

Philadelphia Investment Sales Insight

Effects of Philadelphia's Change in Real Estate Tax Abatement

Philadelphia City Council's change to the real estate tax abatement program for new residential construction will have a dramatic impact on the value of developable land and stabilized projects within the County. An analysis of the changes and financial impacts are below.

Changes to the Abatement

The current 100% 10-year abatement will convert to a sliding scale (100-90-80%, etc.) over 10-years for new residential construction. This does not apply to renovation projects or non-residential construction which will still be subject to the full 10-year abatement. The proposed change has an effective date of December 31, 2020. A building permit must be secured before this date.

Financial Impact

- Based on our modeling, a buyer of a newly constructed apartment complex will need to pay approximately \$20,000 less per unit to arrive at the same IRR over a 10-year hold with the increased real estate tax expense. This assumes the average apartment complex has an unabated real estate tax expense of \$3,000/unit/year.
- Rental rate increases must average at least 2% per year on an average rental rate of \$2,000/unit/month to keep pace with the increasing real estate tax expense. Projects with average rental rates of less than \$2,000/month will not meet lenders' debt coverage ratio standards. Given today's high construction costs, projects targeted for workforce housing with rental rates under this amount will not pencil as a result of the increased real estate tax expenses. Micro units or mostly one-bed complexes are also most affected as they have rental rates below this threshold. Rental growth on lower rents will not be able to keep pace with the increased tax expense.
- Developers bringing a project from construction to stabilization will not be able to receive cash out financing upon stabilization and will have diminished cash-on-cash returns over the hold period in order to meet lender debt service coverage requirements.



A buyer of a newly constructed apartment complex will need to pay approximately \$20,000 less per unit to arrive at the same IRR over a 10-year hold with the increased real estate tax expense.

- Adam Gillespie



- Land values for new residential construction within the county will diminish 30-50% depending on location as a result of the proposed sliding scale abatement.
- On the positive side, the lack of new construction will translate to rising demand and rental rates for existing complexes.

Avison Young Investment Sales Team

Avison Young's Investment Sales Team specializes in the valuation and sale of income producing real estate. Reach out to us directly to discuss how the proposed changes to the tax abatement program could affect your property. A summary of our current listings and recent sales are highlighted below.

Current On-Market Listings

- 1730 Walton Road, Blue Bell, PA // Office // 28,800 SF // 78% Leased
- 3 Village Road, Horsham, PA // Office or Medical Office // 16,363 SF
- Wister Court Apartments, Philadelphia, PA // Student Housing // 205 Beds
- 918 N. Broad Street, Philadelphia, PA // Group Housing // Up to 120 Beds
- 600 Luzerne Street, Philadelphia, PA // Special Use // 36,280 SF
- 370 George Patterson Blvd., Bristol, PA // Lab/R&D // 120,000 SF

Recently Sold Offerings

- 4 & 5 Sentry Park, Blue Bell, PA // Office Portfolio // Class A // 203,739 SF
- Temple Park Apartments, Philadelphia, PA // 23 Properties // 187 Beds
- Falcon Center, Havertown, PA // Medical Office // 45,000 SF
- Brookview I, Lansdale, PA // Medical Office // 25,000 SF // 100% Leased
- Elkins Estate, Elkins Park, PA // Redevelopment Land // 42 Acres
- 360 George Patterson Blvd., Bristol, PA // Lab/R&D // 100% Leased

Currently Pending Deals

- Suburban Building, Wayne, PA (*Under Contract*) // 13,738 SF // 85% Leased
- 7575 Brewster Avenue, Philadelphia, PA (*Under Contract*) // Industrial // 160,000 SF // Single Tenant // Long Term NNN Tenant
- 200 Rock Run Road, Fairless Hills, PA (*Under LOI*) // Industrial // 106,000 SF // Single Tenant // Long Term Manufacturing Tenant

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