



PENN IUR ROUNDTABLE ON ANCHOR INSTITUTIONS

Affordable Housing and Anchor Institutions

UNIVERSITY OF PENNSYLVANIA

CASE STUDY

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Image via University of Pennsylvania



The Model: Sole Developer, Joint Venturing, Land Leasing

INTRODUCTION/OVERVIEW

The University of Pennsylvania (Penn) is one of the oldest universities in the U.S. and traces its origins to a charity school founded in 1740, which was converted into an institution of higher education by Benjamin Franklin. From its humble beginnings, Penn has grown into a leading research university and health system. In 2021, the campus hosted approximately 28,000 students (23,000 full-time) including more than 11,000 undergraduates and nearly 17,000 graduate students (enrollments based on 2021 statistics from the Integrated Postsecondary Education Data System; Ginder, Kelly-Reid, and Mann 2018). Penn also represents an example of university intervention and investment in its local community.

Penn has resided in West Philadelphia, an area west of Center City (Philadelphia's downtown), since 1872. In 1963, the easternmost section of West Philadelphia—adjacent to Center City on the other side of the Schuylkill River—was christened University City, deriving its name from the neighborhood's proliferation of hospitals, research centers, colleges, and universities.

Over a period of five decades, extending from the second World War through the 1990s, West Philadelphia was subject to the effects of "white flight" and the national urban crises experienced by many cities, including steep declines in population, industry, tax base, and investment. Penn's adjacent neighborhoods became blighted, characterized by residential and commercial vacancy, high unemployment and crime rates, and low educational attainment.

Motivated by neighborhood decline and instability, Penn organized a local response in the late 1980s and 1990s, beginning with investment in local public schools and the creation of a university-assisted schools movement. Subsequently, under the leadership of President Judith Rodin (1994-2004), Penn expanded its efforts to include a range of initiatives targeting quality of life enhancement within West Philadelphia. Penn's renewed approach to West Philadelphia included: investments in public health, safety, and wellbeing for local residents; economic development initiatives that targeted local procurement and purchasing from community vendors and entrepreneurs; redevelopment investments that transformed underutilized properties and surface parking lots into mixed-use commercial corridors; an employee-targeted local homeownership grant program and a multi-family rental housing investment strategy; and engagement with local Philadelphia public schools (Kromer and Kerman 2005).

Rodin named this work the West Philadelphia Initiatives (WPI), embodying a comprehensive investment and revitalization strategy to address neighborhood revitalization within University City (Rodin 2007). Over the past 25 years, WPI's investments have dramatically shifted the trajectory of University City, from its socioeconomic and built environment characteristics, including the accessibility and affordability of the neighborhood's housing market (Ehlenz 2016). In recent years, Penn has begun reconceiving its anchor strategies to consider ways to engage with these market-based forces and a changed neighborhood dynamic.

BACKGROUND: PENN IN WEST PHILADELPHIA

In the early 1990s, University City, and the larger West Philadelphia community, reflected the experience of many neighborhoods across the city of Philadelphia, as well as urban centers across the country (Kromer and Kerman 2005; Rodin 2007). High crime rates, property abandonment and disinvestment, increasing poverty levels, and declining public schools characterized the neighborhood. Meanwhile, the City was on the verge of bankruptcy and unable to make the kinds of investments required to reverse University City's decline. For



years, Penn's administration had carefully observed the deteriorating conditions along the campus borders, but its discussions were brought to a head following the murders of two members of the university community in 1994 and 1996. Motivated by real and perceived threats to its physical campus and constituents, Penn faced a dilemma familiar to many urban anchor institutions—fight or flight (Rodin 2005). Within this context, the Penn administration elected to redefine its own role in the community and began to define more broadly the role of an anchor institution.

Conceived under the presidency of Judith Rodin, Penn created a new Trustee Committee on Neighborhood Initiatives (Rodin 2007). Penn consciously recognized that it was more than an owner of real estate for the dedicated purpose of its mission of teaching, research, and housing students. Instead, the university saw an opportunity to embrace its role as a community developer through a series of targeted investments. Under the banner of its WPI strategy, Penn targeted five core program areas (Ehlenz 2016):

1. **Delivering Services to the Public:** In response to waves of crimes against persons and property, Penn increased the size of its police force and created the University City District (UCD, 1997), a special services district initially devoted to public space maintenance, planting thousands of trees and flowers, and installing hundreds of new streetlights. UCD currently administers a wide variety of programs and services, including area marketing/promotion activities and a workforce development program (University City District n.d.).
2. **Homeownership and Rental Housing:** Penn provided employee-eligible grants enabling them to purchase or renovate homes within West Philadelphia neighborhoods. Between 1997 and 2003, employees could apply for \$15,000 grants; after 2003, they were eligible for \$7,500 grants. Since 1997, more than 1,500 staff members have taken advantage of the program (University of Pennsylvania n.d.; n.d.).

Penn also established the Neighborhood Preservation Development Fund (NPDF), originally partnering with Fannie Mae and third-party private developers to invest in mixed-use multi-family buildings (University of Pennsylvania n.d.). This program was intended to hedge against the rising costs of rental housing, while addressing substandard rental housing stock via property renovations. Since NPDF's inception, Penn has purchased 20 buildings that were not up to (or barely met) building code requirements, representing more than \$4 million in property investments and preserving 400 rental units. Following property rehabilitation, Penn leases the units below market rent levels, with the intent of providing increased affordable housing within the neighborhood. In accordance with fair housing law, the units are not restricted and are available to rent on the open market. Today, NPDF's renter profile includes 67 percent student-affiliated households, 27 percent non-Penn households, and 7 percent Penn-employee households.

3. **Commercial Development:** Penn converted several of its underutilized properties, such as surface parking lots and low-grade commercial space along Walnut Street (between 30th and 40th Streets) and along 40th Street (between Spruce and Chestnut Streets), to form two commercial corridors for bringing retail amenities to the community (University of Pennsylvania n.d.). This strategy has supported nearly 100 university and neighborhood-serving businesses, of which 60 percent are independently owned, bringing an additional 400,000 square feet of commercial space to University City, including a hotel, bookstore, full-scale grocery, cinema, restaurants, drugstore, national brand franchises, and local enterprises.

Examples of two major projects and two major nodes include (University of Pennsylvania n.d.):

- University Square at 36th and Walnut Streets (formerly branded as Sansom Common), a 350,000 square foot mixed-use development project that replaced a surface parking lot and is now a central retail and hospitality hub within University City. The development includes The Penn Bookstore (operated by Barnes and Noble), The Inn at Penn (operated by Hilton as a 290-room, Four Diamond accredited hotel), and 12 other retail businesses. Penn was the sole developer for the project,



Figure 1 Fresh Grocer (now Acme) Development Project
(University of Pennsylvania Facilities)

investing \$95 million to bring it to fruition, and the project covered most of its debt within its first three years of operation.

- At 40th and Walnut Streets, Acme (formerly Fresh Grocer), a 32,000-square-foot supermarket on the ground floor of a 700-space parking garage, and Cinemark, a 40,000-square-foot, six-screen cinema adjacent to several blocks of fully occupied commercial storefronts.

4. Economic Inclusion: Penn created a “Buy West Philadelphia” program in 1986 with an initial spend of \$30 million on local goods and services from local businesses in the skilled trades and professional services (University of Pennsylvania n.d.). In 2021, this initiative was rebranded as Fueling Business Growth, which has grown to an annual local spend of approximately \$130 million, targeted towards helping businesses owned by underrepresented minorities grow, prosper, and create economic development for Philadelphia.

5. K-12 public education in West Philadelphia: Penn donated land, as well as financial resources and design expertise, to develop a K-8 public neighborhood school, Penn Alexander

(Penn Alexander School n.d.). The school opened in 2001 and included an annual \$850,000 financial commitment towards operations and technical resources. In 2020, Penn signed a long-term agreement with the Philadelphia School District to invest \$850,000 annually in the neighboring Lea Elementary School as well. And, in 2021, Penn pledged \$100 million over 10 years to the Philadelphia School District to remediate lead, asbestos, and other toxins embedded in the schools. In addition, the Netter Center for Community Partnerships operates several university-assisted schools across West Philadelphia. Their work brings Penn’s human and intellectual resources to support local principals, students, and families in enhancing educational and personal development based on the community schools movement, wherein



Figure 2 Penn Alexander School (University of Pennsylvania Facilities)



local schools are the center of community life.

Following the launch of the WPI, Penn President Amy Gutmann (2004-2022) launched a new campus master plan, Penn Connects, that provided a 30-year vision and the next phase of Penn's anchor institution work (University of Pennsylvania and Sasaki 2006). Through this process, the Penn Trustees pursued an entirely new vision for campus planning, which included approaching development at an appropriate scale for (and in harmony with) the local community to the west of Penn's campus and directing any intentional expansion towards Center City (Philadelphia's Central Business District) to the east. The campus master plan included urban design principles to guide Penn's architecture and planning, increased investments in services and amenities, provision of local employment and education, and strategic real estate outlays to implement the vision. The subsequent implementation of the plan accounted for more than 8 million square feet of construction, with projects valuing more than \$3.5 billion on campus and medical-center land.

ANCHOR STRATEGIES TO ADDRESS AFFORDABLE HOUSING

Since the mid-1990s, Penn and the conditions of its University City neighborhoods have changed significantly. Whereas the housing market and neighborhood conditions were heavily shaped by disinvestment, deterring crime rates, and poorly maintained multi-family properties (frequently converted from single-family properties) during Penn's initial investments in the WPI, University City has since undergone a transformation (Ehlenz 2016). Today, the neighborhood's housing market has accelerated more quickly than many other Philadelphia neighborhoods and housing accessibility and affordability are the dominant concern for many households—as well as a substantial issue that is shaping future iterations of Penn's anchor institution work.

Given these changes, Penn has approached affordable housing in varying ways over time. Its initial investments were more directly addressing issues of housing stabilization and quality via the Neighborhood Preservation Development Fund. Subsequently, its strategies have shifted towards supply-side concerns, including the production of more student-centric housing within Penn's campus and facilitating opportunities for market-led production of multi-family housing.

THREE APPROACHES TO HOUSING IN UNIVERSITY CITY

APPROACH 1: REHABILITATING MULTI-FAMILY HOUSING STOCK IN UNIVERSITY CITY

When Penn launched the Neighborhood Preservation Development Fund (NPDF), its goal was to stem the deterioration of multi-family housing stock within University City. Specifically, the program targeted aging and declining multi-family housing stock with the aim of identifying opportunities for acquisition and rehabilitation. Initially established in partnership with Fannie Mae, University City Associates, and Trammell Crow Company (a real estate developer, investor, and property management group), NPDF largely targeted mid-sized multi-family buildings with the goal of upgrading the existing facilities and, subsequently, leasing the units to local residents—including students, although they were not the sole (or even the primary) targets for the properties—for a reasonable rent. Under NPDF, the properties were professionally managed—addressing issues with absentee landlords within the neighborhood—and rents were aligned with market-rate rents, though not overly competitive and the intent was to provide a supply of affordable (although not deeply subsidized) units within University City. Over time, NPDF's partnerships shifted, including the addition of University of the Sciences and Altman Properties (as the new property manager); in 2003, Fannie Mae assigned its equity interest to Penn—at no cost—but remained a potential funding source for future acquisitions. As of 2006, NPDF maintained a portfolio of 105 units located in six buildings; today, the portfolio includes more than 20 buildings in University City and rents more than 400 units with an asset value of approximately \$26 million.

APPROACH 2: INCREASING STUDENT HOUSING CAPACITY ON PENN'S CAMPUS

As part of its ongoing campus planning efforts, Penn has made investments in accommodating growing numbers of its undergraduate population in on-campus beds. Under President Gutmann's administration, residential housing policies required all first- and second-year students to reside within Penn's College House System (University of Pennsylvania n.d.). In consultation with student leaders, College House faculty and staff, undergraduate deans, trustees, student advisors, and other campus partners, Penn created a new Second Year Experience Program that offers expanded programming and events for second-year students (University of Pennsylvania n.d.). Beginning with the incoming Class of 2024, the Program will house all Penn sophomores in a two-year College House system. The concept is that a two-year College House system will measurably strengthen the sense of community among Penn's first- and second-year students—promoting students' achievement and well-being, enhancing support for students' academic and social lives, and increasing opportunities to engage with diverse programs and viewpoints. Housing all sophomores on campus also will



Figure 3 Gutmann College House (University of Pennsylvania)

eliminate a major source of stress and anxiety for first-year students, who have expressed pressure to consider second-year housing options during their first semester as Penn students.

Penn's ability to support a full two-year College House system was made possible by the construction of two new College Houses, Lauder College House, and Gutmann College House.

- **Gutmann College House**, situated on the western edge of campus near 40th and Walnut Streets, houses approximately 430 sophomores, juniors, and seniors (University of Pennsylvania n.d.). The facilities include state-of-the-art amenities, with communal study areas, common living and social spaces, seminar and music practice rooms, as well as a coffee bar, meditation room, fitness space, tinker space, and six club rooms with kitchens.
- **Lauder College House** officially opened its doors on August 24, 2016 and is the first Penn residential building specifically designed as a college house (University of Pennsylvania n.d.). The University's residential system brings together undergraduates, faculty, staff, and graduate students to form shared communities within the larger context of Penn's campus. Designed by the Philadelphia-based design firm of Bohlin Cywinski Jackson, the seven-story, 198,000-square-foot, \$121 million project houses undergraduate students, in three-, four-, five-, and six- bedroom suites with a dining venue and many public



and programmatic spaces built around a private central courtyard. As a four-year house, Lauder College House is a microcosm of Penn.

APPROACH 3: ATTRACTING PRIVATE SECTOR DEVELOPMENT TO BUILD MARKET-RATE MULTI-FAMILY HOUSING IN A CONCENTRATED DEVELOPMENT ZONE ADJACENT TO CAMPUS

As Penn limited its westward expansion into the adjacent non-institutional residential neighborhoods, its Trustees supported growth towards the east, south, and north. These real estate moves involved complicated deals, including a variety of private development partnerships and ground leases for income and land ownership retention (University of Pennsylvania n.d.).

To the east, the Trustees purchased a former General Electric manufacturing facility and leased it to a local private developer who invested \$79 million to create The Left Bank (2001, 3131 Walnut Street), a property conversion that includes apartments, retail, childcare, parking, and Penn offices. Subsequently, Penn invested in a \$23 million adaptive reuse project, resulting in WXPN, Penn's radio station, and The World Café (2004, 3025 Walnut Street), a restaurant and live music venue. In 2007, Penn assigned a lease of a surface parking lot to a national developer, who invested \$70 million in a new construction, mixed-use residential project known as Domus (3401 Chestnut Street). Penn continued this land-leasing strategy, as Penn Trustees sought additional private sector residential investment proximate to campus within University City. This approach included an \$80 million project by a local developer to build the Hub (2007, 3945 Chestnut Street) and an \$100 million project by a national developer for the Radian (2008, 3925 Walnut Street). Together, these residential developments added more than 850 apartments for student housing, as well as nearly 100,000 square feet of retail.

In 2007, the Trustees also acquired the United States Post Office of Southeastern Pennsylvania campus, located along the Schuylkill River from Market Street to South Street. The property included 24 acres of offices, warehousing, transportation logistics and parking, which Penn purchased for \$50.6 million. Subsequently, Penn sold the office portion of the site to a local real estate investment trust, Brandywine Realty, for conversion into a regional headquarters for the Internal Revenue Service (IRS). Penn also leased the logistics portion of the site to Brandywine Realty for the construction of residential projects, including EVO (2014, 850 apartments), FMC Tower (2016, 216 apartments), and a separate 2,400-car parking facility. And, on the remaining 14 acres of land, the Penn Trustees invested in the creation of a campus and community recreational and open space, known as Penn Park (2011).

WEST PHILADELPHIA: PROGRESS & NEXT STEPS

Today, the demand for affordable housing in Philadelphia far exceeds the available supply. In February 2023, the Philadelphia Housing Authority (PHA) opened its waiting list for housing choice vouchers for the first time in 12 years (Philadelphia Housing Authority 2023). PHA used a lottery to select 10,000 applicants for the wait list, though demand far outpaced the opportunity with nearly 37,000 households applying for a voucher (Jones 2023). Meanwhile, in the next five years, contracts between private property owners and the US Department of Housing and Urban Development (HUD) that extend affordable housing units to approximately 1,000 households will be up for renewal. If these property owners do not renew their contracts, Philadelphia's affordable housing reserve will be further reduced, deepening the city's affordable housing crisis.

This situation is currently playing out in West Philadelphia at the University City Townhomes (UC Townhomes) (Bond 2021a; McCarthy 2022; Torrejón 2022). Built in 1982 as 67 individual townhomes, the property has operated as affordable housing for 40 years under a contract with HUD. In 2021, the owner of UC Townhomes exercised their legal right to not renew their contract with HUD, and residents were notified that they would need to find new housing (Bond 2021a). This event has been traumatizing for residents, who are not only facing



an unexpected move but must also find alternative affordable housing under time constraints in a city that lacks affordable housing (McCarthy 2022; Torrejón 2022). Advocates for affordable housing point to this as an example of the inequalities that exist between Penn and West Philadelphia's Black community. The situation has introduced an ongoing debate that questions Penn's anchor institution strategies broadly, as well as the relevancy of current strategies given the brewing affordability crisis in West Philadelphia (and beyond) (Bond 2021b; Torrejón and Snyder 2022).

The future of Penn's anchor strategy remains committed to its original WPI principles: enhanced public safety; commercial real estate development as community amenities; support for public education; economic inclusion, especially local and diverse procurement strategy; and housing and homeownership. Yet, West Philadelphia's current housing market requires a bold new approach that addresses current challenges (and builds on future needs). In accordance with Penn's mission and role as an anchor institution, both the university and the city would benefit from a sustainable plan of action for how to best support and influence the preservation and expansion of quality affordable housing in West Philadelphia. To this end, Penn is pursuing a new vision to guide its future anchor investments. In January 2023, Penn announced a four-year investment in Rebuilding Together Philadelphia to preserve up to 80 homes owned by West Philadelphia senior citizens. The program seeks to provide financial support for aging in place, addressing challenges as West Philadelphia homeowners age and face emergent concerns related to fixed incomes and the cost of ongoing property maintenance, leaving them vulnerable to displacement.

Working with the Penn Institute for Urban Research (Penn IUR), the Office of the Executive Vice President (the sponsor of many the institution's anchor strategies) is analyzing the affordable housing situation in West Philadelphia into the future, including an assessment of the current relationship the city, state, and federal governments have with respect to affordable housing. Through this work, Penn is evaluating how peer anchor institutions, in partnership with public, private, and nonprofit sectors, have engaged with and impacted affordable housing, to identify best practices. In addition, Penn is gathering input from the West Philadelphia community, students, and other relevant stakeholders regarding the needs and challenges of affordable housing within the neighborhood.



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