

**An Analysis of Market Conditions Influencing  
The Redevelopment Potential of the  
Brereton-Dobson Fire Site  
In Pittsburgh's Polish Hill Neighborhood**

**Prepared for the  
Polish Hill Civic Association**

**by**

**Real Estate Strategies, Inc.**

**June 2013**

## EXECUTIVE SUMMARY

### Nature of the Engagement

The Polish Hill Civic Association (PHCA) commissioned Real Estate Strategies, Inc. (RES) to analyze the market for reuse of the Brereton-Dobson Fire Site (the site or Subject Property), which is located in Pittsburgh's Polish Hill Neighborhood. Based on the size of the site and potential scale of the redevelopment, RES proposed a focus on residential uses, including input about marketable product types, features and amenities, and pricing. The work by RES also included compiling and analyzing data and offering recommendations to address potential "gaps" in the market for commercial and retail uses that might be considered at the Subject Property.

### Site Analysis

The Brereton-Dobson Fire Site includes three separate parcels fronting on Brereton and Dobson Streets in Pittsburgh's Polish Hill Neighborhood. The site is located in the heart of Polish Hill and less than one block from the neighborhood's most visible landmark, Immaculate Heart of Mary Church. The three parcels comprising it have a total of 7,303 square feet with 77 feet of frontage along Brereton and almost 88 feet of frontage along Dobson Street. Surrounding areas along both Brereton and Dobson Streets largely are residential with some commercial uses interspersed.

The Polish Hill neighborhood's name comes from its settlement initially by Polish immigrants. While the City of Pittsburgh delineates Polish Hill as 2010 Census Tract 605, PHCA representatives report that residents of other nearby areas also identify with Polish Hill; RES has used this expanded neighborhood definition as shown in a map on page 9 of the report. This neighborhood has been losing population, households, and housing units for many years. By the 2010 Census, Polish Hill had declined to a population of 1,385 people and a total of 919 housing units. ESRI estimates that the downward trend is reversing and that the neighborhood is adding population and households.

Polish Hill has a small-town feel with an interesting mix of commercial and residential uses and open spaces that include areas with steep slopes. The neighborhood is walkable and quiet. Commercial establishments are small. The housing stock includes single-family homes, row houses, attached homes, and small multifamily buildings. Most of the housing units were built before 1940. The 2010 Census reported that 18.2 percent of residential structures were vacant; 79 of 167 vacant units were listed as "other vacant", which generally means they were uninhabitable. Positive features of the neighborhood include the following:

- It is served very well by public transportation including a station of the East Busway.
- Access by roads is excellent via Bigelow Avenue to downtown Pittsburgh and also to educational and medical institutions in Oakland.
- Polish Hill is convenient for biking and has bike routes traversing the neighborhood.
- Major shopping is distant but accessible by transportation systems.
- Medical centers are located within 1.5 miles including the University of Pittsburgh Medical Center, Magee Women's Hospital, Shadyside Hospital, and the new UPMC Children's Hospital.
- West Penn Recreation Center in Polish Hill offers a range of recreational services for residents of all ages.

### Housing Market Area and Trade Area Delineation

RES has delineated a residential market area for the Subject Property, which is the area within which competitive properties will be located and the area within which households will shop for housing

units to purchase or rent. As shown in the map on page 13, the Primary Market Area (PMA) for residential uses is delineated by census tracts (with the exception of the Polish Hill neighborhood) and consists of Polish Hill, Lower Lawrenceville, Central Lawrenceville, Bloomfield, and a portion of North Oakland located adjacent to Polish Hill.

The trade area delineation was made using one-fourth and one-half mile rings from the intersection of Brereton and Dobson Streets, a practice often used for retail/commercial analyses. As shown on the map of the trade areas on page 14, the one-half mile trade area includes an area of the Strip District reaching almost to the Allegheny River.

## **Demographic and Economic Characteristics**

To obtain an understanding of factors that will influence residential markets and development patterns, RES has compiled and analyzed population, household, and economic data. The data are for Polish Hill, the delineated PMA, and the City of Pittsburgh. The following are key findings based on our analysis of demographic data:

- Population and household growth are estimated for Polish Hill and the PMA during the time frame from 2010 to 2017 and for the City of Pittsburgh from 2012 to 2017. The growth reverses declines that have been ongoing for many decades. Household growth will generate added demand for additional housing units.
- Polish Hill and the PMA have a preponderance of households with one or two persons. While some of this is attributable to students at educational institutions in Oakland, small household sizes in Polish Hill are the result of the large number of elderly households and small households in the 25 to 34 age range. Since the average household size is declining, demand for larger units will not increase.
- Polish Hill's population is old and expected to grow older. The median age was 40.3 in the 2010 Census and is expected to be 40.9 by 2017. In contrast, the 2010 median age in the PMA and the City was only 33.5.
- The largest age cohort in Polish Hill is 25 to 34, representing 21.8 percent of the neighborhood's 2010 population. This is the age when young households typically purchase their first home and is an indication of good potential for renters in the neighborhood to consider a home purchase.
- By race, the population in Polish Hill and the PMA is primarily White. As with Pittsburgh and the PMA, Polish Hill has a very low percentage of population of Hispanic origin.
- The 2012 median household income in Polish Hill estimated to be \$19,652, which is more than \$15,000 below the 2012 median for the City of Pittsburgh. While many Polish Hill households have higher incomes, more than one-third had incomes below \$15,000 during 2012, or lower than the 2013 federal poverty guidelines for all but one person households.
- With regard to residential development the Polish Hill income estimates indicate that at least some housing will need to be affordable to serve neighborhood residents with low incomes. Two person households qualify for Low-Income Housing Tax Credit (LIHTC) units when household income is below \$31,260, the income limit at 60 percent of the area median. More than half of Polish Hill households have incomes estimated to be below \$25,000.
- Economic growth in the Pittsburgh region is a positive factor for new development in Polish Hill. PNC's economic report for the first quarter of 2013 notes that Pittsburgh's education, healthcare, and financial industries have been providing employment opportunities. These employers are conveniently located for residents of Polish Hill.
- Housing market conditions have been more stable in Pittsburgh than in other areas. PNC's report noted that housing values had already recovered at the beginning of 2013, and price

growth is anticipated during 2013. Growth in the number of residential permits is forecast for 2013 for both single-family and multifamily housing units.

## **Residential Analysis**

Demand for new housing units at the Subject Property will be generated by household growth (an increase of 156 households in the PMA), and also by demand resulting from the need to replace older, obsolete housing units. Replacement demand in the PMA is estimated to be about 414 rental units and 191 for-sale units during the next five years, based on current tenure patterns.

Age and income patterns in the PMA will have a bearing on demand for housing at the Subject Property. These include:

- 1,069 PMA households age 25 to 34 and having incomes ranging from \$35,000 to \$100,000, or sufficient income to support homeownership. A small amount of growth in the number of households is projected for 2017.
- More than 500 households in the 55 to 64 age cohort with incomes ranging from \$35,000 to \$100,000, the age range when many households seek opportunities to “trade down” to smaller housing units or condominiums that do not require maintenance and upkeep. There is a small amount of growth in the number of households by 2017.
- Because of the large number of households with incomes below \$25,000, there is demand for affordable housing units by households in all age cohorts.

With regard to the existing supply of housing, the Polish Hill housing stock is estimated to be shrinking slowly. The stock in the PMA remained stable from 2010 to 2012 and is projected increase by 37 housing units from 2012 to 2017. Compared with the percentage of owner-occupied housing units in the PMA, Polish Hill’s percentage of owners is relatively high, albeit very similar to the percentage for the City. Based on ESRI estimates, Polish Hill had a very high percentage of homes with values below \$50,000 during 2012 and no homes at all with values above \$250,000. The lower values are reflected in the median value of \$65,100 for the neighborhood, which also is far lower than in the PMA and the City. Interviews indicated that this lower pricing in Polish Hill is providing a competitive advantage relative to other areas within the PMA.

## **Rental Market Conditions**

For the analysis of market-rate rental housing RES collected information on individual units offered for-rent within the PMA, conducted interviews with owners and managers of rental properties, and analyzed data compiled by REIS, a national source of data on the performance of apartment markets in U.S. cities. Properties marketed primarily to students were excluded.

Data compiled by REIS for Pittsburgh’s Bellefield/Shadyside submarket, which includes the PMA, show a one year annualized vacancy rate of 2.1 percent at the end of the first quarter 2013 and a three year annualized vacancy of three percent. In addition, the REIS five year submarket forecast for the period ending on December 31, 2017 is an annualized rate of only 2.3 percent, an indication of very tight rental market conditions and a confirmation of demand for additional market-rate rental housing.

The findings from market research by RES were consistent with those reported by REIS. Appendix A contains information from our research of the PMA rental market, which was conducted during May and June 2013. Interviews indicated that Polish Hill rents typically are about 20 percent lower than rents in Lawrenceville. While this rule may prevail, our research indicated that with the exception of recently completed loft apartments and rentals in new condominiums in Lawrenceville, Polish Hill rents often were comparable.

Pittsburgh has many examples of new affordable housing properties, most of which are mixed-income properties with affordable and market-rate rentals. Many of these have additional subsidies to

target an increment of units for extremely low-income households or so that households pay only 30 percent of income for shelter. All of these properties have high occupancy rates and most have very long waiting lists for affordable units.

Several mixed-income residential developments are proposed in neighborhoods on Pittsburgh's East Side and the East End. In addition, large-scale market-rate developments are proposed in the East Liberty neighborhood, in Larimer near Bakery Square, at the former Civic Arena Site, and on portions of the Almono site along the Monongahela River. Depending on their timing, the large-scale developments could cause rental occupancies to decline to levels more consistent with normal rental market conditions. Two smaller rental additions in the PMA are not expected to adversely affect a rental development at the Subject Property.

### **Condominium Market Conditions**

The recent Great Recession had an adverse effect on Pittsburgh's condominium market. Lenders curtailed financing because condominium loans historically have had higher risks than loans for fee-simple homes. With limited financing, there has been an increase in the number of condominium units in Pittsburgh that are on the market for-sale. Realtors caution, however, that a related issue is pricing; that some units were sold at the height of the market and still have pricing above today's market. Further, a large percentage of the condominium inventory and units presently offered for-sale are in older buildings that date from the 1950s and 1960s and have not been remodeled or upgraded since that time.

Sales data indicate an upturn in the number of condominium sales during recent months. From September 24, 2012 through June 4, 2013, Trulia reported 266 sales of condominiums in Pittsburgh. Of these, 46 were sold between May 1, 2013 and June 4, 2013. The majority of the sales during the September to June time frame were at prices ranging from \$100,000 to \$200,000.

The two condominium properties that are the most comparable are LoLa Lofts, a recent conversion at 3644 Penn Avenue in Lower Lawrenceville and an older condominium located at 425 North Neville Street in North Oakland. LoLa has a total of 16 units and an integral parking garage; asking prices range from \$165,000 to \$340,000. Unit square footages are not provided. A two bedroom, two bath unit at 425 Neville Street recently sold for \$193,000. With the exception of LoLa Lofts, no other smaller size new condominiums have been developed in the PMA.

Two other condominium properties with special financing, Roma Lofts and Glass Lofts, have not been included in the analysis because they are not in the PMA, were built some years ago, and the pace of sales was not robust. One issue may have been that condominiums were being marketed at the time of the Great Recession. Another may be that the pricing was aggressive at the time for the locations of the properties. Both are in somewhat pioneering locations close to, but not in areas where revitalization has taken hold.

### **Sales of Homes and Townhouses in Polish Hill and the PMA**

A development consisting of townhouses and/or single-family homes on small lots might be considered for the Subject Property. Assuming that the pricing is reasonable for the market in Polish Hill and the PMA, these types of housing also would be well received and would have good market support. Realtors knowledgeable about Polish Hill have reported that there is strong demand for homes, but the number of single-family homes and townhouses offered for-sale is limited. Homes recently sold in the neighborhood have ranged in price from \$20,767 for a single-family house on Bethoven Street, to \$234,500 for a recently renovated home located at 1026 Herron Avenue. When compared with other neighborhoods comprising the PMA, data compiled by Trulia show, clearly, that home prices in Polish Hill are, in fact, lower in almost all categories for which data are available. A comparison table is provided on page 37 of the report.

RES also compiled and analyzed data on sales of single-family homes and townhouses in Polish Hill and the broader PMA as a basis for recommendations for development of these housing types at the

Subject Property. Appendix B provides summary data for selected sales. The table does not include all Polish Hill sales and it excludes many of the lowest priced sales that are not relevant when estimating the potential pricing of proposed new homes. One of the three-bedroom listings included in Appendix B is a development by the Oakland Planning and Development Corporation (OPDC). The homes are located in the South Oakland neighborhood, which is outside of the Polish Hill PMA. The homes are listed because they are now being completed and have URA assistance and moderate pricing. While the exterior reflects the style of housing in a different neighborhood and preferences at OPDC, the sizes, sales prices, features, and amenities would be suitable in Polish Hill. One home has sold and others are reported to be under contract at the asking price of \$206,000 which, for a home with 1,800 sf is a price of \$114.44 per square foot.

### **Analysis of Commercial and Retail Market Potential**

RES conducted a cursory analysis of the market for additional commercial/retail space that might be incorporated in a mixed-use development at the Subject Property. The trade areas delineated by RES were one-fourth and one-half mile rings from the Subject Property. Based on the size of the Subject Property, any such component is likely to be very small. Similarly, for the businesses or service providers to be successful they will either need to fill a gap that is not now being met by existing providers of goods and services, or be a destination retail or service that will attract customers from all parts of the City.

The number of people and the household counts are small even in the larger one-half mile trade area. Declines are projected in the population from 2012 to 2017. The number of households is expected to remain stable within one-fourth mile and growing very slightly (five households) within one-half mile; the number of families is projected to decline. The total counts are very small in relation to the dollar volume of expenditures needed to support retail stores and other commercial establishments. In addition, the estimated and projected median household income is very low.

Data on retail services and expenditures are presented in a table on page 41 and indicates, clearly, that the amounts spent within the larger one-half mile trade area are very low in comparison with national averages for the categories. In part, this is a function of the small population and number of households within the delineated area. However, the low income levels also are a major factor. While there also may be some expenditures by employees working at businesses in the trade area, the numbers still remain small in relation to sales needed to support even smaller establishments. A table on page 43 of the report compares the comparison of retail demand potential based on consumer expenditures with sales in the one-half mile trade area. It is important to note that, even though there may be some surplus in an industry subsector, the dollar amount of the surplus may not support a new establishment.

### **Conclusions and Recommendations**

RES was charged with identifying the highest and best use of the Brereton-Dobson Fire Site. Based on our evaluation of the Subject Property and the market analysis procedures employed, the highest and best use is for a residential development possibly with a small component of commercial space along Brereton Street. Research by RES has confirmed the findings in PHCA's 2011 "Polish Hill Community Plan", that Polish Hill has a number of strengths as a desirable place to live. The Subject Property provides an opportunity to capitalize on this advantage by providing an opportunity for a new development in a neighborhood with limited land available.

The Subject Property is small and the new development project that is pursued clearly should respect its surroundings and be consistent with the neighborhood's scale. This objective does not foreclose development of a multifamily structure designed to fit to the site and the steep topography while also blending with surrounding land uses. For a residential component, the ownership could be a multi-unit condominium, a multifamily rental property, or a development of fee-simple for-sale structures, some of which might have commercial space. The following are alternatives:

- Multi-Unit Condominium** - From a highest and best use perspective, RES is of the opinion that a condominium or a multifamily rental development can be constructed with a similar footprint. Both for-sale and rental units are expected to have strong market support. In our opinion, a condominium is likely to result in the highest value while also providing a greater benefit to the neighborhood. Increasing the number of owners is likely to add additional stability and would provide opportunities for households renting in the neighborhood to own new housing units. Similarly, frail elderly households living in large, older homes but having incomes too high to qualify for John Paul Plaza would have an opportunity to sell the larger home and use the proceeds to own a smaller home *in their own neighborhood* that would be better suited to their needs. In that regard, the structure should have an elevator to enhance accessibility for elderly and disabled individuals. The following table provides the recommended sizes and pricing for the condominium units.

Configuration	Square Feet	Unit Pricing	Price Per Sq. Ft.
Junior 1BR/1BA	500 - 550	\$83,000 - \$90,500	\$166.00 - \$164.55
1-BR, 1-BA	600 - 650	\$98,900 - \$106,900	\$164.83 - \$164.46
2-BR, 1-BA	925 - 950	\$151,900 - \$155,900	\$164.22 - \$164.11
2-BR, 2-BA	975	\$157,000	\$161.03

While units should be smaller in square footage to be more affordable, features such as open floor plans, generous window sizes, and small balconies should be incorporated to add a sense of spaciousness and light. The condominium should be built to green standards and should have energy efficient systems, features and appliances. Additional features and amenities Units should have modern kitchens with ranges, frost-free refrigerators, dishwashers, garbage disposals, and microwaves. All units should have in-unit washers and dryers, which can be stack models in the one-bedroom units to conserve space. Window coverings such as vertical blinds should be included in the base price to give the building a uniform appearance from the outside. Units and public spaces should have high-speed Internet service; the building should have a security system. If it can be included, there should be a rooftop space providing outdoor space for condominium owners, including rooftop gardens. A component of off-street parking must be provided.

- Multifamily Rental Development** - An alternative to a multi-unit condominium development at the Subject Property is a similar development with residential units offered for-rent. RES recommends that features and amenities remain the same as for a condominium development, but unit sizes might be reduced slightly. Unit sizes and rents, which should include water, sewer, and trash collection, are shown in the following table. A small component of affordable units might be included.

Configuration	Square Feet	Monthly Rent	Rent Per Sq. Ft.
Junior 1BR/1BA	450 - 500	\$700 - \$725	\$1.56 - \$1.45
1-BR, 1-BA	600 - 625	\$850 - \$900	\$1.42 - \$1.44
2-BR, 1-BA	850 - 925	\$925 - \$975	\$1.09 - \$1.05
2-BR, 2-BA	950	\$1,050	\$1.11

- **Development of Homes or Townhouses at the Subject Property** - A final alternative with market support is the development of single-family homes or townhouses. Some could be live/work properties with first floor commercial space and living areas on upper floors. The units could be townhouses, small lot single-family homes, or stacked townhouses. New homes should have three bedrooms and 2.5 baths. The homes should have 1,750 to 1,900 square feet and at least some of the homes should have garages. Sales prices should range from \$210,000 to \$228,000, or about \$120 per square foot. Features and amenities should include fully equipped kitchens with ranges, refrigerators, dishwashers, and garbage disposals. Hook-ups for washers and dryers should be provided. Carpet and window treatments should be included; hardwood floors should be offered as an upgrade. Homes should have central air conditioning and should be designed with energy saving features. Each unit should have a patio or deck included in the base price. New homes at the Subject Property should be well received and should sell quickly.

### **Potential Uses of Commercial/Retail Space**

With expenditures in the neighborhood and within the one-half mile trade area below levels needed to support additional retail stores, other alternatives to create a lively street and draw patrons from beyond the trade area are recommended. For example, a portion of the space might be used for hands-on arts and crafts programs for adults and children with the involvement of arts departments of one or more nearby institutions and the expertise of artists living in Polish Hill.

Since there are Bike Pittsburgh routes traversing Polish Hill, a specialized use might be to attract a small bicycle store that would draw patrons from a broad area of Pittsburgh to purchase bicycles, equipment, and clothing. Another possibility might be to attract a store specializing in Polish foods or a store selling products with a Polish identity with on-line sales to supplement store sales. More traditional uses at the Subject Property would be to market space for offices of service providers such as insurance agents, tax preparers, and mortgage lenders likely to draw customers from beyond the neighborhood and the trade area.