

Center City Reports Residential Development 2010: Diversification Pays Dividends

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The Center Has Held

Center City Philadelphia has evolved over the last two decades into a highly successful, mixed-use, 24-hour live-work environment that is weathering the recession much better than other places in the region and other less-diversified cities. Since 1990, downtown has grown more diverse with an intricate mix of office, hotel, education, health care, entertainment, cultural, retail, governmental and residential properties. Diverse uses draw pedestrians to the streets throughout the day and evening hours, produce a broad range of employment opportunities — 267,331 jobs that generated more than \$13 billion in salaries in 2008 — and drive an ever-expanding ring of residential revival.

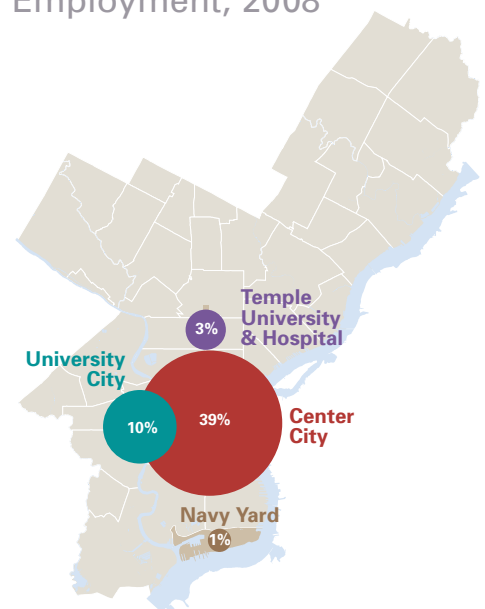
Think of Center City and surrounding neighborhoods as a solar system in which downtown employers exercise

a powerful gravitational pull on surrounding communities. More than 40 percent of all employed residents living between Girard and Washington avenues work downtown. With a regional transit system that carries more than 300,000 passengers into Center City each day, where a network of regional highways also converge, Center City's gravitational pull is strong enough to provide 20% of all jobs for residents of Southwest Philadelphia, 17.4% of all jobs for residents of the Far Northeast and 13% of all jobs for residents of Montgomery County.

Diversification + Walkability = Stability

Center City residents benefit too from proximity to the 55,000 jobs in University City and hold 10% of them. The diversification and accessibility of downtown and University City are prime reasons for the extraordinary

Percent of Philadelphia Private-Sector Employment, 2008



Source: CCD, 2010



In the last two decades downtown land use has dramatically diversified, as residential properties have emerged in the middle of the business district, along with new hotels, cultural institutions, and restaurants.

267,331
jobs are located
downtown, providing
work for nearly half of
Center City's residents

Private-Sector Workers by Neighborhood and Place of Employment: 2008

Map
Workers by
Place of Residence

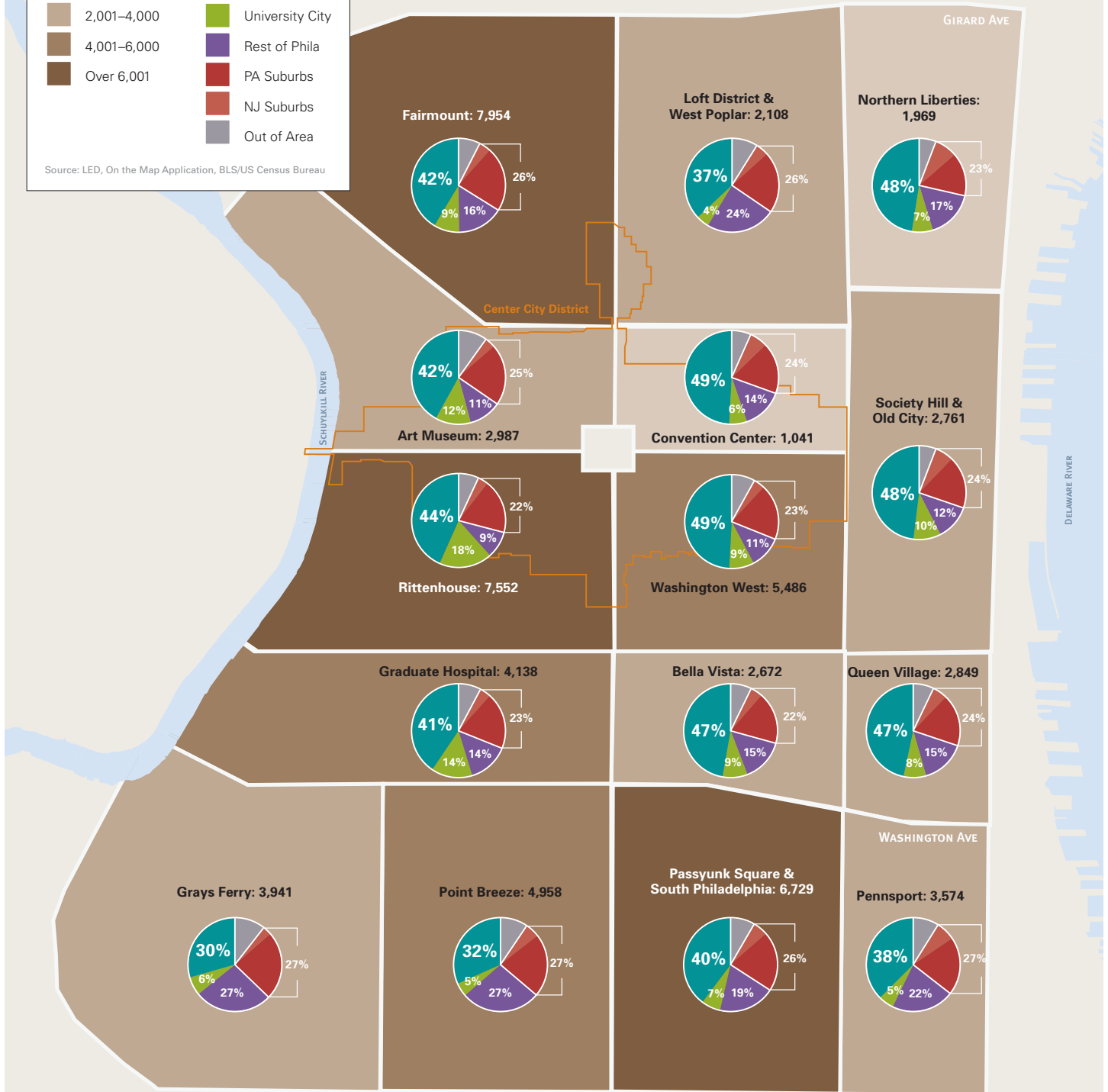
- 0-2,000
- 2,001-4,000
- 4,001-6,000
- Over 6,001

Pie
Percent of Workers
Employed in:

- Center City
- University City
- Rest of Phila
- PA Suburbs
- NJ Suburbs
- Out of Area

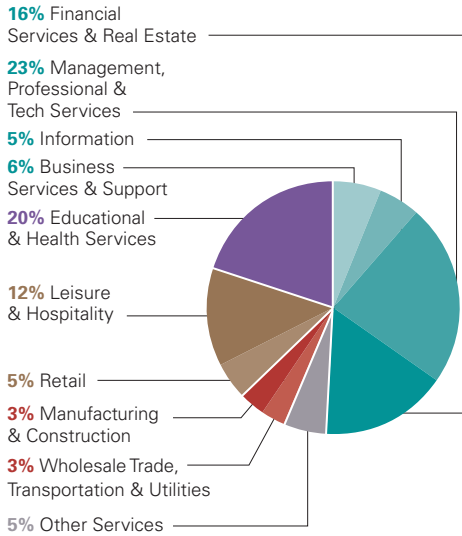
Source: LED, On the Map Application, BLS/US Census Bureau

More than 40% of all employed residents living between Girard and Washington Avenues work downtown, and the percentage is steadily growing in the neighborhoods on the outer edges of Center City. But at the same time, 24.75% of employed residents in these neighborhoods, reverse commute to jobs in the seven surrounding suburban counties.



The neighborhood employment data is drawn from the Local Employment Dynamics data set available via the On The Map application. It enables one to look at a specific geographic area, by census tract or ZIP Code, and to determine where in the region those residents work. Excluded from this data set are self-employed individuals, public-sector workers, shareholders in LLCs & LLPs, armed forces, domestic workers and railroad employees.

Center City Private-Sector Employment by Job Type, 2008



Source: LED, On the Map Application, BLS/US Census Bureau, 2010

stability of Center City housing markets during these challenging times.

But most important, Philadelphia has experienced a much lower rate of decline in employment during this recession than the region, and is more closely tracking the nation as a whole. Recent data from the Bureau of Labor Statistics shows that while regional employment declined by 0.86% from August 2009 to August 2010, the city was essentially flat, dropping less than 0.1%, right behind the national trend of 0.2% growth.

In previous recessions, Philadelphia fell further and faster because of its legacy of manufacturing jobs. But those jobs are now long gone. The city has fully transitioned to a post-industrial economy with the downtown accounting for 39% of all private-sector city jobs and 43% of all earnings.

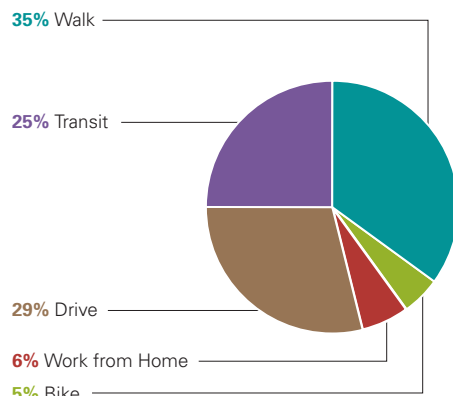
Downtown office occupancy rates are also 4% higher than the Pennsylvania suburbs, while education and health care jobs in Philadelphia actually

expanded by 3% between August 2008 and August 2010. Since this sector employs almost 30% of workers living downtown, it means that the fundamentals for Center City's housing market have remained strong.

Among 21 major national housing markets, Philadelphia is second, behind only Dallas, in maintaining its values in the midst of this recession. Philadelphia housing prices have rebounded since last year and are now only 7% lower than at the peak of the market in 2006. By contrast, prices have fallen by 15% in Boston, 21% in New York City, and 27% in Washington, D.C. Offer condolences to friends and associates who own real estate in cities on the far right of the bar chart on page 4.

A 2009 Center City District survey found that 35% of employed Center City residents walk to work and an additional 25% take public transit, which means that downtown residents devote less of their income to volatile automobile commuting expenses.

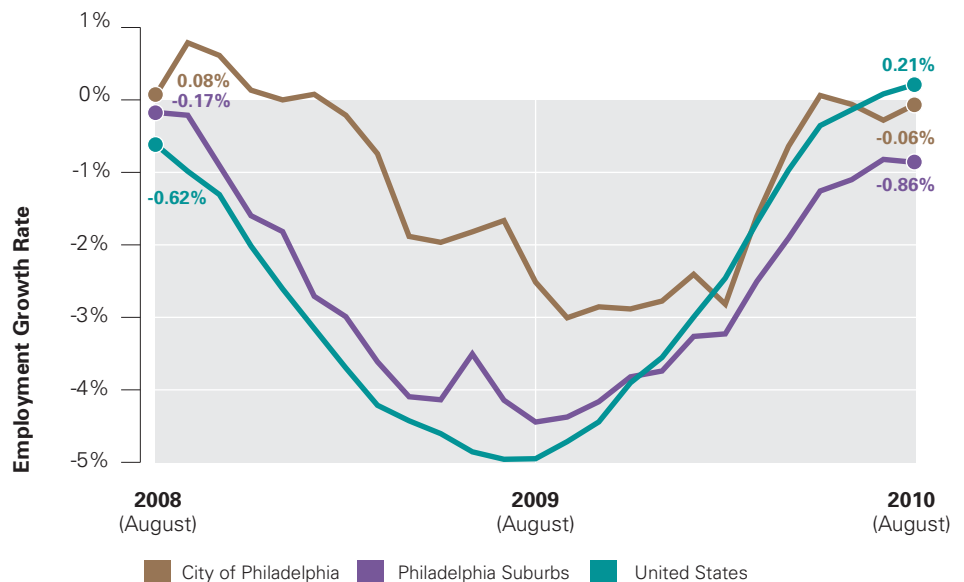
Center City Method of Commute to Work, 2009



Source: CCD, 2009

Employment Growth Rates

Philadelphia went into recession later than the region and the nation, and has lost fewer jobs on a percentage basis.

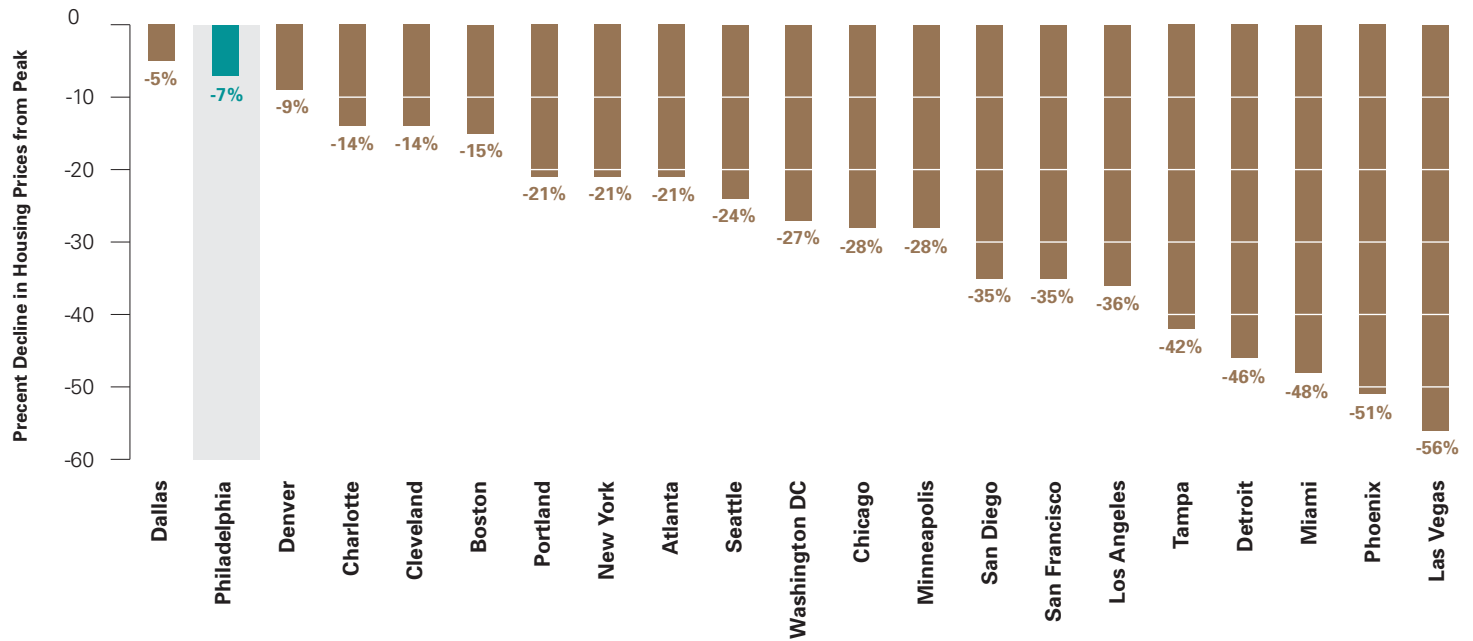


Source: Bureau of Labor Statistics Current Employment Survey, 2010

Residential

Percent Decline from Market Peak, Q2 2010

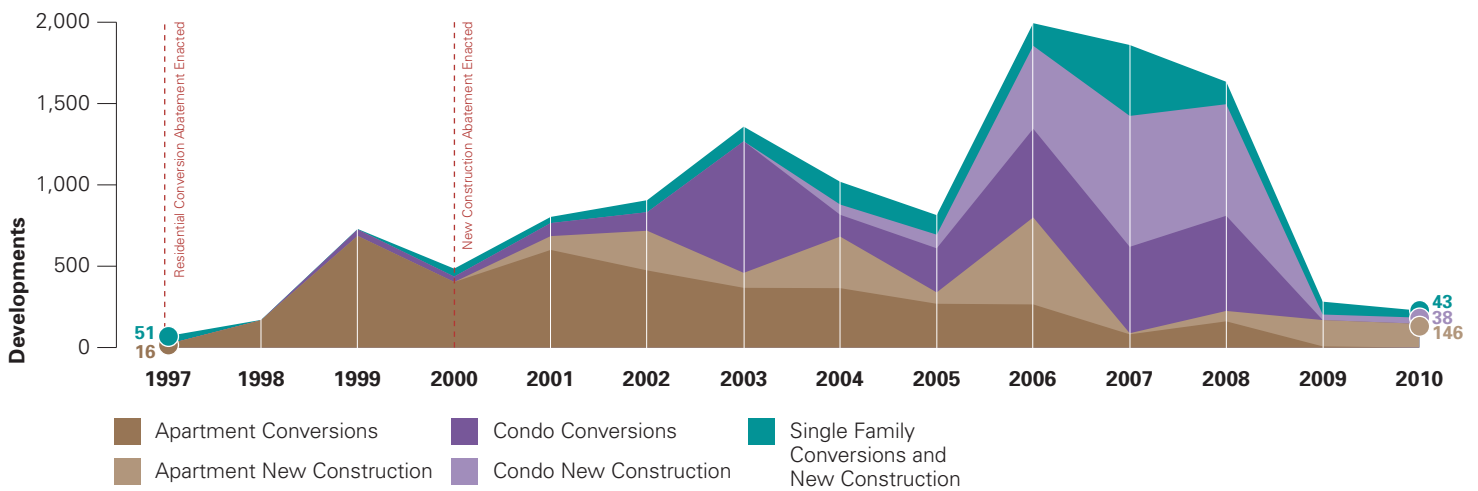
Philadelphia has retained residential values better than all but one major city.



Source: Case Shiller & Econsult, 2010

New Center City Residential Development by Type, 1997–October 2010

12,385 new units of housing



Source: Center City District, 2010

The Impact of the Recession is Still Pronounced

This is not to suggest that Philadelphia has been immune. Like the national market, Center City housing production peaked in 2006 with almost 2,000 new units delivered to the market that year. Production slowed in 2007 and 2008. The financial crisis of September 2008 then caused it to plummet, as financing for major for-sale projects almost completely dried up. But, from Northern Liberties to the neighborhoods south of South Street, smaller infill projects have continued.

This year, as of October, 227 new residential units have been completed in Center City with another 63 under construction. Since the 10-year tax abatement was approved in 1997, Center City has added **12,358** new units of housing and this success is one of the major reasons why the City of Philadelphia has ceased to shrink and has started adding population.

Trouble at the Top

The challenges have been greatest at the high end of the market, especially among the projects that came to completion in 2008 and 2009. Overall, there are 709 vacant units (24%) among the 20 major condo projects that were completed between 2003 and 2010 within the boundaries of the central business district. But this number should be put in perspective. First, most of the unsold units are in just five buildings that came late to the market. Second, there are approximately 9,000 residential condominium units downtown and among existing buildings, the vacancy rate is under 2%. Thus, the overall vacancy rate for new and existing product is **under 10%**.

Due in part to the unsold inventory of new supply, prices have fallen most at the higher end of the market. Brokers estimate that new and existing condos priced over \$1 million are selling at 20%-40% below the peak market price,



From South Philadelphia to Northern Liberties, infill and new construction has continued adjacent to downtown.

Status of Units in 20 Major Condo Projects Completed within the CCD, 2003–2010 (as of October, 2010)

	Units	% of Whole*
Total Number of Units	2,478	100.0%
Sold & Settled Units	1,598	64.5%
Under Contract	150	6.1%
Rented	108	4.4%
Vacant	731	29.5%

* 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.

Residential Sales, Through 3rd Quarter, 2009 & 2010

ZIP Code	Total Sales Through Q3			Average Sales Price Through Q3			Average Days On Market Through Q3		
	2009	2010	% Change	2009	2010	% Change	2009	2010	% Change
19102	37	42	13.51%	\$656,035	\$489,643	-25.36%	141	102	-27.73%
19103	182	280	53.85%	\$499,907	\$501,215	0.26%	111	146	31.68%
19106	140	148	5.71%	\$475,750	\$524,691	10.29%	147	120	-18.18%
19107	79	78	-1.27%	\$360,136	\$382,159	6.12%	177	105	-41.03%
CBD (4 ZIP Codes)	438	548	25.11%	\$480,165	\$489,722	1.99%	137	130	-5.30%
19123	107	138	28.97%	\$342,463	\$305,398	-10.82%	125	106	-14.84%
19130	237	277	16.88%	\$325,833	\$317,077	-2.69%	91	76	-16.38%
19146	415	528	27.23%	\$274,558	\$235,554	-14.21%	92	93	1.65%
19147	357	439	22.97%	\$325,587	\$335,951	3.18%	91	99	9.62%
Expanded (4 ZIP Codes)	1116	1382	23.84%	\$308,281	\$290,760	-5.68%	94	93	-1.41%
Center City (8 ZIP Codes)	1554	1930	24.20%	\$356,727	\$347,253	-2.66%	106	103	-2.75%

Source: Nigel Richards, Coldwell Banker Preferred, 2010

which for this segment occurred in July 2005. This drop is not the result of a lack of interest, but rather has been caused by the difficulty of obtaining “jumbo” mortgages and the inability of suburban residents to sell their homes. Condos listed in the \$500,000 to \$1 million range have been selling for 10%–20% below peak prices. The market is strongest for condominiums under \$500,000, where prices are only off by 10%–15%.

Yet with all of that taken into account, condominiums are still selling downtown. There were 443 condos sold in Center City in the first nine months of 2010 at an average sale price of over \$545,000. Within the core ZIP Codes, prices are even higher with 339 condominiums sold at an average price of over \$625,000.

Stability in the Middle

The pace of home sales quickened over the first nine months of 2010 compared with the same time frame in 2009, driv-

en in part by federal tax credits. Total residential sales in the four core downtown ZIP Codes increased by more than 25%, and by 23% in neighborhoods on the expanding edge of Center City. Those same homes also remained on the market for fewer days in 2010 compared with 2009; they sold 5% more quickly in the CBD and 1.4% faster in the four outer ZIP Codes.

This increase in sales and decrease of days on market was accompanied by a very modest correction in pricing. Comparing the first three quarters of 2010 with the first three quarters of 2009, the average price for homes sold within the CBD actually rose by 2% to \$490,000; for all of Center City, prices averaged 350,000, 2.7% below the first nine months of 2009.

Rental Demand Strong

There are 39,000 units of rental housing in Center City. While demand has softened slightly since 2007 levels, students, medical technicians, nurses, hotel

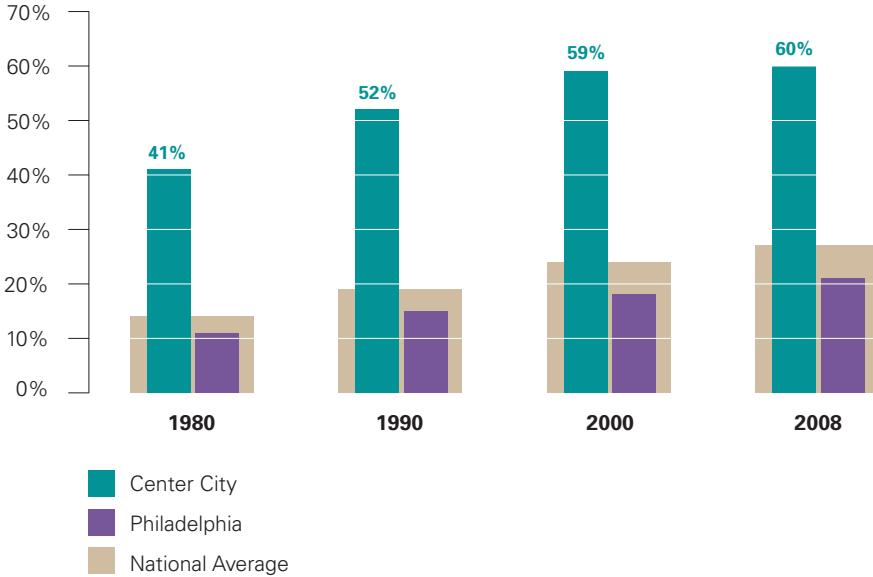
and restaurant employees, as well as young professionals and new-to-the region employees continue to fill nearly all available units. Vacancies are virtually non-existent in the core of downtown and are in the 3%–6% range moving outward from the business district. But with a significant “shadow market” of condo owners and investors seeking to rent their units, there is continual pressure on owners of rental properties to upgrade and provide quality management to compete with the new product that was designed to ownership standards.

A Smarter Downtown

Among the many new residents that have flocked to Center City during the past decade, well-educated, knowledge workers are at the heart of the renaissance. The percent of adults with college degrees has been steadily growing for the last 30 years and today, 60% of downtown residents have at least a bachelor's degree and 32% hold an

Percent 25 and Older With a BA or More

The education level of Center City residents has steadily improved, and unemployment rates are lowest among those with college and advanced degrees.



Source: US Census, American Community Survey

advanced degree, significantly above national averages.

Highly-educated employees have fared much better in the recession than lower skilled workers. According to a 2009 report by the Bureau of Labor Statistics, the unemployment rate for workers with a bachelor's degree was 5.2% and only 2.3% for workers with professional degrees, far below the national rate of 9.6%.

Diversity of Demographic Demand

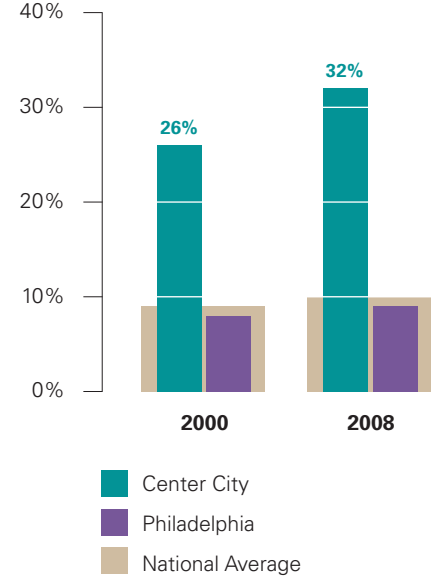
Center City has benefitted too from the broad range of age groups attracted to live downtown. Twenty-eight percent of respondents to a 2009 Center City District survey were ages 25 to 34, while 39% were over 55. The younger cohort, Generation Y "Millennials," are now turning 30 (the average age at which Americans buy their first home) at a rate of 11,000 a day nationally, greater than the rate (10,000 a day) at which their Baby Boomer parents

turned 30. Recent national surveys suggest that this demographic group is strongly attracted to urban environments, drawn by their diversity and by the ability to walk or take public transit to work.

Older, more affluent households, whose children have left home, are attracted by arts and culture, restaurants and retail, and by the ability to retire their lawnmowers. These "empty-nesters" tend to be concentrated in the higher-priced housing in the core of downtown, with the largest number of individuals over 65 found in ZIP Codes 19102, 19103 and 19107. Where prices moderate 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

Percent 25 and Older With a Graduate Degree



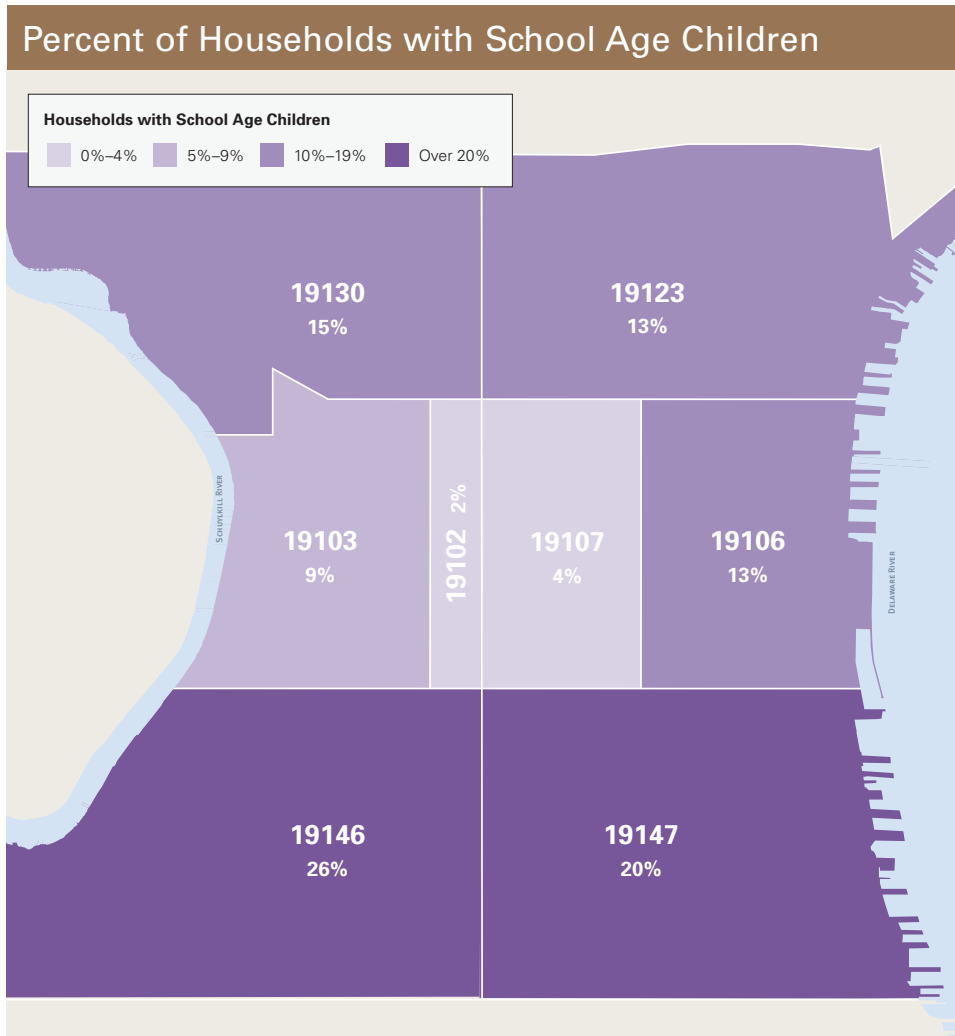
Source: US Census, American Community Survey

and 2008, more than 18,000 infants were born to Center City parents. While the majority of households still have no school-age children living with them, the trend is quite different in the neighborhoods on the expanding edge of Center City where 26% of households in 19146, 20% in 19147, 15% in 19130 and 13% in 19123, as well as 13% in 19106, have school age children living with them. Many of these parents are staying because they value the social diversity they may not have experienced growing up and want their children better prepared for a heterogeneous, 21st century global economy.

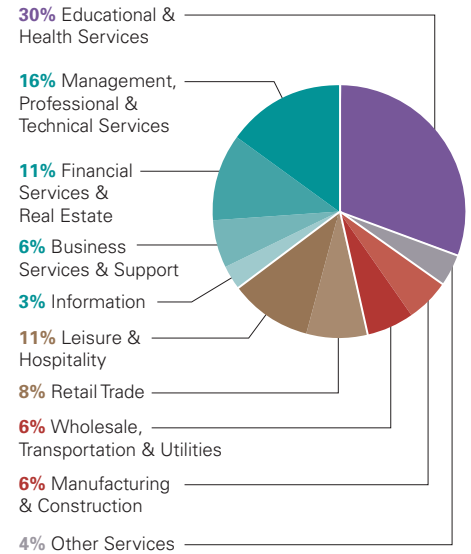
What the Future Holds

Center City housing markets have performed better in this recession than many other places because Philadelphia's economy and the high-skilled industries that define downtown have fared better. An intimate-scale, pre-automobile street grid, the broad range of amenities and the ability to

Residential



Employment by Sector for Center City Employees, 2008*



* Excludes public sector and self-employed individuals
Source: LEED On the Map Application, BLS/US Census Bureau, 2010

Of salaried Center City residents, **36% work in the office sector** and **30% work in education and health care.**

walk, take transit or bike to work have all been factors in attracting and retaining residents who value convenience, cost-effectiveness and a sustainable lifestyle. While the national economy is beyond local control, municipal tax policy determines whether downtown firms continue to expand or decamp for the suburbs. The map on page 2, which shows where downtown residents work, provides SEPTA with a roadmap to rethink or augment its bus routes to better serve the changing demographics of neighborhoods surrounding down-

town. Quality schools, parks and playgrounds are essential too, if we are to retain the growing number of families with children who prefer the urban environment.

We live at a time when employers draw knowledge workers as much as a well-educated workforce attracts firms. So a more accessible and attractive environment has broader benefits for the city and the region.

For the first time in 50 years, Philadelphia's population has begun to

increase, led by growth in Center City and University City. Investing in the largest of four nodes of 21st century employment not only helps sustain this growth, it yields citywide dividends. What happens in Center City doesn't stay in Center City: \$4 billion in annual salaries is earned downtown by Philadelphia residents living *outside* of downtown; \$5.6 billion is earned by suburban residents. The success of Center City thus creates opportunity in every city neighborhood and in communities across the region.