PHILADELPHIA'S 10-YEAR PROPERTY TAX ABATEMENT

Updated statistics on the size, location and distribution of tax-abated properties in Philadelphia

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SUMMARY

- In 2000, Philadelphia implemented a tax abatement program for real estate that exempts the value of all improvements to real estate from taxation for 10 years following completion of their improvements.

- Since implementation, nearly 20,000 properties have taken advantage of this program by either being newly built or undergoing improvements/conversions.
  - There are currently 15,607 properties in Philadelphia with active 10-year tax abatements.

- The total assessed (i.e. taxable) value of all abated properties in the city is $12.2 billion. Properties that currently have active abatements have a total assessed value of $8.757 billion.

- Abated properties compose approximately 11% of the city’s total assessed value of real estate.
  - Another interpretation of this number is that, at least partly due to the abatement program, the city’s tax base of real property is 11% larger than it would be otherwise.

- Residential use is the most common type of abated property, composed of condominiums, hotels, apartments and single-family homes. They collectively constitute 96% of all abated properties.

- The typical abated residence is a single-family house with an assessed value between $200,000 and $300,000.

- Moreover:
  - Only 2.8% of tax-abated residences have assessed values of $1 million or more.
  - 67% (i.e. the majority) of tax-abated residences have assessed values of less than $400,000.
  - 25% of abated residences actually meet the requirements to be classified as “workforce housing,” given their assessed values and neighborhood incomes.

- Philadelphia is currently realizing an additional $48.1 million in annual real estate tax revenues from properties with expired abatements. By 2026, after all current abatements have expired, the city should realize an additional $169.4 million in annual real estate tax revenues in that year and every year afterwards. Assuming the abatement program continues in its current form, these tax revenues will continue to grow in subsequent years as the assessed values of previously abated properties increase and newly abated properties come into existence.

- Since the implementation of the abatement program, overall homebuilding activity in Philadelphia has increased by 376%, while falling an average of 11.25% in its suburbs.
OVERVIEW AND MOTIVATION

In an effort to encourage real estate improvement, investment and new development, the City of Philadelphia offers a 10-year property tax abatement.

In its execution, the program is conceptually very simple: for any improvements made to real property in Philadelphia, the value of those improvements is not taxed for the first 10 years following completion. For example, if the remodeling of an outdated kitchen in a home is estimated to increase the home’s value by $15,000, that $15,000 is not assessed for taxation until 10 years after its completion. At the other extreme, if an entirely new building is constructed on a vacant lot, then the entire value of the structure is not taxed for 10 years after its completion, and the owner only pays taxes on the value of the underlying land in the interim period following completion of construction.

The city’s property tax abatement program has grown incrementally over the years. Originally begun in the late 1970s, the duration of the abatement lasted only 30 months and applied only to new construction. It was later expanded in 1997 to a duration of 10 years in the case of conversions of commercial properties to residential use. In 2000, it was expanded to its current form to apply to all improvements to real property for a duration of 10 years.

While the abatement has been credited with spurring considerable expansion in the size and value of the city’s real estate stock and tax base, it has also come under scrutiny for a number of reasons. Critics have asserted that the abatement may be too generous in either its scope (100% of improved value) or duration (10 years) to be able to achieve desired levels of new development and question whether it is as necessary as it was originally, given recent increases in both real estate values and development activity. The abatement has been criticized for doing too little to promote investment in lower-income neighborhoods and/or affordable housing and it has been decried for accelerating and promoting the gentrification of established, lower-income neighborhoods.

The purpose of this report is to provide current data on the scale, scope and location of abated properties, their breakdown by property type and their fiscal implications.
DATA

Data on abated properties was obtained from a recent copy of the city’s property file, which is essentially a snapshot of Philadelphia’s entire property tax roll. Philadelphia’s Office of Property Assessment (OPA), the city’s assessing agency, created the file.

Each record represents a unique property located in the city and includes information on its address, owner, physical characteristics (e.g. lot size, square footage, year built) and its most recent sale. Additionally, each record also contains information on the property’s taxable status, including its assessed value\(^1\), its date of most recent assessment, and whether the property currently has a tax exemption. If a property is tax-exempt, there are fields giving the date the exemption was granted, the amount of the assessed value that is exempt, and the property’s exemption code. The exemption code denotes the legal ordinance under which a property has a tax exemption.

Having an abatement is one possible reason, but others include whether a property is owned by a religious or non-profit organization, whether it is a city-owned property or whether the property is enrolled in Philadelphia’s LOOP program\(^2\).

From this data file, tax-abated properties are identified by their exemption code, which refers to the particular city ordinance that provides their abatement. Because the abatement program has evolved over time, there are a number of ordinances that identify abated properties. The following table lists the six city ordinances that collectively cover properties that have been granted tax exemptions under the abatement program.

### Philadelphia Property Tax Abatement Ordinances

<table>
<thead>
<tr>
<th>Ordinance Number</th>
<th>BRT Exemption Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>961(^3) M</td>
<td>10-year abatement for existing residential rehabilitation, capped at $50,000 of total value.</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>10-year abatement for existing residential rehabilitation, uncapped.</td>
<td></td>
</tr>
<tr>
<td>1456 N</td>
<td>10-year abatement for new residential construction, uncapped.</td>
<td></td>
</tr>
<tr>
<td>970274 6</td>
<td>10-year abatement for conversion of existing buildings to commercial residential use.</td>
<td></td>
</tr>
<tr>
<td>1130 8</td>
<td>10-year abatement for either improvements or new construction of commercial, industrial or other business properties.</td>
<td></td>
</tr>
<tr>
<td>175 2</td>
<td>30-month abatement granted to developer of residential property until properties are sold or otherwise transferred.</td>
<td></td>
</tr>
</tbody>
</table>

Several of these ordinances have since expired and been replaced by current ones. For the purposes of this analysis, only properties for which the OPA has assigned an exemption code of “1,” “N” or “8” are analyzed, since properties that had abatements under the exemption codes of “M,” “6” or “2” have since seen their abatements expire and/or the ordinance under which they were exempted has been retired.

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BASIC STATISTICS

- There are currently 15,607 properties in Philadelphia with 10-year tax abatements.
- There are a total of 579,975 properties on Philadelphia’s tax roll.
- Hence, about 2.7% of Philadelphia’s stock of real estate currently has an abatement.

The following chart breaks out the number of currently abated properties by whether they are all-new construction or are improvements to or conversions of existing structures.

![Number of Abated Properties in Philadelphia](chart.png)

- There are 10,435 properties with abatements that are new construction, and hence pay no taxes on the value of the structure.
- The remaining 5,172 abated properties are either conversions to other uses or have improvements to their existing structure.
The next chart shows the total assessed value of abated properties, also broken out by new construction v. improvements/conversions:

- The city’s OPA has assessed the total value of improved/converted abated properties at approximately $3.5 billion.
- Likewise, the total value of newly constructed abated properties is assessed at $5.3 billion.
- Thus the total value of currently abated properties is assessed at $8.757 billion.
To place this into context, the following pie chart shows the total assessed value of abated properties as a percent of the total assessed value of Philadelphia’s stock of real estate.

Since the abatement program is now more than 10 years old, there are a significant number of properties whose abatements have expired. These properties were identified and their assessed value was added to the assessed value of currently abated properties to obtain the total assessed value of all (past and current) abated properties:

**Total Assessed Value ($m) of Abated v. Non-Abated Properties in Philadelphia**

- The total assessed value of abated properties is $12.2 billion, compared to the total assessed value of $113.6 billion of all other (non-abated) properties in Philadelphia.
- Abated properties thus represent approximately 11% of the total (taxable) value of Philadelphia real estate.
- Insofar as the abatement’s existence is a critical factor in promoting this investment and new development, then the abatement has helped to make Philadelphia’s tax base 11% larger than it would be otherwise.
To identify the fiscal contribution of abated properties to the city, the next chart compares realized versus abated revenues, based upon current assessed values and tax rate, for both new and improved/converted properties:

**Total Realized v. Abated Revenues ($m) from Abated Properties**

- Currently, improved/converted properties contribute $23.3 million\(^4\) annually in real estate tax revenues, while newly constructed properties contribute $11.4 million annually.
- Thus, abated properties currently generate total annual tax revenues of $34.7 million.
- Conversely, improved/converted properties are exempt from paying $25.1 million in annual real estate tax due to the abatement, while newly constructed properties are exempt from paying $62.8 million.
- Abated revenues are much higher for new construction because a much larger percent of their value is abated. Since these properties effectively only pay taxes on the value of their land, it can be imputed from the above numbers that land constitutes approximately 10% of the total assessed value of newly constructed properties, under current assessments.
- Once all current abatements expire (and holding assessed values at their current values), these properties will collectively pay $122.6 million per year in real estate taxes.
The following pie chart shows collective abated v. realized revenues for all currently abated properties:

Abated Properties: Taxes Paid v. Taxes Abated

- Currently abated properties collectively pay $34.7 million per year in real estate taxes and are exempt from $87.9 million per year in real estate taxes.
- Thus, it can be inferred that abated properties are currently paying approximately 28% of their total value.
- As noted elsewhere in this report, they will continue to pay an increasing percentage of their value as existing abatements expire and previously abated properties see their assessed values increase, ultimately reaching more than $169 million.
To identify the general geographic distribution of abated properties, the following map shows the location of all currently abated properties, color-coded by whether they are improvements/conversions (in blue) or new construction (in red):

- The greatest concentration of abated properties is in and around Center City. However, this area also has the greatest density of properties overall, which this map does not adjust for.
- There are also significant concentrations of abated properties in the University City/Powelton Village/Mantua neighborhoods of West Philadelphia, and in Manayunk and in the River Wards along the Delaware River.
- Southwest Philadelphia, upper North Philadelphia and Northeast Philadelphia have the smallest concentrations of abated properties.
- There does not appear to be any systematic geographic pattern to the location of improved/converted v. newly constructed abated properties.
To obtain further detail on the distribution of types (or uses) of abated properties, the following bar chart shows the number of abated properties in different categories of use, based upon the most common classifications given by OPA’s data:

**Number of Abated Properties by Type**

- Residential use is the most common type of abated property, with single-family houses (6,830), condos (6,501), and hotels/apartments (1,194) collectively constituting 96% of all abated properties⁶.
- However, the data does not imply that 96% of the value of all abated properties is composed of residential properties. A single abated office tower (e.g. Comcast HQ) is equivalent in taxable value to hundreds, if not thousands, of single-family houses.
To obtain further insights on the distribution of taxable value—and revenue generation—by type of abated property, the following chart shows the total assessed value of abated properties by their category of use, along with their annual taxes paid v. abated:

**Property Values and Taxes Abated v. Paid ($m) by Property Type**

- Residential use still remains the dominant category when use is broken out by assessed value rather than by number of properties.
- Abated hotels, apartment buildings and commercial properties currently pay the most taxes, presumably because many of these properties are conversions and/or experienced improvements to their existing structures.
- Once current abatements expire, it is condo properties that will pay the most in property taxes, since they are disproportionately new construction and hence have larger abatements (e.g. the entire structure).
- Abated industrial and retail properties remain negligible as a percent of all abated properties, whether in number or in value.
To gain insight into how the taxable value of abated properties varies by location, the following map shows the location of abated properties by their assessed value per square foot. Warm colors denote properties with a relatively high taxable value while cool colors denote properties with a relatively low taxable value:

- The abated properties with the greatest taxable value are concentrated in the prime location of Center City, and are predominately composed of large high-rise condos, apartments and hotels, plus a few commercial properties.
- Although single-family homes compose the third-largest taxable component of abated properties, they are much more spatially dispersed throughout the city, and are represented by the blue dots.
- While Center City multifamily properties may compose the most dominant category of abated properties, there are still significant taxable value and number of properties in abated single-family homes, which are distributed much more uniformly throughout the city.
- Hence, there is a significant amount of value in abated properties outside of Center City.
To examine how the number of abated properties has evolved over time since the program’s current form was created in 1999, the following chart plots the number of abated properties in Philadelphia by the year their abatement was granted.

The vertical dashed line represents the cutoff point between properties that have since seen their abatements expire and those properties that still have currently active abatements:

- The abatement program grew slowly at first, from 1999-2002, likely due to both its newness and the 2001-2002 recession.
- As the housing boom of the mid-2000s took hold, the number of abated properties grew sharply, along with the level of new housing construction and home improvements/conversions in Philadelphia.
- Although the number of abated properties dropped after house prices began to decline through 2007, it actually resumed its growth in 2008 to hit a peak of 2,720 properties.
- Since 2008, the number of abated properties has exhibited a decline, but still remains at the same relatively high levels as during the boom years of the mid-2000s.
• The fact that recent levels of new abatements are less than their peak during the housing boom of the previous decade has to do with the shift in the composition of abated properties. Most new (residential) construction that occurred in the 2004-2008 period was condominiums, whereas most of the new construction in recent years is apartment buildings. Since a condo building with 100 units is counted as 100 abated properties, but an apartment building with 100 units is counted as a single abated property, the number of abated properties in recent years is smaller than the number of abated units. Unfortunately, there is no publicly available data on the number of units in tax-abated apartment buildings.

• Thus, even during the recession and recovery, the abatement program has still continued to contribute to new development and growth in Philadelphia’s tax base.

Since most abated properties are residential, the following bar chart shows how the value of abated dwellings is distributed. It shows the number of currently abated housing units in each category of assessed value, in increments of $100,000. Within each value category, the number of abated units is broken out by new construction v. improvements/conversions:

Distribution of Currently Abated Housing Units by Assessed Value ($000): Improvements/Conversions v. New Construction

• The category with the largest number of tax-abated dwellings represents those assessed between $200,000 and $300,000.
Since the median house value in Philadelphia is $145,000, it would appear that the value of tax-abated units is skewed towards the higher end of the market; i.e. the typical tax-abated home has a higher value than the typical Philadelphia home.

However, this is somewhat of an apples-to-oranges comparison, since the typical Philadelphia home is an unimproved rowhome built decades ago, while the typical tax-abated home is a new or improved property.

The data show that abated dwellings are not exclusively higher-end dwellings:

- Only 2.8% of tax-abated residences have assessed values of $1 million or more.
- 67% (i.e. the majority) of tax-abated residences have assessed values of less than $400,000.
- 25% of abated residences actually meet the requirements to be classified as “affordable housing” or “workforce housing,” given their assessed values and neighborhood incomes.

While the data indicate that abated units do indeed have higher values—and hence prices—than the average Philadelphia dwelling, the degree of difference does not appear to be as large as many critics may assert.

As abatements expire, these properties will begin paying their full value in taxes.

To examine how much real estate tax revenue these properties generate, both now and in the future, the current real estate tax rate of 1.3998% was applied to the current assessed value of both previously and currently abated properties to compute their post-abatement annual tax bill. Since these are recurring revenues, they are cumulative, and hence grow over time as abatements continue to expire.
The following bar chart shows realized tax revenue (both actual and projected) for the city since the abatement program began:

### Cumulative Additional Tax Revenue ($m) from Expiring Abatements

- Currently, Philadelphia should realize an additional $48.1 million in annual real estate tax revenues from properties with expired abatements.
- This number does not represent a one-time windfall, but is an additional $48.1 million per year in every year following expiration of these abatements.
- In 2017, this will rise to $54.4 million, and then to $72.7 million in 2018.
- By 2026, after all currently abated properties are no longer tax-exempt, the city should realize an additional $169.4 million in annual real estate tax revenues in that year and every year afterwards. Assuming the tax abatement program is maintained in its current form, these real estate tax revenues will continue to grow beyond 2026.
- Insofar as the abatement program was a critical factor in determining whether these properties were improved and/or constructed, this represents an additional $169.4 million annual annuity that the city would not otherwise be receiving, but for the abatement program.
Since we recognize that there is significant spatial variation in the location and value of abated properties, the following map and chart breaks out the number of abated properties by City Council district:

<table>
<thead>
<tr>
<th>Council District</th>
<th>Number of Abated Properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3,549</td>
</tr>
<tr>
<td>2</td>
<td>4,028</td>
</tr>
<tr>
<td>3</td>
<td>615</td>
</tr>
<tr>
<td>4</td>
<td>973</td>
</tr>
<tr>
<td>5</td>
<td>4,686</td>
</tr>
<tr>
<td>6</td>
<td>357</td>
</tr>
<tr>
<td>7</td>
<td>269</td>
</tr>
<tr>
<td>8</td>
<td>403</td>
</tr>
<tr>
<td>9</td>
<td>43</td>
</tr>
<tr>
<td>10</td>
<td>682</td>
</tr>
<tr>
<td></td>
<td><strong>15,607</strong></td>
</tr>
</tbody>
</table>

Note: the numbers in the table total to 15,605 abated properties, not 15,607, because two properties were unable to be geo-coded.

- Of the City's 10 councilmanic districts, the majority of abated properties are concentrated in three districts: the 5th, the 2nd and the 1st, in descending order.
- Collectively, these three districts contain 80% of the city’s currently abated properties.
The following chart provides further definition on the breakout of abated properties by councilmanic district, by showing the total assessed value of abated properties by district, as well as taxes currently paid v. abated by district:

**Total Assessed Value of Abated Properties and Annual Taxes Paid v. Annual Taxes Abated by City Council District**

- The same three council districts (5th, 2nd, and 1st, respectively) collectively account for $6.8 billion of the total taxable value of all currently abated properties in Philadelphia.
- This constitutes 78% of the total taxable value of abated properties.
- Currently, the abated properties in these three districts are collectively generating $26 million per year in real estate taxes.
- When their abatements expire, the abated properties in these three districts will collectively generate $96 million per year in real estate taxes.
To examine whether the implementation of the abatement program has had any effect on construction activity in Philadelphia, the following chart shows the number of residential building permits issued in Philadelphia v. its suburbs from 1990-2015.

While we recognize that this is merely examining correlation without definitively establishing causation, it is still useful to see if there was any significant change in homebuilding activity in the pre- and post-abatement periods:


- Prior to implementation of the abatement, housing starts in Philadelphia County were averaging about 500 units per year from 1990-2000. In the suburban counties, they were averaging a little less than 4,000 units per year.
- Moreover, during the pre-abatement period, the number of building permits was trending upwards in the suburbs while remaining generally flat in the city.
- Following implementation of the current abatement program, the number of approved housing units jumped from 500 per year to nearly 3,000 per year from 1999 to 2004. It fell to about 1,000 units during the depths of the recession in 2009, but subsequently rose to a new, all-time high of 4,000 units by 2014.
During this same period, new housing construction in the suburbs fell from a high of over 11,000 units per year in 1998 to approximately 9,000 units. While this decline is relatively small, it occurred during the housing boom years of 2000-2006, when new housing construction was increasing not only in Philadelphia, but almost everywhere else in the U.S. After falling to a low of 2,500 units during the recession, new construction in the suburbs has since recovered to about 5,000 units per year.

Thus, the data indicate a stark contrast in housing construction trends in Philadelphia v. its suburbs during the pre- and post-abatement periods: homebuilding activity has clearly risen in the city and stayed well above its pre-abatement high, while it has dropped in the suburbs where it remains below its pre-abatement high.
To provide a more explicit and succinct numeric summary of the change in housing construction trends since the abatement’s implementation, the following chart gives the total percent change in aggregate new housing construction in Philadelphia v. its suburbs, before and after the implementation of Philadelphia’s abatement program:

Percent Change in Construction of New Housing Units:  
Pre-Abatement v. Post-Abatement Periods

- Since the implementation of the abatement program, overall homebuilding activity in Philadelphia has increased by 376% while falling an average of 11.25% in its suburbs.

- While many cities in the U.S. underwent a renewed boom in housing demand and construction during this period, most cities began their revival in the 1990s and continued it into the 2000s. Moreover, the data do not indicate that there was any other major U.S. city that underwent such a stark and large positive change in homebuilding activity relative to its suburbs during this period.
CONCLUSIONS

- Since implementation of the 10-year tax abatement program in 2000, nearly 20,000 properties have either been constructed or have undergone improvements/conversions through the program. Currently, there are 15,607 properties in Philadelphia with active abatements.

- The total assessed (i.e. taxable) value of all abated properties in the city is $12.2 billion, of which $8.757 billion is currently abated.

- Abated properties compose approximately 11% of the city’s total assessed value of real estate. The abatement program could thus be interpreted as having to help grow Philadelphia’s tax base (of real estate) by 11% since its implementation.

- Residential use is the most common type of abated property, with condominiums, hotels, apartments and single-family homes collectively composing 96% of all abated properties.

- Contrary to popular perception that the abatement program primarily benefits million-dollar condos:
  - The typical abated residence is a single-family house with an assessed value between $200,000 and $300,000.
  - Only 2.8% of tax-abated residences have assessed values of $1 million or more.
  - 67% (i.e. the majority) of tax-abated residences have assessed values of less than $400,000.
  - 25% of abated residences actually meet the requirements to be classified as “affordable housing” or “workforce housing,” given their assessed values and neighborhood incomes.

- Philadelphia is currently realizing an additional $48.1 million in annual real estate tax revenues from properties with expired abatements. By 2026, after all current abatements have expired, the city should realize an additional $169.4 million in annual real estate tax revenues in that year and every year afterwards. Moreover, these revenues will also continue to grow due to rising assessed values and new abatements, as long as the abatement program persists in its current form.

- Since the implementation of the abatement program, overall homebuilding activity in Philadelphia has increased by 376%, while falling an average of 11.25% in its suburbs.
REFERENCES

1 This field is labeled “market value” in the file, but we use the term “assessed value” to avoid confusion with its past or current sales price, which most people would interpret as a property’s real “market value.”

2 The Longtime Owner-Occupants Program (LOOP) provides property tax relief to homeowners who have lived in their homes for 10 years or more and meet other income and eligibility requirements.

3 Ordinance number 961 covers both exemption codes “M” and “1.” This is because this ordinance was more recently amended to remove the cap on the abatement.

4 These numbers assume full payment (i.e. no delinquency), using the currently prevailing real estate tax rate in Philadelphia of 1.3998%.

5 These numbers do not add up to the total number of abated properties because a number of properties had very unusual and miscellaneous uses; e.g. parking spots, vacant land.

6 Each property’s assessed value was obtained from the city’s Office of Property Assessment (OPA) and then divided by each property’s square footage.

7 HUD defines “Workforce Housing” as housing that is affordable to households earning 50%-120% of Area Median Income (AMI). The percent of abated properties that meets this criteria was computed by comparing Census-tract-level median incomes to the median assessed value of abated properties in each tract, and then assuming that households in each tract spent an average of 30% of their annual incomes on housing (mortgage+property tax+maintenance). Those abated properties with an assessed value that allowed a household from that tract to occupy it without spending more than 30% of its annual income was classified as an “affordable/workforce” dwelling.

8 This analysis naturally assumes that assessed values are reasonably in line with actual market values (i.e. current prices) of abated properties.

9 This analysis assumes 100% compliance; i.e. no delinquency. But, since these are relatively higher-valued properties, it seems reasonable to expect a higher compliance rate than for the city as a whole.

10 The suburbs are defined collectively as the PA counties of Bucks, Montgomery, Chester and Delaware. Source: U.S. Census.

11 Complete numbers were not available through 2016 at the time of writing.

Kevin C. Gillen, Ph.D. is a Senior Research Fellow at the Lindy Institute for Urban Innovation, Drexel University. The findings and views presented in this report are solely his own and do not carry the endorsement of either institution. Kevin Gillen is a member of the BIA and serves on its board of directors.

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