

## A PHILADELPHIA STORY

by Edward Dodson , Cherry Hill, NJ

Philadelphia has long been known as the "City of Brotherly Love" or as the birth place of the nation because the first Continental Congress was held in the city. As most Groundswell readers know, Philadelphia is also the birth place of Henry George. The modest building in which Henry George was born has long housed the Philadelphia extension of the Henry George School of Social Science.

The neighborhood that was once home to the George family has experienced its ups and downs, as almost all such neighborhoods do. The area is still primarily residential, interspersed with large numbers of mixed-use properties; that is, properties with small shops, food stores or restaurants at street level, with living quarters for the owners (or renters) at the rear of the building or on the second and third floors. Here and there are more recently-constructed buildings rising above the skyline. These are mostly apartment buildings and housing for students attending nearby Thomas Jefferson University.

Philadelphia remains a remarkably livable city, although many neighborhoods within walking distance to the central business district remain plagued by vacant and abandoned buildings, the legacy of decades of inaction and inappropriate action by officials who could not come to grips with what was happening and why.

I first came to live in Philadelphia in the late 1970s. I stayed in the region but moved over the Delaware River to New Jersey in 1983 (after a rather long search for a nice house, in a nice neighborhood, at a price I could afford). During my five years living in the City I rented an apartment in a renovated factory building at the edge of the financial district, close to the Schuylkill River. As I recall, the monthly rent increased about 10 percent a year each year. As almost everyone agrees, this annual increase is one of the great disincentives to being a renter (Philadelphia, unlike some other cities, does not have rent control or rent stabilization statutes on the books). Within and at the fringes of "Center City" similar conversions took place, with developers taking advantage of various Federal, state and local grants, tax breaks and tax credits to add to the profitability of these projects.

Readers will recall that a fairly serious downturn occurred in 1979. New money market funds were stimulating the transfer of financial deposits from the nation's savings banks and associations, although usury laws restricted these institutions from competing on a level playing field. These institutions and most commercial banks simply stopped lending to home buyers until the caps on what interest rates they could charge were removed. In the interim, the Federal Reserve gave up trying to control interest rates. The prime rate of interest climbed, and the rate for mortgage financing went above 10% and kept going. Savings banks unwisely but in desperation sought high-yielding

investments, greatly expanding their lending to real estate developers and other businesses. The real estate crash that occurred in 1980 and kept getting worse led to the insolvency of many banks, and the creation of the Resolution Trust Corporation charged with liquidating bank loan portfolios.

Philadelphia joined other U.S. cities experiencing a severe financial crisis. The City was losing its middle class tax base and businesses to the suburbs. Now, the revitalization of the downtown and its surrounding neighborhoods was threatened by falling real estate prices and a shortage of affordable financing. The philosophy of the Reagan administration in Washington resulted in an end to increased federal subsidies to the cities, leaving Philadelphia precariously on the verge of defaulting on its debts. For higher income professionals and "empty nesters" the attraction remained for living in the City's historic neighborhoods and in the town homes that dominate the streets spreading out from Market Street - running westward from the Delaware River, and Broad Street - the longest straight thoroughfare in any Eastern city - running north and south through the center of town. At the same time, newer high-rise condominiums and apartment buildings remained partially empty, with rental income barely covering debt service and condominium prices far below that for comparably-sized single-family homes. Outside of Center City and a few other neighborhoods the abandonment and decay continued. The homeless began to appear on the streets of the City, panhandling for change.

Well, times have changed - for some. The condominium market has recovered in a major way. There is a rush on to acquire and renovate almost any building within a reasonable walking distance to City Hall. As the Philadelphia Inquirer just reported (October 22): "Anywhere near Center City is fair game. Few buildings, it seems, are being ruled out for conversion." Among the buildings undergoing renovation for residential use are a former shoe factory, a closed parochial school (with highly valued off-street parking) and buildings that had gone through a series of foreclosures during the recessionary 1980s. In one existing condominium, a one-bedroom unit that had been priced around \$35,000 in the mid-1990s recently sold for \$125,000. In another condominium in the heart of the Old City units have jumped from under \$100,000 to \$225,000 during the same period.

Philadelphia has lost roughly 10 percent of its 1990 population. As older residents die, there are fewer and fewer people interested in acquiring the homes that become available. One reason is that the title to many properties is uncertain. To avoid loss of Medicare benefits, many lower income households transferred title to properties to children or other relatives. Another reason is that many of these homes are located in neighborhoods troubled by violent crime, arson, homes that

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are collapsing due to weather damage, inadequate public services and schools that must spend as much on security and dealing with dysfunctional families as on student education. Estimates vary, but to say that some 40,000 residential structures are vacant and uninhabitable is not an exaggeration.

Among the real estate professionals and bankers, the demand for Center City real estate and the rising prices means business is good. Yet, there is an appreciation for how quickly the current boom could end. A significant proportion of the funds people are using to make down payments on these properties is coming from gains in the stock market - gains we are seeing can disappear virtually overnight.

Long before I arrived in Philadelphia and eventually came into contact with George Collins and others associated with the Henry George School, the Georgist residents of Philadelphia kept trying to get elected officials and civic leaders to recognize the wisdom and justice in Henry George's proposals. Despite the fact that the state constitution provides Philadelphia with the authority to exempt property improvements from taxation and raise all or some of its needed revenue by collecting location rent, there has been little support for the proposal up to this point. A few years after I became involved (but for which I can claim no credit) one member of City Council, James Tayoun, stepped forward to introduce a bill that would add Philadelphia to the list of Pennsylvania cities going "two rate." The bill never made it out of committee, Tayoun was (for other reasons) forced to resign. That was more than fifteen years ago, and although our efforts have continued as opportunities arose, goods-producing and service-producing Philadelphians continue to absorb the burden of heavy taxation on wages, on homes and on commerce while low effective tax rates on location rents left the dysfunctional land market untouched.

There is reason to believe the end to this Philadelphia Story may turn out to be joyful. First, there is the mounting outside evidence in favor of shifting the tax burden off of improvements. Sometime in 2001 the offices of the Henry George Foundation of America and the Center for the Study of Economics will be moving to Philadelphia from Columbia, Maryland. Environmentalists are coming to appreciate the power of the "tax shift" as a response to sprawl, an issue gaining considerable attention among activists, academics, planners and officials throughout the Philadelphia metropolitan area. In the meantime, Philadelphia's land prices are rising sharply in some parts of the city, while in many distressed areas, even an offer of free land is not enough to entice development.