

CENTER CITY DIGEST

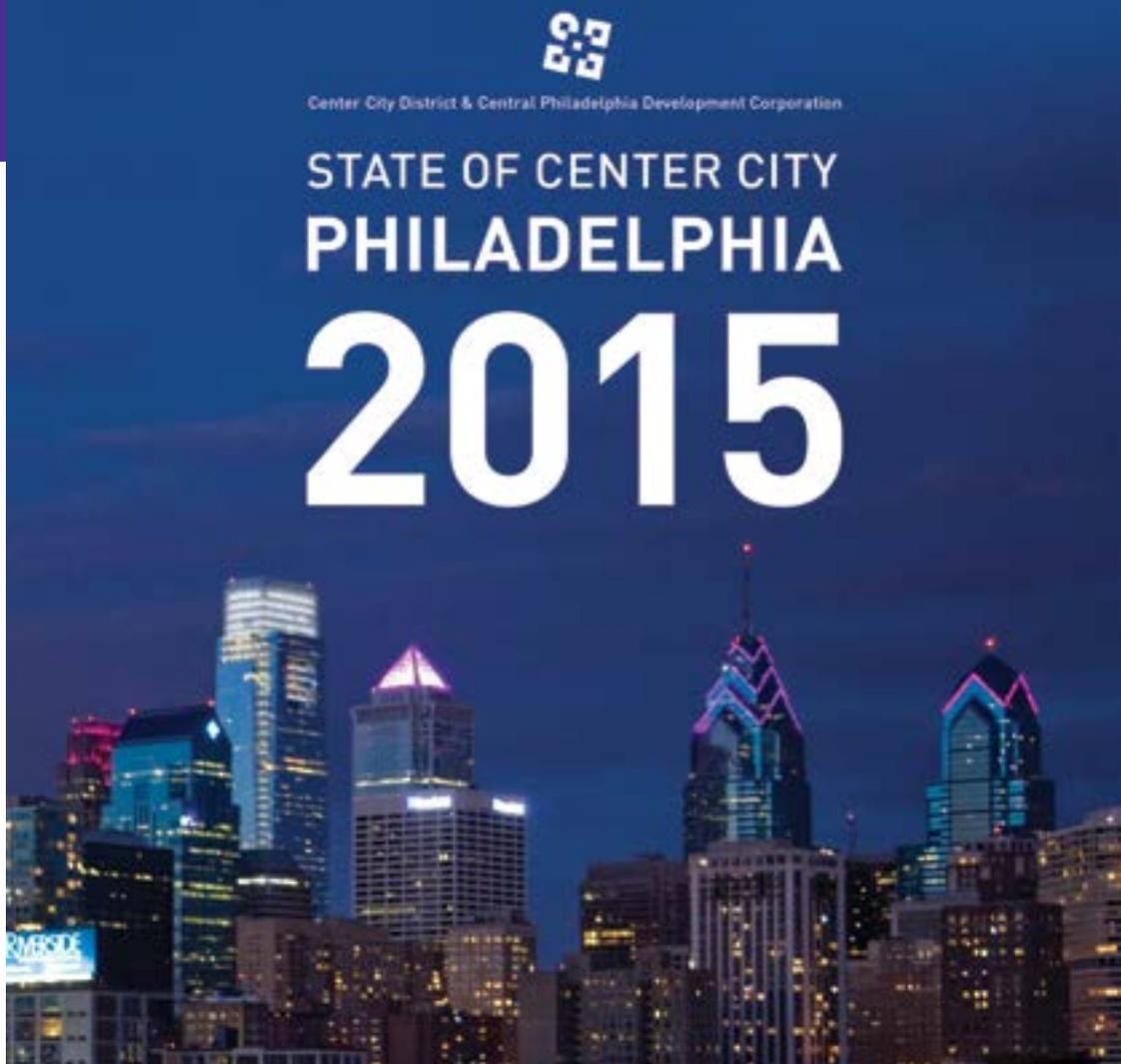
The State of Center City: Time for Change

Philadelphia is at an inflection point. Center City's population and boundaries have been expanding for 25 years. Lagging retail areas are poised for transformation. The second Comcast tower will open in 2017, be dedicated to digital innovation and bring thousands of new tech workers to the city. Growing higher education, engineering and medical institutions spent \$1.2 billion on research in 2013, filing 269 new patent applications, while drawing annually 116,000 students to Center City and adjacent areas. A growing percent are choosing to stay. The Convention Center has broken old habits. Start-up firms are breaking into national markets.

First-time visitors marvel at the intimate, walkable scale, diverse architecture, and array of cultural offerings, shops and cafes that animate downtown sidewalks. The papal visit this fall and the Democratic National Convention in 2016 will place Philadelphia prominently on the international stage.

But these events will be just 15 minutes of fame unless more underlying changes also occur. Citywide resurgence is not guaranteed. Business, civic and political leaders need also to break old patterns, shed bad habits.

In *Engineering Philadelphia*, Domenic Vitiello recounts that the city's ascent as 19th century America's largest manufacturing metropolis, like the mid-20th century decline, was not the inevitable by-product of national trends. Philadelphia became an economic powerhouse because highly-competitive, post-Civil War entrepreneurs invested in research and new technologies, innovated faster, and grabbed national market share.



Center City District & Central Philadelphia Development Corporation

STATE OF CENTER CITY PHILADELPHIA 2015

The annual *State of Center City* report is now available. Download individual chapters or the whole report at www.CenterCityPhila.org/socc.

Hosting the 1876 Centennial, Philadelphia didn't just throw a party. The city showcased the industrial prowess of businesses that fashioned equipment and products the nation wanted 365 days a year.

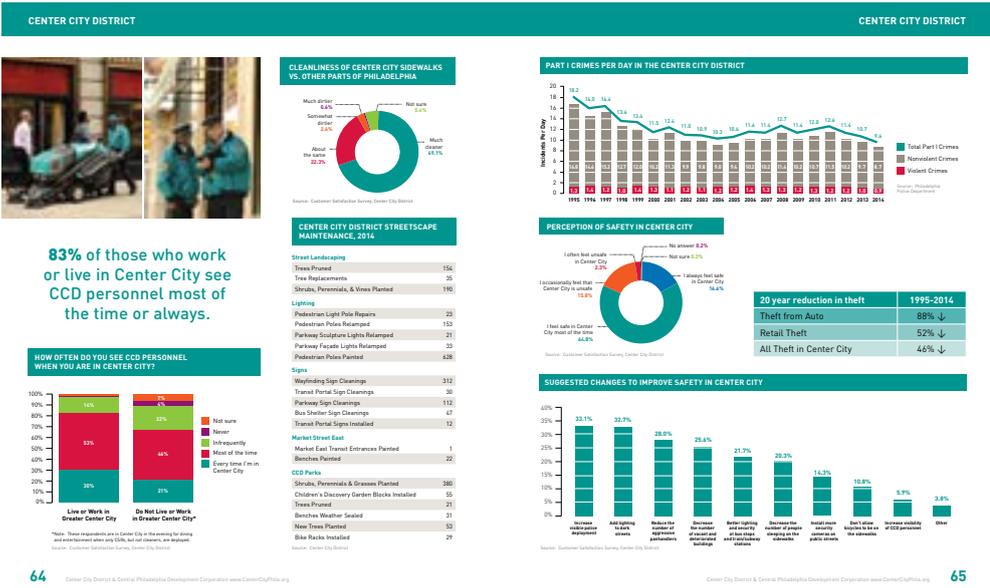
The seeds of decline, notes Vitiello, were sown, not in the 1950s, but in the 1920s as leadership lost its edge, failing to invest in new technologies. We ceased setting standards that others followed. We dominated in railroads and in the machine tool industry, but lost automobiles to Detroit. We invented the computer, but relinquished it to Silicon Valley and Seattle.

Philadelphia innovated again from the 1950s to 1990s through public-private partnerships and major investments that transformed Center City, University City and Temple University's campuses into dynamic, transit-accessible places,

holding 56% of the city's jobs. Recently transformed, the Navy Yard also seeks transit connectivity. But these centers are neither large enough, nor growing fast enough to compensate for the absence of growth elsewhere in Philadelphia.

Outside these vibrant, post-industrial clusters, Philadelphia shed 10.6% of its salaried jobs since 1990, having lost 22% in the prior two decades. From neighborhoods beyond Center City each day, SEPTA enables 125,000 Philadelphia residents to commute to downtown jobs. But 188,000, 37% of the workforce from these neighborhoods, reverse-commute to suburbs — twice the rate from New York City. Educational requirements for suburban jobs are nearly identical to Philadelphia's. Their supply is simply larger.

Philadelphia's unemployment rose from 6.3% in 1990 to 10% in 2013, while the



The *State of Center City* reports on diverse sectors of the downtown economy, but also on the performance of the CCD and the public's preferences for improvements.

national rate only climbed to 7.4%. Local unemployment declined in 2014, but not as far as national rates. Philadelphia has one of the highest poverty levels (26.3%) among major cities. Boston, New York and Washington, D.C. have lower poverty rates that mirror their more robust job growth.

Growth downtown is also uneven: strong in education, healthcare and hospitality, under-performing with office jobs, providers of the largest, most diverse options for residents and for retention of college graduates. Office buildings hold the highest-wage jobs, as well as technical and support positions. Every half-million square feet of office requires five building engineers, 12 security personnel and 18 janitors. When tenants turn over, construction trades renovate space. The same building drives demand to fill 11,000 hotel room nights with business travelers, generates \$2.8 million in annual retail sales and puts 2,333 daily riders on SEPTA. With 41 million square feet downtown, the cumulative impact of office growth can be compelling.

Philadelphia can be proud that job and population trends recently turned upward. But in each recovery in the last four decades, gains were never sufficient to recapture losses from the prior downturn. Being a little bit better is not

enough. If strong leaders focus on tax reform, infrastructure and education, *this time can be different.*

Jones Lang LaSalle (JLL) recently calculated the average age of office buildings in Philadelphia's central business district at 58 years old, compared to 32 years in the suburbs. Only 12% of the downtown inventory has been totally renovated since 2005; but scores of properties have been converted to residential. Can a growing share of older buildings be retrofitted to capture new forms of work, or will they continue to add to Center City's impressive stock of housing? Both are important; one has more powerful and far-reaching multipliers.

SIGNS OF CHANGE

Liberty Property Trust recently announced the demolition of nine, mothballed office buildings in Great Valley Corporate Center. They will replace this 1970s/1980s suburban monoculture with a mix of housing, hotel, retail and office, fashioning a walkable, cohesive 24-hour campus.

This should be a wake-up call for Philadelphia. People are paying good money to simulate what we already have. Mixed-use places have become the preferred option, but only if barriers to entry are not too high.

Philadelphia's wage tax is four times the regional median; the Business Income and Receipts Tax has no suburban counterpart, adding 20% to 30% to downtown's occupancy costs; but our real estate tax is 66% of the suburban Pennsylvania median. Adjusting Philadelphia's tax mix can yield real dividends. (See page 3, "Does Tax Reform Matter?")

A CHANGING WORKFORCE

There has been much national discussion about the growth of "independent" workers since 2000, as technology and changing business practices have loosened connections between employers and workers (see page 4). Coworking spaces are a response to that trend. A recent market scan by JLL documents more than 200,000 square feet in Center City and University City now devoted to coworking space (see page 5).

So far, the amount of coworking space is a small fraction of total office inventory, just as the truly self-employed are a very small part of Philadelphia's total workforce. Both are fertile ground for future growth, though our greatest gains can be achieved simply by capturing a larger share of the expansion of existing firms.

This year's *State of Center City* report provides an overview of the extraordinary strengths and opportunities for Philadelphia's thriving, mixed-use, 24-hour downtown. At the same time, it highlights challenges we must overcome to capitalize on national trends favoring places like Philadelphia. As in the 19th century, success is not automatically guaranteed. Every weak point should be a spur to change, a challenge for the next mayor, and an invitation to innovation.

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Does Tax Reform Matter?

Between 1996 and 2008, starting with Mayor Edward G. Rendell and continuing through the entire term of Mayor John Street, Philadelphia pursued a path of steady wage and business tax reduction, cutting the wage tax from 4.96% to 3.92% for city residents, 3.5% for suburban residents, and making cuts in the Business Income and Receipts Tax.

Mayor Michael A. Nutter halted reductions during the Great Recession, and since the recovery there has been no momentum either from the Administration or City Council for restarting substantial, across-the-board reductions – because of concerns that the City can't afford them.

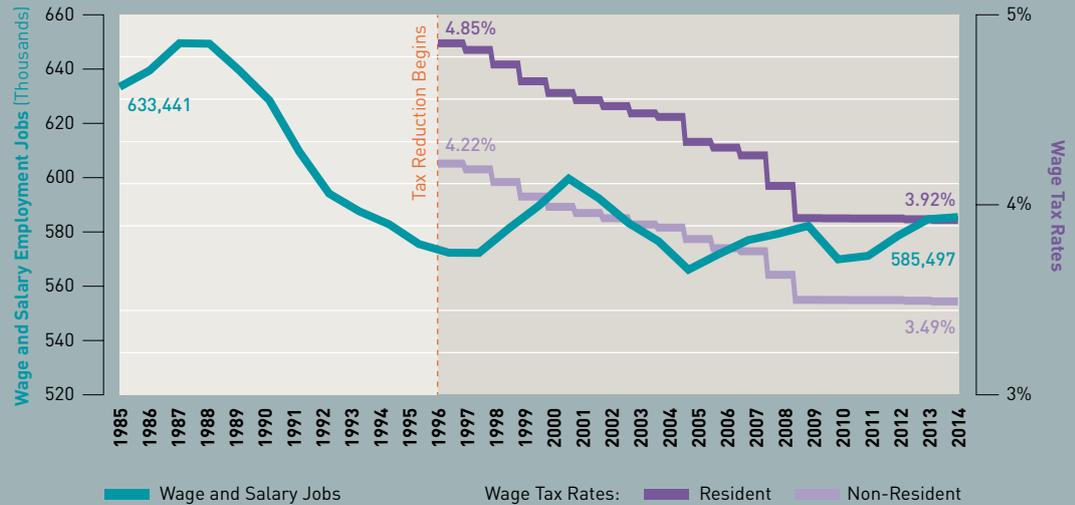
Shortly after tax reduction commenced in 1996, Philadelphia achieved significant job growth in a time of national economic expansion. In the recession that began in 2001, Philadelphia shed jobs at a slower rate than it had during previous downturns and grew modestly until 2008.

In 2009, unlike the devastating pattern of previous recessions, Philadelphia went into the downturn later than the region and the country, fell less far, rebounded faster and actually regained regional and national share of total jobs.

Now, in a new cycle of national expansion, but in the absence of any continuing plan for tax reduction, job growth in the suburbs and in other East Coast cities has surpassed Philadelphia. The city's share of national and regional jobs once again resumed a path of decline.

Those who have analyzed the impact of getting the wage tax below 3% over the next 10 years, while restarting business tax reduction, conclude that in the new climate that favors transit-oriented, mixed-use places like Philadelphia, the city could add 25,000 to 50,000 new jobs in the next decade. To review the new plan for growth through sustained tax restructuring, see www.philadelphiagrowthcoalition.com.

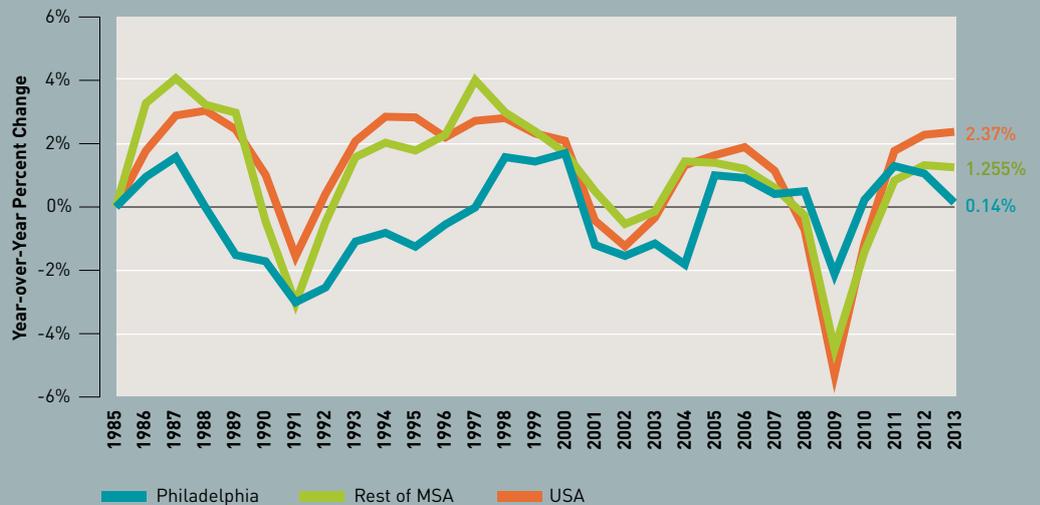
SALARIED JOBS IN RELATION TO WAGE TAX RATES



Source: Bureau of Economic Analysis, and City of Philadelphia

Philadelphia is still on a path in which it does not recover in up-cycles the jobs lost in the prior downturn.

PRIVATE WAGE AND SALARY JOB CHANGE FROM PREVIOUS YEAR



Source: Bureau of Economic Analysis

Tax reform can put Philadelphia on a path of sustained, inclusive growth.



Kira Luxon - www.kiraluxon.com

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Can Freelancers Save Philadelphia? A Look at the Data

(The CCD wishes to acknowledge the support of the Knight Foundation for the research summarized here.) Research and analysis by Garrett Hincken

Since 2000, many cities, including Philadelphia, have experienced significant “independent proprietor” economic activity outside traditional wage and salaried jobs. This trend has been dubbed the project, on-demand or 1099 economy. Its participants include freelancers, start-up entrepreneurs, salaried workers moonlighting at other jobs, as well as those piecing together whatever they can, while searching for full-time work.

But an important caveat: the expansion of proprietor activity that shows up in employment data doesn’t necessarily represent more individual workers. The Bureau of Economic Analysis tracks these trends, counting among “proprietors” professionals

compensated as partners by law firms, those supplementing salaries with consulting, teaching or coaching jobs on the side, as well as truly self-employed individuals. So a salaried individual at a web design firm, moonlighting as an illustrator and also selling comic books on eBay, would be counted once as a wage worker and twice as a proprietor, based on separate tax filings. A single consultant providing multiple services to different clients might be counted multiple times.

While proprietor activity has increased significantly since 2000, the number of truly unincorporated, self-employed persons in Philadelphia appears from the U.S. Census Bureau’s American Community Survey (ACS) to have

remained stable at around 22,000, with approximately 4,000 located in Greater Center City. Among Center City’s self-employed, 65% have college degrees and work in legal services, real estate, health services, and performing arts. Some are partners at law firms, some work at home or in coffee shops; but more are now drawn to coworking spaces. Citywide, only 32% of self-employed have college degrees and growth is mostly in occupations requiring no more than a high school diploma. So while a third outside Center City may be in professional, legal, real estate and business services, most work in construction, or as landscapers, manicurists, hairstylists or home-based, child-care providers.

This means that more than half of Philadelphia’s self-employed workers are in professions not requiring a college degree.

The difference in educational levels is reflected in compensation: citywide, the self-employed median income is \$20,679 with an average of \$35,775; those in Center City report a median income of \$33,806 with the average elevated by high-earners to \$64,324.

Contrary to media hype, the world of the self-employed does not skew young. Millennials are outnumbered 2 to 1 by 35 to 54 year olds who are more willing to venture out on their own by building on networks and relationships they established within the world of traditional work.

What the data cannot tell us is *why* a person may be an independent worker or a full-time employee working on the side. Is the independent staying up late, preparing to launch the next Facebook? Or are they a laid-off retail worker driving a cab? Is the salaried worker moonlighting to meet changing household needs? Has their income, or spouse’s income, from a primary job stagnated or contracted? Are they laying the foundation to launch on their own? All these activities are important. The last one holds the greatest potential for future growth.

Coworking in the Philadelphia Office Market: Is There Demand for Planned Supply?

By Lauren Gilchrist, VP, Research – Philadelphia, JLL, lauren.gilchrist@am.jll.com

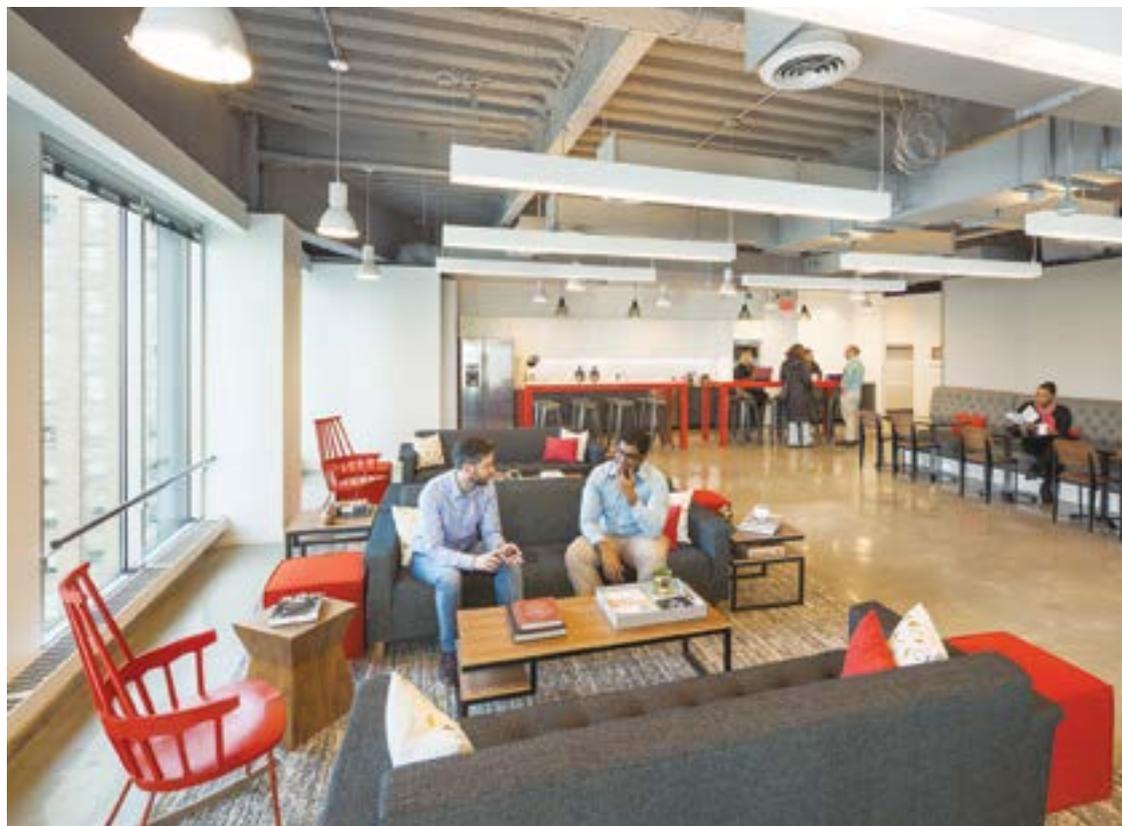
The nature of work in 21st century America is shifting. As technology affects when, where, and how we work, offices and space utilization are changing to meet the needs of an increasingly detached workforce. While the majority of workers continue to have a traditional wage or salary compensation structure, flexibility on the part of employees (flexible working hours and location) and employers (ability to source labor “on demand” through contractual, non-permanent agreements) is changing the fundamentals of our professional workforce and the office as a workplace.

The office market has responded to these shifts in a number of ways, but one of the most highly visible is the emergence of coworking space. Since 2007, 15 coworking spaces occupying 173,000 square feet have opened in Center City and University City, with an additional 36,000 square feet expected to open before the end of 2015. While 209,000 square feet is only a small fraction of the 46-million-square CBD and University City office market, the majority of this absorption has occurred in Class B buildings or upper floors along mixed-use commercial corridors, demonstrating viable alternative uses to the residential conversions that have been so prevalent in the CBD for the past 20 years.

Office absorption by coworking operators shows no signs of abating, either. An additional 105,000 to 145,000 square feet of active requirements exist in the CBD, with expected occupancies in 2016. Is there demand from companies and workers for 350,000 square feet of coworking space downtown and in University City? A few factors will influence long-term utilization:

- 1) Startup, technology, freelancer, and creative community growth/decline in Philadelphia.
- 2) Increasing uncoupling/recoupling of corporate workers in singular, stationary workplaces.
- 3) Coworking operator ability to find value office options in amenity-dense corridors.
- 4) Coworking operator ability to demonstrate the right value proposition for members, including community connectivity, programming, and amenities.
- 5) Appropriately forecasting user demand for open environments versus private offices.

Workplace changes and the economic fundamentals of growing proprietor and wage and salary employment in Philadelphia all point toward a positive outlook for coworking space utilization. Obtaining the right mix of operating models downtown will determine the long-term viability of coworking as a workplace option.



Pipeline Philly, 30 South 15th Street

New Housing Report Shows Vigorous Growth in Center City

Residential construction in Greater Center City maintained a very strong pace in 2014 as 1,983 new units were brought to market, including 1,358 apartments, 183 condominiums, and 442 single-family homes, with the share of for-sale units increasing from 18% in 2013 to 32% in 2014. Even at this pace, home prices were up, days on market were down substantially, and rental rates were up in nearly every neighborhood in Greater Center City, according to a new report, *Center City Reports: Housing, Sustaining Momentum*, released on February 17 by the Center City District/Central Philadelphia Development Corporation.

In addition, there are 3,681 more units in progress in Greater Center City, with the mix of units closely resembling what has come on line in recent years: 75% apartments, 15% single-family homes, and 10% condominiums.

Fueling the demand for housing in Center City are in-movers of all ages, with 22% (15,033) of the 69,025 new arrivals to the city in 2013 choosing to live in Center

City, providing new households to absorb new supply. As long as national economic cycles reinforce demographic trends that favor downtown, the outlook for sustainable demand is good for at least the next five years.

Among the trends that are invigorating residential Center City is the desire for convenience: the ability to get to work without a car and to walk to restaurants, arts, entertainment and other amenities. In Core Center City, 71% are able to commute to work without a car, and in the extended neighborhoods, more than half the residents arrive at work without a car.

In 11 neighborhoods in Greater Center City, the percentage of households without a car is higher than the citywide average of 33%, and in four of these neighborhoods, more than half of the households have no car.

Millennials make up 47% of the population of Core Center City bolstered by an influx of empty-nesters. Together they have driven up demand for

downtown housing and pushed outward the boundaries of Center City. However, the number of households drops off in the 35- to 44-year-old bracket, suggesting that as incomes rise and families form, people leave.

Jobs are critical for maintaining housing growth in Greater Center City, and a more favorable tax structure would encourage job growth. But even more immediate is the need to secure adequate and reliable funding for the city's public schools.

To read the report, please go to www.centercityphila.org/docs/CCR15_housing.pdf.

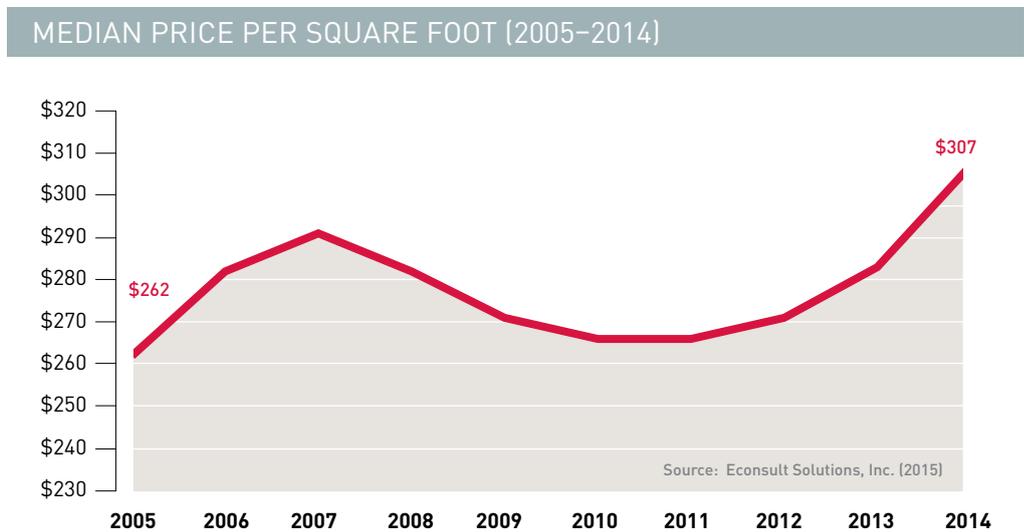
February 2015
www.CenterCityPhila.org

Center City Reports: Housing Sustaining Momentum

Residential construction in Greater Center City maintained a very strong pace in 2014 as 1,983 new units were brought to market, down nominally from the record level of 2,148 in 2013. This new supply included 1,358 apartments, 183 condominiums, and 442 single-family homes, with the share of for-sale units increasing from 18% in 2013 to 32% in 2014. Nearly all indicators suggest that demand has kept pace with supply and can support the additional units now under construction. While national economic cycles will frame the big picture, regional demographic trends favor downtown for at least the next five years. Philadelphia's ability to absorb all the projects announced, but not yet underway, is largely contingent on the ability of local political, business and civic leadership to create a path to more robust job growth and reliable funding for schools.

Figure 1: Completed Units by Type, 2000 to 2014

Year	Single Family	Condos	Apartment
2000	~500	~100	~100
2001	~600	~100	~100
2002	~700	~100	~100
2003	~800	~100	~100
2004	~900	~100	~100
2005	~1000	~100	~100
2006	~1100	~100	~100
2007	~1200	~100	~100
2008	~1300	~100	~100
2009	~1400	~100	~100
2010	~1500	~100	~100
2011	~1600	~100	~100
2012	~1700	~100	~100
2013	~1800	~100	~100
2014	~1900	~100	~100



Center City home prices have completely rebounded from the recession, surpassing 2007 levels.

Skaters Flock to Rothman Institute Ice Rink at Dilworth Park



The Rothman Institute Ice Rink at Dilworth Park provided 3.5 months of outdoor recreation and fun with more than 46,000 skaters taking to the ice on the west side of City Hall. More than half of those skaters came to Dilworth

Park between Thanksgiving and New Year's Day.

The Rothman Rink made its debut on November 14, 2014, and remained open seven days a week through February

22nd. The rink hosted a variety of special programs such as Learn-to-Skate and memorable events that included the Santa Express, which arrived on November 28th by way of SEPTA and helped launch the busy holiday season. Other events were: Friday the 13th Zombie Skate Hosted by Terror Behind the Walls at Eastern State Penitentiary; the Sweetheart Skate on Valentine's Day; Friday Lunchtime Skating Exhibitions, and much, much more.

The affordable rates at the Rothman Institute Ice Rink were made possible by \$260,000 in generous sponsorship by Rothman Institute, 6ABC, PNC, and Visit Philly.

The Rothman Institute Ice Rink will re-open in mid-November 2015. Next season the rink will be even bigger and the events even more exciting!

CSR Christopher Fleming Helps Lost Man Reunite With Family

Community Service Representative (CSR) Christopher Fleming had been on the job less than a year when he reported for work on the afternoon of December 27, 2014, for his shift as one of Center City District's community ambassadors. At the joint roll call that CSRs attend with Philadelphia Police officers at the substation located in the CCD offices at Seventh and Chestnut Streets, Fleming heard a missing person report about an out-of-town man suffering from Alzheimer's disease. His family had asked for help in finding a man wearing a brown and orange coat, brown and orange hat, and brown pants – all Cleveland Browns gear. Though he grew up in South Jersey, Fleming was a big fan of the Browns and was quick to spot the man dressed in the Browns' colors, who fit the description. "I guess it just stuck in my mind," Fleming said. "They stressed how important it was to find him. I knew the colors of the Cleveland Browns and I spotted his sweater. I said 'Hi, my name is Chris.' I asked him how he was. 'You know people are looking for you?' He seemed relieved."

Fleming asked the man to wait with him and he called CCD dispatch on his radio. They contacted the police. Within minutes, the man and his niece were reunited. "The niece came up and hugged me and thanked me; she was crying," he said. That was just one of Fleming's satisfying experiences working as a CSR. He likes meeting people from all over the world. And after years of working in construction, he doesn't even mind the cold, not even the bitter single digits of this past winter. Fleming moved to Philadelphia about 15 years ago and liked the walkable neighborhoods. "You don't have to drive everywhere, you can walk to the store, everything's right there."



CSR Christopher Fleming helped find a visitor to the city who suffered from Alzheimer's and had become separated from his family.

CENTER CITY DIGEST

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Central Philadelphia
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Inside

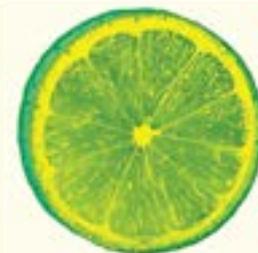
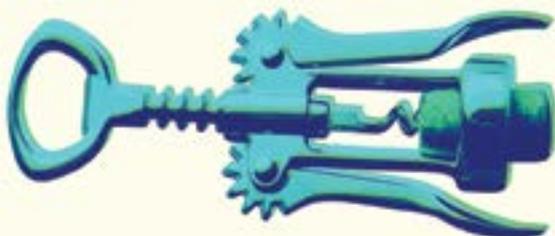
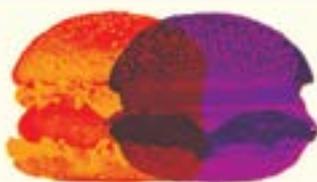
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*At participating venues. All attendees must be 21 years of age or older.

The Center City Digest is a publication of the Center City District (CCD), a private-sector sponsored municipal authority committed to providing supplemental services that make Philadelphia's downtown clean, safe and attractive; and of Central Philadelphia Development Corporation (CPDC) with 60 years of private-sector commitment to the revitalization of downtown Philadelphia.