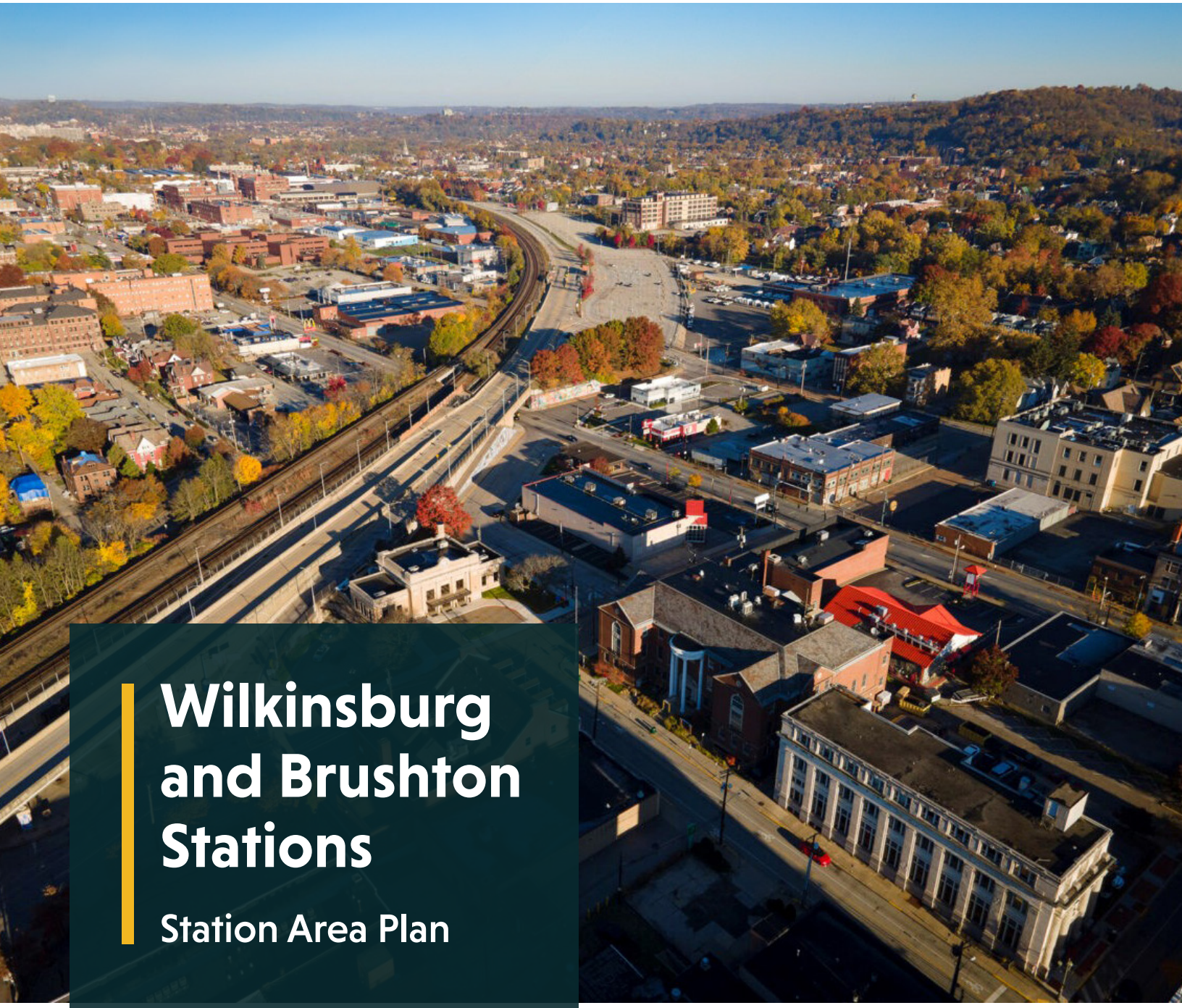
BOTEB
BUILDING ON THE EAST BUSWAY



# Wilkinsburg and Brushton Stations

## Station Area Plan

## Appendix 2

### Financial Feasibility Analysis

October 2023

PRT
Pittsburgh Regional Transit

BOTEB
BUILDING ON THE EAST BUSWAY

# WILKINSBURG AND BRUSHTON STATIONS FINANCIAL FEASIBILITY TOD ANALYSIS

Pittsburgh Regional Transit (PRT) engaged HR&A Advisors, Inc. (HR&A) to assess the financial feasibility of transit-oriented development (TOD) at conceptual sites on PRT property adjacent to the East Busway between Wilkinsburg Station and a proposed infill station at Brushton Avenue. Building upon findings of the TOD Market Assessment conducted for Task 3.2, this analysis assesses project feasibility under current market conditions by comparing the cost and value of development. Key findings are summarized below.

**Key Findings**

HR&A considered three development scenarios that reflect varying scales of TOD density.

| | **Scenario 1:** ***4-Story*** | **Scenario 2:** ***5-Over-1*** | **Scenario 3:** ***12-Story*** |
|---|---|---|---|
| Example |  |  |  |
| Units | 113 | 141 (36 affordable at 50% AMI) | 310 (47 affordable at 50% AMI) |
| Residual Land Value (No Affordable Housing) | **($3,931,000)** | **($19,157,000)** | **($46,731,000)** |
| Residual Land Value (With Affordable Housing) | **($3,931,000)** | **($23,305,000)** *Deduction of $115,000 per affordable unit* | **($52,144,000)** *Deduction of $115,000 per affordable unit* |

- **Under current market conditions, all studied TOD scenarios are infeasible.** Scenario 1, the low-cost wood frame project, is closest to feasibility but likely would require an additional $3.9 million in cost savings or subsidy.
- **The infeasibility of TOD in Wilkinsburg is predominantly the result of existing market conditions,** including high construction costs, high interest rates, and lower area rents. TOD feasibility is anticipated to improve in the medium to long term with a market recovery and continued investment in Wilkinsburg, including the planned redevelopment of Wilkinsburg Station and the development of an infill station at Brushton Avenue.
- **Wilkinsburg is strongly positioned for development in the longer term.** Despite short-term development challenges, the Wilkinsburg site benefits from access to the adjacent East Busway, proximity to Wilkinsburg's historic Downtown, and significant recent and ongoing investment in nearby neighborhoods to the east.
- **To further enhance future feasibility of the Wilkinsburg site, PRT should focus on value creation strategies** that advance PRT's TOD goals of increased ridership, revenue generation, economic development, and sustainable land use, potentially including:
    - **Working with the Borough to amend the zoning code to support equitable TOD**, which may include changes to allowable height, density, and required parking to increase the value of underlying land and support TOD typologies and PRT priorities. In addition, PRT could justify reduced parking requirements through the use of shared parking, which encourages a more efficient allocation of parking spaces by allowing more than one user to use the same parking space.
    - **Utilizing existing PRT-owned surface parking** to temporarily serve new development and reduce costs. Consider instituting a fee for parking in PRT-owned spaces to generate additional revenue while supporting Transportation Demand Management (TDM) and promoting sustainability by reducing car trips.
    - **Encouraging interim uses** that activate future development sites with amenities and public uses to support market rents such as community gardens, farmers markets, food trucks, and neighborhood events.
    - **Leveraging existing local, state, and federal programs** and incentives to achieve affordable housing goals at a reduced cost including potentially but not limited to Low Income Housing Tax Credits, state programs such as the Housing Options Grant Program, or local programs like financing from the Allegheny Housing Development Fund.
    - **Pursuing partnerships with third-party, mission-driven organizations**, like local community development corporations, neighborhood organizations, and regional foundations, to advocate

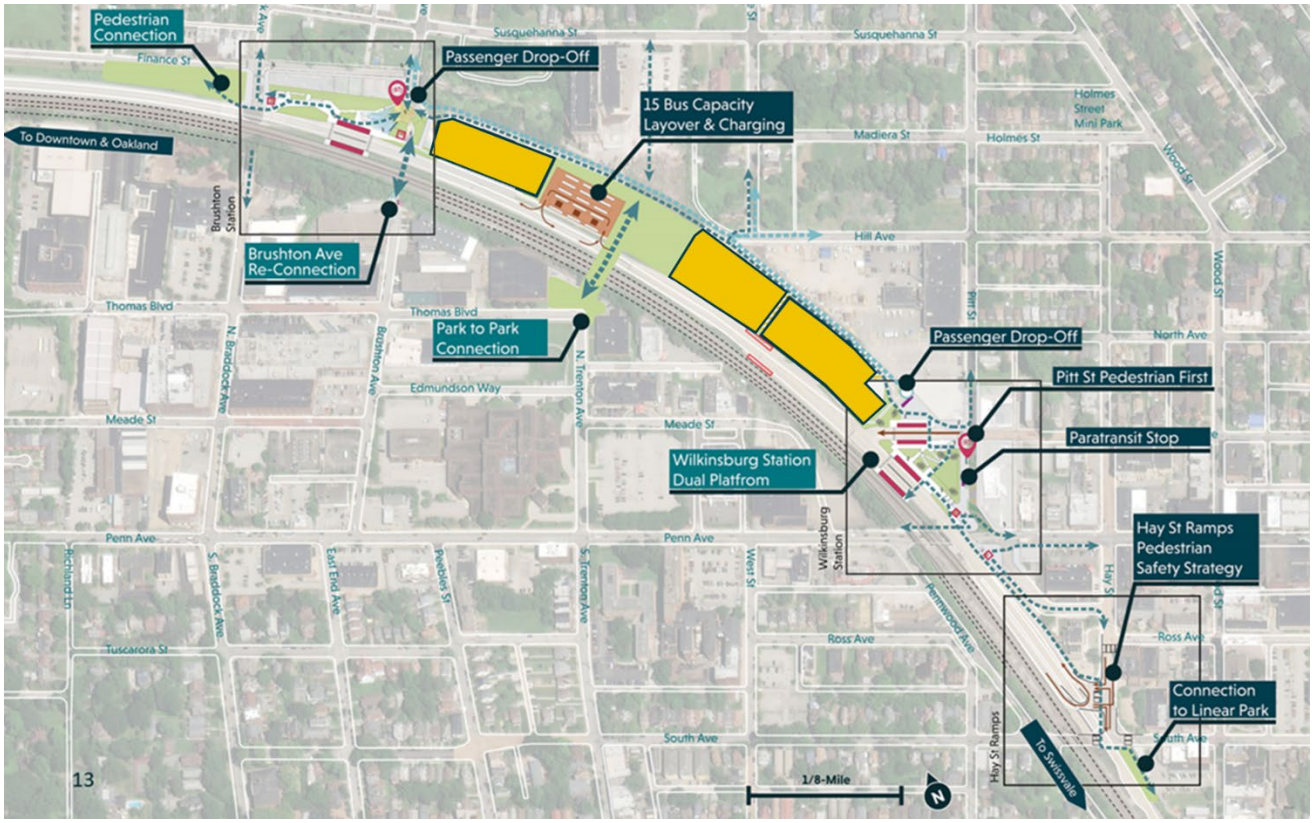
for the project, identify additional sources of funding, engage the community, and support planning efforts.

- **Encourage a mix of uses and more dynamic neighborhoods for residents, workers, and employees as the real estate market matures and consider how this node fits within the broader busway corridor.** This can be done by identifying and supporting alternative non-residential uses for PRT land at Wilkinsburg, as well as the mix of uses across the busway at different existing and potential infill stations. Mixing of uses – either at Wilkinsburg or more broadly across the corridor – can add value to residential and non-residential uses and integrate development into the broader urban fabric of nearby neighborhoods including Wilkinsburg's downtown. For example, this may include proliferation of uses not currently at Wilkinsburg such as medical, lab space, and applied technology industries or it can identify supporting uses to those existing properties and uses in East Liberty, 7800 Susquehanna, and Hazelwood Green.

**Site Context**

For this analysis, HR&A considered three conceptual sites located on the current 728-space, PRT-owned Wilkinsburg Station Park and Ride near the Wilkinsburg Station and proposed site a Brushton Infill Station. The existing Park and Ride is located immediately north of the East Busway and bounded to the west by Brushton Avenue and to the east by Wallace Avenue. For this exercise, we considered three sites of roughly the same size – approximately 1.1 acres each – that each contain a comparable amount of developable area (approximately 32,400 square feet). While the analysis could use two conceptual sites on either side of the layover and charging facility (see Figure 1) one site roughly twice the size as the other, this approach provides analysis of smaller pieces of the property that could be undertaken in phases, potentially allowing PRT and developers to benefit from positive real estate development trends and any catalytic effects of any previous phases of development by PRT. For purposes of this analysis we presume that these potential sites can fit any of the three conceptual development programs.

**Figure 1 | Potential Sites for Program Development**




Source: HDR

We assume that each of these sites will be directly connected to the busway by Wilkinsburg Station and the new Brushton Infill Station. All three sites are located inside the borders of the Wilkinsburg Borough. Wilkinsburg has experienced little new development in recent years compared to Pittsburgh neighborhoods to the west. However, the site benefits from adjacency to the East Busway, one of the nation's premier examples of BRT, and from proximity to Wilkinsburg's historic downtown.

Current zoning for the conceptual sites, summarized in Appendix Table A-2, is specified in the Borough of Wilkinsburg's Zoning legislation and Official Zoning Map. Currently, the sites are within a Central Business District, (CBD), allowing moderate density intended to accommodate large businesses and commercial uses. The site also falls within the Transit-Oriented Development (TOD) District Overlay, which increases maximum height to six stories and density up to 2.5 Floor Area Ratio (FAR).

Under the direction of the project team, HR&A has performed financial feasibility testing on scenarios that do not conform with current zoning but could be permitted using a new overlay or other rezoning approach. The

purpose of evaluating the feasibility of non-compliant scenarios is to illustrate development programs aligned with community goals identified during this planning process as well as precedent TOD projects in nearby neighborhoods and which a future rezoning could allow. To put the height and density of these scenarios in context, 7800 Susquehanna Street in Homewood is a 54-foot tall, five-story building that was redeveloped in 2018 from an abandoned factory and now offers spaces for manufacturing, small businesses, and job training.

**Development Scenarios**

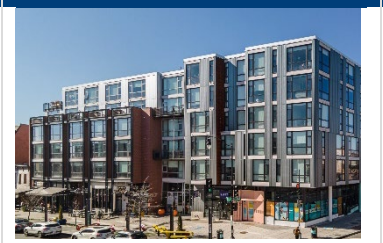
HR&A crafted and tested three potential development scenarios in collaboration with HDR, which were based on the Task 3.2 market analysis and development suitability of the conceptual parcel. These development scenarios are illustrative and intended only to serve as "test-fits" to determine the buildable capacity of these sites. They are not intended to suggest a final development configuration for the site, and it is expected that a private developer would consider these among other possible configurations.

Based on market analysis findings, HR&A assumed residential would be the highest performing use and most likely to succeed on the subject sites; however, ground-floor retail is modeled in Scenarios 2 and 3 to support activation and amenitization goals. Other uses, such as office, community center, or other mission-driven spaces were not included in the financial analysis but may be considered during planning based on revenue impact and alignment with community and PRT objectives.

Development scenarios are independent and not intended to represent a phasing plan or master program. However, it is recommended that a thoughtful approach to phasing is taken that accommodates existing surface parking and other uses to reduce upfront development costs and advance PRT goals. Scenarios are summarized in Table 1 below.

- **Scenario 1: 4-story low-rise, mixed-income residential building with no ground-floor retail.** This low-rise, wood-frame scenario offers the least expensive, lowest-density development typology and represents a baseline economical construction type.
- **Scenario 2: "5-over-1" podium mixed-use residential building with ground-floor retail.** These structures are wood-framed construction (typically 5 stories), built on a concrete platform ("over 1"), which provides cost saving while supporting mid-rise density. This is a common TOD typology along the Busway, and mirrors development trends in fast-growing areas like East Liberty.
- **Scenario 3: 12-story mid-rise, mixed-income residential building with ground-floor retail.** This scenario is idealistic for Wilkinsburg under current market conditions, reflecting high-cost, high-density construction typically reserved for established and amenitized markets. It represents a longer-term option for the station area.

**Table 1 | Development Scenarios**

| | **Scenario 1:** *4-Story* | **Scenario 2:** *5-Over-1* | **Scenario 3:** *12-Story* |
|---|---|---|---|
| *Example* |  |  |  |
| Type | Low-Rise | Mid-Rise Podium | Mid-Rise |
| Number of Floors | 4 | 6 | 12 |
| Density (Units per Acre) | 100 | 125 | 275 |
| Total Units | 113 | 141 | 310 |
| Retail | No | Yes | Yes |
| Parking Ratio | 1.0/unit | 1.0/unit | 1.0/unit |
| Parking Spaces | 114 | 142 | 312 |
| Parking Type | Surface | Structured | Structured |
| Building GSF | 107k | 147k | 307k |
| Rentable SF as share of GSF (i.e. Efficiency) | 85% | 85% | 85% |
| Building NSF | 90k | 125k | 260k |
| FAR (excludes parking) | 2.1 | 3.0 | 6.2 |

Development scenarios reflect a unit mix optimized to provide a range of apartment sizes to best serve the local population and support a diverse housing supply across new units. Scenarios also include an affordability

component in support of mixed-income housing priorities. The unit mixes below are designed to accommodate family housing based on community input during the planning process.

**Table 2 | Unit Mix and Affordability Assumptions**

| | | Scenario 1: *4-Story* | Scenario 2: *5-Over-1* | Scenario 3: *12-Story* |
|---|---|---|---|---|
| Unit Mix %s | | | | |
| Studio | *20%* | 23 | 28 | 62 |
| One-Bedroom | *50%* | 57 | 71 | 155 |
| Two-Bedroom | *25%* | 28 | 35 | 78 |
| Three-Bedroom | *5%* | 6 | 7 | 16 |
| Affordable Share | | 0% | 25% | 15% |
| Affordability Level (% of AMI) | | N/A | 50% | 50% |

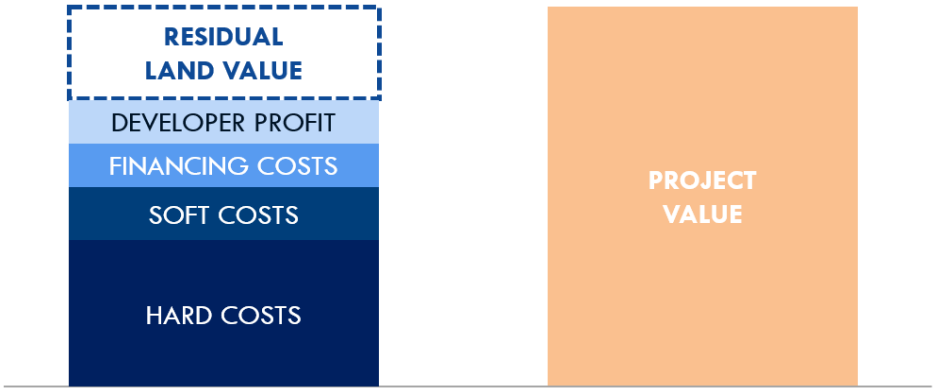
**Financial Feasibility Analysis**

HR&A tested the financial feasibility of the three development scenarios described in the previous section using a residual land value analysis.

**Residual Land Value Overview**

Calculating residual land value (RLV) is a widely accepted method for estimating the value of property or development rights that are attached to a property. RLV is equal to the total value of a given development program minus hard and soft development costs, financing costs, and the developer's required profit (Figure 2).

**Figure 2 | Residual Land Value**




$$\boldsymbol{Residual\ land\ value} = project\ value - (development\ cost + financing\ costs + developer\ profit)$$

RLV analysis is useful in this case because it calculates what a private developer could theoretically afford to pay for the PRT-owned land and earn a market-responsive return on investment from new development. A residual value greater than $0 indicates market feasibility, while a negative value indicates that additional support is required to reach feasibility. Higher RLVs also indicate a development concept's ability to support public benefits, such as affordable housing, community facilities, and public realm improvements.

RLV depends on the development planned for a site. The more valuable a given development program, the greater the amount the developer can afford to spend on the land and therefore the greater the RLV. Positive residual land value also conveys the feasibility of a ground lease; however, ground lease payments that PRT would receive can vary substantially based on the structure of such a lease. Inversely, a negative RLV indicates an infeasible project, even under a ground lease structure. Following a description of the key assumptions underlying our analysis, we present a summary of residual land value results and a discussion of general conclusions.

**Development Cost**

Construction and financing cost assumptions are provided in Table 3**Table** below. Total private development costs for each scenario are summarized in Table 4**Error! Reference source not found.** below.

**Table 3 | Cost and Financing Assumptions**

| **Construction Assumptions (per GSF)** | **Scenario 1: *4-Story*** | **Scenario 2: *5-Over-1*** | **Scenario 3: *12-Story*** |
|---|---|---|---|
| Hard Cost | $245 | $312 | $333 |
| Soft Cost | $44 | $56 | $60 |
| Financing Cost | $20 | $25 | $26 |
| Total Cost | $308 | $392 | $419 |
| **Financing Assumptions** | | | |
| Loan to Cost Ratio | 65% | 65% | 65% |
| Interest Rate | 6.5% | 6.5% | 6.5% |
| Fees | 1.00% | 1.00% | 1.00% |

**Table 4 | Private Development Cost, $2023**

| **Category** | **Scenario 1: *4-Story*** | **Scenario 2: *5-Over-1*** | **Scenario 3: *12-Story*** |
|---|---|---|---|
| Hard Costs | $25.9M | $45.5M | $101.7M |
| Soft Costs | $4.6M | $8.1M | $18.2M |
| Financing Costs | $2.1M | $3.6M | $7.9M |
| **Total Development Cost** | **$32.6M** | **$57.2M** | **$127.8M** |

**Development Value**

The feasibility of initiating development at the Wilkinsburg site is dependent on development value being greater than the associated costs of development. This financial analysis relies on assumptions developed as part of the Task 3.2 market analysis and reflects current development and market conditions in the region. **Table** provides high-level assumptions used to generate net operating income for development at each of the conceptual sites.

**Table 5 | Operating Assumptions**

| Operating Income and Expenses Assumptions | Multifamily (Market-Rate) | Multifamily (Affordable) | Retail |
|---|---|---|---|
| Rent per NSF | $2.27 | $1.23 | $1.83 |
| Other Income as Share of Rent (parking, laundry, etc.) | 4% | 4% | -- |
| Vacancy | 5% | 5% | 0% |
| Operating Expenses as Share of Net Revenues | 35% | 35% | 0%* |

Note: Rent is weighted to reflect unit mix

*Assumed NNN lease, with operating expenses paid by tenant

Total RLV for all conceptual scenarios is negative. HR&A calculated the RLV based on the difference between the gross project value and the costs associated with development and sale. HR&A assumed that part of this value would be in the form of a tax abatement provided under the Local Economic Revitalization Tax Assistance (LERTA) Act.[1] The remaining value represents the total potential value that a private developer would be willing to offer in return for the right to develop. A detailed summary of project value is provided in Table 6 below.

**Table 6 | Net Operating Income and Total Value of Development, $2023**

| | Scenario 1: *4-Story* | Scenario 2: *5-Over-1* | Scenario 3: *12-Story* |
|---|---|---|---|
| Net Annual Residential Income | $1,494,000 | $1,652,000 | $3,829,000 |
| Net Annual Retail Income | N/A | $172,000 | $172,000 |
| Total Net Operating Income | $1,494,000 | $1,823,000 | $4,000,000 |
| ÷ Blended Cap Rate* | 4.60% | 4.75% | 4.67% |
| Total Project Value | $32,487,000 | $38,356,000 | $85,688,000 |

[1] In Wilkinsburg, this program provides a 10-year, graduated property tax abatement to support commercial revitalization in the borough. The present value of the total estimated abatement was included in HR&A's financial analysis to reflect the incentive's impact on project feasibility.

| | Scenario 1: *4-Story* | Scenario 2: *5-Over-1* | Scenario 3: *12-Story* |
|---|---|---|---|
| NPV of 10-Year Tax Abatement | $1,084,000 | $1,323,000 | $2,902,000 |
| Less: Total Development Cost | ($32,589,000) | ($57,182,000) | ($127,773,000) |
| Less: Developer Profit** | ($3,939,000) | ($4,651,000) | ($10,390,000) |
| Less: Cost of Sale | ($975,000) | ($1,151,000) | ($2,571,000) |
| Total Residual Land Value | ($3,931,000) | ($23,305,000) | ($52,144,000) |

Totals may not add due to rounding

*Blended cap rate is weighted to the uses included in the planned development

** Development profit requirement is assumed to be 12.5% of total development cost

**Sensitivity Analysis**

While RLV provides a reasonable estimate based on current market conditions, it is particularly sensitive to three significant factors: capitalization rate, construction cost, and rental rate. Therefore, small changes in these variables can greatly affect the total value and, therefore, the feasibility of development.

RLV is most sensitive to changes in cap rate, as shown in **Error! Reference source not found.**.[2] This measure is a market- and use-specific indicator that measures how much a buyer may be expected to pay per dollar of net operating income (NOI) generated by a property and is determined by dividing NOI by price of recent property sales. That is, a decrease in the cap rate represents an increase in the price a buyer would pay for a property based on its NOI. In this case, a 0.5% change in cap rate would impact residual land value by nearly $4 million in Scenario 2 and nearly $9 million in Scenario 3. In the case of Scenario 1, a cap rate change of 0.5% is nearly enough to generate a positive RLV. Markets that are seen as more mature, uses that see high and growing demand, and properties that lease up quickly and remain occupied, are high quality, and have advantageous locations within a market are all characteristics that will result in lower cap rates, all else being equal about a project. To the extent PRT and its partners – private, public, or nonprofit – can enhance these aspects of the

[2] The cap rate is defined as the income rate of return for a total property that reflects the relationship between one year's net operating income expectancy and the total price or value. Cap rates for any individual project may vary, but typically a market's or submarket's cap rates will cluster around certain values based on current market conditions, use of the property, and quality of building stock.

market or project through place-based, public investments or continued commitments to high quality, safe transit service they can enhance the value of future development.

Changes in construction costs and rent also play a large role in RLV and project feasibility. In the context of Wilkinsburg, this sensitivity demonstrates that continued investment and a market recovery could dramatically increase the feasibility of TOD in the medium- to long-term.

The impact of a reduction in the required parking ratio varies based on parking type. For a surface parking program, which a significantly lower cost parking option considered in Scenario 1, a halved parking program only minimally impacts development feasibility. However, in a structured parking program, where parking costs per space may be up to 10 times more expensive than a surface alternative, the impact of a reduced parking ratio on program feasibility is significant. For this reason, a parking ratio of 0.5 spaces per unit, aligned with PRT's Transit-Oriented Development Guidelines, should be considered to support project feasibility. While PRT can advocate for reduced parking, only the Wilkinsburg Borough has the latitude to institute changes to parking requirements. PRT can support ongoing dialogue and coordination efforts between the development community and the Borough to advance feasibility.

**Table 7 | Sensitivity Analysis Summary**

| Category | Scenario 1: *4-Story* | Scenario 2: *5-Over-1* | Scenario 3: *12-Story* | Value Impact |
|---|---|---|---|---|
| Baseline Private RLV | ($3,931,000) | ($23,305,000) | ($52,144,000) | |
| △0.5% Increase to Cap Rate | ($2,682,600) | ($2,964,800) | ($6,873,100) | High |
| △0.5% Decrease to Cap Rate | $3,336,900 | $3,687,900 | $8,549,500 | High |
| △$10 Hard Costs/GSF | +/- $1,388,400 | +/- $1,916,600 | +/- $3,830,600 | Medium |
| △10¢ Rent/RSF | +/- $1,318,000 | +/- $1,228,600 | +/- $3,087,900 | Medium |
| △1% Profit Requirement | +/- $315,100 | +/- $363,700 | +/- $807,400 | Low |
| △1% Interest Rate | +/- $257,800 | +/- $444,600 | +/- $975,100 | Low |
| 0.5 Parking Ratio | +/- $224,600 | +/- $2,611,100 | +/- $5,700,300 | *Varies* |

**Error! Reference source not found.** below provides an example of how compounding effects can dramatically increase or decrease development feasibility. Each row and column represent a 5% change from the base assumption (construction costs of $230 and rent of $2.16). Therefore, if rent were to increase by 10%

(approximately $0.20 per square foot) and development costs were to decrease by 5% (approximately $10 per square foot), residual land value would be positive and indicate project feasibility.

While this is a simplified example, it demonstrates the impact of several small changes on a project and provides a helpful starting point for policy decisions that support community goals, transit agency objectives, and housing needs.

**Table 8 | Example: Scenario 1 Rent and Construction Cost Sensitivity Table**

| | | Construction Hard Cost / SF | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | △% | *-15%* | *-10%* | *-5%* | *0%* | *+5%* | *+10%* | *+15%* |
| | | $196 | $207 | $219 | $230 | $242 | $253 | $265 |
| Rent | *-15%* $1.83 | ($3,408,400) | ($5,005,100) | ($6,601,700) | ($8,198,300) | ($9,795,000) | ($11,391,600) | ($12,988,200) |
| | *-10%* $1.94 | ($1,986,100) | ($3,582,700) | ($5,179,400) | ($6,776,000) | ($8,372,700) | ($9,969,300) | ($11,565,900) |
| | *-5%* $2.05 | ($563,800) | ($2,160,400) | ($3,757,100) | ($5,353,700) | ($6,950,300) | ($8,547,000) | ($10,143,600) |
| | *0%* $2.16 | $858,500 | ($738,000) | ($2,334,700) | ($3,931,400) | ($5,528,000) | ($7,124,600) | ($8,721,300) |
| | *+5%* $2.27 | $2,280,900 | $684,200 | ($912,400) | ($2,509,000) | ($4,105,700) | ($5,702,300) | ($7,299,000) |
| | *+10%* $2.37 | $3,703,200 | $2,106,600 | $509,900 | ($1,086,700) | ($2,683,300) | ($4,280,000) | ($5,876,600) |
| | *+15%* $2.48 | $5,125,500 | $3,528,900 | $1,932,300 | $335,600 | ($1,261,000) | ($2,857,600) | ($4,454,300) |
| | *+20%* $2.59 | $6,547,900 | $4,951,200 | $3,354,600 | $1,758,000 | $161,300 | ($1,435,300) | ($3,032,000) |

**Supporting TOD in Wilkinsburg/Implications for Future Work**

As the previous section demonstrates, small changes in market and development assumptions can create large changes in project value. Additional ways that PRT, Wilkinsburg, and third parties can support new, mixed-income housing in Wilkinsburg is briefly examined below. To position the Wilkinsburg site for future residential feasibility, PRT should also focus on the following value creation strategies:

- **Incentive Programs.** The Borough and County can offer various incentives to encourage real estate development, including tax deductions, grants, or subsidies for developers focused on mission-driven development goals such as affordable housing, sustainability, community revitalization, open space, childcare, and more. Providing financial support or reduced costs can attract developers and increase the feasibility of projects.

- **Zoning and Land Use.** Adjusting zoning to allow for greater density can optimize land use, reduce per-unit construction cost, diversify property types, and generate higher revenue for developers. Adjustments might include advocating for higher FAR, allowing greater height of buildings, or reducing parking ratios.
- **Public-Private Partnerships.** Collaborating with private entities through public-private partnerships can bring together the expertise, resources, and financing required for large-scale real estate projects. Municipalities can enter into agreements with developers to share risks and rewards, allowing for the implementation of ambitious projects that might not be feasible otherwise. There is an opportunity to also partner with third-party, mission-driven organizations, such as community development corporations and foundations, who can advocate for the project within the community and help to identify additional funding sources.
- **Streamlining the Development Process.** Simplifying and expediting regulatory and permitting processes for development can significantly reduce costs. Municipalities can establish clear guidelines and standardized procedures for development approvals to minimize delays and attract greater development.
- **Public Space Activation.** Enhancing underutilized space surrounding the Wilkinsburg conceptual sites can increase feasibility by attracting new buyers, tenants, and investments, and increasing property values. Public spaces could support interim uses or amenities that facilitate gathering, support neighborhood commerce, or serve other community goals.

**Appendix**

**Summary of Market Assessment**

In Task 3.2 – TOD Market Assessment, HR&A defined the Wilkinsburg study area based on a half-mile buffer surrounding the existing station. HR&A then analyzed the study area and broad region to compare demographic and market trends. Analysis considered employment, population, transit use, income, and real estate development trends, to assess the potential for and prioritization of TOD opportunities near the Wilkinsburg Station on the East Busway.

**Demographic and Employment**

Wilkinsburg has seen less population and income growth compared to other locations along the East Busway, creating challenges for new real estate development.

- The Wilkinsburg segment's population has not grown since 2014, even as the Corridor defied the city's population decline.
- Median income is 10% lower than the Corridor, and more than a quarter of households have incomes below $20,000.
- Despite the prevalence of single single-family housing, Wilkinsburg has a higher share of renters than the Corridor.
- Wilkinsburg employment has declined by more than 20% since 2014. Despite alignment with corridor industry employment driver, the segment's leading industry—health care care—also experienced job losses due to closures of medical facilities.
- The segment is a net exporter of workers, who predominantly commute downtown for work.

Compared to the East Liberty and Baum Blvd segments of the East Busway, which have experienced considerable demographic growth and increased wealth due to the location of several large employment hubs and considerable residential development, Wilkinsburg has not added new residents, workers, or seen increased incomes.

**Development Context**

Development in Wilkinsburg is more challenging than in other parts of the Corridor owing to incrementally higher combined property tax rates and a lack of anchor institutions and public resources.

- Property taxes in Wilkinsburg are nearly twice that of neighboring Pittsburgh, increasing costs for property owners and developers, and further hindering feasibility of new development.

- The Borough also does not have access to the same incentives, subsidies, and development resources as Pittsburgh.
- Lack of recent development creates challenges for financial feasibility analysis, as there are few benchmarks to utilize for understanding key development assumptions in the specific geography.

With a challenging tax environment and limited resources, financing new development is a significant challenge.

In Task 3.2 HR&A evaluated market conditions to identify market-supportable uses, analyzing the potential for residential, retail, and office uses. Key findings for primary land uses are summarized below.

**Residential**

- Wilkinsburg has not seen any new multifamily residential development in the past two decades, and existing properties have not supported mixed-used, activated environments.
- Wilkinsburg units have lower rents compared to the larger corridor, and rents have grown more slowly than in the East Liberty, Larimer, and Shadyside neighborhoods to the east, such as Baum Blvd and East Liberty.
- Vacancy rates have steadily declined over the past decade due to an increase in the absorption of existing units and a reduction in inventory.
- More than 10% of multifamily units are designated as affordable, and all affordable units are located adjacent to the busway.
- Although vacancies have decreased and rents have risen in Wilkinsburg, new development would likely compete with residential offerings in rapidly growing areas like East Liberty, and therefore require incentives or subsidies.

**Retail**

- There has been little new supply of retail in Wilkinsburg and across the larger corridor for the past decade. Most retail in Wilkinsburg is small-scale, ground floor product concentrated along Penn Avenue and Wood Street.
- Active retail properties in Wilkinsburg have low vacancies, but there is a significant amount of vacant retail space in the segment.
- There has been relatively less new development in the segment since 2000 and planned projects are primarily rehab of existing inventory.

**Office**

- Renovation and other reinvestment in Wilkinsburg has been offset by significant tenant departures during the pandemic.
- Most office in Wilkinsburg is centrally located along Wood Street, although several larger office buildings are located outside the study area core. While limited new office development has occurred, renovation of historic properties has enhanced existing space.
- Office space in Wilkinsburg is considerably more affordable than other segments of the corridor but is older and lacks the same amenities as office space in East Liberty.

**Key Assumptions**

**Table A-1 | Key Assumptions Summary**

| Assumption | Source |
|---|---|
| Residential Rental Rates | *Review of market comparable properties for new construction in neighboring submarkets.* |
| Parking Ratio | *Assumed 1:1 unit to parking ratio.* |
| Construction Costs | *Calculated using Marshall & Swift Cost Estimator (April 2023) for Pittsburgh area.* |
| Capitalization Rates | *Third-party information and comparable properties in neighboring submarkets.* |

**Additional Detail on Key Assumptions**

**Residential rental rates** are based on a review of market comparable properties for new construction apartments in the neighboring submarkets and an adjustment for the Wilkinsburg study area, where no new multifamily rental construction has been delivered in more than 30 years. Therefore, HR&A identified East Liberty as a comparable benchmark to establish rental rate assumptions. Rental rates in East Liberty are substantially higher than what is currently found in areas immediately surrounding the conceptual site and in Wilkinsburg and we have adjusted model rents accordingly. However, we believe that Wilkinsburg could follow a similar pattern as East Liberty, seeing dramatic growth in rents with the introduction of TOD and other catalytic investments.

**Parking** ratio was determined based on a standard benchmark assumption of 1 space per unit. PRT's TOD guidelines indicate a parking ratio of 0.5 in Transit Neighborhoods and Urban Neighborhoods, which reflects a more aggressive assumption that was considered in the Sensitivity Analysis section of this memo. Parking type was determined based both on sizing requirements to accommodate the necessary number of spaces required by the parking ratio within the site and on typical parking types for urban transit-oriented development.

**Construction costs** were calculated using the Marshall & Swift Cost Estimator (March 2023 edition) data for the Pittsburgh area.

**Capitalization rates** or 'cap rates,' which represent the rate of return on a real estate investment property based on the income that the property is expected to generate, are based on third-party information as well as comparable properties in nearby submarkets. Cap rates are used in this analysis to determine the project value and are conservative, accounting for anticipated absorption and market risk.

**Table A-2 | Existing Zoning**

| Requirement | CBD Central Business District | TOD Overlay |
|---|---|---|
| FAR | N/A | The maximum by-right floor-to-area ratio (FAR) is 1.5. The Borough may grant additional FAR beyond 1.5 up to 2.5 for affordable housing or for mixed-use developments if it finds that such an increase furthers the purposes of the TOD. |
| Lot size (minimum, square feet) | No requirement | N/A |
| Lot width (minimum, feet) | 50 | |
| Height (maximum, feet) | 45 | 6<br><br>No building shall exceed by more than two stories or 30 feet, whichever is less, the height of the tallest building or buildings that front on the same street and are located within 150 feet of such building.<br><br>No portion of a building located within 50 feet of an existing one- or two-family dwelling in a residential zoning district shall be permitted to exceed three stories or 45 feet, whichever is less. |
| Stories (maximum) | 4 | |

| Requirement | CBD Central Business District | TOD Overlay |
|---|---|---|
| Front setback (minimum, feet) | No requirement | Setbacks shall be generally consistent with the structures on the surrounding properties in the neighborhood in which it is located. |
| Side setback (minimum, feet) | No requirement | |
| Rear setback (minimum, feet) | No requirement | |
| Lot coverage (maximum, percent) | 75% | Maximum lot coverage is limited to 85%. This lot coverage may be increased to 100% for mixed-use buildings or for renovated historic structures. |

**Definitions and Glossary of Selected Terms**

**"Absorption"** is a metric indicating the pace at which vacant or newly built space is leased.

**"Area Median Income" (AMI)** is the midpoint of a region's income distribution, meaning that half of the households in a region earn more than the median and half earn less than the median. A household's income is calculated by its gross income, which is the total income received before taxes and other payroll deductions. AMI is typically the process by which rent restricted properties – sometimes called 'affordable housing' base eligibility and rental rates.

**"Capitalization Rate"** is the ratio of a building's net operating income (NOI) to market value. Can be calculated based on a specific transaction or as an average for a particular use in a particular market, fluctuating with market conditions. (NOI / capitalization rate = market value)

**"Capitalized Value"** is the estimated purchase or sale value of a building as a multiple of the building's net operating income (or, inversely, as a function of its net operating income divided by a capitalization rate).

**"Efficiency"** or **"Net-to-Gross Ratio"** is the ratio of total rentable or sellable square footage (Net Square Feet or NSF) of the modeled project to the total built square footage of the modeled project (Gross Square Feet or GSF).

**"Floor Area Ratio" (FAR)** is the measurement of a building's floor area in relation to the size of the lot/parcel that the building is located on. FAR is expressed as a decimal number, and is derived by dividing the total area of the building by the total area of the parcel (building area ÷ lot area). FAR is an effective way to calculate the bulk or mass of building volume on a development site, and is often used in conjunction with other development standards such as building heights, lot coverage and lot area to encourage a community's desired arrangement and form of development.

**"Hard Cost"** is the cost of construction materials and construction labor.

**"Loan to Cost Ratio"** is the ratio of a construction loan amount to the development cost of the property. The ratio is commonly expressed to a potential borrower as the percentage of cost a lending institution is willing to finance. The ratio is not fixed and varies by lending institution, property type, geographic location, property size and other potential variables.

**"Net Operating Income"** is a building's income after accounting for vacancy and after deducting operating costs borne by a building's owner.

**"Parking Ratio"** indicates how many parking spaces a building has per its specific program and is often expressed in terms of spaces per unit (for residential) or spaces per 1,000 SF of rentable building area (for most other uses).

**"Residual Land Value Model"** is a model created to test, at a high level, the relative feasibility of a theoretical development project. Feasibility is demonstrated via a calculation of the amount a developer should be willing

to pay a landowner for the right to build the modeled project, assuming the developer earns its required rate of return and no more/no less.

**"Soft Costs"** is the cost of project design and other professional work, permits, and fees.

**"Stabilization"** is the point at which a newly constructed property has been leased sufficiently to reach its stabilized occupancy, in line with the vacancy contingency.

**"Vacancy"** is the share of a building assumed to be vacant at any given time following upfront lease-up.

**General and Limiting Conditions**

- In preparing this Report, HR&A has used its independent professional judgment and skills in good faith, subject to the limitations, disclosures and disclaimers herein.
- This Report is based on estimates, assumptions and other information developed by HR&A based upon data provided by other parties. Every reasonable effort has been made to ensure that the data contained in this Report are accurate as of the date of this Report; however, factors exist that are outside the control of HR&A and that may affect the estimates and/or projections noted herein.
- HR&A reviewed the information and projections provided by third parties using its independent professional judgment and skills in good faith, but assumes no liability resulting from errors, omissions or any other inaccuracies with respect to the information provided by such third parties referenced in this Report.
- In addition to relying on data, information, projections and forecasts of others as referred to above, HR&A has included in this Report estimates and assumptions made by HR&A that HR&A believes are appropriate, but HR&A makes no representation that there will be no variances between actual outcomes and such estimates and assumptions.
- No summary or abstract of this Report, and no excerpts from this Report, may be made for any purpose without HR&A's prior written consent, which consent will not be unreasonably withheld.
- No opinion is intended to be expressed and no responsibility is assumed for any matters that are legal in nature or require legal expertise or specialized knowledge beyond that of a real estate and economic development consultant.
- This Report is qualified in its entirety by, and should be considered in light of these General and Limiting Conditions. By use of this Report each party that uses this Report agrees to be bound by all of the General and Limiting Conditions stated herein.




Pittsburgh Regional Transit