

CENTER CITY REPORTS

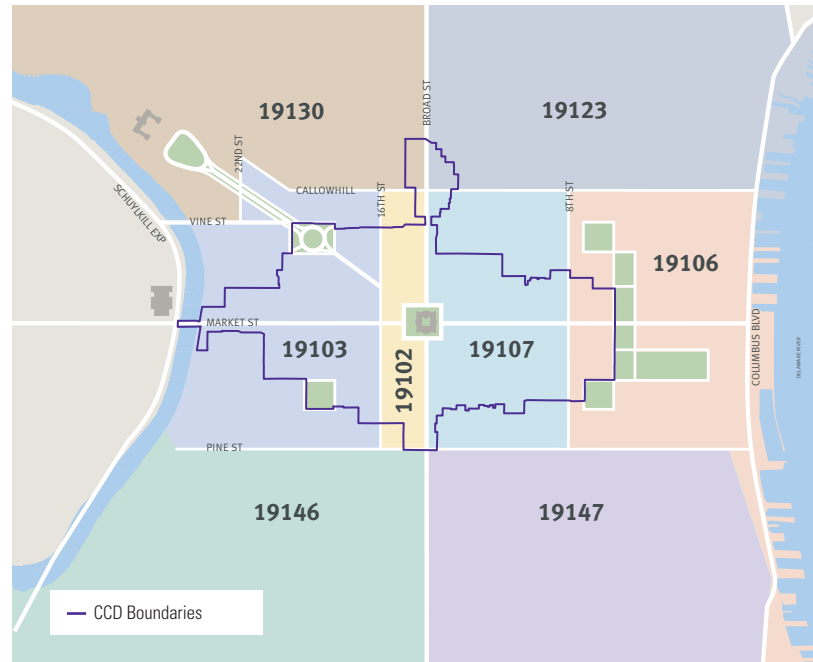
RESIDENTIAL DEVELOPMENT 2009: RIDING OUT THE STORM

CONFIDENCE AND CONTINUED DEMAND

Downtown Residents Remain Optimistic About Center City

Despite a severe national recession, **81% of Center City residents remain confident about the future of downtown.** As the U.S. economy begins to recover, that confidence level can be leveraged into new investment and job growth, particularly if local government addresses quality-of-life deficiencies, reduces barriers to competitiveness, and invests in public transit amenities.

In a survey conducted by the Center City District in June 2009 — when national economic news was uniformly negative and Philadelphia municipal government was confronting a severe fiscal crisis — **26%** of homeowners and renters in the eight ZIP code area between Girard Avenue and Tasker Street still felt that downtown had improved in the last year, while another **55%** believed it had held its own.¹ Despite pessimistic national headlines, only **4%** of the 3,077 respondents thought downtown had begun to decline, while another **15%** felt conditions had deteriorated, but would rebound as the recession ended.



Within the boundaries of the Center City District and in the neighborhoods that surround the central business district 12,121 new units of housing have been built since 1997



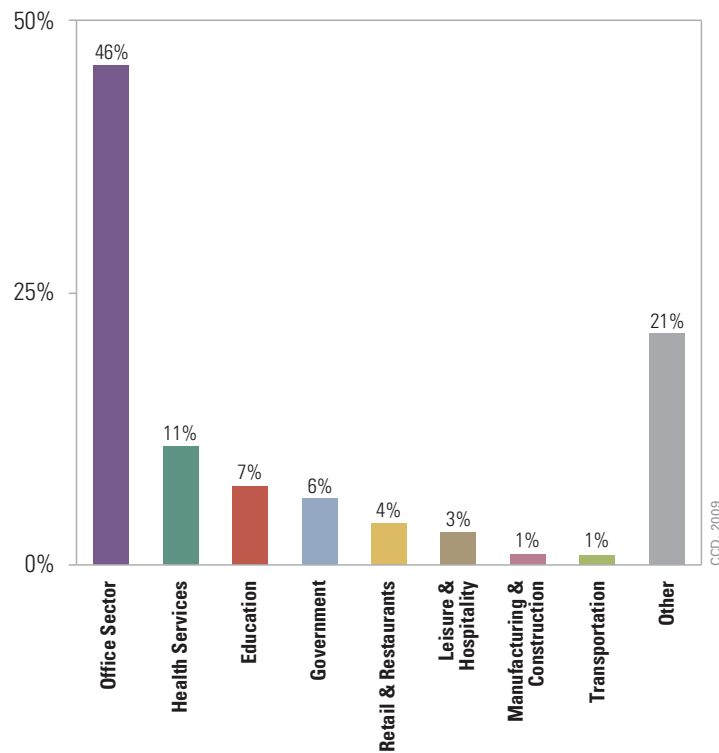
J.B. Abbott

Five ways public agencies can improve downtown living:

- Reduced the number of individuals living and begging on Center City sidewalks
- Improve maintenance of the public environment in neighborhoods that ring the downtown
- Reduce the wage and business privilege tax
- Increase transit frequencies, post schedules and provide real-time information at transit stops
- Add north/south bike lanes that connect ring neighborhoods to downtown

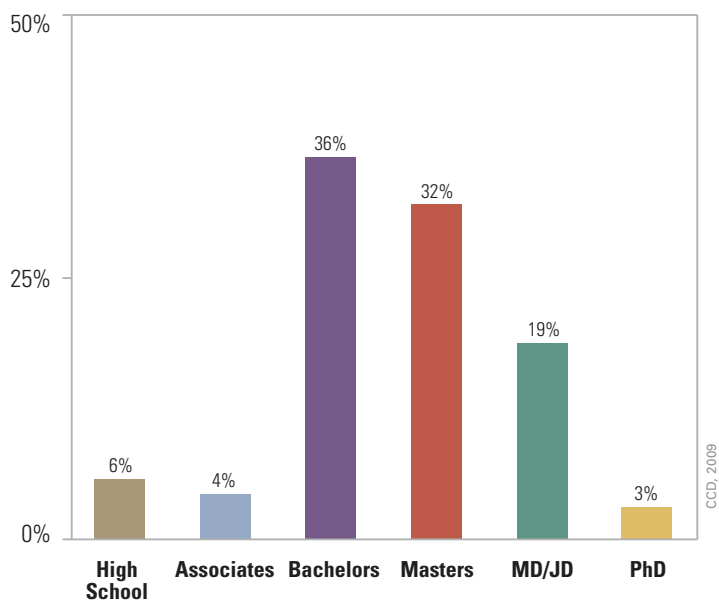
Priorities for improvements recommended by 3,077 downtown residents

EMPLOYMENT BY SECTOR FOR CENTER CITY EMPLOYEES



Office towers are the primary place of employment for Center City residents.

EDUCATIONAL ATTAINMENT



Ninety percent of Center City residents have at least a college degree; 54% hold advanced degrees.

Grounds for Confidence

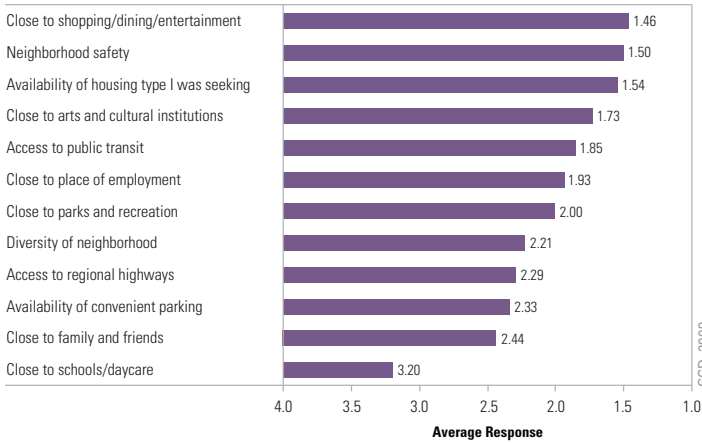
The first reason for this level of confidence is likely because, despite the recession, Philadelphia has experienced a much lower decline in employment than either the region or the nation. The most recent statistics from the Bureau of Labor Statistics show that while the nation lost 4.25% of its jobs between July 2008 and August 2009, the region declined by 3.32% while the city dropped by only 3.08%. Philadelphia has been buffered by the fact that 36% of the workforce is employed in educational and health care institutions, and this sector's employment actually grew in the city by 3.0% between August 2007 and August 2009.

Second, highly-educated workers nationally have fared much better in this recession than lower skilled workers and 90% of Center City survey respondents have at least a college degree, while 54% hold a Masters degree or higher.

Third, Center City residents devote less of their income to volatile commuting expenses because 52% of the respondents who are employed full-time work in Center City, and almost two-thirds do not rely on a car for commuting. Thirty-five percent walk to work and 24% take public transit. Of those employed in Center City, 46% have jobs in the office sector while 18% work in education and health care. Of respondents working outside of Center City yet still within Philadelphia County, 63% work in education and health care, such as at the institutions in University City and Temple University.



REASONS FOR MOVING TO CENTER CITY
1=EXTREMELY IMPORTANT, 4=NOT IMPORTANT



Center City residents have chosen to live downtown because of the close proximity to shopping, dining, entertainment, arts and cultural institutions and because they found the type of housing they were seeking in a safe community.

Finally, while housing prices city-wide have been falling since the second quarter of 2007, Philadelphia has only experienced an 11.5% decline in the price of units that have sold since the market peaked in 2006, while prices have fallen by 18.4% in Boston, 20.9% in New York City and 33.3% in

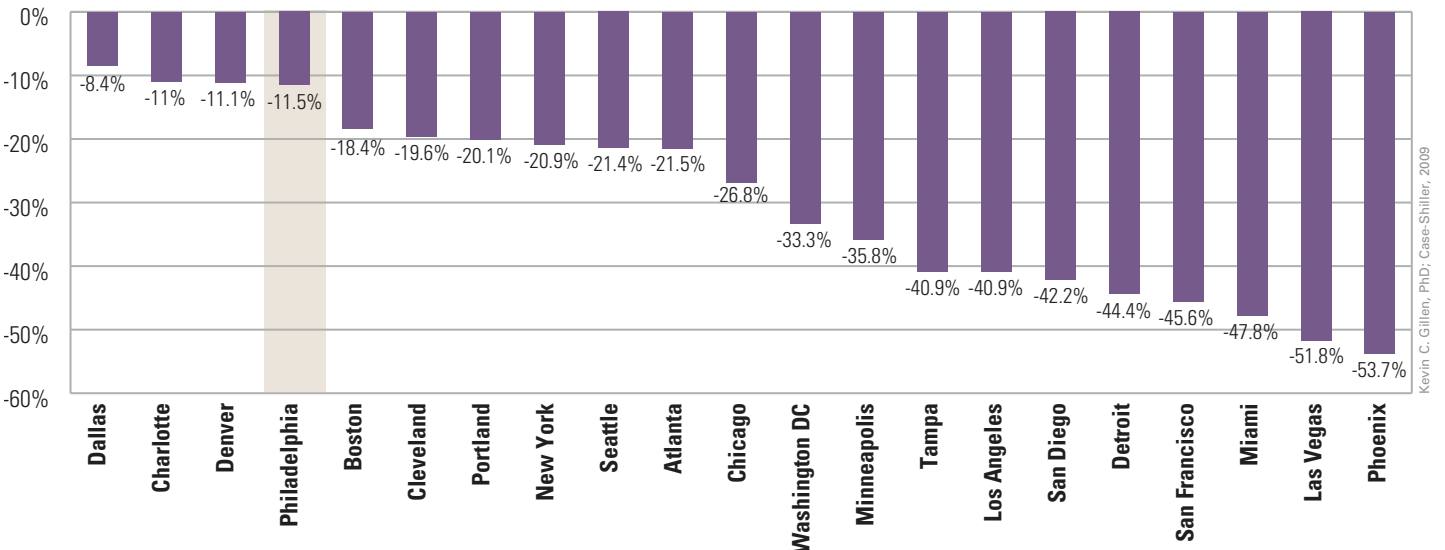
Washington, D.C. In fact, Philadelphia housing prices have held up better than all but three (Dallas, Charlotte and Denver) of the 20 regions tracked for the Case-Shiller House Price Index.²

Housing Demand Remains Strong, Despite Falling Production

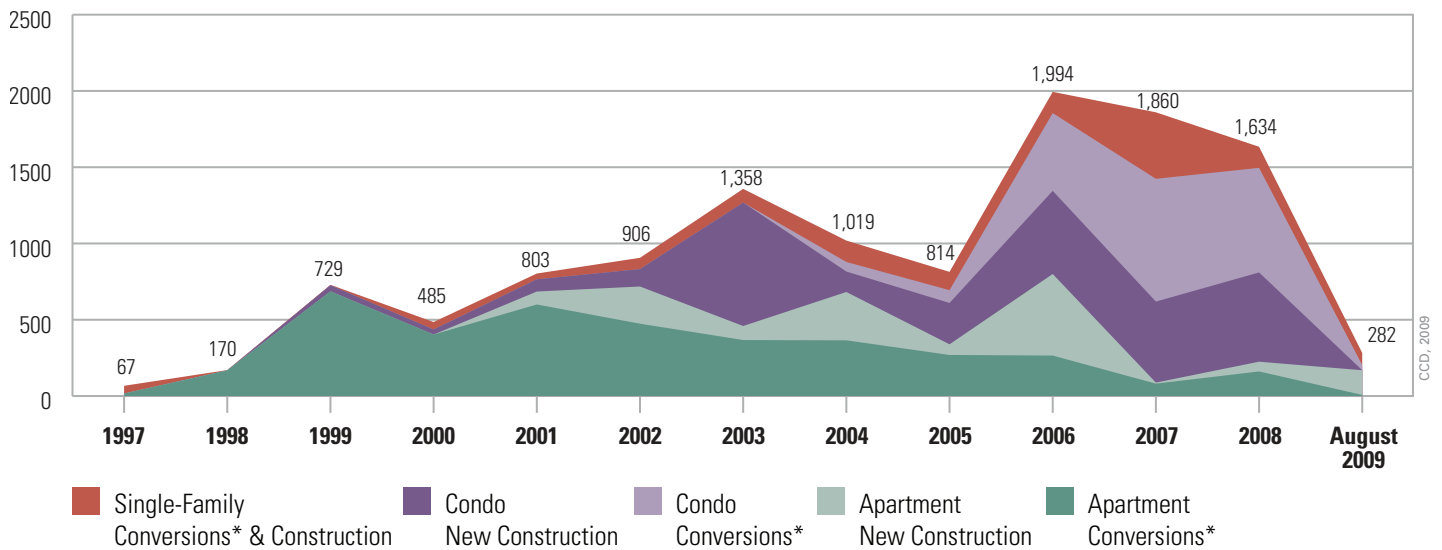
While Philadelphia is still losing population, Center City has been growing for over 40 years. Even as households have gotten smaller, population density has been increasing. Since 2000, growth accelerated as seven out of eight downtown ZIP codes experienced an increase in population.³ Driven by the 10-year tax abatement that was approved in 1997, Center City has added **12,121** new units of housing. Within the traditional business district, new construction and the conversion of commercial buildings to residential use have animated streets that used to be dark and empty after 5pm. Outside of the core, new residential towers have been added, industrial lofts have been converted, deteriorated units renovated, and new townhouses have filled in vacant lots and transformed entire city blocks.

Like the national market, Center City housing production peaked in 2006 with almost 2,000 new units delivered to the market that year and then slowed in 2007 and 2008. The financial crisis of September 2008 caused production to plummet as financing for major for-sale projects almost completely dried up. Still, from Northern Liberties and Fairmount to the neighborhoods south of South Street, the construction of townhouses, rental units and high-rise buildings continue, albeit at a lower volume than in previous years.

COMPARATIVE PERCENT DECLINE IN HOUSING PRICES FROM PEAK



NEW CENTER CITY RESIDENTIAL DEVELOPMENT BY TYPE, 1997–AUGUST 2009
12,121 NEW UNITS OF HOUSING



* Conversions include only the transformation of formerly non-residential or vacant space to residential use and do not include existing apartments converted to condominiums.



New condominiums offer great views and proximity to work, theaters, restaurants and public parks.

Downtown Condos

While much national attention has been focused on the substantial inventory of unsold new units in Arizona, California, Florida, and Nevada, Center City is not confronting as severe a supply overhang. In a detailed analysis of the 20 major condominium projects constructed within the boundaries of the Center City District (roughly the traditional central business district) between 2003 and 2009, the CCD found that, as of October 1, 2009, 65% of the 2,950 new units developed during this period have been sold, 5% are under contract and 4% have been rented, leaving an unsold inventory of 709 units.⁴

STATUS OF UNITS IN 20 MAJOR CONDO PROJECTS, COMPLETED WITHIN THE CCD, 2003–2009 AS OF 10/1/09

	Units	% of Whole*
Total Number of Units	2,950	100.00%
Sold & Settled Units	1,924	65.22%
Under Contract	150	5.08%
Rented	108	3.66%
Vacant	709	24.03%

* Due to combining Department of Records data with individual condo building data, the total does not equal 100% because several buildings are not formally subdivided yet. The total represents approximately 15% of all owner occupied units within the CCD.

The average number of new and converted condo units that came onto the market within the CCD boundaries each year from 2003 to 2008 was **227** units, putting the current vacant supply at **2.5 years** worth of inventory. But that number should be put in perspective. First, while unsold units are very painful to developers and lenders, one consolation is that there are no units in the pipeline behind them. If conditions were suddenly to turn around tomorrow, it would be at least two to three years before any new, competitive product would reach the market.

Second, 72.6% of the unsold units (515) are concentrated in just a handful of buildings that came late to the market. Many had willing buyers who were unable to close either because they could not sell an existing home or they tried to close at precisely the time that jumbo mortgages, those above \$417,000, became more expensive and very difficult to obtain. Other units have not sold because they are competing with those similarly priced, but with better amenities, or which are perceived to be in a more established location. For example, several projects with lower priced units or better locations that came onto the market at the same time are at, or close to, 100% sold-out. Another luxury building, priced significantly above others, is selling well to individuals who do not need to obtain jumbo-loan financing.

Most importantly, this new inventory of 2,950 condominium units added in the last six years, represents just 15% of the total supply of owner occupied units within the CCD. Condos in existing buildings in and adjacent to the CCD are continuing to sell, but more slowly and at prices 20% to 30% below the market peak, or roughly at 2005 prices. But, the demand for walkable, Center City residential real estate remains strong from a broad range of age and income groups, while confidence levels among existing residents remain high. Once financing again becomes more available in the upper price ranges, most of new units should be absorbed, though as the chart below indicates, the challenge will be a little greater within the central business district. Finally, a temporary problem has been created for some landlords: as some condo developers have taken to renting units as an interim strategy, they have cut into the demand for existing rental properties.

NEW CONDO UNITS CONSTRUCTED, 2003–2008 (8 ZIP CODES)

Year	Outside CCD	Inside CCD	Total	% in CCD
2003	756	53	809	6.55%
2004	155	42	197	21.32%
2005	208	147	355	41.41%
2006	876	179	1,055	16.97%
2007	964	372	1,336	27.84%
2008	434	871	1,305	66.74%
Average per year	565	277	843	

CCD, 2009



Townhouse Neighborhoods

In the neighborhoods surrounding the central business district demand remains strong since none of these communities are confronting a challenge of over-supply. Townhouses priced below \$400,000, are selling well, as first time homebuyers, prompted by the \$8,000 federal tax credit, are connecting with willing sellers who have adjusted their prices downward. Many empty-nesters have sufficient equity in suburban homes they are selling to afford townhouses in the \$750,000 to \$1 million range without needing jumbo mortgages. They are sustaining the long-term, back-to-the-city movement by connecting with sellers willing to moderate their asking price back to 2005–2006 levels.

Comparing sales by brokers of single family and condominium units during the first half of 2008 to sales during the first half of 2009, it becomes clear that outside of a handful of luxury condominiums in the central business district, values have held up quite well throughout the balance of Center City. While the volume of units sold declined by 27.6%, average prices dipped by only 3.6%, while the number of days on the market before sale increased from 3 to 4 months.⁵

RESIDENTIAL SALES, FIRST HALF OF 2008 & 2009

ZIP Code	Total Sales Through Q2			Average Sales Price Through Q2			Average Days On Market Through Q2		
	2008	2009	% Change	2008	2009	% Change	2008	2009	% Change
19102	40	28	-30.00%	\$424,417	\$693,207	63.33%	129	164	26.60%
19103	161	103	-36.02%	\$544,692	\$514,430	-5.56%	131	130	-1.02%
19106	121	90	-25.62%	\$513,521	\$487,734	-5.02%	85	140	64.13%
19107	77	47	-38.96%	\$454,484	\$353,579	-22.20%	97	225	130.66%
Core CC (4 ZIP Codes)	399	268	-32.83%	\$505,773	\$495,934	-1.95%	111	153	38.78%
19123	64	53	-17.19%	\$389,302	\$360,574	-7.38%	95	104	9.62%
19130	192	120	-37.50%	\$370,006	\$320,684	-13.33%	81	107	32.22%
19146	343	241	-29.74%	\$262,866	\$275,288	4.73%	84	102	20.95%
19147	234	210	-10.26%	\$345,077	\$334,713	-3.00%	100	94	-5.91%
Expanded (4 ZIP Codes)	833	624	-25.09%	\$320,369	\$311,261	-2.84%	89	101	13.20%
All ZIP Codes (8 ZIP Codes)	1232	892	-27.60%	\$380,415	\$366,746	-3.59%	96	116	21.46%

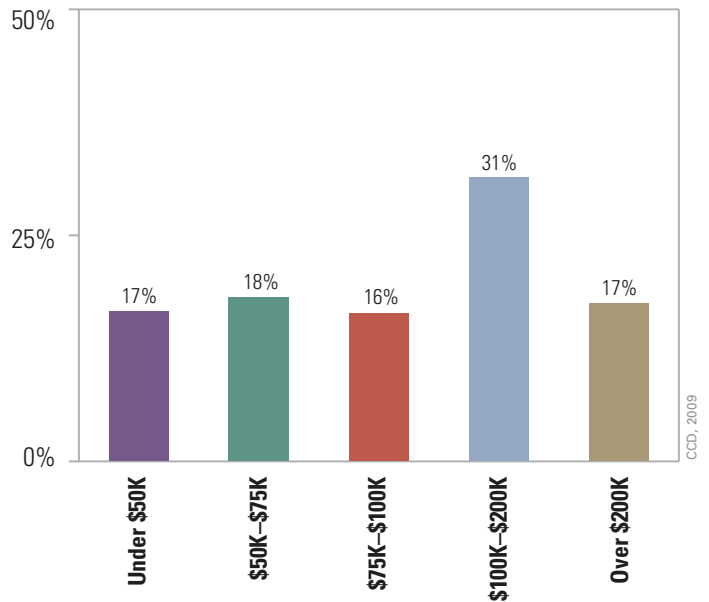
Nigel Richards; CCD, 2009

Who is Living Downtown?

Center City Philadelphia has succeeded in attracting well-educated, knowledge-workers — young professionals and empty-nesters — a key objective of development professionals in every American city. Twenty-eight percent of all respondents are ages 25 to 34, while 39% are over 55. Older, more affluent households are concentrated in the higher-priced housing in the core of downtown, with the largest proportion of individuals over 65 found in ZIP codes 19102, 19103 and 19107. Where prices are lower in the outer ring ZIP codes of 19123, 19130, 19146 and 19147, 25-34 year-olds make up the largest cohort, along with ZIP code 19107, which has a high concentration of rental and student housing.

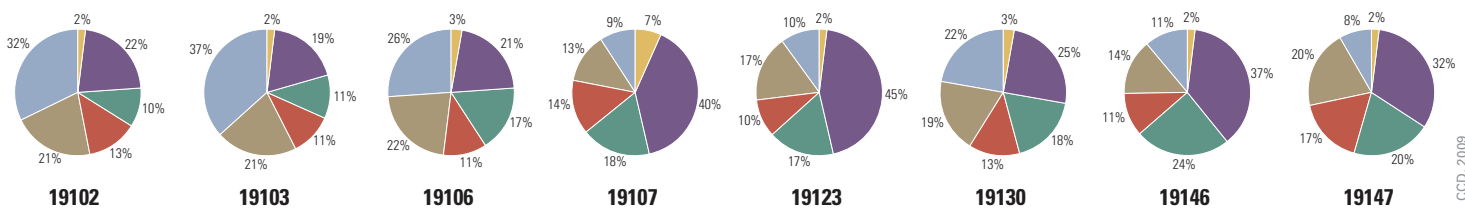
But Center City also has been retaining a larger number of young professionals as they have children. Between 2000 and 2007, 15,159 infants were born to Center City parents. While the majority of households still responded that they have no school-age children living with them, the trend is

HOUSEHOLD INCOME



CCD, 2009

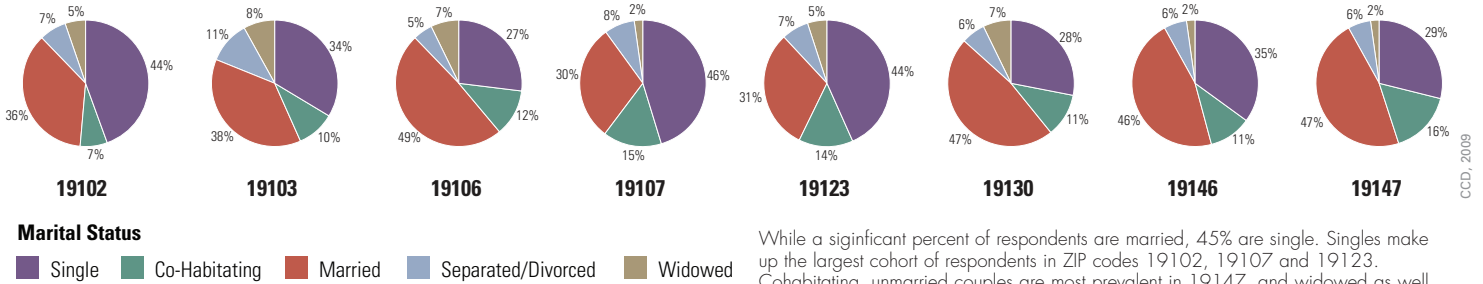
AGE BY ZIP



CCD, 2009

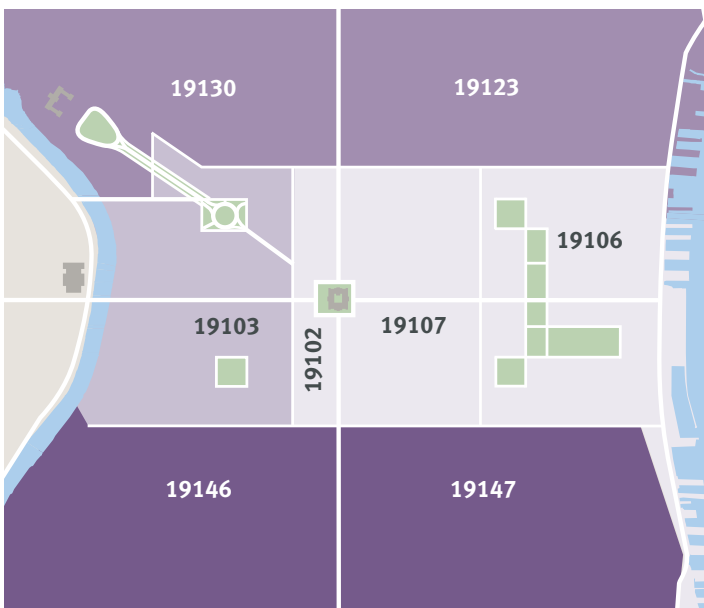
Age
 Under 25 25-34 35-44 45-54 55-64 Over 65

MARITAL STATUS BY ZIP



While a significant percent of respondents are married, 45% are single. Singles make up the largest cohort of respondents in ZIP codes 19102, 19107 and 19123. Cohabiting, unmarried couples are most prevalent in 19147, and widowed as well as divorced individuals are most common in 19103.

PERCENT OF HOUSEHOLDS WITH SCHOOL AGE CHILDREN



quite different in the outer ring neighborhoods where 26% of households in 19146, 20% in 19147, 15% in 19130 and 13% in both 19123 and 19106, have school age children living with them. Downtown residents have significant disposable income: 48% earn more than \$100,000/year, and only 17% earn \$50,000 or less.

Center City has also succeeded in attracting affluent retirees. While only 12% of all survey respondents describe themselves as retired, that percentage exceeds 20% in ZIP codes 19102 and 19106 and jumps to 31% in 19103, around Rittenhouse Square, and to 19% in 19130, probably due to the large concentration of condominiums and apartments along the Parkway.

What Can Be Done Locally?

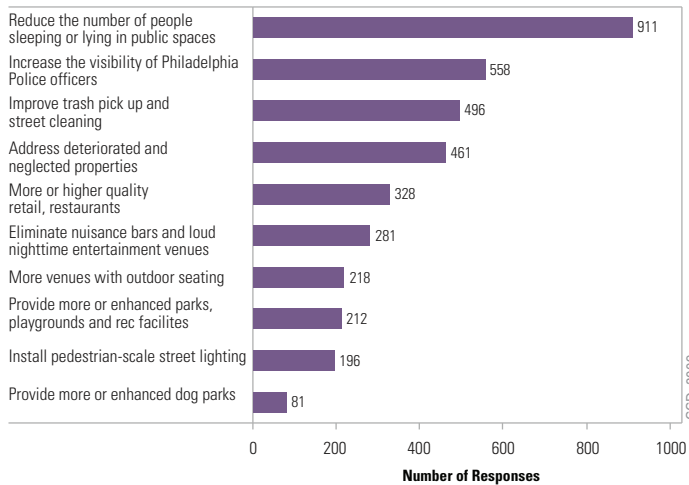
Quality of Life Issues: The combination of affluence and education, along with an increase in the number of families with children, means that Center City residents have significant mobility and many other choices. While they have been attracted by proximity to employment and amenities and by the ability to walk to work, they also rank the overall safety of the area second on their list of factors for moving to Center City.

When asked to identify those changes to their neighborhood that would most improve it as a place live, respondents overwhelmingly pointed to conditions in the public environment. Those in the core of the downtown focused on the adverse impact of homeless and panhandlers, who have increased significantly in Center City since the year 2000.⁶ But while residents within the core neighborhoods of downtown benefit from the cleaning services of the Old City District and Center City District, which also provides cleaning on a fee-for-service basis to residents of Society Hill and Rittenhouse Square, residents in the outer ring of neighborhoods, where visible homelessness is minimal, point overwhelmingly to the need for improved trash pick-up and the challenge of vacant and neglected buildings.

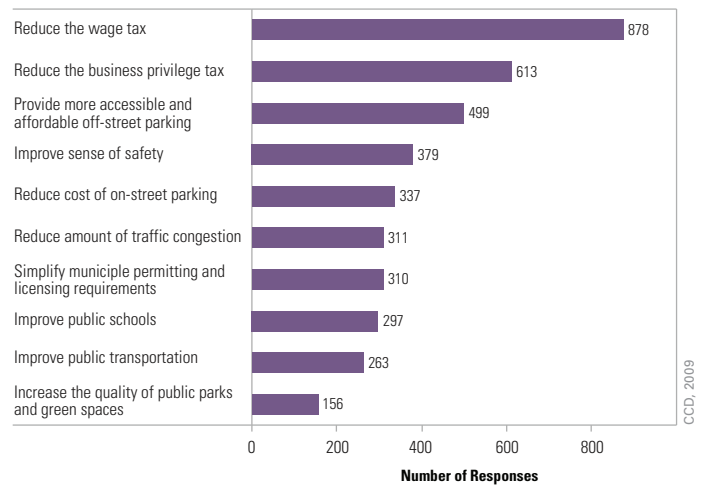


New retail shops continue to open to cater the growing number of Center City families with school age children.

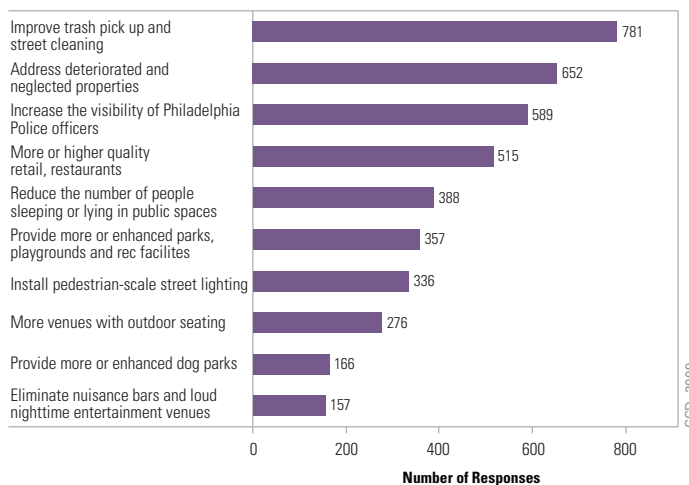
DESIRED NEIGHBORHOOD IMPROVEMENTS (CORE ZIPS)



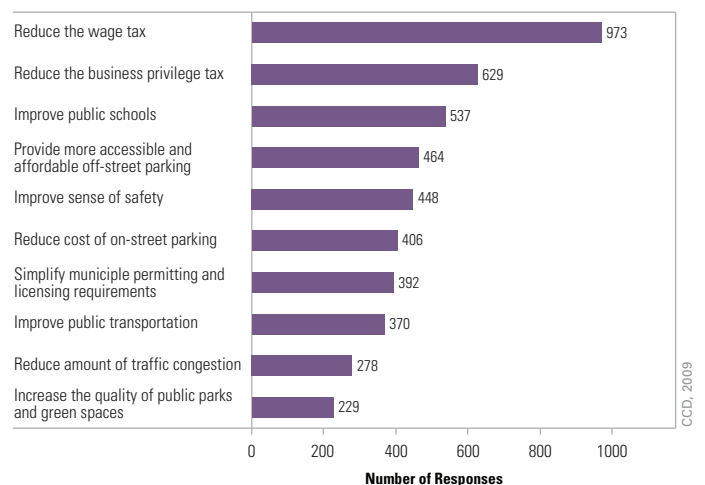
DESIRED WAYS TO INCREASE COMPETITIVENESS (CORE ZIPS)



DESIRED NEIGHBORHOOD IMPROVEMENTS (EXPANDED ZIPS)



DESIRED WAYS TO INCREASE COMPETITIVENESS (EXPANDED ZIPS)

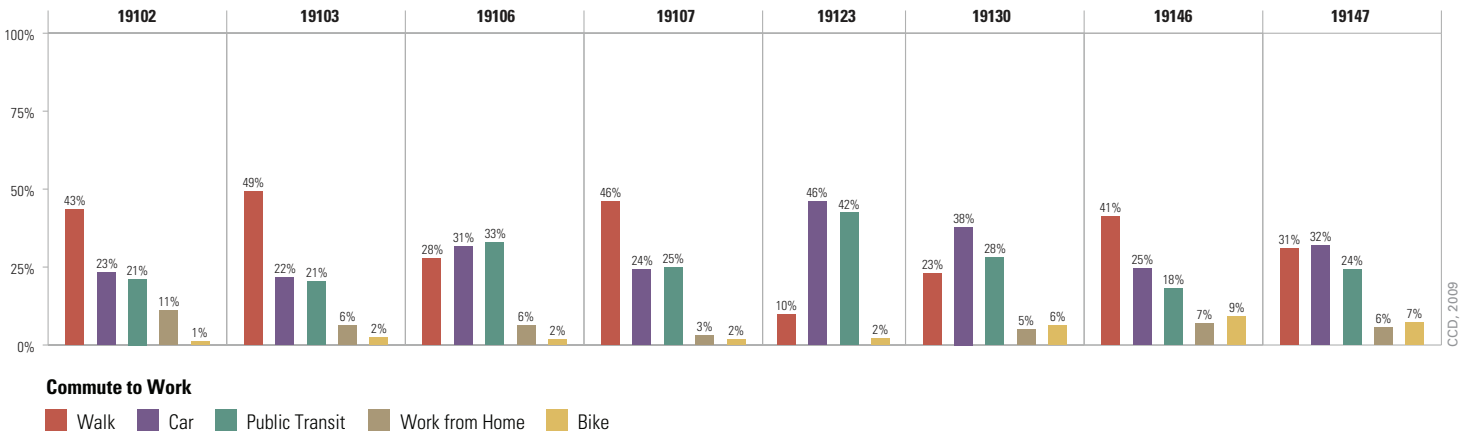


Competitive Tax Policies: Respondents were also asked what improvements would enhance Center City as a place to work, start, or expand a business. Reduction of the wage and business privilege taxes topped the list in all downtown neighborhoods. Parking and safety ranked third and fourth in the core of downtown, while improving public schools ranked third in the outer ring neighborhoods, where there is a larger percentage of households with school age children. Among respondents with school age children living at home, reducing the wage and business privilege tax still ranked first and second, though improving public schools came in close behind.



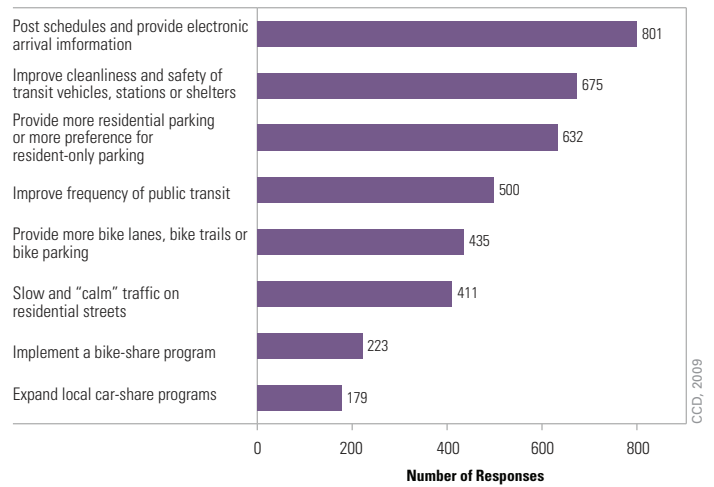
15,159 children were born to Center City parents between 2000 and 2007.

COMMUTE TO WORK BY ZIP

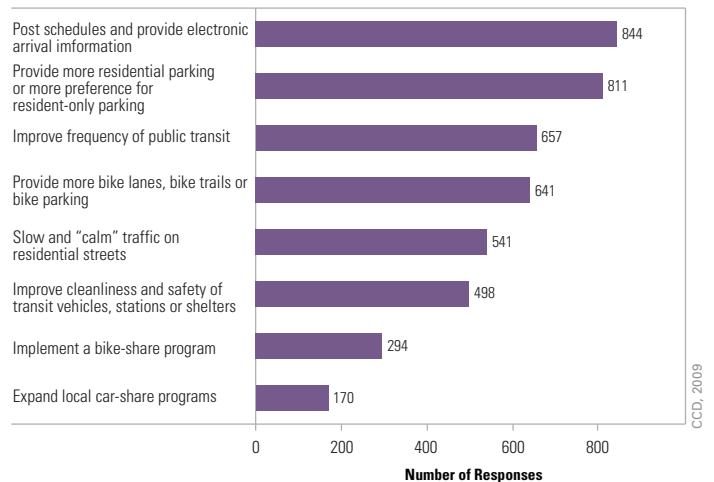


Transportation Enhancements: Fifty-two percent of survey respondents work in Center City, with 17% of those employed in the office district, west of Broad Street. The closer one lives to work, the higher the probability of walking to get there. In ZIP codes 19102, 19103, 19107 and 19146 the percent of residents walking to work exceeds 40%, while the automobile is the most popular mode of commuting for residents in 19123, 19130 and 19147. Public transportation is the primary mode for commuting for 33% of residents in 19106, where three bus routes directly connect the neighborhood to the business district. But in the more affordable, outer ring neighborhoods, particularly ZIP codes 19130, 19146 and 19147, where younger workers have settled, bicycle commuting has risen to between 6% and 9% even without any dedicated north-south bike lanes yet in place.⁷

DESIRED TRANSPORTATION IMPROVEMENTS (CORE ZIPS)



DESIRED TRANSPORTATION IMPROVEMENTS (EXPANDED ZIPS)



Thirty-five percent of Center City residents walk to work; 24% ride transit. The posting of schedules and real time information will attract even more residents to commute without cars.

Make it Easier to Use Public Transit: Regardless of where in Center City they live, respondents overwhelmingly agreed on which transportation enhancements would most improve travel to and from their neighborhood: posting of transit schedules and the availability of electronic, real-time arrival information. While core area residents want cleaner and safer transit vehicles and shelters, residents in the expanded area are looking for increased frequency of transit, as well as more designated residential parking.

Unlike the global financial crisis, the factors enumerated above, which strongly influence whether Center City residents stay or depart, are almost totally within the control of municipal government, the School District of Philadelphia and SEPTA.

A Time to Focus on Downtown

In a city in which 24% of the population lives at or below the poverty level and only 18% of adults have college degrees, it remains a primary responsibility for municipal government and the public schools to increase the skills, the opportunities and the wealth of residents who have few choices but to live in city neighborhoods, often far removed from places of employment. But at the same time, in a competitive, global economy where highly mobile, educated workers and expanding firms are offered almost unlimited choice, Philadelphia government, its public schools and SEPTA should devote equal attention to retaining and attracting those people and businesses that drive the 21st century economy and create opportunity for residents across the region.

Despite the temporary infusion of stimulus funds from the federal government, Philadelphia still must generate almost 70% of its operating budget locally, by taxing people and firms within the city. Forty percent of all private sector jobs in the city are located downtown or in University City and these two areas generate 57% of all wage taxes earned at private firms and institutions in Philadelphia. These two largest centers of post-industrial employment — to revert to a 19th century metaphor — are the locomotives of the city’s economy, providing jobs and opportunities for residents of every neighborhood in the city, while generating the lion’s share of tax revenues that support local services.

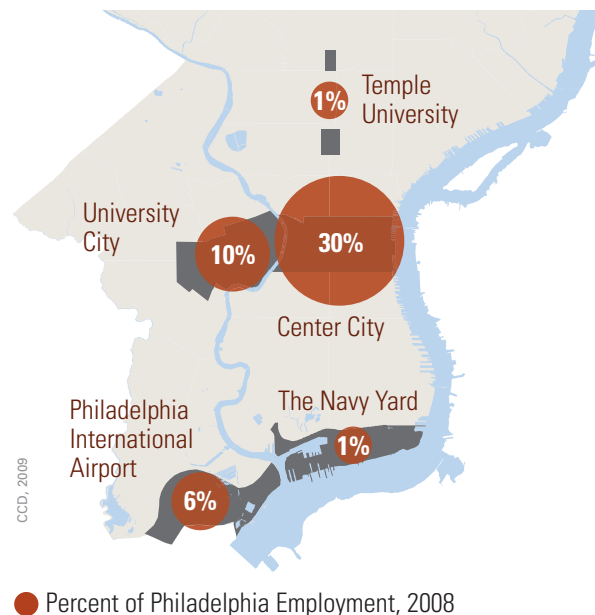
Increasingly, residential choice is influencing job location, almost as much as jobs are driving housing choice. There is a great deal of national evidence that office occupancy and housing values held up far better in this recession in walkable, transit-oriented places than in auto-dependent areas.

Today, Philadelphia’s oldest assets — an intimate-scale, pre-automobile street grid, a city-wide system of parks and a hub-and-spokes public transit system — take on new value in



In-fill construction continues in all the neighborhoods that surround the central business district.

PERCENT OF PHILADELPHIA EMPLOYMENT, 2008



an era increasingly focused on sustainable development. Empty nesters and retirees, who have done their time mowing lawns and shuttling children to sports and schools, value walking to the amenities that have enriched downtown. Parents who are staying in the city seek the diversity they may not have experienced growing up and want their children better prepared for a heterogeneous, 21st century global economy. Generation Y, the “Millennials,” are now turning 30 at a rate of 11,000 a day across the nation, in numbers higher than their Baby Boom parents who reached the average home-buying age at the rate 10,000 a day. Recent national surveys suggest that this demographic group is strongly attracted to urban environments, drawn by the ability to walk or take public transit to work.

As the national economy rebounds from recession and the Nutter administration emerges from the gloom of its fiscal crisis, Philadelphia is extraordinarily well positioned for economic and residential growth. This is the first major recession in which the city lost fewer jobs than our region and the nation.

So Philadelphia must now redouble efforts to get its own house in order: addressing the behavioral problems of several hundred shelter-resistant individuals who live and beg on Center City streets; enhancing the public environment in the expanding ring of residential neighborhoods that surround downtown; shifting the burden from taxing mobile people



J.B. Abbott

and jobs to immobile assets, such as land and improvements; investing in customer amenities and information on public transit while rethinking the routes that serve neighborhoods adjacent to downtown; and expanding the new east-west bicycle lanes with an integrated system of north-south routes and improved connections to waterfront trails. As the national economy rebounds, fifty years of population and job decline in Philadelphia can come to an end; Center City has shown the way.

- 1 CCD conducted this survey of residents in the 19102, 19103, 19106, 19107, 19123, 19130, 19146 and 19147 ZIP codes. Surveys were mailed directly to 3,515 condominium owners within the CCD’s boundaries, distributed in 13 apartment buildings throughout Center City and sent out electronically by the Center City Residents Association, Society Hill Civic Association, Queen Village Neighborhood Association, Fairmount CDC, Fairmount Civic Association, Northern Liberties Neighborhood Association, Bella Vista Town Watch, Washington West Civic Association, and South of South Street Neighborhood Association. CCD received 3,077 completed surveys which represents 3.3% of the total population of Center City. 19123 and 19146 were the most underrepresented ZIP codes with less than 1% of the population responding, while 19102 and 19106 were the most responsive at 4.2% and 3.2% of the population, respectively.
- 2 Kevin C. Gillen, Philadelphia Regional House Price Indices, August 12, 2009.
- 3 Data from the 2000 Census showed that household size in revitalizing Center City neighborhoods averaged 1.5 or 1.6 persons per household, as opposed to the typical 2.5 and 2.6 persons per household across the rest of the city and region. The only one of the eight ZIP codes downtown that did not show population growth in this decade, 19146, has still seen a significant increase in occupied housing units as smaller households replace larger ones. The average household size for all respondents to this survey was 1.86.
- 4 The CCD combined data that it receives as a taxing authority that assesses new condominiums within its district with settlements recorded by the City’s Department of Records and cross checked with sales and management representatives at each project. The projects included were: 1601 Locust (Lanesborough), 1027 Arch, 1010 Arch (Winston Lofts), 1500 Chestnut (Ellington), 1600 Arch (The Phoenix), 1701 Locust (Warwick), 1811 Chestnut (Belgravia), 1425 Locust(Aria), 210 W. Washington Square (Ayer), 1130 Chestnut (White Building) ; 111 S. 15th St (Packard Grande), 219 S 18th St (Parc), 2101 Market (Murano), 50 S. 16th St. (2 Liberty); 1101 Locust (Western Union) ; Residences at the Ritz; 10 Rittenhouse
- 5 The data in the chart at the bottom of page 6, comes from Coldwell Banker and TREND MLS, courtesy of Nigel Richards, Realtor. The multiple listing service counts every transaction handled by a real estate broker. Not included in these numbers are units in condominiums that have been sold directly by the developer, which are counted in the chart on the bottom of page 4.
- 6 The steady increase in the number of homeless and panhandlers downtown since 2001 has had an equally adverse impact on the hospitality and leisure industries and upon the office district. The average monthly overnight count in Center City by the Outreach Coordination Center was 171 individuals in the year 2000. In the last several years, on average of 400 and 500 individuals have been sleeping on the streets of Center City per month.
- 7 While overall response rates were low in ZIP code 19123, one can surmise that the availability of the “L” shaped Market-Frankford subway provides a more convenient means of commuting to downtown jobs.

