

January 8, 2006

National Perspectives

Tax Breaks Drive a Philadelphia Boom

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Philadelphia

AFTER years of losing population, the downtown region, known as Center City, is booming, with developments going up and old buildings being transformed into lofts and condominiums.

The construction, fueled by tax breaks, has succeeded in halting the city's 40-year population decline. Center City, which has the nation's third largest downtown residential population, behind New York and Chicago, is experiencing its fifth straight year of increased housing starts, both new and rehabilitated units. Center City's population grew to 88,000 by the end of 2005 from 78,000 in 2000. Even more striking, the number of households rose by 24 percent, according to figures compiled by the Center City District, a business-improvement group.

The changes are drawing people like Sheryl Bar, who had never anticipated the extent to which a change in venue would mean a change in perspective. Since moving into a condo in the city, "we feel like newlyweds again," Mrs. Bar said, referring to herself and her husband, Dr. Allen Bar, with whom she raised three daughters in a house they built in Villanova, a Philadelphia suburb.

As a surgeon at Pennsylvania Hospital, Dr. Bar can walk to work from their condo. Now they go out four or five nights a week, as opposed to four times a month when they lived in the suburbs.

"Instead of commuting to work, he's home within minutes, puts his feet up for a while, and then we go have dinner and see a movie," Mrs. Bar said. "I loved bringing up my children in Villanova, but this is so rejuvenating. It really has been transformational for us."

The same could be said for Philadelphia.

That downtown Philadelphia has been experiencing a residential boom is no big surprise. Cities across the country have benefited from the real estate development frenzy of the last few years. But the changes have been accelerated here by the use of tax breaks for residential developments. Philadelphia is one of the only places to offer a citywide 10-year tax-abatement program.

The program, which started with residential conversions in 1997 but expanded to new construction in 2000, holds the tax assessment at a property's predevelopment level for 10 years. The Bars, for instance, pay just \$1,200 a year in property taxes rather than the \$12,000 they would pay without the abatement on their \$1.1 million 2,600-square-foot, three-bedroom, three-bath condo designed by SHoP Architects of New York City.

"In the beginning, the abatement program was 100 percent responsible for getting things going," said Paul Levy, president of Center City District, which was formed in 1990 to address the decline of downtown Philadelphia. "Now there is a discussion going on about whether or not it's still needed."

Development is continuing on an ever-grander scale. The skyline is being reshaped by Waterfront Square, the largest luxury condo project in the city's history, with two towers under construction along the Delaware River, and three more in the planning phase.

Toll Brothers, a company known for building so-called McMansions in the suburbs, is redeveloping a historic United States Navy site on the Schuylkill River, a property the company has owned since 1988. The 23-acre project, called Naval Square, will have 750 homes, both condos and town houses.

According to a report released late last year by the Center City District, from the time that tax abatements were passed, more than 8,000 converted and new units will have been added to Center City, and half of all new residents benefiting from tax abatements came from outside the city.

Those who lived in the city before the newest influx see a big change in the character of the downtown area.

In May 2005, Anthony Forte and his dog, Philly, moved from his town house in a quiet, residential neighborhood to a loft condo in the heart of Center City. Known as the Jewelers' Building, one of Philadelphia's more recognizable buildings, the 106-year-old six-story structure still has much of its original Colonial Revival detailing intact even though it sat empty for years.

"The city has been a great place for me to live, but it's become much more vibrant," Mr. Forte said. "Philly always had its residential areas that are quaint, which some people love. But now downtown is extremely diverse, with lots of residential mixed with restaurants, galleries and high-end retail. My only regret is that I got a new car, because I don't drive anymore." Like 37 percent of downtown residents, Mr. Forte walks to work, the highest percentage of any major American city, according to census data compiled by the Center City District.

Mr. Levy, the Center City District's president, said, "We didn't reinvent downtown living, but in the last five years, it's been explosive." By decade's end, the city expects to add another 7,000 units.

Now, the tax-abatement programs have become somewhat controversial. While a small percentage of wealthier residents are living in high-end properties and are paying very little in taxes, a majority of the longtime residents who suffered through the bad years are likely to see their taxes go up as property values rise.

Mildred Ruffino has lived on the city's south side for 32 years, with much of her family close by. The tax-abatement program, which has spurred housing almost exclusively downtown, is now

spilling over to other neighborhoods. Mrs. Ruffino's street will soon have eight town houses where a bakery once operated.

"I realize the economic situation and what the city is trying to do to bring back residents, but it's exorbitant," said Mrs. Ruffino, who works in the accounting department of an architectural firm. "An empty bakery isn't doing anybody any good. But 10 years is a long time to be tax free."

Yet there is no question that tax abatements have had an impact on the city's real estate and development industry, said Stephen P. Mullin, a senior vice president and principal of the Econsult Corporation, an economic research firm in Philadelphia.

"You couldn't make money here in Philly building something new five years ago," Mr. Mullin said. "Obviously, low interest rates helped as well. But even with that, you needed the extra bump. Now, instead of property values declining, which they were doing for years, they're increasing, and everyone benefits from that."

Even though it is difficult to tease out the precise impact of tax abatements on the city's economic fortunes, they have certainly succeeded as a marketing tool. "Ads in the real estate section prominently feature the tax abatement," said John Kromer, senior consultant with the Fels Institute of Government at the University of Pennsylvania. "Property taxes in the suburbs have been increasing. So this is one area where the city can make an apples-to-apples comparison with the suburbs and win."

David Grasso, president of Grasso Holdings, is convinced that even in the current climate, phasing out the program entirely would have a devastating impact on development, if for no other reason than people have come to expect it. He points to the Packard Building condominiums on South 15th Street. Because it was first intended as rentals the building was initially prevented from taking advantage of the tax-abatement program. "We tried to sell units in early 2005 without the tax abatement, and sales were very difficult," Mr. Grasso said. "So we appealed to the city and won, and sales picked up considerably."