ALLEGHENY INSTITUTE FOR PUBLIC POLICY

January 6, 2012 **Policy Brief: Volume 12, Number 2**

Extraordinarily High Cost Redevelopment

On December 21 Allegheny County's Chief Executive, in one of his final acts in office, released an announcement of a plan to redevelop the former Braddock Hospital site. And what a plan it is. The plan calls for the use of $20.3 million, most of which depends on taxpayer dollars or tax credits, to be used to build low income housing.

There are four principal components of the redevelopment plan: a 26,000 square foot flex-office building, 24 units of low income rental housing units, 11 for-sale single-family homes and infrastructure improvements including a community park.

Funding for the project will come from $8 million in low-income housing credits, $5.3 million federal and local funds and equity (amount not disclosed), $3 million in Commonwealth Redevelopment Assistance Capital Project funds, $3 million from UPMC and $1 million in private loans. The amount of the County's contribution was not specified in the release.

But the real news in the release is the stunning cost of the construction projects. First, the 24 low income housing units are forecast to cost $9.3 million. That means the average unit cost is placed at $387,500. How can low income housing be so expensive? The rent needed to cover capital cost; maintenance and taxes (assuming a privately owned property and a 5 percent return on investment) would come to around $2,000 per month, $24,000 per year. That will not qualify as low cost housing even if two thirds of the rent payments are borne by taxpayers through subsidies. Is this what we have come to? Low cost housing units are to be worth three times the median value of a home in Allegheny County.

The 11 homes built to be for sale will cost $250,000 to build. Assuming some reasonable profit and markup, they would sell for say, $275,000. Is the housing market in the area strong enough to handle 11 more units at that price?

The 26,000 square foot office building is slated to cost $6 million or $231 per square foot. Pittsburgh area office building construction runs about $170 per square foot ($162 for single story buildings). Why is the new project running almost 40 percent above expected levels? UPMC has –or will—pay for the demolition and clearing of the land

and infrastructure improvements have been priced separately. So those are not factors in the building cost.

One thing we know for sure: since the County and state money is involved, prevailing wages will be required on all construction. By itself, the prevailing wage requirement could easily add 15 percent to the cost of the new buildings. However, that alone would not explain the $387,000 cost for low income housing units.

Could it be high land cost? Probably not. The 2.8 acre site has a 2011 County assessed value of $322,000. The property was transferred to the County for one dollar. The developer will pay the County something for the land but how much has not been specified. The $322,000 figure would seem reasonable for that area. Obviously, $322,000 spread over the three building projects would not boost the construction costs to the levels described above.

Are there large developer profit margins built in to make sure the developer does not lose money on the project? Whatever the case, the cost of the office space will make rental rates unattractive unless it is leased by a government agency using tax dollars to overpay for space. Without large continuing government subsidies, the rental housing units can never hope to generate enough income to justify the enormous per unit cost.

And this is a good deal for taxpayers? Why would the state put money into a project that will require large amounts of future funding to keep it viable financially?

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