



Answering the Bell

Steady as Ever, Philadelphia Shifts Toward Growth

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Greater Philadelphia may have a reputation as a stable if unexciting market—better known for the Liberty Bell than for dynamic deals. Nevertheless, local leaders made a strong case at CPN's eighth annual Philadelphia Property Opportunities conference that the city is not so much sleepy as it is a sleeper.

Thomas Morr, president & CEO of regional economic development organization Select Greater Philadelphia, kicked off the Jan. 22 event with a bold prediction: "Over the next five years, Philadelphia will be one of the hottest real estate markets in the country." After the painful, decades-long loss of its manufacturing base, Philadelphia is drawing on a broad-based regional economy powered by education, life sciences, technology and professional services, he noted.

Morr also pointed to a diverse development picture. Comcast Center, a 1.3 millionsquare-foot office tower in the central business district, is scheduled for completion this year. An expansion of the Pennsylvania Convention Center should spur further growth in the flourishing hospitality market. And the University of Pennsylvania's almost \$2 billion master plan tops the list of expansion programs by educational institutions. "All that taken together is going to lead to some very happy times in the region," he predicted.

Center City is attracting both Baby Boomers and Echo Boomers, with the 10-year tax abatement putting the district on equal footing with the suburbs, said Carl Dranoff, founder & CEO of Dranoff Properties and a "What's Next for Center City?" panelist. The city has also invested heavily in the arts, he noted, while Econsult Corp. senior vice president & principal Stephen Mullin pointed to the city's growing universities as a big benefit. Dranoff added, "We have a very lively, 24/7 city. We're just not being recognized for it."

Combined with its famous stability, that vitality stands Philadelphia in good stead with investors, according to speakers on the "Finance Capital Markets" panel that followed. "If you have a decent project that makes sense, there's money out there to fund it," noted NorthMarq Capital Inc. president Craig Butchenhart. Asked about the locations of the city's best bets for development, AMC Delancey Group Inc. president & CEO Kenneth Balin cited Westrum Development Co.'s strategy of building infill condominium and apartment projects in emerging Philadelphia neighborhoods.

As in many other cities, Philadelphia's cooling condo market has generated much discussion, but Jeff Algatt, Marcus & Millichap Real Estate Investment Brokerage Co. regional manager and a

speaker on the "Leaders Discuss the State of the Philadelphia Market" panel, called talk of a crisis "overblown." Algatt argued that demand is still there and that the drop in the number of units coming online—1,400 this year, compared to 2,000 last year—is a healthy sign of self correction.

Among the most reassuring signs of the city's revival is the firming office market. During a panel comparing Center City to the suburbs, Robert Walters, CB Richard Ellis Inc. senior managing director & head of its Philadelphia regional office, predicted that the tipping point from a tenant's market to a landlord's market could arrive in both the CBD and the suburbs this year. By the end of 2006, Center City's Class A vacancy had fallen to 11.7 percent, and if the rate dips below 10 percent this year, as many expect to occur, it will mark the city's second-best performance in the past decade, he noted. Tim Pulte, executive managing director for GVA Smith Mack, summed up the suburbs' future as "stabilization in 2007, absorption in 2008." Much of the growth will focus on the Radnor, King of Prussia and Plymouth Meeting areas, panelists agreed.

While highlighting such positives, conference speakers stressed that Philadelphia faces a number of knotty challenges. "We cannot go on and be a world-class city and reach our potential with 400 people a year getting killed in the city," observed John Gattuso, Liberty Property Trust senior vice president of urban and national development and a speaker on the leaders panel. Panelists also cited taxes as a damper on growth, and the windfall from two forthcoming casino projects could give politicians an excuse to slow the reformation of the city's business-tax structure.

The conference closed with a presentation by Dennis Yablonsky, secretary of community and economic development for the commonwealth of Pennsylvania. He pointed to the state's strength as a business and tourism destination, noting that 755 projects have closed in the past four years. The state's plans for the next four years include investment in life sciences, infrastructure and technology, including energy, he noted, adding that two tax-increment financing programs will help fuel that aggressive agenda.