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A misguided downtown Pittsburgh redevelopment plan

Introduction: At the end of October 2024, the governor of Pennsylvania, surrounded by local officials and politicians, made an announcement that the Commonwealth of Pennsylvania was going to spend $62.6 million on a project to reimagine Pittsburgh's Downtown neighborhood. The state will partner with local businesses, foundations, the Urban Redevelopment Authority of Pittsburgh and even the local professional sports teams in a nearly $600 million project—the details of which can be found in the press release from the state's Department of Community and Economic Development.

The Urban Redevelopment Authority has committed $22.1 million and "a broad coalition of private sector leaders and regional foundations have committed more than $40 million." This coalition includes the three professional sports teams, four major banks, five foundations and a handful of other businesses in law, finance, insurance and transportation. Officials say their investment is expected to spur another $377 million from private real-estate developers and create over 3,500 construction jobs.

Public safety

Many officials speaking at the news conference mentioned "safe public spaces." This is an admission that the streets of Downtown are not safe and haven't been in quite a while. According to the City's 2023 annual comprehensive financial report (ACFR), there were 988 full-time equivalent employees in the police department. This is down from a high of 1,091 in 2014 and 1,065 in 2019.

As for uniformed officers, the city's 2024 operating budget listed 850 in 2024 and 900 in 2023. The proposed budget for 2025 lists just 800—a trend moving in the wrong direction. It has been reported that the city has been operating well below the desired number of 900 officers for quite some time. Fewer officers lead to less safety in all neighborhoods, not just in Downtown. More officers will promote safety and bring people back into town to work, visit and live.

Jobs growth

Another theme during the press conference was that these "investments will position Downtown Pittsburgh to secure and deepen its role as the economic and cultural heart of Southwestern Pennsylvania." The Pittsburgh Metropolitan Statistical Area's payroll data from 2000 through 2023 show growth in total nonfarm jobs of 1.2 percent. Nationwide, that growth was 18.2

percent. For the private service-providing sectors, the type of job most likely to be found in the Downtown area, the growth in the metro area was just 8.8 percent during that same period. The national rate was 28.9 percent.

As many *Policy Briefs* have shown over the years, the Pittsburgh metro area has struggled to create jobs and has not been able to keep up with the national pace, or even similar areas.

The plan

Of the $62.6 million in state grants, $22 million is earmarked for mixed-use and residential projects, including office-to-residential conversions. There are seven major mixed-use and development projects that promise to create or preserve 1,000 residential units, of which nearly one-third will be low-to-moderate income housing.

Of the seven, five will include office-to-residential conversions. One will preserve existing apartments, (the May building) and the other will be a new apartment building (City Club Apartments on the site of the former YMCA headquarters).

The highest profile building in the office-to-residential conversion program is the Gulf Tower, which was purchased by the current owner in 1988 for nearly $27 million but has a current assessed value of $15.23 million. The plan is to convert it from an office tower to a mixed-use 225-unit apartment complex with a 147-suite hotel and street level retail.

The other buildings are The Porter, 165 new residential units and street-level retail; 933 Penn Avenue, converting office space into 70 new residential units with street-level retail; the Smithfield Lofts building, converting 46 new residential units with additional improvements to existing office space; and the First and Market building, a former office complex that will be converted into 93 affordable units.

It is worth noting that a commercial property's assessed value is based on revenue streams. Of the four buildings mentioned above for office-to-residential conversions, the highest current assessed value is the Porter ($10 million) followed by 933 Penn Avenue ($3.8 million) then First and Market ($2.02 million) and finally Smithfield Lofts ($1.5 million). As they, and the Gulf Tower, are converted, it is likely their assessed values will fall as apartments earn less rents than do offices, thus lowering the property tax revenues these buildings will generate for taxing bodies.

And as was noted in a previous ***Brief*** the conversion of office-to-residential can be quite costly. It is not the taxpayer's responsibility to subsidize private developers in this endeavor.

And where is the study of the demand for more Downtown housing? Did this consortium conduct a survey? From where will the new residents come? Will they be moving from one side of the city to another? And which age brackets are being targeted? Young families may be turned off by the prospect of sending their children to poorly performing Pittsburgh Public Schools.

Furthermore, how much will these apartments cost? Will they be sold outright or rented? Since such a large number will be priced for low-income residents, will the remainder need to be sold/rented at above-market prices to make up for the high cost of conversion?

There are many questions that need to be answered before any taxpayer money is doled out.

The remaining grant money pledged by the Commonwealth is $25 million for improvements to Point State Park, which the state owns; $15 million for public spaces on 8th Street, owned by the Pittsburgh Cultural Trust; and the Market Square and Liberty Avenue medians.

In addition to the grant funding, there will be tax credits available for housing: $48.3 million in low-income housing tax credits, via the federal government, and $11.9 million through the Pennsylvania Housing Financing Agency with another $400,000 from the Pennsylvania Council on the Arts.

Conclusion

Since the news conference to kick off this proposed project, the governor has gone on to announce state funding for projects all around Penn's Wood that are questionable uses of taxpayer money—like sporting events, such as golf's 2025 U.S. Open at Oakmont and the 2026 Major League Baseball All-Star game in Philadelphia. The money for Point State Park renovations is conveniently tied to Pittsburgh's hosting the NFL Draft in 2026—an endeavor that will primarily benefit the Pittsburgh Steelers. It is worth noting here that in this redevelopment plan the Steelers and Pirates are pledging $1 million each for a community investment fund for at-risk populations. The Penguins have agreed to do the same, but their pledge is not yet known.

Taxpayers certainly have no business subsidizing developers in the latest fad of office-to-residential conversion renovations. Considering the stay-at-home office culture, many buildings have grappled with high vacancy rates. But Downtown struggled with high vacancy rates even before the pandemic. All that said, the national trend is that more companies are requiring their employees to be in the office to promote collaboration and increase productivity. It is possible that the vacancy rates may begin to fall naturally. But if a developer wants to reap the rewards of conversion, they alone must step up and assume the risk.

One reason for the slow pace of such a decline in vacancy rates is the admission that people are reluctant to go Downtown due to the lack of public safety mentioned at that October news conference. If state officials want to help the city, they can offer funds to place more uniformed officers on the streets to bring them back to the level of safety expected by all visitors, residents and office workers.

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