CENTER CITY REPORTS

HOUSING DEVELOPMENT IN PERSPECTIVE: 2018

MARCH 2018

CENTER CITY DISTRICT
CENTRAL PHILADELPHIA DEVELOPMENT CORPORATION

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I. GREATER CENTER CITY DEVELOPMENT OVERVIEW

Housing development in Greater Center City has continued at a record setting pace with 2,680 units completed in 2017. Since surging out of recession in 2013, construction has been driven by job growth, demographic trends, and a greater preference nationally for urban living, which has enabled Philadelphia to expand from a 3% share of regional housing permits in the early 1990s to a 25% share from 2010 to 2017 with more than half of those units built downtown.

Since 2000, a total of 23,178 new residential units have been added in Greater Center City (Figure 1). Defined as the area between the two rivers and from Girard Avenue to Tasker Street, Greater Center City now has an estimated population of 190,000, an increase of 21% since the 2000 census.[2] (Figure 2)

Housing development has remained heavily skewed toward apartments since 2013 with rental accounting for 71% (1,916 units) of all new supply delivered in 2017. While most new apartments in 2016 were concentrated in the core, nearly twice as many apartments were added in the extended neighborhoods as in the core of downtown in 2017 (Figure 4).

Condominium construction, which had been in a lull since 2008, rebounded and accounted for 10% of all new units delivered in 2017, up from only 5% in 2016.

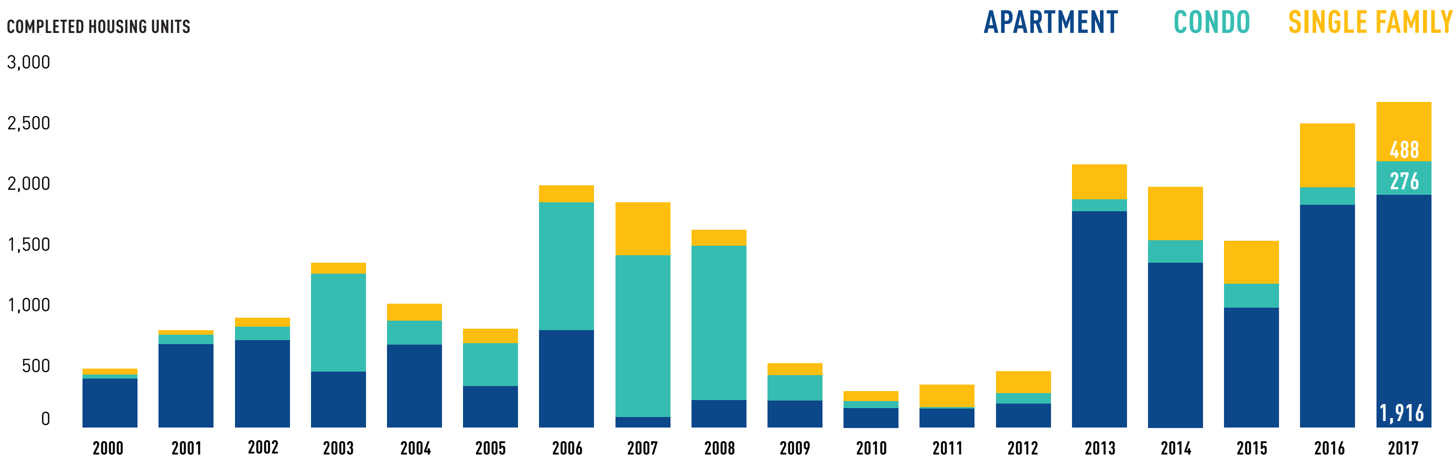
But single-family development has steadily outpaced condo construction, accounting for 19.6% of the new supply (488 units) in 2017 with 95% of the units being added in the extended neighborhoods. While lacking the same visibility provided by high-rise construction cranes, the steady pace of single-family housing construction has produced an average of 420 new units per year since 2013, transforming neighborhoods as parking lots, industrial and warehouse sites have been converted to housing.

SINCE 2000, CENTER CITY HOUSING MARKETS HAVE BEEN TRANSFORMED, DRIVEN BY DEMOGRAPHIC AND EMPLOYMENT TRENDS THAT ARE QUITE POSITIVE, YET MODEST IN SCOPE AND POTENTIAL DURATION

1: Since 2000, the Center City District has tracked residential development in Greater Center City, monitoring print, online, and publicly available permit data. Each year a field survey is also conducted to verify and track the progress of development. Since 2000, 12,998 apartment units, 6,521 condominiums and 3,866 single family homes have been completed for a total of 23,385 new units.

2: The 2000 Census measured the Greater Center City population at 157,812 people.

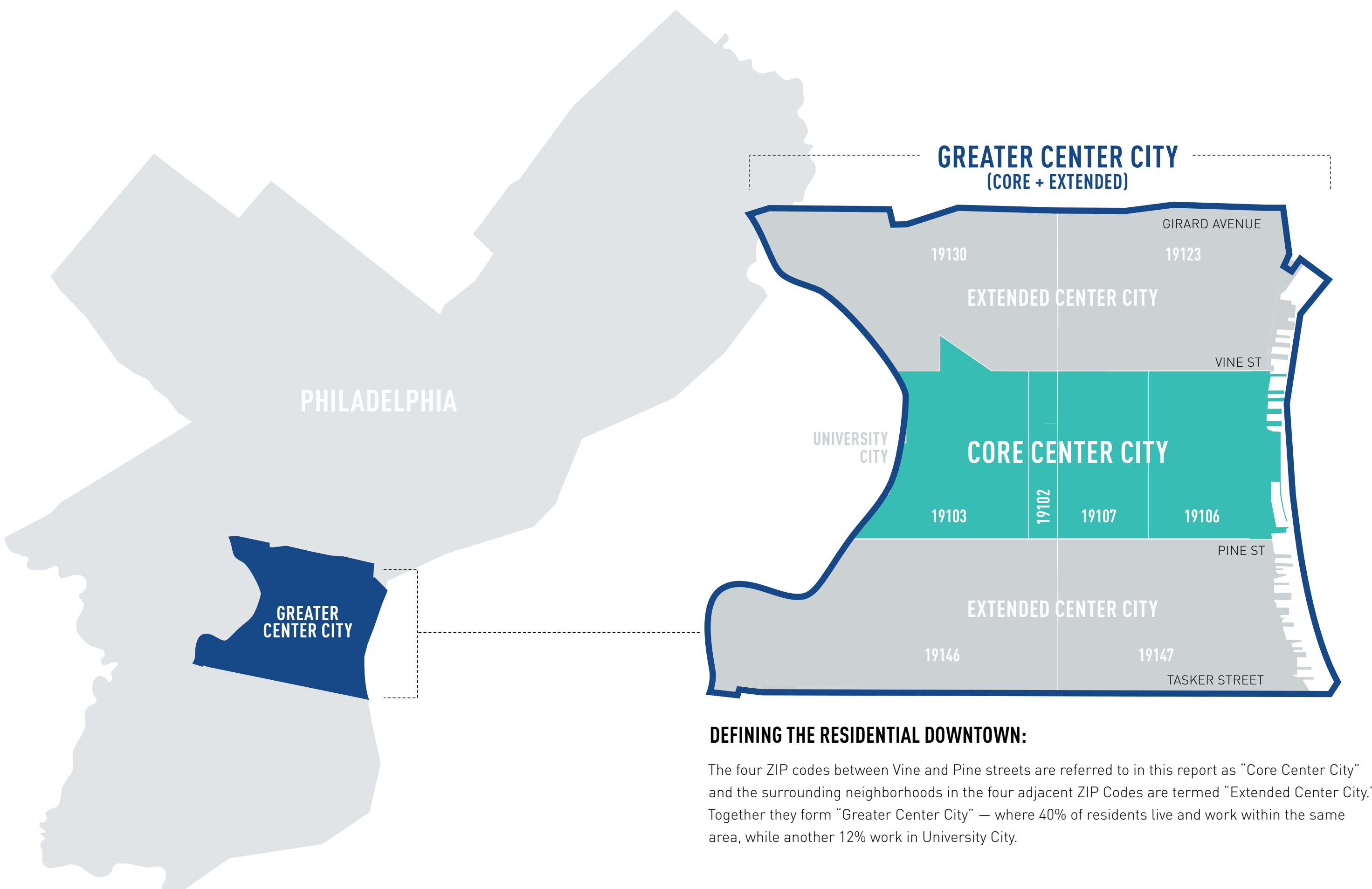
FIGURE 1: GREATER CENTER CITY HOUSING COMPLETIONS, 2000–2017



Source: CCD/CPDC Developments Database

2,680 NEW UNITS OF HOUSING WERE COMPLETED IN GREATER CENTER CITY IN 2017

FIGURE 2: DEFINING DOWNTOWN



DEFINING THE RESIDENTIAL DOWNTOWN:

The four ZIP codes between Vine and Pine streets are referred to in this report as "Core Center City" and the surrounding neighborhoods in the four adjacent ZIP Codes are termed "Extended Center City." Together they form "Greater Center City" — where 40% of residents live and work within the same area, while another 12% work in University City.

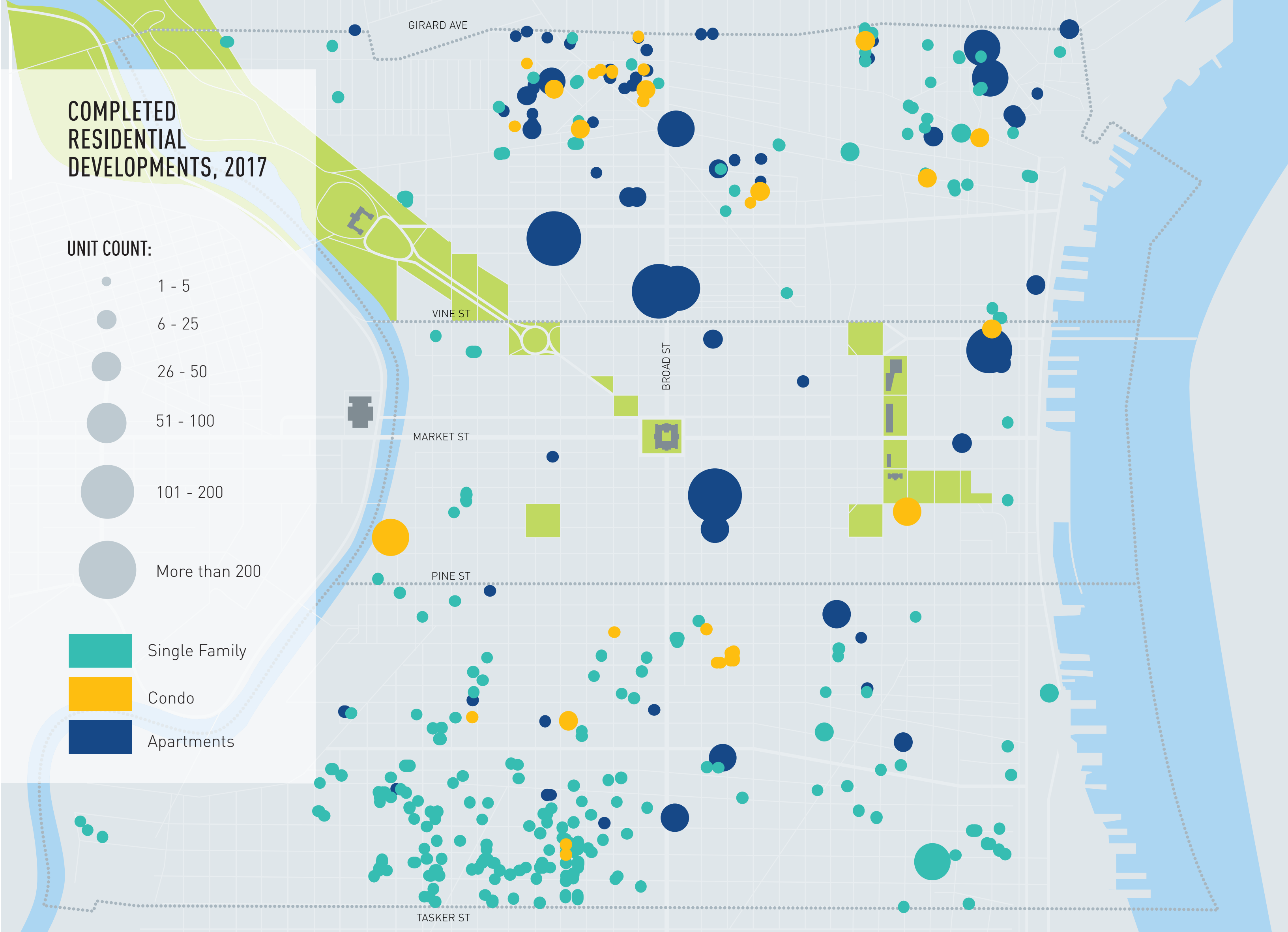


FIGURE 3: HOUSING COMPLETIONS BY AREA, 2017

AREA	APARTMENT	CONDO	SINGLE FAMILY	TOTAL
Core East	574	47	8	629
Core West	6	68	14	88
Core Total	580	115	22	717
Extended Northeast	440	35	69	544
Extended Northwest	753	47	32	832
Extended North	1,193	82	101	1,376
Extended Southeast	115	51	181	347
Extended Southwest	28	28	184	240
Extended South	143	79	365	587
Extended Total	1,336	161	466	1,963
GREATER CENTER CITY TOTAL	1,916	276	488	2,680

Source: Center City District

BLT ARCHITECTS 2017

II. GREATER CENTER CITY SUPPLY & DEMAND

WHAT'S IN THE PIPELINE?

Development is continuing at a very strong pace in Greater Center City with 5,151 units under construction and scheduled for delivery in the next two years. Large-scale projects are occurring in Old City, South Broad Street, East Market Street, north and east of Logan Square and in the Francisville, Northern Liberties, and Point Breeze neighborhoods. More than three-quarters (3,918) of the units in progress are rental apartments. There are 1,233 for-sale units under construction, consisting of 776 single family homes (63% of for-sale supply) and 457 condos (37% of for-sale supply). As in recent years, new single family homes are strongly concentrated in Point Breeze, with the balance in clusters scattered across the extended neighborhoods north and south of the core. Condominium units are under construction across both the core and extended Center City neighborhoods, with distinct nodes in Francisville and Old City (Figure 4).

MORE THAN 5,000 UNITS OF HOUSING ARE UNDER CONSTRUCTION IN NEARLY EVERY PORTION OF GREATER CENTER CITY

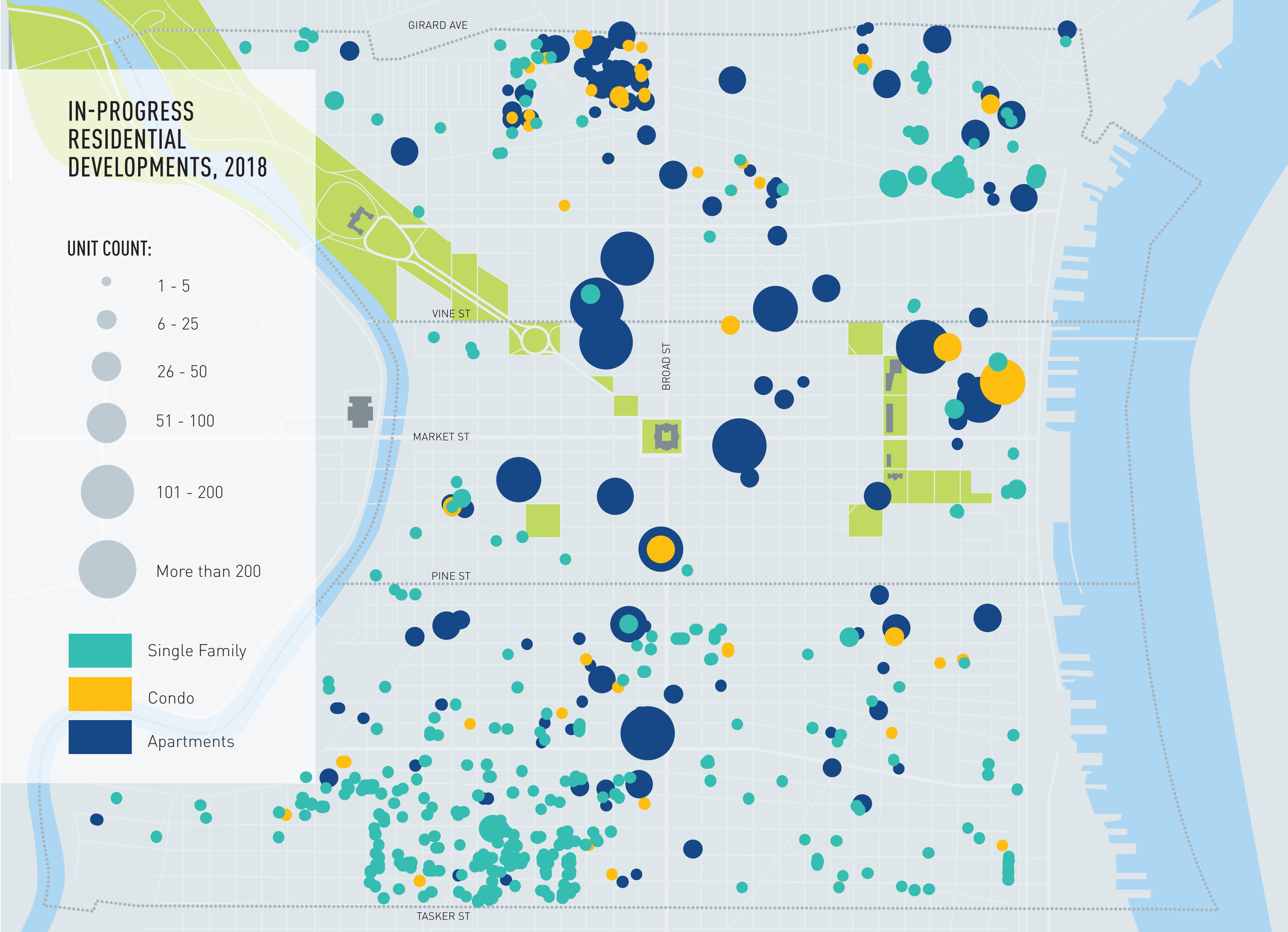


FIGURE 4: IN-PROGRESS HOUSING DEVELOPMENTS BY AREA, 2018

IN PROGRESS	APARTMENT	CONDO	SINGLE FAMILY	TOTAL
Core East	839	249	41	1,129
Core West	845	49	38	932
Core Total	1,684	298	79	2,061
Extended Northeast	535	31	200	766
Extended Northwest	970	71	45	1,086
Extended North	1,505	102	245	1,852
Extended Southeast	112	30	90	232
Extended Southwest	617	27	362	1,006
Extended South	729	57	452	1,238
Extended Total	2,234	159	697	3,090
GREATER CENTER CITY TOTAL	3,918	457	776	5,151

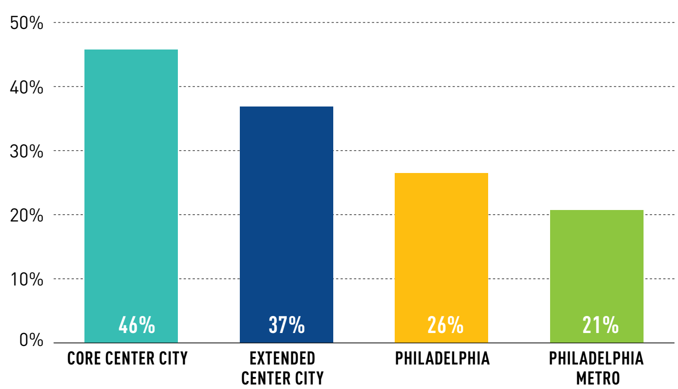
Source: Center City District

WHO LIVES HERE

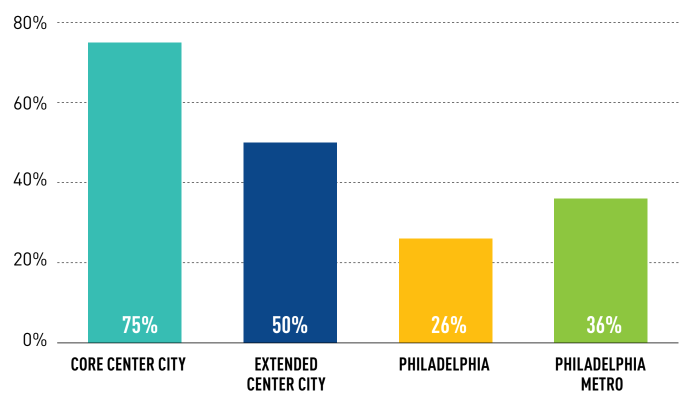
New housing construction in Greater Center City is a response to Philadelphia's improved ability to capture jobs and emerging demographic trends. Core Center City has become dramatically younger; its residents are three times more likely to have a college degree than the rest of the city; they are highly likely to get to work without a car; and only 5% of households have children living at home. Extended neighborhoods are somewhat older; residents are almost equally likely to commute without a car; they are twice as likely to have a college degree than the rest of the city; and there are more than three and half times as many children ages 17 or under living at home in the extended neighborhoods (15,504) than in the core (4,003). These new demographic realities have positive implications for employers and retailers, place new and different demands on transportation infrastructure and have important implications for our schools (Figure 5).

FIGURE 5: NEW DEMOGRAPHIC REALITIES

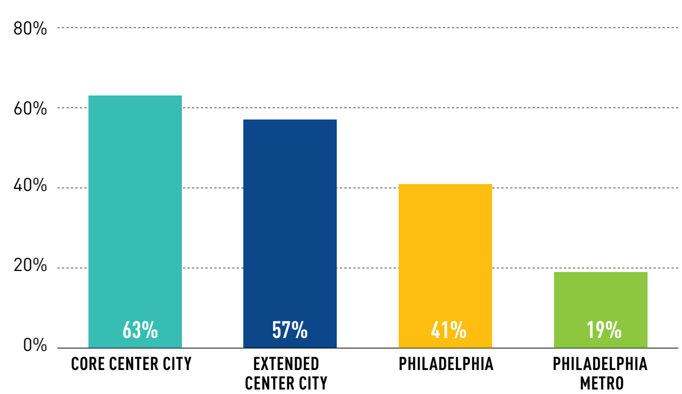
PERCENT AGES 20-34



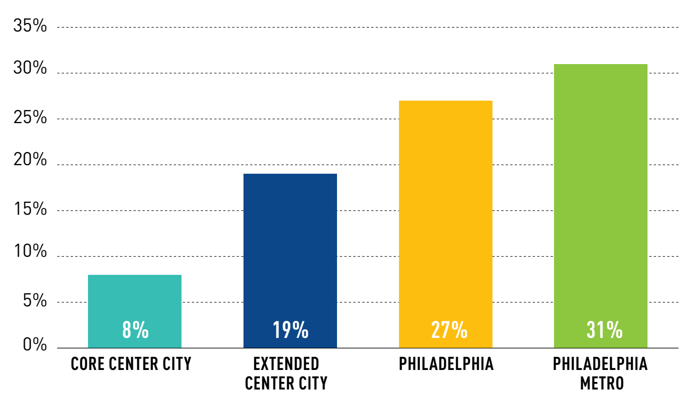
PERCENT WITH BACHELOR'S OR HIGHER



PERCENT COMMUTING WITHOUT A CAR



PERCENT OF HOUSEHOLDS WITH CHILDREN



Source: U.S. Census Bureau, American Community Survey 2012-2016

FIGURE 6: GREATER CENTER CITY NEIGHBORHOOD PROFILES

	NEIGHBORHOOD	AVERAGE HOUSEHOLD SIZE	% OF HOUSE-HOLDS WITH CHILDREN	% AGES 20-34	PERCENT 60 AND OLDER	% BACHELOR'S OR MORE	AVERAGE HOUSEHOLD INCOME	NON-AUTO COMMUTING MODE SHARE	% NO VEHICLE HOUSEHOLDS
CORE CENTER CITY	Chinatown/Market East	2.0	12%	54%	8%	46%	$80,877	74%	58%
	Logan Square	1.6	5%	44%	26%	74%	$103,471	66%	41%
	Old City	1.7	5%	60%	13%	81%	$124,525	57%	28%
	Rittenhouse Square	1.6	7%	47%	20%	87%	$129,883	76%	48%
	Society Hill	1.9	13%	27%	33%	84%	$164,030	57%	29%
	Washington Square	1.7	7%	54%	16%	79%	$93,397	73%	57%
	Waterfront	1.8	10%	34%	28%	72%	$127,011	38%	5%
EXTENDED CENTER CITY	Bella Vista	2.1	16%	36%	14%	69%	$109,461	67%	33%
	Callowhill/ Poplar	2.3	25%	33%	20%	29%	$48,295	64%	48%
	Fairmount/ Spring Garden	2.1	18%	37%	15%	59%	$90,565	52%	26%
	Graduate Hospital	2.2	16%	41%	13%	68%	$107,181	63%	33%
	Grays Ferry	2.6	23%	28%	15%	12%	$39,501	52%	47%
	Northern Liberties	2.0	11%	49%	8%	72%	$120,521	42%	14%
	Passyunk Square	2.5	19%	33%	17%	43%	$73,290	63%	37%
	Pennsport	2.6	24%	38%	12%	43%	$79,462	47%	25%
	Point Breeze	2.4	19%	36%	17%	31%	$56,497	60%	41%
	Queen Village	2.1	18%	36%	14%	77%	$124,726	60%	25%
	PHILADELPHIA AVERAGE	2.6	27%	26%	18%	26%	$58,372	41%	31%
	METRO AREA AVERAGE	2.6	31%	21%	20%	36%	$88,881	19%	13%

Source: U.S. Census Bureau, American Community Survey 2012-2016

ARE DEMAND AND SUPPLY IN SYNC?

Are job and demographic trends strong enough to absorb all the new supply?

Data derived from American Community Survey estimates suggests that Greater Center City has experienced a net addition of between 8,000 and 10,000 households since 2010. During that time, CCD has tracked the completion of 11,786 housing units (not counting old or obsolete units that may have been withdrawn from the market or demolished to make way for new construction). The new supply is comprised of 8,100 rental apartments and 3,686 for sale units (condo and single family). Broadly, this suggests that demand and supply through 2017 have approached equilibrium. But while many new units are occupied by people coming from outside the downtown, others may be filled by residents moving within Greater Center City, causing demand to soften for existing units. The best way to measure the full impact of this new supply is to look at market indicators for the *entire* inventory of housing in Greater Center City.

GREATER CENTER CITY HAS ADDED 8,000 TO 11,000 NEW HOUSEHOLDS IN JUST THE LAST SEVEN YEARS

APARTMENTS

Since 2010, approximately 70% of housing units built in Greater Center City have been apartments, adding a total of 8,100 for-rent multifamily units, increasing the total rental supply by approximately 20%.[3] The overwhelming majority of those units have been built in the core of Center City where zoning allows the greatest density; where demand is strongest for the walkable, transit-accessible and amenity-rich setting; and where the highest rents can be attained.

Delta Associates, which tracks larger apartment developments in Philadelphia (primarily Center City and University City) reports that at the end of 2017, the "stabilized vacancy rate," which excludes newer projects, stood at 5.1% (up from 3.7% in 2016). But the overall vacancy rate, including projects still in the lease-up phase, jumped from 5.1% in 2016 to 16.1% in 2017.

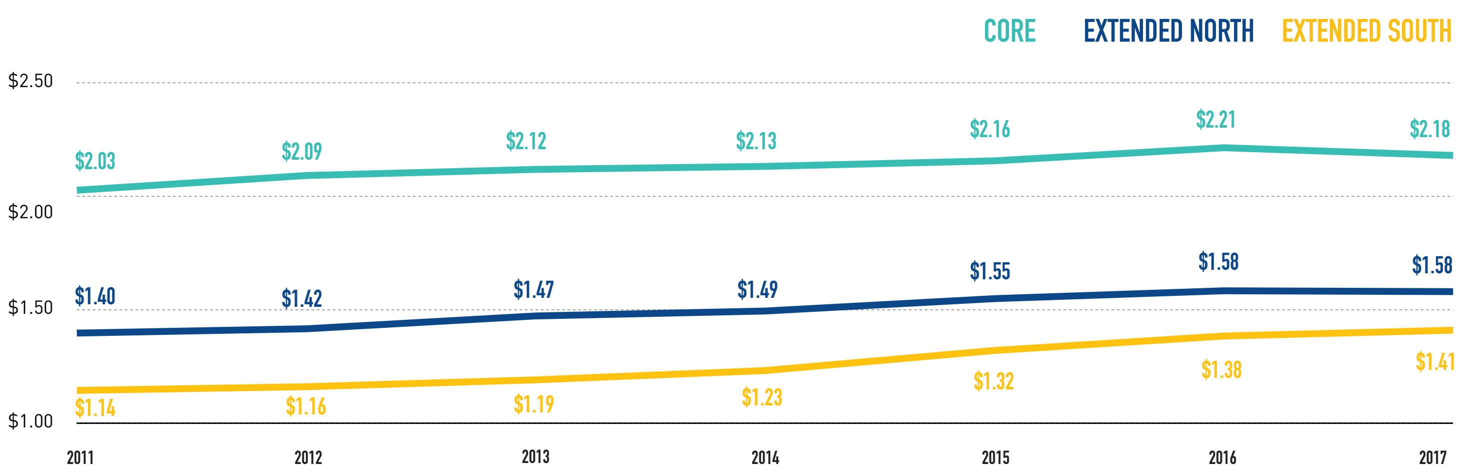
In the 27 recently constructed Center City apartment buildings detailed by Delta, a total of 3,873 units out of 5,169 are reported to be leased up, which leaves 1,296 (25%) of new units vacant. Many of those buildings (totaling 1,533 units) have been leasing up for less than a year (including more than 300 units at The Ludlow which only began leasing in December 2017). Delta estimates an annual absorption rate for new units to be around 1,350, suggesting that, absent some major change in demand, the units on the market now represent almost a full year's supply. With CCD's count of another 4,152 units coming to market over the next two years, increased competition for tenants will likely impact rents more substantially.

Already in 2017, Zillow's Rental Index per square foot in Core Center City showed a slight decline after five years of a consistent upward trend (Figure 7).[4] Rents in extended Center City also flattened in 2017 with one exception: rents continued to climb in the 19146 ZIP code, which includes the Graduate Hospital, Point Breeze, and Grays Ferry neighborhoods. Core Center City still demands significant premium over extended Center City, but the gap is decreasing.

Looking at the details in Figure 8, rents decreased in every Core Center City ZIP code. But the fine-grained map in Figure 9 suggests more nuanced patterns of increases and decreases by neighborhood. In extended Center City, there was a mix between slight increases and decreases. The highest rent increases occurred at the outer edges of Extended Center City in Francisville, West Poplar, and Point Breeze and beyond the northern edge of Greater Center City in Brewerytown, Strawberry Mansion, and parts of Kensington and Fishtown.

RENT INCREASES HAVE MODERATED AS NEW INVENTORY HAS COME ONLINE

FIGURE 7: RENTS PER SQUARE FOOT, 2011-2017



Source: Zillow, Zillow Rent Index (ZRI)

3: Based on ACS/Census Estimates there are approximately 40,000 multifamily rentals in Greater Center City, not inclusive of the units delivered to market in 2017

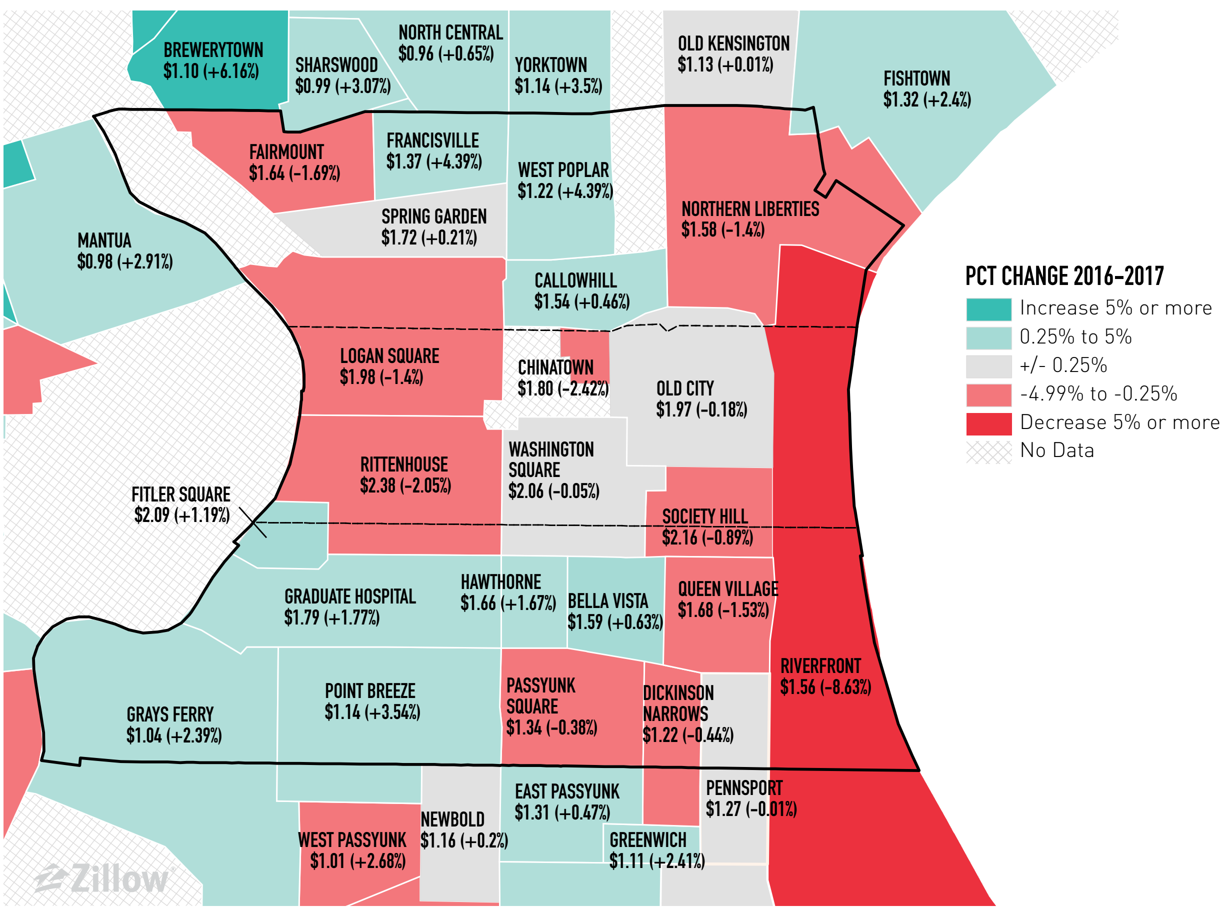
4: The purpose of the Zillow Rent Index (ZRI) is to provide insight into rental price trends that is not biased by focusing only on the units currently being offered for rent. Zillow inputs rental data into a proprietary model to calculate rental estimates ("Zestimates") for all rental units, not just those on the market. To calculate the ZRI, is a three month moving average of the median Rent Zestimate.

FIGURE 8: RENTS PER SQUARE FOOT BY ZIP CODE, 2011-2017

AREA	2011	2012	2013	2014	2015	2016	2017
CORE	$2.03	$2.09	$2.12	$2.13	$2.16	$2.21	$2.18
19102	$2.18	$2.26	$2.30	$2.34	$2.38	$2.41	$2.36
19103	$2.16	$2.22	$2.28	$2.30	$2.30	$2.40	$2.34
19106	$1.93	$1.98	$1.98	$1.99	$2.01	$2.07	$2.06
19107	$1.83	$1.90	$1.92	$1.90	$1.93	$1.98	$1.96
EXTENDED NORTH	$1.40	$1.42	$1.47	$1.49	$1.55	$1.58	$1.57
19123	$1.31	$1.34	$1.39	$1.41	$1.49	$1.51	$1.50
19130	$1.48	$1.49	$1.55	$1.57	$1.60	$1.66	$1.64
EXTENDED SOUTH	$1.14	$1.16	$1.19	$1.23	$1.32	$1.38	$1.41
19146	$1.03	$1.03	$1.05	$1.12	$1.22	$1.28	$1.32
19147	$1.26	$1.30	$1.33	$1.35	$1.43	$1.49	$1.50

Source: Zillow, Zillow Rent Index (ZRI)

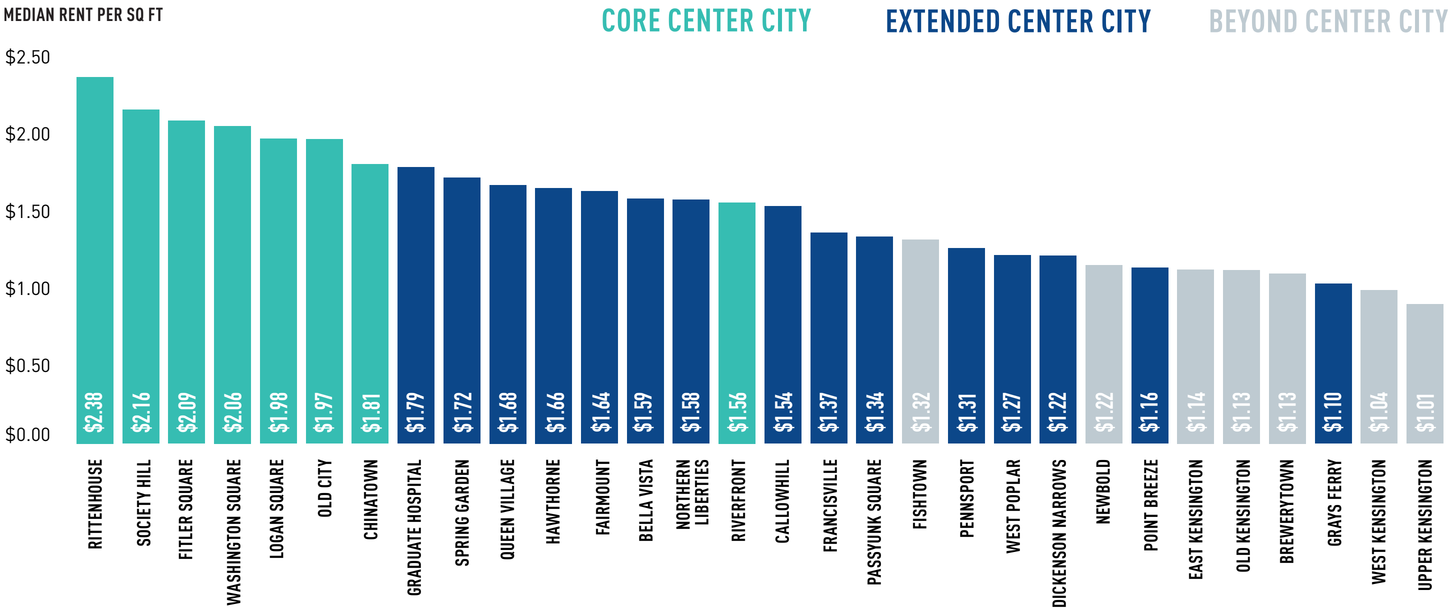
FIGURE 9: PERCENT CHANGE IN RENT BY NEIGHBORHOOD, 2016-2017



*Based on Zillow Neighborhood Boundaries

Source: Zillow, Zillow Rent Index (ZRI)

FIGURE 10: 2017 RENTS PER SQUARE FOOT BY NEIGHBORHOOD



*Based on Zillow Neighborhood Boundaries

Source: Zillow, Zillow Rent Index (ZRI)

FOR SALE HOUSING

While the rental market shows signs of moderate oversupply, the for-sale market has remained very strong. Since 2010, a total of 2,548 new single family homes and 1,318 condo units have been constructed in Greater Center City, increasing the supply of each by approximately 7% and 11% respectively over estimated 2010 numbers. The 2,548 single family homes completed since 2010 are nearly twice as many as were built in the preceding 10 years. But during the same period of time, the pace of total sales of both new and existing units has gradually increased — from an average of 182 per month in 2010, to an average of 303 per month in 2017. At the same time, prices rose and the number of days homes stayed on the market dropped by 40% from 95 days in 2010 to just 57 days in 2017 (Figure 12).

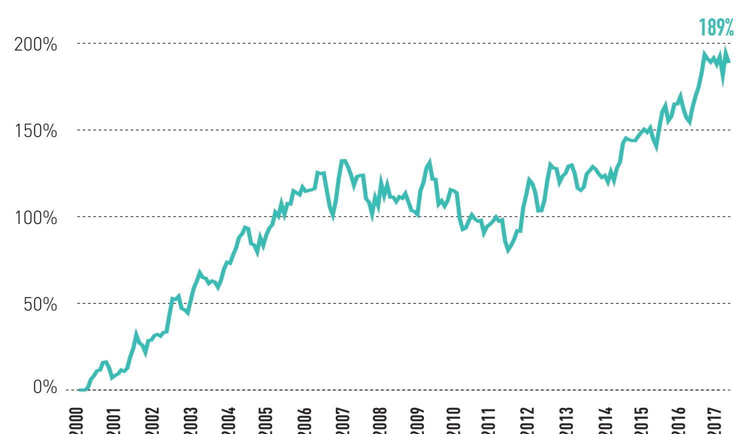
This suggests that demand is outpacing supply in Greater Center City and with prices increasing, buyers have migrated north of Fairmount and Northern Liberties to Brewerytown and Fishtown, while on the southern side buyers are migrating south of Graduate Hospital and Bella Vista into Point Breeze, Newbold and East Passyunk.

Looking in greater detail for the trends in just the last year, the number of existing and new single family homes and condominiums that sold rose by 6%, their average price climbed by 12% to $512,691, and the number of days sellers had to wait from listing to sales dropped by 7%. Housing in the extended neighborhoods was priced 39% lower than homes in the core and sold far more quickly, with homes selling fastest in the Point Breeze neighborhood (Figure 13).

Condominium sales in the core accounted for almost three-quarters of all brokered home sales in 2017, compared to about one quarter of sales in the extended neighborhoods, where units are priced 37% below the core. In the core and in the extended neighborhoods both the volume and price of units sold increased between 2016 and 2017, suggesting a market that remains robust (Figure 14).

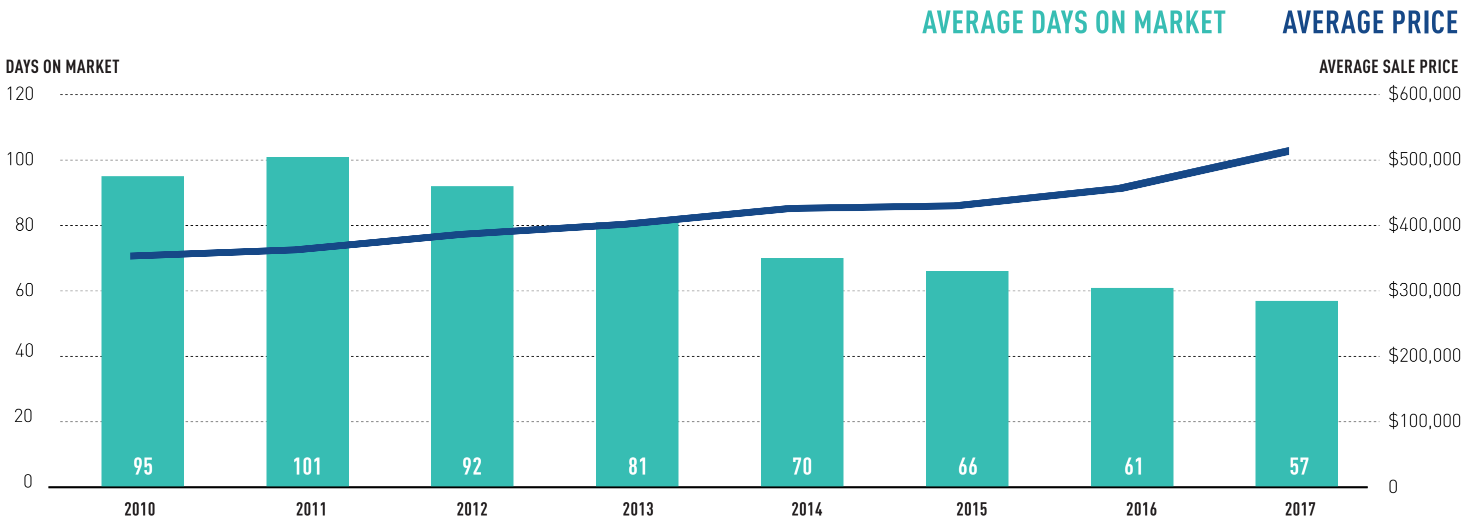
Long-term, Econsult Solutions' Philadelphia Housing Index shows that Greater Center City house prices have appreciated by 189% from 2000 to 2017, with values significantly surpassing their peak prior to the Great Recession (Figure 11).

FIGURE 11: GREATER CENTER CITY PERCENT CHANGE IN SINGLE FAMILY HOUSE PRICES, 2000-2017



Source: Econsult Solutions, Philadelphia Housing Index

FIGURE 12: DAYS ON MARKET AND AVERAGE SALE PRICE



Source: TREND MLS

FIGURE 13: MLS BROKERED RESIDENTIAL SALES, 2017 – SINGLE FAMILY AND CONDO

AREA	SALES	% CHANGE	AVG PRICE	% CHANGE	DAYS ON MARKET	% CHANGE
Core	998	12%	$714,584	13%	80	9%
East	492	5%	$558,430	13%	69	-9%
West	506	20%	$866,417	10%	91	28%
Extended	2,634	3%	$436,195	10%	48	-15%
North	863	7%	$425,571	1%	54	-4%
East	316	2%	$454,412	-7%	65	3%
West	547	9%	$408,909	8%	47	-8%
South	1,771	2%	$441,372	15%	45	-21%
East	763	5%	$496,611	18%	52	-17%
West	1,008	-1%	$399,560	13%	40	-25%
GREATER CC	3,632	6%	$512,691	12%	57	-7%

Source: TREND MLS

FIGURE 14: MLS BROKERED RESIDENTIAL SALES, 2017 – CONDOS ONLY

AREA	UNITS SOLD	% CHANGE FROM 2016	AVG PRICE	% CHANGE FROM 2016
Core	737	7%	$645,508	13%
East	365	-1%	$411,920	0%
West	372	17%	$874,701	15%
Extended	665	14%	$405,504	5%
North	389	13%	$355,024	6%
East	120	9%	$384,220	-2%
West	269	15%	$342,000	11%
South	276	16%	$476,652	3%
East	159	33%	$453,983	8%
West	117	0%	$507,459	0%
GREATER CC	1,402	10%	$531,669	9%

Source: TREND MLS

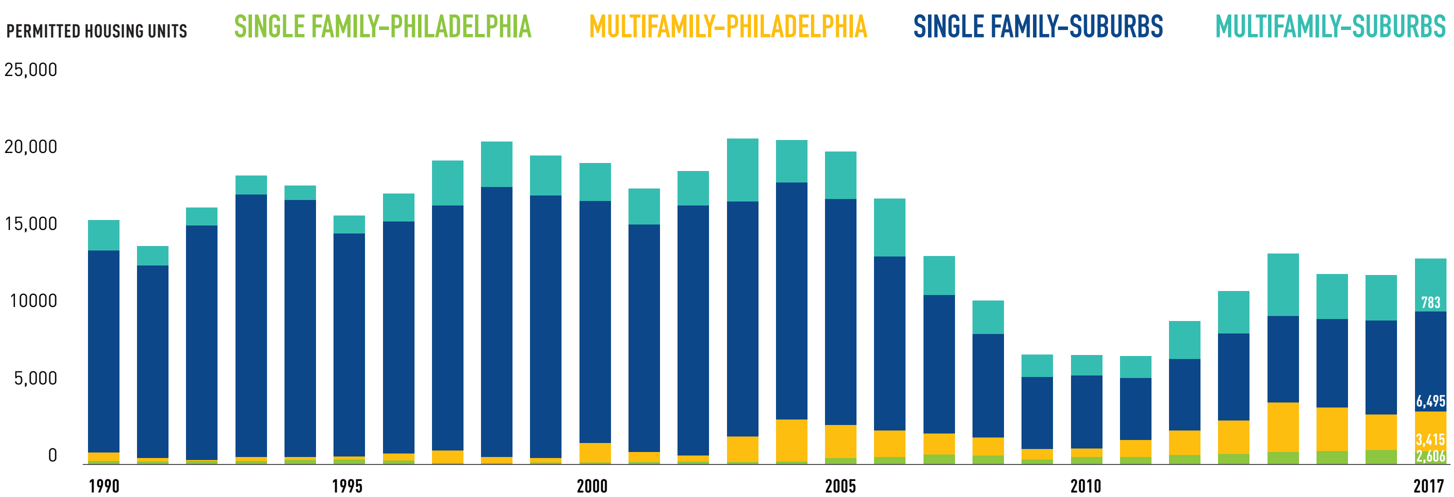
III. HOUSING DEVELOPMENT IN A REGIONAL CONTEXT

Housing growth in Greater Center City is the result of two overlapping trends: (1) Rebounding from the Great Recession, job growth in America's largest cities has outperformed the national economy at a time when there is a growing preference for live-work settings. While Philadelphia is among the slowest growing of the largest cities, since 2008, the city as a whole has added 63,200 jobs, with 43% of these new jobs located in Center City and 38% in University City. This is in marked contrast to the period between 1970 and 2004 when Philadelphia lost 28.5% of its jobs. (2) After losing 431,059 residents between 1970 and 2000, Philadelphia started to add population after the turn of the century and has grown by at least 40,000 residents since 2010, with 37% of in-movers to the city choosing to live in either Center City or University City. Like all U.S. cities, Philadelphia is benefitting from the expanding preference for urban areas from the nation's two largest age cohorts, millennials and empty nesters, with 46% of core Center City's population now ages 20 to 34. Philadelphia has also benefitted modestly from immigration.

The combination of these trends is apparent when looking at the changing regional geography of housing permits for last 27 years. From 1990 to 1999, when Philadelphia was at the tail end of decades of employment and population decline, building permits were issued for only 5,072 housing units in all of Philadelphia — less than 3% of the 177,469 total permits issued in the Greater Philadelphia Metropolitan area. In the 2000s, as employment stabilized, population increased in Philadelphia for the first time in decades, and, as the city's 10-year tax abatement made development more feasible, the number of building permits in the city increased to 16,567, rising to almost 10% of the regional total.

Between 2010 and 2017, as many housing units were permitted in Philadelphia as in the two previous decades combined. Housing completions in Greater Center City account for 55% of all those permitted units (11,987). The total of 21,729 permitted units constitutes 25% of all units permitted in the region and is in line with Philadelphia's share of the region's population (1.5 million out of 6 million). But this remarkable change does not yet mean that Philadelphia is regaining regional market share as much as it signals that after decades of losing housing market share, the city is finally holding its own. It is also essential to note that Philadelphia's increased percent of regional share is driven as much by new production in the city as by a decrease in permitting activity in the suburbs, reflecting job and population growth in the surrounding counties as modest as it has been in the city.

FIGURE 15: PERMITS BY TYPE, PHILADELPHIA METROPOLITAN AREA (CITY V. SUBURBS)



Source: US Census, Building Permits Survey


JIM ABBOTT

IV. HOUSING DEVELOPMENT IN A NATIONAL CONTEXT

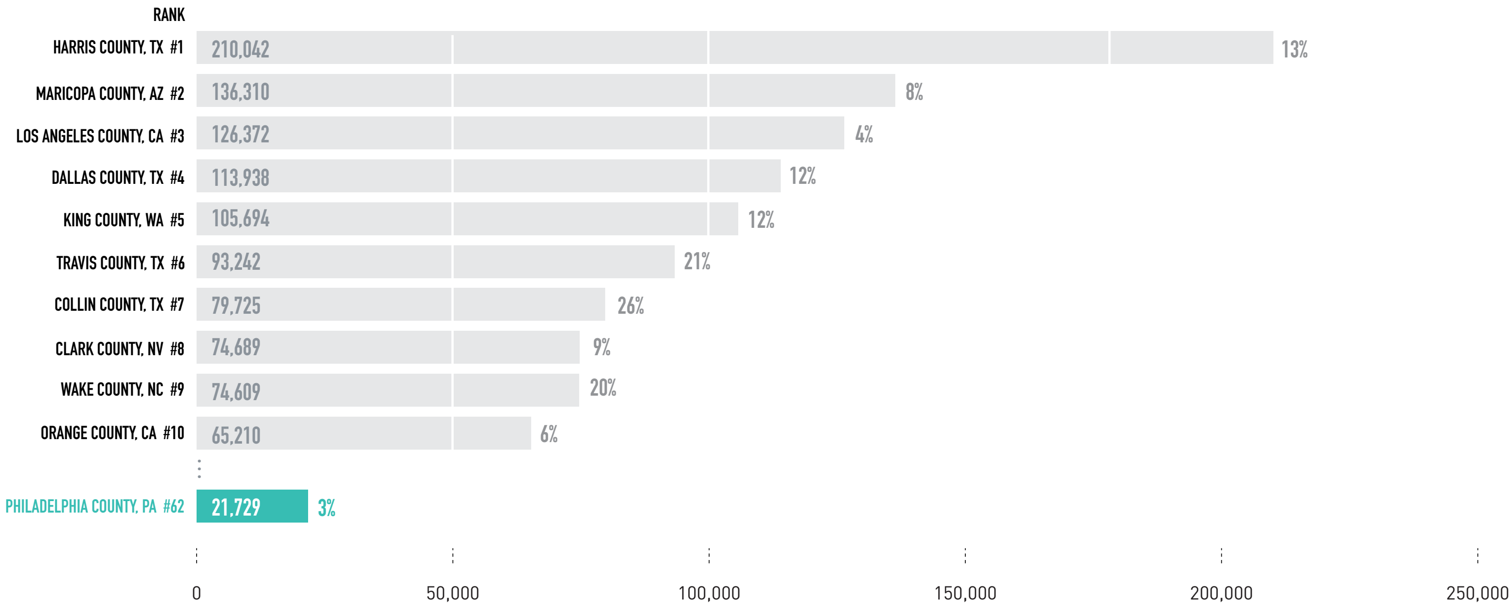
Philadelphians are only slowly becoming accustomed to growth. This is not surprising in a city that experienced a half-century of job and population loss and where 88% of all housing units were built prior to 1980. Despite concerns about overbuilding in the rental sector, much of the new supply is being absorbed by strong demand due to population and employment growth. Still, Philadelphia's job growth is the slowest among the 25 largest cities and the corresponding rate of housing growth is quite modest — ranking 62nd among counties nationally in units permitted since 2010. These comparisons should tamp down any tendency to use terms like "housing boom" (Figure 16).

At the top of the national list is Harris County, home to Houston, Texas, which has issued permits for 210,042 units since 2010, adding 13% to the total housing stock in just the last seven years. Travis County, home to Austin, has permitted 93,242 units since 2010 — a 21% addition to the 2010 housing stock. In fact, four of the top 10 counties are in Texas — all fast growth job markets, well-known for a low cost of living and permissive building practices. Unlike more constrained housing markets like San Francisco and Boston, Texas cities have seen significant economic growth without soaring house prices.

While there are many aspects of Texas-style growth that Philadelphia is well-advised to avoid, Houston serves an important reminder that one essential way of keeping housing affordable is to continue to add new supply to meet increased demand in order to reduce pricing pressure on existing housing stock.

A comparison of apartment rents in Philadelphia with East Coast neighbors is illuminating. Using Zillow's data on price per square foot in central business districts compared to prices in the rest of the city, what jumps out first in Figure 17 is Philadelphia's competitive advantage of affordability, compared to Boston, New York and Washington D.C. But Philadelphia's CBD premium, (the higher rents people will pay to live downtown close to work and diverse amenities) is second only to premium commanded by Midtown Manhattan. Yet, most of Philadelphia's premium is a result of very low rents in the rest of the city. In fact, *citywide* rents in Boston and Washington are higher than Philadelphia's CBD rents.

FIGURE 16: TOP COUNTIES BY NUMBER OF UNITS PERMITTED, 2010 TO 2017



Percent figures as percent of 2010 housing units

Source: US Census, Building Permits Survey

FIGURE 17: CITY-BY-CITY RENT PER SQUARE FOOT COMPARISONS

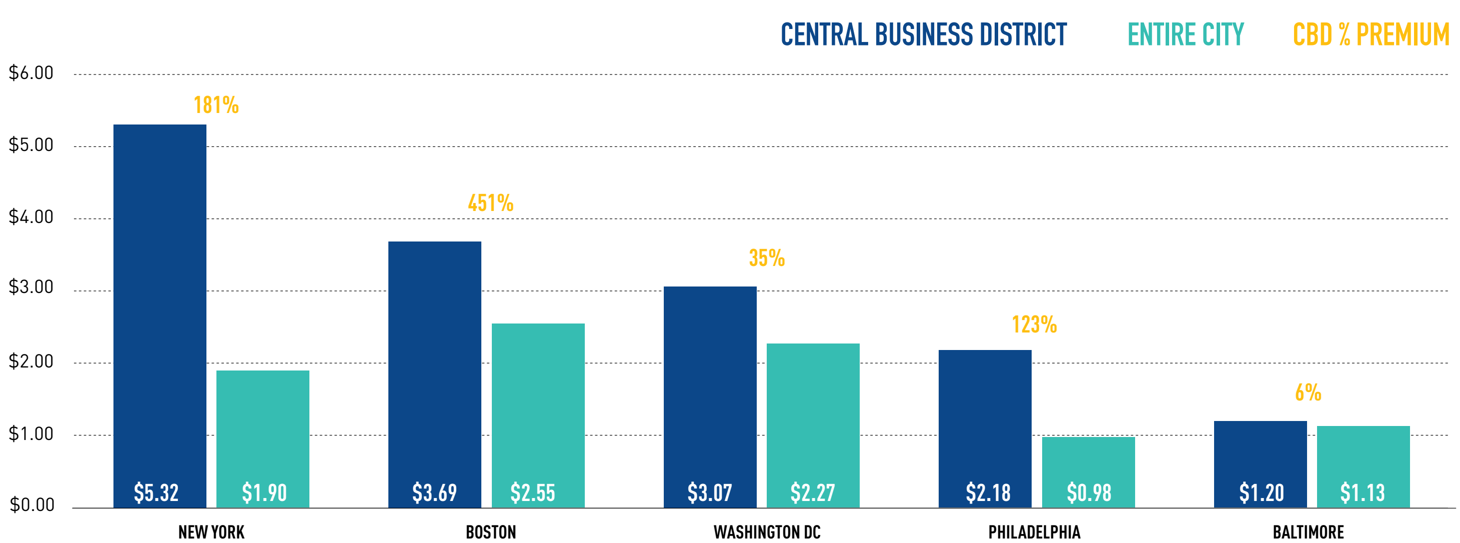
	ENTIRE CITY	CENTRAL BUSINESS DISTRICT*	CBD % PREMIUM
New York	$1.90	$5.32	181%
Boston	$2.55	$3.69	45%
Washington DC	$2.27	$3.07	35%
Philadelphia	$0.98	$2.18	123%
Baltimore	$1.13	$1.20	6%

*CBD definitions: New York – Midtown Manhattan, Boston - Central, Washington DC – Downtown, Philadelphia – Core Center City, Baltimore – City Center

Source: Zillow

AFFORDABILITY IS A MATTER OF PERSPECTIVE DEPENDING ON WHAT'S BEING COMPARED

FIGURE 18: CITY-BY-CITY RENT PER SQUARE FOOT COMPARISONS



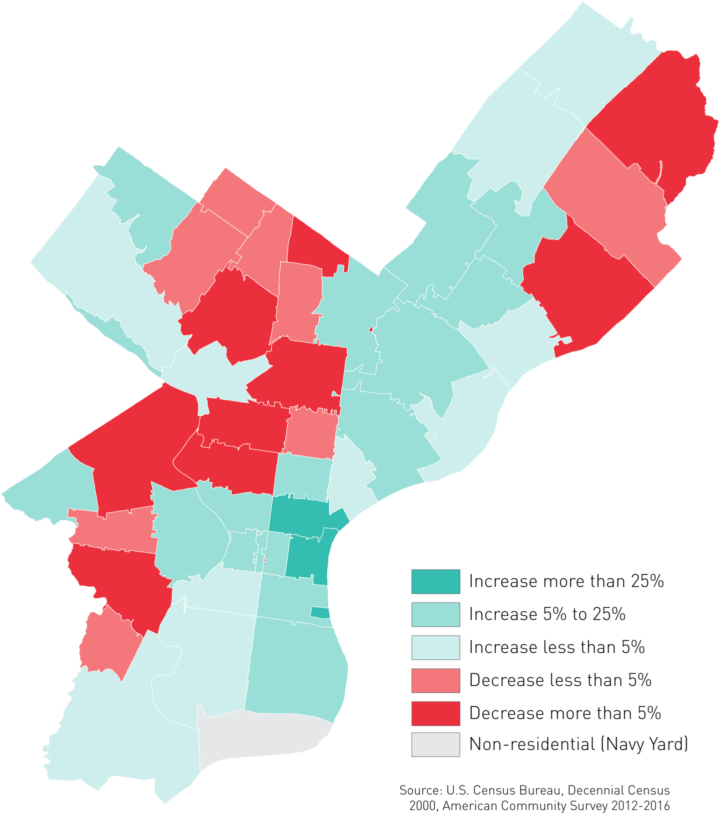
Source: Zillow

V. HOUSING AFFORDABILITY IN PHILADELPHIA

Philadelphia's low rents in many neighborhoods are a reflection of not only the low income of local residents, but also of weak demand resulting from declining population in neighborhoods that lost a total of 500,000 working class and middle income residents between 1970 and 2015. During that same 45-year period, the number of residents living at or below the poverty line increased by 100,000. These older trends have persisted in many portions of the city because, beyond Greater Center City, University City and the Navy Yard, the balance of Philadelphia has continued to lose jobs at the rate of 0.4% per year since 2005, resulting in a very slow, citywide rate of growth.

Ongoing job loss outside the core has significant implications for housing markets. While 25% of the working residents of each neighborhood outside of Greater Center City commute to work downtown, every day, another 211,000 Philadelphia residents (40% of the workforce from these communities) *reverse commute* to jobs located in the suburbs. Philadelphia's wage tax is structured so that regardless of where a city resident works, their employer is obligated to withhold the full city wage tax. Thus, the commute to the suburbs carries with it an incentive to *move* to the suburbs.[5] As a counterpoint to the success stories of downtown and University

FIGURE 19: PHILADELPHIA POPULATION CHANGE, 2000-2016



Source: U.S. Census Bureau, Decennial Census 2000, American Community Survey 2012-2016

5: Philadelphia residents who already work in the suburbs automatically get a pay increase as their wage tax falls from 3.9% to 1% if they find an affordable home in nearly all the townships in Montgomery County. Most of Delaware County has no wage tax at all.

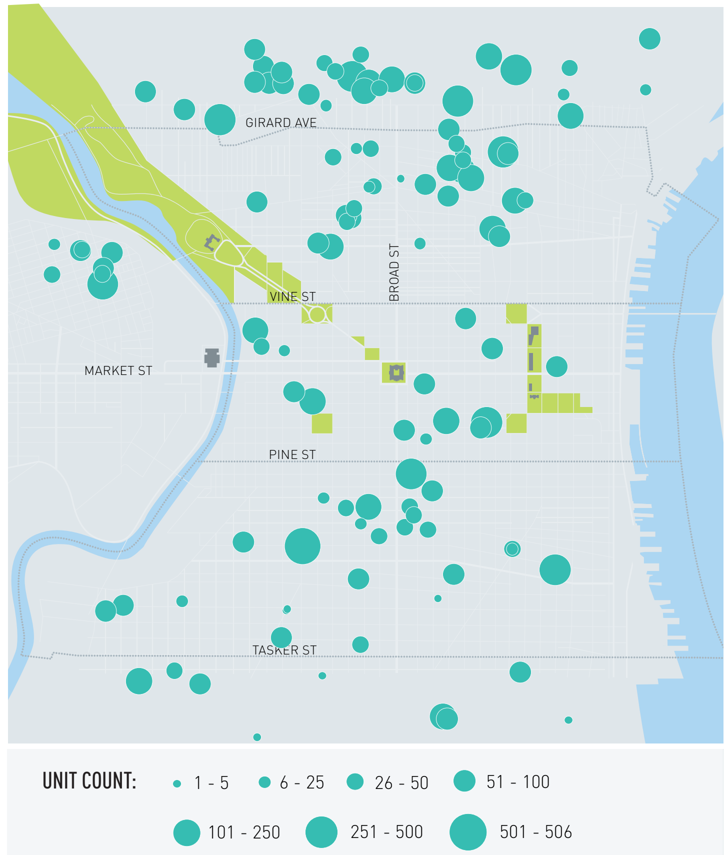
City, 62,000 more residents of city neighborhoods decamped for the suburbs since 2010 than moved in. Twice as many made the move to Montgomery County as came our way.[6] This weakens demand for housing in many neighborhoods and has resulted in continuing population decline in many areas of the city (Figure 19).

In neighborhoods with declining population, there is often an ample supply of housing that is affordable, but in need of repairs. The problem is that so many remaining Philadelphia residents have inadequate incomes to support the costs of renovating and occupying that housing either as owners or renters. As the Pew Charitable Trusts' notes in their 2017 *State of the City* report, Philadelphia's challenge is more like Detroit's and less like Boston's in that our affordability problem is primarily a result of low incomes, rather than a reflection of high rents.[7]

The US Department of Housing and Urban Development defines "cost-burdened" as paying more than 30% of income for housing. By that metric, 84% of households with less than $20,000 in income are cost-burdened (an income bracket that includes more than 25% of Philadelphia households). For the next income bracket, $20,000 to $34,999, 65% are cost-burdened. For those who earn between $50,000 and $74,999, the cost-burdened portion drops to 17%. At incomes above $75,000 (30% of the households in the city) only 4% of households are housing cost-burdened (Figure 21).

Philadelphia's median household income is $41,449, which means from a home-ownership perspective the maximum price a median income earner can afford to purchase a home is $144,951. Using the Office of Property Assessment's market value for single family homes as a basis, 67% of Philadelphia's housing stock is currently *valued* at a level that would be affordable to the median household, were the house to be sold at the assessed market value.[8] That calculated price is, in fact, remarkably close to Zillow's 2017 median

FIGURE 20: AFFORDABLE HOUSING IN AND AROUND GREATER CENTER CITY



	GCC BOUNDARY	1/4 MILE BUFFER	1/2 MILE BUFFER
Properties	70	88	118
TOTAL UNITS	5,938	7,694	10,704

Source: National Housing Preservation Database

FIGURE 21: COST BURDEN AT VARYING HOUSEHOLD INCOME LEVELS

	TOTAL HOUSEHOLDS	% COST BURDENED	OWNER OCCUPIED HOUSEHOLDS	% COST BURDENED	RENTER OCCUPIED HOUSEHOLDS	% COST BURDENED
All Households w/ Income*	542,192	40%	292,079	28%	250,113	53%
Less than $20,000:	127,467	83%	49,276	74%	78,191	88%
$20,000 to $34,999:	95,517	65%	46,062	47%	49,455	82%
$35,000 to $49,999:	70,587	38%	36,525	28%	34,062	48%
$50,000 to $74,999:	91,040	17%	52,631	18%	38,409	15%
$75,000 or more:	157,581	4%	107,585	4%	49,996	3%

*Does not include another 27,490 households who report no income at all.

Source: US Census Bureau, American Community Survey 1 Year Estimates

6: Beyond the millennials and empty nesters who have flocked to Center City, it is primarily local births and immigration to many neighborhoods that has enabled the city to offset this outward migration and remain population positive.

7: 2017 *State of the City* www.pewtrusts.org/~/media/assets/2017/04/pri_philadelphia_2017_state_of_the_city.pdf

8: Calculation assumes 3.5% down payment on a 30 year Federal Housing Administration mortgage with a 4.25% interest rate, plus property taxes (at 1.3998% percent of house value [purchase price] less the $30,000 homestead), plus homeowners insurance at 1% of house value, plus private mortgage insurance (PMI) at 0.8% of mortgaged amount.

home sale price of $142,100. Once again, the affordability issue in Philadelphia is not the result of high-priced housing, but rather of so many residents with very low incomes.

Raising neighborhood incomes through citywide job growth, through improved education and the training that prepares residents for existing jobs are major priorities for Mayor Kenney. But those are challenging, long-term objectives.

The two most feasible strategies in the short-term are: (1) to reduce the price pressure on the neighborhoods just over the edge of the boundaries of Greater Center City by not placing additional constraints on the construction of new housing *within* Greater Center City and (2) to preserve as many as possible of the existing affordable housing units in and adjacent to Greater Center City.[9]

Greater Center City neighborhoods currently have 5,938 units of publicly-subsidized, affordable housing, 7% of total housing units in the area. Extending another half mile out in all directions within the city are another 4,766 units for a total of 10,704 units.[10] Nearly all of these homes are located between a quarter and half mile from public transit, providing easy access to the downtown where 32% of jobs require only a high-school diploma and another 30% require an associate degree.

But due to market-driven renovation, the removal of approximately 2,000 deteriorated public housing units in Center City through the HOPE VI program, as well as continuing federal cutbacks, the Philadelphia Federal Reserve Bank estimates that Philadelphia experienced a reduction of nearly 23,000 affordable units citywide between 2000 and 2014. While the Philadelphia Housing Authority's 13 projects located in the extended neighborhoods to the north and south of Core Center City have 1,500 units of affordable housing whose subsidies do not expire for the foreseeable future, more than one-quarter of the 5,938 affordable units in Greater Center City could have their subsidies expire within the next three years, resulting in a potential loss of 898 more units.[11]

Looking out five years, 30% of affordable properties in Greater Center City could see their subsidies expire, resulting in 1,000 more units going offline, particularly since the current national government is not inclined to renew these subsidies. Within the broader boundaries a half mile surrounding Greater Center City there could be a need to extend the affordable life of almost 9,000 units. What is needed is a dedicated revenue stream to make this possible.

AN IMPERFECT PROPOSAL – INCLUSIONARY ZONING LAWS

Currently, Philadelphia's Zoning Code provides an additional density bonus if developers voluntarily include mixed-income units within private developments or pay into the Housing Trust Fund. Little use has been made of this incentive. In the fall of 2017, a proposed mandatory inclusionary zoning provision was introduced in City Council, requiring projects of 10 or more units in Greater Center City and parts of University City to set aside 10% of their units for affordable housing, have a percentage of those units built offsite, or pay into the Housing Trust Fund. The required payments, if units are not built by the developer, would range from $11,000 to $33,000 per unit, depending on square footage and other factors.

The real estate development community has responded with detailed calculations that suggest this will add prohibitive costs onto an already expensive construction process and will reduce the number of new housing units that actually get produced without providing many new affordable units. Further, they suggest that they should not be the sole party to shoulder an affordability burden they have not created.[12]

PRESERVING EXISTING AFFORDABLE HOUSING IS MUCH MORE ECONOMICAL THAN TRYING TO CREATE IT ANEW

9: The city's Longtime Owner Occupants Program (LOOP) is a real estate tax discount that protects retired homeowners and those on fixed and limited incomes who have lived in their homes for 10 years or more in neighborhoods have seen significant real estate tax increases.

10: CCD calculation derived from data from the National Housing Preservation Database. The NHPD aggregates data from ten federally subsidized housing programs from the US Department of Housing and Urban Development and the US Department of Agriculture. To calculate the number of subsidized units, only units in buildings with active subsidies were considered. Units at-risk of expiring were determined by their building's earliest expiration date as reported by NHPD.

11: The city's Department of Planning & Development and the Office of Housing and Community Development plan to release a comprehensive report detailing the affordable housing landscape in Philadelphia in fall 2018.

12: "It is important to differentiate localities where there is a genuine housing affordability problem … where residents are forced to spend a disproportionate amount of their income on housing, but not on other necessities… from those where there is a general low income and/or high poverty problem… (People in the second situation) may meet the minimum definitional requirement of housing unaffordability by spending a high percentage of their income on housing, but they also spend a high percentage of their income on other necessities as well, e.g. food, clothing and transportation." Gillen, *Inclusionary Zoning in Philadelphia*, page 5

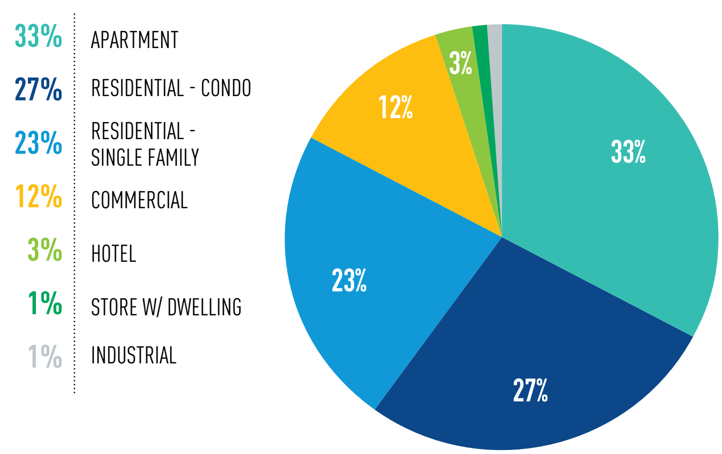
JIM ABBOTT

VI. MAKING USE OF THE REVENUE STREAM FROM EXPIRING ABATEMENTS

Philadelphia's 10-year tax abatement has become a second flash-point for debates about housing affordability, sparked each time a story appears about a record-breaking sale price of a multi-million dollar condominium. Opponents of the abatement focus immediately on the extreme income disparities in the city and argue that too much revenue is being given away that could be flowing to the city and its public schools. Proponents point to the high cost of construction in Philadelphia, suggesting that curtailing the abatement would significantly slow down the velocity of the market. After decades of disinvestment, they ask, is this a risk Philadelphia can afford to take, given how little new housing we actually create in comparison to many peer cities?

Introduced at the tail end of the slow growth 1990s, the 10-year tax abatement quickly produced a significant jump in housing production in Philadelphia (Figure 15). Starting as an abatement of the value of improvements for just the conversion of vacant office and industrial buildings to residential use citywide in 1997, the 2000 expansion made it available for renovation and new construction for all categories of property. While office and retail developments have made use of the abatement, the largest beneficiaries of the program (by abated value) have been single family residential, condos, and apartments — together accounting for 83% of the currently abated value.

FIGURE 22: ABATED PROPERTY VALUE 2018



Source: CCD Calculation from Philadelphia Office of Property Assessment Data

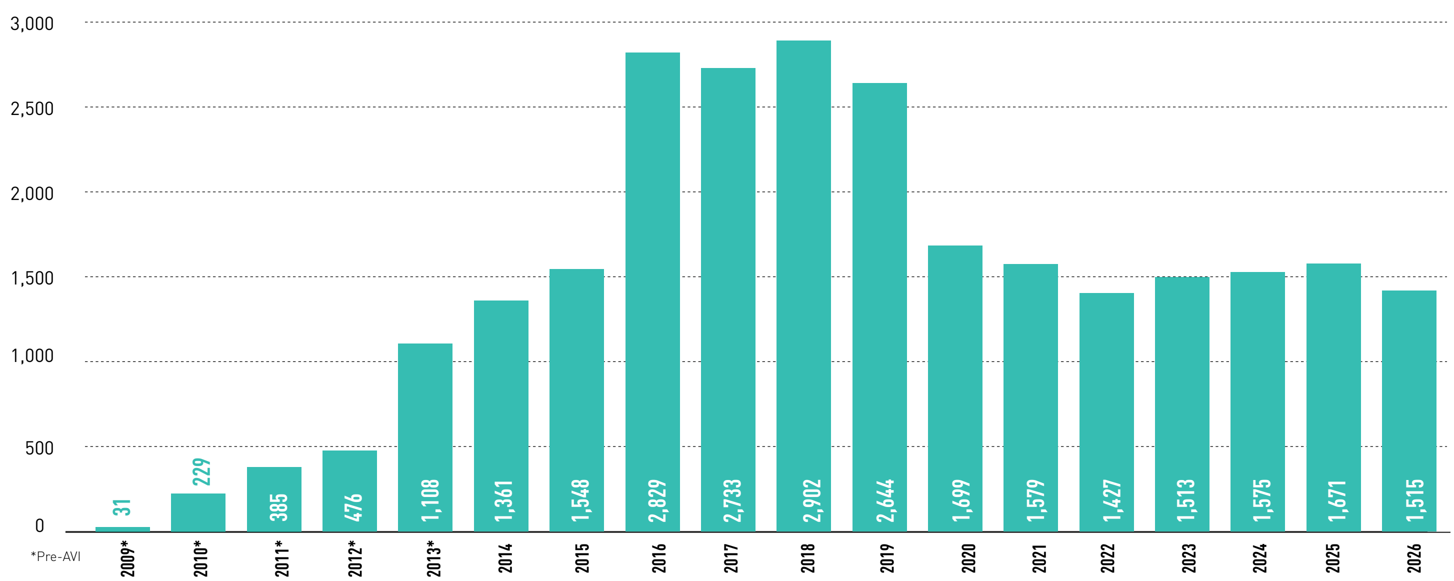
While some argue that the abatement should be scaled back to five years, or to a descending scale over 10 years (100%, 90%, 80% etc.) or capped at a value of $500,000, none can conclusively prove that such changes would not have an adverse impact on the volume of housing production in a city that still lags behind most other major urban areas.

The abatement has helped stimulate development, not only of higher priced housing downtown, but also moderate and lower income developments in a city that is growing jobs, yet at a rate slower than all of the nation's 25 largest cities. By Philadelphia standards we are experiencing a housing boom. Nationally, we are far back in the pack at a time when the diminishing redistributionist function of the federal government means Philadelphia increasingly has to depend on its local tax base to fund public services. But that dynamic creates a very difficult tension as Philadelphia competes to attract residents, workers, and businesses, when surrounding counties all have lower wage and business taxes.[13] We should also remain cognizant of the fragility of the current revival, especially since it has been driven in substantial part by a time-limited, millennial population surge and we may soon be approaching the end of an economic cycle.[14]

Fortunately, Philadelphia crossed an important threshold in 2010 when the debate about the future value of the abatement ceased to be hypothetical as a significant volume of abatements first granted at the beginning of the 21st century began to expire without any loss in property value. Between 2010 and 2017, the abatements for 10,651 properties expired, cumulatively adding $4.8 billion in value to the property tax base. This translates into $31 million in real estate tax revenue to the city and additional $37 million to the School District of Philadelphia in 2017. In 2018, almost 3,000 more properties will have their abatements expire, adding another $1.4 billion in taxable value and raising the cumulative annual real estate taxes paid from formerly abated properties to $88 million: $40 million to the city and $48 million to the School District. Based on current rates and assessed values, $186 million in new revenues from formerly abated properties will flow to the city and School District by 2026 (Figures 23 and 24), with a second surge in revenues between 2023 to 2028, flowing from the units produced in this market cycle.

Suppose City Council and the Kenney administration were to make a decision, effective July 1, 2018, to harness all or a portion of this revenue stream from expiring abatements that flow to municipal

FIGURE 23: NUMBER OF PROPERTIES COMING OFF ABATEMENT, BY YEAR

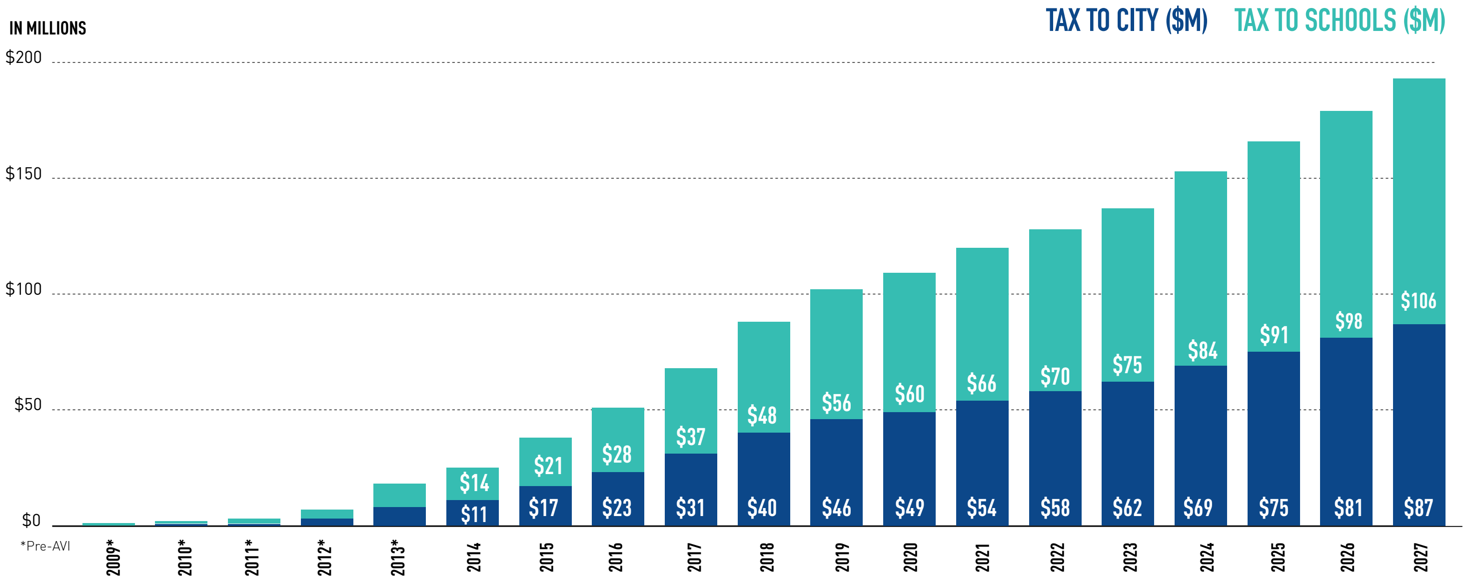


Source: CCD Calculation from Philadelphia Office of Property Assessment Data

13: As Bruce Katz and Jeremy Nowak write in their recent book, The New Localism, "High levels of poverty in cities give rise to political pressure with regard to local redistribution...While this may work politically, the wrong strategies can backfire...and drive up the costs and make the community less competitive...Cities emerging from prolonged periods of population and job loss can be hard pressed to pursue local redistribution... you cannot redistribute what you cannot create." (pages148-149)

14: A recent report by *Fixlist*, a Philadelphia-based company that provides businesses with real estate data, notes that while building permits issued in Philadelphia – overwhelming for residential projects - were up by 25% from 2015 to 2016, their growth slowed to just 8.6% between 2016 to 2017.

FIGURE 24: PROPERTY TAX LIABILITY OF FORMERLY ABATED PROPERTY



Source: CCD Calculation from Philadelphia Office of Property Assessment Data

government and direct it to affordable housing.[15] With a simple budgeting decision, rather than a controversial new tax, a curtailment of the abatement, or a divisive, new zoning code requirement, a revenue stream could be dedicated to extend expiring rental subsidies and to help renovate more affordable housing.[16] Instead of counter-posing the interests of market rate development and the needs of lower income residents, Philadelphia can align the two in a most positive manner. For Philadelphia, the attraction of new businesses and new wealth to the city is a relatively new phenomenon that strengthens the local tax base at precisely the moment when higher levels of government are stepping away from their redistributionist role. Rather than resent new investment, we should embrace it and put it to work for a broader public purpose, ensuring a direct revenue pipeline that supports affordable housing well into the future.

INSTEAD OF COUNTER-POSING MARKET RATE DEVELOPMENT AND THE NEEDS OF LOWER INCOME RESIDENTS, PHILADELPHIA SHOULD ALIGN THE TWO IN A POSITIVE MANNER.

15: The real estate tax is split 55% to the School District and 45% to Philadelphia municipal government.

16: Both nonprofit and government organizations in Philadelphia have highlighted the importance of preserving existing housing stock – the existing supply of affordable housing that is in need of moderate levels of repair. The Healthy Rowhouse Initiative has recently noted that for the cost (approximately $330,000) required to build one new affordable unit in Philadelphia, between 14 and 30 moderately deteriorated homes can be repaired and improved, and that more than half of all units can be restored for $10,000 or less. City Council recently approved a Housing Preservation Loan Program, which set aside $60 million to ease backlogs in already existing home repair grant programs, and $40 million for a new low-interest loan program of up to $25,000 per unit aimed at helping home owners make repairs, enabling them to remain in existing homes, while simultaneously reducing abandonment and blight. The expiring abatement revenue stream can add to this amount annually.