chauvinistic and wanted it to have his name first but there was already a company name like Samar so he reversed it to Marsa," jokes Paul Scabilloni.

As a teenager, Paul had begun working as a laborer and mason for the family business. "My father didn't understand the child labor laws," he says. Wishing to get more involved in running the business after graduation, Paul got an associate's degree in structural drafting from International Technical Institute, working to build the East Liberty housing high-rises during the evenings to pay for school. In 1971 he went into the business full-time.

After a few years working together Paul pressed his father to expand but Sam was satisfied with the size of the business, which had about 20 employees. As his brothers followed him into Marsa's business over the next decade, Paul was concerned that the business wasn't going to be big enough to support six families. He saw opportunities to grow coming as Pittsburgh began to pull itself out of the early 1980's recession. Finally, in the late 1980's Sam yielded his position and in 1991, Sam and Mary gifted their shares to their sons.

Before the shares were transferred, Sam insisted that somebody had to be in charge. Paul had been working in the business the longest and was the eldest, so his became the majority share and he was named president.

Throughout the 1990's, Marsa was able to take advantage of the boom in retail construction and new schools to grow more rapidly. The company did not work on most of the so-called Plan B projects, but instead took advantage of more limited competition in other segments. At the time their offices were in an old house that had been converted into multi-tenant offices. As the company grew, Marsa expanded into other portions of the office when tenants' leases expired, eventually taking over the entire house and putting a modular office in the rear yard.

"We had a trailer in the back. That was my brother Sammy's office for a while," Paul recalls. "We knew that couldn't continue."

Scabilloni drove through the Forest Grove section of Castle Shannon on his commute every day and was drawn to a property that was part of the Monroe Gutman estate. He made an offer that was rejected but several years later saw a "for sale" sign at the property again. This time he made a pre-emptive offer at the seller's asking price and purchased the 12.5 acre site along Sleepy Hollow Road. The site was set up as a waste dirt site from the excavation of the Castle Shannon light rail station project to help level and terrace it for development of multiple parcels.

After subdividing the land into five lots and selling them to offset development costs, Marsa built its own new office and shop in 2006. Paul's foray into development turned out better than his father's. Moving from a 3,000 square foot facility to a 7,500 square foot office with a 5,000 square foot shop gave the company the opportunity to spread out and design a space that matched their working style. The payoff was immediate. "Everybody's attitude changed right off the bat," notes Paul.

Attitudes are important in a company that employs as many family members as Marsa does. For many families, the odds

Scabilloni brothers (from left in back) Paul, Dan, Sam, Matt and Alan (front center).

Sam manages the logistics of the company's three trucks on the road and keeps their field and yard operations organized. He's also the one who fixes the day-to-day glitches in supply chain and delivery.

Paul's role is that of administrator and leader. He oversees the final estimate and makes the deals. Paul also says that he's the brother that is the company "preacher," setting the tone for how the staff represents Marsa Inc.

All five brothers get together for lunch every Friday to deal with any issues and to keep open the lines of communication. "That's how we keep ourselves sane here," says Paul.

are long that five male siblings could function together without a bloodletting, or at least a food fight. Paul Scabilloni acknowledges that five brothers can have disagreements.

"We have our moments. We've had our battles but I've never had to pull out the card that I have the majority shares," Paul observes. "We fight about it but then come to a decision together. Why we get along so well is that we all have found separate things we do."

Dan is secretary/treasurer of the company and works as project manager, especially on the jobs that are further away from Pittsburgh. Dan's niche is overseeing Marsa's safety management, having created a safety committee and written the company's safety policy.

Matt spends half his time in the office preparing all the submittals. It's his responsibility to go through the drawings completely, looking for discrepancies and preparing the RFI's. Matt also does project management, usually running the jobs closer to the office.

Alan is the third of the brothers to manage projects, mostly projects to the south, including West Virginia. His secondary job is doing final takeoffs. After a successful estimate, masonry contractors need an exact takeoff for the final order. Alan has developed a system that tallies the exact piece count of the masonry units, eliminating any wasted material.

"If I'm bidding a job and I say we can do it in six weeks then you know we can do it in six weeks. Our customers know I've been doing this for over 40 years and my word is what we're going to do.

Marsa Inc. employs 13 people in the office and three in their yard. With their field staff, the company has 160 employees as of April. Their sales in 2013 topped $16 million. The company works as far north as Erie and to Clarksburg in the south; Marsa travels to State College and the Maryland panhandle to the east.

The company has diversified its business over the years to help with the cyclicality of construction. In 2012, Marsa got into the masonry restoration business. Scabilloni says that the business is still growing but expects it to top ten percent of the company's sales in 2014. He explains that restoration adds value to the business even as the sales are low. "It helps us get work that we didn't pursue before," says Scabilloni. "We have that Becht Hall job at Clarion [University] and restoration is probably $400,000 of the $600,000 contract. We wouldn't have gotten the job without that."

When Paul Scabilloni talks about his philosophy and how the family runs Marsa, it becomes evident that their management style is still as personal as when the business was mostly a family operation.

"In this business, just because you say you're Marsa and in masonry, that doesn't mean a thing. You're selling yourself every day," he says. "If I'm bidding a job and I say we can do it in six weeks then you know we can do it in six weeks. Our customers know I've been doing this for over 40 years and my word is what we're going to do.

"I don't care how big a company you have or how good you are, you're going to have issues. Every job has issues," he says. "The key is what you do about them, how fast you react. If you get an email, you reply by email. If you get a phone call, you return the phone call. Even if you're going to disagree with the person, don't ignore them.

"The other thing I preach here – I should say teach – is that we need to tell all our guys that when they walk away from a job on the last day, they should be able to walk down the road and turn around and say, 'I'm proud that I built that.' I try to convey that through every part of our business. When you convey that pride you get good people. We have a lot of good people that have been with us a long time." BG

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Legal Perspective

Leaving the Legacy You Choose

By Roy S. Cohen
and Wayne C. Buckwalter

You have built your business from the ground up. You have nurtured and grown a legacy for your family. You want to retire. What will happen to your business when you leave it? We should start with a few statistics for those of you who think you've "got it covered."

- 12% of all family businesses are construction related
- 80-90% of all construction businesses are family-owned
- Only 33% of family-owned businesses survive into the second generation
- Only 20% of closely-held construction companies survive to the next generation
- 60% of business owners that plan to retire in the next five years do not have a succession plan in place

Succession planning is more than a simple will

Ask yourself the tough questions. What are your retirement needs? Do you have a realistic perspective of your financials? What do you plan to do after retirement? Do you want to maintain your current lifestyle?

Keep in mind that any owner must be independent from his or her business in order to have a secure financial future. You will never actually retire if your economic future is dependent on the continued success of your business. Workable succession requires an independent new owner who is ready to transition into the company. In the construction industry, that means you will no longer guarantee payment and performance bonds for your company—which might be good news for some readers. While considering your family's needs, the wishes of possible successors, family dynamics, the repercussions to your employees, your clients and business partners, also consider your retirement from the business.

The Gift that keeps on giving

There are many ways to transfer ownership of a business. Selling or gifting your business to family is popular, but it's usually not the best choice. It is estimated that 70% of construction companies are sold or gifted in some form to the owners' children or employees, 20% of companies are liquidated. Only 10% are sold to outside companies.

If you are considering passing your business on to your family, be aware that a sale or partial sale that results in immediate payment automatically incurs tax liability. Proceeds from the business sale are taxable to the owner's estate, which means you may owe more in taxes than your estate is actually worth. Usually a family member must acquire the funds necessary for the company's purchase from another source outside the estate, which could take the form of a new, and undesirable, business loan.

A better alternative is a transaction structured to remove the value of the company from the owner's taxable estate or a transaction that reduces the company's taxable value while providing a future stream of income for the owner. A trust is one way to maintain control over your company, while shifting the assets to another entity, the trust. You can then receive income, payments from the trust, for a specified term. During this term you can safely monitor your successor's management of the business. At the end of the term, the remainder of the trust and the business will go to the designated successor/family member. The trust will still pay taxes on the business assets, but at a much lower rate than estate taxes.

Managing the succession

Succession planning does not guarantee that the value of the business will withstand transfer of ownership, which is another reason new owners should not incur new debt. When management succession is ignored, the outcomes are frequently bad. You've probably heard stories of a business liquidated at a "fire sale" with the owner receiving a fraction of the value of the business.

The difficult decision regarding who will take control is often determinative of the business' continuing value. Choosing wisely does not mean automatically placing younger generation family members in management roles. Family-centric succession can leave even the most experienced and invested family members ill-prepared to handle company responsibilities. The dynamics of a family business are much different from a publicly traded company and special care must be given when naming a family member successor. The challenge is to select one or more children to successfully run the business before ownership changes while at the same time providing satisfying roles for other family and management members.

While publicly traded companies typically have committees or staff solely responsible for identifying future CEO's, small companies do not have this luxury. When there is no clear choice in the family, one option is to groom one or more key employees. Another option is to hire an outsider with industry experience and a solid reputation to manage the business. Bringing in outside management must be considered carefully and discussed with all important employees. You don't want your best to feel unjustly passed over; having your top team members quit puts the new company at risk.

One component of your company's value that should not be overlooked is your credit. Your reputation with your lenders and sureties is as crucial to the future of your construction business as your clients.

Training your successor

Once a successor management team has been chosen, it is important to continue training. Your wealth of knowledge is vital to the continued success of your business. It may take a substantial period of time before a successor is ready for a seamless transition. A long transition period is also important for employee morale and retention. As the successor works in the business and gains knowledge, he or she will also gain the respect of other employees. It is difficult enough transitioning from an original owner to a successor; it is even more difficult when your employees worry about the ability of future management to effectively run the business.

What's the REAL value of your business?

Valuation must be addressed prior to an ownership change. In the construction industry, there are special considerations that could cause the value of your business to be minimized. These variables include the competitive bidding process, a heavy dependence on only a few customers, the risky nature of the industry causing wide fluctuations in profitability, the importance placed on the personal relationships and knowledge of the individual rather than the company. These intangibles are hard to value in a numerical sense. As a result, selling owners often feel that their company is not fairly priced.

Don't forget about your credit

One component of your company's value that should not be overlooked is your credit. Your reputation with your lenders and sureties is as crucial to the future of your construction business as your clients. Lenders and bonding companies reward successful contractors with great credit and are rightly concerned when company ownership changes hands for any reason. Sureties know that when construction companies fail, most often it is due to succession problems. In an industry where knowledge and relationships are success indicators, lenders and bonding companies are wary of ownership changes.

As a result, many bonding companies require written business and succession plans before issuing credit; they may also require the owner to provide a personal guarantee as a condition of securing a bond. Roughly, 92% of business owners personally guarantee bond credit. Typically, minority shareholders, with 15% or more of the ownership, are also required by bonding companies to provide a personal guaranty. Unless your bonding company allows new management to issue a new personal guaranty releasing you, the liability for any personally guaranteed bond credit remains with you, even after you leave the business.

When several parties have personal liability for bond guaranties, succession planning can be even more challenging. New shareholders may be worried about signing guarantees; existing shareholders may be required by the bonding agency to continue their personal guarantees until the successor management is proven. Your risk of owner liability and successor default can be minimized by including terms in your business succession documents that provide you protection through liens on the company's assets. Liens, and other reservation of rights, allow you to set benchmarks that monitor the health of the company and its performance as it changes hands. With these precautionary steps, if the company fails under new management, you have rights and can take action to protect your company and assets.

Strengthen your business and your future

Part of planning succession is looking at what is vital to the continued success of your business and what can be changed or improved. A financially and functionally strong business is in a better position to withstand a management and ownership change. Early succession planning reduces taxes and helps you chose the right successor, lessening the financial impacts on your business and your risk upon retirement.

Planning enables you to build value, create an enviable retirement, and leave memorable legacy for your family. Build a strong and secure future for you and your family, start now.

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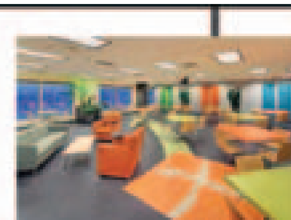


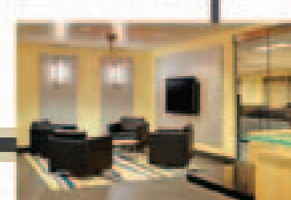


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Emily Kroboth & Associates, Inc

By Deborah Knox

Emily Kroboth is a trailblazer. She retired after 19 years as one of the first female saleswomen at General Electric and is now busy with her second career on the other side of the desk: as the founder of Emily Kroboth & Associates, Inc. a provider of lighting equipment, application, and installations built on the relationships with some of the largest electrical distributors in the Pittsburgh region.

Emily Kroboth & Associates, Inc. sells products such as ballasts, power supplies, transformers, switches, wiring, lighting, motors and temperature controls. They represent 3M, Wiremold (cable management products), General Electric, Hubbell, Sylvania, Phillips and Leviton, among many others to companies and governmental agencies in the region, as well as residential, commercial and industrial construction contractors.

She didn't begin her career as a technical person. Early on, Ms. Kroboth worked as a secretary for US Steel and later for General Electric, where she was working supporting the sales force in 1980. She was encouraged to take a qualifying test to pursue a sales position. After passing, Ms. Kroboth found that she would face hurdles to entering and succeeding in a previously all male division. She worked her way through tough sales territories, eventually building a successful sales career that spanned 19 years.

At her retirement party from General Electric in 1999, one of the sales managers approached Ms. Kroboth and said, "We have a proposition for you – a work proposition." He asked if she would be interested in setting up a small firm to act as a broker/distributor to the industry as a Certified Woman Owned Business. They trusted her expertise, so she transitioned from sales to purchasing.

She incorporated her business, completed registrations with governmental agencies, set up the electronic systems and completed her Woman-Owned Business and Disadvantaged Business Certifications (WBE and DBE), using her savings to sustain her during the process. And then, when the company was set up,"no orders came. No bids, no nothing," she explained. Kroboth continued to call on her industry contacts, but it took until February 2000 to receive her first order. "It was a quote from Ferry Electric," she recalled. Her company grew slowly. Now established, the company is a specialized, personalized operation.

It's her familiarity with the distributors that from her point of view has streamlined the process.

Most of the work is straightforward. She puts together electrical component packages with all appurtenances to the architect's or engineer's specification. It's her familiarity with the distributors that from her point of view has streamlined the process. "They know me and the contractors," she added. "I've been fortunate and have been protected by the distributors."

She has had potential clients question the value of her service. In this fast-paced world with the Internet offering so much information, there is a purchasing model that bypasses brokers. Ms. Kroboth challenges that notion: Her 30 years of relationships with her products and the manufacturers allows her to respond more effectively. "If there are failures or problems with quality or delays, I'm the one who puts my finger on where the problem is," she said. That knowledge and accountability has value to her clients. She also frequently researches items and works with manufacturers to help architects and engineers search for specialty items. Once a specialty item is identified, she will sometimes contract with the manufacturer and become a sales representative for them, allowing the client to buy directly from her for a good price. She can also guide her clients through installation challenges and troubleshooting problems in the field, and she offered, "Our fees are low, and depend on the type and size of projects – their markups are very low, varying from half to three or four percent."

Sometimes she gets caught in the middle. Recently, she had a corporate customer purchasing equipment for the business, and that customer's husband was a general contractor for a different company. The general contractor, while intending to be helpful, interfered with the process, which was frustrating and required diplomacy on her part.

Kroboth's role is defined differently depending on the client. She's occasionally manufacturer's representative. The Commonwealth of Pennsylvania classifies her as a distributor and Kroboth & Associates is considered a broker by the Pittsburgh Board of Public Education and Allegheny County. She does maintain a mini-warehouse on her property for items that are frequently ordered, or for items being returned for repair.

"I am providing a service, and staying active with industry groups keeps me in the loop, learning new products and techniques," she explained. Kroboth has been active with the Electric League of Western Pennsylvania, was the president for two terms, and has served on the Board. Now she serves as a resident judge for their annual projects competition. The event has grown exponentially. "In the early years, project presenters would present their projects and the judging group would vote; a simple process. Now, it's very competitive with projects in the commercial, education and residential sectors," she said. In addition, she is active with the Illuminating Engineering Society.

Emily Kroboth enjoys the variety of her work and the clients. She said, "Whether it's a light bulb or a generator, or stage equipment, we find it."

Company Facts

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Trend to Watch

The Workforce Challenge Approaches

A demographic storm of Baby Boomers aging and mismatched educational requirements is creating a problem that seemed unlikely just a few years ago – a shortage of skilled workers. With the American economy shifting again towards more manufacturing and the energy sector expanding, this workforce gap is becoming more pronounced.

At the root of the shortage is some basic demographic math. The people born during the Baby Boom from 1946 to 1964 have begun to reach the age that many Americans retire. Boomers were the largest age cohort ever born in the U. S. and the progression of their lives has driven the economy for four decades. It follows logically that if the largest generation retires at the normal rate that others have, there will be a hole to fill in the workforce. The so-called Great Recession was thought to have thrown a monkey wrench into the retirement plans of many people but as of 2011, it's been clear that Boomers have not been impacted significantly.

How big is the impact of the Boomer retirement wave? From 2011 until 2029, roughly 10,000 people will turn 65 every day. That's 26 percent of the U. S. population.

Almost as important as the aging Boomers is the change in attitude about education and vocational training that has taken place over the past 40 years. College education was once seen as a privilege and a path for a limited number of students. For the past two generations, college has been seen as the extension of a high school education and the attainment of a college degree was seen as a path to a better life. Far fewer high school graduates followed skill training in a trade as a career path. And because America lost much of its manufacturing base during the 1970's and 1980's, those trade skills were less needed.

As a result, there is a significant dropoff in the number of craft workers in the U. S. under the age of 45. This is as true for construction as other industries.

Skill training is one important solution to the workforce gap. A 2010 study of the skills that will be needed in 2020 estimated that 65 percent of the jobs will require an associate's degree or specialized training. The study also estimated that only 32 percent of the high school graduates of 2014 will be headed for that kind of training or education.

According to the Bureau of Labor Statistics in its 2012 Current Population Survey, the median age of a construction worker was 44.5 years, with 50.9 percent of the workers over the age of 50. By those measures construction is not the oldest profession (postal workers top the list and architects/engineers come in at 45.4 years and 51 percent respectively). But the career span of construction workers is somewhat shorter than most professions. Construction is physically demanding and the average retirement age is 61. The wave of Baby Boomer retirement in construction began almost a decade ago.

While the Great Recession slowed some of the construction worker retirement, the massive job loss also chased many from the industry. As the economy has recovered and construction is returning to pre-recession levels, that exodus is exaggerating the shortfall. The Construction Labor Resource Council estimates that the industry will need to add 185,000 people each year for the next decade to meet the demand. In the face of growing construction volume, the industry is also facing competition for its skilled workers from outside construction.

One of the waves that will challenge the skilled construction workforce is the rapid expansion of the natural gas industry. An inventory of the types of skilled workers that the gas and petrochemicals companies need most sounds like a construction payroll: welders, pipefitters, riggers, electricians, operators are among the most precious of positions. Already on the local level, mechanical and electrical contractors have felt the pinch from their employees being attracted to industrial instead of commercial projects. The industrial work pays more and the projects tend to last longer at one location.

The gas industry is still in its formative stages here but as a national play the numbers of needed workers are staggering. Chevron CEO Peter Cella told investors that his company expected to hire 2,800 employees – mostly with field technician skills – to support their growth in gas. In the Bakken Shale play in North Dakota, industry experts say there are roughly 20,000 jobs to fill. That number pales in comparison to the crafts workers needed to complete the construction of the $100 billion in capital projects planned for the Gulf Coast and other U. S. locations, including potentially Monaca, PA. Estimates of the workforce needed to support construction beginning in 2015 are roughly 90,000 workers.

Royal Dutch Shell's estimates in advance of the decision to proceed with the Monaca ethane cracker and petrochemical plants are for 10,000 workers at the peak of construction.

Access to skilled construction labor was cited as a significant concern by 74 percent of the general contractor members of the Associated General Contractors of America (AGC), according to a survey of 700 firms in the third quarter of 2013. Steve Sandherr, CEO of the AGC, reported that the most difficult searches for contractors involved carpenters, equipment operators and laborers. The survey found that 53 percent of the contractors had difficulty finding experienced professional staff.

One of the reasons for the shortage is the deep and extended recession, particularly in housing construction. Many construction workers decided to leave the industry during the downturn, and either retrained to pursue a different career or turned to industries – like energy – for which their construction skills translated well. Perhaps because recession was less severe in Western PA, however, there is little evidence of an exodus from construction by local craft workers.

Local labor officials have been paying attention to the demographic challenges of the retiring Baby Boomers and the drought of 30-something workers for some time, investing heavily in training facilities and boosting recruiting efforts. But their problem is that adding apprentices for future work is limited by the amount of work that is available at the time. On-the-job training is one of the appeals for the unions, but there have to be jobs first and the extended slowdown hasn't provided enough opportunity to expand the future workforce much.

"The trades are comfortable now with the workforce and the workload. With the number of applications the unions are getting – even with the retirements – they aren't too concerned about looking for more applicants," explains Jason Fincke, executive director for the Builders Guild of Western PA. "They take the demographics into account but the recruiting is based more on the work in hand."

Jack Ramage, executive director of the Master Builders' Association says the MBA's contractors are not experiencing a problem with labor supply.

"We're aware of the AGC's concerns about the available skilled workforce nationwide," he says. "But our members are more concerned about a lack of work than a lack of workers right now."

Fincke says that the Guild ranks recruitment high on its list of priorities – he noted that he has attended about 35 career events since the first of the year – but the flood of applicants allows the locals to advertise on a limited basis. For example, the Operating Engineers Local 66 received roughly 1,000 applications during a two-week ad for about 75 positions. While the response rates aren't as high for all trades, most of the locals are able to satisfy their needs by advertising for short durations.

On the heavy and highway side of the business, local contractors have begun an initiative to be prepared in the event the predictions of a shortage come true. The Constructors Association of Western PA (CAWP) has partnered with a Carnegie Mellon spinoff to create virtual workplaces for training. The company, called Etcetera Edutainment, has delivered training simulations to a large workforce across various industries.

"What we came up with is Future Road Builders: A Virtual Highway Construction Pre-Apprenticeship Program, which is a computer-based experience that provides an introduction to highway construction careers," explains Rich Barcaskey, executive director of CAWP. "The purpose of the program is to provide exposure to what it is like to work in the highway construction industry and encourage interested parties to apply to the various union heavy and highway apprenticeship programs located in Western Pennsylvania. Using a virtual gaming platform, the program enables participants to learn about a career in highway construction by interacting with a phase-by-phase progression of a virtual construction project, representative of an actual highway construction project."

With the significant advancement in training facilities during the past few years, it seems possible that the construction industry will be able to rise to the challenge of supplying the labor needed for a more robust job market. Assuming that the downstream industries do develop over the coming decade as the gas industry has predicted, the larger skilled workforce will have an outlet for training. Among the economic benefits of a strong manufacturing sector is the steady demand for construction for maintenance, repair and upgrading plants.

For those who experienced some or all of the fallout from the steel industry's decline, it probably seems unfathomable that Pittsburgh could experience a shortage of skilled workers. It's obvious from the unemployment level that many industries still have fewer jobs than there are applicants. Like the situation in many U. S. markets, the solution to the imbalance is having workers with the right skills. Over the next three to five years, that problem can either be solved by a shift in Pittsburgh's existing workforce or by immigration of skilled workers from other states or abroad. Regardless of the solution, it's a challenge that needs to be met to maintain the economic progress of the past ten years. BG

The Case For and Against Land Banking

Pittsburgh's City Council voted on April 14 to move forward a proposal to create a municipal land bank in the City, passing a compromise measure that won over the opposition of two of the land bank's opponents, Ricky Burgess and Dan Lavelle.

A land bank is a public authority created to hold, manage and develop tax-foreclosed property. Land banks act as a legal and financial mechanism to return vacant, abandoned and tax-foreclosed property back to productive use. When properly managed, land banks can create an incentive for projects to locate in older or blighted neighborhoods. While land banking can happen anywhere that there are large numbers of tax-delinquent properties, the cities where land banks are being used most effectively are the older industrial cities of the Northeast and Midwest.

That description fits Pittsburgh. The City Department of Planning has estimated that the City owns 7,300 parcels that were acquired because of unpaid taxes. Most of those parcels are either vacant or have dilapidated structures located on the property. Those parcels cost the City money for mowing or snow removal. Just as important is the fact that those vacant or unproductive properties are sources of crime and further decay in neighborhoods that are struggling economically.

"This Land Bank will become an important and powerful tool in our efforts to empower residents to take back control of their neighborhoods from slumlords and speculators, to foster home ownership and wealth-building in our struggling communities, and to bring new investment into areas of the city that have been left behind," Mayor Bill Peduto said in a prepared statement. "But today's vote is just the first step. We need all residents involved in this fight against blight to stay involved as we move into the next phase of developing the policies and procedures that will guide the work of the Pittsburgh Community Land Bank for decades to come."

Former Mayor Tom Murphy, now senior resident fellow at the Urban Land Institute, explains that land banking is a valuable tool for revitalization of blighted communities but also reminds that there are limits to the effectiveness of the tool.

"A land bank is helpful in neighborhoods with vacant or abandoned property because the authority can begin to put land together to attract significant activity," Murphy says. "Our view is that you need three things together in one place: Money to get infrastructure to attract development; land control – and I think a land bank will help; the third is deal-making capacity. That's not going to come from a land bank."

Murphy recalls that the challenge for the city during his administrations was less the availability of land that was tax delinquent or blighted but rather the demand to do anything with the land. During the 1990's the City of Pittsburgh did pursue treasurer's sales of many delinquent properties and utilized the Urban Redevelopment Authority as the de facto land bank and assembler of parcels. Until recent years, however, there was little will on the part of private developers to pursue projects where much of the delinquent property was concentrated, such as the North Side, Homewood and the Hill District.

The main concerns expressed by the opponents of the land bank legislation included the Council representatives of those neighborhoods. Both Burgess and Lavelle were concerned that enabling a land bank authority could lead to development that left the community out of the process. To address those concerns, the bill's sponsors, Deborah Gross and Corey O'Connor, amended the legislation to include measures assuring adequate representation from citizens and neighborhood leaders to avoid undesirable development.

How effective that voice will be remains to be seen. The underlying purpose of the land bank is to more efficiently inventory parcels that are available, giving prospective developers a single source. In the end, the goals of the City will be met best when the land bank sells the properties for the purpose of redevelopment. That means the dynamic tension will be on the side of enabling transactions, not on assuring neighborhood consent. It's the role of the real estate developer or property owner to assess the best use of land based on the demands of the marketplace, not the desires of the neighbors.

Pittsburgh's land bank legislation created a process that gives neighborhood groups several chances to weigh in on any proposed actions, although the legislation could still allow an overly politicized authority to ignore them.

Cheryl Hall-Russell, the executive director of the Hill House Association and Economic Development Corp., is most concerned about the potential loss of homes for residents who have title issues and sees the land bank as a potential problem-solver.

"Good land bank legislation can be helpful in dealing with entangled properties," she says. In the Hill District it isn't uncommon to find homes that have been passed down from one generation to another without the proper transfer of deed. Hall-Russell says that she's aware of residents who pay their tax bill every year but can't afford to clean up the title. Her observation of land banks in other cities showed that the authority could verify the legal ownership of properties and keep them from being unfairly added to the available inventory.

"On balance I'm in favor of a land bank. Land banking has a lot of benefits," she continues. "It's often difficult to amass properties in a timely manner when there's a project that needs the land."

The main concerns expressed by the opponents of the land bank legislation included the Council representatives of those neighborhoods.

Studying the use of land banks elsewhere reveals a mixed bag of results. The model for land banking success seems to be Michigan's 2004 legislation. That law has allowed land banks to be established in blighted areas like Flint and greater Detroit, with the banking of thousands of parcels in both residential and commercial areas. A number of mixed-use and neighborhood redevelopment projects can point to the land bank as reason for success.

But the Michigan legislation was state law and allowed access to resources well beyond those available to the City of Pittsburgh. Moreover, the Michigan legislature also passed related supporting legislation that allowed quiet title processes to clear any previous title claims; a Brownfield redevelopment act that gave land bank authorities the opportunity to declare industrial property as blighted; and several property tax-related acts that either deferred taxes or reduced them for owners that redeveloped land banked properties. The latter acts as an incentive but also robs the municipality of the revenues that land banks are supposed to generate.

In other cities, land banks have faced struggles because of insufficient capital to acquire, improve or maintain property. Land banks usually require the assistance of a community development entity to take on the role of improving property for sale. They also become administrative burdens as the land bank grows. After initial funding support accompanying the legislation is exhausted, land banks rely on the revenues from selling property for development to create cash flow and working capital. That has proven to be a challenge in cities with as divergent fortunes as Atlanta and Cleveland.

In Pittsburgh, the land bank authority will need to establish boundaries that avoid redundancy with the URA and the various CDC's that exist in the communities. Operating within a city that is still in financial distress and under Act 47 conservancy, the Pittsburgh land bank authority will be challenged from the start with capitalization.

On the plus side, the dynamics of the housing market – which represents the vast majority of the distressed property inventory – are working in favor of the City. Pittsburgh as a municipality has seen the highest number of new residential units under construction for almost a decade and the leading residential trend is New Urbanism. Employment growth is being driven partly by industries or businesses that are located in the urban center of the region, an attraction for more urban housing. At the same time, suburban development is becoming more costly. The market conditions are aligned if the new land bank authority can find demand from developers.

Land banks are not a substitute for good master planning, however, and what the Council has proposed will work best if the subsequent development conforms to the master plans that have been developed.

The communities where urban redevelopment is experiencing renewed demand from residential builders – Garfield, the Hill District, Homewood – are all home to large numbers of tax-delinquent or abandoned properties. Converting tax-delinquent and unproductive parcels into tax-productive property is one piece of the solution to the City of Pittsburgh's financial woes. Unlike in Tom Murphy's days as mayor, the time seems to be ripe for matching properties to demand. As in all things political, success will come from execution rather than intentions. BG

INDUSTRY & COMMUNITY NEWS

Meet the MBA Draws Minority Businesses

Roughly 150 representatives from 60 MBE/WBE businesses met with MBA contractors, economic development and government agencies at the annual "Meet the MBA" program held at the Hill House Association Kaufmann Center on April 24.

JoAnne Mandros and Rodney James from Tarax Service Systems (left) with Mascaro's Kathy Agostino.

(From left) Mandy Croft of Lytle Drug Testing Services, with Lisa Pass and Diane Scalzi from Lytle EAP Partners.

The MBA's Jack Ramage (left) with IKM's Joel Bernard and Jen Bee, AIA Pittsburgh board president.

Landau's Steve Bishop (left) with Jay Black from Seubert and Dustin Giffin of Giffin Interior & Fixture.

(From left) Matt Pauvlinch and Paul Martin from McCrossin with the MBA's Jon O'Brien and Pentrust's Tyler Noland at the NAIOP breakfast featuring Gov. Corbett.

Ira Ritter of I. D. Ritter Painting with Floyd Titus of J. Feltric Metals (right).

Ray Volpatt Jr. (left) with Babst Calland's Matt Jameson at the AIA/MBA Joint Committee educational session on the legal issues of the year.

Gensler's Lisa Adkins (left) with Stacey Watson Weniger from Huntington Bank and Mascaro's Nate Phillips at the NAIOP's "Evening with Kevin Acklin."

AWARDS & CONTRACTS

Connected Health awarded a contract to A. Martini & Co. to be general contractor for its new $7.5 million, 43,000 square foot office at 11620 Perry Highway in Wexford. The project was designed by WTW Architects.

A. Martini & Co. was selected as construction manager for the first phase of the $20 million office for Crown Communications in Southpointe. The project involves renovation of the former Mylan headquarters, extensive landscaping and construction of a connector between that and the existing Crown offices. The design team is Klavon Design landscape architects and Astorino.

Baker Hughes awarded a design/build contract to A. Martini & Co. for the expansion of its facilities in Clarksburg, WV.

The Sewickley Car Store selected A. Martini & Co. as contractor for the expansion of its Porsche dealership. The project involves a 3,000 square foot addition and renovations to the existing showroom and shop.

Grove City College awarded a contract to Landau Building Co. for the renovation of its Mary Anderson Pew West Hall dormitory.

Landau Building Co. is the contractor for a new dealership for South Hills Honda on Washington Road in McMurray, Peters Township. Dean Hess is the architect for the new 41,000 square foot, $8 million facility.

Yarborough Development & Construction was the successful bidder on the general construction contract of the $1.7 million capital improvements program at Ringgold High School. The architect is HHSDR Architects & Engineers.

PJ Dick Inc. was awarded a contract for the tenant improvements for Willis of Pennsylvania, a fit-out of 22,500 square feet of the 10th floor of One PPG Place. The architect is vocon.

Carnegie Mellon University selected PJ Dick Inc. as construction manager for its new $80 million Tepper School of Business. Construction is scheduled for 2015.

The Department of General Services awarded Mosites Construction the contract for general construction on the University of Pittsburgh's Clapp-Langley-Crawford Complex renovation. Stantec is the architect for the $25.7 million project.

FMS Construction was the successful contractor on Duquesne University's $800,000 renovation of the third and fifth floors of Rockwell Hall. Stantec is the architect for the project, which will be done after the spring semester ends.

University of Pittsburgh awarded a contract to FMS Construction for $1.2 million in renovations to the School of General Studies in Posvar Hall. The architect is Strada Architecture LLC.

The Andy Warhol Museum selected Jendoco Construction as contractor for renovations to the Warhol Café. The project was designed by Desmone & Associates Architects.

F. J. Busse Co. was awarded the contract for the $2.5 million renovation to the Winchester Thurston Lower School/Middle School. The architect is MacLachlan Cornelius & Filoni Architects.

Forest City Enterprises selected F. J. Busse Co. as contractor for the expansion of WESCO at Commerce Court in Station Square. The project involves renovation to 12,600 square feet on the fifth floor. Design 3 Architecture is the architect.

F. J. Busse Co. is the contractor for the Millennium Dance Studio, an adaptive reuse of 5,700 square feet at 2504 East Carson Street. Pfaffmann & Associates is the architect.

Nello Construction Co. is the successful bidder on the general construction contract for the Carmichaels Junior/Senior High School Addition in Carmichaels, Green County. Hayes Design Group is the architect for the $13.9 million project, which includes a new 146,000 square foot building.

West Allegheny School District awarded Gurtner Construction Co. Inc. a $6.46 million contract for the general construction portion of the $12.8 million Wilson Elementary School. The project involves an 8,000 square foot addition and renovations to 91,300 square feet. Hayes Design Group is the architect.

Facility Support Services was the successful bidder on the $4 million Lawrence Hall classroom and auditorium renovation at the University of Pittsburgh. The architect is MacLachlan Cornelius & Filoni Architects.

Rycon Construction will serve as PREIT's construction manager on a new 50,000 sq.ft. Dick's Sporting Goods Store at Valley View Mall in La-Crosse, WI. This $6 million project is scheduled for completion mid-fall and was designed by Create Architecture.

PREIT selected Rycon Construction to build a new Dick's Sporting Goods Store at Francis Scott Key Mall in Frederick, MD. Rycon will serve as construction manager and complete this 50,000 sq. ft. store, designed by Create Architecture, late fall.

A renovation of Duquesne University St. Anne's restrooms is scheduled to start in May. Rycon Construction will complete this $750,000 project, designed by Stantec by mid-summer.

Rycon Construction's Special Projects Group is currently renovating a 7,000 sq. ft. office space at One PPG Place. This project, designed by IKM Architects, is scheduled for completion mid-May.

Mascaro Construction is the successful contractor for the renovation of Building 770 for the West Virginia Regional Technology Park in South Charleston. Alpha Associates is the architect on the $16.8 million project.

Carlow University selected Massaro Corporation as construction manager for its $11.8 million expansion project at Fifth Avenue and Robinson Street in Oakland. MacLachlan Cornelius & Filoni are the project's architect.

Massaro Design Build, LLP and Perfido Weiskopf Wagstaff Goettel were named the design builder for the 4,000 square foot addition/renovation project to the Delta Tau Delta Fraternity House at Allegheny College. In addition to renovating the existing home, the project includes 11 new bedrooms and a communal bathroom/shower facility. The project will begin in the spring of 2015 and will be move-in ready in the fall of 2015.

Massaro Design Build, LLP was awarded the UPMC South Tower Relocation project. Nine different departments will be relocated into UPMC Presbyterian and Montefiore hospitals, some of which include the Pharmacy Residency Program, Pulmonary Department, Collaborative Care Management, Parking and Security, and Environmental Services Department. The 32,000 square foot project will begin in the summer of 2014 and will be complete by year's end.

Massaro Design Build, LLP was awarded the third phase of a multi-phase interior renovation project at GE Transportation in Erie, Pa. Massaro was the general contractor for the first two phases in 2012 and 2013 and will now renovate the third floor of Building 14. The 32,000 square foot renovation includes new offices, conference rooms and workstation seating. The project will be complete in July of 2014.

Massaro Design Build, LLP was awarded the 3,400 square foot renovation program to the Keller Locker Rooms in the Towers Building at Duquesne University. The project will be complete in time for the academic school year in the fall of 2014.

Massaro Design Build, LLP was selected to be the design-builder of (4) 2,500 square foot patio homes located on the campus of UPMC Sherwood Oaks, a senior living facility. The patio homes are designed to mimic existing patio homes on the campus and are a mix of (3) 3-bedroom units and (1) 2-bedroom unit.

Massaro CMS, LLC was named Owner's Rep. of the new Brownsville Area School District Elementary Complex. The new construction project will add 79,000 square feet to the existing high school campus. Construction will commence in the fall of 2014. L. R. Kimball - a CDI Company- is the architect of record.

Massaro CMS, LLC was named the Agency Construction Manager by Penn State University for the renovation of the Material Research Lab located on the main campus in University Park, PA. The $20 million, 77,000 square foot science/lab renovation encompasses a complete MEP replacement in addition to interior finishes.

Massaro CMS, LLC is the Agency Construction Manager for the Environmental Charter School – Upper School renovation. The 6,600 square foot project includes the renovation of the Upper School's kitchen and bathrooms. Construction will continue throughout the summer and the school will be ready for academic classes in the fall of 2014. Rothschild Doyno Collaborative is the architect.

Willis of North America Inc. recently selected PJ Dick Inc. to perform a 19,285 square foot fit-out of its space on the 10th floor of PPG Place.

PJ Dick was selected to be the CM at Risk for the five-story, 117-unit Hot Metal Flats luxury apartment building in Pittsburgh.

The Forest Hills School District hired PJ Dick to be the CM Agency representative for the construction of a new 192,000 square foot, three-story facility to be located in the existing Locust Road elementary/secondary campus on a site between the existing high school, field house and elementary school buildings. The new facility will house the Forest Hills Middle and High schools.

Duquesne University has selected James Construction to renovate the Organic Chemistry Lab located in the college's Mellon Hall building.

dck worldwide was selected by repeat client, HCW, to build The Met at Fashion Center, a $27 million, 303-unit apartment complex in Chandler, Arizona. A June groundbreaking is expected.

Omni Hotels has awarded dck worldwide contracts for renovation projects in three locations: Amelia Island, Florida; New York, New York; and Providence, Rhode Island.

dck worldwide is beginning a $26 million apartment project in Phoenix, Arizona. The Elevation on Central project includes 266 apartment units that wrap a six-story precast parking garage.

Volpatt Construction was selected as the contractor for the $1.2 million William Pitt Union third floor renovation at the University of Pittsburgh. The project architect is WTW Architects.

Carnegie Mellon University awarded a $665,900 contract to Volpatt Construction for renovations to Dr. Guo's lab. The architect is IKM Architects.

Mosites Construction was the successful bidder on the $3.3 million terrazzo flooring project for the Allegheny County Airport Authority at Pittsburgh International Airport.

Landau Building Company is renovating the corridors at Allegheny General Hospital Snyder Pavilion. The three-month construction project involves approximately 10,000 square feet of corridors that are in continuous operation. Work includes the replacement of terrazzo, ceiling, lightning, wall rail, and miscellaneous finishes.

Landau Building Company has begun a 52,000 square foot ground-up construction project United Hospital Center at the current hospital in Bridgeport, West Virginia. The project is a single-story office building space that matches the existing hospital design. Construction commenced on March 10, 2014 and is expected to finish in January 2015.

Landau Building Company is doing the tenant fit-out of the shell space on the 2nd floor of Allegheny Health Network's Isabella Street location. The 9,800 square foot facility will be both a call center and office space. Work is to be complete in 4 weeks. The architect is DLA+ Architecture.

Landau Building Company recently relocated the existing Bereavement Room into the E.R. waiting room at Heritage Valley Beaver, which allowed space for a new CT scanner for the Emergency Department. A new management office was also created next to the new Bereavement Room. Paul Slowik & Associates is the architect.

AIM Construction was selected as contractor for the University of Pittsburgh's $3.5 million Scaife Hall seventh floor laboratory. Louviere Stratton & Yokel is the architect. BG

FACES & NEW PLACES

Landau Building Company, a general contracting firm based in Pennsylvania, announced that Doug Brenneman has joined the company's Wexford area office as a project engineer. Brenneman's responsibilities will include scheduling, submittals, logs, job meetings, correspondence, expediting materials, change orders and purchase orders.

Don Bramer was hired by Massaro Corporation as field superintendent. Don brings with him 19 years of construction experience with a variety of industry focus such as schools, healthcare, factories, office buildings, airport renovations, and university projects.

PJ Dick recently hired Tara Noland as a project engineer. Tara is an architect with five years of professional architectural design experience with a focus on construction administration.

PJ Dick recently hired Chris Thomas as a graphic designer in PJ Dick's marketing group. Chris has 12 years of experience in visual communication design, which he will apply to proposal development and corporate branding.

dck worldwide welcomed Bob Hook, CPA, JD, CGMA, to the company in the role of senior vice president of finance. Based in dck's Pittsburgh office, Mr. Hook is responsible for all accounting and finance functions throughout the company. He is an experienced financial professional whose background includes 28 years of experience, 15 of which have been with Westinghouse Electric Company in various progressive positions. Most recently he served as controller of the Westinghouse Nuclear Services Division.

Maiello Brungo & Maiello is pleased to announce that the Midwest Intermediate Unit IV has appointed the law firm as solicitor. The Midwest IU IV provides educational and administrative leadership, programs and services to 27 school districts in Butler, Lawrence and Mercer counties.

Rick Deschamps, Vice President of Engineering at Nicholson Construction, was named as the 2014 recipient of the American Society of Civil Engineering's Wallace Hayward Baker Award. The Wallace Hayward Baker Award was established in 2000 by the Geo-Institute in recognition of the creative and innovative contributions of Wallace Hayward Baker in the field of ground modification.

David Brenneman has joined A.Martini & Co. as estimator. BG

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Closing Out

Fuller, Richer, Diverse Pittsburgh

By Razi Imam

"Ethnic diversity" has developed into a rather provocative phrase in the business world. For some reason, we have begun to view it as a toleration that is forced upon us rather than an embrace of prosperity and change. It seems that our perception of the economic and cultural value brought by the minority population has reached a nadir, and in Pittsburgh, this is a legitimate shortcoming that must be immediately addressed.

Some shocking statistics will help put things in perspective: of the top 40 largest U.S. cities, Pittsburgh comes last in total minority population, minority population growth, and foreign-born residents. As much as Pittsburgh has been recently touted as an up-and-coming city or "the best place to live," it can never reach its full potential without a varied population. A strong economy comes from a diverse economy comprised of individuals equipped with different educational backgrounds, life experiences, and cultures. The fact is, it has been over a century since our city's greatest entrepreneurial efforts, such as Heinz and U.S. Steel, were established to support the local economy – and coincidentally enough, founders Henry J. Heinz and Andrew Carnegie came from immigrant families.

Firstly, and most importantly, we must recognize and appreciate the entrepreneurial strength of the minority population. Foreign immigrants are much more likely than American natives to start a business and, thus, employ more workers, so it is a wonder that we are not doing all we can to attract them here. Moreover, 28% of physicians, 31% of computer programmers, and 47% of medical scientists in America are immigrants. Unfortunately, this is not the skill set many of us would associate with the immigrant population. There are countless individuals with brilliant minds who come here to attend our great universities or to find work, but Pittsburgh is unable to retain many of them. Perhaps they feel unwelcome in a place of homogeneity or find that other cities have more to offer – not necessarily in monetary wealth, but in cultural wealth. It's an underrated but highly significant element that every budding metropolis should recognize. For America's noble claim to be a "melting pot" to withstand, cities like ours need to adopt it on an individual basis and practice it with pride. Support the underdogs and prove that their worth as workers and citizens is just as great as our own.

Razi Imam

Coupled with this potential growth in an ethnically diverse population would be an overall higher demand for living space. Minorities make up a sizeable portion of the home rental market, at about 45% in 2010, and that number is expected to increase; much of this directly reflects the influx of immigrants, as about half of all immigrants in the U.S. are renters. There will be a great need for constructing apartment complexes, city housing, places of worship such as churches and mosques, and whatever else may facilitate them to meet others and stay connected. In accommodating them, Pittsburgh will benefit economically in the housing and construction markets as well as culturally.

Additionally, there will be a call for new markets of goods that were never produced before, but will be produced now to reconcile people's needs. Personally speaking, my wife and I struggled when we moved to Pittsburgh 25 years ago because there were no Asian grocery stores or restaurants within a 30-mile radius of our home. How were we supposed to survive without our specialty chai teas and samosas? Thankfully, though extremely gradually, we have seen the emergence of more and more such shops over the years, so we don't need to drive for an hour to pick up our essential groceries any more. If this were to continue and the city further diversified, it would eventually create the cyclical adaptation that Pittsburgh needs. This cultural richness will draw in even more people, whether as residents or tourists, and make our city truly well-rounded.

As business owners, employers, and entrepreneurs, we must reach out to minorities and encourage diversity of people and diversity of minds. It is not only our patriotic duty, but to our benefit to do so. Innovation is sparked by creativity, and that creativity is fuller, richer, and more valuable when thinkers of varied cultures and experiences come together and work towards a singular goal. Whether that is ideating a new warehouse construction plan, determining a cost-efficient way to import and export building materials, or contributing to a number of other concepts, the end solution is greater because of the diverse thinking that was put into it.

Razi Imam is founder and CEO of 113 Industries, a consultancy that helps companies innovate new products using the principles of open innovation. 113 Industries also led the African American Entrepreneurship study for the Pittsburgh Regional Alliance.