

diversifying downtown

FROM THE GROUND UP

By Paul Levy

A TALE OF TWO RECESSIONS

Act 1. *Time:* 1990. *Setting:* The real estate boom of the last five years has transformed Center City's skyline. State-of-the-art office towers have broken an informal, decades-old rule that skyscrapers should be no taller than 548 feet, the height of the peak of the hat on Alexander Milne Calder's 27-ton cast-iron statue of William Penn atop City Hall. But at street level, there are windstorms of litter; graffiti is lathered on buildings; retailers roll down security gates by 6 pm; the commercial district is empty and avoided after dark.

A decade of federal disengagement has compounded the impact of four decades of suburbanization, leaving declining resources for cities. Philadelphia's municipal budget is severely stressed, verging on bankruptcy. To cope, local government has been raising the real estate tax from 4.475 percent in 1970 to 8.264 percent; a real estate transfer tax has gone from 1 percent to 4.07 percent; a resident wage tax, first levied in 1937 in the midst of the Depression has climbed from 1 percent to 4.96 percent; a perversely named *business privilege tax* takes 3.25 percent of gross revenues and 6.5 percent of net revenue from every business. As a result, businesses are decamping for the suburbs. By the time this recession is over, downtown real estate will have lost 26 percent of its assessed value.

Act 2. *Time:* The present. *Setting:* The 58-story, Comcast Center, at 974 feet, is the tallest building in Philadelphia looming over lesser giants from the late 1980s. But unlike those towers, each with several hundred parking spaces below ground, the LEED certified Comcast Center has only an 87-space parking garage underground. It features instead, a 500-seat concourse



The Comcast Center, at 974 feet, is the tallest building in the Philadelphia skyline.

level dining court and direct connections to the regional train lines. On a landscaped, surface plaza, adorned with a café, generous landscaping and playful fountain, parking was provided for 100 bicycles. Between 200 and 300 are parked there each day in a downtown where 74 percent of residents get to work without a car.

The surrounding environment has been transformed: 419 non-profit arts and cultural institutions provided 26,000 performances, classes and exhibitions in 2011 and the ten major performing arts organizations attracted more than 2.6 attendees, filling sidewalks with patrons every evening. Public investments in a convention center and tourism promotion prompted a 95 percent increase in downtown hotel rooms; nearly all of the 38 hotels are in repurposed or historic buildings. Visitors, workers, and residents can choose from 713 restaurants and 273 outdoor cafes. The number of options has steadily increased even through the recession.

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SETTING AND MANAGING THE STAGE FOR DOWNTOWN REVIVAL

Since 1990, Center City Philadelphia has been transformed from a littered, 9-to-5 office district where merchants rolled down gates after dark, to a thriving 24-hour, live-work environment, enlivened by new housing, theaters, sidewalk cafes, hotels, new skyscrapers, and impressive population growth. This reincarnation is the result of private and public initiatives, including the creation of the Center City District. The CCD started with the aim of making downtown clean, safe, and attractive, but is now also lighting sidewalks and building facades, redeveloping and managing parks, and promoting public schools to ensure that Philadelphia is a leader in the renaissance of America's great cities.

In 1990, there was just one major residential condominium in the commercial core. Now, there are 49 condominium buildings with 3,871 units and another 165 apartment buildings with 15,630 units in what had been purely a commercial district. But downtown's residential boundaries have also dramatically expanded, as the population has increased by 16.3 percent in the last decade.

With almost 14,000 new housing units completed in the last 15 years, there are 181,000 residents now living in the eight zip codes between Girard Avenue and Tasker Street. Sixty-six percent of them have at least a college degree; 39 percent have advanced degrees; 22,000 children have been born to Center City parents in the last decade. Strollers are everywhere. Philadelphia now has the third largest downtown population among American cities, behind only New York and Chicago.

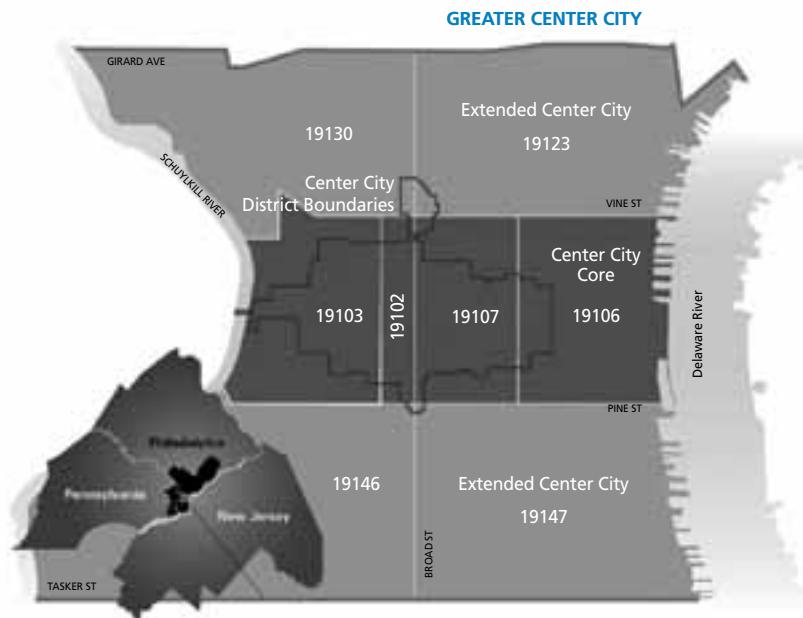
Diversification pays dividends. In every year of the worst recession since the Great Depression, the aggregate value of Center City real estate has *increased*; office occupancy is five points higher than surrounding suburbs; apartment and townhouse construction continues, along with major developments driven by educational, health care, and research institutions.

Two severe recessions; the same city; two very different outcomes.

What did it take to transform littered, fear-filled streets and vacant buildings into a thriving 24 hour downtown?

MAKING TRANSFORMATIONAL CHANGE INCREMENTALLY

It took private developers; public inducements; strong, local, charitable foundations; entrepreneurs; adventurous new residents; and new marketing campaigns. Demographic trends and rising energy prices surely contributed. But it began with *clean* and *safe*.



The CCD maintains its commitment to keeping the downtown clean and safe.

In the depths of the real estate recession in 1990, major property owners, business and civic leaders, convened by developer Ronald Rubin, took advantage of a state law that enabled property owners to assess themselves with a real estate surcharge collected through the mandatory mechanism of a business improvement district (BID). Securing the approval of a skeptical City Council, a term-limited mayor, and more than 2,100 downtown owners, many initially averse to paying more in a high-tax city, the Center City District (CCD) was launched on the first day of spring 1991 with a budget of \$6.5 million and a narrow focus on *clean* and *safe*. Key to the initial launch was the credibility of an all private-sector board that defined the services, programs, and charges and a professional staff, imbued with a culture of customer service, with the authority to bill and collect directly from property owners.

Deploying 50 uniformed sidewalk cleaners and 42 safety ambassadors, called Community Service Representatives (CSRs) who are co-located with a contingent of Philadelphia police, the CCD is a textbook case of how to nudge a place over the *tipping point*. Focusing first on the basics, quality of life issues that shape perceptions, the CCD sought initially just to remove the negatives – *dirty* and *dangerous*. Over two decades, as population, visitors, and density have increased, serious crimes have been cut in half and quality of life crimes reduced by 75 percent. Through the evolution and expansion of its services, the CCD reclaimed the public domain. Ultimately, by investing more than \$118 million in public area and park improvements, it has helped restore investor confidence in the entire downtown.

ANIMATING A WALKABLE DOWNTOWN

From William Penn's 1682 plan, Center City inherits a compact, walkable street grid. Because so much of the past has been preserved, buildings are at an intimate scale and provide the rhythm that Jane Jacobs saw as essential for thriving streets: frequent doors, numerous windows, and short blocks. It's a place where

38 percent of downtown residents walk to work and where convention attendees don't need buses to get to their hotels.

The story of the last 22 years is a tale of how incremental, but sustained investments in this historic grid transformed a declining, single-purpose American CBD into a vibrant and diverse, European-style city center.

A pro-development, promotional Mayor Edward Rendell took office a year after the CCD commenced operations, focusing on fiscal recovery and a revival driven by arts, entertainment, and hospitality investments. Beginning in 1992 on the Avenue of the Arts, with the guidance of the city's lead economic development agency, the Philadelphia Industrial Development Corporation, historic theaters were renovated and new theaters built. Office buildings that had been in their prime in the 1920s were converted to hotels, apartments, condominiums, and art student housing.

The Pennsylvania Convention Center, in the works since the 1980s, opened in 1993, marrying a restored 19th century train shed to a new state-of-the-art 440,000-square-foot facility right in the middle of downtown. Hotel rooms followed, most created in restored, underutilized office buildings like the former PSFS bank building, the Girard Trust bank building, and Reading Railroad's former corporate headquarters. A new 1,200-room Marriott gave Philadelphia its prime convention hotel with direct pedestrian links into the Reading train shed. In March 2011, the Convention Center completed a major expansion, doubling to offer almost a million square feet of exhibition and meeting space.



Community Service Representatives serve as ambassadors to the public and create a welcoming presence.

New visitor attractions around Independence Mall filled in gaps created by the overly-aggressive bulldozers of urban renewal. A new visitor's center, a new constitution center, a new home for the Liberty Bell, the National Museum for American Jewish History, and the President's House now draw more than 3 million visitors a year to the historic district. Today, more than 10,000 hotel rooms are within a 15-minute walk of the Convention Center and the new attractions around In-

dependence Hall. Another major hotel opened in October 2012 in a rehabilitated historic building on Independence Mall, while a newly constructed suites hotel opened this year, immediately across from the Convention Center.

Funding for convention and tourism promotion is provided by a surcharge on hotel rooms with a division of labor that has the Philadelphia Convention and Visitors Bureau marketing to convention and trade meeting planners and those who handle group travel. Greater Philadelphia Tourism Marketing Corporation focuses on leisure travelers. Together, these two organizations have given the city and region a national profile it lacked two decades ago. On the business side, they are complemented by Select Greater Philadelphia, a regional marketing effort supported by the Greater Philadelphia Chamber of Commerce.

INVESTING IN THE PUBLIC ENVIRONMENT

Downtown has a strong employment base of professional and business services, educational and medical institutions with 221,000 private sector jobs providing more than \$13.2 billion annually in salaries and compensation to regional residents. Reinforcing this base and capitalizing on a long tradition of downtown living, the diversification of the downtown brought new customers, new restaurants, and evening animation. To this, the CCD added \$118 million in streetscape and public area enhancements funded by its own bond issues and by the leveraging of city, state, federal, and foundation funds.

Each year, for the last 15 years the CCD has made improvements that steadily add up: 1,000 street trees, 2,200 pedestrian-scale, light fixtures, 683 maps and directional signs for pedestrians and 233 for motorists; there are also maps and historic information on transit shelters and graphics and illuminated signs for 100 entrances to underground transit. Along the Benjamin Franklin Parkway, CCD placed a comprehensive interpretative sign system and illuminated public sculpture and building facades. On the Avenue of the Arts, there are synchronized color-changing LED lights on the facades of eight different buildings. All are visible signs of transformation, giving confidence to investors, developers, businesses, and residents.

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TURNING ON THE LIGHTS UPSTAIRS

In 1997, a citywide, ten-year tax abatement, granted for converting vacant buildings to residential use, altered the dismal economics for 4.5 million square feet of obsolete class B and C office space and former industrial buildings. Expanded in 2000 to cover all new construction citywide, the abatement prompted in Center City alone the conversion of 171 buildings to residential use and the addition of 14,000 new housing units, resulting in a 26 percent increase in population in the core of the downtown over the last two decades.

Initially, new residents were predominantly the young professionals and empty-nesters who are flocking to most U.S. downtowns. But the 2010 census demonstrated the broad appeal of Center City living: 28 percent of downtown residents were ages 25-34 (twice the national average), 24 percent were ages 35-54, and 22 percent were 55 or older. Twenty-two percent of households with adults ages 35-54 reported school age children at home, while day-care centers, pre-school programs, and elementary schools are surging in enrollment as more families with children remain in the city. The markers of downtown residential revival are clear: dogs and dog parks come first; then come the strollers, daycare centers, and the search for quality schools.

A MULTI-PURPOSE ORGANIZATION FOR A MULTI-USE DOWNTOWN

Today, the CCD has diversified into a \$20 million operating **entity**, focused still on clean and safe, but now also managing a broad range of services: convening public and private security through a 200-person downtown Crime Prevention Council; installing and routinely changing more than 3,500 banners on downtown streets for 70 different cultural and civic groups; promoting restaurants, retail and cultural amenities through print, electronic, and social media; and managing highly-visible special events like the twice-annual *Restaurant Week* promotion.

Most recently, the CCD has taken on more complex projects like park renovation and management: adding two new cafes along the Benjamin Franklin Parkway, creating a children's park from derelict space at Logan Square, and restoring a small pocket park at 1707 Chestnut Street, renaming it after landscape architect

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In 1995, there were no outdoor cafes in Center City. Today there are 273.

John Collins, who originally designed the park, along with the landscaped greenways in Society Hill and created the first drawings for the now thriving Schuylkill River Park.

Along the way, the CCD began providing extensive, contractual cleaning services to adjacent communities, simultaneously offering employment opportunities for formerly homeless individuals and those making the transition from welfare-to-work. In 2007, the CCD assumed maintenance responsibility for the 3.5 mile underground subway concourse and two regional rail stations, deploying another 50 cleaners to enhance the transit connectivity of a downtown where 310,000 take public transit into Center City each day.

Today, the Center City District is leading the \$50 million renovation of Dilworth Plaza on the west side of City Hall, creating a new gateway to public transit, much-needed green space for Philadelphia's primary office district, a new fountain with a kinetic piece of public art, fashioning a civic centerpiece to link together all the city's major cultural, tourist, and business corridors. The project will be complete in the spring of 2014.

Through its partner organization, Central Philadelphia Development Corporation, there has been a major focus on enhancements to the Benjamin Franklin Parkway, where the Barnes Foundation recently relocated, bringing a unique collection of Impressionist

and Post-Impressionist art. There have been sustained efforts to retain families with children in the city through a website www.KidsInCenterCity.com and a partnership with parents' organizations and the School District of Philadelphia. Through an alliance with major developers, building owners, and city wide organizations, efforts are underway to complete the unfinished work of the Rendell Administration in the 1990s, helping Philadelphia fashion a pro-growth, post-industrial tax policy.

A 21ST CENTURY DOWNTOWN

It is one of the defining paradoxes of the post-industrial economy: as digital technology enables work to occur virtually any place, the qualities of a particular place become paramount. Lively parks; attractive plazas; clean, safe, walkable, landscaped and well-lit streetscapes; outdoor cafes; and accessible and customer-friendly transit – all the spaces between buildings – become essential to a competitive, downtown experience. Business improvement districts (BIDs) have thus become the stage setters and managers for many 21st century cities whose local governments find resources severely constrained.

Unlike office campuses, theme parks, and shopping centers, absent a BID, downtown management would be fragmented among thousands of individual property owners and scores of public agencies. BIDs are the common area maintenance corporations for urban districts. But they can also be, as one writer suggests, the horizontal developers who make vertical development possible.

Diversification of Center City real estate has spurred a self-reinforcing, virtuous cycle. Hotels, theaters, and restaurants create an environment that appeals to business and residents. The hospitality industry creates work for accounting, architecture, and law firms. Office tenants attract both corporate meetings and business travelers

who fill hotel rooms. Fifty-five percent of the business at the Pennsylvania Convention Center is driven by the health-care, education, and pharmaceutical industries.

Young, in-movers support new uses in old buildings: cafes, home furnishing stores, bowling alleys, gyms, and spas. In one of the most startling signs of change, an “adult entertainment” venue was recently converted to play space for infants and children. New theaters beget new restaurants that attract patrons to outdoor cafes. An active street-scene draws customers who come simply to savor the downtown experience. People enjoy watching people. Empty-nesters, tired of commuting and cutting lawns, downsize to live in the center of it all (though the latest generation of condos priced in the \$3 to \$7 million range should hardly be termed *downsizing*).

As housing prices have risen dramatically in the center, new households seeking more affordable options push out the perimeter of the revitalizing downtown. Citywide, 20 percent of the residents of every neighborhood commute to work in Center City. But the definition of the expanding downtown is based not only on new households and rising prices, but the widening zone in which more than 40 percent of the residents work downtown; another 12 percent commute to adjacent University City. This is the live-work environment of successful 21st century cities. Residents beyond the immediate walkable range of the business district are relying more on public transit and bicycles and are shopping and eating at places that advertise locally-sourced product – all hallmarks of a sustainable lifestyle.

Even as the inventory of unsold condos left from the 2008-2009 housing crisis drops below 10 percent, developers have shifted almost entirely to building new rental product in the downtown, while new townhouses in the extended neighborhoods of Center City are still being brought to market, but at a very modest pace. Overall, population densities in the expanded downtown are at 41 persons per acre, 20 times the densities in surrounding suburbs. Around Rittenhouse Square, densities rise to 95 persons per acre, creating the strongest market for retail in the city.

Looking ahead, East Market and East Chestnut Streets, slow to participate in revival, will steadily improve as major sites like the Gallery at Market East and Girard Square are redeveloped and as rising rents on the west side push more tenants east. At least one major commercial office building could break ground in the coming year and more would follow if local government gets its tax policies right.

AN AGENDA FOR COMPETITIVENESS AND GROWTH

Amenities matter, making cities more attractive to businesses, residents, and tourists. But Philadelphia's growth is still constrained by a tax structure inherited from the manufacturing age, when large factories with fixed assets depended on rivers and railroads. Even after Rendell-led reductions, continued by Mayor John



Sister Cities Park, opened in 2012 on the Benjamin Franklin Parkway, is family-friendly and accessible to the office district, residential neighborhoods, and tourist attractions.

Street, brought the resident wage tax down a full point to 3.928 percent, municipal government still generates 66 percent of local tax revenue by taxing highly mobile wages and profits. It only secures 17 percent from taxes on land and real estate improvements.

But nearly all professional, business, and financial services firms, as well as start-ups and entrepreneurs, are highly mobile tenants, linked to the global economy through laptops and hand-held devices. These firms can be anywhere and, while quality of life issues matter, they are highly sensitive to the differential burden of local taxes.

Philadelphia thus stands at a crossroads. For more than a half-century the city shed old-economy jobs, leaving diminished opportunities in working class communities. Now economic and demographic trends, lifestyle choices, and energy-costs are all tilting in Philadelphia's favor.

The 2010 census raised the curtain on a new era. With downtown's expansion and new Latino and Asian immigration in neighborhoods east of Broad Street, the city's population increased for the first time in 60 years. With a strong regional transit system, good highway access, world-class educational institutions, and a downtown that concentrates 129 jobs per acre in a compact, mixed-use and walkable place, Philadelphia is poised to capture a much greater share of regional growth, creating opportunities for residents at all educational and skill levels. ☈



Dilworth Plaza is expected to open in mid-2014.

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