YOUR LAST ISSUE OF *NEW URBAN NEWS* (BUT DON'T WORRY), PAGE 2

NEW URBAN NEWS

COVERING DESIGN & DEVELOPMENT OF HUMAN-SCALE NEIGHBORHOODS

VOLUME 16 • NUMBER 8

DECEMBER 2011

Opportunity for urbanists: Occupy Wall Street

There's tremendous capital waiting to be invested in urban real estate, but capital funds managers face a gap in experience and expertise.

ROBERT STEUTEVILLE

We are at a unique time in history for real estate markets and finance, analysts say. After six decades of rising homeownership and suburban expansion, the markets have shifted to rental units and walkable, urban neighborhoods connected to transit. The market shift is long-term and is likely to last for a generation, say Arthur C. "Chris" Nelson of the University of Utah, Christopher Leinberger of the University of Michigan, and other analysts.

Developers and financiers now understand that amenity-rich, mixed-use places offer more real estate value. But they don't know how to assess that value in a quantitative way.

"There's been a wholesale realignment of real estate priorities in the US," says Adam Ducker of Robert Charles Lesser & Co. (RCLCo). Financiers, he says, "get it. Projects near transit, near shopping, have more value than a single-family house in a subdivision. But we are not that far down the road in understanding how to adapt that knowledge to the quantitative models that we use [for real estate finance] in America."

People involved in capital markets are "looking aggressively for ways to place hierarchies on urban locations where there are underserved markets, and to assess how well development projects perform," Ducker says.

Three major sources of funds are available for urban real estate, notes Scott Polikov of Gateway Planning Group of Fort Worth, Texas. The first is large, multinational firms with excess cash — an estimated $2 trillion in cash reserves is held by US corporations alone. Another source is equity funds that place money from private sources into investment vehicles. "There's more money in those kinds of equity funds than there has been anytime in the history of the US," Polikov says. Finally, there are pension funds, which have a long-term investment horizon, which matches up well with place-based investments.

All in all, $3 trillion or more in Wall Street cash is available, more than half of which could go into real estate, says planner and urban retail consultant Robert Gibbs. There aren't that many good investment alternatives for this money, he explains. "US real

CONTINUED ON PAGE 5

Dancers at a new plaza dedication in Dona Ana, New Mexico, 2006. See book review on page 12 of *The Plazas of New Mexico*, a remarkable tome on the magic of well-loved public spaces.

PHOTO BY MIGUEL GANDERT, THE PLAZAS OF NEW MEXICO

Odd spots in the urban grid? Turn them into plazas

New York City's Department of Transportation has carved 54 plazas out of streets and other areas. More are on the way.

PHILIP LANGDON

In many cities, people complain that transportation officials are so insistent on catering to vehicular traffic that they turn a blind eye to the needs of neighborhoods and pedestrians.

Not in New York. If anything, it's the other way around in the Big Apple. Some motorists, especially cab drivers, grumble about pieces of the street network being taken away from cars, but neighborhood residents rejoice at obtaining convivial new public plazas.

During a Tactical Urbanism Salon in Long Island City October 15, Andy Wiley-Schwartz, assistant commissioner for planning and sustainability in the New

CONTINUED ON PAGE 4

INSIDE

drinking fountains. Planters and sometimes granite blocks are used to close the street to vehicles when the plaza is temporary or is meant to determine whether a permanent plaza would succeed. DOT pays for the plaza's design and construction. The goal, DOT says on its website, is "to ensure that all New Yorkers live within a 10 minute walk of quality open space."

The local partner organizations are responsible for maintenance, insurance, programming and events, and outreach to the public for the planning phase. The partner organizations are to develop a funding plan that outlines how the groups will pay for and manage the plaza in the long term. The premise is that community groups will be much more effective than a city bureaucracy in making the spaces successful.

Community groups have participated enthusiastically, according to Wiley-Schwartz: "If you'd have told me [four years ago that] 25 different … groups would apply to close their main commercial streets over the weekends, I would have said you were crazy. But with very little marketing, we've had this happen dozens of times." DOT does an analysis aimed at making sure there's plenty of neighborhood support for the project.

Many of the projects start out as temporary, which means that the don't require substantial spending for materials. If a project is made permanent, much more capital needs to be devoted to it — "usually millions," he said. "Dig up the street; move utilities, do planting … it's not cheap." Now that the low-cost changes to the Putnam Triangle have proven popular, the Fulton Area Business Alliance has begun a capital campaign to make more extensive and lasting improvements to it.

On the whole, the results of New York's plaza program have been gratifying, Wiley-Schwartz said. "We see stores and restaurants opening near plazas. There are markets. A lot of great public life is happening there." ◆

Wall Street

FROM PAGE 1

estate is still viewed as the long-term safe investment," he says. Capital funds managers "are leery of stocks. They don't want Treasury bonds because the return is so low. They are worried about municipal bonds defaulting."

The top geographic choices for real estate are now inner-ring suburbs and cities, he says. "Investors have no interest in suburban projects except apartment complexes and neighborhood shopping centers. They like anything anchored by a grocery store."

Two problems stand out: how to connect this quantity of money to good mixed-use developments and how to find ways for investors to grade urban projects. "CNU (Congress for the New Urbanism) would be a good venue to do it," Ducker says. "They did a tremendous job of explaining why [urbanism] works better from a physical perspective." He says a "call to action" is needed. "It doesn't do anybody any good to say Wall Street doesn't get it. That may be true, although from my perspective I think they do get it. We have two choices — we can sit around and hope they work out the economics of it, or we can go out and help them do it."

"Investment funds don't have the expertise in urban projects," says Gibbs. "Two or three generations know nothing but suburban development. They don't know how urban projects are entitled, and they don't know how to get higher yields except to build overpriced buildings." The expertise rests with new urbanists, but financiers "don't know CNU. They know ICSC [the International Council of Shopping Centers] and ULI [the Urban Land Institute]."

Another obstacle is Fannie Mae, Freddie Mac, and Federal Housing Authority rules that limit the commercial proportion of mixed-use projects that are sold on the secondary markets. CNU, along with the National Association of Home Builders and the National Association of Realtors, is lobbying to get these rules changed (see September 2011 *New Urban News*). CNU president and CEO John Norquist recently reported that progress is being made on this effort.

Wall Street is learning to use Walk Score to evaluate urban real estate, says Ducker. Walk Score is the only objective, numerical tool that measures amenities within walking distance. Capital fund managers, he says, "know about it and use [it] — it's a gateway question — 'what's the walk score on that?'"

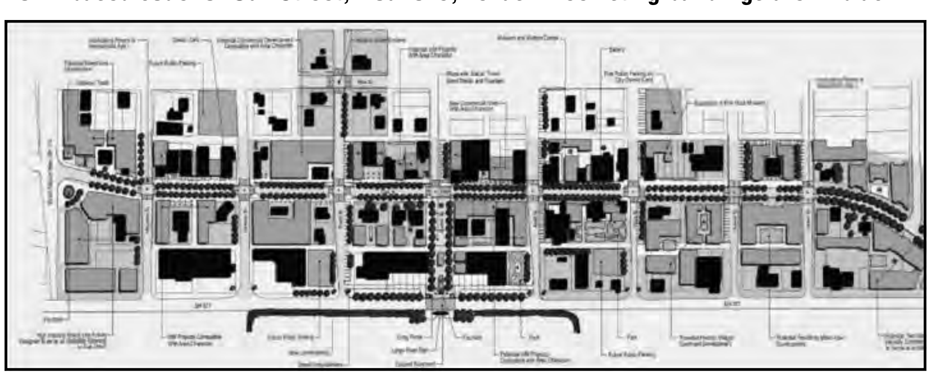
But Walk Score is of limited use, because it doesn't show where urban environments are being transformed so that the Walk Score and property value will rise over time. "If you could show why the Walk Score is going to increase, that would be more valuable than the Walk Score itself," he says. "The [property] value increase might be dramatic."

THREE FACTORS

A key could be form-based codes, says Polikov. "Form-based zoning creates a de facto master developer context across multiple ownership so that as development takes place over time, everybody gets the benefit as if there were a single owner," he explains. Form-based codes, in other words, provide a unifying vision for development that is lacking in conventional codes. Zoning that will allow and promote a better place over time is one of a handful of items that real estate financiers should have on their checklist, Polikov says.

Another is the right street environment — one that matches up with the kind of place being created. Often this requires public investment and a "value capture" mechanism. A project that Polikov planned in Roanoke, north of Fort Worth, Texas, was successful because of the combination of form-based code and street improvements. "Just doing the

Form-based code for Oak Street, Roanoke, Texas. Preexisting buildings are in black.



COURTESY OF SCOTT POLIKOV

form-based code without the redo of the street would not have been enough," he says. "Marrying them both together is the story." This requires the political will to pay for infrastructure in the area where the value is expected to rise. By sharing some of the expected rise in value in the immediate area, "you put enough infrastructure in place so that each property owner will be part of an aggregate place — a continuous, walkable environment."

A final factor is rail transit — the only public transportation that analysts say has been proven to add significant value to property around stations.

When Wall Street underwriters don't know even the basics about form-based codes or how to judge a good street environment, how can they use these tools to create place-based hierarchies? The answer, says Polikov, is to hire experts. "They do this all the time with single-use projects. They ask: Can you achieve the zoning? Can you get the 500,000 square feet of class B office space? Check, Check. Can you get the curb cut, the ramp off the highway, is the city going to put in the last half-mile of highway? Can you get the water line? Check, check, check. We're not asking the underwriters to look at this through a different prism — just adjust the breadth of their analysis." Once capital funds understand what is required, they will hire the specialists to get the job done, he says.

The fund managers are actively looking for projects to invest in, Ducker says. Major investors can be found at association meetings and places like ICSC and ULI. "They are not being paid to sit around and not fund projects," he points out. New urbanists could also work with major real estate finance brokers like Holliday Fenoglio Fowler, Polikov says. "The opportunity is to work with leadership in industry and create a place-based tool that establishes mixed-use development as a core investment opportunity," he says. "We need to bring new technology to the table that we have knowledge of. Nobody else is going to figure it out."

The investors need to be told a story of how particular places are being transformed, Ducker says. That story could be a streetcar line in a city neighborhood or a complete streets project that will result in a lively neighborhood in five years. In Roanoke, the city borrowed $8 million to invest in a two-thirds-of-a-mile commercial corridor in 2003 — a historic main street in the suburbs that had become automobile oriented — and adopted the form-based code. Projections showed higher sales and property tax revenues over 20 years (see table), but not enough to pay off the loan. The city was willing to go ahead, based on added jobs and benefit to the entire community.

After eight years, the Oak Street corridor has been transformed with six new buildings, six historic rehabilitations, and a dozen restaurants, says Polikov. In less than 10 years, the sales tax increase is where the city had hoped it to be in 20 years. Oak Street has become a magnet for a sizable suburban area.

"The eight million invested turned out to be a hell of a deal for everybody — businesses, property owners, and taxpayers," Polikov concludes. This story of how a form-based code with the right street environment adds value is an example, he says, of what capital fund managers should understand better.

If fund managers change their approach, the payoff for urbanists would be a bigger incentive for local governments to adopt form-based codes and plan for street improvements. ◆

Oak Street, Roanoke, Texas, today

COURTESY OF SCOTT POLIKOV

Fiscal impact analysis for Oak Street in Roanoke, Texas

	Baseline	Scenario 1	Scenario 2	Progress
Total square feet	163,000	516,000	516,000	210,000
Residential sq. ft.	22,990	227,040	154,800	n/a
Commercial sq. ft.	140,010	288,960	361,200	n/a
Office		144,480	270,900	
Retail/restaurant		144,480	90,300	
Total property assessed value (PAV)	$12,127,000	$50,285,000	$49,653,000	n/a
Residential PAV	$1,605,000	$20,192,000	$13,691,000	n/a
Commercial PAV	$10,522,000	$30,093,000	$35,962,000	n/a
Annual public sector cost (add'l services)	$49,858	$202,019	$146,294	n/a
Public sector revenue estimate annual (sales and property tax)	$164,810	$498,539	$379,952	n/a
Annual net fiscal impact	**$114,952**	**$296,520**	**$231,658**	**$250,000[1]**

[1]Sales tax only

Realtors: Buyers prefer smart growth to sprawl

In what may be the most incisive research survey of consumer preference real estate in recent years, the National Association of Realtors (NAR) found that Americans prefer smart growth to conventional suburbia by a **56 percent to 43 percent margin.** In a neutrally worded, carefully calibrated nationwide survey of 2,000 people, NAR allowed respondents to choose between a series of characteristics associated with sprawl and smart growth.

The NAR survey makes clear, perhaps better than any other one conducted, how many competing and conflicting choices buyers weigh in home purchases. For example, 80 percent of people prefer a single-family house on a large lot. And, 87 percent of respondents say that privacy from neighbors is an important concern in choosing a house. If the NAR went no further than that, we could say case closed — Americans prefer sprawl.

On the other side, 78 percent of buyers said a short commute — 30 minutes or less — is an important consideration. Places to walk, such as a grocery store (75 percent), pharmacy (65 percent), hospital (61 percent), and restaurants (60 percent), are strongly preferred by house buyers. Most telling — and this may have been the first time anyone has ever asked this question in a nationwide survey — **88 percent of people say the**