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Labor Project

# THE NEW ECONOMICS OF PLACE

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EXECUTIVE

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# THE NEW ECONOMICS OF PLACE

“Smart growth” and “new urbanism”—or, at the other end of the political spectrum, “open” development—whatever you call it, everyone is talking about how to achieve sustainable development. But what do these concepts mean for chamber executives working to increase the economic vitality and quality of life of their regions?

One school of thought holds that sustainable development should be attained by coordinating real estate development, architecture, urban planning and public-private partnerships; another believes that communities should develop in a more laissez faire way using a low-regulation approach to development.

Whichever school of thought you subscribe to, the nature of economic development has changed, necessitating a review of current land use planning practices. Not so long ago, economic development was mostly focused on recruiting businesses to locate in your community. But today, economic development has become firmly connected to place and the environment. Therefore, before we can have sustainability, we must understand how to create good places to live and work; in other words, a good quality of life for all.

“Quality of life” was once just a buzzword used as the calling card of the local neighborhood activist. As measured by the quality of our neighborhoods, our cities and our regions, quality of life has now become a bottom-line factor for many business decisions.

Why? Business decisions continue to be driven by competition. And competition is more and more about recruiting the best talent—people who have the luxury of living and working wherever they desire. Accordingly, attracting the best and the brightest means that companies must also provide access to an attractive quality of life in addition to merely providing competitive compensation. Economic development therefore is inextricably tied to sustaining quality of life, fundamentally creating the concept of sustainable economic development.

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By **Scott Polikov, AICP, CNU**





“As measured by the quality of our neighborhoods, our cities and our regions, quality of life has now become a bottom-line factor for many business decisions.”

### WHAT DOES IT TAKE TO ACHIEVE SUSTAINABLE ECONOMIC DEVELOPMENT?

There is a new movement among economic and community development experts who feel that sustainable economies are achievable when business interests and environmental concerns are linked. For example, in the ground-breaking book, *Natural Capitalism: Creating the Next Industrial Revolution*, Paul Hawken and his co-authors state that a new way of viewing the environment and natural resources is required today.

Hawken notes that traditional business models rest on the premise that natural resources are unlimited in supply and labor is the only limit to economic growth. He explains that this view is literally unsustainable because labor is in reality a surplus good and natural resources are being pushed to certain limits from overuse and pollution. “The next industrial revolution, like the first one, will be a response to changing patterns of scarcity. It will create upheaval, but more importantly it will create opportunities. Businesses must adjust to these new realities,” says Hawken.

Another factor to consider is sprawl, which to new urbanists is the unplanned and haphazard expansion of the suburbs; and to proponents of “open” development is a highly-charged misnomer for the natural result of having fewer regulations and more perceived individual choice regarding land development.

According to experts like Michael Lewyn, assistant professor at Florida Coastal School of Law in Jacksonville, Florida, there are two kinds of sprawl: “where we grow” (the physical movement from the core to the fringe of a region) and “how we grow” (development oriented toward drivers as opposed to non-drivers). Sometimes, says Lewyn, the two go

together, as in a car-oriented development located 20 miles from downtown. But in a place like Celebration, Fla., sprawl is present in the first sense (“where”), but not in the second (“how”)—because the town was designed specifically to foster old-fashioned, small-town spirit with very little emphasis on driving, cars or commuting.

The distinction of the “how” versus the “where” of sprawl is important as business organizations seek to influence policies that encourage sustainable economic development. While communities debate the location of new growth or whether to support central city redevelopment (“where”), they often lose sight of the character of growth that does occur (“how”).

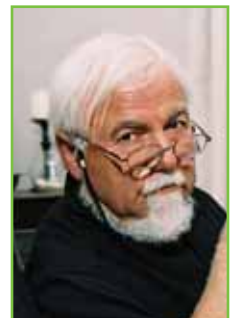
In a country with a full slate of constitutionally-based property rights and where metropolitan growth tendencies are ubiquitous, even well-intentioned attempts to impact the “where” are often fleeting at best. They often devolve into the fallacious debate of “growth vs. no growth.” The more important question is the “how?” In most business planning, the “how” often is about design—the design of management processes, supply lines and computer networks. In any business, design often is the difference between sustainable and non-sustainable practices. Lost for several generations, the concept of urbanism has refocused the importance of design in real estate and community development. My partner, Milosav Cekic, defines urbanism as the creation of “places that encourage regular, chance contact between people who may not know each other.”

### THE NEW URBANISM

An urban design movement, New Urbanism has been gaining momentum for about a generation. The goal of New Urbanism is to remarry real estate development, architecture and urban planning. New Urban projects can include downtown redevelopment, infill and large-scale new growth in suburban greenfield locations. Common types of New Urbanism

“[New Urbanism is] the creation of places that encourage regular, chance contact between people who may not know each other.”

— Milosav Cekic





include traditional neighborhood development (TND) and transit-oriented development (TOD).

Based on time-tested neighborhood design principles, the New Urban approach to growth and development gained some traction in 1991. That year, the Local Government Commission, a California-based non-profit promoting healthy, walkable and resource-efficient communities, invited a group of urban architects to develop a policy for planning sustainable communities.

Named the “Ahwahnee Principles” after the location of their formal presentation to a group of public officials, these Prin-

## “Place-making is the new frontline of economic development.”

ciples include the supposition that “planning [should] form complete and integrated communities containing housing, shops, work places, schools, parks and civic facilities essential to the daily life of the residents.” The Principles also call for a diversity of housing types and transportation options within each neighborhood. The environment plays a central role, too, as the Principles call for respect for the natural site conditions

and the environmental resources of areas to be developed. At the regional level, the Principles call for connected greenbelts, the locating of civic infrastructure in downtowns as well as transportation networks built around both roads and transit. In terms of implementation, the document calls for comprehensive planning that is community-based.

Two years later, the architects of “Ahwahnee” founded the Congress for the New Urbanism (CNU), an organization promoting walkable, neighborhood-based development as an alternative to sprawl. But the “new” in the New Urbanism is really just a new appreciation for more sustainable approaches to planning and development recognized by prescient leaders of earlier generations. Developer J.C. Nichols, a founding member of the Urban Land Institute (ULI), was one of them.



Wayne Nichols, grandson of J.C. Nich-

ols, says that the goal of his grandfather and his peers in planning “was to create beautiful communities—not subdivisions, not shopping centers—but long-term, integrated planned communities. They saw themselves as building human environments. Their motto was ‘land development is a responsibility, not a right.’”

J.C. Nichols developed numerous communities including the Country Club District in Kansas City, anchored by the famous Country Club Plaza, a model walkable, mixed use urban center in a suburban location. Building on his development experience and that of the Community Builders from the City Planning movement of the early Twentieth Century, Nichols headed up the production of a seminal book, *The Community Builders Handbook*. Through the handbook, Nichols promotes the notion that predictability in land markets and protection of value over time requires planning, reliance on design, the engagement of a multiplicity of expertise, and the integration of the civic realm—such as grand boulevards, parks and public buildings—into master planned communities.

Today, Nichols’ strategies are used by those of us in the town planning profession who recognize that place-making is the new frontline of economic development. When combined with the New Urbanism, the Community Builders’ approach creates opportunities for real estate value capture. Critical to sustaining all business, value capture is fundamental to economic development.

### VALUE CAPTURE

In the context of town planning and development, value capture recognizes that with each transportation investment some marginal improvement or marginal decline occurs in the value of the surrounding land. A second form of value capture recognizes that planning and implementing development under the same vision and set of rules over multiple parcels creates adjacency predictability and thus increasing value.

Under transportation-driven value capture, the actual value of a parcel might be affected by changes in access, noise, aesthetics, safety, reliability or other transportation issues. In addition, the impact of the land on the transportation

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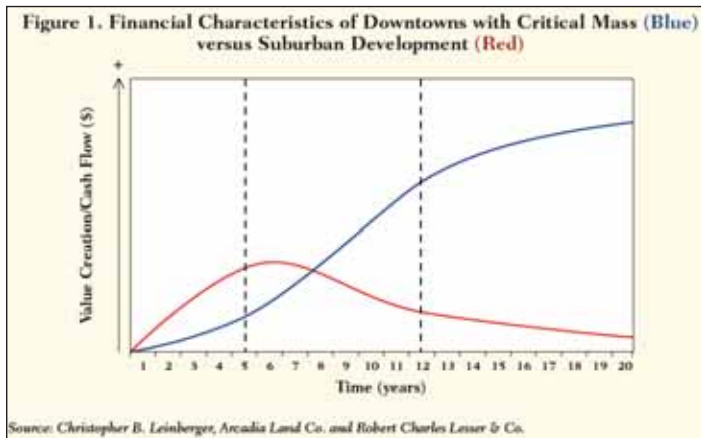
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system can create value. For example, a rail transit station's first effect on its surroundings might be an increase in land values due to great access, reliability and safety when the private sector reacts to an investment in TOD. The next effect can be the reduced demand for transportation services from the people living, working, shopping or otherwise enjoying the TOD. This type of land use redirects person-trips to transit, walking or shorter driving trips. Without the TOD, these person-trips would have caused more congestion, increased travel times and greater wear and tear on the transportation system.



The Leander TOD Master Plan, courtesy of Gateway Planning Group, Inc.



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The second measure of value capture can be realized through the creation of a *de facto* master developer environment across multiple parcels controlled by different owners within a given area. This *de facto* master developer environment is why downtowns create and sustain value over time. But the same dynamic of creating sustainable "downtown" value can be created in suburban locations.

Sustained value creation can be leveraged substantially when combining both of these types of value capture. The chart below shows the difference between conventional single-use projects and development under value capture environments. The term "suburban development" (the red line) does not refer to the "where" but to the "how," in terms of the type of development. These projects are typically isolated and accessible only by driving to them, such as strip-commercial centers or single-use office complexes.

In our experience with town planning, we are finding that communities that both (i) leverage the transportation system through value capture and (ii) use adjacency predictability through a *de facto* "master developer" environment are realizing value curves such as those depicted for downtowns (the blue line) in the chart above.

For example, in Leander, Texas, our firm planned a 2,000-acre TOD, including the redevelopment of the original downtown and approximately 1,700 acres of new development slated for the greenfield areas east of downtown. The TOD was designed to harness the growth corridor coming north out of Austin through a walkable, mixed use plan. The master plan will be implemented through an urban design-based zoning and



## AN ALTERNATE PHILOSOPHY

The connection to great places to live and corporate success has been well-documented, and the New Urbanism and the New Suburbanism movements offer chamber executives alternate tools and philosophies tap into the building blocks of good community development. The opportunity to support and leverage these tools can be realized as more chamber executives understand the impact of zoning and development policies at the local level, by asking questions of their mayors, city managers, and development leadership.

From the New Suburbanism movement, here's an excerpt from Joel Kotkin's book, *The New Suburbanism: A Realist's Guide to the American Future*:

1. Suburbia represents America's future growth. How America copes with this growth—and how the suburbs evolve—will determine the future quality of life for the majority of our population.
2. To develop better suburbs, planners, policy makers, and developers must understand why most people prefer to live there and must seek to preserve those key characteristics. Suburban development has to be sensitive to the specific traits of an area's environment, topography, culture and sociology. There is no single model that fits all situations.
3. The future of suburbia appears to lie in focusing on the development of "villages" that provide cultural, economic, educational and religious sustenance. This will require the evolution of elements—social institutions, well-planned streets, open spaces, work spaces and housing—that function within the context of an existing or new community.
4. The suburbs can only be improved with the input and support of those who live there. Top-down solutions, no matter how enlightened, are frequently ineffective. Denser forms of village-like suburban areas must be cast as assets, not as threats to the surrounding communities of single-family homes.
5. Future suburbs will succeed by utilizing the land efficiently and by providing a complete range of alternatives to accommodate varying life stages. In this manner, individual suburbs can fill critical niches not only for individual cities, but entire regions.

—ACCE Staff

subdivision ordinance (a version of the SmartCode) that will be applied on a mandatory basis to all parcels within the plan area. Taking advantage of value capture, this initiative will also harness the new Commuter Rail Transit line that will terminate in Leander from Austin, as well as a new toll road.

The leaders of Leander wanted to be competitive in the region's new economy. Mayor John Cowman and his colleagues in the business community knew that Leander should take advantage of growth and transportation investment in a different way.

My colleague, Jon Hockenyo of TXP, Inc., determined that at build-out, the tax base of the planning area would be approximately \$900 million if development occurred under trends conditions without the new master plan and zoning code. Hockenyo then calculated that under the new plan and code, harnessing the rail and toll road through better urban design and mixed use, the build-out value conservatively would double to almost \$2 billion. In reliance on this analysis, the City of Leander and Williamson County put in place a tax increment financing (TIF) district, providing up to \$50 million in reimbursement funds as values grow to pay for critical infrastructure necessary to implement the new TOD Master Plan.

## THE LEANDER TOD MASTER PLAN, COURTESY OF GATEWAY PLANNING GROUP, INC.

In just four years since the plan and code were implemented, Hockenyo's projections have already been exceeded, if you extrapolate the fact that the value of raw land alone within the plan area has increased almost 600 percent. We believe these value increases reflect the market's recognition that the Leander TOD will provide Leander residents with options beyond those offered by just the typical suburban bedroom community.

Rather, Leander will have its own cosmopolitan center supported by convenient regional transportation connections with its neighbor Austin to the south. Providing a mix of housing types, pocket parks and commercial amenities within walkable neighborhoods, the Leander TOD will be a center located in the suburbs that also attracts empty-nesters and young professionals. Empty-nesters and young professionals like to live in an urban environment, but not necessarily in a metropolitan downtown.

Why are empty-nesters and young professionals critical? They tend to have more disposable income and put less pressure on the costs of serving communities. Attracting and maintaining empty-nesters is like attracting tourists. Empty nesters like to spend money; and their children only visit, lessening burdens on the local schools. Moreover, both empty-nesters and young professionals like to live in smaller lot homes, townhomes and lofts. More dense in design, those residences tend to be much more efficient in terms of community services such as police, fire and the maintenance of utility systems. Accordingly, empty-nesters and young professionals are an important target market for any meaningful economic development strategy.

Communities that attract empty-nesters and young professionals are also attractive locations for corporate investment. People like "cool" communities. So if a suburban community can use good design and value capture to create great places to live and work, those communities will have a competitive advantage in attracting a class of "knowledge workers," such as artists, scientists and engineers, university professors and architects. This "creative class," the term Richard Florida—who penned two national bestsellers, *The Rise of the Creative Class* and *The Flight of the Creative Class*—coined, are the intellectual assets of the new economy.

The mortgage crisis may be an early indication of why the new urbanist strategy makes sense. Those communities that are not attractive to the broader market of living preferences are showing signs of potential long-term decline. In many locations around

“The day of the bedroom community may be over, at least in terms of financial sustainability.”



the country, those areas that offer only cookie-cutter housing (often times expensive, but homogenous) and only strip commercial at the major highway interchanges are facing higher foreclosure rates than mixed use centers and walkable downtowns. Why? Because in tightening economic times, preferences for winners and losers in the market become apparent.

#### AN OPPORTUNITY FOR A NEW CHAMBER AGENDA

Chambers of commerce have always led the way for business advancement in their communities. Tomorrow's business advancement will be founded in large part in the understanding of the factors that go into sustaining investment in, and the financial solubility of, communities.

Whether one is talking about public investment, or the ability to sustain personal and private investment in where we live, the key to sustaining economic development in the new

economy is to support community development that serves the broadest markets. The day of the bedroom community may be over, at least in terms of financial sustainability.

Fundamentally, policies that support sustainability—whether financial, social or environmental—will provide a community a competitive advantage. Accordingly, chamber executives who support their constituents' involvement in shaping good planning policy will quickly realize that they will be the winners in the new market of placemaking. ☐

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## THE CLIMATE PROSPERITY PROJECT

By Marc A. Weiss, Ph.D.

Noted urban planner Scott Polikov notes that "there is a new movement of experts who feel that sustainable economies are achievable when business interests and environmental concerns are linked." He asserts that in today's economic development climate, "...quality of life has now become a bottom-line factor for many business decisions."

Global Urban Development (GUD) and the Rockefeller Brothers Fund (RBF) have recently launched the Climate Prosperity Project (CPP), an initiative that builds on this premise and seeks to outline strategies for improving the bottom line—for communities and for businesses.

The CPP is a new economic development partnership focused on promoting energy independence, preventing climate change, and protecting the environment by advancing the idea that innovation, efficiency and conservation in the use and reuse of resources is the best way to increase jobs, incomes, productivity and competitiveness.

The initial phase of the project will focus on a three-part agenda: green savings, green jobs, and green profits. It aims to shift public opinion in the U.S. that climate prosperity is costly or harmful to the economy.

Since its launch, the project now includes a highly diverse public-private partnership consisting of pro-business and pro-economic development organizations such as the International Economic Development Council, ACCE, and the Urban Land Institute. The basic approach is to involve millions of people in learning about the new economic paradigm of the 21st century. The cycle of depletion of natural resources is rapidly being replaced with a system that conserves and reuses all natural and human resources, not just fossil fuels. The new system is Climate Prosperity and Quality of Life, or "Resource-Saving Capitalism." In this approach, an area or place gets richer by getting

"greener," and people, places, families, communities, businesses, and governments all thrive better and earn more by using less energy.

Economic development strategies need sustainability as the centerpiece. Involving many people in these state and local economic development efforts moves the debate on energy, climate, and environment from fear to opportunity. This appeals to absolutely everyone, not just to people who already care about the environment, which unfortunately are in the minority. All human beings on planet Earth care deeply about their own livelihood and well-being, and the livelihood and well-being of their loved ones, including future generations.

Currently several partner organizations are working with members of Congress to create two new competitive grant programs, one for capacity-building for Climate Prosperity Partnerships and the other for strategic planning for Climate Prosperity Strategies. In addition, GUD is working to organize a private sector investment fund that will provide working capital loans to green businesses and green development projects.

The first-ever *Climate Prosperity Guidebook* will be published in late October by the International Economic Development Council and many other key economic development, business, government, and environmental organizations. This new publication will explain to local government officials, business and community leaders, and economic developers why they should be doing these things and help teach them how to do these things most effectively and creatively.

To learn more or get involved in this initiative, feel free to contact me. ☐

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