



Philadelphia's Housing Market: Where Are We...and Where Are We Headed?

Presented by: Kevin C. Gillen Ph.D.

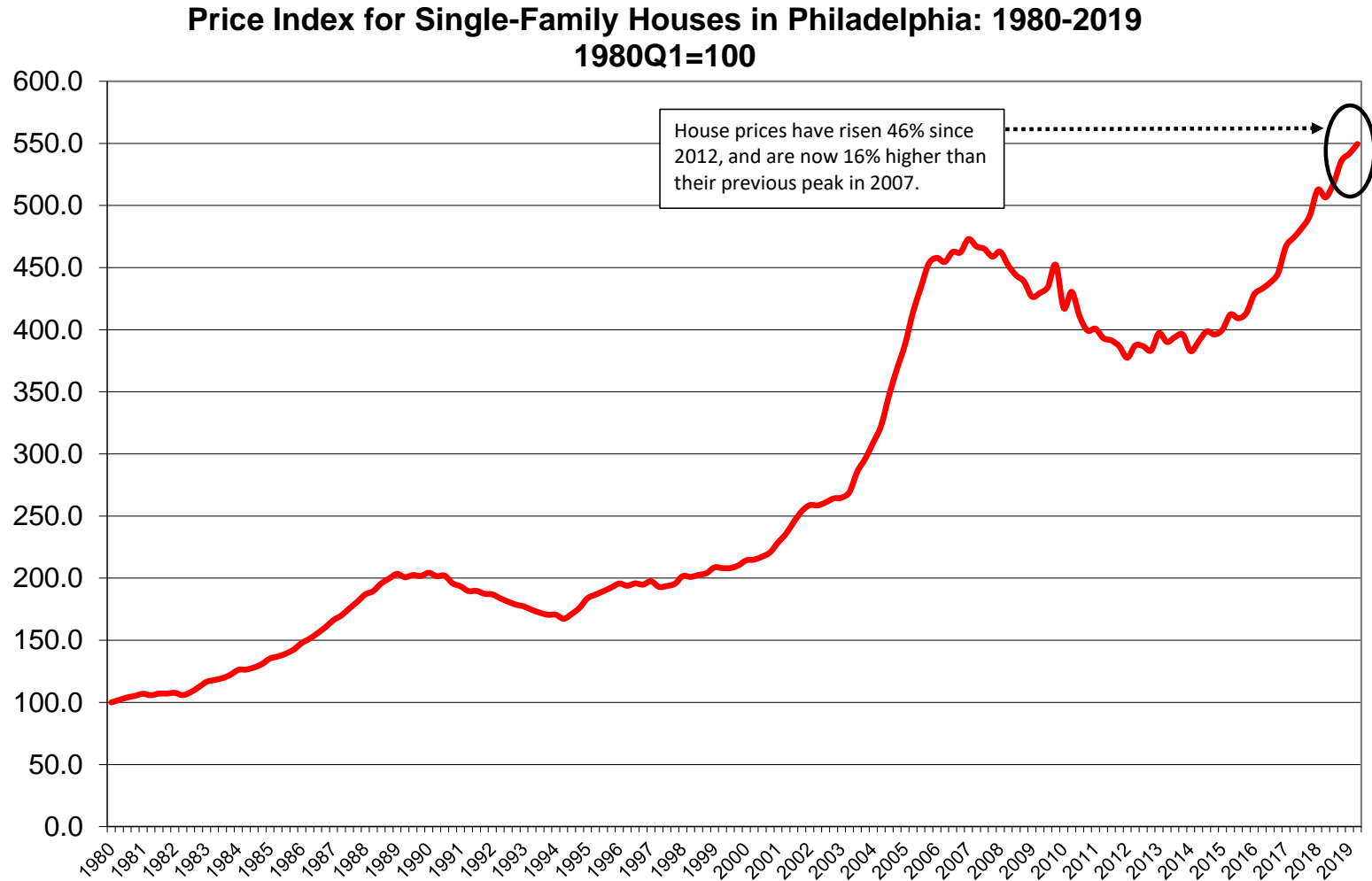
NUMBER ONE

Where is our housing market at?

CITY'S PRICES ARE AT ALL-TIME HIGHS

House Price Index for Philadelphia County

Source: Kevin C. Gillen, Ph.D.



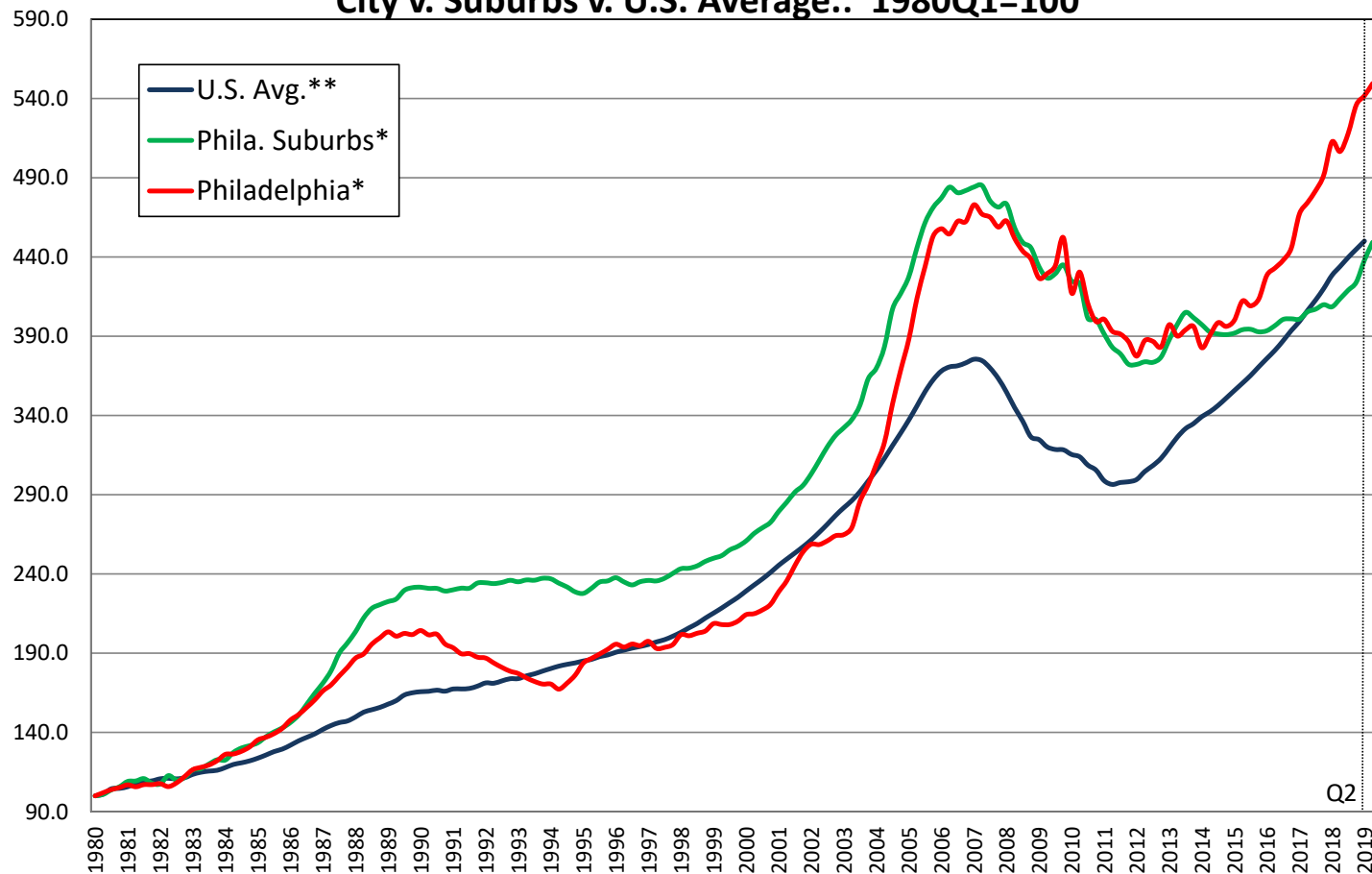
THE CITY HAS OUTPERFORMED THE SUBURBS!

House Price Indices: City v. Suburbs v. USA

Source: Kevin C. Gillen, Ph.D.

Philadelphia Regional House Price Indices 1980-2019

City v. Suburbs v. U.S. Average.: 1980Q1=100



Philly beat the 'burbs!

*Empirically estimated by Kevin C. Gillen, Ph.D.

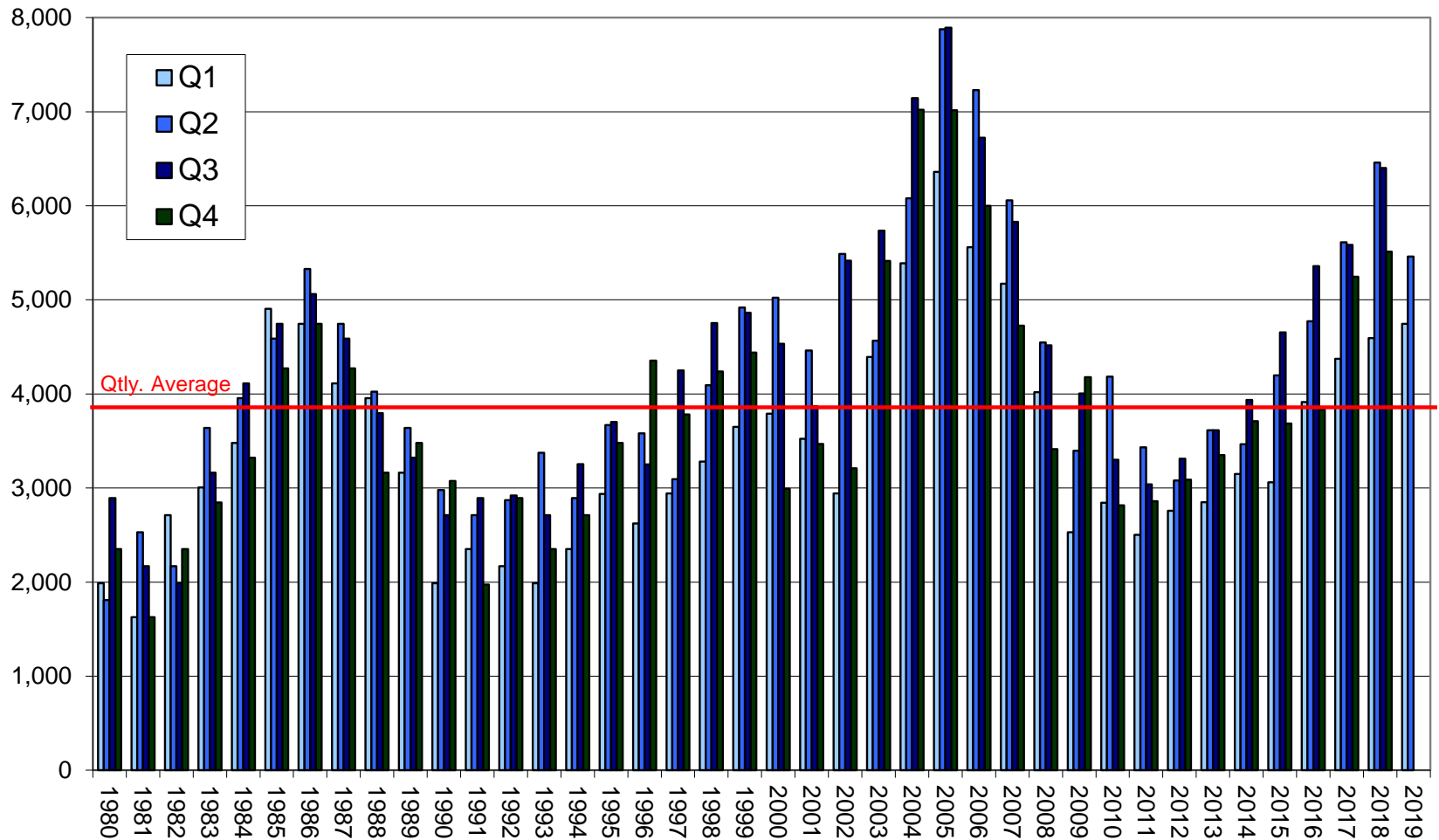
Note: The suburban index includes all counties in the regional index, except for Philadelphia county.

SALES ARE AT POST-RECESSION HIGHS

House Sales for Philadelphia County

Source: Kevin C. Gillen, Ph.D.

Number of Philadelphia House Sales* per Quarter: 1980-2019

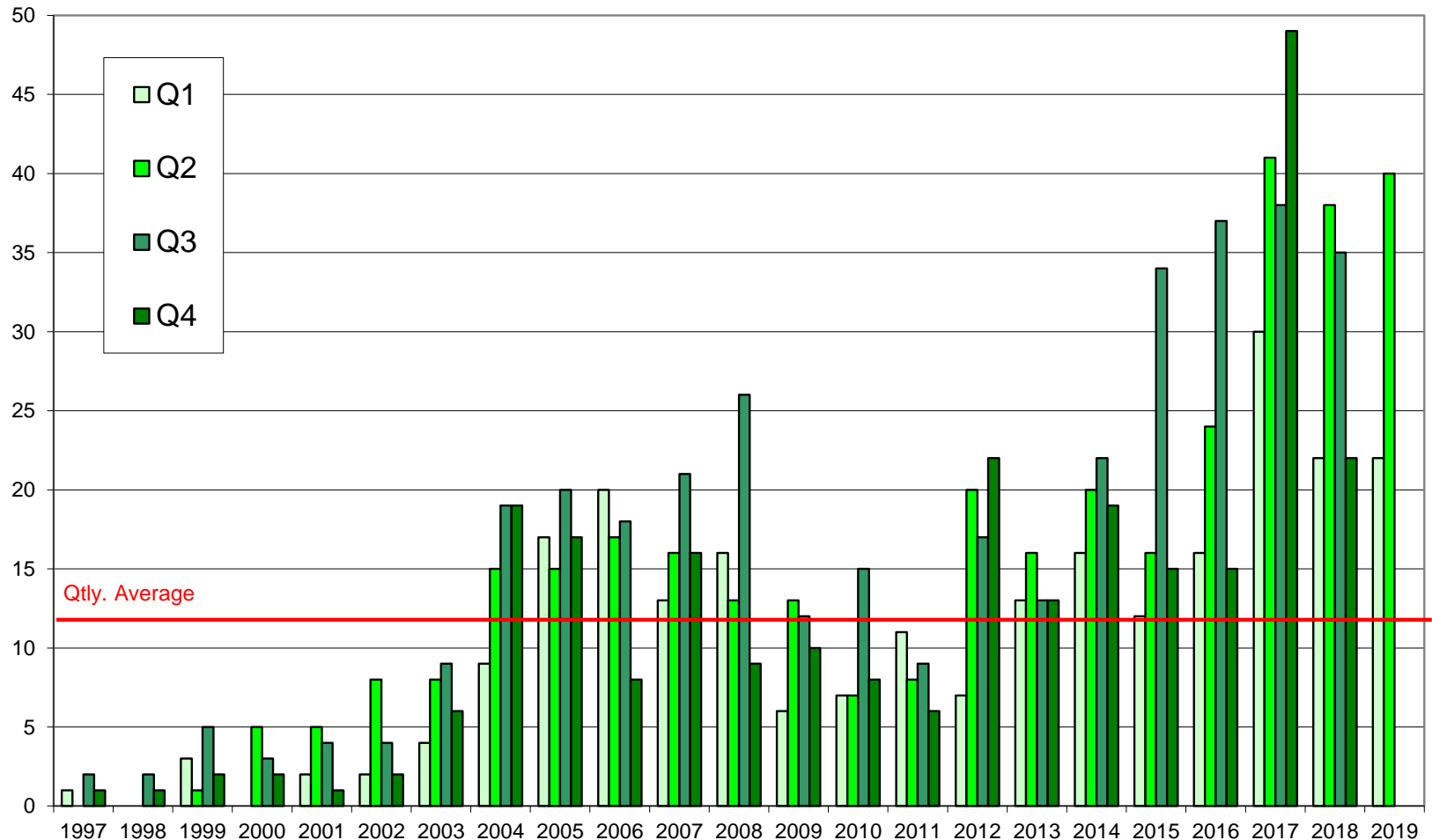


+\$1M HOUSE SALES HAVE BEEN SETTING RECORD HIGHS

+\$1m House Sales in Philadelphia

Source: Kevin C. Gillen, Ph.D.

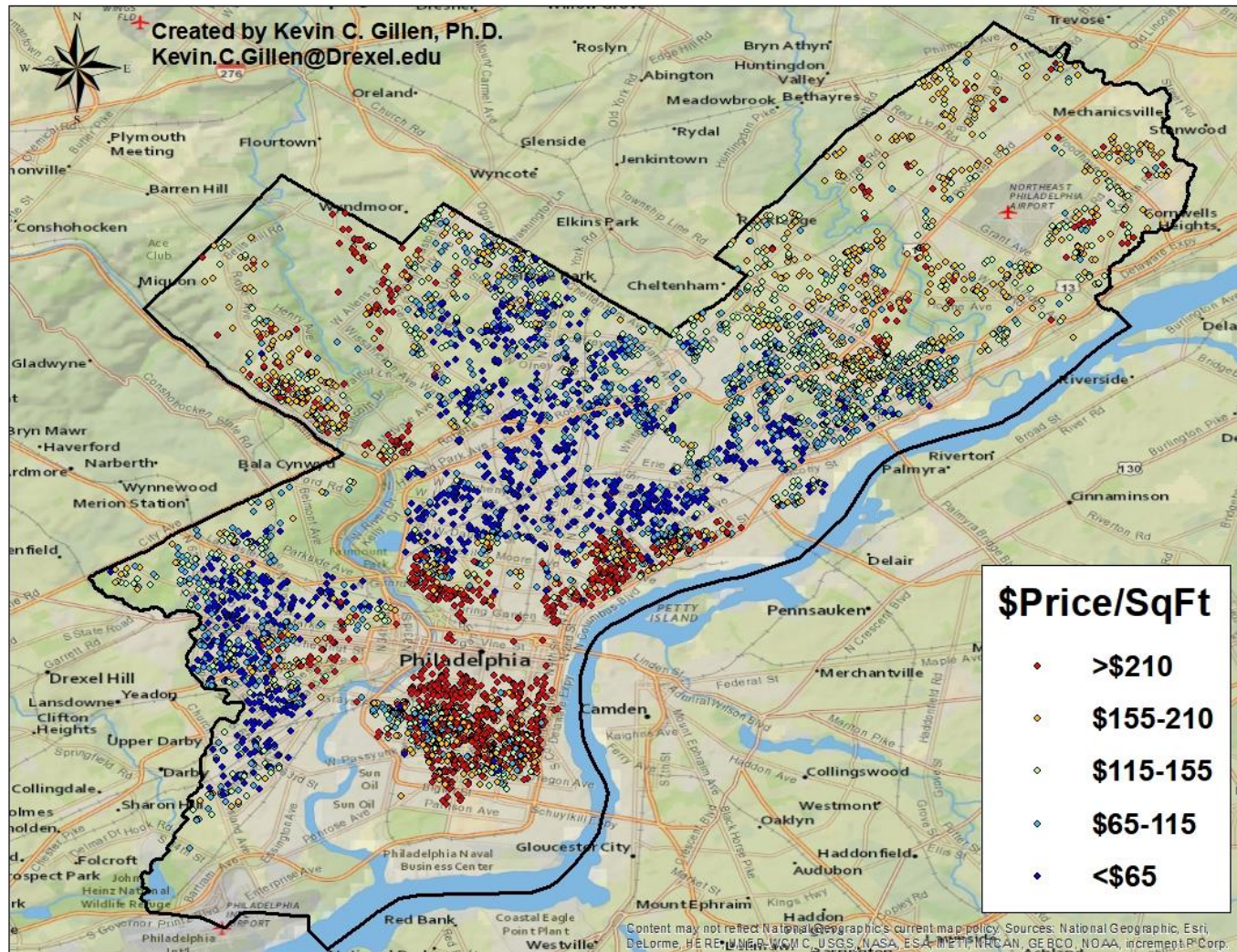
Number of Philadelphia House Sales* per Quarter
with Price \geq \$1 Million: 1997-2019



STRONG SPATIAL VARIATION IN PRICES

2019 Q3 House Sales in Philadelphia County

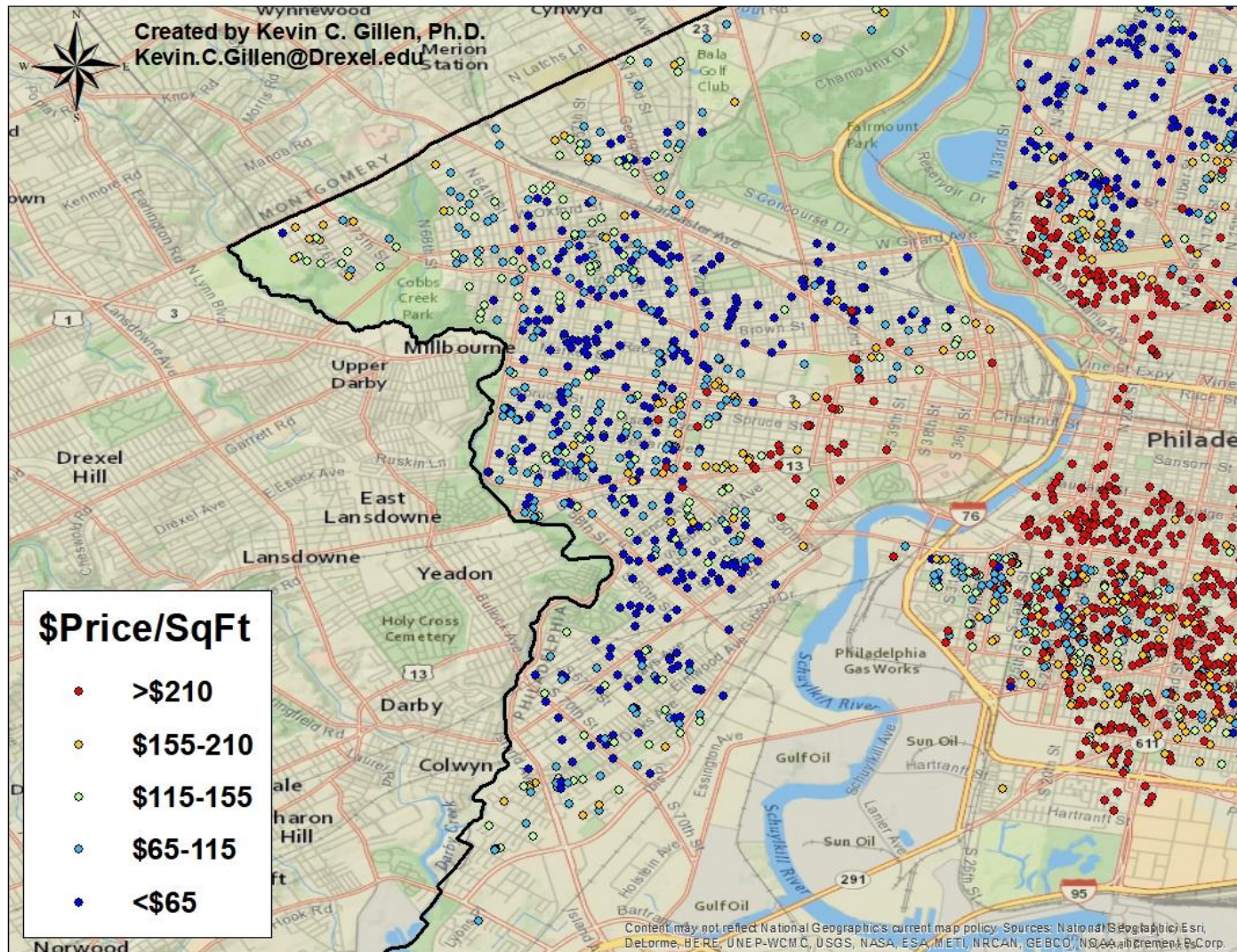
Source: Kevin C. Gillen, Ph.D.



STRONG SPATIAL VARIATION IN PRICES

2019 Q3 House Sales in West Philadelphia

Source: Kevin C. Gillen, Ph.D.

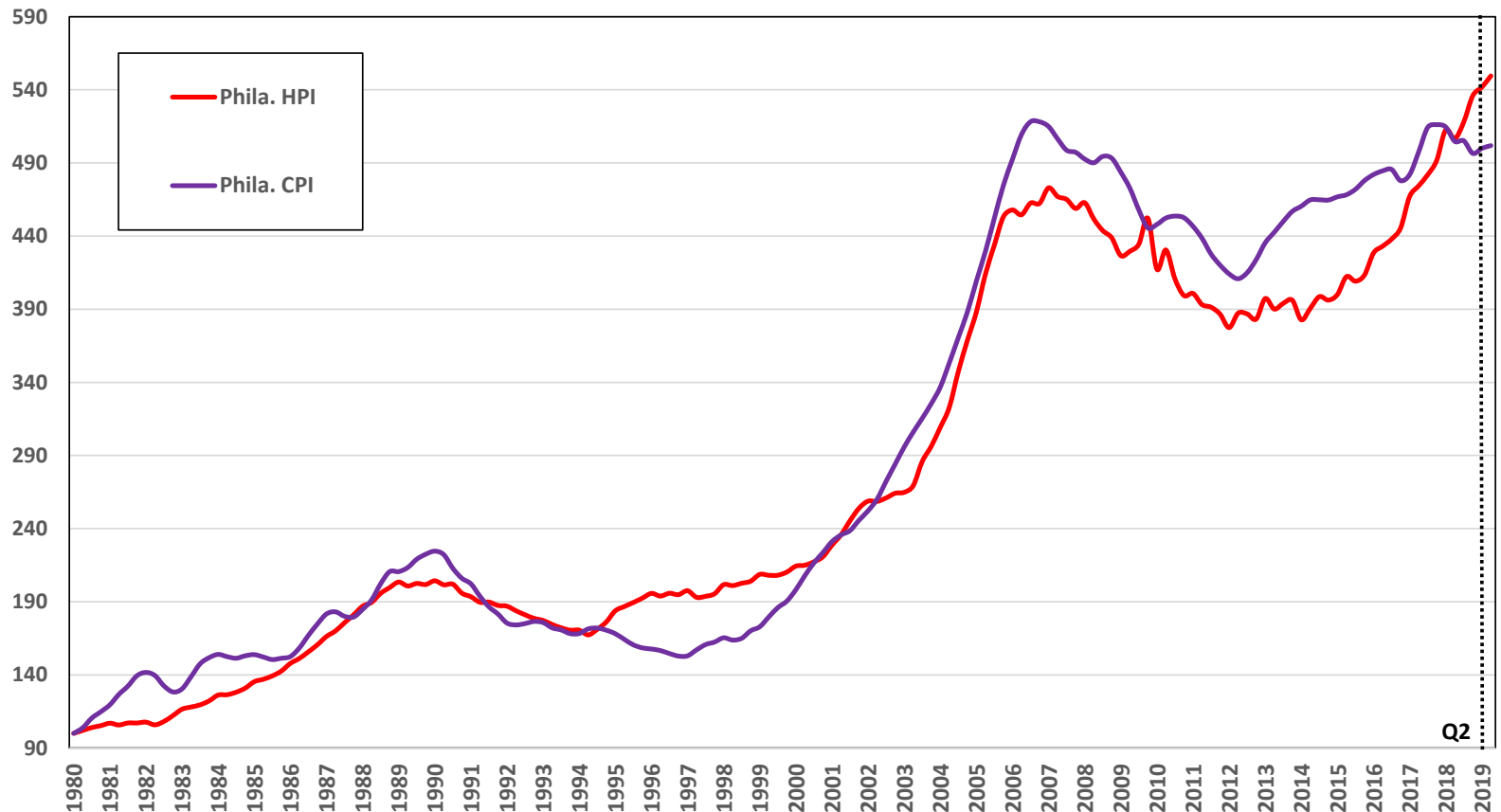


CONDOS ARE ALSO DOING REASONABLY WELL

Condo v. House Price Indices for Philadelphia County

Source: Kevin C. Gillen, Ph.D.

Philadelphia Condo Price Index v. House Price Indices: 1980-2019
1980Q1=100



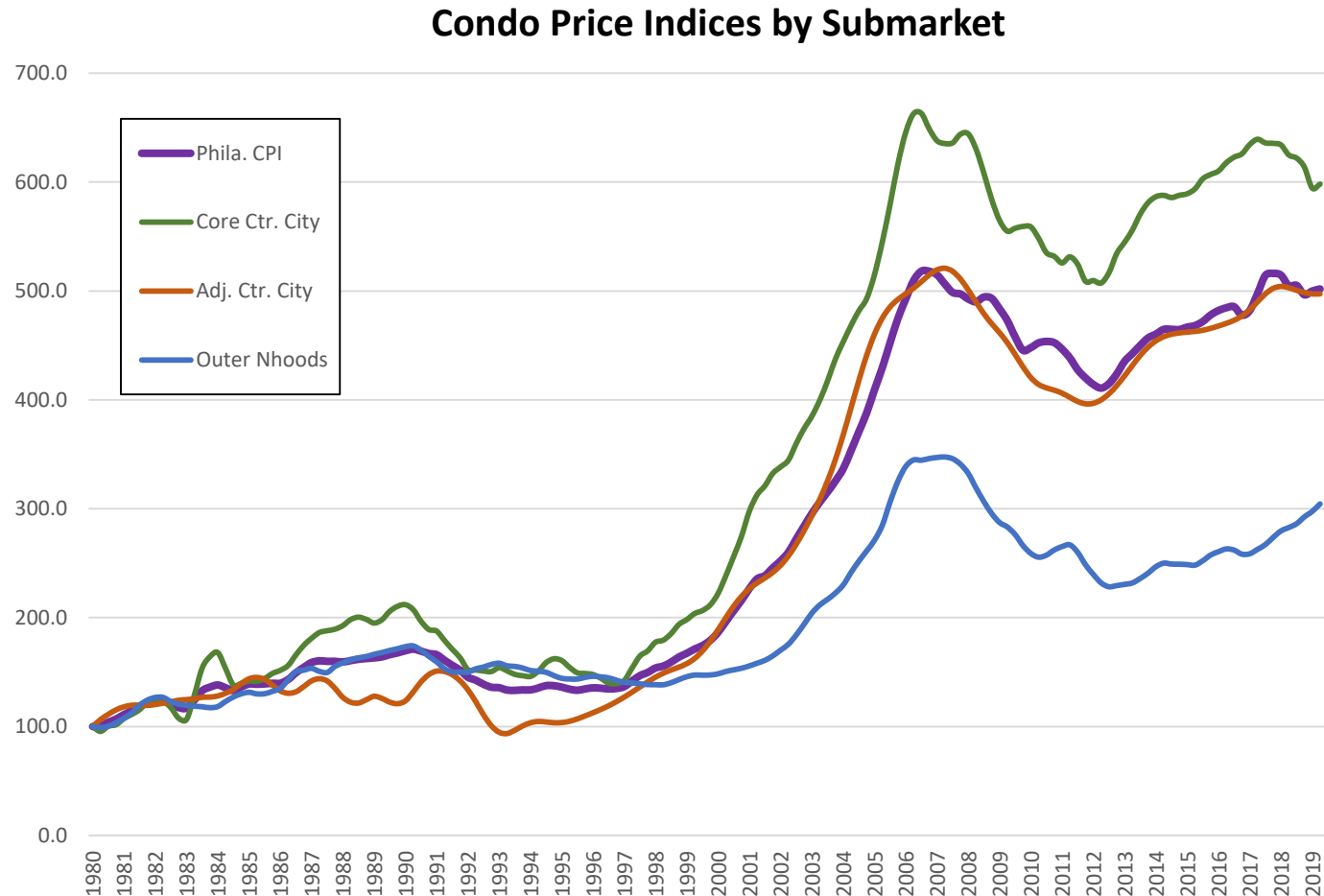
U.S. HPI courtesy of FHFA.gov.

Philadelphia HPI and CPI by Kevin C. Gillen, Ph.D.

LOCATION IS CRITICAL FOR CONDOS, THOUGH

Condo Price Indices for Philadelphia County

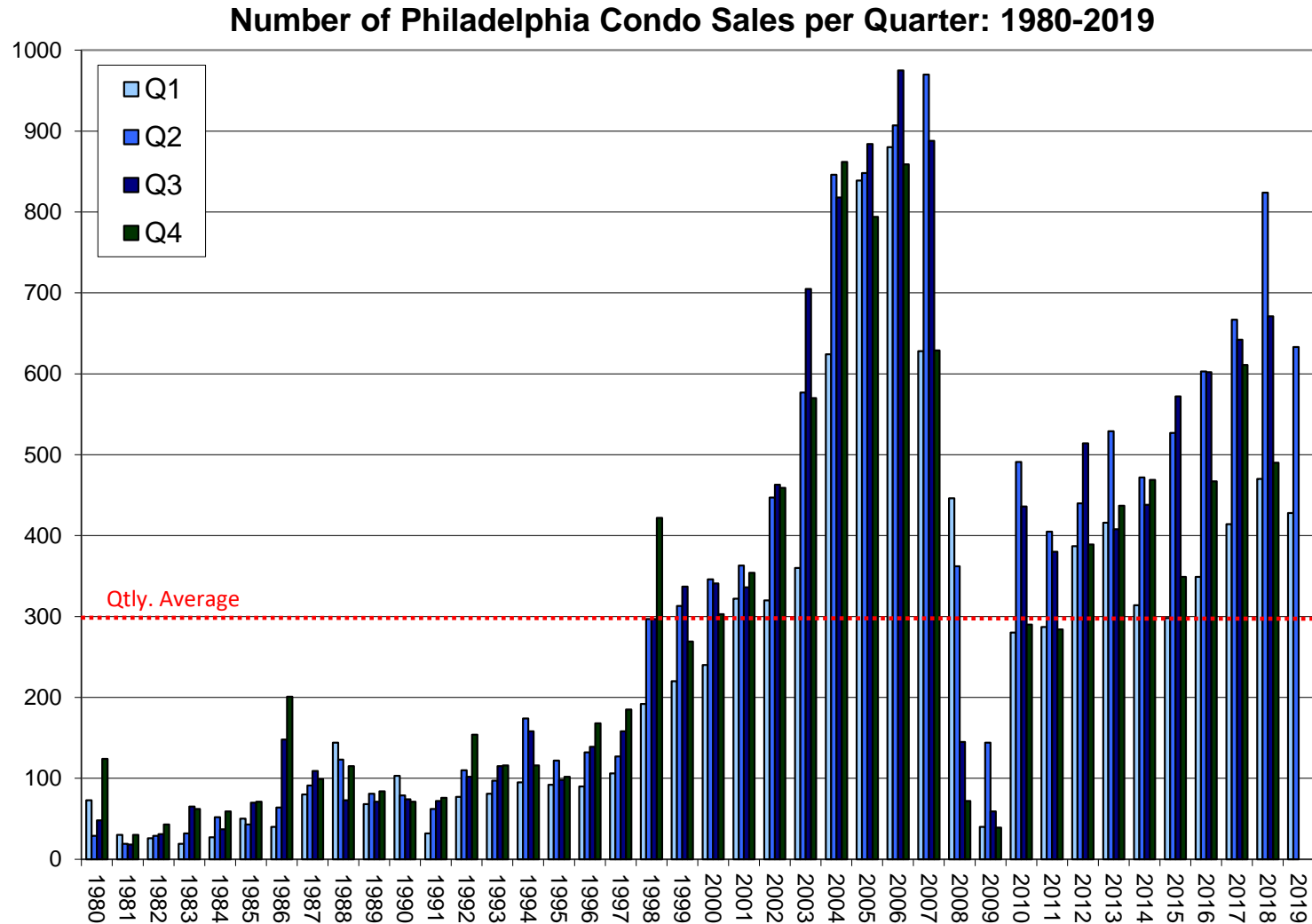
Source: Kevin C. Gillen, Ph.D.



CONDO SALES DOING BETTER THAN PRICES, THOUGH

Condo Sales for Philadelphia County

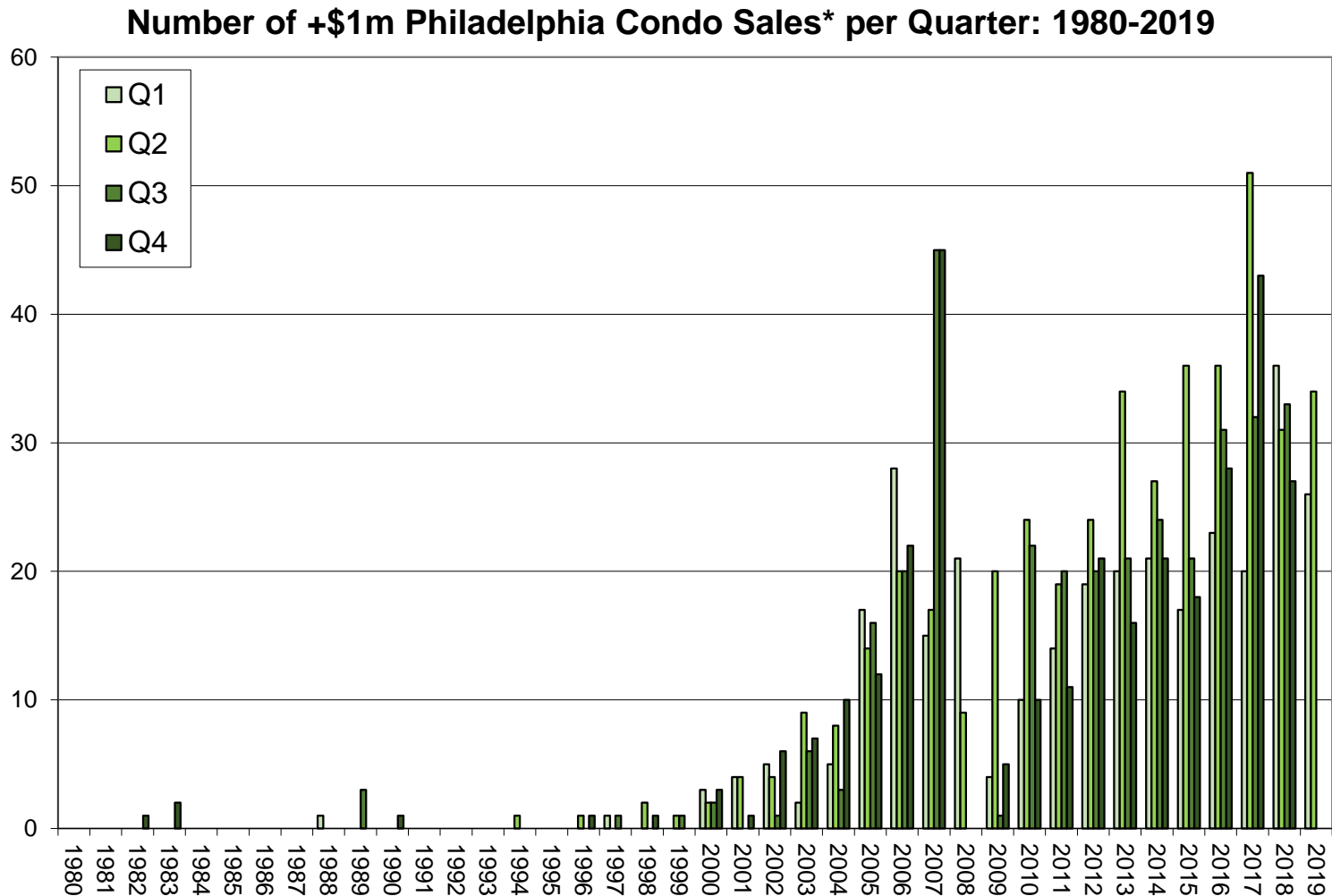
Source: Kevin C. Gillen, Ph.D.



AND +\$1M CONDO SALES ARE DOING BEST OF ALL

+\$1m Condo Sales in Philadelphia

Source: Kevin C. Gillen, Ph.D.



*This chart plots the number of condo sales that occurred at prices of \$1 million dollars or more.

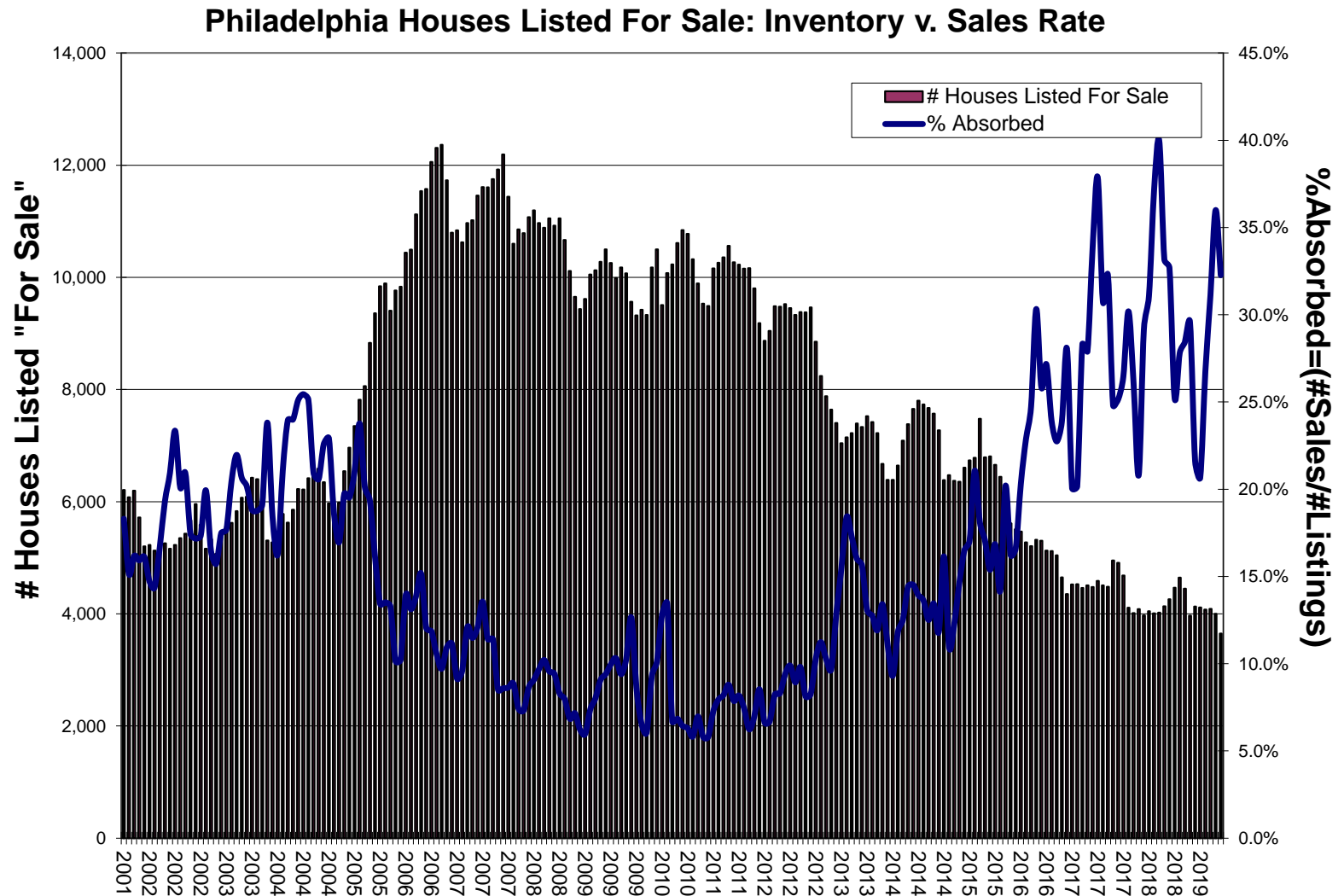
NUMBER TWO

Where is the housing market headed?

INVENTORIES ARE EXCEPTIONALLY LOW

Houses Listed “For Sale” in Philadelphia County

Source: Bright MLS, Kevin C. Gillen, Ph.D.

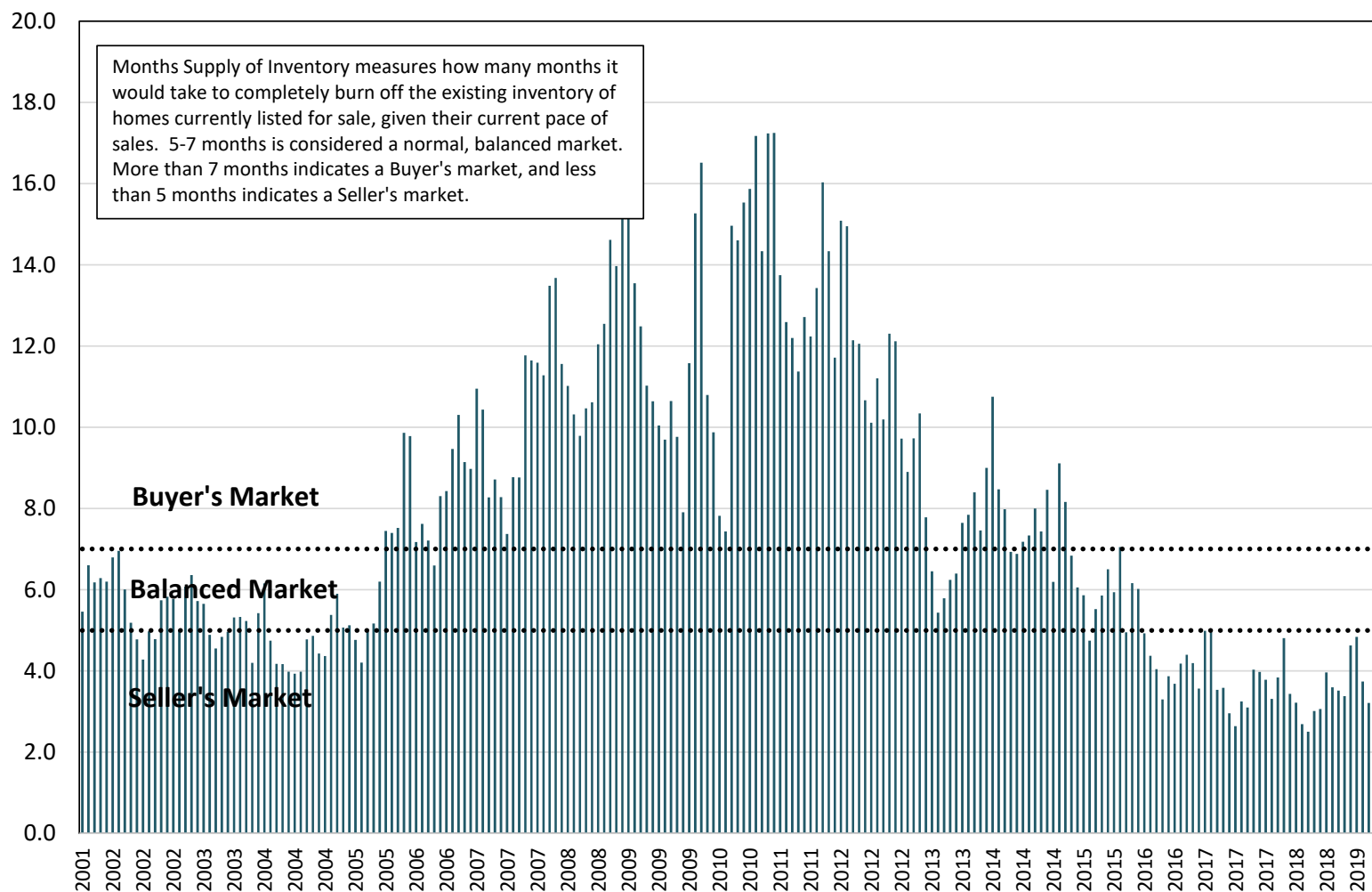


IS LOW SUPPLY DRIVING HOUSE PRICE APPRECIATION?

Months' Supply of Inventory in Philadelphia County

Source: Bright MLS, Kevin C. Gillen, Ph.D.

Months Supply of Inventory in Philadelphia

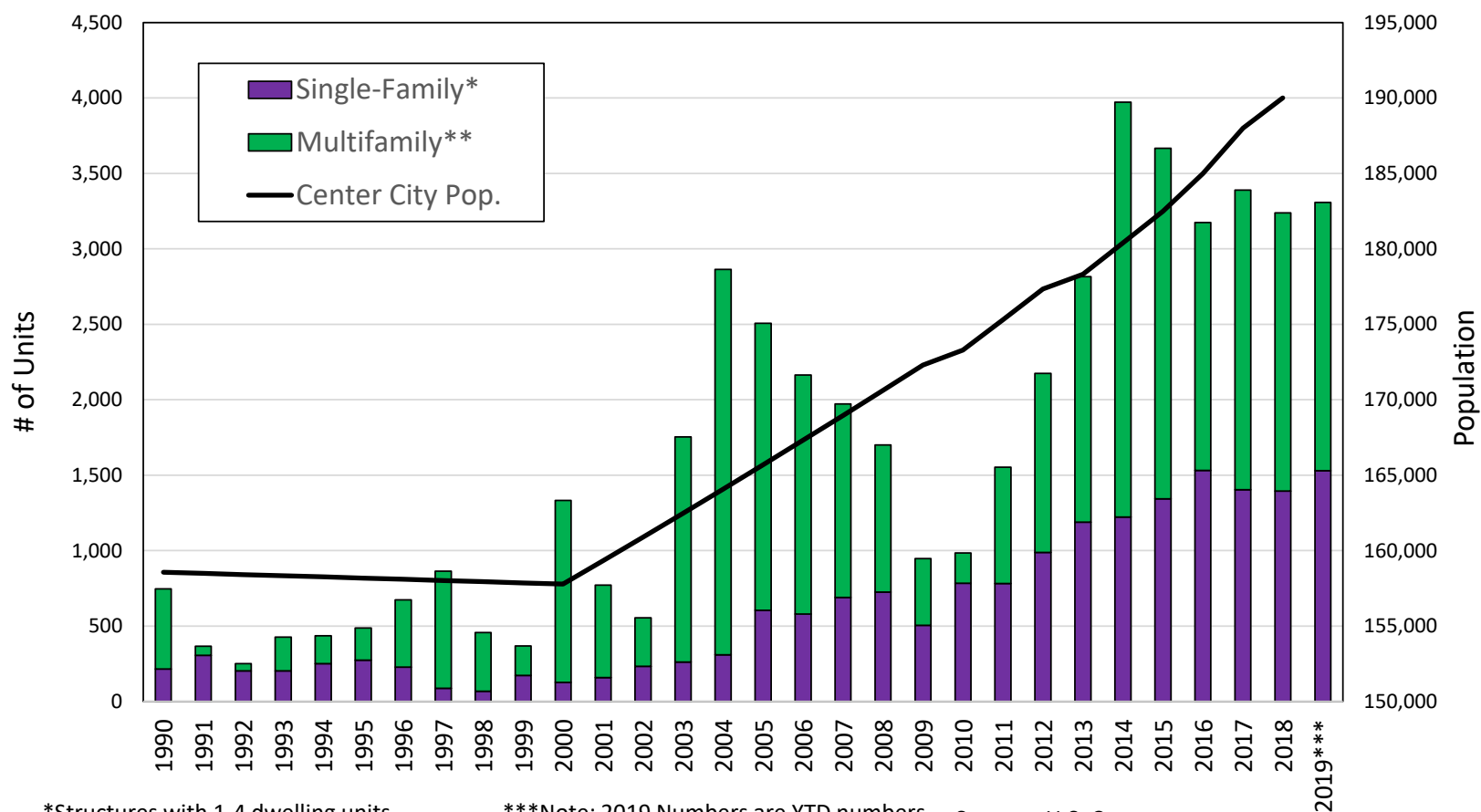


BUILDING PERMITS HAVE LEVELED OFF

Residential Building Permits in Philadelphia County

Source: U.S. Census

**Building Permits Issued for Construction of Residential Units in Philadelphia 1990-2019:
Single-Family v. Multifamily**



*Structures with 1-4 dwelling units

**Structures with >=5 dwelling units

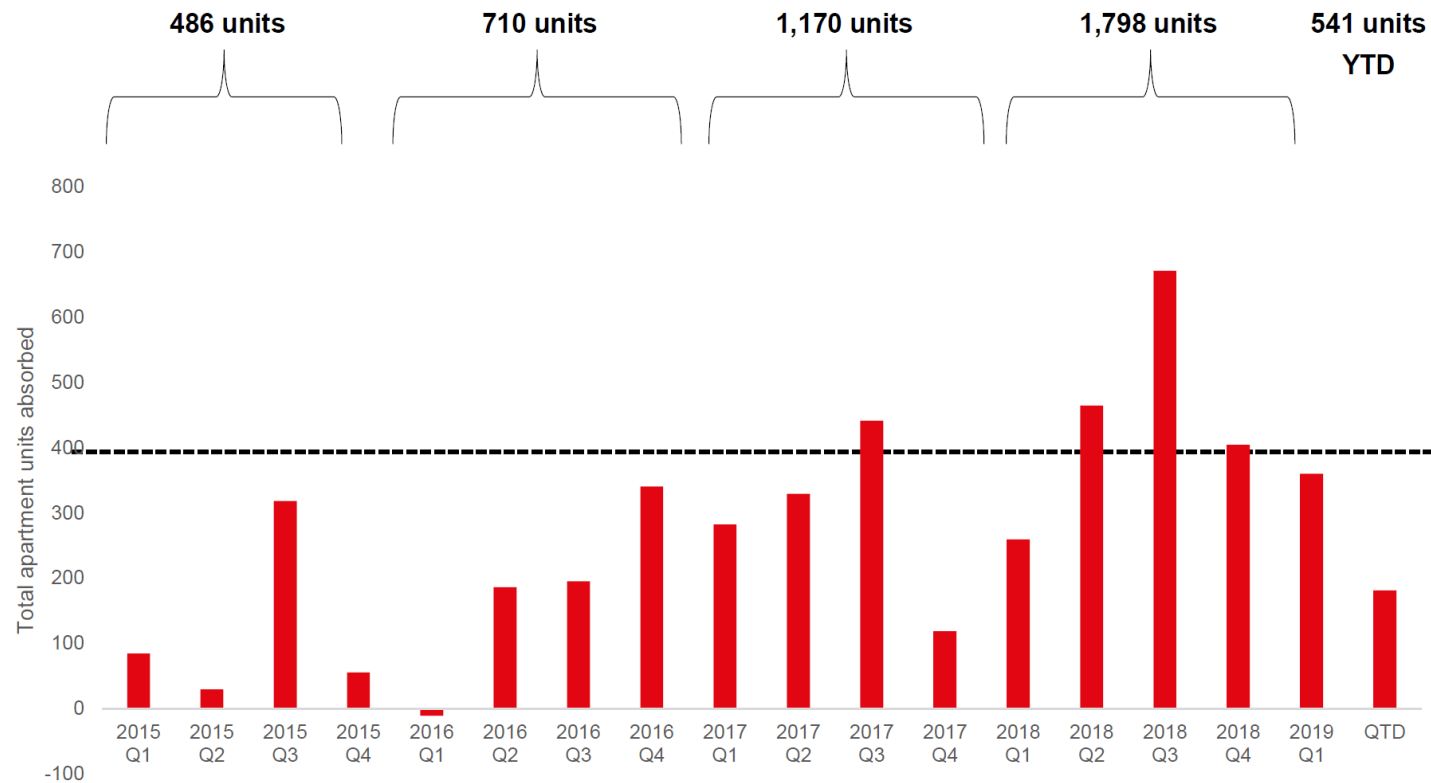
***Note: 2019 Numbers are YTD numbers through October 2019 only.

Sources: U.S. Census,
Center City District

APARTMENT COMPLETION APPEARS TO HAVE PEAKED

Apartment absorption has been accelerating as more new product is delivered, fueling additional development to kick off

Survey includes buildings of 50 or more units with base asking rents of \$2.00 p.s.f.



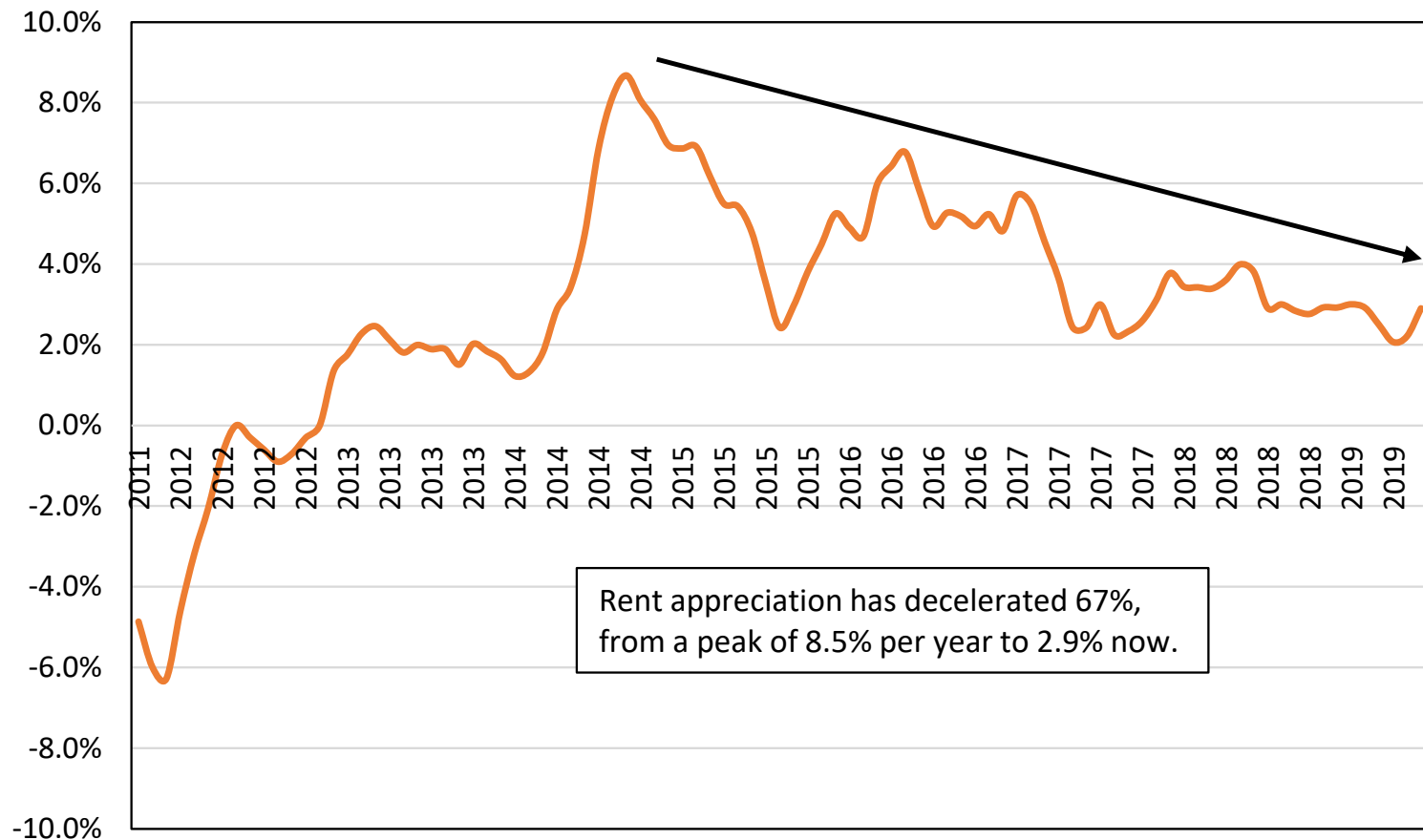
Source: JLL Research, CoStar

RENT APPRECIATION HAS BEEN STEADILY DECELERATING

YoY Change in Median Monthly Rent in Philadelphia

Source: Zillow.com

YoY Change in Median Monthly Rent in Philadelphia 2010-2019

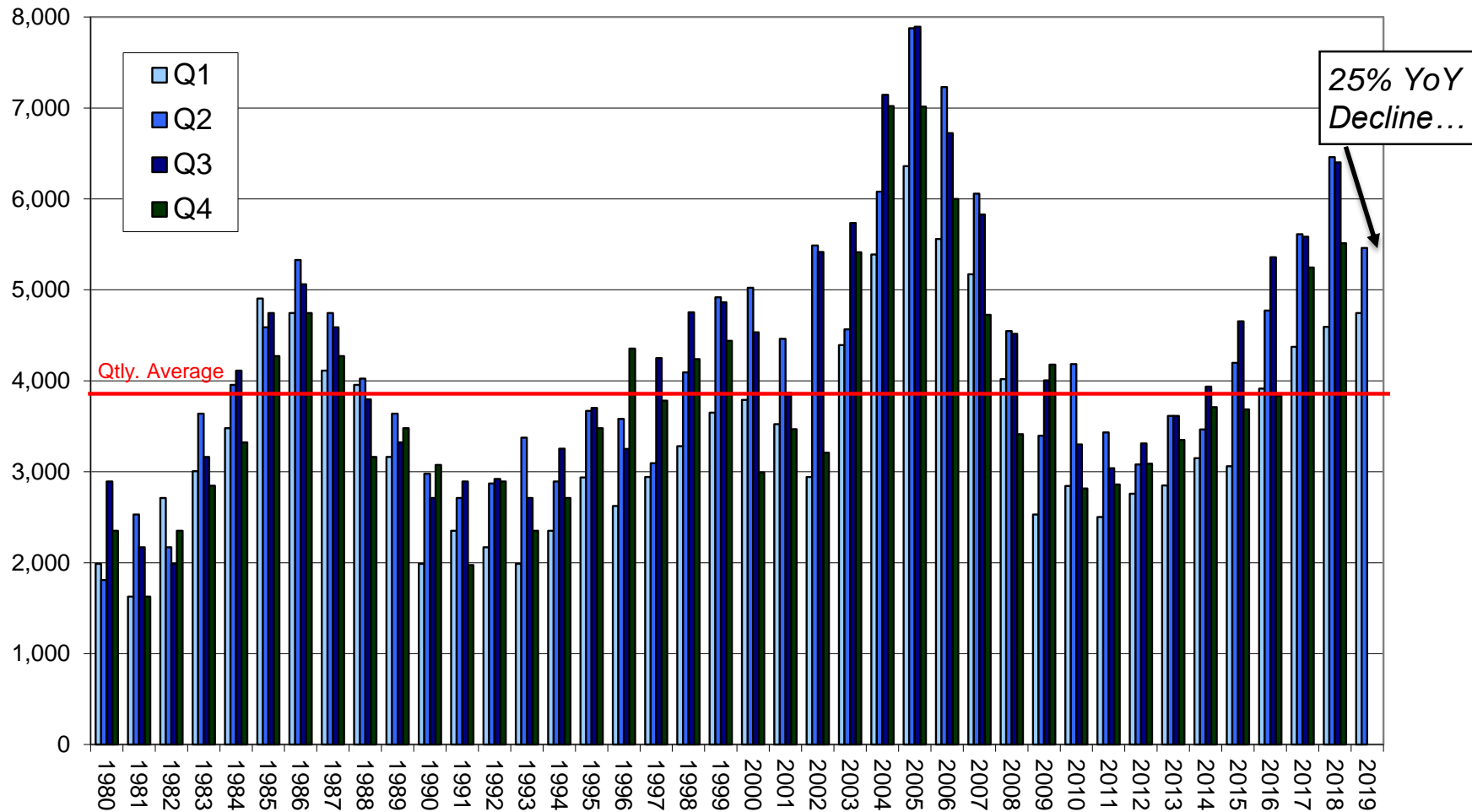


HAVE SALES PEAKED?

House Sales for Philadelphia County

Source: Kevin C. Gillen, Ph.D.

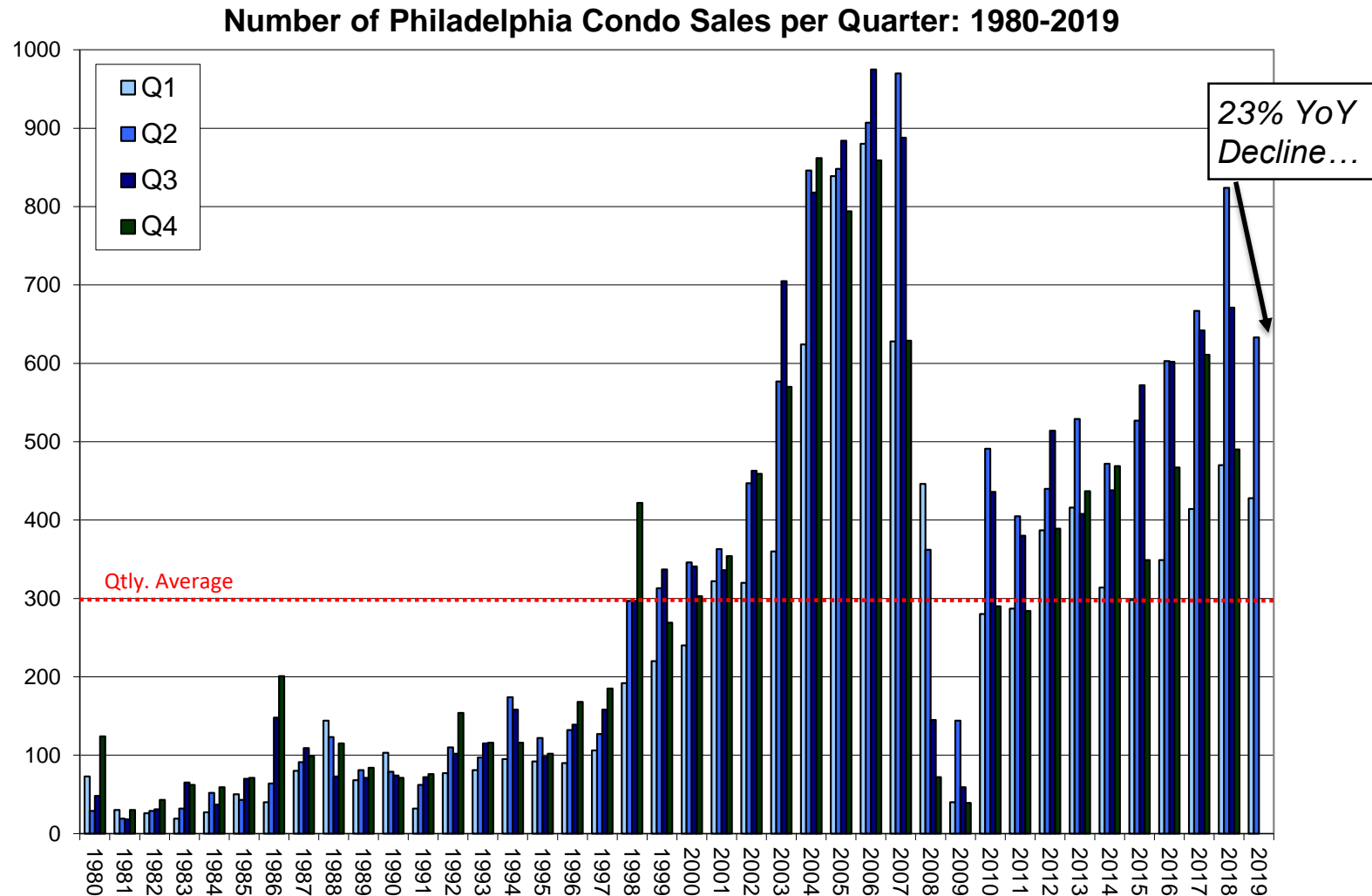
Number of Philadelphia House Sales* per Quarter: 1980-2019



SIMILAR PATTERN FOR CONDOS

Condo Sales in Philadelphia

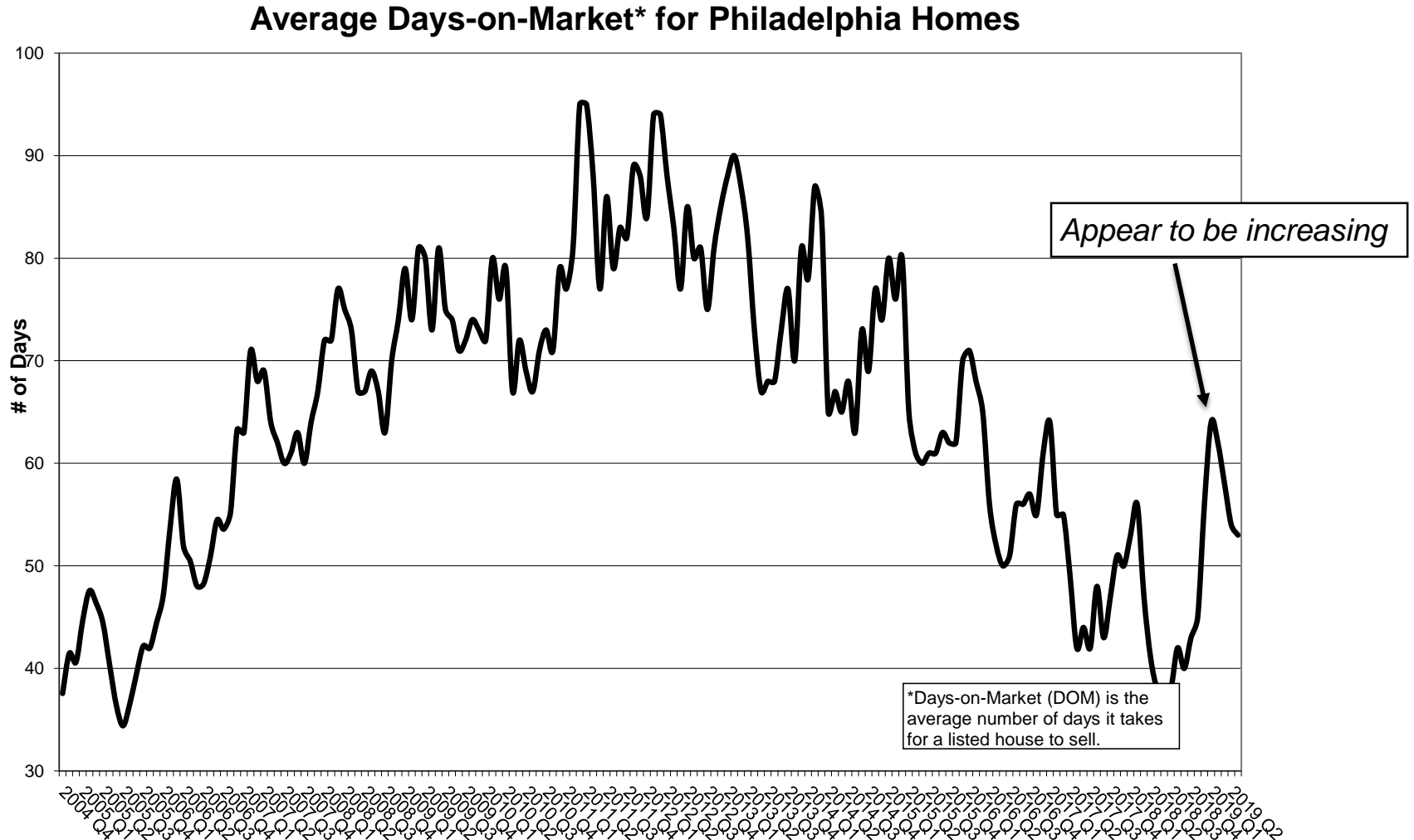
Source: Kevin C. Gillen, Ph.D.



IS THE PACE OF SALES SLOWING?

Average DOM in Philadelphia

Source: Kevin C. Gillen, Ph.D.



THREE QUOTES FROM LOCAL REALTORS

“Why are inventories in the city so stubbornly low?”

Three reasons:

First, baby boomers who would be willing to sell find themselves unable to afford to downsize. The homes that they would move into in an over 55 community cost more than they can get for their own home.

Secondly, our old and aging housing stock does not necessarily appeal to many millennial first-time buyers. Many homes would require a lot of updating in order to make the home salable and many older owners can not afford to do so. Therefore they remain in their home despite the fact that they'd like to move.

Lastly, there was a surge of both institutional and individual investors buying up single family homes for rentals following the bursting of the housing bubble. Since rents remain high, these rentals are producing strong positive cash flow and so they are not selling these. Normally this inventory would come into the market every 7 - 10 years and instead they are remaining as rentals.”

-A SVP with a major local brokerage firm

THREE QUOTES FROM LOCAL REALTORS

“I sell 50-60 homes per year, mostly listings, across all price ranges in Philadelphia County. Starting in about July, I’ve noticed a significant slowdown in the number of showings on my listings, an increase in the amount of time most of my listings are taking to sell, the need for price reductions – sometimes multiple reductions before procuring offers, and interested buyers often taking days and weeks to make decisions. I’ve also seen a rather dramatic increase in the number of withdrawn, expired, and cancelled listings on a daily basis.”

-A realtor specializing in single-family homes

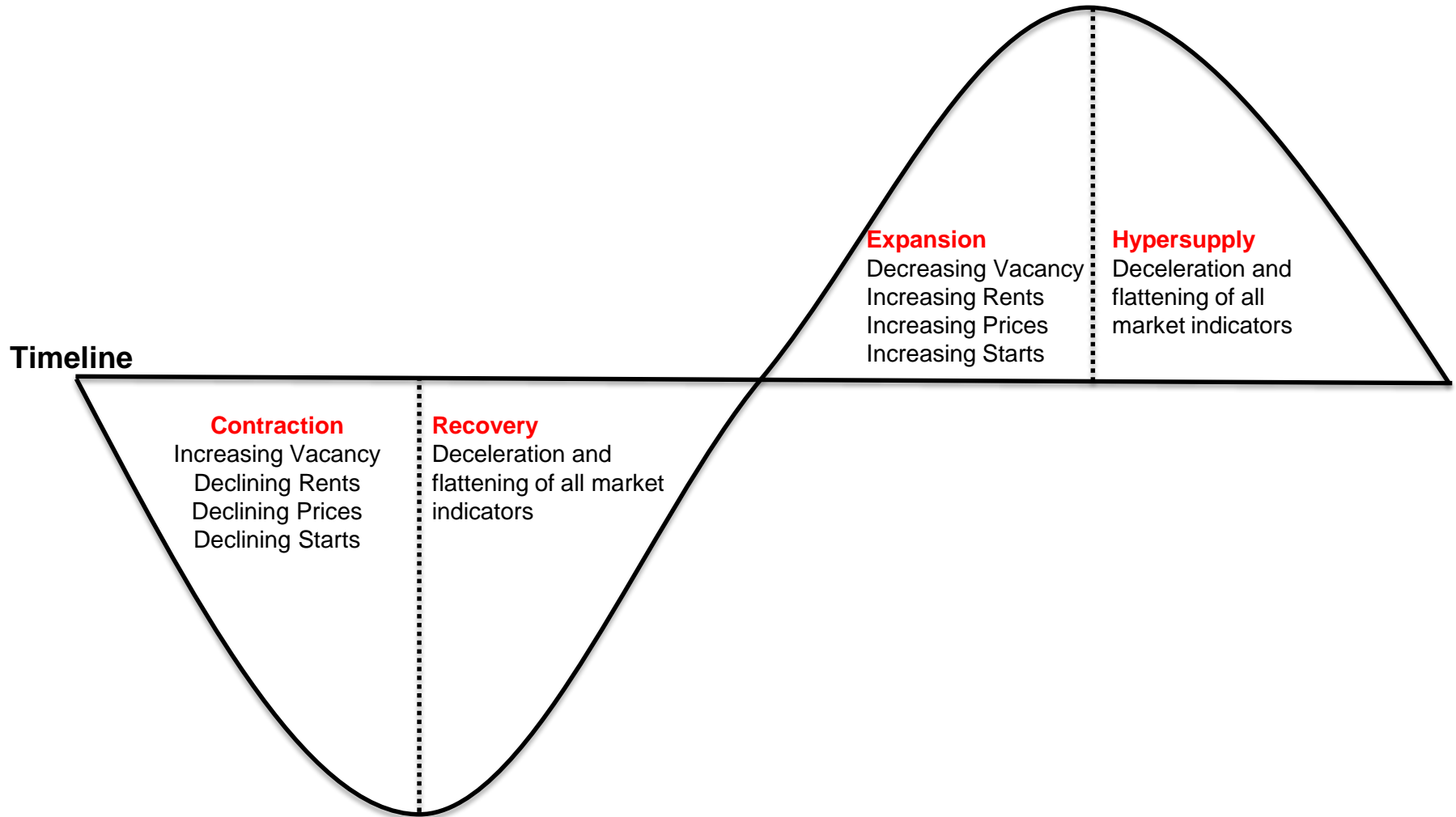
THREE QUOTES FROM LOCAL REALTORS

“Days on Market are way up for existing, older condos right now because of both market and demographic forces. Most condo buyers right now are empty-nester boomers or first-time millennials buyers. The boomers want luxury product while the millennials want fully amenitized “lifestyle communities”. Older product doesn’t fit either of those profiles.

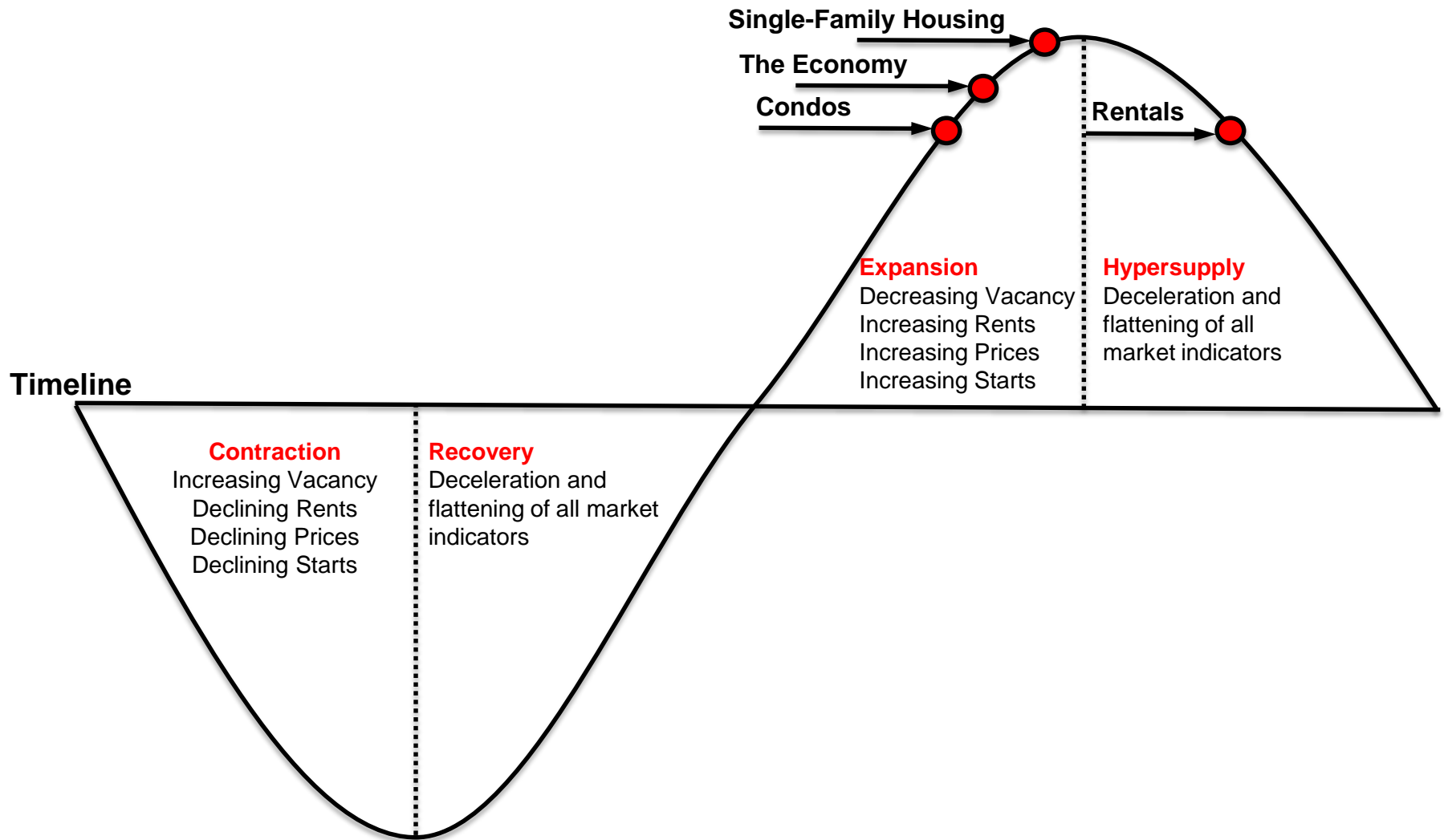
To me, these are tell-tale signs that we’ve rounded the corner from the pinnacle of the market and could be plateauing or headed down the other side.”

-A realtor specializing in Center City condos

WHERE ARE OUR DIFFERENT SECTORS IN THE CYCLE?



WHERE ARE OUR DIFFERENT SECTORS IN THE CYCLE?



THE ABATEMENT



Major changes will take place to the 10-year Tax Abatement at the end of this year.

THE ABATEMENT

The changes:

- 1) Will apply only to all-new ground-up residential construction.
- 2) Abated takes are reduced by 10% in each year the property is abated.
- 3) Estimates show this will reduce the market value of new housing by 8-9%.

ANALYSIS

Q: How to analyze the likely impact of the bill?

A: Since we don't have access to comprehensive citywide construction budgets and rent rolls, we found a case study.

Based upon a similar study we did 7 years ago for Westrum's Brewerytown Square.

Our case study this time: Kensington Courts

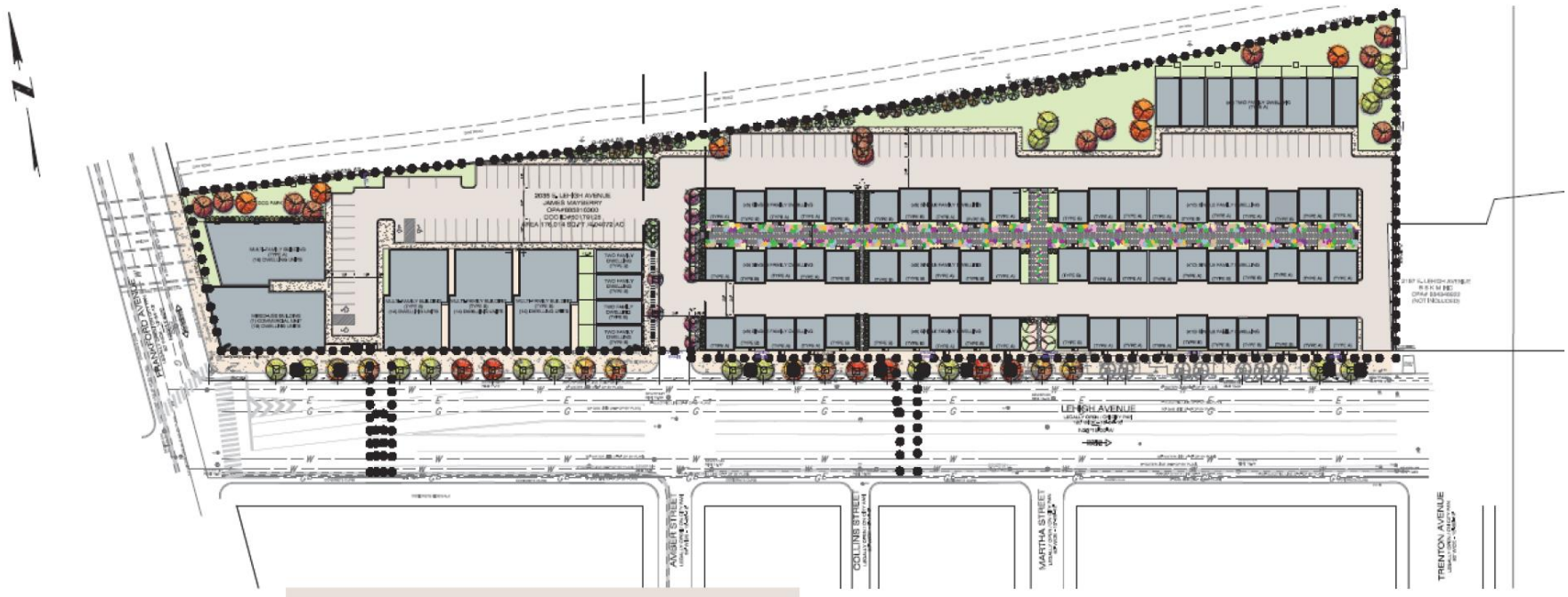
KENSINGTON COURTS



155 HOMES PLUS 7 COMMERCIAL

KENSINGTON COURTS

SITE PLAN



KENSINGTON COURTS



CAFE / RETAIL



WALK / RUN PATH



BICYCLE PARKING



ELECTRIC VEHICLE
STATIONS



DOG PARK



PEDESTRIAN
ACCESS



COURTYARD /
CHAT ZONE



VEHICLE PARKING



TAXI / UBER
STAND



FITNESS STATION

KENSINGTON COURTS



EMPIRICAL METHODOLOGY

We assumed that eliminating/curtailing the abatement will affect a project's bottom line in 2 ways:

- Increase the developer's real estate tax bill during construction/operation.
- Lower the sales price of finished units
 - Both Controller Rhynhart and I found that fully abated units have market values ~18-20% higher than comparable abated units.

BASE CASE SCENARIO

Item	2018	2019	2020	2021	Total	
Single-Family Townhomes	\$0	\$13,650,000	\$9,750,000	\$0	\$23,400,000	
Two-Family Townhomes	\$0	\$4,200,000	\$3,000,000	\$0	\$7,200,000	
Multifamily Apartments Type A	\$0	\$1,500,000	\$1,500,000	\$1,000,000	\$4,000,000	
Multifamily Apartments Type B	\$0	\$3,250,000	\$3,250,000	\$3,250,000	\$9,750,000	
Multifamily Apartments Type C	\$0	\$2,000,000	\$1,000,000	\$1,000,000	\$4,000,000	
Commercial Space	\$0	\$600,000	\$300,000	\$150,000	\$1,050,000	
Total Sales Revenue						
Transfer Tax	\$0	\$539,028	\$402,132	\$115,506	\$1,056,666	
Selling Costs	\$0	\$1,260,000	\$940,000	\$270,000	\$2,470,000	
Gross Property Tax	\$12,318	\$41,994	\$83,988	\$87,348	\$225,648	
Developer's Share of Property Tax	\$12,318	\$20,463	\$8,806	\$0	\$41,588	
Abated Property Tax	\$0	\$17,359	\$7,470	\$0	\$24,829	
Net Property Tax	\$12,318	\$3,104	\$1,336	\$0	\$16,758	
Net Sales Revenue						
Repayment of Development Costs	\$0	\$0	\$0	\$0	\$39,553,188	
Financing Costs	\$350,600	\$350,600	\$350,600	\$0	\$1,051,800	
Net ATCF						
Net Present Value						
Year 4 Cash-on-Cash Return	\$1.13					
Year 4 %Cash-on-Cash Return	13%					
Sales Flow (# of Units)	2018	2019	2020	2021	Total	Check
Single-Family Townhomes	0	35	25	0	60	60
Two-Family Townhomes	0	14	10	0	24	24
Multifamily Apartments Type A	0	6	6	4	16	16
Multifamily Apartments Type B	0	13	13	13	39	39
Multifamily Apartments Type C	0	8	4	4	16	16
Commercial Space	0	4	2	1	7	7
Total SqFt Sold	0	119,961	89,483	24,532	233,976	233,976
Percent SqFt Sold	0%	51%	90%	100%	100%	100%

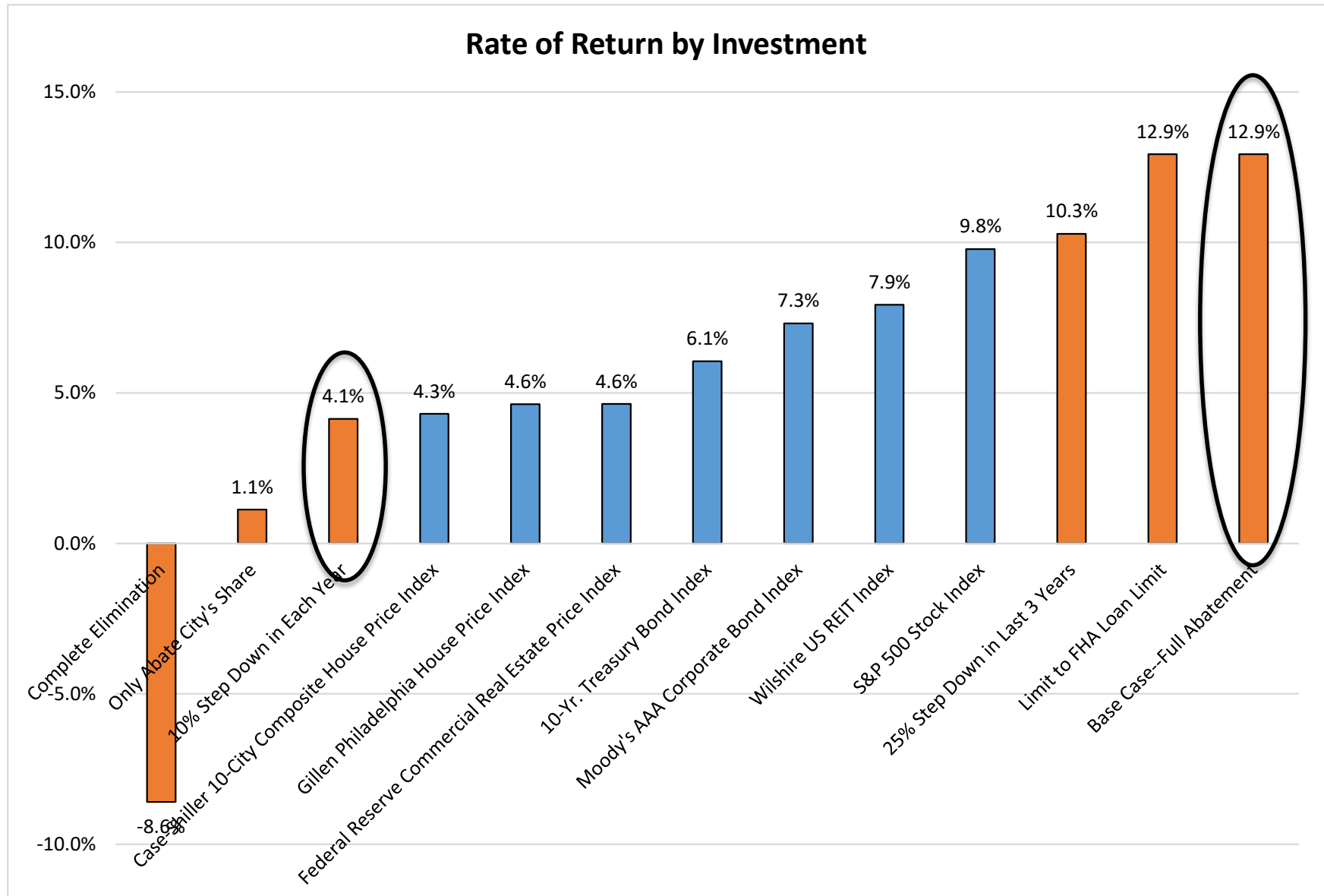
Under current market conditions and full abatement, the project's expected profit margin is 13%.

THE OTHER ABATEMENT SCENARIOS

We re-ran this analysis by applying each of the proposed modifications to the abatement.

Bottom line...here's what we found:

%IMPACT OF PROPOSED CHANGES TO THE ABATEMENT



IN CONCLUSION

Worst case scenario (complete elimination):

- Reduce a project's rate of return by 21.5 percentage points (from +13% to -8.6%)

Best case scenario (25% step-down in last 3 years):

- Reduce a project's rate of return by 2.6 percentage points (from +13% to +10.3%)

Thank you!!!

For any questions or further information, please contact:

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