DEVELOPING Pittsburgh

Spring 2022

INDUSTRIAL MARKET UPDATE

NAIOP

COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

PITTSBURGH CHAPTER

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Spring 2022

About the Cover: *Komatsu Mining's global distribution center at Alta Vista Business Park. Photo by Roy Engelbrcht Photography.*

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President's Message

At this time last year, NAIOP Pittsburgh started to emerge from COVID. We enjoyed a successful banquet that was the first great networking opportunity since the previous banquet 16 months prior. At that time, your NAIOP was aggressively pushing to help move forward projects that have been stalling because of COVID. At this year's banquet, we will celebrate the accomplishments of the hard work of many individuals and organizations that have completed projects in a challenging economic and political environment. Unfortunately, there have been several projects delayed and ultimately cancelled. In addition, the commercial vacancy rate in parts of the region continues to struggle. The fight continues.

NAIOP Pittsburgh has a significant voice in the region for the public debate of land use and development process approval. We have used that voice to educate elected officials of the harm that NIMBY has on the local economy, the local tax base, and the services supported by that tax base. Your involvement in NAIOP has a direct impact on how LOUD a voice we have.

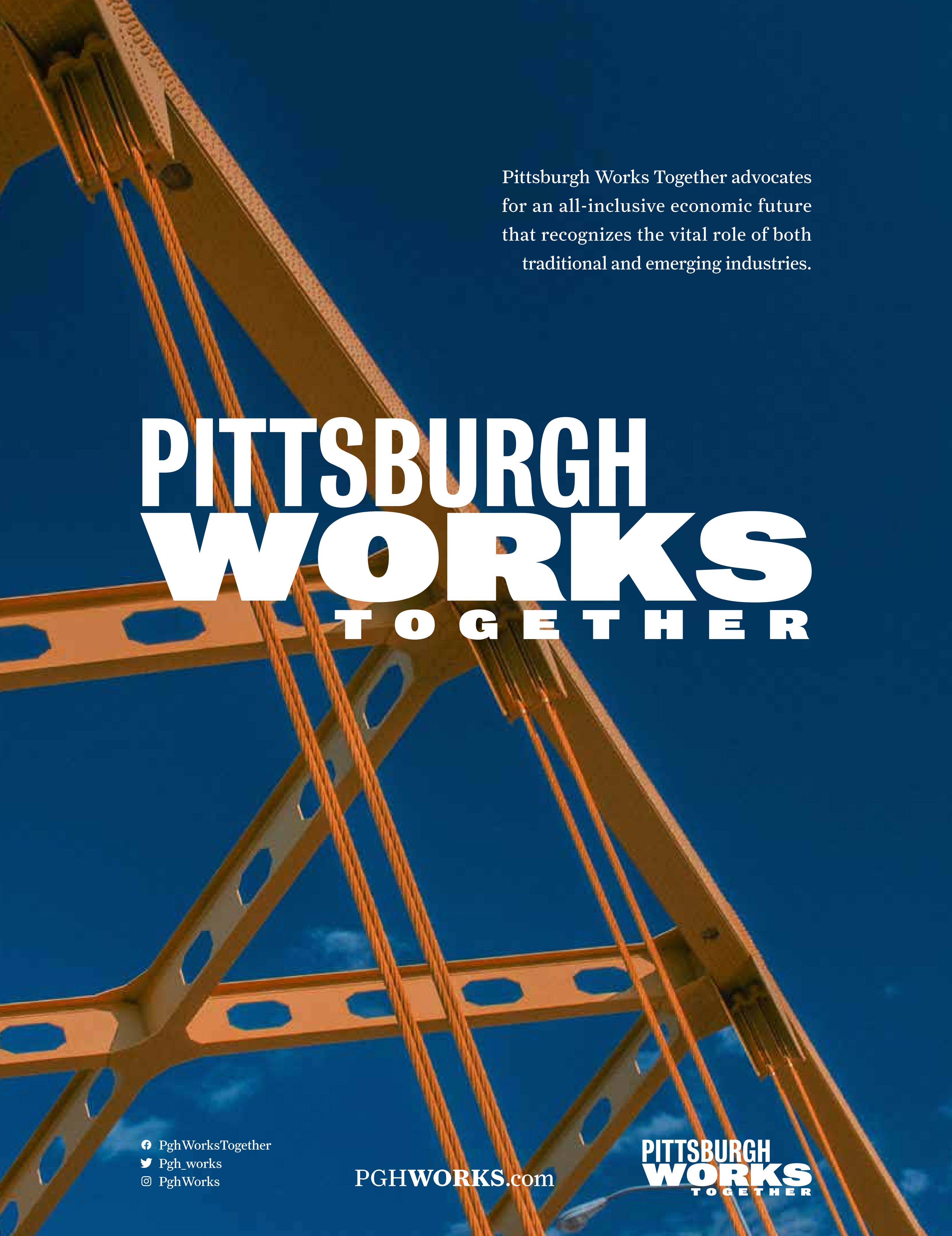
This past two years, your NAIOP Pittsburgh Board of Directors and Committees have worked tirelessly to ensure that our voice grows despite the challenges. We have completed a strategic plan that increases the emphasis on advocacy. To do that we are in the early stages of starting a Political Action Committee (PAC) for the purpose of more directly influencing elections. The strategic plan also includes emphasizing diversity for growing the membership in both numbers and influence. Our 2022 NAIOP Robert Morris University program to educate minority high school students about opportunities in CRE is on track to triple the number of applicants from 2021. In support of these priorities, we must maintain our strong financial position and continue to improve communication throughout the membership.

NAIOP Pittsburgh has consistently been one of the fastest growing chapters in the nation. For the first time, we have been designated as a "Large" chapter by NAIOP corporate, placing us in the top 30 percent of all chapters by size. As a result, the by-laws for your NAIOP Pittsburgh are also in the final stages of approvals to reflect our new size. These changes will allow the Board to expand the number of seats. It also addresses technology and legal changes of the past 12-plus years.

I genuinely LOVE Pittsburgh! 28 years ago, after living in other parts of the country, I was excited to move back to the greater Pittsburgh region and raise my young family (two of which are now NAIOP members). Pittsburgh is where I grew up, where my children grew up, and where my parents, grandparents, and multiple generations before them are buried. This is HOME.

The NAIOP Pittsburgh community has a profound impact on the quality of life for those living in this region, even those who have no idea about Commercial Real Estate. Pushing the region forward in job creation and building new environments is not easy. If you are passionate about your HOME and want your children and grandchildren to have greater opportunities, then your active involvement in NAIOP is vital.

Jamie White
NAIOP Pittsburgh President


Pittsburgh Works Together advocates for an all-inclusive economic future that recognizes the vital role of both traditional and emerging industries.
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Next month will be my fourth year as executive director of NAIOP Pittsburgh. As I embark on my fifth year, we have a lot of work remaining, including engaging our new mayor's administration and partnering with them on real strategy to drive more residential development and affordable housing. Across the country, demand for housing is far outpacing new supply, leading to a surge in pricing for residential real estate (rentals and homes). This past February was the seventh month in a row that rent grew by double digits for two-bedroom apartments. Rent growth was up nearly 18 percent this past year. In the Pittsburgh region, the median rent has grown 8.8 percent year over year.

Lack of supply is by far the driving force behind these price surges. For new construction, increases in material and labor costs are also driving rents higher. Our city's and region's leaders should support policies that increase housing supply, not constrain it. However, it seems our city is embracing policies that have failed to produce affordability in other cities. Policies such as inclusionary zoning, onerous parking requirements, and other costs driving measures, increase per unit costs for multifamily developments.

Our new mayor and his team should look towards YIMBY strategies, but we in the CRE community must also advocate for more funding for housing. We need to help close the financing gap for affordable and mixed-income projects. Luckily, we have timing on our side. The commonwealth has only utilized 14 percent of its $7.29 billion in American Rescue Plan Act (ARPA) funds. The state has over $6 billion in unappropriated funds. Mayor Gainey, as a past state legislator, has more knowledge about Harrisburg innerworkings than any mayor our city has had in the past 40 years. We should capitalize on this experience. The CRE community needs to partner with his administration to lobby that some of the ARPA funds go towards bolstering our state's housing supply.

We in Pittsburgh have a choice to make about our housing strategy. We can choose to enact failed policies from cities that have seen their affordability continue to slip away or we can chart our own path utilizing YIMBY strategies. We can continue to add measures that drive up per unit costs, or we can work to surge housing supply. We can work in silos on a transactional basis, or we can partner and find long-term solutions to housing affordability. NAIOP Pittsburgh can commit to help our city with a YIMBY strategy. We can commit to partnering to lobby for resources to cut the financing gap for housing. We have an opportunity to work together to become a truly livable city, we need to seize it.

Brandon J. Mendoza
Executive Director
NAIOP Pittsburgh

INDUSTRIAL MARKET UPDATE

Photo courtesy Graycor/Suncap Property Group. Photo by Kyle Zirkus Photography.

The market for industrial properties was going to be strong in 2022, maybe even hot, if we had never heard of the novel coronavirus that created the COVID-19 pandemic. Had you asked industrial developers, investors, or brokers about their five-year forecast for warehouses and distribution in 2017 (and we did), you would have been hard-pressed to find someone not bullish on the prospects. There were some arcane technical factors, like the interest rate environment and demographics, but the long-term e-commerce trend in consumer goods was the engine driving demand for industrial space. And that engine was only beginning to get going.


THE RIVIERA | SOUTH OAKLAND

BOARDWALK | NORTH FAYETTE TOWNSHIP

DIAMOND RIDGE | MOON TOWNSHIP

THE VISION | STRIP DISTRICT

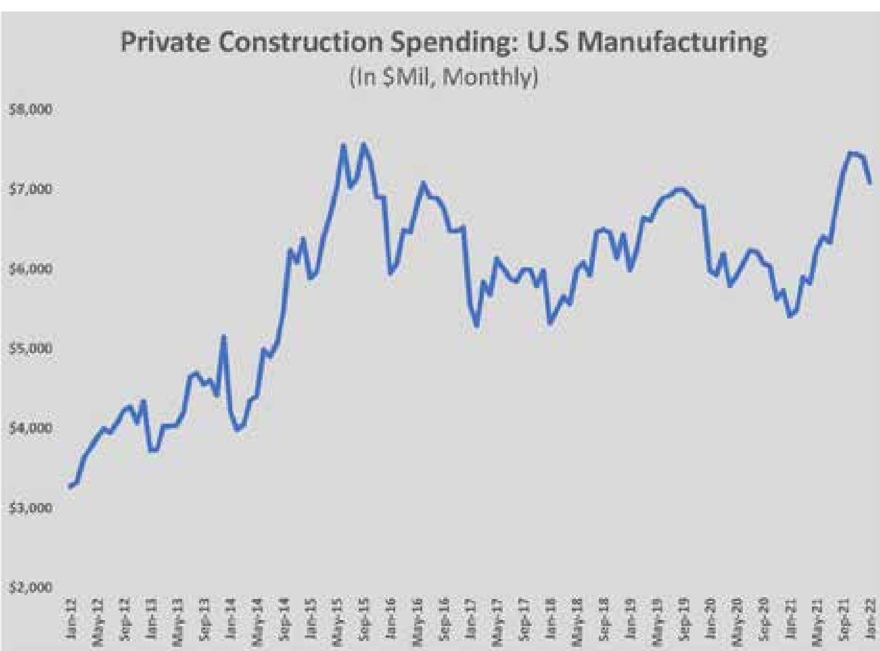
Americans were falling for the idea of purchasing items online and having them delivered to their homes within a few days. With retailers becoming increasingly accommodating about returns, the infatuation with online shopping was becoming a love affair.

Retailing had been wrestling with – and driving – the growing share of online shopping for more than a decade. The disruptors – Amazon, Wayfair, Zappos, and the like – rapidly evolved policies that created even more demand for online shopping and forced national retailers to follow. Amazon became the market maker and its strategy of extending distribution ever closer to the last mile to every consumer's home drove the development of billions of square feet of warehouse space nationwide.

Then, in March 2020, the pandemic accelerated this trend into a tidal wave of demand. During most of 2020 and much of 2021, consumers shifted their discretionary spending from services to goods. While this did not necessarily mean that there would be a boom in spending on goods, the government's intervention – the CARES Act and American Recovery Plan – put thousands of dollars into households. Shopping replaced dining out and vacationing for tens of millions of people. The increase in e-commerce demand leapt in two years to a level that might have taken five years or more absent the pandemic.

This acceleration in demand was especially impactful for Western PA. Prior to the 2020s, large-scale industrial development blossomed three hours east and west of Pittsburgh, but developers found the topography and market conditions around Pittsburgh unappealing for major industrial projects. As e-commerce expanded its share of consumer spending, the distribution networks penetrated deeper into secondary markets. That included major cities with logistical challenges like Pittsburgh.

When market sectors experience the kind of physical expansion and investor appetite that industrial real estate has seen during the past few years, there is invariably an overexpansion. A pullback follows. That may be the inevitable outcome awaiting industrial development later this decade. The factors driving the sector, however, are still ascending. Robust industrial demand and development have plenty of room to run.



Private investment in construction of manufacturing facilities has recovered from the pandemic lows but does not indicate growth in re-shoring supply chain capacity. Source: Bureau of Labor Statistics, Federal Reserve Bank of St. Louis.

What's Driving Demand?

By the spring of 2022, the story of the hot industrial real estate market has been told ad nauseum. E-commerce gobbled up retail. The pandemic put this trend into hyperdrive, as 330 million people stopped going out and started buying things for their homes. The retailers and resellers on the leading edge of marketing were figuring out how to get shoppers what they bought online in 24 hours or less. That meant more warehouses, closer to the consumer. And, of course, Amazon, Amazon, Amazon.

E-commerce distribution and fulfillment are not the only drivers of industrial development. Manufacturing, healthcare, indoor agriculture, and emerging technology companies are also increasing their appetite for industrial space. Manufacturers started construction on more than 10 million square feet of space in the U.S. in 2020 and 2021. The share of occupancy for food and beverage increased to 9.3 percent last year. And the leading occupier of industrial space, traditional consumer goods for retail sales, leased 31.9 percent of the available warehousing.

For 2022 and the next couple of years, however, industrial development will still lean heavily on e-commerce, both consumer and business, as its demand driver. While Amazon is not the only mass retailer in the market, it is the 800-pound gorilla of industrial development. It is worth looking at its model for clues as to how far online purchasing and fulfillment can expand.

Amazon's model – selling everything to everyone – requires massive investment in software, security, and human resources. It also relies heavily on a distribution network to receive, sort, and ship goods from sellers to buyers. Amazon has several major types of distribution centers: receiving, sortation, and fulfillment. Many of these are hybrid sorting and fulfillment centers. Regardless of end use, Amazon's centers are between 600,000 and 1,500,000 square feet. Amazon also has smaller customer pick up centers, like the one SunCap Property Group developed in Findlay Township in 2020.

The size of these centers is impressive in a market the size of Pittsburgh, but

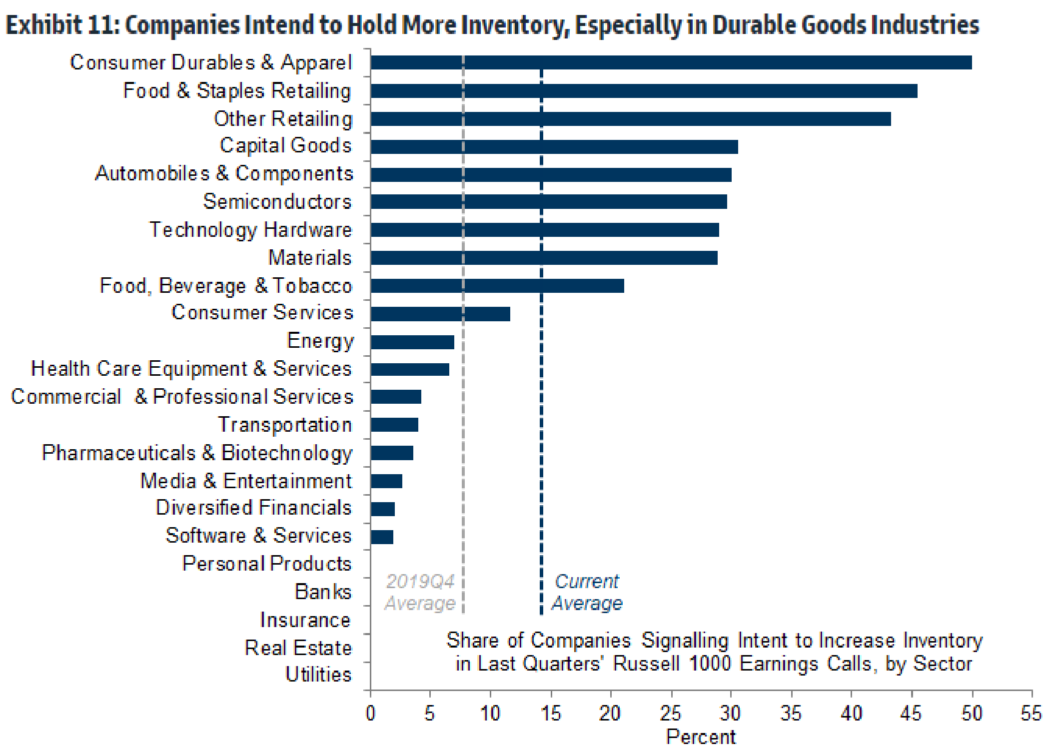
such centers are almost literally everyday occurrences for Amazon. At the end of 2021, the company had 321 million square feet of distribution space in operation or under construction. Pennsylvania ranked fifth among U.S. states with 14.3 million square feet of Amazon facilities. Amazon added roughly 100 million square feet of space in 2020 and 2021 alone.

The impact of Amazon on the industrial market is unique. Amazon is more than a bellwether. In spring 2021, nine of the 10 largest warehouses being developed in the U.S. were for Amazon. Buildings occupied by Amazon made up seven percent of all industrial transactions in 2021. Investors have been willing to pay more for an Amazon-leased property, adding a premium of $51 per square foot in 2021.

Even in a market the size of Pittsburgh, Amazon's impact has been outsized. In 2020, for example, there were 2.2 million square feet of industrial space absorbed. Of that, Amazon accounted for 1.6 million square feet.

A significant share of the demand for distribution space will come from Amazon and its competitors, as they try to meet the increasing demand from consumers for timelier delivery. This is the so-called "last mile" facility.

"We are seeing interest from the same industries that have been driving demand for several years," says Ryan Schwotzer, president of Crossgates, Inc. "There's been some interest in manufacturing. And the pandemic accelerated the trend in retail that was already underway. Consumers have begun to expect what they want now. The pressure on retailers and resellers to supply products quickly means they need more warehouses."



A Goldman Sachs survey of manufacturers found that 15 percent of Russell 1000 companies planned to increase inventory holdings, nearly double the share at the end of 2019. Source: Goldman Sachs Global Investment Research

"Pittsburgh is not radically changing. It's not going to be like Columbus or the Lehigh Valley, but there is going to be an uptick in demand for industrial space over the next few years just because of what's happening to the supply chain across the country," says Ben Atwood, marketing director and market analyst for Hardy World LLC. "The supply chain is spreading out from primary to secondary markets."

"What is interesting about Pittsburgh - and Washington and Westmoreland in particular - is that it is right on I-70. Pittsburgh is a midway point between Columbus and Harrisburg," Atwood continues. "What's interesting about that is if you look at the labor breakdown of truckers, the main shortage of drivers is long haul truckers. There are still plenty of drivers for trucks they can drive from one location to another and come home to their families. From Pittsburgh, you can get to Harrisburg or Lehigh Valley and back in a single day. That opens midway points like Pittsburgh."

Tony Rosenberger, principal at Chapman Properties, notes that the sudden and steep increase in fuel prices is also driving demand for larger facilities in smaller markets. On-highway fuel costs have gone up more than $2 per gallon since a year ago, a strong incentive for shorter trips to make those daily deliveries to our collective front porches.

"At $5.49 per gallon for diesel, you're going to see more demand moving to tertiary markets," he says.

"We are seeing requirements from all sectors. A lot of it is e-commerce related but we are also seeing requirements from technology companies for light manufacturing. It's the typical mix of users that we see in Pittsburgh but there are just more of them," observes Brandon Snyder, vice president, Pittsburgh market leader for Al. Neyer. "We're looking at very favorable vacancy and absorption rates versus what is under construction. We think there is ample demand to support what we and others are planning to build."

Despite the predictions that COVID-related supply chain disruptions would spur a wave of onshoring, few have seen indications of that in Western PA. What has occurred, however, is a significant uptick in the expansion of manufacturing and activities related to the manufacturing supply chain. Jason Rigone, executive director of the Westmoreland County Industrial Development Corporation, saw that trend expand in 2021.

"We are seeing a lot of activity from our existing industrial business community. We are seeing a lot of companies looking to invest and expand facilities," Rigone says. "There are a number of companies in Westmoreland County that are in multiple buildings and are looking to get under one roof for efficiencies and to build out space for future growth. We have a number of those projects that are in the development stage at this point. That's something that's happening county wide."

"We are seeing more activity now not just from businesses in the e-commerce industry but from manufacturers trying to increase their inventories right now. They're increasing raw materials and any product that goes into the manufacturing goods," notes Rich Gasperini, principal at Genfor Real Estate. "We're seeing an increase in their efforts to source those products and their demand for space to store it. We think this will lead to a significant increase in manufacturing expansions in 2023 and 2024."

Such a shift would be a more measured response to the current supply chain disorder. Onshoring sounds attractive to U.S. and regional leaders, but it would mean a reversal of a decades-long trend that has been driven by consumer demand for more and cheaper goods. Reversing the decades-long lean manufacturing trend of just-in-time inventory control is simpler and easier to build an infrastructure to accomplish. There is also some knee-jerk reaction to the trend.

"There is a huge amount of interest coming from Canada from companies that don't want to cross their border if COVID starts up again," reports Rosenberger. "There is a fear of getting stuck in the same situation where they could not bring things into this country or take things from this country."

Von Fisher, vice president for Ambridge Regional Center, reports an uptick in interest from onshoring manufacturers but says the bigger impact has been on his third-party logistics (3PL) business.

"We are facilitating some companies bringing plants from overseas back to the United States. In the case of one client, we are currently storing inventory in our facility while they select a site and build a plant here," Fisher says. "I'm seeing a lot of activity in the steel industry in distribution centers. We have entertained a couple of prospects, including a full 3PL facility. We're seeing more of that than in polymers, which we were anticipating for obvious reasons. In late 2019, the 3PL tenants occupied around 60,000 square feet and now we're pushing out to around 200,000 square feet."

The reference to polymers, of course, is a nod to the expectations of an increase in industrial demand from the Shell Franklin plant nearing completion in Potter Township, outside Monaca. Thus far, there has been little or none of the downstream manufacturing demand that was forecasted when Shell chose Western PA as its cracker site.

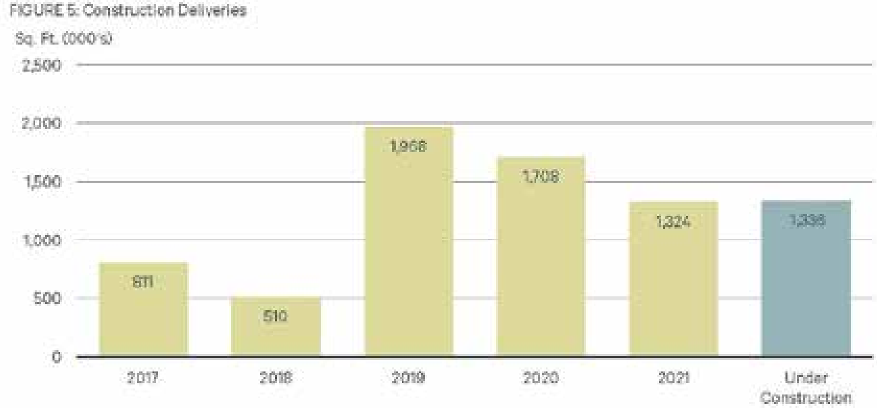
The demand that is driving leasing and development has also created a buying frenzy for industrial properties. Investor demand for industrial has created headline deals in all markets, including Pittsburgh. In mid-2021, ET Findlay LLC purchased an Amazon facility developed by Suncap Property Group in Findlay for more than $520 per square foot. In December, Suncap sold another Amazon warehouse, at 17 William Drive in Findlay, for "only" $258 per square foot. While these may have been jaw-dropping prices in Western PA, they were not beyond the pale when compared to similar deals in other markets.

Such demand has pushed cap rates below four percent for Class A industrial property at a time when interest rates have begun to rise. Institutional investors long valued industrial property for steady mid-range returns but, with today's cap rates, a 200-basis point move higher in rates could push commercial real estate yields into the

FIGURE 4: Vacancy vs. Average Asking Rents

Source: CBRE Research, Q4 2021

FIGURE 5: Construction Deliveries



Source: CBRE Research, Q4 2021

low single digits until values reset. Major institutional investors, like public employee or union pension funds, could rotate the allocation of funds to other asset classes, including outside of commercial real estate. Thus far in 2022, there are no signs of such an asset rotation.

"If anything, I am seeing an uptick in interest. That may be a change that is a trickle down that started when the tier one markets became so picked over. Pittsburgh - which is a tertiary market, as much as we want to think otherwise - is becoming more and more attractive," says John Bilyak, managing director and market leader for Colliers Pittsburgh. I'm seeing that dynamic exaggerated as cap rates continue to drop and the prediction of interest rates increasing becomes reality. We have seen an activity increase over the last three to six months from people who are interested in investing regionally."

There will be disappointment for investors expecting that warehouses now change hands for $250 per square foot in Pittsburgh, but those kinds of numbers are not necessary for successful industrial deals to close. Rents have steadily edged higher in Pittsburgh and are adequate to justify the typical $80 to $100 per square foot price tag. What should change the minds of industrial investors is a shift in the drivers of demand. It is hard to look forward, however, and see trends emerging that would send demand for industrial property backwards.

Where is Industrial Developing?

Industrial development has requirements that make it somewhat easy to figure out where the hot spots in a market should be. Depending upon the end user, industrial space needs to be near highways, airports, railroads, or rivers. An ideal site would have direct access to all four, although few markets have an airport on a river or at a port. Pittsburgh is blessed to have all four of these transportation modes, although not to the same level of abundance for all modes. It should not be surprising then that you can track the current hot spots of industrial development by following the transportation.

In Western PA, that has meant the I-79, I-70, and airport corridors. The largest projects, warehouses of 200,000 square feet or more, have been developed north of Cranberry Township and in Findlay Township. Findlay has seen the largest of these facilities developed in Clinton Commerce Park, Chapman Westport, Findlay Industrial Park, and Westport Woods. While the developers – Al. Neyer, Imperial Land Company, and Chapman Properties – have mostly completed those projects,

The Fort Cherry Development District is the largest of the new industrial parks being developed along the newly-opened Southern Beltway. Rendering by Lennon Smith Souleret Engineers, courtesy Imperial Land Company and Newmark.

Rendering courtesy TARQUINCoRE.

there has been land acquired nearby to accommodate more development. And construction is still going strong.

Lou Oliva, executive managing director for Newmark, represents Westport Ridge, a speculative industrial park being developed by NorthPoint Development. He reports that the first building has seen strong activity and that the remaining two buildings are close to starting construction.

"NorthPoint just signed its second lease. We have done a deal with an 88,000 square foot user and a 74,000 square foot user and that building just received its certificate of occupancy at the beginning of March. It was unusual to see that much activity on a building while it's under construction," Oliva says. "We are going to split the remaining 116,000 square feet in half into 58,000 square foot spaces. NorthPoint has already broken ground on the two sites across the street for 197,000 square feet and 223,000 square feet, and we already have proposals out for both of those spaces."

Snyder reports that Al. Neyer will be starting new buildings at three of the industrial parks that have buildings under construction in Findlay Township.

"We are about to start the second building in Skyview Business Park, which will be 109,000 square feet. In May we're starting the last building at Clinton Commerce Park, called Clinton 6, a 70,000 square foot building. And we'll be starting a spec building at Northfield in May, which is 175,000 square feet," Snyder says.

Chapman Properties is in the process of purchasing final properties and rearranging access and egress for a new park, tentatively called Ridge Road Business Park, near Route 576 in Findlay Township. Rosenberger cited confidentiality agreements when asked about the specific plans but allowed that Chapman was moving forward and that "we will be building somewhere between 700,000 and 10 million square feet."

Industrial development received a boost in October 2021 when the Southern Beltway opened, connecting I-79 to the Pittsburgh International Airport and the Beaver and Shenango valleys beyond that. Developers were working on major projects along the Southern Beltway ahead of the opening, and two new industrial parks have started construction. The Beltway's opening also improved the location of an existing park, Starpointe, which has seen new developer partners activate the property.

The new capacity is welcome in Washington County, according to Jeff Kotula, president of the Washington County Chamber of Commerce.

"Half of the inquiries we received in 2021 from businesses looking for locations in Washington County were for industrial space. We did not have the inventory to meet that demand," Kotula says. "We're making strides with projects like the Fort Cherry District, Brockway Commerce Center, and Starpointe."

The two new industrial parks are taking two different, but complementary approaches to the market. Chapman Properties has begun moving dirt to prepare for construction of two new buildings aimed at small growing users.

With two leases being finalized, Chapman will build and 80,000 square foot manufacturing building and an 85,000 square foot flex building with 20,000 square feet of expansion space. The new park follows the plan that Chapman has followed for its multi-tenant buildings in Leetsdale and Westport.

"We put together a plan 10 years ago for small parks with 100,000 square foot buildings that were flexible for users as small as 6,000 square feet. If a user can make 6,000 square feet work, we find that two years later they need 12,000 square feet," Rosenberger says. "This park is the culmination of 10 years of planning and revising. It wasn't that we woke up one day and decided to build 80,000 square foot buildings. It was that we realized that 80,000 square foot buildings worked best for our model."

Rosenberger notes that both companies were moving from other locations and had the opportunity to pick property in Allegheny County or Washington County, opting for the latter to take advantage of the lower taxes.

"I've been at this a long time. Sometimes it just takes time for a project to mature to the point that the market embraces it."

At the Fort Cherry exit on the Southern Beltway, Imperial Land Company has begun construction on the infrastructure for the first 100 acres of its Fort Cherry Business District. Imperial's approach at Fort Cherry will be similar to the one used to develop its Westport properties, selling land to larger users. The first phase has a 20-acre site under agreement and a letter of intent for 70 acres, according to Oliva. Another 85 acres remain in the first phase. The multi-phase development is designed to eventually be home to more than 35 industrial and office buildings totaling 4.7 million square feet.

The Southern Beltway's benefit for development at its exits is obvious, but the new highway is also an infrastructure improvement for an existing industrial park, Starpointe Business Park, that had stalled. Washington County has partnered with TARQUINCoRE to revitalize the marketing of the park, located on Route 22 in Hanover Township. While no agreements have been closed, there are four deals under contract for 55 acres that will result in more than 500,000 square feet of new construction.

TARQUINCoRE principal, Ron Tarquinio, credits his late partner, Pat Tracy, with having a strong vision for Starpointe and the county for buying into the vision.

"Pat worked on the project from the beginning. His message to Washington County Council was that it needed to sell land to developers to build spec buildings. When warehouse users come looking, they can't wait 18 or 24 months to occupy," Tarquinio says. "Pat believed

The Stacks at 3 Crossings in Pittsburgh's Strip District is the adaptive reuse of an industrial warehouse into a vibrant mixed-use, office and retail destination.

the momentum of the park would increase dramatically once the Southern Beltway was completed. To their credit, the council accepted that. Washington County Council had the vision and persistence to stick with Starpointe."

Tarquinio drew a parallel between Starpointe in 2022 and Southpointe in 1994, when the dedicated I-79 exit opened. Southpointe languished up to that point, with land selling for $25,000 per acre. Since the exit debuted, tens of millions of square feet have been developed. Tarquinio also notes that Starpointe has access to three economic generators for the future.

"Starpointe is close to the Shell petrochemical plant, the new Pittsburgh International Airport terminal, and I-79. Two of the three are not open yet," he says. "I've been at this a long time. Sometimes it just takes time for a project to mature to the point that the market embraces it."

Outside of the airport and I-79 corridors, the other corridor of industrial activity has been the I-70 corridor in Washington County and Westmoreland County. In Washington, the bulk of that development has been in the Bentleyville area, where HardyWorld built a 28,000 spec flex building, HW70, that is roughly half leased upon completion. Just to the east, Alta Vista Business Park is home to the recently completed 250,000 square foot build-to-suit facility for Komatsu, which Suncap developed. Mon Valley Alliance has been investing in several other sites, two of which have been developed as smaller spec flex properties.

Westmoreland County IDC has similarly been investing in several of its business parks throughout the county to prepare for the kinds of expansion opportunities Jason Rigone described above. The major industrial developments in Westmoreland County are occurring along I-70 and Rigone says that guides the IDC's decisions as well.

"We've invested a significant amount of resources along the Interstate 70 corridor to mirror the investment PennDOT is making to modernize that highway. The potential growth of the e-commerce business will require large sites that are ready to go and could utilize a modernized highway," Rigone says.

"We want to create opportunities for companies, whether they are developers, like Al. Neyer, or sites for owner-occupied development. We are starting to see some of the fruits of our labor there."

Al. Neyer is completing construction on the first 150,000 square foot spec warehouse in Hempfield Commerce Center and expects to break ground on a second spec building of the same size in July. In New Stanton, Suncap has been going through the entitlement process for a one million square foot distribution center, which is about to start construction. That center is reported to be another Amazon warehouse, although that has not been confirmed.

Where Else Can Industrial Develop?

In the coming years, the potential will grow for development of warehouse and fulfillment space in sites that are further from the main freight routes. As the novelty of same-day delivery of goods becomes the expectation, retailers and resellers will want to have inventory that is closer to more densely populated areas. Amazon's lease at the former Sears warehouse location in Lawrenceville is an example of this type of demand. Neither Railroad Street nor Route 28 would be considered ideal freight routes, but the location in Lawrenceville allows Amazon to reach more than 100,000 households within a five- or 10-mile drive.

There are other potential large-scale development sites in or near the City of Pittsburgh. Large sites are available in Fairywood, near the West End, and at Hazelwood Green. RIDC recently inked a deal to develop two 150,000 square foot buildings at Fairywood. Industrial development at the latter site is less likely, even though Hazelwood Green has ample land, because the master planning has made it unfeasible for some of the key requirements of industrial development, particularly the parking and access/egress.

The former Westinghouse research site in Churchill was to be the next big industrial site until a group of residents signaled the willingness to litigate the approvals granted by Churchill's council. Amazon announced it was pulling out of the deal in late March, while hinting that it was still actively considering other sites in Western PA. The scope of that Amazon facility, 3.5 million square feet on multiple levels, indicated a shift in how e-commerce logistics will develop going forward.

"What was really fascinating about the Amazon project was that it was a 3 million square foot facility, which doesn't even exist in Lehigh Valley or Harrisburg. That made me think that it wasn't serving Pittsburgh," says Ben Atwood. "It was going to be a midway stop to feed other warehouses to shore up their supply chain."

Atwood suggests that large-scale developers will also follow the improvements that PennDOT is making elsewhere, such as the large new interchange and beltway around Harrisburg, and the expansion in Westmoreland County.

Rosenberger cautions that new industrial development may have to pay more attention to locations that are accessible to workforce. While most industrial sites have great access to highways, residential density is not close to them. Workers from communities closer to Pittsburgh's center are faced with 30- or 40-mile daily commutes that erode the $20 per hour wages quickly. Absent mass transportation from Allegheny, Beaver, Lawrence, or Washington counties, employers face a tough time attracting sufficient workers. Amazon, for example, is offering transportation to both its facilities in Findlay Township, which employ nearly 1,000 workers. Workforce attraction may be easier for manufacturing-oriented projects that expand existing facilities.

"I think other parts of the market are starting to experience new construction. Ultimately there are projects that will probably arise from an increase in manufacturing," predicts Gasperini. "There aren't places with heavy concentrations of manufacturing like there used to be in the Mon Valley. As supply chains get reconfigured, manufacturers may want more warehousing near the plants, which are located in many older towns in the region."

The renewed emphasis on manufacturing comes as new technologies are beginning to ripen into physical plant sites. That trend causes anxiety in Pittsburgh about the competitiveness of the region. Concerns about lack of population growth remain in Pittsburgh, but of greater concern are the realities of doing business in Pennsylvania. Don Smith, president of RIDC, has long been a proponent of being more aggressive

Westmoreland Technology Park II, Lot 16. Photo by Westmoreland County Industrial Development Corporation.

with incentives for business and for streamlining the onerous entitlement and review process in Harrisburg. Governor Wolf, in his 2022-2023 budget, proposes to cut the corporate net income tax by roughly half. That would be a welcome first step towards leveling the playing field between Pennsylvania and its competitor states, which have seen Ohio and Michigan recently land billion-dollar-plus plants for Intel semiconductors and General Motors batteries respectively.

It is possible that Pittsburgh could not have competed seriously for the Intel project because the region lacks the 900-acre flat site that was required. But Pittsburgh Regional Alliance President Mark Anthony Thomas notes that other battery manufacturers have contacted his office about sites, including one for a fourth General Motors battery factory.

One potential set of industrial development sites that could be available in Western PA are the three decommissioned coal-fired power plants. Those plants, which include the Bruce Mansfield Plant a few miles west of the Shell polymers complex, offer industrial legacy advantages like river and rail access. Two additional plant sites, at Keystone and Conemaugh, will be available at the end of the decade.

Other potential demand drivers that could activate development outside the current interstate highway corridors are centered on the exploitation of the shale gas in Western PA. The agreement to ship liquid natural gas to Europe to replace Russian natural gas has the potential to restart upstream activity in the Appalachian region, which would spark additional processing facilities. And, of course, there is the unrealized potential from the Shell Franklin plant's going operational, which should occur in the third quarter of this year.

Renewed activity in the energy sector would benefit those sites located along the I-376 and 576 corridor. In addition to those already mentioned, Crossgates' Westgate property in Big Beaver has two pads ready for 105,000 square feet and 75,000 square feet; Castlebrook is in the process of selling its Turnpike Distribution Center II, which had prepared a site for a 400,000 square foot spec warehouse; and LaCarte Enterprises is preparing the first sites in the 200-acre Stonecrest Business Park in New Beaver, Lawrence County.

Anticipating demand for industrial space in Pittsburgh has been difficult since the heavy manufacturing based closed in the early 1980s. While some of these emerging trends seem likely to generate significant demand for industrial development, variables that are beyond regional control – like the business climate of the commonwealth or the topography – may stifle the potential for economic activity. As always, patience will be a virtue for developers.

"Demand for industrial in Pittsburgh is notoriously difficult to calculate. The pipeline is not significant enough that you can extract enough data to interpret trends," notes John Bilyak. "Activity seems to be a little slower from anecdotal evidence, but we notice temporary bumps in the road more in our market because the pipeline is not as robust. It's more difficult to interpret whether those ups and downs are meaningful." **DP**

BEST MIXED-USE

Kaufmann's Grand on Fifth

Kaufmann's Grand is a 311-unit apartment building with 90,000 square feet of retail. LubertAdler recently completed a total renovation of all 311 units as well as full rooftop of amenities including a dog park, dog wash, basketball court, pool, podcast room, communal chef's kitchen, golf simulator and much more.

DEVELOPER: Lubert Adler

CONTRACTOR: Fast Track Construction

ARCHITECT: Desmone Architects

BEST BUILD-TO-SUIT INDUSTRIAL

Clinton Commerce Center V

Clinton Commerce Center V is a Class A, 400,000 square foot, high-throughput cross dock facility situated on a 41-acre site within the Allegheny County Airport Authority's Clinton Commerce Park located in Findlay Township, just south of Pittsburgh International Airport. The building includes 32-foot Clear Height, 10,400 square feet of office space, 4,000 square feet of hazardous material storage space, and a 91,125 square feet outdoor storage pad designed to allow for future building expansion. There are 42 fully equipped docks and three drive-in doors. There are employee amenity spaces including a fully equipped kitchen/breakroom and a partially covered exterior patio/event space. The building is designed to FM Global Standards. The exterior design includes two access points to segregate traffic between cars and inbound/outbound trailers.

DEVELOPER / CONTRACTOR: Al. Neyer, LLC

ARCHITECT: Neyer Architects

Our people and partnerships make the difference.

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Photo by Massery Photography

CATALYTIC RETAIL

The Terminal

In partnership with Bentall GreenOak and with the support of the Urban Redevelopment Authority, McCaffery cut the ribbon on the redevelopment of the Strip District's historic Produce Terminal Building, now simply known as The Terminal, in 2021. The multi-phased, mixed-use redevelopment brings 160,000-square-feet of new businesses to the Strip and has catalyzed commercial and residential development throughout the immediate area. McCaffery's approach allowed for the building and architecture to remain intact and benefitted the entire Strip District neighborhood, in which the five-block long building serves as an anchor. Redeveloped to achieve LEED Silver Core and Shell certification from the U.S. Green Building Council, which was granted in March 2021.

DEVELOPER: McCaffrey Interests

CONTRACTOR: PJ Dick Inc.

ARCHITECT: Antonuvich Associates

DEVELOPER OF THE YEAR

Oxford Development Company

Overcoming the continued challenges of a still pandemic stricken 2021, Oxford Development was able to deliver and lease the only office product finished in Pittsburgh in 2021, 75 Hopper Place, Oxford also delivered AHN Wexford Hospital as owner's representative, and as co-developer, began the leasing of Helm on the Allegheny, a residential building featuring co-living and voluntarily offered affordable housing.

The NAIOP Pittsburgh - RMU Summer CRE Program

will introduce minority students to career possibilities in commercial real estate (CRE), helping to advance greater social equity while building a pipeline of talent in Pittsburgh CRE.

NAIOP Pittsburgh and **Robert Morris University** present a unique learning experience that will immerse 25 rising sophomores, rising juniors and rising seniors in the world of CRE. **Through the camp in June 2022, students will:**

- Explore a potential career path.
- Examine placemaking and the built environment.
- Begin to grow their professional networks.
- Build lasting relationships with fellow program participants.
- Students receive a free laptop.
- Small stipend upon completion of program.

ACCELERATING CHANGE IN PITTSBURGH CRE

Attracting diverse professionals to CRE enriches the talent pool with new voices and enables the industry to better represent the communities that CRE serves. By developing a camp focused on broadening students' horizons to possible CRE careers, the **NAIOP Pittsburgh - RMU Summer CRE Program** endeavors to accelerate greater representation in CRE for minority groups.

ABOUT THE PROGRAM

CRE instruction over five days will provide a balance of academic theory and practitioner instruction. The experience will end with a capstone case-study project. Planning is underway for this inaugural program as a hybrid format combining online coursework with in-person extracurricular activities as current pandemic conditions allow. There is no cost to attend.

NAIOP Pittsburgh welcomes support from corporate, civic and nonprofit organizations that share our objectives of expanding opportunity and educating the future talent of CRE.

For additional information, visit naioppittsburgh.com or contact Brandon Mendoza, NAIOP Pittsburgh, at **info@naioppittsburghc.com**.

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NAIOP PITTSBURGH HALL OF FAME

Lynn DeLorenzo

Lynn DeLorenzo is a commercial real estate specialist with over 30 years of experience in the industry. As a principal of TARQUINCoRE, Ms. DeLorenzo's focus is on adding value to all client needs through strategic analysis of real estate combined with acute market knowledge. She has an extensive background in acquisition, site selection and the acquisition and sale of land. Ms. DeLorenzo's background in creating and enhancing master-planned developments is unique to the Pittsburgh region. She is a trusted industry source, having been quoted by numerous news outlets, and was named one of the "2020 People to Know in Commercial Real Estate" by the Pittsburgh Business Times.

Originally from the greater Pittsburgh region, Lynn spent over twenty years in south Florida where she focused on large-scale land tracts, planning of business parks with both office and industrial uses and integrating apartments, office, and accessory retail into mixed-use environments. Ms. DeLorenzo returned to Pittsburgh while leading the acquisition of vacant commercial land at Parkway Center, where it was re-positioned to apartments and sold by TARQUINCoRE, LLC to a national developer in 2012, the project is known as City Vista. Since then, she has been involved in The NRP Group's joint venture with the Buncher Organization to create more than 800 units at Riverfront Landing in the Strip District, land assemblage and acquisition for Ascent430, a 319-unit Class A apartment project, multiple senior living developments, and the re-positioning and expansion of Starpointe, an industrial park in Washington County.

Ms. DeLorenzo has been active in NAIOP Pittsburgh and was chapter president in 2012. She is also a member of the ULI Pittsburgh District Council, a member of the Executive Management Committee and past chair of its Women's Leadership Initiative. Lynn is active on municipal and government agency committees in the review of zoning codes, and transportation and economic development initiatives.

MULTI-FAMILY

The District

Kaufmann's Grand is a 311-unit apartment building with 90,000 square feet of retail. LubertAdler recently completed a total renovation of all 311 units as well as full rooftop of amenities including a dog park, dog wash, basketball court, pool, podcast room, communal chef's kitchen, golf simulator and much more.

DEVELOPER / CONTRACTOR: NRP Group

ARCHITECT: BKV Group

MULTIFAMILY – RENOVATION

The Commonwealth Building

Designed by Frederick Osterling, the Commonwealth Building has been re-imagined and painstakingly restored. The iconic Fourth Avenue bank/office building, built in 1906, was converted in 2021 to 150 apartments and street-level retail. In an environment of vacant offices and aging buildings, and with a shared goal of increasing the number of living spaces in the CBD, this project is a great model for the adaptive reuse of such properties in downtown Pittsburgh.

DEVELOPER: Commonwealth Development Partners LLC

CONTRACTOR: Franjo Construction

ARCHITECT: PWWG Architecture

RENOVATION - INDUSTRIAL

RIDC Westmoreland - Intervala

Intervala is a full-service manufacturer of complex, high-performance printed circuit board assemblies, electromechanical systems, and cable and harness assemblies. Intervala has been a RIDC tenant for decades, but in the last five years has added more than 100 skilled jobs in the Pittsburgh region and currently has approximately 350 employees. In 2021, Intervala decided to make RIDC Westmoreland their new headquarters. The 125,000 square foot production space was outfitted with specialty HVAC equipment and other utilities. Intervala also built a new 35,000-square-foot high-end industrial office area featuring high ceilings with artistic exposed mechanical work, as well as restroom, breakroom, and locker facilities. There is also 60,000 square feet of adjacent storage/expansion area, giving the high-tech manufacturer plenty of room to continue growing. The RIDC Westmoreland campus, formerly a defunct Sony plant, represents a successful partnership between RIDC, Westmoreland Community Industrial Development Corporation and the Commonwealth to renovate this industrial site to provide homes for these advanced sector companies.

DEVELOPER: Regional Industrial Development Corporation • **CONTRACTOR:** Shannon Construction Co. • **ARCHITECT:** NEXT Architecture

RENOVATION – OFFICE

275 Technology Drive, Southpointe

275 Technology Drive is a two-story, 107,872 rentable square foot, Class A office located in the Southpointe Business Park in Canonsburg, PA. The building is situated atop Technology Drive, at Southpointe's highest elevation, and enjoys sweeping views of Southpointe and is easily distinguishable from I-79. The building was originally constructed as the headquarters for Ansys and was eventually sold vacant to M & J Wilkow in 2016. Some highlights of the renovation include a new roof, building mechanicals, lobby, common areas, tenant fitness center, expanded parking field, outdoor amenity area including free wi-fi, soft seating and sport court. Within 18 months, the 275 Technology team has successfully executed Southpointe's first full-scale renovation project and leased approximately 70,000 square feet to two publicly traded companies, Inovalon and CONSOL Energy. The building is now approximately 63 percent leased.

DEVELOPER: M & J Wilkow • **CONTRACTOR:** Shannon Construction • **ARCHITECT:** Strada Architectures LLC

OFFICE – SPECULATIVE

75 Hopper Place

75 Hopper Place is the tallest building in Oxford's 3 Crossings campus. The 71,000 square foot building, targeting LEED Gold certification and the WELL Health Safety Rating is GNC's new global headquarters. Featuring outdoor terraces on the top two floors, subterranean parking, and an attached park. 75 Hopper Place was able to be built and leased with minimal delays through the height of the COVID-19 pandemic and was one of few buildings delivered in 2021.

DEVELOPER: Oxford Development Co.

CONTRACTOR: Rycon Construction Co.

ARCHITECT: WTW Architects

Brockway Commerce Center

Photo courtesy Crossgates, Inc.

Vertical construction will soon begin on the speculative industrial building at the former Brockway Glass plant that Crossgates Inc. has redeveloped in Washington, PA. The commencement of construction will bring to fruition an idea that was almost a decade in the making, one that weathered a major shift in the local economy and a global pandemic to get to the finish line.

Brockway Commerce Center, which is physically located adjacent to I-70 off Chestnut Street in Canton Township, is Crossgates' second major investment in the neighborhood. The Peters Township-based developer saw the shortage of large industrial properties available in Washington County as the shale gas play was building out. Crossgates anticipated that the gas industry would find an I-70 location close to Washington, PA to be desirable. That bet paid off better than Crossgates initially expected.

"We redeveloped one of the former Jessup Steel buildings right off I-70 in 2011 and 2012. An oil and gas company bought it from us, even though that was not our intent," recalls Ryan Schwotzer, president of Crossgates, Inc.

"We liked the area from an industrial perspective and literally looked down the street and decided that Brockway should be our next project. We started to look at it in 2013 and it took us a couple of options to push forward, but in 2015 we bought the site and started the planning," Schwotzer continues. "We love the area in terms of being at the intersection of I-70 and I-79. The visibility is second to none. I-70 runs right along the end of the property. It's an attractive site to drive by. And to this day in Washington County there is a lack of industrial space for lease."

For as much industrial activity has occurred during the past few years, including in Washington County, the latter point is surprisingly true. Developers and property owners struggled to meet the demand of the companies rushing into the region during the early years of the Marcellus Shale exploration. When that industry cooled suddenly in 2014-2015, industrial development had plenty of other demand-drivers throughout Western PA. There was speculative development in the pipeline in Washington County, but none has progressed to the vertical stage yet.

"This will be the first true Class A speculative light industrial warehouse building started in Washington County in years. Most of what's been built in Washington County in recent years has been build-to-suit or owner-occupied," says Lou Oliva, executive managing director for Newmark, who is marketing the property. "If you look at what has been built throughout the region, the typical 100,000 to 200,000 square foot, rear-loaded building that can be subdivided


Rendering by Pieper O'Brien Herr Architects

for tenants doesn't exist right now. There has certainly been demand but there has not been product. This location is too good, with I-70 and I-79 access, that there has to be pent-up demand for Class A in Washington County."

The Brockway Glass site has the advantage of being a legacy industrial site, but there are also drawbacks associated with redevelopment of such a site.

"It is a designated brownfield site and we bought it as is, with over 200,000 square feet of functionally obsolete space," says Schwotzer. "The buildings had column spacings that were so tight that an occupant couldn't navigate around them. There were leases that were in place, so it gave us the opportunity to take some time and plan what we were going to do with the site. Most of the environmental conditions were not very bad. There were some soils that needed capped on the lower area near the railroad tracks. There was asbestos in the building but that was removed during demolition."

Another challenge was a result of how planning and zoning has changed in the decades since the glass plant was operating. Brockway Glass is surrounded by older residential neighborhoods in Washington and North Franklin Township. The plant used the rail spur for distribution but a multi-tenant industrial facility, with such immediate access to an interstate highway, requires ground transportation infrastructure that was not present at the Brockway site.

"The biggest challenge of the property was the access to it. This is an old glass plant that requires trucks to go up on a residential road to access the back of the property. It wasn't conducive to modern-day tractor trailers to circulate through the property," Schwotzer says. "We had to create access straight into this property to accommodate today's vehicular traffic. We worked together with the redevelopment authority to plan the access and with PennDOT to make that drive suitable to its standards for a highway occupancy permit. We owned a few lots that were underneath I-70 and we had to buy a couple to create a wider road. The new road is built to township and PennDOT standards. We also erected barriers where there were pylons on I-70 to provide extra safety."

As it was working with its design team - including Sheffler, Gateway Engineers, and Pieper O'Brien Herr Architects – Crossgates also worked with several public agencies as partners to bring the former mill site back to a marketable condition. Washington County and the Washington County Redevelopment Authority helped steer the project to sources of assistance. Brockway Commerce Center received Redevelopment Capital Assistance Program and Business in Our Sites grants to help with the development of the site. The county viewed the project as a high priority.

"The redevelopment of the Brockway Glass site is important for several reasons. First, the site, which is highly visible from Interstate 70, sat vacant and deteriorating for decades. As you can imagine, this was not the first impression Washington County wanted to display to the thousands of travelers passing the site each day. The fact that it is now cleared provides a welcoming image for future development," says Jeff Kotula, President, Washington County Chamber of Commerce. "Secondly, our county lacks new and modern flex/light industrial space and we are losing opportunities for business locations. Last year alone, over half the inquiries for new business locations in our county were for flex/


Rendering by Pieper O'Brien Herr Architects

light industrial for which we currently do not have sufficient inventory. This site will certainly add to our real estate stock and competitiveness."

Crossgates is redeveloping the site as a speculative industrial property, but during the planning there were several opportunities in the market, requirements that could have absorbed the entire site. Those opportunities slowed the development process, which had picked up when demolition of the plant occurred in 2019.

"There were some opportunities that came across our desk that had different size alternates, which could have been built-to-suit opportunities," recalls Schwotzer. "That caused us to pump the brakes a bit during the site work to see if we could good secure or accommodate some end users. COVID also derailed progress and gave us more time to think about the end uses we would redevelop."

Demolition and site preparation continued through the 2020 pandemic year. While the site can accommodate a building up to around 190,000, Crossgates chose to build a 165,000 square foot building and leave room for expansion. The developer is planning for flexibility, which the industrial market is demanding.

"We're keeping the end use flexible. We are set up to take on any industrial user, whether that is manufacturing, distribution, e-commerce, third-party logistics, or any of the above. We're keeping the options open," Schwotzer says.

In addition to the proximity to interstate highways, Brockway Commerce Center has on-site rail access that augments the flexibility of the property. A spur operated by Allegheny Valley Railroad-Carload Express runs daily and connects to Norfolk Southern.

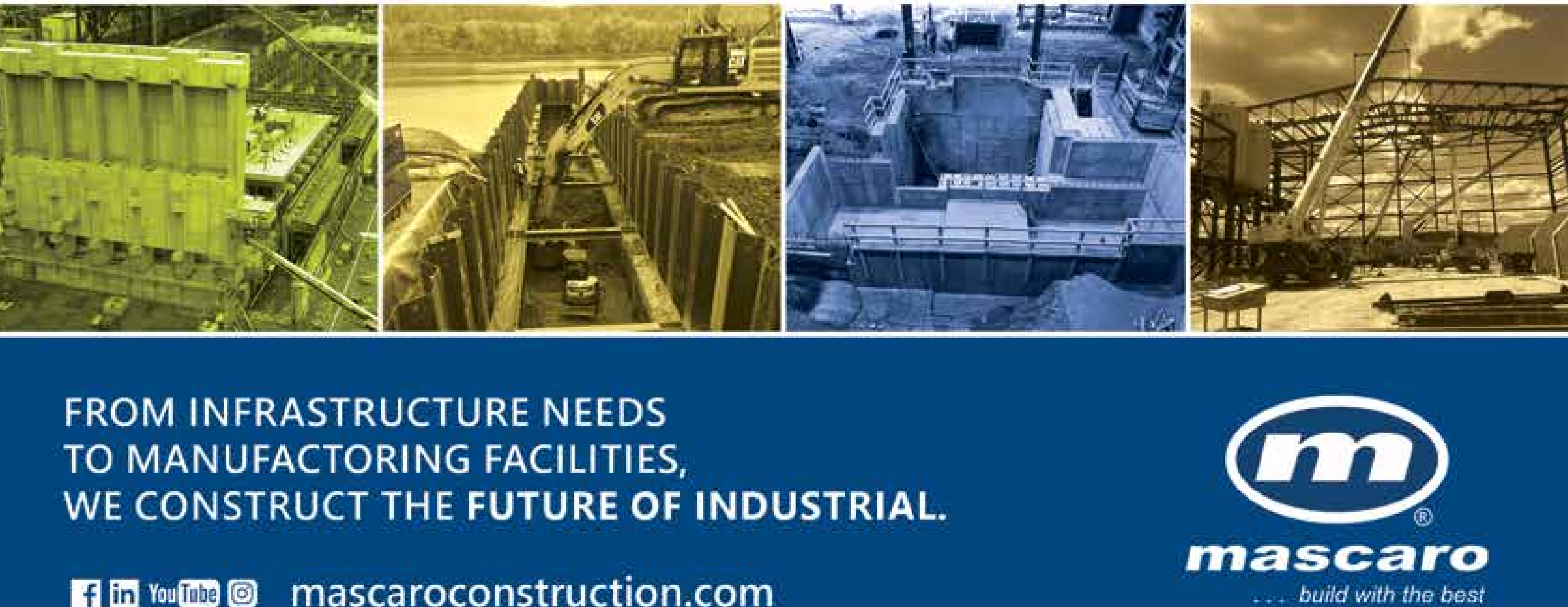
The completed property design takes advantage of its location and industrial past. The tall brick chimney, which sits at the southwest corner of the property, is being preserved as an historical marker. The building exterior will be architecturally lit so that it will be more visible from the interstate highway at night.

Schwotzer explains that the building will be delivered as a design-build project. Final negotiations are being completed with the general contractor, with work to get underway by May. He expects that getting a project delivered by early 2023 can be an advantage in a market plagued by supply chain issues. His broker agrees.

"The site work has been done. Crossgates, to their credit, got the building priced and is ready to get started on the project," Oliva says. "Nothing draws activity like steel going up. It's a challenge to market a building if you can't be definitive about a completion date. We're excited about it. We think the time is right for Crossgates to get started, especially with that visibility."

"We are confident in the success of this site due to the work between the developer Crossgates, Inc. and our economic development organizations. The redevelopment of this site is in the tradition of the public/private partnerships Washington County is known for and achieves," Kotula says.

"We know there is interest in this kind of industrial space in Washington County," Schwotzer concludes. "It has been a long process and we are anxious to bring the project to the market." **DP**



The Opportunistic and The Outmoded: How Technology Will Impact Property Owners Who Stick with Outdated Ways

BY SHANE ZYSK

Mixed reality is merging with robotic instrument layout for immersive, precision construction capabilities that streamline workflows, improve collaboration and provide for unparalleled accuracy. Image courtesy BuildingPoint Ohio Valley.

Property owners are principally investors, in more ways than one. They invest their money, of course, but also their time, liabilities, lifestyle and even reputation. It seems strange, then, that property owners would be hesitant about the idea of investing in technology. While, on the surface it can be said that a building is just a building, property owners know there's a heck of a lot more than that going on.

Much akin to having a pet, a property has similar needs to a living, breathing organism. Such assets require upkeep and nurturing to ensure they remain at their best, with a cascade of consequences if such responsibilities are neglected. Yet, while this is indeed a timeless notion, the intricacies of property ownership have changed greatly. The very facets of a structure have changed, due to technology, over time, from HVAC and plumbing systems to electrical components, codes, and standards. Rather than try to fruitlessly keep up with these changes in traditional ways that go back to the turn of the last century, property owners today have the potential opportunity to meet and exceed previous efficiency. Through modern technology, the design, construction, and operational phases of property ownership are poised to change forever, putting adopters on the fast-track to future success, and relegating the holdouts to the pages of history.

The first aspect of ownership that technology improves upon relates directly to a property's design. Whether building new or upgrading an existing structure, owners can utilize solutions in place now that take the effectiveness of design to a whole new level. Precision 3D scanners capture existing conditions in minute detail and can thus comprehensively translate the physical world into the realm of the digital. From this bridge, the power of digital technology can then be leveraged. Far from the capabilities of simple AutoCAD, Building Information Modeling (BIM) in use today allows for the creation of intelligent simulations. Complete, Virtual Design Construction (VDC) can be run to shed light on previously difficult-to-predict components such as material, quantity and scheduling costs and requirements. They allow for early clash-detection and workarounds to be explored without disturbing a single blade of grass. Tie-in technology in the form of mixed reality can then provide "walkthroughs" of projects, overlaying the 3D models directly at the jobsite in real-time for added clarity for all stakeholders. Such information allows for a huge reduction in waste while simultaneously optimizing the sparce resources available for these projects, keeping a tighter control on budget. Property owners can even enhance the appeal of their assets and adhere to new standards by designing and renovating in line with current green building initiatives.

Once construction is underway, modern solutions ensure work is carried out exactly according to the plans, at a level previously unattained. The robotic layout instruments in use today reduce human error whilst achieving unparalleled accuracy, operating directly based on the intuitive BIM models developed in the previous design stage. A fleet of uniformly manufactured instruments can run off the same models, at the same time, tying together the independent work of different field crews and providing synchronous communication between those on the jobsite and those in the office. Daily reports on progress, clashes and potential deviations ensure all stakeholders are well-informed of the project.

Furthermore, guided, automated workflows, with built-in checks and procedures, free up the number of workers necessary to complete each task, making the most out of a limited workforce. With more and more construction companies employing the benefits of modern technology, property owners who are open to such solutions open themselves up to a wider, more diverse workforce, more options, and more competitive bids. Moreover still, the evolving standards and requirements of many municipalities, safety groups, construction and engineering firms are set to make the existence of intelligent models in future property projects a mandatory element.

At the heart of this shift in attitude towards BIM, from being a fancy feature of future buildings toward an absolute requirement, is a maturation of the technology and real-world understanding of its benefits. Past projects at home and abroad have resulted in tangible savings in money and resources, while providing crucial data of an importance that cannot be understated. Efficient designs of plumbing, HVAC and electrical systems have saved extraordinary amounts of money in operational costs, but it goes much beyond this.

Modern BIM models give property owners extensive insight into their assets at incredible levels of detail. For instance, if a component were to break in a plumbing or HVAC system, access to the building's BIM model could give those in charge the exact specs and even potentially manufacturer of the parts in need of replacement. Knowing the exact makeup of a property's parts allows owners to track and schedule necessary upkeep, making maintenance less painful and more routine than ever. This also improves safety, something that all property owners must contend with. From identifying potential hazards ahead of time, to ensuring compliance with regulations, and even planning optimal emergency escape routes, having an exact "digital twin" of a building provides owners with the ability to understand the inner workings of their property with an exactness previously unheard of. Regardless of what future situations may arise, the ability to simulate and test virtually, explore without ripping out drywall, and both repair and maintain without wasting limited resources is a game-changer for those in charge of facilities.

Property owners maximize their return on investment in facilities when they support them with technology, as well as the modern mindset that goes with it. What used to be viewed as an unwarranted expenditure is quickly becoming a necessity for success. Simply put, a modern, energy-efficient, and sustained building, whether newly designed or renovated, is more attractive to tenants. Likewise, safety concerns of both tenants, municipalities and other stakeholders are more readily met through such methods.

Increasingly, new projects are requiring the use of intelligent BIM models upon completion to even be given the green light to move forward. Even existing structures are likely to be subject to mandatory 3D scans to transfer them into the digital world, due to the array of benefits with regard to efficiency and safety that arise from having a digital twin or copy. With universities now offering the first BIM programs and degrees, as well as the United States pursuing the creation of a National BIM Standard, the plain truth is that this wave of technology will be fully integrated into the design, construction, and property management processes sooner than later. Technology has matured until it has produced a paradigm shift in the way all aspects of a building's lifecycle are handled, from design and renovation, to construction, to operation and maintenance. Indeed, talk of future "smart cities," ought to be taken as more than just science fiction these days. The goal of someday achieving an interconnected web of dynamic, BIM-backed buildings is the future goal of all municipalities, and this will force all property owners to adapt if they are to survive. Competitively, those who adapt to the use of technology sooner rather than later will find a wider range of options in terms of what they can build, who they can hire, what tenants they can attract and resources they can save.

Whether through the pressures of an evolving market or eventual regulations, the design, construction, and operational phases of property ownership aren't simply poised to change; they already have. It's up to opportunistic, progressive owners to invest in their own future success now or be left behind as outmoded ways of developing and managing properties slowly erode their prospects **DP**

Shane Zysk is marketing coordinator for BuildingPoint Ohio Valley and Precision Laser & Instrument, Inc. He can be reached at 724-266-1600 x138 or smz@laserinst.com.

The U.S. economy, aided by COVID-19 vaccines and government stimulus, is running hot, creating demand for services that far exceeds the ability to meet it. At its March Federal Open Markets Committee meeting, the Federal Reserve Bank took action to raise its overnight borrowing rate by 25 basis points. That action was the first tangible response to the ongoing higher levels of inflation that have grown to become the top economic concern facing the U.S.

In raising rates earlier than expected, the Fed signaled that its level of concern had become elevated compared to 90 days earlier. Fed Chair Jerome Powell acknowledged that inflation had gone too high and that bumping rates higher risked cooling off the economy. Powell also reiterated the position that higher prices were not likely to remain once supply caught up to demand (although he discontinued use of the word "transitory").

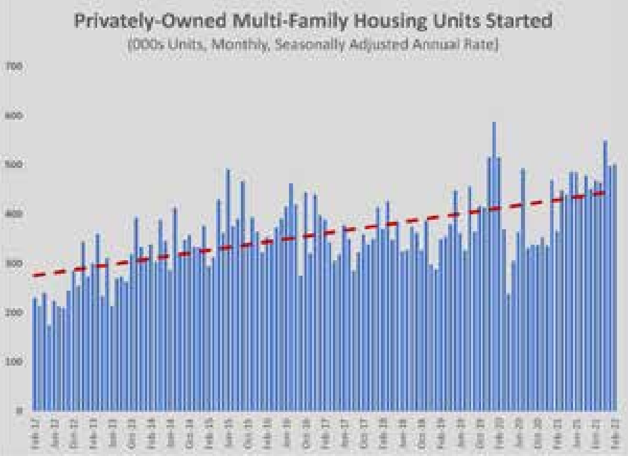
Cushman & Wakefield, in its March 21 weekly digest, argued that current unexpected inflationary conditions are still largely owed to the unusually strong economic recovery and the unusually weak response from the supply chain. Noting that 64 percent of the increases in the 7.91 percent year-over-year consumer price index growth in February 2022 was due to energy prices, supply chains, and slow re-opening, Cushman & Wakefield compared the current economy to the recovery from the global financial crisis (GFC) a decade earlier:

The post-GFC expansionary cycle was characterized by financial havoc and contagion, tight credit conditions, deleveraging, and sluggish growth, all of which resulted in below target inflation.

The current inflationary cycle is also fundamentally different from that of the 1970s, which draws fearful comparisons. The globalization of the economy is greatly discounted in discussions of inflation in 2022. Since the U.S. economy became linked to the rest of the world, the expanded potential of the global supply chain met increases in demand much better than the nationalized economy of 50 years ago.

In 1974, when OPEC cut production for example, there were few other sources of oil to tap. That is not the case today. Even in an energy market rocked by the Russian invasion of Ukraine, the long-term dynamics are mostly unchanged. Russian oil and gas make up roughly three percent of U.S. energy imports and the U.S. is still a net exporter of energy. The oil and gas imported into the U.S. offsets domestic production that is sold at higher prices as exports. Oil and gas production is off significantly since the shale exploration created a glut of the commodities in the late 2010s. The capacity to ramp up production exists, even if the will to do so does not.

The 3-year/10-year yield curve has flattened significantly since winter 2021 but remains positive. Source: Federal Reserve Bank of St. Louis.

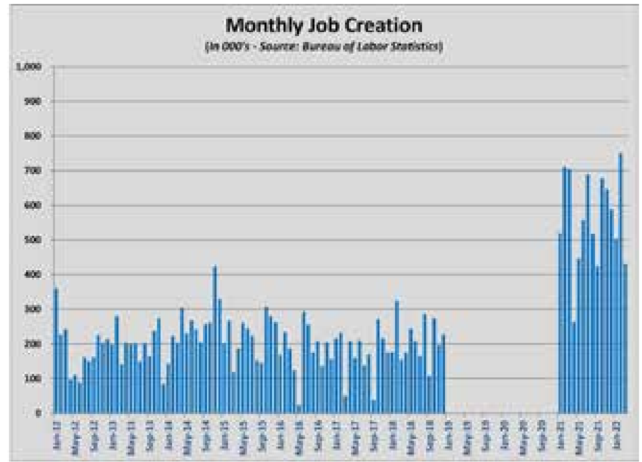


Multi-family construction starts continue to trend upward since the recovery from the Great Recession. Source: Census Bureau.

Wells Fargo Securities estimates that the price of gasoline consumed 2.3 percent of the average household income in March 2022. That compares to 3.5 percent of income in 2008, when oil prices topped $140 per barrel, and four percent during the Great Recession that followed. If pay increases remain modest, however, further increases at the pump could see gasoline erode four percent of household incomes later in 2022. With the downstream impact of higher transportation costs that result from high gas prices, an extended period of time with elevated fuel prices will likely slow U.S. consumer spending enough to erode gross domestic product (GDP) growth by a percentage point or more. Higher gas prices will have a greater impact on lower-income families and in rural areas, where the mass transportation is unavailable.

From March 2020 through the present day, the pandemic has disrupted the capacity of the global supply chain to meet even suppressed demand, let alone the demand in the U.S. that was ignited once vaccines became readily available in spring 2021.

Looking forward, these supply chains will again regain capacity. Supply channels disrupted by the Ukraine war will be replaced or restored, should the conflict end soon. Demand driven by fiscal stimulus has already begun to ebb. And the gradual normalization of interest rates by the Federal Reserve Bank has begun. If



Gains in employment since January 2021 have far outpaced the monthly job growth of the 2012-2018 recovery. Source: Census Bureau.

history is a guide, the economy will continue to grow even as the Fed raises rates. History also shows that the Fed will continue to raise rates until the economy slows to recession. That outcome, while just as likely in this business cycle, is unlikely to come to fruition in 2022 or 2023. By the same token, inflation growth is unlikely to fall to pre-pandemic levels until late 2023. At the end of the first quarter of 2022, the Blue Chip Forecast for inflation was 2.8 percent for 2022 and 2.3 percent for 2023.

For commercial real estate, periods of higher inflation represent challenges for development and construction; however, those inflationary periods also present opportunities for rent growth and appreciation that matches inflation. Those growth opportunities are already present in the housing market.

The Census Bureau reported on March 17 that housing starts leaped to a 15-year high in February, up 6.8 percent from January to 1.769 million units. That marked the third month in four with starts above 1.7 million. February also saw more than 1.5 million units completed, a cyclical high, and 1.58 million units under construction. Those figures suggest that housing construction will remain above the 1.5-million-unit level throughout most of 2022. There were 501,000 multi-family units started in February, well above the 12- and 24-month averages. Permits for new homes fell 1.9 percent, mostly owing to a fallback of 4.4 percent in multi-family.

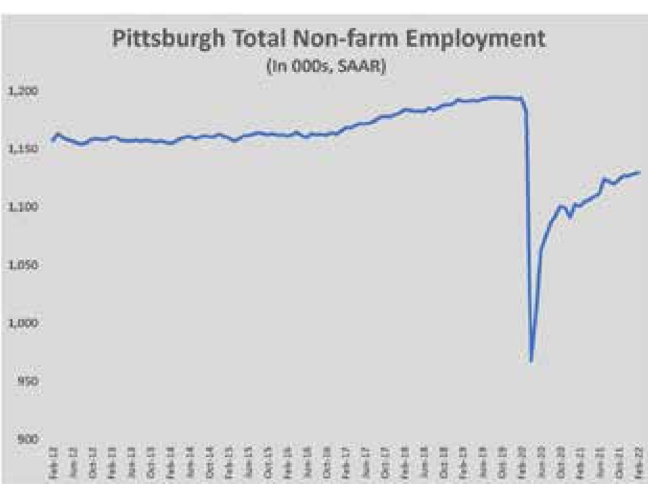
The data continues a pattern that has emerged in the past year of permits and starts rising and falling counter to each other from month-to-month. While permits are a good indicator of start activity in the coming month or two, it is clear from the driving factors in the marketplace – unexpected delays and inflation – that activity will be erratic but will reflect the trend over a longer period of time. Housing starts have trended steadily higher since the recovery in mid-2020. The continued strength of both single- and multi-family markets reflects the imbalance of supply and demand.

In spite of the high levels of new construction, multi-family occupancy was just under 95 percent in February 2022, according to both Apartment List and the Census Bureau. Moreover, only one-third of the vacant apartments were available to rent in March, with the remaining being renovated or held in reserve.

Not surprising, rents were up a robust 17.3 percent year-over-year nationally, and 9.9 percent in Pittsburgh. The supply pressures on home ownership, including higher mortgage rates, were keeping demand for multi-family high. Rent growth is likely to slow by year's end but will be sufficient to offset any value erosion that might result from aggressive interest rate increases.

The labor market continues to defy explanation by economists. The April 1 Employment Situation Summary did not alter the long-term trend of monthly gains above 500,000 jobs, with 431,000 jobs added and the January and February totals revised upward by 95,000. ADP's March National Employment Report showed employers adding 455,000 jobs to private payrolls. The unemployment rate fell to 3.6 percent in March. More than 11 million job openings remained unfilled at the end of March and more than four million workers quit their jobs. Layoffs and discharges from employment fell to 900,000. Fewer than 185,000 filed initial unemployment claims weekly at the end of March, a level unseen since 1969.

For all that surprisingly strong data describing a tight labor market, workforce participation remains well below pre-pandemic levels. The civilian labor force participation rate was more than one point lower in March, at 62.4 percent, than just ahead of the pandemic two years earlier. It may be that more time needs to pass to sort out the cause of the labor force gap, but the evidence is growing stronger that the shortfall is demographic, rather than a product of the pandemic. The demographic case was strengthened in March by the fact that participation among prime working age persons (25-to-54 years old) rose to 82.7 percent, just 40 basis points below the February 2020 high point. If the surge of Baby Boomer retirements is the cause of the hole in the workforce, it will be more difficult to forecast growth in 2023 and beyond.



Total non-farm employment in February remained 5.4 percent below the November 2019 peak of 1.194 million in metropolitan Pittsburgh. Source: Bureau of Labor Statistics.

A gap of five million workers between the jobs open and the people looking for work has several potential outcomes. On the downside is the drag on growth. Businesses with the opportunity to grow to meet demand will struggle to have the capacity to do so. Investment in business will slow in that scenario, which will have downstream negative impacts on investors and savers. On the other hand, a persistent workforce gap will spur innovation that boosts productivity. It will also likely slow inflation, at least until productivity catches up. And, in the short term, that five million worker gap is something of a buffer against an economic slowdown or recession that could be sparked by an overly aggressive Fed.

Economic conditions at the end of the first quarter were considerably riskier than at any time since the pandemic began. Inflation has begun squeezing household finances. A secular shift in influence from employer to worker may be underway, with a host of uncertainty about the future associated with that trend. Interest rates have begun to rise, giving way to the concern that the fluctuating yield curve is signaling a coming recession. As has happened in the past, the hawkish shift in Fed policy in March sent the front end of the yield curve racing higher. That led to an inversion of the relationship between the 3-year and 10-year Treasury bonds on March 15; however, an inversion needs to last more than a few weeks or so to accurately signal the intentions of the bond market. PNC senior vice president and senior economic advisor, Stu Hoffman, pointed out that the buyers of debt faced uncertainty about near term inflation, while buyers of longer-term bonds remain more confident about inflation returning to sustainable levels by 2024.

Bond investors are not soothsayers. But they have a strong incentive to err on the side of caution when placing their bets. While a recession may yet occur because of the current tumult in the marketplace, the yield curve is not necessarily sending that signal now.

The scenario that is more likely to produce a recession, or at least a mild correction to economic growth, is one where regular Fed rate hikes produce long-term interest rates that cool off the housing market and nonresidential construction. With consumers already trimming spending due to inflation, and the COVID-19 stimulus measures fading further in the rear view mirror, the chances that the Fed overreacts to the downside increase significantly.

A case could be made that a mild correction would benefit the U.S. economy in the long haul. The current overheated economy is a product of a surge in demand that followed a shutdown of economic activity, neither of which were the result of natural business cycle activity. It's clear that the re-start of the economy has created problems that the pandemic did not. History suggests that it will be difficult for the Federal Reserve Bank to maintain growth while choking off inflation. With the economy well past full employment, at least statistically, those 11 million unfilled positions are something of a safety net. **DP**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BOROUGH OF FOREST HILLS

During the last half of 2021 the Pittsburgh office market showed signs of improvement and resiliency from the stagnation that gripped the market for the prior five quarters since the onset of COVID-19 in March 2020. Mitigating factors such as spiking inflation, labor shortages, and supply chain disruptions followed and continue to weigh heavily on the market. 2021 seemed to start out as "more of the same" with concern and uncertainty across most sectors of the national and local economies. As the year progressed many Pittsburgh based companies continued to struggle and be frustrated by their inability to implement definitive plans for employees to either "work-from-home" or "return-to-work". While that push and pull continues, it is clear that the compromise solution or, "hybrid" model that includes alternating workdays or hours for specified employees was tested and proved to be successful for many employers. This hybrid model gained some traction with more companies across the Pittsburgh market which contributed to the increase of office usage and leasing activity by year end. While the average annual rate of activity for office leasing dropped 47.5 percent across the Pittsburgh market in 2021 as compared to the prior 20-year average, there were several noteworthy leasing transactions that were positive for the Pittsburgh market. We saw GNC (+/-75,000 square feet) and Allegheny Technologies (+/-19,000 square feet) make long-term leasing commitments to keep their respective corporate headquarters in Pittsburgh with upcoming relocations to office buildings in the Strip District. First National Bank announced its long-term lease for +/-160,000 square feet of headquarter space in the Pittsburgh Penguins mixed-use development under construction in "Uptown" and Duolingo signed a 13 plus-year lease for +/-38,000 square feet at Liberty East in the East End, a new +/-250,000 square foot office building that will be completed this fall.

Within the existing stock of office inventory, Consol Energy (+/-30,000 square feet) relocated its corporate office headquarters in Southpointe, Venture Engineering (+/-25,000 square feet) and ConnectWise (+/-25,000 square feet) established their new offices in Cranberry, Civil & Environmental Consultants relocated to +/-120,000 square feet along the Parkway West and Duane Morris (+/-20,000 square feet) announced its relocation within the Pittsburgh CBD to 625 Liberty Center.

Despite the many challenges posed by the pandemic and the prevailing micro-economic restrictions, the Pittsburgh office market performed reasonably well under these circumstances and there is great optimism that this "recovery" will gain momentum as 2022 progresses.

PANDEMIC RECOVERY MEASURES

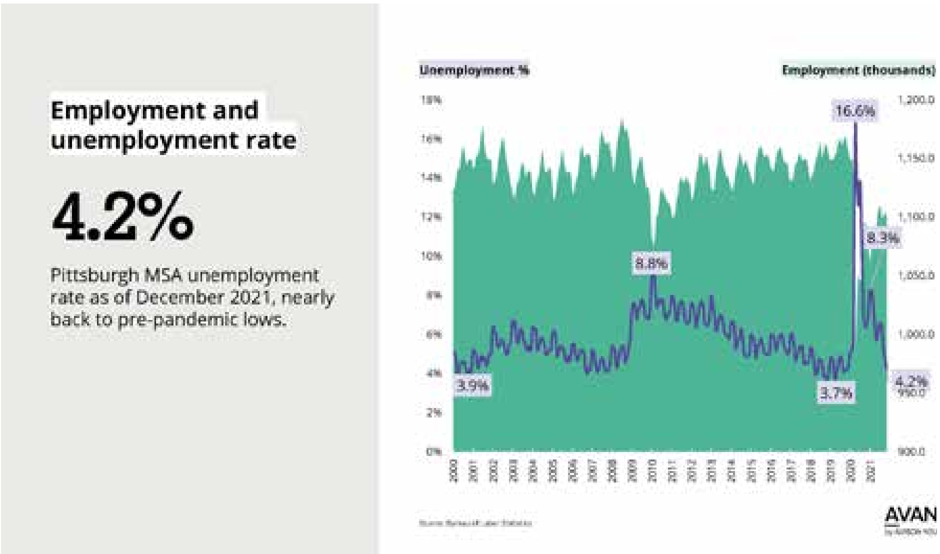
- The Pittsburgh metropolitan area vaccination rate at 66 percent surpassed the national average of 61.8 percent by a meaningful margin.
- This important metric is serving to diminish COVID anxiety amongst the general population and even more so among traditional office workers in Pittsburgh.

ECONOMIC RECOVERY MEASURES

- Despite the effects of the pandemic still looming, Pittsburgh MSA unemployment figures continued at year-end to trend down near pre-pandemic lows, to 4.2 percent.
- This rate is down from a historic height of 16.6 percent as the pandemic first hit in March 2020, showcasing just how the Pittsburgh market has rebounded in terms of the unemployment rate.
- Total employment in the Pittsburgh MSA, however, is still about 50,000 workers below the 2020 highest level. This deficit should narrow as COVID fears diminish further in 2022.

CBD/URBAN OFFICE SUBMARKET

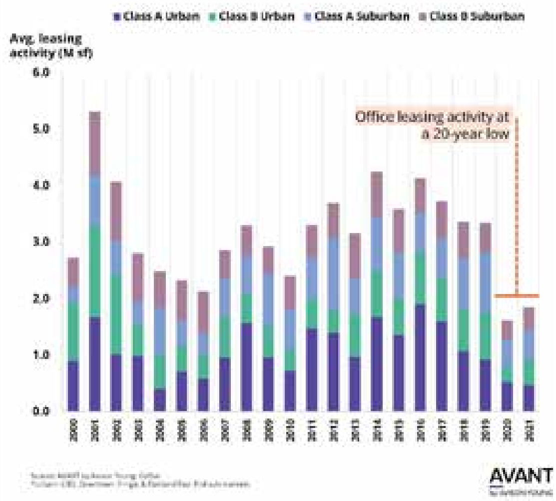
The year-end vacancy rate for the combined Class A CBD, Downtown Fringe, Oakland, and East End submarkets was 21 percent, which is an increase of 5.4 percent as compared to the close of 2019. The Class A average annual rental rate on a full-service gross basis was $30.45 per square foot, while the Class B space averaged $22.57 per square foot. Both rates represent a decrease from the year-end 2019 (pre-pandemic) measures.



Office leasing activity

-47.5%

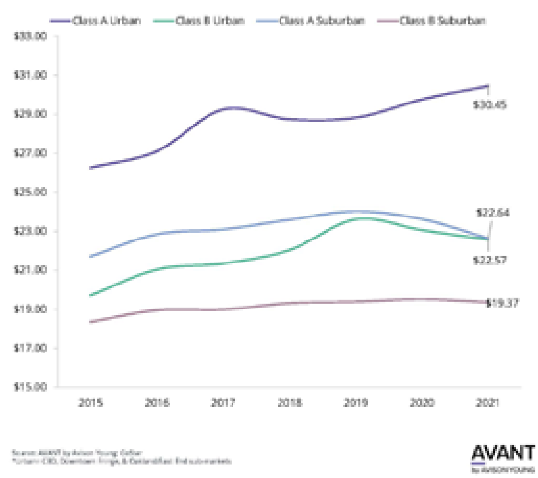
2020-2021 vs. prior 20-year annual average leasing activity.



Office Gross Rent Rate

$25.18/psf

The Pittsburgh overall rental rate remains largely at pre-pandemic levels.



The Class A new construction pipeline in this classification is primarily comprised of five office projects underway that are in excess of 1,350,000 square feet, with the Strip District claiming two new developments underway and the CBD, Oakland and East End each claiming one new project in excess of 250,000 square feet.

The sublease inventory for Class A space, especially in the CBD, has grown steadily and there are several large blocks of space consisting of 50,000-plus square feet that will continue to suppress rental rate growth through 2022 and well into 2023.

SUBURBAN OFFICE SUBMARKET

We anticipate 2022 to be the rebound year, after vacancy in the Class A suburban markets jumped to 24.8 percent in 2021 from the mid-teens in 2019. We believe the suburban market will have a strong performance in 2022. While activity has decreased across the entire market, the brunt of the slowdown appears to have occurred in the suburbs with a record low number of transactions completed over the last 7 quarters. Class B suburban office space fared slightly better with a modest increase of 2.2 percent in vacancy since 2019. Cranberry and Southpointe have been hit especially hard, however the light appears to be at the end of the tunnel.

The suburban markets are in a very opportune position as the market rebounds, with free parking, large blocks of contiguous space, plentiful amenities, and willing landlords. We expect to see a significant surge in activity over the next 12 months. Class A suburban office rates have declined from $23.62/square foot to $22.64/square foot since the beginning of the pandemic. Class B rates have stayed relatively flat and averaged $19.13/square foot since 2015. The average class B rate for 2021 was $19.37/square foot. We expect big things from the suburbs in 2022 as abundant leasing opportunities will satisfy square foot pent-up demand from tenants.

CLOSING

The regeneration of Pittsburgh may just be getting started; the optimism is overflowing; the city built on loyalty and resilience will once again be a model for the country. The stability in our region has mainly relied on manufacturing and financial services, then we added medical and education pillars to the structure. We continue to see extensive investment in the robotics, artificial intelligence, and the wider technology sectors. The growth potential for these industries in Pittsburgh is phenomenal. Pittsburgh as a region has always rebounded and proved to be resilient through thoughtful, innovative, and coordinated initiatives. These positive trends will continue to emerge and the future for Pittsburgh real estate is very promising. **DP**

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Global Inflation and Additional Supply Chain Disruptions

Despite the ongoing conflict in Ukraine and its potential to further impact inflation, the Pittsburgh region showed signs of a return to pre-pandemic levels in the first quarter 2022. According to the Federal Reserve of St. Louis, Pittsburgh's unemployment dropped 2.7 percentage points year-over-year to 4.9 percent at the close of February. Employment growth in construction, leisure and hospitality signaled a restart on development projects and an increase in travel and tourism within the market. As the U.S. weighs its options for energy independence in the wake of global sanctions on Russia, the region's abundant natural gas industry has seen a resurgence in activity. Rig counts throughout the Commonwealth are increasing, and Europe's move away from Russian oil could present new opportunities. However, higher energy prices likely will lead consumers to economize their spending in other areas, and a push toward renewable energy may hinder long-term investment in pipeline infrastructure.

With an inventory of just under 190 million square feet, Pittsburgh's industrial market continues to drive the commercial activity in the region. Overall vacancy across all asset types dropped slightly year-over-year from 6.9 percent in Q1 2021 to 6.1 percent at the close of Q1 2022. Leasing activity during the same period was equal to about 40 percent of the total leasing in 2021, topping 1.2 million square feet, with warehouse/distribution leading the market at just under 700,000 square feet during the quarter. This jumpstart to 2022 follows over 3.0 million square feet in new leasing and over 800,000 square feet of industrial renewals in 2021.

Warehouse/Distribution Sector Continues to Drive Leasing Activity and New Development

Pittsburgh's industrial market already was very strong pre-pandemic, and the global demand for warehouse/distribution space in particular has driven average asking rents up more than $1 per square foot across the region. Overall vacancy is hovering right around 6 percent, which is tied to the amount of new speculative development in the Parkway West/Airport Corridor, specifically.

Pittsburgh's appeal for regional distribution and last-mile operations grew steadily in 2021, a trend confirmed with Amazon's new lease for 280,000 square feet at SunCap's Westport Woods project in Imperial, and OshKosh Nogin's 254,810 square-foot lease at 2250 Roswell Drive both in the Parkway West submarket. Amazon also added a facility in the eastern portion of the region with a new 150,000 square-foot lease at One Excel Drive in Westmoreland County.

The Pittsburgh warehouse/distribution sector consists of just over 101 million square feet (msf) of rentable building area. At the close of the first quarter, approximately 5.7 million square feet of warehouse space was vacant and available. Though first quarter 2022 leasing activity for the sector was down nearly 50 percent from the same period one year ago, the sector ended the quarter with positive net absorption of 336,836 square feet and an average asking rental rate of $6.24/NNN – down 352 basis points from the same period 2021.

New industrial construction starts from 2019 to 2021 increased 333 percent with a considerable chunk of new projects focused on warehouses with much higher ceiling clearance than any of the existing inventory in the market. For the first time, Pittsburgh is seeing new construction offering heights in excess of 30 feet which is a game-changer for the market. Higher ceilings allow major distributors to lease less space and improve efficiency in their operations thus reducing overall cost. Offering product with these ceiling heights will add Pittsburgh to the list of potential sites for multi-market tenants seeking expansion opportunities.

NorthPointe, arguably the largest industrial developer of the past five years, entered the market in 2021 with its purchase of a 26-acre site at Imperial Land Corp.'s Westport Ridge in Findlay Township. The first project, a new 276,700 square-foot speculative industrial building, was the only new delivery to the market in Q1 2022. Home Depot has leased 86,000 square feet at the building, leaving approximately 116,000 square feet in the facility's east end available to new tenants. The developer closed on two additional parcels in August 2021 – 260 and 270 Solar Drive. The second parcel is scheduled to support a 223,700 square-foot spec building to be finished in early 2022 with a third building to follow. These buildings will be the first in the Pittsburgh market with 36-foot-high ceilings.

Over 1.0 million square feet of speculative warehouse space was under construction at the close of Q1 2022, all of which is expected to deliver to the market by the end of 2023. Approximately 90,000 square feet of it is pre-leased.

Region Secures its Status as Latest Hub for Robotics and AI

Pittsburgh has emerged from its history as a heavy industrial town to one that has transformed into a globally recognized hub for technology, education and medical research and treatment. The region's solid foundation in these sectors has provided sustainable stability for the market, and developers and investors have taken notice.

Home to top-tier institutions of higher education, the Pittsburgh region is rich with work-ready graduates eager to join the ranks of myriad companies established and growing here. The collaboration between universities and industry has perpetuated significant growth in the autonomous systems sector over the past decade. Currently, Pittsburgh is home to more than 100 existing robotics companies spanning 18 industry verticals. Investments in regional robotics over the past decade have exceeded $3.3 billion, and industrial developers have taken note. New construction projects in the high-tech sector exceeded 100,000 square feet in Q1 2022, marking a shift in speculative development to offer move-in ready options for this growing business sector.

The recent completion of the 20-megawatt microgrid at Pittsburgh International Airport has spurred new opportunities in the Parkway West for the growing additive manufacturing/3D printing industry. Neighborhood 91 @ The Pittsburgh Airport Innovation Campus in Clinton is an additive manufacturing hub that condenses and connects all components of the AM/3D printing supply chain into one production ecosystem. Current tenants include Wabtec, Cumberland Additive and Arencibia. With the Airport needing only 14 of the total megawatts to operate, plenty of power is available to prospects looking to join the neighborhood, and opportunities to do so are forthcoming. The World Trade Center, adjacent to the current landside terminal, consists of 195 developable acres approved for office, hotel, R&D and corporate hangars. Upon the completion of the new $1.4 billion airport terminal, new sites ranging from 5 to 50 acres will be available.

Outlook

Pittsburgh's thriving technology sector, which helped to lessen the pandemic's blow, should continue to expand within the region to include new product – and tenants – from robotics to life sciences over the next 12 months. Leasing activity will surpass 2021 totals and rents will continue at a slow but steady pace throughout all submarkets. Inflation and global supply chain backlogs are expected to impact construction starts throughout the remainder of 2022, with new deliveries likely falling below the levels the market has experienced in recent years. **DP**

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Compared to the end of the first quarter of 2021, most conditions in the capital markets are unchanged. Industrial and multi-family are hot. Offices are not. Loan demand is steadily higher. Lenders are accommodating but not aggressive. There is lots of capital in the market. But, beginning with a hike announced at the Federal Open Markets Committee meeting in March, interest rates have begun to increase in response to stubbornly higher inflation. The potential downstream impact of significantly higher rates has blown winds of caution into the commercial real estate financing environment.

Fears of accelerated interest rate increases are justified, but the recent history of long-term rates and U.S. commercial real estate transactions should calm the nerves of investors. Unless interest rates jump back to pre-Financial Crisis levels, the yield on the 10-year Treasury should remain under three percent in 2022. No private financial service expects the yield to top 2.75 percent this year. When yields have been bound in the range of 1.5 percent to 3.0 percent – as they have since 2010 – real estate transactions have proven to be unaffected by rate movement. Rates climbed 60 basis points from 2017 to 2018 but sales volume increased by eight percent, most likely because of the more favorable tax environment. A 75-basis point drop the following year helped spark an 18 percent increase in transaction volume in 2019, but an increase of the same magnitude – or greater – in 2022 is expected to accompany a 14.5 percent jump in sales.

The takeaway is not that interest rates do not matter, but rather that interest rates will have to rise significantly higher to outweigh other fundamental market considerations.

Of much greater significance to the capital markets is liquidity. While higher interest rates may cool off demand for loans on bigger ticket consumer items, loan demand for commercial real estate should be largely unaffected, mostly because growth in loan demand is roughly where it has been since 2017. Liquidity, on the other hand, is at cyclical highs. For commercial real estate, liquidity can cover up a host of sins. Excess liquidity blows asset bubbles. For as long as there is excess liquidity – and that will be the case in 2022 – commercial real estate deals will happen.

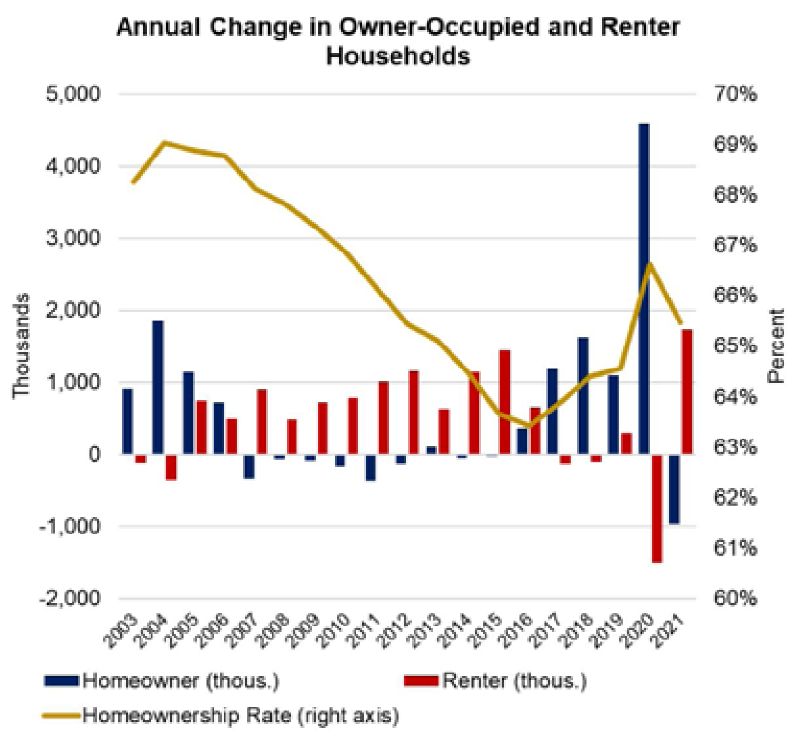
What could drain liquidity? A recession is very effective at that. The Federal Reserve Bank can also pull liquidity out of the market by reducing its balance sheet. By allowing mortgage-backed securities to mature, or even by selling such securities, the Fed reduces the amount of capital in the market.

The persistence of higher inflation has altered the expectations of most financial institutions, including most Federal Reserve Banks, about the pace of rate hikes. It has also pushed the Fed to become more hawkish about quantitative tightening. The downside risks of the more aggressive approach are to the economy in 2023 or 2024, not the capital markets in 2022. That does not mean that there will not be consequences for the change in direction.

"The biggest impact will be on cap rates," predicts Dan Puntil, senior vice president and Pittsburgh office manager for Grandbridge Real Estate Capital, who anticipates that a significant bump in cap rates would lead to underperforming properties being traded. "If you can't make a deal work at four percent, there is something wrong with the deal or the way it is being managed.

"I think the all-in coupon will settle in the high three percent or low four percent for 10-year debt," Puntil continues. "I don't think it's going to get to the point where it impacts debt service coverage or makes deals not work. Don't forget that there are also typically bumps in rent when prices are going up. But I do think the rate increase will influence cap rate."

"The immediate impact we've seen is on pricing particularly on the hotter property types like industrial and multi family. A lot of those assets are trading hands at very high valuations and evaluations and therefore low cap rates," says Jamey Noland, chief investment officer at PenTrust Real Estate Advisory Services. "With rising rates, you have to look at those sales and wonder how things play out over the next four or five years with



The spike in home ownership that occurred in 2020 was not sustained in 2021, which saw a net gain of 1.8 million new renters. Source: Mortgage Bankers Association.

those rising rates affecting valuations. That is affecting how we're underwriting deals moving forward. If you buy at a higher sales price now, you certainly need to bump the rents over the next couple of years to justify the valuation later after cap rates have risen and you have to refinance at a higher interest rate on a five- or 10-year loan."

The prospect of interest rates that are two percent, or more, higher has lenders reevaluating a market that has been more predictable because of the high demand from borrowers. Higher interest rates will increase the mortgage payment on adjustable loans and will put upward pressure on cap rates. That makes the exit or refinancing less profitable.

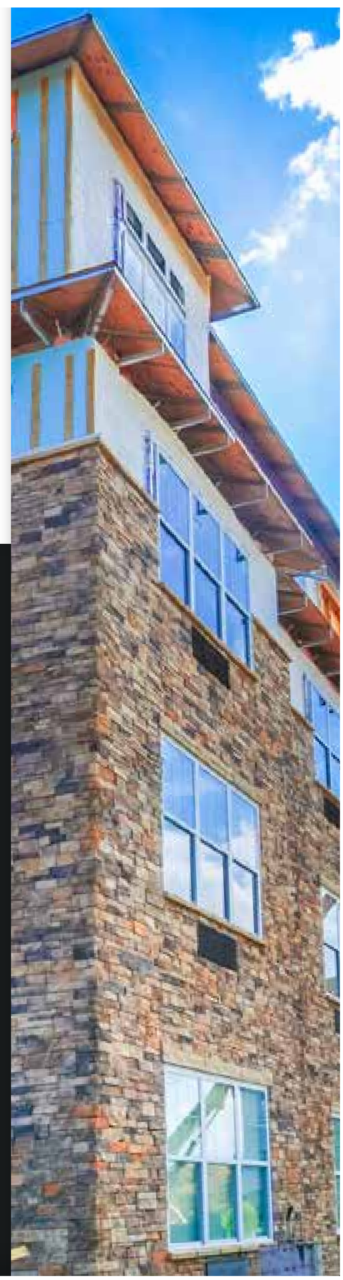
"We have been stress testing our loans for several years. During our underwriting we stress test a significant rate increase to ensure that borrowers could service the debt. It's a way to make sure that, from a cash flow standpoint, borrowers aren't out over the tips of their skis if there is a significant rate increase," says Dave Weber, senior vice president of commercial banking at Dollar Bank. "Rates have been so low for so long that we want to know what a 300-basis point increase would look like from a cash flow and debt service standpoint."

"The change in rates obviously made us take a second look at deals, but we're still very active. Our construction book continues to grow. Depending upon the segment, developers remain fairly bullish on their chances," notes Greg Sipos, executive vice president, corporate banking for First Commonwealth Bank. "Rising interest rates make the deal a little tighter. There could be a need for more equity to go into the transaction, but there's a lot of equity still in the market."

Equity could be the market's backstop as the interest rate environment finds a new equilibrium. Unlike in 2009, when equity was forced to deleverage globally, the appetite for commercial real estate as an investment-grade asset is enormous. So long as investors maintain that appetite, it will be possible for lenders to demand more equity without slowing down deal flow. Nick Matt, senior managing director and co-head of the Pittsburgh office of JLL Capital Markets, Americas, is concerned that highly motivated investors may not understand the signals that lenders will be sending about the market conditions.

"There's a lot of money chasing a newly preferred asset class, commercial real estate, because the capital cost has been so cheap, but now the cost of capital is going up," he says. "I fear that people think that rents will just keep going up and they will be able to stay ahead of the interest rate issue. I just don't know if that's going to happen."

Rent growth has not occurred equally across all property types. Retail properties are beginning to see growth, but office and hospitality rates are flat or falling. For the time being, at least, rents have outstripped



interest rates for industrial and apartment properties. That is not a trend that should reverse any time soon.

"We're seeing rising rents coming out of industrial properties that have traditionally leased at the high end for $8 or $9 a square foot that are now $10 or $11 per square foot," says Noland. "The same upward pressure exists on multi-family rents."

For multi-family properties, 2021 was an exceptionally strong year. Even though new construction surged more than 22 percent to 460,000 new units, demand was strong enough to drive rents above pre-pandemic levels. According to Newmark's year-end Multi-family Capital Markets Report, landlords raised rents an annualized average of 6.8 percent in 2021, using the strength of the market to trade out 16 percent of new leases nationally. Total annual returns on investment were 19.9 percent, more than double the long-term average of 8.6 percent. Newmark estimated that capital reserves available to be deployed approached $250 billion at the start of 2022.

Extremely tight inventories of homes for sale pushed single-family appreciation into the mid-double digits again in 2021, fueling demand for apartments. That demand is not expected to abate in 2022 or 2023, which will drive rents higher. That, in turn, will enhance income streams for multi-family properties and lift prices further, which should act as a safety net against the inevitable increase in cap rates as interest rates go higher in 2021. Through March, rents in Pittsburgh were up 9.9 percent year-over-year, according to the Apartment List April report.

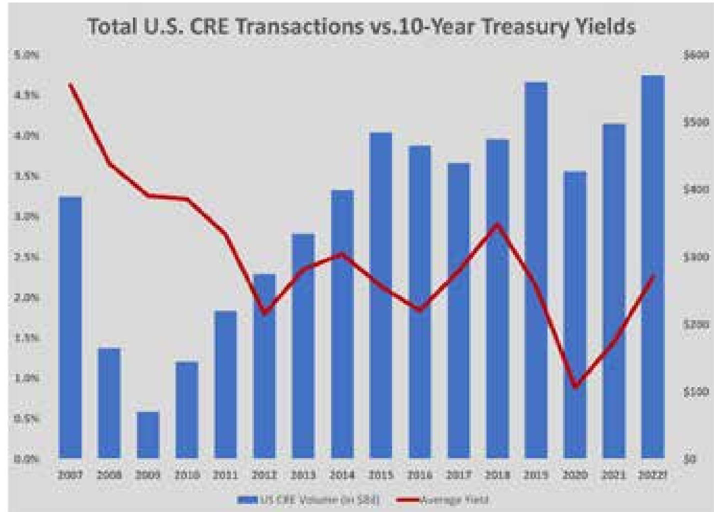
"The volatility in the interest rate environment is concerning to some buyers, but I think there is enough capital chasing multi-family that we will continue to see cap rates stay where they are or even compress throughout this growth cycle," says Laura Lawrence, senior vice president who leads the multi-family investment sales effort at CBRE. "It's amazing to see deals being done with cap rates in the low fours and possibly high threes in Pittsburgh. If rates continue to rise over the next couple of years, however, we will certainly see cap rates follow suit. It's too early to judge the level of disruption that the volatility and the rise in rates may have. I believe rates will be affected more by inflation than the geopolitical environment. There is a wall of capital that we think is large enough to offset any short-term increase and volatility that we will experience."

For multi-family investors, the risks are microeconomic rather than macroeconomic for now. What problems may occur will be region-to-region instead of national in scope. That is not necessarily good news for Pittsburgh. Recent apartment transactions in Pittsburgh – particularly the SouthSide Works City Apartments sale to Brookfield Real Estate Investment Trust for more than $340,000 per unit – hardly suggest a market in trouble; however, higher interest rates present a problem for the Pittsburgh and other slow-growth markets.

"As long as the cap rates stay where they are, getting those kinds of prices won't be a problem. Pittsburgh's problem is going to be that when interest rates go up, they go up everywhere. The same is true for construction costs. Interest rates and construction costs aren't location-specific," says Paul Griffith, senior managing director for Newmark Valuation and Advisory. "If you don't have the rent growth to parallel that, then prices will decline. Interest rates and construction costs will keep on going but rents don't necessarily do that. Rent always comes back to the market."

For new development, construction is problematic. Cost escalation is emerging as a bigger threat than interest rates. Construction inflation is running about 15 percent year-over-year, but certain materials and property types are seeing escalation above that mark. Moreover, there is evidence that contractors are beginning to respond to the extended period of escalation by adding a premium to account for the risk of continued escalation through construction. The construction supply chain remains disrupted, wreaking havoc with schedules.

"On all of the construction projects and developments and construction loans that we have going on right now, the general contractors have been able to absorb the costs thus far. They are probably dipping into their contingency a little more than they had planned," says Weber. "That's one thing we've seen is that the contingency has been used more than it has historically been."



Real estate transactions have not correlated closely with the 10-year Treasury bill since the financial crisis of 2008. Source: U.S. Commerce Department

"We have the same discussions as everybody else about supply chain issues, labor issues, concerns about whether or not the interest reserve is great enough to cure an extended construction period,"

Source: Bureau of Labor Statistics

says Sipos. "We're identifying those factors on the front end of underwriting and making sure we have coverage."

There are more potential disruptions to smoothly running capital markets than have existed in a decade or more. Rising costs of capital, construction difficulties, geopolitical unrest, and a potential economic slowdown are among the uncertainties that could rattle borrowers and lenders. Yet, as Puntil pointed out, delinquency rates are near zero for life insurance companies and banks. Even commercial mortgage-backed securities, which saw a hospitality-driven spike in delinquency in 2021, are seeing fewer problem loans.

"There is still a lot of capital chasing properties out there. I was at the Mortgage Bankers Association conference and virtually everyone had a record year last year. Virtually everyone said they had increased their allocation for commercial real estate and was asking us to send them deals," says Puntil.

Matt agrees that there are plenty of willing participants in the market. He is less certain about how this more volatile stage of the business cycle will unfold.

"We still have lenders who want to lend and buyers who want to buy and probably more money chasing not enough deals. But I worry that people have the blinders on right now," he says. "Inflation is a serious issue. The Fed kept rates artificially low for too long, and at the same time the government did an enormous amount of stimulus. That has put the market in a tight jam. The problem in real estate is that you never know it's over until it's over. There is never a soft landing." **DP**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Delivery of Tenant Premises: Increasing Risks Facing Both Landlords and Tenants

By Lawrence J. Maiello and Jason J. Kelley.

The supply chain challenges brought on by the COVID-19 pandemic, as well as the war in Ukraine, have greatly increased the risks for commercial landlords and tenants relative to the buildout of tenants' premises. Accurate cost estimating has been impacted, as well as timely delivery of the space.

Landlords are typically tasked in a lease with delivering tenants' premises by a certain date and in any of a variety of industry-specific conditions, such as Turnkey (move-in ready), a Vanilla Box (ready for finishes with utilities installed), or a Cold Dark Shell (without interior improvements or utilities installed). Lease negotiations regarding the condition of the premises being delivered to tenant, as well as the delivery date itself, are in essence an allocation between landlord and tenant of the costs, risks and responsibilities that arise in connection with the buildout of the premises being leased.

Traditionally, where a landlord agrees to deliver the premises in a specified condition and the tenant agrees to assume the cost of any additions, both the landlord and tenant are able to budget for their respective risks. For example, where a landlord fully understands its delivery obligations regarding the condition of the space, the landlord will price the cost of its work with its preferred contractor to ensure that the rental rate covers the cost. Similarly, a tenant will have the ability to control and evaluate any proposed additions to the landlord's promised work, which will be at the tenant's cost.

Today's supply chain disruptions are challenging this traditional process by creating risks of an accelerated increase in construction costs and delays that have not been experienced in many years. Scenarios now exist where the buildouts that were priced and incorporated into rental rates increased by 25% to 50% within a matter of months. In response, contractors tasked with buildout obligations are now including material escalation charges in their contracts, as well as fuel surcharge provisions, so that even if the landlord has negotiated a fixed price contract, that contract value escalates alongside the rise in material and fuel costs.

To avoid these circumstances, landlords need to begin recognizing this risk in advance and reaching reasonable agreements regarding its allocation. One way to do this is to include a lease provision that allows for the sharing between the parties of documented escalations of material costs over an agreed-upon percentage, either by way of a cash payment from tenant, or by way of an automatic adjustment to the lease rental rate amortizing the cost increase into the rents. This approach will allow the landlord to recapture at least a portion of its increased material costs. Another effective approach is for landlords to avoid Turnkey agreements in the first place and to either cap landlord's buildout costs with tenant paying the balance, or to provide for payment of a fixed allowance sum from landlord to tenant, with tenant performing all of the work. By allowing the tenant to oversee its own construction, the tenant assumes the responsibility of budgeting the buildout and dealing with any cost escalation. However, with an increasing demand for more premium space and an unprecedented tenants' market, many tenants may be insistent on a Turnkey delivery.

In addition to cost increases, completion of the buildout work and the delivery dates of commercial space to tenants have been impacted by the recent supply chain disruption. In a typical scenario, where the landlord fails to meet a delivery deadline, the lease provides for rent abatement, rent credits, and/or an option to terminate by the tenant. In light of the current disruptions, however, late delivery is now becoming more likely. The typical lease options, which assume that the landlord possesses a high degree of control over the completion date, are becoming far less attractive to landlords, who are finding it difficult to meet delivery dates due to delays in supply of essentials components, from HVAC units to items as common as doors and lumber.

One potential resolution for this problem is for the landlord and tenant to discuss the various issues that may delay buildout work during lease negotiations and to categorize the risks in one of three ways: a landlord delay, a tenant delay, or a force majeure delay, which should expressly account for supply chain disruptions due to pandemic and war. The landlord should then propose to extend the commencement date under the lease for a reasonable time for delays caused by force majeure, such as one day for each day of delay. From there, the parties can discuss more typical options, such as rent abatement and termination dates, but they can then assign different values to delays caused by the landlord than those caused by force majeure. The tenant is not likely to agree to an unlimited accommodation, but the idea is to create a buffer zone for the landlord by allocating and sharing the risks associated with supply chain disruption up front and in a transparent and reasonable way.

Another concern for tenants when dealing with delivery delays are the holdover charges with their existing landlords. While the typical pre-pandemic scenario was that the existing landlord held most of the leverage during a typical holdover situation, in the current market, the tenant may be able to reach an agreement allowing it to continue occupying its existing space beyond lease expiration. It is likely that the existing landlord is experiencing the same problems as the new landlord, and so the existing landlord may be more willing than normal to allow for a special arrangement. Likewise, it is possible that the new landlord has some available vacant space that the tenant could occupy on a reduced basis pending resolution of the delays. Both of these options can be used to help deal with a tenant's holdover anxiety during negotiations.

In addition to higher construction costs and delivery delays, many landlords also face new challenges regarding reduced occupancy rates which began during the pandemic and continues well into the so-called post-pandemic period. With these reduced occupancy rates, much of the leverage during negotiations has shifted to the tenants' side. As a result of the general labor shortage and an increase in remote work brought on during the COVID-19 pandemic, many tenants are now expecting premium space that will entice workers back to the workplace. Consequently, many landlords are now overextending with respect to tenant improvement allowances, as well as accepting tenants with substandard credit.

When the allowance is substantial or the tenant is particularly risky, the landlord should consider their options to mitigate the risks associated with build-out costs. One option is for the landlord to require the tenant to post a letter of credit for all or a portion of the landlord's buildout costs. The letter of credit can be structured to expire upon the tenant's occupancy and should therefore pose no significant cost to the tenant. Alternatively, a landlord can require the tenant to deposit their share of the construction costs into escrow. The deposit can be made up front or, if the tenant is hesitant, over time, as construction progresses. Of course, landlords should also continue to negotiate for personal guarantees from the owners of the tenant. If the tenant resists, the landlord can negotiate for a guaranty that is limited to the costs paid as an allowance or incurred in the buildout.

From the pandemic, to war, to the rise of the remote workplace, the marketplace is radically changing on a monthly basis and will probably continue to do so. With federal infrastructure spending likely to increase in the near future, resources may be squeezed tighter and construction costs may continue to rise. Consequently, commercial landlords must be sure to have the negotiating tools necessary to mitigate the risks of these rising costs. It may be the difference between a profitable, long-term relationship and a lawsuit. **DP**

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What should be the highest priority for deploying the resources from the bipartisan Infrastructure Investment and Jobs Act in your county and the southwestern PA region overall?

Lew Villotti
President,
Beaver County Corporation for Economic Development

"Priority needs to be placed on maintaining and upgrading the existing critical infrastructure of the past while investing in the infrastructure of the future. Infrastructure such as, transportation, sewer, and water still play a vital role in growing and attracting business and should be a priority. The pandemic has also shown us how critical broadband infrastructure is to the economic health of a community.

Beaver County has benefited from both the Infrastructure Investment and Jobs Act and the American Rescue Plan. The $857 million investment in the Montgomery Lock and Dams, included in the infrastructure act, ensures the continued use of the Ohio River as a critical economic transportation link. While the Connect Beaver County Program (https://connectbeavercounty.com/) will utilize $20 million in American Rescue Plan funds to bring high-speed internet to the communities across the county."

Lance Chimka
Director,
Allegheny County Economic Development

"Public Transportation – long term investment in our public transportation system is key to continued smart growth and development in the region. Expansion of the East Busway will connect underserved communities with the world class healthcare facilities and technology-based job centers that the region is known for.

Broadband - the pandemic taught us that reliable, fast internet connectivity is a necessity, not a luxury. A regional effort to remove infrastructure and affordability barriers will ensure maximum workforce participation and job opportunities for our residents.

Innovation District – the research and commercialization engine of our Oakland innovation district is leading our economy in an exciting direction. We must enhance connectivity to this job center and allow it to grow; the future of our regional economy depends on it."

Linda D. Nitch
Executive Director,
Lawrence County Economic Development Corporation

"The imminent program of work for the Lawrence County Economic Development Corporation (LCEDC) is the implementation of the Elevate Lawrence County strategic plan, a yearlong effort conducted with a national site selector.

Elevate Lawrence County's recommendations mirror the intended uses of monies from the infrastructure bill. The LCEDC supports improvements to major roadways and bridges in Lawrence County, and the recently announced paving of several miles of Route 65 gateway from Shenango Township into the city of New Castle, is great news.

Parts of rural Lawrence County lack broadband coverage and infrastructure dollars can close such gaps. We also know that our county is challenged with the availability and capacity of water and wastewater treatment. Infrastructure dollars can mitigate these conditions.

Elevate Lawrence County recognizes the importance of 'place' as a critical factor for businesses looking to locate or expand. The referenced infrastructure improvements provide a catalyst for such growth."

Jason Rigone
Executive Director, Westmoreland County Industrial Development Corporation

"Westmoreland County has a strategic plan that focuses on workforce, recreational assets, repositioning our communities and investment in technology and infrastructure. These broad categories help galvanize our investment plan to ensure that county residents and businesses grow and thrive. The Infrastructure and Investment Jobs Act has created real funding opportunities to address many of our infrastructure priorities.

At the top of that list is the development and implementation of a broadband and technology network that supports remote-work opportunities, at-home learning, telemedicine, and vital public safety systems while also supporting the development of an autonomous vehicle platform, smart-city initiatives and a high-tech economy.

Beyond broadband, investment in our highways, bridges, Arnold Palmer Regional Airport and water and sewer systems is crucial to sustain growth."

Jeff Kotula,
President, Washington County Chamber of Commerce

"The Bipartisan Infrastructure Law will certainly focus on rebuilding our nation's roads, bridges, and transportation infrastructure. And while those improvements need to be addressed as we have traditionally underinvested in those areas, we should prioritize investments that drive new growth and increase our competitiveness. For Washington County's business community this future means expanding our county's broadband access. Many of our residents and businesses reside in areas that provide minimal, slow, or no broadband infrastructure and this is limiting economic growth and jobs in these communities. I am certain this applies to other areas of the Greater Pittsburgh Region as well. Broadband deployment and access are the future of this region as it will connect us to our workforce, to new opportunities and to each other."

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In Allegheny County, we continue – like many others – to move towards some sense of normalcy. As it always has been, our diverse economy is the keystone to our continued energy and vitality. Much of our attention, and that of Allegheny County Economic Development (ACED), has been on providing funding opportunities to allow our communities to fully recover from the impacts of the pandemic.

The Active Allegheny Grant Program, managed by the Redevelopment Authority of Allegheny County, in partnership with the Health Department, provides funding for the development and design of projects that provide pedestrian and bicycle connections to local destinations and our transportation systems.

In 2020, seven projects were awarded funding totaling $205,000 and included efforts to put together plans for active transportation or a trail segment, purchasing equipment for traffic calming, and preliminary engineering of a multi-municipal trail.

ACED along with Public Works and other partners also recently released a report for the Turtle Creek Connector Trail project which proposes a nine-mile link between the Great Allegheny Passage (GAP) and the Westmoreland Heritage Trail (WHT).

ACED recently opened the application period for the Allegheny County Blight Removal Program which allows communities to provide for funding to demolish hazardous structures, prepare sites, and undertake planning efforts. In the first round, $1.9 million in funding was provided to assist in some 100 demolitions.

Our focus on communities and companies go hand in hand. We work collaboratively to advance key sectors within our region including higher education, healthcare and medical research, technology-infused manufacturing, energy and financial services, artificial intelligence, robotics, and autonomous vehicles. Those companies are part of the fabric of our communities, so strengthening and supporting their efforts, in turn, energizes our economy.

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.

Beaver County

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Beaver County Corporation for Economic Development (CED) continues to assist the local community of Beaver County to achieve a bright economic future. Recently, CED approved loans for the expansion of two local companies, Selectrode Industries and Standard Horse Nail. Selectrode manufactures welding rods and is utilizing the funding to expand into a new building located on 6.67 acres in Aliquippa, PA. This expansion is set to create between five and ten jobs for the community. Standard Horse Nail Company was approved for two loans that will assist them in obtaining a building that previously housed a steel manufacturer along with the purchase of more equipment. Their additional location is in New Brighton, PA and solves the issue of outgrowing their current facility. This project is also set to create between five and ten jobs for the community.

Additionally, CED has been collaborating with countless community leaders to establish an innovation hub in the county to be a catalyst for economic and community revitalization. This project is known as the Beaver Valley Hub for Innovation, Venture, and Entrepreneurship (B-HIVE) which is closely linked with Penn State Beaver, Geneva College, and the Community College of Beaver County. CED purchased a building located in the City of Beaver Falls, PA that will soon undergo renovations so that it will be equipped to house the B-HIVE. It will be home to coworking/flex space for entrepreneurs, a business accelerator that provides technical and creative support to local businesses, educational services for small businesses, a digital makerspace for local artists and innovators, and job training programs. With downtown Pittsburgh only thirty-five miles away and the building being in the City's innovation district, this can help jump start a new element in Beaver County. A crucial aspect of economic development is entrepreneurship, which is lacking in the area, thus the B-HIVE is posed to represent a hub that will promote innovative thinking and economic development throughout Beaver County.

Finally, CED is involved with the start-up of The Reclaim Project, a new venture here in Beaver County. The purpose of this project is to train, employ, and mentor non-violent and non-sex offenders that are re-entering society after their exit from the criminal justice system. The individuals will receive hands-on training on how to deconstruct abandoned buildings to salvage materials from them. This project aims to lower the recidivism rate of the re-entrants and teach them valuable skills along the way.

Have you ever noticed that media professionals in our region are either glass half full or glass half empty, and that some outlets are both? We've all seen the headlines about a flat labor market or our weak recovery from the pandemic, and we can certainly argue about how stats do not tell the story of our region. Instead, though, we're going to focus on the glass half full side of things.

In just the last few months, Forbes named Pittsburgh the best housing market for Baby Boomers. According to WalletHub, Pittsburgh is the sixth best metro area for STEM professionals. Our airport traffic continues to grow as we approach pre-pandemic levels of travel. A local study ranked the Pittsburgh region second among major metropolitan areas for the growth of its creative class, defined as workers employed in knowledge, professional, artistic, and cultural occupations. Genome names Pittsburgh among the top 25 emerging ecosystems for startups worldwide, particularly in artificial intelligence, robotics and biotechnology. And the Pittsburgh Region is 1 of 60 finalists in US EDA's Build Back Better Challenge.

Even without the headlines, we have much to be proud of and build upon. We're focused on sustainability to assure our region's future. Innovation remains an important part of our DNA as companies, across the board, continue to see new and better ways to do things. We are growing in population again. This region continues to be in a global spotlight as host to US-EU Trade and Tech Council meetings and the site of the Global Manufacturing and Industrialization Summit.

The future of Allegheny County looks bright! Thanks to continued collaboration with private and public partnerships, we will continue making this a community for all and one in which we all share a measure of pride. Join us.

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Greene County's podcast, County Conversations, is live and available on Spotify, Amazon Music, Google Podcasts, and YouTube! We welcome listeners feedback and comments.

The second half of 2021 saw several projects that continue to promote entrepreneurship in Greene County and develop our local economy. In July two properties totaling 13 acres at EverGreene Technology Park were purchased by JayD Enterprises to house their construction and hauling business. Strad Energy Solutions, a natural gas company, will also occupy space here.

Also in July Greene County officials held a ground breaking ceremony for the Wisecarver Recreation facility located on 360 acres of land surrounding an 18.5 acre lake. Phase One's planned investment of $800,000 includes softball fields, a parking lot and a walking trail. Grants received from the state's Department of Conservation and Natural Resources are aiding the overall development of the future recreation and tourism facility.

August saw Community Bank celebrate 120 years of doing business and serving Greene County residents and businesses with additional banking operations in surrounding counties rounding out the region's financial resources.

Greene County commissioners continue to make improvements to rural broadband a county priority. In October Greene County received a $2.5 million grant from the Appalachian Regional Commission to assist in providing gigabit internet speed to unserved and underserved communities in the western portion of Greene County. Combined with a $2.7 million investment by Windstream, 105 miles of fiber optic lines are being laid that can serve the full spectrum of manufacturing and technology firms.

Founded in 2020, Iron Senergy broke ground in November on a new coal refuge storage structure anticipated to bring 700 new jobs to Greene County and create $4.5 million in tax revenues as part of a $50 million investment.

Small businesses, restaurants and the hospitality industry impacted by Covid-19 in 2021 were the recipients of $1.8 million in grant funds through the Community Development Block Grant (CDBG) and the Hospitality Industry Recovery Program (CHIRP). In total 39 local businesses received funding from the programs passed through the Greene County Department of Planning and Community Development.

Indiana County

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Indiana County's economic advocacy team, called the CEO (Center for Economic Operations) – including the Indiana County Commissioners, Indiana County Chamber of Commerce, Indiana County Development Corporation, Indiana County Tourist Bureau and Indiana University of Pennsylvania – together and individually work on their missions to create an Indiana County that is ready to grow. Ready for businesses to get their starts or to expand their operations. Ready for new residents to make their homes. Ready for visitors to come and make memories.

Windy Ridge Business & Technology Park, White Township; the 119 Business Park, Center Township; and Corporate Campus, Burrell Township, see continued work on utilities and roads to make their lots and buildings ready for new tenants.

The team advocated for local transportation projects at a public meeting in November by the Southwestern Pennsylvania Commission to establish regional road, bridge, transit and multimodal priority projects in the TIP (Transportation Improvement Program) for 2021-2024.

Through the Indiana County Office of Planning & Development, the county completed the rehabiliation and improvement of the Mile Hill Section of the Hoodlebug Trail; continued mapping of a complete route for Hoodlebug Trail extensions through Indiana Borough and White Township; organized 13 different self-guided routes for residents and visitors to enjoy on the Indiana County Decathlon walking path program; obtained PA WalkWorks Program and state Health Department aid to complete the Indiana County Active Transportation Plan Update that advocates safe routes for pedestrian and bicycle travel in the area; partnered with U.S. Army Corps of Engineers to share costs of developing the Indiana County Stormwater Management Plan; and has opened a new round of community level input for the Subdivision and Land Development Ordinance (SALDO), which would prescribe orderly systems of growth and development for areas with no similar municipal plan.

"We have provided comprehensive plan consistency confirmations and support for several locally submitted grant applications for transportation and roadway improvements projects as well as conservation, recreation, and trails projects, and community and economic development and housing projects," said Josh Krug, Deputy Director for Planning in ICOPAD.

A $15 million investment in acid-mine drainage cleanup along the Blacklick Creek and its tributaries in eastern Indiana County will make the area a destination for sportsman and outdoors enthusiasts.

Led by Indiana County Development Corporation, the county's CEO economic development team aided pandemic-stricken local businesses in their recovery efforts by directing them to eligibility for a special pool of revolving loan funds; CHIRP cash grants earmarked for struggling hospitality industry businesses; and Shuttered Venue Operators Grants for entertainment centers that suffered through pandemic closings. ICDC, CEO partners and the county office of Planning and Development are preparing the county's Economic and Workforce Development Plan and will incorporate public participation in the process.

Indiana County has yet to experience the full potential benefit of $16.3 million earmarked for the area through the federal American Rescue Plan Act (ARPA). That funding, and $4 million more in additional aid targeted to the 24 townships and 14 boroughs of Indiana County, is eligible to be invested in the county's priority needs including long-term surface transportation infrastructure;

transportation safety; and critical water, sewer, and broadband projects.

Through this federal aid, Indiana County is about to embark on a new era for Indiana County and its small towns and rural areas where it can truly address critical workforce demand challenges, foster inclusive economic growth among underrepresented communities and really position the county to best compete in the 21st century economy.

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Progress starts here. The Lawrence County Regional Chamber of Commerce and Economic Development Corporation recognized several successes throughout the second half of 2021. Forward Lawrence, Stonecrest Business Park, and the Bunting, Inc. Aluminum Extrusion Plant highlight the last two quarters of the year.

Forward Lawrence, the county-wide plan designed to successfully guide economic, community, and workforce development, saw its final report delivered in December. Research led by contracted site selector consultant, Garner Economics, included four information gathering sessions with community stakeholders, economic data gathering, and workforce survey collection. The final report, Elevate Lawrence County, not only detailed the county's strengths and weaknesses, but also provided a target industry list and a series of recommendations. The recommendations are on course to increase local employment opportunity, expand the tax base, increase the standard of living, and ultimately achieve a greater level of economic stability for Lawrence County.

LaCarte Development Company, Inc. saw further advances in the development of Stonecrest Business Park. The business park will sit on a 200-acre site located in New Beaver Borough and could accommodate 1.5 million square feet of business space and employ up to 1,000 people. Permits have been submitted to the Department of Environmental Protection in order to ensure compliance and obtain access to utilities: sanitation, water, sewer, electric and gas are in place and the business park's development continues to move forward.

A great achievement in the industrial landscape of Lawrence County is Bunting Inc.'s purchase of the Bruce Commerce Park in Shenango Township. Owned by father and son team, Jody and Joshua Bunting, Bunting, Inc. will enter the aluminum extrusion market producing goods for the building, construction, automotive and transportation sectors. Lawrence County Economic Development Corporation (LCEDC) provided a $675,000 loan to the Buntings and assisted in grant and loan applications to further finance the project, including a $2.1 million loan from the Commonwealth of Pennsylvania. The first extrusion line will be operational in early 2024, and the county expects to see 81 new jobs during the first phase of the project. The Buntings are grateful for the enthusiastic welcome to the county and appreciate the financial assistance they have received "For 153 years Bunting has been located in Western Pennsylvania providing its products throughout North America. When exploring our options, we had several opportunities and selected Shenango Township because it is an ideal community for our team. Shenango has the right culture and workforce for us to achieve success. We are very grateful for the assistance and guidance we received from Lawrence County Economic Development Corporation and look forward to being a part of the community."

Washington County

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Washington County continues to maintain its strong economic position among Pennsylvania counties in terms of growth and job creation as the country emerged from the pandemic.

Much of this positive news was highlighted at the 10th Annual Washington County: State of the Economy event hosted by the Washington County Chamber of Commerce in March. The Chamber, along with its partners at Community Bank and the Washington County Commissioners highlighted 69 projects, accounting for more than $679.8 million in capital investment in Washington County. These projects were also complemented by more than $7.2 million in additional investments the county recently made through the Washington County Local Share Account (LSA) - a fund capitalized by gaming revenues. These LSA investments were leveraged by an additional $8.8 million in public and private resources.

Washington County continues to cultivate a diverse economy across several industry sectors to maintain

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We are also committed to providing opportunity for all who share these values and want to pursue a lifelong, lucrative and satisfying career. For more information on building with our union trades and contractors, or to explore career opportunities, please visit www.buildersguild.org where you will find direct links to our Trade Unions, Joint Apprenticeship Training Centers and Contractor Associations.

Builders Guild
of Western PA

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stability and encourage continued growth. Some highlights from the manufacturing community, which remains a critical sector in the county, included Aragra Technologies, an electronics manufacturing company that produces circuit boards, purchasing the former Komatsu/Joy Building in Chartiers Township. The company plans to add up to 100 new jobs at the site as the project ramps up operations and allows this property to flourish as a high-tech manufacturing site.

The Mon Valley region of the county also saw several exciting new manufacturing additions and expansions. GE Grid Solutions in Charleroi received federal funding from the Department of Energy to develop new technology aimed at removing sulfur hexafluoride from the United States Electrical Grid. Also known as SF6, this extremely potent and persistent greenhouse gas is primarily used as an electrical insulator and arc suppressant. The new technology allows for 99 percent less global warming potential than SF6 products and the Charleroi plant will handle the development and manufacturing of this new product.
In addition, Retal Americas Holdings has announced an expansion of their regional headquarters and plant in Donora, bringing additional capacity and jobs to their plastics manufacturing facility. Another Mon Valley highlight is the addition of Bakery Barn, a protein bar manufacturer that has announced plans to occupy a 55,000 square foot manufacturing facility in the Alta Vista Business Park. The company will have 50 employees at the facility and is expected to open this summer.

However, manufacturing was not the only industry with a positive impact on the county's economy. Hardy World opened HW70 along Interstate 70 in Somerset Township with a flex building with up to 16 business spaces. The flex building has approximately 28,000 square feet of operational space and has several leases signed already.

Another truly transformational project for the county is the Fort Cherry Development District - led by Imperial Land Company which will redevelop over 200 acres of previously strip-mined property in Robinson Township. The development will have 25-to-75-acre sites for industrial, flex and distribution. Grading and infrastructure development are underway on the first phase of the project with lots expected to be available later this year.

In perhaps two of the county's most "gourmet" developments, Sarris Candy purchased a 130,000 square foot building in Canonsburg Borough which they will partially occupy to increase their manufacturing capacity. Sarris expects to hire an additional 50 employees to work at this facility to meet increasing product demand. Mingo Creek Craft Distillers LLC, a family business that was launched in 2016 and is known for its award-winning Liberty Pole Spirits brand of small batch whiskeys will build a destination distillery near the Hollywood Casino at the Meadows. The facility will include a barrel aging warehouse tasting room and outdoor seating area.

Washington County continues to prioritize infrastructure development and invest in the future through new roads, utilities, and broadband. One of the most significant infrastructure projects for Washington County last year was the Pennsylvania Turnpike Commission's opening of the Southern Beltway linking the Pittsburgh International Airport to Washington County communities. This project is a clear path to our front door and will open opportunities across the northern areas of Washington County.

Broadband development has also been a major area of focus for the county. The Washington County Board of Commissioners unanimously approved the first steps in the county's broadband initiative to make high speed internet service more accessible to unserved and underserved residents and businesses in the county. The Washington County Authority has been selected to manage the countywide project, which is expected to take approximately three years and has an initial budget of $30.0 million, funding made available through the American Rescue Plan Act of 2021.

The strategic diversification of its economy, the maximization of opportunities presented to its businesses and unique public/private initiatives - such as the two decades long partnership between the Washington County Commissioners and Washington County Chamber of Commerce to coordinate economic development for the benefit of the customer - allows Washington County to be prepared for new opportunities.

Westmoreland County

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In October 2021, Al. Neyer closed on its purchase of Lot 3 at Commerce Crossing at Westmoreland and immediately began construction of a 250,000 square foot Class-A distribution center on the 25.9-acre parcel. Slated for completion by mid-2022, this facility will support about 140 jobs at full capacity. This is the first lot to be sold at the new industrial park; Al. Neyer has optioned another parcel in the park.

It's fitting that a distribution center is being built at Commerce Crossing; that's one of the industry types county officials had in mind when they set a goal in the "Reimagining Our Westmoreland" comprehensive plan to develop land near I-70 to maximize the interstate's value to the county. With PennDOT concurrently making more than $90 million of improvements to the stretch of I-70 next to Commerce Crossing, we're confident that developers will view this park along Waltz Mill Road in Sewickley Township as a very attractive option for businesses that require seamless transportation connections. Speaking of transportation, two of the park's remaining three lots were designed to provide rail-spur access to Southwest Pennsylvania Railroad, which in turn links up with an international rail network.

Turning our attention to the northern part of the county, WAB Associates LLC purchased Lot 22 at Westmoreland Business & Research Park in December. The LLC represents New Jersey-based Weiss-Aug Group, which plans to build a 32,000 square foot manufacturing facility on the Washington Township lot. Construction will begin by fall of 2022, and plans call for the building to be expanded to 65,000 square feet as business grows. Weiss-Aug Group already has a presence in the park, thanks to its JK Tool operation, which earlier in 2021 doubled the size of its manufacturing facility to 40,000 square feet. Weiss-Aug expects its total employment at the park to grow from its current figure of 25 to at least 75 within five years.

This sale means the largest of the Westmoreland County Industrial Development Corporation's (WCIDC) parks is almost full. Developed over phases starting in 1992, Business & Research Park has 268 saleable acres. Only one 3.62-acre lot remains available. The park is home to 21 companies that employ more than 2,580 workers.

On the other end of the economic development spectrum, the second half of 2021 featured two notable ribbon-cutting events. Both are in manufacturing, which trails only healthcare as the leading employment sector in Westmoreland County.

In October, Elliott Company celebrated the opening of its new $60 million cryogenic pump test facility in Jeannette. The facility will employ about 100 at full capacity. The 13 acres that Elliott built upon had been home to Jeannette Glass, one of several glass manufacturers that had flourished in the late 19th and early 20th centuries and earned Jeannette its "Glass City" nickname. The Jeannette Glass plant shut down for good in 1983, and this blighted property sat unused until Westmoreland County Industrial Development Corporation took possession of it in 2016 and began demolition and remediation work to transform it into a brownfield site suitable for redevelopment. The property was sold in 2018 to Elliott, which began construction the following year.

Two months after the Elliott celebration, Intervala — an electrical equipment manufacturer — held a grand opening event for its new facility at the Regional Industrial Development Corporation's (RIDC) Westmoreland Innovation Center in September. Intervala moved its operation and 210 employees to RIDC Westmoreland in late 2020 and signed a five-year lease for 217,000 SF in January of 2021 to house both its corporate headquarters and electronics manufacturing facility. RIDC invested $5.6 million to renovate the space, and Intervala made a multimillion-dollar investment into equipment, technology tools and software for its manufacturing complex. At the time of its move to Westmoreland, Intervala expected to add 140 jobs over five years. That investment by a cutting-edge, technology-based company illustrates the opportunity that this site presents and validates the mission to transform this regional manufacturing asset into a multi-tenant facility.

Also in late 2021, the WCIDC extended its partnership with Savage Services to continue operating the WCIDC's Westmoreland Logistics Park - Rail Freight Terminal. The terminal is a multi-commodity transload facility capable of handling both hazardous and nonhazardous materials, in addition to a variety of other commodities. It offers railcar steam heating capabilities as well as a dry goods warehouse, a covered three-sided building and outdoor ground storage. Located along the Southwest Pennsylvania Railroad next to RIDC Westmoreland, it has 135 railcar spots and offers connections to three Class-I railroads — Norfolk Southern, CSX and Canadian National Railway — as well as convenient logistical access to I-70 and I-76 via Route 119.

(From left) Members of the American Diabetes Association team flanking NAIOP Pittsburgh Executive Director Brandon Mendoza are Chelsea Musial, Clay Rehm, and Shannon Davis at the 2021 Night at the Fights.

Don Obermeier (left) and Sara Krampe from CESO Inc.

(From left) PJ Dick's Chris Cooper, NAIOP Pittsburgh President Jamie White from LLI Engineering, former NAIOP Pittsburgh President Brian Walker from Millcraft, and Clayton Morris from Sampson Morris.

(From left) AE Works' Aaron Adams, Elle Honig, Rachel Sweetland, and Mark Logston.

David Levine from McNees Wallace (left) and Mike Malcanas from MITO Insulation.

(From left) Andy Michelli from Merit Electric with Fedora Intertech's Christina Corey and Jennifer Bragg.

(From left) NAIOP's David Caliguiri, Bohler's Michael Takacs, Clayton Morris, and LLI's Jamie White at the NAIOP Pittsburgh holiday party.

(From left) Ambridge Regional's Gene Pash, Louis Tallarini, and Von Fisher, with Joe Sweeney from the Aservo Project.

Michael Weniger from Sentinel Construction (left) and LGA's Jonathan Glance.

(From left) Steptoe & Johnson's Ed Rice, Patrick Rice from Rice Pegher Capital, and Maureen Sweeney from Steptoe & Johnson.

(From left) Rebecca Bellhy from LLI Engineering, TriState Capital's Joe Pascarella, Bob Dezort from Anderson Interiors, PenTrust's Tyler Noland, and Ruby Scalo from Burns Scalo Real Estate at the NAIOP Ski Outing at Seven Springs.

NEXTGEN's Janae Shore and Carlin Campbell with Gene Boyer from Burns Scalo (right) at the March NAIOP Pittsburgh chapter meeting.

(From left) NAIOP Pittsburgh's March meeting panelists Diamonte Walker, Marita Garrett from Civically, Tracey McCants Lewis from the Penguins, and Buccini/Pollin's Bomani Howze.

(From left) HaryWorld's Taylor Hardy, Cheri Bomar, and Erica Wilkerson from WorkSpace Solution.

Chris Perez from Wagner Development (left) and JLL's Jackie Bezek.

CBRE's Mamadou Balde (left) and Millcraft's Molly Onufer.