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Membership Meeting, December 18, 2018

Philadelphia 2019: What Should Our Priorities Be for the New Year?

On December 18, 2018, [Central Philadelphia Development Corporation](http://CentralPhiladelphiaDevelopmentCorporation.org) hosted a panel discussion with business leaders and asked them to highlight both the opportunities for more dynamic job growth in 2019 and the challenges and hurdles that Philadelphia needs to overcome to capitalize on these opportunities.

The panelists were:

Della Clark, President, The Enterprise Center

Michael Forman, Chairman & CEO, FS Investments

Mike Pearson, President & CEO, Union Packaging

Shari Reams-Henofer, Senior Vice President, PNC Real Estate

Jerry Sweeney, President & CEO, Brandywine Realty Trust

Richard Vague, Managing Partner, Gabriel Investments

Paul R. Levy set the context for the discussion by highlighting the significant progress made in the last two decades, presenting comparative data about recent job trends in Philadelphia and some peer cities, while putting Philadelphia's poverty challenge in a regional context. The presentation can be downloaded here: [Paul Levy's full presentation \[PDF 3 MB\]](#).

Levy then asked the panelists the following questions.

We know from our work, we cannot solve every problem that comes our way. We focus on those projects or goals that if we invest time, intelligence and resources, we can make a significant impact and leverage real change. If you were to convene a diverse cross section of Philadelphia business, civic and political leaders with the goal of establishing just two priorities for 2019 that would prompt faster and more inclusive job growth in the city, what are your top two recommendations?

Della Clark: At the Enterprise Center we start from the basic distinction between those zip codes that are primarily distressed communities and those that are prosperous communities. The Enterprise Center happens to sit in a distressed community and it is in one of the recently designated, federal Opportunity Zones. So if I have the opportunity to bring a broad group of leadership, both civic and private together, it would be to discuss Opportunity Zones because we have a limited amount of time until that authorization expires in 2026. The City of Philadelphia should aggressively take advantage of this opportunity. The second objective that I would put before the group is not just about jobs, but also about asset building. When you look at distressed communities, there is a lack of assets - both equity in homes and, more important, their *ownership* of businesses that can create more jobs in those communities. So, while jobs alone can increase income, helping residents and Philadelphians learn how to create wealth is more important.

Michael Forman: We all agree here that the biggest challenge is poverty. But the prime question is how to *reduce* poverty. From a business perspective, I would challenge Philadelphia to be quantitative about it. Let's set goals of reducing poverty by X percent over the next decade and by more over the next two decades. Let's say we have a goal of reducing poverty by 50% over the next 10 or 15 years. How do we work toward that goal? That is the way business leaders would frame this. Set goals and then work towards those goals.

As a start, we need to grow the pie. It's about jobs; it's about partnerships between business and government; it's about making it more attractive to do business in Philadelphia.

We learned a lot through the process of pursuing Amazon. Philadelphia showed very, very well. We ultimately did not win, but we need to take what we learned in that process and implement those lessons: First, make sure that we have an environment that is friendly to business. Second, if you look at the assets we have, we have eds and meds, major institutions like the University of Pennsylvania; we have Comcast and other growing technology firms. We have asset managers like Vanguard, SEI, our firm, Macquarie, Lincoln, in the city. So how can we build upon this; how can we create an environment so those firms can add more jobs and we can attract more complementary businesses? Third, we have to focus on education. What do we do about education in Philadelphia so that we can raise the quality of schools and performance of the students?

In our business, we see folks move out of Philadelphia when their kids start going to school because they can get better quality public education outside the city. There are a lot of group working on education within the city and sometimes those efforts need to be a little bit more coordinated. But if we can figure out how to grow jobs, grow the pie, focus on education, make Philadelphia a better place to raise children, not have folks leave the city and lose that tax base, those would be great goals to pursue.

Michael Pearson: I'm going to take a different tact. I want to raise our literacy level about these problems and get more historical perspective about how we got here. Here are three books titles. Raise your hand if you have read them: *The Color of Law: A Forgotten History of How Our Government Segregated America* by Richard Rothstein? *The New Jim Crow: Mass Incarceration in the Age of Colorblindness* by Michelle Alexander? Matthew Desmond, *Evicted? Poverty and Profit in the American City*? Anyone? That's part of our problem. We don't have a common understanding and dialogue about how, historically, we arrived at this situation of racial disparities and income extremes and until we get to a shared literacy among decision makers and thought leaders about how the problem was created in Philadelphia, we can't really start working together on solutions. Step two is having a realistic approach to education. As long as education is based on property tax, it will fail because Philadelphia will lack sufficient funds. Then third, we need to have a citywide discussion with community groups and thought leaders about what gentrification is and what we are trying to achieve as a city. There are mornings I wake up and love gentrification if I'm looking at it from the perspective of increasing the tax base for Philadelphia. But I have relatives that still live in the hood and gentrification is a threat to them. So until we have an idea of what that term means, what are its good and bad aspects and how we get our arms around the negative implications, we're not going to see progress

Shari Reams Henofer: I will put on my banker hat for this. I came to the city in 1991 when the Center City District was first getting started and I've had a front row seat as a real estate lender in Philadelphia, watching all the progress and capital invested in Philadelphia to improve our communities. Based on the progress we have made, and think about what we can do over the coming years, we need to ask everybody to be an advocate for Philadelphia. We still have problems, but I am of the school that believes that a rising tide lifts all boats. So to the extent we can put a good message forward about all the progress that has happened in Philadelphia over the past 27 years that will help bring businesses and job growth to the city. It is also highly likely that we are getting towards the end of a very long economic cycle and it's been a positive upswing. But, we're starting to see increased volatility in the stock market and higher interest rates. We have higher costs, higher inflation. There are many factors that could change the way investments perform in the coming years. It's in our best interest to create a stable environment for capital investment in our city. We should all be evaluating our personal investment choices and our corporate investment choices and making sure that they line up with our risk tolerance. Because the last thing that we all want to see is progress to be derailed. When capital exits the market, it creates longer-term consequences.

There has been a lot of talk recently about changes to the ten-year tax abatement. I recognize that certain aspects of it may not be positive in terms of its impact on affordable housing in our city. So we all have to be very creative in our approach and at PNC we have formed an opportunity fund and we're making strategic investments in affordable housing. We have closed on our first deal to add 60 new workforce-housing units in Philadelphia. We need to be looking at things like that:

expanding the tax advantages for affordable housing rather than taking away programs that have worked to increase investment in our city.

Jerry Sweeney: My first priority is to expand the job base. There are tremendous amounts of economic and social issues facing the city. But the North Star to follow for a path to solve many of these challenges is to grow our job base. Nothing changes a person's perspective or attitude more than knowing they have value through having a job. I would work with the public policy leaders and say: the number one priority for our city is that at the end of the next 10 years, we're one of the top five job growing cities in the country. That solves many of our issues relative to education, poverty reduction, how we create a really effective platform for diversity in the trades for economic inclusion.

It's very easy to be focused on our own piece of the pie, when the pie is not growing at a rate that creates opportunity for all. Fighting over the pieces creates a great gating issue for a lot of economic progress. So the city needs one shining goal: grow jobs. Then, prioritize under that the tactics get to that goal.

Second: how do we burnish our franchise? Philadelphia has amazing attributes. This city should be performing so much better, but we really don't have the public policy leadership approach that sends the right message to investors and job creators, both in hard or soft assets. We tend to debate a lot of transactional issues instead of asking: what are the things we need to do to make sure Philadelphia is viewed as a better place for investment, a better place for education, a better place for home investment? In sum, it is about setting as our North Star: expanding the job base and then looking at how we create a better national/international reputation for the City of Philadelphia to attract more investment.

Richard Vague: I have two priorities. The first would be genetic engineering. Right now in Philadelphia, with this brand-new industry, we find ourselves as one of the world's leaders, with only two or three other cities as far along as we are. Philadelphia gets about a billion dollars a year from the federal government for medical research at Penn, Temple and Jefferson and other institutions. In addition to that, we already have about 30 companies in Philadelphia in this brand new industry. If you add in the academic researchers, collectively, it accounts for about 2 million square feet of space, and about 4,000 jobs. Within this, there is a sub-specialty called immunotherapy. Immunotherapy is the area where Philly does lead the world, absolutely head and shoulders above any other city in the world. What does immunotherapy mean? It means curing disease by altering the genetic structure of the immune system. This means curing cancer for a young, seven year old girl who has had leukemia for years.

They take her t-cells, alter them genetically and reinsert them in her system and the result is that she is completely cancer free in a week. There are already hundreds of young children who have benefitted from this treatment. There are other forms of cancer where this type of success can happen.

Spark Therapeutics, one of the first tenants at Schuylkill Yards is taking the blind and restoring sight through genetic engineering. We lead the world in this area. One of the things that happened that didn't get a lot of notice, is that earlier this year, Penn made the commitment to put in \$50 million dollars in venture capital to support the creation of about 15 companies a year in this field over a three year period. Already, they've made investments in seven companies, with about \$12 million in investment.

There are two requirements for this investment. One is the companies have to be headquartered in Philadelphia. The second is that Penn's investment has to be the minority investment. The \$12 million that Penn has put in has attracted \$340 million dollars in outside investment coming into this region just in the last few months from some of the best investors in the world. So if we have 30 companies today and we add as many as 15 a year for the next three years, we're going to increase our leadership. This is an area where the academic sector and the private sector have been making this happen. It would be very nice if the State of Pennsylvania and the City of Philadelphia would support this effort. That would be one area that I would focus on. If they do, it will change Philadelphia over the next decade or two.

The second thing that I would concentrate on is more pedestrian: job training. We talk a lot about high school and college education, which are very important. But we have a lot of 20, 30, 40 and 50 year olds who are in dead end jobs with no

prospects. Frankly, as I go around the country and talk to folks, I think that's the situation for a lot of Americans right now. Yet there are certain jobs that go begging because we can't fill them because of the lack of the right training: in technology, high tech healthcare and high tech construction. A couple of friends of mine have recently started a firm in Wilmington, Delaware. It's a not for-profit concern. They're taking folks in the 20, 30 and 40 year age ranges and for a very affordable and modest sum they train them and match them up with corporations in the area in a 90 day program. They have 400 applications for 40 positions in Wilmington. These folks are graduating and getting jobs that pay on average three times more than they were making beforehand. So job training has got to be a key.

Each of you just articulated a number of key objectives. What gets in the way of achieving those goals? Are we too fragmented and polarized? Do we lack a consensus between business and political leaders? Are we too comfortable with status quo? Alternatively, if we are making good progress, what obstacles do we still need to overcome?

Della Clark: One of the obstacles that we continue to face in growing small businesses at the Enterprise Center and throughout the city is the absence of venture capital. Richard just described the amount of capital that has been invested in innovative genetic engineering. However, it is very difficult to get comparable capital for minority enterprises when they are trying to do product development. We really need to break down that barrier. Over the next three years, we are launching a project called "Innovative Capital" where we're going to try to tackle that problem. The second challenge that we are facing is financial literacy. I teach financial literacy at my church and one of the questions I ask members of my church is this: who is on a cash basis versus accrual basis, where you use a credit card or use various types of credit instruments.

I was shocked to find out that the majority of my members were on a cash basis. They did not use credit. The old way of thinking where a family gets a house, a house helps build equity and assets is gone now. We have make sure people understand the capital markets and understand asset building because we're mistaken if we think everyone in our neighborhoods understands that. So as we need to focus on job training, we also need to add capital markets and financial understanding to the equation.

Michael Forman: A sense of optimism is important and an understanding of everything that Philadelphia has going for it. Too often people think we're a second rate city and don't recognize all the great things happening at our educational and medical institutions. We have Comcast who has done wonderful things over the last decade. We need to emphasize all of the opportunities that Philadelphia now has and focus on how we capitalize on that.

Second, I want to echo what Della talked about. As CEOs, as corporate citizens, we have an obligation to give back and we need to take that obligation seriously. Our company is supporting financial literacy programs in about 11 schools in the city.

If we can focus on all of the assets we have here in Philadelphia and have the kind of commitment we need from all of the corporate citizens assembled here, I think it will be a better city. I will also draw on what Mike said about literacy. We need to look at what other cities have done with great success over the last couple of decades. Look at cities like Austin and Nashville and the success that they have had. At the root of that success was a commitment to economic development and trying to focus resources, corporate resources and governmental resources on economic development. We need to figure out how to grow the pie. If we are all fighting over the same pie or a shrinking pie, it is just going to get uglier and uglier. I would like to see us spend a little bit of time looking at how other cities have succeeded and what we can learn from those success stories

Michael Pearson: I'm going piggyback on what Richard said. We have this massive initiative for startup companies to grow them in the area. We recently saw the big swing for the bleachers with Amazon. However, we may have a more fruitful approach if we create an environment that is friendly for smaller companies. My company is less than a hundred employees, about \$15 million in revenues. But I've been around 20 years. We are stable. Let's build upon many of our existing smaller businesses and help them grow in that space instead of swinging for the bleachers all the time.

Shari Reams-Henofner: Our business is built around real estate development that generates more construction activity in the city, so I want to reference the recent challenges to the tax abatement program. I went back and reviewed several of our recent appraisals to see what kind of obstacles there would be without the abatement. Given our slow growth in jobs and rent levels that are still not high enough, you can't justify a project without the subsidy provided by the abatement.

Construction costs in Philadelphia are very similar to New York and Boston, but our rents are not. The high end of the residential rental market in Boston might be \$9 a foot per month for a multifamily project compared to \$3 to \$4 a foot per month here. So justifying the construction costs without the ten-year tax abatement is very difficult.

It is critically important if you want more affordable housing, you need more subsidies. PNC is looking at the new Federal opportunity zones as a way to increase our community reinvestment (CRA) position as we invest in neighborhoods. That should be a goal for all banks, to add to the affordable housing stock because it's a critical issue not just in Philadelphia but nationally.

Jerry Sweeney: We are currently pricing out a few large projects in the city and have talked with a number of different folks from New York and Boston and they are surprised that the cost to do things in Philadelphia, the pricing from the building trades, is higher than New York. We've been operating under this premise that Philadelphia has a New York and Boston construction prices with Baltimore rents. But the reality is actually more extreme with the recent escalation in construction costs.

The second obstacle is regional fragmentation. Our company is in the city. We're also in the Pennsylvania and New Jersey suburbs. We're also in Delaware and there's really very little regional growth focus. It is amazing to me how the counties and the city compete against each other for the same dollars. They cross sell against each other.

We do a lot of work in Austin as well, which Michael mentioned. They have a group down there called Opportunity Austin, which is very much focused on growing the entire Austin market. It's a collection of business civic, nonprofit, political leaders who sell the Austin story. They don't sell the King of Prussia story, or the Market West story, or the University City story, they sell the regional story. This is where we dilute our message when companies are coming from outside the area to look at Philadelphia. They're inundated from different pressure points on where to go. So, we need to think more long-term; we need to think more regionally and be much more coordinated when business opportunities approach the region. We need to focus on increasing revenues for the entire area.

The other thing we need to focus on in the city is getting the different branches of government on the same page, agreeing on priorities for growth. We need fewer pieces of legislation that are based on anecdotes, rather than real analysis and good public policy. In nearly every legislative session now, we face legislation that's trying to address some very important social issues, but really without considering its impact on those factors that will drive the city forward. So, from a regional economic development standpoint, we need to be much more coordinated. At the city level we need a strategic plan for growth.

Richard Vague: We need a more business friendly city government. The tax structure in the city is not conducive to attracting businesses. That is a fundamental and foundational issue. We also have a situation where City Council is more likely to pass legislation that makes it harder for businesses to do things in Philadelphia rather than easier. It's fundamental.

We have already talked extensively about poverty in the city. However, several members of City Council represent portions of the city where the poverty rate is well above the citywide average of 26%, rising to more than 40% in parts of their Districts. As a result, many are focused on increasing incomes through higher minimum wages, predictable scheduling for part-time workers, funding affordable housing and schools by taxing new development or curtailing the 10-year tax abatement.

But for those of you who are trying to “make the numbers work” for various projects and who are trying to attract outside investors, customers, tenants or employees, who have the choice of many other locations, many these action read as “creating an unfriendly business environment.”

How do we overcome this gap between those who are “inward facing” in efforts to address real need and those whose “outward facing” perspective gives them a clear understanding about how markets and investors view the competitiveness of Philadelphia?

Jerry Sweeney: I think everyone has raised great points this morning. However, from a public policy standpoint this city has displayed an amazing lack of courage in addressing the hard issues that we need to face to move the city's agenda forward. I don't consider it an act of courage to talk about raising the minimum wage when you're not paying for it. It's a great social goal, but you need to address the foundational issue of insufficient jobs. It is not an act of courage to talk about mandating job scheduling. It is a great goal, but there's no courage involved in the public policy that doesn't address how we're going to pay for it. We've gotten ourselves into a position where local public policy appears to be anti-business when businesses are the only people who can create the jobs that enable us to achieve these goals.

When we do our relative regional comparisons, it can cost up to \$25 more per square foot to be in the city of Philadelphia instead of the suburban areas. That's a high bar and we're not going to grow jobs without addressing that structural issue. I think we need more effective business leader engagement in the city. From what I've seen in other cities, business leaders work with nonprofit business leaders to drive the public agenda. We don't have that in the city. We don't see a real level of energy and enthusiasm and push coming out of the business organization that's supposed to be driving that type of agenda setting.

Are there some specific incentives that you'd like to see government focus on?

Michael Forman: Our business is in the Navy Yard and Philadelphia actually has done a better job than many other cities including New York in developing our Navy Yard. Today, there's 10,000 to 12,000 jobs and they are talking about adding residential. The Keystone Opportunity Zone (KOZ) was the economic incentive that was used by the city and the state to attract those jobs and now we have employers like Urban Outfitters and Glaxo in the Navy Yard. So that was a very successful utilization of incentives. How do we attract more jobs down there? How do we bring new asset managers, how do we bring new healthcare companies, how to bring new life science companies to the Navy Yard?

The other thing I would say that dovetails with what Jerry said, is that people need to play the long game. While the social policy of higher minimum wage is laudable in the short term and some of the other things that Council has done are laudable, we really need to focus on true causes of the problems that we're trying to address. If the result of recent legislation is to reduce jobs, reduce economic activity, then that's not much of a success. But I do think the government in partnership with the private sector can be a catalyst for economic development. We see it in the Navy Yard - a real commitment to business to grow jobs by providing some economic incentives.

Della Clark: One of the things I say to myself when I hear about some legislation passed by City Council is they've never had to meet payroll. Many of our legislators really do not have much experience with business concepts and perhaps we in this room need to do more to try to change that. We need to close that gap.

Richard Vague: You had a slide up there earlier and the three leading cities with the highest growth were Austin, San Jose and San Francisco. Those three cities also have massive amounts of venture capital. There is an incredible dearth of Series A venture money in Philadelphia and the surrounding region. I do not know the reason why Philadelphia with this huge educational infrastructure that produces so much IT, doesn't actually have a bunch of leading venture capital firms in the region. You had a slide up earlier and the three leading cities with the highest growth were Austin, San Jose and San Francisco. Those three cities also have massive amounts of venture capital. There is a dearth of venture money in Philadelphia and the surrounding region. I don't know why Philadelphia with its huge educational infrastructure which produces so much IP, doesn't actually have a bunch of leading venture capital firms in the region.

The result is that young companies with lots of possibilities and brimming with energy have to find their investors in New York or California and the requirement of many of those investors is “you have to move to our city.” So we lose great companies regularly. That is changing a little bit, but not enough. Any tax or other incentives we can offer to grow our base of A-Round investors would be an important step.

Jerry Sweeney: We're trying to grow a life science platform in University City and what Richard touched on is really is seminal. The move by Penn, the move by CHOP and Jefferson to start to commercialize some of their research will create that momentum. But, we've seen a number of companies that we've talked with whose funding source says they need to be in Boston, in New York or Stanford or wherever, because that's where their sponsors are. So with big support by Penn, some of the great work that Richard and other venture capitalist firms are doing here in the city, it starts to create a platform for further growth and, that that rate of growth can accelerate dramatically once we get a couple more successes.

Della Clark: Only about 2% of minority businesses in the United States generate a million dollars or more in revenues. Here in Philadelphia it's really dismal. I don't want to seem so negative, but the access to capital for minority businesses is just so bad. I hear so much about affordable housing. But when you put a family in affordable housing it says to them, you're not making enough money to do well outside of this affordable house and there is not a path to get you out of affordable housing and on a trajectory to prosperity. At the Enterprise Center, we believe that free enterprise and entrepreneurship is a way to get people to that prosperity. I'm really pushing entrepreneurship in this city and it's a real struggle since public policy is focused on affordable housing, job training and getting a job. Not enough conversation focuses on entrepreneurship and creating wealth.

Michael Pearson: Austin was created in large part because the space program started with NASA. Lyndon Baines Johnson made sure that resources were directed to Austin, Texas, Texas Instruments was born and the start-up tech industry. We don't have a moonshot here in Philadelphia. We need collectively to get together around something like that since it really does lift everybody's boat. There'll be PhDs needed to do this work, but also technicians and test tube washers who get employed from such efforts.

Michael Forman: Let's make sure we appreciate what we already have here. If you look at what Richard talked about that's going on at Penn, if you look at what's going on at Jefferson, if you look at what the hospitals are doing, the life sciences, there's a huge amount of opportunity. Think about Vanguard and SEI, two great financial services companies. Take a look at the new campus Comcast just built. We really need to recognize the assets we have here and figure out how we exploit those assets and make sure that the environment is friendly for those folks to locate downtown. If they start incubating new businesses, that's how we're going to grow jobs and grow the tax base, by harnessing the resources and the opportunities we already have.

Richard Vague: I was stunned at how rapidly the City got behind giving huge financial incentives in the Amazon bid when really all we were going after was a branch office of Amazon. The idea of two headquarters is fictional; companies don't have two headquarters, much less three, and the value of getting a branch office or regional office of a company headquartered elsewhere is not a fraction as important as having the headquarters of a company. The companies created here are the ones to which we want to pay most attention. Our effort ought to be to support indigenous firms. But, we put a billion or two together for Amazon in a heartbeat, but we can't put \$5 or 10 million in public funding together to support companies in the genetic engineering field in which we lead the globe.

Jerry Sweeney: The city did a great job on the Amazon proposal, but we should really stop self-congratulating ourselves. It was an amazing video, but it was basically, par-performance for all cities and we did not win. So let's understand why we didn't win. I couldn't agree more with the slide that Paul put up: if Philadelphia were just growing at the national average, we could generate a whole series of our own Amazon's that would generate much more long-term value for both the business and for the neighborhoods. That would address many of the social issues we are facing.

Imagine a young individual who is about to graduate this June from a Philadelphia college or university with an undergraduate or advanced degree. They come to you for career advice. They have several good offers in New York or Washington, less possibilities in Philadelphia, but they want to stay here. What do you tell them?

Della Clark: Any young person that comes to me, I tell them to work for the Enterprise Center first. I tell them not to just focus on getting a paycheck, but on creating a revenue-producing company that generates paychecks. I would also tell a young person that your value doesn't just come from your paycheck. You create your value by figuring out what your purpose is in life.

Michael Forman: I'll follow up on what Della said. I get this question all the time and what I say to those just out of college is that they should spend a year or two doing some public service through Teach for America or travel. You will spend the rest of your life working. It's not always popular with their parents, but that's the advice I give. But we do face competition in our business from DC and Boston and New York all the time. We probably have 200 employees who are under the age of 30 at FS and you can sell folks on the quality of living here and the cost of that. You can live in this city much less expensively than you can in New York and enjoy all our cultural activities. There's an awful lot to sell about coming to live in Philadelphia.

Shari Reams-Henofner: We have seen an influx of millennials wanting to work in our Philadelphia office, so we haven't really had any trouble attracting that them. As an underwriter who was at another firm said to me: "why can't I come to Philadelphia and work for you because I can do the same job and live in one of these great new apartments that are going up in Philly, which are so much nicer and so much cheaper than the ones in New York."

Michael Pearson: I worked in New York and lived in New York, lived in Princeton, New Jersey. Philadelphia has the best combination of affordability and quality of life. Stay here, young person.