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Blaming sprawl for part of the economic crisis

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The economic meltdown is generally blamed on lax regulation of the financial sector's real-estate dealings. Christopher Leinberger lays further blame on the real-estate industry itself, especially on his fellow developers.

"We built too much of the wrong product in the wrong place," the author and Brookings Institution scholar told me last week before addressing an overflow crowd of developers and local government officials in downtown Minneapolis. What he meant was that the industry kept doing the easiest thing – building single-family homes on the suburban fringe – despite evidence that the market was shifting toward smaller homes in denser neighborhoods closer to the metropolitan core.

"This was a structural shift; it was sprawl's last gasp," Leinberger said. "The market was fundamentally changing."

So, what's to be done now? What should the public and private sectors do as the nation tumbles into a deep recession that may halt commercial and residential development for a number of years?

Prepare to compete

Leinberger's answer came quickly: tee up the ball. Do all of those things that need to be done to make sure that your community succeeds when good times return – among them:

- Built transit, especially rail transit.
- Change zoning laws to allow a walkable, compact and mixed-use form of development to proceed, once the market comes back.
- Institute business improvement districts (BIDs) to manage downtowns and other town centers as a way to ensure their proper maintenance and long-term success.

A pivotal moment will come next year when Congress takes up a new transportation bill. That bill must be "mode neutral," Leinberger said, meaning that gasoline-tax revenues don't go overwhelmingly to roads and bridges but also to transit and other auto alternatives. The

Twin Cities should have considerable influence in the outcome, he said, given that Rep. James Oberstar, D-Minn., is chairman of the House transportation committee and will be the bill's primary author.

Stakes will be extremely high for metropolitan America, Leinberger said. "There are two kinds of metro areas: those that offer walkable alternatives and those that don't – and those that don't will be left behind."

Retrofits for both downtowns

Minneapolis-St. Paul has a lot of work to do in that regard, he said. To be in a position to compete when the economy rebounds, we must retrofit both downtowns to make them friendlier to walkers and transit riders. And we must develop a dozen additional walkable town centers throughout the region, preferably served by rail transit, he said.

He's talking about new transit villages around the new Target Field, around a refurbished Metrodome, at the University of Minnesota, in Uptown, along the Midway in St. Paul, at Central Station in Bloomington and a half-dozen other locations in the suburbs.

Denver's example is, perhaps, the best for Minneapolis-St. Paul, Leinberger said. In building its extensive light-rail system, Denver re-zoned and promoted 53 stations for new town center development. A layout like that will be difficult to compete against, he said, especially for younger knowledge workers who, as a generation, have rejected the auto-dependent suburban style and want to be less dependent on cars.

Leinberger was in the Twin Cities to speak to the Minnesota chapter of the Urban Land Institute. Aside from his research at Brookings, he teaches at the University of Michigan and is a founding partner of the Arcadia Land Co., a development firm. Among his best-known writings is his current book, "The Option of Urbanism: Investing in the New American Dream," and his memorable Atlantic magazine cover story (March 2008) "The Next Slum?" In that piece he predicted the decline of – and in some cases the abandonment of – many single-family subdivisions on the metropolitan edge.

With high gas prices and other factors pushing the highest quality development back toward the metro center, "many low-density suburbs and McMansion subdivisions, including some that are lovely and affluent today, may become what inner cities became in the 1960s and '70s – slums characterized by poverty, crime and decay," Leinberger wrote.

A historical perspective

In his speech, he tried to place the current crisis in historical perspective. For 5,500 years humans had built cities on a walkable scale, he said. People moved efficiently from task to task. Then, in an abrupt departure in the 1950s, Americans began to build cities in a radical new way, one that was wasteful, inefficient and socially unfair. Prompted by cheap gas and new freeways, cities sprawled outward to consume land and energy at rates that far exceeded the rate of population growth.

"It was the biggest social engineering project in history," he said. And it was subsidized heavily by those living in older, more traditional neighborhoods.

When the market began to shift in the 1990s, banks, developers and local governments resisted returning to the traditional form. "The market shift is outpacing our ability to respond," he said, noting that the per-square-foot value of property in walkable neighborhoods is 40% to 200% higher.

The most desirable real-estate investments

In the next era of building, town centers built around rail stations will be the most desirable real-estate investments, he said. The nation will deal with climate change by taxing carbon impacts, he said, pushing up the cost of auto commuting. The marginal advantage of building denser, more efficient communities will become apparent, he said.

Demographic shifts further strengthen his argument. Parent-child households are declining steadily in metro areas. He estimates that 88 percent of the metro housing market will soon be couples and singles. Those people are more apt to trade the cost of driving – now about $8,000 per year per car – for the $150,000 equivalent value in home equity.
Peter Katz, a founder of the new urbanist movement in the early 1990s, mentions Leinberger's analysis in a new piece for Citiwire.net. In it he challenges the federal government, as the housing industry's new lender of last resort, to charge extra for loans in inefficient settings and to give breaks to homes and projects built on a more reasonable development pattern. In other words, he says, this is the time for lenders to begin charging for the true cost of sprawl.

Maybe it's time, even as the billions of bailout dollars flow, for official Washington to get tough. It's emerging as lender of last resort, asset manager for the wounded American taxpayer, assuming the responsibility for thousands of toxic mortgages on property that more diligent local planners might never have allowed to be built. So why could Washington not advocate – maybe even require as a price for the potential subsidies and loan insurance it may offer – compliance with planning rules aimed at promoting more economically robust, resource-efficient communities?

Indeed, with solid place-based, home price data like Cortright's, we now have information one could "take to the bank" in the form of "smart growth" underwriting standards to push qualified projects to the front of the line for speedy loan approval.

Experience in the recent boom/bust cycle, and others before it, suggests that local realtors, bank loan officers, city council members, the folks who wittingly or unwittingly built the unsustainable sprawl development we have today, could benefit from the discipline of a strongly recommended – or even mandatory – checklist of more rational, community planning rules. And so too, in the long run, would federal taxpayers if the smart rules became the norm, not – as today they often still are – the exception.