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CONTENTS

| Spring 2021

About the Cover:
The Riviera. Photo by Elliot Cramer Photography

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President's Message

About this time last year, eight NAIOP Pittsburgh chapter leaders were attending the NAIOP National Chapter Leadership and Legislative Retreat in Washington DC. At the final awards presentation Pittsburgh was a finalist for Chapter of the Year award. Tom Bisacquino was holding the award.... Drum roll... the winner is.... NAIOP NEW MEXICO!! Before the applause started, there was a second or two pause as those in attendance processed it. At our table, during the brief silence, someone quietly said what I was thinking: Rats!

New Mexico is a great chapter; however, Pittsburgh is a City of Champions. "Yinzers" are not tolerant of losing. Yes, we may be gracious in defeat to worthy competitors but what do we need to do to win?

Earlier that night Brandon Mendoza won the Executive Director of the Year. Don Smith won Chapter President of the Year. We were recognized as the Fastest Growing Chapter. Our Developing Leaders were finalists for their programs. Brian Walker was named the treasurer of NAIOP National. Our legislative affairs efforts for state and local advocacy were also recognized. Several of our members were appointed to national committees. Pittsburgh's Bill Hunt recently served as NAIOP national president. NAIOP Pittsburgh is truly an outstanding professional organization and held in high regard by NAIOP Corporate and our peers.

One year later, our fight continues. We have a fight, but it's not to win Chapter of the Year or any other NAIOP national award.

We have a fight to restart development projects that drive our industry and our region. If you are reading this, you know the devastation that COVID is having on the commercial real estate industry. NAIOP-related industries provide meaningful jobs. We are 30 percent of the economy! Yet, many of us are now facing financial hardship. We need to get back to work as quickly as possible.

Some of us in the industrial, high tech, and warehouse/distribution markets are thriving. However, many of us in the office, retail, hospitality, and other markets have been devastated. Our fight is to help those specific development industries, and the greater economy, recover as quickly as possible. Our fight is to help the Pittsburgh area economy recover. Our fight is to bring jobs and people from high-cost areas such as California, Boston, New York, and Chicago to the City of Champions!! How can we get our friends back to work, developing great spaces in the Pittsburgh region NOW?!?

Under the long, slow, hard work of previous board members, officers, and staff, NAIOP Pittsburgh has grown to be the voice of commercial real estate in Pittsburgh. If ever there was a time that our industry needed a loud, clear, consistent voice it is NOW!

Now is the time, to loudly advocate for improved: planning, zoning, permitting, tax policy, infrastructure, transportation, and economic development funding.

NAIOP Pittsburgh's advocacy committee is working hard on these issues and will be imploring all members to assist with sending emails and calling national, state, and local elected officials to effect legislation and policies that affect our jobs.

NOW IS THE TIME TO MAKE YOUR VOICE HEARD! NAIOP Pittsburgh is the organization to combine your voice with the thousands of other like-minded individuals and channel them to those who can most effect our industry.

James D. White

Jamie White
NAIOP Pittsburgh President

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#CREPGH

NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION
PITTSBURGH CHAPTER

Almost one year ago, NAIOP Pittsburgh was in was in our nation's capital to participate in the annual NAIOP Chapter Leadership & Legislative Retreat. Our chapter was honored with various awards, including Chapter President and Executive Director of the year awards and Chapter Growth of the Year award for 2019. While I was proud of our efforts during 2019, and happy we received recognition for it, I am even prouder of efforts in 2020. In a year of great challenges for our global world, our nation, and our industry, NAIOP Pittsburgh and our members did our best work yet. In my opinion, 2020 was characterized by three words: flexibility, compassion, and recovery.

With emergence of COVID-19, the global economy was thrust into an international race for flexibility. This flexibility was needed from business, government, workers, and other institutions. At NAIOP Pittsburgh, we adopted early to digital programming, providing our members with key information via our Developers' Roundtable events. Our members developed virtual work for most of their employees, while also helping their tenants with their own virtual work plans. Many of us were navigating this time with our kids at home with us, further adding a layer to this flexibility. Nonetheless, our industry forged ahead.

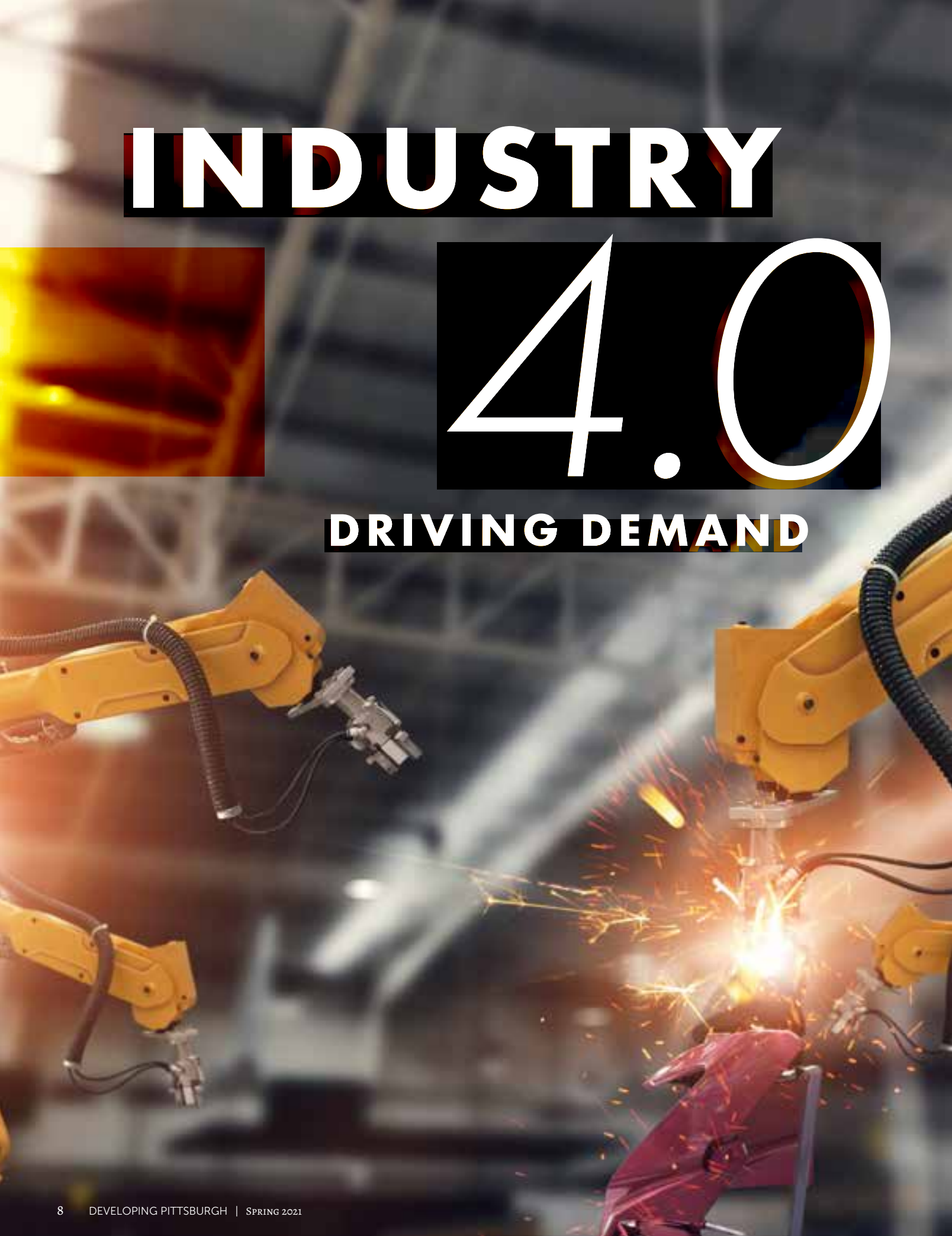
During a year with so much loss, it is easy to imagine a scenario where we retreat to our own corners to protect our own families and not help our communities get through it together, but I am happy to say that the CRE community did the opposite. While navigating through 2020 and the mayhem unleashed by COVID-19, our members worked with their tenants to keep them in their spaces, offering rental assistance and other creative ways to help tenants. Additionally, I personally saw the great amount of philanthropy from many in the CRE community. That compassion will not show up in the balance sheets, but it is imperative for our communities to continue to thrive.

Lastly, I witnessed how our members and the broader CRE community led our region in its rebound from the worst of COVID's economic impacts. Among many ways the CRE community helped, by working with tenants to allow their businesses to adjust and rebound, the CRE community was integral to our region's bounce back economically. While we still have ways to go to get back to pre-pandemic economic vitality, the CRE industry will be pivotal to our region and nation's path. We must continue to embrace flexibility and compassion to continue to lead our region to recovery. This will no doubt be a challenging year, but after seeing our industry's work in 2020, I am more optimistic than ever. Please be safe and healthy. I hope to see you at a NAIOP event in 2021.

Brandon J. Mendoza
Executive Director
NAIOP Pittsburgh

INDUSTRY 4.0

DRIVING DEMAND



America's primacy has been driven by its size, its foreign policy, its military might, its success as an experiment in self-government, and its system that rewards free enterprise. There are a host of advantages, natural and man-made, that the U.S. has leveraged to create the world's largest economy. Not least of these has been the leveraging of the industrial revolutions that have coincided (or perhaps not) with leaps forward for the U.S.

As a city that is nearly as old as the first settlements on this continent, Pittsburgh has enjoyed a similar trajectory as the U.S. in total because of those industrial revolutions. In the 21st century, as new technologies are ushering in a fourth revolution in the way things are produced, there are significant opportunities for Pittsburgh to be a region that benefits disproportionately from this new wave. Dubbed Industry 4.0 because it is driven by information technology, this fourth industrial revolution has some of its roots in Pittsburgh and many of the fruits of the new industries are ripening here.

The roots of the earlier industrial revolutions were in Pittsburgh too. Incredible new technologies arose from the factories and laboratories in Western PA that changed the world. As the home of those groundbreaking advances in the applications of steel, aluminum, and electrical power, Pittsburgh garnered benefits that placed the dirty backwater city at the center of 20th century society. Population soared. Economic growth lifted tens of thousands out of poverty. Immigrants built prosperous new lives. Invention begat invention. But in less than one century, Pittsburgh felt the pain of the growing obsolescence of those industries.

Industry 4.0 is the convergence of information technology and human experience in ways that were science fiction 20 years ago. Unlike earlier industrial revolutions, which were

focused on agricultural or manufacturing technology, Industry 4.0 spans a broad spectrum of human endeavors, including agriculture and manufacturing. Advances in the ability to process data has led to technologies that are revolutionizing medicine, transportation, construction, entertainment, meteorology, space travel, and real estate.

If fortune smiles again on Pittsburgh, Industry 4.0 will impact real estate by creating robust job growth that attracts new people and businesses, generating the need for new space for working and living. An information revolution also has the potential to change how we "do" commercial real estate, from development to leasing. It's already clear that companies that are embracing Industry 4.0 for real estate are thriving in the face of uncertainty. The open question is will the historically conservative commercial real estate industry welcome Industry 4.0 for its potential or resist it for its uncertainty.

Defining the Revolution

The first industrial revolution represented a sea change in how humans worked. As mankind has progressed up the value chain, the tipping points were often marked by the changes in the tools people used to produce. Advances in hand tools moved humans from hunting/gathering to farming, and then from subsistence farming to agriculture as a business. The industrial revolution, which began just before the American Revolution and ended roughly 20 years before the Civil War, moved humans from hand production to machines and processes. Water and steam were leveraged to create power for machines that multiplied their output. Agriculture, which was still a dominant economic pillar, saw huge advances. These advances meant fewer people were needed to farm the same amount of

land, freeing up opportunities for new professions and services.

At the turn of the 20th century, new discoveries and processes led to multiplication of the productivity of the machines that served farming and manufacturing since the first industrial revolution. Electricity became available for commercial and industrial use. Steel manufacturing was refined and improved, allowing for more durable and portable products to be made. Industrialists figured out how to increase productivity in large plants. The assembly line was born. The railroad system, which had linked east and west coasts at the end of the 19th century, became an integral part of a logistics system that allowed major industrial companies to arise. This era also gave rise to a new, non-mechanical invention: the American corporation.

Midway through the 20th century, the quest for increased productivity led manufacturers to push for different technology, which would set the stage for the fourth revolution. Machines used to decode during World War II were refined to become the first computers. The integrated circuit was developed. Business began adopting electromechanical machines for counting, communications, and controlling production. Over the next 50 years, those machines would get faster, smaller, and more ubiquitous. The wild claims by early computer pioneers made in the 1980s, of a computer in every house, became reality within two decades. Software changed the focus from the machines to applications. And the Internet gave everyone a connection to everyone else, whether they wanted it or not.

By the 2010s, computers became so powerful that they were able to calculate and compare amounts of information that were unimaginable just a few years earlier. Processing became so small that devices of all kinds – phones, watches, music players – became computers. By the end of the decade, technology allowed almost anything to become an enabled device. WiFi speeds increased to the point that those devices could communicate with each other and global systems, like satellites or the cloud.

The incredible processing speeds of these devices permitted massive amounts of data to be analyzed in microseconds, which in turn paved the way for applications that could compare that analysis and make predictions about what data would come next. This capability – predictive analytics – could be repeated until the device could "understand" the patterns of the data and respond. What we call machine learning or artificial intelligence (AI) is this data crunching and prediction that can be used to understand what was previously thought to be random. Combining AI with machine-to-machine communication is at the heart of Industry 4.0. It is what is commonly called the Internet of Things (IoT).

IoT connects the physical and the digital. Machines and devices that can be taught to draw conclusions from repeated data can do things like drive cars or select merchandise from warehouse shelves. It can also adjust the chemistry of paint in an automotive line as the environment changes, in real time. Information technology in Industry 4.0 will not be confined to industry, of course. This fourth industrial revolution is also a cultural revolution of sorts.

The impact on commercial real estate from Industry 4.0 will be both internal and external. Technology will be applied

Photo by Mike Christ Photography

to the commercial real estate industry. Mountains of data from occupiers and developers will be used to create better decision-making processes, evaluate properties, and manage the built environment. Uncertain aspects of the industry, like managing the risk of financing a deal, will be made more certain by better understanding why defaults occur or leasing takes more time in a specific market.

As IoT and AI become pervasive, there will be disruptions to the workforce. New jobs will develop and entire careers will be disrupted or eliminated. That means that the demand for real estate will be disrupted too. If the commercial real estate in question is located in a place where the technology driving Industry 4.0 is being created, demand will be increased by the institutions and companies doing the creating. And if some of those companies become the Google or Apple of Industry 4.0, a boom will follow.

Industry 4.0: The Future of Demand in Pittsburgh

Pittsburgh is one of those locations where the technology of Industry 4.0 is being developed and implemented. Industry 4.0 is already influencing demand in Western PA. In 2000, 15 percent of Pittsburgh payrolls were from 4.0 companies; in 2020, that share was 35 percent. That's an increase of 200,000 jobs in a region with little or no net job growth.

How important is this fourth industrial revolution to Pittsburgh? A region without population growth and with an aging workforce has fewer tools to build economic growth. Pittsburgh's declining labor force limits the opportunities to build a new manufacturing base or expand the service economy. An economic revolution built on leveraging exceptional talent gets around those demographic obstacles and, in fact, may eliminate them if Pittsburgh can establish a beachhead of new companies that would draw workers from outside the region.

The latter development would be welcome and might help with the negative trends in the office market that Pittsburgh is experiencing again. As 2020 ended, the pandemic-induced change in office utilization hurt the U.S. office market. According to Cushman & Wakefield, office vacancy was at 15.5 percent nationwide and rents averaged $35.10 per square foot. Those numbers would represent a significant improvement for the Pittsburgh market. In January, JLL reported that Class A rents in Pittsburgh averaged $29.75 per square foot and vacancy was above 19 percent. CBRE reported that the average rent per square foot for the total Pittsburgh office market was $26.45. Newmark Knight Frank reported total vacancy at 19.3 percent, with net absorption more than 135,000 square feet negative compared to the fourth quarter of 2019.

This is data that suggests that a fresh source of office demand is needed to reverse the long-term trend of lower office utilization, especially in Pittsburgh's Central Business District. Even assuming that the disruption caused by COVID-19 brings about no long-term reduction in office utilization – an assumption that seems likely to be wrong – the health of Pittsburgh's office market depends on job creation. Such job creation is more likely to come from new sources than from Pittsburgh's legacy corporations expanding robustly.

That dynamic has been the case in the industrial market. Order fulfillment and business-to-business distribution have driven more than three million square feet of industrial development since the mid-2010s. That industrial expansion has created thousands of jobs, but it has also created more than one million square feet of automated warehouse space. These "smart warehouses" utilize robotic and IoT-enabled devices to store material most efficiently. The warehouses "learn" turnover patterns and manage inventory accordingly.

Companies that provide robots that pick and transport goods have been developing here for decades because of the research done at Carnegie Mellon University and the National Robotics Engineering Center. McKesson, for example, automated the picking of prescriptions two decades ago. As the integration of IoT technologies accelerated, the development of automated warehouses increased. Robotics firms like Seegrid, IAM Robotics, and Aethon have grown rapidly by developing devices that can move independently around factories, warehouses, and hospitals, taking material where it's needed for value-added services performed by humans.

The Pittsburgh Robotics Network estimates that between 75 and 100 companies are working on developing robotics technology into new products, with more than 100 doing robotics research. That's a cluster of companies that rivals Boston or Austin. Including the burgeoning autonomous vehicle industry, there are roughly 8,000 people working in robotics in Western PA.

Pittsburgh is also home to another Industry 4.0 cluster, life sciences. With a rich history of medical research that includes life-changing discoveries by people like Jonas Salk and Thomas Starzl, the University of Pittsburgh and now UPMC devote billions of dollars to advancing life sciences. With the integration of information technology from Carnegie Mellon, and other institutions, life science research is now using AI for diagnostics, pathology analysis, outcome prediction, and pharmaceutical development. Advanced manufacturing has emerged to play a significant role in the development and production of prosthetic devices. And the COVID-19 pandemic has been a catalyst for the use of big data and AI in epidemiology and the discovery of vaccines.

"It will be the firms that don't rush to change their real estate solution, or that are willing to expand it, which will be the ones that come to the top."

COVID-19 has been an accelerant for the robotics industry as well. Mitigation measures taken to halt the virus's spread stifled in-person activities and accelerated the growth trend in online shopping. Estimates of E-commerce growth run as high as 40 percent from 2019 to 2020. That boosted demand for robotic distribution equipment in the same way the pandemic boosted demand for fulfillment space. Carnegie Robotics LLC developed a robot for disinfecting and cleaning large facilities like arenas and airports.

Taking all of the Industry 4.0 businesses into account, this fourth revolution has already created at least five million square feet of absorption in the Pittsburgh office and industrial market. Given that the shift in business towards Industry 4.0 is in its infancy, it's not unreasonable to imagine how the expansion of the myriad new technologies will spur an era of growth in Pittsburgh that matches what has occurred in cities like Austin, Nashville, or Denver over the past decade. Growing jobs five percent or more each year seems like a pipe dream for Pittsburgh, but that would not match the growth in those cities. Before the euphoria overtakes you, bear in mind that there are some considerable barriers to unfettered growth.

Some of these barriers are well-known. Pennsylvania's corporate tax applies to companies in Pittsburgh too. The workforce is shrinking, along with the population, in Western PA. The cost of construction and land is higher here than in southern and western regions. There's also a tech-specific issue. Of the capital investment in 4.0 companies, 70 percent comes from outside Pittsburgh.

Whether Industry 4.0 is the catalyst that drives employment and population growth in Pittsburgh in the way other industrial revolutions have, or Pittsburgh is the home for intellectual capital and the jobs go elsewhere, the fourth industrial revolution has already had a significant impact on commercial real estate demand. Very little new space is being developed that isn't related to the emerging technologies of the next revolution. It should come as no surprise that as tenants, Industry 4.0 firms have different expectations than previous occupants.

A couple of recent developments have become centers for Industry 4.0 tenants. In Hazelwood Green, RIDC's Mill 19 was

developed with the intention of being a center for robotics in manufacturing. Its tenants include the Advanced Robotics for Manufacturing Institute, CMU's Manufacturing Futures initiative, and autonomous vehicle company APTIV. A mile or so to the west of Hazelwood Green, Burns Scalo has succeeded in attracting life science research tenants like UPMC Hillman Cancer Center, Blue Biosphere, Neubase Therapeutics, and Novasenta to The Riviera by developing a speculative wet lab building (see page 21.) Having Industry 4.0 tenants present different challenges than traditional office or industrial users.

"One problem with the demand is that it's generally smaller. The average deal is maybe 10,000 or 15,000 square feet," explains Jim Scalo. "That can change if you get a university or hospital to master lease the building. The risk in that is eventually you are going to compete with them, because they would like to own their space."

Scalo's last point gets to the volatility of working with Industry 4.0 firms. It's estimated that 75 percent of the IoT research projects fail currently. Those kinds of ratios can lead to promising startups closing their doors, much like what happened in the dot.com era. Emerging technology companies that succeed grow rapidly. They are also often formed to be acquired, which leads to relocation and downsizing. Those aren't always happy endings for landlords.

Uber's autonomous vehicle business arrived in Pittsburgh in 2015. By the end of 2019, Uber occupied about 350,000 square feet of office and research space, plus a test track in Hazelwood Green. They had plans for a massive testing facility in Westport Woods, including about one million square feet of facilities. One year later, Uber sold its Advanced Technologies Group to Aurora. The future of those facilities is uncertain.

Another real estate challenge relates to the funding sources for Industry 4.0 companies, many of which are backed by private equity funds.

"There is a lot of private equity going into life sciences companies. Those companies have a lot of money behind them, but they don't have credit behind them," says Scalo. "The private equity owners don't want the money going into real estate. They want it going into research. They don't have the credit to do a first-generation build out."

Thomas Watson, director and senior consultant for private equity firm Blue Water Growth, agrees with Scalo, noting that the real estate should be complementary to a business purpose.

"I'm more involved with people that are starting up, working with early-stage money, and they definitely aren't interested in real estate," Watson says. "The only time it can matter is if it's a marketing ploy to make a big splash. At some point the company needs to add people and grow an office. It becomes a necessity when it involves hiring people but that would be after they are at the later stages of fundraising and are marginally profitable, or close to it. And clearly we don't want startup companies buying real estate. We want them renting."

That's good news for landlords. But will these new technology occupants eventually dampen demand for commercial real estate? If the goal of Industry 4.0 is to enable machines and devices to communicate with each other or think for

Mill 19 at Hazelwood Green is occupied entirely by Industry 4.0 tenants. Photo by RIDC.

themselves, won't the aggregate demand for space decline? History suggests otherwise. Each of the previous industrial revolutions resulted in significantly more employment, higher wages, and a better standard of living. The Luddites built an entire movement upon fears that machinery would put factory workers out of a job. Industrialization has always displaced some workers while creating opportunities for many times more. Industry 4.0 would move humans further up the value chain. For more than 250 years, that virtuous evolution has benefitted the U.S. economy and its workers.

Industry 4.0 will disrupt the workplace and commercial real estate, but emerging technology has been doing that for decades. The 1990s saw enormous leaps forward in information technology. That decade also saw enormous economic gains.

"Technology has always affected commercial real estate," says Sam McGill, senior vice president at Grant Street Associates | Cushman & Wakefield. "With the clients that we talk to, technology is at the intersection of the C-suite, IT, human resources, and real estate. We have those conversations daily. The more technology affects all our lives, the more it affects the way we work, and the way we work affects real estate."

The creative nature of Industry 4.0 may even prove to be the remedy for the uncertainty about future office utilization. Evidence is piling up that work-from-home may be reaching a point of exhaustion for employers and employees; however, it's unlikely that some hybrid solution will be tried once offices are safe to re-occupy. Jim Ambrose, director of business development for Desmone Architects, believes successful companies will value growth over belt-tightening.

"Companies that have consolidated the square footage they are occupying will inevitably be the laggards when it comes to innovation during the next three to five years. They will be effectively separating all their people who need to collaborate," Ambrose says.

Ambrose notes that the opportunity to work from home will allow those who want to withdraw from creative office situations to do so. He suggests that such a trend could hinder the growth of industry titans like Google or Amazon. He believes the unorthodox path that many of Industry 4.0 companies took to success will lead others ahead.

"There was a lot of criticism of Industry 4.0 firms before the shutdown because of the weird amenities in the office, like game rooms and catering from restaurants. But what was that? It ultimately was the companies trying to bring the comforts of home, the distractions of home into the office," Ambrose says. "Creative people, engineers, step away from the problem to clear their heads. Having a conversation with a coworker in an unstructured environment helps. By separating people, innovation suffers. No great product or service has been developed in a vacuum. It will be the firms that don't rush to change their real estate solution, or that are willing to expand it, that will be the ones that come to the top." **DP**

The Riviera

Photo by Mike Crist Photography.

It is an inherent risk in speculative development. Developers are an optimistic lot, so they might not talk much about it, but there is the risk in every spec building that the market won't like it. Jim Scalo had no reason to think his Riviera project in the Pittsburgh Technology Center wouldn't lease up quickly. The market told him otherwise, loudly and clearly, last year.

"I will never forget that conversation. Jaime Cerilli from the University of Pittsburgh School of Medicine said to me that they loved the building, but we were building the wrong building," Scalo laughs. "The building is two and a half years from the day we started and we're just now taking occupancy in the building. Every conventional office tenant that looked at it early on ended up in the Strip. I asked [Cerilli] what to build and she said wet lab. I said OK not knowing what that was.

"The tipping point came while we were doing a deal with UPMC for a vivarium. UPMC said that they needed to know what our long-term plan was for the building. They could not have us making excess noise, dirt, and vibration from construction after they occupied. That really forced us to figure out the building long term. So, the building is becoming a wet lab at a tremendous spend."

Scalo's pivot from conventional office building started a cascade of changes, from the building's design and construction to the financing. The decision meant investing twice as much as the originally intended building use required. And it also meant taking a risk on a market that Scalo admits he was unfamiliar with. Less than a year later, that risk has paid dividends.

Cerilli, the assistant vice chancellor for strategic space planning and management for Pitt's Health Sciences, was not the only potential user of wet lab space in the market. UPMC Enterprises, the recently formed non-profit investing $1 billion to develop new drugs, diagnostics, and devices, was looking for homes for several of its early research spinoff entities. It was the UPMC Hillman Cancer Center, however, that opened Burns Scalo's eyes to the scope of what the pivot to wet lab construction entailed.

"We're primarily an office developer and we've become pretty good at it. It is not a difficult product once you have mastered it," says Steve Whittingham, director of development for Burns Scalo Real Estate. "Wet lab would be difficult in and of itself, but to do a conversion from an office product into a wet lab has been one of the hardest things that I have ever done in my professional career."

The Hillman lease, which was for 12,408 square feet, included nine clean rooms and miscellaneous labs. At the time the lease was executed, Riviera's core

and shell were complete. The original design was an all-electric building with one 4,000-amp service and two 210-ton packaged rooftop HVAC units. UPMC Hillman's requirements immediately rendered The Riviera's infrastructure inadequate.

"I think the lay person, when they hear wet lab, thinks that there will be a need for additional water or additional gasses, but what gets missed in the whole equation is the amount of exhaust and make up air that is required to service these labs and the additional power," explains Whittingham.

To meet UPMC Hillman's needs Burns Scalo more than doubled the capacity and throughput for its mechanical and electrical systems. Among the highlights of the infrastructure upgrade were:

- Additional 6,000-amp electrical service
- Two additional 500-ton chillers
- Two additional exhaust stacks with four fans in each stack, maintaining 3,000 feet per minute discharge velocity
- Two additional 80,000 cubic feet per minute make-up air units
- Four 4,000 BTU per hour boilers
- One dedicated 200 kW lab exhaust generator

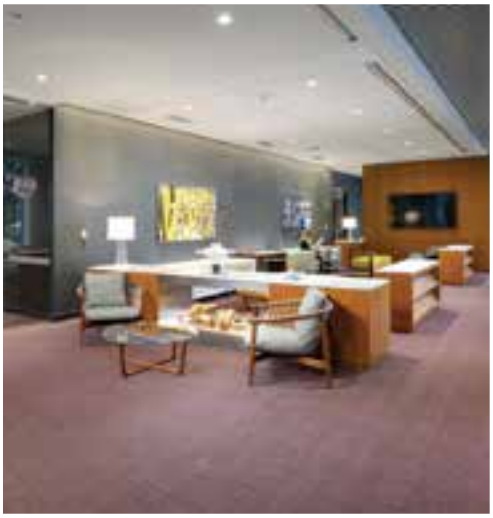
Setting aside the additional time and money needed for the infrastructure upgrade, the biggest challenge was finding the space for the unplanned equipment and retrofitting the systems into a building that was not designed to accommodate it. Burns Scalo put its designers on an intense redesign.

Paul Parise, associate vice president of Pittsburgh operations for RPA Engineering, was brought in to solve the infrastructure problem. Allen & Shariff engineers had designed the core and shell infrastructure, but RPA was designing the Hillman space. Parise says the firm's pharmaceutical resume and comfort working with Burns Scalo and NEXT Architecture, Riviera's architect, made the assignment logical.

"We have worked with Chris and Steve quite often. We have served major pharmaceutical companies like GSK, Pfizer, Johnson & Johnson, and others for about 30 years. Because of that we have a lot of experience with labs and clean rooms," Parise says. "Chris Pless and I were talking at lunch one day and he began asking questions about labs and utilities, and ultimately explained what happened at The Riviera. We quickly realized they had an infrastructure problem. We don't like to be the bearer of bad news but once they realized that we had the expertise and the experience, we were engaged to start transforming the building."

Chris Pless, principal at NEXT Architecture, was the project architect. He describes

Photo by Elliot Cramer Photography



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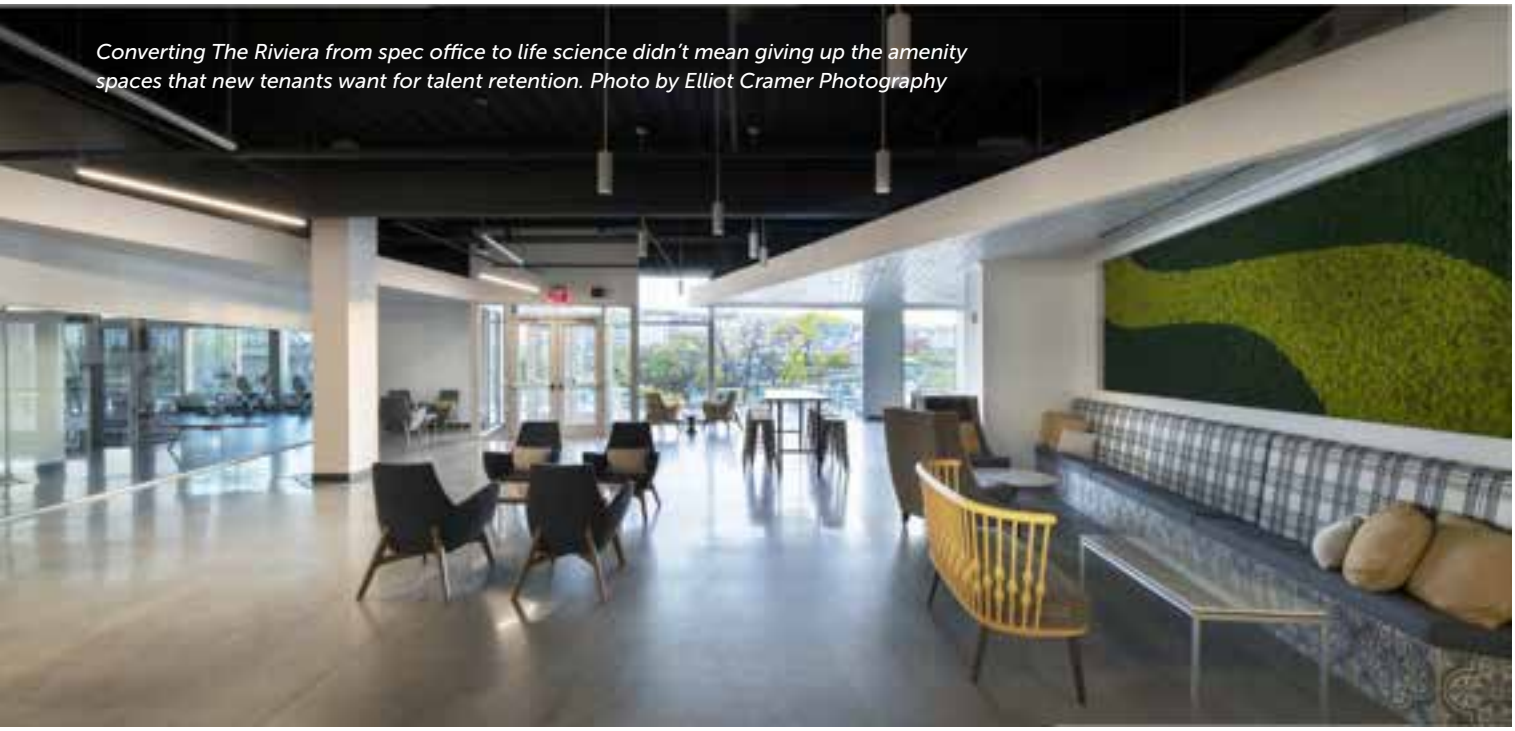

Converting The Riviera from spec office to life science didn't mean giving up the amenity spaces that new tenants want for talent retention. Photo by Elliot Cramer Photography

the problem as two distinctly different challenges: capacity, and coordination.

"The task of converting from a conventional office to wet labs is basically all I did for the last three months of 2020. The planning was outrageously intense because we were stopping all the way up stream," he recalls. "Our limiting factors were how much power the building could take and what could we get from Duquesne Light. I have to hand it to RPA Engineering. They came up with a creative solution to get us through the next 12 months and then the next 30 years of occupying the building."

"What we really had to do was look at the incoming power. That was the biggest challenge. We looked at what was available currently and what could possibly be available in the future," explains Parise. "We did an entire building analysis, looking at multiple scenarios for percentage of lab versus office space to try to find the sweet spot. We were able to talk to Duquesne Light and get a level of service that put them on target to convert from office to lab."

Parise estimates the building will be about 80 percent lab and 20 percent office. As difficult as finding the capacity solution was, the bigger challenge may have been doing so in an ever-changing leasing environment.

"It's been a giant puzzle because of timing. Burns Scalo was proposing to tenants without fully understanding if there was sufficient infrastructure. The tenants didn't know their full requirements either," Pless says "We could do test fits and verify that the tenant would fit in the layout, but we needed much more detail on the equipment to be sure there was capacity. We're moving forward with a two-phase approach. Our interim solution is adding a lot of exhaust infrastructure that can accommodate the tenants. The long-term solution is a huge spend that Burns Scalo is making to upgrade the mechanical capacity. A first phase will be done by April and a longer-term solution will be right on its heels. This is the largest coordination exercise I've ever been a part of."

Whittingham says that the coordination headaches went beyond the planning. The first phase of converting the building would have to be implemented while Hillman was occupying the building. The enhanced marketing of the building yielded new leasing opportunities and, potentially, the prospect of construction on upgrading the core and shell (including structural modification) while tenant improvements were underway.

"While we were doing all these structural improvements one of our tenants, Hillman, is right next door. We're working right next to a Class 1000 clean room lab as we put all this mechanical infrastructure on the roof," Whittingham laughs. "We were doing this work while we're planning for the future needs of tenants we didn't have."

Redesigning a constructed new building before it was occupied for a different class of use was only part of the developer's challenge. The decision to double down on The Riviera meant literally doubling the investment in the building. Scalo says that the pro forma rents were convincing, as was the idea of investing into one of the emerging growth engines of Western PA. But building another $30 million capital stack took more than a good idea.

"It's why you don't see a lot of spec wet lab space; it's double the risk financially," Scalo says. "We got to the point where we recognized that was where the market was for this specific building. The problem was that we had to take the whole core and shell to 100 percent wet lab for the infrastructure. We couldn't do it as we signed individual leases. We decided that


THE RIVIERA | SOUTH OAKLAND


BOARDWALK | NORTH FAYETTE TOWNSHIP


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Photo by Mike Crist Photography.

this was the trajectory of this building and did a forward pro forma on the balance of the building based upon the rents we thought we could receive and the tenant improvements allowances that were required."

"The decision was demand-driven and economics-driven," he continues. "The average rent is between $60 and $70 per square feet. There are some TI spends that are near $1000 per square foot. Our TI allowances are $250 or $300 per square foot."

Those kinds of numbers are unheard of in Pittsburgh's commercial real estate market. The markets with significant life science research deals are somewhat limited to Boston, San Diego, and San Francisco. Burns Scalo needed to go back to its investors and lenders for a second round of financing. While Jim Scalo was convinced that the investment would bring good returns, the decision to proceed raised serious questions.

"In some cases, these tenants are public companies and in some they are private equity companies. That creates different challenges from a credit standpoint. It creates questions about how you finance the project," Scalo notes. "Will the debt markets understand the numbers? Will the buyer market pay for that value that has been created? These are numbers that Pittsburgh hasn't seen. We don't have comparables here. Naturally, the cash flows will be big, but can a buyer get the valuation that they need? It was really important that we had credit and term on those first leases. We needed to have strong paper to do those deals."

Scalo explains that the additional costs and tenant improvements were financed with a secondary note that amortizes with the term of the lease, which have been 10 and 15 years thus far. That structure creates an asymmetrical return on leases that renew. Given the investment that the tenants are making in the building, Scalo believes the likelihood of renewal is higher than it might be for a vanilla office user. He notes that UPMC Enterprises and Pitt expressed interest for other reasons that increase the likelihood of renewal.

"Hillman chose the building because of recruitment. These top doctors and researchers write their own ticket, and the times have changed," Scalo says. "The old guard loves that Fifth and Forbes feel for facilities, but the new guard does not. They would rather be down on the river, alongside the trail. They like the amenities, the coffee shop, and the gym. They like being across a bridge from South Side Works."

Steve Whittingham is accustomed to building offices that are designed to help tenants attract talent. That concept has been his boss's mantra for several years. It makes sense that the same concept of real estate as a magnet for talent would apply to one of Pittsburgh's emerging sectors.

"We recognize that the future for this building is wet lab, and the future of this region seems to be life sciences," he concludes. **DP**


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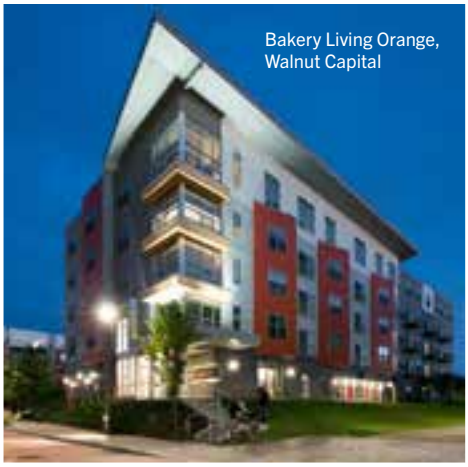
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1600 Smallman,
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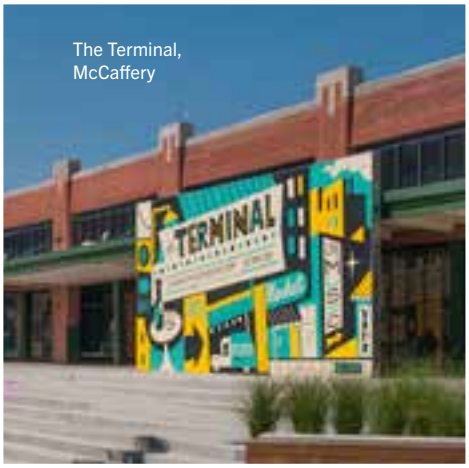

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The Long-Term Trend in Industrial Demand

NordLock's new 128,000 square foot distribution center in Clinton Commerce Park. Photo courtesy Al. Neyer LLC

In late summer 2020, when commercial real estate's woes were reflecting the worst of the COVID-19 outbreak, Newmark's Paul Griffith noted that a major distribution center deal had been struck in Ohio that defined the trend.

"It was a portfolio of industrial properties in Ohio that sold for $130 million after selling for $100 million in 2016," Griffith says. "The properties were 30 years old with a weighted average remaining lease time of 3.5 years and only 20 percent of the 80 tenants are credit. It was marketed in late April and May, and had multiple bidders. Everything about it is average or below average and, in the middle of COVID, they garnered a 30 percent increase from what it was worth in 2016."

The pandemic has created a new landscape for whole sectors of commercial real estate, but has, for the most part, accelerated existing trends more than it has created new ones. This has been true for the housing market, E-commerce, and the industrial real estate market. While it is easy to point to heightened online shopping during the pandemic as a driver of industrial demand, the upward trend in industrial property has been the result of changes in several segments of the market. The so-called Amazon effect is only part of the story. And for every major Amazon lease or build-to-suit that has been announced in Western PA, there has been a development for these non-retail users.

"We are seeing an uptick in activity from specialty manufacturers, distributors, and life science companies. Particularly for specialty manufacturers and life sciences, it's difficult to put them in an existing building, even if one was available, because of their special requirements that aren't necessarily found in a typical warehouse," explains Brandon Snyder, vice president of development for Al. Neyer Company. "Those users require additional power, HVAC, parking, and higher ceiling heights. There may be a distribution component to these users but there is also research and development, an element of manufacturing, and probably above normal office space. These buildings are not warehouses."

"Amazon has obviously been a component of our success here, but we are seeing demand from other users for the typical Pittsburgh spec building of 150,000 square feet or so," agrees Matt Virgin, senior vice president of business development for Suncap Property Group. "We think that demand will continue to be steady. For example, Komatsu [Suncap's build-to-suit client at Alta Vista Business Park] is a long-time manufacturer in the region. We are in the process of delivering four buildings in the Pittsburgh market and only one of them has been for Amazon."

The virtuous trend in industrial real estate has driven a boom in new construction in Western PA, a region that has historically been lagging in development because of unfriendly topography and lack of pad-ready sites. During the last four years, nearly all Pittsburgh's commercial real estate developers have built at least 100,000 square feet of new space. Al. Neyer has developed nearly 1.2 million square feet of spec industrial space in Pittsburgh. A handful of national developers have developed build-to-suit distribution centers of 400,000 square feet or more for users like Shell Lubricants, Niagara Bottling, and Gordon Foods. And developers like the RIDC, Imperial Land Company, and Chapman Properties have consummated major industrial land sales, with the latter landing the 1.4 million square foot Amazon fulfillment center at Chapman Westport.

Favorable market conditions for industrial real estate are borne out in favorable market data, both in Pittsburgh and across the U.S.

Industrial rents have increased 4.8 percent in the U.S. over the last year, averaging $6.38 per square foot in December. The pandemic has left tenants searching for new industrial space paying a premium. The average rental rate for new leases signed over the past year was $7.26 per square foot, with an average vacancy rate of 4.8 percent. Each of the top 20 markets has experienced some degree of growth in average rent. Rent growth across the board has performed better than all other commercial real estate sectors.

The increased demand for industrial space resulted in 228.4 million square feet coming online in 2020, though most of the projects were well underway before the start of the pandemic. Despite the large inventory additions, net absorption was 273 million square feet, according to Colliers International. E-commerce was a big contributor, having grown to one-fifth of all retail sales. However, industrial inventories overall dipped nearly six percent over the past 12 months.

The sector finished off 2020 with a total sales volume equal to three-quarters of 2019's, a small drop compared to other property types. The average price per square foot of an industrial deal rose 7.1 percent in 2020 to $92.89.

Here in Pittsburgh, industrial properties have outperformed the market too. As Snyder indicated, vacancy in industrial properties has been declining for years. Net absorption has been positive, even in a slower year like 2017. According to CBRE's year-end data, net absorption in 2020 was 1.5 million square feet, even as 1.6 million square feet of new space was delivered during the year. Newmark reported nearly 108,000 square feet of net absorption of industrial space in the fourth quarter, with the overall vacancy rate at 6.4 percent.

It is not a surprise that these conditions have also been a boon to industrial property sales. Activity in 2020 and early 2021 demonstrate the demand for industrial real estate from investors. Recent sales include the purchase of the 430,000 square foot Thorn Hill Distribution Center, three buildings totaling 393,000 square feet at Clinton Commerce Park, and the aforementioned Amazon facility at Chapman Westport, all at prices above $100 per square foot.

"There is pent-up demand for commercial real estate in general, but it is focused on industrial because of what COVID has done to offices, retail, and hospitality. Interest rates and low cap rates are a big driver of the market," says Steve Thomas, chairman and CEO of Chapman Properties. "I think the institutional market is looking at yield and sees Pittsburgh as an opportunity to get something above a 3.5 cap rate. Suddenly, we're kind of a darling here. It's a nice time to be in the commercial real estate market and particularly in industrial in the Pittsburgh market."

Thomas jokes that being an industrial developer is like being the "Rodney Dangerfield of commercial real estate" and contrasts the activity in Pittsburgh today with the industrial activity of Southern California, where he started his career in real estate in the 1970s. Thomas advises a bit of restraint in describing the current market conditions. Others agree.

"Well, we're 'Pittsburgh hot'," laughs Lou Oliva, executive managing director for Newmark. "We have a lot of assignments right now, but we have to remember that we are still seeing a fair number of WARN notices and companies shutting down. On balance we are only slightly positive.

"Things haven't dramatically changed over the last five years in terms of what's driving our market. We continue to be more of a 'move up' market than a 'move in' market," Oliva continues. "Amazon is clearly move in absorption. But Pittsburgh is one of the last metropolitan markets to see this. Clearly there are other projects of significance in the works and that's good."

Source: Newmark Knight Frank Pittsburgh.

Oliva cited other recent big industrial deals, like Komatsu, Krystal Biotech, and Haemonetics, as examples of move up deals. Evan Cicirello, vice president at Grant Street Associates | Cushman & Wakefield, notes that the increase in warehousing is more diversified than advertised.

"In E-commerce everybody mentions Amazon and certainly they are doing more deals here than anyone else, but that is true in every market across the U.S.," Cicirello says. "There are other retailers competing with Amazon taking down space as well. The demand is for last mile delivery, trying to be close to the customers. Recently you had Lowe's sign a deal in Imperial Business Park. Wayfair is in Imperial Business Park as well."

Demand from increased online shopping during the COVID-19 pandemic certainly drove deals and development of industrial projects. In Pittsburgh, there has been little evidence of the pandemic creating major business closures that would leave holes in the industrial market.

"From the standpoint of financing and disposition, demand is pretty favorable for industrial property. The user demand has been sustained because of E-commerce. It may have dropped off a few digits but, compared to the rest of the market, it has hardly dropped," says Thomas. "We are seeing a lot of activity. There was a slowdown in smaller user flex space, which was much stronger before COVID. I think there have been some decisions delayed but our markets have been sustained pretty well in spite of COVID."

Here again, size may have something to do with that. Large industrial markets have a deeper and broader base of users. That leaves them more vulnerable to a black swan event like COVID-19. It also creates greater potential for broader expansion.

"We see the Pittsburgh market as 150 million square feet of competitive space. That is space that could be available or is competitive space," explains Oliva. "If we are a market that size and getting excited about one or two million square feet of absorption, bear in mind that's just one percent. When you hear about other markets with three or four percent absorption growth, it puts it into perspective."

As the market has heated up, the increased activity has eaten into the inventory of pad-ready sites. Most of the large industrial properties have been developed in the airport corridor. Al. Neyer's success at Clinton Commerce Park has been mirrored at Chapman Westport, Westport Woods, and Findlay Industrial Park. Oliva reports that there are deals imminent for three of the remaining five parcels at Findlay Industrial Park. Only smaller outparcels remain available at Chapman Westport and Westport Woods. While there is room for more development at Clinton Commerce Park and on land Buncher Company controls, there will be the need for more large-scale new land development if the current trend for industrial demand prevails.

There are some new projects in the pipeline. Imperial Land Company is beginning the entitlement process and infrastructure work on 900 acres in the McDonald-Midway area of northern Washington County. Chapman Properties continues to work on its new projects in South Strabane Township and Starpointe. Al. Neyer has started on the first phases of new parks in Hempfield Township and South Huntingdon Township along I-70 in Westmoreland County. And Amazon's next two major projects are in the east: the 850,000 square foot center in Churchill and a 141,000 square foot center at the former Eastland Mall in North Versailles Township. Most of these projects will be outside the traditional industrial corridors in Western PA.

"It will be interesting to see because now there is new spec planned in Beaver, Washington, and Westmorland. In my mind that will be a good indicator of just how regional this market is," suggests Oliva. "Building Class A space in the outlying counties that have not had Class A built in a generation will be a good test."

Cicirello expects that there will continue to be demand from manufacturers, life science companies, and the cannabis business. He sees the diversification of demand as an attraction to merchant developers that largely avoided Western PA in past decades.

"We are starting to see institutional investors make investments in the Pittsburgh industrial market, as opposed to decades past when it was dominated

by local players," he says. "It was difficult doing construction here given our topography and subsurface issues. The local developers knew how to build here, knew what it took. I don't think we'll ever see those one or two million square foot distribution centers that you see in Columbus and Harrisburg. Because of the cost of construction, it will be difficult for a project that size to be competitive in Western Pennsylvania."

Experience tells us that few trends in real estate remain unchanged and there are risk factors that could chill the industrial boom. As the economy recovers available labor for warehousing will shrink again. The cost of transportation and advancements in self-driving technologies could have unknown impacts on both location strategy and overall warehouse demand. Advancements like automation and 3-D printing, and a resurgence in U.S. manufacturing, may also shorten supply chains, which would alter logistics models. Even the boom of industrial development creates a risk that increasingly modern distribution centers could render warehouses built just a few years ago as functionally obsolete.

Most observers are confident that the forces driving the market will remain strong enough to support more absorption. Matt Virgin says Suncap views Pittsburgh as a home market and is looking for more opportunities, although he does not expect the market to overheat. Others see Pittsburgh remaining steady, if at a higher pace.

"I think we are in the middle of a wave. It's not accelerating but I don't think it's going to go down any time soon," offers Griffith. "We have had enough outside interest from a sale standpoint and we have moderate interest from the tenant standpoint. It's not like they're knocking down the doors but there's more deal velocity than in decades past. We're in a good moderate growth sweet spot."

"Maintaining these levels of absorption will be an indication that we are a stable, but low growth market," says Oliva. "What investors are looking at is that the barriers to entry remain difficult and therefore it's stable. Companies don't come and go. Investors like that." **DP**

The rollout of multiple vaccines to quell the outbreak of COVID-19 created a predictable increase in the optimism of business owners, consumers, and commercial real estate developers. And the markets have begun to take note.

A surge in infections that followed the Thanksgiving holiday suppressed economic activity, including consumer spending, during the last two months of 2020. The first estimate of gross domestic product (GDP) in 2020 showed a decline of 3.5 percent. The elevated levels of infections and hospitalizations declined more quickly than expected in the last two weeks of January. Economists and businesses are seeing the improvements in the public health crisis as a balm for the economy. Forecasts for GDP growth in 2021 have risen accordingly.

The decline in 2020 was the worst since the 11 percent drop in 1946, when the U.S. was forced to convert its output from wartime supply to peacetime manufacturing. The changeover jarred the U.S. economy to a halt while the nation's manufacturers retooled. It also set the stage for one of the biggest surges in growth in U.S. history. In several significant ways, the pandemic-induced recession of 2020 was similar to the 1946 recession. Neither was caused by an imbalance in the economy. The forced stoppages led to massive short-term unemployment. And in both cases, segments of the economy saw increased activity, even as the overall economy suffered. The open question is: will the resurgent economy in 2021 look like 1948, or 2009?

A lot may ride on the emergency response by the government in the first few months of the year. As a third vaccine rolled out in February, government efforts to widely vaccinate were beginning to boost mitigation efforts in tamping down the community spread of COVID-19. Economic relief did not flow as quickly, however, as Republican opposition to the Biden administration's proposals for large-scale aid delayed and diminished the benefits of the policies.

Nonetheless, the outlook for the economy is much brighter than was believed possible six months earlier. Absent another black swan event – like a virus variant that was vaccine-resistant – public health officials believe the widespread vaccination and warmer weather will begin to bring the first returns to normalcy this summer. For that reason, the Congressional Budget Office upped its estimate of GDP growth for 2021 to 3.7 percent, with unemployment falling to 5.3 percent. Declining infections and more rapid vaccinations caused Wells Fargo Securities to up its estimate of GDP growth to 5.3 percent. Goldman Sachs put forward the most optimistic outlook, advising its clients in January that GDP should rise 6.4 percent in 2021. The consensus forecast of the National Association of Business Economists was more conservative in its forecast but still expects 3.4 percent GDP growth.

Increased business activity was being reported in most sectors of the economy. Feedback from numerous surveys, including the Federal Reserve Bank's Beige Book, suggests that several factors beyond the vaccines were adding to the optimism. Business owners reported that the end of the extended election season removed a major distraction to business as usual. Consumers have resumed more public activity as the rate of COVID-19 infections fell. Work from home fatigue has begun to translate into higher office occupancy, with landlords reporting more workers in their buildings daily.

Early February saw an easing of the number of COVID-19 infections and hospitalizations and, with that decline, economic activity and job creation picked up. First-time claims for unemployment insurance fell back from December highs, although the total number of people filing for unemployment – including the emergency unemployment claims – remains above one million each week.

The February report on private payrolls was the first indication in 2021 of a return to recovery in the labor market. ADP reported that private payrolls had increased by 174,000 in January. The February 5 Employment Situation Summary – the monthly jobs report – was well below expectations, however, with 49,000 new jobs created during the first month of 2021. The January unemployment rate fell to 6.3 percent due to a decrease in the workforce participation rate. Data from November and December were revised downward by 265,000 fewer jobs.

Manufacturing activity continued to increase as 2020 ended, nearing pre-pandemic levels. Source: Department of Commerce.

Source: PA Department of Labor

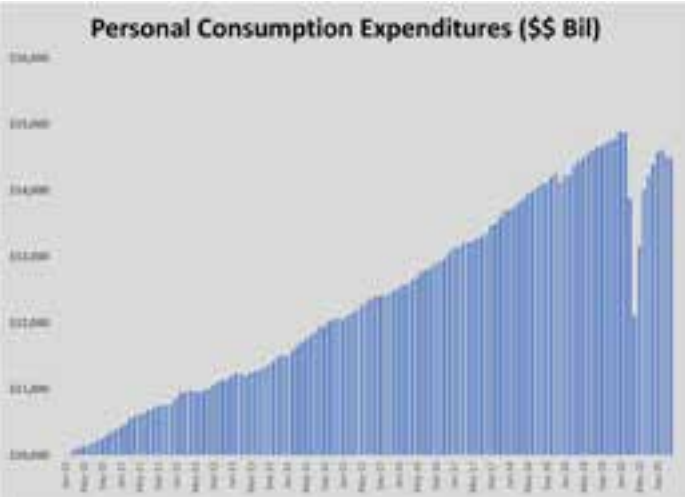
It is the last trend, the falling labor participation rate, that indicates that the jobs recovery still has a way to go before the overall economy can surge. The Household Survey portion of the jobs report suggests that while 9.9 million remain unemployed, the number of people needing to regain employment is higher because nearly six million people have reported themselves as out of the workforce compared to February 2020. The more telling metric to watch will be the population-employment ratio. The share of the total population employed had yet to recover to the levels from before the Great Recession prior to the COVID-19 pandemic; and the 2008 cyclical peak was well below the record highs of 2003. In part, the long-term decline can be attributed to demographic changes. Americans are living longer so the share of the population that has retired has grown significantly. Population-employment ratio increases during recoveries, regardless of demographics, and a steady increase of the ratio back above 60 percent will be a good sign of returning health in the labor market.

In the seven-county Pittsburgh Metropolitan Statistical Area the year-end data was less rosy. Unemployment rose from 6.7 percent to 6.8 percent from November to December, according to the Pennsylvania Department of Labor Center for Workforce Information & Analysis. The total number of persons employed in the Pittsburgh MSA declined by 86,000, to 1.12 million during the full year of 2020. More troubling was the shrinking workforce, which fell by 56,000 from January to December 2020.

One sector that has seen continued improvement in conditions, even as the pandemic waxed and waned throughout 2020, is manufacturing. U.S. companies struggled with the impacts of tariffs, weaker global demand, and a strong dollar since a third quarter 2018 peak. Although the trade deficit has not narrowed, manufacturing activity has improved. The Commerce Department reported on February 4 that new orders and shipments of manufactured goods rose to $246 billion in December, the eighth consecutive month of increases. December's shipments matched the volume of February 2020.

Aside from the improved business conditions, a sustainable upward trend in U.S. manufacturing bodes well for sustainable hiring and increased investment. Manufacturing capacity utilization remains just below 75 percent but continued increases in shipments will support increased investment. Corporations are poised to increase business investment overall after an enormous increase in capital raising in 2020. With a surging stock market and near-zero short-term interest rates, non-financial corporations raised $3.6 trillion in capital last year from public investors. Issuance of investment-grade bonds hit a record $2.4 trillion in 2020 and secondary issuance of corporate stock jumped 70 percent to $538 billion. Riskier junk bonds were the smallest class of corporate debt in 2020, but still reached a record $426 billion. Unlike at the end of the Great Recession, businesses have built huge capital reserves to invest as vaccination allows the economy to return to life.

Similar dynamics exist for consumers. Although consumer spending cooled at year's end, spending for the full year was surprisingly strong. Personal consumption



Source: U.S. Census Bureau

U.S. gross domestic product declined more steeply in 2020 than in any year since 1946. Source: Department of Commerce.

expenditures plunged by nearly $2.8 trillion dollars from January to April 2020 but rebounded to the $14.5 trillion level – equivalent to monthly spending in mid-2019 – by September 2020. The household savings rate in December was 13.7 percent, a post-World War II high. Like corporate America, consumers are poised to spend once community spread of COVID-19 has faded.

These positive metrics for savings and investment mask the fact that segments of the economy have been devastated by the pandemic. The so-called K-shape recovery will pose a threat to a resurgent economy if increased spending and investment does not quickly translate into jobs. For all the reserves that businesses hold starting 2021, companies in the travel, hospitality, education, and healthcare industries will be struggling to survive until business conditions return to normal. Likewise, the healthy stock market and white-collar job market have lifted much of the U.S. to financial situations that are as solid as one year ago; however, steep job losses in sectors served by middle- and lower-income families have put 20 percent of U.S. families in serious financial distress. Rapid implementation of the $1.9 trillion COVID-19 relief packages passed by Congress in early February will be a key to bridging the U.S. economy to normalcy later this year.

The American housing market is one sector that has bucked the downward pressure on the economy from the pandemic. An estimated 1,380,300 housing units were started in 2020. This is 7.0 percent above the 2019 figure of 1,290,000. The December rate for multi-family units was 422,000. According to S & P CoreLogic Case-Shiller home price data, the median price increased by 6.7 percent in 2020, to $340,000. Such a high increase, in the face of a steep retraction in the economy, is unprecedented and is owed to an imbalance in the supply and demand for homes that dates to the mortgage crisis. Data on average days on the market, number of offers per home sold, and percentage of asking price received all underscore how much stronger demand for homes is compared to the inventory of homes for sale.

Pressure on the housing market should help boost demand for apartments, at least for the near term. Data from year-end 2020 showed that the multi-year trends for home sales and inventory have become more prevalent. According to Redfin, the online real estate brokerage, closed sales were up 16 percent in December compared to the previous year. Pending sales were up 35 percent year-over-year, reflecting a surge in demand triggered by the low mortgage rates. Inventory of homes for sale rose only 13.9 percent from December 2020. Not surprising, the growing demand over supply imbalance pushed prices higher, with the median market price of a home at $318,100 or 14.5 percent higher than one year earlier.

The rise in demand created other tight market conditions that may force renters to renew instead of buy. In addition to the rising price, the market saw 33.4 percent of homes sell above asking price and the average days on market fell to 30, a decline of 20 days in the past year. Redfin estimates that the supply of homes for sale will satisfy just over one month's demand, another market condition that will make it difficult for renters, especially first-time buyers, to make a purchase.

Supply and demand dynamics should continue to support development of industrial space, even if there is slight slippage in the share of E-commerce once in-person shopping normalizes. Less certain are the prospects for office occupancy and business travel once concerns about personal interaction fade. The fate of the U.S. hospitality market will rest on the return of confidence that the public health crisis has ended.

As February unfolded, initial efforts from the Biden administration to hasten the end of the public health crisis were bearing fruit. Vaccinations reached two million per day by President's Day and efforts to increase vaccine production appear to be moving estimates of full vaccination potential forward to May or June. Early data from Israel, which had the most aggressive vaccination program, suggested that infections among vaccinated populations declined dramatically within a few weeks. All of this bolsters the optimism shared by consumers and businesses going into the spring.

The strength of the economic recovery in 2021 will hinge on the speed and efficacy of the vaccination program. Those businesses and families hardest hit by the pandemic will benefit most from a quick widespread distribution of vaccines that ends community spread. With COVID relief rolled out to those hardest hit – as recommended by the Federal Reserve Bank and most business economists – the U.S. economy can be put back on a footing to grow at a rate unseen since the mid-1990s. **DP**

Overview

The overall Pittsburgh office market saw a slowdown in leasing activity in 2020 due to the global pandemic. The market fundamentals, vacancy, asking rents and development, were all effected, but Pittsburgh has shown its resiliency similar to previous economic downturns with the help of the educational and healthcare systems. 2020 was particularly challenging for office leasing and capital markets across the nation with some uncertainty moving forward; however, the rebound is expected to begin in the second half of 2021 based on the rollout of the vaccine.

Future of Office

There is much to still be determined about what the future of office space will look like. Although work from home options will become a part of companies' new working models, we do anticipate a healthy percentage of employees to return to the office in the second half of 2021 should the current proposed vaccine schedule come to fruition.

According to CBRE's Future of the Office client survey results from September 2020, 81 percent of respondents expect at least half of their workforce to be "office-based" in the future – 73 percent support these "office-based" employees in balancing their time between the office, home and "third places".

The future of office space is a work in progress. We do know it will look different for many tenants as the needs from the physical office have shifted to providing more collaboration opportunities, while individual work can be conducted at home for many office workers. We anticipate companies to utilize remote working solutions to offset the increased investment that will be spent in building creative, collaborative office spaces that will be safe and attract employees back to the physical office.

Life Sciences

Pittsburgh was ranked as the top emerging life sciences market in CBRE's 2020 U.S. Life Sciences Report. This ranking was determined by the size and growth of life sciences employment, concentration of R&D life sciences employment, and the amount and growth of life sciences venture capital funding and NIH funding. Pittsburgh has benefited from the educational talent pool produced primarily from Carnegie Mellon University and the University of Pittsburgh to attract technology companies in recent years.

Now, these educational systems paired with healthcare systems are fueling life sciences spin-off companies and demand. Much of the lab space in Pittsburgh is owner occupied but an uptick in demand has spurred developers to build properties with lab space including The Riviera, Innovation Research Tower, and 5051 Centre Avenue. Several life sciences deals closed this year including the University of Pittsburgh renewing at Bridgeside Point for 50,000 square feet, Krystal Biotech breaking ground on a 100,000 square foot facility in Findlay Townhip next to the Pittsburgh International Airport and a trio of deals signed at The Riviera: Blue Sphere Bio, Neubase Therapeutics and Novasenta roughly combining for 35,000 square feet

Additionally, with all the speculation for future work-from-home plans and tenant adjustments being made in the office market, the life sciences asset class is extremely attractive for investors right now with continued emphasis on how this sector needs to physically be in the lab to work. The global pandemic has helped highlight how essential many of these jobs are and how experiments and trials cannot be performed at home.

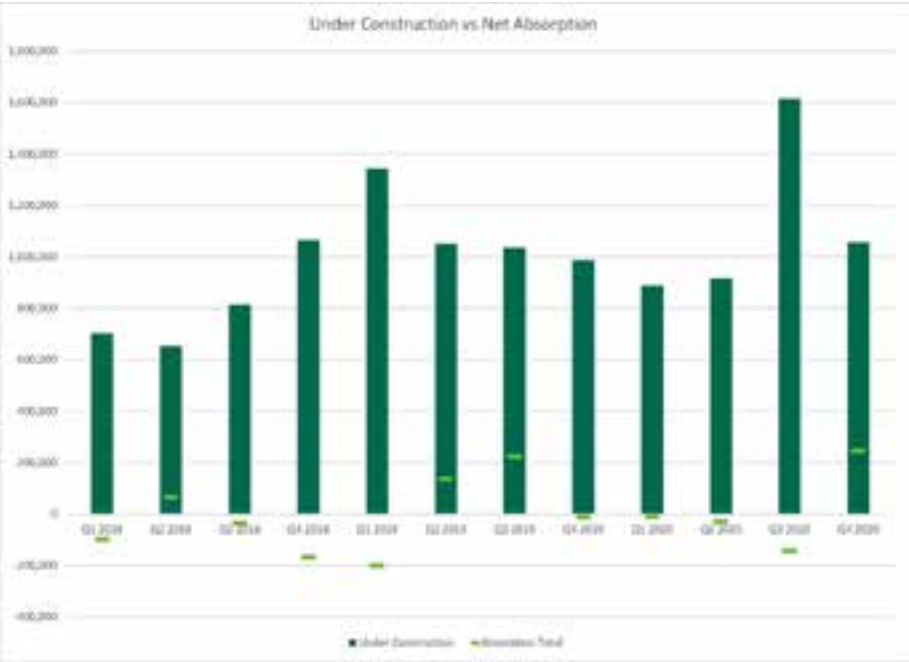
Sublease

Throughout 2020, sublease space became available to the market in a higher quantity than historically typical for Pittsburgh. More than 830,000 square feet of sublease office space was added to the market since April 2020 and the year ended with more than 1,700,000 square feet available. Of the total, several are large blocks including: EQT at 625 Liberty Avenue (146,948 square feet), UPMC at 600 Grant Street (90,827 square feet) and Chevron at 700 Cherrington Parkway (90,000 square feet). The increased amount of sublease space could create challenges competing with

Figure 2: Pittsburgh Office Market Statistics

Submarket	Inventory (SF)	Direct Vacant (SF)	Direct Vacancy Rate (%)	Class A Direct Vacancy Rate (%)	Class B Direct Vacancy Rate (%)	Class A Asking Rate ($SF/YR)	Class B Asking Rate ($SF/YR)	Under Construction (SF)
CBD	24,319,237	3,918,044	16.1	15.1	17.8	$28.88	$21.03	-
Downtown Fringe	11,080,712	1,423,901	12.9	12.1	14.9	$28.14	$23.97	420,867
Oakland/East End	5,600,646	410,010	7.3	9.0	7.8	$42.96	$25.20	634,561
Urban Total	41,000,595	5,753,955	14.0	13.8	14.9	$29.39	$21.75	1,055,428
Cranberry	3,415,332	363,367	10.6	7.4	16.5	$24.15	$22.86	-
Parkway East	5,607,918	1,598,583	28.5	34.2	26.5	$20.80	$18.21	-
Parkway North	7,364,965	908,057	12.3	27.3	6.7	$24.65	$20.13	-
Parkway West	11,607,321	1,614,142	13.9	11.3	17.1	$24.33	$19.83	-
South	4,042,867	461,104	11.4	29.1	10.8	$23.01	$18.31	-
Southpointe	3,150,686	468,810	14.9	13.1	23.1	$21.78	$19.11	-
Suburban Total	35,189,069	5,414,063	15.4	16.3	14.9	$22.92	$19.39	-
Total	76,189,664	5,414,063	14.7	14.8	15.2	$26.45	$20.54	1,055,428

Source: CBRE Research, Q4 2020



directly available office space moving forward. With move in ready space available, and in most cases, at lower asking rents and increased concessions, sublease space is an attractive alternative for some occupiers. We expect additional sublease space to come on the market in the short term with companies evaluating their future office space needs.

Development

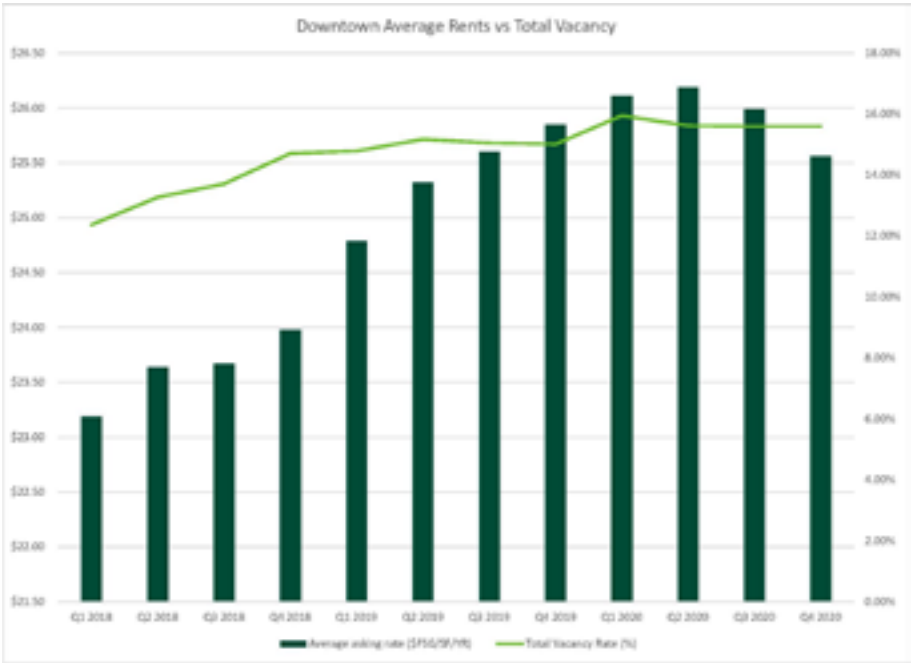
Speculative construction activity thrived in the Pittsburgh market before the global pandemic. Despite shut-downs and work-from-home protocols, projects continued to break ground in 2020, including Innovation Research Tower (280,000 square feet), Vision on Fifteenth (275,000 square feet), Liberty East (246,561 square feet), 75 Hopper Place (145,867 square feet) and 5051 Centre Avenue (108,000 square feet). All of these projects that broke ground are being built on a speculative basis showing developer confidence in demand for new product in the urban core. Along with the new development, multiple projects completed construction in 2020: The Stacks buildings D & E (110,860 square feet) of which Smith & Nephew took about half of the space across both buildings, Boardwalk I & II (216,000 square feet) both of which were fully pre-leased by ConnectiveRX, and Bakery Office Three (303,461 square feet) which Philips committed to two-thirds of the property and Carnegie Mellon University's software engineering institute division took the remainder of the fourth floor (21,739 square feet).

Two office renovation projects are also expected to complete in early 2021. 1600 Smallman Street (100,000 square feet) was leased by Aurora Innovation, who is moving from 40,000 square feet at The Tech Forge, and the Pittsburgh Athletic Association (82,000 square feet) in the heart of Oakland.

Leasing Activity

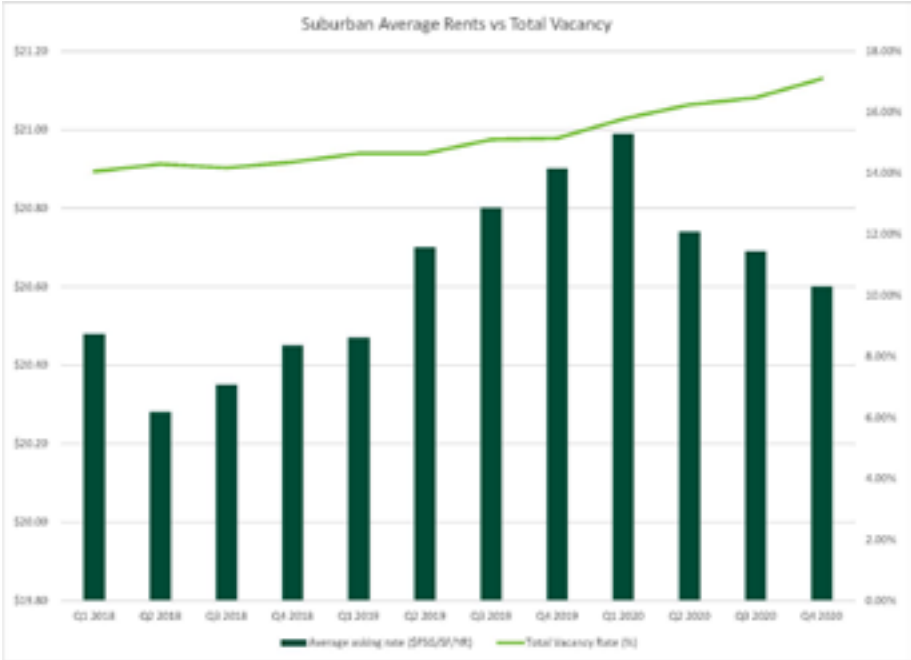
Pittsburgh office leasing activity was slow in 2020 as companies continued to evaluate operational needs moving forward. However, even with a slowed process for some users assessing space, deals that were in later phases of the process were able to cross the finish line. Notably, Dollar Bank announced they will be moving to a new 73,768 square foot space at 20 Stanwix Street leaving their space at Gateway Center. Additionally, Gecko Robotics leased 67,897 square feet at Nova Place in the North Shore. Inovalon, who acquired Creehan and Company, committed to 39,500 square feet at 275 Technology Drive in Southpointe where an increase in non-energy related tenants demonstrated diversity in that submarket. The increase of sublease space coming online created unique opportunities for tenants. One property that benefited in recent months, although available before the pandemic, was 1000 Westinghouse Drive in Cranberry. This property has tallied strong leasing activity including a sublease to Seneca Resources (33,174 square feet), Phoenix Rehabilitation (18,800 square feet), and Ally Financial (25,000 square feet), to name a few.

Worth noting, a recent lease to Amazon



was announced at the former Sears Outlet building in Lawrenceville at 27 51st Street. Amazon will take the entirety of the 330,000 square foot building to be used as a last mile facility.

CBRE national research states: Office lease concessions in the form of free rent and tenant improvement allowances rose sharply in Q2 2020 as U.S. office demand fell by its biggest amount since 2009. Amid reduced leasing activity, base rents for office space in the 15 largest U.S. markets generally remained stable. Instead, property owners provided more favorable concessions to tenants, causing net effective rents to fall. **DP**



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2020 proved that no amount of planning can protect you from all risk, but while the office and retail sectors struggled, industrial real estate flourished. We expect that trend to continue through 2021 with demand outpacing supply – particularly in Western Pennsylvania.

Americans are now spending substantially more time at home, and as a result, are now shopping with laptops as opposed to grocery carts. The supply chain and delivery systems that are needed to service the booming e-commerce industry are struggling to keep up. In addition to distribution, the technology and pharmaceuticals industries are driving demand for adaptive, class A tech-flex space. The historically sought-after urban core, which produces and houses a large amount of talent around the universities, remains active but developers are increasingly finding the path of least resistance to be the outlying submarkets. The appeal of stand-alone buildings, access to major highways and abundant parking has made submarkets such as the Parkway West and Butler/Washington Counties popular destinations. One prime example of this trend is SunCap's construction of a 278,212 square foot ("SF") facility in Westport Woods in the Parkway West submarket. This last-mile distribution center is one of several currently approved for development in the region and joins a list of recently completed buildings in that corridor. SunCap has also been active in Saxonburg, Butler County with the construction of a 220,000 SF distribution center for pharmaceuticals manufacturer, Bayer. This will not only replace, but also double the size of their current facility in New Galilee, Beaver County with the right to expand by an additional 80,000 SF.

Innovative technology manufacturer, Wabtec, will occupy 11,000 SF of Buncher's initial 44,000 SF Flex building in the Neighborhood 91 project at the Pittsburgh International Airport Innovation Campus. Access to nearby transportation hubs and major arteries are primary reasons for these decisions. The growing and robust biomed industry is having a considerable impact on the region's industrial real estate. The cannabis industry is also increasingly relevant with local and regional operators being replaced by national players with access to institutional capital. Hemp Synergistics's expansion in Leetsdale to 52,000 SF more than doubles its current space and will be used as a manufacturing and R&D center. Several confidential national growers with affiliations to research hospitals are also staking claims in the market with commitments to significant blocks of space and plans to invest heavily into the infrastructure required to not only grow medical grade cannabis but comply with the State guidelines tied to the licensing. Given the condition of State budgets across the nation, we anticipate that a transition from medical to recreational use will happen sooner than later and the activity we are seeing now will only increase as a result.

On the opposite side of town, Hillwood Development disclosed plans to redevelop the former George Westinghouse Research Park along the Parkway East. This site has long been a very visible reminder of the once prominent role Westinghouse played in the Eastern suburbs and the unfortunate fallout of their exit of the submarket. The plan to convert the property into an 800,000 SF, two-story e-commerce distribution center would provide a much needed and instrumental jump start to reenergize the East.

Another trend which emerged from the pandemic environment has been a renewed focus on cold storage or temperature-controlled warehouses

Notable Fourth Quarter 2020 Transactions

LEASE ACTIVITY				
PROPERTY ADDRESS	LEASE SF	TENANT	LANDLORD	SUBMARKET
51st Street (Former Sears Outlet)	330,000 SF	Amazon	Spear Street	Lawrenceville / Fringe
Imperial Business Park	100,000 SF	Lowes	The Silverman Group	West
Northside Commerce Center *	120,000 SF	Goodblend	Buncher	North Shore / Fringe
SALE ACTIVITY - BUILDINGS				
PROPERTY ADDRESS	SQUARE FOOTAGE	PRICE	PRICE/SF	SUBMARKET
51 Pennwood Place	431,000 SF	$47,000,000	$109	North / Butler County
267 Blue Run Road	120,000 SF	$4,775,000	$40	North East
920 Irwin Run Road	147,212	$13,800,000	$94	South / Allegheny County

* Colliers International | Pittsburgh Transactions

Market Comparisons - Total Industrial Market Statistics Q4 2020

MARKET	EXISTING INVENTORY		VACANCY			YTD NET ABSORPTION	YTD DELIVERIES SF	UNDER CONST SF	QUOTED RATES
	# BLDG	TOTAL RBA	DIRECT SF	TOTAL SF	VAC %				
Armstrong	50	1,934,403	52,663	52,663	2.7	(28,700)	0	0	$4.00
Beaver	242	12,774,569	872,039	991,153	7.8	(33,121)	235,000	105,000	$5.61
Butler	320	14,243,109	1,040,029	1,040,029	7.2	261,539	90,000	0	$4.43
Fayette County	122	4,293,330	110,295	110,295	2.6	427,536	0	120,500	$6.63
Greater Downtown	401	10,506,200	704,820	704,820	6.5	(440,920)	0	0	$9.14
Monroeville	66	2,035,633	38,970	38,970	1.9	(31,240)	0	0	$0.00
North Pittsburgh	472	15,123,161	728,822	792,748	5.2	(139,612)	0	0	$6.70
Northeast Pittsburgh	399	14,994,875	333,789	345,789	2.3	(28,857)	0	0	$6.67
Oakland	22	292,933	0	0	0.0	0	0	0	$0.00
Parkway East	402	11,963,855	415,902	415,902	3.5	(203,946)	0	21,682	$5.02
Parkway West	217	8,602,592	509,761	524,761	6.1	909,535	1,000,000	0	$7.38
South Pittsburgh	547	16,244,118	702,173	702,173	4.3	(32,923)	0	0	$5.22
Washington	336	12,182,852	1,323,529	1,339,529	11.0	(296,218)	174,000	285,000	$6.11
West Pittsburgh	305	14,265,805	379,451	379,451	2.7	248,827	0	170,873	$7.57
Westmoreland	559	31,711,065	2,670,938	2,670,938	8.4	(387,098)	63,000	150,032	$5.10
Region Total	**4,460**	**171,578,500**	**9,883,181**	**10,109,221**	**5.9**	**224,802**	**1,562,000**	**853,087**	**$5.97**

PERIOD	EXISTING INVENTORY		VACANCY			NET ABSORPTION	DELIVERIES		UC INVENTORY		QUOTED RATES
	# BLDG	TOTAL RBA	DIRECT SF	TOTAL SF	VAC %		# BLDG	TOTAL RBA	# BLDG	TOTAL RBA	
2020 Q4	4,460*	171,578,500	9,883,181	10,109,221	5.9	764,624	3	1,153,000	9	853,087	$5.97
2020 Q3	4,437	169,422,456	9,259,545	9,048,214	5.3	(105,842)	2	270,000	7	1,531,055	$5.81
2020 Q2	4,434	169,152,456	9,015,217	9,110,222	5.4	(500,017)	0	0	9	1,386,957	$5.65
2019 Q1	4,434	169,152,456	8,536,200	8,610,205	5.1	**263,385**	3	13,900	5	1,395,500	$5.53
2019 Q4	4,431	169,013,456	8,702,990	8,734,590	5.2	244,957	3	231,817	7	1,369,500	$5.42

MARKET DATA SOURCE: The CoStar Industrial Report, Fourth Quarter 2020 Pittsburgh Industrial Market
*A few buildings have been reclassified, converted or added to CoStar's database

which are rapidly becoming a highly sought-after product. A contributor to this is the distribution of COVID-19 vaccines, which are required to be kept at precise temperatures. The longer-term issue is the reconfiguration of a distribution system that must now be designed to provide groceries directly to consumers. Much like other retail industries, grocers are not immune to the effects of the pandemic. As Americans shelter in place, fewer are willing to venture to the supermarket, causing food storage demand to greatly surpass that of pharmaceuticals. The cost to construct this type of property can be twice as much as a typical warehouse facility with more complex infrastructure and design considerations. With the immediate demand for the COVID-19 vaccine and a growing reliance on home food delivery, more developers are being pushed to bring cold storage facilities to market.

"The end of 2020 brought with it a flurry of Capital market transactions, further reinforcing the fact that Pittsburgh is now firmly on the national radar of institutional buyers seeking industrial product...Regardless of the metric used to track sales, the region is experiencing record shattering benchmarks of value with bar being raised on virtually a transaction-by-transaction basis."

Both locally and nationally, the e-commerce giant, Amazon, is dictating much of the distribution market. The largest industrial project to be completed in the region in recent years is Amazon's 1,300,000 SF distribution center at 1200 Westport Road in the Parkway West submarket. In the Lawrenceville section of the Greater Downtown submarket, Amazon will lease the former Sears Outlet building. The property will be transitioned into a 330,000 SF last-mile distribution center. This section of the city has recently been dubbed "Robotics Row" due to its prolific technology centric tenants. Many other large warehousing and distribution centers in the region are rumored to have possible ties to Amazon.

The end of 2020 brought with it a flurry of capital market transactions, further reinforcing the fact that Pittsburgh is now firmly on the national radar of institutional buyers seeking industrial product. The most significant of these are the sale of the 430,000 SF Thornhill Distribution Center to Postal Realty for $47 Million, the three-building portfolio sale by Neyer of their newest Clinton Commerce Park assets to STAG (a major player in the region already) and the sale of the 1,300,000 SF Amazon Westport facility as part of a larger Hillwood portfolio sale. Regardless of the metric used to track sales, the region is experiencing record shattering benchmarks of

value with the bar being raised on virtually a transaction-by-transaction basis. With the Fed committed to keeping interest levels at the current historically low levels for the foreseeable future (12 to 18 months) and with Janet Yellen's recent swearing in as the Treasury Secretary, the aligned leadership objectives of the two institutions primarily responsible for navigating the financial waters should be rowing in a similar direction. This bodes well for a continuation of the robust appetite from investors increasingly looking for options outside of Tier 1 markets. Concerns over Inflation will merit discussion, but we do not feel it will be a factor in the Pittsburgh market in 2021 and well beyond.

Nationally, there was reason for optimism entering the fourth quarter. As of the end of the third quarter, industrial inventory increased 2.4 percent and net absorption increased by 3.3 percent in the top 25 markets year-over-year. The recent rise in new product, particularly distribution space, has caused overall asking rents to increase 2.6 percent from July to October. The national average was $7.21 per SF. This is a 5.6 percent year-over-year change. In December, the national economy declined by 140,000 jobs. This breaks a seven-month trend dating back to April. The unemployment rate at the end of 2020 was 6.7 percent. While most job losses were in hospitality, education and government, the industrial sector increased. Construction led the way with a net increase of 51,000 jobs, followed by transportation and warehousing at 47,000 jobs, and manufacturing at 38,000. The recent surge in COVID-19 cases contributed to the national personal income rate declining by 1.1 percent at the end of November. According to the Institute for Supply Chain Management's Production Manufacturing Index (PMI), manufacturing increased by approximately three percent in December. This was the largest single month increase of 2020. Of the 18 manufacturing industries, all but two (printing and nonmetallic mineral products) posted growth in this same period.

As we enter 2021, numerous factors will weigh into the success of industrial space. The global supply chain could see mild distress as we come out of the 2020 holiday season; a time when the distribution system is challenged to keep up with demand. However, this high demand for space is consistent and expected to continue, thus driving up the price of space, which will be at a premium. Vacancy rates should remain steady as developers work diligently to decrease the margin between supply and demand. Currently, two vaccines have been approved for distribution by the CDC with a third in the process. Vaccines will positively impact the economy by driving citizens to patronize retailers and ultimately provide an influx of cash to the economy, reminiscent of the Roaring Twenties! Lastly, and quite significantly, the impact of the transition from a Republican presidency to a Democratic one which will enjoy the benefits of a majority in both the House and Senate remains to be seen. It is certain to have ramifications across many sectors impacting our region and in particular the energy sector, which will feel the ripple effects from a heightened emphasis on renewable versus fossil fuels. **DP**

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A global pandemic is not good for business. The market conditions that resulted from the COVID-19 mitigation efforts – mandated shutdowns, occupancy limits, and curfews, to name a few – devastated the hospitality industries and accelerated the trend away from in-person retail shopping. The fallout from these and other trends put a dent in the performance of commercial real estate assets. By the end of 2020, however, with multiple vaccines being deployed and an election result decided, there were many indicators that signaled the markets were recovering and the global capital markets viewed that with optimism.

That optimism is not with qualification, however. The pandemic wreaked havoc on certain property types while boosting others. Achieving a public health solution isn't the same as returning the world to pre-2020 normal. Central banks, especially the Federal Reserve Bank of the U.S., responded quickly with near-zero rates. How long those rates remain low is unknown. Likewise, the runway to resurgent demand is unclear still. What is more certain, and is the source of much of the optimism, is the abundant supply of capital and the desire to deploy it.

"There is even more dry powder than last year and, in fact, the capital reserves are getting bigger," says Mark Popovich, senior managing director and co-head, Pittsburgh office of JLL Capital Markets, Americas. "We just heard the California Public Employees Retirement System, probably one of the largest real estate owners in the country, is increasing its allocation to real estate by 400 basis points. I don't know exactly what that translates to but it's billions. Cal State Teachers Retirement System is doing the same. Of course, it's one thing to increase your allocations; it's another to deploy that capital. The chief investment officers in these institutions are pointing towards real estate as opposed to traditional fixed income investments."

COVID-19 squashed demand in ways that no "typical" recession had. The recession was atypical on the supply side too. As Popovich suggests, there is ample liquidity for debt and equity, which is a stark departure from the Great Recession. One year ago, capital markets were operating at full speed, with only a cautious glance at an expected downturn on the horizon. Much has changed since the virus first began community spread in March 2020, but the capital markets have been remarkably resilient.

The virus did put a dent in the performance of most lenders in 2020. While most lenders weathered the storm, the pandemic did create a hangover effect that is manifesting differently from one type of lender to another.

"Grandbridge was tracking the activity of our top 40 life insurance correspondents throughout 2020. In the second quarter, at the height of the pandemic, there were only a handful of life insurance lenders actively lending in the commercial real estate space. By the start of 2021, all but a few have returned to the market and are quoting new business," says Dan Puntil, senior vice president and office manager for Grandbridge Real Estate Capital's Pittsburgh office. "The pause that was created by the COVID-19 disruption negatively impacted the 2020 production of virtually every life insurance company, which resulted in most, if not all of them, not meeting their 2020 allocation goals. However, most life insurance companies have increased their allocations for 2021 as they anticipate stronger commercial real estate production over 2020."

"That said, life insurance companies are currently seeking multi-family, industrial and grocery-anchored retail. There is little appetite for all other asset classes such as offices (both CBD and suburban), unanchored retail and hospitality. The lenders are evaluating the risk level of every deal with respect to property type, loan-to-value, creditworthiness of the tenants, and lease duration. The perceived risk is being priced accordingly."

Life companies saw less volatility in the share of their loans that were delinquent during 2020, although the number of loans that were delinquent for more than 90 days doubled from January to December. The Mortgage Bankers Association (MBA) reports that less than two percent of life company loans were delinquent at the beginning of 2021.

In contrast, more than 10 percent of the loans underlying commercial mortgage-backed securities (CMBS) were not current, after reaching 12 percent in mid-2020. CMBS bonds mingle loans of varying risk, offering higher yields that correspond with the higher risk. Roughly two percent of CMBS loans were in workout or real estate owned (REO) and the overall delinquency rate was 4.7 percent.

The difficult year for commercial real estate dampened CMBS issues in 2020, with volumes falling to $55 billion. Expectations are that CMBS volume will grow slightly in 2021 to $60 billion or more. Underwriting is expected to be tighter, however. Borrowers should anticipate 70 percent loan-to-value maximums, with rates around 3.5 percent.

The government sponsored enterprises (GSE), Fannie Mae and Freddie Mac, saw the lowest delinquency rates in 2020. With delinquency just above one percent and roughly one-third of those greater than 90 days past due, the GSEs stayed active while maintaining underwriting standards that managed risk well.

Puntil points out that Fannie Mae and Freddie Mac play a vital role in providing liquidity to the apartment market. He says that role was critical in 2020, when so much uncertainty roiled markets after March 15.

"Fannie Mae and Freddie Mac had record production in 2020. Freddie Mac had $80 billion in production and Fannie Mae had $76 billion," Puntil reports. "They have implemented caps on both Fannie and Freddie at $70 billion each in 2021. That's equivalent to their highest volume in 2019. Those allocations are split 50/50 between conventional and affordable projects. The affordable allocation is also split between two definitions of affordable. One is the rent-subsidized, housing voucher, deed-restricted properties that are Targeted Affordable Housing. The other type of affordable are properties where rents are below 80 percent of average medium income (AMI). That might include projects where market rate rents are below the market AMI."

Puntil says there are several ways that COVID-19 has affected the GSE

Source: U.S. Treasury Department

underwriting and regulations. He notes that the agencies are being conservative about senior living and student housing and monitoring population trends in major cities people are leaving for the suburbs. As legislation passed to require freezes on evictions, rent payments, and loan payments, Fannie and Freddie implemented requirements that were meant as bulwarks against default. Borrowers in forbearance on multi-family loans are required to make the missed payments during the 12 months following forbearance.

"In order to ensure that there is sufficient liquidity at the property level, the Agencies are requiring that a 12- or 18-month debt service escrow be funded at closing," Puntil says. "These monies are released back to the borrower after six or nine months of uninterrupted payments and the property meeting minimum thresholds, but these escrows must be funded up front."

Measures taken to mitigate the risk of defaults will be the norm for debt financing in 2021. Optimism about the economy notwithstanding, the disruption in the economy will continue through much of the year, as businesses and landlords wrestle with recovering after COVID relief measures end. Banks have already tightened underwriting. Borrowers should expect lower LTV and closer scrutiny on debt service coverage.

"What we're finding is that, other than industrial and apartments, other property types are having more difficulty with the debt financing. The lenders are just more conservative with their underwriting," says Popovich. "Compared to February of last year there is debt capital out there, but it's just more conservative."

"There is ample mezzanine money out there to bridge the gap in underwriting," he continues. "That's a route that a lot of developers and buyers are taking. If they were able to get 75 percent loan-to-value pre-pandemic, they can only get 65 percent today. If they really need 75, they are getting either preferred equity or mezzanine debt for that difference."

Yields for mezzanine debt are 10 to 14 percent, depending

upon the risk profile or market condition for the property. Popovich points out that while the rate seems high, the weighted cost that the mezzanine debt makes up in the capital stack equates to 100 basis points or so. That puts most borrowers in the mid-four percent range, roughly where the market for prime debt was a year ago.

Low cost of capital is a balm on commercial real estate finance that eases some of the concerns about the market. Low rates improve returns, lower carrying costs during construction, and reduce the risk of default. While lenders would certainly like to earn more in interest income – a core revenue stream for the industry – there is a commensurate tradeoff in the reduction of risk. Low rates also give developers and buyers room to maneuver on properties that are more appealing to them than the lender. That's especially true in an environment where it's less challenging to raise additional equity to drive LTV lower. And low-leverage deals that check all the boxes for the lender can be done for rates below 2.5 percent.

The more cautious, low cost of capital environment is also expected to be a catalyst for the nontraditional lenders. These so-called "shadow lenders" are unregulated mortgage REITs, private loan and debt funds that are backed by qualified investors who accept the higher risk associated with better returns. Shadow lenders accounted for $50 billion of the $500 billion total of new loans in 2019. In 2021, it's forecasted that their share will be 15 percent of the volume. That increased share will likely peel off deals that more conservative lenders will not make in 2021; however, as commercial real estate deals surge again in 2022, the larger share for shadow lenders can increase competition and create frothier market conditions and instability.

Pittsburgh is a market that offers relative stability, something that should aid in the recovery of the regional real estate market. Western PA has not felt the full brunt of the last two recessions and the growth industries driving Pittsburgh's economies are expected to provide a cushion against decline in 2021. Economists don't expect the kind of exodus of workers that is being seen in major gateway cities, like New York and San Francisco. At the same time, Pittsburgh isn't going to see above market growth. As the public health crisis is eased by vaccination, Pittsburgh is expected to see an earlier return to normalcy than many cities.

For Popovich, the welcome prospect of vaccination easing the U.S. back to normalcy in 2021 doesn't immediately provide clarity to capital markets.

"Are rates going to start creeping up?" he asks. "We're saying that right now in the Treasury market with the 10-year popping above one percent. If the new administration comes out with more robust stimulus, what does that do to inflation? What is the future of the 1031 exchange? Are capital gains rates going to increase? There is still a lot of uncertainty to deal with. It's not just cap rates and property values." **DP**







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The Pitfalls of Litigation to the Bitter End

By Edgar Allen Dunham IV, Esq.

Two recent cases from opposite ends of the country underscore the pitfalls of litigating to the bitter end. There is an old adage that one of the main benefits of settlement is that the parties get what they bargained for, but nobody really knows what they are going to get at a trial. These two cases illustrate the wisdom of that adage.

Lakehill Investments, LLC v. Rushforth Construction Company, Docket No.: 79116-8-1, Court of Appeals, Washington (2020) concerned a rather typical construction dispute between an owner and a construction contractor. The owner filed suit for breach of contract in October 2015 alleging construction defects and delays. The contractor defended, arguing that the defects were the result of non-buildable plans and the delays were largely caused by the owner. The contractor counterclaimed, alleging that the owner had failed to pay it in full.

What was not typical, however, was the scope of the dispute. Before trial, the parties produced more than 1 million documents. They took 59 depositions and participated in six days of mediation. The trial lasted two months and the jury heard from two dozen witnesses, one of whom testified for 6.5 days. Ultimately, the Court awarded a net award to the contractor of $9,624,695.80, of which more than half ($5 million) was attorneys' fees. The owner appealed and the contractor cross-appealed. The central point of the appeal was three jury instructions that the owner argued were erroneous. The Appellate Court found that one of those instructions was erroneous and prejudicial. The erroneous and prejudicial claim was limited to the owner's defective work claim. On the basis of that error, the Appellate Court reversed and remanded for a new trial.

The damages originally sought by the parties are not set forth in opinion, but the amount of discovery taken and the length of trial alone indicates an expensive legal undertaking. We know from the attorneys' fee awarded that the contractor alone spent at least $5 million in legal fees.

Site Enterprises v. NRG Rema, LLC, Docket No. A-1852-18T4 (App Div. 2020) is a New Jersey Appellate Court case concerning enforcement of a construction lien claim involving the demolition of the Werner Generating Station. The general contractor hired the plaintiff to perform demolition work under a lump-sum contract. No schedule of values was provided.

The plaintiff commenced work, but the project was subsequently suspended and then terminated. The plaintiff was not paid and filed a construction lien claim asserting that it had completed 15% of its work. The owner and general contractor refused to pay, and the plaintiff filed an enforcement action.

The defendants argued that in light of the lumpsum nature of the contract and no agreed-upon schedule of values, the plaintiff's figure of 15 percent completion was speculative and therefore overstated. The defendants produced an expert to substantiate their position. From an owner's perspective, the position does not seem unreasonable.

The plaintiff's expert had worked exclusively for demolition companies as an estimator/project manager for 25 years. He testified that his opinion that the plaintiff had completed 15 percent of its contract was grounded in his experience as an estimator and his familiarity with the jobsite. He explained at trial his methodology.

The plaintiff also produced the general contractor's own project manager, whose daily reports estimated that the plaintiff had completed 16% of its work. The project manager had ceased employment with the general contractor after the project stopped. Although the defendants attacked the daily reports as inaccurate, at trial, the court found that the project manager credibly testified as to how he arrived at the percentage.

The trial court found the lien claim valid and enforced it. Moreover, it assessed the defendants $80,188.26 in attorney fees, consisting of the legal fees that the plaintiff had incurred from the date it notified the defendants that it had located the project manager and that he would appear at trial to authenticate his daily reports. The basis of the sanction was the Court's determination that the defendants should have known that their defenses had no basis under the statute once they knew that their own employee was going to appear for the plaintiff and authenticate his daily reports.

Both cases involved needless expenditures of money on experts and attorneys that could have been avoided with the application of a little common sense. The defendants in the Site Enterprises matter should have folded their tents and negotiated a payoff once they learned that their former employee was going to substantiate the plaintiff's claims. Both parties in the Lakehill matter spent large amounts on legal fees for a trial that now will have to be redone unless the parties settle now.

The opinion in Lakehill makes it clear that the plaintiff there was a contentious litigant. The defendants in Site Enterprises clearly held onto their position long past its viability. Both chose not to compromise. Both are paying for that choice now. Sometimes a party has no choice but to continue litigating rather than settling. But the danger there, as illustrated by these two cases, is that unanticipated, and expensive, results can occur. **DP**

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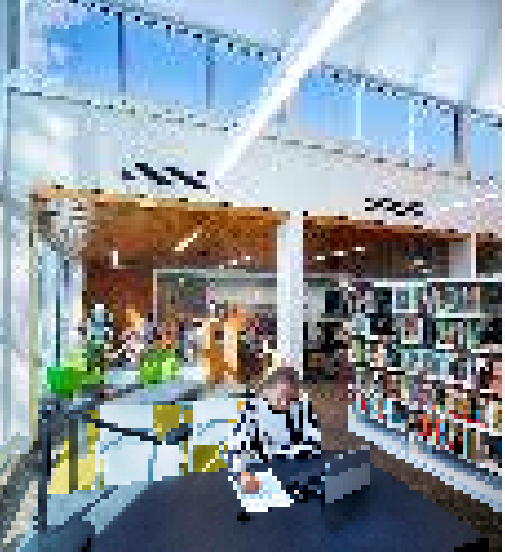

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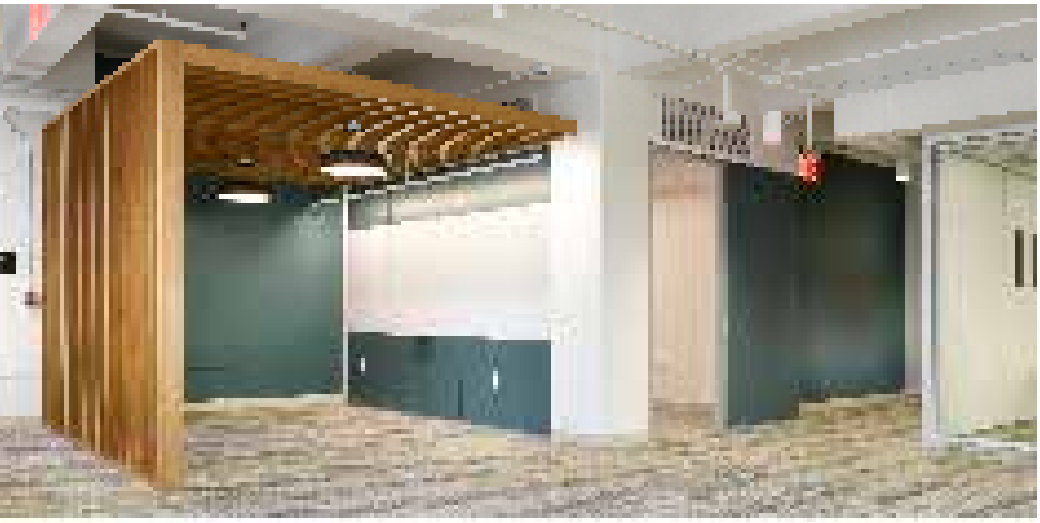

Revisiting Two "Next Hot Neighborhoods"

The restored Wilkinsburg Train Station. Photo courtesy Wilkinsburg Community Development Corporation. Photo by Jason Cohn.

In spring 2015, DevelopingPittsburgh looked at five communities that seemed to be on the verge of becoming the next East Liberty or Lawrenceville. Two of those, Wilkinsburg and McKees Rocks, had seen grass roots progress coming into 2015. Public investment in removing blight, improving streetscape, and assisting businesses and renters were leading to the desired payback: private investment.

Private investment in a community is the key to a virtuous cycle of increased revenues for local government, which leads to increased services and an environment that entices more private investment. Rinse and repeat.

For these two up-and-coming communities, the struggle to reach that virtuous cycle involved reversing the opposite trend, which reinforces exodus and a less desirable quality of living. Both McKees Rocks and Wilkinsburg had a couple of main business corridors and a strategic advantage for redevelopment. McKees Rocks leaned into its proximity to Downtown and its location as a center for multi-modal logistics. Wilkinsburg positioned itself as an historic community with affordable housing and rents, located right on one of the most convenient – and well utilized – public transportation systems.

Since 2015 markets have had their say about those strategies and the two communities adapted, with different levels of success.

Wilkinsburg

In January 2015, the Department of Community and Economic Development and Pennsylvania accepted Wilkinsburg into the Main Street Program, which allowed Wilkinsburg businesses located within the designated downtown area to apply for Enterprise Zone Tax Credits through the Neighborhood Assistance Program. Wilkinsburg Community Development Corporation (WCDC) executive director, Tracey Evans, noted at the time that the Main Street Program would help boost the WCDC's efforts

to attract businesses to Penn Avenue and Wood Street, where a dozen vacant storefronts had been filled during the previous few years.

Evans noted at the time that the kinds of businesses that were coming to Wilkinsburg were very similar to the ones that had popped up in Lawrenceville before it became a hot zip code. Artists, craftspeople, small makers, were attracted to Wilkinsburg's proximity with much lower rents. That trend boded well for what was going to be the next wave in revitalizing Wilkinsburg.

Over the next few years, several major projects were undertaken. Pittsburgh History and Landmarks Foundation continued its investment in Wilkinsburg, spending $11 million to renovate the Falconhurst Apartments. NBT Holdings invested $2.5 million bringing the Lohr Building back to life. And the signature revitalization project, the $6.5 million restoration of Wilkinsburg's historic train station, was accomplished over several phases and several years. These last two projects offered new space for retail, office and maker space tenants, and a historic setting for restaurants.

Instead of being the magnet that Wilkinsburg's leaders envisioned, the newly renovated buildings have been hard to lease. Fortune hasn't favored Wilkinsburg, as COVID-19 broke out as construction was wrapping up on many of the redeveloped properties. Sporadic infections among workers sidelined whole crews who were tasked with painstaking restoration of the train station's architectural elements. The virus has also meant little or no traffic from potential tenants.

"In February, we had three tenants ready to sign letters of intent at the train station and we thought leases would be signed by the end of March. Then COVID hit," recalls Evans. "We are still working with people but it is just taking much longer. How do you push a restaurant to invest right now in a space that still needs tenant fit out? We have to be patient and work with tenants on a timetable that will allow them to be successful. At the Lohr Building we have beautiful office space available and now people are working from home."

Evans notes that while COVID-19 may have taken the edge off the enthusiasm that was generated by having two newly-renovated buildings available, there are long-term structural issues that have hampered business attraction.

"We're seeing that things have gotten stagnant in Wilkinsburg when we thought we would see growth. We thought that business would continue to move down Penn Avenue, but the momentum seems to stop at the Wilkinsburg border," says Evans. "We've been doing focus groups to study what is going on and done economic analysis. Honestly, we are unsure Wilkinsburg will see the kind of tipping point for growth that we expected because of the tax rate, which is 48 mills compared to 23 in the City of Pittsburgh."

That tax rate has discouraged residential

purchases in the borough. Evans cites the problems the higher taxes cause by citing the example of two CVS Stores located on Penn Avenue roughly 18 blocks apart. One is within Pittsburgh city limits, while the other is in Wilkinsburg.

"Both stores are assessed at the roughly same value, which is $1.3 million," Evans says. "The CVS in the city pays $25,000 per year in property taxes. The CVS in Wilkinsburg pays $65,000."

For redevelopment and business attraction professionals, those are tough numbers to sell. There isn't an easy solution. Wilkinsburg saw its tax base shrink dramatically since the 1960s. Wilkinsburg successfully managed its way out of Act 47 oversight in 1990 and has remained independent. Maintaining the schools and borough remains costly, however, even as the school district and borough have worked to reduce the burden to taxpayers. Since 2015, Wilkinsburg School District has lowered the school tax by three mills. Wilkinsburg Borough has not raised taxes. The median home price in Wilkinsburg has gone from $56,000 in 2010 to $87,000 in 2020. The number of homes sold for more than $100,000 has doubled during the same time period. Yet, Evans is resigned to the fact that the 2020 census will show that the number of people living in Wilkinsburg declined during the decade.

A model for a solution to Wilkinsburg's structural demographic issues may have emerged. Beginning with the 2016-2017 school year, Wilkinsburg middle and high school students have attended Pittsburgh Public Schools, primarily the Westinghouse 6-12 School in nearby Homewood. The partnership has been successful for the students academically and has given Wilkinsburg School District some breathing room.

A similar solution could provide relief for Wilkinsburg Borough. Regional leaders have called for measures ranging from partnerships in providing services to an outright merger with the City of Pittsburgh. An agreement by the city to provide firefighting was put in place in 2011. Additional municipal consolidation, including merger, would alleviate the financial pressures on Wilkinsburg, but such a solution is not easily reached. Borough officials and elected leaders don't like to lose their municipal identity, let alone their jobs. And the politics of such a decision would certainly be more difficult in an election year, as 2021 is for Pittsburgh.

"Everybody has really worked hard for the past 10 years and we've done the things you're supposed to do. We're supporting our small businesses," says Evans. "But trying to run a 2.2 square mile urban community on a suburban borough-style budget hasn't worked well. The math just doesn't work."

For its part, WCDC continues to press on with redevelopment. The owners of 1009 Wood Street have filled four of ten storefronts in that renovated building. Civically Inc. and Bridging the Gap have announced plans to invest $6 million to update the 22,365 square foot Hunter Building at the corner of Penn and Wood.

The new office building for Allegheny County Housing Authority brings 70 workers to downtown McKees Rocks each day. Photo courtesy Trinity Commercial Development.

The McKees Rocks Industrial Park proposed by Trinity Commercial Development would add 330,000 square feet of Class A industrial space to McKees Rocks.

Evans sees the vaccination for COVID-19 breaking the lull of interest in the train station and Lohr Building.

"We're positioning the borough for growth. There are good things that have happened," she says. "People are buying buildings and starting new businesses but to really be competitive we have to look at that property tax rate."

McKees Rocks

On the other side of town, two of the people responsible for trying to revitalize McKees Rocks report that things are going according to plan, with some revisions. Taris Vrcek, executive director of McKees Rocks Community Development Corporation (CDC), would love to see McKees Rocks become an overnight success but he knows that the community will be best served by sticking with a disciplined approach that listens to good advice.

"I think the direction that we have gone from day one is to follow the expert advice that went into our plans and what the community has expressed as a priority. We've seen that reinforced over the years," Vrcek says. "We see a great opportunity for attracting real employment centers to the areas that are adjacent to our downtown district. The plan has changed. The CSX decision affected our plan for a manufacturing campus, but the Urban Land Institute study showed there was a real opportunity to attract light urban manufacturing use to the railroad property adjacent to the downtown."

CSX had invested $60 million in developing an intermodal transit facility, which had opened in September 2017. The project was one of the CDC's major achievements since 2015 and CSX's decision to shut the facility down in May 2020 was the kind of bad news that can ruin an economic development person's day. But the shutdown did not invalidate the strength of the location for transportation and light manufacturing. (Shell Chemicals has leased the facilities for storage in transit.) McKees Rocks CDC has continued to pursue grants and make investments that are true to the long-term vision for the business district and riverfront.

Craig Rippole, president of Trinity Commercial Development, buys into that vision and is invested in both the downtown and riverfront of McKees Rocks. Trinity is the owner of the Shoppes at Chartiers Crossing, a retail center at the intersection of Chartiers Avenue and Route 51 at the end of the McKees Rocks business district. Trinity is also the developer of Rocks Multimodal Park, a 44-acre site located just south of the McKees Rocks Bridge. The project, which will include roughly 325,000 square feet of industrial space, leverages one of the core industries of McKees Rocks: transportation.

"The CSX project was a real case study in inter-governmental cooperation. The state was involved. The PRA was involved. The county was involved, and local government was involved. Everyone worked together on a difficult project," Rippole says. "When we were working on the site it was geared towards being an urban logistic center. That set the stage to attract Speedway to build a commercial fueling station. There is a convenience store in the front and behind it are fueling stations for the trucks. McKee's Rocks has always been a transportation town."

Trinity's plan for Rocks Multimodal Park got a boost from the Southwestern Planning Commission when it designated the 2.5 mile stretch of roads between the McKees Rocks Bridge and Neville Island as the top Critical Urban Freight Corridor priority in its long-range transportation plan in December 2016. The plan guides the Commonwealth and federal government in its spending and helped validate the market analysis that had been done for McKees Rocks. One building, a 26,400 square foot flex building, has been entitled and approved for Trinity to get started. With E-commerce driving last-mile logistics closer to urban centers, Rippole is optimistic about the prospects for the two larger buildings.

"With all these things happening, you've got the makings of an urban logistics center in McKees Rocks. We think that presents an opportunity for Class A industrial at that location," he says.

The long-range plans for McKees Rocks sought to leverage the manufacturing development to support and revitalize the commercial main streets of the

community. In 2015, LGA Partners was beginning a streetscape study that resulted in a plan for bringing vitality back to the tired Chartiers Avenue business district.

"The first phase of the streetscape plan is from Chartiers Creek in the main shopping district, all the way up to the Father Ryan Arts Center and the Roxian Theater. The plan turned into a $3.6 million street scape redesign and reconstruction project that is now fully funded," explains Jeb Feldman, director of business development for the CDC. "The streetscape plan also called out some complimentary development sites adjacent to the main business drags. We saw that as a directive to optimize development on those properties and have purchased the most prominent of the properties directly behind the Roxian Theater."

"The streetscape plan we followed to the letter. We're seeing the fruits of it now," Vrcek says. "The Roxian is beginning to deliver on its promise of creating a market in lower Chartiers, which did not exist. We've already seen evidence of that by new businesses moving in namely, Black Forge Coffee and Rocks Landing. What is really exciting is some new mixed-use development on Chartiers Avenue that we've been able to attract."

Feldman reports that Catalyst Communities has proposed that mixed-use project, a six-story residential building that would include five floors of residential above ground floor commercial or community space west of the Island and Chartiers Avenue intersection. The investments in the lower Chartiers section of the business district have sparked additional private investments. Ruthrauff Sauer invested millions expanding its operations on Locust Street. Trinity Commercial developed a build-to-suit office building for the Allegheny County Housing Authority opposite the Shoppes at Chartiers Crossing. Rippole says that the activity has been a shot in the arm for the center.

"We are filling the last vacant space in the shopping center so that will be fully leased for the first time in forever. JP Morgan Chase is going to renovate an outparcel that Cricket Wireless was in," Rippole says. "Those 70 people working in the Housing Authority building across the street did a lot to generate interest in the shopping

center. That daytime foot traffic makes all the difference, and I think it complements what Taris has been trying to do with nighttime traffic from the Roxian."

Trinity Commercial will be developing a 10,000-to-12,000 square foot expansion of Chartiers Crossing and is working to bring a GetGo to the former Pat Catan's site by Windgap Bridge. These incremental additions are the kinds of deals McKees Rocks hoped would be the result of its planning.

"The streetscape plan also called out some complimentary development sites adjacent to the main business drags. We saw that as a directive to optimize development on those properties and have purchased the most prominent of the properties directly behind the Roxian Theater."

"The goal is to attract new homeowners to the residential properties we're working on. That will drive shopping and supporting the other services," Vrcek says. "We've also been working with the school district, Focus on Renewal, and other nonprofits on a collaborative process to create workforce preparedness. We are working with Bill Strickland, thinking about a place that could be in the Bidwell mold that would provide training, incubator spaces, and spin off more employment. The question is how do all of those properties work together to encourage and catalyze development." **DP**

C3 Amenities Center at Cherrington Corporate Center | Candidly Yours Photography

What primary factor or factors do you think will be important to the recovery of the commercial real estate market in 2021?

Tony Thompson
Partner
Meyer Unkovic & Scott LP

"First and foremost, an expeditious roll out of the available vaccines are key to the recovery, particularly to the office space in the Golden Triangle. Until then, we will not see any office workers re-entering the workplace at the pre-pandemic level. Absent further federal stimulus directed to our state and municipal governments, tax increases by local municipalities and school districts may negatively impact the recovery. We anticipate many income producing property owners affected by the pandemic will appeal their property tax assessments, which can lead to lower assessed values and property taxes. A successful appeal can result in savings that can be used for further redevelopment of office spaces to accommodate the changing work environment under our current situation. Combine the savings with a potential stimulus and vaccinated population, real estate owners and businesses will have more freedom to innovate, reinvent, and adapt their workplace strategies and public spaces. This would likely also allow for an increase in travel, helping our retail and hospitality industries, which are important businesses in the real estate industry."

Jason Wrona
Shareholder
Buchanan Ingersoll & Rooney PC

"My instinct is that Q3 and Q4 will signal whether we can declare a recovery is underway. Stability will be key and is dependent on the tug of war between vaccination rates versus virus mutations. I also believe that stability will need to come from the top down – as soon as C-suite leaders make the calculated decision to return to work, the rest of their teams will follow. At the end of the day, folks want to get out of the house!

In periods of economic downturn, we could usually rely on foreclosures and special servicing deals to give a shot in the arm (no pun intended) to a soft commercial market. However, lenders are being patient, and the volume isn't where I'd expect it this far into the cycle. Time will tell if patience wears thin and leads to meaningful distressed deal volume, but I wouldn't count on it unless things drag out through the end of the year.

Finally, I do sense that pockets of commercial real estate will emerge relatively unscathed from COVID, primarily in the light industrial and suburban multi-family markets. Online retailing will continue to flourish and supply chain demands will drive further investment in fulfillment centers. I also think the escape from the urban core will go through a cycle, with suburban apartments offering temporary respite.

Let's hope that 2021 turns out to be a healthy year in all respects!"

Krista-Ann M. Staley
Shareholder
Babst Calland

"Participants in the commercial real estate market will need to continue to incorporate creative solutions to evolving office and retail demands as the market improves and, probably, beyond the pandemic. In many places, rigid and antiquated local regulations may not permit innovative re-use of existing space or new approaches to development. In those cases, developers may need to work with municipalities to identify, communicate and, ideally, resolve local regulatory hurdles. This could be a win-win for municipalities looking to update their approaches to economic development in response to the pandemic.

It is also imperative that the industry continues to recognize and rectify its shortcomings in diversity, inclusion, and equity. Industry leaders will need to show they meant what they said in 2020 about addressing inequality. This will require sustained effort and focus that will last beyond the recovery of the market."

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"There are multiple human driven factors that will be important to the recovery of the commercial real estate market in 2021, most significant of which is the currently underway Covid-19 vaccination effort.

Companies that are able to trim their bottom line and prove to be versatile in an ever-changing market will survive to see a recovery that should hit in the latter half of the year, when the majority of the American population will be vaccinated and taking the first steps towards resuming life as we knew it prior to March of 2020. What those first steps look like will have a large impact on the recovery of many sectors, like retail and hospitality, that depend heavily on customer foot traffic to survive. Will people be desperate to reconnect with the normal aspects of life and rush, freshly vaccinated, into malls by the droves, or will humanity tentatively and hesitantly reengage with those activities of life that sustained huge swaths of the commercial real estate market pre-Covid?

Another factor will be permanent societal preferences for our new social norms and whether "dark stores", curb-side pickup, same day home delivery, and work-from-home policies continue to be popular. Those aspects of COVID life that endure in our society will have broad impacts across various real estate sectors. From hotels and restaurants to office space and grocery stores, so much of the commercial real estate market's recovery will be affected by how quickly people can get vaccinated, how desperate humans are to return to normalcy, and what aspects of our COVID adapted lifestyles will endure."

Dusty Elias Kirk
Partner
Reed Smith

"The primary factors that will drive the recovery of the real estate market in 2021 are:

- How quickly vaccines can be given to the population to make everyone comfortable returning to their offices?
- Do landlords have the ability to change air handling systems and cleaning protocols to limit exposure to illness for tenants and visitors?
- What kind of liability protections will be in place for landlords, employers and business owners, such as restaurants, gyms, and shops?
- Will our cities and towns have the financial wherewithal to provide economic incentives to invigorate our commercial centers and downtowns?

If the real estate community and municipal officials are willing to look at the pandemic as an opportunity to rethink our communities, we have the opportunity to make a positive impact on the social and economic environment for our citizens in large cities and small towns throughout our nation."

Joshua M. Farber
Member
Clark Hill PLC

"Using available tools to right size expenses will be imperative. For properties which saw a significant hit to income during the COVID-19 pandemic, now is a very good time to evaluate property value for purposes of tax assessment appeals. Though it may not be as simple as showing that there was an income decrease during the pandemic, if that is coupled with being in an industry expected to see a very slow long-term recovery (i.e. hotels, offices, use related to the oil and gas industry), consideration of an assessment appeal is warranted. One year of income losses is not sufficient alone to warrant a reduction in the assessment, but taken in concert with a collective industry outlook, can make initial analysis worthwhile. In Allegheny County, a 2021 appeal must be filed by March 31 while surrounding counties in the greater Pittsburgh region have later deadlines that need to be checked."

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When we envisioned what 2020 and 2021 would look like, we could have never imagined that we would be battling a global pandemic. Each of us is doing things in new and different ways, and the county is no different. We have been charged with finding new and unique ways to continue to provide the services that our residents and businesses rely upon, and we have risen to that task.

We have often said that our diverse economy is the keystone to our continued energy and vitality. That is particularly true as all of us pivoted to working from home, adapting new business models, and working collaboratively to ensure that our businesses and our community continues to thrive. Those strengths have never been as evident as they are during this pandemic – and Allegheny County continues to strive to build on those strengths, supporting new and emerging businesses and investing in the sustainability of those which already call this region home.

Have you heard of Fifth Season? Building on technology developed at Carnegie Mellon University, Fifth Season has a seven-story urban structure where it is conducting vertical farming. Yes, you read that right – vertical farming. The business is located in a $7 million, 60,000-square foot light industrial facility in Braddock. This technologically advanced system of indoor farming also uses local staff, filling its advanced manufacturing positions with residents of Braddock and its surrounding neighborhoods. The county played an important role as its Redevelopment Authority acquired over 60 abandoned houses in a predominantly industrial district. Those properties were then bundled together to create a site large enough for the company's 5-acre footprint.

Allegheny County also launched its Commercial-Property Assessed Clean Energy (C-PACE) late last year. The program provides a funding mechanism that allows commercial, industrial, and agricultural property owners to obtain long-term financing to pay for energy efficiency, renewable energy, and water conservation projects. These upgrades result in consumption and cost savings for the property owner while reducing the property's carbon footprint which, in turn, reduces the county's carbon footprint. Through the initiative, property owners can apply for a loan to fund their project costs and the loan is repaid through a voluntary special assessment that is billed and collected by the county as part of the annual real estate tax bill. Want more information? Visit http://alleghenycounty.us/cpace.

When it comes to sustainability, we're not just talking the talk. County Executive Rich Fitzgerald just recently announced that the county has entered into a 35-year power purchase agreement with Rye Development to purchase 7.4MW of renewable electricity, generated at a new, low-impact, run-of-river hydroelectric facility to be located on the Ohio River. We know the benefits of renewable energy but have also recognized that

the supply of such energies is not robust enough to support a large shift from fossil fuels to renewable energy. Without agreements such as the one that the county has committed to, hydro projects of this scale may not be possible.

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. We are grateful to have the opportunity to work with those businesses and organizations which already call this region home, and welcome the chance to talk with anyone interested in this community about what a great place it is to live, work and play.

Armstrong County

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A project with significant public and private support will begin to move forward soon. Butler County Community College (BC3) secured a $1.75 million Redevelopment Assistance Capital Program grant to construct a $4.5 million branch campus in Ford City Borough, Armstrong County. Armstrong County has also pledged $250,000 to BC3 toward the construction. Private funding commitments of $220,000 have been secured from Snyder Associated Companies of Kittanning ($100,000); BelleFlex Technologies and PulFlex Technologies of Ford City ($70,000); and NexTier Bank of Butler ($50,000). The 12,500 square foot facility will house approximately four classrooms, a multi-purpose room, a natural science laboratory, student meeting space, and staff and faculty offices. The Nonprofit Development Corp., Butler, will own the facility, which will be built in a Keystone Opportunity Zone on the former location of the Ford City Junior-Senior High School, which was razed in 2018. In 2015, BC3 opened a 2,000 square foot branch campus in Armstrong County at Lenape Technical School's NexTier Adult Learning Center in nearby Manor Township. BC3 @ Armstrong quickly outgrew their existing facility after experiencing a 426 percent increase in enrollment, which led to the decision to construct a larger facility in Ford City Borough. The new facility could open by fall 2022.

Phoenix Granite Fabrication, Inc. had a grand opening ceremony at their facility in Gilpin Township, Armstrong County in September 2020. The Armstrong County Department of Economic Development helped coordinate the event which was attended by local and state elected officials. Phoenix Granite Fabrication fabricates countertops, bars, shower/bath items, fireplaces and creative accents such as desk accessories, wine barrel tables, sconces and more. The company, which was founded in 2017, relocated to Armstrong County upon searching for a larger facility to meet the growing demand

for their products. They currently have six employees.

The Appalachian Regional Commission (ARC) awarded a $750,000 grant to Armstrong County for the Critical Infrastructure Workforce Academy (CIWA) Phase I project. The funding will be used to construct a building in the Northpointe Business Park to house "critical infrastructure" training programs. The Armstrong County Industrial Development Council and Energy Innovation Center Institute (EICI) continues to develop CIWA, a unique training facility that will provide the current and future workforce the skills necessary to install, operate and maintain critical infrastructure: gas, electricity, water, sewer and telecommunications.

The COVID-19 pandemic has continued to take its toll on a variety of industries in Armstrong County. In July, the Armstrong County Industrial Development Council submitted an application for the COVID-19 PA Hazard Pay Grant on behalf of 18 Armstrong County businesses representing the industries eligible for the grant. The PA Department of Community & Economic Development approved four of the applications, totaling approximately $110,000. The Armstrong County Industrial Development Council is a Certified Economic Development Organization and the staff at the Armstrong County Department of Economic Development helped each applicant successfully navigate the program guidelines.

The Armstrong County Board of Commissioners designated $1,707,789 of their CARES Act funding toward a grant program that targeted Armstrong County businesses affected by COVID-19 and with fewer than 100 employees. Grants of up to $15,000 were awarded to 169 small businesses from a wide variety of industries including hospitality, health care, manufacturing, non-profit and more.

The Armstrong County Department of Economic Development continues to share new programs and resources with Armstrong County businesses, in addition to marketing the county for new investment.

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

Butler County

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Collaboration is a big part of Butler County and the success that the county has had in recent years. The Butler County Growth Collaborative was unveiled in the spring of 2019 and since that time it has enabled our county representatives to speak with one voice. The Collaborative includes the Butler County Tourism and Convention Bureau, the Community Development Corporation of Butler County (CDC), the Butler County Chamber, Butler County Community College, the Housing and Redevelopment Authority of the County of Butler and Butler County Community College. These and other Butler County entities are committed to "speaking with one voice" and showcasing Butler County to prospective businesses and residents. "By speaking with one voice we are committed to eliminating the duplication of services and providing current and prospective business owners with the information that is needed for them to relocate or expand in Butler County," stated CDC Executive Director Joe Saeler.

In 2020 several Butler County projects got underway in spite of the COVID Pandemic. Butler Township purchased an 18-acre tract at the Pullman Center Business Park Expansion with plans to construct a sports dome on the site. This facility will provide residents in Butler County and the tri-state area with a first-class sports facility that will host regional tournaments for teams of all ages.

The Capital Environmental Risk Transfer Alliance (CERTA) purchased the AK Steel Plant 2 property in late 2020. This 30-acre tract is adjacent to the Pullman Center Business Park. An environmental assessment of the land will take place and several of the buildings on the parcel will be razed. The CDC will then partner with CERTA on conceptual plans for transforming the area into a business park for manufacturers. This site has all utilities as well as rail access making it very attractive to manufacturing firms. Look for some announcements on the companies interested in relocating to this area in the near future.

The East Butler corridor has seen a resurgence of sorts as SmartMask Technology and RPP Products recently opened facilities in that area. SmartMask Technology opened a manufacturing facility and offices in the county and expects their sales to grow as a result of the current pandemic. The RPP Products facility, which is 190,000 square feet in size, has brought 40 jobs to Butler County. RPP is the nation's top manufacturer of automotive oils and windshield washer fluid. In addition, they recently retooled several manufacturing lines and now produce hand sanitizer, which is another item in high demand due to pandemic.

Education is also an important part of Butler County's economy. The county is one of only two in Pennsylvania to have both a community college (Butler County Community College) and a four-year university (Slippery Rock University). Butler County Community College (BC3) has announced plans to expand their Nursing Program and the groundbreaking for the Victor K. Phillips Nursing and Allied Health Building took place in September. A licensed practical nursing program is expected to begin in the Fall of 2021 and will assist with the current nursing shortage.

Infrastructure improvements are also a vital component of Butler County's success. Work on the MSA Thruway continues in Cranberry Township. The thruway will alleviate traffic delays on Route 228 and connect Interstate 79 to the Cranberry Springs Business Park. Work on the Route 228 corridor in Middlesex Township is also continuing. The Balls Bend area will be reconfigured to accommodate growth in this area. New signals in the area will alleviate delays as the shops at the Middlesex Crossings Strip Mall begin to open. The CDC office is also working with Petrolia Borough and Allegheny Township on stormwater and infrastructure upgrades in the northern portion of Butler County. Both boroughs received H2O grants to modernize their stormwater systems.

Fayette County

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The year 2020, as we all know, was not a typical year in the economic development world. But even with the Covid-19 pandemic all around us, there was still a lot of progress in Fayette County.

During the initial Covid-19 shutdown of businesses, Fay-Penn staff was able to assist close to 160 businesses with navigating their way through the various emergency funding programs that were created by the U.S. Small Business Administration as well as the COVID-19 Working Capital Access Program. Additionally, Fay-Penn was able to reallocate some Appalachian Regional Commission grant funding to be able to provide Personal Protective Equipment to 50 businesses once they were able to reopen. Fay-Penn completed one loan in 2020 totaling $111,775 that assisted in the purchase of a building to relocate an existing day spa. In total, Fay-Penn staff was able to work with close to 270 businesses with loans, grants and other technical assistance in 2020.

In July Fay-Penn broke ground on a 100,500 square foot speculative building at the Fayette Business Park in Georges Township. Fay-Penn received a combination of state grants, loans and private funding to construct this project. This project is scheduled to be completed in the spring, and is currently being marketed for possible tenants.

Fay-Penn was able to secure grant funding for two studies – one to determine the best use of 800 acres that Fay-Penn owns in Springhill Township, and one to determine what types of businesses should be sought out to try and attract to Fayette County. Both studies should be complete by early spring.

Fay-Penn staff was also successful in getting Keystone Opportunity Zone extensions for 39 parcels in the county totaling almost 1,200 acres. Having this designation on these properties are an added incentive when attracting businesses to the area.

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

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

Greene County

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For the second half of 2020, Greene County continued its outreach with a COVID-19 Task Force that identified who could benefit from the provisions in the CARES Act. Two companies were able to receive grant funding through the Hazard Pay program including a rural grocery store refrigeration program. Eight businesses were successful in obtaining funding through the COVID-19 Working Capital Access (CWCA) program of the CARES Act and the Paycheck Protection Program was highly successful in providing relief for our local businesses.

Construction continued on the new Greene County Office building for the state Department of Transportation (PennDOT District 12-2) to replace the former one destroyed by fire in May 2019. White's Welding, a welding and fabrication company was founded in 2000 and primarily serves the energy sectors. To make room for its continued expansion White's moved into EverGreene Technology Park, the 248 acre business park that is just one mile from Interstate 79. A new restaurant, Brady's Roadhouse, opened in West Waynesburg across from Wayne Lumber. Its local owner is focusing his chef's talents on a steakhouse style family-friendly restaurant.

Gas and oil production continued and the Southpointe-based Consol Energy announced plans to develop a coal-fired power plant with near-zero emissions that would be operational by 2028. Of the five sites being considered, four are in Greene County. In the fall Contura Energy sold its Cumberland and Emerald mines to Iron Senergy saving 700 coal mining jobs in Greene County. Iron Senergy will assume all reclamation obligations.

The Greene County Industrial Development Corporation has begun the planning process for a public/private partnership to develop a new business park near Interstate 79 and the Waynesburg interchange. If you are interested, please contact Don Chappel at 724-852-2965.

Indiana County

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Orlando, Florida based New Village Initiative (NVI) recently announced the acquisition of the Blairsville, PA campus of the former WyoTech vocational school, located at the Corporate Campus business park in Burrell Township.

"After working for two years on this acquisition, we are delighted that the Blairsville community will become the hub for NVI's vocational equipping and job creation platforms," said Gary Beeman, CEO at NVI. Beeman also shared that, "beyond re-opening the school we view Indiana County as a critical location for NVI's Advanced Materials Group which involves the manufacturing of our HouseKit™ affordable home construction products and our NewRoad™ longer life, lower cost road surfacing materials – all made from recycled plastics and high-tech materials."

"Having watched NVI navigate and overcome numerous challenges over the past 18 months in their efforts to finalize this acquisition we are committed to connecting them with the county, state and federal resources that will enable them to begin offering classes by the middle of next year," said Byron G. Stauffer, Jr., Executive Director of the Indiana County Development Corporation and the Indiana County Office of Planning and Development.

A group of local leaders have formed Indiana County REACH (Resources, Education, Announcements, Communication, Help) – a collective voice and official source for news and information around emerging concerns and opportunities for the citizens of Indiana County. The concept for REACH evolved from the COVID-19 Recovery Task Force spearheaded by the Indiana County Board of Commissioners. The first county-wide concern REACH will address is the impact of COVID-19 on Indiana County residents.

REACH created the website www.IndianaCountyPaREACH.org for residents to access critical and up-to-date

information about COVID-19. The site provides a single source for information, including the percentage of positive COVID-19 tests, local statistics, risk factors, prevention measures, and testing site locations.

"With COVID-19 cases on the rise across Indiana County and the holidays quickly approaching, we know it is critical that our residents have the most current information so that they can keep themselves and their loved ones safe," said Indiana County Commissioner Gorman, speaking on behalf of the Indiana County Board of Commissioners.

"We want the REACH website to help to increase our residents' understanding of the risks and preventions of the virus and that REACH will continue to be a trusted source for accurate and timely information that meets the needs of the 85,000 Indiana County residents we serve."

REACH brings together a diverse representation of the many neighborhoods, boroughs and townships of Indiana County and has partners from organizations including: ARIN Intermediate Unit, Indiana University of Pennsylvania, Indiana Regional Medical Center, Indiana County boroughs and townships, Chamber of Commerce, Emergency Management Agency, Department of Human Services, Office of Planning and Economic Development, and Tourist Bureau, Westmoreland Community College, White Township, YMCA of Indiana County, and federal, state and county officials.

In addition to COVID-19, REACH will address emerging issues and opportunities and is dedicated to maintaining physical, emotional, and economic health for Indiana County residents, businesses, and organizations.

The IUP Small Business Development Center is working to help businesses increase sales. In that regard, they are pleased to announce the acquisition of a new tool, the Brand Score Report. They are providing this tool and service at no charge to a limited number of businesses. Now more than ever you know you need to be getting customers and sales from the Internet. You feel you should be doing better with your web site and Internet efforts, yet knowing what will be effective seems totally hit and miss.

You hear stories of other businesses having great success attracting customers and sales from their web sites, social media or other online tactics and ever wonder how to get the Internet to work for you? It's frustrating and often mystifyingly unclear to know what will work, when. To provide clarity and focus, The Brand Scoring Report is a Rubric of six elements that when optimized will maximize customers and sales and do so efficiently, minimizing costs and time and prevent wasting dollars and time. In partnership with Travis Media, the Small Business Development Center at IUP, is offering a limited number of spaces at no charge.

This service not only includes diagnosing your Internet issues and opportunities with their Rubric but follow up consulting and tools to optimize your online assets and tactics to drive customers and sales. The IUP SBDC will also provide complementing support. Spaces are limited and are on a first come first served basis, so if interested in learning more or ready to participate, go to the IUP SBDC website, https://www.iup.edu/business/sbdc/ to apply for access to this service.

Lawrence County

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Lawrence County welcomed promising expansions during the second half of 2020. From the planned construction of a state-of-the-art training facility to the development of a new business park, the future looks exciting. Current and prospective county businesses will appreciate the job creation and workforce advancements.

Two $1 million-dollar Redevelopment Assistance Capital Program (RACP) grants were awarded to the Western Central Pennsylvania Electrician Joint Apprenticeship & Training Committee, which is being used for the construction of a 20,000 square foot training facility. This facility will not only create jobs, but it will also catapult Lawrence County into an in-demand pool for electrical workers. The latest digital media, laboratories for various fields of study, as well as outdoor training areas are planned for the training center.

Located in Millennium Park, Neshannock Township, Steelite International is expanding their warehouse facility. Supported by the Lawrence County Economic Development Corp. (LCEDC), Steelite was awarded $1.5 million RACP dollars toward this 52,000 square foot expansion. It is estimated that more than 80 jobs, both direct and indirect, will be created once the project is complete.

Building off the momentum of recent large-scale construction, the 213-acre Stonecrest Golf Course site in New Beaver Borough was identified as a prime location for a new business park. Stonecrest's proximity to I-376 and the PA Turnpike make it an easily accessible destination. It is estimated that 1.5 million square feet of buildings can be constructed, ushering 1,000 new jobs into the area.

The new construction, site development, and facility expansions ahead create an optimistic view as Lawrence County moves forward. Growth in job creation and workforce development bode well for the community as a whole. The LCEDC remains steadfast in supporting the creation of these opportunities and more as we kickoff 2021.

Washington County

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As the COVID-19 pandemic continued to influence all aspects of life in the second half of 2020, in many ways, things also carried on as usual – economic development has continued as projects were planned, deals were made, and the economic recovery from the pandemic remains a primary focus of many of our private and public sector partners. With the FDA approval of vaccines in late December and the roll-out underway, a light has appeared at the end of this dark tunnel and we are optimistic that the future remains bright in Washington County.

As the state Certified Economic Development Organization for the county, the Washington County Chamber

of Commerce continued to work with our government and private sector partners to support the pandemic recovery efforts. In addition to promoting available COVID-19 relief programs through federal, state, and county governments, the chamber also gathered and consolidated applications for the Pennsylvania COVID-19 Hazard Pay grant program. Ultimately, this program helped contribute nearly a million dollars to support the county's healthcare, food service, and other frontline workers. In addition, thanks to the tireless work and dedication of our local and regional financial institutions and the Small Business Administration, Washington County businesses were able to access nearly half a billion in Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) loan funding. This funding provided a much-needed boost in helping our business community weather this storm.

Despite the remote working arrangements and other obstacles presented by this global pandemic, economic development continued in Washington County. Some of the highlights included SunCap Property Group closing a deal for a 250,000 square foot facility for Komatsu Mining Corp. at the Alta Vista Business Park in Fallowfield Township. This facility will be a new global distribution center that will consist of a 215,000 square foot warehouse and 35,000 square foot office. The facility will deploy highly efficient pre-sorted kitting and packing capabilities to increase productivity and improve overall customer experience while also creating a facility that offers a high level of safety for employees. Komatsu has been in Washington County for 65 years and will continue to occupy their existing space until the new facility is complete. The Mon Valley Alliance also announced the construction of a 40,000 square foot flex building at Alta Vista Business Park.

Two new manufacturing companies have taken space at 701 Technology Drive – Progeny Systems, a Department of Defense Contractor and Sigma Instruments, Inc., a manufacturer of chiropractic instruments. Tekni-Plex, a globally integrated package manufacturer based in Wayne, Pennsylvania, leased a 25,610-square-foot warehouse at 18 Starck Drive, Burgettstown. Inovalon, a publicly traded Maryland- based tech firm working in the health care industry, has leased 40,000 square feet at 275 Technology Drive in Southpointe. Inovalon first established a presence at Southpointe in 2016 when the company bought the local firm, Creehan Holding Inc.

Ameri-Precision Metals, which has transformed a building in Canonsburg into a precision specialty steel manufacturing plant, received a Redevelopment Assistance Capital Project (RACP) grant in the amount of $1.5 million. The funds are intended to assure completion of the first of three phases of the cold rolling and high carbon steel annealing processes. Another $500,000 RACP grant was awarded to renovate the Landmark Building on Maiden Street in Washington. The funds are targeted for interior renovations and upgrades to address code compliance, accessibility, and design features in the office building, which was the former Greyhound Bus station in the city.

The Washington County Commissioners held a "rolling dedication" to showcase the $1.4 million in improvements made at Mingo Creek County Park. The improvements included a new shelter with adjacent play equipment, the relocated Sumney log home, rehabilitation of the stone Henry House, a nine-hole disc golf course, tent shelters in the Scout camping area and the inclusive playground area that was designed to be wheelchair accessible.

New housing starts was a bright spot in the Washington County economy in 2020. Cecil Township ranked number one in the seven-county region with four of the top ten ranked townships in the region residing in Washington County. In addition to Cecil Township, Peters Township, Chartiers Township and North Strabane Township made the top ten listing.

Peters Township also announced the addition of a new aquatic center at Rolling Hills Park. Kimmel Bogrette Architecture + Site will provide design work on the estimated $10 million dollar project.

Voices for Independence and Transitional Paths to Independent Living celebrated the completion of Phase I of the renovation of the 27,000-square-foot former YWCA building that was constructed in 1929. The $4.3 million phase, which focused on renovating the lower level and front portions of the remaining floors, included the completion of a training center, offices, and an internet cafe.

Finally, Washington County continues to invest in infrastructure. Some notable projects include the $5.19 million Canonsburg Lake bridge project on McDowell Lane, which will replace a 75-year-old bridge with a new structure in April 2021. Washington County is also investing nearly $880,000 in three bridge projects – including the replacement of the Deems Bridge over Pike Run and the repair of the Pittsburgh Street Bridge over Raccoon Creek. The Pennsylvania Turnpike Commission is also nearing completion of the Southern Beltway project, expected in the Third Quarter 2021, which provides a direct connection between Interstate 79 and Route 22 and improves access to Pittsburgh International Airport and points north and west. This project should open additional opportunities for development in the north western portion of the county and increase the viability of the Starpointe Business Park.

While 2020 was a year full of uncertainty, Washington County is looking forward to a bright future while continuing our work in promoting the county and addressing the needs of our business community.

Westmoreland County

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Although the pandemic continued to limit everyday life in the latter half of 2020, economic development continued at a strong pace in Westmoreland County.

Given this issue's theme, start with some exciting Industry 4.0-related news: the October groundbreaking for the Digital Foundry at New Kensington, a state-of-the-art manufacturing lab that will benefit regional manufacturers, K-12 school districts, entrepreneurs, college students and individuals who want to develop new professional skills. A collaboration between Economic Growth Connection of Westmoreland and Penn State New Kensington with support from the Westmoreland County Industrial Development Corporation (WCIDC), this project was made possible by a $5.5 million grant from the Richard King Mellon Foundation.

Penn State plans to make the 15,044 square foot Digital Foundry an epicenter for Industry

4.0 education as it integrates robotics, artificial intelligence, 3D printing and augmented/virtual reality with traditional manufacturing processes. The foundry's demonstration spaces are expected to become an invaluable resource for small manufacturers to stay abreast of manufacturing and technology industry trends.

The foundry is on track to be completed in late 2021. Sherri McCleary (who brings 30 years of leadership and experience in industry, engineering and manufacturing — most recently as director of additive manufacturing-business at Kennametal) has been named its inaugural director.

Speaking of manufacturing, in August start-up manufacturer Fossil Industries finalized a deal with the WCIDC to purchase 10.99 acres in Westmoreland Technology Park II to build its 41,000 square foot home. The company — which will use high-tech manufacturing techniques to build a variety of consumer products — projects that it will employ as many as 38 workers at the Hempfield Township facility within five years.

Just a short walk from the Fossil Industries site, crews are working on Al. Neyer's first project in Westmoreland County. The national developer finalized a deal for 13.39 acres in Tech Park II in September and promptly got to work building a 150,000 square foot speculative flex facility. When complete, its new Hempfield Commerce Center is expected to support more than 150 jobs. The developer has optioned three nearby parcels to support this development.

That likely won't be the developer's last project in Westmoreland County. Al Neyer plans to build 270,000 square foot and 233,000 square foot speculative warehouse/distribution buildings on 53 acres that it has optioned in nearby Commerce Crossing in Westmoreland.

In September, Greensburg-based MedCare Equipment Co. broke ground in Bushy Run Corporate Park on a $4.9 million, 100,000 square foot facility that will consolidate its warehouse operations. In addition to transferring all 50 workers from its existing Monroeville facility, MedCare projects that it eventually will add 20 new jobs at the Penn Township distribution center. The medical-equipment supplier will occupy three-fourths of the facility; PRL Motorsports will move from a smaller space within the industrial park to occupy the remaining 25,000 square feet. The facility is expected to open in summer 2021.

In October, Saint Vincent College began work on a $12.2 million expansion to create its new Student Life and Hospitality Center. The third major project in the college's $110 million "Forward, Always Forward" campaign, the project will expand and renovate dining, meeting and gathering spaces. It is expected to be completed in Spring 2022.

A dozen booming tee shots or so away from Saint Vincent College, Arnold Palmer Regional Airport embarked last fall on the final phase of a $13.2 million project to widen and strengthen its runaways to better accommodate larger airplanes, paving the way for more transportation options.

And in November, the doors opened on the year's biggest private-sector investment in Westmoreland County — $150 million Live! Casino. With 100,000 square feet of gaming, dining and entertainment space, the casino instantly became a nightlife draw. Post-pandemic, it is projected to generate $188 million in annual economic impact while employing 500.

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COVID-19 postponed most of the industry events that bring us together. Here's a look back at some of those from the past.

From the 2007 NAIOP Banquet, (from left) Lou Oliva, Mark Dellana, and De Peart.

From 2010, (left-to-right) Scott Irmscher, Tony Bucciero, Mike Bozzone, Chip Desmone, and Donna Pacek at NAIOP's banquet.

From 2013, Amy Broadhurst, Pierre Brun, and Rich Gasperini.

Retired NAIOP executive director Leo Castagnari (left) with Sharon Landau, Tom Landau, and Maureen Ford.

NAIOP

COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

PITTSBURGH CHAPTER

Learn more about NAIOP in the western Pennsylvania tri-state region at **naioppittsburgh.com** or **412-928-8303**.

NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION
PITTSBURGH CHAPTER

NAIOP, the Commercial Real Estate Development Association, is the leading organization for developers, owners and related professionals in office, industrial and mixed-use real estate. NAIOP provides unparalleled industry networking and education, and advocates for effective legislation on behalf of our members. NAIOP advances responsible, sustainable development that creates jobs and benefits the communities in which our members work and live.

NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

For more information on how you can develop connections with commercial real estate through NAIOP, visit us online at **www.naiop.org** or call **800-456-4144.**

From 2017, Domenic Dozzi (left), David Weisberg, and Jamie White (right).

(From left to right) Scott Graham, Lee Hurwitz, Arnold Palmer, Jim Scalo, Bill Taxay at the 2014 NAIOP golf outing.

Mark Anthony Thomas, Tony Thompson, and David Caligiuri at the 2020 NAIOP banquet.

Nate Phillips (left) and Martin Taube at NAIOP's 2016 golf outing.

(From left) Alyssa Kunselman, Stacey Weniger, Jennifer Kilgore, and Kelsey Kanspedos at the 2019 NAIOP golf outing.

(Left-to-right) Chad Wheatley, Brian Walker, Marcus Piatt, and Lynn DeLorenzo at the 2015 Night at the Fights.

(From left) Bill Hunt, Tony Rosenberger, and Randy Cornelius at the 2016 NAIOP holiday party.

Jessica McKinney (left), Emily Sipes, and Scott Diguglielmo at the 2019 Developing Leaders holiday party.

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