Breaking Ground

THE MAGAZINE OF THE MASTER BUILDERS' ASSOCIATION OF WESTERN PENNSYLVANIA
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RENAISSANCE IN 15219

Surety market update

Why more direct flights matter

Managing sales is about process

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Image courtesy of Hill District Master Plan.

Publisher's Note

Around the time that my family moved back to Pittsburgh from Dallas in 1991, there were some interesting shows being produced by WQED about our town. This was the time that the Rick Sebak specials started. Two things stand out for me about that period of time. The first is one of regret that my television career was nipped in the bud, a casualty of what I assume was inept editing. A friend and I had taken our daughters to the Strip on the day Mr. Sebak was filming The Strip Show. Our daughters were quite photogenic and were filmed in several scenes – at least one with their fathers – but none of those scenes made it to the final cut. And I'm not bitter.

The other video production that had a more substantial impression was Wylie Avenue Days by Chris Moore. The film chronicled the heyday of the Hill District, from the 1930's until the decline in the 1960's. As someone who knew only the Hill of 1979 and later, it was fascinating to learn of the enormous influence that the people from just a few blocks made on the culture of Pittsburgh and the world. People like Billy Eckstein, George Benson, August Wilson and Josh Gibson would likely have found their way to prominence wherever they were born but the fact is their accomplishments came out of that community between Downtown and Oakland.

What Wylie Avenue Days beautifully showed was how the Hill District's economic base allowed people to make a living who would otherwise have been shut out of a lot of opportunities because of segregation and racial discrimination. Businesses owned by African Americans succeeded in part because the physical connection to the rest of the Pittsburgh's business infrastructure – in particular to Downtown – allowed them to serve customers and attract patrons.

If you are interested in Pittsburgh's history you should watch Wylie Avenue Days, but don't look for a happy ending. The story ends with glimpses of a few of the Hill District residents who were trying to get things turned around but it's not very hopeful (this was 1991 remember). A few scenes earlier, Mr. Moore chronicles the construction of the Civic Arena and the urban renewal that accompanied it. Wylie Avenue is one of the main victims of urban renewal. The connection with Downtown was severed by the Arena's location and the businesses that thrived there withered. The rest of the Hill followed suit thereafter.

I don't have the will or insight to engage in a post-mortem argument about the merits of preserving or demolishing the Civic Arena. Nor do I begin to understand the politics or motives of the different community factions in the Hill. What I can argue, however, is that a neighborhood situated between the two biggest economic zones in the region should not be among the most blighted, especially when those two zones are but 15 blocks apart.

In the short time since the CONSOL Energy Center has been open, there has been a reinvigoration of the Fifth/Forbes corridor in Uptown. If you have driven from town to the South Side lately and taken Forbes Avenue to the Birmingham Bridge, you know how the face of that street has changed and how close Oakland feels because of the private development that has closed the gap. The real estate Uptown and on the south side of the Hill should be some of the hottest in the city. Great views. Great prices. With the squeeze on real estate in Oakland and the continued growth of the hospitals and universities, that gap will close even more over the next few years.

A lot has changed on Centre Avenue over the past decade too. Over those years a handful of new buildings have been built and a lot of others taken down. A little north and east of that corridor, several former public housing projects have been replaced with market rate houses and apartments.

There is no real vibrancy there yet but that part of the Hill District is starting to look like a place waiting to happen. Patience in this case is difficult but it is worth remembering that the rejuvenation of the South Side or East Liberty started with a trickle and some pioneers willing to put businesses where they thought people would come. Conditions in the Hill won't change quickly enough to satisfy everybody but history tells us that it will change if we let those who are paid to take risks judge the highest and best use for the neighborhood. Civic leaders can make master plans but success follows the right private investment.

Re-opening Wylie Avenue to Downtown isn't going to bring back the days of Goode's Drug Store or the Crawford Grill but it will link an isolated neighborhood to the centers of commerce. The revitalization will follow.

Since moving back here in 1991, I have listened to politicians and experts say that young people couldn't find good jobs here and that no one will want to live Downtown without retail stores and that East Liberty was too dangerous for people to shop or dine after dark. Time proved all of those assertions wrong. I think those who can't see a similar opportunity for the Hill District will be just as wrong.

Jeff Burd

REGIONAL MARKET UPDATE

Construction activity in September seemed to mirror the cautious mood of consumers and businesses throughout the country, as contracting and starts in Western PA slowed noticeably after Labor Day. Instead of the usual seasonal push to get projects underway ahead of poorer weather, there was instead a slowdown.

Even residential construction was down compared to the single-family activity from September 2012. During September 2013, new multi-family construction more than made up for the slowdown in single-family homes. Through three quarters of the year the residential market has been the healthiest segment of the construction industry, showing continued strong growth in single-family and extraordinary growth in multi-family construction. There were 1,645 units of single-family detached housing started through September 30, an 18.1 percent increase over the same period in 2012. Permits for attached and multi-family units totaled 2,721, an increase of 171.3 percent. The year-over-year change in strictly multi-family apartments is extremely pronounced, with 2,160 units started in 2013 compared to 505 units started during the first nine months of 2012.

	SFD	SFA	M/F	Total
Total Pittsburgh MSA 2013:3	1,645	561	2,160	4,366
Total Pittsburgh MSA 2012:3	1,393	508	505	2,406
% Change	18.1%	10.4%	327.7%	81.5%
By County	SFD	SFA	M/F	Total
Allegheny	699	307	579	1585
Beaver	110	50	24	184
Butler	277	84	811	1172
Fayette	70	2	0	72
Washington	265	90	746	1101
Westmoreland	224	28	0	252

The latest data on Pittsburgh's housing market showed that residential real estate remained hot in September. According to West Penn Multi-List, there were 3,409 houses under agreement, compared with 2,866 in September 2012, a 22 percent increase. The average price of a home sold was \$170,704, a 2.04 percent increase from \$167,295 last year, and new listings reached 3,057, up 6.66 percent over 2,866 in September 2012.

Non-residential construction was plagued by indecision throughout the election year of 2012, even though supply and demand in Pittsburgh seemed to cry out for new construction. After absorbing the federal spending cuts in March, the U. S economy seemed to be regaining its footing through the spring and summer of 2013, with positive surprises in job creation and gross domestic product. Consumers shrugged off the increase in Social Security withholding and the housing market was resurgent again. It seems apparent, however, that the endless bickering over the federal debt ceiling, the rollout of the Affordable Care Act and the government shutdown that followed during the first two weeks in October sapped the confidence in the market.

Two bits of evidence on October 25 reinforced this theory. The Thomson Reuters/University of Michigan Consumer Sentiment Index fell to 73.2, the lowest reading in ten months. And durable goods orders fell unexpectedly in September for the third consecutive month. With military and aircraft orders excluded, orders from businesses to manufacturers declined 1.1 percent.

While these are national economic indicators, it is likely that the steadily declining level of activity in metropolitan Pittsburgh as the third quarter progressed was the result of a similar lack of certainty in the economy's direction. There is no data that can prove that slipping confidence has caused indecision but the data on supply and demand clearly indicates a market that should be booming with new construction. Yet only the office market is seeing any appreciable new construction.

Pittsburgh's office vacancy rate decreased slightly during the third quarter of 2013 to 10.1 percent, down from the 10.3 percent in the second quarter, according to the Pittsburgh Office MarketView report from Jones Lang LaSalle. Class A space Downtown continued to tighten at 5.9 percent, one percentage point lower than the 6.9 percent at the end of the second quarter. Overall, Class A vacancies declined to 5.0 percent. The addition of new construction caused a slight increase in Class A vacancy in Oakland to 3.8 percent and at Southpointe, to 5.2 percent; however, availability in both of those submarkets remains limited.

CBRE showed the Class A vacancy rate to be 5.0 percent in metropolitan Pittsburgh (5.9 percent in the Central Business District) and Class B vacancy rate to be 13 percent overall. The average rent was \$26.24 per square foot, an increase of \$1.74 over the same period last year. CBRE's data show nearly 1.2 million square feet of net absorption for the year-to-date.

Spec office construction has been undertaken in response to the tight market conditions. In Southpointe, where the

Construction is proceeding on the Highmark Medical Mall in Wexford.

The construction of the Highmark Wexford Medical Mall is spurring significant new office activity in that area, according to Pine Township planning director Larry Kurpakis. With the 36,000 square foot Stonewood Commons IV under construction, developer Allegheny County Real Estate Services is planning a 39,500 square foot spec office just down the road from Medical Mall. Adjacent to the ACRES project – which is called Highlands Office Building – Connected Healthcare has proposed a 40,000 square foot medical office building.

Three of the region's biggest commercial projects have stalled for various reasons. The owner-occupied offices for Industrial Scientific and Chevron, and the Gardens at Market Square being developed by Millcraft Investments were all slated to start by September but it's likely that vertical construction on all will be delayed until 2014, although Mascaro has begun the site work on Industrial Scientific's headquarters.

The construction of the Highmark Wexford Medical Mall is spurring significant new office activity in that area, according to Pine Township planning director Larry Kurpakis.

J. Barry Center is wrapping up, Quattro Partners is well along with the new Ansys headquarters and a 150,000 multi-tenant spec building branded as Zenith Ridge. Another 55,000 square foot spec flex office is underway in the Pittsburgh International Business Park. Burns & Scalo Real Estate Services has indicated that it will start work on the 60,000 square foot Conchord office in Findlay Township. The two North Shore Place office buildings add 80,000 square feet of spec office to the North Shore. And in the tight Oakland market, Elmhurst Group is moving ahead with the 110,000 square foot Schenley Place.

Contractors have experienced the uncertain business conditions through lower bidding activity and increased competition, according to the Master Builders' Association's Commercial Contractors Condition Index (C3). Contractors reported a cooling off of the business climate and lower prospects for the fourth quarter and a leveling off of the bidding market. The more hopeful indicator for 2014 was a slight increase in backlog, although the lighter bidding may erode backlog levels by year's end.

C3 Index results for the business quarter that closed September 30, 2013, indicate that the grade point average for the commercial construction industry is 2.09 on a 4.0 scale, a low C. The common sentiment amongst commercial builders is that things are "slowly getting better" and this is echoed by the architectural community, where the Architecture Billings Index (ABI) has remained positive the past few months.

In the midst of a slumbering fall market there are several indicators of improved conditions in early 2014.

PNC Financial Group's 3rd Quarter 2013 Market Outlook reported solid results in key economic indicators of health and forecasts continued improvement in 2014. The prevailing theme of the PNC narrative was that growth in most categories had slowed in Pittsburgh because the region recovered quicker and experienced higher growth rates in previous years. In the area of job creation, for example, PNC sees roughly one percent growth in employment but notes that the growth is on top of the highest employment level ever in the region. It expects unemployment to fall below 6.5 percent next year. The

Market Outlook predicts population and household formation growth of between one-half and one percent and an average increase in home values of roughly 2.5 percent. As with employment, PNC is forecasting that growth in these metrics will climb higher in 2014.

For the beleaguered heavy and highway market, there is a glimmer of hope that a significant increase in spending may yet be passed by the PA House of Representatives. After the Senate passed a $2.5 billion annual increase to the highway and transit funding by a 45-5 vote in June, the House has failed to take action to endorse or modify that plan. Gov. Corbett has voiced strong support for highway funding legislation but the Republican leaders of the House had not found a compromise they could support by the end of October.

House majority leader Mike Turzai indicated that he would put a funding bill to a vote – even though he has not supported it – on two occasions in October. The delays indicate both that Rep. Turzai is uncertain about how fellow Republicans may vote and that those working to find an acceptable compromise are making progress. Supporters of a funding measure – be it Senate Bill One or a compromise – feel an urgency in this legislative session, as election pressures would likely keep another highway bill off the floor until 2017.

A final indicator that 2014 may be a positive surprise is the performance of the stock markets. Wall Street's response to the government shutdown was rapid but not extreme and the return to new records after the continuing resolution deal was made shows that investors believe the economy is improving, so long as the government doesn't act to slow it down. Early forecasts of the markets of 2014 point to more robust growth for U. S. companies because of the improving European economy. Growth in Euro zone GDP would be good news for Russia, China, India and emerging economies as well.

Of course, the booster rocket for the regional economy in 2014 would be a thumbs up for the Shell cracker plant and progress on the design and preparation of the Monaca site. An October 21 article in the Wall Street Journal and a similar one in the Pittsburgh Business Times four days later expressed doubts about the need for the $2 billion petrochemical complex. No sources involved with the project were quoted, only industry observers who based their concerns upon the rapid expansion of the pipeline infrastructure that could feed the natural gas supply from the Marcellus and Utica Shale to the Gulf Coast.

If 2013 is an indicator, business confidence is still fragile, even in Pittsburgh. Further delays in the decision to locate the cracker in Monaca will not improve confidence, especially since there is every chance that a replay of the October standoff over the federal budget will occur in January and February.

The Pittsburgh construction market is poised to break out in 2014. Like in 2012 and 2013, the secret sauce will be the level of certainty about the economy. BG

Oil & Gas

Industrial / Power

Heavy / Highway

Buildings

NATIONAL MARKET UPDATE

One byproduct of the federal government shutdown was that the avalanche of economic data that is released weekly was also shut down. Even without weekly jobs claims, unemployment estimates, labor and manufacturing numbers, businesses can be fairly certain that the state of the U. S. economy hasn't changed much. In fact, what little data was unearthed only confirmed the continuation of the long slow recovery. Five years removed from the panic of the financial crisis, it is no longer accurate to talk about recovery as much as a protracted period of negligible growth.

As has been the case since the recession ended, economic growth prospects depend on an accelerating pace of hiring. People with jobs shop at stores and buy houses. Job creation has been averaging a healthy number throughout 2013, nearly 200,000 jobs monthly. While that rate outpaces the labor supply growth, unemployment will decline slowly until hiring picks up further. Most economists see the current growth rate resulting in another 12 to 18 months before unemployment dips below the desired 6.5 percent.

The most recent employment numbers from the Department of Labor give reason for concern, especially since the hiring trend continues to slow. While no single culprit seems to emerge, the combined impact of the social security tax increase, sequestration cuts and the government's budget battle appear to be taking a toll on employers.

The job data released on October 22 showed 148,000 new jobs created in September, causing a drop in unemployment to 7.2 percent, the lowest level since December 2008. Unemployment at the same point in 2012 was 8.1 percent. The labor force participation rate remained low however, at 63.2 percent, a 35-year low. Average hourly earnings for private sector employees rose by 0.1 percent while average weekly hours also rose last month by 0.1 percent.

For business owners, there are several flies in the ointment at the moment. The compromise that ended the federal shutdown did nothing to resolve the main issues and the possibility still exists that a future solution will lead to additional federal government layoffs or a tighter government budget. Neither bode well for businesses that rely on the federal government for sales. In 2013, procurement by the government and its contractors makes up a significant portion of GDP. A protracted shutdown, while unlikely, will also result in greater problems for the economy.

The more troubling piece in the chess match between Democrats and Republicans is the Patient Protection and Affordable Care Act (ACA), more commonly known as Obamacare. Regardless of what may come of Republican efforts to defund the legislation or repeal it altogether, the impact of the ACA moved from the political to reality on October 1. Even those businesses that were preparing for the initiation of ACA have discovered that implementing the legislation is inordinately complicated. Moreover, technical problems with registration and documentation have shown that the government's systems for ACA are unprepared for the influx of patients and doctors. The net effect on business is more uncertainty. Perhaps the most damaging side effect of the implementation of Obamacare – aside from the increased costs – is the dramatic increase in administrative activity associated with it. Businesses that may have hired to achieve growth are finding that additional staff is needed to comply

Percentage change	From 30 days	From 90 days	From 1 year	From trough
Value-Weighted U.S. Composite Index	0.1%	3.1%	9.0%	45.2%
Equal-Weighted U.S. Composite Index	2.1%	8.2%	13.6%	17.6%
U.S. Investment Grade Index	1.4%	6.0%	17.6%	30.4%
U.S. General Commercial Index	2.3%	8.5%	12.7%	16.0%
Monthly Liquidity Indicators	30 days earlier	90 days earlier	1 year earlier	4 years earlier
Days on Market	418	420	424	443
Sale Price-to-Asking Price Ratio	88.0%	87.7%	87.3%	85.5%
Withdrawal Rate	40.8%	42.3%	42.1%	45.1%

Commercial property values and liquidity has steadily improved over the past four years. Source: CoStar.

with the ACA regulations. And the jury is still out as to how much the additional health care costs will trim bottom lines.

From a macroeconomic vantage point, the government's mishandling of the budget and debt creates more pressure on the global economy. The protracted recession in Europe has been a splash of cold water for the emerging economies, most of which have seen growth slow by half of the pace of the mid-2000's. An increase in the uncertainty about the American economy will add to the headwinds facing global markets.

Still, with a number of potential problems looming, the outlook for the national construction environment is improving. Construction starts and put-in-place in 2013 is on pace to be six to eight percent higher than the volume in 2012. Housing starts through the first three-quarters of the year remain on pace to top 900,000 units, even though single-family volume will likely be no higher than that of 2008, which was the first year of the housing crisis. Total housing units started in 2013 will be up roughly 14 percent. A similar rate of growth should occur in 2014 if the conditions in single-family housing continue to improve.

One of the construction industry's more respected consultants, FMI, predicted that construction put-in-place will grow by seven percent to $977 billion in 2014 in its Q3-2013 Construction Outlook. FMI reduced its 2013 forecast slightly to $909.6 billion, down four billion from the second quarter Outlook. FMI offers preliminary forecasts for half-dozen market segments:

Residential Construction — The growth is expected to taper off to 12 percent in 2014. Total predicted residential spending is $379.6 billion, compared with the $338.2 billion for 2013.
Commercial Construction — The forecast calls for a five percent increase in 2014. Although retail sales as of June 2013 were up 5.7 percent over the previous year, new bricks and mortar retail space along with commercial other construction growth will remain slow to recover.
Healthcare — Affordable Care Act implementation is creating instability for healthcare providers. Although the healthcare construction forecast slipped since last year, construction is still expected to grow six percent in 2014 to $44 billion.
Educational — Gradual increases in residential construction and tax revenues will help bring this market back in many areas of the country; however, reduced government spending at all levels will limit growth in 2014 to four percent.
Manufacturing — The resurgence of the automotive industry is a big boost to manufacturing as is the exploration for shale oil and gas. However, manufacturing construction is expected to drop two percent by year-end 2013 before returning to 4 percent growth in 2014.
Highway and Street — Passage of MAP-21 calls for nearly $38 billion for the fiscal year 2014 for the Federal-Aid Highway Program. This is a major contributor to the forecast of nearly $80 billion for 2014.

What has created a strong growth environment for construction against the backdrop of a slow growth economy? While there is stronger demand for space in most market segments and regional markets, the lack of new construction in response to the recession left supply short in most categories. As unemployment climbed throughout 2009, the fundamentals for real estate deteriorated. Owner-occupied office and industrial construction suffered as layoffs occurred; vacancy rates for commercial properties climbed and values plunged. The trough for real estate was reached throughout 2010 for the various types of properties and additions to inventory were unnecessary. Between the oversupply and the limited availability of credit, new construction for non-residential projects remained well below normal levels well into 2011. Now, new construction is desperately needed for even modest improvements in the economy.

Through the third quarter of 2013, vacancy rates for most U. S. markets have steadily – albeit slowly – fallen. According to Newmark Grubb Knight Frank, the overall office vacancy rate dipped to 15 percent; retail vacancies fell to 6.8 percent and the industrial vacancy rate dropped to 7.8 percent. Apartment occupancy climbed slightly to 95.8 percent. As would be expected, rents for all property types increased slightly between the second and third quarters and more robustly compared to third quarter 2012. The improved fundamentals also led to brisker sales. According to Avison Young's Fall 2013 Commercial Real Estate Investment Review, sales of commercial properties were up 28 percent.

As the data above from CoStar shows, higher rents and improved investment interest have had a beneficial impact on property values. CoStar's Value-Weighted Composite Index of commercial properties is up over 45 percent from the trough in late 2010. The liquidity indicators CoStar tracks have also steadily improved this year. The average time on the market has improved by 28 days and the sales-to-asking price has gone from 85 to 88 percent.

Construction activity for the first nine months of 2013 suggests that the positive absorption of space across most categories is pushing starts higher.

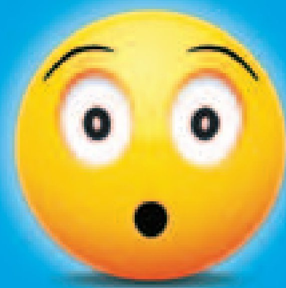
The shutdown of the Commerce Department delayed the release of final third quarter data but estimates are that construction starts overall topped $900 billion, a level that is roughly five percent higher than in the same period of 2012. McGraw-Hill Construction released its data for the first three-fourths of 2013 on October 16. Although the reporting service seems to track less than half the volume reported by the government, McGraw-Hill showed $379.3 billion in total construction. That represented a two percent increase over 2012, but the company noted that the total of all activity excluding electric utilities was up 11 percent.

Robert A. Murray, vice president of economic affairs for McGraw-Hill Construction observed, "…The September gain for nonresidential building reflected the manufacturing plant category posting a strong increase, commercial building staying close to its recently improved pace, and several institutional structure types rising from previously weak levels. After the downward trend that's been underway from 2009 through the first half of 2013, the institutional building sector may now be starting to stabilize, which is necessary for total nonresidential building to register growth. At the same time, the recent Congressional impasse over federal appropriations for fiscal 2014 and raising the debt ceiling only adds to the sense of uncertainty, which hampers renewed expansion for nonresidential building going forward."

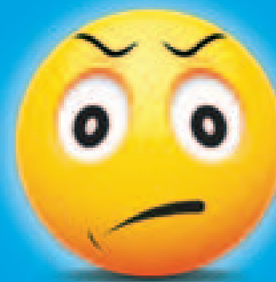
Higher non-residential construction in 2013 and 2014 will rebalance the supply and demand that was skewed by the under-building of 2009-2011. The outcome of the current battle over debt limits, budget priorities and healthcare reform will have an influence on how robust the U. S. economy looks to the rest of the world in 2015. Assuming that Washington's deadlock doesn't create an economic 'black swan' event, the business climate will have to support more construction because of renewed growth in 2015. Between now and then are 15 months and mid-term elections. Those elections may hold the key to how well the economy will be humming. BG

THE 10 STAGES OF HEALTH CARE REFORM:

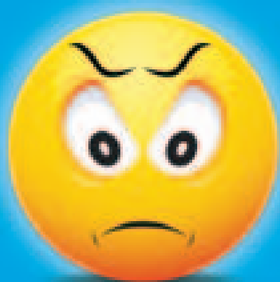
1. DENIAL



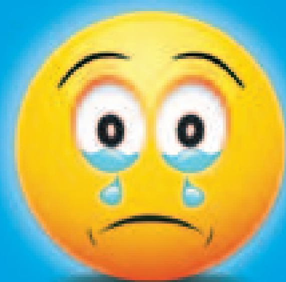
2. CONFUSION



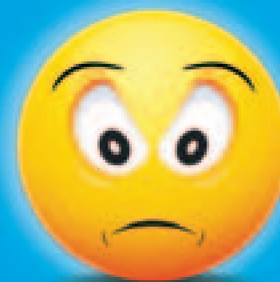
3. FEAR



4. ANGER

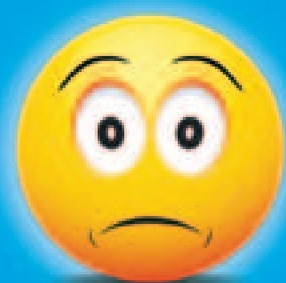


5. SORROW

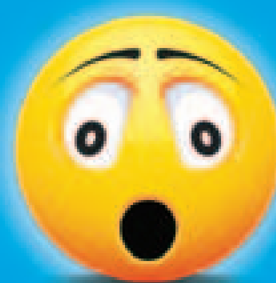


6. MORE CONFUSION

7. PROCRASTINATION



8. DESPERATION



9. PANIC

10. PREPARATION

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WHAT'S IT COST?

Prices for a mixed bag of products and materials that are used by the construction industry saw reverses in medium-term trends in September and October but overall the cost of construction maintained the same relationship to consumer prices as has held for the past couple of years. With few exceptions, any significant movement in prices has been for materials that are heavily used in residential construction, which continues to surge.

Among the items changing direction were lumber, which showed another one percent increase following a decline of 2.8 percent during the summer months. For the 12 month period, lumber prices are up roughly six percent, with softwood framing lumber rising 10.8 percent from September 2012 to September 2013. Asphalt paving prices fell 0.6 percent, reversing six months of increases. Paving costs are forecast to continue to soften throughout the balance of 2013, ending the year less than 0.5 percent above 2012. According to a forecast by IHS Global Insight, asphalt prices will remain flat through 2014.

20-CITY: 1913 = 100	Oct-13 Index Value	% change Month	% change Year
Construction Cost	9688.86	1.4	3.3
Common Labor	20622.34	1.8	3.5
Wages/Hr.	$ 39.22	1.8	3.5
20-CITY: 1913 = 100	**Oct-13 Index Value**	**% change Month**	**% change Year**
Building Cost	5308.38	0.4	2.0
Skilled Labor	9128.56	0.7	1.7
Wages/Hr.	$ 50.66	0.7	1.7
20-CITY: 1913 = 100	**Oct-13 Index Value**	**% change Month**	**% change Year**
Materials	2974.21	0.1	2.5
Cement /Ton	$ 110.88	0.2	2.0
Steel /Ton	$ 1,000.60	0.4	1.4
Lumber /MM Board Ft.	$ 430.32	0.6	5.7

By October, manufacturers had begun indicating pricing changes that are anticipated for the beginning of 2014. Thus far there have been few significant changes. Cement manufacturers have indicated an increase of more than five percent, which should impact the price of concrete and concrete masonry products. Drywall makers have again announced an aggressive increase of 20 percent, effective January 2014.

Bernard Markstein, economist for Reed Construction Data offered some guidance for those interested in the drywall price. "Increases for drywall were announced three months in advance and put in place in January," he relates. "For the past two years the producers announced a 20 percent increase but only got about 15 percent to stick. I expect that will be the case again in 2014."

One potential factor that should be watched is the recovery of the European economy, which is becoming more prevalent in forecasts about the global economy for 2014. A more robust European market would be good news for the Chinese and Indian economies and would trigger higher-than-expected growth across the globe. If such a forecast were to come to fruition, demand for materials like cement, diesel and steel – which have global marketplaces – would increase at a faster pace than any time since the financial crisis. It was demand from the emerging BRIC economies that helped drive the price spikes for these basic materials in the middle of the last decade, so it will be worth keeping an eye on any unusual growth in construction overseas. BG

PERCENTAGE CHANGES IN COSTS	Sept. 2013 compared to		
	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	0.1	0.3	1.2
Producer price index (PPI) for finished goods	-0.4	0.2	0.3
PPI for construction	0.1	0.4	0.6
Costs by Construction Types/Subcontractors			
Residential buildings	0.2	0.4	1.2
New industrial building construction	0.2	0.8	2.6
New warehouse construction	-5.7	-5.2	-3.0
New school construction	0.2	0.9	1.5
New office construction	0.0	0.4	1.4
Concrete contractors, nonresidential	1.2	0.5	1.8
Roofing contractors, nonresidential	0.3	-0.2	1.4
Electrical contractors, nonresidential	0.0	1.5	1.7
Plumbing contractors, nonresidential	0.2	0.4	2.1
Costs for Specific Construction Inputs			
#2 diesel fuel	2.4	6.7	-4.7
Asphalt paving mixtures and blocks	0.2	1.7	1.5
Concrete products	0.0	0.5	3.1
Brick and structural clay tile	0.3	0.9	0.6
Plastic construction products	0.2	-0.9	-0.1
Gypsum products	0.2	-1.6	15.8
Lumber and plywood	1.0	0.8	9.7
Architectural coatings	-0.2	-0.2	-0.9
Steel mill products	0.3	0.7	-4.4
Copper and brass mill shapes	-0.1	1.9	-4.8
Aluminum mill shapes	0.5	-0.9	-3.0
Fabricated structural metal	0.1	1.3	2.4
Prefabricated metal buildings	1.3	1.4	1.5
Crude petroleum (domestic production)	-1.6	9.9	7.9
Asphalt (at refinery)	0.2	3.1	-3.1
Cement	0.5	-0.2	4.5
Iron and steel scrap	-1.9	3.7	-3.4
Copper base scrap	-0.2	-0.3	-3.2

Source Bureau of Labor Statistics, Updated October 31, 2013
Compiled by Ken Simonson, AGC Chief Economist

THE REVITALIZATION OF PITTSBURGH HAS BEEN AN OVERNIGHT SUCCESS THAT WAS 30 YEARS IN THE MAKING. ONE OF PITTSBURGH'S LARGEST NEIGHBORHOODS – THE GREATER HILL DISTRICT – IS ALSO UNDERGOING A TRANSFORMATION, ALTHOUGH THE PROCESS HAS TAKEN LONGER THAN 30 YEARS AND THE OUTCOME IS BY NO MEANS ASSURED.

There is an interesting symmetry to the forces that have influenced the Hill's decline and redevelopment since World War II. The disinvestment and isolation began with lending discrimination and was accelerated with the urban redevelopment that accompanied the construction of the Civic Arena. More than 50 years later, the construction of the Arena's replacement has been a catalyst for renewal in part of the Hill and there are incentives to finance projects in areas that have the same racial and economic demographics that inspired discrimination.

Racial equality, social justice and the irresistible forces of expansion from the neighboring business communities will all be central themes to whatever form the story of the Hill's renaissance ultimately takes. Unlike the turnaround of South Side or even East Liberty, the rebound of the Hill District will be as much about health and welfare as bricks and mortar.

THE SOCIAL HISTORY (VERY ABRIDGED)

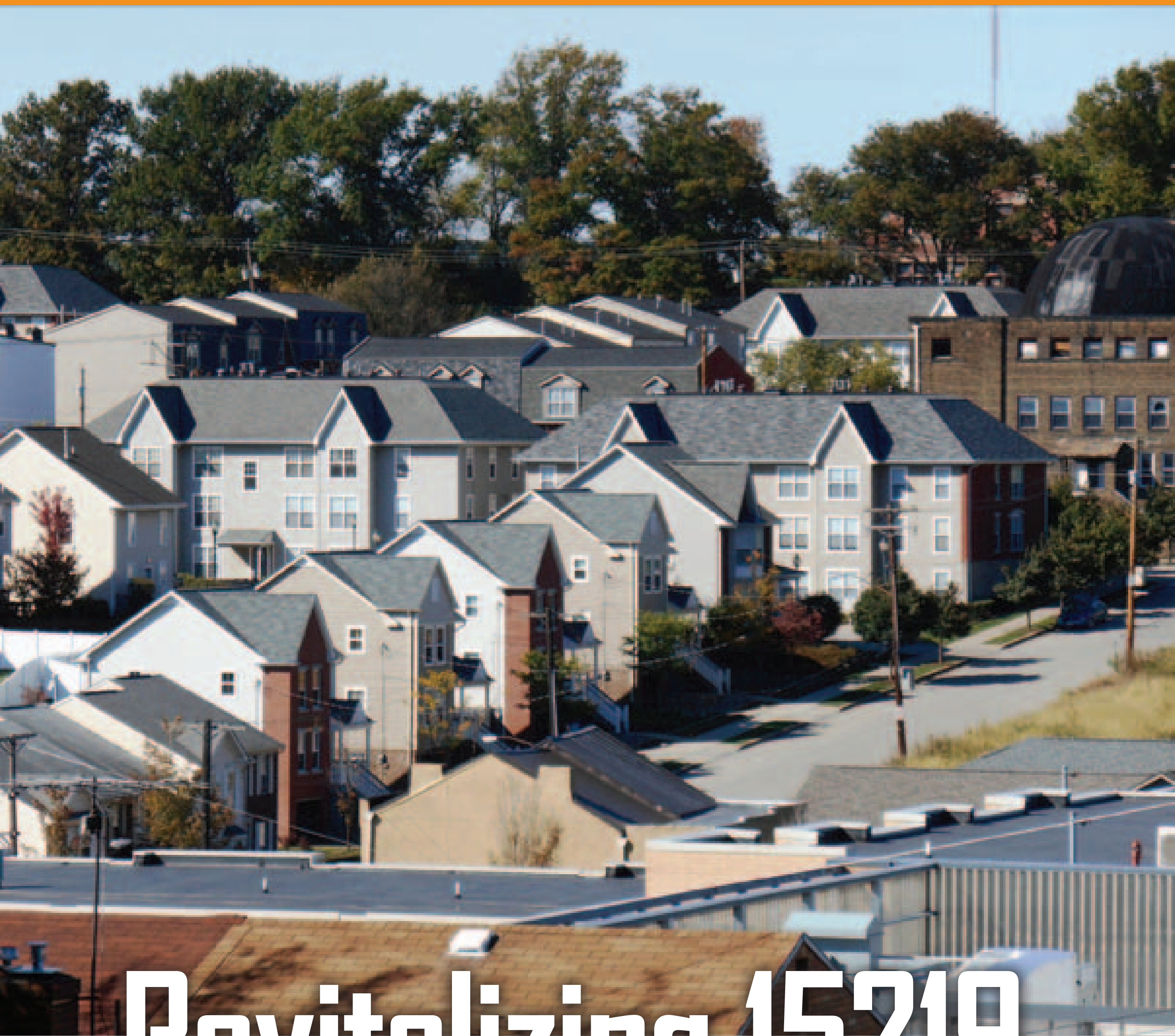
Proximity to economic opportunity is one of the main factors driving development opportunity in Uptown and the Hill. That proximity was also the driving force in the Hill's history. During the industrial expansion of the late 19th and early 20th centuries, steel mills were located on three of the four sides of Heron Hill and the Bluff. Like in other parts of Western PA, the proximity to the mills made the Hill ideal for housing for the working class. It also made the neighborhood a magnet for immigrants. Throughout the first half of the 20th Century, the Hill District was home to Jewish, Middle Eastern and European immigrants who arrived in later waves. It also was one of the areas that became home to African Americans leaving the agricultural South in search of jobs in the mills and less oppressive living conditions.

That period in American history was marked by racial and religious discrimination but the conditions were such that within the Hill community, the amenities of the middle class could develop and flourish, even if they were segregated.

During this period and through the post-World War II era, the Hill had a vibrant business district on Wylie Avenue and Logan Street. The nightclubs attracted jazz performers like Miles Davis and Charles Mingus. Musicians like Duke Ellington, Lena Horne and Billy Eckstein were known to hang out in Hill District clubs after performing Downtown. The Pittsburgh Crawfords were one of the best franchises in the Negro Baseball League and Hill residents could see all-time greats like Josh Gibson and Satchel Paige play in their neighborhood.

The cultural high point didn't last long, however. As the country experienced an economic boom after the war, a discriminatory practice called "redlining" began to negatively affect the Hill District. Bankers figuratively drew a red line around certain areas and wouldn't lend to residents within the area or to borrowers wanting to move to that area. The areas redlined were those that were predominantly African American. As working class white residents of the Hill were able to get loans to move to the new suburbs outside the urban core, the Hill/Uptown neighborhood became more segregated. Investment dried up. Neighborhood businesses declined. Poverty increased markedly and housing in the Hill began to deteriorate.

New residential projects like these homes on Erin and Shipton Streets have filled in some of the Hill's 1,100 vacant lots.



Revitalizing 15219

Centre Avenue's commercial district is attracting shoppers again.

damaging. Wylie Avenue was stopped above Crawford and the Hill businesses were cut off from Downtown, which was the heart of shopping and working in the region. The massive parking lots and the Crosstown Expressway served to further isolate the Lower Hill – as well as the Civic Arena – from Downtown. Instead of spurring development as hoped, the Arena effectively isolated the Hill District.

For the better part of 40 years, poverty and crime flourished in the Hill District while real property declined.

REVERSING RENEWAL

The problems that plagued the Hill District were addressed by virtually every public administration during the decades that followed without a solution. Countless civic and community leaders and an enormous amount of money took aim at reversing the decline. While there were isolated victories throughout the years, there was also fragmentation of leadership and dissipation of resources that were meant to bring progress. The point at which things seemed to turn was, ironically, during the planning of a new arena.

Planning for the failed bid to locate the casino in the Hill District and the proposed new home for the Penguins yielded an agreement to ensure that the Hill community surrounding the CONSOL Energy Center would benefit from the public investment in the project. Throughout 2007 and into the spring of 2008, a group consisting of a number of Hill District factions negotiated an agreement that could shape the future of the community. While the leaders of the groups within the One Hill Coalition often disagreed – even feuded – they came together in April of 2008 on a framework that guided how the community would be involved in the CONSOL project and the redevelopment of the 28-acre site of the Mellon Arena. The resulting Community Benefits Agreement (CBA) was consummated on August 19, 2008 between the One Hill Coalition, the URA, Sports and Exhibition Authority, the City and the Penguins.

The CBA was important because it provided funding for a number of projects that would help revitalize the neighborhood. Just as important was the inclusion of provisions for an employment resource center and a master plan for redevel-

The massive parking lots and the Crosstown Expressway served to further isolate the Lower Hill – as well as the Civic Arena – from Downtown.

Between 1940 and 1955, more than 3,600 units of public housing were built in the Hill District. By the late 1950's the City began to move forward with a massive urban renewal plan that included the construction of the Civic Arena and the demolition of thousands of homes in the Lower Hill. When the Civic Auditorium – as it was known when it opened in 1961 – was completed, demolition had displaced some 8,000 Hill District residents.

As jarring as the displacement of residents was, the physical disconnection that resulted from the Arena project was even more opment. The main points of the agreement were:

- Hill District community master plan
- First source employment center
- Grocery store
- Neighborhood partnership program
- Community multi-purpose center

As construction of the new Penguins arena proceeded, nationally-known architects Sasaki and Stull & Lee worked on a master plan funded by the URA. Completed in June 2011, the master plan called for building on the progress that had been made previously with the residential developments at Crawford Square and Oak Hill and emphasized commercial development that would tie into the existing neighborhoods and commercial properties. Partner David Lee of Stull & Lee speaks first about the value of the master plan to the process of redevelopment.

"What worked well was being able to get people who were at odds with each other to at least come together and agree on some basic issues to guide development," he says.

Lee says that the master plan also looked at strategies for attracting development that would not displace current residents or encourage gentrification. Acknowledging that privately-owned land needed to go to the highest bidder and the best and highest use, Lee says that the predominance of publicly-owned land in the Hill and Uptown presented opportunities to set standards for affordability.

"It's a two-pronged process. You can make land available cheaper or make the development process as smooth as possible for a more affordable mix of housing," he explains. Making land available at lower costs allows residential developers to profitably build affordable housing. "In places where the developer is inclined to do something that is economically mixed, the city can expedite the approval process or prioritize its improvements to the infrastructure in the area where new development is occurring."

New housing on Dinwiddie Street absorbed vacant lots and added new architecture to the street.

The master plan also focused locating commercial and recreational development on a few of the major existing corridors, like Centre Avenue and the Fifth/Forbes corridor. Stull & Lee calls these the 'living room' streets and views development on these streets as a barometer to conditions in the remainder of the Hill.

"By living room we mean that if you go to someone's house and the living room is in tatters you don't have to go to the bedrooms to tell how they take care of the place," he jokes. In the case of the Hill, the living room is Centre Avenue. Prospective residents or businesses that see the life bubbling up between Heldman and Kirkpatrick won't be dissuaded from looking beyond that area for additional development. That would not have been the case ten years ago.

Two years earlier, the URA, Pittsburgh Partnership for Neighborhood Development and Sal Williams Real Estate had commissioned a similar plan for the Uptown portion of the Hill. Ken Doyno is a partner in the architectural firm Rothschild Doyno Collaborative, which worked on the 2009 Uptown Vision. Although the street names were different, the problems and solutions recommended in that master plan were very similar to those in the Hill District's.

"When urban renewal built a highway between [the community] and opportunity it totally disconnected the Hill from the rest of the city," Doyno says. "If we don't connect the full breadth of the community to opportunity – connect those that are economically disadvantaged to economic opportunity – the rest of the city suffers as well."

The 2009 Uptown Vision anticipated that the CONSOL Center would stimulate commercial development in its 'A' zone, the portion of Fifth and Forbes that is west of Dinwiddie Street. Since then, Duquesne has acquired and renovated several buildings in the corridor and a number of small restaurants and offices have been redeveloped. The more active part of the market Uptown

The site for the new homes replacing Addison Terrace have unobstructed views of Downtown's skyline.

has been residential however, with projects like the Fifth Avenue Lofts and Action Housing's adaptive re-use of the Shanahan Building spanning the spectrum of affordability. Action Housing has several other projects, including several dozen units of new construction, which will keep affordable housing in the mix, addressing a concern that planners have about gentrification.

Ken Doyno sees a solution to gentrification in taking full advantage of all the property that is available throughout the Hill, rather than shunning one type of development for another.

"You have to measure the market as proudly broad," he says. "There's so much vacancy there that there's no need for displacement. It's a matter of weaving in the new with the old in contrast to demolishing the old and replacing it with new."

It's a matter of weaving in the new with the old in contrast to demolishing the old and replacing it with new."

The new housing that has been developed by Trek Development over the past couple years – which was designed by Rothschild Doyno – is an example of that kind of infill residential development. While the architecture of the new units is clearly a departure from the existing homes in the three or four blocks between Centre and Fifth, the new buildings relate to the street and mass in a way that blends in. The mix of for-sale and rental units also matches the rest of the neighborhood; moreover, the development largely filled in vacant lots and it integrates seamlessly with the rest of the neighborhood.

Integrating with the community is a bigger problem for the public housing replacement projects that have been the largest pieces of the revitalization in the Hill District. Beginning with the Oak Hill community that replaced Allequippa Terrace in the mid-1990's, the Housing Authority of City of Pittsburgh used HUD's Hope VI program to work with private developers to replace the three large public housing projects that were built as isolated neighborhoods decades earlier.

"Our concern when rebuilding public housing sites is that we want to integrate the new construction into the community rather than isolate them," explains Robert Rubinstein, the URA's director.

The Urban Redevelopment Authority has invested roughly $300 million into housing in the Hill since 1990, resulting in roughly 2,000 new homes, both for sale and for rent. The URA provides gap financing, funding for infrastructure and New Market Tax Credits to facilitate the projects for the private developers. The projects have run the gamut of size and have consisted of subsidized units blending with market-rate. Currently, 140 units are being developed by KBK Enterprises to replace the Addison Terrace at the highest spot of the Upper Hill along Rose Street. The URA has also been focused and invested for years on Centre Avenue and will be very involved in the preparation stages of the former Mellon Arena site.

Both master plans account for commercial redevelopment as fundamental to the Hill District becoming economically viable again and re-weaving itself into the fabric of the rest of the city. Virtually all of the community leaders and professional consultants see opportunities for residential development anywhere in the Greater Hill, but there seems to be more of a focusing approach to commercial development. This is one area where the sentiment seems to veer away from reclaiming the past.

"The old Hill was commercially viable. There were businesses on all the commercial corridors – Centre, Wylie, Forbes, Fifth and others. Is that the right model?" asks Cheryl Hall-Russell, president and CEO of Hill House Association. "We need to take advantage of the consultants we've hired to plan how to maximize the potential of the community."

Entrepreneur Dale McNutt, who has created a co-working space at Fifth and Jumonville called StartUptown, agrees with Hall-Russell. "We're at that critical phase where if there isn't some kind of master plan the neighborhood will develop in a haphazard way and the community won't reach its full potential."

THE COMMERCIAL SQUEEZE

There is little vacant space in Oakland or Downtown and it is very expensive to build new. That reality is creating a great sense of urgency about how commercial real estate is developed. Those economics also offer the best opportunity in generations for an organic stimulus for revitalization in the Hill/Uptown community.

One of the perverse ironies of the economic blight of the past 40 years in the Hill is that the neighborhood is located in between two of the three largest centers of economic activity in the state of Pennsylvania. While the conditions of the community may have created a disincentive for bridging Downtown and Oakland heretofore, the supply and demand dynamics have real estate developers looking for opportunities rather than a way to work around the Hill.

Depending on the source of the information, real estate research shows Oakland with a vacancy rate for Class A office space at three percent or less and vacancy Downtown at less than ten percent. The availability of retail space in either market is equally tight. Of more relevance to development in the Hill is the fact that the drivers of the absorption of space in these markets are also the drivers of the overall economy and the largest of them – UPMC – has been steadily relocating administrative staff from Oakland to 600 Grant Street. The physical relationship between Oakland and Downtown continues to grow, meaning lots of meetings each day for professionals in both parts of town. This should be a good thing for the neighborhood in between.

What isn't captured in the vacancy numbers is the pent up demand for space from rapidly-growing users in Oakland, some of which are known for their unwillingness to commit to space in advance to support speculative development. The migration of hundreds of thousands of square feet of users from Oakland to Bakery Square suggests that still more demand exists than Oakland can contain, even with Schenley Place and the Oakland Portal projects in the offing.

Commercial redevelopment of Uptown has stretched nearly to the Fifth Avenue Lofts at 1800 Fifth Avenue and the Portal project is located roughly ten blocks east, with the Birmingham Bridge to South Side located in between. What lies in the middle is appealing for its location but also because the available property there is much less expensive. Whether or not a master plan is followed, development of the corridor between Downtown and Oakland is an inevitability that is approaching rapidly.

One byproduct of this encroachment from the east and west is that there is also a squeeze on parking in the neighborhood. Although there are quite a number of surface lots available, the CONSOL project absorbed others and some are being considered for development of a higher use than surface parking. A proposed 1,200-car parking garage that was part of Mercy Hospital's $70 million Energy Center was to be relief for the problem but that project has gone on hold. Street parking along Fifth and Forbes Avenues has become more precious as the additional commuters from the east have adapted by parking there and taking buses the remainder of the way to Downtown to reduce the parking costs. It's a problem that must be solved sooner rather than later.

"As the Hill District has developed we have talked about the need for structured parking but we're not there yet," says Rubinstein. "In the Uptown neighborhood along Fifth/Forbes there has been more discussion with the Penguins and UPMC about the Mercy garage." The Bus Rapid Transit (BRT) system that is being proposed – and that Uptown neighbors understandably oppose – will also be a factor in the parking solution. "The BRT may eliminate the need for structured parking," Rubinstein says.

For the time being, Uptown's economics is attracting an increasing number of pioneering businesses. Dale McNutt's business model was something of an accident – "I didn't even know what co-working was when I bought the building," he says – but it's a concept that is appealing to technology startups and artists. McNutt has dozens of companies sharing his 10,000 square foot space with rents that vary. With photographer Alexander Denmarsh, he is now renovating the former Paramount Film Exchange into co-working space that he hopes will attract as many as 300 people.

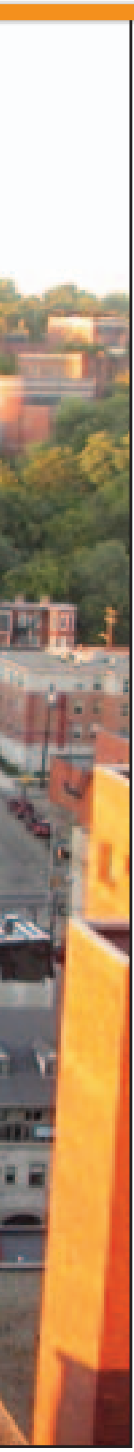
"The move to Uptown had several motivating factors," explains Denmarsh. "First was the alignment of my professional goals and personal values. I absolutely love Pittsburgh and want to see it prosper and be part of that. The project gave me a chance to put my money where my mouth is, to invest in the revitalization."

The kinds of businesses that McNutt and Denmarsh expect to attract to the Paramount building are the kinds that were drawn to South Side as it began to revitalize in the 1980's. Artists, technology companies, architects and others attracted by the lower rents and exceptional access helped build the economic base

Street parking along Fifth and Forbes Avenues has become more precious as the additional commuters from the east have adapted by parking there and taking buses the remainder of the way to Downtown to reduce the parking costs.


Image courtesy Uptown Partners

"People don't want to read about where August Wilson drank coffee; they want to drink coffee where August Wilson drank coffee,"



of that neighborhood. Now that South Side has become more of an entertainment and lifestyle center – and rents have gone up – those smaller businesses have looked elsewhere to get a foothold.

Marimba Milliones, executive director of the Hill Community Development Corporation, sees those businesses and individuals as prospects for a redeveloping Hill District. "The new development should be appealing to artists and others who can no longer afford the rent in the East End for example."

Hill CDC works to support development of property and workforce throughout the Hill. Its focus on commercial development has been Centre Avenue, in particular the historic Granada Theater. The CDC invested $1.2 million over the past couple of years to gut and stabilize the theater and is now studying how best to adapt it to the new dynamics of the Hill.

"The three things we focus on at a high level are commercial, residential and cultural and the interplay of the three so that the end result is something more special than just a bricks and mortar revitalization," she says. "The intention of New Granada is to be committed in part to culture."

New Granada Square will be a reclamation of 40,000 square feet that will mix performing arts with retail and office or residential. Hill CDC also plans to infill with about 50 apartments in the properties nearby, ideally with ground floor retail that acts as the connection between the new residential at Addison Terrace and Centre Avenue. Milliones see the projects as a way to draw from the new housing and establish retail on Centre between Elmore and Kirkpatrick Streets.

She acknowledges that reclaiming a central commercial and cultural district that is attractive to people from all over the city is a task made more difficult by the demolition of the sites that were home to the culture of the Hill. Aside from the Granada, only the Crawford Grill and the birthplace of playwright August Wilson are still intact.

"People don't want to read about where August Wilson drank coffee; they want to drink coffee where August Wilson drank coffee," she jokes. Milliones looks to the redevelopment of the 28-acre Mellon Arena site as an opportunity to reclaim the sense of place. "The Lower Hill was one of the most diverse communities in the city. Why not celebrate that history to draw people back to the community?"

The Hill District CBA included a provision that the Penguins would not pursue or announce plans to redevelop the former Mellon Arena site until after the master plan was completed. After the plan put in place how the site would rebuild the Lower Hill, the Penguins brought in Jones Lang LaSalle in June 2012 to create a development plan with more detail.

About half of the buildable site will be devoted to new mixed-income residential, approximately 1,000 to 1,200 units over the next decade. The mixed-use development will also include 250,000 square feet of retail space and 600,000 square feet of office space. The first phase of residential construction should begin in 2015 along the eastern portion of the site on Crawford Street. Developers for the retail and office space have not been chosen yet. Site preparation includes road building and utility installations that will begin next year.

In September, McCormack Baron Salazar, developer of Pittsburgh's Crawford Square, Bedford Hills, and Fairfield Apartments, was chosen by the Penguins to be their primary developer. Mary Kellers, who works in the Pittsburgh office of McCormick Baron Salazar, says that the firm's past success in Pittsburgh was a strong motive for pursuing the project.

"We see a lot of opportunity in the area. Crawford Village and the Bedford Village Hope VI were mixed-income communities of market rate and low income housing that worked well for us," she says. "That is our forte. We go into distressed communities and help rebuild them."

Although the master plan and development plan call for a mix of housing, the specifics of the types of housing are being studied, as is the exact schedule, Kellers says. "We are going to be spending time with the community to determine what that first phase should be."

Sensitivity to the community's wishes for the arena site is well-advised. Even though the urban redevelopment that gutted the Lower Hill took place two generations ago, the legacy of that project has been ingrained in the consciousness of the current community leaders. Some of the redevelopment goals, like the reconnection of Wylie Avenue to Downtown, may not be physically possible but residents of the Hill District and Uptown want to be sure that the reconnection of the neighborhoods doesn't gloss over the past.

"We don't want to change the brand. We don't want it to be like East Liberty becoming East End," says Cheryl Hall-Russell. "I have had older residents say to me, 'Don't let them name those streets after hockey players.'"

It is difficult to detach the social and cultural issues from the redevelopment issues in the Hill District. One of the Hill District's highest-profile projects, the new Shop 'n Save grocery store, is a great example of that intermingled purpose.

Attracting a grocery store was a goal of several generations of Hill District community leaders and while the lack of such a store represented a number of negative impressions of the community, the most pressing need for the store was more basic. Hill residents had no convenient access to fresh foods. The nearest grocery options were Giant Eagle stores on the North Side, South Side and Shadyside. For a community that relies mainly on public transportation or walking to shop, that distance impacted what they could buy.

"You are dealing with a community that has been low-income for some time. Low-income communities suffer from health and wellness issues like diabetes and obesity," explains Hall-Russell. "Because of the travel distance, residents end up buying small packaged items they can carry and sodium-intensive meats instead of fresh food."

Bricks and mortar redevelopment is increasingly seen as playing a significant role in community economic development. The projects that have been built in the Hill District and Uptown over the years have not always moved the community forward. As the prospects improve for a renaissance in zip code 15219, there is a closer linkage between development and permanent enrichment for the neighborhood. There are more efficient mechanisms now for employment to connect to the projects during and after construction. And the commitment to moving the community forward with this economic momentum is more widespread and seems to be genuine.

Political leaders of today are also a couple of generations removed from urban renewal. It would be unrealistic to expect that they would feel the need to redress past mistakes. Instead, the agreements and investments made by the neighborhood, city, county and state are focusing more on the value a prosperous Hill District would bring to the region as a whole.

"The future of America is in its rich diversity. We have to look at what we do moving forward in that context," asserts Ken Doyno. "If we don't embrace that diversity it won't just be at the Hill's peril but at the peril of the whole city." BG

MBA Master Builders' Association of Western Pennsylvania, Inc.

SAVE the DATE

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is a night that celebrates the brilliant and unparalleled design and construction industry. This event unites the firms and individuals that are developing our region with a commitment of excellence in each and every construction project. This commitment to excellence will be on display during the event as the winning projects in the MBA's Building Excellence Awards program will be announced.

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Event details to be posted first on the Evening of Excellence group on LinkedIn.
To locate the group type the following in a search on LinkedIn: Evening Of Excellence.

See you on February 27th at the Evening of Excellence!

Photo by Alexander Denmarsh Photography

On October 17 the doors opened for a grocery store that was perhaps the most-anticipated in Western PA. The new Shop 'n Save at the corner of Centre Avenue and Heldman Street in the Hill District was years in the making. Prior to the formation of the team that would ultimately accomplish the development, the project went through several iterations and survived political and social twists and turns, plus a poorly-timed recession. After all of the ups and downs of planning the project, the construction turned out to be the smoothest part of the job.

After the decline of the neighborhood in the 1960's, leaders in the Hill District worked to rebuild the community by providing economic opportunity, training and education. One important piece of the puzzle that Hill and city leaders found especially frustrating was the reconstruction of the commercial district of the neighborhood. Through many a study and redevelopment plan, one essential component that was identified as a key anchor for a rebirth of the Hill's "main drag" was a grocery store.

Centre Heldman Plaza

"The Hill District was unusual in that it was a self-contained neighborhood without a grocery store," says Cheryl Hall-Russell, president and CEO of the Hill House Association and the Hill Economic Development Corporation (HHEDC), which is the owner of the plaza. Hall-Russell was hired in September 2011 and says there was little doubt about the importance of the project at the time. "It was made very clear to me that a grocery store was a high priority for the Hill District."

In fact, the grocery store was one of two bricks-and-mortar projects mentioned specifically in the Community Benefits Agreement (CBA) hammered out in 2008 as the development of CONSOL Energy Center was being planned. The CBA called for a master plan for the Hill, a first source employment center, a neighborhood partnership program and a community recreation center – which became the Thelma Lovette YMCA.

"The only thing left [unfinished] was the grocery store. It needed a community group to deliver the project because the market wouldn't deliver it," Hall-Russell says.

The principal problem during the planning of the project was matching the cost to funding sources. During the early planning of the center, Massaro Corporation worked on the project with the expectation of turning preconstruction services into a contract for construction. The leadership of the Hill House at the time sought bids for the project, however, and another contractor became the low bidder. When an agreement on price couldn't be reached, HHEDC selected a third contractor for the project. Site preparation got underway but after months of trying to make numbers work, that team could not get the project going. Work stopped and the project was delayed into 2012.

At different points during development, HHEDC discovered that the project was going to cost more than had been previously thought. Hall-Russell feels that the difficulty was partly because HHEDC's mission wasn't to be a developer.

"We never had a full scope on this project. When I got here there wasn't a 100 percent scope to understand what needed to be funded. A million dollars had been spent on underground work but we were still three or four million short," she explains. "I shut the project down because we didn't know what we didn't know. Hill House is a lot of things but a major funding source we're not.

You had an agency with no money and a community with limited resources trying to develop a commercial property," she explains. "We needed loans, grants and philanthropic foundations to help meet the funding. The philanthropic community opened up its pockets to help get this done."

After more delays in summer 2012, HHEDC brought Massaro back in to get Centre Heldman to the starting line. Shop 'n Save operator Jeff Ross, whose store would be the main tenant, stayed with the project through the delays and was investing $1 million in the property. HHEDC was able to bridge the final gap in financing the $9 million project by tapping a variety of sources, including $1.9 million in New Markets Tax Credits; a $400,000 grant from the Heinz Endowments; a $788,673 federal grant; and a $115,000 grant and a $250,000 loan from the Hill District fund set up to distribute $3 million in gambling revenues provided by Rivers Casino.

One consistent part of the project team throughout was the architect. Renaissance 3 Architects was hired in 2009 as the local architect for the shell building and to shepherd the project through zoning and LEED certification. Renaissance 3 (R3A) worked with Store Design Services, SuperValu's in-house architects for Shop 'n Save design. Project architect Utkarsh Ghildyal recalls that the process was made more complex by the number of participants and the distance between the project and designers' offices in Wisconsin and Minneapolis.

"It was a long project and a pretty big design team," Ghildyal recalls. "SDS was in Wisconsin and they had their own

Photo by Alexander Denmarsh Photography

team of subconsultants. There were a lot of moving parts, a lot of phone calls."

The coordination of the "moving parts" of the team was made more difficult by the passage of time and the changes in details of the project.

The coordination of the "moving parts" of the team was made more difficult by the passage of time and the changes in details of the project. Although the overall program didn't change significantly – the zoning requirements and desire to avoid a big box kept the overall footprint at 36,400 square feet throughout – there were subtle changes to the retail strip portion of the project and changes to the design and team members. For example, HHEDC found it could get significant savings in the $2.5 million equipment package by procuring nearly new equipment from recently-closed stores. Coordinating that decision meant communicating with architects in Pittsburgh, Minneapolis and Wisconsin.

Massaro's project manager, Kayla Timulak, says that the process for working through requests for information had to be modified at an early stage.

"The RFI's had to go through everyone and their mother. Questions were submitted to R3A and cc'd to everyone else," she says.

"After a few emails that process went out the window. The team developed a trust that if there was an email in your area you responded. If the question didn't get answered, we called R3A and they took care of it."

Renaissance 3, and architect Ghildyal, had a good working relationship with Hill House and had the advantage of working with the owner and Massaro on another project that was helping to redefine Centre Avenue: the Kaufman Center and Hillman Auditorium. That project was directly across the street from the Centre Heldman Plaza site and a key design goal of the Kaufman Center played into the architecture of the new retail location.

The original Centre Avenue entrance stairs to the Kaufman Center had been enclosed prior to the 2009 renovation. Restoring that grand entrance was a key piece of that architectural program for the Kaufman Center so the new cultural center could connect with Centre Avenue and future redevelopment there. By 2012, the future had arrived.

"The client wanted to keep the campus feel similar to what was created on the Kaufman/Hillman project. Also, the location of the retail on Heldman would be part of the gateway to the new Hill District," explains Ghildyal. "We brought back the stairs on Kaufman to create a plaza at the entrance. This [Centre Heldman Plaza] site relates directly to that plaza.

We wanted the development to communicate that the two buildings were part of the same space even though the rest of the Hill House campus is across Centre Avenue. We wanted them to be linked," Ghildyal continues. "The City was concerned about the residential buildings that are two-story across the street so we broke up the exterior to keep [the plaza] from having one massive surface. Along Centre we designed the retail pods at varying heights to follow the grade of the hill."

It was the exterior and the neighborhood retail space that underwent the most revisions. Ghildyal estimates that there were eight or nine changes as the thinking about the plaza changed. "It went from steel to block to frame to steel to block again," he says. HHEDC decided that a modern design was more appropriate than a traditional grocery store design. To keep it in the context of the neighborhood, R3A selected brick that matches the Kaufman Center and many of the residences nearby. They also gave special attention to the retail building that is on the corner of Centre and Heldman Street.

"There were numerous changes to the design of the retail space and they are still waiting for the final piece of funding for it," says Timulak. "The original plan called for two spaces but they ended up with five tenants so they had to re-design."

The tenants are Dollar Bank, Nationwide Insurance, Subway, Cricket Communications and Crazy Mocha Coffee. The latter was something of a missing puzzle piece to help the retail center fit into the neighborhood. Crazy Mocha will occupy the corner space and R3A used that positioning to create a small plaza at the corner of Centre and Heldman, which is directly opposite the bottom of the monumental entrance to the Kaufman Center. The extra plaza space allowed room for 42 spaces of bicycle parking, which in turn reduced the number of parking spaces needed in the already tight lot.

"There is also artwork on the exterior, these kinds of floating colorized panels that are telling the story of the Hill District," Ghildyal says. "They have a grant for them and they will be installed later on the Centre and Heldman elevations wrapping around the corner."

Although the construction itself went more smoothly than the development process, the work wasn't without its challenges. When construction initially started on the site a year earlier, it was discovered that there was cobalt in the soils and that the jobsite was both on a bed of rock and the foundations of buildings that had been demolished long ago.

"We brought in larger excavation equipment to hammer out the rock. We weren't able to rip and the utilities were going to be cut into the rock itself," recalls Timulak. "It was also a challenge tying into the utilities that were installed separately by the previous contractors. All the water and sewers for the site were installed but we had to connect the building's plumbing to them working with uncoordinated drawings."

Massaro selected one of the subcontractors who had previously worked on the site, specialty contractor Noralco Inc., so there would be some continuity from the earlier construction team to the present. Work on the foundations began in January 2013 and for the first time nothing was interrupting progress on the Hill's grocery store.

Photo by Alexander Denmarsh Photography

Centre Heldman Plaza fulfills a specific piece of the Community Benefits Agreement, but the project was also utilized as an opportunity to have an impact on another component of the CBA by including subcontractors and workers from the Hill District. In addition to having goals for MBE/WBE participation, the project also strove to include HUD Section 3 labor participation. Workers who qualify for Section 3 can have no more than 80 percent of the median income for that area.

"There was a commitment with the URA to achieve 4,000 hours of Section 3 labor participation and 25 percent MBE/WBE participation," Timulak notes. "The workers had to be from the Hill or the surrounding neighborhoods. We met both of those goals by negotiating with subs at bid time to incorporate participation into their bids."

Beyond the construction jobs, the Shop 'n Save store is also having an impact on the general employment situation in the Hill. Just over 64 percent of the 120 permanent jobs have been filled by residents of the greater Hill District neighborhood and 95 percent of those are minorities. For Cheryl Hall-Russell that employment helps meet a goal of providing opportunities for Hill residents to work and play in their neighborhood.

Although there is still some work to do on the tenant spaces, the Hill District's Shop 'n Save opened on October 17 to fanfare and no small measure of relief.

"I think people were starting to believe that no grocery store would ever be built in the Hill District," Hall-Russell says. "Right now the excitement is amazing. I'm stopped daily by people who tell me they just got a job in the new market or by the older people who say they can't believe we finally got the grocery store. They say they are proud of us."

Massaro's team shares that sense of pride. "Hill House trusted Massaro to do what we needed to do to get the job done. They trusted our team to get them the product they paid for," says Kayla Timulak. "I'm glad that it's going to give the community a long-awaited necessity and I'm glad that Massaro was the one who could get it done." BG

PROJECT TEAM

Hill House Economic Development Corp.	Owner
Massaro Corporation	General Contractor
Renaissance 3 Architects	Architect
Gateway Engineers	Landscape Architect
Noralco Inc.	Excavating/Foundations
Climatech Inc.	HVAC Subcontractor
Cuccaro Plumbing	Plumbing Subcontractor
NL Electric LLC	Electrical Subcontractor
Easley & Rivers Inc.	Interiors/Drywall Subcontractor
I. D. Ritter Painting	Painting Subcontractor
Cuddy Roofing	Roofing Subcontractor
Harris Masonry	Masonry Subcontractor
Specified Systems Inc.	Aluminum/Glazing Subcontractor
All Systems Fire Protection	Fire Protection Subcontractor
Artistry Greenscapes Inc.	Landscaping Subcontractor

Uptown Partners of Pittsburgh

One of the most influential voices in the efforts to redevelop the Uptown/Hill neighborhoods is an unassuming woman named Jeanne McNutt and the non-profit organization she founded, called Uptown Partners of Pittsburgh. While you may not see Uptown Partners in the newspapers or on local television, if you are involved in development between Downtown and Oakland you will probably go through Uptown Partners before you get very far.

Her commitment to Uptown began with the relocation to an incubator space that doubled as home for McNutt and her husband Dale, in 2004. Jeanne McNutt received a fine arts education from Carnegie Mellon University and worked for a number of years with her husband's commercial design business. The couple had begun organizing efforts in the community while renovating their building, feeling that the neighborhood didn't have an inclusive voice or strong advocate.

"We knew that things were going to happen in terms of development and we wanted to be a community of choice rather than chance," she explains. "At the time they were talking about a casino in the Hill and a new arena. After decades of disinvestment, deterioration and demolition, we saw these big lots becoming available and we wanted to have a say in what was going to happen."

The mission of Uptown Partners is to work for a safer, cleaner and greener neighborhood in Uptown.

One of the organizations that McNutt worked with early on was Duquesne University. The school was in the process of expanding down from the Bluff by acquiring property along Forbes Avenue and developing its Power Center. The officials she met from Duquesne offered lots of encouragement to McNutt. They saw her leadership potential and connected her with others who would be interested in advocating for the community.

Jeanne McNutt

In 2007, McNutt founded Uptown Partners. She received a grant from the Forbes Fund to build capacity and the Duquesne Law School provided legal support and pro bono assistance with the incorporation. After getting smaller grants to operate for the first year or so, Uptown Partners received its first significant grant when the McAuley Ministries provided $75,000 in December 2008 to support staffing, grant-writing, communications and development projects for the following three years.

The mission of Uptown Partners is to work for a safer, cleaner and greener neighborhood in Uptown. The organization works to promote redevelopment of housing and the development of commercial and new residential units for a mix of incomes. The neighborhood Uptown Partners supports is part of the greater Hill District. Uptown stretches between Crosstown Boulevard to the Birmingham Bridge/Oakland Portal area between the Boulevard of Allies and Colwell Street. The western end of the Uptown neighborhood is home to Duquesne University and Mercy Hospital. Those two institutions were very interested to see an advocate for development appear and supported Uptown Partners. It was the proceeds from Mercy Hospital's sale to UPMC that established the McAuley Ministries. Both institutions had been anchors of the neighborhood when it fell into decline and were anxious to see revitalization occur.

Uptown Partners accomplishes its mission along three main tracks. They actively work to improve the physical aspects of the community. They act as a reviewer of proposed projects in Uptown and they provide support to private developments planned for the neighborhood.

In the latter capacity, Uptown Partners will write letters in support of zoning changes to enhance a development's chances of approval with the City. To create a blueprint for developers to use in new projects, Uptown Partners secured funding and commissioned a master plan of sorts in 2009, called Uptown Community Vision. The plan was funded by the Urban Redevelopment Authority, Pittsburgh Partnership for Neighborhood Development and Sal Williams Real Estate, the largest property owner in Uptown. Local architects Rothschild Doyno Collaborative worked with Metropulos Development and GSP Consulting (now part of Duane Morris Government Strategies) to establish a plan for development for the four sub-neighborhoods in Uptown that could be incorporated into the Hill District's master plan.

The City of Pittsburgh is an active partner in helping Uptown Partners ensure that new projects are developed in the spirit of the Vision plan, steering projects being planned to McNutt and community partners for review.

"Our role is to vet projects and support variances for parking or building height. The City asks that developers review their plans with us," she notes. "[Developers] have to come to us but generally they enjoy sharing their plans. If there's public money in the project it's their duty to have us review it."

Uptown Partners has had input that informed design issues that shaped Castlebrook Development's Uptown Apartments and helped the Blue Line Grille navigate the approval process for its Fifth Avenue location. McNutt works closely with Action Housing on the multiple rehabilitation and new housing units it is building Uptown. She also helped organize the community to provide feedback to the University of Pittsburgh Medical Center while the hospital was planning the Mercy Energy Center and garage.

"UPMC gets a bad reputation for different things and maybe sometime it's deserved but not for what we went through with the Mercy master plan," McNutt says. "We had many meetings with the community and to their credit UPMC made lots of changes based on residents saying that they didn't want a power plant behind their buildings or that they couldn't close down a certain street."

The role that Jeanne McNutt seems to enjoy most for Uptown Partners is the beautification of the physical landscape of the community. She is hands on with these projects, which have varied from planting flower beds and neighborhood gardens, commissioning signage and public art and working to repair sidewalks. She believes firmly in the positive impact that making the neighborhood accessible and attractive can have on the attraction of residents and business. The community has semi-annual clean-up days. And the City has been cooperative with these efforts, responding to requests for minor streetscape repairs and even donating extra benches to help Uptown Partners create gathering spaces for neighbors.

Uptown Partners was able to add more capacity for support in 2012 when Siena Kane was added to the staff as program coordinator. The organization still relies heavily on foundations, institutional partners and volunteers for much of its work. McNutt doesn't see that role changing.

"I don't think our role will be to become a property owner like the CDC or East Liberty Development has but rather to be a community partner that has a role in changing the landscape, a community benefits organization."

Asked how Uptown Partners became so relevant to the redevelopment of greater Hill District neighborhood, McNutt shrugs. "People know me to be fiercely protective and passionate about this community. The City knows that from the Mayor's office on down," she says. "I'm a fighter but a pleasant one I hope. I am persistent when the community tells me that there's something important to fight for.

I have to pinch myself sometimes to believe it's all happening. When we started there was so little happening but there is just so much demand and the location is just unbelievable." BG

Company Facts

Uptown Partners of Pittsburgh

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Legal Perspective

Revised ASTM Standard for Phase I Environmental Site Assessment Awaits EPA Approval

By Joseph Brendel, Esquire

Most developers and owners already are aware of the importance of retaining an environmental professional to perform environmental due diligence prior to acquiring or leasing property targeted for development. In many cases, this is driven by project financing as lenders typically require a current Phase I environmental site assessment ("Phase I ESA") as part of the loan origination. In addition, property purchasers and lessees may be interested in obtaining statutory protection from liability for the potential presence of hazardous substances, or they simply want to ensure that they are not buying contaminated property. Whatever the reason(s) for obtaining a Phase I ESA, developers and owners should be aware that the industry standard governing the performance of Phase I ESAs has been updated and the revised standard is expected to be finalized by the end of November 2013.

By way of background, the impetus for performing a Phase I ESA is the strict liability scheme established under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), 42 U.S.C. § 9601 et seq. Early court decisions interpreting CERCLA found that current owners and operators of property were strictly liable for the presence of hazardous substances, even if they acquired the property after it became contaminated. In 1986, Congress amended CERCLA through the Superfund Amendments and Reauthorization Act to provide some liability relief in the form of the "innocent landowner defense." In order to take advantage of this defense, the purchaser of contaminated property has to demonstrate, among other things, that he or she did not know and had no reason to know that hazardous substances were present on the property. Such a demonstration requires proof that the landowner undertook, prior to acquiring the property, "all appropriate inquiries" into the previous ownership and uses of the property consistent with good commercial and customary standards and practices. Therefore, beginning in 1986, a purchaser of commercial real estate needed to know what constituted appropriate pre-acquisition due diligence.

It became apparent to ASTM, an international organization that establishes standard practices and procedures for all types of industries, that a standard was necessary to spell out what constituted "good commercial and customary standards and practices" in order to meet the statutory requirements for the innocent landowner defense. ASTM standard practice E1527 for conducting Phase I ESAs quickly became the de facto industry standard. However, the ASTM standard was still just a set of voluntary guidelines that did not have the force of law.

CERCLA was revised again in January 2002, through the Small Business Liability Relief and Brownfields Revitalization Act, commonly known as the "Brownfields Amendments." Among other things, the Brownfields Amendments required the U.S. Environmental Protection Agency ("EPA") to promulgate regulations establishing standards and practices for what constitute "all appropriate inquiries." It is important to note that if the pre-acquisition Phase I ESA identifies Recognized Environmental Conditions on the target property, statutory liability protection still is available as a Bona Fide Prospective Purchaser (a concept added by the Brownfields Amendments) provided that the owner complies with so-called "continuing obligations," such as providing access for agency-led cleanups and complying with land use restrictions.

EPA published its All Appropriate Inquiries Rule ("AAI Rule") on November 1, 2005. Contemporaneously with the EPA's drafting of the AAI Rule, an ASTM task group also was revising ASTM standard practice E1527 so that it would be consistent with the AAI rule. In fact, EPA's AAI Rule explicitly provides that the 2005 version of the ASTM standard (E1527-05) is consistent with the regulatory requirements and that anyone who follows E1527-05 will be in compliance with the AAI Rule.

ASTM standards have a sunset provision and must be reviewed and reissued every eight years in order to ensure that the standard still reflects good commercial and customary practices of the industry. Therefore, a new ASTM Task Group was convened in 2010 to review and act upon E1527-05. The

Task Group could have simply voted to reapprove the standard without any changes. However, the Task Group decided that revisions to the standard were appropriate both to improve industry practices and to resolve perceived confusion regarding application of the standard. The Task Group's multi-year effort resulted in E1527-13, which ASTM expects to issue in final form before the end of November 2013. The most significant changes in E1527-13 are as follows:

The definition of Recognized Environmental Condition ("REC") has been simplified to focus on the CERCLA concepts of release or threatened release of a hazardous substance or petroleum products. Likewise, the definitions of "release" and "environment" in the standard incorporate by reference the CERCLA definitions for those terms.

The definition of Historical Recognized Environmental Condition ("HREC") has been revised to clarify that it applies only to past release sites addressed to agency satisfaction without the necessity for activity and use limitations ("AULs") such as institutional controls or engineering controls. Unless the environmental professional ("EP") finds that a "no further action" determination from the agency was based upon incomplete data (i.e., the release is still present above action levels), an HREC is not considered to be a REC. Although an HREC is required to be identified in the findings section of the Phase I ESA report, where the EP must opine on its current impact to the property, an HREC is not required to be discussed with any identified RECs in the conclusions section of the report.

The revised standard includes a new definition for a Controlled Recognized Environmental Condition ("CREC") for situations where AULs (e.g., a deed restriction or an engineered cap) are required to maintain an agency-approved cleanup. An historical release identified as a CREC must be included in both the findings and conclusions sections of the Phase I ESA report.

The standard was revised to make clear that vapor intrusion into structures should be considered during the Phase I ESA process. There was some confusion under the existing E1527-05 standard because "indoor air quality" was considered a non-scope item. However, the new standard will provide that non-scope indoor air quality issues are "unrelated to releases of hazardous substances or petroleum products into the environment." Furthermore, the new definition of "migrate/migration" specifically includes the movement of vapor in the subsurface.

Revised Section 8.2.2 on "Regulatory Agency File and Records Review" now provides that if the target property or any adjoining property is identified in one of the standard environmental record sources (e.g., CERCLIS list or RCRA generators list), "pertinent regulatory agency files and/or records associated with the listing should be reviewed." If, in the EP's opinion, such a review is not warranted, the EP must explain within the report the justification for not conducting the agency file review. As an alternative to an agency file review, the EP also may review files/records from an alternative source (e.g., on-site records, user provided records, interviews with knowledgeable regulatory officials). The EP must include a summary of the information obtained from the file/record review in the report as well as his/her opinion on the sufficiency of the information obtained from the files/records review to evaluate the existence of a REC, HREC, CREC, or de minimis condition.

ASTM revised the scope of the "User Responsibilities" to clarify which aspects of the site assessment process may be the responsibility of the prospective property owner (i.e., the "User") and not necessarily the responsibility of the EP.

In connection with these revisions, ASTM asked the EPA to confirm in a rulemaking that the revised E1527-13 standard would be compliant with its AAI Rule. On August 15, 2013, the EPA issued a Direct Final Rule (78 Fed. Reg. 49690) amending the AAI Rule to reference the pending ASTM Standard Practice E1527-13 as satisfying the requirements for conducting "all appropriate inquiries" under CERCLA. The Direct Final Rule is an expedited procedure used for noncontroversial rulemakings.

Although the EPA's Federal Register notice stated that it did not anticipate receiving any negative comments on the Direct Final Rule, the agency simultaneously published a Proposed Rule (78 Fed. Reg. 49714) and the EPA noted that it would proceed through the conventional rulemaking process if it was necessary to respond to any negative comments. While the majority of comments were supportive of the revised ASTM standard, the EPA did receive some negative comments, such as objections to the EPA recognizing a private consensus standard as an alternative to compliance with the AAI Rule itself. Therefore, the EPA is proceeding under its normal rulemaking process (i.e., responding to comments received on the Proposed Rule and publishing a Final Rule).

The EPA's Proposed Rule simply adds a reference to the AAI Rule that the procedures in E1527-13 are compliant with all appropriate inquiries. However, the rule as drafted would retain the reference to E1527-05 as also being compliant with all appropriate inquiries. Therefore, theoretically, an EP could choose to conduct a Phase I ESA under E1527-05 and the EPA would find that it satisfies all appropriate inquiries. In comments submitted to the EPA in support of the Proposed Rule, the Chair of ASTM's E1527 Task Group noted that "once E1527-13 is published it would become the operating industry standard and the E1527-05 would 'retire' as a historical standard, primarily available for reference purposes." (Letter, dated September 16, 2013, from Julie Kilgore, of Wasatch Environmental, to the EPA.)

Regardless of whether the Final Rule ultimately authorizes the continued use of E1527-05, it is anticipated that the marketplace generally will insist upon the use of the updated E1527-13 standard. In that regard, ASTM separately submitted comments to the EPA explaining how E1527-13 represents an improvement over E1527-05, citing some of the revisions noted above. Once ASTM issues E1527-13, prospective purchasers and other users of Phase I assessments should confirm that an EP will be performing future Phase I ESAs pursuant to the updated and improved E1527-13 standard. For current projects where a Phase I ESA already has been, or is in the process of being, performed under the E1527-05 standard, it will not be necessary to update the Phase I ESA because it will be performed under a standard determined by EPA to be compliant with the AAI Rule.

As noted above, ASTM expects to finalize the E1527-13 standard before the end of November 2013. EPA's issuance of the Final Rule confirming that compliance with E1527-13 satisfies the AAI Rule is anticipated 30 to 60 days later. However, it currently is unclear how the 16-day government shutdown will impact that timing.

Joseph R. Brendel is an environmental attorney and Member with the Pittsburgh office of Clark Hill Thorp Reed. Mr. Brendel participated on the ASTM Task Group that drafted the revised E1527-13 standard. He can be reached at 412.394.2373 or jbrendel@clarkhillthorpreed.com. BG

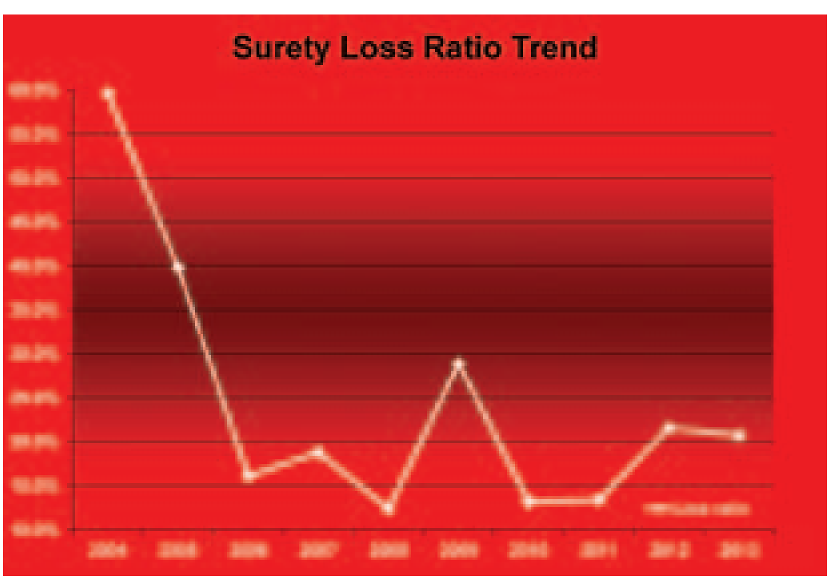
Financial Perspective

Surety Market Update

One portion of the construction industry that is faring better than expected at this stage in the business cycle is surety bonding. Often misunderstood as the watchdog of the construction industry, the surety industry is generally a laggard in the business cycle, seeing performance decline when contractors default. While the number of project defaults certainly increased in recent years, the surety companies have actually provided for the tougher conditions and have come through them with only bumps and bruises.

Part of the reason for the better conditions in 2013 is certainly the consolidation that changed the makeup of the business almost a decade ago. The five largest surety companies account for more than 50 percent of the market share and the ten largest make up 67 percent. These larger companies tend to write more business for larger general and civil contractors and fewer specialty contractors, which tend to have higher default rates. Moreover, most of the ten largest firms are the survivors and consolidators from the last business cycle, which saw extremely high losses wipe out insurers and force others out of the surety market.

The lessons of the recession that cooled construction from 2000-2003 are probably the reason why the recent downturn was less devastating. In fact, those lessons had an impact prior to the decline that set up the climate that exists today.



Losses due to defaults remain at levels close to the peak of the last building cycle. Source: Marsh Inc.

Chief among the lessons learned was tighter competition and slower sales should not be an incentive to relax underwriting. Industry veterans are unanimous that when the market slowed in 2009, there were fewer surety companies with questionable books of business than in 2001. Surety companies also used financial data to have a better understanding of their customer's credit worthiness. For the largest sureties the focus on larger contractors mitigated risk. Contractors have built better working capital bases from retained earnings over the past five years and increasingly larger projects have created more joint ventures – which are less risky for the individual surety companies because the combined balance sheet of the partners mitigates the risk of default. Those large projects involving JV's also generally result in more rational bidding among fewer companies.

While these more favorable results characterize the larger companies, the many smaller surety companies competed for customers with higher risk profiles. As would be expected, the performance of the smaller companies suffered but not nearly as badly as in 2001-2004.

There are also factors affecting the insurance industry in general that are creating different conditions for construction surety bonding looking into the future.

There is a continued shift in the market share balance of contract surety compared to commercial surety. Contract surety covers the spectrum of bonds that guarantee bids, performance and payments on construction projects. Commercial insurance includes bonds for business or government activities, like court bonds, public official bonds, business license or permit bonds. The contract market has historically been roughly three times that of commercial bonding but contract surety premiums peaked at $3.47 billion in 2007 and have not yet recovered to that level. Premiums for commercial bonds have been growing steadily since the recession and should be more than 10 percent above the 2007 level this year. Commercial bonds are also more profitable. These dynamics don't mean that insurers will be abandoning contract surety but it does mean that additional capacity and capital may be allocated in that direction.

"With the intense competition for contract surety, both at the surety and contractor levels, we are seeing an increased emphasis on commercial surety as the sureties are trying to make up for the lack of premium dollars on the contract side," explains Joe Johns, assistant vice president at Henderson Brothers. "However, this increased emphasis for commercial surety dollars will have little impact on capacity for construction project bonding."

The growth of Subcontractor Default Insurance (SDI) is another factor having an impact on the industry's top line, since SDI's are controlled by the general contractor or owner and have a significantly reduced premium associated with the program. General contractor prequalification of key subcontractors reduces the risk of loss in SDI programs as well.

Of course, when looking at performance these industry trends tend to be peripheral to the losses that result from contractor defaults. Going into 2012, there were grave concerns about the financial condition of the contractors – industry estimates were as high as 50 percent of the specialty contractors losing money in 2011 – and surety companies planned for high default rates. More than a year later, it is apparent that the losses somehow did not materialize to the degree that was anticipated.

"We're coming to the close of a two-to-three year period where we thought losses would be worse than they actually are," says Ryan Burke, vice president at Huntington Insurance.

"2012 was a decent year. Surprisingly, it was a more profitable year," says Jay Black, managing partner at Seubert & Associates. "There was a lack of volume but profitability [for contractors] was better than in 2011." Black says that he monitors his book of business to track the profitability of clients. "About 15 percent lost money in 2012 compared to 20 percent in 2011."

That trend was evident at the national level as well. Rather than spiking as losses had in 2004, surety losses in 2012 and the first half of 2013 have remained manageable at 21.6 and 20.7 percent respectively. Those levels are more consistent with the loss ratios of the peak construction years of 2006-2007 than with the 2010-2011 periods. Those reduced levels coming out of the recession were as much a result of the low contracting volume in 2009 and the healthy contracting profits prior to the recession, which helped contractors and subcontractors manage the decline. As with most aspects of the surety market there is a disparity between the losses of the largest companies and the majority of the firms, with two of the largest sureties operating below five percent.

Through the middle of 2013, this lower rate of losses resulted in some of the larger surety companies taking 'write ups' against earlier provisions for losses. Several of the five largest insurers are actually showing loss ratios that are negative, meaning their losses for 2013 have yet to exceed the unrealized losses of 2012. For the construction industry that means the surety business will not be an obstacle to growth, assuming that work is on the upswing. But it also means that the lessons of the business cycle will keep sureties conservative.

"Underwriting should be about the same but there seems to be more of a focus on receivables and bank documents. Sureties used to look for a letter from the bank saying that the contractor had a line of credit and was in good standing," notes Black. "Now they are looking for documents that show the credit terms and who is indemnifying the loans. They are making sure the receivables are reasonably current and being collected in a timely manner."

Mark Ulishney is a partner at accounting firm Case Sabatini. He advises contractors on the kinds of information that the surety companies are looking to have reported to support the contractors' bonding program. Ulishney agrees that underwriting standards have been unchanged.

"What we're seeing has been in place for a couple of years since coming out of the recession," he remarks. "Clients that are strong, credit-worthy companies with no bond failures have no problems getting bonds. I have seen on the contractor side more attention paid to job safety and in-house safety programs. That's not so much on the surety side but on the property/casualty and liability side."

With losses under control and consistent standards for underwriting the surety market should remain predictable and friendly in 2014 but there are a couple of problems for the industry.

The protracted period of lower construction volume means that the insurers are competing harder to keep their premium volume up. Like in all areas of business, more competition leads to lower prices. Insurance industry experts see the market softening in the coming year, meaning that the pressure to maintain customers will be greater than the pressure to raise rates.

"I have actually seen rates go down. Rates haven't been out for 2014 yet but we saw rates creep up a little this year," notes Ulishney. "It has been a pretty quiet summer for hurricanes and tornadoes so I expect things to be about the same in 2014."

"The rate gets cheaper as the project gets larger," says Burke, who sees the lack of big current projects as putting price pressure on the insurers. "It's about half a point on large jobs."

The overriding concern expressed by all the insurers and agents was the lack of work, particularly in the highway market. After all of the measures taken by construction companies to remain profitable over the past few years, an increase in volume would be a booster rocket for construction profits. No one seems to see a brisk uptick in the pace of contracting for 2014.

"There should be a ton of capacity available for 2014. With the federal government in gridlock and the lack of a Pennsylvania transportation bill, there hasn't been much work available," says Joe Johns. "In 2013, sureties have had the same challenges as the Maytag repairman: looking for opportunity." BG

Management Perspective

Managing Sales is About Process Not Results

You have invested in hiring a sales professional to keep the flow of projects coming and grow your business. How will you know if you made a good or bad hiring decision? For most businesses the answer is in the results. More sales = better salesperson. While it is true that good salespeople generally bring in more sales, focusing on the end rather than the process will lead you to mismanagement more often than not.

It's a natural conclusion to think that selling is about results. Many salespeople, in fact, prefer to work for a manager who focuses only on whether the sales team 'makes their number.' As the business owner or manager, your goal should be to create a sustainable pattern of growth. The best way to that goal is to create a system that is replicable from one person to the next, so that you can plug a competent person into the sales role and enable him or her to be effective almost from day one.

Sales management should start with creating expectations for salespeople that are realistic and matched to the goals of the company. That doesn't mean telling the sales team that the expectation is that they will grow sales 15 percent this year. It means making them understand what makes a sales team effective and communicating that you expect them to behave in that manner. First and foremost, that means prospecting rather than selling.

When someone tells you that they don't like selling they often mean that they don't like prospecting. Recruiters and want ads usually say that they are looking for effective closers but the truth is that closing is not particularly hard, especially in an industry in which price plays such a big role. What recruiters should be looking hard for are effective prospectors.

At its most basic, prospecting is a numbers game. It is throwing as much against the wall as possible so that something sticks. When it comes to executing, good prospecting is a bit more nuanced than that. There are a lot of analogies that are used to describe what a healthy prospecting territory looks like but the analogy of three buckets is a good one.

Think of the buckets as containing: 1) long-term, long shot prospects; 2) interested but not yet committed prospects; and 3) hot prospects, needing only a slight nudge or approval to buy. A sustainable sales territory will not have an equal number of prospects in each bucket. As you might imagine, the number of companies that might do business with you should be larger than the number who eventually will, so the 'hot prospects' bucket will be the smallest. Too few of the prospective customers in that bucket will lead to a bad quarter. Too few of those in the second bucket and it will be a bad six months. Not enough companies in the first bucket and you're looking at a tough time next year.

Another variable about which sales managers should be concerned is lead sources. If having prospects is the key to finding more customers, getting leads is the key to getting more prospects. There is a broad spectrum of resources for leads. The challenge for the manager is matching the source of the lead information to the kinds of work – and kinds of sales people – that the business does profitably.

First and foremost, the most important source of leads should be your sales force. The sales process in construction, when done effectively, is a multi-step process. Sales professionals will need to spend time identifying the needs of your customers and prospects; and a bona fide construction opportunity will require a successful detailed proposal or bid to win the job. All those steps take time but to be effective, a sales person must make sure that time is devoted each week to working sources of leads on new opportunities. As sales manager, your job is to make sure that the sales person has the time and resources to do so.

There are a couple of pretty simple – maybe obvious – 'do's' and 'don'ts' in managing your company's leads. Do make sure you communicate how important cultivating leads are to your sales force. Do qualify every lead but don't prejudge the leads that are brought in. This is a fine distinction, since resources are finite and many leads will be for projects that aren't a good fit for your company because of the competition or the prospective clients' way of doing business. At the same time, don't let qualifying an opportunity be confused with prejudice. Comments like, 'we never get any work with them' or 'they always work with X' aren't prequalifying but they will have the effect of telling your sales people not to pursue opportunities with clients you are not already serving.

Just as important as securing regular leads is the establishment of a tracking system to ensure follow-up. The value of a system to manage the leads your staff generates can be multiplied by how much usage you get from the information. Whether the system is a full-blown Customer Relationship Manager (CRM) software package or simply a detailed spreadsheet, the system you use should have the following:

- The description of the lead (What? Where? How much? When?)
- The full contact information of those involved directly in the purchasing decision (as well as anyone who may be influential)
- The person(s) responsible for following the project for your firm
- What actions need to be taken by that person and when
- A rating or grade for the likelihood of success
- A date for the next action to be taken

Of course the importance of establishing an effective tracking and follow-up system is diminished if you don't follow up on the information regularly. The circumstances of each project and your own company's style will dictate how you follow up. Timing may require that the next action is a call to be included on a bid or proposal list or to send an introduction letter with the company's brochure. Whatever action is appropriate, remember that there will also be a follow-up to that action. This will continue until the job is won or lost (and beyond if you really want to know why your company didn't get the job).

To really leverage the information in a lead tracking system you should look at the information for its value in helping manage the business. Over time, you should be able to correlate the volume and types of leads to your business's success and backlog. Increases or declines in lead volume are good indicators of future business conditions. And obviously the information should be analyzed to judge how well the sales staff is performing. This is the area for which you should discipline yourself to avoid dwelling on the results without examining the process.

Any evaluation of sales performance should start with an honest assessment of the sales process. Are you asking your sales person(s) to uncover more opportunities but unwilling to invest in a lead source (or three)? Have you decided to expand the geography or market segments in which you work without aligning your business to compete in this new territory? This is especially relevant to the natural gas industry opportunities. Are your expectations for results in line with the direction and magnitude of the market?

On the other side of the coin is the sales person's participation in the process. Assuming you have done an adequate job communicating expectations, your questions should be about how well the staff performed at the steps that will lead to success or more sales. Were your reps active in cultivating lead sources and reporting those to the tracking system? Was every lead rated and follow up appropriately? Did the staff respond to the opportunities with the right approach and in a timely manner? Were the opportunities uncovered a good match for your company's strengths? Did your company win its share of the opportunities (and why or why not)?

The last point requires some recognition on the manager's part of the market and of the realities of an expanded sales effort. If your company is trying to ramp up its volume or stepping out of its comfort zone, remember that your normal hit ratios are going to change, perhaps dramatically. If you are accustomed to landing one job in five that you pursue, an increase in leads and opportunities to bid/propose will leave you with a much lower bid-to-book ratio. With very few exceptions, increased bidding means working with prospective clients that are new and don't know your work. The competition will be new or different. Your estimating and proposal preparation resources will be asked to chase more work with the same staff (unless you have been unusually insightful). Whatever the reasons, you are likely to lose more than you win as you expand your prospects. While that won't feel like a good thing, it's part of the process of growth.

When you have taken the time to evaluate the processes and judged how well your sales person(s) have worked those processes, there is still the matter of analyzing how well you did against the market. This is where the potential for misjudgment is greatest.

It is both a matter of fairness for your sales person(s) and awareness for your company to use data about the market to evaluate success or failure. The observations of your peers and anecdotes of your customers can be useful but they can also be wrong. Find a source or sources of data about the actual performance of the market before judging your results. Did you look for growth from your sales staff in a declining market? If more detail is available look deeper to see if the market segments you serve performed as planned. Did the hospital market you serve profitably decline precipitously while you were trying to grow the business ten percent? If so, achieving flat sales for the year means your staff actually outperformed the market.

Success in most endeavors is rarely the result of striving to win. All actors want the role. All sports teams strive to be champion. All contractors think they should get the job. When you look at how the successful teams managed to win, the stories are relatively similar. They perfected their technique. They practiced their lines. They repeated the moves endlessly until the muscles knew what to do without being told. Winning was the final part of a process.

Selling is a process too. Those who succeed at selling work as hard at perfecting the intermediate steps along the way as they do at closing a deal. Managing sales is the management of that process. BG

MBE/WBE Company Spotlight

Emerald Electrical Services, LLC

By Jon O'Brien

An emerald is defined as a rare, prized gemstone. Emerald Electrical Services is defined by its founders, Deborah and Curtis Morehead, two individuals that place helping others over its company which is rare in the competitive construction industry.

"Our focus is to work with others - contractors, people, the community – and we found from this that our client base has grown," said Curtis Morehead. Without missing a beat, Deborah, his wife and best friend, finished his thought: "yes we have been blessed with such great friends like Fred Sargent, Curtis Aiken, and Greg Peaslee. So many people want us to succeed and because of this we feel we need to help others like we have been helped."

Curtis continued, "If you're in it for yourself, you won't go very far. There's enough money being spent in our region for many, many companies to succeed and as long we get enough to get by, then we'll be OK."

"They both have a terrific work ethic and I know that first-hand as we are personal friends. In the business world, you encounter many people and it's the character of a person that rises to the top," said Fred Sargent. "They both have tremendous character and as a result of that they are on the top of my list."

Emerald Electrical Services is an electric power and datacom construction company that is woman and minority owned with Deborah serving as its President. The company launched in May of 2009. In its short existance Emerald has been fortunate to work on some high profile projects like the CONSOL Energy Center, the David L. Lawrence Convention Center, the Thelma Lovette YMCA in the Hill District and they are currently working on the Energy Innovation Center (former Connelly School). Due mainly to Curtis' 30-plus years as an IBEW Local 5 Electrican, the company definitely has the ability to perform. After a few years at the University of Pittsburgh in the Engineering program, Curtis spent decades in the field working for many reputable companies like Franklin Electric, Sargent Electric, Kirby Electric, Bronder and Miller Electric. "He's the talent that many benefitted from over the years but now he works for us," said Deborah of her husband.

However, Curtis has not forgotten what institution enabled his success and he continues to support IBEW Local 5. For the past 15 years he has been an instructor for his union. Curtis relishes his time as an instructor and he is thrilled to talk about it: "I'm working now with a group of fifth year apprentices. When this group of young people entered the union they were raw, unprofessional looking but over the past few years they have grown into people that I want to be around, people I want to see succeed. I tell them all the time you can do what I did – first master your trade and then start your own business."

Deborah and Curtis both enjoy the mentoring process, in both roles: the mentor and the mentee. When Curtis speaks about being an instructor with Local 5, one can tell that he

"Our focus is to work with others - contractors, people, the community

enjoys being able to offer tidbits of advice that he learned along the way. Deborah is just as glad to offer words of wisdom to someone with aspirations to be a business owner: "The first thing that someone should do before starting a business is to find a mentor. Find someone who has succeeded. We are fortunate to have Fred Sargent in our life." When this name is mentioned, Curtis excitedly jumps in: "Fred Sargent – now there's a good man. He's been a good friend for many years and he's been successful too, to me I think that is the most important thing for a company: find a mentor who has succeeded and don't be afraid to ask questions to this person. When you're starting a company, it can be a difficult time; cash flow is an issue; establishing credit is an issue; getting the next job is an issue. You have many issues and it can be a stressful time so it's good to have someone you can speak with who understands what you're going through."

Also in the area of offering advice, the Moreheads believe that being part of the community and giving back is something that new companies should embrace. "We are blessed everyday so we want to celebrate these blessings by giving back," said Curtis as he pauses to show some pictures of the Shrine of the Blessed Mother in South Oakland – a project that his company assisted by restoring power by way of an installed slender light pole. "During nighttime this light pole looks like a cross and to us it turned into a symbol. This cross reminds me every time I see it that the good Lord is looking over us."

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Company Facts

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Trend to Watch

Expanding Air Service is a Key Piece to the Economic Puzzle

How do you make a million dollars in the airline business? First, you start with ten million…It's a tired old joke about investing but it's a relevant one to today's business climate, especially in light of the ongoing efforts to revitalize the Pittsburgh International Airport's (PIT) activity.

Pittsburgh's investment in a shiny new airport in the late 1980's was seen as strategic to retaining the status as USAir's main hub. In 2004, after millions in public concessions were given to USAir to maintain the hub status, the airline pulled out of Pittsburgh. The impact on the economy was noticeable but those losses of jobs and real estate have been recovered. The loss of daily nonstop flights has been harder to overcome.

In large part, the problem is an airline industry problem. While the rest of the U. S. economy recovered from the 2001-2002 recession, the airline industry did not. Costs rose significantly due to increased security measures post-9/11 and the rising costs of airline fuel, which spiked in 2005 and 2008, added enormous expense to the carriers. Competitive pressures in air travel are countered by more aggressive pricing, meaning that airlines in competitive markets have less opportunity to add revenues to offset the higher costs. To get their heads above water, the major carriers have added fees for services that were historically free or for making routine changes to travel plans. Consumer advocates and travelers rail at these fees but the imposition of those fees is hardly making airlines big money.

"An airline CEO was telling me how happy he was with their financial performance," relates Dave Malone, Gateway Financial's CEO and chairman of the Pittsburgh Regional Alliance (PRA). "The company made 2.5 percent on their capital last year. That's not getting rich. Airlines need full planes and long hauls or they can't make money."

Time Comparison from Landing to Customer Southwest PA Distribution Center

	JFK	ORD	PIT
Taxi	:45 minutes	:25 minutes	:07 minutes
Off load	6 hours	2 ½ hours	2 hours
US Customs	24 hours	:30 minutes	:20 minutes
Move to off airport warehouse	Not necessary	4 hours	Not necessary
Breakdown	24 hours	6 hours	1 hour
Sort	24 hours	6 hours	7 hours*
Transit to customer	8 hours	6 hours	1 hour
Total time	**86 ¾ hours**	**25½ hours**	**12 hours**

* Includes breakdown, sort per customer inventory needs and truck loading, allowing the customer to receive goods ready for distribution

Since the industry was deregulated in 1978, there have been 59 new carriers start up. Virtually all of them have gone under. The heightened FAA scrutiny of startups and the abysmal performance records of those carriers that have launched are disincentives for investors or lenders who would finance a new airline. You only need to look as far as Virgin Airlines to get the picture. Funded by billionaire Richard Branson and given high marks for service since its inception, Virgin America has lost over $500 million since August 2007. Of the 13 carriers that operated at the beginning of the new century, consolidation has created five major airlines – assuming that the USAirways/American merger is approved.

In response to the changing economics of the past decade, airlines have shifted to a business model that is based on fewer large hubs that are in cities with high

The loss of productivity for our existing businesses is a concern for civic leaders but just as troubling is the competitive disadvantage that comes from being a non-hub market, especially since there is little chance to measure the problem.

ECONOMY

numbers of origination and destination (O & D) passengers. It is the O & D traffic that creates the full planes and long hauls of which Malone speaks. While that could come from any city, the reality is that it takes a population center that is roughly four million people or more to justify the establishment of a hub. Airlines have shifted hub locations to airports in New York, Philadelphia, Atlanta, Dallas, Chicago and the like. That leaves Pittsburgh out of the hub picture for a while.

"We will have to have a much bigger population to have more O & D," explains Bradley Penrod, Allegheny County Airport Authority's president and chief strategy officer. "The business model is to maximize hub utilization to maximize profit. Airlines focus on those [hubs] for international flights."

While you could make an argument that the inadequate air service hasn't kept the region from a remarkable recovery and a bright economic future, most leaders involved in economic development are concerned about how limited flights will limit future prosperity.

"Forget about leisure travel for the moment. Businesses are leaving because they can't get their management team out of town," asserts Malone. "Reed Smith had its partners' review in Boston. K & L Gates had its partners meeting out of town."

For companies with international focuses, the paucity of direct flights is extremely inconvenient and unproductive for key managers and executives. Bayer, for example, has fewer executives in Pittsburgh than it would otherwise with direct flights to Germany. ALCOA's CEO Klaus Kleinfeld told a shareholder at the company's annual meeting on May 3 that the company had no plans to move its headquarters staff back to Pittsburgh, citing lifestyle and logistical advantages of New York. PPG Industries executives budget a day lost at either end of overseas business trips to account for travel.

The loss of productivity for our existing businesses is a concern for civic leaders but just as troubling is the competitive disadvantage that comes from being a non-hub market, especially since there is little chance to measure the problem.

"Airports are another form of infrastructure. For big travelers it's a critical factor in moving people around," says Dewitt Peart, president of the Pittsburgh Regional Alliance and the Greater Pittsburgh Chamber of Commerce. "We see it when we work with companies in site selection. A company for whom [air travel] is a critical factor may not consider Pittsburgh. We don't even know that we've been eliminated."

"Having more flights can only be good for business here," say Lou Oliva, executive managing director with broker Newmark Grubb Knight Frank. "Back when we had USAir as a hub we didn't have any sites. Now we have the sites but Pittsburgh isn't a hub. When we talk to site selectors they recognize the challenges of getting here."

Lest there be any regional inferiority complex, the problem is hardly confined to Pittsburgh. Airlines have recently announced flight cuts in many mid-size cities, including both Cincinnati and Cleveland in our proximity. Delta Airlines acquired a Memphis hub when it bought Northwest Airlines. Prior to the deal, Northwest flew 200 flights per day out of Memphis but Delta made cutbacks almost immediately. Recently the airline announced that it would further reduce its flights from Memphis from 65 to 20 by the New Year.

While the business community is looking anxiously for more service, the story at PIT is actually one of increases rather than the flight cuts at other airports. Airlines serving PIT have been adding flights in small increments over the past few years. In 2013, carriers added eight daily flights and 200,000 more passengers flew from PIT. The additional flights and passengers have allowed the Authority to reduce landing fees, which fell to $14.11 per enplaned passenger, a level that is two-thirds the cost per enplaned passenger in Dallas, Miami or New York. The proceeds from the CONSOL gas drilling deal should reduce those fees another 55 cents, even without further increases in passengers but Penrod says the landing fees aren't the issue.

"Landing fees are a minimal part, although it is a factor," he says. "The industry average is that landing fees are about three to five percent of an airline's costs. Fuel costs make up about 35 to 40 percent of the total. If there are passengers there will be flights."

The more you look at what makes it difficult to attract more flights to PIT, the more you get the impression that very little can influence decisions that isn't being done. That's a conclusion that Dave Malone and other business leaders came to a couple of years ago. Malone tells a story of being at dinner with PNC's Jim Rohr, ATI's Rich Harshman and several others who were concerned about the airport.

"We assumed the Airport Authority was the problem. We went to the White House. We visited with every CEO of the 13 airlines at the time. The message was the same: Pittsburgh was doing everything it could to attract flights," Malone recalls.

If population and the economics of the airline industry are working against Pittsburgh air travel, there is one opportunity for growth that exists. There is plenty of capacity for cargo at PIT and because of the small size of the airport facilities compared to the busier cargo centers at O'Hare in Chicago or New York's JFK, there is a significant savings in time and cost for cargo shippers.

Compared to the air cargo logistics in New York and Chicago, Pittsburgh's cargo operations save between half-day and six days. In the areas of taxi time, off-loading, customs, sorting, and transit time to the customer, PIT offers significant advantages to shippers. The location of PIT in relation to the top population centers makes trucking more advantageous as well, with an average mileage that is roughly 200 miles less than O'Hare or JFK.

For those charged with trying to attract flights to Pittsburgh's airport, there is a certain amount of acceptance of the fact that what works against Pittsburgh is beyond their control. The strategy seems to be to continue to work for incremental gains and stay prepared for the opportunity for bigger wins.

"It's important to remember that we have infrastructure to become a hub overnight and we don't have to make a huge investment to attract new airlines," points out Penrod. He says that Orlando is spending $2 billion to upgrade its facilities and Kansas City is investing $2.2 billion in the face of a number of airline cutbacks. "If someone wanted 15 gates tomorrow we could say yes. If an airline wanted to re-hub Pittsburgh next Monday we could do it without additional capital expenditure. We would have to move a few walls but we have the gates."

De Peart views the attraction efforts as part of the job at the PRA. "The fortunate thing is we're on the upswing compared to competitive cities," he says. "This is a marketing exercise. We work very hard at explaining to the airlines the advantages of coming through Pittsburgh."

He explains that there are opportunities on the horizon to work toward as well.

"The market seems to be evolving to the point where there may be one or two low cost providers entering that are aiming to serve business travel not leisure. We're positioning ourselves to compete for that. The other opportunity is that the energy industry needs a connector to small markets like Scranton or Williamsport and Pittsburgh is right for that."

"The East Coast is maxed out and growth [in Pittsburgh] is less expensive than on the East Coast," Peart observes. "We can't compete with hub airports but at some point in time a new hub is going to pop up somewhere. You have to stay in the game and you have to be better than your competition." BG

INDUSTRY & COMMUNITY NEWS

Duggan Rhodes Leads Scope It Out 5K Run/Walk

In early August, Rhodes Group Project Manager Carren Gallick lost her husband to colon cancer just two months after being diagnosed. Carren has been a part of The Rhodes Group family for over 14 years, and her loss was felt deeply by her colleagues. In memory of Larry Gallick and in support of the Gallick family, The Rhodes Group was honored to sponsor the 1st Annual Scope it Out 5K Run/Walk. Held October 13th on the North Shore, the race benefited the Chris4Life Colon Cancer Foundation, a national Colon Cancer nonprofit dedicated to permanently eliminating the threat of the disease through the discovery of a cure. Participating in support of the Gallick family team, Team Rhodes included Andrew Rhodes, Shawn Modar, Donald Kaplan and Sarah Shaffer.

Massaro Serves Leukemia and Lymphoma Society

Massaro Serves is a systematic approach to community service and corporate citizenship at Massaro Corporation. One of our eight program area includes 'Days of Service'. Last month we performed a Day of Service for the Leukemia and Lymphoma Society. Eight Massaro employees assisted the LLS in successfully executing their community event - "The Pineapple Classic" which included two obstacle courses, one for the adults and one for children. LLS attained an old slide from a playground that was torn down. Massaro repaired the slide, built a ladder and support for it so that it could be used by the kids at the event. They also built "pipe tunnel" obstacles through which the kids could climb.

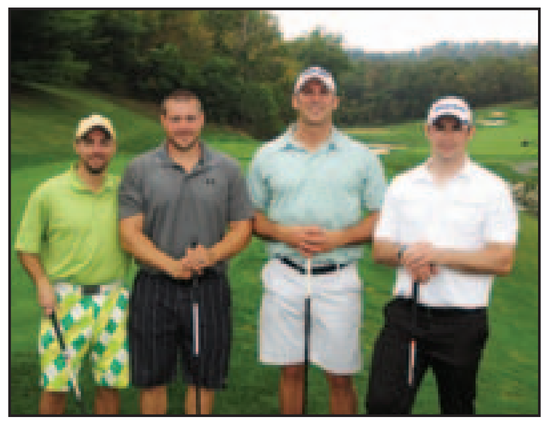
Master Builders' Support Southwestern Pennsylvania World War II Memorial

The Master Builders' Association of Western PA made a donation of $25,000 on behalf of its membership toward the completion of the Southwestern Pennsylvania World War II Memorial. This Memorial is being built by Mascaro Construction on the banks of North Shore Riverfront Park between PNC Park and Heinz Field.

Hill Barth King's Dick Spence with Carson Publishing's Kevin Gordon at the MBA's golf outing.

(From left) Jim Ferry from Ferry Electric, Dick Rivers from Easley & Rivers with Jendoco CEO Dom Dozzi.

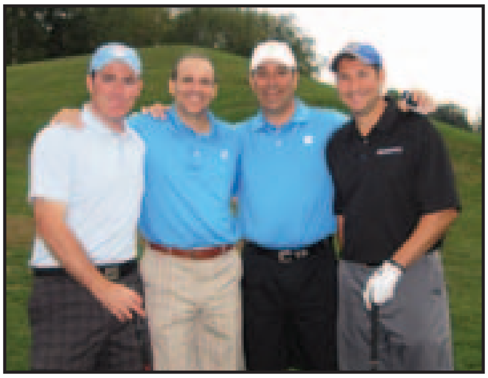
(Left-to-right) Abmech's Paul Stricko, Joe Mlecsko, Mark Rutter and Jim Smith.



Michael Mascaro (left) with Mascaro staffers Dan Manius and Josh Pisarcik and Chris Clackson of Smith Barney (right).

(From left) Oditza Carrasco from Security National with new Federal Reserve Pittsburgh Branch senior regional officer Guhan Venkatu, Dollar Bank's Jackie Rizzo and Pat Rodella from Rodella Law at the CREW Pittsburgh property tour.

UPMC's infection control construction coordinator Jeffrey Clair (left) with UPMC director of capital projects Tom Kennedy and Carpenters' director of training Ricky Okraszewski at the MBA YC & AIA YAF educational program on ICRA training.



Team Schneider Downs (from left) Joe Bruce, Eugene DeFrank, Gennaro DiBello and Ted Pettko.

Uhl Construction's Mona Hengelsberg, Lisa Hengelsberg and Margie Bailon with Jon O'Brien from the MBA at the PBX Member Open House.

(From left) Howard Graves, Bill Bates from Eat 'n Park and Ken Doyno at the AIA Design Awards Gala.

Awards & Contracts

Burchick Construction has started construction on Schenley Place, a seven-story, 110,000 square foot speculative office building being developed by the Elmhurst Group on Bigelow Boulevard in Oakland. The architect for the $18 million project is Stantec.

dck worldwide has been selected as the CM at Risk on a residential apartment project in downtown Pittsburgh known as the 121 Seventh Street – Bossa Nova Project. The project consists of the historically significant adaptive re-use of the upper floors of the six-story former Schneider Engineering building into 40 luxury one- and two-bedroom rental units. dck had previously been providing pre-construction services to its clients, Red Rocks Group and 121 7th Street, LP.

Allegheny Construction Group was the successful contractor for the $700,000 Carnegie Library West End Branch renovations. Loysen + Kreuthmeier Architects is the architect.

Auberge Resorts selected Allegheny Construction Group as construction manager for the multi-million, multiphase restoration of the Malliouhana Resort & Spa at Meads Bay, Anquilla in the British West Indies.

RJS Construction Inc. was awarded the build-out for the new Altius Modern Bistro on Mt. Washington. Theresa Bucco is the architect for the $1 million conversion of the former Georgetown Inn.

Blind and Vision Rehabilitation Services awarded a contract to A. Martini & Co. for the renovations to its new 80,000 square foot offices on the Boulevard of Allies. Stantec is the architect for the $4 million project.

A. Martini & Co. was the successful contractor for Duquesne Light on its $380,000 renovations to the Woods Run Toilet Rooms. Baker & Associates was the architect.

Williams Midstream selected A. Martini & Co. as contractor for the fit-out of 20,000 sq. ft. of the fifth floor of its Pittsburgh offices in RIDC West. HOK is the architect.

PJ Dick Inc. is construction manager for the new $14 million Natural Health Science & Technology Building at Seton Hill University in Greensburg. The project involves a 50,000 square foot, four-story addition and renovations. MacLachlan Cornelius & Filoni is the architect.

PJ Dick is providing general construction services to Walnut Capital for the reconstruction of the garage slabs in the Walnut Towers Parking Garage.

PJ Dick is providing general construction services for a 4,800 square foot fit-out of a PNC Branch Bank located on the ground floor of the University of Pittsburgh, Mark A Nordenberg Hall Building. The overall project scope includes selective demolition, new gypsum partitions, finishes and modifications to the existing HVAC, electrical, plumbing & fire protection systems.

PJ Dick was the successful contractor on the $23 million general construction portion of the $34 million East Liberty Transit Center and Transit-Oriented Development. The project involves a 335,738 square foot parking garage and commercial space.

Rycon Construction is building a new $6 million Field & Stream outdoor store at Millcreek Marketplace in Erie. This 51,000 sq. ft. store, designed by FRCH, is scheduled for completion in the spring.

At the South Hills Village Mall, Rycon's Special Projects Group is renovating the former Dick's Sporting Goods space into a new Ulta and DSW. The 34,650 sq. ft., $3.5 million project was designed by MCG Architecture and is scheduled for completion mid-2014.

On the 19th floor of the 11 Stanwix Street office building, Rycon's Special Projects Group is completing a $1 million renovation for Axiall. The 18,000 sq. ft. project is scheduled for completion before next year.

Rycon Special Projects group is completing a renovation on the first floor of Craig Hall for the University of Pittsburgh. The architect is Moshier Studio.

St. Clair Hospital selected Volpatt Construction to build its Urgent Care facility on the first floor of the Village Square Outpatient Center at 2000 Oxford Drive in Bethel Park. IKM Inc. is the architect for the $1.2 million project.

Volpatt Construction was the successful contractor on Carnegie Mellon's HCII computer lab renovations in Oakland. EDGE Studio is the architect.

Massaro Corporation was the successful low bidder for the 10,000 square feet of interior renovation and lab fitout for the National Research Center for Coal and Energy (NRCCE) on the Evansdale Campus at West Virginia University. This $3,600,000 renovation is slated to be completed in the spring of 2014. Stantec is the architect on the project.

St. Clair Hospital has selected Massaro Corporation to serve as their CM at Risk to perform the renovations to the interventional radiology suite within its South Hills facility. This $2,000,000 renovation will begin in the fall of this year. IKM is serving as the architect on the project.

The Carnegie Library of Pittsburgh selected Massaro Corporation to perform the tele data and power upgrades to its Teen Area at the Allegheny Branch. Loysen Kreuthmeier is the designer on the project.

Massaro Corporation was selected by the Armstrong County Memorial Hospital to serve as the CM at Risk for the renovations to the Emergency Department. This two phase project will increase capacity and provide a new entrance to the department. This project is slated to be completed in the summer of 2014. Paul Slowik and Associates is the architect on the project.

James Construction was selected as the contractor to renovate the Ultrasound Lab for the Community College of Allegheny County at its Boyce Campus. The architect on the project is Radelet McCarthy Polletta Incorporated.

UPMC has awarded James Construction the contract for its Magee Hospital Cafeteria Renovation. Radelet McCarthy Polletta Inc. is the architect on the project.

The RIDC Regional Growth Fund selected James Construction as the contractor for the RIDCW – Aquion Phase 4C project. The Design Alliance is the architect on the project.

Mascaro Construction broke ground on Industrial Scientific's 204,000-square-foot global headquarters and manufacturing facility. The multi-function facility will house 500 employees and is expected to complete the third quarter of 2015.

Mascaro will begin renovating the laboratories and student areas on the 13th Floor of the University of Pittsburgh's Chevron Science Center In November. The work is expected to be completed in the third quarter of 2013.

Mascaro began work on the interior renovations for Bruce Hall at the University of Pittsburgh campus in Oakland. The work scope on the 55,000-square-foot renovation will include asbestos abatement, new MEP systems and air conditioning, millwork, kitchens, and student living areas.

Mascaro was awarded two additional projects at NRG Conemaugh Generating Station in New Florence, PA. Similar in scope, the Ash Haul Roadway and FGD Gypsum Sump projects will include a large concrete sump and have wall heights that vary from 11 feet to 15 feet.

Mascaro is installing security fencing around the Independent Spent Fuel Storage Installation (ISFSI) pad area at the Beaver Valley Nuclear Plant.

CBRE awarded a contract to Jendoco Construction Corp. for renovations to the OB/GYN offices for Allegheny Health Network at the Gallery Shoppes in McMurray, Peters Township. Zilka & Associates is the architect for the $649,000 project.

FACES & NEW PLACES

PJ Dick Inc. promoted Jeffrey D. Turconi, P.E., to the position of President. Turconi has served as Executive Vice President of PJ Dick for the past 10 years. He is a graduate of the Pennsylvania State University and earned an MBA from the University of Pittsburgh.

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

Rycon Construction, Inc. added David Haines as an estimator in the Special Projects Group. He received a bachelor's degree in mathematics from Clarion University and brings over 19 years of construction industry experience to the Rycon team.

Fae Harris joined Volpatt Construction as administrative and accounting assistant.

Mike Salopek joined Mascaro as a project engineer. Mike recently graduated from the University of Virginia.

Wesley Donovan joined Mascaro's estimating department. Wes has 24 years of estimating experience and has a B.S. degree in business administration.

Zack Walters joined Mascaro as a project engineer. Zack received a B.A. degree in architectural studies from the University of Pittsburgh and has a strong background in sustainable construction. His certifications include LEED AP BD+C and CSRP (Certified Solar Roofing Professional).

Alissa Lorentz joined the Mascaro marketing department. With a master degree in management from Case Western Reserve University and bachelor degrees in studio art and communications, she has six years of corporate and communications experience.

Bill Franczyk joins Mascaro as the director of client services. A 17-year veteran of the construction industry, Bill brings a well-rounded background in estimating and project management.

dck worldwide is pleased to announce the launch of dck Capital Solutions. The addition of this company rounds out dck worldwide's product offering and presents another option to its clients in the form of P3 (public-private partnership) development and construction. Leading dck Capital Solutions will be Lee Ploszaj as President and Managing Director and Larry Allen as Vice President of Development. Ploszaj and Allen bring with them over 50 years of combined experience in the construction industry. Ploszaj was the former President and CEO of Winners Development. Allen provides financial expertise in the structuring of P3 projects.

dck worldwide welcomes Cindy Arcuri, as Senior Human Resources Manager. In this role, Arcuri is responsible for employee relations and performance planning for dck's East Region, and she will also oversee the company's benefit programs and compliance regulations worldwide.

Kelly Crawford has joined dck worldwide as Training Specialist. She will be responsible for facilitating employee training and assisting with the implementation of the company's new CMIC system, along with putting into place a general training program throughout the organization.

April Austin joined Massaro Corporation full-time as a project engineer this fall after serving as an intern with the firm for the past two years. April earned her bachelor's degree in Civil Engineering Technology from Point Park University where she also was a member of the women's basketball team.

The Rhodes Group, an international construction consulting firm headquartered in Pittsburgh, today announced that Laura Miller will join the firm as Director. Ms. Miller is a CPA and expert in construction-related damages. Ms. Miller earned her B.S. degree from John Carroll University and her Masters of Business Administration from the University of Pittsburgh.

Landau Building Co. has named Thomas A. Landau as Chief Executive Officer and Jeffrey C. Landau as President. The realignment is intended to promote new business development and to encourage organic growth among existing clients. Tom Landau will spearhead new business development for the company. Jeff Landau will be responsible for strategically leading the company into the future.

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Winjen Corp.
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UPMC Work Partners
Wells Fargo Insurance Services of PA, Inc.
Westfield Insurance
Willis of PA, Inc.
Zurich NA Construction

Closing Out

By Bill Peduto, Mayor-elect

The proposed lower Hill District development site presents a transformational opportunity for the City of Pittsburgh. Located on the former site of the Civic Arena, previously the site of a neighborhood with rich historical and cultural traditions that was destroyed by mid 20th Century urban renewal, we must take this opportunity to build this development right. As the next Mayor of the City of Pittsburgh, I am eager to continue working together with the Pittsburgh Penguins, the Hill District community, and all developers and stakeholders to make sure that we build something great for all residents of our city.

Bill Peduto

The potential economic activities to be generated by the proposed lower Hill development are tremendous. We will create hundreds of construction jobs as the site develops, and several hundred others will come on-line once the site is fully completed and operational. I have already engaged in significant discussions with the Penguins and other stakeholders, on behalf of the residents and taxpayers of Pittsburgh, regarding elements that will need to be incorporated as this development takes shape, so that we can take full advantage of the expected economic impact.

First, in order to be a great city, we must build developments worthy of a great city. Good enough is no longer good enough. As our society becomes more transient, cities are becoming increasingly competitive. Companies are increasingly selective regarding workplaces for their employees, and residents seeking an urban environment demand amenities available in other cities. I am encouraged that the preliminary development plans proposed by the Penguins include numerous sustainable growth elements, such as green storm water management plans, open and green spaces, and energy efficient design and construction. These elements are essential to carrying out our responsibilities as custodians of the future of Pittsburgh.

Second, we have the unique once-in-a-lifetime opportunity to reconnect the lower Hill to the middle and upper Hill District, the entire neighborhood to the rest of our city, and to correct some of the mistakes of our urban renewal past. As Mayor, I will make sure that all community stakeholders have a seat at the table, and further that the development establishes a pathway to generate housing and business opportunities into the entire Hill District neighborhood. To that end, the development also fits nicely with transit plans being developed in cooperation with our Allegheny County Executive Rich Fitzgerald, which will bring additional funding resources and even further economic activity along the corridor from Downtown to Oakland.

Finally, as we face an increasingly difficult environment with declining state and federal resources available for cities, we have no option but to be creative in our investment of public money into developments. Many funding programs have been cut, or eliminated entirely, in Harrisburg and Washington. Reconnecting the street grid in the lower Hill District is an essential first step, and we are preparing to invest millions in public resources into the infrastructure necessary to prepare the site for development. Any such public investments will need to be completed in a manner that leverages our opportunities to make improvements beyond the development site. I have charged my staff to work with investors and developers to establish programs to partner with private capital to further expand the reach of our public investments.

As your next Mayor, you have my commitment that I will work hard, together with the Penguins and all stakeholders, to ensure that the lower Hill development realizes its full potential.

Bill Peduto has been council representative for the City of Pittsburgh's District #8 since 2001. He was elected Mayor of Pittsburgh on November 5.