



BeauMonde Originals

Shaping the Future We Want

Economic Recovery, June 2023

Philadelphia has restored all jobs lost citywide in early 2020 and surpassed employment levels from February of that year. Business, civic and political leaders now should look forward to plan how best to reshape the growth of the city in a more robust and inclusive fashion. With a new mayor taking office in just six months, it is a good time to take stock of our strengths, challenges and opportunities. Recovery is pronounced in some sectors, lagging in others and, if certain risks on the horizon are not confronted today, both the fiscal stability and transit accessibility of Philadelphia will be put at risk tomorrow.

Jobs are back, salaries are rising, Center City's population has continued to grow, conventions, tourism and retail are all rebounding, while pedestrian vitality is almost fully restored in many portions of the downtown. Office vacancy, however, is rising, challenged by a partial return to office, reinforced by a wage tax that encourages suburban residents to remain remote. This decreases ridership on SEPTA and reduces demand for all those jobs in building management, maintenance, security, transportation and in retail and restaurants that lack the luxury of remaining remote, and rely instead on the presence of other workers. As a consequence, many working class and middle income neighborhoods outside the downtown are once again losing population for the first time in more than a decade. Part of this is due to

forces beyond our control, like the reduction of international immigration. But cleanliness and safety, quality schools and accessible, family-sustaining jobs are essential and must be a top priority for our new mayor.

Center City and University City together account for 53% of all of Philadelphia's jobs, well-positioned at the center of a multi-modal transportation system. Both of these major employment centers have the organizational capacity and resources to augment clean and safe services. Both have largely restored cultural and retail resources for residents, workers and visitors. But if more workers, including those in local government, are not motivated to return, if more underutilized buildings are not converted to alternative uses, not only are remaining moderate wage and entry level jobs in these areas put at risk, cuts to transit when federal recovery resources run out next year could further undermine access to jobs for those who may not be able to afford a car or the price to park downtown.

We don't have the luxury of asking our next mayor to choose between being a "downtown mayor" or a "neighborhoods mayor." Philadelphia's major employment centers and our diverse neighborhoods are inextricably linked in one interconnected whole. We need an action plan for full recovery that enhances every part of the city.

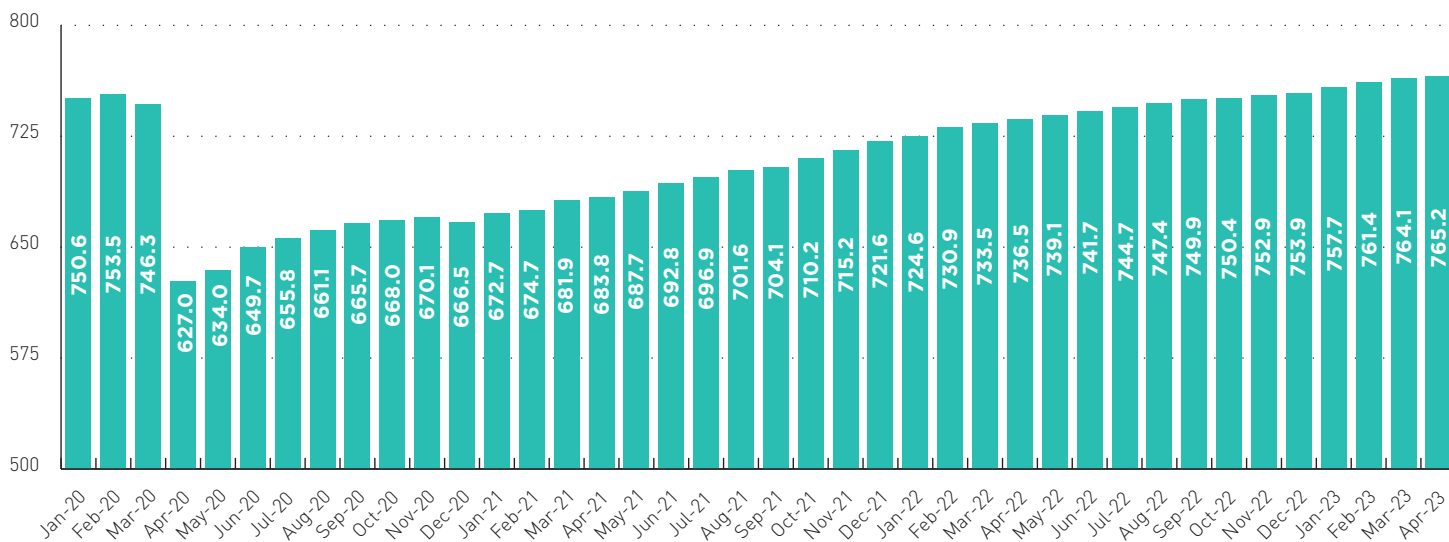
Employment

For the last three years, Philadelphia has continued to restore all the jobs lost in early 2020. By April 2023, the city held 765,200 jobs on a seasonally-adjusted basis, 1.6% more than in February 2020, the previous high point of employment since 1990. While Philadelphia’s recovery throughout 2020 had initially trailed the region and the nation, the gap steadily narrowed in 2021 and 2022 with the city’s 1.6% gain over February 2020 now less than one percentage point below the regional (2.2%) and national (2.5%) rates of increase over February 2020 (Figures 1 and 2).

Key industries in the office sector—information, financial, professional and business services—have fully recovered,

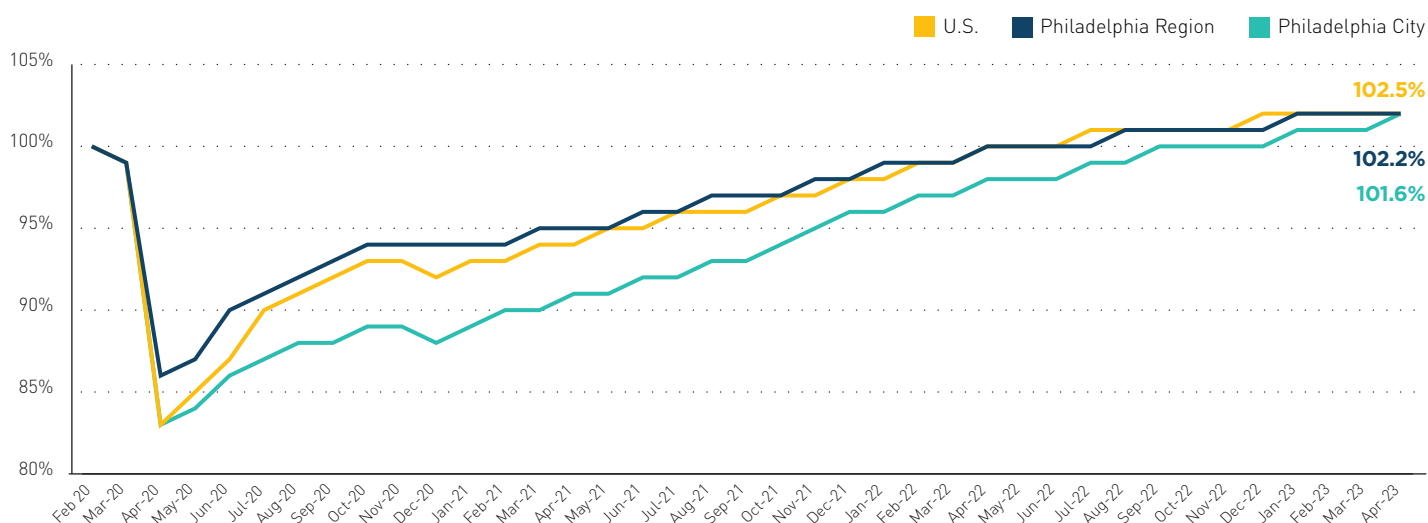
as have non-government educational services, health care and social assistance, federal employment and construction. Employment in each of these sectors matched or exceeded April 2019 levels.¹ Some sectors have grown substantially: professional and business services holds 8,600 more jobs than four years ago, while health and social assistance employment is up 15,500. The strong upsurge in office and educational employment is a very positive sign because these industries, which are already highly concentrated in Philadelphia, sell services outside of the city and import students and their purchasing power, thus creating new local jobs in related support industries. The sectors that have not yet fully recovered to 2019 levels include manufacturing, wholesale and retail trade, transportation, warehousing and utilities, leisure and hospitality, and state and local government (Figure 3).

Figure 1: Philadelphia Nonfarm Payroll Employment Seasonally Adjusted (thousands)



Source: Bureau of Labor Statistics, Current Employment Statistics

Figure 2: Seasonally Adjusted Nonfarm Payroll Employment as a Percentage of February 2020



1. Since Philadelphia industry specific employment is not reported on a seasonally adjusted basis by the Bureau of Labor Statistics, the comparison is to the comparable pre-pandemic month, April 2019.

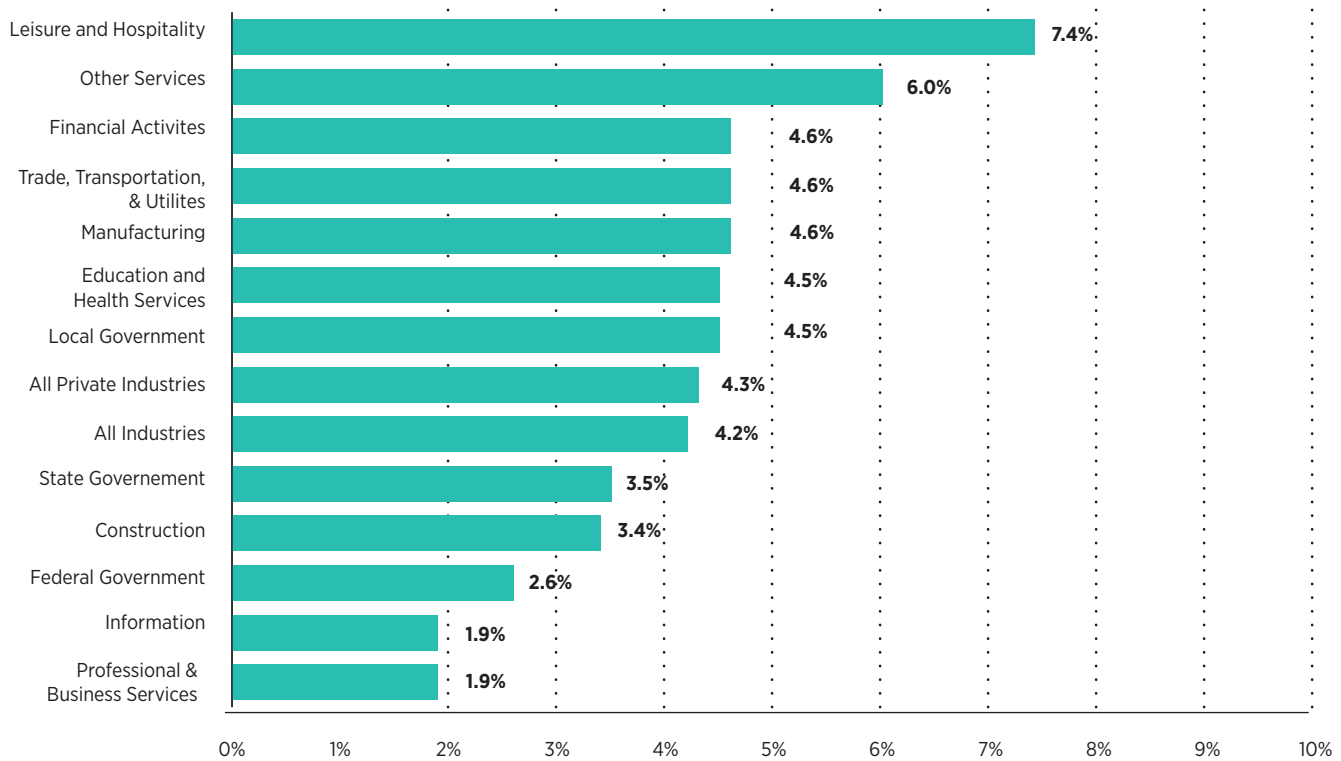
Figure 3: Philadelphia Nonfarm Payroll Employment (thousands)

	Apr 19	Feb 20	Apr 20	Apr 23 (Preliminary)	Change Apr 20 -Apr23	% Change Apr 20 -Apr 23	Change Apr 19 -Apr 23	% Change Apr 19 -Apr 23
Total Nonfarm (Adjusted)	738.9	753.5	627.0	765.2	138.2	22%	26.3	4%
Total Nonfarm (Not adjusted)	743.3	750.4	631.1	767.9	136.8	22%	24.6	3%
Mining, Logging & Construction	12.6	11.4	6.9	12.7	5.8	84%	0.1	1%
Manufacturing	19.7	18.9	14.5	19.2	4.7	32%	(0.5)	-3%
Wholesale Trade	15.1	14.5	12.4	15.0	2.6	21%	(0.1)	-1%
Retail Trade	48.6	48.4	36.3	47.2	10.9	30%	(1.4)	-3%
Transportation, Warehousing & Utilities	29.0	30.4	25.4	26.9	1.5	6%	(2.1)	-7%
Information	14.4	16.2	15.0	16.6	1.6	11%	2.2	15%
Financial Activities	42.9	43.0	41.3	47.0	5.7	14%	4.1	10%
Professional & Business Services	103.4	106.4	94.3	112.0	17.7	19%	8.6	8%
Professional, Scientific & Technical Services	59.3	61.7	58.7	66.7	8.0	14%	7.4	12%
Educational Services	78.1	78.1	72.4	79.3	6.9	10%	1.2	2%
Health Care & Social Assistance	169.7	172.5	158.8	185.2	26.4	17%	15.5	9%
Hospitals	59.5	58.7	57.4	59.4	2.0	3%	(0.1)	0%
Leisure and Hospitality	77.1	74.5	29.1	76.3	47.2	162%	(0.8)	-1%
Accommodation & Food Services	63.2	61.9	21.0	60.8	39.8	190%	(2.4)	-4%
Other Services	28.3	29.0	19.1	28.9	9.8	51%	0.6	2%
Government	104.4	107.1	105.6	101.6	(4.0)	-4%	(2.8)	-3%
Federal Government	304.	31.0	31.1	31.6	0.5	2%	1.2	4%
State Government	10.8	10.9	10.6	10.2	(0.4)	-4%	(0.6)	-6%
Local Government	63.2	65.2	63.9	59.8	(4.1)	-6%	(3.4)	-5%

Source: Bureau of Labor Statistics, Current Employment Statistics

Note: Total employment is seasonally adjusted, and industry employment is not seasonally adjusted.

Figure 4 Philadelphia Percentage Change in Nominal Average Annual Wages by Industry, 2019–2022



Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages

Wages and Earnings

Recovery has brought significant growth in the earnings of Philadelphia workers, accelerating in the past three years from an average of 2.4% per year between 2009 and 2019 to an average annual rate of increase of 4.2% from 2019 to 2022. The Bureau of Labor Statistics Quarterly Census of Employment and Wages (QCEW) provides detailed, industry-level employment and wages for 684,513 jobs located within Philadelphia in 2022, with average annual earnings of \$78,304. Prior to 2019, wage growth exceeded the annual rate of inflation of 1.4% from 2009 to 2019. The wage growth from 2019 to 2022 enabled workers to stay even with

the regional Consumer Price Index annual increase of 4.2% over that period.

Wage growth has also varied by industry since 2019, with some of the largest increases in sectors whose employees are generally lower paid, but who became *essential workers* very much in demand, including leisure and hospitality and other services. Higher paying sectors where workers had more options to remain remote, such as information and professional and business services, saw smaller growth rates (Figure 4).

Office Occupancy

While employment in the office sector has remained strong, occupancy rates have been challenged by hybrid and remote work, as have the jobs that depend on the presence of office workers including building management, maintenance and security, transportation and retail and restaurant jobs. According to Newmark, 448,000 square feet of Center City office space was vacated in the first quarter of 2023, bringing the overall vacancy rate to 19.6%, up from 12% in 2019. Asking rents remain stable, although market concessions like tenant

improvement allowances and months of free rent increased significantly. JLL reports that leasing volume has been low since the third quarter of 2020 but is expected to increase in 2023 and beyond as larger occupiers facing expiring leases may also consider downsizing. Positive signs include construction of a new headquarters for Chubb insurance at 2000 Arch Street and the opening of the new Morgan Lewis building at 2222 Market, creating in their wake new reuse and conversion opportunities.

Figure 5 Center City Office Market Trends, 2021–2023

Submarket	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Asking Rent per Square Foot									
East Market	\$32.82	\$32.57	\$32.34	\$32.29	\$32.09	\$32.04	\$32.01	\$31.98	\$31.59
West Market	\$35.56	\$35.58	\$35.40	\$35.30	\$35.51	\$35.55	\$35.38	\$35.11	\$35.12
Center City	\$34.52	\$34.43	\$34.26	\$34.24	\$34.33	\$34.35	\$34.24	\$34.05	\$33.92
Vacancy Rate									
East Market	18.6%	19.5%	21.7%	20.7%	20.2%	19.8%	19.9%	20.4%	19.7%
West Market	16.1%	18.0%	18.6%	19.3%	19.3%	20.1%	20.6%	20.9%	19.5%
Center City	16.9%	18.5%	19.6%	19.8%	19.6%	20.0%	20.3%	20.7%	19.6%
Absorption (Square Feet)									
East Market	(17,866)	(105,754)	(265,896)	(116,088)	42,962	(43,399)	(4,849)	(61,872)	(144,293)
West Market	(241,280)	(488,922)	(160,637)	(186,962)	48,056	(146,658)	(124,093)	(79,013)	(304,145)
Center City	(259,146)	(594,676)	(426,533)	(70,874)	91,018	(103,259)	(128,942)	(140,885)	(448,438)

Source: Newmark

Local Tax Revenue

Wage tax collections in the first quarter of 2023 totaled \$617 million, 10.6% higher than in the first quarter of 2019. But adjusted for inflation, collections were 7% below the 2019 level. This likely reflects the impact of remote work on taxes paid by non-residents and it creates a significant challenge and opportunity for Philadelphia's next mayor. Non-resident workers who are directed by employers to work from home are exempt from the wage tax on income earned while working remotely. City Revenue Department data indicate that wage tax refunds paid to employees have been substantial, with total payments of \$94 million in 2021 and \$85 million in 2022.² These refunds, which are far in excess of historic levels, largely reflect the impact of remote work.

A second indicator of the impact of remote and hybrid work is the significant decline in the proportion of wage taxes received from non-residents—from 37.2% of total wage tax revenue in calendar 2019 to 33.9% in 2020 and 30.9% in 2021. Some of the most significant reductions were in industries with a high likelihood for remote work including finance, insurance, telecommunications and professional services.³

A City Revenue Department report that compared wage tax revenues collected from July through December 2022 with the same period three years earlier found that revenues from all industries increased 2.1% annually, but that collections had declined in telecommunications, banking and credit unions, securities, insurance, colleges and universities, legal services, membership organizations, and the federal government.⁴

Philadelphia is exceptional among major cities because of its outsized reliance on a local income tax and, in particular, a local income tax paid by commuters. While this may have made sense in 1939, when the tax was first levied and the regional economy was highly dependent on manufacturing establishments concentrated within Philadelphia, it puts the city in a highly vulnerable position when so much of the economy is built around work that can be performed from anywhere, including the dining room table of suburban residents. Philadelphia's slow rate of job growth, high poverty rate and limited number of Black- and brown-owned businesses can be directly traced to a municipal tax structure that is out of sync with current economic realities.⁵ City

2. City Revenue Department analysis, dated March 9, 2023.

3. City of Philadelphia, Department of Revenue, "Wage Tax by Industry for Calendar Years 2019 through 2021, Analysis of Resident and Non-Resident," available at <https://www.phila.gov/documents/wage-tax-collections-by-resident-and-non-resident/>.

4. City of Philadelphia, Department of Revenue, "Wage Tax by Industry," available at: <https://www.phila.gov/documents/2022-wage-tax-by-industry/>.

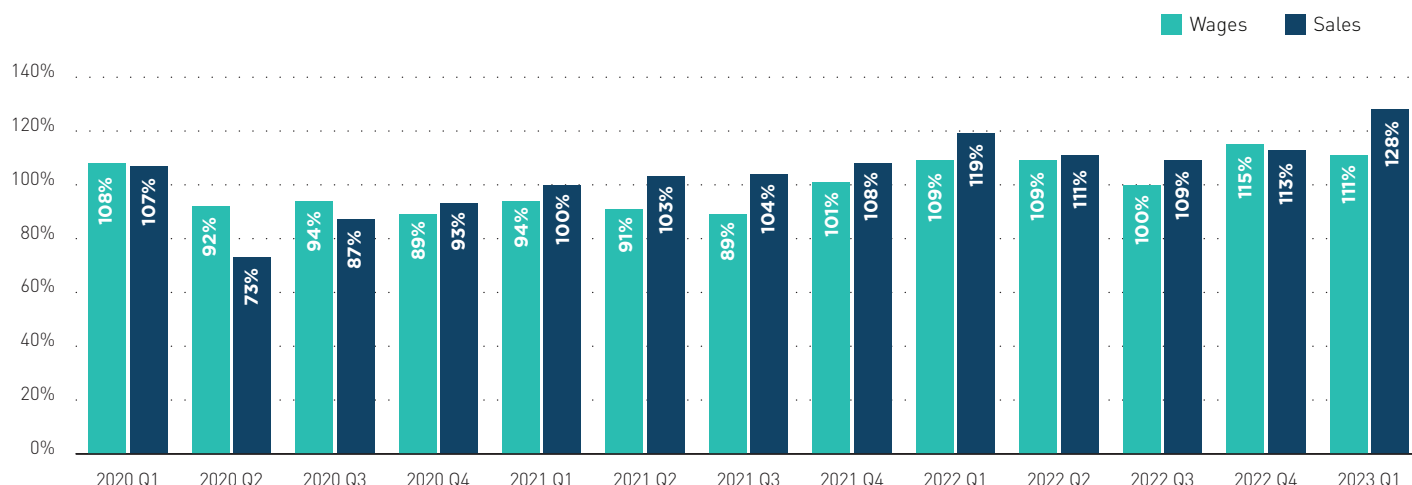
5. See two recent CCD reports, *Firing on All Cylinders*, <https://centercityphila.org/research-reports/firing-on-all-cylinders> and *Business Density and the Role of Black and Minority Owned Businesses* <https://centercityphila.org/research-reports/getting-more-philadelphians-back-to-work-business-density-and-the-role-of-black-and-minority-owned-businesses>

Council’s recent approval of a second year of wage and business tax reduction is a step in the right direction but could be too little, too late to alter centrifugal forces which are reducing opportunity for Philadelphians. What is needed from the next mayor and City Council is the definitive five-year commitment to tax competitiveness, embedded in the City’s *Five-Year Financial Plan*, that the city enjoyed across three administrations from 1996 to 2010 until the Great Recession put an end to predictable, multiyear reductions. For those signing leases or purchasing real estate, predictability provides confidence to new and existing businesses that

Philadelphia is steadily reducing barriers to sustained job growth while maintaining fiscal stability.

By contrast, local sales tax collections have recovered more rapidly than the wage tax, with Q1 2023 collections reaching 128% of Q1 2019. Moreover, hotel tax collections, which were initially severely impacted by the pandemic, have continued to increase, reaching 121% of their 2019 level in the first quarter of 2023 as convention bookings have returned to 2019 levels and tourism continues to rebound.

Figure 6 Local Wage and Sales Tax Revenue as a Percentage of 2019

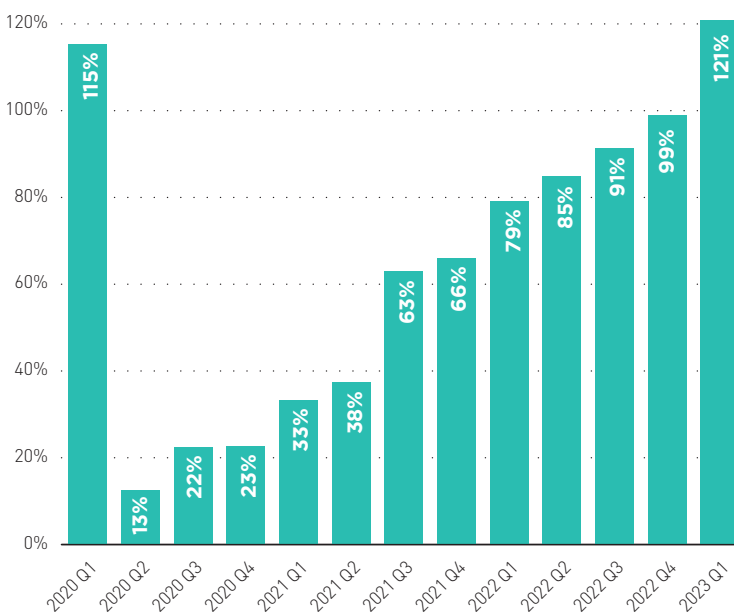


Source: City of Philadelphia, Department of Revenue

Hotel Industry

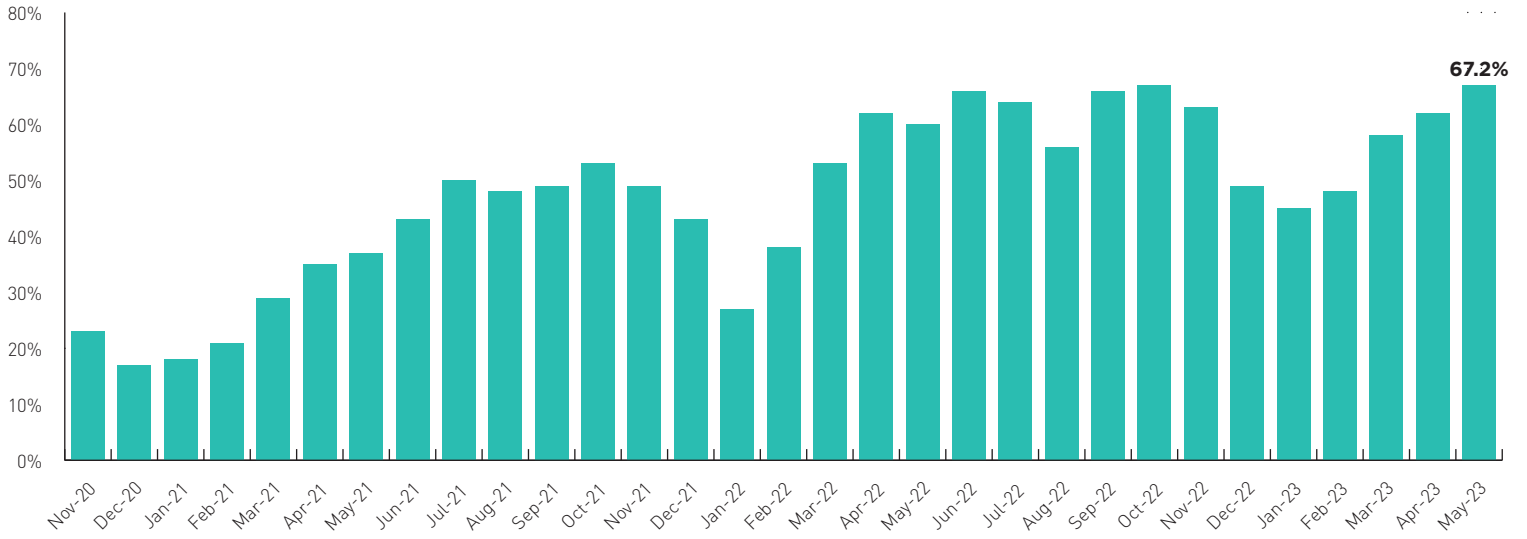
The hotel industry in Center City includes 56 properties with 13,049 available rooms. Occupancy rates have been trending upward since 2020, reaching 67.2% as of May, but well below the industry’s 2018 peak at 79.6% occupancy. Through the first five months of 2023, average occupancy was 56.1%, compared to 48.4% in the same period last year. Average daily room rates have also been trending upward, with the year-to-date average at \$210.03, 4.4% higher than last year, as hotels have benefited from the return of conventions, tourism, and arts and culture downtown.

Figure 7 Quarterly Local Hotel Tax Revenue as a Percentage of 2019



Source: City of Philadelphia, Department of Revenue

Figure 8 Center City Hotels Occupancy Rate



Source: STR

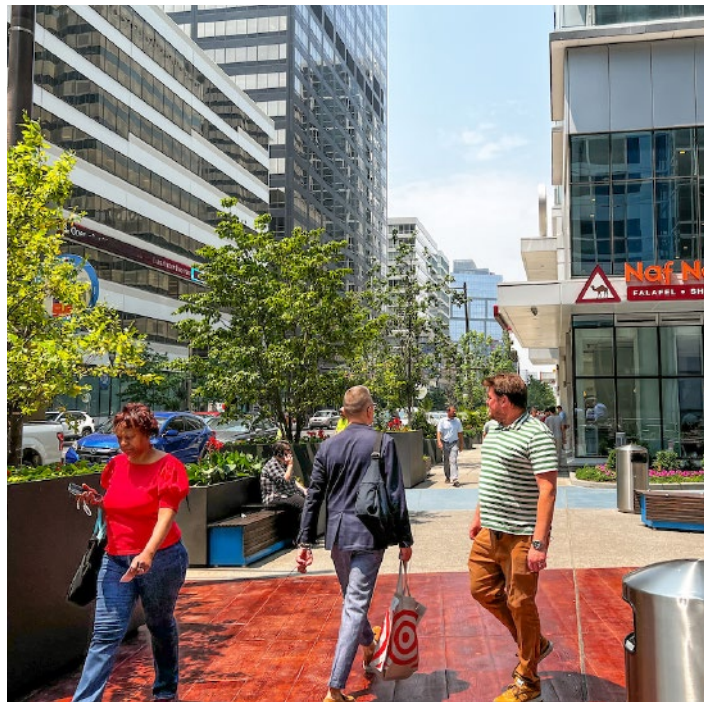
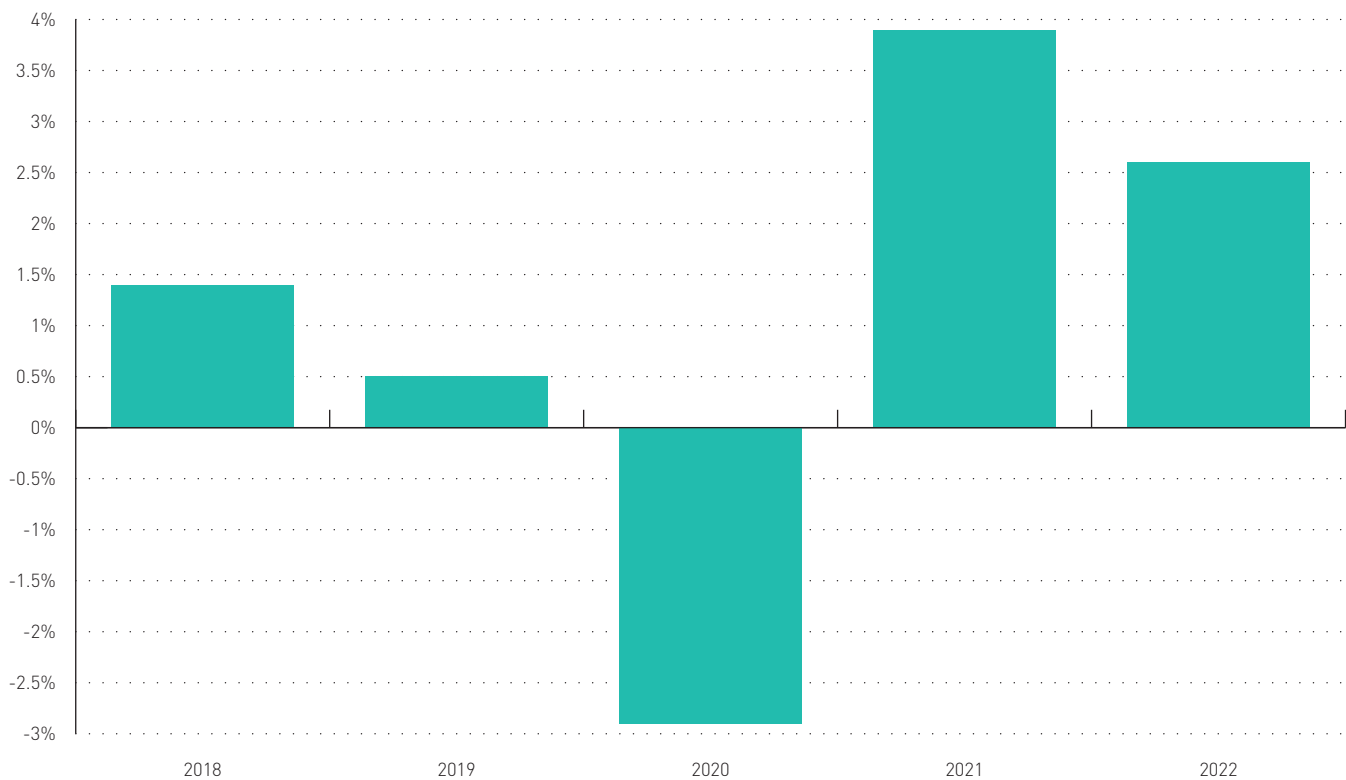


Figure 9 Greater Center City Net Migration as a Percentage of Population



Source: Placer.ai

Population Trends

The official Census Bureau estimate of Philadelphia's population as of July 1, 2022 was 1,567,258, a decline of 36,500 since April 1, 2020. The drop in residents, after a substantial increase in the prior decade, was primarily due to net domestic out-migration of 52,500, partially offset by a natural change (births exceeding deaths) of 4,400 and international immigration of 10,400. The size of the city's decline as a percentage of population was not unusual compared to other cities and can be partially explained by the drop in international immigration into the United States during the disruptions of 2020 to 2022.

The trends in Greater Center City have moved in the other direction. While census estimates are only available at the citywide level and only through mid-year 2022, Placer.ai cellphone data enables a real-time and more geographically fine-grained perspective. Placer's estimates of migration at the ZIP code level suggest that the impacts of the disruptions from 2020 to 2022 within Greater Center City were modest

and quite temporary. Net out-migration from Greater Center City totaled 5,234 in 2020, 2.9% of total population. But the trend quickly reversed, with positive in-migration of 6,875 (3.9% of population) in 2021 and 4,784 (2.6% of population) in 2022 with similar trends continuing through April 2023.

The Placer data indicate that Greater Center City continues to draw new residents as it has in prior decades, even as some other city neighborhoods have experienced population losses. National analyses of migration patterns since 2020 have tended to emphasize out-migration from higher priced metropolitan areas toward lower cost areas in the South and West, and from cities to suburbs. But in Greater Center City Philadelphia, the pandemic's influence on population trends appears to have been temporary as 20-year growth trends have resumed. It is also the case in cities across the country that the closer workers live to their place of work, the more likely they are to be in the office more frequently, suggesting that residential growth in and around downtown areas will be helpful to economic revival.

Center City Pedestrians

As of May 2023, there were 339,400 people downtown on an average day, 75% of the number present in May 2019. This was comprised of 59,100 residents, 87,700 non-resident workers, and 192,500 visitors. Residents achieved 113% of the May 2019 levels, non-resident workers were at 61% and visitors at 75% (90% on weekends).

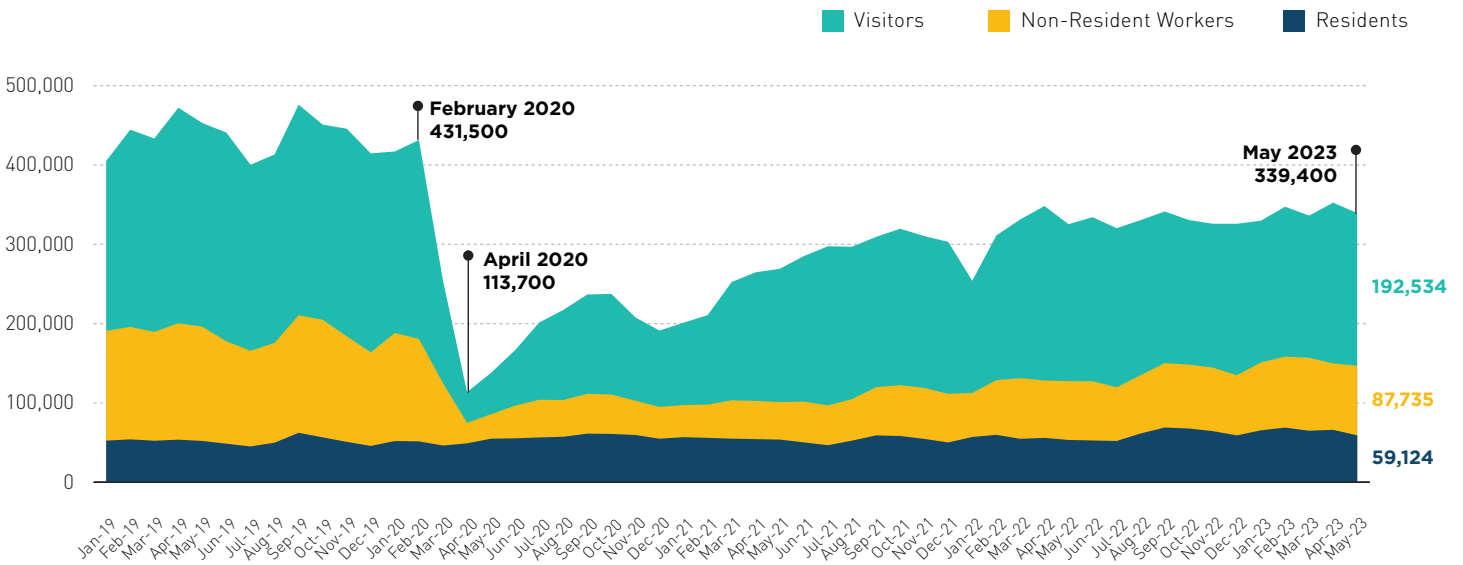
Center City District relies on two sources of data to track pedestrian vitality downtown: on-street sensors which track pedestrian levels at 11 individual locations, and Placer.ai estimates of the number of people located downtown each day, from Vine Street to Pine Street, river to river, based on anonymous cellphone location data.

Placer.ai data distinguishes between three different types of individuals who may be in Center City: residents, non-resident workers, and other visitors including tourists and shoppers. While the resident component briefly dropped in

2020 but then fully rebounded and has continued to grow, the other two groups declined dramatically in 2020 and have only partially recovered. The group that has lagged the most are those workers whose place of employment is located in the West Market/JFK office district, shown in Figures 10-12. This number declined to 3,100 in April 2020, but has since steadily increased, reaching a new high of 25,000 in May. This represents 47% of the May 2019 level, somewhat below the 61% rate of recovery for all non-resident workers in all of core Center City on all days of the week. This differential reflects the greater ability of office workers to function remotely, unlike workers in health care, education, building maintenance, retail or food services.

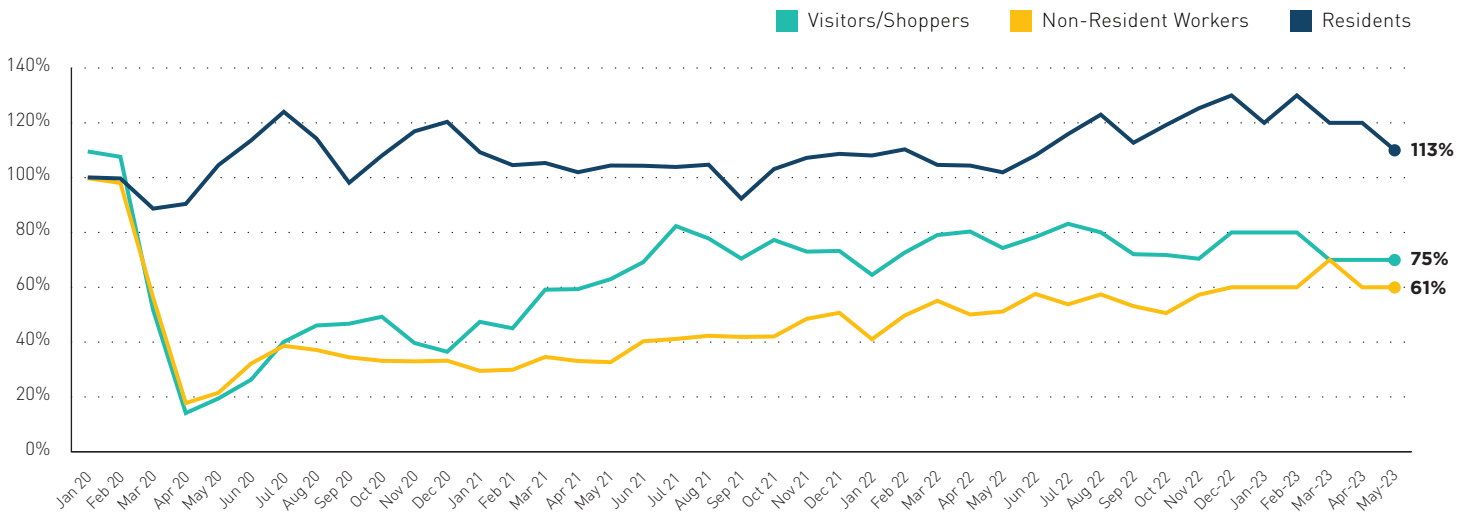
But we also know that those employers who have taken the lead on addressing the concerns of their workers, improved the collaborative, socializing and mentoring activities that can only occur in person, have achieved greater levels of employee engagement and return and high rates of productivity.⁶

Figure 10 Center City Average Daily Population: Residents, Non-Resident Workers, and Visitors



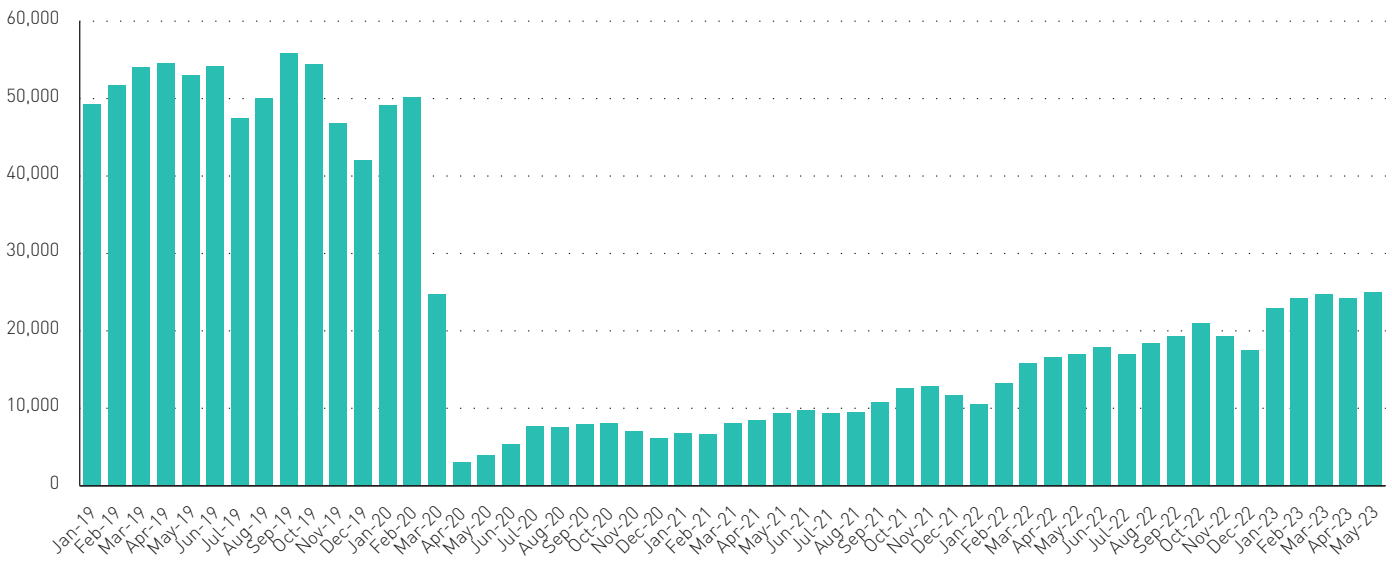
6. *Downtown Vitality: A Deeper Look Into Office Trends*, <https://centercityphila.org/research-reports/downtown-vitality-2023-05>

Figure 11 Center City Average Daily Population: Residents, Non-Resident Workers, and Visitors as a Percentage of 2019



Source: Placer.ai

Figure 12 West Market Office District Weekday Average Non-Resident Workers



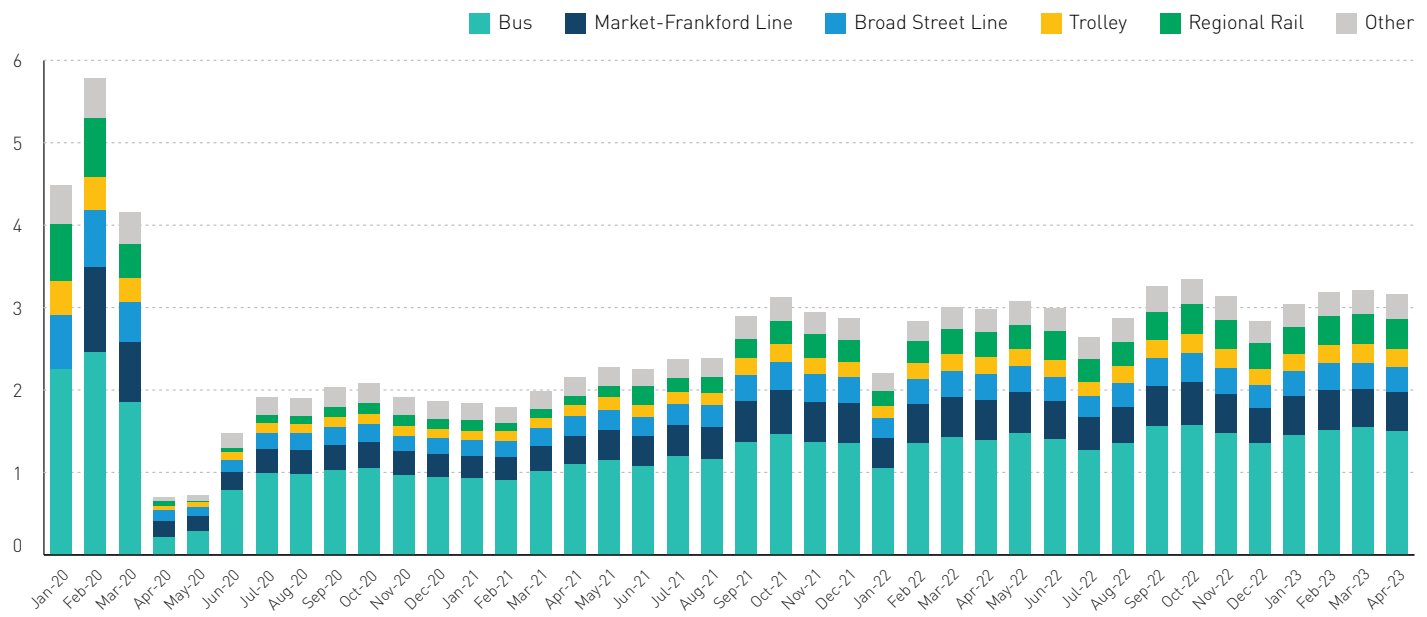
Source: Placer.ai

Public Transportation

In April, there were 3.16 million average weekly riders on SEPTA. Recovery rates vary significantly across modes. Compared to February 2020, average weekly riders in May were at 61% for buses, 54% for trolleys, 53% for the Regional Rail system, 45% for the Market-Frankford Line, 44% for the Broad Street Line, and 55% for other components.⁷

April ridership showed a slight 1.5% decline from the prior month. Some segments of the system saw relatively large declines in April, with bus riders declining 2.7%, trolley riders down 3%, and riders on the Market-Frankford Line and Broad Street Line declining 1.4% and 1.5% respectively. Regional Rail ridership declined a relatively modest 0.1%, while riders on other components of the system increased 3.8%.

Figure 12 SEPTA Average Weekly Ridership (millions)



Source: SEPTA

Looking Ahead to 2024

Cities are not the passive result of forces beyond our control, but rather the product of local leadership, strategic decisions and investments that shape those larger trends.⁸ Conditions have changed globally and there’s no turning back. But this does not mean that the status quo and all its disparities are set in stone. Nearly every chart in this report tells a story of recovery, more slowly than many of us would like, but a story nonetheless of restored jobs, transit ridership and pedestrian vitality. Growth downtown means opportunity in neighborhoods. Investments in neighborhoods help overcome the inequities that deter and limit the benefits of growth. Accelerating the positives, minimizing the negatives and producing results are what real leaders do. It’s time for everyone to get to work.

7. These components include trackless trolley, Victory Division, and Frontier Division buses.

8. For an overview of all the steps CCD is taking to support recovery, see the Spring 2023 CCD Digest. <https://centercityphila.org/research-reports/center-city-digest-spring-newsletter-2023>



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