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President’s Message

As my second and final term as president for NAIOP Pittsburgh is coming to a close at the end of 2018, I am pleased to report that the chapter is strong and, more importantly, positioned well for the future of commercial real estate in the region.

In my two years as president, we have had a great deal of successes. We have continued to focus on the three core goals that grew out of our 2017 strategic plan – advocacy, membership and communications. These will guide NAIOP Pittsburgh as we plan for the future. Highlights have included:

• Hired three outstanding people starting with Brandon Mendoza (Executive Director), David Caliguiri (Public Affairs Consultant) and Erica Loftus (Chapter Administrator).
• Record sponsorship and greater than 650 guests at our 25th Annual Awards Banquet in 2018.
• Honored our outgoing Executive Director Leo Castagnari who served NAIOP Pittsburgh well for twenty years. I would encourage others to recognize Leo with a contribution to the Castagnari Family Charitable Fund through pittsburghfoundation.org.
• Became active and engaged in local issues impacting commercial real estate investment and development in the region including the City of Pittsburgh’s Riverfront Zoning initiative and the increase in the City of Pittsburgh’s real estate transfer tax.
• Hosted innovative and attractive programming by our Developing Leaders with project tours across the region including a half-day bus tour for multiple airport properties, a project tour of the Kaufmann’s Grand on Fifth Avenue luxury apartment project and a lunchtime tour of 420 Boulevard of the Allies with special guest speaker Dan Gilman, Mayor Peduto’s Chief of Staff.
• Continuation of the Mentorship Program for our Developing Leaders.
• Visits to Harrisburg to discuss commercial real estate development issues with our elected and public officials. Agenda items included:
  • Streamlining DEP state permitting processes
  • Support of the Bus Rapid Transit between Oakland and Downtown Pittsburgh
  • Allow for 1031 like-kind real estate exchanges to be recognized in Pennsylvania
  • Pushing for reduction of proposed increase to Electric Standby Tariff with Public Utility Commission
  • Visits to Washington DC to discuss commercial real estate development issues with our elected officials.
  • Support for infrastructure and transportation investment.
  • Ensure capital and credit markets meet the current and future needs of the commercial real estate industry.
  • Support of Environment and Energy Efficiency.
  • Re-engaging the Construction Legislative Council and with the Building Owners and Manager’s Association’s legislative affairs committee to combine efforts on shared goals.
  • Restarting of the statewide initiative in conjunction with NAIOP Philadelphia to address issues affecting both eastern and western Pennsylvania.

The groundwork has been established for NAIOP Pittsburgh and Western Pennsylvania to continue to thrive as NAIOP Pittsburgh has been investing resources for the betterment of the commercial real estate community. It’s been an honor to be at the helm during this exciting time.

Thank you!

David Weisberg
NAIOP Pittsburgh President
My NAIOP Pittsburgh membership has been a huge asset as I’ve grown in my career, offering access to key players in the industry.

JOIN US AND ADVANCE YOUR BUSINESS.

RYAN SCHWOTZER

President, Crossgates, Inc.
NAIOP member since 2010

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Join NAIOP now and get the rest of the year free!
As I begin my tenure as executive director at NAIOP Pittsburgh, I am excited about the wealth of opportunity in Pittsburgh and the unique role that NAIOP occupies in advancing this region. As I reflect on NAIOP Pittsburgh’s strategic positioning, I am focused on transforming our advocacy strategy, further developing ROI for our membership, and revamping our communications strategies to ensure we are meeting our stakeholders on the platforms they utilize.

When it comes to advocacy, we will be proactive, and we will show leadership in the policy development process. This proactive approach will allow for greater success and influence. Additionally, NAIOP Pittsburgh will further develop our strategic relationships with our region’s elected leaders and other like-minded advocacy groups. I will also seek to leverage the relationships of our members, many of whom have deep connections and relationships with our region’s elected and civic leadership.

When it comes to membership, I will be focused on retention, growth, and driving ROI. I value all of our members and I want to see their businesses succeed. I believe NAIOP Pittsburgh can continue to support our members’ growth, while also enhancing the benefits of our membership. In the coming months, under the board’s leadership, I will be exploring ways to enhance our membership benefits. NAIOP Pittsburgh will have an open-door policy for all our members. If you have a policy concern or a membership issue, please feel free to reach out to me.

Given the communications environment we are currently in, where we see the President of the United States engaging in direct communication with his followers via his Twitter account, NAIOP Pittsburgh cannot afford to ignore this paradigm shift. Given this new environment, we will be working to revamp our communications strategy with a mobile and social first approach. We will evaluate our website and social media sites to ensure members have the best experience possible.

I am hoping to see many of you at our upcoming events, including the 19th Annual Night At The Fights on November 1st, please reach out to me if you’re interested in sponsoring and/or attending the event. Further, in the coming months, I am planning on meeting with as many of you as possible. If you have project concerns or other matters, please feel free to reach out to me. I am here to help you and your businesses grow.

Sincerely,

Brandon J. Mendoza
Executive Director
NAIOP Pittsburgh

In 2017, NAIOP Pittsburgh’s Board of Directors participated in a strategic planning session to set the course of the organization for the next decade. The process was very informative and insightful for all participants. We learned a lot about our membership and their different concerns and priorities. However, one area clearly became the top priority for everyone involved: advocacy.

As a result of the strategic plan, NAIOP has made several changes to tackle advocacy issues on behalf of our 350 plus members. First, we created a new advocacy committee. This committee is charged with providing board and member leadership to help guide the chapter in vetting policy issues.

Second, we hired a public affairs firm that will help NAIOP navigate the political process and allow us to have a more vocal say when public policy affects our industry. Finally, after more than 20 years, Leo Castagari retired from his position as NAIOP’s first and only Executive Director. Leo has done more for NAIOP than anyone and he will be missed. His departure gave NAIOP an opportunity to bring in a new Executive Director, Brandon Mendoza. Brandon was previously a public affairs expert with the Greater Pittsburgh Chamber of Commerce – an affiliate of the Allegheny Conference, where he led local and federal government affairs.

This year, NAIOP participated in a number of meetings and discussions with local elected officials regarding the proposed Riverfront Zoning legislation. This legislation was drafted by Cities Planning Commission Members and Planning team and was a central focus of the Peduto administration. It was further designed to replace the interim planning overlay district that had been in place since 2016. Early iterations of the legislation placed a number of undue burdens on developers, many of which are our members. Our development community’s goal is to continue the trend of preserving and restoring Pittsburgh’s riverfronts with high quality projects that showcase the city’s transformation.

By engaging our members and developing a responsible alternative, NAIOP was able to have numerous meaningful discussions with local elected officials. Working with the Mayor’s administration and members of City Council, NAIOP was able to positively affect the legislation.

Going forward, NAIOP Pittsburgh will be engaging on a number of federal, state, and local policy issues, including advancing the Oakland-Downtown Bus Rapid Transit development, the ongoing Pittsburgh Water and Sewer Authority and water quality debates, regional transit, airport area transit buildouts, and DEP permitting reform. We are also focused on tracking the progress of the final rulemaking for the federal Opportunity Zones program. We look forward to engaging membership and elected officials as we can to grow NAIOP Pittsburgh as the region’s largest industrial real estate association.

Sincerely,

Brandon J. Mendoza
Executive Director
NAIOP Pittsburgh

For NAIOP Pittsburgh, the future is bright. As the region continues to transform itself into a hub for innovation and growth, I look forward to working with our membership to ensure that they continue to thrive in our dynamic and ever-changing environment.

EXECUTIVE DIRECTOR’S MESSAGE

NAIOP ADVOCACY UPDATE
The old model is broken. The systems for moving people through public transit no longer serve the way we work and play; and the means for funding public transit are no longer adequate. That’s a tough place to start for a bold vision of the future of transit in Pittsburgh. Yet, in the same way that accepting that you have a problem is the first step in recovery, understanding that the current system for delivering transit and transportation solutions won’t provide the best solutions for Southwestern PA may be the first step forward. There will likely be a pendulum swing in the direction of public investment in infrastructure again, but it seems unlikely to occur in time to meet Pittsburgh’s needs for growth.

As an industrial city, Pittsburgh was something of a model for public transit. Trolleys, buses, and inclines directed workers Downtown, where the majority of people in Pittsburgh worked. Those that worked in manufacturing jobs lived in neighborhoods or towns that grew up around the plant, usually within walking distance of work. Post-industrial Pittsburgh developed into a suburban workplace, with Downtown less of a focus. Public transportation declined and highway capacity grew.

What’s occurring economically today is necessitating a hard look at the regional transportation problem. Downtown is growing again as a work center but it’s the connections to the other centers of economic activity that are driving this need to re-envision transit. Oakland has always been a center of job creation but the pace of job creation and the economic spinoffs from the universities and UPMC are creating an almost existential need for connection. The new economy of Pittsburgh depends on getting talent to Oakland, which is well-served by bus, but the need to link Oakland’s talent with research and development in nearby places like the Strip District, Bakery Square or Hazelwood, is just as critical. And this talent will arrive by airplane to an airport that is connected to the most important parts of the city by a crowded, undersized highway.
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Transit’s future isn’t being ignored. The Allegheny Conference on Community Development convened a task force of transportation experts and civic leaders to form the Regional Transportation Alliance. That Alliance spent thousands of hours in 2016 studying Southwestern PA’s transportation system and gathering information about what the future might hold for the region.

Progress continues on the region’s first major transit expansion since the North Shore Connector, the bus rapid transit (BRT) line that will connect Downtown to Oakland and communities to the east.

These efforts, and others like them, are constrained by the limitations of what’s practical. Public authorities, like the Port Authority of Allegheny County, and elected officials must worry about their constituents. The vision of the future is seen through the lens of conventional funding sources and conventional wisdom. Without the permissions of the taxpayers who elect them and pay their salaries, it would be irresponsible for the elected leaders of the region or the Commonwealth to plan beyond what they can pay for. But thinking beyond what is practical may be the only way to plan now for what will be needed in the future.

It’s not difficult for these leaders to envision the future of the region’s economy in terms that may not be practical. Mayor Peduto talks about future mobility in Jetson-like terms. The idea of affordable housing and an economy that is equitable for all is outside the realm of practical. Leadership that inspires looks beyond what is practical.

It seems unquestionable that emerging technologies will disrupt whatever bold vision of transit emerges. Autonomous vehicles or flying cars may render highways – and light rail systems – obsolete in five or 50 years. Less technological advances are impacting transportation as well. Bike usage is on the rise. More people are moving to communities where they can walk to work and play. These changes in behavior and technology won’t make all the connections that are needed now if Pittsburgh is to grow into its future.

It’s difficult to plan for billions of dollars in transit investment, while ensuring that the investment won’t be made obsolete by technology advances, with a sense of high urgency. Yet, that’s what is required. In many ways, this is Pittsburgh’s time. Waiting to see what shakes out in the future of transit is safe but it may take time the region doesn’t have.

It’s About Connections

In the fast-growing Southern cities that boomed in the 1980s, like Atlanta or Dallas, high-capacity beltway systems were built to circumnavigate the denser parts of the city and better connect the workforce to the employment centers. A skilled worker in an eastern Dallas suburb has access to jobs on the northwest side of town via a limited access interstate, cutting what could be an hour commute in half. In Pittsburgh, such connections exist by the coincidence of where existing infrastructure is. Westinghouse’s move to Cranberry Woods was less disruptive to employees because of the easy Turnpike connection between Monroeville and Cranberry Township. The same may not have been true had the corporation chosen a site in Southpointe or near the airport.

To prepare for growth, infrastructure will need to be enhanced by building to make connections that do not currently exist. That’s easier to do in places where population and business are growing at a rapid pace. Even if that growth is in a low-tax environment (like Texas’) the sheer volume of new companies and residents will grow the tax base. For older regions with established tax bases, the task is more difficult. That’s not just because it will be harder to fund transit expansion, but also because older cities in the U.S. often have density and/or topography working against them. That is certainly the case in Pittsburgh.

There’s another tough issue in regional transportation, especially if regional leadership includes a wide band of stakeholders. The impulse to create a regional transit system that touches all parts of the region is strong but that may not also be the right approach. In Southwestern PA,
The average cost of transportation for Pittsburgh residents pushes the total cost of housing and transportation to 41 percent of income. Source: H+T Index. Center for Neighborhood Technology.

The Regional Transportation Alliance saw this first hand when it created the Imagine Transportation 2.0 report in 2017. Partners in Indiana County and Greene County had input and deserve consideration in thinking about the long-term future of Southwestern PA, but the urgency of connecting those outlying counties to the job creating hubs of the region does not exist. Those counties outside the metropolitan area have transportation needs and deserve attention to those needs, but resources devoted to connecting those counties to Oakland or the airport might be better used elsewhere.

“The report alone was never going to be sufficient to change things but it began the process of getting people to think about the things that were to come. I think one of the important things that we were able to achieve with the report was getting our decision makers and people in a position of influence to really grapple with it in a tangible way,” says Carly Dobbins-Bucklad, senior policy analyst for the Allegheny Conference and one of the leaders of Imagine Transportation 2.0. “We needed to start something where there is alignment of our priorities in order for us to start honing in on our priorities.

“You still have to actually take the next step. The next step involves honing in on a handful of those priorities, fleshing them out. What do the options look like? Who has to be at the table? Then we use that information to determine what will be the biggest bang for our buck and have the biggest impact.

Those would be the projects we should pursue.”

Where are the important priority connections? Imagine Transportation 2.0 didn’t specify them but the employment centers of today are Downtown, Oakland and the fringes beyond Downtown. There is bus service connecting most of these areas but little rapid, on-demand service. What has emerged over the past decade are satellite employment centers in the Strip, East Liberty and Lawrenceville. These centers have emerged because they are home to the industries that could be Pittsburgh’s future growth engines. Connecting these centers to each other and the university centers that are the life blood of the emerging industries would be a great start.

For similar reasons, a connection from Second Avenue back to Oakland is a critical connection. Pittsburgh Technology Center has been the home to many university research tenants but often the users of those spaces have complained of being disconnected from the campuses. World-class researchers don’t come to Pitt or CMU to be a ten-minute car ride from the heart of campus. Now, with Hazelwood Green emerging as a major hub for robotics research and development, the critical mass is building for demand from that corridor.

Technology innovation has been the payoff for most of the limited speculative development that has occurred in Pittsburgh over the past decade. Schenley Place, 3 Crossings and Nova Place succeeded by investing ahead of the growth that innovation has driven. Burns & Scalos Riviera office building and 3 Crossings 2.0 are banking on that trend continuing. Doesn’t it make sense to place a similar bet on innovation driving transit demand?

Pittsburgh’s headline connection is Downtown to Oakland. Downtown is where the support infrastructure for technology exists. The lawyers, bankers and consultants that serve innovation are mostly based Downtown. That connection is also vital because Oakland is home to universities that are enormous consumers of the services that Downtown companies provide. And, of course, the region’s largest healthcare system maintains millions of square feet in both Oakland and Downtown. The justification for the BRT could be based on the commerce and development potential from healthcare alone.

Perhaps the most difficult important missing connection to envision is between these employment centers and Pittsburgh International Airport. The I-376 corridor plays an important role in connecting the airport to all points of the region, but it suffers from the limitations that a surface highway has. Traffic patterns are unreliable and subject to disruption from even minor accidents. There is no room for capacity expansion for major stretches of I-376 between town and Robinson Township. Weather can be a problem.

Ron Tarquinio, principal at TARQUINCoRE, laments that the opportunity to create a connection to the airport was lost when the Parkway West was designed. He recalls hearing whispers that the Downtown business community influenced the decisions to have as few interchanges as possible, in order to keep development from leaking west. Conspiracy theories aside, Tarquinio says that when a NAIOP Corporate was engaged to analyze the potential commercial uses of the former international airport in Moon Township, the experts concluded that the site lacked access to highways and wouldn’t redevelop well.
A high-speed public connection to the airport would have the added benefit of multiplying connections because of some of the infrastructure investment that has already been made. The limited-access highway connecting the airport to I-79, variously known as the Airport Connector and the Southern Beltway, has become incredibly valuable because of the emergence of the natural gas play. Assuming this corridor also gains an interstate designation (I-576) when it’s completed, the 30-mile stretch of highway will be ground zero for future investment in downstream industrial development, as it connects Southpointe and Greene County to Shell’s polyethylene facility in Beaver County via I-376 and to the Dilles Bottom cracker to the west via I-70 or 22/30.

Getting talent and business travelers from city origination points to the airport and the energy corridor expands the impact of the future development to the west of the city. As Pittsburgh’s East End neighborhoods have revitalized in recent years, the disconnection of the Airport Corridor has become more pronounced. Young talent, migrating to Squirrel Hill or East Liberty, is reluctant to deal with the traffic of a Parkway West commute, especially when so many other employment options exist nearby. General Electric’s Additive Customer Experience Center at Chapman Westport is reported to be experiencing difficulty in recruiting for that reason.

Connecting these centers also means connecting underserved communities to workplaces that aren’t currently accessible. Future transit planning will have to undo the shift in transit orientation from mass public transportation to cars over the past 50 years. Chris Sandvig, director of policy for the Pittsburgh Community Reinvestment Group (PCRG), points out that attempts to make the city more car-friendly damaged some of Pittsburgh’s oldest neighborhoods.

“When you step back and look at how our region works, how our region began, we were not a car-first region. When we tried to make places in our urban environment car-first, we ended up destroying the fabric of those communities,” Sandvig says. “When you think about East Liberty and the urban renewal project that happened there or what happened with Allegheny City when Allegheny Center was developed, we are not that sort of city. Our transit usage shows that. And many of the people we’re trying to help are transit-reliant. If Pittsburgh is going to see the growth that we all want to see, transit needs to be at the center of all that.”

One of Pittsburgh’s selling points, particularly to those in high tech, is its affordability. With a low median housing price, Pittsburgh trumpets its livability, but the shift to the suburbs has made its transportation costs rise. The Center for Neighborhood Technology analyzes major cities for the overall cost of living and computes a Housing + Transportation Index (H+T) that reflects the average share of income that these factors consumes. For Pittsburgh, the H+T is 41 percent. That fares very well with Seattle’s 46 percent, Atlanta’s 48 percent or Houston’s 45 percent. The surprise is that Pittsburgh’s H+T score is five points higher than Philadelphia and eight points higher than Washington DC. Housing costs in both of those cities is considerably higher than Pittsburgh’s but the ample public transit options mean that residents rely on much cheaper transportation.
Sandvig’s work at PCRG has been focused on enabling transit-oriented development (TOD). He says that TODs play an important role in bringing equity to a region because they move jobs closer to the people who need them if the TOD is done right. He also explains that TODs have a financial advantage over other commercial development.

“PCRG has been working on a lot of issues related to reinvestment in urban communities, predominantly in the city but also in the outlying counties,” says Sandvig. “We started our transit program, called GoBurgh. It grew initially out of a realization from some of our members that the infrastructure piece in redevelopment, if done right, could reduce the subsidy that people were pursuing to do bricks and mortar development.”

The value in connecting these important centers of employment, present and future, to people and amenities is in ensuring that talent can be and go to where it wants to. The residual benefit of building a system of connections is that the system becomes the blueprint for development. The Southern cities that exploded in the 1980s and 1990s built highways that stretched beyond where people were, and in doing so created the places that people would ultimately go. In almost all of those cities, land was plentiful, cheap and often flat. Atlanta’s outer belt or Dallas’s Central Expressway developed in farm land far from the city. Growth filled in the blanks later.

What was discovered in these car-centric cities in the decades that followed their initial booms was that the same thing happened when rail systems were built. In fact, in many cases, the rail system rejuvenated areas that had fallen fallow as the cities pushed outward.

Jamey Noland, director of underwriting for PenTrust Real Estate Advisory Services, lived in Denver for 15 years. During his time there, Denver’s Regional Transportation District – their counterpart to the Port Authority – built and expanded a light rail system that connected the wide-ranging places where the new economic drivers of Denver have grown.

“The transit system in Denver grew from two or three lines to almost becoming a beltway around the city. They also built a light rail to the airport that was huge,” Noland says. “There’s an area, South Broadway, that’s becoming a transit hub. It’s the equivalent of putting a transit center on Banksville Road that would serve as the hub for all the rail south of the city. You can imagine what has happened to South Broadway. There has been new development of condos, retail and commercial all around the transit center.”

The area surrounding Banksville Road is already fairly densely developed with neighborhood commercial product but imagine what a transit center located between the West End and McKees Rocks might spark. How attractive would the affordable communities in the Mon Valley become if a robust transit line connected Oakland to Charleroi, or the Mon-Fayette was completed to Hazelwood?

One Pittsburgh architect has given a lot of thought to the transit vision. Chip Desmone, principal at Desmone Architects, has designed and developed commercial projects throughout Lawrenceville. He dreams of a fast-moving connection between the Strip District/Lawrenceville and Hazelwood Green that would service the heart of Pittsburgh’s new economy.

“Can you imagine the robotics engineers at the Tech Forge, who have a meeting at the Advanced Robotics for Manufacturing facility in Hazelwood, jumping on an eight-seat electric vehicle or something like that and arriving in a few minutes?” he asks.

Desmone describes an existing Allegheny Valley Railroad line that runs from the Strip behind the old Pittsburgh Brewing at 32nd Street, follows the East Busway before entering a tunnel in Bloomfield. The line then exits near Central Catholic, continuing between Pitt and CMU before reaching Second Avenue. That line was abandoned by CSX when the carrier transitioned to double-stacked cars and picked up by AVRR, which also connects it to the lines along the Allegheny River. AVRR would have to be convinced to share the underutilized line and there would have to be logistical solutions designed, but it is the imagining of a transit solution that is usually more difficult than the execution.

Funding the Vision

There are many hurdles that exist to the execution of a bold transit vision but none are as daunting as the challenge of funding the projects. Infrastructure investment receives its fair share of
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campaigning but elected officials have shown little desire to follow through with remedial infrastructure spending, let alone bold investment. From the federal government on down, there isn’t the political will to invest in mass transit. This has led to regional solutions that go outside the norm. Other cities have recognized that their needs were more urgent and expansive than would be served by the traditional process of applying to the Federal Transportation Administration or lobbying their state legislature. In a number of cases, growing or large cities have taken the case directly to the voters. Civic leaders in Pittsburgh are familiar with the $4.7 billion FasTracks referendum in Denver and their subsequent expansion referenda. Denver’s story is something of a model because it involved a failed vote in 1997 that was followed by two decades of leadership that sold the vision of the future to the citizens. Denver’s story is not unique. More than a dozen major cities have gone to their voters with multi-billion dollar proposals, with mixed results. The two biggest programs were Los Angeles’ $121.4 billion Measure M and Seattle’s $53.8 billion Sound Transit 3. Measure M authorized a half-cent sales tax to fund $113 billion in new transit and improvements through 2040 and passed with 71 percent approval. Sound Transit 3 used a combination of small increases in sales and property taxes, plus motor vehicle fees, to fund 62 miles of transit expansion between 2024 and 2041. Among the dozen other referendums were six from California authorities, four of which received strong majority support but fell short of the two-thirds majority that California law mandates. Among the measures voted upon in other cities, programs were approved by voters in Charleston SC ($2.1 billion), Wake County NC ($2.3 billion), and Atlanta GA ($2.5 billion). Voters in Southeastern Michigan and Broward County FL turned down $4.7 billion and $6 billion measures respectively. Against the backdrop of these proposals, Pennsylvania’s Act 89 of 2013 may not seem all that bold, but it was an ambitious step outside the box for a legislature that had been opposed to raising fees or taxes on residents. An unprecedented coalition of corporate, government, civic, and labor leaders
successfully pushed the legislature to reverse a narrow “no” vote and pass the measure overwhelmingly within 48 hours.

In 2018, Act 89’s full funding expansion of $2.3 billion is in effect, but political moves since 2013 have eroded the effectiveness of the measure. Hundreds of millions of dollars have been diverted from infrastructure investment to paying for state police patrols of communities that can’t afford their own police. Some $400 million each year to pay for the revenues that were lost when the tolling of Interstate 80 was not approved, an outcome that the PA legislature failed to take into account. Act 89 has been a beneficial piece of legislation, but not to the degree it was anticipated.

What has worked from Act 89’s passage has been the benefit to the state’s two major public transit systems. The additional $144 million in transit funding allocated to Southeastern PA Transit Authority and the Port Authority of Allegheny Co. allowed each to stop the erosion of service that was becoming a death spiral for public transportation in Pittsburgh and Philadelphia. PAT’s new CEO, Katharine Eagan Kelleman, has focused on changing the culture of transit and improving the experience for the systems’ riders. Within the year, a more ambitious plan for how to enhance public transportation in Allegheny County will be underway at PAT, but the funding for growth won’t come from Act 89.

There exists a blueprint for future transportation that has been developed by the Southwestern Pennsylvania Commission (SPC). Mapping the Future: The Southwestern PA Plan was developed in 2015 and amended in September 2017 to be the plan for investing in the infrastructure for the SPC’s ten-county region. The plan identifies capital projects and investments to improve the region’s infrastructure and transit systems. Mapping the Future calls for $29 billion in investments through 2040. Of that figure, $14.3 billion is earmarked for roads and bridges, and $14.6 billion for public transportation.
The plan is an outgrowth of SPC’s role as the guidance for PennDOT and the Commonwealth in planning infrastructure spending each year. As such, SPC is limited in its planning to existing funding sources like the National Highway Priority Program (NHPP) and the Surface Transportation Program (STP).

Getting beyond those budgeted funding sources, regional authorities can look to alternatives that are still locked into the existing framework of funding solutions. These alternatives can include private/public partnerships (P3), Regional Transportation Districts, Transportation Revitalization Investment Districts, Private Activity Bonds or long-term bond borrowing against future revenue or tax streams. None of these are sufficient or suitable for funding an expanded transit system that connects the areas that are economic and social drivers to all the residents of metropolitan Pittsburgh.

What it will likely take to act upon a bold vision is a sales job. Many of the residents of Southwestern PA don’t have access to the information that would make them aware of the critical role that access to transit plays in economic development. Something similar to the Regional Transportation Alliance (which still exists) could be the clearing house and convener for pulling together the vision and communicating it to the voters. Perhaps the lessons learned from responding to the Amazon HQ2 request for proposals can be the template.

Selling a sales tax or other revenue-generating strategy will be made more difficult by the fact that the buyers are dispersed into multiple counties and even more municipal taxing authorities. It won’t be easy but worthwhile ventures seldom are.

It’s hard to imagine that the rationale behind a bold transit plan would need to be sold to the business community. Most of the principles guiding such a plan – density, connections between collaborators, talent attraction, linking capital and support to innovation – are widely accepted in Pittsburgh as beneficial to a sustainable and equitable economic future. According to Transwestern, a global commercial real estate developer and investor, there is a more practical rationale: higher rent and occupancy.

Transwestern’s July 2018 report on the impact of transit-accessible properties in 15 major US metropolitan markets (Pittsburgh was not among these) found that central business district (CBD) rent was 65 percent higher in transit-accessible buildings than car-dependent buildings. The study found a 50 percent rent premium for transit-accessible buildings in the suburbs. Vacancy was also impacted by access to transit. Transit-accessible buildings had average vacancy rates of 8.3 percent, compared to 9.1 percent for car-dependent buildings.

Getting to the Future

There is one forward-looking transit project in the pipeline for Southwestern PA. Proposed four years ago, the bus rapid transit (BRT) connection...
between Downtown and Oakland has progressed through the feasibility and fund-raising stages to become a viable project. Through community meetings, PAT received feedback that led it to define the route and stops of the BRT, expanding its reach beyond Oakland to the eastern neighborhoods that are thriving. Those neighborhoods include Squirrel Hill, Shadyside and branch routes that connect riders in Greenfield and Highland Park. With dedicated lanes, limited stops and advanced technology for traffic control, the BRT is designed to move people between Downtown and Oakland in seven minutes or less throughout the business day.

A light rail system that connects Downtown to Oakland, and to the research facilities on Second Avenue and Hazelwood Green, is on the wish list of most observers of Pittsburgh’s revitalization. A BRT alternative to light rail makes sense for a couple of reasons, however. First and foremost is the cost. At $195 million, the proposed Downtown-to-Oakland BRT is a major capital investment for PAT, but one that pales in comparison to the billion-dollar price tag of even a short rail project. And, it is one that can fit within the limited federal granting programs. BRT requires much less time to develop, likely delivered in two years after construction starts. Most desirable of all, a BRT system is flexible rather than fixed. Should technology make such a system obsolete or impractical in a decade (or less), the infrastructure for a BRT can be adapted or returned to its original purpose.

Pittsburgh’s BRT route has the advantage of linking two of Pennsylvania’s largest employment centers that are currently growing towards each other organically. From Oakland’s gateway to the eastern edge of Downtown is less than 20 blocks, and the bleeding edges of development in both neighborhoods are but ten blocks separated and closing. Indeed, Uptown has already created an economic development model called the Pittsburgh Ecolinnovation District, which is meant to marry the grass roots sustainability/energy movement with the job creation of technical innovation to drive development of the Uptown corridor that links Oakland to Downtown. BRT stops throughout Uptown are meant to be commercial hubs for development.

The Pittsburgh BRT project garnered high marks from the Federal Transit Administration but did not receive the $98 million in funding in the current fiscal year funding. PAT expects that its resubmission for 2019 will be funded. In July, the Port Authority approved a contract with AECOM to design the system. Armed with $39 million in state backing, PAT plans to begin construction during the first half of 2019 and begin operating buses in late 2021.

“The options are different now than they used to be. It’s not so cut-and-dried because of technology”

Bus rapid transit to Oakland can’t be the only solution to connecting the region by transit. A bold vision of transit can’t be “future proofed” but technology can help with making the most of the solutions that are available. “The options are different now than they used to be. It’s not so cut-and-dried because of technology,” says Dobbins-Bucklad. “In the past if you wanted to take a step forward in transportation you went light rail. Now that’s not the only option. We have the ability to dynamically route vehicles. We have autonomous vehicles. Common shared mobility is now possible. There are private operators working to fill the...
gap. They are able to do that because of technology like real time information and location-based services."

“Optimization of routes used to be one of the most complicated and resource-intensive things you could ask a computer to do. Now we do it in seconds with a map app on the phone! That’s what technology lets us do,” she continues. “That’s what is changing our ability to think about how we can stitch a lot of different things together so that it’s not a one-size-fits-all solution. We can create a very flexible demand-driven solution that is lighter weight on capital investment.”

Rail-Volution, a national transit movement and no-profit organization that helps people and institutions build livable cities, recognizes that there is something going on in Pittsburgh. The organization’s annual conference will be held in Pittsburgh from October 21-24. Pittsburgh’s development community has been supportive of Rail-Volution and the conference will devote part of its time to educating attendees about what transit projects are going on around the U.S. and the impact of those projects.

“Rail-Volution is the premier transit and livability conference in the country. This is the first time Pittsburgh has had the opportunity to host, as the conference is usually held in cities with larger transit systems including San Francisco, Denver, or Chicago,” says Lynn DeLorenzo, principal at TARQUINCoRE and co-chair, sponsorship for Rail-Volution Pittsburgh. “Included will be a ‘Regional Day’ that will give the local Pittsburgh market a chance to participate in the discussion on the top transit and mobility priorities for the region with experts providing innovative ideas and solutions to challenges cities face today. Given the difficulties with funding transportation today, we all need to be a part of the conversation as well as the solution.”

Finding and funding a transit vision for the future is fraught with difficulties. Perhaps the plans for the Pittsburgh International Airport are an example of the difficult choices regions face.
Allegheny County Airport Authority CEO Christina Cassotis has created one of Pittsburgh’s biggest public sector success stories, more than doubling the number of direct flights from PIT in just a few years. Although the airport still gets good reviews, Pittsburgh International is a pre-9/11 facility that was built as a hub for an airline that no longer exists. The Airport Authority has shown vision in backing a $1.2 billion terminal modernization program but voices of caution have also been suggesting that a better investment would be a transit connection to the airport. The airport should become a world class facility again and people should be able to reach it using fast public transit. The question should not be which of these two important initiatives is more important but rather how do we fund the completion of both.

A bold vision isn’t practical or conservative, two qualities that Pittsburghers like to feel they possess. Looking at what moves growing vibrant cities, however, it is difficult not to notice that a well-connected transit system is one of the main ingredients Pittsburgh is missing.

“The money shouldn’t matter,” asserts Chip Desmone. “Figure out what the best solution would be. Make that happen and then go get the money for it.”

Ron Tarquinio sums up his feelings about future economic opportunities by referring to a current high-profile opportunity.

“If you can’t get from here to there, you can’t develop. Think about the Amazon opportunity. If Pittsburgh loses, it won’t be because of quality of life. It will be because we can’t get people from one place to another without public transit,” he concludes. DP
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Where Trust and Value Meet...
Construction wrapped up in July on the $41.7 million Ashby at South Hills Village Station, a 300-unit apartment complex developed by a partnership of Massaro Properties, Atlanta-based The Dawson Company and SunCap Property Group. The project began leasing its first units at the beginning of 2018 and has performed above expectations.

Ashby at South Hills Village Station is an upscale four-building apartment complex with a community building, large swimming pool and lots of lifestyle amenities. That hardly makes it unique among new multi-family products delivered in Pittsburgh during the past five years. What is different about the Ashby property is its integration into the Port Authority of Allegheny County’s (PAT) South Hills Village light rail station and parking garage. Ashby at South Hills Village Station is the first suburban transit-oriented development in Pittsburgh. Massaro Dawson developed the property, which sits across the street from the South Hills Village Station, after responding to a request for proposals from PAT in September 2012. The following year, SunCap Property Group joined as co-developer and capital source.

“The South Hills is clearly a built-out market but the transit-oriented development means a lot relative to driving occupancy and sustainable rents,” notes Nathan Lutz, director at SunCap. “And even though it’s a mature market, you can quickly rattle off the few apartment projects that have been done there. There was Lincoln Pointe 25 years ago, then the Torrente and now the Ashby.”

The project is the first to be successfully executed by PAT. It was the opportunity to create such a partnership that attracted the developers’ interest.

“To be part of a team that did the first of this type of suburban transit-oriented development in Pittsburgh was very exciting to us,” says David Massaro,
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president of Massaro Properties. “We were also interested in being able to help the Port Authority take an underutilized site and make it an economic development driver. We looked forward to making a project that was an economic benefit to the taxpayers, the residents and the Port Authority. It was a great location and there hadn’t been new product in that area for some time.”

The South Hills Village Station had some limitations to transit-oriented development. The station is the end of the light rail transit line and is located on the Bethel Park/Upper St. Clair border, where commercial land uses aren’t very flexible. Moreover, agreements between PAT and Simon Properties, which owns South Hills Village, prohibited retail and dining uses that would be competition with the mall’s tenants. For Dawson Company, however, building apartments in proximity to transit stations was something with which it was comfortable.

“We have done a number of projects like this. Transit-oriented development provides great operating revenue for the transit authority by leasing underutilized commercial real estate,” explains Bailey Pope, senior vice president design & construction, for Dawson. “If the authority sells the land it has to give the proceeds to the federal government. To the extent that it can lease the land and increase ridership, a transit authority meets its federal mandate and adds revenue over and above what it gets from fares.”

While the land lease can be an obstacle for some developers – the process is cumbersome – there are advantages that make the arrangement attractive.

“It’s a good deal for the developer too because you don’t have to have as much upfront capital expense,” notes Pope. “We’re talking hundreds of thousands of dollars instead of tens of millions.”

Getting through the bureaucratic process of satisfying the Federal Transit Administration (FTA) on the 110-year land lease was more difficult than executing the same kind of lease with a local government or private entity. While Dawson had experienced how tedious the process of crossing “T’s” and dotting “I’s” could be, its local partner had not.

“The biggest challenge was dealing with the whole transit administration process and what it took to enter into a land lease with the Port Authority,” Massaro recalls. “It was not easy to get everything together in order to get approved by the Federal Transit Administration. There was much more involved in justifying all the economics and getting the contract language needed for approval to do the land lease.”

Some of the three years of preconstruction were spent satisfying the FTA approval process but the arc of the project’s development was also slowed by an intentional rethinking of the property’s design. The Ashby would be among the first new apartment projects delivered in the Bethel/Upper St. Clair submarket and the developers wanted to ensure the quality of the project matched the expectation of the market. Upper St. Clair, in particular, has a predominance of single-family properties, so the developers took time to better understand who their renter would be. Pope says that experience had taught Dawson that proximity to a transit station wouldn’t ensure occupancy.

“We’ve been doing transit-oriented development around the country for about 15 years. We’ve come to the conclusion that transit is necessary but not sufficient. The development has to make sense on its own,” says Pope. “We built a quality product at the Ashby. We have spacious apartments, high-quality finishes and appliances, and
top-of-the-line amenities. That’s what makes a good project.”

Lutz notes that SunCap plans to keep Ashby in its portfolio and made decisions about the project that reflect that.

“We made choices about the construction that were going to cost us more – the amount of masonry being used, the level of finish and amenities – because we intend to hold the property,” he says. “It’s an infill project but it’s also clearly suburban. If you look at other urban [TOD] projects, Ashby competes on square footage and amenities, but the floor plans and sense of home are more suburban. We knew we were competing for the urban renter in a suburban setting.”

Among the Ashby’s amenities are common area lounges, a large community building and swimming pool that has an outdoor kitchen and plenty of seating. The fitness center is larger than average and has upgraded equipment, and an on-demand studio that allows residents to call up video classes. There is a dog park.

The Ashby’s location is an additional amenity, as residents have South Hills Village next door, and Giant Eagle, Whole Foods, Trader Joe’s, and The Fresh Market within one mile’s drive of the complex.

Of course, the proximity to the light rail station and parking garage are built-in amenities. Pope says that the first year’s renters haven’t been just Downtown commuters, but that access to the train makes it easy for residents to get to Pittsburgh’s cultural amenities without driving. And roughly half of the eventual residents will have leased spaces in the PAT garage. With a bridge connecting the garage to half the buildings, residents will be able to go directly from their parking space to their building.

As planning for the Ashby at South Hill Village Station wrapped up, the partnership worked with Massaro’s construction company, Massaro Corporation, but the team was unable to come to terms that were agreeable. The project went out to a select group of contractors for bids in spring of 2016. From that process, Rycon Construction Co. was awarded the contract to build the apartments. Including all the site work, the construction took about two years to complete, with the first building delivered to rent at the end of 2017.

Pope recalls a smooth construction process, noting that Dawson had to learn quickly about Pittsburgh’s interesting topography, geology and weather. The PAT parking garage has a 20-foot deep basement level, meaning Rycon had to take care in its excavation and foundations. There were some pyritic soils, which was new to Dawson, but normal for a Pittsburgh-based construction team. The site of the buildings was previously a parking lot and fairly flat but there were a few issues that arose from working adjacent to an existing transit system. Pope recalls that extending the utilities to the site caused some indigestion for PAT.

“We had to cross under the light rail tracks with our utilities. Port authority engineers don’t like anyone getting near their tracks,” he chuckles. “You work through these things.”

To Kris Volpatti, senior vice president for lead lender Key Bank, the execution of the project was notable.

“All of the parties worked together on the issues – there are always issues – very well,” she says. “During construction it’s all about understanding the kind of relationship that’s needed to execute. I think SunCap did that very well.”

“Rycon did a fantastic job of getting the project done on schedule and on budget. It’s a 6.4 acre site for 300 apartment units. It wasn’t an easy construction process,” says Lutz.

Volpatti lives near the Ashby and said she had concerns about the noise that the trains would produce for residents living closest to the tracks. She recently visited the apartments and reports that the windows chosen for the units were so well-insulated that she didn’t notice the sound from two different light rail cars that passed by. She says that a visit to the property also allayed any concerns about the demand for
apartments located by a transit station. "When I drove by there every day I wondered who would want to live on top of a garage," Volpatti asks. "Once you're inside it's like an oasis. The common rooms and amenities are just beautiful."

The lease-up of the Ashby at South Hills Village Station thus far validates the design and care taken to build a high-quality property. For Bailey Pope, this first foray into Pittsburgh produced a project that was successful for Dawson Company. He says the pleasure that the other partners – SunCap, Massaro Properties and the Port Authority – have with the project adds to the satisfaction with the property.

"We're excited to be part of the project in Pittsburgh. We're happy to help deliver a transit-oriented development for the Port Authority. They have struggled to get one done so we're happy to have delivered," Pope concludes. "I was up in Pittsburgh recently looking for our next deal. We think there's a lot of opportunity for apartments in a number of neighborhoods."

SunCap’s Lutz also lives near the project, on land that has been in his family since the 1800s. He jokes that being a Bethel Park neighbor made him a first responder for a lot of the project’s issues but he’s excited to see the project working so well for the community. Lutz has good things to say about the project team but called out the public partner for special praise.

"The Port Authority was fantastic in putting this together. They helped put together a ground lease that was financeable," he says. "It's a big organization but they were very responsive. We talked to the Port Authority once or twice per week during construction. We're adjacent to their garage so there is a lot of ongoing dialogue about maintenance issues for the Ashby and the garage that have to be coordinated. They are responsive in a way that I never expected from a huge public authority."

DEVELOPMENT TEAM

Massaro Dawson Group .............................................................................................................................................................. Co-Developer
SunCap Property Group .............................................................................................................................................................. Co-Developer
Key Bank ............................................................................................................................................................................................. Lead Lender
LGA Partners .................................................................................................................................................................................. Master Planner
Desmone Architects ........................................................................................................................................................... Architect of Record
Langan Engineers ........................................................................................................................................................................... Civil Engineer
LaQuatra Bonci Associates .............................................................................................................................................. Landscape Architect
Rycon Construction Co. ................................................................................................................................................... General Contractor
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Tariffs and inflation. Nine years into a steady, if unspectacular, economic expansion, two significant threats to continued growth have emerged. As of summer 2018, neither the impacts of tariffs with U.S. trading partners nor the steady rise of prices present an imminent danger to the economy (in fact, most forecasts for growth are robust into the fall.) But, for the first time since the financial crisis, there are trends that could prove to slow growth and make commercial real estate less desirable. According to most of the data and sentiment on the economy, however, conditions are on the upswing.

Those looking at the current state of the economy were encouraged by the Commerce Department’s first estimate of gross domestic product (GDP) for April, May and June. The July 27 estimate of second quarter GDP growth precisely met economists’ expectations of 4.1 percent. The Commerce Department also revised its first quarter numbers up to 2.2 percent. Many narratives about the second quarter GDP numbers highlighted the concerns about the sustainability of the expansion or nit-picked the details to find components of GDP that were less than healthy. The reality is that 4.1 percent quarter-to-quarter growth means that the economy was healthy from April through June. In fact, without an unusual increase in inflation and unexpected decline in inventories – a result of preemptive response to threatened tariffs – the growth in GDP would have been significantly higher.

Business investment was by far the headline of the report. Spurred by tax reform and growing confidence in the near-term regulatory environment, businesses unleashed their pocketbooks, spending 7.3 percent more in the second quarter. This overshadowed a four percent jump in consumer spending and a 3.5 percent increase in government spending, either of which would have led the story of growth in another period. Manufacturers and farmers pushed to hike sales to China ahead of tariffs, which boosted exports.

Private personal investment and residential fixed investment were the main drags on GDP.

Economists dissecting the report found concern in the fact that increases in private individual investing and savings appear to be tied to the short-term impact of the tax changes and were propped up by increases in personal credit at higher rates. The tax act has incentives for continued business investment, adding to hopes that the momentum from the second quarter will carry into the third quarter. Forecasts for the full year were upped to the 2.8 to 3.0 percent range, although those forecasts also anticipate falling GDP growth rates as the year unfolds.

What pessimism exists about future GDP comes from the expectation of declining exports due to trade disputes and tariffs, and the personal balance sheets of US consumers.

The National Association of Business Economists’ (NABE) July Business Conditions Survey found that U.S. corporations were as bullish on the economy as at any time since January 2014. NABE Business Conditions Survey Chair Sara Rutledge, an independent real estate economist and data science research fellow at StratoDem Analytics, noted that, “All panelists expect continued economic growth over the next 12 months, with most panelists anticipating inflation-adjusted gross domestic product—real GDP growth—to exceed two percent. Labor market conditions are tight, with skilled labor shortages driving firms to raise pay, increase training, and consider additional automation.”

Among the key responses from the 98 NABE member panelists were that 58 percent reported rising sales, while only eight percent reported falling sales. The July survey was the fourth consecutive quarter that the share of panelists reporting higher sales had increased. NABE creates a Net Rising Index – the percentage of panelists reporting rising sales minus the percentage reporting falling sales – that came in at 50 in July, the highest in four years. Some 65 percent of panelists report that their firms are not adjusting hiring and investment plans due to the 2017 Tax Cuts and Jobs Act, and 67 percent reported that the more aggressive trade policies of the Trump Administration were having no impact on hiring, investment, and pricing. That percentage decreased to 37 percent of respondents from goods-producing firms.

At the root of the soaring optimism about the economy are the lower tax rates and loosening regulatory environment. While the former has been shown to have had a negligible impact on job creation, the latter has provided the certainty that businesses seem to have needed for expansion. U.S. employers have quickened the pace of hiring in 2018, averaging 206,000 new jobs per month, compared to 173,000 per month in 2017. That surge in job creation has pushed unemployment down to four percent or less and has encouraged a significant share of those who were marginally employed or no longer looking for work to rejoin the workforce. Through July, more positions remained unfilled than there were applicants for the positions.

The same has been true for the regional economy, which has begun to trend have been good for Pittsburgh’s commercial real estate market fundamentals, helping to keep retailers healthy, office buildings fuller, and industrial demand high.”
see monthly gains in employment of at least 10,000 jobs for more than one year. Although the rate of employment growth remains modest – coming in between 1.0 and 1.4 percent most months – there are similarly more openings than applicants in most industries in Western PA. It’s worth noting that the job gains are net of the growing pace of retirements among Pittsburgh Baby Boomers. This demographic trend has helped push unemployment in the seven-county metropolitan area down to 4.1 percent.

These employment trends have been good for Pittsburgh’s commercial real estate market fundamentals, helping to keep retailers healthy, office buildings fuller, and industrial demand high.

Notwithstanding the upbeat news, the trend for inflation and the potential disruption that tariffs represent for U.S. trade present downside risks to the economy. This is particularly true because of the downstream influence of rising inflation on interest rates and consumption.

The tariffs threatened by Donald Trump have had little time to be measured, especially since the president has walked back a number of the tariffs in the face of political pressure. There is also evidence that tariffs threatened on long-time U.S. allies and trading partners may have been meant as an opening in an ongoing negotiation. This tactic, if intentional, has had the desired effect on the European Union. Of greater concern is the trade dispute with China.

At midnight on July 6, the U.S. implemented 25 percent tariffs on the first of $50 billion in Chinese goods. The actions drew an immediate and equivalent response from the Chinese. With threats of tariffs on an additional $200 billion (and ultimately $500 billion) in Chinese goods, the administration has signaled a willingness to engage in a trade war with exemptions for industries that are based in states that supported Donald Trump’s election and Republican Congressional candidates. There will be a number of industries and goods where exemptions won’t be possible or desirable politically, and prices will go up significantly if the tariffs remain in place for long. This is especially true for the construction industry. For U.S. consumers and businesses, a Chinese trade war will accelerate the inflationary pressures already working in the market.

The prospect of tariffs was part of the justification for a dramatic jump in producer prices for construction in May and June. A measure of all the inputs into construction, except labor, the Producer Price Index (PPI) for construction leaped 9.6 percent year-over-year in May and 8.1 percent in June. PPI overall rose 3.4 percent year-over-year. Some of the biggest price increases occurred in products and materials – like steel and aluminum – that will be affected by tariffs; however, some of the other spiking materials – like fuel, drywall and lumber – are not impacted by tariffs. Pent-up price pressure, opportunities for higher profits, and higher demand than supply are influencing the inflationary trend in products not involved in trade disputes.

June’s inflation report also saw the Consumer Price Index (CPI) rise to 2.9 percent. The rise was exacerbated by higher energy prices, but core CPI also rose by 2.3 percent. Core CPI is meant to gauge inflation exclusive of the more volatile energy and food categories, but consumers do not get to avoid paying for these more volatile items and June’s inflation overall outstripped wage growth by 0.2 points. That’s a trend that cannot continue if an economy driven by consumer spending is to grow. Should CPI continue to trend ahead of wage growth, pressure will increase to raise wages faster. In a tight labor market, such pressure could further accelerate wage inflation.

A related consequence of higher-than-expected inflation will be a more aggressive response by the Federal Reserve Bank on interest rates. In an environment of gradually increasing rates, hikes that are meant to tamp down inflation might also tamp down development. Rates that rose to levels above those of the mid-2000s would also create stress on renewing lines of credit and maturing commercial loans.
which in turn would make pro forma forecasts unworkable. An inflationary cycle would be good for property prices, but not much else.

More rapid inflation will add to growing concerns about the balance sheet of the middle-class and lower middle-class worker. Recent data by Oxford Economics shows that consumer spending since mid-2016 has been driven by consumers in the lowest 60 percentile of earners, a significant shift from the earlier years of the expansion.

Those earning in the top 40 percent have not reduced spending but have increased savings, while the savings rate of the rest of US consumers has fallen to 2005 levels.

This increased spending has come from greater access to credit rather than increased spending power from income. With the recent rise in gasoline prices, in fact, most lower-income earners have seen take-home pay decline. Delinquency rates in credit card and automobile loans are rising. The concern is that spending will begin to decline for this majority of workers in the coming quarters. An unexpected shock, such as higher gas prices or inflation, will exaggerate the problem.

As the year bends towards mid-term elections, the likelihood is that elected leaders and the Trump Administration will work to limit the chances of an unexpected shock. By backing off trade confrontations and allowing the momentum of strong consumer and business confidence to pull the economy along, the White House could take full advantage of the tail winds of a growing economy. The interrelated consequences of accelerated inflation should be sufficient concern for the administration to let a winning hand ride. DP
Competing factors have allowed the office market in Pittsburgh to stay stable and have prevented it from moving to more favorable conditions. On one side, we have seen unemployment in the area drop to 3.6 percent (20 basis points below the current national average) and the conversion of office buildings into residential dwellings, both of which should increase demand. On the competing supply side, the market has not created the number of new jobs anticipated. Coupled with the continued floor plate optimization and increased co-working space, overall office vacancy rate continues to hover near 14 percent.

**Economic Overview**

Although Pittsburgh has not yet reached its anticipated growth, investment in the area continues to climb. Anchored by Carnegie Mellon University, health-care, technology, finance, and tourism, the area continues to add jobs across industries. Over the past year, Pittsburgh added approximately 11,700 jobs and wages rose by four percent year over year. While population metrics show the city losing residents, the average age of the metro area resident continues to decrease as the education level of its residents rises. The labor force has shrunk, as 16,100 are no longer working or attempting to find work. The largest increase in work is in the construction industry, which outpaced everyone at five percent growth. With commercial building in a boom phase, construction companies added 2,700 workers, boosting total employment in the area to 61,600.

Google, Uber, Argo AI, and Amazon continue to show interest in expanding their presence in the Steel City. Amazon, regardless of HQ2 announcement, is expanding its existing office by 22,000 square feet and adding 125 new tech jobs. With a total of a $2.7 billion price tag, eight new hospitals are close to breaking ground or currently under construction. The $6 billion Shell plant is expected to be completed in 2021.

**Looking Ahead**

Pittsburgh stands on the precipice of turning into an economic powerhouse. World class universities located in the area – The University of Pittsburgh, Duquesne University, and Robert Morris University – are the driving forces behind a deep, and ever growing, talent pool. Carnegie Mellon University retains national notoriety in the areas of robotics, computer science, and artificial intelligence.

While the city is still awaiting Amazon’s decision regarding HQ2, making the short list can have its own benefits. If Amazon ultimately chooses another city to call its second home, it should not be overlooked that Pittsburgh has already put a preferential treatment plan in place for a larger employer. Several larger opportunistic employers may look to capitalize on the void left in cities that do not ultimately win the Amazon crown.

**Sales**

In sales, we have seen the following since the beginning of March:

The 155,000 square foot 420 Blvd of the Allies is being sold to the URA for $27.5 million with an anticipated renovation cost of $12 million.

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### Sales Data Table

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<th>Yr Built</th>
<th>Class</th>
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<td>$88</td>
<td>1992</td>
<td>B</td>
<td>$525,000</td>
<td>4/19/2018</td>
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<td>Morgan Center on the</td>
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<td>Butler</td>
<td>80,000</td>
<td>$86</td>
<td>1979</td>
<td>A</td>
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<td>5845 Centre Avenue</td>
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<td>11,000</td>
<td>$105</td>
<td>N/A</td>
<td>C</td>
<td>$1,152,860</td>
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<td>Gardner Building</td>
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<td>Wexford</td>
<td>7,800</td>
<td>$96</td>
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<td>11331 State Route 30</td>
<td>Irwin</td>
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<td>$250</td>
<td>N/A</td>
<td>B</td>
<td>$850,000</td>
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<td>732 E McMurray Rd</td>
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<td>4,624</td>
<td>$173</td>
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<td>B</td>
<td>$800,000</td>
<td>3/23/2018</td>
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<tr>
<td>2-6 F Pike St</td>
<td>Canonsburg</td>
<td>12,522</td>
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<tr>
<td>Social Security</td>
<td>101 Woody Drive</td>
<td>Butler</td>
<td>8,000</td>
<td>$215</td>
<td>N/A</td>
<td>C</td>
<td>$795,000</td>
<td>3/7/2018</td>
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<tr>
<td>Social Security</td>
<td>540 5th Ave</td>
<td>McKeesport</td>
<td>8,400</td>
<td>$226</td>
<td>2010</td>
<td>B</td>
<td>$1,720,000</td>
<td>3/6/2018</td>
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<td>275 Center Road</td>
<td>Monroeville</td>
<td>26,530</td>
<td>$66</td>
<td>1982</td>
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<td>Phoenix Centre</td>
<td>10431 Perry Highway</td>
<td>Wexford</td>
<td>21,552</td>
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<td>1994</td>
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<td>$1,750,000</td>
<td>3/1/2018</td>
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</table>
We continue to see the cannibalization of class B and C office space being redeveloped into residential dwellings. The Commonwealth building at 316 Fourth Avenue in downtown Pittsburgh is reported to be under contract with Connecticut based JCS Capital LLC. The plan calls for conversion of the former office to a 150-unit apartment building. The Commonwealth would join other office buildings on the block, 306 Fourth Avenue and 319 Third Avenue, which have been converted from vacant office to residential establishments.

For the area we are seeing capitalization rates between 7.6 percent and 9.0 percent, while price per square foot numbers are coming in near around $60/square foot for vacant space and $148/square foot for a stabilized asset.

### Leasing

As far as trends, Pittsburgh is seeing a migration from the suburbs back to the city. Currently, Bombardier is establishing a new 90,000 square foot office in the strip at One Waterfront Place, while it markets its existing 176,485 square foot facility at 1501 Lebanon Church Road. And, Philips confirmed it was taking 200,000 square feet in a new office building coming to

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<table>
<thead>
<tr>
<th>Sub-Market</th>
<th>Total (SF)</th>
<th>Vacancy (SF)</th>
<th>Vacancy Rate (%)</th>
<th>Vacancy Rate Class A</th>
<th>Vacancy Rate Class B</th>
<th>Rent Class A</th>
<th>Rent Class B</th>
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<tr>
<td>CBD</td>
<td>24,600,000</td>
<td>3,500,000</td>
<td>14.2%</td>
<td>8.5%</td>
<td>22.7%</td>
<td>$ 29.61</td>
<td>$ 21.45</td>
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<td>Greater Downtown</td>
<td>10,900,000</td>
<td>1,100,000</td>
<td>10.1%</td>
<td>4.2%</td>
<td>13.9%</td>
<td>$ 24.32</td>
<td>$ 22.89</td>
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<tr>
<td>Oakland</td>
<td>5,100,000</td>
<td>400,000</td>
<td>7.8%</td>
<td>2.3%</td>
<td>9.5%</td>
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<td>Cranberry</td>
<td>3,800,000</td>
<td>180,000</td>
<td>4.7%</td>
<td>4.6%</td>
<td>3.9%</td>
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<td>Parkway East Corridor</td>
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<td>1,200,000</td>
<td>25.5%</td>
<td>27.0%</td>
<td>25.2%</td>
<td>$ 21.86</td>
<td>$ 18.65</td>
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<tr>
<td>Parkway West Corridor</td>
<td>10,700,000</td>
<td>1,450,000</td>
<td>13.6%</td>
<td>14.0%</td>
<td>14.0%</td>
<td>$ 22.84</td>
<td>$ 19.92</td>
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<tr>
<td>North Pittsburgh</td>
<td>6,800,000</td>
<td>630,000</td>
<td>9.3%</td>
<td>24.4%</td>
<td>5.5%</td>
<td>$ 24.61</td>
<td>$ 17.66</td>
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<tr>
<td>South Pittsburgh</td>
<td>7,600,000</td>
<td>860,000</td>
<td>11.3%</td>
<td>15.0%</td>
<td>20.0%</td>
<td>$ 23.15</td>
<td>$ 18.68</td>
</tr>
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</table>
Bakery Square. Approximately 13 percent of all office space taken in the city since 2015 is from companies moving from the suburbs back into the city.

Preleasing of new assets is also strong. Approximately 750,000 square feet of office is currently under construction, with available information indicating that 41 percent of the space being preleased. One of the most notable projects is 3 Crossings, at 131,000 square feet. 50,000 square feet has been preleased to Argo AI, showing the continued expansion of the self-driving car industry in Pittsburgh. Across the river, the German software company SAP will be housed in the 172,000 square foot SAP center, which broke ground this spring. Walnut Capital has plans for a nine story, 328,000 square foot addition to Bakery Square, despite some setbacks in the permitting process.

In leasing, vacancy in trophy assets and class A space is historically low, while class B spaces continues to see difficulty in filling vacancies. In CBD, Class A space is approaching $30 a square foot with vacancy rates moving toward eight percent. While Class B space is boasting a vacancy rate over 20 percent and recent rent rates often being seen between $12 and $16 per square foot. Co-working space is now estimated to account for over 400,000 square feet of office space in the area. The availability of co-working space is likely to put even more pressure on Class B space as it presents itself as a viable alternative to budget conscience companies.

Closing

The next few quarters could define the Pittsburgh office market for years to come. The addition of large employers, coupled with expansion of the technology industry, could prove to be a juggernaut for office needs.
We deliver great experiences
The manufacturing sector shows signs of stabilization for the first time in many years in Q2 2018. Productivity enhancements and substantial capital investments helped drive growth within the sector up 2 percent over the same period 2017. According to the Allegheny Conference’s Business Investment Scorecard, manufacturing and advanced manufacturing were second only to information technology and robotics in capital investment and job creation in 2017, posting $165 million in investments and 1,335 new jobs. Watt Fuel Cell Corporation, based in Mount Pleasant, Westmoreland County, was the top fundraiser in Q2 2018 with $10.7 million in investments. Pittsburgh posted one of its lowest unemployment rates in recent history in Q2 2018 at just 4.1 percent, while adding nearly 13,000 new jobs to the region during the same period.

Developers Pursue Flex/Office Model in Response to Tech Tenant Demand

With more than 5.2 million square feet (msf) of industrial leasing activity recorded over the past 24 months, it was no surprise that net absorption in Q1 2018 was nearly double that of the same period 2017. Few speculative projects remain vacant within the Pittsburgh region, and though construction starts year-to-date lag those of the same period 2017, several new developments were announced. Among them, the Elmhurst Group has proposed a $25.5-million, 121,800-square-foot flex/office building for the final brownfield parcel at Pittsburgh Technology Park in the Oakland submarket. The flex/office model has proven successful for a number of developers in the region. The Regional Industrial Development Corporation has been remediating and developing old steel mill sites into hybrid office and R&D spaces for a variety of tech companies, most recently at its Lawrenceville Technology Center in the Greater Downtown submarket. The Tech Forge, which is a mix of office and high-bay space, just landed new-to-the-market Aurora Innovation, an autonomous vehicle technology company as its latest tenant. Aurora will occupy 40,000 square feet at the property and joins Caterpillar, who recently expanded into the property’s mezzanine level, now occupying 74,000 square feet. Additionally, Al. Neyer, LLC plans to construct two single-story warehouses at Clinton Commerce Park. Expected to be between 50,000 and 75,000 square feet upon completion, these buildings will join two 400,000-square-foot fully-leased distribution centers already on the 10-acre site.

Construction Activity Centers on Build-to-Suit Projects

New build-to-suit project announcements dominated the news cycle in Q2 2018. Scannell Properties broke ground on a 450,000-square-foot distribution facility at Starpointe Business Park in Washington County for a user rumored to be affiliated with Shell, while Niagara Bottling Company purchased a 42-acre site in Findlay Industrial Park, Parkway West submarket, on which to construct a 460,000-square-foot water bottling and distribution facility. Additionally, Vollmer, a tool-machining company, is building a 29,300-square foot service and distribution facility on a 5.85-acre parcel at RIDC Park West.

On the speculative front, Brooktrout Development broke ground on the first building in its 23-acre Brooktrout Business Park in McKees Rocks, Parkway West. The developer will occupy the first building but intends to build up to 20 additional buildings of approximately 12,000 square feet each. Schreiber Industrial Park in New Kensington, Westmoreland County,
is the latest speculative industrial redevelopment project to launch. The 70-acre, 293,000-square foot industrial park was the long-time home of Alcoa’s Aluminum Works but has been nearly vacant since its closing in 1970. The City of New Kensington purchased the park for $8 million in May 2018 and plans to invest $12 million into modernizing the facilities to create an advanced manufacturing center.

Warehouse/Distribution Sector Continues to Drive Leasing Activity

Pittsburgh remains a strong contender for regional distribution and last-mile operations, a trend confirmed with Amazon’s new lease for 70,000 square feet at I-79 North Industrial Park in the Northwest Pittsburgh submarket. The warehouse/distribution sector consists of 87.4 million square feet (msf) of rentable building area. Vacancy within the sector edged up slightly year-over-year to 5.1 percent over 4.4 percent in Q2 2017. At the close of Q2 2018, there were approximately 4.4 msf of vacant and available space. Year-to-date (YTD) leasing activity for the warehouse/distribution market is just over half a million square feet, down more than 50 percent from the first half of 2017. The sector ended the quarter with positive net absorption of 284,466 square feet with an average asking rate of $5.71/NNN – up 14.0 percent from the same period 2017.

North Submarkets Post Lowest Vacancy Rates in the Region

The North Pittsburgh/Lower Butler County submarket was immediately targeted by the various energy-related companies converging on the Pittsburgh market in pursuit of Marcellus Shale opportunities over the past several years, dropping the vacancy rate within the submarket to just over 3.0 percent since 2012. The warehouse/distribution and flex sectors account for approximately 20 million square feet of North Pittsburgh/Lower Butler County’s industrial inventory located within 380 buildings. The current vacancy rate for the sector is 3.4 percent with approximately 654,812 square feet vacant and available for lease and 9,536 square feet available for sublease. Year-to-date net absorption is positive 152,916 square feet within 242,180 square feet of total leasing activity. Rental rates range from $5.50 to $14.50 for warehouse/distribution with an average asking rate of $7.31/NNN, and from $15.00 - $18.00 for flex with an average asking rate of $16.50/NNN. Average rent has risen a whopping 18.3 percent over 2017 though the vacancy rate has remained stagnant at 3.4 percent during the same period.

Aside from Elmhurst’s 60,000-square-foot speculative flex project at 535-536 Thorn Hill Road, which is expected to kick off construction in the second half of 2018, nearly all new development is focused just north of Cranberry Township along the I-79 North corridor. Smaller, multi-tenant spec projects have been announced for Callery Industrial Park in Evans City while a variety of potential distribution facilities are awaiting pre-lease commitment to commence construction. Among these is 108 Tomlinson Road, a 220,000-square-foot facility in Jackson’s Pointe to be developed by Al. Neyer.

Outlook

The rise of the tech industry in the Pittsburgh market is countering the decline of the oil and gas sector, particularly within the Greater Downtown area. Overall direct weighted average rental rate for the market rose 23.7 percent year-over-year in 2Q 2018 to $8.77/NNN.

The industrial market will continue to navigate the volatile energy market, repositioning itself as the center for technology and advanced manufacturing. Expect leasing, absorption and rental rates to see double-digit improvements over the next several quarters as owners and developers respond to the evolving needs of modern users.
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In a business cycle where fears about maturing “toxic” commercial mortgage-backed securities have (twice) been overstated and underperforming assets have outlasted the market to become performing assets, the only clouds looming on the horizon of commercial real estate finance are old-fashioned rising interest rates and caution.

Come September, the financial crisis will be ten years old. Throughout the intervening decade, there have been echoes of the crisis that have loomed over capital markets, the maturation of loans made in the heady days of 2006 and 2007 that have largely proven to be non-events. Yet, the memories of the panic of the fall of 2008 seem to haunt the capital markets. As the business cycle gets long in tooth, lenders are getting warier. This is in direct contrast to the behavior of lenders in 1989, 2000 or 2007, when fewer deals was an incentive to lower lending standards. In 2018, more capital is in the market than there are projects to finance. Banks are reducing leverage. Higher risk, higher leverage finance options, like commercial-backed mortgage securities (CMBS), are not attracting projects in the way that they did in 2007.

The CMBS market may be the best barometer for judging conditions in commercial real estate lending. As has been well chronicled, CMBS benefitted from the naivete and enthusiasm of the real estate bubble of the mid-2000s. Unlike residential mortgage-backed securities, CMBS issuances didn’t hide higher-risk assets among the traditional loans of the bubble; in fact, the higher-risk tranches of the CMBS bonds offered higher returns that were appealing to investors with tolerance for commercial real estate risk.

CMBS is still the best option for borrowers who want to maximize leverage. CMBS has become more competitive compared to agency debt on multifamily, and it is the only avenue in other sectors to get full-term interest-only debt at moderate leverage, or even a full-leverage loan done.

In the current market conditions, the abundant liquidity and declining risk tolerance of traditional lenders should make the CMBS market ripe for rapid growth. Instead, all forecasts for CMBS issuance in 2018 are lower than 2017.

At $75 billion, the global CMBS market in 2018 would be 25 percent lower than the volume in 2015, and 75 percent lower than the peak in 2007. A more robust CMBS market would allow riskier projects to find financing by tapping investors with a higher tolerance for risk. Those investors may not be out there in the same numbers as a decade earlier. It seems the memory of the financial crisis remains strong among investors.

“The disappointing market is CMBS,” agrees Bob Powderly, senior vice president of investment real estate for First National Bank. “I thought CMBS would have returned by this time but maybe the risk-sharing regulations have affected that. I hoped it would have grown to absorb more of the permanent financing market, but banks and life insurance companies are picking up that slack.”

Whether it is fresh memories of the panic of 2008, regulations or just lenders finally learning not to repeat mistakes from the past, the capital markets of mid-2018 aren’t typical of late business cycle conditions. Instead, banks are looking to lower loan-to-value leverage. Life insurance companies are resistant to doing deals above 70 percent loan-to-value, even at higher spreads. Equity and credit liquidity remain high, as is competition for deals. But, unlike in 2007 and 2008, investors and lenders are maintaining their risk discipline.

“There is a ton of liquidity. If anything, especially in Pittsburgh, there is a shortage of product,” says Mark Popovich, senior managing director and co-head of the Pittsburgh office of HFF. There is still more capital chasing too few projects but so far lenders aren’t changing their underwriting standards.

“We’re seeing banks becoming more cautious, especially with multi-family and hospitality,” echoes Jamey Noland, director of underwriting for PenTrust Real Estate Advisory Services. “Office and industrial are still seen as favorable but banks are starting to decrease loan-to-value to limit their risk exposure.”

“There is a lot of money out there, particularly on the equity side. Equity is looking at commercial real estate because of the poorer returns in other investment sectors,” observes Powderly. “That’s a good thing for me as a banker. It creates more competition, but spreads have also improved.”
Powderly likes the fact that leverage is being reduced, noting that the likelihood of a correction in commercial real estate will get higher over the next couple of years.

One indicator of the direction of credit trends is the willingness of banks to make loans. The Federal Reserve’s first quarter Senior Loan Officer Opinion Survey (SLOOS) was released June 5 and its results were consistent with expectations for lender behavior late in a business cycle.

One surprise that came from the SLOOS was weaker loan demand. Loan officers saw demand falling across all the categories surveyed by at least five percent, with a slight decline in commercial and industrial (C & I) small loans as the only exception. Demand for credit cards and multi-family loans fell by almost ten percent; and government-sponsored enterprise (GSE) (Fannie and Freddie) loan demand dropped by 18 percent. Observers noted that this trend was likely to be reversed in the second quarter, as businesses responded somewhat slowly to the Tax Cuts and Jobs Act in the first quarter.

The trend in banks’ willingness to make loans remained stable, with 9.2 percent more senior loan officers responding more willingness than less. Not surprisingly, relatively few lenders are taking measures to tighten lending standards. The SLOOS data indicated that underwriting was tightening in categories of concern, specifically autos and multi-family loans, but banks to lend will fall. The first quarter SLOOS report does not reflect a market in which a credit cycle decline appears imminent.

Life insurance companies have not reduced their appetite for commercial real estate, even in the multi-family category.

“Life insurance companies are all on pace or slightly ahead of pace to reach their allocations for 2018. There was a period in the second quarter that was a little slow but that has passed,” says Daniel Puntil, senior vice president at Grandbridge Real Estate Capital, who noted that most life insurance companies have told him that they have the ability to exceed their 2018 allocations. At least one lender had told him there was no ceiling to its lending.

While many people think of the Federal Reserve Bank’s quarterly rate hikes as the bellwether for where interest rates are going, the market actually responds more efficiently to the perceived risk of lending and the relative return of risk-adjusted assets. Put more simply, investors want to get the best return possible for a risk that is within their tolerance for loss. That’s the reason that the 10-year Treasury bill tends to be a benchmark for commercial real estate.

“Interest rates have been very stable this year,” notes Popovich. “When the Fed raises short-term rates it gets the headlines but most in our industry are focused on long-term rates because that’s what is relevant to borrowing in commercial real estate.”

Popovich points out that the 10-year Treasury bill has floated between 2.84...
percent and 3.11 percent for the last six months, even though overnight rates have risen three-quarters of a percent. Moreover, he says that other market conditions have leveled out the total cost of capital. Popovich also notes that the 10-year rate was above four percent during the frothy days before the 2008 financial crisis, making today’s “higher” rates a bargain by historical standards.

The forecast for rates largely looks for more of the same. Economists seem to be split on how much influence the Federal Reserve’s tightening will impact borrowing costs. Wells Fargo Securities predicts that the 10-year Treasury bill will drift about 50 basis points higher by the end of 2019. PNC Financial Services Group, on the other hand, expects the yield on the 10-year to rise only to 3.1 percent by 2020, figuring that market conditions will keep long-term rates within shouting distance of today’s interest rate. Morgan Stanley’s Jamie Dimon is an outlier in his prediction of a five percent 10-year yield in 2020.

“The rising tide of interest raises all rates; however, there is really no direct impact on the U.S. Treasury yield when the Federal Reserve raises short-term rates 25 basis points. The 10-year Treasury won’t immediately go up 25 basis points in lock-step with the Federal Reserve. However, when the 10-year Treasury goes up 25 or 30 basis points, the lenders do not reduce their spreads accordingly. You don’t get it back,” counsels Puntil.

Rising rates increase the cost of capital and push capitalization rates up. If cap rates were to begin to return to historical norms, the negative impact on commercial real estate transaction and refinancing would be significant. With inflation also growing, concerns about interest rates becoming a problem are real, however, thus far the trend for long-term rates seems to be holding.

Puntil notes that there were a couple of trends emerging that represent changes in how the borrowers and lenders are looking at the capital markets.

“What is becoming a little more prevalent is the willingness to go long
“term,” notes Puntil. “Lenders are trying to match loans to their investment portfolios. The yield curve is so flat that borrowers are looking to make long-term deals. We’re also seeing more and more life insurance companies providing flexible prepayment options. The lenders are structuring step-down terms for prepayment so borrowers know in advance what the penalty for pre-payment will be, instead of the uncertainty of yield maintenance provisions for prepayment. The lenders are now seeing the value of recycling their debt.”

There was a significant improvement to the regulatory environment for commercial real estate. On May 24, the Economic Growth, Regulatory Relief, and Consumer Protection Act was signed into law. This reform legislation includes NAIOP-supported provisions that ensure there is adequate capital availability for commercial construction financing by revising elements of the current High Volatility Commercial Real Estate (HVCRE) rules. Among those provisions to be revised are:

- Allowing commercial borrowers to use the appreciated value of contributed land, rather than the original cost as under the prior rule.
- Limiting the application of the HVCRE classification by clarifying that loans made to acquire existing property with rental income would not be subject to higher capital requirements.
- Allowing banks to remove the HVCRE designation prior to the end of the loan.

The provisions adding equity and limiting the value of land contributed as equity in projects were particularly damaging in Pittsburgh, where developers more often have legacy land assets with much higher market values than cost basis. Rolling the more onerous HVCRE measures out of the regulations should be a benefit to Pittsburgh commercial real estate. Relief from regulation comes at a good time for Pittsburgh, with an economy that appears to be on the brink of another leg up.

“Equity is still flowing into the market. Two of the largest equity players in the U.S. are looking at projects in Pittsburgh,” says Noland. “Institutional players are taking note of Pittsburgh as an up-and-coming secondary market because equity spreads are getting squeezed in other cities. Pittsburgh has been behind the curve over the last five years in terms of population growth and job creation. I think we’re seeing that growth beginning.”

DP
New Accounting Standards for Operating Leases to Take Effect in 2018

By Marcy E. Hamilton, Esq. and Laura M. DeGeer, Esq.

In February 2016, the Financial Accounting Standards Board (FASB) released accounting standards update ASU 2016-02 in an effort to eliminate the guesswork involved when calculating a company’s lease obligations. Set to take effect for some in December 2018, the standard is intended to improve financial reporting regarding leasing transactions, thereby providing investors with more transparent, comparable information about lease obligations held by companies and other organizations.

Who is impacted?

Previously, lessees were not required to recognize operating leases on their balance sheets, meaning companies leasing assets from a third party were not required to show the rent payment obligations for these leases in their records. ASU 2016-02 affects all companies and organizations that lease assets including real estate, airplanes and manufacturing equipment. By requiring more disclosures related to leasing transactions, ASU 2016-02 ends what the U.S. Securities and Exchange Commission and other stakeholders have identified as one of the largest forms of “off balance sheet” accounting.

ASU 2016-02 applies to all leases. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the lessee has both the right to direct the identified asset’s use and to obtain substantially all economic benefits from that use.

What are the key changes?

Both finance leases and operating leases, including subleases, are governed by ASU 2016-02; however, certain leases are excepted, for example: (i) leases to explore for use of minerals, oil, natural gas, and similar, non-regulative resources, (ii) leases of biological assets held by a lessee, (iii) leases of inventory, (iv) leases of asset under construction, and (v) leases of intangible assets. Under ASU 2016-02, a lessee is required to recognize an asset on its balance sheet and take on a liability for the present value of its future lease payments. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, the lease is classified as an operating lease.

An asset is typically identified by being explicitly specified in a contract but can also be identified by being implicitly specified at the time the asset is made available for use by the customer. However, it is important to note that where a supplier has a substantive right of substitution throughout the period of use, a customer does not have the right to use an identified asset. A lease for a specific, identified parcel or portion of a parcel of real property does not give rise to a lessee’s right of substitution.

A lessee can elect not to recognize a short-term lease (meaning a lease of less than 12 months); however, if a short-term lease is extended for more than 12 months, the lessee must recognize the lease as of the date of the change in circumstance.

When will this take effect?

For public companies, the standard will take effect on December 15, 2018. For all other organizations, the standard will take effect for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years beginning after December 15, 2020. Early application is permitted for all organizations.

Organizations and companies are permitted to transition to the new standard by either full retrospective application, or by a cumulative catch-up methodology.

Full retrospective application involves restating all leases as if they had always been accounted for under the new standard, with the difference between asset and liability at the transition date changed to retained earnings.

Under the cumulative catch-up methodology, all finance leases continue unchanged, while covered operating leases are converted to finance leases with initial liability and asset equal to the present value of the remaining rent.

Prior to the effective date, developers with third-party lease contracts should consult their legal teams for advice on amending current and future lease agreements. DP

Marcy E. Hamilton is a partner in Meyer, Unkovic & Scott’s Real Estate & Lending group. She can be reached at meh@muslaw.com or 412-456-2528. Laura M. DeGeer is an associate in Meyer, Unkovic & Scott’s Real Estate & Lending, Corporate & Business Law, Employment Law & Employee Benefits, Immigration, and MUSolutions practice groups. She can be reached at lmd@muslaw.com or 412-456-2845.

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Don’t count the apartment boom out just yet. Of all the segments in the construction market, multi-family has proven to be the most resilient in this business cycle. Two years after economists predicted a slowdown in the market, and three years after lenders were saying they were tapping the brakes on apartments, the multi-family sector in the U.S. has leveled off.

Through June 30, multi-family construction is off steeply in Pittsburgh. The decline is likely to be a temporary one, as a handful of larger developments are expected to begin by year’s end. For the sixth year in a row, permits for multi-family in Pittsburgh should top 2,000 units. The economy of Western PA, and sluggish new home construction, are buoying demand for multi-family, which boomed across the country when the housing market went bust.

The Great Recession started after a housing bubble of epic proportions. The particulars of the credit crisis that followed set up the apartment market for a boom cycle. First, easy credit in the Clinton and Bush administrations drove demand for home ownership, keeping demand for new apartments artificially low and discouraging development. Second, the deleveraging that followed the bubble created many more renters out of homeowners, sending demand for apartments higher. That growing demand, and the lending shakeout that followed the financial crisis, made multi-family virtually the only property type that developers could get financed at the beginning of the decade. And the icing on the cake was that the emerging younger generation favored renting over owning for a variety of reasons.

Apartments have historically been a category that has been subject to overbuilding and retrenching. Often driven by downturns in the economy, developers built apartments throughout the 1950s...
and 1960s to accommodate the rapid growth of cities and the western U.S. Deregulation of savings and loans in the 1980s created a bubble in apartments, from which the construction market still hasn’t recovered. In fact, one of the myths of the current boom is that recent volumes are historic highs. The data says otherwise.

Since 1964, construction of residential structures with five or more units has peaked during cycles as high as 906,000 units (1972), 462,000 units (1978), and 576,000 units (1985). When the latter cycle cratered with the S & L crisis, apartment construction fell to 137,900 units in 1991 and never reached the historic average of 359,000 units again until 2015. That year saw the peak of the current boom top out at 385,000 units. Prior to 2015, there were only seven years in which at least 300,000 units of multi-family were started. In many ways, the current growth cycle is more of a reversion to the mean than a response to future demand. In that light, the traditional assumptions about demand may not hold.

Pittsburgh is a market that has seen a similar pattern of recent construction but the comparison to historic norms is quite different. Except for a flurry of activity in the late 1990s – most of which was driven by Nationwide Insurance as an investor – the Pittsburgh market has been without new construction for decades. Since 2000, when there were 1,300 multi-family units started, there was only one other year when at least 1,000 units started construction until 2013. The average number of units started in those 14 years was 731. The average from 2013 to 2018 was 2,451 units.

According to Lynn DeLorenzo, principal with TARQUINCoRE LLC, the steady drumbeat of good news has made Pittsburgh interesting to out-of-town investors and developers, and the success stories of the early 2010s have brought them back for another run. Pittsburgh presents a problem for those looking at the market from outside. Because of the bifurcation of the economy and the demographics between the old and the new Pittsburgh, the blended data is not very compelling. You have to dig below the surface – get boots on the ground – to understand what
works in the market.

“We had a glitch about our population that was very confusing to people. We had a lot of national focus for several reasons and it’s very hard to look at greater Pittsburgh as a market in the way you might other cities,” says DeLorenzo. “Pittsburgh is different because the population growth is in the pockets that are driving the market. Now the population is starting to come back, and people are enamored with what’s happening here on the technology and innovation side.”

Census Bureau data tends to confirm the bias about Pittsburgh. The region’s population is shrinking and growing older. Getting into the weeds reveals a different conclusion. Residents of the metropolitan area are getting better educated (more people with college degrees, fewer with high school or less) and better compensated (median household income is growing twice as fast as the U.S. rate). We’re getting older in metro Pittsburgh but the median age of the seven-county area, 43.1 years, is more than ten years older than the median resident of the City of Pittsburgh. Likewise, while the seven-county MSA has seen a 0.7 percent decline since 2010, the population of the city proper has grown.

There is another structural metric supporting multi-family development: the low inventory of homes to buy. The inventory of existing homes for sale continues to shrink and a severe shortage of new construction lots is limiting new home construction. In fact, the average number of single-family homes built each year since the financial crisis is 1,926; in the seven years prior, the average was 3,017. The new home construction in 2017 was actually lower than in 2016, although construction is up 4.5 percent through the first six month of this year.

A comparison of the number of jobs in metro Pittsburgh in June 2016 compared to June 2018 reveals that 24,500 more people work in the region. With household formation historically tracking jobs one-to-one, that means increased demand for 24,500 households, more or less, since June 2016. During that same 24 months, there were 4,022 new single-family detached homes, 1,851 townhouses and 4,788 units of apartments started. That leaves a delta of almost 14,000 new households formed without new construction supply.

Arguments about migration patterns, job creation and demographics may not conclude that there is an increasing wave of demand to meet another supply wave; however, on the ground, there is a leasing advantage that may justify the new construction: new beats old.

Regardless of where you might stand on the issue of whether Pittsburgh’s population is growing sufficiently to support more apartment construction, looking for newer, cooler places to live, and they have the paychecks to support the rent in new construction.

“The people CMU and Pitt are bringing in are making great salaries and many of them don’t want to own. If you have the wherewithal to spend $2,25 or $2.50 per square foot, do you want to be in an apartment where you walk across the street to your parking garage or would you rather live where you walked directly from your parking space in the garage into the door that led to your apartment,” asks Ron Tarquinio, DeLorenzo’s partner at TARQUINCoRE. “Part of the success that the national developers have had is based upon their knowledge of amenities in demand in other parts of the country because of the depth of their portfolios.”

A look at the makeup of the apartment stock in metro Pittsburgh provides an interesting clue as to why the new developments have been resistant to occupancy slumps, even as new product enters the market. The average age of the apartment stock in Pittsburgh is just under 70 years. That’s about the same as Detroit, Kansas City and Cleveland, all Midwestern cities of similar size. Compared to Midwestern tech hubs, however, Pittsburgh’s apartment stock is ancient. The average apartment age in Seattle is 54 years old. In Austin, the average multi-family unit is 34 years old; in Charlotte, it’s 32. People competing for tech jobs in comparable Midwestern cities are

New apartment construction in Pittsburgh has a competitive advantage in a market where the average age of a unit is nearly 70 years old.
looking to rent the same kinds of places in any of those towns.

In other words, newcomers to Pittsburgh aren’t choosing new apartments in East Liberty or the Strip District over older apartments in those neighborhoods. They are choosing new apartments in one location over new apartments in another.

One potential problem facing the Pittsburgh market is the availability of sites in those locations. Land costs in desirable neighborhoods are no longer undervalued. Vacant property in hot locations – like the Baum/Liberty corridor in Shadyside – has been developed. One of the developers that helped drive the urban Pittsburgh apartment boom in recent years is responding to the changing dynamics of Pittsburgh’s market by developing other property types.

“We’re extremely confident about the performance of the apartments that we’ve developed – particularly Bakery Living and The Foundry – but we think the market is getting a little picked-over. The opportunities for new [apartments] aren’t in locations we like as well,” says Todd Reidbord, president of Walnut Capital.

Walnut Capital’s current projects in development are mostly office buildings in Oakland, a sub-market with almost no vacant office space. Reidbord says that opportunity is more enticing than developing more multi-family, particularly in light of the heightened interest from out-of-town apartment developers and investors.

“I think the apartment market still has room for growth,” he says. “We’re not sellers. We’re having more success

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<thead>
<tr>
<th>Pittsburgh Metro Area</th>
<th>United States</th>
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<tbody>
<tr>
<td></td>
<td>2016</td>
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<tr>
<td>Population</td>
<td>2,341,536</td>
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<tr>
<td>Adults with less than a high school diploma</td>
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<tr>
<td>Adults with an undergraduate degree or higher</td>
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<tr>
<td>Median age (years)</td>
<td>43.1</td>
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<tr>
<td>Median household income</td>
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Note: Percentage points is abbreviated as pp.
Source: US Census Bureau population estimates, American Community Survey.

This graphic from the Federal Reserve Bank of Cleveland’s May 2018 Fourth District Metromix report shows that Pittsburgh’s demographics are growing more favorable than those of the U.S at large.

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with our apartments than ever but we like the opportunity for growth in the Oakland office market more.”

Other developers leery of timing the business cycle or wondering how much more rents can rise in Pittsburgh have turned to building condominiums, a product that has seen limited new supply over the past decade. Philadelphia-based Solara Ventures has had great success over the past decade with small-scale adaptive re-use projects in the Strip and Cultural District, but rarely have more than 50 units been available at any time during that period. Now, in addition to Solar’s partners, there are several developers bringing projects into the market to test the appeal of the lifestyle of urban multi-family living for buyers.

The highest-profile of these new projects may be Lumiere, an 86-unit condo being developed by Millcraft Investments at 350 Oliver Avenue at the site of the former Saks Fifth Avenue. Construction on the condominium is just getting underway (the structure will sit atop the recently-completed parking garage at the site), but almost 40 percent of the units have been reserved. That includes three of the four three-bedroom units that have asking prices above $1 million.

Pittsburgh isn’t a market that offers a deep bench of condos for sale, so it’s difficult to deduce trends with so few transactions. The thinking behind the pivot to multi-family for sale is sound. Smaller condominiums sell for a price that is competitive with a starter home, assuming you can find those. Condominiums are in demand from the growing empty-nester cohort too. These are cash buyers. Renters who have been paying at the upper ranges of the average rent spectrum, say $1,500 to $1,800 per month, can find options to buy that will fit into that same range for a mortgage payment. And the maintenance-free lifestyle and urban amenities remain the same, regardless of whether you’re renting or owning. Drop by the Cultural District or East Liberty restaurants and bars on a weeknight and you’ll see no shortage of people who would fit the profile of a condo buyer.

The fundamentals of the Pittsburgh multi-family market remain solid. Occupancy has rebounded after some softness in the market in the winter. Rent growth has slowed but rates are still trending upward; and even though long-time Pittsburgh residents may shake their heads in wonder at how high rents have jumped since 2010, the reality is that the average two-bedroom apartment in Pittsburgh rents for $250 less per month than the national average. The in-migrating worker is still more likely than not to find Pittsburgh’s cost of renting to be lower than their previous location.

Developers appear to think that the demand for apartments is sustainable for the coming years. With what is in the pipeline, construction of five or six new properties should start in each of the coming two years. That’s enough to keep the new construction volume around 2,000 units through 2020. The threat of a wave of Millennial renters becoming buyers is real, but the lack of sale inventory means the wave will remain pent up for a while longer. That’s good news for the multi-family market. DP
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Assuming that funding was not an issue, what transit project or connection do you feel would be most beneficial to the Pittsburgh region?

John C. Mascaro
Chairman
Mascaro
Construction Co.

“I believe the first thing needed for development is roads. You can’t have development of any consequence without the proper infrastructure. Development follows infrastructure and population growth follows development.

So what does Pittsburgh need? First is a connection between the airport and Downtown. We also need a connection between Downtown and the universities. We need to connect the Arena site all the way to Hazelwood Green, including the Pittsburgh Technology Center on Second Avenue, with Pitt, Carnegie Mellon, Chatham, and Carlow in between. Young talent wants to be connected to the airport, to where the activity is. That takes investment that is forward-thinking.

Orlando FL provides a good example of what leadership and vision can bring to a region. Over the past 20 years, two major freeways have been built to relieve the traffic from an overcrowded Interstate 4. Route 417 has been expanded three times since it was constructed. The other beltway, Route 528, has been improved eight times since then! Those roads were surrounded by empty fields when they were built. Now there are thousands of homes.”

Hon. Thomas W. Wolf
Governor
Commonwealth
of Pennsylvania

“Pennsylvania has the fifth largest state-maintained road system and the third largest state maintained bridge system of bridges in the nation. The commonwealth’s system is far larger than any of our surrounding states and, in fact, is comparable in size to the state-maintained road systems of New York, New Jersey and all of the New England states combined, so I am always looking for creative ways to build upon the travel improvements my administration has made by restoring 1,930 bridges and improving more than 20,400 miles of roadways statewide.

While financial challenges remain, Pittsburgh and many other areas would substantially benefit from building a more robust commuter rail service, including improving connectivity between Western Pennsylvania and communities to its east. This would be beneficial for the long-term economic competitiveness of the city by creating viable transportation alternatives. Increased opportunities for reliable modes of transportation would help by increasing opportunities for employment, expanding travel options for students looking for educational opportunities, and increasing options to explore Pennsylvania’s treasured tourism destinations, all of which will garner increased economic impacts for every industry, community, and Pennsylvania resident for years to come.”

Christina Cassotis
CEO
Allegheny County
Airport Authority

“The Terminal Modernization Program at Pittsburgh International Airport to update and consolidate Landside operations into a single new terminal is a huge opportunity to continue advancing our region.

Airport facilities, which are now 26 years old, must be transformed to reflect current usage and to meet the travel challenges of tomorrow. The new terminal must also be flexible enough to accommodate rapidly-changing technological systems.

Our current facility was built for a different reality - an airline structure that does not exist in Pittsburgh anymore and isn’t coming back. However, new tech investment and major construction projects including the Shell cracker plant are redefining the future of this region.

The team at Pittsburgh International Airport will continue working with our community partners to drive innovation that supports a seamless, modern travel experience for all, a best-in-class international airport and the region’s evolving role as a world leader.

Regardless of any particular project, it’s that kind of thinking that will be most beneficial to Pittsburgh.”
Stefani Pashman
CEO
Allegheny Conference on Community Development

“To stay competitive and attractive to the next generation of residents and businesses, we need to think about investing in priority transit corridors that will connect us across the region.”

Our major commuting routes are also our most congested routes, and that will only worsen with increased development unless we provide a real alternative. It’s been a long time since we, as a region, have put together a plan to improve connections – north, south, east, and west – that would let us have a well-coordinated, high-quality regional transit system. It’s time to have that conversation.

Morgan K. O’Brien
CEO
Peoples Gas Co.

“There are multiple regional transit opportunities that would deliver different benefits. The BRT project is at the top of everyone’s list. A delineated transportation corridor between Downtown Pittsburgh and the Greater Pittsburgh International Airport would also be highly beneficial. This is especially true because of the expected growth both in Pennsylvania and Ohio west of the airport due to the Shell Cracker Plant and the economic development that will be created there. The Pittsburgh commuter rail system has been essential in linking many of our southern communities with our Downtown area. A continuation of this system beyond Pittsburgh’s North Shore and into northern Allegheny and other northern counties would essentially transverse the region. This would benefit commuters traveling to the Downtown area, but also give workers the ability to be employed across the entire area. This is especially true for people who live in distressed areas, giving them greater access to jobs.”

Jeremy Leventhal
Managing Partner
Faros Properties

“I think most people would say that Oakland needs a train service connecting to Downtown and I think South Side is somewhat isolated and has bad traffic problems. In a perfect world, Pittsburgh would have a train system that connected the airport to Downtown and then went through to the east end of town, to Shadyside and East Liberty. The existing train system should be continued north, out to the suburbs. The ideal transit system would criss-cross Pittsburgh.”

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Audrey Russo  
President & CEO  
Pittsburgh Technology Council

“If I really were going to try to prepare Pittsburgh for the next generation, then we need to think about energy, urban density, point to point mobility and autonomy. Gaining access to our 90 neighborhoods, tethering them via contiguous access would be an incredible pivot for Pittsburgh. The valleys, the hills, the twists and turns, which create the glorious terrain, have resulted in a difficult strategy for transit. I am really excited about the new leadership at the Port Authority in Pittsburgh. She is tackling some of the basic barriers and thinking through critical factors which effect access.

The opportunities to create the a living mobility lab has been pioneered at Carnegie Mellon (autonomous vehicles, Mobility 21, Traffic 21 and Tech for Safe & Efficient transit) places the region as a premiere concentrator for people solving transportation problems completely. Creating continuous and iterative experiments should be inherent for us. We are a land of inventors. The roads, the rivers and our skies (drones) are our venues for safe movement. An aging workforce paired with a generation of people who care less and less about automobile ownership and care more about access, requires us to pivot.

My prediction is that the combination of drone deliveries, moon shots, river transport and smaller autonomous busses paired with point to point solutions that can be modulated based upon demand is the Pittsburgh of tomorrow. There will no longer be “traffic”. Instead we will be able to navigate our city, no matter our abilities and schedules. Parking garages will be razed. Cars in our city will be restricted and parks will proliferate, paired with the growth of restaurants and music. The flow from one neighborhood to another will allow the growth of newer housing where once parking garages were. After all, I want to get on a boat, and then hop on a bus which then takes me to the Hyperloop where I can have dinner in Columbus and return that night back to Pittsburgh.”
Thanks to a growing economy and vibrant communities, Allegheny County has become a global destination for individuals and businesses alike, and entrepreneurs and investors are taking notice. According to the Pittsburgh Region Business Investment Scorecard, capital investment reached $5.5 billion last year, and construction investment here is up more than 550% since 2014, topping out at nearly $1.2 billion in new money. The Pittsburgh Downtown Partnership reports that the Greater Downtown area alone has experienced $4.6 billion in completed development since 2008, and another $3.9 billion is being invested in active or announced projects.

None of that would be possible without a diverse economy. We’re seeing significant growth in health care, banking, education, arts and culture, tourism, energy, and especially technology. In 2017, more than $687 million, a 10-year high, was invested in area tech companies, particularly those in robotics, artificial intelligence, and autonomous vehicles, and that sector has generated $22 billion locally during the past decade.

It’s easy to understand why so many would choose to invest their money here. Our region’s numerous assets should appeal to any innovative business or investor. Over 50% of the U.S. buying income is within an eight-hour drive of Allegheny County, and 70% of the U.S. population is within a 90-minute flight of Pittsburgh International Airport (PIT), which continues to see an increase in nonstop flights. PIT, already ranked among the best airports in the world, recently announced four daily, direct flights to London and began nonstop charter flights to Shanghai. The London flights alone are estimated to have an annual economic impact of $574 million. Additionally, our Port Authority, under new leadership, is enhancing the experience of riding on our buses and light-rail system while embracing new technology and innovation.
We also offer businesses a large and growing skilled workforce, as our world-class universities are creating an influx of talented young people to the region. According to a CBRE report, more than 10,000 millennials have moved to the Pittsburgh area since 2011. And those new residents are taking advantage of our low cost of living and abundant job opportunities. The number of jobs created here increased 15% last year, and according to the Bureau of Labor Statistics, our unemployment rate recently reached its lowest mark since the 1970s. Our jobs are paying well, too, as the area’s median household income has risen at nearly the double rate that it has nationally since 2012.

This region has reinvented itself, and we expect lasting growth. Moody’s Investors Service does, as well. Citing the county’s strong economy, expanding employment base, and stability, among other factors, Moody’s recently upgraded our bond rating for the fifth time in the past six years, putting us at our highest level in 35 years. That will allow us to better invest in projects that improve our quality of life and attract businesses, and it’s a reflection of our strong blue-collar work ethic and tremendous ability to collaborate. While we’re proud of our accomplishments, we are hardly resting on our laurels. We look forward to working with our economic development partners to continue making this a great place to live, work, play, and invest.

Armstrong County

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Several Armstrong County businesses kicked off 2018 with expansion projects. Bergad Specialty Foams & Composites, Inc., a manufacturer of specialty polyurethane foams, broke ground on their 50,000 square foot addition, which will bring their production area to 115,000 square feet. Bergad is planning a Phase 2 expansion, an additional 35,000 square feet, expected to begin 18 months after the completion of Phase I. Both expansions will increase production capacity for their growing line of specialty foams and accommodate new product lines. Bergad also announced their commitment to hire an additional 30 employees over the next two years.

CWM Environmental, Inc. purchased Lot 15, containing 4.5 acres, from the Armstrong County Industrial Development Council (ACIDC) in the West Hills Industrial Park. They broke ground on an 8,500 square foot warehouse and truck repair facility this spring, which will be ready for occupancy in late 2018. The new building will be conveniently located near their corporate headquarters and laboratory. CWM is a full-service...
environmental firm that provides professional services ranging from analytical testing, treatment plant operations, cleanout projects, and sludge hauling. The expansion follows an announcement in November 2017 that CWM entered a contract with the Pittsburgh Water & Sewer Authority (PWSA) to provide laboratory operation management and analytical services.

Carson Industries, Inc., a family owned and operated wholesale company specializing in gift and novelty items, completed their 22,500 square foot warehouse expansion in the West Hills Industrial Park. They now have 97,500 square feet in Kittanning.

Senjan Machine, Inc. purchased Lot 12, a 1.5 acre parcel, from the ACIDC in the Parks Bend Farms Industrial Park to accommodate their planned expansion. Senjan Machine is currently located in nearby Leechburg Borough. However, they are quickly outgrowing their building and the industrial park property ensures that their future expansion needs can be met. Construction will begin within two years. Senjan Machine provides precision machining and fabrication services.

Young & Associates Consulting Engineers took space in Innovate28, a co-working and shared office space in Northpointe. The satellite office allows them to accommodate more clients in Armstrong County. Young & Associates provides a full range of professional engineering consulting services to private, public and municipal clients in Western Pennsylvania and beyond.

Armstrong County is proud to welcome Ms. Jamie Lefever as the Executive Director of the Armstrong County Tourist Bureau. Ms. Lefever previously served as the Executive Director of the Clarion County Economic Development Corporation. She is also the Vice President of the Redbank Valley Chamber of Commerce and Immediate Past President of the Clarion County Rotary Club. Ms. Lefever’s experience in these roles has prepared her to lead the county’s tourism promotion agency.

For information about the services offered by the ACIDC, or to search available land and buildings in Armstrong County, visit http://www.armstrongidc.org.

Beaver County

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The Beaver County Corporation for Economic Development (CED) secured a tenant, Kenson Plastics, Inc., to fill the 70,000 square foot building it acquired in 2017 at 2835 Darlington Road in Chippewa Township. Kenson is a family-owned business that specializes in engineered plastic components and enclosures. It serves markets that include aerospace, mass transit, medical, self-service kiosks, industrial equipment, and general electronics. Kenson also features a Tech Center that offers 3D scanning, reverse engineering capabilities, material selection, and precision checks for its customers. Its capabilities include prototyping, tooling, vacuum forming, and pressure forming. The company outgrew its current location in Zelienople, was unable to continue to expand there and identified the Chippewa facility to meet the needs of its growing business. Kenson currently employs 50 and expects significant employment increases. The relocation should be completed during the fourth quarter of 2018.

CED was also able to secure a new lease with a long-term tenant, Moderne Glass, Inc. Moderne Glass decorates glassware at CED’s 45,000 square foot 1200 Airport Road property in Hopewell Township. The company employs approximately 40 at the site and has been a valued tenant since 1998.

Finally, Creekside Springs, LLC continues its rapid business growth. The company has three locations, Ambridge and New Brighton in Beaver County, and a third location in Salineville, Ohio. Creekside is a private label and contract packager of water-based beverages. Its most current expansion at its New Brighton location involves the acquisition and installation of production equipment for a second, single serve production line, with over $850,000 in capital investment. CED was able to support the project with a $250,000 loan from its Business Development Fund and a $400,000 loan through the Pennsylvania Industrial Development Authority. This project will create at least 7 new jobs and retain 22 existing jobs at the New Brighton site.

Butler County

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Cranberry Township continues to see an abundance of commercial growth in the southwest corner of Butler County. A Best Western Plus hotel recently opened on Cranberry Springs Drive and a Hampton Inn is currently under construction in the Village of Cranberry Woods. A 19,678 square foot multi-tenant building was recently completed in the Cranberry Springs development and construction is expected to start on a 3,800 square foot building in the same development in the near future.

Sterling Properties recently completed construction of an 81,000 square foot distribution center on Marshall Road in the township and a 12,000 square foot warehouse facility is also under construction on Progress Road. In the next few weeks, The Heights of Thorn Hill hopes to break ground on a 60,000 square foot office/distribution warehouse in the Thorn Hill Industrial Park.

A little further north in the City of Butler, Allegheny Health Network has broken ground on a 30,000 square foot cancer treatment facility at the Pullman Center Business Park Expansion. The project is expected to be “under roof” by the time the winter months are here and it is expected to begin seeing clients in April 2019. The CDC is also in negotiations with several other firms to buy parcels in the business park.

The CDC also has space available for lease at the Pullman Center Business Park Expansion. There is 10,050 square feet of warehouse/office space available on Woody Drive. This space can be subdivided. There is also 3,400 square feet of additional office space available in the
Bantam Commons Building. Public transit serves both locations and they are also convenient to banks, restaurants and retail shops.

The CDC continues to work with prospective clients interested in acreage at the Victory Road Business Park in Clinton Township and the Pullman Center Business Park Expansion. For additional information on this and the other land and warehouse space available in Butler County please contact the CDC’s Executive Director, Joe Saeler, at (724) 283-1961 or visit our website, www.buttercountycdc.com.

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In the first six months of 2018, Fay-Penn Economic Development Council, through its ongoing $15 million revolving loan fund, approved five loans totaling $374,500 with $750,000 in pending loan closings. With this financing, area businesses were able to get start-up funding as well as financing for projects including building acquisitions, renovations and machinery and equipment purchases. Those businesses have projected creating or retaining over 80 jobs as a result of the funding. Total economic investment of these projects totals more than $10 million.

Fay-Penn has been actively involved in DCED’s Engage! program, which allows staff to do outreach to the Fayette County business community. Fay-Penn’s goal is to visit at least 100 businesses each year to highlight available resources to them.

The Fayette LaunchBox had its grand opening in April. This project is a result of the Invent Penn State program, and is a partnership between PennState Fayette – The Eberly Campus and Fay-Penn. The 6,000 square foot state-of-the-art incubator/accelerator/co-working space currently houses one tenant, and he is working directly with PennState’s engineering staff with 3D printing and

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reverse engineering. Fayette LaunchBox tenant have access to PennState Fayette’s amenities including their new Engineering Suite.

Fay-Penn unveiled its new and improved website. The focus of the updated site is to highlight the amenities that Fayette County has to offer, in addition to its resources for businesses. Fayette County is nestled in the midst of the Laurel Highlands, and offers beautiful mountains, rivers, trails and more. Additionally, Fay-Penn is participating in Fayette County’s new comprehensive plan, which is currently in progress.

The Fayette Leaders Academy concluded its third cohort in May. There were nine graduates of this Fay-Penn initiative, and their service project allowed picnic tables, benches and shelters to be placed along a 2-mile section of the Sheepskin Trail in South Union Township. The fourth cohort will commence in September with 12 people participating in the nine-month course.

Fay-Penn Economic Development Council assists in growing and diversifying the economy in Fayette County, Pennsylvania. We desire to be the pre-eminent “1st stop shop” economic development organization in Fayette County by providing comprehensive business development services through our staff or partners to make our clients more competitive in a global marketplace.

Fay-Penn’s ultimate objective is to sustain a supportive environment for business start-up, expansion, and attraction.

Greene County

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Don Chappel, Executive Director
donchappel@gcidc.org

By far, the ongoing growth of the gas and oil industry continues to drive the economic engine in the first half of 2018 in Greene County. There has been an added resurgence of the coal mining business through Consol Energy Inc. and the merger of Contura Energy and Alpha Natural Resources. Two power generation projects received their individual air quality permits and final construction approvals so HillTop Energy’s and APV Renaissance Partners’ projects will produce electricity with natural gas for the grid. Construction is slated to begin later this year.

A future economic development driver commenced with a ground-breaking ceremony in May as West Virginia University School of Medicine began construction of a 24,300 square foot facility in Franklin Township adjacent to the existing WalMart. The new medical facility is looking for a 2019 opening as earth moving and utility work have begun.

Greene County Career and Technical Center (GCCCTC) received a $200,000 state grant in late spring to retool the Center to better prepare its students to enter the workforce upon graduation. The GCCCTC was also very influential in providing workforce support for the new Arby’s Restaurant which recently began operating. The United Mine Workers Career Center in Ruff Creek received a visit and presentation of an RCAP check in the amount of $3 million from PA Governor Tom Wolf to expand and continue the retraining of displaced former coal miners.

Community Bank, a homegrown Greene County fixture, completed a $49 million merger in April with First West Virginia Bancorp, Inc. making Community Bank the 17th largest bank in southwestern PA. In February, AGRiMED Industries was approved by the Commonwealth of PA to process medical marijuana in Greene County where the plant is in Cumberland Township.

A new Dollar General began construction in the western end of the county and will be open later this year. After the re-opening of two newly-reconstructed Sheetz stores, ground breaking and construction began on a third store located near the I-79 interchange in Waynesburg. The newest operation will include a car wash with ample sit-down restaurant amenities. The store should be operation by the beginning of the fourth quarter this year.

Indiana County

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In 1994, Indiana County established the Indiana County Center for Economic Operations, commonly referred to as the CEO, which offers a wide variety of services, ranging from business plans, site selection, financing, training, to tourism. The affiliates of the CEO are the Indiana County Commissioners, Indiana County Chamber of Commerce, Indiana County Development Corporation, Indiana County Tourist Bureau and Indiana University of Pennsylvania.

Indiana County is home to people and places that offer opportunities to enjoy the arts, breweries, clothiers, distilleries, museums, fine dining, hotels and unique bed and breakfasts, festivals, manufacturers, music, small businesses and so much more to be found about 60 miles northeast of Pittsburgh. Indiana County is a fun place to play, a great place to stay, but is truly a wonderful place to live.

The Kovalchick Convention and Athletic Complex (KCAC), located in Indiana, is a 148,500 square-foot state-of-the-art convention center that is a great place to host events, conventions and to have seminars. Directly across the street from the KCAC is the Hilton Garden Inn, which has 128 hotel rooms. And just a few miles down the road is the Chestnut Ridge Golf Resort & Conference Center in Blairsville. All of these amenities make Indiana County the ideal destination for your next business conference.

Also, Indiana County will be hosting the Pennsylvania Economic Development Association (PEDA) Fall Conference in October 2019. PEDA is a statewide organization that represents economic development professionals and provides opportunities to share the best practices that enhance the professional dialogue which could support local, regional and state economic development.
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Westmoreland County

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Westmoreland County kicked off 2018 with many economic development projects underway.

In April, the Westmoreland County Industrial Development Corporation (WCIDC) acquired 206 acres in Sewickley Township from Westinghouse Electric Company. The property will be developed into the county’s newest industrial park, Commerce Crossing at Westmoreland. The park will be designed to accommodate companies that desire pad-ready sites with direct access to active rail and Interstate 70. The industrial park will consist of five parcels, each ranging in size from 20 to 40 acres. When completed the park will house approximately 1,000 jobs.

In the City of Jeannette, site preparations were completed at the 13.8 acre Jeannette Glass Works project. A sales agreement between WCIDC and Elliott Group was approved by the WCIDC board of directors in March. Elliott proposes to build a cryogenic pump test stand on the property. It is estimated that the project would bring up to 150 jobs. Elliott currently employs about 875 people at its U.S. headquarters about 1.5 miles from the Jeannette Glass Works site.

Two WCIDC buildings are now fully leased. In March, AssetGenie signed a 3-year lease extension adding 36,256 square feet of space and bringing their total footprint at South Greensburg Commons to approximately 120,000 square feet. The company, which offers a wide range of products and services in the computer industry, first located at the South Greensburg Commons in 2006 and has tripled in size since. AssetGenie currently employs 140 people and plans to use the additional space for a new business operation that will employ an additional 30 people within the next year. In Hempfield Township, the Greenforge

The first half of 2018 found Washington County strengthening its leadership position in the Greater Pittsburgh Region’s economy, especially in the manufacturing, energy and real estate industries.

Manufacturing remained strong with Ensinger Inc.’s expansion projects currently underway in North Strabane Township. The company purchased nearly eight acres to build a 342,000 square foot light manufacturing, warehouse and office space building. In addition, the company is adding 15,441 square feet to their existing building as well as an additional parking area at a cost of $1.75 million for product storage.

In McMurray, Trigon Holdings, a manufacturer of titanium components for aerospace and medical applications, is building a 20,000 square foot addition.

Washington County also expanded on its designation as Energy Capital of the East. Shell Pipeline Company submitted applications to the state’s Department of Environmental Protection for construction of its Falcon Pipeline. The pipeline will transport ethane from the MarkWest natural gas processing plant in Chartiers Township, Washington County to Shell’s Cracker facility in Beaver County.

According to state data released in March, Washington County remained a solid second in natural gas production and led the state in the number of producing wells. In 2017, the county produced 945 billion cubic feet of natural gas, up 12.7 percent from a year ago.

Pennsylvania Public Utility Commission announced that Pennsylvania collected $209.5 million in shale impact fees from natural gas producers for 2017. Washington County and its municipalities saw a big increase due to a bump in drilling activity. Washington County received the most money among the state’s 66 counties, with $7.3 million, up from $5.23 million collected for Washington County in 2016. Washington County and its towns will receive a total of $19.9 million.

The Allegheny Conference on Community Development and its affiliate, the Pittsburgh Regional Alliance, also released the 2017 Pittsburgh Regional Business Investment Scorecard highlighting the investments made in the 10-county Pittsburgh Region. Once again, Washington County played a significant role in the energy investments. The Scorecard stated there was $1.7 billion in energy infrastructure investment in the region last year and five of the seven major energy projects it listed were based in the county.

In real estate, The Aztec Fund Inc. paid $20,250,000 for 501 Technology Drive, a Class A office building in Southpointe. The 98,314 square-foot office building is situated on 8.5 acres within the Southpointe Business Park. The three-story property is fully leased. Tenants include Primetals Technologies and Siemens. This acquisition marks Aztec’s initial entry into the Pittsburgh market. Blaise Larkin of Madison Realty Group closed on the former 78,000 square foot Caterpillar facility for $2,815 million. Plans are to transform the facility to a multi-tenant building. Also, T2 Canonsburg 1 LLC will spend $10 million to upgrade a portion of the Fort Pitt Industrial Park to accommodate multiple tenants in the 130,000 square foot space.

Community Bank has remodeled the former Jumpers Junction, located at 2111 North office building, as its new Corporate Center. Strategically located off Interstate 70 and only a few miles from Interstate 79, it will house commercial and mortgage lenders, human resources, retail operations, compliance and auditing, and its executive offices as well as the bank’s insurance subsidiary, Exchange Underwriters. Finally, the aggressive growth of ANSYS has resulted in their leasing an additional 30,000 square feet in a second building in the Zenith Ridge development.

In Hempfield Township, the Greenforge...
building is at full capacity with True Health and Fitness signing a 5-year lease agreement in May for the remaining 1,940 square feet of office space. This space is in addition to the 2,630 square foot fitness facility True Health and Fitness currently leases at Greenforge for their personal training and small group training classes. The new space will be a multidisciplinary clinic offering chiropractic, acupuncture, and massage therapy.

The county’s comprehensive plan update, Reimagining Our Westmoreland, has unveiled draft strategies developed by the consultant team, Planning Division staff, planning partners, and 12 focus groups. The draft strategies are framed within the context of seven core objectives to help the County attract, develop, and retain a diverse and stable workforce that will sustain a healthy economy. The Comprehensive Plan is expected to be completed in late 2018.

To learn more about the exciting economic development projects happening in Westmoreland County, visit WestmorelandCountyIDC.org.
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People & Events

(From left) Rycon’s Todd Dominick, UPMC’s Roger Altmyer and Michael Klein from Blumling Gusky relax after the NAIOP Pittsburgh golf outing at Fox Chapel Golf Club.

Jaime Getz and retired banking legend Jim Keating (right).

(From left) Continental’s Mike Hudac, Tina Mechling, Matt Curtis, and Strada’s Al Cuteri.

Newmark’s Kevin Spence and Jerry McLaughlin (right).
Representatives from NAIOP Pittsburgh visited the Department of Community and Economic Development and state legislators to press for improvements in permitting and regulation. From left are Chapman’s Tony Rosenberger, Michael Takacs from Bohler Engineering, DCED Secretary Dennis Davin, and Jamie White from LLI Technologies.

(From left) Jamie White, Michael Takacs, State Rep. Camera Bartolotta, Toby Burke, senior director of state & local affairs, NAIOP Corporate, and Tony Rosenberger.

(From left) Marne Babich and Rachael Borenstein from BKD, Rose Finance’s Autumn Harris and Maureen Jordan from Cohen & Grigsby at CREW Pittsburgh’s July 19 networking event at the Duquesne Club.

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Katherine Chapelle and Anastasia Markiw from The Design Group with Donna Baran from James Gallery at the July 19 CREW event.

(From left) Allen & Sharif’s Paul Messineo, Bob Dezort from Anderson Interiors and R3A’s Carla Worthington at the 10th Annual NAIOP/CREW Sporting Clays event at Seven Springs.

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(Front, left to right) Ben Brown of Beynon & Company, Leah Mistick & Cailean Sweeney of Moody & Associates (Rear)Ray Mosco of CFS Bank, Amanda Love of Moody & Associates

Chip Desmone (left) and Kim Harkobusic from Washington Workplace.

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(left) Jim Lyle of Community Bank (left) and Jeff Kotula from the Washington County Chamber of Commerce.

NAIOP Pittsburgh Executive Director Brandon Mendoza (left) and Chapman’s Steve Thomas.

CBRE’s Brooke Huber, Victor Komo from ITS and Jeremy Bernstein from CBRE.

(From left) TARQUINCoRE’s Lynn DeLorenzo, Linda Fisher from Farmers National Bank and Justin McCall from McGrath McCall.
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The Armstrong County Industrial Development Council (ACIDC), established in 1968 is a private 501(c)(3) industrial development corporation. Identified as the lead economic development group within the County, the ACIDC, along with its sister organization the Armstrong County Industrial Development Authority, provides single-point-of-contact service for emerging or expanding business and industry. Owners and operators of four industrial parks, single use and multitenant facilities, the ACIDC works closely with existing or prospective businesses to identify the right location. They also provide financing assistance to companies through government loan/grant programs and private sector financial institutions.

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Joe Saeler, Executive Director jsaeler@butlercountycdc.com

The Community Development Corporation of Butler County (CDC) is the lead economic development organization in Butler County. The CDC is your first contact for economic development in Butler County. The CDC works closely with you to identify the right location for your business. Available land includes 30 acres at the Pullman Center Business Park Expansion. Initial lots at the Pullman site are priced as low as $50,000 per acre. All utilities are at both sites. The CDC also has financing available for real estate, equipment, working capital and lines of credit.

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The Indiana County Center for Economic Operations (the “CEO”) was established in 1994 as a county-wide public-private initiative. The CEO Affiliates include the Indiana County Commissioners, the Indiana County Chamber of Commerce, the Indiana County Development Corporation, the Indiana County Tourist Bureau, and Indiana University of Pennsylvania, whom jointly seek to support the continuous improvement and vitality of Indiana County through increased business, economic growth, tourism, education, and the quality of life in Indiana County. The CEO facilitates access to information, resources, and the delivery of integrated programs and services to assist businesses in their efforts to grow and expand.
The Washington County Chamber of Commerce is the largest business organization in Washington County and the second largest chamber of commerce in Southwestern Pennsylvania. The Chamber focuses on economic and business development initiatives to expand the economy of Washington County and was one of the first organizations to publically support the economic benefits and job creation potential of the natural gas industry. Learn more at www.washcochamber.com.

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