OLD CITY STUDY

PART C

Prepared by

Venturi and Rauch - Architects and Planners

E.L.Crow, Inc. - Economic Consultants

Vuchic and Dunlay - Transportation Consultants

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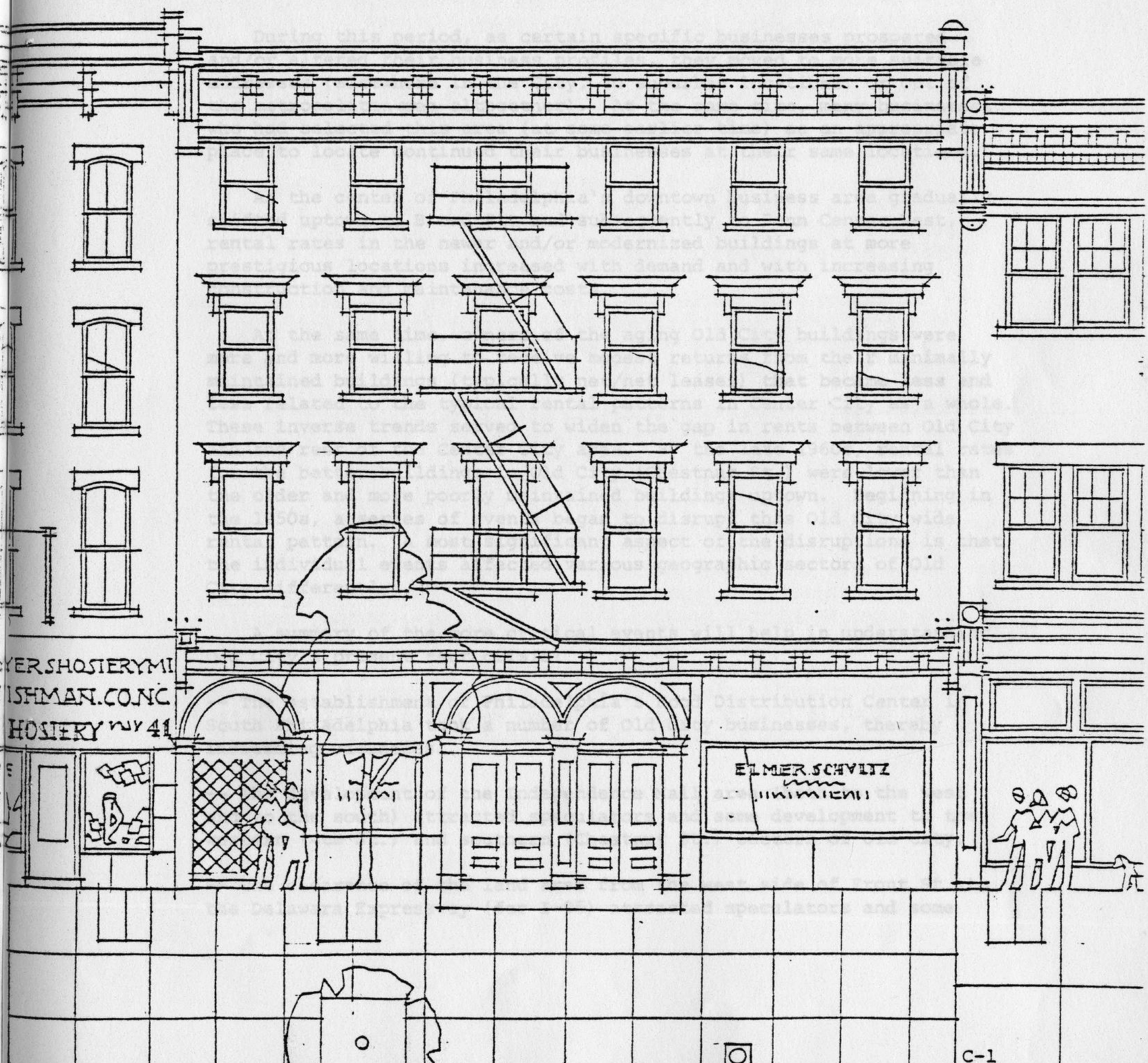
The project staff included:

Denise Scott Brown	Partner-in-charge
Stanley F. Taraila	Project Manager, V & R
Debbie Prindle	Project Manager, PCPC
Robert Venturi	Architect
John Rauch	Architect
Ed Crow	Market and Economic Consultant
James McGrath	Market and Economic Consultant
Vukan Vuchic	Transportation Consultant
Bill Dunlay	Transportation Consultant
Chuck Hardy	Attorney
Stanhope Browne	Attorney

Mary Yee	Planner
David Marohn	Architect
Stanford Hughes	Architect
Robert Pistelli	Architect/Planner
Fran Headley	Landscape Architect
Virginia Jacobs	Graphic Designer
Amy Weinstein	Architect
Janet Schueren	Architect
David Crow	Computer Analyst
David Vachon	Technical Analyst
William J. Morgan	Technical Analyst
Maddy Karpiak	Computer Assistant
Dot Baines	Typist
Drita Taraila	Typist
Lynda Payne	Typist

PROBLEM IDENTIFICATION VI



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A. INCREASING RENTS

During the several decades that the Old City area was well off the mainstream of new and changing market developments, the aging structures adeaquately served the needs of business firms and residents interested in the area's locational attributes and willing to make do with the available types and qualities of space with concomitant low rents.

During this period, as certain specific businesses prospered and/or altered their business profiles, they moved to more suitable addresses (elsewhere in the City, to suburban locations, or out of the metropolitan area altogether). At the same time, many businesses who had selected this area (at some earlier time) as an appropriate place to locate continued their businesses at their same locations.

As the center of Philadelphia's downtown business area gradually shifted uptown to Broad St. and subsequently to Penn Center West, rental rates in the newer and/or modernized buildings at more prestigious locations increased with demand and with increasing construction and maintenance costs.

At the same time, owners of the aging Old City buildings were more and more willing to receive modest returns from their minimally maintained buildings (typically net/net leases) that became less and less related to the typical rental patterns in Center City as a whole. These inverse trends served to widen the gap in rents between Old City and the rest of the Center City area. By the late 1960s, rental rates for the better buildings in Old City (Chestnut St.) were lower than the older and more poorly maintained buildings uptown. Beginning in the 1950s, a series of events began to disrupt this Old City wide rental pattern. A most significant aspect of the disruptions is that the individual events affected various geographic sectors of Old City differently.

A summary of the more critical events will help in understanding Old City's present rent crisis:

-- The establishment of Philadelphia's Food Distribution Center in South Philadelphia took a number of Old City businesses, thereby increasing vacancies.

-- The development of the Independence Mall area (both to the west and to the south) attracted speculators and some development to the western (4th St.) and southern (Chestnut St.) sectors of Old City.

-- The clearance of the land area from the west side of Front St. to the Delaware Expressway (for I-95) attracted speculators and some development along South Front St. because of the new river view and in anticipation of a strong revitalization activity.

-- The development of Society Hill and Penn's Landing has attracted some speculation along the southern edge of Old City.

-- Early interest and perceived market opportunity for selected businesses along Bank and Strawberry Sts. precipitated a speculative wave in the early 1960s which attracted some restaurants and offices. But this development activity soon stalled.

-- The more recent interest in converting older buildings into loft apartments, especially in the vicinity of 3rd and Race Sts., has touched off another speculative wave for buildings which are thought to have residential possibilities.

-- The recent City-wide reassessment of real estate has pressured owners to increase rents to reflect increased taxes. In the case of net/net rents, tenants have absorbed the increased taxes directly, with the same increase in occupancy costs.

-- Increasing construction costs and stepped up code problems (fire and safety codes) have contributed to sharply rising costs to rehabilitate properties, which makes it especially difficult to rehabilitate the smaller buildings.

The net result of these various events, occurring at different time periods and in different specific geographic sectors of Old City, has created a checkerboard of weak rents and speculative pricing. This trend has heightened owners' expectations of potentially higher rentals. These increased rent levels are particularly threatening to artists and businesses who are least able to pay this increase.

Without a clear market development program, Old City can expect to continue to be susceptible to speculation as individual development projects are announced. These speculative moves are quite likely to place the prices of many properties at a sufficiently high level so that when rehabilitation costs are added, the "numbers" simply won't work for those residents and businesses who would like to stay in Old City and those who would be interested in moving here.

B. LACK OF PARKING

Although there is an adequate supply of parking spaces for Old City as a whole, there are substantial deficiencies and misallocations at the level of specific blocks. Generally, there is more demand for parking space (as measured by vehicle hours) than is available in the area south of Arch St. Overall it was calculated that an approaching motorist would spend about a minute or two looking for a parking space, but on specific blocks such as Front to 3rd, and Market to Chestnut, a driver would have to wait up to a half-hour for a space to free up near his destination. The length that a person will walk from a parking space varies with trip purpose. Most visitors or shoppers seek a parking spot within a half block of their destination. As motorists cruise the area looking for a convenient legal space, they circle the zone, thereby increasing further the street traffic congestion. This situation is complicated by:

-- the invisibility of existing parking spaces, which are usually on the interior of blocks with insufficient signage to direct visitors to the lots

-- the existing parking rate structure, which encourages long-term parking and reduces the turnover by which more customers could be served.

Workers and businesses tend to monopolize the spaces near their businesses all day long, thereby reducing the available space for customers. As the typical customer trip is one hour, up to 8 customers could park in a space occupied by 1 worker's car. On-street parking is a continual struggle between cars, trucks and tourist buses vying for nearby spaces. In fact, the street usage is so intense that legal and illegal spaces have equal usage. The location of new parking spaces is a basic problem for built-up (pre-auto) retail/wholesaling areas. These zones were densely constructed to maximize their ability to serve pedestrian traffic, but new parking facilities require large areas of this valuable commercial zone.

C. TRAFFIC CONGESTION

The north/south streets are congested. They are now receiving traffic volumes in excess of their capacity and their service level is thereby lowered. This situation stems from several factors:

-- The continuity of the original street grid has been disrupted by the construction of the Delaware Expressway. Second, Third and Fourth Sts. were part of a system that included Front St. and the wide Delaware Ave. Now that connections with these streets are severed, traffic can no longer be diverted by way of Market, Arch, Race or Vine Sts. to Front St. and Delaware Ave. This intensifies traffic movement on the remaining north/south streets and (conversely) reduces traffic flow on the east/west streets.

-- About 40% of the traffic flow on the north/south streets is through traffic not destined for Old City locations. The opening of the Callowhill exit tends to increase through traffic, while the construction of the Vine Street Expressway would reduce through traffic by up to 50% on some streets.

-- Parking and loading on 2nd, 3rd, and 4th Sts. greatly reduces their capacity. One illegally parked car effectively blocks an entire traffic lane and reduces the street's capacity by 25%.

-- The amount of traffic flow along a street is limited by the number that can pass through the intersection. This flow is determined by the amount of green time of the traffic light cycle. The traffic signalization in Old City now favors the east/west flows to the detriment of the north/south traffic movement.

-- The temporary construction activities that have been in progress in Old City have further exacerbated the traffic congestion. The construction at the corner of 2nd and Market Sts. has reduced the 2nd St. capacity. Wood St. has been blocked by debris from the Vine St. Expressway construction and should be reopened.

D. PHYSICAL AND CODE LIMITATIONS

Old City is blessed with an exquisite stock of 19th century structures which were built to satisfy business patterns that no longer exist. These were constructed before today's standards and building codes. Now market forces, coinciding with the desire to save the area's history, have begun to introduce potential new uses into these presently underused structures. It is a complicated process to put new activities into existing buildings. Residences are the most probable reuse for the upper parts of these structures. But the intrinsic layout of the 19th century buildings is, at best, difficult for readaptation to residential layouts. The buildings were meant originally for commercial storage and were, therefore, laid out with minimum exterior wall and window areas. This gives rise to long, narrow buildings, some 150-200' long and only 25' wide. But residential uses demand window area, by code as well as occupants' natural desire, opening onto each room, thereby severely limiting the residential reuse potential of these buildings. This situation has promulgated the loft living phenomenon with large spaces left undivided (into smaller rooms) with only a service core containing bathroom and kitchen.

The existing buildings' renovations favor primarily the corner structures and shorter properties over the interior buildings. The advantage of smaller interior structures is offset by the diseconomy of developing buildings with few units. The conversion of these units is also limited by the present building, zoning and housing codes.

The remaining developable structures probably will be required to obtain variances for:

-- developing the upper floors of structures. Most of the structures in Old City are type IV construction. This classification is limited to 4-storey for multi-family and 3-storey for commercial activities. The majority of proposals will be for mixed use (with a limit of 3 stories by code) but most structures are 4-storey, many 5 floors. This will necessitate the granting of variances to develop the upper floors.

-- reducing the number of required exitways. The code now requires 2 exits whenever there are more than 10 occupants per floor (as measured on the basis of 125 s.f./occupant). This implies that the maximum floor space which can be served by 1 fire exit is 1,250 s.f. Therefore, about half of the developable structures would require the installation of a secondary means of escape. This increases the rehabilitation cost by 10% and consumes about 120 s.f. The area per occupant could conceivably be increased for loft-type conversions since the individual living units are 50% to 100% larger than similar apartments housing the same number of units. These are not subdivided into small compartments, thereby allowing easy egress for emergencies.

-- occupying more ground area than allowed. Many structures were added to over time with 1 and 2-storey sheds in the rear to maximize the amount of commercial space in the lower floors. Even if these additions are removed, the basic structure in most cases would still cover more than the allowable 75% (on interior lots) and 80% for corner lots. Because these structures are historically certified, they should not be partially demolished to meet the existing zoning requirements which were established primarily for new residential construction.

-- insufficient open space area. This is a corollary of the maximum allowable building coverage. The Zoning Code requires 25% for non-corner sites and 20% for corner sites while the Housing Code requires 20% for interior sites and 10% for corner sites. Most of Old City's structures cannot meet these requirements without drastic amputation of the existing building.

-- insufficient window opening. The Housing Code requires the window area for living space to be 7% of the floor area. The Old City average window size is 24.5 s.f. which would service approximately 350 s.f. of floor space. The typical structure has 2 windows in front per floor, which would limit an apartment in the few long, narrow structures to 700 s.f. The fenestration is difficult to re-design without marring the original character of the building and the ground floor is usually larger, longer and deeper than can be practically converted to even loft apartments (e.g., the east side of North 2nd St. between Arch and Market Sts.). Long, narrow structures with large open areas would require more openings than the present fenestration pattern permits.

The typical conversion project is also beset by the dilemma of finding a suitable tenant for the ground floor of the structure. These floors were originally designed to function as sales outlets, with easy access to the street and large storefront windows (with extra shed space in the rear instead of yard space). Most locations within Old City (Arch St. and above) would not be suitable for general retail sales operations because they lack sufficient pedestrian shopping flow to sustain sales volume. There is not yet a (strong) demand for office conversion to meet the supply of space. The conversion of this space is problematic in that the street is usually congested and noisy.

E. LACK OF BUILDING MAINTENANCE

The great bulk of Old City's structures were built as utilitarian, commercial buildings designed to minimize upkeep (as far as 19th century construction techniques allowed). As business activity declined, maintenance budgets shrank and building conditions worsened, repairs have been put off to the point that weatherproofing is becoming a major problem. Woodwork, trim, sash, doors and frames are beginning to rot away as water easily penetrates the cracking and peeling paint. As mortar deteriorated over the past decades, water has seeped in and the joints have been weakened by the freeze/thaw action. Several walls have loose bricks (especially over lintels) and a few walls have begun to buckle.

A typical developer will patch over these problems, but would not pay to restore and replace the damaged materials. A greater expenditure is needed to replace the rotted woodwork and to repoint the walls so that the structure could return to its original integrity. The condition is most extreme in the smaller, originally residential, structures that no longer serve an economic purpose. The 100 block of Vine St. has been neglected seriously and it is estimated that it would cost over $10/s.f. merely to repair these structures (not upgrade and rehabilitate). This situation is also prevalent in small residential structures (15' x 70') which were converted to commercial use, for which they are ill-suited. These structures usually house the more marginal businesses which cannot compete for better quarters. The north side of Vine St. from 2nd to Bread Sts. is typical of the disrepair that occurs. These structures would cost more than $9/s.f. merely to repair (to which would have to be added the cost of rehabilitation).

The area's general economic malaise has led to neglect of the public as well as the private environment. This neglect is most marked in the back alleys (Church, Cuthbert, Filbert, Bread, American, Letitia, Bank, Strawberry, Orianna, Wister, Elbow Lane, Blackhorse Run, Trotter's Alley, and Little Boy's Court). This has been a blessing in disguise because many of the original materials have been preserved rather than suffering the "modernization" which occurred in the major streets. The difficulty now is that the restoration of these back streets (resetting granite blocks, etc.) is more than 3 times as expensive as repaving with asphalt.

F. EXPRESSWAY IMPACTS

Both the Vine St. Expressway and I-95 are predicted to increase noise and air pollution beyond the levels set by Federal standards for the residential and commercial areas which abut these roads. The Vine St. Expressway is needed to relieve the congestion on Old City's streets by diverting through traffic around the area. But if it is built as presently designed, it will have a serious negative impact on the adjoining areas. The industrial areas north of the Benjamin Franklin Bridge are relatively insensitive to these negative impacts, but the existing and potential residential enclaves will be severely impacted. Lawrence St. will be the most inequitably disrupted. The majority of these 21 homeowners are over 50 years of age and have lived here, along with their friends and children, all their lives. Their street, which is perpendicular to a proposed ramp, will funnel the traffic noise down along its whole length. The North 3rd St. community (approximately 18 units) of rehabilitated lofts along the east side of the street will also be affected by the Expressway's noise and dirt. The threat of potential environmental degradation might also deter the rehabilitation of the remaining vacant spaces (such as Mariner's Court).

Similarly, Elfreth's Alley will suffer increased noise and air pollution if buffering devices are not installed along I-95 in accordance with the Consent Decree. This agreement states that the community and PennDOT will work together to reach mutually acceptable solutions for noise abatement and that the highway will not be made operational until such barriers are installed.

PROSPECTS & POTENTIALS VII

A. BUSINESSES

The discussion of prospects and potentials for Old City's businesses focuses on the five major categories of firms used previously in discussing the economic profiles. For each group of businesses, the discussion follows the format outlined below:

-- Satisfaction with present location: This discussion summarizes the extent to which the subject firms are satisfied, or dissatisfied, with their present Old City locations. The thrust of this commentary is to ascertain whether or not an Old City location fulfills the firms' current locational needs, or whether the present location merely reflects a lethargy or inability to move to a more suitable location. This discussion also notes the problems these businesses perceive with their Old City locations.

-- Prospects: In this section, the Consultants discuss the viability of the firms as related to their future prospects as Old City business residents. The discussion also explores the propensity of the group of firms to remain in their present Old City location or to relocate as a direct (or indirect) result of any development activities. Attention is directed to any "backlash" that is likely to occur in response to development actions not necessarily directed at the businesses themselves.

-- Potentials: This discussion identifies the results that could be expected under most favorable development program conditions.

The discussion varies somewhat from group to group depending on the particular issues that apply to that group of businesses.

1. <u>Interdependent Wholesalers</u>

a. Satisfaction with Present Location

Most of the wholesalers and manufacturers now located in Old City appear relatively well satisfied with the area as a location for their operations. As a matter of fact, several suggested that the area was more desirable now than a few years ago because of increased safety and security related to the greater number of people who are moving about in the Old City area.

While many point to heavy street traffic, inadequate parking, inefficient building space, and congested loading facilities as negatives; they point to their long-term residence (customer awareness), low rent, convenient access for their employees, and their proximity to one another as far outweighing the negatives.

With respect to present and prospective trends, most are receptive, or at least tolerant, of the growing number of residents. Some seem mildly disapproving of heavier foot traffic that interrupts deliveries (typically those with front door loading). Most of those interviewed do not mind residential lofts in upper floors of surrounding buildings, but several expressed the view that they would not want residential lofts in their particular buildings for reasons of security or fire safety. The I-95 highway is seen as either neutral or a modest enhancement of the area's location for their particular business. Perhaps the greatest concern is the possible combined effect of the recent, and possible future, City tax increase and increasing real estate assessments. In this regard, several businesses disapproved of the perceived practice of gauging reassessments on nearby buildings regardless of the use of those buildings. For example, when a building that contains a new restaurant is reassessed, it can affect some of the nearby buildings even though they may continue to be used for low margin wholesaling activities.

b. Willingness to Move to Another Location

When asked about their willingness to move to some other location as a part of any development program, most expressed their willingness to move under certain conditions. In general, the businesses would be willing to relocate providing they would:

--continue to have a location near their complementary businesses.
--have space no less convenient (traffic, loading, access, internal efficiency, etc.) than their present space; preferably an improvement over their present situation.
--be required to pay no higher rents than at present, presumably for equivalent space and convenience.
--not be required to pay for a move that is not of their choosing.

There are some noteworthy exceptions. Businesses with substantial investment in properties in the area (including but not limited to their particular place of business) are strongly opposed to any major disruption of that investment. Businesses who already have relocated as a result of other development activities (e.g., the Independence Mall area, Reading Terminal area, etc.) are frustrated with successive requests to relocate. These businesses want very much to have a suitable location that is insulated from future move requests.

c. Prospects

With certain exceptions, the interdependent wholesalers are serving local and regional markets of relatively small retailers. Both these wholesalers and the retailers whom they serve are feeling continued encroachment on their markets from large firms, both wholesalers and retailers; hence are experiencing flat sales curves. Such competition has extended over many years and can be expected to continue in the years ahead, quite independently from any Old City development program.

The result will be continued attrition. In some instances, retiring owners will elect to close their doors if no one can be found to purchase the firm. In other instances, the owners may choose to sell out to other, typically larger, firms who will consolidate the newly acquired firm(s) into their own.

A few of these firms have changed direction (typically under younger management) and have become less dependent on customers who drive to their establishments to purchase their goods (commonly referred to as "walk-in" trade). Being less dependent on their proximity to other similar firms, some of these could well find it to their advantage to move to larger and more efficient space in Old City, elsewhere in the City of Philadelphia, or to the suburbs, including New Jersey. Such moves are likely to take place without regard to any development program in Old City. However, if such firms are approached and encouraged, they may well be amenable to relocating into better space in Old City (new or rehabilitated).

Development-oriented actions could well speed up this attrition process. Of particular concern to these relatively small interdependent wholesalers are the prospects of increased rents and/or taxes that can erode already marginal profits. Also of concern are development activities that stand to break up the present geographic concentration of similar firms.

d. Potentials

The Consultants do not perceive any significant market growth for these interdependent wholesalers that would trigger the need for an expanded wholesale district in Old City.

The establishment of a dedicated area (e.g., on North 3rd St., or a more dramatic new construction program, say, in the North Bridge area) could have the effect of strengthening this group of wholesalers, thus slowing the attrition. It could attract a few additional firms now located in scattered locations throughout the City. Such a move could be especially useful if there are development plans for other sectors of the City involving relocation of scattered wholesalers who may find such dedicated locations suitable to their needs.

2. Access-Oriented Wholesalers

a. Satisfaction with Present Location

In general, these businesses hold views that are quite similar to the interdependent wholesalers' views. As a group, these firms tend to be larger and to depend more on traveling salesmen and less on "walk-in" customers than their interdependent counterparts. For these reasons, their satisfaction with their Old City locations focuses more on such locational factors as its centrality to a sales territory, proximity to the port (for imports or ship chandling activities), as well as convenient access for employees, low rents, etc. Some of these businesses pointed out that while their counterparts were more scattered, there may well be a small node of similar firms in the Old City area which has some limited advantage.

b. Willingness to Move to Another Location

The access-oriented wholesalers' willingness to relocate as a part of any development program mirrored that of the interdependent wholesalers. It appears that a higher proportion of these firms already have taken steps to render their space and situations more convenient. To the extent that this involves owned properties, there is a certain disinterest in moving, but most would do it under conditions similar to those outlined in the previous section.

c. Prospects

As a group, these firms are somewhat larger and more viable than the interdependent wholesalers. Most of these firms and their markets are relatively stable without much propensity for significant expansion or relocation.

Response to a major Old City development program could be a bit more volatile than is likely to be the case among the interdependent wholesalers. A few of these firms suggested that they may choose to close their doors rather than to pay substantially higher rents or negotiate an unwanted relocation. Such potential response to development activities seems to reflect more the marginal nature of certain firms and/or problems of management continuity than a specific response to any Old City development program, per se.

The risk with some of the firms in this group is that IF they find reason to move because of increasing rents, or because their space is desired for other uses, there is a higher risk that they could elect to make a more dramatic move. One such businessman stated that he would not be interested in moving to either North or South Philadelphia. If he moved at all, he could well elect to move across the River to maintain the centrality of his location with respect to his service area (a 50-mile radius from his specific location).

d. Potentials

The Consultants do not perceive any development program that would encourage additional access-oriented firms to relocate into Old City from other sites in the Philadelphia area. The potential for Old City lies more in encouraging present wholesalers to remain in the City than in mounting any effort to attract new firms into this part of the City.

3. Retailers

For purposes of this discussion, it is appropriate to direct attention to three rather distinct groups of retail stores:

-- The Market Street retail community

-- The Chestnut Street retail community

-- The stores located north of Market Street

a. The Market Street Retail Community

1) Satisfaction with present location

For the most part, these stores have built their clientele over a number of years and appear reasonably satisfied with their present locations. Sales for many have suffered dramatically as a result of the I-95 and subway construction programs, which have severely constrained walking access and parking, as well as contributing to traffic congestion on 2nd St. Most storekeepers interviewed are resigned to sitting out the construction and hoping for a resurgence in businesses after its completion.

Their primary dissatisfaction, which sometimes reaches the point of consternation, is the congested parking and sporadic enforcement of parking regulations.

2) Prospects

The Consultants' analysis of the Market Street retail community suggests that the future of this area as a viable retail shopping district hangs in a delicate balance.

As rents continue to climb, as can be expected, the present group of retailers will be in a weakened position to continue to operate as, essentially, discount stores. If rent increases force the retailers to raise their prices significantly, the stores will become more like other stores in Center City, suburban malls, and neighborhood strip centers. In this event, potential customers will have little reason to go out of their way to shop at 2nd and Market Sts.

The present assortment of stores does not present a well balanced grouping of stores to potential customers, at least not sufficient to attract new customers not now accustomed to shopping here. The present stores are heavily oriented to men's and boys' apparel with limited lines of women's and girls' apparel, reflecting the lines handled by the nearby wholesalers. These are augmented by specific stores which have built up a city-wide reputation and clientele (e.g., Shane's Candies). The assortment is filled in with convenience stores that draw from the generated traffic of the other stores and, more importantly, by the subway-oriented traffic.

The north side of Market Street has a number of store fronts which are really wholesalers, thereby deterring rather than encouraging retail traffic.

The office buildings recently built on the west end of the strip have diminished the number of stores on the strip, thereby reducing the shopping district's critical mass.

3) Potentials

Without specific business development action and encouragement, it appears that the Market Street shopping district is likely to experience a continued slow decline.

At the same time, a thorough evaluation of the shopping district's fundamental assets that leads to an imaginative and creative business development action program can breathe new life into the district. Some of the market opportunities for the Market Street retail district are developed more fully in Sect. VIII-B.

b. The Chestnut Street Restaurant Community

1) Satisfaction with present location

The retail businesses along Chestnut St. and adjacent streets (e.g., South Front, South 2nd, Bank, Strawberry, and Walnut) are one of the City's largest concentrations of restaurants. While the businesses appear satisfied with their location, some are concerned that too many restaurants are concentrated here and individual businesses are suffering.

2) Prospects

This analysis indicates that while some of the restaurants are doing quite well, others are operating below expectations.

Unquestionably, the dirt, traffic congestion, and parking problems created by the construction activity along Front St. (construction of I-95 and relocation of the subway) have frustrated businesses in this area. As these projects reach completion and the restaurants become more accessible, business should return at least to former levels. With the completion of other projects (e.g., Penn's Landing, the planned parking garage on 2nd St.), the restaurant business, in aggregate, should continue to grow.

The restaurants are now generating a number of "restaurant-oriented" trips into the area by persons who are interested in dining out:

--as an entire evening's entertainment.
--as one stop on a trip that includes other activities that can be done within walking distance (e.g., Penn's Landing, New Market, etc.).
--as one stop on a trip that includes other activities that can be done within easy driving distance (e.g., Center City theatres, the Academy of Music, etc.).

Thus, the continued health of the Chestnut Street restaurant district is strongly related to its ability to tie in with other accessible activities.

3) Potentials

There is no evidence that there are too many restaurants in Old City, per se. The potential for projecting Old City's dinner-oriented restaurants to significantly higher levels of business activity is, however, dependent upon a number of factors. The future health of the Chestnut Street restaurant district seems to depend on:

--the ability of individual restaurateurs to tap viable market segments (as Bookbinders, The Middle East, and a few others obviously have done).
--the success of individual restaurants in maintaining sufficiently consistent standards to establish a good reputation and repeat business in their elected market segments.
--the extent to which "would-be customers" find the restaurants convenient and accessible.
--the creation of a greater range of complementary activities to stimulate a larger number of dinner-related trips into Old City.
--finding ways to tap more effectively into cultural and recreational trips to nearby areas (e.g., Academy of Music, the Gallery, etc.), such as encouraging people to drive to Old City to dine and leave their cars there, using a community sponsored jitney for the trip to Center City and return.

--finding ways to tap into the tourist market, which few dinner-oriented restaurants appear to have done.

Ways in which the Chestnut Street restaurant district may better capitalize on the available and expanding market opportunities are explored in greater detail in Section VIII-C.

c. Retail Stores North of Market Street

The retail stores and service establishments located north of Market Street (other than those located within a few doors of Market St. which are really a part of the Market Street Retail District) are, in general, made up of three groups of businesses.

A few consumer-oriented businesses have established a sufficient niche in the marketplace so that their customers will travel to their place of business. These may be defined as free-standing businesses (e.g., Rosenfeld Gallery and Di Nardos). Some businesses depend on a flow of pedestrian traffic from which they hope to capture some share (e.g., gift shops, snack shops, etc.). Others serve quite local clientele, hence may be defined as neighborhood shops (e.g., Colonial Grocery, barber shops, etc.).

The problems, prospects and potentials for each group are somewhat different.

1) Free-standing businesses

The free-standing businesses are relatively satisfied with their locations. If they were not, they are in a position to move to more suitable locations. As Old City begins to "come back" (with or without intervention programs), one can expect to see new shops begin to lease the available first floor spaces. To the extent the entrepreneurs understand their own businesses and markets, the free-standing type businesses should do well. Any improvements in Old City can only enhance their choice of locations.

By the same token, the lack of success of specified businesses of this type will reflect the entrepreneur's management problem of "reading" or serving his elected target market, rather than the resurgence of Old City <u>per se</u>.

2) Pedestrian-oriented businesses

This analysis suggests that a number of the weaker stores and shops located north of Market Street are those normally dependent on a fair volume of pedestrian traffic. Some of these, apparently, were opened on the faith of a heavy bicentennial pedestrian volume

TABLE VII-1

Summary of Potential Market Opportunity for Neighborhood Stores ($1,000)

Col. 1 Tenants Most Frequently Found in Neighborhood Centers	Col. 2 Estimated Volume of Purchases by Old City Residents: Current	Level: I	II	III	Col. 3 Est. Vol. Existing Stores (Current)	Col. 4 Estimated Unsatisfied Demand: Current	Level: I	II	III	Col. 5 Suggested Potential Store Market Opportunity: No. Stores	Sq. Ft.	Est. Volume (1976 Dollars)
Households	199	400	500	700								
1. Beauty shop	$ 10	$ 20	$ 28	$ 35	$ 100	-	-	-	-	-	-	-
2. Food store	400	800	1100	1500	100	300	700	1000	1400	1	2800	$370
3. Medical/dental	(did not calculate)											
4. Drug	53	110	150	200	+200	-	-	-	-	-	-	-
5. Cleaner/dyers	(did not calculate)											
6. Barber shop	3	7	9	12	125	-	-	-	-	-	-	-
7. Ladies wear	42	88	120	160	+160	-	-	-	-	-	-	-
8. Restaurant	114	237	325	440	+440	-	-	-	-	-	-	-
9. Real estate	(did not calculate)											
10. Cards/gifts	5	12	16	21	+21	-	-	-	-	-	-	-
11. Coin laundry	3	7	9	12	-	3	7	9	12	1	1000	12 (marginal
12. Liquor	58	119	164	221						(store at 5th. & Delancey)		
13. Bank	(did not calculate)									(bank at 2nd. & Chestnut)		
14. Variety store	31	65	89	121	150+					(lines covered several stores		
15. Ladies specialty	(did not calculate)											
16. Hardware	11	23	32	44	+44	-	-	-	-	-	-	-

Notes:
1. Certain types of operations not calculated (mostly services) inasmuch as they did not relate specifically to an Old City neighborhood shopping district.
2. Other types of operations considered not critical because stores available nearby.
3. Precise estimates of sales volumes for certain stores not calculated (Col. 3) when that volume was obviously well in excess of volume generated by Old City residents. This action stems largely from stores with mixed merchandise lines and some which operate both as retail and wholesale.

(e.g., snack, gift and souvenir shops). The businesses do not match the current available market opportunity.

This situation appears to have resulted from one or more of several factors: (a) an exaggerated view of how far people will walk to their shop from a mainstream of pedestrian traffic flow, (b) a misreading of the buying potential from a particular flow of traffic, and/or (c) a misreading of the store's ability to capture a sufficient volume of business from traffic flow.

Economic health seems remote for those businesses north of Market St. whose success depends on a reasonable volume of pedestrian traffic. The high turnover among this group of entrepreneurs seems to reflect more the lack of a deep understanding of the market requirements of their particular businesses (and perhaps other aspects of their businesses) than location. Their plight is more of a business problem than an Old City market problem. Although any significant improvement program in Old City may well generate increasing levels of pedestrians north of Market St., it is unlikely that traffic volume will increase soon enough to shore up weak sales volumes in the near future.

3) Neighborhood shops

The sales levels of some long-tenured neighborhood shops have eroded over the years as their particular trading areas have lost residents and employees. Some of these may go out of business (at these locations) as they are unable, or unwilling, to subsist on the diminished market. Others may continue to hang on because they have no real alternative or because they are willing to bank on the economic benefits of the revitalization process. Few of these businesses are really satisfied with their current situations.

Prospects for the several neighborhood-oriented shops and service establishments depend on the pace at which new residents and businesses fill available rehabilitated spaces. While the long-term future looks bright, the pace may be too slow to suit the needs of these businesses.

Inasmuch as improvement actions in Old City are likely to continue to attract new residents into the area, it is appropriate to assess the current, and possible future, need for neighborhood retail and service shops to support these residents. That analysis is presented in tabular form in Table VII-1.

Column 1 shows, in rank order, the types of stores most frequently found in neighborhood shopping centers. Such rank order also serves as an apt priority list for considering Old City's neighborhood store needs.

Column 2 shows the purchase volume for each store type currently and for three levels of potential residential growth.

Column 3 indicates those store types now found in Old City whose aggregate volume meets or exceeds the neighborhood's market "demand."

Column 4 identifies the types of stores for which there is an apparent market opportunity in excess of the present inventory of stores.

Column 5 offers descriptions of the size and estimated sales volumes for the needed stores in view of a reasonable capture rate of the available market.

This analysis indicates that although there is a current need for a mini-market in Old City, a potential entrepreneur may not wish to undertake the investment until the Old City population reaches Level II (e.g., a residential population of 500-600 households, or some 1,300+ residents). This analysis also suggests there may be a modest need for a coin operated laundry. That need is likely to remain quite marginal. Because of the size of many of the apartments and the professional character of its residents, the actual potential may be somewhat larger than these estimates suggest. Most other basic neighborhood retail and service needs appear served. At the same time, there may be opportunity for selected new stores and/or shops which may be in a position to serve better the new residents than some of the existing operations (e.g., beauty shops, barber shops, etc.). But these opportunities depend more on tastes than on absolute needs.

4. City-Oriented Service Firms

a. Satisfaction with Present Locations

Despite the heterogeneity of this group of 54 firms, they are generally satisfied with their Old City locations. For some (e.g., printers and printing industry related firms), their long tenure, low rent, and proximity to suppliers and direct customers were major reasons for this satisfaction. For others (e.g., advertising agencies, architects, public relations firms, consulting firms, etc.), low rent and size of space were important reasons for their satisfaction. Of course, the proximity to Center City customers was the main reason for the firms in this group wanting to be located in a low rent area within a few blocks (or short subway ride) of Center City.

Several of the latter group of firms had interests in Old City beyond their service firm activities. Some live in the area; others have acquired their own building space; still others are involved in development activities. In other words, many of this latter group have multiple interests in Old City, hence are not merely "run-of-the-mill" service firms.

b. Prospects

A comparison of these firms with their counterparts located elsewhere in the City suggests they tend to be quite average; in other words, they are not any more marginal than other similar firms. Some of the smaller and older printing firms may feel the pinch of higher rents as property values increase, but on the whole, they appear to be fairly viable.

c. Potentials

1) Selected services

As Old City becomes a more attractive place to live and work, the area can expect to attract a growing number of firms that need convenient access to their Center City customers but prefer smaller spaces and lower rents. Two observations help to illustrate the point.

A review of the distribution of advertising agencies buying space in the Philadelphia Yellow Pages (an indication of interest in serving City clients), shows that:

--close to half (46%) are located in the high-rise core of Center City.
--one-fourth (25%) are located outside but within a 10-block radius of this core.
--the remaining firms are located elsewhere in the City (18%) or in suburban communities (11%).

Reviews of the distribution of other Center City oriented firms (e.g., graphics, design, consultants, etc.) show similar distributions. There appears to be many such Center City oriented service firms that prefer nearby low-rise, lower rent satellite neighborhoods rather than the high-rise core itself.

A review of the types of firms now occupying the recently redeveloped area of Independence Mall and Society Hill indicates that:

--70-100 Center City oriented firms now are located in the Independence Mall and Society Hill areas. These firms encompass advertising, consultants, building service, security, graphics, computer, accounting, etc.

There is ample evidence pointing to the existence of a potential market for office-type space for service-oriented firms serving Center City clientele. Also, there is evidence to indicate that as such space has become available through development activities, such firms have shown interest through their location decisions.

The analysis suggests that the space modules that can be developed and made available to this potential market are consistent with their needs. These firms typically use space modules ranging from 1,500 to 5,000 s.f.

2) Printers

Despite the fact that Old City offers printers locational advantages similar to those of the service firms discussed above, the stability of these firms with respect to location and relocation suggests that there are not many firms that would decide to take advantage of Old City's opportunities. If development activities elsewhere in the City involve the relocation of such firms, there would be opportunity to establish a printer and graphics center in Old City. The North Bridge area would be especially suitable for developing such a center.

5. Other Businesses and Activities

Any discussion of prospects and potentials of this heterogeneous assortment of firms and activities must really focus on each of the component groupings.

a. Manufacturing Firms

1) Satisfaction with present location

As with the wholesalers previously discussed, these firms appreciate the low rents for suitable space in a neighborhood that is accessible to their markets, and/or suppliers. While a number of the manufacturing operations use, essentially, warehouse-type space, some have special requirements. Such firms have found the requisite space in Old City.

2) Prospects

Although most of these firms appear fairly viable, a few are quite marginal. Under normal conditions in this area, the bulk of these firms is likely to continue at about present levels slowly shrinking as a result of attrition.

3) Potentials

This analysis suggests the following response to development activities in Old City:

--The Consultants do not perceive any development program that would cause any resurgence of this area as a place for manufacturers to locate.

--A few of the marginal firms may well find it easier to close their doors or move as real estate values increase as part of the area's renewal.

--As was found among the majority of the wholesale-type firms, these businesses would be willing to move as part of any significant development program, under the condition that they would not incur costs. Finding suitable space for some of these firms could be a substantial problem.

b. Textile Piece Goods

In most respects, the opinions of these firms follow those of the access-oriented wholesalers.

B. RESIDENTS

In order to estimate the number of households (families and individuals) likely to move into Old City over the ensuing 5 to 10 years, it is necessary to understand some of the more important factors likely to attract, or to deter, such residency decisions. The fairly recent resurgence in Center City (and near Center City) living stems from numerous factors:

-- The skyrocketing costs to purchase or rent housing in most suburban communities is forcing young families and older families of modest means to look hard for housing they can afford. Some are able to find homes in outlying areas beyond the suburbs. Others are looking seriously at older homes in acceptable City neighborhoods.

-- An increasing number of families are choosing not to have children, thus do not feel the pressure for living in areas with schools.

-- The increasing number of divorced persons and later marriages mean that larger numbers of single persons are in the market for homes and apartments.

-- A growing number of persons appear to be disinclined to subject themselves to the hassle and costs of commuting, either by automobile or public transit.

-- The shift in the Center City work force to service-type jobs is adding to the number of professionals (e.g., educational, medical, technical, and service-oriented firms) working in the Center City area.

-- Acceptable Center City living alternatives are becoming available, triggered by redevelopment activities during the 1950s and 1960s.

-- Families who may have been expected to join the migration to the suburbs are now beginning to choose to remain in the City, especially if they do not have school age children.

-- City neighborhoods are beginning to form so that individuals who choose Center City living can also choose to move into a neighborhood of households with similar interests, and not be faced with moving into an isolated townhouse or apartment.

1. Volumetric Trend

Inasmuch as the renewed interest in Center City living stems from a variety of factors, reaches across traditional demographic classifications, and encompasses the amorphous characteristic commonly referred to as "life style," attempts to quantify the trend toward Center City living are frustrating, to say the least. Moreover, much of these recent trends, especially in the areas that relate to this analysis, have occurred since the 1970 Census of Population and Housing. To gain some insight into the number of "new" households who have taken up residence in Center City, the Consultants contacted both Bell of Pennsylvania and the Philadelphia Electric Company. Both organizations were most cooperative in providing data.

Based upon this analysis, it is estimated that about 1,000 new (additional) households are occupying Center City residential units annually. This estimate encompasses households living in Bell's three Center City exchanges (i.e., Market, Locust and Pennypacker). This is the area generally bounded by Spring Garden (west of Broad) and Girard (east of Broad) to the north; Federal Street (west of Broad) and Catherine Street (east of Broad) to the south; and between the Schuylkill and Delaware Rivers. This estimate was obtained by applying the net growth rate in residential telephones (new telephones) since 1969 to the number of homes in that same area in 1970 (U.S. Census of Population and Housing).

Expressed as a growth rate, these data indicate that residential units have been occupied at the rate of about 2.2% per year (net increase) in this area.

About 40% of these new households (added residential units) have been in the Market Exchange. This is the area that includes Society Hill, Old City, Queens Village, Washington West, and part of Northern Liberties.

Bell's forecast of added residential telephones in this area suggests the Company sees the trends since 1970 to continue at substantially the same rate. That forecast is based upon extrapolation of past trends modified by information of new developments as they occur. Thus, that forecase is subject to change as developments occur or taper off. Thus, it appears that new and rehabilitated residential units will continue to be absorbed at a rate close of 1,000 units per year, Center City wide. The absorption rate for individual neighborhoods, including Old City, will depend on the net effect of the impact of a myriad of factors. None of these is easy to forecast in quantitative terms.

2. Size of Neighborhoods

For persons and households considering a move to Old City, there are several neighborhood alternatives. These include Old City, Society Hill, Washington West, Queens Village, Fairmount and perhaps Northern Liberties. According to the 1970 Census, Washington West is the largest; Old City the smallest.

Population and Number of Households of Selected Neighborhoods (1970)

Neighborhood	Population	Households
Old City	155	87
Society Hill	2,377	1,302
Queens Village	2,661	1,286
Washington West	7,307	4,766
Fairmount	5,804	2,670

This indicates that for persons seeking "established" neighborhoods, one may be expected to look first at other neighborhoods than Old City. But interviews with Old City residents pointed to the fact that many of its residents like Old City's "tiny" neighborhood feeling.

These data help to explain (in quantitative terms) the interest in Queens Village in the early 1970's and the mounting interest in the Fairmount section for those who cannot afford to pay Society Hill rents but wish to live in Center City. Although similar data were not tabulated or estimated for Northern Liberties, it is considered by many to be the next area to receive development attention.

Inspection of the 1970 data for Old City suggests that the Census data overstate the median rent levels at that time. This is due to the small number of properties in the area and a probable bias caused by the Elfreth's Alley homes. Nevertheless, the data do tend to provide evidence for interest in Old City as a place to live by those looking for Center City residences and unable to pay higher rents elsewhere.

3. Neighborhood Rent Levels

More clues on the potential market for residential units in Old City can be found in an analysis of neighborhood rent levels. An analysis of 1970 Census data indicates that Society Hill exhibited the highest rent levels while Queens Village had the lowest.

Median Rent Levels for Selected Neighborhoods

Neighborhoods	Med. rent per unit	Med. rent per room	Comparison w/Old City
Old City	$110/mo.	$42/mo.	100 (base)
Society Hill	209	65	155
Queens Village	66	17	40
Washington West	159	50	119
Fairmount	85	27	64

While precisely comparable data could not be developed for 1977, the following data are useful:

Rental Ranges in Selected Neighborhoods (1977)

Neighborhood Type of Unit	Med. rent per unit	Utilities included
Old City		
Min. Rehab. lofts	150-225	water
Good Rehab. lofts	275-325	water
Society Hill		
Townhouse (3 bd. + den)	500-750	heat, light, water
Townhouse (3 bd.)	400-500	heat, light, water
Apt. (1 bd. good)	225-250	heat
Apt. (1 bd. exc.)	275-325	
Queens Village		
Non Rehab. (2 bd.)	170-200	
Rehab.	250-275	
Fairmount		
Apt. (2 bd. modernized)	350	
Eff. (modernized)	185	
Non-modernized	80-100	

4. Profile of Rents in Old City

As discussed previously, the Old City rental market currently is primarily a large space, low-to-moderate rent market. Only about one-fourth of the units may be regarded as conventional size units at moderate rent levels. A very small proportion may be described as moderate-to-high priced units.

In other words, relatively few of Old City's present inventory of rental units may be considered as "competitive" with units offered elsewhere in the Center City area measured on price alone. In many respects, the rental market is a rather unique market that has catered to a rather unique group of residents. The only common denominator is that rent levels in Old City are modest compared with those in the other Center City neighborhoods. When size of units is factored into the comparison, rental rates are even more favorable (i.e., lower in Old City).

5. Observations on Old City's Potential

It appears that Old City stands at a crossroads. The influx of residents during the past several years have been pioneers. Except for the older neighborhoods (e.g., Elfreth's Alley, Lawrence St., and Loxley Court), most have moved into former warehouse space and converted them to loft living space. The arts-oriented residents found the large spaces at low rents to their liking. Venturous young professionals also found the lofts and other low-rent apartments suitable to their tastes and budgets.

The analysis indicates that many of the economical-to-convert spaces already have been developed. The (many) remaining spaces will cost more to develop, which will be compounded by ever-climbing construction and utility costs. At the same time, not enough residential development has taken place in Old City to render much of the area immediately attractive to those able to pay higher rents (such as asked in Society Hill and Washington West). That will take some time. Moreover, while most current residents are amenable to more individuals and couples moving into the area, they do not want to see it turned into a sterile upper income neighborhood. They do not want it to become an extension of Society Hill. The artists are especially concerned that uncontrolled or unmanaged residential developments in Old City could drive up rental rates to levels they cannot afford, thus "pushing out" many of those who consider themselves to be the new City pioneers.

6. Estimated Market Opportunity

Ideally, one would like to be in a position to prepare a "demand schedule" that indicates the number of residential units that can be absorbed in Old City at different rental rates (and sales prices for owned homes) over some period of time. Moreover, one would like to have sufficient documentation to show how these absorption rates derive from performance over previous time periods and in context with nearby neighborhoods and other comparable areas. Unfortunately, the small size, heterogeneous nature, and unique qualities of the area and its residents, as well as the crossroads nature of Old City, make such an extrapolation approach virtually impossible. It is possible, however, to point out certain indicators of maximum (and minimum) numbers of different types of residential units that may be marketable under different development conditions over some reasonable period of time.

As a starting point, one may observe that an analysis of the properties in Old City suggests that, physically, some 600 residential units can be constructed or converted from warehouse-type space while maintaining the general character of Old City; that is, without converting it into a totally residential community, which few really desire. Thus, the residence forecast problem may be defined as determining the extent to which the market can absorb these 600 or so units over a reasonable period of time, say, 5 years. The number by type of unit that appears likely to be absorbed by the market under three development levels is shown in Table VII-2.

-- Level I: Little or no development, other than the optimism that may now exist as a result of current development activities including the I-95 highway program and Penn's Landing.

-- Level II: A modest development program that could include improved traffic conditions, parking, and facade improvements on a few of the buildings.

-- Level III: A more intensive development program that could include a substantial facade improvement program, substantial parking improvement, construction and rehabilitation of some buildings.

The recommended development program will be discussed later in this report. The issue here is merely to point out that expected differences in the residential absorption rate will depend on different levels of development activity in Old City.

Results of this analysis are summarized in Table VII-2. The rationale is discussed below:

-- The market for large, low-to-medium rent apartments appears likely to continue growing at current rates even if no formal development program occurs in Old City. Under a strong development program, that market opportunity can be expected to grow, but rehabilitation could outpace easily the renter market. In other words, the actual growth of this particular market depends, in large measure, on the continued health of the arts-oriented community. If construction costs and speculation grow at such a rate as to make it impossible to continue producing low-rent conversions, this market could be forced out of the area. Indications are that such a movement has already been precipitated.

-- The market for small, low-to-medium rent apartments can be expected to continue at a modest rate if such units are available but no formal development program occurs. With stepped-up development activities, this potential market can be expected to expand as an increasing number of young professionals find Old City a convenient place to live (accessible by subway to Center City and other points where they may work).

-- The market for "conventional" sized apartments (750-1,250 s.f.) renting in the $275-$375 range appears on the verge of a major expansion. More young professionals are finding Old City a good place to live. A stepped-up level of development can be expected to enhance this attraction.

-- The market for higher-priced ($375+/mo.) is quite small at this time. However, under a development program, an increasing number of persons can be expected to find this area an attractive neighborhood for

TABLE VII-2

Estimated Market Opportunity for Residential Units in Old City by Selected Types of Units

Type of Units	Present Inventory	New Units by 1981 Level I	Level II	Level III
Total Residential Units	199	213	374	574
Rental Units:				
Rent for less than $275, less than $.17/s.f./mo. 1,250+ s.f.	44	44	80	80
Rent for $275+ per month, at $.17-$.33/s.f./mo. 1,250+ s.f	30	30	60	60
Rent for under $200/mo., less than $.33/s.f./mo., less than 1,250 s.f.	20	30	60	100
Rent for $200-$374/mo., at $.17-$.33/s.f./mo. 750-1,249 s.f.	34	60	100	150
Rent for $375+ per month, more than $.33/s.f./mo., less than 1,250 s.f.	9	10	20	80
Owned Units (Rent Equiv.)				
Rentable for $375+/mo., at $.33+/s.f./mo. 1,000-1,500 s.f.	24	24	36	72
Rentable for under $275, at under $.33/s.f./mo.,	11	11	18	18
Rentable for $275-$374, at under $.33/s.f./mo.	4	4	8	10

higher-priced (perhaps even luxury) apartments, especially in small quaint neighborhoods near the river.

-- The market for owner-occupied residences (townhouses) appears ripe to grow. The recent approval of 18 townhouses at Elfreth's Alley may be a signal for an emerging market for new residential construction.

-- The market for more modest priced owner-occupied units appears likely to be limited to entrepreneurs who may build (convert) apartment units; then live in one of those units.

7. Market Dynamics

As one observes the market opportunity for apartments (and for-sale homes) cast in the context of the potential supply mechanism and potential development activities, the conflict between market opportunities and market constraints stands in bold relief. These conflicts point sharply to the extremely sensitive nature of the price/quality/quantity relationships of the future residential market in Old City.

-- The Consultants perceive a fairly modest and stable demand for apartments (especially loft apartments) priced under $275/month. This market is made up largely of arts-oriented persons with quite modest incomes who have established a community of artists in Old City and who are interested in remaining here. Already, increasing tax rates and construction costs are threatening this apartment market. Under any stepped-up development activity, the threat becomes most serious. If the City is to continue to serve this market, it appears necessary to seek ways to provide for modest-priced apartments, a result that has never been accomplished in areas which have gone through major redevelopment activities.

-- The market for apartments priced in the $275-$375/month range is somewhat more elastic (i.e., the demand diminishes with higher rent). While a significant group of potential households may well "prefer" Old City for many reasons, they can be expected to evaluate its conditions (state of repair or disrepair) and prices. This group is more likely to make decisions relative to Washington West, Society Hill, and other viable neighborhoods. As development activities begin to produce results (e.g., Penn's Landing, New Market, Chestnut St., etc.), Old City can expect to attract an increasing proportion of this market. If rental rates climb too fast, however, potential tenants will be forced to consider seriously other neighborhoods that are more within their means.

-- In many respects, the market for higher-priced apartments can be expected to follow the market for modest-priced apartments. Proximity to the river and the emerging riverfront activities will stimulate this market. One of the major problems facing this area is that speculators perceiving the opportunity for high-priced apartments could drive up the prices of land and buildings before the market is ready to absorb such units. If this happens, it could serve to spoil the residential market for everyone. That is, it could force out the market for lower-priced apartments but the area could well be premature for those persons potentially interested in luxury-priced apartments. Such a result could well cause the area to become stagnant with high vacancy rates.

-- The market for owner-occupied residences (especially townhouses) is very much like the high-priced apartment market. The lack of cleared land with good views may help to temper this market so that it doesn't move too fast.

C. PHYSICAL

From the preceding descriptions in Section V-D of each of the 21 sub-areas, it is clear that the development potential of any individual structure is uniquely shaped by the confluence of several interrelated factors: size, configuration, condition, ownership, location, adjoining activities and architectural character. As there is a wide range of latitude for each of these dimensions in Old City, it is extremely difficult to generalize about the typical development potential of any one structure. The existence of a market for the type of space which can be developed in the structure is probably the major determinant of a project's feasibility. Section VIII discusses the potential for each of the sub-markets which probably would locate in Old City. The structures' physical form acts as a screen to limit the activities which could be accommodated in the present space. For example, small colonial structures reasonably can house only single family residences while larger Victorian commercial structures can accommodate apartments, office use or wholesaling. To decide among the possible reuses, one must analyze each particular structure within the constraints of the Housing and Building Codes, the differential costs of rehab for each and the rent market strength for each use at that location. Section VI-E describes the influence of each of these factors on the project's profitability. At present, the development potential of various areas is being thwarted by speculation which has driven prices in certain sub-areas beyond what is feasible for normal development. Section VII-D describes the present and probable future real estate trends.

Development potential is further complicated by Old City's present ownership pattern of many small holdings. The only exception being one corporation which has a large consolidated group of properties occupying a tenth of Old City's area. Although there are several properties which are suitable for rehabilitation, the majority, in and of themselves, are marginal to rehabilitate because of their relatively small size.

D. REAL ESTATE

1. Overview

This analysis points to three critical real estate oriented problems in Old City.

a. Wide Divergence in Property Values

Current estimated market values (MV/s.f.) range from an average of $35.84/s.f. along Elfreth's Alley down to only $3.66/s.f. for the properties in the North Bridge sector (see Table VII-3). In view of such a wide range, it is clear that any substantial upward movement of property values (with attendant upward movement of rents and taxes) stands to have a severely disruptive effect on many current uses. Moreover, such discrepancies serve as a strong invitation to speculators to precipitate such an upward movement.

b. Wide Divergence in Market Value Increases

The average annual increase in market values during the period 1970-1976 ranges from a high of 28.8% per year for the properties along Chestnut St. down to only 1.8% per year for the properties in the North Bridge sector (see Table VII-4). The fact that some sectors are exhibiting strong annual increases shows, in quantitative terms, how rapidly market values are increasing in certain areas of Old City. The more modest rate increases in other areas point to the potential for the current speculative market to spread, with its propensity for disruption of many current uses.

c. Strong Price Pressure vs. High Vacancies

The most critical problem is that these strong upward price pressures exist in the midst of high vacancy rates. This fact carries at least two serious implications.

Real estate investors (speculators?) attracted by strong upward price movement will be encouraged to seek out uses for the vacant building spaces. Such potential uses may relate to other comparable uses elsewhere in Old City; comparable uses elsewhere in the downtown area (e.g., Society Hill or New Market); or uses that relate to the emergent riverfront area, none of which may relate to current uses of nearby properties. Such uncontrolled or undirected speculation can have a serious disruptive effect on many current uses, some of which have contributed to Old City's present character (e.g., wholesaling and loft apartments).

High vacancy rates in most of the 21 geographic sectors analyzed (irrespective of either high current market values or high annual

TABLE VII-3

Current Market Values vs. Occupancy Rate by Geographic Area

Area No.	Description	Current Market Value $/s.f. 1975-77	Quartiles	Occupancy Rate of Building Spac Quartiles: First	Second	Third	Fourth
15.	Elfreth's Alley	$35.84	First	98%			
21.	Loxley Court	35.61		100			
10.	So. Front St.	17.77					39%
9.	Walnut St.	14.75				70%	
6.	So. 3rd. St.	14.17				68	
5.	Chestnut St.	12.87	Second			67	
4.	Market St.	12.44				65	
8.	So. 2nd. St.	11.87					43
2.	1-99 No. 2nd. St.	10.70		80			
17.	Arch St.	8.80			74%		
3.	100 No. 2nd. St.	7.30		85			
13.	1-99 Cuthbert/Church St.	6.41	Third	84			
1.	No. 3rd. St.	6.35			78		
18.	Race St.	6.16			79		
19.	Lawrence St.	6.13			79		
11.	No. Front St.	5.92		81			
16.	Bread St.	5.74	Fourth			62	
7.	Strawberry/Bank St.	5.64					53
14.	100 Cuthbert/Church St.	5.05					27
12.	So. Letitia St.	4.33					57
20	No. Bridge	3.66			79		
	Total (mean)	9.18					
	(median)	7.30				70%	

TABLE VII-4

Annual Percent Increase vs. Occupancy Rates by Geographic Area

Area No.	Description	Annual Percent Increase Pct. 1970-76	Quartiles	Occupancy Rate of Building Spac (Pct. Occupied by Quartiles) First	Second	Third	Fourth
5.	Chestnut St.	28.8%	First			67%	
11.	No. Front St.	20.1		81%			
18.	Race St.	19.8			79%		
15.	Elfreth's Alley	16.8		98			
10.	So. Front St.	16.3					39%
3.	100 No. 2nd. St.	14.9	Second	85			
2.	1-99 No. 2nd. St.	14.9		80			
17.	Arch St.	14.9			74		
9.	Walnut St.	11.0				70	
6.	So. 3rd. St.	11.0				68	
8.	So. 2nd. St.	11.0					43
21.	Loxley Court	10.5	Third	100			
16.	Bread St.	8.3				62	
7.	Strawberry/Bank	5.8					53
12.	So. Letitia St.	5.2					57
14.	100 Cuthbert/Church St.	5.2					27
13.	1-99 Cuthbert/Church St.	5.1	Fourth	84			
1.	No. 3rd. St.	4.3			78		
4.	Market St.	4.3				65	
20.	No. Bridge	1.8			79		
19.	Lawrence	?			79		
	Total (mean)	9.6					
	(median)	11.0				70%	

increases in property values) point to the face that strong market uses have NOT been found. Continued speculative increases in property values could well have the near- and mid-term effect of stepping up rather than diminishing the vacancy rates if strong markets are not found. This latter problem is further underlined by the high turnover of many businesses, mute evidence that strong markets have not been found in many instances.

2. Prospects

Future trends in the market values of real estate are likely to be quite sensitive to development activities and to speculator actions. It is impossible merely to deal with the question: "What will be the trend in real estate prices?" The answer depends on too many factors, some external; some internal.

To deal with the issue of likely future performance of real estate prices, the Consultants forecasted market values under three levels of potential development activity.

-- Level I: Little or no development activity, other than the optimism that may now exist as a result of current development activities including the I-95 highway program and Penn's Landing

-- Level II: A modest intervention development program that could include improved traffic conditions, parking, and facade improvements on a few of the buildings.

-- Level III: A more intensive development program that could include a substantial facade improvement program, substantial parking improvement, and construction and rehabilitation of several selected buildings to set the pace for overall development.

The issue here is to point out the fact that expected differences in the likely future market value of properties will depend on different levels of development activity (private and/or public) in Old City. Results of this analysis are summarized in Tables VII-5, 6, and 7.

TABLE VII-5

Estimated Market Value of Properties (1976-81)
Level I: No Intervention

Geo. Areas	Description	No. Prop.	Annual Pct. Increase 69-77	Annual Pct. Increase 76-81	Estimated Market Value per sq. ft. 1969-71	1972-74	1975-77	1977-81
1.	No. 3rd. St.	98	4.3%	4.3%	$ 4.90	$ 2.74	$ 6.35	$ 7.81
2.	1-99 No. 2nd. St.	34	14.9	14.9	4.63	5.75	10.70	21.45
3.	100 No. 2nd. St.	51	14.9	6.0	2.10	3.97	7.38	9.77
4.	Market St.	80	4.3	4.3	9.64	10.55	12.44	15.36
5.	Chestnut St.	50	28.8	20.0	2.81	6.75	12.87	32.02
6.	So. 3rd. St.	25	11.0	11.0	7.57	10.20	14.17	22.82
7.	Strawberry/Bank	40	5.8	20.0	4.02	5.64	5.64	14.03
8.	So. 2nd. St.	44	11.0	14.9	6.34	8.54	11.87	23.77
9.	Walnut St.	17	11.0	10.0	7.87	10.61	14.75	23.75
10.	So. Front St.	33	16.3	14.9	7.19	19.01	17.77	35.59
11.	No. Front St.	27	20.1	5.2	1.97	4.52	5.92	7.62
12.	So. Letitia St.	8	5.2	5.2	3.20	1.97	4.33	5.58
13.	100 Cuthbert/Church	25	5.1	10.0	4.74	2.92	6.41	10.32
14.	200 Cuthbert/Church	26	5.2	26.0	3.72	2.29	5.05	16.04
15.	Elfreth's Alley	38	16.8	10.0	14.09	16.34	35.84	57.72
16.	Bread St.	44	8.3	8.3	3.55	3.38	5.74	8.55
17.	Arch St.	61	14.9	14.9	3.83	4.75	8.80	17.63
18.	Race St.	53	19.8	14.9	2.68	3.31	6.16	12.34
19.	Lawrence St.	38	-	10.0	-	2.41	6.13	9.87
20.	North Bridge	129	1.8	1.8	3.29	2.58	3.66	4.00
21.	Loxley Court	7						
	Total Area	928	9.6	10.0	5.28	5.75	9.18	16.61

Geo. Areas	Rationale for Likely Performance of Market Value by 1981
1.	Continue at area's 6-yr. rate (if insulated to protect from speculative loft housing conversions or other non-wholesale uses)
2.	Continue at area's 6-yr. rate (market values will move into line with values along Market and Chestnut Streets)
3.	Continue at level of City as a whole (if maintained as wholesale area and modest residential loft developments)
4.	Continue at area's 6-yr. rate (assuming continuing same general character of retail district)
5.	Past rate increases will temper somewhat but will become one of Old City's premier areas.
6.	Continue at area's 6-yr. rate (will be slightly lower than values on Chestnut St.)
7.	Continue at area's 6-yr. rate.
8.	Will move at stepped-up rate reflecting the influence of the proposed motor hotel, City parking garage, etc.
9.	Will move into a par with So. 2nd. St.
10.	Will temper from past speculative rates -- but will command a premium because of riverfront location and view.
11.	Continue at Area #13's 6-yr. rate.
12.	Continue at area's 6-yr. rate.
13.	Will move at rate of Old City as a whole (influence of Girard Trust's desire to develop area
14.	Will move at rate of Old City as a whole.
15.	Will move at same rate as Old City as a whole (after speculative increase of recent years)
16.	Continue at 6-yr. rate.
17.	Continue at area's 6-yr. rate.
18.	Will move at same rate as Arch St.
19.	Will move at same rate as Old City as a whole.
20.	Continue at area's 6-yr. rate
21.	

TABLE VII-6

Estimated Market Value of Properties (1976-81)
Level II: Some Intervention

Geo. Areas	Description	No. Prop.	Annual Pct. Increase 69-77	77-81	Estimated Mkt. Value per Sq. Ft. 1969-71	1972-74	1975-77	1977-81	Geo. Areas	Rationale for Likely Performance of Market Values by 1981
1.	No. 3rd. St.	98	4.3%	6.0%	$ 5.90	$ 2.74	$ 6.35	$ 8.59	1.	Will move at slightly higher rate -- reflecting improved parking/loading but still insulated to protect from other potential uses.
2.	1-99 No. 2nd. St.	34	14.9	20.0	4.63	5.75	10.70	26.63	2.	Will move at higher rate -- reflecting anticipated development of street, shift to retail uses, proximity to residential area.
3.	100 No. 2nd. St.	51	14.9	14.9	2.10	3.07	7.30	14.80	3.	Continue at area's 6-yr. rate -- reflecting action in block to South but with actions to insulate it to preserve wholesaling character.
4.	Market St.	80	4.3	6.0	9.64	10.55	12.44	16.65	4.	Will move at rate of City as a whole -- reflecting some improvements but continuing approximately same character as at present.
5.	Chestnut St.	50	28.8	20.0	2.81	6.75	12.87	32.02	5.	Will plateau a bit from past high rate increases.
6.	So. 3rd. St.	25	11.0	11.0	7.57	10.20	14.17	22.82	6.	Continue at area's 6-yr. rate.
7.	Strawberry/Bank	40	5.8	20.0	4.02	5.64	5.64	14.03	7.	Will move at accelerated rate -- reflecting increased values along Chestnut and areas to south -- but maintaining differential.
8.	So. 2nd. St.	44	11.0	14.9	6.34	8.54	11.87	23.77	8.	Will move at stepped-up pace -- reflecting planned development of hotel and City parking garage.
9.	Walnut St.	17	11.0	11.0	7.87	10.61	14.75	24.85	9.	Will move into line with So. 2nd. St. -- reflecting same pressures.
10.	So. Front St.	33	16.3	14.9	7.19	19.01	17.77	35.59	10.	Will move at slightly reduced rate compared with past few years.
11.	No. Front St.	27	20.1	30.0	1.97	4.52	5.92	21.98	11.	Will move at stepped-up rate -- reflecting residential developments along Front and the interior blocks.
12.	So. Letitia St.	8	5.2	20.0	3.20	1.97	4.35	10.77	12.	Will move at slightly stepped-up rate -- reflecting anticipated later development into commercial and/or residential.
13.	100 Cuthbert/Church	25	5.1	30.0	4.74	2.92	6.41	23.80	13.	Will move at stepped-up rate -- reflecting residential developments.
14.	200 Cuthbert/Church	26	5.2	30.0	3.72	2.29	5.05	18.67	14.	Will move at stepped-up rate -- reflecting development along Second St., the Girard development plans, and the parking garage.
15.	Elfreth's Alley	38	16.8	10.0	14.09	16.34	35.84	57.72	15.	Will continue at area's 6-yr. rate -- but tempered a bit by other new construction.
16.	Bread St.	44	8.3	15.0	3.55	3.38	5.74	11.15	16.	Will move at stepped-up rate -- reflecting stronger development of Old City area.
17.	Arch St.	61	14.9	23.0	3.83	4.75	8.80	24.77	17.	Will move at stepped-up rate -- reflecting more intensive residential development along length of street.
18.	Race St.	53	19.8	23.0	2.68	3.31	6.16	17.34	18.	Will move at stepped-up rate -- reflecting more intensive residential development.
19.	Lawrence St.	38	-	15.0	-	2.41	6.13	12.33	19.	Will move at rate reflecting stronger development of Old City as a whole.
20.	North Bridge	129	1.8	20.0	3.20	2.58	3.66	9.10	20.	Will move at stepped-up rate -- reflecting development to maintain sectors as wholesaling district (with new construction).
21.	Loxley Court	7							21.	
	Total Area	928	9.6		5.28	5.75	9.18	20.37		

TABLE VII-7

Estimated Market Value of Properties (1977-81)
Level III: Substantial Intervention

Geo. Areas	Description	No. Prop.	Annual Pct. Increase 69-77	Annual Pct. Increase 77-81	Estimated Mkt. Value per Sq. Ft. 1969-71	1972-74	1975-77	1977-81
1.	No. 3rd. St.	98	4.3%	10.0%	4.90	2.74	6.35	10.19
2.	1-99 No. 2nd. St.	34	14.9	23.0	4.63	5.75	10.70	30.12
3.	100 No. 2nd. St.	51	14.9	17.0	2.10	3.97	7.30	16.00
4.	Market St.	80	4.3	15.0	9.64	10.55	12.44	25.02
5.	Chestnut St.	50	28.8	23.0	2.81	6.75	12.87	36.83
6.	So. 3rd. St.	25	11.0	15.0	7.57	10.20	14.17	28.50
7.	Strawberry/Bank	40	5.8	30.0	4.02	5.64	5.64	20.94
8.	So. 2nd. St.	44	11.0	23.0	6.34	8.54	11.87	33.41
9.	Walnut St.	17	11.0	16.3	7.87	10.61	14.75	31.38
10.	So. Front St.	33	16.3	16.3	7.19	19.01	17.77	37.80
11.	No. Front St.	27	20.1	40.0	1.97	4.52	5.92	31.83
12.	So. Letitia St.	8	5.2	30.0	3.20	1.97	4.33	16.08
13.	100 Cuthbert/Church	25	5.1	30.0	4.74	2.92	6.41	23.80
14.	200 Cuthbert/Church	26	5.2	35.0	3.72	2.29	5.05	22.64
15.	Elfreth's Alley	38	16.8	10.0	14.09	16.34	35.84	57.72
16.	Bread St.	44	8.3	17.0	3.55	3.38	5.74	12.58
17.	Arch St.	61	14.9	23.0	3.83	4.75	8.80	24.77
18.	Race St.	53	19.8	23.0	2.68	3.31	6.16	17.34
19.	Lawrence St.	38	-	15.0	-	2.41	6.13	12.33
20.	North Bridge	129	1.8	25.0	3.29	2.58	3.66	11.17
21.	Loxley Court	7						
	Total Area	928	9.6		5.28	5.75	9.18	

Geo. Areas	Rationale for Likely Performance of Market Values by 1981
1.	Will move on par with Old City as a whole -- reflecting pressures from other developments despite attempts to insulate for wholesaling.
2.	Will move at higher rate -- reflecting more intensive development pressures.
3.	Will move at stepped-up rate reflecting residential developments at the north end of area.
4.	Reflects greater development pressure and strengthening of area as a retail district.
5.	Reflects more intensive development for office, retail, residential.
6.	Reflects stronger development of area for office, retail, residential.
7.	Reflects strong development -- while maintaining a slight differential with respect to Chestnut St.
8.	Reflects strong development pressure.
9.	Reflects stronger development pressure.
10.	Continue at 6-yr. rate for this area.
11.	Same as Level II.
12.	Reflects stronger development pressure.
13.	Same as for Level II.
14.	Reflects stronger development pressure resulting from Sugar Refinery residential program.
15.	Same as for Level II.
16.	Reflects stronger pressure -- including proximity to proposed garage.
17.	Same as for Level II.
18.	Same as for Level II.
19.	Same as for Level II.
20.	Reflects new construction for re-located businesses.
21.	

E. DEVELOPMENT FEASIBILITY

The continuance of rehabilitation activities depends upon the developer's ability to achieve a reasonable return for the efforts. The rate of return on cash invested is the normal yardstick for assessing the desirability of a real estate investment. This may be expressed in many ways: cash return to investment, after-tax return to investment, or I.R.O.R. (i.e., the return from the total cash flows received during the period owed, including the proceeds from final sales). Economic pro formas were developed for typical development projects to determine their probable rates of return. An economic pro forma is the method of relating the project's income and expenses to calculate the project's value and probable cash flows.

1. Sensitivity Analysis

The project at 54-60 N. 2nd St. was intensively analyzed to determine the effect that acquisition costs, rehabilitation expenses and rent levels had upon the project's expected after-tax return on investment. The analysis was prepared for 27 situations on which acquisition costs ranged from $4.80 to $7.10/s.f.; construction costs ranged from $9.50 to $13.50/s.f. and rents varied from $2.00 to $4.00/s.f. for commercial and from $200 to $350/month for apartments. These costs and rentals were derived from typical development projects experienced in Old City. This analysis shows that the project would:

-- not be viable at the lower rent levels for any combinations of acquisition and rehabilitation costs.

-- not be viable at the medium rent levels for projects having high rehabilitation costs.

-- would be viable to high rent levels for all tested combinations of acquisition and rehabilitation costs.

In fact, the project would suffer an actual out-of-pocket cash loss for most lower rent situations. Of the three factors varied, rent level had the greatest impact on return to investment. If rent levels increased by 20% (e.g., from $3.00/s.f. to $3.60/s.f.), the after tax rate of return would increase on the average by 40% (i.e., from 10% to 14%). The acquisition cost of the project had a less direct impact on the project's profitability. If the acquisition cost decreased by 25% (e.g., from $7.00/s.f. to $5.25/s.f.), the after tax rate of return would only increase on average by 12% (i.e., from 10% to 11.2%). The building renovation cost had a greater impact than the acquisition costs. This may stem from the fact that rehabilitation costs make up a greater proportion of the total project costs. If the rehabilitation costs were reduced by 40% (e.g., from $15.00/s.f. to $9.00/s.f.), the after tax rate of return would increase by 30% (i.e., from 10% to 13%).

TABLE VII-8 Project Cash Flows and After-Tax Rate of Return for Alternative Development Situations

	Low Rentals	Medium Rentals	High Rentals
low acquisition costs	+1841	+22,913	+44,002
low rehabilitation costs:	+7%	+14%	+21%
low acquisition costs:	-5491	+15,581	+36,670
medium rehabilitation costs:	n.a.	+11%	+17%
low acquisition costs:	-12,823	+8,249	+29,338
high rehabilitation costs:	n.a.	+9%	+14%
medium acquisition costs:	-2414	+18,658	+39,747
low rehabilitation costs:	n.a.	+12%	+18%
medium acquisition costs:	-9747	+11,325	+32414
medium rehabilitation costs:	n.a.	+10%	+15%
medium acquisition costs:	-17,078	+3,994	+25,083
high rehabilitation costs:	n.a.	+8%	+13%
high acquisition costs:	-6669	+14,403	+35,492
low rehabilitation costs:	n.a.	+11%	+16%
high acquisition costs:	-14,002	+7070	+28,159
medium rehabilitation costs:	n.a.	+8%	+14%
high acquisition costs:	-21,333	-261	+20,828
high rehabilitation costs:	n.a.	n.a.	+11%

<u>NOTES</u>:

low acquisition costs = $4.80/s.f.
medium acquisition costs = $6.00/s.f.
high acquisition costs = $7.10/s.f.

low rehabilitation costs = $9.50/s.f.
medium rehabilitation costs = $11.50/s.f.
high rehabilitation costs = $13.50/s.f.

low rentals = $2.00/s.f. for commercial space + $200/mo. for apartments
medium rentals = $3.00/s.f. for commercial space + $275/mo. for apartments
high rentals = $4.00/s.f. for commercial space + $350/mo. for apartments

assumes 50% tax bracket

The effect of these variables on the project's cash flow and after-tax rate of return is summarized in Table VII-8.

2. Impact of Economic Incentives

The feasibility of development varies considerably throughout Old City, for the rental market is uniquely tied to locational advantages. For example, the market for retail ground floor space is limited to a zone surrounding Market and Chestnut Sts. To the north of this zone it is difficult to rent ground floor space for retail sales shops. Development feasibility is also directly related to the physical configuration of the individual structure. The former shops along 2nd St. between Arch and Market Sts. now pose a difficult problem as their layout is not easily adaptable to present market demands. They typically have a large first floor area with three upper floors of small area. This configuration is the opposite of present market demands, which would prefer a large upper floor area for residential conversion with a relatively small first floor commercial area. Real estate values also vary considerably from location to location within Old City. Property values in the North Bridge area are in the \$2-\$4/s.f. range while properties along Front St. have sold for almost 5 times that amount. The existing building condition is another determinant in deriving the project's feasibility. The majority of Old City's structures, though not meticulously maintained, have been kept serviceable and watertight. There is a direct correlation between the building's condition and the past economic demand for its use. Structures housing viable activities (e.g., along Chestnut St.) have been well maintained, while those which are vacant or used by marginal businesses (e.g., Vine St. between 3rd and Front) are in disrepair and would be costly to rehabilitate.

Each structure and parcel in Old City was analyzed by these criteria:

-- the probability that its present use would move

-- its acquisition cost

-- its physical condition

-- the constraints on its reuse imposed by its configuration

-- its cost of rehabilitation

Though this is admittedly an imprecise way to measure the development feasibility of any one particular building, it does provide a method to gauge the overall development potential of Old City. This analysis identified approximately 180 properties which were potential candidates for rehabilitation, but 55% (100 properties) of these were determined to be infeasible at present because they could not generate sufficient return on investment. This is a consequence of several factors, but it is especially the weakness of the rental market to support rehabilitation in areas which have already experienced speculation. Several financial incentives were analyzed to determine if they could offset this trend. Economic pro formas were developed for two properties, 56-60 N. 2nd St. and 45 N. 2nd St., to analyze the impact of:

-- the Tax Reform Act of 1976

-- facade easements

-- facade easements combined with the Neighborhood Assistance Act

In this analysis it was assumed:

-- for the facade easement, that the owner could deduct the value of the facade easement from his income tax and that his real estate taxes could be reduced slightly by the theoretical reduction in his property's value.

-- for facade easements with the Neighborhood Assistance Act (NAA), that the gift of the facade easement and improvements to it would be certifiable under this program as a corporate income tax credit, and, for all incentives, that the facades would be significantly restored beyond that which would be allowed within normal development economics.

The building at 45 N. 2nd St. is a typical smaller structure which could be rehabilitated for 6 loft apartments with 1 first floor commercial space; 56-60 N. 2nd St. is a larger building which could be rehabilitated for about 33 loft apartments with 2 or 3 commercial spaces. In the normal situation, 56-60 N. 2nd St. would be marginally feasible while 45 N. 2nd St. would not produce sufficient return on investment to offset the risks of development. Smaller projects are inherently less profitable to rehab because of the fixed costs involved in the project. Approximately 60 of the 180 probable rehabilitation projects are in this size category. These smaller buildings need special economic incentive offered by the above mechanisms to bring about the rehabilitation of their vacant space.

The results of this analysis are summarized in Table VII-9. The Tax Reform Act (TRA) of 1976 has the greatest impact on the project's profitability. Although the cash rate of return is reduced slightly, it allows the after-tax returns to increase significantly for a 5 year period. In fact, it brings the small project in line with the larger project in terms of its profitability. The facade easement with NAA increases the after-tax rate of return but only for a one-year period. This suggests that this method may be influential in persuading a

TABLE VII-9

Comparison of Incentive Mechanisms:

	LOCATION: 45 N. 2nd Street	56-60 N. 2nd Street
Normal Situation:		
Cash Rate of Return	4%	8%
After Tax Rate of Return	5%	8%
Facade Easement:		
Cash Rate of Return	4%	8%
*After Tax Rate of Return	8%	10%
Facade Easement with N.A.A.		
Cash Rate of Return	4%	7%
*After Tax Rate of Return	19%	30%
Tax Reform Act of 1976		
Cash Rate of Return	3%	7%
**After Tax Rate of Return	12%	12%

*- one year only
** five year period

civic minded corporation to fix up its facade but would not be sufficient to induce rehabilitation by itself. The facade easement alone increases the after-tax rate of return by 40%, but, being only a one-shot single year increase, it is doubtful that it would induce many owners to rehabilitate their structures.

From this analysis, it appears that the TRA will have a significant impetus in transforming marginal projects into economically feasible projects. It is unclear at present as to whether this windfall tax gain will also bring about a new wave of speculation and drive real estate prices to a new plateau at which point these projects will once again be marginal. The impact upon smaller projects might not be as great as expected, since to recap the anticipated tax benefits, the investors must be in the higher tax brackets. The larger investors may not be interested in these smaller, more costly to operate projects. This situation suggests that new financing methods are required to provide smaller investors the opportunity to develop these smaller projects.

DEVELOPMENT OPPORTUNITIES VIII