

A Tale of Two Cities:

***The Cost of Luxury Condo Development
to Rowhouse Philadelphia***



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Center City Philadelphia is rife with development. Developer after developer seems to be building luxury condominiums and apartments with few or no affordable units. New one bedroom condominiums are now routinely priced between \$400,000 and \$500,000; other units run from \$600,000 to well over \$1 million.

In a (successful) effort to spur this real estate development, the City of Philadelphia has offered extensive property tax abatements for almost all new construction and significant improvements to existing buildings. In 1998, and again in 2000, the Philadelphia City Council passed legislation creating ten year abatements for new residential construction, conversion of existing buildings, and improvements to existing commercial, industrial, or residential properties.

Essentially, these abatements transfer future tax revenue into developer profits. According to a recent article in the Philadelphia Inquirer, the abatements have brought “one undeniable benefit: bigger profits for home builders in the city.” Put another way: The City of Philadelphia is using public dollars to subsidize the luxury condo development boom. Given that The City is using public dollars to subsidize the developers who are building the upscale housing that is changing the face of Philadelphia, the goal of this report is not to debate the merit of the tax abatements, but simply to evaluate the trade-offs of such an investment. ACORN asks: ***WHAT IS THE COST OF SUBSIDIZED LUXURY CONDO DEVELOPMENT TO PHILADELPHIA’S NEIGHBORHOODS?***

To document the cost of these public subsidies, ACORN has researched twenty-six developments (completed, in construction, and proposed) in Center City Philadelphia and nearby Penns Landing and Fairmont Neighborhoods . The twenty-six developments do not represent an inclusive list of all recent and planned development in the area. Indeed, these developments are popping up with such speed and regularity that it is virtually impossible to monitor them. Capturing the “big picture” of Center City Philadelphia development is made even more difficult by the fluid and changing plans of developers.

The twenty-six developments included in this report are those that ACORN has been made aware of and has been able to research, some in more detail than others. The twenty-six developments range from still being in the planning stage to being recently completed and marketed. The information included in the description of each development comes from a variety of sources: developer and real estate Web sites, information gathered from the Philadelphia Planning Commission, *The Philadelphia Business Journal* and various other newspaper accounts.

CENTER CITY DEVELOPMENT BY THE NUMBERS

The “big picture” of Center City (and nearby communities) development is as follows.

- Twenty-three of the twenty-six developments have units that start at \$300,000, more than double Philadelphia’s median household price of \$120,000.
- Of these twenty six developments, there are a total of 6471 units. The average sale price of these units is \$440,000, more than 3 times the Philadelphia’s median household price of \$120,000.

- Within these twenty-six developments, at most, there are only 520 units, or 8%, of housing that fall at or under Philadelphia's median sale price.
- Fourteen of the twenty six developments, over 50%, have at least one unit with a sale price over \$1 million dollars. Six of the twenty-six developments, almost 25%, have at least one unit with a sale price over above \$3 million.
- ACORN could find no evidence of affordable housing development any of the development projects.

ROWHOUSE PHILADELPHIA: A DIFFERENT STORY

In contrast to the development occurring throughout Center City and surrounding neighborhoods, Philadelphia's rowhouse neighborhoods are still in dire need. Specifically, Philadelphia's neighborhoods are short needed resources to confront three twin crisis: lack of affordable housing, lack of home repair and preservation resources, and ability to protect against loss of heat in the winter

All across the city, there is a crisis in Affordable Housing. According to the comprehensive Closing the Gap Report, there is a 30,000 units shortage for renters with a Household income under \$20,000 – forcing many families to spend well over 30% of their income on rent or live in precarious housing situations. Additionally, the number of public housing units in Philadelphia has been reduced by 44% in the past 10 years.ⁱ

Next, Philadelphia's neighborhoods are falling apart due to a lack of home repair resources. More than one out of every 8 Philadelphians, 43,000 total homeowners, cannot afford to make needed repairs to their homes. The Basic System Repair Program reaches less than one out of every ten who qualify for this help. This deterioration of owner occupied homes in Philadelphia leads directly to housing abandonment, lower property values, costly demolition, homelessness, and increased foreclosures.ⁱⁱ

Finally, according to the Pennsylvania Utility Commission, over 29,000 Philadelphia households experienced were shut off in 2006 and loss heat. Right now, PGW estimates that there are at least 9000 households without heat. These facts lead to catastrophe: last winter, 27 Philadelphians Halfway through the 2007 winter, 19 Philadelphians have died from fires caused by use of portable heaters or other causes related to no heat.. Federal LIHEAP dollars have been reduced annually and are inadequate. PGW has one of the country's best low-income assistance programs (CRP), but cannot afford and should not be responsible for subsidizing all Philadelphia households. Keeping Philadelphians safe from loss of heat in the winter must be a public responsibility.

Many city programs exists to deal with these needs: The Basic Systems Repair Program (BSRP), The SHARP Home Repair Program (SHARP), the Utility Emergency Service Fund (USEF).. [Program descriptions and Fiscal Year 07 budget are in Appendix below]. Although each of these programs are effective, they barely scratch the surface of the need every year.

In a city where 27,000 faced winter termination, and 9000 total households are currently shut off, only 2200 Philadelphians will receive a grant from the Utility Emergency Service Fund. These grants are very limited, averaging \$350 per customer, and 2000 total USEF grants represents, at best, 8% of the total need.

In a city facing a shortage to 30,000 units of affordable housing, Philadelphia will create only 768 new units this year – for rental and sales. Most of these new units are not at the lowest levels of affordability needed. At best, the creation of 768 new units per year represents at best 2.5% of the total need.

In a city where one out of every eight homeowners, 43,000 total homeowners, cannot afford needed home repairs, combined Basic Systems Repair and SHARP will provide home repair assistance to 2200 homes, averaging \$3500 per home. At best, this assistance addresses just 5% of the total need, and allows repairs to get worse and more expensive.

SWEETHEART DEALS IN CENTER CITY

As Rowhouse Philadelphia goes without, the City is using public dollars to subsidize the developers who are building the upscale housing that is changing the face of Philadelphia. ***Most if not all of the twenty-eight developments described in this report are eligible for ten year tax abatements.***

As a result, Philadelphia taxpayers are providing million of dollars every year in subsidies to developers of luxury housing in Center City and surrounding neighborhoods. How much? According to recent reports by the Philadelphia Inquirer:

Taxes and other ownership costs are "capitalized" - rolled into the sales price of a house. Buyers paid more for properties with tax abatements than they would have paid without them.... The authors of the builders' report estimate that each year without real estate taxes adds 2.5 percent to the price of a home or condo. A home with a 10-year tax abatement has been selling for roughly 25 percent more than a comparable home without one.ⁱⁱⁱ

Therefore, in order to estimate the additional revenue generated by the tax abatements, ACORN calculated the difference between the sale price of the unit and a comparable unit without a tax abatement, and multiplied this by the total number of units in each development. In assessing this revenue, we used only the lowest listed sale price – in actuality, the numbers are likely much higher as the high end units often sell for 3 to 4 times more than the lowest.

In addition to calculating the additional revenue generate by the tax abatement, ACORN also looked at the loss to the city in future tax revenue. These numbers are not equivalent. Again from the Philadelphia Inquirer:

The consultants calculate the real cost of Philadelphia real estate taxes at about 15 percent of a property's sales price. Thus buyers - for reasons the consultants

say they cannot identify - have apparently been paying builders \$25 in order to get \$15 worth of tax relief.^{iv}

ACORN then calculated the value of this sizeable public subsidy for housing development for the wealthy (given with no requirements to contribute to affordable housing development, neighborhood preservation, or utility assistance). Looking at the numbers,

- The combined effect of the tax abatements at the twenty six developments ACORN looked at will lead to a \$519 million increase in developer income and cost the city a minimum of \$312 Million in lost tax revenue (over the combined 10 years tax abatement period).
- Of the five completed development projects, totaling 989 units, the combined effect of the tax abatements lead to a minimum \$33.6 million increase in developer income and cost the city a minimum of \$20.2 in lost tax revenue (over the combined 10 years tax abatement period).
- Of the seventeen developments in construction or prep, totaling 4381 units, the combined effect of the tax abatements will lead to a minimum \$351.5 million increase in developer income, and cost the city a minimum of \$210.8 Million in lost tax revenue (over the combined 10 years tax abatement period).
- Of the five developments in proposal, totaling 1101 of units, the combined effect of the tax abatements will lead to a minimum \$134.7 million increase in developer income, and cost the city a minimum of \$80.8 lost tax revenue (over the combined 10 years tax abatement period).
- For nine developments, we were able to calculate the percentage of increased revenue of total project cost. This averaged 12% of the total project cost.

The following data breaks down the Minimum Net Gain to Developers and the 10 year loss to the City of Philadelphia as a result of the tax abatements by project type.

Table 1 -- All Projects

Projects	Number of Projects	Total Units	Minimum Increase to Developer Income	10 Year Loss to City in tax revenue
Total -- Completed	5	989	\$33,601,000	\$20,160,600
Total -- in Construction	18	4381	\$351,487,600	\$210,892,560
Total -- Proposed	5	1101	\$134,716,000	\$80,829,600
Total	28	6471	\$519,804,600	\$311,882,760

The following tables breaks down the Minimum Net Gain to Developers and the 10 year loss to the City of Philadelphia as a result of the tax abatements by individual developer.

**Table 2.1:
COMPLETED DEVELOPMENT PROJECTS**

Development Project	Development Company	Total number of units	Unit Price Range, Low End	Unit Price Range, High	Cost of "comparable" low end unit without tax abatement	Minimum Increase to Developer Income	10 Year Loss to City in tax revenue
The Warwick	Allan Domb	290	\$200,000	\$2,000,000	\$160,000	\$11,600,000	\$6,960,000
2601 Parkway	Crescent Heights	490	\$100,000	plus	\$80,000	\$9,800,000	\$5,880,000
Old City 108	JMB Associates	30	\$400,000	\$2,000,000	\$320,000	\$2,400,000	\$1,440,000
The Ellington	Pitcairn Properties	160	\$200,000	\$600,000	\$160,000	\$6,400,000	\$3,840,000
The Moravian	Renaissance Partners	19	\$895,000	\$1,300,000	\$716,000	\$3,401,000	\$2,040,600
TOTAL		989				\$33,601,000	\$20,160,600

Table 2.2 In Construction or Prep

Building	Development Company	Total number of Units	Unit Price Range, Low	Unit Price Range, High	Cost of "comparable" low end unit without tax abatement	Minimum Increase to Developer Income	10 Year Loss to City in tax revenue
10 Rittenhouse Square	ARC Wheeler	140	\$500,000	\$13,000,000	\$400,000	\$14,000,000	\$8,400,000
The Ayer	Brown Hill	56	\$700,000	\$2,000,000	\$560,000	\$7,840,000	\$4,704,000
American Loft	CREI	40	\$250,000	plus	\$200,000	\$2,000,000	\$1,200,000
101 Walnut	CREI	158	\$200,000	\$2,000,000	\$160,000	\$6,320,000	\$3,792,000
Marina View	Delaware River Corp	165	\$400,000	\$1,000,000	\$320,000	\$13,200,000	\$7,920,000
Symphony House	Dranoff Properties	163	\$550,000	\$4,000,000	\$440,000	\$17,930,000	\$10,758,000
Venice Lofts	Dranoff Properties	128	\$370,000	\$710,000	\$296,000	\$9,472,000	\$5,683,200
The White Building	Goldman Properties	17	\$450,000	\$870,000	\$360,000	\$1,530,000	\$918,000
Waterfront Square	Isle of Capri	966	\$458,000	\$10,000,000	\$366,400	\$88,485,600	\$53,091,360
1401 Walnut	Khovnanian	36	\$500,000	plus	\$400,000	\$3,600,000	\$2,160,000
2200 Arch	Orens Bros	176	\$300,000	\$435,000	\$240,000	\$10,560,000	\$6,336,000
Murano	P&A Associates	302	\$350,000	\$2,000,000	\$280,000	\$21,140,000	\$12,684,000
Pearl	Parkway	302	\$375,000	\$515,000	\$300,000	\$22,650,000	\$13,590,000
Metroclub*	Phila Management	130	unsure	\$900,000	\$240,000	\$7,800,000	\$4,680,000
Residences at the Ritz	The Arden Group	280	\$450,000	\$12,000,000	\$360,000	\$25,200,000	\$15,120,000
Naval Square	Toll Brothers	1,200	\$375,000	\$1,000,000	\$300,000	\$90,000,000	\$54,000,000
Tivoli	Valhal	122	\$400,000	\$900,000	\$320,000	\$9,760,000	\$5,856,000
TOTAL		4,381				\$351,487,600	\$210,892,560

Table 2.3 Proposed Developments

Building	Development Company	Total Units	Unit Price Range, Low	Unit Price Range, High	Cost of "comparable" low end unit without tax abatement	Minimum Increase to Developer Income	10 Year Loss to City in tax revenue
Trump Tower Philadelphia	Multi-Capital Group	263	\$700,000	\$3,500,000	\$560,000	\$36,820,000	\$22,092,000
1441 Chestnut	Mariner Commercial	279	\$450,000	\$3,000,000	\$360,000	\$25,110,000	\$15,066,000
Bridgeman's View Tower	2945 LLC	500	\$700,000		\$560,000	\$70,000,000	\$42,000,000
1706 Rittenhouse Square	Parkway	29	\$350,000	\$1,200,000	\$280,000	\$2,030,000	\$1,218,000
Dilworth House	Turchi Properties	30	\$126,000	\$560,000	\$100,800	\$756,000	\$453,600
Total		1101				\$134,716,000	\$80,829,600

TRADE-OFFS IN PHILADELPHIA NEIGHBORHOODS

In an effort to translate these public subsidies into tangible trade offs, ACORN looked at the existing programs address that issues of Housing, Heat, and Home Repair, and imagined how the millions of spent subsidizing luxury condo development could instead be used. As mentioned above, The combined effect of the tax abatements at the twenty six developments ACORN looked at will cost the city a minimum of \$312 Million in lost tax revenue (over the combined 10 years tax abatement period). The majority of the tax abatements started in 2000 and will expire between 2011 and 2014; in general this loss in public funds will span 14 year. Therefore, the annual loss to the city breaks down to average \$22.4 million per year.

If the \$22.4 million in public funds spent per to subsidize luxury condo development was instead used to fund any of these programs, we could:

- Create a new, prompt, city funded home repair grant program to quickly make repairs before minor problems became major problems. Coordinating this program with already existing weatherization programs, and conducting intake through the cities established OHCD housing counseling agency would limit expenses and build on the expertise already in place. Estimating an average grant of \$5300 and 10% operating expenses, Philadelphia could increase home repairs by 3850 every year, almost 200%, and bring the total to 6000 per year.
- Increase the average Utility Emergency Service Fund grant from \$350 to \$1000, making it much more meaningful, and provide an additional 22,400 grants per year, effectively dealing with the 27,000 households who lose heat in the winter.
- Create at least an additional 800 new units of rental and sales housing per year in Philadelphia, through a combination of existing development programs, nearly doubling the existing creation of affordable housing production every year.

RECOMMENDATIONS

Obviously, ACORN does not expect the city of Philadelphia completely end the tax abatement program and spend all the resources on Housing, Heat, & Home Repair instead. However, the City's practice of subsidizing developers with property tax exemptions – and getting no investment in Affordable Housing, Heat & Home Repair in return -- must end. To invest in the creation of a vibrant and diverse city where households of all income and racial and ethnic groups can afford to live, ACORN calls for legislation that would require all developers who benefit from public subsidies to contribute to the development of affordable housing, the need for home repair, and utility assistance.

APPENDIX: CITY PROGRAMS FOCUSING ON HOUSING, HEAT & HOME REPAIR

From The Year 32 Consolidated Plan, published by the office of Housing and Community Development, the following is a list of city programs to address Philadelphia's Housing, Heat, & Home Repair concerns, along with their goals and budgets for 2006-7.

Basic Systems Repair Program. The Basic Systems Repair Program provides homeowners with up to \$12,500 of rehabilitation assistance on their homes to correct system emergencies and code related repairs. The average BSRP grant is \$3500 and the BSRP program has been credited with decreasing abandonment and homelessness. In Fiscal Year 32, Philadelphia will spend \$13,054,350 to provide essential repairs at 1900 housing units, at an average cost of \$6870 per unit. Funding comes from a variety of sources including the Housing Trust Fund.

SHARP Home Repair. The Senior Housing Assistance Program (SHARP) Provides essential repairs averaging \$1192 each to the homes of residents aged 60 and over. Like BSRP, the SHARP program is credited with decreasing abandonment and homelessness. In Fiscal Year 32, Philadelphia will spend \$325,000 to provide essential repairs at 300 housing units, at an average cost of \$1083 per unit.

The Utilities Emergency Services Fund provides emergency grants to low income customers to meet utility needs. In Fiscal Year 32, Philadelphia will spend \$525,000 to provide essential 2200 emergency grants, at an average cost of \$238 per grant.

Neighborhood Based Rental Production program. The City of Philadelphia provides assistance in the development of rental projects which use low income housing credits. In Fiscal year 32, Philadelphia will invest \$5,848,000 in the development of 450 Housing units, at a cost of \$12,995 per unit.

New Housing Rehabilitation. Through a variety of projects, the City of Philadelphia will support the rehabilitation of 168 new homes for First Time Home Buyers. These projects will cost a total of a total of \$2,058,000, at \$12,250 per unit. Funding comes from a variety of places, including the Housing Trust Fund.

New Housing Construction. Through a variety of projects, in Fiscal Year 32, the city of Philadelphia will support the construction of 150 new housing units. The city will invest \$3,500,000 at a cost of \$23,333 per unit. (Additionally resources including the House Trust Fund and the State of Pennsylvania)

ⁱ Closing the Gap, Housing (un)Affordability in Philadelphia. Amy Hillier & Dennis Culhane. University of Pennsylvania, March 2003

ⁱⁱ Repairing Houses, Preserving Homes: Philadelphia's Home Repair Crisis. Karen Black, May 8 consulting.

ⁱⁱⁱ Home Builders Clean Up, Andrew Cassell, Philadelphia Inquirer, Sept 8, 2006

^{iv} Home Builders Clean Up, Andrew Cassell, Philadelphia Inquirer, Sept 8, 2006