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

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

Mr. McMonagle, can you please call the attendance.

THE CLERK: Councilman Driscoll.

COUNCILMAN DRISCOLL: Present.

THE CLERK: Councilwoman Gauthier.

COUNCILWOMAN GAUTHIER: Present.

THE CLERK: Councilwoman Gilmore Richardson.

COUNCILWOMAN GILMORE RICHARDSON: Present.

THE CLERK: Councilmember Squilla.

COUNCILMAN SQUILLA:

Present.

THE CLERK: Councilmember Young.

COUNCILMAN YOUNG: Present.

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

Mr. McMonagle, can you please read the titles of the bill and resolution. Before we read the titles of the bills, Councilman Phillips -- and also, acknowledging Councilmember Phillips is present for the hearing.

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

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

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

THE CLERK: Can we please have Francis Healy.

(Witnesses approached Witness Table.)

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

COUNCILMAN YOUNG: Thank you, Mr. Chair.

So this Bill 240582, I'm the prime sponsor of this legislation, and what we're trying to do here is address an issue that I've seen in my District with the implementation of the critical -- with the responsible business operations ordinance.

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

There was an instance where a property owner who is a business owner, who has been a lawful business owner for a number of years, was deemed to be critically nuisance after one incident within the past, I don't know, 20-something years outside of his business, right. And so, when you shut that business owner down who's a senior by the way, he's probably almost in his 80s, so trying to operate and navigate a particular system when you're in your 80s could be a little difficult when you're not getting the response, when you're not getting the communication that you are supposed to be getting in a manner to try to get your business establishment open again. So this business was closed for almost over a month. There were employees who could not go to work for over a month because of the lack of communication between the police department and this business owner.

And unfortunately, the business owner had to take his wife to the hospital today so he's not able to be here to testify to his effect, but he did send a message over. So I just want to provide my colleagues I guess with a little clarity on the situation.

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

He wants to make sure that the City is checking facts to know that the customers or the potential victims were actually customers or the perpetrators were actually customers of that particular business before they are able to get shut down, and he just wants folks to know that he loves his business. But because of this incident, now he believes it's time for him to move on, right.

He's a longstanding business owner of our city. And being shut down by the City of Philadelphia has caused him to realize that maybe he should not be in business anymore. When this one incident occurred, only this one incident at his establishment within the last I don't know how many years deemed him to be a critically nuisance, so in his mind he thinks that the City of Philadelphia thinks he's a nuisance business. Therefore, he should not be in operation.

And all the folks on this panel and some folks who are here listening know what Barber's Hall is and what Barber's Hall means to the North Philadelphia community. So for him to think that his business is now a critical nuisance business and it should not be in operation, it just saddens my heart because that's a place that I've been going to for a long time. And we want to make sure that we are keeping businesses open in the city, good businesses open in the city because they're good tax-paying businesses and they're businesses that hire from the local communities.

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

So thank you, Mr. Chair,

for your time.

COUNCILMAN SQUILLA: Thank you, Councilmember.

And, Councilmember Gilmore Richardson.

COUNCILWOMAN GILMORE RICHARDSON: Thank you. Thank you so much, Mr. Chair.

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

I also wanted to thank Councilmember Phillips who was the sponsor of the bill that we all worked on last year relative to the responsible business ordinance and therefore the additional implementation and the work we all did around the budget to ensure that we had appropriate staffing to deal with sort of the regulation end of this bill.

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

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

COUNCILMAN SQUILLA: Thank you.

Councilmember Gauthier.

COUNCILWOMAN GAUTHIER:
(Gestured.)

COUNCILMAN SQUILLA: Okay.
Councilmember Phillips.

COUNCILMAN PHILLIPS: Hi.
Good afternoon, everyone. I also want to echo the sentiments of Councilmember Gilmore Richardson. Thank you all for being here today.

This is -- as you know, for several years we worked on this piece of legislation defined as the critical nuisance business. And within the current framework the Philadelphia Police Department will play an active role in enforcing business operations and this also helps us with having community and neighborhood enforcement whereas essentially the business owner has the responsibility to work with the Philadelphia Police Department to really understand what happened during this incident. And also most importantly, the business owner has the opportunity to receive feedback on how to properly work with the Philadelphia Police Department as well as find avenues to secure their business even more after a violent incident.

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

I gather this is more of a regulation concern that he has in terms of how do you coordinate with the commanding officer and the police department to enforce the bill. And hopefully today we can be able to find that out. But I look forward to having this bill remain the way it is, so that we could continue to try enhance it as much as possible but remain the way it is. So I want to thank our colleagues for their support as well. Thank you.

COUNCILMAN SQUILLA: Thank you, Councilmember Phillips.

Councilmember Gauthier.

COUNCILWOMAN GAUTHIER: Thank you, Mr. Chair.

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

We've been dealing I would say since the pandemic with a lot of violence on our neighborhood commercial corridors and the bill gave us a way to react to that in a better way. Even instances that I can remember off the top of my head there was a homicide in a store at 40th and Market. There were multiple homicides on 55th and Chester in front of businesses.

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

So I understand your very

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

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

Thank you, Mr. Chair.

COUNCILMAN SQUILLA: Thank you.

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

DEPUTY COMMISSIONER HEALY:

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

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

I testified in support of this legislation on behalf of the department back then. This was a great piece of legislation designed to directly improve the quality of life throughout Philadelphia. I've been working on nuisance issues in collaboration with the Law Department under then Chief Deputy City Solicitor Kristin Bray along with our local state partners for many years.

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

The question would be why? Simply stated crime, disorder and nuisance go hand-in-hand. As such, under the leadership of Kristen Bray we worked with Councilmember Phillips and Councilmember Bass as well as members from this Committee to amend 9-4400 for the better. These were not minor amendments but rather a complete overhaul of the ordinance to address the concerns raised by our communities. So we expanded the scope of the nuisance behaviors and equally, if not important, we included serious violent behavior which was never addressed in the earlier version of the ordinance.

Simply stated, shootings and homicides occurring in and around nuisance businesses were simply beyond the scope of the ordinance. Further, the department voluntarily -- the police department voluntarily assumed responsibilities with these amendments that would otherwise fall to our partners at L&I. As I stated above, crime, disorder and nuisance go hand-in-hand. Therefore, having the PPD at the forefront of enforcing this business ordinance just made sense.

In anticipation of this ordinance and the additional duties and responsibilities that would fall or be placed upon the PPD, the PPD created the Nuisance Enforcement Unit which now Inspector O'Donnell overseas. This unit coordinates with District captains to enforce chronic nuisance businesses and is responsible for conducting the investigations in all critical nuisance businesses.

Every potential critical nuisance business where violence has occurred is fully investigated to determine whether there is any nexus or connection to the violence before any enforcement actually occurs. Only if there's a nexus to this violence where the owners or managers refuse to cooperate in a preliminary investigation does any enforcement action proceed. It is for this reason that PPD must object to the proposed amendments.

These amendments will interfere with our relatively new-found ability to immediately respond to violent encounters in businesses. If there is no nexus between the business and the violence that occurs, the business owners have nothing to fear. There's absolutely no need to allow a second violent incident to occur before we, the police department, can take action.

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

Of this number based upon the preliminary investigation, and I'll talk about that in a second, it was determined that 34 of these businesses had absolutely no nexus to the violence that occurred. As such, there were no further enforcement actions. These individuals cooperated with police and it was over.

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

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

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

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

What we found out when this ordinance was initially implemented, we were doing the investigations but -- we had Macy's, the Macy's incident happened. Basically that's a violent incident that happened at a business. So the question would be what do we do with that. It's a large -- was it involved, was it not involved. And the answer is we don't know. So we have to do an investigation on every business to make sure that there's a nexus.

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

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

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

DEPUTY COMMISSIONER HEALY: okay. But I think we can make this better if that's the issue at hand. We in our policy -- like I said, our policy is a guideline. I'm happy to add additional contact information in that to ensure that there's even -- I'm sorry, easier access to the captains themselves. So I can understand if you call the District Operations room, I can see where communication failures may have happened. So I can fix that by policy very easily. So I can actually make sure that Inspector O'Donnell's unit includes in the intent to cease letters that there's multiple contact locations for every commanding officer.

But the preliminary investigations we do are really what I think makes a difference and actually adds to the ordinance that we had it, because quite frankly you're not going to take action on every business just because something bad happened in there. Clearly, that's not the case. If the business is not cooperating or they're facilitating the conditions that allow things to happen, those are the places and only those places are the ones that the ordinance should be applied. So I agree it shouldn't be on everyone, but we're making sure that we only go after those that we have credible evidence and we maintain documentation as to the nexus statement or basically we call it a nexus statement, which is equivalent to a probable cause statement.

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

One quick question before I

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

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

COUNCILMAN SQUILLA: Say that again.

DEPUTY COMMISSIONER HEALY: We're talking about the critical nuisances, one violent incident happens at a location. The other ones are the chronic nuisances where they have to have three within a year.

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

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

COUNCILMAN SQUILLA: So they stay with the captains first?

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

Unit will collaborate with the Law Department and L&I, primarily first with the Law Department to see whether or not we have nexus. And if we have nexus, the connection between the activities, then we forward the package, the information out to L&I and we forward the new notice of intent to cease operations.

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

DEPUTY COMMISSIONER HEALY: Correct. We fine-tuned that with the new amendments that happened in 2023 and the implementation of the Nuisance Unit. Because like I said, we want to make sure there's consistency across the entire city, so I didn't want to have 20 different captains doing notices of intent drafted differently. So we work with the Law Department that the language is correct and they review all the notices of -- I'm sorry, the intent -- sorry again, the nexus statement, which is equivalent to a probable cause statement. And they look at that to see whether or not there's enough information or enough data to move forward.

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

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

DEPUTY COMMISSIONER HEALY:

Which time?

COUNCILMAN SQUILLA: If there's three violations.

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

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

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

We're just putting them on notice.

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

So the issue is a lot of times they're reaching out at after that first letter and things are being resolved. What we do is we enter into what's called an abatement plan. So if the issue is you should have more cameras, you should have better lighting, you should have metal scanners, that goes into an abatement agreement. And the abatement agreement gets signed off. That's done. It goes no further than there.

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

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

Councilmember Young.

COUNCILMAN YOUNG: Thank

you, Mr. Chair.

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

DEPUTY COMMISSIONER HEALY: A nexus is a connection or -- that's the best way to say it. If we can articulate that the conditions that the owner allowed at that location were in any way contributory to the problem, to the violence or anything along those lines, if there's a lot of violence out there, it's never been addressed. If they have problems and they've never gotten a security guard. So it's on a case-by-case basis.

And that's why just like the District Attorney's Office reviews a probable cause statement, we too have the Law Department looking at our nexus statements because we want a fair and objective review before we move forward. So we'll put the facts down. And if they don't think we have enough evidence of nexus or a connection between the business owner being involved or actually allowing the activities to fester in a way, then we won't move forward. The Law Department won't allow us.

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

DEPUTY COMMISSIONER HEALY: Right.

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

DEPUTY COMMISSIONER HEALY: No, but if they don't respond or -- they have an affirmative duty to respond within so many days after they get the notice of intent to cease. They have to reach out to us. At that point in time a lot of times like I said, we resolve most of these in the first letter when they come out.

Even with the critical nuisance, we were getting into a lot of abatements. A lot of individuals just say, listen, there's crime all around my neighbor, I don't know how to do anything. And a District captain can step in and try to come up with some type of collaboration and say we can actually help. But the issue is they have to cooperate and interact with the process. And if they don't, then within the statute or with the ordinance within five days, that triggers the next level going to L&I.

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

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

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

DEPUTY COMMISSIONER HEALY: You raise a good point. I mean, the issue is what could we do better. I mean, what I can do is make sure that it's done by email so there's documentation of a failure to respond. But I've never had a captain not, but I can see where miscommunications can happen. But I can fix that clearly with my directive by adding additional contact information.

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

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

COUNCILMAN YOUNG: And

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

DEPUTY COMMISSIONER HEALY: Well, the proposed abatement plan reconciliations are listed in the ordinance. So we use that ordinance as a basis to some of the things that we should use. And we work in collaboration. Like I said, we're trying not to shut a business down. We're trying to keep it open. So the issue is often times a negotiation between the captain and the business owner and say, listen, these are the things we believe would help with the crime that you're having or something along those lines. So we're trying to get them together, so we use that as a guide.

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

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

DEPUTY COMMISSIONER HEALY: No.

COUNCILMAN YOUNG: And so, if they're not charged criminally in this matter, then why are we holding them to I guess it seems to be a higher standard to cooperate with certain investigations dealing with these instances of critical nuisances?

DEPUTY COMMISSIONER HEALY: This is the City ordinance as to intent to cease operations. They have to participate once the intent to cease operations is issued. That's outside the scope of the PPD.

COUNCILMAN YOUNG: Can you define for us what is the preliminary investigation in this? What matters are taken into consideration during the preliminary investigation?

DEPUTY COMMISSIONER HEALY: Yeah. When there's a shooting or a homicide happens in a business, one of the detectives assigned to Inspector O'Donnell will go on scene, they'll gather all the other additional information from the divisional detectives based upon the shooting so they have that body of information. And then they'll interview and talk to the business owners and managers as to what happened. And based upon the facts and circumstances they'll put a nexus statement or quite frankly it'll be no nexus statement if there's nothing attached there.

We investigate all of them, but I need to say, well, why did we not go on one and why did we go on the other. So we have those statements and we maintain those statements, so there'll be either statement of nexus, there is a connection, or she'll do an investigation -- I'm sorry. There's two female detectives. That's why I say she. They'll do the investigation and they'll put up -- it gets submitted to myself and it gets submitted to the Law

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

COUNCILMAN YOUNG: One final question. Regarding I guess the actual cease operations that's issued essentially by the Department of Licenses and Inspections and not the police, the five-day period that the owner has to contact the police captain, right, essentially is there any appeals process for that owner if they say they don't believe that they should be even investigated under this particular nuisance, under this particular code? Is there a process for them to appeal that determination so they won't have to call the police in that five days to even start this process?

DEPUTY COMMISSIONER HEALY:
Well, what happens is when we do the paperwork, we send it off to L&I. L&I will then, before they ever do the cease operations, they reach out as well so there's another opportunity for the business owner to interact with L&I. So nothing's shut down just based on our say-so alone. It would actually then be either the failure to cooperate with L&I or L&I determines that there's something else wrong there.

So L&I would then make that call, but they don't unilaterally do it on paperwork. The business actually has almost a second bite at the apple to interact -- let's assume they didn't want to talk to the police. When L&I gets involved, they have the opportunity to intervene and negotiate with L&I to make it go away just like they would have with us. So there's actually two shots at the apple for businesses before anything happens about them being closed.

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

And so, I just want to make sure that we have a set of standards that all police captains, all districts are utilizing when they're enforcing this legislation, because again, the discretion that can be used from captain to captain based on the type of business that is in a particular area can create a lot of gray areas.

And for business owners who are good business owners who just happen to have an incident outside or near their establishment and to then say, oh, because you don't know information but we think you know, but you're telling us you don't know, now we're going to say you're refusing to cooperate with us and now we're going to come down and enforce this law on you, I think that kind arbitrarily sets up disputes between that business owner and police that doesn't have to be there if we are able to see a set of standards, a set of protocols that everyone is playing by. And then the business owner themselves know how to then navigate this bureaucratic process when they get hit with one of these violations or potential violations.

I think we need to have

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

DEPUTY COMMISSIONER HEALY: As for the appeal process, anything that goes through the appeal process still is intact, so it's not like there -- anything that happens with L&I, we're operating basically as an agent for L&I, can be appealable. So all that is appealable. Anybody has an opportunity to appeal any actions of a government agency when it comes to a business.

COUNCILMAN YOUNG: Yeah. But is the method of communication between the business owner and the police spelled out somewhere like on how they need to communicate with the police officer? Because essentially say it's a phone call, right, and you get a phone number. But if the police is not responding to that phone call, then is there another method where the business owner can fulfill their duty, right, to communicate with the police?

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

But I also want to touch on consistency. Consistency is the very reason why we created this unit, to make sure that 21 different captains didn't view things differently so they may have chronic nuisances in one area of the city and they're being much more aggressive than you would say in another part. That's where Inspector O'Donnell's group gets to see and be consistent and make sure we're treating all businesses fairly. So that's really one of the reasons, well, primary reason, for creating the unit, to facilitate that consistency and fairness.

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

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

DEPUTY COMMISSIONER HEALY:
Listen, this is very good
information. I'm happy -- like I
said, we constantly evolve and
change. We're happy to put more
contact information in the letters
but also make a notice or a
reference to our website so they
can look at it.

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

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

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

COUNCILMAN YOUNG: Thank you.

Thank you, Mr. Chair.

COUNCILMAN SQUILLA: Thank you. Thank you, Councilmember Young.

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

(No response.)

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

(No response.)

COUNCILMAN SQUILLA: Seeing none, thank you so much. Thank you for your testimony.

DEPUTY COMMISSIONER HEALY: Thank you.

COUNCILMAN SQUILLA: Mr. McMonagle, can you please read the title to Resolution 240314.

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

COUNCILMAN SQUILLA: Thank you. Go ahead.

THE CLERK: Can we please have James Aros.

(Witnesses approached Witness Table.)

COUNCILMAN SQUILLA: Councilmember Young.

COUNCILMAN YOUNG: Thank you, Mr. Chair.

As one of the members who represents parts of Center City, I'd like to say Market Street is our city's most important commercial corridor here. It was important to me to introduce this legislation understanding that certain significant challenges that our city faces in our Center City commercial office building space.

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

I mean, when we look at some of the numbers, there are a lot of buildings in Center City that are considered to be distressed. And in the real estate market business, that's not a good thing. There are a number of buildings that are in bankruptcy right now. And so, we want to make sure that as a city we still try to capture that value for our city, because I mean our tax base depends on Center City and I want to make sure that there are things in place where we can continue to capture that growth like other cities are doing and to really partner with the private sector on ensuring that our city has the tools in place to keep us moving in the right direction.

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

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

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

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

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

OPA has closely monitored the activity of the Center City office market over the past several years. OPA utilizes the income capitalization approach when valuing Center City office buildings. Earlier this spring OPA completed our Tax Year 2025 revaluation and certified those assessments, which were developed using market data through June 30, 2023.

The total assessed value as of that certification for office buildings in the Center City submarkets as designated by OPA was approximately $8.78 billion. For a comparison when OPA completed the most recent prior citywide revaluation for Tax Year 2025 which used market data through June 30, 2021, the total assessed value as of that certification for office buildings in the Center City submarkets as designated by OPA was approximately $9.82 billion. The decrease of over $1 billion in assessed value from Tax Year 2023 to Tax Year 2025 reflects recent changes in the office market attributed to several factors, including higher vacancy rates and higher capitalization rates, which is a real estate metric that estimates the rate of return on an investment property. This concludes my testimony and I am available to answer any questions you may have.

COUNCILMAN SQUILLA: Are there any questions?

(No response.)

COUNCILMAN SQUILLA: Seeing none -- thank you. Oh, Councilmember Young.

COUNCILMAN YOUNG: Yes.
Thank you for your testimony. When
OPA utilized the income
capitalization approach when
determining the values of Center
City, where do you get this data
from when you're collecting the
incomes from the buildings?

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

when we do these valuations.

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

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

Some of those rate figures might end up being identical, but we break it out so that way if there are differences we would reflect that in the assessments and we can -- when we do the calculations if there's a cap rate difference between classes or vacancy or whatever, we have that data available to us in doing the values.

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

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

COUNCILMAN YOUNG: Thank you.

Thank you, Mr. Chair.

COUNCILMAN SQUILLA: Thank you.

Councilmember Gauthier.

COUNCILWOMAN GAUTHIER: Thank you, Mr. Chair.

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

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

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

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

So when you're looking at either cost of building or cost in lending, those are two big factors with the way the commercial lending -- well, all lending rates really, but particular in this case commercial lending rates have increased. That is a huge factor in some of those cap rates going up.

COUNCILWOMAN GAUTHIER: Thank you.

COUNCILMAN SQUILLA: Thank you.

Any additional questions?

(No response.)

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

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

THE CLERK: Can we please have Will Carter.

(Witness approached Witness Table.)

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

MR. CARTER: Good afternoon. William Carter, Vice-president of Local Government Affairs for the Chamber of Commerce for Greater Philadelphia. First time I've been on a panel by myself so kind of enjoying this.

Good afternoon, Chairman Squilla, Councilman Young and members of the Committee on Commerce and Economic Development. Once again, William Carter, Vice-president of Local Government Affairs for the Greater Philadelphia Chamber of Commerce and a founding member of the Inclusive Growth Coalition. And I want to thank you again for allowing me to testify today.

People often ask what is inclusive growth. And quite simply it means growth of the entire interdependent business ecosystem, so that means micro, small, midsize and large. And when businesses of all demographics grow, they hire which is of particular importance to City Council and the Mayor, I'm sure.

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

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

Study after study has shown that business density correlates with fewer business startups, lower economic output and higher poverty within areas. According to data compiled by the Center City District in 2019, there were more than 50,000 daily visits on an average weekday from non-resident workers in the West Market Street and JFK office district. And in 2020, that dropped to low fewer than 5,000 commuters.

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

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

COUNCILMAN SQUILLA: Councilmember Young.

COUNCILMAN YOUNG: Thank you, Will, for your testimony. Can you talk to us about how the vacancies really affect the business-to-business commerce market here in our city?

MR. CARTER: Yeah, absolutely. This is something we talk about all the time. Inclusive growth means everyone making a good living inclusively whether they work for themselves or others. And so, when you have a small business generally obviously that's usually a mom-and-pop and we're really talking about micro businesses. Small businesses can be up to 10 employees or maybe a little bit more, midsize businesses and large businesses and so forth with the amount of people they employ. So the more people who are in office buildings here, the more businesses here and the more people who are in office buildings here the more foot traffic we have throughout the city for small and micro businesses, which could be once again your mom-and-pop, for midsize businesses who could be delivering services to these companies in these office buildings. And more importantly, more dollars, economic dollars for the tax base for the city of Philadelphia to grow and be able to sustain our programs and services that we have throughout the city. So it's an interdependent ecosystem.

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

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

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

So how do you grow employers from diverse -- like Atlanta's doing it. Austin's doing it. They're saying, hey, we are open for business. So the number one thing I hear on a regular basis, and you know I worked here for 15 years and I used to think they were crying wolf but it's not the case, is we have to lower the cost of doing business in the city and we have to make it more attractive for businesses to come here.

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

So I right now, because I don't work for the City, could move outside the city and give myself a 3 percent raise. My wife as the CEO of my company at the house asks me all the time why don't we do that, and it has to have an overriding argument for me to be here. And, you know, I do like being in the city.

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

COUNCILMAN YOUNG: Thank you.

Thank you, Mr. Chair.

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

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

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

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

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

So since I've seen this graph and studied it, it is that case. Several cities are above us, Phoenix. We hear about Phoenix a lot because we are similar in size and I know that there's some annexation that happened in Phoenix, what have you. But Phoenix is growing jobs faster than we are.

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

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

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

And we are in competition versus other cities for residents, for people saying, hey, I want to come there for opportunity. It's just happening and so many people are going to Atlanta, so many people are going to other cities, D.C. and others. And we want to say, hey, come here not just because we want you to come here, but also we want you to contribute to our ecosystem of not only residents but also businesses and commerce. Hopefully, that answered your question.

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

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

Right now SEPTA does not

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

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

We're not talking about --

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

COUNCILWOMAN GAUTHIER: Thank you.

MR. CARTER: All right.

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

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

THE CLERK: Can we please

have Prema Gupta, Job Itzkowitz and Shalimar Thomas.

(Witnesses approached Witness Table.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

So how is this possible with vacancy climbing? Tenants across the board in most industries are downsizing, trading extra space for smaller and often higher quality spaces. This is in part because of hybrid and remote work patterns and in the West Market and JFK office district, there are about 63 percent of the daily workers compared to 2019, but it is worth noting that this number continues to grow. And thanks to the leadership of our Mayor and companies like Comcast and IBX there's about 6 percent more workers in that office district than there were last year and that number continues to inch forward.

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

So I almost picture this as a game of Jenga with irregular and potentially destabilizing vacancies throughout these office buildings. And also, not every obviously office building is suitable for conversion even if the building is entirely empty. Context, building form, location of elevators, floor plate size, elevator locations, availability of windows and a variety of other factors all play a crucial role in assessing a building's feasibility for construction.

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

Currently CCD is tracking about 1.5 million square feet of office conversion under way, which we think should produce about 1,000 more apartments in Center City. But ultimately, we cannot convert our way out of the office vacancy problem, and I don't think we would want to either.

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

The goal is to show that city government and the downtown business improvement district are proactive and engaged and ready to listen to what decision-makers at those office tenants have to say about operating in Center City. The first phase of this outreach is getting under way and we are prepared to bring other partners together to sit in on these meetings with tenants as we understand the quality-of-life concerns and determine how to improve their experience to ensure that they are positioned to thrive in Center City.

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

At Center City District we believe that our downtown is the heart of opportunity, commerce, culture and joy for the entire region. The diverse interdependent downtown workforce hails from every corner of the city and region and includes thousands from every Councilmanic District. The team at Center City District is committed to doing whatever we can to partner with the City on programs and policy changes that will encourage tenants to stick around and invite others to animate your office district in the years ahead. Thank you for your time and consideration.

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

Just state your name for the record and proceed.

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

Renaissance, the nonprofit managing both the North Broad Business Improvement District and North Broad Special Service District. Thank you for the opportunity to address you today regarding Resolution 240314, a pressing issue affecting our city's economic and community landscape, the office vacancy crisis.

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

I'm particularly interested in finding a remedy on this as business attraction and retention is a top priority for the North Broad Renaissance, and office vacancy is directly related to our goals around job equity and can impact more than 60,000 residents in our coverage area. We know that what impacts Center City will eventually find its way into our neighborhoods and can ultimately impact our neighborhoods negatively.

I think we all understand the positive impacts that office vacancies have on our communities, but for the record I'll reiterate a few: Economic opportunities, new office development can create jobs for local residents, including positions in construction, maintenance and the service sectors. Additionally, moving businesses into new office spaces may provide entry-level jobs or internships to community members. Support revitalization and infrastructure efforts. Office buildings often lead to revitalization in underdeveloped areas, which can result in improved infrastructure such as better roads, public transportation and public amenities. This can enhance the quality of life in surrounding neighborhoods.

Community development, some office projects include community-focused components such as affordable housing, public spaces or community centers. These developments can provide direct benefits to low-income residents. If not addressed, the office can have the following negative economic implications: First, the rise of office vacancies has direct economic consequences for our city. Empty office buildings result in decreased property taxes which can affect funding for essential public services and infrastructure.

The shift towards remote and hybrid work models have changed the demand for traditional work spaces. Many businesses are re-evaluating their needs for large, centralized office leading to increased vacancies in our urban core. This shift has implications for local businesses such as cafés which rely on foot traffic from office workers.

Vacant office spaces can contribute to blight and reduced vibrancy in our neighborhoods. As buildings remain empty, they become eyesores and detract from the overall appeal of our city. Furthermore, high vacancy rates can discourage new businesses, developers and -- I'm sorry. High vacancy rates can discourage new businesses and developers from investing in our community. I just realized I should have made the print much larger on this.

While the office vacancy crisis presents challenges, it also offers opportunities for innovation and revitalization. Our city governments are actively supporting and shaping new office building trends through various policies and initiatives aimed at fostering innovation, sustainability and economic development.

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

For example, the North Broad Renaissance is in the process of creating four districts to support our inclusive economic goals. They include a tech district, arts and culture district, business district and health district. Partnering with the City on promoting these districts could prove beneficial to both of our goals.

Second, economic development programs. Cities often have economic development programs that support businesses in expanding or relocating to new office spaces. These programs may offer financial incentives, streamline permitting processes or provide other forms of support to attract and retain businesses.

A key industry to look at is experience-based businesses or the experienced economy. There's a growing shift from owning products valuing experiences. This trend is driven by younger generations who prioritize experience over material goods. Businesses that offer unique and memorable experiences are thriving in this environment and should be incentivized to locate to our areas, especially considering the salaries for these jobs can range from $40,000 to $120,000 a year.

Third, community engagement and public spaces. City governments are increasingly incorporating public spaces and community engagement to office developments. This includes design office buildings with accessible public areas, parks and community facilities that enhance the overall urban environment. As I mentioned, there's a full list in my testimony that can be reviewed at a later time.

By aligning policies and investments with emerging trends in office space usage, city governments are playing a crucial role in shaping the future of urban park environments and fostering sustainable, vibrant and adaptable business districts. Overall while office building trends have the potential to benefit low-income communities through improved infrastructure and economic opportunities, it's crucial for the urban planning and development strategies to address and mitigate the risks associated with those trends to ensure that growth is equitable and inclusive, and in short I'm talking about gentrification.

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

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

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

By way of background, the Old City Special Services District is a municipal authority and business improvement district in Old City. Now, in its 26th year Old City District served to supplement, but not replace, the services provided by the City of Philadelphia and the responsibilities of property owners, contributing to a healthy environment for businesses to be successful, for visitors to enjoy their experience in Old City and for residents to maintain a positive quality of life.

However, despite these ongoing efforts to enhance Old City's vitality, Old City's commercial office market has not been immune to the broader challenges facing Philadelphia and the national office market. Old City, including its immediate surroundings, is home to approximately 30 office buildings encompassing more than 5 million square feet of space. Much of that space is contained in Class C commercial office buildings.

Office vacancy is a national issue and Old City is no exception. Within the past year several large Old City office buildings have vacancy rates in excess of 40 percent, with at least two exceeding 70 percent, one of which was at 80 percent vacant.

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

Retail vacancies in Old City have fluctuated significantly over the past few years. And although they've recovered since the pandemic, Old City's retail vacancy rate is starting to tick up again in part due to the ongoing absence of those workers. But an addition to the immediate impact created by the decline in office worker foot traffic, increased office vacancy and the corresponding decline in property values pose an existential threat to our organization.

As you know, and you've voted on this in the past, OCD's five-year plan and budget is approved by City Council. The approved plan outlines how much OCD budgets for assessments each year. That assessment amount this year, about $1.2 million, is then allocated to each commercial property owner based on the relative value of their property over the denominator of all commercial property in the district.

So for example, if your property is worth 10 percent of all the commercial value in the district, you pay 10 percent of our budget and this year would work out to about $120,000. Our commercial properties range in size and I'll refer to them today as they are more commonly known, and those are not necessarily their official names today, for example on the larger side Old City has the Penn Mutual Towers, the Boarse and the Wells Fargo building.

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

Though the larger buildings are fewer in number, they represent a much greater proportion of the value of Old City commercial properties. This year Old City District has 932 rate-paying properties. Of those, the top 50 properties pay 65 percent of our budget. While some of those buildings are hotels and fairly stable, many are traditional office buildings.

Some of those buildings have traded recently at very deep discounts. The Colonial Penn building at 399 Market sold at 77 percent of its OPA value, then assessed, (inaudible) appealed. The Boarse sold at 65 percent of its OPA-assessed value. 400 Market Street sold at 26 percent of its OPA-assessed value.

As OPA or BRT, in the case of appeals, catches up with new market values, the overall value of commercial properties in Old City continues to decline. But more importantly to us as the district, the larger properties represent a smaller percentage of the overall commercial property value. As that trend continues, we have to fill up to that $1.2 million in assessment, so as that trend continues, the burden shifts from the larger properties to the smaller properties. That includes small property owners and mom-and-pop business tenants.

So recalling that hypothetical property that pays $120,000 us each year because it's worth 10 percent of all of our commercial property value, if the top 50 properties in Old City that pay 65 percent of our rate experience a 50-percent reduction in assessed value, the total value of all commercial property in Old City would drop from 1.5 billion to 1 billion. And the property that was paying $120,000 slips to $90,000. That $30,000 gets redistributed to smaller properties and our assessment millage rate goes up 50 percent to make up for the lost value.

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

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

Nevertheless, while Old City has made progress in recovering foot traffic and fostering residential growth, the office vacancy dilemma continues to undermine the stability of our commercial corridor. As office spaces remain vacant and property values decline, the financial future of the district is at risk.

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

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

as when you see other cities that
always go through those gigantic
highs and then gigantic lows,
Philadelphia's curve is always a
little bit smaller and slower, I
think, because of some of these
opportunities. It's interesting.
And I want to thank my
colleague Councilmember Young for
bringing this resolution to the
table. And, Councilmember Young.
COUNCILMAN YOUNG: Thank
you, Mr. Chair.
The question for Center
City District, essentially as you
go through your evaluation, I just
listened to what Job mentioned
because of the lower values, they
have to then shift some of that
stuff to some of the smaller
ratepayers, is that something that
Center City District properties
will have to go through as well as
the values of the properties are
lower?

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

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

MS. KATARI GUPTA: Sure. And I think Councilmember Gauthier said this on the previous panel. I will say both quantitatively and qualitatively our downtown is in a better position than many of our peers. Interestingly enough, one of the direct lines is this conversion process that we've been doing for the last 30 years and the fact that we have among the largest downtown population. And so, those folks have been shopping in our stores and eating in our restaurants and walking on our sidewalks for the last five years where a lot of cities have emptied out.

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

Through some of our research efforts we have noted a really strong correlation between commute times and an individual's likelihood of being back in the office. And I think because we have this growing downtown population but also, you know, you can't miss them, the amount of apartments being built kind of in the periphery of our Center City, that's shoring that up and that's creating this great exchange between talent and the office that I think will, as my colleague Clint says, will future-proof us from a perspective.

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

Where I am concerned, as I mentioned, is a lot of the buildings that are readily convertible have already been converted and we've got a couple problem buildings that, you know, I think some of the real estate experts behind me, we'll all need to put our heads together to sort out. But I think on a sort of day-to-day vitality basis I think we're doing very well.

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

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

MR. RANDALL: (Inaudible).

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

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

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

(Witness approached Witness Table.)

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

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

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

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

I can say too this is a final point on that, that just looking at kind of the population immediately around Center City, as many as 30 percent or more of the downtown workforce walks to work which is a fairly stratospheric number as far as major cities' commuting rates by walking.

COUNCILMAN YOUNG: Thank you. You mentioned our talent pool. What can we do or how can we leverage that talent pool given that we are a city full of eds and meds and essentially the talent pool is coming from those institutions? How can we better leverage the ancillary businesses that are associated with the eds and meds to attract them to come to our Center City and things like that?

MS. KATARI GUPTA: Yeah. I think it's a huge opportunity that folks like Campus Philly have been working on for a great deal of time, but we long say and this is fairly qualitative, if you like cities there's no better East Coast city to live in -- there's no better city in America to live in because of our relative affordability -- and to be clear, not affordable to all but for folks comparing among our peer cities -- I think it's a real opportunity for us.

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

COUNCILMAN YOUNG: Thank

you.

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

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

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

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

COUNCILWOMAN GAUTHIER: Okay. Wonderful. I want to ask have you thought about maybe expanding and doing the surveys of the businesses that are located in the suburbs just to understand why they made the decisions they did? We may think that we know but maybe we don't fully know, and that might be valuable information.

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

So are we also expanding our data points about why office space is expanding in the suburbs and why we have gotten some new businesses to come to Center City as we continue to grapple with this challenge?

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

Companies are increasingly looking to be close to talent, close to our universities, close to our colleges, close to our young people. And our sort of sense just serving residential development in and around Center City, I think the majority of people moving to new apartments are probably 35 and younger. Certain to be sure we have -- Center City is a place that is hospitable to all sorts of people different stages of their life and I think we need to sort of meet people where they are, but I think we are increasingly seeing interest in looking at Center City because of the proximity that is regional, a young educated workforce.

COUNCILWOMAN GAUTHIER: Ms. Thomas.

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

The business who has to

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

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

COUNCILWOMAN GAUTHIER: Thank you so much. That's really helpful to understand. And I think as we continue to strategize around this and bring our downtown Philly back, it'd be helpful to just have as much data as possible about why businesses are making other decisions or why businesses decided to locate here because those could be -- there could be things that we can grow over time that would attract even more businesses to our downtown area.

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

COUNCILWOMAN GAUTHIER: Thank you.

COUNCILMAN SQUILLA: Councilmember Young.

COUNCILMAN YOUNG: Thank you, Mr. Chair.

This question is for Ms. Thomas. As you've done research into other places that have these different districts, have any of the municipalities provided any tax incentives for these different districts in order to help spur the growth as they are creating them?

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

COUNCILMAN SQUILLA: Thank you.

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

MR. ITZKOWITZ: So in Old City it's a little bit different, right. We are lucky that some of our new owners are local, but in a lot of places these owners are shareholders, right, investors. In fact, a lot of our small properties have that. So in some of our vacancies in our small office buildings either we need to do a couple things, one, I'm thinking about the photo I showed you before the hearing, right. It's potential office space that we need to get cracked into shape because it's so vacant that it's got L&I violations on it.

But in the more global sense, there's some education requirement about what's realistic about the market. And to be honest with you, 399 Market seems to be doing well relatively at reduced rents. And so, sometimes people have taken a hit on what that acquisition value is and that allows some market forces on the rental side to sort of solve themselves. Someone took a loss, but it ends up being that there's still enough demand to bring it in.

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

When the pandemic hit, a lot of those tech firms lost personnel to California salaries while they're still living in Philadelphia, which is great for our income but not great for our office spaces. So I think what we need to be looking for is the next similar incentive zone, whether that's enacted locally or at the Commonwealth level to incentivize people being in office or at least leasing those office spaces.

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

COUNCILMAN SQUILLA: Thank you.

Councilmember Gauthier.

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

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

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

COUNCILWOMAN GAUTHIER:

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

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

If it all goes to residential, obviously there's a challenge and it doesn't really work. So I think as we look at that and, yes, I'm also in favor of gentrifying the area through conversion and other means, but I think we have to be careful too to make sure that we incentivize the commercial space, the office space as a good mix for Center City in order to keep it vibrant.

Job.

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

And so, I think a lot of Old City businesses would not have survived if not for that growth in residents because they were there and able to walk around. They would not have survived the pandemic. That said, there's still opportunity to grow more residential without impacting office, right, without addressing some of those spaces that are hard to convert. In Old City we still have vacant land. We still have one-story buildings that are not historic. And there's a couple of barriers in place due to redevelopment. Some of them are long time held in families, held in trust. But there's certain things Representative Khan in Harrisburg has introduced, (inaudible) Reform bill that will enable us in Old City to really develop and convert some of the smaller buildings into more residential. So that's something we're supporting at Old City District.

COUNCILMAN SQUILLA: Thank

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

Are there any other questions?

(No response.)

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

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

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

(Witnesses approached Witness Table.)

COUNCILMAN SQUILLA: Phil and Brent, thank you. Philip, you want to just state your name for the record and proceed with your testimony. And then we'll do Brent and then we'll ask questions when you both are completed. Thank you.

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

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

Today I bring to light our organization's commitment and perspectives on the matter that concerns not just the industry but the socioeconomic of our city, the adaptive reuse of distressed office spaces. NAIOP recognizes that the potential for such endeavors to revitalize urban centers as evidenced by the growing vacancy rate and the evolving dynamics of our workplace.

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

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

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

Historically, Philadelphia has seen over 9 million square feet of office space creatively repurposed. That's equal to the volume of three Comcast towers. This transformation not only revitalizes the buildings but also breathes new life into our city's economy by attracting new residents and businesses. However, the path for conversion is fraught with hurdles, from securing capital and navigating complex zoning laws to addressing substantial structure challenges. These barriers necessitate a concerted effort from all stakeholders, including financial institutions, city planners and community leaders to foster an environment that is conducive to such significant transformations.

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

Similarly, NAIOP nationally backs the Revitalizing Downtowns and Main Streets Act, recognizing the critical role of adaptive reuse in modern urban economies by providing a 20 percent federal tax credit for conversions projects. To mirror such successes, we propose that Philadelphia adopts incentivizing measures that facilitate easier conversion processes, possibly mirroring the adaptive reuse incentives found in cities like Los Angeles and Buffalo.

For instance, Los Angeles has simplified the process for developers through an adaptive reuse ordinance that eases zoning and parking regulations and speeds up approvals. In Buffalo, the Eerie County Industrial Development Agency offers tax incentives like property tax savings, sales tax exemptions on construction materials and mortgage recording tax abatement.

Such incentives could significantly lower the entry barriers for developers, ensuring that conversion projects are not feasible but also attractive for -- or not just feasible but attractive from an investment standpoint. Along with our testimony, NAIOP Greater Philadelphia will be happy to provide details on adaptive reuse incentives enacted in other cities to the Chair and the Committee at large.

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

With the strategic support from the city policies and the collaborative approach across all sectors, we can transform these idle structures into vibrant functional spaces and contribute to the City's growth and resilience. I want to thank you all for your attention and your time today and I will answer any questions as they come. Thank you.

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

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

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

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

Our member buildings not only define the Philadelphia skyline and add character to the city, but they have historically been a tremendous economic driver for the city and the region. It may be a common refrain, but make no mistake the Philadelphia commercial office market and the city as a whole is at a critical inflection point. Similar to peer cities across the nation, employee return to office is presently not at viable levels.

Despite the significant headwinds, our industry remain optimistic regarding the future. For success, it is paramount that the public and private sectors collaborate and develop a meaningful, sustained path forward together.

The current headwinds I speak of are significant and include, but are not limited to, record high interest rates, reduced liquidity, rising inflationary pressures, mounting insurance burdens, anemic employee return to office brought about by hybrid and remote work and commercial office tenants reducing their leased premises by 25 to 40 percent upon lease renewal. These realties are leading to declining property values, which in turn reduces tax revenue placing a financial strain on the entire city.

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

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

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

With that backdrop, we need to look internally and externally, how do we entice new businesses to our great city while creating a path forward to retain those organizations and businesses already located here and who are contributing to our city's economic success. Together we must find unique but reasonable solutions.

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

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

We need more jobs, more growth, more opportunity and we need more life-sustaining jobs for the residents of Philadelphia. This will not come from mandates or additional regulatory burdens, but will come from a desire and will for businesses choosing to be located in Philadelphia, and particularly the city of Philadelphia.

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

What type of solutions can BOMA Philadelphia offer. We circle back to our opening remarks, a collaborative public-private partnership is key to the effective and meaningful solution. I'm not certain we hold the magic wand that will cure all, but we can offer some suggested strategic investments that may help turn the tide.

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

As our members communicate with organizational and business leaders in and around the city, I can say unequivocally that these leaders want their workers back in the office and are looking to see what others are doing and taking cues from peer employers. Actions speak louder than words. Mayor Parker should now have no issues standing before private sector leaders and federal government for that matter in saying please join me, please do as I do.

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

The Use and Occupancy tax is billed monthly to tenants in addition to base rent, real estate taxes and other miscellaneous lease charges. In the case of return to office, this tax is imposed whether one person is in the office or 100 employees. This creates an obligation to pay that tax.

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

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

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

There's real savings in the Use and Occupancy credit if you scroll down a little bit. To the right, I'm sorry. You can provide savings to tenants based on their occupancy within their space, in turn incentivizing them to bring their employees back.

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

Another potential

initiative would be incentivizing employers or employees to hire Philadelphia residents. This could involve potentially offering Use and Occupancy or Business Income Revenue Tax discounts so employers hire city residents. This may drive employers to hire city residents who pay higher wage tax.

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

This city has the potential to take proactive steps before it's too late, especially through innovative solutions. They can lead the nation in a return-to-office policy. We are making significant strides every day to benefit all residents and business. Now, it's crucial that we foster a similar environment focused on business retention and attraction.

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

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

Councilmember Young.

COUNCILMAN YOUNG: Thank you, Mr. Chair.

Just a couple of questions

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

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

COUNCILMAN YOUNG: Wow.

MR. HUTCHINSON: They have since declared from my understanding that they're going to be leaving that building. Therefore, there's $0 rent that's going to be paid on their space. They were not paying real estate taxes on that space, and that building which once had 8500 visitors on a daily basis is down to a few hundred right now.

So I don't know if I'm answering the question that exactly, but just giving you a flavor of what a bigger tenant like that in the City of Philadelphia can have an effect.

COUNCILMAN YOUNG: Yeah. Thank you. I was just looking for the impact, right, because for me those eds and meds are tax-exempt entities and they do contribute a lot to our city, but they also take away a lot as well, particularly when it comes to things that our city needs to continue to grow. I think that a move like that again hurts our Center City office market which this hearing is about, right, our Center City office market. So we want to really figure out what other things we can do to incentivize those larger institutions because we are a big eds and meds city. What can we do as a city to kind of make them be more of a productive citizen in knowing that they're contributing to some of the issues that we're having?

MR. HUTCHINSON: So the office buildings are constrained a lot of times by low covenants with regards to rental rates. So it's not as easy -- and I think you had asked the question earlier, is there any way we can lower rental rates to incentivize tenants to come into the city. Existing loan covenants will say that X, Y, Z landlord cannot sign a lease at less than $30 a square foot because that affects the investment of the bondholders on the back end.

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

COUNCILMAN SQUILLA: Point of information. But isn't it also possible to incentivize both the City helping out but the landlord might, not lowering the rent, but sometimes give a month free, you give a security deposit, you do other things, you keep the rent stable but incentivize people to come through other means besides reducing the rent cost?

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

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

COUNCILMAN YOUNG: You mentioned U&O a lot in your testimony. Do you feel that U&O is a barrier for new companies or new businesses wanting to locate here in the city of Philadelphia?

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

The example, and again I am not an attorney, I'm not a tax expert but if you crunch the numbers, if you're an employer and you can save $25,000 a year by telling your employees to come back into the office at a 75 percent threshold, would you make that decision. $25,000 can be a lot of money to a business. So there's that type of opportunity out there that unfortunately the City is losing right now based on the reassessments that are going on.

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

MR. HUTCHINSON: Abatements --

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

MR. HUTCHINSON: There's --

MR. BUTLER: I can answer the question. So the current legislation -- so there's not a specific incentive out there for the redevelopment of any particular size, scale and space. One of the kind of -- going back and circling some of the previous questions, as a developer projects have had -- historically projects within city limits and outside of the city limits, one of the first, particularly as we talk about the region in Philadelphia itself, but the Philadelphia region as a whole, one of the initial concerns and questions that we get is about the tax base, is about the tax base associated with the organization, the corporation, particularly if it's a national or even an East Coast search for an organization looking to relocate and the tax base associated with the individual employees so that corporation or company's ability to attract or retain the best staff.

And so, you start to have this tug and pull between we need everybody to come back to work. Philadelphia is a great place to do business and a great place to live, but we find ourselves in this push to get everybody back into the office, which kind of the tax base starts to push against the ability to do that in a meaningful way for these corporations, so it becomes a dilemma.

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

COUNCILMAN YOUNG: Could you elaborate a little bit more on what is it, the Downtown Revitalization Act and what that Act will specifically do for a city like Philadelphia?

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

As my colleague here has mentioned, there are a bunch of levers to push and pull on and all of it goes back to dollars. At the end of the day it goes back to the ability to be able to underwrite a deal to either redevelop what's existing. And if we talk about conversions, if I am looking to convert an existing building and we get past the structural components of it, right, the footprint, the core of the building and all those things that make it not feasible or borderline feasible to take a building and convert it, we start to get into this area and this space of how can I, one, ease the zoning requirements that allow me to get to typically whatever that mixed-use need is that I need to get to, and what are the other levers, whether it's parking. So it doesn't always have to be kind of a dollar or tax base. But if you start to look at what my ability is from a parking ratio standpoint, you start to look at my pace of being able to kind of turn and convert because every day is cost of carry in the deal and those types of things.

And so, that's part of -- sitting here from a NAIOP standpoint, that's the dialogue that we want to enter into. There's no silver bullet, but there's opportunities to kind of look at it in a couple of different ways that maybe there's a mosaic of different pieces that incentivize that does not cost too much of a burden or sort of precedent that the city is not willing to live with, but that also actually drops, eases the pressure, the financial pressure to be able to get in and convert something.

COUNCILMAN YOUNG: Thank you, Mr. Chair.

COUNCILMAN SQUILLA: Councilmember Gauthier.

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

MR. HUTCHINSON: So no real surprise because I think we've all heard the Austin story, so Austin is ranked No. 1 in best business climate, followed by Raleigh, North Carolina; Boise city surprisingly, Salt Lake, Nashville, Dallas, Fayetteville, Arkansas, Lexington, Charlotte, so a lot of the southeast states.

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

And I believe part of the narrative is it's easier to develop, it's encouraged to develop, and they've had tremendous success at it. And I'd be happy to share this with you if you want to read it afterwards.

COUNCILWOMAN GAUTHIER: Yeah, I'd love to see it. I'd love to understand what other cities are doing in a fuller sense and how that compares to what we're doing here in Philadelphia. Thank you.

MR. HUTCHINSON: Yes, of course.

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

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

(Witness approached Witness Table.)

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

MS. GILCHRIST: Absolutely. Thank you so much. Good afternoon, Chairperson Squilla and members of the Commerce and Economic Development Committee. My name is Lauren Gilchrist and I'm the EVP and Market Leader for Newmark in Greater Philadelphia.

Newmark is a commercial real estate services firm, specializing in the leasing, sale, financing, construction management and property management of office, industrial, multi-family and retail throughout the Philadelphia region. I lead a team of 160 people and supervise our offices in Center City, King of Prussia, Marlton, New Jersey and Wilmington, Delaware, and I'm a resident of the city of Philadelphia. Thank you to Councilmember Young for convening this hearing and requesting this testimony.

It is no secret that the pandemic precipitated substantial structural changes to the office market in Philadelphia and around the country. Our office vacancy rate across the City stands at 21.7 percent as of the end of Q2 2024 with an availability rate of that space of 26.3 percent.

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

With persistent tenant downsizings in the wake of changing space utilization patterns and anemic tenant attraction activity from outside the market, we anticipate these changes to continue into the future. Market East and Market West saw a combined net absorption of negative 131,000 square feet in the first half of the year. That is approximately equivalent to about five floors of office space.

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

With almost no activity from new tenants to the market, we expect this pattern of negative absorption and increasing vacancy to continue. While this problem may initially seem contained, the complications of ballooning vacancy in the market have far-reaching implications for not just landlords but also lenders and the municipal tax base, as we have talked about extensively today.

Recent sales comparables put office buildings trading for apartment conversion at about $55 to $85 per square foot whereas Class A office assets were trading for $300 to $350 per square foot prior to the pandemic. And I can also report that our newest most sophisticated offices, even if they were developed a few years ago such as the Comcast towers were developed for somewhere around $1,000 per square foot which shows you the stark contrast between what assets are trading at today versus what they were built for and therefore trading far below replacement costs.

More than 5 million square feet of space is in special servicing or receivership. These are two very specific financial dedications having to do with the building status with the lender, and these account for approximately 11 percent of all space in the city today.

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

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

City millions of dollars in tax revenue.

There are also several implications beyond the financial that are worth understanding. First, office tenants may find themselves in buildings that are unable to provide basic services and maintenance due to declining revenues when they're in distressed status, resulting in quality declines that may make workers think twice about working from home or having their clients come into the office, where they are noted to spend additional revenue on transportation as well as services such as catering.

These revenue declines may result in fewer janitorial, security and maintenance jobs, the economic lifeblood of many working-class Philadelphians. Finally and perhaps most importantly, when investors lose money in real estate they become more reticent to invest in the same location again and lenders are less likely to lend to the same sponsor or business plan in that location.

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

COUNCILMAN SQUILLA: Councilmember Young.

COUNCILMAN YOUNG: Thank you.

Just one question. It was

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

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

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

aged towards child-bearing and school, that in some cases we have lost some of that population to the suburbs for the perception and reality of public safety as well as for the perception and reality of the quality of public education. So some of that would be excepted naturally. But I do believe that there is still a very strong desire for employers to be close to their talent base because it is far cheaper to occupy more expensive real estate than it is to pay the increasing costs that we see as talent markets have continued to constrain. So in that sense Philadelphia does have some advantages, but I would say that both things are true and both things can compete with one another.

COUNCILMAN YOUNG: Thank you.

One thing you did mention

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

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

So we can certainly provide some of those numbers.

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

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

COUNCILMAN YOUNG: Given where we are in the market with the interest rates, how is your industry viewing the reductions in interest rates? And moving forward, what do they potentially see as the forecast for the market moving into the future?

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

What we can report is that our volume of broker opinion of values, so BOVs as we would call them, have increased pretty substantially up until this moment, but we have not necessarily seen a huge volume of investors kind of come off of the sidelines just yet because interest rates remain above historic levels.

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

COUNCILMAN YOUNG: Thank you.

Thank you, Mr. Chair.

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

Are there any other questions?

(No response.)

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

(No response.)

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

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

(No response.)

COUNCILMAN SQUILLA:
Hearing none, I want to thank all the panelists and witnesses for their participation today. And as we go into the public meeting, Resolution No. 240314 will be held at the call of the Chair and Bill No. 240582 will be held in Committee on behalf of the sponsor.

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

COUNCILWOMAN GAUTHIER:
Thank you, Mr. Chair.

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

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.

TANEHA CARROLL
Court Reporter - Notary Public

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