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## TENANT IMPROVEMENT COSTS

Local tenant improvement prices keep falling and are now in the problem stage  
David Hayes, CEO



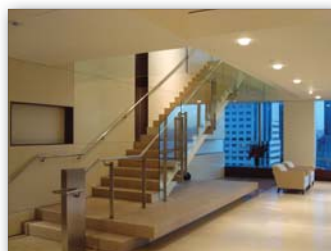
*Happy Holidays to all!*

We typically write this newsletter quarterly but this year, with all the challenges in the market, our focus turned inward to keep our business in order..Just last week we bid jobs that had sub pricing down 40% from Q42008 for the same work in the same location. Can you say, "Red Flag"!

Remember San Francisco and parts of the South Bay are union labor markets with pre-negotiated collective bargaining agreements that provided wage or benefit increases this summer (Yes, that's right, union labor costs increased this summer). Material costs are static as some materials have increased while others have decreased. Margin compression is at the heart of the price reductions, as subcontractors just want some cash coming in the door. General contractors are reducing fees and general conditions to secure work and keep people employed.

I can assure you, even in the best of times, subcontractor and GC margins were 25-30% combined, so we are now in the "losing money" zone. Watch out for bankruptcy in our industry to spike in Q1 or Q2 of 2010 and continue throughout the year. Our surety company informs us 2010 will be the biggest year of construction related defaults in history and California will lead the way. They estimate current construction unemployment to be at 35% and it will spike to 45% in 2010. OUCH!

This is not the time to hard bid work, this is the time to select a GC, fix their fee and have them manage the subcontractor process for the team. The risk of selecting the lowest bidder will now have implications beyond saving money and jump into default management or surety involvement in the project, schedule delays, mechanic liens, hold over rent payments, lost revenue, increased legal expenses and overall stress and anxiety.



# Skyline Report

## Press Coverage:

Please click on any of the links below to view our recent news articles:

- ◆ SmartMoney.com  
Stand Out: At This Contractor, Everyone Profits  
October 2009
- ◆ Winning Workplaces  
Sharing the Pain 'Sounds Like Good Business' to Skyline Construction CEO  
October 2009
- ◆ CBS 5 KPIX News  
SF Construction Firm Among Top Small Businesses  
September 2009
- ◆ The Wall Street Journal  
Top Small Workplaces 2009  
September 2009
- ◆ Processor Magazine  
Aging Data Centers: A Plan  
July 2009
- ◆ San Francisco Business Times  
Skyline drums up strong data center business  
May 2009

## COMPANY ACHIEVEMENTS

### Top 15 Small Workplaces 2009



The Wall Street Journal and Winning Workplaces selected Skyline Construction as one of the 15 Top Small Workplaces in America out of nearly 630 nominations. The list showcases workplace environments that foster teamwork, flexibility and professional growth. This prestigious award demonstrates that Skyline's first priority is its employees and that our team remains cohesive as ever despite the economic recession.

Five Skyline employees, including delegates from Accounting, Marketing, and the Project Management teams were randomly selected to travel with our CEO to Chicago to accept the award. Please view the "News" section of our website to read the Wall Street Journal article and watch the KPIX news video.

### Howard Fish wins BOMA's "Associate Member of the Year 2009" Award



The Building Owners and Managers Association of San Francisco selected Skyline's Vice President, Howard Fish as the 2009 Recipient of the Associate Member of the Year Award. This honor signifies Howard's long term contribution to BOMA and to the longevity, creativity and ingenuity of the overall real estate industry.

### LEED Corporate Interiors Project of the Year



Skyline Construction is the proud recipient of the 2009 CICA Award (Commercial Interiors Contractors Awards) for the best LEED Commercial Interiors Project of the Year for its work on Google's San Francisco office. CICA recognizes excellence and achievement in commercial contracting and uses judging criteria such as adherence to budget, schedule, design intent, innovation and quality of execution to award contractors.

Skyline was instrumental in helping Google obtain Gold Certification for its 210,000 sq. ft. office, which is not only one of the largest commercial LEED projects in the Bay Area, but was also completed on fast track, phased project schedule.

# Skyline Report

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## COMPANY ANNOUNCEMENTS

### Skyline Construction forms new Life Science & Technology Division



Skyline Construction is pleased to announce the formation of a new Life Science & Technology division, lead by industry leaders Long Nguyen and John Fara. Project Executive, Long Nguyen joins Skyline with many years of related experience, and is known for tackling tough and technical design build projects. John Fara, Ph.D., joins Skyline's board of directors with over three decades of experience in the life sciences industry. He will help build Skyline's Life Science and Technology Division and serve as a general advisor to the firm.

### Aimee Hallgrimson joins Skyline as Director of Business Development



Skyline Construction is pleased to welcome Aimee Hallgrimson as Director of Business Development in our Silicon Valley office. Aimee brings nearly two decades of experience in strategic business development, lead generation and partner alliances for the construction, real estate and commercial facilities industries. Prior to joining Skyline, Aimee was with Pivot interiors for thirteen years where she secured high profile and loyal clients such as Sun, Adobe, and Apple.

### Congratulations to Skyline's latest LEED accredited professionals.



James Mason  
LEED® AP  
Existing Buildings



Leina Zimmerman  
LEED® AP  
New Construction



Tony Vierra  
LEED® AP  
Commercial Interiors

### Gibson, Dunn & Crutcher LLP Gets Gold!



We are proud to announce that the USGBC awarded Gibson, Dunn & Crutcher LLP with LEED gold certification for its 65,000 sq. ft. tenant improvement project in San Francisco. Congratulations to Gibson, Dunn & Crutcher and the Skyline Construction project team which included Adam Chelini, Adam Zuur, Fabian Valdiosera, Gabriel Delgado and Leina Zimmerman.

# Skyline Report

## Completed Projects:

### Critical Facilities Projects:

- ◆ Robert Half International  
Deer Park, IL  
Data Center

### Tenant Improvement Projects:

- ◆ Cerexa  
Alameda, CA  
30,000 Sq. Ft.
- ◆ Coverity  
San Francisco, CA  
27,000 Sq. Ft.
- ◆ Enovity \*  
San Francisco, CA  
9,000 Sq. Ft.
- ◆ Marriott  
San Francisco, CA  
17,000 Sq. Ft.
- ◆ Old Republic Title  
San Jose, CA  
12,000 Sq. Ft.
- ◆ Vector Capital  
San Francisco, CA  
18,000 Sq. Ft.

\* Indicates LEED projects

## RECENTLY COMPLETED PROJECTS

### Cerexa

#### Tenant Improvement Project



2100 Franklin, Oakland, CA: The Cerexa project, located at 2100 Franklin Street in Oakland, involved approximately 35,000 square feet of first generation tenant improvements. This was the first tenant in a newly finished LEED Gold certified building with views of Lake Merritt and the San Francisco Skyline.

Features include interconnecting staircases between the eighth and ninth floors, a large training/video conference room with a folding partition to allow for smaller training sessions, and a high density filing system that required a substantial structural upgrade of the seventh floor slab. Interior finishes consisted of drywall partitions with glass office fronts, cherry doors to match existing office furniture, and accent paint colors throughout the space. Skyline worked closely with Ibsen Senty Architects and Brandywine Realty to complete the project in 12 weeks. Project Team: Mark Trento, Senior Project Manager & Tony Hamer, Superintendent

### Federal Home Loan Bank

#### Data Center



San Francisco, CA: The San Francisco office recently completed a design build data center project for Federal Home Loan Bank. Skyline engaged IDC/CH2MHILL, out of Portland, OR, as the Architectural, Structural and MEP design consultant to work under the direction of Skyline Construction. This new data center was designed for and will allow FHL

Bank the capacity to continue its growth for the next 20 years based on growth model data.

#### Project highlights included:

- Installation of one (1) new APC HAD high density assembly POD and two (2) 500KW Uninterruptable Power Supplies
- Installation of two (2) new 600amp bus tap switches during building shutdown. Skyline developed the Methods of Procedure for this work effort.
- Installation of new Early Warning Detection system and pre-action system.
- Installation of all electrical and mechanical backbone items for future installation of 2nd APC HAD high density assembly POD.
- Installation of new security system.
- Installation of Hydrogen Detection System.

Project Team: Randy Scott, Project Manager & Ed Belluomini, Superintendent

# Skyline Report

## Awarded Projects:

### Critical Facilities Projects:

- ◆ Wells Fargo  
San Francisco, CA  
Seismic Upgrade

### Tenant Improvement Projects:

- ◆ AT Kearney  
San Francisco, CA  
10,000 Sq. Ft.
- ◆ Kema \*  
Oakland, CA  
34,000 Sq. Ft.
- ◆ Knobbe Martens  
San Francisco, CA  
20,000 sq. ft.
- ◆ RCM Capital \*  
San Francisco, CA  
35,000 sq. ft.
- ◆ Regional Center of the East Bay  
San Leandro, CA  
67,000 Sq. Ft.
- ◆ Symantec  
Mountain View, CA  
12,000 Sq. Ft.
- ◆ Wilson Sonsini Goodrich & Rosati  
Palo Alto, CA  
10,000 Sq. Ft.

\* Indicates LEED projects

## RECENTLY AWARDED PROJECT

### Cancer Research Center of Hawaii

Honolulu, HI



Skyline Construction's Life Science and Technology Division, was selected by the Cancer Research Center of Hawaii (CRCH) for a high profile project that will include the design and construction of a 100,000 to 200,000 square foot, four story LEED Silver certified building in Honolulu.

With a budget of up to \$235 million, the CRCH will use the facility to conduct research for cancer cures for the Pacific Islander and Asian races using natural resources from the islands. This is the most high profile and significant project in the state of Hawaii, and the project is funded by the state and under University of Hawaii directions..

The project is planned to be LEED Silver certified with a schedule of 18 months for design, 30 months for construction and 4 months for user fit-ups and relocation. This schedule is under review and consideration for a shorter duration by KG and Skyline.

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