

Pertinent Policy Issues Affecting Philadelphia Real Estate and the Design of Our City

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**Fels Institute
of Government**
UNIVERSITY of PENNSYLVANIA

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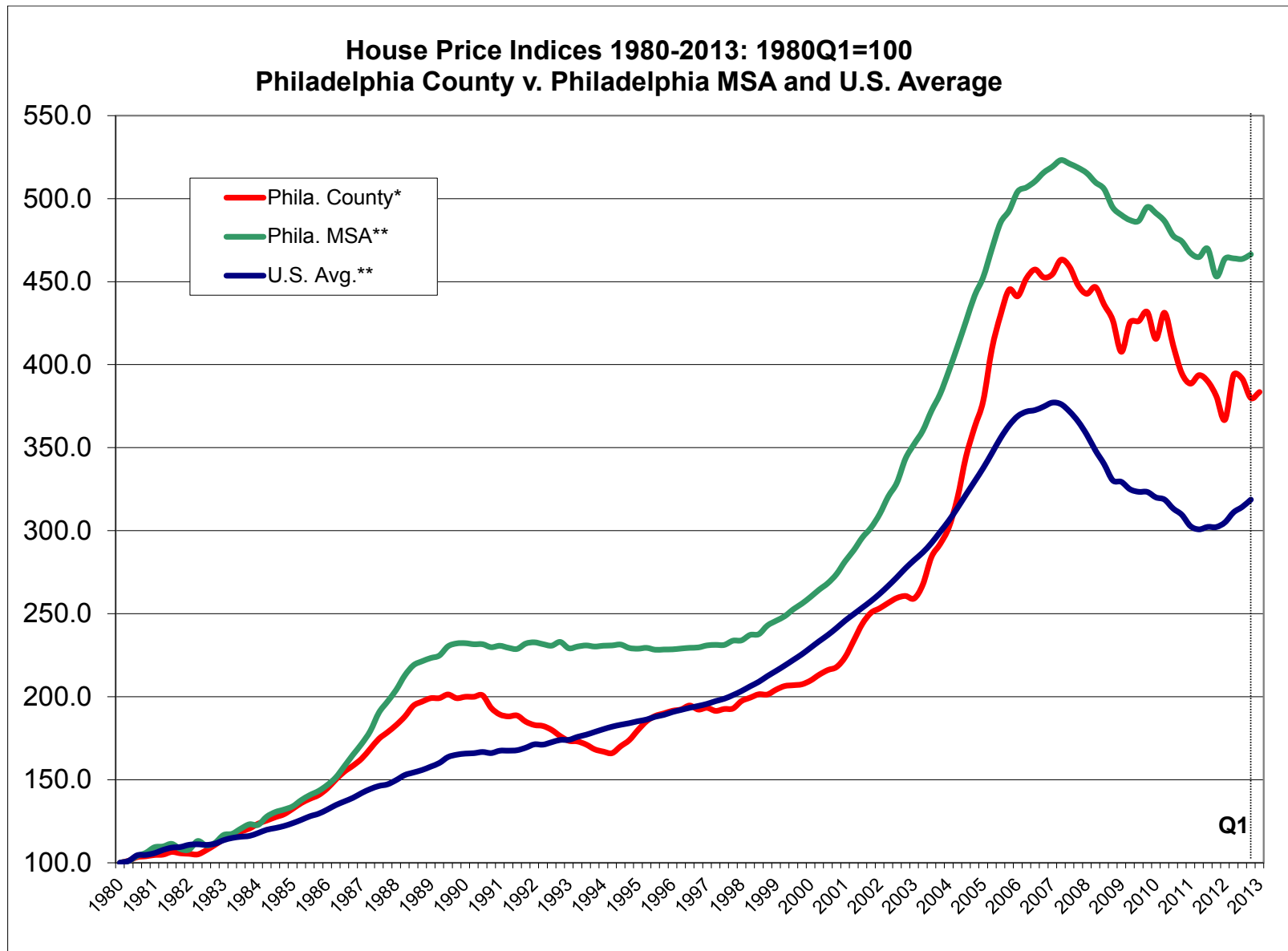
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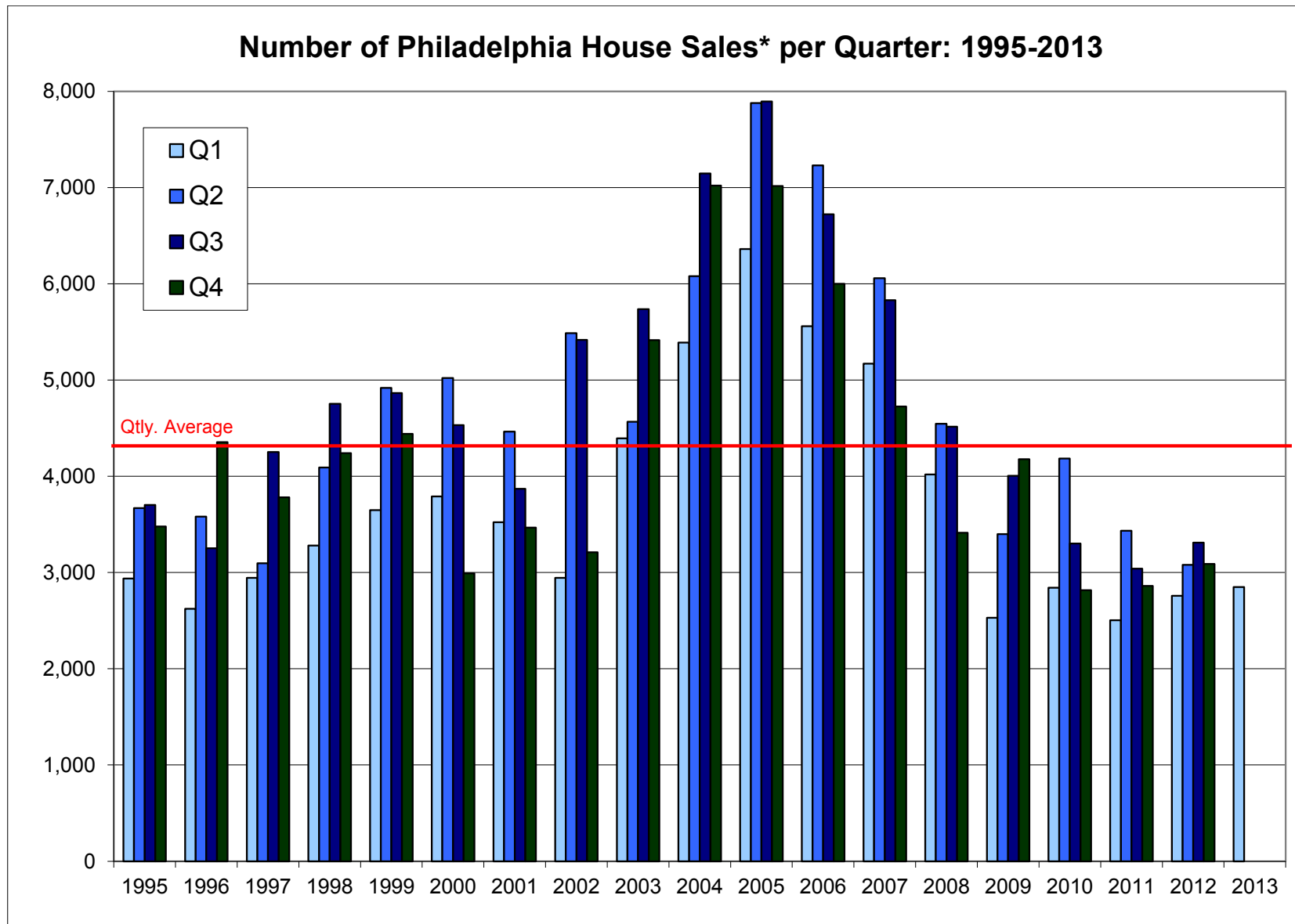
Outline

- The market's nascent recovery: what to expect?
- Issues affecting both the short-term recovery and long-term fundamentals:
 - Actual Value Initiative
 - Property Tax Delinquency
 - 10-Year Tax Abatement
 - Sustainability
- Where do we go from here?

The good news: Recovery has arrived!

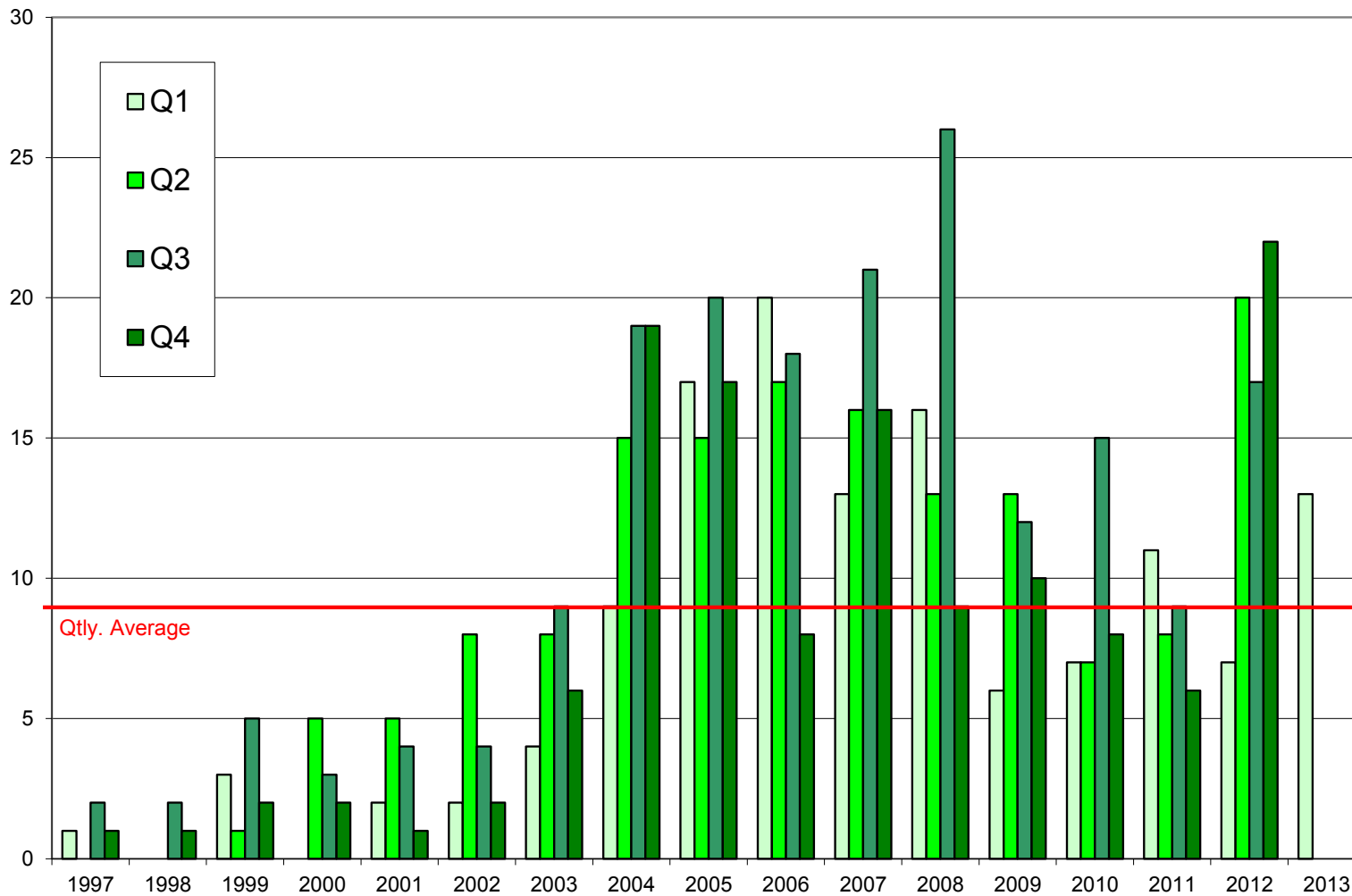


Home sales have bottomed

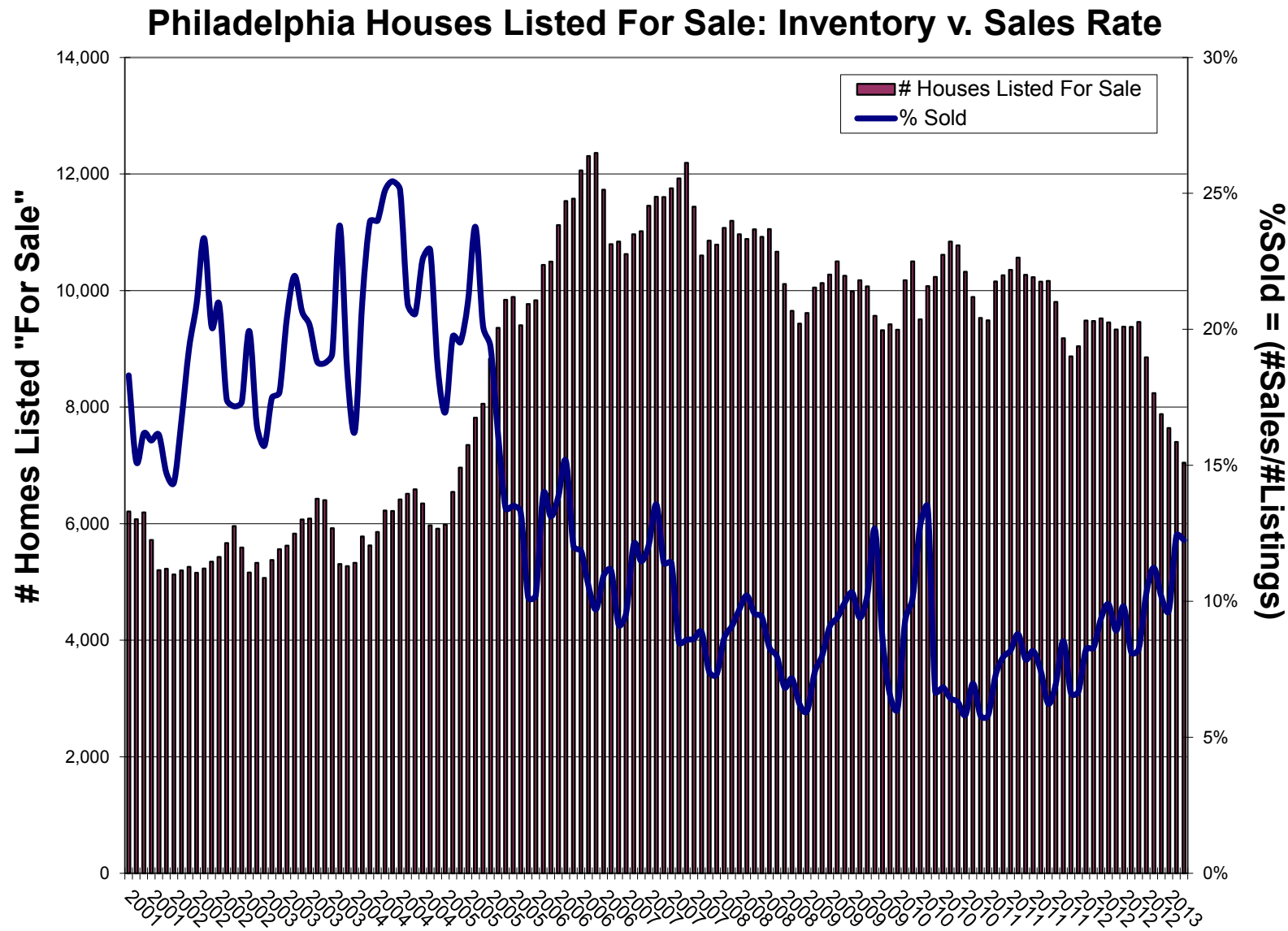


+\$1m home sales are surging

Number of Philadelphia Home Sales* per Quarter
with Price >= \$1 Million: 1997-2013

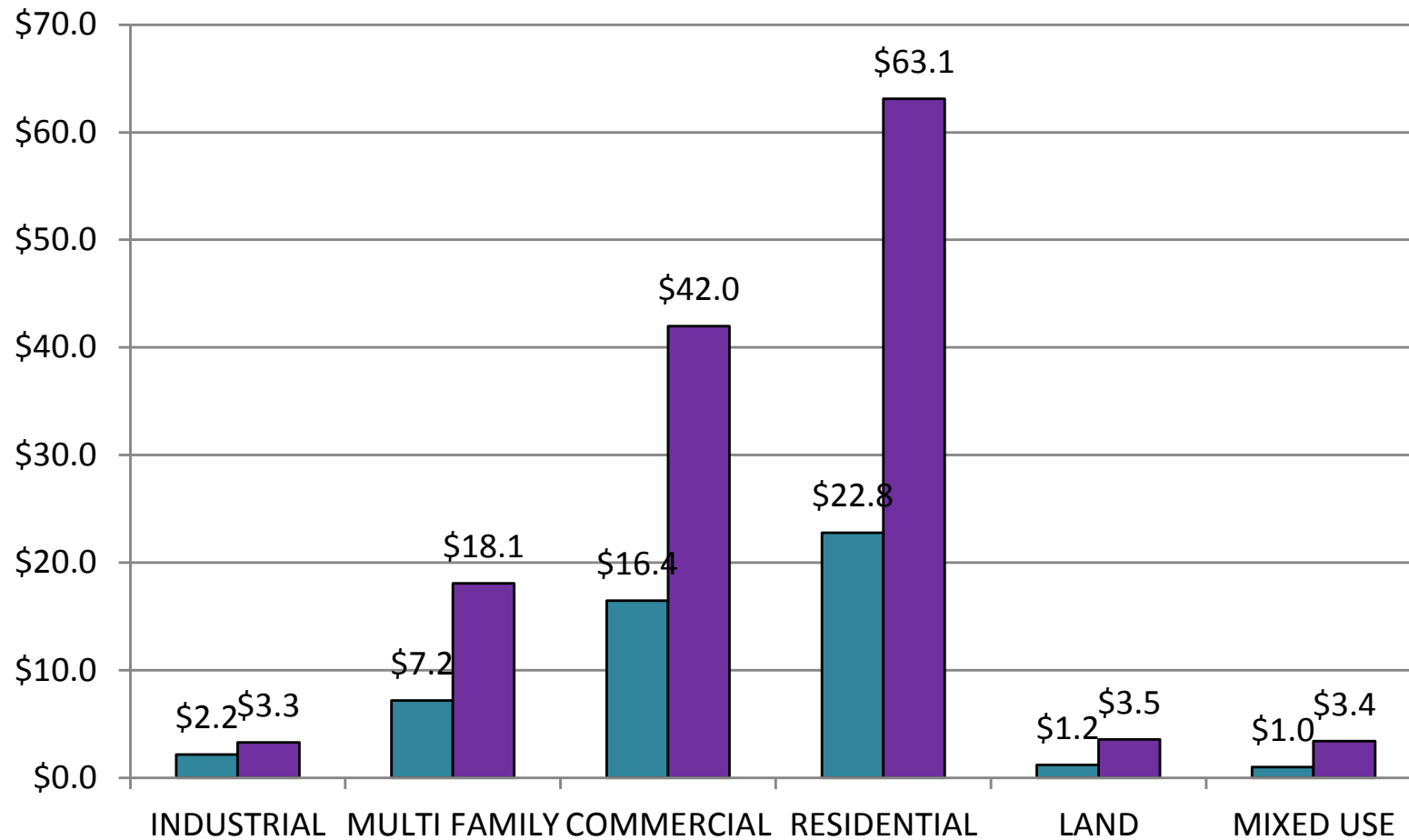


Housing inventories down to near-normal



AVI: Shift from Commercial to Residential

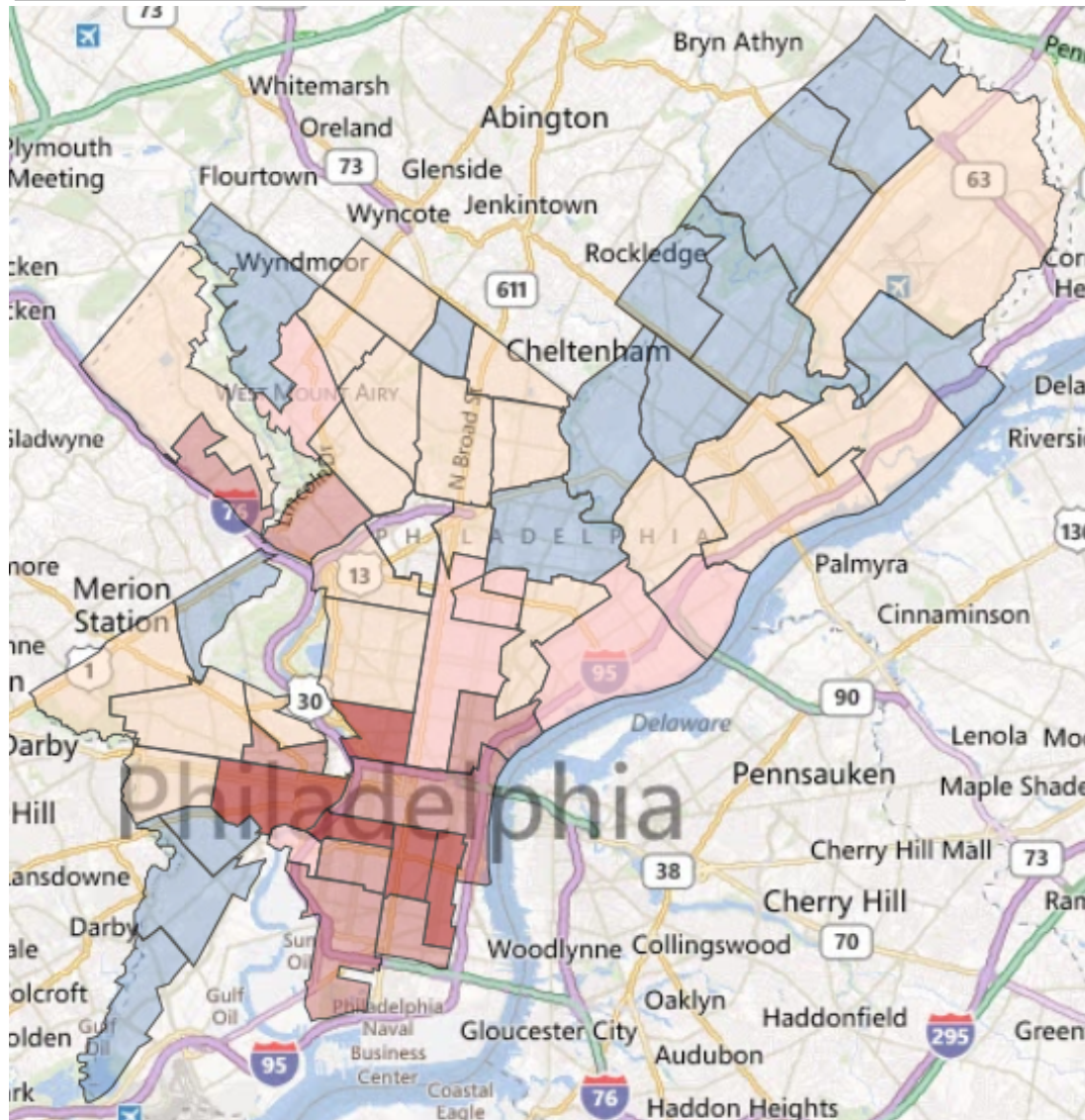
Market Value (\$bn) by Property Category: Old Market Value v. AVI Market Value



Changes in Residential Tax Bills

Change in median property taxes by neighborhood, 2013-14

■ Down \$2 to \$525 ■ Up \$1 to \$249 ■ Up \$250 to \$499 ■ Up \$500 to \$999 ■ Up \$1,000 to \$2,110



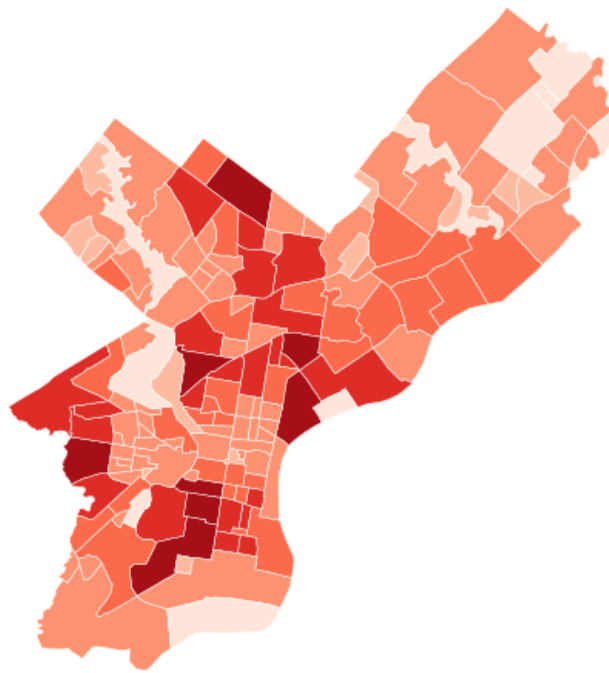
- Source: Inquirer

Importance of AVI:

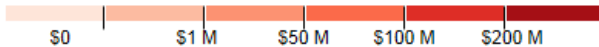
- Corrects decades of inaccurate assessments
- Corrects decades of inequitable assessments
- Had to be done sooner or later
- Makes broader tax reform possible

Property Tax Delinquency

- ~103,000 Delinquent Properties owing ~\$515m in taxes
- Delinquency Rate second only to Detroit
- \$9.5bn in diminished property values



Aggregate Diminished Value

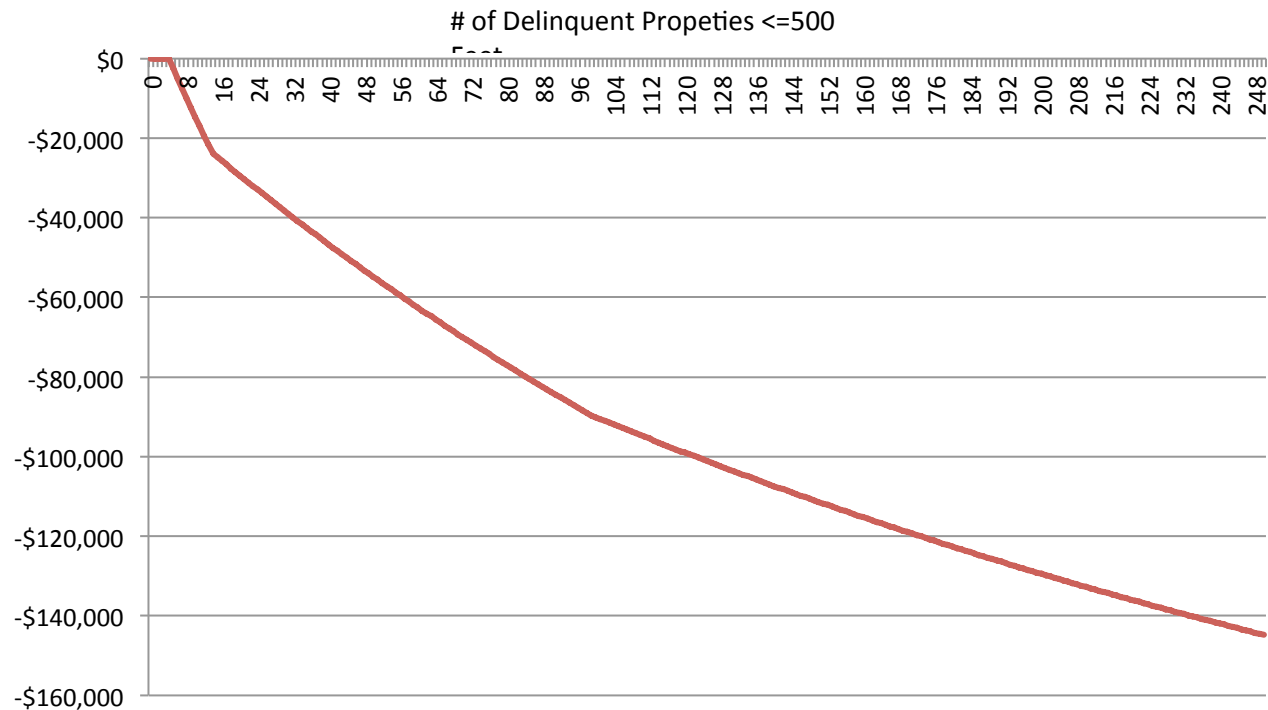


Source: City of Philadelphia; Neighborhood Data: [Azavea \(CC BY 3.0 US\)](#); Repo Kerkstra ([PlanPhilly](#)); Analysis: Kevin Gillen ([Fels School of Government](#)); Applic Thomas ([AxisPhilly](#));

Property Tax Delinquency

- Implications for AVI
- Why? Two reasons: lack of early intervention and lack of credible, consistent threat of foreclosure
- Suggests big gains for targeted “smart” enforcement

**Cumulative Effect of Delinquencies
on House Values <=500 feet**

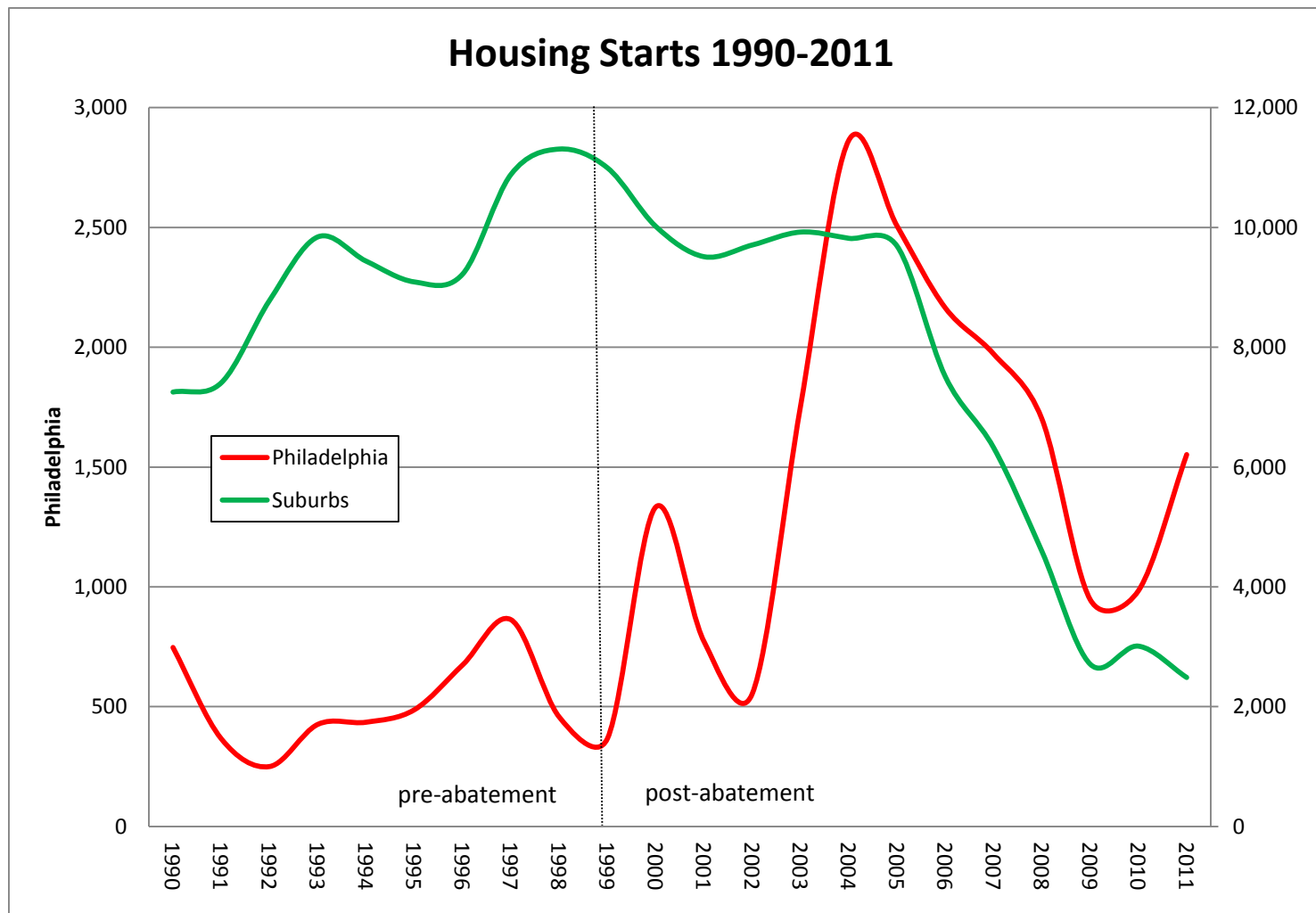


The Ten-Year Abatement

- Improvement to real estate untaxed for ten years
- ~15,000 abated properties, ~\$7bn in untaxed value
- Currently, a bill being considered by Council to cap untaxed value at \$250k.
- Two criticisms of the abatement:
 - Unnecessary
 - Unfair

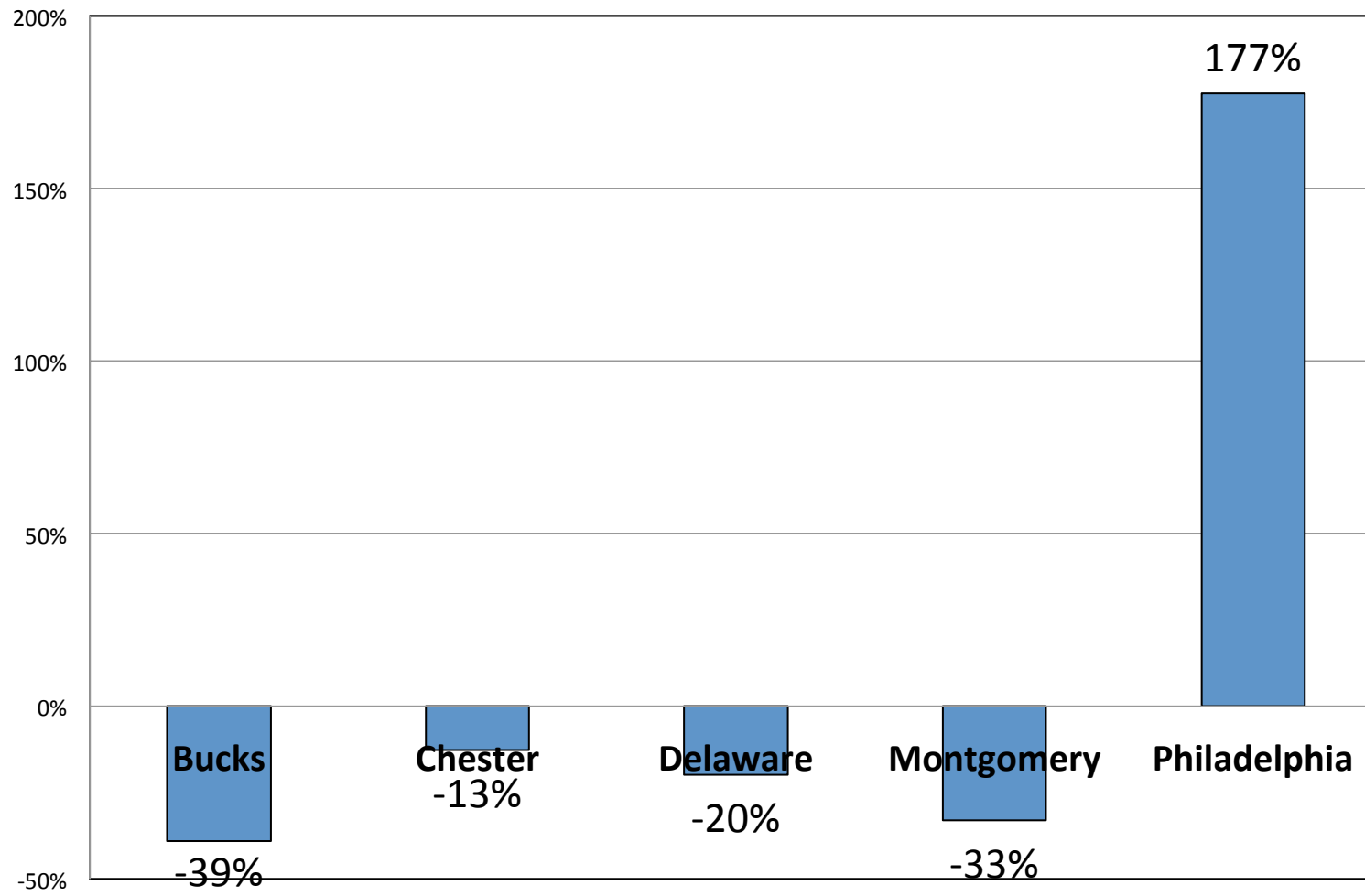
Was the Abatement Unnecessary?

- Immediately after implemented in 2000, 263% increase in housing starts, followed by 417% increase!

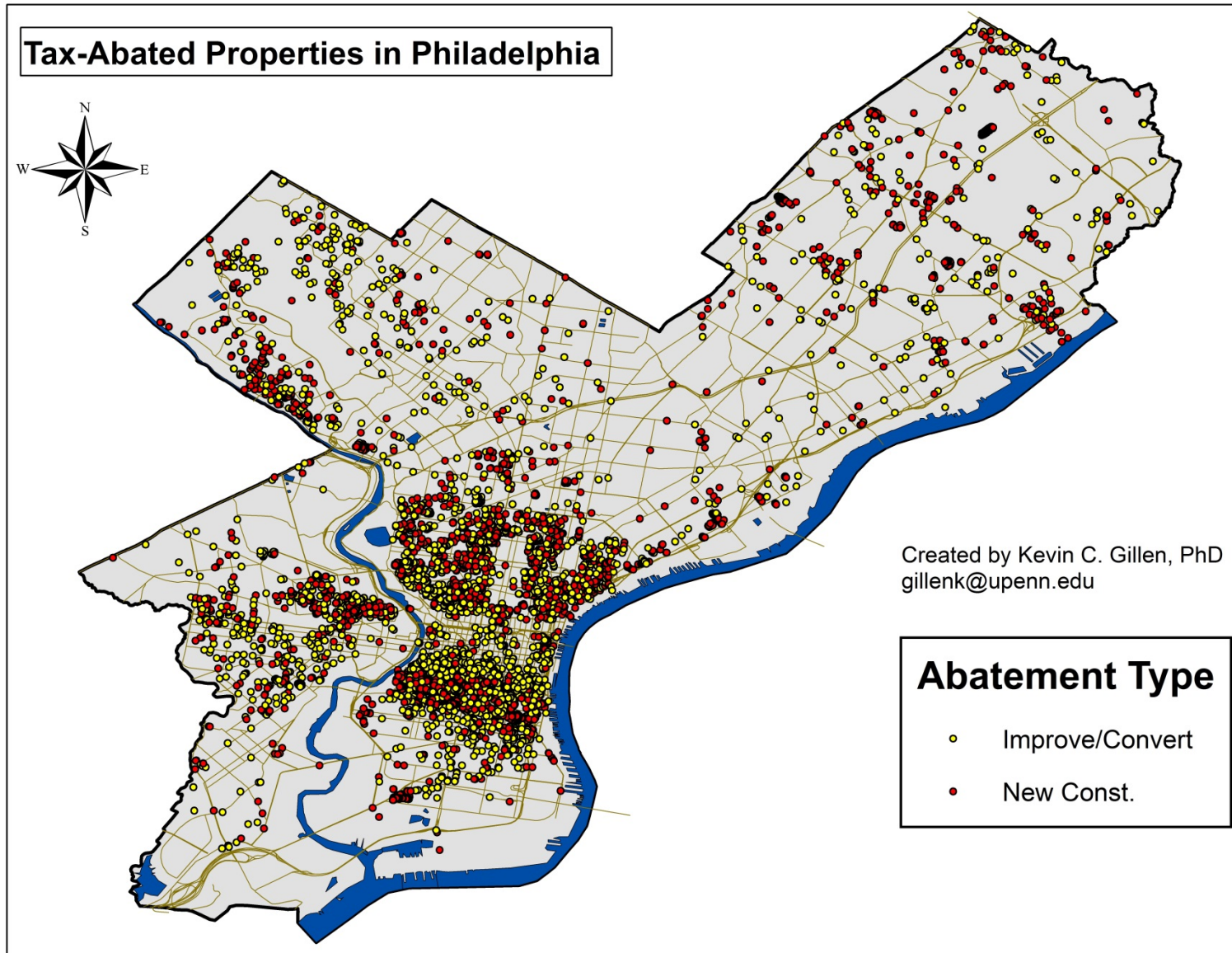


Was the Abatement Unnecessary?

Percent Change in Construction of New Housing Units: 1990s
v. 2000s

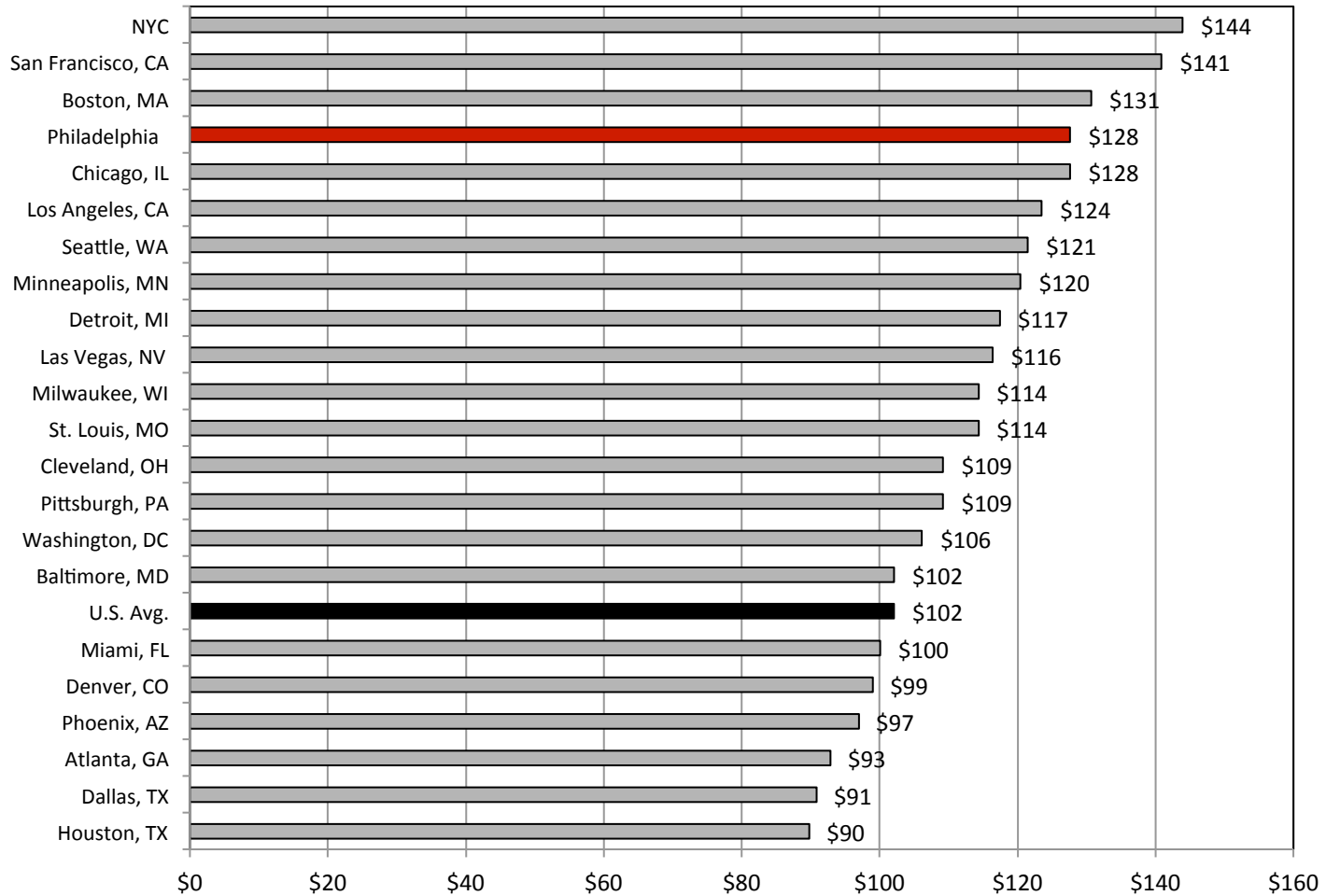


Is the Abatement Unfair?



The Case for the Abatement

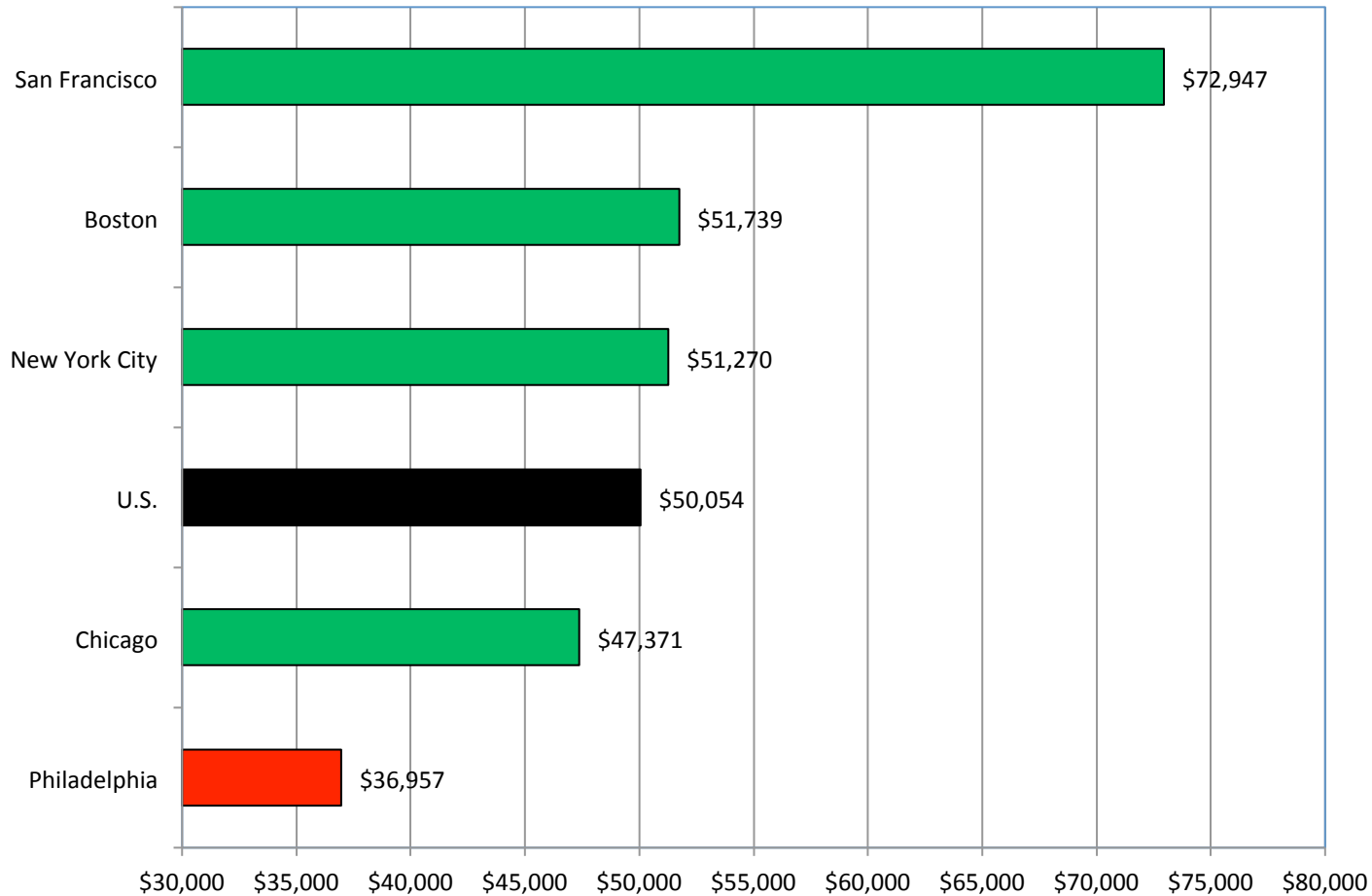
**Average Homebuilding Costs (\$/SqFt)
in U.S. Cities**



Source: Marshal & Swift Construction Cost Calculator.

The Case for the Abatement

Median Household Income by City

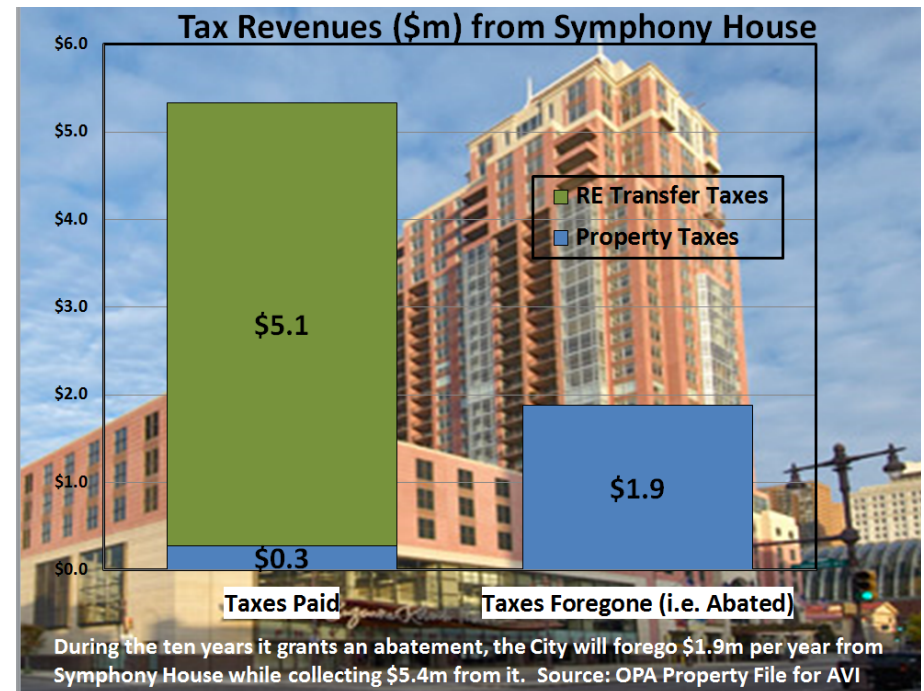
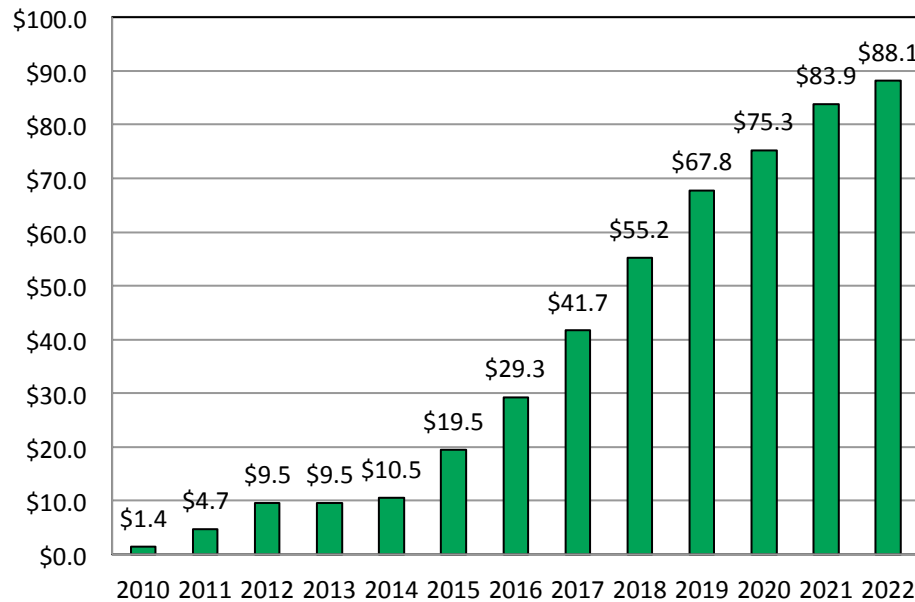


Source: 2007-2011 American Community Survey 5-Year Estimate, U.S. Census

The Solution

- Education: people see the abatement as a “debit” with no offsetting “credit”

**Cumulative Tax Revenues (\$m)
from Expiring Abatements**



- “Mend it, Don’t End It”: Modifications

Summary

- Recovery will pick up, going forward
- AVI: Necessary, but it's a process, not a product
 - Continued improvement, going forward
- Tax Delinquency: significant problem, for multiple reasons
 - But, significant gains from reduced delinquency
- Ten-year Abatement: Until our fundamentals improve, critical to promoting new development and investment
 - But, ways to improve it