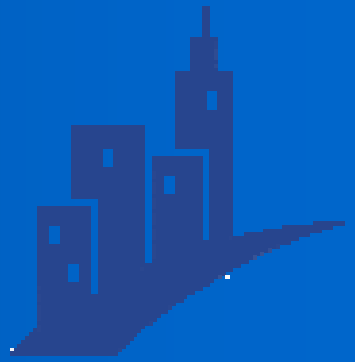
The Brookings Institution

Metropolitan Policy Program

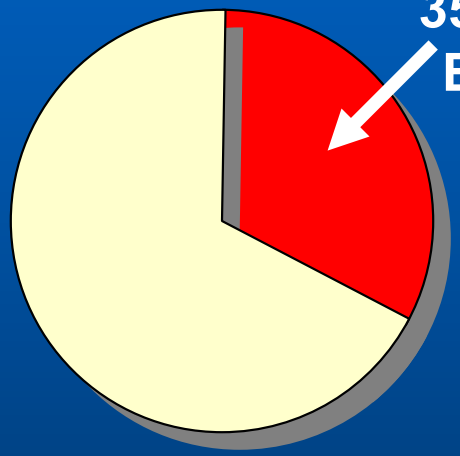


The *Structural* Shift in Building The Built Environment

Implications for Transit-oriented Development & Real Estate Corporate Strategy

Christopher B. Leinberger

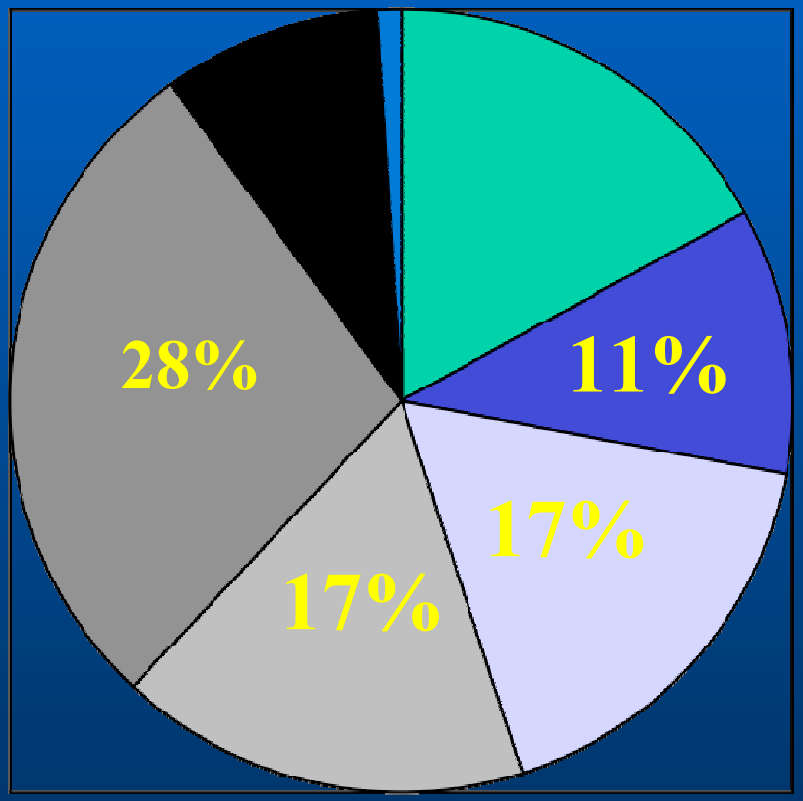
Size of Built Environment Vs US Assets



3rd Fastest Growing Country in Absolute Population Increase
Will add next 100 million by 2040s

***Source: Roulac Global Places, LLC**

Role of Built Environment in Green House Gas Emissions



- Ind-Non RE
- Ind-RE related
- Commercial
- Residential
- Transportation
- Agriculture
- Other

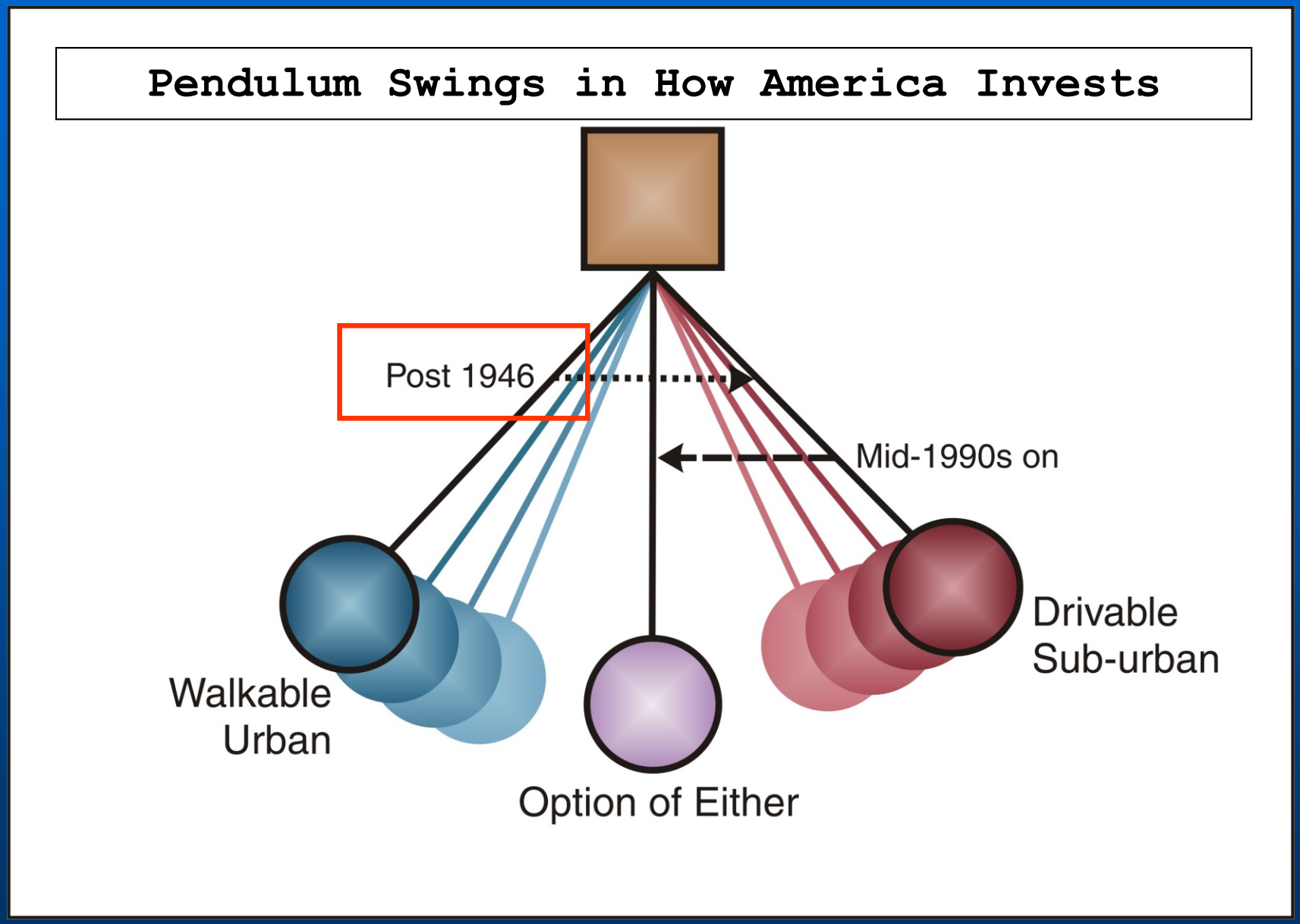
Built Env. = 73% of GHG Emissions in USA

Transportation Drives Development:

We first build our transportation system and then it molds our metro regions

Modification of Winston Churchill quote

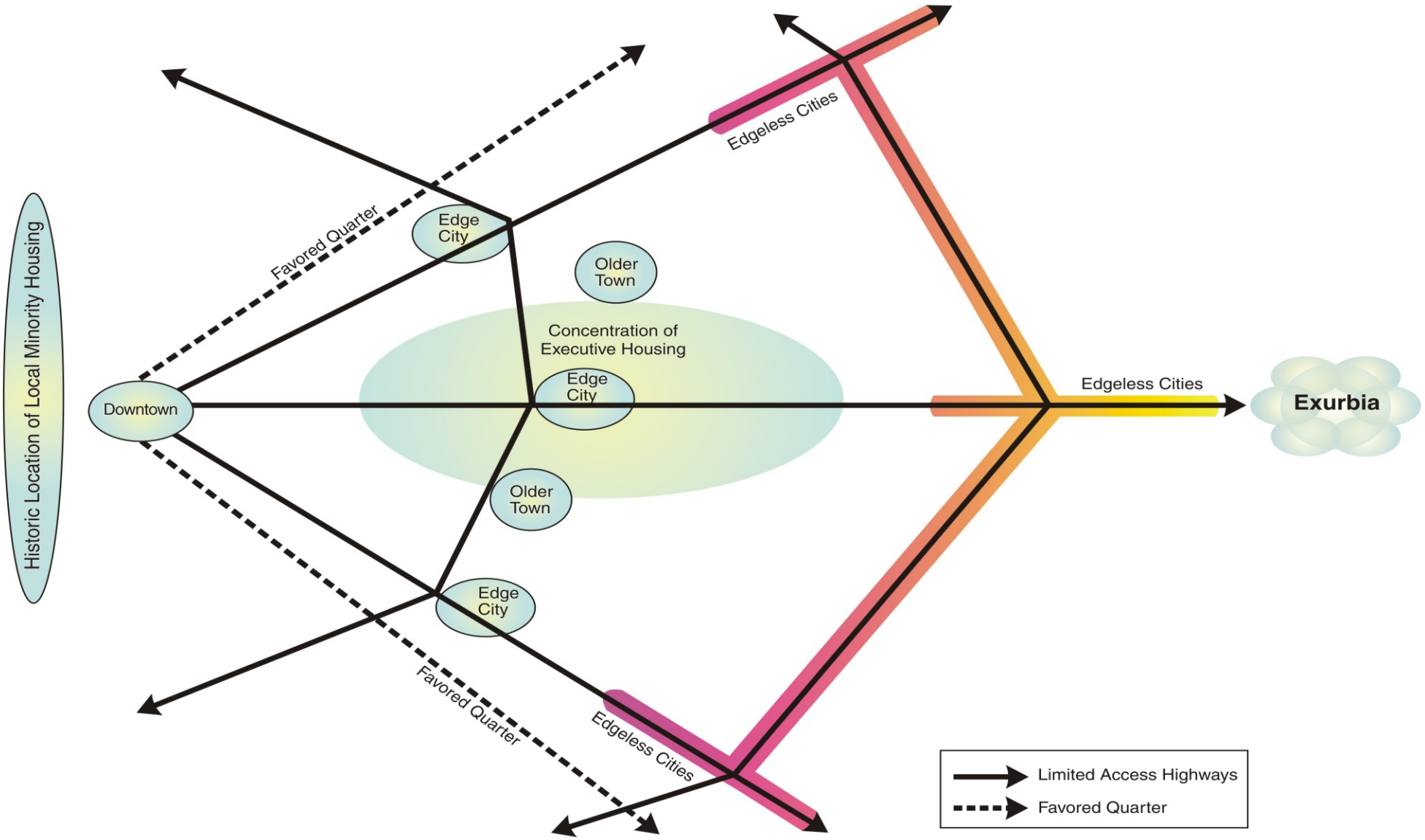
New Method of Building the Built Environment: Drivable Sub-urban



De facto Domestic Policy Starting in 1950s→ Largest Social Engineering Project

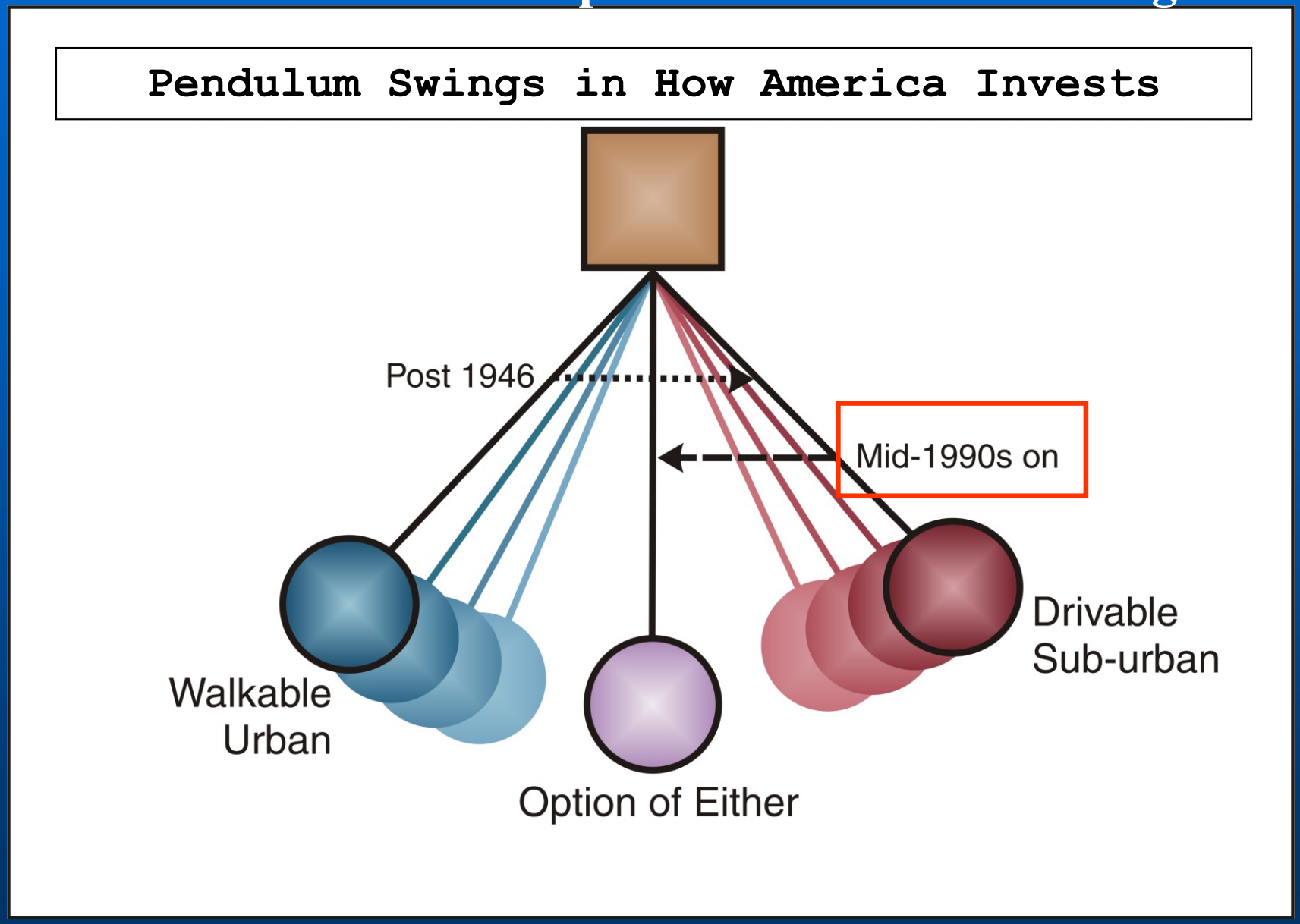
- Drivable sub-urban generally only legal form
- Massive subsidies for infrastructure—trillions for drivable sub-urban while billions for cities
- Finance industry more comfortable with drivable sub-urban
- Real estate industry skill set

How it Laid Out on the Ground:1960-present



1960-1989 → 1990-present

Just as we in real estate got really good at building drivable sub-urban development…the market changes on us



The Beginning of Another Structural Shift

Primary Reason for Market Demand for Walkable Urban Places ?

The Millennials:

As Seen on TV!

Television as a reflection of how we want to live…then and now

I Love Lucy—January, 1957

Key Ideas: Great for children, fresh air, Jeffersonian agricultural ideal, “home” (starts in city)

Seinfeld—1991

Key ideas: Single friends strolling in safety down a lively urban street, delayed marriage/child rearing

Other Reasons for Market Demand for Walkable Urban Places

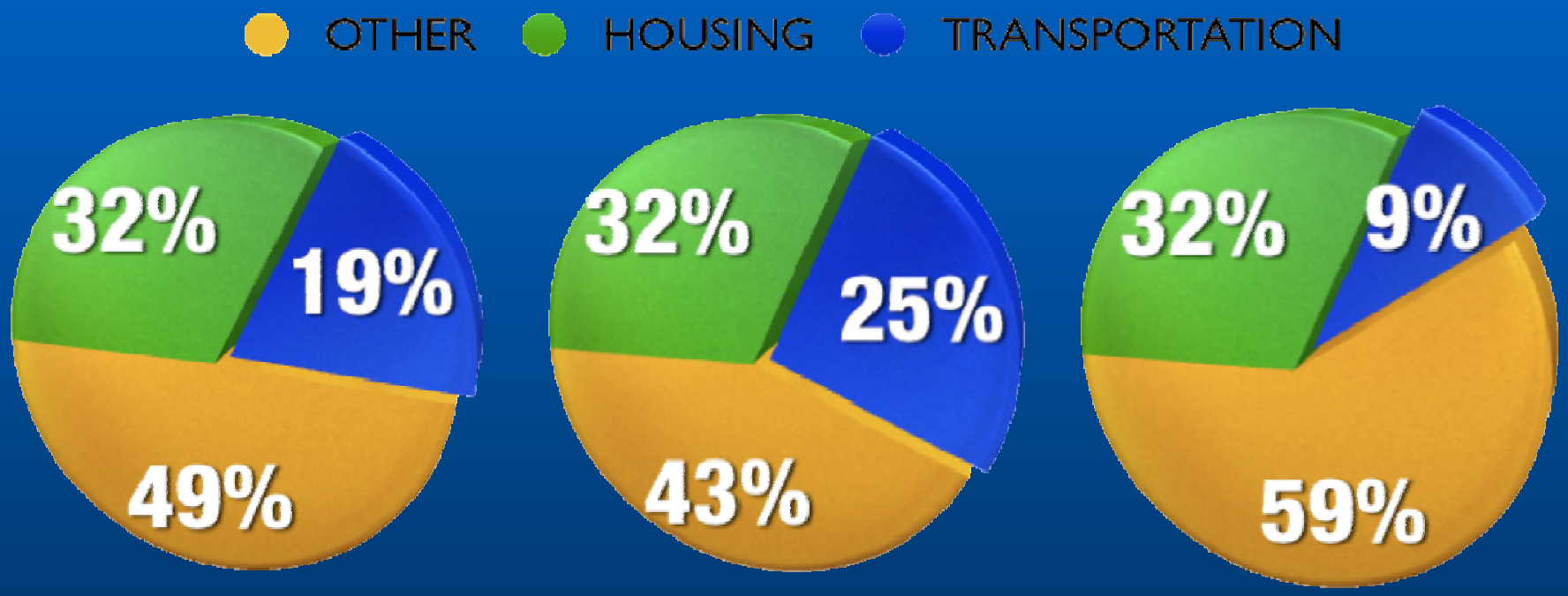
- Driven by Millennials
- Baby Boomers have become empty nesters and soon retirees, starting in 2012 in big numbers
- 50% of Households in 1950s w/children/50% w/no children; 33% w/children today/67% without;

  ONLY 14% of new households over next 20 years will have children/ 86% without→ target WU market
- Boredom with drivable sub-urbanism; "More is Less"
- Expense of maintaining the household fleet of cars

Average U.S. Household

Drivable Sub-urban

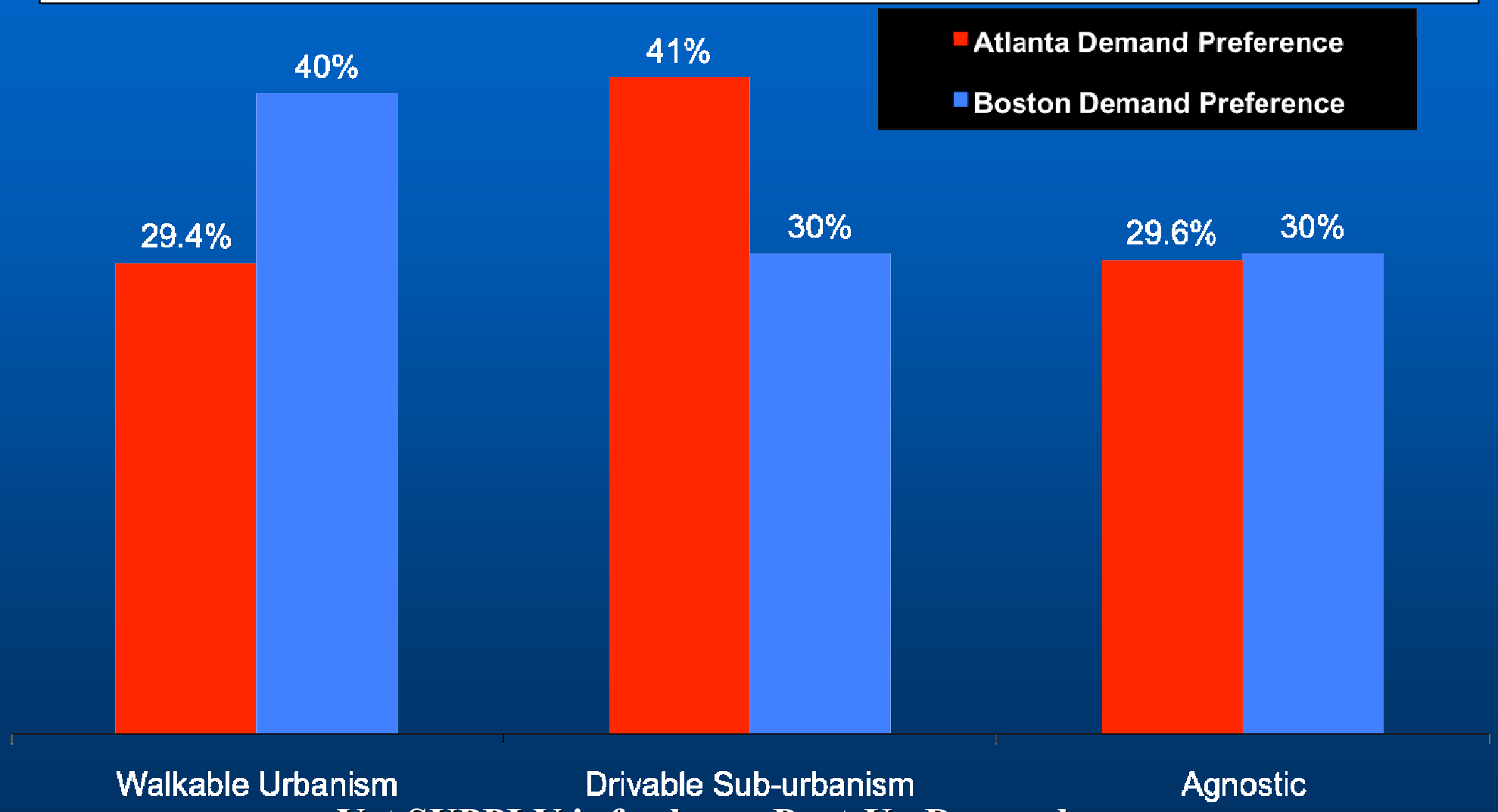
Walkable Urban



Get rid of one car from the household fleet: huge increase in Mortgage carrying capacity

Demand Preference

Source: Dr. Jonathan Levine, University of Michigan



Yet SUPPLY is far less = Pent-Up Demand

Drivable Sub-urban VS Walkable Urban Homes

Both upper-middle neighborhoods

- Schools: Among best in nation
- Zillow Value: $1,194,000
- Sq Ft: 4254
- Lot: 43,560
- Walk Score: 18 of 100
- $/sq foot: $281

- Schools: Among worst in nation
- Zillow Value: $1,950,000
- Sq Ft: 3400
- Lot: 1597
- Walk Score: 89 of 100
- $/sq foot: $574

$/Ft Value Comparison: 2:1

How Walkability Raises Home Values in US Cities (CEOs for Cities, August, 2009)

- 90,000 sales in 2008 and early 2009 in 15 metros
- Controlled for size, socio-economics, type of home (only school quality not known: favors D-SU housing in this analysis, like example)
- 1 WS point=$500 to $3000 in value (higher in DC metro: $17,500 in example)
- "Walkability is strongly associated with higher housing values in nearly all (US) metropolitan areas"
- What was this relationship 20-30 years ago? Opposite

Walkable Urban Places are Different & Complex to Manage

- Teaching a NASCAR Driver to be a Fighter Pilot
- Must Have a Strategy & Be Managed to Succeed, e.g., BID
- Each New Element Adds Value to Existing Assets…*IF* within Walking Distance (1500-3000 feet)
- Creates a Special Place…and Significantly Greater Asset Values and Taxes
- *More is Better*— Upward Spiral

U.S. Metropolitan Land Use Options

	Regionally Significant	**Local-Serving**
Walkable Urban	Locus 1-2% of Metro Area Downtown, Downtown Adjacent, Suburban Town Center, Strip Commercial Redev., Green Field	Community 3-7% of Metro Area Center city and Inner suburban neighborhoods
Drivable Sub-urban	Edge City 5-7% of Metro Area Regional-anchored , industrial, Office parks	Bedroom Community 80-85% of Metro Area Inner and Outer Suburbs

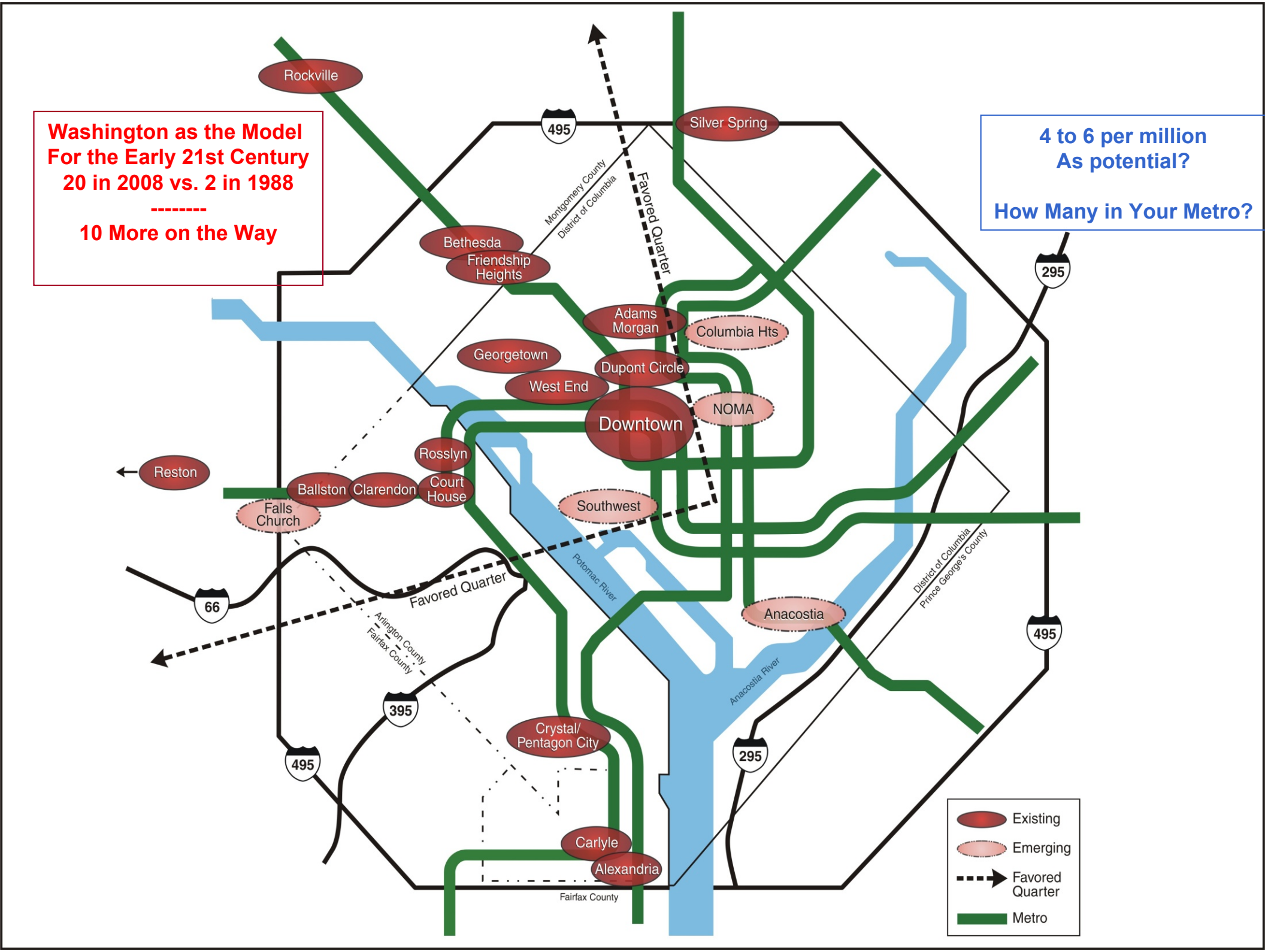
Footloose & Fancy Free
Brookings Field Survey, December, 2007

- Washington has highest per capita number (20 VS 2 & 10 more emerging), followed by Boston, San Francisco, Denver & Portland
- 4-6 walkable urban loci/million population
- 65% of WU places have rail transit…DC 90% do
- 50/50 split between center city and suburban locations; 70% in DC
- 100's more walkable urban loci probable…where will they be in each metropolitan area?

Regional-serving Walkable Urban Locus: 5 Types (examples developed since 1990)

Suburban Located Center City

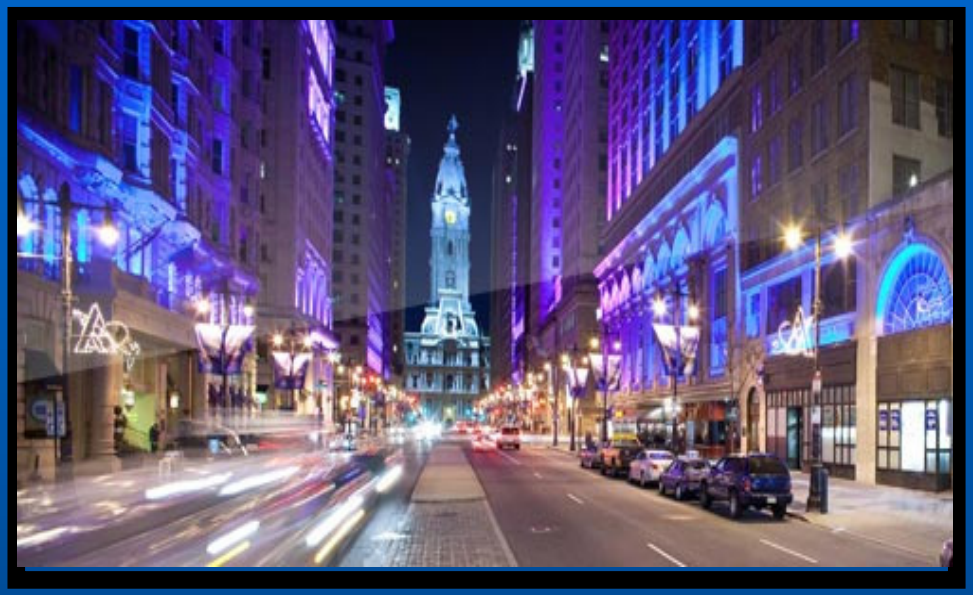
- Traditional Downtowns (San Diego, Denver, Downtown NYC, Seattle, Chattanooga, DC, etc.)
- Downtown Adjacent (Dupont Circle, West End (DC), Atlantic Station, Midtown Atlanta, etc.)
- Suburban Town Center (Pasadena, Santa Monica, Beverly Hills, Palo Alto, Mountain View, Redmond, White Plains, Stamford, etc.)
- Suburban Redevelopment (Ballston, Friendship Heights, Belmar, Santana Row, etc.)
- Suburban Green Field (Valencia Town Center, Reston Town Center, new generation of lifestyle centers, etc.)


Washington as the Model
For the Early 21st Century
20 in 2008 vs. 2 in 1988
---
10 More on the Way
4 to 6 per million
As potential?
How Many in Your Metro?
Rockville
Silver Spring
Bethesda
Friendship Heights
Adams Morgan
Columbia Hts
Georgetown
Dupont Circle
West End
Downtown
NOMA
Rosslyn
Reston
Ballston
Clarendon
Court House
Falls Church
Southwest
Anacostia
Crystal/ Pentagon City
Carlyle
Alexandria
Fairfax County
Montgomery County
District of Columbia
Favored Quarter
Favored Quarter
Arlington County
Fairfax County
Potomac River
Anacostia River
District of Columbia
Prince George's County
495
295
66
395
Existing
Emerging
Favored Quarter
Metro

Traditional Downtown: Washington D.C.-2007

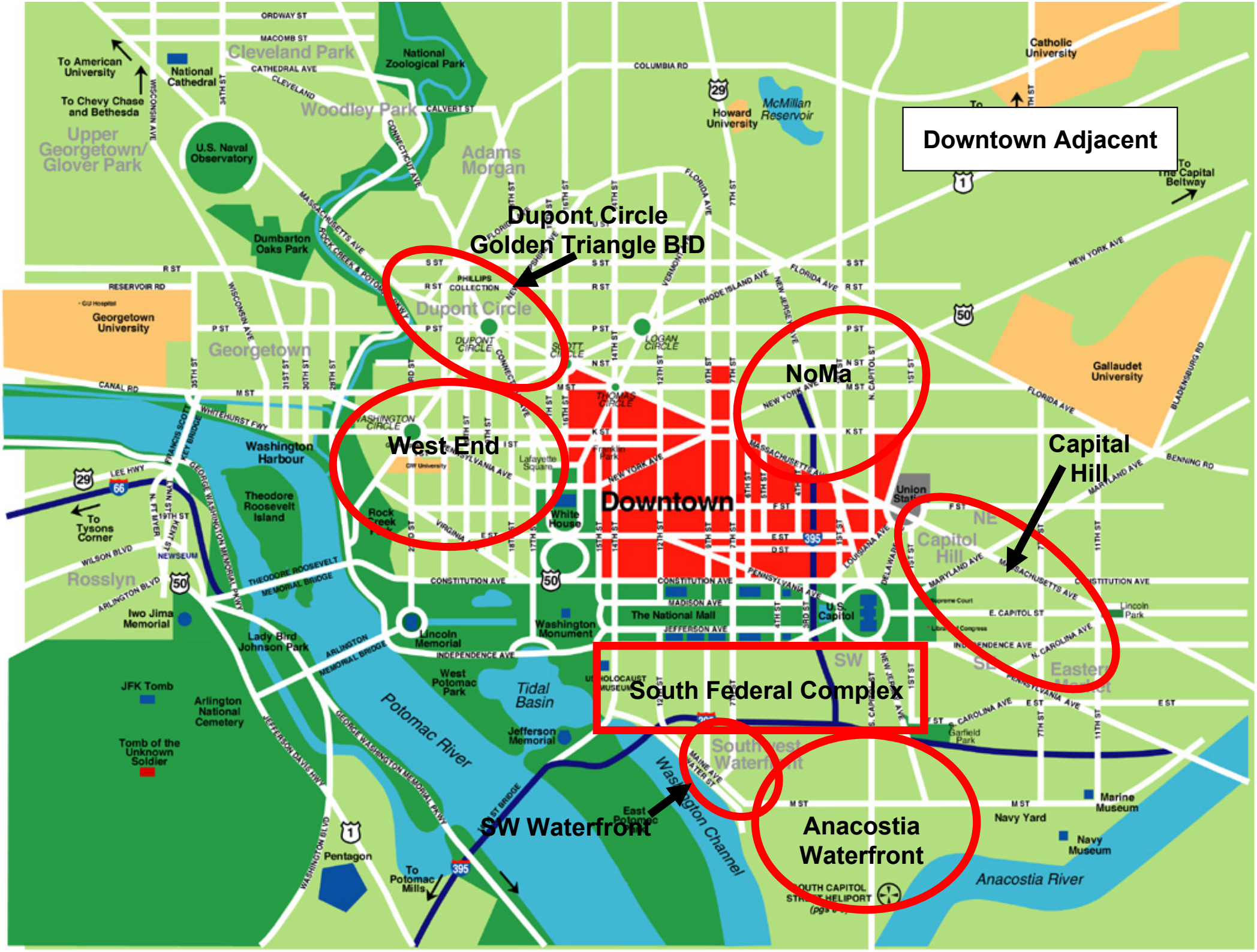
Downtown Portland, OR

Center City Philadelphia



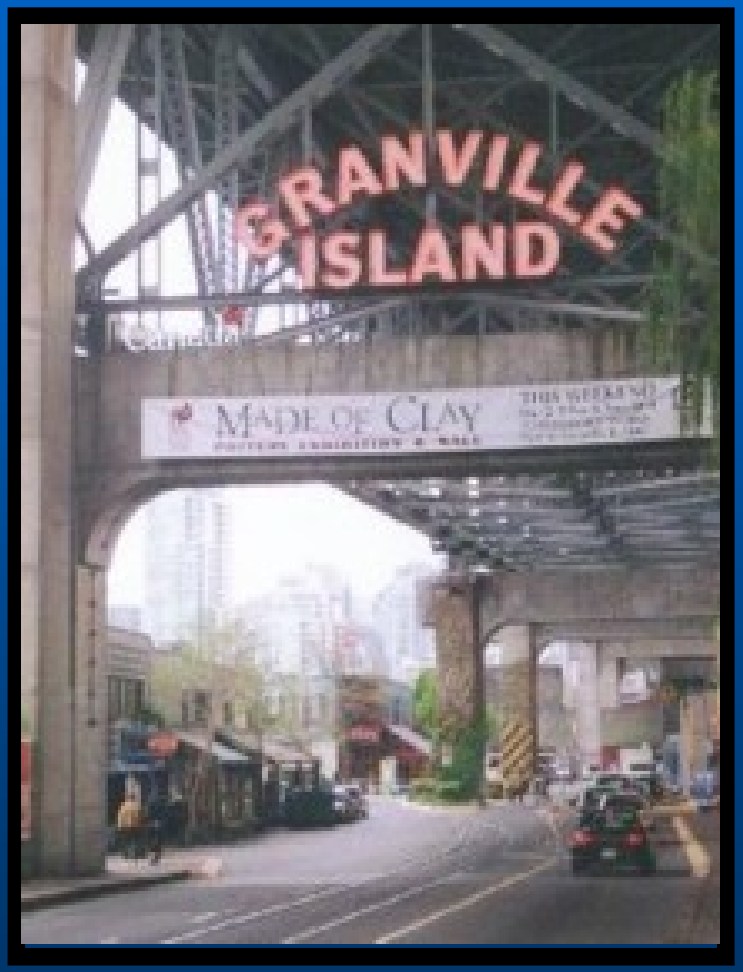
Downtown Boise, Idaho

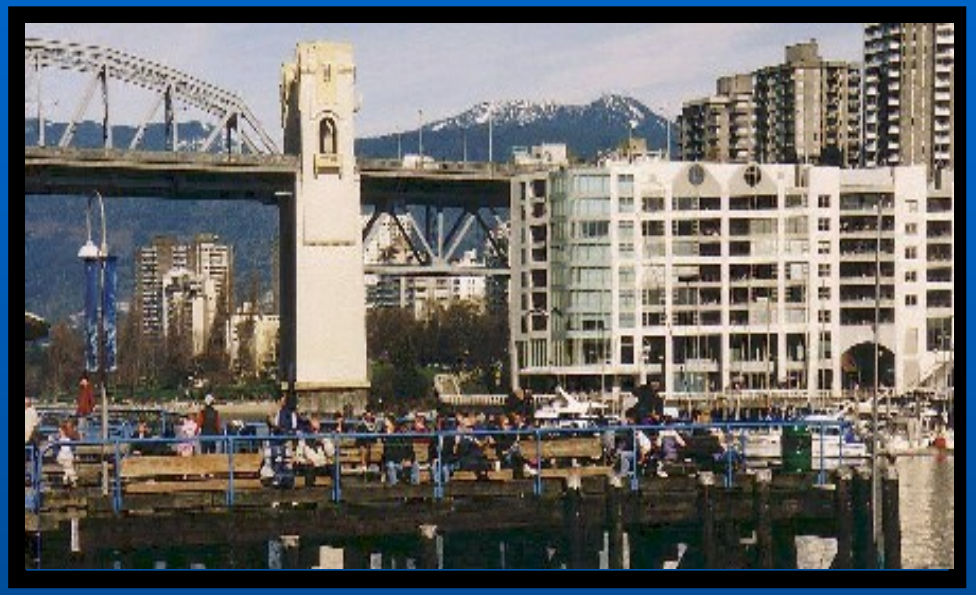
Metro Population—588,000


Downtown Adjacent
Dupont Circle
Golden Triangle BID
NoMa
West End
Capital
Hill
Downtown
South Federal Complex
SW Waterfront
Anacostia
Waterfront
Cleveland Park
Woodley Park
Adams
Morgan
Upper
Georgetown/
Glover Park
Dupont Circle
Georgetown
Rosslyn
Capitol
Hill
Southwest
Waterfront
Potomac River
Washington Channel
Anacostia River
Tidal
Basin
Washington
Harbour
Theodore
Roosevelt
Island
Lincoln
Memorial
Washington
Monument
The National Mall
U.S.
Capitol
White
House
Jefferson
Memorial
Arlington
National
Cemetery
Pentagon
Iwo Jima
Memorial
Lady Bird
Johnson Park
West
Potomac
Park
Dumbarton
Oaks Park
U.S. Naval
Observatory
National
Cathedral
National
Zoological Park
Howard
University
McMillan
Reservoir
Catholic
University
Gallaudet
University
Georgetown
University
Lincoln
Park
Marine
Museum
Navy Yard
Navy
Museum
Garfield
Park
To American
University
To Chevy Chase
and Bethesda
To
Tysons
Corner
To
Potomac
Mills
To
The Capital
Beltway
JFK Tomb
Tomb of the
Unknown
Soldier

Downtown Adjacent: Dupont Circle

Granville Island





Suburban Town Center: Bethesda, MD

Suburban Redevelopment: Ballston – Arlington, VA

Suburban Green Field: Reston Town Center – Reston, VA

Transformation of the Suburbs
Via Italia—Lakewood, CO: Circa 1970

Belmar-Lakewood, CO: Circa 2006

Suburban Redevelopment: Belmar – Lakewood, CO

Observations on Metropolitan America—Bad News

- Structurally overbuilt the wrong product in the wrong location, which the market does not want
- Sub-prime (3-5% of all mortgage debt) was the warm up for the collapse of fringe drivable sub-urban development (10-20%)
- The market clearing price of fringe drivable sub-urban housing is substantially below replacement; The Next Slum
- This *structural* overbuilding is the primary (not the only) reason for this financial crisis—last gasp and bailout of sprawl

Observations on Metropolitan America—Good News

- Pent up market demand for growth of existing & **hundreds** of new *regionally significant* walkable urban loci; majority anchored by rail transit
- Pent-up market demand for growth of existing & **thousands** of new *local-serving*, walkable urban communities
- Will be driver for 35% of American economy for a generation, just like 1950s-1990s but a different product type
- Walkable urban **infrastructure** is vastly cheaper per unit or per square foot
- Significant Profit, Tax Increase and Value Capture Potential
- We are figuring out how to building walkable urban places

Implications on the Economy

- Fundamental shift in household spending from auto-based transportation to housing and maybe even…savings; biggest macro-economic trend
- It will take a minimum of 30 years to catch up with the pent-up demand for walkable urban product, a major driver of the economy
- Realignment at the two "missing" levels of governance:
  - Regional Management, especially transportation, more influential MPOs and "blueprint planning", like Sacramento and Envision Utah
  - Management of regionally significant places

So…what should the U.S. do next?

Remember: *Transportation Drives Development*

Transportation for America (T4America) is a growing and diverse **coalition** (360 partners) focused on **reforming the national transportation policy in 2009**.

Go to www.t4america.org

TRANSPORTATION for AMERICA

Transportation For America

- Reconnecting America (co-chair)
- Smart Growth America (co-chair)
- **APTA**
- Action! For Regional Equity
- America Bikes
- American Public Health Association (APHA)
- Apollo Alliance
- **LOCUS: Responsible Real Estate Developers and Investors**

- National Association of City Transportation Officials (NACTO)
- **National Association of Realtors**
- **National Housing Conference**
- **BOMA**
- Natural Resources Defense Council
- PolicyLink
- **Real Estate Roundtable**
- Transit for Livable Communities (TLC)
- US PIRG
- Research Support: **Urban Land Institute** & Brookings

Developing TOD

1. Place-making
2. Place Management
3. Paying for Transit
4. Strategic Corporate Change

Place Making is a Three-Legged Stool

Walkable Urban Place

Public Sector

Place Management is KEY

Private Developers

How Do You Do It?: Settling the Stage

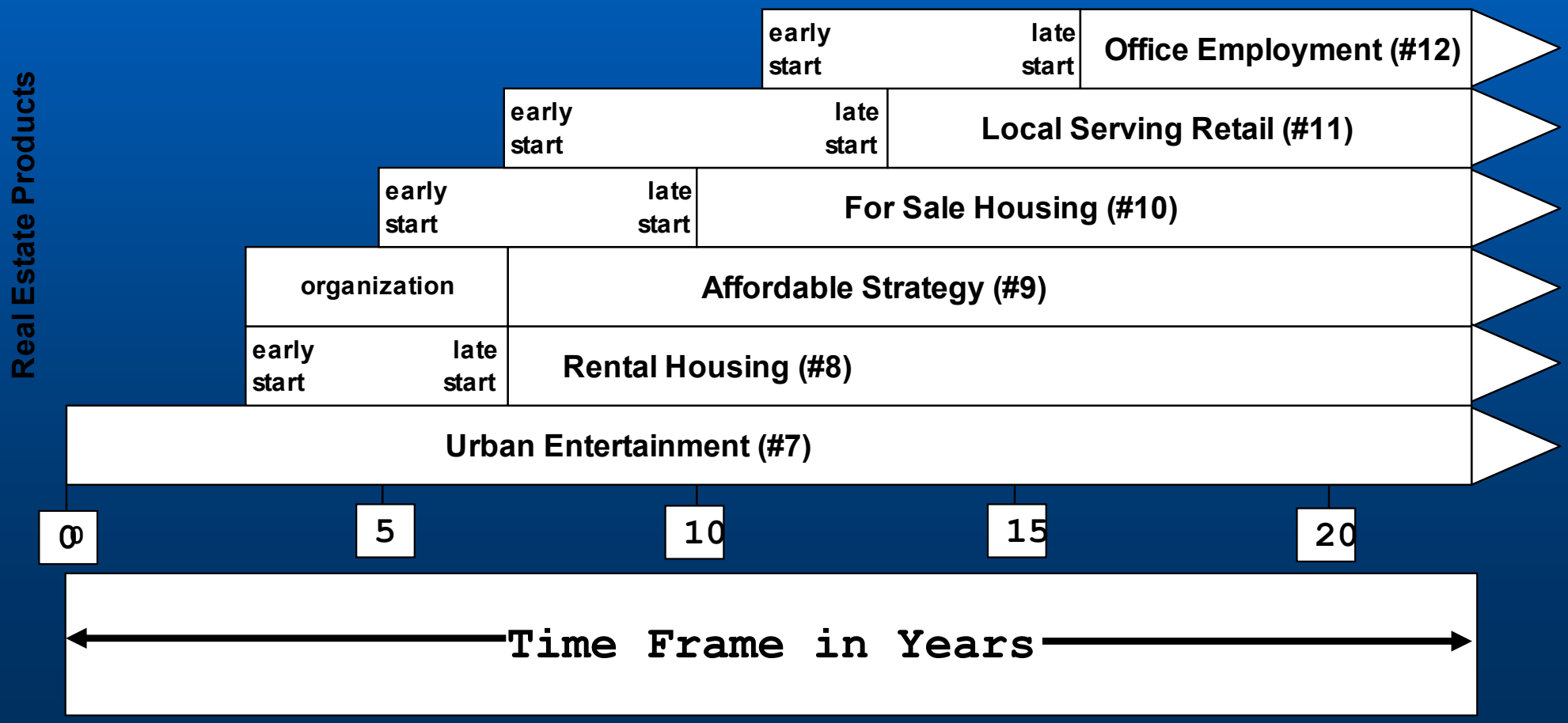
- 1. Intention and Vision
- 2. Strategic Plan
- 3. Role of Public Sector

  -*private/public* partnership

- 4. Make the Right Thing Easy
- 5. Establish BID and Other Non-Profits
- 6. May Need to Create a Catalytic Development Company

Progression of Real Estate Products Over Time in a Reviving Downtown

www.brookings.edu/walkableurbanism



Management Models for Walkable Urban Place Management

Cost Center

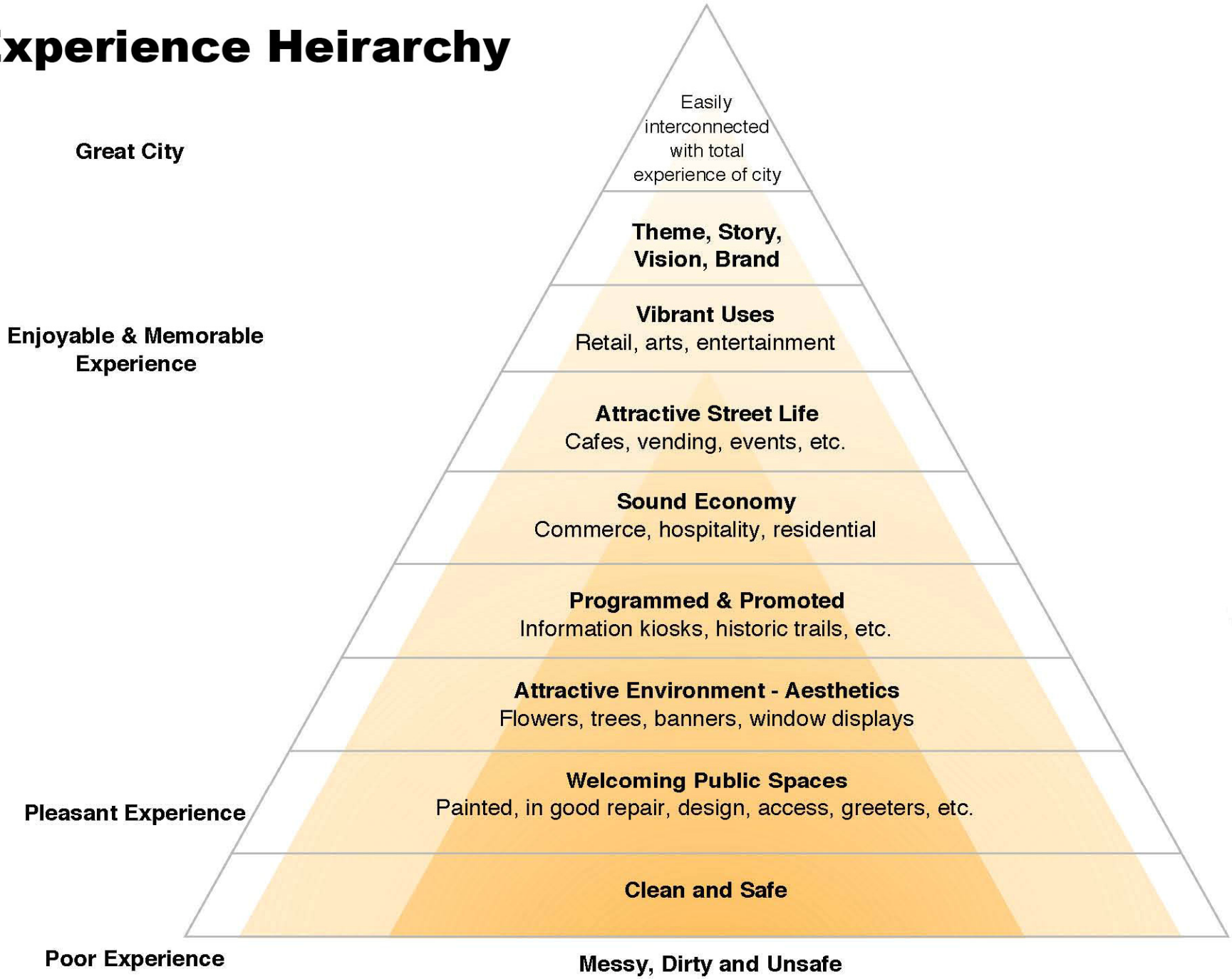
Profit Center

Investment Center

City Management → Business Improvement District → Festivals, Events & Sponsorships → •Management Of Services for Public & Priv. Sectors •Manage other Walkable places •Aggressive Retail Mgmt → •Incremental Investment & Management Of Existing: •Parking decks •Parks •WiFi • Other → •Capital Investments For New Infrast. & Parking •Real Estate Development •Bus and Rail Development & Mgmt •Political Legitimacy

Bryant Park: From “Needle Park” to Best Park in Country

Experience Heirarchy



Source: Richard Bradley, Downtown DC BID

How to Pay?—Learn from Our Past

Pacific Electric in southeast LA-1915

Salt Lake City-1920s

West End & Atlanta Street Car-1920s

Pacific Electric in San Gabriel Valley-1918

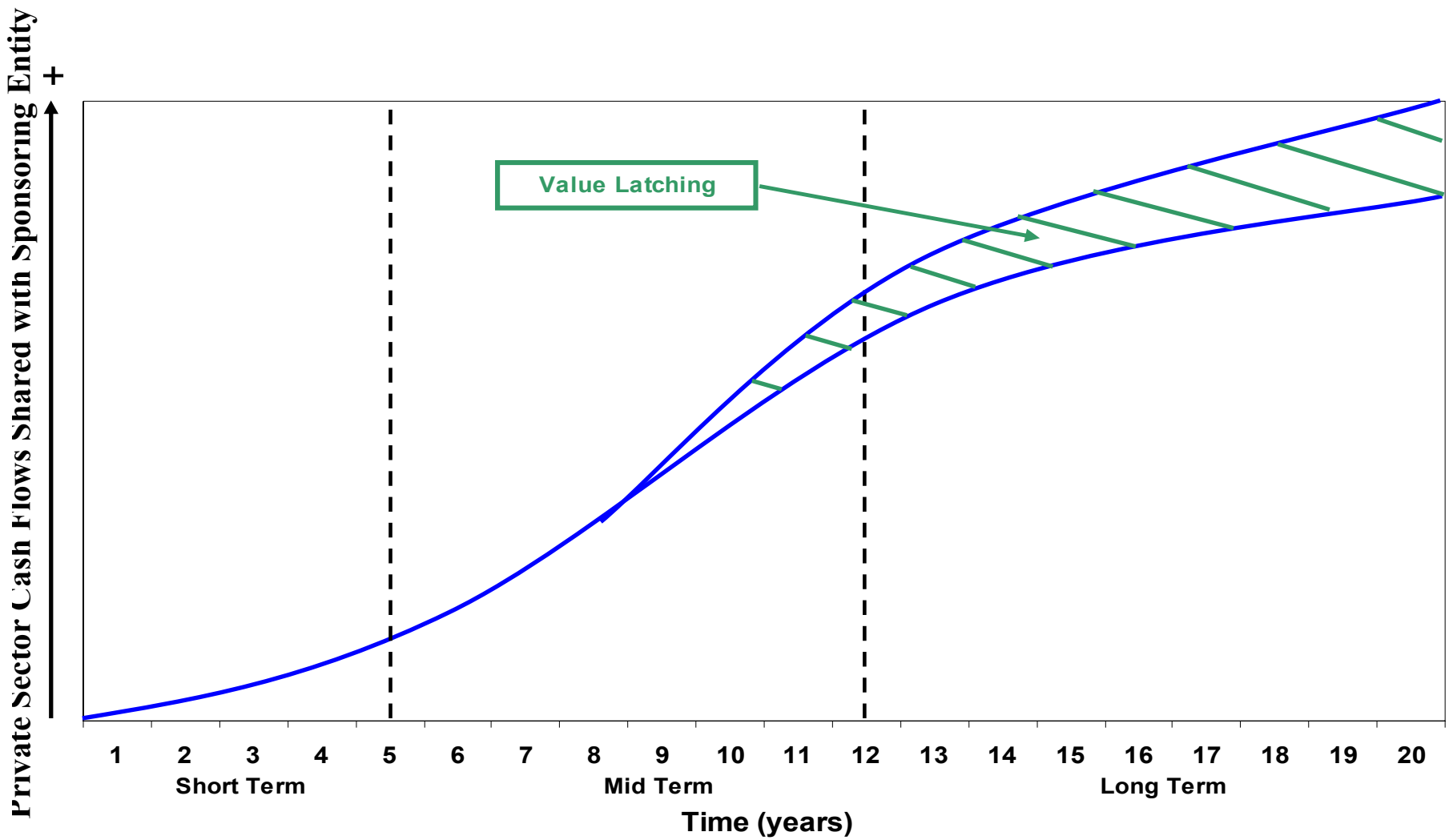
Common Strategy: Privately developed; land profits subsidized transit

Once Again; Link Transportation with Land Profits: $140 MM Streetcar*

- Public tax-increment financing (109% of TIF)
- Private special assessment districts—upfront cash from private sector (14% of 2008 assessed value)
- Private special assessment districts—increased property taxes (increase of 49% falling to 31% over 20 years)
- Private shared ownership with sponsoring entity—limited partner ownership (17% of upside cash flows)

***Brookings Institution study for DC Surface Transit, Inc., 2009**

Value Latching: Shared Equity Ownership with Sponsoring Entity



Growth Strategies for Real Estate Companies

- 1970s-80s: Market penetration of home market
- 1990s-00s: New markets for same products (especially REITs since WS did not trust sector)
- 2010s on: Expand into multiple products in same markets in a mixed-use, walkable urban place with extensive management

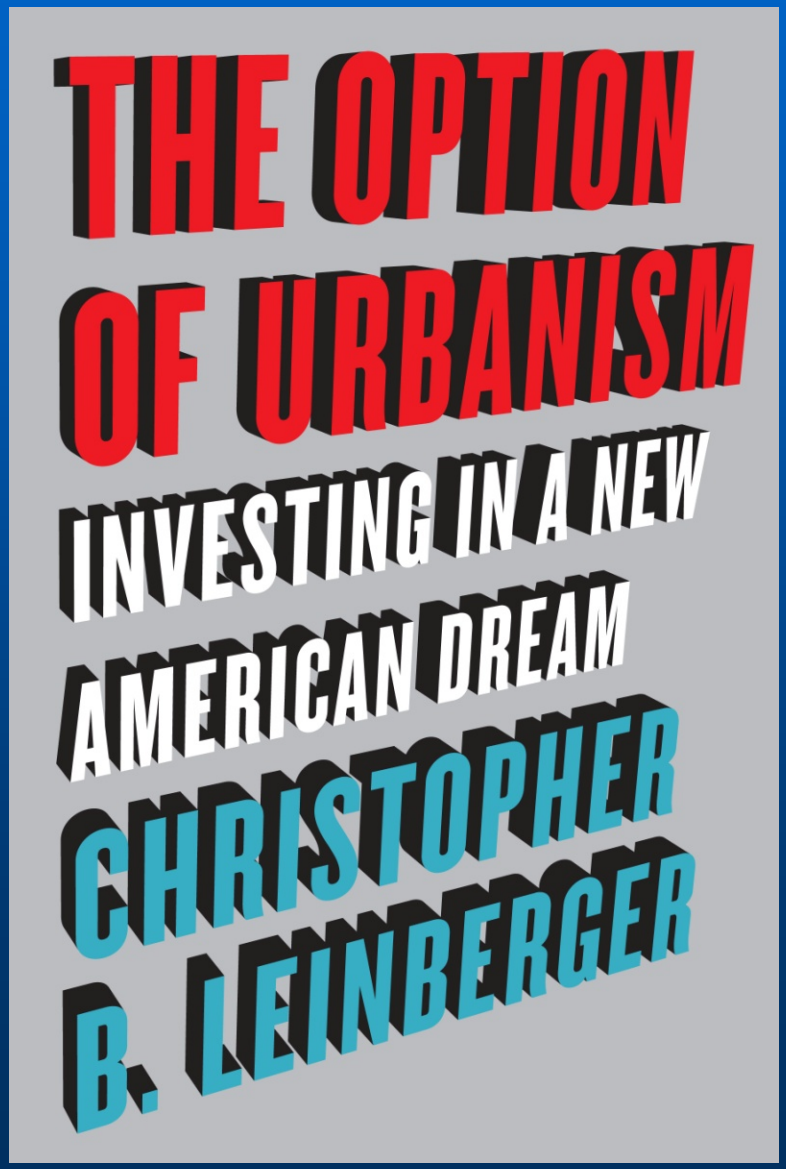
	Same Market	**New Market**
Same Product	Market Penetration-Strategies of 70s-80s (lowest risk)	Strategies Of 90s & 00s (moderate risk)
New Product (s)	Strategies of the Next Expansion (moderate risk)	Madness (highest risk)

The On-the-Ground Future of Independence

Note: Street life, people of all ages walking to destinations, increased property values and proximity to downtown Kansas City in distance

That is the Future

TAKE IT AND RUN

References:

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- *The Next Slum?,* The Atlantic Monthly, March, 2008 (www.theatlantic.com)
- www.cleinberger.com
- www.brookings.edu/walkableurbanism
- www.t4america.org