

COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEE ON COMMERCE AND ECONOMIC DEVELOPMENT

Room 400, City Hall
Philadelphia, Pennsylvania
Monday, September 30, 2024
1:20 p.m.

PRESENT:

COUNCILMAN MARK SQUILLA, CHAIR
COUNCILMAN MICHAEL DRISCOLL
COUNCILWOMAN JAMIE GAUTHIER
COUNCILWOMAN KATHERINE GILMORE RICHARDSON
COUNCILMAN JEFFREY YOUNG, JR.

ALSO PRESENT:

COUNCILMAN ANTHONY PHILLIPS

BILLS: 240098, 240582
RESOLUTION: 240314

1 - - -

2 COUNCILMAN SQUILLA: Good
3 afternoon. Thank you for attending
4 today's Committee on Commerce and
5 Economic Development. The hearing
6 today for this Committee will note
7 that the hour has come and a quorum
8 of the Committee is present.

9 Mr. McMonagle, can you
10 please call the attendance.

11 THE CLERK: Councilman
12 Driscoll.

13 COUNCILMAN DRISCOLL:
14 Present.

15 THE CLERK: Councilwoman
16 Gauthier.

17 COUNCILWOMAN GAUTHIER:
18 Present.

19 THE CLERK: Councilwoman
20 Gilmore Richardson.

21 COUNCILWOMAN GILMORE
22 RICHARDSON: Present.

23 THE CLERK: Councilmember
24 Squilla.

25 COUNCILMAN SQUILLA:

1 Present.

2 THE CLERK: Councilmember

3 Young.

4 COUNCILMAN YOUNG: Present.

5 COUNCILMAN SQUILLA: Thank
6 you. A quorum of the Committee is
7 present. The hearing is now called
8 to order. This is a public hearing
9 on the Committee on Commerce and
10 Economic Development regarding Bill
11 No. 240582 and Resolution No.
12 240314. Bill No. 240098 is being
13 held at the request of the sponsor
14 and will not be heard at this
15 hearing today.

16 Mr. McMonagle, can you
17 please read the titles of the bill
18 and resolution. Before we read the
19 titles of the bills, Councilman
20 Phillips -- and also, acknowledging
21 Councilmember Phillips is present
22 for the hearing.

23 Mr. McMonagle, can you
24 please read the titles of the bills
25 and resolution.

1 THE CLERK: Bill No.
2 240582, an ordinance amending
3 Chapter 9-4400 of The Philadelphia
4 Code, entitled "Responsible
5 Business Operations," by amending
6 the definition of critical nuisance
7 businesses and further clarifying
8 an obstruction of an investigation,
9 all under certain terms and
10 conditions.

11 COUNCILMAN SQUILLA: Thank
12 you. Can we please call the first
13 panel that we have to testify on
14 Bill No. 240582.

15 THE CLERK: Can we please
16 have Francis Healy.

17 (Witnesses approached
18 Witness Table.)

19 COUNCILMAN SQUILLA: Before
20 we hear testimony, I'd like to
21 recognize Councilmember Young.

22 COUNCILMAN YOUNG: Thank
23 you, Mr. Chair.

24 So this Bill 240582, I'm
25 the prime sponsor of this

1 legislation, and what we're trying
2 to do here is address an issue that
3 I've seen in my District with the
4 implementation of the critical --
5 with the responsible business
6 operations ordinance.

7 This is a new piece of
8 legislation that has been
9 implemented this year and for me
10 the premise behind this
11 legislation, behind this change, is
12 because there have been instances
13 where police discretion is involved
14 and we want to just get some
15 clarity on when that discretion is
16 used, how it's used and to make
17 sure that there's uniformity across
18 the City when this particular bill
19 is being enacted and implemented.

20 There was an instance where
21 a property owner who is a business
22 owner, who has been a lawful
23 business owner for a number of
24 years, was deemed to be critically
25 nuisance after one incident within

1 the past, I don't know,
2 20-something years outside of his
3 business, right. And so, when you
4 shut that business owner down who's
5 a senior by the way, he's probably
6 almost in his 80s, so trying to
7 operate and navigate a particular
8 system when you're in your 80s
9 could be a little difficult when
10 you're not getting the response,
11 when you're not getting the
12 communication that you are supposed
13 to be getting in a manner to try to
14 get your business establishment
15 open again. So this business was
16 closed for almost over a month.
17 There were employees who could not
18 go to work for over a month because
19 of the lack of communication
20 between the police department and
21 this business owner.

22 And unfortunately, the
23 business owner had to take his wife
24 to the hospital today so he's not
25 able to be here to testify to his

1 effect, but he did send a message
2 over. So I just want to provide my
3 colleagues I guess with a little
4 clarity on the situation.

5 And from his perspective
6 now, the owner's name is Jake
7 Adams, he owns the Barber's Hall
8 facility at 1400 block of Oxford
9 Street, basically says the City of
10 Philadelphia should check the
11 businesses out if there are any
12 incidents that have occurred within
13 the last two years if they want to
14 take action.

15 He wants to make sure that
16 the City is checking facts to know
17 that the customers or the potential
18 victims were actually customers or
19 the perpetrators were actually
20 customers of that particular
21 business before they are able to
22 get shut down, and he just wants
23 folks to know that he loves his
24 business. But because of this
25 incident, now he believes it's time

1 for him to move on, right.

2 He's a longstanding
3 business owner of our city. And
4 being shut down by the City of
5 Philadelphia has caused him to
6 realize that maybe he should not be
7 in business anymore. When this one
8 incident occurred, only this one
9 incident at his establishment
10 within the last I don't know how
11 many years deemed him to be a
12 critically nuisance, so in his mind
13 he thinks that the City of
14 Philadelphia thinks he's a nuisance
15 business. Therefore, he should not
16 be in operation.

17 And all the folks on this
18 panel and some folks who are here
19 listening know what Barber's Hall
20 is and what Barber's Hall means to
21 the North Philadelphia community.
22 So for him to think that his
23 business is now a critical nuisance
24 business and it should not be in
25 operation, it just saddens my heart

1 because that's a place that I've
2 been going to for a long time. And
3 we want to make sure that we are
4 keeping businesses open in the
5 city, good businesses open in the
6 city because they're good
7 tax-paying businesses and they're
8 businesses that hire from the local
9 communities.

10 And so, we should not be in
11 the business of deeming folks to be
12 critically nuisances, right, just
13 for the fact that an incident has
14 happened around their particular
15 business. So I'm just looking to
16 get some clarity from the
17 Administration on this issue on the
18 implementation of it, on if there
19 are any regulations associated with
20 this particular bill and how we can
21 move forward to make sure that
22 there is fairness associated with
23 enforcement of this particular
24 legislation.

25 So thank you, Mr. Chair,

1 for your time.

2 COUNCILMAN SQUILLA: Thank
3 you, Councilmember.

4 And, Councilmember Gilmore
5 Richardson.

6 COUNCILWOMAN GILMORE

7 RICHARDSON: Thank you. Thank you
8 so much, Mr. Chair.

9 And I wanted to thank my
10 colleague Councilmember Jay Young
11 who represents the 5th Council
12 District for his advocacy for what
13 we all have known to be a very good
14 business in the 5th District for a
15 very long time, Barber's Hall.

16 I also wanted to thank
17 Councilmember Phillips who was the
18 sponsor of the bill that we all
19 worked on last year relative to the
20 responsible business ordinance and
21 therefore the additional
22 implementation and the work we all
23 did around the budget to ensure
24 that we had appropriate staffing to
25 deal with sort of the regulation

1 end of this bill.

2 And so, I just ask that we
3 could have something in writing,
4 some level of documentation
5 regarding the communication process
6 that the PPD has with businesses
7 when this particular instance comes
8 into play so that we fully
9 understand the communication is
10 there and that everyone knows
11 what's expected.

12 But I wanted to thank my
13 colleague for bringing this
14 important issue to our attention so
15 that we can ensure from a
16 regulation standpoint that we have
17 something in writing about what the
18 process looks like moving forward.
19 So thank you, colleague. And thank
20 you to PPD. Thanks to
21 Councilmember Phillips and all of
22 our colleagues for your work on
23 this issue. Thank you.

24 COUNCILMAN SQUILLA: Thank
25 you.

1 Councilmember Gauthier.

2 COUNCILWOMAN GAUTHIER:

3 (Gestured.)

4 COUNCILMAN SQUILLA: Okay.

5 Councilmember Phillips.

6 COUNCILMAN PHILLIPS: Hi.

7 Good afternoon, everyone. I also

8 want to echo the sentiments of

9 Councilmember Gilmore Richardson.

10 Thank you all for being here today.

11 This is -- as you know, for

12 several years we worked on this

13 piece of legislation defined as the

14 critical nuisance business. And

15 within the current framework the

16 Philadelphia Police Department will

17 play an active role in enforcing

18 business operations and this also

19 helps us with having community and

20 neighborhood enforcement whereas

21 essentially the business owner has

22 the responsibility to work with the

23 Philadelphia Police Department to

24 really understand what happened

25 during this incident. And also

1 most importantly, the business
2 owner has the opportunity to
3 receive feedback on how to properly
4 work with the Philadelphia Police
5 Department as well as find avenues
6 to secure their business even more
7 after a violent incident.

8 So the reason why there's
9 only one time that this is
10 happening so it doesn't -- so we
11 can get to a point where it doesn't
12 have to happen again. But I want
13 to thank Councilmember Jeffrey
14 Young for listening and having our
15 conversations before this meeting
16 to really understand how we can
17 make this work.

18 I gather this is more of a
19 regulation concern that he has in
20 terms of how do you coordinate with
21 the commanding officer and the
22 police department to enforce the
23 bill. And hopefully today we can
24 be able to find that out. But I
25 look forward to having this bill

1 remain the way it is, so that we
2 could continue to try enhance it as
3 much as possible but remain the way
4 it is. So I want to thank our
5 colleagues for their support as
6 well. Thank you.

7 COUNCILMAN SQUILLA: Thank
8 you, Councilmember Phillips.

9 Councilmember Gauthier.

10 COUNCILWOMAN GAUTHIER:
11 Thank you, Mr. Chair.

12 I wanted to thank Jay for
13 the bill as well as Councilmember
14 Phillips. And I am interested to
15 hear the discussion and participate
16 in the discussion. But I did want
17 to just touch for a moment on how
18 important the bill has been for me
19 and my constituents in the 3rd
20 District.

21 We've been dealing I would
22 say since the pandemic with a lot
23 of violence on our neighborhood
24 commercial corridors and the bill
25 gave us a way to react to that in a

1 better way. Even instances that I
2 can remember off the top of my head
3 there was a homicide in a store at
4 40th and Market. There were
5 multiple homicides on 55th and
6 Chester in front of businesses.

7 Just on Friday evening I
8 had a community meeting about two
9 shootings that happened on a
10 stretch of the 4,000 block of
11 Lancaster Avenue. In one instance
12 we'd requested a plan to make the
13 area outside of the store safer
14 because that's what the bill allows
15 us to do. Before we can get the
16 plan, there was another shooting in
17 front of the store, right. And so,
18 now we're working with two
19 businesses on a one-block stretch
20 of Lancaster Avenue where there's
21 consistently drug dealing and
22 shootings and I think that the
23 businesses have to participate in
24 making sure that people are safe.

25 So I understand your very

1 real concerns, but I just also
2 wanted to list that it's been very
3 difficult to deal with these
4 instances of violence. And most of
5 the time when there is a shooting
6 or a homicide in front of a
7 business, in my experience it's a
8 business that neighbors have been
9 complaining about for a really long
10 time and we haven't had a lot of
11 tools to really address the issue.

12 So I just wanted to put it
13 on record that this has been a
14 valuable tool for me and my
15 District, and I'm sure that other
16 District Councilmembers have had
17 similar experiences.

18 Thank you, Mr. Chair.

19 COUNCILMAN SQUILLA: Thank
20 you.

21 Hearing no other additional
22 comments, Deputy Healy just state
23 your name for the record and
24 proceed with your testimony.

25 DEPUTY COMMISSIONER HEALY:

1 Sure. Good afternoon, Chairmember
2 Squilla. I'm here with Inspector
3 Michael O'Donnell who oversees our
4 Nuisance Enforcement Unit. I'm
5 here on behalf of the Commissioner,
6 Police Commissioner. And on behalf
7 of the Commissioner, thank you for
8 allowing the police department to
9 voice its opinion on the proposed
10 amendments to City Code 9-4400.

11 For those that may not be
12 aware, I was personally involved
13 with Councilmember Bass with the
14 development of the original bill
15 creating the responsible business
16 operations ordinance, which was
17 ultimately enacted into Section
18 9-4400 in 2016.

19 I testified in support of
20 this legislation on behalf of the
21 department back then. This was a
22 great piece of legislation designed
23 to directly improve the quality of
24 life throughout Philadelphia. I've
25 been working on nuisance issues in

1 collaboration with the Law
2 Department under then Chief Deputy
3 City Solicitor Kristin Bray along
4 with our local state partners for
5 many years.

6 9-4400 was a great start.
7 But as time moved on, we realized
8 that this ordinance needed to
9 evolve. We needed to expand the
10 scope to address the more types of
11 nuisance behaviors and allow the
12 police department to play an active
13 role in the enforcement of the
14 business ordinance.

15 The question would be why?
16 Simply stated crime, disorder and
17 nuisance go hand-in-hand. As such,
18 under the leadership of Kristen
19 Bray we worked with Councilmember
20 Phillips and Councilmember Bass as
21 well as members from this Committee
22 to amend 9-4400 for the better.
23 These were not minor amendments but
24 rather a complete overhaul of the
25 ordinance to address the concerns

1 raised by our communities. So we
2 expanded the scope of the nuisance
3 behaviors and equally, if not
4 important, we included serious
5 violent behavior which was never
6 addressed in the earlier version of
7 the ordinance.

8 Simply stated, shootings
9 and homicides occurring in and
10 around nuisance businesses were
11 simply beyond the scope of the
12 ordinance. Further, the department
13 voluntarily -- the police
14 department voluntarily assumed
15 responsibilities with these
16 amendments that would otherwise
17 fall to our partners at L&I. As I
18 stated above, crime, disorder and
19 nuisance go hand-in-hand.

20 Therefore, having the PPD at the
21 forefront of enforcing this
22 business ordinance just made sense.

23 In anticipation of this
24 ordinance and the additional duties
25 and responsibilities that would

1 fall or be placed upon the PPD, the
2 PPD created the Nuisance
3 Enforcement Unit which now
4 Inspector O'Donnell oversees. This
5 unit coordinates with District
6 captains to enforce chronic
7 nuisance businesses and is
8 responsible for conducting the
9 investigations in all critical
10 nuisance businesses.

11 Every potential critical
12 nuisance business where violence
13 has occurred is fully investigated
14 to determine whether there is any
15 nexus or connection to the violence
16 before any enforcement actually
17 occurs. Only if there's a nexus to
18 this violence where the owners or
19 managers refuse to cooperate in a
20 preliminary investigation does any
21 enforcement action proceed. It is
22 for this reason that PPD must
23 object to the proposed amendments.

24 These amendments will
25 interfere with our relatively

1 new-found ability to immediately
2 respond to violent encounters in
3 businesses. If there is no nexus
4 between the business and the
5 violence that occurs, the business
6 owners have nothing to fear.
7 There's absolutely no need to allow
8 a second violent incident to occur
9 before we, the police department,
10 can take action.

11 This contradicts all the
12 work we put into the 2023
13 amendment. Since the beginning of
14 this year just from statistical
15 perspectives, the Nuisance
16 Enforcement Unit has investigated a
17 total of 67 critical nuisances as
18 businesses where someone has been
19 shot or injured or serious violence
20 occurred.

21 Of this number based upon
22 the preliminary investigation, and
23 I'll talk about that in a second,
24 it was determined that 34 of these
25 businesses had absolutely no nexus

1 to the violence that occurred. As
2 such, there were no further
3 enforcement actions. These
4 individuals cooperated with police
5 and it was over.

6 Conversely, 33 locations
7 were determined to have a nexus
8 with the violence. Of these 33,
9 nine have been sent to L&I and
10 ceased for not responding to the
11 intent to cease letters mailed
12 after the investigation. Six have
13 since reopened and an additional
14 three should be opening in the very
15 near future.

16 There have been 12
17 abatement plans, which are
18 successes, entered into thus far
19 with several others in the pipeline
20 to be finalized. And lastly, we
21 have about 21 other locations that
22 are currently in pending
23 resolution. So as you can see, the
24 current ordinance is well-written.
25 But more importantly, it's working

1 as envisioned and working well.

2 For these reasons, I again
3 would and enter the department's
4 objection to amending the current
5 ordinance. With that being said, I
6 just want to say very clearly I
7 understand the Councilmember's
8 perspective of the one incident
9 that occurred.

10 But let me just talk about
11 the preliminary investigations
12 component that we put into policy.
13 And by the way, our directive is
14 online. So everything we have
15 here, who to contact is actually
16 online. We have a commander's
17 guide for our captains and it has
18 every step-by-step that goes
19 through the process.

20 What we found out when this
21 ordinance was initially
22 implemented, we were doing the
23 investigations but -- we had
24 Macy's, the Macy's incident
25 happened. Basically that's a

1 violent incident that happened at a
2 business. So the question would be
3 what do we do with that. It's a
4 large -- was it involved, was it
5 not involved. And the answer is we
6 don't know. So we have to do an
7 investigation on every business to
8 make sure that there's a nexus.

9 If there is no nexus with
10 the violent activity, then there's
11 no problem. We don't go forward
12 with any actions. But the
13 individuals do have a
14 responsibility under the ordinance
15 to respond to the police
16 department.

17 So I understand you're
18 saying there's a communication
19 breakdown. I'm not going to
20 disagree that there may have been
21 one. But the ability to get in
22 touch with the 22nd District
23 Captain is not that complicated.
24 I'm just saying. But we can make
25 this better and that's what I'm

1 here to say.

2 COUNCILMAN YOUNG: That's
3 exactly what happened, but I'll
4 talk to you after the hearing.

5 DEPUTY COMMISSIONER HEALY:
6 okay. But I think we can make this
7 better if that's the issue at hand.
8 We in our policy -- like I said,
9 our policy is a guideline. I'm
10 happy to add additional contact
11 information in that to ensure that
12 there's even -- I'm sorry, easier
13 access to the captains themselves.
14 So I can understand if you call the
15 District Operations room, I can see
16 where communication failures may
17 have happened. So I can fix that
18 by policy very easily. So I can
19 actually make sure that Inspector
20 O'Donnell's unit includes in the
21 intent to cease letters that
22 there's multiple contact locations
23 for every commanding officer.
24 But the preliminary
25 investigations we do are really

1 what I think makes a difference and
2 actually adds to the ordinance that
3 we had it, because quite frankly
4 you're not going to take action on
5 every business just because
6 something bad happened in there.
7 Clearly, that's not the case. If
8 the business is not cooperating or
9 they're facilitating the conditions
10 that allow things to happen, those
11 are the places and only those
12 places are the ones that the
13 ordinance should be applied. So I
14 agree it shouldn't be on everyone,
15 but we're making sure that we only
16 go after those that we have
17 credible evidence and we maintain
18 documentation as to the nexus
19 statement or basically we call it a
20 nexus statement, which is
21 equivalent to a probable cause
22 statement.

23 COUNCILMAN SQUILLA: Thank
24 you. Thank you for your testimony.

25 One quick question before I

1 turn it over to Councilmember
2 Young, and I know because we have
3 also used this piece of legislation
4 in my District. And, Inspector
5 O'Donnell, I just want to ask for
6 clarity. I understand that a lot
7 of times it's initiated from the
8 captain, but doesn't it too then go
9 to the Nuisance Task Force or your
10 department to oversee the incidents
11 that were reported to make sure
12 they reach those nexus goals and
13 how then it would be enforced
14 because it's not totally just the
15 captain; is that correct?

16 DEPUTY COMMISSIONER HEALY:
17 So we're talking about critical
18 nuisances, not the chronic?

19 COUNCILMAN SQUILLA: Say
20 that again.

21 DEPUTY COMMISSIONER HEALY:
22 We're talking about the critical
23 nuisances, one violent incident
24 happens at a location. The other
25 ones are the chronic nuisances

1 where they have to have three
2 within a year.

3 COUNCILMAN SQUILLA: Right.
4 Okay. I'm talking about the
5 chronic nuisances.

6 INSPECTOR O'DONNELL: So
7 the chronic ones stay with the
8 captains, and then they come up to
9 us after they've had three
10 violations to our unit to
11 investigate and then go forward
12 with --

13 COUNCILMAN SQUILLA: So
14 they stay with the captains first?

15 DEPUTY COMMISSIONER HEALY:
16 Yes. And the reason for that is
17 the notice of intent to cease
18 operation is a legal document that
19 basically initiates the legal
20 process against the business. What
21 happens is the centralized unit,
22 the captains will figure out the
23 three violations, forward the
24 paperwork electronically to the
25 Nuisance Unit and then the Nuisance

1 Unit will collaborate with the Law
2 Department and L&I, primarily first
3 with the Law Department to see
4 whether or not we have nexus. And
5 if we have nexus, the connection
6 between the activities, then we
7 forward the package, the
8 information out to L&I and we
9 forward the new notice of intent to
10 cease operations.

11 COUNCILMAN SQUILLA: And
12 that's what I was referring to,
13 because it seems like it still goes
14 to the Nuisance Task Force or the
15 Nuisance Department to finalize
16 that. Even though they have the
17 three violations it's still not an
18 automatic --

19 DEPUTY COMMISSIONER HEALY:
20 Correct. We fine-tuned that with
21 the new amendments that happened in
22 2023 and the implementation of the
23 Nuisance Unit. Because like I
24 said, we want to make sure there's
25 consistency across the entire city,

1 so I didn't want to have 20
2 different captains doing notices of
3 intent drafted differently. So we
4 work with the Law Department that
5 the language is correct and they
6 review all the notices of -- I'm
7 sorry, the intent -- sorry again,
8 the nexus statement, which is
9 equivalent to a probable cause
10 statement. And they look at that
11 to see whether or not there's
12 enough information or enough data
13 to move forward.

14 And many times they'll turn
15 around and say, no, there's not
16 enough or go see if you can find
17 something more, more videotape or
18 something along those lines. But
19 we work hand-in-hand with the Law
20 Department.

21 COUNCILMAN SQUILLA: And
22 what happens during that time if
23 there isn't three? Doesn't it
24 start over again?

25 DEPUTY COMMISSIONER HEALY:

1 Which time?

2 COUNCILMAN SQUILLA: If
3 there's three violations.

4 DEPUTY COMMISSIONER HEALY:
5 It's three within a year now.

6 COUNCILMAN SQUILLA: Right.
7 So now the year is up. Now, it
8 continues and you still have to
9 have three within a year at any
10 time, correct?

11 DEPUTY COMMISSIONER HEALY:
12 Well, the good thing about this,
13 and this is the reason why -- I
14 mean, Councilmember Phillips was
15 with us when we announced our
16 nuisance tracker. We do
17 electronically track because what
18 happens is once you have your first
19 violation, the business -- this is
20 referring to chronic nuisances, we
21 have to notify the business. We
22 put you on notice, we send you a
23 letter, be advised X, Y and Z
24 happened at your location. They
25 don't have to do anything with us.

1 We're just putting them on notice.

2 Second time we send them a
3 second letter. Well, often times
4 in that letter it says, if you have
5 any concerns, please contact the
6 captain. We were incredibly
7 successful with the first letter.
8 First letter goes out, a lot of
9 times the business owners are not
10 necessarily the ones that are
11 running the business, per se. And
12 they get notice of this and the
13 first thing they do is reach out to
14 the captain and say what's going
15 on, what can I do to fix this
16 problem. Because our primary goal,
17 and I think this was clear
18 throughout the whole process of
19 this legislation, we're not looking
20 to shut businesses down. We just
21 want them to be good neighbors.

22 So the issue is a lot of
23 times they're reaching out at after
24 that first letter and things are
25 being resolved. What we do is we

1 enter into what's called an
2 abatement plan. So if the issue is
3 you should have more cameras, you
4 should have better lighting, you
5 should have metal scanners, that
6 goes into an abatement agreement.
7 And the abatement agreement gets
8 signed off. That's done. It goes
9 no further than there.

10 Now, if they violate the
11 abatement agreement, then we go to
12 the Law Department and we step back
13 into the intent to cease. But
14 we've been able to avoid that so
15 we're tracking -- I don't have the
16 specific numbers now. But we track
17 the success with the first letter,
18 the second letter and the third
19 letter is obviously a notice of
20 intent to cease. They haven't
21 responded by that time.

22 COUNCILMAN SQUILLA: Thank
23 you so much. I appreciate it.

24 Councilmember Young.

25 COUNCILMAN YOUNG: Thank

1 you, Mr. Chair.

2 Just a couple questions on
3 nexus. Can you describe to us what
4 the department uses as the
5 definition of a nexus to violence?

6 DEPUTY COMMISSIONER HEALY:

7 A nexus is a connection or --
8 that's the best way to say it. If
9 we can articulate that the
10 conditions that the owner allowed
11 at that location were in any way
12 contributory to the problem, to the
13 violence or anything along those
14 lines, if there's a lot of violence
15 out there, it's never been
16 addressed. If they have problems
17 and they've never gotten a security
18 guard. So it's on a case-by-case
19 basis.

20 And that's why just like
21 the District Attorney's Office
22 reviews a probable cause statement,
23 we too have the Law Department
24 looking at our nexus statements
25 because we want a fair and

1 objective review before we move
2 forward. So we'll put the facts
3 down. And if they don't think we
4 have enough evidence of nexus or a
5 connection between the business
6 owner being involved or actually
7 allowing the activities to fester
8 in a way, then we won't move
9 forward. The Law Department won't
10 allow us.

11 COUNCILMAN YOUNG: Thank
12 you. I think another issue that I
13 have with the language of the Code
14 is, yes, I understand the nexus,
15 but then it says or if the owners
16 or managers refuse to cooperate
17 with the preliminary investigation,
18 right.

19 DEPUTY COMMISSIONER HEALY:
20 Right.

21 COUNCILMAN YOUNG: And so,
22 if an owner not knowing
23 information, can that be deemed as
24 a refusal to cooperate with the
25 investigation?

1 DEPUTY COMMISSIONER HEALY:

2 No, but if they don't respond or --
3 they have an affirmative duty to
4 respond within so many days after
5 they get the notice of intent to
6 cease. They have to reach out to
7 us. At that point in time a lot of
8 times like I said, we resolve most
9 of these in the first letter when
10 they come out.

11 Even with the critical
12 nuisance, we were getting into a
13 lot of abatements. A lot of
14 individuals just say, listen,
15 there's crime all around my
16 neighbor, I don't know how to do
17 anything. And a District captain
18 can step in and try to come up with
19 some type of collaboration and say
20 we can actually help. But the
21 issue is they have to cooperate and
22 interact with the process. And if
23 they don't, then within the statute
24 or with the ordinance within five
25 days, that triggers the next level

1 going to L&I.

2 COUNCILMAN YOUNG: Thank
3 you for that clarity, which moves
4 into my next question. Where is it
5 defined or how is a business owner
6 notified of that communication
7 between themselves and the
8 district? How is that spelled out?
9 How is the administrative review
10 requested and to whom?

11 DEPUTY COMMISSIONER HEALY:
12 They receive the letter -- on the
13 notice of intent to cease they're
14 given contact information and the
15 captain's personal information to
16 contact.

17 COUNCILMAN YOUNG: Right.
18 And if that captain then says, I'll
19 call you back and never responds,
20 then what's the recourse for the
21 business owner?

22 DEPUTY COMMISSIONER HEALY:
23 You raise a good point. I mean,
24 the issue is what could we do
25 better. I mean, what I can do is

1 make sure that it's done by email
2 so there's documentation of a
3 failure to respond. But I've never
4 had a captain not, but I can see
5 where miscommunications can happen.
6 But I can fix that clearly with my
7 directive by adding additional
8 contact information.

9 COUNCILMAN YOUNG: Are
10 there objective standards or
11 protocols in place if after the
12 administrative review has taken
13 place and the reviewing official
14 says the owner has still failed to
15 satisfy certain conditions, how can
16 they -- basically who determines
17 that? Who determines you know
18 what, we don't like your plan so
19 you need to do something else?

20 DEPUTY COMMISSIONER HEALY:
21 The police department has been
22 given that authority upfront with
23 this new ordinance but we
24 collaborate with L&I.

25 COUNCILMAN YOUNG: And

1 under I guess the current code is
2 this -- do you have a subset of
3 standards that you look for when
4 folks enter into an abatement plan
5 or how they demonstrate to the
6 department that remedial measures
7 are taken into place? Is this
8 subjective or there's objective
9 standards or is it discretionary
10 amongst the departments? What
11 standards are there to say that
12 this business will be treated like
13 that other business?

14 DEPUTY COMMISSIONER HEALY:
15 Well, the proposed abatement plan
16 reconciliations are listed in the
17 ordinance. So we use that
18 ordinance as a basis to some of the
19 things that we should use. And we
20 work in collaboration. Like I
21 said, we're trying not to shut a
22 business down. We're trying to
23 keep it open. So the issue is
24 often times a negotiation between
25 the captain and the business owner

1 and say, listen, these are the
2 things we believe would help with
3 the crime that you're having or
4 something along those lines. So
5 we're trying to get them together,
6 so we use that as a guide.

7 I think there might be 18
8 or 20 different recommendations for
9 the abatement plan, and we use that
10 as a guide.

11 COUNCILMAN YOUNG: In this
12 current code, again if owners or
13 managers refuse to cooperate with
14 the preliminary investigation, then
15 actions can proceed. But in any
16 current law ordinance can a
17 business owner be charged
18 criminally for obstruction of an
19 investigation if they are not
20 cooperative with these types of
21 investigations?

22 DEPUTY COMMISSIONER HEALY:
23 No.

24 COUNCILMAN YOUNG: And so,
25 if they're not charged criminally

1 in this matter, then why are we
2 holding them to I guess it seems to
3 be a higher standard to cooperate
4 with certain investigations dealing
5 with these instances of critical
6 nuisances?

7 DEPUTY COMMISSIONER HEALY:

8 This is the City ordinance as to
9 intent to cease operations. They
10 have to participate once the intent
11 to cease operations is issued.
12 That's outside the scope of the
13 PPD.

14 COUNCILMAN YOUNG: Can you
15 define for us what is the
16 preliminary investigation in this?
17 What matters are taken into
18 consideration during the
19 preliminary investigation?

20 DEPUTY COMMISSIONER HEALY:

21 Yeah. When there's a shooting or a
22 homicide happens in a business, one
23 of the detectives assigned to
24 Inspector O'Donnell will go on
25 scene, they'll gather all the other

1 additional information from the
2 divisional detectives based upon
3 the shooting so they have that body
4 of information. And then they'll
5 interview and talk to the business
6 owners and managers as to what
7 happened. And based upon the facts
8 and circumstances they'll put a
9 nexus statement or quite frankly
10 it'll be no nexus statement if
11 there's nothing attached there.

12 We investigate all of them,
13 but I need to say, well, why did we
14 not go on one and why did we go on
15 the other. So we have those
16 statements and we maintain those
17 statements, so there'll be either
18 statement of nexus, there is a
19 connection, or she'll do an
20 investigation -- I'm sorry.

21 There's two female detectives.
22 That's why I say she. They'll do
23 the investigation and they'll put
24 up -- it gets submitted to myself
25 and it gets submitted to the Law

1 Department to review. And if
2 there's no nexus, I look at that to
3 make sure that there is, in fact,
4 no connection. If there's no
5 connection, that's the end of the
6 matter.

7 COUNCILMAN YOUNG: One
8 final question. Regarding I guess
9 the actual cease operations that's
10 issued essentially by the
11 Department of Licenses and
12 Inspections and not the police, the
13 five-day period that the owner has
14 to contact the police captain,
15 right, essentially is there any
16 appeals process for that owner if
17 they say they don't believe that
18 they should be even investigated
19 under this particular nuisance,
20 under this particular code? Is
21 there a process for them to appeal
22 that determination so they won't
23 have to call the police in that
24 five days to even start this
25 process?

1 DEPUTY COMMISSIONER HEALY:

2 Well, what happens is when we do
3 the paperwork, we send it off to
4 L&I. L&I will then, before they
5 ever do the cease operations, they
6 reach out as well so there's
7 another opportunity for the
8 business owner to interact with
9 L&I. So nothing's shut down just
10 based on our say-so alone. It
11 would actually then be either the
12 failure to cooperate with L&I or
13 L&I determines that there's
14 something else wrong there.

15 So L&I would then make that
16 call, but they don't unilaterally
17 do it on paperwork. The business
18 actually has almost a second bite
19 at the apple to interact -- let's
20 assume they didn't want to talk to
21 the police. When L&I gets
22 involved, they have the opportunity
23 to intervene and negotiate with L&I
24 to make it go away just like they
25 would have with us. So there's

1 actually two shots at the apple for
2 businesses before anything happens
3 about them being closed.

4 COUNCILMAN YOUNG: So I can
5 tell you in the case that I -- and
6 the reason why I brought this up,
7 that did not happen. There was no
8 opportunity to speak with L&I. In
9 fact, it was primarily -- we all
10 know that if the police tell L&I,
11 hey, look, this is a bad business
12 under this particular law, L&I is
13 going to do what the police say,
14 because essentially again like you
15 mentioned the police has taken over
16 the duties of enforcement for this
17 particular section in the code.

18 And so, I just want to make
19 sure that we have a set of
20 standards that all police captains,
21 all districts are utilizing when
22 they're enforcing this legislation,
23 because again, the discretion that
24 can be used from captain to captain
25 based on the type of business that

1 is in a particular area can create
2 a lot of gray areas.

3 And for business owners who
4 are good business owners who just
5 happen to have an incident outside
6 or near their establishment and to
7 then say, oh, because you don't
8 know information but we think you
9 know, but you're telling us you
10 don't know, now we're going to say
11 you're refusing to cooperate with
12 us and now we're going to come down
13 and enforce this law on you, I
14 think that kind arbitrarily sets up
15 disputes between that business
16 owner and police that doesn't have
17 to be there if we are able to see a
18 set of standards, a set of
19 protocols that everyone is playing
20 by. And then the business owner
21 themselves know how to then
22 navigate this bureaucratic process
23 when they get hit with one of these
24 violations or potential violations.

25 I think we need to have

1 clear rules on how to request
2 administrative review, how to do
3 all these things, so a step-by-step
4 guide for business owners to
5 navigate this process. And I don't
6 know if that exists or not, but we
7 should be encouraging that.

8 DEPUTY COMMISSIONER HEALY:

9 As for the appeal process, anything
10 that goes through the appeal
11 process still is intact, so it's
12 not like there -- anything that
13 happens with L&I, we're operating
14 basically as an agent for L&I, can
15 be appealable. So all that is
16 appealable. Anybody has an
17 opportunity to appeal any actions
18 of a government agency when it
19 comes to a business.

20 COUNCILMAN YOUNG: Yeah.
21 But is the method of communication
22 between the business owner and the
23 police spelled out somewhere like
24 on how they need to communicate
25 with the police officer? Because

1 essentially say it's a phone call,
2 right, and you get a phone number.
3 But if the police is not responding
4 to that phone call, then is there
5 another method where the business
6 owner can fulfill their duty,
7 right, to communicate with the
8 police?

9 DEPUTY COMMISSIONER HEALY:
10 Our policies are actually put in on
11 a directive, it's online. And part
12 of that is there's sample letters
13 that are attached that you'll
14 actually receive, they're formatted
15 letters. But to your point I can
16 add additional contact information
17 for the specific captains and
18 ensure that they're put on those
19 letters.

20 But I also want to touch on
21 consistency. Consistency is the
22 very reason why we created this
23 unit, to make sure that 21
24 different captains didn't view
25 things differently so they may have

1 chronic nuisances in one area of
2 the city and they're being much
3 more aggressive than you would say
4 in another part. That's where
5 Inspector O'Donnell's group gets to
6 see and be consistent and make sure
7 we're treating all businesses
8 fairly. So that's really one of
9 the reasons, well, primary reason,
10 for creating the unit, to
11 facilitate that consistency and
12 fairness.

13 COUNCILMAN YOUNG: Is it
14 possible that, one, when a business
15 gets hit through one of these
16 violations that they can be -- you
17 say the directives are online. A
18 business owner doesn't know to go
19 online to the police website to
20 check on what the procedures are
21 for them. So is it possible that
22 once a violation has been given or
23 they get that notice in the mail,
24 can we also send them what the
25 directives are so they know how to

1 again proceed because they're not
2 going to -- I didn't know, right.
3 They're not going to know to go
4 online to the police website to
5 look at what the directives are.

6 DEPUTY COMMISSIONER HEALY:

7 Listen, this is very good
8 information. I'm happy -- like I
9 said, we constantly evolve and
10 change. We're happy to put more
11 contact information in the letters
12 but also make a notice or a
13 reference to our website so they
14 can look at it.

15 Our website is basically
16 designed as it's -- I named it a
17 Commander's Guide for Nuisance
18 Enforcement. It's a step-by-step.
19 But as a business owner, you can go
20 through the step-by-step and very
21 clearly understand where you fit
22 and what your responsibilities are
23 just by reading our directive.

24 But I can tighten up the
25 letters that go out to make sure

1 that more notice -- or not more,
2 more contact information is
3 provided in the event you can't by
4 one means, there's a secondary
5 means. And I'll even try to put a
6 third means in there as well.

7 COUNCILMAN YOUNG: Thank
8 you.

9 Thank you, Mr. Chair.

10 COUNCILMAN SQUILLA: Thank
11 you. Thank you, Councilmember
12 Young.

13 Are there any other
14 questions to Deputy Healy or the
15 Inspector O'Donnell?

16 (No response.)

17 COUNCILMAN SQUILLA: Seeing
18 none, thank you so much for your
19 testimony. I appreciate it, and we
20 will now move on to -- is there
21 anybody else here to testify on
22 Bill No. 240582?

23 (No response.)

24 COUNCILMAN SQUILLA: Seeing
25 none, thank you so much. Thank you

1 for your testimony.

2 DEPUTY COMMISSIONER HEALY:

3 Thank you.

4 COUNCILMAN SQUILLA:

5 Mr. McMonagle, can you please read
6 the title to Resolution 240314.

7 THE CLERK: Resolution No.
8 240314, a resolution authorizing
9 the Council Committee on Commerce
10 and Economic Development to hold
11 hearings to investigate commercial
12 office building market viability in
13 Center City Philadelphia.

14 COUNCILMAN SQUILLA: Thank
15 you. Go ahead.

16 THE CLERK: Can we please
17 have James Aros.

18 (Witnesses approached
19 Witness Table.)

20 COUNCILMAN SQUILLA:
21 Councilmember Young.

22 COUNCILMAN YOUNG: Thank
23 you, Mr. Chair.

24 As one of the members who
25 represents parts of Center City,

1 I'd like to say Market Street is
2 our city's most important
3 commercial corridor here. It was
4 important to me to introduce this
5 legislation understanding that
6 certain significant challenges that
7 our city faces in our Center City
8 commercial office building space.

9 We want to hear from the
10 industry experts to see how we as a
11 city can do better at retention in
12 our commercial office building
13 space but also figure out how we
14 can work together to ensure that
15 our city continues to grow during
16 this challenging time.

17 I mean, when we look at
18 some of the numbers, there are a
19 lot of buildings in Center City
20 that are considered to be
21 distressed. And in the real estate
22 market business, that's not a good
23 thing. There are a number of
24 buildings that are in bankruptcy
25 right now. And so, we want to make

1 sure that as a city we still try to
2 capture that value for our city,
3 because I mean our tax base depends
4 on Center City and I want to make
5 sure that there are things in place
6 where we can continue to capture
7 that growth like other cities are
8 doing and to really partner with
9 the private sector on ensuring that
10 our city has the tools in place to
11 keep us moving in the right
12 direction.

13 So I just want to thank
14 you, Mr. Chair, for allowing me
15 that time.

16 COUNCILMAN SQUILLA: Thank
17 you, Councilmember, and thank you
18 for introducing this resolution.

19 A.J., if you want to just
20 state your name for the record and
21 then proceed with your testimony.

22 MR. AROS: Sure. Good
23 afternoon, Chair Squilla and
24 members of the Committee on
25 Commerce and Economic Development.

1 My name is James Aros, Jr. and I am
2 the Chief Assessment Officer for
3 the City's Office of Property
4 Assessment. Thank you for the
5 opportunity to testify on
6 Resolution No. 240314.

7 OPA has closely monitored
8 the activity of the Center City
9 office market over the past several
10 years. OPA utilizes the income
11 capitalization approach when
12 valuing Center City office
13 buildings. Earlier this spring OPA
14 completed our Tax Year 2025
15 revaluation and certified those
16 assessments, which were developed
17 using market data through June 30,
18 2023.

19 The total assessed value as
20 of that certification for office
21 buildings in the Center City
22 submarkets as designated by OPA was
23 approximately \$8.78 billion. For a
24 comparison when OPA completed the
25 most recent prior citywide

1 revaluation for Tax Year 2025 which
2 used market data through June 30,
3 2021, the total assessed value as
4 of that certification for office
5 buildings in the Center City
6 submarkets as designated by OPA was
7 approximately \$9.82 billion. The
8 decrease of over \$1 billion in
9 assessed value from Tax Year 2023
10 to Tax Year 2025 reflects recent
11 changes in the office market
12 attributed to several factors,
13 including higher vacancy rates and
14 higher capitalization rates, which
15 is a real estate metric that
16 estimates the rate of return on an
17 investment property. This
18 concludes my testimony and I am
19 available to answer any questions
20 you may have.

21 COUNCILMAN SQUILLA: Are
22 there any questions?

23 (No response.)

24 COUNCILMAN SQUILLA: Seeing
25 none -- thank you. Oh,

1 Councilmember Young.

2 COUNCILMAN YOUNG: Yes.

3 Thank you for your testimony. When
4 OPA utilized the income
5 capitalization approach when
6 determining the values of Center
7 City, where do you get this data
8 from when you're collecting the
9 incomes from the buildings?

10 MR. AROS: Sure. So we
11 were able to get some commercial
12 data for all commercial properties.
13 But in this case obviously we're
14 talking about office buildings
15 through CoStar, which is an
16 industry program that can get
17 either sales or rental information,
18 and we also utilized several
19 commercial specific appraisal firms
20 in the area that are able to give
21 us insight on market data, what
22 rents and rates and everything are
23 going for. So those are two of our
24 most primary sources of data as far
25 as what's going on in the market

1 when we do these valuations.

2 COUNCILMAN YOUNG: And is
3 there any differences when doing
4 evaluations regarding the different
5 classes of commercial real estate,
6 Class A, B, things like that?

7 MR. AROS: Yep. So we'll
8 break out -- so my testimony
9 reference numbers for Center City
10 overall. So there are three
11 submarkets included with that, so
12 we have Market West, Market East
13 and Independence Hall as we
14 designate it. So you could have a
15 different rate or a factor for a
16 location and then there's your
17 classes, so Trophy A, B, C.

18 Some of those rate figures
19 might end up being identical, but
20 we break it out so that way if
21 there are differences we would
22 reflect that in the assessments and
23 we can -- when we do the
24 calculations if there's a cap rate
25 difference between classes or

1 vacancy or whatever, we have that
2 data available to us in doing the
3 values.

4 COUNCILMAN YOUNG: And I
5 guess that decrease over \$1 billion
6 in the value, can you tell us what
7 I guess from a revenue perspective
8 how much revenue loss that is to
9 the City of Philadelphia?

10 MR. AROS: I would not be
11 the person to give you that answer.
12 We're not looking at the actual
13 revenue. We're just trying to get
14 the valuations right, and that
15 number includes some exempt value
16 so it's not all a taxable loss
17 there. But we're not doing revenue
18 calculations for the City so I
19 would not be the person to answer
20 that.

21 COUNCILMAN YOUNG: Thank
22 you.

23 Thank you, Mr. Chair.

24 COUNCILMAN SQUILLA: Thank
25 you.

1 Councilmember Gauthier.

2 COUNCILWOMAN GAUTHIER:

3 Thank you, Mr. Chair.

4 Were there any defining
5 characteristics of properties that
6 were worth less in '25 or was kind
7 of just everything valued at a
8 lesser amount?

9 MR. AROS: Yeah. So just
10 to give you a little bit of an
11 overall perspective when we're
12 doing the values, we're doing
13 income approach. We call it a
14 stabilized income approach. So
15 we're taking class of properties
16 and we're assuming certain factors
17 for everything in that class.

18 The reality of individual
19 buildings may differ and that's
20 where we get people to come in and
21 appeal. But when we're doing mass
22 appraisal, we're not going to do
23 1,300 individual values across the
24 city. We're using standard rates
25 for class, location, all that.

1 But just to give you the
2 difference, for the Center City
3 properties in Tax Year 2023 the
4 vacancy rates that we use as part
5 of that standardized
6 capitalization, the range was 8 to
7 12 percent depending on where they
8 were in Center City in the class.
9 For 2025, that range increased to
10 10 to 20 percent on a standardized.
11 So right there if you're on that
12 high end, that 20 percent end,
13 that's obviously a significant
14 increase from what we were looking
15 at in '23. Likewise, cap rates
16 went up anywhere from 10 to 15
17 percent. So when you're looking at
18 that, the higher the cap rate the
19 potential lower rate of return.

20 So when you're looking at
21 either cost of building or cost in
22 lending, those are two big factors
23 with the way the commercial
24 lending -- well, all lending rates
25 really, but particular in this case

1 commercial lending rates have
2 increased. That is a huge factor
3 in some of those cap rates going
4 up.

5 COUNCILWOMAN GAUTHIER:

6 Thank you.

7 COUNCILMAN SQUILLA: Thank
8 you.

9 Any additional questions?

10 (No response.)

11 COUNCILMAN SQUILLA: Seeing
12 none, thank you for your testimony.

13 Mr. McMonagle, can you
14 please call the next panel to
15 testify.

16 THE CLERK: Can we please
17 have Will Carter.

18 (Witness approached Witness
19 Table.)

20 COUNCILMAN SQUILLA: Will,
21 thank you for testifying. Just
22 state your name for the record and
23 then proceed with your testimony.

24 MR. CARTER: Good
25 afternoon. William Carter, Vice-

1 president of Local Government
2 Affairs for the Chamber of Commerce
3 for Greater Philadelphia. First
4 time I've been on a panel by myself
5 so kind of enjoying this.

6 Good afternoon, Chairman
7 Squilla, Councilman Young and
8 members of the Committee on
9 Commerce and Economic Development.
10 Once again, William Carter, Vice-
11 president of Local Government
12 Affairs for the Greater
13 Philadelphia Chamber of Commerce
14 and a founding member of the
15 Inclusive Growth Coalition. And I
16 want to thank you again for
17 allowing me to testify today.

18 People often ask what is
19 inclusive growth. And quite simply
20 it means growth of the entire
21 interdependent business ecosystem,
22 so that means micro, small, midsize
23 and large. And when businesses of
24 all demographics grow, they hire
25 which is of particular importance

1 to City Council and the Mayor, I'm
2 sure.

3 So it's good we're having
4 this discussion today as with any
5 delicate ecosystem maintenance of
6 and support are critical, and any
7 disruption will have ripple
8 effects. This is no different when
9 it comes to maintaining a strong
10 and attractive office market in
11 Philadelphia.

12 It's well-documented that
13 Philadelphia already has fewer
14 private employers of all
15 demographics than comparable
16 locales and very few for-profit
17 companies at the top of the City's
18 largest employer list. This dearth
19 of businesses has contributed to a
20 23 percent loss in job growth since
21 1970, and the recent pandemic only
22 exacerbated the statistic.

23 Study after study has shown
24 that business density correlates
25 with fewer business startups, lower

1 economic output and higher poverty
2 within areas. According to data
3 compiled by the Center City
4 District in 2019, there were more
5 than 50,000 daily visits on an
6 average weekday from non-resident
7 workers in the West Market Street
8 and JFK office district. And in
9 2020, that dropped to low fewer
10 than 5,000 commuters.

11 In 2023, there were roughly
12 30,000 such commuters going to work
13 in office buildings west of City
14 Hall data shows. When there's less
15 demand for office leases, building
16 owners can't sustain that business
17 model which leads to buildings
18 sitting around, which leads to less
19 workers within City limits, which
20 leads to less foot traffic for
21 small and diverse businesses and
22 the entire ecosystem I discussed
23 earlier, and then it also leads to
24 a few lower tax base for the city
25 of Philadelphia.

1 So it stands to reason that
2 Philadelphia has to maintain the
3 viability of its office market to
4 keep employers and jobs in the
5 city. With adequate investment and
6 maintaining a strong office market
7 and attracting employers,
8 Philadelphia can increase business
9 activity for traffic on our
10 commercial corridors and more
11 overall dollars flowing throughout
12 Philadelphia, which will
13 importantly grow jobs and an
14 increased tax base for public
15 services here in our city. And I
16 thank you for our time. So I
17 should get one question. This is
18 my only panel. I'm the soloist.

19 COUNCILMAN SQUILLA:

20 Councilmember Young.

21 COUNCILMAN YOUNG: Thank
22 you, Will, for your testimony. Can
23 you talk to us about how the
24 vacancies really affect the
25 business-to-business commerce

1 market here in our city?

2 MR. CARTER: Yeah,

3 absolutely. This is something we

4 talk about all the time. Inclusive

5 growth means everyone making a good

6 living inclusively whether they

7 work for themselves or others. And

8 so, when you have a small business

9 generally obviously that's usually

10 a mom-and-pop and we're really

11 talking about micro businesses.

12 Small businesses can be up to 10

13 employees or maybe a little bit

14 more, midsize businesses and large

15 businesses and so forth with the

16 amount of people they employ. So

17 the more people who are in office

18 buildings here, the more businesses

19 here and the more people who are in

20 office buildings here the more foot

21 traffic we have throughout the city

22 for small and micro businesses,

23 which could be once again your

24 mom-and-pop, for midsize businesses

25 who could be delivering services to

1 these companies in these office
2 buildings. And more importantly,
3 more dollars, economic dollars for
4 the tax base for the city of
5 Philadelphia to grow and be able to
6 sustain our programs and services
7 that we have throughout the city.
8 So it's an interdependent
9 ecosystem.

10 You have to have -- you
11 want growth from all. And other
12 cities are substantially invested
13 in business growth. Right now we
14 are just above Detroit. I don't
15 like to say that out loud but it is
16 true. It's been documented.
17 People from PEW and the Center City
18 District have this information. We
19 want to grow faster and more robust
20 and have our office system, our
21 office ecosystem full and robust so
22 that more jobs from top to bottom
23 are here throughout the city and
24 more money is flowing throughout
25 our city. It's an interdependent

1 ecosystem.

2 COUNCILMAN YOUNG: So what
3 things do you think we can do as a
4 city to better invest at a higher
5 rate than Detroit?

6 MR. CARTER: Well, I'm glad
7 you asked that question. And I'm
8 looking at Councilmember Gauthier
9 and hopefully she's going to be
10 easy on me this time. But I think
11 we all understand this. Right now
12 our city's largest employers are
13 eds, meds and government. Eds,
14 meds and government. So unless
15 you're in government like I am or
16 in eds and meds like some of my
17 friends, we'll say this city is not
18 for you necessarily.

19 So how do you grow
20 employers from diverse -- like
21 Atlanta's doing it. Austin's doing
22 it. They're saying, hey, we are
23 open for business. So the number
24 one thing I hear on a regular
25 basis, and you know I worked here

1 for 15 years and I used to think
2 they were crying wolf but it's not
3 the case, is we have to lower the
4 cost of doing business in the city
5 and we have to make it more
6 attractive for businesses to come
7 here.

8 Heads of households -- and
9 I say this all the time, heads of
10 households or heads of companies
11 make the same decisions as heads of
12 households in determining where to
13 locate. They want to be somewhere
14 where it's a nice environment so
15 that means clean, green and safe
16 obviously, but they also want not
17 to be knocked over the head for
18 being in that area.

19 So I right now, because I
20 don't work for the City, could move
21 outside the city and give myself a
22 3 percent raise. My wife as the
23 CEO of my company at the house asks
24 me all the time why don't we do
25 that, and it has to have an

1 overriding argument for me to be
2 here. And, you know, I do like
3 being in the city.

4 So I would just say that we
5 need to lower the cost of doing
6 business. We need to make it
7 easier to do business and we have
8 to make it obviously safer to do
9 business here and that will help
10 our office market grow, which is
11 obviously the subject of this
12 particular resolution.

13 COUNCILMAN YOUNG: Thank
14 you.

15 Thank you, Mr. Chair.

16 COUNCILMAN SQUILLA: I hope
17 she won't be too hard on you.
18 Councilmember Gauthier.

19 COUNCILWOMAN GAUTHIER:
20 Since he's by himself today I'm not
21 going to push him on (inaudible) at
22 all. But I did want to ask you if
23 you have studied how other cities
24 have approached this. We're not
25 the only ones dealing with this

1 issue.

2 And I would say that I had
3 the opportunity to go to other
4 cities for conferences over the
5 past couple of years. I've been to
6 Denver. I've been to Oakland. I
7 would say that our downtown is
8 faring much better than other
9 cities that I've seen. Those
10 cities felt very empty to me, even
11 a few years out of the pandemic.

12 But anyway, have you seen
13 cities that have dealt with this
14 challenge effectively and what have
15 they done?

16 MR. CARTER: Yeah, and I
17 actually will -- when the Center
18 City District comes up here they
19 have all the data and we borrow
20 data from them, but there is a
21 graph that shows private sector job
22 growth. We are close to the bottom
23 of that graph year after year.

24 So since I've seen this
25 graph and studied it, it is that

1 case. Several cities are above us,
2 Phoenix. We hear about Phoenix a
3 lot because we are similar in size
4 and I know that there's some
5 annexation that happened in
6 Phoenix, what have you. But
7 Phoenix is growing jobs faster than
8 we are.

9 And I think it just really
10 takes for us to really understand
11 what it's going to take to grow
12 jobs here, and I'm not saying that
13 we don't. We're having
14 discussions. Obviously there's a
15 Tax Reform Commission that's
16 talking thankfully and coming out
17 with recommendations.

18 But we have seen that the
19 cities that invest in private
20 sector job growth are creating more
21 jobs. Government doesn't grow
22 fast. It just doesn't. I don't
23 know how many people we've hired in
24 City Council since I left, but it's
25 probably not a whole lot.

1 And then eds and meds, they
2 grow when they expand their
3 footprint. Maybe a new building
4 goes up and in their master plan,
5 but cities who are getting it are
6 investing in private sector job
7 growth. So micro businesses turn
8 into small, small turn into
9 midsize, midsize turn into large
10 and even large turn into mega. I
11 say I root for all business like I
12 root for the Phillies and the
13 Eagles. I want them to win versus
14 our competition.

15 And we are in competition
16 versus other cities for residents,
17 for people saying, hey, I want to
18 come there for opportunity. It's
19 just happening and so many people
20 are going to Atlanta, so many
21 people are going to other cities,
22 D.C. and others. And we want to
23 say, hey, come here not just
24 because we want you to come here,
25 but also we want you to contribute

1 to our ecosystem of not only
2 residents but also businesses and
3 commerce. Hopefully, that answered
4 your question.

5 COUNCILWOMAN GAUTHIER: I
6 think I was asking -- maybe the
7 answer might be we just have to
8 invest in business attraction and
9 business growth. I think I was
10 asking in particular if we're
11 talking about the downtown office
12 market, are there particular
13 strategies that we should be using
14 to focus on the downtown office
15 market and how have other cities
16 fared in bringing their downtowns
17 back to life?

18 MR. CARTER: Yeah. And I
19 will say number one is, and
20 everybody says this top to bottom,
21 safety. Obviously, we need to have
22 a safe city and people need to feel
23 comfortable coming. We have to
24 invest in our transportation.

25 Right now SEPTA does not

1 have nearly the funding they need
2 and we depend upon that here. I
3 take the 17 bus often here and
4 back. And so, then obviously
5 lowering the cost of doing
6 business. Once again we have the
7 highest in the nation wage tax. If
8 you're a worker, you would live in
9 the suburbs and work in the suburbs
10 because you're saving yourself a
11 rack of money.

12 And then we're also the
13 only city that double tax our
14 businesses. So it's a disincentive
15 to being here. And then the costs
16 here are pretty high relative to
17 the return. And I'm sure these
18 gentlemen behind me can discuss
19 that further and once again the
20 people from Center City District.
21 But those are the strategies. You
22 want to do whatever it takes to
23 attract good business actors to the
24 city.

25 We're not talking about --

1 too many people come to me, they
2 say, oh, I feel businesses are like
3 Mr. Burns from the Simpson just
4 trying to make, you know, doing
5 this all the -- and that's not the
6 case. Most people, both my
7 grandfathers were entrepreneurs.
8 Either you work for yourself or you
9 work for others. And if you grow,
10 you hire. We want to attract those
11 type of people and that type of
12 energy to this city and get our
13 city -- I say this all the time,
14 get our city popping again.

15 COUNCILWOMAN GAUTHIER:

16 Thank you.

17 MR. CARTER: All right.

18 COUNCILMAN SQUILLA: Great
19 job. Very nice and cordial. So
20 thank you for your testimony, Will.
21 Appreciate it.

22 Seeing no other questions,
23 Mr. McMonagle, please read the next
24 testifiers.

25 THE CLERK: Can we please

1 have Prema Gupta, Job Itzkowitz and
2 Shalimar Thomas.

3 (Witnesses approached
4 Witness Table.)

5 COUNCILMAN SQUILLA: Good
6 afternoon, everyone. Thank you for
7 coming to testify.

8 Prema, we can start with
9 you. Just state your name for the
10 record and then proceed with your
11 testimony.

12 MS. KATARI GUPTA: Good
13 afternoon. My name is Prema Katari
14 Gupta. As my colleague from the
15 Chamber said, we're the people from
16 the Center City District with the
17 data. I'm CEO of Center City
18 District and I'm joined by my
19 colleague Clint Randall who is our
20 Vice-president of Economic
21 Development.

22 I'm proud to be CCD's
23 second CEO following behind our
24 founder Paul Levy, who now serves
25 as our Board Chair. Center City

1 District is an independent private
2 sector-directed authority organized
3 under the Commonwealth Municipality
4 Authorities Act.

5 CCD collects assessments
6 from 1,800 properties within
7 defined boundaries and uses this
8 revenue to provide programs for a
9 clean, safe, attractive and well-
10 managed public environment in our
11 downtown and otherwise bolster the
12 attractiveness and competitiveness
13 of Center City.

14 We've spent the last 33
15 years helping keep Center City
16 clean and safe with cleaning crews,
17 community service representatives,
18 homelessness outreach
19 professionals, a relatively new
20 public safety patrol, a unique
21 partnership with Philadelphia
22 Police that includes a substation
23 in our office and managing four
24 downtown parks, including Dilworth
25 Park right outside of City Hall.

1 I'll note that all of our programs
2 supplement but do not replace City
3 services.

4 Our downtown district's
5 geography essentially covers the
6 mid and high-rise core of Center
7 City Philadelphia from 6th Street
8 to the Schuylkill River and within
9 these few square miles are 42
10 percent of the City's jobs. And
11 while the perception of the
12 downtown worker may be like a
13 partner at a law firm, our downtown
14 ecosystem is really diverse and
15 interdependent.

16 One of my favorite
17 statistics is the fact that
18 two-thirds of downtown jobs do not
19 require a college degree. So for
20 every partner at a law firm, there
21 are many janitors, baristas, hotel
22 concierges and medical technicians.
23 And we need to be mindful of that
24 rich ecosystem of downtown jobs as
25 we consider the future health of

1 our downtown.

2 It has been our
3 organization's self-interest to
4 track the health of the office
5 market fairly excessively. I
6 mentioned the 1800 properties
7 within our district. 30 percent of
8 our assessment revenue at CCD comes
9 from just 25 buildings, and not
10 surprisingly these are large office
11 buildings for the most part which
12 were before the pandemic, at least
13 reliably the highest value
14 properties in Philadelphia.

15 So today our downtown
16 contains about 40 million square
17 feet of office space. And what I
18 find completely astonishing is the
19 fact that since CCD's founding 30
20 years ago, the amount of office
21 space in our downtown has remained
22 constant, 40 million square feet.
23 It almost doesn't make sense,
24 right, because we've seen new
25 Comcast buildings, we've seen

1 Morgan Lewis, we've seen Chubb, all
2 these sparkling new buildings.

3 And the good part of it, so
4 it's one of those good news/bad
5 news things, the good news is we as
6 a city that has led the way
7 nationally in converting outdated
8 office buildings to apartments and
9 hotels, driven in large part by the
10 tax abatement and our flexible
11 mixed-use zoning code, and I'll
12 talk more about conversions in a
13 minute.

14 But here's the bad news,
15 and quite honestly I find this
16 fairly horrifying, in the last 30
17 years while downtown's supply of
18 office space remained the same
19 size, the supply of suburban office
20 space in our region has grown from
21 25 million square feet to 60
22 million square feet while we've
23 stayed constant. And if you're
24 wondering why, I know that my
25 predecessor would love to talk tax

1 policy.

2 So of our 40 million square
3 feet of downtown office space,
4 nearly 9 million are currently
5 vacant, giving us a 19 percent
6 vacancy rate. Before the pandemic,
7 the vacancy rate was closer to 9
8 percent which is normal and quite
9 frankly healthy. And it's
10 important to note that vacancy is
11 not distributed evenly across
12 office buildings.

13 Our newest and nicest
14 buildings, the so-called trophy
15 class are generally well-occupied.
16 Trophy buildings are where tenants
17 move when they pursue a so-called
18 flight to quality, and this sort of
19 inventory in our downtown has an 89
20 percent occupancy rate. It's our
21 other office buildings,
22 particularly the middle Class A
23 segment that's bearing the brunt of
24 this trend. Vacancy in Class A
25 buildings is close to 75 percent.

1 The good news -- there is a
2 silver lining in this. Vacancy is
3 not driven by tenants leaving
4 Philadelphia. With the exception
5 of a few departures, notably Radian
6 tenants, have stuck around in
7 Center City since the pandemic and
8 we've even attracted a few new
9 companies.

10 So how is this possible
11 with vacancy climbing? Tenants
12 across the board in most industries
13 are downsizing, trading extra space
14 for smaller and often higher
15 quality spaces. This is in part
16 because of hybrid and remote work
17 patterns and in the West Market and
18 JFK office district, there are
19 about 63 percent of the daily
20 workers compared to 2019, but it is
21 worth noting that this number
22 continues to grow. And thanks to
23 the leadership of our Mayor and
24 companies like Comcast and IBX
25 there's about 6 percent more

1 workers in that office district
2 than there were last year and that
3 number continues to inch forward.

4 So going back to
5 conversions, right, there's a
6 school of thought out there
7 suggesting that we may be able to
8 convert our way out of this office
9 vacancy crisis, and it's not easy.
10 I'll say that because most office
11 buildings contain dozens of
12 different tenants all of which have
13 leases of different terms, lengths,
14 dates, structures. Downsizing and
15 relocating out of office buildings
16 doesn't happen at once. And it's
17 very rare for an office building to
18 be entirely vacant at once unless
19 it has a single occupant.

20 So I almost picture this as
21 a game of Jenga with irregular and
22 potentially destabilizing vacancies
23 throughout these office buildings.
24 And also, not every obviously
25 office building is suitable for

1 conversion even if the building is
2 entirely empty. Context, building
3 form, location of elevators, floor
4 plate size, elevator locations,
5 availability of windows and a
6 variety of other factors all play a
7 crucial role in assessing a
8 building's feasibility for
9 construction.

10 As I said earlier, we have
11 led the way nationally. We have
12 other cities nationwide reaching out
13 to us to understand how we've been
14 able to convert so many buildings,
15 how we have such a strong
16 residential population in our
17 downtown, and we have converted
18 nearly 10 million square feet of
19 outdated space in the last 30
20 years. And these other uses have
21 grown the downtown population and
22 also enlivened our streets.

23 Currently CCD is tracking
24 about 1.5 million square feet of
25 office conversion under way, which

1 we think should produce about 1,000
2 more apartments in Center City.
3 But ultimately, we cannot convert
4 our way out of the office vacancy
5 problem, and I don't think we would
6 want to either.

7 We need to maintain and
8 grow the number of office-occupying
9 jobs in our downtown that serve our
10 citywide population and reinforce
11 our great public transportation
12 system. Center City District has
13 been very focused on this issue,
14 which is why we've been engaging
15 with the City's Commerce Director
16 Alba Martinez and her team to
17 initiate a proactive outreach
18 program to all large tenants
19 occupying space in Center City.

20 The goal is to show that
21 city government and the downtown
22 business improvement district are
23 proactive and engaged and ready to
24 listen to what decision-makers at
25 those office tenants have to say

1 about operating in Center City.
2 The first phase of this outreach is
3 getting under way and we are
4 prepared to bring other partners
5 together to sit in on these
6 meetings with tenants as we
7 understand the quality-of-life
8 concerns and determine how to
9 improve their experience to ensure
10 that they are positioned to thrive
11 in Center City.

12 Aside from retention, the
13 attraction of new tenants is
14 another opportunity. With a
15 concerted effort to attract new
16 firms from the suburbs and from
17 other major cities, leveraging our
18 talent pools and our great
19 transportation system, we can
20 support the firms that are already
21 established here and vacancy in the
22 office district can be mitigated.

23 At Center City District we
24 believe that our downtown is the
25 heart of opportunity, commerce,

1 culture and joy for the entire
2 region. The diverse interdependent
3 downtown workforce hails from every
4 corner of the city and region and
5 includes thousands from every
6 Councilmanic District. The team at
7 Center City District is committed
8 to doing whatever we can to partner
9 with the City on programs and
10 policy changes that will encourage
11 tenants to stick around and invite
12 others to animate your office
13 district in the years ahead. Thank
14 you for your time and
15 consideration.

16 COUNCILMAN SQUILLA: Thank
17 you, Prema. I think we'll hold
18 questions until the whole panel is
19 completed.

20 Just state your name for
21 the record and proceed.

22 MS. THOMAS: Honorable
23 members of City Council, my name is
24 Shalimar Thomas and I'm the
25 Executive Director of North Broad

1 Renaissance, the nonprofit managing
2 both the North Broad Business
3 Improvement District and North
4 Broad Special Service District.
5 Thank you for the opportunity to
6 address you today regarding
7 Resolution 240314, a pressing issue
8 affecting our city's economic and
9 community landscape, the office
10 vacancy crisis.

11 In recent years, our city
12 has witnessed a significant
13 increase in office vacancies, a
14 trend accelerated by the COVID-19
15 pandemic and evolving work
16 patterns. As we navigate this
17 challenging period, it is crucial
18 to address the multi-faceted
19 impacts of the crisis and explore
20 strategies to mitigate its effects.

21 I'm particularly interested
22 in finding a remedy on this as
23 business attraction and retention
24 is a top priority for the North
25 Broad Renaissance, and office

1 vacancy is directly related to our
2 goals around job equity and can
3 impact more than 60,000 residents
4 in our coverage area. We know that
5 what impacts Center City will
6 eventually find its way into our
7 neighborhoods and can ultimately
8 impact our neighborhoods
9 negatively.

10 I think we all understand
11 the positive impacts that office
12 vacancies have on our communities,
13 but for the record I'll reiterate a
14 few: Economic opportunities, new
15 office development can create jobs
16 for local residents, including
17 positions in construction,
18 maintenance and the service
19 sectors. Additionally, moving
20 businesses into new office spaces
21 may provide entry-level jobs or
22 internships to community members.
23 Support revitalization and
24 infrastructure efforts. Office
25 buildings often lead to

1 revitalization in underdeveloped
2 areas, which can result in improved
3 infrastructure such as better
4 roads, public transportation and
5 public amenities. This can enhance
6 the quality of life in surrounding
7 neighborhoods.

8 Community development, some
9 office projects include community-
10 focused components such as
11 affordable housing, public spaces
12 or community centers. These
13 developments can provide direct
14 benefits to low-income residents.
15 If not addressed, the office can
16 have the following negative
17 economic implications: First, the
18 rise of office vacancies has direct
19 economic consequences for our city.
20 Empty office buildings result in
21 decreased property taxes which can
22 affect funding for essential public
23 services and infrastructure.

24 The shift towards remote
25 and hybrid work models have changed

1 the demand for traditional work
2 spaces. Many businesses are
3 re-evaluating their needs for
4 large, centralized office leading
5 to increased vacancies in our urban
6 core. This shift has implications
7 for local businesses such as cafés
8 which rely on foot traffic from
9 office workers.

10 Vacant office spaces can
11 contribute to blight and reduced
12 vibrancy in our neighborhoods. As
13 buildings remain empty, they become
14 eyesores and detract from the
15 overall appeal of our city.
16 Furthermore, high vacancy rates can
17 discourage new businesses,
18 developers and -- I'm sorry. High
19 vacancy rates can discourage new
20 businesses and developers from
21 investing in our community. I just
22 realized I should have made the
23 print much larger on this.

24 While the office vacancy
25 crisis presents challenges, it also

1 offers opportunities for innovation
2 and revitalization. Our city
3 governments are actively supporting
4 and shaping new office building
5 trends through various policies and
6 initiatives aimed at fostering
7 innovation, sustainability and
8 economic development.

9 My full testimony has a
10 comprehensive list of best
11 practices but for the sake of time
12 I'll highlight three: First,
13 promotion of innovation districts.
14 Some cities are creating or
15 supporting innovative districts,
16 areas designed to foster
17 collaboration between businesses,
18 start-up, research, institutions
19 and government agencies. These
20 districts often feature modern
21 office spaces tailored to the needs
22 of tech companies and other
23 innovative industries.

24 For example, the North
25 Broad Renaissance is in the process

1 of creating four districts to
2 support our inclusive economic
3 goals. They include a tech
4 district, arts and culture
5 district, business district and
6 health district. Partnering with
7 the City on promoting these
8 districts could prove beneficial to
9 both of our goals.

10 Second, economic
11 development programs. Cities often
12 have economic development programs
13 that support businesses in
14 expanding or relocating to new
15 office spaces. These programs may
16 offer financial incentives,
17 streamline permitting processes or
18 provide other forms of support to
19 attract and retain businesses.

20 A key industry to look at
21 is experience-based businesses or
22 the experienced economy. There's a
23 growing shift from owning products
24 valuing experiences. This trend is
25 driven by younger generations who

1 prioritize experience over material
2 goods. Businesses that offer
3 unique and memorable experiences
4 are thriving in this environment
5 and should be incentivized to
6 locate to our areas, especially
7 considering the salaries for these
8 jobs can range from \$40,000 to
9 \$120,000 a year.

10 Third, community engagement
11 and public spaces. City
12 governments are increasingly
13 incorporating public spaces and
14 community engagement to office
15 developments. This includes design
16 office buildings with accessible
17 public areas, parks and community
18 facilities that enhance the overall
19 urban environment. As I mentioned,
20 there's a full list in my testimony
21 that can be reviewed at a later
22 time.

23 By aligning policies and
24 investments with emerging trends in
25 office space usage, city

1 governments are playing a crucial
2 role in shaping the future of urban
3 park environments and fostering
4 sustainable, vibrant and adaptable
5 business districts. Overall while
6 office building trends have the
7 potential to benefit low-income
8 communities through improved
9 infrastructure and economic
10 opportunities, it's crucial for the
11 urban planning and development
12 strategies to address and mitigate
13 the risks associated with those
14 trends to ensure that growth is
15 equitable and inclusive, and in
16 short I'm talking about
17 gentrification.

18 In conclusion, addressing
19 the office vacancy process requires
20 a collaborative and forward-
21 thinking approach. By leveraging
22 innovative strategies and working
23 together, we can transform the
24 challenge into an opportunity for
25 growth and renewal in Philadelphia.

1 Thank you again for your attention
2 in this matter. I'm confident that
3 with your leadership we can
4 navigate this crisis and build a
5 more vibrant and resilient city.
6 Thank you.

7 MR. ITZKOWITZ: Good
8 afternoon, Chair Squilla, members
9 of the Committee on Commerce and
10 Economic Development. My name is
11 Job Itzkowitz. I'm the Executive
12 Director of the Old City Special
13 Services District. I want to thank
14 Councilmember Young for introducing
15 this resolution on this issue and
16 for allowing me to testify today.

17 By way of background, the
18 Old City Special Services District
19 is a municipal authority and
20 business improvement district in
21 Old City. Now, in its 26th year
22 Old City District served to
23 supplement, but not replace, the
24 services provided by the City of
25 Philadelphia and the

1 responsibilities of property
2 owners, contributing to a healthy
3 environment for businesses to be
4 successful, for visitors to enjoy
5 their experience in Old City and
6 for residents to maintain a
7 positive quality of life.

8 However, despite these
9 ongoing efforts to enhance Old
10 City's vitality, Old City's
11 commercial office market has not
12 been immune to the broader
13 challenges facing Philadelphia and
14 the national office market. Old
15 City, including its immediate
16 surroundings, is home to
17 approximately 30 office buildings
18 encompassing more than 5 million
19 square feet of space. Much of that
20 space is contained in Class C
21 commercial office buildings.

22 Office vacancy is a
23 national issue and Old City is no
24 exception. Within the past year
25 several large Old City office

1 buildings have vacancy rates in
2 excess of 40 percent, with at least
3 two exceeding 70 percent, one of
4 which was at 80 percent vacant.

5 Even more offices are
6 occupied, employees are not in the
7 office every day. With this
8 absence of office workers, it's no
9 surprise that while foot traffic is
10 improved, it has not yet recovered
11 to prepandemic numbers. The
12 subsequent impact on Old City is
13 multifold. The reduction in
14 occupancy and in office worker
15 attendance has an impact on the
16 ground-level experience for
17 workers, visitors and residents
18 alike.

19 Retail vacancies in Old
20 City have fluctuated significantly
21 over the past few years. And
22 although they've recovered since
23 the pandemic, Old City's retail
24 vacancy rate is starting to tick up
25 again in part due to the ongoing

1 absence of those workers. But an
2 addition to the immediate impact
3 created by the decline in office
4 worker foot traffic, increased
5 office vacancy and the
6 corresponding decline in property
7 values pose an existential threat
8 to our organization.

9 As you know, and you've
10 voted on this in the past, OCD's
11 five-year plan and budget is
12 approved by City Council. The
13 approved plan outlines how much OCD
14 budgets for assessments each year.
15 That assessment amount this year,
16 about \$1.2 million, is then
17 allocated to each commercial
18 property owner based on the
19 relative value of their property
20 over the denominator of all
21 commercial property in the
22 district.

23 So for example, if your
24 property is worth 10 percent of all
25 the commercial value in the

1 district, you pay 10 percent of our
2 budget and this year would work out
3 to about \$120,000. Our commercial
4 properties range in size and I'll
5 refer to them today as they are
6 more commonly known, and those are
7 not necessarily their official
8 names today, for example on the
9 larger side Old City has the Penn
10 Mutual Towers, the Boarse and the
11 Wells Fargo building.

12 Smaller properties include
13 three- to six-unit apartment
14 buildings or retail commercial
15 condos, even smaller re-assessed
16 deeded parking spots. So if you
17 have a deeded parking spot that's
18 not part of your house, you're
19 getting an assessment from us.

20 Though the larger buildings
21 are fewer in number, they represent
22 a much greater proportion of the
23 value of Old City commercial
24 properties. This year Old City
25 District has 932 rate-paying

1 properties. Of those, the top 50
2 properties pay 65 percent of our
3 budget. While some of those
4 buildings are hotels and fairly
5 stable, many are traditional office
6 buildings.

7 Some of those buildings
8 have traded recently at very deep
9 discounts. The Colonial Penn
10 building at 399 Market sold at 77
11 percent of its OPA value, then
12 assessed, (inaudible) appealed.
13 The Boarse sold at 65 percent of
14 its OPA-assessed value. 400 Market
15 Street sold at 26 percent of its
16 OPA-assessed value.

17 As OPA or BRT, in the case
18 of appeals, catches up with new
19 market values, the overall value of
20 commercial properties in Old City
21 continues to decline. But more
22 importantly to us as the district,
23 the larger properties represent a
24 smaller percentage of the overall
25 commercial property value. As that

1 trend continues, we have to fill up
2 to that \$1.2 million in assessment,
3 so as that trend continues, the
4 burden shifts from the larger
5 properties to the smaller
6 properties. That includes small
7 property owners and mom-and-pop
8 business tenants.

9 So recalling that
10 hypothetical property that pays
11 \$120,000 us each year because it's
12 worth 10 percent of all of our
13 commercial property value, if the
14 top 50 properties in Old City that
15 pay 65 percent of our rate
16 experience a 50-percent reduction
17 in assessed value, the total value
18 of all commercial property in Old
19 City would drop from 1.5 billion to
20 1 billion. And the property that
21 was paying \$120,000 slips to
22 \$90,000. That \$30,000 gets
23 redistributed to smaller properties
24 and our assessment millage rate
25 goes up 50 percent to make up for

1 the lost value.

2 If the value of the larger
3 properties shifts too much and the
4 burden on the smaller property
5 owners becomes too great, our
6 ratepayers may reject
7 reauthorization at their next
8 opportunity. Though the situation
9 is serious, there is hope. Office
10 conversions have emerged as a
11 partial solution.

12 The Philadelphia Business
13 Journal recently reported that 400
14 Market Street is set to be
15 converted into 176 apartments. The
16 Bourse will convert some space to
17 hospitality and the vacant food
18 hall will be replaced by a wedding
19 and event venue. Meanwhile 399
20 Market will remain as office space
21 but with more competitive rents.

22 Nevertheless, while Old
23 City has made progress in
24 recovering foot traffic and
25 fostering residential growth, the

1 office vacancy dilemma continues to
2 undermine the stability of our
3 commercial corridor. As office
4 spaces remain vacant and property
5 values decline, the financial
6 future of the district is at risk.

7 To address this, I
8 encourage us to work together to
9 seek solutions that not only
10 support the neighborhood but also
11 preserve and enhance the value of
12 Old City's commercial real estate.
13 Thank you for the opportunity to
14 testify and I'm happy to answer any
15 questions.

16 COUNCILMAN SQUILLA: Thank
17 you. Thank you all for your
18 testimony. And sometimes we have
19 these challenges and they create
20 opportunities. And I think if we
21 look at it that way we'll be able
22 to overcome those challenges and
23 grow the city as times change and
24 as properties change too to make it
25 always one of the -- and I see it

1 as when you see other cities that
2 always go through those gigantic
3 highs and then gigantic lows,
4 Philadelphia's curve is always a
5 little bit smaller and slower, I
6 think, because of some of these
7 opportunities. It's interesting.

8 And I want to thank my
9 colleague Councilmember Young for
10 bringing this resolution to the
11 table. And, Councilmember Young.

12 COUNCILMAN YOUNG: Thank
13 you, Mr. Chair.

14 The question for Center
15 City District, essentially as you
16 go through your evaluation, I just
17 listened to what Job mentioned
18 because of the lower values, they
19 have to then shift some of that
20 stuff to some of the smaller
21 ratepayers, is that something that
22 Center City District properties
23 will have to go through as well as
24 the values of the properties are
25 lower?

1 MS. KATARI GUPTA: Yeah. I
2 think that because we are
3 distributed among 1800 properties I
4 think the math is not as dire, but
5 it is absolutely something that we
6 are looking at as well.

7 COUNCILMAN YOUNG: And can
8 you describe to us I guess what
9 some other cities are doing in
10 their core commercial areas to
11 help, I guess, keep it stabilized
12 as we come out of the pandemic and
13 where we are nationally in that
14 rank?

15 MS. KATARI GUPTA: Sure.
16 And I think Councilmember Gauthier
17 said this on the previous panel. I
18 will say both quantitatively and
19 qualitatively our downtown is in a
20 better position than many of our
21 peers. Interestingly enough, one
22 of the direct lines is this
23 conversion process that we've been
24 doing for the last 30 years and the
25 fact that we have among the largest

1 downtown population. And so, those
2 folks have been shopping in our
3 stores and eating in our
4 restaurants and walking on our
5 sidewalks for the last five years
6 where a lot of cities have emptied
7 out.

8 I think we also overindex
9 on essential workers for a
10 downtown, Jefferson being our
11 largest employer and a lot of those
12 folks have been coming to work
13 every day. So those are things
14 that have helped us. And quite
15 honestly, we've also had some great
16 leadership. As I mentioned in my
17 testimony, some companies like
18 Comcast, IBX, certainly our Mayor
19 and that number just keeps coming
20 up, so I think we're in a good
21 place compared to others I would
22 say.

23 Through some of our
24 research efforts we have noted a
25 really strong correlation between

1 commute times and an individual's
2 likelihood of being back in the
3 office. And I think because we
4 have this growing downtown
5 population but also, you know, you
6 can't miss them, the amount of
7 apartments being built kind of in
8 the periphery of our Center City,
9 that's shoring that up and that's
10 creating this great exchange
11 between talent and the office that
12 I think will, as my colleague Clint
13 says, will future-proof us from a
14 perspective.

15 So where I am bullish and
16 where I do feel we have an
17 opportunity is connecting talent
18 and transit with sort of these
19 assets that we have in a way that
20 we are decades above other cities
21 in terms of our downtown
22 residential population which is
23 great.

24 Where I am concerned, as I
25 mentioned, is a lot of the

1 buildings that are readily
2 convertible have already been
3 converted and we've got a couple
4 problem buildings that, you know, I
5 think some of the real estate
6 experts behind me, we'll all need
7 to put our heads together to sort
8 out. But I think on a sort of
9 day-to-day vitality basis I think
10 we're doing very well.

11 COUNCILMAN YOUNG: Can you
12 describe to us how our city is
13 doing or let me rephrase the
14 question. How does our city
15 compare to other downtowns when it
16 comes to the different modes of
17 transportation in getting people to
18 and from our downtown and in
19 between our downtown?

20 MS. KATARI GUPTA: Yeah, I
21 think that's a really great
22 question. Do you have anything top
23 of mind -- do you have numbers top
24 of mind, Clint?

25 MR. RANDALL: (Inaudible).

1 COUNCILMAN YOUNG: Would
2 you mind coming to the microphone
3 to testify please?

4 MS. KATARI GUPTA: Sorry.
5 I need to start a (inaudible).

6 COUNCILMAN SQUILLA: When
7 you come up, just state your name
8 for the record and then proceed
9 with your testimony.

10 (Witness approached Witness
11 Table.)

12 MS. KATARI GUPTA: Clint is
13 studying this right now.

14 MR. RANDALL: Hi. Good
15 afternoon, everyone. Clint
16 Randall, Vice-president of Economic
17 Development at Center City
18 District. On a citywide level,
19 we're typically 5th or 6th in the
20 country in terms of folks getting
21 to work by means other than a car.
22 So typically right behind New York,
23 San Francisco, Boston, D.C. and
24 Chicago, and then immediately ahead
25 of Seattle and a few hours. So to

1 Prema's point, that is a real
2 competitive advantage for us, the
3 fact that so much of our talent
4 pool can access the 42 percent of
5 the city's jobs that Center City
6 contains without a car.

7 And to your point, Prema,
8 about that feedback loop of this
9 sort of huge boom and rental
10 housing in particular that's going
11 on kind of in the neighborhoods
12 immediately around Center City, the
13 more the population is aggregated
14 within a couple miles of all these
15 office buildings, the more people
16 there are that can just walk into
17 work, hop on a bike, et cetera.

18 I can say too this is a
19 final point on that, that just
20 looking at kind of the population
21 immediately around Center City, as
22 many as 30 percent or more of the
23 downtown workforce walks to work
24 which is a fairly stratospheric
25 number as far as major cities'

1 commuting rates by walking.

2 COUNCILMAN YOUNG: Thank
3 you. You mentioned our talent
4 pool. What can we do or how can we
5 leverage that talent pool given
6 that we are a city full of eds and
7 meds and essentially the talent
8 pool is coming from those
9 institutions? How can we better
10 leverage the ancillary businesses
11 that are associated with the eds
12 and meds to attract them to come to
13 our Center City and things like
14 that?

15 MS. KATARI GUPTA: Yeah. I
16 think it's a huge opportunity that
17 folks like Campus Philly have been
18 working on for a great deal of
19 time, but we long say and this is
20 fairly qualitative, if you like
21 cities there's no better East Coast
22 city to live in -- there's no
23 better city in America to live in
24 because of our relative
25 affordability -- and to be clear,

1 not affordable to all but for folks
2 comparing among our peer cities --
3 I think it's a real opportunity for
4 us.

5 But just kind of going back
6 to the statistic I mentioned in my
7 testimony that I really just want
8 to underline, this idea that we've
9 had this constant supply of 40
10 million square feet of office space
11 in our downtown while suburban
12 markets have grown from 25 million
13 to 60 million. And going back to
14 your idea of transit, I mean those
15 jobs, those 42 percent of citywide
16 jobs are all accessible without a
17 car to Philadelphians. That's not
18 the case for the suburbs. They're
19 like climate -- they're a variety
20 equity oppor -- there are a variety
21 of reasons why we need to shore up
22 in the job opportunities that are
23 available in our downtown and
24 otherwise accessible by transit.

25 COUNCILMAN YOUNG: Thank

1 you.

2 COUNCILWOMAN GAUTHIER: My
3 question is for Center City
4 District as well. You talked about
5 a survey of -- did you say that you
6 all were doing a survey of existing
7 sort of office businesses, office
8 buildings downtown?

9 MS. KATARI GUPTA: We
10 certainly track the office market
11 very closely. We haven't done a
12 survey in a period of time.

13 COUNCILWOMAN GAUTHIER: Oh,
14 I thought you mentioned that in
15 your testimony. I might have
16 misheard you.

17 MS. KATARI GUPTA: Yeah.
18 No, I don't think I did. We're
19 doing a survey of impressions of
20 downtown right now that you've
21 probably gotten 12 or 15 emails
22 about.

23 COUNCILWOMAN GAUTHIER:
24 Okay. Wonderful. I want to ask
25 have you thought about maybe

1 expanding and doing the surveys of
2 the businesses that are located in
3 the suburbs just to understand why
4 they made the decisions they did?
5 We may think that we know but maybe
6 we don't fully know, and that might
7 be valuable information.

8 And also, have you thought
9 of doing some surveying of recent
10 businesses that have moved downtown
11 about why they made that decision?
12 For instance, I heard the best
13 story from Dawn Summerville about
14 Chubb at one point looking to look
15 move outside of Philadelphia, but
16 Commerce and others being able to
17 convince them to move to Center
18 City to the location they're
19 building and to consolidate their
20 headquarters, so they're bringing a
21 lot of other jobs here. I don't
22 have a full story about why they
23 made that decision.

24 So are we also expanding
25 our data points about why office

1 space is expanding in the suburbs
2 and why we have gotten some new
3 businesses to come to Center City
4 as we continue to grapple with this
5 challenge?

6 MS. KATARI GUPTA: Yeah, I
7 think that's a great question. And
8 I'll just go back and note that
9 during the pandemic we really only
10 lost one sizable company to the
11 suburbs. I'd say in response to
12 your question the economic
13 development trope used to be that a
14 company would locate close to the
15 CEO's headquarters or a CEO's home.
16 That's no longer generally the
17 case.

18 Companies are increasingly
19 looking to be close to talent,
20 close to our universities, close to
21 our colleges, close to our young
22 people. And our sort of sense just
23 serving residential development in
24 and around Center City, I think the
25 majority of people moving to new

1 apartments are probably 35 and
2 younger. Certain to be sure we
3 have -- Center City is a place that
4 is hospitable to all sorts of
5 people different stages of their
6 life and I think we need to sort of
7 meet people where they are, but I
8 think we are increasingly seeing
9 interest in looking at Center City
10 because of the proximity that is
11 regional, a young educated
12 workforce.

13 COUNCILWOMAN GAUTHIER: Ms.
14 Thomas.

15 MS. THOMAS: Yeah, I did
16 want to chime in because as I
17 mentioned business attraction and
18 retention is something that the
19 North Broad Renaissance is starting
20 to look at heavily. And I just
21 recently had two examples of a
22 business that has to leave and the
23 business who wants to locate to
24 North Broad.

25 The business who has to

1 leave is having a very challenging
2 time keeping up with the prices and
3 just not understanding the way
4 growth is happening at this rapid
5 pace. So finding support for
6 businesses to help them navigate
7 the growing market and the changing
8 community, especially renters, can
9 certainly be helpful.

10 And then a business who
11 wants to locate is just really
12 having a tough time trying to
13 bridge the gap to get them into the
14 space, so helping them find the
15 funding to kind of close the gap to
16 get them in there is one of the
17 things that we're working on.

18 COUNCILWOMAN GAUTHIER:

19 Thank you so much. That's really
20 helpful to understand. And I think
21 as we continue to strategize around
22 this and bring our downtown Philly
23 back, it'd be helpful to just have
24 as much data as possible about why
25 businesses are making other

1 decisions or why businesses decided
2 to locate here because those could
3 be -- there could be things that we
4 can grow over time that would
5 attract even more businesses to our
6 downtown area.

7 MS. KATARI GUPTA: I'd say
8 as we work through our outreach to
9 existing tenants we'll be more than
10 happy to share what we learn with
11 you.

12 COUNCILWOMAN GAUTHIER:
13 Thank you.

14 COUNCILMAN SQUILLA:
15 Councilmember Young.

16 COUNCILMAN YOUNG: Thank
17 you, Mr. Chair.

18 This question is for
19 Ms. Thomas. As you've done
20 research into other places that
21 have these different districts,
22 have any of the municipalities
23 provided any tax incentives for
24 these different districts in order
25 to help spur the growth as they are

1 creating them?

2 MS. THOMAS: Yes, that's
3 one of the tactics that I have in
4 here, providing incentives to
5 help -- and I just mentioned that,
6 providing incentives to help get
7 the businesses to really get into
8 the location. So, yeah.

9 COUNCILMAN SQUILLA: Thank
10 you.

11 And one last question
12 before we go. So how do we -- when
13 we see the vacancies say Walnut
14 Street, Chestnut Street, Market
15 Street and then work with private
16 owners who own those properties to
17 try to convince them to maybe work
18 on reduced rent or things like
19 that, how do we help those owners
20 work with us to do something like
21 that?

22 MR. ITZKOWITZ: So in Old
23 City it's a little bit different,
24 right. We are lucky that some of
25 our new owners are local, but in a

1 lot of places these owners are
2 shareholders, right, investors. In
3 fact, a lot of our small properties
4 have that. So in some of our
5 vacancies in our small office
6 buildings either we need to do a
7 couple things, one, I'm thinking
8 about the photo I showed you before
9 the hearing, right. It's potential
10 office space that we need to get
11 cracked into shape because it's so
12 vacant that it's got L&I violations
13 on it.

14 But in the more global
15 sense, there's some education
16 requirement about what's realistic
17 about the market. And to be honest
18 with you, 399 Market seems to be
19 doing well relatively at reduced
20 rents. And so, sometimes people
21 have taken a hit on what that
22 acquisition value is and that
23 allows some market forces on the
24 rental side to sort of solve
25 themselves. Someone took a loss,

1 but it ends up being that there's
2 still enough demand to bring it in.

3 I also wanted to just
4 mention something. Councilmember
5 Young mentioned incentives. We
6 worked really hard with the
7 Commerce Department during the
8 Nutter Administration to extend the
9 Keystone Innovation Zone, which
10 came from University City and
11 stopped at Jefferson at 9th Street
12 to extend to Old City, and that
13 captured a lot of start-up tech
14 firms in Old City from let's say
15 2011 or so through 2019. And so,
16 that was a great product because we
17 had a lot of tech firms moving into
18 the neighborhood and expanding in
19 the neighborhood.

20 When the pandemic hit, a
21 lot of those tech firms lost
22 personnel to California salaries
23 while they're still living in
24 Philadelphia, which is great for
25 our income but not great for our

1 office spaces. So I think what we
2 need to be looking for is the next
3 similar incentive zone, whether
4 that's enacted locally or at the
5 Commonwealth level to incentivize
6 people being in office or at least
7 leasing those office spaces.

8 MS. THOMAS: And to your
9 point, Councilman, I think that's a
10 great question, a great opportunity
11 for us to really talk to the
12 property owners. As I think about
13 one property right now on North
14 Broad that's ready to go that had
15 two potential new businesses come
16 and look at it but for some reason
17 the property owner is just not
18 comfortable leasing to those
19 individuals. And so, I don't know
20 what that is and I think it
21 requires a conversation. So that's
22 a great question so thank you for
23 it.

24 COUNCILMAN SQUILLA: Thank
25 you.

1 Councilmember Gauthier.

2 COUNCILWOMAN GAUTHIER: So
3 when we talk about the 40 million
4 square feet of office space in
5 Center City and that it hasn't
6 grown over the past several decades
7 or so, do we also consider that
8 office space has grown in other
9 areas of the city?

10 For instance, in University
11 City I think we have much more
12 office space than we did. So, one,
13 was curious as to whether that was
14 a part of the calculation when we
15 compare ourselves to the suburbs?

16 MS. KATARI GUPTA:
17 Certainly it could be. Being
18 singularly focused on Center City,
19 I mean I look at the 40 million
20 square feet. But you're absolutely
21 right, there has been a great
22 amount of growth in University City
23 as well but perhaps not at the pace
24 that we've seen in the suburbs.

25 COUNCILWOMAN GAUTHIER:

1 Okay. Got it. And then I like the
2 idea around these different sort of
3 innovation zones or industry zones.
4 But I would love to see incentives
5 tied to hiring local people in our
6 neighborhoods in a way that we can
7 really track as we continue the
8 conversation.

9 COUNCILMAN SQUILLA: Also,
10 as we look at conversions, and
11 obviously Center City the make-up
12 of it and the reason why it works
13 is when you have businesses there,
14 people are there during the day,
15 right. And when people are there
16 during the day, it's pretty busy
17 during the day for the retail and
18 shops and things like that. But
19 then when's it's residential,
20 people then come back at night and
21 they're busy.

22 If it all goes to
23 residential, obviously there's a
24 challenge and it doesn't really
25 work. So I think as we look at

1 that and, yes, I'm also in favor of
2 gentrifying the area through
3 conversion and other means, but I
4 think we have to be careful too to
5 make sure that we incentivize the
6 commercial space, the office space
7 as a good mix for Center City in
8 order to keep it vibrant.

9 Job.

10 MR. ITZKOWITZ: Yeah. I
11 mean, I think all of us would agree
12 that there's a lot of value in
13 commercial mixed-use. We all have
14 commercial mixed-use zones. So Old
15 City is entirely CMX-3. But to
16 your point, Old City's residential
17 population in 1980 was 1,000 people
18 and it's 7500 today. So still
19 small, still half the size of
20 Fishtown. Why aren't you getting
21 the new restaurant, Fishtown got
22 it. Well, we're half the size.

23 And so, I think a lot of
24 Old City businesses would not have
25 survived if not for that growth in

1 residents because they were there
2 and able to walk around. They
3 would not have survived the
4 pandemic. That said, there's still
5 opportunity to grow more
6 residential without impacting
7 office, right, without addressing
8 some of those spaces that are hard
9 to convert. In Old City we still
10 have vacant land. We still have
11 one-story buildings that are not
12 historic. And there's a couple of
13 barriers in place due to
14 redevelopment. Some of them are
15 long time held in families, held in
16 trust. But there's certain things
17 Representative Khan in Harrisburg
18 has introduced, (inaudible) Reform
19 bill that will enable us in Old
20 City to really develop and convert
21 some of the smaller buildings into
22 more residential. So that's
23 something we're supporting at Old
24 City District.

25 COUNCILMAN SQUILLA: Thank

1 you. So it's a delicate balance
2 that we need to understand. But
3 again, like we said earlier these
4 challenges bring different
5 opportunities and it's on us to
6 find them and make sure they
7 happen. So thank you.

8 Are there any other
9 questions?

10 (No response.)

11 COUNCILMAN SQUILLA: Seeing
12 none, thank you for your testimony.

13 Mr. McMonagle, can you
14 please read the next people to
15 testify?

16 THE CLERK: Can we please
17 have Phil Butler and Brent
18 Hutchinson.

19 (Witnesses approached
20 Witness Table.)

21 COUNCILMAN SQUILLA: Phil
22 and Brent, thank you. Philip, you
23 want to just state your name for
24 the record and proceed with your
25 testimony. And then we'll do Brent

1 and then we'll ask questions when
2 you both are completed. Thank you.

3 MR. BUTLER: So good
4 afternoon, Chairperson Squilla and
5 esteemed members of the Commerce
6 Economic Development Committee.
7 I'm Phil Butler, current Chapter
8 President of NAIOP Greater
9 Philadelphia where we represent a
10 broad network of real estate
11 professionals in the office,
12 industrial and mixed-use real
13 estate sectors.

14 First, I wish to extend my
15 gratitude to Councilmember Young
16 for convening this crucial hearing
17 and to all the Committee members
18 for addressing the pressing issue
19 of office vacancies in Center City,
20 a matter that significantly impacts
21 the vibrancy and economic health of
22 Philadelphia.

23 Today I bring to light our
24 organization's commitment and
25 perspectives on the matter that

1 concerns not just the industry but
2 the socioeconomic of our city, the
3 adaptive reuse of distressed office
4 spaces. NAIOP recognizes that the
5 potential for such endeavors to
6 revitalize urban centers as
7 evidenced by the growing vacancy
8 rate and the evolving dynamics of
9 our workplace.

10 A post-pandemic world has
11 redefined our urban landscapes
12 leaving notable footprint on
13 Philadelphia real estate.
14 Philadelphia's office vacancy rate
15 currently stands at a concerning 23
16 percent which underscores an urgent
17 need for innovative solutions.

18 In 2019, the rate was
19 significantly lower at 13 percent.
20 This increase has left many office
21 buildings empty leading to a
22 specter of what are often called
23 zombie buildings. These buildings
24 are not only eyesores but also
25 increased risks of foreclosures.

1 With fewer people downtown,
2 local businesses suffer and
3 building owners are forced to
4 appeal their property assessments
5 which cuts the City's revenue. The
6 concept of adaptive reuse --
7 transforming underutilized office
8 buildings in a residential,
9 educational or mixed-use
10 facilities -- is a sustainable
11 response to the urban challenge.

12 Historically, Philadelphia
13 has seen over 9 million square feet
14 of office space creatively
15 repurposed. That's equal to the
16 volume of three Comcast towers.
17 This transformation not only
18 revitalizes the buildings but also
19 breathes new life into our city's
20 economy by attracting new residents
21 and businesses. However, the path
22 for conversion is fraught with
23 hurdles, from securing capital and
24 navigating complex zoning laws to
25 addressing substantial structure

1 challenges. These barriers
2 necessitate a concerted effort from
3 all stakeholders, including
4 financial institutions, city
5 planners and community leaders to
6 foster an environment that is
7 conducive to such significant
8 transformations.

9 NAIOP advocates for the
10 policies that encourage these
11 conversions as they hold the key to
12 not only addressing the vacancy
13 crisis but also for adding much-
14 needed housing stock to our city's
15 inventory. Notably, the Pittsburgh
16 City Council recently supported
17 legislation that provides property
18 tax exemptions for such
19 conversions, highlighting a
20 proactive approach to urban
21 redevelopment.

22 Similarly, NAIOP nationally
23 backs the Revitalizing Downtowns
24 and Main Streets Act, recognizing
25 the critical role of adaptive reuse

1 in modern urban economies by
2 providing a 20 percent federal tax
3 credit for conversions projects.
4 To mirror such successes, we
5 propose that Philadelphia adopts
6 incentivizing measures that
7 facilitate easier conversion
8 processes, possibly mirroring the
9 adaptive reuse incentives found in
10 cities like Los Angeles and
11 Buffalo.

12 For instance, Los Angeles
13 has simplified the process for
14 developers through an adaptive
15 reuse ordinance that eases zoning
16 and parking regulations and speeds
17 up approvals. In Buffalo, the
18 Erie County Industrial Development
19 Agency offers tax incentives like
20 property tax savings, sales tax
21 exemptions on construction
22 materials and mortgage recording
23 tax abatement.

24 Such incentives could
25 significantly lower the entry

1 barriers for developers, ensuring
2 that conversion projects are not
3 feasible but also attractive for --
4 or not just feasible but attractive
5 from an investment standpoint.

6 Along with our testimony, NAIOP
7 Greater Philadelphia will be happy
8 to provide details on adaptive
9 reuse incentives enacted in other
10 cities to the Chair and the
11 Committee at large.

12 As discussed earlier, the
13 challenges that we face with
14 distressed office buildings in
15 Center City, and I think
16 Chairperson Squilla said this
17 earlier, it's not just a problem
18 but a profound opportunity to
19 reimagine, reinvent and rejuvenate
20 what we have in this city.

21 With the strategic support
22 from the city policies and the
23 collaborative approach across all
24 sectors, we can transform these
25 idle structures into vibrant

1 functional spaces and contribute to
2 the City's growth and resilience.
3 I want to thank you all for your
4 attention and your time today and I
5 will answer any questions as they
6 come. Thank you.

7 MR. HUTCHINSON: Good
8 afternoon. My name is Brent
9 Hutchinson. I'm the CEO of OPEX
10 CRE Management, a property and
11 management services firm. Over the
12 course of my entire 19-year career,
13 I've had the privilege of working
14 in Center City along West Market
15 Street, just blocks away from City
16 Hall from 19th and Market to 15th
17 and Market. I've personally been
18 witness to almost two decades of
19 positive transformation in and
20 around Center City.

21 Today I'm honored to share
22 my experience and knowledge as the
23 Chair of the Building Owners and
24 Managers Association of
25 Philadelphia commonly known as

1 BOMA. I would like to thank
2 Councilman Mark Squilla as well as
3 the entire Committee on Commerce
4 and Economic Development for this
5 opportunity to testify on
6 Resolution 240314.

7 As many of you know, BOMA
8 is a nonprofit organization whose
9 members provide within the City
10 limits alone over 51 million square
11 feet of office space for over half
12 a million office workers. Member
13 buildings include virtually all
14 major high rise office towers in
15 the city.

16 Our member buildings not
17 only define the Philadelphia
18 skyline and add character to the
19 city, but they have historically
20 been a tremendous economic driver
21 for the city and the region. It
22 may be a common refrain, but make
23 no mistake the Philadelphia
24 commercial office market and the
25 city as a whole is at a critical

1 inflection point. Similar to peer
2 cities across the nation, employee
3 return to office is presently not
4 at viable levels.

5 Despite the significant
6 headwinds, our industry remain
7 optimistic regarding the future.
8 For success, it is paramount that
9 the public and private sectors
10 collaborate and develop a
11 meaningful, sustained path forward
12 together.

13 The current headwinds I
14 speak of are significant and
15 include, but are not limited to,
16 record high interest rates, reduced
17 liquidity, rising inflationary
18 pressures, mounting insurance
19 burdens, anemic employee return to
20 office brought about by hybrid and
21 remote work and commercial office
22 tenants reducing their leased
23 premises by 25 to 40 percent upon
24 lease renewal. These realties are
25 leading to declining property

1 values, which in turn reduces tax
2 revenue placing a financial strain
3 on the entire city.

4 Property owners are facing
5 increased financial pressure and
6 many are at risk of default.
7 According to a recent report by
8 CREDiQ, Philadelphia ranks 10th
9 among the top 50 U.S. markets with
10 10.4 percent of all CMBS loans
11 either delinquent or in special
12 servicing.

13 Many commercial office
14 buildings are facing severe
15 financial distress, resulting in
16 impossible receivership, loan
17 covenant defaults or foreclosure.
18 With declining values, tax appeals
19 by property owners occur. The
20 reassessment of property values
21 will create substantial loss for
22 the city. A prime example is 1500
23 Spring Garden Street, which
24 occupies an entire city block near
25 Broad Street and Spring Garden.

1 Following a recent appeal,
2 the Board of Revision of Taxes
3 significantly lowered the
4 assessment for the 13-story office
5 building, reducing its value over a
6 three-year range from 192 million
7 to 101 million in 2023 down to 87
8 million in 2024 and 76 million in
9 2025. These reductions represent a
10 combined loss of \$280 million or 51
11 percent in total assessed value
12 over that three-year period. As a
13 result, the City of Philadelphia
14 will lose 3.9 million in tax
15 revenue. That is just one
16 building.

17 With that backdrop, we need
18 to look internally and externally,
19 how do we entice new businesses to
20 our great city while creating a
21 path forward to retain those
22 organizations and businesses
23 already located here and who are
24 contributing to our city's economic
25 success. Together we must find

1 unique but reasonable solutions.

2 The inflection point we are
3 at necessitates that the City makes
4 strategic investments that solidify
5 our footing not just today, not
6 just for tomorrow but for the long
7 haul. I hold in my hand a recent
8 copy of Business Facilities
9 magazine. This publication is a
10 source for business site selection.

11 In this year's annual
12 ranking of top metros, state and
13 global locations to select,
14 Philadelphia is not mentioned.
15 This city, this governing body
16 needs to be infuriated. This needs
17 to be a call to action, how do we
18 turn the tide and make the top of
19 every category or sector.

20 We need more jobs, more
21 growth, more opportunity and we
22 need more life-sustaining jobs for
23 the residents of Philadelphia.
24 This will not come from mandates or
25 additional regulatory burdens, but

1 will come from a desire and will
2 for businesses choosing to be
3 located in Philadelphia, and
4 particularly the city of
5 Philadelphia.

6 First and foremost, we must
7 make doing business in Philadelphia
8 welcoming, increasing regulatory
9 constraints making us less
10 attractive. City red tape should
11 be eliminated and access to needed
12 approval should be streamlined.
13 And of course we all face the
14 increased economic burden of our
15 existing tax structure. City wage
16 tax, BIRT and U&O are contributing
17 factors in businesses either
18 leaving Philadelphia or deciding
19 not to locate here.

20 What type of solutions can
21 BOMA Philadelphia offer. We circle
22 back to our opening remarks, a
23 collaborative public-private
24 partnership is key to the effective
25 and meaningful solution. I'm not

1 certain we hold the magic wand that
2 will cure all, but we can offer
3 some suggested strategic
4 investments that may help turn the
5 tide.

6 And before I share our
7 thoughts, BOMA believes that one of
8 the keys to an improved
9 Philadelphia economic outlook is
10 getting more workers, private and
11 public sector alike, back into the
12 office. Let me go on record to say
13 that BOMA applauds Mayor Parker and
14 her Administration for the bold
15 action to require City workers to
16 return to the office five days a
17 week.

18 As our members communicate
19 with organizational and business
20 leaders in and around the city, I
21 can say unequivocally that these
22 leaders want their workers back in
23 the office and are looking to see
24 what others are doing and taking
25 cues from peer employers. Actions

1 speak louder than words. Mayor
2 Parker should now have no issues
3 standing before private sector
4 leaders and federal government for
5 that matter in saying please join
6 me, please do as I do.

7 The City cannot or should
8 not attempt to mandate a private
9 sector return to office, but in
10 turn should seek to put in place
11 incentives that drive desired
12 results. We have a few initial
13 thoughts: A Use and Occupancy tax
14 credit tied to an employer's
15 physical occupancy level within
16 their space. Philadelphia faces
17 unique tax burdens, if leveraged
18 effectively, can actually help
19 combat property distress.

20 The Use and Occupancy tax
21 is billed monthly to tenants in
22 addition to base rent, real estate
23 taxes and other miscellaneous lease
24 charges. In the case of return to
25 office, this tax is imposed whether

1 one person is in the office or 100
2 employees. This creates an
3 obligation to pay that tax.

4 To utilize this tax
5 strategically, we can offer tenants
6 a tax credit against their use and
7 occupancy liability based off the
8 percentage of employees who return
9 to the office. For instance, and
10 we have an example here, somebody
11 added earlier what the actual
12 dollar amount would mean as far as
13 a decrease in assessed values, so
14 we put it to work here: A credit
15 of \$0.25 per square foot could be
16 applied to the monthly employee
17 occupancy rate. Incentives could
18 be structured to encourage
19 employers to exceed occupancy
20 thresholds of 50 percent, 75
21 percent, with no credits available
22 for those below 25 percent. This
23 approach could lead to significant
24 savings for our tenants, thus
25 creating the incentive.

1 Those numbers are rather
2 small, so I'll do my best here to
3 share with you. If you go down to
4 the bottom right -- sorry. Yeah,
5 right there. Thank you. That's
6 the monthly billing of 1500 Spring
7 Garden, \$111,000 that the landlord
8 would charge tenants on a monthly
9 basis. That's at the assessment of
10 \$192 million.

11 If you change that 192
12 million to the new assessed value
13 of 76 million which was approved,
14 that drops your monthly billed rate
15 to \$42,000. So the City is missing
16 out on roughly, approximately
17 \$70,000 a month in Use and
18 Occupancy tax on top of the 3
19 million that they're already losing
20 on real estate taxes.

21 There's real savings in the
22 Use and Occupancy credit if you
23 scroll down a little bit. To the
24 right, I'm sorry. You can provide
25 savings to tenants based on their

1 occupancy within their space, in
2 turn incentivizing them to bring
3 their employees back.

4 Since commercial landlords
5 already track and submit monthly
6 tax calculations, integrating this
7 initiative would require minimal
8 administrative effort. We already
9 do this. Let's remember
10 reassessments also affect this tax.
11 And reverting to the 1500 Spring
12 Garden Street example, the recent
13 reassessment translates into an
14 additional 800,000 in annual loss
15 to the City's tax revenue. That's
16 just one building. This would have
17 been billed to the tenants. So
18 instead of passively accepting
19 these losses through appeal, which
20 we are doing, we should proactively
21 encourage employers to push to a
22 return to office, thereby
23 increasing property values and
24 safeguarding the City's revenues.

25 Another potential

1 initiative would be incentivizing
2 employers or employees to hire
3 Philadelphia residents. This could
4 involve potentially offering Use
5 and Occupancy or Business Income
6 Revenue Tax discounts so employers
7 hire city residents. This may
8 drive employers to hire city
9 residents who pay higher wage tax.

10 Alternatively, the City
11 could consider a wage tax rebate to
12 residents who work for
13 Philadelphia-based employers. With
14 12,000-plus residential units
15 coming online by the end of the
16 year, the City should look at ways
17 to stimulate demand to avoid
18 similar distress in the residential
19 market.

20 This city has the potential
21 to take proactive steps before it's
22 too late, especially through
23 innovative solutions. They can
24 lead the nation in a return-to-
25 office policy. We are making

1 significant strides every day to
2 benefit all residents and business.
3 Now, it's crucial that we foster a
4 similar environment focused on
5 business retention and attraction.

6 BOMA is prepared to
7 collaborate with the City in
8 crafting and promoting effective
9 public policy that will position
10 Philadelphia for success not just
11 in the short-term but in the long
12 haul. Thank you again for allowing
13 us to testify today and I stand
14 ready to answer any questions you
15 might have.

16 COUNCILMAN SQUILLA: Thank
17 you. Thank you for your testimony
18 and also appreciate the ideas and
19 opportunities that could be out
20 there as far as incentives are
21 concerned.

22 Councilmember Young.

23 COUNCILMAN YOUNG: Thank
24 you, Mr. Chair.

25 Just a couple of questions

1 in general. So how does the tax
2 exempt status of a lot of our
3 industries here in Philadelphia
4 affect the Center City office
5 market essentially, because I know
6 Penn had a lot of space in Center
7 City. Now, they're developing
8 their own stuff and they're not
9 paying taxes on that stuff. So
10 from your perspective how has that
11 impacted our city's revenue
12 projections?

13 MR. HUTCHINSON: Using
14 University of Pennsylvania as an
15 example, I had the pleasure of
16 having under our management 1500
17 Market Street or Centre Square.
18 University of Penn was a
19 significant tenant within that
20 building. Believe it or not they
21 used that space across from City
22 Hall, 15th and Market as back-of-
23 the-house space because University
24 City rental rates were higher than
25 Center City office rates, which is

1 astounding.

2 COUNCILMAN YOUNG: Wow.

3 MR. HUTCHINSON: They have

4 since declared from my

5 understanding that they're going to

6 be leaving that building.

7 Therefore, there's \$0 rent that's

8 going to be paid on their space.

9 They were not paying real estate

10 taxes on that space, and that

11 building which once had 8500

12 visitors on a daily basis is down

13 to a few hundred right now.

14 So I don't know if I'm

15 answering the question that

16 exactly, but just giving you a

17 flavor of what a bigger tenant like

18 that in the City of Philadelphia

19 can have an effect.

20 COUNCILMAN YOUNG: Yeah.

21 Thank you. I was just looking for

22 the impact, right, because for me

23 those eds and meds are tax-exempt

24 entities and they do contribute a

25 lot to our city, but they also take

1 away a lot as well, particularly
2 when it comes to things that our
3 city needs to continue to grow. I
4 think that a move like that again
5 hurts our Center City office market
6 which this hearing is about, right,
7 our Center City office market. So
8 we want to really figure out what
9 other things we can do to
10 incentivize those larger
11 institutions because we are a big
12 eds and meds city. What can we do
13 as a city to kind of make them be
14 more of a productive citizen in
15 knowing that they're contributing
16 to some of the issues that we're
17 having?

18 MR. HUTCHINSON: So the
19 office buildings are constrained a
20 lot of times by low covenants with
21 regards to rental rates. So it's
22 not as easy -- and I think you had
23 asked the question earlier, is
24 there any way we can lower rental
25 rates to incentivize tenants to

1 come into the city. Existing loan
2 covenants will say that X, Y, Z
3 landlord cannot sign a lease at
4 less than \$30 a square foot because
5 that affects the investment of the
6 bondholders on the back end.

7 So if anything, it would
8 take a policy by the City to
9 supplement maybe some of that rent
10 to stay within the Center City
11 limits or West Market Street as an
12 example, right. That's where I
13 think the City can be helpful,
14 because I do not think the
15 landlords would be able to achieve
16 that type of lower rental rate that
17 they might be getting elsewhere or
18 developing in University City.

19 COUNCILMAN SQUILLA: Point
20 of information. But isn't it also
21 possible to incentivize both the
22 City helping out but the landlord
23 might, not lowering the rent, but
24 sometimes give a month free, you
25 give a security deposit, you do

1 other things, you keep the rent
2 stable but incentivize people to
3 come through other means besides
4 reducing the rent cost?

5 MR. HUTCHINSON: There is
6 free rent. There's also tenant
7 improvement dollars given to build
8 out tenant spaces. However, that
9 all plays into a whole business
10 plan and financial package that a
11 lender would consider an owner
12 giving to a tenant.

13 So when I say supplement
14 some of the rental rate, the rental
15 rate would say \$30 square foot on a
16 rent roll. However, maybe the City
17 supplemented some of those dollars
18 so it's actually money coming to
19 the building versus not having it
20 in the form of free rent.

21 COUNCILMAN YOUNG: You
22 mentioned U&O a lot in your
23 testimony. Do you feel that U&O is
24 a barrier for new companies or new
25 businesses wanting to locate here

1 in the city of Philadelphia?

2 MR. HUTCHINSON: Yes. Use
3 and Occupancy is unique to the City
4 of Philadelphia, and I've had to
5 educate a lot of tenants on it over
6 my years of managing properties.
7 The burden is real among other
8 taxes and if we're trying to work
9 within what we have now, it's a
10 good option. Name aside, you can
11 really utilize that for some short-
12 term incentive to bring their
13 employees back into the office.

14 The example, and again I am
15 not an attorney, I'm not a tax
16 expert but if you crunch the
17 numbers, if you're an employer and
18 you can save \$25,000 a year by
19 telling your employees to come back
20 into the office at a 75 percent
21 threshold, would you make that
22 decision. \$25,000 can be a lot of
23 money to a business. So there's
24 that type of opportunity out there
25 that unfortunately the City is

1 losing right now based on the
2 reassessments that are going on.

3 COUNCILMAN YOUNG: When
4 there's turnover in the commercial
5 market and the new tenant is I
6 guess outfitting the space, are
7 they allowed any type of abatements
8 for that new work that's being done
9 for their particular square
10 footage?

11 MR. HUTCHINSON:
12 Abatements --

13 COUNCILMAN YOUNG: Yeah, or
14 do they get any -- is there any U&O
15 abatements or are there any
16 property tax abatements associated
17 with that newly constructed space
18 that they are in?

19 MR. HUTCHINSON: There's --

20 MR. BUTLER: I can answer
21 the question. So the current
22 legislation -- so there's not a
23 specific incentive out there for
24 the redevelopment of any particular
25 size, scale and space. One of the

1 kind of -- going back and circling
2 some of the previous questions, as
3 a developer projects have had --
4 historically projects within city
5 limits and outside of the city
6 limits, one of the first,
7 particularly as we talk about the
8 region in Philadelphia itself, but
9 the Philadelphia region as a whole,
10 one of the initial concerns and
11 questions that we get is about the
12 tax base, is about the tax base
13 associated with the organization,
14 the corporation, particularly if
15 it's a national or even an East
16 Coast search for an organization
17 looking to relocate and the tax
18 base associated with the individual
19 employees so that corporation or
20 company's ability to attract or
21 retain the best staff.

22 And so, you start to have
23 this tug and pull between we need
24 everybody to come back to work.
25 Philadelphia is a great place to do

1 business and a great place to live,
2 but we find ourselves in this push
3 to get everybody back into the
4 office, which kind of the tax base
5 starts to push against the ability
6 to do that in a meaningful way for
7 these corporations, so it becomes a
8 dilemma.

9 You layer on the city and
10 the state's ability to incentivize,
11 in particular some of the states
12 that we go against in my particular
13 sector which is kind of bio, life
14 sciences, et cetera, you start to
15 look at the packages that the
16 Raleigh, Durham area, Boston,
17 San Francisco, those other areas
18 start to give. And so, our ability
19 to give some kind of incentive on
20 the front end to attract and retain
21 and then maybe it escalates up is
22 critically important and it's from
23 a competitive nature standpoint.

24 COUNCILMAN YOUNG: Could
25 you elaborate a little bit more on

1 what is it, the Downtown
2 Revitalization Act and what that
3 Act will specifically do for a city
4 like Philadelphia?

5 MR. BUTLER: So I won't
6 call myself an expert on what
7 Pittsburgh or some of these other
8 cities have done. What I would say
9 is that some of this goes back to
10 your question about the eds and
11 meds as well. It starts with a
12 conversation from a development
13 standpoint.

14 As my colleague here has
15 mentioned, there are a bunch of
16 levers to push and pull on and all
17 of it goes back to dollars. At the
18 end of the day it goes back to the
19 ability to be able to underwrite a
20 deal to either redevelop what's
21 existing. And if we talk about
22 conversions, if I am looking to
23 convert an existing building and we
24 get past the structural components
25 of it, right, the footprint, the

1 core of the building and all those
2 things that make it not feasible or
3 borderline feasible to take a
4 building and convert it, we start
5 to get into this area and this
6 space of how can I, one, ease the
7 zoning requirements that allow me
8 to get to typically whatever that
9 mixed-use need is that I need to
10 get to, and what are the other
11 levers, whether it's parking. So
12 it doesn't always have to be kind
13 of a dollar or tax base. But if
14 you start to look at what my
15 ability is from a parking ratio
16 standpoint, you start to look at my
17 pace of being able to kind of turn
18 and convert because every day is
19 cost of carry in the deal and those
20 types of things.

21 And so, that's part of --
22 sitting here from a NAIOP
23 standpoint, that's the dialogue
24 that we want to enter into.
25 There's no silver bullet, but

1 there's opportunities to kind of
2 look at it in a couple of different
3 ways that maybe there's a mosaic of
4 different pieces that incentivize
5 that does not cost too much of a
6 burden or sort of precedent that
7 the city is not willing to live
8 with, but that also actually drops,
9 eases the pressure, the financial
10 pressure to be able to get in and
11 convert something.

12 COUNCILMAN YOUNG: Thank
13 you, Mr. Chair.

14 COUNCILMAN SQUILLA:
15 Councilmember Gauthier.

16 COUNCILWOMAN GAUTHIER: I
17 have a question for BOMA. I was
18 curious about the magazine that you
19 showed in the beginning of your
20 testimony that we weren't mentioned
21 in. So I'm curious as to who was
22 mentioned and what factors did they
23 base the ranking on?

24 MR. HUTCHINSON: So no real
25 surprise because I think we've all

1 heard the Austin story, so Austin
2 is ranked No. 1 in best business
3 climate, followed by Raleigh, North
4 Carolina; Boise city surprisingly,
5 Salt Lake, Nashville, Dallas,
6 Fayetteville, Arkansas, Lexington,
7 Charlotte, so a lot of the
8 southeast states.

9 And again, I don't want to
10 paint a broad brush and I didn't
11 necessarily study each city and
12 what they were particularly good
13 at, but you see a company, a
14 Philadelphia-based company like
15 Brandywine Realty Trust, you see
16 their name all over Philadelphia.
17 They're in Austin now. When I say
18 that, they are developing in
19 Austin, so they see the
20 opportunity.

21 And I believe part of the
22 narrative is it's easier to
23 develop, it's encouraged to
24 develop, and they've had tremendous
25 success at it. And I'd be happy to

1 share this with you if you want to
2 read it afterwards.

3 COUNCILWOMAN GAUTHIER:

4 Yeah, I'd love to see it. I'd love
5 to understand what other cities are
6 doing in a fuller sense and how
7 that compares to what we're doing
8 here in Philadelphia. Thank you.

9 MR. HUTCHINSON: Yes, of
10 course.

11 COUNCILMAN YOUNG: Well,
12 thank you for your time and your
13 testimony. I appreciate it.

14 So I guess we're going to
15 call up I guess this will be the
16 last panel, Lauren Gilchrist, Mike
17 Fox and Steve Mullin.

18 (Witness approached Witness
19 Table.)

20 COUNCILMAN YOUNG: Thank
21 you. Please proceed with your name
22 and your testimony.

23 MS. GILCHRIST: Absolutely.
24 Thank you so much. Good afternoon,
25 Chairperson Squilla and members of

1 the Commerce and Economic
2 Development Committee. My name is
3 Lauren Gilchrist and I'm the EVP
4 and Market Leader for Newmark in
5 Greater Philadelphia.

6 Newmark is a commercial
7 real estate services firm,
8 specializing in the leasing, sale,
9 financing, construction management
10 and property management of office,
11 industrial, multi-family and retail
12 throughout the Philadelphia region.
13 I lead a team of 160 people and
14 supervise our offices in Center
15 City, King of Prussia, Marlton, New
16 Jersey and Wilmington, Delaware,
17 and I'm a resident of the city of
18 Philadelphia. Thank you to
19 Councilmember Young for convening
20 this hearing and requesting this
21 testimony.

22 It is no secret that the
23 pandemic precipitated substantial
24 structural changes to the office
25 market in Philadelphia and around

1 the country. Our office vacancy
2 rate across the City stands at 21.7
3 percent as of the end of Q2 2024
4 with an availability rate of that
5 space of 26.3 percent.

6 This means that 11.2
7 million square feet of office space
8 is available today. Effectively,
9 10 Comcast towers stand vacant
10 across a total office inventory of
11 about 42.5 million square feet of
12 space. These figures stand in
13 stark contrast with the prepandemic
14 vacancy rate of just 9 to 10
15 percent.

16 With persistent tenant
17 downsizings in the wake of changing
18 space utilization patterns and
19 anemic tenant attraction activity
20 from outside the market, we
21 anticipate these changes to
22 continue into the future. Market
23 East and Market West saw a combined
24 net absorption of negative 131,000
25 square feet in the first half of

1 the year. That is approximately
2 equivalent to about five floors of
3 office space.

4 Net absorption is the
5 change in occupied space in the
6 market and it's a measure of the
7 change in utilization patterns over
8 time that impacts that vacancy
9 rate. Current tenants in the
10 market or the number of active
11 requirements for tenants totaled by
12 square feet are 1.5 to 1.7 million
13 square feet, less than half of what
14 they were prior to the pandemic and
15 reflective of tenant downsizings of
16 our data of approximately 40 to 60
17 percent for in-place tenants.

18 With almost no activity
19 from new tenants to the market, we
20 expect this pattern of negative
21 absorption and increasing vacancy
22 to continue. While this problem
23 may initially seem contained, the
24 complications of ballooning vacancy
25 in the market have far-reaching

1 implications for not just landlords
2 but also lenders and the municipal
3 tax base, as we have talked about
4 extensively today.

5 Recent sales comparables
6 put office buildings trading for
7 apartment conversion at about \$55
8 to \$85 per square foot whereas
9 Class A office assets were trading
10 for \$300 to \$350 per square foot
11 prior to the pandemic. And I can
12 also report that our newest most
13 sophisticated offices, even if they
14 were developed a few years ago such
15 as the Comcast towers were
16 developed for somewhere around
17 \$1,000 per square foot which shows
18 you the stark contrast between what
19 assets are trading at today versus
20 what they were built for and
21 therefore trading far below
22 replacement costs.

23 More than 5 million square
24 feet of space is in special
25 servicing or receivership. These

1 are two very specific financial
2 dedications having to do with the
3 building status with the lender,
4 and these account for approximately
5 11 percent of all space in the city
6 today.

7 The implications of these
8 statuses are lender foreclosures
9 for fractions of purchase asset
10 value, leading to multi-million
11 dollar lawsuits for borrowers and
12 lenders alike. Philadelphia's tax
13 base is certainly not immune to the
14 issue surrounding distressed office
15 either.

16 In addition to declining
17 transfer taxes, which is one aspect
18 of the code we've not talked about
19 today, reassessments and appeals
20 have reduced assessed values of
21 several high profile office
22 buildings by 25 to 50 percent
23 reflective of both declining
24 leasing revenues and the residual
25 values of the assets, costing the

1 City millions of dollars in tax
2 revenue.

3 There are also several
4 implications beyond the financial
5 that are worth understanding.

6 First, office tenants may find
7 themselves in buildings that are
8 unable to provide basic services
9 and maintenance due to declining
10 revenues when they're in distressed
11 status, resulting in quality
12 declines that may make workers
13 think twice about working from home
14 or having their clients come into
15 the office, where they are noted to
16 spend additional revenue on
17 transportation as well as services
18 such as catering.

19 These revenue declines may
20 result in fewer janitorial,
21 security and maintenance jobs, the
22 economic lifeblood of many working-
23 class Philadelphians. Finally and
24 perhaps most importantly, when
25 investors lose money in real estate

1 they become more reticent to invest
2 in the same location again and
3 lenders are less likely to lend to
4 the same sponsor or business plan
5 in that location.

6 The out-of-market and
7 international capital sources that
8 were drawn to Philadelphia's office
9 market prior to the pandemic are
10 unlikely to return after losing so
11 much money following their exits
12 this market cycle, creating even
13 more challenges to attracting the
14 non-Philadelphia based capital that
15 Philadelphia so desperately needs
16 to grow its investment and economic
17 base. Thank you for your time and
18 attention. I'm happy to address
19 any questions about my testimony or
20 any other aspects of the market.

21 COUNCILMAN SQUILLA:

22 Councilmember Young.

23 COUNCILMAN YOUNG: Thank
24 you.

25 Just one question. It was

1 noted earlier there seems to be --
2 well, there is a shift now or trend
3 that CEOs are locating their
4 companies where they are from or
5 live. Do you see that same thing
6 happening across our region?

7 MS. GILCHRIST: I don't
8 think there's great data to
9 substantiate that one way or
10 another in particular, but I can
11 report prior to the pandemic that
12 there was a race for talent. If
13 you look at the unemployment rates
14 prior to the pandemic for people
15 holding a Bachelor's degree or more
16 they were sub-2 percent which is
17 far beyond the conditions that
18 economists would consider to be
19 full employment. And certainly
20 through the pandemic we saw those
21 rates rise quite a bit.

22 But for example, the
23 Millennial generation is one of the
24 largest generations on record and
25 we have seen as Millennials have

1 aged towards child-bearing and
2 school, that in some cases we have
3 lost some of that population to the
4 suburbs for the perception and
5 reality of public safety as well as
6 for the perception and reality of
7 the quality of public education.
8 So some of that would be excepted
9 naturally. But I do believe that
10 there is still a very strong desire
11 for employers to be close to their
12 talent base because it is far
13 cheaper to occupy more expensive
14 real estate than it is to pay the
15 increasing costs that we see as
16 talent markets have continued to
17 constrain. So in that sense
18 Philadelphia does have some
19 advantages, but I would say that
20 both things are true and both
21 things can compete with one
22 another.

23 COUNCILMAN YOUNG: Thank
24 you.

25 One thing you did mention

1 which wasn't brought up again was
2 the transfer tax, and because these
3 properties are trading at sometimes
4 50 percent of their previous value,
5 it has a great effect on our tax
6 system -- I don't know if your
7 industry had that or your company
8 had that, but do you have an idea
9 of what that loss of value is for
10 our city when it comes to those
11 properties selling at a much lower
12 rate and the rate that would pay in
13 transfer taxes?

14 MS. GILCHRIST: So I don't
15 have those data at my fingertips,
16 but we can certainly provide you
17 with information surrounding the
18 commercial trades that have
19 occurred. But I would note that,
20 for example, trade volumes around
21 the country are down substantially
22 across all asset classes but
23 beginning to rebound as we have
24 gotten a little bit more clarity
25 around interest rates, for example.

1 So we can certainly provide some of
2 those numbers.

3 I expect Rob Dubow would
4 also have some insight into the
5 volume of tax revenue collected for
6 the transfer tax in 2024, 2023,
7 '22. But it is significantly lower
8 just by virtue of the fact that we
9 have seen fewer assets trade. And
10 the ones that we have seen trade,
11 as mentioned before, are selling
12 for a fraction of their previous
13 assessed value.

14 For example, even one asset
15 that is going to continue to remain
16 as office space, not necessarily
17 converted, the owner sold that
18 asset at a loss which would mean
19 that between the first trade when
20 he had bought it and then when he
21 had sold it the transfer tax was
22 substantially less on the second
23 trade.

24 COUNCILMAN YOUNG: Given
25 where we are in the market with the

1 interest rates, how is your
2 industry viewing the reductions in
3 interest rates? And moving
4 forward, what do they potentially
5 see as the forecast for the market
6 moving into the future?

7 MS. GILCHRIST: To be sure,
8 there is a lot of what we call dry
9 powder or capital sitting on the
10 sidelines that has been waiting for
11 direction around interest rate
12 relief. We probably noticed when
13 the Fed announced their 50-basis
14 point cuts last week that even the
15 public markets did not move
16 substantially kind of on that
17 notice, and it's because a lot of
18 those reductions have been baked in
19 at this point in time.

20 What we can report is that
21 our volume of broker opinion of
22 values, so BOVs as we would call
23 them, have increased pretty
24 substantially up until this moment,
25 but we have not necessarily seen a

1 huge volume of investors kind of
2 come off of the sidelines just yet
3 because interest rates remain above
4 historic levels.

5 But I would also say given
6 the losses that are if not actually
7 realized, certainly on the books on
8 a lot of owners and lenders, I
9 don't anticipate just yet, unless
10 they have to, that a lot of groups
11 are going to be anxious to sell
12 simply because they're going to
13 look for improving conditions,
14 making sure they make their equity
15 investors and their lenders whole
16 to the extent that they can, so I
17 would not say that we have seen
18 substantial volume of new interest
19 in selling at this point in time.
20 We will see what happens if we get
21 a second rate cut this year and
22 certainly after the presidential
23 election.

24 COUNCILMAN YOUNG: Thank
25 you.

1 Thank you, Mr. Chair.

2 COUNCILMAN SQUILLA: Thank
3 you, and thank you so much for your
4 testimony and for hanging in there
5 all this time. We appreciate it.
6 And thank you to everybody who
7 testified and your help.

8 Are there any other
9 questions?

10 (No response.)

11 COUNCILMAN SQUILLA: Seeing
12 none, is there anyone else here to
13 testify on Bill No. 240582 -- I'm
14 sorry, on Resolution No. 240314?

15 (No response.)

16 COUNCILMAN SQUILLA: Seeing
17 none, thanks again. Thank you so
18 much. We will end our public
19 hearing and we will now go into a
20 public meeting.

21 There being no further
22 questions from members of the
23 Committee and no other witnesses to
24 testify, I will ask if anyone else
25 is present?

1 (No response.)

2 COUNCILMAN SQUILLA:

3 Hearing none, I want to thank all
4 the panelists and witnesses for
5 their participation today. And as
6 we go into the public meeting,
7 Resolution No. 240314 will be held
8 at the call of the Chair and Bill
9 No. 240582 will be held in
10 Committee on behalf of the sponsor.

11 That will end our public
12 meeting. Thank you so much.
13 Everybody have a great day.

14 COUNCILWOMAN GAUTHIER:

15 Thank you, Mr. Chair.

16 (Committee on Commerce and
17 Economic Development concluded at
18 3:50 p.m.)

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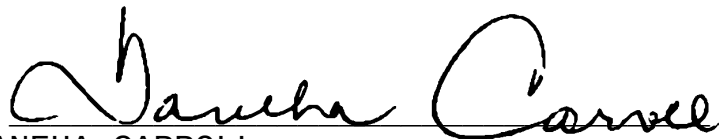
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C E R T I F I C A T I O N

I, hereby certify that the proceedings
and evidence noted are contained fully and
accurately in the stenographic notes taken by
me in the foregoing matter, and that this is a
correct transcript of the same.

A handwritten signature in black ink, appearing to read 'Taneha Carroll', is written over a horizontal line.

TANEHA CARROLL
Court Reporter - Notary Public

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