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LENDING
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COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION
PITTSBURGH CHAPTER

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President's Message

As the new decade begins, I want to look back on the past ten years and reflect on the progress and promising future the commercial real estate industry has made in the Pittsburgh region. So many good things have happened in that time.

Ten years ago, Lawrenceville was fringe-y; the Strip was still a warehouse and entertainment district; the downtown area was for working, not living (or eating or drinking); East Liberty was still a struggling neighborhood; and Hazelwood Green was only known for being the former LTV site.

Driverless vehicles on our roads were those whose parking brakes let loose while parked on a hill. Artificial intelligence was for CMU professors only. The Parkway West corridor was stalled. A cracker was something enjoyed with soup or cheese. What a difference a decade makes.

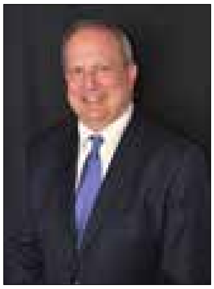
Google, Apple, Facebook, and Amazon have since grown their Pittsburgh presence. New autonomous vehicle companies and artificial intelligence companies have either started up or moved into our region. And regional stalwarts like Philips Respironics, Wabtec, and Bombardier have established new urban headquarters.

The Strip District is lined with new and under-construction buildings–important projects like 3 Crossings, District 15 and The Terminal Building are bringing new investment, new residents, new taxes and new vitality to one of our cherished neighborhoods. This development is driving economic growth, something we still need much more of in our region. And this growth and the jobs it facilitates are paying more taxes, buying more services and providing more opportunities not only through the high paying tech jobs, but more importantly through the entire job chain that supplies and services these companies.

Likewise, Lawrenceville has seen the explosion of robotics and autonomy companies, fulfilling the decade's long dream of capitalizing on the great technology and talent being developed at CMU, Pitt and our other great universities. East Liberty is also now bustling with new development related to the universities and hospitals.

Over the course of the next decade, the Greater Pittsburgh area needs to nurture these crucibles of prosperity and develop more growth neighborhoods like them across the region. In the past, the commercial real estate industry has partnered successfully with universities, hospitals and companies to fuel the growth of our region. That needs to continue. The last thing we should do now is stamp out the sparks of growth we are seeing in commercial real estate markets. While our economic growth is improving, it still trails behind our peers.

The contribution of capital, time, and entrepreneurial vision made by our industry is critical to our continued prosperity. Now is the time to strengthen the public-private partnerships that sustain and accelerate our growth and provide a more prosperous region for all our citizens in the next decade.



Don Smith Jr.
NAIOP Pittsburgh President


NAIOP
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DAVID L. LAWRENCE CONVENTION CENTER
MARCH 5th, 2020
5:15 PM RECEPTION
6:30 PM DINNER AND AWARDS
9:00 PM NETWORKING AFTER PARTY

On behalf of NAIOP Pittsburgh and our Board of Directors, I would like to thank our members for contributing to a great 2019 and a strong start to 2020. Because of our members' investment of time, volunteer hours, and financial resources, our Chapter received a great amount of recognition at NAIOP Corporate's annual Chapter Leadership & Legislative Retreat in our nation's capital.

Don Smith and I both were honored as the 2019 Chapter President and Executive Director of the year, respectively. Additionally, the chapter was granted the Outstanding Achievement in Membership Growth award, for being the fastest growing chapter in the United States, at 19%.

Member engagement was critical to our success. Over the past year, under the direction of our programs committee, our chapter developed compelling educational programming, which helped drive attendance and membership. At our monthly chapter meetings, nearly 1,000 people attended one of these meetings. The topics included keynotes by our county executive and our director of city planning; Transportation and TOD discussion with the CEO of the Port Authority of Allegheny County; inclusionary zoning discussion with renowned urbanist Joe Cortright; and a joint economic update in partnership with BOMA Pittsburgh. Sellouts and reaching capacity were very common for this past year.

In addition to our Chapter meetings, our developing leaders held four project tours in 2019. At these events, our Developing Leaders organize tours of key development projects in our region. These events are open to all members. Over the past year, our developing leaders held project tours at the future Facebook regional headquarters, the Advanced Robotics for Manufacturing (ARM) Institute's new headquarters located on an old steel mill, the PAA in Pittsburgh's Oakland neighborhood, and bus tour of a neighboring county (Butler). 475 members/nonmembers attended one of these project tours in 2019. In all, more than 3,200 people attended one of our events in 2019.

On the advocacy front, our chapter has a proactive approach to government affairs. In the past year, our chapter has testified at several public hearings, has developed whitepapers for all our most pressing issues, and has actively engaged our key political leaders. The chapter formalized a joint state policy agreement with the Philly Chapter, which consists of the broad and specific policies that both chapters are supportive of. The chapter is closing in on several policy wins, including a landmark policy to establish further incentives for affordable housing.

At the end of the day, none of our Chapter's success would be possible without our great members and volunteer leaders. I want to thank you for your engagement and your support. Together, NAIOP Pittsburgh is helping to move this region forward and further establish the CRE community's priorities with our regional strategies. I hope to see you all at the upcoming awards banquet (The 27th Annual Awards Banquet will be held on March 5, 2020 at the David L. Lawrence Convention Center. If you are not registered, we encourage you to sign up to attend at www.naioppittsburgh.com/events.)

Sincerely,

Brandon J. Mendoza
Executive Director
NAIOP Pittsburgh

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2020

You would think bankers would be nervous. Interest rates on real estate are out of line with the risk of repayment. That's a decade-long reality that should be keeping bankers up at night. For a variety of reasons, lenders are looking forward to 2020 as a solid year, even though the interest rates they are charging borrowers are about one percent lower than a year earlier.

Low interest rates are just one of several key factors that are pointing to a strong lending environment in 2020. Commercial real estate fundamentals are positive. Vacancy rates are not rising, but rents are. Demand for U.S. commercial real estate remains high, pushing prices upward and making it easier for borrowers to raise whatever equity lenders require. The high levels of capital looking for investment mean that lenders can push loan-to-value (LTV) ratios lower. That eases the risk of lending for the bank, while spreading the risk of investing to a broader base of investors.

In the later stages of previous business cycles, the competition for a declining number of deals drove lenders to become more aggressive. Loan-to-value (LTV) ratios edged higher, usually hitting 90 percent or more just before the cycle collapsed. (In 2006-2007, LTV hit 100 percent and higher.) Guarantees from borrowers get weaker or turn to non-recourse loans. Documentation of income gets thinner. Forward-looking rents (always higher of course) are used to generate debt service coverage ratios.

Competition for loans is tough but, as 2020 begins, regulations and lessons learned are keeping banks from recklessness. There are non-recourse loans being made, and borrowers are having better success at negotiating away some of the less popular conditions, but lenders are not willing (or allowed) to give away the store.

For the most part, borrowers with more skin in the game tend to repay their loans. Developers are finding no shortage of equity partners, and the low interest rate makes it easier than ever to keep making payments even if occupancy rates decline and rent follows.

Like with most businesses, lenders would like to be making higher margins on the loans they are making. Aside from tighter spreads, the conditions surrounding the lending environment – good fundamentals, strong economy, high equity investor interest – are keeping lenders optimistic in 2020.

The Interest Rate Environment

One interesting byproduct of the post-recession banking environment is the change in attitude about interest rates. Senior lenders, many of whom began their business careers when rates approached 20 percent, have gradually come to understand that the new "normal" for interest rates will not reach five percent in their business careers. Finance professionals under the age of 35 have no point of reference except the current low rate environment. It seems logical that those who expect that rates will again move higher and the current conditions will be viewed as an extreme in the way that 20 percent once was. There is little to inspire such a forecast, however.

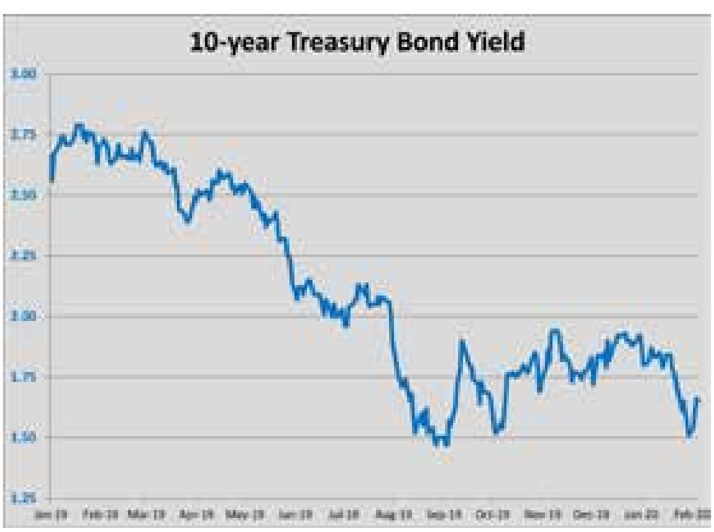
The interest rate a bank or lender charges is supposed to represent compensation that is commensurate with the risk of the loan. For most of the industrial era, risk has generally related to the term of the loan. The risk of individual deals was worked out as a premium to the term risk. Longer terms elevated the risk of default and created a risk associated with the lender's opportunity cost, the time value of money.

What changed that calculation? It wasn't just the Great Recession and financial crisis that followed. While the near zero – or below zero – interest rates charged by central banks during the crisis brought us to the lowest rates in the last 100 years, it was a combination of market conditions that created the current conditions. Perhaps the most important of these is the globalization of finance.

"We will be long dead before we see double digit rates again," jokes Jack Kopnisky, president and CEO of Sterling National Bank. "One reason is that it's now a global economy. Capital flows to and from different sectors of the world quite freely. When you have parts of the world offering zero or less than zero interest rate on investments the money is going to flow to the U.S., which is frankly what has happened. And there are always places around the world that will lend money at a very low rate."

Most people look to the Federal Reserve Bank's Open Markets Committee (FOMC) as the source of the decline in rates in 2019. While it's true that the Fed dropped its overnight Fed Funds rate three times, for a total of 75 basis points, in 2019, the marketplace sets the rate that borrowers pay. Markets pay attention to the long-term inflation expectations to set bond rates, which are ultimately reflected in loans of similar terms. It's supply and demand that ultimately set rates for the markets and global demand for U.S. bonds and assets has been sky high. That allows borrowers – whether that is the U.S. government or real estate developers – to offer lower interest rates to attract investors.

To Kopnisky's point, Germany recently joined dozens of central banks issuing bonds with below-zero returns. A total of $16 trillion in corporate and government debt has a negative interest rate, meaning that investors will receive proceeds from the loans that are smaller than the amount invested. That's usually a bad sign for the economy. But for



Yields on the 10-year Treasury bond, which are a bellwether for commercial real estate loans, are at the lowest point in more than 60 years. Source: Federal Reserve Bank of St. Louis.

a strong economy, like the U.S., the negative rates abroad make American federal debt very attractive.

As the global economy slows, with several countries experiencing recessions in 2020 (including possibly China), this phenomenon is likely to intensify. Even before the FOMC cut rates in the third quarter, the bond markets were signaling that rates would go lower. Yields on the 10-year Treasury bond moved below two percent in August. At the time this edition went to press, the yield on the 10-year Treasury was half what it was in October 2018. The practical interpretation of these falling rates is that investors are expecting that yields of 1.75 percent or thereabouts will be acceptable in ten years.

Another factor influencing long-term rates is the aging demographics abroad and in the U.S. Improvements in healthcare and education are pushing life expectancy much higher. Across the globe, the share of elderly (over 65 years old) in the population is expected to continue to rise. That has profound effects on interest rates, as older people become savers rather than investors. This drives demand for safe haven investments like government bonds, pushing rates lower. The ratio of elderly to working-age Europeans is expected to rise to .5 by 2050, compared to .25 in 2000. That means two working persons to every retiree. In the U.S., where the ratio of working to retired was 5:1 in 2000, the ratio is expected to fall to 2.8:1 in 2030, when all Baby Boomers will be of retirement age.

These demographic trends will also push growth lower. That will suppress inflation and interest rates.

A third limiting factor on interest rates is the size of the American national debt. At $23.25 trillion (and counting), U.S. government debt is so large that it would be virtually impossible for the government to fund itself in the event of a significant jump in rates. Were long-term rates to spike 300 or 400 basis points, the increase in debt service would outstrip the government's ability to raise taxes. The debt acts as a governor on interest rates.

The impact on commercial real estate from an extended period of low rates should be mostly beneficial. Declining rates had a significant impact on the refinancing of loans made in the years leading up to the financial crisis of 2008. The difference between rates on maturing five-year loans in 2012 and 2013, for example, was as high as 300 basis points. That gave borrowers plenty of relief on debt coverage at a time when the performance of properties was improving. Low rates today allow borrowers to invest more in value-add properties or to purchase at lower loan-to-value ratios. This has led to a new trend in lending.

"I am seeing a lot more demand for long-term fixed-rate pricing," says Ralph Burchianti, senior vice president of Community Bank. "We're able to do that with a hedged product but we typically don't like to extend out over five years on a fixed rate unless we hedge it. There is a demand for that right now."

Mortgage brokers Dan Puntil from Grandbridge Real Estate Capital and Mark Popovich from JLL Capital Markets also report increased demand for fixed rate products over longer terms. Burchianti notes that the impact of such loans is a stronger borrower.

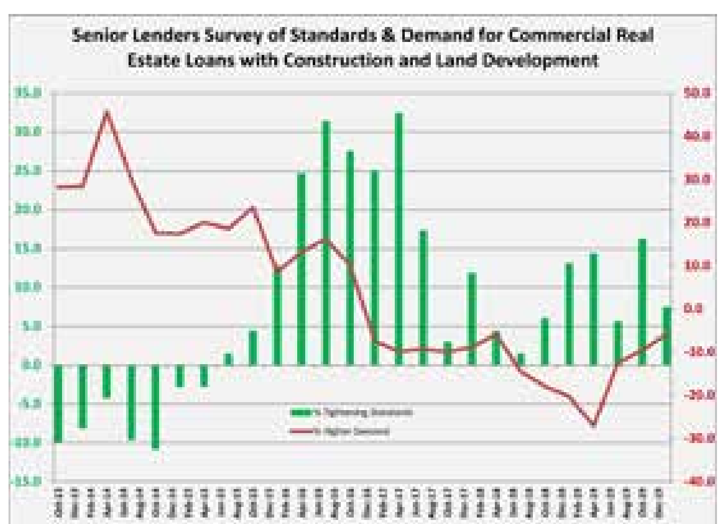
"The demand is a reflection of the rates but the relatively low rate environment also gives customers the ability to budget the payment without any upside rate risk or payment risk," Burchianti says.

Property values have also benefitted from the recent rate environment. One major concern of lenders during the early 2010s was the capitalization rate compression that was a result of the low interest rates. The fears that an increase in rates would cause defaults and pummel property values became irrelevant as rates remained low. Over the past 15 months, as interest rates have plummeted, cap rates have remained stable. Demand for commercial real estate remains high among investors, who cannot find good yields in comparable risk-adjusted assets. There is little opportunity for property values to decline in such an environment.

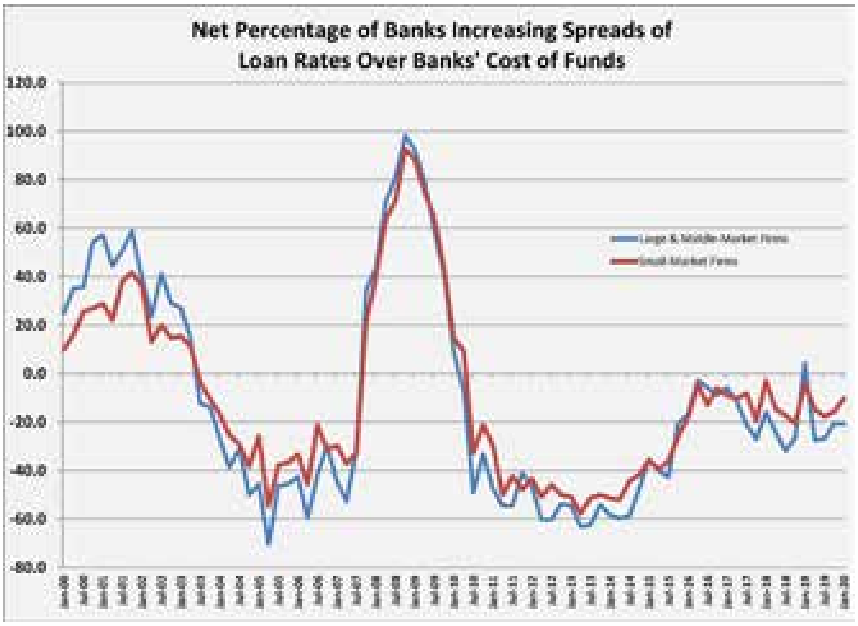
One downside to the rate environment has been the cap on profits earned from lending, even in commercial real estate. As rates moved up from the floor in 2016 and 2017, lenders hoped that spreads would begin to widen. Demand for higher returns from depositors and intense competition between lenders kept spread from returning to pre-recession levels. Banks and other lenders have adjusted to the current reality for spreads. Commercial real estate borrowers can expect an interest rate environment that supports the industry in the coming decade.

Credit Standards and Demand

When the sky fell in 2008, the damage was caused by excessive demand for loans coming from investors rather than borrowers. There was no shortage of places where the systems fell apart but at the root of the crisis was a deterioration of the credit underwriting standards of the lenders.



Senior lenders report that the lending standards for commercial real estate are tightening slightly. Source: Federal Reserve Bank Senior Loan Officer Opinion Survey (SLOOS)



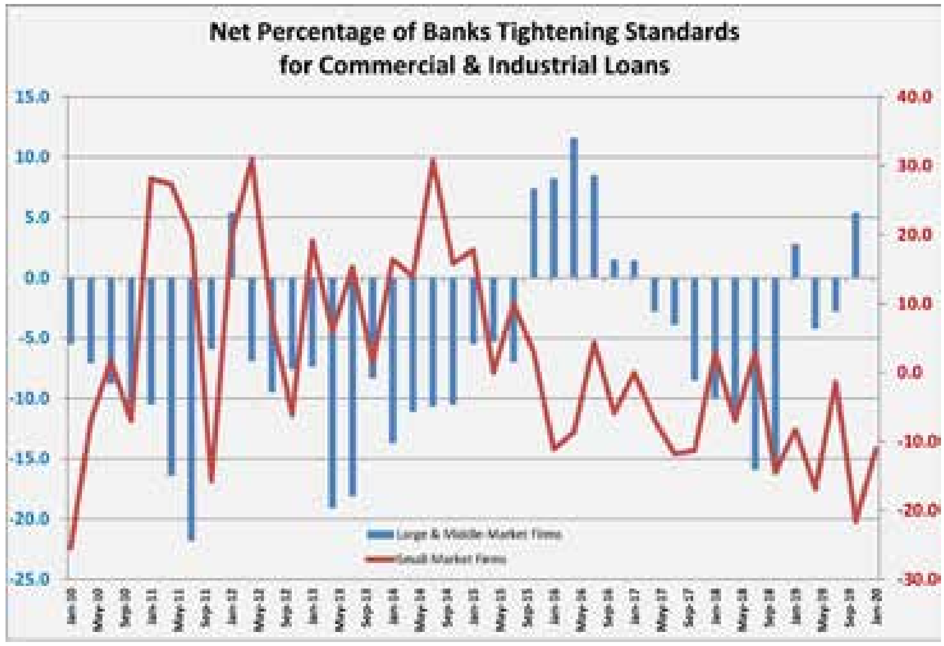
Lending standards for C & I loans have diverged from small and large businesses since the beginning of 2019, with small businesses seeing looser conditions. Source: SLOOS

That type of imbalance is not part of the lending landscape in 2020. Yes, there is excessive demand for deals from investors (at least more investors than deals), but the lenders are exploiting that to shore up or increase the equity in commercial real estate loans. What fell apart in 2006 and 2007 – and materialized in 2008 – was a voracious appetite for residential loans that were an incentive for lenders to lower their standards and safeguards. While most of the blame for the financial crisis rightly belongs to the residential mortgage business, lending in commercial real estate was also too easy. Good stories begat good credit. You only have to look at the unregulated commercial mortgage-backed securities market, which grew from $50 billion to more than $300 billion in a few years, to see that some of the same mistakes were made in commercial real estate as in residential.

Bob Powderly, senior vice president for investment real estate at First National Bank, says he has seen some of the same competition for deals now that led to the frothy conditions in the mid-2000s. He hasn't seen the frothiness bring down the industry's safeguards.

"We haven't changed our lending standards. Certainly we have been competitive but we really haven't changed our credit standards," Powderly says. "I remember those days before the downturn when interest only periods were ten years, and there were 30-year amortizations, and elimination of escrows, things that were very aggressive. Some loosening has crept into the market but nothing like we saw in past cycles."

"We have concentration limits and we've been pretty well disciplined there. We continue to lend but it will be purposeful," says Burchianti. "We do a lot of stress testing just to see what would happen if cap rates changed, vacancy rates jumped, or if interest rates went higher. We have been pretty consistent in our underwriting standards. We get competitive pressures and see some banks getting aggressive, but a deal has to be a solid credit and meet our underwriting guidelines. I think most banks have maintained their standards. The biggest pressure comes from pricing and margin compression. It is competitive."



Bank spreads have flattened since 2016. Source: SLOOS

"We are seeing more equity in the market and that allows us to be more aggressive on the debt side. If we are dealing with 40 percent equity versus the traditional 20 or 25 percent, that changes the posture towards the project," Powderly continues. "The availability of equity has helped fuel the debt side. That eases the risk profile of the transaction. Banks are still limited by their capital allocations in the various asset classes, including real estate. There is always that throttle on debt. Of course, those constraints that are on banks are not on debt funds."

Powderly raises an important distinction. Commercial real estate lending standards are bifurcated between banks and regulated institutions, and private equity and debt funds. After the 2008 crisis, federal regulations were tightened on banks. Regulators limit the LTV and debt service ratios on loans. Banks and regulated institutions have limits on the amount of capital they can lend and the amount of reserves they must maintain to absorb loan defaults. Private sources of equity and debt are assumed to be funded by investors who understand the risks being taken, and are freer to have more aggressive standards.

"There are two areas where banks have blown up in the past and one of them is commercial real estate. They are highly-leveraged and speculative transactions, compared to other types of loans," explains Kopnisky. "In general, banks have been pretty consistent with their underwriting standards and have stayed with loan-to-value and debt service ratios that are conservative. Much of the credit for that is due to the regulators. None of us like to be regulated but they have really done a good job, in my opinion, of preventing banks from having problems."

Without those same regulations, private funds have a greater potential for becoming the powder keg that triggers another credit crunch. Private equity, hedge funds, and debt funds are making it possible for higher leverage deals, or deals that require a reach to make the debt service pencil out. But many of those riskier deals are what have fostered growth in commercial real estate markets that have blossomed since 2008. It's hard to imagine Bakery Square, for example, getting a green light in 2009 without the participation of increased private equity. Powderly believes these financing sources are playing an important role in commercial real estate.

"It's surprising the amount of capital that continues to pour into the real estate sector because the returns in other sectors have been lower. There are many opportunities for finding debt," Powderly says. "Private equity and debt funds have helped to build the capital stack. On projects that are not bank-qualified, we have seen debt funds come in and take their place. There is additional mezzanine equity or equity from private or institutional sources out there. Projects that would not have profiled as traditional developer equity and debt before have options available to them.

"Banks are better positioned on the construction loan because of the administration and monitoring. On acquisitions or value-add projects, the debt funds are better positioned. They provide an alternative for loans that may or may not be done by the banks."

The presence of alternatives to traditional lending has been an accelerator to commercial real estate. The fact that private equity and debt funds have played an accretive role in the financing of commercial real estate projects, enhancing rather than displacing bank lending, speaks to the growth in demand for commercial real estate as an investment asset class. Because the slice of the market that private funds have served is the segment that banks have avoided due to regulation, it will take a softening of the real estate market to judge whether the private funds enabled growth or bad decision-making.

Thus far, the data supports the former. At this point in the business cycle you would normally see some fraying around the edges of the commercial real estate market. While there are some pockets of increasing vacancy rates or slowing price appreciation, there is little or no data that suggests that demand for commercial real estate loans is slowing. That isn't true of all business lending.

One of the more interesting data sets that exist is the Senior Loan Officers Opinion Survey (SLOOS). Conducted by the Federal Reserve Bank, SLOOS is a quarterly survey of 80 large banks and lenders in the U.S. and 24 foreign financial institutions with operations in the U.S. The survey has several very specific queries about how lenders are viewing commercial real estate and development and it has a number of questions that look to understand how bankers are viewing their markets and business in general.

The health and credit of business is the foundation upon which commercial real estate rests. The fourth quarter report of the National Center for the Middle Market suggests that bedrock middle market companies have seen a reverse in business conditions after steady decline throughout the first three quarters of 2019. Its Middle Market Indicators report found that middle market businesses reported improvements in revenue, hiring, investment, productivity, and confidence in the fourth quarter. This may help explain why the SLOOS survey showed no deterioration in standards in January 2020.

Standards for commercial and industrial (C & I) lending were neutral in January, with as many lenders reporting tighter and looser standards. That reading was slightly more accommodative than the 5.4 percent net share of lenders who reported tighter standards in the third quarter of 2019. Demand for C & I lending was still negative in the fourth quarter (net -11.1 percent) but was significantly higher than the third quarter's responses. On net, however, demand for C & I lending has been negative since the third quarter of 2018.

Lenders appear to have responded to the lower demand by relaxing terms on C & I loans to large- and middle-market companies. SLOOS respondents pointed to lower spreads, lower costs on credit lines, and more relaxed covenants. The looser conditions were also a response, in part, to increased competition from non-bank lenders.

Banks reported tightening standards on construction and land development loans for commercial real estate during the fourth quarter, although the net reading on commercial real estate as a category was looser than at the end of the third quarter. Demand for commercial real estate lending was neutral to higher.

Comparing SLOOS responses to past business cycles reveals that lending sentiments track the overall economy very well, just not always in anticipation of changes in trend. What makes the current SLOOS results interesting

is that bankers have been both reactors to and predictors of rocky economic conditions over the past 20 years. Lenders did not become accommodative until the 1991 recession was more than a year in the rear-view mirror. SLOOS reported that banks were tightening standards in the first quarter of 2007, even as the credit bubble was still inflating for another year. Tightening standards reflect interest rate trends as much as they do business conditions, which make the interpretation of the current conditions more difficult.

Loan officers reported tightening standards after the Fed began to raise rates at the end of 2015, becoming less accommodating throughout 2016. Rather than foreshadowing a downturn, the tightening credit gave way to loosening conditions until the end of 2018, when the Fed spooked the markets with one rate hike too many. While the markets have picked up since the beginning of 2019, and rates have been cut three times since, the trend has been moving in the direction of slightly tighter standards into 2020.

The Regional Environment

Bank regulations are national and global in nature, so the application of standards doesn't vary much from one city to the next, especially since more regional banks work in many cities. What does vary is the business environment in one city versus another. Right now, that's a good thing for Pittsburgh's commercial real estate market.

There are some areas of concern for Pittsburgh lenders, however. Activity in the Downtown office market, which has been primarily a zero-sum game for several years, has slowed. The Downtown vacancy rate has crept higher and demand from new kinds of occupiers is needed to reverse the trend. Demand for office space in the Strip District has remained higher than the supply but, with two million square feet in the pipeline, there are worries about overbuilding in the next couple of years. Underlying these concerns is the slowdown in net job creation in the Pittsburgh region.

"One of the things I'm concerned about is that Pittsburgh is not on the growth trend that everyone has been touting over the past couple of years," says Jamey Noland, director of underwriting for PenTrust Real Estate Advisory Services. "There certainly have been a lot of positives in the market. Rents are going up. Space is being taken by out of town companies who are growing here, but are we really creating the jobs that we think we are creating?"

Perhaps because of the flat growth trend, or the length of the economic expansion, lenders have expressed the necessity of examining deals from an extreme microeconomic perspective, favoring at specific sub-markets or property types within the regional market. Thus far, the closer scrutiny has not resulted in fewer deals.

"In the Pittsburgh market we are seeing a lot of activity. There is a lot of activity in spec office space. We're seeing a lot of lending into tract housing development, particularly in the North Hills. There is a wide range of development," says Burchianti. "We have seen senior housing, student housing, and the multi family sector has been busy in the Pittsburgh area. We're a little bit concerned about hospitality right now because of the level of building in the Pittsburgh market. We think it's a little bit saturated."

"There is the question of how long the expansion has been going. We are going on ten years from the big downturn in the economy that we had," says Powderly. "We've continued to see job growth across the larger footprint we serve. Across our legacy footprint, which includes Pittsburgh, we've seen modest job growth and that's a little bit of a surprise. We're really happy with the portfolio in Pittsburgh. The asset quality of the portfolio remains excellent."

"It's a pretty robust commercial real estate market and I think the housing market has been robust as well. I think we're fortunate to be in this market," Burchianti concludes. **DP**

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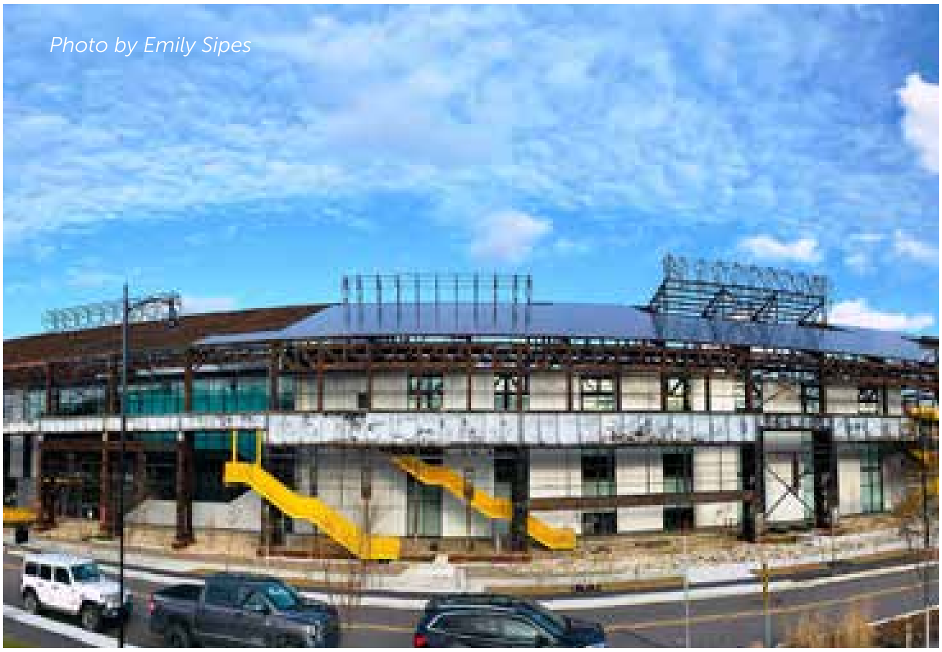

BEST GREEN BUILDING

Mill 19 at Hazelwood Green

The adaptive reuse of the quarter mile long Mill 19 at the former Jones and Laughlin site in Hazelwood created a world class commercial and light industrial building. Mill 19's Phase A, as well its two subsequent phases, was designed to be eco-friendly, environmentally sustainable and LEED v4 Gold-certified.

DEVELOPER: RIDC

CONTRACTOR: Turner Construction Co. (Core and shell), Jendoco Construction Corp. (Fitout)

ARCHITECT: MSR, Renaissance 3 Architects

ENGINEER: Lennon Smith Souleret Engineers, KU Resources

LENDER: PNC Financial Services Group

BEST BUILD-TO-SUIT OFFICE

SAP Ariba Pittsburgh Headquarters

This new corporate office project is a 180,000 square foot, seven-story office building, with ground level will have restaurants to further enhance the North Shore destination. SAP, a German multinational software corporation, will is the anchor tenant.

DEVELOPER: Continental Real Estate Companies

CONTRACTOR: Continental Building Company

ARCHITECT: Strada Architecture LLC (Core and shell), Perkins Eastman (Fitout)

ENGINEER: GAI Consultants

LENDER: First National Bank

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NAIOP 2020 Speculative Office Winner: **District Fifteen, Pittsburgh, PA**



NAIOP 2020 Built to Suit Industrial Winner: **Fifth Season Vertical Farm, Braddock, PA**




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BEST BUILD-TO-SUIT INDUSTRIAL

Fifth Season Vertical Farm

This 60,000 square foot solar-powered farm has a 25,000 square foot grow room with twice the capacity of traditional farms. This project was also the region's first Opportunity Zone investment and one of the largest investments in Braddock in decades.

DEVELOPER: RDC Design + Build

CONTRACTOR: RDC Design + Build

ARCHITECT: JMAC Architects

LENDER: First Commonwealth Bank

BEST SPECULATIVE INDUSTRIAL

West Pittsburgh Business Park

In addition to renovations to existing buildings in 2019, three new flex buildings were built, ranging in sizes from 19,000 square feet to 66,000 square feet.

DEVELOPER: Sampson Morris Group

CONTRACTOR: A. Richard Kacin Inc.

ARCHITECT: Design 3 Architecture, Boyd B. Anastas Architect

ENGINEER: Civil & Environmental Consultants, KU Resources

LENDER: S & T Bank

35th Anniversary
CIVIL ENGINEERS & SURVEYORS
1985 - 2020

Lennon, Smith, Souleret Engineering, Inc.

Civil Engineers and Surveyors

Congratulations to Mill 19 by RIDC for the Green Building Award.
LSSE is proud to be a part of the RIDC project team
lead by MSR Design.
LSSE provided civil-site design for 34,149 SF Facility.

Congratulations to Chapman Westport Business Park by
Chapman Properties for the Best New Business Park Award.
LSSE is proud to be a part of the Chapman project team.
LSSE provided civil-site design for (2) 74,000 SF Facility
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Congratulations to all of the 2019 NAIOP Award Winners!

Civil-Site Design for 454,480 SF
Niagara Bottling, LLC Office/Warehouse/Distribution Center

BEST SPECULATIVE OFFICE

District 15, Strip District

District Fifteen is a LEED-certified, four-story, 105,000 square foot office building. The building also includes a public piazza, a fitness facility with changing areas, electric car charging stations, and 150 parking spaces.

DEVELOPER: 15 Smallman LP (A Joint venture of RDC Design + Build and OrangeStar Properties LLC)

CONTRACTOR: RDC Design + Build

ARCHITECT: DLA+ Architecture & Interior Design

LENDER: First Commonwealth Bank

BEST NEW BUSINESS PARK

Chapman Westport Business Park

The site of a new 1.4 million square foot Amazon fulfillment center and GE's Center for Additive Technology Advancement, this 325-acre business park is also home to two 74,000 square foot state-of-the-art, industrial-flex buildings known as Building 100 & Building 200.

DEVELOPER: Chapman Properties

ARCHITECT: NEXT Architecture

ENGINEER: Lennon, Smith, Souleret Engineering Inc.

LENDER: TriState Capital Bank

DEVELOPER OF THE YEAR

McCaffery Interests

McCaffery has had an active presence in Pittsburgh for more than 15 years. Its work in Pittsburgh began with the adaptive re-use of the Armstrong Cork Factory, which received the Urban Land Institute's Award for Excellence in 2009, then on to the development Lot 24 in 2012, followed by a development consulting, management and leasing partnership with Oxford Development on The Yards at 3 Crossings in 2016, and most recently Coda on Centre which opened in 2018. In total, McCaffery has developed, leased or managed 868 apartments in the city of Pittsburgh, showing their dedication to the community by developing places which bring people together. In 2019, McCaffery broke ground on their largest project yet in the city, the redevelopment of the historic Produce Terminal into the Strip District Terminal and the building at 1600 Smallman. What was once a mostly-vacant five-block long building will soon be 160,000 square feet of new shops and restaurants, as well as walkways connecting the Smallman side of the street directly to the riverfront. Across the street from the project, the developer is transforming the former Standard Underground Cable Company site into new retail, tech office and a parking garage at 1600 Smallman. McCaffery has worked diligently with the Urban Redevelopment Authority, City of Pittsburgh, and Commonwealth of Pennsylvania to bring this building back to life for the Strip District, with substantial completion slated for the third quarter of 2020.

SUPPORTER OF DEVELOPMENT

Jeff Kotula, President, Washington County Chamber of Commerce

For the past 20 years, Jeff has served as the president of the Washington County Chamber of Commerce, representing and advocating for the business interests of more than 1100 members. In his capacity as chamber president, Jeff also serves as the chief economic development official for Washington County. The Washington County Economic Development Partnership was created through an innovative public/private partnership with the Washington County Board of Commissioners and is responsible for delivering a wide range of economic development services for the county including, business attraction and retention, prospect services, marketing, and business outreach, just to name a few. Jeff was instrumental in the creation of this streamlined economic development delivery model for Washington County and in many cases has been the catalyst to bring like-minded business, government, and community leaders together to work toward the goal of promoting and advancing Washington County development initiatives and utilizing business-driven strategies to deliver results.

Neighborhood 91 at the Pittsburgh Airport Innovation Campus

Rendering courtesy Allegheny County Airport Authority.

Christina Cassotis, CEO of the Allegheny County Airport Authority, has led a remarkable period of growth at the Pittsburgh International Airport (PIT). While nearly doubling the number of nonstop destinations from PIT in just a few years, Cassotis consistently credits the strong regional economy for the success of her selling efforts. The positioning of PIT as a regional asset was a key element in the launch of Neighborhood 91, the land development located just west of the airport's massive parking lots.

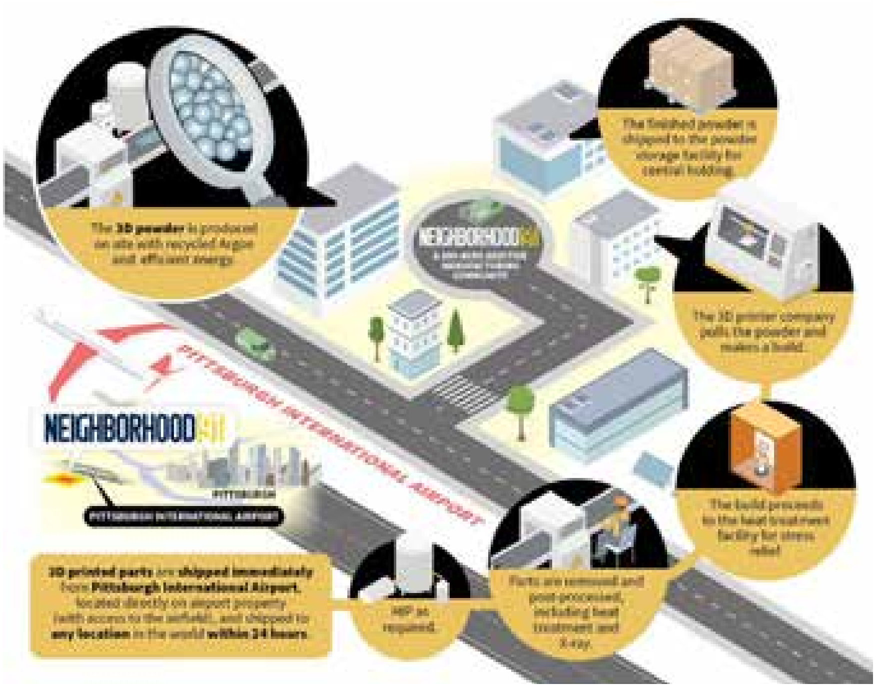
Neighborhood 91, branded as an extension of the City of Pittsburgh's 90 recognized neighborhoods, is intended to be a center for additive manufacturing (AM)/3D printing as the burgeoning new technology develops. A partnership with the University of Pittsburgh has helped launch the development, which already boasts a cutting-edge manufacturer and a number of prospective tenants, all before a developer has come on board.

The October 25, 2019 signing of the formal agreement between University of Pittsburgh and the Airport Authority was the culmination of decade-long process to leverage the airport's available land to drive large-scale commercial development. But the real work specific to Neighborhood 91 took less than one year.

"We went through a revision to our master plan, which was finished at the end of 2018, and at that point it transitioned from the World Trade Center to the Pittsburgh Airport Innovation Campus," says David Storer, director of business development, for the Airport Authority. "It was a broad look to say, if it's going to be an innovation campus what does that mean? What are the strengths of the region? It was more of a refinement of the plan. We had an idea what we wanted but we weren't very sure."

Cassotis works closely with the region's business and civic leadership to promote the airport. Pitt Chancellor Patrick Gallagher is one of those leaders with whom Cassotis has developed a working relationship. Gallagher was looking for ways to expand and promote Pitt's research and development of 3D printing and AM. It was a program looking for a home.

"In an innovation-driven arena like additive manufacturing, where the future is still being defined, the magic happens at the intersection of research and research-intensive industry," Gallagher



Rendering courtesy Allegheny County Airport Authority.

says. "Neighborhood 91 facilitates this work by bringing together the right kinds of neighbors, giving research institutions like the University of Pittsburgh an opportunity to closely and directly collaborate with these industry partners."

As the idea was fleshed out, and other leaders came on board, the next steps followed quickly.

"I remember being on the site with the chancellor in late November 2018, with Christina and County Executive Rich Fitzgerald, deciding that this should be the site," recalls Storer. "The airport had the ability to move quickly. We hired a technical consultant, The Barnes Group of Advisers by February. A year later we have our first tenant."

The Barnes Group Advisors is a consultant that specializes in the AM/3D printing industry. Founder John Barnes was an executive with several manufacturers that are now developing the technologies, including Pittsburgh's Arconic, and is an adjunct professor at Carnegie Mellon University. What The Barnes Group reported was that the AM/3D technologies are being advanced in a disconnected manner that would benefit from the creation of a synergized hub location. That was music to the ears of the Airport Authority's leadership, which had been looking for a way to increase the airport's value to the region into real estate action.

The previous master plan was an attempt to utilize much of the thousands of acres under the Airport Authority's control. Some of that property had been developed separately – most notably the Pittsburgh International Business Park off Cherrington Parkway – but the centerpiece of the 2011 master plan was the World Trade Center, which was envisioned as a corporate campus anchored by a high-profile headquarters office near the airport's entrance off I-376. But the World Trade Center plan was a "build it and they will come" project that was short on details and direction. The 2018 plan, done by Civil & Environmental Consultants and MXD, was more focused and better informed by the marketplace.

"Our goal with the master plan was to identify three priority sites," says Storer. "The previous master plan had looked at all of the land. That plan had five priority sites. With the way we get funding, five priority sites were too many. We needed to focus on two or three. Our requests for state funding would then be more precise and more real.

Pitt Chancellor Patrick Gallagher and Allegheny County Airport Authority CEO Christina Cassotis sign the Neighborhood 91 agreement on October 25, 2019.

"Previous RACP grants had been scattered around a number of sites and none of them were big enough to create the inertia to stimulate actual projects. The total need for infrastructure for the Innovation Campus is approximately $30 million. We also did a market analysis, which had never been done in the past. We looked at what the market demand was, what the absorption rate is, what we are competing with. All of those things that you should do when you do a master plan. We truly came out with an actionable plan."

The economic impact study done by The Barnes Group identified several key characteristics about the AM/3D industry that aligned well with the opportunity to create the Pittsburgh Airport Innovation Campus. The study also forecasted a multi-billion dollar economic impact, which includes the creation of more than 6,300 jobs. That got the attention of county officials.

"My interest was around the jobs in the ecosystem we'll be creating. We know this is the future. 3D printing or additive manufacturing will be where the future growth potential for manufacturing lies," Fitzgerald says. "The fact is we have a real competitive advantage by being on the airport property, having relatively low cost energy because of the natural gas. We're going to build out a micro grid for electricity generation. It's critical for manufacturers to have energy that is reliable and low cost."

Additive manufacturing, as detailed by The Barnes Group, is a technology that is still in its infancy. Because AM involves a variety of materials, the research and development has followed manufacturers of those materials. That means the R & D is fractured between individual plants for metals, plastics, and the related essential components. Within Pittsburgh's regional footprint there have been large investments made by Allegheny Ludlum and Arconic for AM involving steel and aluminum that are uncoordinated, even though the two facilities are about ten miles apart.

The plan for Neighborhood 91 is to create the integrated ecosystem that connects the various players in the AM/3D sector as it develops. Storer says that where Neighborhood 91 differs from other efforts, like Texas A & M's RELLIS campus, is in its broad focus, especially its focus on production and workforce.

"We envision powders being developed and produced on the site. Metals are our initial focus," says Storer. "[The manufacturers of the powders] will sell to 3D printers that will have the post processing, which will be the machining, chemical treatments and testing. The fourth component of that will be the people, which is where the local universities come into play. This is an industry that does not have a pipeline of people coming in. We'll be working with the universities to create the workforce pipeline. It's not necessarily a four-year degree either. We see it going from the community colleges all the way to Pitt and CMU."

Locating at the airport gives Neighborhood 91 a leg up on that integration from the standpoint of resources. Aside from the advantage of having air cargo access at its doorstep, Neighborhood 91 gets access to the abundant natural gas that lies beneath the region (and the airport property). There will likely be a second dedicated micro grid developed at some point for Neighborhood 91. Manufacturers will be able to count on reliable energy and heat regardless of what is occurring on the regional power and gas grid.

The integration of education, training, manufacturing, and logistics resources at Neighborhood 91 will give the industry, which is still at the proof of concept stage, significant competitive advantages. The report by The Barnes Group noted that as the AM/3D industry is currently developing, it's common for components of the supply chain to be made 6,000 miles from the customer. Shipping times can stretch manufacturing to 63 days. Neighborhood 91 would shrink the supply chain to 195 acres, and days instead of months.

"We are consolidating the supply chain to one site. Our end goal is from powder to end user never having to leave the campus," says Storer. "We can take that supply time down to maybe six days. That's a lot of money saved."

Towards the end result of total integration on site, the first tenant for Neighborhood 91 was on board before the October 25 announcement. Arencibia, a manufacturer of argon, helium, and other noble gases needed to do 3D printing, has committed to build an argon recycling plant at the initial Neighborhood 91 facility. AM/3D processes allow for 95 percent of the noble gases to be recycled, a big advantage for neighborhood manufacturers. Fitzgerald sees the presence of Arencibia as a drawing card for AM/3D manufacturers and researchers, that can be sure of having inexpensive argon.

With RACP grants and funding in hand, the Airport Authority was able to break ground on the Pittsburgh Airport Innovation Campus on December 6, 2018. The first 24-acre phase was pad-ready after Labor Day 2019. The plan is for the buildings that will be developed to be between 30,000 square feet and 100,000 square feet. Users in the AM/3D industry require 10,000-to-15,000 square feet, with the flexibility to expand as the industry grows. The Airport Authority will be the strategic landlord, with a third-party developer leasing the land and delivering the buildings. A second phase of 35-to-50 acres has already been funded. Storer says that as many as four companies have reached the point of signing letters of intent. Getting all the parties in agreement and underway should be a 2020 reality. That would be a first step in what Storer says the county envisions as a virtuous cycle of growth.

"There's going to be a Silicon Valley effect. There's a reason people locate in Silicon Valley," Storer explains. "It's not because it's an inexpensive place; it's because of the innovation that is happening there. Having companies work together in the same place makes it easier for them to solve problems. That's where the innovation comes from. That's how we see additive manufacturing technology continuing to advance." **DP**

A New Year's Surprise - Management of Fill Policy Changes

By Jeff Walentosky, P.G.

As an owner of an environmental consulting firm, I'm usually not one for surprises for either my company or for my clients. However, if you're not an environmental attorney or an environmental consultant, I might be "surprising" some of you with the information in this article.

On January 1st, 2020, some significant changes to a long-standing policy utilized by the Pennsylvania Department of Environmental Protection (PA DEP) came into effect, which has the capability of impacting site developers, contractors and/or property owners that want and need to import or export fill materials at a project site.

This policy, known as the "Clean Fill Policy" was established by the PA DEP's Bureau of Waste Management in 1996. "The Management of Fill Policy" replaced the Clean Fill Policy in 2004, and some minor modifications were made in 2010. The framework of the Management of Fill Policy remained relatively static until the 2020 version of the Technical Guidance Document (TGD) was issued in November 2019.

Over the past 20 plus years, I have noticed that representatives from several industry sectors were not aware that this policy even existed, which can potentially result in "surprises" in the form of unexpected costs and delays to a project. As such, it's important that the guidance within the policy be followed. Early project planning and communications with all parties (including regulatory representatives) are crucial when addressing any fill material management issues.

The original purpose of the Management of Fill Policy (2004) and the original Clean Fill Policy (1996) attempted to define "clean fill" or uncontaminated fill by utilizing very stringent standards that were much more conservative than the statewide health standards set forth in the Pennsylvania Land Recycling Act, or the Act 2 Program. In many cases, the clean fill standards set forth in the Clean Fill Policy were unachievable, even with sites that had a benign property use history.

In 2004, the Management of Fill Policy officially replaced the Clean Fill Policy, and much of the policy language and procedures carried over to the updated version of the document in 2010. In this updated version, PA DEP made some improvements that provided two options for the determination of clean fill status:

1. If due diligence efforts illustrated that fill material has not been impacted by a spill or release of regulated substances, the material qualifies as "clean fill".

2. If fill material was documented to be impacted by a spill or release, the material could be sampled and analyzed by a certified laboratory for a comparison to regulated substances with established in the "clean fill" standards. These standards were derived from the more stringent of the direct contact or soil-to-groundwater medium specific concentrations (MSCs) found within the Act 2 statewide health standards.

Following these guidelines would help determine whether the proposed fill material could be classified as "clean fill" or "regulated fill".

The PA DEP started a full internal review and revamp of the Management of Fill Policy in 2014, and a draft document was published in the Pennsylvania Bulletin in November 2018 for a subsequent public comment period.

During the comment period, the Department received a significant volume of comments from the public, which were reviewed and addressed in the final version of the 2020 Management of Fill Policy. The policy was published in November 2019, and the associated TGD is the guidance document we will be utilizing going forward.

It is important that anyone involved in transporting fill material to or from a site within the Commonwealth is aware of the requirements and criteria set forth in the 2020 Management of Fill Policy. This particularly applies to site developers, contractors, utility companies, and the energy sector.

We'll go through some of the major highlights regarding the updated policy document. First, here are several activities where this policy does not apply:

1. Mining reclamation activities subject to a permit.

2. The movement or use of fill within a "project area" or right-of-way project.

3. Use of reclaimed asphalt pavement in accordance with PA DEP's co-product determination.

4. Management of land clearing, grubbing or excavation wastes that may include trees, brush, stumps or other vegetative material.

5. The use of clean or regulated fill that was determined prior to January 1, 2020, unless the fill is moved to another receiving site or project area after January 1, 2020.

As the previous version did, the 2020 Management of Fill policy provides narrative for the necessary procedures to follow for determining if a material can be classified as clean fill or regulated fill. It is important for the person utilizing or moving the fill material to determine the eligibility for management as fill material. In addition, environmental due diligence must be completed to ensure there is no evidence that the fill has been impacted by the release of a regulated substance. This includes review and documentation of property ownership and historic usage records.

If there is evidence in the due diligence investigation that suggest there may have been a historic release of regulated substances at or near the project site, numerous samples of the proposed fill material must be sampled and analyzed for a list of analytical parameters. In some instances, the sample collection requirements are extensive and may add significant costs or delays to the project.

If you're familiar with the fill determination processes required in previous versions of the Policy, you may be thinking, "this process doesn't sound like it changed very much". I would have to agree that the overall process for determining the status of proposed fill material has not changed much. However, the level of detail in the technical guidelines have significantly changed. Here are some key components of this policy that has changed:

- Necessary documentation of due-diligence efforts is much more extensive.
- The sampling requirements and the amount of sampling is much more prescriptive and extensive.
- A sampling plan is required for any sampling to be completed as part of a determination of fill status.
- There are more stringent health risk based standards for several key analytical parameters for fill determination.
- A section for the assessment of background conditions has been added. Because this process is somewhat complex, we anticipate issues and significant conversation with PA DEP if a project is looking to complete sampling for a background determination.
- Electronic submittal of Form FP-001 (Certification of Clean Fill) is being requested with all plans, reports and laboratory results attached. This can be a significant volume of required paperwork, and it must be retained by the donor and receiving site of the fill material for a period of 5 years. It is not known at this time how the PA DEP will manage and utilize this information.
- With on-going projects that have started prior to January 2020, there is concern that the changes in this policy could potentially impacting established schedules, project costs and associated contract obligations.

If the fill material is determined to be "clean fill", the material can be used in an unrestricted manner, as long as the material is not placed in the waters of the Commonwealth and abides by other appropriate PA DEP regulations.

If material is determined to be classified as "regulated fill", there are some options, but the procedures are much more prescriptive. The most common option is to treat "regulated fill" as a "waste", where following applicable municipal and residual waste regulations for disposal is the norm. This certainly would be an additional cost to any project. There are other potential options for regulated fill, however, these options will take significant coordination and discussion with PA DEP representatives.

I hope by reading this article, you've become more aware of this policy and how it applies to your business, project and potential opportunities. This policy should always be considered and followed when the movement of fill material is anticipated at your project site. In conclusion, it is important to avoid addressing last minute fill management issues due to the new guidelines in the 2020 policy. Planning and communication between your project team and PA DEP representatives early in the process, are critical to ensure that these determinations are made as soon as possible for the sake of project timing, budgeting and to make sure there are no "surprises". **DP**

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In sharp contrast to the start of 2019, the U.S. economy was surging as January 2020 began. A raft of economic data released since the start of the year has further cemented a picture of an economy supporting growth more than a decade into expansion..

The year's first report, the Bureau of Labor's Monthly Employment Situation Summary, showed solid gains in the final month of 2019. Employers added 145,000 jobs in December, keeping the unemployment rate at 3.5 percent. Wage growth continued the trend shown throughout 2019, with the average weekly wage jumping 2.9 percent compared to December 2018. For the full year, 2.1 million jobs were added to the economy, an average of 176,000 per month.

Other reports on December activity were equally buoyant. Two metrics in particular were surprisingly upbeat.

The January 16 report on December's housing starts found a 16.9 percent surge, the highest monthly gain since December 2006. The report on December home starts was strong for both single-family construction, up 11.2 percent to a 1.06 million unit pace, and multi-family, which spiked by 29.8 percent to a seasonally-adjusted annual pace of 553,000 units. Officials from the Census Bureau and the National Association of Homebuilders (NAHB) were quick to point out that December data has historically been overestimated, cautioning that downward revisions on the final December tally would not be unusual. Still, the rising tide of housing starts in the final half of 2019 bodes well for 2020, especially if the higher growth is a reflection of rising lot inventories.

New home construction rebounded strongly in December 2019, accelerating the trend of higher residential construction. Source: U.S. Census Bureau.

Economists received a welcome surprise in the December report on manufacturing activity, which the Federal Reserve reported on January 17. Observers were looking for continued overall weakness due to the 18-month trade war with China, among others. Instead, the Federal Reserve reported that manufacturing output had increased by 0.2 percent in December, although overall industrial production fell 0.3 percent. The overall decline came from declines in motor vehicle production and energy generation.

There was a 4.6 percent fall in the production of motor vehicles and parts in December, along with a 5.6 percent drop in utilities. The latter was a result of unseasonably warm weather during the final month of 2019. Manufacturing output of food, beverage and tobacco products rose 1.3 percent, nonmetallic mineral products rose 2.3 percent, primary metals output rose 1.3 percent, and computer and electronics products rose 1.4 percent.

Home prices have recovered from the Great Recession, accelerating in value as the supply of homes for sale remains tight. Source: Standard & Poors/Case-Schiller.

Less surprising was the data on consumer expenditures. Although consumer sentiment softened slightly in 2019 – mostly as a result of the general uncertainty about the economy – that sentiment did not appear at the cash register. Total consumer spending - as measured by the Bureau of Economic Analysis's Real Personal Consumption Expenditures (PCE) data - grew by 3.3 percent during 2019. Total spending reached $13.4 trillion at the end of 2019, or 62.6 percent of the estimated $21.4 trillion in total U.S. gross domestic product (GDP) for 2019. Including additional investments in the economy beyond PCE, consumers account for 68 percent of the total U.S. GDP.

It's the latter point that buttresses the outlook for 2020, for which there is little negative sentiment. With the consumer feeling optimistic and spending freely, it is difficult to forecast anything but growth. Economic growth during the fourth quarter of 2019 was 2.1 percent, as predicted. While few economists predict GDP will grow above 2.5 percent in 2020, even fewer are forecasting growth below two percent.

Perhaps the most persuasive argument for an economic slowdown is the near consensus by experts that a slowdown won't occur. That contrarian view has support among those who point to the near unanimity that the economy was

Residential Permits	#SFD	#SFA	M/F	Total
Total Pittsburgh MSA 2019	2,091	866	2,200	5,157
Total Pittsburgh MSA 2018	2,193	791	1,134	4,118
% Change	-4.7%	9.5%	94.0%	25.2%

New residential construction in metropolitan Pittsburgh rebounded strongly in 2019, rising primarily because of a 24.1 percent increase in multi-family construction. Source: Pittsburgh Homebuilding Report.

stronger than the subprime mortgage crisis in 2007. Unlike that time of hubris, most sources of economic stress are flashing green as 2020 begins.

Two of the metrics that most directly correlate to the pre-crisis period, consumer balance sheet and home prices, are 180 degrees from where they were in 2008. Even as consumers spend more than at any time in U.S. history, the personal savings rate continues to climb. After deleveraging in the first years of the decade, American households maintained a savings cushion. At the end of 2019, the personal savings rate was at seven percent. That compares to one percent in 2007. Credit monitor Experian recently issued its 2019 Consumer Credit Report, which showed that the average American's FICO score had risen to 703.

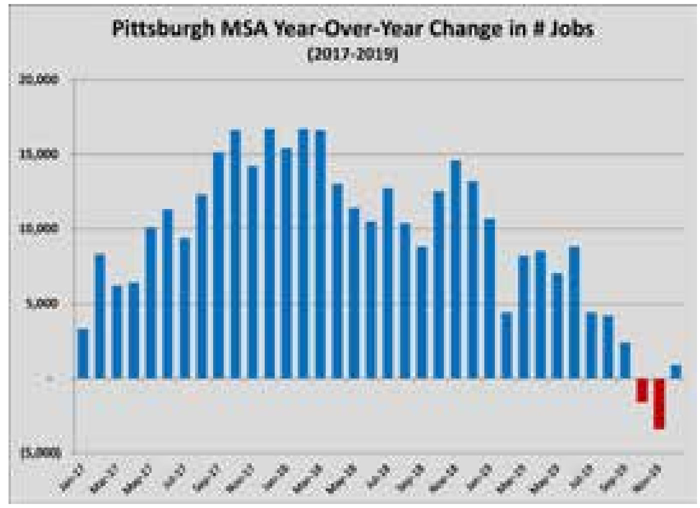
As consumers are putting more away for a rainy day, the value of their homes – often their single largest investment – continues to climb. Homes prices rose by 3.6 percent in 2019 and are expected to appreciate faster in 2020. Low inventories of homes for sale and new lots are responsible for pinching supply to 3.0 months' worth by the end of 2019. The housing market works most efficiently when there is at least five months inventory of homes for sale. The supply/demand imbalance is not inflating a home price bubble, however, since the home ownership rate remains low. Compared to household formations, home ownership should be much higher, and demand remains pent up. Even if new construction occurs at the accelerated pace shown in December, the inventory of homes for sale is unlikely to grow beyond four months' supply in 2020.

When the global economy froze in 2008, consumers were highly leveraged and their home prices were inflated by demand for mortgages instead of houses. The recession was multiplied by the weakness of these economic foundations. A recession today would find American homeowners with greater home equity and savings to ride out a slowdown.

There are headwinds to the economy, even with the relative economic strength of U.S. consumers. Balanced against the strengths of the economy, these headwinds should not drag the U.S. economy backwards.

Two factors that could upset the direction of the economy are continued trade tensions, especially with China, and the weakening manufacturing sector.

The first phase of a trade agreement between the U.S. and China was signed by both parties on January 15. While critics have some justification in characterizing the pre-agreement as having little or no effect on the most contentious issues that the two superpowers face, the phase one deal allows each side to roll back tariffs and restrictions that damaged U.S. businesses. The agreement also provides a pretext for both sides to continue talks about the substantive issues, like intellectual property rights and unfair trade practices. Regardless of the eventual outcome of the talks, the phase one agreement calmed global markets.



Losses in energy and manufacturing pushed job creation into negative territory at the end of 2019. Source: U.S. Census Bureau. (ISM pmi)

The Trump Administration's trade disputes are not limited to China, however. Recent threats of higher tariffs on European countries are evidence that the actions taken earlier in the administration might not satisfy the U.S. government. With a final Brexit deal looking more likely by 2021, Europe and Great Britain are going to feel economic stresses from the divorce more as the details of the deal are worked out. A trade dispute with the U.S. would exacerbate any economic woes that exist in Europe.

U.S. companies can take heart as the administration seems willing to find a fix to the China trade dispute without further tariffs. As the global markets face headwinds, and Donald Trump seeks reelection, U.S. businesses hope that no more trade war fronts appear.

Weak manufacturing will be harder to fix. Trade tensions have been a significant drag on growth of U.S. manufacturing since early 2018, as costs have risen, and markets have been restricted. Tight labor supply and wages that have risen faster than in other sectors have been additional drags. And the relative strength of the U.S. dollar makes exporting less competitive.

The headwinds for U.S. manufacturing have been apparent in the most recent months' data. The HIS Markit U.S. Manufacturing Purchasing Managers Index (PMI) declined in January for the third consecutive month, falling to 51.7. January's reading was down significantly from the March 2018 cyclical high of 57.9. The Institute of Supply Management's PMI for January fell to 47.2, marking the sixth consecutive month of readings below the break-even 50 level. Both surveys ask manufacturing executives for readings on backlogs, inventories, new orders, and production. Results below 50 indicate declining output.

Soft manufacturing is one of the major drags on job growth in the regional economy as well.

Job growth in Pittsburgh is expected to be disappointing when final data for 2019 is released in the spring. PNC's Stu Hoffman forecasts no growth – actually a slight decline in jobs for the year. The decline, which reversed a two-year trend of one percent growth or better, is a reminder that Pittsburgh's transformed economy is still developing.

Pittsburgh enjoyed job growth well above the benchmark during the recovery from the Great Recession. When the oil price collapsed in mid-2014, job gains in the emerging technology and healthcare sectors were offset by cuts in energy and manufacturing. Job growth rebounded to more than 10,000 jobs/year in 2017 and 2018, but the weakness in manufacturing and the low natural gas price again drained the growth in white collar and construction employment in 2019. More troubling than the reversal in trend is the fact that job losses at the end of 2019 had spread to sectors like financial services, education and healthcare, which had previously been buffers against declining employment.

The trends at the end of 2019 suggest that employment growth in Western PA will be anemic, unless the underlying strengths of the region's key business sectors rebound. Like the rest of the country, Pittsburgh still shows strength in areas that are important to its consumers.

Unemployment is higher in Pittsburgh than in the U.S. overall (4.3 percent vs 3.5 percent), but the number of jobless is still quite low. Wage growth in Pittsburgh is higher than the U.S. average. Home prices are appreciating at twice the historical rate, rising 5.3 percent in 2019. Pittsburgh's restaurants, stores, and lifestyle amenities should not see a decline in support in 2020.

Both the U.S. and regional economies enter 2020 riding long-term positive trends. The new year, which will see a presidential election and strident campaigning, is likely to see uncertainty about politics creep into economic decisions as 2020 unfolds. Like in 2012, the last time an incumbent president ran for reelection, there is likely to be a choice between a pro-business and a progressive candidate. The Obama/Romney campaign prolonged a slow recovery. While the campaign that will unfold this summer and fall will probably dampen business sentiment, the economy's direction in 2020 is strongly positive. **DP**







Despite a Lagging Downtown, Pittsburgh Sees a Positive Close to 2019.

Nationally, vacancy rates have stayed below the historical average for the fifth year in a row. The national average is currently 11.4 percent. Absorption continued to be positive, rising from 10.4 million square feet in the third quarter to 12.3 million square feet in the fourth. Of the 12.3 million square feet, 2 million took place in central business districts and the rest were suburban transactions. Average Class "A" rent for downtown properties rose 0.3 percent in the fourth quarter. However, over the past year, it increased by 3.8 percent to $50.35. Comparatively, Pittsburgh is still lagging with average Class "A" CBD rates of $29.47. However, in the suburbs, Pittsburgh was in the top three markets where average Class "A" rates rose by more than 5 percent. Construction continues to be at an all-time high, with 161.1 million square feet under construction nation-wide.

Locally, the fourth quarter saw average rental rates rise slightly, going from $22.77 to $22.94 across all building classes. Net absorption was also a positive 115,960 square feet. Vacancy rates held steady at 8.2 percent, the same as the previous quarter. Over the course of the past year, however, vacancy rates have risen from 7.6 percent in the last quarter of 2018. This includes all property sizes and classifications. However, looking strictly at Class "A" and "B" properties of at least 10,000 square feet, the vacancy rate is 10 percent. This is inclusive of Allegheny, Armstrong, Beaver, Butler, Fayette, Washington and Westmoreland Counties.

The Greater Downtown led all submarkets in 2019 with a positive absorption of 155,880 square feet. This type of demand has caused a couple of newer Class "A" properties to begin flirting with $50.00 rates. For example, UPMC leased space at the repurposed Pittsburgh Athletic Association Building in Oakland for $50.00 per square foot in the third quarter. This is due, in part, to new construction in the Strip District and many technology and life science companies' desire to be near the universities. Carnegie Mellon and the University of Pittsburgh provide many of the top talent firms are looking for. Apple, for example, is looking for more space in the Greater Downtown or Oakland for the purpose of recruiting and retaining talent.

Oxford Development announced its plans to add four more buildings, totaling 450,000 square feet, to its 3 Crossings development in the Strip District. The site will span 11 acres between 27th and 29th Street. Earlier in the year, Bombardier relocated from West Mifflin to One Waterfront Place in the Strip District, taking approximately 100,000 square feet. Once again, gaining and retaining talent, as well as access to modern live/work/play neighborhoods were cited as reasons for the move.

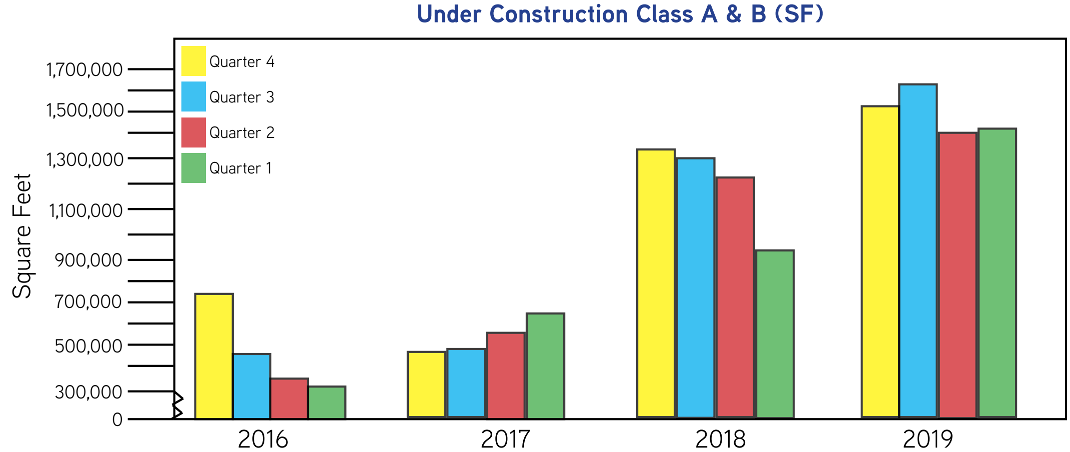
The Central Business District has seen slight negative absorption rates for Class "A" space. This is a trend that has continued since the fourth quarter of 2018. This negative absorption for the CBD is accompanied by a slight drop in rental rates through the fourth quarter. At the start of 2019, Class "A" rates were averaging $29.70. By the end of the year, the average was $29.47. The same trend is true for Class "B" space. When combined, Class "A" and "B" space averages have begun to level out over the past quarter, going from $26.66 to $26.63 per square foot. These rates are expected to hold true, or even decline slightly, in the foreseeable future as it appears the rental rates are finally falling in line with the vacancy rate trends. Overall, during the fourth quarter, the absorption in the CBD was a negative 113,700 square feet.

It is a common opinion in the market that tenants are willing to pay a higher rental rate to be in a property outside the CBD in order to gain and retain talent. Another reason is that as more firms allow employees to work remotely and collaborate online, less space is needed to lease.

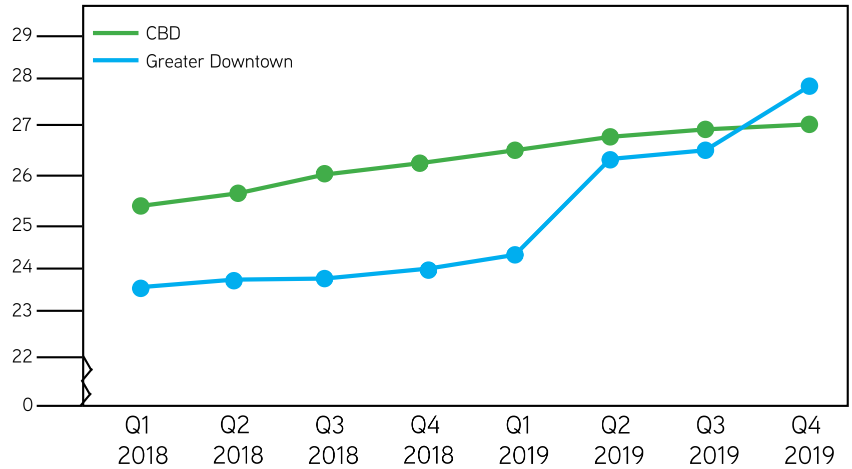
WeWork, the national co-working provider, did not help the CBD when it cancelled plans to occupy more than 100,000 square feet at 600 Grant Street. When SAP vacated K&L Gates Center in the first quarter of 2019 for a brand new 135,000 square feet of space on the North Shore, it also left a large glut of space downtown.

With no current major construction projects and very little proposed

Under Construction Class A & B (SF)



Class A & B Average Rental Rates



product, any tenant looking to lease 40,000 square feet or greater of Class "A" or "B" space has limited options. Most available space is seen in smaller clusters. For example, a 5,000 square foot tenant will find they have an abundance of options and landlord incentives will follow.

The only major new project on the horizon in the CBD is the former Post-Gazette building. This property was sold in the fourth quarter of 2019 to DiCicco Development. The building, which is 200,000 square feet, is planned to be transitioned into office space. A neighboring lot was also part of the sale and can accommodate a 400,000 square foot office building.

In the Lower Hill District, FNB revealed it will be the anchor tenant for a new 24-story office tower to be built on the site of the former Mellon Arena. FNB engaged Colliers International and JLL to assist with an extensive search process for their headquarters location. The building will contain 387,000 square feet of office and 20,000 square feet of retail space, of which FNB will occupy 160,000 square feet. The remaining 227,000 square feet should command quite a bit of interest. The project is expected to be completed by late 2022. While technically located in the Greater Downtown submarket, this new development should benefit the Central Business District, which is seeing relatively high vacancy rates. FNB's 600 employees will provide an economic spark to the Hill District and Uptown.

Linking the new FNB development to the CBD will be a pedestrian skyway over I-579. This will provide greenspace, a pedestrian walkway and a park, all built on a platform over the highway. The idea is to create a natural flow over what is now a divided part of the city. This link should benefit Uptown and the Lower Hill District where PPG Paints Arena is located.

As far as the suburbs are concerned, the Parkway West, which has been stagnant in recent years, is seeing an uptick in activity. With positive absorption of 54,603 square feet across all classes, vacancy rates are trending downwards in this submarket that has historically been known as soft and very tenant friendly. Over the past year, vacancy rates dropped by 0.6 percent. Evidence of this spark in activity is ConnectiveRx signing a lease for approximately 216,000 square feet at the brand new Boardwalk office development in North Fayette.

Of the relocations and new leases signed in the fourth quarter, several were of notable size. Quick Med Claims, a specialty billing company for the emergency medical transportation industry, signed a lease to relocate to 1400 Lebanon Church Road, where it will occupy 39,860 square feet. Moving to 70,000 square feet at Mill 19 is the autonomous vehicle company Aptiv.

Going forward, we should expect a relatively healthy office market. The first quarter of 2020 should see vacancy rates hold steady or drop slightly and absorption should be positive. Rental rates are expected to climb as new construction in the greater Downtown continues to demand premium rents. **DP**

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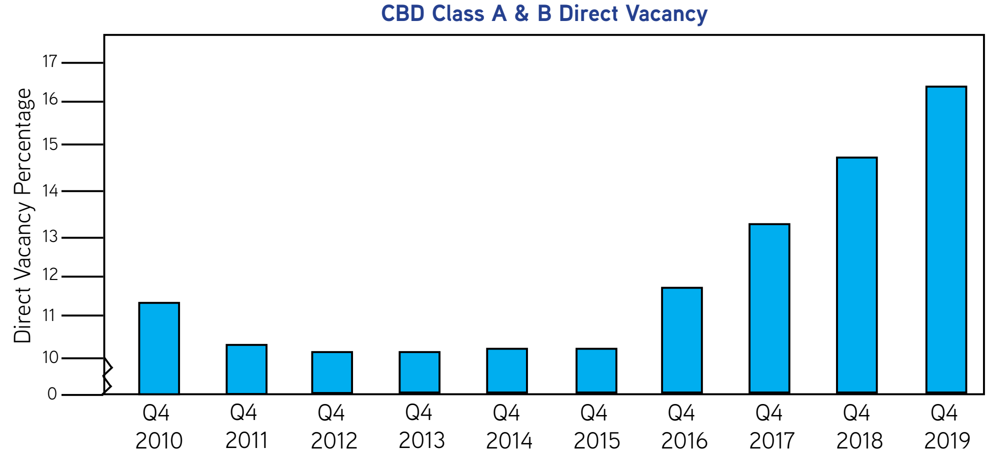
CBD Class A & B Direct Vacancy



New Class A Office Space available - **Campbells Run Rd Exit / Parkway West**

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End of a Decade

According to the Wall Street Journal, the 10-year period from 2010 to 2019 is the first decade in which an economic recession did not impact the U.S. economy. The U.S. stock market indices hit all-time highs and unemployment remained at historically low levels, with inflation seemingly held in check. All of these factors contributed to a strong year for the Pittsburgh region and the Pittsburgh industrial market.

Despite a slower than expected fourth quarter, 2019 will be remembered as one of the strongest years of the past five years and certainly the decade. Annual absorption exceeded 2,100,000 square feet with Class A absorption contributing over 1,600,000 square feet or an astonishing 75 percent of the total. Overall market wide vacancy remained in the mid-6 percent range, with Class A vacancy increasing slightly to 4 percent due to fourth quarter completions of speculative inventory in excess of 300,000 square feet.

Regional Activity

The Airport/West submarket remains the dominant industrial development location in the Pittsburgh region. In the third quarter of 2019, Amazon announced its long-awaited decision to build a 1.0 million-square-foot distribution center with Hillwood in Chapman Westport. The contractor mobilized quickly with site grading, and there are a significant number of cranes setting panels for the facility with a targeted third-quarter 2020 completion date. Please note that this facility is not included in the absorption statistics stated previously and will certainly benefit the 2020 stats.

Within the past few weeks, SunCap Properties announced that Amazon.com will be occupying a 115,000 square foot home delivery facility in the McClaren Distribution Park with completion expected in late 2020.

Another exciting project was announced in late December, when Uber acquired more than 580 acres for $9,500,000 in Westport II for a world-class test track and R&D facility. The Uber site is located adjacent to the Amazon project; while years away from completion, this project further validates the market acceptance of the entire Westport project planned and executed by the Imperial Land Corporation over the past 15 years.

Since the opening of the Findlay Connector (Route 576) in 2009, more than 1,600,000 square feet has been completed in the Findlay Industrial Park, and the Amazon.com project will push Chapman Westport beyond 1,200,000 square feet in completions.

At the nearby Clinton Commerce Park, a 66,000 square foot spec industrial building developed by Al.Neyer, Inc. was leased by Graybar Electric with planned summer occupancy. Neyer recently completed a 202,000 square foot spec industrial building which is their fifth building in that park with two remaining sites. Since 2009, the Clinton Commerce Park has experienced over 1,600,000 square feet of new construction with remaining capacity of an additional 500,000 square feet.

Furthermore, The Buncher Company added to the firm’s land inventory by purchasing an additional nine acres in the Findlay Industrial Park in December, bringing its total land holdings to more than 85 acres with the potential to build 700,000 to 800,000 square feet within the park.

In North Fayette Township, the Silverman Group, a New Jersey- based real estate investment/development company, entered the Pittsburgh marketplace with the acquisition of the Imperial Business Park. This multi-building project consists of 80,000 square feet of light industrial flex space and 450,000 square feet of Class A warehouse distribution space.

In Moon Township, Scannell Properties acquired the former West Hills Par 3 site and is planning two speculative light industrial buildings totaling 280,000 square feet.

SUBMARKET STATISTICS

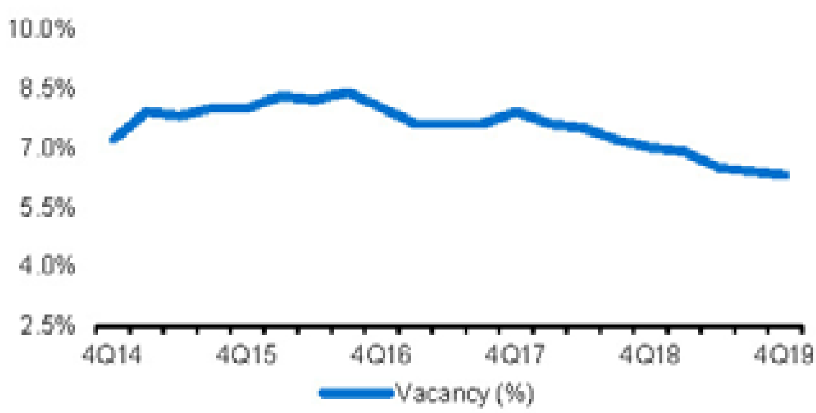
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy (SF)	Total Vacancy Rate	QTR Absorption (SF)	YTD Absorption (SF)	CLASS A Vacant (SF)	CLASS A Vacant Rate
Beaver	11,853,654	105,000	770,384	6.5%	25,000	221,730	0	0.0%
Butler	7,519,761	0	463,947	6.2%	78,644	104,359	221,897	9.4%
East	6,565,659	0	276,552	4.0%	2,445	91,882	0	0.0%
Northeast	14,056,393	0	432,041	3.1%	-91,222	11,963	13,009	0.4%
Northwest	12,802,231	0	430,454	3.4%	18,879	90,080	58,402	0.8%
Pittsburgh	13,753,772	70,000	634,550	4.6%	-4,450	243,467	80,344	2.7%
South	7,003,383	0	527,115	7.5%	0	-130,400	0	0.0%
Washington	14,296,048	165,000	1,394,214	9.7%	171,769	592,471	129,008	4.1%
West	18,530,374	1,154,200	1,516,855	8.2%	58,338	766,286	798,739	10.8%
Westmoreland	30,358,071	0	2,144,874	7.1%	0	154,445	284,200	3.7%
Pittsburgh	**137,239,291**	**1,494,200**	**8,596,986**	**6.3%**	**257,380**	**2,145,783**	**1,568,870**	**4.2%**

MARKET SUMMARY

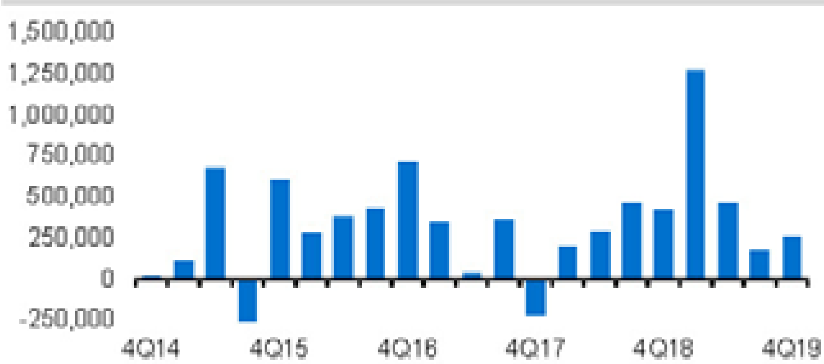
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	137 MSF	137 MSF	136 MSF	↔
Availability Rate	6.3%	6.4%	7.0%	↓
Quarterly Net Absorption	257,390	162,166	421,289	↑
Under Construction	1,494,200	751,700	1,234,887	↔
Deliveries	496,737	66,387	66,240	↔

MARKET ANALYSIS

Vacancy



Net Absorption (SF, Millions)



Not to be outdone, two projects were announced on property owned by Allegheny County Airport Authority. The first is a build to suit project for Krystal Biotech, a home grown company that started in Pittsburgh and will be constructing a 100,000 square foot world class biotech manufacturing facility. In addition, the Allegheny County Airport Authority announced plans for Neighborhood 91, a proposed hub for additive manufacturing to be built on the 195-acre Pittsburgh Airport Innovation Campus, formerly marketed as the World Trade Center site.

In Beaver County, Crossgates Inc. began construction on the first Class A speculative building in the Westgate Business Park, situated at the I-76/Route 18 interchange, since 2008.Known as the Westgate Commerce Center, Phase I consists of 105,000 square feet scheduled for completion during third-quarter 2020 with the ability to add an additional 105,000 square feet and a separate 75,000 square feet on the site.

In Washington County, Crossgates Inc. started site work on the Brockway Commerce Center, a 165,000-square-foot, Class A light industrial building with visibility to I-70 between the Jessop and Chestnut Street exits in Washington County.

In Westmoreland County, Al. Neyer announced the proposed Commerce Crossings at the Yukon exit of I-70. The project will consist of two buildings totaling 480,000 square feet. Site work is underway, and construction is planned to start in the second quarter of 2020.

Also in Westmoreland County, The Elliott Company acquired the 14-acre former Jeanette Glass site in the city of Jeanette. The Los Angeles-based real estate firm also broke ground at the site on a planned 100,000-square-f oot light manufacturing facility for cryogenic pumps.

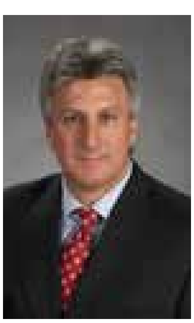
In Northeast Allegheny County, Rosebud Mining acquired the former PGW site in East Deer. The 40-acre site includes an existing 140,000-square-foot industrial building. Final plans have not been announced for the redevelopment of the property.

A few miles downriver in the city of

Pittsburgh, Riverbend Foods formally filed for Chapter 11 and placed its 900,000- square-foot office/lab/production/warehouse facility on the market for sale. The property is currently under agreement of sale and in due diligence with a developer. The site is an excellent redevelopment opportunity.

One year ago, the primary concern facing the U.S. economy was fear of recession on the horizon. The results of the past 12 months have reduced those fears significantly. Many economists are predicting another solid year, based primarily on continued low interest rates, high consumer confidence and historically strong economic performance during presidential election years. Although the details have not been disclosed, there are hopes that Phase I of the U.S.-China trade deal will be signed in 2020, with a positive impact to the economy. The consensus among economists is for GDP growth in the 2.0 percent to 2.5 percent range for 2020 with historically low unemployment rates, continued low interest rates and low inflation, resulting in optimism for the upcoming year.

With respect to the Pittsburgh industrial market, given the amount of Class A inventory under construction and planned throughout the region, it will be a true test of the depth of the market going forward in 2020. Capital markets activity remained strong throughout 2019, and demand for stabilized Class A industrial assets is expected to exceed supply throughout the region in 2020. **DP**



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When asked for a comment on the outlook for capital markets for 2020, Autumn Harris, founder of Rose Finance LLC, joked, "You could just cut and paste from this time last year!".

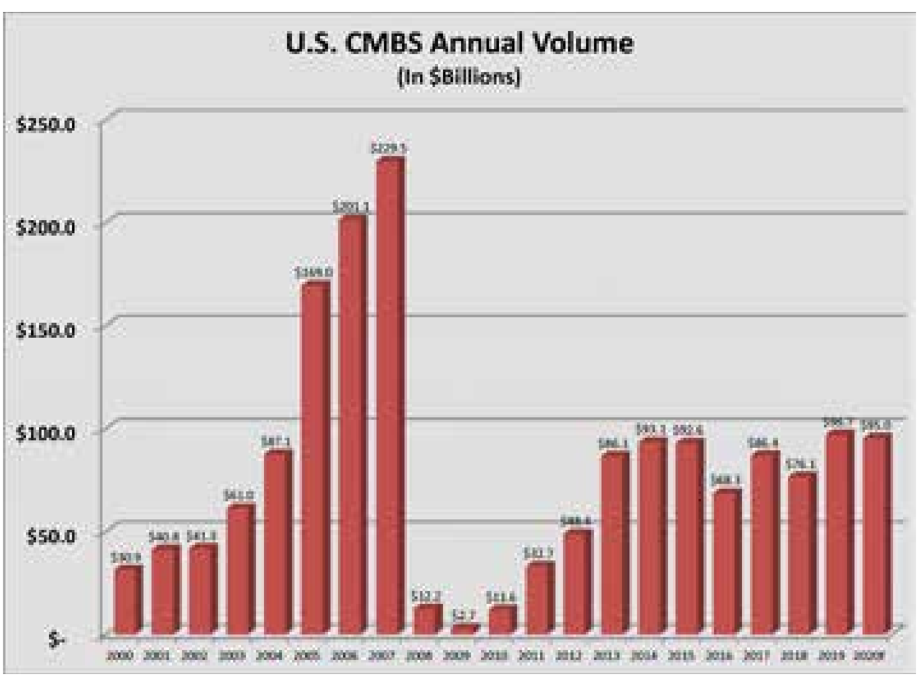
Harris' point is well taken. Commercial real estate finance is generally fairly dynamic, with few conditions remaining constant year-to-year. Market conditions coming into 2020, however, are remarkably similar to those of a year ago. There were some small surprises in 2019 and a cloud or two on the horizon. Overall, most industry participants expect a continuation of what they see as good conditions for raising capital and financing real estate projects. The dominant takes on 2020 include adequate capital, low rates, ample competition, and election year caution.

"In the big picture, it's business as usual in the capital markets," observes Dan Puntil, senior vice president and manager of the Pittsburgh office of Grandbridge Real Estate Capital. "Interest rates remain very attractive and we do not expect to see dramatic increases during the year as it is an election year. The good news is that there is still plenty of capital chasing good quality deals. Underwriting standards remain the same. We are looking at rent performance history, not underwriting future rents. All of the underwriting must be supportable."

"The overriding commentary on debt and equity is there is liquidity, a ton of capital in the market," agrees Mark Popovich, senior managing director for HFF/JLL Pittsburgh. "There is more money chasing fewer deals. There are very competitive debt and fairly competitive sales transactions because money is burning a hole in the pockets of the debt and equity providers."

One of the surprises from 2019 was the decision of the Federal Reserve Bank to cut rates three times. This was less of a surprise by the fall but, compared to the Fed's direction at the end of 2018, the change in direction by mid-year was significant in its impact.

Rate cuts had an enormous impact on banking in 2019, as the 75 basis points in Fed Funds rate was magnified in the residential mortgage rates. Near record low interest rates for 15- and 30-year mortgages sparked an unexpected surge in refinancing in the latter half of 2019. This rush to take advantage of the low rates pushed mortgage volumes 30 percent higher for some local banks. The low rates also touched off a surge in new home sales during the last two months of 2019, although that national trend did not materialize in Western PA.



Source: Trepp Analytics

Another beneficiary of the decline in rates was the commercial mortgage-backed securities (CMBS) market. According to Trepp Analytics, which follows the CMBS market closely, CMBS volume in 2019 jumped more than $20 billion, or 27 percent. Following a disastrously slow first quarter, CMBS volume grew 58 percent in the second quarter, along with the expectation that the central bank recognized it had overshot the market with its December 2018 rate hike. When the Fed began cutting rates in July, interest in CMBS accelerated. Activity peaked in the fourth quarter, when 40 percent of the $97.6 billion annual total was issued.

CMBS deals were given another boost in 2019 by the cooling of interest in major multi-family deals by Fannie Mac and Freddie Mac. The Federal Housing Finance Agency (FHFA) set limits for the government-sponsored enterprises (GSE) to make multi-family loans that left some uncertainty. As Fannie and Freddie began backing away as those limits were approached in May, upping spreads and becoming less competitive. Declining rates also made deals less desirable to Fannie and Freddie. The volume limits were eventually increased in the third quarter but the 90-day period of uncertainty gave CMBS a window of opportunity to lock up multi-family deals.

Low interest rates, declining delinquency rates, and continued high commercial real estate activity are expected to keep CMBS volume high. The consensus of forecasts is roughly $95 billion for 2020.

In addition to creating an opening in the markets, the mid-year uncertainty of Fannie's and Freddie's position clouded the multi-family financing at a time when demand for the sector was rising. Puntil says that the GSEs appear to be shifting direction again in 2020.

"As far as the agency lenders go, they received a big shot in the arm from the new director when Fannie Mae and Freddie Mac's annualized allocations were each increased to $100 billion dollars. Another positive sign is that the agencies are now allowed to accumulate working capital in support of their ultimate exit from conservatorship. We think that will make the GSEs the dominant multi-family lender again in 2020 and beyond," he says. "The agencies are really focusing back on their mission-critical product, which is affordable, workforce, manufactured and rural housing. However, we expect to see very competitive agency bids for loans on conventional market rate properties as well."

A shift towards rural projects could influence the multi-family market, which has proven to be more robust than expected in urban areas. If Fannie and Freddie were to back fewer urban deals, it's likely that the CMBS market would pick up the slack. And one of the primary drivers of multi-family financing, the life insurance companies, has not shown a loss of appetite for the apartment market.

"We expect the loan preferences for the life insurance companies to be the same as the past few years," Puntil says. "They still prefer low leveraged deals with 65 to 70 percent maximum loan-to-value ratios. They will theoretically go to 75 percent for the right deal, which is multi-family or perhaps industrial with strong sponsorship, but for other property types they are sticking to lower-leveraged deals. Their typical terms remain the same, which is a 10-year fixed rate term and a 20 or 25 year amortization. However, the life insurance companies will do fixed rate loan terms for as long as 30 years."

Green State Advisors' Core Sector CPPI weights: apartment (25 percent), industrial (25 percent), office (25 percent), and retail (25 percent).

The fact that the major institutional players in commercial real estate finance have been consistent in their appetites and standards for deals has opened the door for other investors. During the latter 2010s, both private equity and private debt funds increased their allocations for commercial real estate. That trend does not appear to be changing. Because private financing sources have fewer regulatory barriers, they have become more flexible in evaluating the market conditions.

"We're seeing investors be willing to invest a little outside of their box about other types of product and they are also willing to take slightly lower returns in order to get the money working," says Popovich.

"Because the yield curve is so flat with the minimal difference between the 10-year and 30-year Treasury, we are seeing a lot of borrowers and lenders looking to go long term," notes Puntil. "We have seen low-leverage deals with good sponsorship and good product with the interest rate fixed for 30 years as low as 3.5 percent."

The past decade has been a challenge for managers charged with getting money working. Low interest rates have closed off avenues for yields that would have previously been considered fair for moderate risk instruments like short-term bonds or institutional real estate projects like distribution centers. Office buildings trade routinely with cap rates below eight percent, multi-family cap rates in the fives are run-of-the-mill. Capital is competing for projects, rather than the other way around. These dynamics have also made bank lending hypercompetitive. Within the regulatory bounds, banks are stretching for deals too.

"Banks are definitely loosening up a bit. We just did a deal in Cleveland where the borrower got a three percent rate and the bank didn't want recourse," notes Jamey Noland, director of underwriting at PenTrust Real Estate Advisory Services. "There is a lot of institutional money coming into the city. The debt markets are becoming fairly aggressive for the first mortgage position, increasing their leverage a little bit. Obviously, the low interest rate environment keeps that competitive."

Autumn Harris sees the relative inconvenience of traveling to Pittsburgh from the coasts to monitor construction as a boost to the local banks. She believes that the somewhat boring Pittsburgh market data and rising construction costs are limiting what firms outside Pittsburgh want to pursue here.

"Capital markets seem to love value-add projects right now. They like a value-add product and they like permanent loans, but construction is another question," Harris says. "Where does that money come from? People from outside Pittsburgh aren't loving that right now.

"I think that's why local banks are still doing 75 or 80 percent loan-to-value in the Pittsburgh market for construction loans, although 80 percent may be a thing of a past right now. In other markets we have been looking at 70 or 75 percent for the past few years because they can raise institutional equity."

Puntil points out that 2020 looks to be a continuation of the conditions of 2019. He uses a golf analogy to communicate that there are still guard rails in place that make deals difficult to accomplish.

"If you stay within the fairway, however wide that fairway is, the deals aren't difficult to complete. If you stray from the fairway, those deals are still a challenge to do," says Puntil. "Smaller markets and 'story' deals can be a challenge. That said, when you have a deal that's in the lender's fairway, meaning it checks all the boxes, there are plenty of people chasing it."

Pittsburgh's growing reputation as a technology center and desirable city to live has caught the attention of investors from outside the region, including a small number of foreign investors. That may increase as the global economies, and opportunities for yield, decline. Noland is concerned that Pittsburgh's

Yields on 10-year Treasury bonds have fallen ahead of global economic concerns and Federal Reserve Bank rate cuts, as investors seek safety over yield. Source: Federal Reserve Bank of St. Louis.

softening data and shallow investor bench could dampen the appetite for financing the development needed to keep supply ahead of demand in the emerging sectors.

"There is opportunity to harness local companies looking to grow. Pittsburgh doesn't have as many venture capital accelerators to help local companies grow in their space," Noland says. The opportunities in real estate are in the flex space and in the industrial sector. The challenge is to find investment that harnesses that excitement and keeps those companies growing here. Many robotics companies are finding it difficult to find components and so there are opportunities for manufacturing to pick up in places like Hazelwood Green. Companies will be looking for venture capital to start up and scale here. It's a more speculative build because you're not going to get a credit tenant, but you have a tenant with an opportunity to grow dramatically. There is an opportunity to form a partnership between venture capital and real estate to create growth in the city."

There are other concerns specific to Pittsburgh. The lack of population growth raises concerns about available workforce. While rents have increased throughout the region, so have tenant improvement costs. Lenders are watching to see if the higher rents reflect more demand or just a different lease structure. And the softening of the Central Business District office market elevates concerns that office demand has peaked. These are mostly niggling worries against a backdrop of solid capital market fundamentals.

Most property types are trading at net asset value. Sectors such as data centers, triple net lease properties, health care, self-storage centers, multi-family, and industrialized (formerly called modular or manufactured) housing are trading at a premium to net asset value. The major sectors covered by Green Street's Commercial Property Price Index (CPPI) saw an overall increase in value of 2.5 percent, with only malls declining in price. Green Street's CPPI is indexedvalues from August 2007. At year's end the CPPI stood 135 percent higher. Low interest rates will be supportive of further increases in value and compress capitalization rates.

Rents and operating income increased in 2019, although at a pace closer to that of inflation. Analysts see the likelihood of slower job growth as a slight drag on rent growth in 2020, although the potential for stimulus from an administration running for reelection is higher than it was in 2019.

It is election politics that seems to be the source of what concerns exist for the markets. On the upside is the near impossibility of a hike in interest rates in the face of a national election. But concerns about the outcome of the election are as high as they have been in many cycles. The uncertainty about the presidential election seems to exist on two levels. First is the uncertainty about who the Democratic candidate will be, because the chances remain high that a Democrat will emerge who is unfriendly to business. Once the general election choices are set, the uncertainty will shift to whether there will be a new president or reelection of Donald Trump and continuation of trends that are favorable for the real estate industry.

"We don't think anyone can predict market or rate movement in 2020 because of the presidential election," Puntil says. "We expect that because of the election, rates will remain close to where they are, give or take 10 or 15 basis points. For all of these reasons, we think the capital markets will remain very competitive."

"My only fear is some geopolitical crisis, which none of us can predict, that could derail things," says Popovich. "The other thing we are seeing, more on the equity side, is that people are looking to get things done in the first or second quarter. They are very concerned about the third and fourth quarter of this year because of the election and uncertainties about the direction that could take."

"The other thing that I think will happen in this election cycle is that the added drama of the headlines will swing the markets more than usual, unless we have become numb to this," Popovich continues. "What's unknown is just how crazy it is going to get. It's not just a question of whether Trump will be reelected but where on the spectrum the Democratic candidate will be. Depending upon who that is, there could be a very different outcome for investors." **DP**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Potential Impacts to Real Estate Development of Proposed Amendments to NEPA Regulations

By Matthew I. Moses, Esq., Mary H. Binker, Esq., Ben Clapp, Esq., Casey J. Snyder, Esq.

Proposed changes to regulations implementing the National Environmental Policy Act of 1969 (NEPA) have the potential to affect real estate development within the greater Pittsburgh region and nationwide. The proposed regulations, issued by the Council on Environmental Quality (the "CEQ") in January 2020, would revise NEPA procedures by narrowing both the scope of actions that must be reviewed under NEPA as well as the extent of such review. With these changes, the time, cost and environmental analysis required to comply with NEPA could be significantly reduced, and development projects that previously faced delays could proceed more quickly through the review process, or potentially avoid it altogether.

Background and Purpose of NEPA

NEPA was enacted in 1970 with the goal of promoting accountability and transparency in federal decision-making by ensuring that the environmental impacts associated with federal actions were considered by the agencies undertaking those actions. Under NEPA, each federal agency is responsible for conducting a NEPA analysis on all agency actions that are deemed "major Federal actions" to determine if such actions impact the environment. "Major Federal actions" are currently defined in CEQ NEPA regulations as "actions with effects that may be major and which are potentially subject to federal control and responsibility" (emphases added). That may include both federal projects and projects undertaken by non-federal entities that receive federal funding or require federal permitting. Examples of major Federal actions include oil and natural gas pipeline construction projects, highway construction, and bridge replacement. The federal agency that takes a major Federal action (e.g., the issuance of a permit) is required to prepare an analysis of the project's effects on the environment, which can take three forms: (i) a categorical exclusion (CE) for an action that has been previously determined to involve no significant environmental impacts; (ii) the preparation of an environmental assessment (EA) for an action for which environmental impacts are not expected to be significant, which identifies the anticipated effects of the action and assesses their significance; or (iii) a more extensive environmental impact statement (EIS) for an action with known significant environmental impacts, involving the analysis of adverse environmental effects from, and alternatives to, the proposed action. While NEPA itself does not provide a mechanism for the public to challenge an agency's NEPA analysis, the public has the right to conduct such a challenge through the citizen suit provisions of Administrative Procedure Act.

Proposed Changes to NEPA

The revisions to the NEPA regulations that were proposed by the CEQ in January seek to create a more efficient and timely review process by changing the application and scope of NEPA reviews, the analysis of alternatives to the proposed action, and timing requirements. The most significant change would be a revision of the term "effects." Under the current regulations, "effects" include:

a. Direct effects, which are caused by the action and occur at the same time and place.

b. Indirect effects, which are caused by the action and are later in time or farther removed in distance, but are still reasonably foreseeable. Indirect effects may include growth inducing effects and other effects related to induced changes in the pattern of land use, population density or growth rate, and related effects on air and water and other natural systems, including ecosystems.

c. Cumulative effects, which are effects that result from the incremental impact of the action when added to other past, present or reasonably foreseeable actions

The proposed revised definition of "effects" would be:

[E]ffects of the proposed action or alternatives that are reasonably foreseeable and have a reasonably close causal relationship to the proposed action or alternatives. Effects include reasonably foreseeable effects that occur at the same time and place and may include reasonably foreseeable effects that are later in time or farther removed in distance. (1) Effects include ecological (such as the effects on natural resources and on the components, structures, and functioning of affected ecosystems), aesthetic, historic, cultural, economic (such as the effects on employment), social, or health effects. Effects may also include those resulting from actions that may have both beneficial and detrimental effects, even if on balance the agency believes that the effect will be beneficial. (2) A "but for" causal relationship is insufficient to make an agency responsible for a particular effect under NEPA. Effects should not be considered significant if they are remote in time, geographically remote, or the product of a lengthy causal chain. Effects do not include effects that the agency has no ability to prevent due to its limited statutory authority or would occur regardless of the proposed action. Analysis of cumulative effects is not required.

This definition would thus remove the references to direct and indirect effects, and would include only those effects that are "reasonably foreseeable and have a reasonably close causal relationship to the proposed action or alternative." The requirement for analysis of cumulative effects would be explicitly eliminated. The proposed definition further clarifies that a "but for" causal relationship would be insufficient to trigger an analysis of a particular effect. Rather, the phrase "reasonably close causal relationship" is intended to eliminate effects that are remote in time or in geography, an agency has no authority to prevent, or would happen regardless of the agency action.

Notably, the proposed regulation does not specifically address the extent to which an agency would be required to analyze effects from greenhouse gas emissions and potential climate change impacts, other than to note that any such analysis must be consistent with the proposed definition of "effects."

the agency does not have sufficient control and responsibility over the effects of the action, are not within the scope of a major Federal action and thus not subject to NEPA analysis.

With respect to EIS analysis of alternative options to the proposed major Federal action, under the current regulations, an agency must analyze all reasonable alternatives, including those that are not within the jurisdiction of the agency. The CEQ proposes to strike the term "all" from this requirement, allowing an agency to provide a reasonable number of examples that are technically and economically

"Notably, the proposed regulation does not specifically address the extent to which an agency would be required to analyze effects from greenhouse gas emissions and potential climate change impacts, other than to note that any such analysis must be consistent with the proposed definition of "effects."

However, the CEQ's proposed draft guidance on consideration of greenhouse gas emissions, released last June, would give agencies latitude in determining when quantification and analysis of greenhouse gas emissions and their effects are warranted. In the its proposal, the CEQ has requested input on whether the proposed regulation should incorporate any aspects of that draft guidance.

The proposed regulation also aims to clarify the determination process for whether or not a particular federal action triggers a requirement for NEPA review. Under its proposed rule, the CEQ seeks to modify the definition of "major Federal action" to remove the word "potentially" as well as the portion of the definition that relates to a failure to act. That would result in a narrowing of the definition of major Federal action to only affirmative actions that are clearly subject to federal control and responsibility. Additionally, the proposed definition would clarify that loans, loan guarantees or other forms of financial assistance in cases where

feasible. In addition, the CEQ proposes to remove the requirement that an agency analyze alternatives outside of its jurisdiction.

The CEQ's proposal contains various other revisions aimed at streamlining the NEPA process, such as clarifying the process by which an agency can create a CE and allowing agencies to establish procedures for applying CEs created by other agencies. These changes also include more practical components, such as establishing presumptive time limits for NEPA reviews – two years for an EIS and one year for an EA.

The proposed revisions, if adopted as a final regulation, would supersede all previous CEQ NEPA guidance, which would be withdrawn.

Potential Impacts to Real Estate Development

The proposed revisions to NEPA could have a significant impact on real estate developments that involve federal funding and/or permits, including

both large infrastructure and energy projects. Since the inception of NEPA, projects meeting the "major Federal action" criteria have had to undergo time-consuming review, and have been subject to legal challenges by project opponents. Developers have faced substantial costs in preparing the necessary documentation of anticipated environmental effects, the costs of delays while projects remain under extended review, and the uncertainty of ultimate approval. For example, a Montana federal district court temporarily enjoined construction of the Keystone XL pipeline in 2018 on the basis that the lead agency – the U.S. Department of State – violated NEPA by failing to evaluate the cumulative environmental pacts of the project. If the CEQ's proposed regulatory revisions are adopted, its changes to the definition of effects can be expected to result in more flexibility for agencies performing review of environmental effects and may make it more difficult for opponents to challenge an agency's NEPA review. Additionally, the proposed time limits for NEPA review could also significantly reduce the current average timeframes for NEPA review by more than 75 percent, which in practice could ultimately allow projects to proceed to construction more quickly.

Based on the likely impacts to a wide variety of industries and projects that require approvals, funding or other actions by federal agencies, developers of projects that are potentially subject to NEPA review and other stakeholders are encouraged to comment on the CEQ's proposed regulation. The deadline to submit comments is March 10, 2020. There will also be two public hearings on the proposed regulations – on Feb. 11 in Denver, Colorado, and on Feb. 25 in Washington, D.C. **DP**

Babst Calland is actively monitoring this proposed rulemaking. If you have questions about how NEPA or this rulemaking could affect real estate development, or how to comment on the rulemaking, contact Matthew I. Moses or Mary H. Binker in Babst Calland's Corporate and Commercial Group or Ben Clapp or Casey J. Snyder in the Environmental Group.


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High Density Autonomous Parking Transforms Building Design and Land Use

Robotic parking systems play a critical role in maximizing revenue generating spaces by reducing the land required for parking by 50 percent or more.

By Del Williams

Del Williams is a technical writer based in Torrance, California. For more info email Robotic Parking Systems, Inc at info@roboticparking.com.

For developers and architects, maximizing income-generating space for mixed use commercial projects is critical, particularly when land is limited or expensive. In many cases, the project cannot advance unless the architect can somehow "create space" to achieve the building design and parking density required.

Traditional parking garages, however, waste valuable real estate due to their inefficiency in storing vehicles. As a solution, advanced automated parking systems allow developers and architects to store from 2 to 4 times the number of cars on the same land by eliminating the need for drive aisles, ramps, and space for car doors to open. This provides industry professionals with more options to design projects that can maximize revenue-producing square footage that increases total project value.

Although such technology has been used for several decades overseas, particularly in European urban centers, it has been refined and improved over the last 20 years in the United States. Today, more sophisticated systems are able to park and return 400+ vehicles per hour if designed to do so, which minimizes potential wait time during periods of peak demand. These systems are also designed to deliver unprecedented reliability with 99.99 percent uptime and failsafe redundancy, making them a more viable option than ever for incorporation in building development plans.

Such advanced automated parking technology was essential in helping Gary Tave, a licensed engineer, building contractor, and owner of Square Peg Development LLC. Tave sought to develop a $49 million mixed-use project, called West Bay Lofts, on two city blocks in downtown Largo, Florida. The project, which is a key component of revitalizing the downtown area, will include 123 market-rate apartment homes and 40,000-square-feet of ground-floor commercial space in two structures.

Early on, however, the project's feasibility was in question, primarily due to a lack of needed parking, and spiraling high-rise construction costs that would be required to add the parking required.

"With the project's constraints in property setbacks, height restrictions, and optimization of net leasable square feet against construction costs, I realized there wasn't enough available square footage to meet all of the zoning criteria using conventional construction technologies," says Tave. "The main limiting factor was available parking."

But when Tave explored purchasing additional land to accommodate a parking structure, he found it was not allowed due to municipal priorities. "We were not able to acquire a piece of adjacent land because the city did not want a large parking lot taking up valuable space downtown," he says. "So, conventional parking was not an option."

According to Tave, he also considered adding stories to the building to accommodate several layers of parking. However, this would require building to high-rise construction safety requirements. This would add 25-30 percent to costs, making the project too expensive to pursue.

Profitably Optimizing Development Space

As a solution, a growing number of developers like Tave – as well as architects worldwide – are turning to automated parking garages to cost-effectively "free up" space.

Tave says in his prior experience and travel overseas, he had seen mechanical parking solutions. However, the mechanical stackers he had seen in Manhattan, New York, for instance, were not sophisticated and required too many 'manual valets' and too much maneuvering space, which was not economically feasible for the project.

When doing Internet research, Tave discovered Robotic Parking Systems, an advanced automated parking technology, by a Clearwater, Florida-based manufacturer of the same name. Before determining that the current technology suited his project's goals, he was determined to first do his due diligence.

As a retired Navy Civil Engineer Corps Commander, he drew on his almost 25 years of active duty service, spent dealing with issues of real estate acquisition, development, management, disposition, and building project life cycles.

Compared to previous forms of automated parking, the advanced technology provides more reliable and consistently faster vehicle delivery. This is due to a unique design that can independently move dozens of vehicles simultaneously on electro-mechanical robots in three axes (left-right, forward-back, and vertically). The result expedites automated parking and retrieval even in periods of peak demand.

In this type of system, vehicle owners drive into a street-level "terminal" at the automated garage, turn off the vehicle and exit with their keys. Then sophisticated software controls, platforms, lifts, motors, sensors, and other mechanical gear transport the vehicle to an open slot in a multi-story steel shelving system. Different sized bays accommodate larger vehicles, such as sedans and SUVs, to improve space utilization. When the owner wants to leave, the system locates the vehicle and returns it to a ground level exit terminal.

Less responsive older systems typically utilize only one or two devices such as trolleys to move vehicles. However, these can become intolerably slow and unresponsive during periods of peak demand, so are not well-suited for high-volume parking environments.

"What matters in today's robotic parking systems is not how long it takes to retrieve one single car, but how long it takes to retrieve ten cars when ten people are waiting," explains Tave. The multiple exit paths and sophistication of Robotic Parking Systems' programming helps to quickly get vehicles to their owners."

Tave was also impressed with the implementation of the technology at the Al Jahra Court Complex in Kuwait, which recently earned the Guinness World Record for the "Largest Automated Parking Facility." It was designed as a combination of 684 concrete ramp parking spaces with 2,314 automated spaces on top. The Robotic Parking Systems portion of the project provides almost 3.5 times the number of conventional ramp-style parking spaces in approximately the same volume. While the conventional parking portion is 7 levels and over 97 feet high, the RPS portion is 11 levels and 115 high.

The Robotic Parking System in the Al Jahra Court Complex can deliver almost 7 cars every minute. It has a certified peak traffic throughput of 425 cars per hour inbound/outbound, delivered through the 12-grade level entry/exit bays that service the garage. Average retrieval takes 177 seconds.

Establishing the technology's reliability, of course, was also a crucial concern because it would need to function under any and all circumstances.

To satisfy himself in regard to the automated parking

"In this type of system, vehicle owners drive into a street-level "terminal" at the automated garage, turn off the vehicle and exit with their keys. Then sophisticated software controls, platforms, lifts, motors, sensors, and other mechanical gear transport the vehicle to an open slot in a multi-story steel shelving system."

technology, Tave says he drew on his lifetime of engineering expertise to independently review the specifications of all the equipment from the servo motors to the network servers. He also did his own independent due diligence by researching the suppliers of the system's components.

What Tave found satisfied his demand for the utmost system reliability.

"There is a significant difference between systems with single machines operating in multi-dimensional modes, and the Robotic Parking Systems design where each direction of vehicle travel is handled by a separate piece of equipment with redundancy built into every facet of the system, including the server that operates it," says Tave. "With the latter, you can achieve exceptionally high levels of reliability."

In fact, Robotic Parking Systems historically perform with 99.99 percent uptime on a 24/7 basis. This track record started in 2002 and continues today. The system utilizes electrical and mechanical components with lifespans of 40,000 hours or more and incorporates true redundancy of components throughout the entire system.

In the automated parking facility, every machine has built-in redundant components, and at least two of each type of machine is installed. Each of the redundant machines can simultaneously perform the same tasks, so if one needs maintenance or repair, the other is always available to keep vehicles moving in and out of the garage. In terms of data processing, an industrial server designed for 99.99 percent uptime, paired with an identical redundant automatic hot swappable unit, provides failsafe reliability.

While the initial cost of such a reliable automated parking system is higher than a traditional concrete garage, it is offset by lowering total development costs (including land, construction and soft costs) by as much as 40 percent. Typically, only half the space is required for the same amount of parking, which can significantly reduce the outlay for land purchase. Or, alternatively it can increase the revenue generating development capacity on a given piece of land.

The modular automated parking systems can also provide developers and architects needed design flexibility. The parking structures can be built above ground, underground, inside a building, on top of a building, or under a building. Any type of facade can be used whether half-timbered, brick, aluminum, concrete or glass. This enables architects to seamlessly blend the parking structures with the project or neighborhood.

Based on a thorough technical/financial review of the technology, Tave is incorporating a Robotic Parking Systems design with 470-vehicle capacity and 240 vehicle per hour throughput in the West Bay Lofts project.

Because the automated parking garage will be embedded in the building's core, surrounded on all four sides by apartments with active balconies, there will not be any "ugly industrial" side of the building. Vehicles will depart through stylish exit bays in the north side of the building.

The West Bay Lofts project recently broke ground, and completion is expected in February 2021.

"The automated parking system is key to making our development project feasible and is the first thing everyone wants to talk about. It gets a lot of attention from the media, politicians and interested customers, which helps our sales and marketing," he concludes. **DP**



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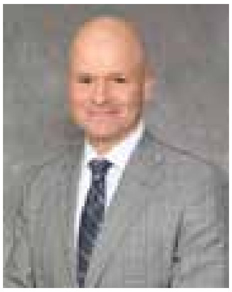
What do you think represents the best economic development opportunity in Western PA during the coming decade?

G. Henry Cook
Chief Executive Officer
Somerset Trust Company

"I believe there are two things that will work to improve the economic future of Western Pennsylvania. The first is the work ethic of our people and their practical intelligence will continue to surge forward in the face of all challenges. Our traditional 'can do' attitude has taken a lot of hits over the decades, but I have a sense of its resurgence, especially the re-emergence of our primary city, Pittsburgh, and the leading role of our incredible education institutions. The second game changer is the continuing development of our natural gas resources. I believe the reduced carbon footprint of natural gas is a highly reasonable interim solution to the energy challenges while we continue to evolve the desired longer-term carbon neutral solutions. Switching from oil to natural gas will not only have positive enumerated effects, but will reduce the pressure to send our young people into international conflicts in which oil is an underlying issue."



William C. Marsh
Chairman of the Board, President and Chief Executive Officer
The Farmers National Bank of Emlenton

"The Farmers National Bank of Emlenton is quite pleased to be positioned to serve businesses, consumers and development opportunities in Pittsburgh, especially at this most exciting time where the city continues its transformation from essentially a strictly industrial center to a major service, technology and health care leader. This transformation has fostered investment opportunities for our bank as we have led or participated in the financing of development projects from the south side to the Strip District, in Oakland and Lawrenceville, and in the eastern corridor. In the years to come, we expect the best economic development opportunities to be projects that promote the location of the major technology, health care and service businesses at or near the city center and in the aforementioned neighborhoods. We remain excited by the prospects of investing in the expanding and transformative Pittsburgh market."

Jane Grebenc
President/Chief Revenue Officer
First Commonwealth Bank

"There will continue to be substantial opportunities to further capture and retain a wealth of successful, driven, and high-caliber young professionals from our colleges, universities and trade schools in the coming decade. Western Pennsylvania is rich in strong institutions of higher education that attract top talent from all around the United States and internationally. With our strong corporate investments in medical care, robotics/artificial intelligence, mineral extraction, finances and technology as a whole; this region is well suited to become a destination not just to educate the future workforce, but as a permanent residency for those workers.

Furthermore, in addition to our tremendous cultural, recreational and entertainment offerings, the bonds of community and family are known as some of our region's greatest assets. This wealth of community resources can also serve as a catalyst to attract workers back to this region that they once called home.

Corporations such as Google, Uber and Duolingo have made tremendous investments in this region. Our opportunity, and challenge, is to continue working with our region's business and community leaders to create more opportunities to make Western Pennsylvania even more attractive for corporations and the workers they will employ."

Steve Drahnak
President, Western PA Market
S&T Bank

"As I look at our region's economy, I believe there are three areas of potential growth – healthcare, technology and energy.

Healthcare remains strong and steady. We continue to see opportunities in the medical office space and continued growth with our major hospitals.

Tech opportunities may have the largest upside. An example is the development in downtown Pittsburgh's Strip District. We continue to see increased office development in this area. Focused around tech companies, new housing sites and retail, this area provides many of the amenities the Millennials desire.

Energy is more of a long-term play. The Shell Cracker plant is a big step in potential new opportunity for the region. We see drilling slowing down as prices dip and supplies continue to grow. We just need to experience an increase in demand to get the ball rolling again."

Allegheny County

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Allegheny County continues to thrive! Our economy is supported by partners and industries who successfully collaborate to advance key sectors within our region including higher education, healthcare and medical research, technology-infused manufacturing, energy and financial services. We have become a hub for artificial intelligence and robotics and a center for research and development of autonomous vehicles.

The county offers numerous opportunities for businesses to relocate or expand, creating jobs and opportunities for established businesses, new businesses and graduates of our renowned regional universities. Tech companies including Apple, Amazon, Google and Uber have found a home in our various communities. Pittsburgh International Airport is investing over $1 billion in the modernization of the current terminal allowing for more national and international visitors. Through partnerships with local colleges and universities, they also developed a campus that is a one-stop shop for all components of advanced manufacturing initiatives. The airport corridor continues to be developed for office parks and residential housing.

Our communities are also thriving. Allegheny County Economic Development (ACED) has assisted in the revitalization of main streets through the Allegheny Together program which helps municipalities develop a multi-year strategic plan for their business districts with assistance from consulting services. Through the new Allegheny Together website, individuals can subscribe and receive updated information on business development initiatives via a newsletter or get access to a database of resources geared towards business district revitalization based on the efforts of those municipalities.

A new federal Opportunity Zone program enabled Fifth Season to open a $7 million, 60,000 square foot light industrial facility in Braddock featuring vertical farming, a technology developed at Carnegie Mellon University. The founders have implemented a tightly controlled production process driven by artificial intelligence, robotics and data analysis-all of which are projected to provide higher yields and healthier, more flavorful produce for distribution to grocery stores and restaurants. Fast Company, a magazine that highlights technology innovations and the companies introducing them, called this pioneering vertical farm nothing less than a 'world-changing idea'.

Our residents are also benefitting from the programs and opportunities provided in Allegheny County. Affordable housing, convenient healthcare and transportation have all been critical components offered to residents and supported by ACED. The Port Authority of Allegheny County consistently encourages input from citizens and commuters in order to improve local transportation initiatives. CLASS (Community Living and Support Services) enables people with disabilities to explore personal and career options and therefore participate fully in their communities' activities and workforce.

Allegheny County continues to discover new and innovative ways to boost our diverse and thriving economy. We look forward to a future of continued growth, sustainability and maintaining our public and private partnerships to further our mission of making Allegheny County a national and international destination for years to come.

Armstrong County

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To facilitate business retention and expansion, the Armstrong County Department of Economic Development coordinated a "Business Walk" program in the Ford City Borough and Kittanning Borough central business districts during the Fall of 2019. The goal of the business walks is to retain the existing businesses in Armstrong County and to help them grow and expand by building solid relationships between business owners and the various economic development partners and programs. The Alle Kiski Strong Chamber of Commerce and Clarion University Small Business Development Center joined the Armstrong County Department of Economic Development on both business walks. Conversations were held with ten businesses in each community.

The Armstrong County Department of Economic Development provides staff to the Armstrong County Industrial Development Council (ACIDC). The ACIDC coordinates a revolving loan program that provides supplemental financing to assist with business start-up and or business expansion projects within Armstrong County. During the last half of 2019, the ACIDC approved two revolving loans: Stivason & Sons Trucking Company and South Bend Limestone Company, both of South Bend Township. Stivason & Sons Trucking Company used the revolving loan along with financing from Elderton State Bank and the Southwestern Pennsylvania Corporation to purchase an existing building in Armstrong County to expand their operations. South Bend Limestone Company used their revolving loan, along with an economic development loan from the Southwestern Pennsylvania Corporation to purchase machinery and equipment.

Working in cooperation with Armstrong School District, Ford City Borough and Kittanning Borough, the ACIDC is managing the demolition and reuse of the former Ford City Jr./Sr. High School and the former Kittanning Junior High School. Redevelopment Assistance Capital Program (RACP) funding was secured by retired state Sen. Don White and state Reps. Donna Oberlander (PA 63rd) and Jeff Pyle (PA 60th) to demolish the buildings and prepare the properties for redevelopment. While in the early stages of their due diligence, separate developers have expressed plans for each respective property. Butler County Community College announced in October 2019 that they have partnered with the Nonprofit Development Corporation of Butler, PA to build a new BC3 @ Armstrong campus on the former school property in Ford City. In July 2019, state Rep. Pyle and state Sen. Joe Pittman (PA 41st) announced that the Pennsylvania Housing Finance Agency awarded the Pennsylvania Housing Affordability and Rehabilitation Enhancement (PHARE) funding in the amount of $250,000 to TREK Development Group for the planning and design of 36 mixed-income, senior citizen housing units on the former school property in Kittanning.

The ACIDC in conjunction with the Energy Innovation Center Institute (EICI) is continuing the development of the Critical Infrastructure Workforce Academy™ (CIWA). CIWA is a unique training facility in the Northpointe Business Park in South Buffalo Township that will focus on providing the current and future workforce the skills necessary to install, operate and maintain critical infrastructure; gas, electricity, water, sewer and telecommunications. CIWA is supported by the utility, energy and related construction industries as a means of improving both public and worker safety, attraction and training of a new workforce, the retraining and upskilling of both displaced and incumbent workers, and the advancement of energy sector research. The CIWA project and programing will be designed and built in several phases beginning in 2020. The EICI plans to conduct initial classroom training this spring at the Indiana University of Pennsylvania (IUP) classroom facilities already in operation in Northpointe. Additional classroom, lab and virtual/augmented reality classes will begin in late spring. The ACIDC and EICI are currently working on design details of the simulation training yard and anticipate breaking ground later this year.

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

Beaver County

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This past year, the Beaver County Corporation for Economic Development (CED) said good bye to its long-time President, James Palmer, who retired after working for CED for 32 years, the last 26 as President. CED welcomes its new President, Lew Villotti. Mr. Villotti comes to CED with 30 years of community and economic development experience on the county and regional level. He spent the last 17 years as the Planning and Development Director of the Southwestern Pennsylvania Commission.

CED completed construction of a 30,000 square foot multi-tenant spec building at its WestGate Business Park in Big Beaver Borough. The building is located on a 14-acre site and can be expanded up to 45,000 square feet, with seven acres of the site remaining available for a second facility or for sale. Total cost of the project was $3 million and was funded, in part, through a loan from the Pennsylvania Industrial Development Authority (PIDA). First stage marketing is underway for the property ideal for 5,000 – 30,000 square feet users.

Also, in the WestGate Business Park, Crossgates, Inc. is under construction with its first of two multiple flex space buildings of approximately 100,000 square feet in size on the property. Construction is expected to be completed in first quarter 2020.

Butler County

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The Butler County Infrastructure Bank was formed in 2017 and officially began operation in late 2018. The first round of funding saw the infrastructure bank provide $8.5 million for four Butler County projects. The bank's low interest rates are attractive to the county's townships and boroughs. In addition, the funds provide these townships and boroughs with the ability to complete projects that in a timely manner that may have otherwise taken an additional ten to 20 years.

The projects most recently funded are: The City of Butler (Sullivan Run Flood Control); City of Butler (Main Street Lighting Replacement and Improvements); Cranberry Township (MSA Thruway Project); Cranberry Township (Rehabilitation of Interceptors #1 and 7 and Sewer Line Restoration).

The Sullivan Run Flood Control project is a joint project with the City of Butler, the PA Department of Environmental Protection and the US Army Corp of Engineers. The project will focus on the Miller Street Bridge, the West Penn Street Bridge, the West Beady Street Bridge and two additional culverts at the lower end of the stream. The total cost of the project is estimated at $4 million and it will eliminate three areas in the stream that create bottlenecks when heavy storms hit the area. The City of Butler requested a loan in the amount of $470,000.

The City of Butler's Main Street Lightning Replacement and Improvement Project will replace the current light poles with modern technology. Lighting in the City's business district will be enhanced as a result of the project. The total project cost is $1,015,000.

The other loans provided by the Infrastructure Bank were both for Cranberry Township projects. The first, the MSA Thruway Project, is designed to alleviate traffic on the Route 228/I-79 corridor. An underpass will be constructed to create better connectivity for community members and local businesses and also decrease congestion along the corridor. The estimate cost of construction is $4.5M. The second project, the Rehabilitation of the Interceptors 1 and 7 and Sewer Line Restoration will enhance the reliability and capacity of the Township's sanitary sewer services and the Brush Creek Water Pollution Control Facility. This project will ensure the structural integrity of the sewer system to meet the anticipated commercial and residential growth. This project's estimated cost is $1,677,749.

Other projects in Butler County include the recent announcement that a Gabe's retail store will be moving into the former K-mart space at the Pullman Square Plaza. The discount department store chain is headquartered in Morgantown, WV and operates 107 stores in 13 states.

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. Public transit serves this location and it is 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.butlercountycdc.com.

Greene County

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As the gas and oil industries remained strong in the second half of 2019, Greene County was also expanding its mix of economic stimuli:

Equitrans, a premier natural gas midstream operator in the Marcellus and Utica shale, has added to its strategic infrastructure by completing construction on two compressor stations in Franklin Township.

WVU Medicine, the operating name for West Virginia University Health System, opened a new 24,300 square foot outpatient facility in September 2019. This $13.8 million project in Franklin Township is their first large facility in southwestern Pennsylvania.

NexGen completed construction on their $3.5 million facility in EverGreene Park.

Greene County completed their new ten-year comprehensive plan subject to approval in 2020.

Waynesburg University in partnership with Carnegie Mellon University are working on a transportation study in Greene County.

Universal Belting began construction on an expansion project to their facility in Paisley Industrial Park.

If you are looking for a building or land, explore available properties in Greene County through our interactive map. Filter properties by size and type, and explore community data including demographics, labor force, wage, and talent pool data. Visit https://www.co.greene.pa.us/site-search

Indiana County

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2019 was an exciting year for Indiana County. Certainly, one of the highlights of the year is the completion of the Urban Outfitters fast-tracked project to construct a fulfillment and distribution center of approximately one million square feet at the Windy Ridge Business & Technology Park in White Township. At the October 2019 ribbon cutting event, URBN announced that just over 100 employees have been hired thus far, which is roughly half of the 225 that the corporation pledged. URBN signed the deal with the Indiana County Development Corporation for 48 acres of land in the Windy Ridge Business & Technology Park and spent an estimated $30 million for the project.

Among the advances in healthcare for the area, Indiana Regional Medical Center (IRMC) introduced endobronchial ultrasound diagnosis and treatment. Endobronchial ultrasound (EBUS) is a minimally invasive but highly effective procedure used to diagnose lung cancer, infections, and other diseases causing enlarged lymph nodes in the chest. Indiana Regional Medical Center is a not-for-profit hospital located in Indiana that was founded in 1914. IRMC is one of the eighteen member hospitals of the Pennsylvania Mountains Healthcare Alliance that was established to provide community-based health care via independent community hospitals. IRMC employs more than 50 physicians in and surrounding Indiana. This group of primary care and specialty providers is called IRMC Physician Group and is in addition to the total FTE count of approximately 1,131 nurses, technicians and staff.

The Indiana County Commissioners unanimously stood opposed to enactment of the Regional Greenhouse Gas Initiative (RGGI), a cap-and-trade program that targets electric power plants by imposing taxes on coal, coal refuse and natural gas-fired electricity in Pennsylvania. The Commissioners signed a resolution that laid out the stakes for Indiana County should RGGI be enacted: An estimated 6,400 megawatts of local power generation capacity would be transferred to non-fossil-fuel plants in other states — tax free — putting 1,225 jobs, $59 million of power plant payroll and $1.36 billion of overall economic impact at risk.

The inadequacy of broadband internet service in rural areas of the county came to the forefront in 2019 as a state Senate committee took testimony at a hearing at Blue Spruce Park, which was held as a leading example of the absence of wireless telecommunication. Outgoing Sen. Don White secured a $500,000 grant and the county commissioners pledged matching funds for local county officials to assess the problem, find innovative solutions and take steps toward providing service. At a cost of about $68,000, the county will install cellular equipment on an emergency radio system tower looming over Blue Spruce County Park in Rayne Township and bring mobile telephone service to park visitors and workers.

Indiana University of Pennsylvania (IUP) celebrated the 20th anniversary of the Robert Cook Honors College along with the renovation of Whitmyre Hall, home of the elite academic program. With a graduating class of 60 in its introductory year, the Honors College in 2019 had an enrollment of 138 students, the largest in its history. The college counts Fulbright Scholars, Goldwater Scholarship recipients and Gilman Scholars among its graduates.

Recently the Department of Conservation and Natural Resources announced the Ghost Town Trail has been named Pennsylvania's 2020 Trail of the Year. Cooperatively managed by the Cambria County Conservation & Recreation Authority (CCCRA) and Indiana County Parks & Trails, the trail is named for long-gone coal-mining communities once dotting the railroad corridor. Formed in 1994 as a 12-mile segment, Ghost Town Trail was the first trail in the state constructed with transportation enhancement funding. In 2005, the 32-mile main stem of the trail was completed from Blairsville, Indiana County, to Ebensburg, Cambria County.

Over the last several years, the Indiana County Center for Economic Operation (CEO) has been preparing infrastructure and business parks to create the right environment for job creation and capital investment in an effort to foster economic diversification. The CEO is tasked with creating these opportunities to attract businesses and encourage local business expansion for the residents of our great county. For additional information, please visit www.indianacountyceo.com.

Washington County

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Washington County remains a leader in Pennsylvania in energy production and industrial/commercial development and continues to maintain its strong position among Southwestern Pennsylvania counties in terms of economic growth and job creation.

This growth and job creation are highlighted by new economic development projects that accounted for more than half a billion in capital investment in Washington County over the course of 2019.

Washington County continues to maintain a leadership position in both the Greater Pittsburgh Region and state in creating new economic growth, new job opportunities and county-wide expansion. In 2019, the county's public and private partners announced $513,872,181 in new business investment and an additional 930 created/retained jobs in Washington County. This tremendous growth in business investment and job creation was driven by numerous sectors of the county economy including energy, tourism, construction, manufacturing and infrastructure.

Last year also saw continued leadership in the energy sector. Pennsylvania is the second largest gas producing state in the country and according to Pennsylvania's Independent Fiscal Office, Washington County ranks second among counties in the state with 876 BCF of production through the third quarter of 2019.

Success in the energy industry has also correlated to additional direct business investment from companies expanding or locating to Washington County. Projects such as TechnipFMC, a company that provides systems and solutions for the oil and gas industry, have also boosted the county economy. This project will consolidate two equipment service centers into one regional hub facility in Speers Industrial Park in the Mon Valley. This new facility will allow the company to streamline and expand the company's operations, including service, repair, manufacturing and testing of tools and equipment within the oil and gas industry. This project also represents a direct investment of more than $13.3 million and will employ 168 full-time employees over the next three years.

Another positive example of Washington County's success in the energy economy is Sprague Energy, a heating fuel supplier, which invested nearly $3 million in constructing a new bulk plant in North Franklin Township. Sprague purchased this business from Coen Energy in 2017 which includes field services that support the Marcellus and Utica Shale drilling activities. The new bulk plant consolidates two older plants and will contain five bulk petroleum storage tanks and four smaller ones for fuel additives when it is complete in 2020.

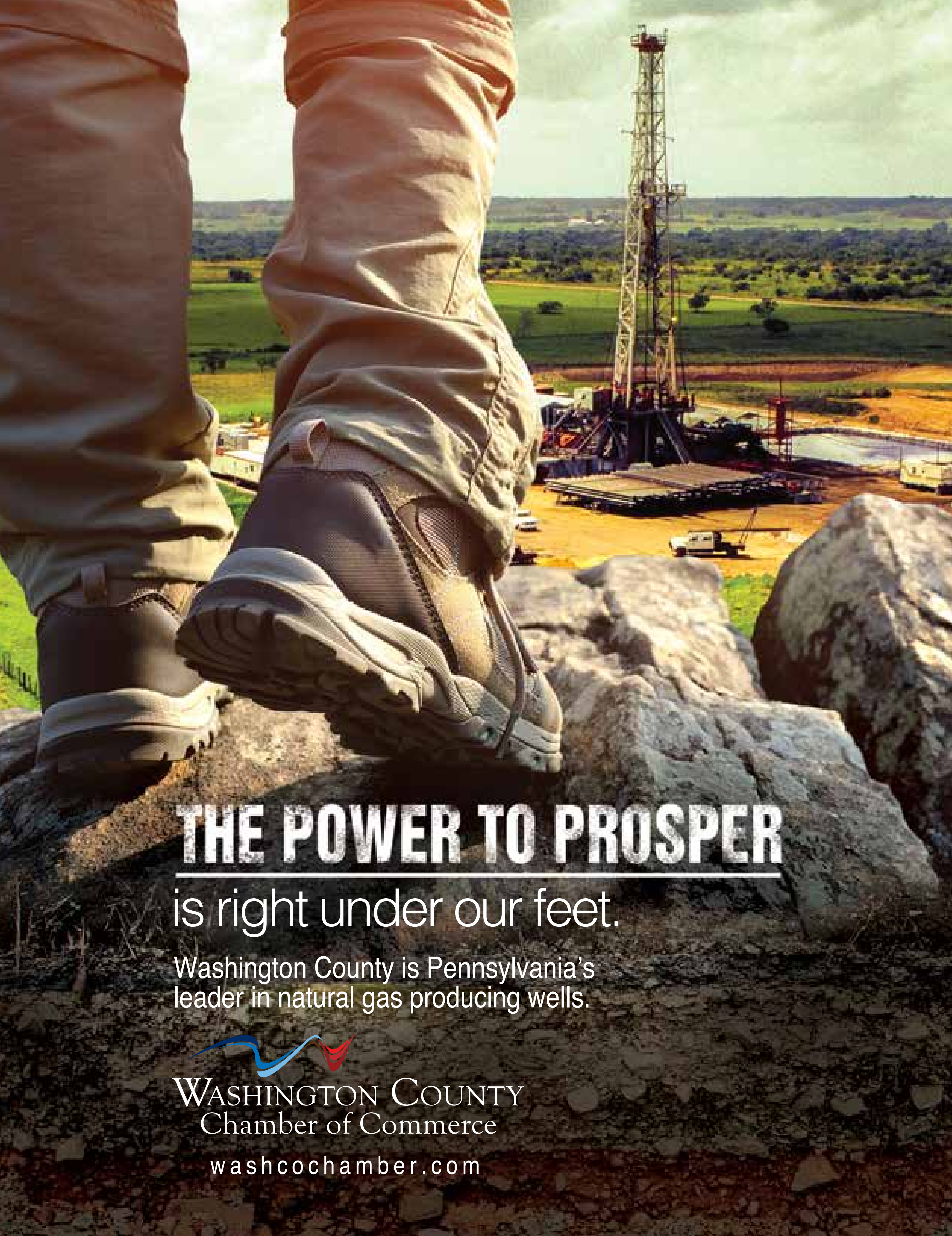
While important to the overall success, natural gas is not the only industry with an impact on the county economy. Washington County's outstanding manufacturing sector also provided several tremendous successes over the second half of 2019. The expansions undertaken by the county's manufacturing community demonstrate the continued diversity Washington County's economy, a hallmark of its overall economic development strategy.

One of the highlights of these manufacturing expansion projects was the announcement of GE Renewable Energy's expansion in the Mon Valley. GE will add 100 jobs to its existing workforce at its Mon Valley Plant in the Speers Industrial Park. This project is the result of a consolidation of operations from their Waynesboro, GA plant and will move their process for designing and manufacturing high-voltage instrument transformers to Washington County. This will be an expansion of duties at the Mon Valley location, where high-voltage circuit breakers are currently designed and made. A Fortune 50 company like GE selecting the Speers location for its expansion plans helps to continue to shine a positive light on the Mon Valley as it is reestablished as a center for manufacturing and job creation.

The Mon Valley Alliance (MVA), an economic development agency focused on the Mon Valley, announced the construction of a light industrial flex-space building located in the Alta Vista Business Park, a key economic generator for the Mid-Mon Valley. The 35,000-square-foot building should be finished in 2020 and will accommodate one large tenant or two smaller tenants, allowing the MVA additional flexibility in attracting new businesses to the park.

Finally, the momentum continued for the Brockway Glass Plant redevelopment project in Canton Township, Washington County with a $5 million grant/loan package awarded to Running Brooke II Associates through the Business In Our Sites program. The Brockway parcel includes a short line rail spur and access to Interstates 70 and 79, making it an ideal location for warehouse, distribution, or manufacturing companies looking for intermodal connectivity. Removing the blighted property and redeveloping the site has been a key priority for Washington County as the site is one of the first things people see as they travel into the county (and state) along I-70 East. It has also been a top-tier example of the success possible through public-private partnerships, something which has been a hallmark of Washington County projects over the past several decades.

Washington County also continues to invest in creating infrastructure and access to pad-ready development sites, demonstrated by the Washington County Council on Economic Development project to begin earthmoving on the third phase of the Starpointe Business Park. Starpointe is located 19 miles from


THE POWER TO PROSPER
is right under our feet.
Washington County is Pennsylvania's leader in natural gas producing wells.
Washington County
Chamber of Commerce
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the Shell Cracker Plant in Beaver County and this new phase will create roughly 100 additional acres of developed land. These parcels are ideal for expanding companies seeking locations adjacent to the interstate highway system and this investment ensures Washington County remains competitive in attracting new manufacturers or accommodating the expansions of existing companies.

In addition to the impressive economic development successes in the past year, Washington County continues to invest in modernizing infrastructure, creating pad ready business parks and community development projects through the Washington County Local Share Account Program (LSA). The LSA program is Washington County's share of gross revenues from The Meadows Casino that has been directed by the commissioners to support economic and community development projects across the county.

In December 2019, Washington County announced $6.9 million in LSA awards, which leveraged over $26.5 million in economic and community development projects across the county. These investments include economic development projects such as the Starpointe Business Park, community improvement projects such as the Downtown Pavilion Project in California Borough and many other water and sewage infrastructure improvement projects across the county. These investments allow communities to benefit from both economic growth and increased quality of life.

Looking ahead to 2020, Washington County's economic outlook remains strong due the diversity of its economy. Over the past two decades, the strategic development of business parks has attracted a variety of industries and provided indigenous companies with the opportunity to expand within the county. In addition, county government leaders have created an environment for growth by keeping taxes low and being a partner to our business community. Washington County will remain focused on the long-term approach of cultivating a diverse economy and continuing to be ready to take advantage of any opportunities that arise.

Westmoreland County

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The two biggest Westmoreland County development stories of the latter half of 2019 took place within three miles of one another, and they've kindled a renewed sense of optimism in the City of Jeannette.

In August, Colony Holding purchased the former Monsour hospital property from the Westmoreland County Land Bank and announced plans to develop the 6.4 acres into the new Jayhawk Commons, which will bring a mix of commercial, retail and office space to the Route 30 site. The project is a welcome redevelopment of a site that was home to the nine-story cylindrical tower of Monsour Medical Center, which sat vacant for 10 years before being demolished in 2016.

From there, a short drive into downtown Jeannette brings visitors to the 13.8-acre Jeannette Glass site, which used to be the economic heart of the city and very well could be again. After finalizing the purchase of the 13.8-acre brownfield site from the Westmoreland County Industrial Development Corporation in October, the Elliott Group held a December groundbreaking for a $60 million cryogenic pump facility that will create about 130 new jobs. The state-of-the-art facility will be used to test the pumps and expanders being manufactured less than two miles away at Elliott's global headquarters.

About 12 miles south of Jeannette, work continued throughout the year on the county's newest industrial park, and — with the project 95 percent complete — a grand opening is on track for early 2020. When Commerce Crossing at Westmoreland opens, the 206-acre park will feature five pad-ready sites that range in size from 19-29 acres. Located off of I-70 in Sewickley Township — near the county's New Stanton transportation hub — Commerce Crossing will provide direct access to active rail and the interstate highway system. Already, two of the five lots are under option agreements with Al. Neyer, LLC, which intends to build speculative warehouse/distribution buildings at the park. To take a virtual tour of the site, see westmorelandcountyIDC.org.

Further south, the Mt. Pleasant Glass Centre reached full occupancy in July when Life's a Beach USA signed a lease agreement for 1,400 square feet in Building 500. With seven tenants sharing the facility's 156,000 square feet of industrial and commercial space, the Mount Pleasant Glass Centre became the eighth WCIDC development to be sold/leased to capacity.

In news from the county's northwestern corner, Xodus Medical Inc. has optioned a 2.1-acre lot directly across from its existing home in Westmoreland Business and Research Park. The company, which currently employs 120 in the park, plans to construct a 20,000 square foot building for assembly and office space. The medical-device manufacturer anticipates hiring an additional 25 people to work at the Upper Burrell Township site.

Speaking of northwestern Westmoreland, throughout 2019, officials from 11 municipalities worked with county planners to create a land-use map of the Alle-Kiski Planning District that will help inform future development and aid in attracting, developing and retaining a diverse and stable workforce that will sustain a healthy economy. In 2020, municipal leaders will engage in mobility planning to address transportation issues. This effort is part of the Reimagining Our Westmoreland planning-district process, which aims to align countywide strategies with local priorities while improving communication, addressing gaps in services and, ultimately, strengthening the fabric of Westmoreland County. The county comprehensive plan has identified seven sub-regions, and this process will be repeated in the other six.

The Alle-Kiski sub-region contains Allegheny Township, Arnold, East Vandergrift Borough, Hyde Park Borough, Lower Burrell, New Kensington, Oklahoma Borough, Upper Burrell Township, Vandergrift Borough, Washington Township and West Leechburg Borough.

To learn more about economic development projects throughout Westmoreland County, see WestmorelandCountyIDC.org.

(From left) PNC's Marc McAndrew, Lucas Piatt and Chad Wheatley from Millcraft Investments, and Robin Zoufalik from Pieper O'Brien Herr at the Urban Land Institute's annual Placemaking Awards. Photo by Jacob Doerr Photography.

(From left) Dan Vercruysse from MSR Design, RIDC's Tim White and Don Smith, Chris Greundl from R3A, and UPMC's Christian Gabarda. Photo by Jacob Doerr Photography.

Derrick Tillman from Bridging the Gap Development (left) and Josiah Gilliam from the mayor's office.

Chip Desmone from Desmone Architects (left) and RDC's John Deklewa.

(From left) Victor Konno and Ruby Scalo from Burns & Scalo Real Estate, with Dan Herbier from Air Duct Maintenance.

Melissa Caruso from Michael Baker International, Brentwood Bank's Linda Fisher, Von Fisher from Value Properties, and Mascaro's Alyssa Kunselman

(From left) Rich Lane from Firewater Response, NAIOP Pittsburgh's Brandon Mendoza, and Kate Kay from Buena Vista Management.

(From left) NAIOP Pittsburgh President Don Smith and Tim White from RIDC, Stacey Weniger, and Mike Weniger from Sentinel Construction.

CEC's Greg Quatchak (left) and David Storer from Allegheny County Airport Authority.

(From left) Atlantic Engineering's Matt Kaufman, Nicole Benyo from GDI Services, Century Realty's Chad Kesich, and Chris Perez from Corbett Inc.

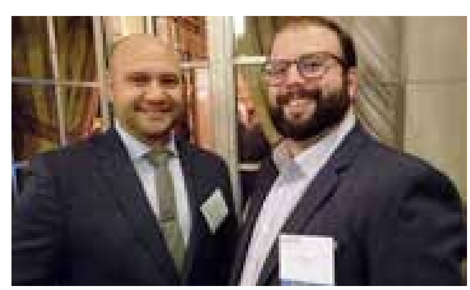
Taylor Iaboni from Oxford Development (left) and JLL's Corbin Blosat at the Developing Leaders kickoff on January 30 at Anderson Interiors.

RIDC's Jessica McKinney (left), Emily Sipes, and Scott Diguglielmo from Burns & Scalo Real Estate.


(From left) LLI's James White, Mike Galet from Gateway Engineers, and Eric Brown from Henderson Brothers.


(From left) Representing Bohler Engineering at the NAIOP DL Kickoff were Erin Goglin, Kelsey Kanspedos, Erminio Genoese, and Kayleigh Bevington.


CBRE's Kyle Prawdzik, Ashley Koltonski from Grant Street Associates, and Rachel Rzymek from DRS Architects.


Burns & Scalo's Chris Bernardi (left) with Tony Rossi from CBRE

Wabtec
Cory Morton Photography

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