COUNCIL OF THE CITY OF PHILADELPHIA
COMMITTEE ON LEGISLATIVE OVERSIGHT

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Philadelphia, Pennsylvania
Friday, April 24, 2009, 2:42 p.m.

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Resolution 090151 - Authorizing the Philadelphia City Council's Committee on Legislative Oversight to hold public hearings on Philadelphia's building costs, home values, and potential strategies and remedies to encourage development.

COUNCILMEMBERS PRESENT:
James F. Kenney, Chair
Curtis Jones, Jr.
Brian J. O'Neill
Also Present: Councilman Frank DiCicco

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COUNCILMAN KENNEY: Good afternoon, everyone. I want to personally apologize. I had people from out of town that were delayed on their flight, and my meetings got backed up, and I'm here. Thanks.

This is the Committee on Legislative Oversight to hear testimony on Resolution 090151, which is a resolution authorizing the Philadelphia City Council's Committee on Legislative Oversight to hold public hearings on Philadelphia's building costs, home values and potential strategies, and remedies to encourage development.

The first witness that we have is Andrew Altman, Deputy Mayor.

(Witness comes forward.)

COUNCILMAN KENNEY: Oh, I'm sorry. Also in attendance here, for the record, is Brian O'Neill, who's a member of the committee, and Frank DiCicco, who's the sponsor of the resolution but not a member of the committee.

Please identify yourself for the record.

MR. ALTMAN: Okay. Thank you. Andy Altman, the Deputy Mayor for Planning and Economic Development, Commerce Director.

Good afternoon --

COUNCILMAN KENNEY: Good afternoon.

MR. ALTMAN: -- Chairman Kenney and members of the City Council Committee on Legislative Oversight. I'm here today to testify on Resolution 090151 on building costs, home values, and potential strategies and remedies to encourage development.

I -- my testimony is brief and I'll be brief.

Development costs and tax structure are clearly two very important issues for Philadelphia and for our administration. We've created, through an executive order, and have convened the Mayor's Task Force on Tax Policy and

Economic Competitiveness specifically to analyze the tax and development costs and explore implementation of tax-based incentives for construction in the context of other tax policy reforms.

I think we all share the goal to make Philadelphia a friendly place to do business, where projects can be built responsibly, quickly, and profitably. The economic slowdown plan gives us the time to plan and prepare for the next wave of investment by creating policies and making investment affordable and easier. That includes not only looking at our cost structure but also our approval process, which has cost projects. It's something I've been focusing on since starting and an area where we have seen some significant improvement.

With Licenses and Inspections, delay time in the concourse has been cut in half, with the wait for any permit taking less than an hour. Similarly, they're reviewing applications faster and providing a response for commercial applications within 25 days and residential projects within 15 days. Both of these improvements make Philadelphia a friendlier and, hopefully, a slightly more cost-effective place to do business.

Importantly, we've begun a comprehensive review of the development permitting process, with the support of the private sector and foundations across all of the line agencies. We want to ensure buildings are built safely and responsibly, but the approval process needs to be much clearer, easier, and predictable.

That is just one piece of the cost structure. I hope that through the Mayor's task force and public hearings like this, we can identify other issues and areas for improvement.

I'd like to thank you for the opportunity to testify. I'd like to thank Councilmember DiCicco for introducing this resolution, Chairman Kenney, and other members of the committee for this hearing. And I'm happy to answer any questions.

And I just want to say -- this is fairly general -- but we really do appreciate what you're doing, and this task force that we've set up is working over the next essentially four months, analyzing our tax structure as well as cost structure.

And, hopefully, with the testimony today and in working with your committee, we'll come up with some real reforms, but it's something that we are taking very seriously and looking at all of our costs in Philadelphia.

COUNCILMAN KENNEY: Thank you very much.

Before I open it up for questions, I'd like to that Councilman Jones, who is also here as a member of the committee.

Councilman O'Neill?

COUNCILMAN O'NEILL: Just one question, Deputy Mayor.

Philadelphia is embarrassingly low on this list of average 2005 pricing cost ratio. It's a -- and being a northeastern city, an East Coast city, with unionization, you would expect a lot of cities like us to be lower than cities that have clearly lower rate structures and things for construction.

But it isn't the case. I mean, San Francisco, Los Angeles, D.C., Boston are near the top of the better numbers. In other words, they have a higher price-to-cost ratio. We have a much, much lower. We're down with Detroit and Pittsburgh and St. Louis, cities we wouldn't be trying to be emulating right now in terms of economic development and things.

But the ones we would be trying to are up near the top, including New York City, which is -- unless, you know, it -- is there one silver bullet or one -- silver bullet's not the right word, but is there one cost factor that really stands out in Philadelphia that is not present in Washington, D.C., Los Angeles, San Francisco, Boston, New York?

And you've had -- as I'm asking you the question, I know you've had a little experience in Washington, D.C. on the public side and New York on the public side.

MR. ALTMAN: Yeah.

COUNCILMAN O'NEILL: So if you could just comment on that just -- this is just --

MR. ALTMAN: Generally.

COUNCILMAN O'NEILL: -- general and where we really have to do the most work.

MR. ALTMAN: I think there's a couple of points there, and I think you're going to hear -- I think Kevin Gillen may be here -- there he is -- who's done a number of these studies could speak more empirically on this.

I mean, I -- one of the big, huge differences, obviously when, you're talking about, let's say, cities like New York, San Francisco, and Washington is just they can command much higher prices.

COUNCILMAN O'NEILL: Okay.

MR. ALTMAN: So even if we're the same -- the -- I think the problem is that even if we're the same cost structure, we don't have the same value on the other side.

So if we -- New York can compensate for many of these costs, because they can just charge higher prices, that's where Philadelphia, I think, the real competitive problem for Philadelphia is, is that even if we're -- even if your labor costs are even with a New York, our labor costs aren't significantly less.

Our problem is, even cost of materials, if you break this down -- and I hope Kevin will go through it, but the cost of materials, cost of labor, regulatory costs, our tax structure, when you add all of that up, we have a --

COUNCILMAN O'NEILL: When you're drilling down --

MR. ALTMAN: When you're drilling --

COUNCILMAN O'NEILL: -- which this isn't but --

MR. ALTMAN: Yeah.

COUNCILMAN O'NEILL: -- but we're going to have some more testimony on that, which is the one that would have the most impact? And then we could go to the second, third, or fourth, but maybe we would want to attack the first one first, the one of the highest magnitude.

MR. ALTMAN: Yeah. I would -- you know, I would honestly defer to others only 'cause I'd want to give you a -- mine would be an impression as opposed to someone who's really drilled down on the cost structure.

We're going to be doing that over the -- in this -- the reason we set up the Tax and Economic Competitive Task Force and we knew that the Councilmembers were going to introduce this resolution and to look at some hearings, was to go through in a lot of detail exactly what the cost structure is, going through development costs and figuring out what those factors are on the regulatory side.

I mean, I know there's a lot of discussion. I've seen the labor costs. It's not even so much labor costs; it's also the structure of, you know, when you look at how different agreements in terms of the number of different trades and costs that those add and efficiencies, but that's one factor, and I think I want to have a better sense empirically of what it really looks like to understand that.

We're trying on the regulatory side. There are definitely costs to the uncertainty and to the timing, and we're trying to correct that, but I don't know if that's the single biggest factor, to be honest.

COUNCILMAN O'NEILL: All right. Well, let's look at something you are familiar with and you have a lot of experience with. Washington, D.C. not that long --

MR. ALTMAN: Yes.

COUNCILMAN O'NEILL: -- I'm talking about just pre-Tony Williams, Anthony Williams as mayor -- it was a ghost town for construction.

MR. ALTMAN: Yes.

COUNCILMAN O'NEILL: It now is that -- it seems like there's a crane on every corner.

MR. ALTMAN: Yes.

COUNCILMAN O'NEILL: And it's been that way for quite some time.

MR. ALTMAN: Yep.

COUNCILMAN O'NEILL: Whether the economy's up, the economy's down.

MR. ALTMAN: Yep.

COUNCILMAN O'NEILL: What changed in Washington, D.C.? You don't need Mr. Gillen or any others. What changed that made it go from zero to 100 in a fairly short period of time? Who put their foot down?

MR. ALTMAN: Obviously, great leadership -- no. Obviously, the real -- I'll give you a couple -- I think there are a couple of factors.

One big factor in Washington is the fact that the federal government started to go through a very significant -- there was a significant expansion of federal activity. And the one advantage the Washington economy has is that the federal government -- and you're right, it was a ghost town for a long -- for a long time, development had really been stalled. I think it hit a point where there was a lot of -- because there hadn't been a lot of construction, there wasn't a lot of supply of office product in Washington, D.C. It had pretty much -- they had a very low vacancy rate.

So what happened was, as the government spending really started to gear up --

COUNCILMAN O'NEILL: This is

under twelve years of Republican administrations?

MR. ALTMAN: That's why there was --

COUNCILMAN O'NEILL: Good.

MR. ALTMAN: As you remember, the budget was -- the deficit that was inherited, the -- those numbers went -- started to go up. It created a big demand, obviously, because the supply was constrained.

And so, you started to see a lot of that pent up demand needing to -- leading to new office construction --

COUNCILMAN O'NEILL: Forget office construction --

MR. ALTMAN: -- in the city.

COUNCILMAN O'NEILL: -- 'cause I'm --

MR. ALTMAN: That was a big -- that was a big factor.

COUNCILMAN O'NEILL: I don't think you're giving us the full story, and that may be a good reason --

MR. ALTMAN: Well, I'll give you another big reason.

COUNCILMAN O'NEILL: There's sensitivities, I'm sure, but how 'bout just housing? No one used to live --

MR. ALTMAN: Yeah.

COUNCILMAN O'NEILL: -- in what is sort of the downtown part of the district --

MR. ALTMAN: Yeah.

COUNCILMAN O'NEILL: -- by anybody's definition.

There are condo developments and apartment rental developments all over the place.

MR. ALTMAN: Yep.

COUNCILMAN O'NEILL: The federal government had nothing to do with that. What drove that from being zero to a hundred --

MR. ALTMAN: Yeah, yeah.

COUNCILMAN O'NEILL: -- in a short period of time?

MR. ALTMAN: Yeah, good

question.

I think, um... and they are related a little bit is -- and because the... It's a couple of things.

One is, over time -- the D.C. housing market, you have to actually go back beyond even when we started -- started to benefit from the fact that over a ten-year period before that, even fifteen, there was the Pennsylvania Avenue Development Corporation that started to make investments in building some of the -- actually in terms of land into housing.

(Indiscernible; parties talking over each other.)

COUNCILMAN O'NEILL: We can cut this short. Did something change that got the cost down --

MR. ALTMAN: Uh --

COUNCILMAN O'NEILL: -- of doing major construction projects like condos, apartments, office buildings in the district?

MR. ALTMAN: Let me answer your housing question. A big -- we did do things, like we changed the zoning for residential. That was significant in trying to recalibrate the land -- the value in the downtown area for housing construction and actually started to create a better incentive for that.

COUNCILMAN O'NEILL: Okay, let me get --

(Indiscernible; parties talking over each other.)

MR. ALTMAN: That helped with the cost structure.

COUNCILMAN O'NEILL: Did something change in the cost of construction --

MR. ALTMAN: No. The cost of construction --

COUNCILMAN O'NEILL: -- that was significant?

MR. ALTMAN: No, the cost of construction -- the cost of construction went -- the cost of construction didn't change. Actually, it went -- probably became a lot more expensive.

The issue is that the value in D.C. started to be a lot higher so it could be absorb the higher costs.

COUNCILMAN O'NEILL: Okay.

MR. ALTMAN: So what happened, what we saw happen is -- and I'll go back to my story for a second, because there's nothing that we did very much on the cost side of construction 'cause material prices were up, labor prices were up.

But what happened is that the district started to benefit from the fact that it could take -- it could charge a lot more. You started to see the demand for residential that had been pent up, so you could start charging rents that were, you know, much, much higher. And they could absorb that cost.

Philadelphia has a different structure because, even as I said, if we keep our labor, we keep our costs the same, the rents aren't increasing; the rents are staying stable.

That was the difference in the D.C. equation. If you look at what's happening in economic value in D.C., those apartments and offices were trading at numbers unimaginable to people, and a lot of that was fueled -- and including the residential demand, this is the connection to the office -- the residential demand because there was so much increase not only in D.C. but in the regional economy.

And the people who were coming to work in the consulting jobs, in the service jobs, at the law firms, that increased dramatically. And many of those people in the 20s and 30s wanted to leave in the city. So because of the metro system, they could even go to a job in Alexandria.

COUNCILMAN O'NEILL: Okay.

MR. ALTMAN: So you see what I'm saying? It's an interconnected story --

COUNCILMAN O'NEILL: All right. I don't want to (indiscernible) --

MR. ALTMAN: -- but it was a lot about the value of the increase in the district.

COUNCILMAN O'NEILL: Okay.

COUNCILMAN KENNEY: Thank you very much.

Councilman Jones?

COUNCILMAN JONES: Well, I had a opportunity to go up to Brooklyn, New York on some other business dealing with the courts. During that time, we had a reason to go through the neighborhoods, and I examined some of the housing stock.

I had to ask three separate times as to what the fair market value of the properties were when the guy told me for a rowhouse of questionable repair, in a state of disrepair actually, was going for 750 to a million dollars in a neighborhood that if I had to be a pedestrian would have ran through.

Is it a question of demand simply, that people want to be in a location so much that they're willing to pay --

MR. ALTMAN: Yes.

COUNCILMAN JONES: -- far beyond what is reasonable? And if that is, in fact, true, then when I -- conversely, when I get people that come here to Philadelphia and see our housing stock, they're ready to write a check now.

So what does that mean for us by way of value and potential of the market to others what we have and take, quite frankly, for granted?

MR. ALTMAN: Right. Well, look, a Philadelphia advantage -- the flip side of this, right, is -- I mean, this is the -- this is the dilemma, right?

On the one hand, we're an affordable city relative to other northeastern cities, okay? The flip side is that because we are affordable there aren't the same margins in terms of possibility for development so -- because they're getting that rowhome that's 300,00 here, in Bedford Stuyvesant, let's say, Brooklyn example, right? Bedford Stuyvesant was the example of, you know, years ago, for a very, you know, distressed community, today Bedford Stuyvesant are million-dollar condos, right? because of the demand in New York for a space, Manhattan people are priced out of Manhattan.

And what's happened in Brooklyn is they can't afford Manhattan, you can't afford a thousand dollars a square foot, you're going to Brooklyn, pushing Brooklyn prices up. And now you're getting priced out of Brooklyn. Now you see what's -- I mean, before the economic downturn, people were looking at Queens.

There's just been -- I mean, also, the New York population increased. It's one of the cities in the northeast that actually was increased significantly in population. And so, therefore, it was getting huge pressures on supply.

So that combination of also people staying in the city and wealthier staying in the city -- and now you're seeing values start to drop, but they're still dropping at levels 'cause they were so high.

So that's the -- that's the -- we don't have the same demand --

COUNCILMAN JONES: So it is a function of demand, A.

MR. ALTMAN: And cost.

COUNCILMAN JONES: And then cost, B. And the purpose of this hearing is, how do we control costs?

MR. ALTMAN: Right.

COUNCILMAN JONES: So how do -- from the Administration's point of view --

MR. ALTMAN: Right.

COUNCILMAN JONES: And you kind of skirted around, quite frankly, Councilman O'Neill's true questions. Give me three things we can do.

MR. ALTMAN: Sure.

COUNCILMAN JONES: To help control costs.

MR. ALTMAN: Yes. And, by the

way, I didn't mean to skirt around it. I think that the D.C. story wasn't one -- was a different story. That's why it wasn't so much about finding the one cost factor, because the cost factor wasn't what was inhibiting it as much.

The but -- so I'd say there's a couple of things. One, you know, we've had this discussion: I think you have to keep certain policies in place that make us competitive, like the tax abatement, I mean, you know, because I believe that those kinds of policies are very important to keeping the cost equation in balance.

So I think we have to make sure that we do no harm to those policies we have in place that have been helpful to development. That's one.

And that's very important because I'm very concerned out any uncertainty in that structure given our costs.

Two, I think we do on our side, which is what we're looking at now, we have to look at other issues in our tax structure as well as our regulatory structure and see how can we drive those costs down, if we can. Whether that's permitting times, whether it's uncertainty, whether it's some of our tax structure that makes us uncompetitive, we need to do that.

And then third is, we have to look at the whole structure of -- and that's, by the way, we had issues here around the cost. There was a hearing about, you know, about our code and PVC and a number of things. We have to look at our code and see where are we adding costs and see how we can reduce those costs.

And then the third, I think, you know, it's working with contractors, with unions, working together to figure out, can we drive down some cost structure here. Are there places where we can find savings ourselves because we want to make sure that we're as competitive as possible.

So I guess the answer is, you want to be pushing at all of these factors. You want to keep policies we have in place that work, I want to drive down tax and regulatory structures, I want to drive down costs of -- between -- of the cost of construction on the labor side. And I think they all work together to create a better tax structure.

And I think you have to look at all the factors and attack them together, and I think we have to do it all together. It's all in our collective benefit to try to -- each percent difference is a big difference.

COUNCILMAN JONES: I'm going to let you go because I think we have some folk here who are going to offer some perspective to this.

But is it -- just real quick is it true that from the North Philadelphia train station, you can be in New York City in '90 minutes or --

MR. ALTMAN: Oh.

COUNCILMAN JONES: How long does it take?

MR. ALTMAN: From North Philadelphia?

COUNCILMAN JONES: Yeah.

MR. ALTMAN: Well, first, it has to stop there more frequently that it does. They've cut back service from North Philadelphia, I mean, which is a problem, and we want to work them, Amtrak, to get more service.

But, I mean, you're -- you're under 90 minutes.

COUNCILMAN JONES: Under 90 minutes?

MR. ALTMAN: Under.

COUNCILMAN JONES: And there are some suburbs of New Jersey that it takes longer than that to get to work --

MR. ALTMAN: Absolutely.

COUNCILMAN JONES: -- because of traffic.

MR. ALTMAN: Absolutely.

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COUNCILMAN JONES: I'm just saying -- and I understand all of the other cost factors, I really do. But some of it is a question of marketing what we have by way of the strategic location of Philadelphia just as branding.

MR. ALTMAN: Sure.

COUNCILMAN JONES: We have a lot to offer, and I don't think a lot of people kind of have discovered that yet until they come here, and then they're willing to buy.

MR. ALTMAN: I agree.

COUNCILMAN JONES: So we have to do something by way of a city to market that factor. That's just my point.

MR. ALTMAN: I agree with that.

COUNCILMAN KENNEY: Isn't that what you described earlier, the Manhattan effect that -- I mean, they had 'em filled up, and then the rest of the surrounding communities around Manhattan rose in value because there was a need.

Isn't that what happened here?

When Center City, river to river, Spring Garden to South, filled up, neighborhoods south, like South Philadelphia where Councilman DiCicco and I live, Fishtown, Northern Liberties, the Art Museum area, parts of West Philly began to become more valuable because people wanted a place to live that was conducive and close to, proximate to Center City.

MR. ALTMAN: Yes.

COUNCILMAN KENNEY: And I would contend because he (looking at Councilman DiCicco) maybe won't want to pat himself on the back, but I would contend that the tax abatement was probably the single biggest factor in that.

And that's why the frustration level that we have in trying to explain to folks who didn't -- who don't have the ability to take advantage of the tax abatement, why, in their eyes I know it seems to be unfair, but the value of your home relative to other three, four, five infills that were done on your street significantly rose because of the abatement.

Were it not for the abatement, you would have four, five vacant lots, the value of property wouldn't be worth what it is today, and we wouldn't have neighborhoods like Northern Liberties, Fishtown, parts of South Philly, and the Art Museum area and the Spring Garden area that have been amazingly redeveloped.

MR. ALTMAN: As you know, Councilmembers, I strongly believe that. And I --

COUNCILMAN JONES: That was more directed towards the --

(Laughter.)

MR. ALTMAN: But I do want to make one comment on that, and I think it's important no to belabor this, but particularly in these economic times, I think one of the things, when we talk about what we have to do on our cost side and the development side is that, look, right now, it's very hard to build anything, to get financing for anything, with the credit markets as he exist today.

We have to make sure that as we look 12 months, 24 months out at economic recovery, as the economy starts to stabilize again, that we haven't created more impediments in the future and changed things that I believe are working now, even if it's a slow cycle and (indiscernible) 'cause people are thinking ahead about, you know, the next round of investment. You want to be able to calculate what it is.

And we want to be careful -- I don't just mean on the abatement side, but on other costs' side so that we're not creating cost factors that create more uncertainty. It's a difficult enough time on the financing side.

So it's also the perfect time, I have to say, for what this committee is doing and for what the tax policy committee is doing, to take a look at some of these cost drivers and try to bring them down where we can, on all fronts.

You know, as I said, permitting, labor, regulatory, you know, anyplace that we can start to make a dent in that cost equation is an important step that I think we all need to take.

COUNCILMAN KENNEY: Councilman DiCicco.

COUNCILMAN DICICCO: Thank you, Mr. Chair. And thank you, Mr. Altman.

I too understand the dynamics between Washington, D.C. and New York, and they command higher prices. And at least for New York, it's always been that way, as far as I can see.

And I also understand Councilman Jones talking about marketability. And I think the ten-year tax abatement was one of those tools that we've used and quite successfully. The real problem that I see, and one of the reasons why I wanted to do this resolution, was to get to things that are much more closer to home.

MR. ALTMAN: Right.

COUNCILMAN DICICCO: Comparing Philadelphia not to New York but to Bucks County or on the other side of City Line Avenue or South Jersey, because the demographics in our area, although we'd like to have more wealthy people move in -- and they are moving in, but they're never going to -- I don't think we're ever going to see the importation of that many more wealthy people compared to what New York gets or Washington, D.C.

We are a city of neighborhoods, we are a city of average folks, medium-income folks who can afford houses somewhere between the 250 and $350,000 price range, just by way of example.

MR. ALTMAN: Mm-hmm.

COUNCILMAN DiCICCO: We can't build those homes in the City of Philadelphia --

MR. ALTMAN: Right.

COUNCILMAN DiCICCO: -- unless they're subsidized by some government funds.

And it all comes back to profitability. New York builds at 15 or sells at $1600 a square foot. Washington, D.C., whatever they do.

MR. ALTMAN: Yep.

COUNCILMAN DICICCO: There is a marker there to buy that. So the incentive for the developer is to build because the developer knows they're going to recapture their investment and make money.

MR. ALTMAN: Right.

COUNCILMAN DiCICCO: You can't build a house in the City of Philadelphia without a government subsidy and try to sell it for $300,000 and make a profit.

MR. ALTMAN: That's right.

COUNCILMAN DICICCO: And that's where I think the rubber meets the road, is in the cost of doing business.

MR. ALTMAN: Yes.

COUNCILMAN DICICCO: And, look, I don't want this hearing or future hearings we have on this to become an "us versus them." I mean, it shouldn't be about that.

For me, it's always been, how does everyone benefit -- developers, the City, labor, everyone continually working to continue to grow this city. But all I really see is stagnation. You either have the high end or the lower end, without meaning any disrespect, that is government subsidized.

MR. ALTMAN: Absolutely.

COUNCILMAN DiCICCO: And the high end that's done on its own because there's a niche market out there. You build so many million-dollar condos. We think we've got enough people in the region that'll move in, the empty-nesters that fill them.

And everything else in between stays stagnant.

MR. ALTMAN: Right.

COUNCILMAN DICICCO: And that is where the difficulty is, I believe.

MR. ALTMAN: Right.

COUNCILMAN DICICCO: And my friends in the labor movement -- and I do have a few left. I don't know about after today, but I do have. I never -- and it's unfortunate that there's no one from labor here today, 'cause I think that's what we're trying to do, is get this roundtable discussion and not say that you are at fault, but what are the reasons why it costs so much in Philadelphia for the same house -- more in the Philadelphia for the same house that's being built across City Line Avenue.

We -- if those numbers don't change, we'll -- we can have a thousand hearings and nothing will change. And development for moderate, middle-income housing will never happen in this city.

So, you know, I think at some point, we're going to have to make that effort to really sit down to have these adult, intelligent conversations about the future of everyone. Otherwise, it's just going to continue down the path we've been for the last I don't know how many years.

And I think this is a good time to do it: Plan, so that when the economy turns around, we can have, I think, jump-start literally hundreds, if not thousands, of moderate, middle-income housing units in the City of Philadelphia, based on my conversations with many of the developers who have to put up and take the risk of putting their money up or borrowing the money to get these projects underway.

And you don't see it happening -- again, not to be redundant -- unless it's government -- Jefferson Square, in South Philly, it's a fantastic project. It sold out in four days. But for the government subsidy, it never would have existed. They'd be two blocks of empty lots right now.

COUNCILMAN JONES: Mr. Chairman.

COUNCILMAN KENNEY: Please.

COUNCILMAN JONES: Thank you, Mr. Chair.

For the record, I, once upon a time, sat where you're sitting now. I'm a Commerce alumni, and I was around when you guys in Council passed the ten-year tax abatement.

I absolutely understand what it's meant to the skyline of the South Philadelphia and the tax base that it helped to expand. I understand your point about how it increased value in the circles of development that went out as far as West Philadelphia, that Parkside in my district are now experiencing actually from it. I understand that.

What I am trying and others in Council are trying to do is do exactly what you said: bring rational minds to the table as we debate some of the priorities of the budget and where these dollars come from. There's been a swing to say that these tax abatements are unfair. And what we have to demonstrate is that they aren't, and you're making that point today.

The point of it is now, where do we go from here and what do we do to preserve what you have articulated is a fragile market? And I don't want to tip the scale in the negative because we can't afford it, quite frankly.

So we have to figure out what we can do to get money from where we can in a a rational, well thought out, well planned, and equitable way so that all parties benefit, including people who are getting ready to at least experience some form of real-estate tax increase.

So if rational minds can come together -- I've learned a great deal since I introduced my bill. People have been kind enough to come and talk to me and give me their honest opinion about the bill and what we can do to make it at least more palatable so that it isn't a disincentive to build but an incentive to build in a different way.

So I'm listening, I hear you, and I hope the dialogue to continue in earnest.

COUNCILMAN KENNEY: Thank you very much.

Have you -- I mean, I know you're looking at a number of different options or at a number of different policy issues relative to being prepared for the upswing and for the unfreezing of the credit situation.

If you're a fan of the ten-year tax abatement and you don't want to see it go away, what you do recognize is that certain areas of the City have not experienced the benefit of the ten-year tax abatement. Have you looked at any scenarios in keeping the ten-year tax abatement, perhaps having an expanded tax abatement targeted for specific neighborhoods that have not experienced the upswings, say, 12, 13, 15 years.

COUNCILMAN DICICCO: Could I interject?

I actually had those bills, but I didn't think this was -- this year was the appropriate time to do them. And I did talk to Andy about this. New York has a great model. In some neighborhood, you get 15 years; in some, 20 years, whatever.

So, Mr. Chairman, that is something we have been looking at, but due to the economic climate and the budget crisis we're going through, we didn't think it would get much support at this particular time.

COUNCILMAN KENNEY: No, and I understand. I understand the sensitivity of timing.

However, I think the sad part about it is, is that because of the -- I think because of the economic crisis, there's probably a need to do something more radical than you would do under normal circumstances as opposed to hunkering down and waiting to duck under the wave, being in front of the curve with neighborhoods, for example, in Southwest Philadelphia and in other -- well, North Philadelphia, some other areas that really could use a shot in the arm in the middle-class residential housing development.

To me it would seem that if the ten-year worked for Center City and the surrounding environs, then 12, 13, 15 may work in struggling neighborhoods that could take a advantage of a new housing bases targeted to middle-class and lower-middle-class homeowners.

So you guys are --

MR. ALTMAN: I mean, we did -- we have not looked at that. I mean, in effect, we've talked about it in general terms but didn't think that this was the right timing for that.

We have an abatement in place; I think that's sufficient right now. We have a lot of other issues, as you know, on the table trying to get through. I didn't feel that -- it's complicated, there are equity issues, there are all kinds of issues.

COUNCILMAN KENNEY: But let me

just -- let me just -- before Councilman Jones -- let me -- one of the complaints about the ten-year tax abatement comes mostly from middle- and lower-middle-class-income people who say, Well, (indiscernible) have to take advantage of that.

But if you do something innovative like a 15-year in neighborhoods that are middle- and lower-middle class, wouldn't you be kind of leveling the complaint field by saying that, Yeah, we can take advantage of this now, and this is something targeted that is for us not and just for the, quote/unquote, wealthy people buying condos in Center City.

MR. ALTMAN: Yeah. And that's why you're holding a hearing.

COUNCILMAN JONES: Well, I actually agree with the chairman.
Mr. Chairman, I actually agree with you that we should not plan this city out of fear of today; we should plan it in this rough time for a better city.

And now is the time to do and consider things that can bring us out of this, whether it is extending a middle-class tax abatement for middle-class housing to stimulate that sector. It might be a good time for it. So I at least think that the dialogue should continue.

We should be cautious in taking action that might be volatile, but we should be considering aggressively the dialogue, considering some of the alternatives, such as the infamous Plan B. I mean, we should really be trying to build life boats now.

COUNCILMAN KENNEY: Yes.

MR. ALTMAN: I just want to say one thing too. We've spent a lot of time on the abatement and we hadn't considered that. I mean, we just said we'd just focus on the existing abatement.

I think the only point I'd like to leave with -- 'cause I appreciate this hearing and what you want to accomplish, and I think what we all want to accomplish here is this is exactly the right time to take a hard look at ourselves. And I want to move off the abatement for a second 'cause I think we've had a lot of discussion.

But New York City, for example, as you may have read in the New York Times two weeks ago, or maybe it was three weeks ago now, that said six, I think, major developers had reached an agreement with some of the unions in New York City around some of the construction-cost issues and had a voluntary agreement amongst them to agree to some cost reductions.

And this is New York City, which we just talked about as the example of a high-value city because they have, obviously, seen a precipitous drop in what's happening in that economy -- job loss, vacancy rates, construction stop. So they are even starting, even in that market, to look at ways that they can reduce their costs.

So I agree with you, Councilman DiCicco. This is not a blame labor, blame the developers, blame the government. I think this is time for all of us to take a look and say: Where can we all reduce costs? where can we come to some voluntary agreements? where can we reach agreements to reduce cost structures? And have that discussion and not be afraid of having it, not have it be polarized.

And say, you know, through vehicles like this to Council and the tax task force that the Mayor set up, say if we can get down another 5 percent, if we can get another 7 percent, if we can get 10 percent, 15 percent down in our costs and put that structure in place, get the economy a bit juiced, get it to a point where it stabilizes again, those costs may come back up because the demand will be up.

The problem for us right now is, our values are not going to go up; values are dropping. So if the margin before was thin between the cost of building in Philadelphia and what you can sell or rent at in Philadelphia, that was a thin margin in a good market, in the most robust time, which is where New York and Washington -- that's part of the story. New York and Washington could absorb that cost because it had a very steep increase.

We're not. We've always been steady. Now we've dropped some. I'm not the economist, but the margins get thinner and thinner is my only point.

So even housing values, as you said, Frank, that may have been 350, maybe now they're 300. Well, in Philadelphia, that starts to make that even smaller. So this is the time to take that hard look and get some of those, I think, cost reductions in place now.

And we welcome working with everyone in the development business community and the Council to make that happen.

COUNCILMAN KENNEY: Thank you

very much. Thank you for your testimony.

Mr. Sherman, please.

(Witness comes forward.)

MR. SHERMAN: Good afternoon.

COUNCILMAN KENNEY: Good afternoon.

MR. SHERMAN: Thank you for --

COUNCILMAN KENNEY: Please identify yourself for the record.

MR. SHERMAN: Oh, yes, yes. My name is Sam Sherman. I'm the president of the Building Industry Association of Philadelphia.

I'd like to thank Councilman Kenney, Councilman Jones, and Councilman DiCicco for hearing my testimony today.

COUNCILMAN KENNEY: For the record, it's on a Friday afternoon, at 3:17 p.m.

MR. SHERMAN: 3:17?

(Laughter.)

MR. SHERMAN: Okay, I'll be brief.

You know, I have written

testimony, but as is my practice, I usually don't read directly off the paper; I try to just make my points and then set up the rest of the speakers

I think Andy Altman, at the end of his testimony, really touched on some fundamental issues that affect the development community and the City. And it really comes back to Philadelphia has a very -- not a very -- well, it has a low median income.

We have one of the highest poverty rates of any city of our size in the United States, and yet our cost structure is fixed at a point where we're reflective of New York and Washington and San Francisco, all these other high-wealth cities. And what's happened over the course of the years and decades is that this whole dynamic has played out in public policy.

We have what I call a bifurcated housing market in this city. We service the poor and lower-middle class, and we service the very wealthy as far as what our market addresses. What we're not doing is, we're not repopulating our neighborhoods with a middle class that typically pays more in taxes and sends their kids to public school and overall builds vibrant neighborhoods

And what's happened is, because of that disparity, there have been measures put into place such as the ten-year tax abatement. There's a lot of subsidy out there for lower-income housing. Even on commercial construction, we have KOZs and KIZs and all these others.

Philadelphia does not have a true private market. There is a subsidy attached to almost everything that gets built in this city. And when you start going down that road, rather than dealing with the fundamental issues that affect the ability of a developer to bring a product to market that the population in the city can actually afford to buy, then you start not dealing with the fundamental issues because legislation is introduced to deal with this and deal with this and deal with this.

If we can get to the nub of the problem, which is raising median incomes in the city and lowering our cost, the market has got to find an equilibrium. Until we achieve that goal, we will continue to have the attempts to restrict, reduce, eliminate the tax abatement, we'll continue down this path of throwing more and more public money at housing projects.

And where does that with get us? It gets to us to a place where you have a vibrant Center City core, but those economic benefits aren't spreading into the neighborhoods where the investment is most needed.

So what I would suggest is, rather than only looking at cost, which I, as President of the BIA, I represent developers. Cost right now is our biggest concern. But in the long run, as we look beyond this recession, we need to start addressing the issues that will help to raise median incomes in the city

And that's a long, hard slog. The solutions to those problems are not easy, but it's going to take leadership, it's going to take work. And my organization will work with any member of City Council, any member of the Administration that wants to drill down and really address these issues.

It's not about being anti-union, it's not about picking on L&I, it's not about picking on City Council. This is about everybody has to come together and work to a common goal, and that goal should be reducing our costs and raising median incomes and putting more people to work.

And with that, I'll introduce the rest of the panel.

COUNCILMAN KENNEY: Thank you very much.

I have Kevin Gillen and Brian

Uher.

(Witness comes forward.)

COUNCILMAN KENNEY: Hi. Please identify yourself for the record.

MR. GILLEN: Kevin Gillen.

COUNCILMAN KENNEY: Please proceed with your testimony.

MR. GILLEN: Esteemed members of Council, thank you for the opportunity to be here today.

Over the past several years, several public-policy issues that have important implications for our real estate market have been debated and considered by City Council. These range from singular pieces of legislation, such as last year's inclusionary zoning bill or the Keystone Opportunity Zone designation granted to the Cira Center to multiple pieces of legislation, such as those currently being considered to modify the ten-year tax abatement.

eConsult has been involved in all of those issues, as an independent body, asked to review these pieces of legislation and their costs and benefits in order to inform the public debate. Yet, in all of our work on these issues, there emerged a single recurring theme that underlays and affects every public policy initiative related to our real estate, and that is Philadelphia's very high construction costs.

According to the independent consulting firm RS Means, Philadelphia has an average cost of construction that is 18 percent above the national average. We're the fourth highest-cost city in America, right behind New York, San Francisco, and Boston. As Mr. Altman and Mr. Sherman mentioned, while our costs of construction may be as high as in those three cities, our incomes, rents, and property values are not only well below those three other cities but below the national average as well. Or to put it succinctly, as I like to say, we're a city with New York construction costs but Baltimore property values.

So to understand the importance disparity between what it costs to develop real estate in Philadelphia and what you can sell or rent it for, you need only consider the three aforementioned pieces of legislation from the past several years.

In the case of KOZs, significant tax credits are necessary to spur high-end development in relatively distressed areas in order to offset the cost/price disparity.

In the case of inclusionary zoning, which does have a presence in the New York, Boston, San Fran area, it is likely to have an adverse effect on Philadelphia's housing market because prices here are not sufficient to cover the increase in the cost of development that the (indiscernible) inclusionary zoning legislation would impose.

In the case of the ten-year tax abatement, the abatement has been critical to spurring the recent development boom in the City because it helps to bridge again that gap between what it costs to develop in Philadelphia and what the finished building can be sold or rented for.

Notably, however, the abatement in its currents form is only sufficient to bridge the gap for relatively high-end development in prime locations -- condos in Center City -- than it is for affordable housing for low- to moderate-income households in the rest of Philadelphia. For those households, which constitute the majority of the City's residents, the high cost of construction actually impacts them the most negatively.

I gave you a chart earlier. If you consider the following chart, which ranks major U.S. cities by the ratio of their average house price to their average price of home construction, you can see that Philadelphia is third from the bottom, right down there with Detroit and Pittsburgh, and very far from the other high-construction-cost cities such as New York, San Francisco, or Boston. Essentially we're upside down on our house values relative to our construction costs.

Our average ratio is 0.37, which indicates that you can only sell a new home in Philadelphia for only about one-third of what it costs you to build that home, which is at a substantial loss. This is well below the national average and is third-lowest in the country.

Of course, there is a significant range of house prices in Philadelphia and a significant range of construction costs for them. The relatively wealthy can afford to pay these costs, so they get new condos in Center City. The relatively poor cannot, so they get older, depreciated housing in the rest of the City.

So not only do these high costs prevent our lower-income residents from obtaining new housing, they also provide a significant disincentive to invest in and maintain their existing housing. Consider that the average house price in Philadelphia is $110 a square foot while the average construction cost in Philadelphia starts at $175 a square foot. That's a $65-a-foot difference.

In neighborhoods where the former is less than the latter, investing in your home is actually a money loser because it costs you more than it benefits you. Or, to put it more historically, if Philadelphia were ever to suffer some type of a natural disaster that, say, leveled its housing stock, like a Katrina-type of event, the waters of the Delaware and Schuylkill were to rise and wipe out the City's housing, and if the City were to receive no outside public funding to replace the destroyed housing, and you left it up to the market, the market would only replace about one-third of Philadelphia's housing.

And, moreover, that one-third would be overwhelming concentrated in the upper-income neighborhoods in the City. The remaining two-thirds of the City's housing for low- to moderate-income Philadelphians would essentially go homeless. That is how higher construction costs are and that is what it means for our city.

I thank Council for its time and encourage you to consider this issue in both current and future pieces of legislation.

COUNCILMAN KENNEY: Question, Councilman Jones?

COUNCILMAN JONES: I'll wait, I'll wait.

COUNCILMAN KENNEY: You sure? It's up to you.

COUNCILMAN JONES: But I don't want you to leave.

MR. GILLEN: Okay.

COUNCILMAN KENNEY: Would you please identify yourself for the record.

MR. UHER: Good afternoon, Councilmembers. My name is Brian Uher.

I'm a partner in Amicus Consulting Services, a consulting firm out of Washington, D.C., ironically enough. We do green-building consulting.

The reason I'm here today was, I was asked here to be by the BIA. I grew up in South Jersey. I went to Penn, I went to Wharton. I lived in Northern Liberties, I lived in West Philly, I've lived in Fitler Square. So, you can imagine, I've seen this city and go in about a ten-year span in all of that.

What I'm here today to talk about is very, very simple. As part and parcel of this discussion, they asked me to look at the cost of adding green to the construction or the rehabilitation actually of a rowhouse in Philadelphia and compare to it something we knew. And what we know is Washington, D.C.

So what we've done is, take a rowhouse of 1260 square feet, build it in Washington, look at the material and labor costs, look at the energy benefits that result, look at the returns and pricing. And then we've taken the elevated labor costs in Philadelphia, done a conversion, and looked at the same numbers. What I'm going to do right now is tell you what those numbers are and then that's it.

The total green premium for an extremely green building in Washington, D.C., 1260 square foot, will be about $15,700. That includes added labor time, but more importantly, it adds material upgrades and process upgrades, HVAC equipment upgrades, heating and cooling, and things like that. In Philadelphia it's not 15,700; it's 17,100.

The percentage of the sale price, that number is, in Washington, D.C., is what you hear quoted nationally: 4.84 percent, about 5 percent higher. That's what it adds in D.C. Given the pricing numbers that were made available to me for Philadelphia, the premium in Philadelphia is 12.38 percent.

If you look at the first-year

aggregated return, the actual dollars back in your pocket, using numbers comparable in electric and gas costs in Philly and D.C., it's about $900; you're not that far off us from us and we're not that far off from you in terms of retail costs for these things -- kilowatt hours, therms of gas.

The first-year aggregated cash-on-cash return on those numbers is about 5.7 percent for D.C. and about 5.24 percent for Philadelphia. Not too bad. However, when you then go and look at the life span, going forward, the story gets a little inky. The years to pay back overall for a D.C. house doing this is about 10 to 11 years; so, in other words, the recoup from the savings for the effort for its costs is about that. In Philadelphia, it's somewhere between 13 and 17 years.

The average sale price in D.C. is but 3-and-a-quarter, $325,000. The average price that I've gotten for

Philadelphia, given the numbers that were provided to me, was about $140,000 for that square footage.

And the booked premiums on green in D.C., on average, about 3 to 6 percent. In other words, if I build a green house in D.C., a rowhouse, and then I sell it as a green house and it's new and has also this nice stuff in it, I can get, on top of that $325,000, about 3 to 6 percent. It nearly covers the cost of the green, so it's par.

In Philadelphia, I couldn't tell you what that number is; there aren't enough of them that have been sold at these prices and built them this way. But I suspect, from what I heard today, the answer is: You're not going to be able to capture the premium of about 12 percent. So that was the baseline.

Now, there are some issues here having to do with breaking out the pieces of green. Some things essentially are weatherization; they ave great returns and are cheap to do. Other things have to do with rehab en mass, insulation, things of that sort, and those are more expensive, and I can answer those questions. That's about it.

And I suppose the one final thing to bring up at this point is the abatement itself. I had heard about the ten-year abatement in Philadelphia and then looked into it. If you had abatement in D.C., it again would cover costs because it takes about ten years to recover, and the abatement lasts about ten years. And, unfortunately, building green in the city, you have three, four years hanging on the back end, where the abatement has basically closed for the homeowner, but you're still looking to pay back those additional costs, assuming that that they had been aggregated into the price in the first case; in other words, when it was purchased.

COUNCILMAN KENNEY: Thank you very much.

Councilman Jones.

COUNCILMAN JONES: And I appreciate all of the work that was done by you two gentlemen, and my regards to your boss, Steve. I used to work for him when I was in Commerce, and he is a respected intellectual. So thank you for your all of your testimony.

However, a couple of questions. As it relates to natural disasters, one might consider the whole mortgage foreclosure a disaster. How do we compare to other cities as it relates to that price (indiscernible), overinflated mortgage amounts? How did we fare based -- if we were to do the same matric of these cities, how did we fare in that regard?

MR. GILLEN: It's a great question.

Relatively speaking, compared to most other large U.S. cities, we have performed relatively well during this housing burst.

COUNCILMAN JONES: And why is that?

MR. GILLEN: I was just about to segue to that.

For one thing, we didn't have the penetration and proliferation of all of the sub prime lending here, all the speculative flipping of homes. We didn't have all of the overbuilding of homes compared to cities like Phoenix or Vegas or places like that.

Hence, our price run-up here was not as much as in those other cities. Our house prices here basically doubled over the course of the boom. They've fallen about 18 percent since.

But I'd point out to you that the reason that we don't have the short-term problems that those cities have is because we have a much bigger long-term problems. Because of our underlying fundamentals -- low incomes, low rents, high construction costs -- prevented us from overbooming as those cities did, thus we don't have as far to fall during this downturn.

COUNCILMAN JONES: That's why I love smart people. I just keep it real simple. The same thing that makes you laugh makes you cry, right?

We didn't suffer from them because we didn't have overinflated price-to-ratio values either, all right. And so when they underwrote some of these properties, we didn't go for that.

So now, some of these cities, these very cities that you cite, are readjusting back to reality, reality. And they're stuck with a lot of toxic assets based on that. And some of these cities, some of their neighborhoods where that occurred, they are ghost towns.

MR. GILLEN: Mm-hmm.

COUNCILMAN JONES: So, as the market adjusts back to us, maybe this was a blessing, you know, in a strange kind of way.

So, as we start to look to the

future plan and our way out of this, I understand, you know, the work you did and the importance of these factors, but to a degree, some of these ratios were overinflated anyway. And they got caught in a much more acute way than we did because of it.

So I'm going to put a pin in that. I love I eConsult. And tell Steve I said hello.

To your piece of how much green costs, now, what were the factors that made us different than them? I mean, I'd like you to narrow that down as to why our green costs more than their green.

MR. UHER: Absolutely. The way that I did it was extremely simple, did not have a lot of craziness in here.

I priced the materials that had to be physically added to the building to make it green at Washington, D.C. prices, which are comparable or actually slightly cheaper than this region, depending. It's really a function of supply chain. So the bottom line is, you can drive two hours, you know, south and go pick it up if you want to.

COUNCILMAN JONES: Mm-hmm.

MR. UHER: So the material costs are identical, the installations are identical.

I took Washington, D.C. labor prices, based on our knowledge and experience of what it takes to get this size of building, these materials, to get it to the efficiencies you want. This is all energy efficiency work, by the way, and I'll tell you what those are in a second.

COUNCILMAN JONES: Mm-hmm.

MR. UHER: And then I simply multiplied the national average, converted it from our Washington 5 percent over the national average, back to the national average, and then multiplied by the Philadelphia multiplier from RS Means.

And that was it. And that's the whole difference. The whole difference is cost of labor.

COUNCILMAN JONES: And at the end of the day, it's what percentage more to build green here?

MR. UHER: Yeah. So you're looking at a cost difference of about 12, 13 percent. That's about the difference in labor prices. And it's apples to apples. So about 12, 13 percent.

COUNCILMAN JONES: So in order for green to be something that we pursue, we're going to have to figure out how to incentivize those margins.

MR. UHER: Yeah. I think that's exactly right.

And if I can, there's very strong concern, at least during the testimony today about, the middle- and lower-middle class being able to capture abatement value.

In here, when you green a building so to speak, you do things to the envelope. Insulation, you tighten up the airflow. You do things to the heating and ventilation; you use more efficient stuff, you tighten the ductwork, you make sure the ducts actually get put in the way they're supposed to get in instead of, at least in our region, the way they typically get put in.

You look at the windows. Incidentally, the cost increment for low-e glazing in our region is $189 bucks for the whole building. That's it. Over wood and without. Not bad.

COUNCILMAN JONES: Mm-hmm.

MR. UHER: Then you look at lighting, what's going on. That's called base loader, everyday load. That has nothing to do with the summertime.

And plumbing, what you do there for low-water use. And I actually calculated the savings on plumbing with using the Philadelphia Water Authority's numbers.

COUNCILMAN JONES: Just point of information. Did you -- see, I got to get better at that. Let me interrupt you.

MR. UHER: Sure, of course.

COUNCILMAN JONES: Did you use, in your sampling of Philadelphia, the Onion Flats development, I believe, in your district?

MR. UHER: Right. No, although I have toured Onion Flats and I've talked to the McDonald Brothers.

COUNCILMAN JONES: They've been able to define what I hear your --

MR. UHER: Right, of course. My question to you would be this: Were their costs on par with the average costs of construction in Philadelphia? In other words, were they -- I mean, my understanding of the McDonald Brothers is that they're licensed electricians, at least one of them.

COUNCILMAN JONES: Yeah.

MR. UHER: And they've had some construction experience.

My guess is, what they did, was run the job themselves. Whether or not they were subject to prevailing wage rates during the construction of Onion Flats, I couldn't answer that question.

COUNCILMAN JONES: So it isn't the green; it's the hands that put the green in?

MR. UHER: Well, absolutely.

So, for example, what's green here in this build-out that gave me a 40 percent knockdown in my heating and cooling costs in a rowhome.

COUNCILMAN JONES: Mm-hmm.

MR. UHER: I went from R13 in the walls, which is junky fiberglass, to some foam board, air-sealed properly, and some blown cellulose at 50 cents a square foot, which ends up coming in at about 2 grand for that place. That's material costs the installation is a day.

So how much it costs to get it in is really the challenge.

COUNCILMAN JONES: Let me ask one another question and then I'll stop because I get your point.

MR. UHER: Sure.

COUNCILMAN JONES: And the only other question is: Is the natural progression of products and supplies and materials coming to the point that the prices are coming down on them?

Over time, has it been easier to achieve some level of energy efficiency or green through material purchases because everyone's coming to that point anyway?

MR. UHER: Right. It's a great question. And I'm not intentionally complicating the answer.

COUNCILMAN JONES: That's all right.

MR. UHER: The reality of green is this: It's high-performance construction, it's quality construction, it's enforcement of existing code, and it's paying attention to 20 or 30 things that typically get ignored in construction, and spending the extra incremental cash to make sure it gets done. At the end of the day, that's it not. It's not really contingent on material costs per se, and let me point out why.

If you look at the aggregated cost for the greening of this building here, only 6,000 or $6500 of that 14 or $16,000 total is actually materials. And when you say "cost," well, it's not that the price of green insulation is higher than brown insulation and fiberglass versus cellose; they're the same cost. The point is, I'm putting more in.

So I'm buying five pencils instead of two, and I don't know that five pencils will ever be as much as two if they're all the same-cost pencil.

So there is an issue with green having to do with the quality of what you start with, and it's dividends as you go forward. You're building a better car. It's a Toyota versus Ford at the end of the day.

COUNCILMAN JONES: My final comment -- and I appreciate your testimony is -- that the thing I've learned from all of my conversations with those who are willing to talk to me is that this is a work in progress, that we need to figure out where -- instead of penalizing, how to incentivize, and where those price points meet so that it makes sense both for the developers and the end-users. And we'll work on that.

And that's my commitment on it.

COUNCILMAN KENNEY: Thank you very much.

COUNCILMAN JONES: Thank you.

COUNCILMAN KENNEY: Thank you for your testimony.

MR. GILLEN: Thank you. And please consider us as a resource in the future, going forward.

COUNCILMAN KENNEY: Will do.

Mr. Orens, Mr. Colaizzo and Mr. Kassis.

(Witnesses come forward.)

COUNCILMAN KENNEY: Hi. Whoever would like to start first, please identify yourself for the record and proceed with your testimony.

MR. COLAIZZO: Good afternoon to the members of City Council. My name is Michael Colaizzo. I'm a developer and builder doing business in Philadelphia for nearly 25 years. My work experience has taken me around the country. And I would like to thank the Chair of this committee for allowing me to testify.

I'm the past president of the Building Industry Association of Philadelphia and a life director to Pennsylvania Builders Association and the National Association of Home Builders. I'm currently serving on the NAHB Construction Health and Safety Committee and the Construct Codes and Standards Committee, which has oversight over the Green Building Subcommittee.

NAHB has recently launched, in partnership with the International Code Council, the National Green Building Standard, which is (indiscernible) approved. In this challenging environment, we are striving to provide decent housing for all, but we need to control costs. I will address only two issues today.

By January 1st of 2011, the fire-sprinkler mandate will go into effect in Philadelphia. And, again, Philadelphia will become uncompetitive. The code in other areas of the Commonwealth will allow for one line for a single-family house. However, in Philadelphia, it will require two separate lines.

Some jurisdictions have required sprinkler systems in the past. They wish to keep people out of housing. Now, as Philadelphia adopts a sprinkler requirement, we will also be in the same situation of additional unaffordability.

The question is, as others have testified today: Do you want to adopt 21st century advancements with 20th century thinking?

The Philadelphia Water Department has argued that if the water is shut off for nonpayment and, you know, we have a sprinkler system, in essence, the building will not be protected. And, frankly, if a building has no water, it's unfit for human habitation and should be -- they have to cease-and-desist order.

Quickly, I also recently developed a 900-square-foot in South Philadelphia and installed two 18- (indiscernible) heat pumps. They worked beautifully. I added some radiant floor heating. Beautiful job. I also added a Basche electric water heater on demand. Shortly after the tenants moved in, it failed. I couldn't get parts for, it's not a standard product.

And this gets back into what we're discussing today. As technology is coming around, what we're using today won't be around tomorrow. None of the major suppliers -- they shipped all of their units back 'cause they weren't selling. In essence, I had to install a standard water heater in while I got the parts so the residents of the home could have hot water.

And this home was delivered at 900 square feet for about $100,000. It's, you know, a beautiful little product. It's affordable to Philadelphia standards.

Basically, some things work and others don't. On a small scale, this is mistake is no big deal. But, unfortunately, high-cost products in the market, before they're accepted and tested, can be costly. The original 90-plus furnaces that we started in Philadelphia and the subsidized housing we started using had high rates of failure. And many of those were borne by the customers, costs that should be tested in the private market and not with the government.

Subsidized programs. This is just one anecdote. As we adopt new technology and best practice in codes addressing our concerns, the ICC code is constantly changing. In the last round, there were 2200 code changes proposed. The National Association of Home Builders took positions on 900. We lost one; for instance, the sprinkler system, and we're going to have to live with that.

The building codes are necessary for life, fire, and safety. And that's where we should go. You know, I believe that beyond life fire safety, we have to be careful of what additional local jurisdictions put in place. And national codes address everything. If you build a building, it's too close to another building, you have to use a different material. I've bid day-care centers that have no sprinkler systems in.

It's a matter of common sense, but the codes address most issue, and I think one of the ways to control costs is for the City to adopt these national codes that work around the country that are tested.

And I know it's a thorny issue, and we've had other hearings here, but as we adopt these new technologies, like the spring system, here we add another level where the City's not going to be prepared. And we're going to be a little -- just a one little notch. It's not one notch that does us in; it's incremental an incremental notch, it's in total.

So thank you very much for allowing me to testify.

COUNCILMAN KENNEY: Thank you very much for your testimony.

MR. ORENS: Scott Orens, Orens Brothers Real Estate. Thank you very much. I've been asked to talk about the high cost of construction in Philadelphia.

I have about a half a page here. It's Friday afternoon; I realize that. I can sum it up -- really, when you talk about construction, you talk about materials, you talk about labor.

Materials are pretty much the same here as they are almost everywhere else in the United States. Our labor costs are too high; that's the simple explanation. Our costs for union labor are too high relative to what we can sell it for. I'm not going to build something and sell it for one third of what it cost me to build; it's just not going to happen.

Just so you know, in addition to being a licensed broker in the Commonwealth of Pennsylvania, I'm a licensed electrician in the City of Philadelphia, I'm a licensed plumber in the City of Philadelphia, but what I do for a living is develop.

I'll keep my comments simple. I mean, you have a couple of things that you might be able to control. I don't know whether you guys can control the labor costs. I think that it's something you can certainly work on, but it might be outside of your control.

Zoning. Quite simply, from a development standpoint, time is money. We need things to happen quickly in the development world. Zoning simply takes too long and is too complicated. It's something that you guys might be able to work on.

The accelerated permit review is a great thing. In fact, in many cases, as a developer, I'm willing to pay more for something if it takes less time. Because the difference to me is significant. If it takes longer and I have a loan that I'm paying on, I'd rather pay someone to be there.

While I'm on that subject, I've mentioned to several people in City Council -- and I won't mention their name -- and to some people in L&I that when construction was booming, I've had a hard time getting inspections, okay? What I'm encountering -- let's just assume -- and this is a low number -- that I'm carrying a $5 million loan, let's assume that it costs me at -- well, at 10 percent, it would cost me, you know, $500,000 a year, that's $10,000 a week that it would cost me. It's not costing me 10 percent, it's costing me half. So $5,000 a week it costs me to carry a $5 million loan. And I have to wait two weeks for an inspection from the building inspector.

What's that worth to me if I can get it done the next day? I'm willing to pay an inspector to show up overtime -- I'll pay his overtime costs to give me a private inspection. I've offered that as a solution. No one thinks in L&I that it's a real problem. I'm here to tell you that when construction was booming, the inspectors were overloaded and couldn't get to the job on time.

As was mentioned before by Michael, unadopted construction codes cost us more money. We had a chance here a couple of weeks ago to approve PVC in commercial buildings; it wasn't done. There were 600 union plumbers in the stands here. And there's a reason why it wasn't done, and we all know the reason. But it's unfair that 250 union plumbers showing up controls a city of 1.5 million.

You know, the cost of copper is high. That costs my -- it keeps my construction costs up.

Gross-profits tax. Every time I sell a building, I pay on what I sold the property for, not on what my profit was. It's not a good time to change tax structures; I understand that. But that's one that, when times get better, should be looked at.

And that's about it. That's all I'm going to say.

Thank you very much.

COUNCILMAN KENNEY: Thank you very much your testimony.

Please identify yourself for the record and proceed.

MR. KASSIS: My name is Roland Kassis, and I'm with Domani Developers.

I want to tell you my story and I'm going to make it pretty quick. I'll try. I have experienced -- and I'm going to try to cover everything that we have discussed.

I started in this business five years ago. It was pure luck. You know, I was in a different business. I was investing with my cousin in real estate in the Lehigh Valley area.

I was looking for a house for myself. Me and my family's very tight. I'm Lebanese, I'm an American with Lebanese descent. But me and my brother and my sister and my brother-in-law, we all live together and work together with my cousin, so we're tight.

So I lived in a condo in Old City. It was a small condo, a bridge-view condominium, two bedrooms. Bought it for, like, 160. We could afford it, all three of us working hard.

We needed a big house. Couldn't find anything I like. So a friend of mine in Northern Liberties was, like, why don't you get a lot and build it. So I found a nice lot. And he's, like, don't build two -- you know, one big house on it.

We're going to sell it for $2 million. Across the street from me, on Fifth Street, they're going for 250, new construction that's selling for 450.

So I say all right. I build two houses with the help of my cousin. And my house about -- worth about 800,000 now 'cause I put a lot of my own work in it. I was literally excavating with my own hands with a shovel and everything.

I learned the business. Sold the one house and kept the other. And I loved it. I realized I have such talent and love for it that I started building more.

And I love the neighborhood, I love Northern Liberties, because I got a retired police officer across the street that lives from me. I got a teacher and her husband that I bought the lot from, my neighbor. Their house is about $200,000.

But I saw University of Pennsylvania and I saw what was going on as well. I saw how the interaction of the people -- people were afraid that we were going to come and -- like developers coming in there and kicking people out of there. Like, you know, the people that don't have enough money, the offices and all that out of there.

In my case, that's not what I wanted. I wanted to actually bring people that have money, that bring a good income and bring it to the neighborhood. So what I did was, my plan was to build three more homes. And I sold them for 940, 850. Now, this is houses nothing going for more than $600 [sic]. Now the one next to it is going for 200,000.

And these people that bought there, they are -- they work for -- they're bankers from e-counts, another is an executive from Comcast. And they end up helping the neighborhood, helping the kids on the street, on the block right there. That was great. I loved it.

So I did another development of 16 homes around the corner. And I succeeded. I brought doctors. There are neurosurgeons that are buying there. Their children -- their kids are newborn.

I realized that Northern Liberties is a little village that people love to live there. So is Fishtown. Lot of artists, a lot of good people. And it's a mixture. It's different culture, different people, and peaceful good, loving people.

Now, I learned during that time that these people went beyond their need to buy a $800,000 home. And my philosophy is, I'll give you a five-star service for a three-star price. You going to go to Le Bec, you going to get the service at Le Bec. You can go to Rouge around the corner and get the same, exact service. That's always my -- I've been in the restaurant business. It's been my philosophy.

Now, these homes, I used union carpenters, union excavators. I didn't use union finishers, I didn't use union --

I used union electricians because they matched my number. They came by, they tried to muscle me, actually.

COUNCILMAN KENNEY: No.

COUNCILMAN DICICCO: Really?

MR. KASSIS: Well, of course. And I said, "You're not going to scare a guy that grew up in Beirut."

(Laughter.)

MR. KASSIS: It ain't going to happen.

COUNCILMAN KENNEY: That was the best line of the year.

MR. KASSIS: Hey, you know, I mean, I grew up there, all right? So I've seen a lot of things -- no disrespect. I understand that, I understand. So I learned a lot.

And it's funny. Actually, I got a phone call one time on one of my projects. The guy calls me up, he goes, "How 'bout hardwood floors?" I said -- you know, he was giving me an attitude on the phone. I said, "I got one where I buy it from." And I'm like, is he going to try to sell me something and give me an attitude on the phone? Are you kidding? I'm, like, "Who gave you my number?" And he's, like, "One of your people on the jobsite." So I said all right. I said, "Do me a favor, man, don't call me again."

About four weeks later, I'm coming back from New York. I'm looking at some projects there. I like to look at New York, I like to see what's going on there and bring it back over here. I'm coming back, and the same guy on the phone, I recognize his voice.

And he goes to me -- he goes, "I want your business." I said, "Listen, my man. I import hardwood floors over here." This is what I do. You know, I said, "I understand and feel, you know, you want to sell me something." And I'm not realizing what this guy's trying to. I'm thinking that this guy's trying to sell me a hardwood floor, and he's, like, "I'm going to picket you." And I said, "What?

You're going to picket me?" I said, "I'll be right there," okay? And him and I went at it. I mean, I don't want to go in details. I said, "I'll be right there."

I got there; the guy's not there. I called him; he's not showing up. I called him. I said, "I'm here." I mean, I threatened him literally. The guy didn't show up.

I didn't realize that there's actually hardwood floor guys that are union to do your hardwood floors; I didn't know that. I didn't realize that there's a union for everything. So I learned.

Could I have had been able to build these homes for -- and sell them for the price that I sold them. And, by the way, my profit margins, when I'm selling them for that much money, is the same as somebody -- I mean, actually a lot less than other developers in the neighborhood that do this 'cause I give a lot more.

Would I have been able to sell 'em for that? Absolutely not. I'm going to give you an example of my 16 houses that I built where I got doctors.

I built them for $110 a square foot. They are 3,000-square-feet homes. I took three -- I'll give you number so you know what I'm talking about. I'm selling them as $710,000 homes. These are good people that come in there, that have kids.

If it was John Westrum or Toll Brothers building these homes, it would cost them $600,000 to build. It would cost them $200 per square foot to build. That's how much it cost them to build.

I was able to work union, but at the same time, me and my cousins do other work at the same time. So I was able to mix them up together. Now, I'm a small shop and I'm able to fight. I don't want to be a big developer; I want to make sure it's done right.

Now, would I have been able to sell these houses if I was John Westrum or Toll Brothers? No. I would be owing money to the banks right now. I'd be bankrupt 'cause I wouldn't be able to sell 'em. So I was able to move these houses to good people that moved in there. Now, if these people could only afford so much, I couldn't even -- I was asking 780, 750; I couldn't even get that number. I had to lower my numbers down.

Now, what I learned also -- I tried to help one of my guys out -- is, if it wasn't for the tax abatements, these people would not have moved to the City of Philadelphia. Let me tell you why they wouldn't have moved here: Because if they got to pay $10,000 or $12,000 on a $700,000 home, that means a thousand dollars extra a month on their mortgage. They won't come here. They'll be somewhere else. So that tax abatement helped.

I understand why the folks -- the middle-class people are upset about it, which I feel them, and they're right. Why are these rich -- well, they think they're rich because these are -- are getting away with it with these taxes. It's not true. You know, we need these people here as we need the middle class and the, you know, and the bums and everybody's. This is what makes our city, you know.

So the bottom line is this: If we really want to solve the problem here, let's cut the crap and chase. The cost of construction the way it is, union, it is very, very hard for the regular firefighter and the police officer to buy around the City. It's going to be very tough.

I mean, I'm all for -- I'm pro for the right wage; don't get me wrong. I want to do that, but we have to be able to work together.

You know the way I look at it, what's going on -- General Motors is a perfect example, man. It's going down. Why? Because -- I just joined the BIA a year ago, and it's been like -- I just got my MBA literally. I've lost money in real estate, I'm walking away from (indiscernible). It's like going to work, seriously.

So what I learned is that if you -- if we don't lower -- if we don't sit down with these guys -- I mean, there's $56 for a carpenter union, right? which I just learned that the past three months, $56 to pay a carpenter union. The guy's getting about $25; the rest of the money goes to their funds or whatever it's going.

Well, that's coming back on me as a person who's buying a house or a regular teacher or police officer who's buying these houses. That's who's paying the price for this. That's where it comes down to. So if we don't sit down with all the labor union trades and talk about this and figure it out, it's not going to happen.

I got an example of Sister Mary. She wanted to build a, you know, she could have gotten 150 beds for the homeless; instead, she only got 75 beds for the homeless, all right? Well, this is something good she's doing. The reason why she got only 75 beds is because the unions knocking on her doors to build it for more expensive.

See, guys, we need to change this. We need the Council, we need the Mayor, we need the -- and we need the people to understand that, because, you know, what? I saw on the news when people are going against the tax abatement, and I felt them. They felt like, you know, they're being cheated. They felt that these rich people not paying their taxes for their homes and they are paying more. And they're right. But, you know, I don't think they understand the whole concept of it. I don't think they understand it at all.

So we need to educate the public and we need to sit down with all of these labor -- with these union heads and figure out how we're going to do it. I know it's going to be tough, but it's got to get done. You're going to have more homes and you're going to get your affordable houses in Philadelphia, and people will come here and want to live here if we do it.

But let's just cut to the chase. The zoning I agree with all this stuff and all these things, but it costs a lot of money to build in Philadelphia. And we're not getting numbers.

And you know what, what Kevin said earlier? You're right. We got lucky. You're absolutely right. We got lucky that we have not flooded the market because, you know, we would be like Miami, 'cause every developer in (indiscernible) or different towns would have came here and they would have built over here because the profit margin would have been a lot higher. So we got a little lucky.

So let's learn from that. I'm not saying -- and I like the zoning, I like you to come -- I want to go -- by the way, I'm partners with Onion Flats on other projects. And Johnny came over here and said something that was wrong. It costs about 15 percent more to build LEED certified, 10 to 15 percent, all right? It's just a fact of life. I mean, foam costs more money, all right, to do it. Your low-e windows cost more money. All of this stuff costs more money, and it's labor-intensive as well. So it costs more money to do these things.

I wish there was more people here. This is just the beginning, but we really need to sit down and figure this out, because to move our city forward -- and this is the chance to do it now in this economy, the time it is. Let's do it right now sit down

COUNCILMAN KENNEY: Thank you very much for your testimony. Thank you very much.

Mr. Sauer.

Is there anyone else that wants to testify after Mr. Sauer?

(No response.)

(Witness comes forward.)

COUNCILMAN KENNEY: Hi. Please identify yourself for the record.

MR. SAUER: My name is Rick Sauer, Executive Director of the Philadelphia Association of Community Development Corporations.

Thanks for the opportunity to testify. I will be brief, given the time, on a Friday afternoon.

I think we've already heard quite clearly that we have high development costs here in the City. We also have low incomes and low home values, which creates a gap between what you sell a home for and what the market will bear or what lower-income households here in Philadelphia can afford to pay.

It also is a result of reducing the availability and sort of moderate-priced housing to more moderate-priced-income households. It increases the amount of public subsidy that is needed to make an affordable home affordable to lower-income households.

So if you have the development cost up to $200 a square foot and you're building a home and it's only going to sell for 150 or a very affordable rent to special-needs household, you have to put a lot more of those limited public subsidies into each unit to make them financially work. And so, by lowering the development costs, we can also stretch those limited resources and get more affordable units built.

There's been quite a bit talked about the contributing factors to the high cost of development here, and clearly, the labor-cost issues come up. There's other regulations that have been put in place, whether they're storm-water management requirements, whether it's street-closing fees and repaving requirements that have up.

And there's also inefficiencies in the City's development process we've heard about, whether it's the zoning, the outdated zoning code. And I would also add to that list the long amount of time that it takes to acquire property through the City's property acquisition and disposition system, 'cause time is money as well.

We're certainly supportive of paying workers a fair wage to do work. I think what you see elsewhere, though, is a different wage scale, especially if you look at low-rise housing developments. There's more of a residential rate in place versus a commercial rate. And maybe there's an opportunity to look at how we can have a more affordable residential rate for low-density and lower-rise housing.

At the very minimum, I think you should be looking at doing that for affordable housing development, including mixed-income housing developments that have a range of incomes, and they're incorporating affordable units into them.

Clearly, the zoning code reform effort underway right now can have an impact on this effort; we're very supportive of that.

And we're encouraged by the beginning stages that the City is undertaking to make improvements to the City's property acquisition/disposition system. This has been one of the major obstacles for many, many users to developing new homes in a timely manner. And it's something that we need to take advantage of the opportunity we have now, especially given the financial crisis the City has. They need to be able to get new housing development on the market quicker now than they have in the past.

I think if we can reform these systems, we can reduce the cost and time and cost of development, enable more efficient use of the limited resources we have and expand the range of housing options, create some more moderate-income housing here in the City, and also help revitalize lower-income communities.

One final comment. There was a lot of discussion around the tax abatement. That really wasn't a part of my testimony, but I would certainly agree that it had a stimulative effect here in the City to get real estate development going.

We do have a citywide policy, though, and I question if that's the best policy to have. Clearly, what you need to incentivize development in a lower-income, disinvested, weak-market, housing-market neighborhood, you probably need a bit more of incentive there than you need in Center City.

And the other side of that, what a lot of folks are complaining about, sort of the equity issue, that it's the newer homeowners coming in and benefiting, there are ways to tap into the revenue stream coming out of tax-abatement properties, especially as those abatements expire, to use a portion of that revenue stream, to support, whether it's home repair or other affordable housing development in the neighborhood to make sure that that new investment is bringing broader and more equitable benefits to Philadelphia's residents.

So thank you.

COUNCILMAN KENNEY: Councilman Jones?

COUNCILMAN JONES: That may well be a entrée and a means by which to accomplish what the Chairman was talking about by way of incentivizing that middle-class construction and stimulate that. And then, as these properties come off of line from the ten-year tax abatement, which increasingly more of them are, that a portion of that money be dedicated to kind of kick-start, prime the pump, if you would, for middle-class and affordable housing.

Just a couple of points that I want to put on the record.

The most expensive thing in

Philadelphia is being poor.

MR. SAUER: Mm-hmm.

COUNCILMAN JONES: The most expensive thing in Philadelphia is being poor, because as we start to build these homes that don't have the proper insulation, you have the Water Department that wants to increase its rates over the next year, you have deregulation of electricity, which will occur in 2010, you have -- I am on the Philadelphia Gas Commission and I know they are screaming for a increase because of some of the cost of doing business.

So all of these three things are converging on the 24 percent of people who live in the City of Philadelphia under the poverty guidelines in a way that energy-efficient housing isn't a tree-hugger's idea; it will become a necessity in order for them to maintain their own homes.

So my pushing of these programs for green is not an attack on the poor but a lifeline to the poor going forward. My attempt to do green for development is not an attack on development. It is what the market is mothering towards anyway. More people every day are talking about energy efficiency of their lifestyle. And as we start to throw on top of that transit-oriented development, we need to come together, change our way of thinking, and try to move forward in a mutually beneficial area.

And I'm going to take Councilman Kenney and Councilman DiCicco up on bringing us all together so that we can find a common way out of it. And I got it, fellows. I don't want to disincentivize development; I want to incentivize green. Got it. You don't have to tell me again. I got it.

All right. Thank you.

MR. SAUER: Energy costs are clearly a critical issue. And I think we do have some opportunities with the new Weatherization Funds and the Energy

Efficiency Block Grant to help provide some of those incentives or offset that upfront cost of addressing those issues.

So we certainly welcome the opportunity to work with you around that.

COUNCILMAN KENNEY: Thank you very much.

Thank you for your testimony and thank you for your attendance here. The hearing is now in recess.

(Proceedings end at 4:10 p.m.)

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C E R T I F I C A T E

I HEREBY CERTIFY that the proceedings of the City of Philadelphia Council Committee on LEGISLATIVE OVERSIGHT are contained fully and accurately in the stenographic notes taken by me on Friday, April 24, 2009, and that this is a true and correct statement of same.

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JOSEPHINE CARDILLO
Registered Professional Reporter

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