



CENTER CITY REPORTS

BUILDING OUT FROM THE CORE HOUSING REPORT: 2019

FEBRUARY 2019

CENTER CITY DISTRICT
CENTRAL PHILADELPHIA DEVELOPMENT CORPORATION

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PHILLYBYDRONE

In 2018, 2,810 new housing units were completed in Greater Center City – the largest number since the Center City District began tracking the market almost 20 years ago. Philadelphia’s downtown continues to capitalize upon favorable employment and demographic trends that make it the fastest growing residential section of the city. The 71,900 jobs that Philadelphia added since 2010 are highly concentrated in Center City and University City. An expanding preference among the nation’s largest age cohorts to live and work in thriving, walkable, mixed-use places has enabled Philadelphia to expand from a 3% share of regional housing permits in the 1990s to a 25% share in the last decade, with 81% of those units built in or adjacent to Greater Center City. The clustering of residential development around the city’s two major employment nodes is powerfully visualized in Figure 9 (page 7).

The downtown narrative is a prominent, though far from dominant, part of the total housing story in Philadelphia. It neither should be exaggerated, nor prompt over-reactions through local public policies that could stifle growth, since it impacts only 17% of the land-area of the city. Many other sections of Philadelphia have

stable housing markets without much new, outside investment, while other neighborhoods are still experiencing long-term disinvestment, deterioration and weakening demand. Compared to many peer cities, prices remain moderate, growth modest and reinvestment quite limited in its geographic scope. Lower income families in Philadelphia face a major affordability challenge that is due primarily to low incomes, rather than a reflection of high rents or sales costs.

A RECORD, 2,810 NEW UNITS OF HOUSING WERE COMPLETED IN GREATER CENTER CITY IN 2018, AS PHILADELPHIA CONTINUES TO CAPITALIZE ON ECONOMIC AND DEMOGRAPHIC TRENDS THAT FAVOR THRIVING, MIXED-USE PLACES



The Harper on the 1900 block of Sansom Street is a 24-story mixed-use development with 183 apartments, retail and office space with underground parking.

PETER TOBIA

HOUSING PRODUCTION

Since 2000, 26,195 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, where more than 40% of working residents are employed downtown and another 12% work in University City, Greater Center City now has an estimated population of 193,187, an increase of 22% since the 2000 census.²

The 2,810 residential units delivered last year are a reflection of the city's strongest period of employment growth since the early 1950s, with 16,800 jobs added in 2018 alone.³ This builds upon momentum that began as city housing construction burst out of recession in 2013 and represents the third year in a row of accelerating completions. Development was led by the construction of 2,277 apartments completed in 2018, the largest number in recent history, accounting for 81% of all units delivered last year. Condominium and single-family development, was more in line with their average volumes produced during the preceding five years.

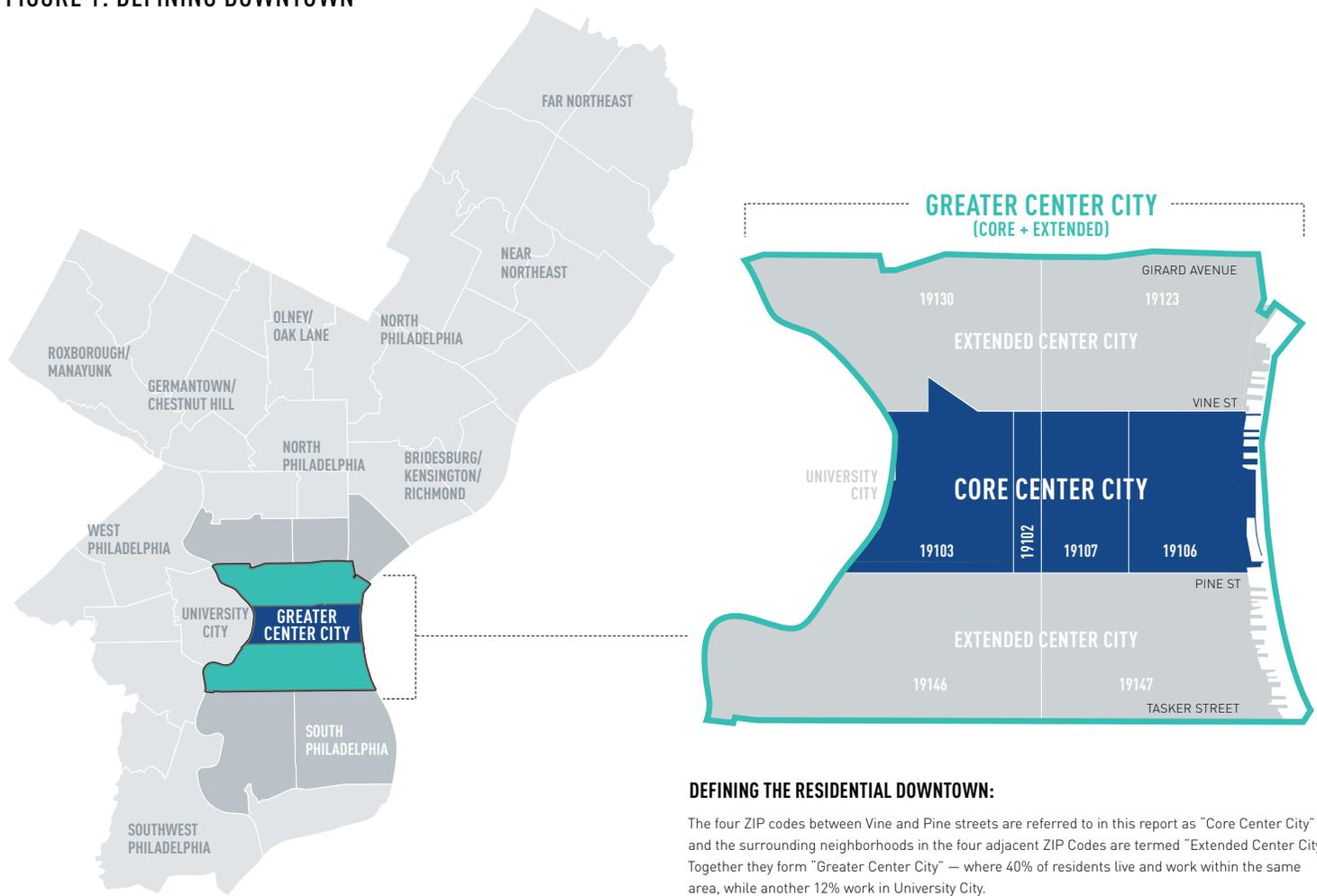
Condominium construction, which altered the skyline in the decade before the recession, continues to rebound slowly, accounting for just 6% (180 units) of the new units delivered in 2018. Unlike the boom of the 2000s, dominated by large projects, the condominiums built recently have been mostly in smaller two- to four-unit buildings more closely resembling single-family homes, though with higher density.

Single-family development steadily outpaced condo construction in 2018, accounting for 13% of new supply (353 units); 96% of those units were added in the extended neighborhoods, where available vacant land, parking lots, industrial and warehouse sites are being converted into housing. While lacking the same visibility provided by high-rise construction cranes, the steady pace of single-family housing construction has produced an average of 409 units per year since 2013, increasing residential density in the extended neighborhoods with the largest clusters in Point Breeze, Francisville, Northern Liberties and Pennsport (Figure 3).

Increased density creates demand for new retail and other residential services, often accommodated in larger mixed-use projects. The most prominent may be Lincoln Square at Broad Street and Washington Avenue, where a 356-unit apartment building was built in conjunction with 74,000 square feet of retail including the organic grocer Sprouts and a full-service pet store. But it is also driving large, free-standing investments like Lidl, the German discount grocer on Delaware Avenue, Giant Heirloom Market's investments in Graduate Hospital, University City, Queen Village and Northern Liberties, as well as Amazon's new pickup centers for retrieving online orders. At a smaller scale, new residential investment supports the revival of traditional retail corridors, like South 4th Street in Queen Village, South Street West in the Graduate Hospital area, Passyunk Avenue in South Philadelphia and Frankford Avenue in Fishtown.

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- ¹: Since 2000, the Center City District has tracked residential development in Greater Center City, monitoring print, online, and publicly available building permit data. Each year a field survey is also conducted to verify and track the progress of development and calls are made to major developments to verify their status. Since 2000, 15,275 apartment units, 6,701 condominiums and 4,219 single-family homes have been completed for a total of 26,195 new units.
 - ²: The 2000 Census measured Greater Center City's population at 157,812. CCD's calculation of growth is based on data from the 2010 Census, Annual Population Estimates, and the American Community Survey estimates that are provided annually. Based on the number of new, occupied housing units, average household sizes, and data from the American Community Survey updates, CCD calculates the addition of 32,604 new residents since 2000. Greater Center City is just under 6% of Philadelphia's land area, but now holds 42% of its jobs and houses 12% of its residents.
 - ³: Since 2009, education and health care account for 45% of the new jobs; leisure and hospitality, 23%; and 19% were new office sector jobs in professional and business services.

FIGURE 1: DEFINING DOWNTOWN

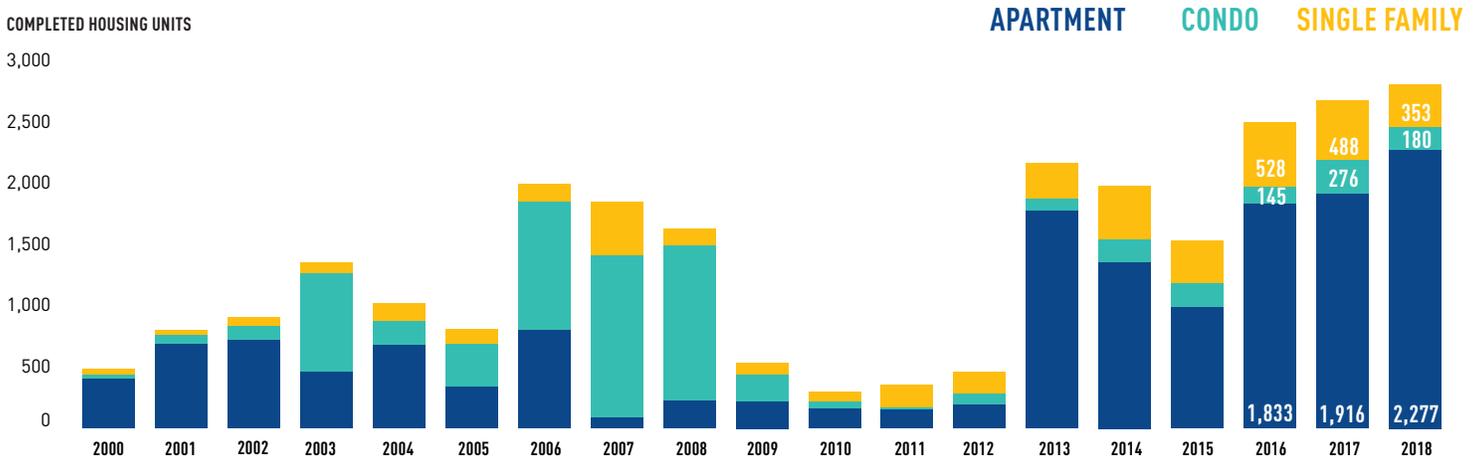


DEFINING THE RESIDENTIAL DOWNTOWN:

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.

2,810 NEW UNITS OF HOUSING WERE COMPLETED IN GREATER CENTER CITY IN 2018

FIGURE 2: GREATER CENTER CITY HOUSING COMPLETIONS, 2000–2018



Source: Center City District

**FIGURE 3:
COMPLETED
RESIDENTIAL
DEVELOPMENTS, 2018**

UNIT COUNT:

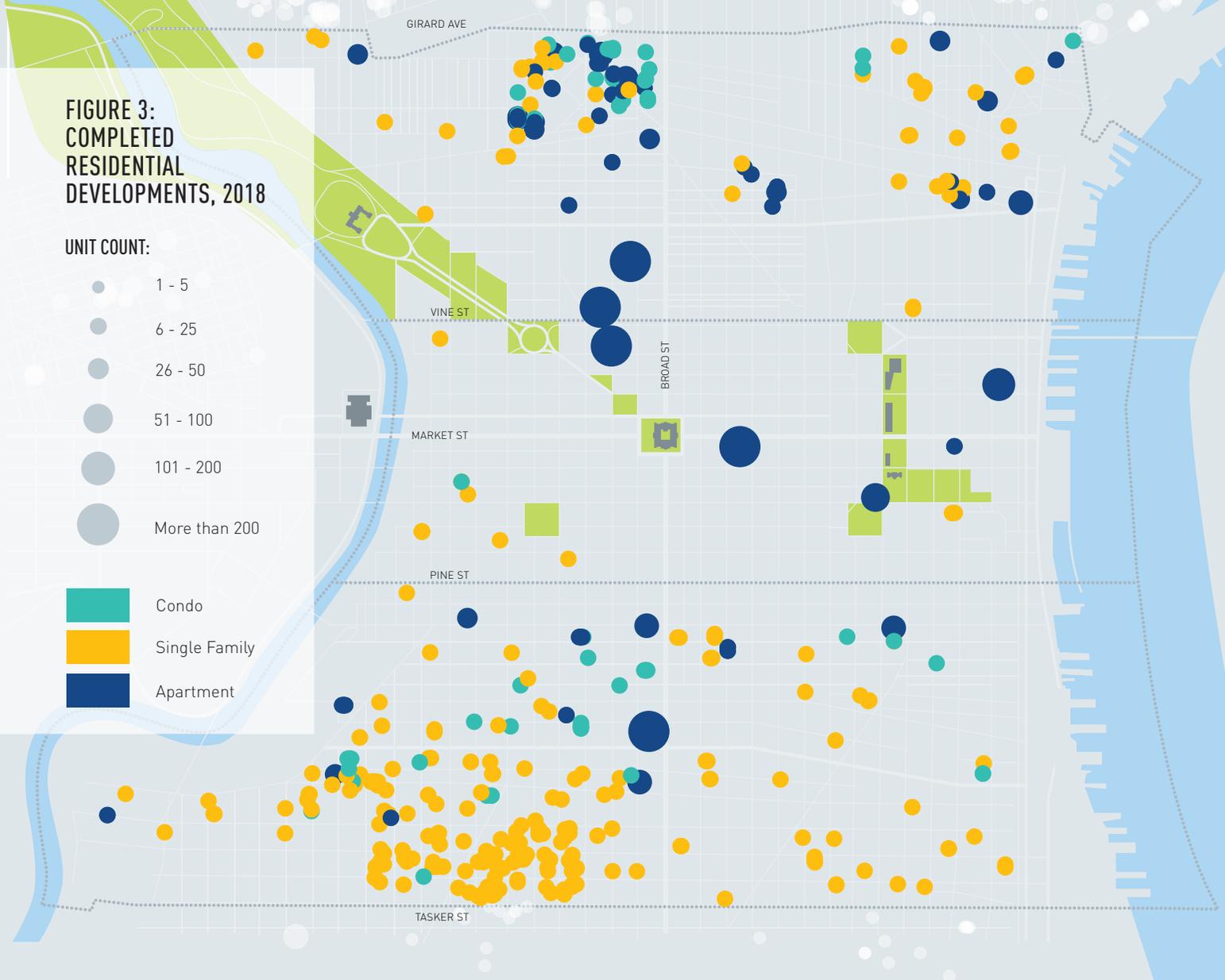
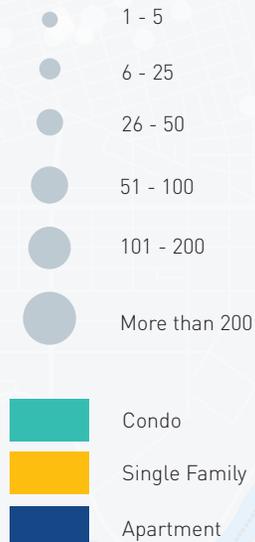


FIGURE 4: HOUSING COMPLETIONS BY AREA OF CENTER CITY

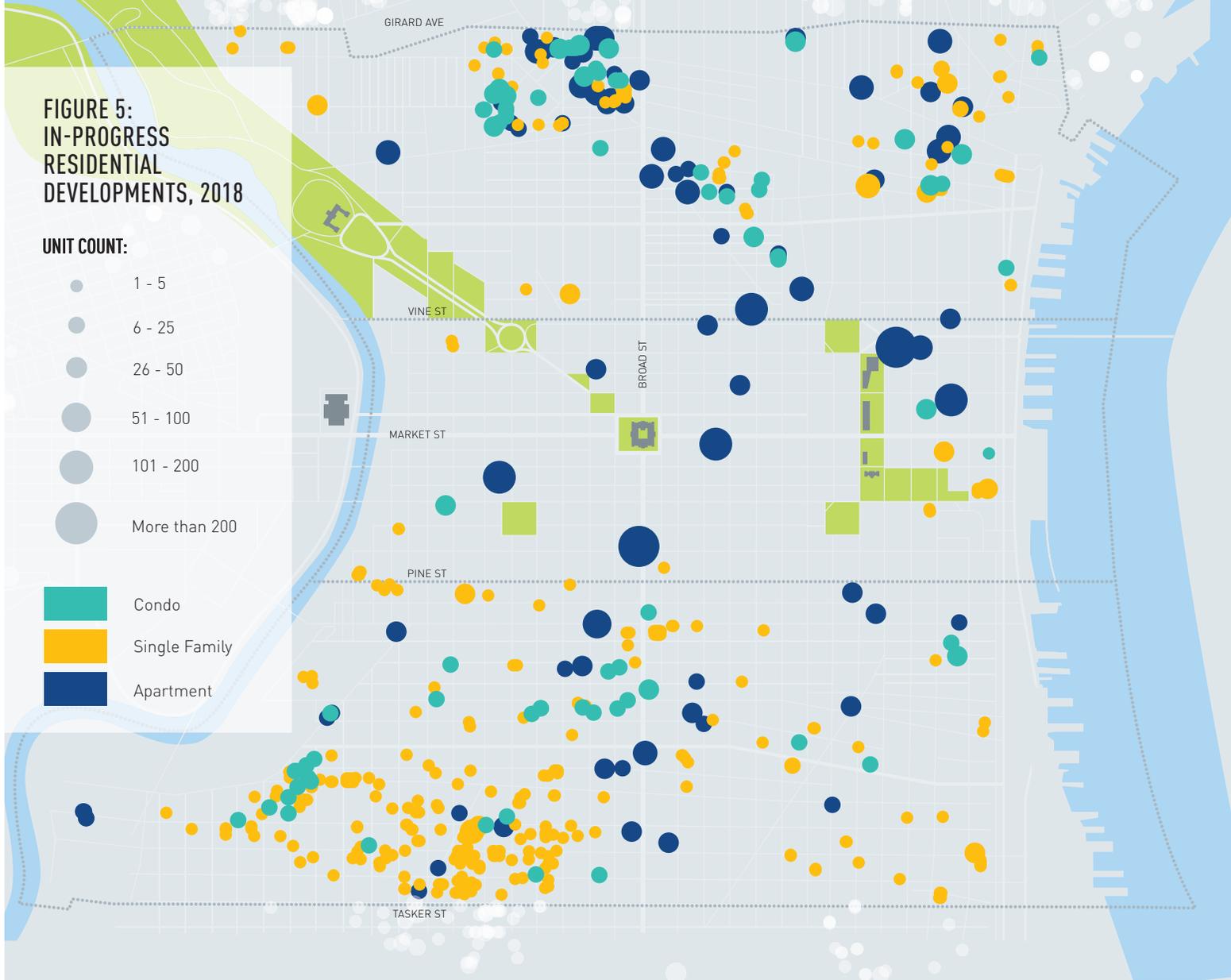
AREA	APARTMENT	CONDO	SINGLE FAMILY	TOTAL
Core East	581	0	2	583
Core West	357	2	13	372
Core Total	938	2	15	955
Extended Northeast	100	13	65	178
Extended Northwest	745	84	36	865
Extended Southeast	40	20	48	108
Extended Southwest	454	61	189	704
Extended Total	1,339	178	338	1,855
GREATER CENTER CITY TOTAL	2,277	180	353	2,810

Source: Center City District

GREATER CENTER CITY HOUSING CONSTRUCTION IN PROGRESS:

At the beginning of 2019, there are 3,017 housing units under construction in Greater Center City. Their geographic distribution closely mirrors that of the units completed in 2018: one-third in the core, almost all of which are apartments (95%), and two-thirds in the extended neighborhoods.

While the majority in the extended neighborhoods are apartments (57%), 16% of the units in progress are condos and 27% are single-family homes. New single-family homes continue to be concentrated in Francisville, Point Breeze and Northern Liberties, where prices are more affordable than in the core of downtown. The balance are scattered throughout extended neighborhoods north and south of the core with a notable alignment along Ridge Avenue from Callowhill up through Francisville.



**FIGURE 5:
IN-PROGRESS
RESIDENTIAL
DEVELOPMENTS, 2018**

UNIT COUNT:

- 1 - 5
- 6 - 25
- 26 - 50
- 51 - 100
- 101 - 200
- More than 200

- Condo
- Single Family
- Apartment

MORE THAN 3,000 HOUSING UNITS ARE CURRENTLY UNDER CONSTRUCTION AND WILL BE DELIVERED OVER THE NEXT TWO YEARS. TWO-THIRDS ARE IN THE EXTENDED NEIGHBORHOODS NORTH AND SOUTH OF THE CORE

Despite the current volume of apartments under construction, the surge of new supply is apparently slowing down. While the units completed in 2018 represent the largest number in recent history, those in progress are at the lowest point since the current building cycle began in 2013. The 2,141 apartment units under construction at the end of 2018 were about half of 3,918 units that were in progress at the end of 2017 (Figure 7). Since apartment buildings have long timelines and the number of announcements of new projects has significantly slowed, 2019 and 2020 deliveries could be down substantially, allowing the market to absorb much of the new supply.

FIGURE 6: HOUSING UNDER CONSTRUCTION BY AREA OF CENTER CITY

AREA	APARTMENT	CONDO	SINGLE FAMILY	TOTAL
Core East	593	8	29	630
Core West	458	9	8	475
Core Total	1,051	17	37	1,105
Extended Northeast	531	68	109	708
Extended Northwest	303	140	59	502
Extended Southeast	111	25	80	216
Extended Southwest	145	70	271	486
Extended Total	1,090	303	519	1,912
GREATER CENTER CITY TOTAL	2,141	320	556	3,017

Source: Center City District

HOUSING PRODUCTION BEYOND GREATER CENTER CITY:

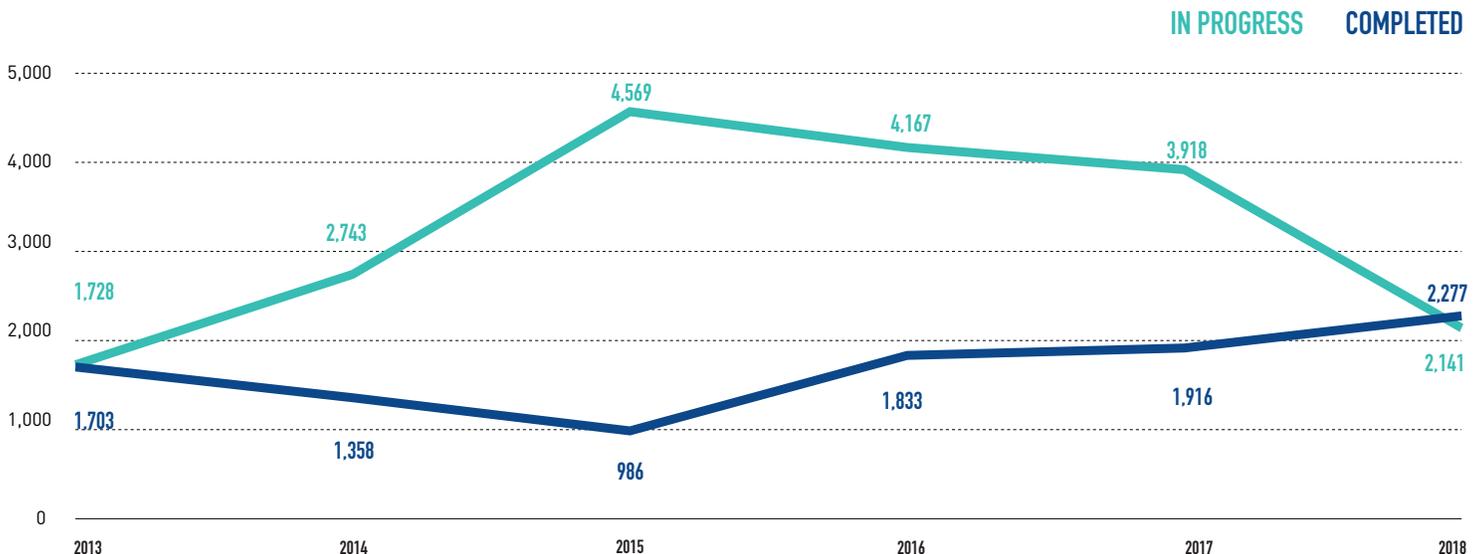
Philadelphia has added an average of 8,000 jobs every year since 2010, with employment growth accelerating in the last three years. As demand for live-work, amenity-rich settings has steadily increased, downtown’s population has grown while rents and sales prices in Greater Center City have risen. Empty-nesters who are retired, as well as those who continue to work downtown, are also moving back from the suburbs to Center City. These trends have accelerated the reinvestment process that began in the 1960s, as new jobs and rising prices in the core create a market for moderately priced housing at the edges. This has steadily expanded the boundaries of the residential downtown into neighborhoods that experienced significant depopulation from the loss of more than 200,000 manufacturing jobs in the 1970s and 1980s.

Figure 8 shows both units completed in 2018 and those currently in progress. It graphically depicts how residential development continues to radiate out from Center City, facilitated by the Market-Frankford and Broad Street lines that connect these communities to the job centers of Center City, University City and Temple University’s campuses. Currently, there is more building activity in the five ZIP codes adjacent to Greater Center City than in the four ZIP codes that comprise the extended neighborhoods of Center City. Overall, 46% of all new housing units in the city are being built in Greater Center City and 80% of all new housing units in Philadelphia are being built in either in Greater Center City or in one of the five adjacent ZIP codes, *an area that comprises just 17% of the city’s geography.*



New housing construction in Point Breeze and along SEPTA’S Market Frankford line in Fishtown

FIGURE 7: APARTMENTS COMPLETED AND IN PROGRESS, 2013–2018



Source: Center City District

FIGURE 8: HOUSING UNITS IN PROGRESS AND COMPLETED 2018

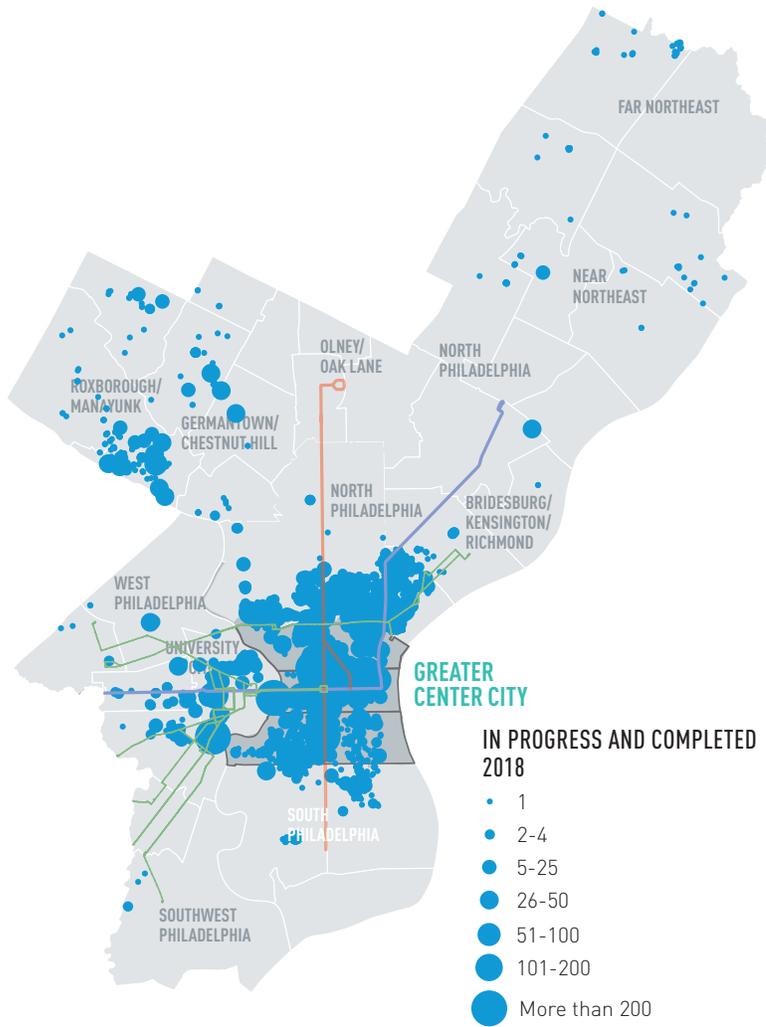


FIGURE 9: DISTRIBUTION OF NEW UNITS

AREA (ZIP CODE BASED)	TOTAL UNITS	PERCENT OF UNITS
Greater Center City	5,827	46%
Lower North Philadelphia	2,912	23%
Bridesburg/Kensington/Richmond	1,170	9%
University City	955	8%
Roxborough/Manayunk	495	4%
South Philadelphia	453	4%
Southwest Philadelphia	321	3%
Germantown/Chestnut Hill	253	2%
West Philadelphia	147	1%
Far Northeast	70	1%
Near Northeast	31	0%
Olney/Oak Lane	6	0%
TOTAL	12,640	100%

Source: Philadelphia Department of Licenses and Inspections

SINCE 2001, SEPTA PASSENGER TRAFFIC HAS INCREASED BY 78% ENTERING THE FIVE MARKET-FRANKFORD STATIONS BETWEEN HUNTINGDON AND SPRING GARDEN

The areas just to the north of Greater Center City are experiencing the most activity. More than 3,000 units are under construction, or recently completed, in the 19121 and 19122 ZIP codes (located between Girard and Susquehanna avenues extending from Fairmount Park to Front Street) and the 19125 ZIP code, east of Front Street from East Girard Avenue to up to Lehigh Avenue. Along the Market-Frankford line, passenger volumes entering SEPTA's five rail stops that serve the neighborhoods between the Spring Garden and Huntingdon stations have increased by 22% since 2010 and by 78% since 2001.⁴

The adjacent ZIP codes to the south, 19145 and 19148, stretching from Tasker Street toward the Packer Marine Terminal and the Navy Yard, river to river, are seeing considerably less new construction – 206 and 247 units, respectively – because these areas had considerably fewer old industrial and warehouse sites, more continuous row-house blocks and, particularly in 19148, they have experienced reinvestment for a longer period of time.

Further, since underlying data for these calculations are building permits for new construction, they do not capture the substantial amount of renovation and resale of existing housing stock, as is clearly reflected in the volume of transactions shown in Figure 14. Passenger boarding at the four SEPTA Broad Street Line stations serving South Philadelphia neighborhoods between Oregon Avenue and Ellsworth-Federal are up 14% since 2010 and 34% since 2001.

In Greater Center City and in the five immediately adjacent ZIP codes, 10,191 units of housing were completed or in progress at the end of 2018, accounting for 81% of all new housing development in the city. The only other significant clusters of new residential development are in University City and in Manayunk, which enjoys easy access to suburban employment along City Avenue and I-76 and transit connectivity to downtown. Together, these 17 ZIP codes, covering 24% of the land area of the city, account for 92% all of new housing permits in the city; the other 8% of permits were scattered across the remaining 21 ZIP codes of Philadelphia.

⁴: Calculations from passenger turnstile counts data provided by SEPTA



New housing in Old City is filling in the gaps around the Benjamin Franklin Bridge

ARE DEMAND AND SUPPLY IN SYNC?

Are job and population trends strong enough to absorb the new supply? Both the nation and the city are in the 10th year of sustained economic expansion. Data derived from the American Community Survey (ACS) suggests that Greater Center City has experienced a net addition of 10,000 households since 2010. During that time, CCD has tracked the completion of approximately 14,500 housing units (not accounting for deteriorated, old or obsolete units that may have been withdrawn from the market or demolished to make way for new construction). Whether the projections derived from ACS data under- or overestimate household growth in Greater Center City will not be clear until the 2020 Census is published. But since there are almost 100,000 housing units in Greater Center City, any “oversupply” would represent just 4.5% of the total inventory. The best way to measure the full impact of this new supply in the interim is to look first at demographic trends that drive demand and then at market indicators for the entire inventory of housing in Greater Center City.

PHILADELPHIA IS IN ITS 10TH YEAR OF ECONOMIC EXPANSION, ACCELERATING THE NUMBER OF HOUSEHOLDS CHOOSING TO LIVE DOWNTOWN

DEMOGRAPHIC TRENDS:

While Greater Center City appeals to a broad spectrum of household ages and types, a key driver of demand has been the surge of the millennial generation, now approximately 22 to 37 years old, the largest age-cohort since the baby boom. Around the year 2000, the oldest of millennials began reaching adulthood. Millions left college and/or their parents' homes and entered the housing market. They helped fuel a resurgence of downtowns nationwide.

City centers have drawn younger people at least since the 1960s, when colleges, medical schools and universities significantly expanded their presence to accommodate the baby boom generation, often with assistance from federally-funded urban renewal efforts in and adjacent to downtown. The earliest residential reinvestment in city centers was not a “back to the city” but a “stay in the city” movement by recent college graduates, beginning around 1970. As a consequence, Center City has skewed younger for decades.

What has changed since 2000 is that there are simply a lot more young people. Nearly all city centers have also become cleaner, safer and more attractive, usually due to efforts of business improvement districts and growth-oriented mayors. As a result, core Center City has become dramatically younger than the rest of the city with 45% of the population between the ages of 20

and 34. In the extended neighborhoods, this demographic constitutes 37% of the population. Center City residents were already more likely than the rest of the city to have a college degree, but the numbers have now grown to 79% of residents in the core with at least a bachelor's degree and 52% in the extended neighborhoods, compared to 22% in the balance of the city. Job growth and the presence of educated workers creates a mutually reinforcing, positive dynamic.

Millennials are no longer as young as they used to be. Soon there will be fewer 27-year-olds than 37-year-olds as the supply of young people to replenish Philadelphia taper down over the coming decade. As older millennials age into mid-career professionals, many will look to buy homes and start families. It becomes increasingly important, both from a workforce and housing market perspective, to keep them in the city.⁵

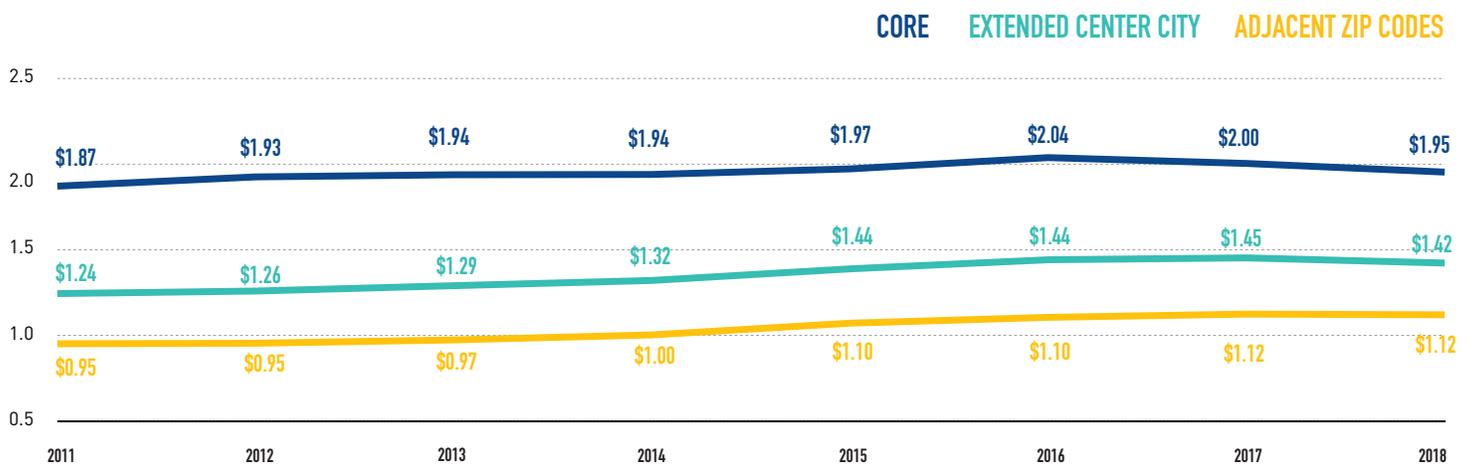
SUPPLY AND DEMAND IN THE RENTAL MARKET:

Seventy-two percent of the new housing units that have been added since 2010 have been rental apartments (10,660 units); 4,143 for-sale condo and single-family homes were delivered during the same period. Apartments were 81% of the supply delivered in 2018.⁶

Delta Associates surveys newer "Class A" apartment buildings.⁷ At the end of 2018, they reported the absorption of 1,575 recently constructed units in Center City, almost twice the 861 units that were occupied in 2017. Delta calculates the overall apartment vacancy rate at 11.9%. But if buildings still in the initial lease up phase are excluded, the "stabilized" vacancy rate in their calculation falls to 5%. These numbers are significantly better than in 2017 when they calculated an overall rate of 20% and a stabilized rate of 5.4%. But, there are still 2,141 new units under construction that will soon come to market. Since apartments in large completed projects enter the market by the hundreds and, absent substantial pre-leasing, tenants move in at the rate of 10-20 per month, some initial period of high vacancy is inevitable for any new development.

Still, new buildings do not arrive quietly on the scene to compete anonymously in the economist's world of statistical supply and demand. They are promoted by large advertising budgets for marketing campaigns that commence well in advance of opening dates. This can produce substantial pre-leasing. The websites of the

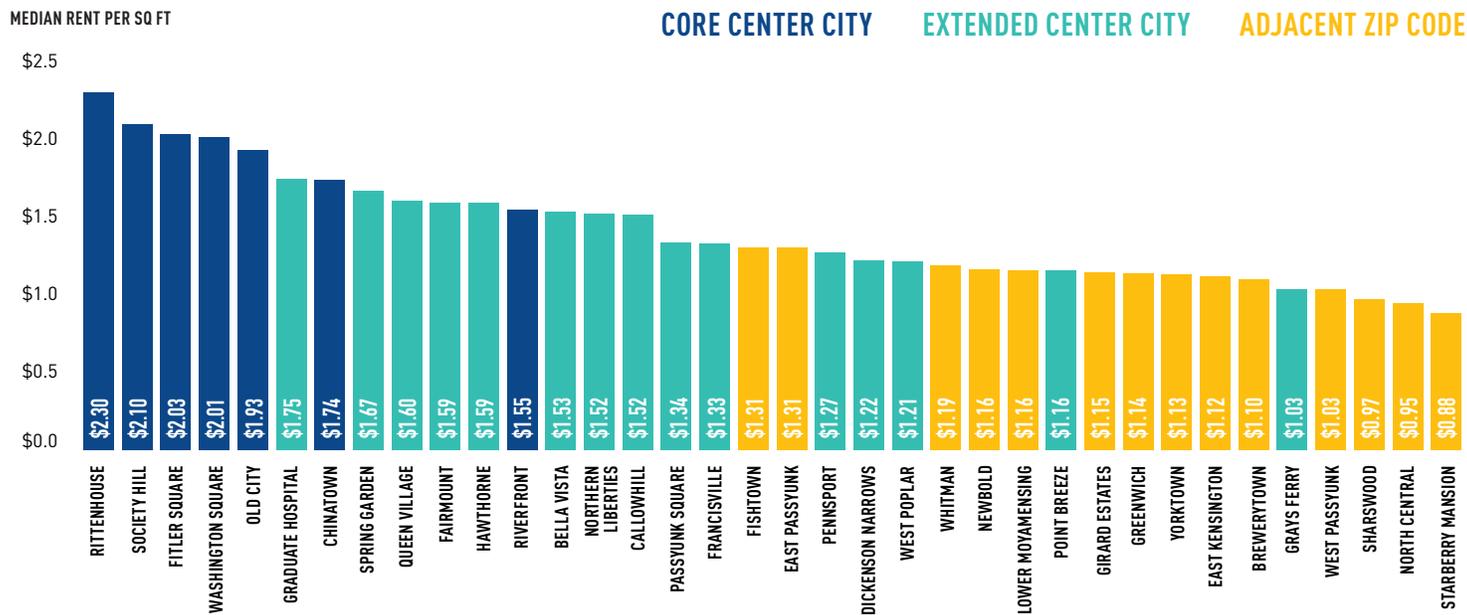
FIGURE 10: RENT PER SQUARE FOOT, 2011-2018



Source: Zillow, Zillow Rent Index (ZRI)

- 5: Values also change with age. In the CCD's Customer Satisfaction survey, conducted in the fall of 2018, 20- to 34-year-olds scored *Improve Public Schools* first at 64% and *Reduce the Wage Tax* second at 56% on a list of changes that would improve the competitiveness of Philadelphia as a place to work or start a business. By comparison, 35- to 54-year-olds placed *Reduce the Wage Tax* first at 59% and *Improve Public Schools* second at 58%.
- 6: The shift from owning to renting is part of a national trend. Homeownership rates nationally have declined from 67.4% in 2009 to 64.3% in 2018; Philadelphia's ownership rate has dropped from 60.4% to 55.4% in 2017 [2018 data is not yet available]. The majority of households (65%) in the core of Center City are currently renters; 35% own their homes.
- 7: Delta Associates, Philadelphia Class A Apartment Market Report, 4th quarter report 2018 (available only on a subscription basis). Delta Associates currently surveys 28,300 units of Class A garden and high-rise apartment units quarterly in nine submarkets in the Philadelphia region. "Class A" is defined by Delta Associates generally as built in 1991 or later and offering a separate clubhouse, decorated model units, two bedroom/two bath units, and a large community amenity package most often including a fitness center and swimming pool. The projects are typically 200+ units except in submarkets where quality product is scarce.

FIGURE 11: RENT PER SQUARE FOOT BY NEIGHBORHOOD – GREATER CENTER CITY AND ADJACENT NEIGHBORHOODS (ZILLOW)



*Based on Zillow Neighborhood Boundaries

Source: Zillow, Zillow Rent Index (ZRI)

WHEN THE PRIMARY LOCATIONAL ADVANTAGE FOR APARTMENTS IS PROXIMITY TO JOBS, ARTS, CULTURE, SHOPPING AND DINING, RENTS ARE HIGHEST IN THE CORE OF CENTER CITY

six largest apartment buildings completed in 2018, all prominently advertise their proximity to Center City’s jobs, transit, arts, culture, and dining. All six buildings offer their residents a fitness area; all have media or TV rooms; all have a game room of some sort, a communal kitchen area and a furnished roof deck or terrace with grilling areas. All call themselves “pet-friendly” – with all but one advertising a dog washing station or “dog spa.” Five out of six offer bicycle parking; five out of six provide a co-working space or a business center; five out of six advertise package receiving services. Two feature children’s playrooms. The mix of on-site amenities in most new apartment buildings tells a lot about the generational niche to whom they seek to appeal.

In recognition that there is some degree of over-supply, all six are advertising some period of free or discounted rent in exchange for signing an extended lease. The impact of reductions is reflected in Delta Associates’ survey of more 8,000 units in Center City; concessions shave 4.7% from average advertised rents.

Beyond competition among the new arrivals, the delivery of a large inventory of amenity-rich units puts some pressure on existing older buildings that may lack the latest on-site amenities or the large advertising budgets that lure tenants.

Among brokers who lease existing inventory, there are different perspectives. Some point to a weakening of demand for small row-house units or those in smaller buildings. Others suggest that new buildings appeal to tenants who are new to the city, often medical students, interns, nurses, researchers and doctors. They may choose a new building until they become more familiar with the city and then look for a neighborhood in which to rent or buy where all the amenities may not be in the building, but can be found on the surrounding, walkable streets.

The impact of market competition is observable nonetheless in average per square foot rents that are leveling off or declining slightly throughout Greater Center City and adjacent areas.

When the key locational advantage is proximity to jobs, arts, culture, shopping and dining, it should be no surprise that rental prices among all new and existing units are highest in the core of Center City.

IMPACT OF NEW SUPPLY ON THE FOR-SALE MARKET:

The production of new for-sale housing has been much more modest, an average 409 single-family homes and 180 condo units per year for the last five years. Still, residential market activity, reflected in sales data for all inventory from the Multiple Listing Service (MLS), shows a slight softening in Greater Center City in 2018. Compared to 2017 the number of sales and average sale price are down; the average number of days on market (i.e. how long a property takes to sell from listing to close) is up. Core Center City (between Vine and Pine, river to river) saw the largest reduction in average a sale price. In the extended neighborhoods of Greater Center City the story was mixed. To the north (Vine to Girard), prices were up both east and west of Broad Street; to the south (Pine to Tasker), they were effectively unchanged.

Greater Center City residential sales were exceptionally strong in 2017, so a slight moderation is not unexpected; values for all three metrics in Figure 12 are still stronger for 2018 than they were in 2016 (Figure 13).

In the ZIP codes adjacent to Greater Center City north of Girard and south of Tasker, the recent trend looks somewhat different. Like Greater Center City, houses took longer to sell in 2018 than they did in 2017 (by 9% overall), but the volume of sales showed only a slight decline and the average price went up.

Figures 14 and 15 show a clear geographic pattern: the average price declined for the first time since the recession in core Center City, flattened out after years of growth in next band of Greater Center City neighborhoods, but continued to go up in the areas adjacent to Greater Center City. This suggests that one of the factors that may be moderating price increases and lengthening days-on-market in Greater Center City is an expanding supply of more affordable options at the edges. It is worth noting too, that unlike new construction, which is heavily weighted north of Greater Center City, sales of homes are almost equally split between the ZIP codes to the north and south of Greater Center City.

Brokers who handle residential sales point to four variables that may have impacted all market pricing in 2018: rising home mortgage rates from a low around 3.5% in mid-2016 to almost 5% at the end of 2018 (Figure 16), which could slow demand and/or push buyers toward more affordable housing in adjacent neighborhoods; the impact of the Actual Value Initiative, which caused the median assessment of single-family homes to increase by an average of 10.5% between 2018 and 2019, leading to significantly higher property tax bills for many homeowners in several reinvestment neighborhoods, sparking a record number of appeals;⁸ an increase in the City's transfer tax in July 2018 from 3.1% to 3.278% (compared to 1% in the suburban counties), adding additional costs at the time of purchase and possibly discouraging demand; and general uncertainty about the national economy. Potential buyers may pause if they think values have reached their peak.

FIGURE 12: MLS BROKERED RESIDENTIAL SALES IN GREATER CENTER CITY FROM 2018

AREA	SALES	% CHANGE FROM 2017	AVG PRICE	% CHANGE FROM 2017	DAYS ON MARKET	% CHANGE FROM 2017
Core	831	-17%	\$621,971	-13%	125	11%
East	412	-16%	\$503,777	-10%	132	40%
West	419	-17%	\$738,191	-14%	118	-9%
Extended	2,571	-2%	\$440,622	1%	96	12%
Extended Northeast	315	-1%	\$493,403	9%	166	44%
Extended Northwest	546	-1%	\$420,291	3%	78	-10%
Extended Southeast	684	-10%	\$493,698	-0.3%	77	-19%
Extended Southwest	1,026	2%	\$399,853	-0.5%	96	39%
GREATER CENTER CITY	3,402	-6%	\$484,920	-5%	103	10%

Source: MLS

⁸: Laura McCrystal, "After reassessment, Philadelphia tax appeals hit five-year high" *Philadelphia Inquirer*, October 30, 2018 <http://www.philly.com/philly/news/property-assessment-appeal-brt-board-revision-taxes-philadelphia-20181030.html>

FIGURE 13: DAYS ON MARKET AND AVERAGE SALE PRICE, GREATER CENTER CITY, 2010–2018

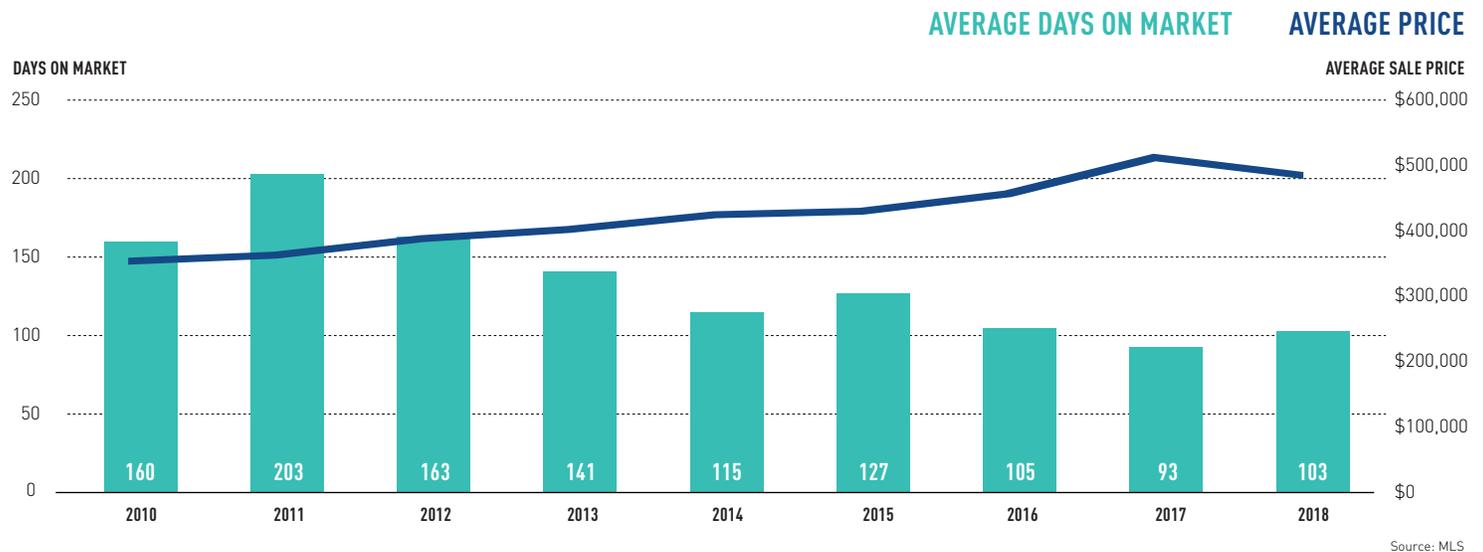


FIGURE 14: MLS BROKERED RESIDENTIAL SALES IN ZIP CODES ADJACENT TO GREATER CENTER CITY, 2018

AREA	SALES	% CHANGE	AVG PRICE	% CHANGE	DAYS ON MARKET	% CHANGE
Adjacent Northeast (19125)	750	7%	\$337,740	5%	76	-18%
Adjacent North (19122)	289	-6%	\$338,048	8%	115	24%
Adjacent Northwest (19121)	351	18%	\$217,076	20%	68	-1%
Adjacent Southeast (19148)	696	-2%	\$265,987	15%	93	15%
Adjacent Southwest (19145)	633	-5%	\$229,799	7%	95	42%
ADJACENT ZIPS	2,719	1%	\$278,700	10%	88	9%

Source: MLS

FIGURE 15: AVERAGE HOME SALE PRICE, 2010–2018

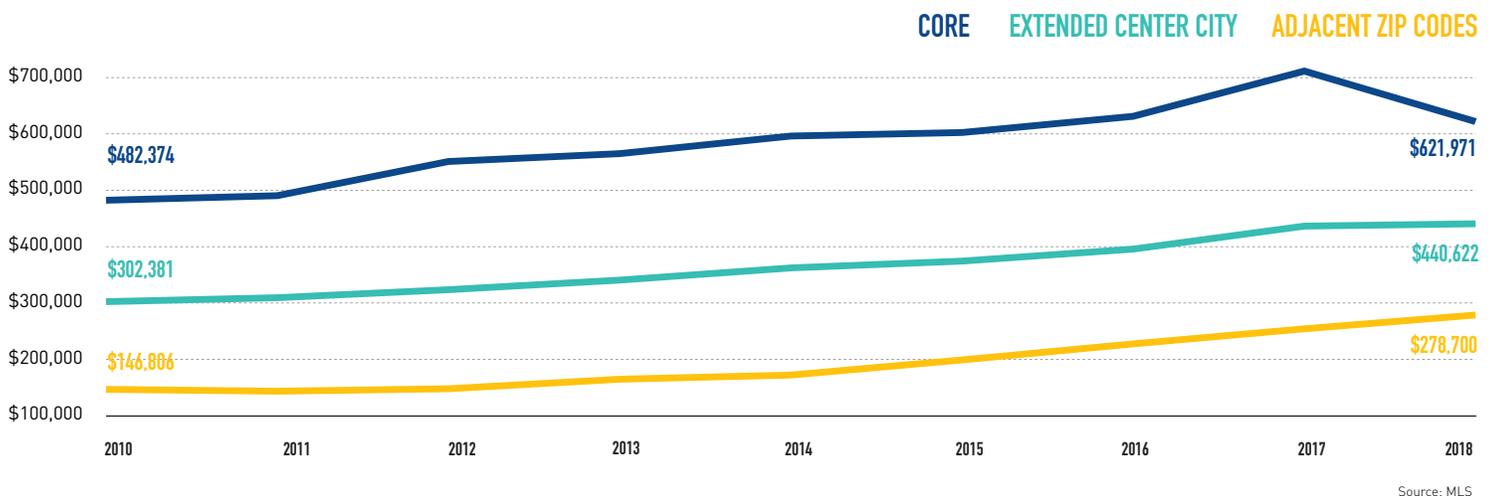


FIGURE 16: MORTGAGE RATES – NATIONAL AVERAGE, 2014–2019



Source: Freddie Mac

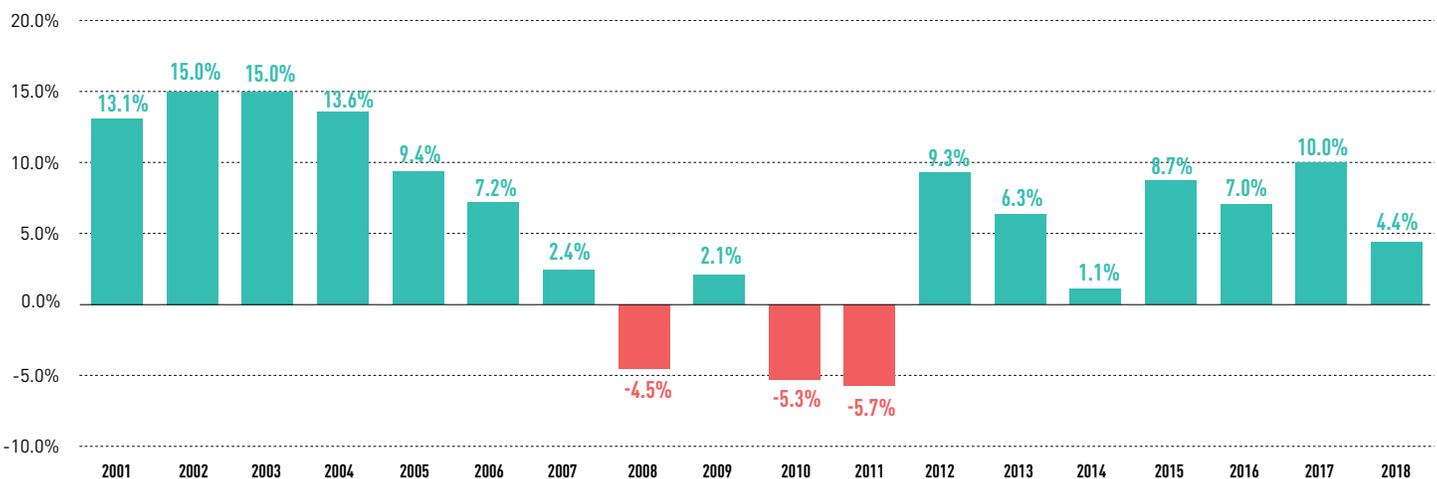
INDEXED VALUE:

The average prices tracked by MLS are not quality controlled for specific home characteristics or for home size, so they are not a precise measure of the market overall. A lower average sale price in one year does not necessarily mean that the market value of all homes, or even the “average” home, has declined. All it represents is that the value of the homes that changed hands in that year were lower than the value of homes that changed hands in the previous year. Houses that sold in 2017 may have been larger, newer or with more amenities, like on-site parking or a large garden or roof deck.⁹

Econsult Solutions’ Philadelphia Housing Index shows that on the whole, quality-controlled housing values were up 4.4% in Greater Center City in 2018, in contrast to the non-indexed average prices

from MLS, which were down by a comparable amount. The divergence between the two indicators suggests that the mix of housing that sold in 2018 was probably smaller in size with fewer amenities than the mix of housing that sold in 2017 – not that the same house would have sold for less. As with the average prices shown in Figure 12, there is clearly a variation between neighborhoods, but the indexed values indicate that a Greater Center City house that sold for \$350,000 in 2017 would have sold for about \$365,000 in 2018. An increase of 4.4% is a smaller increase than experienced in the previous three years, however that still outpaces inflation and wage growth. While smaller increases than in prior years may have been disappointing for sellers, it was welcome news for buyers.

FIGURE 17: GREATER CENTER CITY – INDEXED PERCENT CHANGE FROM PREVIOUS YEAR, 2001–2018



Source: Econsult Solutions Inc

⁹: In order to control for variations in the size and quality of homes that sell, economists create house price indices that use regression models to isolate the effect of time on market values, holding all other characteristics equal.



PETER TOBIA

New residential construction in Fishtown is reinforcing the retail revival on Frankford Avenue

AFFORDABILITY FOR MIDDLE-CLASS HOUSEHOLDS

This leads to a question that has dominated discussion in both the media and City Council about the impact of new residential investment on housing affordability in the city. First, it is essential to differentiate the situation faced by working- or middle-class households with stable jobs, along with young professionals who may also be first-time home buyers, from the situation faced by households with incomes well below the median, or living closer to the poverty level.

Start with the first group. As Figure 18 shows, after decades of substantial job and population loss, Philadelphia began a housing rebound in the late 1990s, following the passage of the original 10-year abatement in 1997. The average home prices in Greater Center City, shown in Figure 12, and in parts of the adjacent neighborhoods shown in Figure 14, are all above replacement cost. This contrasts markedly with many other sections of Philadelphia where homes sell at less than what they would cost to construct today. This leaves existing working-class and lower-income owners with diminishing equity in the largest investment most households make and little incentive for developers to construct new housing.

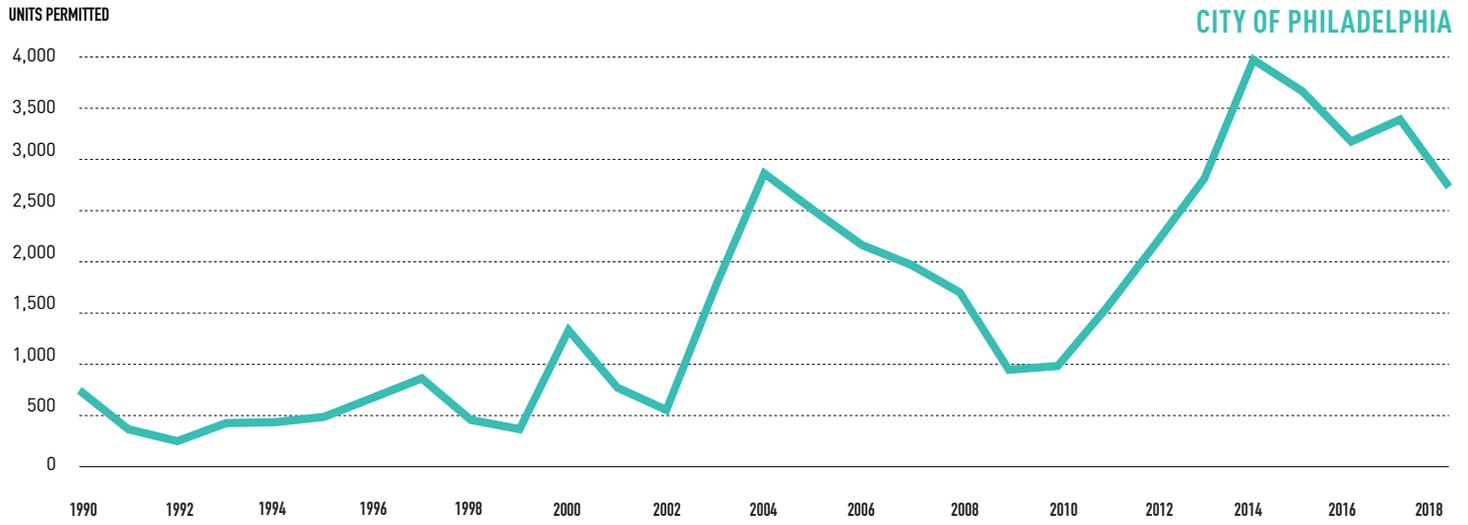
But a city that wants to expand jobs and its tax base needs to provide more housing to accommodate a growing population. For the market to provide and finance that housing, it must make economic sense. At a minimum, it must be possible to sell a house for more than it costs to build or renovate it, or population growth cannot be accommodated. But for moderate income and first-time home buyers, the price of that housing has to be affordable.

Affordability is not uniform across all cities and suburbs. It derives from the relationship between the average income of buyers in an area and the average sales price of housing available in that region. The *Demographia International Housing Affordability Survey*, which has been conducted for the last 15 years, has developed a Price Income Ratio (PIR) and applied it to metropolitan areas of more than 1 million people across the globe. They consider places with a PIR of 3.0 or under as *affordable*. Places with a PIR of 3.1 to 4.0 are *moderately unaffordable*. A PIR above 4.1 makes a place *seriously unaffordable*, while a PIR over 5.1 is classified as *severely unaffordable*.¹⁰ They also note that a low PIR is not necessarily a sign of housing economic health. It could be a symptom of a city that “might have just known better days. Cheap housing might only indicate low demand from a dwindling population with decreasing income. PIR numbers should therefore also be related to demographic and economic health.”¹¹

10: “Affordability” is defined by the traditional measure: spending about one-third of income on housing costs.

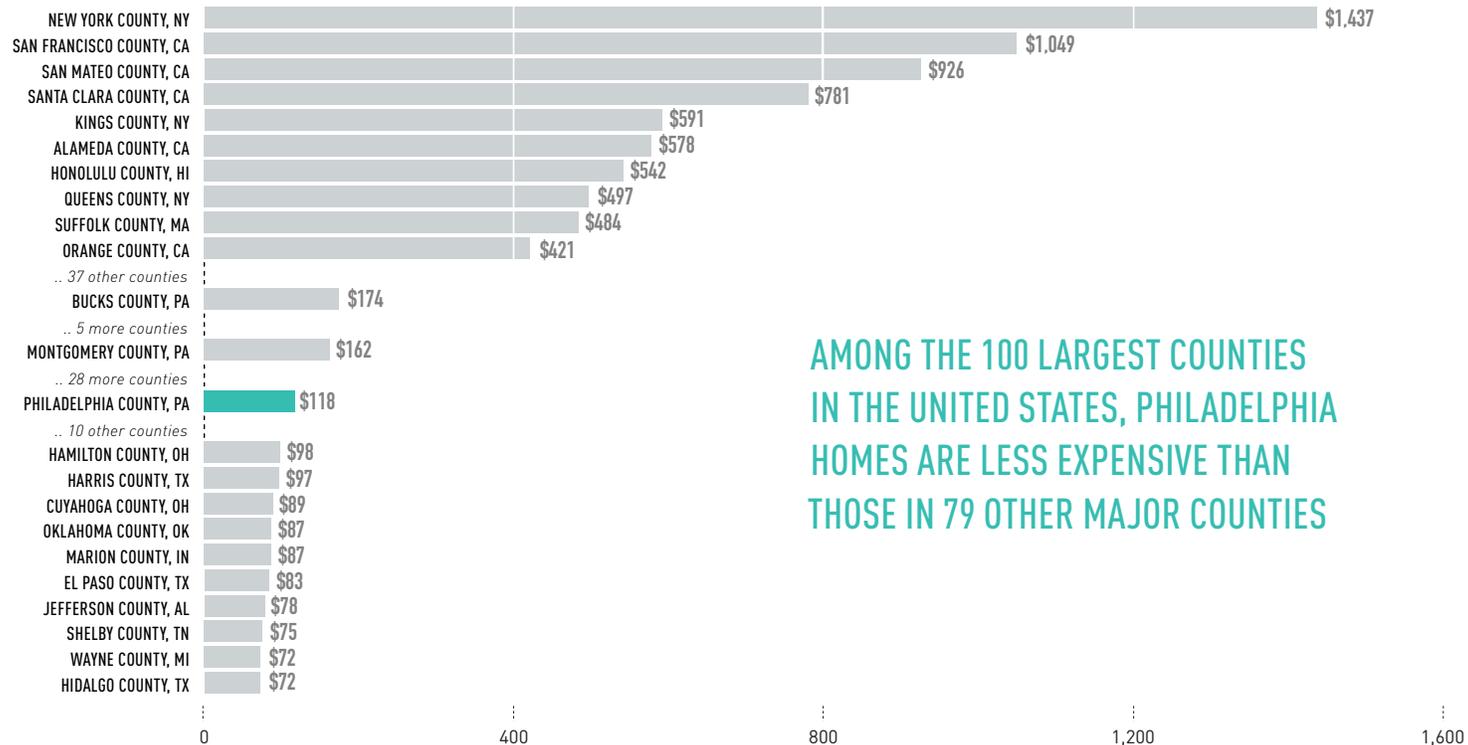
11: 15th Annual Demographia International Housing Affordability Survey: 2019 <http://www.demographia.com/dhi.pdf>

FIGURE 18: NUMBER OF RESIDENTIAL UNITS PERMITTED PER YEAR, 1990–2018*



Source: Census Building Permits / *2018 data is preliminary

FIGURE 19: MEDIAN HOUSE VALUE PER SQUARE FOOT OF 100 MOST POPULOUS COUNTIES, 2018 (ABRIDGED)



AMONG THE 100 LARGEST COUNTIES IN THE UNITED STATES, PHILADELPHIA HOMES ARE LESS EXPENSIVE THAN THOSE IN 79 OTHER MAJOR COUNTIES

Source: Zillow Home Value Index

FIGURE 20: CITYWIDE HOUSING PRICE DISTRIBUTION, 2018



Source: Econsult Solutions Inc

Out of 91 global metro regions of more than one million people and with free markets, the Philadelphia metro area scores 3.4, the 15th *most affordable* region internationally. More affordable than Philadelphia are places like Cleveland at 2.8 and Detroit at 3.0. The Washington D.C. area comes in 33rd at 4.0, Boston, 65th at 5.3, New York City, 66th at 5.5, Seattle, 68th at 5.6, San Francisco 84th at 8.8, with Vancouver (12.6) and Hong Kong (20.9) topping the list as most severely unaffordable large cities in the world. This favorable affordability ranking, along with a broad range of diverse, quality neighborhoods, is key to Philadelphia’s ability to retain existing residents, recent college graduates, families starting to have children and to attract those priced out of New York City and Washington D.C.

A different way of visualizing this point is Zillow’s indexed home value data for the 100 largest counties in the United States (Figure 19). With New York City and San Francisco topping the list as the most expensive places to buy a home in the nation, Philadelphia ranks 80 out of 100 with lower prices per square foot than 79% of all other cities.

At \$118 per square foot, Philadelphia homes can be purchased at a fraction of the cost of those in New York or San Francisco and well below our two suburban counties of Montgomery and Bucks (the only two to make the top 100). Even Center City’s two most expensive neighborhoods – Filtler Square and Rittenhouse Square – come in at \$497 and \$474 per square foot respectively, making them the only places in the city that would break into the top 10, if those neighborhoods were their own counties. But precisely because

those neighborhoods represent only 2.5% of Greater Center City and the five adjacent ZIP codes where substantial new construction is occurring, Philadelphia provides so many other affordable opportunities.¹²

Another recent data point has been subject to exaggeration: the volume of housing sales in excess of \$1 million. Ironically, hyperbole has come both from those seeking to promote new projects and from those looking to cap the eligibility for the City’s 10-year tax abatement. Based on an analysis by Drexel University’s Lindy Institute, housing sales between 2010 and 2018 in excess of \$1 million have constituted just 0.5% of all home sales and 5.3% of all condo sales in the city. This means that 1,593 out of 158,863, or just 1% of the residential sales transactions citywide in the previous eight years have been for more than \$1 million.¹³ As a study done in 2018 notes, 89% of the developments that received a tax abatement from 2007 to 2018 were projects with abatement amounts of less than \$500,000.¹⁴

The reality of the city’s broad offering of affordable options is evident in Figure 20.

Another aspect of the current housing “boom” should be put in perspective. Though the increase in housing construction is impressive by local standards, Philadelphia County ranks 62nd in the country among the 100 largest counties in terms of units permitted since 2010. Demand may be strong in limited geographic areas of Philadelphia, but neither population nor income growth are sufficient to support housing construction everywhere, which creates a central challenge in low income neighborhoods.¹⁵

12: Rittenhouse Square and Filtler Square comprise 3/10 of 1% of the geography of Philadelphia.

13: Calculations by Kevin Gillen, Drexel University Lindy Institute

14: High and Low: Realigning Housing Incentives to Promote Equitable Development, University of Pennsylvania, 2018

15: *Housing Development in Perspective: 2018*, Center City District

AFFORDABILITY FOR LOWER INCOME HOUSEHOLDS

The U.S. Department of Housing and Urban Development defines “cost-burdened” as paying more than 30% of income for housing, the same standard as the *Demographia* survey. By that metric, for the 25% of Philadelphia households that make less than \$20,000 per year, 85% (114,571 households) are cost-burdened. For the next income bracket, \$20,000 to \$34,999, 66% or 61,512 more households are cost-burdened. For those who earn between \$35,000 and \$49,999, 39% or 30,466 households are cost-burdened. For those earning \$50,000 to \$74,999, the cost-burdened portion drops to 18% but adds 16,760 more households (Figure 21).

Focusing only on households making \$50,000 or less, the number experiencing significant cost challenges is just over 200,000. Compare that to the 33,339 active, publicly subsidized affordable housing units across the entire city (Figure 22) and you have a measure of the magnitude of the challenge Philadelphia faces.

CREATING NEW AFFORDABLE SUPPLY:

In the absence of new federal funds to underwrite more subsidized housing, initiatives are underway in cities across the country to fund locally an increase in affordable supply. In some cities this takes the form of mandatory requirements on market-rate developers to either fund or include units of affordable housing in their projects. After pursuing a mandatory approach, a package of housing bills was approved in October 2018 by City Council and signed by Mayor Kenney with a new **voluntary** “inclusionary zoning” provision that gives developers an option to construct larger buildings in exchange for payments to the Housing Trust Fund. Officials project this could generate a total \$18 million over the next five years, if market rate housing demand remains strong. The legislative package also included \$19 million of a promised \$53 million from the city’s general fund for use on affordable housing in the next fiscal year; a bill committing to a larger projection of \$71 million over the next



Martin Luther King townhouses in the Hawthorne neighborhood

five years from the general fund and zoning bonuses; and a bill ensuring that money secured from those two sources is spent on housing for the working- and middle-class, as well as for the city’s poorest residents.

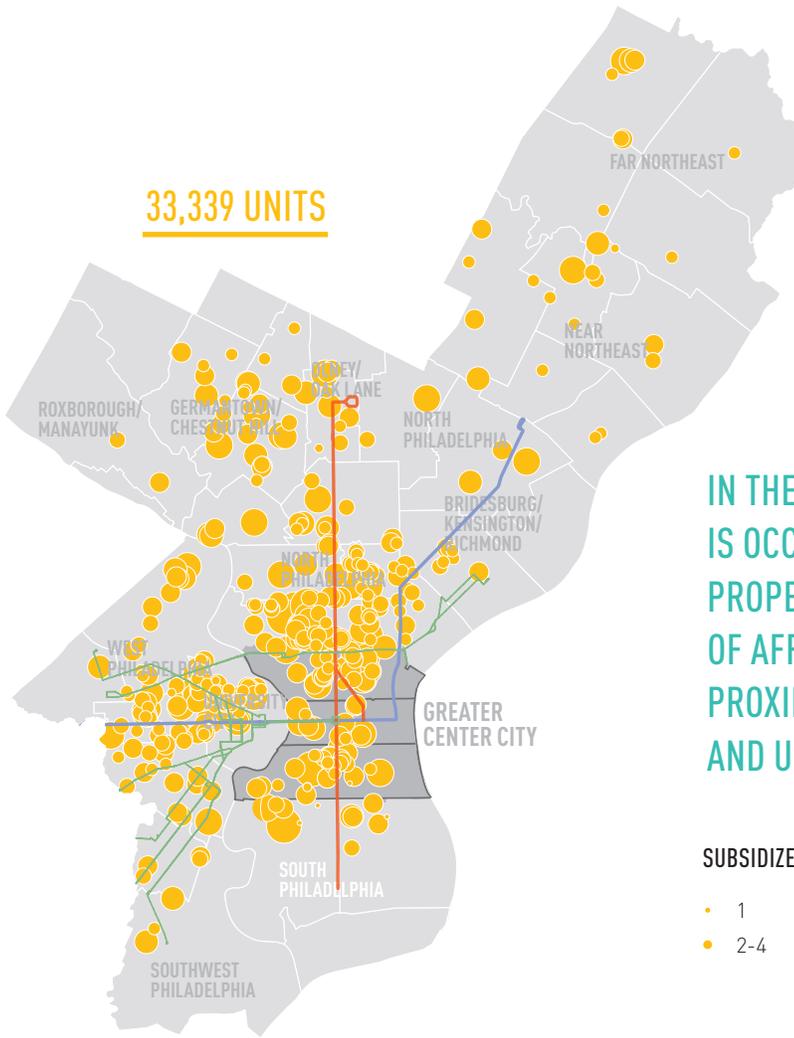
Given the magnitude of the gap between need and supply, it is important to underscore that, unlike superheated markets like San Francisco, Vancouver or even New York City, Philadelphia’s working-class and lower-income neighborhoods have an ample number of units that are affordable. Figure 21 suggests that approximately 100,000 households making less than \$50,000 per year are not cost-burdened, living in “naturally occurring” affordable housing that they own or rent on the private market.

FIGURE 21: COST BURDEN AT VARYING HOUSEHOLD INCOME LEVELS

	TOTAL HOUSEHOLDS	COST BURDENED	(PCT)	OWNER OCCUPIED HOUSEHOLDS	COST BURDENED	(PCT)	RENTER OCCUPIED HOUSEHOLDS	COST BURDENED	(PCT)
Total Households with Income	552,926	229,695	42%	301,937	89,610	30%	250,989	140,085	56%
Less than \$20,000	135,477	114,571	85%	49,715	39,391	79%	85,762	75,180	88%
\$20,000 to \$34,999	93,831	61,512	66%	45,656	21,776	48%	48,175	39,736	82%
\$35,000 to \$49,999	77,599	30,466	39%	41,720	13,303	32%	35,879	17,163	48%
\$50,000 to \$74,999	90,749	16,760	18%	54,149	10,330	19%	36,600	6,430	18%
\$75,000 or more	155,270	6,386	4%	110,697	4,810	4%	44,573	1,576	4%
Zero or Negative Income; or No Cash Rent	38,354	n/a	n/a	6,758	n/a	n/a	31,596	n/a	n/a

Source: US Census Bureau, American Community Survey 2017 1 Year Sample

FIGURE 22: HOUSING WITH ACTIVE SUBSIDIES CITYWIDE



IN THE AREA WHERE NEW INVESTMENT IS OCCURRING, THERE ARE ALSO 119 PROPERTIES WITH 10,959 UNITS OF AFFORDABLE HOUSING IN CLOSE PROXIMITY TO THE JOBS IN CENTER CITY AND UNIVERSITY CITY

SUBSIDIZED AFFORDABLE UNITS

- 1
- 2-4
- 5-25
- 26-50
- 51-100
- 101-200
- 201-500
- More than 500

Source: National Housing Preservation Database

But, many of these units require substantial repairs and too few other residents in these communities have incomes sufficient to support the costs of renovating them either as owners or renters. As the Pew Charitable Trusts noted 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.¹⁶

Short term, limited public funding should be stretched as far as possible. A recent report, overseen by former Philadelphia housing director, John Kromer, suggests the preservation, stabilization and upgrading of existing homeowner-occupied and rental housing units “is the single best way to address Philadelphia’s housing affordability challenges ... (and) the best way to counteract the adverse impact of gentrification on longtime residents and to promote mixed-income housing over a broad area rather than on a project-by-project basis. Repairing and improving existing housing is far less costly than developing new housing, and preservation activities can be completed far more quickly than housing production projects.”¹⁷

Contrary to a media narrative that focuses almost solely on gentrification and poverty, less than quarter of the city’s geography has been affected by the reinvestment trends of the last two decades. Many other areas, recently termed “middle neighborhoods,” are neither the poorest nor the wealthiest sections of the city, but have solid, affordable housing stock and strong working-class and middle-income populations. They exist in nearly every section of the city. These are places where existing residents would benefit from investments in housing preservation and repair, additional retail services and from more employment opportunities within the city, especially since in most of these neighborhoods, more than 40% of working residents are now commuting to jobs in the suburbs.

Long term, the most effective solution remains raising neighborhood incomes through more dynamic citywide job growth, through improved education and the training that prepares residents for 21st century jobs.

¹⁶: The Pew Charitable Trusts *Philadelphia 2017: State of the City*

¹⁷: *High and Low: Realigning Housing Incentives to Promote Equitable Development*, University of Pennsylvania, 2018



Lincoln Square at Broad Street and Washington Avenue is a mixed-use development that includes 356 apartments, a grocery and pet store.

CONCLUSION:

We live in a moment when concerns about the concentration of wealth and the stagnation of wage growth among middle- and lower-income households are paramount. These imbalances are most effectively addressed through national tax policy, but they dominate discussions of local public policy, especially in cities where income extremes are most visible. A recent report in *The Philadelphia Inquirer* calculated the median annual household income gap between the Graduate Hospital and Fairhill neighborhoods at \$75,466.

Very low incomes may be raised through increases to the minimum wage. There is however, a significant difference between the local redistributive capacity of cities like San Francisco which has a median income of \$110,800 and has grown jobs annually at the rate of 3.4% since 2009; or Seattle, median income of \$86,800 and which has grown at 2.6%; or New York City with median income of \$60,900 and which has grown at 2.5%; and Philadelphia's median income of \$39,800 and growth rate of 1.5% — 23rd slowest of the country's 25 largest cities, despite the acceleration during the last few years (Figure 23). Equally important, focusing on just handful of affluent downtown neighborhoods misses a larger point: despite a few thousand "luxury" condominium units in Greater Center City, the

real income disparities remain between city and suburbs. The median household income gap between Philadelphia's most affluent ZIP code, Society Hill (19106), and Gwynedd Valley (19437) in the western suburbs is \$118,775, 57% larger than the gap between highest and lowest income neighborhoods in the city. As Figure 24 demonstrates, only a handful of affluent neighborhoods in the region are actually located in the city. This *absence of wealth in the city*, and the slow pace at which we have rebounded from manufacturing decline, are prime reasons why the city has such a diminished tax base to support municipal services and public schools.

Equally important, despite the increase in both younger and more affluent households in Greater Center City, Philadelphia still loses to the suburbs 7,000 more people each year than it gains. This means cumulatively that 63,000 more people left the city for homes in suburbs since 2010 than moved from the suburbs into the city.¹⁸ Almost twice as many people, both African American and Caucasian, in households earning over \$100,000 per year, are moving out of Philadelphia than are moving in. The tide may be coming in young downtown, but it's not enough to offset older trends elsewhere in the city. Contrary to pervasive assumptions about why city dwellers decamp to the suburbs, 81% of households that left Philadelphia between 2010 and 2016 did not have children.¹⁹ Job opportunities that enable workers to shed the wage tax remain quite alluring.

18: Calculations derived from American Community Survey data, 2012–2016, the last year for which regional migration data is available. Each year 22,907 individuals from surrounding counties moved in, but 30,029 Philadelphians departed for the suburbs. The city's population growth comes primarily from local births and immigration.

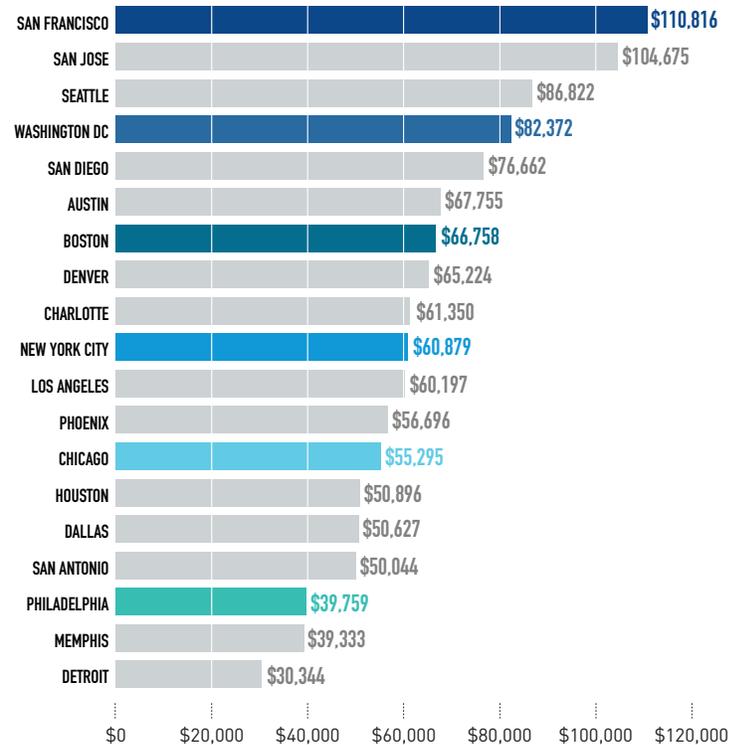
19: American Community Survey data, 2012–2016

So increasing the cost of living or working in the city should be done with caution, given the ease at which residents and jobs can move across City Line Avenue, 63rd Street or Cheltenham Avenue.

Affordable housing and quality public schools are issues of paramount importance. But the only way Philadelphia can achieve incomes sufficient to underwrite housing costs and build the tax base it needs to support services, public amenities and schools is to have expanding pool of diverse jobs for existing residents, college graduates and new arrivals. While peer cities like Boston and New York City, which also hemorrhaged manufacturing jobs, now have more jobs than they did in the 1970s, Philadelphia is still 21% below 1970 job levels and still a half million short of its peak population.

Recent growth is very promising, but we have not yet gotten back even to 1990 private sector job levels. This is a prime reason why Philadelphia has a poverty rate of 26% and why more than 200,000 households making less than \$50,000 are paying a disproportionately large share of their incomes on housing costs. Expanding job growth across all business and institutional sectors and sustaining at least the average rate of the 25 largest cities during the last decade (2.3%) should be a central organizing objective for business, civic and political leaders.

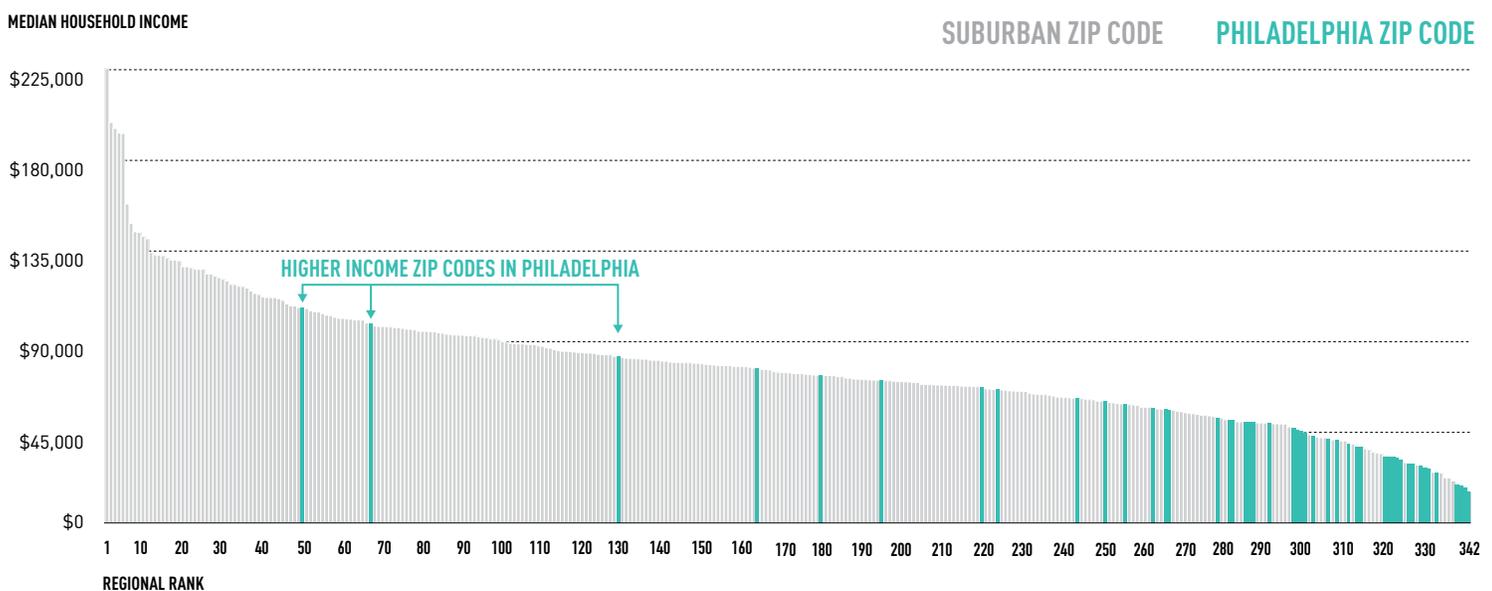
FIGURE 23: MEDIAN HOUSEHOLD INCOME



Source: 2017 ACS 2017 1 Year Sample

INCREASING THE COST OF LIVING OR WORKING IN THE CITY SHOULD BE DONE WITH CAUTION, GIVEN THE EASE AT WHICH RESIDENTS AND JOBS CAN MOVE ACROSS CITY BOUNDARIES TO THE SUBURBS

FIGURE 24: MEDIAN HOUSEHOLD INCOME BY ZIP CODE, PHILADELPHIA METROPOLITAN AREA



Source: US Census Bureau, American Community Survey 2013-2017 5 Year Sample